

Transition Countries in 2003: Reforms and Restructuring Keep the Global Economic Slowdown at Bay

*In its new report on Central, East and Southeast European transition economies, The Vienna Institute for International Economic Studies (**wiiw**) analyses the current economic situation in the region as well as development prospects for 2003 and 2004. Short country surveys for Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia, Poland, the Slovak Republic, Slovenia, Serbia & Montenegro, Romania, Russia and Ukraine are added. An annex contains indicators of competitiveness as well as projections of per capita GDP for these countries until 2015.*

Despite the unfavourable external economic climate, the transition countries display a reasonably good growth performance. **The region as a whole expands more rapidly than the EU; it is also catching up in terms of productivity – especially in manufacturing. As of mid-2003, there are few signs of the protracted global economic slowdown threatening the transition countries' short- and medium-term growth prospects to any marked degree.** Scheduled to join the EU in May 2004, a number of countries in Central and Eastern Europe which have attracted appreciable amounts of FDI recently improved their competitive position by securing larger export shares in the EU market. Russia continues to cash in on high revenues from energy exports; its GDP growth is accelerating while investments recover. Whereas some of the latecomers to reform and stabilization in the Balkans (Bulgaria, Romania and Croatia) have been rapidly catching up in many respects, the situation in most countries in the Western Balkans remains precarious.

The economies of the transition countries in Central and Eastern Europe will grow on average by about 3% in both 2003 and 2004 – somewhat faster than over the period 2001/02 and outstripping the eurozone again. A slow, but steady acceleration of GDP growth is forecast for Poland. Russia and Ukraine will also experience swifter growth in 2003, only to take time out in 2004. Inflation continues to drop to single-digit annual rates throughout the region (with the exception of Romania, Serbia & Montenegro and Russia), yet it is still higher than in the eurozone (except perhaps for the Czech

Republic and Poland). Unemployment displays a similar pattern. Given the current gaps in labour productivity and efficiency reserves, the present modest rates of economic growth do not make for the creation of additional jobs. Although generally quite high, current account deficits in the EU accession countries are of no immediate concern as their financing is secured via capital inflows. This is not the case in the Western Balkans; Russia and Ukraine, however, continue to enjoy current account surpluses, with Russia slowly starting to attract an increasing volume of FDI as well.

In all likelihood, the forthcoming EU accession of eight countries from Central and Eastern Europe will not lead to any dramatic changes in either the 'old' or 'new' EU member states. The integration of European production and trade structures that is already well advanced will continue at a gradual pace. A more pronounced impact might be seen in: services and agriculture; domestically-owned SMEs; border regions in both 'old' and 'new' EU member states; and peripheral areas of the enlarged EU. However, in preparing for EMU membership, the macroeconomic policy pursued, especially in fiscal and monetary areas, will play a crucial role in determining economic growth, employment and capital flows in the new EU member states.

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94 pages including 29 Tables and 21 Figures

The Report comprises an Overview and twelve brief Country Reports on the following transition countries: Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia, Poland, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia and Ukraine.

Available in hard copy (EUR 70.--) or in PDF (EUR 65.--) from wiiw's website, www.wiiw.at. (Individual Country Reports, only in PDF: EUR 10.-- each.) Orders can also be sent to fax +431 5336610-50 or to e-mail koehrl@wiiw.ac.at.

Overview developments 2001-2002 and outlook 2003-2004

	GDP				Consumer prices				Unemployment, based on LFS ¹⁾				Current account			
	real change in % against previous year				change in % against previous year				rate in %, annual average				in % of GDP			
	2001	2002	2003 forecast	2004 forecast	2001	2002	2003 forecast	2004 forecast	2001	2002	2003 forecast	2004 forecast	2001	2002	2003 forecast	2004 forecast
Czech Republic	3.1	2.0	2.3	2.7	4.7	1.8	0.7	3.5	8.1	7.3	7.6	7.5	-5.7	-6.5	-6.3	-6.4
Hungary	3.8	3.3	3.2	3.5	9.2	5.3	5.3	5	5.7	5.8	6	6	-3.4	-4.0	-4.9	-4.5
Poland	1.0	1.4	2.5	3.0	5.5	1.9	2	3	18.2	19.9	20.5	20.5	-3.9	-3.6	-3.4	-3.7
Slovak Republic	3.3	4.4	4	5	7.1	3.3	8	7	19.2	18.5	18	17	-8.5	-8.2	-2.9	-2.0
Slovenia	2.9	3.2	2.5	3.5	8.4	7.5	5.5	4.5	6.4	6.4	6.5	6	0.2	1.7	0.4	0.4
CEEC-5	2.2	2.2	2.7	3.2					14.5	15.3	15.7	15.5	-4.2	-4.2	-4.0	-4.0
Bulgaria	4.1	4.8	4.5	5	7.4	5.8	3	4	19.7	17.8	18	17	-6.2	-4.4	-3.4	-2.6
Romania	5.7	4.9	4	4	34.5	22.5	18	15	6.6	8.4	8	9	-5.5	-3.4	-2.7	-4.1
CEEC-7	2.8	2.7	3.0	3.4					12.9	13.8	13.9	14.1	-4.4	-4.1	-3.8	-4.0
Croatia ²⁾	3.8	5.2	4	4.5	4.9	2.2	2	1	15.9	14.8	14.5	14	-3.2	-6.9	-6.6	-4.2
Macedonia ²⁾	-4.5	0.3	2	3	5.2	1.5	2	4	30.5	31.9	30	30	-6.9	-8.8	-5.6	-5.3
Serbia & Montenegro ³⁾	5.1	3.0	2	4	89.0	16.5	15	10	12.9	13.8	15	15	-5.4	-11.0	-10.3	-9.6
Russia	5.0	4.3	5.0	4.5	21.6	16.0	14	10	9.1	8.0	7.5	8	11.3	9.5	6.7	5.7
Ukraine	9.2	4.8	6	4	12.0	0.8	10	7	11.1	10.2	11	11	3.7	7.7	4.0	.

1) LFS - Labour Force Survey, refers to ILO definition. - 2) Consumer prices correspond to retail prices. - 3) Excluding Kosovo and Metohia.

Source: The Vienna Institute for International Economic Studies(**wiiv**), July 2003.