

## **Inflation in Hungary After the Second World War\***

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The currently used Hungarian currency (Forint) was introduced after the war in 1946. The paper presents the long-term developments of post-war inflation in Hungary. After the first hectic years, the market economy was replaced by the centralized „socialist” economy: the prices, parallel to a wage reform, were stabilized by 1952. The consumer market was also settled somehow at a very low level. Until 1968, due to strict central planning, consumer prices remained practically unchanged. After that the economic policy changed, the strict price control relaxed and the CPI slowly started to increase. The average price level in 1989 was 17 percent higher than in 1952. After 1990 the transition from the command to the market economy resulted in high inflation and a temporary decrease of the GDP, the real wages and the consumption.

#### KEYWORDS:

Inflation.

Economic development.

Price changes.

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During the 20th century three legal currencies were used in Hungary: the Korona, the Pengő and the current Forint.

The first real Hungarian currency (Korona) was introduced in 1900. Earlier the official currency had been the silver-based Austrian Florin. On the 1st January 1900 the “gold” Korona (Crown) replaced the former currency. The exchange rate was: 1 Austrian Florin = 2 Hungarian Forints. During the First World War there was heavy inflation, which continued until the middle of the 1920’s.

In June 1924 the Hungarian National Bank was established.

On the 1st October 1925 a new currency, the Pengő was introduced, the parity of which was: 1 Pengő = 12 500 Korona or 0.2632 g gold. It proved fairly stable till the beginning of the Second World War.

The inflation of the wartime currency Pengő started already during the war, in the middle of 1945 hyperinflation began and by the end of July 1946 the Pengő lost its value totally.

In January 1946 a “new” currency was introduced, called Tax Pengő.

The rate of exchange of the Tax Pengő:

1946 January 1st	1 Pengő
1946 April 1st	44 Pengő
1946 May 1st	630 Pengő
1946 June 1st	160 000 Pengő
1946 July 1st	7 500 000 000 ( $7.5 \cdot 10^9$ ) Pengő
1946 July 31st	2 000 000 000 000 000 000 ( $2 \cdot 10^{21}$ ) Pengő

(The Hungarian population practically lost all their money. Nevertheless this fact helped the stabilization process (*Grossman–Horváth* [2000]).)

In July 1946, due to the collapse of the monetary system, there were neither real prices nor real wages. The Pengő–Forint golden parity was the starting point of the new prices and wages.

At the end of 1945 a new coalition government was formed and soon it became obvious that a complete currency reform was needed. After consultations among the coalition parties and foreign experts the decision was made: the new Forint (Ft) currency to be introduced on the 1st August, 1946. At the same time there were some signs of slow recovery of the economy as well.

Parities: 1 Ft = 0.0757575 g gold; 1 US Dollar = 11.74 Ft; 1 Pengő (1938) = 3.47 Ft.

The transition was carried out through the Tax Pengő. (1 Ft = 200 000 Tax Pengő.) The new currency was not convertible.

By the end of the Second World War approximately 40 percent of the national wealth was destroyed, according to the estimates of the Hungarian Central Statistical Office (HCSO). The national income of the year 1945/1946 reached only less than half of that of 1938/1939 (*Ausch* [1958]).

Up to the present the current legal tender (Forint) has also been inflated, but to a reasonable extent. For the Hungarians it means that the depreciation of their money has been a permanent experience.

The paper, after this short historical review, presents the developments of consumer prices after the war and also of some basic indicators of the economy (GDP, real wages, consumption, living standard in general).

You can observe four characteristic periods in the last half century:

- 1945–1952: reconstruction, stabilization;
- 1952–1968: strong central planning;
- 1968–1989: economic reforms;
- 1989 – transition from the command to the market economy.

## 1. The new Forint consumer prices

The new Forint consumer prices were calculated from the 1938 Pengő prices, with the aim that the average price level be 3.7 of the one in 1938.

Table 1

*Price multipliers, 1946*  
(1938 = 100.0)

Commodity group	Price multiplier
Average	3.7
Of which	
Clothing	6.6
Heating and lighting	3.8
Industrial goods	6.0
Rents, services, transportation	1.25

But the individual commodity prices were set on a different basis. Certain social and economic considerations distorted the former price ratios: some goods were taxed, some subsidized, that is, approximately 10 percent of the total consumption was priced on the average, 30 percent was highly taxed and all the other goods and services were subsidized.

As far as the wages were concerned, the bases were those of 1938, but the structure, the relation among the different occupations and the education levels greatly differed from the former relations. The real wages of ‘workers’ were set at 50 percent, while those of the employees at 25 percent of the 1938 level. It was supposed that this way equilibrium between the supply and the demand side of the consumer market could be established.

## 2. Price changes between 1946 and 1952

The reconstruction, the reparation payments meant a heavy burden on the economy. Due to the policy of the Soviet block, western loans were refused. The „Three-Year Plan” was started on 1st August 1947, with the aim to revitalize the country. In 1947–48 a serious political change took place in Hungary, copying the Soviet-type government planning and control of prices, wages, etc. In a short period of time more than 90 percent of the economy, including the means of production were nationalized.

The demand for foods was great, while the prices were 60 percent higher than in 1946. The increase of the prices of industrial products was only 12–14 percent. On average the 1948 price level was by 35 percent higher than the average level of the 1946 “starting prices”. At that time huge amounts were spent on industrialization, mainly on heavy industry. The production of light industry and the import of consumer goods were far behind the demand, the budget showed a massive deficit, a shortage on the consumer market appeared, so in the next two years the increase of prices continued.

Nevertheless the Three-Year Plan was successful. In 1948–49 production and wages increased and the national income reached the 1938 level. Practically there was no unemployment; in 1950 the national income was approximately 25 percent higher than in 1938 and the living standard also attained the 1938 level. On 1st January 1950 the first Five-Year Plan was started. The agricultural and industrial production increased, the “socialist” central planning system somehow functioned. The living standard slightly increased, but on the consumer market shortage was observed soon. During two years’ time the consumer prices increased by 27 percent and temporarily food rationing was effected. The government realized that measures were needed to stabilize the economy again.

To achieve the balance between supply and demand, a new price and wage reform was unavoidable. It was implemented on 2nd December 1951 and food ration-

ing was withdrawn. Under the strict state control (socialist planning system!) all prices were set and regulated by the government, except the so-called “seasonal goods” (vegetables, fruits, potatoes and eggs).

The retail prices were formed arbitrarily, regardless of the production costs. Social considerations shaped the price policy. Between the retail and producer prices a “turnover tax” or subsidy was applied. The result was that the retail price structure was very different from the cost relations. (Industrial products were taxed, while services, housing, public transport were highly subsidized.) The general consumer price level on 2nd December 1951 increased by more than 40 percent. (The average consumer price index (CPI) in 1952 based on 1946 was approximately 260 percent.)

Wages were also raised, but only by about 20 percent. Real wages decreased substantially.

Table 2

*Consumer price indices*  
(1949 = 100)

Commodity group	1946	1949	1950	1952
Foods		100	112	210
Clothing	77	100	105	168
Industrial goods	77	100	96	145
Heating, lighting	77	100	101	109
Services	91	100	103	114
Total	66	100	107	174

The consumer prices were biased from the production costs. To make demand and supply meet, the idea was that a very detailed planning can manage it. Income allocation changed too. The centralized income increased, the personal income decreased. The position of the rural population deteriorated, while in the case of employees, the impact of price growth was compensated to a certain extent by wage increase. (In the socialist planning system the wages were also “planned”, controlled by the government with the aim to “improve the living standard”.<sup>1</sup>)

On the role of prices in a planned economy *Béla Csikós-Nagy* [1958] wrote: “The role of prices in the topical economic system is very limited. In a socialist economy they serve only as an accounting unit for statistical and planning purposes.” As far as the relation between producer and consumer prices is concerned, he says: “the producer and consumer prices are separated in order to achieve the different purposes of the producer and consumer price policy.”

<sup>1</sup> In this paper the change of “living standard” means the change of real incomes.

The prices of the imported consumer goods were proportionally adjusted to the domestic price level. The foreign currency price was converted to Hungarian currency at the official exchange rate (1 USD = 11.74 Ft; 1 RUB = 13.04 Ft; 1 USD = 0.9 RUB) and then a special “tax” served as a link between the calculated “price” and the much higher domestic price. (Since the official exchange rate was far from the purchasing power parity, in the tourist industry a special rate was applied. At that time it was 2.5 times the value of the “Devizafortint”, that is, 30 Ft/USD.)

During these years there were several signs of economic recovery, the living standard was rising but the stabilization measures of December 1951 resulted in a necessary decline in real wages.

Table 3

*Volume indices of consumption, accumulation and national income*  
(1949 = 100.0)

Year	Consumption	Accumulation	National income
1949	100.0	100.0	100.0
1950	110.9	134.3	120.6
1951	118.5	228.7	141.2
1952	127.7	187.4	138.5

Table 4

*The indices of real income per capita*  
(1949 = 100.0)

Year	Wage earners	Rural population	Total
1949	100.0	100.0	100.0
1950	101.8	112.3	107.0
1951	90.8	116.8	103.8
1952	83.4	100.3	91.8

### 3. Change of consumer prices between 1952 and 1968

Between 1952 and 1968 consumer prices – except the prices of seasonal products – were fairly stable. Price changes were affected at longer intervals only, with no considerable effect on either the average price level or basic price relations. Up to

1957 official consumer price measures appeared exclusively in the form of price reductions.

In the first three years of the fifties, due to the arbitrary, faulty economic policy, living conditions deteriorated, the increase of national income stopped, by 1953 real wages decreased by almost 20 percent. In the middle of 1953 the new government changed the economic policy and relaxed the political suppression. In consequence, living conditions started to improve and by 1954 reached the 1950 level. Nevertheless, the political unrest led to the 1956 revolution. After that, in 1957, wages increased by more than 10 percent while the CPI increased only by less than 3 percent. Considering the whole decade, the prices slightly declined and the standard of living improved.<sup>2</sup>

In the fifties price indices were calculated on the basis of official price measures. It must be mentioned that at the same time so-called hidden price changes took place. The quality of a large number of consumer goods was changed without proper price adjustment, or prices of new goods were determined in no proportion to the already existing ones. It was not feasible to measure these "price changes", but according to certain estimates they moderately increased the general price level.

In the first half of the sixties there was again relative price stability. In 1966 there were comprehensive official price changes pushing up the price level by 1.2 percent. The aim was to adjust the consumer price relations: in the case of some food products and fuels, the high subsidy was reduced.

In 1966 preparation was going on to introduce the new economic management system. To a certain extent, price changes were carried out in accordance with this preparation.

Table 5

*Consumer price indices by commodity groups*

Year	Food	Alcoholic beverages, tobacco	Clothing	Electricity, gas and other fuels	Consumer durables	Other goods, including fuels and lubricants	Services	Total
	1952=100.0							
1952	100.0	100.0	100.0		100.0		100.0	100.0
1953	99.5	99.3	112.6		97.6		100.8	99.6
1954	95.2	95.7	116.6		94.7		100.6	94.7
1955	92.6	96.2	116.6		94.7		100.7	93.9
1956	92.5	92.3	116.7		93.2		100.7	93.0

(Continued on the next page.)

<sup>2</sup> In 1960 the real wages were nearly 50 percent higher than in 1955.

(Continuation.)

Year	Food	Alcoholic beverages, tobacco	Clothing	Electricity, gas and other fuels	Consumer durables	Other goods, including fuels and lubricants	Services	Total
1957	95.4	94.2	117.4		92.2		101.4	95.2
1958	95.2	95.2	117.7		94.4		102.8	95.5
1959	93.1	94.1	115.5		94.4		104.8	94.3
1960	94.3	93.6	114.7		94.4		105.5	94.9
	1960=100.0							
1961	100.9	102.9	100.0	99.8	99.8	100	102.0	100.9
1962	100.4	108.7	100.0	99.2	99.7	99.9	102.1	101.4
1963	99.7	108.7	99.5	98.8	98.4	98.8	102.0	100.8
1963	99.7	108.7	99.5	98.8	98.4	98.8	102	100.8
1965	102.9	110.9	98.3	97.2	97.3	98.9	102.6	101.9
1966	107.7	113.1	94.4	104.5	97.3	97.4	103.7	103.1
1967	108.5	114.1	93.8	106.9	97.3	97.3	104.9	103.5
1968	108.0	115.8	93.4	105.7	95.9	93.9	108.8	103.2
1968/1952	104.7	87.4				90.0	114.6	98.0

Special attention was paid to the seasonal goods which are very important for everyday life. The consumers were faced with their sometimes unpleasant price increases when all other prices were stately controlled.

Table 6

*Price indices of seasonal goods*  
(1952=100)

Year	Live poultry	Eggs	Potatoes	Vegetables	Fruits	Total
1952	100	100	100	100	100	100
1956	104	112	89	88	91	95
1960	106	111	106	98	111	103
1965	106	120	162	130	136	131
1968	117	121	180	160	127	138

The planned management and control of the economy ensured economic development in the 1950's and at the same time a considerable rise in the standard of living. However, the planning did not function faultlessly, which appeared in the inefficiency of productivity and also in the functioning of the consumer market. An ad-



ministrative solution to this problem had been searched for in the fifties already, without positive results. A non-administrative answer was sought in the so-called great price debate of the early sixties, which finally led to a remarkable economic reform from the beginning of 1968.

#### 4. Price movements and economic policy after 1968

In the New Economic Mechanism (NEM), introduced on 1st January 1968, the consumer price system substantially differed from the former rigid official price system.

According to the principles of the economic reform (*HSWP* [1966]), producer and consumer prices should have provided information for a rational basis of producer and consumer decisions. The prices were to improve the correspondence between supply and demand, promote technical progress and develop efficient consumption patterns, at the same time ensuring a relatively constant consumer price level even for the future.<sup>3</sup> Practically this means:

- the consumer price structure should follow the structure of corresponding production costs, except certain luxury and agricultural products;
- consumer prices should be flexible and the official price control should be very limited. The share of fixed and maximum priced products and services is less than half of the total consumption;
- the changes of consumer prices should correspond to the steady increase in the living standard in such a way that as a result no population group should suffer a price increase.<sup>4</sup>

In addition there were specific methodological instructions for accounting principles to be used, calculating the prices of goods belonging to the non-fixed price category.

What has been said formerly can be put into four price categories: I. fixed, II. maximized, III. limited, IV. free prices. The Price Office ranged the goods and services into these groups. In 1969 the relevant allocation of goods was the following.

<sup>3</sup> If the CPI does not exceed yearly 2 percent then we can talk about relative price stability. See also the Maastrich criteria.

<sup>4</sup> During the 40 years of command economy, it was not advised to speak about inflation, only about price corrections.

Table 7

*The distribution of household consumption according to price categories in 1969*  
(percent)

Commodity group	Fixed	Maximum	Limited	Free	Total
	price category				
Foodstuffs	30	35	22	13	100
Clothing	–	6	55	39	100
Technical equipment, cultural articles	–	55	16	29	100
Fuels		100	–	–	100
Chemical and mineral oil product	20	44	–	36	100
Products of wood and paper industry	–	25	39	36	100
Construction materials	11	55	–	34	100
Glassware and china	–	15	–	85	100
Retail trade total	17	34	25	24	100
Services	17	21	22	40	100
Total consumption	16	31	24	29	100

In the new, fairly free price system, still remained some space for the government for price regulation. As regards limited prices, the Price Office first defined a basic price and retailers were allowed to vary price  $\pm 30$  percent. The indirect state price control had also some other ways to influence the prices, for example, through indirect taxation. The crucial thing was that enterprises in this less rigid system had certain freedom of action.

The role of the turnover tax changed. Historically it had to ensure the desired preference between consumer and producer prices. From the late fifties the amount of individual tax rates was gradually decreased. Up to 1958 the turnover tax was 35-40 percent. In 1959 it was reduced to 13.5 percent, and by 1972 it decreased further by 2-3 percent. Divergences between producer and consumer price structures can be indicated by the turnover tax rates of the main commodity groups in 1969 (Vincze [1971]). (See Table 8.)

The Hungarian price system was unique in Europe. The tax burden was moved from the consumption side to the production sphere, which was unfavourable mainly for the foreign trade and the exchange rate policy. The long-term aim was to achieve a European-type (two-level) price system.

The most important target of price policy was to avoid inflation, but at the same time to be flexible enough to let change price relations among the main commodity groups. The price policy considered the impact of the change of productivity, of the world market prices. It was critically observed how the accidental price increases in-

fluenced the consumer prices and also the standard of living. In general it was supposed that the Price Office will be able to keep the annual CPI below 3.5 percent.

Table 8

*Turnover tax rates of main commodity groups in 1969*  
(percent)

Commodity group	Turnover tax rate
Basic food	-25.3
Other unprocessed food	+17.6
Miscellaneous processed food products	+48.0
Food total	+9.5
Catering	-4.0
Clothing	+26.6
Miscellaneous goods other than food	+13.6
Products sold in retail trade, total	+12.9
Services purchased, total	-6.4
Total	+6.5
Total (with other allowances)	+3.5

## 5. Price changes between 1968 and 1989<sup>5</sup>

In 1968, in the first year of the NEM, the CPI did not change. Then, up to 1975, the yearly average increase was almost 2.8 percent. Service prices were steadily increasing. In the second half of the decade inflation accelerated up to 9 percent. In the eighties the annual CPI was about 8 percent, but in the last two years it was more than 15 percent. (See Table 9.)

The scope of the direct price regulation decreased, while the prices increased faster than earlier; it was an interesting question what was in the background: official and/or market induced effects. Estimates indicated that approximately two-thirds of the price increase was due to official decisions and one third to the "market" impetus, including seasonal goods in the 1970's. (Note: Retail firms were mainly in state ownership!) In 1986 the Yearly Economic Plan put great emphasis on reducing the

<sup>5</sup> The new market-type price policy needed direct representative price data collection. On the 1st January 1968 the HCSO collected consumer price statistics: 2 300 representative items were monthly observed by data collectors at least in 50 outlets. From 1968 onwards Laspeyres-type price indices have been published.

inflation. The result was 5.3 percent. But in the following three years the CPI accelerated to far above 10 percent again.

Table 9

*Consumer price indices*  
(Previous year = 100.0)

Year	Food	Alcoholic beverages, tobacco	Clothing	Consumer durables	Energy	Other industrial products, fuels	Services	Total
1967	100.7	100.9	99.4	100.0	102.3	99.9	101.2	100.4
1968	99.5	101.5	99.6	98.6	98.9	96.5	103.7	99.7
1969	100.8	99.8	103.0	101.9	95.9	103.0	102.9	101.4
1970	100.9	100.5	102.3	99.9	98.2	103.3	101.9	101.3
1971	102.0	101.3	102.4	101.2	99.1	101.7	104.5	102.0
1972	101.1	107.0	104.0	102.4	97.9	102.3	103.5	102.9
1973	104.7	107.7	101.8	101.8	98.0	100.8	102.2	103.3
1974	100.5	102.3	102.0	102.4	105.6	102.1	101.8	101.8
1975	101.2	103.6	104.7	104.6	107.8	109.0	102.2	103.8
1976	110.2	100.5	105.2	102.9	99.1	106.7	102.4	105.0
1977	105.5	105.0	104.5	102.4	99.3	102.2	103.2	103.9
1978	103.6	109.2	105.0	103.1	100.3	103.3	103.9	104.6
1979	110.2	112.4	109.0	108.3	108.8	108.0	103.4	108.9
1980	113.4	101.7	105.0	113.2	121.4	109.5	107.0	109.1
1981	103.4	102.6	106.0	101.1	99.8	109.0	106.5	104.6
1982	104.8	113.1	105.5	102.1	110.0	106.4	107.2	106.9
1983	105.1	106.7	106.3	107.8	104.9	109.3	110.1	107.3
1984	112.1	105.0	111.0	105.5	104.9	107.3	108.0	108.3
1985	106.3	101.7	110.9	105.3	120.9	105.9	109.3	107.0
1986	102.0	105.2	109.4	106.1	103.5	105.0	108.9	105.3
1987	109.2	113.5	109.7	102.3	106.5	106.2	109.0	108.6
1988	115.8	114.3	120.0	108.5	112.8	116.3	117.5	115.5
1989	117.7	111.1	118.2	117.6	111.4	122.4	116.6	117.0

It is worth mentioning that price ratios among commodity groups did not change substantially up to 1989, but surprisingly clothing became more expensive and energy became cheaper. The tendency of durables already fit the long term tendency. (See Table 10.)

Table 11 gives an overview of the 40-year development of the consumer prices.<sup>6</sup>

<sup>6</sup> During 1946–1952 the general price level increased approximately 2.6-fold.

Table 10

*Consumer price indices, 1968–1989<sup>7</sup>*  
(1968 = 100)

Year	Food	Alcoholic beverages., tobacco	Clothing	Consumer durables	Energy	Other industrial products, fuels	Services	Total
1968	100	100	100	100	100	100	100	100
1980	168	163	161	153	133	165	146	160
1989	346	328	401	262	269	378	353	343
Price ratio:	1.01	0.96	1.20	0.76	0.78	1.10	1.03	1.00
Weights (percent)	27	12	8	10	5	17	20	100

Table 11

*Consumer price indices by main commodity groups*

Year	Food	Alcoholic beverages., tobacco	Clothing	Consumer durables	Energy	Other industrial products, fuels	Services	Total
1938	14.5		10.8	20.4	13.3		40.6	16.6
1950	100.0		100.0	100.0	100.0		100.0	100.0
1952	195.1		156.8	108.9	143.2		111.9	169.4
	1952 = 100							
1952	100.0		100.0	100.0	100.0		100.0	100.0
1955	92.6		96.2	113.9	94.7		100.7	93.9
1960	94.3		93.4	114.7	94.4		105.5	94.9
1968	104.7		87.4	121.2	90.0		114.6	98.0
	1968 = 100							
1968	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1965	102.9	110.9	98.3	97.2	97.3	98.9	102.6	101.9
1970	109.9	116.2	98.4	99.6	97.6	99.9	114.1	106.0
1975	120.6	143.7	113.9	107.8	110.4	116.5	131.2	121.4
1980	181.4	189.2	150.5	140.6	147.0	155.2	159.3	164.6
1985	246.2	250.1	220.2	205.3	181.6	223.6	236.4	228.9
1989	373.7	379.3	374.7	284.3	251.5	354.8	384.2	353.9
1989/1952			350.7	326.1			405.3	335.9

<sup>7</sup> It is beyond the aim of this paper to analyze the causes of the change of the relative price structure. The yearly plans were responsible to regulate the production to meet the demand and supply on the consumer market (except the seasonal agricultural products).

In Hungary the foreign trade sector is relatively large. It is obvious that the change of world market prices influenced the domestic prices. In the socialist era there were many efforts to reduce this pressure, trying to make an independent (arbitrary) domestic price policy. After 1989 the changes of world market prices and the exchange rate of the Hungarian currency directly influenced the domestic prices.

After the devastating war, by 1949–50, the living standard and the national income reached the pre-war level. In the socialist economic planning system the main official economic goal was to increase the living standard. However, in the fifties, shortage prevailed practically in every sector of the economy. The emphasis was on increasing the volume of supply. The yearly plans managed the production, prices, consumption and there was some development in the economy. During the forty years of the socialist regime from the very low basis the economy developed substantially.

Table 12

*Main indicators of the economic development, per capita*  
(1950 = 100.0)

Year	GDP	Real wages	Real incomes	Private consumption
1950	100.0	100	100	100
1960	177.0	154	154	115
1970	297.9	199	245	228
1980	483.3	243	333	314
1987	557.0	237	376	363
1989	560.3	227	385	358

In 1989 the GDP was approximately 460 percent higher than in 1950. During the same time real incomes increased to 385 percent and private consumption to 358 percent. There is no space here to analyse the details, but it must be mentioned, that the emphasis was on quantity and not on the good quality or a wide selection of products. Due to the lack of foreign exchange convertibility, the supply of imported consumer goods was also very poor.

Table 13 shows the structural change of consumption. The most striking data is that the volume of consumer durables increased 25-fold. Also the volume of energy and services increased high above the average, while beverages, tobacco only a little above that. This structural change was a good sign of the rising living standard.

Table 13

*Volume indices of the per capita private consumption (estimates)*  
(1950 = 100)

Year	Foods	Beverages, tobacco	Clothing	Energy	Consumer durables	Services	Total
1938	97	99	104	99	115	78	93
1950	100	100	100	100	100	100	100
1960	134	158	161	138	369	155	152
1970	168	274	222	243	1008	235	228
1980	189	403	238	433	1532	376	314
1989	208	405	170	570	2544	478	358

## 6. Inflation, economic development after 1989

Two or three years before 1989 the former economic development slowed down and the yearly inflation increased to 15–17 percent.

By the end of the eighties economic difficulties got aggravated, social tensions increased and soon “the socialist planned economy” collapsed (parallel to the fall of the Soviet system). The transition from the command to the market economy started in 1989. The “socialist market” ceased to exist. The production of many uncompetitive, technically not up-to-date products stopped, the relatively huge foreign trade sector underwent a substantial structural change, the emphasis moved from the rouble to the dollar area. The privatization of the socialist agricultural and industrial sectors started. All these changes were carried out very quickly.

After 1989 price policy and the price system changed rapidly and substantially. Government and/or municipality price control did not cease to exist, but became limited (it covers approximately 20 percent of the total consumption). The introduction of the limited convertibility in 1996, then the full convertibility in 2001 was a great step toward capitalist market economy. The consumer prices (with few exceptions) depended on the producer and/or world market prices, taxes and import duties and on market competition. (In the case of agricultural products the weather influenced the prices as well.)

The rate of inflation accelerated. In the 1990's the yearly rate was above 20 percent. The CPI in 1991 was 135 percent, then till 1996 the yearly average was above 20 percent, until 1998 it was above 10 percent and only in the 2000's decreased below 10 percent.

In 2004 Hungary joined the European Union. A well-known fact is that the so-called Maastricht Criteria are very important part of the Convergence Program,

among others, to reduce the yearly inflation rate to 2-3 percent. Hungary is far from this condition.

Table 14

*Consumer price indices 1989–2010*  
(percent, previous year = 100.0)

Year	Food	Beverages, tobacco	Clothing	Consumer durables	Energy	Other industrial goods, fuels	Services	Total
1990	135.2	130.7	123.3	120.8	127.6	128.9	125.6	128.9
1991	121.9	125.1	132.1	131.7	181.0	143.4	141.9	135.0
1992	119.4	119.6	123.0	114.3	143.2	127.2	126.0	123.0
1993	129.2	118.6	116.7	111.0	120.3	121.6	124.1	122.5
1994	123.4	116.4	116.1	111.8	111.7	119.0	120.3	118.8
1995	131.1	120.1	120.2	124.0	150.0	127.3	126.0	128.2
1996	117.3	126.6	125.6	119.2	132.5	125.7	126.4	123.6
1997	117.5	118.9	118.7	108.5	129.9	116.1	119.2	118.3
1998	114.4	115.3	114.1	108.1	117.9	110.7	116.2	114.3
1999	102.9	111.5	110.6	106.6	109.4	114.7	114.8	110.0
2000	109.2	111.0	105.8	101.7	109.1	115.0	109.7	109.8
2001	113.8	111.2	105.3	101.0	110.3	104.9	109.8	109.2
2002	105.4	109.7	104.0	98.4	105.5	104.1	106.4	105.3
2003	102.7	110.7	103.0	98.6	107.3	103.9	105.9	104.7
2004	106.5	111.3	103.4	99.4	114.1	103.9	107.6	106.8
2005	102.5	103.3	100.2	97.7	106.2	104.5	105.5	103.6
2006	107.7	104.3	99.3	96.0	106.4	102.7	104.1	103.9
2007	111.5	106.7	101.0	98.7	124.6	104.0	107.4	108.0
2008	110.2	105.6	100.0	99.3	112.7	104.6	105.0	106.1
2009	104.4	107.5	100.5	102.6	108.2	101.1	104.6	104.2
2010	103.2	108.2	99.6	100.2	106.3	108.8	104.3	104.9

During the 1990's the price increase was around 8-fold, while in the next decade it was only 70 percent. As Table 15 shows there was a great difference in the price dynamics of the groups of commodities.

The change of the CPI depends on the relative change of the weights and/or price indices of the individual goods. In practical terms this means that the current, perceived depreciation depends on the current market basket. That's why CPIs are calculated, as it will be seen in the following, with different commodity structures. You may put this idea in another way: what we want to know is how the price of food-stuffs, consumer durables or the energy changes, how much the CPI without tax-changes or calculated on the pensioner's basket comes to, etc.



One of the most important indicators is the “core” or “underlying” inflation rate (*Eckstein* [2008]). This is the so-called “except food and energy” approach to the CPI. The newer approaches exclude other items, for example tax changes, as well.

Table 15

*Consumer price indices, 1989–2010*  
(percent, 1989=100.0)

Year	Food	Beverages, tobacco	Clothing	Consumer durables	Energy	Other indus- trial goods, fuels	Services	Total
1989	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1990	135.2	130.7	123.3	120.8	127.6	128.9	125.6	128.9
1991	164.8	163.5	162.9	159.1	231.0	184.8	178.2	174.0
1992	196.8	195.5	200.4	181.9	330.8	235.1	224.5	214.0
1993	254.3	231.9	233.9	201.9	398.0	285.9	278.6	262.2
1994	313.8	269.9	271.6	225.7	444.6	340.2	335.2	311.5
1995	411.4	324.1	326.5	279.9	666.9	433.1	422.4	399.3
1996	482.6	410.3	410.1	333.6	883.6	544.4	533.9	493.5
1997	567.1	487.8	486.8	362.0	1147.8	632.0	636.4	583.8
1998	648.8	562.4	555.4	391.3	1353.3	699.6	739.5	667.3
1999	667.6	627.1	614.3	417.1	1480.5	802.4	848.9	734.0
2000	729.0	696.1	649.9	424.2	1615.2	922.8	931.2	805.9
<b>Ratio*</b>	<b>0.90</b>	<b>0.86</b>	<b>0.81</b>	<b>0.53</b>	<b>1.99</b>	<b>1.14</b>	<b>1.15</b>	<b>1.00</b>
2001	829.6	774.1	684.3	428.4	1781.6	968.0	1022.5	880.0
2002	874.4	849.2	711.7	421.5	1879.6	1007.7	1087.9	926.6
2003	897.9	940.4	732.4	415.7	2016.1	1046.9	1152.6	970.2
2004	956.3	1046.7	757.3	413.2	2300.4	1087.7	1240.2	1036.2
2005	980.2	1081.2	758.8	403.7	2443.0	1136.6	1308.4	1073.5
2006	1055.7	1127.7	753.5	387.5	2599.4	1167.3	1362.1	1115.4
2007	1177.1	1203.3	761.0	382.5	3238.8	1214.0	1462.8	1204.6
2008	1297.1	1270.7	761.0	379.8	3650.2	1269.9	1536.0	1278.1
2009	1354.2	1367.2	764.8	390.5	3949.5	1283.8	1606.6	1331.8
2010	1397.5	1479.3	761.7	391.3	4198.3	1396.8	1675.7	1397.1
<b>Ratio*</b>	<b>1.00</b>	<b>1.06</b>	<b>0.55</b>	<b>0.28</b>	<b>3.01</b>	<b>1.00</b>	<b>1.20</b>	<b>1.00</b>
<i>Weights**</i>	23.2	9.5	4.4	6.9	9.9	17.2	28.9	100.0

\* 2010 commodity group indices divided by the total CPI.

\*\* 2010 weights (percent).

The HCSO have calculated and published core inflation index since 1995. (See Table 16.)

Table 16

*Consumer price index and core inflation*  
(percent, 1995 = 100)

Indicator	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CPI*	124	146	167	184	202	220	232	243	260	269	279	301	319	332	348
Core inflation	123	144	163	178	193	218	223	234	248	253	259	273	287	299	308

\* From CPI excluded fresh foods, household energy and fuels, services with stately controlled prices.

The core inflation in 2010 (308 percent) was a little bit lower than the CPI, due mainly to tax increases (*Mináry* [2010]).

The pensioners' market basket differs from the average family budget structure. It is justified to calculate separate indices to know how they are affected by the inflation. The prices of every day necessities increase generally above the average. But as Table 17 shows during the last decade there was no remarkable difference between the two inflation rates.

Table 17

*Price indices of the pensioners and households, 2001–2010*  
(Previous year = 100.0)

Commodity group	Market basket	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	Households	105.3	104.7	106.8	103.6	103.9	108	106.1	104.2	104.9
	Pensioners	105.3	104.6	107.3	103.9	105.0	110.7	106.9	104.9	104.5
Food	Households	105.4	102.7	106.5	102.5	107.7	111.5	110.2	104.4	103.2
	Pensioners	104.7	102.3	106.2	102.2	108.7	111.5	110.2	104.5	103.1
Beverages, tobacco	Households	109.7	110.7	111.3	103.3	104.3	106.7	105.6	107.5	108.2
	Pensioners	109.9	111.1	111.9	103.4	104.4	106.9	105.5	107.4	108
Clothing	Households	104.0	103.0	103.4	100.2	99.3	101.0	100.0	100.5	99.6
	Pensioners	104.0	102.9	103.5	99.9	99.2	100.8	99.8	100.5	99.4
Household durables	Households	98.4	98.6	99.4	97.7	96.0	98.7	99.3	102.6	100.2
	Pensioners	98.0	97.9	98.6	97.3	94.9	98.6	99.3	101.1	99.9
Energy	Households	105.5	107.3	114.1	106.2	106.4	124.6	112.7	108.2	106.3
	Pensioners	105.4	107.3	113.8	106.1	106.8	124.4	112.6	108.2	106.2
Other industrial goods, fuels	Households	104.1	103.9	103.9	104.5	102.7	104.0	104.6	101.1	108.8
	Pensioners	105.8	104.6	104.2	104.7	102.3	107.5	103.3	103.5	106.4
Services	Households	106.4	105.9	107.6	105.5	104.1	107.4	105.0	104.6	104.3
	Pensioners	106.2	105.9	107.8	105.9	104.0	108.5	104.3	104.6	104.0

After 1989 there was great restructuring in the economy, which was reflected in the main economic indicators. (See Table 18.) In the first four years the GDP declined by nearly 20 percent, the real wages by 15 percent, while private consumption by around 10 percent. The Hungarian economy reached the 1990 level again only by 2000. Then the increase continued and the GDP was 36 percent higher than in 1989 by the year 2008.

Unfortunately the worldwide recession has had a negative impact on the Hungarian economy as well.

Table 18

*Economic indicators*  
(percent, 1949 = 100.0)

Year	GDP	Real wages	Private consumption
1989	100.0	100.0	100.0
1990	96.0	94.9	94.8
1991	84.9	90.0	86.1
1992	82.3	88.5	86.1
1993	81.7	85.0	87.6
1994	84.2	91.2	87.6
1995	85.5	80.2	81.7
1996	86.8	76.2	79.3*
1997	90.9	80.3	80.0
1998	95.3	83.0	82.6
1999	99.4	85.0	87.6
2000	104.6	86.4	91.2
2001	108.9	91.8	97.2
2002	113.4	104.1	107.2
2003	118.1	113.6	116.3
2004	123.8	112.9	119.9
2005	128.7	119.7	124.3
2006	134.0	123.8	127.1
2007	135.4	118.4	125.1
2008	136.3	119.0	126.3
2009	127.0	116.3	117.9
2010	128.8	119.0**	115.5**

\* Change of methodology.

\*\* Preliminary data.

## 7. Summary

The new currency (Forint) was introduced in 1946. At the same time “new” wages and prices were centrally set up. In 1948 there was a great socio-economic change: nationalization and almost total economic control and planning. The inflation between 1946 and 1952 was approximately 2.5-fold. In 1952 strict price control was introduced and real wages declined. After the 1956 revolution, prices remained under control and the living standard started to increase. The intention for a change of economic policy aroused which led to the introduction of NEM in 1968. In the following years the rigid price control and planning relaxed to some extent. The prices started to increase. The CPI in 1989 was 336 percent compared to 1952. In 1988 there was a large-scale tax reform.

In 1989 a great political and economic change (that is privatization) started. The GDP declined, the inflation accelerated. The recovery started in 1995–96 and then slow, but remarkable increase of the GDP and living standard could be observed up to 2008. During the last three years economic difficulties arose in Hungary as well.

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