

Structural Changes in Eastern European Countries - Case of Hungary

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During the communist years, some "brave" Eastern European economists had always studied Western economies and the modern market economics. Those models however were for the market type countries and no models are available for transforming a centrally planned economy to a market one. The above paper makes an attempt to show the Hungarian Model.

Hungary is a typical Central European country, her population stood at 10 millions in 1991, she is poor in natural resources. Hungary has been the member of the United Nations Organisation since 1955, joined GATT in 1973, and is a member of IMF and IBRD from 1982. Hungary used to be a founding member of the COMECON (CMEA) and its institutions.

Hungary has always been the leading reformer in the area and the economic reform process has started in Hungary more than a decade before 1968, at least in intellectual sense. Even in the first half of 1957, two expert commissions were set up to elaborate reform programmes.

The 1968 reform made the liberalisation and tried to eliminate the direct planning; "economic regulators" were introduced. In the name of the New Economic Mechanism the managers were theoretically free to do business, but the direct state control remained at the field of foreign investments and the foreign trade. Further reform steps did not take place, so the first wave of reforms ended and the second wave started only in 1979-80. The oil shocks and the rapidly growing foreign debts made necessary to introduce a new economic policy. This economic strategy required changes to prevent the further increase of foreign debt, to achieve international competitiveness. This area of so called 'market socialism' was put to an end in 1988, however, many economists have been sure, that the main role of Hungary is to be a 'grey zone' between market economies and planned economies.

The most important achievement of this period was the modernisation of the banking system. The two-tier banking system was set up in 1987, but it was unable to create a competitive financial market. The merchant banks were not able to gain complete independence from the central bank, because the administrative links has been too strong.

In 1988 a new step was made, the general turnover tax was introduced, as a result of the tax reform. Personal income tax was also introduced, however with a very strongly progressive character.