

УДК 336(477)+336(474.5)

THE ANALYSIS OF CHANGES IN COMPETITIVENESS AND FISCAL POLICY OF LITHUANIA AND UKRAINE IN THE CONTEXT OF CYCLICAL DEVELOPMENT OF THE ECONOMY**Stankeviciene Jurgita** - lecturer, Department of Finance, Faculty of Economics and Management, Kaunas University of Technology, Lithuania**Sineviciene Lina** – doctor of Social Sciences, lecturer, Department of Finance, Faculty of Economics and Management, Kaunas University of Technology, Lithuania.**Koshelenko Viktoriya V.** - lecturer, post graduate student, Department of International Economics, Donetsk National University, Ukraine.**Станкявічене Ю., Сінявічене Л., Кошеленко В. Аналіз змін в конкурентоспроможності та податково-бюджетної політики Литви та України в контексті циклічного розвитку економіки.**

Проведений аналіз показує, що рівень розвитку економіки Литви вищий, ніж у України, що призводить до підвищення конкурентоспроможності Литви. Ця ситуація призвела до стійкого економічного зростання і зниження витрат на уряд. Цей показник розраховується співвідношенням державних видатків до ВВП. З метою підвищення конкурентоспроможності основних литовських і українських урядів є підвищення ефективності бюджетної політики та стабільності. Це може бути досягнуто за рахунок підвищення ефективності державних витрат, боротьби з бюрократією та корупцією.

Станкявичене Ю., Сінявичене Л., Кошеленко В. Анализ изменений в конкурентоспособности и налогово-бюджетной политики Литвы и Украины в контексте циклического развития экономики.

Проведенный анализ показал, что уровень развития Литовской экономики выше, чем у Украины, что приводит к повышению конкурентоспособности Литвы. Такую ситуацию определил устойчивый экономический рост и снижение размера правительства, измеряемого отношением государственных расходов к ВВП. В целях повышения конкурентоспособности, главной задачей правительств Литвы и Украины являются повышение эффективности и стабильности налогово-бюджетной политики. Это может быть достигнуто за счет повышения эффективности государственных расходов, борьбой с бюрократией и коррупцией.

Stankeviciene J., Sineviciene L., Koshelenko V. The analysis of changes in competitiveness and fiscal policy of Lithuania and Ukraine in the context of cyclical development of the economy.

The article evidenced that the degree of Lithuanian economy development is higher as compared to Ukraine which leads to higher competitiveness of Lithuania. Such situation was determined by more stable economic growth and reduced size of government sector which is measured by the government expenditure to GDP ratio. In order to enhance the competitiveness of Lithuania and Ukraine, the main objective of governments is to increase the effectiveness and stability of fiscal policy. This can be achieved by increasing the efficiency of public spending, reducing bureaucracy and corruption.

Introduction. Under globalization of economic processes, it becomes increasingly difficult to define the boundaries of these processes in terms of individual countries or regions. Nevertheless, one of the most frequent issues that are raised currently at various levels is national and regional competitiveness, since it leads to the development of the global economy [21]. Importance of this issue is evidenced by the fact that various organizations calculate competitiveness indexes, positive changes in the competitiveness of a country are emphasized as one of the main merits in reports of

governments, increasing the country's competitiveness is included in electoral programs as one of the major goals, the reduction of regional disparities and improving their competitiveness is one of the main objectives of the European Union (EU), which gets a significant part of the EU support [14,15]. Moreover, scientists analyze in their studies how to assess the competitiveness more accurately and search for the reasons of its changes.

In the scientific literature, authors assess the competitiveness of a country measuring it with one or few specific factors, or integral sets of different factors. When applying different methods to measure competitiveness, some authors use macroeconomic indicators that reflect the macroeconomic environment, market conditions and environment (infrastructure) created to business [25, 9,20,23,2,24], others use micro-economic indicators that reflect efficiency of corporate governance, productivity, etc. [17], another try to attach less quantifiable, measurable indicators, such as social responsibility, tolerance, diversity, creativity [6,4,1]. However, most authors state that competitiveness is too complex to be evaluated by one or few indicators, therefore multiple factors or composite indices should be used for this purpose [18,4,16,5,22,7,21,8,19]. Such indices are calculated by various international organizations; however they use different models, select and group different indicators reflecting competitiveness therefore the results may vary [2]. In any case, all indices include and assess following main groups of indicators: economic situation of a country/region, government efficiency, business efficiency and infrastructure.

Despite the fact that the problem of competitiveness is widely assessed in the scientific literature, the main attention is given to the development of competitiveness' measurement models/methods, their evaluation and reliability. Significantly lesser part of the authors try to estimate reasons of the certain competitiveness level and its changes. Among such studies, the research of I. Macerinskiene and G. Sakhanova [12] should be mentioned; the authors found that the economy growth is one of the main reasons for the increase of competitiveness of Kazakhstan. The same reasons for the changes of competitiveness are indicated by Biro and Biro [3], who investigated the changes in competitiveness of Romania and Lengyel [11] who researched the Hungarian regions. V. Snieška and J. Bruneckienė [22], investigating the separate regions of Lithuania found that their competitiveness is determined by the economic situation, and G. Mačys [13] states that the regional competitiveness can be increased by improving the infrastructure. In order to fill a gap in this type of competitiveness' research at least partially, **the aim of this paper** is to evaluate the changes in competitiveness of Lithuania and Ukraine linking them to the changes of fiscal policy in the context of cyclical development of the economy. Changes in competitiveness are evaluated in conjunction with changes of the fiscal policy of analyzed countries in mentioned context as macroeconomic indicators and the environment are identified as one of the key determinants of national and regional competitiveness in the main part of the scientific literature. **Methology.** The authors have used theoretical (systematical analysis of scientific literature, comparison analysis, summarize analysis) methods in the article.

The Global Competitiveness Index (GCI) of World Economic Forum is used to assess the competitiveness of Lithuania and Ukraine as according to I. Macerinskiene and G. Sakhanova [12] this index includes more countries and wider analysis of data. The source of GCI is Global Competitiveness Index data platform [26]. The source of other data in this research is World Economic Outlook Database [27]. The sample includes data for the period of 2005 – 2012.

Analysis of the link between competitiveness and fiscal policy in the context of the economic cycle in the case of Lithuania and the Ukraine. According to World economic forum (2013a), there are three stages of countries' development: factor-driven, efficiency-driven and innovation-driven. Lithuania is in the stage of the transition from efficiency-driven to innovation-driven stage of development, whereas the Ukraine is in efficiency-driven stage of development [27]. Therefore the degree of Lithuania's development is higher. The higher degree of countries development determines the higher evaluation of countries competitiveness. The stage of cyclical development of economy in a country affects the country's competitiveness. The country's economic cycle development is represented by the changes of real Gross domestic product (GDP).

As shown in Figures 1 and 2, it was economic boom in analyzed countries until 2007; it has switched to the recession since 2008 in consequence of the global financial crisis and lasted until 2009. Although cyclical changes of economy in both countries were similar, it can be observed that the growth rates of the economy during growth periods were higher in the case of Lithuania. Lithuania's economic recovery was slower than that in Ukraine in 2010, but Ukraine's GDP growth rate slowed down more than Lithuania's in 2012. Figures 1 and 2 show, that despite the fact that the impact of the crisis on GDP growth rates in both countries' was very similar, Lithuania's economy growth rates were more stable than the Ukraine's.

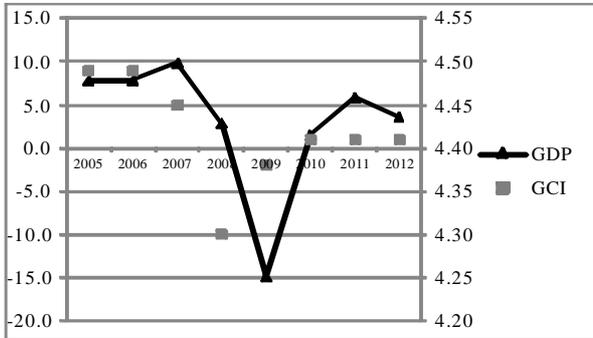


Figure 1. Changes of Lithuania's GDP (in percent) and GCI (in score)

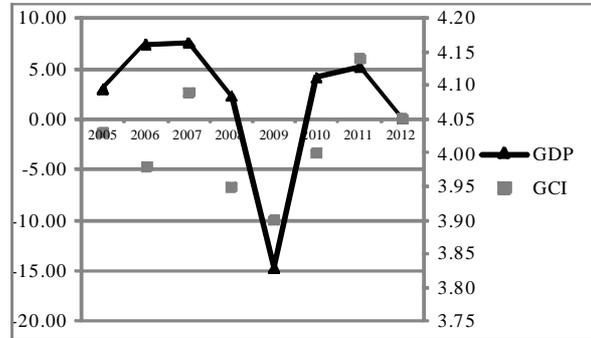


Figure 2. Changes of Ukraine's GDP (in percent) and GCI (in score)

Changes of GCI and GDP have shown that there is a high relationship between changes of these indicators in the case of Lithuania and Ukraine. The increase (decrease) of country's GDP determines increase (decrease) of GCI. Since 2010, Lithuania's competitiveness has not changed, while Ukraine's competitiveness increased in 2011 and decreased in 2012. These differences between countries can be explained not only by the changes of countries' economic conditions, but also by the fact that the political and institutional environment in Ukraine is more unstable than in Lithuania. Recent financial crisis has shown that the problems of public finance had a significant impact on the stability of the macroeconomic environment. Government cannot function effectively and contribute to improving the competitiveness of a country if it has to repay large debts and pay high interest rates. Low credit ratings of a country increase interest paid on private sector's loans, as credit risk of a country increases. Another important aspect is the size of government, which can be characterized by the ratio of government expenditure to GDP (GEXP). The higher the ratio, the more complex is assurance of the efficiency of public spending. Moreover, it will be difficult to ensure the previous level of government spending if revenues collected to the government's budget will decrease during the crisis. As it can be seen in Figures 3 and 4, government size in Lithuania was lower than that in Ukraine. GEXP in Lithuania increased from 33 percent in 2005 up to 36 percent in 2012. During the crisis, the higher decline of GDP has led to significant growth of this ratio in 2009 (up to 44 per cent), but when the economy was recovering this indicator gradually decreased. In case of Ukraine, fluctuation of GEXP was lower; nevertheless, the causes of fluctuations can be explained by variation of GDP in the case of both countries. However, the research results evidence that a clear link between GEXP and GCI does not exist.

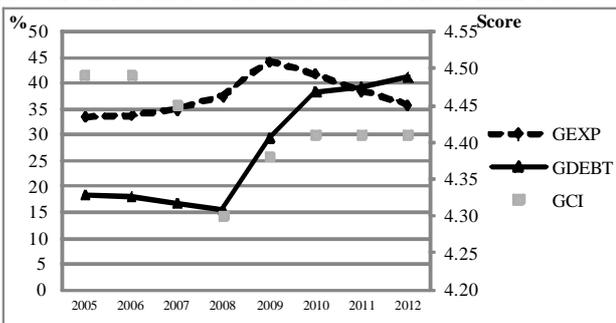


Figure 3. Lithuanian public finance indicators and GCI

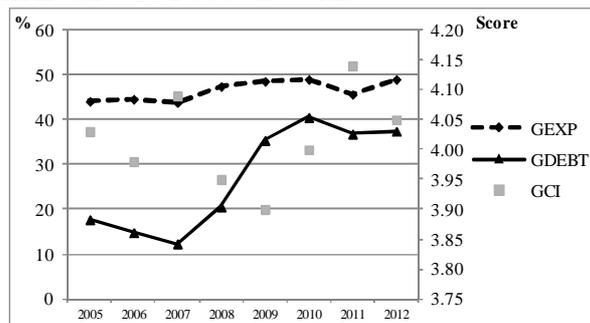


Figure 4. Ukrainian public finance indicators and GCI

Government debt (GDEBT) in Lithuania and Ukraine increased steadily during the period of 2005 – 2012; the growth rate of Lithuania's debt was the highest in 2009 - 2010, of Ukraine's debt was the highest in 2008 - 2010. In 2012, Lithuania's government debt amounted to 41 percent of GDP; Ukraine's amounted to 37 percent of GDP. The general government debt ratio indicates outcomes of fiscal policy of previous years; therefore the government budget deficit/surplus (see 5-6 figures) is very important indicator, which shows current year outcome of fiscal policy.

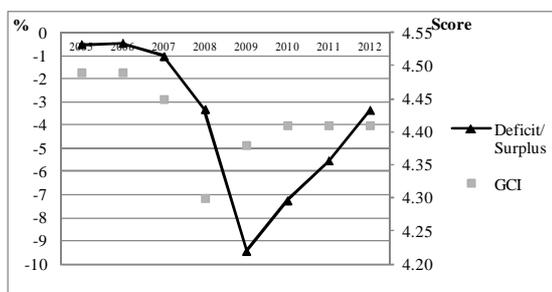


Figure 5. Lithuanian general government budget deficit/surplus and GCI

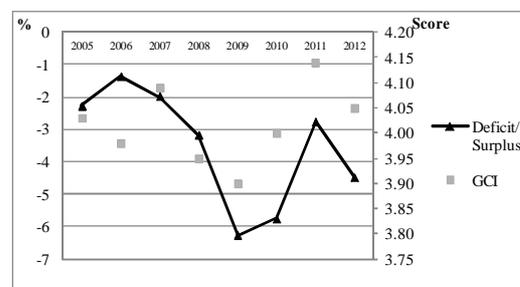


Figure 6. Ukrainian general government budget deficit/surplus and GCI

GDP and government budget deficit / surplus indicators in Lithuania and Ukraine show that governments of both countries have pursued pro-cyclical fiscal policy during the analyzed period, i.e. expansionary fiscal policy have been pursued in years of economic upturn and contractionary – in years of economic downturn. Ukraine, as well as Lithuania, has not been accumulated government budget surpluses during the economic upturn, and this has resulted in very limited possibilities for governments to pursue contracyclical fiscal policy during the economic downturn. Although Ukraine was able to achieve lower fiscal deficit than Lithuania in 2009 (Lithuania's budget deficit was 9 percent of GDP, Ukraine's – 6 percent), but the state of public finance in Ukraine was worse in 2012 if compared to Lithuania. The government budget deficit in Ukraine was 4 percent of GDP, whereas in Lithuania – 3 percent of GDP in 2012. Figures 5 and 6 show that changes of government budget deficit/surplus indicator, as well as changes of GDP, well explain changes of countries' competitiveness, i.e. when government deficit increases, the countries' competitiveness decreases.

According to World Economic Forum [26], the most problematic factors for doing business in Lithuania are: inefficient government bureaucracy, tax rates, restrictive labour regulations, tax regulations, access to financing and corruption, while in Ukraine – access to financing, corruption, inefficient government bureaucracy, tax regulations, policy instability and tax rates (indicators are listed in order of their importance). Therefore the key elements of fiscal policy, such as tax rates, tax regulations, budget deficit/surplus are relevant increasing countries' competitiveness.

Conclusions. The degree of Lithuania's development is higher if compared with Ukraine's. Lithuania is in the stage of the transition from efficiency-driven to innovation-driven stage of development, whereas Ukraine is in efficiency-driven stage of development. The higher degree of Lithuania's development determines the higher evaluation of country's competitiveness. The impact of the crisis on GDP growth rates in both countries was very similar, but economy growth rates in Lithuania were more stable than that in Ukraine. The analysis of GCI and GDP changes has shown that there is a high relationship between changes of GDP and GCI in the case of Lithuania and Ukraine. The increase (decrease) of country's GDP determines increase (decrease) of GCI.

Government size, measured by the ratio of government expenditure to GDP in Lithuania was lower than that in Ukraine. Fluctuations of government expenditure to GDP ratio were lower in the case of Ukraine; nevertheless the causes of fluctuations can be explained by variation of

the GDP in the case of both countries. However the research evidenced that a clear link between the government expenditure to GDP ratio and GCI does not exist.

Changes of government budget deficit/surplus indicator, as well as changes of GDP, well explain the changes of countries' competitiveness, i.e. when government deficit increases, the competitiveness of a country decreases. The most significant Lithuanian and Ukrainian governments' tasks seeking higher country's competitiveness are enhancing the effectiveness and stability of fiscal policy; it can be achieved enhancing the effectiveness of public spending, reducing the government bureaucracy and corruption.

References

1. Aiginger, K. (2006). Competitiveness: from a dangerous obsession to a welfare creating ability with positive externalities // *Journal of Industry, Competition and Trade*. Vol. 6, p.p. 161-177
2. Balkytė, A., Tvaronavičienė, M. (2010). Perception of competitiveness in the context of sustainable development: facets of "sustainable competitiveness" // *Journal of Business Economics and Management*. Vol. 11(2), p.p. 341–365
3. Bíró, B.-E., Bíró, B.-J. (2012). Analysis of the last decade's evolution of competitiveness in Romania through regional and sectoral lenses // *Romanian review of regional studies*. Vol. VIII, No 2, p.p. 15-28
4. Bruneckienė, J. (2010). Šalies regionų konkurencingumo vertinimas įvairiais metodais: rezultatų analizė ir vertinimas. *Economics and Management*. No 15, p.p. 25-31
5. Bruneckienė, J., Činčikaitė, R. (2009). Šalies regionų konkurencingumo vertinimas regionų konkurencingumo indeksu: tikslumo didinimo aspektas // *Economics & Management*. No 14, p.p. 700-708
6. Bruneckienė, J., Kilijonienė A. (2011). Lietuvos regionų konkurencingumo klasterinė analizė // *Management theory and studies for rural business and infrastructure development*. Nr. 1 (25), p.p. 60-69
7. Dudensing, R. M. (2008). Benchmarking regional competitiveness: the role of a region's economic legacy in determining competitiveness // *A Dissertation Presented to the Graduate School of Clemson University*. - <http://etd.lib.clemson.edu/documents/1233081370/umi-clemson-1847.pdf>
8. Freudenberg, M. (2003). "Composite Indicators of Country Performance: A Critical Assessment", OECD Science, Technology and Industry Working Papers, 2003/16, OECD Publishing - <http://www.oecd-ilibrary.org/docserver/download/5lgsjhyj7lbt.pdf?expires=1386008000&id=id&accname=guest&checksum=AB1F9D8372AB9D0FDB57546F0D660DA0>
9. Gapšys, A. (2013). Žemės ūkio sektorių tarptautinio konkurencingumo vertinimas // *Management Theory and Studies for Rural Business and Infrastructure Development*. Vol. 35. No. 3, p.p.376-381
10. International Monetary fund (2013). World Economic Outlook Database. - <http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>
11. Lengyel, I. (2003). Economic Growth and Competitiveness of Hungarian Regions // Paper prepared for „Reinventing Regions in the Global Economy“ RSA Conference, 12th – 15th April 2003, Pisa, Italy, p. 18
12. Macerinskiene, I., Sakhanova, G. (2011). National Economy Competitiveness of Kazakhstan Republic // *Engineering Economics*. Vol. 22 (3), p.p. 292-299
13. Mačys, G. (2008). Cohesion and competitiveness of regions in Lithuania // *Intellectual Economics*. No. 1(3), p.p. 41–50
14. Martin, R. (2003). A study on the Factors of Regional Competitiveness, 2003. - http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf

15. Moksliniai tyrimais ir inovacijomis grindžiamas Europos regionų konkurencingumas. Europos sąjungos teikiamų mokslinių tyrimų ir inovacijų finansavimo galimybių praktinis vadovas. - http://www.mita.lt/uploads/documents/leidiniai/praktinis_vadovas.pdf
16. Navickas, V., Malakauskaitė, A. (2010). Konkurencingumo vertinimo metodologinės problemos ir ribotumas // Business: Theory And Practice. Vol. 11(1), p.p. 5-11
17. Nurmukhanova, G. (2008). Competitiveness of National Economy: Problems of Regulation // E+M Ekonomie a Management, Technical University of Liberec, 2
18. Rakauskienė, G., Tamošiūnienė, R. (2013). Factors Influencing National Competitiveness // Business: Theory and Practice. Vol. 3, p.p. 177-187
19. Reiljan, J., Hinrikus, M., Ivanov, A. (2000). Key issues in defining and analyzing the competitiveness of a country // Tartu University Press, Working paper. - <http://infutik.mtk.ut.ee/www/kodu/RePEc/mtk/febpdf/febawb1.pdf>
20. Samoška, M. (2011). Verslo sąlygų vertinimo metodų analizė // Business in XXI Century. Vol. 3(4), p.p. 82-89
21. Simanavičienė Ž., Šimberova I., Bruneckienė J. (2007). Regionų konkurencingumo vertinimo teoriniai aspektai // Ekonomika. Vol. 77, p.p. 68-81
22. Snieška, V., Bruneckienė, J. (2009). Measurement of Lithuanian Regions by Regional Competitiveness Index // Engineering economics. No. 1 (61), p.p. 45-57
23. Tamošiūnienė, R., Staskevičiūtė, G. (2011). Nacionalinio konkurencingumo politikos formavimo praktika // Societal studies. Vol. 3(2), p.p. 487-503
24. Vilpišauskas, R. (2004). Tarptautinis konkurencingumas ir Lietuvos eksporto politika // Pinigų studijos. Vol. 1, p.p. 54-69
25. Žitkus, L., Mickevičienė, M. (2013). Konkurencingumas kaip regiono plėtros siekinys // Public policy and administration. Vol. 12, No 3, p.p. 430-441
26. World Economic Forum (2013a). The Global Competitiveness Report 2013-2014. - <http://www.weforum.org/reports>
27. World Economic Forum (2013b). The Global Competitiveness Index data platform. - <http://www.weforum.org/issues/competitiveness-0/gci2012-data-platform/>

Key words: competitiveness, fiscal policy, Lithuania, Ukraine, public finance indicators, economic cycle.

Ключевые слова: конкурентоспособность, налогово-бюджетная политика, Литва, Украина, показатели государственных финансов, экономический цикл.

Ключові слова: конкурентоспроможність, податково-бюджетна політика, Литва, Україна, показники державних фінансів, економічний цикл.

This research was funded by a grant (No. TAPLU 09/2012) from the Research Council of Lithuania