International Center for Economic Growth
European Center

NEWS OF THE MONTH

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eLEARNING AND LIFE LONG LEARNING IN THE V4 COUNTRIES

In the era of knowledge-based societies, it is inevitable to improve traditional education systems and additionally to invest in e-learning and life long learning opportunities. As the Visegrad countries (Czech Republic, Hungary, Poland, Slovakia) are economically lagging behind old member states it is even more important for them to keep up with more developed countries in developing ICT infrastructure and use in education and urge life long learning, in order to close the gap.

BASIS

Educational systems in the V4 countries are quite similar. There is a pre-primary education which aims to prepare children for primary education and to teach them social behavior. Primary education is connected with lower secondary education and represents an 8- or 9-year-long period. The upper secondary education starts at the age of 14 and school types like gymnasium, technical secondary school or vocational secondary school can be chosen. Finally the level of tertiary education follows, where bachelor or master degrees can be obtained. The advantage of this educational structure is that pupils do not need to make choices too early (after four years of primary education). At the age of 14 children and their parents can be more aware of what the future profession of the child could be. Pupils have to attain school until the age of 15 or 16 in the V4 countries. After the change of the political system the curriculum was renewed and new secondary school types entered the country (6- or 8-year-long secondary schools), however, with minor success.

Participation in education has increased in the last decades. School expectancy increased from around 16 years up to 17 in the Czech Republic and Poland or even to 17.5 in Hungary. Interestingly the trend was converse in Slovakia, with a decrease of 1.5 years to 15.7 years. Concerning the proportion of students participating in education including all levels from primary school to tertiary education (ISCED 1-6) among the corresponding age population the trend is increasing. Slovakia is below EU-15 average, while Poland exceeds the average participation rate of the old member states. However, it is the Czech Republic that has developed the fastest: the proportion of participating students increased by 12.7 percentage points within 4 years.

Table 1. Participation in education 2000-2004 (%)

	2000	2002	2004
Czech Republic	47.9	55.1	59.2
Hungary	50.1	54	59.7
Poland	61.6	66.1	68.6
Slovakia	-	47.2	52.1
EU-15	57.2	58.1	59.5

Source: Eurostat

Due to this improvement a generation gap can be observed in these countries. The proportion of population that has attained at least upper secondary education in the age group 25-34 significantly differs from that of the age group 55-64. The gap amounts to at least 15 percentage points but in Hungary it reaches 30 percentage points (83% in the younger age group compared to 53% in the older one). This trend is also characteristic for tertiary education but the gap is relatively smaller (between 2 and 9 percentage points).

Financing education in the V4 countries is similar to that of the European Union in case the expenditure as % of GDP is compared. Hungary and Poland spend around EU-15 average, while the spending of Slovakia and the Czech Republic is about one percentage point lower. Private expenditure is at the same level as EU-15 average but is considerably lower than in the United States (2.2% in 2000 and 1.9% in 2002).

Table 2. Public and private financing of education 1995-2002

	Public expenditure			Private expenditure	
(as % of GDP)	1995	2000	2002	2000	2002
Czech Republic	4.6	4	4.4	0.4	0.2
Hungary	5.4	4.5	5.5	0.6	0.6
Poland	5.1	5	5.6	-	0.7
Slovakia	5	4.2	4.3	0.2	0.2
EU-15	5.2	5	5.2	0.6	0.6

Source: Eurostat

Although the expenditure on education as a proportion of GDP is almost at the same level, because of lower GDP in the Visegrad countries the annual expenditure per student at each level of the ISCED classification is around EUR 3000 lower compared to old member states. Despite lower per student expenditure the Czech Republic achieved remarkable results in PISA mathematics and problem solving tests (overtaking for instance Germany, France, Denmark or Norway). Hungary was in the middle field in 2003 concerning both mathematics and problem solving tests and Poland and Slovakia were slightly behind EU member states. Thus the success in traditional educational systems does not depend only on financial circumstances.

E-LEARNING AND LIFE LONG LEARNING

Albeit traditional educational systems and financing are quite similar in the V4 countries, the progress in providing e-learning opportunities and promoting life long learning is rather many-colored. Concerning infrastructure for e-learning, the mean number of students per computer has improved significantly since 2000. Hungary, with four students per computer is one of the best in the European Union concerning this indicator. The Czech Republic is also well equipped (9 students per computer), but Poland and Slovakia (15 students per computer) need to make further improvement in order to join the leading group. Hungary has also overtaken other Visegrad countries in the frequency of computer use at school. According to OECD 80% of 15-year-old pupils used computer almost every day or a few times each week, while the corresponding number in the three other V4 countries was slightly above 40% in 2003. However, the proportion of pupils among computer users using computers for educational purposes was only between 25% and 30% in 2003.

The proportion of computer based learning participants in other age groups in 2005 is even worse. Surprisingly Hungary is lagging behind other Visegrad countries. Younger age groups use computers for learning more, mainly because of their better computer using skills and more learning activities.

Table 3. Computer based learning participants by age 2005 (%)

	Czech Republic	Hungary	Poland	Slovakia
Between 25 and 34 years	15.9	4.2	18.5	16.9
Between 35 and 44 years	15.2	3.2	11.5	13.3
Between 45 and 54 years	11.4	2.1	7.3	11.1
Between 55 and 64 years	6.2	1.3	3.3	4.2

Source: Eurostat

In case of using Internet for educational purposes Hungary is again ahead the other three countries. Moreover in formalized education Hungary achieved above the EU-15 average. The other V4 countries are far behind Hungary, and what gives more reason for worrying is the fact, that there was a backward trend or no improvement in these indicators compared to 2004.

Table 4. Individuals having used the Internet for educational purposes in 2005 (%)

	Czech Republic	Hungary	Poland	Slovakia	EU-15
For formalized educational activities	1.3	11	4.6	5.5	9.1
For other educational courses related to employment opportunities	0.7	6.9	0.4	3.4	8
For post educational courses	0.6	6.3	0.6	0.6	6.5

Source: Eurostat

The implementation of the concept of life long learning is in its initial phase in the Visegrad countries, except for Slovakia. Total participation in any learning activities was almost by 20 percentage points higher than EU average (42%) in 2005, while the Czech Republic, Hungary and Poland had a lag of at least 12 percentage points. Concerning the different age groups the situation is similar to that of computer based learning: older generations participate less than young ones. The idea of life long learning is necessary in order to prepare the adaptation of employees to the fast development of knowledge and technology. However, the question of financing is not solved. In case of traditional educational systems it is accepted that education is a public good and governments must finance at least primary and secondary education. In case of life long learning public administrations expect companies to invest in their employees, as companies gain the most from the benefits of well-trained staff. On the other hand, many companies are not willing to invest in human resources if the topic of the course is not directly connected to the work of their employees.

EXPECTATIONS

Education can increase welfare in the new member states. According to the study Education at a Glance, published by OECD, education increases productivity and economic output. Around one quarter of the increase of productivity can be connected to education. One additional year of education in the OECD area effects economic output by 3 to 6%. Thus further investment in education could boost the economies of the V4 countries, while wages could also catch up with wages in the old member states because of increased productivity.

Furthermore, there is a positive causal relationship between higher educational attainment and better mental and physical health. The reason for it is higher income and employment among higher educated people. Thus education could decrease unemployment, while it could have a

positive effect on public health expenditure because of better health conditions of well-educated citizens.

However, education can do society and economy good only in case the supply of human resources takes into consideration the demand side of the job market. A balance needs to be found between vocational secondary education and tertiary education but also between different degrees at tertiary level. Without finding this balance these countries have to face structural unemployment. Hungary is an example for this situation. More and more lawyers (6% in 2005 from all graduates) and economists (26.5% including business administration) are graduating while there is shortage in engineers (5%), high quality teachers and doctors (1.7%). Parallel, there are few pupils who choose vocational secondary schools, thus there will be more people unemployed with a college or university degree than with vocational education. These trends need to be corrected or avoided by the V4 countries. Each country has an improved base: the traditional educational system. Further developments are required in the quality of education, and financial means should be increased. Vocational schools and less favorite degrees should be promoted with more job opportunities and better income prospects. E-learning is essential to remain competitive in the knowledge-based society, thus V4 countries should continue the development of ICT infrastructure and its use in education. The concept of life long learning should be refined and financial incentives should be introduced in order to motivate older generations to take part in learning activities.

DEVALUATING FORINT AND HIGHER INFLATION PROSPECTS IN HUNGARY

Towards the end of June the forint eased by some 8% versus the euro to record lows around HUF/EUR 285. The central bank reflected its earlier criticism that the fiscal measures were too reliant on tax hikes and created a risk that inflation would stay above price stability, three percent for a long period.

BACKGROUND

The unfavorable international market trends and the debt management activities of the Government Debt Management Agency have also significantly contributed to that the forint exchange rate weakened to a historic low at the end of June. However, the main responsibility belongs to the Hungarian government by the sustained incredible fiscal governance from 2002. By this time, May of 2006, financial markets have decided not to support the incalculable and incredible fiscal policy, targeting the budget consequently far below the real final deficit value.

As Hungary is a small open economy, the exchange rate is by far the most important channel, influencing consumer prices through changing tradable prices. This analysis investigates the question of whether every change in the exchange rate spills into the consumer price index and whether the today's devaluation of the forint makes the Hungarian inflation higher.

Although the degree to which exchange rate movements are reflected in prices has been of interest in international economics for a long time, the question of whether the currency's volatility has an effect on exchange rate pass through is a more recent occurrence. This is partly because the focus on ERPT (Exchange Rate Pass Through) in mainstream open – economy macroeconomic model is a relatively new development.

ASSUMPTIONS

ERPT is usually defined as the responsiveness of domestic prices – consumer price, producer price etc. - to exchange rate movements. As a lot of researcher made estimations about the ERPT, its measure is not the first order question, but the effect of the exchange rate volatility on ERPT. Whether the high exchange rate volatility in May and June of 2006 affected the ERPT into CPI? The assumption of one of our inner analysis is, that the higher volatility led price setters to leave prices unchanged as react any exchange rate movement, thus the ERPT is lower.

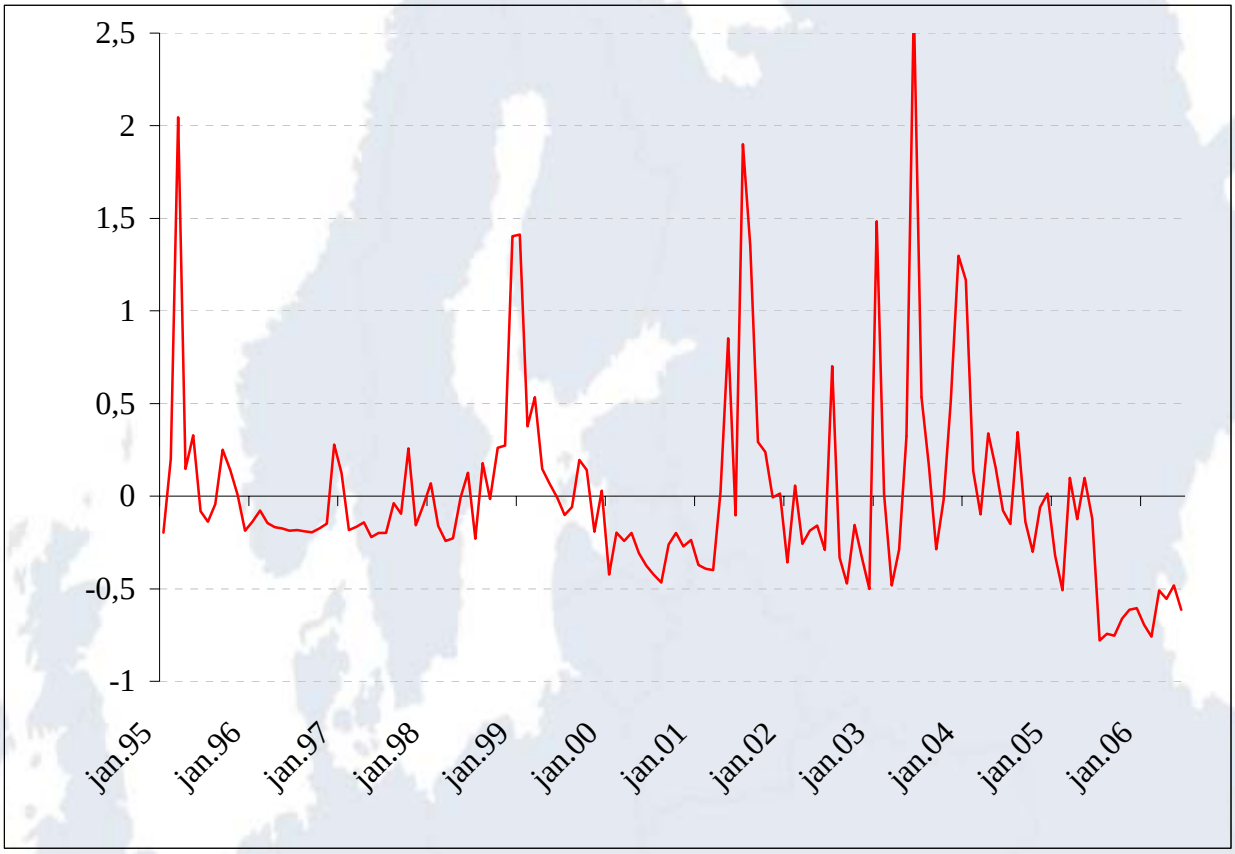
If taking the pricing mechanism first, the price setter – importer – looks at the exchange rate movements and finds it too volatile, it is difficult to decide, which exchange rate should be used during the pricing process - because price setter doesn't want to change often prices. Thus, the importer doesn't make a change after every exchange rate movement therefore every exchange rate fluctuation isn't reflected in CPI.

Higher the volatility means more incalculable exchange rates and lower ERPT, because of the price setting mechanism. It is important to highlight, that the exchange rate volatility has a very strong effect on the ERPT. If there's no volatility in the previous month, - it means, that the exchange rate follows its trend - the pass through into consumer price index is not lowered by the exchange rate volatility in the actual month. When the volatility's measure deviates

from its trend, thus the pass through is smaller, depending on the measure of the volatility. In the case, this volatility is adequately large. The degree of pass through can be zero. Consequently the exchange rate movements don't spill into the prices.

In Hungary there were some period of time, this deviation was as big as the exchange rate movements didn't spill into the consumer prices. (*Chart 1.*)

Chart 1. HUF/EUR Exchange Rate Volatility 1995-2005



Note: Hodrick-Prescott trend filtered time series, deviation from the trend is the volatility

Source: Hungarian National Bank, Own calculations

In the period, the Hungarian National Bank (HNB) introduced the crawling peg exchange rate system in 1995, the forint answered with a higher volatility. After the market pricing in the new environment, the forint stabilized.

The Hungarian markets were injured in 1998 by the Russian crisis as well, thus the forint reacted the new situation, and was a sharp depreciation of the national currency.

With a common decision of the HNB and the Government in May of 2001, the fluctuation band of the forint was shifted to a weaker position. This action surprised the markets and that was the reason of the higher fluctuation.

2003 was a very critical year as regards Hungary's currency market, mainly caused by the conflicting statements of the government, the uncertainty, incredible fiscal policy and policy inconsistence. The currency fluctuated in a very wide range. The volatility reached and exceeded a critical measure, when – according to my assumption – the exchange rate didn't affect the prices.

Sum up the time series, in Hungary there were six periods, when the exchange rate fluctuations didn't go into the costumer prices. The price setters didn't valid the exchange movements in their prices, so the shifts didn't matter in the prices.

From 2003 the forint has seem to be well-balanced, and didn't fluctuate as high measure, as it would eliminate the effect of the exchange rate movements. The markets got used to the new environment and rearranged their positions, after they had got to know that Hungary's accession to euro zone is unthinkable prior to 2010.

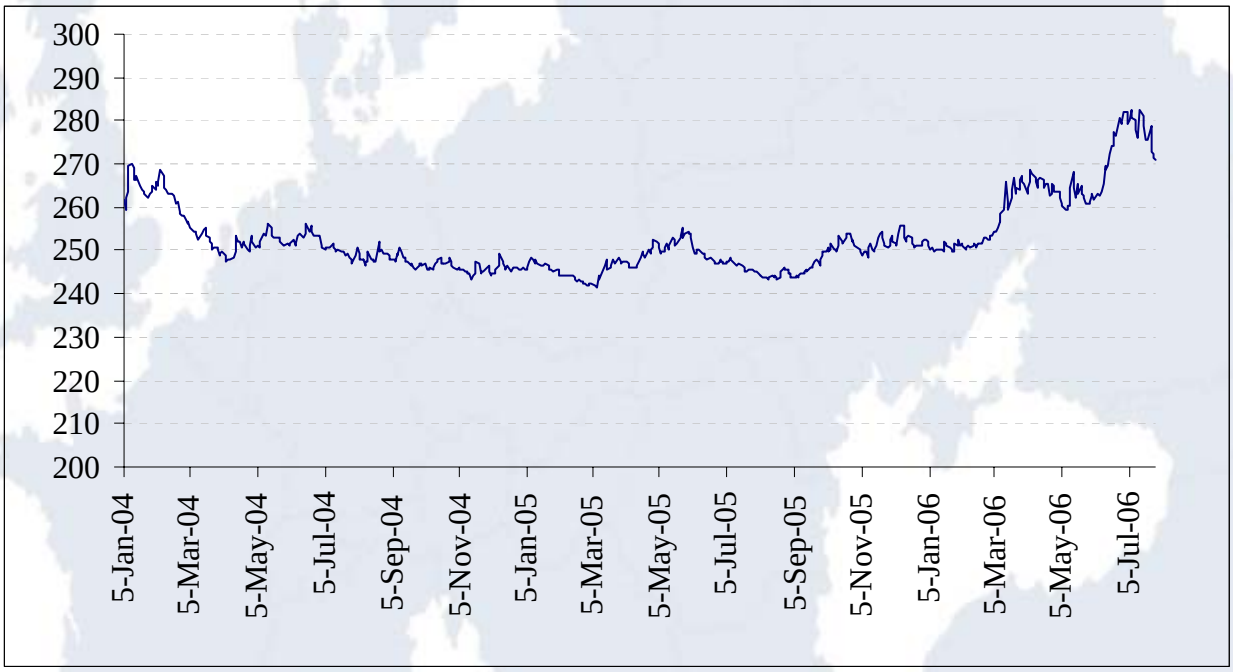
CURRENT CIRCUMSTANCES

From May of 2006 the three-years-stable, predictable exchange rate situation have been changing. The market sensitively reacts on each political, economic policy issue, especially on those connected with budget adjustment and public finance reforms.

There is no Maastricht-criteria that could be fulfilled by Hungary in 2006, on the other hand Hungary haven't joined the ERM-II mechanism yet.

In the situation, the government announced that the aimed budget deficit is unsustainable, but it would try to do some adjustments, that help the government to diminish the enormous state deficit. The market was waiting for a new program, which contains vigorous restrictions to reach the expected adjustment. In silly season, the government presented the New Balance Program, which shows the detailed plan to decrease the deficit.

Chart 2. HUF/EUR Exchange Rate Development 2004-2006



Source: Hungarian National Bank

The markets were disappointed in the way and measure of the adjustment, thus expressed their opinion by selling the Hungarian currency, bonds and blue chips as well.

The forint was got to be weaker than ever been and nobody could and can predict the next day's events. As a matter of fact, this program presentation coincided with the unfavorable world market processes embodied in higher interest rates of main central banks, like FED, ECB and even Bank of Japan that attracts financial resources into the stocks denominated in these countries' currencies.

WHAT IS EXPECTED?

In consequence of the high fluctuation of the forint in June and July, the main indicator, the volatility increased as well. This process is quite similar to processes of 2003, when the fluctuation dropped at a high level (and similar like in the six periods, which have been mentioned before).

In this way, the conclusion is that the ERPT into the CPI will diminish considerably, but it won't become zero, unless the volatility reaches its critical limits. For this reason, though the inflation will be higher by the exchange rate depreciations, it is lowered by the high exchange rate volatility. For this summary was antedated by an econometrical model study, in this short analysis the critical volatility measure is given from outside. So, decisive point is given as 1. As *Chart 1* shows, the volatility in June approached 1 (around 0.8), the point, from the exchange rate movements don't spill into the consumer prices, but didn't reach it.

In the case, this trend continue, the volatility can reach the point of 1, where there won't be any effect of the exchange rate movements to the inflation.

Full - but not complete - exchange rate pass through is imaginable just by zero measure exchange rate volatility – when this volatility follows its trend.

The next some month will be determined by the Hungarian government, through they can make a better financial situation by renew their credibility and predictability and make some steps to the direction of a more sustainable budget structure and procedures. If markets believe in the statements of the cabinet, the currency market would be stabilized, thus the processes of financial market would be more predictable, and the reactions of markets would be more expected. The last thought would be the most difficult, but the most important to make come true by the Hungarian government, because it is known that the bases of a modern economy are the expectations.

BOOSTED LATVIAN ECONOMIC GROWTH

Regarding to the Central Statistical Bureau Latvia, GDP growth in the 1st quarter of 2006 (compared to same period of the previous year) was 13.1%. The propulsive industries are trade, transport and communication, manufacturing and constructing. Latvia's short term objective hasn't changed yet: as soon as possible launch of the Euro. But this overheating of the economy may be resulted in higher inflation rates, which could cause a delay in the entry of the Eurozone.

BACKGROUND OF ECONOMY

The main fundamental figures of Latvia are shown below, in *Table 5*.

Table 5. Development of Main Indicators of Latvian economy 2001-2006

	2001	2002	2003	2004	2005	Q1. 2006
GDP growth	8.0%	6.5%	7.2%	8.6%	10.2%	13.1%
Inflation	2.5%	1.9%	2.9%	6.2%	6.7%	1.4%
Unemployment	13.1%	12%	10.6%	10.4%	8.7%	7.8%
Budget Deficit	1.94%	-2.27%	-1.6%	-1.06%	-1.02%	-
Public Debt	15.0%	13.5%	14.4%	14.6%	11.9%	-
Current Account	n.a.	-6.64%	-8.09%	-12.9%	-12.45%	-

Source: Central Statistical Bureau Latvia, Eurostat, Own Calculation

The Consumer Price Index (CPI) increased in June by 0.3% (compared to May) with the prices of goods stayed at the same level, while prices charged for services grew by 1%. The CPI in the other two Baltic States turned out to be almost the same in June compared to May, as in Estonia and in Lithuania the CPI was 0.4% and 0.2%, but on a year-on-year increase, the two countries produced better figures, as CPI growth amounted to 4.3% and 3.7%, respectively. Latvia's CPI in June, compared to June 2005 reached 6.3%, which is significantly higher than their neighbors'.

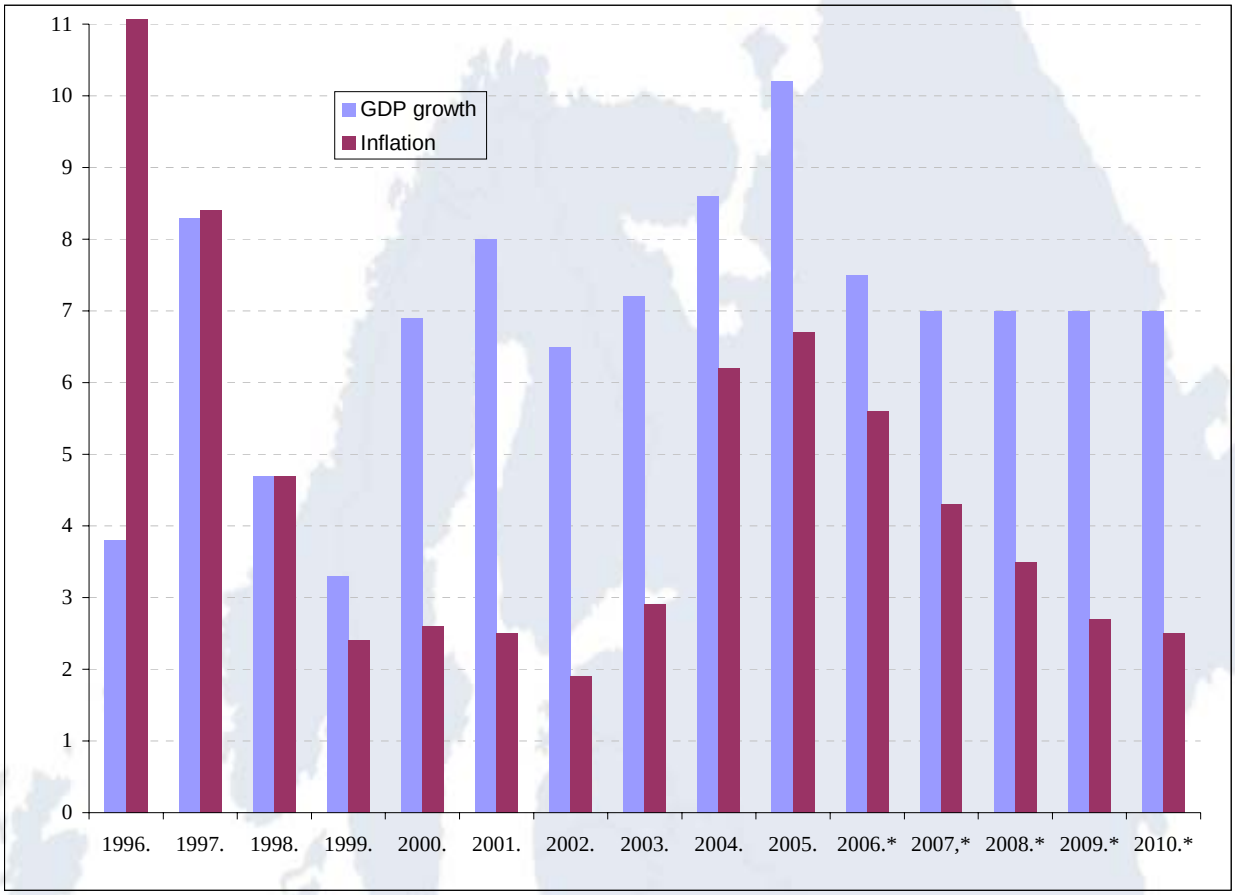
The unemployment rate amounted to 7% in June, which is an acceptable measure regarding to the average of the EU-25, which reaches 8.2% in July according to the Eurostat. Compared to May, the rate stayed constant, but compared to the corresponding period of the previous year, it declined by 0.9%. The unemployment rate in the New Member States (NMS-10) calculated by simple average of 10 new members is 9.3% in 2005.

As a result of the strict and consistent fiscal policy together with remarkable growth of economy and low public debt, Latvia managed to keep its government deficit within the maastricht criterion, closed to zero.

The Ministry of Finance always publishes a special indicator, called the *Composite Index of Macroeconomic Indicators (MSI)* which increase amounted to 7.4% in constant prices in June, which was determined mostly by changes in the transport sector. This growth was restricted by the increase in industry producer prices, which amounted to 9.7% in June (7.8% in 2005 and 8.5% in the first half of 2006), while the whole producer price index was 3% in the first quarter 2006. Average growth of the MSI in the first half of 2006 amounted to 7%.

The trends and relationship of gross domestic product and inflation is shown in the Chart below.

Chart 3. Trends of GDP and Inflation



**Forecasts of Ministry of Finance Latvia*

Source: Ministry of Finance, Latvia

STRUCTURE OF GROSS DOMESTIC PRODUCT

The most important three sectors, considering expansion, was trade, construction and manufacturing, with an average of 14.7% (*simple average, own calculation*) growth. The main factor of retail trade were road vehicles, over an increase of 80%; the highest growth inside manufacturing was recorded by the textile industry, with almost 30%; and within construction, the infrastructure investments were determinant, especially roads and streets, with an amazing increase of 130%. Transport and communication also gives a great share of production.

Table 6. Structure of GDP in Latvia (Q1. 2006)

	Share of GDP	Rises in the sectors
Trade	22.6%	17.7%
Transport and communication	13.6%	6.0%
Manufacturing	12.7%	8.8%
Construction	4.7%	17.5%

Source: Ministry of Finance, Latvia

Taking a look at the quarterly data of gross domestic production, it seems obvious that growth moves around 10% for a longer period, and even at the time of recession in the EU-15, Latvia's – and the region's as well - GDP growth was around 5-6%.

Table 7. Quarterly GDP growth in Latvia 2004 - 2006

	2004				2005				2006
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GDP in Euro*	2388	2705.1	2897.5	3064.5	2624.3	3081.5	3328.3	3679	3266.8
GDP growth**	8.9%	7.8%	9.1%	8.8%	7.6%	11.2%	11.4%	10.6%	13.1%

**at current prices;*
***at constant prices, compared to the same period of the year*
Source: Central Statistical Bureau Latvia

In the first five month of 2006, exports and imports of goods went up by 20.7% from the same period of last year. Export of goods grew by 11.8%, while import increased by 26.4%. Exports to the EU increased by 9.5% (compared with May 2005), while the value of imports from the EU grew by 26.7% (compared with May 2005). These figures are similar to the ones above, which is not surprising, as the main commercial partners of Latvia are Lithuania, Estonia, Germany, Great Britain, Poland and Russia (the only one outside the EU).

EXPECTATIONS FOR THE FUTURE

Based on the trends and expectations, Latvia's GDP is expected to increase further. Beside the indisputable credits of this, there are disadvantages of a too high growth as well. The inflation and external foreign need of Latvia is higher than wanted, and especially higher price level means some risks to the accession of the Eurozone, which is the purpose of not just Latvia, but the region as well. By the way, strict fiscal policy is inevitable for further development of the country.

Fitch Rating has just affirmed Latvia at „A-", which outlook seems stable, but Latvia should consider the words of David Heslam, Associate Director of Fitch's Sovereigns group: „Spectacular economic growth and real convergence with Western Europe underpin Latvia's sovereign rating, however, the prospect of a delay in euro adoption until 2010 adds to risks associated with Latvia's high external debt burden and financial needs".

ARMENIA AND THE INFLATION TARGETING REGIME

Since the 1st of January 2006 Armenia has changed its monetary system to an inflation targeting regime, the price level decreased by 0.2% compared to the same period 2005.

THE RECENT PAST OF THE ARMENIAN ECONOMY

After the stabilization the Central Bank adopted the monetary targeting strategy in 1994 and set the money supply as the nominal anchor and intermediate goal. Thanks to this practice a rapid disinflation started followed by a stable economic upswing. The government took essential steps to create attractive economic environment for foreign investors; privatisation and market liberalisation began, prudent fiscal policy was implemented.

The country is relatively open, the amount of export and import compared to the GDP stood at 67% in 2005. The Current Account deficit shrank to 4.2% from 14.5% which together with the growing foreign investments boosted the Central Bank's reserves.

Table 8. Main Economic Indicators 2000-2006

	2000	2001	2002	2003	2004	2005	2006 Jan - Jun
GDP growth	5.9	9.6	13.2	13.9	10.1	13.9	11.9
CPI (period average)	3.1	1.1	2.0	4.7	7.0	0.6	-0.2
FDI/GDP	5.5	3.3	4.7	4.3	6.1	4.5	7.7*
State Budget deficit %GDP	4.9	4.3	2.6	1.3	1.7	1.7	1.2*
Current Account deficit %GDP	14.5	9.4	6.2	6.8	4.7	4.2	-
Gross International Reserves (Usd million)	314.1	329.6	431.3	501.9	547.8	669.5	756.4

** Q1 2006*
Source: Armstat, Central Bank of Armenia

BACKGROUND OF CHANGE OF THE MONETARY REGIME

As it seems, the monetary targeting system was an adequate regime for the country to achieve price and general economic stability. As the foreign investors discovered the opportunities, several problems arose.

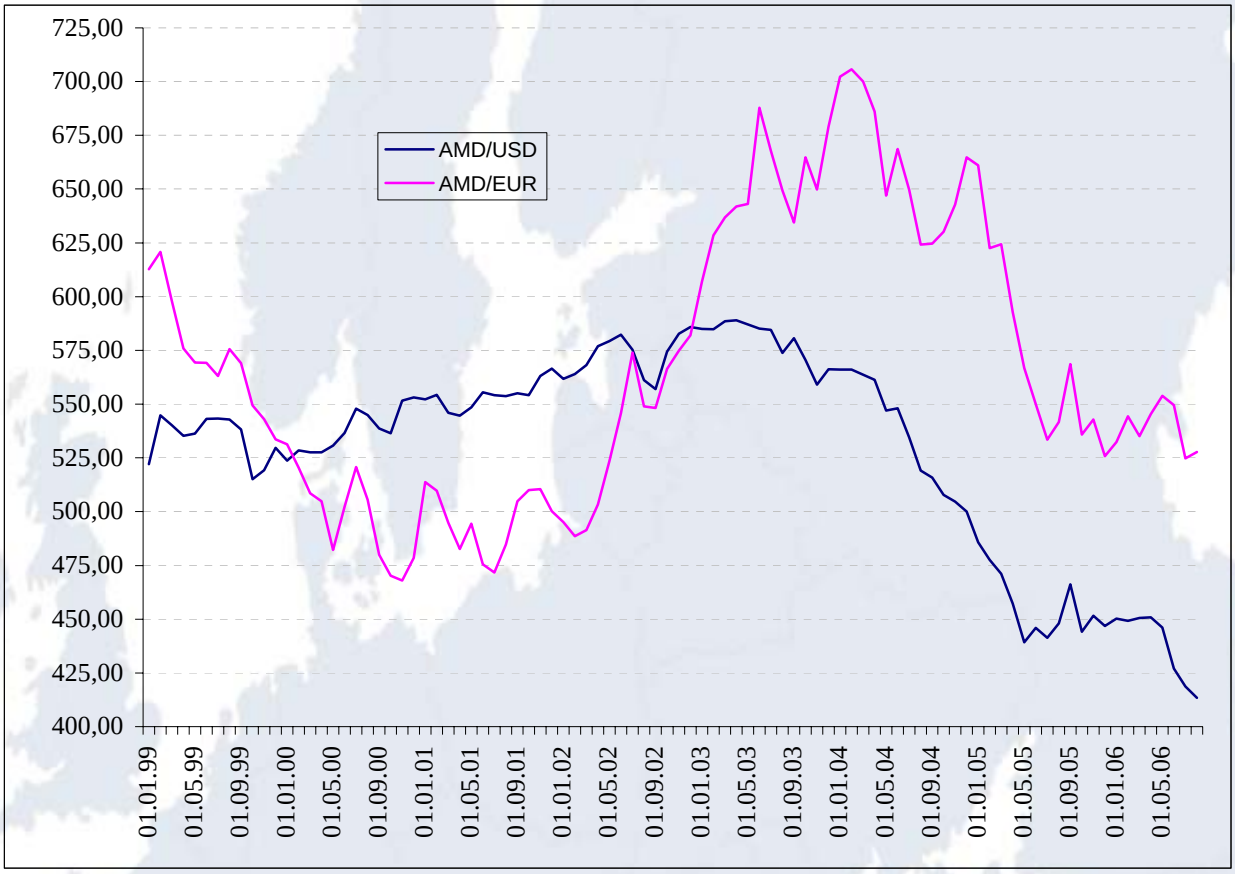
The massive capital inflow appreciated the nominal exchange rate and increased the money supply or the Central Bank's reserve assets. Therefore the monetary targeting system became opaque and expensive, the estimation and the adjustment of the broad money were difficult. (The broad money increased by 33.3%, 6.1% and 34.2% in the year of 2003, 2004 and 2005 respectively.) All these things encouraged the Central Bank of Armenia to decide to be the first country in the Caucasus region to adopt the inflation targeting regime. (Azerbaijan uses an exchange rate targeting system and Georgia regulates the monetary base.)

Although the inflation targeting regime has numerous advantages such as the better transparency or the long run commitment, it has disadvantages as well. The biggest one is that the central bank has to choose the interest rate as an instrument to determine the inflation expectations however in the developing countries the exchange rate influences much better the price level. Furthermore since the central bank uses the interest rate it must not have any declared exchange rate goal or preference because it would attract speculations.

This means that the exchange rate can be volatile which leads to rapid and unexpected changes in the rate of inflation as it happened in 2005 and in the first half of this year. (Instead of the aimed 3% set by the Central Bank, the inflation was 0.5% in 2005 and there was a 0.2% deflation in 2006 mainly because of the appreciation of the local currency.) This could cause a loss of credibility which makes the system more expensive.

After all it is not easy to run an inflation targeting system in a developing country, but there were simply more reason against the monetary targeting system then for the inflation targeting regime. In other words, none of the regimes suit these countries, or only with tough conditions.

Chart 4. Exchange Rates 1999-2006



Source: Central Bank of Armenia

KEY QUESTIONS OF THE FUTURE ECONOMIC POLICIES

First of all the Central Bank has to find a good strategy to handle the discrepancies among the inflation, interest rate and the exchange rates. The Bank's policy has to be flexible and in the same time transparent, clear and calculable. The success is largely depends on the consequent and appropriate communication.

Secondly, the central government's deficit and debt should not be high otherwise the fiscal policy would dominate the monetary policy by putting pressure on the central bank to decrease the interest rate (or not to increase as fast as it would be necessary in order to maintain the price stability). In this case the budget deficit would be lower due to the lower interest expenses but on the other hand it would hurt the central bank's independency and its

primary goal. As a result the communication would be more difficult and it would bring higher inflation or a loss of credibility.

And finally all the developing economies are more vulnerable to external shocks. If the exchange rate is not fixed then the economy can accommodate through it however in an open economy the price level and the inflation would also change eliminating its effect. The best practice is that the central government should run low budget deficit in order to maintain the opportunity for fiscal accommodation as well.

Although there are other factors it seems that the fiscal policy is the most important issue in the success of an inflation targeting system. Consequently the budget deficit is a good indicator of the success. If it raises then the chance of a stable economy decreases.