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COMPARISON OF THE STABILIZATION MACROECONOMIC POLICY IN THE CENTRAL EUROPEAN COUNTRIES AS A BASIS FOR THE DEVELOPMENT OF ANTI-CRISIS STRATEGY IN UKRAINE

ПОРІВНЯННЯ СТАБІЛІЗАЦІЙНОЇ МАКРОЕКОНОМІЧНОЇ ПОЛІТИКИ В КРАЇНАХ ЦЕНТРАЛЬНОЇ ЄВРОПИ ЯК ОСНОВА РОЗРОБКИ АНТИКРИЗОВОЇ СТРАТЕГІЇ В УКРАЇНІ

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The article discusses the stabilization measures aimed at overcoming the crisis phenomena in the economy. Their implementation by the governments of the countries of Central Europe is examined. Implications of these economic policies are analysed. Goals and results of activities of central European countries' governments are compared. The expediency of the use of certain elements of anti-crisis strategies in the economic policy of Ukraine is justified.
Key words: *stabilization policy, anti-crisis measures, fiscal instruments, monetary instruments, post-crisis recovery.*

У статті розглядаються стабілізаційні заходи, спрямовані на подолання кризових явищ в економіці. Досліджується їх впровадження урядами центральноєвропейських країн. Аналізуються наслідки вищезазначених економічних політик. Порівнюються цілі і результати діяльності урядів центральноєвропейських країн. Обґрунтовується доцільність застосування певних елементів антикризових стратегій в економічній політиці України.
Ключові слова: *стабілізаційна політика, антикризові заходи, фіскальні інструменти, монетарні інструменти, посткризове відновлення.*

В статье рассматриваются стабилизационные меры, направленные на преодоление кризисных явлений в экономике. Исследуется их внедрение правительствами центральноевропейских стран. Анализируются последствия вышеупомянутых экономических политик. Сравниваются цели и результаты деятельности правительств центральноевропейских стран. Обосновывается целесообразность применения определенных элементов антикризисных стратегий в экономической политике Украины.
Ключевые слова: *стабилизационная политика, антикризисные меры, фискальные инструменты, монетарные инструменты, посткризисное восстановление.*

Statement of the problem. In conditions of low economic growth, inflation and devaluation of the national currency, it is extremely important to find ways to overcome the negative effects of the aforementioned processes and phenomena.

The global financial and economic crisis of 2008–2009 years has destroyed the balance of many economies in the world. The neighbours and partners of Ukraine, like Poland, Latvia, Lithuania, and Estonia, applying the opposite strategies of post-crisis development, have achieved significant results in overcoming the negative phenomena in the economy that caused the research in this area. The relevance of the study also stems from the fact that these countries serve as benchmarks for Ukraine economic policy because after the collapse of the socialist system, starting from similarities with Ukrainian conditions they were able to build quickly a functioning market economic system.

Analysis of recent researches and publications. The study dedicated to the ways and methods of the crisis phenomena overcoming in the Ukraine economy using the central European countries' experience was developed in works of such scientists as Homutenko L. [5], Alekhnovich A. [6], Kopych G. [9], Tymkiv S. [12], and others.

This study examines, among other things, such unresolved part of the general problem as the comparison of two radically different theoretical approaches to overcoming the crisis on the example of the application of these approaches by the partner countries of Ukraine.

The purpose of the study is to examine and compare the ways of overcoming of the crisis phenomena in the economies of European countries –

partners of Ukraine and the rationale of selection of some elements of their crisis strategies for the sustainable development of the Ukrainian economy.

Results. The economic stability of the country today depends on internal and external factors. Actually, the main domestic factors include the effectiveness of monetary and fiscal policy instruments, and the external there may be various factors that directly or indirectly affect the stability of economic processes (e.g. global financial crisis). It is worth to note that along with various observed factors the inevitable constant cyclical fluctuations of the economy, which may change due to the above factors or their combinations in the positive or negative side for the economy. As for external factors, the country can only accept them and try to reduce the negative effects on economic processes. However, successful use of internal factors of influence can form an effective stabilization policy of the country for the preventive management of crisis situations [1].

One of the important tools of cyclical fluctuations regulation in the country may be the introduction of a stabilization monetary policy. The goal of the state monetary stabilization policy is ensuring stable economic growth, efficient use of financial resources, the stability of price level, the balance of payments equilibrium, and the like. That is, monetary policy is an essential element of the stabilization policy of the country.

In Ukraine, the monetary policy instruments are actively used in macroeconomic regulation but, unfortunately, not fully utilized in order to stabilize cyclical fluctuations in the economy. In industrialized countries, one of the main goals of the monetary policy instruments is preventive regulation on the stages of declining and limitations of unconfirmed rapid growth in the use of financial resources for preventing the formation of financial bubbles and crises [2, p. 31].

Most scientists believe that there is a close relationship between fiscal and monetary policy, and in respect of use priority in the stabilization policy positions differ somewhat. Thus, in particular:

– *the classic approach* to stabilization policy implies that monetary policy has to be in the foreground compared to the fiscal, because, according to representatives of this research area, changing the money supply directly affects aggregate demand and hence nominal GDP, and the fiscal measures actually entail only an increase in the level of inflation;

– *Keynesian approach* to stabilization policy implies that monetary policy is derived from the fiscal, and its tools are used as a secondary. According to Keynesians, government spending affects the aggregate demand in the country, and the taxes quite effectively affect consumption and investment [3].

Searching for the economic situation during the world financial crisis, we can find the next figures showing changes in the macroeconomic development indicators of certain countries of Central Europe:

As we can see, only Poland among these countries (and even among all the EU countries, as we know) had the GDP increase during the world crisis. That is why we will investigate the Polish experience first of all.

Let us consider what macroeconomic policy instruments and their combinations central European countries used to counter the crisis in the national economy.

It would appear, to the outsider, that ***Poland*** maintained a certain level of immunity to the financial crisis. Regardless, the global financial crisis has had an impact on Poland, its economy, and its public finances. Despite the significant positive economic gains that were being made during the two years previous to the crisis, Poland's interdependence on its neighbours quickly slowed its growth [4, p. 39].

Effective stabilization of the Polish financial system occurred due to a combination of forms, methods, and mechanisms of realization of the anti-crisis model. In particular, there were applied the following steps:

– to reduce pressure on the monetary and financial markets and maintain the competitive position

Tab. 1.

Unemployment rate and changes in the macroeconomic development indicators of some countries of Central Europe in 2009 compared with 2008, %

Countries	Indicators				
	GDP	Industrial production	Export	Import	Unemployment rate
Estonia	-14.2	-	-24.0	-33.0	14.3
Lithuania	-15.0	-	-26.6	-38.2	13.7
Poland	+1.7	-3.2	-8.8	-17.5	11.9
Macedonia	-1.8	-7.7	-32.3	-26.4	15.0
Romania	-7.1	-5.5	-13.9	-32.3	7.8
Slovakia	-6.7	-14.6	-21.8	25.2	12.9
Hungary	-6.3	-17.7	-18.7	-25.2	10.5
Czech Republic	-4.1	-13.4	-24.2	-27.6	9.2

Source: the author's own elaboration

of exporters were implemented a flexible exchange rate and the zloty devaluation;

– to stimulate economic growth and promote the competitiveness of domestic producers was carried out the reduction of certain taxes;

– conducted a controlled credit policy (before the crisis, lending to households were at the level of 16% of GDP, while the average for EU countries accounted for 50% of GDP).

"Since 2008, the Polish credit market was characterized by a decrease in the rate of growth in both commercial and consumer loans and also credits in foreign currency with a simultaneous increase of requirements to potential borrowers" [5, p. 94].

Thanks to the transparency of the banking system and adequate forms and instruments of stabilization policy, the counteraction to the crisis was successful. Taking into account the increase in stress on the Polish financial market because of panic on the world markets, in October 2008 the National Bank of Poland has prepared a program of action to stabilize the financial system – the so-called "Confidence package".

The National Bank of Poland started to support the liquidity of the banking sector in national currency through repo transactions with maturities up to three months. Credit and deposit operations carried out at the initiative of commercial banks were aimed at short-term liquidity maintaining, as well as the allocation of banks funds to one-day periods in the Central Bank. These operations prevented excessive fluctuations in interest rates on the interbank market [6].

In response to the caused by the global economic crisis significant deterioration of economic growth prospects in Poland and its trading partners, and the consequent expected decline in inflation in the medium term, the monetary policy Council started to apply stimulus measures. A significant easing of monetary policy caused a gradual increase in business activity in the Polish economy since the second quarter of 2009. From November 2008 until June 2009, the monetary policy Council cut interest rates six times. Refinancing rate of the National Bank of Poland was reduced from 6.5% to 3.5%, that is, to a historic low. In addition, there was the reduction in reserve requirements from 3.5% to 3.0% [7].

In the next months, the Monetary Policy Council kept interest rates at the same level. At elevated current inflation, real interest rate also dropped to historically low levels, and since March 2009 has been kept at a level close to zero. The continuation of the cheap money policy has helped to return the economy to the potential level of growth.

According to the new Polish legislation, budgeting process was concentrated at the local level, including more standardized and transparent ways to demonstrate local level revenue and expenditures – especially by forcing local governments to consolidate their budgetary units. This is extremely challenging to local agencies in Poland. For example, in 2007, there were more than 600 auxiliary units of local government budget and over 2,000 local government budgetary establishments, of which a significant (although difficult to quantify) part is subject to complete liquidation [8].

In our opinion, the Polish path will be enough effective in conditions of Ukraine's economy, because the stimulus measures will revive consumer and investment demand in the country amid the healthy banking system functioning that will overcome crisis phenomena and will cause further economic growth.

Also interesting is the experience of macroeconomic adjustment of the Baltic countries (***Estonia, Latvia, and Lithuania***) economies due to the need to overcome the deep economic downturn of 2008 and 2009.

Although the severity of the macroeconomic imbalances accumulated during the boom years differed in all three countries, there are important similarities, not only in the economic development of these countries in recent years but also in strategies to address these imbalances. This process is not yet completed; however, the experience of the Baltic States could be useful for macroeconomic adjustment in countries that do not have nominal exchange rate flexibility as a mechanism of regulation.

In the years immediately preceding the global financial and economic crisis, the Baltic economies grew extremely fast, which was characterized by strong capital inflows and accommodative macroeconomic policies. Despite the rapid economic growth, overly optimistic expectations and excessive credit growth led to a boom in demand in the domestic market, which ultimately proved to be unsustainable. This boom led to high inflation, in which wage growth significantly exceeded labour productivity growth, and this has significantly accelerated the growth of real estate prices and of a current account deficit.

When in late 2008 the crisis came, the imbalances in all three Baltic countries made the region vulnerable to the growth of the risk expectations and of the sharp reductions in capital inflows. At the same time, the collapse in world trade affected the status of the Baltic export. As a result of these financial and trade shocks, the Baltic economies suffered heavy losses. Therefore, real GDP in 2009 returned to around the same level that it was in 2005.

The banking system in all three countries has undergone different degrees of difficulties associated with financing. In Latvia, these contradictions led to the fall of several large commercial banks, which forced the authorities to seek international financial assistance in the form of a restructuring program led by the EU and the IMF.

Although there were some differences in terms of macroeconomic, fiscal and financial imbalances of the Baltic countries economies, all three countries have embarked on similar adaptation strategies. The key element was to maintain a strict fixed national currency exchange rate regime against the Euro. In addition, all the countries got benefits from the fact that the degree of the labour and commodity markets flexibility before the crisis was quite high, which greatly facilitated the regulation. Stabilization was achieved by a combination of macroeconomic policies and market mechanisms that are based, in varying degrees, on the following *four elements*:

1) *First*, in the absence of nominal exchange rate flexibility, any real rate difference had to be offset by cuts in wage costs, combined with a productivity improvement. Regulation of wages was carried out in the market (due to a sharp decline in the labour demand), and in the public sector, where the macroeconomic policy was aimed at reducing public expenditure on wages.

The balance of the labour market was achieved not only by wages reducing but also by employment reducing, working hours reducing, and restructuring of production processes. As a result, the cost of labour per unit of output has decreased significantly, partially offsetting the previous losses of enterprises.

2) *Second*, a significant part of budget expenditures was directed to the transition of the countries' financial status on a sustainable path, lowering sovereign funding needs and restoring confidence in the market. The budget balancing was achieved primarily by reducing of public expenditure, although it was also implemented by a certain taxes increase.

Further efforts were directed at strengthening the foundations of the fiscal policy implementation and increasing the budgetary procedures transparency. As a result, in Estonia, in 2010 there was a slight budget surplus.

In general, during an economic downturn, the financial state of Estonia has deteriorated less than in other Baltic countries, and its fiscal policy was quite prudent, and has been oriented to the medium term financial mechanism, which included, for example, strict adherence to the rules of a balanced budget and maintaining an effective system of tax collection.

3) At that time, as the Baltic countries were already considered sufficiently flexible in relation to the crisis, the *third element* of the balancing strategy in the structural reforms composition was the focus on increasing the level of market flexibility and further economic growth in the medium term by implementing the following measures aimed at the development of the labour and product markets, such as:

– amending labour laws to enhance the flexibility of the labour market;

– improving the business climate;

– simplification of tax administration procedures;

– supporting exporting companies;

– combating the shadow economy.

4) *Fourth*, the balancing strategy included measures to strengthen financial stability and reduce the debt burden of the private sector. Primarily the monetary authorities of the countries focused on the provision of liquidity in banks and (temporarily) the monitoring requirements reducing for immediate relief of the banks' burden in terms of deteriorating quality of banks' loan portfolios in the economic downturn. As a result, financial stability was maintained within the range acceptable for the economy.

Quite unusual was the Latvian experience. It shows that since the deployment of crisis phenomena the success can be achieved through non-traditional stabilization measures; it is important that these government measures were adequate and effective and responded to the situation that prevailed in the country. Therefore, the government of V. Dombrovskis in March 2009 proposed more radical economic instruments for the Latvian economy's stabilization.

To combat the recession, the experts of the International Monetary Fund recommended Latvia to resort to the devaluation of the national currency. However, the Dombrovskis government did not go for it, explaining its decision by the fact that since the 1990s the course of the lat was fixed (initially pegged to the IMF's currency basket, and after the accession to the EU – to euros), therefore, the proposed devaluation could significantly worsen the condition of the banking system. In addition, it would have vast negative consequences for business and people. Since the economy of Latvia was quite open, the benefits that Latvian exporters could gain from devaluation because of reducing the cost of production very quickly would have been lost due to the growth of prices for imported energy and other commodities [9].

According to the Latvian government, the devaluation of the national currency would have more negative impacts due to impairment of savings, reduction of wages and social payments, and unemployment growth in response to fiscal measures. Stabilization policy in Latvia stipulated, firstly, the VAT increase from 18% to 21% and subsequently to 23%. Secondly, to improve the budget balance expenses were reduced by 15%, which meant, primarily, the reduction of wages in the public sector by 25%, the rejection of public investments, reducing expenditure on education, science, culture, defence, healthcare system, the abolition of subsidies for agriculture. In addition, new taxes on property and wealth were implemented, as well as a number of other unconventional measures [10, p. 25].

Therefore, the priority objective of the Latvian government's stabilization policy was to ensure a stable exchange rate of the national currency. As noted Dombrovskis, owing to this approach, the cost of the banking system stabilizing was less than 5% of GDP, while according to preliminary IMF estimates, these funds could reach 15-20% of GDP. In addition, in their opinion, this was able to reduce the stratification of society, since the devaluation of the lat would provide benefits to the oligarchs at the expense of the poor. However, the policy of the Latvian government was differentiated: first of all, there was a reduction of large salaries in the public sector, while the reduction of wages in the private sector was only 6% [9].

Although Latvian officials believe that this macroeconomic strategy was successful during the crisis, for Ukraine, in our opinion, such a scenario is not desirable. As we know from the experience of the great depression, for the crisis escaping, it is more efficient for the country to use the stimulating fiscal policy. Thanks to this, the population and the enterprises get the possibility of recovery of their economic activity, which leads to aggregate economic growth in the country. At the same time, the restriction measures in Ukraine will only deepen the existing poverty and, therefore, will contribute to the production volumes reduction.

Economists at the International Monetary Fund in their post-crisis study outlined the general principles of the future macroeconomic policy taking into account the experience gained in dealing with crises. Today, these experts are much more restrained: the idea was that Central banks should move from an approach based mainly on one target and on use of a single tool (the level of inflation and interest rates) to approach with a large number of targets and instruments. Two years later the target set choice and the set of tools remain controversial [11, p. 4]. There are no convincing arguments in favour of expedience of targeting by central banks such variables as the level of business activity (output), the financial stability or the exchange rate [12].

Conclusions. The global financial and economic crisis of 2008–2009 years in varying degrees affected all the market economies in the world, so a study of the dealing with the crisis foreign countries' experience can suggest effective ways to overcome the negative processes and phenomena in the Ukrainian economy.

Stabilization of the *Polish* financial system occurred through a wide range of monetary and fiscal measures, the main ones were as follows:

– for reducing pressure on the monetary and financial markets and for maintaining the exporters' competitive position have implemented a flexible exchange rate and the devaluation of zloty;

– for economic growth stimulation and promotion of the domestic producers' competitiveness was carried out the reduction of certain taxes;

– provided a credit policy control.

Stabilization policy in *Estonia, Latvia, and Lithuania* was based primarily on these elements:

– cutting payroll costs in combination with productivity improving;

– lowering sovereign funding needs;

– simplification of tax administration procedures;

– increasing flexibility of the labour market;

– improving the business climate;

– combating the shadow economy;

– supporting exporting companies;

– strengthening financial stability;

– restoring the public confidence in the market;

– reducing the debt burden of the private sector.

As you can see, Poland in its anti-crisis activities was primarily based on the instruments of monetary stabilization policy, while the Baltic countries mainly used fiscal levers to influence the economy. The ultimate goals in the compared countries were also different: Polish officials have directed their efforts to revive the money market and to stimulate the economic growth, and the Baltic countries, first of all, tried to equalize the public budget imbalances.

Overall, it can be argued that there was no consensus among scientists regarding the degree of efficiency of monetary or fiscal policy measures during the tough financial and economic crisis and post-crisis recovery. However, if we compare the above methods, taking into account Ukrainian realities, more effective, in our opinion, would be the Polish approach to dealing with the crisis, because in conditions of the Ukrainian people total impoverishment the state should first conduct promotional steps for the fastest economic stabilization and stimulate effective demand to ensure economic growth in the country.

A promising direction for further research is an in-depth analysis of the macroeconomic stabilization policies impact in Poland and the Baltic countries and the practical adaptation of their achievements to overcome crisis phenomena in Ukraine.

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