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The Transition Economies: Externally Conditioned Improvements in 2000, Slowdowns and Adjustments Likely in 2001 and 2002

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The Transition Economies: Externally Conditioned Improvements in 2000, Slowdowns and Adjustments Likely in 2001 and 2002

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Summary

For the first time since the transformation began, all transition economies recorded GDP growth in 2000. Some of the traditional 'losers' grew much faster than the traditional 'winners' of the transition process. The differences in the rates of GDP change narrowed significantly across the region. No currency, current account, or banking crises occurred – though the developments in 1999 had not excluded the possibility of such crises, at least in some countries. All transition countries managed to accommodate the shock of high oil prices. The highest growth rates were recorded in countries with a very low base, under exceptionally favourable external conditions. Strong growth in the EU also contributed to the growth acceleration in most more advanced countries. Expansion of exports and imports did not yet generally reduce trade deficits. Current account deficits were still a major problem for some countries, though the inflows of foreign capital made their financing unproblematic. Growing industrial production was almost everywhere combined with some contraction in employment. Rates of unemployment generally increased. The process of disinflation was perturbed by the developments in oil prices and hikes in rates of indirect taxation.

With a slowdown of growth in the EU expected, the export sectors of the transition countries will come under pressure. On account of higher levels of technological development and the existing degree of integration into the world economy, the Hungarian, Slovenian – and to a lesser degree the Czech and Slovak – industry will be in a better position to withstand the change in the EU business climate.

The expansion of trade (and current account) deficits will be moderated due to the stabilization of the world oil market. Weakening growth in the EU may have serious consequences particularly for Poland, Bulgaria, the Czech Republic and Romania. The recent tendencies in Poland indicate that the growth slowdown in Poland may be more pronounced than elsewhere. Poland (to a much lesser degree Bulgaria) seems more vulnerable to the negative effects of high current account deficits than other countries.

Unless oil prices slump dramatically, the recovery in Russia will continue, though at a lower pace. Recovery in Russia will also be supporting growth in Ukraine.

The growth slowdown, the deterioration of trade and current account deficits and rising unemployment will call for economic policy actions. Relaxation of monetary policy would be helpful, especially as inflation does not seem a very grave problem. However, the effects of cuts in interest rates are unlikely to be significant in most countries, because the latter have already managed to lower interest rates to relatively low levels.

Relaxation of fiscal policy can moderate the pace of deceleration of growth. Generally, such a relaxation will tend to be delayed because it is assumed that this will add to rising imports rather than to stronger domestic production. Fiscal policy will aim at restricting spending. For purely political reasons (upcoming elections in several countries) the drive for cuts in budgetary spending will be moderated, or come only in late 2001, as the elections draw near.

There is by now a general consensus about the negative consequences of allowing too strong real appreciation. However, countries most likely to be in need of preventing further real appreciation, or even of having a controlled real depreciation (Poland, the Czech Republic, Bulgaria), are actually unable to control the exchange rates.

The prospects for 2002 are so far uncertain. Much will depend on the degree of the growth slowdown in the EU and on the resultant adjustments in the transition countries. Whether or not growth accelerates in the EU in 2002 remains to be seen; even if it is strong, the current uncertainties are likely to result in downscaling of investment activities (including greenfield foreign direct investment) in the transition countries in 2001.

Figure A

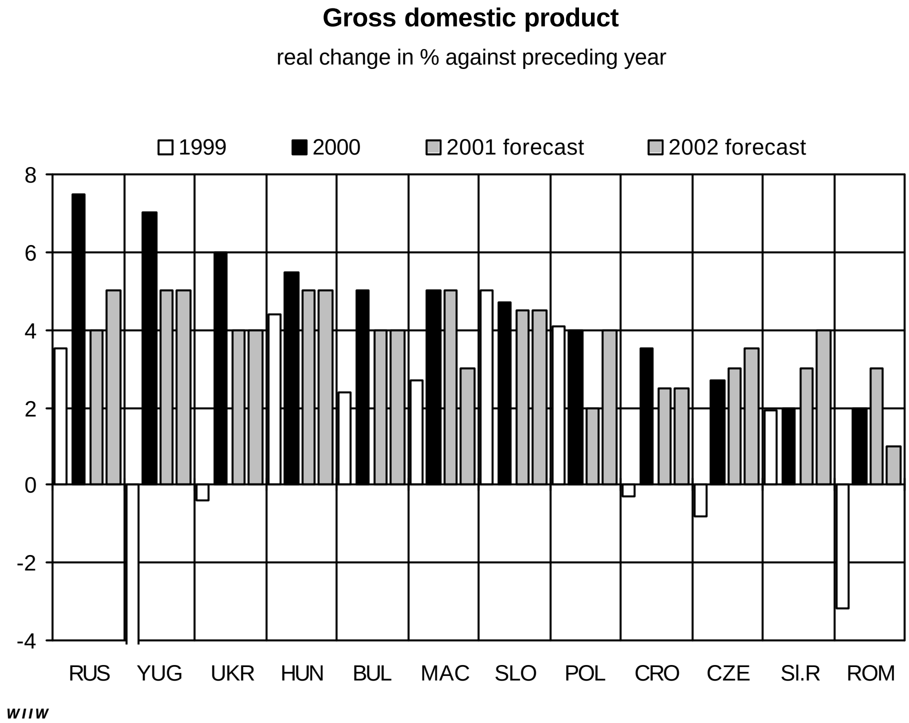
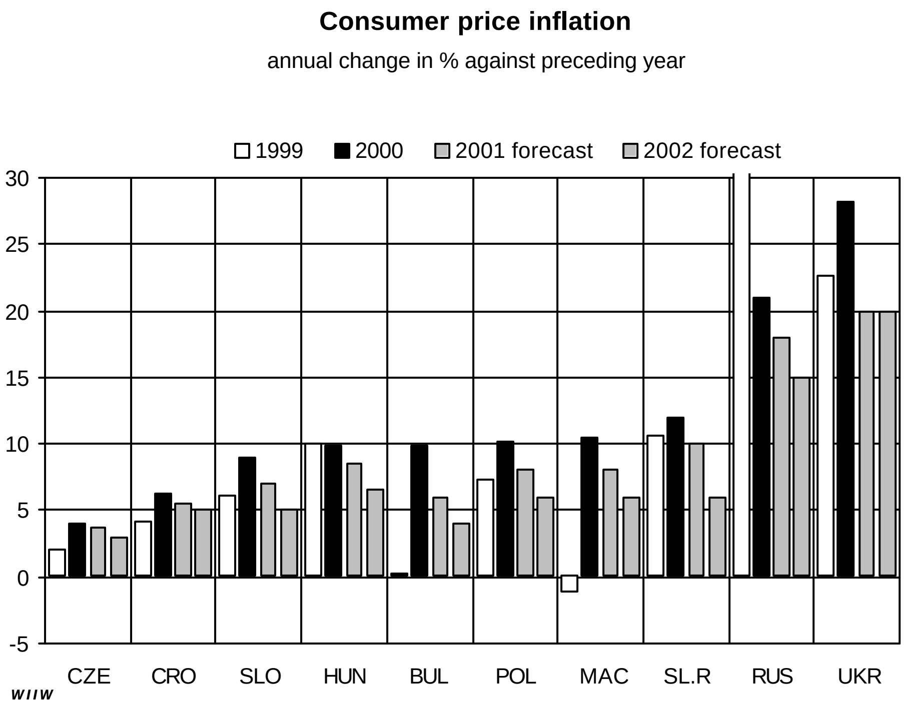


Figure B



OVERVIEW

*Leon Podkaminer**

The Transition Economies: Externally Conditioned Improvements in 2000, Slowdowns and Adjustments Likely in 2001 and 2002

GDP is rising in all transition countries

For the first time since the transformation began, all transition economies covered by this report[1] recorded GDP growth in 2000. Three countries pulled themselves out of recession. Moreover, the differences in the rates of GDP change narrowed significantly across the whole region (see Table 1). At the same time some of the traditional 'losers' grew much faster than the traditional 'winners' of the transition process. No currency, current account, or banking crises occurred – though the developments in 1999 had not excluded the possibility of such crises, in at least some countries. All transition countries managed to accommodate the shock of high oil prices.

Favourable external factors

The highest growth (in Russia and Yugoslavia) was against a very low base and with the benefit of favourable external conditions – high oil prices in the case of Russia, and the discontinuation of war in the case of Yugoslavia. Other low-base countries with fairly high growth rates also benefited from external developments: Ukraine from the recovery in Russia; Macedonia and, to a lesser degree, Bulgaria from the cessation of war in Yugoslavia.

In 2000 the business climate in the European Union and the United States was good – better than a year before. This is generally considered to have had positive effects, via rising exports, on all transition countries. Most probably the contribution of net exports rising (on account of higher EU growth) to GDP growth varied across the transition countries.[2] Assuming that all transition countries could have benefited, in terms of rising

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1 Bulgaria, Croatia, Czech Republic, Hungary, Macedonia, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine and Yugoslavia.

2 Generally, in current EUR terms the trade with the EU in 2000 resulted in higher surpluses (or lower deficits) than in 1999 (see Table 7). However, the contributions of *net exports* (as defined in the national accounts statistics) to GDP growth in 2000 have yet to be assessed. The assessment will involve the calculation of relevant price deflators for exports and imports. An improvement (or deterioration) of trade deficits expressed in current EUR terms does not imply a positive (or negative) contribution of *net exports* to GDP growth.

Table 1

Gross domestic product

real change in % against preceding year

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 1)	2001	2002	Index 1990=100 2000 1)
												forecast		
Czech Republic	-1.2	-11.6	-0.5	0.1	2.2	5.9	4.8	-1.0	-2.2	-0.8	2.7	3	3.5	98.5
Hungary	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.4	5.5	5	5	108.5
Poland	-11.6	-7.0	2.6	3.8	5.2	7.0	6.0	6.8	4.8	4.1	4.0	2	4	143.1
Slovak Republic	-2.5	-14.6	-6.5	-3.7	4.9	6.7	6.2	6.2	4.1	1.9	2.0	3	4	105.1
Slovenia	-4.7	-8.9	-5.5	2.8	5.3	4.1	3.5	4.6	3.8	5.0	4.7	4.5	4.5	120.0
CEEC-5 2)	-6.7	-9.6	-0.2	1.5	4.1	5.7	4.8	4.5	3.1	2.9	3.8	2.9	4.1	121.4
Bulgaria	-9.1	-11.7	-7.3	-1.5	1.8	2.9	-10.1	-7.0	3.5	2.4	5.0	4	4	78.6
Romania	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.1	-5.4	-3.2	2.0	3	1	81.8
CEEC-7 2)	-6.6	-10.4	-2.3	1.4	3.9	5.8	3.8	1.7	1.4	1.6	3.5	3.0	3.5	110.0
Croatia	-7.1	-21.1	-11.7	-8.0	5.9	6.8	5.9	6.8	2.5	-0.3	3.5	2.5	2.5	86.7
Macedonia	.	-3.2	-8.2	-1.2	-1.8	-1.1	1.2	1.4	2.9	2.7	5.0	5	3	97.1
Yugoslavia 3)	-7.9	-11.6	-27.9	-30.8	2.5	6.1	5.9	7.4	2.5	-17.7	7.0	5	5	49.3
Russia	-3.0	-5.0	-14.5	-8.7	-12.7	-4.1	-3.4	0.9	-4.9	3.5	7.5	4	5	64.0
Ukraine	-4.0	-8.7	-9.9	-14.2	-22.9	-12.2	-10.0	-3.0	-1.9	-0.4	6.0	4	4	43.2
Estonia	-8.1	-13.6	-14.2	-9	-2	4.3	3.9	10.6	4.7	-1.1	5.5	5.5	5.5	86.6
Latvia	2.9	-10.4	-34.9	-14.9	0.6	-0.8	3.3	8.6	3.9	0.1	4.5	4.5	4	60.4
Lithuania	-3.3	-5.7	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-4.2	2.5	3.5	3.5	67.2
Armenia	-5.5	-11.7	-41.8	-8.8	5.4	6.9	5.9	3.3	7.2	3.1	5	3	4	67.0
Azerbaijan	-11.7	-0.7	-22.6	-23.1	-19.7	-11.8	1.3	5.8	10.0	7.4	11	8	6	58.8
Belarus	-2.0	-1.2	-9.6	-7.6	-12.6	-10.4	2.8	11.4	8.4	3.0	5	3	3	86.8
Georgia	.	-21.1	-44.9	-29.3	-10.4	2.6	11.2	10.8	2.9	3.0	0	2	3	36.9
Kazakhstan	.	-11.0	-5.3	-9.2	-12.6	-8.2	0.5	1.7	-1.9	1.7	10	6	5	68.9
Kyrgyzstan	.	-7.9	-13.9	-15.5	-20.1	-5.4	7.1	9.9	2.1	3.6	5	4	4	66.2
Moldova	.	-17.5	-29.0	-1.2	-30.9	-1.9	-5.9	1.6	-8.6	-4.4	1	2	3	33.1
Tajikistan	.	.	.	-16.3	-21.3	-12.4	-16.7	1.7	5.3	3.7	5	4	4	56.0 4)
Turkmenistan	.	.	.	1.5	-16.7	-7.7	0.1	.	.	.	.			.
Uzbekistan	-0.7	-0.5	-11.1	-2.3	-5.2	-0.9	1.7	5.2	4.4	4.4	4	2	3	98.5
CIS	.	-6.0	-13.9	-9.7	-14.2	-5.3	-3.2	1.0	-3.7	2.9	7	.	.	61.6

Notes: 1) Preliminary. - 2) WIIW estimate. - 3) Gross Material Product. - 4) 1992 = 100.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

GDP, from higher growth in their major trading partners it is significant that not all of them (excepting the low-base countries referred to above) managed to accelerate growth in 2000.

A pronounced acceleration was observed only in Romania, Croatia and the Czech Republic. All three countries have something in common: (i) overall, they have performed poorly during the whole transition period, which is reflected by the fact that they have not yet achieved their pre-transition GDP levels; (ii) their GDP growth during the transition period has been unstable: in the past they were capable at times of achieving (or announcing) very high growth, followed by more or less protracted recessions; (iii) all three countries were in recession as late as 1999: the EU business climate improvement may have helped them to pull out of recession earlier than would have been possible otherwise.

The acceleration in Hungary, though not really spectacular, brought the growth rate to a level that is high by Hungarian standards. The remaining three countries (Slovenia, Slovakia and Poland) did not manage to accelerate growth. In this sense they missed the opportunities implied by the improvements in external conditions. But, of course, without these improvements they may well have recorded lower growth rates or even – in the case of Slovakia – have gone into recession.

Little acceleration in domestic demand

However important, net exports constitute rather small fractions of the GDP in most transition countries, except for Russia.[3] GDP growth is determined primarily by changes in domestic demand – consumption and gross capital formation. At present only rough estimates of rates of growth of consumption and gross capital formation can be made. Preliminary data on gross *fixed* capital formation (see Table 2) suggest that rising investment was adding to the overall GDP growth acceleration in a limited number of countries: in Russia, Ukraine, Bulgaria and – to a lesser degree – in the Czech Republic and Hungary. In Slovakia, Slovenia and Poland investment growth fell behind GDP growth, and in Croatia falling investment depressed, *ceteris paribus*, overall GDP growth.

There is little certainty as yet as to what happened to final consumption in the individual transition countries. Very rough estimates seem to suggest that consumption declined in Slovakia and Romania, and grew rather marginally in the Czech Republic, Poland and Bulgaria. In the remaining countries consumption may have grown at much higher rates (around, or above, 4%) – but still less than GDP. Only in Croatia did consumption probably grow faster than the overall GDP.

[3] According to estimates for 1999, in Bulgaria the net exports of goods and services constituted -7.7% of the GDP, in Croatia -7.4%, in the Czech Republic -1.6%, in Hungary -2.5%, in Macedonia -10.4%, in Poland -5.2%, in Romania -4.2%, in Russia +16.8%, in Slovakia -5.3%, in Slovenia -4% and in Ukraine +1.1%.

Table 2

Gross fixed capital formation

real change in % against preceding year

	1993	1994	1995	1996	1997	1998	1999	2000 1)	2001	2002	Index 1989=100 2000 1)
									forecast		
Czech Republic	0.2	9.1	19.8	8.2	-3.0	-3.9	-4.4	6.0	6	5	111.0
Hungary	2.0	12.5	-4.3	6.7	9.2	13.3	5.9	6.5	9.5	9	132.5
Poland	2.9	9.2	16.5	19.7	21.7	14.2	6.5	2.5	2	.	207.8
Slovak Republic	-5.4	-5.0	5.3	32.0	12.0	11.1	-18.8	0.0	5	8	94.7
Slovenia	10.7	14.1	16.8	9.2	11.3	11.1	16.1	4.0	5	5.5	170.6
Bulgaria	-17.5	1.1	16.1	-21.2	-23.9	32.9	25.3	8.0	.	.	63.3
Romania 2)	8.4	26.4	10.7	3.1	-5.4	-18.6	-12.3	2.0	5	0	48.9
Croatia 3)	-32.1	15.2	-25.1	37.6	23.3	3.0	-5.9	-3.0	0	1.0	19.2
Macedonia	-7.9	-8.6	10.2	6.5	-4.3	1.6	1.2	.	.	.	65.8 4)
Yugoslavia 2)	-37.6	-12.0	-3.7	-5.7	0.8	-2.2	.	.	.	.	23.5 5)
Russia 2)	-11.6	-24.0	-10.0	-18.0	-5.0	-12.0	5.3	17.0	6	8	26.1
Ukraine 2)	-10.4	-22.5	-35.1	-22.0	-8.8	6.1	0.4	11.2	10	10	22.7

Notes: 1) Preliminary. - 2) Gross fixed investment. - 3) Up to 1995 investment outlays. - 4) 1999 against 1989. - 5) 1998 against 1989.

Source: WIIW Database incorporating national statistics.

Developments in 2000 consistent with recent trends

The developments in 2000 should be seen in the context of longer-term tendencies. It may be noticed that Slovenia's GDP has been growing at remarkably constant (though moderate) rates since 1994. In Macedonia uninterrupted (and slightly accelerating) growth has been recorded since 1996. For the other countries GDP growth in 2000 seems consistent with the country-specific trends of more recent years. More precisely, in these countries the previous trends discontinued around 1997 – since then the transition countries seem to have followed different country-specific paths. For Hungary the change in trend meant overcoming the long period of stagnation and the start of growth at moderate, yet constant rates. For Poland and Slovakia the change meant the termination of extended periods of fast growth (1994-1997). Growth in both countries has been weakening since. With some qualifications a similar description applies to Croatia. The Czech Republic and Romania went from high growth into recessions in 1997, hopefully overcome in 2000. Finally, Russia and Ukraine showed the first signs of stabilization only in 1997. Disregarding the year 1998 (financial crisis in Russia) both countries seem to have been steadily improving in recent years.

The remarkably steady and balanced growth of Hungary and Slovenia may be due to the specific policies followed in these countries. It is perhaps significant that on many counts (privatization, industrial restructuring, foreign direct investment, fiscal discipline, labour relations) these policies differ radically. What seems important is that, unlike all other countries, neither Hungary nor Slovenia has been tolerating a strong real appreciation of the domestic currency (Slovenia since the very beginning, Hungary after the painful lesson of the early 1990s). In addition, the monetary policies of either country are comparatively non-restrictive. Of course, it is possible that other factors are at work as well. Given the fact that the growth rates in either country, though solid, have not yet been really impressive, the effective control of exchange rates may have been more manageable than elsewhere. But the conclusion that the transition countries attempting to grow at much higher speeds (around 6%) are doomed to run into difficulties and recessions which subsequently wipe out the gains due to previous booms seems too pessimistic. In view of the East Asian experience, fast and yet sustainable long-term growth is possible. The fact that so far no transition economy has managed to replicate the East Asian pattern may have something to do with the general orientation of the economic policy of these countries. This orientation stipulates the extensive liberalization of imports and envisages very little scope for comprehensive long-run industrial policies.

Supply-side limitations not curbing growth in the advanced transition countries

Abundance of labour

There is little doubt that shortages of labour have not restricted the supply of goods and services in the transition countries. Despite the possibility of some regional and occupational labour shortages in some countries, in most of them the output losses due to such mismatches in labour supply and demand are *quantités négligeables*. Statistically reported unemployment is high, or extremely high (see Table 3). Actual unemployment tends to be much higher, especially in countries where the official registration entails no, or little, benefit. The genuine numbers of persons willing to work even at wage rates lower than the prevailing ones – who are yet unable to get any work – are certainly much higher than reported not only in Ukraine and Romania but also in Poland.

Insufficient supply of labour may only become an issue in Hungary and the Czech Republic, where one-digit (and generally falling) unemployment rates are reported. However, even in these two countries such a concern does not seem fully justified. Gross fixed capital formation (see Table 2) has been rising very fast in Hungary since 1997. This has been paralleled by huge gains in industrial labour productivity (see Table 5). Given the fact that foreign-dominated capital investment tends to embody advanced (hence labour-saving) technological change, one cannot really expect any radical increase in the demand

Table 3

Registered unemployment, end of period

	in 1000 persons				rate in %					
	1997	1998	1999	2000	1997	1998	1999	2000	2001	2002
									forecast	
Czech Republic	268.9	386.9	487.6	457.4	5.2	7.5	9.4	8.8	10	10
Hungary	464.0	404.1	404.5	370	11.0	9.6	9.6	8.7	8.5	8.5
Poland	1826.4	1831.4	2349.8	2702.6	10.3	10.4	13.0	15.0	16	16
Slovak Republic	347.8	428.2	535.2	506.5	12.5	15.6	19.2	17.9	17	16
Slovenia	128.6	126.6	114.3	104.6	14.8	14.6	13.0	11.9	11	10.5
CEEC-5 1)	3035.6	3177.2	3891.5	4141.1	9.9	10.4	12.5	13.3	.	.
Bulgaria	523.5	465.2	610.6	682.8	13.7	12.2	16.0	17.9	18	17
Romania	881.4	1025.1	1130.3	1007.1	8.9	10.4	11.8	10.5	10	11
CEEC-7 1)	4440.5	4667.5	5632.3	5831.0	10.0	10.5	12.6	13.1	.	.
Croatia	287.1	302.7	341.7	378.5	17.6	18.1	20.4	22.5	23	23
Macedonia 2)	288.2	284.1	261.5	.	36.0	34.5	32.4	32	32	32
Yugoslavia	793.8	849.4	774.0	820.5 4)	25.5	25.4	25.5	26.9 3)	30	32
Russia 2)	8133	9728	8904	7350	11.2	13.3	12.2	10.2	11	10
Ukraine	637.1	1003.2	1174.5	1188.0	2.3	3.7	4.3	4.2	5	6

Notes: 1) WIIW estimate. - 2) Based on Labour Force Survey data. - 3) September.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

Table 4

Gross industrial production

real change in % against preceding year

	1993	1994	1995	1996	1997	1998	1999	2000 1)	2001	2002	Index 1989=100 2000 1)
									forecast		
Czech Republic	-5.3	2.1	8.7	2.0	4.5	3.1	-3.1	5.7	5	5	83.0
Hungary	4.0	9.6	4.6	3.4	11.1	12.5	10.4	18.5	13	13	136.3
Poland 2)	6.4	12.1	9.7	8.3	11.5	3.5	4.8	4.3	4	5	128.1
Slovak Republic	-3.8	4.8	8.3	2.5	2.7	5.0	-3.4	10.0	6	6	89.9
Slovenia	-2.8	6.4	2.0	1.0	1.0	3.7	-0.5	6.2	4	4	80.3
CEEC-5 3)	1.6	8.2	8.2	5.1	8.3	4.8	2.5	7.3	5.7	6.2	111.0
Bulgaria	-9.8	10.6	4.5	5.1	-5.4	-7.9	-12.3	3.5	4	4	46.9
Romania	1.3	3.3	9.4	6.3	-7.2	-13.8	-8.0	8.2	5	2	47.3
CEEC-7 3)	1.0	7.2	8.3	5.4	4.0	-0.1	-0.6	7.3	5.5	5.1	88.5
Croatia	-5.9	-2.7	0.3	3.1	6.8	3.7	-1.4	1.7	1.5	2	56.9
Macedonia	-14.1	-10.5	-10.7	3.2	1.7	4.3	-2.6	3.5	3	3	47.4
Yugoslavia	-37.3	1.3	3.8	7.6	9.5	3.6	-23.1	12.2	5	5	39.0
Russia	-14.1	-20.9	-3.3	-4.0	1.9	-5.2	8.1	9.0	5	6	54.2
Ukraine	-8.0	-27.3	-12.0	-5.2	-0.3	-1.0	4.0	12.9	6	6	57.6

Notes: 1) Preliminary. - 2) Sales. - 3) WIIW estimate.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

for labour – unless the overall output growth keeps accelerating. Of course, should the recent trends in Hungary continue, shortages of high-skill labour may develop. In the Czech Republic real labour shortages cannot emerge anytime soon. If anything, unemployment will be rising as the Czech corporate sector continues to be, on the whole, in a rather bad financial situation (which is reflected in high debts). The present state of the Czech industry and banks has been reflected in relatively weak productivity improvements in the past. Despite generally weak growth in production (see Table 4), employment in Czech industry has not been contracting at the speed observed in Hungary and Poland in the past. There can be little doubt that the inevitable, and long overdue, restructuring of Czech industry (and also of the banking sector) will require a downsizing of employment, thereby adding to the rise in unemployment.

Production capacities under-utilized in the leading countries

With the labour resources available the actual output produced could have been higher – provided the available production capacities had been there. It can be safely asserted that everywhere the housing construction sector operates deeply below its potential capacity. The current levels of housing construction are small fractions of the pre-transition levels (and the latter were not impressive when compared with the levels recorded in western Europe in earlier decades). With a sustained growth in household incomes, less restrictive credit policies and some state support, the demand for housing would re-emerge and the construction output could become higher with some additional investment in the construction sector. (As housing construction has relatively low import intensity, the expansion of the sectors' output would not add to rising imports.) In most countries (but certainly excepting Russia and Ukraine) also agriculture operates below its potential capacity.[4] If the household incomes (particularly of the poor) had been less depressed all along, the demand for basic staples would have been higher. That demand would have been met by higher agricultural production – without much (if any) additional investment, and without any additional employment.

The data on GDP and gross fixed capital formation (see Tables 1 and 2) indicate that by 2000 in some countries (Poland, Slovenia, Hungary, the Czech Republic) the *index* of gross fixed capital formation (against 1989) was by far higher than the corresponding *index* for the GDP. In all remaining countries (including Slovakia) the opposite was the case. The deep and systematic declines in investment in Croatia, Yugoslavia, Russia and Ukraine may confirm the impression that the production capacities in these countries have in fact contracted. The investments made may have been even insufficient to offset the normal wear-and-tear of existing machinery and installation. Conversely, the strong and systematic acceleration of investment in the former countries may suggest an expansion of

[4] Farming in these two countries underwent devastating changes. Under chaotic management changes and unclear property relations, its pre-transition production potential has been largely destroyed through decimation of animal stocks, lack of maintenance of machinery and installations, and above all by plundering.

production capacities, with a rising share of relatively modern equipment. These impressions may of course be hard to substantiate with any precision. However, they indicate that the *recently* accumulated stocks of fixed assets *alone* should have permitted the generation of quite high GDP by 2000 in at least some countries. Admittedly rough calculations indicate that the stocks of fixed assets accumulated from 1993 to 1999 were over 6 times the GDP level of 1993 in Slovenia; 5.6 in Romania; 5.2 in Poland; 4.8 in the Czech Republic; 4.2 in Hungary; 3.2 in Croatia; and 3.2 in Slovakia. In Bulgaria, Russia and Ukraine fixed capital formation was much less pronounced, with the respective ratios of 1.0; 0.20; and 0.16.

Under realistic magnitudes of the capital/output (fixed capital/GDP) ratios, the 'fresh' production capacities *alone* would have sufficed to generate only tiny fractions of the GDP actually recorded in Ukraine, Russia and Bulgaria.[5] The bulk of the GDP generated in these countries is produced by 'old' capacities put into operation before 1993.[6]

In Slovenia, Poland, Romania, Hungary, the Czech Republic and Slovakia parts of such capacities are certainly still in operation too. The fact that foreign investors target 'old' factories for acquisition indicates that these factories are capable of generating value added (and profits). In all probability the 'old' capacities alone would have permitted the generation of relatively large parts of actually recorded GDP. Certainly, with the recent huge increments in fixed assets the potential capacities must have been capable of generating GDP much higher than actually recorded. The available production capacities in the 'leading' countries seem therefore under-utilized.

External and policy-related impediments to higher capacity utilization

Sufficiently strong demand is a prerequisite for a satisfactory level of utilization of potentially available production capacities. Of course, such capacities may be crippled by many other factors. For example, there is no doubt that the deep decline in Yugoslav production in 1999 was partly due to the shortage of energy and fuels, to which the embargo contributed. In 2000 no such extreme events occurred in the region (though Yugoslavia still had to cope with external adversities). Nonetheless, in some countries parts of productive capacities could not be actually utilized, irrespective of the demand conditions. In Croatia and the Czech Republic large parts of industry are paralysed by high debts. (In the latter country also banks are in a precarious position, which affects the utilization of capacities throughout much of the industry.) The accumulated debts are the effects of improper policies followed for a long time. Under the present conditions firms find

[5] The same applies to Yugoslavia and Macedonia – not considered here because of unavailability of full and reliable time series on gross investment for 1993-1999. In addition, there is little doubt that the Yugoslav production capacities were reduced by 'collateral damage' inflicted by NATO bombings.

[6] Bearing in mind that much (if not the bulk) of the capacities in Russia, Ukraine and Bulgaria were put in operation in the remote 1970s and 1980s (if not earlier), one can ask how long these capacities can persist – and what happens afterwards, when they finally wither away. Certainly there are no easy answers to these questions.

it difficult to finance current operations – for instance the purchase of intermediate imports. Bad debts and the resulting payment arrears restrict production also in other countries, particularly in Romania and Ukraine. In other countries the problem may seem to be less acute, or is less visible at the moment. In Poland, where until recently the indebtedness of firms was not an issue, the situation has been worsening. It has been aggravated by the policy of very high interest rates aimed at the reduction of domestic demand and inflation.

Strong improvements in labour productivity

Accelerating growth of industrial production

Gross industrial production increased in all transition countries in 2000, including those where production had stagnated, or had been falling in 1999 – or even for longer periods of time (see Table 4). With the exception of Croatia and Poland, growth of production accelerated everywhere, in some cases (Yugoslavia, Bulgaria, Romania, Slovakia) very strongly.

From a longer-term perspective, very strong production growth has been sustained for a longer period of time (since 1997) only in Hungary. Poland's industry had performed spectacularly until 1997; since then its growth has been rather slow. The growth rates of production in all remaining countries have been volatile, or moderate, in magnitudes.[7]

Generally, the growth of industrial production, and its acceleration, reflects primarily stronger foreign demand. In the case of Yugoslavia (and to some extent Bulgaria) rebounding production is a response to the termination of the war. The growing production in countries with a rather miserable record on industrial performance since 1989 (Bulgaria, Romania, Croatia, Macedonia, Yugoslavia, Russia and Ukraine) is very significant, even if coming as an effect of very favourable external, or one-time, stimuli. The ability to respond to such stimuli seems to indicate that *some* progress has been made on industrial restructuring, bad debts, corporate governance etc. Of course, in most of these countries (except Russia and Croatia) the revival of industrial production was strong primarily in traditional, raw-materials branches such as steel or chemicals. The revival of production in other branches (in particular supplying consumer and investment goods) must await much stronger and sustained domestic demand. The rising production in Russia[8] and Ukraine is of particular interest because it demonstrates the advantages of abandoning (August-September 1998) the policy of unrealistically strong exchange rates and over-restrictive

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[7] This is also true for Slovenia where the gross industrial production has been rising very slowly. Of course it is important to remember that *gross* industrial production reflects the industrial performance imperfectly. Data on the correct category, which is the industrial value added, are available from the national CSOs usually only with a long delay.

[8] The rising industrial production in Russia reflects a strong revival of *manufacturing* (in physical terms the extraction of energy did not change much in 2000).

interest rates. The performance of the Polish industry in 2000 – the only one where growth decelerated – teaches the same lesson in reverse.

Strong gains in labour productivity

Provisional estimates indicate that industrial labour productivity increased very strongly nearly everywhere, and there was generally acceleration in productivity growth. Strong improvements continued in Hungary and Poland, the traditional leaders on productivity gains. It is encouraging to see also definite improvements in traditional laggards: Bulgaria, Romania, Slovakia, Slovenia and the Czech Republic.

Table 5

Labour productivity in industry

change in % against preceding year

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000** [1]	**Index 1989=100 2000** [1]
Czech Republic [2]	-1.2	5.1	10.6	8.6	9.2	4.7	2.2	8.8	132.2
Hungary [3]	13.4	15.7	10.2	9.4	13.7	11.9	10.5	17.5	221.7
Poland [4]	9.7	13.0	6.3	9.1	11.2	4.7	13.0	15.6	193.3
Slovak Republic	1.8	7.2	4.0	2.5	4.8	9.1	-0.5	13.9	124.4
Slovenia	5.8	13.2	6.3	9.2	4.4	5.4	3.1	9.3	152.8
Bulgaria [5]	-0.2	16.2	7.4	7.0	-2.8	-3.8	1.0	17.7	120.5
Romania [6]	9.0	14.7	13.7	7.5	-1.8	-7.4	7.1	15.2	101.7
Croatia [5]	0.3	3.0	6.6	11.3	11.9	8.7	3.9	4.7	131.1
Macedonia [7]	-11.9	-6.5	1.2	29.8	8.3	14.6	6.4	.	103.0 [8]
Yugoslavia [7]	-34.7	2.1	8.3	9.6	12.3	6.3	.	.	61.8 [9]
Russia	-8.8	-14.4	5.4	2.9	8.6	0.8	9.7	.	81.8 [8]
Ukraine	-3.2	-20.9	-4.2	3.0	7.1	1.7	9.0	.	87.5 [8]

Notes: 1) Preliminary. - 2) Enterprises with 100 and more employees, in 1992 to 1994 with 25 and more, from 1997 with 20 and more. - 3) From 1992 enterprises with more than 20, form 1995 with more than 10, from 1999 more than 5 employees. - 4) For 2000 enterprises with more than 9 employees. - 5) Up to 1996 public sector only. - 6) Enterprises with more than 20 employees (for Romania from 1999). - 7) Excluding small enterprises. - 8) 1999 against 1989. - 9) 1998 against 1989.

Source: WIIW Database incorporating national statistics.

It is of course less encouraging that almost everywhere the gains in productivity went together with cuts in employment. Only in Hungary were the gains in productivity in a sense 'constructive' as they went together with higher (if marginally) employment. This reflects strong sales and sales prospects. With strong demand it makes sense to increase not only production, but also employment.

The scale of cuts in industrial employment were rather moderate in most remaining countries. There the changes in productivity reflect the attempts at achieving two goals simultaneously: (i) rationalization of labour costs, and (ii) expansion of sales.

Only in Poland and Bulgaria were the huge productivity gains made possible largely through massive cuts in employment. However, there are crucial differences between Poland and Bulgaria. Unlike Bulgaria, in Poland labour productivity growth has been very strong for a long period of time. Besides, the pressures to cut employment and costs have in Poland been probably much stronger than elsewhere. (The Polish transition started with a 'big bang' – wholesale liberalization, drastic cuts in subsidies and 'soft lending', combined with the imposition of harsh fiscal and monetary policy measures. The bankruptcy provisions started to bite very soon thereafter. Survival, let alone expansion, required improvements in labour productivity.) In other countries the initial phases of the transition were generally much more graduated. On the whole, during the protracted muddling-through, the pressures on firms were somewhat blunted. In Bulgaria the ongoing cuts in employment may be necessary to restore a proper balance between production and employment.

Of course it is possible that with the massive investment that has been made in Polish industry in recent years, its technologies have changed radically, allowing substantial cuts in employment. To some extent this can certainly be the case.[9] One problem with this explanation is however that those industries that have absorbed huge investments do not show much of a rise in sales or profits recently. Quite often they have *reduced* sales (as e.g. the auto industry). This indicates that these firms face disappointingly low demand, forcing them to operate below the fresh capacities put in place at a great expense. To firms the labour force adjustments do make sense, but these adjustments will not carry the day for the firms – and certainly not for the economy as a whole.

Strong rise in exports and imports – and of trade imbalances

Importance of external factors

According to provisional estimates, both exports and imports expanded (at current EUR terms) very strongly in all transition countries (see Table 6). In current USD terms the growth was of course less pronounced, in some cases fairly weak.

In Slovakia, Poland, Slovenia, Bulgaria, Croatia, Yugoslavia, Russia and Ukraine exports rose faster than imports. Of course, only in Russia was the difference between the growth

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[9] Actually, the biggest layoffs occur in many traditional (e.g. light) industries where no big labour-saving investments were made. Layoffs in these industries follow declining sales and production. On balance no gain on productivity and costs has so far been achieved in these sectors.

rates of exports and imports really huge. In the Czech Republic, Romania, Hungary, Croatia, Macedonia imports rose faster than exports, though generally the differences in growth rates were not large.

There is little doubt that high oil prices (and the strength of the US dollar in which oil is traded) added somewhat to the imports of all countries[10], except Russia, and added rather hugely to the exports of the latter country. Without the 'oil factor' the growth rates of exports would probably have been higher than those of imports in all countries (except Ukraine, for which the effects of changing oil prices are hard to evaluate).

The good business climate prevailing, until about the fourth quarter of 2000, in the EU and the USA supported the expansion of exports of the transition countries. Although the contribution of the 'foreign business climate' factor to exports is yet to be measured, it is likely to have over-compensated for the additional costs of imported oil and energy. The recorded trade balances may therefore approximate the structural (free of accidental, or cyclical impacts) *net* position of the individual countries (again except Russia and Ukraine) vs. the rest of the world.

Because foreign trade transactions settled in the euro currencies are by far more important for all transition countries than those in US dollar[11] (Russia, Ukraine excepted), it is preferable to focus on trade balances in euro terms.

As in previous years all these countries had trade deficits in 2000. Moreover, the deficits increased quite significantly almost everywhere. Only in Slovakia did the trade deficit decline, and in Slovenia and Croatia the deficits rose but moderately, by 10-11%. The highest increase took place in the Czech Republic, where the deficit more than doubled. In Hungary, Bulgaria, Macedonia and Romania the deficits rose by 35-40%, in Poland and Yugoslavia by 20-23%.

[10] High oil and gas prices and the strong US dollar were responsible for some 3% of total Polish imports. In other countries (more dependent on energy imports) the impacts were greater (in Slovakia about 7%). In so far as these countries are also exporters of products of oil processing (sold also at much higher prices), they were in a position to offset a part of higher costs of imported fuels with higher export revenue.

[11] In 2000 nearly 70% of CEEC-7 exports went to the EU, and 60% of CEEC-7 imports came from the EU.

Table 6

Foreign trade of Central and Eastern Europe and the main CIS States in EUR mllion

(based on customs statistics)

		1993	1994	1995	1996	1997	1998	1999	2000 [1]	1999	2000
										change in %	
Czech Republic [2]	Exports	11289	13472	16502	17940	20182	23515	24641	31507	4.8	27.9
	Imports	10993	14632	19404	22318	24322	25690	26387	35072	2.7	32.9
	Balance	296	-1161	-2902	-4378	-4140	-2175	-1747	-3565	.	.
Hungary [3]	Exports	7627	9045	9972	10472	16910	20477	23491	30700	14.7	31
	Imports	10814	12318	11905	12912	18780	22871	26288	34600	14.9	32
	Balance	-3187	-3272	-1933	-2440	-1869	-2394	-2797	-3900	.	.
Poland	Exports	12154	14559	17710	19488	22798	25145	25729	33300	2.3	29
	Imports	16052	18205	22491	29677	37484	41539	43151	54300	3.9	26
	Balance	-3898	-3645	-4781	-10189	-14686	-16394	-17422	-21000	.	.
Slovakia [4]	Exports	4662	5652	6634	7047	7310	9545	9607	12875	0.7	34.0
	Imports	5421	5585	6783	8876	9132	11640	10633	13870	-8.6	30.4
	Balance	-759	68	-148	-1829	-1823	-2095	-1026	-995	.	
Slovenia	Exports	5207	5755	6426	6641	7413	8052	8037	9600	-0.2	18.8
	Imports	5575	6156	7327	7536	8290	8999	9482	11000	5.4	16
	Balance	-367	-401	-901	-895	-876	-947	-1445	-1400	.	.
CEEC-5	Exports	40940	48484	57245	61587	74613	86734	91505	117982	5.5	28.9
	Imports	48856	56895	67909	81319	98008	110739	115941	148842	4.7	28.4
	Balance	-7916	-8412	-10665	-19732	-23394	-24005	-24436	-30860	.	.
Bulgaria [5]	Exports	3174	3347	4142	4486	4368	3841	3697	5200	-1.2	41
	Imports	4058	3515	4377	4655	4361	4476	5098	7100	15.2	39
	Balance	-884	-167	-234	-169	7	-635	-1401	-1900	.	.
Romania	Exports	4173	5175	6047	6376	7434	7412	7981	11100	7.7	39
	Imports	5563	5981	7857	9019	9946	10569	9757	13600	-7.7	39
	Balance	-1390	-806	-1810	-2643	-2512	-3157	-1776	-2500	.	.
CEEC-7	Exports	48288	57006	67434	72449	86416	97988	103183	134282	5.4	30.1
	Imports	58477	66391	80143	94992	112315	125784	130797	169542	4.0	29.6
	Balance	-10189	-9385	-12709	-22543	-25899	-27797	-27614	-35260	.	.
Croatia [6]	Exports	3210	3595	3595	3602	3666	4046	4027	4764	-0.5	18.0
	Imports	3606	4397	5810	6220	8060	7477	7324	8585	-2.0	17.3
	Balance	-396	-802	-2215	-2618	-4394	-3431	-3297	-3821	.	.
Macedonia	Exports	900	914	920	905	1091	1170	1119	1400	-4.4	26
	Imports	1023	1249	1314	1283	1568	1709	1686	2200	-1.4	29
	Balance	-123	-335	-394	-378	-478	-539	-567	-800	.	.
Yugoslavia [7]	Exports	.	.	.	1593	2360	2518	1391	1874	-44.0	34.7
	Imports	.	.	.	3251	4245	4283	3081	4013	-26.4	30.3
	Balance	.	.	.	-1658	-1885	-1766	-1690	-2139	.	.
Russia [8]	Exports	50881	56826	61993	69874	77885	66606	70491	108500	5.8	54
	Imports	37794	42503	46589	54282	64988	53392	37733	51000	-29.3	35
	Balance	13087	14323	15404	15593	12897	13214	32758	57500	.	.
Ukraine	Exports	9248	8642	10036	11357	12550	11283	10871	15700	-3.7	44
	Imports	10807	9040	11837	13883	15103	13103	11119	15500	-15.1	40
	Balance	-1559	-398	-1801	-2526	-2554	-1820	-248	200	.	.

1) Preliminary. - 2) From 1994 new methodology of 2000. - 3) From 1997 including trade of firms with customs free legal status. - 4) From 1998 new methodology. - 5) From 1999 new methodology. - 6) From 2000 new methodology. - 7) From 1999 excluding Kosovo and Metohia. - 8) Including estimate of non-registered trade.

Source: WIIW Database incorporating national statistics, WIIW forecast.

Rising trade deficits are certainly understandable in Yugoslavia where the post-war reconstruction has begun – and GDP rose strongly. It is less obvious how to qualify the strongly rising deficits in countries with weak GDP growth, such as Romania and especially the Czech Republic. High trade (and current account) deficits forced, not long ago, both countries into recessions. In 2000, barely emerging out of recessions, both countries seem ready to reproduce high trade deficits. Apparently, the kinds of policy adjustments and structural changes made during the periods of recession may have been inadequate to safeguard a more sustainable steady growth.[12] Another country where an expansion of the trade deficit must be a cause for concern is Bulgaria – the only country where the deficit has been not only rising, but actually *accelerating* since 1997, and that despite generally weak growth in recent years.

The tendencies on trade deficits in Slovenia (to a lesser degree in Croatia) may be less of a problem because there the deficits are not yet very large, and otherwise may have less of an impact on the overall current account balances. Net exports of services (tourism) and other items (remittances) play an important role in these two countries.

Although in Hungary the deficit rose much faster than in Poland, the recent developments in the former country are less disquieting. Hungarian exports have been increasing steadily since 1996. In 2000 they were up 145% (in current EUR terms) vs. 1996. Polish exports have been more volatile, and on the whole much less dynamic. By 2000 they were only 71% higher than in 1996. Moreover, during the same period Hungarian imports rose by 139%, less dynamically than exports. In Poland imports rose by 83% and thus faster than exports. Hungarian exports covered 87% of imports in 1996 and 89% in 2000. Polish exports covered 66% of imports in 1996 and only 61% in 2000. The trade data for 2000 that have been used for the calculation of these ratios reflect also rather different contexts: strong, accelerating GDP growth in Hungary as opposed to weak, decelerating growth in Poland. Under 'normal conditions' (less GDP growth in Hungary, more in Poland) the disparities between the Polish and Hungarian exports-to-imports indices for 2000 would have been even higher. Quite clearly, whereas since 1997 Poland's growth has been *import-fed*, Hungary's has been *export-led.* With the trends operating since 1996, the Hungarian trade deficits will, in due time, turn into surpluses, as it has already been the case in trade with the EU (Table 7). In Poland the continuation of these trends implies further expansion of the deficits.

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[12] In contrast, Slovakia, where high trade deficits running for several years also forced adjustments, seems to have been successful. What is particularly remarkable is that the stabilization of the deficits in Slovakia was achieved *without* recession, although there was a period of growth slowdown.

Table 7

EU(15) trade of Central and Eastern European Countries

(based on customs statistics, in current EUR mn)

		1993	1994	1995	1996	1997	1998	1999	2000 [1]	1999	2000
										change in %	
Czech	Exports	5574	7904	9987	10481	12095	15093	17053	21582	13.0	26.6
Republic [2]	Imports	5752	8710	11831	13864	14963	16313	16946	21745	3.9	28.3
	Balance	-178	-806	-1844	-3383	-2868	-1220	107	-163	.	
Hungary [3]	Exports	4434	5760	6249	6564	12037	14940	17906	23100	19.9	29
	Imports	5880	7521	7322	7715	11788	14664	16929	20100	15.4	19
	Balance	-1446	-1761	-1073	-1151	249	276	977	3000	.	
Poland	Exports	8411	10075	12398	12908	14600	17173	18127	23400	5.6	29
	Imports	10390	11880	14540	18970	23911	27268	28016	33500	2.7	20
	Balance	-1979	-1805	-2142	-6061	-9312	-10096	-9889	-10100	.	
Slovakia [4]	Exports	1377	1976	2481	2908	3049	5312	5704	7609	7.4	33.4
	Imports	1514	1867	2358	3309	3603	5836	5496	6796	-5.8	23.7
	Balance	-137	109	123	-401	-553	-524	208	813	.	
Slovenia	Exports	3292	3778	4306	4286	4705	5271	5304	6200	0.6	17
	Exports	3665	4258	5041	5088	5588	6242	6530	7450	4.6	14
	Balance	-373	-481	-734	-801	-884	-972	-1226	-1250	.	
CEEC - 5	Exports	23087	29493	35421	37148	46486	57788	64094	81891	10.9	27.8
	Imports	27201	34237	41092	48946	59854	70323	73917	89591	5.1	21.2
	Balance	-4113	-4744	-5671	-11798	-13368	-12535	-9823	-7700	.	.
Bulgaria [5]	Exports	951	1260	1560	1754	1889	1905	1939	2690	2.6	38
	Imports	1332	1318	1628	1633	1645	2010	2477	3150	24.2	27
	Balance	-381	-58	-68	121	243	-105	-538	-460	.	
Romania	Exports	1726	2494	3274	3603	4204	4783	5229	7100	9.3	35
	Imports	2521	2883	3964	4721	5222	6097	5891	7600	-3.4	30
	Balance	-795	-389	-690	-1118	-1018	-1314	-662	-500	.	
CEEC - 7	Exports	25764	33247	40255	42506	52579	64476	71262	91681	10.6	28.7
	Imports	31053	38439	46684	55300	66721	78430	82285	100341	4.9	21.9
	Balance	-5289	-5191	-6429	-12795	-14143	-13954	-11023	-8660	.	
Croatia [6]	Exports	1860	2140	2072	1838	1823	1927	1960	2587	1.7	30.6
	Exports	2070	2597	3609	3693	4793	4440	4136	4773	-6.8	15.2
	Balance	-210	-457	-1537	-1855	-2970	-2513	-2175	-2186	.	
Macedonia	Exports	318	307	312	387	407	516	500	600	-3.1	20
	Imports	352	477	527	497	581	620	677	800	9.1	24
	Balance	-34	-170	-215	-110	-173	-104	-176	-200	.	
Yugoslavia [7]	Exports	.	.	.	551	939	965	.	.	.	.
	Exports	.	.	.	1366	1758	1847	.	.	.	.
	Balance	.	.	.	-815	-820	-882	.	.	.	.
Russia [8]	Exports	16753	20173	20030	21436	25191	21356	22959	.	7.5	.
	Imports	9552	12942	13717	13353	17447	14628	10913	.	-25.4	.
	Balance	7201	7231	6312	8083	7745	6728	12046	.	.	.
Ukraine	Exports	788	844	1074	1259	1549	1892	1988	2500	5.1	26
	Imports	938	1010	1768	2184	2980	2831	2252	3050	-20.5	36
	Balance	-149	-166	-694	-925	-1430	-939	-263	-550	.	

1) Preliminary. - 2) From 1994 new methodology of 2000. - 3) From 1997 including trade of firms with customs free legal status. - 4) From 1998 according to new methodology. - 5) From 1999 new methodology. - 6) From 2000 new methodology. - 7) From 1999 excluding Kosovo and Metohia. - 8) Including estimate of non-registered trade.

Source: WIIW Database incorporating national statistics, WIIW forecast.

Trends in real exchange rates: the strategically important factor behind trade performance

There are of course many factors behind the differences between the foreign trade performance of the individual transition countries. Because of the many country-specific features it would be rather difficult to propose a single 'one-size-fits-all' explanation. Seeking a simple explanation for the differences between Hungary and Poland seems to make sense in so far as the two countries have had otherwise much in common (tendencies on production and labour productivity, unit labour costs[13], fixed capital formation, foreign direct investment, privatization and restructuring, etc.). A crucial single factor that may have been responsible for the differences in performance is the difference in exchange rate policies. Since 1996 Hungary has been on a pre-announced crawling-peg regime, with very narrow bands. Apparently, this policy has been highly successful in preventing any large-scale and sustained real appreciation of the forint. In Poland the same regime (in operation since 1992) was also very successful in the past. Yet it was effectively dropped in 1995-1996. Since then, the zloty has been free to float – which on the whole resulted in its strong and (so far) persistent real appreciation. The differential trends in real exchange rates seem to have resulted, as the basic logic would suggest, in deteriorating competitiveness, reflected in relatively slow growth of exports and much faster growth of imports in Poland – with the opposite outcome in Hungary.

Trends in real exchange rates appear to have much to do with the foreign trade performance also of other countries (see Figures 1a-1b). As can be seen from Figure 1a, the Slovenian currency has been following a path implying slow, but rather steady real *depreciation*. The Hungarian and Slovak currencies *depreciated* quite strongly in 1998-1999; the appreciation during 2000 returned the forint to its position from the end of 1997 and left the Slovak koruna still depreciated as compared with that date. The Polish and Czech real exchange rates are different from the rest: both appear much more volatile. For about two years both have been appreciating quite strongly (as they also did in earlier years).

[13] Sometimes the foreign-trade success of Hungary is ascribed to its restrictive wage policies and good performance on unit labour costs. By implication, the less successful (or dismal) trade performance of other countries is blamed on too lax wage policy, too much trade-unionism etc. In actual fact, unit labour costs (ULCs) in both Poland and Hungary have been rising, at least recently, *faster* than in most other advanced transition countries. During 1996-2000 the ULCs (at constant domestic prices) rose 62% in Hungary, 83% in Poland, 28% in the Czech Republic, 29% in Slovenia and 13% in Slovakia. The same ULC indices adjusted for exchange rates (vs. the euro) are of course different: 54% for Poland, 23% for the Czech Republic, 6.3% for Slovenia, 3% for Slovakia – and 20% for Hungary. (See ANNEX, Indicators of Competitiveness.)

Figure 1a

Real exchange rates

(national currency per 1 DEM deflated with PPI, Jan 1998 = 100)

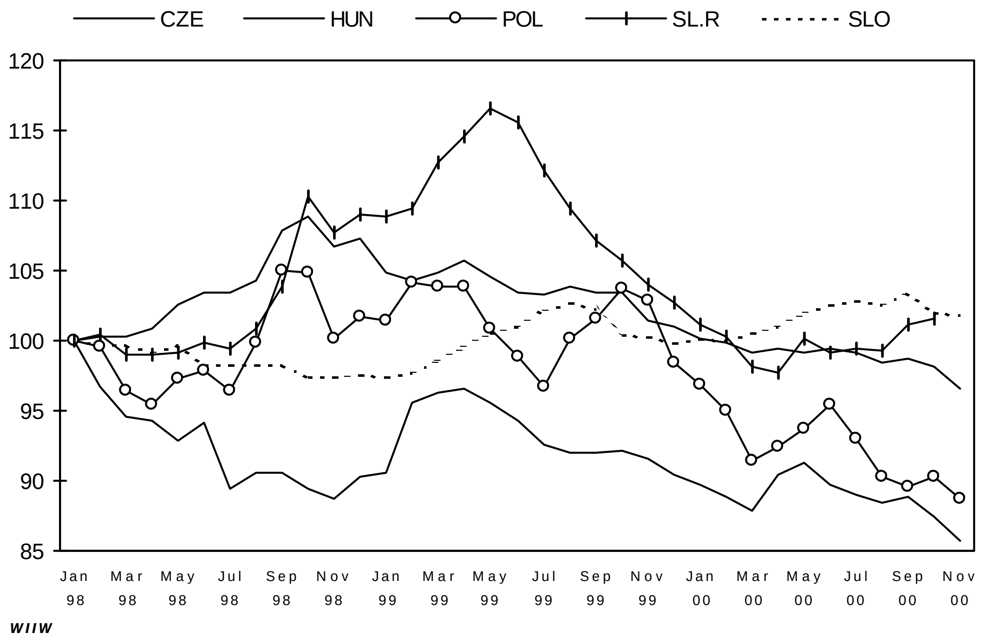
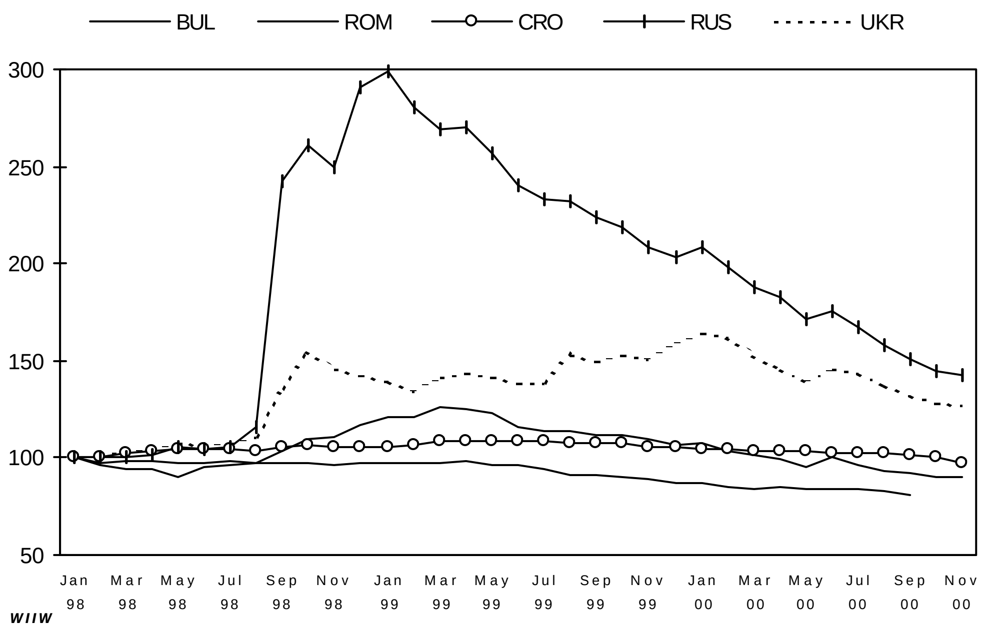


Figure 1b

Real exchange rates

(national currency per 1 DEM deflated with PPI, Jan 1998 = 100)



Note: Declining line means real appreciation.

Finally, it is worth noting (see Figure 1b) that on the whole the Ukrainian currency shows no signs of real appreciation in recent years. The Russian currency, though continuing to appreciate since the beginning of 1999, in real terms is still about 50% below the value in July 1998. (In USD-adjusted real terms the Russian currency was appreciating in 2000 much less than Figure 1b indicates, and the Ukrainian currency was depreciating much faster. For these countries the US dollar is by far the more relevant reference currency than the euro.) In real terms the Croatian exchange rate does not seem to be changing much. The Romanian currency, which had depreciated *slightly* in 1999, was appreciating throughout 2000. Finally, there is a steady real appreciation of the Bulgarian currency – which is to be expected since the country is on a fixed (currency board) exchange rate regime and its inflation is much higher than in the EU.[14]

Current accounts: high surpluses in Russia and Ukraine, rising deficits in the Czech Republic and Macedonia

In Russia and Ukraine the improvements in the trade balances were reflected in rising current account surpluses. The rising trade deficit in the Czech Republic resulted in a rather strong expansion of the current account deficit. There was also a very strong increase in the current account deficit in Macedonia. In the remaining countries the current account deficits generally decreased, or did not change much, irrespective of the generally increasing trade deficits (see Table 8).

Net exports of services, net transfers, and especially 'errors and omissions' play an important role in the determination of the current accounts balances, as officially revealed. Financing of the current account deficits was not much a problem to any country. The official reserves of the national banks did not decrease. As the available information suggests, the gross external debt of the countries with the current account deficits did not rise either. By implication, the deficits were financed by inflows of foreign capital, of which the largest portion was foreign direct investment.

Although in the Czech Republic and Macedonia there was a significant deterioration of the current account deficit to GDP ratio, the Czech ratio is still relatively low (certainly lower than in 1996-1997, when it averaged 6.75% and precipitated painful adjustments). The ratio for Macedonia is certainly too high; sooner rather than later the domestic demand will have to be restricted, and the GDP growth rate will be coming down to traditionally low levels. A marked devaluation of the Macedonian currency will be likely as well, and this will boost inflation.

[14] It should be noticed that the vertical axes in Figures 1a-1b are in different scales. The movements in Romanian and Bulgarian real exchange rates are more pronounced than the figures suggest.

Table 8

Foreign financial position

USD bn, end of period

	Gross external debt [1)]		Reserves of National Bank (excluding gold) [2)]		Current account USD bn				Current account in % of GDP			
	1999	2000	1999	2000	1999	2000	2001	2002	1999	2000	2001	2002
							forecast				forecast	
Czech Republic	22.6	19.9 [3)]	12.8	13.1	-1.0	-1.9	-2.2	-2.5	-1.9	-3.7	-3.9	-4.2
Hungary	29.3	29.1 [4)]	11.0	11.2	-2.1	-1.8	-2.5	-2.6	-4.3	-3.7	-4.4	-4.2
Poland	64.4	63.8 [3)]	27.3	27.5	-11.6	-9.9	-11.5	-12.0	-7.5	-6.2	-6.5	-6.5
Slovak Republic	10.5	11.0 [3)]	3.4	4.1 [4)]	-1.1	-0.6	-0.7	-0.8	-5.8	-3.1	-3.3	-3.6
Slovenia	5.5	6.0 [4)]	3.2	3.2	-0.8	-0.6	-0.5	-0.5	-3.9	-3.2	-2.3	-2.0
Bulgaria	10.2	10.3 [3)]	2.9	3.2	-0.7	-0.7	-0.5	-0.5	-5.5	-5.8	-3.6	-3.3
Romania	8.6	9.2 [4)]	1.5	2.5	-1.3	-0.9	-1.5	-1.2	-3.8	-2.5	-4.1	-3.2
Croatia	9.9	9.8 [3)]	3.0	3.5	-1.5	-0.8	-0.9	-0.9	-7.5	-4.2	-4.1	-3.9
Macedonia	1.4	1.4 [5)]	0.4	.	-0.1	-0.3	-0.4	-0.4	-3.9	-9.3	-8.3	-7.6
Yugoslavia	12.5	.	.	.	-0.6	-0.8	-1.2	-1.5	-3.6	-8.3	-14.7	-19.3
Russia	158.8	.	12.5	28.0	25.3	42.0	25.0	20.0	13.7	18.2	10.0	7.4
Ukraine	12.4	11.3	1.1	0.9 [5)]	0.8	1.6	0.5	0.0	2.7	5.0	1.4	0.0

Notes: 1) In convertible currencies for Bulgaria, Czech Republic. For more information see country tables respectively. - 2) Forex reserves, SDR and reserve position with the IMF. Including gold for the Czech Republic, Hungary, Poland, Russia, Slovakia, Ukraine. Figures for Hungary correspond to total reserves of the country. - 3) September. - 4) November. - 5) October.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

The current account deficit to GDP ratio is still disquietingly high in Poland – about the average Czech level from 1996-1997. Also the tendency visible in Bulgaria may cause problems. In 1997 Bulgaria had a current account surplus of 4.2%; this has turned into a high deficit rather fast (considering the very weak growth in the intervening period). With the currency board regime, the Bulgarian authorities cannot do anything on exchange rates, and almost nothing on interest rates. The only action left is on the fiscal side. The budget surplus generated in 2000 did not prevent an expansion of the current account deficit. Higher budget surpluses may be hard to achieve, also for political reasons, and the ongoing strong real appreciation of the Bulgarian currency will be widening the trade and current account deficits even if domestic demand comes to a halt. Sooner or later the resulting outflow of foreign exchange, and hence the forced contraction of money supply will brake the expansion of the current account deficit and will push the economy into a

Figure 2a

Minimum real interest rates

(NB leading rate deflated with annual PPI, in % p.a.)

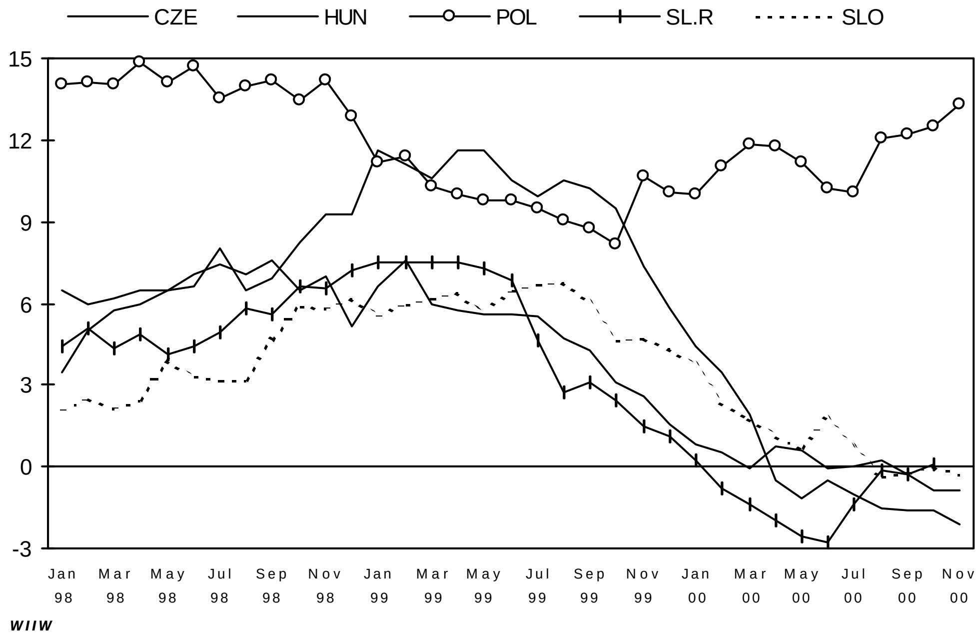
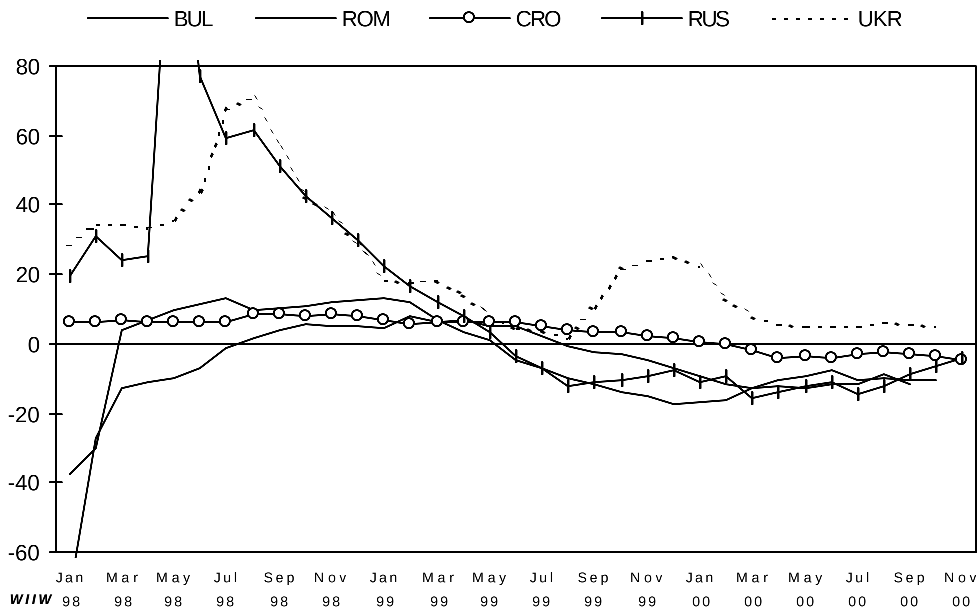


Figure 2b

Minimum real interest rates

(NB leading rate deflated with annual PPI, in % p.a.)



Note: Declining line means real appreciation.

'corrective recession'. For the time being, the capital inflows (primarily FDI and credits from international financial institutions) are strong. The automatic adjustments inherent to the currency board regime are unlikely to happen in the immediate future.

At present only the Polish current account situation seems to be fraught with some imminent risks, and that not only because of the size of the deficit. It is highly probable that much of the capital inflow is in fact purely speculative. This statement can be justified by the following facts: (i) the interest rates in Poland have been by far higher than in any other CEEC-5 country (see Figures 2a-2b); (ii) the zloty keeps strengthening (of late even against the US dollar, *nominally*); (iii) the strengthening of the zloty is self-reinforcing – high capital inflows strengthen the zloty, and the strengthening zloty induces more capital inflows; (iv) there are virtually no restrictions on capital transactions, including the short-term ones; (vi) the moves (on interest rates) of the Polish central bank have been surprisingly easy to foresee; and (vii) the general belief is that Poland has 'reassuringly high' forex reserves.

At some (actually any) point of time, there may be a sudden change in sentiments of foreign as well as domestic speculators. This may provoke high capital outflows and/or a strong devaluation of the Polish zloty.

Inflation: largely a non-issue

The long-run tendency for inflation rates to go down was perturbed in 2000 almost everywhere (see Table 9 and Figures 3a-3b). Only in Russia did the inflation rate fall strongly, and that despite high GDP growth and a 50% expansion of the money supply (M2). In Bulgaria the budget surplus and the currency board regime (fixed exchange rates vs. the German mark) did not prevent high inflation. The acceleration of inflation in the remaining countries (or the lack of definite further disinflation in Hungary and Romania) is usually blamed primarily on high oil prices and the strong US dollar. Indeed, rising costs of fuels were passed on to producer, and then ultimately to consumer prices. Other cost-like factors strengthened inflation in many other countries as well. These factors included increases in VAT and excise tax rates, and hikes in prices of services supplied by the state-owned, or state-controlled monopolies (post, railways, telecommunications, electricity etc.). All these actions were motivated primarily by the desire to reduce the budget deficits – and this is generally considered a precondition for falling inflation. Ironically, the cuts in the budget deficits achieved that way directly added to inflation. In some countries the authorities suggest that the introduction of higher VAT and excise tax rates is a necessary element of the pre-accession economic 'harmonization' with the EU.

Figure 3a

Consumer price inflation

(monthly changes in %, 3-month moving average)

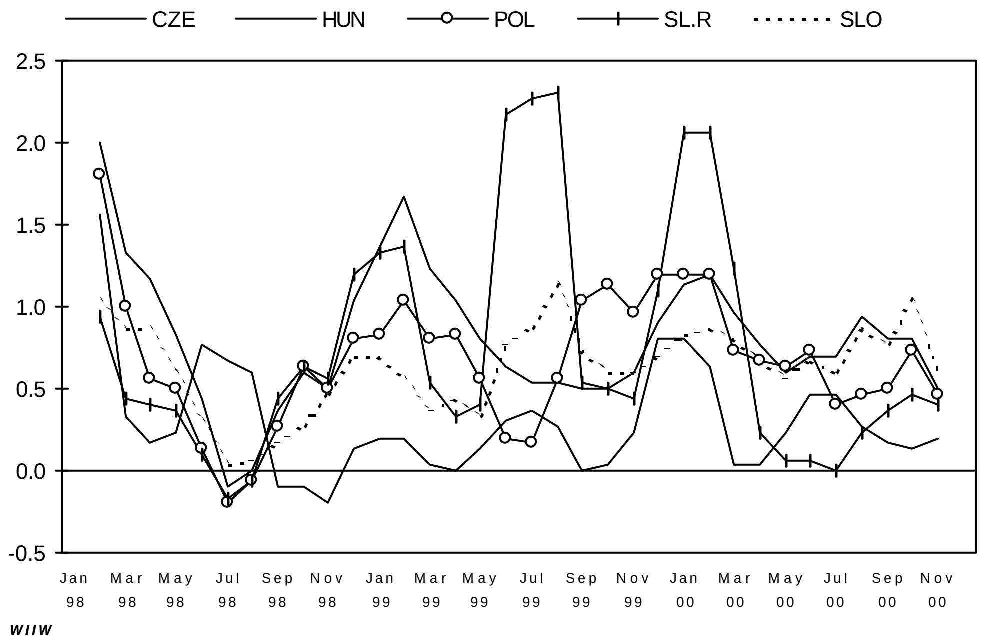


Figure 3b

Consumer price inflation

(monthly changes in %, 3-month moving average)

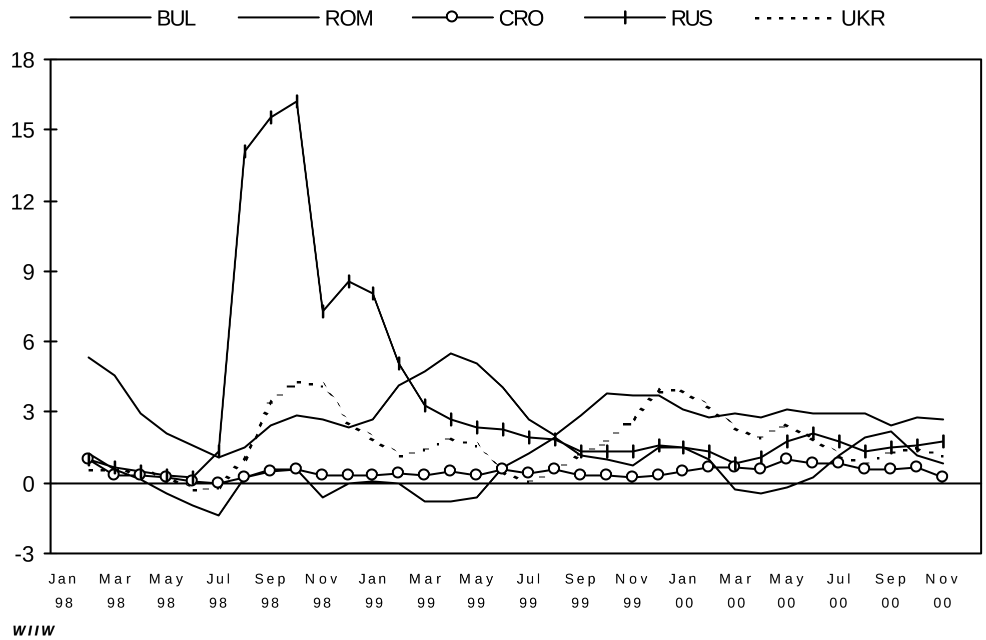


Table 9

Consumer price inflation

change in % against preceding year

	1993	1994	1995	1996	1997	1998	1999	2000 1)	2001	2002
									forecast	
Czech Republic	20.8	10.0	9.1	8.8	8.5	10.7	2.1	4.0	3.7	3
Hungary	22.5	18.8	28.2	23.6	18.3	14.3	10.0	9.8	8.5	6.5
Poland	35.3	32.2	27.8	19.9	14.9	11.8	7.3	10.1	8	6
Slovak Republic	23.2	13.4	9.9	5.8	6.1	6.7	10.6	12.0	10	6
Slovenia	32.9	21.0	13.5	9.9	8.4	7.9	6.1	8.9	7	5
Bulgaria	72.8	96.0	62.1	123.0	1082.3	22.3	0.3	9.9	6	4
Romania	256.1	136.8	32.3	38.8	154.8	59.1	45.8	45.7	40	35
Croatia 2)	1517.5	97.6	2.0	3.5	3.6	5.7	4.2	6.2	5.5	5
Macedonia 2)	349.8	121.7	15.9	3.0	4.4	0.8	-1.1	10.5	8	6
Yugoslavia 3)	.	3.3	78.6	91.5	21.6	29.9	44.9	85.7	50	30
Russia	873.5	307.0	197.5	47.8	14.8	27.6	85.7	21.0	18	15
Ukraine	5371.0	891.0	376.8	80.2	15.9	10.6	22.7	28.2	20	20

Note: 1) Preliminary. - 2) Retail prices. - 3) In 1994 growth rate December/February.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

Because the scope for further increases in the rates of indirect taxation will be narrowing in the future (as these rates already approach, or exceed, the EU levels) and the oil prices are likely to stabilize, the disinflation tendency of recent years will resume. The ongoing gains in labour productivity will support the process. But because inflation in the transition countries is at present largely of a cost-push nature, the disinflation will be rather slow. It will take time for the successive rounds of cost-price-cost adjustments to push inflation rates to relatively low values.[15] The process may also be perturbed, or slowed down, by other factors such as strong devaluation (adding to costs of imported goods, including raw materials and intermediate goods), rising interest rates (adding to financial costs borne by producers), or deep cuts in demand (increasing the burden of fixed costs such as depreciation of fixed assets). In countries that may have to cope with too strong an expansion of the foreign trade and current account deficits (Poland, Bulgaria, Macedonia; to a lesser degree possibly also the Czech Republic and Romania) some of these factors may play a substantial role also in the relatively near future.

[15] The medium-term projections (or programmes) of the national banks of many transition countries envisage (or even target) convergence of inflation rates to the rates prevailing in the EU. There are good grounds to believe that high and sustainable growth in the transition countries cannot be reconciled, in the medium term, with inflation running at about the same rate as in the EU. Should incomes in the transition countries be expanding, and trade with the EU intensify, the relative prices in the former countries will be adjusting to the EU's relative prices. Such relative price adjustments imply a certain amount of inflation, *above* the EU levels.

Unequal partners: transition countries and the EU

Costs and benefits of association with the EU

The transition countries striving for membership in the EU (this group does not include Russia, Ukraine, Yugoslavia and Macedonia) are at various stages of fulfilment of their respective association agreements with the EU. The leading countries, which signed such agreements in the first half of the 1990s (Hungary, the Czech Republic, Poland, Slovenia), have undoubtedly gained economically from these agreements, as these raised their reputations important for credit ratings and the inflow of foreign direct investment. Some of the legislation taken over from the EU has probably done some good to these countries as well (though the implementation of some of them surely entailed more costs than actual benefits). Direct EU aid to many projects carried out in the transition countries (and lending through the European Bank of Reconstruction and Development, and the European Investment Bank) was also substantial. Last, but not least, there has been a generous supply of invaluable advice on many undoubtedly important issues.

For several years now the transition countries have been gaining access to the tightly protected EU market for industrial products. This has been reciprocated by the opening-up of the domestic markets to EU industrial exports. Whether or not the liberalization contributed to trade deficits of the transition countries remains an open question. What cannot be questioned is that cumulatively, each transition country developed a huge deficit in trade with the EU during the recent years. Together, the advanced countries (Poland, Hungary, the Czech Republic, Slovakia and Slovenia) accumulated a rather large deficit of EUR 65 billion (in current EUR, years 1994-2000) in their trade with the EU. (Out of this EUR 49 billion was Poland's deficit; see Table 7.)

There can be little doubt that the export performance of the individual transition countries could have been much better (with more appropriate exchange rate policies, but also through active promotion measures such as export credit schemes, tax breaks for exporters, etc.). But one cannot escape the impression that the terms of the trade liberalization treaties were, from the very beginning, advantageous to the EU – and less so to the transition countries: the liberalization of trade in food and agricultural products and other 'sensitive' products such as steel and textiles was postponed. Thus, the EU industry, which is generally much more competitive than that of the transition countries, has been gaining free access to a new market, without having to fear too much competition on its own market. EU agriculture and other 'sensitive' branches, whose advantage over the respective sectors in the transition countries was not so obvious, have until very recently remained protected. Moreover, in practice the EU producers of items formally subject to free trade make effective use of various protective measures (e.g. anti-dumping clauses, standardization requirements) which the transition countries do not have the courage to invoke in the same way.

The prospects of the recovery of costs borne on the way to EU membership

In aggregate terms, the deficits in trade with the EU can be associated with losses in output and employment in the transition countries – and gains in output and employment in the EU. Certainly, such a simple arithmetic must be qualified: the deficits have had also clearly positive effects which the aggregate-terms view cannot take into account. In so far as the trade deficits represent inflows of capital goods and intermediate inputs, and therefore make it possible to upgrade domestic production, improve its quality and international competitiveness, they are beneficial. It is rather difficult to assess quantitatively the magnitudes of such benefits yet – especially because some of them have not yet been fully realized. Also, it goes without saying that the eventual overall net balance of costs and benefits relating to the pre-accession period will vary from country to country. In all likelihood such a balance will be much less negative e.g. for Hungary than for Poland.

Whether or not the net balance of the pre-accession costs and benefits will be recovered through the membership in the EU will certainly depend on the eventual terms on which the transition countries accede the EU. The ongoing changes in internal EU matters seem to indicate that at least some new members should downsize their expectations. EU financial transfers to the new members are likely to be lower than they would have been under the old 'unreformed' EU system. This may be of particular importance to Poland, especially on account of the likely changes in the system of subsidization of agriculture. At the same time the transition countries face the prospect of having to adopt increasingly restrictive environmental, safety, social etc. standards. The costs of compliance with these standards will not be excessive to the present EU members. For Poland (to a lesser degree for the other advanced countries) these costs – as currently estimated – seem very high.

Prospects of catching up with the EU

By around 1995-1997 it was quite generally assumed that the advanced transition countries would be capable of sustainable long-term growth at rates exceeding the EU rates by a yearly margin of 2 or more percentage points. The assumption seemed justified by the pace of growth at that time observed in Poland. No doubt, it also reflected one-sided and over-optimistic assessments of the benefits from the liberalization of trade with the EU – and of the benefits from EU membership, which at that time was expected to take place around 2000-2001. Yet, even with a 2 percentage points growth differential, the process of catching up with the EU on the average per capita GDP would take, for the advanced transition countries, about 16 to 30 years. (See Annex Table A/1.)

During the late 1990s the observed growth differentials narrowed substantially, to about 1-1.5 percentage points, and in some countries (e.g. the Czech Republic) there has been no catching-up at all. Partly this may have something to do with the fact that the trade liberalization treaties have turned out to be fairly advantageous to the EU, and rather disadvantageous to the transition countries. Moreover the (still uncertain) prospects of EU membership do not seem to promise (as discussed above) much by way of providing the new members with net benefits that could accelerate their growth.

Acceleration of growth may also become hard to achieve if the new members adopt (as they are expected) the basic principles of the EU macro policy (Maastricht criteria) and the exchange rate policy (participation in the EMU). Moreover, the selective opening of the EU labour market to workers from the accession countries, which is considered in the EU, will not be helpful either. The resulting drain of high-skill professionals would leave the transition countries stuck with high stocks of less skilled labour force – and high unemployment.

With a 1 percentage point growth differential the time needed for the catch-up would approximately double. In such circumstances it would hardly make sense to talk about any convergence. The sharp contrasts between the EU and the transition countries in the levels of affluence and overall economic development are likely to remain in place (whether the transition countries are in the EU, or stay outside) for a rather long time. This should have some consequences for the evaluation of the short- and medium-term risks facing these countries:

(i) The economic performance of the countries in question is highly dependent on the economic performance of the EU (and of Germany in particular). The experience shows that even slight growth acceleration in the EU has a significant positive impact on the transition countries. This follows from the fact that some 70% of their exports go to the EU. Conversely, a growth slowdown in the EU has a potential for causing stagnation in the transition countries. One does not know yet what would follow from a *recession* in the EU. Most probably, this could have grave consequences not only because of falling exports to the EU, but also on account of a likely influx of EU imports offered at 'post-season prices'.[16] The cyclical business-climate movements in the EU, even of small amplitude, may be expected to result in magnified fluctuations in the transition countries – most probably with rather grave consequences. A light breeze in the EU will cause a tornado in the transition countries.

(ii) Instability of economic development (and low levels of the latter) has serious social and political consequences, with repercussions on institutional changes, quality of the legal environment, corruption, quality of economic decision making, and depreciation of the

[16] As mentioned above, about 60% of imports of the CEEC-7 group come from the EU. For the EU, exports to CEEC-7 amount to about 3.6% of their total exports. From the EU's point of view a tiny increase in exports, bringing the share of the CEEC-7 to 4%, implies *ceteris paribus* a massive 11% increase in CEEC-7 imports from the EU. A 1% decline in the domestic demand in Germany alone (equivalent to about DEM 40 billion) would certainly induce a rise in German exports and a fall in its imports. With a DEM 40 billion increase in German net exports to the transition countries, the *total* trade deficits of the latter would double.

human capital. Generally, one should not expect too much progress on these issues. As shown by experience, although one can expect rather frequent changes of governments (following rapidly changing sentiments of the electorate), there will be rather little real improvement in the economic policy making.

Outlook: slowdown in 2001, high uncertainty about 2002

With a slowdown of growth in the EU expected, the export sectors of the transition countries will come under pressure. This will affect in the first place branches supplying relatively unsophisticated goods, in particular raw materials. Firms capable of producing goods embodying high technology will generally fare better, especially when networked into strong transnational companies. On account of higher levels of technological development and the existing degree of integration into the world economy, the Hungarian and Slovenian – to a lesser degree also the Czech and Slovak – industry will be in a better position to withstand the change in the business climate in the EU. Most likely, this change will be more difficult to accommodate for the Polish industry, and even much more to the industry of the remaining countries.

Difficulties on the export side will not, in most cases, be immediately paralleled by slowdowns in imports: domestic production tends to be very import-intensive. In effect the trade deficits in most transition countries will be rising rather fast, though the growth of domestic sales and production will be decelerating. The expansion of trade (and current account) deficits will probably be somewhat moderated due to the stabilization of the world market for oil. Nonetheless, the weakening growth in the EU may have on balance rather serious consequences particularly for Poland, Bulgaria, the Czech Republic and Romania. Of course, the recent tendencies in Poland (fast deceleration of growth even with good business climate in the EU) indicate that the growth slowdown here may be more pronounced than elsewhere, and may occur earlier. In addition, Poland (to a much lesser degree Bulgaria) at the moment seems more vulnerable to the negative effects of high current account deficits than other countries.

Unless oil prices slump dramatically, the recovery in Russia will continue, though at a lower pace. Recovery in Russia will also be supporting growth in Ukraine.

The growth slowdown, the deterioration of trade and current account deficits and rising unemployment will call for economic policy actions. Certainly, relaxation of the monetary policy (cuts in central banks' interest rates) would be helpful, especially as inflation does not seem a very grave problem in any transition country. However, the effects of cuts in interest rates are unlikely to be significant in most countries, as the latter have already managed to lower interest rates to relatively low levels. Only in Poland has the opposite policy on interest rates been conducted, because of the prevailing views on the nature of inflation and on the causes of high foreign trade deficits. The long overdue interest cuts in Poland may be ineffective if a full-scale recession sets in.

The relaxation of fiscal policy can also somewhat moderate the pace of deceleration of growth. Generally, however, such a relaxation will tend to be delayed because it is often assumed that this in fact will add to rising imports rather than to stronger domestic production. The tactics of increasing budgetary spending on activities that do not increase imports (e.g. on subsidies to exports, or to housing construction) is generally not on the governments' agenda. More likely, fiscal policy will aim at restricting spending, in the first place on wages in the public sector (health, education systems, etc.). The cuts in spending will affect domestic production adversely, without helping too much on the import side. Certainly, for purely political reasons (upcoming elections in several countries) the drive for cuts in budgetary spending may be somewhat moderated, or come only in late 2001, as the elections draw near.

Generally, any changes in incomes policy will not be helpful because whenever growth slows down and the trade deficits deteriorate, there is a tendency to ascribe these to high unit costs (and to too high wages) in industry. Attempts to restrict wages usually do not, on such occasions, bring much improvement in exports, but definitely affect domestic sales.

The only remaining possibility of influencing production and foreign trade will be through changes in the levels of exchange rates. There is by now a general consensus about the negative consequences of allowing too strong real appreciation. However, the countries most likely to be in need of preventing further real appreciation, or even of having a controlled real depreciation (Poland, the Czech Republic, Bulgaria), are actually unable to control the exchange rates.

The prospects for 2002 are so far uncertain. Much will depend on the degree of the growth slowdown in the EU and on the resultant adjustments in the transition countries. Whether or not EU growth accelerates in 2002 remains to be seen; even if it is strong, the current uncertainties are likely to result in a downscaling of investment activities (including greenfield foreign direct investment) in the transition countries in 2001. In any case, growth of fixed capital investment is likely to remain weak in both 2001 and 2002.

Outlook for individual countries

(see also Table 10)

Bulgaria

The narrowly based recovery of 2000 resulted in a further increase in the current account deficit and did not prevent a rise in the already massive unemployment. Provided the external environment does not deteriorate and the restructuring in industry proceeds, growth will continue.

Croatia

The policy aimed at lowering inflation and maintaining a stable exchange rate will continue. A stagnant industry and high unemployment are to be expected. Rising income from tourism will help preserving acceptable levels of the current account deficit.

Czech Republic

Burdened by high debts, a large part of the corporate sector needs a shake-up. Whether or not this can be achieved without losses in output and employment remains to be seen. The ongoing strong real appreciation of the Czech koruna is likely to affect adversely also the already restructured corporate sector.

Hungary

With low unemployment, a safe external position, reasonable macroeconomic policies and a restructured corporate sector Hungary is likely to perform well. The current trends can be perturbed by the deterioration of the business climate in the EU. The long repressed private consumption may rebound, with consequences for imports and the external equilibrium.

Macedonia

Policy actions on the current account deficit if they prove necessary are likely to brake growth, sustain inflation and add to already very high unemployment.

Poland

With a policy of extremely high real interest rates and inaction on the strongly appreciating exchange rate the continuing deceleration of the economy will not be stopped. A full-scale recession cannot be excluded though the fiscal policy will not be nearly as restrictive as planned. The high capital inflows financing the very high current account deficits may turn out to be volatile, with consequences for the exchange rates.

Romania

Muddling through on essential structural reforms, Romania still lacks the necessary fundamentals for a sustained recovery. Expansionary policy in 2001 will support some growth of domestic production, at the expense of growing trade and current account deficits and high inflation.

Russian Federation

Assuming no dramatic fall in energy prices, steady if moderate progress on structural and institutional reforms, and a continuation of recent policies on exchange and interest rates, the Russian economy can continue to recover, slowly.

Slovakia

Domestic demand, whose contraction helped to restore the external equilibrium, will be recovering slowly. The ongoing structural changes should be conducive to a good foreign trade performance provided the policy of preventing strong real appreciation of the Slovak koruna continues to be successful.

Slovenia

The steady and balanced growth, unperturbed by macroeconomic policy experiments or by radical institutional changes, will continue.

Ukraine

Much will depend on the economic developments in Russia. Provided growth in Russia continues the recovery will go on, though this will be still rather narrowly based. There is yet a huge backlog of institutional and structural tasks to perform. Fixed assets throughout the economy are in bad shape, which may soon restrict production even if demand grows and the right incentives appear.

Yugoslavia

Politically unburdened, the economy is set on urgent reconstruction tasks. The scope of institutional changes is yet to be decided and there is little clarity on what macroeconomic policy will be actually pursued. The introduction of the standard liberalization-cum-stabilization package will generate the usual effects such as growing debts, falling demand, disruption of production and higher inflation.

Table 10

Overview developments 1999-2000 and outlook 2001-2002

	GDP real change in % against previous year				Consumer prices change in % against previous year				Reg. unemployment rate in %, end of period				Current account in % of GDP			
	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
			forecast				forecast				forecast				forecast	
Czech Republic	-0.8	2.7	3	3.5	2.1	4.0	3.7	3	9.4	8.8	10	10	-1.9	-3.7	-3.9	-4.2
Hungary	4.4	5.5	5	5	10.0	9.8	8.5	6.5	9.6	8.7	8.5	8.5	-4.3	-3.7	-4.4	-4.2
Poland	4.1	4.0	2	4	7.3	10.1	8	6	13.0	15.0	16	16	-7.5	-6.2	-6.5	-6.5
Slovak Republic	1.9	2.0	3	4	10.6	12.0	10	6	19.2	17.9	17	16	-5.8	-3.1	-3.3	-3.6
Slovenia	5.0	4.7	4.5	4.5	6.1	8.9	7	5	13.0	11.9	11	10.5	-3.9	-3.2	-2.3	-2.0
CEEC-5	2.9	3.8	2.9	4.1	.	.	.	.	12.5	13.3	.	.	-5.6	-5.0	-5.2	-5.2
Bulgaria	2.4	5.0	4	4	0.3	9.9	6	4	16.0	17.9	18	17	-5.5	-5.8	-3.6	-3.3
Romania	-3.2	2.0	3	1	45.8	45.7	40	35	11.8	10.5	10	11	-3.8	-2.5	-4.1	-3.2
CEEC-7	1.6	3.5	3.0	3.5	.	.	.	.	12.6	13.1	.	.	-5.4	-4.8	-5.1	-5.0
Croatia [1]	-0.3	3.5	2.5	2.5	4.2	6.2	5.5	5	20.4	22.5	23	23	-7.5	-4.2	-4.1	-3.9
Macedonia [1)2)]	2.7	5.0	5	3	-1.1	10.5	8	6	32.4	32	32	32	-3.9	-9.3	-8.3	-7.6
Yugoslavia	-17.7	7.0	5	5	44.9	85.7	50	30	25.5	26.9	30	32	-3.6	-8.3	-14.7	-19.3
Russia [2]	3.5	7.5	4	5	85.7	21.0	18	15	12.2	10.2	11	10	13.7	18.2	10.0	7.4
Ukraine	-0.4	6.0	4	4	22.7	28.2	20	20	4.3	4.2	5	6	2.7	5.0	1.4	0.0

Notes: 1) Consumer prices correspond to retail prices. - 2) Unemployment rate according to ILO definition.
Source: WIIW (February 2001).

ANNEX

Indicators of competitiveness

Table A/1

GDP per capita at current PPPs (ECU/EUR), from 2001 constant PPPs

	1990	1994	1995	1996	1997	1998	1999	2000	2005	2010	2015
									projection assuming 4% p.a. GDP growth and zero population growth p.a.		
Czech Republic	10025	10217	11265	12025	11984	11925	12107	12635	15151	18434	22427
Hungary	7215	7790	8330	8613	9086	9735	10437	11237	13935	16955	20628
Poland	4568	5324	6299	6783	7278	7756	8254	8680	10358	12602	15332
Slovak Republic	7486	7150	7914	8529	9091	9615	10003	10352	12473	15176	18464
Slovenia	10111	10713	11607	12192	12847	13589	14563	15435	18960	23067	28065
Bulgaria	4862	4657	5007	4600	4378	4583	4823	5160	6278	7638	9293
Romania	5339	5165	5768	6113	5785	5576	5526	5736	6712	8167	9936
Croatia	5980	4713	5214	5833	6155	6518	6564	6990	8261	10051	12228
Macedonia	3651	3704	3770	3845	3891	4053	4230	4524	5504	6697	8147
Russia	8418	6167	6164	6074	6177	5991	6386	7001	8600	10463	12730
Ukraine	5870	3626	3337	3080	3026	3044	3123	3379	4111	5001	6085
									projection assuming 2% p.a. GDP growth and zero population growth p.a.		
Austria	16043	18953	19970	20681	21084	22016	22929	23732	26202	28929	31940
Germany	15052	18695	19886	19928	20420	21197	21905	22584	24934	27529	30395
Greece	8821	11020	11917	12323	12447	13046	13787	14352	15846	17495	19316
Portugal	9273	11910	12771	13181	14001	14639	15367	15828	17476	19295	21303
Spain	11581	13218	14138	14672	15093	15970	16868	17560	19388	21405	23633
Turkey	4416	4898	5238	5534	5846	6023	5740	5992	6616	7305	8065
Japan	16777	19702	21038	22142	22455	22177	22617	22934	25321	27956	30866
USA	21899	25142	26166	27181	28507	29957	31538	33146	36596	40405	44611
EU(15) average	14753	17032	18113	18538	18948	19740	20553	21251	23463	25905	28602

European Union (15) average = 100

	1990	1994	1995	1996	1997	1998	1999	2000	2005	2010	2015
Czech Republic	68	60	62	65	63	60	59	59	65	71	78
Hungary	49	46	46	46	48	49	51	53	59	65	72
Poland	31	31	35	37	38	39	40	41	44	49	54
Slovak Republic	51	42	44	46	48	49	49	49	53	59	65
Slovenia	69	63	64	66	68	69	71	73	81	89	98
Bulgaria	33	27	28	25	23	23	23	24	27	29	32
Romania	36	30	32	33	31	28	27	27	29	32	35
Croatia	41	28	29	31	32	33	32	33	35	39	43
Macedonia	25	22	21	21	21	21	21	21	23	26	28
Russia	57	36	34	33	33	30	31	33	37	40	45
Ukraine	40	21	18	17	16	15	15	16	18	19	21
Austria	109	111	110	112	111	112	112	112	112	112	112
Germany	102	110	110	107	108	107	107	106	106	106	106
Greece	60	65	66	66	66	66	67	68	68	68	68
Portugal	63	70	71	71	74	74	75	74	74	74	74
Spain	78	78	78	79	80	81	82	83	83	83	83
Turkey	30	29	29	30	31	31	28	28	28	28	28
Japan	114	116	116	119	119	112	110	108	108	108	108
USA	148	148	144	147	150	152	153	156	156	156	156
EU(15) average	100	100	100	100	100	100	100	100	100	100	100

Sources:

BENCHMARK RESULTS OF THE 1996 EUROSTAT-OECD COMPARISON BY ANALYTICAL CATEGORIES, OECD, 1999; National statistics; WIFO; WIIW estimates.

Benchmark PPPs for 1996 estimated from purchasing power standards for OECD (28) average and extrapolated with GDP price deflators. GDP per capita for OECD countries according to OECD National Account statistics converted into ECU.

Table A/2

Prices, exchange rates and unit labour costs (ULC), 1990-2000

ECU/EUR based annual averages

	1990	1994	1995	1996	1997	1998	1999	2000 prelim.
Czech Republic								
Producer price index, 1989=100	104.3	224.5	241.6	253.0	265.4	278.4	281.2	295.3
Consumer price index, 1989=100	109.7	253.5	276.7	301.0	326.6	361.6	369.2	384.3
GDP deflator, 1989=100	109.5	230.0	253.5	275.3	295.1	325.2	334.1	347.8
Exchange rate (ER), CZK/ECU	22.89	34.06	34.31	34.01	35.80	36.16	36.88	35.61
ER nominal, 1989=100	137.9	205.2	206.7	204.9	215.7	217.9	222.2	214.5
Real ER (CPI-based), 1989=100	133.1	100.6	95.8	89.5	88.6	82.3	83.2	79.0
Real ER (PPI-based), 1989=100	135.6	100.5	98.3	93.7	94.8	90.9	91.9	88.9
PPP, CZK/ECU	6.03	11.20	11.87	12.68	13.52	14.65	14.72	15.10
ERDI (ECU based)	3.80	3.04	2.89	2.68	2.65	2.47	2.50	2.36
Average monthly gross wages, CZK	3286	6894	8172	9676	10691	11693	12655	13414
Average monthly gross wages, ECU (ER)	144	202	238	285	299	323	343	377
Average monthly gross wages, ECU (PPF	545	616	689	763	791	798	860	888
GDP nominal, bn CZK	626.2	1182.8	1381.0	1572.3	1668.9	1798.3	1833.0	1960
Employment total, 1000 persons	5351.2	4884.8	5011.6	5044.4	4946.6	4869.2	4693.1	4600
GDP per employed person, CZK	117018	242138	275568	311683	337377	369320	390574	426087
GDP per empl. person, CZK at 1996 pr.	294169	289765	299267	311683	314769	312612	321823	337258
Unit labour costs, 1989=100	94.2	200.6	230.2	261.7	286.3	315.3	331.5	335.3
Unit labour costs, ER adj., 1989=100	68.3	97.7	111.4	127.7	132.7	144.7	149.2	156.3
Unit labour costs, PPP adj., Austria=100	18.02	20.88	22.61	27.37	29.67	32.47	33.14	34.93
Hungary								
Producer price index, 1989=100	122.0	222.4	286.7	349.2	420.4	467.9	491.8	549.8
Consumer price index, 1989=100	128.9	311.4	399.3	493.5	583.8	667.3	734.0	805.9
GDP deflator, 1989=100	125.7	277.9	348.8	422.7	500.9	564.1	612.5	673.8
Exchange rate (ER), HUF/ECU	80.48	124.78	162.65	191.15	210.93	240.98	252.80	260.06
ER, nominal 1989=100	123.7	191.8	250.0	293.8	324.2	370.3	388.5	399.7
Real ER (CPI-based), 1989=100	101.6	76.6	80.3	78.2	74.5	75.8	73.1	70.2
Real ER (PPI-based), 1989=100	104.0	94.8	100.2	97.3	90.0	92.0	91.9	89.0
PPP, HUF/ECU	27.96	54.69	65.99	78.67	92.74	102.68	109.11	118.24
ERDI (ECU based)	2.88	2.28	2.46	2.43	2.27	2.35	2.32	2.20
Average monthly gross wages, HUF	13446	33309	38900	46837	57270	67764	77187	87221
Average monthly gross wages, ECU (ER)	167	267	239	245	272	281	305	335
Average monthly gross wages, ECU (PPF	481	609	589	595	618	660	707	738
GDP nominal, bn HUF	2089.3	4364.8	5614.0	6893.9	8540.7	10087.4	11436.5	13300
Employment total, 1000 persons	5052.3	3751.5	3678.8	3648.1	3646.3	3697.7	3811.5	3850
GDP per employed person, HUF	413534	1163481	1526041	1889723	2342292	2728020	3000525	3454545
GDP per empl. person, HUF at 1996 pr.	1390652	1769797	1849582	1889723	1976503	2044414	2070640	2167233
Unit labour costs, 1989=100	127.4	248.0	277.2	326.6	381.9	436.8	491.3	530.4
Unit labour costs, ER adj., 1989=100	103.0	129.3	110.9	111.2	117.8	118.0	126.5	132.7
Unit labour costs, PPP adj., Austria=100	27.54	27.99	22.80	24.13	26.66	26.80	28.44	30.04
Poland								
Producer price index, 1989=100	722.4	2262.6	2837.2	3189.0	3578.0	3839.6	4058.4	4379.0
Consumer price index, 1989=100	685.8	2987.6	3818.1	4577.9	5260.0	5880.7	6309.9	6947.2
GDP deflator, 1989=100	580.1	2091.3	2690.0	3194.4	3643.0	4073.8	4351.6	4743.3
Exchange rate (ER), PLN/ECU	1.209	2.696	3.135	3.377	3.706	3.923	4.227	4.011
ER, nominal, 1989=100	758.5	1690.7	1966.1	2118.3	2324.1	2460.5	2651.1	2515.7
Real ER (CPI-based), 1989=100	117.1	70.4	66.0	60.8	59.3	57.1	58.0	51.2
Real ER (PPI-based), 1989=100	107.7	82.2	79.6	76.8	75.8	74.5	76.0	70.3
PPP, PLN/ECU	0.3212	1.0244	1.2669	1.4797	1.6787	1.8459	1.9293	2.0719
ERDI (ECU based)	3.76	2.63	2.47	2.28	2.21	2.13	2.19	1.94
Average monthly gross wages, PLN	103	525	691	874	1066	1233	1697	1920
Average monthly gross wages, ECU (ER)	85	195	220	259	288	314	401	479
Average monthly gross wages, ECU (PPF	321	513	545	591	635	668	880	927
GDP nominal, bn PLN	56.0	210.4	308.1	387.8	472.4	553.6	615.6	695
Employment total, 1000 persons	16280.0	14474.5	14735.2	15020.6	15438.7	15800.4	15373.5	15100
GDP per employed person, PLN	3441	14536	20909	25820	30595	35035	40040	46026
GDP per empl. person, PLN at 1996 pr.	18951	22204	24830	25820	26827	27471	29392	30997
Unit labour costs, 1989=100	584.0	2541.8	2991.2	3640.0	4270.5	4823.5	6206.9	6658.5
Unit labour costs, ER adj., 1989=100	77.0	150.3	152.1	171.8	183.8	196.0	234.1	264.7
Unit labour costs, PPP adj., Austria=100	19.37	30.61	29.44	35.09	39.14	41.92	49.56	56.38

(Table A/2 contd.)

(Table A/2 ctd.)

	1990	1994	1995	1996	1997	1998	1999	2000 prelim.
Slovak Republic								
Producer price index, 1989=100	104.8	240.9	262.6	273.5	285.8	295.3	306.5	337.2
Consumer price index, 1989=100	110.4	273.4	300.5	317.8	337.2	359.8	398.0	457.7
GDP deflator, 1989=100	106.6	209.6	230.0	240.3	256.2	269.2	286.9	307.0
Exchange rate (ER), SKK/ECU	22.98	37.93	38.45	38.41	37.96	39.58	44.10	42.59
ER, nominal, 1989=100	138.5	228.5	231.7	231.4	228.7	238.5	265.7	256.6
Real ER (CPI-based), 1989=100	132.9	103.9	98.8	95.7	90.9	90.5	92.2	79.3
Real ER (PPI-based), 1989=100	135.5	104.3	101.4	97.8	93.3	93.9	100.8	93.1
PPP, SKK/ECU	7.01	12.19	12.86	13.22	14.02	14.48	15.11	15.93
ERDI (ECU based)	3.28	3.11	2.99	2.90	2.71	2.73	2.92	2.67
Average monthly gross wages, SKK	3217	6294	7195	8154	9226	10003	10728	11300
Average monthly gross wages, ECU (ER)	140	166	187	212	243	253	243	265
Average monthly gross wages, ECU (PPP	459	516	559	617	658	691	710	709
GDP nominal, bn SKK	278.0	466.2	546.0	606.1	686.1	750.8	815.3	890
Employment total, 1000 persons	2458.6	2110.2	2146.8	2224.9	2205.9	2198.6	2132.1	2090
GDP per employed person, SKK	113072	220941	254347	272414	311024	341472	382407	425837
GDP per empl. person, SKK at 1996 pr.	254936	253327	265813	272414	291799	304886	320295	333337
Unit labour costs, 1989=100	104.8	206.3	224.7	248.5	262.5	272.4	278.1	281.5
Unit labour costs, ER adj., 1989=100	75.7	90.3	97.0	107.4	114.8	114.2	104.7	109.7
Unit labour costs, PPP adj., Austria=100	21.16	20.43	20.86	24.38	27.18	27.15	24.63	25.97
Slovenia								
Producer price index, 1989=100	490.4	4965.8	5601.3	5982.4	6347.2	6727.8	6869.0	7391.1
Consumer price index, 1989=100	651.6	6923.3	7857.9	8635.7	9360.9	10100.5	10716.2	11627.8
GDP deflator, 1989=100	590.8	5964.4	6868.4	7633.6	8303.2	8953.8	9531.8	10389.7
Exchange rate (ER), SIT/ECU	14.39	152.36	153.12	169.51	180.40	186.27	193.63	205.03
ER, nominal, 1989=100	446.0	4722.1	4745.5	5253.6	5591.0	5772.9	6001.0	6354.4
Real ER (CPI-based), 1989=100	72.5	84.8	77.4	79.9	80.1	78.0	77.4	77.3
Real ER (PPI-based), 1989=100	93.3	104.6	97.3	101.6	102.8	99.7	101.6	105.2
PPP, SIT/ECU	9.74	86.97	96.30	105.26	113.90	120.77	125.80	135.09
ERDI (ECU based)	1.48	1.75	1.59	1.61	1.58	1.54	1.54	1.52
Average monthly gross wages, SIT	10172	94618	111996	129125	144251	158069	173245	191955
Average monthly gross wages, ECU (ER)	707	621	731	762	800	849	895	936
Average monthly gross wages, ECU (PPP	1044	1088	1163	1227	1267	1309	1377	1421
GDP nominal, bn SIT	196.8	1853.0	2221.5	2555.4	2907.3	3253.8	3637.4	4150
Employment total, 1000 persons	909.7	746.2	745.2	741.7	743.4	745.2	758.5	770
GDP per employed person, SIT	216283	2483125	2980876	3445175	3910621	4366460	4795731	5389610
GDP per empl. person, SIT at 1996 pr.	2794356	3178044	3312942	3445175	3595229	3722631	3840669	3959889
Unit labour costs, 1989=100	483.8	3956.9	4492.9	4981.3	5332.5	5643.4	5995.1	6442.6
Unit labour costs, ER adj., 1989=100	108.5	83.8	94.7	94.8	95.4	97.8	99.9	101.4
Unit labour costs, PPP adj., Austria=100	77.58	48.51	52.08	55.05	57.76	59.43	60.13	61.40
Bulgaria								
Producer price index, 1989=100	114.7	1600.0	2454.4	5645.0	62252.6	72337.5	74724.6	87427.8
Consumer price index, 1989=100	123.8	3515.4	5698.5	12707.6	150241.7	183745.6	184296.8	202542.2
GDP deflator, 1989=100	126.2	1780.2	2897.2	6402.5	67162.7	82092.5	84637.4	90562.0
Exchange rate (ER), BGN/ECU	0.001	0.065	0.087	0.192	1.896	1.972	1.956	1.956
ER, nominal, 1989=100	107.6	6946.7	9338.4	20612.4	203894.4	212116.3	210349.5	210349.5
Real ER (CPI-based), 1989=100	92.0	245.7	210.1	213.2	182.0	157.6	157.7	146.9
Real ER (PPI-based), 1989=100	96.2	477.4	437.2	422.3	382.2	340.8	327.5	294.4
PPP, BGN/ECU	0.001071	0.01337	0.02092	0.04546	0.474	0.570	0.575	0.606
ERDI (ECU based)	0.93	4.83	4.15	4.22	4.00	3.46	3.40	3.23
Average monthly gross wages, BGN	0	5	8	13	128	183	205	228
Average monthly gross wages, ECU (ER)	378	77	87	69	67	93	105	117
Average monthly gross wages, ECU (PPP	353	371	363	291	270	321	356	376
GDP nominal, bn BGN	0.0	0.5	0.9	1.7	17.1	21.6	22.8	25.5
Employment total, 1000 persons	4096.8	3241.6	3282.2	3285.9	3157.4	3152.6	3071.9	2900
GDP per employed person, BGN	11	162	268	532	5402	6844	7414	8793
GDP per empl. person, BGN at 1996 pr.	562	583	593	532	515	534	561	622
Unit labour costs, 1989=100	142.3	1800.3	2712.7	5268.1	52572.7	72656.1	77374.7	77623.4
Unit labour costs, ER adj., 1989=100	132.3	25.9	29.0	25.6	25.8	34.3	36.8	36.9
Unit labour costs, PPP adj., Austria=100	89.05	14.12	15.04	13.97	14.70	19.60	20.84	21.03

(Table A/2 ctd.)

(Table A/2 ctd.)

	1990	1994	1995	1996	1997	1998	1999	2000 prelim.
Romania								
Producer price index, 1989=100	126.9	7372.6	9961.1	14928.8	37725.0	50235.3	71434.5	108580.5
Consumer price index, 1989=100	105.1	7431.5	9829.0	13643.6	34758.8	55300.0	80627.4	117474.1
GDP deflator, 1989=100	113.6	7860.6	10633.6	15453.6	38220.3	58825.2	86115.6	127451.0
Exchange rate (ER), ROL/ECU	31.10	1967.56	2629.51	3862.90	8090.93	9988.36	16295.26	19961.26
ER, nominal, 1989=100	189.1	11960.9	15984.9	23482.7	49185.0	60719.5	99059.3	121345.0
Real ER (CPI-based), 1989=100	190.5	200.1	208.5	226.2	189.8	149.9	169.7	146.1
Real ER (PPI-based), 1989=100	152.9	178.4	184.4	181.9	152.1	140.5	161.3	136.8
PPP, ROL/ECU	6.92	423.94	551.44	788.18	1939.22	2934.78	4203.81	6129.69
ERDI (ECU based)	4.49	4.64	4.77	4.90	4.17	3.40	3.88	3.26
Average monthly grross wages, ROL	3381	181694	281287	426610	846450	1357132	1957731	2876645
Average monthly gross wages, ECU (ER)	109	92	107	110	105	136	120	144
Average monthly gross wages, ECU (PPP	488	429	510	541	436	462	466	469
GDP nominal, bn ROL	857.9	49773.2	72135.5	108919.6	252925.7	368260.7	521735.5	787600
Employment total, 1000 persons	10892.6	10036.5	9752.0	9436.0	9200.9	8917.7	8650	8400
GDP per employed person, ROL	78755	4959219	7396995	11542984	27489384	41295711	60315403	93761905
GDP per empl. person, ROL at 1996 pr.	10717484	9749667	10749965	11542984	11114772	10848540	10823721	11368760
Unit labour costs, 1989=100	117.1	6916.6	9711.4	13716.8	28264.5	46429.2	67130.0	93910.3
Unit labour costs, ER adj., 1989=100	61.9	57.8	60.8	58.4	57.5	76.5	67.8	77.4
Unit labour costs, PPP adj., Austria=100	23.29	17.61	17.58	17.84	18.30	24.45	21.45	24.65
Croatia								
Producer price index, 1989=100	555.6	362535.0	365072.8	370183.9	378698.3	374153.9	383881.7	421118.2
Consumer price index, 1989=100	709.5	387117.4	394858.7	408679.1	423391.3	447530.6	466326.7	494306.5
GDP deflator, 1989=100	638.9	293621.3	309216.7	320477.1	344066.9	375198.8	390231.5	413645.4
Exchange rate (ER), HRK/ECU	0.01	7.09	6.76	6.80	6.96	7.14	7.58	7.64
ER, nominal, 1989=100	446.0	219657.4	209442.2	210895.8	215699.6	221182.2	234912.7	236784.0
Real ER (CPI-based), 1989=100	66.6	70.6	68.0	67.8	68.3	67.5	69.6	67.8
Real ER (PPI-based), 1989=100	82.4	66.6	65.9	65.9	66.5	68.7	71.2	68.8
PPP, HRK/ECU	0.00982	3.99	4.04	4.12	4.40	4.72	4.80	5.01
ERDI (ECU based)	1.47	1.78	1.67	1.65	1.58	1.51	1.58	1.52
Average monthly gross wages, HRK	8.61	2155	2887	3243	3668	4131	4551	4901
Average monthly gross wages, ECU (ER)	598	304	427	477	527	579	600	642
Average monthly gross wages, ECU (PPP	877	540	714	787	834	876	948	978
GDP nominal, bn HRK	0.3	87.4	98.4	108.0	123.8	138.4	143.5	157.7
Employment total, 1000 persons	1567.6	1437.1	1417.4	1329.5	1310.9	1384.8	1364.5	1320
GDP per employed person, HRK	179	60846	69410	81219	94447	99936	105167	119470
GDP per empl. person, HRK at 1996 pr.	89749	66411	71938	81219	87972	85361	86368	92561
Unit labour costs, 1989=100	606.7	205335.1	253947.6	252664.5	263840.3	306232.5	333432.8	335081.5
Unit labour costs, ER adj., 1989=100	136.0	93.5	121.2	119.8	122.3	138.5	141.9	141.5
Unit labour costs, PPP adj., Austria=100	79.97	44.48	54.82	57.17	60.89	69.18	70.21	70.44
Macedonia								
Producer price index, 1989=100	493.9	163202.7	170868.8	170357.8	177512.8	184667.8	184497.4	201102.2
Consumer price index, 1989=100	696.6	249239.6	288810.8	295307.6	302985.6	302690.3	300623.1	332188.5
GDP deflator, 1990=100	100.0	35126.7	41132.0	42324.8	43764.4	43846.7	43710.9	48082.0
Exchange rate (ER), MKD/ECU	0.14	51.09	49.15	50.08	56.20	61.07	60.62	60.73
ER, nominal, 1989=100	446.9	158661.2	152643.3	155515.9	174525.6	189641.9	188247.5	188600.3
Real ER (CPI-based), 1989=100	67.9	79.2	67.8	69.2	77.2	85.5	86.5	80.3
Real ER (PPI-based), 1989=100	92.8	106.9	102.6	105.6	114.7	119.3	118.7	114.8
PPP, MKD/ECU	0.06537	20.312	22.87	23.14	23.81	23.45	22.88	24.79
ERDI (ECU based)	2.20	2.52	2.15	2.16	2.36	2.60	2.65	2.45
Average monthly net wages, MKD	32	7754	8581	8817	9063	9394	9664	10630
Average monthly net wages, ECU (ER)	222	152	175	176	161	154	159	175
Average monthly net wages, ECU (PPP)	488	382	375	381	381	401	422	429
GDP nominal, bn MKD	0.5	146.4	169.5	176.4	185.0	190.8	195.3	226.6
Employment total, 1000 persons	.	.	.	537.6	512.3	539.8	545.2	550
GDP per employed person, MKD	.	.	.	328212	361081	353539	358173	412000
GDP per empl. person, MKD at 1996 pr.	.	.	.	328212	349203	341268	346815	362668
Unit labour costs, 1990=100	.	.	.	.	.	.	.	.
Unit labour costs, ER adj., 1990=100	.	.	.	.	.	.	.	.
Unit labour costs, PPP adj., Austria=100	.	.	.	29.36	26.37	25.83	26.08	27.55

(Table A/2 contd.)

(Table A/2 ctd.)

	1990	1994	1995	1996	1997	1998	1999	2000 prelim.
Russia								
Producer price index, 1989=100	103	267281	899321	1356086	1559505	1670224	2653986	3874819
Consumer price index, 1989=100	105	130695	388817	574672	659723	841807	1563235	1875882
GDP deflator, 1989=100	116	169848	446728	644137	737472	843594	1374032	1827463
Exchange rate (ER), RUB/ECU	0.00	2.60	5.89	6.63	6.54	11.06	26.24	26.03
ER, nominal, 1989=100	107	375047	848366	954960	941800	1592973	3778114	3747905
Real ER (CPI-based), 1989=100	107.8	356.8	279.7	218.4	191.4	258.3	333.9	282.7
Real ER (PPI-based), 1989=100	106.8	154.3	108.4	81.4	70.5	110.8	165.6	118.4
PPP, RUB/ECU	0.00052	0.6678	1.6889	2.3950	2.728	3.068	4.890	6.407
ERDI (ECU based)	1.45	3.90	3.49	2.77	2.40	3.61	5.37	4.06
Average monthly gross wages, RUB	0.3	242.6	532.6	790.2	950.2	1051.5	1523.0	2300
Average monthly gross wages, ECU (ER)	407	93	90	119	145	95	58	88
Average monthly gross wages, ECU (PPF	588	363	315	330	348	343	311	359
GDP nominal, bn RUB	0.6	610.7	1540.5	2145.7	2478.6	2696.4	4545.5	6500
Employment total, 1000 persons	75325	68484	66441	65950	64639	63642	63963	65000
GDP per employed person, RUB	9	8918	23186	32535	38345	42368	71064	100000
GDP per empl. person, RUB at 1996 pr.	47527	33821	33432	32535	33492	32350	33314	35248
Unit labour costs, 1989=100	121	136187	302503	461178	538694	617167	868042	1238995
Unit labour costs, ER adj., 1989=100	112.9	36.3	35.7	48.3	57.2	38.7	23.0	33.1
Unit labour costs, PPP adj., Austria=100	59.74	15.56	14.51	20.75	25.63	17.43	10.23	14.81
Ukraine								
Producer price index, 1989=100	105	3382263	19914767	30290361	32622718	36928917	48413810	58532296
Consumer price index, 1989=100	105	1423324	6786409	12229109	14172537	15674826	19233012	24656721
GDP deflator, 1989=100	113	1495770	7715454	12819488	15140086	16950568	21086507	26990729
Exchange rate (ER), UAH/ECU	0.000	0.385	1.928	2.322	2.113	2.768	4.393	5.029
ER, nominal, 1989=100	107	5537698	27739568	33408633	30401439	39821583	63212950	72357554
Real ER (CPI-based), 1989=100	108.3	483.8	524.0	359.0	287.7	346.8	454.1	415.2
Real ER (PPI-based), 1989=100	105.2	180.0	160.0	127.5	108.7	125.3	151.9	151.3
PPP, UAH/ECU	0.0000055	0.0641728	0.31828	0.52012	0.61107	0.67271	0.8188	1.0326
ERDI (ECU based)	1.36	6.00	6.06	4.46	3.46	4.11	5.37	4.87
Average monthly gross wages, UAH	0.0	13.8	73.0	126.0	143.0	153.0	177.5	245
Average monthly gross wages, ECU (ER)	336	36	38	54	68	55	40	49
Average monthly gross wages, ECU (PPF	456	214	229	242	234	227	217	237
GDP nominal, bn UAH	0.0	12.0	54.5	81.5	93.4	102.6	127.1	171.9
Employment total, 1000 persons	25277.3	23025.0	23725.5	23231.8	22597.6	22348.7	21823.7	21500
GDP per employed person, UAH	0.066	522.8	2297.8	3508.9	4131.6	4590.6	5825.1	7997.2
GDP per empl. person, UAH at 1996 pr.	7500.0	4480.7	3817.9	3508.9	3498.4	3471.8	3541.4	3798.3
Unit labour costs, 1989=100	118.9	1095212	6821887	12811424	14583936	15723252	17884553	23013062
Unit labour costs, ER adj., 1989=100	110.9	19.8	24.6	38.3	48.0	39.5	28.3	31.8
Unit labour costs, PPP adj., Austria=100	67.80	9.78	11.56	19.03	24.83	20.51	14.55	16.46
Austria								
Producer price index, 1989=100	102.9	104.5	104.8	104.8	105.2	104.7	103.8	108.0
Consumer price index, 1989=100	103.3	118.4	121.1	123.3	125.0	126.1	126.8	129.8
GDP deflator, 1989=100	103.3	117.5	120.4	122.0	123.5	124.4	125.5	127.1
Exchange rate (ER), ATS/ECU	14.47	13.51	13.03	13.26	13.78	13.88	13.76	13.76
ER, nominal, 1989=100	99.3	92.7	89.5	91.0	94.6	95.3	94.5	94.5
Real ER (CPI-based), 1989=100	101.8	97.4	94.8	97.0	101.6	103.2	102.9	103.0
Real ER (PPI-based), 1989=100	99.0	97.6	98.1	100.4	105.0	105.8	105.9	107.0
PPP, ATS/ECU	14.92	14.99	14.78	14.72	14.82	14.68	14.49	14.46
ERDI (ECU based)	0.97	0.90	0.88	0.90	0.93	0.95	0.95	0.95
Average monthly gross wages, ATS	21597	26180	27094	27316	27504	28329	28894	29472
Average monthly gross wages, ECU (ER)	1493	1938	2079	2060	1995	2041	2100	2142
Average monthly gross wages, ECU (PPF	1448	1746	1833	1856	1856	1930	1994	2038
GDP nominal, bn ATS	1813.5	2237.9	2328.7	2450.0	2513.5	2614.7	2712.0	2836.8
Employment total, 1000 persons	3344.6	3451.8	3439.5	3415.4	3424.5	3446.6	3478.8	3500
GDP per employed person, ATS	542217	648328	677046	717334	733976	758632	779579	810501
GDP per empl. person, ATS at 1996 pr.	640190	672966	685848	717334	724676	743944	757883	777832
Unit labour costs, 1989=100	102.4	118.0	119.9	115.6	115.2	115.6	115.7	115.0
Unit labour costs, ER adj., 1989=100	103.1	127.3	134.0	126.9	121.7	121.2	122.5	121.7
Unit labour costs, PPP adjusted	0.41	0.51	0.54	0.51	0.49	0.48	0.49	0.49

ER = Exchange Rate, PPP = Purchasing Power Parity, ERDI = Exchange Rate Deviation Index (all in terms of national currency per ECU). Benchmark PPPs for 1996 were estimated from purchasing parity standards for OECD (28) average and extrapolated with GDP price deflators.

Sources: BENCHMARK RESULTS OF THE 1996 EUROSTAT-OECD COMPARISON BY ANALYTICAL CATEGORIES, OECD, 1999: National statistics: WIFO: WIIW estimates.

Table A/3

Wages, productivity and unit labour costs (ULCs), 1990-2000

annual changes in %

	1990	1994	1995	1996	1997	1998	1999	2000 prelim.
Czech Republic								
GDP deflator	9.5	13.4	10.2	8.6	7.2	10.2	2.7	4.1
Exchange rate (ER), CZK/ECU	37.9	-0.1	0.7	-0.9	5.3	1.0	2.0	-3.4
Real ER (CPI-based)	33.1	-6.4	-4.8	-6.6	-1.0	-7.1	1.1	-5.0
Real ER (PPI-based)	35.6	-3.1	-2.2	-4.7	1.2	-4.1	1.1	-3.3
Average gross wages, CZK	3.7	18.5	18.5	18.4	10.5	9.4	8.2	6.0
Average gross wages, real (PPI based)	-0.6	12.6	10.2	13.1	5.3	4.3	7.1	1.0
Average gross wages, real (CPI based)	-5.5	7.8	8.6	8.8	1.8	-1.2	6.0	1.8
Average gross wages, ECU (ER)	-24.8	18.7	17.7	19.4	5.0	8.3	6.1	9.8
Employment total	-1.0	0.8	2.6	0.7	-1.9	-1.6	-3.6	-2.0
GDP per empl. person, CZK at 1996 pr.	10.1	1.4	3.3	4.1	1.0	-0.7	2.9	4.8
Unit labour costs, CZK at 1996 prices	-5.8	16.8	14.8	13.7	9.4	10.1	5.1	1.1
Unit labour costs, ER (ECU) adjusted	-31.7	17.0	13.9	14.7	3.9	9.0	3.1	4.8
Hungary								
GDP deflator	25.7	19.5	25.5	21.2	18.5	12.6	8.6	10.0
Exchange rate (ER), HUF/ECU	23.7	16.1	30.3	17.5	10.3	14.2	4.9	2.9
Real ER (CPI-based)	1.6	0.7	4.8	-2.5	-4.8	1.8	-3.5	-4.1
Real ER (PPI-based)	4.0	6.6	5.7	-2.9	-7.5	2.2	-0.1	-3.2
Average gross wages, HUF	27.2	22.6	16.8	20.4	22.3	18.3	13.9	13.0
Average gross wages, real (PPI based)	4.3	10.1	-9.4	-1.1	1.6	6.3	8.4	1.1
Average gross wages, real (CPI based)	-1.3	3.2	-8.9	-2.6	3.4	3.5	3.6	2.9
Average gross wages, ECU (ER)	2.8	5.6	-10.4	2.5	10.8	3.6	8.6	9.8
Employment total	-3.3	-2.0	-1.9	-0.8	0.0	1.4	3.1	1.0
GDP per empl. person, HUF at 1996 pr.	-0.2	5.0	4.5	2.2	4.6	3.4	1.3	4.7
Unit labour costs, HUF at 1996 prices	27.4	16.8	11.7	17.8	16.9	14.4	12.5	8.0
Unit labour costs, ER (ECU) adjusted	3.0	0.6	-14.3	0.3	5.9	0.1	7.2	4.9
Poland								
GDP deflator	480.1	28.4	28.6	18.8	14.0	11.8	6.8	9.0
Exchange rate (ER), PLN/ECU	658.5	27.2	16.3	7.7	9.7	5.9	7.7	-5.1
Real ER (CPI-based)	17.1	-0.8	-6.2	-7.9	-2.6	-3.6	1.6	-11.7
Real ER (PPI-based)	7.7	3.7	-3.1	-3.5	-1.3	-1.7	2.0	-7.5
Average gross wages, PLN	397.9	34.5	31.6	26.5	21.9	15.7	37.7	13.1
Average gross wages, real (PPI based)	-31.1	7.3	4.9	12.6	8.6	7.8	30.3	4.9
Average gross wages, real (CPI based)	-27.4	1.7	3.0	5.5	6.1	3.5	28.3	2.8
Average gross wages, ECU (ER)	-34.4	5.7	13.2	17.4	11.1	9.2	27.8	19.2
Employment total	-4.2	1.0	1.8	1.9	2.8	2.3	-2.7	-1.8
GDP per empl. person, PLN at 1996 pr.	-14.8	4.2	11.8	4.0	3.9	2.4	7.0	5.5
Unit labour costs, PLN at 1996 prices	484.0	29.1	17.7	21.7	17.3	13.0	28.7	7.3
Unit labour costs, ER (ECU) adjusted	-23.0	1.5	1.2	12.9	6.9	6.7	19.4	13.1
Slovak Republic								
GDP deflator	6.6	13.8	9.7	4.5	6.6	5.1	6.6	7.0
Exchange rate (ER), SKK/ECU	38.5	5.4	1.4	-0.1	-1.2	4.3	11.4	-3.4
Real ER (CPI-based)	32.9	-4.2	-4.9	-3.2	-5.0	-0.5	1.9	-14.0
Real ER (PPI-based)	35.5	-2.3	-2.8	-3.5	-4.6	0.5	7.4	-7.6
Average gross wages, SKK	4.1	17.0	14.3	13.3	13.1	8.4	7.2	5.3
Average gross wages, real (PPI based)	-0.7	6.1	4.9	8.8	8.3	5.0	3.3	-4.2
Average gross wages, real (CPI based)	-5.7	3.2	4.0	7.1	6.6	1.6	-3.0	-8.4
Average gross wages, ECU (ER)	-24.8	11.0	12.8	13.5	14.5	4.0	-3.7	9.1
Employment total	-1.8	-0.4	1.7	3.6	-0.9	-0.3	-3.0	-2.0
GDP per empl. person, SKK at 1996 pr.	-0.6	11.4	4.9	2.5	7.1	4.5	5.1	4.1
Unit labour costs, SKK at 1996 prices	4.8	5.1	8.9	10.6	5.6	3.8	2.1	1.2
Unit labour costs, ER (ECU) adjusted	-24.3	-0.4	7.5	10.7	6.9	-0.5	-8.4	4.8

(Table A/3 contd.)

Table A/3 (contd.)

	1990	1994	1995	1996	1997	1998	1999	2000 prelim.
Slovenia								
GDP deflator	490.8	22.6	15.2	11.1	8.8	7.8	6.5	9.0
Exchange rate (ER), SIT/ECU	346.0	15.2	0.5	10.7	6.4	3.3	4.0	5.9
Real ER (CPI-based)	-27.5	-1.9	-8.7	3.3	0.2	-2.6	-0.8	-0.1
Real ER (PPI-based)	-6.7	0.0	-6.9	4.3	1.2	-3.0	1.9	3.5
Average gross wages, SIT	379.6	25.4	18.4	15.3	11.7	9.6	9.6	10.8
Average gross wages, real (PPI based)	-2.2	6.6	4.9	8.0	5.3	3.4	7.3	3.0
Average gross wages, real (CPI based)	-26.4	3.7	4.3	4.9	3.1	1.6	3.3	2.1
Average gross wages, ECU (ER)	7.5	8.9	17.8	4.1	5.0	6.1	5.4	4.6
Employment total	-3.9	-1.3	-0.1	-0.5	0.2	0.2	1.8	1.5
GDP per empl. person, SIT at 1996 pr.	-0.9	6.7	4.2	4.0	4.4	3.5	3.2	3.1
Unit labour costs, SIT at 1996 prices	383.8	17.6	13.5	10.9	7.1	5.8	6.2	7.5
Unit labour costs, ER (ECU) adjusted	8.5	2.1	13.0	0.1	0.6	2.5	2.2	1.5
Bulgaria								
GDP deflator	26.2	72.8	62.7	121.0	949.0	22.2	3.1	7.0
Exchange rate (ER), BGN/ECU	7.6	99.3	34.4	120.7	889.2	4.0	-0.8	0.0
Real ER (CPI-based)	-8.0	4.8	-14.5	1.5	-14.6	-13.4	0.1	-6.8
Real ER (PPI-based)	-3.8	15.9	-8.4	-3.4	-9.5	-10.8	-3.9	-10.1
Average gross wages, BGN	37.8	53.5	53.2	74.4	865.6	43.3	11.9	11.2
Average gross wages, real (PPI based)	20.1	-12.6	-0.2	-24.2	-12.4	23.3	8.3	-5.0
Average gross wages, real (CPI based)	11.3	-21.7	-5.5	-21.8	-18.3	17.1	11.6	1.2
Average gross wages, ECU (ER)	28.1	-23.0	13.9	-21.0	-2.4	37.7	12.8	11.2
Employment total	-6.1	0.6	1.3	0.1	-3.9	-0.2	-2.6	-5.6
GDP per empl. person, BGN at 1996 pr.	-3.1	1.1	1.6	-10.2	-3.2	3.7	5.1	10.8
Unit labour costs, BGN at 1996 prices	42.3	51.8	50.7	94.2	897.9	38.2	6.5	0.3
Unit labour costs, ER (ECU) adjusted	32.3	-23.8	12.1	-12.0	0.9	32.8	7.4	0.3
Romania								
GDP deflator	13.6	139.0	35.3	45.3	147.3	53.9	46.4	48.0
Exchange rate (ER), ROL/ECU	89.1	122.4	33.6	46.9	109.5	23.5	63.1	22.5
Real ER (CPI-based)	90.5	-3.1	4.2	8.5	-16.1	-21.0	13.2	-13.9
Real ER (PPI-based)	52.9	-5.5	3.4	-1.3	-16.4	-7.7	14.8	-15.2
Average gross wages, ROL	10.4	131.9	54.8	51.7	98.4	60.3	44.3	46.9
Average gross wages, real (PPI based)	-13.0	-3.6	14.6	1.2	-21.5	20.4	1.4	-3.3
Average gross wages, real (CPI based)	5.0	-2.0	17.1	9.3	-22.1	0.8	-1.1	0.8
Average gross wages, ECU (ER)	-41.6	4.3	15.8	3.2	-5.3	29.9	-11.6	20.0
Employment total	0.2	-2.2	-2.8	-3.2	-2.5	-3.1	-3.0	-2.9
GDP per empl. person, ROL at 1996 pr.	-5.7	6.3	10.3	7.4	-3.7	-2.4	-0.2	5.0
Unit labour costs, ROL at 1996 prices	17.1	118.3	40.4	41.2	106.1	64.3	44.6	39.9
Unit labour costs, ER (ECU) adjusted	-38.1	-1.9	5.1	-3.9	-1.6	33.1	-11.4	14.2
Croatia								
GDP deflator	538.9	111.8	5.3	3.6	7.4	9.0	4.0	6.0
Exchange rate (ER), HRK/ECU	346.0	71.5	-4.7	0.7	2.3	2.5	6.2	0.8
Real ER (CPI-based)	-33.4	-10.5	-3.6	-0.3	0.7	-1.2	3.1	-2.6
Real ER (PPI-based)	-17.6	-1.4	-1.1	-0.1	0.9	3.4	3.6	-3.3
Average gross wages, HRK	481.9	154.1	34.0	12.3	13.1	12.6	10.2	7.7
Average gross wages, real (PPI based)	4.7	43.1	33.0	10.8	10.6	14.0	7.4	-1.8
Average gross wages, real (CPI based)	-18.0	28.6	31.3	8.5	9.2	6.5	5.7	1.6
Average gross wages, ECU (ER)	30.5	48.2	40.5	11.6	10.6	9.8	3.7	6.8
Employment total	-3.1	-0.7	-1.4	-6.2	-1.4	5.6	-1.5	-3.3
GDP per empl. person, HRK at 1996 pr.	-4.1	6.6	8.3	12.9	8.3	-3.0	1.2	7.2
Unit labour costs, HRK at 1996 prices	506.7	138.5	23.7	-0.5	4.4	16.1	8.9	0.5
Unit labour costs, ER (ECU) adjusted	36.0	39.1	29.7	-1.2	2.1	13.2	2.5	-0.3

(Table A/3 contd.)

Table A/3 (contd.)

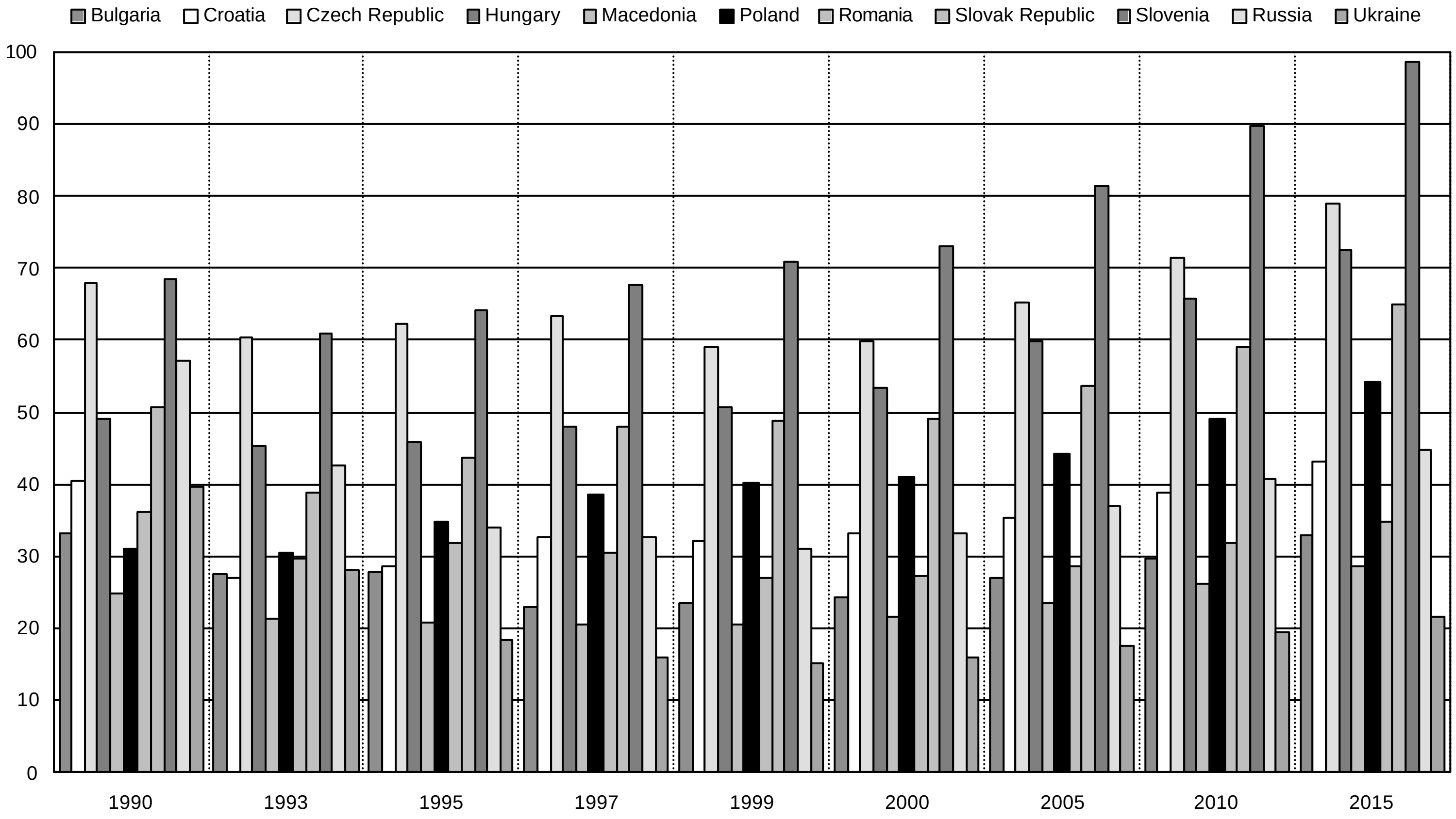
	1990	1994	1995	1996	1997	1998	1999	2000 prelim.
Macedonia								
GDP deflator	.	127.6	17.1	2.9	3.4	0.2	-0.3	10.0
Exchange rate (ER), MKD/ECU	346.9	87.1	-3.8	1.9	12.2	8.7	-0.7	0.2
Real ER (CPI-based)	-32.1	-15.4	-14.4	2.1	11.6	10.7	1.1	-7.2
Real ER (PPI-based)	-7.2	1.0	-4.0	2.9	8.7	4.0	-0.5	-3.3
Average net wages, MKD	461.3	105.0	10.7	2.8	2.8	3.7	2.9	10.0
Average net wages, real (PPI based)	13.7	8.3	5.7	3.1	-1.4	-0.4	3.0	0.9
Average net wages, real (CPI based)	-19.4	-10.1	-4.5	0.5	0.2	3.8	3.6	-0.5
Average net wages, ECU (ER)	25.6	9.6	15.0	0.9	-8.4	-4.6	3.6	9.8
Employment total	.	.	.	.	-4.7	5.4	1.0	0.9
GDP per empl. person, MKD at 1996 pr.	.	.	.	.	6.4	-2.3	1.6	4.6
Unit labour costs, MKD at 1996 prices	.	.	.	.	-3.4	6.1	1.2	5.2
Unit labour costs, ER (ECU) adjusted	.	.	.	.	-13.9	-2.4	2.0	5.0
Russia								
GDP deflator	15.9	307.8	163.0	44.2	14.5	14.4	62.9	33.0
Exchange rate (ER), RUB/ECU	7.2	114.8	126.2	12.6	-1.4	69.1	137.2	-0.8
Real ER (CPI-based)	7.8	-45.6	-21.6	-21.9	-12.3	34.9	29.3	-15.3
Real ER (PPI-based)	6.8	-49.8	-29.7	-24.9	-13.5	57.3	49.4	-28.5
Average gross wages, RUB	17.2	277.5	119.6	48.4	20.2	10.7	44.8	51.0
Average gross wages, real (PPI based)	13.8	-13.6	-34.7	-1.6	4.6	3.3	-8.8	3.4
Average gross wages, real (CPI based)	11.3	-7.2	-26.2	0.4	4.7	-13.3	-22.0	25.8
Average gross wages, ECU (ER)	9.3	75.7	-2.9	31.8	21.9	-34.6	-38.9	52.2
Employment total	0.2	-3.3	-3.0	-0.7	-2.0	-1.5	0.5	1.6
GDP per empl. person, RUB at 1996 pr.	-3.2	-9.7	-1.2	-2.7	2.9	-3.4	3.0	5.8
Unit labour costs, RUB at 1996 prices	21.1	317.9	122.1	52.5	16.8	14.6	40.6	42.7
Unit labour costs, ER (ECU) adjusted	12.9	94.6	-1.8	35.4	18.4	-32.3	-40.7	43.9
Ukraine								
GDP deflator	13.0	952.9	415.8	66.2	18.1	12.0	24.4	28.0
Exchange rate (ER), UAH/ECU	7.2	630.3	400.9	20.4	-9.0	31.0	58.7	14.5
Real ER (CPI-based)	8.3	-24.0	8.3	-31.5	-19.9	20.6	30.9	-8.6
Real ER (PPI-based)	5.2	-39.5	-11.1	-20.3	-14.7	15.2	21.2	-0.4
Average gross wages, UAH	14.7	786.6	430.7	72.6	13.5	7.0	16.0	38.0
Average gross wages, real (PPI based)	9.7	-28.2	-9.9	13.5	5.4	-5.5	-11.5	14.2
Average gross wages, real (CPI based)	9.4	-10.5	11.3	-4.2	-2.1	-3.3	-5.4	7.7
Average gross wages, ECU (ER)	7.0	21.4	6.0	43.3	24.7	-18.3	-26.9	20.6
Employment total	-0.5	-3.8	3.0	-2.1	-2.7	-1.1	-2.3	-1.5
GDP per empl. person, UAH at 1996 pr.	-3.6	-19.9	-14.8	-8.1	-0.3	-0.8	2.0	7.3
Unit labour costs, UAH at 1996 prices	18.9	1006.6	522.9	87.8	13.8	7.8	13.7	28.7
Unit labour costs, ER (ECU) adjusted	10.9	51.5	24.3	55.9	25.1	-17.7	-28.3	12.4

Sources: National statistics and WIIW estimates.

Figure A/1

Real per capita GDP in the CEECs

EU average = 100



Source: Table A/1

COUNTRY REPORTS

Anton Mihailov

Bulgaria: Will the recovery be sustained?

The Bulgarian economy continued to grow strongly in the second half of 2000: after increasing by 5.2% in the first half of the year, GDP grew by 5.6% in the third quarter resulting in an average growth rate of 5.3% year-on-year for January-September. An annual rate of GDP of at least 5% is expected for 2000 as a whole, which is the best output performance since the start of economic and political transformation a decade ago. The main question – and policy challenge – that remains is whether and for how long these high rates of growth could be sustained.

Aggregate output was boosted during the first three quarters of 2000 by the strong recovery in mining and manufacturing (with sectoral value added increasing by 12.0% year-on-year in this period) and services (10.3% year-on-year growth of value added) while growth was negative in the agricultural sector (-15.5% year-on-year). It should be borne in mind that the statistical picture of output performance as reported by the National Statistical Institute is again somewhat ambiguous and confusing. For example, the year-on-year rate of growth of gross industrial output during the same period was 3.3% while real industrial sales reportedly increased by 7.8% year-on-year.

The recovery in industrial output was narrowly based and performance was mixed across manufacturing branches. In fact only a handful of export-oriented industries (such as chemicals and metal processing) which benefited from the favorable external demand conditions were responsible for the most of the increase in industrial output while the majority of manufacturing branches, and in particular those mostly operating on the domestic market, stagnated or even registered output decline. 2000 was good for Bulgaria's tourist industry: the number of foreign tourists increased by 13% compared to 1999 and this robust performance contributed to the growth in the services sector. Apart from the favourable external factors (the tourist flows to the whole region recovered strongly after the end of the Kosovo conflict), tourism is probably among the few Bulgarian industries where there are some visible albeit modest results of the process of market oriented restructuring. The tourist industry was among the first to be privatized and thanks to new investment and better management, there has been some improvement in the quality of services in recent years.

Inflation in 2000 turned out to be much higher than expected, mostly due to the imported component (the rising oil price): in average annual terms CPI inflation is coming close to 10% against the ex-ante target of 3.5%. As nominal wages grew more or less in line with expectations, this resulted in stagnant real consumer wages and real product wages even declined. While consumers suffered, one positive side effect of this development was the containment of the growth of unit labour costs which prevented further deterioration in competitiveness as seen during the previous two years.

Despite the upturn in output, the situation on the labour market deteriorated considerably in 2000 and unemployment remained stubbornly high (around 18%) throughout most of year. This was a disappointing outcome for the authorities who had committed themselves to the creation of over 200 ths. new jobs in 2000, in part through the publicly financed infrastructural projects. However, with the deepening of the process of enterprise restructuring the number of layouts, especially in industry, intensified considerably and although some new jobs were created, net job creation in this period was highly negative.

On the demand side, investment activity slowed down in the third quarter: after growing at two-digit rates for two and a half years until mid-2000, the year-on-year rate of growth of gross fixed capital formation in the third quarter dropped to 4.6% bringing the average rate of growth for the first three quarters of the year to 9.8%. The high rates of growth of investment during the past three years partly reflected the government's effort to revitalize the economy through publicly financed infrastructural projects which in turn was made possible thanks to the fiscal consolidation since the introduction of the currency board. However, as the one-off effects of fiscal consolidation seem to be drying out, the question is whether the government will have sufficient resources to continue the investment expansion in 2001.

The recovery of exports driven by strong western European demand was probably the major engine of growth in 2000: real exports of goods and services grew by 23.4% year-on-year during the first three quarters of 2000 (against a real import growth of 12.9%) and the net trade effect was responsible for 3.8 percentage points of the rate of growth of GDP reported in this period. However, the recovery of exports was from a very low base (largely due to the side effects of the Kosovo crisis in 1999) and the trade balance continued to deteriorate both in absolute (USD) and in relative (as % of GDP) terms. On the other hand, the negative terms-of-trade effect of the high oil prices subsided somewhat during the course of the year as the prices of some of Bulgaria's main export items (such as metals and chemicals) also started to pick up.

In contrast, final consumer demand remained relatively weak. During the first three quarters, real private consumption expenditure grew less than GDP (by 2.1% year-on-year) while the volume of retail trade increased by 3.4% year-on-year. In the closing months of the year retails sales weakened considerably largely due to the stagnation or even shrinking of real incomes as nominal earnings hardly kept pace with the unexpectedly high inflation.

The current account deficit remained high in 2000 but still the outturn was better than expected partly thanks to the strong export recovery, and partly due to ample revenue form tourism. Moreover, the current account deficit for the year will likely be fully offset by the inflow of FDI which amounted to USD 817 million for January-November (BOP data) thanks to the finalization of some large privatization deals (in the first place the sale of BULBANK, the largest bank in the country). Still the greatest source of worry remains the widening trade deficit which reached unprecedented proportions in 2000 (close to 15% of GDP). With privatization nearing its final phases, the authorities will no longer avail of this easy source of financing the current account deficit and a positive balance in services is unlikely to be able to offset the growing merchandise trade gap in the balance of payments.

Total government foreign debt (including loan guarantees) amounted to USD 8.85 billion at the end of November, and was slightly down from end-1999 (when it amounted to USD 9.07 billion). Total government foreign debt service in 2001 is estimated at around USD 1.3 billion (up from USD 900 million in 2000), almost evenly divided between principal payments and interest due. The 3-year Extended Fund Facility with the IMF is on track but is due to expire in mid-2001 (two last installments worth around USD 140 million are due on this agreement in 2001). While the authorities will likely have the resources to meet this year's debt payments even in the absence of new funding from the IMF, they are actively soliciting a new agreement with the IMF which still is going to have a key role in securing the medium term stability of the balance of payments.

The outlook for 2001 appears to be moderately positive but rather uncertain. The current economic upturn hinges on the continuation of the present relatively strong export demand while domestic demand is weakening. This adds further degrees of vulnerability to the economy making is highly susceptible to external disturbances: thus an eventual reversal in the external conditions (e.g. due to slowdown of import demand from western Europe), would be equivalent to a strong negative shock. There are further risks associated with the political cycle: with parliamentary elections due in April, there is a danger that policy in this period may be distorted by populist moves. Given these uncertainties, it appears that the government GDP growth target of 5% in 2001 (as laid out in this year's budget) may be too optimistic. Given the stagnant labour demand, no major improvements can be foreseen on the labour market either. On the other hand, as the upsurge in inflation in 2000 was mostly externally driven, it will likely subside with the moderation in world oil prices.

Table BG

Bulgaria: Selected economic indicators*

	1994	1995	1996	1997	1998	1999	2000 [1]	2001	2002
								forecast	
Population, th pers., end of period	8427.4	8384.7	8340.9	8283.2	8230.4	8190.9	8150	.	.
Gross domestic product, BGN mn, nom.	525.6	880.3	1748.7	17055.2	21577.0	22776.4	25500	27500	30000
annual change in % (real)	1.8	2.9	-10.1	-7.0	3.5	2.4	5	4	4
GDP/capita (USD at exchange rate)	1147	1559	1189	1224	1484	1510	1470	.	.
GDP/capita (USD at PPP - WIIW)	5020	5390	4990	4770	4980	5210	5610	.	.
Gross industrial production									
annual change in % (real)	10.6	4.5	5.1	-5.4	-7.9	-12.3	3.5	4	4
Gross agricultural production									
annual change in % (real)	7.1	16.0	-11.5	14.2	0.0	.	.	.	.
Goods transport, public, mn t-kms	80824	87210	79850	86543	76039	79305	.	.	.
annual change in %	0.4	7.9	-8.4	8.4	-12.1	4.3	.	.	.
Gross fixed capital form., BGN mn, nom.	72.3	134.3	238.5	1841.0	2850.8	3632.2	.	.	.
annual change in % (real)	1.1	16.1	-21.2	-23.9	32.9	25.3	8	.	.
Construction output total									
annual change in % (real)	-7.6	5.8	-14.0	-4.4	-0.2	-17.9	.	.	.
Dwellings completed, units	8669.0	6815.0	8099.0	7452.0	4942.0	9824.0	.	.	.
annual change in %	-21.3	-21.4	18.8	-8.0	-33.7	98.8	.	.	.
Employment total, th pers., average	3241.6	3282.2	3285.9	3157.4	3152.6	3071.9	.	.	.
annual change in %	0.6	1.3	0.1	-3.9	-0.2	-2.6	.	.	.
Employees in industry, th pers., average [2]	815.3	770.4	728.1	838.7	802.5	696.4	617.1 I-XI	.	.
annual change in % [2]	-8.5	-5.5	-5.5	-2.7	-4.3	-13.2	-12.0 I-XI	.	.
Unemployed reg., th, end of period	488.4	423.8	478.5	523.5	465.2	610.6	682.8	690	660
Unemployment rate in %, end of period	12.8	11.1	12.5	13.7	12.2	16.0	17.9	18	17
Average gross monthly wages, BGN [2]	5.0	7.6	14.0	127.9	183.3	205.1	228	.	.
annual change in % (real, gross) [2]	-21.7	-5.5	-17.6	-18.3	17.2	11.6	1.2	.	.
Retail trade turnover, BGN mn [3]	249.0	410.4	723.7	5469.3	7214.2	6760.0	.	.	.
annual change in % (real) [3]	2.8	2.7	-7.6	-36.4	18.5	-5.5	2.0	.	.
Consumer prices, % p.a.	96.0	62.1	123.0	1082.3	22.3	0.3	9.9	6	4
Producer prices in industry, % p.a.	75.7	53.4	130.0	1002.8	16.2	3.3	.	.	.
Central government budget, BGN mn									
Revenues	133.1	197.3	350.0	2983.3	4245.6	4543.5	.	.	.
Expenditures	167.2	255.2	540.8	3650.0	3930.8	4132.0	.	.	.
Deficit (-) / surplus (+)	-34.0	-57.9	-190.9	-666.7	314.7	411.6	250	.	.
Deficit (-) / surplus (+), % of GDP	-6.5	-6.6	-10.9	-3.9	1.5	1.8	1.0	.	.
Money supply, BGN mn, end of period									
M1, Money	75.1	107.9	236.6	2266.9	2755.6	2996.6	3640.3	.	.
Broad money	418.0	583.7	1310.3	6018.6	6597.2	7351.1	9304.0	.	.
Base rate of NB % p.a., end of period	93.9	38.6	342.1	6.8	5.2	4.5	4.7	.	.
Current account, USD mn	-31.9	-25.6	15.9	426.7	-61.4	-684.5	-700	-500	-500
Gross reserves of NB excl. gold, USD mn	1001.8	1236.4	483.4	2121.0	2679.4	2892.0	3154.9	.	.
Gross external debt, convert. curr.,USD mn	11338.4	10148.0	9601.6	9760.2	10251.5	10179.6	10261.3 Sep	.	.
Exports total, fob, USD mn [4]	3985.4	5354.7	4890.2	4939.7	4297.0	3967.2	4800	5000	5200
annual change in %	7.1	34.4	-8.7	1.0	-13.0	-5.4	21	4	4
Imports total, cif, USD mn [4]	4184.8	5657.6	5073.9	4932.0	5031.3	5468.7	6500	6700	6900
annual change in %	-12.0	35.2	-10.3	-2.8	2.0	10.3	19	3	3
Average exchange rate BGN/USD	0.054	0.067	0.176	1.677	1.760	1.836	2.123	.	.
Average exchange rate BGN/EUR (ECU)	0.065	0.087	0.192	1.896	1.972	1.956	1.956	1.956	1.9558
Average exchange rate BGN/DEM	0.034	0.047	0.118	0.968	1.000	1.000	1.000	1.000	1.000
Purchasing power parity BGN/USD, WIIW	0.012	0.019	0.042	0.435	0.525	0.532	0.557	.	.
Purchasing power parity BGN/EUR, WIIW	0.013	0.021	0.045	0.474	0.570	0.575	0.606	.	.

* On 5 July 1999, the new Bulgarian lev was introduced (1 BGN = 1000 BGL). Data in this table are presented in 'new' BGN.

Notes: 1) Preliminary. - 2) Up to 1996 public sector only. - 3) Up to 1995 including public catering, from 1996 according to NACE classification.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Hermine Vidovic

Croatia: Economic growth, but alarming labour market trends

Thanks to a favourable international economic climate Croatia's economy performed much better in 2000 than initially expected. GDP grew by an estimated 3.5%, after a 0.4% decline in 1999. Following the change in the presidency and in the government Croatia made a big step forward in its integration efforts: by the end of November the WTO membership became effective, at the same time Croatia entered negotiations with the European Union on a Stabilization and Association Agreement. By the end of 2000 the Croatian government and the IMF had reached an agreement on a new standby loan.

In contrast to other Central and East European countries, Croatia's industry could benefit neither from an increasing foreign nor from a rising domestic demand. Industrial production growth for the whole year is given at 1.7%, that of manufacturing, accounting for some 80% of total industrial production, at 2.9%. The output of food industries, representing the highest share within manufacturing, stagnated; declines of about 10% were reported for the electrical machinery and apparatus industries and for other transport equipment. Strong growth in output was recorded in the production of radio, TV and communication equipment (+31%) and in the chemical industries (+10%).

Fuelled by high prices of imported oil and raw materials, the depreciation of the kuna against the US dollar and increased excise duties, the inflation rate, measured by the retail price index, accelerated to 6.2% on average in 2000, up from 4.2% a year earlier. Core inflation, however, excluding the prices of agricultural products and prices under government control, fell slightly from an average 4.2% in 1999 to 4% in 2000.

Labour market trends were further deteriorating. By December 2000 the jobless rate stood at over 22%, up from 19% at the end of 1999; the number of total employed was further on the decrease (by 3.3%). Results obtained from the labour force survey conducted in the first half of the year confirm the worsening situation on the labour market, with the unemployment rate increasing to 15.1%, from 14.5% in the second half of 1999. Young people are particularly affected by unemployment, reporting a 33.6% jobless rate. Within a period of only one and a half years the employment rate fell by four percentage points. Assuming that all enterprise closures announced by the government will materialize, a further increase of the unemployed is to be expected.

Real average net wages increased by about 4%. The expansion in retail trade turnover, by almost 14% in real terms, was first of all due to enhanced car purchases stimulated by low-interest consumer credits. In addition, increased tourist spending contributed to the rise. A recovery in investment activities in not in sight yet; for the year as a whole real investment was down by an estimated 3%. This trend is also clearly reflected in the poor performance of the construction industry, with data for the first eight months posting a drop of 11.5%.

Foreign trade developed quite dynamically in 2000, with exports and imports up by 21% and 18% respectively, expressed in current euro terms. Exports to the EU expanded by about 35% (to Italy by more than 50%), while imports from that area grew at a more moderate rate, by 15%. Though the trade deficit remained almost unchanged compared with 1999, the current account deficit could be reduced significantly thanks to an increased surplus in the services balance, mainly due to higher receipts from tourism. After the poor tourist season in 1999 as a consequence of the war in Kosovo, the year 2000 witnessed a significant recovery, with overnight stays increasing by 56%. Data available for the first three quarters of 2000 indicate a balanced current account, thus for the whole year the deficit will amount to an estimated USD 800 million. By the end of September foreign debt totalled USD 9.8 billion, or half of the yearly GDP. In the years to come Croatia will face a heavy debt service burden: USD 2.2 billion in 2001, USD 1.7 billion in 2002 and up to USD 1.3 billion p.a in the period 2003 to 2005. After heated debates on the 2001 state budget, the IMF and Croatia finally came to an agreement on a new standby credit, worth USD 250 million.

Following the postponement of the privatization of Croatian Telecom, the new child benefit law and the changes in excise duties, a revision of the 2000 state budget became necessary in November. Accordingly the budget revenues were envisaged to stand at HRK 44 billion and expenditures at HRK 50.6 billion, with the budget deficit equalling 4.2% of the expected GDP. The 2001 budget, adopted under strong pressure of the IMF, foresees a nominal cut of expenditures and a deficit of HRK 8.8 billion, corresponding to 5.3% of the GDP. As in previous years budgetary revenues rely to a big part on privatization receipts: the lion's share of privatization earnings is expected to come from the IPO (initial public offering) of the second block of Croatian Telecom (HT), followed by the sale of the states' stake in Dubrovaèka banka and Croatia Banka as well as the country's biggest insurance company, Croatia Osiguranje. The privatization of HEP (electricity company) and INA (oil company) will be due only in 2002 after these enterprises have undergone a complex restructuring process. Altogether the Ministry of Finance expects to earn some HRK 8 billion from privatization in 2001. Along with the 2001 budget the Ministry of Finance has prepared fiscal projections for the 2001-2003 period, underlining stability and sustainability as the basic principles of fiscal policy. The reform of the social security system has been given top priority. The main elements of the fiscal policy will, among others, include a reduction of the public sector's wage bill (cutting employment in the civil service combined with a wage freeze), the implementation of pension and health care reforms, a cut of defence expenditures to peace-time levels, a reform of tax administration and the privatization of state-owned enterprises. The final outcome of these measures should be a decline of the consolidated central government expenditures (from currently

49% of GDP to 39% in 2003) and a reduction of the overall tax burden from about 40% of GDP to 34%.

The National Bank's projections for 2001 are rather optimistic, posting GDP growth at 4%, and the inflation rate at 4.5%, down from 7.5% in December 2000; the current account deficit is expected to drop from an estimated 5% of the GDP in 2000 to 4% in 2001. Maintaining the stability of prices and the exchange rate will remain the main goals of the National Bank. As both domestic and foreign demand will lose momentum, WIIW follows the more moderate forecasts, posting the GDP growth at some 2.5% in both 2001 and 2002. Domestic demand decrease will mainly result from cutting government expenditures, particularly though the reduction of the public sector's wage bill, but also through the postponement/suspension of public investment projects. As the private sector is still too weak to absorb excess labour from the public sector and/or to create an adequate number of new jobs, an increase in employment, announced by the government as top priority for 2001, is rather unrealistic. The budget will remain one of the burning problems in the years to come. Apart from the dramatic increase of transfers to the extra-budgetary funds, mainly the health and pension funds, the authorities will have to adjust the budgetary items to the lowering inflows from privatization receipts. Over recent years fiscal authorities have been heavily relying on those earnings in order to fill the widening budgetary gaps.

Table HR

Croatia: Selected economic indicators

	1994	1995	1996	1997	1998	1999	2000 [1]	2001	2002
								forecast	
Population, th pers., mid-year	4649.0	4669.0	4494.0	4572.5	4501.0	4554.0	4500	.	.
Gross domestic product, HRK mn, nom.	87441.2	98382.0	107980.6	123810.7	138391.7	143500.0	157700	170500	183500
annual change in % (real)	5.9	6.8	5.9	6.8	2.5	-0.3	3.5	2.5	2.5
GDP/capita (USD at exchange rate)	3137	4029	4422	4398	4833	4432	4232	.	.
GDP/capita (USD at PPP - WIIW)	5080	5610	6330	6710	7080	7090	7600	.	.
Gross industrial production									
annual change in % (real)	-2.7	0.3	3.1	6.8	3.7	-1.4	1.7	1.5	2
Gross agricultural production									
annual change in % (real)	-3.3	0.7	1.3	4.0	10.2	.	.	.	.
Goods transport, public, mn t-kms	196986	199730	213172	203428	170107	146302	.	.	.
annual change in %	11.9	1.4	6.7	-4.6	-16.4	-14.0	.	.	.
Gross fixed capital form., HRK mn, nom.	12209.9	15398.0	22089.4	29952.2	32856.7	32753.0	.	.	.
annual change in % (real)	.	.	37.6	23.3	3.0	-5.9	-3.0	0	1
Construction industry, hours worked [2]									
annual change in % (real)	-4.5	-3.9	9.0	16.7	0.7	-7.7	.	.	.
Dwellings completed, units	9710	7359	12624	12516	12600	.	.	.	.
annual change in %	16.4	-24.2	71.5	-0.9	0.7	.	.	.	.
Employment total, th pers., average [3]	1437.1	1417.4	1329.5	1310.9	1384.8	1364.5	1322.9 I-XI	.	.
annual change in % [3]	-0.7	-1.4	-6.2	-1.4	0.4	-1.5	-3.3	.	.
Employees in industry, th pers., average [4]	368.3	349.2	315.1	319.7	308.9	299.5	291.7 I-X	.	.
annual change in % [4]	-4.3	-5.2	-9.8	-6.4	-3.4	-3.0	-2.8 I-X	.	.
Unemployed reg., th, end of period	247.6	249.1	269.3	287.1	302.7	341.7	378.5	.	.
Unemployment rate in %, end of period	14.8	15.1	15.9	17.6	18.1	20.4	22.5	23	23
Average gross monthly wages, HRK	2155	2887	3243	3668	4131	4551	4830 I-X	.	.
annual change in % (real, net)	14.4	40.2	7.2	12.3	6.0	10.1	3.9 I-X	.	.
Retail trade turnover, HRK mn [5]	22391.9	26054.9	29412.4	34736.1	36021.3	35769.1	.	.	.
annual change in % (real) [5]	13.2	12.5	3.4	14.9	-0.4	-4.8	14.9 I-IX	.	.
Retail prices, % p.a.	97.6	2.0	3.5	3.6	5.7	4.2	6.2	5.5	5
Producer prices in industry, % p.a.	77.6	0.7	1.4	2.3	-1.2	2.6	9.7	.	.
Central government budget, HRK mn									
Revenues	23142.6	27980.8	31367.5	33846.1	43808.6	46356.0	37204 I-X	.	.
Expenditures	22598.8	28696.2	31501.5	35006.3	42551.9	48879.0	42132 I-X	.	.
Deficit (-) / surplus (+)	543.9	-715.4	-134.0	-1160.2	1256.7	-2523.0	-4928 I-X	.	.
Deficit (-) / surplus (+), % GDP	0.6	-0.7	-0.1	-0.9	0.9	-1.8	.	.	.
Money supply, HRK mn, end of period									
M1, Money	6643	8235	11369	13731	13531	13859	16385 Nov	.	.
Broad money	17680	24623	36701	50742	57340	56699	70550 Nov	.	.
Discount rate % p.a., end of period	8.5	8.5	6.5	5.9	5.9	7.9	5.9	.	.
Current account, USD mn	853.4	-1441.5	-1091.3	-2325.1	-1530.4	-1522.6	-800	-900	-900
Gross reserves of NB excl. gold, USD mn	1405.0	1895.2	2314.0	2539.0	2815.6	3025.0	3524.8	.	.
Gross external debt, USD mn [6]	3019.8	3809.1	5307.6	7451.6	9588.2	9852.1	9834.0 Sep	.	.
Exports total, fob, USD mn [7]	4260.4	4632.7	4511.8	4170.7	4541.1	4279.7	4390.1	4300	4300
annual change in %	9.1	8.7	-2.6	-7.6	8.9	-5.8	2.0	-2	0
Imports total, cif, USD mn [7]	5229.3	7509.9	7787.9	9104.0	8383.1	7777.4	7911.2	7910	7990
annual change in %	12.1	43.6	3.7	16.9	-7.9	-7.2	1.4	0	1
Average exchange rate HRK/USD	6.00	5.23	5.43	6.16	6.36	7.11	8.28	.	.
Average exchange rate HRK/EUR (ECU)	7.09	6.76	6.80	6.96	7.14	7.58	7.64	7.8	7.9
Average exchange rate HRK/DEM	3.69	3.65	3.61	3.56	3.62	3.88	3.90	.	.
Purchasing power parity HRK/USD, WIIW	3.70	3.75	3.80	4.04	4.35	4.44	4.61	.	.
Purchasing power parity HRK/EUR, WIIW	3.99	4.04	4.12	4.40	4.72	4.80	5.01	.	.

Notes: 1) Preliminary. - 2) Up to 1996 enterprises with more than 10 employees, from 1997 more than 20 employees. - 3) From 1998 including persons employed at the Ministry of Defence and Ministry of Internal Affairs. - 4) Up to 1996 enterprises with more than 10 employees; from 1997 according to NACE classification. - 5) From 1996 according to NACE classification. - 6) Up to 1995 excluding portion of debt of the former Yugoslav Federation. - 7) From 2000 new method of statistical processing.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Josef Pöschl

Czech Republic: Economy climbing at a slow rate

In 2000, Czech GDP recorded 2.5-3% growth year-on-year: good tidings after three years of decline. In real terms, GDP in 1999 was 4% less than in 1996. Triggered by a boost in net exports, recovery got under way in the third quarter of 1999 and up until the first quarter of 2000 favourable foreign trade results remained the engine of growth. Thereafter, imports started to expand rapidly and outstrip exports. As a result, the impact of foreign trade on GDP growth was reversed; it was slightly negative in the second quarter of 2000 and dramatically negative in the third. Had all other GDP components stagnated in the third quarter of 2000, net exports would have led to a decline of 4.5% in GDP. Domestic demand – private consumption, gross fixed investment and (primarily in the third quarter of 2000) an increase in inventories – took over as the engine of growth.

From the fourth quarter of 1999 onwards, exports – in GDP terms at constant 1995 prices – recorded two-digit growth rates: as much as 26% in the first quarter of 2000, the background to this dramatic export growth being a good EU business climate. In Germany, which absorbs the highest share of Czech exports, the year-on-year GDP growth rates started to rise significantly in the second half of 1999 and peaked in the first quarter of 2000 (3.6%).[17] In the second quarter of 2000, Czech imports began to outstrip exports, thus giving rise to concern over the sustainability of growth. GDP growth rates of slightly more than 2% were matched by import growth rates averaging 20%.

Foreign trade figures at current prices indicate a structural change in the export of manufactures. The share of machinery and transport equipment has increased continuously over the past few years, rising from less than 30% in the period 1993-95 to some 44% of the total in 2000. Moreover, three quarters of total exports went to developed market economies, some 10 percentage points more than three years previous. Germany alone absorbed over 40% of total exports. In the case of imports, changes were less pronounced. The share of machinery and transport equipment was close to 40% in 2000, three percentage points above the average for the period 1993-95. Since 1999, the balance of trade in this product group has been slightly positive, unlike 1995 and 1996, years of pronounced growth, when imports of machinery and transport equipment exceeded exports by as much as 44%.

These trade figures point to structural changes in Czech manufacturing as a whole. A number of enterprises have thus been able to avail themselves of broader sales openings. In 2000 performance in the manufacturing sector was comparatively good. Production rose

[17] Germany's GDP growth rate in 2000 (3.1%) exceeded by far all growth rates registered in recent years.

by close to 6% whereas employment fell some 2% over the same period. The resulting growth in labour productivity was about 1% point higher than the increase in nominal wages and close to four points higher than the rise in real wages. The former meant a decline in unit labour costs, the latter a drop in the wage bill relative to gross industrial output. Foreign-owned enterprises performed better than the rest, as did medium-sized companies employing between 250 and 500 persons. Manufacturers of transport equipment, optical and electronic instruments and wood products were the industrial leaders. The country still has a number of large-scale companies that have yet to be restructured. It is still open to question which of them will emerge as examples of successful revitalization. Their relative weight, however, seems to be shrinking. The industrial sector as a whole is heavily indebted. The aggregate volume of liabilities – among enterprises, as well as towards employees, financial institutions and tax authorities (including social security bodies) - is still high, yet seems to concern only some enterprises, an indication of major discrepancies between companies. Hopelessly indebted companies contrast with financially sound units. To some degree, this is more or less common to every economy; in the Czech case, however, the group of indebted companies is far from being a quantité négligeable. The largest enterprises, brand names of renown and firmly entrenched regional employers, are but the tip of the iceberg. To make matters worse, the government is split over the manner in which the problem should be handled. Supporters of an accommodating industrial policy have gained terrain, and this tendency may gather momentum as parliamentary elections loom closer - by 2002 at the latest. Providing more state funding in exchange for a commitment to future restructuring on the part of the loss-makers could prove an inefficient and costly long-term strategy.

Machinery production, an industry plagued by trouble over the past few years, shows signs of improvement. The consolidation in the chemical sector proceeds apace and part of the sector has already been privatzsed; further steps will follow this year or next. One of the major deregulation projects is focused on the energy sector: the utility producer CEZ that also runs the Temelin nuclear power station. The construction sector has overcome its recession and production is now starting to grow again. Foreign participation increased in 2000 and is likely to expand further. Foreign retail chains have penetrated the tertiary sector on quite a massive scale. Critics point to the chains’ tendency to supply imported goods: a trend which, so the fear, may ultimately send Czech producers to the wall, especially smaller and Czech-owned units. In the Czech Republic, telecommunications has also become one of the sectors of greatest interest to foreign investors. Political disputes in late 2000 and mass demonstrations related to this industry may be a reflection of the struggle for power in this sector.

Despite the decline in industrial employment and a somewhat similar development pattern in the construction sector, at the end of 2000 the number of jobless in the economy as a whole was lower than the previous year. In the long term the unemployment rate might remain in single digits; this would be quite exceptional compared to most other transition countries.

In order to promote economic recovery, the Czech government planned a budget deficit for 2000. The actual deficit was larger than that budgeted and came close to 2.3% of GDP. This would not appear alarmingly high. In its endeavours to consolidate some of the major commercial banks, the government undertook a variety of costly measures, some of which were funded from privatization revenues; it will have to repeat the exercise in 2001. The whole thing could cost the government up to USD 8 billion: about one sixth of the annual GDP. Were privatization revenues not included in the budget, the central government's deficit would have exceeded 5% of GDP in 2000 and might even come close to 7% or 8% of GDP in 2001. The State's accumulated debt is still far below the limit set in the Maastricht criteria, and general government tax revenues in the broadest sense are relatively low: around 37% of GDP[18] compared to an EU average of 42-43%.[19] Given these facts, budgetary problems are discernible, but should remain manageable.

Given the probability of a slow-down in growth in the developed market economies, and given the low growth of real wages in the Czech Republic, growth in gross fixed investment is likely to provide the main engine of Czech GDP growth in both 2001 and 2002. Traditionally, the Czech economy and economic policy have veered towards nominal stability, sometimes even at the expense of real dynamics. In 1999, inflation had been low even by EU standards. In 2000, the sudden rise in prices for imported crude oil and increases in regulated prices increased the rate of inflation – up to 4% for consumer prices and 5% for producer prices. At the beginning of 2001, the regulated prices for gas, electricity and heating nudged the rate of inflation upwards, and rent increases are planned for the middle of the year. Were it not for these developments, the rate of inflation would most probably remain quite low. One reason for the low inflationary pressure is the nominal stability of the exchange rate - at least vis-à-vis the euro. In 2000, this meant devaluation against the USD, which led to an increase in USD-denominated prices for imports. One threat to the real sector would be a marked appreciation of the CZK; it would undermine the competitiveness of Czech producers and worsen the current account deficit. The marked inflow of FDI threatened to build up appreciation pressure. The Czech National Bank (CNB) tried to avert this by keeping interest rates low. In recent months, however, many observers have been expecting the CNB would to raise interest rates. With US interest rates adopting a different tack, which could provoke a similar move in Frankfurt, the CNB may ultimately decide to continue with present levels. Despite low interest rates, the volume of bank loans to the corporate sector shrank in the period leading up to late 2000. Both sides appear reluctant to engage heavily in the loan business. When modernizing their capacities, Czech companies rely mainly on their own profits or funds

[18] Czech Republic – Toward EU Accession, World Bank, September 1999.

[19] WIFO Monatsberichte 11/2000.

from parent companies abroad, if they have any. Attempts to secure funding via the issue of new shares have failed so far.

If, as we expect, the growth of the Czech economy continues at least to follow a rather flat path, the corporate sector will have a good chance of developing further and the preconditions for higher growth will improve over time. Given the prospect of a slow, but gradual improvement in economic performance, the Czech scene could even run the risk of becoming a boring spectacle, were it not for the political players who are likely to keep observers on their toes for quite some time to come.

Table CZ

Czech Republic: Selected economic indicators

	1994	1995	1996	1997	1998	1999	2000 [1]	2001	2002
								forecast	
Population, th pers., mid-year	10336.2	10330.8	10315.4	10303.6	10294.9	10282.6	10273.0	.	.
Gross domestic product, CZK bn, nom.	1182.8	1381.0	1572.3	1668.9	1798.3	1833.0	1960	2093	2231
annual change in % (real)	2.2	5.9	4.8	-1.0	-2.2	-0.8	2.7	3.0	3.5
GDP/capita (USD at exchange rate)	3976	5035	5615	5108	5413	5152	4944	.	.
GDP/capita (USD at PPP - WIIW)	11010	12130	13040	13060	12950	13080	13750	.	.
Gross industrial production									
annual change in % (real) [2]	2.1	8.7	2.0	4.5	3.1	-3.1	5.7	5	5
Gross agricultural production									
annual change in % (real)	-6.0	5.0	-1.4	-5.1	0.7	0.6	.	.	.
Goods transport, mn t-kms [3]	33990	32717	32581	62460	53639	54620	.	.	.
annual change in %	2.0	-3.7	-0.4	.	-14.1	1.8	.	.	.
Gross fixed capital form., CZK bn, nom.	339.8	442.4	500.6	514.4	508.1	490.8	338.4 I-IX	.	.
annual change in % (real)	9.1	19.8	8.2	-3.0	-3.9	-4.4	6	6	5
Construction industry									
annual change in % (real)	7.4	8.5	5.3	-3.9	-7.0	-6.5	5.6 I-XI	.	.
Dwellings completed, units	18162	12662	14037	15904	21245	22299	.	.	.
annual change in %	-42.4	-30.3	10.9	13.3	33.6	5.0	.	.	.
Employment total, th pers., average	4884.8	5011.6	5044.4	4946.6	4869.2	4693.1	4594 I-IX	.	.
annual change in %	0.8	2.6	0.7	-1.9	-1.6	-3.6	-2.2 I-IX	.	.
Employment in industry, th pers., average	1619.2	1628.1	1614.7	1605.5	1595.6	1542.0	1507.0 I-IX	.	.
annual change in %	-5.3	0.6	-0.8	-0.6	-0.6	-3.4	-3.4 I-IX	.	.
Unemployed reg., th, end of period	166.5	153.0	186.3	268.9	386.9	487.6	457.4	.	.
Unemployment rate in %, end of period	3.2	2.9	3.5	5.2	7.5	9.4	8.8	10	10
Average gross monthly wages, CZK [4]	6894	8172	9676	10691	11693	12655	12958 I-IX	.	.
annual change in % (real, gross)	7.8	8.7	8.9	2.0	-1.2	5.9	2.4 I-IX	.	.
Retail trade turnover, CZK bn	464.6	529.7	.	.	.	.		.	.
annual change in % (real)	5.5	4.8	12.1	-0.4	-7.1	3.0	4.6 I-XI	.	.
Consumer prices, % p.a.	10.0	9.1	8.8	8.5	10.7	2.1	4.0	3.7	3.0
Producer prices in industry, % p.a.	5.3	7.6	4.7	4.9	4.9	1.0	5.0	2.5	1.5
Central government budget, CZK bn									
Revenues	390.5	440.0	482.8	509.0	537.4	567.3	584.5	.	.
Expenditures	380.1	432.7	484.4	524.7	566.7	596.9	622.7	.	.
Deficit (-) / surplus (+)	10.4	7.2	-1.6	-15.7	-29.3	-29.6	-38.2	-40	-35
Deficit (-) / surplus (+), % GDP	0.9	0.5	-0.1	-0.9	-1.6	-1.6	-1.9	.	.
Money supply, CZK bn, end of period									
M1, Money	421.8	453.3	475.3	445.1	433.4	479.8	548.5 Nov	.	.
M2, Money + quasi money	870.4	1039.6	1120.5	1217.6	1280.8	1384.9	1446.2 Nov	.	.
Discount rate, % p.a., end of period	8.5	9.5	10.5	13.0	7.5	5.0	5.0	.	.
Current account, USD mn	-787	-1369	-4292	-3211	-1336	-1029	-1900	-2200	-2500
Gross reserves of NB incl. gold, USD mn	6243	14023	12435	9774	12617	12825	13064	.	.
Gross external debt, convert. curr.,USD mn	10694	16549	20845	21352	24047	22615	19860 Sep	.	.
Exports total, fob, USD mn [5]	15943.1	21324.7	22476.4	22784.7	26349.8	26264.6	29034.1	31700	34500
annual change in %	8.0	33.8	5.4	1.4	15.6	-0.3	10.5	9	9
Imports total, fob, USD mn [5]	17316.8	25075.0	27962.2	27459.0	28786.5	28126.3	32319.5	35800	39000
annual change in %	16.4	44.8	11.5	-1.8	4.8	-2.3	14.9	11	9
Average exchange rate CZK/USD	28.78	26.55	27.15	31.71	32.27	34.60	38.59	.	.
Average exchange rate CZK/EUR (ECU)	34.06	34.31	34.01	35.80	36.16	36.88	35.61	35.6	35.5
Average exchange rate CZK/DEM	17.75	18.52	18.06	18.28	18.33	18.86	18.21	18.2	18.2
Purchasing power parity CZK/USD, WIIW	10.39	11.03	11.69	12.40	13.49	13.63	13.88	.	.
Purchasing power parity CZK/EUR, WIIW	11.20	11.87	12.68	13.52	14.65	14.72	15.10	.	.

Notes: 1) Preliminary. - 2) From 1996 new methodology. - 3) Up to 1996 public transport only. - 4) Enterprises with more than 100, from 1997 with 20 and more employees. - 5) Converted from the national currency to USD at official exchange rate; from 1994 revised data according to new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Sándor Richter

Hungary: The fourth year of strong, export-based growth

2000 was a successful year for the Hungarian economy. GDP increased by over 5%, rapid structural improvements in industrial output and exports carried on. Despite the higher bill for imported energy, external balances remained relatively good. The bad news is that the process of disinflation came to a halt. In 2001 economic growth may amount to 5%. This year's main risk will be a deterioration of external balances caused by a possible strong upturn of private consumption.

Industrial output may have increased by 18-19% in the year 2000. Domestic sales performed much better than in earlier years and expanded by about 8-10%. Yet export sales, rising by some 25%, remained the driving force of industry. While engineering continued to be the sector contributing most to the expansion of industry, a significant rearrangement took place within the branch: the output of transport vehicles and their components increased only marginally in 2000 while telecommunication devices, computers and their components took over the lead in driving the rapid expansion. Labour productivity growth in industry may have amounted to 17-18%. Large backlogs of export orders suggest that dynamic growth will continue this year.

Foreign trade expanded rapidly in 2000. In the first three quarters exports rose by 14% in USD terms. Rising oil prices affected the import growth rate (15% at current dollar prices). The volume of exports increased by 21%, faster than that of imports (19%), indicating a considerable deterioration in the terms of trade. The trade deficit amounted to USD 2.78 billion in the first three quarters, USD 500 million more than in the respective period of 1999.

According to first, provisional data the annual current account deficit was USD 1.8 billion, smaller than in 1999. The feared huge profit repatriation in the last month of the year did not take place, either because repatriation was this time continuous over the whole year or because of speculations of profitholders for a stronger forint after a possible change in the exchange rate regime (widening of the band and appreciation of the forint). In the last quarter of the year the balance of trade of goods deteriorated to a considerable extent. The balance of portfolio investments in equity turned into a huge deficit in 2000, against considerable surpluses recorded in earlier years, indicating a massive retreat of foreign investors from the Budapest Stock Exchange. Foreign direct investment remained robust and may have reached USD 1.5 to 1.7 billion in 2000. Non-debt-generating financing (FDI plus portfolio investment in equities) lagged far behind the extent of the current account deficit.

The disinflation process came to a halt in 2000. This was due to the high prices of imported energy and the rapid rise of food prices. The latter is explained partly by the poor harvest but also by the rapid catching-up of agricultural output prices after a longer period of below-average inflation in this segment of the economy. Nevertheless the problem goes beyond seasonal or non-recurrent effects: the core inflation index calculated by the National Bank of Hungary has been on the rise since July 2000 and reached 109.7 in November.

The forint was devalued by about 3.9% against the euro over the whole year 2000; most of the time it stayed at the strong edge of the altogether 4.5% intervention band. The real effective exchange rate index of the forint appreciated by about two percentage points between January and October 2000. This year the annual official devaluation of the forint against the euro will be about 2.7%, if the monthly devaluation is reduced from its 0.3% rate now to 0.2% in April as announced. The real appreciation of the forint will carry on. A departure from the present exchange rate system is unlikely to take place before the second half of 2001; it is also possible there will be no change at all this year.

The budget, originally calculated at much lower inflation, gained from revenues more inflated than expenditures. The general government deficit may have reached the projected level, about 3.5% of the GDP; it is however worse than expected considering the small deficit recorded in the first eleven months of 2000. Remarkably, 65% of the annual deficit in the central budget was generated in the last month of the year, *inter alia* due to an unexpected huge rise in the position 'extraordinary expenditures'. This manoeuvre may have served to increase, through the budget, the scope of action for the government in the pre-election year 2001.

For the year 2001 WIIW assumes private consumption to take a rising share in the components of demand. The compound GDP growth of about 23% in the last five years was mainly driven by the expansion of exports and investments. Household consumption growth (12%) lagged far behind. (Real average wage incomes and social benefits increased by a mere 9% in this period.) This discrepancy between growth of the economy and the welfare of the population can hardly be maintained any longer. A crucial question of the next two years' economic development will be whether the necessary adjustment in this respect will take place with a 'smooth landing' or in a way that endangers the external balances and further disinflation.

The elections in early 2002 will be preceded by the usual phase in the political business cycle – that has actually begun already: as of January 2001 the minimum wage was raised by 57%. A further 25% rise is announced for 2002, at 11% CPI inflation envisaged for the two years combined. Though the number of households directly involved is limited, this measure will compress the wage hierarchy in certain segments of the economy (primarily in the public sector), possibly leading to claims for wage rises by employees with salaries only somewhat higher than the new minimum wage. The income position of broad segments of the society will also improve through tax allowances for families with children. One-off supplementary payments for selected groups of public sector employees may also take place. Growing confidence in a lasting good performance of the economy may encourage the population to make up for long-postponed investments in consumer durables or other items of consumption. The cumulated outcome of the above-mentioned factors may contribute to an excessive growth of private consumption which, in turn, could seriously deteriorate the external balances, leading to a return to the stop-go cycles of the pre-stabilization era.

The bi-annual budget approved for 2001 and 2002 lends an unusual extent of manoeuvring room to the government. If the government can resist the temptation of pursuing a one-sided economic policy focused solely on the elections, the economy can be kept on its present growth path with an about 5% annual increase of GDP. The WIIW forecast for Hungary in 2001 is based on the assumption that this condition will be fulfilled. The forecast reckons with significant but not excessive growth of private consumption (5.5%) and a pronounced upturn in fixed investments. That will temporarily deteriorate the external balances (USD 2.5 billion current account deficit) but will not endanger it in the medium run.

Table HU

Hungary: Selected economic indicators

	1994	1995	1996	1997	1998	1999	2000 [1]	2001	2002
								forecast	
Population, th pers., end of period	10245.7	10212.3	10174.4	10135.4	10091.8	10043.2	10000	10000	9950
Gross domestic product, HUF bn, nom.	4364.8	5614.0	6893.9	8540.7	10087.4	11436.5	13300	15150	16900
annual change in % (real)	2.9	1.5	1.3	4.6	4.9	4.4	5.5	5	5
GDP/capita (USD at exchange rate)	4046	4367	4433	4504	4651	4787	4703	.	.
GDP/capita (USD at PPP - WIIW)	8400	8970	9340	9900	10570	11280	12230	.	.
Gross industrial production									
annual change in % (real)	9.6	4.6	3.4	11.1	12.5	10.4	18.5	13	13
Gross agricultural production									
annual change in % (real)	3.1	2.6	6.3	-3.8	-2.1	2.6	.	.	.
Goods transport, mn t-kms [2]	15249	23675	24874	24789	27144	26339	.	.	.
annual change in % [2]	-7.3	.	5.1	-0.3	9.5	-3.0	.	.	.
Gross fixed capital form., HUF bn, nom.	878.5	1125.4	1475.5	1898.9	2384.6	2724.5	.	.	.
annual change in % (real)	12.5	-4.3	6.7	9.2	13.3	5.9	6.5	9.5	9
Construction industry									
annual change in % (real)	12.4	-17.6	2.7	8.1	15.3	9.0	7	9	9
Dwellings completed, units	20947	24718	28257	28130	20323	19287	.	.	.
annual change in %	0.1	18.0	14.3	-0.4	-27.8	-5.1	.	.	.
Employment total, th pers., average [3)4)]	3751.5	3678.8	3648.1	3646.3	3697.7	3811.5	3849.1	.	.
annual change in % [3)4)]	-2.0	-1.9	-0.8	0.0	0.7	3.1	1.0	1	1
Employees in industry, th pers., average [5]	880.1	833.0	789.0	783.5	795.9	834.0	845.0 [I-XI]	.	.
annual change in %	-6.8	-5.4	-5.3	-0.7	1.6	0.8	1.4 [I-XI]	.	.
Unemployed, th pers., average [3]	451.2	416.5	400.1	348.8	313.0	284.7	262.5	.	.
Unemployment rate in %, average [3]	10.7	10.2	9.9	8.7	7.8	7.0	6.4	6	6
Average gross monthly wages, HUF [5]	33309	38900	46837	57270	67764	77187	85107 [I-XI]	.	.
annual change in % (real, net)	7.2	-12.2	-5.0	4.9	3.6	2.5	1.2 [I-XI]	4.5	4
Retail trade turnover, HUF bn [6]	2053.9	2389.9	2793.2	3197.6	3682.8	4329.7	.	.	.
annual change in % (real) [6]	-6.1	-8.1	-5.0	-1.0	12.3	7.9	1.8 [I-XI]	.	.
Consumer prices, % p.a.	18.8	28.2	23.6	18.3	14.3	10.0	9.8	8.5	6.5
Producer prices in industry, % p.a.	11.3	28.9	21.8	20.4	11.3	5.1	11.8	.	.
Central government budget, HUF bn [7]									
Revenues	1160.4	1418.2	2079.3	2364.6	2624.4	3227.6	3680	.	.
Expenditures	1513.1	1728.9	2209.1	2703.1	2994.6	3565.8	4050	.	.
Deficit (-) / surplus (+)	-352.7	-310.8	-129.8	-338.5	-370.2	-338.1	-370	.	.
Deficit (-) / surplus (+), % GDP	-8.1	-5.5	-1.9	-4.0	-3.7	-3.0	-2.8	.	.
Money supply, HUF bn, end of period									
M1, Money	973.9	1036.3	1237.2	1528.3	1789.2	2126.3	2386.8	.	.
Broad money	2279.1	2736.4	3351.1	4009.5	4619.7	5361.1	6041.4	.	.
Refinancing rate, % p.a., end of period	25.0	28.0	23.0	20.5	17.0	14.5	11.0	.	.
Current account, USD mn [8]	-3911	-2480	-1678	-981	-2298	-2076	-1760	-2500	-2600
Reserves total, incl. gold, USD mn	6769	12011	9718	8429	9341	10978	11227	.	.
Gross external debt, USD mn	28526	31660	28043	24395	27280	29279	29132 [Nov]	.	.
Exports total, fob, USD mn [9]	10736.2	12904.7	13119.6	19099.5	23010.0	25024.3	28300	31400	34900
annual change in %	20.5	20.2	1.7	21.8	20.5	8.8	13	11	11
Imports total, cif, USD mn [9]	14620.0	15406.1	16176.5	21211.1	25700.7	28003.7	31900	35700	39600
annual change in %	15.8	5.4	5.0	17.1	21.2	9.0	14	12	11
Average exchange rate HUF/USD	105.13	125.69	152.57	186.75	214.45	237.31	282.18	267	273
Average exchange rate HUF/EUR (ECU)	124.78	162.65	191.15	210.93	240.98	252.80	260.06	267	273
Average exchange rate HUF/DEM	65.04	87.84	101.40	107.68	122.15	129.25	132.97	.	.
Purchasing power parity HUF/USD, WIIW	50.73	61.31	72.55	85.09	94.59	100.97	108.68	.	.
Purchasing power parity HUF/EUR, WIIW	54.69	65.99	78.67	92.74	102.68	109.11	118.24	.	.

Notes: 1) Preliminary. - 2) Up to 1994 public transport organizations only. - 3) Based on labour force survey. - 4) Excluding persons on child care leave; from 1998 new sample. - 5) Enterprises with more than 10, from 1999 more than 5 employees. - 6) From 1998 excluding catering. - 7) Excluding privatization revenues; in 1998 excluding expenditures fulfilled in bonds. - 8) Up to 1995 in convertible currencies. - 9) Converted from the national currency to USD at official exchange rate. From 1997 including trade of firms with customs free legal status.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Vladimir Gligorov

Macedonia: Unbalanced growth

After years of decline or slow growth, GDP may have increased by as much as 5% in 2000. It is however not clear whether this growth rate, which is projected for the next couple of years, will indeed prove to be sustainable. This is because the increases in imbalances have been even sharper. Though the general government budget has been in a rather large surplus, the overall financial situation has not improved in the same way as the arrears in the enterprise sector have continued to grow. The trade deficit is probably going to reach a record level of about USD 700 million and the current account deficit will be in excess of USD 300 million. Also, inflation has come back, after years of stability, with both retail prices and producer prices showing an increase of around 10%. Finally, employment is decreasing, albeit slowly, and this trend will continue with the expected further restructuring in industry and with the planned reductions in public employment.

Where is the growth coming from ? Industry has posted a smaller growth of about 3.5% and will continue to grow slowly in the next two years as well. Construction has declined sharply, though this is not altogether consistent with the reported high increase in investments in fixed assets. A dramatic increase of about 40% was registered in retail trade. This also accounts for the increase in public revenues, because VAT was introduced on top of the existing tax structure and that amounted to an increase of the tax burden of 18%. More or less, the nominal public revenues increased as much, leading to a surplus in the general budget of over 6% of GDP. The arrears in the enterprise sector increased by about the same amount, however. Thus, the overall financial situation of the economy did not really improve all that much.

The introduction of the VAT, the increase in the oil prices and the increase in sales have led to an increase in prices. Currently, inflation is running at more than 10% per year and does not show any signs of slowing down – despite the expectations that prices have just adjusted to the transitory increases in costs. In fact, some of the prices that are administered, e.g. for bread and some other food products, had also to be increased and other costs are rising as well, due to, for instance, the reform in the health and education services.

The acceleration of inflation has been made possible by a relaxation of the monetary policy too. Monetary aggregates showed significant or high growth and the interest rates of the National Bank decreased by close to 2% on average. The growth of money has come from the increased inflow of foreign currency. This has put no pressure on the denar to appreciate – it was rather the opposite, the denar has been under pressure to depreciate. This is because the interest rates that banks charge have not gone down and are close to

20%. Also, currency substitution has been even more pronounced, especially when it comes to savings. Thus, though the reserves at the central banks have been growing, the fixed exchange rate for the German mark has been under pressure.

The reason for the persistence of the high interest rates is the uncertainty about the stability of the exchange rate in view of the increasing trade deficit and the rising inflation. These are probably also the reasons why the arrears are growing too, because delayed payments are advantageous to the debtors. In view of the increased inflow of foreign investments, especially as a consequence of the sale of the Macedonian Telecom early in January 2001, there is no risk of an impending currency crisis, but the imbalances may if anything grow in the next couple of years. Even if inflation is kept under control, the external position will likely deteriorate.

This is because exports are not showing any signs of sustained growth – and this is to be expected as the exporting sectors are not growing either. Indeed, industry is struggling and new investments are all but non-existent. Agriculture is an exporting sector, but the possibilities for growth are limited. Extraction may perhaps do better, but not dramatically. Finally, the export propensity of services is quite limited. Imports, on the other hand, continue to grow strongly. Inflows of investments and of remittances, which are significant and growing, will reinforce this tendency. Thus, in a couple of years, the external imbalances will prove to be unsustainable.

The worst consequence of this slow growth and of the decline of the industrial sector is the persistence of high unemployment. Data on the labour market are not very good and released only infrequently, but there is no doubt that employment is declining and unemployment has stabilized at a very high level. There are no signs that this will change in the next several years.

The political situation has not improved in the last year. Though the Stabilization and Association Agreement with the European Union has been initialled at the end on 2000 and a stand-by agreement with the IMF was signed, domestic political stability has been tested severely because of prolonged and contested local elections, because of the collapse of the government coalition and because of many corruption and security scandals. The overall stability of the country has not been threatened, but the progress of the process of democratization has.

Table MK

Macedonia: Selected economic indicators

	1994	1995	1996	1997	1998	1999	2000 [1]	2001	2002
								forecast	
Population, th pers., mid-year	1945.9	1966.0	1983.1	1996.9	2007.5	2017.8	2020	.	.
Gross domestic product, MKD mn, nom.	146409	169521	176444	184982	190827	195284	226600	257000	280600
annual change in % (real)	-1.8	-1.1	1.2	1.4	2.9	2.7	5	5	3
GDP/capita (USD at exchange rate)	1742	2267	2225	1860	1746	1699	1700	.	.
GDP/capita (USD at PPP - WIIW)	3990	4060	4170	4240	4400	4570	4920	.	.
Gross industrial production									
annual change in % (real)	-10.5	-10.7	3.2	1.7	4.3	-2.6	3.5	3	3
Gross agricultural production									
annual change in % (real)	7.8	3.9	-2.2	1.1	4.3	0.5	.	.	.
Goods transport, mn t-kms [2]	1649	1343	1067	1175	1302	1189	888 I-IX	.	.
annual change in % [2]	-7.7	-18.6	-20.6	10.1	10.8	-8.7	19.6 I-IX	.	.
Gross fixed capital form., MKD mn, nom.	22461.0	28027.0	30654.0	32189.0	33982.0	34949.0	.	.	.
annual change in % (real)	-8.6	10.2	6.5	-4.3	1.6	1.2	.	.	.
Construction output, value added									
annual change in % (real)	-13.0	-1.9	-0.6	0.2	2.9	12.2	.	.	.
Dwellings completed, units	4827	4640	5342	4300	3256	.	.	.	.
annual change in %	-25.3	-3.9	15.1	-19.5	-24.3	.	.	.	.
Employment total, th pers., average [3]	.	.	537.6	512.3	539.8	545.2	.	.	.
annual change in % [3]	.	.	.	-4.7	5.4	1.0	.	.	.
Employees in industry, th pers., average	157.7	136.6	127.6	117.6	113.6	119.8	115.0 I-IX	.	.
annual change in %	-5.9	-13.4	-6.6	-7.9	-3.4	5.5	-2.9 I-IX	.	.
Unemployed, th, average [3]	.	.	251.5	288.2	284.1	261.5	.	.	.
Unemployment rate in %, average [3]	.	.	31.9	36.0	34.5	32.4	32	32	32
Average net monthly wages, MKD	7754	8581	8817	9063	9394	9664	10159 I-X	.	.
annual change in % (real, net)	-10.2	-4.3	0.5	0.2	3.8	3.6	0.2 I-X	.	.
Retail trade turnover, MKD mn	28607.6	31682.2	29893.0	32482.8	33215.6	38364.0	49177.0 I-X	.	.
annual change in % (real, calc.)	-11.0	-4.4	-8.4	4.1	1.5	16.8	39.5 I-X	.	.
Retail prices, % p.a.	121.7	15.9	3.0	4.4	0.8	-1.1	10.5	8	6
Producer prices in industry, % p.a.	89.3	4.7	-0.3	4.2	4.0	-0.1	9.0	.	.
General government budget, MKD mn									
Revenues	63157	64254	64445	.	78273	87903	101880	.	.
Expenditures	67061	66032	65096	.	79314	85957	87660	.	.
Deficit (-) / surplus (+)	-3904	-1778	-651	.	-1041	1946	14220	.	.
Deficit (-) / surplus (+), % GDP	-2.7	-1.1	-0.4	.	-0.6	1.0	6.3	.	.
Money supply, MKD mn, end of period									
M1, Money	10508	12521	12143	13983	15178	19694	19896 Nov	.	.
M2, Money + quasi money	17852	18703	18490	22724	26003	33720	37404 Nov	.	.
Discount rate, % p.a., end of period	33.0	15.0	9.2	8.9	8.9	8.9	7.9 Nov	.	.
Current account, USD mn	-157.5	-232.2	-288.1	-276.4	-308.2	-134.6	-320	-350	-350
Gross reserves of NB, excl. gold, USD mn	149.0	257.5	239.5	257.0	306.1	429.9	.	.	.
Gross external debt, USD mn [4]	898	1235.9	1172.4	1133.1	1398.6	1438.5	1399.5 Oct	.	.
Exports total, fob, USD mn	1086.3	1204.0	1147.4	1236.8	1310.7	1192.0	1300	1300	1300
annual change in %	2.9	10.8	-4.7	7.8	6.0	-9.1	9	0	0
Imports total, cif, USD mn	1484.1	1718.9	1626.9	1778.5	1914.7	1795.8	2000	2100	2100
annual change in %	23.7	15.8	-5.4	9.3	7.7	-6.2	11	5	0
Average exchange rate MKD/USD	43.20	38.04	39.99	49.83	54.45	56.90	65.95	61	61
Average exchange rate MKD/EUR (ECU)	51.09	49.15	50.08	56.20	61.07	60.62	60.73	61	61
Average exchange rate MKD/DEM	26.62	26.54	26.58	28.70	30.95	30.99	31.05	31	31
Purchasing power parity MKD/USD, WIIW	18.84	21.25	21.35	21.84	21.61	21.17	22.79	.	.
Purchasing power parity MKD/EUR, WIIW	20.31	22.87	23.14	23.81	23.45	22.88	24.79	.	.

Notes: 1) Preliminary. - 2) Excluding air transport. - 3) Based on Labour Force Survey data. - 4) Medium- and long-term.

Source: WIIW Database incorporating national statistics.

Leon Podkaminer

Poland: Strong currency, weakening economy

Throughout the year 2000 GDP growth was slowing down, from 6% in the first quarter to an estimated 2% in the fourth.[20] Private consumption, increasing by 4.6% in the first quarter, 2.6% in the second and 0.8% in the third, may have stayed flat or even declined in the fourth quarter. Gross fixed capital formation followed the same trend with recorded growth rates of 5.5%, 2.9% and 2.4% respectively. The growth of overall domestic demand slowed from 5.1% to 3.3% and 1.3% in consecutive quarters. The differences between the growth rates of GDP and of total domestic demand suggest a strengthening of net exports of goods and non-factor services (in Poland's case decreasing net *imports* of goods and non-factor services). It is not quite clear however how this can be squared with the available information on foreign trade and current account deficits. According to the customs statistics, the cumulated (January-September) merchandise trade deficit, at current USD, was as large in 2000 as in 1999. The current account statistics similarly cast some doubt on the apparent contribution of improving net exports to the official GDP growth rates.[21]

The developments in 2000 must be seen primarily in the context of the ongoing changes in the labour market. Provisional estimates indicate that total employment (excluding self-employed in farming) fell by about 4% in 2000 (of which in industry by 7%[22]). Continuing cuts in employment indicate that firms do not generally expect much stronger demand in the near future. Besides, given the demand prospects and the ongoing strong improvements in labour productivity (in industrial establishments employing more than 9 persons by 16%) firms are forced to cut employment to restore profits.

The reduction in employment is not restricted to enterprises. The ongoing reform of the public health system reduced employment in that sector by 9.3% – with more redundancies to come, and growing unemployment.

Although the *average* real wage increased in 2000 by about 2.7% (4.7% in the first quarter, 2.4% in the second, 0.5% in the third), with falling employment the total wage bill (total of all wage incomes in the whole economy) remained practically unchanged in real terms.

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[20] Unless otherwise stated, all rates of change are against the same period of 1999.

[21] According to the Central Statistical Office (CSO), domestic demand exceeded the GDP by 8.4% in the first quarter of 2000, by 6.4% in the second and 5.6% in the third quarter. However, only in the second quarter the domestic demand/GDP ratio was lower than in the same period of 1999. If these ratios are correct, net exports must have deteriorated (net imports increased) in both the first and third quarters of 2000. This would indicate that the rates of growth of GDP and domestic demand for both quarters actually need substantial downward revisions.

[22] From January 2000 on the CSO reports employment in firms employing more than 9 persons. (Prior to that the employment totals covered firms with more than 5 working persons.) The above-quoted rates of change in employment refer only to firms with more than 9 persons employed.

The real purchasing power of all wage incomes did not rise. Because the total of all social security incomes (including pensions) also stagnates (in real terms it fell by 2.4% in 2000), low – and perhaps even negative – rates of growth of private consumption must be expected also in the near future.

The improved profits of the corporate sector cannot have contributed much to gross fixed investment which has been coming to a standstill. Judging by the performance of the construction sector (2% real output decline, strong contraction of employment) and the stagnation in imports of investment goods, one should not expect an acceleration of investment anytime soon. Very high real interest rates on credit to firms (in excess of 13%) cannot support rising investment.

In the first three quarters of 2000 inflation accelerated. Although primarily of a *cost-push* (and not *demand-pull*) nature, inflation was met with a rising degree of restrictiveness of monetary policy.[23] For political reasons the fiscal policy is not tightened – though this is what the government attempts to do from time to time. Although monthly inflation rates started to decline recently and this will continue in the near future, disinflation will be rather slow on account of natural inertia. Once the possibilities offered by the rising labour productivity (and the potential for lowering, or limiting, wages) are exhausted, firms may have little choice but to attempt charging higher prices.

The slowdown in domestic demand resulted, in 2000, in exports rising faster than imports. The trade deficit (customs statistics) increased to an estimated USD 19.3 billion from 18.5 billion in 1999 (in EUR terms from 17.4 billion to 21 billion). Exports improved despite rather strong appreciation (both nominal and real) of the zloty vs. the German mark and hence the other euro currencies. Besides, in view of the slack domestic demand exports to the strongly growing EU have been beneficial even if profits on them were weakening. Needless to say, there has been an increase in some high-value-added Polish exports supplied by the local subsidiaries of powerful foreign firms. Such exports are usually relatively insensitive to exchange-rate developments, as they respond primarily to changes in orders from their foreign mother companies.

Weakening domestic demand was also partly responsible for the somewhat slower rise in imports whose value rose to USD 50 billion from 45.9 billion in 1999 (in EUR terms from 43 billion to 54.3 billion). In USD terms the imports of both consumer and investment goods increased less than 2% – and that despite the fact that the prices (in PLN terms) of imported investment goods rose less than 2% and the respective prices of consumer goods remained roughly unchanged.

[23] See 'Ineffective, but not inactive: Poland's Monetary Policy Council fights inflation', *The Vienna Institute Monthly Report*, No. 9, September 2000, pp. 2-5.

Imports of raw materials and intermediate goods expanded strongly; this reflects the high import dependence of the Polish economy. No doubt the strong zloty and high energy prices contributed to the expansion of these imports.[24]

In 2001 the GDP growth is likely to slow down further because the current trends in household income, private consumption, public (deficit) spending and investment will continue. It is rather unrealistic to assume that improving net exports (smaller net imports) will compensate for output losses due to falling domestic demand. First, the business climate in the EU is likely to deteriorate. Second, there are some short-term limits to improvements in labour productivity and unit labour costs which could sustain growing exports. Third, exports promoted by cuts in employment and unit labour costs may well imply an automatic reduction in domestic demand, and hence in production for the home market. Fourth, given the real appreciation tendency, imports may keep rising at the expense of domestic production even with domestic demand stagnating or falling back.

A truly positive impulse may come from rising unrecorded exports to Poland's eastern neighbours, in the first place to Ukraine. If the recovery in Ukraine is sustained and its currency further appreciates in real terms, Poland may regain its traditional position as the supplier of the small-scale traders from the East – despite recently introduced restrictions on cross-border trade.

In the short run the expected changes in the economic policy are unlikely to have much of an impact on the current trends. A fast and strong relaxation of the fiscal policy (not really considered at present) may fail to stimulate domestic production, fuelling imports instead. A fast and strong relaxation of the monetary policy (i.e. a fall in the central bank's interest rates – not considered at present either) may well have the same effect. The introduction of selective restrictions on imports (sometimes considered) might be helpful – yet this is ruled out by the EU. A *graduated* depreciation of the zloty might certainly be helpful, but at present the authorities have no intention (and actually no instruments) to achieve this. They could influence the exchange rate only indirectly – and there is no guarantee the eventual devaluation will not be too radical. The free float of the zloty, introduced only last April, is unlikely to be scrapped anytime soon, even if there is a growing realization of its negative effects.[25]

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[24] During the first three quarters the costs (USD terms) of imports of fuels and energy rose 73% (their share in imports of raw materials and intermediate goods jumped from 10.3% to 15.7%). Their prices (PLN terms) increased 81% and their volume 5.3%. Value (USD terms) of imported manufactured intermediate goods and raw materials rose 6.4%, their volume 13.3% and prices 3.8%. Producer prices in domestic manufacturing rose, in the same period, 7.8%.

[25] Under the free float the exchange rates fluctuate wildly – so far however around a trend which implies strong appreciation of the zloty against the euro currencies. In 2000 the zloty gained 7% nominally against these currencies, or 14-16% in real terms.

In so far as the appreciation of the zloty against the euro currencies is supported by high inflows of foreign direct investment (and to a lesser degree by interest rates differentials attracting short-term capital), the zloty may stay strong in 2001. However, given the shallowness of the Polish foreign exchange and capital markets, a radical change in the exchange rate trends cannot be ruled out, no matter what the authorities do. A sudden, deep and sustained devaluation would produce inflationary effects without necessarily helping, in the short run, net exports and domestic production. Because of the very high import intensity of domestic manufacturing, a strong devaluation may depress profitability and production.

When the liberal-conservative coalition came to power in October 1997, the unemployment rate stood at 10.3%. The coalition will be finishing its term (at the latest by October 2001) with the unemployment rate approaching 16% and the current account deficit three times the 1997 level. The tasks facing the Social Democrats, who are likely to take over the government, will be enormous. Their successful economic policy they conducted in the years 1993-1997, which pulled Poland out of the severe crisis produced during the first term of liberal-conservative rule (1989-1993), may now be more difficult, or even impossible, to implement. The Social Democrats will be confronted with a central bank dominated by hostile liberal and conservative ex-politicians. The largest and most influential domestic corporations privatized in the meantime are controlled by the cronies of their political enemies. Certainly these corporations will hardly be co-operative. The new government will have to service huge debts and other liabilities[26] incurred during the last four years without having at its disposal the most valuable state assets which the present government has unproductively dissipated. Last, but not least, its freedom of action will be severely restricted by the need to please the EU governments and the Brussels bureaucracy rather than the own electorate. In these circumstances the new government will probably have no choice but to accept high deficit spending – and this will mean a severe conflict with the central bank and eventually a deep devaluation of the zloty.

Hypothetically, the tensions felt by the economy in 2002 may be eased if by then Poland receives massive transfers from the EU. Such transfers could support an acceleration of investment, and hence overall growth, without endangering Poland's foreign position. Also, one cannot rule out the possibility that by that time the massive foreign direct investments made in recent years will start generating high trade surpluses.

[26] The re-privatization law which the present government intends to pass is yet another move calculated to make the life of the next government more difficult.

Table PL

Poland: Selected economic indictors

	1994	1995	1996	1997	1998	1999	2000 [1]	2001	2002
								forecast	
Population, th pers., end of period	38580.6	38609.0	38639.0	38660.0	38667.0	38653.6	38644	.	.
Gross domestic product, PLN mn, nom.	210407	308104	387827	472350	553560	615560	695000	766000	844000
annual change in % (real)	5.2	7.0	6.0	6.8	4.8	4.1	4	2	4
GDP/capita (USD at exchange rate)	2402	3293	3724	3725	4098	4014	4134	.	.
GDP/capita (USD at PPP - WIIW)	5740	6780	7360	7930	8420	8920	9440	.	.
Gross industrial production (sales)									
annual change in % (real)	12.1	9.7	8.3	11.5	3.5	4.8	4.3	4	5
Gross agricultural production									
annual change in % (real)	-9.3	10.7	0.7	-0.2	5.9	-5.2	-5	.	.
Goods transport, mn t-kms	270386	300807	309272	329737	317052	310698	.	.	.
annual change in %	-1.0	11.3	2.8	6.6	-3.8	-2.0	.	.	.
Gross fixed capital form., PLN mn, nom.	34078.3	57404.6	80390.4	110852.7	139204.5	156690.4	.	.	.
annual change in % (real)	9.2	16.5	19.7	21.7	14.2	6.5	2.5	2	.
Construction output total									
annual change in % (real)	0.3	5.6	3.0	16.5	12.4	6.2	-2.0	.	.
Dwellings completed, units	76080	67072	62130	73706	80594	81979	.	.	.
annual change in %	-19.4	-11.8	-7.4	18.6	9.3	1.7	.	.	.
Employment total, th pers., average	14474.5	14735.2	15020.6	15438.7	15800.4	15373.5	.	.	.
annual change in %	1.0	1.8	1.9	2.8	2.3	-2.7	.	.	.
Employees in industry, th pers., average	3361.4	3461.1	3436.0	3433.4	3378.7	3138.4	.	.	.
annual change in %	-0.9	3.0	-0.7	-0.1	-1.6	-7.1	-7	.	.
Unemployed reg., th, end of period	2838.0	2628.8	2359.5	1826.4	1831.4	2349.8	2702.6	.	.
Unemployment rate in %, end of period	16.0	14.9	13.2	10.3	10.4	13.0	15.0	16	16
Average gross monthly wages, PLN [2]	525	691	874	1066	1233	1697	1920	2100	.
annual change in % (real, net) [3]	0.5	3.0	5.7	7.3	4.5	4.7	.	.	.
Retail trade turnover, PLN mn	130450	169585	213241	258166	291197	323686	.	.	.
annual change in % (real)	3.0	2.3	4.5	6.8	2.6	4.0	.	.	.
Consumer prices, % p.a.	32.2	27.8	19.9	14.9	11.8	7.3	10.1	8	6
Producer prices in industry, % p.a.	25.3	25.4	12.4	12.2	7.3	5.7	7.9	.	.
Central government budget, PLN mn									
Revenues	63125.2	83721.7	99674.5	119772.1	126559.9	125922.2	135657	162000	.
Expenditures	68865.1	91169.7	108841.7	125674.9	139751.5	138401.2	151052	182000	.
Deficit (-) / surplus (+)	-5739.9	-7448.0	-9167.2	-5902.8	-13191.6	-12479.0	-15395	-20000	.
Deficit (-) / surplus (+), % GDP	-2.7	-2.4	-2.4	-1.3	-2.4	-2.0	-2.2	-2.6	.
Money supply, PLN mn, end of period									
M1, Money	27452	37353	61056	72156	81484	99380	91866 Nov	.	.
M2, Money + quasi money	77302	104255	136662	176437	220780	263449	294355	.	.
Discount rate of NB % p.a., end of period	28.0	25.0	22.0	24.5	18.2	19.0	21.5	16.0	.
Current account, USD mn	677	5310	-1371	-4312	-6858	-11569	-9892	-11500	-12000
Gross reserves of NB incl. gold, USD mn [4]	6029	14963	18220	21403	28275	27314	27464	.	.
Gross external debt, USD mn [4]	42174	43957	47541	49648	59163	64350	63796 Sep	.	.
Exports total, fob, USD mn	17240.4	22894.7	24440.0	25751.3	28228.7	27407.4	30700	33000	35300
annual change in %	21.9	32.8	6.7	5.4	9.6	-2.9	12	7.5	7
Imports total, cif, USD mn	21569.3	29049.2	37136.5	42306.9	47054.3	45911.1	50000	53000	56000
annual change in %	14.5	34.7	27.8	13.9	11.2	-2.4	9	6	6
Average exchange rate PLN/USD	2.27	2.42	2.70	3.28	3.49	3.97	4.35	4.3	4.6
Average exchange rate PLN/EUR (ECU)	2.70	3.13	3.38	3.71	3.92	4.23	4.01	4.3	4.6
Average exchange rate PLN/DEM	1.41	1.69	1.79	1.89	1.99	2.16	2.05	2.2	.
Purchasing power parity PLN/USD, WIIW	0.95	1.18	1.36	1.54	1.70	1.79	1.90	.	.
Purchasing power parity PLN/EUR, WIIW	1.02	1.27	1.48	1.68	1.85	1.93	2.07	.	.

Notes: 1) Preliminary. - 2) From 1999 including mandatory premium for social security. - 3) From 1999 real gross wages. - 4) From 1996 according to IMF methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Gábor Hunya

Romania: New government plans budget expansion to support recovery

In November 2000 the Romanian electorate ousted the centre-right coalition and gave high support to the return of the 'post-communist' Party for Social Democracy (PDSR) and president Ion Iliescu, both ruling the country during 1990-1996. This election result, together with the relatively low attendance and more than 20% support to the extremist Greater Romania Party (PRM), demonstrated the popular dissatisfaction with the declining living standards, inefficient public governance and messy economic policies of the last four years.

It is still impossible to give a definite answer to the key question – whether or not political stability has improved in Romania. The consistency of government policies formulated by a single party will certainly improve compared to the fuzzy policies of the outgoing four-party coalition. But parliamentary majority will remain a question, as the support of the democratic parties will be conditional and at first limited to one year only. PDSR, which has 45% of the seats in the new parliament, formed a minority government. The centre and right-wing parties of the outgoing coalition (Democratic Party, National Liberal Party, Democratic Association of Hungarians – having about 9% each) have promised to support the government provided it continues the reform process. They also intend to isolate PRM and save the country's image in front of the outside world. The new government is headed by Adrian Nastase, foreign minister in 1990-1992, who has also become the leader of the ruling party. The cabinet members have expressed their clear commitment to EU integration and stepped-up reforms. At the same time, they want to address the economic hardship of the population, as this was the major promise in the election programme.

In the year 2000 the economy may have registered an export-led growth. In the first three quarters GDP grew by 2% compared to the same pre-year period. Industrial value added rose by 7.6%, construction by 3.5%, while agriculture declined by 6.1% and the services sector stagnated. There are statistical uncertainties related to the industrial boom: output measured in physical product values, which underlies the calculation of value added, increased by 8%, while industrial sales based on company reports declined by 5%. Net exports improved due to the lower services deficit. Commodity exports and imports expanded by some 20%. Exports were pulled by the boom in the European Union and the USA, on the import side energy carriers increased the bill. Investments started to grow modestly from a very depressed level. At the same time, the main item of GDP utilization, private consumption, declined by 1.3%, also reflected in the -5% retail sales turnover in the first three quarters of the year. All in all, if there was a recovery at all, it was very modest, and economic growth has had no positive impact on the population. Among the ten EU accession countries, Romania still has the slowest economic growth and the highest rate of inflation.

The new government has presented only a very brief programme yet and still works on the 2001 budget by which it wants to stimulate economic growth and improve living conditions. Meanwhile negotiations with the International Monetary Fund will start about a new standby loan. It will be difficult to formulate an economic policy and a budget that satisfy both the demand for long-term stability (decreasing budget deficit, lower inflation) expressed by the IMF and the government's programme of stimulating economic growth by budgetary spending. For the time being, the prime minister insists that he is 'aimed to battle poverty and corruption while keeping a tight grip on spending to win new loans from the IMF'.

The deficit of the general government budget has narrowed in recent years to about 3.5% of GDP, but the transparency of the budget has remained weak. The current IMF-led programme envisages cutting the deficit to 3% of GDP in 2001 and transforming the pension system to cope with the increasing number of pensioners per wage earner. The outgoing government had already violated some of the targets by increasing public sector wages and providing new indirect subsidies to ailing enterprises and banks. The new government wants to correct these mistakes but still increase the consolidated budget deficit to 4-4.5% of GDP. The government would like to boost public investments, give incentives to small and medium-size enterprises (SMEs), hike child allowances, cut income taxes for the low paid and reduce value added tax to 9% on basic staples and energy. The introduction of income tax for peasants has been delayed again. The government has already re-introduced the SME incentive and credit schemes which were put out of action by the outgoing government. It also envisages a housing construction programme. As concerns foreign direct investment, there will be a new supportive scheme and a promotion agency, both of which were abolished in recent years. Revenues could allegedly be increased by cracking down on the black economy. If the government remains firm on the issue of expanding the budget deficit, the present IMF arrangement will terminate without further disbursement in February 2001, and it is unlikely that a new agreement will be achieved. (The Romanian government could draw only USD 190 million from the USD 450 million pledged under the current accord.)

The new government can also be suspected of not being fully committed to privatization and restructuring of large public enterprises. The prime minister said that he was ready to cancel privatization deals fixed by the outgoing government if the contracts turned out to be illegal. By blaming the predecessors for privatization fraud, he follows a ritual of government changes in CEECs. In fact, there have been very few cases where privatization deals could be brought to court for revision. Meanwhile the government reorganized the agency for privatization, the State Ownership Fund, into the State Assets Privatization and Management Authority. While the former was an autonomous agency subordinated to the parliament, the new authority is an administrative body subordinated to the government. The intention is to include more conditionalities into privatization deals and to achieve a better monitoring of post-privatization fulfilment. These are further typical ideas of incoming governments in CEECs – ideas that are usually given up in practice when the government comes under pressure to sell.

The government's intentions concerning future privatization will be put to a test when it comes to the question whether major deals like the privatization of the Romanian Commercial Bank and the Galati Steel Works will be finalized. In fact, the slow progress of restructuring state-owned enterprises is one of the main issues where also the outgoing government diverted from its commitment. Wage increases, public procurement programmes and the toleration of tax arrears pumped money into ailing enterprises when the elections drew near.

While an expansive fiscal policy may give some boost to consumption and investment, industrial policy measures may improve output and thus revenues only in the longer run. The government will sooner or later have to act on the interconnected problems of restructuring, arrears and inflation. The inefficient public sector is responsible for excessive fiscal arrears, close to 7% of GDP at the end of 2000. This quasi-fiscal spending is financed by money creation which causes high inflation. Overcoming this set of problems is essential for alleviating future social hardship. There is yet no sign that this lesson drawn by leading economists in the country has been learned by the new leaders. Restructuring concepts for 64 ailing companies elaborated by commercial banks using World Bank funds were belatedly accepted by the outgoing government in its final days of office. It can be expected that new concepts will be worked out in the Ministry of Industry later this year. Postponed action means further accumulation of fiscal and inter-enterprise arrears.

For the year 2001 the government expects 4-5% economic growth generated by the above outlined fiscal stimuli while inflation is to decline from 46% to 27%. The WIIW forecast is based on the assumption that ambitions will be scaled back and only slow progress on structural reforms can be achieved. Due to changing external conditions in 2001, domestic demand increase will take the place as engine of growth while the external balance will deteriorate. The foreign financing of a high current account gap will become increasingly problematic. Eurobond issues in November 2000 and January 2001 were successful but the country will have to pay 11% interest which includes a high risk premium. Cheaper credits from the IMF and World Bank may not be available albeit for a stability-oriented economic policy. As a result, economic growth of no more than 2% is feasible both this year and the next. If the government really implements an expansion policy, GDP may grow by 3% in 2001, but some stabilization would become necessary in 2002, which would curtail growth to 1%. Inflation may hardly decline from 46% last year to 40% in 2001, in fact December-to-December inflation will remain unchanged. With the stabilization effort foreseen for 2002, inflation may start to decline. Although the government target is 25% for 2001, there are no signs of an anti-inflation policy. High arrears, increasing domestic demand and exchange rate volatility remain fundamental uncertainties.

Table RO

Romania: Selected Economic Indicators

	1994	1995	1996	1997	1998	1999	2000 [1]	2001 forecast	2002 forecast
Population, th pers., mid-year	22730.6	22681.0	22607.6	22545.9	22502.8	22458.0	22400	.	.
Gross domestic product, ROL bn, nom.	49773	72136	108920	252926	368261	521736	787600	1100000	1500000
annual change in % (real)	3.9	7.1	3.9	-6.1	-5.4	-3.2	2	3	1
GDP/capita (USD at exchange rate)	1323	1564	1563	1565	1844	1515	1621	.	.
GDP/capita (USD at PPP - WIIW)	5570	6210	6630	6310	6050	5970	6240	.	.
Gross industrial production									
annual change in % (real)	3.3	9.4	6.3	-7.2	-13.8	-8.0	8.2	5	2
Gross agricultural production									
annual change in % (real)	0.2	4.5	1.3	3.4	-7.5	5.5	.	.	.
Goods transport, mn t-kms [2]	92714	126719	106758	87590	62365	45989	.	.	.
annual change in %	-34.2	36.7	-15.8	-18.0	.	-26.3	.	.	.
Gross fixed investment, ROL bn, nom.	8004.6	12995.5	20945.3	44134.7	60515.2	70571.8	.	.	.
annual change in % (real)	26.4	10.7	3.1	-5.4	-18.6	-12.3	2	5	0
Construction output total									
annual change in % (real)	29.1	13.2	3.7	-24.4	-0.5	-12.2	.	.	.
Dwellings completed, units	36743	35822	29460	29921	29692	29517	.	.	.
annual change in %	22.2	-2.5	-17.8	1.6	-0.8	-0.6	.	.	.
Employment total, th pers., end of period	10011.0	9493.0	9379.0	9022.7	8812.6	.	.	.	.
annual change in %	-0.5	-5.2	-1.2	-3.8	-2.3	.	.	.	.
Employees in industry, th pers., average	2856.0	2614.7	2586.0	2443.0	2272.0	1999.9	1891.7 [I-XI]	.	.
annual change in %	-5.3	-8.4	-1.1	-5.5	-7.0	-12.0	-5.9 [I-XI]	.	.
Unemployed reg., th, end of period	1223.9	998.4	657.6	881.4	1025.1	1130.3	1007.1	.	.
Unemployment rate in %, end of period	10.9	9.5	6.6	8.9	10.4	11.8	10.5	10	11
Average gross monthly wages, ROL	181694	281287	426610	846450	1357132	1957731	2876645	.	.
annual change in % (real, net)	0.0	12.0	9.3	-22.6	3.4	-0.7	-4.0	.	.
Retail trade turnover, ROL bn [3]	13362	22242	35316	83035	125513	.	.	.	.
annual change in % (real) [3]	8.4	29.0	15.3	-12.1	20.6	-5.0	-4.7 [I-XI]	.	.
Consumer prices, % p.a.	136.8	32.3	38.8	154.8	59.1	45.8	45.7	40	35
Producer prices in industry, % p.a.	140.5	35.1	49.9	152.7	33.2	42.2	52	.	.
Central government budget, ROL bn									
Revenues	8860	12888	18373	43835	67216	93230	.	.	.
Expenditures	10930	15858	23732	52897	77617	106887	.	.	.
Deficit (-) / surplus (+)	-2070	-2970	-5359	-9062	-10401	-13656	.	.	.
Deficit (-) / surplus (+), % GDP	-4.2	-4.1	-4.9	-3.6	-2.8	-2.6	-3.0	.	.
Money supply, ROL bn, end of period									
M1, Money	4534	7083	11173	18731	22110	29669	37024 [Nov]	.	.
Broad money	10649	18278	30335	62150	92530	134123	164560 [Nov]	.	.
Discount rate, % p.a., end of period	58.0	34.1	35.0	40.0	35.0	35.0	35.0 [Nov]	.	.
Current account, USD mn	-428	-1774	-2571	-2137	-2968	-1296	-900	-1500	-1200
Gross reserves of NB excl. gold, USD mn	591.8	334.1	545.8	2193.5	1374.8	1526.3	2496.9	.	.
Gross external debt, USD mn [4]	4596.8	5482.1	7208.9	8584.3	9308.1	8628.7	9162.0 [Nov]	.	.
Exports total, fob, USD mn	6151.3	7910.0	8084.5	8431.1	8302.0	8503.0	10200	10700	11000
annual change in %	25.7	28.6	2.2	4.3	-1.5	2.4	20	5	3
Imports total, cif, USD mn	7109.0	10277.9	11435.3	11279.7	11837.8	10395.3	12500	13750	13800
annual change in %	9.0	44.6	11.3	-1.4	4.9	-12.2	20	10	0
Average exchange rate ROL/USD	1655.1	2033.3	3082.6	7167.9	8874.8	15332.9	21692.7	30000	40000
Average exchange rate ROL/EUR (ECU)	1967.6	2629.5	3862.9	8090.9	9988.4	16295.3	19961.3	.	.
Average exchange rate ROL/DEM	1019.9	1418.8	2048.6	4133.6	5043.5	8331.6	10187.0	.	.
Purchasing power parity ROL/USD, WIIW	393.3	512.3	726.9	1779.3	2703.5	3890.5	5633.9	.	.
Purchasing power parity ROL/EUR, WIIW	423.9	551.4	788.2	1939.2	2934.8	4203.8	6129.7	.	.

Notes: 1) Preliminary. - 2) From 1998 new methodology in road transport. - 3) From 1998 new methodology. - 4) Medium- and long-term.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Peter Havlik

Russian Federation: Slower growth expected after record performance in 2000

The Russian economy scored a surprisingly robust growth in 2000, reaping the fruits of high world market energy prices and the still undervalued domestic currency. The GDP growth outperformed even the most optimistic expectations, spurred mainly by expanding industry and construction, as well as by the skyrocketing export surplus. With moderate inflation, a surplus in the state budget, a stable nominal exchange rate and foreign exchange reserves reaching a record high level, last year's economic performance can be hailed as a big success. Mr. Putin's first year of presidency has also brought more political stability, but unfortunately only meagre progress on structural and institutional reforms. Only parts of the new tax code and the reform of regional administration have been implemented so far. The outlook for sustainable growth thus remains uncertain and the economy will probably slow down in the coming two years.

The Russian GDP amounted to around RUB 6500 billion in the year 2000 (USD 230 billion after conversion with the official exchange rate), that is about USD 1600 per capita (as compared with USD 1260 in 1999). The growth of GDP (about 7.5% for the year 2000 as a whole, after 3.5% in 1999) resulted mainly from the expansion of sectors producing goods; the share of services in GDP has dropped below 50%. The gross output of five basic economic sectors (industry, agriculture, construction, transport and retail trade) increased by more than 8%, with industry (+9.5%) and construction (+11%) recording the best results. Output of agriculture and transport grew by 4% to 5% only. Structural shifts in the composition of GDP were dominated by the surge of net exports: the already high share of net exports in GDP increased from 18% in 1999 to an estimated 23% in 2000.

Industrial production has been booming since early 1999 already. Last year's production growth (+9% for the year as a whole) even outpaced the respectable result from 1999 (+8.1%). The upswing of industry has been driven by higher demand both in Russia and abroad. Still, the average daily production of primary energy resources increased in physical terms only slightly more than 1%, crude oil extraction rose by 5% while the extraction of natural gas dropped by 1% in the first ten months of 2000. Domestically produced goods substituted for more expensive imports and the light industry sector producing consumer goods expanded by more than 20% in the year 2000. Printing industry and pharmaceuticals grew by about 20% as well. Foreign and domestic investment demand stimulated the growth of iron and steel (+19%), non-iron metallurgy (+11%), as well as of machine building (+16%) and of the chemical and petrochemical industries (+15%). The timber, wood processing and paper industries recorded above-average growth as well (+13%). As far as regional development is concerned, the fastest growth is reported for industry in the Northwest Federal District (+13%) and the Southern Federal District (+12,5%), followed by the Central Region (including Moscow, +11%). In contrast, in the Siberian and Far-East Federal Districts industrial production increased by 6% only.

The output of construction industry expanded by more than 10%. This encouraging development was related to the recovery of investment into production assets (see below); housing construction grew only about 3%. There was only a modest recovery of agriculture in 2000. Gross agricultural production increased by an estimated 4%, both the grain harvest (65 million tons, 15% more than in 1999) and livestock production were higher than in 1999.The economic recovery stimulated the development of transport services as well. The volume of goods transport was up 5%, passenger transport increased by some 6% – just as the provision of other personal services purchased by the population.

The income situation of private households has improved. Real disposable incomes grew nearly 10% last year, average real wages by about 20%. Moreover, wage arrears declined a bit as the financial situation of both enterprises and the state improved along with the economic recovery. The government used part of higher budget revenues to raise minimum wages and pensions. The situation on the labour market improved as well: the rate of unemployment dropped to 10% as of end-2000 – about two percentage points less than one year before. Despite these positive developments, about one third of the Russian population still lives on incomes below the official subsistence level and neither real incomes nor real wages have reached their pre-August 1998 level yet.

One of the encouraging signs for the future development has been last year's surge of investments (+17%). Russian enterprises earned more profits and invested in construction works and in purchases of new domestic machinery and equipment, in part in the fuels industry and in new oil and gas exploration. The inflow of foreign direct investment, however, continues to be rather low and has even declined last year. According to the balance of payments statistics for January-September 2000, the FDI inflow was just USD 1.8 billion – less than during the corresponding period of 1999. But despite indications of a continuing capital flight, there is some evidence that at least part of the Russian money is beginning to come back from offshore tax heavens.

Surging export revenues have been the major factor of last year's economic developments. Exports increased by more than 30%, mainly due to high world market energy prices, while imports grew by less than 10%. The result was a trade surplus of more than USD 50 billion (about 21% of GDP) and the current account surplus reached more than USD 33 billion – nearly 20% of GDP – already for the first three quarters of

2000.[27] Foreign exchange reserves of the Central Bank of Russia (CBR) increased to USD 28 billion by the end of 2000 (as compared with USD 12.5 billion at end-1999). Rising stocks of foreign exchange helped to keep the nominal exchange rate stable throughout the year, the CBR even had to intervene in order to avoid a stronger appreciation (the rouble still appreciated in real terms by about 20%). Despite a significant increase in money supply (M2 rose about 50% during the year), consumer price inflation was moderate (20% on annual average), though producer prices rose by nearly 50%. Last but not least, higher proceeds from export and other taxes improved budget revenues and the primary federal budget was in surplus (about 5% of GDP).

The positive news about the economy has put off the pressure for further structural and institutional reforms. Delays (and even some confusion) in the formulation of future economic policies have given rise to disappointment. The long-term reform strategy (adopted in June 2000) declares numerous ambitious targets, but is rather vague on policy instruments. Large-scale modernization should bring about rapid economic growth and an improvement in the population's living standards. Market mechanism, openness of the economy, microeconomic liberalization and the reduction of the scope of state interventions in the economy are the catchwords representing the envisaged economic policy framework. The short-term government priorities include a long list of (more than 100) proposals for drafting and adopting the necessary legislation in the areas of social policy, labour market reforms, legal foundations for an investment- and entrepreneur-friendly climate, financial infrastructure, tax and customs reforms, etc. Priority measures include also further privatizations, support to venture capital, protection of intellectual property, development of transport infrastructure, de-monopolization of telecoms, and the restructuring of natural monopolies (including Unified Electricity System, RAO Gazprom and Railways).

Needless to say, each of the above declared intentions will require the formulation of a number of appropriate laws, their adoption by the State Duma and, most importantly, their implementation. It is quite obvious that the final outcome of this complicated process is highly uncertain. As of end-2000, basically only two pieces of new relevant legislation had been tabled and adopted. These are revisions of the fiscal code and the reform of the regional administration (including the reform of the Federation Council). As of 1 January 2001, a flat income tax of 13% (replacing the previous progressive tax rates that ranged from 12% to 30%) was introduced. It is hoped that the lower tax rate will be offset by improved tax compliance and simplified administration. Employers will pay a uniform 'social' (payroll) tax of 35.6% on employees' annual income below RUB 100 thousand (less for higher incomes). The revenue from this tax will be centrally distributed among various funds (health, pension and unemployment) thus avoiding the currently frequent

[27] Moreover, Russia's terms of trade improved also thanks to the appreciation of the US dollar against the euro (a larger part of Russian exports is denominated in USD, while imports denominated in EUR prevail).

misappropriation at local levels. Furthermore, the basic value added tax rate will amount to 20% (food and children's clothing: 10%); the turnover tax was lowered from 4% to 1%. Last but not least, import tariffs were streamlined (to four basic categories instead of seven) and somewhat reduced (the average tariff dropped from 13% in 2000 to less than 12%).

The potentially more important reform of the regional administration has subsumed the erstwhile 89 federal regions in seven new federal districts. Their newly appointed presidential district representatives come mostly from the armed forces or the security services. Furthermore, the upper chamber of parliament (the Federation Council) was also reformed; elected members are to be replaced by appointed representatives. The aim is to strengthen the presidential administrative control over the districts; avoid conflicts between regional and federal laws; and, last but not least, to curb the power of the regional governors. It remains to be seen whether these changes will in fact bring about the desirable streamlining of the administration or will merely create a new bureaucratic layer.

Given the uncertain implementation of future reforms and the transient character of the recent growth factors, WIIW's economic forecasts remain cautious. The growth forecast is basically in line with the officially expected 4% GDP growth in the year 2001, though we expect a slightly higher inflation than the 12% assumed by the officially adopted balanced budget (see Table RU). Growing reliance on energy and other raw material resources makes the Russian economy highly vulnerable to external shocks, thus predictions are highly uncertain. We expect an increase in both private consumption and investments, but a substantial decline of net exports. Should there be a more pronounced fall in energy prices, the economy would be in serious trouble again. The new tax regulations would not suffice to provide enough revenues to the state for both meeting the external debt service obligations (these are not budgeted for this year in full anyway) and financing the ambitious reform programme. Assuming no dramatic fall in world market energy prices, moderate reform progress and political stability, the economic growth driven largely by domestic demand could slightly pick up in 2002 again. Beyond that point, doom scenarios cannot be excluded as the scheduled debt service payments will peak in 2003.

Table RU

Russia: Selected economic indicators

	1994	1995	1996	1997	1998	1999	2000 [1]	2001	2002
								forecast	
Population, th pers., end of period	148306.0	147976.0	147502.4	147105.0	146693.0	145559.2	144900	144400	144300
Gross domestic product, RUB bn, nom.	610.7	1540.5	2145.7	2478.6	2696.4	4545.5	6500	8000	9500
annual change in % (real)	-12.7	-4.1	-3.4	0.9	-4.9	3.5	7.5	4	5
GDP/capita (USD at exchange rate)	1821	2255	2835	2909	1891	1262	1594	1731	1881
GDP/capita (USD at PPP - WIIW)	6650	6640	6590	6730	6500	6900	7620	.	.
Gross industrial production									
annual change in % (real)	-20.9	-3.3	-4.0	1.9	-5.2	8.1	9	5	6
Gross agricultural production									
annual change in % (real)	-12.0	-8.0	-5.1	1.5	-13.2	4.1	4	.	.
Goods transport, bn t-kms	3567	3533	3370	3256	3147	3330	.	.	.
annual change in %	-14.2	-1.0	-4.6	-3.4	-3.3	5.8	5	.	.
Gross fixed investment, RUB bn, nom.	108.8	267.0	376.0	408.8	407.1	670.4	.	.	.
annual change in % (real)	-24.0	-10.0	-18.0	-5.0	-12.0	5.3	17	6	8
Construction output total									
annual change in % (real)	-24.0	-6.0	-16.0	-6.0	-5.0	6.0	11	.	.
Dwellings completed, th units	610.9	602.0	481.5	430.3	387.7	413.3	368.5	.	.
annual change in %	-10.5	-1.5	-20.0	-10.6	-9.9	6.6	-11	.	.
Employment total, th pers., average	68484	66441	65950	64639	63642	63963	65000	.	.
annual change in %	-3.3	-3.0	-0.7	-2.0	-1.5	0.5	1.6	.	.
Employment in industry, th pers., average	18576	17182	16366	14893	14132	14297	14300	.	.
annual change in %	-10.7	-7.5	-4.7	-9.0	-5.1	1.2	0	.	.
Unemployed reg., th, end of period [2]	5689	6539	7280	8133	9728	8904	7350	.	.
Unemployment rate in %, end of period [2]	7.7	9.0	9.9	11.2	13.3	12.2	10.2	11	10
Average gross monthly wages, RUB	242.6	532.6	790.2	950.2	1051.5	1523.0	2300	.	.
annual change in % (real, gross)	-8.0	-28.0	6.0	5.0	-13.4	-23.2	22.5	.	.
Retail trade turnover, RUB bn	203.7	529.7	748.9	866.0	1056.3	1782.2	2300	.	.
annual change in % (real)	-0.2	-7.0	-0.4	3.6	-3.4	-7.7	.	.	.
Consumer prices, % p.a.	307.0	197.5	47.8	14.8	27.6	85.7	21.0	18	15
Producer prices in industry, % p.a.	336.9	236.5	50.8	15.0	7.1	58.9	46.0	25	20
Central government budget, RUB bn									
Revenues	70.3	201.0	253.8	311.6	273.0	606.0	989.8 I-XI	1194	.
Expenditures	135.6	286.2	427.1	494.8	407.2	680.2	804.7 I-XI	1194	.
Deficit (-) / surplus (+)	-65.3	-85.2	-173.3	-183.2	-134.2	-74.2	185.1 I-XI	0	.
Deficit (-) / surplus (+), % GDP	-10.7	-5.4	-7.9	-7.0	-5.0	-1.6	.	0	.
Money supply, RUB bn, end of period									
M1, Money	.	151.3	192.4	298.3	342.8	526.8	777.1 Nov	.	.
M2, Money + quasi money	97.8	275.8	357.3	457.2	628.6	984.7	1457.3 Nov	.	.
Refinancing rate of NB % p.a., end of per.	180	160	48	28	60	55	25	.	.
Current account, USD mn	8397	7401	11753	2047	699	25301	42000	25000	20000
Gross reserves of NB, incl. gold, USD mn	6506	17207	15324	17784	12223	12456	27951	.	.
Gross external debt, USD mn	121600	120500	125000	130800	145000	158800	.	.	.
Exports total, fob, USD mn [3]	67542	81096	88599	88326	74600	75100	100000	90000	90000
annual change in %	13.2	20.1	9.3	-0.3	-15.5	0.7	33	-10	0
Imports total, cif, USD mn [3]	50518	60945	68828	73700	59800	40200	47000	55000	60000
annual change in %	14.0	20.6	12.9	7.1	-18.9	-32.8	17	17	9
Average exchange rate RUB/USD	2.21	4.55	5.12	5.79	9.71	24.62	28.13	32	35
Average exchange rate RUB/EUR (ECU)	2.60	5.89	6.63	6.54	11.06	26.24	26.03	32	35
Average exchange rate RUB/DEM	1.38	3.18	3.41	3.34	5.62	13.42	13.31	.	.
Purchasing power parity RUB/USD, WIIW	0.62	1.57	2.21	2.50	2.83	4.53	5.89	.	.
Purchasing power parity RUB/EUR, WIIW	0.67	1.69	2.40	2.73	3.07	4.89	6.41	.	.

Notes: 1) Preliminary. - 2) Based on Labour Force Survey data. - 3) Including estimate of non-registered trade.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Zdenek Lukas

Slovakia: Applause abroad, lukewarm response at home

Already in early 1999 the government had started programmes for macroeconomic stabilization and structural reform, in order to cope with the external imbalances and the rapidly expanding state deficit inherited from its predecessors. The exchange rate was floated and austerity measures designed to reduce domestic demand were introduced. In the year 2000 a radically amended bankruptcy law was implemented and the government cleaned up and re-capitalized state-owned banks offered for sale together with some public utilities. Regulated prices (primarily of energy) and excise tax rates were gradually increased. To promote investment the government reduced the corporate tax rate from 40% to 29% and introduced five-year tax holidays for legal entities with foreign participation.

The policies pursued for the last two years have resulted in diminishing external imbalances and a stabilization of deficit spending. The business climate has improved in so far as the fall in gross fixed capital formation stopped in 2000. The new legislative framework, progressing privatization and also the results of the macro stabilization have improved Slovakia's international reputation, facilitating easier access to the international capital markets. This development however was coupled with low GDP growth, high unemployment and considerable losses in average real wages and private consumption. Highly praised abroad, the government has been losing popularity at home.

GDP is estimated to have increased by at least 2% in 2000. With both private and public consumption contracting by around 5%, growth was driven by net exports of goods and services. In fact, if all other GDP components had stagnated in 2000, net exports would have generated a GDP growth of at least 5.5%. With rising labour productivity (14% growth in industry) and falling unit labour costs, Slovakia's international competitiveness has improved – and that despite the fact that the Slovak koruna appreciated in nominal and real terms against the euro. In the course of 2000 the performance of industry (and particularly of high-value-added branches such as manufacturing of electrical and optical equipment and transport equipment) has been improving.

Employment has been declining. This is not yet properly reflected in the changes of the reported official unemployment rate. Due to a new counting methodology, the unemployment rates reported for 2000 are lower those for 1999 – the application of the previous methodology would have resulted in a nearly 20% unemployment rate at end-2000. There are huge differences in regional unemployment rates, ranging from 6% in the Bratislava region to 30% in poor southern and eastern provinces.

In line with the policy of gradual increases in energy prices (in effect since the beginning of 2000), prices of electricity rose 40% for households and 5% for firms. Prices of natural gas and heating rose as well. These price changes, combined with higher excise taxes on fuel, alcoholic beverages and cigarettes, pushed up the inflation rate, particularly in the first half of the year. However, the core inflation (which excludes items whose prices are regulated and the impact of changes in taxation) even dropped from 7% in February year-on-year to 4.6% in December. Consumer prices were up 12% year-on-year in 2000, i.e. less than originally expected. Recently (in effect since January 2001) charges for heating and natural gas for households have risen by 20% and those for electricity by 15%. Rents for municipality-owned rental flats have increased by 45%. Besides, prices for public transport have risen by 15% (rail) to 20% (road transport), for water supply by 20%, and for mail services by 10%.

At SKK 27.4 billion, the central government deficit accounted for 3.1% of GDP in 2000, i.e. by 1 percentage point more than the government's target. Revenues from corporate income taxes and self-employed taxes were higher than foreseen. The expenditures exceeded the target by SKK 12.5 billion, due to the interest costs for bank restructuring and credit repayment for reconstruction of water infrastructure. Actual deficit spending was less than 1.7% of the GDP: the planned budget deficit for 2001, equivalent to 3.8% of GDP, indicates the intention to relax the fiscal policy. Larger expenditures out of the central government budget will fund the health and social security systems, both undergoing deep reforms. These reforms may turn out more costly than assumed. In addition, as the parliamentary elections (autumn 2002) draw near, the government may start relaxing the fiscal policy so as to boost proper deficit spending – and households' living standards. In any case, because public debt is very low (slightly more than 20% of the GDP), the government still has ample manoeuvring space for increasing the deficits. Furthermore, the privatization of banks and public utilities this year may bring revenues higher than expected.

The foreign trade deficit dropped by 16% to USD 0.9 billion in 2000. Indeed, the total passive balance resulted from the foreign trade deficit with Russia, which rose by 65% to USD 2.1 billion in 2000, due primarily to soaring prices for crude oil and the strong dollar. The lower foreign trade deficit coupled with a positive services balance resulted in a smaller current account deficit, estimated at USD 0.6 billion in 2000, or 3% of GDP, compared to 5.9% in 1999. The financing of the current account deficit was facilitated by rising FDI inflows, amounting to USD 1.1 billion in the first three quarters of 2000. (The bulk of the FDI inflow was made up by revenues from two large privatization deals: the sale of the petrochemical company Slovnaft to the Hungarian MOL, and of the fixed-line telecom monopoly Slovenske Telekomunikacie to Deutsche Telekom.) At the end of September, the FDI stock amounted to USD 2.9 billion. On 11 January 2001, the Austrian Erste Bank acquired an 87% stake of the largest Slovak bank, Slovenska Sporitelna (SLSP), for

USD 408 million. Before that sale, the government cleaned up and recapitalized SLSP with the equivalent of USD 668 million.

The National Bank of Slovakia (NBS) disregarded the increase in the inflation rate and was cautiously relaxing the monetary policy from February through August 2000. The government's relatively restrictive fiscal policy opened the door for lower refinance and repo rates, and lower obligatory reserve rates for commercial banks. The foreign exchange reserves of the NBS rose to USD 4.1 billion at the end of November 2000, compared to USD 3.4 billion at the end-1999. Following some fluctuation and downward pressure caused by occasional political tensions, the exchange rate has stabilized more recently. The Monetary Programme for 2001 envisages a further relaxation of the monetary policy. At the same time, it expects a core inflation ranging from 3.2% to 5.3% and an average inflation rate ranging from 6.6% to 8.5%. Significant FDI inflows related to the ongoing privatization are expected in 2001. They can result in upward pressures on the exchange rate.

After two years of GDP growth driven by exports to the EU, we expect some cooling of the business climate in Europe this year. Coupled with decelerating – but sustainable – export growth, rising domestic demand (both investment and private consumption) will gradually take over as the determinant of economic growth in 2001 and 2002. Assuming a stabilization of prices for imported fuels, and the maintenance of competitiveness through low unit labour costs and a rather stable real exchange rate, the GDP will expand by 3% in 2001 followed by 4% in 2002. Growth may moderate a further expansion of unemployment. Increases in regulated prices will result in an average inflation rate of around 10% this year. Both the central government deficit and the general government deficit will probably slightly exceed the envisaged targets in 2001 due to eventually higher expenditures on the health and social security systems. The current account deficit (at an estimated USD 0.6 billion in 2000) is likely to rise slightly in 2001 and 2002 due to expanding imports provoked by higher domestic demand.

Table SK

Slovak Republic: Selected economic indicators

	1994	1995	1996	1997	1998	1999	2000 [1)]	2001 forecast	2002 forecast
Population, th pers., mid-year	5347.4	5363.7	5373.8	5383.2	5390.7	5395.1	5398	.	.
Gross domestic product, SKK bn, nom.	466.2	546.0	606.1	686.1	750.8	815.3	890	980	1060
annual change in % (real)	4.9	6.7	6.2	6.2	4.1	1.9	2	3	4
GDP/capita (USD at exchange rate)	2721	3424	3679	3791	3953	3654	3569	.	.
GDP/capita (USD at PPP - WIIW)	7710	8520	9250	9910	10440	10810	11260	.	.
Gross industrial production [2)]									
annual change in % (real)	4.8	8.3	2.5	2.7	5.0	-3.4	10	6	6
Gross agricultural production									
annual change in % (real)	4.8	2.3	2.0	-1.0	-5.9	-1.8	-6	.	.
Goods transport, mn t-kms [3)]	17992	20390	18721	17672	17808	30118	30100	.	.
annual change in % [3)]	-12.3	13.3	-8.2	-5.6	0.8	-3.3	0	.	.
Gross fixed capital form., SKK bn, nom.	131.8	144.2	207.5	246.5	285.3	251.0	270	.	.
annual change in % (real)	-5.0	5.3	32.0	12.0	11.1	-18.8	0	5	8
Construction industry									
annual change in % (real)	-6.8	2.9	4.4	9.2	-3.5	-25.8	-1.5	.	.
Dwellings completed, units	6709	6157	6257	7172	8234	10745	8962 I-IX	.	.
annual change in %	-52.2	-8.2	1.6	14.6	14.8	30.5	40.6 I-IX	.	.
Employment total, th pers., average [4)]	2110.2	2146.8	2224.9	2205.9	2198.6	2132.1	2094.8 I-IX	.	.
annual change in %	.	1.7	3.6	-0.9	-0.3	-3.0	-2.0 I-IX	.	.
Employment in industry, th pers., average	596.7	621.2	621.2	608.9	583.9	566.7	548.4 I-IX	.	.
annual change in %	-2.3	4.1	0.0	-2.0	-4.1	-2.9	-3.7 I-IX	.	.
Unemployed reg., th, end of period	371.5	333.3	329.7	347.8	428.2	535.2	506.5	.	.
Unemployment rate in %, end of period [5)]	14.6	13.1	12.8	12.5	15.6	19.2	17.9	17	16
Average gross monthly wages, SKK	6294	7195	8154	9226	10003	10728	11300	.	.
annual change in % (real, gross)	3.2	4.0	7.1	6.6	2.7	-3.1	-6	.	.
Retail trade turnover, SKK bn	233.8	262.1	296.5	328.8	379.4	441.1	480.0	.	.
annual change in % (real)	2.1	2.2	7.0	4.8	8.6	9.8	1.5	.	.
Consumer prices, % p.a.	13.4	9.9	5.8	6.1	6.7	10.6	12.0	10	6
Producer prices in industry, % p.a.	10.3	9.0	4.2	4.5	3.3	3.8	10.0	.	.
Central government budget, SKK bn [6)]									
Revenues	139.1	163.1	166.3	175.8	177.8	216.7	.	.	.
Expenditures	162.0	171.4	191.9	192.8	197.0	231.5	.	.	.
Deficit (-) / surplus (+)	-22.9	-8.3	-25.6	-17.0	-19.2	-14.8	-27.4	.	.
Deficit (-) / surplus (+), % GDP	-5.2	-1.6	-4.4	-2.6	-2.7	-1.9	-3.1	.	.
Money supply, SKK bn, end of period									
M1, Money	128.9	148.4	173.9	166.1	147.2	154.0	174.5 Nov	.	.
M2, Money + quasi money	300.3	357.0	416.9	453.5	466.1	523.7	581.1 Nov	.	.
Discount rate, % p.a., end of period	12.0	9.8	8.8	8.8	8.8	8.8	8.8	.	.
Current account, USD mn	665	391	-2098	-1929	-2063	-1148	-600	-700	-800
Gross reserves of NB incl. gold, USD mn	1746	3418	3473	3285	2923	3425	4062 Nov	.	.
Gross external debt, USD mn	4310	5827	7810	10700	11900	10518	10956 Sep	.	.
Exports total, fob, USD mn [7)]	6690.9	8579.0	8829.0	8252.1	10723.1	10242.2	11869.5	13200	14000
annual change in %	22.8	28.2	2.9	-6.5	11.3	-4.5	15.9	11	6
Imports total, fob, USD mn [7)]	6610.8	8770.5	11121.0	10309.7	13076.8	11336.0	12786.3	14200	15100
annual change in %	4.4	32.7	26.8	-7.3	11.6	-13.3	12.8	11	6
Average exchange rate SKK/USD	32.04	29.74	30.65	33.62	35.23	41.36	46.20	46	48
Average exchange rate SKK/EUR (ECU)	37.93	38.45	38.41	37.96	39.58	44.10	42.59	46	48
Average exchange rate SKK/DEM	19.76	20.76	20.39	19.41	20.06	22.55	21.78	.	.
Purchasing power parity SKK/USD, WIIW	11.31	11.95	12.20	12.86	13.34	13.98	14.64	.	.
Purchasing power parity SKK/EUR, WIIW	12.19	12.86	13.22	14.02	14.48	15.11	15.93	.	.

Notes: 1) Preliminary. - 2) From 1999 according to EU methodology. - 3) Up to 1998 enterprises with 20 and more persons, from 1999 all organizations including those which do not have their main activity in transport. - 4) Based on labour force survey. - 5) From 1997 new methodology. - 6) From 1997 according to IMF methodology. - 7) Converted from the national currency to USD at official exchange rate; from 1998 new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Hermine Vidovic

Slovenia: Remaining on its steady growth path

Irrespective of political turbulences Slovenia's economy performed better than initially expected. Economic growth in 2000 (reaching at least 4.5%) was fuelled by strong foreign demand, while the 5% GDP growth in 1999 had been primarily driven by domestic demand ahead of the introduction of the VAT.

Industrial production witnessed the best performance since Slovenia's gaining independence, with total output rising by 6%, of which in manufacturing by almost 7%. The main factor behind that growth was an increase in foreign demand. Data for the first nine months of 2000 show that exporters (industries generating more than one half of their revenues on foreign markets) increased their production by almost 11% compared with the same period a year earlier. Output growth was highest in industries with above-average value added per employee and above-average profit margins. Electrical and optical equipment expanded its production by 15%, chemicals and chemical products and transport equipment by 12% each. Despite the favourable performance the number of employees in industry continued to fall in all branches but manufacturing of electrical and optical equipment. Employment losses were most pronounced in labour-intensive industries such as the textile and leather industries and in the transport industries.

Price rises of imported raw materials and oil have spurred inflation. Thus, consumer prices rose at a much higher rate than anticipated at the beginning of the year, by 8.9% on average, with prices increases highest in housing (including heating) and transport (fuels and lubricants). In order to counter inflation the Bank of Slovenia (BS) decided among others for an increase of the discount rate from 9% to 10% and the Lombard rate from 10% to 11% as of December 2000 – being the second increase after June 2000, when both rates were raised by one percentage point. Government projections display a gradual decrease of the inflation to 3.3% by 2005.

The employment increase further continued, while the number of registered unemployed has been steadily on the decline. By the end of November listed jobless totalled 104 thousand persons, representing an 11.9% unemployment rate. The employment rise was also confirmed by results obtained from the labour force survey. According to that measure the number of employed boosted by 3% between the third quarters of 1999 and 2000, while the jobless rate fell below the 7% mark (to 6.7%) for the first time. Real wage growth remained below productivity growth; data available for the January-November period reveal a real rise of gross and net wages, by 1.5% each.

Exports and imports expressed in current USD increased at moderate rates, by 2.8% and 1.4% during the first ten months of the year. However, in real terms exports showed a strong expansion, by 11.6% (to the EU by 8.6%) in the January-October period, wile at the same time imports rose by only 4.5% (from the European Union by 2%). The current account deficit, that had only shown up in 1999 to any noteworthy extent since the country gained independence, could be reduced by some 23% in 2000, amounting to an estimated USD 600 million or about 3% of the expected GDP. The improvement resulted first of all from a higher surplus in the services balance, mainly due to an increased surplus in the merchanting item (Slovenian firms acting as inter-mediators for sales to other parts of the former Yugoslavia) and a lowering of the deficit in the commodity trade. Despite an 11% increase of overnight stays, the travel balance remained at almost the same level as in 1999. This might be explained by the fact that Slovenes have spent more money abroad, (preferably in neighbouring Croatia) than in 1999, when tourism in the whole regions was paralysed by war in Kosovo. Most of the deficit is financed through foreign borrowing, mainly due to lower interest rates abroad. As in previous years the inflow of FDI was almost negligible. By the end of November 2000 foreign debt totalled nearly USD 6 billion or about 30% of GDP. Debt servicing will increase significantly to USD 1.4 billion in 2001, up from a mere USD 260 million in 1999, projections for the subsequent three years post the debt service burden at about USD 900 million p.a.

The real effective exchange rate of the Slovenian tolar depreciated by 3.3% measured by the CPI and by 5.3% measured by the PPI between December 1999 and November 2000. Throughout the year several interventions by the Bank of Slovenia were needed to prevent the currency from falling too quickly.

The general government budget closed reportedly with a 1.7% deficit to GDP – which is still very low by international standards, but higher than anticipated. The fiscal policy and budgetary outlines for the two years to come envisage a similar deficit to GDP ratio in 2001 and a gradual reduction of the general government to 1.1% in 2002; upon EU entry the deficit should turn into a slight surplus, public debt is envisaged to range between 35 and 40% of the GDP. As the draft budget for 2001 will be presented to the parliament only by the end of January, a decree on the temporary state financing will be in force during the first quarter of the year.

In 2000 Slovenia faced heavy political uncertainties. In April the government led by Janez Drnovšek lost its majority in the parliament when the main coalition partner, the People's Party, opted to merge with the Christian Democrats. A new centre-right caretaker government led by A. Bajuk was approved only in June. The regular elections held in October resulted in a clear vote for the liberal democratic party headed by Janez Drnovšek (he had been a president of the former Yugoslavia), who was re-elected prime minister. The new government, consisting of four coalition parties, took office at the beginning of

December. As far as the economy is concerned, the government intends to follow the path of economic growth pursued so far, to solve budgetary problems by a ‘thorough revision of all public finance obligations rather than by large-scale cost-cutting measures, and to pursue a moderate wage policy and a modest growth of pensions'. Furthermore the government programme envisages the 'completion of the public administration reform and the withdrawal of the state from several economic sectors, such as energy, telecommunications, banking and steel works'.

Up to now the EU and Slovenia have closed provisionally 14 negotiation chapters. The progress report released by the European Commission in November was positive in its general assessment on Slovenia, but criticised the slow progress of the denationalization and privatization process of state property, the court delays, the lagging public administration reform and the low level of foreign investment. As far as privatization is concerned the repeatedly announced (and several times postponed) privatization of the two state-owned banks, Nova Ljubljanska banka (NLB) and Nova komercialna banka Maribor (NKBM) is still ahead. Insurance companies’ privatization has been delayed since the Constitutional court has suspended the implementation of the bill.

Official Slovenian projections reckon with a slight slowdown of GDP growth to 4% in 2001 following a decline in foreign demand and fiscal restrictions in the country; from 2002 onwards (till 2005) the authorities expect the GDP to grow at rates ranging between 4.5% and 5.5% based on both a strengthening of foreign and domestic demand. CPI inflation rate should be reduced to 7.8% on average in 2001 and come down to 5.2% in 2002. The WIIW forecast of the GDP is more or less in line with the official projections: we expect the GDP to growth by 4 to 5% both in 2001 and 2002, but the inflation rate should already fall to 7% in 2001 and to 5% in 2002. The current account will remain in deficit due to increasing imports (lower import growth in 2000 is mainly attributable to anticipated imports in 1999 ahead of the introduction of the VAT) and slower export growth resulting from a weakening of EU economies. Hopes to increase exports to Croatia (Slovenia’s third most important trading partner) seem to be too optimistic, as sustainable economic growth in that country is not in sight yet. Employment will slightly increase in the years to come, while the number of jobless will decline only modestly, because unemployment is largely of a structural nature.

Table SI

Slovenia: Selected economic indicators

	1994	1995	1996	1997	1998	1999	2000 [1)]	2001	2002
								forecast	
Population, th pers., mid-year	1988.9	1987.5	1991.2	1986.8	1982.6	1985.6	1990.3	.	.
Gross domestic product, SIT bn, nom.	1853.0	2221.5	2555.4	2907.3	3253.8	3637.4	4150	4640	5090
annual change in % (real)	5.3	4.1	3.5	4.6	3.8	5.0	4.7	4.5	4.5
GDP/capita (USD at exchange rate)	7233	9431	9481	9163	9878	10078	9364	.	.
GDP/capita (USD at PPP - WIIW)	11550	12490	13220	14000	14750	15740	16790	.	.
Gross industrial production									
annual change in % (real)	6.4	2.0	1.0	1.0	3.7	-0.5	6.2	4	4
Gross agricultural production									
annual change in % (real)	20.2	-0.1	0.7	-1.0	2.0	-2.6	.	.	.
Goods transport, mn t-kms	23245	22595	22371	22563	22017	23742	18700 [I-X]	.	.
annual change in %	-2.6	-2.8	-1.0	0.9	-2.4	7.8	-4.2 [I-X]	.	.
Gross fixed capital form., SIT bn, nom.	372.7	475.0	576.7	684.1	799.5	978.0	.	.	.
annual change in % (real)	14.1	16.8	9.2	11.3	11.1	16.1	4	5	5.5
Construction output, in effect. working time									
annual change in % (real)	-0.1	0.9	-2.5	-5.2	1.7	10.2	0.0 [I-XI]	.	.
Dwellings completed, units [2)]	5522	5715	6228	6085	6518	.	.	.	.
annual change in %	-30.3	3.5	9.0	-2.3	7.1	.	.	.	.
Employment total, th pers., average	746.2	745.2	741.7	743.4	745.2	758.5	768.1 [I-XI]	.	.
annual change in %	-1.3	-0.1	-0.5	0.2	0.2	1.8	1.4 [I-XI]	.	.
Employees in industry, th pers., average [3)]	265.3	252.4	239.2	248.5	246.2	242.8	.	.	.
annual change in % [3)]	-4.5	-4.9	-5.2	-2.1	-0.9	-1.4	.	.	.
Unemployed reg., th, end of period	123.5	126.8	124.5	128.6	126.6	114.3	104.6	.	.
Unemployment rate in %, end of period	14.2	14.5	14.4	14.8	14.6	13.0	11.9	11	10.5
Average gross monthly wages, SIT	94618	111996	129125	144251	158069	173245	189717 [I-XI]	.	.
annual change in % (real, net)	6.0	4.7	4.4	2.9	1.5	3.0	1.5 [I-XI]	.	.
Retail trade turnover, SIT bn	608.7	705.8	871.3	1336.8	1610.2	1798.1	.	.	.
annual change in % (real)	5.2	3.1	2.9	1.0	2.1	2.9	6.8 [I-X]	.	.
Consumer prices, % p.a.	21.0	13.5	9.9	8.4	7.9	6.1	8.9	7	5
Producer prices in industry, % p.a.	17.7	12.8	6.8	6.1	6.0	2.1	7.6	.	.
General government budget, SIT bn									
Revenues	803.6	958.2	1091.8	1222.6	1397.9	1590.0	.	.	.
Expenditures	803.4	957.3	1083.6	1256.7	1423.5	1613.3	.	.	.
Deficit (-) / surplus (+)	0.2	0.9	8.2	-34.1	-25.6	-23.3	.	.	.
Deficit (-) / surplus (+), % GDP	0.0	0.0	0.3	-1.2	-0.8	-0.6	-1.7	.	.
Money supply, SIT bn, end of period									
M1, Money	170.2	203.9	235.1	270.5	332.7	399.8	395.7 [Nov]	.	.
Broad money	735.0	941.9	1135.3	1411.3	1690.3	1912.9	2193.5 [Nov]	.	.
Discount rate % p.a., end of period	16.0	10.0	10.0	10.0	10.0	8.0	10.0	.	.
Current account, USD mn	573.0	-99.4	31.4	11.4	-147.2	-782.6	-600	-500	-450
Gross reserves of NB excl. gold, USD mn	1499.0	1820.8	2297.4	3314.7	3638.5	3168.0	3196.4	.	.
Gross external debt, USD mn [4)]	2258	2970	4010	4176	4959	5491	5985 [Nov]	.	.
Exports total, fob, USD mn	6827.9	8315.8	8309.8	8368.9	9050.6	8545.8	8800	8900	9000
annual change in %	12.2	21.8	-0.1	0.7	8.1	-5.6	3	2	1
Imports total, cif, USD mn	7303.9	9491.7	9421.4	9366.5	10110.9	10082.6	10100	10100	10200
annual change in %	12.4	30.0	-0.7	-0.6	7.9	-0.3	0	0	1
Average exchange rate SIT/USD	128.81	118.52	135.37	159.69	166.13	181.77	222.68	.	.
Average exchange rate SIT/EUR (ECU)	152.36	153.12	169.51	180.40	186.27	193.63	205.03	.	.
Average exchange rate SIT/DEM	79.37	82.66	89.98	92.12	94.41	99.00	104.83	.	.
Purchasing power parity SIT/USD, WIIW	80.68	89.47	97.08	104.50	111.25	116.42	124.17	.	.
Purchasing power parity SIT/EUR, WIIW	86.97	96.30	105.26	113.90	120.77	125.80	135.09	.	.

Notes: 1) Preliminary. - 2) From 1998 permits. - 3) Up to 1996 excluding persons employed by self-employed in enterprises with 3 and more employees. - 4) Up to 1995 excluding portion of debt of the former Yugoslav Federation.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Helen Boss

Ukraine: GDP and inflation up, reputations down

Ukraine has reported 5-6% GDP growth in 2000, the first positive results on an annual basis since 1989. All sectors appear to have contributed, even agriculture, but the boom in goods exports to the CIS was especially important, accelerating to a 35% growth rate on a customs basis in January-September, under the ongoing effect of Ukraine's devaluations and Russia's own recovery. Ukrainian industrial production surged 12.9% in 2000, and 16% in December year-on-year. Retail sales rose for the first time in a decade, up 7%, in tandem with real wages and a near-10% rise in money income. Investment spending grew 14%. There was a USD 600 million trade surplus. The budget's assumption for GDP in 2001 is plus 4%, and for the hryvnia, 6.3 to the USD by December 2001.

The hryvnia dropped nearly a fifth against the dollar between Q4 1999 and Q1 2000, on top of the halving that started in mid-1998. Against expectations, the National Bank managed to keep the currency nominally stable at about 5.4 UAH to the USD from February 2000 to yearend, without any new foreign loans. Nominally because of slow reform, but also on account of the misstated-reserves scandal, IFI disbursements remained frozen until 26 December, when the IMF unblocked USD 245.3 million. In view of the near-default of April 2000, new euroloans were out of the question; indeed foreign debt was paid down. The government's remonetization policy had some cost in inflation, as the Bank sold hryvnias to rebuild depleted reserves. Measures outlawing barter and offsets in the budget and energy sectors also drew cash into the recorded economy. Arrears to pensioners were paid off in full by mid-year, and a third of outstanding budget-sector wage arrears were settled by October. However there is less evidence of budget-hardening in the enterprise sector: payables grew slightly in real terms, and their nominal increment January-October was 22% of projected annual GDP. The CPI came in up 28.2% year-on-year, miles above the 16% target. Target consumer-price inflation in the 2001 budget is an ambitious 13.6%.

Though industrial production boomed in 2000, there was little structural change to boast about. Energy-intensive steel, which saw its share rise from 15% of industrial output in 1992 to 26% in 1999, accounted for 29.8% of industrial production in the third quarter of 2000, and some 37% of exports. Light industry was up a quarter for the year, on a low base. The food industry's share remained the same as the depressed 1999 share, at 13.5%, and though its exports rose 26%, they remained at only 2.5% of goods sold abroad. Small companies are performing though, and much of the sector's true output does not show up in GDP, given the scale of non-monetized household production and the unrecorded economy. The latter was estimated in 1997 at 70% of official GDP in size.

Reforms designed to get government agencies to stop squeezing farmers and to institute monetized, arms'-length relationships in supply, storage and credit have yet to bear fruit. The 2000 grains harvest was flat on 1999, at a 'wartime' level of 24.4 million t, though plots and privatized farms' higher output offset a 1.7 million t drop by the former collective agricultural enterprises. The sunseed crop rose 20% despite the crippling export duty, and the number of loss-making agricultural enterprises declined sharply. A new land code, rural bankruptcy law and mortgage bills are still before parliament.

In December 2000 a deal was finally signed by the respective prime ministers of Russia and Ukraine that reschedules Ukraine's USD 1.5 billion plus of gas debts to Russian Gazprom over an 8 to 11-year period. It prices any future siphonings at or above Russia's export price to Europe, currently some USD 118 per th cu m, and requires Ukraine to issue eurobonds to cover any arrears. Russian firms have won several privatizations, and will be allowed to tender for part of the pipeline system. If the gas deal can be implemented, pressure to build the expensive Yamal link pipeline across Poland may somewhat diminish, as the route across Ukraine is shorter and is operating at only 70% capacity. Ukraine will continue to get 30 billion cu m per year at USD 80 per th cu m from Russia as transit fee, and is to buy a similar volume in 2001 from Turkmenistan, cash in advance. The long-term threat that Russia will bypass Ukraine in its ambitious plans for future exports to Europe has nevertheless grown.

In addition to the gas deal with Russia, Ukraine's Prime Minister Yushchenko and his then-Deputy PM for Energy Yulia Tymoshenko claimed to have made other progress against non-market, 'virtual-economy' practices in the domestic energy complex, though the jury is out as to whether the apparent rise in oblenergos' rate of cash payment, from 10% to 60-70%, was real or 'virtual'. Elsewhere in the budget, the use of offsets and promissory notes was reduced to less than one percent of GDP in the first half, and discretionary tax exemptions were reduced, though the tax holiday for agriculture remains in force. Free economic zones and special investment regimes are to be reviewed in 2001. Communal utility rates were raised to cost-recovery levels in nearly all districts. Privatization targets were not met, but revenues doubled to nearly USD 350 million in dollar terms. Ukraine's letter of intent to the IMF that led to the resumption of the EFF and the December tranche promises to appoint a financial adviser for the long-delayed privatization of Ukrtelekom by March 2001, and the EBRD is insisting on privatization of 20 regional electricity companies (oblenergos).

The last bloc of the Chernobyl AES was shut down on 15 December 2000, in return for IFI loans to buy coal and conditional grants which could amount to half the projected cost of completing two other partially-built atomic energy plants. Nuclear power accounted for 46.3% of the country's electricity production in January-November, well above the target.

Ukraine’s nuclear sector has one of the lowest rates of cash settlement in the recorded economy.

The widening scandal of the headless corpse found in the woods in November, dubbed 'Kuchmagate', could prove a watershed in the battle for reform, though its short-term effect has been to worsen Ukraine’s already-abysmal reputation for corruption, *schein* democracy and ‘state capture’. The dead body is now admitted to be that of missing journalist Georgi Gongadze, whose website posted articles linking President Kuchma to various ‘oligarchs’. In December Oleksandr Moroz, who lost to Kuchma in the first round of the autumillion 1999 presidential election, announced that a ‘patriotic’ security guard in President Kuchma’s office had felt compelled to make hours of tape recordings of presidential conversations. According to the first tape made widely available, a voice similar to Kuchma’s suggested Gongadze be driven out of the country, stripped and given to the Chechens, though not actually killed. There, and in other tapes so far only described second-hand, an expletive-spewing, anti-semitic Kuchma is heard scheming to force the resignation of his popular Prime Minister Yushchenko, urging secret controls on large-circulation newspapers, masterminding the bomb attack which wounded left-Communist presidential candidate Natalia Vitrenko and 30 others in the runup to the October 1999 first round, pinning the blame for same on Moroz, and, last but not least, rigging the outcome not only of the presidential election of November 1999 but also the April 2000 referendum, which diminished the powers of the ‘recalcitrant’ parliament in favour of Kuchma himself. Meanwhile Deputy Prime Minister for Energy Yulia Tymoshenko, a Yushchenko ally, has been indicted and forced to resign for financial crimes in the mid-1990s. Her successor has vowed to redouble budget-hardening efforts in the energy sector.

The reputations of Kuchma and his henchmen have been much besmirched, but the constitution holds few mechanisms for impeaching the president, parliament is full of oligarchs, and popular protests calling for Kuchma’s resignation have so far been tame. However the various allegations are a negative for the present economic upturn, first because they highlight the depth of divisions at the top regarding strong reform, second because of the probable effect on policy implementation, FDI and willingness to lend, and third because of the long-term effect on ‘rejoining Europe’. Given Kuchma and his new foreign minister’s strong tilt towards Moscow, in the coming months Brussels and Washington may have to act swiftly to reward Ukraine for resolving Kuchmagate in some kind of acceptable fashion.

Table UA

Ukraine: Selected economic indicators

	1994	1995	1996	1997	1998	1999	2000 [1]	2001	2002
								forecast	
Population, th pers., end of period	51728.4	51334.1	50894.0	50499.9	50105.6	49710.8	49279.8	49300	49100
Gross domestic product, UAH mn, nom.	12038	54516	81519	93365	102593	127126	172700	215500	269000
annual change in % (real)	-22.9	-12.2	-10.0	-3.0	-1.9	-0.4	6.0	4	4
GDP/capita (USD at exchange rate)	734	721	876	993	836	619	644	730	780
GDP/capita (USD at PPP - WIIW)	3910	3590	3340	3300	3300	3380	3680	.	.
Gross industrial production									
annual change in % (real)	-27.3	-12.0	-5.2	-0.3	-1.0	4.0	12.9	6	6
Gross agricultural production									
annual change in % (real)	-16.5	-3.6	-9.5	-1.9	-9.8	-6.9	7.9	3	5
Goods transport, bn t-kms	593.2	544.0	450.3	402.3	391.7	388.0	.	.	.
annual change in %	-12.0	-8.3	-17.2	-10.7	-2.6	-0.9	-2.0	.	.
Gross fixed investment, UAH mn, nom.	2280.0	9378.2	12557.0	12437.0	13958.0	17552.0	19481.2	.	.
annual change in % (real)	-22.5	-35.1	-22.0	-8.8	6.1	0.4	11.2	10	10
Construction output total									
annual change in % (real)	-38.0	-35.2	-31.0	-9.9	2.7	-8.0	.	.	.
Dwellings completed, units	145400	118200	88100	80000	70000	74000	.	.	.
annual change in %	-23.0	-18.7	-25.5	-9.2	-12.5	5.7	.	.	.
Employment total, th pers., average	23025.0	23725.5	23231.8	22597.6	22348.7	21823.7	.	21000	20000
annual change in %	-3.8	3.0	-2.1	-2.7	-1.1	-2.3	.	.	.
Employees in industry, th pers., average [2]	5477.0	5035.0	4642.0	4273.0	4142.0	3965.4	.	.	.
annual change in %	-8.9	-8.1	-7.8	-7.9	-3.1	-4.3	.	.	.
Unemployed reg., th, end of period	82.2	126.9	351.1	637.1	1003.2	1174.5	1188.0	.	
Unemployment rate in %, end of period	0.4	0.5	1.3	2.3	3.7	4.3	4.2	5	6
Average gross monthly wages, UAH [2]	13.8	73.0	126.0	143.0	153.0	177.5	231.0	.	.
annual change in % (real, gross)	-10.5	-0.1	-4.2	-2.1	-3.2	-5.4	1.6	.	.
Retail trade turnover, UAH mn	3370	11964	17344	18933	19317	22151	28530	.	.
annual change in % (real)	-13.6	-13.9	-5.1	0.2	-6.6	-7.1	6.9	.	.
Consumer prices, % p.a.	891.0	376.8	80.2	15.9	10.6	22.7	28.2	20	20
Producer prices in industry, % p.a.	1134.4	488.8	52.1	7.7	13.2	31.1	20.9	.	.
General government budget, UAH mn [3]									
Revenues	5313.8	20425.4	30142.0	36889.6	37398.2	43826.7	.	41630 [4]	.
Expenditures	6453.5	24443.0	33759.0	43086.0	39416.5	45523.0	.	41630 [4]	.
Deficit (-) / surplus (+)	-1139.7	-4017.6	-3617.0	-6196.4	-2018.3	-1696.3	600.0	0 [4]	.
Deficit (-) / surplus (+), % GDP	-9.5	-7.4	-4.4	-6.6	-1.9	-1.3	3.5	0	.
Money supply, UAH mn, end of period									
M0, Currency outside banks	793	2623	4041	6132	7158	9583	11158 Nov	.	.
Broad money	3216	6930	9364	12541	15718	22070	29395 Nov	.	.
Refinancing rate of NB % p.a., end of period	268.8	110.4	39.6	34.8	74.2	45.0	27.0	.	.
Current account, USD mn	-1163	-1152	-1185	-1335	-1296	834	1600	500	0
Gross reserves of NB excl. gold, USD mn [5]	651	1051	1960	2341	761	1046	940 Oct	1500	.
Gross external debt, USD mn	7167	8217	8840	9555	11483	12438	11330	12000	.
Exports total, fob, USD mn [6]	10272	13128	14401	14232	12637	11582	14500	15800	.
annual change in %	-5.2	27.8	9.7	-1.2	-11.2	-8.4	25	9	.
Imports total, cif, USD mn [6]	10745	15484	17603	17128	14676	11846	14300	15100	.
annual change in %	-15.2	44.1	13.7	-2.7	-14.3	-19.3	21	6	.
Average exchange rate UAH/USD	0.317	1.473	1.830	1.862	2.450	4.130	5.440	6	7
Average exchange rate UAH/EUR (ECU)	0.385	1.928	2.322	2.113	2.768	4.393	5.029	.	.
Average exchange rate UAH/DEM	0.203	1.029	1.216	1.076	1.407	2.246	2.571	.	.
Purchasing power parity UAH/USD, WIIW	0.060	0.296	0.480	0.561	0.620	0.758	0.949	.	.
Purchasing power parity UAH/EUR, WIIW	0.064	0.318	0.520	0.611	0.673	0.819	1.033	.	.

1) Preliminary. - 2) Excluding small enterprises. - 3) Pension funds included. - 4) Budget passed 30 Nov. 2000, incl. pension and social security funds. - 5) Useable. - 6) Exports and imports of goods according to customs statistics, adjusted for oil, gas and non-declarable goods.

Source: WIIW Database incorporating national and international statistics; WIIW forecasts.

Vladimir Gligorov

Yugoslavia: Getting ready

The political change that took place in Serbia in late September and early October 2000 was confirmed by the parliamentary elections in Serbia in late December 2000. The Democratic Opposition of Serbia (DOS) won about two-thirds of the vote and has now an overwhelming control of the parliament. However, the formation of a government has been delayed because of the long holidays and because of legal contests over some electoral results. The new parliament and the new government have been put in place at the end of January 2001.

Since November the new federal government has been in existence and it has concentrated mainly on the normalization of international relations. In this it has been very successful. The remaining sanctions on Yugoslavia have been mostly removed, Yugoslavia has re-entered the United Nations, the International Monetary Fund and has joined the European Bank for Reconstruction and Development. Diplomatic relations within the region and outside it have also been re-established.

Equally importantly, the new government has received not only diplomatic but also financial support. The European Union has put together a programme of aid worth EUR 200 million, the USA has allocated USD 100 million and there has been significant bilateral aid from EU member states as well as from countries such as Norway and Switzerland. The aid programme should be extended beyond the winter of 2001 and is expected to be as high as USD 700 million for the year as a whole.

In early December 2000, the new leadership of the central bank was appointed. It moved immediately to unify the exchange rates, to introduce internal convertibility and to adopt a floating exchange rate regime. The meaning of the latter is yet to be determined because the central bank is in fact aiming at keeping the exchange rate of the Yugoslav dinar (YUM) at the fixed level of 30 dinars for one German mark.

The Yugoslav government adopted a rather modest budget which is projected to spend around 8% of GDP. However, this budget is not crucial, because it mainly consists of expenditures on the military and on the federal government. The key Serbian budget is yet to be adopted when the Serbian government introduces it in the parliament. Once this budget is known it will be easier to judge the challenges that the monetary policy will have to face. Also, the consistency and the realism of the macroeconomic targets and policies could be evaluated.

A preliminary programme was presented to the IMF on the occasion of Yugoslavia's re-admittance to this institution. It aims at a growth rate of GDP of at least 10% and of inflation of 11% per month in 2001. It also aims to attract about USD 700 million in foreign investment, and quite a number of structural reforms are envisaged. A much more precise and detailed programme should bee worked out together with the IMF by early spring in order for a stand-by agreement to be signed.

In the interim, that is to say in the last quarter of 2000, industrial production was mostly falling. This trend will continue in the first quarter of 2001. Agriculture and services should do better later in the year especially because the previous year was exceptionally bad for agriculture. The government-to-be in Serbia has been voicing optimistic expectations, which seem to imply that there will not be all that much disorganization and restructuring which are always costly. However, given the state of the political and economic institutions in Yugoslavia, this is not realistic.

The domestic political agenda has so far been dominated by the issue of the future of the Yugoslav federation. The smaller member state, Montenegro, is intensely debating the prospects for independence. This issue will have to be settled in 2001. In January 2001 the governing coalition in Montenegro collapsed. Currently, early parliamentary elections are planned for April and a referendum on independence for late June. It is, however, impossible to tell whether this is what will indeed happen – or to predict the outcome of the early elections and of the referendum if indeed one is going to be held.

Originally, it was planned that a new Serbian and a new Yugoslav constitution would be adopted in 2001 or 2002. Both are in doubt now. There is, in fact, little talk about the new Serbian constitution. The writing of this document would involve taking a position on Kosovo and on other issues of the internal organization of Serbia, e.g., on the autonomy of Vojvodina. It does not look now as if the new Serbian parliament and the new Serbian government will be ready to do that. The drawing-up of the new federal constitution will depend on the outcome of the political developments in Montenegro. If the advocates of independence lose, there may be no significant changes of the existing constitution at all. Early elections for the federal parliament, however, are quite probable.

All these political development will have some bearing on the short- and medium-term economic developments. More than those, the clarity of the programme of the Serbian government will be crucial. At this moment most of those who speak for the government seem to be content with the gradual approach to transition and development. Already it is being said that the year 2001 will be devoted to preparations. The real reforms should come in 2002 only.

Table YU

Yugoslavia: Selected economic indicators*

	1994	1995	1996	1997	1998	1999	2000 [1]	2001 forecast	2002 forecast
Population, th pers., mid-year	10515.6	10547.0	10577.2	10597.0	10615.0	8372.2	8379.7	.	.
Gross domestic product, USD mn, nom. [2]	14285.0	15285.0	16477.0	18146.0	18491.0	16450.0	9680	8160	7790
annual change in % (real) [3]	2.5	6.1	5.9	7.4	2.5	-17.7	7.0	5	5
GDP/capita (USD at exchange rate) [2]	1358	1449	1558	1712	1742	1965	1155	.	.
Gross industrial production [4]									
annual change in % (real)	1.3	3.8	7.6	9.5	3.6	-23.1	12.2	5	5
Gross agricultural production [5]									
annual change in % (real)	6.0	4.1	1.5	7.3	-3.2	-0.9	-19.7	.	.
Goods transport, mn t-kms [6]	2902	4206	31720	38097	45378	.	.	.	.
annual change in % [6]	-21.8	44.9	141.1	20.1	19.1	.	.	.	.
Gross fixed investment, YUM mn, nom.	3091.4	5348.7	9702.5	13525.3	17893.2	.	.	.	.
annual change in % (real)	-12.0	-3.7	-5.7	0.8	-2.2	.	.	.	.
Construction output, value of work done									
annual change in % (real)	4.4	-16.0	2.7	6.9	.	.	.	.	.
Dwellings completed, units	17442	14337	15160	14768	13096	13123	13666	.	.
annual change in %	-10.1	-17.8	5.7	-2.6	-11.3	0.2	4.1	.	.
Employment total, th pers., average [7]	2413.0	2379.0	2367.0	2332.0	2504.0	2298.0	.	.	.
annual change in %	-2.1	-1.4	-0.5	-1.5	-0.1	-8.2	.	.	.
Employees in industry, th pers., average [8]	894	870	852	820	836	756	677.0 I-XI	.	.
annual change in %	-2.4	-2.7	-2.1	-3.7	-1.9	-9.5	.	.	.
Unemployed reg., th, end of period	751.0	777.0	826.8	793.8	849.4	774.0	820.5 Sep	.	.
Unemployment rate in %, end of period [9]	25.2	24.7	26.1	25.5	25.4	25.5	26.9 Sep	30	32
Average net monthly wages, YUM [10]	164.0	340.0	658.0	803.0	1063.0	1309.0	2576	.	.
annual change in % (real, net)	.	16.1	1.0	21.2	1.9	-13.1	6.0	.	.
Retail trade turnover, YUM mn	8481.5	14660.8	27895.7	35433.0	48748.0	55533.0	.	.	.
annual change in % (real, calc.)	70.1	4.3	7.4	11.8	5.3	-16.7	7.7	.	.
Consumer prices, % p.a.	3.3	78.6	91.5	21.6	29.9	44.9	85.7	50	30
Producer prices in industry, % p.a.	8.0	57.7	90.2	19.5	25.5	44.1	105.8	.	.
General government budget, YUM mn									
Revenues	10177	18069	35941	47455	61360	79321	101472 Oct	.	.
Expenditures	10677	19249	39044	55315	70739	.	.	.	.
Deficit (-) / surplus (+)	-500	-1180	-3103	-7860	-9379	.	.	.	.
Deficit (-) / surplus (+), % GDP	.	.	.	-7.0	-6.1	.	.	.	.
Money supply, YUM mn, end of period			.						
M1, Money	2435.1	3256.1	5495.3	9148.0	10807.3	16332.0	22957.2 Oct	.	.
Broad money	9965.2	27243.6	31434.7	38948.4	62352.0	75393.7	99006.2 Oct	.	.
Discount rate, % p.a., end of period	9.0	90.2	68.2	33.7	34.5	26.8	26.8 Oct	.	.
Current account, USD mn	.	.	-1317	-1837	-1180	-600	-800	-1200	-1500
Reserves of NBY incl. gold, USD mn [11]	1370	1303	1239	1158	1229	.	.	.	.
Gross external debt, USD mn	9000	9000	9000	10500	11500	12500	.	.	.
Exports total, fob, USD mn [12]	.	.	2018	2677	2858	1498	1727	2500	3000
annual change in %	.	.	.	32.7	6.8	-46.9	15.3	45	20
Imports total, cif, USD mn [12]	.	.	4119	4826	4849	3296	3698	4800	5500
annual change in %	.	.	.	17.2	0.5	-30.4	12.2	30	15
Average exchange rate YUM/USD	1.61	1.79	4.97	5.72	9.34	11.09	37.46	.	.
Average exchange rate YUM/EUR (ECU)	1.92	2.34	6.30	6.48	10.46	11.73	34.87	.	.
Average exchange rate YUM/DEM	1.00	1.25	3.30	3.30	5.33	6.00	17.83	35	50

* From 1999 all data are given excluding Kosovo and Metohia.

Notes: 1) Preliminary. - 2) Based on World Bank estimates. - 3) Based on GMP in Dinar. - 4) Excluding private enterprises. - 5) Based on final net production. - 6) 1994, 1995 and growth rate in 1996 excluding maritime transport. - 7) Employees plus own account workers, excluding individual farmers; from 1998 including small enterprises. - 8) From 1998 including small enterprises. - 9) In % of unemployed plus employment. - 10) Excluding private sector; methodological break 1996/1997. - 11) Gold and foreign currency of NBY converted into USD at official exchange rate. - 12) Converted from the national currency to USD at trade exchange rate.

Source: WIIW Database incorporating national and international statistics.

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