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Economic Policy Objectives of the First Orbán Government (1998–2002)

Summary

The right-wing coalition government, which came to power in May 1998, led by Viktor Orbán, broke with the former applied neoliberal paradigm and began to pursue economic patriotism, which placed emphasis on assisting the activities of Hungarian SMEs. It also focused on boosting domestic consumption by supporting families to have children through state incentives. Thanks to these measures introduced between 1998 and 2002, both the government deficit and gross government debt started to fall substantially, which reduced the external vulnerability of the Hungarian economy.

The objective of this paper is to analyse the economic policy objectives of the first Orbán government between 1998 and 2002. Emphasis will be placed on evaluating the key macroeconomic indicators of Hungary while taking into account both internal and external factors. Due to length constraints, the essay will not highlight domestic politics, but it gives an overview of the main features of economic patriotism from a European perspective.

Journal of Economic Literature (JEL) codes: N0, N1, O1

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Introduction – The Heritage of the Socialist-Liberal Government (1994–1998)

To understand the key pillars of the economic policy objectives of the FIDESZ-MPP coalition government, it is necessary to highlight the macroeconomic background of Hungary

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after the 1995 Adjustment programme (Bokros Package). Economic and financial consolidation was carried out by the Bokros Austerity Package, which was launched on 12 March 1995. It involved the introduction of the crawling peg devaluation of the forint by 9 per cent every month and the imposition of an import surcharge of 8 per cent to increase the income of the budget and narrow the import of consumer goods. The programme substantially reduced family allowances and froze nominal wages in the public administration. Finally, it abolished free tuition in higher education and pharmaceutical public spending was cut back considerably (Gulyás, 2009:180–181).

As regards the Bokros Package, opinions differ on the necessity of the austerity measures.

Mainstream economists emphasize that thanks to exceptionally strict steps, the risks of financial crises and the isolation of the country were averted. The programme also created the basis for balanced and sustainable growth. The introduction of the crawling peg devaluation of the forint and the imposition of an import surcharge favoured multinational companies, but Hungarian society suffered a sharp decline in its living standards (Petschnig, 1996). Bences notes that the austerity measures successfully remedied the disequilibria in both the foreign and the internal balances, thereby halting the dangerous spiral of indebtedness. The package restored investor confidence in the country's financial markets and default was avoided. It resulted in the contraction of domestic demand and strived to break from the concept of a paternalist welfare state. His main conclusion was that although the adjustment programme was necessary in general, its more ambitious reform measures proved to be doubtful. As a result of austerity measures, real wages decreased by 12 per cent, and privatisation was speeded up in the mid-1990s. However the structural reform of the general government came to a halt, because the key elements of the package were classified as unconstitutional by the Constitutional Court or were suspended by the time of the upcoming elections in 1998. Finally, stabilisation measures were developed without the active involvement of the parliamentary parties and social partners (Benczes, 2009).

Other scholars argue the negative impacts of the adjustment programme. According to Gazdag, economic consolidation led to a deep recession instead of sustainable growth. Due to the austerity measures, GDP growth halted, and inflation rose instantly. The volume of exports fell from 16.6 per cent to 8.35 per cent (Gazdag, 2007). Csath stresses that measures introduced by the Socialist-Liberal government between 1994 and 1998 weakened the trade union's bargaining power and workers' rights, while wages were kept artificially low, which served the interests of multinational corporations (Csath, 2009: 145–155).

As a consequence of the stabilisation programme, real wages declined by 17 per cent in 1995 and 1996 and reached 75 per cent of the 1989 level. In the years 1989–1997, the real value of net incomes of people in waged and salaried employment shrank by 25.7 per cent while those for the more than 3 million who depended on old-age pensions and annuities fell by 31 per cent (Romsics, 1999: 451–452). Deterioration in living standards was inevitable during the transition process. Since there were no other sources, the Hungarian population had to bear the burden of the economy's stability. The "shock therapy" applied during the economic transition further exacerbated the structural problems of the national economy and resulted in an increasing disequilibrium at the domestic level. The overwhelming majority of companies ceased to exist, and workplaces were destroyed. At the same time, both the volume of investments and consumption fell considerably; therefore, domestic production was replaced by imports (Matolcsy, 2015:16).

In addition to the Bokros Package, it was a serious mistake to privatise the public utilities (gas, electricity, and water providers) and the food-processing industry in the 1990s. In parallel with the rationalisation process, foreign investors were mainly interested in acquiring new markets and the majority of factories disappeared as a result of liquidation. To attract FDI, the Socialist-Liberal government granted tax incentives and concessions to large multinational companies instead of supporting the emergence of a new, relatively broad stratum of Hungarian entrepreneur-proprietors. According to Lentner, due to the hurried privatisation of the food-processing industry, the value of imports increased by 33,4% in 1994 compared to 1993, which exceeded the volume of exports (Lentner, 1996:45).

Báger and Kovács emphasize that as a result of privatisation, 30 per cent of the national wealth disappeared in Hungary (Báger – Kovács, 2004:137). The substantial losses could have been compensated by the reorganisation of viable companies through a "gradual" marketization process, but this did not happen during the Socialist-Liberal government.

Botos also points out that the proclamation of the privatisation campaign together with the massive FDI inflow served as a basis for an export-oriented economic strategy to improve the external balance of payments. The latter made the national economy highly dependent on external booms and bound very tightly to the European Union (Botos, 2005:48).

Foreign opinion, however, i.e. that of the World Bank, the IMF, and the European Union, welcomed the radical move. In this way, Hungary's creditworthiness was preserved, and its international reputation improved. As a result of the Adjustment Programme, the performance of the Hungarian economy improved significantly. The external current account deficit dropped from 9.5 per cent to 2,7 per cent of GDP between 1994 and 1997. Over the same period, net external debt fell from 45 per cent to less than 30 per cent of GDP. Both the reduction in the current account deficit and the increased privatisation incomes from abroad contributed to the decrease in net external debt (Cottarelli, 1998).

Table 1: Key macroeconomic indicators in Hungary between 1994 and 1997

	1994	**1995**	**1996**	**1997**
Real GDP growth (per cent)	2.9	1.5	1.3	4.0
CPI (per cent, end-year)	21.2	28.3	19.8	18.4
Unemployment rate (end-year, in per cent of labour force)	10.4	10.4	10.5	10.4
Consolidated government balance (per cent of GDP excluding privatisation receipts)	-7.1	-6.4	-3.2	-4.6
Primary balance (per cent of GDP excluding privatisation)	-1.3	1.9	4.4	3.8

	1994	1995	1996	1997
Public debt (per cent of GDP consolidated government)	85.2	84.3	72.1	63.9
Current account (per cent of GDP)	-9.7	-5.7	-3.8	-2.7
Gross external debt in convertible currencies (per cent of GDP)	68.1	70.9	61.6	56.2
Net external debt in convertible currencies (per cent of GDP)	45.2	37.6	31.8	29.3

Source: Cottarelli, 1998:8.

Due to the Adjustment Programme, total net tax revenues increased substantially both in 1995 and 1996, although they had negative social impacts. Economic policy targets were overfulfilled in 1996 because both real wages and real incomes experienced a sharper decline than expected, whereas primary balance improved significantly. Government primary deficit as a per cent of GDP fell by 7.1 per cent, and the central budget showed an upward trend with a 6.7 per cent increase over the same period (Lentner, 2005:87–100).

While the Socialist-Liberal government enjoyed high prestige abroad, its austerity measures were rejected at home (Tóth, 2005:629–690). Because the package was very controversial and was followed by social discontent and a series of strikes, Bokros resigned in February 1996.

By the end of the parliamentary term, macroeconomic indicators were showing an upward trend, but the majority of people, whether living on wages or pensions, could hardly feel it in their own domestic affairs. By the spring of 1998, it was evident that the outcome of the next elections would be decided between the Socialists and the new "collective party", FIDESZ-MPP. The prospects of the latter were improved by the fact that they alone of the parties previously in Parliament were not burdened with governmental responsibility for the economic recession, which was a concomitant with the change of regime and led to the impoverishment of the majority of the Hungarian population (Tóth, 2005:631).

The objective of this paper is to provide insight into the economic policy objectives, implemented by the first Orbán government. Besides analysing the macroeconomic indicators, emphasis will be placed on both the internal and external circumstances that influenced the performance of the Hungarian economy from 1998 to 2002. To understand the key features of economic patriotism, it is essential highlight the theoretical interpretation of the measures implemented by the centre-right government. Finally, the concluding remarks summarise the achievements of economic and fiscal policies between 1998 and 2002.

Economic Policy Measures of the First Orbán Government (1998–2002)

The greatest surprise in the 1998 elections was the emergence of the right-wing party, FIDESZ–MPP, which boosted its parliamentary representation from 6 per cent to 38.6 per cent (Romsics, 2017:469). The Smallholders moderately increased their strength while the Socialist's was cut back to 34 per cent, that of the Free Democrats to 6 per cent, and the 1990 majority party, a largely disintegrated Hungarian Democratic Forum (MDF) obtained only 4.4 per cent of the votes cast. The radical right Party of Hungarian Justice and Life (Magyar Igazság és Élet Pártja; MIÉP), which was established in 1993 as an MDF splinter party, won 14 seats (3.6 per cent) in Parliament (Romsics, 1999:442–443). According to the election results, a coalition government was formed with the participation of FIDESZ, Hungarian Democratic Forum (MDF), Christian-Democratic Party (KDNP) and Smallholders. The cabinet was led by Viktor Orbán.

When the Orbán government came to power in May 1998, the Hungarian economy grew at a rate of around 4.9 per cent per annum. Both industry and the housing construction experienced spectacular growth; in 2000, industrial output rose by 18 per cent (Gulyás, 2009:184).

Table 2: GDP growth in Hungary between 1998 and 2002 (per cent)

1998	1999	2000	2001	2002
4.9	4.3	5.1	3.9	4.4

Source: Gulyás, 2009:184.

The economic policy of the conservative government focused on the improvement of living standards through wage and pension increases instead of introducing austerity measures. It emphasised stimulating the national economy by domestic consumption. There were three important priorities carried out by policymakers over the period 1998–2002:

1. From January 2001, the Széchenyi Plan was launched, which had an amount of HUF 626 billion to support the activities of Hungarian small- and medium-sized enterprises (SMEs). This programme provided better access to financing for SMEs and had positive impacts on tourism, infrastructure, and private housing construction. According to Lentner, the main aim of the Széchenyi National Development Plan was to give an incentive for the "fiscal-organized" business development in Hungary (Lentner, 2020:137). Since the change of regime, it has been the largest investment programme adjusted to the needs of Hungarian SMEs. In the years 1998–2002, it accelerated economic growth and the catching-up process of the country. Between 2001 and 2002, approximately HUF 434 billion were allocated for investment projects. The majority of them focused on boosting energy efficiency, tourism development and assisting SMEs. By May 10 2001, more than HUF 15.35 billion in non-repayable grants were given to 230 successful enterprises, within which HUF 75 billion new investments were realised by creating 4 300 new workplaces. To make a balance about the impacts of the Széchenyi Plan, it must be stressed that 80 per cent of financial support, earmarked for strengthening entrepreneurial activity was granted to foreign-owned companies (GE Hungary, Ltd., VAW Aluminium Company, Sony Hungary Ltd., Samsung Electronics Ltd., and Nokia Hungary Ltd.) (Lentner, 2005: 234-244).
2. From January 1 2001, minimum wages increased from HUF 25,000 to HUF 40,000 and finally to 50,000 HUF by 2002. Thus, the statutory minimum wage doubled in 2001 and 2002. The latter initiative coincided with the aim of increasing labour parti-

cipation rate by creating the so-called workfare economy.

3. Preferential loans (bank credits with state guarantees, burdens which were reduced by tax reliefs) were granted to stimulate housing construction (Gulyás, 2009:184).
4. As far as fiscal policy was concerned, the right-wing government strived to increase the efficiency of tax collection and improve tax morale in general. The budget guidelines for the period 1998–2002 laid down the macroeconomic objectives for Hungary, adjusting them to the fiscal discipline. The approval of the central budget for the period 2001–2002 was a new financial tool, which defined income redistribution in advance for two years. The latter provided accountability to all economic actors. To maintain budgetary equilibrium, it was necessary to make slight modifications to direct taxes. For instance, excise duties for alcoholic beverages and tobacco products were increased by 6 per cent in 2002. As far as income taxes were concerned, several amendments were made by the government, which were as follows:
   - Family tax allowances were introduced.
   - The taxation system was streamlined.
   - Administration costs were reduced.
   - Private entrepreneurs were encouraged to invest in business activities. It must be stressed that from 1 January 2002, Hungarian SMEs received a tax concession of interest charged on investment loans, which was 20 per cent in a tax year.
   - In the field of social security contribution, the adopted measures focused on reducing labour burden in order to increase employment rate and improve the competitiveness of the Hungarian economy. At the same time, steps were taken to increase the proportionality of the tax payment liability (Lentner – Vágyi, 2003:82– 86).

Taking into consideration the measures introduced by the cabinet, it became a crucial objective to maintain robust economic growth by expanding domestic demand.

Infrastructure shortcomings were being tackled through a massive public motorway construction programme. According to the European Commission, the opening up of the telecommunication sector in early 2002 was an important step forward in price liberalisation; however, public transport, household energy and certain publicly subsidised pharmaceuticals remained tightly regulated. A favourable business climate was coupled with a high degree of credibility thanks to the successful macroeconomic management over the period 1998–2000 (Commission of the European Communities, 2002:36–37).

As far as price stability was concerned, inflation dropped from 18.5 in 1997 to less than 10 per cent in early 2002. The forint was successfully stabilised by the Central Bank of Hungary, which tightened the monetary stance. The currency continued to appreciate, approaching the upper limit of the fluctuation band that had been widened to +/- 15 per cent in spring 2001. At the same time, the Hungarian authorities decided to abandon the crawling peg system. This contributed to meeting the inflation targets for 2001 and 2002. From 1 January 2000, the rate of the forint was tied to euro 100 per cent and the forint became fully convertible on 16 June 2001. The current account deficit narrowed to around 5 per cent in 2000 and the budget deficit was brought down to 3 per cent of the GDP at the turn of the millennium (Kovács – Moulin, 2004:2). Low external deficits were easily financed by the continuous inflow of FDI.

Table 3: Average inflation in Hungary from 1998 to 2002 (CPI by year, %)

1998	1999	2000	2001	2002
14.24%	9.99%	9.80%	9.15%	5.27%

Source: Inflation.eu, 2024.

Table 4: General government deficit (Total % of GDP, 1998–2002)

1998	1999	2000	2001	2002
-7.4%	-5.3%	-3.0%	-4.0%	-8.8%

Source: OECD, 2024.

Another positive aspect of fiscal policies was that general government gross debt fell from 65.5 per cent in 1998 to less than 60 per cent in 2001 (OECD, 2024). One of the weaknesses of the Hungarian economy after the regime change was its high external indebtedness, which could not be substantially reduced despite of the privatisation revenues in the second half of the 1990s. Thanks to budgetary discipline and robust economic growth at the turn of the millennium, general gross government debt started to decline. Previously, GDP growth had regularly exceeded that of real interest rates, while real expenditures rose slower than real GDP. Because of sustained primary surpluses, the share of interest payments in the budget fell from 10.3 per cent of GDP in 1997 to approximately 4 per cent in 2001. The increasingly fixed-rate debt also contributed to the reduction of interest risks for the budget. As a result of high demand for forint-denominated government securities on international markets, the right-wing government was able to finance itself by issuing domestic papers, which reduced Hungary's exposure to exchange rate fluctuations. The increasing demand for long-term Hungarian government bonds played an important role in the extension of debt maturity (Commission of the European Communities, 2002:42).

Table 5: General government debt (Total, % of GDP, 1998–2002)

1998	1999	2000	2001	2002
65.5%	67.3%	61.6%	59.5%	60.6%

Source: OECD, 2024.

According to the European Commission, Hungary had made progress in catching up with the EU average income level. GDP per capita in purchasing power standards (PPS) reached 51 per cent of the EU average in 2001; however, regional disparities still prevailed because per capita GDP in PPS of the central region around Budapest was 76 per cent of the EU average, while that of Northern Hungary stood at 32 per cent. While the official unemployment rate in the Northern Great Plain was well above 10 per cent, Budapest and the industrialised western part of the country enjoyed virtually full employment. As regards unemployment, it was the government led by Viktor Orbán that aimed to increase the labour participation rate and create the "workfare economy". The number of unemployed people represented 8.7 per cent of the working population in 1998, but as the economy began to pick up the number was brought down to 5.5 per cent by the end of 2001. The low level of labour participation, defined as the ratio of the number of people in the labour force, those employed or actively seeking employment, to the total population, was one of the weaknesses of the Hungarian economy after the regime change. The latter was remedied by incentives to lead inactive people back to the labour market. The employment rate at the national level increased steadily from 52.7 per cent in 1997 to 56.6 per cent in 2001 and youth unemployment as a percentage of the 15–24-year-old population dropped from 6.1 to 3.9 per cent in the years 1997–2001 (Commission of the European Communities, 2002:37). Despite the efforts of the government, the labour participation rate was substantially lower than that of the European average, with 70 per cent, respectively.

Table 6: Harmonised unemployment rate (Total, % of labour force, 1998–2002)

1998	1999	2000	2001	2002
8.7%	6.8%	6.2%	5.5%	5.5%

Source: OECD, 2024.

Table 7: Employment rate (Total, % of the working age population, 1998–2002)

1998	1999	2000	2001	2002
54.5%	55.55%	56.23%	56.2%	56.23%

Source: OECD, 2024.

With regards to privatisation, the right-wing coalition government was interested in renationalising privately owned companies. Contrary to the mass privatisation process, followed by the previous Socialist-Liberal government between 1998 and 2002, a few remaining enterprises were being restructured by the State Property Agency for later sale, while several companies earmarked as "strategic" remained in state ownership. Between 1998 and 2002, the Hungarian Airlines MALÉV and the financial institution Postabank were repurchased by the state. At the same time, Postabank was recapitalised from the state budget. The entire transaction amounted to HUF 192 billion, which was controlled by the Ministry of Finance. It was financed partly by issuing long-term state bonds (HUF 132 billion) and partly in cash (HUF 50 billion). It is worth mentioning that the FIDESZ–MPP government declared its intention to take control of companies from sectors deemed strategic, such as public utilities. Power generation, which was privatised during the Socialist-Liberal government, was again passed into state ownership in the years 1998–2002. Other companies, such as MAFILM, Concordia Warehouse Ltd., and BÁV Auction House remained in state hands (Mihályi, 2010:397). With these measures, the first Orbán government attempted to create a balance between domestic and foreign ownership by strengthening the role of SMEs and the Hungarian export sector.

Theoretical Interpretations of Economists of the Economic Policy Objectives of the First Orbán Government Between 1998 And 2002

Mainstream economists are divided on the necessity of economic patriotism, pursued by the right-wing Orbán cabinet, which is based on boosting domestic consumption and striving to increase the level playing field for Hungarian small- and medium-sized enterprises. Inotai criticises the economic policy followed by the right-wing coalition government. His main assumptions are as follows:

- The 'Széchenyi Plan' was not economically well-founded.
- Doubling the statutory minimum wage led to rising production costs.
- The programme, which supported private housing construction, contributed to the expansion of domestic consumption without increasing productivity.
- Both the exchange rate and the monetary policy were based on strengthening the forint against the euro and other currencies to bring inflation under control. The strong forint boosted imports for consumption (Inotai, 2008:23–27).

According to Inotai, the fiscal gap widened as a result of economic nationalism pursued by the first Orbán government (Inotai, 2008:23–27). His main conclusion was that the economic policy of the right-wing coalition was unsustainable in the long run. Similarly to Inotai, Stark blamed economic patriotism, which was responsible for the deterioration of macroeconomic conditions in Hungary and refuted the concept that sustainable growth could be achieved by the expansion of domestic consumption (Stark, 2007:57).

Contrary to these statements, other scholars underline the positive impacts of the Széchenyi National Development Plan. As Lentner rightly notes that despite the effects of unfavourable processes in the world, such as the 1997/1998 Asian crisis, the Hungarian economy achieved sustainable growth, reaching nearly three times the EU average growth rate. At the same time, both public debt and inflation fell substantially. Hungary was able to finance its debt from domestic sources; therefore, credit relations with the IMF essentially ceased to exist. In the years 2000–2001, the catching-up process started to accelerate, during which Hungary surpassed that of the Visegrad countries in terms of per capita GDP. In mid-2002, due to the loose fiscal policy, public finances deteriorated, which resulted in increasing imbalances in the general state budget that could not be offset by the tightening of monetary policy (Lentner, 2020:137).

Kovács and Moulin emphasise that from 2001, there was a shift from disciplined policies to expansive fiscal and wage policies. Hungarian economic policy was driven by strong pre- and post-election spending. FIDESZ and later the Socialist-Liberal government provided a strong pro-cyclical stimulus to aggregate demand. Public expenditure increased significantly, and very generous wage policies were implemented, resulting in a doubling of minimum wages and large increases in wages in the public sector. All of these had strong spill-over effects on the private sector. The shift in fiscal policies led to a large increase in the macroeconomic imbalances of the economy (Kovács – Moulin, 2004:3).

Contrary to mainly neoliberal economists, other scholars argue that the only solution to mitigate the harmful impacts of the transformation process (drop both in GDP and real incomes together with domestic consumption) was to follow the economic policy objectives of the first Orbán government. Botos stresses that the Hungarian population could not be blamed for the quick growth of the country's foreign exchange indebtedness after the 1970s. The main problems of the Hungarian economy could be traced back to the transformation recession in the 1990s. Her main assumption was that both export-led growth and the unprecedented scale of privatisation contributed to high state indebtedness. Another major problem was that Hungary's export sector was too concentrated and vulnerable, while the bulk of infrastructure was privatised after the regime change. Therefore, the Hungarian economy should be diversified by developing agriculture and tourism that could generate hard currency incomes by reducing the external vulnerability of the national economy (Botos, 2009:7–17).

Despite criticism, Hungary achieved sustainable economic growth over the period 1998–2002, which was characterised by declining gross government debt. The inflation rate also decreased considerably, while the budget deficit was brought under control until mid-2002. Measures adopted by the government strived to support the activities of Hungarian SMEs to improve their competitiveness in global markets. At the same time, initiatives were launched to increase the labour participation rate and help inactive people to return to work. By doubling minimum wages in 2001 and 2002, the coalition government emphasised the wellbeing of Hungarian citizens and its interest in stimulating domestic consumption. The economic policy applied around the turn of the millennium redressed imbalances in the labour market: between 1998 and 2002, 240,000 new jobs were created in the Hungarian economy, mainly in the private sector. Over the period 1998–2002, a well-conceived economic policy managed to achieve a fiscal balance, dynamic economic growth, and a sustainable increase in employment. Although there were also global financial crises at the end of the 1990s, such as the Asian financial crisis between 1997 and 1999 and Russia's financial collapse in 1998, Hungary's economy achieved sustainable growth by preserving its fiscal balance and creditworthiness in international money markets (Matolcsy, 2015:606).

Conclusion

After the implementation of the Adjustment Programme (Bokros Package), the external vulnerability of the Hungarian economy started to decrease substantially. Although the austerity measures contributed to the restoration of budgetary equilibrium and sustainable growth, they had negative impacts on both the domestic consumption and the living standard of the population. As a result of the Bokros Package, real wages declined by 17 per cent in 1995 and 1996. Unemployment rate and inflation reached double digits, which was coupled with the general dissatisfaction of the Hungarian society towards the radical adjustment programme.

In the 1998 parliamentary elections, the right-wing FIDESZ-MPP managed to gain the support of the disappointed voters and obtained 148 seats in the Parliament. As a result of the general elections, a coalition government was formed with the participation of FIDESZ, the Hungarian Democratic Forum (MDF), the Christian-Democratic Party (KDNP) and the Smallholders. The cabinet was led by Viktor Orbán.

Over the period 1998–2002, the first Orbán government placed emphasis on stimulating the national economy by boosting domestic consumption. To assist the activities of Hungarian SMEs, the Széchenyi plan was launched from 1 January 2001, which amounted to HUF 626 billion. The programme was successfully implemented and had positive impacts in all sectors of the national economy. Additionally, preferential loans were granted to stimulate housing construction. The improvement of living standards through wage and pension increases was declared among the key objectives of the first Orbán government. In Hungary, the statutory minimum wage doubled in 2001 and 2002. At the same time, measures adopted in the labour market attempted to increase the employment rate and fight against structural unemployment.

As for privatisation, the right-wing coalition government started to renationalise certain private companies that were deemed strategic, such as public utilities and power generation. The Hungarian Airlines MALÉV and the financial institution Postabank were repurchased by the state. The main objective of these transactions was to maintain the majority of shares in state ownership due to national security and solvency reasons.

As far as budget consolidation was concerned, restoring fiscal balance and reducing external debt were the main elements of the government's economic policy. Between 1998 and 2002, Hungary carried out successful fiscal consolidation. While budget deficit was brought down from 5 to 3 per cent between 1998 and 2002, public debt fell from 65.5 per cent in 1998 to 59.5 per cent in 2001, which reduced the external vulnerability of the country. According to the report of the European Commission, Hungary made progress in catching up with the EU average income level because GDP per capita in purchasing power standards (PPS) reached 51 per cent of the EU average in 2001, although regional disparities still prevailed after the turn of the millennium.

In the years 1998–2002, the economic policy pursued by the first Orbán government was able to achieve a fiscal balance and dynamic economic growth. At the same time, it successfully managed the negative external impacts of global financial crises in Asia and Russia.

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