Report on

"Essays on Monetary Integration, Inflation, and Trade Competitiveness in Transition"

by

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The Dissertation contains three essays.

(1) "Fiscal Consequences of Monetary Integration within the Common Economic Area: the Case of Belarus, Kazakhstan and Russia",

(2) "Labor Market Flexibility, International Competitiveness and Patterns of Trade",

(3) "Finding Optimal Measures of Core Inflation in the Kyrgyz Republic".

The essays are devoted to the analysis of a set of selected issues in transition economies, including inflation, monetary integration, international trade and competitiveness. The main link among the essays is the study of various policy relevant problems in countries of the Commonwealth Independent States (CIS).

I make the following remarks.

The first essay "Fiscal Consequences of Monetary Integration within the Common Economic Area: the Case of Belarus, Kazakhstan and Russia" focuses on the analysis of the potential impact of the Common Monetary Area to be created by Belarus, Kazakhstan, and Russia on the distribution of seigniorage wealth among participating countries, and possible changes in sources of central bank earnings and budgetary revenues from central banks. It describes the mechanics of central banks' earnings in the three countries, indicating potential winners and losers in subsequent monetary integration under three distinct mechanisms of seigniorage redistribution. The study finds that Russia, the core country would be a net loser, while Belarus and Kazakhstan, the periphery countries would be gainers. This, in general, confirms earlier findings obtained in the context of EMU and anticipated EMU enlargement. The methodology of the analysis to is mainly based on previous work by Sinn and Feist (European Journal of

Political Economy, 1997) and Cukrowski and Fischer (Post-Communist Economies, 2002), done in the context of the European Monetary Union (EMU) and its eventual expansion to the new member states. The results are useful from an applied perspective. The question I am left with is whether the Common Monetary Union among the three countries is politically feasible? Indeed, it may well happen that first only two countries, say Kazakhstan and Russia, or perhaps more than three countries join the union.

The second essay "Labor Market Flexibility, International Competitiveness and Patterns of Trade" studies the relationship between labor market, competitiveness and international trade. It is clear that different labor market regulations in general impact on domestic prices of goods and services, and, thus, on countries' competitive positions in international markets. The analysis in the current essay however demonstrates both theoretically and empirically that not all sectors behave identically in this respect. The results are derived in perfectly competitive industries with uncertain demand and risk-averse firms. International trade is introduced in a simple Ricardian framework. The results specifically show that sectors with more variable demand are affected more by differences in labor market flexibility. In particular, domestic prices of goods with more variable demand can be lower in countries with flexible labor markets. In this sense, labor market flexibility can be considered as a source of comparative advantage in producing goods under demand uncertainty. The natural question after reading this paper is how specific the results derived are to the counties in economic transition, and especially, to the ones in Central Asia?

The third essay "Finding Optimal Measures of Core Inflation in the Kyrgyz Republic" examines different methods of measuring core inflation, and seeks to determine the optimal measure of core inflation in Kyrgyzstan. The paper presents the theoretical background for measuring core inflation, characterizes existing system of inflation measurement in Kyrgyzstan and the structure of the consumer price index (CPI). It focuses on several alternative methods of measuring core inflation, including trimmed means, standard deviation trimmed means, and percentiles. The inflation measures for the different approaches derived for the period of 1995-2004 are compared in terms of

smoothness, by minimizing their distance from a smoothed CPI time series. The paper suggests that in periods of large declines in inflation, the standard deviation trimmed means and exclusion means are preferable, while in periods of more diverse change across CPI items, the percentile means are superior. The paper also provides clear practical implications for policy making in Kyrgyzstan.

In summary, all three essays represent good research of an applied character. Indeed, all of them have already been accepted for publication in refereed journals. My recommendation is that the thesis is suitable for public defense.

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