Real effective exchange rate of hryvnia as a factor of competitiveness

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An important averaged indicator for assessing the dynamics of the exchange rate of hryvnia as a factor of the competitiveness of the domestic economy in the field of foreign trade is a real effective exchange rate.

The REER index of hryvnia is calculated by the NBU in a basket of 25 currencies of 39 major trading partners, whose total exports and imports account for 85% of the total foreign trade turnover of Ukraine. A prerequisite for the country's inclusion in the list of main trading partners is its share in the foreign trade turnover of Ukraine at a level not less than 0.5%.

The growth of labor productivity, especially in the export-oriented sectors of the national economy at a faster pace than in other countries, forms the prerequisites for a real effective rise in the hryvnia. The trade balance of Ukraine and the REER of the hryvnia generally demonstrate the synchronicity of the change.

In terms of price competitiveness, Ukraine's position on international markets was the best in 2008 and 2014. The REER was sharply reduced in the fourth quarter of 2008 (by almost 21%). It should be mentioned that the first three quarters of 2008 were characterized by a gradual strengthening of the REER and only in the third quarter there was a significant real effective depreciation of the national currency rate. During 2014, the reduction was 21.5%.

Price competitiveness of a commodity is defined as the ratio of domestic prices and prices for a similar imported product. The main factors of the real effective cheapening of hryvnia were domestic inflation, which significantly surpassed the inflation rates of trading partner countries and the nominal decline of the national currency.

One of the main factors of REER is the growth of labor productivity in the country's export production sector at a faster pace than in countries trading partners. This dependence is called "Balassi-Samuelson effect". For Ukraine, the study of the Balassi-Samuelson effect is interesting because the export-oriented industries tend to have raw orientation.

In the period from 2002 to 2017, the labor productivity in Ukraine generally has a tendency to increase, although for 2008 and 2014, the decline in the labor productivity index is below the level of 2002. The national economy demonstrates a significant growth rate in the export-oriented sector of the economy. This is the basis for strengthening the REER, therefore, in recent times there has been synchronization in the dynamics of the REER index of the national currency and labor productivity.

The main guideline for macroeconomic policy should be the optimal REER dynamics. This will allow maintaining competitive course positions in international markets. Nowadays, the economic grounds for strengthening the REER of the hryvnia have been formed, which if used as a reference point, will serve as the basis for the nominal appreciation of the national currency.