

Exchange-rate policy and inflation targeting in Hungary

Tibor Erdős

The inflation targeting system applied in Hungary since 2001 relies on monetary policy to ensure that the consumer price level remains stable in the medium and long term, or at most rises very slowly, by which a rise of approximately 2 per cent a year is to be understood. Alternatively, if the monetary authority has to reckon with existing rapid inflation, the aim must be a considerable reduction in the inflation rate year by year. If monetary policy has already succeeded in bringing down inflation, the low rate must be permanently secured. However, it is not certain that preference in monetary policy should go to inflation targeting under all circumstances. Such a policy has a favorable effect only if two substantial preconditions apply: public finances are near equilibrium and nominal wages regularly adjusted to the GDP growth rate. If these preconditions are lacking, inflation targeting may have harmful effects too: currency overvaluation, excess of domestic utilization over GNP, increases in internal and external debt, decreasing rates of savings and investment, and lower economic growth potential. The author examines how to develop economic and within that monetary policy so that inflation targeting may be efficiently applied.

Economic globalization in figures – the development of openness in the EU countries, I

János Gács

There is widespread and often emotionally charged discussion these days about the effects that the intensifying globalization is having on national economies. It is worth resting opinions on unprejudiced quantitative analyses rather than unbridled debate. These require the amorphous concept of globalization to be circumscribed and for the advance of “internationalization” to be measured in the main dimensions of economic globalization. The article examines the main indices of globalization – interpreted as economic openness – with their content, limitations and susceptibility to expression in numerical form. It goes on to provide comparative analysis, based on numerical indices, for the internationalization of Hungary, the EU member-states and some selected developing countries over the last three decades. The first part, published here, follows conceptual clarification with a consideration of foreign trade in goods and services. The second, in the next issue, will consider portfolio and working capital flows, the extent of foreign ownership control, and migration of the tax base.

The cause and effect of cycles*András Bródy*

A cycle can be described mathematically, which also allows its course to be predicted. Yet the damage caused by fluctuation is hard to quantify, except as lost utilization of potential production. The deeper cause of the phenomenon and its real consequences are revealed by economic historical argument and description. In Hungary in the last decade and a half, cycles have caused some severe losses.

Modelling the migration of commercial bank clients*Ágnes Lublóy and Márk Szenes*

The study uses network theory to model the migration of commercial clients of banks. For want of real data, the authors begin by generating a network composed of the commercial clients on a banking market with several players. The interstices are the companies and each company's banking affiliation corresponds to an internal coordinator. The transactions among the companies – through the company's own bank or another bank – pass along the directed lines. At the centre of the examination based on the network generated stand the equilibrium properties of the bank-choice strategy and the phenomenon of client migration. The market equilibrium of the model – contrary to one of the main assertions of neo-classical equilibrium theory – is not clear in this model and several states of equilibrium may ensue. It was found while modelling the client migration that there is no newly migrated client in two-thirds of cases in the network of commercial clients. In the worst case, marked waves of migration occur. Finally, the authors seek to discover what topological features are typical of the key companies from the client migration point of view. It is found that the number of partners does not characterize in every case the key companies from the client migration point of view.

