JEL classification G28

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FINANCIAL SYSTEM STRATEGIC DEVELOPMENT OF THE ECONOMICS OF TRANSITION: INTERNATIONAL ASPECTS

Автор визначає фактори глобальної фінансової нестабільності, які визначають механізми впливу процесів фінансової глобалізації на фінансові системи перехідних економік. Порівняльний аналіз політики трансформації фінансових систем та фінансових ринків у країнах Центральної та Східної Європи виявив особливості моделей їх розвитку. Запропоновані концептуальні підходи у стратегічному управлінні розвитком фінансових систем економік з новими ринками у контексті сучасної системи перетворень міжнародних фінансів.

Ключові слова: перехідна економіка, фінансові системи, фінансова стратегія, монетарна та фінансова політика.

Автор определяет факторы глобальной финансовой нестабильности, определяющие механизмы влияния процессов финансовой глобализации на финансовые системы переходных экономик. Сравнительный анализ политики трансформации финансовых систем и финансовых рынков в странах Центральной и Восточной Европы выявил особенности моделей их развития. Предложены концептуальные подходы в стратегическом управлении развитием финансовых систем экономик с новыми рынками в контексте современной системы преобразований международных финансов.

Ключевые слова: переходная экономика, финансовые системы, финансовая стратегия, монетарная и финансовая политика.

The author marks factors of global financial instability, which determine the mechanisms of influence the financial globalization processes on the financial systems of economies in transition. The comparative analysis of transformation policy by the financial systems and financial market in the countries of Central and East Europe found out the features of models of their development. Conceptual approaches are offered in a strategic management financial systems development of economies with emerging markets in the context of modern system transformations international finance.

Keywords: economics of transition, financial systems, financial strategy, monetary and financial policy/

Financial systems market transformation of Central and Eastern Europe (CEE) countries, so-called emerging Europe, occurs in the environment of regional financial integration. The process of regional financial integration plays a much more important role in determining the nature of the financial globalization for near term. The European Union financial integration involves primarily a single financial services market and the gradual integration in the European Monetary Union, the establishment of common monetary and financial policy. The euro area processes determine the environment condition for national financial systems in terms of regional financial integration. The euro area countries are powerful donor funds and portfolio debt financing for the transition economies. The financial integration process can both get the benefits of participating countries and generate additional risks to destabilize national financial systems throuth the asymmetric shocks. The inconsistency of strategic policy transformation is to reduce its positive effects for countries with insufficiently developed (emerging) financial systems. The problem of forming a strategy of financial integration as a set of functional policies in finance provides an analysis practices of emerging Europe.

1. The CEE countries financial integration process trends

The EU's significantly contributed to the development of national financial systems the CEE countries during the pre-accession period. Poland received from 412 to 485 million euros a year to address the external debt during 1990-2006. Currently among the CEE countries most intense financial flows directed to Hungary, the Slovak Republic, Bulgaria and Slovenia. Debt forms of financial flows prevail in countries with emerging financial systems, indicators of investment cooperation is more uniform in distribution (see Table 1).

Table 1. **Indicators of financial integration the CEE countries and euro area, 2011 (% of GDP)**

Countries	External debt	Foreign direct investment
Hungary	34	50
Slovak Republic	45	35
Bulgaria	36	58
Slovenia	22	21
Romania	21	21
Poland	15	25
Estonia	3	22
Lithuania	3	10
Latvia	8	6

Source: Data of EBRD – http://www.ebrd.com

Analysis of the transition economies financial integration processes allows to distinguish a number of trends. The financial sector transformation has an unstable character. Countries showing a rapid rate of change in integrating some regression, inhibition processes of increasing maturity of national financial systems. Hungary, for example, practically eliminated the 2-tier pension system in autumn 2010. According to estimates by EBRD experts Hungary worsened the condition of the financial services, Slovenia – banking and financial services sector, Slovak Republic – sector of small and medium enterprises financing in post-crisis period. The market transformation process is characterized as fragmented – some components of financial system develop more rapidly. The predominance of banks-oriented models of financial system is the result of uneven development of financial system, which makes the country vulnerable to banking crises of the financial integration area.

Poland as example demonstrated the positive effects of balanced development of all sectors of the financial system. Polish companies used stock arrangements to mobilize the necessary financial resources during the banking sector destabilization as a result of European debt crisis. Polish financial market remains one of the most mature among the countries with transitive economy of the region throuth the post-crisis period (see Table 2).

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Table 2. **The financial sector transformation rates of transitive economy countries***

Countries	Banking		Insurance and other financial services		MSME finance		Private equity		Capital markets	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Bulgaria	3	3	3+	3+	3-	3	3-	3-	3	3
Latvia	3+	3+	3+	3+	3	3	2+	3-	3	3
Lithuania	3+	3+	3+	3+	3	3	2+	2+	3	3
Poland	3+	3+	3+	4-	3	3	2+	3+	4-	4-
Romania	3	3	3+	3+	3-	3	2+	2+	3	3
Slovak Republic	4-	4-	3+	3+	3+	3+	2+	2+	3-	3
Slovenia	3+	3	3+	3	3	3	2+	2+	3-	3
Hungary	3+	3+	4-	3	3	3	3	3	3+	3+
Estonia	4-	4-	3+	3+	3	3	3-	3-	3-	3

Source: Data of EBRD – http://www.ebrd.com

* Estimates of parameters given by scale from 1 to 4 +, where 1 is the almost complete absence of any departure from a rigid centrally planned economy and 4 + means to achieve the standards of a market economy, typical of industrialized countries.

Despite the dynamic growth of the financial market they remain extremely vulnerable to external shocks. The scale of the fall of the national stock market index during the time of crisis can be indicator of financial stability. The fall of the national stock indices reached 61% in Poland, the Czech Republic – 64%, Hungary – 62%, and indices of Romania and Bulgaria – 80% and 85% respectively at the crisis.

Development of subregional forms of financial integration. Relations banks eurozone and CEE countries have high concentrated spatial character. Bulgaria, for example, 50% of the capital of foreign banks accounts for Greek banks that is the one of the reasons inhibition post-crisis recovery [1]. The largest creditors of Latvia – a Swedish banks that own the country's assets totaling $23.2 billion (according to the Bank for International Settlements) [2]. Gravitational forces make the strategy of parent banks an important factor that affects the recipient countries. It is estimated EBRD Bulgaria and Romania have the highest index of vulnerability of national economies of countries PIIGS transitive among countries through closer cooperation with financial institutions of this group of countries [3].

Institutional factors are an important factor of deepening financial integration of transition economies. Institutional failure of political institutions to overcome market failures hamper, reduces the efficiency of integration. According to reports the European Commission published May 2012, Poland remains a significant problem of shadow economy, which reaches 25% of GDP while the average in EU at 15.2%. Bulgaria has one of the highest levels of corruption in the EU according to Transparency International's 2010 Corruption Perceptions Index, making it second only to Greece [4].

These characteristics of the transformation process is the formation factors of financial stability of the CEE. Financial stability – the ability to serve as the mobilization and redistribution of financial resources under conditions of destabilization of the environment. Transitive countries can be classified by this criterion and to distinguish three groups of countries: countries with stable financial system with respect to external shocks (Poland, Czech Republic, Estonia), the country's financial system with moderate resistance (Hungary) and countries with fragile financial system (Romania, Bulgaria) .

3. Ananlysis of the CEE countries's monetary and financial policys

A powerful factor in the development processes of financial regionalization is the policy of financial sector development in the countries. The political process in this area is transformed from national policy to use the harmonized common policies. A powerful factor in the development processes of financial regionalization is the policy of financial sector development in countries. The political process is transformed from national policy to use the harmonized common policies in financial area. The criterion for evaluation of the policy effectiveness should be to create opportunities to increase the synergy effects and create a fuse from transmission of crisis infection, which allows countries to quickly restore its position in the post-crisis period. The main components of the strategic financial policy are systematically linked a monetary policy, debt policy, investment policy and policy development of the financial markets.

Sphere of currency regulation is the least harmonized to the group of the CEE countries as a result of the transitive nature of their economies and differete economic potential. Economic integration makes appeal export-oriented model of economic growth for the CEE countries that has allowed these countries to maximize the positive effects of integration in the EU common market. The Independent exchange rate policy allows these countries to get positive effects from participation in the EU common market, to support macroeconomic stability.

The CEE countries strategic monetary policys are using the models of early and the late EMU membership (see Table 3).

Table 3. **The CEE countries model of monetary integsration**

Model	Exchange rate regime	Countries
Early EMU membership	floating	Slovenia (2007), Slovak Republic (2009), Estonia (2012)
Late EMU membership	fixed (to the euro peg)	Bulgaria
	ERM II of ± 15%	Latvia (2005), Lithuania (2004)
	managed floating	Czech Republic, Romania
	floating	Poland, Hungary

Source: based on Data of IMF – http://www.imf.org

There are many fundamental and situational factors determining the choice of the exchange rate regime in the CEE countries connected with strategic objectives the monetary integration: the scale of the economy, the nature

of its openness, the depth of the internal market, the state of the environment. The small and open the CEE economies with international capital mobility expected to have the benefits of EMU accession due to reached of macroeconomic stability, more trade and low interest rates. Slovenia, the Slovak Republic and Estonia entry into the monetary union after users of exchange rate regime fixation of the national currency.

Monetary policy is an important means of achieving monetary stability for the CEE countries in conditions of integration into EU common market. They can not afford to use monetary levers to maintain external competitiveness. The currency regime managed floating allows the Czech Republic and Romania to maintain monetary stability through inflation targeting. Managed floating regime involves the use of central bank currency intervention of the country, which requires adequate official reserves. Politics of Czech crown appreciation has created additional incentives for capital inflows into the country that helped to achieve external balance of the economy in the post-crisis period. Poland's economy is one of the largest in Central Europe, it has considerable export potential, which leads to the expediency of a floating exchange rate regime. Rate policy of Hungary during the transformation period has evolved from the regime currency basket peg to the regime of crawling peg and floating exchange rate regime for inflation targeting.

Bulgaria and the Baltics countries preferred model of fixed exchange rate but in different way: hard pegs to the euro and nominal appreciation within the ERM II limits. Lack of needed macroeconomic flexibility increased vulnerability of these economies to asymmetric shocks. Under conditions external pressure on the national currency measures of macroeconomic stabilization leads to a decrease in business activity, which has resulted in delays in post-crisis recovery. Thus, although Latvia plans to targeting an EMU membership by January 2008, it so far can't meet the criteria due to budget deficit and inflation. Fixed exchange rate regime has limited opportunities to promote structural changes in the economy. Politics national currency peg to the euro has become one of the factors preserving low productivity of Bulgarian economy, low competitiveness and thus its peripheralization. Monetary policy fixed rate fully demonstrated fundamental flaws the model of fixed exchange rate for so-call economic catch-up process, and not the optimality of early accession to the peripheral countries.

The devaluation of national currencies allowed to reach the external balance, determining the available benefits of monetary independence under the crisis conditions. A significant devaluation of national currencies of Poland, Hungary, Romania, the Czech Republic and allowed to balance the economy. Thus, the Polish zloty has fallen by a third against the euro, the Hungarian forint has fallen by 23% and the Czech crown – at 17% in summer 2008. For example, the Polish zloty has fallen compared with its peak last year against the U.S. dollar by 76%, the Hungarian forint – by 63%, the Czech crown – at 46%, Romanian lei – 45% in April 2009. At the same time this currency back almost pre-crisis level beginning in 2010.

An early EMU membership, escalating monetary integration, in fact, can be considered as the valid reason for destabilize the economy both the euro area and countries with economies of transition. The level of real GDP transitive countries in 2010 was very different – transitive countries of Central Europe have made the rate of 105,9% (Q1 2008 = 100), transitive countries of South-Eastern Europe – 98.8%, and the Baltic countries – lowest level in 88.2% [5]. Takes place divergence of the integration space. As a result, the CEE countries postpone EMU membership at a later period than expected in the pre-crisis period.

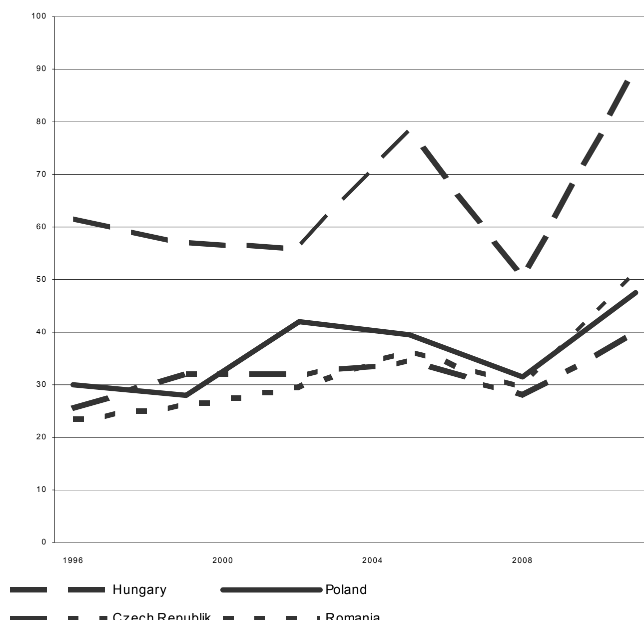

Fig.1. The dynamics of external debt (end of year, % of GDP)

Source: based on Data of IMF – http://www.imf.org [7]

There are a number of factors stimulating the growth of external debt in the CEE countries: a trade deficit, monetary instability and inflation, low national savings, the deficit of public finances.Underdeveloped domestic financial systems leads to dependent of transitive economies from foreign sources of financial resources. Although the total CEE countries debt (the six countries most indebted) does not exceed the amount of Spain debt, the problem of external

debt and effectiveness of debt policy are vital to their development [6]. The CEE countries with economies in transformation using different models of strategic debt policy: moderate and expansion (see fig. 1).

However, Poland, the Czech Republic implemented a reasonable debt policy and used the instruments restrictions on foreign borrowings by banks, have tightened the requirements for the management of external debt. CEE countries debt policy demonstrated – a country that selected economically feasible debt policy priorities, in particular, hindered the development of consumer credit, avoided excessive debt burden and reduce the damage from the effect of capital outflows.

Poland has demonstrated the benefits of a strategic approach in developing and implementing the debt policy. The Polish authorities has adopted a "Strategy for Public Debt Management in 2006-2009". The strategic objective of debt policy defined the reduction of external debt. The main directions for achieve the specified strategy goal is development of domestic financial market, the introduction of a funded pension system and capital market reforms, the growing role of institutional investors, including private pension funds. The use of internal sources of financial resources allowed Poland to lead the process of post-crisis recovery of the group. The effective debt policy was that the presence of a number of macroeconomic factors to stimulate debt included restrictions on the size of external debt and optimization of structural characteristics of debt, including the maintenance of a safe level, the share of short-term debt, regulation of uses of borrowed funds. Limits on the size of external debt correspond to flexibility criteria and orientation on economic growth. Poland actively used monetary policy instruments to reduce interest of market participants on foreign borrowing. Economic efficiency model strategic debt policy has been recognized by international institutions. International rating agency Moody's and S&P assign high ratings Poland and the Czech Republic, which is indicating the reliability and ability to perform state debt, including the timely repayment of interest and principal loan [8]. Formation of stable financial systems in these countries is the result of policies introduced in the countries. Proof of financial capacity in Poland is the decision of €6 billion IMF loan in 2011. The Czech Republic gave the IMF credit €18.9 billion to assist countries affected by the global financial crisis in early 2009, it is planned to allocate about €1.5 billion IMF in May 2012, according to the decision of the G20 summit of mobilizing $ 1 trillion for fight the global crisis [9].

At the same time policy escalation of external debt was a factor destabilizing the economy of Hungary. Hungary model economic transformation provided substantial government spending. The country financed sizeable social spending and the public finance deficit at the expense of external sources. Hungarian pension funds absorb 10% of total government liabilities. The production decline has reached 17.4% with 10% unemployment in 2009, so the anti-crisis measures Hungary also had to finance through EU and international organizations loans: $15.7 billion provided from IMF, $8.3 billion – EU, $1,3 billion – the World Bank [10]. EU assistance in the crisis period, certainly indicates the presence of integration advantages for the country. However, country's long-term model expansionist debt policy, provided better access to resources, led to a significant destabilization of the country's financial system and slowed its development. Hungary received "BB +" rating in 2011, characterizing it as lacking a stable financial system [11].

Significant threat that generates inefficient debt policy is threatened exhaustion of national savings as a result of the need to service debt and return, removing them from the economic process. The Hungary financial strategy combined debt expansionary policies and appropriate investment policy of large-scale involvement of foreign capital in the national economy. Weakness of such strategy due to environment instability through global transformations. The international financial system becomes unstable and poorly predictable. Financial strategist countries with transitive economy should include complex measures of risk management. They should be more flexible and accommodative.

The financial strategy of the CEE transitive economy contains investment policy as a systemically important component. The process of financial convergence defines the goals of transformation of financial systems emerging Europe (in particular Maastricht criteria). Under conditions of economic catch-up process, the efficiency of monetary policy reduced and potential investment policy as a mechanism for achieving convergence increases. The CEE countries used an extensive system of encouragement for foreign investors during the trnsformation process: the liberalization of foreign exchange restrictions, granting customs privileges, tax exemptions for foreign investors (mainly in Poland and Hungary), the establishment of special zones with preferential tax regime. Due to the use system of monetary, fiscal, administrative tools create a favorable investment environment and the level of foreign capital in the corporate sector in Hungary reached 50%, in Poland – 23% in the end 2009. The foreign investment played a role the prime drivers of growth and modernization financial sector, its harmonization with EU's finance standards (the qualification requirements of market participants, supervision, accounting operations, investor protection, taxation etc.).The share of foreign capital in the bank sector in Slovakia reached 90%, Slovenia – 31%, Latvia – 66%, in Poland – 76% in Bulgaria – 80%. However, lack of necessary preventive measures (the regulatory and supervisory measures according to the EC's experts) has led to negative consequences and reduced the positive effects of FDI in Latvia [12].

Despite the dynamic growth of FDI in the run-up prior to the crisis the countries have demonstrated the different effectiveness of their investment strategy in the process of integration (see Table 4).

Table 4. **The dynamics of inward Foreign Direct Investment, 2001-2011 (% to GDP)**

Countries	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bulgaria	5	3,8	10,1	13,4	13,6	23,5	29,4	19	7	4,9	3,5
Czech Republic	8,8	10,8	2,2	4,4	9	3,7	5,8	2,9	1,5	3,4	2,5
Estonia	8,6	3,9	9,4	8	20,6	10,7	12,4	7,2	9,6	8,1	0,8
Latvia	1,6	2,8	2,7	4,6	4,4	8,4	8,1	3,8	0,4	1,6	5,5
Lithuania	3,6	5,1	1	3,4	3,9	6	5,1	4,1	0,2	2,1	2,8
Hungary	7,5	4,5	2,6	4,4	7	6,6	2,9	4,1	1,2	1,4	3
Poland	3	2,1	2,2	5,1	3,4	5,7	5,5	2,8	3,2	1,9	2,8
Romania	2,9	2,5	3,7	8,5	6,5	9,2	5,8	6,8	2,9	1,8	1,4
Slovenia	1,3	3,9	3,6	2,1	2,3	1,6	3,8	3,6	-1,3	0,8	2,2
Slovak Republic	7	15,5	6,5	7,2	5,1	8,4	4,8	5	0	0,6	2,2

Source: based on Data of Eurostat – http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes

The difference in the quality of the investment environment has led various rates of recovery. The investment policy's sectoral priorities are the key factors that produce a positive effect for economic growth. Investment policy in the Czech Republic, for instance, included tax breaks, government grants for technical equipment areas, creating jobs and improving the quality of human capital. Permit investment policy involved the use of a number criteria that directed FDI flows in accordance with the regional and industrial policy objectives.The inflows FDI into all the CEE countries declined dramatically in the post-crisis period. The largest decrease was in Bulgaria (in 2008 FDI inflows reached 19%, while in 2011 only 3.5%), significantly reduced investment in Romania – from 6.8% in 2008 to 1.4% in 2011 [13]. One of the factors that led to this situation is unfavorable investment environment in these countries, market failures (corruption among the highest in the EU). Among the countries that do not have a significant reduction in FDI inflows – Poland and the Czech Republic. Only Latvia have in FDI inflows performance better in 2011 than during the pre-crisis period. Thus, as a result of the crisis the country faced the effect of asymmetry of access to financial resources, threatening the financial divergence [14]. Under these circumstances there are processes stratification of emerging Europe, the formation peripheral zone. The elimination of institutional factors peripherization can be considered as the leading direction of adjustment of strategic goals of financial strategies transitivity of "south".

4. Conclusions

Summarizing the above remarks it should be noted that the financial integration strategy allowed to benefit: increasing maturity of the financial system, development of financial markets by introducing new tools, the transition to modern standards of financial activities; access to additional financial resources to overcome limitations resource base of their own financial systems. Implementation of financial convergence criteria contributed to financial stability. At the same time, the process of integration through openness and vulnerability to instability of the integration space increase the divergence of transitive economices due to lack maturity financial system. Under circumstances loss of financial sovereignty the price of false solutions to common policies raises. Due to the institutional weaknesses of the emerging Europe may upgrade adverse effects. Strategic financial policy as a combination of functional policies in finance should target reduction the vulnerability national financial systems. The global transformation and a new stage development of regional integration cause instability of the external environment emerging Europe. Under these circumstances, as practice of the most financially stable transitive economics has shown, for the CEE requires a risk-oriented strategy. Such strategies should include a complex of specific for transitive economics indicators for identification the threats to financial stability.

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Надійшла до редколегії 05.05.12

JEL classification K23, L43

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APPLICATION OF COMPETITION POLICY IN TELECOMMUNICATIONS SECTOR

Ця стаття пов'язана з аналізом взаємодії політики змагання та регуляторної практики у мережевій промисловості як, наприклад, телекомунікації. Мета статті – виявити внутрішню узгодженість політики змагання та специфічного для сектору регулювання як в теоретичному, так і практичному вимірі, слугуючи інструкцією для майбутнього політичного розвитку.
Ключові слова: політика змагання, регулювання, мережева промисловість.

Эта статья связана с анализом взаимодействия политики соревнования и регуляторной практики в сетевой промышленности как, например, телекоммуникации. Цель статьи – выявить внутреннюю согласованность политики соревнования и специфического для сектора регулирования как в теоретическом, так и практическом измерении, служа руководством для будущего политического развития.
Ключевые слова: политика соревнования, регулирование, сетевая промышленность.

This paper deals with the analysis of the interaction of competition policy and regulatory practice in network industries such as telecommunications. The purpose of the article is to reveal the inter-coherence of competition policy and sector-specific regulation both in theoretical and practical dimensions while acting as a guide for future policy development.
Keywords: competition policy, regulation, network industries.

Traditionally, the network industries (i.e. telecommunications, post, electricity, gas, etc.) had mostly been organized as vertically integrated monopolies. In Europe, most of them were held in state ownership, on the contrary to the United States, where most of them were privately owned and subject to sector-specific regulation. Over the past

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