

Choice of exchange-rate regime in transition countries before joining the EMU

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This paper raises some specific issues about the choice of exchange-rate regime in transition countries during the run-up to EU/EMU membership. It argues that there is no 'one-size-fits-all' exchange-rate regime that acceding countries should uniformly adopt. It also argues that the Maastricht criterion on inflation is inconsistent with the catching-up process, because of the Balassa-Samuelson effect, and this inconsistency will encourage a 'weigh-in' syndrome. Just as a boxer refrains from eating for hours before the weigh-in, only to consume a big meal once it is over, a candidate country will maintain a very tight monetary policy and resort to all sorts of techniques (freezing of administered prices, lowering of consumption taxes, *etc.*) to squeeze down inflation before accession, only to shift back after it has joined the EMU. Indeed, the convergence of short-term interest rates to EMU levels that comes with accession will automatically mean a loosening of monetary policy after the country has joined the monetary union. That loosening will be reinforced if the country has previously allowed its exchange rate to appreciate against the euro. The result of this stop-go cycle is that the efficiency of economic management will suffer. It would be better to recognize the principle of the Balassa-Samuelson effect explicitly in the Maastricht criteria, by giving more room for manoeuvre than the present rule does. The paper makes suggestions about how to adjust the Maastricht criterion on inflation and discusses their merits. It concludes that a reasonable compromise would be to define the permissible inflation deviation in terms of the average inflation rate of the euro zone, not of the three EU members with the lowest inflation rates.

Regional competitiveness

Imre Lengyel

Competitiveness means readiness to compete on the market and ability to gain a position on the market and retain it over a prolonged period, *i.e.* enhancing business success, market share and profitability. Various markets (for products, labour *etc.*) may be determinants of different attributes of competitiveness, due to their different inputs (entrepreneurial skills, expertise, natural resources, *etc.*) and the specific features of the competition in them (company, international, municipal *etc.*) Decisive to company competitiveness is the geographical location of business activity. Most competitive advantages in each industry are confined to a few districts or just one region or city. The role of distance and space has changed. Among the most pronounced processes occurring in economies, as they are shaped by globalization, is a strengthening of localization (and regionalization), through decentralization and acceptance of the principle of subsidiarity. This is seen almost everywhere in the developed countries, especially in the knowledge-based economy. The study starts from published findings and reviews the conceptual background and special criteria of regional competitiveness. Having

expounded the spatial approach and defined the concept of regional competitiveness, the author outlines a general model that can serve to examine and evaluate the competitiveness of regions, districts and towns, in Hungary and elsewhere.

Evolutionary applications in forecasting models, Part I

Gábor Benedek

Economists constructing forecasting models had limited scope before the appearance of computers. The simplest regression model or task of plotting a curve called for lengthy calculations. Handling large databases was practically impossible. With optimization problems, they had to confine themselves to the simplest cases (such as the convex of the set of possible solutions and the concave of the objective function). It was not fortuitous, therefore, that linear models became widespread in statistics and in operations research. The appearance of computers and the very rapid development of them (in terms of calculation speed and storage capacity) made it possible for vast databases to provide the information required for establishing models. Analysts, seeking ever more complex relations involving ever more variables, came to realize that 'the world is not linear.' If extremely complex forms of model are chosen, the traditional optimization procedures fail (for instance, they stop at the local optimum), while with unknown forms of model, it is not possible to define the task (there is no objective function).

Increasing flexibility in systems of working time

Mária Frey

The institutional forms of paid work change continually in all developed industrial countries. The type of employment relation generally considered regular and regulated is steadily losing ground. Traditional, 'normal' employment relation means full-time employment under a work contract of indefinite length, with status as an employee with fixed, evenly distributed working hours, normally during the day, from Monday to Friday. All employment relations that depart from this are seen as atypical. The increasing flexibility of working hours affects its duration, distribution and apportionment. These dimensions are applied to analysing the statistical data on the flexibility of working time, to prepare a survey of the state of relations in Hungary.