

## Press Release

# As East You Go, the More They Grow: Transition Economies in a New Setting

*In its new special issue on the transition economies of Central, East and Southeast Europe, the Vienna Institute for International Economic Studies (wiiw) analyses the current economic situation in the region and assesses its development prospects for 2004 and 2005. The study also addresses some integration challenges facing the new EU member states and reviews the problems and prospects of EU accession for the countries in Southeast Europe. The analysis is supplemented by a series of brief country surveys on Albania, Belarus, Bosnia and Herzegovina, Bulgaria, China, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Russia, Serbia and Montenegro, the Slovak Republic, Slovenia and Ukraine. For each country, competitiveness indicators and per capita GDP projections up until 2015 are presented in an annex.*

The signs of a robust economic upswing in most countries of Central and Eastern Europe are overwhelming. Industrial output, construction, foreign trade and quarterly GDP figures for the past months confirm this development. The economic recovery in the 'old' EU (EU-15) has bolstered improvements in the business climate of Central and Eastern Europe. Moreover, in most new EU member states economic growth has outstripped that in the EU-15; it is thus more in line with the comparatively positive growth figures recorded by the global economy as a whole. Central and Eastern Europe, together with Russia, Ukraine and China, create every impression of having integrated fully into the global economy and added to its dynamics.

After the successful implementation of the EU enlargement on 1 May 2004, the ten new EU member states now face the challenge of joining the eurozone. Three new members, Estonia, Lithuania and Slovenia, joined the ERM II on 28 June. The two Baltic states already meet all the Maastricht convergence criteria. Although it fails to meet the price stability criterion, Slovenia is the only new member state to have achieved a convincing external equilibrium over the past few years. The weak points of both Estonia and Lithuania are their high foreign trade deficits. Other new member states – Slovakia, Poland, Hungary and the Czech Republic – are currently struggling with excessively high budget deficits.

The countries of Southeast Europe aspiring to EU membership are a heterogeneous group. Three of them, Bulgaria, Croatia and Romania, have already acquired candidate status; their economies are characterized by relatively high growth. Economic recovery is also visible in the countries in the Western Balkans, despite persistent political and structural problems.

High growth in many of the low-income transition countries should not divert attention away from the many shortcomings that still persist. Financial relations between the different types of economic agents have not yet reached western standards; the business infrastructure is not fully developed in terms of legislation, public administration and the judiciary system; high unemployment and the lack of social security are a seedbed for poverty, widespread petty crime and political instability.

Despite high GDP growth, structural distortions still characterize both Russia and Ukraine. Their economies continue to rely heavily on exports of crude oil, as well as raw materials and semi-finished goods.

In China, despite rapid economic expansion, unemployment remains high on account of a restructuring of state-owned enterprises, rural migration and pressure exerted by young people entering the labour market. In the wake of clear signs of overheating in some sectors such as real estate, steel and vehicles, both fiscal and monetary policies have recently become more restrictive.

**'As East You Go, the More They Grow: Transition Economies in a New Setting'**

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by Vladimir Gligorov, Josef Pöschl, Sándor Richter et al., July 2004

112 pages including 38 Tables and 11 Figures

Part A: The new EU member states (overview; integration with the EU), country reports on the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia

Part B: EU candidate countries and countries aspiring to EU membership (overview; convergence with the EU), country reports on Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Serbia and Montenegro

Part C: Country reports on Russia, Belarus, Ukraine and China

Available in hard copy (EUR 70.--) or in PDF (EUR 65.--) from wiiw's website, [www.wiiw.ac.at](http://www.wiiw.ac.at).

(Individual country reports, only in PDF: EUR 10.-- each.)

Orders can also be sent by fax +431 5336610-50 or by e-mail [koehrl@wiiw.ac.at](mailto:koehrl@wiiw.ac.at).

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Table

### Overview developments 2002-2003 and outlook 2004-2005

	GDP				Consumer prices				Unemployment, based on LFS <sup>1)</sup>				Current account			
	real change in % against previous year				change in % against previous year				rate in %, annual average				in % of GDP			
	2002	2003	2004 forecast	2005 forecast	2002	2003	2004 forecast	2005 forecast	2002	2003	2004 forecast	2005 forecast	2002	2003	2004 forecast	2005 forecast
Czech Republic	1.5	3.1	3.3	3.6	1.8	0.1	3.2	2	7.3	7.8	9	9	-5.6	-6.2	-6.6	-6.5
Hungary	3.5	2.9	4	4.3	5.3	4.7	6.5	4.8	5.8	5.9	5.9	5.9	-7.1	-8.9	-8.0	-7.1
Poland	1.4	3.8	5	4.5	1.9	0.8	3	3	19.9	19.6	20	19	-2.7	-2.0	-1.6	-2.1
Slovak Republic	4.4	4.2	4.5	5	3.3	8.5	8	5	18.5	17.4	17	16	-8.0	-0.9	-0.9	-1.4
Slovenia	3.4	2.3	3.4	3.5	7.5	5.6	4	3.5	6.4	6.7	6.5	6.2	1.4	0.1	-0.4	-0.6
NMS-5	2.1	3.5	4.4	4.3	.	.	.	.	15.3	15.1	15.6	15.0	-4.1	-3.9	-3.8	-3.8
Estonia	7.2	5.1	5.5	5.7	3.6	1.3	2.9	3.1	10.3	10.0	9.8	9.5	-11.3	-12.6	-10.5	-9.0
Latvia	6.4	7.5	7.5	7.0	1.9	2.9	4.5	3.8	12.0	10.6	10.3	10	-7.0	-8.6	-9.3	-8.8
Lithuania	6.8	9.0	10	8.5	0.3	-1.2	0.3	1.5	13.8	12.4	11.5	10	-5.2	-6.6	-7.3	-7.5
NMS-8	2.5	3.8	4.7	4.5	.	.	.	.	15.0	14.7	15.0	14.4	-4.4	-4.3	-4.2	-4.3
EU-15 <sup>2)</sup>	1.1	0.8	2	2.4	2.1	2.0	1.8	1.7	7.7	8.0	8.1	7.9	0.6	0.6	0.6	0.5
Croatia	5.2	4.3	3.2	3.5	1.7	1.8	2	1.5	14.8	14.3	14	13.5	-8.5	-7.2	-5.7	-5.1
Bulgaria	4.9	4.3	4.5	4	5.8	2.3	7	4	17.8	13.7	13	12.5	-5.6	-8.5	-7.7	-7.6
Romania	5.0	4.9	5	4.5	22.5	15.3	11	8	8.4	7.0	8	7	-3.4	-5.8	-6.4	-6.0
Albania <sup>3)</sup>	4.7	6.0	6	6	1.7	3.3	3.5	3.5	15.8	15.2	14.5	14	-8.7	-6.7	-6.8	-6.9
Bosnia and Herzegovina <sup>4)5)</sup>	5.5	3.5	5	5	0.4	0.6	0.6	0.5	40.9	42.0	42	41	-30.9	-29.6	-28.6	-28.3
Macedonia <sup>4)</sup>	0.9	3.1	3	4	1.4	2.4	3	2	31.9	36.7	36	35	-9.6	-6.0	-5.8	-5.6
Serbia and Montenegro <sup>6)</sup>	3.8	2.0	3	4	16.5	9.4	10	10	13.8	14.0	15	15	-11.0	-10.7	-14.3	-13.7
Belarus <sup>5)</sup>	5.0	6.8	8	7	43.0	28.0	20	16	3.0	3.1	2.5	2.5	-2.3	-2.9	-3.0	-2.5
Russia	4.7	7.3	6.3	5.5	16.0	13.6	10	9	8.0	8.3	8.7	9	8.4	8.3	6.8	5.1
Ukraine	5.2	9.4	9.5	7	0.8	5.2	7	8	10.1	9.1	9	8.5	7.5	5.8	5.8	4.3
China	8.0	9.1	8.5	8	-0.8	1.2	3.5	3	4.0	4.5	4.5	4.5	2.9	3.3	2.1	1.6

Notes: NMS-5: the New EU Member States Czech Republic, Poland, Slovak Republic, Slovenia and Hungary. NMS-8: NMS-5 plus the three Baltic States Estonia, Latvia and Lithuania. 1) LFS (Labour Force Survey), refers to ILO definition. - 2) Current account refers to extra EU-15 flows, adjusted. - 3) Unemployment rate by registration, end of period. - 4) Consumer price inflation measured by retail prices. - 5) Unemployment rate by registration, average. - 6) Excluding Kosovo and Metohia.

Source: wiiw (June 2004); European Commission (EC), Economic Forecasts, Spring 2004.