# HUNGARY'S ECONOMIC MIRACLE: A POLICY RETROSPECTIVE

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## ABSTRACT

Globally oriented business firms are continually scanning opportunities they identify in the developing and emerging economies. Any systematic scanning technology that can enhance the success rate of private foreign direct investment would seem to offer substantial benefit to such firms. Developing a replicable methodology in analyzing a developing or emerging nation's economic strategy over time should offer improved chances of success.

## BODY

This paper attempts to analyze the change in economic systems experienced by Hungary beginning in the late 1980s and early 1990s. The issue of the post-socialist transition can now be evaluated in light of the historical perspective of more than ten years of policy implementation.

While the Hungarian economy suffered a substantial decline in the early years of the transition, it subsequently made a remarkable recovery. The policy efforts of the governments that have been in power since the beginning of the transition can now be examined in detail and the results of their actions measured with the benefit of hindsight.

One of the most important results of the first years of the transition was that the government consistently, decisively, and speedily established a legal and institutional framework supportive of the market economy. While no government could have foreseen the deterioration in the world economy, these market economy institutions facilitated a rapid and effective recovery.

As seen in graphs 1 and 2, the gross domestic product (GDP) in purchasing power parity (PPP, current U. S. dollars) has clearly established an accelerating growth rate. What is more important is Hungary's more rapidly accelerating GDP per capita during this time period, shown in graphs 3 and 4.

As the trend line shows, Hungarian per capita output increased by over 66 percent in just ten years (1992 to 2002). The government policies employed to achieve this growth, without the need for draconian methods of political control or overly-optimistic populist programs, merit serious review.

While mistakes have been made, the ability of the institutions at work in post-1990 Hungary to absorb the errors and move forward bode well for continued, sustainable growth. It seems clear, from the preliminary results, that Hungary can provide substantial policy models for such nations and firms.