REFLECTIONS UPON THE MOBILISING OF FINANCIAL ACCOUNTING IN THE TRANSITION TO 'POST-COMMUNISM': A HUNGARIAN CASE STUDY

Laura Dósa*

Gizella Dragonya
Heriot-Watt University

Sonja Gallhofer
Newcastle University Business School

Jim Haslam
Heriot-Watt University

Akira Yonekura
Heriot-Watt University

* Formerly lecturer at the Department of Economic Theory, University of Miskolc, Hungary

ACKNOWLEDGMENTS: We are grateful for the comments and encouragement received on earlier versions of the paper from Karen Van Peursem, Christine Cooper, Robert Kadar and Pauline Weetman. We also wish to record our thanks to the Institute of Slavonic and East European Studies of the University of London for assistance with library material.

REFLECTIONS UPON THE MOBILISING OF FINANCIAL ACCOUNTING IN THE TRANSITION TO 'POST-COMMUNISM': A HUNGARIAN CASE STUDY

ABSTRACT

In relatively recent times, a Western capitalistic financial accounting came to be transplanted to those societies of Central and Eastern Europe that underwent transition to 'post-communism'. The mobilisation of such accounting was an element of the 'reform' process. In this study we focus upon the Hungarian transition context and within this bank reform in particular. We elaborate how, given the specifics of the transition context, and the transition's ostensible objectives, a rapid mobilising of capitalistic accounting engendered effects that were negative and even contradictory. We are critical of especially the international brokers of policy who, we suggest, giving minimal concern to contextual specificities, pressurised Hungary into such rapid change. In concluding, we discuss the wider significance of the study, giving consideration to some critical issues arising.

REFLECTING UPON THE MOBILISING OF FINANCIAL ACCOUNTING IN THE TRANSITION TO 'POST-COMMUNISM': A HUNGARIAN CASE STUDY

> 'According to international prescriptions the Hungarian banking system has practically lost its capital' (Náray, 1993, p. 9)
>
> '...the devil is in the details...' (Várhegyi, 1992a, p.159)

INTRODUCTION

Several studies have added to our understanding of accounting change in the transition contexts of Central and Eastern Europe (e.g. Cunningham, 1991; Lehman, 1992; Bailey, 1995; Brzezin, 1995; Holeckova, 1995; Kuzminsky, 1995; Leko and Poznanić, 1995; Radostovetz, 1995; Rinke and Jermakowicz, 1995; Seal *et al*., 1995, 1996; Sheremet and Krylova, 1995; Smirnova *et al*., 1995; Sokolov and Kovalev, 1995; Žarkić-Joksimović *et al*., 1995; Zelenka, 1995; Borda and McLeay, 1996; Garrod and McLeay, 1996; Illés *et al*., 1996; Jaruga and Szychta, 1997; Jelic *et al*., 2000; King *et al*., 2001; Sucher *et al*., 2005; Ionaşcu *et al*., 2007; Jaruga *et al*., 2007; McGee, 2009; Ezzamel and Xiao, 2011). Some work has also specifically focused upon Hungary (e.g. Borda, 1991, 1992, 1993; Dudás, 1991, 1992; Piesse, 1993; Boross *et al*., 1995; Borda and McLeay, 1996; Borbély and Evans, 2006). Research in this area is still underdeveloped, however, reflecting largely an overly simplifying descriptive emphasis with some attention to but paucity in terms of critical thematisation (e.g. questioning of notions of universality, bringing out problematic aspects of accounting's social functioning, exploring the significance of perceptions of and around accounting, challenging the character of transnational influences upon accounting change, and pointing to the social and conflict-ridden location of accounting) and appreciative contextual analysis (cf. reflections on international accounting research in Lowe *et al*., 1991, which remain relevant).[1] This study aims to build upon work done to date by contributing to a critical and interpretive understanding to enhance research in this area.

[1]Many studies have contributed instead by rather stressing descriptive accounts of technical and legal aspects of change. An example of an exception that remains inspiring for the work here is Lehman (1992). Her study

In a critical theoretical analysis we here explore a rapid mobilising in Hungary, under the influence of transnational pressures, of a Western capitalistic accounting in the context of a transition process towards a more capitalistic society. Through a focus upon banking reform, we point to disturbing aspects of the accounting change given the particular context of and rationale for its mobilisation. We point to an accounting change that evidenced in effect a lack in the cognisance of contextual specificities. We suggest that the change was overly blunt and rapid and insufficiently systematic and co-ordinated, engendering negative consequences. This problematises the rapid introduction, without due regard to the specifics of the context, of Western accounting – here focusing upon and learning from the phenomenon in societies in transition towards more Western ways and moving towards 'post-communism'. We also aim here to stimulate a deeper questioning of Western capitalistic financial accounting. For us there is something at stake in accounting's social interaction - including in the type of transition context here analysed - in terms of the efficacy of accounting's social functioning. We can help uncover this through critical social analysis (cf. Power and Laughlin, 1992; Ciancanelli *et al*., 1994; Gallhofer and Haslam, 1994a).[2]

---

anticipated antagonisms, related to the socio-political character of the local context, likely to emerge on Western accounting's importation into Russia. Here, we help substantiate and develop aspects of this argumentation. Many Hungarian articles on Hungarian accounting change, as many articles on accounting change in transition societies from within those societies generally, have effectively advocated an ultra-liberalist market economy whatever the consequences, if we suggest this can be read as pragmatic response to international pressures (see Bokros, 1993; Csaba, 1993; Antal, 1994) and note that some studies are more cautionary and questioning (e.g. Brzezin, 1995; Sheremet and Krylova, 1995; Sokolov and Kovalev, 1995). Further, a merit of both English and Hungarian work is that it has reduced the need for practitioners, students and researchers to grapple at first hand with accounting regulations drafted in legal jargon that represent quite a change on the immediately preceding years. Studies have also provided relatively impoverished academics with income. And structural constraints in Hungary have impacted particularly upon what research is deemed valuable. Writers in English typically also have access problems, which the collaboration here helps overcome.

[2] Studies of accounting change in a transition context can yield insights of more general interest. Accounting's social, cultural, political and indeed economic consequences in action, and the related factors constituting it as a force, in their complexity, are appreciable. Critical explorations indicate how an accounting can be perceived diversely and function differently in varying contexts. Reflecting this, studies recognise accounting as a phenomenon not straightforwardly manipulated for some intended outcome. Indeed relatedly, from some analyses, that accounting sustains or enhances the socio-political order is far from an inevitable or universal law. Research suggests that e.g. accounting may especially 'disturb' in a period of significant change or crisis and that more generally an accounting can engender consequences running counter to the apparent objectives of its mobilization, if its meaning, role and functioning may be taken-for-granted or accepted at 'face value' by many actors, including those recogniseable as makers of policy implicating accounting (e.g. Hopwood, 1983, 1987; Lehman and Tinker, 1987; Walsh and Stewart, 1988; Gallhofer and Haslam, 1991; Lowe *et al*., 1991; Ciancanelli *et al*., 1994; see also Seal *et al*., 1996). This study adds to such work.

The paper is structured as follows: outline of the Hungarian transition context; discussion of the nature of the new accounting; a focus upon bank reform concerned to explore dimensions of the reception and consequences of the accounting change; a conclusion, concerned to bring out the study's wider significance and give consideration to some critical issues arising.

THE TRANSITION PROCESS

> When Central and Eastern Europe embarked upon the transition two years ago, it was often said that they were entering unchartered waters: that the attempt to move from a centrally-planned economy to a market economy was unprecedented and that the transition would be a process of learning by doing. (Szapáry, 1993, p. 108; cf. Rothschild, 1993, p. 259)

Historical background to the dramatic reforms

After the Second World War, Hungary came under Soviet influence. Centralism in administration was re-inforced along with subordination to a rigid bureaucratic control and hierarchy. The Communist Party formally held undivided power. A central planning and co-ordinating mechanism helped to displace the profit motive. Economic units or firms pursued quantitative production goals of the central plan. Their ability to cover expenses was not limited by finance in the same sense as the Western capitalistic model: bargaining for subsidies and tax allowances was significant. As Estrin *et al* (1992, p. 10) suggest, the economy was quite formally politicised, as was in many respects Hungarian society generally. Investment and growth were kept 'artificially' high to raise living standards and secure military capacity. There was 'full employment' and indeed labour shortages. Income distribution was ostensibly egalitarian. External economic relations were dominated by formal politics, characterised by the State monopoly of foreign trade, the lack of uniform rates of exchange and involvement in the Council of Mutual Economic Aid (COMECOM).

This phase of 'classical socialism' with its 'command economy' lasted until 1956 in Hungary (cf. Kornai, 1994). Shortage of resources had been a striking feature of the system. The economy had gradually experienced increasing problems, including declining 'living standards'. Despite political repression, social unrest increased and culminated in the 1956 revolt against the system. Subsequently, economic reforms were placed on the political agenda if initially many proposals were substantially rejected. The demand for reform gathered pace in the sixties and the period witnessed the introduction of what came to be termed 'market socialism' in Hungary (Estrin *et al*., 1992, p.5). In 1968, market-oriented economic reforms, labelled the *New Economic Mechanism*, were introduced. The rationale for them was clear for their proponents: they offered better living conditions, more consumer choice and relatively more freedom in economic decisions for the firms. The aim was to synthesize the positive and eliminate the negative elements of the command and market economy forms. In exchange for this, the State sought to gain an unquestioned legitimacy (cf. Batt, 1991; Grosfeld and Hare, 1991). Direct State interventions gave way to other forms of economic regulation and financial instruments and incentives were given greater weight. The reforms, however, for many, did not sufficiently improve production quality and technology. Hungary experimented with partial reforms up to the mid-eighties although there were severe political constraints, not least as represented by the continuing influence of a less liberal Soviet Union. The political corner stones of the system remained relatively undisturbed. For Estrin *et al* (1992, p. 5), comprehensive reform building upon the New Economic Mechanism was obstructed by the political system.

The ensuing dramatic reforms

For Kornai, echoing other commentators, by the mid-eighties the changes left the system unstable and incoherent making ‘inevitable’ a more radical transition to a market economy:

> That was the great paradox of the reform movement...they blasted away some of the [system's] corner stones. One such corner stone was the abolishing of private property yet, little by little, private property overtly came back in the form of the secondary economy. Another corner stone was the bureaucratic system of central planning, which the advocate of market socialism wanted to replace with the market. Hence, it was not a matter of the reformers making mistakes: the reform movement itself was bound to end in failure because basically it tried to maintain the domination of the Communist Party and of government ownership, while introducing certain elements of political liberalism and market economy. This amalgam could not last, its internal antagonism necessarily led to the system's disintegration. (Reported in Kocsis, 1993, pp. 127-128)

With the wider political changes in Central and Eastern Europe, a further push towards a 'market economy' did come in the late 1980s. In 1987, in a deepening economic crisis, a programme aimed at creating a more market-oriented economy within the framework of a 'socialist' political system was introduced. Changes in tax and company law abolished most of the discriminations between State and private ownership and facilitated economic competition. Estrin *et al* (1992) stress however that despite this 'no significant restructuring occurred in the economy in the period between 1987-89' (p.29). The Gross Domestic Product was then slightly declining, budget and current account deficits were high, inflation was increasing and foreign indebtedness was significant (see also Cohen, 1991). The autumn of 1989 was crucial for Hungary's transition to a market economy: 'A comprehensive set of measures to promote structural reform and adopt a market economy model were being implemented and the country was preparing to hold the first free elections of the post-war period' (European Commission Directorate-General for Economic and Financial Affairs, 1994, p. 57). The country appeared now to be embarking upon a quite rapid transition to a capitalistic society.

The first 'free election' in April, 1990, entrusted government to continue the transformation of Hungary's economic structures and achieve integration into the world economy (Szapáry, 1993, p.108). The government taking office faced major problems: after stagnation, the economy, as in the other 'post-communist' countries, underwent from the late 1980s a deep recession - Antal (1994) terms it a structural *transition* recession - from which it struggled to recover (Kornai, 1994, p.39). Further, income differentials and inequalities grew - a social stratification threatening increased social tension (Matheison, 1991, p. 35).[3] During the late 1980s, COMECOM's collapse had been unexpectedly quick for the enterprises and political leaders. In line with political change, the bureaucratically co-ordinated economic relations speedily disintegrated (Antal, 1994). The large State-owned enterprises had outdated technology and were oriented towards the former communist markets. Firms were now expected to compete for Western markets and, given import liberalisation, with outsiders for domestic markets. Production levels and employee numbers were reduced, with an unexpectedly high number of business failures occurring from 1991 to 1993 (Antal, 1994). If the reformers sought to reduce the State budget's role this had to be postponed - there was a

[3] Between 1990 and 1992 the Hungarian Gross Domestic Product declined by 14.2%. By 1993 unemployment stood at 12.3%, while inflation was 23% (Lewis, 1995, p. 201).

dramatic increase in the budget deficit in the 1990s to help pay for the social cost of the transition (including unemployment benefit, regional development schemes and lump-sum settlements). This engendered significant inflationary pressure (Antal, 1994; see Bruno, 1994, p. 20; Canning and Hare, 1996). The Hungarian recession was also enhanced by the overall recession in Western Europe: the main market for Hungarian exports. And Hungary's external debt fuelled the recession, its servicing being a severe burden for the economy and hindering the 'modernisation' of Hungarian society (Antal, 1994). Foreign lenders and investors considered Hungary's financial situation very weak, further restricting what was in the context much needed foreign finance and investment (see Ministry of Finance, 1993a). We should stress that Hungary was being rendered weak in terms of an inability to pursue policy independent of the influence of transnational capitalistic activities and agencies such as the IMF and the World Bank. The crisis and the influence of international forces are evidenced in a 1994 report on Hungary:

> A sharp deterioration of the domestic and external economic and financial situation in the first half of 1989 had led to the suspension of IMF support in the summer of that year. The emergence of an unsustainable current account deficit (which would reach almost USD 1500 million for the whole of 1989) and a heavy foreign debt burden threatened the consolidation of the economic and political reforms (European Commission Directorate-General for Economic and Financial Affairs, 1994, p. 57).

In this context the government had to act. With significant international pressures bearing upon Hungary, this could hardly be in splendid isolation - indeed it prepared the ground for future entry to the European Union of capitalistic nation States. The Antall-Cabinet (5 May 1990 - 21 July 1994) thus sought to further the transition, emphasising changing the institutional and legal framework. The changes introduced from 1990 are summarised in a publication of the Ministry of Finance (1993a, p. 55) as follows:

> ...the development of a system of market economic institutions began, and a large scale economic liberalization was carried out. A real market price system emerged, both foreign and domestic trade were liberalized, and wages were no longer to be regulated by administrative prescriptions but by the market. The privatization of State-properties was started and integration of the Hungarian economy into the World economy was accelerated. This process was also given a particular urgency due to the collapse of Eastern European trade and by the virtual disappearance of the previous foreign market relations.

If the Antall-Cabinet's policies could be criticised for being narrow and hastily applied, such criticism impacted little in the early 1990s. There was apparently little restraint in applying Western capitalistic principles as rapidly as possible - even if the Hungarian 'reform' is often labelled 'gradualist' rather than 'Big Bang' (see Tardos, 1992; Bruno, 1994; Dervis and Condon, 1994). By the mid-1990s, about 35% of State equity had transferred to the private sector, a massive shift on the mid-1980s' position (Giday and Sari-Simko, 1994, p. 241; cf. Lewis, 1995, p. 200).[4] For some, the government simply accepted a market formula for the economy and saw a need for social re-education.[5] As the economic position worsened, the government's response was therefore effectively to speed up the transition further, giving more attention to issues of privatisation, insolvency and bankruptcy in this context (cf. Hinds, 1990).[6]

In summary, if Hungary's transition from the Soviet style has a long history within Central and Eastern Europe (Jones and Timewell, 1994), the more dramatic changes towards the Western style took place over a short period (Antal, 1994; see also Kerekes, 1993, p. 51). Indeed, even by the early 1990s commentators typically stressed that Hungary's financial and legal structures were very different from the Western - 'well behind' per the typical ethnocentrism of Matheison (1991, p. 35). The change's rapidity towards the end of the twentieth century was significant. The Hungarian government and its policy makers were pro-active in engendering this (see Hienonyri, 1993, p. 284; Antal, 1994) but it should be stressed that international forces played a significant role, notably in helping finance, design and monitor change programmes (Anonymous, 1990, 1994b; Bácskai, 1990; Batt, 1991;

[4]In the early 1990s, the period focused upon in the subsequent case analysis, there was a struggle to advance privatization in spite of the openness of the Hungarian economy (Frydman et al, 1993, pp. 95-145; Mizsei et al, 1992, p. 64). Even so the privatization that had occurred by then is generally understood to have been significant (Frydman et al, 1993, p. 200) (see also Keren and Ofer, 1992, pp. 193-202, 212).

[5] The most visible critique in Hungary focused upon the government's lack of sensitivity to the impact of change. The Prime Minister was apparently convinced, with others, however, that the real problems were 'ideological' and that the cabinet's mission was to repair the damages done to people's minds under communism. The cabinet thus focused upon conventionally ideological issues in the Hungarian context, such as school religious education. Made up of teachers and lawyers more than economists, the cabinet stressed discontinuity with the past (Bruno, 1994; Dervis and Condon, 1994; Ellman, 1994; Schwartz et al, 1994).

[6] For some, the politics of the Antall-Cabinet were linked also to a growing moral crisis manifesting itself in corruption and scandals around privatisation, taxation and the second economy, a crisis understood as reflecting the insecurity engendered by the collapse of the former moral values and the lack in new ones which might replace them (Bruno, 1994; Dervis and Condon, 1994; Schwartz et al, 1994; Lewis, 1995).

Clarkson, 1991; Stiglitz, 1991; Balassa, 1992; Székely and Newbery, 1992; Elliot and Dowlah, 1993; Jones, 1994). For Bruno (1994, p. 20), the societies of Central and Eastern Europe were such that they were especially prone to problems in changing to the Western style. Yet new financial, fiscal, institutional and legal structures were rapidly mobilised to this end. Here, we aim to gain an appreciation of accounting's mobilising and functioning in the transition.[7]

AGGRESSIVE ACCOUNTING TRANSITION IN A WIDER CONTEXT OF AGGRESSIVE CHANGE[8]: MOVING TO 'CAPITALISTIC' ACCOUNTING

> In the Soviet Union...enterprise funds were not...denominated in ordinary rubles (the Russian name means 'faceless' rubles)...money functioned purely as a mechanism for ensuring the execution of the plan. This system came to be called 'control by the ruble...' (Kraft, 1993, p. 18)

> One of the aims of the Act, stressed from several aspects, should be to ensure the **authenticity** of the balance sheet...raising **the social prestige of accountancy** should also be formulated as one of the Act's aims. It should be endeavoured that in economic life punctual and **realistic** accounting should become a natural requirement. (Ministry of Finance, 1990a, p. 15, emphasis added)

> There is a rhetoric that US capitalist society has triumphed; thus Western accounting procedures, rules, and allowances for flexibilities in financial reporting, should be widely adopted. (Lehman, 1992, p. 21)

'Socialistic' accounting

The functioning of accounting in the communist context of Hungary reflected its positioning as an administrative mechanism to satisfy the requirements of the predominantly centrally managed economy. The form and content of accounting, designed centrally as a standardised system and compulsory for the whole economy, reflected that the national economy was considered as the accounting entity, different industries being organised into only a few

[7] We have here aimed to emphasise problematics of the transition to clarify later analysis. The elaboration indicates how things might have been done better, more particularly more gradually and systematically. Of course that was dependent upon greater foresight, goodwill and collaboration on the part of powerful international agencies. We are not suggesting that the Hungarian transition has been unsatisfactory relative to other countries of Central and Eastern Europe such as Poland, the former USSR and the former Yugoslavia.

[8] See Borda (1992, p. 961).

enterprises. Accounting regulation and legislation were managed by the Ministry of Finance, taking into consideration the needs of the Central Statistical Office (cf. Bailey, 1988, 1995).

The way accounting was mobilised as a macro-economic indicator influenced its social significance prior to the reforms. As strategic planning was centralised and companies did not face the same type of viability problems present in conditions of a more capitalistic economy, accounting took on less importance at company level. Financial reports were not generally published, at least partly reflecting the lack of capital markets and private investors. Companies were rather required to regularly supply data to the centre describing their performance in relation to the plan. The perception of accounting as a 'mere' tool of economic record-keeping impacted heavily on the nature of the accountancy profession. In the Western sense, a high status accountancy profession had ceased to exist. The accountant was replaced by a bookkeeper perceived as fulfilling a simple clerical task. This 'bookkeeping' profession lacked status and prestige. It became a 'woman's job' (i.e. perceived as inferior in a male-dominated society) which required knowledge of a detailed set of basic rules and regulations and their mechanical and monotonous application (see Bailey, 1988, 1995; Ministry of Finance, 1990b; Dudás, 1991, 1992; Borda, 1992; Clarke, 1992; Koblenz, 1994).

The highly unified and centralised accounting data supply system, designed to transmit plan data and indicators from the centre and results back to the centre, achieved its objectives well in the command economy. When change occurred, however, and market forces were promoted, it came to be perceived that it could no longer provide relevant information. For Csaba (1993), the statistical system of which accounting was an integral part was paralysed with dramatic effect. Commentators argued that at the beginning of the nineties no reliable data was available regarding Hungary's economic performance (Kocsis, 1994).

In Hungary prior to transition, of course, Western financial statements were scarcely the basis for determining the flow of investment into State-owned enterprises. Associated with the wider changes, accounting was also to be changed. For the government, a major aim of the accounting change was to satisfy the IMF and World Bank and to more nearly approach

Western capitalistic operations. For the transnational forces, the provision of information more relevant to the management of the capitalistic micro-enterprise and reflective of Western practice was in effect deemed universally appropriate.

Accounting in the transition context

> This law is a milestone. Its creators adapted well the progressive traditions of the Western countries... (Koblenz, 1994, p. 174)

In the efforts to transform Hungary towards a market economy, new laws were introduced to allow the creation and operation of financial institutions and corporations according to capitalistic principles. The legal framework covers accounting, bankruptcy, financial institutions, capital markets, investments and privatisation (Balázs, 1992; Székely and Newbery, 1992; Várhegyi, 1992a; Laki, 1993).[9] The new Accounting Law appears to have received scarce attention in the formal political arena. Parliament only minimally discussed it (Ministry of Finance, 1990b, p. 22). Substantively, it was as if it was deemed insignificant, or rather as if it might be taken for granted. One might have expected a counter to the apparent laissez faire attitude but the impact of transnational pressures helped displace and militate against it[10] and many were unprepared for what was at stake (cf. Bailey, 1995, p. 600, on the lack of discussion in the former Soviet Republics on how accounting might be effected by the introduction of the market mechanism). In this section we give insights into the characteristics of the new accounting, including the role and importance attributed to it.

Accounting was considered important in the transition process. The position of the Ministry of Finance (1990b, p. 7) indicated the apparent significance given to accounting:

---

[9] These laws were much influenced by Western - EU - equivalents, with Hungary intent upon membership of the EU and the OECD (see Ficsor, 1995; The Economist Intelligence Unit, 1996, p. 11). Since EU laws have some continuity to legislation prior to World War Two - and since Hungarian law prior to that time would have been influenced by as well as influenced other European laws (especially Austrian and German laws or business codes, see Seal et al, 1996, p. 491) - this move is in some respects something of a return to the influences that helped shape Hungarian accounting prior to the 'break' of post World War Two developments (see Borda, 1992). This need not be elaborated further for our purposes here - the changes are still considered to be significant even recognising the longevity of 'reform' in Hungary (see Jaruga, 1990).

[10] Bailey (1995) makes several references to these pressures impacting upon Central and Eastern Europe more generally (see pp. 604-6; see also Clarkson, 1991; Matheison, 1991; Borda, 1992; Piesse, 1993; Seal et al, 1996). Reports of The Economic Intelligence Unit in 1996 continue to indicate the impact of International bodies on Hungary (e.g. Business Eastern Europe, January 1st, p.2)

> Transformation of the Hungarian economy into a market-economy with an entrepreneurial sector in mixed ownership requires a complete revision of the financial system and, falling in line with it, of the system of accountancy, in order that the latter may satisfy the information requirements of a market-economy. Interest is focused on accountancy as a consequence of the organisational transformation of the economy, the revival of economic competition among enterprises, the endeavour aimed at linking the Hungarian market to the world-market, as well as the requirement to initiate a flow of foreign capital into Hungary.

In the same vein, for Dudás (1992, p. 491), of the Ministry of Finance, the Accounting Law was 'one of the most important legal instruments of the transition to a market economy' (cf. Dudás, 1991). Vasasné (1994, p. 85), of the State Audit Office, stressed that 'the purpose of the Accounting Law is to modify the accounting information system in order to be able to give relevant information to the market participants instead of the central bodies'. The Accounting Law (Act XVIII, see Ministry of Finance, 1991a; Boross et al, 1995, p. 713) makes it clear that the accounting it recommends is one facilitative of a 'market economy':

> It is inevitable for the functioning of a market economy that the market actors have access to objective information based mainly on historical data on the net assets, financial and income position and development of both profit and non-profit organizations, to base their decisions on. (p.25)

The Accounting Law set out the accounting procedures and financial reporting requirements for companies. It incorporated internationally recognised accounting principles, especially as followed in the Fourth, Seventh and Eighth Directives of the EU (Clarke, 1992). Consistent with this, it was based on historic cost and strengthened the prudence principle (Lister, 1993). It adopted the formats for financial statements of the EU directives, required regular ‘independent’ audits of business organisations (the audits applying to essentially those entities with limited liability, including banks) and prescribed the regular disclosure of annual reports in a way consistent with Western practice (Ministry of Finance, 1991a; Coopers and Lybrand, 1992). These were ‘radical’ steps in the development of accounting in Hungary.

These features of accounting transition indicate further Hungary’s concern to be quickly integrated into the world market and to attract foreign investors. The apparent willingness to uncritically comply with Western accounting principles, albeit due to the international pressures, had already become evident in the emergence of joint venture operations, as Györi (1994, p. 147), a financial manager of a Hungarian-American company, reflects:

> Together with the foreign partner [of a joint venture] came the requirement to prepare the international audited balance sheet, which gives a more real and precise picture of the company. During the co-operation we have to get to know our foreign partner's way of thinking and information system. This was a challenge to our accounting: it had to provide more precise data much quicker to the foreign and Hungarian proprietors. It was not an easy task.

The government clearly saw the importance of accounting in attracting foreign investment:

> A transformation of the Hungarian accountancy-system presents itself as an urgent requirement both on the part of Hungarian entrepreneurs and of foreigners who intend to invest here, with an aim that the ownership, the economic and financial situation of enterprises could be judged in accordance with internationally recognized principles of accounting. (Ministry of Finance, 1990b, p. 7)

For Várhegyi (1992a), the new Law, in complying with international standards, enhanced foreign investor understanding (cf. Matheison, 1991, p. 38). The Ministry of Finance stressed the need to provide familiar services, including accounting, to foreign investors:

> Foreign capital comes to Hungary not only because it finds markets and profitable investment opportunities here or because Hungarian wages are low. Another very important condition is that the foreign investor finds here familiar conditions, including the phone system, good hotels, etc. so as to be able to feel at home. But he also has to be able to work with concepts familiar to him. There are many Hungarian concepts - such as the economic working community (gmk) - which cannot be properly translated into English. But if I say "limited liability company", they will understand, that is identifiable. The same holds for accounting. We have to use concepts that can be understood even if perhaps some of the Hungarian rules differ from the Western ones. The Act of Accounting, drafted on the basis of the 4th Directive of the European Community, provides a framework that is a guarantee for the foreigner that he does understand what we are talking about and it is also a guarantee for the investor. (Ministry of Finance, 1992, p. 21).

As Borda (1993, p.75), of the Budapest wing of an international auditing firm, puts it:

> To bring the Hungarian economy into the world market, to increase the level of foreign capital investment and to facilitate the privatisation process, it is essential to have an accounting system which meets internationally accepted standards.

The Accounting Law, in stressing its compliance with international standards, emphasised the true and fair view construct (see also Ministry of Finance, 1991a, p. 7; OECD, 1991):

> The purpose of the present Act is to lay accounting regulations in line with the international accounting systems on the basis of which information ensuring a true and fair view of the income generating capabilities, development of the net assets, financial position and future plans of those under the effect of the present Act may be provided (Ministry of Finance, 1991a, p. 25)

With the changes, especially the move to privatise State-owned enterprises, the issue of asset valuation assumed a great importance (Borda, 1991, 1992, 1993; Grosfeld and Harte, 1991) and the government specifically attributed an important role to accounting in this context:

> It is also necessary in order to arouse the interest of foreign capital that the value of property shown by statements should be realistic also by international standards. It is therefore well-motivated to transform the accountancy-system in such a way that it should be internationally acceptable and acknowledged. (Ministry of Finance, 1990b, p. 9)

Under 'socialist' accounting rules, it was felt that assets generally were overvalued compared to valuations based on internationally recognised accounting principles (Lister, 1993, p. 89; Bailey, 1995). In the transformation from a 'command' to a 'market' economy, privatisation was deemed an important factor both by the OECD, Secretariat (1993) and the Hungarian government (Hienonyri, 1993, p. 281). The Hungarian government's stress on accounting's relevance in this context echoed the position of the OECD, Secretariat (1993, p.100):

> The resolution of accounting and valuation problems is a prerequisite for a successful privatisation programme. Indeed, the progress of privatisation has been slowed by the poor level of financial information, which hindered both government officials and investors in their appraisal of the enterprises designated for privatisation.

Accounting is here linked closely to market operations and valuation. In transforming accounting it was equally stressed that a Western type accountancy profession had to be established:

> A higher efficiency of the accountancy's information-system is inconceivable without highly qualified accountancy experts, who are also aware of the basic principles and methodological solutions accepted on an international level. (Ministry of Finance, 1990b, p. 9)

The changes were challenging. Accounting practice and expertise were to be developed in relation to the perceived increasing importance of accounting. In seeking to achieve this, the new accountancy profession, the Association of Hungarian Auditors, was founded in 1988 along Western lines. This came to have representatives on the National Audit Committee of the Ministry of Finance (together with members from the Ministry, academia and other interested parties) which interprets the principles laid down in the Law (Lister, 1993, p. 89).

Although there were still differences between international and Hungarian accountings (Boross et al, 1995), substantively it was as if the formerly socialistic Hungary had embraced a significant shift to capitalism including a *de facto* near unquestioning acceptance of its accounting - despite even the specific complexities of the transition context.[11] There had been a move towards compliance with the Western capitalistic accounting of Europe, given Hungary's objective of joining the EU (Ministry of Finance, 1990a,b, p. 22; Nagy, 1993, p. 574). Even if many of those faced with the challenge of transition within Hungary would not have been naive - but rather would have seen themselves as pragmatically bowing to, mainly international, pressures - the observer would note that at least in effect capitalistic accounting was being rapidly mobilised as if a panacea, with scarce regard given to the specifics of the context including its transitory nature. Below, we follow up on what we have hinted here and elaborate a case study which indicates how the new accounting, given the specifics of the transition context, was scarcely the rescuer of the situation on behalf of the transition process and its ostensible objectives but rather exacerbated a threatening economic crisis.

[11] Despite the vehemence with which the compliance with international accounting standards features in the rhetoric there were still differences between these standards and the Hungarian Accounting Law. To some extent the differences remaining in the early 1990s may reflect some underlying opposition or at least caution towards the transnational capitalistic pressures. To some extent the differences also reflect Hungarian specifics. The differences are not particularly significant in terms of the subsequent analysis but it is worth noting, for clarification, what differences were still apparent. There was no cash flow statement included in the financial reporting requirements. Further, as Lister points out (1993, pp. 91-2), the true and fair view had not been interpreted as an overriding principle in contrast to the position in the UK, the IAS and the EU. Nagy (1993, p. 574) of the Ministry of Finance refers to this criticism: "We got several critiques - especially from the international auditing firms - that the Accounting Law differs (according to some, it does it essentially) from the international accounting standards." The law's provisions also reflected concern with tax issues. Options for management regarding financial reporting at the company level were restricted. The government sought to avoid alternatives that could reduce tax revenues - if some changes with this effect were felt unavoidable (reductions were envisaged due to the requirement to write off bad debts and obsolete inventories and the introduction of accelerated depreciation, Borda, 1992; cf. Boross et al, 1995). It is also of note that provisions against debtors were not netted off against debtors on balance sheets but separately included (Borda and McLeay, 1996).

ACCOUNTING AND BANK REFORM: A SIGNIFICANT CASE

> ...while an effective financial sector is crucial for the improvement of overall economic effectiveness, the solutions currently stressed by neoclassical economists, comprising government assumption of bad debts from the old regime, privatization of banking and a key role for stock markets in capital allocation, are deeply flawed (Kraft, 1993, p. 18).

> ...the foreign banks are eager to grow here but in broad terms they are less eager to buy a used car, and a bank is a used asset. Until you clean up the books (of the banks) it is very hard to sell them...The banks are expected to produce a reorganisation plan; this plan will be investigated by the Hungarian government and the World Bank and also the central bank so the next chunk of the money will only be provided if the plans are strong enough...there are now no more hidden skeletons. (P.A. Bod, then President of the National Bank of Hungary, 1994)

> [Robert Triffin]...would have considered the necessity of annotating bank-balance-sheets a lesser evil than the endless continuation of the present crisis. Robert Triffin knew that we live in an imperfect world.(Szabó-Pelsöczi, 1993, p. 5)

> The [Accounting] Act will terminate the total confusion in asset valuation that has prevailed in Hungary up to now. (Estrin et al, 1992, p. 49)

Here we analyse some consequences of the introduction of the new financial accounting rules in the Hungarian transition context by focusing upon an attempt to reform banking, including particularly upon the Financial Consolidation Operation (FCO).[12] An underlying aim of bank reform and the FCO - which manifested, if we exclude for our purposes the 1994 attempt to restructure industry debts (see Csáki, 1994), in two phases, namely the Credit Consolidation (1992) and the Bank Consolidation (1993) - was bank privatisation, consistent with a shift from specialised banking to the more universal form of banking of much of Western Europe.[13] It was regarded as crucial for the transition (cf. Bácskai, 1990; Westlake, 1992; Hexter, 1993) and the issues to which it was responding (see Balassa, 1992) continued for some time to have their repercussions in Hungary (The Economic Intelligence Unit, 1996).

Historical developments

[12] The FCO focused upon was a state-led economic program aimed at stabilising, recapitalising and restructuring the banks and financial institutions in financial difficulties, the term *consolidation* here referring to the stabilisation and strengthening of the banking sector.

[13] The shift from specialised banking was itself criticised as somewhat carefree, given transition complexities recognised by Brainard (1991), Frydman et al (1993), and, Schwartz et al (1994).

Prior to reform, the old monobank system had already been replaced in Hungary by the introduction, in 1987, of a two-tier banking system, ending the National Bank's monopoly (Friedlander, 1989; Ministry of Finance, 1989, chapter 1; Bácskai, 1990; Murphy and Sabov, 1991, pp. 1131-3; Estrin et al, 1992, chapter 2; Szántó, 1992a; Várhegyi, 1992a; Jones, 1993; Kraft, 1993, p. 19). A major feature was that three major banks, operating as joint stock banks, were thereby created: the Hungarian Credit Bank (MHB being the common abbreviation of the Hungarian title, Magyar Hitelbank), the Commercial and Credit Bank (OKHB, from Országos Kereskedelmi és Hitelbank) and the Budapest Bank (as it was commonly referred to, from Budapesti Fejlesztési és Hitelbank, BB) (Friedlander, 1989, p. 193; Bácskai, 1990, p. 91; Szakonyi, 1995, p. 24). The initial (direct) State stake of 80% in these banks was reduced later to below 50% by 1990 (Várhegyi, 1992a). A number of new commercial banks were established in this climate - most still with significant State ownership (by the early 1990s most of these being of medium size with there being some small specialist financial institutions). Indeed by 1991 there were over thirty commercial banks (by the end of 1993 there were over forty). Almost half of these had some foreign participation, including a number of joint venture banks. In addition, from October 1990 a number of foreign banks established retail banking services in Hungary (The Economic Intelligence Unit, 1993/94, p. 25; Csáki, 1994).[14] The Hungarian financial sector had undergone significant dynamics by the turn of the decade and was even held by some to be the most advanced sector of the transition economy (Várhegyi, 1992a). The banking sector was considered very successful during 1989 and 1990 (Székely and Newbery, 1992; Várhegyi, 1992a). The transition process was to subsequently engender a different assessment: especially once many of the 'sound' loans granted by the commercial banking

[14] The analysis focuses upon the commercial banks and within these the three former branches of the National Bank. There were also a (very large) National Savings Bank and over two hundred savings co-operatives in Hungary which, however, scarcely lent to industry and commerce up to the end of the period covered here and which, in spite of their number, do not feature significantly in relative terms in the events here discussed and analysed (see Csáki, 1994).

arm of the National Bank before 1987 were re-classified in the books of MHB, OKHB and BB as to varying degrees bad.[15]

The new legislation and banking reform

In 1992, of the series of new laws coming into force designed to set up the legislative framework of a 'market economy' (Székely and Newbery, 1992), for the purposes of our case analysis the most important were the Bankruptcy Act, the Accounting Law and the Financial Institutions Act (Ministry of Finance, 1991a,b,c).[16]

The Bankruptcy Act was, at least initially, particularly severe in Hungary - it has since loosened (cf. Kornai, 1994, p. 49). Creditors were allowed to begin liquidation proceedings if unpaid after giving sixty days notice. And firms were required to initiate their own 'bankruptcy' proceedings if they had not paid bills more than ninety days overdue (Abel and Prander, 1994, p. 230).[17] About one in six companies subsequently initiated proceedings (Gray et al, 1992, p. 36; The Economist, 1994, p. 26; European Commission Directorate-General for Economic and Financial Affairs, 1994; Jones and Timewell, 1994, pp. 36-7; Ministry of Finance, 1994,a,b)! The ripple effects on the Hungarian economy were not insignificant (Bonin and Schaffer, 1995; Gray and Hendley, 1995).

The Accounting Law, as well as prescribing an accounting typical for a Western capitalist economy, endorsed the existence of business organisations which make independent

[15] Such re-classifications were by far the most significant source of the dramatic effects engendered by new accounting and other regulatory rules. These three former branches of the National Bank were large relative to the entire banking community of industrial and commercial lenders (for example, they represented around 90% of loans made to industry and commerce as at mid-1991, Westlake, 1992, p. 21) and had lent - and indeed continued to lend especially in the late 1980s - to firms in a way that did not reflect commercial sense from a Western banking standpoint (see Timewell, 1992; see Boland, 1993, on ‘permanently revolving inventories’, the construct reflecting a tendency for there to be unlimited access to loans for State-owned enterprises which were scarcely repaid). At the same time, the significant economic difficulties after 1987, including the devastating recession of 1990-2, meant that loans in general granted after 1987 had to be re-classified in due course and virtually the whole banking comunity was thrown into difficulties in the period focused upon (albeit that the three former branches of the National Bank, exposed as they were to the collapsing COMECON markets, were again particularly hit). Many of the new commercial banks recorded losses (Várhegyi, 1992a; Csáki, 1994).

[16] The latter came into force in December 1991, the others in January 1992, all being approved in 1991 (Ministry of Finance, 1992).

[17] The Law replaced a 1986 Law-decree which had been scarcely applied and was deemed redundant (see Bonin and Schaffer, 1995, p. 23-4).

economic decisions according to their perceived interests and possibilities. Its new regulations provided for very different information and communication systems to those previously operating (*supra*; Kraft, 1993, p. 18). In consequence, as we have suggested, the accounting practiced at the point of the Law's introduction could not always provide the information required by the Law. International accounting and auditing standards were also obligatory for all banks, banks being included in the scope of the Accounting Law. During the whole FCO programme it remained the case that the subjection of banking to international accounting and auditing standards was deemed crucial. The Accounting Law also required the implementation of new methods for calculating profit and loss and in qualifying loans as doubtful or bad. The new Financial Institutions Act re-inforced this last mentioned point by requiring banks to provide for doubtful and bad loans in order to cover potential losses.[18]

Some consequences of accounting's mobilisation in the particular transition context

These provisions immediately effected banks' reported performance, most evidently and directly the figures of the three former branches of the National Bank. For Várhegyi (1992a) the Accounting Law put the notion of bank income in order. Banks, most obviously MHB, OKHB and BB, had previously renewed expired credits: owing to the lack of an Act on 'bankruptcy', enterprises could exist with large unpaid debts for a long time (Borda, 1991, p. 99; Frydman et al, 1993, pp. 188-9; Ministry of Finance, 1993, p. 7).[19] Bank profits disclosed per the old regulations were replaced by losses under the new for a number of banks with

[18] The Act (LXIX of 1991, on Financial Institutions and their activities) introduced three categories of qualified loans against which provision was to be made as follows: bad (100%), doubtful (50%), substandard (20%). In this regard we should note that the term 'reserve' is often used in Hungary (in translations of Hungarian to English) where 'provision' would be the technical term to use in the English accounting literature (see Náray, 1993, p.7, footnotes). We use 'provision' throughout.

[19] It should be noted that since the government was a major owner in especially the three major joint stock banks, it had little motivation without the external pressure to reduce profits and hence significant tax revenues (bank managers and privately owned banks would have felt differently, see Náray, 1993, p.7). If on occasions the State had voted against high bank dividends so as to allow further provisioning, it stopped short of wiping out an important source of tax revenue. According to some, by collecting taxes on 'fictional profits' (equal to close to 4% return on assets up to 1990, Timewell, 1992), the State largely contributed to the deterioration of the banks' potential market value and any subsequent injection of capital from the State ought to be seen as a pay back of excessive taxation rather than a subsidy (see Várhegyi, 1992a, p. 154; Csáki, 1994; see especially Bányai, 1993, p. 38, Szalkai, 1993, p. 24). The implicit linkage in such argumentation of accounts for tax purposes to 'economic reality' might also again be noted.

MHB, OKHB and BB prominent (see Anonymous, 1990, p. 30; Jones, 1991, 1994; Csáki, 1994). This was evident in the accounts for the first year of the operation of the new Acts. Table one provides relevant statistics as at 30 September 1992 - the figures there suggesting further deterioration from the earlier, 1991, estimates based on audits conducted by the *Bank for International Settlements* and various Western accounting firms. The bulk of the provisions in the Table are against claims of the three former branches of the National Bank (see Matheison, 1991, p. 37; Csáki, 1994).

[INSERT TABLE ONE ABOUT HERE]

Given the relative significance of MHB, OKHB and BB, and in the context of a significant economic recession effecting banks generally (with a new Bankruptcy law which impacted severely in 1992 in terms of many failed businesses in Hungary[20]), the impact of the legislation upon the statistics overall was such that qualifications on accumulated loans engendered a significant loss of bank equity capital (Csaba, 1993, p. 111; Náray, 1993, p. 8).[21] As Ministry of Finance (1993, p. 9) relates:

> According to international prescriptions the Hungarian banking system has practically lost its capital.

Banks were facing 'bankruptcy', or liquidation, under the new 'bankruptcy' Act. A new visibility manifested in which banks were portrayed as loss making and in crisis.[22]

[20] According to *The Guardian* (April 18, 1992, p. 35, column 1), nearly 2000 State-controlled companies were in the process of filing for bankruptcy, meeting the April 16 deadline for all insolvent enterprises to close. The paper reports on the raising of the spectre of mass unemployment - and the write off of bad debts.

[21] Timewell (1992, p. 24) also points to inexperience in credit assessment in Hungary. Some cynically point to the State directed banks continuing to lend to 'bad' clients (see Várhegyi, 1992a). Bonin and Schaffer's (1995) analysis points to the significance of the major macroeconomic factors.

[22] Bonin and Schaffer (1995, pp. 6-7) report an estimate of provisions increasing for the banking system from Ft. 83bn in 1991 (see also Náray, 1993, p. 8) to around Ft. 220bn by the end of 1992 (or from about 10% to about one third of the total credit to the enterprise sector), an increment exceeding the 1992 banking profits (before tax and provisions) by almost 300% (these figures are consistent with Table one, which records the provisions by the end of September 1992; see also Csáki, 1994, who indicates that the provisions were 38% of banks' total assets in 1992 compared with 7% in 1991 - although Csáki's, 1994, paper suggests that the Ft. 220bn is a little exaggerated in terms of the official data and is likely based on Náray's, 1993, p. 8, estimate). Szántó (1992e) did maintain that the results for banks in 1991 were not always tantamount to a 'real' loss. This, arguably more balanced view, was largely ignored if subsequent events be the measure.

Along with the effect on bank profits and equity, a further manifestation of the Accounting Law was that the capital asset ratio became significantly less than the 8% required by the Financial Institutions Act (consistent with *Bank for International Settlement* guidelines, The Economic Intelligence Unit, 1996, p. 27). Chairpersons of the larger banks facing financial difficulties could hold views such as the following:

> ...banks are obliged to fully comply with the regulations of the Financial Institutions Act ...Our financial possibilities do not allow us to start the adaptation this year. The government must support us financially, otherwise our balance sheet and profit and loss statement show a catastrophic situation. (cited in Szántó, 1992c)[23]

It was as if the banks, more especially those constituted in former times, along with the Hungarian economy generally, were not being given time to adjust. Rather, key institutions were in effect being forced to declare themselves out of business, or close thereto, overnight. Such a view is consistent with the proposition that bodies like the IMF, the World Bank, the OECD, the EU and the UN have tended to formulate policy vis-à-vis the countries of Central and Eastern Europe, including Hungary, in terms of international accountancy norms or encouraging a movement towards these, without apparent regard to the context of such a mobilisation (see Borda, 1992, p. 963; Ministry of Finance, 1993, p. 14; OECD, Secretariat, 1993, p. 110).

To enhance the crude logic of this sudden and problematic trajectory, in Hungary as elsewhere, many came in effect to take the new accounting for granted as reflecting economic reality - a reality tacitly accepted as somehow more meaningful than that of former times (cf. Hexter, 1993, pp. 110-111). Ministry of Finance (1993, p.8) echoes this succinctly:

> The price of the change was that the volume of losses, until then latent in the balance-sheets of the banks, became visible.

While such views may be fair assessments in terms of neo-classical orthodoxy, their lack of caution and failure to assess the context renders them unreasonable. The assessments were

[23] The main aim of the FCO - the stabilisation of the banking sector - was also widely perceived to be expressed by the capital asset ratio. I. Szabó, the then Finance Minister, stated in an interview that 'the aim of the recapitalisation programme is to increase the capital asset ratio...to eight percent, the recognised international standard' (Szántó, 1992c).

very unreasonable as it turned out - if 'value' calculations had discounted the subsequent State support of the banks they would not have arrived at such desperate figures! The cruder perspective was somehow encouraged by Western accountancy advisers and commentators thereon in this context (only a few advocated caution, e.g. Cunningham, 1991, p. 37; Tirole, 1994). Consistent with our earlier, more general, analysis (*supra*), Hungary's new accounting was apparently understood by some at least in taken-for-granted terms, being almost an embodiment of common sense (cf. Hines, 1991). Roe (1992, p. 25), for example, anticipates the birth in Central and Eastern Europe of 'sound accounting systems and the establishment of proper bank attitudes toward risk, innovation and the acceptance of responsibility', suggesting that 'large Western audit firms were making diagnostic studies and establishing sound accounting practices.' Even cruder, but illustrative, is the matter of fact insistence by Estrin et al (1992, p. 49) that 'the New Act will introduce Western-type accounting practices and will make Hungarian financial statements economically meaningful'. They go as far as blaming Hungary's economic system specificities for the failure on the part of 'even the best international auditing firms' to value some particular Hungarian assets consistently (see also Ministry of Finance, 1990b, e.g. pp. 20-21; Cook, 1991; Dudás, 1991, p. 48; Warne, 1991; Borda, 1992, p. 961, 1993, especially p. 76; Hexter, 1993, p. 111; Jones, 1993, p. 38; Thorne, 1993, p. 12; for a reliance on 'accounts' more generally in a statistical analysis based on Hungarian data, see Murphy and Sabov, 1991, p. 1136). The emergent accounting was understood, consistent with the Hungarian mass media and government rhetoric, to be objective, precise, neutral, reliable, independent, true and fair (see Dudás, 1991), a sound and real/realistic (as opposed to fictitious, cf. Hexter, 1993, p. 111; Várhegyi, 1992a) representation of the economic and a matter of professional expertise and social standing (Ministry of Finance, 1990b, e.g. p. 23; Borda, 1992; Clarke, 1992; Pölöskei, 1994; Várhegyi, 1992, a, b, 1994).[24] Such perspectives were - in effect, at least - internalised

[24] Some commentators emphasised such perceptions in contrasting the 'outdated' nature of the 'old' accounting systems of the banks with the 'new'. Winchester, an English banker working for a large Hungarian bank, criticised bank information systems as follows: '...the accumulation of bad loans was partly caused by the fact that the banks are not able to assess the daily status of their assets and resources...Furthermore the bank managers' reporting obligations is still missing...the exact value of bad loans held by the Hungarian banks cannot be calculated due to missing overall data' (cited in Kocsis, 1994, p. 42). In assessing the Hungarian

amongst a number of significant constituencies in Hungary, including amongst those developing the Accounting Law: representatives of industry and commerce, academics and local accounting associations in effect joined with the World Bank and international audit firms and associations (Borda, 1992, p. 947).[25] Cynics might suggest that the international auditing firms would have perceived an interest in boosting further a professional reputation bound up in existing practices familiar to them - including those of the market economy more generally (cf. Seal et al, 1996; see also Szántó, 1992e; Bossányi, 1994).

The new accounting was far from pure and innocent. As the text reads on the scroll of the skull in the golden casket chosen by Morocco in Shakespeare's *The Merchant of Venice*, all that glisters is not gold - perhaps only in particular contexts, which can indeed also change.[26] As we shall bring out more explicitly below, the effects of the interaction between Western capitalistic accounting and the other elements of the legislative reform upon the Hungarian economy in the period prior to the subsequent State intervention were quite damaging.

The two phases of the FCO in the early 1990s

The situation of the banks as elaborated above threatened and gave rise to dramatic and disturbing effects. The banking sector (dominated by the three large joint stock banks that came out of the National Bank in 1987) unanimously called for immediate State intervention. This was somewhat against, of course, the earlier apparent intention of the State-led and internationally driven transition process. The call was already too late to prevent many business failures and what amounted to an economic and social tragedy in the period from after the legislation started to take effect up to the time when the calls for State intervention were irresistible - but the concern was to arrest further damage. It is of note that many perceived the general contextual situation in Hungary in 1992 as one of crisis (see Erdős,

---

banks' performance, Várhegyi (1994) similarly argued that their evaluation under the 'old system' was quite impossible given the lack of relevant data.

[25] Ministry of Finance (1990b) stresses the interests of financiers, investors and the state in accounts but fails to mention Labour. This helps highlight the degree of emphasis upon capitalistic accounting principles that was emerging in Hungary even relative to Western capitalistic nation states (see Gray et al, 1987).

[26] We are not suggesting that accounting should not attempt to be, for example, fair, open and reliable. Rather we are pointing to the inherently political and negotiated nature of such a project. When viewed as such these criteria are indicative of accounting's potential (see Haslam, 1991; Tinker, 1991).

1992; cf. Elliott and Dowlah, 1993). The government also recognised the beginnings of a near emergency context. For the State this was a most difficult situation as the Antall-cabinet was the first ‘freely elected’. As well as creating havoc in the economy generally, the creation of what appeared reasonably sufficient provisioning resulting in a dramatic decrease in profit was against the interests of those controlling the State budget. The government expected significant tax revenues from the banking sector, which had been envisaged to play an important role in bringing in budget revenue (Várhegyi, 1992a,b, 1994). This was threatened and countered by the accounting outcomes, the tax reduction being of some significance (Abel and Prander, 1994).[27]

In the light of the difficulties, a first panic reaction of the government was to relieve some of the managers of the former branches of the National Bank of their duties, replacing them by 'reliable' State officials and/or politicians during their Spring meetings of 1992 (Várhegyi, 1994; cf. Várhegyi, 1992a; Szalkai, 1993, p. 27; Timewell, 1993). The disturbing character of accounting's mobilisation in the context here is already apparent, since accounting exacerbated such political tension. During 1992, the increased seriousness of the situation was perceived. Several companies went 'bankrupt'. One third of Hungarian banks (excluding the retail services operated by foreign banks) showed losses in the first half of 1992 (Szántó,

[27] Banks previously reported significant profits and paid an associated profit tax to the government. As pointed out, much of the profit was eliminated with the accounting and other regulatory change (Csáki, 1994; Várhegyi, 1994). Other sources of finance dried up. The huge bad debts made it very difficult for the major banks to lend more to Hungarian companies desperate for funds (they preferred to lend to the less risky government, a willing customer!) - adding to pressures on business. The three major joint stock banks in particular increased their spreads and short-term credit, instead of long-term borrowing. They were hampered in their attempt to develop standards to make financial intermediation more efficient. Since the major home banks were forced to increase spreads to cope with the risks and accumulate provisions, they were left with the less attractive clients, the more attractive getting cheaper finance from elsewhere, especially from the joint venture banks or foreign banks (who were concerned to offer competitive lending rates) although some local businesses (some of them quite healthy) just could not get satisfactory loan finance from banks shy of lending (Timewell, 1992; Abel and Prander, 1994, pp. 230-1). Boland (1993) reports that once generous banks became too cautious. That these repercussions were not unrelated to accounting change is fascinating and insightful! While the effects were anticipated by many - pointing to the significance of the international pressures - their size and consequence were largely unanticipated (see Matheison, 1991, p. 38; Szapáry, 1993) albeit that there are some commentators who speculate about ‘conservative’ counter-strategies to the seemingly irresistible New Right forces (see Lewis, 1995, p. 209). The application of the EU accounting requirements are still described as ‘severe’ in 1996 - presumably in the context of their application (see The Economic Intelligence Unit, 1996, p. 13). Regarding the budget finances, the FCO itself was expensive - and the ‘hard facts’ of accounting were subsequently mobilised to point to the inevitability of the costs involved (Soós, 1993).

1992c). After the disclosure of the half-year balances in the Autumn of 1992, State intervention had been continuously and substantively on the agenda (Anonymous, 1992; Szántó, 1992c). The relatively slow reaction of the government can be in part explained by the huge forecasted expenses of any kind of intervention - which was also against the interests of those controlling the budget.[28] It was not until the end of 1992 that the Credit Consolidation programme (the 'quick' Credit Consolidation per Ministry of Finance, 1993, p. 9), the first phase of the FCO, was finally launched (Soós, 1993). The objectives of the Credit Consolidation were the stabilisation of banks by improving their capital structure (and the moderation of their interest margins, cf. Bruno, 1994, p. 42) and making them more attractive to private investors down the road: an aim being to allow further 'privatisation' (i.e. a reduction in the State's holdings) in order, it was held, to ensure their effective operation. Bányai (1993, p. 32), in subsequently commenting upon the Credit Consolidation, linked the aim of furthering more private ownership directly to 'the face-lifting of the banks' balance sheets'. A further aim was to push the banks nearer to fulfilling their promise to raise significant tax revenues for the government (Várhegyi, 1993, p. 38). The Ministry of Finance arranged to buy qualified loans - largely in the three former branches of the National Bank - with little to no prospect of realising anything from them (Várhegyi, 1993) - and paid treasury bonds for them (see Csáki, 1994).[29] The government (via an investment and

---

[28] In 1991 the State had already issued HUF 10.5bn to the three former branches of the National Bank in guarantees to help cover inherited bad debts (Timewell, 1992, p. 24; Westlake, 1992, p. 24).

[29] The consolidation extended to all those financial institutions which had got into a difficult situation and which were not expected to be able to solve their problems themselves - institutions with a capital adequacy ratio of less than 7.25% were allowed to enter (Náray, 1993, pp. 10-1). The three former branches of the National Bank - banks with 'a rope around their neck' (Bányai, 1993, p. 32), two of which (MHB and OKHB) actually had negative capital adequacy ratios estimated in 1992 (Bonin and Schaffer, 1995, p.7) - dominated in the consolidation exercise given the relative size of their bad claims (taking up over 80% of the value of the exercise, Náray, 1993), even if fourteen commercial banks (and over fifty savings cooperatives) participated (Náray, 1993; Csáki, 1994). The capital adequacy ratio here was an internationally accepted accounting-based regulatory ratio in banking, its numerator being a measure of reserves and its denominator a measure of assets weighted by risk (eg. State debtors and receivables from the National Bank were not considered risky, other financial institution debtors were considered moderately risky and industry debtors were considered very risky and included at 100%). Reserves or warranting capital was constituted by basic elements (including paid-up capital and retained earnings) and additional capital elements. The latter had to be less than the basic elements and (until the end of 1995 in Hungary, when further restriction applied) only 10% of the total of the additional capital elements could be included subject to State inspection. General reserves, an element of the additional capital, could scarcely be included in the reserves figure (up to 2% of the denominator of the ratio until 1995 when it became restricted even more, to 1.25%). Where substandard asset values reduced by corresponding provisions exceed 10% of the book value of the warranting capital, this value had to be deducted from the reserves figure (Ministry of Finance, 1991c; Náray, 1993, p. 11). The ratio was meant to be kept at 8% (4% if the numerator is restricted to the basic elements or tier one capital) from January 1993 (7.25% and 3.625%,

development agency) accepted HUF 102.6 billion bad debts that the banks sold for credit (or loan) consolidation bonds issued in two categories with a maturity of 20 years valued at HUF 79.4 billion (with a further smaller amount coming in cash via a State agency) - the difference of about HUF 22 billion being written off by the banks (Náray, 1993, pp. 19-20; Abel and Prander, 1994, p.231). The overall positive effect on the bank's accounts was achieved because this transaction resulted in a much smaller amount having to be transferred to the profit statement to provide for bad debts. Table two illustrates the apparent significance of the Credit Consolidation in the context of the accounting prescription (and the high minimum capital requirements) (Thorne, 1993, p. 10). The benefit to accounting earnings is significant in the regulatory context.[30]

[INSERT TABLE TWO ABOUT HERE]

After the implementation of the Credit Consolidation phase the international audit firms, in carrying out a legally required audit, wanted (on at least grounds of consistency, see Várhegyi, 1993, pp. 39-40) to value some of the special treasury bonds issued at less than 50% of their face value (cf. Szántó, 1992c; Náray, 1993; Csáki, 1994, p. 14).[31] This again helped to spoil the banks' balance sheets (table two takes their strictures into account). This was contrary to the government's efforts to further off load to the 'private sector' its holdings in banks - especially in the large banks that were previously integral to the National Bank - as

---

respectively, before) (Timewell, 1992; Náray, 1993, p. 14). For comparison with the internationally agreed capital adequacy ratio that shaped the Hungarian legislation (via the second banking directive of the European Union, Timewell, 1992) see Fraser (1995). The analysis here brings out that the regulatory significance of the capital adequacy ratio - as an accounting measure - might well be further explored.

[30] The right hand column of Table two is indicative of the international pressure in that it disallows the transitory rules of the Hungarian Financial Institutions Act. These allowed the 'deficit in provisions' to be taken in three parts (over three years) to the profit and loss account (which Szabó-Pelsöczi, 1993, p. 5, refers to as - a pragmatic - 'annotating' of bank balance sheets). The international forces clearly disapproved.

[31] A calculation consistent with 'International Accounting Standards' reported by Bonin and Schaffer (1995, p. 51) marks the Treasury Bonds down by over HUF 50bn. The proposed write down is due to some (about a third) of the bonds issued for a certain category of claim carrying a lower than market rate on interest and due to the Ministry of Finance retaining the option to levy a special tax at 50% on total interest income earned. The State's move to include the latter option was, it seems, in itself resultant from the pressures of the international auditors who considered the accountancy procedures unacceptable for the case whereby banks had to pay back consolidation bonds at maturity some twenty years hence: they pushed the State into renouncing its claim and fixing a 'user's cost'. The IMF and the World Bank weighed in with heavy criticism, pointing to the technical insolvency of many banks (Boland, 1993; Timewell, 1993). Under the influence of this further pressure the lower rate bonds were converted to the higher rate series and the option to tax rescinded: probably crucial - indeed not enough - for the banks, given their financial difficulties (see Bonin and Schaffer, 1995, p. 51).

soon as possible. When, in agreement with the international audit firms, the government changed the original conditions of these bonds (Anonymous, 1993; Bonin and Schaffer, 1995, p. 51), the valuation of the bonds in the balance sheets was accepted by some at face value (cf. Szántó, 1992d), although many 'experts' suggested that these bonds should have been accepted at only 90% of the face value to be consistent with international accounting standards. This costly programme, criticised by many as emanating from a short-sighted perspective, was in effect little more than a temporary relief.[32] A still high stock of doubtful debts became manifest.[33] The application of the accounting rules in this context reduced earnings by a further HUF 13-14 billion with again the three major joint stock banks once part of the National Bank's commercial credit operations prominent (Ministry of Finance, 1993, p. 21; Bonin and Schaffer, 1995, p. 55). The failure became apparent six months later. In August 1993 the value of the qualified loans in the banks' portfolios overall reached the same level as in December 1992 prior to the Credit Consolidation and a number of banks other than the former branches of the National Bank showed significant losses in their accounts largely because of a previously optimistic provisioning (Csáki, 1994, p. 7; Gyenis, 1994a). Over 20% of bank loans were by then 'problematic' according to Szabó, the Minister of Finance - something that was 'disastrous' (although The Economic Intelligence Unit, 1994, suggested that it was possible that banks had exaggerated their problems to extract more aid from a government that they now knew would bail them out!).[34]

[32] Some commentators make the point that the programme did not remove the reason why the bad debts were surmounting (Abel and Prander, 1994, p. 231; Schwartz et al, 1994, p. 301).

[33] An additional amount of around HUF 18bn was added to the Credit Consolidation programme in early 1993 but it did not arrest the trajectory and is not significant for our focus (Bonin and Schaffer, 1995, p. 50).

[34] A problematic dimension of the Credit Consolidation should here be noted. It bailed out those banks whose capital adequacy ratio, an accounting-based measure (see Estrin et al, 1992, p. 47; Ministry of Finance, 1993), fell below a particular amount (7.25%) (Ministry of Finance, 1993, p. 11). This, at least at the margin, might have motivated banks to actually reduce their capital adequacy ratio, at least by seeking to qualify more debtors, a form of 'moral hazard' problem (see Stiglitz, 1991; Hardy and Lahiri, 1992, p. 10; Csaba, 1993, p. 111; Várhegyi, 1993, p. 40; Bruno, 1994, p. 42; cf. Antal, 1994; Bonin and Schaffer, 1995). This would have added to the cost of the bail out. Again, it does not seem to have been an anticipated problem. Náray (1993, p. 11) and Szalkai (1993, pp. 28-9) believed the problem was subsequently exaggerated especially given that the consolidation programme was restricted only to loans made before a certain date. Yet it may well have had an impact as provisions increased subsequent to the Credit Consolidation upon the subsequent Bank Consolidation as banks more and more would have failed to buy the State's official view that the Credit Consolidation was a 'one-off' (see Bonin and Schaffer, 1995, pp. 53-4). According to Bonin and Schaffer (1995), in spite of the Credit Consolidation by the end of 1993 as much as 50% of the credit to enterprises had been classified as problematic in some way - and by 1994 the system was modified to allow greater flexibility. In 1993 over one third of the then over forty commercial banks were showing losses - overall commercial banking losses of HUF 150bn were recorded (Csáki, 1994, p. 8). The classification of additional claims as bad after the Credit

The above examples show that accounting numbers used to depict the situation of the banking sector can also be used, in an apparently contradictory move, to argue for State intervention. Yet at the same time an increased questioning of the role and functioning of the new accounting could allow some of those against State intervention to be dismissive of accounting numbers. The threat of further direct involvement in the banks' operations by the State engendered criticism of the programme by the same bank managers who had themselves helped formulate it and endorsed it. This criticism was concerned to dismiss new accounting visibilities. For some bank managers, for example, the significance of the capital asset ratio was now not to be exaggerated as banks were quite capable of performing well with a ratio less than 8% if their underlying position was strong enough (Sebők, 1994).

Those directing the FCO subsequently responded to the problem situation with a switch from the Credit Consolidation operation to that of the World Bank supported Bank Consolidation (European Commission Directorate-General for Economic and Financial Affairs, 1994, p. 61). The original objectives, stabilisation and (further) sales of the banks' shares to private interests (eventually) remained. The Bank Consolidation process incorporated the issue of treasury bonds once more to a number of banks with MHB, OKHB and BB figuring again as the prominent players (Szántó, 1992b; Abel and Prander, 1994, p. 231; Gyenis, 1994b; Bonin and Schaffer, 1995) - bringing the cost of helping the banks in the transition to over HUF 200 billion excluding the costs of the subsequent restructuring of industry debt (Boland, 1993; Figyelő, November 25, 1993, p. 6; Jones and Timewell, 1994, p. 31; The Economic Intelligence Unit, 1996, p. 27). In exchange for a significant State capital injection the State ownership in MHB, OKHB and BB (which received HUF 55, 33 and 5 billion, respectively, and which had negative estimated capital adequacy ratios for 1993, Csáki, 1994, pp. 11-3, Bonin and Schaffer, 1995, p. 56), immediately rose back to around 75% from what had been a low of around 40% (Anonymous, 1994b, p. 38). Even this was not enough to raise the key capital adequacy ratio sufficiently. And the move clearly countered the intent of the transition

Consolidation is likely in part also influenced by tax considerations - clearly accounting numbers were continuing to be less than straightforward phenomena to regulate (see Bonin and Schaffer, 1995, p. 53).

process - the incentive structure of the banks was going helter skelter (Abel and Prander, 1994, p. 231; Gyenis, 1994c; Várhegyi, 1994). Commentators believed that further support would be necessary (Jones, 1994, p. 30).

These two phases of the FCO put a heavy burden on the budget. An increasing deficit was financed partly by increased business taxation. The (high at around 20%, see Náray, 1993, p. 21, Csáki, 1994, p. 11, Bonin and Schaffer, 1995, p. 62) interest cost of the treasury bonds issued to sort out the bad debt problem (most of this covered by the above analysis) amounted to about 25% of the 1994 deficit, a deficit targeted at around HUF 300bn (Anonymous, 1994a; see Csáki, 1994, pp. 14-5, who reports that the interest charge is equal to that on Hungary's foreign debt, accumulated over the past forty years; cf. Bonin and Schaffer, 1995, p. 62).[35] The aim of the FCO was (further) sales of State holdings in banks, especially holdings in the three major joint stock banks, with it being anticipated in the medium term that tax revenues generated from their private operation would become one of the most important sources of budget revenue (Réti, 1992). The Accounting Law helped to transform the perception that the banks would be an economic saviour (see Szapáry, 1993, p. 111). It had become widely accepted that the only 'real and final' way of improving the very weak performance of financial institutions was their privatisation. For Allen of Price Waterhouse Hungary, the privatisation of several banks, given their unattractive balance sheets, was almost impossible (see Réti, 1992). By 1994 little progress had been achieved given the State's apparent aims. The FCO, if considered in terms of a simple attempt to adjust the accounts of especially the major joint stock banks in order to make them more attractive for private domestic and foreign investors, was not as successful as intended. Regarding privatisation, only one significant bank in which the State had had a majority holding - the Hungarian Foreign Trade Bank (Magyar Külkereskedelni Bank, MKB) which had emerged as a large commercial bank - was privatised in the sense that the State off loaded its majority holding (to foreign investors) in the period focused upon here (Csáki, 1994). The share of the

[35] The motivation effects of what were being seen by some prominent spokespersons on banking as subsidies for poor performance were also questioned, especially in the context of 25% wage increases being agreed by some banks participating in the Bank Consolidation and some of these banks being at least partly owned by the private sector (Csáki, 1994, p.17).

State actually increased dramatically in the three former branches of the National Bank, from a low of 38% to more than 75% as an immediate result of the FCO programme (see Anonymous, 1994b, p. 38; Csáki, 1994; Lewis, 1995, p. 208).

In summary, the case suggests that the rapid introduction of Western capitalistic financial accounting in this particular context was problematic. It contributed to the way the Hungarian economy was being thrown into a rapid change rather than being allowed to adjust more gradually. The failure of the State to intervene in the banking sector from the outset virtually ensured that the new accounting would damage the transition economy. Under significant international pressure, the new accounting juxtaposed alongside other Western influenced changes and in a recession contributed to the FCO's problematic manifestation. The State's intervention, including its assuming of further ownership claims in the banks, appears somewhat to contradict the apparently pristine initial efforts of an internationally desired neo-classical economic polity. The case suggests at least that the accounting change associated with such transitional reform ought to be questioned vis-à-vis the particular context of its mobilisation.

CONCLUDING COMMENTS: DISTURBING AND ENABLING ACCOUNTING

> The transition has already presented some surprises, events that may have been anticipated - and were in fact anticipated by many - but whose magnitude and impact were greatly underestimated. (Szapáry, 1993, p. 108)
>
> There is no clear vision about the future in Hungary or in any of the post-Socialist countries. (Ladányi, cited in Bailey, 1995, p. 622; cf. Bunce and Csanadi, 1993)

Our analysis points to the problematic consequences of a failure - which had much to do with international influences and pressures - to give adequate consideration to how accounting 'reforms', mobilised as part of a transition to post-communism, interact with the specific context to their mobilisation. In effect, Western capitalistic accounting was deemed objective and un-controversially progressive. The consequences of its mobilisation alongside other developments in the specific context were, however, in many respects far from positive. A difficult economic situation, with problematic social consequences, was at least temporarily aggravated and the State's costs increased as did taxation on nascent and emerging businesses.[36] Hungarian business could have been given more time, advice and support to smooth the transition. State financial support to the banks, no doubt less than it has subsequently been deemed necessary to give, might have helped earlier (cf. Bod, 2004/5; Kornai, 2005). More radically, as we shall consider shortly, a considered approach involving mutual learning and dialogue could have helped better realise accounting's potential.

The study can be located in a wider literature. Previous research on accounting in transition contexts has highlighted the problems associated with the specificities of those contexts (see Lehman, 1992; Seal *et al*., 1996). More generally, prior studies have suggested that accounting can bring about consequences which run counter to the apparent objectives of its mobilisation, some research highlighting the significance of how accounting is perceived in this process (see, e.g., Hopwood, 1983, 1987; Lehman and Tinker, 1987; Walsh and Stewart, 1988; Gallhofer and Haslam, 1991; Lowe et al, 1991; Ciancanelli et al, 1994).[37]

We hope that our study encourages a critical questioning of accounting on a number of levels. Accounting ought to be given more critical consideration in the context of recognising its - actual and potential - centrality to socio-economic policy. Given the significance of such

[36] In this regard, one can suggest that accounting was not simply reflecting a 'reality' that was changing all too rapidly but beyond this a particular 'reality' was being created by a bank accounting which equated to 'bad news'. This was a self-fulfilling prophecy to some extent, given the economic repercussions.

[37] From prior research, particular (e.g. nation-specific) Western accounting concepts or constructs can 'disturb' when transferred to other capitalistic contexts. E.g., while in Britain the substantive meaning of 'true and fair' has come to equate with a pragmatic disclosure facilitating capitalism (see Haslam, 1991, focusing extensively upon bank accounting), the transferral of this notion to other capitalistic contexts can disturb, posing questions for example about the form and content of established accountings in the host context (Lowe et al., 1991; cf. Bailey, 1988, p. 600). While much of the disturbance in our study and in the other work cited was engendered by contextual specificities, an accounting mobilisation can be disturbing for a capitalistic socio-political order more generally. Since, for example, some form of 'secrecy' plays a positive role in sustaining capitalist society (cf. Laughlin and Puxty, 1983; Haslam, 1991; Gallhofer and Haslam, 1994b), any attempt to transform visibilities can potentially threaten that socio-political order. That in turn is suggestive of the need for a deeper questioning of accounting, one that disassociates it to some extent from a narrow role as a capitalistic/economistic society. Regarding the notion of 'a pragmatic disclosure facilitating capitalism' (*supra*), the philosophy of the Hungarian Accounting Law reflected this in allowing substantial flexibility in external accounting: 'The character of the Act excludes a regulation going into details, this being contrary to the basic principles contained in the Act and, as a consequence, it makes possible a vigorous deregulation in the sphere of accountancy, by leaving the methods of practical realization to the enterprises' (Ministry of Finance, 1990b, p. 16). Further: 'The report deposited with this Court is public. Within a given framework the Act on accountancy - or other laws - may prescribe the publication of the report within a defined circle' (Ministry of Finance, 1990b, p. 20; see also the differential approach encouraged at pp. 17 and 21, and, p. 27 on a 'venture-friendly' accountancy; see also Borda, 1993, p. 78 on 'entrepreneur-friendly' accounting).

matters as how accounting is socially perceived and how its function might differ in the context of differing institutional and organisational arrangements, this is consistent with the call, implicit above, for a more serious, contextually aware, approach to 'accounting policy'. In the study we have been especially critical of international brokers of policy in this regard (see also cautious voices in Westlake, 1992, p. 25, Bányai, 1993; see also Garrod and McLeay, 1996, p. 7; see especially Boland, 1993, who implicitly suggests that the IMF lack a holistic perspective in being more concerned that the banking system is 'sound' than that viable industrial sectors exist locally). The IASB's acceptance that developing countries may be best served by recognition of their own specificities is a notion that may be more widely applied (cf. Bailey, 1995, p. 613; see also Briston, 1978; Amenkhienan, 1986). Policy makers, including in Central and Eastern Europe, should question accountings which are far from innocent, neutral, incontrovertible or unambiguous phenomena and struggle for more cautious approaches against the rush of somewhat crude globalists (cf. OECD Secretariat, 1993, pp. 114-5, a move slowly towards recognising some of the complexity at least in the economic sphere). An accounting mobilisation sensitive to historical and contextual specifics should be welcomed (in which regard the work of Sokolov and Kovalev, 1995, is a step forward towards questioning Western accounting in the way encouraged by Lehman, 1992).[38] We would also encourage a much more radical questioning of how the expertise of Western accounting can be taken to be universally applicable. A serious accounting critique should reflect on the value of the local and specific rather than crudely override these in the manner of cultural imperialism. The possibilities of synthesis to retain valued particularities ought to be explored. That is consistent with a radical critique also, of course, of Western accounting.

Returning to our Hungarian case study, a questioning of accounting was emergent in that context. Accounting's association with policy failure helped to bring critical attention to it. In the context of accounting's problematic functioning, key actors, more particularly bankers in this instance, publicly questioned accounting albeit in a still relatively limited way.[39] In our

[38] Lehman (1992, p. 24) wondered whether joint venture accounting would create tensions between unequal partners in accounting as power/knowledge.

[39] Lehman (1992, p. 22) anticipates substantive resistance and altered perceptions towards accounting - especially towards its alleged objectivity and facticity e.g. vis-à-vis creative accounting - in the former Soviet

study however there is little evidence that consideration was given to the value of particularities of pre-reform Hungarian accounting. There is thus a great risk that such valued or potentially valuable particularities are in danger of being simply abandoned with the onward march of an 'imperialistic' capitalistic accounting. Speculatively, we can suggest that of note in the Hungarian case (cf. Ministry of Finance, 1983) are the concept of 'GMK', or 'economic working community' (Ministry of Finance, 1992, p. 21),[40] the specificities of the relation between tax and accounting (Ministry of Finance, 1992, pp. 13-15), the accessibility of general ledgers to the State in relation to economic and monetary policy (Ministry of Finance, 1992, p. 22), the role of rules/flexibility and trust and the influence of women on accountancy (cf. Lehman, 1992, pp.22-3), the usage of terms for external reporting such as publicity which link it to earlier democratic concerns (see Ministry of Finance, 1990a, pp. 10, 15; cf. Haslam, 1991; Lowe et al, 1991),[41] and the understanding of accounting as an integral element of a central statistical system (Ministry of Finance, 1990, p. 12, see also p. 19; cf. Cullen, 1975; Burchell et al, 1980; Haslam, 1991; Vasasné, 1994, p. 85; see Ministry of Finance, 1983, p. 43; see also Bailey, 1988, p. 597 on the vision of accounting data being superseded by or integrated with statistical data).[42] All of these ought to be debated as informing the potential direction of accountings in Hungary - and beyond. This might be a matter for future research. An overly rapid embracing of 'international accounting standards' -

republics. Fascinating insights into actual and potential mismatches of newly introduced accountings with the transition contexts, which might promote debate, are offered by Bailey (1995, especially p. 607). Questionings of accounting can manifest in crisis contexts if often only to later be suppressed (Gallhofer and Haslam, 1991).

[40] For the Ministry of Finance*:* 'There are many Hungarian concepts - such as the economic working community (GMK) - which cannot be properly translated into English. But if I say "limited liability company", they will understand, that is identifiable. The same holds for accounting' (1992, p. 21).

[41] The following citation from the Ministry of Finance (1992, pp. 21-22) displaces publicity's potential by again falling back on the West: 'Paradoxically, market economy, with its private ownership, is a much more transparent economy, it is a *public economy*. The limited liability company, the joint stock company are public forms in the sense that the entrepreneur makes its data public, accessible to the public. This is evident in the case of a joint stock company, as the confidence of the investors has to be won. The investor must not be misled. Hence the accounting system to be applied must be such that it should satisfy the need not only of the management, but it should also give guidance to the creditor, the bank discounting bills or those organizing mutual funds.'

[42]For the Ministry of Finance (1990b, pp. 12-13): '...a full-scale information serving the control and management aims of the Government would not enable us to implement the programme on deregulation...In countries with a developed market economy the accountancy has no double function, i.e. to serve as a basis for both micro- and macro-economic information. This conception reflects the endeavour according to which the statistical reporting system should serve as a basis for the information system of national economy, as the information needed at macro-economic level greatly deviates from that required by enterprises and by the market.'

or indeed of Western capitalism *in toto* (and Hungary came to depart from its previously excessive capitalistic direction after the 1994 election, see The Economic Intelligence Unit, 1996, p. 5; see Lewis, 1995) - is unlikely to fulfil naive expectations of it (cf. Brainard, 1991; Hienonyri, 1993; Van Wijnbergen, 1993; Ellman, 1994). Regarding a more radical critique of accounting's actual and potential functionings, this was not evident in Hungary and is scarce elsewhere. We hope that the paper stimulates the critical questioning of accounting.[43]

If our study can encourage a critical approach to accounting and further research in a wide context then it will have been worthwhile. Perhaps in transitory and dynamic contexts, amongst others, opportunities can emerge for moves towards a radical and more emancipatory accounting in a more enabling society.

[43] We seek to encourage such critical accounting research not just in the English speaking world but also in 'post-communist' Central and Eastern Europe (and including amongst intellectuals there, cf. Basom, 1995).

BIBLIOGRAPHY

Ábel, I. and K. Prander (1994), Impediments to Financial Re-structuring of Hungarian Enterprises, in, M. Jackson and V. Bilsen, Company Management and Capital Market Development in the Transition, Aldershot: Avebury, pp. 227-39.

Ábel, I. and P.L. Siklos (2004), Secrets to the successful Hungarian bank privatization: the benefits of foreign ownership through strategic partnerships, Economic Systems, Vol. 28, pp. 111-123.

Amenkhienan, F. (1986), Accounting in Developing Countries, Ann Arbor: UMI.

Anonymous (1990), Hungary: Blazing a Trail, The Banker, July, pp. 30-6, pp. 39-41.

Anonymous (1992), Monetáris Politika '91 [Monetary Policy, 1991], Heti Világgazdaság [Weekly World Economy], Vol. 14, No. 52, p. 10.

Anonymous (1993), Bankok talpraállítása [Recovering of Banks], Heti Világgazdaság [Weekly World Economy], Vol. 15, No. 29, p. 15.

Anonymous (1994a), Interjú Hárshegyi Frigyessel, az MNB alelnökével [Interview with F. Hárshegyi, Vice-President of MNB], Népszabadság [People's Freedom Journal], Vol. 52, No. 178, p. 1

Anonymous (1994b), No Time for Jesters, The Banker, July, pp. 38-41.

Antal, L. (1994), Hol tart a magyar gazdaság? [Where is the Hungarian Economy now?], Mozgó Világ [Moving World], Vol. 20, No. 4, pp. 83-98.

Bácskai, T. (1990), The Reorganization of the Banking System in Hungary, in, Brada, J.C. and I. Dobozi (eds.), Money, Incentives and Efficiency in the Hungarian Economic Reform, New York: M.E. Sharpe, pp. 79-92.

Bailey, D.T. (1988) (ed.), Accounting in Socialist Countries, London: Routledge.

Bailey, D.T. (1995), Accounting in transition in the transitional economy, The European Accounting Review, Vol. 4, No. 4, pp. 595-623.

Balassa, A. (1992), The Transformation and Development of the Hungarian Banking System, in, D. Kemme and A. Rudka (eds.), Monetary and Banking Reform in Postcommunist Economies, Institute for East-West Security Studies.

Balázs, A. (1992), Pénzintézeti törvény [Financial Institutions Act], Heti Világgazdaság [Weekly World Economy], Vol .14, No. 2, pp. 93-4.

Banerji, S. and V.R. Errunza (2005), Privatization under incomplete information and bankruptcy risk, Journal of Banking and Finance, Vol. 29, pp. 735-757.

Bányai, M. (1993), Credit Consolidation and Re-organization, in, Ministry of Finance (1993), The Hungarian Credit Consolidation (1992), Public Finance in Hungary, No. 118, Budapest: Perfekt, pp. 32-7.

Basom, K. (1995), The Power of Intellectuals in an Era of Privatisation: the Case of Eastern Europe, Australian Slavonic and Eastern European Studies, Vol. 9, No. 1, pp. 135-57.

Batt, J. (1991), East Central Europe: from Reform to Transformation, London: Pinter/RIIA.

Bod, P.Á. (1994), The National Bank of Hungary, The Banker, July, pp. 33-5.

Bod, P.Á. (2004), A Great Transformation? Banking and Capital Markets in "Transition countries", MES Schriftreihe, EUROPA University Viadrina, Available at: http://tcnh.ntt.edu.vn/images/banking/18.pdf

Bokros, L. (1993), Privatizáció és bankrendszer Magyarországon [Privatisation and Bank System in Hungary], Külgazdaság [Foreign Trade], Vol. 37, No. 10, pp. 39-52.

Boland, V. (1993), Central Europe: How to Rebuild a Banking System, Euromoney, December, pp. 56-62.

Bonin, J.P. (1993), On the Way to Privatizing Commercial Banks: Poland and Hungary Take Different Roads, Comparative Economic Studies, Vol. 35, No. 4, pp. 103-119.

Bonin, J.P. and I. Schnabel (2011), The great transformation: From government-owned to foreign-controlled banking sectors, Economics of Transition, Vol. 19, No. 3, pp. 397-405.

Bonin, J.P. and M.E. Schaffer (1995), Banks, Firms, Bad Debts and Bankruptcy in Hungary, 1991-4, Discussion Paper No. 234, Centre for Economic Performance, London: LSE.

Bonin, J.P. and M.E. Schaffer (1999), Revisiting Hungary's Bankruptcy Episode, William Davidson Institute (WDI), Working Papers, No. 255, Available at: http://deepblue.lib.umich.edu/handle/2027.42/39640

Bonin, J.P., I. Hasan and P. Wachtel (2005), Privatization matters: Bank efficiency in transition countries, Journal of Banking and Finance, Vol. 29, pp. 2155-2178.

Borbély, K. and L. Evans (2006), A Matter of Principle: Recent Developments in Hungarian Accounting Thought and Regulation, Accounting in Europe, Vol. 3, pp. 135-168.

Borda, M. (1991), Valuation Rules: Assets and Liabilities The Case of Hungary, in, Organisation for Economic Co-operation and Development (OECD), Accounting Reform in Central and Eastern Europe, pp. 95-101.

Borda, M. (1992), Hungary, in, Alexander, D. and S. Archer (eds) (1992), The European Accounting Guide, London: Academic Press, pp. 943-73.

Borda, M. (1993), Current Asset Valuation for Financial Reporting: the case of Hungary, in, Organisation for Economic Co-operation and Development (OECD), Valuation and Privatisation, pp. 75-81.

Borda, M. and S. McLeay (1996), Accounting and Economic Transformation in Hungary, in, N. Garrod and S. McLeay (eds.), Accounting in Transition: the Implications of Political and Economic Reform in Central Europe, London: Routledge, pp. 116-40.

Boross, Z., A.H. Clarkson, M. Fraser and P. Weetman (1995), Pressures and Conflicts in Moving Towards Harmonization of Accounting Practice: the Hungarian Experience, European Accounting Review, Vol.4, No. 4, pp. 713-38.

Bossányi, K. (1994), Interjú Princz Gáborral [Interview with Gabor Princz], Mozgó Világ [Moving World], Vol. 20, No. 8, pp. 31-40.

Brainard, L.J. (1991), Strategies in Economic Transformation in Central and Eastern Europe, in, H. Blommestein and M. Marresse (eds.), Transformation of Planned Economies: Property Rights Reform and Macroeconomic Stability, Paris: OECD, pp. 95-108.

Briston, R. (1978), The Evolution of Accounting in Developing Countries, International Journal of Accounting, pp. 105-20.

Bruno, M. (1994), Stabilization and Reform in Eastern Europe: A Preliminary Evaluation, In, O.J. Blanchard, K.A. Froot and D.J. Sachs (eds), The Transition in Eastern Europe: Country Studies, Chicago & London: The University of Chicago Press, pp. 19-49.

Brzezin, W. (1995), A General Theory of Accounting in a Market Economy in Poland - Towards Greater Intellectualization of Accounting Education, Paper presented at the Eighteenth Annual Congress of the European Accounting Association, Birmingham.

Bunce, V. and M. Csanadi (1993), Uncertainty in the Transition: Post-communism in Hungary, East European Politics and Society, Vol. 7, pp. 256-7.

Burchell, S., C. Clubb and A. Hopwood (1980), The Role of Accounting in Organizations and Society, Accounting, Organizations and Society, Vol. 5, No. 1, pp. 5-27.

Canning, A. and P. Hare (1996), Political Economy of Privatization in Hungary: A Progress Report, CERT, Heriot-Watt University, Edinburgh, Available at: http://www.sml.hw.ac.uk/cert-repec/wpa/1996/dp9613.pdf

Ciancanelli, P., S. Gallhofer, J. Haslam and R. Watson (1994), Accounting and the U.K. Government's Promotion of Profit-Related Pay: Developing a Critical Analysis, Proceedings of the Fourth Interdisciplinary Perspectives on Accounting Conference, University of Manchester, 11-13 July.

Clarke, C. (1992), Hungary: New Accounting Law, Accountancy, Vol. 110, No. 1181, p. 47.

Clarkson, A. (1991), Hungary: an Eastern Economy ready for Development?, European Research, Vol.3, No. 2, pp. 22-5.

Cohen, D. (1991), The Solvency of Eastern Europe, in, Commission of the European Communities, The Path of Reform in Central and Eastern Europe, European Economy, Special Edition, No. 2, pp. 263-303.

Cook, A. (1991), Accounting and Financial Reporting in Market Economies, in, Organisation for Economic Co-operation and Development (OECD), Accounting Reform in Central and Eastern Europe, pp. 25-9.

Coopers and Lybrand (1992), The New Hungarian Accounting Law, Láng Kiadó.

Csaba, L. (1993), End of the Tunnel in Sight: The State of the Economy, The Hungarian Quarterly, pp. 107-12.

Csáki, G. (1994), 1993-4: New Improvement in the Hungarian Banking System, Working Paper No. 40, Institute for World Economics, Hungarian Academy of Sciences, Budapest: Institute for World Economics, October.

Cullen, M.J. (1975), The Statistical Movement in Early Victorian Britain: The Foundation of Empirical Social Research, Hassocks, U.K.: Harvester Press.

Cunningham, A. (1991), Accounting in the Context of Transition to a Market Economy, in, Organisation for Economic Co-operation and Development (OECD), Accounting Reform in Central and Eastern Europe, pp. 35-7.

Day, J. and P. Taylor (2004), Institutional Change and Debt-based Corporate Governance: A Comparative Analysis of Four Transition Economies, Journal of Management and Governance, Vol. 8, pp. 73-115.

Dervis, K. and T. Condon (1994), Hungary - Partial Successes and Remaining Challenges: The Emergence of a "Gradualist" Success Story?, in, O.J. Blanchard, K.A. Froot and D.J. Sachs (eds), The Transition in Eastern Europe: Country Studies, Chicago & London: The University of Chicago Press, pp. 123-53.

Dudás, M. (1991), The Modernisation of the Hungarian Accounting System, in, Organisation for Economic Co-operation and Development (OECD), Accounting Reform in Central and Eastern Europe, pp. 47-9.

Dudás, M. (1992), Mit kell tudni a nemzetközi számviteli standardokról? [What do we have to know about the International Accounting Standards?], Számvitel és Könyvvizsgálat [Accounting and Auditing], Vol. 34, No. 11, pp. 491-496.

Elliot, J.E. and A.F. Dowlah (1993), Transition Crises in the Post-Soviet Era, Journal of Economic Issues, Vol. XXVII, No. 2, June, pp. 527-36.

Ellman, M. (1994), Transformation, Depression, and Economics: Some Lessons, Journal of Comparative Economics, Vol. 19, No. 1, pp. 1-21.

Erdős, T. (1992), On the Stability of the Economy, in Ministry of Finance, Some Topical Problems of the Hungarian Economy, Public Finance in Hungary, No. 106, pp. 43-70.

Estrin, S., P. Hare and M. Surányi (1992), Banking in Transition: Development and Current Problems in Hungary, Centre for Economic Performance, London School of Economics, Discussion Paper No. 68, March.

European Commission Directorate-General for Economic and Financial Affairs (1994), Broad Economic Policy Guidelines, Part B: - Report on the implementation of macro-financial assistance to third countries - Communication from the Commission to the Council and the European Parliament, pp. 31-104.

Ezzamel, M. and J.Z. Xiao (2011), Accounting in Transitional and Emerging Market Economies, European Accounting Review, Vol. 20, No. 4, pp. 625-637.

Ficsor, M. (1995), Harmonization of Hungarian Law with the Legal System of the European Union, The Hungarian Observer, Vol. 8, No. 4, pp. 27-8.

Fraser, D.R. (1995), Commercial Banking: the Management of Risk, Minneapolis/St. Paul: West Publishing.

Friedlander, M. (1989), Changes in the Banking System in the CMEA Area, in, H. Gabrisch (ed), Economic Reforms in Eastern Europe and the Soviet Union, San Francisco and London: West View Press, pp. 193-200.

Frydman, R., A. Rapaczynski, J.S. Earle (1993), The Privatization Process in Central Europe, CEU Privatization Reports, Vol. 1, Budapest, London, New York: Central European University Press.

Frydman, R., E.S. Phelps, A. Rapaczynski and A. Shleifer (1993), Needed mechanisms of Corporate Governance and Finance in Eastern Europe, Economics of Transition, Vol. 1(2), pp. 171-207.

Gallhofer, S. and J. Haslam (1991), The Aura of Accounting in the Context of a Crisis Situation: Germany and the First World War, Accounting, Organizations and Society, Vol. 5, No. 6, pp. 487-520.

Gallhofer, S. and J. Haslam (1994a), Accounting and the Benthams - or, Accounting's Potentialities, Accounting, Business and Financial History, pp. 1-17.

Gallhofer, S. and J. Haslam (1994b), The Mancunian Joint Stock Bank, The Journal of Accounting Case Research, Vol. 2, No. 2, Summer, pp. 70-77.

Garrod, N. and S. McLeay (1996), eds., Accounting in Transition: the Implications of Political and Economic Reform in Central Europe, London: Routledge.

Giday, A. and A. Sari-Simko (1994), Privatization and Capital Markets, in, M. Jackson and V. Bilsen (1994), eds., Company Management and Capital Market Development in the Transition, Aldershot: Avebury, pp. 241-57.

Gray, C.W. and A. Holle (1997), Bank-led restructuring in Poland (II): bankruptcy and its alternatives, Economics of Transition, Vol. 5, No. 1, pp. 25-44.

Gray, C.W. and K. Hendley (1995), Developing Commercial Law in Transition Economics, The World Bank Policy Research Working Papers, WPS 1528, November.

Gray, C.W., R.J. Hanson and M. Heller (1992), Legal Reform for Hungary's Private Sector, The World Bank Policy Research Working Papers, WPS 983, October.

Gray, R.H., D. Owen and K.C. Maunders (1987), Corporate Social Reporting: Accounting and Accountability, Hemel Hempstead: Prentice Hall.

Grosfeld, I. and P.G. Hare (1991), Privatization in Hungary, Poland and Czechoslovakia, in, Commission of the European Communities Directorate General for Economic and Financial Analysis, The Path of Reform in Central and Eastern Europe, European Economy, Special Edition, No. 2, pp. 129-56.

Gyenis, A. (1994a), Eladó adósságok [Debts for Sale], Heti Világgazdaság [Weekly World Economy], Vol. 16, No. 9, pp. 88-89.

Gyenis, A. (1994b), Bankok közgyűlés előtt [Before the General Meetings of Banks], Heti Világgazdaság [Weekly World Economy], Vol. 16, No. 17, pp. 123-4.

Gyenis, A. (1994c), Nagybankok közgyűlései [General Meetings of the Large Banks], Heti Világgazdaság [Weekly World Economy], Vol. 16, No. 21, pp. 131-3.

Györi, L.(1994), Közös vállalatok számvitele [Joint Ventures Accounting], Számvitel és Könyvvizsgálat [Accounting and Auditing], Vol. 36, No. 3, pp. 147-8.

Hardy, D.C. and A.K. Lahiri (1992), Bank Insolvency and Stabilization in Eastern Europe, IMF Working Paper WP/92/9.

Hasan, I. and K. Marton (2003), Development and efficiency of the banking sector in a transitional economy: Hungarian experience, Journal of Banking and Finance, Vol. 27, pp. 2249-2271.

Haslam, J. (1991), On the Prescribing of Accounting and Accounting Publicity: Accounting History as Critique, Unpublished Ph.D Thesis, University of Essex.

Haslam, J. (1994), Comment on 'Expertise and the Construction of Relevance: Accountants, Science and Environmental Audit', by Michael Power, Proceedings of the Fourth Interdisciplinary Perspectives on Accounting Conference, Manchester, 11-13 July.

Hermes, N. and R. Lensink (2000), Financial system development in transition economies, Journal of Banking and Finance, Vol. 24, pp. 507-524.

Hexter, D. (1993), The Bad Debt Problem in Eastern Europe, in, Round Table on Banking, Economics of Transition, Vol. 1, No. 1, pp. 111-2.

Hienonyri, O. (1993), The Development of the Social Market Economy in Hungary and the Opportunities Resulting from Future Entry into the European Community, in, M. Baldassarri and R. Mundell (eds), Building a New Europe, Vol. 2: Eastern Europe's Transition to a Market Economy, Basingstoke: Macmillan, pp. 275-87.

Hinds, M. (1990), Issues in the Introduction of Market Forces in Eastern European Socialist Economies, Washington: World Bank.

Hines, R. (1991), The FASB's Conceptual Framework, Financial Accounting and the Maintenance of the Social World, Accounting, Organizations and Society, Vol. 16, No. 4, pp. 313-31.

Holeckova, J. (1995), Asset Valuation Methods in New Systems of Accounting in the Czech Republic, Paper presented at the Eighteenth Annual Congress of the European Accounting Association, Birmingham.

Hopwood, A.G. (1983), On Trying to Study Accounting in the Context in which it Operates, Accounting, Organizations and Society, Vol. 8, Nos. 2/3, pp. 287-305.

Hopwood, A.G. (1987), The Archaeology of Accounting Systems, Accounting, Organizations and Society, Vol. 12, pp. 207-34.

Illés, K., P. Weetman, A.H. Clarkson and M. Fraser (1996), Change and choice in Hungarian accounting practice, An explanatory study of the Accounting Law of 1991, The European Accounting Review, Vol. 5, No. 3, pp. 523-543.

Ionaşcu, I., M. Ionaşcu, L. Olimid and D. Artemisa Calu (2007), An Empirical Evaluation of the Cost of Harmonizing Romanian Accounting with International Regulations (EU Directives and IAS/IFRS), Accounting in Europe, Vol. 4, pp. 169-206.

Jaruga, A. (1990), Accounting Functions in Socialist Countries, British Accounting Review, Vol. 22, No. 1, pp. 51-77.

Jaruga, A. and A. Szychta (1997), The origin and evolution of chart of accounts in Poland, The European Accounting Review, Vol. 6, No. 3, pp. 509-526.

Jaruga, A., J. Fijalkowska, M. Jaruga-Baranowska and M. Frendzel (2007), The Impact of IAS/IFRS on Polish Accounting Regulations and their Practical Implementation in Poland, Accounting in Europe, Vol. 4, No. 1, pp. 67-78.

Jelic, R., D. Alexander and R. Briston (2000), Accounting in Transitional Economies: A Case Study of Consolidation Regulations in the Czech Republic, Research in Accounting in Emerging economies, Vol. 4, pp. 131-162.

Jelic, R., R. Briston and C. Mallin (1999), Gambling Banks and Firm Financing in Transition Economies, Multinational Finance Journal, Vol. 3, No. 4, pp. 253-282.

Jones, C. (1991), Hungary: Bullish in Budapest, The Banker, July, pp. 26-34.

Jones, C. (1993), Hungary Takes on the Hurdles, The Banker, February, pp. 37-8.

Jones, C. (1994), Take the Hard Road, The Banker, January, pp. 27-30.

Jones, C. and S. Timewell (1994), Budapest Sounds its Horn, The Banker, July, pp. 31-6.

Kerekes, J (1993), Recent Developments in Privatisation in Hungary, in, OECD, Valuation and Privatisation, pp. 51-81.

Keren, M. and G. Ofer (1992) (eds)., Trials of Transition: Economic Reform in the Former Communist Bloc, Oxford: Westview.

King, N., A. Beattie and A.-M. Cristescu (2001), Developing accounting and audit in a transition economy: the Romanian experience, The European Accounting Review, Vol. 10, No. 1, pp. 149-171.

Knights, D. and D. Collinson (1987), Disciplining the Shopfloor: a Comparison of the Disciplinary Effect of Managerial Psychology and Financial Accounting, Accounting, Organizations and Society, Vol. 12, pp. 457-77.

Koblenz, J. (1994), A könyvvitel és számvitel fogalmának újraértékelése [Re-evaluation of the Notions of Bookkeeping and Accounting], Számvitel és Könyvvizsgálat [Accounting and Auditing], Vol. 36, No. 4, pp. 174-7.

Kocsis, Gy. (1993), The Genetic Code of the Socialist System: an Interview with J. Kornai, The Hungarian Quarterly, Vol. 34, No. 131, pp. 126-9.

Kocsis, Gy. (1994b), Válaszol R.M. Winchester Bankár [Interview with R.M. Winchester], Heti Világgazdaság [Weekly World Economy], Vol. 16, No. 28, pp. 41-2.

Kornai, J. (1994), Transformational Recession: The Main Causes, Journal of Comparative Economics, Vol. 19, No. 1, pp. 39-63.

Kornai, J. (1996), Hardening of the budget constraint under the postsocialist system, Japan and the World Economy, Vol. 8, pp. 135-151.

Kornai, J. (2000), What the Change of System From Socialism to Capitalism Does and Does Not Mean, Journal of Economic Perspectives, Vol. 14, No. 1, pp. 27-42.

Kornai, J. (2001), Hardening the budget constraint: The experience of the post-socialist countries, European Economic Review, Vol. 45, pp. 1573-1599.

Kornai, J. (2006), The great transformation of Central Eastern Europe, Success and disappointment, Economics of Transition, Vol. 14, No. 2, pp. 207-244.

Kraft, E. (1993), Recasting Finance in Eastern Europe: Options and Possibilities, Review of Radical Political Economics, Vol. 25, No. 3, pp. 17-25.

Kuzminsky, A.M. (1995), Accounting Reform in Ukraine, Paper presented at the Eighteenth Annual Congress of the European Accounting Association, Birmingham.

Laki, M. (1993), Hungarian Survey, in, J. Winieki and A. Kondratowicz (eds), The Macroeconomics of Transition: Developments in East Central Europe, London and New York: Routledge, pp. 63-86.

Laughlin, R.C. and A.G. Puxty (1983), Accounting Regulation: an Alternative Perspective, Journal of Accounting and Business Finance, pp. 451-79.

Lehman, C. and T. Tinker (1987), The 'Real' Cultural Significance of Accounts, Accounting, Organizations and Society, Vol. 12, pp. 503-22.

Lehman, C.R. (1992), The Three Rs - Rhetoric, Regulation, and Russia: Accounting and Knowledge Production, Paper presented at the London School of Economics and Political Science Department of Accounting Research Seminar Programme, 15 January, 1992.

Leko, V. and V. Poznanić, V. (1995), Accounting Issues Relating to the Transition of the Yugoslav Economy, Paper presented at the Eighteenth Annual Congress of the European Accounting Association, Birmingham.

Lewis, P.G. (1995), Contours of the Shadowlands: The Trials of Transition in Eastern Europe, The Journal of Communist Studies and Transition Politics, Vol. 11, No. 2, June, pp. 198-212.

Lister, R. (1993), Hungary and the Securitisation of Receivables, Research Board ICAEW, London.

Lowe, E.A., S. Gallhofer and J. Haslam (1991), Theorising Accounting Regulation in a Global Context: Insights from a Study of Accounting in the FRG, Advances in Public Interest Accounting, pp. 143-77.

Matheison, C. (1991), Hungary in the 1990s: Sowing the Seeds of Recovery, Special Report No. 2102, The Economic Intelligence Unit, London: EIU.

McGee, R.W. (2009), ed., Accounting Reform in Transition and Developing Economies, Boston: Springer.

Ministry of Finance (1983), The Accounting System in Hungary, Public Finance in Hungary, No. 12, Budapest: Perfekt.

Ministry of Finance (1989), First Experiences of the Banking Reform (Findings about the Functioning of the Two-tier Banking System in Hungary), Public Finance in Hungary, No. 52, Budapest: Perfekt.

Ministry of Finance (1990a), The Economic and Financial Situation of Hungary: Characteristics of the Hungarian Economic Reform, Public Finance in Hungary, No. 63, Budapest: Perfekt.

Ministry of Finance (1990b), Ideas about the Principles of a Law on Accountancy, Public Finance in Hungary, No. 67, Budapest: Perfekt.

Ministry of Finance (1991a), New Act on Accounting, Public Finance in Hungary, No. 86, Budapest: Perfekt.

Ministry of Finance (1991b), The Future of the Monetary Aspects of Eastern European Reconstruction, Public Finance in Hungary, No. 90, Budapest: Perfekt.

Ministry of Finance (1991c), Act on Financial Institutions, Public Finance in Hungary, No. 91, Budapest: Perfekt.

Ministry of Finance (1992), Conference on the New Economic Laws, Public Finance in Hungary, No. 99, Budapest: Perfekt.

Ministry of Finance (1993a), External Indebtedness and Debt Management in Hungary, Public Finance in Hungary, No. 117, Budapest: Perfekt.

Ministry of Finance (1993b), The Hungarian Credit Consolidation (1992), Public Finance in Hungary, No. 118, Budapest: Perfekt.

Ministry of Finance (1994a), Necessity and Realization of the Credit (Bank) Consolidation in Hungary, Public Finance in Hungary, No.132, Budapest: Perfekt.

Ministry of Finance (1994b), Activity and Position of the Hungarian Banks in 1992, Public Finance in Hungary, No. 135, Budapest: Perfekt.

Mitchell, J. (2000), Theories of soft budget constraints and the analysis of banking crises, Economics of Transition, Vol. 8, No. 1, pp. 59-100.

Mizsei, K. (1997), Privatisation of individual banks or of the banking system?, Eleventh Plenary Session of the OECD Advisory Group on Privatisation (AGP) on Banks and Privatisation, Rome, 18-19 September.

Mizsei, K., M. Móra and G. Csáki (1994), Experiences with Privatization in Hungary: the Early Transition Period, chapter two of, Rondinelli, D.A. (ed)., Privatization and Economic Reform in Central Europe: the Changing Business Climate, Westport, Connecticut: Quorum.

Murphy, A. and Z. Sabov (1991), Financial Institutions Structures in a Developing Two-Tier Banking System: An Empirical Perspective from Eastern Europe, Journal of Banking and Finance, Vol. 15, No. 6, pp. 1131-42.

Nagy, G. (1993), A számviteli törvény végrehajtásának tapasztalatai [The Implementation of the Accounting Law], Számvitel és Könyvvizsgálat [Accounting and Auditing], Vol. 35, No. 12, pp. 569-76.

Náray, L. (1993), Credit Consolidation, in, Ministry of Finance (1993), The Hungarian Credit Consolidation (1992), Public Finance in Hungary, No. 118, Budapest: Perfekt, pp. 7-22.

Ogilby, S.M. and E. Sauls (1995), Accounting in Hungary: Do we Speak the Same Language?, The International Executive, Vol. 37, No. 6, pp. 615-629.

Organisation for Economic Co-operation and Development Secretariat (1991), Accounting Reform in Central and Eastern Europe: Main Issues, in, OECD, Accounting Reform in Central and Eastern Europe, Paris: OECD, pp. 11-21.

Organisation for Economic Co-operation and Development Secretariat (1993), Summary and Conclusions, in, OECD, Valuation and Privatisation, Paris: OECD.

Piesse, J. (1993), The Transition to a New System of Accounting: the Case of Hungary, Journal of European Business Education, Vol. 2, No. 2, May, pp. 19-29.

Pölöskei, P. (1994), A számviteli törvény és a társasági adótörvény [The Accounting Law and the Company Law], Számvitel és Könyvvizsgálat [Accounting and Auditing], Vol. 36, No. 2, pp. 69-71.

Power, M. (1994), Expertise and the Construction of Relevance: Accountants, Science and Environmental Audit, Proceedings of the Fourth Interdisciplinary Perspectives on Accounting Conference, Manchester, 11-13 July.

Power, M. and R. Laughlin (1992), Critical Theory and Accounting, in, M. Alvesson and H. Willmott (eds), Critical Management Studies, Sage: London, pp. 113-35.

Radostovetz, V. (1995), Problems of Accounting and Auditing in Kazakhstan, Paper presented at the Eighteenth Annual Congress of the European Accounting Association, Birmingham.

Réti, P. (1992), Bankprivatizálási esély; Interjú Simon Allen (Price Waterhouse Hungary) [Chances of Bank Privatisation; an Interview with Simon Allen], Heti Világgazdaság [Weekly World Economy], Vol. 14, No. 44, pp. 61-2.

Richardson, A.J. (1987), Accounting as a Legitimating Institution, Accounting, Organizations and Society, Vol. 12, pp. 341-55.

Rinke, D. and E. Jermakowicz (1995), The Auditing Profession in Transition: The Case of Hungary, Poland, and the Czech Federal Republic, Paper presented at the Eighteenth Annual Congress of the European Accounting Association, Birmingham.

Roe, A. (1992), The Restructuring of Banks, Chapter six in, A. Roe, Financial Sector Reform in Transitional Socialist Economics, EDI-Policy Seminar Report, No. 29, pp. 25-9.

Rothschild, K. (1993), Like a *Lehrstück* by Brecht: Notes on the German Unification Drama, Cambridge Journal of Economics, 17, 3, September, pp. 259-66.

Scholtens, B. (2000), Financial regulation and financial system architecture in Central Europe, Journal of Banking and Finance, Vol. 24, pp. 525-553.

Schwartz, G., M. Stone and T. van der Willingen (1994), Beyond Stabilisation: The Economic Transformation of Czechoslovakia, Hungary and Poland, Communist Economics and Transition and Transformation, Vol. 6, No. 3, pp. 291-313.

Seal, W., P. Sucher and I. Zelenka (1995), The Changing Organization of Czech Accounting, European Accounting Review, Vol. 4, No. 4, pp. 659-81.

Seal, W., P. Sucher and I. Zelenka (1996), Post-Socialist Transition and the Development of an Accountancy Profession in the Czech Republic, Critical Perspectives on Accounting, Vol. 7, No. 4, August, pp. 485-508.

Sebök, E. (1994), 4% has been achieved!, Figyelő [Observer], 2 June.

Sheremet, A. and T. Krylova (1995), Accounting Reform and Accounting Education/Training in Russia, Paper presented at the Annual Congress of the European Accounting Association, Birmingham.

Smirnova, I. A., J.V. Sokolov and C.R. Emmanuel (1995), Accounting education in Russia today, European Accounting Review, Vol. 4, No. 4, pp. 833-46.

Sokolov, J.V. and V.V. Kovalev (1995), Some Delusions of Foreign Academicians concerning the interpretation of the Russian Accounting, Paper presented at the Eighteenth Annual Congress of the European Accounting Association, Birmingham.

Soós, K.A. (1993), Hitelkonszolidáció [Credit Consolidation], Heti Világgazdaság [Weekly World Economy], Vol. 15, No. 3, pp. 91-2.

Stiglitz, J.E. (1991), Remarks on the Design of Financial Systems for the Newly Emerging Democracies of Eastern Europe, paper prepared for the IPR-IRS conference “The Transition to a Market Economy - Institutional Aspects”, Prague, 24-27 March.

Sucher, P., K. Kosmala, S. Bychkova and I. Jindrichovska (2005), Introduction: Transitional Economies and Changing Notions of Accounting and Accountability, European Accounting Review, Vol. 14, No. 3, pp. 571-577.

Szabó-Pelsöczi, M. (1993), Opening Remarks in Memoriam of Robert Triffin, in, Ministry of Finance, The Hungarian Credit Consolidation (1992), Public Finance in Hungary, No. 118.

Szakonyi, P. (1995), A Stone’s Throw from Europe, The Hungarian Observer, Vol. 8, No. 1, pp. 23-4.

Szalkai, I. (1993), Hungarian Credit Consolidation from the Point of View of Large Banks, in, Ministry of Finance (1993), The Hungarian Credit Consolidation (1992), Public Finance in Hungary, No. 118, Budapest: Perfekt, pp. 23-31.

Szántó, A. (1992a), Kereskedelmi bankok eladása [Privatisation of Commercial Banks], Heti Világgazdaság [Weekly World Economy], Vol. 14, No. 4, pp. 83-4.

Szántó, A. (1992b), Monetáris irányitás [Monetary Policy], Heti Világgazdaság [Weekly World Economy], Vol. 14, No. 11, pp. 91-2.

Szántó, A. (1992c), Bankvilág '92 [Banking World, 1992], Heti Világgazdaság [Weekly World Economy], Vol. 14, No. 14, pp. 52-9.

Szántó, A. (1992d), Pénzintézeti csődök [Financial Institutes' Bankruptcies], Heti Világgazdaság [Weekly World Economy], Vol. 14, No. 29, pp. 7-9.

Szántó, A. (1992e), Banki mérlegek és a privatizáció [Bank Balances and Privatisation], Heti Világgazdaság [Weekly World Economy], Vol. 14, No. 43, pp. 91-2.

Szapáry, G. (1993), Transition Issues as Seen Through the Experience of Hungary: There is no Cookbook to Go By, in, L. Somogyi (ed), The Political Economy of the Transition Process in Eastern Europe, Proceedings of the 13th Anne Ryde Symposium, Aldershot: Elgar, pp. 108-23.

Székely, I.P. and D.M. Newbery (1992), Hungary: an Economy in Transition, Cambridge: Cambridge University Press.

Tardos, M. (1992), Hungary: Transformation in Progress, Chapter eighteen in, C.T Saunders (Ed.), Economics and Politics of Transition, Basingstoke: Macmillan, pp. 273-93.

The Economic Intelligence Unit (1993/94), Country Profile "Hungary", London: EIU.

The Economic Intelligence Unit (1994), Country Report "Hungary", 1st quarter, London: EIU.

The Economic Intelligence Unit (1996), Country Profile "Hungary", London: EIU

Thorne, A. (1993), Eastern Europe's Experience with Banking Reform: Is there a Role for Banks in the Transition? The World Bank Policy Research Working Paper Series, WPS 1235, December.

Timewell, S. (1992), Riding the Tiger, The Banker, July, pp. 23-6.

Timewell, S. (1993), Catch a Falling Star, The Banker, July, pp. 27-8.

Tinker, T. (1991), The Accountant as Partisan, Accounting, Organizations and Society, Vol. 16, No. 3, pp. 297-310.

Tirole, J. (1994), Western Prudential Regulation: Assessment, and Reflections on its Application to Central and Eastern Europe, Economics of Transition, Volume 2(2), pp. 129-50.

Van Wijnbergen, S. (1993), Enterprise Reform in Eastern Europe, Economic Transformation, Vol. 1, No. 1.

Várhegyi, É. (1992a), The Modernisation of the Hungarian Banking Sector, in, Székely, I.P. and D.M. Newbery (1992), Hungary: an Economy in Transition, Cambridge: Cambridge University Press, pp. 149-62.

Várhegyi, É. (1992b), Mivé lesz a pénzünk [Where does our Money go?], Heti Világgazdaság [Weekly World Economy], Vol. 14, No. 26, pp. 72-73.

Várhegyi, É. (1993), Dilemmas of the Credit Consolidation (Beauty-Plaster: the Hidden Losses), in, Ministry of Finance (1993), The Hungarian Credit Consolidation (1992), Public Finance in Hungary, No. 118, Budapest: Perfekt, pp. 38-40.

Várhegyi, É. (1994), Banki közgyűlések [General Meetings of Banks], Heti Világgazdaság [Weekly World Economy], Vol. 16, No. 1, pp. 115-6.

Vasasné, K. (1994), Állami tulajdon a magyarországi számvitel tükrében [State Property as Reflected in Hungarian Accounting], Számvitel és Könyvvizsgálat [Accounting and Auditing], Vol. 36, No. 2, pp. 82-6.

Walsh, E.J. and R.E. Stewart (1988), Management Accounting in the Making: two Case Studies, Proceedings of the Second Interdisciplinary Perspectives on Accounting Conference, University of Manchester, July 11-3.

Warne, J. (1991), Perestroika - Seen Through a Glass Darkly, Accountancy, May, pp. 22-3.

Westlake, M. (1992), Can the Banks Fly?, The Banker, September, pp. 20-6.

Zapalska, A., G. Fogel and D. Brozik (2000), Banking Systems in Eastern Europe, Journal of East-West Business, Vol. 5, No. 4, pp. 69-85.

Žarkić-Joksimović, N., V. Milićević and V. Filipović (1995), Financial and Accounting Aspects of Restructuring of Yugoslav Enterprises, Paper presented at the 18th Annual Congress of the European Accounting Association, Birmingham.

Zelenka, V. (1995), Legal Framework for Consolidated Financial Statements in the Czech Republic Compared with International Practice, Paper presented at the Eighteenth Annual Congress of the European Accounting Association, Birmingham.

TABLE ONE: BAD DEBT ACCOUNTING FOR HUNGARIAN FINANCIAL INSTITUTIONS:
THE POSITION BY 30th SEPTEMBER 1992 (Source: Náray, 1993, p.8)

	CLAIMS		**PROVISIONS[1]**
Class	**HUF billion**	**%**	**HUF billion**
Substandard	41	20	8
Doubtful	96	50	48
Bad	125	100	125
	262		181

Notes:
1. Calculated as required by the then existing legislation

TABLE TWO: THE CREDIT CONSOLIDATION AND HUNGARIAN BANK ACCOUNTING (Source: Náray, 1993, pp. 19-20)

	(1)[1]	(2)[2]
	HUF Billion	HUF Billion
PRE-CONSOLIDATION		
Aggregate earnings of participating banks (before required provisions and taxes)	25.4	25.4
Actual earmarked provisions already included	195.2	195.2
Required provisions by Financial Institutions Act	344.9	344.9
Deficit in Provisions	149.7	149.7
Transfer per (1) as possible under the Financial Institutions Act (2) International Accounting Rules	49.9[3]	149.7[4]
Earnings Deficit	24.5[5]	124.3[6]
POST-CONSOLIDATION[7]		
New deficit in provision[8]	47.1	47.1
Transfers per (1) and (2)	15.7	47.1
Aggregate earnings of participating banks pre-consolidation net of bad debt write off arising[9]	3.2	3.2
Earnings deficit, post-consolidation	12.5[10]	43.9[11]
Benefit to earnings, compared to pre-consolidation	12.0[12]	80.4[13]
Post-consolidation capital adequacy	8%[14]	2.6%[15]

Notes:

1. Consistent with the Financial Institutions Act
2. Constraints of the international rules, bolstered in Hungary's Law
3. One third of the deficit in provisions (consistent with the Financial Institutions legislation which allowed provisioning in three parts).
4. 195.2 - 344.9
5. 25.4 - 49.9
6. 25.4 - 149.7
7. Use is made of Náray's rounded figures.
8. Deficit in reserves pre-consolidation of 149.7bn reduced by 102.6bn.
9. The bad debt write off arising in the credit consolidation is equal to 102.6 - 79.4 - 1 (the latter figure being Náray's rounding of the cash injection). This gives 22.2 to be deducted from 25.4
10. 3.2 - 15.7
11. 3.2 - 47.1
12. A deficit of 12.5 compared with one of 24.5
13. A deficit of 43.9 compared with one of 124.3

14,15. Both these figures improvements on pre-consolidation. 8% is the desired ratio. (2) takes into account the additional 50% provision consistent with the opinion of international auditors.