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Transition Countries in 2001: Robust Domestic Demand, Concerns About External Fragility Reappear

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Executive summary

The year 2000 was exceptionally good for the transition countries. The region as a whole expanded faster than the world economy average. However, the favourable external climate has started to deteriorate rapidly and especially the current pronounced weakening of the EU economy is worrying. The transition economies, especially those which aspire for EU membership, may be seriously affected. And it would perhaps not be their economic growth that would suffer the most, but the climate for enlargement in the EU, and this just at the time when accession negotiations are entering their final and most difficult phase.

As of mid-2001, there are hardly any signs that the current global economic slowdown will immediately affect the transition countries' short-term growth prospects. Domestic demand is robust, though the growth of industrial production somewhat decelerated during the first months of the year. If there is a noticeable growth slowdown, as in Poland, Russia and Macedonia, then domestic factors are largely to blame. A few countries which have attracted large amounts of outward-oriented FDI and improved their competitive position have so far not been impacted adversely by the recent EU growth weakening. Moreover, many transition countries also report expanding domestic demand, which is thus taking over the growth stimulus from declining net exports. In several countries external balances are deteriorating. Russia continues to enjoy high revenues from energy exports, the GDP growth is clearly slowing down.

The economies of the transition countries in Central and Eastern Europe will grow by about 3.5% on average in both 2001 and 2002 – only marginally less than during 2000. A more pronounced deceleration of GDP growth is forecast only for Poland and Russia, in both cases largely for domestic economic policy reasons. Inflation will slowly recede to single-digit annual rates (Romania, Yugoslavia, Russia and Ukraine are exceptions), but will remain higher than in the EU (except possibly in the Czech Republic) – just as will unemployment. Current account deficits, though generally quite high and growing, are of no immediate concern yet, but should be watched closely.

Figure 1: Gross domestic product

real change in % against preceding year

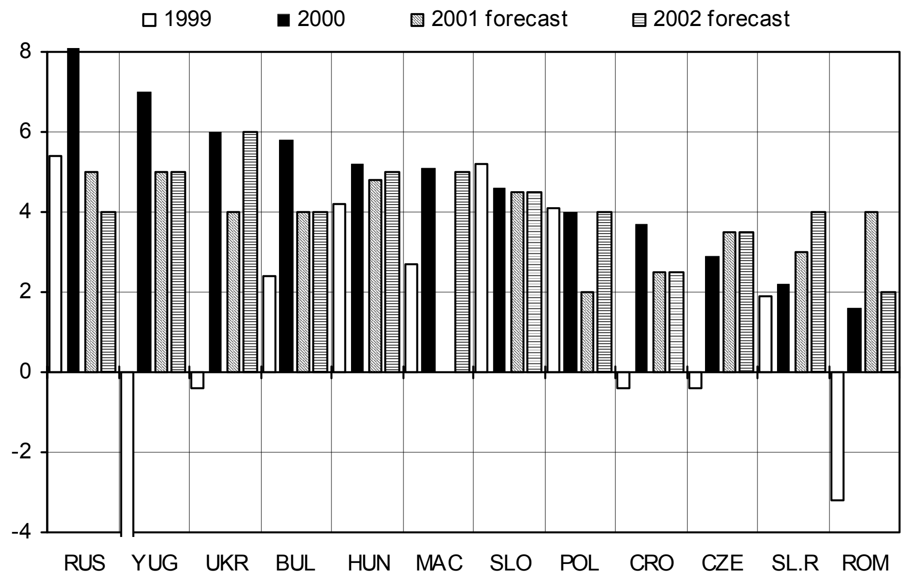

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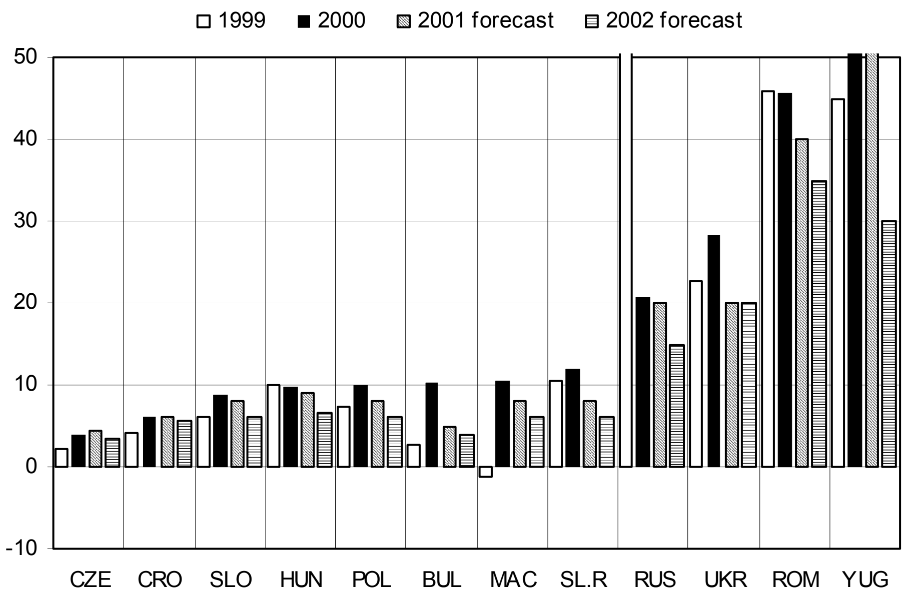
Figure 2: Consumer price inflation

annual change in % against preceding year



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OVERVIEW

*Peter Havlik**

Transition Countries in 2001: Robust Domestic Demand, Concerns About External Fragility Reappear

Introduction

In several respects, the year 2000 was exceptionally good for the transition countries. Their economies grew, some of them for the first time since the beginning of transition. Several countries even achieved a record growth performance last year, and the region as a whole expanded faster than the world economy average. The GDP growth was fuelled mainly by exports as the world economy was booming and the global demand for both commodities and manufactures produced in the region increased. This favourable external climate started to deteriorate towards the end of the year 2000, first in the USA and later on also in Western Europe, while Japan has even slid into a recession. The current pronounced weakening of the EU economy – GDP growth forecasts for 2001 have been substantially scaled down already in the EU Spring 2001 forecast – is worrying. In June 2001, the European Central Bank lowered its forecast range for this year's Eurozone GDP growth to just over 2% with risks on the downside. A few days afterwards, the German IFO and HWWA institutes projected German GDP growth to fall even below 1.5% in 2001. Equally worrying, according to the latest Eurostat data, the industrial production in the Eurozone fell in both March and April 2001, and its annual change in April was just 1.6% above the pre-year level.

All these gloomy news may have serious implications for the transition economies, especially for those in Central and Eastern Europe. Estimates suggest that during the second half of the 1990s the elasticity of Central and East European exports with respect to total West European import demand has been very high. With around 70% of exports destined for the EU, these highly open economies may suffer if Western Europe (especially Germany) reduces imports – unless they manage to gain further market shares as a consequence of improved competitiveness. Last year's volume of total West European imports increased by about 10%. Central and East European exports to the EU grew by nearly 20% in volume and by 30% in value. The available evidence suggests that a few countries which have attracted large amounts of outward-oriented FDI have subsequently improved their qualitative competitive position. As a result, they have so far avoided feeling adverse effects of the recent EU growth weakening.

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In addition, many transition countries now report expanding domestic demand, which is thus taking over the growth stimulus from declining net exports. With the notable exception of Poland (and here mainly for domestic reasons), there are no signs of deceleration of GDP growth in Central and Eastern Europe yet – despite somewhat weaker external demand. However, in several countries imports are growing even faster than exports and external balances are deteriorating. Russia, which despite its size is more dependent on exports than Poland, continues to enjoy high revenues from energy exports. However, their direct growth-stimulating effects are diminishing and the Russian GDP growth is clearly slowing down. Nevertheless, the export revenues generated fuel the expansion of private consumption, foreign exchange reserves and the budget surplus.

As of mid-2001, there are hardly any signs that the current global economic slowdown will immediately affect the transition countries' *short-term* growth prospects. Domestic demand is robust, though the growth of industrial production somewhat decelerated during the first months of the year. If there is a noticeable growth slowdown, as in Poland, Russia and Macedonia, then domestic factors are largely to blame. With the sole exception of Romania (Yugoslavia is a special case) inflation is in the single-digit range and mostly declining in Central and Eastern Europe; it has remained at moderate levels in Russia and Ukraine as well. But unemployment in the whole region is stubbornly high, and in several countries even increasing, as are current account deficits. Of course, should Western Europe's growth stay sluggish for some time (or even turn into a recession) then the transition countries, especially those which aspire for EU membership, will eventually suffer as well. And it would perhaps not be their economic growth that would be affected most. The main victim could easily be the *climate for enlargement in the EU*, and this just at a time when accession negotiations are entering their final and most difficult phase.

GDP growth continues, despite slowing industrial production

Last year's GDP in the candidate countries for EU membership increased by nearly 4%, slightly more than in the EU (3.4%). As a result, there was some income catching-up on average – for the first time after three years (1997-1999) of falling behind (see Annex Table A/1 and Figure A/1). Estonia, Latvia, Bulgaria and Hungary achieved the highest economic growth among the candidate countries. But the champions in terms of GDP growth were the energy-rich countries in the CIS: Azerbaijan, Kazakhstan and Russia all grew by more than 8% in the year 2000. Even Ukraine recorded high (6%) GDP growth – for the first time since its independence nearly ten years ago. However, except for Hungary, none of the above-mentioned countries have reached their pre-transition GDP level yet (Table 1). From this point of view, Hungary's, and especially Slovenia's, performance during the last few years has been quite formidable. At just over 4%, Poland's

Table 1: Gross domestic product

real change in % against preceding year

	1994	1995	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002	Index 1990=100 2000
								1st quarter		forecast		
Czech Republic	2.2	5.9	4.3	-0.8	-1.2	-0.4	2.9	3.2	3.8	3.5	3.5	99.9
Hungary	2.9	1.5	1.3	4.6	4.9	4.2	5.2	6.5	4.4	4.8	5	108.0
Poland	5.2	7.0	6.0	6.8	4.8	4.1	4.0	5.9	2.3	2	4	143.1
Slovak Republic	4.9	6.7	6.2	6.2	4.1	1.9	2.2	1.5	3.0	3	4	105.3
Slovenia	5.3	4.1	3.5	4.6	3.8	5.2	4.6	6.2	3.2	4	4.5	120.1
CEEC-5 2)	4.1	5.7	4.7	4.5	3.3	2.9	3.8	5.0	3.1	3.0	4.1	121.7
Bulgaria	1.8	2.9	-10.1	-7.0	3.5	2.4	5.8	4.8	.	4	4	79.2
Romania	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.6	0.9	4.8	4	2	81.5
CEEC-7 2)	3.9	5.8	3.7	1.8	1.6	1.7	3.5	4.2	.	3.3	3.7	110.2
Estonia	-2.0	4.3	3.9	10.6	4.7	-1.1	6.4	5.2	5.1	5.5	5.5	87.3
Latvia	0.6	-0.8	3.3	8.6	3.9	1.1	6.6	5.3	8.2	6	4	62.2
Lithuania	-9.8	3.3	4.7	7.3	5.1	-3.9	3.3	4.1	2.8	3.5	3.5	67.9
Croatia	5.9	6.8	5.9	6.8	2.5	-0.4	3.7	3.7	4.2	3	3	86.8
Macedonia	-1.8	-1.1	1.2	1.4	2.9	2.7	5.1	.	.	0	5	97.2
Yugoslavia 3)	2.5	6.1	5.9	7.4	2.5	-17.7	7.0	.	.	5	5	49.3
Russia	-12.7	-4.1	-3.4	0.9	-4.9	5.4	8.3	9.0	4.4	5	4	65.7
Ukraine	-22.9	-12.2	-10.0	-3.0	-1.9	-0.4	6.0	5.6	7.7	4	6	43.2
Armenia	5.4	6.9	5.9	3.3	7.3	3.3	6.1	0.3	10.0	3	4	67.9
Azerbaijan	-19.7	-11.8	1.3	5.8	10.0	7.4	11.4	6.5	8.0	8	6	59.0
Belarus	-12.6	-10.4	2.8	11.4	8.4	3.4	6.0	6.0	1.0	3	3	87.9
Georgia	-10.4	2.6	11.2	10.7	2.9	3.0	1.9	4.4	1.9	2	3	37.6
Kazakhstan	-12.6	-8.2	0.5	1.7	-1.9	2.7	9.6	9.1	11.0	6	5	69.3
Kyrgyzstan	-20.1	-5.4	7.1	9.9	2.1	3.7	5.1	1.0	5.6	4	4	66.3
Moldova	-30.9	-1.9	-5.9	1.6	-6.5	-3.4	1.9	.	.	2	3	34.5
Tajikistan	-21.3	-12.4	-16.7	1.7	5.3	3.7	8.3	3.8	7.6	4	4	57.8
Turkmenistan	-16.7	-7.7	0.1	.	.	.	.	.	.	.	.	.
Uzbekistan	-5.2	-0.9	1.7	5.2	4.4	4.4	4.0	3.0	4.0	2	3	98.5
CIS	-14.2	-5.3	-3.2	1.0	-3.6	3.2	8.0	.	.	.	.	62.4

Notes: 1) Preliminary. - 2) WIIW estimate. - 3) Gross Material Product.

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

GDP growth during the last two years has been disappointingly low compared to its performance in the past, whereas the Czech Republic, Romania, and partly also Slovakia, have just recovered from a recession or stagnation.

Very preliminary GDP data for the first quarter of 2001 suggest a continuation of growth in all EU candidate countries. In view of structural adjustments outlined below, WIIW forecasts for 2001 and 2002 take account of this trend and expect candidate countries' GDP to expand nearly at the same speed as in the year 2000. Assuming no prolonged slump in the EU, the recovery in the Czech Republic, Slovakia and Romania may even strengthen. In this respect, the main exception among the candidate countries is Poland where we stick to our previous forecast of a substantial (but temporary) growth slowdown in 2001. But this results mainly from the domestic monetary policy of high interest rates that represses domestic demand and, via currency appreciation, will eventually hurt exports as

Table 2: Gross industrial production

real change in % against preceding year

	1994	1995	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002	Index 1989=100 2000
								1st quarter		forecast		
Czech Republic	2.1	8.7	2.0	4.5	1.6	-3.1	5.1	4.8	10.0	6	6	81.3
Hungary	9.6	4.6	3.4	11.1	12.5	10.4	18.3	20.7	10.2	13	13	136.1
Poland 2)	12.1	9.7	8.3	11.5	3.5	4.8	4.3	10.7	4.1	4	5	128.1
Slovak Republic	4.8	8.3	2.5	2.7	5.0	-3.6	9.1	7.9	5.2	7	7	89.0
Slovenia	6.4	2.0	1.0	1.0	3.7	-0.5	6.2	7.2	4.7	4	4	80.3
CEEC-5 3)	8.2	8.2	5.1	8.3	4.4	2.5	7.0	10.1	6.6	6.1	6.5	110.3
Bulgaria	10.6	4.5	5.1	-5.4	-7.9	-9.3	5.8	5.2	2.5	4	4	49.6
Romania	3.3	9.4	6.3	-7.2	-13.8	-8.0	8.2	2.3	13.0	5	2	47.3
CEEC-7 3)	7.2	8.3	5.4	4.0	-0.4	-0.5	7.2	8.1	7.9	5.7	5.3	88.3
Croatia 4)	-2.7	0.3	3.1	6.8	3.7	-1.4	1.7	3.7	5.5	4	3	56.9
Macedonia 5)	-10.5	-10.7	3.2	1.6	4.5	-2.6	3.5	10.3	-8.7	-3	3	47.4
Yugoslavia 5)	1.3	3.8	7.6	9.5	3.6	-23.1	12.2	-5.3	-0.7	0	5	39.0
Russia	-20.9	-3.3	-4.0	1.9	-5.2	11.0	11.9	14.3	5.2	5	4	57.1
Ukraine	-27.3	-12.0	-5.2	-0.3	-1.0	4.0	12.9	9.7	17.4	8	7	57.6

Notes: 1) Preliminary. - 2) Sales. - 3) WIIW estimate. - 4) Enterprises with more than 20 employees. - 5) Excluding small enterprises.

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

Figure 3a: Industrial production

(annual change in %, three-month moving average)

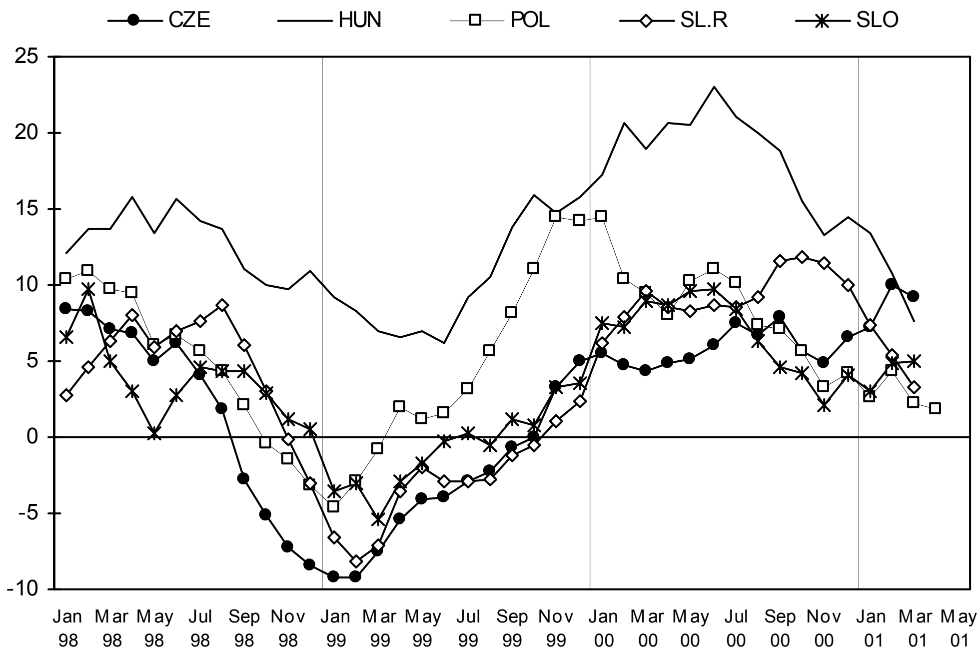

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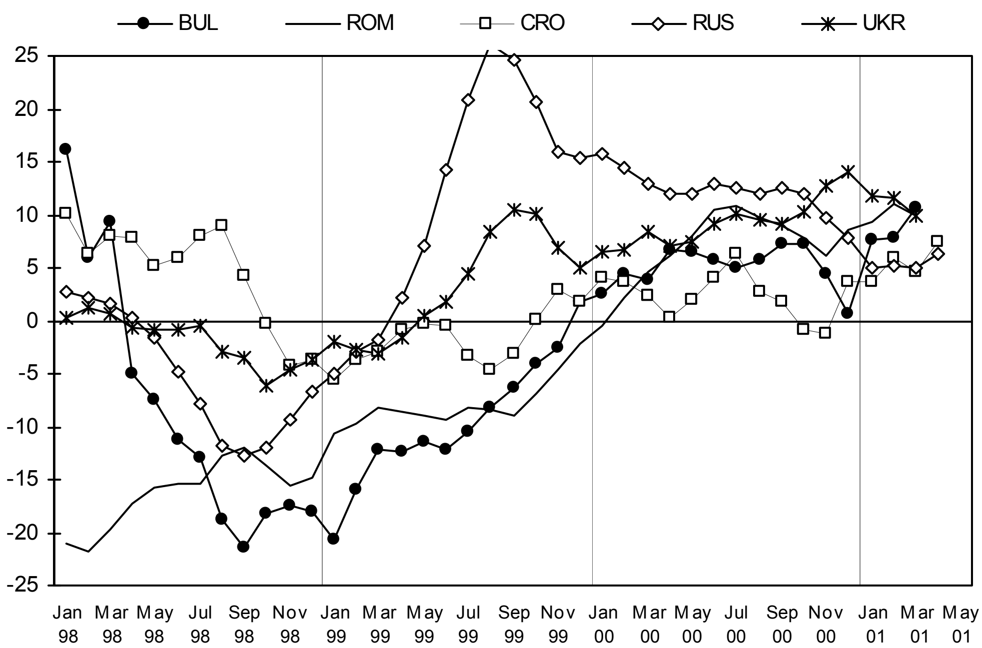
Figure 3b: Industrial production

(annual change in %, three-month moving average)



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well. In other countries, covered in detail in the second part of this report, the available evidence suggests that domestic demand components are expanding, in some cases replacing previously dominant external growth factors. The latter is partly true also for Russia where last year's record increase of GDP (by more than 8%) cannot be sustained. Despite export revenues staying at a high level, diminishing net exports will reduce real GDP growth as imports pick up with rising private consumption and an appreciating currency. The potential effects of the current reform efforts will show up in 2003 at the earliest.

Rapidly increasing industrial production, mainly driven by booming exports, was a major contributor to the growth of transition economies during the previous year. Industrial output expanded by around 7% in Central and Eastern Europe with Hungary being again the best performer (Table 2). In Russia and Ukraine industry grew by around 12%. In both countries import substitution effects played a major role. Developments during the first months of 2001 have been mixed: Hungary, Poland, Bulgaria, Macedonia and Russia report pronounced growth slowdowns whereas in the Czech Republic, Croatia, Romania and Ukraine industrial growth accelerated markedly (Table 2, Figures 3a and 3b). But in sum we expect only a slight weakening of industrial growth in Central and Eastern Europe in both 2001 and 2002; lower growth is forecast only for Russia and Ukraine (though in the latter country industry was buoyant in the first months of 2001).

In nearly all transition countries, the growth of industrial output has recently been associated with remarkable improvements in labour productivity. During the year 2000, labour productivity in industry increased by impressive two-digit annual rates not only in Hungary and Poland, but (after rather poor performance in the previous three years) also in the Czech Republic, Slovakia, Bulgaria, Romania and in Ukraine. Nearly 13% productivity growth is reported in Russia as well (Table 3). As a rule, productivity improvements went together with declining employment as companies continue to restructure and shed redundant labour. Only in Hungary has the number of industrial jobs modestly increased since 1998 – an indication that foreign investments have borne fruit.

On the whole, unemployment in the transition countries remains stubbornly high. Despite robust economic growth, registered unemployment further increased during the last year in Central and Eastern Europe. The average rate of unemployment in the region reached 13% at the end of 2000 (Table 4), much higher than the average in the EU (8%). With unemployment rates close to 20%, the labour market situation is highly critical in Poland, Slovakia, Bulgaria, and especially in other Balkan states where about one third of the labour force is registered as unemployed. Besides, the concentration of unemployment in periphery eastern regions,[1] and the frequent occurrence of youth, minorities and long-term

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[1] R. Römisch, 'Regional economic developments in CEECs', *The Vienna Institute Monthly Report*, no. 4, 2001.

Table 3: Labour productivity in industry

change in % against preceding year

	1994	1995	1996	1997	1998	1999	2000 [1]	2000	2001	Index 1989=100 2000
								1st quarter		
Czech Republic [2]	5.1	10.6	8.6	9.2	4.7	2.2	8.0	10.2	7.7	131.2
Hungary [3]	15.7	10.2	9.4	13.7	11.9	10.5	16.7	18.8	9.4	220.2
Poland [4]	13.0	6.3	9.1	11.2	4.7	13.0	12.2	17.8	9.3	187.5
Slovak Republic	7.2	4.0	2.5	4.8	9.1	-0.7	12.6	13.9	4.8	122.7
Slovenia	13.2	6.3	9.2	4.4	5.4	3.1	8.4	11.0	4.4	151.5
Bulgaria [5]	16.2	7.4	7.0	-2.8	-3.8	0.8	16.4	23.5	7.3	118.9
Romania	14.7	13.7	7.5	-1.8	-7.4	7.1	14.7	13.1	18	101.2
Croatia [6]	3.0	6.6	11.3	11.9	8.7	3.9	4.3	6.7	9.3	130.5
Macedonia [7]	-6.5	1.2	29.8	8.3	14.8	6.4	.	.	.	103.2 [8]
Yugoslavia [7]	2.1	8.3	9.6	12.3	6.3	-19.1	25	.	.	62.5
Russia	-14.4	5.4	2.9	8.6	0.8	9.7	12.5	.	.	92.7
Ukraine	-20.9	-4.2	3.0	8.2	2.2	9.6	16.3	.	.	101.8

Notes: Preliminary. - 2) In 1994 enterprises with 25 and more employees, in 1995 and 1996 with 100 and more, from 1997 with 20 and more. - 3) In 1994 enterprises with more than 20, from 1995 with more than 10, from 1999 more than 5 employees. - 4) Quarterly data refer to enterprises with more than 9 employees. - 5) Up to 1996 public sector only. - 6) Enterprises with more than 20 employees. - 7) Excluding small enterprises. - 8) 1999 in comparison to 1989.

Source: WIIW Database incorporating national statistics.

Table 4: Registered unemployment, end of period

	in 1000 persons				rate in %					
	1998	1999	2000	2001	1998	1999	2000	2001	2001	2002
				March				March	forecast	
Czech Republic	386.9	487.6	457.4	451.5	7.5	9.4	8.8	8.7	9.4	9.8
Hungary [1)2)]	313.0	284.7	262.5	245.6	7.8	7.0	6.4	6.0	5.9	5.9
Poland	1831.4	2349.8	2702.6	2898.7	10.4	13.0	15.0	15.9	16.5	17.5
Slovak Republic	428.2	535.2	506.5	545.3	15.6	19.2	17.9	19.2	18	17
Slovenia	126.6	114.3	104.6	103.6	14.6	13.0	12.0	11.8	11	10.5
CEEC-5 [3]	3086.2	3771.7	4033.5	4244.7	10.4	12.5	13.3	14.0	14.1	14.6
Bulgaria	465.2	610.6	682.8	704.7	12.2	16.0	17.9	18.4	18	17
Romania	1025.1	1130.3	1007.1	992.8	10.4	11.8	10.5	10.4	10	11
CEEC-7 [3]	4576.4	5512.5	5723.5	5942.2	10.5	12.6	13.1	13.6	13.5	14.0
Croatia	302.7	341.7	378.5	388.7	18.1	20.4	22.3	22.9	23	23
Macedonia [1)4)]	284.1	261.5	261.7	.	34.5	32.4	32.2	.	32	32
Yugoslavia	849.4	774.0	812.4	847.0	25.4	25.5	26.8	28.2	30	32
Russia [1]	9728.0	8904.0	6950.0	6850.0	13.3	12.2	9.6	9.5	9	10
Ukraine	1003.2	1174.5	1188.0	1182.8	3.7	4.3	4.2	4.2	5	6

Notes: 1) Based on Labour Force Survey data. - 2) Period average. - 3) Unemployment rate estimate by WIIW taking into consideration Hungarian registration data. - 4) April of respective year.

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

unemployment (in Poland, Slovakia, Bulgaria and Romania) is a major social and political problem. In most countries, there is little hope for improvement since the economic restructuring is not yet completed and efficiency reserves in the economy are still great.

An encouraging sign, at least in the more advanced candidate countries, is that industry has been able to recover some of its previous position thanks to active restructuring and privatization efforts, fostered especially by inflows of FDI. Nevertheless, employment declined on the whole more than output and more than five million manufacturing jobs were lost in the region during the last decade. But there have been considerable structural changes behind these overall developments. Firstly, production specialization has markedly increased in nearly all candidate countries. The top five two-digit branches now account for between 60% and more than 70% of manufacturing output. The structure of manufacturing industry in the majority of candidate countries is now fairly close to the West European pattern both in terms of production and employment structures (exceptions are Bulgaria, Romania and the Baltic states). In Russia, on the other hand, industry has been more and more dominated by energy and metal processing, though selected sectors of domestically oriented manufacturing have recovered since the financial crisis in August 1998 as well. The same recovery pattern is true for the food processing and consumer goods industry in the Ukraine, but here the share of energy and metals is over 60%.

Compared to the initial phase of transition, we can now detect the emergence of a new pattern of productivity winner and loser manufacturing branches – often quite opposite to that observed in the initial period of passive restructuring during the early 1990s.[2] Looking at the relative labour productivity changes in the period 1993-1999 by individual branch (relative to the manufacturing industry average), one can clearly distinguish two groups of industries in the candidate countries (Figure 4). Roughly speaking, among the winners (branches with above-average productivity gains during the period 1993-1999) are in most cases only two industries: electrical and optical equipment (DL) and transport equipment (DM) as well as (less clearly) other manufacturing (DN) which in these countries comprises mainly furniture. In the Baltic states (and in the Czech Republic), the winners are also rubber and plastics (DH), other non-metallic mineral products (DI), and basic metals and fabricated metal products (DJ). Manufacturing of electrical, optical and transport equipment (DL, DM) has been a clear productivity winner in nearly all candidate countries. In Hungary, productivity in these branches was growing by more than 30% per year during 1993-1999, and in the Czech Republic, Poland, Romania and Slovakia at double-digit annual rates as well.

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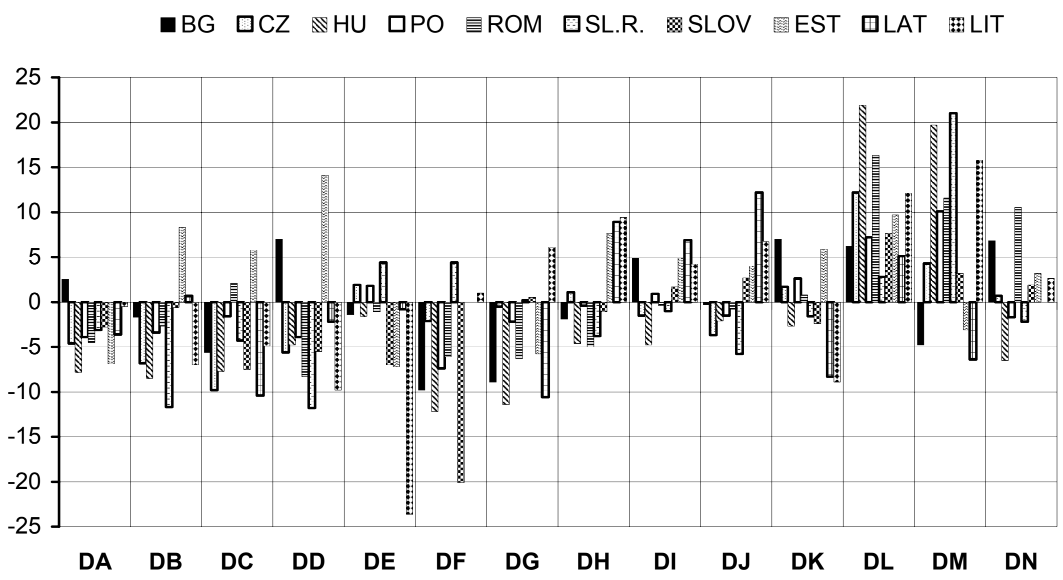
2 However, data for the initial transition period are incomplete and less reliable.

Figure 4: Relative productivity gains of manufacturing industry branches

annual averages in percentage points, 1993-99, compared to total manufacturing



Note: see text for the NACE codes of industry.

Source: own calculations based on WIIW Industrial Database.

On the other hand, the loser branches in terms of relative productivity gains are frequently food, beverages and tobacco (DA), textiles (DB), leather (DC), wood products (DD), coke and refined petroleum (DF) and chemicals (DG) – see Figure 4. In some cases, labour productivity in these branches even declined in absolute terms. Apart from the majority of manufacturing in Bulgaria and Lithuania, this happened e.g. in the leather industry (DC) in the Czech Republic and in Slovenia, and in the wood industry (DD) in Romania and Slovakia. In general, there is clear evidence that the more sophisticated manufacturing sectors (electrical, optical and transport equipment, which attracted large amounts of FDI, being among the most prominent examples) have strongly improved their productivity performance and competitiveness recently while the initial success of some traditional sectors (such as food and beverages, rubber and plastics and non-metallic minerals) has evaporated in the more recent period of transition.[3] The winners' productivity gains translate into remarkable cost advantages, the latter are enjoyed especially by foreign investment enterprises. These improvements are clearly visible also in changes in the

3 A more detailed analysis can be found in the recently completed WIIW study on candidate countries' industrial competitiveness – see http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/studies.htm.

structure of exports, as well as in quality improvements indicated by declining export price gaps.[4]

Table 5: Gross fixed capital formation

real change in % against preceding year

	1994	1995	1996	1997	1998	1999	2000 1)	2000 1st quarter	2001 1st quarter	2001 forecast	2002 forecast	Index 1989=100 2000 1)
Czech Republic	9.0	19.9	8.2	-3.0	0.1	-0.6	4.2	2.7	7.3	6	6	110.1
Hungary	12.5	-4.3	6.7	9.2	13.3	5.5	6.6	7.0	5.3	8	9	132.1
Poland	9.2	16.5	19.7	21.7	14.2	6.8	3.1	5.6	1.5	2	3	209.5
Slovak Republic	-5.0	5.3	32.0	12.0	11.1	-18.8	-0.7	0.5	16.2	10	12	94.0
Slovenia	14.1	16.8	8.9	11.6	11.3	19.1	0.2	9.3.	-3.8	5	5.5	168.9
Bulgaria	1.1	16.1	-21.2	-23.9	32.9	25.3	8.2	.	.	.	.	63.4
Romania 2)	26.4	10.7	3.1	-5.4	-18.6	-12.3	5.0	-2.6	4.7	5	0	50.3
Croatia	.	.	37.6	26.4	2.5	-1.1	-3.5	-4.4	11.6	6	5	.
Macedonia	-8.6	10.2	6.5	-4.3	1.6	1.2	.	.	.	.	.	65.8 3)
Yugoslavia 2)	-12.0	-3.7	-5.7	0.8	-2.2	.	.	.	.	.	.	23.5 4)
Russia 2)	-24.0	-10.0	-18.0	-5.0	-12.0	5.3	17.4	13.5	6.7	6	8	26.2
Ukraine 2)	-22.5	-35.1	-22.0	-8.8	6.1	0.4	11.2	26.1	23.7	15	10	22.7

Notes: 1) Preliminary. - 2) Gross fixed investment. - 3) 1999 in comparison to 1989. - 4) 1998 in comparison to 1989.
Source: WIIW Database incorporating national statistics, forecast: WIIW.

Private consumption and investment as growth stabilizers

Last year's growth of private consumption was generally modest. Judged by proxy indicators such as wages and the retail trade turnover (in the absence of detailed national accounts data), households' consumption expanded below the rate of GDP growth in most countries. Average real wages increased at a somewhat higher rate than GDP only in Bulgaria, Croatia and especially in Russia where private consumption grew by nearly 10%. But since employment either stagnated or even declined (except Russia), total wage incomes hardly grew at all. The expansion of retail trade turnover has not been very impressive either (except in Slovenia, Croatia and Russia). But the growth of both wages and retail sales accelerated in the first quarter of 2001 (except Poland) and the general expectation, partly also due to political factors (e.g. upcoming elections in Hungary and Slovakia), is that this trend will either continue or even strengthen in the course of the

[4] P. Havlik, 'Trade specialization of CEECs', *The Vienna Institute Monthly Report*, no. 3, 2001; M. Landesmann and R. Stehrer, 'Product quality of CEE exports to the EU', *The Vienna Institute Monthly Report*, no. 5, 2001.

current year. Besides, signs of some relaxation of fiscal policies have been observed already during last year in Bulgaria, the Czech Republic, Slovenia and Romania as well.

Nevertheless, the main growth impetus is now coming from expanding investments. In several countries, investment growth was robust already during last year (except Slovakia, Slovenia and Croatia). Investment growth was particularly strong in Russia and Ukraine (Table 5). Scattered evidence suggests that vivid investment activity has continued during 2001, albeit at a lower speed in Russia and Poland. Production will increase as the new modern capacities will come on stream – provided there is sufficient demand. Another encouraging sign has been the accelerating inflow of foreign direct investment (FDI) into the region. During the year 2000, FDI inflow in the candidate countries amounted to nearly USD 14 billion (after USD 11 billion in 1999) and is expected to accelerate to USD 18 billion in 2001. The total FDI stock will thus reach almost USD 115 billion at the end of the year (Table 6). About 40% of FDI went into the manufacturing industry, other target sectors are banking, telecommunications and retail trade.[5] Estonia, Hungary, and recently also the Czech Republic have been the most favourite FDI destinations, although several other countries (Bulgaria, Croatia and the Slovak Republic) have been catching up as well.

Although FDIs are in general certainly no panacea – they are usually rather import-intensive and may contribute to a worsening current account,[6] the phenomenon of accelerated investments (and of FDI inflows in particular), together with their definitely positive effects on restructuring and competitiveness, is one of the main reasons why we are relatively optimistic as far as the current growth prospects of Central and East European countries are concerned. There is mounting evidence that enterprises with foreign investment are superior in terms of productivity, export performance and costs.[7]

The labour cost advantages of transition countries are generally well-known, even average unit labour costs are usually less than half of those in Western Europe (Figure 5 and Annex Table A/2). But in successfully restructured sectors where foreign investors not only improve productivity but also provide access to Western markets, the cost advantages are even greater than average – and growing. Due to the impact of foreign investment enterprises, efficiency considerations of multinational companies may even compensate

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5 More detailed FDI data can be found in *WIIW-WIFO Database – Foreign direct investment in Central and East European countries and the former Soviet Union*, July 2001.

6 For a more detailed discussion see G. Hunya, 'Impact of FDI on economic growth and restructuring', paper presented at the WIIW Spring Seminar, March 2001; 'Economic Growth and Foreign Direct Investment in the Transition Economies', *Economic Survey of Europe*, Spring 2001, UN ECE, Geneva.

7 G. Hunya, 'International Competitiveness Impacts of FDI in CEECs', *WIIW Research Reports*, no. 268, August 2000; G. Hunya, 'Uneven competitiveness of industries in the wake of foreign penetration of advanced transition economies', forthcoming in *Transnational Corporations*, no. 2, 2001; P. Havlik, 'Patterns of Productivity Catching Up and Export Specialization in Candidate Countries' Manufacturing', paper submitted for the 5th Annual EUNIP Conference, Vienna, forthcoming.

the effects of weaker global demand. In the Czech Republic and Hungary, for example, industrial export sales grew by 20% in the first quarter of 2001 – twice as much as the average production increase during the period – and order books are full.

Table 6: Foreign direct investment stocks

USD million

	1993	1994	1995	1996	1997	1998	1999	2000	2001 estimate	2001 per capita USD
Czech Republic	3423	4547	7350	8572	9234	14375	17552	21095	25000	2440
Hungary	5585	7095	11926	14961	16086	18517	19299	19863	22000	2200
Poland	2307	3789	7843	11463	14587	22479	26075	32000	39000	1010
Slovak Republic	.	897	1268	2000	2025	2787	2817	3700	5500	1020
Slovenia	954	1326	1763	2063	2448	2904	2684	3000	3000	1510
Total (5)	.	17654	30151	39059	44379	61062	68427	79659	94500	1430
Bulgaria	141	247	337	446	951	1488	2307	3309	4000	490
Romania	211	552	971	1234	2449	4480	5521	6519	7500	330
Total (7)	.	18453	31459	40739	47779	67031	76255	89486	106000	1090
Estonia	239	495	737	838	1148	1822	2467	2645	3600	2670
Latvia	75	309	616	936	1272	1558	1795	2081	2300	980
Lithuania	153	310	352	700	1041	1625	2063	2334	2700	730
Total (10)	.	19566	33163	43214	51239	72035	82581	96546	114600	1100
Croatia	120	238	352	865	1407	2350	3840	4755	5500	1220
Macedonia	.	19	28	40	55	173	205	374	400	200
Yugoslavia	.	.	.	.	740	853	965	965	1100	130
Russia	1211	1901	3966	6545	11410	14172	17481	20185	23000	160
Ukraine	370	529	796	1317	1940	2683	3179	3774	4500	90
Total	.	22253	38305	51981	66791	92366	108441	126910	149500	470

Source: WIIW-WIFO Database – Foreign direct investment in Central and East European countries and the former Soviet Union.

Figure 5: International comparison of unit labour costs (ULCs)

Wages in EUR, PPP adjusted productivity (Austria = 100)

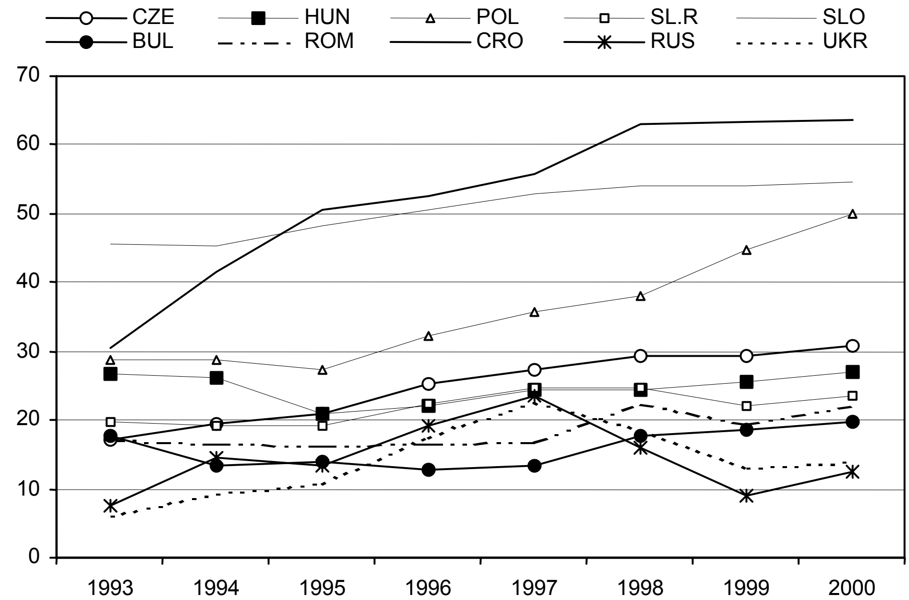

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Figure 6: Exchange rate deviation indexes

(ERDI = ER/PPP, national currency per ECU)

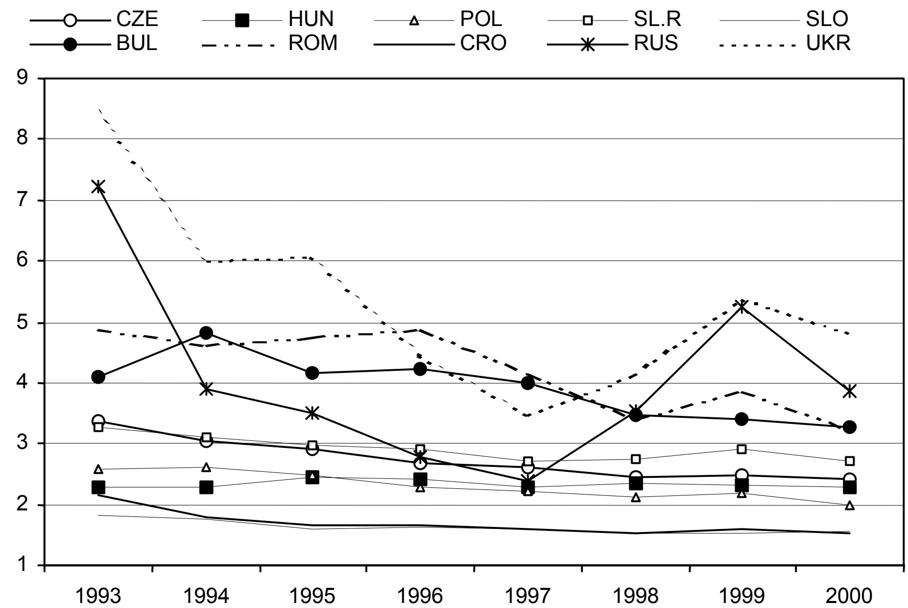

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Table 7: Selected indicators of macro-competitiveness, 1993-2000

annual changes in %

	1993	1995	1996	1997	1998	1999	2000 prelim.	1995-2000 annual average
Czech Republic								
GDP deflator	21.0	10.2	8.8	8.0	10.6	3.1	4.0	6.9
Exchange rate (ER), CZK/ECU	-6.9	0.7	-0.9	5.3	1.0	2.0	-3.4	0.7
Real ER (CPI-based)	-20.1	-4.8	-6.6	-1.1	-7.1	1.1	-4.8	-3.7
Real ER (PPI-based)	-13.5	-2.2	-4.7	1.2	-4.1	1.0	-3.5	-2.1
Average gross wages, CZK	25.3	18.5	18.4	10.5	9.4	8.2	6.6	10.5
Average gross wages, real (PPI based)	14.7	10.2	13.1	5.3	4.3	7.1	1.6	6.2
Average gross wages, real (CPI based)	3.7	8.6	8.8	1.8	-1.2	6.0	2.6	3.6
Average gross wages, ECU (ER)	34.5	17.7	19.4	5.0	8.3	6.1	10.4	9.7
Employment total	-1.6	2.6	0.7	-1.9	-1.6	-3.6	-2.3	-1.8
GDP per empl. person, CZK at 1996 pr.	1.7	3.3	3.6	1.2	0.4	3.3	2.1	2.1
Unit labour costs, CZK at 1996 prices	23.1	14.8	14.3	9.1	8.9	4.7	4.4	8.2
Unit labour costs, ER (ECU) adjusted	32.2	13.9	15.3	3.7	7.8	2.7	8.1	7.4
Hungary								
GDP deflator	21.3	25.5	21.2	18.5	12.6	8.4	7.4	13.5
Exchange rate (ER), HUF/ECU	5.3	30.3	17.5	10.3	14.2	4.9	2.9	9.8
Real ER (CPI-based)	-11.0	4.8	-2.5	-4.9	1.8	-3.5	-4.0	-2.6
Real ER (PPI-based)	-3.7	5.7	-2.8	-7.5	2.2	-0.2	-3.5	-2.4
Average gross wages, HUF	21.9	16.8	20.4	22.3	18.3	13.9	13.5	17.6
Average gross wages, real (PPI based)	10.0	-9.4	-1.1	1.6	6.3	8.4	1.7	3.3
Average gross wages, real (CPI based)	-0.5	-8.9	-2.6	3.4	3.5	3.6	3.4	2.2
Average gross wages, ECU (ER)	15.8	-10.4	2.5	10.8	3.6	8.6	10.4	7.1
Employment total	-6.3	-1.9	-0.8	0.0	1.4	3.1	1.0	0.9
GDP per empl. person, HUF at 1996	6.0	4.5	2.2	4.6	3.4	1.1	4.2	3.1
Unit labour costs, HUF at 1996 prices	15.0	11.7	17.8	16.9	14.4	12.7	9.0	14.1
Unit labour costs, ER (ECU) adjusted	9.2	-14.3	0.3	5.9	0.1	7.4	5.9	3.9
Poland								
GDP deflator	30.5	28.6	18.8	14.0	11.8	6.7	7.2	11.6
Exchange rate (ER), PLN/ECU	19.9	16.3	7.7	9.7	5.9	7.7	-5.1	5.1
Real ER (CPI-based)	-8.2	-6.2	-7.9	-2.6	-3.6	1.6	-11.7	-4.9
Real ER (PPI-based)	-7.9	-3.1	-3.5	-1.3	-1.7	1.9	-7.8	-2.5
Average gross wages, PLN	34.8	31.6	26.5	21.9	15.7	37.7	13.0	22.6
Average gross wages, real (PPI based)	2.1	4.9	12.6	8.6	7.8	30.3	4.8	12.5
Average gross wages, real (CPI based)	-0.4	3.0	5.5	6.1	3.5	28.3	2.6	8.8
Average gross wages, ECU (ER)	12.4	13.2	17.4	11.1	9.2	27.8	19.0	16.7
Employment total	-2.4	1.8	1.9	2.8	2.3	-2.7	-1.8	0.5
GDP per empl. person, PLN at 1996 pr.	6.3	11.8	4.0	3.9	2.4	7.0	5.9	4.6
Unit labour costs, PLN at 1996 prices	26.7	17.7	21.7	17.3	13.0	28.6	6.7	17.2
Unit labour costs, ER (ECU) adjusted	5.7	1.2	12.9	6.9	6.7	19.4	12.4	11.6
Slovak Republic								
GDP deflator	15.4	9.7	4.5	6.6	5.1	6.6	6.5	5.9
Exchange rate (ER), SKK/ECU	-1.8	1.4	-0.1	-1.0	4.2	11.4	-3.5	2.1
Real ER (CPI-based)	-17.4	-4.9	-3.2	-4.8	-0.6	2.0	-11.7	-3.8
Real ER (PPI-based)	-15.0	-2.8	-3.5	-4.4	0.4	7.3	-7.9	-1.7
Average gross wages, SKK	18.4	14.3	13.3	13.1	8.4	7.2	6.5	9.7
Average gross wages, real (PPI based)	1.0	4.9	8.8	8.3	5.0	3.3	-3.0	4.4
Average gross wages, real (CPI based)	-3.9	4.0	7.1	6.6	1.6	-3.0	-4.9	1.4
Average gross wages, ECU (ER)	20.6	12.8	13.5	14.3	4.1	-3.7	10.4	7.5
Employment total	-2.6	1.7	3.6	-0.9	-0.3	-3.0	-1.4	-0.4
GDP per empl. person, SKK at 1996 pr.	-1.2	4.9	2.5	7.1	4.5	5.1	3.6	4.5
Unit labour costs, SKK at 1996 prices	19.8	8.9	10.6	5.6	3.8	2.1	2.8	4.9
Unit labour costs, ER (ECU) adjusted	22.0	7.5	10.7	6.7	-0.4	-8.4	6.5	2.8
Slovenia								
GDP deflator	37.1	15.2	11.1	8.8	7.8	6.6	5.7	8.0
Exchange rate (ER), SIT/ECU	26.0	0.5	10.7	6.4	3.3	4.0	5.9	6.0
Real ER (CPI-based)	-1.8	-8.7	3.3	0.1	-2.6	-0.8	-0.3	-0.1
Real ER (PPI-based)	5.0	-6.9	4.4	1.2	-3.0	1.8	3.1	1.5
Average gross wages, SIT	47.8	18.4	15.3	11.7	9.6	9.6	10.6	11.3
Average gross wages, real (PPI based)	21.5	4.9	8.0	5.3	3.4	7.3	2.8	5.3
Average gross wages, real (CPI based)	11.2	4.3	4.9	3.1	1.6	3.3	1.6	2.9
Average gross wages, ECU (ER)	17.3	17.8	4.1	5.0	6.1	5.4	4.5	5.0
Employment total	-3.6	-0.1	-0.5	0.2	0.2	1.8	1.3	0.6
GDP per empl. person, SIT at 1996 pr.	6.7	4.2	4.0	4.4	3.5	3.4	3.3	3.7
Unit labour costs, SIT at 1996 prices	38.5	13.5	10.9	7.1	5.8	6.0	7.1	7.4
Unit labour costs, ER (ECU) adjusted	10.0	13.0	0.1	0.6	2.5	2.0	1.2	1.3

(Table 7 contd.)

Table 7 (contd.)

	1993	1995	1996	1997	1998	1999	2000 prelim.	1995-2000 annual average
Bulgaria								
GDP deflator	51.1	62.7	121.0	949.0	22.2	3.1	5.7	98.6
Exchange rate (ER), BGN/ECU	7.1	34.4	120.7	889.2	4.0	-0.8	0.0	86.4
Real ER (CPI-based)	-35.8	-14.5	2.1	-12.9	-10.8	-2.2	-7.1	-6.3
Real ER (PPI-based)	-15.4	-8.4	-3.4	-6.8	-11.1	-3.8	-10.6	-7.2
Average gross wages, BGN	57.8	53.2	74.4	865.6	43.3	9.7	18.4	99.2
Average gross wages, real (PPI based)	23.0	-0.2	-24.2	-9.9	22.9	6.4	1.0	-2.0
Average gross wages, real (CPI based)	-8.7	-5.5	-21.3	-16.6	20.7	6.9	7.3	-1.9
Average gross wages, ECU (ER)	47.4	13.9	-21.0	-2.4	37.7	10.6	18.4	6.8
Employment total	-1.6	1.3	0.1	-3.9	-0.2	-2.1	-4.7	-2.2
GDP per empl. person, BGN at 1996 pr.	0.1	1.6	-10.2	-3.2	3.7	4.5	10.9	0.9
Unit labour costs, BGN at 1996 prices	57.7	50.7	94.2	897.9	38.2	4.9	6.8	97.4
Unit labour costs, ER (ECU) adjusted	47.3	12.1	-12.0	0.9	32.8	5.8	6.8	5.9
Romania								
GDP deflator	227.4	35.3	45.3	147.3	53.9	46.4	50.3	64.8
Exchange rate (ER), ROL/ECU	121.5	33.6	46.9	109.5	23.5	63.1	22.5	50.0
Real ER (CPI-based)	-35.6	4.2	8.5	-16.1	-21.0	13.2	-13.8	-6.9
Real ER (PPI-based)	-15.2	3.4	-1.3	-16.4	-7.7	14.7	-16.3	-6.1
Average gross wages, ROL	208.1	54.8	51.7	98.4	60.3	44.3	46.9	59.2
Average gross wages, real (PPI based)	16.3	14.6	1.2	-21.5	20.4	1.4	-4.2	-1.4
Average gross wages, real (CPI based)	-13.5	17.1	9.3	-22.1	0.8	-1.1	0.8	-3.1
Average gross wages, ECU (ER)	39.1	15.8	3.2	-5.3	29.9	-11.6	20.0	6.1
Employment total	-3.4	-2.8	-3.2	-2.5	-3.1	-3.0	-2.9	-2.9
GDP per empl. person, ROL at 1996	5.1	10.3	7.4	-3.7	-2.4	-0.2	4.6	1.0
Unit labour costs, ROL at 1996 prices	193.2	40.4	41.2	106.1	64.3	44.6	40.5	57.6
Unit labour costs, ER (ECU) adjusted	32.4	5.1	-3.9	-1.6	33.1	-11.4	14.7	5.1
Estonia								
GDP deflator	80.5	31.9	24.0	8.9	8.8	3.9	5.3	10.0
Exchange rate (ER), EEK/ECU	-1.0	-2.7	1.7	3.2	0.1	-0.6	-0.1	0.9
Real ER (CPI-based)	-45.9	-22.3	-15.3	-5.3	-5.8	-2.6	-1.5	-6.3
Real ER (PPI-based)	-42.7	-19.1	-10.8	-4.3	-4.3	0.6	-0.2	-3.9
Average gross wages, EEK	94.2	37.0	25.7	19.7	15.4	7.6	9.8	15.5
Average gross wages, real (PPI based)	10.8	9.0	9.5	10.0	10.8	8.9	4.7	8.8
Average gross wages, real (CPI based)	2.3	6.2	2.1	7.6	6.7	4.2	5.6	5.2
Average gross wages, ECU (ER)	96.1	40.8	23.6	16.0	15.4	8.3	9.9	14.5
Employment total	-7.5	-5.3	-1.6	0.4	-1.3	-4.1	-0.9	-1.5
GDP per empl. person, EEK at 1996 pr.	-1.6	9.9	5.6	12.1	6.1	3.1	7.4	6.8
Unit labour costs, EEK at 1996 prices	97.3	24.6	19.0	6.7	8.8	4.4	2.3	8.1
Unit labour costs, ER (ECU) adjusted	99.3	28.1	17.0	3.4	8.7	5.1	2.4	7.2
Latvia								
GDP deflator	71.6	15.9	16.6	6.6	5.5	7.4	4.3	8.0
Exchange rate (ER), LVL/ECU	-8.7	2.9	1.2	-4.7	0.6	-5.7	-10.2	-3.9
Real ER (CPI-based)	-54.8	-15.1	-11.8	-10.3	-2.2	-6.8	-10.3	-8.3
Real ER (PPI-based)	-57.3	-3.9	-10.4	-7.7	-1.7	-1.8	-6.4	-5.6
Average gross wages, LVL	119.7	24.5	10.3	21.6	11.1	5.8	6.1	10.8
Average gross wages, real (PPI based)	1.2	11.3	-3.0	16.8	9.0	10.2	5.4	7.5
Average gross wages, real (CPI based)	5.0	-0.4	-6.2	12.2	6.1	3.3	3.4	3.6
Average gross wages, ECU (ER)	140.5	21.0	9.0	27.6	10.4	12.2	18.1	15.3
Employment total	-6.9	-3.5	-2.7	1.9	0.6	-0.5	0.0	-0.1
GDP per empl. person, LVL at 1996 pr.	-8.6	2.8	6.1	6.6	3.3	1.6	6.6	4.8
Unit labour costs, LVL at 1996 prices	140.4	21.2	4.0	14.0	7.6	4.1	-0.5	5.7
Unit labour costs, ER (ECU) adjusted	163.2	17.7	2.7	19.7	6.9	10.4	10.8	10.0
Lithuania								
GDP deflator	306.1	38	25.1	13.2	6.7	3.2	2.0	9.7
Exchange rate (ER), LTL/ECU	122.6	10.7	-3.1	-10.6	-1.2	-4.9	-13.5	-6.8
Real ER (CPI-based)	-54.8	-18.3	-20.3	-16.2	-4.3	-4.5	-12.2	-11.7
Real ER (PPI-based)	-54.1	-9.9	-16.2	-14.9	2.4	-7.6	-23.2	-12.3
Average gross wages, LTL	225.5	48.0	28.6	25.9	19.5	6.2	2.1	16.0
Average gross wages, real (PPI based)	-33.8	15.3	10.3	18.7	24.3	3.1	-13.5	7.8
Average gross wages, real (CPI based)	-36.2	6.0	3.2	15.6	13.7	5.4	1.1	7.6
Average gross wages, ECU (ER)	46.2	33.7	32.6	40.7	21.0	11.6	18.0	24.4
Employment total	-4.2	-1.9	0.9	0.6	-0.8	-0.5	-3.7	-0.7
GDP per empl. person, LTL at 1996 pr.	-12.6	5.3	3.7	6.6	5.9	-3.4	7.3	4.0
Unit labour costs, LTL at 1996 prices	272.3	40.5	23.9	18.0	12.8	9.9	-4.8	11.5
Unit labour costs, ER (ECU) adjusted	67.2	27.0	27.9	32.0	14.2	15.5	10.0	19.6

(Table 7 contd.)

Table 7 (contd.)

	1993	1995	1996	1997	1998	1999	2000 prelim.	1995-2000 annual average
Croatia								
GDP deflator	1466.9	5.3	3.6	7.4	8.4	4.1	6.4	6.0
Exchange rate (ER), HRK/ECU	1115.1	-4.7	0.7	2.3	2.5	6.2	0.7	2.5
Real ER (CPI-based)	-22.2	-3.6	-0.3	0.7	-1.2	3.1	-2.8	-0.1
Real ER (PPI-based)	-23.6	-1.1	0.0	0.9	3.4	3.5	-3.8	0.8
Average gross wages, HRK	1434.9	34.0	12.3	13.1	12.6	10.2	7.0	11.0
Average gross wages, real (PPI based)	-4.8	33.0	10.8	10.6	14.0	7.4	-2.5	7.9
Average gross wages, real (CPI based)	-5.1	31.3	8.5	9.2	6.5	5.7	0.7	6.1
Average gross wages, ECU (ER)	26.3	40.5	11.6	10.6	9.8	3.7	6.2	8.3
Employment total	-2.3	-1.4	-6.2	-1.4	5.6	-1.5	-1.7	-1.1
GDP per empl. person, HRK at 1996 pr.	-5.8	8.3	12.9	8.3	-3.0	1.1	5.5	4.8
Unit labour costs, HRK at 1996 prices	1530.1	23.7	-0.5	4.4	16.1	9.0	1.4	5.9
Unit labour costs, ER (ECU) adjusted	34.1	29.7	-1.2	2.1	13.2	2.6	0.7	3.4
Macedonia								
GDP deflator	400.5	17.1	2.9	3.4	0.2	-0.3	5.7	2.4
Exchange rate (ER), MKD/ECU	308.6	-3.8	1.9	12.2	8.7	-0.7	0.2	4.3
Real ER (CPI-based)	-8.4	-14.3	2.1	11.6	10.7	1.2	-2.9	4.4
Real ER (PPI-based)	15.6	-4.0	2.9	8.7	4.1	-0.6	-3.6	2.2
Average net wages, MKD	495.6	10.7	2.8	2.8	3.7	2.9	5.5	3.5
Average net wages, real (PPI based)	66.2	5.7	3.1	-1.4	-0.3	3.0	-3.2	0.2
Average net wages, real (CPI based)	28.9	-4.4	0.5	0.2	3.8	3.6	-0.3	1.5
Average net wages, ECU (ER)	45.8	15.0	0.9	-8.4	-4.6	3.6	5.3	-0.8
Employment total	.	.	.	-4.7	5.4	1.0	0.8	.
GDP per empl. person, MKD at 1996	.	.	.	6.4	-2.3	1.6	4.2	.
Unit labour costs, MKD at 1996 prices	.	.	.	-3.4	6.1	1.2	1.3	.
Unit labour costs, ER (ECU) adjusted	.	.	.	-13.9	-2.4	2.0	1.1	.
Russia								
GDP deflator	888.9	163.0	44.2	14.5	16.3	64.3	37.1	34.0
Exchange rate (ER), RUB/ECU	248.5	126.2	12.6	-1.4	69.1	137.2	-0.8	34.6
Real ER (CPI-based)	-62.9	-21.6	-21.9	-12.4	34.9	29.3	-15.8	0.1
Real ER (PPI-based)	-66.1	-29.7	-24.8	-13.5	57.3	49.3	-29.1	1.6
Average gross wages, RUB	906.4	119.6	48.4	20.2	10.7	44.8	49.0	33.6
Average gross wages, real (PPI based)	-3.4	-34.7	-1.6	4.6	3.3	-8.9	1.6	-0.3
Average gross wages, real (CPI based)	3.4	-26.2	0.4	4.7	-13.3	-22.0	23.3	-2.6
Average gross wages, ECU (ER)	188.8	-2.9	31.8	21.9	-34.6	-38.9	50.2	-0.7
Employment total	-1.7	-3.0	-0.7	-2.0	-1.5	0.5	1.1	-0.5
GDP per empl. person, RUB at 1996 pr.	-7.2	-1.2	-2.7	2.9	-3.4	5.1	7.1	1.7
Unit labour costs, RUB at 1996 prices	984.2	122.1	52.4	16.8	14.6	37.8	39.0	31.3
Unit labour costs, ER (ECU) adjusted	211.1	-1.8	35.4	18.4	-32.3	-41.9	40.2	-2.4
Ukraine								
GDP deflator	3333.7	415.8	66.2	18.1	12.0	24.4	29.9	28.8
Exchange rate (ER), UAH/ECU	1873.8	400.9	20.4	-9.0	31.0	58.7	14.5	21.1
Real ER (CPI-based)	-62.6	8.3	-31.5	-19.9	20.6	30.9	-8.5	-4.5
Real ER (PPI-based)	-58.0	-11.1	-20.3	-14.7	15.2	21.1	-0.8	-1.2
Average gross wages, UAH	2233.0	430.7	72.6	13.5	7.0	16.0	30.1	25.9
Average gross wages, real (PPI based)	-51.1	-9.9	13.5	5.4	-5.5	-11.5	7.6	1.5
Average gross wages, real (CPI based)	-57.4	11.3	-4.2	-2.1	-3.3	-5.4	1.5	-2.7
Average gross wages, ECU (ER)	18.2	6.0	43.3	24.7	-18.3	-26.9	13.7	3.9
Employment total	-2.3	3.0	-2.1	-2.7	-1.1	-2.3	-1.0	-1.9
GDP per empl. person, UAH at 1996 pr.	-12.2	-14.8	-8.1	-0.3	-0.8	2.0	7.1	-0.1
Unit labour costs, UAH at 1996 prices	2556.7	522.9	87.8	13.8	7.8	13.7	21.5	26.1
Unit labour costs, ER (ECU) adjusted	34.6	24.3	55.9	25.1	-17.7	-28.3	6.2	4.1

Sources: National statistics and WIIW estimates.

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 GDP price deflators.

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

Solid export performance, but trade balances still worsen

Foreign trade developments in the transition countries have been extremely dynamic, especially during last year. In current euro terms, Central and East European exports expanded by nearly one third; in Slovakia, Bulgaria and Romania even more (Table 8). The weakest, though still respectable, export growth report Slovenia and Croatia, which both may have cost problems in view of their relatively high labour costs (Figure 5) and may thus suffer from the increased cost competition in the region. The booming exports of Russia (+60%) and Ukraine (+45%) resulted last year mainly from surging world market energy and metals prices. The EU now accounts for nearly 70% of the candidate countries' exports (75% in Hungary) and represents by far their most important market, though the EU share dropped slightly in 2000 (at the same time the candidate countries' share in extra-EU imports is only about 7%, in extra-EU manufacturing imports about 12%).

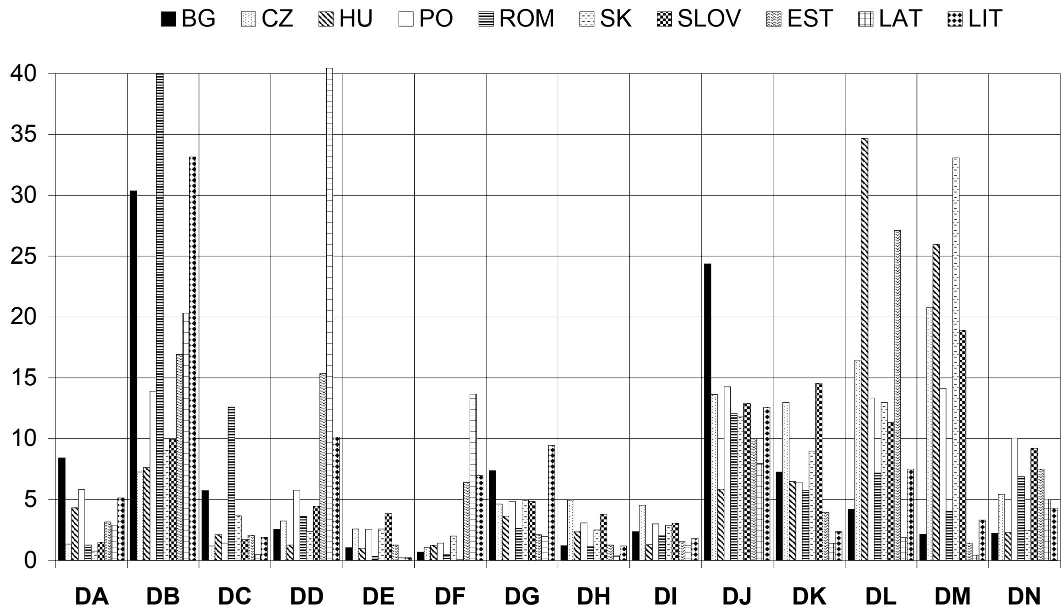
The candidate countries' manufacturing trade with the EU has become increasingly specialized on a few key industries. The share of the three largest NACE two-digit branches in total manufacturing industry exports to the EU exceeded 60% in Bulgaria, Hungary and Romania, and even 75% in Latvia. In Hungary, for example, electrical, optical and transport equipment account for more than 60% of manufacturing exports to the EU, just as textiles and wood products do in Latvia.

Typically, among the most important exporting branches in candidate countries' trade with the EU are textiles and textile products (DB), basic metals and fabricated metal products (DJ), electrical and optical equipment (DL) and transport equipment (DM); in the Baltic states also wood and wood products (DD) – see Figure 7a. In Russia, energy carriers accounted for 52% of the total export revenue (USD 55 billion) in the year 2000.

During 2000, Central and East European total imports increased nearly as fast as exports and, with the exception of Slovakia and Slovenia, the trade balances deteriorated further – especially in the Czech Republic, Hungary and Romania (Table 8). On the other hand, Ukraine managed to achieve a small trade surplus and the Russian surplus – EUR 66 billion – doubled as compared to 1999. Central and East European imports from the EU were less dynamic and the traditional trade deficits were reduced further (Table 9). Indeed, in many cases the overall CEECs' trade deficits resulted mainly from their soaring energy import bills (mostly from Russia), and were further increased by the strengthening of the US dollar against the euro. In fact, the candidate countries' trade with the EU was nearly balanced (Czech Republic) or even in surplus (Hungary and Slovakia), whereas the Polish trade deficit with the EU dropped by about EUR 1.5 billion in 2000. This again may be related to the maturing activities of foreign investment enterprises: Hungary is having a trade surplus with the EU already since 1997; the Czech Republic and Slovakia since 1999.

Figure 7a: Structure of CEE manufacturing exports to the EU, year 1999

(in % of total manufacturing)

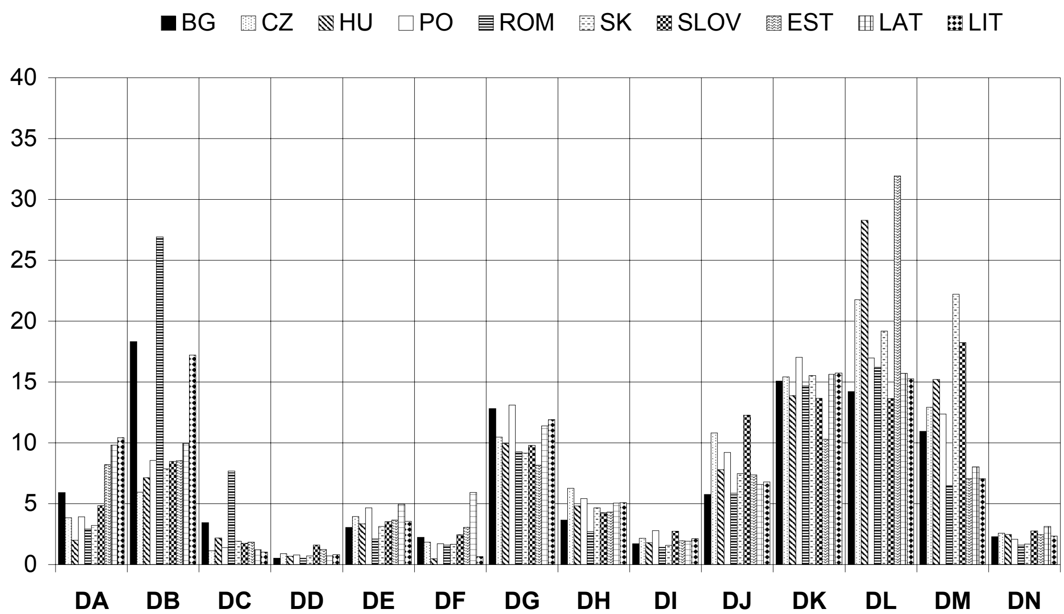


Note: see text for the NACE codes of industry.

Source: own calculations based on Eurostat Comext Database.

Figure 7b: Structure of CEE manufacturing imports from the EU, year 1999

(in % of total manufacturing)



Note: see text for the NACE codes of industry.

Source: own calculations based on Eurostat Comext Database.

Table 8: Foreign trade of Central and Eastern Europe and the main CIS States in ECU/EUR mn

(based on customs statistics)

		1996	1997	1998	1999	2000 [1]	1999 / 1998 in %	2000 / 1999 in %	2000 I-III	2001 I-III	I-III 01 / I-III 00 in %
Czech Republic [2]	Exports	17940	20182	23515	24641	31485	4.8	27.8	7168	9128	27.3
	Imports	22318	24322	25690	26387	34941	2.7	32.4	7650	9951	30.1
	Balance	-4378	-4140	-2175	-1747	-3455	.	.	-481	-824	.
Hungary [3]	Exports	10472	16910	20477	23491	30545	14.7	30.0	6576	8024	22.0
	Imports	12912	18780	22871	26288	34856	14.9	32.6	7442	9055	21.7
	Balance	-2440	-1869	-2394	-2797	-4312	.	.	-866	-1031	.
Poland	Exports	19488	22798	25145	25729	34383	2.3	33.6	7679	9677	26.0
	Imports	29677	37484	41539	43151	53122	3.9	23.1	11973	13352	11.5
	Balance	-10189	-14686	-16394	-17422	-18739	.	.	-4295	-3675	.
Slovakia [4]	Exports	7048	7299	9541	9602	12876	0.6	34.1	2889	3410	18.0
	Imports	8878	9119	11635	10628	13870	-8.7	30.5	3064	3840	25.3
	Balance	-1830	-1820	-2094	-1025	-995	.	.	-175	-430	.
Slovenia	Exports	6641	7413	8052	8037	9504	-0.2	18.3	2218	2611	17.8
	Imports	7536	8290	8999	9482	10995	5.4	16.0	2614	2810	7.5
	Balance	-895	-876	-947	-1445	-1491	.	.	-396	-198	.
CEEC-5	Exports	61588	74603	86730	91500	118793	5.5	29.8	26530	32850	23.8
	Imports	81321	97994	110734	115936	147784	4.7	27.5	32743	39008	19.1
	Balance	-19732	-23392	-24005	-24436	-28991	.	.	-6213	-6158	.
Bulgaria [5]	Exports	4486	4368	3841	3762	5240	0.4	39.3	1125	1381	22.7
	Imports	4655	4361	4476	5178	7071	17.3	36.5	1553	1776	14.3
	Balance	-169	7	-635	-1417	-1831	.	.	-428	-395	.
Romania	Exports	6376	7434	7412	7970	11219	7.5	40.8	2436	3114	27.9
	Imports	9019	9946	10569	9744	14128	-7.8	45.0	2737	4003	46.2
	Balance	-2643	-2512	-3157	-1774	-2909	.	.	-302	-888	.
CEEC-7	Exports	72450	86405	97983	103232	135251	5.5	31.0	30091	37345	24.1
	Imports	94994	112302	125779	130858	168982	4.1	29.1	37033	44787	20.9
	Balance	-22544	-25897	-27796	-27626	-33731	.	.	-6942	-7442	.
Croatia [6]	Exports	3602	3666	4046	4027	4818	-0.5	18.9	1086	1174	8.0
	Imports	6220	8060	7477	7324	8629	-2.0	17.4	1688	2147	27.2
	Balance	-2618	-4394	-3431	-3297	-3811	.	.	-602	-973	.
Macedonia	Exports	905	1091	1170	1117	1427	-4.6	27.8	335	316	-5.7
	Imports	1283	1568	1709	1665	2256	-2.6	35.5	615	430	-30.1
	Balance	-378	-478	-539	-548	-829	.	.	-280	-114	.
Yugoslavia [7]	Exports	1593	2360	2518	1391	1870	-44.0	34.4	400	484	21.0
	Imports	3251	4245	4283	3081	4028	-26.4	30.7	983	1160	18.1
	Balance	-1658	-1885	-1766	-1690	-2158	.	.	-582	-676	.
Russia [8]	Exports	69874	77885	66606	70391	113815	5.7	61.7	24682	27441	11.2
	Imports	54282	64988	53392	37679	47862	-29.4	27.0	10111	11897	17.7
	Balance	15593	12897	13214	32712	65953	.	.	14570	15544	.
Ukraine	Exports	11357	12550	11283	10855	15770	-3.8	45.3	3060	4116	34.5
	Imports	13883	15103	13103	11103	15103	-15.3	36.0	3746	3856	2.9
	Balance	-2526	-2554	-1820	-248	667	.	.	-686	259	.

Notes: 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 according to new methodology. - 7) From 1999 excluding Kosovo & Metohia. - 8) Including estimate of non-registered trade.
Source: WIIW Database incorporating national statistics.

Detailed data on trade with the EU show that import specialization has been less pronounced than in the case of exports, but has been growing as well in most candidate countries (except the Czech Republic). The biggest import shares in manufacturing trade with the EU are reported for textiles (DB), chemicals (DG), machinery and equipment (DK), electrical and optical equipment (DL) and transport equipment (DM) – see Figure 7b. A comparison of export and import structures reveals certain similarities – despite the fact that the export structures of the individual candidate countries (and therefore their trade specialization) are widely different. There is ample evidence for growing intra-industry trade between the more advanced candidate countries and the EU. This is in line with theory which suggests that trade among industrialized countries is motivated by product differentiation and economies of scale. Intra-industry trade has been most pronounced in trade of the Czech Republic, Slovenia and Hungary whereas it has been lowest in Latvia, Lithuania and Romania. Moreover, intra-industry trade has been growing fast in the Czech Republic and (to a lesser extent) also in Poland; it stagnated either at a relatively high level in Hungary, Slovenia and the Slovak Republic, or at a low level in the less advanced candidate countries.[8] Judging also by the high shares in exports and imports, intra-industry trade (including outward processing trade – OPT) has been of particular importance in textiles (especially in Bulgaria, Romania and Lithuania) as well as in electrical, optical and transport equipment (mainly in the Czech Republic, Hungary and Slovakia).

Available evidence for the first months of 2001 suggests somewhat slower – though still impressive – growth of both exports and imports, as well as, apart from Poland and Slovakia, another deterioration of trade balances in Central and Eastern Europe (Table 8). This results probably to a large degree from the still high energy prices (Russia, which managed to keep its high trade surplus, has been the main beneficiary). In relation to the EU, CEECs' exports grew somewhat faster than imports and the trade balances further improved (Table 9). Besides, the share of the EU in total CEECs' exports further increased (to more than 70%). This supports the above observation that slower growth in the EU is not showing up in the candidate countries' export and growth performance, at least not yet.

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8 Havlik, op. cit.

Table 9: Foreign trade of Central and Eastern Europe and the main CIS States with EU (15) in ECU/EUR mn

(based on customs statistics)

		1996	1997	1998	1999	2000 [1]	1999	2000	2000	2001	I-III 01
							change in %		Jan - March		I-III 00 in %
Czech Republic [2]	Exports	10481	12095	15093	17053	21588	13.0	26.6	5133	6434	25.3
	Imports	13864	14963	16313	16946	21638	3.9	27.7	4848	6319	30.3
	Balance	-3383	-2868	-1220	107	-50	.	.	285	115	
Hungary [3]	Exports	6564	12037	14940	17906	22940	19.9	28.1	5075	6214	22.4
	Imports	7715	11788	14664	16929	20354	15.4	20.2	4535	5303	16.9
	Balance	-1151	249	276	977	2586	.	.	540	911	
Poland	Exports	12908	14600	17173	18127	24037	5.6	32.6	5538	6994	26.3
	Imports	18970	23911	27268	28016	32494	2.7	16.0	7518	8175	8.8
	Balance	-6061	-9312	-10096	-9889	-8457	.	.	-1980	-1181	
Slovakia [4]	Exports	2909	3045	5309	5701	7605	7.4	33.4	1745	2093	19.9
	Imports	3310	3597	5833	5493	6787	-5.8	23.6	1504	1873	24.5
	Balance	-401	-553	-524	208	818	.	.	241	221	
Slovenia	Exports	4286	4705	5271	5304	6059	0.6	14.2	1493	1701	13.9
	Imports	5088	5588	6242	6530	7451	4.6	14.1	1755	1914	9.1
	Balance	-801	-884	-972	-1226	-1391	.	.	-262	-213	
CEEC - 5	Exports	37149	46481	57786	64091	82230	10.9	28.3	18984	23436	23.5
	Imports	48947	59848	70321	73914	88724	5.1	20.0	20160	23584	17.0
	Balance	-11798	-13367	-12535	-9823	-6495	.	.	-1176	-147	
Bulgaria [5]	Exports	1754	1889	1905	1961	2675	3.8	36.4	635	719	13.2
	Imports	1633	1645	2010	2505	3109	25.6	24.1	641	825	28.7
	Balance	121	243	-105	-544	-433	.	.	-6	-106	
Romania	Exports	3603	4204	4783	5222	7162	9.2	37.2	1576	2154	36.7
	Imports	4721	5222	6097	5883	7996	-3.5	35.9	1536	2212	44.0
	Balance	-1118	-1018	-1314	-661	-833	.	.	41	-58	
CEEC - 7	Exports	42506	52574	64474	71274	92067	10.6	29.2	21196	26310	24.1
	Imports	55301	66716	78428	82302	99828	5.0	21.3	22337	26621	19.2
	Balance	-12795	-14142	-13954	-11028	-7761	.	.	-1141	-311	
Croatia [6]	Exports	1838	1823	1927	1960	2591	1.7	30.7	634	630	-0.6
	Imports	3693	4793	4440	4136	4790	-6.8	15.1	916	1166	27.3
	Balance	-1855	-2970	-2513	-2175	-2199	.	.	-282	-535	
Macedonia	Exports	387	407	516	506	608	-2.0	20.2	154	154	-0.1
	Imports	497	581	620	677	860	9.2	27.0	232	171	-26.2
	Balance	-110	-173	-104	-172	-253	.	.			
Yugoslavia [7]	Exports	551	939	965	504	714	-41.5	41.6	145	221	52.5
	Imports	1366	1758	1847	1276	1639	-29.8	28.4	403	426	5.6
	Balance	-815	-820	-882	-772	-925	.	.			
Russia [8]	Exports	21436	25191	21356	22926	.	7.4	.	.	.	.
	Imports	13353	17447	14628	10898	.	-25.5	.	.	.	.
	Balance	8083	7745	6728	12029	.	.	.	.	.	.
Ukraine	Exports	1259	1549	1892	1985	2813	4.9	41.7	.	.	.
	Imports	2184	2980	2831	2248	3118	-20.6	38.7	.	.	.
	Balance	-925	-1430	-939	-263	-305	.	.	.	.	.

Notes: 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.

Inflation under control, currencies under appreciation pressure

Although there was some spurt of inflation in several Central and East European countries in the year 2000, price increases were generally modest (Bulgaria, Macedonia and Yugoslavia are exceptions) and resulted mainly from higher prices for imported energy and from administered price adjustments – both showing up largely in the development of producer prices (Tables 10a and 10b). In most countries, the annual inflation was either at single-digit or low double-digit levels and declining (Romania and Yugoslavia are exceptions). Even Russia managed last year to reduce inflation substantially, despite its high foreign exchange revenues from exports and growing money supply. Price developments in the first months of 2001 suggest that the energy price shock has been already largely digested, and the long-term trend of disinflation has returned. Apart from the special cases of Romania (where inflation has for many years been stubbornly high and fluctuating) and Yugoslavia (which is essentially just now at the beginning of transition), inflation can be a matter of immediate concern only in Hungary, Bulgaria and Russia – in all these cases for different reasons.

In Hungary, a combination of relatively high inflation (10% in the first five months of 2001), expansionary fiscal policies and the newly introduced broader band for the forint may easily lead to an even stronger real appreciation, with a subsequent deterioration of export competitiveness, higher imports and a deteriorating external balance. In Bulgaria, a combination of relatively high inflation with the rigid currency board regime, the concern about uncertain economic policies of the former king's new government, as well as the economic and political disturbances in neighbouring Turkey and Macedonia, definitely increase the financial risks. And, finally, in Russia high export revenues secure a stable nominal exchange rate and growing foreign exchange reserves. But at the same time, with limited possibilities of sterilization of these inflows, the expanding money supply fuels inflation (23% in the first five months of 2001) and the currency rapidly appreciates in real terms.

The long-term tendency towards real currency appreciation has been one of the few common features of the transition economies. On the one hand this is quite natural as all these countries have introduced convertibility at the beginning of transition with grossly undervalued currencies. Even now their price levels are very low compared to the EU average, despite high inflation differentials (the average price level is the inverse of the exchange rate deviation index shown in Figure 6). But in view of the persisting inflation differentials the process of real appreciation is going on (Slovenia has been the only exception – Figures 10a and 10b). The average annual real appreciation has been particularly strong in countries with pegged exchange rates (Bulgaria and the Baltic states). In several countries (Hungary, Poland, Slovakia and Estonia being the prime examples), the real appreciation during the period 1995-2000 was more than compensated by

Table 10a: Consumer price inflation

change in % against preceding year

	1994	1995	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
								1st quarter		forecast	
Czech Republic	10.0	9.1	8.8	8.5	10.7	2.1	3.9	3.7	4.0	4.4	3.5
Hungary	18.8	28.2	23.6	18.3	14.3	10.0	9.8	9.8	10.3	9	6.5
Poland	32.2	27.8	19.9	14.9	11.8	7.3	10.1	10.3	6.7	8	6
Slovak Republic	13.4	9.9	5.8	6.1	6.7	10.6	12.0	15.6	7.2	8	6
Slovenia	21.0	13.5	9.9	8.4	7.9	6.1	8.9	8.4	8.7	8	6
Bulgaria	96.0	62.1	121.6	1058.4	18.7	2.6	10.3	8.5	8.9	5	4
Romania	136.8	32.3	38.8	154.8	59.1	45.8	45.7	53.7	40.1	40	35
Croatia 2)	97.6	2.0	3.5	3.6	5.7	4.2	6.2	4.8	6.5	6	5.5
Macedonia 2)	121.7	15.9	3.0	4.4	0.8	-1.1	10.6	4.2	7.6	8	6
Yugoslavia	.	78.6	91.5	21.6	29.9	44.9	85.6	60.8	111.0	70	30
Russia	307.0	197.5	47.8	14.8	27.6	85.7	20.8	25.4	22.3	20	15
Ukraine	891.0	376.8	80.2	15.9	10.6	22.7	28.2	25.1	19.4	20	20

Notes: 1) Preliminary. - 2) Retail prices.

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

Table 10b: Producer prices in industry

change in % against preceding year

	1994	1995	1996	1997	1998	1999	2000 1)	2000	2001
								1st quarter	
Czech Republic	5.3	7.6	4.7	4.9	4.9	1.0	4.9	4.5	4.3
Hungary	11.3	28.9	21.8	20.4	11.3	5.1	11.7	9.1	9.6
Poland	25.3	25.4	12.4	12.2	7.3	5.7	7.8	7.9	4.2
Slovak Republic	10.3	9.0	4.2	4.5	3.3	3.8	9.8	9.5	8.7
Slovenia	17.7	12.8	6.8	6.1	6.0	2.1	7.6	5.2	10.2
Bulgaria	75.7	53.4	130.0	971.1	16.5	3.1	17.2	16.6	12.5
Romania	140.5	35.1	49.9	152.7	33.2	42.2	53.4	60.7	50.6
Croatia	77.6	0.7	1.4	2.3	-1.2	2.6	9.7	8.5	7.3
Macedonia	89.3	4.7	-0.3	4.2	4.0	-0.1	8.9	7.2	4.6
Yugoslavia	.	57.7	90.2	19.5	25.5	44.1	106.5	74.7	124.4
Russia	336.9	236.5	50.8	15.0	7.1	58.9	46.6	60.2	26.5
Ukraine	1134.4	488.8	52.1	7.7	13.2	31.1	20.9	19.9	15.6

Notes: 1) Preliminary.

Source: WIIW Database incorporating national statistics.

Figure 8a: Consumer price inflation

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

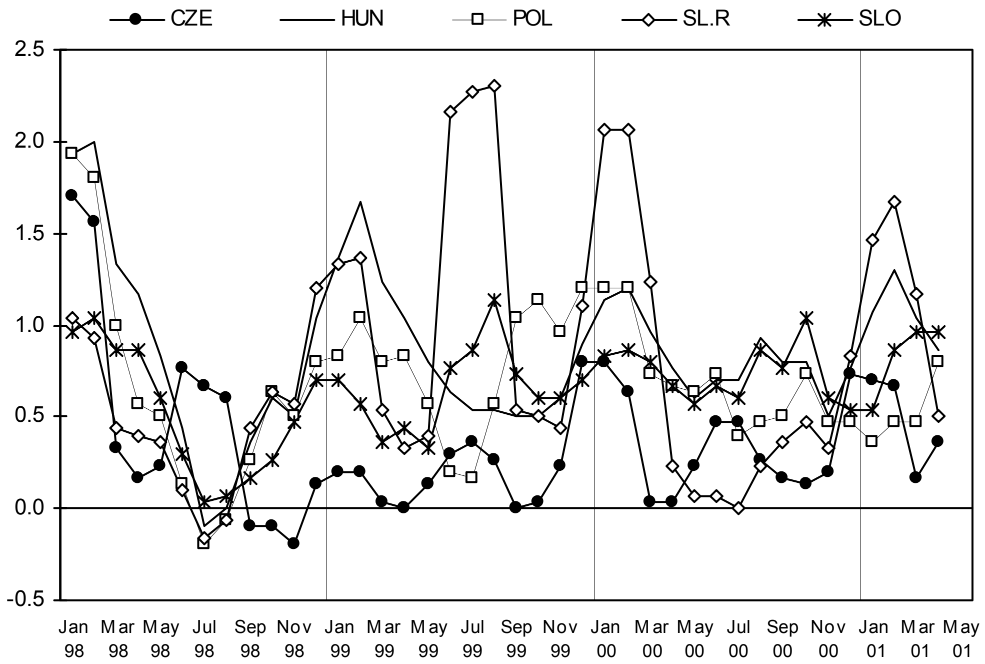

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Figure 8b: Consumer price inflation

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

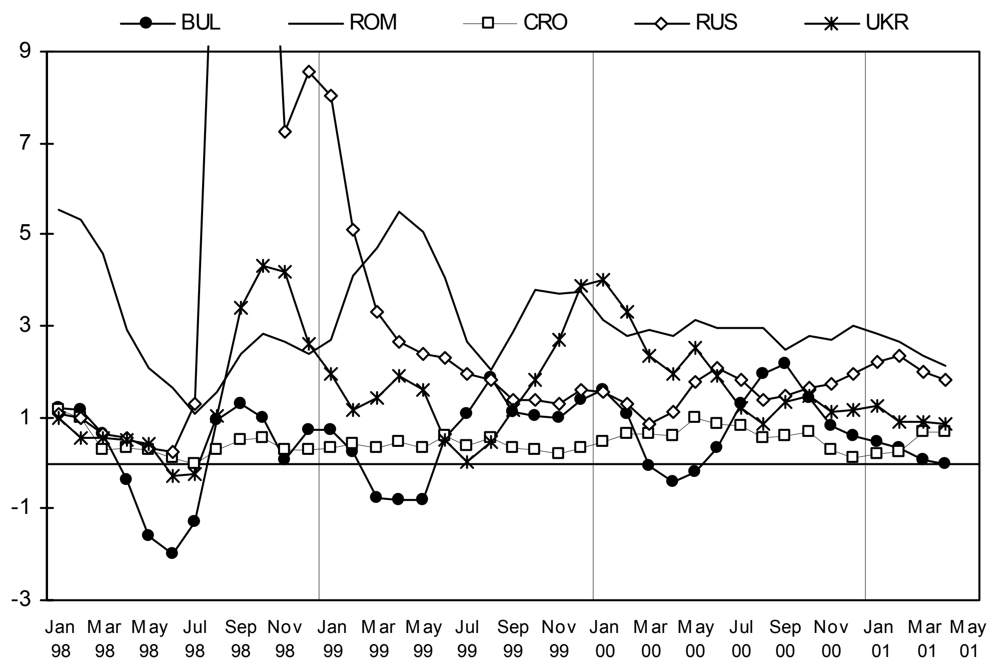

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Figure 9a: Producer price inflation

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

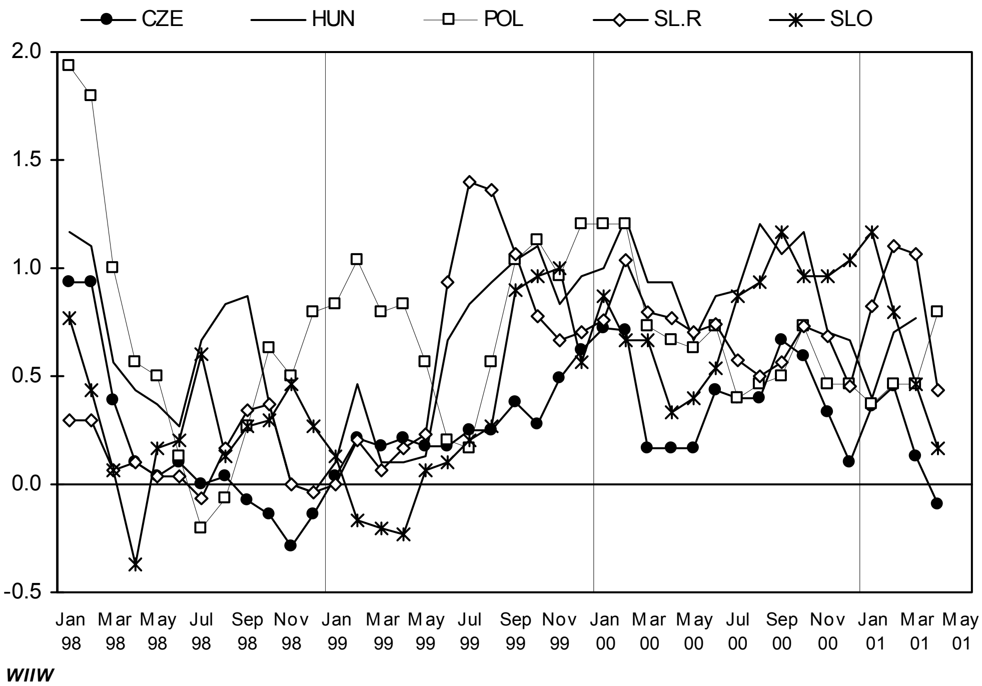
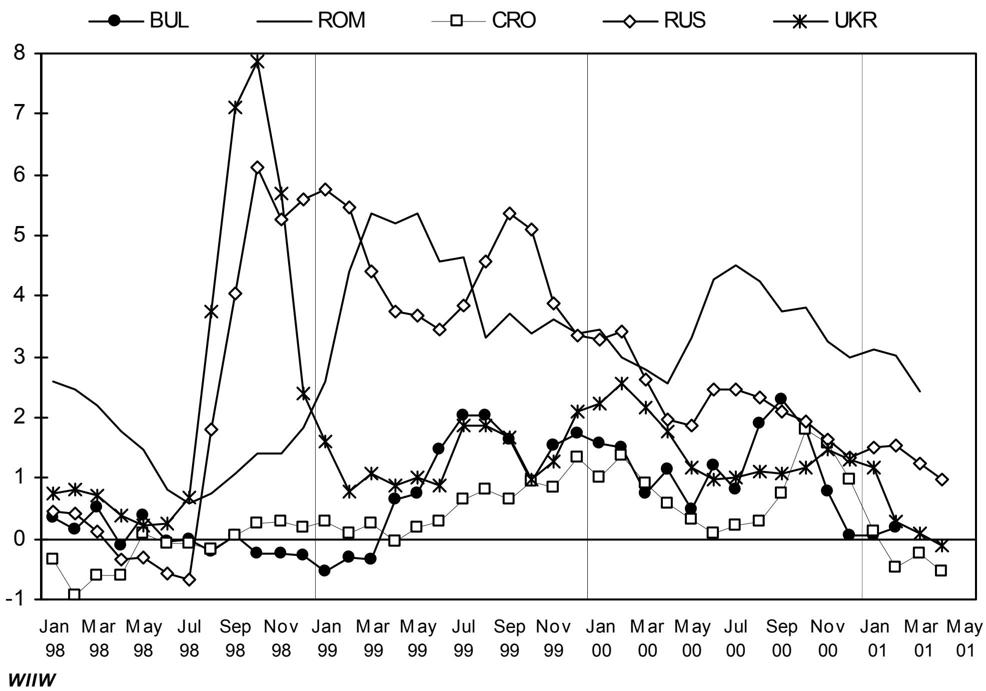


Figure 9b: Producer price inflation

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



improvements in labour productivity at the macroeconomic level; in Bulgaria, Romania, Latvia and Lithuania productivity growth lagged behind (Table 7). But even in countries with faster productivity increases the combined effect of real appreciation and the growth of wages results in rising unit labour costs, in an erosion of competitiveness and persisting external disequilibria. During the period 1995-2000, unit labour costs (adjusted for exchange rate changes) grew fast especially in the Czech Republic (7.4% per year), Poland (11.6%), Estonia (7.2%), Latvia (10%) and Lithuania (19.6% – Table 7).

Recently (since the beginning of the year 2000), real appreciation (against the euro) has been most pronounced in the Czech Republic, Poland and in Russia (as well as in Bulgaria) and, since the beginning of May 2001, also in Hungary (Figures 10a and 10b). Real appreciation has been less pronounced with respect to the US dollar due to movements in the EUR/USD exchange rate. But this is less significant since the main export markets of Central and Eastern Europe are in the Eurozone. On the other hand, their energy imports are invoiced mostly in USD – and thus became more expensive in terms of EUR. Russia is of course the main beneficiary of these exchange rate movements, though its real appreciation is beginning to bite as well.

High inflows of foreign exchange, be they currently from FDI as for instance in the Czech Republic, Poland and Slovakia, or from energy export revenues as in Russia, exert an additional upward pressure on the exchange rate. Moreover, monetary authorities' concerns about inflation (implicitly driven by Maastricht criteria ambitions) and the related policies of high interest rates have frequently reinforced appreciation pressures. During last year, real interest rates were either low or even negative (exceptions were mostly only Poland and Ukraine – see Figures 11a and 11b), but the credit market in the majority of these countries has still been largely paralysed. Apart from the general weaknesses of the financial sector there are numerous reasons for this: high interest rate spreads of commercial banks (about 4 percentage points in most CEECs, except in Poland where the spread has been nearly 9 percentage points; in Russia 15 percentage points), in some countries the dismal state of the banking sector as commercial banks are in the process of restructuring awaiting subsequent privatization (Czech Republic, Slovakia), or a situation where corporate credits are perceived as highly risky (especially Russia and Ukraine). The result is that credits for business investments are rather the exception, irrespective of the level of interest rates. Investments are typically financed from retained profits and amortization of fixed capital. Moreover, with very high interest rates firms may prefer to 'invest' in financial instruments rather than in expanding production and/or capacities. This kind of credit rationing represents a significant barrier to growth, especially regarding the development of domestic small and medium-size enterprises, which do not have access to the international credit markets as their foreign competitors do. This has also been one of the reasons why the gap between domestic and foreign investment enterprises is widening.

Figure 10a: Real exchange rates

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

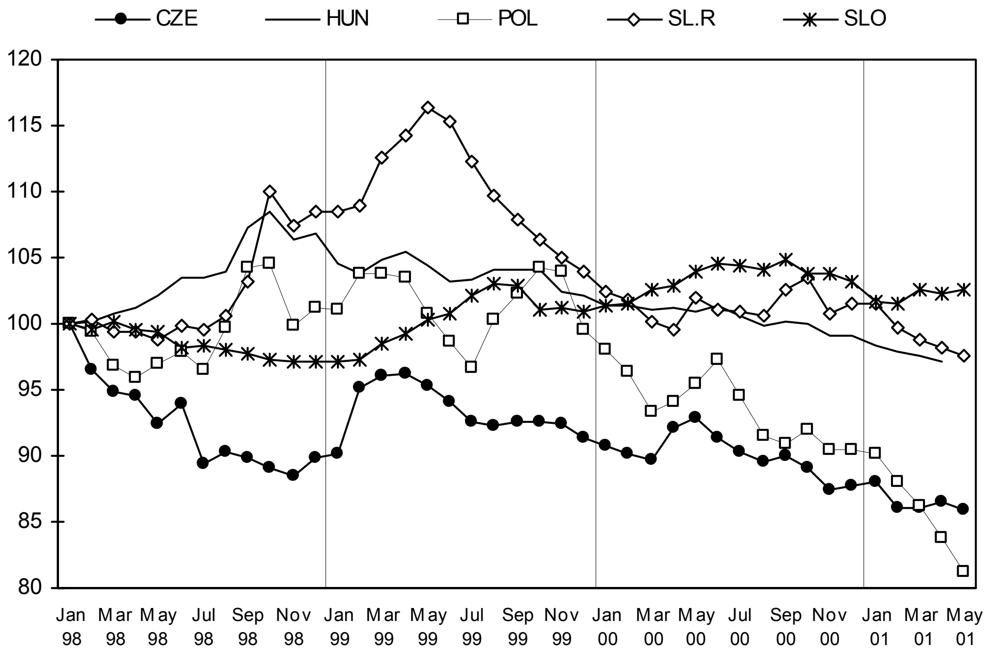


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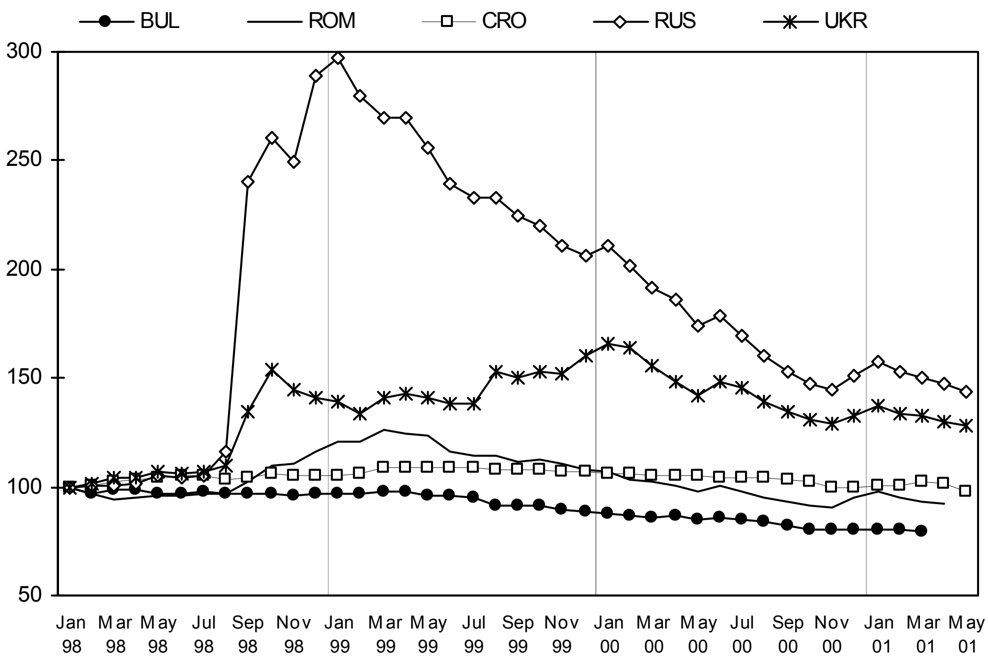
Figure 10b: Real exchange rates

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



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Note: Declining line means real appreciation.

Figure 11a: Minimum real interest rates

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

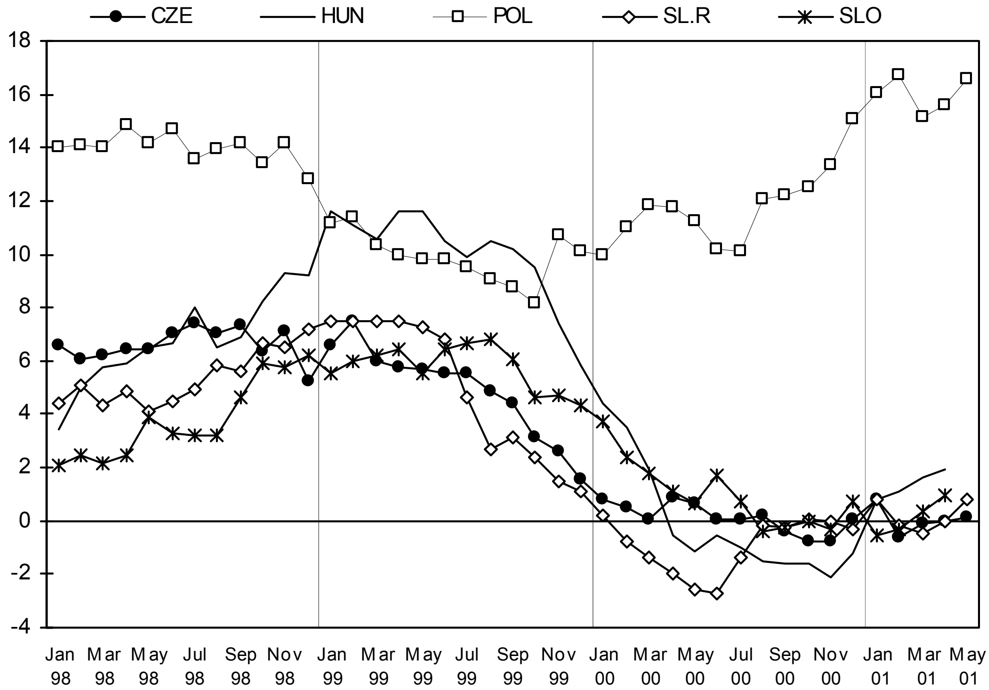

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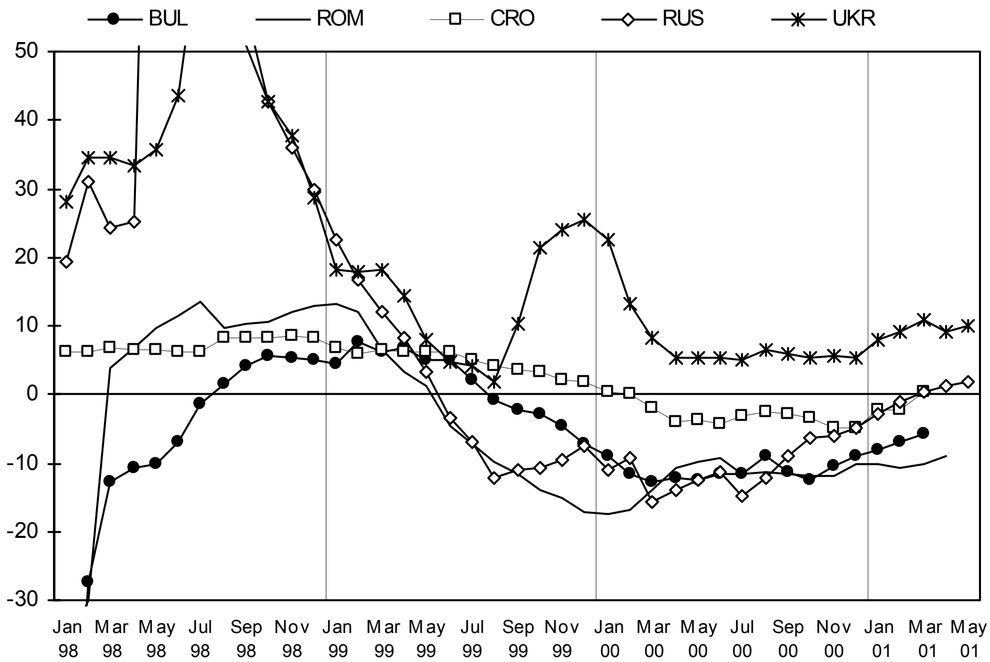
Figure 11b: Minimum real interest rates

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



WIIW

Meanwhile, the clearing of bad loan portfolios accumulated in semi-state commercial banks in the past imposes a heavy burden on the state budgets. Apart from Russia, this problem is now acute especially in the Czech Republic, Slovakia, Bulgaria and Romania; it will eat up a major part of expected privatization revenues. The issue of how to deal with these 'transition-related' liabilities, their impact on government finances and the monetary policy has been hotly debated not only within the respective countries themselves, but in international financial institutions as well. These problems aside, the current situation of government finances is of no major concern in any of the countries concerned, though in several cases (Hungary, Slovakia and the Czech Republic) the expected relaxation of the fiscal stance may add to external disequilibria soon.

In the majority of Central and East European countries, current accounts have been traditionally in deficit and the external position mostly fragile. With higher domestic growth, rising private consumption and investments – even with growing exports – imports have immediately picked up. The above-mentioned tendency towards real currency appreciations, liberalized trade and capital transactions, growing integration into the world economy and, last but not least, a lower development level which requires catching-up and technology imports, are usually the straightforward explanations. But how large a current

Table 11: 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			
	2000	2001 March	2000	2001 March	1999	2000	2001	2002	1999	2000	2001	2002
Czech Republic	21.3	21.8	13.1	12.9	-1.6	-2.4	-3.1	-3.3	-2.9	-4.7	-5.5	-5.5
Hungary	30.8	30.2	11.2	10.7	-2.1	-1.5	-2.5	-2.6	-4.3	-3.3	-4.4	-4.2
Poland	65.5	.	27.5	28.0	-11.6	-9.9	-10.5	-11.5	-7.5	-6.3	-6.0	-6.4
Slovak Republic	10.8	.	4.1	3.9	-1.0	-0.7	-1.0	-1.0	-5.0	-3.7	-4.8	-4.6
Slovenia	6.2	6.1	3.2	3.1	-0.8	-0.6	-0.4	-0.3	-3.9	-3.3	-2.1	-1.5
Bulgaria	10.4	10.2	3.2	2.8	-0.7	-0.7	-0.6	-0.5	-5.3	-5.9	-4.2	-3.2
Romania	9.8	9.9	2.5	2.8	-1.3	-1.4	-2.5	-1.6	-3.8	-3.8	-6.6	-4.3
Croatia	10.8	11.2	3.5	3.5	-1.5	-0.5	-1.0	-1.0	-7.6	-2.8	-4.6	-4.3
Macedonia	1.4	1.4	0.4	0.9	-0.1	-0.1	-0.4	-0.4	-3.3	-3.4	-9.7	-8.8
Yugoslavia	12.5	.	.	.	-1.3	-1.3	-1.2	-1.5	-8.9	-13.0	-12.2	-16.1
Russia	144.5	.	28.0	29.7	24.6	46.3	30.0	20.0	12.8	18.5	11.0	6.7
Ukraine	11.3	.	1.4	1.4	1.7	1.5	-0.3	-0.6	5.4	4.6	-0.8	-1.5

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. Figures for Hungary correspond to total reserves of the country.

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

account deficit is sustainable in conditions of a transition economy? In 2000, the average current account deficit in Central and Eastern Europe amounted to over 5% of GDP – slightly less than in 1999, but higher than 3%, which is usually treated as sustainable. Bulgaria and Poland had current account deficits around 6% of GDP (Table 11). On the other hand, Ukraine (4.6% of GDP) and especially Russia (18.5% of GDP) recorded sizeable surpluses.

With appreciating currencies, expanding domestic demand, which induces higher imports, and with weaker growth in the major export markets, larger current account deficits seem virtually inevitable. This is indeed our forecast for the Czech Republic, Hungary, Slovakia and Romania (the Russian and Ukrainian surpluses will be significantly lower). At the moment – as during the last year – there are no immediate problems with financing these deficits as capital inflows (predominantly FDI) are usually sufficient. But in several of the above-mentioned countries (also in Poland), the problem may aggravate next year – especially if the European economy should remain sluggish. Needless to say, the problem may get a new dimension when the privatization sales are completed.

WIIW forecast for 2001 and 2002: GDP growth, albeit modest, will continue

Despite the recent considerable weakening of the external economic environment, especially in the EU, the economies of the transition countries in Central and Eastern Europe will grow by about 3.5% on average in both 2001 and 2002 – only marginally less than during 2000 (see overview developments in Table 12). A more pronounced deceleration of GDP growth is forecast only for Poland and Russia, in both cases largely for domestic economic policy reasons. Inflation will slowly recede to single-digit annual rates (Romania, Yugoslavia, Russia and Ukraine are exceptions), but will remain higher than in the EU (except possibly in the Czech Republic) – just as the unemployment. Current account deficits, though generally quite high and growing, are of no immediate concern yet, but should be closely watched (for more details see the Country Reports).

In Bulgaria, the June 2001 parliamentary elections brought about a major reshuffling of the political scene. The economic programme of the winning party (ex-king Simeon II's National Movement) is highly eclectic, combining liberal ideas and populist pledges. After the record high GDP growth in 2000 (5.8%, the highest rate since the start of reforms), growth seems to be moderating. Domestic demand is weakening: in the first quarter of 2001 domestic industrial sales were just 1.8% up year-on-year while retail sales increased by a little more than 2%. Unemployment is stubbornly stuck at levels of around 18% and this has indeed been the most serious trouble for the authorities lately. Although the authorities were sticking to their upbeat growth forecasts of over 5% GDP growth in 2001 (which was probably part of the pre-election rhetoric), achieving such rates of growth seems increasingly unlikely.

Up to the end of 2000, more than USD 21 billion FDI entered the Czech Republic, pushing the country into a top position among the transition countries in terms of accumulated FDI per capita. GDP grew by 2.9% last year, but quarterly data show that there was an acceleration of growth over time. This tendency continued in the first four months of 2001 as business activities boomed. In the short run, GDP growth is likely to continue and even to strengthen. Confidence indicators are confirming this positive trend. In case of a more severe recession in the EU, the export growth will probably weaken, whereas the internal business boom, with domestic demand as its engine, is likely to persist for the time being. Such a development may push the current account deficit to an unsustainable level in 2002.

Hungarian economic policy has undergone considerable changes recently: the expansive economic policy and the departure from the earlier exchange rate regime are expected to have a considerable impact on the economy in the second half of the year. Investments will accelerate. Household consumption may increase by 5% in the whole year, and the current account deficit will deteriorate to a considerable extent. A deteriorating net export position, due to the combined effects of modest growth performance in main export markets and cheaper imports caused by the real appreciation, may allow a GDP growth rate of close to 5% in both this year and in 2002.

Throughout the year 2000 GDP growth was slowing down in Poland. Available information on developments in the first quarter of 2001 suggest a further slowdown of growth of domestic demand. Under very high interest rates administered by the National Bank of Poland (the Lombard rate ranging between 23% at the beginning of 2001 and 21% in April), the credit expansion during the first quarter was meagre. Continuing strong nominal (and of course even stronger real) appreciation of the zloty has not produced, in the first quarter of 2001, any deterioration of the trade balance. In actual fact the trade deficit contracted – primarily as a result of a strong expansion of exports. However, given the more fundamental tendencies currently observed in the real economy, neither depreciation nor higher inflation, even if carefully controlled, may meaningfully support stronger output recovery or improve the trade balance, at least in the medium run.

The Slovak GDP grew by 3.0% year-on-year in the first quarter of 2001, mostly fuelled by a recovery of private consumption as well as gross fixed capital formation. Thanks to FDI, exports are gradually shifting to high-value-added branches such as manufacturing of electrical and optical equipment and transport equipment. The government intends to privatize around 40 companies in a book value of some SKK 140 billion, or 15% of GDP. About 14 large companies are to be sold by end-2001 already. A new law on FDI guarantees tax holidays and other benefits, by reducing the corporate tax rate (from 40% to 29%) as well as by cutting the number of the so-called strategic companies previously closed to FDI. The GDP is forecast to expand by 3% in 2001, and by 4% in 2002. However, the current account deficit is likely to rise as well.

Slovenia's GDP growth in 2000 (4.6%) was mainly generated by foreign demand. Domestic demand components developed disappointingly with investments up by a mere 1.2%, private consumption by 0.8% and government consumption by 3.1%. Last year's steep rise in energy prices is still exerting a strong impact on inflation in the current year. In the first months of 2001, total exports expanded nearly as fast as during the last year while imports increased less and the trade deficit fell. The official Slovenian forecast, posting a GDP growth rate of some 4.5% for 2001, is a little bit too optimistic. Lower exports to the EU are likely to be offset by expanding exports to the other successor states of the former Yugoslavia.

The Romanian economy has been on a growth path since early last year. In the first quarter of 2001 economic growth accelerated to 4.8%. There is a general atmosphere of economic upswing in the country with expectations even increasing for the second half of the year. Especially the export industries such as clothing and furniture boomed. But prospects of growth in these low-tech sectors are very limited especially if demand in Western Europe shrinks. Nevertheless, the annual current account deficit will not exceed USD 2.5 billion in 2001. This corresponds to some 6.5% of GDP, which is in a dangerous zone for a country with very narrow financial flows and limited access to international financial markets. An agreement with the IMF is not in sight before the end of the year. If the current account deficit becomes unsustainable, the GDP growth of 4% in 2001 will be cut to 2% in 2002.

Croatian GDP growth in 2000 (3.7%) was driven first of all by private consumption and a recovery in tourism. At the same time the current account deficit narrowed to the lowest level since 1995, to less than 3% of the GDP. One of the main goals of the government, increasing employment, has failed to be met so far. The foreign trade deficit widened considerably during the first months of 2001. This deterioration was mainly caused by an import expansion, while at the same time exports to the EU even contracted. In mid-May 2001, the European Union and Croatia initialled a Stabilization and Association Agreement (SAA). This first contractual agreement with the EU should enable Croatia to move closer to EU structures and promote economic and trade relations aiming at the creation of a free trade area with the Union. WIIW sticks to its earlier forecast of about 3% GDP growth in both 2001 and 2002. Some impetus for growth may come from a moderate investment increase and from increasing loans both to the enterprise and household sectors.

The Russian GDP grew more than 8% during 2000. With moderate inflation, a solid surplus in the state budget, a stable nominal exchange rate, a huge current account surplus and foreign exchange reserves reaching a record high level, last year's economic performance was a big success. Nevertheless, the outlook for sustainable growth remains uncertain: the economy markedly weakened during the first months of 2001 so that the impetus for more reforms has become more urgent. A modest increase in both private consumption and investments is expected in the coming two years, but a substantial decline of net exports will put a brake on economic growth. GDP growth will hardly exceed 5% in both 2001 and 2002, the annual inflation will hover around 20%. Should there be a more pronounced fall in energy prices the economy would be in serious trouble again.

Ukraine's battered economy continued its apparent strong recovery in the first months of 2001. The main drivers remained those which boosted GDP 6% in 2000: ongoing benefits of the 1998-1999 devaluations, booming exports to Russia, good steel sales elsewhere, and a recovery in domestic consumption and investment. A positive sign given the economy's unhealthy dependence on energy-intensive steel exports is that the upturn in industrial production which began in metals is spreading to the rest of manufacturing, including consumer goods and food industries. But the commodity structure of trade shows few signs of adjustment as it remains overwhelmingly dominated by steel and other semi-fabricates. Weaker GDP growth with a current account deficit reappearing is forecast for 2001.

Bosnia-Herzegovina's industrial production grew 7.7% in the year 2000, mainly because of increased energy production. The figure for GDP growth in 2000 is not available yet, but should be around 5%. The economy concentrates on trade rather than on production. Trade between Bosniac-, Croat- and Serb-controlled territories has increased very much in recent years. Foreign trade has expanded as well. Nevertheless, in 2000 export revenues covered only 30% of the import expenditures in the Federation of Bosnia-Herzegovina and merely 48% in Republika Srpska. The EU liberalized imports from BiH, but for the time being the core of BiH exporters are hardly in a position to profit from that to a larger extent. Politics are still a serious hindrance to economic progress. The Office of the High Representative is very active in improving the political and economic infrastructure. The newly elected non-nationalistic politicians will need quick economic success in a difficult internal and external environment.

In Macedonia, the economic consequences of the military conflict with the Albanian rebels that started at the end of February 2001 have been severe. The violent conflict is taking a heavy toll on the budget and on economic activities in general. The government has already introduced an additional tax of 3% on all financial transactions. The signing of the Stability and Association Agreement with the EU in March has so far prevented an escalation of conflicts but there is a real danger that previous Bosnia and Herzegovina and Kosovo scenarios will be repeated. This would lead to the economic collapse of the country. Even if the conflict is resolved fairly quickly the GDP is expected to stagnate.

In Yugoslavia, the government has concentrated its efforts on the establishment of good relations with the international partners and on the passing of some of the key laws in the area of foreign trade. Apart from that, the federal government has worked intensively on a stand-by agreement with the IMF, which was approved at the beginning of June 2001. The World Bank and the European Commission have prepared a hefty two-volume study that has been advertised as the transition strategy for Yugoslavia. The economic developments in the first six months of 2001 have been less than encouraging. Industrial production has been falling, prices have been rising and unemployment has been on the rise too. Still, it is expected that GDP will grow by about 5% this year. From the autumn of this year, foreign aid and investments should start flowing into the country. With ten years delay, transition has finally begun, but the pace it will follow is yet to be determined.

Table 12: 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	-0.4	2.9	3.5	3.5	2.1	3.9	4.4	3.5	9.4	8.8	9.4	9.8	-2.9	-4.7	-5.5	-5.5
Hungary [1]	4.2	5.2	4.8	5	10.0	9.8	9	6.5	7.0	6.4	5.9	5.9	-4.3	-3.3	-4.4	-4.2
Poland	4.1	4.0	2	4	7.3	10.1	8	6	13.0	15.0	16.5	17.5	-7.5	-6.3	-6.0	-6.4
Slovak Republic	1.9	2.2	3	4	10.6	12.0	8	6	19.2	17.9	18	17	-5.0	-3.7	-4.8	-4.6
Slovenia	5.2	4.6	4	4.5	6.1	8.9	8	6	13.0	12.0	11	10.5	-3.9	-3.3	-2.1	-1.5
CEEC-5	2.9	3.8	3.0	4.1	.	.	.	.	12.5	13.3	14.1	14.6	-5.7	-5.2	-5.3	-5.4
Bulgaria	2.4	5.8	4	4	2.6	10.3	5	4	16.0	17.9	18	17	-5.3	-5.9	-4.2	-3.2
Romania	-3.2	1.6	4	2	45.8	45.7	40	35	11.8	10.5	10	11	-3.8	-3.8	-6.6	-4.3
CEEC-7	1.7	3.5	3.3	3.7	.	.	.	.	12.6	13.1	13.5	14.0	-5.5	-5.1	-5.4	-5.2
Croatia [2]	-0.4	3.7	3	3	4.2	6.2	6	5.5	20.4	22.3	23	23	-7.6	-2.8	-4.6	-4.3
Macedonia [1][2]	2.7	5.1	0	5	-1.1	10.6	8	6	32.4	32.2	32	32	-3.3	-3.4	-9.7	-8.8
Yugoslavia	-17.7	7.0	5	5	44.9	85.6	70	30	25.5	26.8	30	32	-8.9	-13.0	-12.2	-16.1
Russia [1]	5.4	8.3	5	4	85.7	20.8	20	15	12.2	9.6	9	10	12.8	18.5	11.0	6.7
Ukraine	-0.4	6.0	4	6	22.7	28.2	20	20	4.3	4.2	5	6	5.4	4.6	-0.8	-1.5

Notes: 1) Unemployment rate according to ILO definition. - 2) Consumer prices correspond to retail prices.

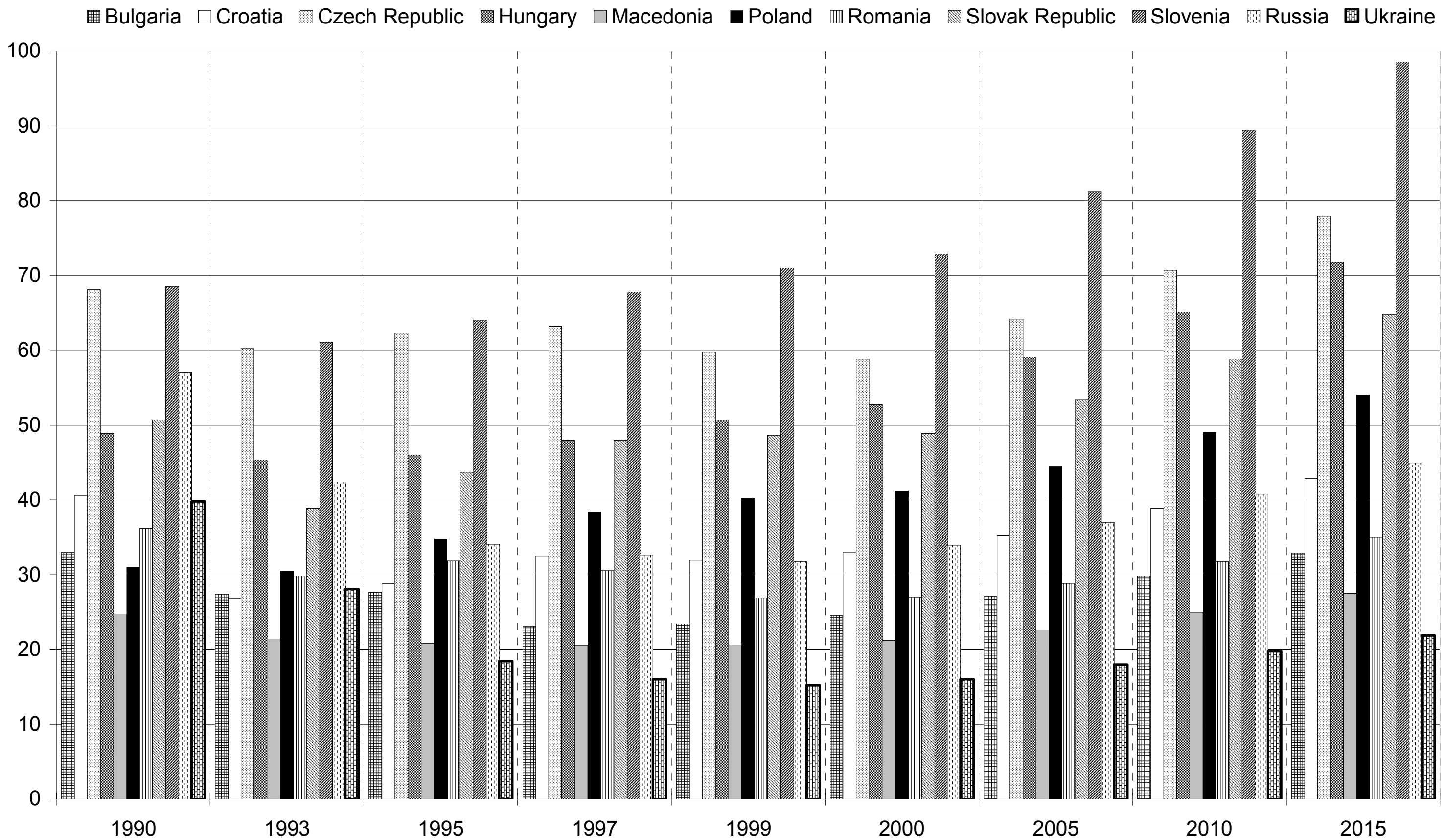
Source: WIIW (June 2001).

ANNEX

Selected Indicators of competitiveness

Figure A/1

Real per capita GDP in selected transition countries
EU average = 100



WIIW Note: Projection assuming a 2 percentage points growth differential with respect to the EU after 2000.

Table A/1

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

	1990	1993	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	10063	9786	10226	11286	11984	11973	12045	12277	12538	15108	18381	22363
Hungary	7229	7370	7783	8330	8613	9086	9735	10417	11245	13919	16934	20603
Poland	4577	4952	5319	6299	6783	7278	7756	8258	8779	10476	12745	15507
Slovak Republic	7500	6319	7143	7914	8529	9091	9615	10002	10433	12571	15295	18609
Slovenia	10131	9924	10703	11607	12192	12847	13589	14591	15562	19116	23257	28296
Bulgaria	4871	4455	4652	5007	4600	4378	4583	4823	5237	6372	7752	9431
Romania	5349	4847	5160	5768	6113	5785	5576	5526	5741	6783	8253	10041
Estonia	.	5164	5244	5742	6128	6990	7491	7605	8713	10909	13272	16147
Latvia	.	4019	4198	4392	4659	5131	5465	5738	6348	7760	9441	11487
Lithuania	.	4991	4617	4974	5301	5725	6124	6022	6362	7666	9327	11348
Croatia	5992	4355	4709	5214	5833	6155	6518	6558	7033	8312	10113	12304
Macedonia	3658	3471	3701	3770	3845	3891	4053	4231	4514	5331	6487	7892
Russia	8433	6894	6160	6164	6074	6177	5991	6518	7230	8711	10599	12895
Ukraine	5881	4559	3623	3337	3080	3026	3044	3123	3413	4233	5150	6266
										projection assuming 2% p.a. GDP growth and zero population growth p.a.		
Austria	16074	18144	18938	19974	20679	21079	22021	22931	23733	26204	28931	31942
Germany	15081	17576	18681	19890	19927	20416	21202	21906	22585	24936	27532	30397
Greece	8838	10379	11012	11920	12322	12444	13049	13788	14353	15847	17496	19317
Portugal	9291	11087	11902	12774	13180	13998	14643	15368	15829	17477	19296	21304
Spain	11603	12908	13208	14141	14671	15090	15973	16870	17561	19389	21407	23635
Turkey	4424	5158	4895	5239	5534	5844	6024	5740	5993	6616	7305	8065
Japan	16810	19187	19687	21043	22141	22450	22182	22619	22936	25323	27958	30868
USA	21941	23900	25123	26172	27179	28500	29964	31540	33149	36599	40408	44614
EU(15) average	14782	16248	17020	18117	18536	18944	19744	20554	21253	23465	25907	28604

European Union (15) average = 100

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2005	2010	2015
Czech Republic	68	60	60	62	65	63	61	60	59	64	71	78
Hungary	49	45	46	46	46	48	49	51	53	59	65	72
Poland	31	30	31	35	37	38	39	40	41	45	49	54
Slovak Republic	51	39	42	44	46	48	49	49	49	54	59	65
Slovenia	69	61	63	64	66	68	69	71	73	81	90	99
Bulgaria	33	27	27	28	25	23	23	23	25	27	30	33
Romania	36	30	30	32	33	31	28	27	27	29	32	35
Estonia	.	32	31	32	33	37	38	37	41	46	51	56
Latvia	.	25	25	24	25	27	28	28	30	33	36	40
Lithuania	.	31	27	27	29	30	31	29	30	33	36	40
Croatia	41	27	28	29	31	32	33	32	33	35	39	43
Macedonia	25	21	22	21	21	21	21	21	21	23	25	28
Russia	57	42	36	34	33	33	30	32	34	37	41	45
Ukraine	40	28	21	18	17	16	15	15	16	18	20	22
Austria	109	112	111	110	112	111	112	112	112	112	112	112
Germany	102	108	110	110	107	108	107	107	106	106	106	106
Greece	60	64	65	66	66	66	66	67	68	68	68	68
Portugal	63	68	70	71	71	74	74	75	74	74	74	74
Spain	78	79	78	78	79	80	81	82	83	83	83	83
Turkey	30	32	29	29	30	31	31	28	28	28	28	28
Japan	114	118	116	116	119	119	112	110	108	108	108	108
USA	148	147	148	144	147	150	152	153	156	156	156	156
EU(15) average	100	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

Selected indicators of macro-competitiveness, 1993-2000

ECU/EUR based, annual averages

	1993	1994	1995	1996	1997	1998	1999	2000 prelim.
Czech Republic								
Producer price index, 1989=100	213.3	224.5	241.6	253.0	265.4	278.4	281.2	295.0
Consumer price index, 1989=100	230.5	253.5	276.7	301.0	326.6	361.6	369.2	383.6
GDP deflator, 1989=100	202.8	230.0	253.5	275.8	297.8	329.5	339.9	353.5
Exchange rate (ER), CZK/ECU	34.10	34.06	34.31	34.01	35.80	36.16	36.88	35.61
ER nominal, 1989=100	205.4	205.2	206.7	204.9	215.7	217.9	222.2	214.5
Real ER (CPI-based), 1989=100	107.5	100.6	95.8	89.5	88.5	82.2	83.1	79.2
Real ER (PPI-based), 1989=100	103.7	100.5	98.3	93.7	94.9	91.0	91.9	88.6
PPP, CZK/ECU	10.09	11.19	11.85	12.68	13.62	14.81	14.95	15.21
ERDI (ECU based)	3.38	3.04	2.90	2.683	2.63	2.44	2.47	2.34
Average monthly gross wages, CZK	5817	6894	8172	9676	10691	11693	12655	13491
Average monthly gross wages, ECU (ER)	171	202	238	285	299	323	343	379
Average monthly gross wages, ECU (PPP)	576	616	690	763	785	789	846	887
GDP nominal, bn CZK	1020.3	1182.8	1381.0	1567.0	1679.9	1837.1	1887.3	1959.5
Employment total, 1000 persons	4848.3	4884.8	5011.6	5044.4	4946.6	4869.2	4693.1	4587.0
GDP per employed person, CZK	210441	242138	275568	310634	339613	377280	402149	427181
GDP per empl. person, CZK at 1996 pr.	286200	290299	299818	310634	314467	315754	326326	333306
Unit labour costs, 1989=100	171.7	200.6	230.2	263.1	287.1	312.8	327.5	341.8
Unit labour costs, ER adj., 1989=100	83.6	97.7	111.4	128.4	133.1	143.6	147.4	159.3
Unit labour costs, PPP adj., Austria=100	17.05	19.53	20.84	25.27	27.17	29.23	29.43	31.75
Hungary								
Producer price index, 1989=100	199.8	222.4	286.7	349.2	420.4	467.9	491.8	549.3
Consumer price index, 1989=100	262.1	311.4	399.3	493.5	583.8	667.3	734.0	805.9
GDP deflator, 1989=100	232.5	277.9	348.8	422.7	500.9	564.1	611.4	656.7
Exchange rate (ER), HUF/ECU	107.50	124.78	162.65	191.15	210.93	240.98	252.80	260.04
ER, nominal 1989=100	165.2	191.8	250.0	293.8	324.2	370.3	388.5	399.6
Real ER (CPI-based), 1989=100	76.0	76.6	80.3	78.2	74.4	75.7	73.1	70.2
Real ER (PPI-based), 1989=100	89.0	94.8	100.2	97.4	90.0	92.0	91.9	88.7
PPP, HUF/ECU	46.85	54.74	65.99	78.67	92.74	102.68	108.90	114.46
ERDI (ECU based)	2.29	2.28	2.46	2.43	2.27	2.35	2.32	2.27
Average monthly gross wages, HUF	27173	33309	38900	46837	57270	67764	77187	87645
Average monthly gross wages, ECU (ER)	253	267	239	245	272	281	305	337
Average monthly gross wages, ECU (PPP)	580	609	589	595	618	660	709	766
GDP nominal, bn HUF	3548.3	4364.8	5614.0	6893.9	8540.7	10087.4	11393.5	12876.8
Employment total, 1000 persons	3827.3	3751.5	3678.8	3648.1	3646.3	3697.7	3811.5	3849.1
GDP per employed person, HUF	927103	1163481	1526041	1889723	2342292	2728020	2989243	3345405
GDP per empl. person, HUF at 1996 pr.	1685732	1769797	1849582	1889723	1976503	2044414	2066744	2153306
Unit labour costs, 1989=100	212.4	248.0	277.2	326.6	381.9	436.8	492.2	536.4
Unit labour costs, ER adj., 1989=100	128.6	129.3	110.9	111.2	117.8	118.0	126.7	134.2
Unit labour costs, PPP adj., Austria=100	26.62	26.22	21.06	22.20	24.39	24.37	25.66	27.13
Poland								
Producer price index, 1989=100	1806.0	2262.6	2837.2	3189.0	3578.0	3839.6	4058.4	4375.0
Consumer price index, 1989=100	2259.9	2987.6	3818.1	4577.9	5260.0	5880.7	6309.9	6947.2
GDP deflator, 1989=100	1628.9	2091.3	2690.0	3194.4	3643.0	4073.8	4346.8	4658.4
Exchange rate (ER), PLN/ECU	2.119	2.696	3.135	3.377	3.706	3.923	4.227	4.011
ER, nominal, 1989=100	1329.1	1690.7	1966.1	2118.3	2324.1	2460.5	2651.1	2515.7
Real ER (CPI-based), 1989=100	70.9	70.4	66.0	60.8	59.2	57.1	58.0	51.3
Real ER (PPI-based), 1989=100	79.2	82.2	79.6	76.9	75.8	74.5	76.0	70.1
PPP, PLN/ECU	0.8170	1.0253	1.2669	1.4797	1.6787	1.8459	1.9271	2.0209
ERDI (ECU based)	2.59	2.63	2.47	2.28	2.21	2.13	2.19	1.98
Average monthly gross wages, PLN	390	525	691	874	1066	1233	1697	1917
Average monthly gross wages, ECU (ER)	184	195	220	259	288	314	401	478
Average monthly gross wages, ECU (PPP)	478	512	545	591	635	668	881	949
GDP nominal, bn PLN	155.8	210.4	308.1	387.8	472.4	553.6	615.1	685.6
Employment total, 1000 persons	14330.1	14474.5	14735.2	15020.6	15438.7	15800.4	15373.5	15100
GDP per employed person, PLN	10871	14536	20909	25820	30595	35035	40011	45404
GDP per empl. person, PLN at 1996 pr.	21318	22204	24830	25820	26827	27471	29404	31134
Unit labour costs, 1989=100	1968.7	2541.8	2991.2	3640.0	4270.5	4823.5	6204.4	6619.1
Unit labour costs, ER adj., 1989=100	148.1	150.3	152.1	171.8	183.8	196.0	234.0	263.1
Unit labour costs, PPP adj., Austria=100	28.86	28.68	27.19	32.29	35.81	38.11	44.62	50.05

(Table A/2 ctd.)

(Table A/2 ctd.)

	1993	1994	1995	1996	1997	1998	1999	2000 prelim.
Slovak Republic								
Producer price index, 1989=100	218.4	240.9	262.6	273.5	285.8	295.3	306.5	336.6
Consumer price index, 1989=100	241.1	273.4	300.5	317.8	337.2	359.8	397.9	445.6
GDP deflator, 1989=100	184.2	209.6	230.0	240.3	256.2	269.2	286.9	305.6
Exchange rate (ER), SKK/ECU	35.98	37.93	38.45	38.40	38.01	39.60	44.12	42.59
ER, nominal, 1989=100	216.7	228.5	231.7	231.4	229.0	238.6	265.8	256.6
Real ER (CPI-based), 1989=100	108.4	103.9	98.8	95.7	91.0	90.5	92.3	81.5
Real ER (PPI-based), 1989=100	106.8	104.3	101.4	97.9	93.5	94.0	100.9	92.9
PPP, SKK/ECU	10.97	12.21	12.86	13.22	14.02	14.48	15.11	15.75
ERDI (ECU based)	3.28	3.11	2.99	2.90	2.71	2.73	2.92	2.70
Average monthly gross wages, SKK	5379	6294	7195	8154	9226	10003	10728	11430
Average monthly gross wages, ECU (ER)	150	166	187	212	243	253	243	268
Average monthly gross wages, ECU (PPP)	490	516	559	617	658	691	710	726
GDP nominal, bn SKK	369.1	466.2	546.0	606.1	686.1	750.8	815.3	887.2
Employment total, 1000 persons	2117.9	2110.2	2146.8	2224.9	2205.9	2198.6	2132.1	2101.7
GDP per employed person, SKK	174282	220941	254347	272414	311024	341472	382407	422134
GDP per empl. person, SKK at 1996 pr.	227440	253327	265813	272414	291799	304886	320295	331953
Unit labour costs, 1989=100	196.4	206.3	224.7	248.5	262.5	272.4	278.1	285.9
Unit labour costs, ER adj., 1989=100	90.6	90.3	97.0	107.4	114.6	114.2	104.6	111.4
Unit labour costs, PPP adj., Austria=100	19.62	19.14	19.27	22.43	24.83	24.67	22.17	23.56
Slovenia								
Producer price index, 1989=100	4218.9	4965.8	5601.3	5982.4	6347.2	6727.8	6869.0	7391.3
Consumer price index, 1989=100	5721.7	6923.3	7857.9	8635.7	9360.9	10100.5	10716.2	11670.2
GDP deflator, 1989=100	4865.6	5964.4	6868.4	7633.6	8303.2	8953.8	9542.2	10089.8
Exchange rate (ER), SIT/ECU	132.28	152.36	153.12	169.51	180.40	186.27	193.63	205.03
ER, nominal, 1989=100	4099.7	4722.1	4745.5	5253.6	5591.0	5772.9	6001.0	6354.5
Real ER (CPI-based), 1989=100	86.4	84.8	77.4	79.9	80.1	78.0	77.3	77.1
Real ER (PPI-based), 1989=100	104.6	104.6	97.4	101.6	102.9	99.8	101.6	104.8
PPP, SIT/ECU	72.65	87.05	96.30	105.26	113.90	120.77	125.93	130.29
ERDI (ECU based)	1.82	1.75	1.59	1.61	1.58	1.54	1.54	1.57
Average monthly gross wages, SIT	75432	94618	111996	129125	144251	158069	173245	191669
Average monthly gross wages, ECU (ER)	570	621	731	762	800	849	895	935
Average monthly gross wages, ECU (PPP)	1038	1087	1163	1227	1267	1309	1376	1471
GDP nominal, bn SIT	1435.1	1853.0	2221.5	2555.4	2907.3	3253.8	3648.4	4035.5
Employment total, 1000 persons	755.9	746.2	745.2	741.7	743.4	745.2	758.5	768.2
GDP per employed person, SIT	1898598	2483125	2980876	3445175	3910621	4366460	4810186	5253404
GDP per empl. person, SIT at 1996 pr.	2978712	3178044	3312942	3445175	3595229	3722631	3848048	3974531
Unit labour costs, 1989=100	3365.6	3956.9	4492.9	4981.3	5332.5	5643.4	5983.6	6409.3
Unit labour costs, ER adj., 1989=100	82.1	83.8	94.7	94.8	95.4	97.8	99.7	100.9
Unit labour costs, PPP adj., Austria=100	45.47	45.44	48.10	50.65	52.84	54.03	54.05	54.55
Bulgaria								
Producer price index, 1989=100	910.6	1600.0	2454.4	5645.0	60462.0	70468.5	72653.0	85149.3
Consumer price index, 1989=100	1794.7	3518.1	5702.9	12637.6	146392.9	173732.5	178203.6	196584.0
GDP deflator, 1989=100	1030.2	1780.2	2897.2	6402.5	67162.7	82092.5	84637.4	89461.7
Exchange rate (ER), BGN/ECU	0.032	0.065	0.087	0.192	1.896	1.972	1.956	1.956
ER, nominal, 1989=100	3485.9	6946.7	9338.4	20612.4	203894.4	212116.3	210349.5	210349.5
Real ER (CPI-based), 1989=100	234.3	245.5	209.9	214.3	186.7	166.6	163.0	151.5
Real ER (PPI-based), 1989=100	411.9	477.5	437.2	422.6	393.8	350.1	336.7	301.1
PPP, BGN/ECU	0.00792	0.01338	0.02092	0.04546	0.474	0.570	0.575	0.595
ERDI (ECU based)	4.09	4.83	4.15	4.22	4.00	3.46	3.40	3.29
Average monthly gross wages, BGN	3	5	8	13	128	183	201	238
Average monthly gross wages, ECU (ER)	100	77	87	69	67	93	103	122
Average monthly gross wages, ECU (PPP)	408	371	363	291	270	321	349	400
GDP nominal, bn BGN	0.3	0.5	0.9	1.7	17.1	21.6	22.8	25.5
Employment total, 1000 persons	3221.8	3241.6	3282.2	3285.9	3157.4	3152.6	3087.8	2943.4
GDP per employed person, BGN	93	162	268	532	5402	6844	7376	8648
GDP per empl. person, BGN at 1996 pr.	577	583	593	532	515	534	558	619
Unit labour costs, 1989=100	1185.9	1800.3	2712.7	5268.1	52572.7	72656.1	76239.4	81387.9
Unit labour costs, ER adj., 1989=100	34.0	25.9	29.0	25.6	25.8	34.3	36.2	38.7
Unit labour costs, PPP adj., Austria=100	17.74	13.23	13.89	12.85	13.45	17.82	18.49	19.70

(Table A/2 ctd.)

(Table A/2 ctd.)

	1993	1994	1995	1996	1997	1998	1999	2000 prelim.
Romania								
Producer price index, 1989=100	3065.5	7372.6	9961.1	14928.8	37725.0	50235.3	71434.5	109580.6
Consumer price index, 1989=100	3138.9	7431.5	9829.0	13643.6	34758.8	55300.0	80627.4	117474.1
GDP deflator, 1989=100	3289.0	7860.6	10633.6	15453.6	38220.3	58825.2	86115.6	129431.6
Exchange rate (ER), ROL/ECU	884.60	1967.56	2629.51	3862.90	8090.93	9988.36	16295.26	19955.76
ER, nominal, 1989=100	5377.5	11960.9	15984.9	23482.7	49185.0	60719.5	99059.3	121311.6
Real ER (CPI-based), 1989=100	206.6	200.1	208.5	226.2	189.7	149.8	169.7	146.2
Real ER (PPI-based), 1989=100	188.8	178.4	184.4	182.0	152.2	140.6	161.3	134.9
PPP, ROL/ECU	181.64	424.35	551.44	788.18	1939.22	2934.78	4203.81	6182.31
ERDI (ECU based)	4.87	4.64	4.77	4.90	4.17	3.40	3.88	3.23
Average monthly grross wages, ROL	78347	181694	281287	426610	846450	1357132	1957731	2876645
Average monthly gross wages, ECU (ER)	89	92	107	110	105	136	120	144
Average monthly gross wages, ECU (PPP)	431	428	510	541	436	462	466	465
GDP nominal, bn ROL	20035.7	49773.2	72135.5	108919.6	252925.7	368260.7	521735.5	796533.7
Employment total, 1000 persons	10260.0	10036.5	9752.0	9436.0	9200.9	8917.7	8650	8400
GDP per employed person, ROL	1952799	4959219	7396995	11542984	27489384	41295711	60316243	94825440
GDP per empl. person, ROL at 1996 pr.	9175454	9749667	10749965	11542984	11114772	10848540	10823872	11321773
Unit labour costs, 1989=100	3169.1	6916.6	9711.4	13716.8	28264.5	46429.2	67129.1	94300.1
Unit labour costs, ER adj., 1989=100	58.9	57.8	60.8	58.4	57.5	76.5	67.8	77.7
Unit labour costs, PPP adj., Austria=100	17.17	16.49	16.23	16.41	16.75	22.23	19.32	22.11
Estonia								
Producer price index, 1992=100	175.2	238.8	299.9	344.3	374.6	390.4	385.7	404.6
Consumer price index, 1992=100	189.8	280.3	361.6	445.2	495.0	535.6	553.3	575.4
GDP deflator, 1992=100	180.5	252.3	332.8	412.7	449.4	489.0	508.1	535.0
Exchange rate (ER), EEK/ECU	15.514	15.416	14.997	15.255	15.742	15.753	15.656	15.645
ER nominal, 1992=100	99.0	98.4	95.7	97.4	100.5	100.6	99.9	99.9
Real ER (CPI-based), 1992=100	54.1	37.5	29.2	24.7	23.4	22.0	21.4	21.1
Real ER (PPI-based), 1992=100	57.3	42.7	34.6	30.8	29.5	28.2	28.4	28.4
PPP, EEK/ECU	2.759	3.770	4.777	5.8255	6.312	6.752	6.864	7.073
ERDI (ECU based)	5.62	4.09	3.14	2.62	2.49	2.33	2.28	2.21
Average monthly gross wages, EEK	1 066	1 734	2 375	2 985	3 573	4 125	4 440	4876
Average monthly gross wages, ECU (ER)	69	112	158	196	227	262	284	312
Average monthly gross wages, ECU (PPP)	386	460	497	512	566	611	647	689
GDP nominal, bn EEK	21.610	29.645	40.705	52.446	64.324	73.325	75.297	84.382
Employment total, 1000 persons	708.1	692.6	656.1	645.6	648.4	640.2	614.0	608.6
GDP per employed person, EEK	30518	42802	62041	81236	99204	114535	122634	138649
GDP per empl. person, EEK at 1996 pr.	69779	70005	76931	81236	91096	96668	99618	106959
Unit labour costs, 1992=100	197.3	320.0	398.8	474.7	506.7	551.2	575.8	588.9
Unit labour costs, ER adj., 1992=100	199.3	325.1	416.6	487.4	504.2	548.1	576.1	589.6
Unit labour costs, PPP adj., Austria=100	12.95	20.68	24.82	30.54	32.76	35.53	36.62	37.40
Latvia								
Producer price index, 1992=100	217.1	253.8	284.0	322.9	336.1	342.5	328.8	330.8
Consumer price index, 1992=100	209.2	284.3	355.4	417.9	453.0	474.3	485.7	498.3
GDP deflator, 1992=100	171.6	237.5	275.3	320.9	342.1	360.9	387.7	404.3
Exchange rate (ER), LVL/ECU	0.7927	0.6624	0.6818	0.6900	0.6574	0.6614	0.6237	0.5601
ER nominal, 1992=100	91.3	76.3	78.5	79.5	75.7	76.2	71.9	64.5
Real ER (CPI-based), 1992=100	45.2	28.7	24.3	21.5	19.2	18.8	17.5	15.7
Real ER (PPI-based), 1992=100	42.7	31.2	30.0	26.8	24.8	24.4	23.9	22.4
PPP, LVL/ECU	0.1412	0.1910	0.2126	0.2438	0.2586	0.2682	0.2819	0.2877
ERDI (ECU based)	5.62	3.47	3.21	2.83	2.54	2.47	2.21	1.95
Average monthly gross wages, LVL	47	72	90	99	120	133	141	150
Average monthly gross wages, ECU (ER)	60	108	131	143	183	202	226	267
Average monthly gross wages, ECU (PPP)	335	376	421	405	464	497	500	520
GDP nominal, bn LVL	1.467	2.043	2.349	2.829	3.276	3.590	3.897	4.333
Employment total, 1000 persons	1205.0	1083.0	1045.6	1017.7	1036.8	1043.0	1037.8	1038
GDP per employed person, LVL	1217	1886	2247	2780	3159	3442	3755	4174
GDP per empl. person, LVL at 1996 pr.	2277	2549	2620	2780	2964	3060	3109	3314
Unit labour costs, 1992=100	240.4	326.7	395.9	411.5	469.3	504.8	525.5	522.9
Unit labour costs, ER adj., 1992=100	263.2	428.2	504.0	517.7	619.6	662.4	731.3	810.4
Unit labour costs, PPP adj., Austria=100	14.40	22.93	25.29	27.31	33.90	36.16	39.14	43.28

(Table A/2 ctd.)

(Table A/2 ctd.)

	1993	1994	1995	1996	1997	1998	1999	2000
Lithuania								prelim.
Producer price index, 1992=100	491.7	712.0	913.5	1064.2	1128.0	1084.1	1116.6	1317.6
Consumer price index, 1992=100	510.2	878.6	1226.5	1528.2	1664.2	1749.1	1763.1	1780.7
GDP deflator, 1992=100	406.1	656.7	906.2	1133.7	1283.3	1369.3	1413.1	1441.4
Exchange rate (ER), LTL/ECU	5.1193	4.7281	5.2326	5.0719	4.5362	4.4801	4.2615	3.6853
ER nominal, 1992=100	222.6	205.6	227.6	220.6	197.3	194.8	185.3	160.3
Real ER (CPI-based), 1992=100	45.2	25.0	20.4	16.3	13.6	13.1	12.5	10.9
Real ER (PPI-based), 1992=100	45.9	29.9	27.0	22.6	19.2	19.7	18.2	14.0
PPP, LTL/ECU	0.6225	0.9839	1.3044	1.6054	1.807	1.896	1.915	1.911
ERDI (ECU based)	8.22	4.81	4.01	3.16	2.51	2.36	2.23	1.93
Average monthly gross wages, LTL	166	325	480.9	618.2	778.1	929.8	987.4	1007.9
Average monthly gross wages, ECU (ER)	32	69	92	122	172	208	232	273
Average monthly gross wages, ECU (PPP)	267	330	369	385	431	490	516	527
GDP nominal, bn LTL	11.590	16.904	24.103	31.569	38.340	42.990	42.655	44.930
Employment total, 1000 persons	1778	1675.0	1643.6	1659.0	1669.2	1656.1	1647.5	1586
GDP per employed person, LTL	6519	10092	14665	19029	22969	25959	25891	28329
GDP per empl. person, LTL at 1996 pr.	18197	17423	18346	19029	20291	21492	20771	22281
Unit labour costs, 1992=100	372.3	761.3	1069.9	1325.9	1565.1	1765.8	1940.2	1846.2
Unit labour costs, ER adj., 1992=100	167.2	370.2	470.1	601.1	793.3	906.2	1046.8	1151.9
Unit labour costs, PPP adj., Austria=100	6.46	13.99	16.65	22.38	30.63	34.91	39.55	43.42
Croatia								
Producer price index, 1989=100	204130.0	362535.0	365072.8	370183.9	378698.3	374153.9	383881.7	421118.3
Consumer price index, 1989=100	195909.3	387117.4	394858.7	408679.1	423391.3	447530.6	466326.7	495238.8
GDP deflator, 1989=100	138658.4	293621.3	309216.7	320477.1	344066.9	373062.5	388420.5	413453.7
Exchange rate (ER), HRK/ECU	4.13	7.09	6.76	6.80	6.96	7.14	7.58	7.64
ER, nominal, 1989=100	128111.3	219657.4	209442.2	210895.8	215699.6	221182.2	234912.7	236633.6
Real ER (CPI-based), 1989=100	78.9	70.6	68.0	67.8	68.3	67.4	69.6	67.6
Real ER (PPI-based), 1989=100	67.5	66.6	65.9	65.9	66.5	68.7	71.2	68.5
PPP, HRK/ECU	1.93	3.99	4.04	4.12	4.40	4.69	4.78	4.98
ERDI (ECU based)	2.14	1.77	1.67	1.65	1.58	1.52	1.59	1.53
Average monthly gross wages, HRK	848.0	2155	2887	3243	3668	4131	4551	4869
Average monthly gross wages, ECU (ER)	205	304	427	477	527	579	600	638
Average monthly gross wages, ECU (PPP)	439	539	714	787	834	881	952	978
GDP nominal, bn HRK	39.0	87.4	98.4	108.0	123.8	137.6	142.7	157.5
Employment total, 1000 persons	1446.6	1437.1	1417.4	1329.5	1310.9	1384.8	1364.5	1341.0
GDP per employed person, HRK	26962	60846	69410	81219	94447	99367	104580	117458
GDP per empl. person, HRK at 1996 pr.	62316	66411	71938	81219	87972	85361	86287	91044
Unit labour costs, 1989=100	86104.6	205335.1	253947.6	252664.5	263840.3	306232.5	333746.0	338409.1
Unit labour costs, ER adj., 1989=100	67.2	93.5	121.2	119.8	122.3	138.5	142.1	143.0
Unit labour costs, PPP adj., Austria=100	30.60	41.67	50.63	52.60	55.70	62.90	63.29	63.57
Macedonia								
Producer price index, 1989=100	86212.9	163202.7	170868.8	170357.8	177512.8	184616.7	184429.3	200851.8
Consumer price index, 1989=100	109313.2	249600.5	288886.7	295385.2	303065.2	302769.8	300643.1	318070.8
GDP deflator, 1990=100	15432.7	35126.7	41132.0	42324.8	43764.4	43846.7	43715.0	46207.6
Exchange rate (ER), MKD/ECU	27.30	51.09	49.15	50.08	56.20	61.07	60.62	60.73
ER, nominal, 1989=100	84781.6	158661.2	152643.3	155515.9	174525.6	189641.9	188247.5	188584.8
Real ER (CPI-based), 1989=100	93.5	79.0	67.7	69.2	77.2	85.5	86.5	83.9
Real ER (PPI-based), 1989=100	105.8	106.9	102.7	105.6	114.8	119.5	118.7	114.4
PPP, MKD/ECU	9.1381	20.332	22.87	23.14	23.81	23.45	22.88	23.66
ERDI (ECU based)	2.99	2.51	2.15	2.16	2.36	2.60	2.65	2.57
Average monthly net wages, MKD	3782	7754	8581	8817	9063	9394	9664	10193
Average monthly net wages, ECU (ER)	139	152	175	176	161	154	159	168
Average monthly net wages, ECU (PPP)	414	381	375	381	381	401	422	431
GDP nominal, bn MKD	65.5	146.4	169.5	176.4	185.0	190.8	195.3	216.8
Employment total, 1000 persons	.	.	.	537.6	512.3	539.8	545.2	549.8
GDP per employed person, MKD	.	.	.	328212	361081	353539	358173	394370
GDP per empl. person, MKD at 1996 pr.	.	.	.	328212	349203	341268	346782	361231
Unit labour costs, 1990=100	.	.	.	.	.	.	.	.
Unit labour costs, ER adj., 1990=100	.	.	.	.	.	.	.	.
Unit labour costs, PPP adj., Austria=100	.	.	.	27.02	24.12	23.49	23.49	23.69

(Table A/2 ctd.)

(Table A/2 ctd.)

	1993	1994	1995	1996	1997	1998	1999	2000 prelim.
Russia								
Producer price index, 1989=100	61181	267281	899321	1356086	1559505	1670224	2653986	3890743
Consumer price index, 1989=100	32112	130695	388817	574672	659723	841807	1563235	1888388
GDP deflator, 1989=100	41646	169848	446728	644091	737391	857437	1408823	1931573
Exchange rate (ER), RUB/ECU	1.21	2.60	5.89	6.63	6.54	11.06	26.24	26.03
ER, nominal, 1989=100	174605	375047	848366	954960	941800	1592973	3778114	3747905
Real ER (CPI-based), 1989=100	655.8	356.8	279.7	218.4	191.3	258.2	333.7	280.9
Real ER (PPI-based), 1989=100	307.1	154.3	108.4	81.5	70.5	110.9	165.6	117.4
PPP, RUB/ECU	0.1677	0.6685	1.6890	2.3950	2.728	3.119	5.014	6.727
ERDI (ECU based)	7.23	3.90	3.49	2.77	2.40	3.55	5.23	3.87
Average monthly gross wages, RUB	64.3	242.6	532.6	790.2	950.2	1051.5	1522.6	2268.0
Average monthly gross wages, ECU (ER)	53	93	90	119	145	95	58	87
Average monthly gross wages, ECU (PPP)	383	363	315	330	348	337	304	337
GDP nominal, bn RUB	171.5	610.7	1540.5	2145.7	2478.6	2741.1	4757.2	7063.4
Employment total, 1000 persons	70852	68484	66441	65950	64639	63642	63963	64658
GDP per employed person, RUB	2421	8918	23186	32535	38345	43070	74374	109242
GDP per empl. person, RUB at 1996 pr.	37438	33819	33429	32535	33494	32353	34003	36427
Unit labour costs, 1989=100	32589	136187	302503	461145	538634	617066	850183	1182111
Unit labour costs, ER adj., 1989=100	18.7	36.3	35.7	48.3	57.2	38.7	22.5	31.5
Unit labour costs, PPP adj., Austria=100	7.65	14.57	13.41	19.09	23.45	15.84	9.03	12.62
Ukraine								
Producer price index, 1989=100	274001	3382263	19914767	30290361	32622718	36928917	48413810	58532296
Consumer price index, 1989=100	143625	1423324	6786409	12229109	14172537	15674826	19233012	24656721
GDP deflator, 1989=100	142056	1495770	7715454	12819488	15140086	16950568	21086507	27382145
Exchange rate (ER), UAH/ECU	0.053	0.385	1.928	2.322	2.113	2.768	4.393	5.029
ER, nominal, 1989=100	758273	5537698	27739568	33408633	30401439	39821583	63212950	72357554
Real ER (CPI-based), 1989=100	636.8	483.8	524.0	359.0	287.5	346.7	453.9	415.4
Real ER (PPI-based), 1989=100	297.8	180.1	160.1	127.6	108.8	125.4	151.8	150.7
PPP, UAH/ECU	0.0062408	0.0642345	0.31828	0.52012	0.61107	0.67271	0.8188	1.0404
ERDI (ECU based)	8.44	5.99	6.06	4.46	3.46	4.11	5.37	4.83
Average monthly gross wages, UAH	1.6	13.8	73.0	126.0	143.0	153.0	177.5	231.0
Average monthly gross wages, ECU (ER)	29	36	38	54	68	55	40	46
Average monthly gross wages, ECU (PPP)	249	214	229	242	234	227	217	222
GDP nominal, bn UAH	1.5	12.0	54.5	81.5	93.4	102.6	127.1	175.0
Employment total, 1000 persons	23923.7	23025.0	23725.5	23231.8	22597.6	22348.7	21823.7	21600.0
GDP per employed person, UAH	62.0	522.8	2297.8	3508.9	4131.6	4590.6	5825.1	8102.3
GDP per empl. person, UAH at 1996 pr.	5593.0	4480.7	3817.9	3508.9	3498.4	3471.8	3541.4	3793.3
Unit labour costs, 1989=100	98966.6	1095212	6821887	12811424	14583936	15723252	17884553	21730899
Unit labour costs, ER adj., 1989=100	13.1	19.8	24.6	38.3	48.0	39.5	28.3	30.0
Unit labour costs, PPP adj., Austria=100	6.18	9.17	10.68	17.51	22.71	18.65	13.10	13.88
Austria								
Producer price index, 1989=100	103.1	104.5	104.8	104.8	105.2	104.7	103.8	108.0
Consumer price index, 1989=100	115.0	118.4	121.1	123.3	125.0	126.1	126.8	129.8
GDP deflator, 1989=100	114.3	117.5	120.4	122.0	123.5	124.4	125.5	127.0
Exchange rate (ER), ATS/ECU	13.60	13.51	13.03	13.26	13.78	13.88	13.76	13.76
ER, nominal, 1989=100	93.4	92.7	89.5	91.0	94.6	95.3	94.5	94.5
Real ER (CPI-based), 1989=100	98.0	97.4	94.8	97.0	101.5	103.2	102.9	103.0
Real ER (PPI-based), 1989=100	97.5	97.6	98.1	100.5	105.0	105.9	105.8	106.6
PPP, ATS/ECU	14.95	15.01	14.78	14.72	14.82	14.68	14.49	14.35
ERDI (ECU based)	0.91	0.90	0.88	0.90	0.93	0.95	0.95	0.96
Average monthly gross wages, ATS	26953	27956	29346	29688	30078	31161	32081	32936
Average monthly gross wages, ECU (ER)	1982	2070	2252	2239	2182	2245	2331	2394
Average monthly gross wages, ECU (PPP)	1803	1863	1986	2017	2029	2123	2214	2295
GDP nominal, bn ATS	2125.3	2237.9	2328.7	2450.0	2513.5	2614.7	2712.0	2833.9
Employment total, 1000 persons	3446.0	3451.8	3439.5	3415.4	3424.5	3446.6	3478.8	3507
GDP per employed person, ATS	616744	648328	677046	717334	733976	758632	779579	808185
GDP per empl. person, ATS at 1996 pr.	658292	673158	686043	717334	725061	743996	757838	776367
Unit labour costs, 1989=100	117.4	119.1	122.6	118.7	118.9	120.1	121.4	121.6
Unit labour costs, ER adj., 1989=100	125.7	128.4	137.1	130.4	125.7	126.0	128.5	128.8
Unit labour costs, PPP adjusted	0.53	0.54	0.58	0.55	0.53	0.53	0.54	0.54

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.

COUNTRY REPORTS

Anton Mihailov

Bulgaria: Great expectations, meagre short-term prospects

The June parliamentary elections brought about a major reshuffling of the Bulgarian political scene. The newly formed National Movement of Simeon II (the Bulgarian ex-king), which only came into existence in April, won a landslide victory. The ruling UDF party suffered a humiliating defeat, remaining a distant runner up, roughly at par with the Bulgarian Socialist Party, which took the third place. The new National Assembly will also include the Movement for Rights and Freedom, thus restricting the number of parliamentary parties to four. Regardless of the possible new political alliances, Simeon II's party will have the undisputed leadership both in the parliament and in the new government.

The former monarch does enjoy very wide personal popular support from various and quite heterogeneous social segments ranging from selected parts of the business elite (which is not numerous but apparently highly influential within the movement) to the (dominating in numbers) group of the losers of the ten years of transition. The latter was in fact the core of the so-called 'silent majority': those who abstained from vote in previous elections and who probably would not have voted in 2001 in the absence of the new alternative, a group which has been steadily growing during the last several years. This time the silent majority, with its largely protest vote, provided the decisive electoral support for the former king's political movement. In fact, the level of electoral activity in these parliamentary elections (some 67% of those eligible to vote) was among the highest during the past decade.

The economic programme of Simeon II's National Movement is highly eclectic, combining liberal ideas (reflecting the visions of the group of young financiers that designed the programme) and populist pledges (probably coming from the political entourage close to the former monarch), apparently seeking to appease the most numerous political constituency of the movement. They combine seemingly inconsistent and conflicting objectives: on the one hand, the programme asserts the goals to limit state intervention in the economy, reduce public administration and public spending, and accelerate privatization; on the other, it pledges to reduce the level of taxation, increase public support to the weakest layers of society, expand the existing social programmes, strengthen the police, create new public institutions. Besides, these are expected to be met under the assumption of a zero budget deficit and maintaining the currency board.

The movement has also committed itself to widening and deepening of financial reforms, strengthening the judiciary, fighting corruption and elimination of all bureaucratic hurdles for doing business, measures aiming to improve the business environment and the investment climate. One of the most widely debated – and controversial – ideas is that of zero taxation of re-invested profit by all local business (matching Estonia's practice in this area). The ultimate goal is to attract large inflows of FDI and to intensify job creation so as to reduce the level of unemployment. This is in fact the link that may eventually reconcile the seemingly inconsistent components of the programme. Indeed, under a scenario combining sharp acceleration of economic growth and large inflows of greenfield FDI, it might be possible to meet simultaneously the above-mentioned conflicting objectives. The main question mark is whether such a scenario is a realistic prospect for the Bulgarian economy once the movement assumes the responsibility of legislative and administrative power. In the meantime, the majority of the Bulgarian society seems to be in the grips of the great expectations of a major change to the better, something that failed to materialize during the past decade.

Disappointingly, the start of 2001 did not provide signs of such a change. On the contrary, after the record high growth in 2000 (according to the recently published preliminary data GDP grew by 5.8%, the highest rate since the start of reforms), growth seems to be moderating. During the first quarter of the year gross industrial output grew by just 2.5% year-on-year and the pace of exports was also decelerating: in the same period, dollar exports increased by 14.7% year-on-year, which was less than the rate at which they were growing in 2000. The positive developments were confined to a handful of industries (such as textiles, petroleum products, electricity and selected chemicals) where output growth was predominantly export-led. Domestic demand also seems to be weakening: in the first quarter domestic industrial sales were just 1.8% up year-on-year while retail sales increased by a little more than 2%. Unemployment is stubbornly stuck at levels of around 18% and this has indeed been the most serious trouble for the authorities lately.

To add to the deteriorating business environment, the external conditions in 2001 seem to be much less favourable for the Bulgarian economy than they were in 2000. The disturbance in neighbouring Macedonia is not only impacting on exports to this country but also affects negatively business confidence and investors' perceptions. The financial crisis in Turkey, another important export market, is also having an adverse effect on trade. And probably most importantly, the general slowdown of economic activity and import demand in western Europe (and, in particular, in the EU area) is also starting to bite Bulgarian exporters.

The situation on the macroeconomic front seems to be more encouraging. After the upsurge in domestic prices in 2000 (largely driven by imported inflation caused by the rising oil prices), the pace of inflation slowed down considerably and the average annual figure for 2001 is likely to be in the lower single-digit range. The reported fiscal balance also appears to be intact (the main risk being that of pre-electoral cooking of the books and failing to report on time some excessive spending). The IMF seems to have given green light to recent policy implementation by approving the final disbursement under the 1998 three-year EFF agreement.

This notwithstanding, there has been growing nervousness among official creditors about the possible risks of an abrupt change in the policy course after the elections. Undoubtedly, with a new team in charge of the economy, there will be a lengthy period of 'wait-and-see' before official creditors are ready for normal business. In the meantime, the new government will be faced with a widening trade deficit and the need to finance a stubbornly high current account deficit. It is not at all clear whether a new IMF agreement is a realistic prospect in the short run and thus the authorities may be forced to go ahead with the long delayed probing of the international financial markets with a sovereign debt issue.

In summary, in the short run the downside risks for the Bulgarian economy seem to outweigh the positive prospects and these risks will be increasing if there is further economic weakening in western Europe. There are inherent lags in the transmission channels and the direct repercussions of the present slowdown in the EU on the Bulgarian economy will probably only become visible in the second half of the year. Nevertheless, if the deceleration of western European demand intensifies, this will undoubtedly have serious consequences for the Bulgarian economic performance already in 2001. Although the authorities were sticking to their upbeat growth forecasts of over 5% GDP growth in 2001 (which was probably part of the pre-election rhetoric), achieving such rates of growth seems increasingly unlikely.

Table BG

Bulgaria: Selected Economic Indicators

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., end of period	8340.9	8283.2	8230.4	8190.9	8149.5	.	.	.	.
Gross domestic product, BGN mn, nom.	1748.7	17055.2	21577.0	22776.4	25453.6	5188	.	28000	30500
annual change in % (real)	-10.1	-7.0	3.5	2.4	5.8	4.8	.	4	4
GDP/capita (USD at exchange rate)	1189	1224	1484	1510	1459	.	.	.	.
GDP/capita (USD at PPP - WIIW)	4990	4770	4970	5210	5640	.	.	.	.
Gross industrial production									
annual change in % (real)	5.1	-5.4	-7.9	-9.3	5.8	5.2	2.5	4	4
Gross agricultural production									
annual change in % (real)	-11.5	12.4	0.2	-0.6	-16	-9.1	.	.	.
Goods transport, public, mn t-kms	79850	86543	76039	79446	84767	.	.	.	.
annual change in %	-8.4	8.4	-12.1	4.5	6.7	.	.	.	.
Gross fixed capital form., BGN mn, nom.	238.5	1841.0	2850.8	3632.2	4111.3	.	.	.	.
annual change in % (real)	-21.2	-23.9	32.9	25.3	8.2	.	.	.	.
Construction output total									
annual change in % (real)	-14.0	-4.4	-0.2	8.0	-16.8	.	.	.	.
Dwellings completed, units	8099.0	7452.0	4942.0	9824.0	8795.0	.	.	.	.
annual change in %	18.8	-8.0	-33.7	98.8	-10.5	.	.	.	.
Employment total, th pers., average	3285.9	3157.4	3152.6	3087.8	2943.4	.	.	.	.
annual change in %	0.1	-3.9	-0.2	-2.1	-4.7	.	.	.	.
Employees in industry, th pers., average 2)	728.1	838.7	802.5	722.5	624.3	627	599	.	.
annual change in % 2)	-5.5	-2.7	-4.3	-10.0	-13.6	-14.8	-4.5	.	.
Unemployed reg., th, end of period	478.5	523.5	465.2	610.6	682.8	717.0	704.7	690	660
Unemployment rate in %, end of period	12.5	13.7	12.2	16.0	17.9	18.8	18.4	18	17
Average gross monthly wages, BGN 2)	14.0	127.9	183.3	201.0	238.0	211	238	.	.
annual change in % (real, gross) 2)	-17.1	-16.6	20.7	6.9	7.4	4.5	3.4	.	.
Retail trade turnover, BGN mn	723.7	5469.3	7214.2	8023.0	8746.0	1519.0	1991.0	.	.
annual change in % (real)	-7.6	-36.4	18.5	12.3	0.7	6.8	2.2	.	.
Consumer prices, % p.a. 3)	121.6	1058.4	18.7	2.6	10.3	8.5	8.9	5	4
Producer prices in industry, % p.a.	130.0	971.1	16.5	3.1	17.2	16.6	12.0	.	.
Central government budget, BGN mn 4)									
Revenues	350.0	2983.3	4245.6	4543.5	6120.9	1299.9	1555.0	.	.
Expenditures	540.8	3650.0	3930.8	4132.0	6304.8	1053.0	1772.0	.	.
Deficit (-) / surplus (+)	-190.9	-666.7	314.7	411.6	-183.8	247.0	-217.0	.	.
Deficit (-) / surplus (+), % of GDP	-10.9	-3.9	1.5	1.8	-0.7	.	.	.	.
Money supply, BGN mn, end of period									
M1, Money	236.6	2266.9	2755.6	2996.6	3632.2	2877.5	3555.0	.	.
Broad money	1310.3	6018.6	6597.2	7351.1	9290.7	7538.5	9481.7	.	.
Base rate of NB % p.a., end of period	342.1	6.8	5.2	4.5	4.7	3.6	4.2	.	.
Current account, USD mn	163.7	1046.3	-61.4	-651.7	-701.4	-348.0	-161.0	-600	-500
Gross reserves of NB excl. gold, USD mn	483.4	2121.0	2679.4	2892.0	3154.9	2561.2	2789.8	.	.
Gross external debt, convert. curr.,USD mn	9601.6	9760.2	10274.3	10204.3	10364.3	10082.3	10158.1	.	.
Exports total, fob, USD mn 5)	4890.2	4939.7	4297.0	4006.4	4812.3	1111.0	1274.6	5100	5300
annual change in %	-8.7	1.0	-13.0	-4.5	20.1	26.6	14.7	6	4
Imports total, cif, USD mn 5)	5073.9	4932.0	5031.3	5515.1	6493.9	1533.3	1639.3	6800	7100
annual change in %	-10.3	-2.8	2.0	11.3	17.7	26.1	6.9	5	4
Average exchange rate BGN/USD	0.176	1.677	1.760	1.836	2.123	1.982	2.119	.	.
Average exchange rate BGN/EUR (ECU)	0.192	1.896	1.972	1.956	1.956	1.956	1.956	1.956	1.956
Average exchange rate BGN/DEM	0.118	0.968	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Purchasing power parity BGN/USD, WIIW	0.042	0.435	0.525	0.532	0.553	.	.	.	.
Purchasing power parity BGN/EUR, WIIW	0.045	0.474	0.570	0.575	0.595	.	.	.	.

1) Preliminary. - 2) Up to 1996 public sector only. - 3) Revised data according to Eurostat methodology. - 4) From 2000 including some extrabudgetary funds and accounts. - 5) From 1999 new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Josef Pöschl

Czech Republic: Return of growth – and current account concerns

Up to the end of 2000, more than USD 21 billion foreign direct investment (FDI) entered the Czech Republic, pushing the country into a top position among the transition countries in terms of accumulated FDI per capita. In 2000 the inflow was USD 4.6 billion. Over two thirds of the total (68%) targeted the service sector, and there primarily trade (USD 1.1 billion, 24% of the total), financial intermediation (20%) and real estate (14%). For the year 2001, the FDI inflow could come close to USD 4 billion. Thus, FDI is now playing a key role in the Czech economy.

In 2000, the GDP grew by 2.9%, but quarterly data show that there was an acceleration of growth over time. This tendency continued in the first four months of 2001: business activities boomed. In real terms retail trade turnover was by 6.2% higher than in January to April 2000, construction output by 15.4% and industrial output by 10.3%. In USD terms exports grew by 19.5% in the first four months of this year, but imports increased even more – by 23%. Since the second quarter of 2000, the trade balance exerts a negative influence on real GDP growth. The latter is fuelled by domestic demand, especially by a strong expansion of gross fixed investment, gradually strengthening growth of private consumption and an increasingly positive effect of inventory changes.

The increase in industrial output was closely linked to exports and investment. In April 2001, the overall output growth was 11.4% year-on-year, whereas export sales expanded by nearly 20%. The output of capital goods grew even more, by over 25%. Foreign-controlled industrial enterprises, the most active exporters within manufacturing, increased their sales by close to 20%. With two exceptions – the food and leather industries – the output rise was general and most pronounced in manufacturing of electrical and optical equipment (55% over April 2000), manufacturing of coke and refined petroleum products (27%), rubber and plastic products (21%) as well as machinery and equipment (16%).

The improvement in the average business profitability, observable already in 2000, has most probably continued. In the first quarter of 2001, the number of employees in manufacturing remained nearly unchanged over the corresponding period of the previous year, whereas output increased by over 12%. Thus, the increase in labour productivity surpassed the increase in nominal wages (8.4%). At the same time, output prices in the industry as a whole rose by 4.3%. In construction, employment fell by nearly 11%, whereas production increased by about 15% and wages by 8.5%.

At the end of April, the Czech authorities counted about 430,000 job applicants, about one third of which received unemployment benefits. The regional disparity was considerable: in and around Prague the rate of unemployment was close to 3%, whereas in the districts close to Poland, Slovakia and to Eastern Germany was much higher, reaching 21% in one district. In recent years, the rate of unemployment has always been rather low in springtime, but significantly higher at the end of December. At the end of this year it could well surpass the 9% level and in the next year come close to 10%, depending on the speed of restructuring in the corporate sector and in state-dominated companies when the elections are over.

The main destination of exports is the EU (January to April 2001: 71%). The foreign trade of the Czech Republic specializes increasingly in machinery and transport equipment. In the period January to April 2001, this product category had a share of 42% in total imports and 48% in total exports. This specialization was most pronounced in trade with the EU and other developed market economies, with shares of 50% of the total and more. The specialization is the same for exports and imports, a fact that points to strong – and progressing – integration into intra-industrial networks. This also explains the strong link between export and import growth. The expansion of the trade deficit – from USD 475 million in the first quarter of 2000 to 760 million in the first quarter of this year has several reasons. The strong increase in investment boosted the demand for imported technology. Private consumption increased, e.g. because of a 5% increase in real wages (first quarter 2001, year-on-year). At the same time, domestically produced consumer goods are hard to find in most of the mushrooming FDI-financed megastores. Finally, the Czech currency has appreciated vis-à-vis the euro: 2.8% in nominal terms and approximately 5% in real terms (first quarter 2001 over first quarter 2000). At the same time, a nominal depreciation vis-à-vis the US dollar increased the bill for imported crude oil and gas.

The current account deficit was 2.8% of GDP in the first quarter of 2000, but started widening in the following months, up to 4.7% for the year as a whole. The figure for the first quarter of 2001 can be expected to surpass 5.5% of GDP. Within the current account, a deficit in the balance of incomes, caused mainly by repatriation of profits, almost fully offset the surplus in the balance of services. As the net inflow of FDI exceeds the deficit in the current account, the latter is not causing much worry yet. The currency remains under appreciation pressure, and to avoid stronger appreciation, the national bank is keeping the interest rates low. The level of nominal interest rates and the rate of inflation are now rather close to EU standards. However, the overall price level is still very low compared to neighbouring Austria and Germany. A gradual increase in prices of non-tradable commodities will fuel inflation for quite some time. The low prices of non-tradables are the main reason why Czech wages can be that low compared to neighbouring EU countries. If recalculated by use of the exchange rate, average gross monthly wages in the first quarter of 2001 were EUR 282 or USD 353. In 2000, their purchasing power within the country was about 2.5 times higher.

The current account deficit has its twin, a deficit in the government budget. In 2000, the latter was 2.4% of GDP according to the ministry of finance, which on the revenue side includes privatization proceeds. Roughly the same size of deficit is projected for this year. The government uses transition-related revenues to cover transition-related costs, especially in the context of the cleaning of the banks' bad loan portfolios, and there is no sign that this procedure would lead to a strong boost of the money supply. Nevertheless there are good reasons to be concerned about the government's budgetary discipline as the next parliamentary elections are approaching. The government seems to be tempted to provide the handful of ever-troubled big companies with fresh money. Also, there is a certain regress to non-transparent methods of the handling of state purchases and property sales. For a country with much-discussed institutional deficiencies this is bad.

In the short run, GDP growth is likely to continue and even to strengthen. Confidence indicators are confirming this positive trend. Respondents operating in the area of external trade expected less import growth and still more slowdown in export growth. In the case of a merely modest temporary recession in the EU, Czech growth could stay at more or less the present level and accelerate thereafter, jointly with the improvement of the EU business climate. In the case of a more severe recession in the EU and especially Germany, the Czech export growth will probably weaken, whereas the internal business boom, with domestic demand as its engine, is likely to persist for the time being. Such a development may push the current account deficit to an unsustainable level in 2002.

Table CZ

Czech Republic: Selected Economic Indicators

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., mid-year	10315.4	10303.6	10294.9	10282.6	10272.6	.	.	.	.
Gross domestic product, CZK bn, nom.	1567.0	1679.9	1837.1	1887.3	1959.5	441.4	477.4	2120	2270
annual change in % (real)	4.3	-0.8	-1.2	-0.4	2.9	3.2	3.8	3.5	3.5
GDP/capita (USD at exchange rate)	5596	5142	5530	5305	4943	.	.	.	.
GDP/capita (USD at PPP - WIIW)	12990	13050	13070	13270	13500	.	.	.	.
Gross industrial production									
annual change in % (real) 2)	2.0	4.5	1.6	-3.1	5.1	4.8	10.0	6	6
Gross agricultural production									
annual change in % (real)	-1.4	-5.1	0.7	0.6	-5.6	.	.	.	.
Goods transport, mn t-kms 3)	32581	62460	53639	54620	57100	.	.	.	.
annual change in %	-0.4	.	-14.1	1.8	4.5	.	.	.	.
Gross fixed capital form., CZK bn, nom.	500.6	514.5	532.2	527.1	554.7	114.3	124.6	.	.
annual change in % (real)	8.2	-3.0	0.1	-0.6	4.2	2.7	7.3	6	6
Construction industry									
annual change in % (real)	5.3	-3.9	-7.0	-6.5	5.3	4.0	15.0	.	.
Dwellings completed, units	14482	16757	22183	23734	25207	.	.	.	.
annual change in %	14.4	15.7	32.4	7.0	6.2	.	.	.	.
Employment total, th pers., average	5044.4	4946.6	4869.2	4693.1	4587.0	4591	.	.	.
annual change in %	0.7	-1.9	-1.6	-3.6	-2.3	-2.9	.	.	.
Employment in industry, th pers., average	1614.7	1608.8	1602.6	1550.9	1507.0	1513	.	.	.
annual change in %	-0.8	-0.4	-0.4	-3.2	-2.8	-4.7	.	.	.
Unemployed reg., th, end of period	186.3	268.9	386.9	487.6	457.4	493.4	451.5	.	.
Unemployment rate in %, end of period	3.5	5.2	7.5	9.4	8.8	9.5	8.7	9.4	9.8
Average gross monthly wages, CZK 4)	9676	10691	11693	12655	13491	12163	13289	.	.
annual change in % (real, gross)	8.9	2.0	-1.2	5.9	2.6	3.2	5.0	.	.
Retail trade turnover, CZK bn	.	.	.	.	.	.	.	.	.
annual change in % (real)	12.1	-0.4	-7.1	2.4	4.0	6.4	3.5	.	.
Consumer prices, % p.a.	8.8	8.5	10.7	2.1	3.9	3.7	4.0	4.4	3.5
Producer prices in industry, % p.a.	4.7	4.9	4.9	1.0	4.9	4.5	4.3	3.5	2.0
Central government budget, CZK bn									
Revenues	482.8	509.0	537.4	567.3	586.2	136.0	140.1	.	.
Expenditures	484.4	524.7	566.7	596.9	632.3	127.7	137.7	.	.
Deficit (-) / surplus (+)	-1.6	-15.7	-29.3	-29.6	-46.1	8.3	2.4	-50	-50
Deficit (-) / surplus (+), % GDP	-0.1	-0.9	-1.6	-1.6	-2.4	.	.	.	.
Money supply, CZK bn, end of period									
M1, Money	475.3	445.1	433.4	479.8	542.5	479.6	551.1	.	.
M2, Money + quasi money	1120.5	1217.6	1280.8	1389.2	1479.5	1389.9	1498.1	.	.
Discount rate, % p.a., end of period	10.5	13.0	7.5	5.0	5.0	5.0	4.0	.	.
Current account, USD mn	-4292	-3211	-1336	-1567	-2369	-336	-708	-3100	-3300
Gross reserves of NB incl. gold, USD mn	12435	9774	12617	12825	13139	12678	12898	.	.
Gross external debt, convert. curr.,USD mn	20845	21352	24047	22613	21290	21168	21800	.	.
Exports total, fob, USD mn 5)	22476.4	22784.7	26349.8	26264.6	29054.1	7088.1	8436.4	32500	36000
annual change in %	5.4	1.4	15.6	-0.3	10.6	16.5	19.0	12	11
Imports total, fob, USD mn 5)	27962.2	27459.0	28786.5	28126.3	32242.6	7563.8	9197.7	36500	40500
annual change in %	11.5	-1.8	4.8	-2.3	14.6	17.1	21.6	13	11
Average exchange rate CZK/USD	27.15	31.71	32.27	34.60	38.59	36.18	37.64	.	.
Average exchange rate CZK/EUR (ECU)	34.01	35.80	36.16	36.88	35.61	35.78	34.79	34.7	34.5
Average exchange rate CZK/DEM	18.06	18.28	18.33	18.86	18.21	18.29	17.79	18.0	18.0
Purchasing power parity CZK/USD, WIIW	11.69	12.49	13.65	13.84	14.13	.	.	.	.
Purchasing power parity CZK/EUR, WIIW	12.68	13.62	14.81	14.95	15.21	.	.	.	.

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.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Sándor Richter

Hungary: Expansive economic policy, wider intervention band of the forint

Hungarian economic policy has undergone considerable changes this year. First, private consumption and government spending have been boosted. In anticipation of the approaching national elections in early 2002 real incomes of the population have been increasing dynamically. Minimum wages were raised substantially (by 57%) at the beginning of the year and a further 25% rise is announced for 2002 (altogether an increase by more than 60% in real terms within two years). The government is also raising pensions 3 percentage points more than the rate fixed earlier. Employees of the public sector will be compensated in July for smaller than planned real wage growth last year. As of September, a new, preferential credit facility will be made available for students to cover their costs of living while they study. Several projects (highway construction, housing, etc.) initiated in the framework of the 'Széchenyi Plan', a comprehensive government programme aimed at fostering development in areas qualified as national priority, entered the phase of implementation. All in all, the economic policy has entered a new, expansive phase. Second, on 4 May the intervention band of the forint was widened to +/- 15% from +/- 2.25%, indicating a departure from the exchange rate regime introduced in 1995 as one of the main pillars of the 'Bokros' stabilization package. Related to this decision, in early June the full convertibility of the Hungarian currency was declared; this, among other things, lifts remaining barriers on short-term capital transactions.

Both the expansive economic policy and the departure from the earlier exchange rate policy are expected to have a considerable impact on the economy. A few signs of changes can already be perceived, but in some important areas no trace of impact has been registered as yet.

Real wages increased by 4.4% in the first quarter of 2001, that is much higher than in the respective period of the previous year. It is remarkable that real wages in the public sector increased by 1.8% only. That will certainly be compensated for in the rest of the year. As the saving propensity of the population is slightly decreasing and real social transfers are also on the rise, household consumption may grow 5% this year. The new, higher minimum wage seems to have been digested without major troubles. Employment increased by 1.4%, the unemployment rate fell below 6%.

The ambitious infrastructure development programmes have not appeared in the investment statistics yet, the 5.3% growth rate in the first quarter is lower than the respective figure in 2000. The boost of domestic demand has not yet shown up either in the domestic sales of the industry or in imports.

Despite the weaker demand in the main foreign markets, industrial export sales increased by 20.8% while in domestic sales the growth was only marginal (2.7%) and lagged behind the expansion reported in the first quarter of the previous year. Altogether industrial production increased by 10.2%, a formidable performance in itself but substantially less than in the previous year (over 18%). The stock of orders (+1% in domestic sales, +40% in export sales) indicates that export sales may again become the driving force of industrial growth and increasing domestic demand will likely be met only to a limited extent by supply of the domestic industry. Utilization of capacities in manufacturing is high (more than 80% in April), hinting at the necessity of more investment if dynamic output growth should be maintained.

The widening of the intervention band of the forint to +/- 15% had the primary intention to create increased manoeuvring room for the monetary policy. Under the earlier regime of a very narrow intervention band the interest rate policy had been restrained. The monthly 0.2% devaluation of the forint (the middle of the band) was maintained and is planned to be reduced to 0.1% later this year and abolished in 2002. Nevertheless with the new, much wider band the official devaluation has practically lost its significance. As expected, the forint immediately moved towards the stronger edge of the band after the widening came into force. In the first weeks of the new regime the appreciation of the forint amounted to 5-7% compared to the middle of the band. Most probably the new exchange rate level will remain stable over the rest of the year, though 3-4% further appreciation and increased volatility cannot be excluded either. The main impacts of the new exchange rate regime will be cheaper imported inputs reducing the imported inflation, but possibly also deteriorating the trade balance through increasing imports. Simultaneously, the profitability of exports (especially of firms using predominantly domestic inputs) may deteriorate.

The first quarter of 2001 was rather promising in foreign trade: both exports and imports (by customs statistics) increased by 20%. The trade deficit (EUR 1.031 million) was hardly higher than in the respective period of 2000, the deficit/exports ratio remained unchanged. The current account deficit in the first four months of 2001 amounted to EUR 341 million, which is smaller than the deficit in the respective period of the previous year. Non-debt-generating net inflow of foreign capital (EUR 347 million) covered the whole current account deficit. The good current account position in the first months of the year contributed to the seamless introduction of the wider intervention band of the forint.

The support by the exchange rate policy for disinflation came in due time. After steady decline following the 1995 stabilization, disinflation came to a halt in 2000. In the first five months of this year the annual CPI was above 10%, just as in the last four months of the previous year. Above-average price increases were registered in household energy and foodstuffs. The former reflects the delayed rise of regulated prices, the latter the rapidly closing gap between food price rises and average inflation. The new exchange rate regime will help reduce inflation, but not earlier than in the last months of the year and in 2002.

The expansive turn in the economic policy will certainly affect the budget, but most of the impact remains 'invisible'. Due to 'creative book-keeping', facilitated by the not really transparent biannual budget[9] and the off-budgetary outlays in highway construction, the officially reported general government deficit/GDP ratio will be smaller (probably between 3.2% and 3.5%) than it would be otherwise.

The impacts of the economic policy changes will be felt in the second half of the year. Investments will accelerate. Household consumption may increase by 5% in the whole year, and the current account deficit will deteriorate to a considerable extent in the autumn months and will amount to USD 2.5 billion at the end of the year. Net foreign debt is likely to increase. Annual average CPI inflation will amount to 9% this year, but only to 6.5% in 2002. A deteriorating net export position, due to the combined effects of modest growth performance in main export markets and cheaper imports caused by the real appreciation, may allow a GDP growth rate of close to 5% this year. Whether the new, expansive economic policy is only a requisite of the election campaign or will be maintained for a longer time after the elections cannot be foreseen yet. External balances will have the 'final word' about it.

9 Financing the expenditures this year from revenues of the previous year.

Table HU

Hungary: Selected Economic Indicators

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., end of period	10174.4	10135.4	10091.8	10043.2	10005.0	10029	.	10000	9950
Gross domestic product, HUF bn, nom.	6893.9	8540.7	10087.4	11393.5	12876.8	.	.	14800	16500
annual change in % (real)	1.3	4.6	4.9	4.2	5.2	6.5	4.4	4.8	5
GDP/capita (USD at exchange rate)	4433	4504	4651	4769	4551	.	.	.	.
GDP/capita (USD at PPP - WIIW)	9340	9910	10570	11260	12110	.	.	.	.
Gross industrial production									
annual change in % (real)	3.4	11.1	12.5	10.4	18.3	20.7	10.2	13	13
Gross agricultural production									
annual change in % (real)	6.3	-3.8	-2.1	3.9	-6	.	.	.	.
Goods transport, mn t-kms	24874	24789	27144	26339	26149	5975	6035	.	.
annual change in %	5.1	-0.3	9.5	-3.0	-0.7	3.8	1.0	.	.
Gross fixed capital form., HUF bn, nom.	1475.5	1898.9	2384.6	2724.5	3162.7	.	516.2	.	.
annual change in % (real)	6.7	9.2	13.3	5.5	6.6	7.0	5.3	8	9
Construction industry									
annual change in % (real)	2.7	8.1	15.3	9.0	5.8	4.9	7.1	9	9
Dwellings completed, units	28257	28130	20323	19287	21583	2622	3973	.	.
annual change in %	14.3	-0.4	-27.8	-5.1	11.9	0.8	51.5	.	.
Employment total, th pers., average 2)3)	3648.1	3646.3	3697.7	3811.5	3849.1	3797.9	3851.5	.	.
annual change in % 2)3)	-0.8	0.0	0.7	3.1	1.0	0.9	1.4	1	1
Employees in industry, th pers., average 4)	789.0	783.5	795.9	834.0	844.8	843.7	849.2	.	.
annual change in %	-5.3	-0.7	1.6	0.8	1.3	1.5	0.7	.	.
Unemployed, th pers., average 2)	400.1	348.8	313.0	284.7	262.5	274.0	245.6	.	.
Unemployment rate in %, average 2)	9.9	8.7	7.8	7.0	6.4	6.7	6.0	5.9	5.9
Average gross monthly wages, HUF 4)	46837	57270	67764	77187	87645	79903	93629	.	.
annual change in % (real, net)	-5.0	4.9	3.6	2.5	1.5	1.3	4.4	4.5	4.5
Retail trade turnover, HUF bn 5)	2793.2	3197.6	3682.8	4329.7	4821.0	903.0	1041.4	.	.
annual change in % (real) 5)	-5.0	-1.0	12.3	7.9	2.0	4.0	7.2	.	.
Consumer prices, % p.a.	23.6	18.3	14.3	10.0	9.8	9.8	10.3	9	6.5
Producer prices in industry, % p.a.	21.8	20.4	11.3	5.1	11.7	9.1	9.6	.	.
Central government budget, HUF bn 6)									
Revenues	2079.3	2364.6	2624.4	3227.6	3679.3	830.9	953.9	.	.
Expenditures	2209.1	2703.1	3176.6	3565.8	4048.7	955.6	989.1	.	.
Deficit (-) / surplus (+)	-129.8	-338.5	-552.2	-338.1	-369.4	-124.7	-35.2	.	.
Deficit (-) / surplus (+), % GDP	-1.9	-4.0	-5.5	-3.0	-2.9	.	.	.	.
Money supply, HUF bn, end of period									
M1, Money	1237.2	1528.3	1789.2	2126.2	2378.8	1967.2	2236.7	.	.
Broad money	3351.1	4009.5	4606.9	5361.2	6034.4	5336.9	5990.5	.	.
Refinancing rate, % p.a., end of period	23.0	20.5	17.0	14.5	11.0	12.0	11.0	.	.
Current account, USD mn	-1678	-981	-2298	-2081	-1496	-373	-316	-2500	-2600
Reserves total, incl. gold, USD mn	9751	8429	9341	10854	11229	10721	10734	.	.
Gross external debt, USD mn	27956	24395	27280	29336	30757	29444	30196	.	.
Exports total, fob, USD mn 7)	13119.6	19099.5	23010.0	25024.3	28139.0	6506.3	7449.7	31200	34600
annual change in %	1.7	21.8	20.5	8.8	12.4	.	14.5	11	11
Imports total, cif, USD mn 7)	16176.5	21211.1	25700.7	28003.7	32111.2	7364.5	8417.6	35900	39800
annual change in %	5.0	17.1	21.2	9.0	14.7	.	14.3	12	11
Average exchange rate HUF/USD	152.57	186.75	214.45	237.31	282.27	259.17	287.61	.	.
Average exchange rate HUF/EUR (ECU)	191.15	210.93	240.98	252.80	260.04	256.06	265.71	260	265
Average exchange rate HUF/DEM	101.40	107.68	122.15	129.25	132.96	130.92	135.86	.	.
Purchasing power parity HUF/USD, WIIW	72.55	85.07	94.61	100.79	106.31	.	.	.	.
Purchasing power parity HUF/EUR, WIIW	78.67	92.74	102.68	108.90	114.46	.	.	.	.

1) Preliminary. - 2) Based on labour force survey. - 3) From 1998 new sample. - 4) Enterprises with more than 10, from 1999 more than 5 employees. - 5) From 1998 excluding catering. - 6) Excluding privatization revenues. - 7) 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.

Leon Podkaminer

Poland: High interest rates push up currency and repress domestic demand

Throughout the year 2000 GDP growth was slowing down, from 6% in the first quarter to 2.4% in the fourth. Private consumption and gross fixed capital formation followed the same trend (consumption growth decelerated from 4.6% to 1.3%, growth of capital formation from 5.5% to 2.6%). Overall in 2000 GDP rose 4.1%, of which private consumption by 2.4% and gross fixed capital formation by 3.1%. Available information on developments in the first quarter of 2001 suggest a further slowdown of growth of *domestic demand*. In real terms industrial sales rose at much lower rates and output of construction contracted strongly. There was also a decline in the volume of the retail trade turnover.

The deceleration of growth of domestic demand reflects the weak pace at which incomes are increasing. Thus, although the average real wage in the corporate sector rose by 1.7% in the first quarter of 2001, the entire wage bill (total of wage incomes) increased by only 0.3%. That was due to falling employment (2.4% in the corporate sector, of which 4.4% in manufacturing). Wage income losses were not compensated at all by unemployment benefits. The average unemployment benefit has been low, and declining, as compared to the average wage. Moreover, despite the fast rise in unemployment, there has been a steady decline in the number of recipients of such benefits. (At present only 20% of registered unemployed are entitled to the benefits.) Other types of incomes, possibly except for the farmers' incomes, have not fared any better recently. The real value of the average pension fell by 1%, and the total real value of all pensions disbursed was down 2.1%.

A marked increase in international unit labour costs has not led to any improvement in net profits earned by the non-financial corporate sector, despite the strong rise in labour productivity (9% in industry). In actual fact the sector registered a *net loss* (PLN 15.8 million) in the first quarter of 2001 (down from a net profit of PLN 1518 million one year earlier). The net profit of manufacturing declined from PLN 861 million to 216 million. The worst performance was recorded by the trade and repair sector which made a PLN 298 million loss (against a 85 million profit in the first quarter of 2000). Net profits of the commercial banking sector also deteriorated, from PLN 1.61 billion in the first quarter of 2000 to 1.27 billion presently.

Under very high interest rates administered by the National Bank of Poland (the Lombard rate ranging between 23% at the beginning of 2001 and 21% in April), the credit expansion during the first quarter was meagre. Households' liabilities to banks rose by 0.3% nominally, the corporate sectors' by 2.8%. The combined liabilities of households and the corporate sector increased by 2.2% – i.e. in real terms they did not increase at all. Moreover, the bank deposits of households and the corporate sector rose faster, by 2.5% nominally. All in all, the monetary policy did nothing to support the slackening domestic demand. This probably contributed to the fast disinflation during the period. High interest rates have also influenced disinflation indirectly, via strong appreciation of the Polish currency. Nominally, the zloty firmed vs. the US dollar by 6% within three months (March 2001 / December 2000), and 4.3% vs. the euro. Thus, nominal appreciation, which set in at the beginning of 2000, has become even more pronounced recently. Imports, which have become generally cheaper, are quite certainly lowering inflation.

Continuing strong nominal (and of course even stronger real) appreciation of the zloty has not produced, in the first quarter of 2001, any deterioration of the trade balance. In actual fact the trade deficit contracted – primarily *as the result of a strong expansion of exports*, with imports rising at a more moderate pace. There are several reasons for the good export performance despite very strong real appreciation and weakening growth in the EU. First, the evident stagnation in domestic incomes and demand (which is also behind the moderate growth of imports) leaves firms which are unable to sell their products at home with no other choice but to attempt exports, even at low and falling profitability. Also, many traditional exporters cannot afford discontinuation of their activities even if at present exports generate losses. Foreign markets, once lost, may be difficult to recover. Certainly, the ongoing improvements on labour productivity, product quality etc., may be partly offsetting the negative effects which appreciation has on profitability of exports. Nonetheless, the currently recorded improvements in exports are unlikely to be sustained for very long, especially if the zloty strengthens further. Mounting losses (see above) will sooner or later deplete the limited financial resources of most exporters and force a contraction of exports. The appreciation may or course have little effect on a few very efficient and profitable export-oriented firms, especially the foreign-owned subsidiaries of transnational corporations. To such firms the costs borne in Poland are very low even at a very strong zloty.

The lower trade deficit in the first quarter of 2001 went together with a substantially lower current account deficit. As during the whole year 2000, capital inflows were high. Although FDI inflows were somewhat lower than a year earlier, all other capital items combined were much higher, adding USD 0.5 billion to official reserve assets. No doubt, the capital inflows (other than FDI) were induced by very high interest rate differentials and the prospects of a further strengthening of the zloty. The rather predictable resolution of the National Bank to maintain very high interest rates made such inflows pretty unavoidable. Of course, the situation is fraught with obvious risks, both to short-term investors and to Poland. There are many possible events that can trigger outflows of capital – and the associated weakening of the zloty. Sagging exports and rising trade deficits, generally expected later this year, may well mark an abrupt turnaround in the present appreciation and disinflation trends.

However, given the more fundamental tendencies currently observed in the real economy (weakening incomes, slackening demand, high import intensity, low investment propensity) neither depreciation nor higher inflation, even if carefully controlled, may meaningfully support stronger output recovery or improve the trade balance, at least in the medium run. Thus, WIIW sticks to its earlier forecast of only 2% GDP growth in 2001, with a possibility of moderate acceleration (to 4%) in 2002.

Apart from purely economic developments, the coming months are likely to be also turbulent socially and politically. The steady rise in unemployment and mounting discontent over corruption, deteriorating public security, failed 'reforms' of the public health and education systems magnify social tensions. The public moods are certainly not improved by the evidence on the western attitudes to Poland's EU accession. But it is reasonable to assume that the Polish society will endure the few more months remaining until the coming general elections in September. And, while there is no doubt that the elections will change Poland's political landscape completely, it is much less certain whether the economic situation will change all that much very soon.

Table PL

Poland: Selected Economic Indicators

	1996	1997	1998	1999	2000 [1]	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., end of period	38639	38660	38667	38654	38644	38643	38640	.	.
Gross domestic product, PLN mn, nom.	387827	472350	553560	615115	685597	153594.0	.	755300	832600
annual change in % (real)	6.0	6.8	4.8	4.1	4.0	5.9	2.3	2	4
GDP/capita (USD at exchange rate)	3724	3725	4098	4008	4078	.	.	.	.
GDP/capita (USD at PPP - WIIW)	7360	7930	8420	8920	9450	.	.	.	.
Gross industrial production (sales)									
annual change in % (real)	8.3	11.5	3.5	4.8	4.3	10.7 [2]	4.1 [2]	4	5
Gross agricultural production									
annual change in % (real)	0.7	-0.2	5.9	-5.2	-4.1	.	.	.	.
Goods transport, mn t-kms	309272	329737	317052	310698	.	.	.	.	.
annual change in %	2.8	6.6	-3.8	-2.0	.	.	.	.	.
Gross fixed capital form., PLN mn, nom.	80390	110853	139205	156690	173681	27285.0	29311.8	.	.
annual change in % (real)	19.7	21.7	14.2	6.8	3.1	5.6	1.5	2	3
Construction output total									
annual change in % (real)	3.0	16.5	12.4	6.2	-2.0	4.8 [2]	-8.9 [2]	.	.
Dwellings completed, units	62130	73706	80594	81979	87789	17972	25693	.	.
annual change in %	-7.4	18.6	9.3	1.7	7.1	15.5	43.0	.	.
Employment total, th pers., average	15020.6	15438.7	15800.4	15373.5	.	.	.	.	.
annual change in %	1.9	2.8	2.3	-2.7	.	.	.	.	.
Employees in industry, th pers., average	3436.0	3433.4	3378.7	3138.4	2918.7	2824 [2]	2690 [2]	.	.
annual change in %	-0.7	-0.1	-1.6	-7.1	-7.0	-6.5 [2]	-4.7 [2]	.	.
Unemployed reg., th, end of period	2359.5	1826.4	1831.4	2349.8	2702.6	2533.6	2898.7	.	.
Unemployment rate in %, end of period	13.2	10.3	10.4	13.0	15.0	13.9	15.9	16.5	17.5
Average gross monthly wages, PLN [3]	874.3	1065.8	1232.7	1697.1	1917.1	1868.7 [2]	2043.6 [2]	2100	.
annual change in % (real, net) [4]	5.7	7.3	4.5	4.7	2.6	4.7 [2]	9.4 [2]	.	.
Retail trade turnover, PLN mn	213241	258166	291197	323687	.	.	.	.	.
annual change in % (real)	4.5	6.8	2.6	4.0	.	8.8 [2]	-3.1 [2]	.	.
Consumer prices, % p.a.	19.9	14.9	11.8	7.3	10.1	10.3	6.7	8	6
Producer prices in industry, % p.a.	12.4	12.2	7.3	5.7	7.8	7.9	4.2	.	.
Central government budget, PLN mn									
Revenues	99675	119772	126560	125922	135657	30950	31603	162000	.
Expenditures	108842	125675	139752	138401	151052	37877	46659	182000	.
Deficit (-) / surplus (+)	-9167	-5903	-13192	-12479	-15395	-6927	-15055	-20000	.
Deficit (-) / surplus (+), % GDP	-2.4	-1.3	-2.4	-2.0	-2.3	.	.	-2.6	.
Money supply, PLN mn, end of period									
M1, Money	61056	72156	81484	99380	93848	89100	89828	.	.
M2, Money + quasi money	136662	176437	220780	263449	294355	261973	301005	.	.
Discount rate of NB % p.a., end of period	22.0	24.5	18.2	19.0	21.5	20.0	19.5	16.0	.
Current account, USD mn	-1371	-4309	-6862	-11558	-9946	-3515	-2159	-10500	-11500
Gross reserves of NB incl. gold, USD mn [5]	18220	21403	28275	27314	27464	26240	27998	.	.
Gross external debt, USD mn [5]	47541	49648	59163	64852	65517	64954	.	.	.
Exports total, fob, USD mn [6]	24440.0	25751.3	28228.7	27407.4	31651.5	7554.0	8937	35400	37900
annual change in %	6.7	5.4	9.6	-2.9	15.5	15.0	18.3	12	7
Imports total, cif, USD mn [6]	37136.5	42306.9	47054.3	45911.1	48940.4	11773.0	12328	51900	55000
annual change in %	27.8	13.9	11.2	-2.4	6.6	13.0	4.7	6	6
Average exchange rate PLN/USD	2.70	3.28	3.49	3.97	4.35	4.11	4.09	4.3	4.6
Average exchange rate PLN/EUR (ECU)	3.38	3.71	3.92	4.23	4.01	4.07	3.78	4.3	4.6
Average exchange rate PLN/DEM	1.79	1.89	1.99	2.16	2.05	2.08	1.93	2.2	.
Purchasing power parity PLN/USD, WIIW	1.36	1.54	1.70	1.78	1.88	.	.	.	.
Purchasing power parity PLN/EUR, WIIW	1.48	1.68	1.85	1.93	2.02	.	.	.	.

1) Preliminary. - 2) Enterprises with more than 9 employees. - 3) From 1999 including mandatory premium for social security. - 4) From 1999 real gross wages. - 5) From 1996 according to IMF methodology. - 6) Converted from the national currency to USD at trade exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Gábor Hunya

Romania: Economic upswing may create current account problems

The Romanian economy has been on a growth path since early last year. In the first quarter of 2001 economic growth accelerated to 4.8% over the same pre-year period. While in the first half of last year net exports were the main demand factor behind the upswing, this year it is domestic consumption. Household consumption increased by 7.2% fuelled by rising real wages (8.1%). Gross fixed capital formation also increased by 7% albeit from a very low level. Government consumption remained modest, as expenditures were constrained until the adoption of this year's budget in April.

Output growth was highest in industry, 13%, and construction, 7%. There is a general atmosphere of an economic upswing in the country with expectations even increasing for the second half of the year. Especially the export industries such clothing and furniture boomed. In these labour-cost-sensitive industries the comparative advantage of low-wage Romania becomes more and more valid also in comparison with more advanced transition countries such as Poland and the Czech Republic. But prospects of growth in these low-tech sectors are very limited especially if demand in western Europe shrinks.

High rates of export growth (19.6%) in the first quarter of 2001 were achieved together with an even higher rate of imports increase (36.6%). The three-month deficit stood at USD 820 million, more than four times more than a year earlier. Imports usually increase at least at the speed of exports as the value added in wage contracts is low. In addition, both the investment and private consumption boom triggered high imports. With the trend continuing, the annual trade deficit would be well above USD 3 billion or two times the level of last year. If so, several related questions emerge. Will the current account too run into deficit which would be almost impossible to finance? Will the government have to take stabilization measures to curtail the deficit?

As to the first issue, during the last few years the current account deficit was lower than the trade deficit. In the year 2000, service and income deficits were shrinking while the surplus on current transfers increased. The transfers of Romanians living abroad have become a major new income source for the country. Both temporary and permanent outmigration was high over the last few years involving mainly young graduates. Remittances doubled within five years to over USD 1 billion last year, compensating in part for the trade deficit. But in the first quarter of 2001 the current account deficit reached USD 455 million, five times the level of the same pre-year period. The major item was the expanding trade deficit; the service deficit was lower and the tourism deficit somewhat higher than in the first quarter of 2000. The incomes deficit, mainly interest payments, halved

(USD 41 million) while the positive net revenues from current transfers remained approximately at pre-year level (USD 172 million). It is mostly this latter item which allows to predict that the annual current account deficit will not exceed USD 2.5 billion. This corresponds to some 6.5% of GDP, which is in a dangerous zone for a country with very narrow financial flows and limited access to international financial markets.

For the time being, the inflow of foreign capital has been adequate. The National Bank of Romania boasted foreign currency reserves of USD 3 billion at the end of May, which is a historical high. But the composition of foreign capital inflows shifted from multilateral loans to more vulnerable and costly forms. While in 2000 FDI (USD 1 billion) and multilateral credits financed the current account deficit, their contribution will at best stagnate nominally in 2001. Some inflow of portfolio investments started at the beginning of the year and also the domestic issue of USD-denominated bonds earned USD 180 million. After the eurobond issue of EUR 200 million in the first quarter, a new emission in the value of EUR 600 million was achieved in June. But the interest rate of over 10% includes a high risk premium. Government investments at this rate of return are hardly feasible and may lead to financial problems in the future. It is to been seen what impact the upgraded Standard and Poor's loan-eligibility ratings will have on future sovereign loan interest rates.

Negative evaluation is usually given to the fact that an agreement with the IMF is not in sight before the end of the year. The dispute between the government and the international financial agency continues along two lines: (i) The government wants to use public investment as a stimulus for growth and also would not let public services deteriorate further. The IMF sees a low and prudent fiscal policy as a main target in itself and also as the main tool to fight inflation. Although the government curtailed its earlier deficit plans from 4.5% to 3.7% of GDP, it still falls short of the 3% IMF target. On the other hand the government has no anti-inflation programme, only an ambitious target; (ii) Romania has a serious credibility problem. All five accords signed with the IMF in the last eight years have been aborted due to under-performance in the field of restructuring. The present government, just as its predecessors, tends to avoid serious action against the lossmaking public companies. While signing up for tight restructuring plans, it has initiated in the case of 13 companies to reschedule debts to the state budget over five years, with a grace period of six months, and cancel penalties for late payment amounting to ROL 10,666 billion (USD 381 million). The relationship to the banking sector also remains biased despite progress in privatization (Banca Agricola was recently sold to Austrian RZB). The insolvent Dacia Felix Bank was ruled by court to be liquidated following the appeal of the main creditor, the National Bank, but the government stepped in to save it. Moral hazard problems appeared this time in the relationship to a privately owned bank.

The WIIW forecast expresses doubts concerning the sustainability of the present economic upswing. If the current account deficit becomes unsustainable, the GDP growth of 4% in

2001 will be cut to 2% in 2002. More fundamental restructuring as well as controlled public spending may help to avoid the need for financial stabilization and leave the country on a sustainable 2-3% growth path in both years.

Table RO

Romania: Selected Economic Indicators

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., mid-year	22607.6	22545.9	22502.8	22458.0	22442.8	.	.	.	.
Gross domestic product, ROL bn, nom.	108920	252926	368261	521736	796534	122519	195601	1140000	1500000
annual change in % (real)	3.9	-6.1	-5.4	-3.2	1.6	0.9	4.8	4	2
GDP/capita (USD at exchange rate)	1563	1565	1844	1515	1636	.	.	.	.
GDP/capita (USD at PPP - WIIW)	6630	6310	6050	5970	6180	.	.	.	.
Gross industrial production									
annual change in % (real)	6.3	-7.2	-13.8	-8.0	8.2	2.3	13.0	5	2
Gross agricultural production									
annual change in % (real)	1.3	3.4	-7.5	5.5	-14.1	.	.	.	.
Goods transport, mn t-kms 2)	106758	87590	62365	45989	42131	10550	.	.	.
annual change in %	-15.8	-18.0	.	-26.3	-8.4	-11.1	.	.	.
Gross fixed investment, ROL bn, nom.	20945.3	44134.7	60515.2	70571.8	106728.3	13998.9	20785.5	.	.
annual change in % (real)	3.1	-5.4	-18.6	-12.3	5.0	-2.6	4.7	5	0
Construction output total									
annual change in % (real)	3.7	-24.4	-0.5	-12.2	5.4	.	5.9	.	.
Dwellings completed, units	29460	29921	29692	29517	26127	2701	3455	.	.
annual change in %	-17.8	1.6	-0.8	-0.6	-11.5	27.0	27.9	.	.
Employment total, th pers., end of period	9379.0	9022.7	8812.6	.	.	.	.	.	.
annual change in %	-1.2	-3.8	-2.3	.	.	.	.	.	.
Employees in industry, th pers., average	2586.0	2443.0	2272.0	1999.9	1887.9	1905.0	1823.9	.	.
annual change in %	-1.1	-5.5	-7.0	-12.0	-5.6	-9.6	-4.3	.	.
Unemployed reg., th, end of period	657.6	881.4	1025.1	1130.3	1007.1	1166.7	992.8	.	.
Unemployment rate in %, end of period	6.6	8.9	10.4	11.8	10.5	12.2	10.4	10	11
Average gross monthly wages, ROL	426610	846450	1357132	1957731	2876645	2342798	3583646	.	.
annual change in % (real, net)	9.3	-22.6	3.4	-0.7	-4.0	-11.3	8.1	.	.
Retail trade turnover, ROL bn 3)	35316	83035	125513	.	.	.	.	.	.
annual change in % (real) 3)	15.3	-12.1	20.6	-5.0	-3.8	-13.3	-0.5	.	.
Consumer prices, % p.a.	38.8	154.8	59.1	45.8	45.7	53.7	40.1	40	35
Producer prices in industry, % p.a.	49.9	152.7	33.2	42.2	53.4	60.7	50.6	.	.
Central government budget, ROL bn									
Revenues	18373	43835	67216	93230	120342	24716	34775	.	.
Expenditures	23732	52897	77617	106887	149169	32977	43427	.	.
Deficit (-) / surplus (+)	-5359	-9062	-10401	-13656	-28827	-8260	-8652	.	.
Deficit (-) / surplus (+), % GDP	-4.9	-3.6	-2.8	-2.6	-3.6	.	.	.	.
Money supply, ROL bn, end of period									
M1, Money	11173	18731	22110	29669	46331	25990	39108	.	.
M2, money + quasi money	30335	62150	92530	134123	185060	136105	191518	.	.
Discount rate, % p.a., end of period	35.0	40.0	35.0	35.0	35.0	35.0	35.0	.	.
Current account, USD mn	-2571	-2137	-2968	-1296	-1400	-89	-455	-2500	-1600
Gross reserves of NB excl. gold, USD mn	545.8	2193.5	1374.8	1526.3	2469.7	1609.2	2795.5	.	.
Gross external debt, USD mn 4)	7208.9	8584.3	9308.1	8709.5	9842.9	7988.1	9903.1	.	.
Exports total, fob, USD mn	8084.5	8431.1	8302.0	8503.0	10366.5	2404.4	2875.2	11200	11500
annual change in %	2.2	4.3	-1.5	2.4	21.9	27.0	19.6	8	3
Imports total, cif, USD mn	11435.3	11279.7	11837.8	10395.3	13054.5	2702.2	3695.3	15200	15200
annual change in %	11.3	-1.4	4.9	-12.2	25.6	17.1	36.8	16	0
Average exchange rate ROL/USD	3082.6	7167.9	8874.8	15332.9	21692.7	18753.8	26785.8	30000	40000
Average exchange rate ROL/EUR (ECU)	3862.9	8090.9	9988.4	16295.3	19955.8	18531.7	24741.1	.	.
Average exchange rate ROL/DEM	2048.6	4133.6	5043.5	8331.6	10187.0	9475.2	12650.0	.	.
Purchasing power parity ROL/USD, WIIW	726.9	1778.9	2704.1	3890.8	5742.3	.	.	.	.
Purchasing power parity ROL/EUR, WIIW	788.2	1939.2	2934.8	4203.8	6182.3	.	.	.	.

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.

Zdenek Lukas

Slovakia: Domestic demand recovers

GDP expanded by 3.0% year-on-year in the first quarter of 2001, mostly fuelled by a recovery in private consumption (growing by 4%) as well as gross fixed capital formation (16.2%); the earlier main driving force – exports – is losing momentum. Export growth has decelerated although falling unit labour costs have further improved the competitiveness of Slovak goods on international markets. Thanks to FDI, exports are gradually shifting to high-value-added branches such as manufacturing of electrical and optical equipment and transport equipment. Following three years of decline, the construction sector has started to recover. However, the unemployment rate reached a historical peak in January 2001 (19.8%), affecting mostly younger people in east Slovakia.

The central government deficit accounted for some 2.3% of GDP in the first quarter of 2001. 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. Moreover, costs of bank restructuring and outlays for state guarantees on loans to state-owned enterprises may increase and payments are set to rise due to maturing bonds. The general government deficit (central government, social security funds, local governments and extra-budgetary funds) accounted for some 6% of GDP in 2000 compared to 3.9% in 1999. As the parliamentary elections (autumn 2002) draw near, the government has started relaxing the fiscal policy so as to boost proper deficit spending – and households' living standards.

Despite administered price hikes (energy, rents, transport), consumer prices increased only by 7.3% year-on-year in the first four months of 2001 compared to 15.7% in the corresponding period of 2000. The core inflation (which excludes items whose prices are regulated and the impact of changes in taxation) dropped by 1.6 percentage points to 4.8% in April 2001 year-on-year. Due to weak inflationary pressure, the National Bank of Slovakia (NBS) is cautiously relaxing the monetary policy through lower refinance and repo rates, and lower obligatory reserves for commercial banks. The Monetary Programme for 2001 envisages a further relaxation of the monetary policy. After March 2000, the Slovak koruna had started to slightly depreciate in nominal terms as the NBS had further reduced real interest rates. As a result of the latter, the inflow of short-term foreign capital declined.

The foreign trade deficit rose by USD 387 million to 541 million in the first four months of 2001; it resulted in fact from the deficit with Russia, which exceeded USD 750 million, primarily due to soaring prices for crude oil and because of the strong dollar. The higher foreign trade deficit resulted in a larger current account deficit, rising to USD 128 million in the first two months of 2001 compared to USD 25 million in the corresponding period of 2000. Rising FDI has facilitated the financing of the current account deficit.

Probably prior to leaving office (October 2002 at the latest), the cabinet intends to privatize around 40 companies in a book value of some SKK 140 billion, or 15% of GDP. About 14 large companies are to be sold by end-2001 already. However, given the current experience this schedule appears too ambitious. On the top of the sales list are Vseobecna Uverova Banka (VUB), the second largest bank, gas utility Slovensky Plynarensky Podnik (SPP), pipeline operator Transpetrol and insurance company Slovenska poistovna (SP). The largest deal will probably be the sale of a 49% stake in SPP in one package, which may bring for the government over USD 1 billion, or 5% of GDP. The government intends to complete the sale in the first quarter of 2002, and to use the money especially to repay the bonds issued by the National Property Fund and to reform the pension system. So far, three companies (Russian Gazprom, the German consortium RWE and Wintershall, and French Gaz de France) have expressed interest in the deal.

Moreover, the Slovak government is striving to attract more FDI. A new law on FDI guarantees tax holidays and other benefits, by reducing the corporate tax rate (from 40% to 29%) as well as by cutting the number of the so-called strategic companies previously closed to FDI. At the end of 2000, the FDI stock (equity capital and reinvested earnings) amounted to USD 3.7 billion or USD 690 per capita. The total inflow of FDI in 2000 was USD 2.1 billion. With a share of 44%, the largest individual investor was Deutsche Telekom (DT), which acquired the fixed-line telecom monopoly Slovenske Telekomunikacie (ST) for over USD 0.9 billion. This deal alone represents close to 5% of the Slovak GDP and was the third biggest privatization procedure among the transition countries, following the Polish Telecom (USD 4.3 billion) and Russian oil and gas extractor Onako (USD 1.1 billion). In the first half of 2001 the banking sector dominated the FDI inflow as the Austrian Erste Bank acquired 87% of the largest Slovak bank, Slovenska Sporitelna (SLSP), for USD 425 million.

After two years of GDP growth driven by exports to the EU, some cooling of the business climate in Europe is appearing. In this and the next year export growth will decelerate, whereas rising domestic demand (both investment and private consumption) will gradually take over as the determinant of economic growth. However, the current account deficit is likely to rise in 2001 and 2002 due to expanding imports provoked by higher domestic demand and cooling external demand. The GDP will expand by 3% in 2001 followed by 4% in 2002. The expected strong FDI inflows related to the ongoing privatizations may however result in upward pressures on the exchange rate that would undermine Slovakia’s competitiveness. Consequently, the NBS will be challenged to avoid oversupply on the money market. Nevertheless, we believe that the domestic pro-growth stimulus will prevail, and the entailing stronger GDP growth may moderate high unemployment. Weaker increases in regulated prices will result in an average inflation rate of around 8% this year.

Table SK

Slovak Republic: Selected Economic Indicators

	1996	1997	1998	1999	2000 [1]	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., mid-year	5373.8	5383.2	5390.7	5395.3	5400.6	.	.	.	.
Gross domestic product, SKK bn, nom.	606.1	686.1	750.8	815.3	887.2	201.6	221.8	970	1050
annual change in % (real)	6.2	6.2	4.1	1.9	2.2	1.5	3.0	3	4
GDP/capita (USD at exchange rate)	3679	3791	3953	3654	3556	.	.	.	.
GDP/capita (USD at PPP - WIIW)	9250	9910	10430	10810	11230	.	.	.	.
Gross industrial production [2]									
annual change in % (real)	2.5	2.7	5.0	-3.6	9.1	7.9	5.2	7	7
Gross agricultural production									
annual change in % (real)	2.0	-1.0	-5.9	-2.5	-13.9	.	.	.	.
Goods transport, mn t-kms	18785	17672	17808	19996	19825	4567	4066	.	.
annual change in %	-7.9	-5.9	0.8	12.3	-0.9	19.5	-11.0	.	.
Gross fixed capital form., SKK bn, nom.	207.5	246.5	285.3	251.0	265.9	54.7	66.5	.	.
annual change in % (real)	32.0	12.0	11.1	-18.8	-0.7	0.5	16.2	10	12
Construction industry									
annual change in % (real)	4.4	9.2	-3.5	-25.8	-0.4	-17.2	10.9	.	.
Dwellings completed, units	6257	7172	8234	10745	12931	.	.	.	.
annual change in %	1.6	14.6	14.8	30.5	20.3	.	.	.	.
Employment total, th pers., average [3]	2224.9	2205.9	2198.6	2132.1	2101.7	2094.6	2121.1	.	.
annual change in %	3.6	-0.9	-0.3	-3.0	-1.4	-2.9	1.3	.	.
Employment in industry, th pers., average [3]	690.0	665.8	662.5	630.3	615.2	.	.	.	.
annual change in %	6.1	-3.5	-0.5	-4.9	-2.4	.	.	.	.
Unemployed reg., th, end of period	329.7	347.8	428.2	535.2	506.5	546.8	545.3	.	.
Unemployment rate in %, end of period [4]	12.8	12.5	15.6	19.2	17.9	19.3	19.2	18	17
Average gross monthly wages, SKK	8154	9226	10003	10728	11430	10497	11315	.	.
annual change in % (real, gross)	7.1	6.6	2.7	-3.1	-4.9	-6.1	0.6	.	.
Retail trade turnover, SKK bn	296.5	328.8	379.4	442.1	481.1	104.3	111.3	.	.
annual change in % (real)	6.9	4.8	8.6	9.8	2.3	-1.7	3.7	.	.
Consumer prices, % p.a.	5.8	6.1	6.7	10.6	12.0	15.6	7.2	8	6
Producer prices in industry, % p.a.	4.2	4.5	3.3	3.8	9.8	9.5	8.7	.	.
Central government budget, SKK bn [5]									
Revenues	166.3	175.8	177.8	216.7	213.5	51.1	50.0	.	.
Expenditures	191.9	192.8	197.0	231.5	241.1	52.0	55.6	.	.
Deficit (-) / surplus (+)	-25.6	-17.0	-19.2	-14.8	-27.6	-0.8	-5.6	.	.
Deficit (-) / surplus (+), % GDP	-4.2	-2.5	-2.6	-1.8	-3.1	.	.	.	.
Money supply, SKK bn, end of period									
M1, Money	173.9	166.1	147.2	153.9	187.4	143.2	178.7	.	.
M2, Money + quasi money	416.9	453.5	466.1	523.6	601.6	540.2	612.0	.	.
Discount rate, % p.a., end of period	8.8	8.8	8.8	8.8	8.8	8.8	8.8	.	.
Current account, USD mn	-2098	-1804	-1982	-982	-713	-66	.	-1000	-1000
Gross reserves of NB incl. gold, USD mn	3473	3285	2923	3425	4077	3727	3863	.	.
Gross external debt, USD mn	7810	10700	11900	10518	10800	10590	.	.	.
Exports total, fob, USD mn [6]	8830.1	8252.1	10721.0	10228.1	11869.5	2856.0	3151.8	13200	14000
annual change in %	2.9	-6.5	11.3	-4.6	16.0	20.9	10.4	11	6
Imports total, fob, USD mn [6]	11122.4	10309.7	13074.2	11320.4	12786.3	3029.0	3549.0	14600	15700
annual change in %	26.8	-7.3	11.6	-13.4	12.9	12.3	17.2	14	8
Average exchange rate SKK/USD	30.65	33.62	35.24	41.42	46.20	42.56	47.29	47	48
Average exchange rate SKK/EUR (ECU)	38.40	38.01	39.60	44.12	42.59	41.07	43.71	47	48
Average exchange rate SKK/DEM	20.39	19.41	20.07	22.56	21.78	21.51	22.35	.	.
Purchasing power parity SKK/USD, WIIW	12.20	12.86	13.35	13.98	14.63	.	.	.	.
Purchasing power parity SKK/EUR, WIIW	13.22	14.02	14.48	15.11	15.75	.	.	.	.

1) Preliminary. - 2) From 1999 according to EU methodology. - 3) Based on labour force survey. - 4) From 1997 new methodology. - 5) From 1997 according to IMF methtodology. - 6) 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: Weak domestic demand curbs economic growth

The 4.6% GDP growth in 2000 was mainly generated by foreign demand. Domestic demand components developed disappointingly with investments up by a mere 1.2%, private consumption by 0.8% and government consumption by 3.1%. Apart from low wage growth, the weak private consumption resulted from high household debts with domestic banks. During the first quarter of 2001 these developments continued and even deteriorated, with domestic demand down by 1.5% (of which fixed investments fell by 3.8%). The favourable foreign trade performance could only partly offset these negative tendencies. Thus, GDP growth slowed to 3.1%.

Industrial output recorded strong growth in 2000 and continued to perform well during the first months of 2001, but at a somewhat lower pace than in the same period a year earlier. In the January-April period industrial production grew by 5.8%, manufacturing was up by 6.3%. Data on the development of main industrial sectors show a 11.4% output increase of the capital goods industries, followed by consumer goods (4.9%) and the production of intermediate goods (4.8%). Within manufacturing, output of electrical and optical equipment (in particular radio and TV sets) grew by almost 14%, machinery and equipment by 12% and the output of basic metals and fabricated metal products by 10%. A strong decline of almost 10% was reported for manufacturing of wood and wood products. Data available for the first two months of the year indicate a slight industrial employment increase, the first such increase since Slovenia's gaining independence in 1991.

Coupled with above-average price increases of food and communal services, last year's steep rise of energy prices had still a strong impact on inflation in the current year. Thus inflation has persisted at a high level, reaching 9% on average during the January-May period. In its most recent and very optimistic report, the IMF stated that inflation was 'the darkest cloud in an otherwise bright short-term outlook'. Following a moderate increase in 2000, average real gross and net wages grew by 5.1% and 4.8% respectively during the first quarter of the year. Reducing inflation is one of the main objectives of the newly appointed governor of the Bank of Slovenia, Mitja Gaspari (a former minister of finance); other goals he singled out are the replacement of the tolar indexation clause (TOM)[10] with a reference interest rate and abolishing restrictions on foreign portfolio investments. In the guidelines for 2001 the growth of M3 was fixed at 11-17%. As of 1 April the discount rate was raised from 10% to 11%, and the Lombard rate from 11% to 12%; this was already the third such increase since June 2000.

[10] Most interest rates for households and business are quoted in real terms, with a revaluation clause to adjust for recent inflation. Since May 1997 the indexation has been based on the average inflation rate of the previous twelve months.

By the end of April 2001 amendments to the adjustment mechanism for private-sector wages in the second half of the year were concluded. The regulation (Annex to the Wages Policy Agreement for 1999-2001) envisages private-sector wage adjustments in August by 92.5% of the consumer price rise recorded in the first half of the year. A further wage adjustment by 2.7% (or 90% of the expected rise in consumer prices in the second half of the year) is due in January 2002. Already in December last year the government and the trade unions reached an agreement to increasing public-sector wages in line with the anticipated inflation rate rather than with the past price developments. Consequently, public-sector wage setting has been based on the projected rate of inflation in 2001, with a 3.6% wage rise in January and a 2.6% rise in August, resulting in a total rise of 6.3% in 2001. The (rather non-transparent) indexation system – based on backward looking price developments – in force for several years will be finally replaced, by the end of this year or at the beginning of next, by a system based on the future consumer price movements.

The upward trend in employment continued. During the first quarter of 2001 total employment grew by 1.5%. After a temporary increase in the final quarter of 2000 the number of registered unemployed fell steadily from the beginning of the year and totalled 103 thousand persons in April, implying a 11.7% unemployment rate. The survey-based rate is traditionally much lower, reaching 6.7% in the first quarter of 2001.

In the first four months of 2001, total exports expanded by 9.8% expressed in current USD terms, while imports increased only slightly by 1.1%. The trade deficit fell to USD 290 million, from USD 530 million in the first four months of 2000. A regional breakdown of foreign trade activities available for the first quarter of the year shows below-average export growth to the EU, but rising deliveries to the successor states of Yugoslavia (up some 16%), mainly due to enhanced exports to Croatia and the FR Yugoslavia. The lowering of the trade deficit resulted in a substantial improvement of the current account balance, from a USD 170 million deficit in the first three months of 2000 to a surplus of USD 51 million. FDI inflows, even negative in the corresponding period a year earlier, amounted to about USD 110 million in the first quarter of 2001 (for the whole year 2000 they were USD 133 million). This increase was mainly due to the partial sale of Simobil, a mobile telephone service provider, to Mobilkom Austria in February. Foreign debts totalled USD 6.1 billion by the end of March 2001, some USD 100 million less than in December last year.

The 2001 state budget was passed by the parliament by the end of April only, with revenues and expenditures totalling SIT 1161 billion (EUR 5.3 billion) and SIT 1210 billion (EUR 5.6 billion) respectively. The targeted deficit is posted at 1% of the expected GDP, which is roughly the same value as in 2000.

After a protracted debate the Slovenian government agreed upon the privatization programmes of the two state-owned banks Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKBM) by the end of May. According to the programme the state will reduce its 83% ownership share in NLB to a 25% plus one share by the end of March 2002 – the completion of the first stage of privatization. In the case of NKBM, the 90% share of the state is to be reduced to a 25% plus one share by the end of this year, so that a strategic investor may own a 65% minus one share. Conversely, the NLB privatization programme envisages only 'key investors'. Apart from the reduction of the state's share, the privatization plan for NLB envisages raising the share of other shareholders from 7% to 15%, while the shares of the shareholders of the three affiliated banks (Pomurska Banka, Banka Velenje, Dolenjska Banka) should total 12%. The share of Slovenian portfolio investors (investment and pension funds, insurance companies) is envisaged to stand at 14% and that of the key investors at 34% minus 1.

The official Slovenian forecast, posting a GDP growth rate of some 4.5% for 2001, seems to be unrealistic considering the weakening of domestic demand. In case these tendencies continue, GDP growth may be slowing down to 4% or even somewhat less. Following the reduction of the trade deficit, the current account deficit can be expected to decline in 2001 and remain at more or less the same level in 2002. Based on the developments during the first months of the year, WIIW has to revise its earlier inflation forecast for the whole year from 7% up to 8-8.5%. A more pronounced fall in inflation can be expected in 2002 only. In view of the high wage growth in the public sector and the weak financial position of the health fund (apart from the deficits in the pension fund), the budget deficit is likely to be higher than the targeted 1% in 2001.

Table SI

Slovenia: Selected Economic Indicators

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., mid-year	1991.2	1986.8	1982.6	1985.6	1990.3	.	.	.	.
Gross domestic product, SIT bn, nom.	2555.4	2907.3	3253.8	3648.4	4035.5	936.5	1057.1	4520	4960
annual change in % (real)	3.5	4.6	3.8	5.2	4.6	6.2	3.1	4	4.5
GDP/capita (USD at exchange rate)	9481	9163	9878	10109	9105	.	.	.	.
GDP/capita (USD at PPP - WIIW)	13220	14010	14750	15770	16750	.	.	.	.
Gross industrial production									
annual change in % (real)	1.0	1.0	3.7	-0.5	6.2	7.2	4.7	4	4
Gross agricultural production									
annual change in % (real)	0.7	-1.0	2.0	-2.6	.	.	.	.	.
Goods transport, mn t-kms	22371	22563	22017	23755	22264	5662	5721	.	.
annual change in %	-1.0	0.9	-2.4	7.9	-6.3	3.8	1.0	.	.
Gross fixed capital form., SIT bn, nom.	574.6	679.5	800.6	999.2	1076.8	.	.	.	.
annual change in % (real)	8.9	11.6	11.3	19.1	0.2	9.3	-3.8	5	5.5
Construction output, in effect. working time									
annual change in % (real)	-2.5	-5.2	1.7	10.2	-1.2	5.9	-1.7	.	.
Dwellings completed, units	6228	6085	6518	.	.	.	.	.	.
annual change in %	9.0	-2.3	7.1	.	.	.	.	.	.
Employment total, th pers., average	741.7	743.4	745.2	758.5	768.2	761.1	768.5	.	.
annual change in %	-0.5	0.2	0.2	1.8	1.3	1.9	1.0	.	.
Employees in industry, th pers., average 2)	239.2	248.5	246.2	242.8	241.6	240.1	242.5 3)	.	.
annual change in % 2)	-5.2	-2.1	-0.9	-1.4	-0.5	.	1.1 3)	.	.
Unemployed reg., th, end of period	124.5	128.6	126.6	114.3	104.6	110.1	103.6	.	.
Unemployment rate in %, end of period	14.4	14.8	14.6	13.0	12.0	12.6	11.8	11	10.5
Average gross monthly wages, SIT	129125	144251	158069	173245	191669	180596	206167	.	.
annual change in % (real, net)	4.4	2.9	1.5	3.0	1.4	0.5	4.6	.	.
Retail trade turnover, SIT bn	871.3	1336.8	1610.2	1798.1	1557.4 4)	.	.	.	.
annual change in % (real)	2.9	1.0	2.1	2.9	7.4	16.6	.	.	.
Consumer prices, % p.a.	9.9	8.4	7.9	6.1	8.9	8.4	8.7	8	6
Producer prices in industry, % p.a.	6.8	6.1	6.0	2.1	7.6	5.2	10.2	.	.
General government budget, SIT bn									
Revenues	1091.8	1222.6	1397.9	1590.0	1726.7	356.6	.	.	.
Expenditures	1083.6	1256.7	1423.5	1613.3	1781.4	383.2	.	.	.
Deficit (-) / surplus (+)	8.2	-34.1	-25.6	-23.3	-54.7	-26.6	.	.	.
Deficit (-) / surplus (+), % GDP	0.3	-1.2	-0.8	-0.6	-1.4	.	.	.	.
Money supply, SIT bn, end of period									
M1, Money	235.1	270.5	332.7	399.8	424.0	362.6	402.7	.	.
Broad money	1135.3	1411.3	1690.3	1912.9	2205.6	1962.7	2329.9	.	.
Discount rate % p.a., end of period	10.0	10.0	10.0	8.0	10.0	8.0	10.0	.	.
Current account, USD mn	31.4	11.4	-147.2	-782.6	-594.2	-169.2	50.5	-400	-300
Gross reserves of NB excl. gold, USD mn	2297.4	3314.7	3638.5	3168.0	3196.0	3290	3104.2	.	.
Gross external debt, USD mn	3981	4123	4915	5400	6217	5924	6107	.	.
Exports total, fob, USD mn	8309.8	8368.9	9050.6	8545.9	8731.5	2177.3	2398.2	9100	9400
annual change in %	-0.1	0.7	8.1	-5.6	2.2	2.9	10.1	4	3
Imports total, cif, USD mn	9421.4	9366.5	10110.9	10082.6	10115.1	2568.7	2587.4	10200	10300
annual change in %	-0.7	-0.6	7.9	-0.3	0.3	6.9	0.7	1	1
Average exchange rate SIT/USD	135.37	159.69	166.13	181.77	222.68	201.98	231.08	240	255
Average exchange rate SIT/EUR (ECU)	169.51	180.40	186.27	193.63	205.03	199.43	213.41	.	.
Average exchange rate SIT/DEM	89.98	92.12	94.41	99.00	104.83	101.97	109.12	.	.
Purchasing power parity SIT/USD, WIIW	97.08	104.48	111.27	116.56	121.02	.	.	.	.
Purchasing power parity SIT/EUR, WIIW	105.26	113.90	120.77	125.93	130.29	.	.	.	.

1) Preliminary. - 2) Up to 1996 excluding persons employed by self-employed in enterprises with 3 and more employees. - 3) January to February. -
4) Due to the changes in weighting methodology the data for 2000 are not comparable with previous data.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Hermine Vidovic

Croatia: High industrial growth despite poor export performance

GDP growth in 2000 (3.7%) was driven first of all by private consumption and a recovery in tourism. At the same time the current account deficit narrowed to the lowest level since 1995, to less than 3% of the GDP. Thanks to a remarkable investment expansion by 11.6% (the first since the second quarter of 1999) and increased household consumption, GDP grew by 4.2% during the first quarter of 2001.

After years of moderate growth industrial production increased by 7% during the first five months of 2001, with the production of capital goods expanding even by 38%. Within manufacturing, growing by 8.5% as a whole, the production of transport equipment jumped by 31%, followed by tobacco and machinery & equipment, up 24% each. Manufacturing of furniture grew by 19% and pulp, paper and paper products by 16%. The food and beverages sectors, accounting for about one fifth of total industrial production, recorded below-average growth (4%). Only four out of 23 reporting branches were suffering from an output decline; the production of chemicals and chemical products was hit hardest, with output down 6%.

One of the main goals of the government, increasing employment, has failed to be met so far. During the first quarter of 2001 the number of employed continued to decline (-1.8%). The number of registered jobless has been slightly on the decrease since March. However, the unemployment rate remained high, 22.5% by the end of April. Data obtained from the labour force survey, showing traditionally lower rates than registration data, post the unemployment rate at 17.1% in the second half of 2000 (in Croatia the LFS is conducted only twice a year). Assuming that the announced lay-offs in the government sector – as a part of the agreement with the IMF in order to cut the wage bill – will materialize, a further decline of employment is to be expected.

Wage growth slowed down during the first quarter of 2001, with real net wages up 2.2% (first quarter of 2000: 5.7%) while at the same time real gross wages fell by 1.9% as compared with the same pre-year period. Wages in manufacturing rose in all sectors, except in the tobacco industry. The expansion of retail trade turnover, by almost 17% in real terms during the first quarter of 2001, is mainly due to enhanced purchases of cars.

Inflation remains high, with average retail prices rising by 6.8% during the first five months of 2001. High oil prices had still a strong impact on price rises of refined petroleum products on the domestic market and consequently on the prices of related services (railways, some postal services, bus transport). In addition the government has imposed a petroleum fee for the financing of road construction and maintenance. Assuming a lowering of monthly price rises in the months to come, the inflation rate will average about 6% in 2001. In the second half of March, strong nominal appreciation of the kuna against the euro started. The Croatian National Bank intervened several times by purchasing altogether some EUR 150 million from the commercial banks. In addition the Bank lowered the reserve requirement from 23.5% to 22%.

The foreign trade deficit widened considerably during the first four months of 2001, from USD 800 million in the January-April period in 2000 to USD 1.3 billion. This deterioration was mainly caused by a 22% import expansion (expressed in current USD), while at the same time exports rose by a mere 1.2%. Exports to the EU even contracted by 4.5% whereas imports from that area were about one quarter higher than in the corresponding pre-year period. The export performance is the more alarming as only about 40% of total exports consist of regular exports, while the majority is accounted for by exports after inward processing. The share of the latter has more than doubled over the January-April period in 2000. The strong import growth was among other reasons resulting from huge car imports following the decision to abolish import duty exemptions for war veterans. As a consequence of the poor trade performance the current account deficit deteriorated by some USD 200 million (to USD 600 million) in the first quarter of 2001 compared to the same period in 2000. Part of the trade deficit could be offset by higher receipts from services. By the end of March foreign debt totalled USD 11.2 billion, close to 60% of last years' GDP. At the same time foreign exchange reserves stood at USD 3.5 billion, almost the same value as in December 2000. In mid-June a decision was reached to cancel the shares of former Yugoslavia in the capital of the Bank for International Settlements (BIS) and to issue an equivalent number of shares to be divided among the central banks of the successor states. Accordingly Croatia is entitled to a 28.49% share of the assets (USD 11 million in shares and USD 3 million in dividends) of former Yugoslavia. Out of the total assets in gold and foreign currency, amounting to USD 414 million, about USD 118 million will be assigned to Croatia and added to the international reserves.

Lower than anticipated revenues, especially from privatization receipts, and higher than expected transfers make a budget revision very likely. During the first quarter of 2001 expenditures to the extra-budgetary funds soared by 45%, in particular for the compensation of the cut of contribution rates last year (in May 2000 contribution rates on wages were lowered by 4 percentage points) and the increase of pensions. At the same time subsidies expanded by 57% and interest payments were higher by one quarter as against the first three months of 2000. The deficit of HRK 3.3 billion was financed by the issue of government bonds abroad and the issue of treasury bills on the domestic market. After intense privatization activities in 2000, when three state-owned banks were sold to foreign banks, the outcome for the first months of 2001 is disappointing especially in view of the poor budgetary situation. When designing this year's budget Croatia had relied heavily on privatization revenues of about HRK 8 billion (approximately USD 1 billion).

Apart from the two remaining banks, Dubrovacka and Croatia Banka, the privatization of Croatia's biggest insurance company, Croatia osiguranje, was announced. In contrast to earlier statements, Hrvatska Postanska Banka will remain a state-owned commercial bank. The lion's share of the expected privatization revenues should come from the second round of the Croatian Telecom privatization, first of all through the sale of a 16% stake to Deutsche Telekom. In addition, a part should be sold through Initial Public Offering (IPO), while the remainder is earmarked to be sold to current and former employees.

The standby arrangement with the IMF agreed upon in December last year was finally adopted in March 2001. The integration process starting in 2000 continued during the first months of 2001: in mid-May, earlier than expected, the European Union and Croatia initialled a Stabilization and Association Agreement (SAA). This first contractual agreement with the EU will among other things provide for a wide-ranging co-operation in the areas of justice and home affairs and should enable Croatia to move closer to EU structures and promote economic and trade relations aiming at the creation of a free trade area with the Union.

In view of the budgetary constraints that will also require cuts in the public sector's wage bill and lowering investment expenditures, GDP may grow by about 3% at best in both 2001 and 2002. Some impetus for growth may come from the investment increase due to the decline in interest rates and increasing loans both to the enterprise and household sectors. Following the trade developments in the first months of the year, the current account deficit might be remarkably higher than originally expected, at close to USD 1 billion. However, the actual magnitude of the current account deficit will heavily depend on the earnings from tourism that traditionally offset the trade deficit to a considerable extent. The budget will remain one of the burning problems in the years to come. On top of the rapid increase in transfers to the extra-budgetary funds, the authorities will have to adjust the budgetary items to the drying-out of privatization inflows that have up to now played an important role in preventing higher fiscal deficits.

Table HR

Croatia: Selected Economic Indicators

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., mid-year	4494	4573	4501	4554	4500	.	.	.	.
Gross domestic product, HRK mn, nom.	107981	123811	137604	142700	157511	35214	38666	170300	183300
annual change in % (real)	5.9	6.8	2.5	-0.4	3.7	3.7	4.2	3	3
GDP/capita (USD at exchange rate)	4422	4398	4805	4406	4227	.	.	.	.
GDP/capita (USD at PPP - WIIW)	6330	6710	7070	7090	7570	.	.	.	.
Gross industrial production									
annual change in % (real)	3.1	6.8	3.7	-1.4	1.7	3.7	5.5	4	3
Gross agricultural production									
annual change in % (real)	1.3	4.0	10.2	.	.	.	.	.	.
Goods transport, public, mn t-kms	213172	203428	170107	146302	144885	33730.0	.	.	.
annual change in %	6.7	-4.6	-16.4	-14.0	-1.0	-6.6	.	.	.
Gross fixed capital form., HRK mn, nom.	22089.4	29935.6	32065.6	32956.0	33091.0	6801.0	8229	.	.
annual change in % (real)	37.6	26.4	2.5	-1.1	-3.5	-4.4	11.6	6	5
Construction industry, hours worked 2)									
annual change in % (real)	9.0	16.7	0.7	-7.7	-9.1	-10.7		.	.
Dwellings completed, units	12624	12516	12600	.	.	.	.	.	.
annual change in %	71.5	-0.9	0.7	.	.	.	.	.	.
Employment total, th pers., average 3)	1329.5	1310.9	1384.8	1364.5	1341.0	1335.3	1311.6	.	.
annual change in % 3)	-6.2	-1.4	0.4	-1.5	-1.7	-2.5	-1.8	.	.
Employees in industry, th pers., average 4)	315.1	319.7	308.9	299.5	291.9	294.0	283.7	.	.
annual change in % 4)	-9.8	-6.4	-3.4	-3.0	-2.5	-2.5	-3.5	.	.
Unemployed reg., th, end of period	269.3	287.1	302.7	341.7	378.5	357.7	388.7	.	.
Unemployment rate in %, end of period	15.9	17.6	18.1	20.4	22.3	21.1	22.9	23	23
Average gross monthly wages, HRK	3243	3668	4131	4551	4869	4802	4986	.	.
annual change in % (real, net)	7.2	12.3	6.0	10.1	3.4	5.7	2.2	.	.
Retail trade turnover, HRK mn 5)	29412.4	34736.1	36021.3	35769.1	43566.8	.	.	.	.
annual change in % (real) 5)	3.4	14.9	-0.4	-4.8	14.4	6.6	16.5	.	.
Retail prices, % p.a.	3.5	3.6	5.7	4.2	6.2	4.8	6.5	6	5.5
Producer prices in industry, % p.a.	1.4	2.3	-1.2	2.6	9.7	8.5	7.3	.	.
Central government budget, HRK mn									
Revenues	31368	33846	43809	46356	44651	11132	9036	.	.
Expenditures	31502	35006	42552	48879	50779	11091	12286	.	.
Deficit (-) / surplus (+)	-134	-1160	1257	-2523	-6128	41	-3251	.	.
Deficit (-) / surplus (+), % GDP	-0.1	-0.9	0.9	-1.8	-3.9	.	.	.	.
Money supply, HRK mn, end of period									
M1, Money	11369	13731	13531	13859	18030	12670	17395	.	.
Broad money	36701	50742	57340	56699	73321	57975	77762	.	.
Discount rate % p.a., end of period	6.5	5.9	5.9	7.9	5.9	7.9	5.9	.	.
Current account, USD mn	-1091.3	-2325.1	-1530.4	-1522.6	-531.0	-414.8	-596.1	-1000	-1000
Gross reserves of NB excl. gold, USD mn	2314.0	2539.0	2815.6	3025.0	3524.8	2925.1	3514.1	.	.
Gross external debt, USD mn	5307.6	7451.6	9586.2	9872.3	10840.1	9857.9	11151.9	.	.
Exports total, fob, USD mn 6)	4511.8	4170.7	4541.1	4279.7	4431.7	1069.0	1083.8	4300	4300
annual change in %	-2.6	-7.6	8.9	-5.8	3.0	7.3	1.4	-2	0
Imports total, cif, USD mn 6)	7787.9	9104.0	8383.1	7777.4	7922.7	1658.9	1975.2	8700	9000
annual change in %	3.7	16.9	-7.9	-7.2	1.6	0.8	19.1	10	3
Average exchange rate HRK/USD	5.43	6.16	6.36	7.11	8.28	7.81	8.29	.	.
Average exchange rate HRK/EUR (ECU)	6.80	6.96	7.14	7.58	7.64	7.72	7.67	7.8	7.9
Average exchange rate HRK/DEM	3.61	3.56	3.62	3.88	3.90	3.95	3.92	.	.
Purchasing power parity HRK/USD, WIIW	3.80	4.04	4.32	4.42	4.62	.	.	.	.
Purchasing power parity HRK/EUR, WIIW	4.12	4.40	4.69	4.78	4.98	.	.	.	.

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) From 2000 new method of statistical processing.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Peter Havlik

Russian Federation: Growth slowdown in 2001

Recent official data revisions pushed GDP growth rates above 5% for the year 1999 and to more than 8% for 2000. With moderate inflation, a solid surplus in the state budget, a stable nominal exchange rate, a huge current account surplus and foreign exchange reserves reaching a record high level, last year's economic performance was a big success. However, the exceptionally strong growth was just a windfall of high world market energy prices and the still undervalued domestic currency. Mr. Putin's first year of presidency has brought more political stability, but unfortunately only meagre progress on structural and institutional reforms. The outlook for sustainable growth thus remains uncertain. Indeed, the economy markedly weakened during the first months of 2001 so that the impetus for more reforms has become more urgent.

The gross output of five basic economic sectors (industry, agriculture, construction, transport and retail trade) as well as the estimated GDP have both increased by around 4% in the first four months of 2001 (after nearly 9% in the pre-year period), with both industry (+3.8%) and goods transport (+1.3%) weakening, and agricultural production even stagnating. Services, especially telecommunications and retail trade, performed better as they have been driven by the recent recovery of private consumption. The latter expanded by nearly 10% during 2000, but is presumably weakening in 2001 as well. This can be judged from the decelerating growth of real disposable incomes (+4.8% in the first four months of 2001 as compared with nearly 9% in the previous year), though real wages rose by almost 20%. The growth of investment is markedly slowing down too (+4%), and with it also the demand for domestic machinery and construction materials. Stocks of unsold production have been growing again. Last but not least, the growth contribution of net exports to GDP has been diminishing. The level of exports stagnated at a high level during the first months of 2001, but with a strongly appreciating rouble and growing consumption imports are picking up.

Industrial production has been rapidly growing since early 1999 already. Last year's production growth (after recent revisions nearly 12% for the year as a whole), which even outpaced the respectable result from 1999, is not sustainable not only because of weakening demand, but also due to serious capacity constraints. The recorded capacity utilization in industry was just 50% during 2000, but a major part of existing machinery and equipment is obsolete (average age 16 years) and can hardly be used in production at all. The situation is critical both within the energy sector and in machine building; the enormous investments needed for upgrading are lacking due to numerous financial, legal and institutional bottlenecks. A marked slowdown of industrial output growth has been observed since late 2000 already.

On the other hand, construction industry expanded by more than 11% during 2000 and still by nearly 9% during the first quarter of 2001. This encouraging development was related to the strong recovery of investment into production assets within export-oriented sectors of industry. Housing construction grew only about 3% last year; it even declined recently. There was only a modest recovery of agriculture in 2000. Gross agricultural production increased by 5%, both the grain harvest (65 million tons, 15% more than in 1999) and livestock production were higher than in 1999. Last year's 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. All these sectors currently record a growth slowdown, agriculture and goods transport even stagnated in the first quarter of 2001.

The income situation of private households is improving. Real disposable incomes and private consumption grew nearly 10% last year, average real wages by more than 20%. Moreover, wage arrears declined a bit as the financial situation of both enterprises and the state budget 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 below 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.

Surging exports have been the major factor of last year's economic developments. Export revenues increased by more than 40%, mainly due to high world market energy prices, while imports grew by 11%. The result was a trade surplus of more than USD 60 billion (about 24% of GDP) and the current account surplus reached more than USD 46 billion (18% of GDP). Moreover, Russia's terms of trade improved 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). 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) and to more than USD 33 billion in June 2001. Rising stocks of foreign exchange helped to keep the nominal exchange rate stable throughout the year; the CBR had to intervene in order to avoid an even stronger appreciation (the rouble still appreciated in real terms by about 20% against the US dollar and even more against the euro). Despite a significant increase in money supply (M2 rose nearly 60% during the year), consumer price inflation was moderate (21% on annual average), though producer prices rose by almost 50%. Last but not least, higher proceeds from export and other taxes improved budget revenues and the consolidated state budget was in surplus (about 3% 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. Priority reform measures on the agenda include taxation of profits, further privatizations, restructuring of natural monopolies (including UES Electricity System, RAO Gazprom and Railways) and the pension reform. As of June 2001, basically only two pieces of new relevant legislation were implemented,[11] the rest is being drafted and discussed. A major innovation in the fiscal sphere is the idea to create a 'financial reserve fund' from windfall oil export revenues; the draft budget for the year 2002 reckons with a surplus of 1.3% of GDP.

WIIW's economic forecasts remain cautious given the uncertain implementation of future reforms and the transient character of the recent growth factors. Besides, growing reliance on energy and other raw material resources makes the Russian economy highly vulnerable to external shocks. A modest increase in both private consumption and investments is expected in the coming two years, but a substantial decline of net exports will put a brake on economic growth. The GDP growth will hardly exceed 5% in both 2001 and 2002, the annual inflation will hover around 20%. Should there be a more pronounced fall in energy prices – half of export revenues currently stem from oil and gas – the economy would be in serious trouble again.

[11] 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.

Table RU

Russia: Selected Economic Indicators

	1996	1997	1998	1999	2000 [1]	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., end of period	147502	147105	146693	145559	145247	.	.	144400	144300
Gross domestic product, RUB bn, nom.	2145.7	2478.6	2741.1	4757.2	7063.4	1461.4	.	8700	10500
annual change in % (real)	-3.4	0.9	-4.9	5.4	8.3	9.0	4.4	5	4
GDP/capita (USD at exchange rate)	2835	2909	1924	1321	1729	.	.	1883	2079
GDP/capita (USD at PPP - WIIW)	6590	6730	6500	7040	7780	.	.	.	.
Gross industrial production									
annual change in % (real)	-4.0	1.9	-5.2	11.0	11.9	14.3	5.2	5	4
Gross agricultural production									
annual change in % (real)	-5.1	1.5	-13.2	4.1	5.0	3.2	-0.3	.	.
Goods transport, bn t-kms	3370	3256	3147	3315	3477	903.0	909.6	.	.
annual change in %	-4.6	-3.4	-3.3	5.3	4.9	7.6	0.7	.	.
Gross fixed investment, RUB bn, nom.	376.0	408.8	407.1	670.4	1165.2	165.8	244.9	.	.
annual change in % (real)	-18.0	-5.0	-12.0	5.3	17.4	13.5	6.7	6	8
Construction output total									
annual change in % (real)	-16.0	-6.0	-5.0	6.0	11.5	9.3	8.5	.	.
Dwellings completed, th units	481.5	430.3	387.7	413.3	368.5	45.0	44.0	.	.
annual change in %	-20.0	-10.6	-9.9	6.6	-10.8	2.6	-2.2	.	.
Employment total, th pers., average	65950	64639	63642	63963	64658	63733	64833	.	.
annual change in %	-0.7	-2.0	-1.5	0.5	1.1	0.7	1.7	.	.
Employment in industry, th pers., average	16366	14893	14132	14297	14225	.	.	.	.
annual change in %	-4.7	-9.0	-5.1	1.2	-0.5	.	.	.	.
Unemployed, th, end of period [2]	7280	8133	9728	8904	6950	8170	6850	.	.
Unemployment rate in %, end of period [2]	9.9	11.2	13.3	12.2	9.6	11.3	9.5	9	10
Average gross monthly wages, RUB	790.2	950.2	1051.5	1522.6	2268.0	1896	2752	.	.
annual change in % (real, gross)	6.0	5.0	-13.4	-22.0	22.5	21.3	18.8	.	.
Retail trade turnover, RUB bn	748.9	866.0	1056.3	1782.2	2331.8	509.6	657.8	.	.
annual change in % (real)	-0.4	3.6	-3.4	-7.9	8.8	7.2	8.1	.	.
Consumer prices, % p.a.	47.8	14.8	27.6	85.7	20.8	25.4	22.3	20	15
Producer prices in industry, % p.a.	50.8	15.0	7.1	58.9	46.6	60.2	26.5	25	20
Central government budget, RUB bn									
Revenues	281.9	343.4	325.9	615.5	1127.6	226.8	318.0	1194	.
Expenditures	356.2	436.6	472.2	666.9	954.1	186.4	268.8	1194	.
Deficit (-) / surplus (+)	-74.3	-93.2	-146.3	-51.4	173.5	40.4	49.2	.	.
Deficit (-) / surplus (+), % GDP	-3.5	-3.8	-5.4	-1.1	2.5	.	.	.	.
Money supply, RUB bn, end of period									
M1, Money	192.4	298.3	342.8	526.8	879.3	546.4	858.4	.	.
M2, Money + quasi money	357.3	457.2	628.6	984.9	1560.0	1090.4	1632.3	.	.
Refinancing rate of NB % p.a., end of per.	48	28	60	55	25	33	25	.	.
Current account, USD mn	11753	2060	687	24647	46342	11926	11500	30000	20000
Gross reserves of NB, incl. gold, USD mn	15324	17784	12223	12456	27951	15532	29709	.	.
Gross external debt, USD mn	125000	130800	145000	158800	144500	.	.	.	.
Exports total, fob, USD mn [3]	88599	88326	74600	75100	105565	24364	25333	100000	90000
annual change in %	9.3	-0.3	-15.5	0.7	40.6	56.6	4.0	-5	-10
Imports total, cif, USD mn [3]	68828	73700	59800	40200	44862	9981	10983	55000	60000
annual change in %	12.9	7.1	-18.9	-32.8	11.6	9.5	10.0	23	9
Average exchange rate RUB/USD	5.12	5.79	9.71	24.62	28.13	28.48	28.55	32	35
Average exchange rate RUB/EUR (ECU)	6.63	6.54	11.06	26.24	26.03	28.17	26.36	32	35
Average exchange rate RUB/DEM	3.41	3.34	5.62	13.42	13.31	14.40	13.48	.	.
Purchasing power parity RUB/USD, WIIW	2.21	2.50	2.87	4.64	6.25	.	.	.	.
Purchasing power parity RUB/EUR, WIIW	2.40	2.73	3.12	5.01	6.73	.	.	.	.

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

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Helen Boss

Ukraine: Growth continues despite political morass

Ukraine's battered economy continued its apparent strong recovery in the first months of 2001, growing 7.7% year-on-year in January-March. The main drivers remained those which boosted GDP 6% in 2000: ongoing benefits of the 1998-99 devaluations, booming exports to Russia, good steel sales elsewhere, and a recovery in domestic consumption and investment, thanks to remonetization, lower interest rates and import substitution. Industrial production rose 17.4% on an annual basis in the first quarter of 2001, and investment increased at a 24% annual rate. Agriculture also did well, up 6.1 in the first quarter, on top of 7.6% growth in 2000. The economy apparently picked up further in April and May on an annual basis: industrial production in the first four months was up 18.4% (and up 18.8% in January-May). GDP was estimated to be up 8.5% in January-April, though April-on-April industrial production declined slightly.

The strong GDP upturn of 2000 is officially expected to cool to a 4% annual rate for the year 2001, mainly because of less dynamic Russian import demand, but also because the Ukrainian authorities must deal with the inflationary pressures unleashed in 2000, and indeed those due to budget shortfalls, e.g. in privatization revenue, which has been 80% less than projected. Consumer prices rose 25% in 2000 and at a 19.4% annual rate in the first quarter of 2001; the government's spin on inflation invariably refers to the more modest CPI increases since the beginning of the year. As in Russia, capital flight in Ukraine remains a serious indictment of the investment climate. Though the current account was in surplus in 2000 at 4.6% of GDP, foreign inflows may fall off sharply as a consequence of the fall of the Yushchenko government in April 2001. Cumulative FDI as of 2000 came to a mere USD 71 per capita. A growth slowdown in the EU and the more protectionist US policy announced in May will hurt steel exports. On the other hand, Russia's export earnings were high in the first months of 2001 because the oil price did not decline and therefore Ukrainian output and exports to the CIS may thus surprise on the upside. According to President Kuchma the current assumptions of the 2002 budget are for 6% GDP growth, stable nominal exchange rates, 3.8% growth in agriculture, and a less torrid 7% growth in industrial production in 2002.

Despite improved payments discipline with respect to certain budget parameters and a clearing of the state's arrears to pensioners, budget execution in 2000 actually declined, and was so poor in the first quarter of 2001 that the finance minister recommended cutting planned outlays by 3.6% for the year. Year 2000 government revenue was just 24% of GDP, mainly because of declines in VAT and profits tax receipts, in part because over half of firms were loss-making but had not begun bankruptcy workouts.

Wage arrears at the end of the first quarter of 2001 were down nearly 30% on a year earlier, and public-sector wage arrears had been nearly cleared. However non-payment and non-cash payment for goods, particularly coal and electricity, continue to be a problem. Despite much pressure from western donors and by Yulia Tymoshenko when Deputy Prime Minister in charge of the energy complex, only half of power was being paid for in cash at the start of the year, a decline. Indeed, the declining economy-wide incidence of barter in 1999-2000 may reflect not harder budgets and genuine restructuring in traditional industries and agriculture, but rather the fact that the devaluations increased the share of exporting industries in hryvnia GDP.

A positive sign given the economy's unhealthy dependence on energy-intensive steel exports is that the upturn in industrial production which began in metals is spreading to the rest of manufacturing. Some of the fastest-growing sectors in the first quarter of 2001 were the minor ones worst hit during the post-Soviet output collapse: output of forest products rose 28.2%, light industry was up 27.4%, and the value of refined petroleum products soared 50% as a refinery was put back on stream with the help of Russian investors. The food industry continues to revive, growing over a quarter in 2000 and 22.7% in the first quarter of 2001 year-on-year. Still, it accounted for less than 3% of exports in both periods, far less than its potential and less than 30% of its export level achieved in the mid-1990s. Protectionism is having a short-term effect. Interest groups in parliament blocked the planned reduction in the tax on sunflower seed exports from 23% to 10%, scotching hopes of resumption of the IMF loans programme. Negotiations with the WTO have dragged on for eight years with several interruptions and minimal progress.

Exports in the first quarter of 2001 continued to be very buoyant, equalling the strong numbers recorded in 2000 as a whole. Russia and the other CIS states sucked in 41% more Ukrainian goods in January-March than a year before. Exports to the far abroad, of which 42% were steel and steel products, were up a more modest 13.9%. Total merchandise imports in the first quarter fell 3.7%, dragged down by a 9.6% drop in Ukrainian purchases from the CIS. Imports from the rest of the world in January-March were about flat. Imports of machinery, which grew more than a quarter in 2000, were down 4% year-on-year in the first quarter as the political fallout hit investment. The commodity structure of trade showed few signs of adjustment, but remained overwhelmingly dominated by steel and other semi-fabricates. The share of steel and steel products fell only slightly, to 42.3% vs. a 44.4% share of exports in 2000 as a whole. Similarly on the import side, in 2000 mineral products accounted for 46.9% of goods imports (natural gas, 23.8%, and crude oil, 7.6%), while in the first quarter of 2001 mineral products were 48% of goods imports despite declining 16% in dollar value.

Ukraine's failure to make a serious dent in its dependence on Russian gas and oil is finally having political consequences. A deal was signed in May 2001 to increase gas imports from Turkmenistan to 30 bcm, but as in the past, it may not be implemented if Ukraine does not pay on time and with the designated mix of cash and barter goods; also Russia must make space for Turkmen gas to use its own pipeline system. Russia is pursuing a three-pronged strategy towards Ukraine, which the appointment of the former prime minister Chernomyrdin as ambassador can only underscore. According to the December 2000 agreement signed by Presidents Putin and Kuchma, if Ukraine fails to pay within a certain period, eurobonds in the amount of the gas debt are automatically issued; these are supposed to be tradable for equity in e.g. Ukraine's gas export pipeline. Plans are advancing for the Yamal pipeline across Belarus to Poland and Germany to be expanded from a capacity of 12 bcm in 2000 to 67 bcm by 2010, and for another line via Slovakia. The EU intends to double its import of Russian gas by 2020, which may make it favour Russia at Ukraine's expense. Meanwhile the Baku-Çeyhan oil pipeline now looks likely to be built by 2005, implying that the shorter Georgia – Odessa – Brody – Poland route for Caspian oil to Europe, heavily promoted by President Kuchma, may have fallen victim to Ukraine's well-publicized reputation as a 'siphoner'.

In mid-May President Kuchma nominated the head of the 'red-director' Association of Industrialists and Entrepreneurs, Anatoly Kinakh, a MP and former deputy prime minister, to replace the dismissed prime minister Viktor Yushchenko. Kinakh has vowed to pursue budget-hardening reform and fight vested interests, but does not have the credibility of his predecessor. The oblenergo (regional energy companies) privatizations have been temporarily suspended, ostensibly due to the derisory prices at which the first six were sold, but also as a message to the IMF. However the telecom privatization is creeping ahead. With Kuchma himself still under the cloud of the highly embarrassing journalist-cum-tapes affair, with MPs manoeuvring ahead of parliamentary elections in March 2002, and with the communists encouraged by their role in Yushchenko's ouster, their Moldovan counterparts' election victory, and by Vladimir Putin's carrot-and-stick offers of closer links with Russia, the prospect is for at least another year of drift, sniping from the left, and weak central government. The naming in May of ex-Russian prime minister and Gazprom founder Viktor Chernomyrdin as President Putin's ambassador and presidential representative to Ukraine sent a signal that the Kremlin wishes to increase the commercial and political benefit it derives from Ukraine's energy deficit. A test case will be whether Shell wins a contract to manage the gas export pipeline system, a role coveted by Gazprom. Leonid Kuchma, assuming he does not resign, will be president until late 2003.

Table UA

Ukraine: Selected Economic Indicators

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., end of period	50894.0	50499.9	50105.6	49710.8	49279.8	49574.9	49184.2	49100	48900
Gross domestic product, UAH mn, nom.	81519	93365	102593	127126	175010	32731	42865	218400	278000
annual change in % (real)	-10.0	-3.0	-1.9	-0.4	6.0	5.6	7.7	4	6
GDP/capita (USD at exchange rate)	876	993	836	619	653	.	.	770	810
GDP/capita (USD at PPP - WIIW)	3340	3300	3300	3370	3680	.	.	.	.
Gross industrial production									
annual change in % (real)	-5.2	-0.3	-1.0	4.0	12.9	9.7	17.4	8	7
Gross agricultural production									
annual change in % (real)	-9.5	-1.9	-9.8	-6.9	7.6	-4.9	6.1	3	3.8
Goods transport, bn t-kms	450.3	402.3	391.7	388.0	.	89.4	.	.	.
annual change in %	-17.2	-10.7	-2.6	-0.9	1.3	7.0	.	.	.
Gross fixed investment, UAH mn, nom.	12557.0	12437.0	13958.0	17552.0	19481.2	2659	3945	.	.
annual change in % (real)	-22.0	-8.8	6.1	0.4	11.2	26.1	23.7	15	10
Construction output total									
annual change in % (real)	-31.0	-9.9	2.7	-8.0	.	8.9	8.6	.	.
Dwellings completed, units	88100	80000	70000	74000	.	9600	.	.	.
annual change in %	-25.5	-9.2	-12.5	5.7	-11	.	.	.	.
Employment total, th pers., average	23231.8	22597.6	22348.7	21823.7	21600.0	.	.	20500	20000
annual change in %	-2.1	-2.7	-1.1	-2.3	-1.0	.	.	.	.
Employees in industry, th pers., average 2)	4642.0	4273.0	4142.0	3932.0	3810.0	3497	3303	.	.
annual change in %	-7.8	-7.9	-3.1	-5.1	-3.1	-5.3	-5.6	.	.
Unemployed reg., th, end of period	351.1	637.1	1003.2	1174.5	1188.0	1267.4	1182.8	.	.
Unemployment rate in %, end of period	1.3	2.3	3.7	4.3	4.2	4.5	4.2	5	6
Average gross monthly wages, UAH 2)	126.0	143.0	153.0	177.5	231.0	194.1	266.0	.	.
annual change in % (real, gross)	-4.2	-2.1	-3.2	-5.4	1.6	-0.3	14.8	.	.
Retail trade turnover, UAH mn	17344	18933	19317	22151	28530	5925	7202	.	.
annual change in % (real)	-5.1	0.2	-6.6	-7.1	6.9	11.9	8.0	.	.
Consumer prices, % p.a.	80.2	15.9	10.6	22.7	28.2	25.1	19.4	20	20
Producer prices in industry, % p.a.	52.1	7.7	13.2	31.1	20.9	19.9	15.6	.	.
General government budget, UAH mn 3)									
Revenues	30142.0	36889.6	37398.2	43826.7	63034.1	11999	16042	41630 4)	.
Expenditures	33759.0	43086.0	39416.5	45523.0	61047.6	10867	14559.2	41630 4)	.
Deficit (-) / surplus (+)	-3617.0	-6196.4	-2018.3	-1696.3	1986.5	1132	1483	0 4)	.
Deficit (-) / surplus (+), % GDP	-4.4	-6.6	-1.9	-1.3	1.1	3.5	3.5	-3 5)	.
Money supply, UAH mn, end of period									
M0, Currency outside banks	4041.0	6132.0	7158.0	9583.0	12799.0	9465	12736	.	.
Broad money	9364.0	12541.0	15718.0	22070.0	32084.0	24211	33026	.	.
Refinancing rate of NB % p.a., end of period	39.6	34.8	74.2	45.0	27.0	32.0	25.0	.	.
Current account, USD mn	-1185	-1335	-1296	1658	1481	-157	.	-300	-600
Gross reserves of NB excl. gold, USD mn 6)	1960	2341	761	1046	1353	941	1396	1500	.
Gross external debt, USD mn	8840	9555	11483	12438	11330	10940	.	12000	.
Exports total, fob, USD mn 7)	14401	14232	12637	11582	14573	3021	3799.29	15800	.
annual change in %	9.7	-1.2	-11.2	-8.4	25.8	24.1	25.8	8	.
Imports total, cif, USD mn 7)	17603	17128	14676	11846	13956	3698	3560.11	15100	.
annual change in %	13.7	-2.7	-14.3	-19.3	17.8	29.2	-3.7	8	.
Average exchange rate UAH/USD	1.830	1.862	2.450	4.130	5.440	5.464	5.428	5.75	7
Average exchange rate UAH/EUR (ECU)	2.322	2.113	2.768	4.393	5.029	5.394	5.015	.	.
Average exchange rate UAH/DEM	1.216	1.076	1.407	2.246	2.571	2.758	2.564	.	.
Purchasing power parity UAH/USD, WIIW	0.480	0.561	0.620	0.758	0.966	.	.	.	.
Purchasing power parity UAH/EUR, WIIW	0.520	0.611	0.673	0.819	1.040	.	.	.	.

1) Preliminary. - 2) Excluding small enterprises. - 3) Pension funds included. - 4) Budget passed 30 Nov. 2000, incl. pension and social security funds. - 5) Govt. forecast as May 2001. - 6) Useable. - 7) 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.

Josef Pöschl

Bosnia-Herzegovina: Hope for more foreign investment?

In 2000, Bosnia-Herzegovina' industrial production grew 7.7% over the previous year, mainly because of increased energy production; energy has a 35% weight in the index. The figure for real GDP growth in 2000 is not available yet, but should be around 5%. The country's de facto split into territories with Bosniac, Croat or Serb administration has not been fully removed yet, a fact that makes it difficult to collect reliable data. The estimate for the GDP per capita in 1999 is around USD 1200 for the Bosniac-Croat entity (Federation of Bosnia-Herzegovina, FBiH), but almost one third less for the Serb entity (Republika Srpska, RS). This is only a rough indicator because the size of the population is disputable, too. The last census was taken in 1991, and too many things have happened since that time. Affluent urban areas contrast with rural areas where the majority of people live on a subsistence level.

Similar to many other developing countries, the economy concentrates on trade rather than on production. Trade between Bosniac-, Croat- and Serb-controlled territories has increased very much in recent years, but by far not all the official and unofficial barriers have disappeared. Foreign trade, too, has expanded. In 1999 and also 2000, exports rose, whereas imports shrank. Nevertheless, in 2000 export revenues covered only 30% of the import expenditures in FBiH and merely 48% in RS. Transfers from abroad, from private as well as from official sources, together with foreign loans allowed the country to absorb more goods and services than produced.

A lot of transactions circumvent official channels both in domestic and foreign trade. In the latter case an EU programme has helped to improve border control, in this way increasing the authorities' customs revenues. A free trade agreement with Croatia exempts BiH commodities from Croatian duties, whereas BiH has to remove its duties on Croatian products only gradually, up to 2004. The EU liberalized imports from BiH, but for the time being the core of BiH exporters are hardly in a position to profit from that to a larger extent. When exporting to the EU, they are required to prove their products' compliance with existing EU product legislation and standards.

On BiH territory, the konvertibilna marka (BAM), 1 to 1 pegged to the German mark (DEM), has crowded out the use of the Croat kuna and the Yugoslav dinar almost completely. Compared to FBiH, in RS prices are on average lower, but rising faster – in 2000 by 5.6% as compared to 1.2% in FBiH. The same is true for wages. Net wages were BAM 365 in the country as a whole, but 13% above this average in FBiH and 24% below in RS. The ratio is roughly the same for gross wages (BAM 528 on average), whereas for pensions the contrast is stronger: BAM 171 in FBiH and BAM 80 in RS. In 2000, 420,000 persons were jobless and 640,000 employed.

In the case of BiH, politics are a serious hindrance to economic progress. The important steps to improve the infrastructure for economic activity were initiated by international organizations and designed by the Office of the High Representative (OHR).

Since the beginning of this year, a new payment system along western standards is in place. The implementation cost a lot of effort and foreign supervision. The latter will be the basis for its functioning for a number of years and will also be costly. On the other hand, this step may have eased the way for foreign involvement in the banking sector, where now several Austrian and Italian banks are very active. The population has more confidence in reputed foreign banks, so those can attract an increasing number of clients. As there is a lack of reliable local clients in the credit business, the banks invest part of the funds at their disposal in the west.

Another important reform step is massive privatization. One method is tenders, the other is voucher privatization. Both FBiH and RS governments distributed vouchers to people who had accumulated claims vis-à-vis the state – for unpaid wages and pensions, for frozen deposits in banks, for the loss of social co-ownership in enterprises and so on. Now people can use the vouchers to receive shares in enterprises of their choice. Most of the population has not much confidence in vouchers, thus the latter's market value is low – allegedly only 3% of the face value (FBiH). This creates ample opportunity for local investors to get control over companies with small amounts of cash. At the beginning of June, some 386,000 people had become shareholders either in some companies or in privatization funds, and about half of the state-owned enterprises shifted to private ownership. Privatization of the remaining enterprises will start in mid-July and include enterprises in the telecommunications and energy spheres. An international advisory group on privatization has selected key companies, 86 in FBiH. In their case, tenders will be used to sell a majority share. The remaining shares will be available for voucher privatization.

As is the case in other countries, foreign investors are predominantly interested in telecommunications, energy and a few other industries. However, foreign involvement has increased in the recent past und will most probably grow further in the near future. The international financial institutions have helped enlarging investment guarantee facilities, and the investment conditions in BiH have improved for foreign companies. Probably, the hope for more foreign direct investment replacing loans and transfers from the donors' community will materialize at least partially. However, it does not solve the problem of an almost inexistent authority on the state level. So far, the Office of the High Representative fills the gap. The OHR is very active in improving the political and economic infrastructure through a growing number of decrees. At the same time, the public sector has difficulties reinforcing them all – for many reasons, among them lack of funding, which will become more acute with the lessening of donors' funds. Non-nationalistic politicians have won the November elections. To stay in power, they will need quick economic success in a difficult internal and external environment.

Table BA

Bosnia and Herzegovina: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000 1)	2001 forecast	2002 forecast
Population, th. pers., excl. refugees overseas (USAID)	3660	3646	3651	3700	3750	.	.	.
BiH Gross domestic product, BAM mn, nom. (IMF)	2873	4125	6116	7141	8043	8773	.	.
Federation BiH	1962	3049	4748	5407	5833	.	.	.
Republika Srpska	911	1076	1368	1734	2210	.	.	.
Annual change of BiH GDP, real, in % (IMF)	50	86	40	13	9	5	5	5
GDP/capita, BAM	785	1131	1675	1930	2145	.	.	.
Industrial production, real, % change (IMF)								
Federation BiH	.	88	36	24	11	8.8 2)	5	5
Republika Srpska	.	39	27	23	2	5.6 2)	3	3
Employment, th pers., end of period (NBBiH)								
Federation BiH	.	.	.	407.0	410.1	413 3)	.	.
Republika Srpska	.	.	.	244.3	244.3	229	.	.
Unemployment, th pers., end of period (NBBiH)								
Federation BiH	.	.	.	256.5	261.8	268	.	.
Republika Srpska	.	.	.	142.2	147.5	153	.	.
Unemployment rate in %, end of period (NBBiH)								
Federation BiH	.	.	.	38.6	39.0	39.4	41	43
Republika Srpska	.	.	.	36.8	37.6	40.1	42	45
Average net monthly wages, DEM (95-97), BAM (NBBiH)								
Federation BiH	43	168	266	357	386	418	.	.
Republika Srpska	21	50	90	237	272	286	.	.
Consumer prices (in BAM terms), % p.a. (IMF)								
Federation BiH	-4	-25	14	5	0	1.2 2)	1	1
Republika Srpska 4)	13	17	-7	2	14	13.6 2)	5	3
Consolidated government, BAM [DEM] mn 5) (IMF)								
Revenue (including grants)	1051	2173	2398	3148	3987	.	.	.
Expenditure	1060	2355	2429	3657	4568	.	.	.
Deficit (-) / surplus (+)	-9	-182	-31	-509	-581	.	.	.
Deficit (-) / surplus (+), % GDP	-0.3	-4.4	-0.5	-7.1	-7.2	.	.	.
Money supply, BAM mn, end of period (IMF)								
M0, Cash outside banks	.	.	113	162	515	546	.	.
% of GDP	.	.	1.8	2.3	6.4	6.2	.	.
M1, Money	.	.	252	310	1100	1295	.	.
% of GDP	.	.	4.1	4.3	13.7	14.8	.	.
M2, Broad money	.	.	1178	1547	2165	2322	.	.
% of GDP	.	.	19.3	21.7	26.9	26.5	.	.
Current account, USD mn 6) (IMF)	-193	-1306	-1482	-986	-1058	.	.	.
% of GDP	-9.6	-47.6	-41.9	-24.3	-24.1	.	.	.
Gross reserves, USD mn 7) (IMF)	213	235	80	175	455	.	.	.
Gross external debt, USD mn (IMF)	3361	3620	4076	2985	3095	.	.	.
Exports total, fob, USD mn 6) (IMF)	152	336	575	697	649	.	.	.
annual change in %	67.0	121.1	71.1	21.2	-6.9	.	.	.
Imports total, fob, USD mn 6) (IMF)	1082	1882	2333	2656	2502	.	.	.
annual change in %	21.0	73.9	24.0	13.8	-5.8	.	.	.
Trade balance, USD mn 6)	-930	-1546	-1758	-1959	-1853	.	.	.
% of GDP	-46	-56	-50	-48	-42	.	.	.
Average exchange rate BAM/USD (NBBiH)	.	.	1.7301	1.7614	1.8343	2.074	.	.
Average exchange rate BAM/EUR [ECU]	.	.	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Average exchange rate BAM/DEM 8)	.	.	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

1) Preliminary. - 2) OHR Newsletter April 2001. - 3) Additionally, 40,252 were on a stand by. - 4) Until mid-1998 prices were observed in YUD and converted into BAM using the YUD/DEM exchange rate in the parallel market in Belgrade (IMF). - 5) Excludes municipal government operations for RS. From 1996 on excluding military expenditures financed by external grants. - 6) Estimates. - 7) In 1995 gross international reserves, from 1996 on gross official reserve. - 8) In mid-1998 the konvertiblna marka (BAM) replaced the BH dinar, the currency up to that moment used in Bosniac-controlled areas. In the same way as the new currency, it was tied 1 to 1 to German mark.

Source: National Bank of Bosnia and Herzegovina (NBBiH), IMF, USAID, OHR.

Vladimir Gligorov

Macedonia: Civil war fears

The economic consequences of the military conflict with the Albanian rebels that started in early March of 2001 – recently the country has been edging towards a full-blown civil war – have been severe. Though the data are not all that reliable, there is no doubt that the violent conflict that is now almost four months old is taking a heavy toll on the budget and on economic activities in general. Some estimates put the direct budgetary costs of the operations of security forces against the insurgent Albanians at about USD 100 million so far. Clearly, if the conflict continues even at current levels of hostilities for some time, the costs of financing the military activities will become the major problem. The government has introduced an additional tax of 0.5% on all financial transactions, but this will not be enough given the unavoidable rise in costs.

Macedonia signed the Stability and Association Agreement (SAA) with the EU as scheduled on 9 March 2001. The SAA is supposed to last for ten years. After that period, Macedonia should become a candidate for full membership in the EU. The SAA charts a course of asymmetrical trade liberalization, with the EU removing almost all tariffs for imports while Macedonia is to lower its tariffs for imports from the EU over a ten-year period. The SAA also envisages increased financial and political support of the EU for Macedonia.

The signing of the agreement was supposed to be a highly visible support for the embattled country. It has, however, failed in this respect. The conflicts have in fact intensified. The EU and the NATO have condemned the activities of the insurgents, but have adopted the position that the conflict can be resolved by political means, which they have taken to consist in a fundamental redesign of the Macedonian constitution. Also, they have accepted the position of the insurgents that these changes have to be adopted in a very short period of time, preferably by the end of June 2001. Under pressure, the main Macedonian parties, two ethnic Macedonian and two ethnic Albanian parties, have formed a grand coalition and have started negotiations under the stewardship of the president of Macedonia.

The first round of talks ended without agreement. The Macedonian parties are ready to rewrite the preamble of the constitution to reflect the civil rather than the ethnic character of the state. The Albanian parties want the constitution to define Macedonia as a bi-ethnic state of the Macedonian and the Albanian nations. The former proposal would strengthen the democratic character of the state, while the latter would imply a division of power along ethnic lines and would also imply a territorial division of the state. It is at this point unclear what the preferences are of the EU and of NATO, but it could be inferred from their behaviour that they would be ready to accept just about any constitutional outcome whatever the consequences for the democratic character of the state or for its territorial integrity, short of a formal dissolution. With civil war being a constant danger, this stance amounts to a pressure on the Macedonian parties to accept the Albanian demands.

If this conflict is put in the context of the previous ones in other parts of former Yugoslavia, it is clear that Macedonia is essentially at the point where Bosnia and Herzegovina was at the beginning of 1992. There is an assault of para-militaries supported from outside (this time from Kosovo), the international powers are bent on appeasing the rebels, the aim is to divide the country, and there is growing disregard for democratic procedures. The country is forced to adopt a constitutional arrangement with no regard for constitutional procedures whatsoever. What remains to happen is a civil war in the capital, last time in Sarajevo, this time in Skopje, ethic cleansing on a massive scale, ethnic partition sanctioned at an international conference and the arrival of an international force to oversee the cease-fire. Indeed, NATO has expressed readiness to send troops once an agreement on the new constitution has been reached.

This scenario, if it materializes, will lead to an economic collapse of the country. Then, a similar programme as the one that has been implemented in Bosnia and Herzegovina and in Kosovo will have to be implemented in Macedonia too. Clearly, this provides incentives for those who anticipate a prolonged period of lawlessness and aid-dependency. Why this is the outcome apparently being invited by the EU and NATO is much less easy to understand.

How long can the economy of Macedonia sustain the level of conflict that can be predicted if events continue to unfold as they have been unfolding in the first half of the year? Currently, Macedonia is negotiating a stand-by agreement with the IMF, which, if finalized soon, could provide support for the exchange rate that is under severe pressure. The central bank has been losing reserves and has had to double its interest rate in order to defend the currency. This will have negative effects on economic activity, which is suffering significant losses anyway. GDP is expected to stagnate on the assumption that the conflict will be resolved fairly quickly. Industrial production is falling as is foreign trade activity. Domestic private consumption is also falling and investments are practically non-existent. Even if the conflict is resolved instantly, the costs will be very high. If not, the country will rather quickly slip into the Bosnian scenario outlined above with dire consequences for the country but for the region as well.[12]

[12] On that more in V. Gligorov, 'Southeast European Economic Prospects in View of the Recent Political Developments', paper presented at the NATO conference in Bucharest, May 2001.

Table MK

Macedonia: Selected Economic Indicators

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., mid-year	1983.1	1996.9	2007.5	2017.1	2030.0	.	.	.	.
Gross domestic product, MKD mn, nom.	176444	184982	190827	195284	216843	.	.	246000	269000
annual change in % (real)	1.2	1.4	2.9	2.7	5.1	.	.	0	5
GDP/capita (USD at exchange rate)	2225	1860	1746	1701	1621	.	.	.	.
GDP/capita (USD at PPP - WIIW)	4170	4240	4400	4570	4860	.	.	.	.
Gross industrial production									
annual change in % (real)	3.2	1.6	4.5	-2.6	3.5	10.3	-8.7	-3	3
Gross agricultural production									
annual change in % (real)	-2.2	1.1	4.3	1.0	-6.5	.	.	.	.
Goods transport, mn t-kms 2)	1067	1175	1302	1219	1181 3)	.	.	.	.
annual change in % 2)	-20.6	10.1	10.8	-6.4	7.4 3)	14.8	.	.	.
Gross fixed capital form., MKD mn, nom.	30654.0	32189.0	33982.0	34949.0	.	.	.	.	.
annual change in % (real)	6.5	-4.3	1.6	1.2	.	.	.	.	.
Construction output, value added									
annual change in % (real)	-0.6	0.2	2.9	12.2	-3.0	.	.	.	.
Dwellings completed, units	5342	4300	3256	4479	.	.	.	.	.
annual change in %	15.1	-19.5	-24.3	37.6	.	.	.	.	.
Employment total, th pers., average 4)	537.6	512.3	539.8	545.2	549.8	.	.	.	.
annual change in % 4)	.	-4.7	5.4	1.0	0.8	.	.	.	.
Employees in industry, th pers., average	127.6	117.6	113.6	119.8	114.4	120.0	112.2	.	.
annual change in %	-6.6	-7.9	-3.4	5.5	-4.5	3.7	-6.5	.	.
Unemployed, th, average 4)	251.5	288.2	284.1	261.5	261.7	.	.	.	.
Unemployment rate in %, average 4)	31.9	36.0	34.5	32.4	32.2	.	.	32	32
Average net monthly wages, MKD	8817	9063	9394	9664	10193	9902	10394	.	.
annual change in % (real, net)	0.5	0.2	3.8	3.6	-0.3	0.9	0.0	.	.
Retail trade turnover, MKD mn	29893.0	32482.8	33215.6	38247.9	47331.8	11542	13974	.	.
annual change in % (real, calc.)	-8.4	4.1	1.5	16.4	11.9	27.1	12.5	.	.
Retail prices, % p.a.	3.0	4.4	0.8	-1.1	10.6	4.2	7.6	8	6
Producer prices in industry, % p.a.	-0.3	4.2	4.0	-0.1	8.9	7.2	4.6	.	.
General government budget, MKD mn									
Revenues	64445	.	78273	87903	.	.	.	.	.
Expenditures	65096	.	79314	85957	.	.	.	.	.
Deficit (-) / surplus (+)	-651	.	-1041	1946	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	-0.4	.	-0.6	1.0	3.5	.	.	.	.
Money supply, MKD mn, end of period									
M1, Money	12143	13983	15178	19694	22388	19335	21787	.	.
M2, Money + quasi money	18490	22724	26003	33720	40862	33720	39362	.	.
Discount rate, % p.a., end of period	9.2	8.9	8.9	8.9	7.9	8.9	7.9	.	.
Current account, USD mn	-288.1	-276.4	-308.2	-113.4	-113.3	.	.	-350	-350
Gross reserves of NB, excl. gold, USD mn	239.5	257.0	306.1	429.9	429.4	413.2	909	.	.
Gross external debt, USD mn 5)	1172.4	1133.1	1398.6	1438.5	1436.4	1441.0	1415.1	.	.
Exports total, fob, USD mn	1147.4	1236.8	1310.7	1191.3	1319.0	330.8	292.0	1000	1300
annual change in %	-4.7	7.8	6.0	-9.1	10.7	30.4	-11.7	-24	30
Imports total, cif, USD mn	1626.9	1778.5	1914.7	1776.2	2084.7	606.8	397.1	2000	2200
annual change in %	-5.4	9.3	7.7	-7.2	17.4	74.1	-34.6	-4	10
Average exchange rate MKD/USD	39.99	49.83	54.45	56.90	65.89	62.7	68.9	68	68
Average exchange rate MKD/EUR (ECU)	50.08	56.20	61.07	60.62	60.73	60.6	60.9	68	68
Average exchange rate MKD/DEM	26.58	28.70	30.95	30.99	31.05	31.0	31.1	35	35
Purchasing power parity MKD/USD, WIIW	21.35	21.84	21.61	21.18	21.98	.	.	.	.
Purchasing power parity MKD/EUR, WIIW	23.14	23.81	23.45	22.88	23.66	.	.	.	.

1) Preliminary. - 2) Excluding air transport. - 3) From 2000 road and rail. - 4) Based on Labour Force Survey data. - 5) Medium and long-term.

Source: WIIW Database incorporating national statistics.

Vladimir Gligorov

FR Yugoslavia: The beginning of transition in 2001

The new government in Serbia has inherited a daunting number of problems: constitutional, political, security and economic. There have been problems internal to the democratic coalition too. Finally, frictions have emerged between the Serbian and the Montenegrin parties within the governing coalition in the federal government. Thus, some of the most important political decisions are yet to be made.

In the first half of 2001, the Yugoslav government has concentrated its efforts on the establishment of good relations with the international partners and on the passing of some of the key laws in the area of foreign trade. Thus, a new tariff law was passed that simplifies and lowers the existing tariff rates. Reportedly, the average tariff rate now is around 11%. Non-tariff barriers have basically been abolished. However, the effective tariff may prove to be higher than before, because it is calculated according to the highly depreciated exchange rate (compared to the previous year) and the tariff authorities should be more efficient than they were before.

Apart from that, the federal government has worked intensively on the stand-by agreement with the IMF, which was approved at the beginning of June. It is worth USD 249 million and runs till March 2002. For 2001, it assumes GDP growth of 5% and industrial production growth of 0%, end-period inflation of 30-35%, a fiscal deficit of slightly above 6% of GDP and a current account deficit (before grants) of close to 18% of GDP. Exports should grow about 10% and imports almost 20%. Clearly, this agreement is a transitory one and is designed to sustain the shaky macroeconomic stability in the short run. A more far-reaching programme should be expected after this one expires, i.e., next spring or thereabout.

The federal government has also worked on the preparation of the donors' conference scheduled to be held in Brussels on 29 June. The World Bank and the European Commission have prepared a hefty two-volume study that has been advertised as the transition strategy for Yugoslavia. It should serve as background material for the financial support in the next few years, i.e., until 2004. In the period from now until 2004, donors should be ready to come up with financial support worth USD 3.9 billion (more than USD 1.2 billion for 2001 and more than USD 2.6 billion for the 2002-2004 period). Together with the massive write-off and rescheduling of the accumulated stock of Yugoslav debts, estimated at the moment at USD 12.2 billion, this financial support – in grants, credits and investments – should enable Yugoslavia to preserve stability and grow by 4% p.a. on average even in the longer run, i.e., until 2010.

From the analysis in the World Bank/EU study it can be inferred that Yugoslavia is seen as running high fiscal and current account deficits throughout the whole decade. Indeed, investments are assumed to outrun domestic savings by about USD 2 billion per year. In other words, in the coming decade Yugoslavia will need about USD 20 billion in aid, credits and investments for the period as a whole. This is without the initial write-off of debts that should amount to about USD 5 to 6 billion.

The strategy should support and sustain rather high levels of public expenditures. Those should take close to 50% of the GDP in the whole ten-year period. Because of that, the stock of debt, once reprogrammed, should stay more or less at the same level, i.e., around 70% of the GDP. However, the debt service to export ratio should rise steadily from 7% to around 25% in 2010. The hope is that this strategy of debt management should enable some significant investments to go into the reconstruction of infrastructure and in structural reforms. It is, however, clear that this kind of stability is quite precarious and extremely vulnerable to adverse internal and external shocks.

Going from the agreements and programmes to the economic reality, the developments in the first six months have been less than encouraging. Industrial production has been falling, prices have been rising and unemployment has been on the rise too. Still, it is expected that GDP will grow by about 5% this year, because of the steep rise in agricultural production that was extremely depressed last year due to severe drought. The major contribution on the demand side should come from the increase in public consumption.

The Serbian government concentrated on the reform of the fiscal sector. The new budget law has essentially two targets. The first is the timely execution of public financial obligations. Thus, the budget now pays wages and pensions on time and in full. This has led to a significant increase in overall public expenditures (from about 39% of GDP to about 44%). The second target is the simplification of the tax system. Now, it relies on a uniform sales tax, payroll contributions and excises (tariffs are also important as a source of public revenues as already mentioned). The general budget deficit should be about 3% of GDP. The deficit should be financed from grants and privatization receipts mainly.

It is expected that, from the autumn of this year, foreign aid and investments should start flowing into the country boosting production. The market access has been improved with the introduction of zero tariff barriers for almost all exports to the EU. Also, free trade agreements are planned with Croatia and Hungary, while such agreements already exist with Bosnia and Herzegovina and Macedonia.

The central bank has been relying on a stable exchange rate to support price stability. However, the liberalization of prices and sharp increases in controlled prices have given rise to higher than planned inflation. It is now expected that the end-period retail price inflation will be closer to 50% than to the planned 30%. Year-on-year inflation may be over 70%. Core inflation, however, has been reported to be running at somewhere between 1% and 2% per month. But there are growing pressures to float the Yugoslav dinar, which would lead to monetary relaxation and thus to higher price increases.

Apart from keeping an eye on exchange rate stability, the central bank has been heavily involved in the preparation of the programme on bank rehabilitation and restructuring. A number of banks have seen their licences revoked and there is more of the same to come. Still, the major issue has been the decision to rehabilitate the four or five largest banks. At the moment, it seems that an attempt will be made to save these banks. The plan is for the budget to take over almost all of their obligations – which are mainly to foreign creditors and domestic frozen foreign currency savings – and to exchange their bad loans portfolio with government bonds and, in addition, to support their liquidity. Initially, the programme is expected to cost about USD 300 million or around 3% of GDP. The key issue, however, is what these banks are going to do. If they are to finance their traditional clients, they will continue to accumulate bad loans. If not, it is difficult to see what the point would be in saving them because other banking intermediation can be serviced by the existing or newly entering, mainly foreign, banks.

These problems and their planned solutions have to be seen in the context of the difficult political problems that the country faces. Chances are that early federal or Serbian or Montenegrin elections or all of them together will have to be held by the end of this year or early next year and the political landscape may change. Also, social dissatisfaction is growing and may present serious political problems next autumn and winter. Thus, transition has begun, but the pace it will follow is yet to be determined.

Table YU

Yugoslavia: Selected Economic Indicators *

	1996	1997	1998	1999	2000 1)	2000	2001	2001	2002
						1st quarter		forecast	
Population, th pers., mid-year	10577.2	10600.1	10616.9	8372.2	8379.7	.	.	.	.
Gross domestic product, USD mn, nom. 2)	16477	18146	18491	15113	10000	.	.	9800	9300
annual change in % (real) 3)	5.9	7.4	2.5	-17.7	7.0	.	.	5	5
GDP/capita (USD at exchange rate) 2)	1558	1712	1742	1424	940	.	.	.	.
Gross industrial production 4)									
annual change in % (real)	7.6	9.5	3.6	-23.1	12.2	-5.3	-0.7	0	5
Gross agricultural production 5)									
annual change in % (real)	1.5	7.3	-3.2	-0.9	-19.7	.	.	.	.
Goods transport, mn t-kms	31720	38097	45350	32887	.	9824	.	.	.
annual change in % 6)	141.1	20.1	19.0	.	.	3.3	.	.	.
Gross fixed investment, YUM mn, nom.	9702.5	13525.3	17893.2	25010.4	.	.	.	.	.
annual change in % (real)	-5.7	0.8	-2.2	.	.	.	.	.	.
Construction output, value of work done									
annual change in % (real)	2.7	6.9	-0.8	.	.	.	.	.	.
Dwellings completed, units	15160	14768	13096	13123	13666	.	.	.	.
annual change in %	5.7	-2.6	-11.3	0.2	4.1	.	.	.	.
Employment total, th pers., average 7)	2367	2332	2504	2298	2238	2248	.	.	.
annual change in %	-0.5	-1.5	-0.1	-8.2	-2.6	-9.1	.	.	.
Employees in industry, th pers., average 8)	852	820	836	756	676	685.7	699.2	.	.
annual change in %	-2.1	-3.7	-1.9	-9.5	-10.6	-12.2	.	.	.
Unemployed reg., th, end of period	826.8	793.8	849.4	774.0	812.4	801	847	.	.
Unemployment rate in %, end of period 9)	26.1	25.5	25.4	25.5	26.8	26.4	28.2	30	32
Average net monthly wages, YUM 10)	658	803	1063	1309	2588	1817	4299	.	.
annual change in % (real, net)	1.0	21.2	1.9	-15.1	6.1	-9.7	12.1	.	.
Retail trade turnover, YUM mn	27896	35433	48748	60935	124307	.	.	.	.
annual change in % (real, calc.)	7.4	11.8	3.9	-15.1	7.7	0.6	4.7	.	.
Consumer prices, % p.a.	91.5	21.6	29.9	44.9	85.6	60.8	111.0	70	30
Producer prices in industry, % p.a.	90.2	19.5	25.5	44.1	106.5	74.7	124.4	.	.
General government budget, YUM mn									
Revenues	35941	47455	61360	79321	139580	23628.1	54000.4	.	.
Expenditures	39044	55315	70739	.	.	.	.	.	.
Deficit (-) / surplus (+)	-3103	-7860	-9379	.	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	.	-7.0	-6.1	.	.	.	.	.	.
Money supply, YUM mn, end of period									
M1, Money	5495.3	9148.0	10807.3	16332.0	30194.7	17003.1	34782.3	.	.
Broad money	31434.7	38948.4	62352.0	75393.7	.	78036.7 11)	.	.	.
Discount rate, % p.a., end of period	68.2	33.7	34.5	26.8	26.8	.	.	.	.
Current account, USD mn 12)	-1317	-1837	-1180	-1341	-1300	.	.	-1200	-1500
Reserves of NBY incl.gold, USD mn 13)	1239	1158	1225	.		.	.	.	.
Gross external debt, USD mn	9000	10500	11500	12500	12500	.	.	.	.
Exports total, fob, USD mn 14)	2018	2677	2858	1498	1723	395	447	2100	2100
annual change in %	.	32.7	6.8	-46.9	15.0	-16.5	13.2	22	0
Imports total, cif, USD mn 14)	4119	4826	4849	3296	3711	970	1071	4800	5500
annual change in %	.	17.2	0.5	-30.4	12.6	-4.8	10.4	29	15
Average exchange rate YUM/USD	4.97	5.72	9.34	11.01	37.46	11.89	64.64	68	98
Average exchange rate YUM/EUR (ECU)	6.30	6.48	10.46	11.73	34.87	11.73	59.01	68	98
Average exchange rate YUM/DEM	3.30	3.30	5.33	6.00	17.83	6.00	30.17	35	50

*) Note: From 1999 all data except GDP and GDP/capita in USD are given excluding Kosovo and Metohia.

1) Preliminary. - 2) Based on World Bank estimates till 1999; Year 2000: WIIW estimate. - 3) Based on GMP in Dinar. - 4) Excluding private enterprises. - 5) Based on final net production. - 6) 1996 excluding maritime transport. - 7) Employees plus own account workers, excluding individual farmers; from 1998 including small enterprises. - 8) From 1998 including small enterprises; from 2001 according to NACE. - 9) In % of unemployed plus employment. - 10) Excluding private sector; methodolological break 1996/1997. - 11) End of February. - 12) Excluding grants; Year 2000 estimated. 13) Gold and foreign currency of NBY converted into USD at official exchange rate. - 14) Converted from the national currency to USD at trade exchange rate.

Source: WIIW Database incorporating national and international statistics.

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