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Economic Theory

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EXPORT-BIASED GROWTH AND PROBLEMS OF DOMESTIC MARKET IN POST-SOCIALIST COUNTRIES OF THE BLACK SEA ECONOMIC COOPERATION

Abstract

This paper analyses the dynamics of foreign trade, real GNI and relative purchasing power parity in the Black Sea Economic Co-operation countries. The stable growth and sustainable economic development of post-socialist BSEC countries requires rejection of export-biased growth pattern and transition to expansionary expenditure-changing policy for domestic market enlargement, local currency appreciation and international public labour cost-based industrial relationships. Relative purchasing power parity may be used as additional indicator in application to expansionary expenditure-changing policies for price and monetary policy amendment.

Key words:

Black Sea Economic Co-operation (BSEC), export-biased growth, domestic market stimulation, expansionary expenditure-changing policy, high-quality growth.

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1. Introduction

Integration into the world economic relations requires a profound transformation of national economic of the post-socialist countries of the Black Sea economic cooperation. International distribution of the social work as a supreme form of organization has become a base for a global economy that secures the increase of effectiveness in all spheres of production and turnover. At the same time, a productive specialization extension with the expansion of all the foreign trade relations in every country, is an objective economic law of the productive forces.

The insufficiently learned foreign trade development and the monetary regulations as well as their influence on the domestic market and the alteration of the GNP in the new type of economies – post-socialist transients, represent new area of economic science. The most dynamic developing countries will determine the directions of the economic policy adjustment in the post-socialist countries of the BSEC.

2. Export-Biased Growth and Decrease of GNP in the Countries of the Black Sea Economic Cooperation with Transition Economy

Liberalisation of trading, price and monetary policies, privatisation of state property and a structural reorganization of financial system were determined as the economic priorities of the market transformation in the post-socialist countries of the BSEC.

Liquidation of a centralized management in economy was purposed to secure the expansion of the foreign trade relationships, production growth, and high level of living standards. However, lack of order and systematisation in carrying out reforms caused economic crisis, and aggravation of social problems.

Mechanism of foreign economic relations in the socialist countries before the market transformation had been regarded as a complex of forms of the organisations, instruments and methods of centralized management for the international exchange of the national production outcomes being combined with the partner's foreign trade economy through administered exchange rates.

Under conditions of the state monopoly for foreign trade and price-fixing, this mechanism did not influence much to the formation of the national cost of a social activity product, and did not interfere to the safety of the equalizing wage system. Along with the reformation of transition economies character of correlation between national production and foreign exchange has been altered.

A rapid liberalisation of trade during reforms of the monetary relations internal system predetermined the reorientation of traders on the foreign markets. This with a simultaneous decline of a solvent demand for unprofitable goods and service has become one of the reason of economic crisis, and decline of living standards of the population.

Expansion of the foreign economy orientation with non-effective market mechanism of the national product re-distribution broke existing ratio between the work payment in the sphere of production, and in the rest sectors of economy. Within the former homogeneous national economic complex has emerged a misbalance between the level of export-oriented enterprises and majority of producers of the unprofitable goods and services.

Public health care, education, agricultural sector, science, culture, and social sphere, as well as construction and municipal economy have turned out to be under the most unfavourable conditions. During 1992–1993 in the post-soviet countries of the BSEC salary of the state sector fall down to \$15–\$30 per month (market rate) [1]. The decline of population purchasing power has caused a total bankruptcy of the enterprises, growth of unemployment, and emigration of qualified labour force abroad.

Salaries and production costs that were fixed under the centralized planning conditions in the post-socialist countries were considerably different from those at the world market, where the objective autoregulation of the international exchange proportions, on the basis of the cost formed under the internationalization processes totality of the structural components of the market relations (production cost, commodity form of labour product, monetary system, etc.).

The use of absolute and relative state prerogatives in the global labour distribution is totally secured by means of an equivalent international exchange through the realization of an international cost of goods and service at the world market. However, in early 1990-s the internal prices for goods and service in the countries with the transition economy were considerably lower than the world ones. This predetermined the dumping export growth, while import was remunerated in accordance with the world prices.

Actually, an export-biased model of the economic growth has been realised in the post-socialist countries of the BSEC that has guaranteed developed countries appropriate hundred of billion dollars of income out of the non-equivalent-based trade. While with a balanced domestic policy these resources could be directed for the more efficient development of the countries with a transitional economy. A foreign trade orientation caused objectively a depression of internal production. A restriction of the export goods assortment brought to an excessive dependence of the post-socialist countries from the BSEC upon the world market competitiveness that endangered the national economic security.

Thus, an abrupt fall of world prices for Russian basic export goods – oil and natural gas was a reason of a financial crisis that caused default in 1998.

As it is shown in Table 1, all countries of the BSEC in 1990-s formed a group of states with an average (D_{exp} = 20–34%) and a high ($D_{exp} \geq$ 35%) rate of the national economic openness (according to the World Bank classification). Besides, all the economies of the BSEC countries, except Greece and Russia were marked with an increased dependence from import (D_{imp} > 30%). Taking into account the considerable part of monetary income used on import of oil products, natural gas and electricity in the majority of the BSEC countries, while the former are necessary for goods production, an increase of raw material export and low-processed production. It is actually a realisation of «a destructive growth». Exception is Albania that was the poorest European country before the market transition in 2000. The GNI per capita did not reach the pre-reformed level of 1990 in any of the post-socialist countries of the BSEC, and in Georgia, Moldova, Russia, and Ukraine kept decreasing even after the macroeconomic stabilization in 1996. (Table 2).

Table 1.

Structure change of foreign trade for goods and services in BSEC countries in 1986–2000

Country	Export share in GNP, D_{exp}%			Import share in GNP, D_{imp}%			Export-import coverage rate, D_{exp}/D_{imp}		
	Interim average		D_{exp} 2000	Interim average		D_{imp} 2000			
	1986–1990	1991–2000		1986–1990	1991–2000		1986–1990	1991–2000	2000
Azerbaijan[1]	22.8	28.8	40.9	36.5	46.9	38.4	0.62	0.61	1.07
Albania	15.8	21.6	21.8	18.8	37.8	40.1	0.84	0.57	0.54
Armenia[1]	35.0	20.9	21.3	46.3	54.2	49.7	0.76	0.39	0.43
Bulgaria	40.1	54.5	58.5	42.8	55.7	64.1	0.94	0.98	0.91
Greece	18.4	19.3	20.0	28.0	27.5	25.8	0.66	0.70	0.78
Georgia[1]	42.0	21.7	37.7	42.8	35.7	46.6	0.98	0.61	0.81
Moldova[1]	48.8	51.3	49.8	51.2	73.0	77.0	0.95	0.70	0.65
Russia[1]	20.1	33.8	45.9	19.5	23.9	24.8	1.03	1.41	1.85
Romania	21.1	29.0	34.1	22.0	36.1	39.9	0.96	0.80	0.85
Turkey	15.3	24.0	23.8	18.1	29.2	31.2	0.85	0.82	0.76
Ukraine[1]	29.9	48.7	61.5	30.4	48.9	57.0	0.98	0.996	1.08

Notice: Including trade among USSR republics.

Source: A World Free of Poverty. Countries at glance. The World Bank Group: http://www.worldbank.org/data/

Table 2.

Dynamics of GNP in BSEC countries in 1996-2000
(in comparable prices of 1995)

Country	GNP per capita, US dollar						Growth (downturn) GNP 2000/1990%
	1990	1996	1997	1998	1999	2000	
Azerbaijan	2190	490	510	490	460	630	–71.2
Albania	500	820	750	810	870	1120	124.0
Armenia	2040	500	530	480	490	520	–74.5
Bulgaria	3500	1210	1140	1230	1390	1520	–56.6
Greece	8900	11860	12010	11650	11770	11960	34.4
Georgia	2000	750	840	930	620	610	–69.5
Moldova	2170	540	540	410	410	400	–81.6
Russia	2650	2720	2740	2300	2250	1660	–37.4
Romania	2700	1560	1420	1390	1520	1670	–38.1
Turkey	2850	2940	3130	3160	2900	3080	8.1
Ukraine	2670	1070	1040	850	750	700	–73.8

Source: A World Free of Poverty. Countries at glance. The World Bank Group: http://www.worldbank.org/data/

3. Monetary Policy and Economic Growth in the Countries of the BSEC and EU

Capital outflow, hyperinflation, and non-market methods of the exchange rates regulation of the national currencies intensified a durable decline in the post-socialist countries of the BSEC. The reformation of the monetary and financial systems in the BSEC countries coincided with a formation of the European Economic and the Monetary Unions. In 1996, twelve European Union States accepted a limited flexible monetary rate within cooperative arrangements, and all the Baltic and CEE countries adopted a Unitarian structure of exchange rates.

A floating exchange rate was adopted in Azerbaijan, Armenia, Bulgaria, Moldova, Romania and Ukraine while in Lithuania, Slovakia, the Czech Republic and Estonia the rate was fixed to the leading trade partners – EU countries (exclude Austrian shilling, Finnish markka, and Swedish krona). A controlled floating monetary rate was adopted in Hungary, Georgia, Latvia, Poland, Slovenia and Russia.

The official and market exchange rates coincided, except those of Bulgaria, Romania, and Slovakia, where a relation of a reduced official US dollar exchange rate to the parallel market rate has correspondingly performed 0.8; 0.8 and 0.9. In order to prevent the abrupt currency fluctuations, Russia and Ukraine set up a currency corridor for a definite period, with the broad boundaries within which the exchange rate alterations were permitted. This provided the government and the Central (National) Bank with the free manoeuvres in the macroeconomic zone.

A transition from the multiple currency rates to the unified one in the post-socialist countries was dependent upon relation between a national monetary unit, and the convertible currencies. This process would correspond to decision of the actual problems of the transitional period in the interests of the national economy. As the result, the reduced rates of the national currencies were fixed and that stimulated a production in the export-oriented fields and protected the home market from the flow of cheap imported goods.

Among all the countries of the CEE – associated members of the EU a purchasing power of the hard currencies was the highest in Bulgaria and Romania, that secured the inflow of foreign currency due to million of tourists from Germany and the Northern European countries visited Black Sea resorts annually.

Let us analyse the change of relative purchasing power parity (PPP) of US dollar as an index of dynamics of the real effective exchange rates in the countries of the BSEC and EU, which are integrally linked by the trade relations (including the candidate-entrants 2004) during 1996-2000. (Table 3). The ratio of PPP $ppp/$usa is calculated as a relation of GNIppp of the country, measured with an account of a real purchasing power parity of US dollar to the nominal GNI in the national currency, convertible due to the methods of the World Bank «Atlas Method» for dollars, by the official weighted average exchange rate with the amendments of GNI deflators for the relative price changes registration of the investigated period in the given country and in the USA [2: 274].

Despite the obvious drawbacks in the theory of a relative PPP that do not take into account the difference in «the consumer basket» in different countries, a share of unprofitable goods and other important factors reveals a tendency of alteration in the official exchange rates of the national currencies. A world practice of the currency rates' management proved that the theory of a relative PPP is adhered to the long-termed prospect for the sold goods and services [3:90].

A dominant trend of the recent decade in the BSEC, the EU (except Great Britain) and in the country–candidates was the growth of the purchasing power of US dollar that influenced the competitive growth of the European goods on the American and world markets. Table 3 demonstrates a relation of PPP $ppp in the certain country to the real purchasing power of $usa that was in the transitional economic formations of the BSEC during the investigated period much higher, than in Greece, and other countries of EU, and had a tendency towards growth.

Table 3.

Change of purchasing power of US dollar in the BSEC countries, the EU and prospected member-states in 1996–2000

Country	Ratio $\$_{PPP} / \$_{USA}$					Growth $\$_{PPP} / \$_{USA}$, 2000/1996,%
	1996	1997	1998	1999	2000	
The Black Sea Economic Cooperation						
Azerbaijan	3.002	2.980	3.714	4.222	4.525	50.7
Albania	...	...	...	3.324	3.227	–2.9[1]
Armenia	5.024	4.302	...	4.510	4.942	–1.6
Bulgaria	3.927	3.386	...	3.561	3.662	–6.7
Greece	1.063	1.089	1.117	1.240	1.416	33.2
Georgia	2.353	2.357	...	5.816	4.186	77.9
Moldova	3.538	...	...	6.373	5.600	58.3
Russia	1.432	1.529	1.717	2.793	4.837	237.8
Romania	2.949	3.021	2.856	3.715	3.820	29.5
Turkey	2.065	2.054	...	2.112	2.275	10.2
Ukraine	2.571	2.086	...	4.189	5.300	106.1
The European Union						
Austria	0.774	0.786	0.847	0.917	1.043	34.8
Belgium	0.854	0.847	0.925	0.987	1.117	30.8
Great Britain	1.000	0.991	0.964	0.922	0.961	–3.9
Germany	0.750	0.754	0.805	0.884	0.998	33.1
Greece	1.063	1.089	1.117	1.240	1.416	33.2
Denmark	0.682	0.700	0.716	0.758	0.847	24.2
Ireland	1.000	0.916	1.000	1.001	1.109	10.9
Spain	1.046	1.083	1.141	1.195	1.282	22.6
Italy	0.957	0.997	0.998	1.053	1.168	22.0
Luxembourg	0.760	0.760	0.859	0.857	1.024	34.7
Netherlands	0.810	0.826	0.873	0.948	1.041	28.5
Portugal	1.291	1.324	1.345	1.429	1.526	18.2
Finland	0.780	0.788	0.841	0.892	0.988	26.7
France	0.810	0.839	0.895	0.933	1.034	27.7
Sweden	0.691	0.726	0.760	0.832	0.888	28.5
Prospected EU member-states for 2004						
Hungary	1.580	1.580	...	2.254	2.544	61.0
Cyprus[2]	...	...	...	1.538	1.597	3.8
Latvia	2.000	1.502	...	2.404	2.434	21.7
Lithuania	2.105	2.022	1.766	2.326	2.400	14.0
Malta	...	...	1.442	1.636	1.672	16.0[3]
Poland	1.688	1.777	1.728	1.993	2.150	27.4

Table 3.

Country	Ratio $\$_{PPP}$ / $\$_{USA}$					Growth $\$_{PPP}$ / $\$_{USA}$, 2000/1996,%
	1996	1997	1998	1999	2000	
Slovakia	2.117	2.122	...	2.733	2.973	40.4
Slovenia	1.288	1.293	...	1.523	1.727	34.1
Czech Republic	2.069	2.188	...	2.429	2.766	33.7
Estonia	1.558	1.505	...	2.249	2.654	70.3

Notice:
1. $\$_{PPP}$ / $\$_{USA}$ growth in 2000 in comparison with 1999.
2. Growth in comparison with 1999. The data do not related to the occupied by Turkey Northern part of Cyprus.
3. Growth in comparison to 1998.

Sources: World Development Report. Selected World Development Indicators 1997/1998; 1998/1999; 1999/2000; 2000/2001; 2002. –The International Bank for Reconstruction and Development. N.-Y., Oxford University Press, 1998–2002. – Table 1.

Purchasing power of US dollar significantly increased in Russian Federation and in Ukraine, which economy is closely tied with the Russian following the devaluation of Russian rouble and Ukrainian hryvnya instigated by the financial crisis of 1998. Certain consolidation of national currencies had taken place in Albania, Armenia, and Bulgaria, although the ratio $\$_{PPP} / \$_{USA} > 3$ as an indicator of national currency undervaluation for each transitional economy in BSEC in 2000 was on the same level as adequate indices of underdeveloped African countries [4: 233].

Non-euro EU member states (the Great Britain, Denmark, and Sweden) left their currencies overvalued ($\$_{PPP} / \$_{USA} < 1$) at that the overvaluation level of pound sterling increased by 3.9% in comparison with 1996. In euro area real purchasing power of US dollar reached near equality with the nominal one for Austria, Germany, Luxembourg, Netherlands, Finland, and France ($\$_{PPP} / \$_{USA} \approx 1$), only by little increased in Belgium, Ireland, and Italy, though significantly rose ($\$_{PPP}/\$_{USA} >> 1$) in Greece, Spain, and Portugal.

Average weighted (with account for each country in amalgamated GNI of considered group) values of ratio $\$_{PPP}/\$_{USA}$ in 2000 equalled 1.056 for the EU as a whole, 1.088 for the euro zone countries, and 0.941 for the rest three countries. In prospected EU member states the official exchange rates of national currencies were largely undervalued at that only Cyprus, Malta, and Slovenia succeeded to maintain the ratio $\$_{PPP} / \$_{USA} < 2$.

The decrease of effective currency exchange rate in BSEC region stimulated the increase of competitive power of the national light industry, agricultural sector, and the string of other industries on internal market. Export-import coverage rate increased in Azerbaijan, Armenia, Georgia, Russian Federation, and Ukraine (Table 1).

Depreciation of national currencies resulted in export growth and deficit cut of foreign trade balance while serious import decrease conditioned the production of its substitutes. In 2000, since the start of market reforms in all nine post-socialist countries of BSEC there was registered an economic growth, furthermore, in such countries like Albania, Azerbaijan, the Russian Federation, and Ukraine the annual rate of GNI surplus exceeded more than twofold over average world index of 2.9%.

Though, it is evident that the employment of a resource of devaluation pursuing both exports stimulation and protection of domestic market would be applicable exclusively in case of overcoming steep through the production: it is characterised as short-time measure and can serve as no tool of sustainable economic growth. The categories of export and import are related, thus securing preferential terms for exporters hinders the import extension of modern technologies and production equipment, the absence of which greatly incapacitates the stable economic development of BSEC countries. It could be surmised that the optimal choice for the entire economic life of a country after the elimination of discrepancies in monetary and credit sphere proves to be the policy of national currency consolidation under flexible exchange rate.

It should be mentioned that the enlarged spread in fluctuation rates of purchasing power of currencies of the EU member states and those of prospected member states gravely obstructs the convergence of currency and finance systems of post-socialist states of CEE and EU. This challenge of transformational period was rather unexpected, because of the inflated certitude in the process of signing up «the European covenants» with Central and Eastern European states and Baltic states. This implied brisk formation of currency and finance systems of Western example in these countries on the basis of market-driven evolution of mutual economic relations.

The solution of the problem turned out to be both more arduous and farther extended in the future. It is not excluded, that the necessity of establishing a special co-ordination mechanism of currency policies, in a sense «East European Currency Institute», could arise following the expansion of EU in order to provide the interrelation of currency and finance systems of EU-15 and new members of the Union.

The purchasing power of currencies of BSEC states with transitional economies is still afflicted by the longstanding inconsistency of fluctuation scale of official exchange rates, inflation, and GNI surplus.

Expressive disproportion is still bearing effect upon both national and international labour and production prices and respective prices of goods and services. On the other hand, one of the topical problems of currency regulation appears to be the spread elimination between nominal exchange rate of national currency as the principal link, which unifies national economic complex and real purchasing power of freely convertible currencies.

Smooth revaluation of national monetary units, which corresponds to the growth rate of GNP and is accompanied by forward growth rates of real wage should also facilitate decrease of nominal worth of external debt servicing (in national currency), improvement of state investment rating, and rise of market capitalisation of economy.

World market as a sphere of interstate exchange exerts critical influence upon the formation of price, quantitative, and qualitative parameters of aggregate demand and aggregate supply of goods and services. Taking into account the fact, that international cost acts as an economic medium of settlement the contradictions between national and international social work in structurally integral system of world economy, its higher priority in respect with the national cost should be admitted. It is clear that more than a threefold spread between national $\$_{PPP}$ and international $\$_{USA}$ purchasing power of US dollar signals about the exigency of thorough structural reformation of economy and the increase of social work efficiency in each of the nine post-socialist countries of the BSEC.

At the same time, high levels of ratio $\$_{PPP} / \$_{USA}$ demonstrate the expediency of foreign investment into the production of export goods in these countries. On the other hand, if to look into the international and national costs as a whole and as a particular it could be postulated on the existence of special regional international cost in scopes of the BSEC, which fairly tends to the global economic development by means of restrictive effect exerted on the growth of world prices via supply of cheaper goods and services from exporting countries of BSEC.

It could be easily conceived, that relative PPP can be also considered as an integral quantitative ratio of structural disequilibrium of national economy and of a level of market competition imperfection in a given country in comparison with the USA, as well as it could serve as an additional price landmark in the correlation process of monetary policy and perspective planning of state price strategy.

4. Domestic market enlargement as the stability basis for the economies of post-socialist countries of BSEC

The trends of objective economic processes are defined by the combination of factors of chaotic endogenous evolution and socially organised development, that is why the enforced role of a state in organisation of social labour is a necessary condition of implementing the anti-crisis potential in a transition economy [5].

It is apparent, that exit from exclusive circle of current ineffective system of «export for export itself» would be possible only under the condition of active state stimulation of production for domestic market needs and elimination of disproportion that exist in market self-regulating mechanisms. This could be done by means of purposeful increase of real purchasing capability of population and consolidation of national currency exchange rate.

Priority-driven development of domestic market and elimination of deformations in systems of labour remuneration on the basis of approach to the international cost will facilitate the GDP growth, socially acceptable redistribution of national income and guarantee state economic security.

The effectiveness of such policy is proved by the experience of Greece, which introduced certain particularities in its economic strategy since 1980 as the new EU member. Greece introduced following steps; combination of production growth of export goods and simultaneous priority development of domestic market at the expense of budget financing of national and regional campaigns and tax stimulation for the creation of new workplaces [6].

The drop of foreign trade in GNI accompanied the growth of the absolute amount of production and export from 39% in 1980 to 34.4% in 2000 along with increase of domestic consumption. Twenty years span marked off the declining share of Greece in world goods trade from 0.27 to 0.17% in export and from 0.54 to 0.42% in import. Although the state debt reached 115% of GNP in the middle of 1990s, budget deficit stroke 23.2% of GNP in 1990, in the long run the country managed to secure stable economic growth in view of rather high inflation rates (average annual GNP deflator equalled 18.0% during 1980-1990 and 10.1% in 1991–1999).

The strengthening of specialisation in key export industries (navy, tourism, and agricultural sector) was accompanied by the creation of import substitution manufacturing capacities, which output flowed to the exports as the domestic market was being saturated.

Since 1995, the government entirely opted out of the external borrowing for coverage of budget deficit. Liberalisation of capital flow, low corporate taxes, and stable legislation allowed Greece to score premium positions in world investment ratings thus attracting domestic and foreign investment capital.

New economic strategy provided an environment conducive for steady GNP growth, improvement of balance of payments, stabilisation of financial market, and enlargement of state currency reserves from $ 4721 million in 1990 to $ 18122 million in 1999. Consequently, the budget deficit shrank almost threefold; inflation rate dwindled to a single-digit index; and Greek real GNP per capita scored $ 11960, thus it more than doubled during the EU membership. [2: 302; 4: 232; 7: 2–4].

Similar economic strategy was implemented in Ireland, where an economic boom was treaded by increased government spending for domestic demand extension along with liberalisation of fiscal policy and concessional taxation on foreign investment.

Growth rates of nominal GNP equalled to 10.1% during 1991-2000, which greatly exceeded inflation rates (5.9% in 2000 – the highest index in the EU). The rate of unemployment decreased from its pitch of 12.4% in 1996 to 4.3% in 2001 in comparison with 11.6 and 8.5% in euro area and 10.8 and 7.9% in the entire EU during the same period. During 1990–1999, real GNP growth rates of Ireland (in comparable market prices of 1995) overcame more than three times GNP growth rates of all over EU – 7.9 and 2.4% respectively [8: 164–179].

The experience of Greece and Ireland demonstrates that the inflation fuelled by increased demand does not constitute the threat for state economy, if GNP growth rates and growth of the population revenues constantly surpass the rates of price growth. Similar GNP and inflation ratio are characteristic for the most dynamically developing economies within past twenty years – Vietnam and China, where GNP growth rates accompanied by inflation rates of 16.8 and 8.2% respectively were more than three times higher than in developed countries (8.1 and 10.7% against 2.4%).

This corroborates the universality of objective laws for all types of economies and points out to the fallacious nature of pseudo-monetary ideas about the unfeasibility of securing fast and sustainable GNP growth without restrictive anti-inflation policy.

It should be stressed, there is no relation between the inflation rate and the rate of economic growth, though the juxtaposition of annual inflation rates and real GNP growth rates in USA, Japan, and fifteen afterward EU member states during 1960–2000 indicates that a typical, defined by the objective distinctions of a national economy and thus «optimal» level of inflation exists, that guarantees the maximal GNP growth rate.

In particular, the world most developed economies had the real GNP growth rates joined with a certain level of inflation during 1961-1970. Namely, the real GNP growth and the inflation level constituted in Great Britain 2.9 and 4.2, in Germany 4.4 and 3.8, in France 5.6 and 4.4, in the USA 4.2 and 2.2, and in Japan 10.1 and 5.7% respectively [8: 178-179; 306–307]. Afterwards, these economic growth rates were never exceeded under neither higher nor lower inflation rates.

The increase of GNP growth rates in BSEC countries with transition economies is feasible only under the sufficiently high «natural» inflation rate acting as certain «payment for risk». This is necessitated by the striving of economic units to raise, or at lease, to retain the achieved profitability level in the factual terms of imperfect competition. Steady development of domestic market is the basis for state economic security, thus the intensification of transition from the policy of restrained spending to the policy of demand stimulation, including the medium of constant raise of wages seems rather judicious measure.

Highly probable escalation of annual inflation rates to 7–10% would propel the demand up. Meantime, restrained inflation or even deflation would inevitably lead to the retarded GNP growth and afterwards even to the downturn that was experienced by Argentine, Japan and other countries with market economy. For the countries with transition economy, the case of Ukraine is a manifest example following the cut of inflation from 12 to 0.7%, which was chequered by intermittent strokes of deflation the GNP growth rate dropped from 9.1% in 2001 to 4.6% in 2002.

The American researchers delving into the analysis of implementation of various kinds of monetary and credit policy undertaken by the Federal Reserve System since 1975 and pursued the exit from stagflation, had come to the conclusion, that: «... suspension of inflation processes is so costly for the economic system, that the more apt economic policy in this case is the one, which precludes the full blossom of these tendencies» [9: 299].

Evidently, the inflation let aside all its expenses, which accompanies economic growth is preferential to the downturn unavoidably following strict monetary restrictions. The experience of forefront world economies indicates that the state budget as an intensification instrument for economic growth, attainment and securing of macroeconomic stability can be deficit, and the state debt can grow as well. In the USA, the debt exceeded 50% of GNI since 1987, though key American economists emphasise, that state internal loan «is, at the same time, a social asset» and «is not the vehicle of economic burden among generations», and the problems related to the budget deficit are «insignificant in comparison with utmost unfavorable alternatives of downturns» [10: 367–370].

5. Conclusions

Export-biased growth of foreign trade based on underrated national product cost of the social labour has exerted negative impact on the economic development of the post-socialist BSEC countries.

International cost that results due to the process of international economic relations act as a linking part that unifies national economies of all countries in the world economic system.

The laws of the global economy operation envisage the transformation urgency of productive relations in the post-socialist BSEC countries aiming to converge the national and international costs of labour, goods, and services, which requires the modification of their economic strategies and shift in priority to the development of domestic market.

The application of PPP and the indicators of its dynamics, as the supplementary landmarks for the correlation of monetary and budget policy, will increase the effectiveness of economic planning.

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