

ECONOMIC THEORY AND HISTORY OF ECONOMIC THOUGHT

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INSTITUTIONAL SUPPORT ARRANGEMENTS OF LOW INFLATIONARY SPHERE

Theoretical questions and directions of institutional arrangements maintain low inflation environment. Considered analysis of the major deficiencies functioning institutional arrangements and identify areas of institutional change..

Keywords: inflation environment, monopoly, competition, monopolization, institutional arrangements.

Problem statement. High rates of economic growth based on upgrading and innovative development, advancement of modern, stable, open and globally competitive economy and improvement, on this basis, of the well-being of the people of our country is the necessary prerequisite for reaching the strategic goals of the economic development of Ukraine.

We can, with a high degree of certainty, to assure that nowadays there is a situation when inflation and, consequently, financial fragility, may not be overcome with the aid of just appropriate restrictions characteristic of standard programs of financial stabilization as inflation does not disappear completely but just changes its nature. Under such circumstances the price growth occurs due to a growth of supply. Regretfully, currently in Ukraine there exist real obstacles that, actually, preclude human development and make it impossible to raise well-being of households while the available living conditions do not meet world standards in such spheres as: living standards, supremacy of the impartial law, democracy and ecological safety.

The actual task of consolidation of the institutional measures aimed at supporting low

inflationary is based on the determination of the peculiar features of the institutional measures as applied to the inflationary environment that can be used when developing recommendations aimed at the stabilization policy improvement.

Analysis of latest studies and publications. Recently the problem of studying the institutional aspect becomes increasingly the object of studies and analysis of scientists. Theoretical and practical issues of the inflationary environment were partially reviewed in the works by such prominent scientists as O. Vasylyk, T. Vakhnenko, V. Geiets, A. Galchynskiy, A. Gryshchenko, O. Dzyublyuk, V. Kozyuk, I. Mykhasyuk, I. Lyutyi and V. Soskin. However, even now the scientists do not have a single opinion on the essence of contemporary inflationary environment.

Highlighting parts of the general problem that have not been solved earlier. In compliance with the Law of Ukraine «On the National Bank of Ukraine» the National Bank should, when executing its functions, base itself upon the priorities of achievement and support of price stability in the state. The main criterion of the successful monetary policy is supporting, in

the medium term (from 3 to 5 years), of low and stable inflation rate, which is measured by the consumer price index. The annual increment of the consumer price growth during 2013–2014 is to stabilize within 4-6% and, beginning from 2015, to be kept within 3-5%. Progress of economic and social reforms in the country may, in certain periods, result in the advent of objective situational fluctuations of prices on the market of consumer goods and services. Such fluctuations may result from structural changes in the economy, adjustment of certain prices and tariffs in accordance with economical substantiated levels, impact of essential external shocks, etc. Under such circumstances it is allowed that the consumer inflation growth indices deviate, to some extent, from the preset target figures. At the same time such deviation should not influence the achievement of the determined inflationary reference points in the medium-term perspective [1, p. 1-2].

Objective of the paper. The main object of this paper is to study and analyse the basic deficiencies in the institutional measure functioning and to determine the direction of institutional changes. Their further study and development of proposals will necessitate deeper analysis to be made both by the state and the scientists of various branches.

Presentation of the basic material. The last global economic and financial crisis proved that the price stability is the necessary but insufficient condition for achieving strategic goals of the economic development. Having that in mind and in compliance with the legislation of Ukraine, the monetary policy should also be directed at facilitating stability of the banking system (as it is the key factor in assuring financial stability of the state) and supporting the economic policy of the Cabinet of Ministers of Ukraine which is aimed at economic development. The National Bank will, within its competence, facilitate the higher crediting of the real sector of economy. The necessity to achieve these goals may not contradict the major objective of the monetary policy. Success of the National Bank's work in that direction will take place in combination with the results achieved due to implementation of the economic and financial steps taken by the government and on the basis of the criteria stipulated in the relevant

prognostic and program documents related to economic and social development.

The distinctive feature and essential economic achievement of the country in 2011 and in the first half of 2012 was the achievement and maintenance of price stability. During 2011 the consumer price index growth equalled 4.6% only while by the results of July 2012 it became negative and was -0.1% both before the beginning of the year and for the entire year.

Decline in inflation took place due to a complex of internal and external factors, the main of them being good harvest, deferral of the increase of tariffs for gas and municipal heating for population, improvement of the fiscal discipline (the deficit of the consolidated budget as to GDP decreased by 6.0% in 2010 and by 1.8% in 2011) and well-balanced monetary policy that limited excessive growth of the consumer demand and provided for the predicted dynamics of the currency market. Decrease of inflation encouraged macroeconomic stabilization and created basic prerequisites for intensification of the investments, conservation of the value of savings of population as well as for higher price advantages of Ukrainian producers due to favourable dynamics of the actual exchange rate.

Economy of Ukraine is characterized by a considerable level of openness. Therefore, the disturbances in the world economy are adequately reflected upon the economic development of Ukraine. Still, as distinct from many economically developed countries, Ukraine preserves economic growth – the real GDP 2011 increased by 5.2%, and in the 2nd quarter of 2012 – by 3.0% as compared with the corresponding quarter of 2011, which is due, above all, to the higher internal demand.

Decline in the situation on the global commodity markets also influenced the balance of payments dynamics. The overall of the consolidated balance of payments in 2011 and the first half of 2012 were negative and equalled USD 2.5 bln and

USD 1.1 bln, respectively. In 2011-2012 Ukraine did not receive credits from International Monetary Fund (IMF) and other global institutions (World Bank, EU) and had a limited access to other external sources of funds; in 2012 the country began to repay the IMF cred-

its and performed all other external obligations timely.

Under such circumstances the National Bank managed to minimize a decrease of international reserves that played a considerable stabilizing role during 2011 and 2012. As of 01.08.2012, the international reserves exceeded USD 30 bln (in equivalent) which is sufficient to finance the future import of goods and services during 3.3 months. The support of macroeconomic and financial stability in Ukraine was facilitated by conservation of the forecast condition of the currency market. During 2011 the exchange rate of UAH versus USD at the interbank currency market reduced by 0.84% only – to 8.0284 UAH/USD, and for 7 months of 2012 – by 0.48% – to 8.0669 UAH/USD.

The National Bank flexibly reacted to money supply so as to ensure balance between commodity and currency markets. Both in 2011 and in January – July of 2012 the money stock grew, to a large extent, due to active role of the money multiplication mechanism. It is true because we witnessed greater growth rate of the money stock increment (for 2011 – by 14.7% and for 7 months of 2012 – by 5.2%) as compared with the indices of the money stock growth (6.3% and 2.1%, respectively).

Peculiar features of the monetary policy were directly due to non-homogeneity of the macroeconomic dynamics. So, during the major part of 2012 positive trends in the consumer price dynamics were stabilized and the monetary policy was moderate enough. On the contrary, in 2012, with the positive trends in the consumer price dynamics, the monetary policy became stimulating. During this period it was characterized by a permanent use of measures aimed at facilitation of economic growth though creating conditions for active crediting activity of banks.

Stable currency unit and the measures aimed at development and strengthening of the banking system facilitated further extension of bank resources. The volume of deposits made by natural persons increased in 2011 by 13.1%, and for 7 months of 2012 – by 11.3%. The deposits in the domestic currency grew more rapid as compared to the deposits in foreign currencies.

The dynamics of loans is still unstable. While in 2011 the increment of loans issued by the real

sector banks was 14.9%, for 7 months of 2012 it reached 1.6% only. Such instability is connected, above all, with considerable external risks and uncertainty of further developments in the markets. Many countries try to settle the price stabilization problem on their own. To these ends they resort to various instruments that can be classified in a wide sense as:

- seasonal price stabilization when the price of harvested crops is made public before sowing so that the producers can better distribute their resources;
- price adjustment throughout the year in order to stabilize incomes of producers;
- price adjustment throughout the year in order to control inflation and maintain the steady level of the consumers' budgets;
- adjustment of export gains in order to stabilize proceeds to the state budget or support the exchange rate.

With a view of reaching the stabilizing effect, the following institutional measures are used: reserves of physical commodities; stabilization funds; various tariff schemes; marketing chambers; competition, de-monopolization; and deregulation.

The new institutionalization theory is based upon belief that for each society there exists the unique system of institutions, therefore the government is able to develop an action strategy that meets the requirements of the individual culture of the society and facilitate economic growth. That is why there no countries that are doomed to poverty; for each society it is possible to create such institutional boundaries that ensure economic growth in the long-term perspective. It is necessary to be ready for the difficulties arising from the «institutional change dilemma» as D. North called it. This dilemma means that rapid and radical institutional changes necessitate the appropriate informal institutions and ideological concepts, otherwise they will lead to societal chaos; slow and gradual changes are sabotaged by bureaucracy that obtains «corruptive rights». Thus, the new institutional economic theory launched by Douglass North, a Nobel Prize Winner, opens new possibilities to carry out economic studies. With the aid of its categories such as transaction expenses, institutions, organizations, institutional boundaries, institutional changes, «dependence of the way»

and «dilemma of institutional changes» it is possible to conceptually understand and describe those economic events that do not fit traditional economic theories. The most significant of such events is a transformation of the former socialist camp countries into the countries with market economies. The new institutionalism theory proper makes it possible to determine the strategy and priorities in reformation of the transitional economy countries.

Complexity of the studies devoted to events and processes of transitional economy is due to continuous development and never-ending changes of their features and properties. Economic reality and «economic tissue» of the society change permanently [2, p. 246].

V. Geiets remarks that at the beginning of the 21st century the emphasis has moved from the competitive struggle to competitive existence of an enterprise. Intensity of changes within a competitive environment makes any competitive advantage nondurable, i.e. establishment of competitive advantages should be permanent, innovations should succeed each other which is to be achieved by integration agreements to be concluded between economic entities [3, p. 4].

Competitive ability is achieved due to efficient use of the aggregate competitive advantages, and it is reflected in a low price, high quality and considerable volumes of production and sales.

Thus, under administrative command system an enterprise, even a single producer of a particular kind of product, is a monopolist just formally because it possess no actual self-dependence and monopolistic power neither in production nor in its sales. Monopoly of an enterprise is a form of the monopoly of the state [2, p. 247].

The enterprises that dived in the market environment aspired to gain maximum profits and bloated prices of their products. Buyers of raw materials, fuel, parts and semi-finished products which prices went up considerably compensated their price losses and included in their prices the monopolistically high profit. Catastrophic growth of prices put limits on the aggregate demand. The logical outcome of that situation could be a transition to the establishment of inter-sectoral complexes and inter-sectoral integration [2, p. 251].

In order to overcome a no-win situation in the economic policy it became necessary to apply other methods, that is, de-monopolization and antimonopoly policy.

V. Geiets [2] indicates that de-monopolization means a set of measures of the state economic policy aimed at de-monopolization of producers.

With a view of de-monopolization, introduced are: state regulation of natural monopolies, control of mergers and takeovers, transformation, liquidation of the existing market entities and acquisition of large stocks of shares.

The general condition of the environment may be determined with the aid of such groups of indices (factors):

1. Condition of the economy and markets (economic factors):

- economic situation and economic processes (including inflation or deflation);
- taxation system and quality of the economic legislation;
- scale of economic support given to individual sectors (enterprises);
- general situation of the domestic market;
- size and rate of growth or shrinking of the market;
- size and rate of growth in the economy segments corresponding to the company interests;
- situation on the stock market;
- investment processes;
- bank interest rates;
- pricing system and the level of centrally regulated prices;
- land value.

2. Activity of the government (political and institutional factors):

- stability of the government;
- state privatization policy;
- state control and regulation of the enterprise activity;
- level of protectionism;
- interstate agreements with other governments;
- governmental decisions as to provision of support to individual sectors;
- requirements as to provision of the adequate employment level;
- level of corruption in the government institutions;
- level of economic freedom of the state.

3. Structural trends:
 - sectoral structure of the national economy;
 - emergence of new sectors;
 - wind-up of old sectors.
4. Scientific and technical trends:
 - technological breakthroughs;
 - shortening or extension of the life cycle of technologies;
 - requirements to the scientific and technical level of production that ensures:
 - competitive capacity;
 - requirements to qualification of the personnel engaged in high-tech production;
 - requirements to scientific and technical level of competitive products.
5. Natural and economic component:
 - natural and economic conditions;
 - spatial distribution of mineral deposits and natural resources;
 - spatial distribution of big industrial and agricultural centres;
 - legislation concerning economic issues;
 - condition of the environment and its impact on production.
6. Trends in resource provision:
 - structure and availability of the national resources;
 - import/export;
 - deficiency level of the resources used by the available enterprises;
 - access to resources (prices and transportation costs).
7. Demographic trends:
 - number of potential consumers (population structure, changes in groups and of their incomes);
 - available and potential quantity of labour;
 - qualification characteristics of labour (labour quality).
8. Social and cultural component: acceptance/distrust to private business; relations between the enterprise and NGOs; attitude to foreigners; activity of trade-unions.
9. International environment: structure of the country's economy; nature of income distribution; average level of wages; cost of transport services; inflation and bank interest rate; exchange rate of domestic currency versus the partner country currency; GDP level' and taxation level.

A low-inflationary environment continues to govern in the Ukrainian economy. Such was

the declaration voiced by Mr. Oleksander Arsenyuk, Deputy Director of the General Department of Monetary Policy of the National Bank of Ukraine, when describing the situation in the money market in January 2012, the regulator's notice asserts.

«The National Bank in close cooperation with the government ensured performance of its main constitutional function – provision of the monetary unit stability and priority of achievement and support of price stability, – he said and continued that the Ukrainian economy is still governed by a low-inflationary environment: the increment of consumer prices index in January 2013 equalled 0.2% and, for the year, -0.2%». Low inflation is one of the main guarantees to protect private economic interest of each citizen of our country. It is also a guarantee that the strategic goals of economic development of Ukraine are achieved», – Mr. Arsenyuk said. He remarked that a stable monetary unit also facilitates a support of positive trends of monetary market development. Under restrictions the Central and Eastern Europe achieves progress by solving a considerable number of problems on the way to growth. The region adjusts itself to a slower growth rate of the trade partners, however there are, also, a certain signs that the business activity improves. Such were some basic results of the latest study made by CEE Quarterly and published by the Unicredit Department of Economy and FI/FX. Industrial growth improved recently while crediting is at its lowest level. External banking de-leverage considerably weakened in the young ERU countries. Actually, the years preceding 2008 were unique as to growth but its models will not reiterate. Instead the Central and Eastern Europe countries introduce «new standards». The region is still conquering the low level of external demand and limited foreign capital investment.

Similar to the production sector, improvement is being manifested through better influence of crediting the domestic demand, however this process takes place step-by-step and is rather scattered across the Central and Eastern Europe countries. «External de-leverage slowed down considerably while in the rich countries we witness that the growth of deposits exceeds the growth of credits, which makes conditions

for the new credit distribution though this trend is materialized rather slowly in the young EU countries only», said Mr. Gillian Edgeworth, Chief EEMEA Economist of UniCredit. Bulgaria, Czech Republic, Poland and Lithuania became the only countries that exhibit positive growth of credits in the annual terms, though at a low level. Among the most important problems still there is a high level of bad loans and a lack of demand for credit.

In Hungary, Latvia, Romania and Croatia credit shrinking becomes slower while in Romania and Croatia the situation is still doubtful. Turkey and Russia are exclusions as the credit growth there is more considerable and the number of banks with foreign ownership is less. While the spread of new crediting in Turkey is being accelerated, its growth is inhibited because of restrictions of financing and regulatory difficulties.

Such improvements in the industry and credit environment are combined with low rates of fiscal consolidation. The budget balance in many countries has no problems, the most essential improvements being recorded in young countries of the EU. Czech Republic, Hungary and Romania, for instance, were able to keep their structural budget balances at 3% GDP level. Many countries slow down the consolidation so as to support the business activity. However, further consolidation in such countries as Croatia, Slovenia, Serbia and Ukraine is necessary in connection with weaker fiscal indices and a threat to exceed deficit figures [4].

Fortunately, the current inflation environment gives certain countries a chance to ease their monetary policy. Inflation pressure decreased due to lower oil prices and regulated prices. Moderate inflation of prices for products, in combination with the expected good harvests, also creates less problematic environment. Many countries have already implemented important measures to achieve fiscal consolidation, therefore the taxation steps will make a lesser threat of the inflation growth. However, same as in the other sectors of the economy, the vivid considerable differences in the regions are within the power of the central banks that can bring total inflation in accordance with the target figures. As far as Czech Republic and Poland are outside

of the target, Turkey and Russia struggle against the exceeded inflation figures.

Negative conditions of the external financing are the initial risks for renewal. As far as the global appetite for the risks subsided, more limited inflow of external capital to the countries of Central and Eastern Europe will take place. Under conditions of a considerable outflow to the regions the risk of paying debts by the countries with high prices increases. And again, a considerable differentiation among the Central and Eastern Europe countries is noticeable. In Poland and Turkey the external portfolios are rather big. Croatia and Lithuania also depend on external inflows.

Accumulation of gold and currency reserves did not coincide in time with the capital inflow. The majority of central banks did not approve of the reserve accumulation policy so that it can coincide with the capital inflow.

Though there is an improvement in the regional activity and the inflation pressure upon central banks weakens, the financial stability risks should be revised by each country – again, it should take place through a considerable differentiation inside the region – in various monetary policies and actions. Monetary policy will facilitate relaxation in those countries that have already made steps to achieve inflation goals and create financial stability, i.e. in Poland, Hungary and Czech Republic. «Tentative renewal which we see in the industry across the entire region is risky because of less favourable conditions of external financing, therefore the issue of building up buffers is of the utmost importance», – Gillian Edgeworth stated. Plenty of countries feel a lack of gold and currency reserves and the negative internal and external preconditions present a risk for the fiscal systems. The Central and Eastern Europe countries need anchors in order to have a chance of stabilizing their financial environment. Some of these anchors can be IMF programs or a bank union within the EU that can raise the level of trust in the financial systems [4].

Conclusions and proposals. We are of opinion that the evolutionary turns in the scientists' views on the methodological factors of competitiveness and formation of the competitive policy have radically changed the understanding of the role of monopoly in the competitive environment development.

Monopoly was recognized as the main subject of international activity. Integration of Ukraine with other states at the regional level with a view of improving mutually profitable economic and political relations with neighbouring countries may become the way to increase competitiveness. Deregulation envis-

ages improvement of methods of state influence on the societal reproduction mechanism and on reduction of the administrative and legal regulation of economic relations taken in combination with the measures aimed at lower interference of state bodies in the entrepreneurial activity.

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