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ECONOMIC GROWTH IN TRANSITION ECONOMIES: DOES INVESTMENTS MATTER?

Abstract:

Many countries from the beginning of transition period tried to find answer of Adam Smith fundamental question, “how countries get rich?”. Thus, main goals of all economic reforms, since 1989-1990 years until now in countries with transition economic for stimulation economic growth. All transition states have two way of development “Shock Therapy” and “Gradualism” for faster implementation free market based economic system.

Countries that are characterized as transition economies, with the inefficient political or economical system investment will play a less prominent role in stimulating the economy than in the developed countries. Given these peculiarities, investments have lesser role in stimulation economic growth in countries with transition than macroeconomic policies, structural reforms, protection of property right.

Countries’ from the start of the transition period or from the time of became independent, economic policy focus on attracting investments for stimulation economic growth, but the height role of investment is not confirmed in examples of many countries, which indicates that the economic growth in countries of transition is not related to the number of invitations attracted by the country.

Our research is developed based on Oleh Havrylyshyn, Ivailo Izvorski, Ron van Rooden study “Recovery and Growth in Transition Economies 1990-97: A Stylized Regression Analysis”. IMF, 1998. Which include inflation rate, structural reform, share of government expenditure in GDP; investment; price liberalization index; competition index; exchange rate and privatization index as an independent variables, dependent variable is real economic growth (GDP). 31 countries as transition economic are selected based on World Economic Outlook, October 2000, IMF. Dates (1997-2014) used in econometric models came from different publications of IMF, EBRD and WB collected by author.

Statistical characteristics of 12 models satisfy the necessary requirements for the evaluation, namely R2 are presented in 0.21 (minimum) and 0.43 (maximum) interval. Other statistics are also used for assessing the model: Akaike info criterion; Schwarz criterion; Hannan-Quinn Criter; Durban-Watson and F-statistics. In those models are analyzed different combination of independent variables.

Panel model where the analyzed period is divided into two parts (1997-2004; 2004-2014), It is important to note that in these models all variables of investment are characterized by negative correlation with economic growth, statistical characteristics of models analyzed during the 2004-2014 data are considerably improved compared to the previous model.

Inflation, governmental expenditures, price liberalization index, competition policy, exchange regime, investment has negative impact on economic growth, but structural reforms in important factor for stimulation economic growth rate in all models.

Keywords:

transition economy; economic growth, investment, structural reforms.

JEL Classification: C01, P20, P21