

Доц. д-р ЧАВДАР НИКОЛОВ

ЮГОЗАПАДЕН УНИВЕРСИТЕТ "НЕОФИТ РИЛСКИ", гр. БЛАГОЕВГРАД

THE COMPARATIVE PRICE LEVELS IN THE EU NEWCOMER COUNTRIES

Assoc. Prof. CHAVDAR NIKOLOV, Ph.D.

SOUTHWESTERN UNIVERSITY "NEOFIT RILSKI", BLAGOEVGRAD

Abstract: The paper is intended to present and analyze the comparative price levels in the EU newcomer countries as illustration of the currency purchasing power. The lower comparative price level has been evaluated as some kind of natural comparative advantage of the less developed countries, a chance for the economic progress and hence, for the steady increase of the welfare and in the same time as a reliable guaranty for the employment in this group of states in Central and Eastern Europe.

Key words: comparative price level, natural comparative advantage, European Union

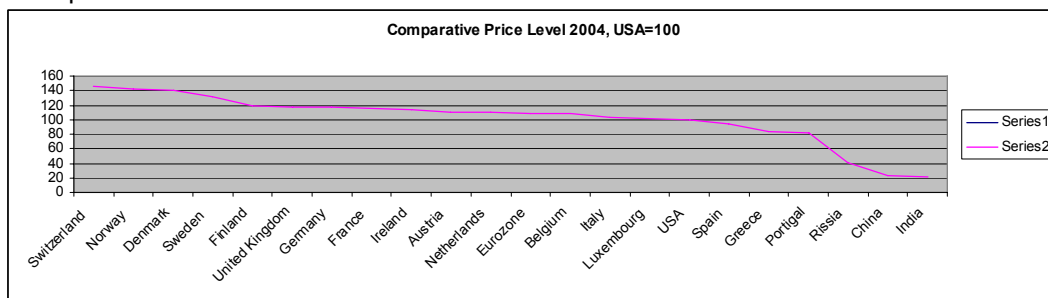
The comparative price level usually illustrates statistically the economic phenomenon, when a certain sum of money, changed from one currency into other currency loses or gains purchasing power. This means that with an equal sum of money usually we could buy different quantity of goods in two different countries. This leads us to another significant aspect of our topic, that the euro can have a different purchasing power in the different countries in the Euro zone.

So the comparative price level shows us if the internal prices in one country are

underneath or above the prices in other country. We make on this way a difference between "cheap" or "expensive" countries in the world, "cheap" or "expensive" for consumption, living, tourism or for investment. Naturally as the most comprehensive in this context seems the indicator for the comparative price level based on the GDP.

Our calculations, using the statistics of the World Bank, gave the following picture of the comparative price level in world's scale in the year 2004.

Graph 1



Besides the mentioned above comparative price aspect this graph is providing some essential explanations about some competitive advantages of certain countries. It is apparently that the internal prices in China and India are about

1/5 of the prices in the United States. The internal prices are close interconnected with the salaries. And the salaries are an important component for the competitiveness of the export. China and India are not by accident the main exporters

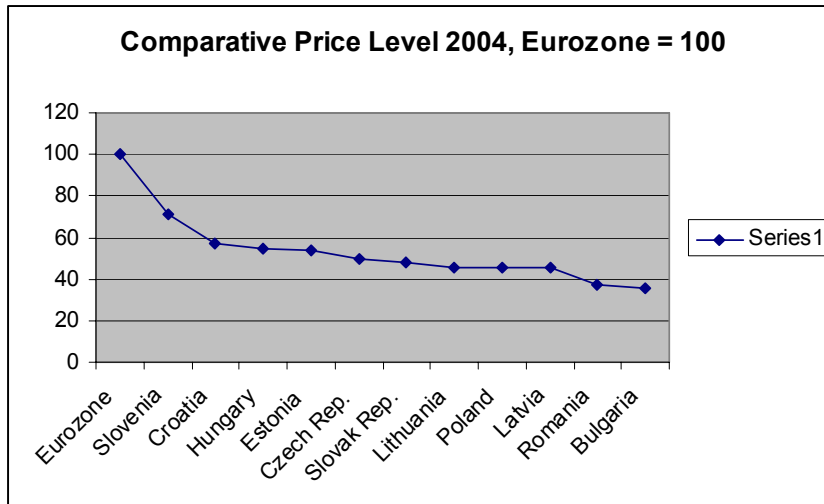
of labor intensive goods in the world. Even many elaborated goods are contemporary imports from these Asian states.

The lower comparative price level appears as some kind of natural comparative advantage of the less developed countries. The developed countries, despite of their high comparative price level have their competitiveness in the spheres of the science intensive goods, of

the products and services of the high qualified labor.

In the year 2004 the comparative price level in the Euro zone was 8.5% higher than the same in the USA. But let us describe the characteristics of the situation in the newcomer countries in the EU and also in the "near future newcomers", what means the situation in Bulgaria, Croatia and Romania.

Graph 2



This configuration seems quite normal, especially comparing the newcomer countries with the old "less developed" member countries Greece and Portugal, where the comparative price level remains about 3/4 of this in the Euro zone. That's why we could come to the conclusion, that in the middle term perspective the comparative price levels of the most EU new members will remain lower than the average price level in the Euro zone. 75% could be indicated as an eventual landmark for the next 5-10 years. With other words, the competitiveness of the economic weaker countries will be kept, but it will get with the time smaller and smaller, parallel to the expected rising of the internal price level in the EU newcomer countries.

The accumulated experience shows that there are two main factors for the growth of the prices in the EU newcomers.

The first of them is the "new transparency", which shall be introduced by the implementation of the EU internal market rules from the very first moment of the membership. This wave of price increase concerns more the tradable goods, as it was matter of fact in the 10 new EU countries after 2004.

The second wave of price rise could come with the joining to the European Monetary Union. On this stage the non tradable goods are increasing more their prices then the other goods. This happened 2001 in the most of EU-12 countries, after they introduced the euro in their economies.

The whole scenario looks quite negative for Bulgaria, the indicator of about 45% price level to the Euro zone at the time of the entering the EU means high inflation for the next years. The same fate for the country promises the intention of the

Central Bank to accept the euro in 2009-2010. But the last seems at the present quite impossible and may be, and we hope so, the joining to the EMU of Bulgaria will be postponed.

The positive dimensions of the low comparative price level in the EU newcomer countries are giving to them important incentives for economic development. This kind of price level influences positive the development especially of tourism and is attractive for the foreign investment. The sincere truth here is that this investment

comes predominantly in the low and middle technologies, but such a situation reflects exactly the economic status of the new EU members and there is nothing to argue with.

Consequently, the low comparative price level in the EU newcomer countries, despite of its mentioned above "inflationary costs", could be evaluated as a some kind of chance for the economic progress and hence, for the steady increase of the welfare and in the same time as a reliable guaranty for the employment in this group of states in Central and Eastern Europe.

Разработката е представена на Международен конгрес: „Tourism&Hospitality Industry 2006. New Trends In Tourism and Hospitality Management“, 3-5.05. 2006 г., гр. Опатия, Република Хърватска
