

## **Inflation and Unemployment Rates as Indicators of the Transition European Union Countries Monetary Policy Orientation**

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**Abstract :** Numerous studies carried out in the developed western democratic countries have shown that the ideological framework of the governing party has a significant influence on the monetary policy. The executive authority consisting of a left-wing party gives a higher weight to unemployment suppression and central bank implements a more expansionary monetary policy. On the other hand, right-wing governing party considers the monetary stability to be more important than unemployment suppression and in such a political framework the main macroeconomic objective becomes the inflation rate reduction. The political framework conditions in the transition countries which are new European Union (EU) members are still highly specific in relation to the other EU member countries. In the focus of this paper is the question whether the same monetary policy principles are valid in these transitional countries as well as they apply in developed western democratic EU member countries. The data base consists of inflation rate and unemployment rate for 11 transitional EU member countries covering the period from 2001 to 2012. The essential information for each of these 11 countries and for each year of the observed period is right or left political orientation of the ruling party. In this paper we use t-statistics to test our hypothesis that there are differences in inflation and unemployment between right and left political orientation of the governing party. To explore the influence of different countries, through years and different political orientations descriptive statistics is used. Inflation and unemployment should be strongly negatively correlated through time, which is tested using Pearson correlation coefficient. Regarding the fact whether the governing authority is consisted from left or right politically oriented parties, monetary authorities will adjust its policy setting the higher priority on lower inflation or unemployment reduction.

**Keywords :** inflation rate, monetary policy orientation, transition EU countries, unemployment rate

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