„Europe needs to organise its own defence more effectively" – A conversation with Péter Ákos Bod on domestic and global uncertainties

Prepared by: Győző Mihály Halász, PhD student, NJE

DOI: https://doi.org/10.35551/PFQ_2026_2_8

I'd like to start with the first question from a slightly broader perspective: according to the German-British sociologist Ralf Dahrendorf, it takes six months to establish new political institutions, six years to develop a functioning economic system, and 60 years for society – or, more precisely, civil society – to adapt. Professor, you have observed all three areas from multiple angles. How do you see what has changed and what has not changed?
Yes, we often quote that remark by Dahrendorf. He may have intended it as a provocation, but it sounded plausible even at first hearing. It was already clear back in 1989–90 that there were situations ripe—indeed, overripe—for political change, and this applied to state socialism in our region. In my view, the Polish case had already shown that it was overripe, for had it not been for the geopolitical environment prevailing at the time, a change of regime would have taken place in Poland as early as 1981. The Solidarity movement had gained such strong public support in the wake of the nationwide strikes that a change of government and regime would have been justified – had martial law not been imposed. Which, incidentally, the Hungarian press described and continues to describe as a state of emergency, downplaying the actual circumstances both then and now. Then came 1989, and in the new global political constellation, the Polish opposition suddenly came to power. So political change can be rapid. Six months, perhaps? In a revolution, as little as three nights can be enough for a change in the ruling power. In the case of a 'negotiated revolution', the pace is different. Let us recall: in Hungary, on 23 October 1989, the People's Republic was replaced by the Republic in Kossuth Square, even though as late as February of that year there was still debate over whether the 1956 uprising was a popular

revolt, or perhaps even a revolution. The dynamics in Hungary were therefore not slow either. The development of the system of public law institutions took place relatively quickly in our country. However, if by 'institutions' we mean not only the formal ones—that is, laws and legal institutions—but also society's defining value system, work culture, saving behaviour, and the exercise of rights, then sixty years is no exaggeration. According to the Old Testament, the chosen people wandered in the desert for 40 years; one interpretation of this is that this was the time needed for those born into slavery to be able to live as a free people in their new home. Dahrendorf was right to say that the transformation of society is a long process. At the time of our conversation, 35 years have passed since the start of the transition process. It is certain that we are not at the end of the road. Now is the time to discuss how far we have come during this period, and what decades lie ahead of us.

There were significant changes in 2025 as well. Perhaps one could even say that since 2020, people have been constantly looking around in amazement at the significant changes taking place in the global geopolitical and economic system. Processes are transforming, and the balance of power is shifting. Was there a particular moment, event or process that, let's say, the profession paid less attention to, but which was no less important?

First, I'd like to return to past shocks. For me, 2020 was also a watershed year, if only because a non-economic yet global phenomenon—in the form of COVID—shook our lives to the core. We've seen similar events in history, and we may well see them again. As we have learnt, the period of the Black Death transformed the European economic system and social relations. 2020 was certainly a major crisis for us. But I would also mention the financial crisis of 2007–2010 that preceded it. It was global, and indeed originated in the world's financial centre. Eastern Europe, however, was affected in a particular way. At that time, it had not even been two decades since the transformation of the political system, and this severe test came along. The countries in our region were not as integrated into the European market economy as the Netherlands, Denmark, or other nations with a more fortunate history, although they too were shaken by the financial crisis, However, the crisis caused particular uncertainty in societies where the market economy's system of norms had only just taken shape. The six years referred to in Dahrendorf's quip did indeed exist, as we institutionally returned to the market economy in 1990. Note that I am using the word 'return', whereas the academic literature tends to use 'transition'. I myself teach a course under this title, even though 'return' would be more historically accurate for our immediate region. Yet the academic community does not use it. In this respect, of course, they are right, as one can never go back in time. The form of capitalism that existed, say, in Poland until 1939, or in Hungary and Czechoslovakia before the Second World War, clearly differed from the Western model – but it was capitalism. Parliamentary democracy also existed before the Second World War, though not in the same way everywhere, and let us set aside its qualitative characteristics for now. Yet the common Western attitude at the time of the 1990s 'new beginning' – that following the communist era, the region now needed to be introduced to the market economy – is mistaken. It is true, however, that the great political upheaval was not followed by a calm three or four decades during which the institutions could have been properly established. The first few years after 1990 brought crisis from the outset, even though that was precisely when the institutional creation—or rather, re-creation—of the market economy was supposed to take place. Just for the readers' benefit, I should note that, for example, the Budapest Commodity and Stock Exchange was established here in 1864, which was closed following the communist takeover, and reopened in June 1990 with a few shares. Clearly, in this specific case, it was a matter of restoring an important institution of capitalism and the market economy, and indeed well ahead of other countries in the region. But establishing the institutional framework takes time. For stock market trading, for example, there must be companies eligible for listing. However, for this to happen, the company must be able to demonstrate a few years of sound operational history. This is an example of how, yes, market economy institutions do emerge and restart following a political transition. It is another matter, however, as to when and to what extent the system can take root. Part of the answer lies in the fact that in the initial period following the political transition, the results one might expect and hope for from a market economy – such as higher productivity and, as a consequence, a higher standard of living than before – well, these did not materialise for quite some time. The necessary processes had begun in the Hungarian economy; indeed, contrary to many people's views, I would even go so far as to say that the Hungarian economy performed exceptionally well by regional standards. Others, of course, will point out that the 1990s were marked by crisis, factories went bankrupt, and hundreds of thousands became unemployed. It is true that there were 700,000 unemployed at the peak, which is a huge number. Even so, it was possible to foresee that job restructuring was inevitable during the major structural transformation. Or take inflation. There was a year when the rate of currency depreciation reached 30 per cent here. And it was little consolation to many that Poland was experiencing annual inflation of 700 per cent at the time. Over time, the zloty depreciated so much that four zeros were cut off, and so the new PLN was created in 1995. The Romanian leu had to be similarly redenominated following the high inflation of the transition period. But we thought that was all in the past. And then came 2008–2009, the great financial crisis. That certainly took the industry by surprise, and not just here.

Well, your question just now was whether there was anything we hadn't considered, anything that hadn't received sufficient professional attention. Recalling the background can be useful because unexpected situations kept cropping up throughout the process of systemic change. In theory, we could have known that market processes tend to run away with themselves. Following the deregulation and rapid market opening after 1990, one could have anticipated the formation of some sort of bubble. Of course, you don't know what a bubble is when you're in it. It usually only becomes apparent once it has burst. This is very much true of the US mortgage crisis, which then suddenly burst in 2008. But the Hungarian economy was also overheated, as is well known, in the early 2000s. However, there were reasons in Hungarian politics why the financial crisis hit us much harder in 2008–09 than it did in other former planned economies. And our deeper crisis also played a part in the fact that the social reaction to it was stronger, and the change of government in 2010 took place as it did. Briefly on the causes and circumstances: we entered 2008 with a higher level of public debt relative to the region. Social division, unfounded illusions and their sudden collapse are also factors explaining the socio-political and financial crisis. However, I had serious reservations about the political and ideological response to this in 2010, and my criticisms have only grown since then. I shall now mention only certain policy directions, such as the 'Opening to the East' signalling a shift away from the European market, the idea of reindustrialisation, and the over-fiscalised economic management system.

Readers may feel this has been too long a preamble, but we'll get to today's issues in a moment. I'll just quote the latest industrial data: industrial production has fallen again compared to the previous year, which was itself very weak. Thus, based on 2021 figures, Hungarian industry is at roughly 90% of that level in 2025. A long, downward trend is evident. But there are precedents for this too. Our current economic and financial problems can be traced back in part to the financial and, at the same time, political-ideological crisis of 2008. Following that, from 2010 onwards, within the framework of a certain pendulum swing, the pendulum swung from the financial bubble position in the opposite direction. This latter direction took the form of a shift towards traditional industry. In my view, this was an overreaction, as I have long argued critically. I am by no means pleased that the current dismal economic performance figures confirm my arguments against the reindustrialisation campaign. At the time of this conversation, we do not know what the GDP growth for 2025 will be, but we do know that it starts with a zero. We had hoped it would be around 0.5–0.8%, but based on the latest partial data, the actual expected growth is more likely to be 0.3%. And this is now the third consecutive poor year.

Looking ahead, there are major issues in the global economy as well. Geopolitical uncertainties continue to weigh on average price levels, and the issue of tariffs remains unresolved on the US economic policy front. Furthermore, the implementation of AI technology appears to be the driving force behind US economic growth, whilst an increasing number of studies and findings are emerging regarding the significant negative externalities and risks involved. The famously controversial Michael Burry has also sounded the alarm regarding the accounting valuations of major AI development companies.

The geopolitical context, some aspects of which you have just touched upon, clearly has a significant impact on both the Hungarian economy and the European economy as a whole. But I should add straight away that there are many possible responses to a challenge. One can choose a response that is good, or one that appears to be good but later proves to be bad. One could also wait and see, though the worst-case scenario is probably if things simply 'fall into place'. I'll just mention that in this very same geopolitical environment, with the war raging in Eastern Europe and all the side effects and intended consequences of technological development, the Polish economy, for example, is projected to grow by between 3% and 4% in 2025, whereas we have just been discussing that Hungarian GDP will be 0.3% or 0.5% in the same year. The external environment for both countries is essentially similar, yet how different are their responses and performance. The global picture is, incidentally, confusing. The processes unfolding in the US economy, for example, are difficult to interpret. There are also serious issues with economic measurement to begin with. I believe that the accounting framework and statistical methodology developed in the 1940s and 1950s for measuring economic performance, including GDP, certainly needs to be reviewed. Externalities were not included in the national accounts; today, however, in light of the climate crisis, it is perhaps superfluous to mention that we should take externalities into account. Part of economic performance is now very difficult to measure. We can just about measure goods, but services are more difficult. And when it comes to the market valuation of capital assets, as we've discussed, it's hard to decide what is a bubble and what isn't. When it comes to AI, I particularly dare not judge whether its stock market performance is genuine. Is the corporate valuation of leading tech giants really a rational market wisdom that takes every possible piece of information into account? Of course, one might ask: how can an analyst go so far as to accuse a major market of being overvalued? Yet there is no doubt that whilst depreciation on a vehicle or a building used to be easily scalable and measurable, it is now much harder to determine precisely what that value is for, say, an intellectual product, a platform, an algorithm, or the rapidly obsolescent technical equipment that supports them. In general, we feel that the world today is characterised by significantly increased uncertainty. However, I would like to add a personal comment to this. I graduated here from the University of Economics in 1975 and started work at the Institute of Planned Economy on 1 September. Well, that was not a period free from uncertainty either. The more than half a century that has passed since then has been anything but a calm period. Even a trend-like economic trajectory existed only for a short time. In the West, they say, the period of relatively continuous growth lasted roughly from the 1950s until 1973, the first oil crisis, which was then followed by a series of shocks. Incidentally, many similarities can be found between the period following that oil crisis and the post-Covid recovery. But no two crises are identical. The second oil crisis, following the Iranian Revolution in 1978–79, was not quite the same as the first oil crisis. Then came the unique crisis: the collapse of the Soviet Union as a global superpower and as a social and economic model. The Soviet Union ceased to exist, and although Russia retained its status as a nuclear power, the planned economy alternative that had existed and been influential until then was lost for good. It is therefore difficult to identify a period in which there was a positive trend. Later, the Great Moderation did indeed arrive, and it looked the part. But even then, analysts and theorists were warning that, due to the internal contradictions of market economies, this peaceful trend would not be lasting. And they were proved right. This Great Moderation, too, lasted at most a decade and ended in crisis.

Bearing all these precedents in mind, I too believe that 2026 will be full of extraordinary events, with many twists and turns. Some of these can be interpreted based on the preceding events. As regards Europe, the Draghi report in 2024 stated quite clearly what the European Union should do. 2025 brought a series of extraordinary developments in the US. One such development is the case of AI. Its phenomenal market surge is inflating US GDP. It may even be inflating it too much, causing a bubble. In addition, this year saw the market protection of US manufacturing sectors emerge in a spectacular fashion, in the form of Trump's bizarre tariff war move on 2 April 2025. On top of all this, US military doctrine has also changed. These major developments pose enormous challenges for analysts. However, studying past crises provides some guidance for forming an analytical position. It is always worth starting from the premise that there are multiple possible responses to a given challenge. It is now the prevailing view that Europe must organise its own defence more effectively, having long neglected military spending. But let us go back to 1990. Following that, every European country enjoyed a 'peace dividend', as we had to spend far less on military expenditure. In this situation, spending on welfare systems increased significantly in Western countries, partly because that is the nature of such welfare systems. Now, however, we face a new situation, partly because US doctrine has changed, and mainly because the Russian imperialist mindset has re-emerged with a vengeance. In 2014, this was not yet so clear with the annexation of Crimea. It is now plain to see that the use of military force by the Russians serves to restore the empire. It is in this situation that we Europeans, as EU Member States, must think about the future, and then translate these thoughts into the language of political action. These are also major economic questions: how much should be spent on national defence? How important is membership in the alliance? What paths to development are open to a small country that is so deeply integrated into value and production chains? What constitutes a sensible development policy in such a case?

Yes, that is what we were taught at Corvinus: that we are a small, open economy, and from that perspective we can say that every aspect of globalisation has a significant and ongoing impact on Hungary, in both the economic and political spheres. As we are a globalised country, this environment determines our scope for manoeuvre in economic policy. How much scope for manoeuvre did we have previously? How can we describe this scope for manoeuvre now, and where do we stand?

It's good that the term 'scope' has come up. In 1990, it wasn't entirely obvious – in my view, not even to the core of the European Community, but particularly to those aspiring to join it – just how much freedom a prospective member state would have regarding its social and economic system. "Back to Europe" – that was the overriding promise at the time, and one that was, incidentally, widely supported by Hungarian society. In the referendum, 84% backed accession. In the Baltic states, however, the change of regime meant not only "Back to Europe", but also that they had to break free from the Soviet empire once and for all, and indeed from any intermediate State, because that is dangerous. Now, 35 years later, we can see the consequences of a country being forced into being an intermediate State. Take, for example, the cases of Ukraine, Georgia or Belarus.

We mentioned earlier the term 'transition', which implies that there is a specific starting point and that we are moving from there to a destination. If a passenger is in transit, they know what their destination is. However, we can see that these new EU Member States, from Estonia to Bulgaria, have followed very different paths. It can be said from the outset that their backgrounds were not the same, despite having been squeezed together for forty years within the political bloc led by the Soviet Union. Of course, Yugoslavia was different from the start, but so were Albania and Romania. János Kádár's Hungarian People's Republic also occupied a unique position. I believe that the 1956 Revolution paved the way for and made possible Hungary's subsequent distinct path. In any case, there was a history leading up to Kádár's relative independence. Several decades have passed, and if we look at how each State integrated into the European Union, we see very different patterns. One interesting aspect of this overall picture is Estonia, for example. Just one financial point: there are no Estonian banks operating in Estonia. The country's three leading banks are in fact three European, specifically Northern European-owned, credit institutions. In Hungary, the ratio of foreign to domestic banks is currently roughly fifty-fifty. So financial openness, its extent and nature, can vary significantly from country to country. In the Czech Republic, too, the bulk of the commercial banking system is essentially made up of German and Austrian banks. Incidentally, when I met with Czech central bank officials, I asked them whether this posed a problem for them. They said no; in fact, from a regulatory perspective, it is much simpler to regulate and supervise a foreign-owned bank than if a bank has local ownership. This is because, in the case of domestic ownership, the bank owner, having embedded themselves in local politics, would be inclined to send members of parliament, or indeed the government, to the banking supervisory authority or the Central bank. I mention this merely as an example; a country can be successful without domestic bank ownership. Can a country be successful without its own national currency? It can! Can a country be successful with a national currency? The Czech case shows that this is also possible, because although there are no major Czech-owned banks in the Czech Republic, it does have a national currency, and the exchange rate of the Czech koruna is very stable. Now, at the start of 2026, it is roughly where it was on 1 May 2004, when they joined the EU. However, this requires a tight fiscal policy to maintain the national currency. A loose economic policy, well, that is the case in Hungary. And with that, we've acquired a whole host of problems, because our currency is inflationary, its external value is volatile and shows a weakening trend. When we joined the EU, we had to pay 240 forints for one Euro, but in the meantime the exchange rate has reached as high as 430 forints. At the time of this conversation, it stands at 386 forints, and they are now calling that strong. I leave it to the reader to decide whether they consider this exchange rate strong or weak, taking the longer term into account as well. So the challenges arising from openness vary, and I return once again to the point that different responses are possible for every situation in this region, which is neither Western Europe nor Eastern Europe, but rather Europe's eastern periphery. Mind you, there is a very big difference between Europe's periphery and Eastern Europe, because they are two different worlds, even if the country and its people are physically in the same place. The peoples of the region have given different responses throughout their history, and there have been different phases even within the same countries. For example, in Slovakia, which gained independence, the 1990s were very different from the 2000s. Romania had a very difficult, even wasted, first decade following its transition. Life obviously moved forward there too, but it was only later that they entered a phase of rapid catch-up. And back home: we could also see major differences in Hungarian economic policy when comparing the 1990s with the 2000s. What concerns me and others now, however, is the 16 years since 2010. Four consecutive government terms, the nature of which differs greatly from the first 20 years. Constitutionally, too. As we speak, we have for a long time been living under a political system governed by a state of emergency, which grants the government exceptionally broad powers. This is a completely different situation from that in countries where governments come and go, even if the change of government is delayed for coalition reasons. However, in such countries, the engine of the economy chugs along because the business community gets on with its work, and the activities of economic actors are integrated into European processes.

As far as I am aware, Italy has had 68 governments since the end of the Second World War. You mentioned that there are various possible responses; monetary and fiscal policy also offer different responses to the current uncertainty, as they have different roles to play. Given that you, Professor, have held leading positions on both sides and have said that there has never been a period of sustained peacetime economic prosperity, what is the difference between the two fields in terms of organisation and thinking? What are these two 'worlds' of monetary and fiscal policy like?

As Minister for Economic Affairs, I served for a year and a half during a very difficult transitional period. I do not wish to project my experiences and knowledge from that time onto the coming decades. It was clear, however, that when a country inherits sectors in crisis from its past – for example, an oversized, moderately modern steel industry and engineering sector – there are two ways to escape from this amidst fierce international competition. One is the ‘developmental state’ model, as seen in East Asia, where the state designates specific sectors and drives through modernisation in these areas with a firm hand. If it succeeds, it succeeds; if it fails, it fails. The other path involves linking up with foreign capital and technology and integrating into value chains, which in our case was achieved through privatisation. Essentially, this meant allowing in the more advanced American, Swiss, Swedish, German and Austrian companies. Along with this, we had to endure the difficulties of the transition. It was a general expectation that the state should maintain order and ensure that public services functioned, from the postal service through food safety inspections to the enforcement of environmental standards. It is, however, a matter of debate whether the state should perform a developmental function. The latter is not, however, a necessity, and is also very difficult to fit into the EU framework. My criticism of the regime also comes into play here, for when, following 2010, the government becomes active in economic policy and the state budget, it takes a risk. If the gamble pays off – that is, if state intervention accelerates structural change – then the benefits can be reaped. However, if the budget is overburdened by expenditure aimed at economic development, then the situation that is currently characteristic of Hungary arises: a structural deficit. Almost five per cent of our gross domestic product goes towards paying interest on public debt; this is the highest proportion in the whole of Europe. Gigantic companies have set up shop here, having arrived with substantial state support. There are large Hungarian enterprises whose sails have been filled by a tailwind from the state. All this, however, is terribly costly, and what is more, our economic dynamism lags far behind that of our regional peers. In this dire budgetary situation, what can a new government do, and what is it doing? An inevitable correction is surely on the way, as Hungary’s public finances are heavily in deficit. From a monetary policy perspective, the issue of debt and deficit is of paramount importance, because it is relatively easy to pursue sound monetary policy if public finances are in order, with a deficit of 1–3% of GDP, and no inflationary pressure arising from the budget. However, if the State regularly and systematically spends more than it earns, and then finances itself at a high cost, it simultaneously undermines the effectiveness of monetary policy. Moreover, since the idea of a balanced budget is linked to the adoption of the Euro, a country pursuing an active fiscal policy with a significant deficit cannot meet the accession criteria, even if it wanted to. It is another matter that the government in power at the time of the discussion had long been opposed to the Euro. This, among other things, also affects the scope for monetary policy. When I was at the MNB in the 1990s, even before European integration, we could proclaim that the existence of our own currency was, in substance and form, part of and a symbol of national sovereignty, but deep down we felt that this was an illusion. For a small, open country, trade and financial dependencies severely limit the scope for monetary policy. It was the same elsewhere. There was the Bulgarian model: following a massive wave of inflation, the lev's exchange rate was pegged to the German mark, and subsequently to the Euro. Stability was achieved, but we could still only speak of Bulgarian monetary sovereignty at the level of illusion. It is possible to maintain an independent currency in the long term, as the Danes, Swedes and Czechs have done, but then fiscal discipline must be just as strict as in the Eurozone member states. What's more! A national currency is credible only if the country's credit rating is AAA or at least AA. Well, by comparison, Hungary's sovereign credit rating is BBB or BBB-, meaning we are just one or two notches away from the 'junk' category. Hungarian fiscal policy has entered a structurally deficit-ridden trajectory, a trend that has become quite evident since 2020. Previously, between 2013 and 2019, when the EU Stability Pact was in force, this was not the case, and indeed monetary policy was able to deliver results at that time. What follows from this for the times ahead is that the starting point is a complete overhaul of the revenue side of public finances and a thorough and detailed review of the expenditure side. Without this, I believe, the Hungarian economy's potential for development cannot be realised. It manages to function somehow, but it cannot develop. Moreover, Hungary has also undertaken a legal commitment regarding the adoption of the single currency. Society also demands this; there is two-thirds support in public opinion for adopting the Euro. Given our integration into Europe, switching to the Euro would actually be a matter of course; in contrast, the current monetary situation is a significant factor reducing competitiveness. Saying this is not, on my part, a pro-Euro ideology, but simply a statement of fact. I attribute the problems in our financial situation fundamentally to fiscal policy, its nature, and the decision-making processes behind it. As a result, the deficit is regularly higher than planned. The government finds it very difficult to control its own spending, whilst assuming overly optimistic growth in its revenue forecasts. The uncertainty surrounding public finances is significant and growing, and all this at a time when the world is already extremely uncertain.

Economic policy is closely linked to businesses, and we have already touched upon industrial data. Confidence levels among Hungarian businesses are relatively low; how might this be changed?

Domestic-owned companies account for roughly half of Hungary's economic output, with the other half coming from companies with international ownership. Foreign companies employ roughly 18% of the workforce. In reality, the Hungarian government has relatively little influence over the business policies of these companies. The most it can achieve is to support their entry into Hungary through regulatory simplifications and financial instruments. I view these measures rather critically, incidentally. The other half of the economy is made up of Hungarian businesses, including a large number of SMEs. To assess the current situation, it is worth looking back to the 1990s. That period saw the start of a massive influx of foreign capital, as well as an entrepreneurial revolution at home. A huge number of companies had already been established from the mid-1980s onwards. Then, during the turbulent years of the transition, there was a major shake-up in the market. In any case, in the 1990s, Hungarian productivity was perhaps the best in our region, roughly on a par with or above that of the Czechs. Now, however, this is no longer the case. In a regional comparison, our productivity indicators are already weak. To be precise, the problem is not with the average indicator. What I see is that the productivity dynamics of Hungarian SMEs are different from those of, say, Polish ones. Perhaps our Polish colleagues can also explain their own difficulties, and in the interests of fairness, they might mention that their domestic market is larger, or even that the extensive Polish diaspora has been able to help a great deal in setting up businesses, so there are specific Polish factors, but even accepting those, I believe that our weaker dynamics compared to the Polish case are still a problem. The growth problem facing Hungarian businesses is difficult to resolve. One possible route could be to enter neighbouring markets independently. However, there are limits to export market growth, primarily geographical ones. The government announced the opening up to the East and then to the South with great fanfare, but I immediately sensed that this was not aimed at SMEs. Nor can it be, since although China and Indonesia are both huge economies, SMEs cannot break into those markets. If they manage to get in at all, it is mostly as suppliers. The big question remains: to whom, where, and in what way do they supply? Looking back over 35 years , I can say that our integration into European value chains has taken place as it should have; after a while, Western capital was willing to accept Hungarian entrepreneurs who were prepared for it. But this is a very slow process. Initially, the domestic added value generated by Western companies setting up here was small. To exaggerate slightly, the French entering the Hungarian market even brought their own Evian water from home back in the day. In any case, it will take decades for them to incorporate Hungarian medium-sized companies in any significant numbers. I consider it important to point this out because there are currently illusions, for example regarding the arrival of BYD, that this will create a market for Hungarian SMEs. Initially, direct subcontracting by Hungarian firms will certainly be minimal; the cultural and size differences are significant from the outset, far greater than they were thirty years ago when Austrian, German, Italian, French and Swiss FDI entered the market. We should have no illusions regarding the network of local suppliers for these Asian mega-companies. I believe a new regional approach is needed, based on reality. We should not target regions that are very far away. Instead, we should focus on those within the operational reach of Hungarian businesses. That is, within a maximum of 500–800 kilometres. A commercially sensible objective could be, for example, to get involved in the reconstruction of Ukraine, assuming a fair and lasting peace. Opening up to the Balkans could also hold promise for Hungarian small, medium and larger companies.

As a theorist and an economic policymaker, what is the difference between these two approaches?

I am not prepared to give a theoretically grounded answer; I am obviously being asked this question because, during a brief but very intense phase of my career, I was indeed involved in economic policy-making, so I naturally have a personal opinion. Of course, I would not dare to generalise from that, but the question does occupy my mind. It is particularly interesting when a theorist enters politics and government decision-making, a phenomenon we see quite frequently, especially in our region, during times of major historical upheaval. My latest book, "Systems Are Coming. Will They Pass?" published by HVG Könyvek, recalls the career of the statistician and economist Lajos Láng in its opening chapter. Born in the year that the "War of Independence" was crushed, he was a Member of Parliament, a university lecturer, Minister of Trade, an economic journalist, and the first president of the Hungarian Economic Association. An instructive life story. Later in my book, I also explore the highly eventful career of Béla Csikós-Nagy, as well as that of István Varga, who distinguished himself at the Hungarian Economic Research Institute and later in the working group that developed the forint currency. Among the great foreign economists, the names of Schumpeter and, of course, Keynes also come up. The task of an economic policymaker is, by definition, political, and it follows that the right decision can only be made by taking into account power relations, legal frameworks, and the current situation. Academic thinking, however, is different, because it allows no compromise in the search for professional truth. Politics, by contrast, consists, with a slight exaggeration, of nothing other than reaching acceptable compromises. But for anyone who is genuinely interested in the question, I do indeed recommend my book, which, beyond the personal and human aspects, also explores the broader question of how the economic theory and mainstream economic thinking of an era actually manifest themselves in actual government decision-making—and indeed, whether they manifest themselves at all, looking back on our events spanning many decades. I don't want to give the punchline away, but what I have certainly gleaned from the cases I have seen, learnt about and experienced is that a well-founded, verified theory is very important. Namely, as a compass. Under actual conditions, of course, one cannot simply follow the compass, because we would soon step into a pit or end up in a swamp; and so the economic policymaker regularly deviates from the course, and may even be forced onto detours. But they must know what the right direction is. Successful government decision-making cannot be based on flawed or erroneous theories, or on passing professional fads. Anyone who does not know what causes them to deviate due to a necessary compromise or a local practical problem cannot be a good leader. Improvisation sometimes works, but if the success of a decision depends on good luck, that is fundamentally wrong, because luck is fickle. Clearly, then, we are dealing with two different professions here. I consider it a great gift in my life that, after many years of analytical work, I was able to participate as a responsible decision-maker in shaping our affairs during historic times, and then, enriched by those experiences, I was able to analyse and teach the science and art of economic policy in subsequent periods, right up to the present day.

It was the universities' task to nurture the next generation of economic policymakers. What makes a good economic policymaker?

Let me say at the outset that we do not teach our economics-related subjects for the sake of future economic policymakers. Few students wish to become government policymakers, yet every economist—indeed, every single person—is a policy taker, subject to government decisions and bearing the brunt of them. I am not speaking from a subject-specific bias when I assert that our students cannot become well-qualified, successful businesspeople, economic analysts or civil servants unless they understand with sufficient depth the key economic policy institutions (e.g., the Central bank, the Ministry of Finance or the Competition Authority), the principles, the professional evidence and, of course, the political influences and past practices that underpin the government decisions, which then drastically affect the layman who is otherwise not particularly interested in politics or economic policy. So let us not lose any students who are genuinely uninformed about how Central banks raise interest rates, or for whatever reasons the State imposes taxes, introduces tariffs or implements seemingly incomprehensible competition rules. Will anyone then feel inspired to participate in government decision-making? Personally, I'm delighted that we offer such specialist subjects and diplomatic studies. However, I have yet to find a universal formula for who becomes a good, excellent, or at least adequate senior leader, and how. My own life, for example, has been full of coincidences, opportunities that opened up, and then unexpected setbacks – I write a little about this in my book too. But one thing is certain, returning to the previous question: without a solid, clear theoretical foundation, so-called leadership and political skills – such as the ability to present oneself convincingly, to negotiate successfully, and the ability to manage the apparatus – still do not make someone taking on a public office fit to be a good minister or a truly capable leader in their field amidst turbulent times and shifting political winds. Someone wandering without a reliable compass may never reach their destination, but they will certainly waste a great deal of time. That compass is thorough professional and theoretical knowledge. And, of course, ethical standards. I could cite alarming examples of the lack thereof.