

**Globalization and Regionalization**

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**TRADE MECHANISMS OF 2008 – 2009
GLOBAL FINANCIAL AND ECONOMIC CRISIS
EFFECTS PRODUCED
ON TRANSFORMATION ECONOMIES**

Abstract

The pre-feasibility study is carried out of the effects the 2008-2009 global financial and economic crisis produced on the economic and social development of Ukraine, Russia, Poland, and Czech Republic. In particular, the effects of financial and economic volatility produced through trade channels are studied. The challenging areas of economic structures are detected in the analyzed countries. Specific attention is focused on the study of Ukrainian foreign trade imbalance, on the reasons of its origin, and consequences for the social and economic development of the country. The recommendations are developed on the mechanisms for equilibrating the Ukrainian foreign trade balance.

Key words:

Transformation countries, global financial and economic crisis, trade mechanisms, foreign trade imbalance, economic openness, financial shocks, public welfare, social standards, and devaluation of national currency.

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Introduction

While on the subject of volatility of international economic environment and its effects on socio – economic development of transformation countries, primarily we imply economic crises. In the context of our research, when we do not separate financial, exchange currency or general economic global or regional crises, we will focus main attention on the trade component of those negative economic phenomena. We will consider the macroeconomic imbalance of trade mechanisms as the reason of the country's problems of currency or stock markets, as well the trade channels for transmitting the crises of various types.

The global 2008–2009 financial and economic crisis is a current example of those mechanisms effects. Empiric analysis of its consequences is complicated by the fact that at the moment of its research we find ourselves in the process of its development, therefore, it is difficult to have final assessment of the crisis consequences. Nevertheless, grounding on historic examples of similar events and theoretical admissions, we shall carry out a pilot analysis of the development of this economic phenomenon in certain transformation countries, specifying its social consequences.

The most noticeable researches of economic crises are the scientific works by M. Kondratyev, A. Franko, I. Wallerstein, K. Minski, P. Krugman, Ch. Kindleberger, M. Obstfeld, L. Summers, and others. The researches of national and Russian scientists also deserve attention. Among them are these of A. Hryaznova, O. Vasylyk, K. Pavlyuk, S. Mochernyy, L. Drobozina, A. Yepifanov, I. Salo, I. Dyakonova, K. Rudyy, N. Zayats, V. Popov, M. Montes, A. Anikin, N. Reznikova, and others.

The analysis of the researches dedicated to theoretical aspects of crisis development enabled to assume that the main channels of the financial and economic crisis transmission in 2008-2009 throughout the Central and Eastern Europe is the financial market and trade relations. The widespread capital flow (not only speculative), that is observed in the majority of transformation countries heavily (significantly) tore up the foundations of their economic growth. Hence, this research focuses attention on trade channels of the financial and economic crisis transmission. Since the foreign trade of the majority of transformation countries is described with high index of openness, the aggravation of trade conditions on the world market, specifically that on the market of raw materials, originated the deterioration of trade balances statement, and moreover, alongside with the capital outflow it also caused the deterioration of balances of payments in transformation countries, which brought about the problems on the cur-

rency markets. The latter will be studied in this paper. Therefore, the main attention will be focused on the analysis of changes in the indications of foreign trade, balance of payments, currency market, and socio-economic indicators of macro-economic stability of the countries. Analysis of the named indicators could give a tentative idea about the rate of how the economy of the country is crisis ridden, and the scales of its effects on socio-economic area. Taking into account the technical difficulty of getting the operative statistical information, we will use certain prior estimates of main macroeconomic figures of four transformation countries that were published by respective official organs.

In addition to Ukraine, our analysis embraces its nearest trade partners Russia and Poland, and also Czech Republic as an example of the country which showed comparative firmness towards external disturbances of 2008. The choice of four examples (patterns) of transformation economies is stipulated, first, to make an analogue with the socio-economic situation in Ukraine to draw useful conclusions and use them for the development of recommendations on economic policy, and second, to have the operative statistic information freely accessed.

Russia

Russian economy, in comparison with other named countries, has rather great margin of safety against external disturbances. It is explained, primarily, by the scale of the system allowing to build up closed production and consuming cycles, which little depends upon exogenous ones from the point of view of the system of factors. To corroborate that statement we will compare the index of Russian trade economic openness, which in 2005-2007 made average 54.2% [1] and similar indices of other countries under analysis. Nevertheless, there are two factors which describe the peculiarities of the functioning of Russian economy, and those factors intensify the vulnerability of the country to external disturbances like global 2008-2009 financial and economic crisis. The matter in question is rather high, as against other transformation countries, level of financial (in particular, stock) market of Russian Federation. In practice it means the sensitivity of financial sector to any negative information, and probability of immediate panic response of foreign investors, that is the capital outflow. Though the implementation of governmental program of state and social partnership, having the objective to decrease the dependence of economic development of the country on foreign investments through replacing them with governmental funds of national origin, fairly succeeded the sensitivity of Russian economy, in the opinion of the majority of experts, still remains very high.

Another factor directly related to global crisis transmission through trade channels is a high level of commodity concentration of Russian export and other peculiarities of its pattern. Thus, the ratio of energy carriers and fuel in the commodity pattern of Russian exports in 2007 made 57.1% (computed by A. Savka

on the basis of the data received from [2]. In the conditions of permanent instability of raw materials market, and deterioration of global conjuncture it makes a considerable risk for emerging the trade balance disproportions of the country, and eventually it leads to instability on the currency market.

To corroborate the mentioned assumption we will present some figures, which, unfortunately are not full, and that raises difficulties in reflecting the integral picture of occurrences and in establishing the cause and effect relations. Thus, according to the Central Bank of Russian Federation the peak price for a barrel of oil «Yurals», that in July 2008 reached US \$ 129.3, in November fell to US\$ 50.7, which against the reasonable price of early 2008 (average price in January made US\$ 89.5) implies the reduction by 43.4%¹. That price collapse for the good making the principal export item, could not help effecting the absolute index of cost volume of exports, which after the July peak of US\$ 47.8 bln. gradually fell to 38.9 bln. in October, which in view of the price trend, can not be regarded as the lowest indication. It is worth noting, that the import adjustment does not envisage that dramatic response to the curtailing of exports, therefore, the yearly peak July index of US\$ 29 bln. awkwardly reduced by 2 bln. (making US\$ 27.0 bln.)

Unfortunately, at the moment of making the research we had no sufficient amount of operative statistical information to analyze the trans-border transfer of financial resources; therefore, we could not assess the scales of investors' response to the events related to Russian economy. Nevertheless, the figures of payment balance for the 1st through the 3d quarters of 2008 could demonstrate the uncertainty of capital owners to undergo the period of exclusive world economic instability with no losses. Thus, the account balance of transactions with capital and financial instruments for the three quarters of 2008 made US \$ – 31.0, 38.5 and – 12.6 bln., respectively [3]. While the traditional for many countries deficit of financial account in the first quarter could be explained with the completion of fiscal year, after which then comes the term for fulfilling the financial obligations before the foreign investors (dividend payments, reimburse of credits and investments made into short-term projects), and beginning of implementation of national investors' projects abroad, then the deficit in the third quarter, specifically after significant surplus in the second quarter, in our opinion, demonstrates the capital outflow connected with the increase of economic instability. The response of the rate of national currency, Russian rouble, to those

¹ It is good to understand that the market price of oil is a direct factor of contractual prices for other types of energy resources. Nevertheless, taking into account the peculiarities of realization of different kinds of power goods, immediate change of export cost parameters of other resources resulted by price collapse for oil, should not be expected. The major part of Russian natural gas is supplied according to the contracts that had been concluded in the prior agreed prices. Therefore, the full-scale consequences of world price reduction for oil should be expected in future, according to the expert forecast (see, for example, the prognosis of the World Bank experts on the completion of the price growth process for raw material, specifically, for power resources, that lasted for five previous years [26]).

events was more than predictable. The July official rouble exchange rate to US dollar making 23.45 roubles per one US dollar, which was well economically grounded, in November 2008 gradually decreased to 27.61 [4]. The initial important social consequence of aggravated balance of payments that is transferred through the exchange rate fluctuation is the increase of consuming price level. But in the condition of poor foreign economic openness of Russian economy, in our opinion, this mechanism effects are rather limited. The correlation between those factors that had to be manifested in their synchronous changes was not observed in the process of the analysis.

Poland

Poland is one of the East European countries, the economy of which fairly notably responded to 2008-2009 global financial and economic crisis. The analysis of accessible statistic information allowed revealing similar to the above mentioned picture of economic events. The aggravation of payment balance of the country manifested itself in negative balance that emerged in August 2008 and made US \$ 991 mln., and the very next month it grew up to US \$ 6858 mln. [5]. the expected outcome of that imbalance became the currency market response manifested in rather tangible devaluation of national currency – Polish zloty- specifically, in ratio to the US dollar. Thus, the July decrease of American currency to the ratio of 2.0674 Polish zloty for one American dollar was followed by gradual, but steady devaluation of zloty, and in December 2008 the exchange rate of Polish national currency dropped to 3.0610 zloty per one US dollar (as for 10.12.2008). With respect to the ratio of Polish zloty to euro, the similar picture is observed, but the difference is in the depth of zloty fall to euro [6]. We tend to see the reason of that in the trends of the world currency market where the American currency was made more firm as against the European one. Though the foreign trade of Polish economy is well open, the response of consuming market to the devaluation process was rather reasonable. Thus, the inflation of consuming price for three months of the last 2008 quarter (figures for December are not included) made only 1.3%, while that for 11 months of 2008 – 2.8% [7].

Coming back to the analysis of the reasons why the Polish economic system lost its external equilibrium. Available at the moment of this paper writing statistical figures show certain curtail of cost volumes of both exports and imports of the country in July through October 2008, which could hardly influence the state of equilibrium. Financial account demonstrates quite different dynamics; its amount of balance reduced from US\$ 7 434 mln. in June peak to 54 mln. in October.

The question arises either we can imply exclusively financial nature of global crisis transfer, which surely deteriorated the Polish economy. From the view that the rate of foreign trade openness against Ukraine and Czech Republic is much lower, making 81.3% in 2005–2007 [2], the hypothetic shock should be

lesser. Nevertheless, the drop in industrial production, which in November 2008 made 8.9% as against the similar period of the previous year, and was resulted, under Polish experts' evaluation, by the collapse in demand for Polish goods in other EU countries, specifically in Germany, which is the most important Polish trade partner, in particular, being the country of 25.9% of Polish exports [9]. Those events are expected to get somewhat late response of the official statistics, in particular, the indexes of the balance of payments.

Czech Republic

The analysis of the economic situation in Czech Republic, in our opinion, demonstrates other than three other countries under analysis, response to the world-wide negative events proceeding amid the global financial and economic 2008-2009 crisis. For many years the external macroeconomic equilibrium of the country had been supported by surplus of the balance of payments. Since 1993 the negative balance occurred only twice, i.e. in 1996 and 1997 making 22.5 and 55.0 mln. Czech crowns accordingly, and in 2002 the surplus of the balance of payments reached the record for all the new history of the country figure of 216.9 bln. crowns. At the same time, the trade balance deficit of the country was settled only in 2005, when for the first time commodity exports exceeded imports. The data of the Office of National Statistics in the Czech Republic for November 2008 demonstrate the reduction of the volumes of foreign trade, in particular, of exports by 4.3% as against the similar period of 2007, and of imports by 7.9% [10].

The account of transactions with capital and financial assets has a positive balance, which demonstrates that the investment climate in the country is favorable, and the country wishes and is able to receive the financial resources from abroad. The currency receipts estimated on the named account, partially cover the negative balance of current account that is created not only through foreign trade deficit, that was mentioned above, but also mainly because of the monetary supply outflow from the country for payment of dividends and credit interests [11]. Monthly analyses of the 2008 balance of payments in Czech Republic give grounds to assert that the Czech economic equilibrium was preserved. A minor growth of imports that was observed during the year resulted in its volumes exceeding exports in October 2008. The amounts of foreign investments inflow into the Czech economy during a year intensely fluctuated, nevertheless, the mass outflow of foreign capital was not observed. An interesting is the obvious fact that the capital owners, residents of the country were struck with panic. Thus, the figures of the payment balance in March and September of 2008 demonstrate that the process of the capital of national origin transfer abroad was activated. The scales of that short term phenomenon exceeding the indexes of February and August by four, and, respectively, three times, became the factors of pressure on the monetary market in September.

At the end of December 2008 the devaluation of Czech national currency in ratio to the June peak made 21.6% for the exchange rate Czech crone to the USA dollar, and 11.3% for the exchange rate: crone-euro. Nevertheless, the analysis of the yearly trend of currency crone to euro ratio gives no ground to speak about significant devaluation of crone, the exchange rate of which to euro decreased only by 0.86 crown, or by 0.3% against that in January 2008. The US dollar exchange rate in this case does not mean much, since its ratio to euro was corrected on the world market, which manifests the trend respectively the ratio of crone to dollar [12].

Analysis of the inflation rate dynamics of the consuming price does not demonstrate any negative response of the consuming market to the devaluation of national currency. According to the tentative figures of the Office of National Statistics of Czech Republic the yearly inflation rate reaches up to 3.7%. And the analysis of the monthly distribution of inflation load allows to reveal its main source, which is the increase in medical services charge by 30.7% at the beginning of the year, that in whole economic respect implies 3% inflation rate in January [13]. The only crisis consequence that was clearly observed at the moment of this research effecting the Czech economy was growth of unemployment rate by 1% as against that in June 2008 (in December it was 6.0%) [14].

Ukraine

Main attention in our research under understandable reasons is devoted to the analysis of economic and social situation in Ukraine that greatly suffered from the 2008 global financial and economic crisis.

Since the main mechanisms of the 2008–2009 crisis development are within the financial sector, the paper does not set an objective to make the comprehensive analysis of its reasons and outcomes. As it was mentioned, our attention is focused at the trade component both in negative phenomena of some last months, and in more substantiated analysis of the reasons for origin and consequences of imbalance characterizing the Ukrainian foreign trade for the last three years. In the conditions of high rate of functional openness of Ukrainian economy (97% [1]), the foreign trade plays far from the last role in the chain of transfer of negative financial and economic phenomena, that is observed in most of the world countries.

Yet today the obvious negative outcomes of financial and economic instability are significant drop in production in some, specifically in export-oriented branches of Ukrainian economy, shrink in the volumes of financial and credit resources on the domestic market, and panic devaluation of national currency. With respect to social dimension the outcomes of those economic processes is (or will be in the nearest future) the growth of unemployment rate, both official, and mainly hidden, also freezing, if not shrinking the rate of compensation the

labor costs, i.e. wages, decrease of the level of consuming crediting and price increase for imports that is a substantiate component of the consuming basket of an individual. We mentioned exclusively direct and inevitable effects which a lot of people will face with no account for the following:

- a) outcomes of probable extra reduction of production because of decrease of domestic demand and shrinking of accessibility to investment resources for real sector of economy, that leads to level decrease of social guarantees because of the problems of the state budget replenishment;
- b) problems of price rising of mortgage credits servicing (because of devaluation of national currency and because the main part of mortgage credits are pegged to the USA dollar), and others.

While analyzing the reasons and outcomes of financial and economic instability in Ukraine, we can surely assert that in addition to the problems of banking sector which are of financial origin, the essence of the problem is greatly hidden in imbalanced functioning of trade mechanisms.

Thus, in October 2008 the country for the first time faced the problem of double negative balance of payments (balance of advance of current transactions, and balance of advance of capital and financial transactions)². Having not resorted to more detailed analysis of the reasons for origin of negative financial balance of advance making US \$ 2.1 bln., we will thoroughly analyze the trade component of balance of payments. In October 2008 the negative balance of current advance made US \$ 1.9, that is, it grew twice as against the previous month. Though the situation with the balance of payments was unprecedented, which influenced the exchange rate of national currency and substantially shook its positions relatively main settlement currency in foreign trade operations of Ukrainian business entities – the US dollar, that situation was conditioned with the emerging of not typical for Ukrainian economy of the latest years negative balance of financial advance, the problems of foreign trade imbalance which were emerging for the last three years, played the role of negative environment.

The quarterly review of Ukrainian trade balance for 2004 through 2008 enables to reveal the trend to lead the rate of imports growth as against the rate of exports growth, which brought about the negative trade balance in the 2005 third quarter and its further growth (the second and the third quarters of 2006 are the exceptions). For the period under our analysis that state of things became the threat to national currency stability for three times, conditioning the negative balance of payments (i.e. in the 4th quarter of 2004, the 1st quarter of 2006, and the 1st quarter of 2007) [15]. Thus, it is obvious that the problems of Ukrainian foreign trade imbalance started not in the latest months of the financial and economic crisis, but much earlier. Nevertheless, enhanced by the worldwide negative trend, they acquired really crisis scales. According to the tentative figures of

² The exception is a minor negative balance of payments, that was observed in January 2008.

State Statistic Committee of Ukraine, the negative foreign trade balance of this country in January through September reached up to US \$ 14.3bln. against US \$ 6.7. bln. for similar period of 2007, and the coefficient of export covering the amount of imports in January – September 2008 made 0.86 [16].

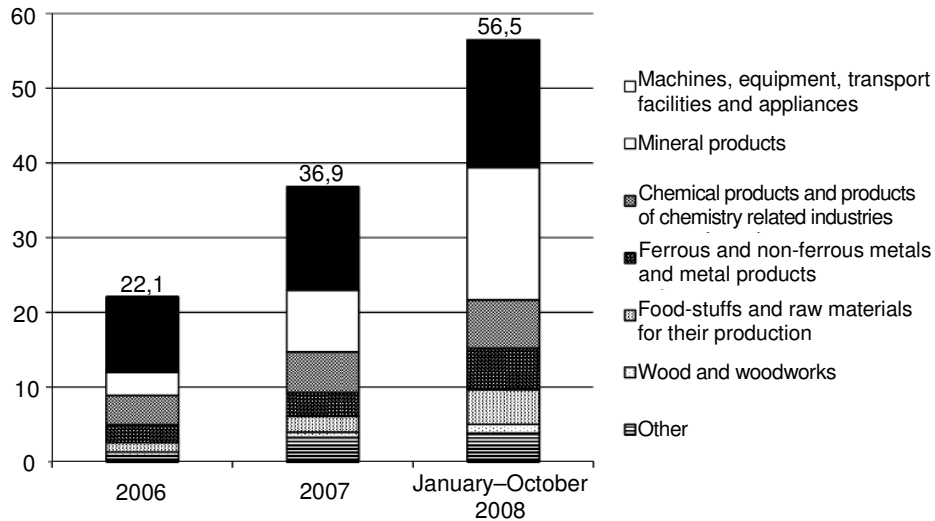
Because of great many of problems arising at high rates of imports grow to equilibrate Ukrainian trade balance in a medium term period, we need to make a deeper analysis of the composition of import component growth in foreign trade of Ukraine. For the last three analyzed years (2006–2008) the volume increase of consuming imports has been observed, specifically that of foodstuff, medicine, chemical products, and woodworks. The growth of consuming goods imports that occurs due to utilization of borrowed abroad credit resources, in our opinion is an extremely negative phenomenon, and even despite the obvious social effect of improvement of consuming, it demonstrates the signs of short-sightedness of national economic policy in this area. The expenditure of not yet earned future national incomes for consuming goods and services produced by foreign economies could be justified only in case of critical necessity to urgently increase the life quality of people, either under condition of guaranteed approach of «economic wonder». Proceeding from the above, the positive signal is the statistical information on the change of the import structure in 2007–2008 towards investment goods, which is resulted by the people's income growth slowing down, and accelerating of investments growth. In contrast to the volume growth of consuming imports, the investment import growth can imply the beginning of thorough process of re-equipment of capital assets of Ukrainian manufacturing. The import growth of investment goods, in particular, of engineering products, is accommodated to the increase of investments into basic assets, therefore, it could be regarded as efficient utilization of attracted capital in kind of credit and investment financial resources, since it creates the ground for speeding up the rates of economic growth (see fig. 1)

The contribution of the group «machines, equipment, transport facilities and appliances» that is the lion's share of investment import within total index of import growth, made 10.1% in 2006, (that is, almost half of 22.1% of aggregate import growth), 13.8% in 2007 (growth of aggregate imports – 36.9%), and according to the NBU tentative figures in January-October 2008 the import of the named group products provided 17.1% of aggregate imports growth.

The growth of cost volumes of energy carriers imports plays far from the last role in the process of Ukrainian foreign trade imbalance. According to the tentative data, the specific weight of this paper within the 2008 import structure makes 25%. The sixty percent growth of import volume of this group as against the indices of the previous year is conditioned by sharp rise of average prices (in particular, for oil and coal – by 80%, for natural gas – by 38.5%), which, eventually, is a prognosticated and inevitable consequence of transition to the world market prices, and also gradual refuse from the practice of political mechanisms of pricing in the area of energy carriers.

Figure 1.

Share of certain commodity groups in Ukrainian imports in 2006–2008
[17; 18; 19]



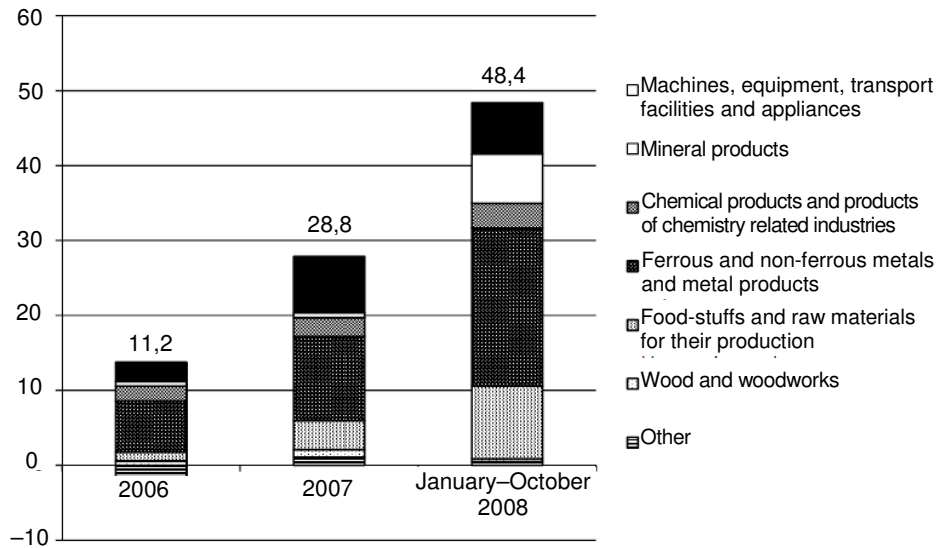
At the same time, the decrease of traditionally positive balance of trading in services is observed for the first time. Since in 2007 the trade in services grew by a quarter on account of similar contribution of both export and import growth, in 2008 the growth of services import made 41.7%, while export grew only by one third.

Alongside with abrupt growth of import component within the Ukrainian foreign trade, the export indices demonstrate lagging behind.

In addition to considerable price rise for energy carriers, specifically for Russian gas, that was observed in early 2007 and 2008, the Ukrainian export in spite of the forecasts of some experts, could hold its position within the limits of price competitiveness. Increase of cost volumes of commodity export for the latest years made 11.2% in 2006, 28% in 2007, and 48% in January-October 2008 as against the similar period of 2007. Fig.2 demonstrates the contribution of certain industries into the total structure of export growth.

Figure 2.

Share of certain commodity groups for export growth in 2006–2008
[17; 18; 19]



The engine of exports growth for three latest years is metallurgical sector (26.6% in 2007), the ratio of which was 6.8% in 2006, 11.2 % in 2007, and 21% in not full 2008. As a result of that dynamic development the ratio of the industry in 2008 export structure reached up to 43.2%. At the same time, the highest rates of 2007 export growth were in engineering industry making 52.5% as against that of 2006.

Increase of cost volumes of metallurgic products export since 2006 correlates with the positive change of price conjuncture on the world market, which enabled to stop the price rising for energy carriers, and hold the Ukrainian export of metals within the limits of price competitive capacity. The export price rise for ferrous metal goods in 2007 was at the level of 26%, while the growth of physical volumes of exports made only 1.8% [20].

The main reason for reduction of the Ukrainian export volume in the second half of 2008 naturally was the deterioration of world markets situation because of the development of global crisis. The demands for physical volumes of traditional Ukrainian export except the agricultural products decreased. The producers of metal products were caught in a very tangled situation, since the demand reduction was accompanied with price collapse. It is worth noting, that the problems of metallurgy industry originate from abrupt curtailment of construction works that is observed in the majority of world countries. The problems of con-

struction industry, in its turn, are closely correlated with the hardships of world financial system, since building is one of the most capital-intensive industries of economy need substantiate crediting both the building companies, and consumers in kinds of mortgage credits.

Consequently, the main problems of Ukrainian export in a long term period, in our opinion, should be divided into two following categories:

1. Gradual loss of price competitive capacity of Ukrainian goods and services resulted by the following:

- a) dramatic price rise for energy resources;
- b) increase in wages within the process of general increase of social standards;
- c) excessive energy and labor intensiveness of Ukrainian export, and absence of labor productivity increase, also introduction of energy saving technologies, which had to support the above mentioned processes, or rather precede them.

2. Poor export structure, consisting in its excessive commodity concentration, and prevailing of instable commodity groups. The instable commodity groups are implied these, the prices and demands for which wide range fluctuate on the world market. These groups include, first of all, raw materials and low manufactured goods (in Ukrainian case, it is metallurgical products), agricultural goods, etc. It is worth noting, that the greatest demand is for industrial goods with high value-added rate.

Thus, the analysis of foreign trade in Ukraine for three latest years enabled to discover the following reasons for the growth of trade balance deficit:

- a) price rise for energy carriers;
- b) inflow of foreign investments, that started the mechanism of modernization of capital assets, which is proceeding on account for increase of importing the investment goods;
- c) increase of purchasing capacity of people, resulted by the increase of budget expenditures and socially directed, but not proved with real economic capacities, and with policy of the government in the area of public finances. At that, the consuming needs in a short term period are satisfied due to the growth of volumes of consuming goods and services import;
- d) change of the world markets conditions because of slow down economic growth, and of the beginning of global financial crisis.

According to the experts' estimates, the probable reasons of foreign trade imbalance are also the following: 1) complicated transformation of foreign trade policy in Ukraine, directed at adaptation to new realities connected to entering the WTO; 2) implementation of governmental program of preventing smuggling

(illegal import), in other words, official statistics began to control the real volumes of import, specifically, that of consuming goods imported on customs territory of the country.

Within the frames of this research it is worth analyzing the macroeconomic and social consequences of Ukraine's loss of external equilibrium. We will remind that the rate of Ukrainian foreign trade openness before the crisis according to the results of 2005–2007 years was at the level of 97.0%. Alongside with the shrinkage of exports and large-scale outflow of capital from the country, there was observed the production recession, also its slow down succeeding with recent reduction of both real wages and real incomes of people.

The available statistical information on the rates of real GDP growth illustrates negative effect of the crisis on the process of economic development of Ukraine. Thus, after a minor April economic slack by 0.3%, its growth reached 7.1% for the period from January through August 2008, nevertheless, soon this progress abruptly broke having reversed its path of motion. In the fourth quarter the Ukrainian economy entered the state of recession. The real GDP dynamics changed from 11% of growth in August into 14% of drop in November [21]. Computations of the Ukrainian Ministry of Finances show rather modest result of 3.6% growth for 11 months of 2008, which practically manifests the stagnation of the economy.

The first social outcomes of the financial and economic crisis in Ukraine manifested in October increase of officially registered unemployment rate, which in July–September made 1.8% of employable population. In October it grew by 1.9%, and in November reached up to 2.3%, which eventually is similar with that of 2007. According to the experts' estimations, the unemployment rate is tended to grow till at least mid- 2009, therefore, we should expect ever more negative social consequences.

Dynamics of people's real incomes growth computed under accumulation principle, from 23.4% in January 2008 gradually decreased to 19.2% in January–March, and to 12.4% in January–October (the latest available figure) [22]. The index of real wage as against the similar period of the previous year decreased twice as much: from 114.1% in January 2008 to 107.2%.

It is good to note, that the social consequences of the global financial and economic crisis of 2008-2009 are not determined exclusively with slowing down of growth, either with decreased income rate of people, with dynamics of unemployment, and consuming rates. Taking into account modern interpretation of the category of «human wellbeing», we should also allow for non-monetary component of the quality of life, the important element of which is supply of so called public benefits. Nevertheless, even the skimming assessment of their efficiency, consisting in the analysis of respective governmental expenditures, needs at least the information on the next coming budget.

The Ukrainian monetary market responded to the problems of payment imbalance of the country and beginning of the economic recession with intensive

exchange rate of hryvnya fluctuation to main foreign currencies towards its devaluation. Thus, the official exchange rate as for 31 September 2008 was UAH 4.85 per US 1\$, and UAH 6.98 per 1€. The collapse of hryvnya for October – December brought about loss of its value by 58.4% in proportion to US 1\$, and 55.6% – to €. The official exchange rate as for 31 December 2008 was UAH 7.70 per US 1\$, and UAH 10.86 per 1€ [23]. The monetary market occurred to be even more destabilized when the Ukrainian National Bank had switched to the policy of flexible exchange rate in order to partially solve the problems of foreign trade of Ukraine. That step was rather dictated with understanding that the Central Bank was not able to correct the disproportions of the gigantic scales with limited reserve monetary resources.

In the process of research we did not find sufficient grounds to assert that the change of exchange rate of national currency and hryvnya purchasing power were closely interrelated on the domestic market of consumer goods. Thus, for the three last months of 2008 which were marked with shocks on the currency market of the country, consuming prices grew by 5.3%, that looks natural within the general situation of the year (according to the 2008 outcomes, the inflation rate made 22.3% [24]). That is, it is fair to deem that in Ukraine the (ties) relations are stronger between internal factors, against the external ones, and price levels.

At the same time, abrupt change of national currency exchange rate was painless both, for people, and for economic entities. According to the NBU data, as for the end of October 2008 Ukrainian banks credited UAH 618.3 mlrd. into the national economy, out of which UAH 341.6 mlrd. (or 52.2%) were credits denominated in foreign currency (in general, in US dollars). If to refer to statistics of long term credit liabilities, the interest rate of currency credits in this segment makes 62.8% [25]. With respect to the composition of credit liabilities of national economy, we can assert that the fluctuation of Ukrainian national currency exchange rate produces negative system consequences for the solvency of economic entities. If to add the volumes of individual mortgage crediting, that is extended in currencies resistant to inflation devaluations, the consequences of the hryvnya exchange rate depreciation are taken as bitter.

Conclusions and Recommendations

The analyzed response of the main indications of economic and social development of four transformation countries in the period of transfer of the global financial and economic crisis to the Eastern Europe enabled to detect several regularities, the understanding of which will help to further study the reasons, the process, the proceeding, and the outcomes of the crisis on the basis of more complete and more accessible statistical information to come forth (appear) soon.

1. The analysis of statistical information illustrates the traditional scenario of transmitting the global financial and economic crisis from the centre of its origin that is located in highly developed countries, towards so called periphery of the world economic processes, including the analyzed countries of the Central and Eastern Europe. Grounding on the analysis of statistical indices, we can state that Czech Republic was the first to experience the intensification of macroeconomic instability, then it was Poland, and after it – Ukraine and Russia.

2. The 2008 crisis has acquired character of comprehensive economic phenomena, therefore its transmission occurs through two following channels:

- a) through the interaction of financial markets, in particular, the capital (investments) market, money (credits) and currency markets;
- b) through trade relations.

3. In addition to financial factors, the effect of which manifested in capital outflows of different volumes, the trade mechanisms of financial and economic crisis transmittance manifested in reduction of cost volumes of export in transformation countries as a response to the following:

- a) decrease of physical volumes of demands from trade partners;
- b) aggravation of the condition on the world commodity markets manifested, specifically, in price collapse in raw materials.

4. Reduction of the volumes of export, that alongside with the capital outflow reasoned the aggravation of balances of payments in the countries of Central and Eastern Europe, became the factor of pressure on the exchange rate of national currencies. The devaluation of national currencies in the analyzed countries, which had occurred within different scales, so far did not manifest in the inflation rate increasing for consuming prices, but produced other negative social outcomes. In particular, the consequence of significant devaluation of national currency in Ukraine and Poland was aggravation of serving the consumer credits, a considerable part of which was denominated in foreign currencies (in the US dollars and euro in Ukraine, and Swiss francs in Poland).

5. In the conditions of high level of foreign trade openness in the Central and Eastern European countries, the export reduction influenced the rates of economic growth and the rate of employment.

6. The analysis of the foreign trade response in the transformation countries to the aggravation of world conjuncture, and, in particular, the decrease of demand and price cutting testifies to different scales of the outcomes. We think it obvious that the rate of negative effect transmitted through trade channels is closely correlated with the commodity structure of the countries' exports.³ In ad-

³ Thus, in particular, the ratio of industrial products within the structure of goods and services export of Czech Republic in 2007 made 79.1%. The similar figure in Poland was 67.0%, in Ukraine – 57.6%, and Russia – only 17.5% (while 57.1% of Russian export

dition, an important factor determining the scales of transiting the negative world trends is the level of foreign trade openness of the economy.⁴

Proceeding from the analysis we have developed several recommendations on equalizing the Ukrainian balance of payments. An important stage in the process of searching for those mechanisms and ways of support for further development of the national economy should become the realization of two following positive facts:

1) prices in energy carriers will go on increasing in Ukraine till the moment of their complete depoliticization, and when the process of pricing will be switched to the market mechanism;

2) the growth of wages is an obligatory component of Ukraine's movement towards creation of socially oriented market economy of the European standard, which envisages the increase of social standards.

Therefore, the design and implementation of such mechanisms of development is required, which will ground on realization that the resources of development are exhaustible (it also refers to export oriented economic industries), and is based on the use of advantages of cheap energy carriers and cheap labor force.

In our opinion, the probable mechanisms for the Ukrainian trade balance equalization could become the following:

- a) activation of the energy saving technologies implementation into production to ease the pressure of price increase in energy carriers;
- b) increase of labor efficiency through introduction of technological and organizational innovations into the process of production to build the basis for ensured (economically grounded) growth of wages;
- c) support of the process of «natural» import substitution.

As we see it, the «natural» import substitution implies the implementation of production potential under conditions of meeting the quality standards of consuming goods and principles of effective use of the production factors. In other words, the establishment and support of the production of goods and services should not be the price for neglecting the economic feasibility. In this case, it would be impossible to implement the available competitive advantages of the country with the only aim in view – to oust imports. The process of the Ukrainian economic development has already passed the line where the strategy of import substitution was an effective method for supporting the high rates of economic growth.

makes energy carriers and fuel). Source: the authors' computations on the basis of data available in [2].

⁴ We will remind that in Czech Republic it makes 150.5% according to average data of 2006–2007 years, in Poland – 81.3%, Ukraine – 97.0%, and Russia – 54.2% [1].

In our opinion, the rational means is not the fight against imports, but accumulation of exports, based on proper exploitation of competitive long term advantages. Nevertheless, in the conditions of exclusive necessity, the alternative, though undesired mechanisms for equalization of trade balance by means of imports limiting could become the following:

- 1) refuse from accumulation of consuming standards;
- 2) rigid deficit free budget;
- 3) refuse from the policy of active priming of economic growth and inflow of foreign direct investments (in this case the priority of macroeconomic balance and sustainability over the development objectives are implied);
- 4) restoration of restriction mechanisms of customs policy (increase of customs tariffs and wider implementation of import quoting practice).

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