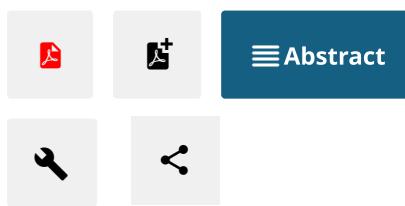




# Indexation, Inflationary Finance, and Hyperinflation: The 1945-1946 Hungarian Experience

W. A. Bomberger and G. E. Makinen



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## Abstract

This article examines the effects of an experiment in the indexation of bank deposits in Hungary during 1946. It is argued that this experiment reduced substantially the tax base against which the inflation-tax rate, determined by the issue of government currency, could be applied. Consequently, indexation was the decisive mechanism making the Hungarian hyperinflation of 1945-46 atypical of other hyperinflations. It is suggested that contemporary indexing strategies should exclude demand deposits from indexation, especially in countries where a substantial amount of government revenue is collected from new money issue.

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