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POST-CRISIS DEVELOPMENT IN CENTRAL AND EASTERN EUROPE: SOCIAL AND ECONOMIC ASPECTS

This paper investigates trends in social and economic development in Central and Eastern Europe in the post-crisis period. The basic macroeconomic indicators in the countries of the region during the crisis and after. The composition of catch-up innovation strategy in the region.
Keywords: Central and Eastern Europe, the post-crisis development, the anti-crisis measures, exports, GDP.

Statement of the problem*. The real processes were involved differently during existence a financial and then economic crisis 2008 in the Central and Eastern Eur*

ope. This was due to this countries' economic opening and due to their financial system. The results of deal with the crisis and their social and economic effects were different. Thus, researching of positive and negative the experience of these countries represents the interest for learning and implementing it in Ukraine.

The last researches analysis*. The special features of economic crisis 2008 was researched by the different scholars and practitioners, especially in works of A. Halchynskiy, V. Geets, A. Zadoi, D. Lukyanenko, J. Makogon, R. Mundell, P. Marer, A. Hmiza and others [1-3]. This problem is relevant by the existence os economic and social processes in the world economy.*

The purpose of the article *is the researching of social and economic development tendency in the Central and Eastern Europe during the post-crisis period*

Statement of the basic material

Sequential and systematic economy changing of political and public life in Central and Eastern Europe provided an opportunity for sufficient integrating to the community of developed countries despite the current market deformations which remained after the socialist system.

The expansion of the European banks to the new countries in 2004 to 2007 made the external credits accessible by the EU members, and high credit dynamic becomes one of the important factors which implement the economic growth in these countries. The increasing rant loans was not accompanied by the quick increasing of the notional deposits, and this forced the national banks to expand the borrowing in maternal banks or in international financial markets.

The increasing of financial risks and also existence of liquid problems in the international financial organizations resulted the decrease on the influence of foreign capital to the Central and Eastern Europe, moreover the credit decreasing in the bank sector exits there only in the first quarter 2009. As a whole the credit influence for the bank sector and the market credit decreased from 6.5 percent GDP at the first half 2008 to 1.8 at the first quarter 2009.

In some Central and Eastern Europe the outflow occurred, such as in Lithuania (a reduction in 21 percent of GDP). Simultaneously in the first quarter 2009 debt of the *production enterprises and bank sector decreased, which also shows the reduction of new capital inflow [3].*

Decreasing of commercial activity in the Central and Eastern Europe was made by the restriction of bank crediting, especially in the foreign currency. This is most clearly manifested in the Baltic countries, where the credit dynamic was declined sharply in July 2009: from 60% in 2007 to the negative index (-1 percent), and also in Bulgaria and Romania – from 60% in 2007 to 10 percent. As for Poland, Czech Republic and Hungary, in these countries decreasing of bank crediting was significantly lower as in the last years the dynamic in these countries was about 2 times lower than in the aforementioned countries.

Simultaneously at the region countries was sharp weakening of the national currency. For example, Polish zloty in February 2009 was weaker than in July 2008: compared with the euro - on 50% and with dollar - more than 90%; Czech crown - by 30% and 60%, the Hungarian forint - by 35% and 70% respectively. It becomes the additional treat for the regional countries, whose debts in the foreign currency increased.

Another channel in the global regression which influences on the economic situation in Central and Eastern Europe becomes the foreign trade. Decreasing of the commercial activity at the main market partners led to a decline in external demand and hence exports. It is connected with strong economic opening of the region countries, which is represented as a part of export in GDP, which include more than 60% in 2008. Fairly high economy opening level of these countries makes them depended on the situation at the main market of the national production, compounded by the dominance in the geographical structure of exports of the EU-15(average more than 50%), which is in deep crisis, and in the case of Lithuania, Latvia and Estonia - Russia. Then the regression in EU countries – 15 and Russia influenced on the export dynamic, it is negative in almost all countries in the IV quarter of 2008(average -3.5%) and I quarter 2009 (17.5 percent). In addition, intra-relationships which dynamically develop in Europe, led to increased dependence of domestic production in Central and Eastern Europe under the foreign demand. Thus decrease of export accompanied by a decline in industrial production, which was in the first half of 2009 from 8.3% in Poland to 30.0 - in Estonia. [2].

It should be noted that despite the fact that these countries could not avoid the bad influence of the crisis 2008, but today it's negative effects are lower than in "old" Europe.

Total debt of Hungary, Slovakia, Poland, Romania and Croatia in 2009 at the nominal and relative terms amounted about 200 billion euro, when only in Greece it exceeded 300 billion euro, in Spain - 700 billion euro and Italy - 1800 billion euro. Today we can see the result governments' improper actions in dealing with the crisis impact in Greece, Italy, Spain and Portugal. At the same time the all Central and Southeast Europe and Baltic retained their national debt at less than 60% of GDP [5].

The reason of such results is that the countries accession in this region to the European Union was accompanied by active transformations in all the spheres of economic, political and social of countries life, what created the good base for the next economic development. The experts found the main factor of economic development in these countries, it is the productivity growth, which was 50-70% of the average GDP growth in 2004[6].

Economic indicators, which were in pre-crisis period, show us the stable and consistent development. The integral assessment indicator of market reforms and social development of these countries was developed by the Institute of International Economic and Political Researches (Table 1) [3, 5].

Despite the long overcoming process from the world economy crisis of the European Union, Central and Eastern Europe still have economic growth if to compare with many countries in Western Europe. For example Poland and Slovakia are enough confident compared whit their neighbors. Poland is only one country from the all Central and Eastern Europe where in the first most serious half 2009 GDP growth was 1.0%. In the other counties of this region at the same time was GDP decreasing from 4.1% in the Czech Republic to 18.8% in Lithuania.

Table 1

The economic indexes for the some regions in Central and Eastern Europe

Country	*GDP per capita in 2008 (USD)*	*Average GDP growth rate in 1989 till 2009*	*GDP per capita in 1989 (USD)*	*GDP debt ratio in 2010,%*	*GDP ratio of accumulated funds in 2008,%*
Hungary	*15326*	*1,19*	*3027*	*80,2*	*41,1*
Poland	*13839*	*2,81*	*2147*	*55*	*31,1*
Slovakia	*18249*	*2,37*	*3351*	*41*	*49,2*
Czech Republic	*25398*	*1,58*	*7590*	*38,5*	*53,2*

The peculiarity of these regions' financial integration into the European Union is the domination of banking groups of EU countries-15.

During the crisis period the main banks of EU-15 countries had the serious problems with liquidity and capital outflows, market instability, which significantly aggravated after the Lehman Brothers collapse. The mechanism of the main branches' supporting to their departments and subsidiaries in the Central and Eastern Europe was disturbed.

It is should be mentioned that only Czech Republic, Poland, Slovenia and Slovakia had low debt, which secured them from the quick decline and the debt trap. The other countries of this region after the boom of foreign crediting faced with the rapid growth of the national and private debts. In this case the methods of monetary and fiscal policy did not work effectively.

As a whole, more than 70% of the total investments which are directed to the economic restructuring of Central and Eastern Europe are leaving EU.

The main measures to solve the crisis in Central and Eastern Europe were increasing of tax, the new taxes for banking services, system reforming of the governmental sector. For example the welfare in Poland is explained by the successful prevention of significant declining in the whole domestic demand. It became possible by the high customer demand, in the basis of which was growth of average nominal and real wages. In December 2009 compared to December 2008, these indexes were respectively 105.6 and 102.5 percent. Purchasing power of pensions, social assistance and other income was increasing in Poland. According to European statistics, Poland is only one country in EU where positive growth in domestic demand was revealed (in current and compared prices in national currency) [7]. The growth in consumer demand connected with low openness degree of the Polish economy (40% GDP in external demand) and it allowed compensate the falling of external demand in

2008-2009, which showed the decreasing of export growing from 9.1% in 2007 to 7.1% in 2008 and 12.2% for the three quarters in 2009. The 2009 was characterized by the decreasing of investment in all EU-27 countries (13.7%), but the European statistics showed that this decreasing in Poland was lower than in other Central and Eastern Europe (at the current prices), it was 2.2%. In addition, the benefits became evident in the financial and economic crisis situation, which was received by Poland by EU membership. The Polish government also chose an effective and workable pension reform (retirement age for men and women was extended to 67 years).

One of the main points of Romanian government anti-crisis plan was stimulating workplaces creation. So the company received 1,000 euro for each new created working place for the unemployed who were registered in the regional employment center. Major investors, who invested in the Romanian economy at least $ 100 million and created 500 new workplaces received up to 50 million euro in the form of state aid.

As a whole, by IMF forecasts in next years economic growth of the researched region will be about 3-4% with the current trends. [2]

The reason for positive trends in Central and Eastern Europe is these countries' timely and complex reorientation to innovation development. These countries were characterized by the integration and interaction catch-up model at the innovation development. This catch-up model assumes accelerated growth of economic development, economy modernization and implementation of complex reforms.

The main benefits of catch-up model are the following:

- *Market expansion in Central and Eastern Europe for the import to western and American technologies;*
- *opportunity to develop new markets;*
- *creation of new workplaces and others:*

Long-term prospects of innovative development in Central and Eastern Europe are predicted by the following:

- *conquest of new markets;*
- *effective using of specialization possibilities;*
- *achievement of high efficiency level, product quality and wages in enterprises with foreign investment;*
- *effective use of national technological system and other.*

Model of integration interaction provides accelerated development of Central and Eastern Europe at the base innovative economic development by the optimal combination of catch-up development with opportunities of post-industrial Western modernization. This model is the most effective for Central and Eastern Europe.

This model helps achieve the average technical level of Western European market. However, the model also has disadvantages: limited ability of Central and Eastern Europe to elaborate independently a strategy of technological development; gap liquidation in development between Central and Eastern Europe, countries of the "old" Europe, Japan and USA.

The real performance of complex measures in the realization of transformational reforms included the following required components:

- *accelerate the privatization and restructuring process of state enterprises;*
- *decreasing of the state ownership at the bank sector and at the same time; increasing of intermediary role in this sector;*

- *control inflation by increasing interest rates, restrictions lending, reducing the money supply in the state economy;*
- *decreasing of budget deficit by increasing tax rates, simplification of administrative procedures for entry into the domestic market and out of it;*
- *reducing to 50% the amount of debt in the accounts for consumed energy;*
- *formatting the system of export stimulation by the preferential taxation and customs duties absence [1, 4].*

Conclusions. *The practice in 2008 till 2009 shows that different countries groups chose different ways to overcome financial crisis. A large part of the countries belonging to the markets also entered into a severe recession, instead of easing fiscal policy it was necessary to enforce it due to limited abilities of the budget financing deficit. Latvia and Hungary are as an example, which due to lack of internal financing opportunities were forced to seek assistance from the IMF and hold profound sequestration of their budgets, thereby strengthened the effects of the recession.*

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