

Slower growth in transition countries, hopes for recovery in Western Europe

After satisfactory performance of the transition countries in 2000, growth slowed down in 2001 as the external conditions deteriorated. This tendency has not been checked in the first quarter of 2002. Industrial production has weakened, in some countries even declined. Expanding consumption has been the major growth factor. Also capital formation weakened, or contracted. This does not augur well for economic growth in the medium-term future.

The contribution of foreign trade to GDP growth seems largely neutral. Lower world prices of energy had a negative impact on growth in Russia. The current account deficits in the advanced transition countries will remain relatively low. In Yugoslavia the high current account deficits will continue. The Russian current account surplus, which is declining sharply, will still remain very large. Current account deficits will continue to be financed largely, and safely, by inflows of foreign direct investment.

The slowdown of industrial production and producer prices affects firms' financial position. This is compensated by rising labour productivity, achieved primarily through cuts in employment. Unemployment is high, or very high. It is unlikely to go down significantly even in the medium run. However, the associated social problems will probably have no destabilizing political consequences (except Poland).

The remarkable strength of the national currencies appears to have a fairly limited impact on the performance of trade and production. The recent exchange rate trends may have reflected financial (or even speculative) developments so that a potential for adjustments, involving devaluation, may be there. But the likelihood of major adjustments seems rather small because the solid capital inflows will continue even in the medium term, especially in view of prospective EU membership of the candidate countries. The general concern over loss of competitiveness due to overvaluation remains still valid. However, competitiveness need not have suffered – the more so as the process has been associated with quality and price gains in export activities.

Given the external conditions, the overall growth in transition countries in 2002 will be weaker than in 2001. Acceleration in 2003 is possible provided the business climate in the EU improves. The average rate of catching-up vis-à-vis the EU will stay at about 2 percentage points per year.

'Transition Countries in 2002: Losing Steam' (*WIIW Research Reports*, no. 285), by Leon Podkaminer et al., July 2002; 89 pages including 28 tables and 6 figures, EUR 70.00.

The Report provides a survey of recent macroeconomic developments and discusses the economic outlook for 2002/03. It comprises an Overview and twelve brief Country Reports on the following transition countries: Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia (FYRM), Poland, Romania, Russia, Slovakia, Slovenia, Ukraine and Yugoslavia (Serbia and Montenegro).

The Report is available in hard copy or in electronic format (PDF) from wiiw's website, www.wiiw.at (price: EUR 70.00). The Country Reports can also be downloaded individually from the site (price: EUR 10.00 each). For ordering by fax or e-mail, please contact Ms Ursula Köhrl, fax +431 5336610-50, e-mail koehrl@wsr.ac.at.

Overview developments 2000-2001 and outlook 2002-2003

	GDP				Consumer prices				Reg. unemployment				Current account			
	real change in % against previous year				change in % against previous year				rate in %, end of period				in % of GDP			
	2000	2001	2002 forecast	2003 forecast	2000	2001	2002 forecast	2003 forecast	2000	2001	2002 forecast	2003 forecast	2000	2001	2002 forecast	2003 forecast
Czech Republic	3.3	3.3	3	4	3.9	4.7	3.0	3.5	8.8	8.9	9.5	9	-5.3	-4.6	-4.7	-4.8
Hungary	5.2	3.8	3.3	4	9.8	9.2	5.7	4.5	8.7	8.0	8.2	8	-2.9	-2.1	-4.3	-3.9
Poland	4.0	1.0	0	1	10.1	5.5	3	4	15.1	17.4	19	19	-6.3	-4.1	-4.4	-4.3
Slovak Republic	2.2	3.3	3.5	4	12.0	7.3	4	7	17.9	18.6	18	18	-3.6	-8.6	-6.5	-4.3
Slovenia	4.6	3.0	3	4	8.9	8.4	7	5.5	12.0	11.8	11	10	-3.4	-0.4	0.5	0.4
CEEC-5	3.9	2.2	1.6	2.5	.	.	.	.	13.3	14.6	15.5	15.3	-5.2	-3.9	-4.3	-4.0
Bulgaria	5.4	4.0	3.5	4	10.3	7.4	7	5	17.9	17.3	17	16	-5.6	-6.5	-5.0	-4.4
Romania	1.8	5.3	3	4	45.7	34.5	25	20	10.5	8.6	12	12	-3.7	-5.9	-5.1	-4.9
CEEC-7	3.7	2.8	1.9	2.8	.	.	.	.	13.1	13.6	15.1	14.8	-5.1	-4.2	-4.4	-4.2
Croatia ¹⁾	3.7	4.1	3	4	6.2	4.9	3	2.5	22.3	23.1	23	22	-2.3	-3.1	-3.5	-3.6
Macedonia ¹⁾²⁾	4.5	-4.6	0	2	10.6	5.2	3	5	32.2	30.5	32	32	-3.0	-10.3	-6.5	-6.0
Yugoslavia ³⁾	6.4	6.2	4	4	85.6	89.2	25	15	26.7	27.9	30	30	-16.0	-5.9	-8.6	-7.5
Russia ⁴⁾	9.0	5.0	3.4	3.8	20.8	21.6	19	16	9.9	8.7	8.5	9	17.9	11.3	7.1	5.4
Ukraine	5.9	9.1	4	5	28.2	12.0	10	10	4.2	3.7	4	4	4.7	3.7	0.0	.

1) Consumer prices correspond to retail prices. - 2) Unemployment rate according to ILO definition, period average. - 3) Excluding Kosovo and Metohia. - 4) Unemployment rate according to ILO definition, end of year.

Source: WIIW (June 2002).