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Transition Countries in 2002: Losing Steam

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Leon Podkaminer et al.

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Contents

COUNTRY REPORTS

Tables and Figures in the Overview

Tables and Figures in the Annex

Tables in the Country Reports

Executive summary

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

The contribution of foreign trade to GDP growth seems neutral – excepting the Czech Republic and Hungary (probably positive). This is due to external conditions: weak growth in the EU. Lower world prices of energy had a negative impact on growth in Russia. The current account deficits in the advanced transition countries will remain relatively low (and the high Slovak deficit is expected to go down). In Yugoslavia the high current account deficits will continue. The Russian current account surplus, which is declining sharply, will still remain very large. Current account deficits will continue to be financed largely, and safely, by inflows of foreign direct investment.

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

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

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

Keywords: *Central and East European Transition Countries, Bulgaria, Croatia, Czech Republic, Hungary, Macedonia, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine, Yugoslavia (Serbia and Montenegro), forecast, East-West trade, European Union, EU enlargement, exchange rates*

JEL classification: *O52, O57, P24, P27, P33, P52*

Figure I: Gross domestic product

real change in % against preceding year

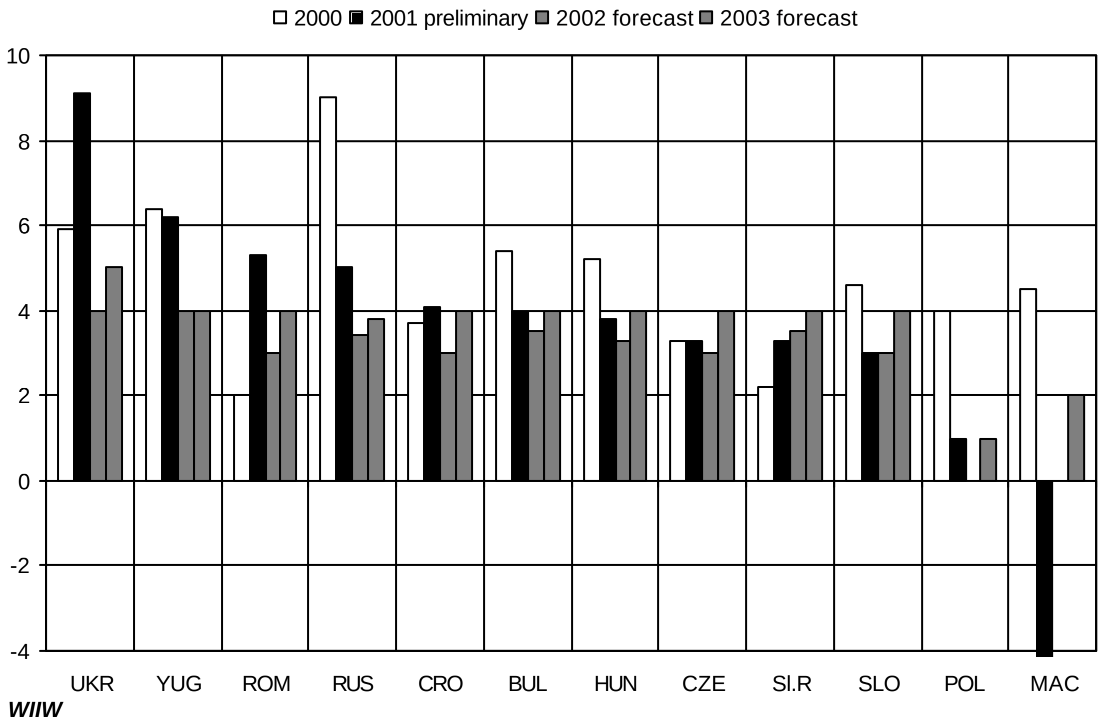
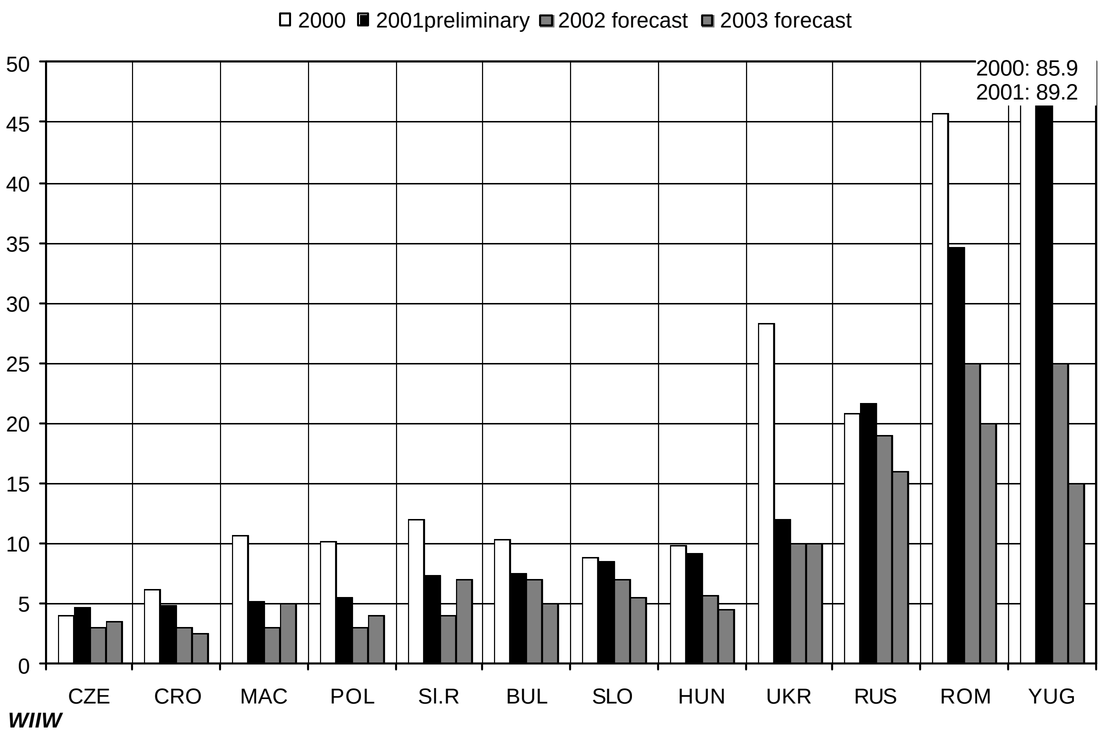


Figure II: Consumer price inflation

annual change in % against preceding year



OVERVIEW

Leon Podkaminer *

Transition countries in 2002: losing steam

GDP growth is slowing down

After quite satisfactory performance of the transition countries in 2000, there was generally a marked slowdown of growth in 2001. Quarterly GDP growth rates started to decline around the second quarter of 2001. This tendency was not checked in the first quarter of 2002. The growth rates of industrial production, which are good leading indicators of GDP growth in most transition countries, have been generally weakening – also well into the second quarter of 2002. In most cases the deceleration of industrial production has been quite radical. This indicates that the overall GDP growth is unlikely to improve perceptibly in the near future. Even in Slovakia, which is the only country where GDP growth has recently accelerated, the growth of industrial production has been braked – which in due time will no doubt be reflected in the GDP figures.

It is not yet quite clear to what degree the individual aggregate demand items currently support the overall growth. The Czech Republic and Hungary are most probably the only countries where growth has been supported by rising net exports (represented by strongly diminishing trade deficits). In the remaining countries the trade deficits have not changed much. In the case of Russia there has been a quite substantial reduction of the trade surplus: most probably net exports diminished the recorded Russian GDP growth rate. Also, data on gross fixed investment (wherever available) indicate a marked slowdown in 2002 (again excepting the Czech Republic).

Expanding consumption seems to have been the major force behind GDP growth everywhere, though possibly to a relatively smaller extent in the Czech Republic. Election considerations helped the expansion of consumption in Slovakia and Hungary, where one observes a typical pre-election sharp widening of budget deficits. This 'engine of growth' is always switched off after the elections: no doubt this will have some consequences for Hungary and Slovakia as well. Given the general tendency of the fiscal policy in the transition countries to minimize the budget deficits, the main supporting force behind the observed GDP growth has been private consumption. The importance of that force is currently demonstrated in Poland where a 3.5% rise in private consumption prevented a GDP decline.

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Figure 1a: Quarterly GDP growth rates

in %, year-on-year

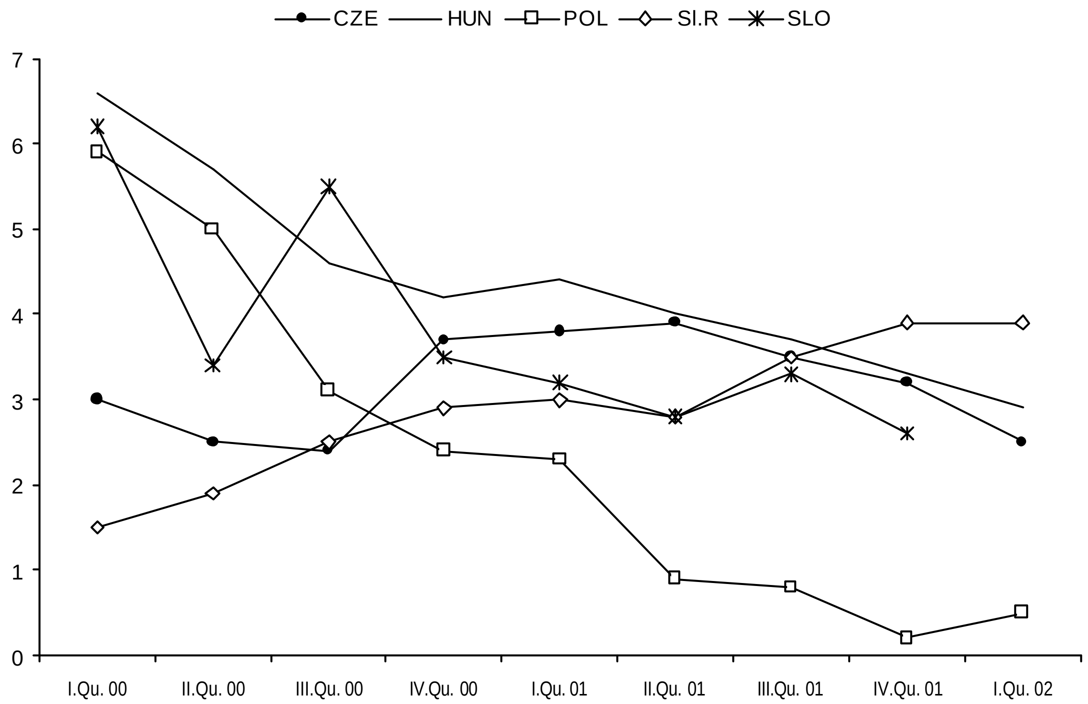

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Figure 1b: Quarterly GDP growth rates

in %, year-on-year

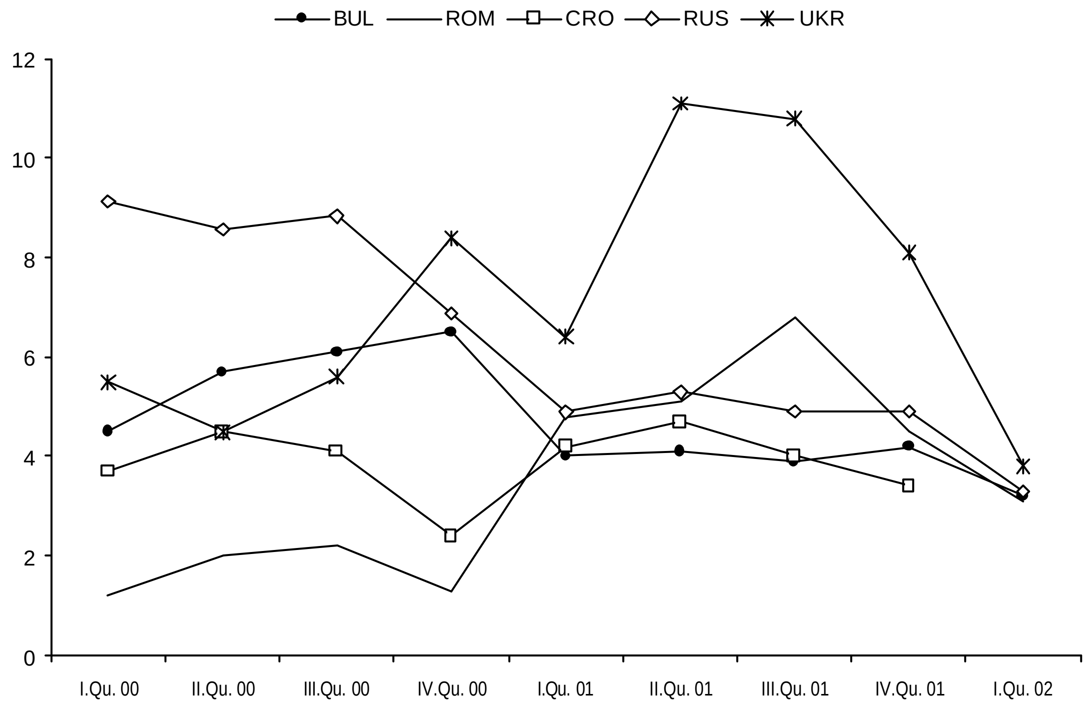

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Table 1: Gross domestic product

real change in % against preceding year

	1995	1996	1997	1998	1999	2000	2001 [1)]	2001	2002	2002	2003	Index 1990=100 2001
								1st quarter		forecast		
Czech Republic	5.9	4.3	-0.8	-1.2	0.5	3.3	3.3	3.6	2.5	3	4	104.5
Hungary	1.5	1.3	4.6	4.9	4.2	5.2	3.8	4.4	2.9	3.3	4	112.1
Poland	7.0	6.0	6.8	4.8	4.1	4.0	1.0	2.3	0.5	0	1	144.6
Slovak Republic	6.7	6.2	6.2	4.1	1.9	2.2	3.3	3	3.9	3.5	4	108.7
Slovenia	4.1	3.5	4.6	3.8	5.2	4.6	3.0	3.2	.	3	4	123.7
CEEC-5 [2)]	5.7	4.8	4.8	3.5	3.2	3.9	2.2	3.0	.	1.6	2.5	125.8
Bulgaria	2.9	-9.4	-5.6	4.0	2.3	5.4	4.0	4	3.2	3.5	4	84.2
Romania	7.1	3.9	-6.1	-4.8	-1.2	1.8	5.3	4.8	3.1	3	4	88.3
CEEC-7 [2)]	5.8	3.8	2.6	2.4	2.6	3.7	2.8	3.3	.	1.9	2.8	116.6
Estonia	4.6	4.0	10.4	5.0	-0.7	6.9	5.4	5.8	3.6	4	5	93.8
Latvia	-0.8	3.3	8.6	3.9	1.1	6.8	7.6	8.3	3.8	5.5	6	67.2
Lithuania	3.3	4.7	7.3	5.1	-3.9	3.8	5.9	4.4	4	4.5	5	72.3
Croatia	6.8	5.9	6.8	2.5	-0.4	3.7	4.1	4.2	.	3	4	90.3
Macedonia	-1.1	1.2	1.4	3.4	4.3	4.5	-4.6	.	.	0	2	87.0
Yugoslavia [3)]	6.1	5.9	7.4	2.5	-21.9	6.4	6.2	.	.	4	4	49.4
Russia	-4.1	-3.4	0.9	-4.9	5.4	9.0	5.0	4.8	3.3	3.4	3.8	69.4
Ukraine	-12.2	-10.0	-3.0	-1.9	-0.2	5.9	9.1	7.7	3.8	4	5	47.1
Armenia	6.9	5.9	3.3	7.3	3.3	6.0	9.6	10.0	7.4	7	.	74.4
Azerbaijan	-11.8	1.3	5.8	10.0	7.4	11.1	9.9	8.0	4.7	5	.	64.7
Belarus	-10.4	2.8	11.4	8.4	3.4	5.8	4.1	1.0	3.2	3	.	91.4
Georgia	2.6	11.2	10.6	2.9	3.0	2.0	4.5	1.9	3.7	3	.	39.3
Kazakhstan	-8.2	0.5	1.7	-1.9	2.7	9.8	13.2	11.0	10.7	10	.	78.6
Kyrgyzstan	-5.4	7.1	9.9	2.1	3.7	5.4	5.3	5.6	-2.8	0	.	70.1
Moldova	-1.9	-5.9	1.6	-6.5	-3.4	2.1	6.1	2.6	.	5	.	36.7
Tajikistan	-12.4	-16.7	1.7	5.3	3.7	8.3	10.2	7.6	9.3	7	.	63.7 [4)]
Turkmenistan	-7.7	0.1	.	.	.	.	.	.	.	.	.	.
Uzbekistan	-0.9	1.7	5.2	4.4	4.4	4.0	4.5	2.8	.	4	.	102.9
CIS	-5.3	-3.2	1.0	-3.6	4.6	8.3	6.0	.	.	4	.	67.2

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

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

The remarkable aspect of the current Polish experience is that private consumption has risen despite quite strong declines in real incomes of wage earners, farmers and recipients of pensions and other social security benefits. GDP stabilization has thus been achieved most probably due to the population running down its stocks of savings (and incurring debts). While that type of demand stabilizer cannot operate indefinitely, it may be of importance – also in other countries with temporarily low growth rates of disposable incomes.

Sagging gross fixed capital formation

Investment in fixed assets is falling precipitously in Poland and its rise in Russia is surprisingly weak. It is not clear how it performs currently in some other countries. Overall, the forecasts for the whole year 2002 are, generally, only modestly optimistic. Although in most cases the likely growth rates of investments indicate that gross capital formation will support the GDP growth envisioned for 2002, they may be insufficient for safeguarding a strong and sustainable medium-term growth.

Table 2: Gross fixed capital formation

real change in % against preceding year

	1995	1996	1997	1998	1999	2000	2001 1)	2001 1st quarter	2002 1st quarter	2002 forecast	2003 forecast	Index 1989=100 2001
Czech Republic	19.8	8.2	-2.9	0.1	-1.0	5.3	7.2	6.0	8.1	7	7	127.4
Hungary	-4.3	6.7	9.2	13.3	5.9	7.7	3.1	4.1	.	5	10	138.1
Poland	16.5	19.7	21.7	14.2	6.8	2.7	-9.8	1.2	-13.3	-9	-4	188.3
Slovak Republic	1.8	30.9	14.3	11.0	-18.5	1.2	9.6	9.4	-0.8	3	10	105.7
Slovenia	16.8	8.9	11.6	11.3	19.1	0.2	-1.9	-3.4	.	3	4	165.7
Bulgaria	16.1	-21.2	-20.9	35.2	20.8	15.4	19.9	17.2	4.5	.	.	82.6
Romania	7.0	5.7	1.7	-5.7	-4.8	4.6	6.6	7.0	4.8	4	5	73.5
Croatia	.	37.6	26.4	2.5	-1.1	-3.5	9.7	11.6	.	5	6	.
Macedonia	10.2	6.5	-4.3	-2.6	-1.4	.	.	.	.	.	.	61.5 3)
Yugoslavia 2)	-3.7	-5.7	0.8	-2.2	-29.7	13.3	.	.	.	.	.	18.7 4)
Russia 2)	-10.0	-18.0	-5.0	-12.0	5.3	17.7	8.7	5.9	1.2	6	8	28.5
Ukraine 2)	-35.1	-22.0	-8.8	6.1	0.4	14.4	17.2	23.7	9.6	15	15	27.3

Notes: 1) Preliminary. - 2) Gross fixed investment. - 3) 1999 in comparison to 1989. - 4) 2000 in comparison to 1989.

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

There is little doubt that the low (predominantly highly negative) rates of growth of gross fixed investments observed since 1990 in Russia, Ukraine and Yugoslavia (but also in Macedonia, Romania and Bulgaria) have radically reduced their effective production capacities. The process has been reinforced by lack of even passive maintenance of unused equipment – and by asset stripping, plain vandalism and theft (sometimes portrayed as 'restructuring') taking place on a large scale. In Yugoslavia one also has to allow for the extensive 'collateral damage' inflicted during the NATO bombing. It is not clear at all to what extent the countries with low levels of investments are still demand-constrained. Arguably, an expansion of demand for products of these countries may not have much of an effect on actual supply because of obsolescence, or inefficiency, or simply absence of production capacities that can be put into operation at reasonably short notice. Unless gross fixed investment is high in these countries, they may be unable to record high rates of growth, even under favourable demand conditions. In effect, rising demand (consumer demand in particular) may tend to spill over into higher imports, or higher inflation.

The capacity constraints on further growth are likely to have interesting implications for Russia, which inherited from the Soviet Union a manufacturing base specialized in the production of weaponry and basic metals, but very weak in producing anything else. Growth in Russia could still accelerate relatively fast, without costly and time-consuming investment, provided the demand for its military products rises steeply. Certainly, the possibilities of stimulating that type of demand are limited – even for Russia's experienced foreign policy. Nonetheless, should the domestic developments head into politically intolerable directions (e.g. stagnation of growth, high and rising unemployment), there may be a temptation to somehow activate the armaments industry.

It is much less obvious how to qualify the production capacities of the advanced transition countries. The current levels of gross fixed capital formation have surpassed the pre-transition levels in all of them (and in Poland and Slovenia by huge margins). The process of capital formation has been quite steady (at least until 2001) so that the new capacities may seem to have been operational by now. Because market discipline was enforced in these countries in the very early years of transition, there are also good grounds to believe that on the whole the new capacities should be capable of producing competitively. On the other hand, one does not know with any great precision what are the shares of investment that has gone into unproductive infrastructure projects (such as roads or environmental protection facilities), residential housing, or into services (such as luxuriously equipped banks' headquarters, or shopping malls) whose direct contribution to the production of tangible commodities is negligible.

Despite the remarkable levels of gross fixed capital formation, in a sense all advanced transition countries continue to suffer from inadequate production capacity. This is reflected in their trade deficits. Clearly, surpluses of imports over exports indicate an absence of domestic capacities which could successfully compete with the foreign ones, at least at given foreign trade arrangements. Of course, the individual advanced transition countries differ with respect to their abilities to compete internationally. In 2001 the trade deficit amounted to 5% of the GDP in Slovenia, 5.6% in the Czech Republic, 7.1% in Hungary, 8.2% in Poland and 10.8% in Slovakia.

The principle that trade deficits reflect shortages of available production capacities must be qualified. The trade deficit/GDP ratios for any country tends to fluctuate quite strongly, without any obvious correlation with the levels of prior investment activity – and hence also with the actual levels of production capacities. In particular the ratio can rise strongly despite a massive increase in productive capacities. This happened in Poland between 1995 and 2000. During that period the level of investment nearly doubled. No doubt the productive capacities have been expanded significantly. However, the trade deficit/GDP ratio rose from 4.9% in 1995 to 8.2% in 2001. This outcome can be explained by the evolution of the economic situation, including systematic monetary, exchange-rate, trade and incomes policies. Of course, the fact that an inappropriate economic policy can make brand-new, modern production capacities economically unusable does not yet imply that the opposite trick is also always possible. (Not all pieces of obsolete productive capacities can be made economically usable, no matter how skilful the policy.) High growth rates of gross fixed investment retain their importance, not only as supporting the short-term GDP growth via the impact of investments on aggregate demand, but in the first place as the necessary condition for sustainable medium- and long-term growth in all transition countries. For this reason the currently observed sagging of investment activities does not augur well for economic growth in the medium-term future.

Anaemic foreign trade developments

The contribution of foreign trade to GDP growth, which currently seems roughly neutral for all countries (excepting the Czech Republic and Hungary where it may have been positive, and Russia where it is probably negative) could have been definitely higher. The continuing weakness of the EU economy (and of the German in particular) is taking its toll: exports of the transition countries are generally sagging. Although the values (at current euro) of exports are presently contracting only in a few countries, their growth rates are much lower everywhere than one year ago. Certainly, much higher exports would have generally also implied much higher imports. This reflects the high import intensity of exports of all transition countries (excepting Russia). Nonetheless, on balance a much greater dynamics of foreign trade generally is a necessary condition of overall growth acceleration because it tends to augment the efficiency of domestic production and is also, with proper policies, conducive to intensification of investment.

Table 3: Exports and imports, at current prices[1], converted into EUR million, 2001 and Q1 2002

	2001				2002
	Q1	Q2	Q3	Q4	Q1
Exports, growth rates, year-on-year, in %					
Czech Republic	27.8	21.1	15.1	10.9	7.7
Hungary	24.1	19.3	7.9	0.1	8.4
Poland	29.1	23.3	14.3	5.3	2.8
Slovakia	17.9	13.6	9.2	-0.5	-0.3
Slovenia	17.9	10.3	8.8	0.3	1.6
Bulgaria	23.1	12.6	7.2	-4.4	-1.9
Romania	27.6	20.8	11.6	-4.2	6.2
Croatia	9.0	11.3	4.6	7.5	-0.3
Russia	11.6	14.8	-1.5	-18.2	-8.3
Imports, growth rates, year-on-year, in %					
Czech Republic	29.6	20.1	12.9	7.2	2.5
Hungary	22.8	18.1	2.1	-4.8	1.8
Poland	12.2	8.6	5.0	-1.3	0.1
Slovakia	25.8	26.8	20.2	7.1	0.5
Slovenia	7.8	7.4	0.7	-2.3	0.1
Bulgaria	13.7	28.2	17.5	1.7	1.0
Romania	45.9	32.2	11.7	7.6	4.1
Croatia	28.0	35.3	13.1	0.4	11.6
Russia	18.6	40.6	20.1	12.9	17.5
Trade balance, EUR million					
Czech Republic	-755	-722	-852	-1128	-296
Hungary	-981	-958	-738	-891	-455
Poland	-3527	-4329	-3778	-4280	-3266
Slovakia	-431	-526	-543	-886	-460
Slovenia	-203	-316	-166	-308	-164
Bulgaria	-380	-684	-605	-729	-425
Romania	-889	-1396	-692	-1687	-861
Croatia	-978	-1606	-1189	-1154	-1232
Russia	15594	15118	14343	10352	11209

Note: 1) Exports fob; imports cif (except for Czech Republic and Slovakia – fob).

Table 4: Foreign trade of Central and Eastern Europe and the main CIS States, in ECU/EUR million

(based on customs statistics)

		1997	1998	1999	2000	2001 1)	2000 / 1999 in %	2001 / 2000 in %	2001 1st quarter	2002 1st quarter	I-III 02 / I-III 01 in %
Czech Republic	Exports	19812	23070	24641	31483	37255	27.8	18.3	9164	9870	7.7
	Imports	24014	25289	26387	34876	40693	32.2	16.7	9918	10166	2.5
	Balance	-4203	-2219	-1747	-3393	-3438	.	.	-755	-296	.
Hungary	Exports	16910	20477	23491	30545	34082	30.0	11.6	8157	8844	8.4
	Imports	18780	22871	26288	34856	37654	32.6	8.0	9137	9298	1.8
	Balance	-1869	-2394	-2797	-4312	-3572	.	.	-980	-454	.
Poland	Exports	22798	25145	25729	34383	40375	33.6	17.4	9924	10213	2.9
	Imports	37484	41539	43151	53122	56223	23.1	5.8	13446	13482	0.3
	Balance	-14686	-16394	-17422	-18739	-15848	.	.	-3522	-3268	.
Slovakia 2)	Exports	7299	9541	9602	12880	14101	34.1	9.5	3411	3399	-0.3
	Imports	9119	11635	10628	13860	16484	30.4	18.9	3841	3859	0.5
	Balance	-1820	-2094	-1025	-980	-2383	.	.	-431	-460	.
Slovenia	Exports	7413	8052	8037	9505	10348	18.3	8.9	2612	2653	1.6
	Imports	8290	8999	9482	10996	11342	16.0	3.1	2815	2817	0.1
	Balance	-876	-947	-1445	-1491	-994	.	.	-203	-164	.
CEEC-5	Exports	74233	86285	91500	118795	136160	29.8	14.6	33267	34980	5.1
	Imports	97687	110334	115936	147709	162395	27.4	9.9	39158	39622	1.2
	Balance	-23454	-24049	-24436	-28915	-26235	.	.	-5891	-4642	.
Bulgaria 3)	Exports	4368	3841	3734	5253	5707	40.7	8.6	1388	1362	-1.9
	Imports	4361	4476	5140	7085	8104	37.8	14.4	1768	1787	1.1
	Balance	7	-635	-1406	-1832	-2397	.	.	-380	-425	.
Romania	Exports	7434	7412	7956	11219	12711	41.0	13.3	3112	3309	6.3
	Imports	9946	10569	9896	14128	17363	42.8	22.9	4002	4170	4.2
	Balance	-2512	-3157	-1940	-2909	-4652	.	.	-889	-861	.
CEEC-7	Exports	86035	97539	103190	135267	154578	31.1	14.3	37767	39651	5.0
	Imports	111994	125379	130972	168922	187862	29.0	11.2	44927	45578	1.4
	Balance	-25959	-27841	-27782	-33656	-33285	.	.	-7160	-5928	.
Croatia 4)	Exports	3666	4046	4027	4818	5203	18.9	8.0	1184	1180	-0.4
	Imports	8060	7477	7324	8588	10118	16.8	17.8	2163	2411	11.5
	Balance	-4394	-3431	-3297	-3770	-4915	.	.	-979	-1231	.
Macedonia	Exports	1091	1170	1117	1431	1736	28.2	21.3	316	277	-12.2
	Imports	1568	1709	1665	2266	1884	36.1	-16.9	434	499	15.0
	Balance	-478	-539	-548	-835	-148	.	.	-118	-222	.
Yugoslavia 5)	Exports	2360	2518	1391	1808	2095	30.0	15.9	479	505	5.4
	Imports	4245	4283	3081	3892	5385	26.3	38.4	1386	1369	-1.2
	Balance	-1885	-1766	-1690	-2084	-3290	.	.	-906	-864	.
Russia 6)	Exports	78479	66874	70960	114177	115041	60.9	0.8	27601	25333	-8.2
	Imports	63489	51785	37027	48593	59607	31.2	22.7	12001	14120	17.7
	Balance	14990	15089	33933	65584	55434	.	.	15600	11213	.
Ukraine	Exports	12550	11283	10856	15771	18159	45.3	15.1	4116	4419	7.4
	Imports	15103	13103	11104	15104	17612	36.0	16.6	3856	4047	5.0
	Balance	-2554	-1820	-248	667	547	.	.	259	372	.

Notes: 1) Preliminary. - 2) From 1998 according to new methodology. - 3) From 1999 new methodology. - 4) From 2000 according to new methodology. - 5) From 1999 excluding Kosovo & Metohia. - 6) Including estimate of non-registered trade.

Source: WIIW Database incorporating national statistics, WIIW forecast.

Table 5: EU(15) trade of Central and Eastern European countries, EUR million

(based on customs statistics)

		1997	1998	1999	2000	2001 [1]	2000/1999 in %	2001/2000 in %	2001 1st quarter	2002 1st quarter	I-III 02/I-III 01 in %
Czech Republic	Exports	11842	14762	17053	21588	25685	26.6	19.0	6506	6924	6.4
	Imports	14846	16055	16946	21637	25153	27.7	16.2	6289	6244	-0.7
	Balance	-3004	-1293	107	-49	532	.	.	217	680	.
Hungary	Exports	12037	14940	17906	22939	25315	28.1	10.4	6310	6602	4.6
	Imports	11788	14664	16929	20354	21761	20.2	6.9	5345	5296	-0.9
	Balance	249	276	977	2586	3554	.	.	965	1306	.
Poland	Exports	14600	17173	18127	24037	27942	32.6	16.2	7153	7043	-1.5
	Imports	23911	27268	28016	32494	34512	16.0	6.2	8239	8282	0.5
	Balance	-9312	-10096	-9889	-8457	-6570	.	.	-1086	-1239	.
Slovakia [2]	Exports	3045	5309	5701	7602	8441	33.3	11.0	2096	2116	0.9
	Imports	3597	5833	5493	6775	8206	23.3	21.1	1875	1921	2.5
	Balance	-553	-524	208	827	235	.	.	221	195	.
Slovenia	Exports	4705	5271	5304	6060	6434	14.3	6.2	1708	1670	-2.2
	Imports	5588	6242	6530	7451	7672	14.1	3.0	1921	1913	-0.4
	Balance	-884	-972	-1226	-1391	-1238	.	.	-212	-242	.
CEEC - 5	Exports	46228	57455	64091	82227	93816	28.3	14.1	23773	24355	2.4
	Imports	59731	70063	73914	88712	97304	20.0	9.7	23669	23656	-0.1
	Balance	-13503	-12608	-9823	-6485	-3488	.	.	104	699	.
Bulgaria [3]	Exports	1889	1905	1942	2684	3124	38.2	16.4	760	777	2.2
	Imports	1645	2010	2486	3119	3996	25.5	28.1	824	898	9.0
	Balance	243	-105	-544	-435	-873	.	.	-64	-121	.
Romania	Exports	4204	4783	5214	7163	8619	37.4	20.3	2153	2347	9.0
	Imports	5222	6097	6004	7996	9957	33.2	24.5	2214	2402	8.5
	Balance	-1018	-1314	-790	-833	-1338	.	.	-61	-55	.
CEEC - 7	Exports	52321	64143	71246	92074	105559	29.2	14.6	26687	27480	3.0
	Imports	66599	78170	82403	99827	111257	21.1	11.4	26707	26956	0.9
	Balance	-14278	-14027	-11157	-7753	-5698	.	.	-20	523	.
Croatia [4]	Exports	1823	1927	1960	2619	2844	33.6	8.6	643	657	2.2
	Imports	4793	4440	4136	4756	5661	15.0	19.0	1178	1308	11.1
	Balance	-2970	-2513	-2175	-2137	-2817	.	.	-535	-651	.
Macedonia	Exports	407	516	506	612	628	21.1	2.6	156	148	-5.2
	Imports	581	620	677	866	800	27.9	-7.7	173	199	14.9
	Balance	-173	-104	-172	-254	-172	.	.	-17	-51	.
Yugoslavia [5]	Exports	939	965	504	700	896	38.7	28.1	215	208	-3.0
	Imports	1758	1847	1276	1610	2212	26.2	37.4	554	571	3.1
	Balance	-820	-882	-772	-910	-1316	.	.	-339	-363	.
Russia	Exports	24691	20721	23290	39927	41334	71.4	3.5	.	.	.
	Imports	17258	14047	10479	12059	16929	15.1	40.4	.	.	.
	Balance	7432	6674	12810	27868	24405	.	.			
Ukraine	Exports	1549	1892	1986	2813	3323	41.7	18.1	815	847	3.9
	Imports	2980	2831	2249	3118	3820	38.7	22.5	795	882	11.0
	Balance	-1430	-939	-263	-305	-497	.	.	21	-35	.

Notes: 1) Preliminary. - 2) From 1998 according to new methodology. - 3) From 1999 new methodology. - 4) From 2000 new methodology. - 5) From 1999 excluding Kosovo and Metohia.

Source: WIIW Database incorporating national statistics, WIIW forecast.

Given the current weakness of the EU economy, the transition countries' overall trade will perform modestly in 2002. The foreign trade forecasts for the whole year 2002 envision moderate growth vs. 2001 for the advanced countries, with the value of exports rising 5-8% and imports 2-6% (in current euro). Similar indicators are expected in Croatia and Romania. The value (in euro) of Russian exports is likely to contract sharply, primarily on account of the weakening of the dollar and of the world market prices of energy carriers.

Table 6: Foreign financial position

USD billion, end of period

	Gross external debt 1)		Reserves of National Bank (excluding gold) 2)		Current account USD billion				Current account in % of GDP			
	2001	2002 March	2001	2002 March	2000	2001	2002	2003	2000	2001	2002	2003
Czech Republic	21.7	.	14.5	14.8	-2.7	-2.6	-3.3	-4.0	-5.3	-4.6	-4.7	-4.8
Hungary	33.4	32.5	10.8	9.6	-1.3	-1.1	-2.7	-2.8	-2.9	-2.1	-4.3	-3.9
Poland	70.2	.	26.6	27.1	-10.0	-7.2	-7.7	-8.0	-6.3	-4.1	-4.4	-4.3
Slovak Republic	11.0	11.5 Feb	4.2	4.7	-0.7	-1.8	-1.5	-1.1	-3.6	-8.6	-6.5	-4.3
Slovenia	6.7	6.7	4.3	4.5	-0.6	-0.1	0.1	0.1	-3.4	-0.4	0.5	0.4
Bulgaria	10.6	10.3	3.3	2.9	-0.7	-0.9	-0.8	-0.8	-5.6	-6.5	-5.0	-4.4
Romania	11.6	11.6	3.9	4.1	-1.4	-2.3	-2.3	-2.6	-3.7	-5.9	-5.1	-4.9
Croatia	11.1	11.4	4.7	4.9	-0.4	-0.6	-0.8	-0.9	-2.3	-3.1	-3.5	-3.6
Macedonia	1.4	1.4	0.7	.	-0.1	-0.4	-0.3	-0.3	-3.0	-10.3	-6.5	-6.0
Yugoslavia	11.2	.	1.2	1.5	-1.3	-0.6	-1.2	-1.2	-16.0	-5.9	-8.6	-7.5
Russia	140.0	.	36.6	37.3	46.4	35.1	25.0	20.0	17.9	11.3	7.1	5.4
Ukraine	12.1	.	3.0	.	1.5	1.4	0.0	.	4.7	3.7	0.0	.

Notes: 1) In convertible currencies for Bulgaria, Czech Republic. For more information see the respective country tables attached to the individual country reports. - 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.

With the anaemic developments in foreign trade there will be generally no large changes in the foreign trade deficits, nor the current account deficits. The current account deficits in the advanced transition countries will remain relatively low (and the high Slovak deficit is expected to go down). In Yugoslavia high current account deficits will continue. The Russian current account surplus, which is declining sharply, will still remain very large. Current account deficits will continue to be financed largely, and safely, by inflows of foreign direct investment.

Table 7: Foreign direct investment inflow

based on the balance of payments, USD million

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 estimate
Czech Republic	654	869	2562	1428	1300	3718	6324	4986	4916	3500
Hungary	2339	1147	4453	2275	2173	2036	1970	1649	2443	1000
Poland	1715	1875	3659	4498	4908	6365	7270	9342	8000	6000
Slovak Republic	179	273	258	358	220	684	390	2075	1475	3500
Slovenia	113	128	177	194	375	248	181	176	442	600
Total (5)	4999	4292	11110	8753	8977	13051	16135	18228	17276	14600
Bulgaria	40	105	90	109	505	537		1002	689	600
Romania	94	341	419	263	1215	2031	1041	1040	1137	1000
Total (7)	5133	4738	11619	9125	10697	15619	17995	20270	19102	16200
Estonia	162	215	202	151	267	581	305	387	542	400
Latvia	44	213	178	382	521	357	348	408	201	400
Lithuania	31	31	73	152	355	926	486	379	446	400
Total (10)	5371	5196	12072	9810	11839	17482	19134	21443	20291	17400
Croatia	120	117	121	516	551	1014	1637	1126	1502	1100
Macedonia	.	19	9	11	16	118	32	176	442	500
Bosnia & Herzegovina	.	.	.	.	.	100	90	150	130	200
Yugoslavia	.	.	.	.	740	113	112	25	165	500
Russia	1211	690	2065	2579	4865	2762	3309	2714	2540	2500
Ukraine	200	159	267	521	623	743	496	595	769	500

Source: National Banks of the respective countries, WIIW estimates.

Table 8: Foreign direct investment stock

USD million

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	3423	4547	7350	8572	9234	14375	17552	21644	26764
Hungary	5585	7095	11926	14961	16086	18517	19299	19804	23562
Poland	2307	3789	7843	11463	14587	22479	26075	33603	39000
Slovak Republic	.	897	1297	2046	2083	2890	3188	4504	6000
Slovenia	954	1326	1763	1998	2207	2766	2657	2809	3400
Total (5)	.	17654	30180	39040	44197	61027	68771	82363	98727
Bulgaria	141	247	337	446	951	1488	2307	3309	3997
Romania	211	552	971	1234	2449	4480	5521	6561	7698
Total (7)	.	18453	31488	40720	47597	66996	76599	92232	110422
Estonia	239	495	737	838	1148	1822	2467	2645	3155
Latvia	75	309	616	936	1272	1558	1795	2081	2216
Lithuania	153	310	352	700	1041	1625	2063	2334	2666
Total (10)	.	19566	33191	43195	51057	72000	82925	99293	118458
Croatia	120	238	359	874	1425	2439	4075	5202	6703
Macedonia	.	19	28	40	55	173	205	381	824
Bosnia & Herzegovina	.	.	.	.	.	100	190	340	470
Yugoslavia	.	.	.	.	740	853	965	990	1155
Russia	1211	1901	3966	6545	11410	14172	17481	20195	22735
Ukraine	370	529	796	1317	1940	2683	3179	3774	4543

Source: For Czech Republic, Hungary, Poland, Slovak Republic, Slovenia, Estonia, Latvia, Lithuania, Croatia: National Banks of the respective countries according to international investment position. For Bulgaria, Romania, Macedonia, Bosnia & Herzegovina, Yugoslavia, Russia, Ukraine: cumulated US dollar inflows based on Table 7.

Weakening growth of industrial production

Growth of industrial production weakened quite dramatically in the first quarter of 2002 in all transition countries. In Poland, Bulgaria, Macedonia and Yugoslavia industrial production even contracted.

Table 9: Gross industrial production

real change in % against preceding year

	1995	1996	1997	1998	1999	2000	2001 [1)]	2001 1st quarter	2002 1st quarter	2002 forecast	2003 forecast	Index 1989=100 2001
Czech Republic	8.7	2.0	4.5	1.6	-3.1	5.4	6.8	10.0	4.2	5.5	7	87.2
Hungary	4.6	3.4	11.1	12.5	10.4	18.6	4.1	10.6	0.2	4	9	142.0
Poland [2)]	9.7	8.3	11.5	3.5	3.6	6.7	0.0	4.5	-1.5	0	2	129.6
Slovak Republic	8.3	2.5	2.7	5.0	-2.7	8.6	6.9	7.8	1.1	4	4	95.5
Slovenia	2.0	1.0	1.0	3.7	-0.5	6.2	2.9	4.7	1.7	3	4	82.6
CEEC-5 [3)]	8.3	5.1	8.5	4.6	2.4	8.4	3.0	7.1	0.5	2.4	4.6	115.3
Bulgaria	4.5	5.1	-5.4	-7.9	-9.3	10.3	-2.4	2.5	-3.1	3	4	50.5
Romania	9.4	6.3	-7.2	-13.8	-2.4	7.1	8.2	10.8	3.0	4	4	53.7
CEEC-7 [3)]	8.3	5.3	5.6	1.4	1.1	8.3	3.5	7.4	0.7	2.7	4.5	97.3
Croatia [4)]	0.3	3.1	6.8	3.7	-1.4	1.7	6.0	5.6	1.9	4	4	60.3
Macedonia [5)]	-10.7	3.2	1.6	4.5	-2.6	3.5	-3.1	-8.6	-14.4	-10	-3	45.9
Yugoslavia [5)]	3.8	7.6	9.5	3.6	-23.1	11.2	0.0	-0.3	-4.1	3	3	38.6
Russia	-3.3	-4.0	1.9	-5.2	11.0	11.9	4.9	5.2	2.6	4	5	59.9
Ukraine	-12.0	-5.2	-0.3	-1.0	4.0	12.4	14.2	17.4	3.1	4	6	65.4

Notes: 1) Preliminary. - 2) Sales; quarterly data refer to enterprises with more than 9 employees. - 3) WIIW estimate. - 4) Enterprises with more than 20 employees. - 5) Excluding small enterprises.

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

The weakening of industrial production seems to reflect the foreign trade performance (primarily the weakening of exports) and of the investment activities. Significantly, in several countries (the Czech Republic, Hungary, Poland, Croatia, Macedonia, and even Ukraine) there are clear signs of deflation in industrial producer prices. This indicates that industrial sales may be approaching the demand barrier. Although the producer price deflation is likely to have a moderating impact on the overall consumer price inflation (which is no longer a real issue in most countries), it can also have some undesirable consequences. In the first place it will increase the real burden of servicing debts of industrial firms, and make bank credit even more expensive in real terms. The deterioration of firms' financial position (currently observed in Poland and Russia) is not only an obstacle to expanding investments, but will also restrict the pace of supply's response to an eventual recovery of demand.

Table 10: Consumer price inflation

change in % against preceding year

	1995	1996	1997	1998	1999	2000	2001 1)	2001 1st quarter	2002 1st quarter	2002 forecast	2003 forecast
Czech Republic	9.1	8.8	8.5	10.7	2.1	3.9	4.7	4.0	3.7	3.0	3.5
Hungary	28.2	23.6	18.3	14.3	10.0	9.8	9.2	10.3	5.9	5.7	4.5
Poland	27.8	19.9	14.9	11.8	7.3	10.1	5.5	6.7	3.4	3	4
Slovak Republic	9.9	5.8	6.1	6.7	10.6	12.0	7.3	6.8	4.7	4	7
Slovenia	13.5	9.9	8.4	7.9	6.1	8.9	8.4	8.7	8.1	7	5.5
Bulgaria	62.1	121.6	1058.4	18.7	2.6	10.3	7.4	8.9	8.2	7	5
Romania	32.3	38.8	154.8	59.1	45.8	45.7	34.5	40.1	27.0	25	20
Croatia 2)	2.0	3.5	3.6	5.7	4.2	6.2	4.9	6.5	3.2	3	2.5
Macedonia 2)	15.9	3.0	4.4	0.8	-1.1	10.6	5.2	7.6	1.7	3	5
Yugoslavia	78.6	91.5	21.6	29.9	44.9	85.6	89.2	111.3	29.1	25	15
Russia	197.5	47.8	14.8	27.6	85.7	20.8	21.6	22.3	18	19	16
Ukraine	376.8	80.2	15.9	10.6	22.7	28.2	12.0	19.4	3.7	10	10

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

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

Table 11: Producer prices in industry

change in % against preceding year

	1995	1996	1997	1998	1999	2000	2001 1)	2001 1st quarter	2002 1st quarter
Czech Republic	7.6	4.7	4.9	4.9	1.0	4.9	2.9	4.3	0.1
Hungary	28.9	21.8	20.4	11.3	5.1	11.7	5.2	9.7	-2.4
Poland	25.4	12.4	12.2	7.3	5.7	7.8	1.6	4.2	0.2
Slovak Republic	9.0	4.2	4.5	3.3	3.8	9.8	6.6	9.5	2.1
Slovenia	12.8	6.8	6.1	6.0	2.1	7.6	8.9	10.2	5.8
Bulgaria	53.4	130.0	971.1	16.5	3.2	17.1	7.3	12.0	2.1
Romania	35.1	49.9	152.7	33.2	44.5	53.4	41.0	50.6	26.4
Croatia	0.7	1.4	2.3	-1.2	2.6	9.7	3.6	7.3	-2.6
Macedonia	4.7	-0.3	4.2	4.0	-0.1	10.7	2.0	4.6	0
Yugoslavia	57.7	90.2	19.5	25.5	44.2	106.5	85.1	124.4	14.4
Russia	236.5	50.8	15.0	7.1	58.9	46.6	19.1	26.5	7.1
Ukraine	488.8	52.1	7.7	13.2	31.1	20.9	8.6	15.6	-0.3

Note: 1) Preliminary.

Source: WIIW Database incorporating national statistics.

Industry's natural response to stagnant or falling production involves, among other measures, cuts in employment. The rising labour productivity in a number of countries observed in the first quarter of 2002 indicates that there have indeed been some reductions in industrial employment (in Hungary, Poland, Slovakia, Slovenia, Romania, Croatia and Yugoslavia).

Table 12: Labour productivity in industry

change in % against preceding year

	1995	1996	1997	1998	1999	2000	2001 [1)]	2001 1st quarter	2002 1st quarter	Index 1989=100 2001
Czech Republic [2)]	10.6	8.6	9.2	3.7	1.7	9.5	4.9	8.8	3.4	137.6
Hungary [3)]	10.2	9.4	13.7	11.9	10.5	18.2	5.9	10.8	3.0	236.2
Poland [4)]	6.3	9.1	11.2	4.7	11.8	14.0	5.8	9.6	5.5	199.5
Slovak Republic	4.0	2.5	4.8	9.1	0.2	12.1	5.9	6.6	3.1	130.6
Slovenia	6.3	9.2	4.4	5.4	3.1	8.4	3.5	4.4	4.8	156.8
Bulgaria [5)]	7.4	7.0	-2.8	-3.8	0.8	20.4	1.9	7.3	-7.8	125.3
Romania	13.7	7.5	-1.8	-7.4	11.3	13.8	11.5	15.9	2.3	116.5
Croatia [6)]	6.6	11.3	11.9	8.7	3.9	4.3	9.3	9.3	7.4	142.7
Macedonia [7)]	1.2	29.8	8.3	14.8	6.4	6.0	-7.2	.	.	101.5
Yugoslavia [7)]	8.3	9.6	12.3	6.3	-19.1	16.4	3.4	3.0	.	60.2
Russia	5.4	2.9	8.6	0.8	11.8	10.1	4.6	.	.	96.6
Ukraine	-4.2	3.0	8.2	2.2	9.6	28.3	12.5	.	.	126.3

Notes.: 1) Preliminary. - 2) In 1995 and 1996 enterprises with 100 and more employees, from 1997 with 20 and more. - 3) From 1995 enterprises 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.

Source: WIIW Database incorporating national statistics.

Growth in labour productivity achieved primarily through cuts in employment (quite typical for the relatively early stages of transition) was recently quite uncommon, at least among the advanced transition countries. Until recently those countries had experienced quite long (6-8 quarters') periods of rising labour productivity associated with rising production and stable employment. Poland is the only advanced transition country where gains in productivity have, since 1998, been made increasingly through additional cuts in employment. Prior to 1998 huge gains in productivity in Poland were also due primarily to strongly expanding production, with largely unchanged employment. It is of course premature to judge whether the new tendency for adjusting to stagnating production with cuts in employment sets in generally. Presently, employment cuts in the Hungarian industry are rather small. Everywhere (excepting Poland) the cuts in employment may be temporary. However, once the tendency for 'dishoarding' labour becomes entrenched (as in Poland) it may have grave consequences not only for the dynamics of unemployment, but also for industrial production itself. With rising productivity and unemployment, a falling number of wage-earners and the requisite slowdown in growth of households' disposable incomes, a dynamic disequilibrium may develop between industrial output and the domestic demand for it. Unless the conditions are conducive to a compensating expansion of exports or investments, rising labour productivity may turn out to be dampening consumer demand and production.

Table 13: Registered unemployment, end of period

	in 1000 persons				rate in %					
	1999	**2000**	**2001**	**2002 March**	**1999**	**2000**	**2001**	**2002 March**	**2002 forecast**	**2003 forecast**
Czech Republic	487.6	457.4	461.9	471.7	9.4	8.8	8.9	9.1	9.5	9
Hungary 1)2)	284.7	262.5	232.9	235.3	7.0	6.4	5.7	5.8	5.7	5.6
Poland	2349.8	2702.6	3115.1	3259.9	13.1	15.1	17.4	18.1	19	19
Slovak Republic	535.2	506.5	533.7	546.3	19.2	17.9	18.6	19.1	18	18
Slovenia	114.3	104.6	104.3	103.5	13.0	12.0	11.8	11.7	11	10
CEEC-5 3)	3771.7	4033.5	4447.9	4616.7	12.5	13.3	14.6	15.2	15.5	15.3
Bulgaria	610.6	682.8	662.3	669.0	16.0	17.9	17.3	17.5	17	16
Romania	1130.3	1007.1	826.9	1257.4	11.8	10.5	8.6	13.0	12	12
CEEC-7 3)	5512.5	5723.5	5937.1	6543.1	12.7	13.1	13.6	14.9	15.1	14.8
Croatia	341.7	378.5	395.1	415.4	20.4	22.3	23.1	23.8	23	22
Macedonia 1)4)	261.5	261.7	263.2	.	32.4	32.2	30.5	.	32	32
Yugoslavia	774.0	812.4	860.5	880.0	25.5	26.7	27.9	28.6	30	30
Russia 1)	8904.0	7039.0	6190.0	5943.0	12.2	9.9	8.7	8.4	8.5	9
Ukraine	1174.5	1155.2	1008.1	1079.2	4.3	4.2	3.7	3.9	4	4

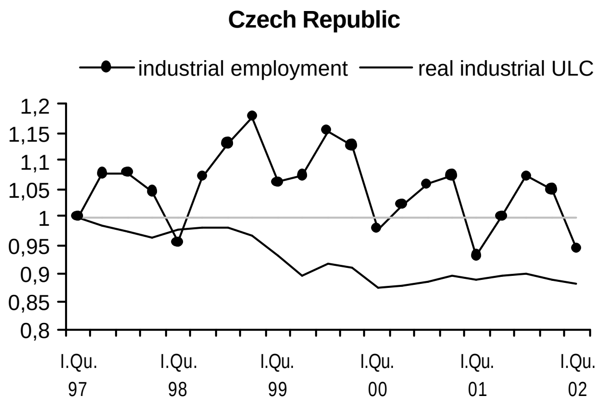
Notes: 1) Based on Labour Force Survey data. - 2) Period average. - 3) Unemployment rate estimated by WIIW taking into consideration Hungarian registration data. - 4) April of respective year.

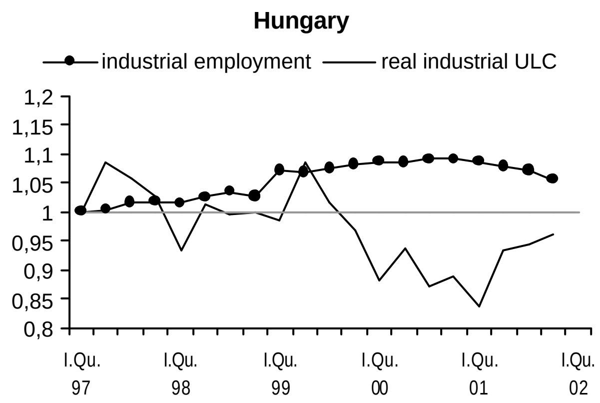
Source: WIIW Database incorporating national statistics, forecast: WIIW.

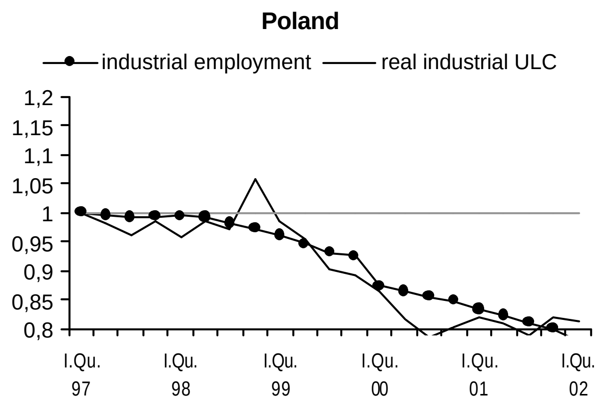
Certainly, the negative demand-side effects of rising labour productivity under falling employment and weakening demand could be offset by rising wages. But this is merely a theoretical possibility. In practice, in such circumstances there are good chances that wages will not keep up with gains in labour productivity. Massive layoffs of workers create the opportunity for 'disciplining' labour, and for economizing on wage rates. Besides, in a situation of forced adjustment to weakening demand the burden of firms' fixed costs (including depreciation of unused capacity, interest payments etc.) is on the rise. Firms may have no choice but to economize not only on employment, but also on wage increases offered to the lucky employees still retained. In the end effect, real unit wage costs[1] may be declining – more or less in tandem with employment. Empirically, this is what has happened in Poland (see Panel 1).

1 The index of real unit wage costs (U) used here is defined as follows:
(Index of employment x Index of average nominal wage)/(Index of production x Index of producer prices)

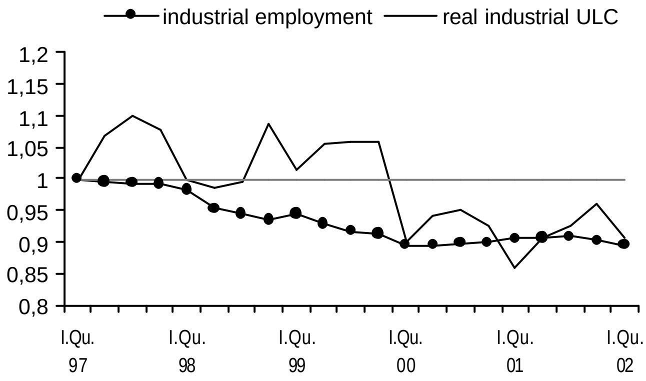
Panel 1: Indices of employment and real labour cost in industry in selected countries, quarterly, 1st quarter 1997 = 1



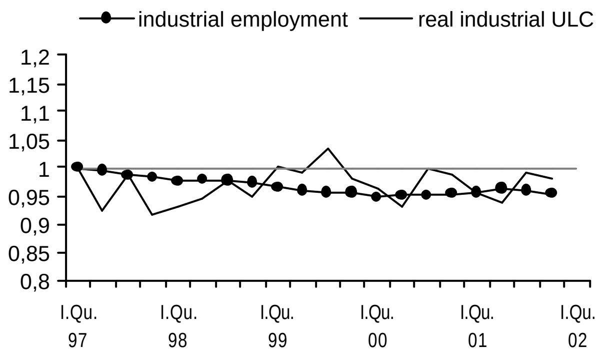




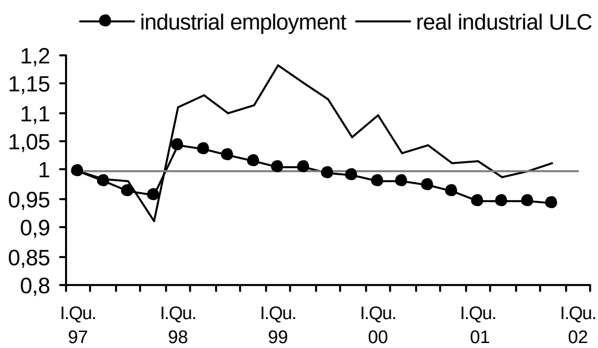
Slovak Republic



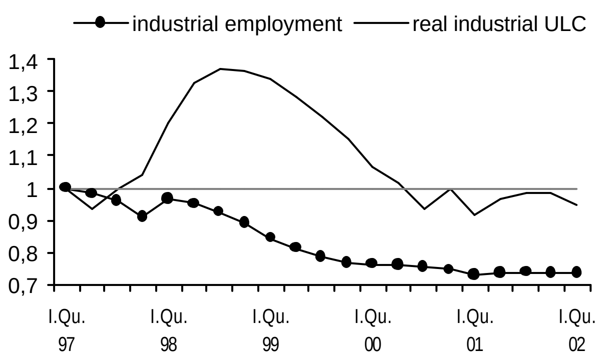
Slovenia



Croatia



Romania



As can be seen, from the last quarter of 1998 until the third quarter of 2000 real unit wage costs in Poland declined very strongly (and have stayed at low levels thereafter). This has been associated with a decline in employment. The Polish developments contrast sharply with the developments observed, for the last two years, in the Czech Republic, Slovakia, Slovenia (and even Romania) where there have been no major employment losses – and no definite increases in real unit wage costs. Only in Hungary (since 1998) the remarkable gains in real unit wage costs have not (until very recently) had any visible negative effect on employment. But this is understandable given the uniquely dynamic expansion of production and exports experienced by Hungary in that period.

To be sure, not always a tendency for real unit wage cost to rise can be supportive of employment. Excessive increases in wage rates – well above the levels justified by gains in labour productivity – may well coincide, via a strong erosion of firms' profits, with eventual losses in employment (and with high inflation). This is what happened in Romania during 1997-98, when the bulk of firms still operated under unclear property rights and lax corporate governance. Also in Croatia workers may have been 'pricing themselves out of their jobs'.[2]

Problems with appreciating exchange rates

The currencies of most transition countries have been displaying remarkable strength. They have been appreciating in real terms since the very early years of transition. Although occasionally there were adjustments (in the form of nominal devaluation), the trend is quite unmistakable and universal. Slovenia is the only country where this tendency was less pronounced, due to a conscious exchange rate policy keeping the nominal exchange rate movements more or less in line with producer prices in industry.[3] For several years also Hungary adjusted (though only partially) its nominal exchange rates to inflation, within a regime of an adjustable crawling peg (also supported by a relatively illiberal policy towards inflows of short-term capital).

More recently some currencies have also been appreciating in nominal terms.[4]

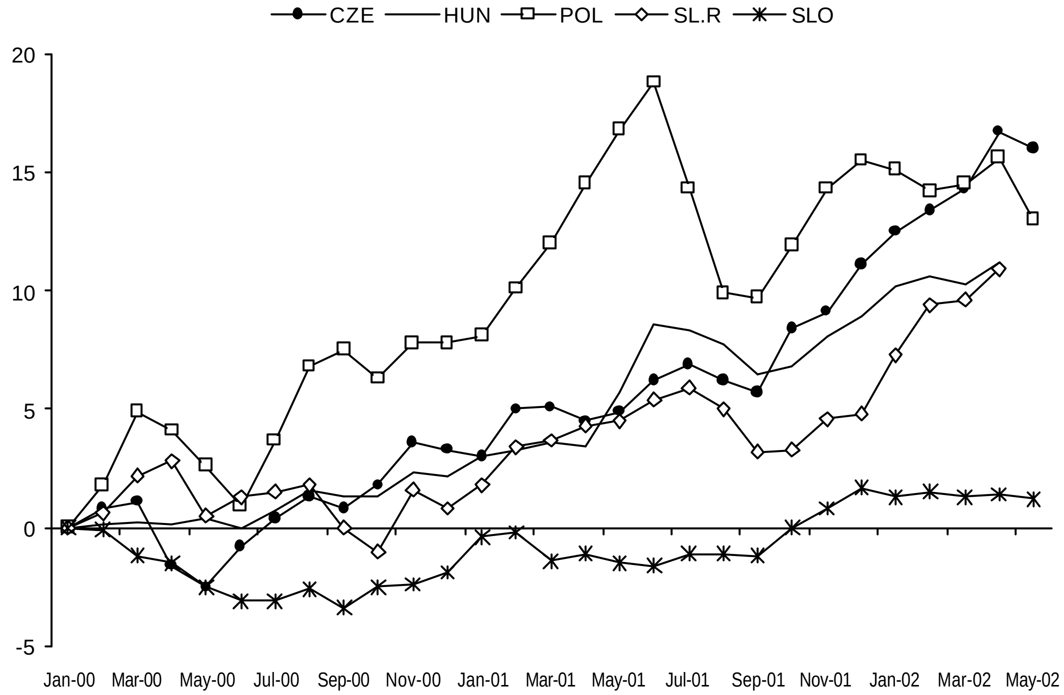
2 But in 2001 industrial employment in Croatia has stabilized at a relatively high level, with real unit wage costs unchanged compared with Q1 1997.

3 The policy has been supported by active discouragement of capital inflows.

4 In actual fact there were also instances of nominal appreciation earlier on – in the Czech Republic and in Slovakia.

Figure 2: Real appreciation since 2000

(national currency vis-à-vis EUR, PPI-deflated)



WIIW

Figure 3: Real appreciation since 2000

(national currency vis-à-vis EUR, PPI-deflated)

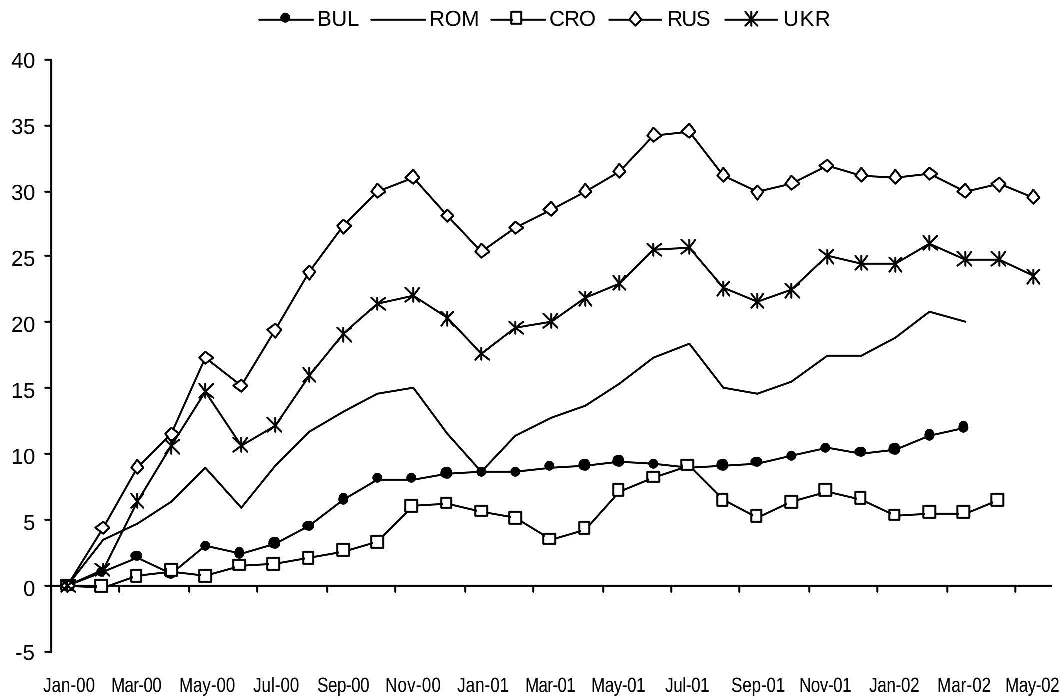


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Figure 4: Nominal appreciation since 2000

(national currency vis-à-vis EUR)

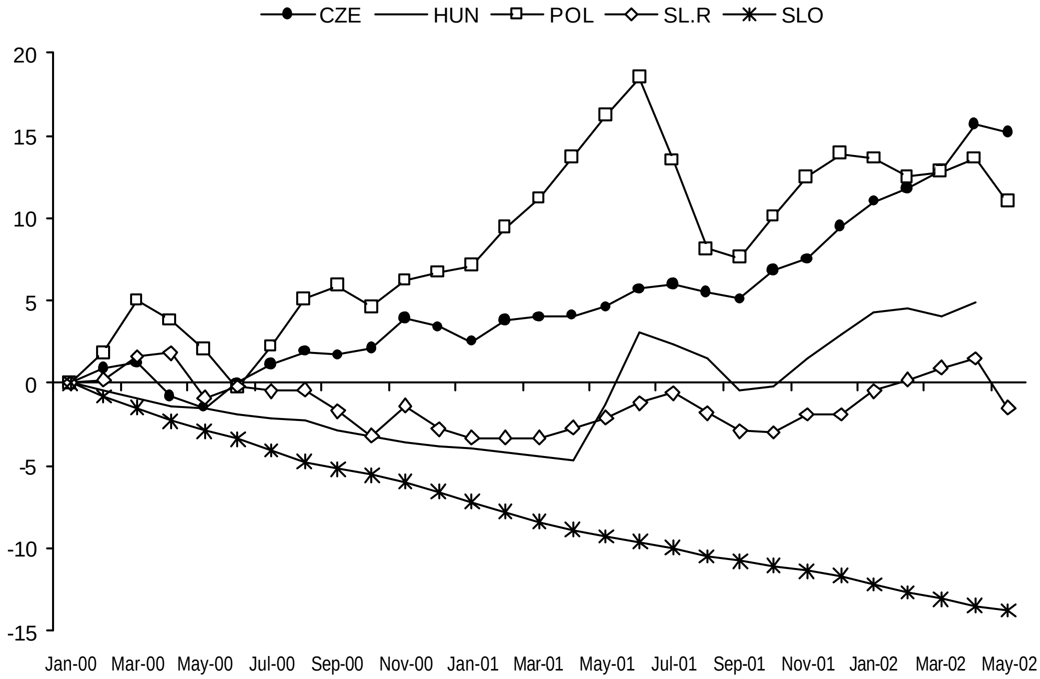

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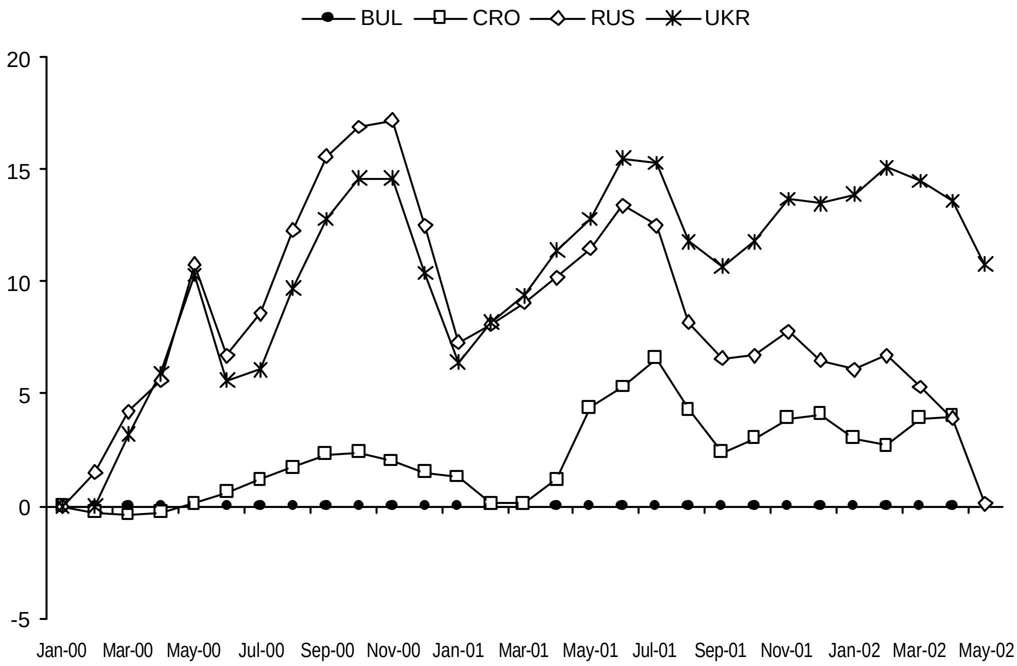
Figure 5: Nominal appreciation since 2000

(national currency vis-à-vis EUR)



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The simplest explanation of nominal appreciation in the transition countries refers to inflows of foreign capital (in excess of current account deficits). With more or less flexible exchange rate regimes prevailing in the region (excepting of course Bulgaria, which like the three Baltic states has had the currency-board arrangement with a fixed exchange rate, and Slovenia where the exchange rate is actually managed), the resulting excess supply of foreign exchange on the domestic market results in its falling price – i.e. in nominal appreciation of the domestic currency.

Movements in nominal exchange rates can in principle be controlled by skilful intervention on the forex market, or by controlling at least some types of capital flows. In practice the central banks of major advanced transition countries have not been very active (though recently the Czech central bank did intervene). It is often maintained that exchange market interventions would be very costly and ineffective. In effect the verdict of the forex markets is considered as reflecting economic fundamentals. Besides, it is often claimed that within the framework of inflation targeting (which has become a fashionable term for describing the monetary policy relying on the use of interest rates, currently adopted by most central banks in the region) there is no place for the management of exchange rates.

The important practical questions are about the sustainability and stability of the tendency for nominal appreciation. This question is rather difficult to answer because there are various types of capital flows, each and any with its own determinants and impacts. Apart from 'solid' inflows in the form of payments for acquisitions of firms and other property, there are credits and more or less speculative investments (in equities, treasury bonds etc.). Some of the latter may target gains on the forex market – i.e. gamble on further strengthening of the domestic currencies. The high nominal interest rates still prevailing in some transition countries, such as Poland, make such a speculation particularly attractive and relatively less risky. But of course even low interest rates need not discourage that kind of speculation.

Because the speculative capital can leave the country on short notice, it is also capable of inducing strong and sharp nominal devaluation. Moreover, it is generally assumed that, given the shallow character of the forex markets in the transition countries, even relatively small (though sharp) movements in capital can destabilize the exchange rates. But not much beyond this is well known. Whether or not the recent nominal strengthening of the region's currencies represents the effect of a speculative bubble is of course anybody's guess. Most probably a purely speculative element plays a relatively small role in the tiny (and 'exotic') markets, such as Slovakia's. But, in the end, it is difficult to predict when there will be downward exchange rate adjustments in any country, and with what consequences. One cannot rule out the possibility that no major adjustments will occur in the foreseeable future at all.

A major adjustment may be unavoidable in any country if there are persistent, high, and rising trade and current account deficits, especially not associated with inflows of 'solid' capital (such as foreign direct investment). But recently the transition countries have not had the tendency for run-away deficits. Even in Slovakia the high deficits are compensated by high FDI (in the form of privatization revenues). Although there are some limits to absorption of FDI, they are far from being reached, even in Hungary and the Czech Republic. Besides, most of the candidate countries face the prospect of receiving relatively steady transfers from the EU.

Huge levels of real appreciation of major currencies may suggest that the transition countries (except for Slovenia and, until recently, Hungary) are – or will be – suffering major losses in competitiveness, with highly damaging effects on the trade and current account deficits materializing sooner or later. This is of course a valid concern. However, there are legitimate doubts about it as well.

First, there were already extensive periods of strong real appreciation in most transition countries. Although they produced trade and current account deficits which precipitated adjustments, the devaluation involved usually turned out fairly small. Moreover, these responses did not prevent further real appreciation relatively soon after devaluation. Even in Russia, the huge devaluation ensuing the crush of the clearly speculative bubble in 1998, has been followed by renewed, steady real appreciation.

Second, the convention commonly used for assessing the levels and speeds of real appreciation may be inadequate for gauging actual competitiveness. The real exchange rate defined as the ratio of the index of the nominal exchange rate and the index of industrial producer prices may be misleading, especially if there is strong qualitative upgrading of production, embodied in higher prices. Such upgrading has indeed been taking place in most transition countries (particularly in the advanced ones, but also in Bulgaria and Romania). This is quite well reflected in the improved quality (and prices) of exports of manufactured goods produced by these countries – vs. the quality and prices of exports of the EU countries.

Because the shares of export production are high and rising (especially in the advanced transition countries), the overall increase in producer prices ahead of the nominal depreciation of the exchange rate (and hence real appreciation) need not represent potential losses in competitiveness. Rather, it may correspond to actual gains in competitiveness due to quality upgrading.

Table 14: Average weighted prices of manufacturing exports to the EU

(% of average weighted prices of all EU manufacturing imports)

	Bulgaria	Czech R.	Hungary	Poland	Romania	Slovak R.	Slovenia
1995	76.9	77.1	93.8	79.4	72.5	80.6	95.8
1996	76.9	77.9	95.4	79.6	74.2	82.6	97.0
1997	76.3	77.4	97.4	79.2	75.7	82.6	94.6
1998	78.3	80.8	101.8	83.3	82.5	88.8	98.7
1999	78.3	81.4	114.5	83.5	83.0	90.2	100.7
2000	83.6	82.9	109.9	85.1	84.8	90.1	98.4

Source: WIIW calculations based on Eurostat COMEXT database.

Third, there are many alternative ways of measuring real appreciation. The PPI-deflated real exchange rate (RER) is only one of them. Another measure of real appreciation uses indices for unit labour costs (ULC = Average nominal wage x Employment / Production) for deflating the exchange rates. When it comes to passing the judgement of the implications of the exchange rate movements for external competitiveness, this index may suffer from a similar deficiency as the RER because it cannot discriminate between wage increases compensated by rising prices of production and wage increases not so compensated. An arguably better deflator would reflect developments in industrial profits. With such a deflator one could measure profitability of industry, expressed in foreign currency. Of course, the available statistics on industrial profits are far from satisfactory. However, at the aggregate level it is acceptable to identify trends in profitability via trends in *real* unit wage costs U (defined in footnote 1) because those costs are the major component of all costs – and therefore the major determinant of the recorded profits.[5]

Because changes in the U index represent changes in profitability of domestic industrial production expressed in domestic currency, the nominal exchange rate index deflated by the U index measures the changes in profitability of domestic production expressed in foreign currency. That index, denoted by ERU (ERU = Nominal exchange rate / U) rises when domestic profitability rises at a lower speed than the nominal exchange rate, indicating real depreciation, or growing profits in foreign currencies. Conversely, falling ERU indicates real appreciation, i.e. falling profits in foreign currencies.

Statistical data on the ERU real exchange rates (calculated vs. the euro) tell a radically different story from that usually derived from analyses of conventional RER (PPI-deflated) real exchange rates.

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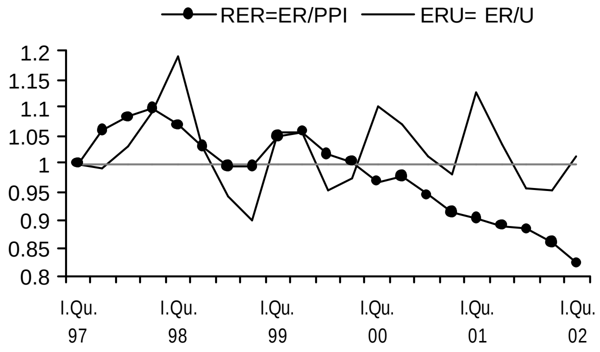
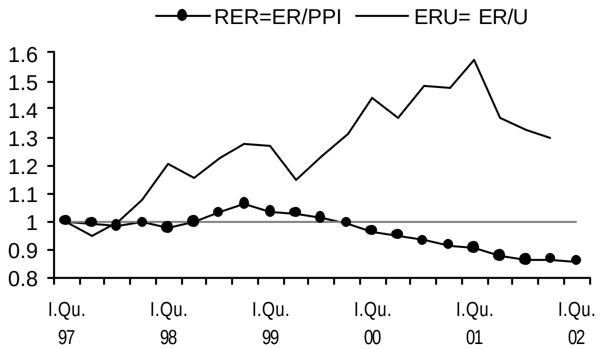
[5] In so far as profits depend on factors other than wage costs (costs of imported raw materials and components, non-wage labour costs such as obligatory social security payments, costs of purchased services used in industrial production, fixed and financial costs) the U indicator delivers a distorted picture of profits. This distortion may be significant even in a dynamic analysis – if costs other than wages change over time? For example, the U indices cannot reflect a changing burden of fixed costs, or of interest payments burdening industrial firms.

Panel 2: PPI- and U-deflated exchange rates, 1st quarter 1997 = 1

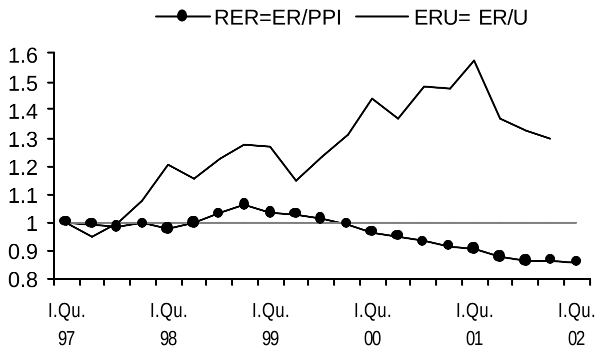
Czech Republic



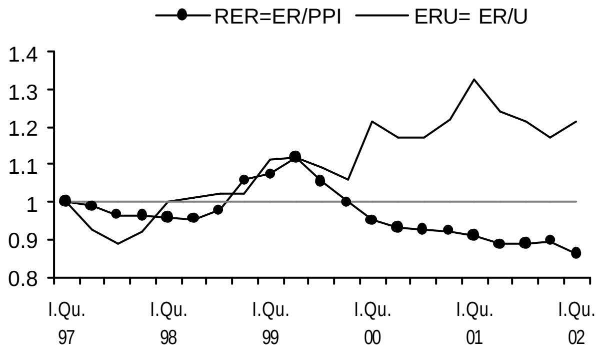
Hungary



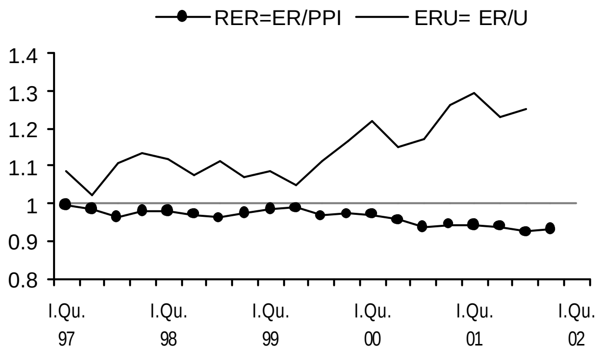
Poland



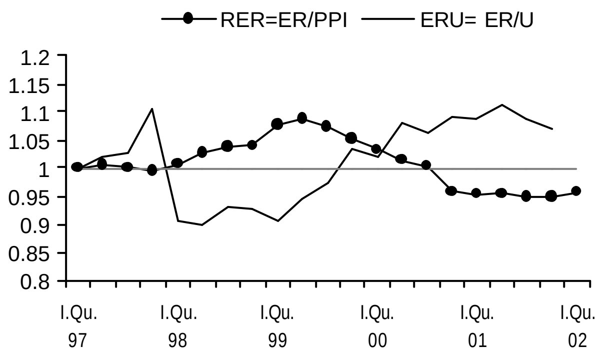
Slovak Republic



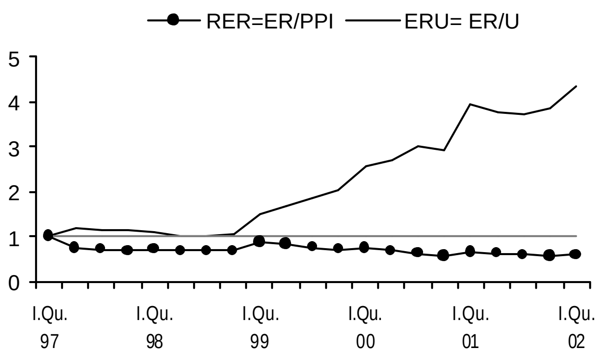
Slovenia



Croatia



Romania



As can be seen from Panel 2, in terms of conventional RER (PPI-deflated real exchange rate), all transition countries analysed here display a systematic tendency for real appreciation. Real RER appreciation is smallest in Slovenia and Croatia, quite high in the remaining countries, and huge in Romania (RER for Q1 2002 equals 0.593 of the level recorded in Q1 1997). In ERU terms, none of the countries displays any systematic real appreciation. In fact all of them have tended to have depreciated currencies throughout the whole period. This tendency is weakest in the Czech Republic, where the ERU index fluctuates around a level slightly above 1, and in Croatia, where there was in the past a period of real appreciation. Real ERU depreciation has been very strong in Hungary (particularly until Q1 2001), but also in Poland and Slovakia. The highest real depreciation has, unexpectedly, been observed in Romania (since Q4 1998).

It may be important to check whether the ERU (or RER) indicators of real appreciation correlate with the actual foreign trade performance of the individual countries. This of course will require additional research – also conceptual one. It is not quite clear how one should go about deflating the value indices for exports and imports. Some judgement is yet possible on the correlation between ERU and RER real appreciation indicators and the dynamics of industrial production.[6]

The econometric analyses[7] of quarterly data (since Q1 1997) on RER, ERU and industrial production for individual countries lead to the following conclusions:

1) In no country there is a statistically acceptable link between RER and industrial production. Changes in industrial production cannot be 'explained' by changes in RER because the relevant parameter estimates are statistically insignificant. (Besides, in some cases these estimates are even negative, which would imply that production responds positively to real RER appreciation.)
2) In all countries there is a statistically very significant, and strong, link between ERU and industrial production. The conventional t-Statistics for the estimated parameters, reflecting the presumed impact of changes in ERU on changes in industrial production, are very high in all cases (excepting Romania, where they are merely satisfactory). Besides, all those parameters are positive – thus signed properly.
3) Industrial production turns out to be affected positively by rising ERU (i.e. by depreciation), systematically. It is not affected in any systematic way by changes in RER. In so far as changes in industrial production reflect changes in external competitiveness, ERU appears to be a good indicator of competitiveness, while RER is irrelevant.

[6] Because industrial production is assumed to be strongly related to foreign trade – and therefore to actual competitiveness – indirectly the conclusions on the correlation between ERU or RER and industrial production apply to the evaluation of their foreign-trade impacts.

[7] The original time series involved are non-stationary, which required their suitable differencing. Besides, of course, the analyses allowed for quite strong seasonality of the original data.

Table 15: Econometric estimates of impacts of RER and ERU on industrial production

	Dependent variable	Independent variable	Regression estimate	SEE	t-Statistics	P
Croatia	D(Q)	D(RER)	-0.195	0.55	-0.35	0.722
	D(Q)	D(ERU)	0.414	0.15	2.76	0.0153
Czech Rep.	D(Q)	D(RER)	0.047	0.22	0.21	0.0834
	D(Q)	D(ERU)	0.264	0.11	2.4	0.0297
Hungary	D(Q)	D(D(RER))	0.5	0.503	0.99	0.34
	D(Q)	D(D(ERU))	0.321	0.122	2.635	0.0206
Poland	D(Q)	D(RER)	0.121	0.211	0.57	0.575
	D(Q)	D(ERU)	0.314	0.085	3.69	0.002
Romania	D(Q)	D(D(RER))	-0.01	0.137	-0.077	0.942
	D(Q)	D(D(ERU))	0.125	0.053	2.34	0.0789
Slovakia	D(Q)	D(RER)	-0.329	0.188	-1.75	0.1003
	D(Q)	D(ERU)	0.402	0.155	2.6	0.02
Slovenia	D(Q)	D(RER)	-0.893	1.22	-0.73	0.4766
	D(Q)	D(ERU)	0.661	0.102	6.44	0.0000

Remarks: D(Q) is the quarterly increase in the index of industrial production; D(RER) and D(ERU) are the quarterly indices in the RER and ERU indices respectively. D(D(RER)) and D(D(ERU)) are the respective second-order increases in RER and ERU. All indices are vs. Q1 1997. SEE is the standard error of the estimated regression coefficient, t-Statistics measure the 'quality' of the estimate and P is the conventional marginal significance level of the hypothesis that the regression estimate is zero.

The final conclusion on the intriguing questions relating to the exchange rates in the transition countries is the following: There is a possibility that the recent exchange rate trends have reflected financial (or even speculative) and not 'real' developments. Therefore there is a potential for adjustments, involving devaluation. That potential may even be high in countries with larger forex markets (Poland, the Czech Republic and Hungary). But the likelihood of major crashes seems rather small because the 'solid' capital inflows are likely to continue even in the medium term. The general concern over loss of competitiveness (and ensuing run-away trade and current account deficits) remains valid. However, alternative measures of real appreciation suggest that the currencies of the transition countries may have been actually depreciating. Competitiveness need not have suffered – the more so that the process has been associated with quality and price gains in export activities.

Outlook for 2002 and 2003

External conditions, less favourable than in 2000-2001, have been largely responsible for the current growth slowdown. Despite this, the majority of the transition countries will grow in 2002 at unimpressive, but otherwise acceptable rates. Definitely worse is the outlook for Poland where the weakness of the EU economy has only added to home-made problems. The moderate acceleration of growth expected for 2003 reflects the generally shared belief in acceleration of growth world-wide. On average, the rate of catching-up vis-à-vis the EU will stay at about 2 percentage points per year.

Current account deficits, long the Achilles heel of all transition countries (excepting Russia and Ukraine), are becoming less of a problem. This is due not only to growth rates lower than in the late 1990s, but also to the ongoing consolidation of the export sectors. Despite nominal appreciation of some currencies, one does not really generally observe any marked expansion of the current account deficits. It is expected that the current slowdown in investment activity will be temporary and will not interfere with an expansion of production and export capacities. In effect current account deficits should remain relatively low also in 2003. We do not expect major problems over financing the current account deficit through continuing FDI and EU transfers. However, Russia's current account surpluses will be falling not only on account of lower export revenue, but also due to a steady expansion of imports.

Unemployment will remain very high in most countries. It is unlikely to go down significantly even in the medium run. However, the associated social problems are unlikely to have destabilizing political consequences. A possible exception is Poland, which has witnessed the rise of radical political and economic populism recently.

For the advanced transition countries the year 2003 may mark the end of 'economic independence' – the accession to the EU. In actual fact these countries have been surrendering their 'economic independence' during the ten-odd years' period of formal association with the EU. Right now they expect full EU membership on fair conditions. Should this expectation be fulfilled, one could expect some positive effects (e.g. in the form of higher FDI) already in 2003. However, some doubts persist whether the enlargement will take place in 2004 – and whether its conditions will be fair enough to compensate the accession-related costs borne by the transition countries so far. Any delay of membership would be a major setback with possibly negative impacts on economic growth. The WIIW forecasts assume no crisis over delayed accession. Also they assume acceleration of growth in the EU in late 2002 and in 2003.

Table 16: Overview developments 2000-2001 and outlook 2002-2003

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

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

Source: WIIW (June 2002).

Résumés for individual countries

Croatia

The weak business climate in the EU is having some effect on GDP growth. Continuing restructuring and privatization are increasing productivity but do not have a positive impact on labour market developments. Fiscal consolidation will further increase the already very high unemployment.

Bulgaria

3.5% GDP growth in 2002 will be driven by domestic demand. Acceleration is conditional on the strength of the recovery in the EU. The external imbalance will persist but its financing is secured at least in the medium term.

Czech Republic

Expansion of investment and private consumption will support GDP growth ranging between 2.5% and 3.5%. Ongoing improvements in the business sector will be neutralizing the effects of weak foreign demand and the strengthening currency.

Hungary

GDP growth in 2002 will be primarily consumption-driven, with some deterioration on the current account. An upturn in exports and acceleration of overall growth may come in 2003. The recent appreciation of the forint and huge hikes in wages may have an impact on both industrial output and the foreign balances.

Poland

The precipitously falling investment indicates that the trough has not yet been reached. The deteriorating financial position of non-financial firms will delay the recovery even if domestic policies change for the better and the business climate in the EU improves.

Romania

3% GDP growth, supported by rising investment and improvements in foreign trade, is combined with falling inflation and lower interest rates. The positive developments are likely to continue in 2003, especially if external conditions improve.

Russia

The ongoing reforms have not yet changed the attitudes towards investment. GDP growth will range between 3% and 4% in 2002-03. Expanding consumption will be associated with narrowing trade surpluses.

Slovakia

Private consumption supported by a pre-election relaxation of fiscal policy will expand GDP by 3.5% in 2002. High current account deficits continue, together with very high inflows of FDI, primarily in the form of privatization revenue.

Slovenia

The weakness of the EU economy is having some effect on GDP growth. But this is not disturbing external and internal balances. Slow but steady restructuring continues. Relatively high inflation will persist.

Ukraine

The sharp growth slowdown following the deterioration of external conditions may turn out temporary if the dollar weakens further. Political developments seem generally positive.

Macedonia

Economic and political stability, disturbed by armed conflict in 2001, has been largely restored – but remains fragile. Undoing the harm will take time.

Yugoslavia

With relatively high transfers from abroad, the very high trade deficits are sustainable. Rising wages and consumer demand do not elicit any strong supply response. Restructuring, including privatization and the sale of firms to foreign investors, will be continuing. Hopefully, this will be combined with a gradual expansion of the production potential.

ANNEX

Selected Indicators of Competitiveness

Table A/1: GDP per capita at current PPPs (EUR/ECU), from 2002 at constant PPPs

	1990	1993	1995	1996	1998	1999	2000	2001	2002	2005	2010	2015
										projection assuming 4% p.a. GDP growth and zero population growth p.a.		
Czech Republic	10038	9798	11281	11980	12220	12542	13259	13958	14377	16172	19676	23938
Hungary	7209	7366	8317	8597	9890	10560	11405	11870	12261	13792	16780	20416
Poland	4576	4963	6302	6787	7785	8269	8791	9057	9057	9992	12157	14791
Slovak Republic	7486	6325	8248	8848	10156	10487	10943	11575	11980	13476	16395	19947
Slovenia	10110	9934	11607	12192	13546	14516	15482	16251	16739	18829	22908	27871
Bulgaria	4861	4459	5006	4633	5722	6005	6500	7011	7256	8162	9931	12082
Romania	5342	4852	5768	6113	4970	5054	5263	5660	5830	6558	7978	9707
Estonia	.	5145	5734	6125	7685	7823	9002	9715	10104	11475	13961	16986
Latvia	7106	4058	4447	4725	5850	6086	6689	7376	7782	8922	10855	13207
Lithuania	7352	4995	5088	5455	7401	7305	7802	8470	8851	10051	12229	14879
Croatia	5980	4359	5214	5833	7540	7571	8339	8855	9121	10259	12482	15186
Macedonia	3943	3470	3769	3845	5380	5696	6056	5865	5865	6470	7872	9578
Russia	8435	6894	6157	6064	5001	5399	6045	6526	6748	7576	9217	11214
Ukraine	5876	4558	3324	3066	3316	3403	3714	4187	4354	4945	6016	7320
										projection assuming 2% p.a. GDP growth and zero population growth p.a.		
Austria	15945	18093	19937	20647	21589	22590	23801	24613	25105	26642	29415	32476
Germany	15052	17593	19890	19922	20916	21795	23018	23557	24028	25499	28153	31083
Greece	8767	10395	11920	12319	13182	13999	15014	16079	16400	17404	19216	21216
Portugal	9263	11086	12761	13153	14352	15329	16208	17236	17581	18657	20599	22742
Spain	11500	12897	14141	14667	15647	16806	17922	19037	19418	20607	22751	25119
Turkey	4416	5163	5239	5533	5988	5818	6299	5828	5944	6308	6965	7690
Japan	17241	19656	21675	22600	22907	23492	24467	24600	25092	26628	29400	32460
USA	21852	23889	26141	27140	29704	31173	33092	33769	34444	36552	40357	44557
EU(15) average	14750	16282	18153	18574	19802	20790	21996	22879	23337	24765	27342	30188

European Union (15) average = 100

	1990	1993	1995	1996	1998	1999	2000	2001	2002	2005	2010	2015
Czech Republic	68	60	62	64	62	60	60	61	62	65	72	79
Hungary	49	45	46	46	50	51	52	52	53	56	61	68
Poland	31	30	35	37	39	40	40	40	39	40	44	49
Slovak Republic	51	39	45	48	51	50	50	51	51	54	60	66
Slovenia	69	61	64	66	68	70	70	71	72	76	84	92
Bulgaria	33	27	28	25	29	29	30	31	31	33	36	40
Romania	36	30	32	33	25	24	24	25	25	26	29	32
Estonia	.	32	32	33	39	38	41	42	43	46	51	56
Latvia	.	25	24	25	30	29	30	32	33	36	40	44
Lithuania	.	31	28	29	37	35	35	37	38	41	45	49
Croatia	41	27	29	31	38	36	38	39	39	41	46	50
Macedonia	27	21	21	21	27	27	28	26	25	26	29	32
Russia	57	42	34	33	25	26	27	29	29	31	34	37
Ukraine	40	28	18	17	17	16	17	18	19	20	22	24
Austria	108	111	110	111	109	109	108	108	108	108	108	108
Germany	102	108	110	107	106	105	105	103	103	103	103	103
Greece	59	64	66	66	67	67	68	70	70	70	70	70
Portugal	63	68	70	71	72	74	74	75	75	75	75	75
Spain	78	79	78	79	79	81	81	83	83	83	83	83
Turkey	30	32	29	30	30	28	29	25	25	25	25	25
Japan	117	121	119	122	116	113	111	108	108	108	108	108
USA	148	147	144	146	150	150	150	148	148	148	148	148
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; PURCHASING POWER PARITIES AND REAL EXPENDITRUES, 1999 BENCHMARK YEAR, OECD, 2002; National statistics; WIFO; WIIW estimates. Benchmark PPPs for 1996 and 1999 extrapolated with GDP price deflators. GDP per capita for OECD countries according to OECD Economic Outlook statistics converted into EUR.

Table A/2: Indicators of macro-competitiveness, 1993-2001

EUR-based (ECU till 1998), annual averages

	1993	1995	1996	1997	1998	1999	2000	2001
Czech Republic								
Producer price index, 1989=100	213.3	241.6	253.0	265.4	278.4	281.2	295.0	303.6
Consumer price index, 1989=100	230.5	276.7	301.0	326.6	361.6	369.2	383.6	401.6
GDP deflator, 1989=100	202.8	253.5	275.8	297.8	330.0	339.7	343.0	360.7
Exchange rate (ER), CZK/EUR	34.10	34.31	34.01	35.80	36.16	36.88	35.61	34.08
ER nominal, 1989=100	205.4	206.7	204.9	215.7	217.9	222.2	214.5	205.3
Real ER (CPI-based), 1989=100	107.5	95.8	89.5	88.6	82.2	83.2	79.3	74.3
Real ER (PPI-based), 1989=100	103.7	98.3	93.6	94.8	90.9	91.9	88.6	83.4
PPP, CZK/EUR	10.08	11.85	12.68	13.36	14.62	14.75	14.57	15.03
ERDI (EUR based)	3.38	2.90	2.68	2.68	2.47	2.50	2.44	2.27
Average monthly gross wages, CZK	5817	8172	9676	10691	11693	12666	13490	14642
Average monthly gross wages, EUR (ER)	171	238	285	299	323	343	379	430
Average monthly gross wages, EUR (PPP)	577	690	763	800	800	859	926	974
GDP nominal, bn CZK	1020.3	1381.0	1567.0	1679.9	1839.1	1902.3	1984.8	2157.8
Employment total, 1000 persons	4848.3	5011.6	5044.4	4946.6	4882.5	4760.2	4663.9	4677.9
GDP per employed person, CZK	210441	275568	310634	339613	376669	399623	425575	461281
GDP per empl. person, CZK at 1999 pr.	352489	369261	382583	387303	387662	399623	421486	434376
Unit labour costs, 1989=100	171.7	230.2	263.1	287.1	313.7	329.7	332.9	350.6
Unit labour costs, ER adj., 1989=100	83.6	111.4	128.4	133.1	144.0	148.4	155.2	170.8
Unit labour costs, PPP adj., Austria=100	17.01	21.18	25.31	27.35	29.73	30.19	31.53	33.88
Hungary								
Producer price index, 1989=100	199.8	286.7	349.2	420.4	467.9	491.8	549.3	577.8
Consumer price index, 1989=100	262.1	399.3	493.5	583.8	667.3	734.0	805.9	880.1
GDP deflator, 1989=100	232.5	348.8	422.7	500.9	564.1	611.4	670.7	731.0
Exchange rate (ER), HUF/EUR	107.50	162.65	191.15	210.93	240.98	252.80	260.04	256.68
ER, nominal 1989=100	165.2	250.0	293.8	324.2	370.3	388.5	399.6	394.5
Real ER (CPI-based), 1989=100	76.0	80.3	78.2	74.5	75.8	73.2	70.3	65.1
Real ER (PPI-based), 1989=100	89.0	100.2	97.3	90.0	92.0	91.9	88.6	84.2
PPP, HUF/EUR	46.80	65.99	78.67	90.73	100.85	107.17	115.03	122.92
ERDI (EUR based)	2.30	2.46	2.43	2.32	2.39	2.36	2.26	2.09
Average monthly gross wages, HUF	27173	38900	46837	57270	67764	77187	87645	103558
Average monthly gross wages, EUR (ER)	253	239	245	272	281	305	337	403
Average monthly gross wages, EUR (PPP)	581	589	595	631	672	720	762	842
GDP nominal, bn HUF	3548.3	5614.0	6893.9	8540.7	10087.4	11393.5	13150.8	14876.4
Employment total, 1000 persons	3827.3	3678.8	3648.1	3646.3	3697.7	3811.5	3849.1	3859.5
GDP per employed person, HUF	927103	1526041	1889723	2342292	2728020	2989243	3416583	3854489
GDP per empl. person, HUF at 1999 pr.	2438166	2675150	2733209	2858722	2956947	2989243	3114545	3223721
Unit labour costs, 1989=100	212.4	277.2	326.6	381.9	436.8	492.2	536.4	612.3
Unit labour costs, ER adj., 1989=100	128.6	110.9	111.2	117.8	118.0	126.7	134.2	155.2
Unit labour costs, PPP adj., Austria=100	26.47	21.33	22.17	24.48	24.63	26.07	27.58	31.15
Poland								
Producer price index, 1989=100	1806.0	2837.2	3189.0	3578.0	3839.6	4058.4	4375.0	4445.0
Consumer price index, 1989=100	2259.9	3818.1	4577.9	5260.0	5880.7	6309.9	6947.2	7329.3
GDP deflator, 1989=100	1628.9	2690.0	3194.4	3642.9	4073.4	4348.3	4655.9	4856.2
Exchange rate (ER), PLN/EUR	2.119	3.135	3.377	3.706	3.923	4.227	4.011	3.669
ER, nominal, 1989=100	1329.1	1966.1	2118.3	2324.1	2460.5	2651.1	2515.7	2300.9
Real ER (CPI-based), 1989=100	70.9	66.0	60.8	59.3	57.1	58.1	51.3	45.6
Real ER (PPI-based), 1989=100	79.2	79.6	76.8	75.8	74.5	76.0	70.0	63.8
PPP, PLN/EUR	0.81623	1.2669	1.4797	1.6659	1.8389	1.9245	2.0163	2.0618
ERDI (EUR based)	2.60	2.47	2.28	2.22	2.13	2.20	1.99	1.78
Average monthly gross wages, PLN *)	390	691	874	1066	1233	1697	1894	2062
Average monthly gross wages, EUR (ER)	184	220	259	288	314	401	472	562
Average monthly gross wages, EUR (PPP)	478	545	591	640	670	882	939	1000
GDP nominal, bn PLN	155.8	308.1	387.8	472.4	553.6	615.1	685.0	721.6
Employment total, 1000 persons	14330.1	14735.2	15020.6	15438.7	15800.4	15373.5	15017.5	15100
GDP per employed person, PLN	10871	20909	25820	30595	35035	40011	45612	47786
GDP per empl. person, PLN at 1999 pr.	29019	33799	35146	36520	37398	40011	42599	42788
Unit labour costs, 1989=100	1968.7	2991.2	3640.0	4270.3	4823.1	6206.6	6505.0	7051.1
Unit labour costs, ER adj., 1989=100	148.1	152.1	171.8	183.7	196.0	234.1	258.6	306.5
Unit labour costs, PPP adj., Austria=100	29.11	27.93	32.71	36.45	39.07	46.00	50.72	58.72

*) Methodological change in 1999 (broader wage coverage).

(Table A/2 contd.)

Table A/2 (contd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
Slovak Republic								
Producer price index, 1989=100	218.4	262.6	273.5	285.8	295.3	306.5	336.6	358.8
Consumer price index, 1989=100	241.1	300.5	317.8	337.2	359.8	397.9	445.6	478.1
GDP deflator, 1989=100	184.2	230.0	240.1	256.2	269.5	286.8	305.2	321.6
Exchange rate (ER), SKK/EUR	35.98	38.45	38.40	38.01	39.60	44.12	42.59	43.31
ER, nominal, 1989=100	216.7	231.7	231.4	229.0	238.6	265.8	256.6	260.9
Real ER (CPI-based), 1989=100	108.4	98.8	95.7	91.1	90.5	92.3	81.6	79.3
Real ER (PPI-based), 1989=100	106.8	101.4	97.8	93.5	93.9	100.9	92.9	89.7
PPP, SKK/EUR	10.96	12.86	13.22	13.63	14.16	14.77	15.38	15.89
ERDI (EUR based)	3.28	2.99	2.90	2.79	2.80	2.99	2.77	2.73
Average monthly gross wages, SKK	5379	7195	8154	9226	10003	10728	11430	12365
Average monthly gross wages, EUR (ER)	150	187	212	243	253	243	268	286
Average monthly gross wages, EUR (PPP)	491	559	617	677	707	726	743	778
GDP nominal, bn SKK	369.1	568.9	628.6	708.6	775.0	835.7	908.8	989.3
Employment total, 1000 persons	2117.9	2146.8	2224.9	2205.9	2198.6	2132.1	2101.7	2123.7
GDP per employed person, SKK	174282	265010	282524	321237	352498	391971	432412	465837
GDP per empl. person, SKK at 1999 pr.	271449	330547	337573	359676	375146	391971	406380	415443
Unit labour costs, 1989=100	196.4	215.7	239.4	254.2	264.2	271.2	278.7	294.9
Unit labour costs, ER adj., 1989=100	90.6	93.1	103.5	111.0	110.7	102.0	108.6	113.0
Unit labour costs, PPP adj., Austria=100	19.38	18.61	21.44	23.97	24.03	21.82	23.20	23.58
Slovenia								
Producer price index, 1989=100	4218.9	5601.3	5982.4	6347.2	6727.8	6869.0	7391.3	8048.9
Consumer price index, 1989=100	5721.7	7857.9	8635.7	9360.9	10100.5	10716.2	11670.2	12650.2
GDP deflator, 1989=100	4865.4	6868.3	7633.5	8303.1	8953.7	9542.1	10089.7	11084.3
Exchange rate (ER), SIT/EUR	132.28	153.12	169.51	180.40	186.27	193.63	205.03	217.19
ER, nominal, 1989=100	4099.7	4745.5	5253.6	5591.0	5772.9	6001.0	6354.5	6731.1
Real ER (CPI-based), 1989=100	86.4	77.4	79.9	80.1	78.0	77.4	77.2	77.3
Real ER (PPI-based), 1989=100	104.6	97.3	101.5	102.8	99.7	101.6	104.7	103.1
PPP, SIT/EUR	72.57	96.30	105.26	113.81	121.15	126.58	130.96	141.05
ERDI (EUR based)	1.82	1.59	1.61	1.59	1.54	1.53	1.57	1.54
Average monthly gross wages, SIT	75432	111996	129125	144251	158069	173245	191669	214561
Average monthly gross wages, EUR (ER)	570	731	762	800	849	895	935	988
Average monthly gross wages, EUR (PPP)	1039	1163	1227	1268	1305	1369	1464	1521
GDP nominal, bn SIT	1435.1	2221.5	2555.4	2907.3	3253.8	3648.4	4035.5	4566.2
Employment total, 1000 persons	755.9	745.2	741.7	743.4	745.2	758.5	768.2	779.0
GDP per employed person, SIT	1898598	2980876	3445175	3910621	4366460	4810186	5253404	5861297
GDP per empl. person, SIT at 1999 pr.	3723590	4141304	4306585	4494177	4653422	4810186	4968295	5045826
Unit labour costs, 1989=100	3365.5	4492.9	4981.2	5332.5	5643.3	5983.5	6409.2	7064.4
Unit labour costs, ER adj., 1989=100	82.1	94.7	94.8	95.4	97.8	99.7	100.9	105.0
Unit labour costs, PPP adj., Austria=100	46.18	49.76	51.67	54.16	55.78	56.08	56.64	57.56
Bulgaria								
Producer price index, 1989=100	910.6	2454.4	5645.0	60462.0	70468.5	72723.6	85159.3	91376.0
Consumer price index, 1989=100	1794.7	5702.9	12637.6	146392.9	173732.5	178203.6	196584.0	211132.0
GDP deflator, 1989=100	1030.2	2897.2	6399.9	67110.2	83015.2	86086.7	91854.7	97733.7
Exchange rate (ER), BGN/EUR	0.032	0.087	0.192	1.896	1.972	1.956	1.956	1.956
ER, nominal, 1989=100	3485.9	9338.4	20612.4	203894.4	212116.3	210349.5	210349.5	210349.5
Real ER (CPI-based), 1989=100	234.2	209.9	214.3	186.8	166.7	163.1	151.6	144.8
Real ER (PPI-based), 1989=100	411.9	437.2	422.1	393.5	349.8	336.4	300.9	283.8
PPP, BGN/EUR	0.007913	0.02092	0.04546	0.3887	0.4746	0.4825	0.5037	0.5255
ERDI (EUR based)	4.10	4.15	4.22	4.88	4.16	4.05	3.88	3.72
Average monthly gross wages, BGN	3	8	13	128	183	201	225	248
Average monthly gross wages, EUR (ER)	100	87	69	67	93	103	115	127
Average monthly gross wages, EUR (PPP)	408	363	291	329	386	417	446	473
GDP nominal, bn BGN	0.3	0.9	1.8	17.4	22.4	23.8	26.8	29.6
Employment total, 1000 persons	3221.8	3282.2	3285.9	3157.4	3152.6	3087.8	2980.1	2940.3
GDP per employed person, BGN	93	268	536	5521	7112	7705	8977	10073
GDP per empl. person, BGN at 1999 pr.	7753	7970	7210	7082	7375	7705	8413	8873
Unit labour costs, 1989=100	1185.9	2712.7	5228.7	51394.5	70706.6	74239.8	75933.5	79635.7
Unit labour costs, ER adj., 1989=100	34.0	29.0	25.4	25.2	33.3	35.3	36.1	37.9
Unit labour costs, PPP adj., Austria=100	14.78	11.79	10.68	11.05	14.69	15.33	15.65	16.04

(Table A/2 contd.)

Table A/2 (contd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
Romania								
Producer price index, 1989=100	3065.5	9961.1	14928.8	37725.0	50235.3	72589.7	111353.7	157008.9
Consumer price index, 1989=100	3138.9	9829.0	13643.6	34758.8	55300.0	80629.4	117450.2	157970.5
GDP deflator, 1989=100	3289.0	10633.6	15453.6	38220.3	58917.0	87060.2	125420.3	171756.9
Exchange rate (ER), ROL/EUR	884.60	2629.51	3862.90	8090.92	9989.25	16295.57	19955.75	26026.89
ER, nominal, 1989=100	5377.5	15984.9	23482.7	49184.9	60724.9	99061.2	121311.6	158218.2
Real ER (CPI-based), 1989=100	206.6	208.5	226.2	189.8	149.9	169.8	146.4	145.5
Real ER (PPI-based), 1989=100	188.8	184.4	181.8	152.2	140.5	158.7	132.7	124.2
PPP, ROL/EUR	181.46	551.44	788.18	2181.1	3319.0	4808.2	6777.7	9099.7
ERDI (EUR based)	4.87	4.77	4.90	4.27	3.41	3.89	3.38	3.28
Average monthly grross wages, ROL	78347	281287	426610	846450	1357132	1957731	2876645	4282622
Average monthly gross wages, EUR (ER)	89	107	110	105	136	120	144	165
Average monthly gross wages, EUR (PPP)	432	510	541	388	409	407	424	471
GDP nominal, bn ROL	20035.7	72135.5	108919.6	252925.7	371193.8	545730.2	800308.1	1154126.4
Employment total, 1000 persons	10260.0	9752.0	9436.0	9200.9	8917.7	8616.3	8524.5	8397
GDP per employed person, ROL	1952799	7396995	11542984	27489384	41624621	63336954	93883289	137451103
GDP per empl. person, ROL at 1999 pr.	51691298	60561542	65029137	62616737	61507755	63336954	65168884	69671289
Unit labour costs, 1989=100	3169.1	9711.4	13716.8	28264.5	46134.1	64628.8	92294.6	128524.5
Unit labour costs, ER adj., 1989=100	58.9	60.8	58.4	57.5	76.0	65.2	76.1	81.2
Unit labour costs, PPP adj., Austria=100	19.63	18.90	18.85	19.32	25.66	21.72	25.29	26.38
Estonia								
Producer price index, 1992=100	175.2	299.9	344.3	374.6	390.4	385.7	404.6	422.4
Consumer price index, 1992=100	189.8	361.7	445.2	495.1	535.7	553.3	575.5	608.9
GDP deflator, 1992=100	181.3	331.4	408.5	451.9	493.9	516.3	540.6	572.1
Exchange rate (ER), EEK/EUR	15.463	14.819	15.074	15.670	15.783	15.647	15.647	15.647
ER, nominal, 1992=100	97.2	93.2	94.8	98.5	99.2	98.4	98.4	98.4
Real ER (CPI-based), 1992=100	53.1	28.4	24.0	22.9	21.7	21.1	20.8	20.2
Real ER (PPI-based), 1992=100	56.2	33.6	30.0	28.9	27.8	27.9	27.9	27.0
PPP, EEK/EUR	2.797	4.806	5.8255	6.118	6.601	6.764	6.931	7.190
ERDI (EUR based)	5.53	3.08	2.59	2.56	2.39	2.31	2.26	2.18
Average monthly gross wages, EEK	1066	2375	2985	3573	4125	4440	4907	5511
Average monthly gross wages, EUR (ER)	69	160	198	228	261	284	314	352
Average monthly gross wages, EUR (PPP)	381	494	512	584	625	656	708	766
GDP nominal, bn EEK	21.8	40.9	52.4	64.0	73.5	76.3	85.4	95.3
Employment total, 1000 persons	708.1	656.1	645.6	648.4	640.2	614.0	608.6	614.7
GDP per employed person, EEK	30824	62333	81200	98773	114867	124311	140382	154994
GDP per empl. person, EEK at 1999 pr.	87783	97103	102623	112840	120062	124311	134048	139874
Unit labour costs, 1992=100	196.2	395.2	470.0	511.7	555.2	577.1	591.5	636.7
Unit labour costs, ER adj., 1992=100	201.9	424.3	496.0	519.4	559.6	586.8	601.4	647.3
Unit labour costs, PPP adj., Austria=100	12.65	24.85	30.12	32.87	35.58	36.78	37.63	39.56
Latvia								
Producer price index, 1992=100	217.1	284.0	322.9	336.1	342.5	328.8	330.8	336.4
Consumer price index, 1992=100	209.2	355.4	417.9	453.0	474.3	485.7	498.3	510.8
GDP deflator, 1992=100	171.5	275.2	320.7	341.8	360.6	387.3	403.4	410.1
Exchange rate (ER), LVL/EUR	0.7927	0.6818	0.6900	0.6574	0.6614	0.6237	0.5601	0.5627
ER, nominal, 1992=100	91.3	78.5	79.5	75.7	76.2	71.9	64.5	64.8
Real ER (CPI-based), 1992=100	45.2	24.3	21.5	19.3	18.8	17.6	15.8	15.8
Real ER (PPI-based), 1992=100	42.6	29.9	26.8	24.8	24.3	23.9	22.4	22.4
PPP, LVL/EUR	0.1411	0.2127	0.2438	0.2446	0.2548	0.2683	0.2734	0.2725
ERDI (EUR based)	5.62	3.21	2.83	2.69	2.60	2.32	2.05	2.07
Average monthly gross wages, LVL	47	90	99	120	133	141	150	159
Average monthly gross wages, EUR (ER)	60	131	143	183	202	226	267	283
Average monthly gross wages, EUR (PPP)	335	421	405	491	523	525	547	584
GDP nominal, bn LVL	1.47	2.35	2.83	3.28	3.59	3.90	4.34	4.74
Employment total, 1000 persons	1205.0	1045.6	1017.7	1036.8	1043.0	1037.8	1037.9	1037.0
GDP per employed person, LVL	1217	2247	2780	3159	3441	3755	4178	4572
GDP per empl. person, LVL at 1999 pr.	2749	3163	3358	3580	3697	3755	4011	4318
Unit labour costs, 1992=100	240.3	395.8	411.2	468.9	504.3	525.1	521.3	515.0
Unit labour costs, ER adj., 1992=100	263.1	503.9	517.3	619.2	661.8	730.8	807.9	794.4
Unit labour costs, PPP adj., Austria=100	13.85	24.79	26.39	32.91	35.34	38.47	42.46	40.78

(Table A/2 contd.)

Table A/2 (contd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
Lithuania								
Producer price index, 1992=100	492.0	914.0	1064.8	1128.7	1084.6	1117.2	1318.3	1301.2
Consumer price index, 1992=100	510.7	1227.0	1528.8	1664.9	1749.8	1763.8	1781.5	1804.7
GDP deflator, 1992=100	406.2	906.4	1133.8	1283.5	1369.2	1413.6	1441.6	1446.6
Exchange rate (ER), LTL/EUR	5.1193	5.1717	5.0118	4.5272	4.4924	4.2712	3.6990	3.5849
ER, nominal, 1992=100	222.7	225.0	218.0	196.9	195.4	185.8	160.9	155.9
Real ER (CPI-based), 1992=100	45.2	20.2	16.1	13.6	13.1	12.5	11.0	10.8
Real ER (PPI-based), 1992=100	45.9	26.6	22.3	19.2	19.7	18.2	14.0	13.9
PPP, LTL/EUR	0.6220	1.3045	1.6054	1.552	1.634	1.654	1.650	1.624
ERDI (EUR based)	8.23	3.96	3.12	2.92	2.75	2.58	2.24	2.21
Average monthly gross wages, LTL	166	481	618	778	930	987	971	991
Average monthly gross wages, EUR (ER)	32	93	123	172	207	231	262	276
Average monthly gross wages, EUR (PPP)	267	369	385	501	569	597	588	610
GDP nominal, bn LTL	11.6	24.1	31.6	38.3	43.0	42.7	45.1	48.0
Employment total, 1000 persons	1778.2	1643.6	1659.0	1669.2	1656.1	1647.5	1586.0	1521.8
GDP per employed person, LTL	6518	14665	19029	22969	25959	25891	28467	31521
GDP per empl. person, LTL at 1999 pr.	22679	22871	23725	25297	26801	25891	27914	30802
Unit labour costs, 1992=100	370.4	1063.4	1317.9	1555.7	1754.7	1928.1	1759.0	1627.5
Unit labour costs, ER adj., 1992=100	166.3	472.7	604.5	790.0	897.9	1037.8	1093.2	1043.7
Unit labour costs, PPP adj., Austria=100	5.64	14.97	19.85	27.02	30.86	35.16	36.98	34.49
Croatia								
Producer price index, 1989=100	204130.0	365072.8	370183.9	378698.3	374153.9	383881.7	421118.3	436278.3
Consumer price index, 1989=100	195909.3	394858.7	408679.1	423391.3	447530.6	466326.7	495238.8	519505.8
GDP deflator, 1989=100	138658.4	309216.7	320477.1	344066.9	373062.5	388420.5	413453.7	426069.7
Exchange rate (ER), HRK/EUR	4.13	6.76	6.80	6.96	7.14	7.58	7.63	7.47
ER, nominal, 1989=100	128111.3	209442.2	210895.8	215699.6	221182.2	234912.7	236628.2	231483.2
Real ER (CPI-based), 1989=100	78.9	68.0	67.8	68.3	67.5	69.6	67.7	64.7
Real ER (PPI-based), 1989=100	67.5	65.9	65.9	66.5	68.7	71.2	68.4	65.4
PPP, HRK/EUR	1.928	4.04	4.119	3.788	4.055	4.139	4.311	4.355
ERDI (EUR based)	2.14	1.67	1.65	1.62	1.53	1.61	1.56	1.51
Average monthly gross wages, HRK	848.0	2887	3243	3668	4131	4551	4869	5061
Average monthly gross wages, EUR (ER)	205	427	477	527	579	600	638	678
Average monthly gross wages, EUR (PPP)	440	714	787	968	1019	1100	1129	1162
GDP nominal, bn HRK	39.0	98.4	108.0	123.8	137.6	142.7	157.5	169.0
Employment total, 1000 persons	1446.6	1417.4	1329.5	1310.9	1384.8	1364.5	1341.0	1348.3
GDP per employed person, HRK	26962	69410	81219	94447	99364	104581	117462	125322
GDP per empl. person, HRK at 1999 pr.	75528	87189	98438	106622	103455	104581	110350	114248
Unit labour costs, 1989=100	86104.6	253947.6	252664.5	263840.3	306241.5	333744.8	338398.5	339741.7
Unit labour costs, ER adj., 1989=100	67.2	121.2	119.8	122.3	138.5	142.1	143.0	146.8
Unit labour costs, PPP adj., Austria=100	26.78	45.14	46.25	49.20	55.96	56.60	56.88	57.02
Macedonia								
Producer price index, 1989=100	86212.9	170868.8	170357.8	177512.8	184616.7	184429.3	204156.7	208245.3
Consumer price index, 1989=100	109313.2	288886.7	295385.2	303065.2	302769.8	300643.1	318070.8	333667.1
GDP deflator, 1990=100	14407.4	42493.5	43708.8	45429.8	46050.2	47329.3	51225.9	52946.9
Exchange rate (ER), MKD/EUR	27.30	49.15	50.08	56.20	61.07	60.62	60.73	60.91
ER, nominal, 1989=100	84781.6	152643.3	155515.9	174525.6	189641.9	188247.5	188584.8	189156.5
Real ER (CPI-based), 1989=100	93.5	67.7	69.2	77.2	85.5	86.5	84.0	82.4
Real ER (PPI-based), 1989=100	105.8	102.6	105.5	114.7	119.4	118.7	112.5	112.0
PPP, MKD/EUR	8.253	22.88	23.14	18.04	18.05	18.19	19.26	19.52
ERDI (EUR based)	3.31	2.15	2.16	3.12	3.38	3.33	3.15	3.12
Average monthly net wages, MKD	3782	8581	8817	9063	9394	9664	10193	10552
Average monthly net wages, EUR (ER)	139	175	176	161	154	159	168	173
Average monthly net wages, EUR (PPP)	458	375	381	502	520	531	529	541
GDP nominal, bn MKD	59.2	169.5	176.4	186.0	195.0	209.0	236.4	233.1
Employment total, 1000 persons	.	.	537.6	512.3	539.8	545.2	549.8	599.3
GDP per employed person, MKD	.	.	328212	363103	361231	383348	429919	388932
GDP per empl. person, MKD at 1999 pr.	.	.	355399	378285	371265	383348	397216	347666
Unit labour costs, 1990=100	.	.	.	.	.	.	.	.
Unit labour costs, ER adj., 1990=100	.	.	.	.	.	.	.	.
Unit labour costs, PPP adj., Austria=100	.	.	20.80	18.65	18.21	18.02	18.28	21.05

(Table A/2 contd.)

Table A/2 (contd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
Russia								
Producer price index, 1989=100	61181	899321	1356086	1559505	1670224	2653986	3890743	4635820
Consumer price index, 1989=100	32112	388817	574672	659723	841807	1563235	1888388	2296280
GDP deflator, 1989=100	41646	446728	644091	737391	857437	1414632	1988125	2344270
Exchange rate (ER), RUB/EUR	1.21	5.89	6.63	6.54	11.06	26.24	26.03	26.13
ER, nominal, 1989=100	174605	848366	954960	941800	1592973	3778114	3747905	3762448
Real ER (CPI-based), 1989=100	655.8	279.7	218.4	191.4	258.3	334.0	281.2	238.1
Real ER (PPI-based), 1989=100	307.1	108.4	81.4	70.5	110.8	165.6	117.3	100.1
PPP, RUB/EUR	0.1675	1.6890	2.395	3.250	3.731	6.035	8.299	9.594
ERDI (EUR based)	7.24	3.49	2.77	2.01	2.97	4.35	3.14	2.72
Average monthly gross wages, RUB	64.3	532.6	790.2	950.2	1051.5	1522.6	2223.4	3282.0
Average monthly gross wages, EUR (ER)	53	90	119	145	95	58	85	126
Average monthly gross wages, EUR (PPP)	384	315	330	292	282	252	268	342
GDP nominal, bn RUB	171.5	1540.5	2145.7	2478.6	2741.1	4766.8	7302.2	9040.8
Employment total, 1000 persons	70852	66409	65950	64693	63812	63963	64327	65000
GDP per employed person, RUB	2421	23197	32535	38313	42955	74524	113517	139090
GDP per empl. person, RUB at 1999 pr.	82226	73457	71456	73501	70869	74524	80772	83933
Unit labour costs, 1989=100	32589	302358	461145	539088	618714	851969	1147868	1630590
Unit labour costs, ER adj., 1989=100	18.7	35.6	48.3	57.2	38.8	22.6	30.6	43.3
Unit labour costs, PPP adj., Austria=100	9.27	16.53	23.22	28.68	19.56	11.19	15.18	20.98
Ukraine								
Producer price index, 1989=100	274001	19914767	30290361	32622718	36928917	48413810	58532296	63566073
Consumer price index, 1989=100	143625	6786409	12229109	14172537	15674826	19233012	24656721	27615528
GDP deflator, 1989=100	142056	7715454	12819488	15140086	16950568	21587839	26575880	28925236
Exchange rate (ER), UAH/EUR	0.053	1.928	2.322	2.113	2.768	4.393	5.029	4.814
ER, nominal, 1989=100	758273	27739568	33408633	30401439	39821583	63212950	72357554	69260000
Real ER (CPI-based), 1989=100	636.7	524.0	359.0	287.7	346.8	454.2	415.8	364.4
Real ER (PPI-based), 1989=100	297.8	160.0	127.5	108.8	125.3	151.9	150.6	134.3
PPP, UAH/EUR	0.006235	0.3183	0.5201	0.5565	0.6151	0.7680	0.9251	0.9871
ERDI (EUR based)	8.45	6.06	4.46	3.80	4.50	5.72	5.44	4.88
Average monthly gross wages, UAH	1.6	73.0	126.0	143.0	153.0	177.5	230.1	311.1
Average monthly gross wages, EUR (ER)	29	38	54	68	55	40	46	65
Average monthly gross wages, EUR (PPP)	249	229	242	257	249	231	249	315
GDP nominal, bn UAH	1.5	54.5	81.5	93.4	102.6	130.4	170.1	201.9
Employment total, 1000 persons	23923.7	23725.5	23231.8	22597.6	22348.7	21823.7	21268.5	21000.0
GDP per employed person, UAH	62.0	2298	3509	4132	4591	5977	7996	9616
GDP per empl. person, UAH at 1999 pr.	9419	6429	5909	5891	5846	5977	6495	7176
Unit labour costs, 1989=100	98966.6	6821887	12811424	14583936	15723252	17844302	21286399	26043902
Unit labour costs, ER adj., 1989=100	13.1	24.6	38.3	48.0	39.5	28.2	29.4	37.6
Unit labour costs, PPP adj., Austria=100	5.72	10.07	16.28	21.22	17.55	12.37	12.87	16.06
Austria								
Producer price index, 1989=100	103.1	104.8	104.8	105.2	104.7	103.7	107.9	109.6
Consumer price index, 1989=100	115.0	121.1	123.3	125.0	126.1	126.8	129.8	133.3
GDP deflator, 1989=100	114.3	120.4	122.0	123.1	123.7	124.6	126.1	128.3
Exchange rate (ER), ATS-EUR/EUR	0.9884	0.9471	0.9636	1.0017	1.0089	1.0000	1.0000	1.0000
ER, nominal, 1989=100	93.4	89.5	91.0	94.6	95.3	94.5	94.5	94.5
Real ER (CPI-based), 1989=100	97.9	94.8	97.0	101.6	103.2	102.9	103.1	103.0
Real ER (PPI-based), 1989=100	97.5	98.1	100.4	105.0	105.8	105.9	106.6	106.3
PPP, ATS-EUR/EUR	1.0854	1.0740	1.0697	1.0487	1.0581	1.0305	1.0204	1.0184
ERDI (EUR based)	0.91	0.88	0.90	0.96	0.95	0.97	0.98	0.98
Average monthly gross wages, EUR-ATS	1999	2140	2157	2180	2249	2303	2356	2427
Average monthly gross wages, EUR (ER)	2022	2260	2239	2177	2229	2303	2356	2427
Average monthly gross wages, EUR (PPP)	1842	1993	2016	2079	2126	2235	2308	2383
GDP nominal, bn EUR-ATS	156.9	172.3	178.0	182.5	189.9	196.7	204.8	210.7
Employment total, 1000 persons	3446.0	3439.5	3415.4	3424.5	3446.6	3478.8	3506.5	3522.5
GDP per employed person, EUR-ATS	45542	50090	52131	53289	55109	56531	58417	59815
GDP per empl. person, EUR-ATS at 1999 pr.	49646	51838	53242	53939	55510	56531	57722	58090
Unit labour costs, 1989=100	117.8	120.8	118.5	118.2	118.5	119.2	119.4	122.2
Unit labour costs, ER adj., 1989=100	126.1	135.0	130.2	124.9	124.4	126.2	126.4	129.4
Unit labour costs, PPP adjusted	0.50	0.54	0.52	0.50	0.50	0.50	0.50	0.52

Employment: Employees + self-employed + farmers.

ER = Exchange Rate, PPP = Purchasing Power Parity, ERDI = Exchange Rate Deviation Index (all in terms of national currency per EUR). Till 1996 PPPs have been calculated using the benchmark PPPs for 1996 and extrapolated with GDP deflators, from 1997 using benchmark PPPs for 1999 and extrapolated with GDP deflators.

Sources: BENCHMARK RESULTS OF THE 1996 EUROSTAT-OECD COMPARISON BY ANALYTICAL CATEGORIES, OECD, 1999; PURCHASING POWER PARITIES AND REAL EXPENDITRUES, 1999 BENCHMARK YEAR, OECD, 2002; National statistics; WIFO; WIIW estimates.

Table A/3: Indicators of macro-competitiveness, 1993-2001

annual changes in %

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
Czech Republic								
GDP deflator	21.0	10.2	8.8	8.0	10.8	2.9	1.0	5.2
Exchange rate (ER), CZK/EUR	-6.9	0.7	-0.9	5.3	1.0	2.0	-3.4	-4.3
Real ER (CPI-based)	-20.1	-4.9	-6.6	-1.0	-7.1	1.1	-4.7	-6.3
Real ER (PPI-based)	-13.6	-2.1	-4.8	1.3	-4.1	1.1	-3.6	-5.8
Average gross wages, CZK	25.3	18.5	18.4	10.5	9.4	8.3	6.5	8.5
Average gross wages, real (PPI based)	14.7	10.2	13.1	5.3	4.3	7.2	1.5	5.5
Average gross wages, real (CPI based)	3.7	8.6	8.8	1.8	-1.2	6.1	2.5	3.7
Average gross wages, EUR (ER)	34.5	17.7	19.4	5.0	8.3	6.2	10.3	13.4
Employment total	-1.6	2.6	0.7	-1.9	-1.3	-2.5	-2.0	0.3
GDP per empl. person, CZK at 1999 pr.	1.7	3.3	3.6	1.2	0.1	3.1	5.5	3.1
Unit labour costs, CZK at 1999 prices	23.1	14.8	14.3	9.1	9.3	5.1	1.0	5.3
Unit labour costs, ER (EUR) adjusted	32.2	13.9	15.3	3.7	8.2	3.0	4.6	10.0
Hungary								
GDP deflator	21.3	25.5	21.2	18.5	12.6	8.4	9.7	9.0
Exchange rate (ER), HUF/EUR	5.3	30.3	17.5	10.3	14.2	4.9	2.9	-1.3
Real ER (CPI-based)	-10.9	4.8	-2.5	-4.8	1.7	-3.4	-3.9	-7.3
Real ER (PPI-based)	-3.7	5.7	-2.9	-7.5	2.2	-0.1	-3.6	-5.0
Average gross wages, HUF	21.9	16.8	20.4	22.3	18.3	13.9	13.5	18.2
Average gross wages, real (PPI based)	10.0	-9.4	-1.1	1.6	6.3	8.4	1.7	12.3
Average gross wages, real (CPI based)	-0.5	-8.9	-2.6	3.4	3.5	3.6	3.4	8.2
Average gross wages, EUR (ER)	15.8	-10.4	2.5	10.8	3.6	8.6	10.4	19.7
Employment total	-6.3	-1.9	-0.8	0.0	1.4	3.1	1.0	0.3
GDP per empl. person, HUF at 1999 pr.	6.0	4.5	2.2	4.6	3.4	1.1	4.2	3.5
Unit labour costs, HUF at 1999 prices	15.0	11.7	17.8	16.9	14.4	12.7	9.0	14.2
Unit labour costs, ER (EUR) adjusted	9.2	-14.3	0.3	5.9	0.1	7.4	5.9	15.6
Poland								
GDP deflator	30.5	28.6	18.8	14.0	11.8	6.7	7.1	4.3
Exchange rate (ER), PLN/EUR	19.9	16.3	7.7	9.7	5.9	7.7	-5.1	-8.5
Real ER (CPI-based)	-8.2	-6.2	-7.9	-2.6	-3.6	1.7	-11.6	-11.1
Real ER (PPI-based)	-7.9	-3.0	-3.6	-1.3	-1.8	2.0	-7.8	-8.9
Average gross wages, PLN *)	34.8	31.6	26.5	21.9	15.7	10.6	11.6	8.9
Average gross wages, real (PPI based)	2.1	4.9	12.6	8.6	7.8	30.3	3.5	7.2
Average gross wages, real (CPI based)	-0.4	3.0	5.5	6.1	3.5	28.3	1.3	3.2
Average gross wages, EUR (ER)	12.4	13.2	17.4	11.1	9.2	27.8	17.6	19.0
Employment total	-2.4	1.8	1.9	2.8	2.3	-2.7	-2.3	0.5
GDP per empl. person, PLN at 1999 pr.	6.3	11.8	4.0	3.9	2.4	7.0	6.5	0.4
Unit labour costs, PLN at 1999 prices	26.7	17.7	21.7	17.3	12.9	28.7	4.8	8.4
Unit labour costs, ER (EUR) adjusted	5.7	1.2	12.9	6.9	6.7	19.4	10.5	18.5
Slovak Republic								
GDP deflator	15.4	9.9	4.4	6.7	5.2	6.4	6.4	5.4
Exchange rate (ER), SKK/EUR	-1.8	1.4	-0.1	-1.0	4.2	11.4	-3.5	1.7
Real ER (CPI-based)	-17.4	-4.9	-3.2	-4.8	-0.6	2.0	-11.6	-2.8
Real ER (PPI-based)	-15.1	-2.8	-3.5	-4.4	0.4	7.4	-7.9	-3.4
Average gross wages, SKK	18.4	14.3	13.3	13.1	8.4	7.2	6.5	8.2
Average gross wages, real (PPI based)	1.0	4.9	8.8	8.3	5.0	3.3	-3.0	1.5
Average gross wages, real (CPI based)	-3.9	4.0	7.1	6.6	1.6	-3.0	-4.9	0.8
Average gross wages, EUR (ER)	20.6	12.8	13.5	14.3	4.1	-3.7	10.4	6.4
Employment total	-2.6	1.7	3.6	-0.9	-0.3	-3.0	-1.4	1.0
GDP per empl. person, SKK at 1999 pr.	-1.2	4.7	2.1	6.5	4.3	4.5	3.7	2.2
Unit labour costs, SKK at 1999 prices	19.8	9.2	11.0	6.2	4.0	2.6	2.8	5.8
Unit labour costs, ER (EUR) adjusted	22.0	7.7	11.1	7.3	-0.2	-7.9	6.5	4.1
Slovenia								
GDP deflator	37.1	15.2	11.1	8.8	7.8	6.6	5.7	9.9
Exchange rate (ER), SIT/EUR	26.0	0.5	10.7	6.4	3.3	4.0	5.9	5.9
Real ER (CPI-based)	-1.8	-8.8	3.2	0.2	-2.6	-0.8	-0.3	0.2
Real ER (PPI-based)	5.0	-6.9	4.3	1.3	-3.0	1.9	3.1	-1.5
Average gross wages, SIT	47.8	18.4	15.3	11.7	9.6	9.6	10.6	11.9
Average gross wages, real (PPI based)	21.5	4.9	8.0	5.3	3.4	7.3	2.8	2.8
Average gross wages, real (CPI based)	11.2	4.3	4.9	3.1	1.6	3.3	1.6	3.3
Average gross wages, EUR (ER)	17.3	17.8	4.1	5.0	6.1	5.4	4.5	5.7
Employment total	-3.6	-0.1	-0.5	0.2	0.2	1.8	1.3	1.4
GDP per empl. person, SIT at 1999 pr.	6.7	4.2	4.0	4.4	3.5	3.4	3.3	1.6
Unit labour costs, SIT at 1999 prices	38.5	13.5	10.9	7.1	5.8	6.0	7.1	10.2
Unit labour costs, ER (EUR) adjusted	10.0	13.0	0.1	0.6	2.5	2.0	1.2	4.1

*) Methodological change in 1999 (broader wage coverage). Growth in 1999 comparable according to new methodology.

(Table A/3 contd.)

Table A/3 (contd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
Bulgaria								
GDP deflator	51.1	62.7	120.9	948.6	23.7	3.7	6.7	6.4
Exchange rate (ER), BGN/EUR	7.1	34.4	120.7	889.2	4.0	-0.8	0.0	0.0
Real ER (CPI-based)	-35.8	-14.5	2.1	-12.9	-10.8	-2.1	-7.1	-4.5
Real ER (PPI-based)	-15.4	-8.4	-3.4	-6.8	-11.1	-3.8	-10.6	-5.7
Average gross wages, BGN	57.8	53.2	74.4	865.6	43.3	9.7	11.7	10.6
Average gross wages, real (PPI based)	23.0	-0.2	-24.2	-9.9	22.9	6.3	-4.6	3.1
Average gross wages, real (CPI based)	-8.7	-5.5	-21.3	-16.6	20.7	6.9	1.2	3.0
Average gross wages, EUR (ER)	47.4	13.9	-21.0	-2.4	37.7	10.6	11.7	10.6
Employment total	-1.6	1.3	0.1	-3.9	-0.2	-2.1	-3.5	-1.3
GDP per empl. person, BGN at 1999 pr.	0.1	1.6	-9.5	-1.8	4.1	4.5	9.2	5.5
Unit labour costs, BGN at 1999 prices	57.7	50.7	92.8	882.9	37.6	5.0	2.3	4.9
Unit labour costs, ER (EUR) adjusted	47.3	12.1	-12.7	-0.6	32.2	5.9	2.3	4.9
Romania								
GDP deflator	227.4	35.3	45.3	147.3	54.2	47.8	44.1	36.9
Exchange rate (ER), ROL/EUR	121.5	33.6	46.9	109.5	23.5	63.1	22.5	30.4
Real ER (CPI-based)	-35.6	4.1	8.5	-16.1	-21.0	13.3	-13.8	-0.6
Real ER (PPI-based)	-15.3	3.4	-1.4	-16.3	-7.7	13.0	-16.4	-6.4
Average gross wages, ROL	208.1	54.8	51.7	98.4	60.3	44.3	46.9	48.9
Average gross wages, real (PPI based)	16.3	14.6	1.2	-21.5	20.4	-0.2	-4.2	5.6
Average gross wages, real (CPI based)	-13.5	17.1	9.3	-22.1	0.8	-1.1	0.9	10.7
Average gross wages, EUR (ER)	39.1	15.8	3.2	-5.3	29.9	-11.6	20.0	14.1
Employment total	-3.4	-2.8	-3.2	-2.5	-3.1	-3.4	-1.1	-1.5
GDP per empl. person, ROL at 1999 pr.	5.1	10.3	7.4	-3.7	-1.8	3.0	2.9	6.9
Unit labour costs, ROL at 1999 prices	193.2	40.4	41.2	106.1	63.2	40.1	42.8	39.3
Unit labour costs, ER (EUR) adjusted	32.4	5.1	-3.9	-1.6	32.2	-14.1	16.6	6.8
Estonia								
GDP deflator	81.3	30.9	23.3	10.6	9.3	4.5	4.7	5.8
Exchange rate (ER), EEK/EUR	-2.8	-3.4	1.7	4.0	0.7	-0.9	0.0	0.0
Real ER (CPI-based)	-46.9	-22.9	-15.3	-4.6	-5.2	-2.8	-1.4	-3.1
Real ER (PPI-based)	-43.8	-19.6	-10.9	-3.5	-3.8	0.4	-0.2	-3.0
Average gross wages, EEK	94.2	37.0	25.7	19.7	15.4	7.6	10.5	12.3
Average gross wages, real (PPI based)	10.8	9.1	9.5	10.0	10.8	8.9	5.4	7.6
Average gross wages, real (CPI based)	2.3	6.2	2.1	7.6	6.7	4.2	6.3	6.2
Average gross wages, EUR (ER)	99.8	41.9	23.6	15.1	14.6	8.6	10.5	12.3
Employment total	-7.5	-5.3	-1.6	0.4	-1.3	-4.1	-0.9	1.0
GDP per empl. person, EEK at 1999 pr.	-1.0	10.4	5.7	10.0	6.4	3.5	7.8	4.3
Unit labour costs, EEK at 1999 prices	96.2	24.1	18.9	8.9	8.5	4.0	2.5	7.6
Unit labour costs, ER (EUR) adjusted	101.9	28.5	16.9	4.7	7.7	4.9	2.5	7.6
Latvia								
GDP deflator	71.5	16.0	16.5	6.6	5.5	7.4	4.1	1.7
Exchange rate (ER), LVL/EUR	-8.7	2.9	1.2	-4.7	0.6	-5.7	-10.2	0.5
Real ER (CPI-based)	-54.8	-15.1	-11.8	-10.3	-2.2	-6.8	-10.3	0.5
Real ER (PPI-based)	-57.4	-3.8	-10.4	-7.6	-1.7	-1.7	-6.5	0.0
Average gross wages, LVL	119.7	24.5	10.3	21.6	11.1	5.8	6.1	6.3
Average gross wages, real (PPI based)	1.2	11.3	-3.0	16.8	9.0	10.2	5.4	4.6
Average gross wages, real (CPI based)	5.0	-0.4	-6.2	12.2	6.1	3.3	3.4	3.7
Average gross wages, EUR (ER)	140.6	21.0	9.0	27.6	10.4	12.2	18.1	5.8
Employment total	-6.9	-3.5	-2.7	1.9	0.6	-0.5	0.0	-0.1
GDP per empl. person, LVL at 1999 pr.	-8.6	2.7	6.2	6.6	3.3	1.6	6.8	7.7
Unit labour costs, LVL at 1999 prices	140.3	21.2	3.9	14.0	7.5	4.1	-0.7	-1.2
Unit labour costs, ER (EUR) adjusted	163.1	17.8	2.7	19.7	6.9	10.4	10.6	-1.7
Lithuania								
GDP deflator	306.2	38.0	25.1	13.2	6.7	3.2	2.0	0.3
Exchange rate (ER), LTL/EUR	122.7	9.7	-3.1	-9.7	-0.8	-4.9	-13.4	-3.1
Real ER (CPI-based)	-54.8	-19.0	-20.3	-15.3	-3.9	-4.5	-12.1	-1.9
Real ER (PPI-based)	-54.1	-10.6	-16.3	-14.0	2.8	-7.6	-23.1	-0.6
Average gross wages, LTL	223.7	47.8	28.6	25.9	19.5	6.2	-1.6	2.1
Average gross wages, real (PPI based)	-34.2	15.2	10.3	18.7	24.3	3.1	-16.7	3.4
Average gross wages, real (CPI based)	-36.6	5.9	3.2	15.6	13.7	5.3	-2.6	0.8
Average gross wages, EUR (ER)	45.4	34.7	32.7	39.3	20.4	11.6	13.6	5.4
Employment total	-4.2	-1.9	0.9	0.6	-0.8	-0.5	-3.7	-4.0
GDP per empl. person, LTL at 1999 pr.	-12.6	5.3	3.7	6.6	5.9	-3.4	7.8	10.3
Unit labour costs, LTL at 1999 prices	270.4	40.4	23.9	18.0	12.8	9.9	-8.8	-7.5
Unit labour costs, ER (EUR) adjusted	66.3	28.0	27.9	30.7	13.7	15.6	5.3	-4.5

(Table A/3 contd.)

Table A/3 (contd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
Croatia								
GDP deflator	1466.9	5.3	3.6	7.4	8.4	4.1	6.4	3.1
Exchange rate (ER), HRK/EUR	1115.1	-4.7	0.7	2.3	2.5	6.2	0.7	-2.2
Real ER (CPI-based)	-22.2	-3.7	-0.3	0.8	-1.3	3.2	-2.7	-4.4
Real ER (PPI-based)	-23.6	-1.0	-0.1	0.9	3.3	3.6	-3.8	-4.4
Average gross wages, HRK	1434.9	34.0	12.3	13.1	12.6	10.2	7.0	3.9
Average gross wages, real (PPI based)	-4.8	33.0	10.8	10.6	14.0	7.4	-2.5	0.3
Average gross wages, real (CPI based)	-5.1	31.3	8.5	9.2	6.5	5.7	0.7	-0.9
Average gross wages, EUR (ER)	26.3	40.5	11.6	10.6	9.8	3.7	6.2	6.3
Employment total	-2.3	-1.4	-6.2	-1.4	5.6	-1.5	-1.7	0.5
GDP per empl. person, HRK at 1999 pr.	-5.8	8.3	12.9	8.3	-3.0	1.1	5.5	3.5
Unit labour costs, HRK at 1999 prices	1530.1	23.7	-0.5	4.4	16.1	9.0	1.4	0.4
Unit labour costs, ER (EUR) adjusted	34.1	29.7	-1.2	2.1	13.2	2.6	0.7	2.6
Macedonia								
GDP deflator	442.1	17.1	2.9	3.9	1.4	2.8	8.2	3.4
Exchange rate (ER), MKD/EUR	308.6	-3.8	1.9	12.2	8.7	-0.7	0.2	0.3
Real ER (CPI-based)	-8.4	-14.3	2.1	11.6	10.7	1.2	-2.9	-2.0
Real ER (PPI-based)	15.5	-3.9	2.8	8.7	4.0	-0.5	-5.2	-0.5
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	-4.7	1.5
Average net wages, real (CPI based)	28.9	-4.4	0.5	0.2	3.8	3.6	-0.3	-1.3
Average net wages, EUR (ER)	45.8	15.0	0.9	-8.4	-4.6	3.6	5.3	3.2
Employment total	.	.	.	-4.7	5.4	1.0	0.8	9.0
GDP per empl. person, MKD at 1999 pr.	.	.	.	6.4	-1.9	3.3	3.6	-12.5
Unit labour costs, MKD at 1999 prices	.	.	.	-3.4	5.6	-0.4	1.8	18.3
Unit labour costs, ER (EUR) adjusted	.	.	.	-13.9	-2.8	0.4	1.6	17.9
Russia								
GDP deflator	888.9	163.0	44.2	14.5	16.3	65.0	40.5	17.9
Exchange rate (ER), RUB/EUR	248.5	126.2	12.6	-1.4	69.1	137.2	-0.8	0.4
Real ER (CPI-based)	-62.9	-21.6	-21.9	-12.3	34.9	29.3	-15.8	-15.3
Real ER (PPI-based)	-66.1	-29.7	-24.9	-13.4	57.3	49.4	-29.1	-14.7
Average gross wages, RUB	906.4	119.6	48.4	20.2	10.7	44.8	46.0	47.6
Average gross wages, real (PPI based)	-3.4	-34.7	-1.6	4.6	3.3	-8.9	-0.4	23.9
Average gross wages, real (CPI based)	3.4	-26.2	0.4	4.7	-13.3	-22.0	20.9	21.4
Average gross wages, EUR (ER)	188.8	-2.9	31.8	21.9	-34.6	-38.9	47.2	47.0
Employment total	-1.7	-3.0	-0.7	-1.9	-1.4	0.2	0.6	1.0
GDP per empl. person, RUB at 1999 pr.	-7.2	-1.1	-2.7	2.9	-3.6	5.2	8.4	3.9
Unit labour costs, RUB at 1999 prices	984.2	122.0	52.5	16.9	14.8	37.7	34.7	42.1
Unit labour costs, ER (EUR) adjusted	211.1	-1.9	35.5	18.5	-32.1	-41.9	35.8	41.5
Ukraine								
GDP deflator	3333.7	415.8	66.2	18.1	12.0	27.4	23.1	8.8
Exchange rate (ER), UAH/EUR	1873.8	400.9	20.4	-9.0	31.0	58.7	14.5	-4.3
Real ER (CPI-based)	-62.6	8.3	-31.5	-19.9	20.6	31.0	-8.5	-12.4
Real ER (PPI-based)	-58.1	-11.1	-20.3	-14.7	15.2	21.2	-0.8	-10.8
Average gross wages, UAH	2233.0	430.7	72.6	13.5	7.0	16.0	29.6	35.2
Average gross wages, real (PPI based)	-51.1	-9.9	13.5	5.4	-5.5	-11.5	7.2	24.5
Average gross wages, real (CPI based)	-57.4	11.3	-4.2	-2.1	-3.3	-5.4	1.1	20.7
Average gross wages, EUR (ER)	18.2	6.0	43.3	24.7	-18.3	-26.9	13.3	41.2
Employment total	-2.3	3.0	-2.1	-2.7	-1.1	-2.3	-2.5	-1.3
GDP per empl. person, UAH at 1999 pr.	-12.2	-14.8	-8.1	-0.3	-0.8	2.2	8.7	10.5
Unit labour costs, UAH at 1999 prices	2556.7	522.9	87.8	13.8	7.8	13.5	19.3	22.3
Unit labour costs, ER (EUR) adjusted	34.6	24.3	55.9	25.1	-17.7	-28.5	4.2	27.8

ER = Exchange rate

PPI = Producer price index

CPI = Consumer price index

Sources: National statistics and WIIW estimates.

COUNTRY REPORTS

Anton Mihailov

Bulgaria: economy losing steam

With GDP increasing by 3.2% year-on-year in the first quarter of 2002, growth in Bulgaria decelerated somewhat compared to the previous two years; still, this was not a bad outcome against the background of the widespread economic slowdown in Central and Eastern Europe. The service industry was the most dynamic sector in the first quarter, its value added rising by 6.6% year-on-year, and this helped to offset the negative effect caused by the dismal performance of the manufacturing sector. Growth in the first quarter was predominantly driven by domestic demand with private consumption and gross fixed capital formation rising by 4.1% and 4.5% respectively, while net trade made a negative contribution to growth. It should be noted that while gross fixed investment continued to expand in the first quarter, its rate of growth was considerably below the double-digit rates seen during the previous four years.

The slowdown of economic activity in the first quarter of 2002 follows a relatively steady performance of the economy in 2001. It should be noted though that, when compiling the yearly national accounts, the National Statistical Institute (NSI) performed a downward revision of its previous estimates of GDP growth in 2001, which calls for a certain re-assessment of the outcomes for last year. The explanation given by the NSI was that this amendment was caused by a chain revision of previous years' figures. The downward revision of the quarterly national accounts for 2001 brought down the estimated rate of GDP growth for the year to 4.0%. According to the new estimates, growth was quite even throughout 2001, the quarterly rates of GDP growth ranging between 3.9% and 4.2%.

The first warnings of a possible slowdown emerged already in the final months of last year when, after three years of positive growth, exports started to decline. This negative trend was reinforced in the first quarter of 2002: in current euro terms quarterly exports dropped by 2% year-on-year. A decline was registered on all major export markets but probably of greatest significance was the decline in exports to the EU and to developing countries. Exports of fuels to Yugoslavia also dropped sharply after the latter centralized its fuel imports and established rigid import controls with the aim to combat smuggling.

The signs of weakening were most visible in industry. In the first quarter of 2002 industrial output was down by 3.1% year-on-year, but probably the clearest sign of weakness is the fact that manufacturing sales in this period were 12.3% lower than a year earlier. The biggest discrepancies between the dynamics of output and sales were recorded in the tobacco industry, in chemicals (including fuels) and in the pulp and paper industry. This suggests that manufacturing firms were having serious problems with the marketing of their products and although this did not cause an immediate downward adjustment in their production schedules, a lot of them have been piling stocks of unsold output.

The slowdown of output has been coupled with other negative developments. There was an unexpected upsurge of inflation at the beginning of the year: during the first quarter alone the consumer price index increased by 5.2%, which was more than the inflation target for the year as a whole. This sharp rise of the consumer price index was explained by one-off factors such as the increases in regulated prices (energy) and the hikes in some excise taxes effectuated at the start of the year. There has been no improvement of the tense situation in the labour market: stuck at above 17%, the jobless rate remains a major concern for the government. A recently announced programme of active labour market policy measures aims at creating more than 50 thousand new jobs this year; however, it remains to be seen whether this will be a realistic target.

Still it should be noted that despite the negative trends recorded in the first quarter, it may be too early to judge about their cyclical importance. Actually, already in April there was a substantial upturn in manufacturing output (by 18% year-on-year) which more than offset the accumulated decline since the start of the year. Also in April CPI inflation was negative (-2.1%), wiping out part of the price increases accumulated during the first quarter.

The government has made some efforts to step up the pace of privatization, especially as regards the upcoming large-scale deals, but progress is mixed. Bank Austria was chosen as the exclusive buyer of a 99.6% stake in one of the last remaining state-owned commercial banks, Biochim; however, a final sale agreement is yet to be reached. The tenders for the Bulgarian Telecom and for Bulgartabac, the tobacco monopoly, are under way but their ending also remains uncertain. Finalizing these deals is crucial not only as a signal of the reform efforts undertaken by the government but also as a source of financing the budget and current account deficits. Moreover, in the absence of privatization revenue, the inflow of FDI markedly slowed down in recent months (at a mere USD 46.8 million, the first-quarter inflow was quite disappointing).

Despite the weakening of economic activity the current account deficit has not been shrinking: the rolling twelve-month deficit remained around USD 900 million at the end of March, roughly the same as at the end of 2001. Its financing remains a concern, especially in view of the reduced inflow of FDI, and is conditional of continuing official assistance. The recent review of the two-year, USD 300 million IMF loan agreement concluded that the programme is broadly on track but the disbursement of the second USD 32 million tranche will be conditional on the implementation of the next round of energy price increases (due to be introduced in July). According to the new three-year World Bank Country Assistance Strategy (approved in May), Bulgaria expects in 2002 around USD 150 million of programmatic adjustment loans (basically, balance-of-payments support) as well as additional credit lines providing investment finance. The recent weakening of the dollar is bringing some relief in debt service, as the larger share of upcoming payments is still dollar-denominated (the weaker dollar will also lower the current account deficit as a proportion of GDP).

In March the Bulgarian authorities launched an ambitious debt swap involving part of the country's USD 4.74 billion of Brady bonds (Bradys worth USD 5.16 billion were issued in 1994 to restructure a USD 8.1 billion London Club debt). According to the proposed scheme the holders of the floating rate, dollar-denominated Brady bonds were offered to swap them into fixed coupon Eurobonds. Two swap options were available: euro-denominated Eurobonds maturing in 2013, bearing a 7.5% annual coupon, and dollar-denominated Eurobonds maturing in 2015 and bearing a 8.25% coupon. As a result of the deal, which was heavily oversubscribed, Brady bonds worth USD 1.327 billion were swapped into new instruments (the requested dollar- and euro-denominated bonds were roughly in proportion 5:8), reducing the amount of the outstanding Brady bond debt to 3.42 at the end of April. The swap produced a net reduction of the public foreign debt by USD 277 million and it is estimated that debt service over the next nine years will be reduced by some USD 652 million.

The political situation in the country remains relatively stable. After one year in office, the government led by Simeon Saxe-Coburg has lost much of its popular support. Somewhat paradoxically, according to opinion polls the Prime Minister still enjoys rather high popular support, although it has also fallen from the heights registered a year earlier. The government is facing decisions about unpopular policy measures in the months to come, the first being the planned increase in regulated electricity prices for households (a measure demanded by the IMF in order to bring prices in line with production costs and gradually eliminate the existing cross-subsidies in the energy sector). The IMF also firmly insists on further tightening of the fiscal stance in 2003. Nevertheless, the ruling parliamentary majority remains unchallenged and there are no signs of major political upheavals in the immediate future.

Given the recent slowdown, the previously expected GDP growth target of 4% for 2002 may be difficult to achieve. The prospects for stronger growth (as hinted by the April output figures) will largely depend on the external environment and, in the first place, on the process of recovery in western Europe: in case the upturn there gains momentum, an export-led recovery can resume in Bulgaria as well. Despite the uneven price dynamics, the planned increase in regulated energy prices is likely to keep annual CPI inflation relatively high, probably in the higher single digits. The prospects for the labour market are not bright and unemployment is likely to remain in the range of 17-18%. The chronic external imbalance remains a problem but in the short run its financing seems to be secured.

Bulgaria: Selected economic indicators

	1997	1998	1999	2000	2001 [1]	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., end of period	8283.2	8230.4	8190.9	8149.5	7929.5	.	.	.	.
Gross domestic product, BGN mn, nom.	17432.6	22421.1	23790.4	26752.8	29618.1	6302.1	6921.2	32800	35800
annual change in % (real)	-5.6	4.0	2.3	5.4	4.0	4.0	3.2	3.5	4
GDP/capita (USD at exchange rate)	1251	1543	1577	1542	1686	.	.	.	.
GDP/capita (USD at PPP - WIIW)	5920	6270	6540	7090	7650	.	.	.	.
Gross industrial production									
annual change in % (real)	-5.4	-7.9	-9.3	10.3	-2.4	2.5	-3.1	3	4
Gross agricultural production									
annual change in % (real)	12.4	0.2	-0.6	-9.2	.	.	.	.	.
Goods transport, public, mn t-kms [2]	86543	82122	85568	84878	78624	.	.	.	.
annual change in %	8.4	-5.1	4.2	.	-7.4	.	.	.	.
Gross fixed capital form., BGN mn, nom.	1913.5	2919.8	3600.5	4206.0	5260.0	983.8	1025.1	.	.
annual change in % (real)	-20.9	35.2	20.8	15.4	19.9	17.2	4.5	.	.
Construction output total									
annual change in % (real)	-4.4	-0.2	8.0	8.1	-6.5	.	.	.	.
Dwellings completed, units	7452.0	4942.0	9824.0	8795.0	5937.0	.	.	.	.
annual change in %	-8.0	-33.7	98.8	-10.5	-32.5	.	.	.	.
Employment total, th pers., average	3157.4	3152.6	3087.8	2980.1	2940.3	.	.	.	.
annual change in %	-3.9	-0.2	-2.1	-3.5	-1.3	.	.	.	.
Employees in industry, th pers., average	838.7	802.5	722.5	662.0	632.2	599	629.5	.	.
annual change in %	-2.7	-4.3	-10.0	-8.4	-4.5	-4.5	5.0	.	.
Unemployed reg., th, end of period	523.5	465.2	610.6	682.8	662.3	704.7	669.0	660	610
Unemployment rate in %, end of period	13.7	12.2	16.0	17.9	17.3	18.4	17.5	17	16
Average gross monthly wages, BGN	127.9	183.3	201.0	224.5	248.3	238	256	.	.
annual change in % (real, gross)	-16.6	20.7	6.9	1.3	3.0	3.4	-0.7	.	.
Retail trade turnover, BGN mn	5469.3	7214.2	8023.0	9726.0	10593.0	1991.0	.	.	.
annual change in % (real)	-36.4	18.5	12.3	12.7	2.1	2.2	.	.	.
Consumer prices, % p.a.	1058.4	18.7	2.6	10.3	7.4	8.9	8.2	7	5
Producer prices in industry, % p.a.	971.1	16.5	3.2	17.1	7.3	12.0	2.1	.	.
Central government budget, BGN mn									
Revenues	2983.3	4245.6	4543.5	5136.7	6527.4 [3]	1550.6 [3]	1588.6 [3]	.	.
Expenditures	3650.0	3930.8	4132.0	5377.4	7196.8 [3]	1774.1 [3]	1377.4 [3]	.	.
Deficit (-) / surplus (+)	-666.7	314.7	411.6	-240.7	-669.4 [3]	-223.5 [3]	205.6 [3]	.	.
Deficit (-) / surplus (+), % of GDP	-3.8	1.4	1.7	-0.9	-2.3 [3]	-3.5	3.0	.	.
Money supply, BGN mn, end of period [4]									
M1, Money	2433.9	2960.8	3302.1	3976.3	4883.8	4010.9	4594.2	.	.
Broad money	6018.6	6597.2	7351.1	9290.7	11594.1	10401.1	12503.1	.	.
Base rate of NB % p.a., end of period	6.8	5.2	4.5	4.7	4.7	4.2	4.5	.	.
Current account, USD mn	1046.3	-61.4	-651.7	-701.6	-887.5	-231.5	-233.4	-800	-800
Current account in % of GDP	10.1	-0.5	-5.0	-5.6	-6.5	-7.8	-7.5	-5	-4.4
Gross reserves of NB excl. gold, USD mn	2121.0	2679.4	2892.0	3154.9	3289.6	2789.8	2923.7	.	.
Gross external debt, convert. curr.,USD mn [5]	10408.5	10891.9	10913.9	11201.8	10616.0	10805.5	10338.0	.	.
Exports total, fob, EUR mn [6]	4368.3	3841.2	3733.8	5253.1	5707.1	1388.4	1362.3	5700	5900
annual change in %	-2.6	-12.1	-0.4	40.7	8.6	23.3	-1.9	0	4
Imports total, cif, EUR mn [6]	4361.4	4475.8	5139.9	7084.9	8104.5	1768.2	1787.0	8100	8300
annual change in %	-6.3	2.6	16.4	37.8	14.4	13.6	1.1	0	3
Average exchange rate BGN/USD	1.677	1.760	1.838	2.124	2.185	2.119	2.232	.	.
Average exchange rate BGN/EUR (ECU)	1.896	1.972	1.956	1.956	1.956	1.956	1.956	1.956	1.956
Purchasing power parity BGN/USD, WIIW	0.354	0.433	0.443	0.462	0.482	.	.	.	.
Purchasing power parity BGN/EUR, WIIW	0.389	0.475	0.483	0.504	0.526	.	.	.	.

Notes: 1) Preliminary. - 2) From 2000 new methodology, 2001 without air transport. - 3) From 2001 including some extrabudgetary funds and accounts. - 4) According to International Accounting Standards - 5) Including trade credits to companies. - 6) From 1999 new methodology. Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Josef Pöschl

Czech Republic: benefiting from the restructuring progress

The Czech Statistical Office (CSO) has revised last years' GDP figures. Seen in retrospect, the period of GDP decline would now appear to have been shorter and less dramatic than anticipated: GDP fell by a mere 0.8% in 1997 and 1.2% in 1998. Still insignificant (0.5%) in 1999, growth was substantial once more in both 2000 and 2001 (3.3% each year). Analysts might wish to revisit their forecasts for the period1996-1998 – some of those that were regarded as wrong at the time might now turn out to have been quite on target.

The frosty international business climate over the past few months has had an impact, albeit mild, on the country's economic performance. For the first quarter of 2002 the CSO reports 2.5% year-on-year GDP growth. This expansion of economic activity coincided with a decline in exports (-6%) and imports (-2%) of manufactures, measured in current CZK prices (FOB). Even if we include April and May 2002, the picture remains the same: in CZK terms both exports and imports in the first five months of the current year were lower than they had been the year before: by 1% and 5%, respectively. In terms of foreign trade, the Czech Republic is progressively specializing in the manufacture of more sophisticated goods, especially machinery and transport equipment (SITC-7). In May 2002, this commodity group accounted for a 48% share in total exports, whereas its share in imports stood at 45%.

At first glance, the combination of growing GDP and declining foreign trade would appear puzzling; the reason lies in a price decline in both exports and imports. In April 2002, import prices were down by 9.2% compared to April 2001, export prices were 7.4% lower. This decline in exports and imports at current CZK prices does not mean a drop in terms of physical quantities. GDP statistics at constant prices report a 3.1% hike for both exports and imports.[8] Exports and imports in EUR or USD terms did not decline either.[9] The discrepancy between CZK figures on the one hand and EUR or USD figures on the other is rooted in the nominal appreciation of the CZK: 9% from the first quarter of 2001 to the first quarter of 2002.

[8] Including goods and services.

[9] Throughout 2001 export expansion slowed down almost unremittingly, from 32% year-on-year in January to -1% in December in CZK terms. The slowdown was less pronounced in EUR terms, from 35% to 6%, thanks to an almost permanent appreciation of the CZK.

The drop in foreign trade prices also explains why growth in industrial output (4.2%) and construction (4.7%) in the first quarter of 2002 was accompanied by a drop in foreign trade at current CZK prices. Industrial output figures confirm the Czech industry's trend towards specialization mentioned above: the figures for the period January-March 2002 show a 14.6% year-on-year growth for capital goods, whereas overall production rose by 5.2%. The production of consumer durables increased by 9.1%. No growth was recorded in the production of energy production, while that of intermediate goods displayed insignificant growth (1.2%).

Toyota and PSA Peugeot Citroen are investing in a new automotive plant in Kolín: USD 850 million in the plant itself and some USD 1.5 billion in the project as a whole. As from 2005, the plant will produce up to 300,000 cars a year: relatively cheap, but technically advanced small cars. The investors will enjoy a ten-year tax holiday – if EU-compatible – and hope to recoup their investment within this decade. In 2001, the Czech producers of car components numbered 290, whereas the affiliates of international manufacturers stood at 360. The number and capacities of component producers will expand still further. The most successful companies are achieving value-added of more than EUR 50,000 per employee. The share of car components in total production rose from 33% in 1997 to 47.5% in 2001; at the same time their share in total exports in the transport equipment industry rose from 23% to 39%.[10]

Japan has become the second most important direct investor in the Czech Republic. Japanese FDI totals USD 1.3 billion. Some 80 Japanese-owned companies employ 17,000 people. Matsushita and Toray were the pioneers, and their success has attracted a wave of additional investors. In the meantime, more than 45% of the country's industrial production stems from foreign-owned companies. That share will increase further. RWE gas acquired Transgas, the gas distributor, for about EUR 4 billion. The government will possibly sell its shares in CEZ, the energy producer and distributor, later this year or in 2003. The same may hold true for the government's remaining Telecom shares. The latter three companies more or less enjoy a monopoly position with regulated prices. Over the past few years, a series of price hikes has boosted their profits – and the companies' market value as well.[11] The sale of shares in Czech Refinery could also increase the FDI figure. LNM holdings have signalled their interest in the steel producer Nova Hut'. Within the industrial sector as a whole, the weight of major loss-making companies has diminished.

10 *Hospodárská Noviny*, 20 May 2002, p. 22.

11 In the case of Telecom, the government may have missed the best sales opportunity.

The balance of payments has improved. The trade balance in the first quarter of 2002 was much better than in the corresponding quarter in 2001. In the first five months of this year exports covered 96% of imports. The balance of services remained unchanged, whereas the deficit in the income balance almost doubled owing to an increase in the repatriation of profits. That notwithstanding, the current account deficit has fallen considerably. In the capital account, FDI was less, but upon conclusion of the Transgas sale the picture will change. It will then transpire whether the country's economic policy will be able to avert FDI-induced appreciation pressure.

In late April, the CNB lowered the discount rate to 2.75%. Low interest rates have boosted the attractiveness of mortgage-based loans, for example for construction purposes. At the same time, low interest rates have reduced the attractiveness of Czech bonds to investors; the pressure to appreciate has thus diminished. From April to 25 June, the day on which the exchange rate dropped below CZK 30 per Euro, the CNB enjoyed a temporary respite in its battle against nominal appreciation.

In March and April 2002, and May as well, the consumer price index fell by 0.1% over the previous month. The corresponding changes in producer prices were zero, -0.5% and -0.2%, respectively. The discrepancy between the drop in import prices and sluggish output prices favoured profit per unit of output. Labour did not cause prices to rise either: in all likelihood, the increase in real wages did not outstrip the increase in labour productivity. In the first quarter of 2002, wages rose, year-on-year, some 7% in nominal terms, reaching an average of CZK 14,200. This is equivalent to some EUR 450 in exchange rate terms, but ranges between EUR 900 and 950 in terms of purchasing power parity. The real wage growth, again year-on-year, was 3.2%.

Today a central topic is the forthcoming accession to the EU. In the ongoing negotiations, five accession chapters still remain open: competition policy, institutions and budget measures, and the two most difficult chapters: agriculture and transport. Zdenek Tuma, governor of the Central Bank, announced that the Czech Republic would introduce the euro by 2010. The transition to the euro, so Tuma, should not be rushed.

The official government figure for the budget deficit in 2001 is 3.1% of GDP. Estimates based on EU methodology arrive at a figure of about 5.5%. The latter figure includes the burden stemming from the consolidation of the banking sector. Defined narrowly, public debt amounts to 19% of GDP; defined more broadly, it may be close to 30%.

The engine of growth is domestic demand: first and foremost, expanding gross fixed investment. Despite difficult market conditions, exports have continued to grow in real terms. This fact points to a strengthening of the export industry. Two thirds of the imports are directly linked to exports. None the less, it is quite remarkable that the trade balance did not deteriorate; in the first quarter of 2002 the deficit was lower than the year previous. Depending on international business trends, the GDP growth rate for the year as a whole will range between 2.5% and 3.5%. Under favourable conditions it could thus well happen that growth will stand at 3.3% for the third year running. In 2002, inflation may even drop close to the EU average. Unemployment will most probably remain below 10%. The current account will produce a relatively low deficit in 2002; the FDI inflow could rise to USD 6 billion, in which case appreciation pressure might well build up. The foundations are laid for accelerated GDP growth in 2003. Given a conducive international business environment, GDP should rise by 4%. In all likelihood, following the elections in June the government will have to rely on a slender majority in parliament. Strong opposition from both the right and wings will protect Czech society against crony capitalism, which lurked in the wings throughout the past decade.

Czech Republic: Selected economic indicators

	1997	1998	1999	2000	2001 [1]	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., mid-year	10303.6	10294.9	10282.8	10272.5	10288.5	.	.	.	.
Gross domestic product, CZK bn, nom.	1679.9	1839.1	1902.3	1984.8	2157.8	493.6	531.4	2300	2480
annual change in % (real)	-0.8	-1.2	0.5	3.3	3.3	3.6	2.5	3	4
GDP/capita (USD at exchange rate)	5142	5536	5347	5007	5514	.	.	.	.
GDP/capita (USD at PPP - WIIW)	13160	13340	13660	14460	15170	.	.	.	.
Gross industrial production									
annual change in % (real) [2]	4.5	1.6	-3.1	5.4	6.8	10.0	4.2	5.5	7
Gross agricultural production									
annual change in % (real)	-5.1	0.7	0.6	-4.5	2.5	.	.	.	.
Goods transport, mn t-kms [3]	62460	53639	54620	57343	57800	.	.	.	.
annual change in %	.	-14.1	1.8	5.0	0.8	.	.	.	.
Gross fixed capital form., CZK bn, nom.	514.5	535.5	528.3	561.5	610.9	125.1	134.5	.	.
annual change in % (real)	-2.9	0.1	-1.0	5.3	7.2	6.0	8.1	7	7
Construction industry									
annual change in % (real)	-3.9	-7.0	-6.5	5.3	9.6	15.1	3.7	.	.
Dwellings completed, units	16757	22183	23734	25207	24759	5034	6531	.	.
annual change in %	15.7	32.4	7.0	6.2	-1.8	-8.8	29.7	.	.
Employment total, th pers., average	4946.6	4882.5	4760.2	4663.9	4677.9	4609	.	.	.
annual change in %	-1.9	-1.3	-2.5	-2.0	0.3	0.4	.	.	.
Employment in industry, th pers., average	1608.8	1583.2	1532.9	1493.1	1503.5	1532	.	.	.
annual change in %	-0.4	-1.6	-3.2	-2.6	0.7	0.8	.	.	.
Unemployed reg., th, end of period	268.9	386.9	487.6	457.4	461.9	451.5	471.7	.	.
Unemployment rate in %, end of period	5.2	7.5	9.4	8.8	8.9	8.7	9.1	9.5	9
Average gross monthly wages, CZK [4]	10691	11693	12666	13490	14642	13274	14204	.	.
annual change in % (real, gross)	2.0	-1.2	5.9	2.6	3.6	5.0	3.2	.	.
Retail trade turnover, CZK bn	.	.	.	.	.	.		.	.
annual change in % (real)	-0.4	-7.1	2.4	4.0	4.3	3.7	4.2	.	.
Consumer prices, % p.a.	8.5	10.7	2.1	3.9	4.7	4.0	3.7	3.0	3.5
Producer prices in industry, % p.a.	4.9	4.9	1.0	4.9	2.9	4.3	0.1	-0.2	1.0
Central government budget, CZK bn									
Revenues	509.0	537.4	567.3	586.2	626.2	140.4	148.8	.	.
Expenditures	524.7	566.7	596.9	632.3	693.9	137.7	164.5	.	.
Deficit (-) / surplus (+)	-15.7	-29.3	-29.6	-46.1	-67.7	2.7	-15.7	.	.
Deficit (-) / surplus (+), % GDP	-0.9	-1.6	-1.6	-2.3	-3.1	.	.	.	.
Money supply, CZK bn, end of period									
M1, Money [5]	418.9	404.0	447.8	497.7	583.6	510.4	568.8	.	.
M2, Money + quasi money [5]	1177.8	1241.4	1337.3	1412.3	1596.0	1440.6	1581.6	.	.
Discount rate, % p.a., end of period	13.0	7.5	5.0	5.0	3.8	4.0	3.3	.	.
Current account, USD mn	-3564	-1255	-1462	-2718	-2638	-636	-442	-3300	-4000
Current account in % of GDP	-6.7	-2.2	-2.7	-5.3	-4.6	-4.8	-3.0	-4.7	-4.8
Gross reserves of NB incl. gold, USD mn	9774	12617	12825	13139	14466	12898	14760	.	.
Gross external debt, convert. curr., USD mn	21352	24047	22613	21372	21696	21355	.	.	.
Exports total, fob, EUR mn [6]	19811.8	23070.4	24640.9	31482.7	37254.6	9163.7	9870.2	41700	48300
annual change in %	12.0	16.4	6.8	27.8	18.3	27.8	7.7	12	16
Imports total, cif, EUR mn [6]	24014.3	25289.4	26387.4	34875.7	40693.0	9918.3	10165.7	44500	52200
annual change in %	8.2	5.3	4.3	32.2	16.7	29.7	2.5	9	17
Average exchange rate CZK/USD	31.71	32.27	34.60	38.59	38.04	37.64	36.24	.	.
Average exchange rate CZK/EUR (ECU)	35.80	36.16	36.88	35.61	34.08	34.79	31.75	31	30
Purchasing power parity CZK/USD, WIIW	12.39	13.39	13.54	13.36	13.83	.	.	.	.
Purchasing power parity CZK/EUR, WIIW	13.36	14.62	14.75	14.57	15.03	.	.	.	.

Notes: 1) Preliminary. - 2) From 1996 new methodology. - 3) Up to 1996 public transport only. - 4) Enterprises with more than 100, from 1997 with 20 and more employees. - 5) Excluding extrabudgetary funds, revised from 1993. - 6) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Sándor Richter

Hungary: waiting for the recovery

The performance of the Hungarian economy in the first four months of 2002 was determined by two factors: the unfavourable international business cycle, and the spending programmes of both the outgoing and the incoming governments related to the general elections held in April.

According to preliminary data Hungary's GDP increased by 2.9% in the first quarter of the year. That is the weakest quarterly growth performance in the past five years – but it is not too bad compared to the rate of expansion of the EU and several of the EU candidate countries' economies. Gross value added increased above average in the services sector, but declined in industry and agriculture. No data are available yet about the distribution side of the GDP; considering however the growth of gross investment by 8.6%, the increase of real wages and pensions by close to 12% and the growth rate in retail trade turnover of 14%, a considerable deterioration of the net export position of the economy in the first three months of the year can be assumed.

The first quarter may have been the bottom of the recent business cycle in Hungary. In April industrial output increased by 4.5%, more rapidly than in the first four months of the year on average (1.3%) (compared to the same month and period, respectively, in 2001). In manufacturing the growth rate remained below 4% in the first quarter. The few well performing areas were electrical equipment and machinery, the success branch of the recent years, with an expansion rate of 12% and the food industry with 9.3%. Both export and domestic sales in industry showed a disappointing performance in the first quarter, with growth rates of 1.2% and 1.3% respectively. In March the stock of orders in domestic sales was 9.1% above the level one year earlier, while in export sales 4.9% below that level.

Though the growth rate of investments was promising in the first quarter, their composition was less so. Investments in public administration, related to stepped-up government expenditures in the context of the elections, increased by 89% while in manufacturing they declined by 5.8%.

In the first four months of the year the current account deficit reached nearly EUR 1 billion, more than double that of the respective period of 2001. This is the combined effect of the deteriorating trade balance (minus about EUR 300 million) and the decline in net tourism revenues (by about EUR 200 million) as compared to the previous year. Exports increased by 4.5% in current euro terms, imports by 7.1%. Non-debt-generating financing made up only half of the current account deficit. In 2001 this relation had been the reverse.

Following the widening of the exchange rate intervention band in May 2001, the National Bank of Hungary switched to inflation targeting in June last year, making disinflation its main priority. The year–on-year target for December CPI inflation was set at 4.5% for 2002 and 3.5% for 2003, with +/-1% deviation allowed. Until this spring inflation followed that path, but in April the year-on-year CPI inflation rate (6.1% versus 5.9% in March) indicated a possible turn in the ongoing disinflation process. This development was accompanied by higher than assumed oil prices and thus imported inflation, and by a rapid increase in real household incomes. The central bank reacted by raising, on 21 May, the base rate from 8.5% to 9%. That was the first increase after a period of repeated small cuts in the base rate since August 2001. Preserving the originally targeted band for the December CPI inflation, its expected rate was revised upwards from 4.7% to 5.3%, the annual average inflation from 5% to 5.5%. The estimation of the additional demand effect of the fiscal policy was revised from 0.5% to 1.3% of the GDP, still without taking into consideration the possible budgetary impact of the new government's planned measures.

In 2002 the budget itself and all budget-related issues got into the focus of political clashes both before and after the elections. An evaluation of the real fiscal stance is very difficult. First, the main positions of the outgoing government's bi-annual budget cannot be properly interpreted due to the significantly higher inflation than that originally used in the budget plan. Second, huge programmes involving indirect government financing through the state-owned Hungarian Development Bank (HDB) and the Privatization Agency (PA) were treated off-budget by the former government but will be taken into account by the new government. The new finance minister announced that the general government deficit, still without obligations of the HDB and PA, may reach 4.2% of GDP instead of the 3.2% figuring as a target in the law on the budget. The ministry of finance has been switching over to accounting by EU standards. According to the new methodology (and including the mentioned items treated earlier as 'off-budget') the deficit may even amount to 6% of GDP. All this however reflects just the situation up to the change of government at the end of May. The ambitious spending programme of the new government may add HUF 150 to 200 billion to the bill on the expenditure side (equivalent to about 1% of GDP). According to the new government the net impact will yet be smaller due to savings on certain positions and expected additional revenues.

The new socialist-liberal coalition government has become hostage of its own promises made in the election campaign, in which both the FIDESZ-MDF conservative alliance and the later winner, the Socialist Party, entered an upward spiralling competition of 'who promises more', without caring too much about the possible economic consequences of fulfilling all those promises. The Socialist Party pledged to fulfil the most spectacular (and also costly) promises within the first 100 days of the new government being in office. Keeping all these promises has a special significance as municipal elections will be held in October this year. The very narrow margin of the socialist-liberal coalition in the parliament combined with the militant attitude of the defeated FIDESZ-MDF alliance – who has made political pressure 'from the street' to daily practice of policy making – raises the stake at the municipal elections much above what it used to be.

The government programme's slogan has been 'For a fundamental change in the welfare system', in analogy to the change in the political system in 1989/90. The changes with implications for the budget include, among others, a 50% wage raise for about 600,000 employees in public administration from September, a new minimum wage (HUF 100,000, equivalent to EUR 410) for employees with higher education in public administration, the abolition of taxation on the minimum wage, a 20% raise of the family allowance, a 50% raise of support for mothers, higher scholarships for students, the abolition of the subscription fee to receive TV broadcast and an exceptional 13th month allowance for pensioners. There are further programmes in the pipeline, to be implemented later on. Though the planned measures will no doubt impose a heavy burden on the budget, it must be added that most of them have been long overdue and they will eliminate conditions that have been really unsustainable in some instances (e.g. the shamefully low wages in the education and the health sectors).

Nevertheless, this November at the latest the new government will have to face the challenges: a fiscal imbalance that needs urgent remedy, a significantly deteriorated competitive position in exports due to rapid wage increases, just moderate growth of productivity and, last but not least, a strong forint. (According to the estimation of the Budapest-based GKI Research, unit labour costs in the business sector will have risen by about 18% in 2001-2002 combined.) Concerning the last issue, Prime Minister Medgyessy said he regarded economic growth as more important than rapid disinflation, that early accession to the EMU should not be forced at any price and that the Hungarian currency must not further appreciate. He can even imagine a narrower unofficial intervention band within the official 30% band – an idea quite unpopular with the central bank.

The biggest open question for the near future will be whether Hungarian exporters will be able to switch, in conjunction with the beginning upswing in the European business cycle, to that rapid expansion of sales that characterized the period 1997-2000. A continuation of export-driven growth is badly needed for the economy to 'digest' the runaway growth of domestic absorption in 2001-2002. Real appreciation will make this task anything but easy.

In summary, Hungary's GDP is assumed to increase by 3.3% this year. The current account deficit will substantially deteriorate, due, first, to import growth triggered by the rapid expansion of household consumption, and second, to a take-off of business sector investments in the last quarter of the year. The developments in 2003 will to a large extent depend on the economic policy decisions of the new government on the 2003 budget and (in co-operation with the central bank) on the future course of the exchange rate policy.

Hungary: Selected economic indicators

	1997	1998	1999	2000	2001 [1]	2001 1st quarter	2002 1st quarter	2002 forecast	2003 forecast
Population, th pers., end of period [2]	10135.4	10091.8	10043.2	10197.1	10195	.	10169	.	.
Gross domestic product, HUF bn, nom.	8540.7	10087.4	11393.5	13150.8	14876.4	3315.4	.	16200	17600
annual change in % (real)	4.6	4.9	4.2	5.2	3.8	4.4	2.9	3.3	4
GDP/capita (USD at exchange rate)	4504	4651	4769	4649	5096	.	.	.	.
GDP/capita (USD at PPP - WIIW)	9980	10840	11500	12430	12960	.	.	.	.
Gross industrial production									
annual change in % (real)	11.1	12.5	10.4	18.6	4.1	10.6	0.2	4	9
Gross agricultural production									
annual change in % (real)	-3.8	-2.1	4.0	-5.3	13.2	.	.	.	.
Goods transport, mn t-kms	24789	27144	26339	26399	25942	6035	5923	.	.
annual change in %	-0.3	9.5	-3.0	0.2	-1.7	1.0	-1.9	.	.
Gross fixed capital form., HUF bn, nom.	1898.9	2384.6	2724.5	3179.8	3484.7	513.1	.	.	.
annual change in % (real)	9.2	13.3	5.9	7.7	3.1	4.1	.	5	10
Construction industry									
annual change in % (real)	8.1	15.3	9.0	7.9	9.9	5.7	23.4	9	.
Dwellings completed, units	28130	20323	19287	21583	28054	3973	4756	.	.
annual change in %	-0.4	-27.8	-5.1	11.9	30.0	51.5	19.7	.	.
Employment total, th pers., average [3)4)]	3646.3	3697.7	3811.5	3849.1	3859.5	3851.5	3828.5	.	.
annual change in % [3)4)]	0.0	0.7	3.1	1.0	0.3	1.4	-0.6	0	.
Employees in industry, th pers., average [5]	783.5	795.9	834.0	844.8	832.8	843.2	828.0	.	.
annual change in %	-0.7	1.6	0.8	1.3	-1.4	.	-1.8	.	.
Unemployed, th pers., average [3]	348.8	313.0	284.7	262.5	232.9	245.6	235.3	.	.
Unemployment rate in %, average [3]	8.7	7.8	7.0	6.4	5.7	6.0	5.8	5.7	5.6
Average gross monthly wages, HUF [5]	57270	67764	77187	87645	103558	93584	111739	.	.
annual change in % (real, net)	4.9	3.6	2.5	1.5	6.4	.	12.1	10	2
Retail trade turnover, HUF bn	2949.1	3682.8	4329.7	4822.0	5394.0	1041.1	1222.3	.	.
annual change in % (real)	-1.6	12.3	7.9	2.0	5.4	7.2	14.0	10	.
Consumer prices, % p.a.	18.3	14.3	10.0	9.8	9.2	10.3	5.9	5.7	4.5
Producer prices in industry, % p.a.	20.4	11.3	5.1	11.7	5.2	9.7	-2.4	.	.
Central government budget, HUF bn [6]									
Revenues	2364.6	2624.4	3227.6	3681.0	4083.6	953.9	1009.3	.	.
Expenditures	2703.1	3176.6	3565.8	4049.7	4496.8	989.1	1196.2	.	.
Deficit (-) / surplus (+)	-338.5	-552.2	-338.1	-368.7	-413.2	-35.2	-186.9	.	.
Deficit (-) / surplus (+), % GDP	-4.0	-5.5	-3.0	-2.8	-2.8	.	.	.	.
Money supply, HUF bn, end of period									
M1, Money	1528.4	1791.1	2135.6	2378.3	2777.1	2236.3	2644.2	.	.
Broad money	4014.3	4624.9	5370.6	6052.0	7092.7	6013.2	6985.2	.	.
Refinancing rate, % p.a., end of period	20.5	17.0	14.5	11.0	9.8	11.0	8.5	.	.
Current account, USD mn	-981	-2298	-2081	-1328	-1105	-221	-493	-2700	-2800
Current account in % of GDP	-2.1	-4.9	-4.3	-2.9	-2.1	.	.	-4.3	-3.9
Reserves total, incl. gold, USD mn	8429	9341	10854	11229	10766	10734	9631	.	.
Gross external debt, USD mn	24395	27280	29336	30742	33386	30126	32501	.	.
Exports total, fob, EUR mn [7]	16910.1	20476.8	23491.0	30544.5	34082.0	8156.5	8843.9	35800	38600
annual growth rate in %	35.1	21.1	14.7	30.0	11.6	24.0	8.4	5	8
Imports total, cif, EUR mn [7]	18779.5	22871.2	26287.8	34856.3	37654.1	9136.9	9297.8	40300	43500
annual growth rate in %	29.9	21.8	14.9	32.6	8.0	22.8	1.8	7	8
Average exchange rate HUF/USD	186.75	214.45	237.31	282.27	286.54	287.61	278.44	.	.
Average exchange rate HUF/EUR (ECU)	210.93	240.98	252.80	260.04	256.68	265.71	244.07	245	244
Purchasing power parity HUF/USD, WIIW	84.30	92.01	98.38	105.54	112.55	.	.	.	.
Purchasing power parity HUF/EUR, WIIW	90.73	100.85	107.17	115.03	122.92	.	.	.	.

Notes: 1) Preliminary. - 2) From 2000 according to census Feb 2001. - 3) Based on labour force survey. - 4) From 1998 new sample. - 5) Enterprises with more than 10, from 1999 more than 5 employees. - 6) Excluding privatization revenues. - 7) Including trade of firms with customs free legal status. Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Leon Podkaminer

Poland: wearing out

The GDP growth in the first quarter of 2002 is estimated at 0.5%, with gross fixed investment declining by over 13%. Gross value added fell in industry (2%) and in construction (13%), but rose by 4% in market services. As the slump in output of construction and industry has shown no signs of abating (in April and May), there is little justification for optimistic forecasts for the second quarter – and for the rest of the year as well.

In many respects the situation of the bulk of non-financial firms (of all sizes and property forms) is constantly deteriorating. This is confirmed by the results of a recent poll conducted among a sample of larger firms.[12] Currently over 25% of all firms report insufficient demand (22% one year ago); 22% a bad financial situation of their customers (20% one year ago); and 20% problems over executing payments for deliveries (12% one year ago). Production capacity utilization has been declining (to about 73%). This is associated with a rising burden of fixed costs whose share approaches, on average, 38% of all costs. Close to 23% of firms do not service their bank obligations regularly (and that despite the fact that firms generally shy away from bank credit)[13]. The share of unprofitable exports in all exports is rising (currently this share is over 12%). Needless to say, in such circumstances there is little reason to believe in any sudden expansion of production and employment – and even less in any expansion of investment in machinery and installations.

Given the current state of the economy, even the most competent policy would not be able to produce wonders, quickly. Moreover, the overall economic policy does not seem very promising. The announced (and actually conducted) policy has been mainly concerned with keeping public finances under control. However, the trimming of the public sector deficit, which is achieved through cuts in public consumption and social transfers, is not helping the depressed domestic demand and may in the end turn out counterproductive. The secondary goal of fighting unemployment through a relaxation of the Labour Code provisions, cuts in the statutory minimum wage and the lowering of unemployment benefits may also appear elusive. Apart from these two programmatic goals, the policy is confronted with unexpected problems. Several big industrial firms privatized many years ago are nearing bankruptcy. They include a couple of motor companies once sold to the ill-fated Daewoo of Korea, and a large shipyard in Szczecin

[12] The report on the poll is available on the NBP webpage, www.nbp.pl/publikacje/koniunktura.

[13] Loans and credits denominated in PLN finance only 18% and 14% of firms' respective current and investment activities.

(domestic-owned). The fall of these firms is spelling ruin to dozens of subcontracting firms throughout the country – and will add to unemployment perceptibly. Very much against its own will, the government may be forced into their re-nationalization. The second potentially disruptive situation is developing over huge surpluses of farm produce (primarily grain). The storage facilities are still full-up with last year's high harvests (and imports of subsidized grain from the EU). Farmers may be unable to dispose of this year's harvests (again likely to be very high). Even the otherwise costly intervention procurement is unlikely to prevent a further steep decline in farmers' incomes and the requisite social and political unrest in the countryside.

From the very beginning of its term in office (October 2001) the government has been in open conflict with the National Bank (NBP): first over the latter's interest rate policy, and more recently over its inaction concerning the strength of the zloty. The interest rates administered by the NBP have long been judged excessive as they implied double-digit real interest rates. The reductions enacted by the NBP over the past several quarters have been gradual, small and always delayed. Right now the NBP interest rate policy cannot be defended even by the reference to the need to push inflation down: in May consumer price inflation fell to 1.9% – below the EU level – and also well below the levels targeted by the NBP for December 2002, which range between 4% and 6%.[14]

The NBP's inaction over the strength of the Polish currency seems equally baffling. The official position is that intervention aiming at the weakening of the currency is costly and can at best have a transitory effect. This position is not entirely consistent with the experience of many other central banks. The true reason for the revealed fear of intervention may be different. There is no good explanation for the strength of the zloty – which suggests it can represent the effect of a speculative bubble. Under such conditions an intervention may well turn out *too* effective, i.e. it may unleash an uncontrolled devaluation. For the NBP it may be essential to avoid the risk of being made directly responsible for actions triggering such a devaluation, the consequences of which could of course be devastating.

While the continuation of the policy of high interest rates, and the strength of the zloty are definitely not conducive to the resumption of growth, it would be too simplistic to believe that much lower interest rates and a somewhat weaker currency would do the trick. In this sense the government's preoccupation with the (erroneous) policies of the NBP is not really very constructive. Much more may be needed to ease the restraints felt by firms. The direct cause of the current Polish malady – the insufficiency of domestic demand – could have been addressed some time ago, through a different fiscal policy.

[14] Currently producer price inflation in industry is about 0 and the average interest rate on short-term loans over 13%.

But this has not been done, and is apparently still not even considered. The economic and social costs of this inaction are significant. Also a high political cost is involved: rising popularity of radical populist movements, which is clearly correlated with rising unemployment and the misfortunes of the rural population. The populist movements, which strongly oppose Poland's accession to the EU, have been reinforced by the West European position on the conditions of Poland's membership (which is judged discriminating in content and arrogant in form), and by the government's response (judged too defensive). There is a grain of truth in the charge that the government are prepared to enter the EU even on their knees. Whether this position will suit the majority of Poles is still an open question.

Poland: Selected economic indicators

	1997	1998	1999	2000	2001 [1]	2001 1st quarter	2002 1st quarter	2002 forecast	2003 forecast
Population, th pers., end of period	38660	38667	38654	38644	38632	38640	38628	.	.
Gross domestic product, PLN mn, nom.	472350	553560	615115	684982	721575	165441	171413	743200	780700
annual change in % (real)	6.8	4.8	4.1	4.0	1.0	2.3	0.5	0	1
GDP/capita (USD at exchange rate)	3725	4098	4011	4078	4561	.	.	.	.
GDP/capita (USD at PPP - WIIW)	7550	8490	9010	9590	9890	.	.	.	.
Gross industrial production (sales)									
annual change in % (real)	11.5	3.5	3.6	6.7	0	4.5 [2]	-1.5 [2]	0	2
Gross agricultural production									
annual change in % (real)	-0.2	5.9	-5.2	-5.6	5.7	.	.	.	.
Goods transport, mn t-kms	329737	317052	310698	282559	.	.	.	.	.
annual change in %	6.6	-3.8	-2.0	-9.1	.	.	.	.	.
Gross fixed capital form., PLN mn, nom.	110853	139205	156690	170430	155661	28428.4	25381.3	.	.
annual change in % (real)	21.7	14.2	6.8	2.7	-9.8	1.2	-13.3	-9	-4
Construction output total									
annual change in % (real)	16.5	12.4	6.2	1.0	-9.9 [2]	-8.9 [2]	-16.3 [2]	.	.
Dwellings completed, units	73706	80594	81979	87789	106105	25738	21593	.	.
annual change in %	18.6	9.3	1.7	7.1	20.9	43.2	-16.1	.	.
Employment total, th pers., average	15438.7	15800.4	15373.5	15017.5	.	.	15100	.	.
annual change in %	2.8	2.3	-2.7	-2.3	.	.	.	.	.
Employees in industry, th pers., average	3433.4	3378.7	3138.4	2955.0	2646.0 [2]	2690 [2]	2507 [2]	.	.
annual change in %	-0.1	-1.6	-7.1	-5.8	-5.2 [2]	-4.7 [2]	-6.8 [2]	.	.
Unemployed reg., th, end of period	1826.4	1831.4	2349.8	2702.6	3115.1	2898.7	3259.9	.	.
Unemployment rate in %, end of period	10.3	10.4	13.1	15.1	17.4	16.1	18.1	19	19
Average gross monthly wages, PLN [3]	1065.8	1232.7	1697.1	1893.7	2061.9	2043.6 [2]	2155.5 [2]	.	.
annual change in % (real, net) [4]	7.3	4.5	4.7	1.0	3.3	1.7 [2]	1.9 [2]	.	.
Retail trade turnover, PLN mn	258166	291197	323687	360318	.	.	.	.	.
annual change in % (real)	6.8	2.6	4.0	1.0	.	-3.1 [2]	5.8 [2]	.	.
Consumer prices, % p.a.	14.9	11.8	7.3	10.1	5.5	6.7	3.4	3	4
Producer prices in industry, % p.a.	12.2	7.3	5.7	7.8	1.6	4.2	0.2	.	.
Central government budget, PLN mn									
Revenues	119772	126560	125922	135664	140300	31623.1	31293.6	.	.
Expenditures	125675	139752	138401	151055	172880	46615.6	47724.0	.	.
Deficit (-) / surplus (+)	-5903	-13192	-12479	-15391	-32580	-14992.5	-16430.4	.	.
Deficit (-) / surplus (+), % GDP	-1.2	-2.4	-2.0	-2.2	-4.5	-9.1	-9.6	-4.6	-5.2
Money supply, PLN mn, end of period									
M1, Money	79550	90168	110878	106183	117247	102489	114803	.	.
M2, Money + quasi money	179592	223789	268133	299874	325918	308213	319012	.	.
Discount rate of NB % p.a., end of period	24.5	18.2	19.0	21.5	14.0	19.5	12	10	8
Current account, USD mn	-4309	-6841	-11553	-9952	-7166	-2230	-2296	-7700	-8000
Current account in % of GDP	-3.0	-4.3	-7.5	-6.3	-4.1	-5.5	.	-4.4	-4.3
Gross reserves of NB incl. gold, USD mn	21403	28275	27314	27466	26565	27998	27060	.	.
Gross external debt, USD mn	49647	59135	65397	69610	70160	70977	.	.	.
Exports total, fob, EUR mn [5]	22798.4	25145.4	25729.3	34382.6	40374.7	9924	10213	42400	45400
annual growth rate in %	17.0	10.3	2.3	33.6	17.4	29.2	2.9	5	7
Imports total, cif, EUR mn [5]	37484.2	41539.3	43151.2	53121.9	56222.7	13446	13482	57500	61500
annual growth rate in %	26.3	10.8	3.9	23.1	5.8	12.3	0.3	2	7
Average exchange rate PLN/USD	3.28	3.49	3.97	4.35	4.09	4.09	4.13	.	.
Average exchange rate PLN/EUR (ECU)	3.71	3.92	4.23	4.01	3.67	3.78	3.62	4.0	4.2
Purchasing power parity PLN/USD, WIIW	1.62	1.69	1.77	1.85	1.89	.	.	.	.
Purchasing power parity PLN/EUR, WIIW	1.67	1.84	1.92	2.02	2.06	.	.	.	.

Notes: 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) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Gábor Hunya

Romania: slowdown, as expected

Romania has been on an uninterrupted economic growth path for the third consecutive year now, but the government's optimism regarding a close to 5% economic growth in 2002 will not materialize. In line with the WIIW forecast, GDP grew by 3.1% in the first quarter and no major change can be expected for the rest of the year. Growth at this pace is sustainable as investments keep rising (4.8%) and the foreign trade balance improving (net exports of goods and services increased by 3.8%).

Manufacturing output in April was 4.9% above the previous year's level. Especially good performance was booked in the production of various consumer goods delivered for both exports and domestic use. In the last two years Romania has established itself as the main CEE exporter of clothing and leather goods to the European Union. Also the electrical machinery industry is in an upward trend but its share in output and export is still low. Specialization in low-tech, low value-added products, exporting mostly under processing agreements, is a lasting obstacle to more rapid economic growth.

Agricultural and food industry output kept rising rapidly in the first quarter of 2002 thanks to good harvests and abundant fodder stocks from last year. For the first time in many years the number of livestock grew. The grain harvest in 2002 is expected to be one third lower than in the previous year. This may trigger a slowdown of the food industry sector, which has a 12% weight in industrial output, and also an increase in food prices later in the year.

Price adjustments in the energy sector drove inflation upwards while other components of the consumer basket, especially food prices, increased only moderately. The first-quarter consumer price index was 27% against the same period a year earlier, lower than we expected. Inflation may come down further in the rest of year to or below 25% on annual average. Falling inflation together with lower real interest rates and slight real appreciation of the local currency are all features of improving conditions for production and investment. Still the current rate of inflation is high and deeply imbedded in the economy through fiscal and inter-enterprise arrears. There is no indication that arrears have decreased from the 40% of GDP reached in 2001.

After less than 1% growth in the first quarter, exports were up by 6.9% year-on-year in USD terms in the first four months of the year and amounted to USD 3953 million while imports increased by 1.6% only. Foreign trade expanded first of all with the European Union; the EU's share increased to 70% in exports and 58.5% in imports. The current account deficit stood at USD 286 million at the end of the first quarter. The 29% decline compared with the same period a year earlier was due to both improvement in the commodity trade balance and increasing current transfers. Transfers of Romanians living abroad covered more than half of the trade and services deficit.

The improvement of the external financial situation boosted official reserves. At the end of May 2002, NBR's foreign exchange reserves amounted to EUR 5.5 billion. Proceeds from the bond issue launched on the international market accounted for USD 643.8 million of the increase against December 2001, and the net income from foreign exchange government securities launched on the domestic market for USD 117.5 million. Improved investment ratings and good return prospects have increasingly attracted foreign portfolio investors to Romania. The payments on external debt, direct and guaranteed, amount to USD 1109 million in the current year, less than in the previous three years. In the absence of financial pressure the government behaves relaxed on policy recommendations by the IMF and the World Bank, which causes delays in issuing funds under the stand-by arrangement and the PSAL II enterprise restructuring programme. While agreeing with the international organizations that privatization and restructuring are key elements in reducing quasi-fiscal deficits, the government sets a slower pace and less radical targets as reflected in the new privatization law.

Privatization in manufacturing has finally reached the stage when mostly large companies are offered to investors. These companies are either sound and therefore the government keeps waiting for a high-price offer, or heavily indebted and in arrears with taxes, requiring financial restructuring prior or during the privatization process. Meanwhile most of the small and medium-size manufacturing companies have become private. As to the banking system, except for the largest commercial bank and the savings bank all former state-owned banks have been privatized or liquidated. In mid-April 595 state-owned companies were in the process of reorganization and liquidation. With the corporatization of state-owned enterprises ('regies autonomes') in the utilities sector and splitting some of them into potentially competing units, the prerequisites of future privatization have been established. But setting cost covering utility prices can hardly be achieved due to the low efficiency in the sector and the low purchasing power of the population. The long delayed privatization of agricultural and tourism companies has been put under way in 2002.

In March 2002, the Government submitted to Parliament a new legislative initiative for the acceleration of privatization. Instead of cancelling the previous privatization legislation and replacing it with a new text, Law No. 137/2002 completes the earlier text with new provisions. There is a provision of selling off companies for a symbolic value ('1 euro'). This is implicitly aimed to be applied to companies in financial distress. The government assumes that these companies are worth preserving: the new owner is expected to offer new capital investment and maintain the workforce. It is to be seen whether potential investors will be prepared to make such efforts for unattractive companies. As an alternative, liquidation of the company and the selling of physical assets could be a more rapid way of divestiture.

The new law attaches great importance to the issue of working out the debts incurred by state-owned companies prior to their privatization and brings another novelty in the legal framework of privatization by introducing 'special administration' for companies undergoing privatization until the ownership of the shares is transferred to the buyer. While privatization may become easier by the new rules it also generates moral hazard problems. Companies slated for privatization may lose the incentive for honouring their obligations towards the various public budgets based on the expectation that they will be bailed out anyway. The claims of the utility suppliers can also be cancelled, reduced, re-scheduled or converted into equity. The law empowers the Ministry of Public Finances to grant alleviation of utility suppliers' own obligations towards the state budget, which equals the debt alleviation they grant to companies undergoing privatization.

Although some of the main obstacles to privatization have been eliminated, we do not expect that the privatization and restructuring process will speed up because of the new legislation. Nor will structural change accelerate. Economic growth will thus stay at 3-4% in this and the coming two years. There will be a continuing slow decrease of inflation and slow real appreciation. The budget deficit will be higher than the originally targeted 3% of GDP and exclude off-budgetary items and arrears. Financing the current account deficit at some 6% of GDP seems to be no major problem, unless the deficit starts growing again due to accelerating real appreciation.

Romania: Selected economic indicators

	1997	1998	1999	2000	2001 1)	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., mid-year	22545.9	22502.8	22458.0	22435.2	22409.0	.	.	.	.
Gross domestic product, ROL bn, nom.	252926	371194	545730	800308	1154126	195601	259019	1485000	1850000
annual change in % (real)	-6.1	-4.8	-1.2	1.8	5.3	4.8	3.1	3	4
GDP/capita (USD at exchange rate)	1565	1872	1585	1644	1772	.	.	.	.
GDP/capita (USD at PPP - WIIW)	5640	5450	5510	5740	6180	.	.	.	.
Gross industrial production									
annual change in % (real)	-7.2	-13.8	-2.4	7.1	8.2	10.8	3.0	4	4
Gross agricultural production									
annual change in % (real)	3.4	-7.5	5.2	-14.2	21.7	.	.	.	.
Goods transport, mn t-kms 2)	87590	62364	45988	42131	40648	8971	.	.	.
annual change in %	-18.0	.	-26.3	-8.4	-3.5	-12.0	.	.	.
Gross fixed capital formation, ROL bn, nom.	53540.1	68111.6	96630.4	151486.2	219289.3	28613.5	.	.	.
annual change in % (real)	1.7	-5.7	-4.8	4.6	6.6	7.0	4.8	4	5
Construction output total									
annual change in % (real)	-24.4	-0.5	-0.2	2.8	4.1	5.9	3.2	.	.
Dwellings completed, units	29921	29692	29517	26376	26811	3455	3188	.	.
annual change in %	1.6	-0.8	-0.6	-10.6	1.6	27.9	-7.7	.	.
Employment total, th pers., end of period	9022.7	8812.6	8420.0	8629.0	.	.	.	.	.
annual change in %	-3.8	-2.3	-4.5	2.5	.	.	.	.	.
Employees in industry, th pers., average	2443.0	2272.0	1991.0	1873.0	1817.0	1821.2	1831.8	.	.
annual change in %	-5.5	-7.0	-12.4	-5.9	-3.0	-4.4	0.6	.	.
Unemployed reg., th, end of period	881.4	1025.1	1130.3	1007.1	826.9	992.8	1257.4	.	.
Unemployment rate in %, end of period	8.9	10.4	11.8	10.5	8.6	10.3	13.0	12	12
Average gross monthly wages, ROL	846450	1357132	1957731	2876645	4282622	3583646	5004791	.	.
annual change in % (real, net)	-22.6	3.4	-3.8	4.6	6.1	8.1	4.3	.	.
Retail trade turnover, ROL bn 3)	83035	125513	160137	213569	.	.	.	.	.
annual change in % (real) 3)	-12.1	20.6	-6.4	-7.0	0.4	-0.5	-1.3 I-II	.	.
Consumer prices, % p.a.	154.8	59.1	45.8	45.7	34.5	40.1	27.0	25	20
Producer prices in industry, % p.a.	152.7	33.2	44.5	53.4	41.0	50.6	26.4	.	.
Central government budget, ROL bn									
Revenues	43835	67216	93240	120342	148203	34775	34385	.	.
Expenditures	52897	77617	106887	149168	184012	43427	45613	.	.
Deficit (-) / surplus (+)	-9062	-10401	-13647	-28826	-35809	-8652	-11228	.	.
Deficit (-) / surplus (+), % GDP	-3.6	-2.8	-2.5	-3.6	-3.1	.	.	.	.
Money supply, ROL bn, end of period									
M1, Money	18731	22110	29669	46331	64309	39108	55881	.	.
M2, money + quasi money	62150	92530	134123	185060	270512	191551	275326	.	.
Discount rate, % p.a., end of period 4)	40.0	35.0	35.0	35.0	35.0	35.0	34.2	.	.
Current account, USD mn	-2137	-2968	-1469	-1363	-2349	-405	-286	-2300	-2600
Current account in % of GDP	-6.1	-7.1	-4.1	-3.7	-5.9	-5.5	-3.6	-5.1	-4.9
Gross reserves of NB excl. gold, USD mn	2193.5	1374.8	1526.3	2469.7	3922.5	2795.5	4074.1	.	.
Gross external debt, USD mn 5)	8584.3	9322.6	8770.7	10240.5	11562.9	9903.1	11616.8	.	.
Exports total, fob, EUR mn 6)	7434.4	7412.4	7955.6	11219.2	12710.7	3112.1	3308.8	13200	14250
annual growth rate in %	16.6	-0.3	7.3	41.0	13.3	27.8	6.3	4	8
Imports total, cif, EUR mn 6)	9946.3	10569.3	9896.0	14128.2	17362.5	4001.6	4169.6	18100	19700
annual growth rate in %	10.3	6.3	-6.4	42.8	22.9	46.2	4.2	4	9
Average exchange rate ROL/USD	7167.9	8875.6	15332.9	21692.7	29060.9	26785.8	32350.4	.	.
Average exchange rate ROL/EUR (ECU)	8090.9	9989.3	16295.6	19955.8	26026.9	24741.1	28344.3	31400	35000
Purchasing power parity ROL/USD, WIIW	1988.5	3028.9	4414.0	6215.9	8337.3	.	.	.	.
Purchasing power parity ROL/EUR, WIIW	2181.1	3319.0	4808.2	6777.7	9099.7	.	.	.	.

Notes: 1) Preliminary. - 2) From 1998 new methodology in road transport. - 3) From 1998 new methodology. - 4) Reference rate of NB from February 2002. - 5) Medium and long-term. - 6) Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Zdenek Lukas

Slovakia: higher growth backed by pre-election stimulus

Mainly driven by an expansionary budget policy, economic growth in Slovakia has accelerated in recent months. In the first quarter of 2002 GDP was up by 3.9% year-on-year, compared to 3% growth in the corresponding period of 2001. The major contributory factors were a 5.2% rise in private consumption as well as 5.7% growth in government consumption. The contribution of foreign trade remained negative. On the supply side, services, construction and agriculture contributed most to GDP growth. Gross industrial production had been up by just 1.1% year-on-year in the first quarter, but the sector recovered in April with 8.8% growth, resulting in a 3% rise in the first four months of 2002. Growth rates were highest in electrical and optical equipment (22.8%), rubber and plastic products (13.6%) and leather and leather products (11.2%). Supported by a strong FDI inflow, both production and exports have displayed a stepwise shift towards higher value-added parts of manufacturing.

After three years of persistent decline, the construction sector started recovering somewhat. Unemployment reached an historic peak (19.8%, in January 2001) and dropped just modestly thereafter (18.1% at the end of April 2002). Rationalization measures adopted by domestic industrial enterprises checked any further drop in unemployment. With regional unemployment rates spread over 25 percentage points, the Slovak labour market shows the largest disparities of all CEE candidate countries. In the short term, a marked reduction in unemployment will remain elusive. FDI through mergers and acquisitions tends, at least initially, to reduce employment levels – or, put differently, it tends to boost labour productivity without a matching expansion of employment. Foreign investors have so far allocated activities predominantly in the western part of the country with its better developed infrastructure.

The central government's deficit accounted for 6.2% of GDP in the first quarter of 2002 compared to 2.5% in the same period of 2001. This considerable increase in the deficit was primarily due to a reduction in non-tax revenues and to expanding social expenditures in the pre-election period. Furthermore, restructuring costs in the banking sector fuelled expenditures. Public debt has been rising strongly: it soared to 38% of GDP in 2001. As a result the manoeuvring room for debt-financed government expenditures is narrowing rapidly. The ten-year fixed-term government bonds issued in 2001 in the course of the bank restructuring exercise will impose a major burden on the future, equivalent to some 11% of GDP. Moreover, cumulated loan guarantees provided by state account for over 15% of GDP (SKK 154 billion), of which one fifth (over

SKK 30 billion) is to mature this year. In the previous twelve years the state spent over SKK 34 billion net on that issue.

The foreign trade deficit amounted to EUR 460 million in the first quarter of 2002. That resulted in a still large current account deficit, equivalent to 6.1% of GDP. However, following continuous growth in the course of 2001, the expansion in the deficit has lost its momentum since April 2002 when exports rose for the first time since November. That notwithstanding the external imbalances will probably remain a matter of concern. Although in the first quarter of 2002 external imbalances hardly changed and the currency kept very strong (the latter adversely affected the country's competitiveness), the government continued to follow a loose fiscal policy stimulating private consumption and eventually strong imports of consumer goods as well. On 27 April the National Bank of Slovakia (NBS) responded by raising key interest rates by 0.5% (the two-week limit repo rate to 8.25%, the overnight deposit rate to 6.5% and the refinancing rate to 9.5%). The NBS hopes that such policy of more expensive money will curb private consumption and consequently imports of consumer goods, in the end resulting in lowering the current account deficit. While earlier on the rising interest rate in Slovakia attracted quite a lot of speculative short-term capital, and thus the Slovak koruna appreciated, at the moment foreign currency traders remain rather cautious, which in turn results in a downward pressure on the currency. That cautiousness has also been prompted by the fact that the government has made an upward revision of its forecast for the central government budget deficit, by 1 percentage point to 4.5% of GDP. Since the end of April the Slovak koruna has depreciated by over 6% in nominal terms; the uncertain outcome of the parliamentary elections played as role as well. At the same time, the Slovak koruna has been under appreciation pressures due to strong privatization inflows of capital.

Slovensky Plynarensky Prumysl (SPP) is the principal provider of Russian gas transport through Slovak territory to Western Europe, accounting for some 80% of total Russian gas deliveries. In March 2002 an international consortium (Gazprom, Gaz de France, Ruhrgas) acquired a 49% stake in SPP for USD 2.7 billion. Later on the Allianz Group acquired the state-owned insurer Slovenska poistovna for an estimated USD 170 million. With Allianz already present in Slovakia, the Allianz Group will gain over 54% of the total market share in Slovak insurance. Together with electricity utilities already sold for USD 580 million, FDI inflows may well exceed USD 4 billion in 2002.

Strong domestic demand is the main driving force behind the country's economic growth. GDP is expected to expand by 3.5% in 2002. Private consumption in particular, supported by a relaxation of government fiscal policy in the period leading up to the general elections (20/21 September), will be a major growth factor. As a result, the central government deficit may even exceed 5% of GDP. Pre-election factors will also militate against increases in regulated prices, resulting in the historically lowest average inflation rate of less than 5% this year. Given a depreciated currency, exports may revive slightly in the second half of 2002, at least in terms of domestic currency, while import growth may somewhat decelerate primarily on account of cheaper energy imports in USD terms and due to currency depreciation as well. If, as we expect, the current account deficit decreases from USD 1.8 billion to USD 1.5 billion in 2002, or 6.5% of GDP, the FDI inflow will easily fund the same. This, however, may well not be the case next year because the most valuable state companies have already been sold off. Therefore, the high (though slightly declining) current account deficit could start posing a threat to economic development after 2003.

Slovak Republic: Selected economic indicators

	1997	1998	1999	2000	2001 1)	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., mid-year	5383.2	5390.7	5395.3	5400.7	5379.8	.	.	.	.
Gross domestic product, SKK bn, nom.	708.6	775.0	835.7	908.8	989.3	227.1	244.8	1040	1110
annual change in % (real)	5.6	4.0	1.3	2.2	3.3	3.0	3.9	3.5	4
GDP/capita (USD at exchange rate)	3915	4080	3740	3642	3804	.	.	.	.
GDP/capita (USD at PPP - WIIW)	10320	11150	11430	11930	12660	.	.	.	.
Gross industrial production 2)									
annual change in % (real)	2.7	5.0	-2.7	8.6	6.9	7.8	1.1	4	4
Gross agricultural production									
annual change in % (real)	-1.0	-5.9	-2.5	-12.3	.	.	.	.	.
Goods transport, mn t-kms	17672	17808	19996	19829	17486	4065	3837	.	.
annual change in %	-5.9	0.8	12.3	-0.8	-11.8	-11.0	-5.6		
Gross fixed capital form., SKK bn, nom.	242.9	280.9	252.9	267.9	309.6	67.1	68.4	.	.
annual change in % (real)	14.3	11.0	-18.5	1.2	9.6	9.4	-0.8	3	10
Construction industry									
annual change in % (real)	9.2	-3.5	-25.8	-0.4	0.8	10.9	-3.3	.	.
Dwellings completed, units	7172	8234	10745	12931	10321	.	.	.	.
annual change in %	14.6	14.8	30.5	20.3	-20.2	.	.	.	.
Employment total, th pers., average 3)	2205.9	2198.6	2132.1	2101.7	2123.7	2101.1	2107.6	.	.
annual change in %	-0.9	-0.3	-3.0	-1.4	1.0	0.3	0.2	.	.
Employment in industry, th pers., average 3)	665.8	662.5	630.3	615.2	628.8	627.0	640.8	.	.
annual change in %	-3.5	-0.5	-4.9	-2.4	2.2	1.0	2.2	.	.
Unemployed reg., th, end of period	347.8	428.2	535.2	506.5	533.7	545.3	546.3	.	.
Unemployment rate in %, end of period	12.5	15.6	19.2	17.9	18.6	19.2	19.1	18	18
Average gross monthly wages, SKK	9226	10003	10728	11430	12365	11315	12287	.	.
annual change in % (real, gross)	6.5	1.7	-2.8	-4.5	0.8	0.9	3.7	.	.
Retail trade turnover, SKK bn	328.8	379.4	442.1	481.1	518.6	111.3	106.7	.	.
annual change in % (real)	4.8	8.6	9.8	2.3	4.2	3.7	-8.4	.	.
Consumer prices, % p.a.	6.1	6.7	10.6	12.0	7.3	6.8	4.7	4	7
Producer prices in industry, % p.a.	4.5	3.3	3.8	9.8	6.6	9.5	2.1	.	.
Central government budget, SKK bn									
Revenues	180.8	177.8	216.7	213.5	205.4	50.0	47.9	.	
Expenditures	217.8	197.0	231.5	241.1	249.7	55.6	63.1	.	.
Deficit (-) / surplus (+)	-37.0	-19.2	-14.8	-27.6	-44.4	-5.6	-15.2	.	.
Deficit (-) / surplus (+), % GDP	-5.2	-2.5	-1.8	-3.0	-4.5	-2.5	-6.2	.	.
Money supply, SKK bn, end of period									
M1, Money	166.1	147.2	153.9	187.2	228.6	177.7	210.3	.	.
M2, Money + quasi money	453.5	466.1	523.6	601.5	680.3	612.0	666.0	.	.
Discount rate, % p.a., end of period	8.8	8.8	8.8	8.8	8.8	8.8	7.75	.	.
Current account, USD mn	-1804	-1982	-980	-713	-1756	-315	-312	-1500	-1100
Current account in % of GDP	-8.6	-9.0	-4.9	-3.6	-8.6	-6.6	-6.1	-6.5	-4.3
Gross reserves of NB incl. gold, USD mn	3285	2923	3425	4077	4189	3863	4735	.	.
Gross external debt, USD mn	10700	11900	10518	10804	11043	11500.0	11499 Feb	.	.
Exports total, fob, EUR mn 4)	7299.0	9540.6	9602.2	12879.5	14100.8	3410.7	3399.2	15000	16500
annual growth rate in %	3.6	11.9	0.6	34.1	9.5	18.0	-0.3	6	10
Imports total, fob, EUR mn 4)	9119.0	11634.7	10627.7	13859.8	16483.8	3841.4	3859.1	17100	18100
annual growth rate in %	2.7	12.3	-8.7	30.4	18.9	25.9	0.5	4	6
Average exchange rate SKK/USD	33.62	35.24	41.42	46.20	48.35	47.29	48.17	.	.
Average exchange rate SKK/EUR (ECU)	38.01	39.60	44.12	42.59	43.31	43.71	42.24	43	43
Purchasing power parity SKK/USD, WIIW	12.75	12.90	13.55	14.11	14.53	.	.	.	.
Purchasing power parity SKK/EUR, WIIW	13.63	14.16	14.77	15.38	15.89	.	.	.	.

Notes: 1) Preliminary. - 2) From 1999 WIIW calculation according to new official statistical base 2000 for index of industrial production. - 3) Based on labour force survey. - 4) Converted from the national currency to EUR at the official exchange rate; from 1998 new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Hermine Vidovic

Slovenia: stable growth – despite declining exports to the EU

Slovenia stays on its path of moderate growth. This becomes evident from a number of indicators. Industrial output grew by 3.7% in the first four months of 2002, manufacturing by 2.9%. The fastest rates of expansion were reported for machinery and equipment and transport equipment. As was the case in previous years, low value-added branches such as textiles and leather recorded the worst performance. The number of industrial employees fell by some 3%, thus increasing labour productivity substantially. Information on the development of the construction sector is available only for enterprises employing ten workers or more: accordingly construction activities improved from month to month, but remained negative over the first quarter of the year. Retail trade turnover grew by 6.7% in real terms.

Employment continued to rise at a modest pace in the first four months of 2002. The number of registered unemployed fell steadily from February and arrived at an 11.6% jobless rate in April. The traditionally lower unemployment rate based on the ILO definition dropped from 7.1% in the final quarter of last year to 6.9% in the first quarter of 2002. Real gross and net wages grew only moderately, by 1.2% and 1.1% respectively. Following three years of intense discussion, the Employment Law, regulating relations of employers and employees in detail (e.g. annual vacations, holiday allowances, compensation for early retirement and weekly working hours) was adopted by the Slovenian parliament in April and will be effective from January 2003. At the same time a uniform wage system for the country's civil servants will come into force.

Inflation remained high during the first five months of 2002; consumer prices were up by 8% against the same period a year earlier, mainly due to soaring administered prices, e.g. telecom and public utilities, the increase of VAT and excise duties on tobacco and alcohol, and by raising the general VAT rate from 19% to 20% as of the beginning of 2002. Based on these results the Bank of Slovenia, in conformity with the government, has revised its inflation forecast upwards to 7%. In order to combat inflation, representatives of the Bank of Slovenia and the government agreed upon co-ordinated policy measures, such as stricter control of administered prices coupled with adequate exchange rate and interest rate policies. As of April the Bank has raised the discount rate from 9% to 10%.

In May a revision of the budget became necessary when it was evident that budgetary revenues in 2002 would be lower than expected. The reduction is mainly caused by a lower than anticipated revenue base for 2001 and the downward revision of the 2002 GDP growth from 3.6% to 3.3%. In response to these developments the government decided to cut budgetary expenditures by about 1% in order to keep the budget deficit within appropriate/justifiable limits. As the cut of expenditures will only partly offset the declining revenues, the deficit to GDP ratio is expected to increase from the earlier anticipated 0.98% to 1.3%. Reductions are envisaged to be primarily borne by state bodies; funds foreseen for the motorway construction and communities will remain unchanged. Possible repercussions on next years' budget have not been discussed yet. In December 2001 the Slovenian parliament adopted a biennial budget for the first time.

After several years of debate the privatization of Slovenia's major bank, Nova Ljubljanska Banka, has started in earnest at the beginning of May when the Belgian banking and insurance group KBC purchased a 34% share, worth EUR 435 million. The major part of the revenues is envisaged for repaying foreign debts. Another 5% stake of NLB was sold to the EBRD for EUR 63.9 million. Already one months earlier, the Austrian RZB had acquired a 95% share of Krekova banka, the ninth largest bank in Slovenia. By adopting the law on the privatization of insurance companies the Slovenian government had made a further step towards privatization.

As a small open economy Slovenia reacted quite sensitively to the poor economic performance in the European Union, especially in Germany. The foreign trade performance was rather weak during the first quarter of the year compared with the two preceding years. Expressed in current euro, overall exports rose by a mere 1.4%, while imports remained stagnant. The poor results achieved in trade with the EU (above all Germany and Italy) – both exports and imports were on the decline – could be partly offset by dynamic exports to the other Yugoslav successor states, the countries of the former Soviet Union and to EFTA countries, in particular by electricity exports to Switzerland. The lowering of the trade deficit coupled with a rising surplus in services trade resulted in a balanced current account during the first four months of 2002. The rising trend in foreign direct investment inflows continued. During the first four months of 2002 the reported inflow of FDI was USD 271 million, with investments mainly directed towards the banking sector. Adding the receipts of the NLB deal, the sale of a further 20% stake of Sava Tires to Goodyear (thus holding 80% of the tire manufacturer) and some other privatizations ahead, FDI inflow in 2002 will exceed the hitherto record inflow of USD 440 million (over 2% of GDP) achieved in 2001.

Based on the developments during the first months of the year, WIIW adheres to its previous forecast on GDP growth: accordingly real GDP will grow by 3% at best in 2002 driven primarily by domestic demand, while a more pronounced upswing might occur only in 2003. Inflation will slow down only modestly to about 7% in 2002 and to below 6% in 2003. In the second half of 2002 exports may accelerate in response to improving economic conditions in the EU and the current account may end up with a just small deficit.

Slovenia: Selected economic indicators

	1997	1998	1999	2000	2001 1)	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., mid-year	1986.8	1982.6	1985.6	1990.3	1992.0	.	.	.	.
Gross domestic product, SIT bn, nom.	2907.3	3253.8	3648.4	4035.5	4566.2	1058.5	.	5040	5530
annual change in % (real)	4.6	3.8	5.2	4.6	3.0	3.2	.	3	4
GDP/capita (USD at exchange rate)	9163	9878	10109	9105	9443	.	.	.	.
GDP/capita (USD at PPP - WIIW)	14100	14840	15810	16880	17740	.	.	.	.
Gross industrial production									
annual change in % (real)	1.0	3.7	-0.5	6.2	2.9	4.7	1.7	3	4
Gross agricultural production									
annual change in % (real)	0.0	2.2	-1.3	2.4	.	.	.	.	.
Goods transport, mn t-kms 2)	37859	36733	40041	37003	41230	10537	9267	.	.
annual change in %	0.1	-3.0	9.0	-7.6	.	.	-12.1	.	.
Gross fixed capital form., SIT bn, nom.	679.5	800.6	999.2	1076.8	1138.7	243.9	.	.	.
annual change in % (real)	11.6	11.3	19.1	0.2	-1.9	-3.4	.	3	4
Construction output, in effect. working time									
annual change in % (real)	-5.2	1.7	10.2	-1.2	-2.1	-0.6	-7.3	.	.
Dwellings completed, units 3)	6085	6518	5142	5815	5051	.	.	.	.
annual change in %	-2.3	7.1	-21.1	13.1	-13.1	.	.	.	.
Employment total, th pers., average	743.4	745.2	758.5	768.2	779.0	768.5	781.2	.	.
annual change in %	0.2	0.2	1.8	1.3	1.4	1.0	1.7	.	.
Employees in industry, th pers., average	248.5	246.2	242.8	241.6	243.5	243.0	.	.	.
annual change in %	-2.1	-0.9	-1.4	-0.5	0.8	1.2	.	.	.
Unemployed reg., th, end of period	128.6	126.6	114.3	104.6	104.3	103.6	103.5	.	.
Unemployment rate in %, end of period	14.8	14.6	13.0	12.0	11.8	11.8	11.7	11	10
Average gross monthly wages, SIT	144251	158069	173245	191669	214561	206167	225557	.	.
annual change in % (real, net)	2.9	1.5	3.0	1.4	3.1	4.7	1.2	.	.
Retail trade turnover, SIT bn	1290.0	1346.7	1555.0	1557.4	1797.2	.	.	.	.
annual change in % (real)	1.0	2.1	2.9	7.4	7.8	8.2	6.7	.	.
Consumer prices, % p.a.	8.4	7.9	6.1	8.9	8.4	8.7	8.1	7	5.5
Producer prices in industry, % p.a.	6.1	6.0	2.1	7.6	8.9	10.2	5.8	.	.
General government budget, SIT bn									
Revenues	1222.6	1397.9	1590.0	1726.7	1967.8	383.9	392.0	.	.
Expenditures	1256.7	1423.5	1613.3	1781.4	2030.9	434.9	520.4	.	.
Deficit (-) / surplus (+)	-34.1	-25.6	-23.3	-54.7	-63.1	-51.0	-128.4	.	.
Deficit (-) / surplus (+), % GDP	-1.2	-0.8	-0.6	-1.4	-1.4	-4.8	.	.	.
Money supply, SIT bn, end of period									
M1, Money	270.5	332.7	399.8	424.0	502.2	402.7	485.2	.	.
Broad money	1411.3	1690.3	1912.9	2206.4	2876.7	2329.9	2970.7	.	.
Discount rate % p.a., end of period	10.0	10.0	8.0	10.0	11.0	10.0	9.0	.	.
Current account, USD mn	11.4	-147.2	-782.6	-611.5	-66.9	47.8	72.8	100	100
Current account in % of GDP	0.1	-0.8	-3.9	-3.4	-0.4	1.0	.	0.5	0.4
Gross reserves of NB excl. gold, USD mn	3314.7	3638.5	3168.0	3196.0	4329.9	3104.1	4521.0	.	.
Gross external debt, USD mn	4123	4915	5400	6217	6717	6107	6680	.	.
Exports total, fob, EUR mn 4)	7413.4	8051.9	8037.0	9505.1	10347.9	2612.2	2653.0	10900	11400
annual growth rate in %	11.6	8.6	-0.2	18.3	8.9	17.8	1.6	5	5
Imports total, cif, EUR mn 4)	8289.7	8999.4	9482.0	10995.7	11341.9	2815.1	2816.5	11600	12200
annual growth rate in %	10.0	8.6	5.4	16.0	3.1	7.7	0.1	2	5
Average exchange rate SIT/USD	159.69	166.13	181.77	222.68	242.75	231.08	254.57	.	.
Average exchange rate SIT/EUR (ECU)	180.40	186.27	193.63	205.03	217.19	213.41	222.92	227	230
Purchasing power parity SIT/USD, WIIW	103.76	110.56	116.20	120.11	129.23	.	.	.	.
Purchasing power parity SIT/EUR, WIIW	113.81	121.15	126.58	130.96	141.05	.	.	.	.

Notes: 1) Preliminary. - 2) From 1998 permits. - 3) Due to changed methodology of road transport data for 2001 and 2002 are not comparable to data for previous years. - 4) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Hermine Vidovic

Croatia: struggling with old problems

Key economic indicators show a diverse picture during the first months of 2002: disinflation continued, unemployment remained at high levels, the foreign trade deficit worsened and industrial output growth lost momentum compared to last year. Industrial production grew by 3%, manufacturing by 3.9% during the first five months of 2002. Within manufacturing, output growth was much above average in publishing and printing, pulp and paper, electrical machinery, rubber and plastics, and machinery and equipment. Remarkable declines were registered in the production of tobacco, wearing apparel, leather products and coke and refined petroleum products. Some branches showed a strong correlation between both output growth and decline and the export performance, e.g. exports of machinery and equipment expanded by more than 40%, whereas exports of coke and refined petroleum, tobacco, wearing apparel and leather products fell substantially. Continued layoffs translated into a further increase in labour productivity. Retail trade showed again very dynamic growth with real turnover up 12% during the first four months of 2002; sales of cars jumped even by 23%. The construction industry reports a rising trend in orders, implying further investment growth.

Inflation continued its downward trend, reaching the lowest level since Croatia gained independence: during the first five months of 2002 retail prices increased by 2.6% on average, in May by 1.8% year-on-year. The Croatian National Bank (CNB) intervened frequently on the foreign exchange market in order to prevent an appreciation of the kuna, which resulted in net purchases of EUR 500 million. Foreign currency reserves of the CNB have been steadily on the increase; by March 2002 they reached a record level of USD 4.9 billion.

So far the government has been unable to combat high unemployment. Despite a declining number of unemployed, the jobless rate remained high, at about 23% in May – the highest rate compared to the more advanced transition countries. Labour force survey data reveal a significantly lower but still marked rate of unemployment, 17% in the second half of 2001 (the survey is conducted only twice a year). Following an employment increase in 2001 (0.5% according to recently revised data) for the first time after a decade of decline, the number of employed continued to increase slightly during the first months of 2002. However, it is too early yet to speak of a reversal of trends. Having already weakened considerably in 2001, real wage growth came to a halt and even reported a decline of 0.7% during the first quarter of the year.

Though slowing down as compared to the previous year, import growth remained high during the first four months of 2002: imports rose by about 12% in euro terms. At the same time exports expanded by about 5%. The trade deficit increased by EUR 300 million as against the same period a year earlier. Trade with the European Union developed unevenly: while total exports to these markets grew by 5%, exports to Germany, Croatia's second most important trading partner, fell by 10%. Imports from the EU rose by 11%. The trade balance with the other Yugoslav successor states deteriorated, but remained slightly positive. The most important trading partner in this area has been Bosnia and Herzegovina, while trade with Slovenia has been losing its dynamics from year to year. Current account data for the first quarter of 2002 are not available yet. However, considering the deterioration of the trade balance coupled with the strong expansion of overnight stays of foreign tourists (implying an adequate increase in earnings) the current account may have closed with a similar deficit as in the first quarter of 2001 (roughly USD 600 million).

Several methodological changes make it difficult to assess the current fiscal developments and to compare them with those of earlier years. The health and pension funds were incorporated into the state budget, the funds for the Croatian Highways and Road Construction were excluded and two new funds, the Regional Development Fund and the Development and Employment Fund, were established. The consolidated general government anticipates a 6.6% deficit to GDP ratio in 2002 (IMF, preliminary conclusion of the mission), a relation that is unsustainable in the long run. So far the actual magnitude of the deficits has been concealed by privatization earnings, but once these dry up the government will face a serious debt service burden. Budgetary expenditures have been steadily on the increase and have reached more than 50% of the GDP – the highest level among the transition countries. The IMF has called for a further reduction of expenditures, such as for wages, subsidies and transfers. The wage bill – still high by international standards – should be reduced by further layoffs, primarily in the defence and health sectors; employment cuts in other sectors such as public administration and education are likely. These measures will of course counteract the government goal of increasing employment; instead, they will increase the pool of unemployed. The private sector, the only possible source of job creation, is still too weak to absorb redundant labour from the state sector.

Developments so far are in line with WIIW's earlier GDP forecast, posting a 3% growth rate for 2002. Projections published by the government, IMF and EBRD, putting the rate at 3.5%, seem to be too optimistic given the poor export performance and the low wage growth (slowing down personal consumption). As price rises during the first months of the year were lower than expected, we have revised our inflation forecast down to 3% from an earlier 4%. Assuming a continuation of the current trends in foreign trade, the trade balance will end up with a higher deficit than in 2001. This would lead to a deterioration of the current account deficit despite an expected increase of earnings from tourism. A more pronounced GDP growth can only be expected in 2003 once global economic developments have witnessed a turnaround.

Croatia: Selected economic indicators

	1997	1998	1999	2000	2001 [1]	2001 1st quarter	2002 1st quarter	2002 forecast	2003 forecast
Population, th pers., mid-year [2]	4573	4501	4554	4381	4381	.	.	.	.
Gross domestic product, HRK mn, nom.	123811	137604	142700	157511	168972	38666	.	179260	191090
annual change in % (real)	6.8	2.5	-0.4	3.7	4.1	4.2	.	3	4
GDP/capita (USD at exchange rate)	4398	4805	4406	4196	4625	.	.	.	.
GDP/capita (USD at PPP - WIIW)	7840	8260	8250	9090	9660	.	.	.	.
Gross industrial production									
annual change in % (real)	6.8	3.7	-1.4	1.7	6.0	5.6	1.9	4	4
Gross agricultural production									
annual change in % (real)	4.0	10.2	-3.5	-10.0	.	.	.	.	.
Goods transport, public, mn t-kms [3]	203428	170107	146302	143839	142338	31292	30691		
annual change in %	-4.6	-16.4	-14.0	.	-2.1	.	-1.9	.	.
Gross fixed capital form., HRK mn, nom.	29935.6	32065.6	32956.0	33091.0	37022.0	8229	.	.	.
annual change in % (real)	26.4	2.5	-1.1	-3.5	9.7	11.6	.	5	6
Construction industry, hours worked [4]									
annual change in % (real)	16.7	0.7	-7.7	-9.1	3.6	-0.2	.	.	.
Dwellings completed, units	12516	12557	12175	.	.	.	.	.	.
annual change in %	-0.9	0.3	-3.0	.	.	.	.	.	.
Employment total, th pers., average [5]	1310.9	1384.8	1364.5	1341.0	1348.3	1311.6	1318.7	.	.
annual change in % [5]	-1.4	0.4	-1.5	-1.7	0.5	-1.8	0.5	.	.
Employees in industry, th pers., average	319.7	308.9	299.5	291.9	287.2	283.7	279.1	.	.
annual change in %	-6.4	-3.4	-3.0	-2.5	-1.6	-3.5	-1.6	.	.
Unemployed reg., th, end of period	287.1	302.7	341.7	378.5	395.1	388.7	415.4	.	.
Unemployment rate in %, end of period	17.6	18.1	20.4	22.3	23.1	22.9	23.8	23	22
Average gross monthly wages, HRK	3668	4131	4551	4869	5061	4986	5133.3	.	.
annual change in % (real, net)	12.3	6.0	10.1	3.4	1.6	1.7	-0.7	.	.
Retail trade turnover, HRK mn	34736.1	.	.	.	.	.	.	.	.
annual change in % (real)	14.9	0.1	-3.5	10.0	10.0	10.9	13	.	.
Retail prices, % p.a. [6]	3.6	5.7	4.2	6.2	4.9	6.5	3.2	3	2.5
Producer prices in industry, % p.a.	2.3	-1.2	2.6	9.7	3.6	7.3	-2.6	.	.
Central government budget, HRK mn [7]									
Revenues	33846	43809	46356	44651	53444	9036	15136	.	.
Expenditures	35006	42552	48879	50779	57202	12286	17718	.	.
Deficit (-) / surplus (+)	-1160	1257	-2523	-6128	-3759	-3251	-2581	.	.
Deficit (-) / surplus (+), % GDP	-0.9	0.9	-1.8	-3.9	-2.2	.	.	.	.
Money supply, HRK mn, end of period									
M1, Money	13731	13531	13859	17941	23704	17395	24375	.	.
Broad money	50742	57340	56659	73061	106071	77504.6	106245	.	.
Discount rate % p.a., end of period	5.9	5.9	7.9	5.9	5.9	5.9	5.9	.	.
Current account, USD mn	-2325.1	-1530.6	-1390.4	-432.7	-623.2	-611.3	.	-800	-900
Current account in % of GDP	-11.6	-7.1	-6.9	-2.3	-3.1	-13.1	.	-3.5	-3.6
Gross reserves of NB excl. gold, USD mn	2539.1	2815.7	3025.0	3524.8	4704.2	3514.1	4885.5	.	.
Gross external debt, USD mn	7451.6	9586.2	9872.3	11002.2	11134.0	11285.8	11388.9	.	.
Exports total, fob, EUR mn [8]	3665.8	4046.2	4027.3	4818.0	5203.1	1184.2	1179.8	5400	5700
annual growth rate in %	1.8	10.4	-0.5	18.9	8.0	9.0	-0.4	4	5
Imports total, cif, EUR mn [8]	8059.7	7476.9	7324.1	8588.5	10118.0	2162.8	2411.2	11000	12100
annual growth rate in %	29.6	-7.2	-2.0	16.8	17.8	28.0	11.5	9	10
Average exchange rate HRK/USD	6.16	6.36	7.11	8.28	8.34	8.29	8.51	.	.
Average exchange rate HRK/EUR (ECU)	6.96	7.14	7.58	7.63	7.47	7.67	7.46	7.5	7.6
Purchasing power parity HRK/USD, WIIW	3.45	3.70	3.80	3.95	3.99	.	.	.	.
Purchasing power parity HRK/EUR, WIIW	3.79	4.06	4.14	4.31	4.36	.	.	.	.

Notes: 1) Preliminary. - 2) In 2001 according to census 2001. - 3) From 2000 new methodology. - 4) Enterprises with more than 20 employees. - 5) From 1998 including persons employed at the Ministry of Defence and Ministry of Internal Affairs. - 6) From Aug 2001 adjustment lowering telecom prices. - 7) From June 2001 including extrabudgetary funds; from Jan 2002 including social security funds. - 8) From 2000 new method of statistical processing. Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Peter Havlik

Russian Federation: stalled growth with stagnating investments

Russian economic growth has been decelerating for the second consecutive year as the effects of the post-August 1998 devaluation and high world market energy prices are gradually fading out. Any growth impetus from the recently implemented structural reforms is not visible yet and investors remain extremely cautious. Once more, GDP growth slowed down at the beginning of 2002 (from nearly 5% last year to slightly more than 3% during January-April 2002), and there are no immediate signs of an acceleration. As expected, the external surplus has been falling, investments are disappointingly weak and the only growth stimulus is coming from rapidly expanding private consumption. At the same time, annual inflation remains at close to 20%, the state budget records a surplus already for the third year running and the nominal exchange rate is slightly depreciating. In real terms, the strengthening rouble stipulates growth of imports (+18% year-on-year in the first quarter of 2002) whereas export revenues are declining (-8%) on account of lower energy prices. As a result both trade and current account surpluses are falling. Nevertheless, foreign exchange reserves have reached more than USD 42 billion as of end-May 2002, covering about eight months of imports, and capital flight has apparently slowed down.

Despite this largely positive news (which includes some improvements in the living standards of the population and falling unemployment) there are several reasons for concern. The recent GDP growth was just a windfall of the rouble devaluation and high world market energy prices and the economy practically stagnated in the second half of 2001. Even the increased political stability and the gradual progress on structural and institutional reforms do not yet guarantee foundations for sustainable growth. The main worry are investments, which temporarily picked up during 1999-2001 but remain essentially flat this year. Apart from the oil sector (and booming housing construction in Moscow) investments actually declined and the drop in machinery and equipment investments is especially worrying. Moreover, FDI inflows remain also disappointingly low; the inflows have even declined in the first months of 2002. In sum, the outlook for sustainable growth remains problematic as the country continues to be highly dependent on volatile commodity prices and the confidence of investors is weak. As a result, economic growth in 2002 is expected to hover around 3%, and it may accelerate only slightly in 2003 and 2004 after reforms have gradually borne fruit. Needless to say, this forecast rests on the assumption that no major shift in energy prices will occur.

Particularly industry has been gradually losing steam since mid-2001; it grew just by 3% in the first four months of this year (after nearly 6% during the same period of 2001). Agricultural production expanded by more than 5% and goods transport by 4%. Also construction (mainly housing), and especially the retail trade turnover (the latter increased by nearly 9% in the first quarter of the year), continue to expand. As in the previous year, the main growth impetus is coming from the expansion of domestic demand, this year with a clear shift towards more private consumption. The direct contribution of net exports to real GDP growth has become negative. Last year's first-quarter trade surplus amounted to more than USD 15 billion, the current account surplus was USD 11.5 billion (17% of GDP). This year, the first-quarter trade surplus dropped to USD 11 billion and the current account surplus to just USD 7.6 billion (still about 10% of GDP). Inflows of foreign exchange help not only to prop up the exchange rate and reserves, but to ease the debt burden as well. According to the Central Bank of Russia (CBR), total external debt decreased by USD 10 billion between 1 January 2001 and the beginning of 2002. Within total external indebtedness, the share of state debt is declining whereas debts of the banking system and non-financial enterprises are rising. The so-called '2003 debt service problem' is definitely less acute now since 'only' USD 17 billion debt service is due in that year and the recently established 'reserve fund' has accumulated nearly USD 6 billion. Last but not least, budget revenues are increasing (to about 21% of GDP in the first quarter of 2002) and despite some growth in expenditures the federal budget records a large surplus (more than 4% of GDP in the first quarter of 2002).

The income situation of private households has been improving during the last two years. Real disposable incomes and private consumption grew by nearly 10% per year, average real wages by almost 20%. Beside debt repayments, the government used part of the higher budget revenues to raise pensions and the salaries of state employees. The situation on the labour market has improved as well: the rate of unemployment fell to 8.4% as of end-March 2002 – about four percentage points less than the peak during the 1998 crisis year. Despite these overall positive developments, about 30% of the Russian population still live on incomes below the official subsistence level and differences in incomes are growing. Both real incomes and real wages have just been approaching their pre-August 1998 level (the average monthly wage in April 2002 was EUR 145, just as in 1997). The rapid wage increases, sluggish productivity improvements and the appreciating currency result in a strong deterioration of unit labour costs.

Several key pieces of reform legislation were adopted and implemented during 2001. After the introduction of the flat income tax of 13%, of uniform social taxation and new rules for VAT at the start of 2001, new corporate taxation rules are in force since 1 January 2002 (profit tax of 24% instead of previously 35%; numerous exemptions were simultaneously abolished). Furthermore, new enterprise, labour and land codes were adopted (the latter codified private property of non-agricultural land only). A pension reform (introducing the famous three-pillar system) was initiated as well. In June 2002, the lower chamber of Parliament approved a draft bill recognizing private entitlement to land, including an amendment which prohibits foreigners from acquiring agricultural land, and which only grants them the right to lease over a 49-year period. Last but not least, import tariffs have been lowered and streamlined in the course of the preparations for WTO accession. As of 1 April 2002, Russia was recognized as a market economy by the USA, and the EU announced to follow suit in the coming months. Apart from the political symbolism, the market economy status will make future anti-dumping claims against Russian exports more difficult. Unfortunately, virtually no progress has been achieved so far in the envisaged restructuring and improved transparency of natural monopolies (including UES Electricity System, RAO Gazprom and Railways), nor in the banking system reform. The latter was probably one of the reasons why CBR Chairman V. Geraschenko was replaced by S. Ignatiev in March.

In June 2002, the government presented its budget plan for 2003, together with the revised medium-term growth forecast. Budget revenues are planned at 18.5% of GDP and the primary surplus at 0.8% of GDP (both about 1 percentage point less than in 2002). This implies that real budget expenditures will actually stagnate. The annual inflation is projected at 10% to 12%, the average exchange rate at RUB 34 per USD. The government's ambitious and controversial aim is to keep the share of non-interest expenditures below 12.8% of GDP in 2003, and to reduce this share to close to 12% of GDP by 2005. GDP growth is projected to reach between 3.6% and 4.4% in 2003, and to increase to more than 5% only in the coming two years. In this way the government partly responded to President Putin’s recent criticism concerning the insufficient GDP growth outlook in previous government development plans. On the whole, the official growth projections seem to be a bit too optimistic: WIIW does not expect GDP growth to exceed 4% in 2003.

Russia: Selected economic indicators

	1997	1998	1999	2000	2001 [1]	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., end of period	147105	146693	145925	145185	144500	.	.	144000	143500
Gross domestic product, RUB bn, nom.	2478.6	2741.1	4766.8	7302.2	9040.8	1889.2	2282	10700	12700
annual change in % (real)	0.9	-4.9	5.4	9.0	5.0	4.8	3.3	3.4	3.8
GDP/capita (USD at exchange rate)	2909	1922	1323	1784	2141	.	.	2320	2600
GDP/capita (USD at PPP - WIIW)	5680	5480	5880	6590	7120	.	.	.	.
Gross industrial production									
annual change in % (real)	1.9	-5.2	11.0	11.9	4.9	5.2	2.6	4	5
Gross agricultural production									
annual change in % (real)	1.5	-13.2	4.1	7.7	6.8	3	5.4	.	.
Goods transport, bn t-kms	3256	3147	3315	3480	3592	909.6	950.7	.	.
annual change in %	-3.4	-3.3	5.3	5.0	3.2	0.7	4.1	.	.
Gross fixed investment, RUB bn, nom.	408.8	407.1	670.4	1165.2	1599.5	353	254.4	.	.
annual change in % (real)	-5.0	-12.0	5.3	17.7	8.7	5.9	1.2	6	8
Construction output total									
annual change in % (real)	-6.0	-5.0	6.0	11.0	10.0	7.6	2.6	.	.
Dwellings completed, th units	430.3	387.7	389.8	373.4	382.0	44.0	53.9	.	.
annual change in %	-10.6	-9.9	0.5	-4.2	2.3	-2.2	22.5	.	.
Employment total, th pers., average	64693	63812	63963	64327	65000	63333 [2]	64233 [2]	.	.
annual change in %	-1.9	-1.4	0.2	0.6	1.0	0.8 [2]	1.4 [2]	.	.
Employment in industry, th pers., average	14905	14162	14297	14543	14635	.	.	.	.
annual change in %	-8.9	-5.0	1.0	1.7	0.6	.	.	.	.
Unemployed, th, end of period [2]	8133	9728	8904	7039	6190	6769	5943	.	.
Unemployment rate in %, end of period [2]	11.2	13.3	12.2	9.9	8.7	9.6	8.4	8.5	9
Average gross monthly wages, RUB	950.2	1051.5	1522.6	2223.4	3282.0	2781	3838.7	.	.
annual change in % (real, gross)	4.7	-13.3	-22.0	20.9	20.6	20	18.7	.	.
Retail trade turnover, RUB bn	866.1	1056.4	1782.9	2332.1	.	682.0	845.5	.	.
annual change in % (real)	3.6	-3.4	-7.9	8.9	10.7	7.5	8.8	.	.
Consumer prices, % p.a.	14.8	27.6	85.7	20.8	21.6	22.3	18.0	19	16
Producer prices in industry, % p.a.	15.0	7.1	58.9	46.6	19.1	26.5	7.1	17	15
Central government budget, RUB bn									
Revenues	343.4	325.9	615.5	1132.1	1590.7	317.90	472.4	2126	.
Expenditures	436.6	472.2	666.9	1029.2	1325.7	268.8	364.3	1947	.
Deficit (-) / surplus (+)	-93.2	-146.3	-51.4	102.9	265.0	49.2	108.1	179	.
Deficit (-) / surplus (+), % GDP	-3.8	-5.3	-1.1	1.4	2.9	2.6	4.7	1.6	.
Money supply, RUB bn, end of period									
M1, Money	298.3	342.8	526.8	879.3	1192.6	858.4	1106.3	.	.
M2, Money + quasi money	457.2	628.6	984.9	1560.0	2122.7	1632.3	2137.7	.	.
Refinancing rate of NB % p.a., end of per.	28	60	55	25	25	25	25	.	.
Current account, USD mn	2032	659	24731	46405	35092	11448	7600	25000	20000
Current account in % of GDP	0.5	0.2	12.8	17.9	11.3	17.3	10.3	7.1	5.4
Gross reserves of NB, incl. gold, USD mn	17784	12223	12456	27972	36622	29709	37295	40000	.
Gross external debt, USD mn	130800	145000	158800	144500	140000	.	.	.	.
Exports total, fob, EUR mn [3]	78479	66874	70960	114177	115041	27601	25333	100000	105000
annual change in %	9.8	-14.8	6.1	60.9	0.8	11.8	-8.2	-13	5
Imports total, cif, EUR mn [3]	63489	51785	37027	48593	59607	12001	14120	63000	66000
annual change in %	18.4	-18.4	-28.5	31.2	22.7	18.7	17.7	6	5
Average exchange rate RUB/USD	5.79	9.71	24.62	28.12	29.17	28.55	30.78	32	34
Average exchange rate RUB/EUR (ECU)	6.54	11.06	26.24	26.03	26.13	26.36	26.98	29	34
Purchasing power parity RUB/USD, WIIW	2.96	3.41	5.54	7.61	8.79	.	.	8.3	9.3
Purchasing power parity RUB/EUR, WIIW	3.25	3.73	6.04	8.30	9.59	.	.	.	.

Notes: 1) Preliminary. - 2) Based on Labour Force Survey data. - 3) Including estimate of non-registered trade. Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Helen Boss Heslop

Ukraine: surprise move towards NATO as Russia does the same

The Ukrainian economy showed continued growth in the first months of 2002, but at rates vastly reduced from the torrid expansions of 2000-01. GDP in January-May 2002 was reported up 3.8% on an annual basis, cf. 9% a year earlier. Industrial production in the first five months of 2002 rose 3.1%, cf. 18.8% in January-May 2001, and moreover showed a small deceleration vis-à-vis the growth rate in the first quarter. Manufacturing, which had grown by nearly 25% in real terms in the first four months of 2001, rose 4.7% in January-April 2002, among other things because the steel industry, 7th in the world, was hit by the slow international economy and anti-dumping measures. Inflation remained surprisingly well under control, with consumer prices up less than one per cent in January-April over December 2001, on top of a modest 6% rise in 2001, well below target. Producer prices rose only 0.7% in January-April. The stable exchange rate to the US dollar helped moderate price increases, but competitiveness vis-à-vis Russia has deteriorated.

Real wages and incomes have continued to rise. Real wages rose ca. 21% in both 2001 and the first quarter of 2002, even though the average wage in Q1 2002 was only EUR 65; registered unemployment remains very low. Last year's bumper harvest lowered input costs in the traditionally private livestock sector in the first months of 2002, allowing agricultural output to rise 11%. Higher incomes and better results in agriculture ought to begin to dent the country's poverty rate; in 2001 it was estimated that over 27% of the population lived on less than EUR 30 per month. Retail trade was one of the best performing sectors in 2002, up 19.8% in January-April. Capital investment expenditures have risen a third since the turn of the millennium. FDI as of end March 2002 had reached an estimated cumulative USD 4.53 billion according to the Prime Minister (a much more modest USD 2.75 billion, or USD 56 per capita as of end 2001 according to the EBRD).

Payments discipline has improved, but non-payment is still not self-correcting. Nearly 13% of enterprises produced no output in the first four months of 2002, but bankruptcy procedures remain a rarity. In Q1 2002, overall payables rose 14.4% over the same period of 2001, though the public sector has reduced many of its arrears. The IMF on its June mission declined to approve a proposed August 2002 final tranche of the EFF, citing question-marks re the budget. Privatizations have lagged and VAT arrears continue to be forgiven, with one result that overall consolidated budget revenue is less than half Russia's on a per capita basis. 2003 looms as a spike year for sovereign debt repayments: some USD 1.5 billion will fall due, and applications are already in review to float up to USD 800 million of new sovereign debt to smooth repayments.

Industrial production was the driver of Ukraine's 2000-2001 growth, soaring 14% in 2001 in real terms and 12.4% in 2000; not surprisingly such rates have decelerated sharply as easy gains in capacity utilization were exhausted and as iron, steel, fabricates and chemicals exports were hit by sanctions and the sluggish world economy. Ukrainian industrial production overall grew, but energy-intensive ferrous and non-ferrous metals' output actually fell 6.6%. The big percentage gainer in 2001 was oil refining, up over 50%, as FDI from Russia and Kazakhstan brought several refineries back towards their former capacity; this sector continued to outperform in the first months of 2002, as energy carriers raised output by 19.6%. Domestic gas extraction also rose, to 18.2 bcm in 2001, but was flat year-on-year in early 2002.

Ukraine's merchandise exports to CIS countries tapered off markedly in 2001 to a growth rate of only 4%, vs. a rise of 38% in 2000. Exports to the rest of the world grew 15% in 2001. Imports from the CIS in 2001 grew 10%; imports from other countries were up 17% according to CIS statistics. The year 2002 has seen the decelerations tip into negative territory: Ukraine's CIS exports fell a dramatic 33% year-on-year in the first quarter, and its CIS imports fell 7.6%. Exports to the rest of the world rose 11.3% and imports rose 8.4%. Ukraine's reported share in Russia's imports fell from 6.8% to 5.8% in January-April year-on-year; a recent series of bilateral trade deals did not extend to a free trade agreement. Warm winter weather and increased gas imports from Turkmenistan cut Russia's weight in Ukrainian imports in the first quarter to only 36.8% of the goods total, when in the late 1990s Russia accounted for nearly half Ukraine's foreign purchases. Naftogaz's latest gas deal with Russia gives Ukraine guaranteed transit payments in kind until the year 2013 and without having to pledge its pipelines as collateral in any debt equity swaps. Ukraine may also be allowed to export some gas, such as its latest winter surplus.

Low inflation has been good for competitiveness as the devaluation after the Russian crisis has not been so eroded away; the real effective exchange rate has remained broadly stable against the US dollar since mid 2001, though rising against the rouble. If anti-dumping actions do not spread, the May-June 2002 plunge in the dollar's value vis-à-vis the euro should boost Ukraine's traditional commodity exports to the euro region, since steel, chemicals and petrochemicals tend to be priced in dollars.

Ukraine's WTO application are a litmus test of commitment to reform. There has been little progress for years on the long list of legislative and implementation issues, most importantly hidden subsidies to agriculture. A ninth round of discussions at WTO headquarters in Geneva is scheduled for late June 2002.

The west's new relationship with Russia post-September 11th has in many respects taken the pressure off Ukraine to choose between 'west' and 'east'. As Russia enjoys a rapprochement with 'Euro-Atlantic structures', is invited to sit on a joint NATO-Russia council, and is designated a market economy, improving its prospects of WTO membership, Ukraine is better able to go along for the ride, despite its worse reform record and the many delays in harmonizing its laws and regulations with the EU's *acquis communautaire*. President Kuchma and his government, after relying heavily on Russia's support during last year's scandals, are again speaking about Ukraine's 'European choice'. On 23 May the head of the security and defence council Marchuk announced the end of the 'multivector foreign policy' and that Ukraine would apply for actual NATO membership. The process could take over a decade, and Ukraine would have to transform its military and civil society to qualify. With Hungary, Poland et al. hopefully acceding to the EU in 2004, Ukraine hopes for the psychological benefits of being recognized as just over the border of the 'new West'. To placate Russia, Kuchma also in May said Ukraine would also join Russia's Eurasian Economic Community as an associate member.

The March parliamentary elections gave 24% of the popular vote to ex-PM Yushchenko's party, but the unpopular President Kuchma's candidates won many single constituencies, so parliament remains divided, though the communists have lost influence. Cynicism is high: over a million people voted 'against all'. Kuchma's most trusted cohort Lytvyn has been parachuted into the speaker's position, and the oligarch Medvedchuk, whose party fared poorly in the parliamentaries, got the consolation prize of head of the presidential administration. Kinakh remains prime minister for now. A May poll indicated that Yushchenko is still very popular; he remains the favourite to beat anyone Kuchma designates as his successor, possibly Medvedchuk, in 2004.

Ukraine: Selected economic indicators

	1997	1998	1999	2000	2001 1)	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., end of period	50499.9	50105.6	49710.8	49291.2	48860	49184.2	.	48700	48500
Gross domestic product, UAH mn, nom.	93365	102593	130442	170070	201927	42865	42416	231000	266800
annual change in % (real)	-3.0	-1.9	-0.2	5.9	9.1	7.7	3.8	4	5
GDP/capita (USD at exchange rate)	989	833	633	634	790	.	.	894	.
GDP/capita (USD at PPP - WIIW)	3630	3630	3710	4050	4570	.	.	.	.
Gross industrial production									
annual change in % (real)	-0.3	-1.0	4.0	12.4	14.2	17.4	3.1	4	6
Gross agricultural production									
annual change in % (real)	-1.9	-9.8	-6.9	9.8	9.9	6.1	11.1	5	6
Goods transport, bn t-kms	402.3	391.7	388.0	394.1	.	.	.	.	.
annual change in %	-10.7	-2.6	-0.9	1.6	1	.	2.2	.	.
Gross fixed investment, UAH mn, nom.	12437.0	13958.0	17552.0	23629.0	26744.0	3945	4804.8	.	.
annual change in % (real)	-8.8	6.1	0.4	14.4	17.2	23.7	9.6	15	15
Construction output total									
annual change in % (real)	-9.9	2.7	-8.0	9.1	.	10.4	-5	.	.
Dwellings completed, units	80000	70000	73000	62600	.	.	.	.	.
annual change in %	-9.2	-12.5	4.3	-14.2	.	.	.	.	.
Employment total, th pers., average	22597.6	22348.7	21823.7	21268.5	21000.0	.	.	20500	.
annual change in %	-2.7	-1.1	-2.3	-2.5	-1.3	.	.	.	.
Employees in industry, th pers., average 2)	4273.0	4142.0	3932.0	3445.0	3497.5	.	.	.	.
annual change in %	-7.9	-3.1	-5.1	-12.4	1.5	.	.	.	.
Unemployed reg., th, end of period	637.1	1003.2	1174.5	1155.2	1008.1	1149.2	1079.2	.	.
Unemployment rate in %, end of period	2.3	3.7	4.3	4.2	3.7	4.2	3.9	4	4
Average gross monthly wages, UAH 2)	143.0	153.0	177.5	230.1	311.1	266.0	334.8	.	.
annual change in % (real, gross)	-2.1	-3.2	-5.4	1.1	20.7	14.8	21.3	.	.
Retail trade turnover, UAH mn	18933	19317	22151	28530	34050	7202	8206.6	.	.
annual change in % (real)	0.2	-6.6	-7.1	8.1	12.6	8.0	16.8	.	.
Consumer prices, % p.a.	15.9	10.6	22.7	28.2	12.0	19.4	3.7	10	10
Producer prices in industry, % p.a.	7.7	13.2	31.1	20.9	8.6	15.6	-0.3	.	.
General government budget, UAH mn									
Revenues	28112.0	28915.8	32876.4	49117.9	53993.0	12105.9	12689	52900 3)	.
Expenditures	34313.0	31195.7	34820.9	48148.6	55256.6	10786.9	12028	52900 3)	.
Deficit (-) / surplus (+)	-6201.0	-2279.9	-1944.5	969.3	-1263.6	1319	660.6	.	.
Deficit (-) / surplus (+), % GDP	-6.6	-2.2	-1.5	0.6	-0.6	3.1	1.6	-1.7 3)	.
Money supply, UAH mn, end of period									
M0, Currency outside banks	6132.0	7158.0	9583.0	12799.0	19465.0	12736	19646	.	.
Broad money	12541.0	15718.0	22070.0	32084.0	45555.0	33026	47345	.	.
Refinancing rate of NB % p.a., end of period	34.8	74.2	45.0	27.0	12.5	25.0	11.3	.	.
Current account, USD mn	-1335	-1296	1658	1481	1402	278	722	0	.
Current account in % of GDP	-2.7	-3.1	5.2	4.7	3.7	3.5	9.1	0	.
Gross reserves of NB excl. gold, USD mn 4)	2341	761	1046	1353	2955	1396	.	.	.
Gross external debt, USD mn	9555	11483	12438	10350	12100	.	.	12500	.
Exports total, fob, EUR mn 5)	12550	11283	10856	15771	18159	4115.5	4419.5	20300	.
annual change in %	10.5	-10.1	-3.8	45.3	15.1	34.5	7.4	12	.
Imports total, cif, EUR mn 5)	15103	13103	11104	15104	17612	3856.4	4047.3	19700	.
annual change in %	8.8	-13.2	-15.3	36.0	16.6	2.9	5.0	12	.
Average exchange rate UAH/USD	1.862	2.450	4.130	5.440	5.372	5.428	5.319	5.3	.
Average exchange rate UAH/EUR (ECU)	2.113	2.768	4.393	5.029	4.814	5.015	4.662	5.5	.
Purchasing power parity UAH/USD, WIIW	0.507	0.561	0.705	0.848	0.904	.	.	.	.
Purchasing power parity UAH/EUR, WIIW	0.557	0.615	0.768	0.925	0.987	.	.	.	.

Notes: 1) Preliminary. - 2) Excluding small enterprises. - 3) NBU Aug. 2001 first draft budget for 2002. - 4) Useable. - 5) Exports and imports of goods according to customs statistics, adjusted for oil, gas and non-declarable goods. Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

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

Vladimir Gligorov

Macedonia: post-conflict developments

Violent conflict brought the country on the verge of civil war in the first half of 2001. With international mediation, the conflict calmed down and a constitutional and political process was started. The constitution was amended and preparations have been made for parliamentary elections in September 2002. The aim of these efforts is to rebuild the country that is believed to be important for regional stability.

The conflict has cost the economy rather dearly. The GDP and industrial production declined sharply. Also the fiscal stability deteriorated. Macedonia made an effort to cut budget expenditures and increase revenues in order to be able to repay its foreign debts and some of the domestic arrears. Despite these efforts, the budget surplus of 2000 turned into a huge deficit in 2001. In the first half of 2002 the negotiations with the IMF did not lead to an agreement precisely because the Macedonian government was not ready to take steps to sharply reduce the fiscal deficit. The negotiations will most probably resume after the elections later this year.

Monetary policy was relied on to preserve stability. The central bank increased interest rates aggressively and intervened in the foreign exchange market to keep the exchange rate stable. In this it has succeeded, though with significant costs for growth and for its foreign currency reserves. More importantly, it could not move to a more flexible exchange rate and monetary policy which would have been beneficial for investments and exports. However, the need to preserve stability was paramount.

Investments and especially foreign direct investments slowed down as the risks increased dramatically. Exports fell, but so did imports so the current account deficit did not present additional problems. At the beginning of 2002 a donors conference was held. More than USD 200 million were pledged, some of the money earmarked for current account support.

In this year, the most that can be hoped for is for GDP to stabilize. Industrial production has continued to fall and it is difficult to see that it will recover soon. In fact, restructuring of some of the loss-making companies has been delayed and the new government will have to deal with them, probably in a rather radical manner. Thus, a recovery of industry cannot be expected to happen in 2003 either.

Unemployment has remained high or rather has increased. Once the situation stabilizes even further, the employment in security services will have to be cut again. In general public employment, the share of which in total employment is quite high, will have to be reduced as public expenditures will have to be cut for lack of money to finance the huge deficit. This will lead to additional loss of jobs.

These problems will have to be tackled by the new government. It is expected that it will be a coalition of Macedonian and Albanian parties. At this moment it is hard to predict which one of the several possible combinations will be the one to emerge. Still, coalition politics is the only possibility in Macedonia. However, all the possible coalitions that could be formed have very high levels of instability built into them. As a consequence, it will not be easy for the government, whichever coalition takes over, to come up with an ambitious and implementable reform programme.

In this respect, the international presence and assistance can be helpful, if some kind of longer-term strategy for Macedonia is worked out. This will fall on to the European Union which can use the Stabilization and Association Process to gear the political and institutional process in the direction of stability and increase integration.

However, internal conflicts, now implicit more than explicit, are still present and not very much can be done to eliminate them in the short run. Economic prosperity could help, but this is difficult to engineer in the present political circumstances.

Macedonia: Selected economic indicators

	1997	1998	1999	2000	2001 [1)]	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., mid-year	1996.9	2007.5	2017.1	2026.4	2036.0	.	.	.	.
Gross domestic product, MKD mn, nom.	186018	194979	209010	236389	233090	.	.	244700	265000
annual change in % (real)	1.4	3.4	4.3	4.5	-4.6	.	.	0	2
GDP/capita (USD at exchange rate)	1869	1784	1821	1771	1674	.	.	.	.
GDP/capita (USD at PPP - WIIW)	5660	5900	6210	6600	6400	.	.	.	.
Gross industrial production									
annual change in % (real) [2)]	1.6	4.5	-2.6	3.5	-3.1	-8.6	-14.4	-10	-3
Gross agricultural production									
annual change in % (real)	1.1	4.3	1.0	1.0	-13.3	.	.	.	.
Goods transport, mn t-kms [3)]	1175	1302	1219	1303	.	.	.	.	.
annual change in % [3)]	10.1	10.8	-6.4	6.9	.	.	.	.	.
Gross fixed capital form., MKD mn, nom.	32236.0	33982.0	34710.0	.	.	.	.	.	.
annual change in % (real)	-4.3	-2.6	-1.4	.	.	.	.	.	.
Construction output, value added									
annual change in % (real)	0.2	7.7	10.4	-1.1	-3.9	.	.	.	.
Dwellings completed, units	4300	3253	4479	5316	.	.	.	.	.
annual change in %	-19.5	-24.3	37.7	18.7	.	.	.	.	.
Employment total, th pers., average [4)]	512.3	539.8	545.2	549.8	599.3	.	.	.	.
annual change in % [4)]	-4.7	5.4	1.0	0.8	9.0	.	.	.	.
Employees in industry, th pers., average [5)]	117.6	113.6	119.8	114.4	122.5	.	.		.
annual change in % [5)]	-7.9	-3.4	5.5	-4.5	-4.8	.	.		
Unemployed, th, average [4)]	288.2	284.1	261.5	261.7	263.2	.	.	.	.
Unemployment rate in %, average [4)]	36.0	34.5	32.4	32.2	30.5	.	.	32	32
Average net monthly wages, MKD	9063	9394	9664	10193	10552	10394	.	.	.
annual change in % (real, net)	0.2	3.8	3.6	-0.3	-1.9	0.04	1.2 Feb	.	.
Retail trade turnover, MKD mn	32482.8	33215.6	38247.9	50208.6	45975.8	11125.5	.	.	.
annual change in % (real, calc.)	4.1	1.5	16.4	12.1	-13.0	-3.6	-1.1 Feb	.	.
Retail prices, % p.a.	4.4	0.8	-1.1	10.6	5.2	7.6	1.7	3	5
Producer prices in industry, % p.a.	4.2	4.0	-0.1	10.7	2.0	4.6	0	2	2
Central government budget, MKD mn									
Revenues	41398	42655	50478	63097	63110	13803	17893	.	.
Expenditures	41393	42623	49761	57689	68885	13689	16878	.	.
Deficit (-) / surplus (+)	4	32	717	5408	-5775	114	1015	.	.
Deficit (-) / surplus (+), % GDP	0.0	0.0	0.3	2.3	-2.5	.	.	.	.
Money supply, MKD mn, end of period									
M1, Money	13983	15178	19694	22388	25324	21786	24731	.	.
M2, Money + quasi money	22724	26003	33720	41957	69785	40617	58321	.	.
Discount rate, % p.a., end of period	8.9	8.9	8.9	7.9	10.7	7.9	.	.	.
Current account, USD mn [6)]	-276.4	-308.2	-113.4	-107.7	-352.5	-54.5	.	-250	-250
Current account in % of GDP	-7.4	-8.6	-3.1	-3.0	-10.3	.	.	-6.5	-6.0
Gross reserves of NB, excl. gold, USD mn	257.0	306.1	429.9	429.4	745.2	909.0		.	.
Gross external debt, USD mn [7)]	1133.1	1398.6	1438.5	1436.4	1377.6	1415.1	1405.0	.	.
Exports total, fob, EUR mn [8)]	1090.6	1170.2	1116.7	1431.4	1736.1	315.8	277.1	1450	1500
annual change in %	20.5	7.3	-4.6	28.2	21.3	-5.8	-12.2	-16	16
Imports total, cif, EUR mn [8)]	1568.3	1709.5	1664.9	2266.1	1884.1	433.8	498.9	1900	1900
annual change in %	22.2	9.0	-2.6	36.1	-16.9	-29.5	15.0	1	0
Average exchange rate MKD/USD	49.83	54.45	56.90	65.89	68.04	65.87	.	.	.
Average exchange rate MKD/EUR (ECU)	56.20	61.07	60.62	60.73	60.91	60.83	.	61	64
Purchasing power parity MKD/USD, WIIW	16.45	16.48	16.70	17.67	17.89	.	.	.	.
Purchasing power parity MKD/EUR, WIIW	18.04	18.05	18.19	19.26	19.52	.	.	.	.

Notes: 1) Preliminary. - 2) Excluding small private enterprises. - 3) Road and rail. - 4) Based on Labour Force Survey data. - 5) From 2001 according to NACE. - 6) Including grants. - 7) Medium- and long-term. - 8) Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: WIIW Database incorporating national statistics.

Vladimir Gligorov

Yugoslavia: mixed results of the first transition year

The first year of transition, 2001, was characterized by macroeconomic stability, international integration and weak supply-side response. In the first half of 2002, the picture is essentially unchanged. Significantly different developments can be observed, however, between Serbia and Montenegro and between Vojvodina (the northern province of Serbia) and central Serbia.[15] Montenegro is undergoing a painful fiscal adjustment while central Serbia is basically in recession this year. Vojvodina and probably also the capital city of Belgrade are doing somewhat better.

Inflation has been slowing down faster than anticipated and is below 1% per month in the first half of 2002. This is due to the delay in the increase of administered prices (mostly of electricity). Also, much of the increased demand is satisfied through imports that have stable prices.

GDP increased between 5% and 6% in 2001. Industrial production all but stagnated. The recorded growth was mostly do to with the recovery of agriculture.

In Serbia, in the first half of 2002, industrial production most probably stagnated too. It was down by almost 1% in the first five months. Construction was also down, though unregistered activity there is very significant and the official figures do not mean much. Agricultural production is most probably not doing better than last year because of adverse weather conditions during the winter. The informal sector is complaining and those surveys that try to detect what is going on there do not present a picture of recovery or even growth. Thus, at least from what is known on the supply side, it does not seem as if GDP is growing noticeably in 2002.

In Montenegro, the official figures paint a picture of recession. Exports are falling sharply as is industrial production. The countervailing force should be tourism, which is expected to post significant growth later in the year. There are hopes for an increase in privatization receipts, but those have been disappointing so far. Prices are going up much faster than could be expected in a country that is euroized. As a consequence, real wages are declining.

[15] While Kosovo is nominally a province in Serbia and Yugoslavia, it is under international administration and is politically and economically a separate entity, though interdependencies (in terms of security and politics) should not be underestimated.

In Serbia, retail sales are increasing significantly, which means that consumption is growing, partly as a consequence of a rise in wages. Investment does not appear to be growing, however. Foreign investments were about USD 150 million in 2001. In the first half of this year, privatization has already brought in about that much to the budget. These are proceeds of the sale of three cement plants that were scheduled for last year but were sold only at the beginning of 2002. Other privatizations are yet to happen and there is some official optimism that the process will be speeded up in the second half of 2002.

In Montenegro, voucher privatization has ended. Sales to strategic investors are attempted all the time, but most tenders have to be declared failures for lack of interest from the potential investors.

Both in Serbia and in Montenegro aid, soft credits, mainly from the World Bank, and remittances are relied on to close the trade deficit and to finance the fiscal deficit. Serbia plans a fiscal deficit of about 4.5% of the GDP. Montenegro's plans are around 8%. In the case of Serbia this is an increase, while in the case of Montenegro this is a decrease. The former plans to invest in infrastructure and housing while the latter plans to save not only on investments but on public consumption also.

The Yugoslav trade deficit is expected to come to around USD 3 billion in 2002 (similar to the figure for 2001). Exports are expected to grow by more than 10% while imports should increase much less. In the first half of the year, however, exports will probably increase by less than planned, while imports seem to have reached their peak for the moment.[16]

In May 2002, Yugoslavia signed a three-year ESAF agreement worth around USD 850 million with the IMF. This has opened the way for the write-off of 51% of debt owed to the Paris Club (sovereign creditors). As a consequence, Yugoslavia will start servicing the restructured debt. Initially the burden of the debt service will be rather light, but it will start increasing in about three years. To this, the servicing of the London Club debt (commercial creditors) should be added. At the moment no agreement on the restructuring of this debt is in sight. In any case, once all the inherited debt is rescheduled and the newly accumulated debt is added, Yugoslavia will, in all probability, have a foreign debt stock of about USD 10 billion. In three years, when the full service of interest on these debts is resumed, Yugoslavia may be producing about USD 15 billion in GDP. That gives a debt to GDP ratio of about 66%. Under rather favourable

[16] Growth rates of exports and imports in dollars may be somewhat distorted because of the appreciation of the euro compared to the US dollar as Yugoslavia's foreign trade is mainly invoiced in euros (except for the imports of oil, gas and electricity and exports of raw materials).

circumstances, the interest on the debt may be somewhere between 3% and 4% of GDP.

This leads to the conclusion that borrowing money to pay for the debt is going to be rather costly. Therefore, foreign direct investments will be preferred for a rather long period of time. This need will have a major influence on economic policy in the foreseeable future.

In Montenegro, the main area of reforms has to be in the fiscal sphere. Currently, the state spends about two thirds of this country's GDP. This has to go down by about a half. It is clear from that fact alone that the adjustment will be quite painful in Montenegro. This process will be speeded up by the reduction of aid from various sovereign and international sources. This process has already begun last year and is expected to continue.

A note on Kosovo

An attempt is being made to start up transition and growth. Decisions have been made on the trade regime, customs, on taxes and on other most urgent issues. There is a belief, however, that neither transition nor growth will progress very far without the resolution of the right of ownership over the inherited industrial plants and other assets. After long discussion and deliberation, the UNMIK (the United Nation Mission in Kosovo) has decided that all these assets will be privatized without the actual transfer of ownership taking place. The details of the plan are somewhat complicated, but the idea is to sell the firms to potential investors and to put the proceeds into a trust fund out of which the actual owners, once they are identified, will be compensated. In the meantime, unfortunately, neither the new owners will be certain about the extent of their rights of ownership nor will the money collected be invested as it belongs to the yet unidentified previous owners. Besides, the Serbian government opposes the privatization of Kosovo assets.

It is not clear what is in fact being solved or resolved in this way especially because the spur to growth cannot really be expected to come from this sector, but rather from the new private one.

Yugoslavia: Selected economic indicators *)

	1997	1998	1999	2000	2001 [1)]	2001	2002	2002	2003
						1st quarter		forecast	
Population, th pers., mid-year	10600.1	10616.9	8372.7	8342.5	8325.7	.	.	.	.
Gross domestic product, USD mn, nom. [2)]	18146	18212	10376	8100	10500	.	.	14000	16000
annual change in % (real) [3)]	7.4	2.5	-21.9	6.4	6.2	.	.	4	4
GDP/capita (USD at exchange rate) [2)]	1712	1715	976	971	1261	.	.	.	.
Gross industrial production [4)]									
annual change in % (real)	9.5	3.6	-23.1	11.2	0.0	-0.3	-4.1	3	3
Gross agricultural production									
annual change in % (real)	7.3	-3.2	-1.0	-13.0	23.2	.	.	.	.
Goods transport, mn t-kms	38164	45601	30026	32865	16690	.	.	.	.
annual change in %	31.8	19.5	.	9.5	-49.2	.	.	.	.
Gross fixed investment, YUM mn, nom.	13525.3	17893.2	24867.8	59315.5	.	.	.	.	.
annual change in % (real)	0.8	-2.2	-26.3	13.3	.	.	.	.	.
Construction output, value of work done									
annual change in % (real)	6.9	-0.8	-9.9	.	.	.	.	.	.
Dwellings completed, units	14768	13096	13123	12732	12156	.	.	.	.
annual change in %	-2.6	-11.3	.	-3.0	-4.5	.	.	.	.
Employment total, th pers., average [5)]	2332	2504	2298	2238	2241	2223	2199	.	.
annual change in %	-1.5	-0.1	.	-2.6	0.1	-1.2	-1.1	.	.
Employees in industry, th pers., average [6)]	864.1	884.4	804.5	764.7	739.2	750.5 [I-II]	708.8 [I-II]	.	.
annual change in % [6)]	-3.4	2.4	.	-5.0	-3.3	.	-5.6 [I-II]	.	.
Unemployed reg., th, end of period	793.8	849.4	774.0	812.4	860.5	847	880	.	.
Unemployment rate in %, end of period [7)]	25.5	25.4	25.5	26.7	27.9	27.6	28.6	30	30
Average net monthly wages, YUM [8)]	803	1063	1309	2588	5545	4299	7779	.	.
annual change in % (real, net)	21.2	2.0	-15.0	6.5	13.3	12.1	40.2	.	.
Retail trade turnover, YUM mn	35433	48748	57697	119522	249065	12498 [I-II]	19680 [I-II]	.	.
annual change in % (real, calc.)	11.8	3.9	-13.5	11.6	10.1	6.8 [I-II]	21.8 [I-II]	.	.
Consumer prices, % p.a.	21.6	29.9	44.9	85.6	89.2	111.3	29.1	25	15
Producer prices in industry, % p.a.	19.5	25.5	44.2	106.5	85.1	124.4	14.4	20	10
General government budget, YUM mn									
Revenues	47455	61360	79321	138749	320475	54000	108641	.	.
Expenditures	55315	70739	.	.	.	.	.	.	.
Deficit (-) / surplus (+)	-7860	-9379	.	.	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	-7.0	-6.1	.	.	.	.	.	.	.
Money supply, YUM mn, end of period									
M1, Money	9148.0	10807.3	16332.0	29976.5	66391.0	34782.3	75196	.	.
Broad money [9)]	38948.4	62352.0	75393.7	284236.8	354266.0	.	.	.	.
Discount rate, % p.a., end of period	33.7	33.7	26.3	26.3	16.4	12.4	12.4	.	.
Current account, USD mn [10)]	-1837	-1180	-1341	-1298	-624	-236	.	-1200	-1200
Current account in % of GDP	-10.1	-6.5	-12.9	-16.0	-5.9	.	.	-8.6	-7.5
Forex reserves of NBY, USD mn	300	300	297	524	1169	586	1477	.	.
Gross external debt, USD mn	10500	11500	12500	11459	11238	.		.	.
Exports total, fob, EUR mn [11)]	2360.0	2517.7	1391.1	1808.2	2094.9	479.4	505.3	2120	2230
annual growth rate in %	48.2	6.7	-44.0	30.0	15.9	.	5.4	1	5
Imports total, cif, EUR mn [11)]	4245.2	4283.5	3080.8	3892.1	5385.3	1385.6	1369.4	5510	5620
annual growth rate in %	30.6	0.9	-26.4	26.3	38.4	.	-1.2	2	2
Average exchange rate YUM/USD	5.72	9.34	11.01	16.69	66.84	65.15	69.37	.	.
Average exchange rate YUM/EUR (ECU)	6.48	10.46	11.74	15.30	59.50	58.94	60.17	60	66

*) From 1999 (GDP from 2000) excluding Kosovo and Metohia.

Notes: 1) Preliminary. - 2) Estimates based on World Bank method. From 1999 based on market exchange rate. - 3) Based on GMP in dinar. - 4) Excluding private enterprises. - 5) Employees plus own account workers, excluding individual farmers; from 1998 including small enterprises. - 6) From 1998 including small enterprises. - 7) In % of unemployed plus employment. - 8) Excluding private sector; methodological break 1996/1997. - 9) Break 1999/2000 due to devaluation of dinar, 6 Dec 2000. - 10) Excluding grants, in 2001 including. - 11) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national and international statistics.

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