

# **WIIW Research Reports**

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*Peter Havlik et al.*

**The Transition  
Countries in  
Early 2000:  
Improved Outlook  
for Growth,  
But Unemployment  
Is Still Rising**

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## **Executive summary**

*Both the current economic situation and the short-term growth outlook of virtually all countries in transition are better than at any time during the last decade. Driven by higher import demand from the EU, the Central and East European countries are enjoying an export boom which fuels their GDP growth. Russia has been profiting from rising world market commodity prices while its industry is still cashing on the import substitution effects after devaluation. Industry has been the main contributor to the economic recovery of the region whereas agriculture suffers from a severe drought. A strong growth of industrial production, coupled with further lay-offs of redundant workers, translates into impressive improvements in the labour productivity. The cost advantages of successful CEE producers are rapidly improving. With further progress in transition these cost advantages will certainly contribute to more re-allocation of production to this region.*

*The less pleasant consequence of the rising efficiency has been rising unemployment. Double-digit unemployment rates have now become a rule. Apart from the truly disastrous labour market situation in several countries of former Yugoslavia, unemployment has recently acquired dramatic dimensions especially in Bulgaria and in the Slovak Republic. Moreover, nowhere in the region is there hope for a marked improvement. And even more than in the rest of Europe, the CEECs' unemployment patterns display distinct regional, gender, age and minority differences which have serious implications for economic and social policies.*

*Foreign trade has once again become an engine of CEECs' economic growth; exports were growing by 30% in current euro terms during the first quarter of 2000. The development of imports was nearly equally dynamic (+28%), and the CEECs' trade deficit further increased – mostly on account of a further deterioration of the trade balance in Poland. Rapidly growing trade with the EU has been the main cause for the recent dynamic developments whereby CEECs' terms of trade deteriorated. The recent expansion of CEECs' exports occurred despite a noticeable appreciation of their currencies. FDI inflows have increased substantially in several CEECs who not long ago had been either sceptical to foreign ownership (especially Poland and the Czech Republic) or unattractive (Bulgaria and Romania).*

*Economic growth is expected to gain momentum in all transition countries covered by this report during the next two years. While inflation will slightly increase in 2000, it will remain moderate and will come down next year. Current account deficits are likely to expand, but no immediate dangers (with the possible exception of Poland) are on the horizon in the forecasting period. A major concern is the stubbornly high and rising unemployment which has to be addressed appropriately.*

Figure 1

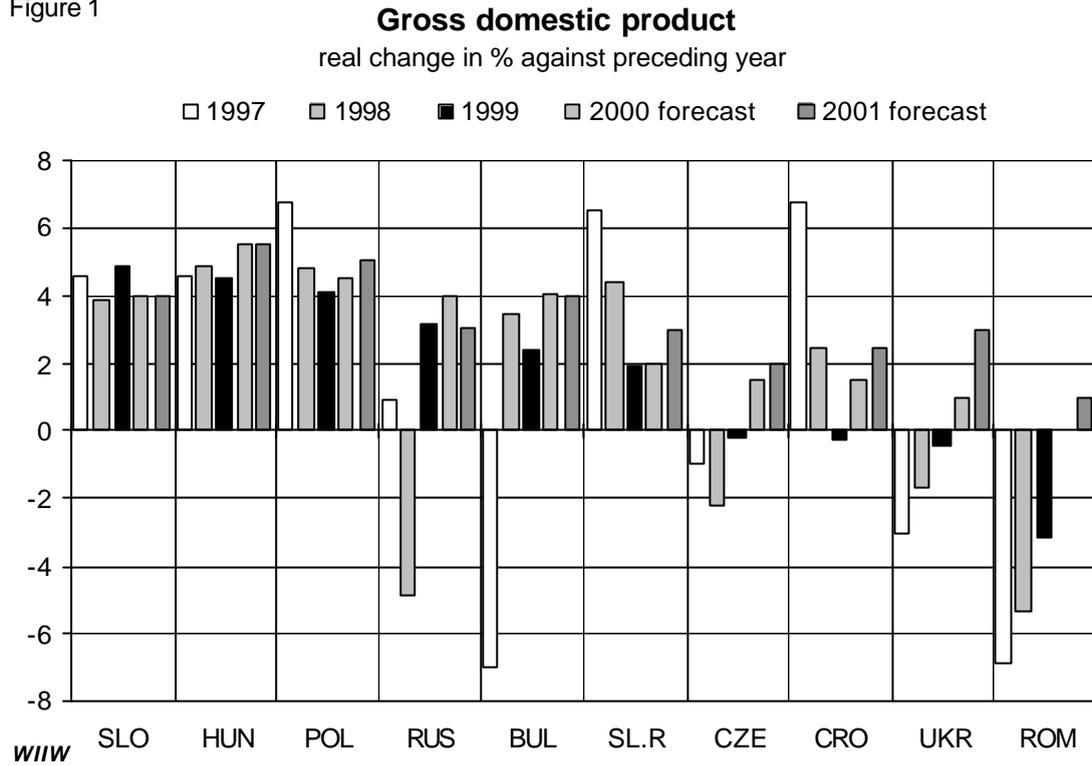
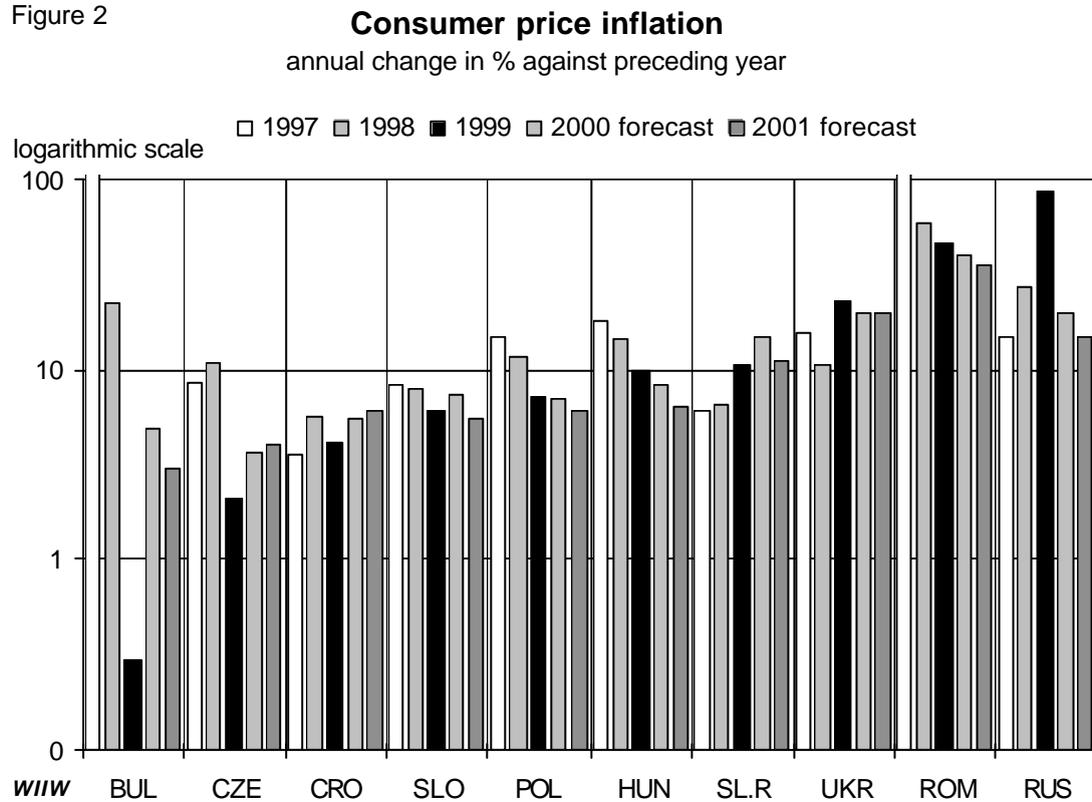


Figure 2



# OVERVIEW

*Peter Havlik\**

## **The Transition Countries in Early 2000: Improved Outlook for Growth, But Unemployment Is Still Rising**

### **All transition countries are growing, for the first time**

At the beginning of the new millennium, both the current economic situation and the short-term growth outlook of virtually all countries in transition are better than at any time during the last decade. Driven by higher import demand from Western Europe, the Central and East European countries (CEECs) are enjoying an export boom which fuels their GDP growth. Russia, on the other hand, has been profiting from rising world market commodity prices while its industry is still cashing on import substitution effects after devaluation. True, the favourable GDP growth data reported for the first quarter of the year 2000 partly reflect the weak pre-year base, but indications of a stronger growth are now clearly visible in most countries of the region. Even Ukraine is expected to achieve its first modest GDP growth this year (Table 1).

Faster growth of the regional GDP – the average rate of GDP growth is expected to reach around 3% to 4% in 2000, that is about 1 percentage point more than in 1999 and slightly higher than in the EU – is again the product of a widely diverging performance of individual countries. Among the CEECs, the weakest growth is observed in Romania, the Czech Republic and Slovakia where the GDP is close to stagnation, but at least not falling (Croatia belongs into this group as well). Hungary, Poland and Slovenia are continuing as star performers, the Bulgarian economy has recently strengthened as well. A major surprise is Russia, with an officially reported first quarter 2000 GDP growth of nearly 7% (and also the Ukraine with a reported growth by almost 6%). We believe that such a pace of expansion in these two countries is not sustainable.

From a longer-term perspective, Hungary, Poland, Slovakia and Slovenia have by now already surpassed their pre-transition statistically recorded GDP levels (Poland by more than 27%), not to mention the vastly different production, trade and institutional structures then and today. On the other hand, Romania and Bulgaria still lag in their GDP 25% to 30% below the 1989 level; Russia and Ukraine by even 40% to 60% (Table 1). In a broader international context, the latest revised WIIW estimates suggest that Slovenia's

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\* The research on this report was completed on 15 June 2000. The author wishes to thank K. Laski for valuable comments and M. Schwarzappel, H. Rusková and B. Assenova for statistical support.

Table 1

**Gross domestic product**  
real change in % against preceding year

|                      | 1993  | 1994  | 1995  | 1996  | 1997 | 1998 | 1999 <sup>1)</sup> | 1999 | 2000 | 2000        |          | 2001 | Index              |
|----------------------|-------|-------|-------|-------|------|------|--------------------|------|------|-------------|----------|------|--------------------|
|                      |       |       |       |       |      |      |                    |      |      | 1st quarter | forecast |      | 1989=100           |
|                      |       |       |       |       |      |      |                    |      |      |             |          |      | 2000               |
| Czech Republic       | 0.1   | 2.2   | 5.9   | 4.8   | -1.0 | -2.2 | -0.2               | -3.3 | .    | 1.5         | 2        |      | 96.7               |
| Hungary              | -0.6  | 2.9   | 1.5   | 1.3   | 4.6  | 4.9  | 4.5                | 3.5  | 6.8  | 5.5         | 5.5      |      | 104.8              |
| Poland               | 3.8   | 5.2   | 7.0   | 6.0   | 6.8  | 4.8  | 4.1                | 1.6  | 5.9  | 4.5         | 5        |      | 127.2              |
| Slovak Republic      | -3.7  | 4.9   | 6.9   | 6.6   | 6.5  | 4.4  | 1.9                | 1.8  | 1.5  | 2           | 3        |      | 103.6              |
| Slovenia             | 2.8   | 5.3   | 4.1   | 3.5   | 4.6  | 3.8  | 4.9                | 2.5  | .    | 4           | 4        |      | 113.5              |
| CEEC-5 <sup>2)</sup> | 1.5   | 4.1   | 5.7   | 4.9   | 4.5  | 3.1  | 3.0                | 0.8  | .    | 3.7         | 4.2      |      | 113.4              |
| Bulgaria             | -1.5  | 1.8   | 2.9   | -10.1 | -7.0 | 3.5  | 2.4                | 0.8  | .    | 4           | 4        |      | 70.7               |
| Romania              | 1.5   | 3.9   | 7.1   | 3.9   | -6.9 | -5.4 | -3.2               | -4.2 | 1.5  | 0           | 1        |      | 75.1               |
| CEEC-7 <sup>2)</sup> | 1.4   | 3.9   | 5.8   | 3.9   | 1.6  | 1.4  | 1.8                | -0.2 | .    | 3           | 3.5      |      | 102.3              |
| Croatia              | -8.0  | 5.9   | 6.8   | 5.9   | 6.8  | 2.5  | -0.3               | .    | .    | 1.5         | 2.5      |      | 79.0               |
| Macedonia            | -1.2  | -1.8  | -1.1  | 1.2   | 1.4  | 2.9  | 2.7                | .    | .    | 4           | 5        |      | 96.2 <sup>3)</sup> |
| Yugoslavia           | -30.8 | 2.5   | 6.1   | 5.9   | 7.4  | 2.5  | -23.2              | .    | .    | 5           | 3        |      | 41.5               |
| Russia               | -8.7  | -12.7 | -4.1  | -3.4  | 0.9  | -4.9 | 3.2                | -2.7 | 6.8  | 4           | 3        |      | 59.9               |
| Ukraine              | -14.2 | -22.9 | -12.2 | -10.0 | -3.0 | -1.7 | -0.4               | -4.7 | 5.6  | 1           | 3        |      | 39.6               |
| Estonia              | -8.5  | -2    | 4.3   | 3.9   | 10.6 | 4.0  | -1.4               | -5.6 | .    | 4           | .        |      | 88.6 <sup>3)</sup> |
| Latvia               | -15   | 0.8   | -1    | 3.3   | 8.6  | 3.9  | 0.1                | -2.3 | .    | 3           | .        |      | 59.6 <sup>3)</sup> |
| Lithuania            | -16.2 | -9.8  | 3.3   | 4.7   | 7.3  | 5.1  | -4.1               | -5.8 | .    | 2           | .        |      | 66.9 <sup>3)</sup> |
|                      |       |       |       |       |      |      |                    |      |      |             |          |      | <b>1990=100</b>    |
|                      |       |       |       |       |      |      |                    |      |      |             |          |      | <b>1999</b>        |
| Armenia              | -8.8  | 5.4   | 6.9   | 5.9   | 3.3  | 7.2  | 3.1                | 4.6  | 0.3  | .           | .        |      | 63.8               |
| Azerbaijan           | -23.1 | -19.7 | -11.8 | 1.3   | 5.8  | 10.0 | 7.4                | 6.2  | 6.5  | .           | .        |      | 53.0               |
| Belarus              | -7.6  | -12.6 | -10.4 | 2.8   | 11.4 | 8.4  | 3.0                | 1.0  | 6.0  | .           | .        |      | 82.6 <sup>4)</sup> |
| Georgia              | -29.3 | -10.4 | 2.6   | 11.2  | 10.8 | 2.9  | 3.0                | 1.2  | 4.4  | .           | .        |      | 36.9               |
| Kazakhstan           | -9.2  | -12.6 | -8.2  | 0.5   | 1.7  | -1.9 | 1.7                | -3.8 | 9.1  | .           | .        |      | 62.6               |
| Kyrgyzstan           | -15.5 | -20.1 | -5.4  | 7.1   | 9.9  | 2.1  | 3.6                | 0.3  | 1.0  | .           | .        |      | 63.1               |
| Moldova              | -1.2  | -30.9 | -1.9  | -5.9  | 1.6  | -8.6 | -4.4               | .    | .    | .           | .        |      | 32.8               |
| Tajikistan           | -16.3 | -21.3 | -12.4 | -16.7 | 1.7  | 5.3  | 3.7                | 2.4  | 3.8  | .           | .        |      | 53.4               |
| Turkmenistan         | 1.5   | -16.7 | -7.7  | 0.1   | .    | .    | .                  | .    | .    | .           | .        |      | .                  |
| Uzbekistan           | -2.3  | -5.2  | -0.9  | 1.7   | 5.2  | 4.4  | 4.4                | 2.9  | 3.0  | .           | .        |      | 94.7               |
| CIS                  | -9.7  | -14.2 | -5.3  | -3.2  | 1.0  | -3.7 | 2.9                | .    | .    | .           | .        |      | 57.5               |

Notes: 1) Preliminary. - 2) WIIW estimate. - 3) 1990 = 100. - 4) 1992 = 100.

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

per capita real GDP has already reached 72% of the EU average, followed by the Czech Republic (59%) and Hungary (53%), with other CEECs lagging considerably behind (see Table A/1 in the Annex).

But there are even larger income gaps between the more advanced group of the CEEC-5 (including Slovakia and Poland) and the rest of the transition countries (the latter including the Baltic states). This new West–East economic divide represents a major challenge for the future integrated Europe. And despite currently higher GDP growth in the CEECs, the process of catching up with income levels in the EU will not speed up since the EU economy is now growing faster as well.<sup>1</sup>

### **Strong expansion of industry**

Industry has recently been the main contributor to the economic recovery of the region. After a meagre growth (+2.3%) in 1999, gross industrial production grew by close to 10% during the first quarter of 2000 in the CEEC-5; even Bulgaria is now apparently finally reaping fruits of its painful restructuring of public enterprises (Table 2).

Only the Romanian industry continues to stumble: here the restructuring process is by and large still ahead. An astonishingly strong industrial recovery has been observed even in Russia and Ukraine. Again, this year's growth has to be viewed against the background of the severe slump of early 1999 (except Hungary); the strength of the current industrial recovery has nevertheless been quite impressive. A look at the monthly data shows that the industrial recovery that has started in the whole region in early 1999 has been continuing since then (Figures 3a and 3b). The recession of late 1998 / early 1999 has thus been overcome in the subsequent months, the monthly trends of the gross industrial output have clearly positive slopes in all countries. Industrial growth has been most pronounced in Hungary, shooting up to more than 20% in the first quarter of 2000 as compared with the pre-year period. This in itself is a remarkable achievement; another positive news from Hungary is that this time growth was not confined solely to export sales but the domestic sales of industry increased as well. The industrial recovery in other countries (including Russia and Ukraine), though still rather robust, is likely to lose steam in the course of the year. This is already clearly visible in Poland and in the Czech Republic, but in Russia and Ukraine as well. With the statistical effects of the low basis from early 1999 gradually evaporating, industrial growth during the subsequent months of the year 2000 will slow down somewhat as well.

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<sup>1</sup> The latest forecast by the European Central Bank envisages that GDP in the Eurozone will expand by more than 3% in 2000 – see *The Financial Times*, 16 June 2000, p. 2.

Figure 3a

**Industrial production**  
(annual change in %, 3 months moving average)

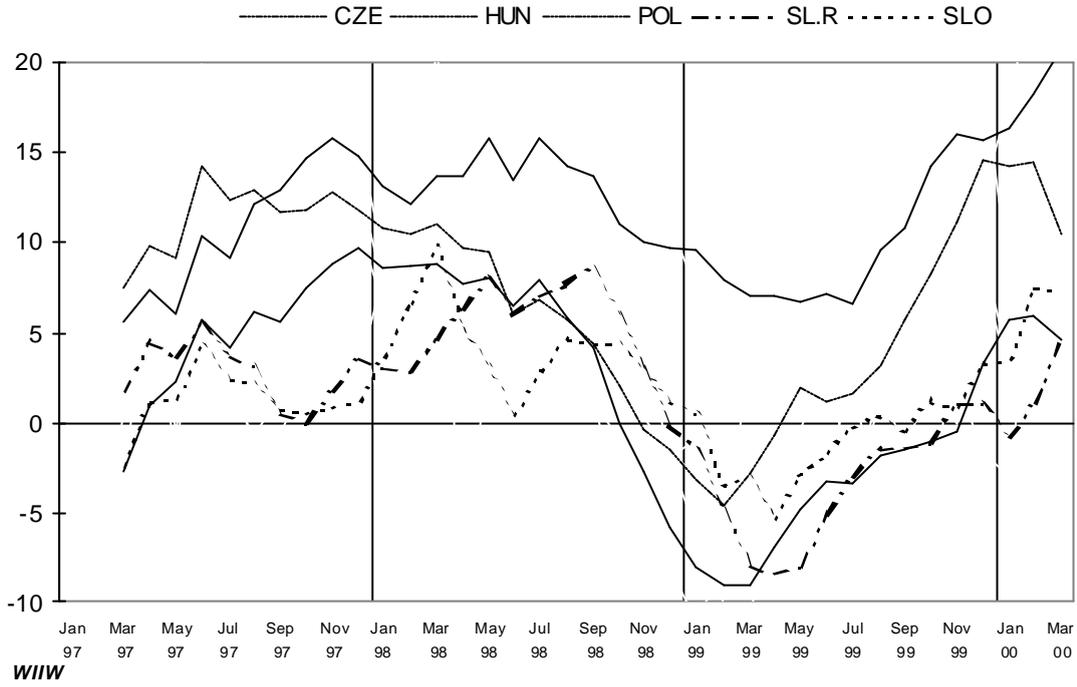


Figure 3b

**Industrial production**  
(annual change in %, 3 months moving average)

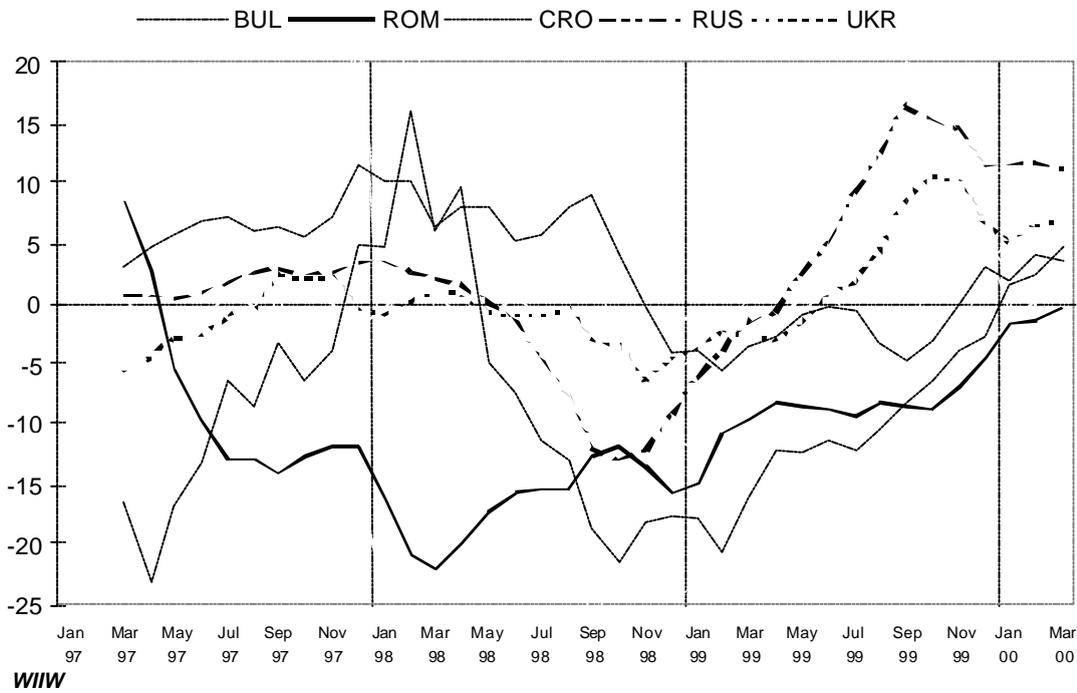


Table 2

**Gross industrial production**

real change in % against preceding year

|                      | 1993  | 1994  | 1995  | 1996 | 1997  | 1998  | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000 | 2000<br>forecast |      | Index<br>1989=100 |
|----------------------|-------|-------|-------|------|-------|-------|--------------------|---------------------|------|------------------|------|-------------------|
|                      |       |       |       |      |       |       |                    |                     |      | 2000             | 2001 | 2000              |
| Czech Republic       | -5.3  | 2.1   | 8.7   | 2.0  | 4.5   | 3.1   | -3.1               | -9.0                | 4.8  | 3                | 3    | 80.9              |
| Hungary              | 4.0   | 9.6   | 4.6   | 3.4  | 11.1  | 12.5  | 10.5               | 7.0                 | 20.7 | 12               | 12   | 128.9             |
| Poland <sup>2)</sup> | 6.4   | 12.1  | 9.7   | 8.3  | 11.5  | 3.5   | 4.3                | -3.1                | 10.7 | 6                | 7    | 129.6             |
| Slovak Republic      | -3.8  | 4.8   | 8.3   | 2.5  | 2.7   | 5.0   | -3.4               | -8.1                | 4.5  | 3                | 4    | 84.2              |
| Slovenia             | -2.8  | 6.4   | 2.0   | 1.0  | 1.0   | 3.7   | -0.5               | -3.0                | 7.2  | 3                | 3    | 77.9              |
| CEEC-5 <sup>3)</sup> | 1.6   | 8.2   | 8.2   | 5.1  | 8.3   | 4.8   | 2.3                | -3.7                | 9.8  | 5.6              | 6.2  | 109.1             |
| Bulgaria             | -9.8  | 10.6  | 4.5   | 5.1  | -10.0 | -12.7 | -12.5              | -16.2               | 5.2  | 4                | 4    | 42.4              |
| Romania              | 1.3   | 3.3   | 9.4   | 6.3  | -7.2  | -16.8 | -8.0               | -9.6                | -0.3 | 0                | 2    | 42.2              |
| CEEC-7 <sup>3)</sup> | 1.0   | 7.2   | 8.3   | 5.4  | 3.8   | -1.1  | -0.8               | -5.7                | 7.2  | 4.2              | 5.1  | 84.8              |
| Croatia              | -5.9  | -2.7  | 0.3   | 3.1  | 6.8   | 3.7   | -1.4               | -3.6                | 3.7  | 1                | 2    | 56.5              |
| Macedonia            | -14.1 | -10.5 | -10.7 | 3.2  | 1.7   | 4.3   | -2.6               | -13.3               | 10.3 | 4                | 5    | 47.6              |
| Yugoslavia           | -37.3 | 1.3   | 3.8   | 7.6  | 9.5   | 3.6   | -22.5              | -11.0               | -5.3 | 5                | 5    | 36.8              |
| Russia               | -14.1 | -20.9 | -3.3  | -4.0 | 1.9   | -5.2  | 8.1                | -1.6                | 11.9 | 5                | 3    | 52.2              |
| Ukraine              | -8.0  | -27.3 | -11.7 | -5.1 | -1.8  | -1.5  | 4.3                | -2.4                | 9.7  | 3.5              | 5    | 52.1              |

Notes: 1) Preliminary. - 2) Sales. - 3) WIIW estimate.

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

More detailed data (still scarce for the year 2000) reveal a confirmation of the new structural pattern of industrial growth in the CEECs. More sophisticated branches of manufacturing such as transport equipment, electrical and optical equipment, but also wood products, rubber, plastics and chemicals are growing much faster than average. This is the case especially in countries where industry is more penetrated by foreign capital (mainly in Hungary, the Czech Republic, Poland, Slovakia and Slovenia), and where multinational companies use the CEECs as low-cost and increasingly more efficient production sites. A slightly different structural pattern of industrial change, but still driven by higher demand in Western Europe, can be observed in the less advanced transition countries. Bulgarian industry, for example, recovered solely on account of a rapid upturn in metal processing, fuels and tobacco; in Romania textiles, clothing, metals, oil products and the extracting industry profited from an export boom. And in Russia and Ukraine, import substitution after devaluations from late 1998 / early 1999 fuelled demand for domestic production of food, textiles, consumer goods and even some machinery.

The growth of industrial output now usually goes hand in hand with a further reduction of employment (in fact, industrial employment has been slightly rising only in Hungary). A strong growth of production, coupled with further lay-offs of redundant workers, translates into impressive double-digit annual improvements in the labour productivity (Table 3).

Table 3

|                              | <b>Labour productivity in industry</b> |       |      |      |      |      |                    |                     |      |                           |
|------------------------------|--|-------|------|------|------|------|--------------------|---------------------|------|---------------------------|
|                              | change in % against preceding year     |       |      |      |      |      |                    |                     |      |                           |
|                              | 1993                                   | 1994  | 1995 | 1996 | 1997 | 1998 | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000 | Index<br>1989=100<br>1999 |
| Czech Republic <sup>2)</sup> | -1.2                                   | 5.1   | 10.6 | 8.6  | 9.2  | 4.7  | 2.2                | -5.8                | 10.0 | 121.5                     |
| Hungary <sup>3)</sup>        | 13.4                                   | 15.7  | 10.2 | 9.4  | 13.7 | 11.9 | 9.9                | 5.4                 | 18.9 | 187.7                     |
| Poland <sup>4)</sup>         | 9.7                                    | 13.0  | 6.3  | 9.1  | 11.2 | 5.8  | 9.7                | 0.8                 | 17.8 | 164.0                     |
| Slovak Republic              | 1.8                                    | 7.2   | 4.0  | 2.5  | 4.8  | 9.1  | -0.5               | -4.4                | 10.8 | 109.2                     |
| Slovenia                     | 5.8                                    | 13.2  | 6.3  | 9.2  | 4.4  | 5.4  | 3.1                | -0.3                | 11.0 | 139.8                     |
| Bulgaria <sup>5)</sup>       | -0.2                                   | 16.2  | 7.4  | 7.0  | -7.5 | -6.0 | -2.1               | -9.6                | 23.5 | 92.3                      |
| Romania <sup>6)</sup>        | 9.0                                    | 14.7  | 13.7 | 7.5  | -1.8 | .    | 7.1                | 3.4                 | 10.3 | .                         |
| Croatia <sup>6)</sup>        | 0.3                                    | 3.0   | 6.6  | 11.3 | 11.9 | 8.7  | 3.9                | 2.1                 | 6.7  | 125.2                     |
| Macedonia <sup>7)</sup>      | -11.9                                  | -6.5  | 1.2  | 29.8 | 8.3  | 14.6 | .                  | .                   | .    | 96.9 <sup>8)</sup>        |
| Yugoslavia <sup>7)</sup>     | -34.7                                  | 2.1   | 8.3  | 9.6  | 12.3 | 6.3  | .                  | .                   | .    | 61.8 <sup>8)</sup>        |
| Russia                       | -8.8                                   | -14.4 | 5.4  | 2.9  | 8.6  | 0.8  | .                  | .                   | .    | 75.1 <sup>8)</sup>        |
| Ukraine                      | -3.2                                   | -20.9 | -4.2 | 3.0  | 7.1  | 6.0  | .                  | .                   | .    | 81.9 <sup>8)</sup>        |

Notes: 1) Preliminary. - 2) Enterprises with 100 and more employees, in 1992 to 1994 with 25 and more, from 1997 with 20 and more. - 3) From 1992 enterprises with more than 20, from 1995 with more than 10, from 1999 more than 5 employees. - 4) For quarterly data enterprises with more than 5 (in 1999) and more than 9 (in 2000) employees. - 5) Up to 1996 public sector only. - 6) Enterprises with more than 20 employees (for Romania from 1999). - 7) Excluding small enterprises. - 8) 1998 against 1989.

Source: WIIW Database incorporating national statistics.

Preliminary results of new international comparisons,<sup>2</sup> as well as anecdotal evidence from activities of companies such as Volkswagen, Siemens, IBM, General Electric, etc., suggest that in branches with a high penetration by foreign capital the labour productivity in CEECs is rapidly approaching West European levels. This selective, but gradually broadening productivity catching-up is occurring while the wage costs are still much below West European levels (see also Indicators of Competitiveness in the Annex). The cost advantages of successful CEE producers are thus rapidly improving, though the average labour cost indicators may occasionally suffer, for instance from excessive currency

<sup>2</sup> See van Ark, B., Monnikhof, E., 'New Estimates of Labour Productivity in the Manufacturing Sectors of Hungary and Poland, 1996'. Preliminary results from the WIIW Countdown Project, February 2000.

appreciations. With further progress in transition these cost advantages will certainly contribute to competitive gains and to more re-allocation of production to the CEECs.

At the time of writing, there is hardly any information about the development of other economic sectors during the first months of the year 2000. Agriculture will certainly suffer as crops in most of the region were decimated by a severe drought. The developments in the construction and investment sectors are less clear. As far as gross fixed investment is concerned, a more pronounced increase can be expected in the CEEC region only in Hungary and Poland; some investment recovery has been underway in Russia and Ukraine as well (Table 4). A modest expansion of private consumption during the first quarter of 2000 can be guessed from data on retail trade turnover. The volumes have increased in most CEECs (except Slovakia and perhaps also Romania), as well as in Russia and Ukraine (in both latter countries from a very depressed pre-year level). These developments are broadly confirmed also by the available data on average real wages (Table 5). However, the positive impact of average wage increases on the aggregate private demand was outweighed by declining employment (and thus probably resulting in a stagnating total wage bill).

Table 4

|                             | <b>Gross fixed investment</b>      |       |       |       |       |       |                    |                     |      |                  |                  |                           |
|-----------------------------|------------------------------------|-------|-------|-------|-------|-------|--------------------|---------------------|------|------------------|------------------|---------------------------|
|                             | real change in % against preceding |       |       |       |       |       |                    |                     |      |                  |                  |                           |
|                             | 1993                               | 1994  | 1995  | 1996  | 1997  | 1998  | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000 | 2000<br>forecast | 2001<br>forecast | Index<br>1989=100<br>1999 |
| Czech Rep. <sup>2)3)</sup>  | 0.2                                | 9.1   | 19.8  | 8.2   | -3.0  | -3.9  | -5.5               | -8.3                | .    | 1                | 2                | 103.4                     |
| Hungary                     | 2.0                                | 12.5  | -4.3  | 6.7   | 9.2   | 13.3  | 6.6                | 6.4                 | .    | 10               | 11               | 125.3                     |
| Poland <sup>2)</sup>        | 2.9                                | 9.2   | 16.5  | 19.7  | 21.7  | 14.2  | 6.9                | 6.1                 | .    | 9                | 9                | 203.5                     |
| Slovak Rep. <sup>2)3)</sup> | -5.4                               | -4.6  | 5.3   | 39.8  | 14.5  | 11.0  | -18.2              | -13.0               | 0.5  | 0                | 5                | 103.5                     |
| Slovenia <sup>2)</sup>      | 10.7                               | 14.1  | 16.8  | 9.2   | 11.3  | 11.1  | 16.1               | .                   | .    | .                | .                | 164.0                     |
| Bulgaria <sup>2)</sup>      | -17.5                              | 1.1   | 16.1  | -21.2 | -23.9 | 32.9  | 25.3               | 6.5                 | .    | .                | .                | 58.6                      |
| Romania                     | 8.4                                | 26.4  | 10.7  | 3.1   | -5.4  | -18.6 | -12.3              | -12.5               | .    | 0                | 5                | 47.9                      |
| Croatia <sup>2)</sup>       | .                                  | .     | .     | 37.6  | 23.3  | 3.0   | -5.9               | .                   | .    | .                | .                | .                         |
| Macedonia <sup>2)</sup>     | -7.9                               | -8.6  | 10.2  | 6.5   | -4.3  | 1.6   | 1.2                | .                   | .    | .                | .                | 65.8                      |
| Yugoslavia                  | -37.6                              | -12.0 | -3.7  | -5.7  | 0.8   | -2.2  | .                  | .                   | .    | .                | .                | .                         |
| Russia                      | -11.6                              | -24.0 | -10.0 | -18.0 | -5.0  | -6.7  | 4.5                | -10.7               | 6    | 5                | 7                | 22.7                      |
| Ukraine                     | -10.4                              | -22.5 | -35.1 | -22.0 | -8.8  | 6.1   | 2.9                | -16.5               | 26.1 | 8                | 10               | 20.9                      |

Notes: 1) Preliminary. - 2) Based on GDP concept. - 3) From 1995 (Slovakia from 2000) new methodology.

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

Table 5

**Wages, productivity and unit labour costs (ULCs), 1990-1999**

annual changes in %

|                                       | 1990  | 1993 | 1994  | 1995  | 1996  | 1997  | 1998 | 1999<br>prelim. |
|---------------------------------------|-------|------|-------|-------|-------|-------|------|-----------------|
| <b>Czech Republic</b>                 |       |      |       |       |       |       |      |                 |
| Average gross wages, CZK              | 3.7   | 25.3 | 18.5  | 18.5  | 18.4  | 10.5  | 9.4  | 8.3             |
| Average gross wages, real (PPI based) | -0.6  | 14.7 | 12.6  | 10.2  | 13.1  | 5.3   | 4.3  | 7.2             |
| Average gross wages, real (CPI based) | -5.5  | 3.7  | 7.8   | 8.6   | 8.8   | 1.8   | -1.2 | 6.0             |
| Average gross wages, ECU (ER)         | -24.8 | 34.5 | 18.7  | 17.7  | 19.4  | 5.0   | 8.3  | 6.1             |
| Employment total                      | -1.0  | -1.6 | 0.8   | 2.6   | 0.7   | -1.9  | -1.5 | -3.7            |
| GDP per empl. person, CZK at 1996 pr. | 10.1  | 1.7  | 1.4   | 3.3   | 4.1   | 1.0   | -0.8 | 3.5             |
| Unit labour costs, CZK at 1996 prices | -5.8  | 23.1 | 16.8  | 14.8  | 13.7  | 9.4   | 10.2 | 4.6             |
| Unit labour costs, ER (ECU) adjusted  | -31.7 | 32.2 | 17.0  | 13.9  | 14.7  | 3.9   | 9.1  | 2.6             |
| <b>Hungary</b>                        |       |      |       |       |       |       |      |                 |
| Average gross wages, HUF              | 27.2  | 21.9 | 22.6  | 16.8  | 20.4  | 22.3  | 18.3 | 13.9            |
| Average gross wages, real (PPI based) | 4.3   | 10.0 | 10.1  | -9.4  | -1.1  | 1.6   | 6.3  | 8.4             |
| Average gross wages, real (CPI based) | -1.3  | -0.5 | 3.2   | -8.9  | -2.6  | 3.4   | 3.5  | 3.6             |
| Average gross wages, ECU (ER)         | 2.8   | 15.8 | 5.6   | -10.4 | 2.5   | 10.8  | 3.6  | 8.6             |
| Employment total                      | -3.3  | -6.3 | -2.0  | -1.9  | -0.8  | 0.0   | 1.4  | 3.1             |
| GDP per empl. person, HUF at 1996 pr. | -0.2  | 6.0  | 5.0   | 4.5   | 2.2   | 4.6   | 3.4  | 1.4             |
| Unit labour costs, HUF at 1996 prices | 27.4  | 15.0 | 16.8  | 11.7  | 17.8  | 16.9  | 14.4 | 12.3            |
| Unit labour costs, ER (ECU) adjusted  | 3.0   | 9.2  | 0.6   | -14.3 | 0.3   | 5.9   | 0.1  | 7.1             |
| <b>Poland</b>                         |       |      |       |       |       |       |      |                 |
| Average gross wages, PLN              | 397.9 | 34.8 | 34.5  | 31.6  | 26.5  | 21.9  | 15.7 | 10.6            |
| Average gross wages, real (PPI based) | -31.1 | 2.1  | 7.3   | 4.9   | 12.6  | 8.6   | 7.8  | 4.6             |
| Average gross wages, real (CPI based) | -27.4 | -0.4 | 1.7   | 3.0   | 5.5   | 6.1   | 3.5  | 3.1             |
| Average gross wages, ECU (ER)         | -34.4 | 12.4 | 5.7   | 13.2  | 17.4  | 11.1  | 9.2  | 2.6             |
| Employment total                      | -4.2  | -2.4 | 1.0   | 1.8   | 1.9   | 2.8   | 2.3  | 0.5             |
| GDP per empl. person, PLN at 1996 pr. | -14.8 | 6.3  | 4.2   | 11.8  | 4.0   | 3.9   | 2.4  | 3.6             |
| Unit labour costs, PLN at 1996 prices | 484.0 | 26.7 | 29.1  | 17.7  | 21.7  | 17.3  | 12.9 | 6.8             |
| Unit labour costs, ER (ECU) adjusted  | -23.0 | 5.7  | 1.5   | 1.2   | 12.9  | 6.9   | 6.7  | -0.9            |
| <b>Slovak Republic</b>                |       |      |       |       |       |       |      |                 |
| Average gross wages, SKK              | 4.1   | 18.4 | 17.0  | 14.3  | 13.3  | 13.1  | 8.4  | 7.2             |
| Average gross wages, real (PPI based) | -0.7  | 1.0  | 6.1   | 4.9   | 8.8   | 8.3   | 5.0  | 3.3             |
| Average gross wages, real (CPI based) | -5.7  | -3.9 | 3.2   | 4.0   | 7.1   | 6.6   | 1.6  | -3.0            |
| Average gross wages, ECU (ER)         | -24.8 | 20.6 | 11.0  | 12.8  | 13.5  | 14.5  | 4.0  | -3.7            |
| Employment total                      | -0.8  | -0.1 | -1.8  | 2.2   | 0.8   | 0.2   | -0.4 | -2.2            |
| GDP per empl. person, SKK at 1996 pr. | -1.6  | -3.7 | 6.7   | 4.7   | 5.7   | 6.3   | 4.9  | 4.2             |
| Unit labour costs, SKK at 1996 prices | 5.9   | 22.9 | 9.6   | 9.2   | 7.2   | 6.4   | 3.4  | 3.0             |
| Unit labour costs, ER (ECU) adjusted  | -23.5 | 25.2 | 4.0   | 7.7   | 7.3   | 7.7   | -0.9 | -7.6            |
| <b>Slovenia</b>                       |       |      |       |       |       |       |      |                 |
| Average gross wages, SIT              | 379.6 | 47.8 | 25.4  | 18.4  | 15.3  | 11.7  | 9.6  | 9.6             |
| Average gross wages, real (PPI based) | -2.2  | 21.5 | 6.6   | 4.9   | 8.0   | 5.3   | 3.4  | 7.3             |
| Average gross wages, real (CPI based) | -26.4 | 11.2 | 3.7   | 4.3   | 4.9   | 3.1   | 1.6  | 3.3             |
| Average gross wages, ECU (ER)         | 7.5   | 17.3 | 8.9   | 17.8  | 4.1   | 5.0   | 6.1  | 5.4             |
| Employment total                      | -3.9  | -3.6 | -1.3  | -0.1  | -0.5  | 0.2   | 0.2  | 1.8             |
| GDP per empl. person, SIT at 1996 pr. | -0.9  | 6.7  | 6.7   | 4.2   | 4.0   | 4.4   | 3.6  | 3.0             |
| Unit labour costs, SIT at 1996 prices | 383.8 | 38.5 | 17.6  | 13.5  | 10.9  | 7.1   | 5.8  | 6.4             |
| Unit labour costs, ER (ECU) adjusted  | 8.5   | 10.0 | 2.1   | 13.0  | 0.1   | 0.6   | 2.5  | 2.3             |
| <b>Bulgaria</b>                       |       |      |       |       |       |       |      |                 |
| Average gross wages, BGN              | 37.8  | 57.8 | 53.5  | 53.2  | 74.4  | 865.6 | 43.3 | 11.9            |
| Average gross wages, real (PPI based) | 20.1  | 23.0 | -12.6 | -0.2  | -24.2 | -12.4 | 23.3 | 8.3             |
| Average gross wages, real (CPI based) | 11.3  | -8.7 | -21.7 | -5.5  | -21.8 | -18.3 | 17.1 | 11.6            |
| Average gross wages, ECU (ER)         | 28.1  | 47.4 | -23.0 | 13.9  | -21.0 | -2.4  | 37.7 | 12.8            |
| Employment total                      | -6.1  | -1.6 | 0.6   | 1.3   | 0.1   | -3.9  | -0.2 | -2.6            |
| GDP per empl. person, BGN at 1996 pr. | -3.1  | 0.1  | 1.1   | 1.6   | -10.2 | -3.2  | 3.7  | 5.1             |
| Unit labour costs, BGN at 1996 prices | 42.3  | 57.7 | 51.8  | 50.7  | 94.2  | 897.9 | 38.2 | 6.5             |
| Unit labour costs, ER (ECU) adjusted  | 32.3  | 47.3 | -23.8 | 12.1  | -12.0 | 0.9   | 32.8 | 7.4             |

(Table 5 contd.)

Table 5 contd.

|                                       | 1990  | 1993   | 1994   | 1995  | 1996 | 1997  | 1998  | 1999<br>prelim. |
|---------------------------------------|-------|--------|--------|-------|------|-------|-------|-----------------|
| <b>Romania</b>                        |       |        |        |       |      |       |       |                 |
| Average gross wages, ROL              | 10.4  | 208.1  | 131.9  | 54.8  | 51.7 | 98.4  | 60.3  | 44.3            |
| Average gross wages, real (PPI based) | -13.0 | 16.3   | -3.6   | 14.6  | 1.2  | -21.5 | 20.3  | 1.4             |
| Average gross wages, real (CPI based) | 5.0   | -13.5  | -2.0   | 17.1  | 9.3  | -22.1 | 0.8   | -1.1            |
| Average gross wages, ECU (ER)         | -41.6 | 39.1   | 4.3    | 15.8  | 3.2  | -5.3  | 29.9  | -11.6           |
| Employment total                      | 0.2   | -3.4   | -2.2   | -2.8  | -3.2 | -2.5  | -3.1  | -3.0            |
| GDP per empl. person, ROL at 1996 pr. | -5.7  | 5.1    | 6.3    | 10.3  | 7.4  | -4.5  | -2.4  | -0.2            |
| Unit labour costs, ROL at 1996 prices | 17.1  | 193.2  | 118.2  | 40.4  | 41.2 | 107.8 | 64.2  | 44.6            |
| Unit labour costs, ER (ECU) adjusted  | -38.1 | 32.4   | -1.9   | 5.0   | -3.9 | -0.8  | 33.0  | -11.4           |
| <b>Croatia</b>                        |       |        |        |       |      |       |       |                 |
| Average gross wages, HRK              | 481.9 | 1434.9 | 154.1  | 34.0  | 12.3 | 13.1  | 12.6  | 10.2            |
| Average gross wages, real (PPI based) | 4.7   | -4.8   | 43.1   | 33.0  | 10.8 | 10.6  | 14.0  | 7.4             |
| Average gross wages, real (CPI based) | -18.0 | -5.1   | 28.6   | 31.3  | 8.5  | 9.2   | 6.5   | 5.7             |
| Average gross wages, ECU (ER)         | 30.5  | 26.3   | 48.2   | 40.5  | 11.6 | 10.6  | 9.8   | 3.7             |
| Employment total                      | -3.1  | -2.3   | -0.7   | -1.4  | -6.2 | -1.4  | 5.6   | -3.4            |
| GDP per empl. person, HRK at 1996 pr. | -4.1  | -5.8   | 6.6    | 8.3   | 12.9 | 8.3   | -3.0  | 3.2             |
| Unit labour costs, HRK at 1996 prices | 506.7 | 1530.1 | 138.5  | 23.7  | -0.5 | 4.4   | 16.1  | 6.8             |
| Unit labour costs, ER (ECU) adjusted  | 36.0  | 34.1   | 39.1   | 29.7  | -1.2 | 2.1   | 13.2  | 0.5             |
| <b>Macedonia</b>                      |       |        |        |       |      |       |       |                 |
| Average net wages, MKD                | 461.3 | 495.6  | 105.0  | 10.7  | 2.8  | 2.8   | 3.7   | 2.9             |
| Average net wages, real (PPI based)   | 13.7  | 66.2   | 8.3    | 5.7   | 3.1  | -1.4  | -0.4  | 3.0             |
| Average net wages, real (CPI based)   | -19.4 | 28.9   | -10.1  | -4.5  | 0.5  | 0.2   | 3.8   | 3.6             |
| Average net wages, ECU (ER)           | 25.6  | 45.8   | 9.6    | 15.0  | 0.9  | -8.4  | -4.6  | 3.6             |
| Employment total                      | -1.5  | -5.5   | -5.3   | -9.5  | -4.4 | -5.4  | -2.7  | 0.1             |
| GDP per empl. person, MKD at 1996 pr. | .     | 4.5    | 3.6    | 9.3   | 5.9  | 7.2   | 5.8   | 2.6             |
| Unit labour costs, MKD at 1996 prices | .     | 470.1  | 97.9   | 1.3   | -2.9 | -4.1  | -2.0  | 0.3             |
| Unit labour costs, ER (ECU) adjusted  | .     | 39.5   | 5.7    | 5.3   | -4.7 | -14.5 | -9.9  | 1.0             |
| <b>Russia</b>                         |       |        |        |       |      |       |       |                 |
| Average gross wages, RUB              | 17.2  | 906.4  | 277.5  | 119.6 | 48.4 | 20.2  | 10.4  | 50.1            |
| Average gross wages, real (PPI based) | 13.8  | -3.4   | -13.6  | -34.7 | -1.6 | 4.6   | 3.1   | -5.5            |
| Average gross wages, real (CPI based) | 11.3  | 3.4    | -7.2   | -26.2 | 0.4  | 4.7   | -13.5 | -19.2           |
| Average gross wages, ECU (ER)         | 9.3   | 188.8  | 75.7   | -2.9  | 31.8 | 21.9  | -34.7 | -36.7           |
| Employment total                      | 0.2   | -1.7   | -3.3   | -3.0  | -0.7 | -2.0  | -1.5  | 1.4             |
| GDP per empl. person, RUB at 1996 pr. | -3.2  | -7.2   | -9.7   | -1.2  | -2.7 | 2.9   | -3.4  | 1.8             |
| Unit labour costs, RUB at 1996 prices | 21.1  | 984.2  | 317.9  | 122.1 | 52.4 | 16.8  | 14.3  | 47.5            |
| Unit labour costs, ER (ECU) adjusted  | 12.9  | 211.1  | 94.6   | -1.8  | 35.4 | 18.4  | -32.4 | -37.8           |
| <b>Ukraine</b>                        |       |        |        |       |      |       |       |                 |
| Average gross wages, UAH              | 14.7  | 2233.0 | 786.6  | 430.7 | 72.6 | 13.5  | 7.0   | 16.0            |
| Average gross wages, real (PPI based) | 9.7   | -51.1  | -28.2  | -9.9  | 13.5 | 5.4   | -5.5  | -11.5           |
| Average gross wages, real (CPI based) | 9.4   | -57.4  | -10.5  | 11.3  | -4.2 | -2.1  | -3.3  | -5.4            |
| Average gross wages, ECU (ER)         | 7.0   | 18.2   | 21.4   | 6.0   | 43.3 | 24.7  | -18.3 | -26.9           |
| Employment total                      | -0.5  | -2.3   | -3.8   | 3.0   | -2.1 | -2.7  | -1.1  | -1.6            |
| GDP per empl. person, UAH at 1996 pr. | -3.6  | -12.2  | -19.9  | -14.8 | -8.1 | -0.3  | -0.6  | 1.2             |
| Unit labour costs, UAH at 1996 prices | 18.9  | 2556.7 | 1006.6 | 522.9 | 87.8 | 13.8  | 7.6   | 14.7            |
| Unit labour costs, ER (ECU) adjusted  | 10.9  | 34.6   | 51.5   | 24.3  | 55.9 | 25.1  | -17.8 | -27.8           |

Sources: National statistics and WIIW estimates.

## Unemployment: higher than in the EU, and rising

The other – and less pleasant – side of the rising efficiency coin has been rising unemployment. Double-digit unemployment rates have now become the rule in the CEEC region (and in Russia as well – see Table 6). This is a major social and political problem with far reaching implications. Apart from the truly disastrous labour market situation in several countries of former Yugoslavia where nearly one third of the labour force has no job, the unemployment has recently acquired dramatic dimensions especially in Bulgaria and in the Slovak Republic (unemployment rate of nearly 20%). Moreover, nowhere in the region is there hope for a marked and rapid improvement, despite the currently better general economic outlook for economic growth. Unemployment is thus not a 'transitional' phenomenon in the transition countries. Perhaps even more than elsewhere in Europe, the CEECs' unemployment patterns display distinct regional, gender, age and minority differences. Clearly, not only local, but also EU policy makers are challenged in tackling this unbearable situation.

Table 6

### Registered unemployment, end of period

|                         | in 1000 persons |        |        |        | rate in % <sup>1)</sup> |      |      |                  |          |      |
|-------------------------|-----------------|--------|--------|--------|-------------------------|------|------|------------------|----------|------|
|                         | 1997            | 1998   | 1999   | 2000   | 1997                    | 1998 | 1999 | 2000             | 2000     | 2001 |
|                         | March           |        |        |        | March                   |      |      |                  | forecast |      |
| Czech Republic          | 268.9           | 386.9  | 487.6  | 493.4  | 5.2                     | 7.5  | 9.4  | 9.5              | 10       | 10   |
| Hungary                 | 464.0           | 404.1  | 404.5  | 427.8  | 11.0                    | 9.6  | 9.6  | 10 <sup>2)</sup> | 9        | 9    |
| Poland                  | 1826.4          | 1831.4 | 2349.8 | 2533.6 | 10.3                    | 10.4 | 13.0 | 13.9             | 13.5     | 13.5 |
| Slovak Republic         | 347.8           | 428.2  | 535.2  | 546.8  | 12.5                    | 15.6 | 19.2 | 19.3             | 18       | 18   |
| Slovenia                | 128.6           | 126.6  | 114.3  | 110.1  | 14.8                    | 14.6 | 13.0 | 12.6             | 11.5     | 11   |
| CEEC-5 <sup>2)</sup>    | 3035.6          | 3177.2 | 3891.5 | 4111.7 | 9.9                     | 10.4 | 12.5 | 13.1             | .        | .    |
| Bulgaria                | 523.5           | 465.2  | 610.6  | 717.0  | 13.7                    | 12.2 | 16.0 | 18.8             | 20       | 18   |
| Romania                 | 881.4           | 1025.1 | 1130.3 | 1166.7 | 8.9                     | 10.4 | 11.5 | 11.9             | 13       | 12   |
| CEEC-7 <sup>2)</sup>    | 4440.5          | 4667.5 | 5632.3 | 5995.4 | 10.0                    | 10.5 | 12.6 | 13.3             | .        | .    |
| Croatia                 | 287.1           | 302.7  | 341.7  | 357.7  | 17.6                    | 18.1 | 20.8 | 21.7             | 23.5     | 23   |
| Macedonia <sup>3)</sup> | 288.2           | 284.1  | 261.5  | .      | 36.0                    | 34.5 | 32.4 | .                | 32       | 32   |
| Yugoslavia              | 793.8           | 849.4  | 776.0  | 801.0  | 25.5                    | 25.4 | 25.5 | 26.4             | 30       | 32   |
| Russia <sup>3)</sup>    | 8133.0          | 9728.0 | 9100.0 | 9124.0 | 11.2                    | 13.3 | 12.3 | 12.3             | 12       | 12   |
| Ukraine                 | 637.1           | 1003.2 | 1174.5 | 1267.4 | 2.3                     | 3.7  | 4.3  | 4.5              | 6        | 8    |

Note: 1) Share of unemployed in % of economically active persons. - 2) WIIW estimate. - 3) According to ILO definition.

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

### **Disinflation: permanent or only temporary?**

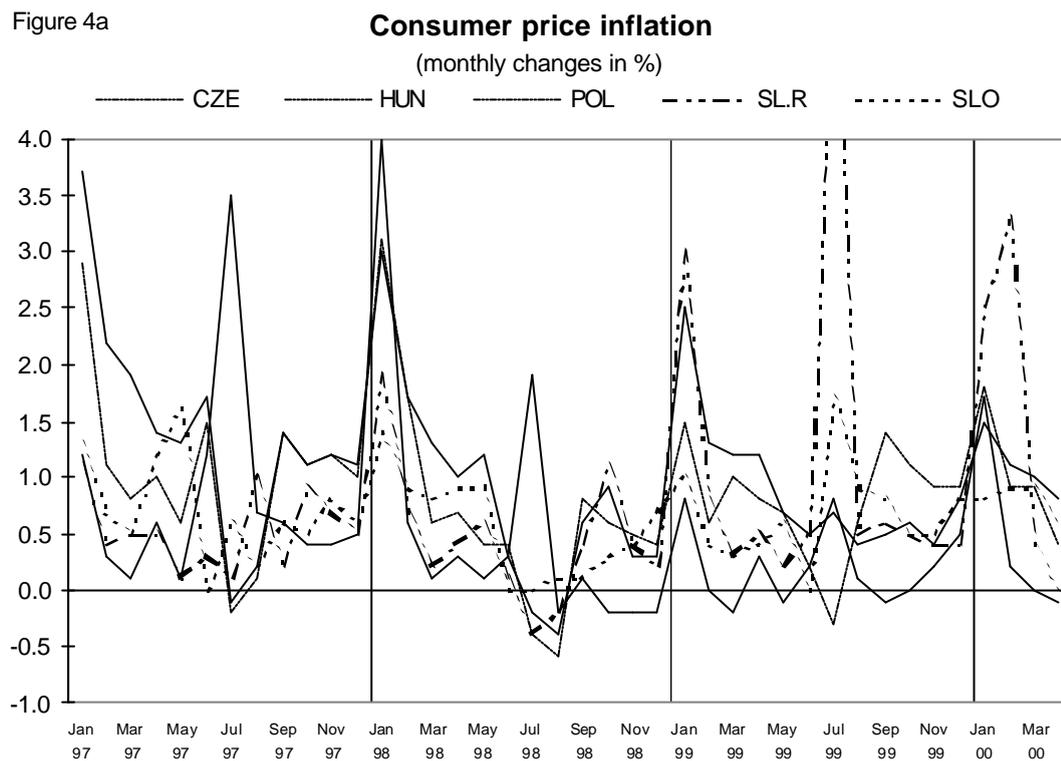
There has been a remarkable reduction of inflation during the last couple of years in most CEECs. By mid-1999, all CEECs (except Romania) have achieved single-digit annual CPI inflation; producer price inflation has been as a rule even lower (Tables 7a and 7b). Even in Russia, month-to-month price increases have been surprisingly low, the high annual price growth results largely from the lagged effects of late 1998. During the first months of 2000, both CPI and PPI inflation rates were higher than in the pre-year period in all CEECs (Figures 4 and 5). The reasons are manifold, ranging from higher world market energy prices to administrative increases of regulated prices (including VAT rates). Despite higher economic growth, cost-push factors rather than the demand-pull ones have probably been more important for the recently accelerated inflation in the CEECs. In Russia, on the other hand, CPI inflation is declining further, though producer prices are here growing faster as lagged effects of previous devaluations and of higher domestic demand are creeping in. Russia is the only country in the region where the difference between CPI and PPI inflation still remains substantial, pointing out persisting market distortions.

The outlook for inflation is mixed. In general, no further substantial disinflation is expected in the CEECs during the coming two years (except Hungary). But inflation will remain moderate, at single-digit annual levels (Czech Republic, Hungary, Poland, Slovenia, Bulgaria and Croatia). The Slovak Republic is an exception in this respect among the more advanced CEECs: the recently accelerating inflation has been largely a side-effect of the austerity package introduced by the new Slovak government in early 1999. But in all CEECs inflation will be higher than in the EU, at least for several years to come. The persistence of a sizeable inflation differential will pose numerous challenges for monetary and exchange rates policies in the pre-accession period.<sup>3</sup>

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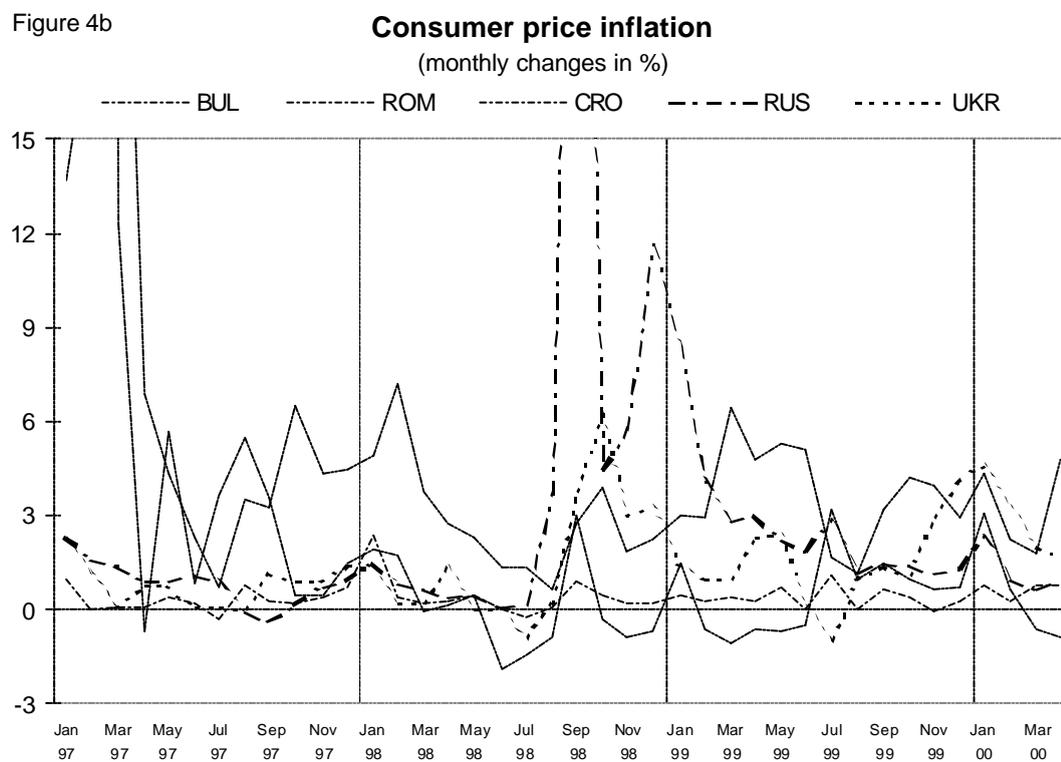
<sup>3</sup> Among these challenges are, *inter alia*, problems of nominal and real convergence which were discussed in the ECE's latest Economic Survey of Europe, No. 1, 2000, UNECE, New York and Geneva.

Figure 4a



WIIW

Figure 4b

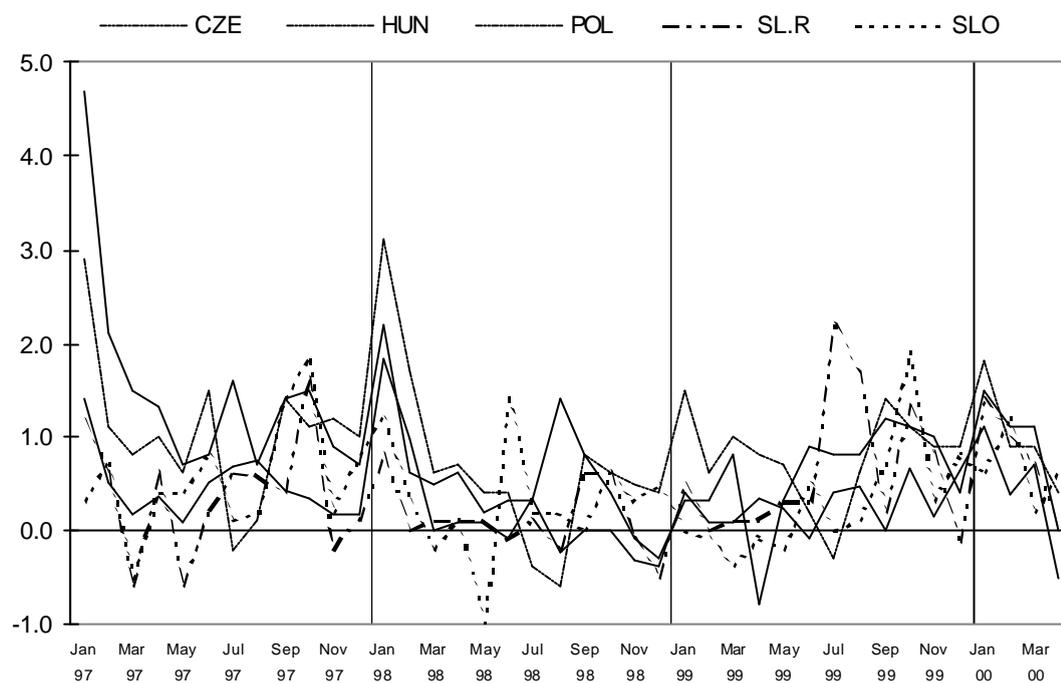


WIIW

Figure 5a

**Producer price inflation**

(monthly changes in %)

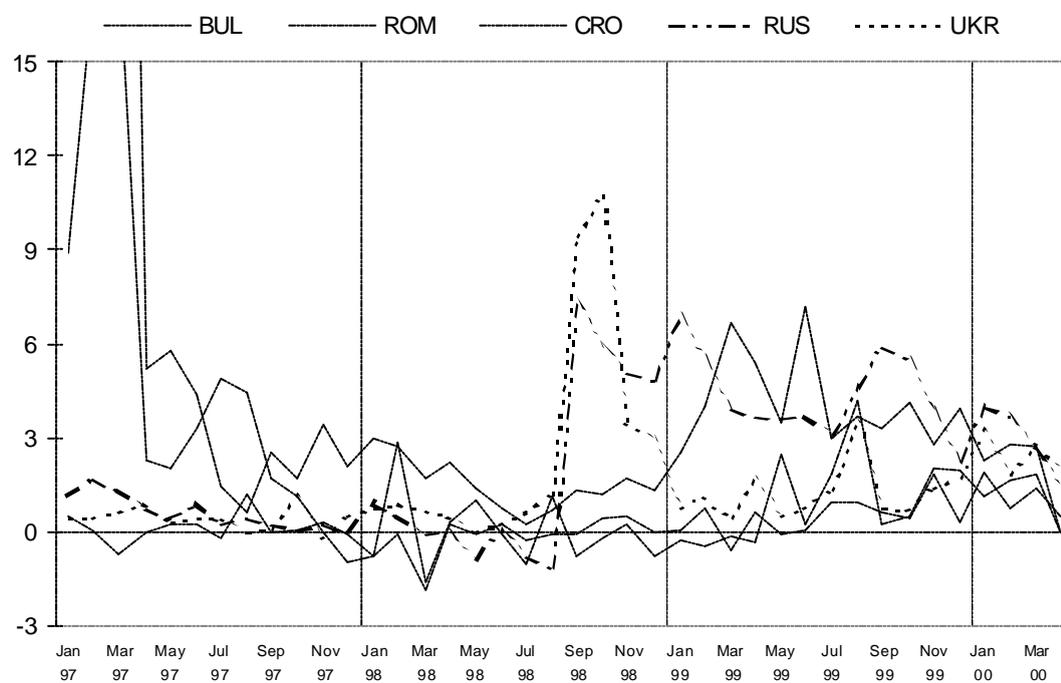


WIIW

Figure 5b

**Producer price inflation**

(monthly changes in %)



WIIW

Table 7a

**Consumer price inflation**

change in % against preceding year

|                         | 1993   | 1994  | 1995  | 1996  | 1997   | 1998 | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000 | 2000<br>forecast | 2001 |
|-------------------------|--------|-------|-------|-------|--------|------|--------------------|---------------------|------|------------------|------|
| Czech Republic          | 20.8   | 10.0  | 9.1   | 8.8   | 8.5    | 10.7 | 2.1                | 2.9                 | 3.7  | 3.7              | 4    |
| Hungary                 | 22.5   | 18.8  | 28.2  | 23.6  | 18.3   | 14.3 | 10.0               | 9.5                 | 9.7  | 8.3              | 6.5  |
| Poland                  | 35.3   | 32.2  | 27.8  | 19.9  | 14.9   | 11.8 | 7.3                | 6.1                 | 10.3 | 8                | 7    |
| Slovak Republic         | 23.2   | 13.4  | 9.9   | 5.8   | 6.1    | 6.7  | 10.6               | 6.7                 | 15.6 | 15               | 11   |
| Slovenia                | 32.9   | 21.0  | 13.5  | 9.9   | 8.4    | 7.9  | 6.1                | 5.6                 | 8.4  | 7.5              | 5.5  |
| Bulgaria                | 72.8   | 96.0  | 62.1  | 123.0 | 1082.3 | 22.3 | 0.3                | -1.4                | 8.8  | 5                | 3    |
| Romania                 | 256.1  | 136.8 | 32.3  | 38.8  | 154.8  | 59.1 | 45.8               | 35.4                | 53.7 | 40               | 35   |
| Croatia <sup>2)</sup>   | 1517.5 | 97.6  | 2.0   | 3.5   | 3.6    | 5.7  | 4.2                | 3.4                 | 4.8  | 5.5              | 6    |
| Macedonia <sup>2)</sup> | 349.8  | 121.7 | 15.9  | 3.0   | 4.4    | 0.8  | -1.1               | -1.7                | 4.2  | 3                | 5    |
| Yugoslavia              | .      | .     | 78.6  | 91.5  | 21.6   | 29.9 | 44.9               | 43.6                | 60.8 | 50               | 70   |
| Russia                  | 873.5  | 307.0 | 197.5 | 47.8  | 14.8   | 27.6 | 85.7               | 102.8               | 25.4 | 20               | 15   |
| Ukraine                 | 5371.0 | 891.0 | 376.8 | 80.2  | 15.9   | 10.6 | 22.7               | 21.2                | 25.1 | 20               | 20   |

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

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

Table 7b

**Producer prices in industry**

change in % against preceding year

|                 | 1993   | 1994   | 1995  | 1996  | 1997   | 1998 | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000 | 2000<br>forecast | 2001 |
|-----------------|--------|--------|-------|-------|--------|------|--------------------|---------------------|------|------------------|------|
| Czech Republic  | 9.2    | 5.3    | 7.6   | 4.7   | 4.9    | 4.9  | 1.0                | 0.2                 | 4.5  | 4.2              | 4    |
| Hungary         | 10.8   | 11.3   | 28.9  | 21.8  | 20.4   | 11.3 | 5.1                | 4.7                 | 9.1  | .                | .    |
| Poland          | 31.9   | 25.3   | 25.4  | 12.4  | 12.2   | 7.3  | 5.7                | 4.2                 | 7.8  | .                | .    |
| Slovak Republic | 17.2   | 10.3   | 9.0   | 4.2   | 4.5    | 3.3  | 3.8                | 1.2                 | 9.5  | .                | .    |
| Slovenia        | 21.6   | 17.7   | 12.8  | 6.8   | 6.1    | 6.0  | 2.1                | 2.0                 | 5.2  | .                | .    |
| Bulgaria        | 28.3   | 75.7   | 53.4  | 130.0 | 1002.8 | 16.2 | 3.3                | -1.0                | 16.5 | .                | .    |
| Romania         | 165.0  | 140.5  | 35.1  | 49.9  | 152.7  | 33.3 | 42.2               | 22.2                | 59.1 | .                | .    |
| Croatia         | 1512.4 | 77.6   | 0.7   | 1.4   | 2.3    | -1.2 | 2.6                | 0.1                 | 8.5  | .                | .    |
| Macedonia       | 258.3  | 89.3   | 4.7   | -0.3  | 4.2    | 4.0  | -0.1               | -0.9                | 7.2  | .                | .    |
| Yugoslavia      | .      | .      | 57.7  | 90.2  | 19.5   | 25.5 | 44.2               | 44.5                | 74.7 | .                | .    |
| Russia          | 941.9  | 336.9  | 236.5 | 50.8  | 15.0   | 7.1  | 58.9               | 36.8                | 60.2 | 50               | 30   |
| Ukraine         | 4667.3 | 1134.4 | 488.8 | 52.1  | 7.7    | 13.2 | 31.1               | 35.5                | 19.9 | 20               | 20   |

Note: 1) Preliminary.

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

### **Booming foreign trade fuels growth**

Foreign trade has once again become an engine of CEECs' economic growth. CEEC-7 exports expanded by 30% in current euro terms during the first quarter of 2000. Measured in US dollar, the growth was lower, though still respectable (14%), due to dollar appreciation (Table 8). An astonishing expansion of exports – by more than 40% – is reported especially by Bulgaria and Romania, but in Slovakia (37%) and in the Czech Republic (36%) growth was extremely high as well. The 'weakest' export performance (+17%) was achieved by Slovenia and Croatia, which both apparently encounter some problems in their trade with Germany and Italy. The development of CEEC-7 imports was nearly equally dynamic (+28% in euro, +13% in USD terms), and the CEECs' trade deficit further increased – mostly on account of a further deterioration of the trade balance in Poland.

The EU is nowadays by far the most important trading partner of the CEECs, accounting for between 52% (Bulgaria) and 76% (Hungary) of total exports in 1999 (Table 9). The same is true for imports, though the shares of the EU in CEECs' total imports are about 10 percentage points lower (Table 10). Obviously, the rapidly growing trade with the EU has been the main cause for the recent dynamic trade developments whereby exports to the EU grew faster than imports and the share of the EU in CEECs' exports further increased. The fact that a higher share of CEECs' exports goes to the EU, and is thus denominated in euro (which depreciated vis-à-vis the USD), has led to a deterioration in CEECs' terms of trade. The negative terms-of-trade effects were even accentuated by rising world market energy prices.

Russia, on the other hand, is gaining considerably from higher world market energy prices. Its exports jumped by nearly 70% (close to 50% in USD terms) while imports grew much less in the first quarter of 2000 (+16% – see Table 8). The result was another record trade surplus, this time more than USD 13 billion in the first three months of 2000. Both exports and imports grew quite fast in the Ukraine as well.

Table 8

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

(based on customs statistics)

|                              |         | 1995   | 1996   | 1997   | 1998   | 1999 <sup>1)</sup> | 1998<br>1997 | 1999<br>1998 | 1999<br>I-III | 2000<br>I-III | I-III 00<br>I-III 99 | I-III 00<br>I-III 99 |
|------------------------------|---------|--------|--------|--------|--------|--------------------|--------------|--------------|---------------|---------------|----------------------|----------------------|
|                              |         |        |        |        |        |                    | in %         | in %         | I-III         | I-III         | in %                 | in %                 |
|                              |         | (USD)  |        |        |        |                    |              |              |               |               |                      |                      |
| Czech Republic <sup>2)</sup> | Exports | 16751  | 17484  | 20182  | 23515  | 25195              | 16.5         | 7.1          | 5534          | 7534          | 36.1                 | 20.1                 |
|                              | Imports | 19541  | 22121  | 24072  | 25690  | 27042              | 6.7          | 5.3          | 5988          | 8042          | 34.3                 | 18.7                 |
|                              | Balance | -2790  | -4637  | -3890  | -2175  | -1847              | .            | .            | -454          | -508          | .                    | .                    |
| Hungary <sup>3)</sup>        | Exports | 9972   | 10472  | 16910  | 20477  | 23491              | 21.1         | 14.7         | 5132          | 6458          | 25.8                 | 9.8                  |
|                              | Imports | 11905  | 12912  | 18780  | 22871  | 26288              | 21.8         | 14.9         | 5674          | 7167          | 26.3                 | 10.1                 |
|                              | Balance | -1933  | -2440  | -1869  | -2394  | -2797              | .            | .            | -542          | -709          | .                    | .                    |
| Poland                       | Exports | 17710  | 19488  | 22798  | 25145  | 25729              | 10.3         | 2.3          | 5843          | 7295          | 24.8                 | 9.2                  |
|                              | Imports | 22491  | 29677  | 37484  | 41539  | 43151              | 10.8         | 3.9          | 9271          | 11587         | 25.0                 | 9.3                  |
|                              | Balance | -4781  | -10189 | -14686 | -16394 | -17422             | .            | .            | -3427         | -4292         | .                    | .                    |
| Slovakia <sup>4)</sup>       | Exports | 6634   | 7047   | 7310   | 9545   | 9577               | 11.8         | 0.3          | 2102          | 2888          | 37.4                 | 21.1                 |
|                              | Imports | 6783   | 8876   | 9132   | 11640  | 10613              | 12.1         | -8.8         | 2398          | 3057          | 27.5                 | 12.5                 |
|                              | Balance | -148   | -1829  | -1823  | -2095  | -1036              | .            | .            | -295          | -169          | .                    | .                    |
| Slovenia                     | Exports | 6426   | 6641   | 7413   | 8052   | 8037               | 8.6          | -0.2         | 1885          | 2206          | 17.0                 | 2.9                  |
|                              | Imports | 7327   | 7536   | 8290   | 8999   | 9362               | 8.6          | 4.0          | 2140          | 2596          | 21.3                 | 6.6                  |
|                              | Balance | -901   | -895   | -876   | -947   | -1325              | .            | .            | -255          | -390          | .                    | .                    |
| CEEC-5                       | Exports | 57494  | 61131  | 74613  | 86734  | 92029              | 14.4         | 6.1          | 20497         | 26380         | 28.7                 | 12.9                 |
|                              | Imports | 68047  | 81122  | 97757  | 110739 | 116457             | 11.9         | 5.2          | 25470         | 32448         | 27.4                 | 11.8                 |
|                              | Balance | -10553 | -19991 | -23144 | -24005 | -24427             | .            | .            | -4973         | -6068         | .                    | .                    |
| Bulgaria <sup>5)</sup>       | Exports | 4142   | 4486   | 4368   | 3841   | 3697               | -12.1        | -1.2         | 760           | 1089          | 43.2                 | 24.5                 |
|                              | Imports | 4377   | 4655   | 4361   | 4476   | 5098               | 2.6          | 15.2         | 1036          | 1531          | 47.7                 | 28.8                 |
|                              | Balance | -234   | -169   | 7      | -635   | -1401              | .            | .            | -276          | -442          | .                    | .                    |
| Romania                      | Exports | 6047   | 6376   | 7434   | 7412   | 7983               | -0.3         | 7.7          | 1687          | 2428          | 43.9                 | 26.5                 |
|                              | Imports | 7857   | 9019   | 9946   | 10569  | 9754               | 6.3          | -7.7         | 2056          | 2675          | 30.1                 | 14.3                 |
|                              | Balance | -1810  | -2643  | -2512  | -3157  | -1772              | .            | .            | -370          | -247          | .                    | .                    |
| CEEC-7                       | Exports | 67683  | 71993  | 86416  | 97988  | 103709             | 11.8         | 5.9          | 22944         | 29897         | 30.3                 | 14.3                 |
|                              | Imports | 80280  | 94795  | 112065 | 125784 | 131309             | 11.0         | 4.4          | 28562         | 36654         | 28.3                 | 12.6                 |
|                              | Balance | -12597 | -22802 | -25649 | -27797 | -27600             | .            | .            | -5619         | -6757         | .                    | .                    |
| Croatia <sup>6)</sup>        | Exports | 3595   | 3602   | 3666   | 4046   | 4027               | 10.4         | -0.5         | 889           | 1038          | 16.7                 | 2.4                  |
|                              | Imports | 5810   | 6220   | 8060   | 7477   | 7324               | -7.2         | -2.0         | 1471          | 1652          | 12.3                 | -1.8                 |
|                              | Balance | -2215  | -2618  | -4394  | -3431  | -3297              | .            | .            | -581          | -614          | .                    | .                    |
| Macedonia                    | Exports | 920    | 905    | 1091   | 1170   | 1119               | 7.3          | -4.4         | 226           | 336           | 48.3                 | 30.4                 |
|                              | Imports | 1314   | 1283   | 1568   | 1709   | 1686               | 9.0          | -1.4         | 308           | 609           | 98.1                 | 74.1                 |
|                              | Balance | -394   | -378   | -478   | -539   | -567               | .            | .            | -81           | -273          | .                    | .                    |
| Yugoslavia <sup>7)</sup>     | Exports | .      | 1593   | 2360   | 2518   | 1391               | 6.7          | -44.0        | 418           | 373           | -10.7                | -21.7                |
|                              | Imports | .      | 3251   | 4245   | 4283   | 3081               | 0.9          | -26.4        | 826           | 871           | 5.5                  | -6.7                 |
|                              | Balance | .      | -1658  | -1885  | -1766  | -1690              | .            | .            | -408          | -498          | .                    | .                    |
| Russia <sup>8)</sup>         | Exports | 61993  | 69874  | 77885  | 66210  | 69834              | -15.0        | 5.5          | 13809         | 23109         | 67.3                 | 47.1                 |
|                              | Imports | 46589  | 54282  | 64911  | 52620  | 38484              | -18.9        | -26.9        | 8375          | 9730          | 16.2                 | 2.1                  |
|                              | Balance | 15404  | 15593  | 12974  | 13591  | 31350              | .            | .            | 5435          | 13379         | .                    | .                    |
| Ukraine                      | Exports | 10036  | 11357  | 12550  | 11283  | 10871              | -10.1        | -3.7         | 2169          | 3062          | 41.1                 | 24.1                 |
|                              | Imports | 11837  | 13883  | 15103  | 13103  | 11119              | -13.2        | -15.1        | 2549          | 3748          | 47.0                 | 29.3                 |
|                              | Balance | -1801  | -2526  | -2554  | -1820  | -248               | .            | .            | -380          | -686          | .                    | .                    |

1) Preliminary. - 2) From 1995 new methodology of 1996. - 3) From 1997 including trade of firms with customs free legal status. - 4) From 1998 according to new methodology. - 5) From 1999 new methodology. - 6) Quarterly data according to new methodology. - 7) From 1999 excluding Kosovo & Metohia. - 8) Including estimate of non-registered trade.

Source: WIIW Database incorporating national statistics, WIIW forecast.

Table 9

**Central and East European (CEE) exports by regions**

shares of regions in the total, in %

|                                     |                       | 1990           | 1991           | 1992           | 1993           | 1994           | 1995           | 1996           | 1997           | 1998           | 1999           |
|-------------------------------------|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Bulgaria</b>                     | EU(15)                | 5.6            | 17.4           | 31.5           | 30.0           | 37.6           | 37.7           | 39.1           | 43.2           | 49.6           | 52.4           |
|                                     | Austria               | 0.4            | 1.0            | 1.2            | 1.1            | 1.4            | 0.9            | 1.0            | 1.1            | 1.6            | .              |
|                                     | CEEC                  | 12.1           | 5.2            | 5.1            | 4.4            | 3.4            | 3.2            | 3.4            | 3.1            | 4.2            | 3.4            |
|                                     | Russia <sup>1)</sup>  | 64.0           | 49.8           | 17.1           | 13.6           | 13.5           | 10.0           | 9.8            | 7.9            | 5.5            | .              |
|                                     | Other                 | 18.4           | 27.6           | 46.3           | 52.1           | 45.5           | 49.1           | 47.7           | 45.7           | 40.7           | .              |
|                                     | <b>Total (USD mn)</b> | <b>13439.6</b> | <b>3439.8</b>  | <b>3921.9</b>  | <b>3721.0</b>  | <b>3985.4</b>  | <b>5354.7</b>  | <b>4890.2</b>  | <b>4939.7</b>  | <b>4303.5</b>  | <b>3938.1</b>  |
| <b>Czech Republic<sup>2)</sup></b>  | EU(15)                | 38.4           | 50.8           | 61.6           | 49.4           | 54.1           | 60.9           | 58.2           | 59.9           | 64.2           | 69.2           |
|                                     | Austria               | 5.0            | 5.8            | 7.2            | 6.0            | 7.1            | 6.6            | 6.4            | 6.4            | 6.3            | 6.4            |
|                                     | CEEC <sup>3)</sup>    | 12.6           | 11.8           | 9.2            | 27.1           | 23.7           | 20.7           | 22.2           | 21.2           | 19.2           | 16.3           |
|                                     | Russia <sup>1)</sup>  | 25.1           | 17.5           | 7.3            | 4.5            | 3.9            | 2.9            | 3.2            | 3.4            | 2.5            | 1.4            |
|                                     | Other                 | 23.9           | 19.9           | 21.9           | 19.0           | 18.3           | 15.5           | 16.4           | 15.5           | 14.1           | 13.1           |
|                                     | <b>Total (USD mn)</b> | <b>9051.6</b>  | <b>7923.8</b>  | <b>8778.8</b>  | <b>13204.6</b> | <b>14254.7</b> | <b>21646.8</b> | <b>21905.7</b> | <b>22784.6</b> | <b>26349.8</b> | <b>26878.7</b> |
| <b>Slovak Republic<sup>4)</sup></b> | EU(15)                | 40.8           | 41.4           | 50.1           | 29.5           | 35.0           | 37.4           | 41.3           | 41.7           | 55.7           | 59.5           |
|                                     | Austria               | 7.2            | 5.9            | 7.5            | 5.0            | 5.3            | 5.0            | 6.0            | 7.0            | 7.5            | 8.1            |
|                                     | CEEC <sup>5)</sup>    | 13.8           | 16.7           | 12.8           | 50.6           | 46.3           | 44.9           | 41.3           | 40.0           | 31.7           | 28.8           |
|                                     | Russia <sup>1)</sup>  | 25.1           | 24.9           | 7.0            | 4.7            | 4.1            | 3.9            | 3.5            | 4.0            | 1.9            | 1.7            |
|                                     | Other                 | 20.3           | 17.0           | 30.1           | 15.1           | 14.6           | 13.8           | 14.0           | 14.3           | 10.7           | 10.0           |
|                                     | <b>Total (USD mn)</b> | <b>2893.9</b>  | <b>3282.5</b>  | <b>3708.6</b>  | <b>5447.4</b>  | <b>6690.9</b>  | <b>8579.0</b>  | <b>8829.0</b>  | <b>8252.1</b>  | <b>10723.1</b> | <b>10211.4</b> |
| <b>Hungary<sup>6)</sup></b>         | EU(15)                | 42.1           | 58.6           | 62.3           | 58.1           | 63.7           | 62.7           | 62.7           | 71.2           | 73.0           | 76.2           |
|                                     | Austria               | 7.5            | 10.8           | 10.7           | 10.1           | 10.9           | 10.1           | 10.6           | 11.4           | 10.6           | 9.6            |
|                                     | CEEC                  | 7.9            | 5.8            | 6.2            | 7.5            | 7.4            | 9.0            | 9.5            | 7.7            | 8.0            | 6.8            |
|                                     | Russia <sup>7)</sup>  | 20.2           | 13.4           | 13.1           | 10.7           | 7.5            | 6.4            | 5.9            | 5.1            | 2.8            | 1.4            |
|                                     | Other                 | 29.8           | 22.1           | 18.4           | 23.7           | 21.4           | 21.9           | 21.9           | 16.1           | 16.2           | 15.6           |
|                                     | <b>Total (USD mn)</b> | <b>9551.2</b>  | <b>10216.2</b> | <b>10678.1</b> | <b>8908.2</b>  | <b>10736.2</b> | <b>12904.7</b> | <b>13119.6</b> | <b>19099.5</b> | <b>23010.0</b> | <b>25024.3</b> |
| <b>Poland</b>                       | EU(15)                | 52.7           | 64.2           | 65.7           | 69.2           | 69.2           | 70.0           | 66.2           | 64.0           | 68.3           | 70.5           |
|                                     | Austria               | 3.7            | 4.5            | 3.2            | 2.4            | 2.2            | 2.1            | 2.0            | 1.8            | 2.0            | 2.0            |
|                                     | CEEC                  | 6.4            | 5.8            | 5.9            | 5.3            | 5.2            | 5.9            | 6.4            | 6.8            | 7.1            | 7.8            |
|                                     | Russia <sup>1)</sup>  | 14.5           | 11.0           | 5.5            | 4.6            | 5.4            | 5.6            | 6.8            | 8.4            | 5.6            | 2.6            |
|                                     | Other                 | 26.4           | 18.9           | 22.9           | 20.9           | 20.2           | 18.5           | 20.6           | 20.7           | 18.9           | 19.1           |
|                                     | <b>Total (USD mn)</b> | <b>14321.6</b> | <b>14903.4</b> | <b>13186.6</b> | <b>14143.1</b> | <b>17240.4</b> | <b>22894.7</b> | <b>24440.0</b> | <b>25751.3</b> | <b>28228.7</b> | <b>27407.4</b> |
| <b>Romania</b>                      | EU(15)                | 33.9           | 36.9           | 35.2           | 41.4           | 48.2           | 54.2           | 56.5           | 56.5           | 64.5           | 65.5           |
|                                     | Austria               | 1.2            | 2.5            | 2.4            | 1.5            | 1.6            | 2.0            | 2.1            | 2.1            | 3.0            | 2.9            |
|                                     | CEEC                  | 9.1            | 7.1            | 6.3            | 5.2            | 5.9            | 4.1            | 4.2            | 4.6            | 5.0            | 6.5            |
|                                     | Russia <sup>8)</sup>  | 25.6           | 22.7           | 9.5            | 4.5            | 3.4            | 2.0            | 2.0            | 3.0            | 1.0            | 0.6            |
|                                     | Other                 | 31.5           | 33.3           | 49.0           | 48.9           | 42.6           | 39.8           | 37.2           | 35.9           | 29.5           | 27.4           |
|                                     | <b>Total (USD mn)</b> | <b>5775.4</b>  | <b>4265.7</b>  | <b>4363.4</b>  | <b>4892.2</b>  | <b>6151.3</b>  | <b>7910.0</b>  | <b>8084.5</b>  | <b>8431.1</b>  | <b>8302.0</b>  | <b>8504.7</b>  |
| <b>Slovenia<sup>9)</sup></b>        | EU(15)                | 64.8           | 70.9           | 60.9           | 63.2           | 65.6           | 67.0           | 64.6           | 63.6           | 65.5           | 66.1           |
|                                     | Austria               | 5.4            | 5.7            | 5.1            | 5.0            | 5.5            | 6.4            | 6.6            | 6.8            | 6.9            | 7.3            |
|                                     | CEEC                  | 5.5            | 5.9            | 3.9            | 5.4            | 4.9            | 5.3            | 5.8            | 6.2            | 6.7            | 6.5            |
|                                     | Russia <sup>7)</sup>  | 13.3           | 8.1            | 3.4            | 4.1            | 3.9            | 3.7            | 3.6            | 3.9            | 2.6            | 1.5            |
|                                     | Other                 | 16.4           | 15.1           | 31.9           | 27.3           | 25.6           | 24.0           | 26.0           | 26.4           | 25.2           | 25.8           |
|                                     | <b>Total (USD mn)</b> | <b>4117.8</b>  | <b>3874.3</b>  | <b>6681.2</b>  | <b>6082.9</b>  | <b>6827.9</b>  | <b>8315.8</b>  | <b>8309.8</b>  | <b>8368.9</b>  | <b>9050.6</b>  | <b>8545.8</b>  |

1) From 1992 Russia. - 2) From 1995 new methodology. - 3) From 1993 including trade with Slovakia. - 4) From 1998 according to new methodology. - 5) From 1993 including trade with the Czech Republic. - 6) From 1997 including trade of firms with customs free legal status. - 7) From 1993 Russia. - 8) From 1991 Russia. - 9) From 1992 including exports and imports for commission processing

Source: WIIW database incorporating national statistics.

Table 10

**Central and East European (CEE) imports by regions**  
shares of regions in the total, in %

|                                     |                       | 1990           | 1991           | 1992           | 1993           | 1994           | 1995           | 1996           | 1997           | 1998           | 1999           |
|-------------------------------------|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                     |                       |                |                |                |                |                |                |                |                |                | prelim.        |
| <b>Bulgaria</b>                     | EU(15)                | 11.5           | 26.4           | 35.5           | 32.8           | 37.5           | 37.2           | 35.1           | 37.7           | 44.9           | 48.6           |
|                                     | Austria               | 1.6            | 4.7            | 3.1            | 2.6            | 2.9            | 2.8            | 2.4            | 2.4            | 2.8            | .              |
|                                     | CEE                   | 11.6           | 3.2            | 5.3            | 4.5            | 5.2            | 4.0            | 4.4            | 4.7            | 5.2            | 6.0            |
|                                     | Russia <sup>1)</sup>  | 56.5           | 43.2           | 22.7           | 29.3           | 26.4           | 28.1           | 33.4           | 28.0           | 20.0           | .              |
|                                     | Other                 | 20.4           | 27.2           | 36.4           | 33.4           | 30.9           | 30.7           | 27.1           | 29.5           | 29.9           | .              |
|                                     | <b>Total (USD mn)</b> | <b>13128.3</b> | <b>2706.1</b>  | <b>4468.1</b>  | <b>4757.1</b>  | <b>4184.8</b>  | <b>5657.6</b>  | <b>5073.9</b>  | <b>4932.0</b>  | <b>5014.5</b>  | <b>5430.6</b>  |
| <b>Czech Republic<sup>2)</sup></b>  | EU(15)                | 40.5           | 49.9           | 58.9           | 52.3           | 55.7           | 61.1           | 62.4           | 61.5           | 63.5           | 64.0           |
|                                     | Austria               | 6.9            | 8.2            | 9.1            | 7.8            | 8.1            | 6.9            | 5.8            | 6.1            | 5.9            | 5.6            |
|                                     | CEE <sup>3)</sup>     | 12.4           | 7.3            | 4.8            | 21.5           | 18.4           | 15.5           | 13.6           | 13.0           | 12.1           | 11.4           |
|                                     | Russia <sup>1)</sup>  | 24.3           | 23.4           | 16.1           | 9.8            | 8.4            | 7.4            | 7.4            | 6.8            | 5.5            | 4.8            |
|                                     | Other                 | 22.8           | 19.4           | 20.1           | 16.3           | 17.6           | 16.0           | 16.6           | 18.7           | 18.9           | 19.8           |
|                                     | <b>Total (USD mn)</b> | <b>9815.4</b>  | <b>7082.1</b>  | <b>10382.1</b> | <b>12858.5</b> | <b>14970.6</b> | <b>25252.2</b> | <b>27715.7</b> | <b>27176.6</b> | <b>28786.5</b> | <b>28849.3</b> |
| <b>Slovak Republic<sup>4)</sup></b> | EU(15)                | 44.8           | 33.1           | 46.5           | 27.9           | 33.4           | 34.8           | 37.3           | 39.4           | 50.1           | 51.7           |
|                                     | Austria               | 12.3           | 8.4            | 10.4           | 6.2            | 5.8            | 5.1            | 4.8            | 4.9            | 4.7            | 4.8            |
|                                     | CEE <sup>5)</sup>     |                | 7.5            | 6.2            | 39.5           | 33.9           | 33.0           | 29.0           | 28.3           | 23.5           | 22.0           |
|                                     | Russia <sup>1)</sup>  | 16.6           | 44.3           | 7.4            | 19.5           | 18.0           | 16.6           | 17.4           | 15.5           | 10.4           | 12.0           |
|                                     | Other                 | 38.6           | 15.1           | 39.9           | 13.1           | 14.6           | 15.7           | 16.3           | 16.8           | 15.9           | 14.3           |
|                                     | <b>Total (USD mn)</b> | <b>3212.1</b>  | <b>3606.5</b>  | <b>3832.7</b>  | <b>6334.3</b>  | <b>6610.8</b>  | <b>8770.5</b>  | <b>11121.0</b> | <b>10309.7</b> | <b>13076.8</b> | <b>11316.0</b> |
| <b>Hungary<sup>6)</sup></b>         | EU(15)                | 43.1           | 56.7           | 60.0           | 54.4           | 61.1           | 61.5           | 59.8           | 62.8           | 64.1           | 64.4           |
|                                     | Austria               | 10.0           | 13.3           | 14.4           | 11.6           | 12.0           | 10.7           | 9.5            | 10.6           | 9.6            | 8.9            |
|                                     | CEE                   | 8.7            | 6.9            | 6.7            | 6.0            | 7.1            | 7.4            | 8.2            | 6.8            | 6.5            | 6.6            |
|                                     | Russia <sup>7)</sup>  | 19.1           | 15.3           | 16.9           | 19.5           | 12.0           | 11.8           | 12.5           | 9.2            | 6.5            | 5.9            |
|                                     | Other                 | 29.0           | 21.0           | 16.4           | 20.1           | 19.9           | 19.3           | 19.5           | 21.2           | 23.0           | 23.1           |
|                                     | <b>Total (USD mn)</b> | <b>8622.2</b>  | <b>11437.5</b> | <b>11120.3</b> | <b>12630.3</b> | <b>14620.0</b> | <b>15406.1</b> | <b>16176.5</b> | <b>21211.1</b> | <b>25700.7</b> | <b>28003.7</b> |
| <b>Poland</b>                       | EU(15)                | 51.1           | 59.0           | 62.0           | 64.7           | 65.3           | 64.6           | 63.9           | 63.8           | 65.6           | 64.9           |
|                                     | Austria               | 4.9            | 6.3            | 4.5            | 3.2            | 2.6            | 2.5            | 2.2            | 2.0            | 1.9            | 1.9            |
|                                     | CEE                   | 4.6            | 4.9            | 4.4            | 3.8            | 4.4            | 5.8            | 5.7            | 6.0            | 6.0            | 6.2            |
|                                     | Russia <sup>1)</sup>  | 17.0           | 14.1           | 8.5            | 6.8            | 6.8            | 6.7            | 6.8            | 6.3            | 5.1            | 5.9            |
|                                     | Other                 | 27.3           | 22.0           | 25.1           | 24.6           | 23.5           | 22.9           | 23.6           | 23.9           | 23.2           | 23.0           |
|                                     | <b>Total (USD mn)</b> | <b>9527.7</b>  | <b>15521.7</b> | <b>15912.9</b> | <b>18834.5</b> | <b>21569.3</b> | <b>29049.2</b> | <b>37136.5</b> | <b>42306.9</b> | <b>47054.3</b> | <b>45911.1</b> |
| <b>Romania</b>                      | EU(15)                | 21.8           | 28.7           | 41.3           | 45.3           | 48.2           | 50.5           | 52.3           | 52.5           | 57.7           | 60.4           |
|                                     | Austria               | 1.6            | 3.2            | 3.1            | 2.5            | 2.7            | 3.1            | 3.1            | 2.7            | 2.9            | 2.9            |
|                                     | CEE                   | 12.0           | 7.5            | 6.5            | 5.1            | 4.8            | 5.4            | 5.2            | 5.9            | 8.8            | 8.5            |
|                                     | Russia <sup>8)</sup>  | 23.3           | 17.8           | 12.8           | 11.7           | 13.8           | 12.0           | 12.5           | 12.0           | 9.0            | 6.8            |
|                                     | Other                 | 42.9           | 46.0           | 39.5           | 37.9           | 33.1           | 32.2           | 30.0           | 29.5           | 24.5           | 24.4           |
|                                     | <b>Total (USD mn)</b> | <b>9202.5</b>  | <b>5793.4</b>  | <b>6259.6</b>  | <b>6521.7</b>  | <b>7109.0</b>  | <b>10277.9</b> | <b>11435.3</b> | <b>11279.7</b> | <b>11837.8</b> | <b>10392.1</b> |
| <b>Slovenia<sup>9)</sup></b>        | EU(15)                | 69.0           | 71.1           | 59.6           | 65.6           | 69.2           | 68.8           | 67.5           | 67.4           | 69.4           | 68.6           |
|                                     | Austria               | 9.0            | 9.2            | 8.1            | 8.5            | 10.3           | 9.7            | 8.9            | 8.4            | 7.9            | 8.0            |
|                                     | CEE                   | 5.3            | 5.1            | 5.3            | 5.7            | 6.8            | 7.3            | 6.9            | 7.7            | 7.7            | 7.6            |
|                                     | Russia <sup>7)</sup>  | 6.4            | 7.0            | 4.1            | 3.1            | 2.0            | 2.5            | 2.2            | 2.7            | 1.8            | 1.6            |
|                                     | Other                 | 19.3           | 16.7           | 31.0           | 25.6           | 22.0           | 21.4           | 23.4           | 22.2           | 21.1           | 22.2           |
|                                     | <b>Total (USD mn)</b> | <b>4726.6</b>  | <b>4131.3</b>  | <b>6141.0</b>  | <b>6501.0</b>  | <b>7303.9</b>  | <b>9491.7</b>  | <b>9421.4</b>  | <b>9366.5</b>  | <b>10110.9</b> | <b>9954.4</b>  |

1) From 1992 Russia. - 2) From 1995 new methodology. - 3) From 1993 including trade with Slovakia. - 4) From 1998 according to new methodology. - 5) From 1993 including trade with the Czech Republic. - 6) From 1997 including trade of firms with customs free legal status. - 7) From 1993 Russia. - 8) From 1991 Russia. - 9) From 1992 including exports and imports for commission processing

Source: WIIW database incorporating national statistics.

## Exchange rate appreciation: necessary but sustainable?

Interestingly enough, the recent expansion of CEECs' exports occurred despite a noticeable appreciation of their currencies (Figure 6). The Slovak koruna, for example, appreciated by more than 16 percentage points vis-à-vis the DEM and euro between May 1999 and May 2000, and Slovak exports nevertheless increased a lot. The upward pressure on exchange rates is exerted by inflows of foreign capital. The latter is attracted by the still high differential in nominal interest rates, as well as by a new upswing of privatization sales in several CEECs. And whereas the (real) interest rates went down recently (except Poland – see Figure 7), FDI inflows have increased substantially in several CEECs who not long ago had been either sceptical to foreign ownership (especially Poland and the Czech Republic) or not sufficiently attractive (Bulgaria and Romania). During 1999, around USD 6 billion of FDI flew into Poland, USD 2 billion into the Czech Republic, and nearly USD 1 billion into Bulgaria and Romania each – see Table 11. If these inflows were to be instrumental to restructuring and efficiency gains in the recent Hungarian manner, one can then be fairly optimistic regarding these countries' future. Another encouraging news is that bank restructuring is finally getting from place (Czech and Slovak Republics), though costs for public budgets are high.

Table 11

|                 | Foreign direct investment stock      |      |      |       |       |       |       |       |       |                    |                           |
|-----------------|--------------------------------------|------|------|-------|-------|-------|-------|-------|-------|--------------------|---------------------------|
|                 | based on balance of payments, USD mn |      |      |       |       |       |       |       |       |                    |                           |
|                 | 1990                                 | 1991 | 1992 | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999               | per capita<br>USD<br>1999 |
| Czech Republic  | 72                                   | 595  | 2889 | 3423  | 4547  | 7350  | 8572  | 9234  | 14375 | 16246              | 1580                      |
| Hungary         | 569                                  | 2107 | 3435 | 5585  | 7095  | 11926 | 14958 | 16086 | 18517 | 19276              | 1919                      |
| Poland          | 109                                  | 425  | 1370 | 2307  | 3789  | 7843  | 11463 | 14587 | 22479 | 28000              | 724                       |
| Slovak Republic | .                                    | .    | .    | 461   | 776   | 1086  | 1387  | 1591  | 1981  | 2044               | 379                       |
| Slovenia        | .                                    | .    | .    | 954   | 1326  | 1759  | 2069  | 2297  | 2907  | 3000 <sup>1)</sup> | 1500                      |
| Total (5)       | .                                    | .    | .    | 12731 | 17532 | 29964 | 38450 | 43794 | 60260 | 68566              | 1033                      |
| Bulgaria        | 4                                    | 60   | 101  | 141   | 247   | 337   | 446   | 951   | 1488  | 2271               | 277                       |
| Romania         | .                                    | 40   | 117  | 211   | 552   | 971   | 1234  | 2449  | 4480  | 5441               | 242                       |
| Total (7)       | .                                    | .    | .    | 13083 | 18331 | 31272 | 40130 | 47194 | 66228 | 76279              | 786                       |
| Croatia         | .                                    | .    | 13   | 109   | 222   | 324   | 857   | 1367  | 2261  | 3608               | 802                       |
| Macedonia       | .                                    | .    | .    | .     | 19    | 28    | 40    | 55    | 173   | 197                | 98                        |
| Russia          | .                                    | .    | .    | 1211  | 1850  | 3866  | 6345  | 12984 | 15745 | 18635              | 128                       |
| Ukraine         | .                                    | .    | 170  | 370   | 529   | 796   | 1317  | 1940  | 2687  | 3183               | 64                        |
| Total (11)      | .                                    | .    | .    | 14773 | 20951 | 36286 | 48689 | 63541 | 87094 | 101902             | 341                       |

1) Estimate.

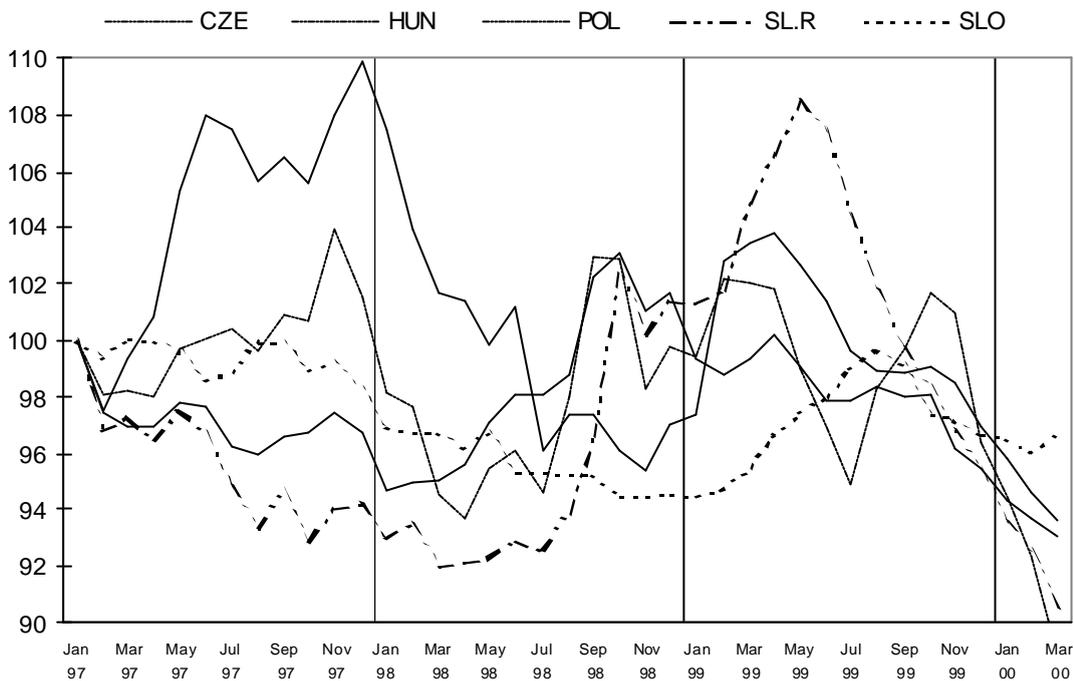
Source:

For Czech Republic, Hungary, Poland, Slovak Republic, Slovenia - National banks of respective countries;  
For Bulgaria, Romania, Croatia, Macedonia, Russia, Ukraine - cumulated US dollar BOP inflows.

Figure 6a

### Real exchange rates

(national currency per 1 DEM deflated with PPI, Jan 1997 = 100)

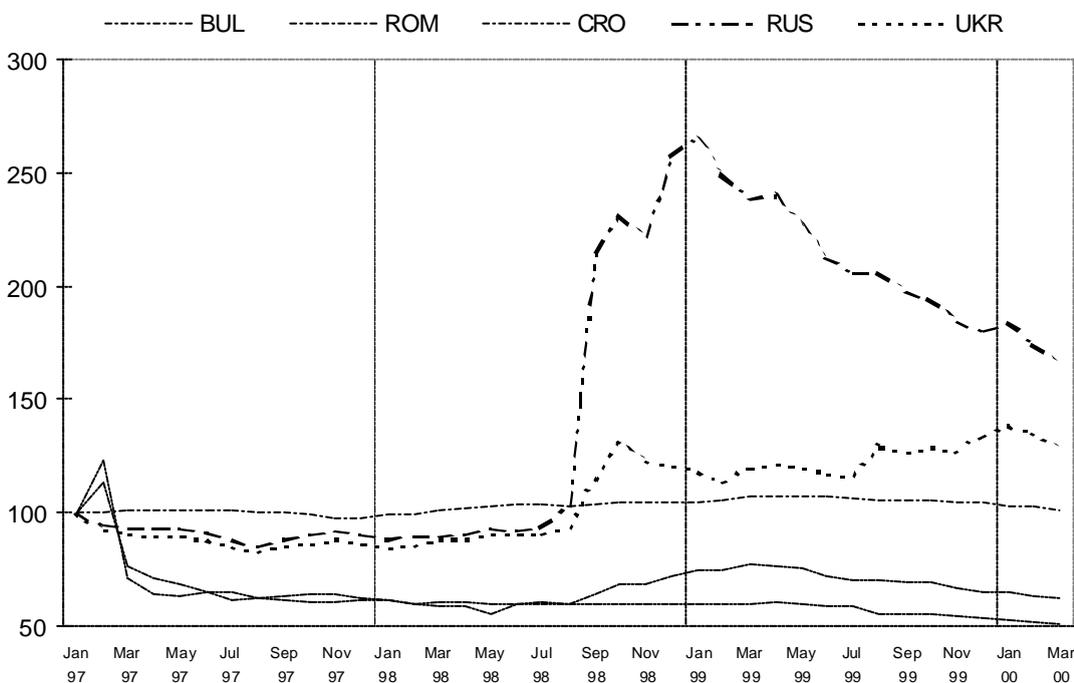


WIIW

Figure 6b

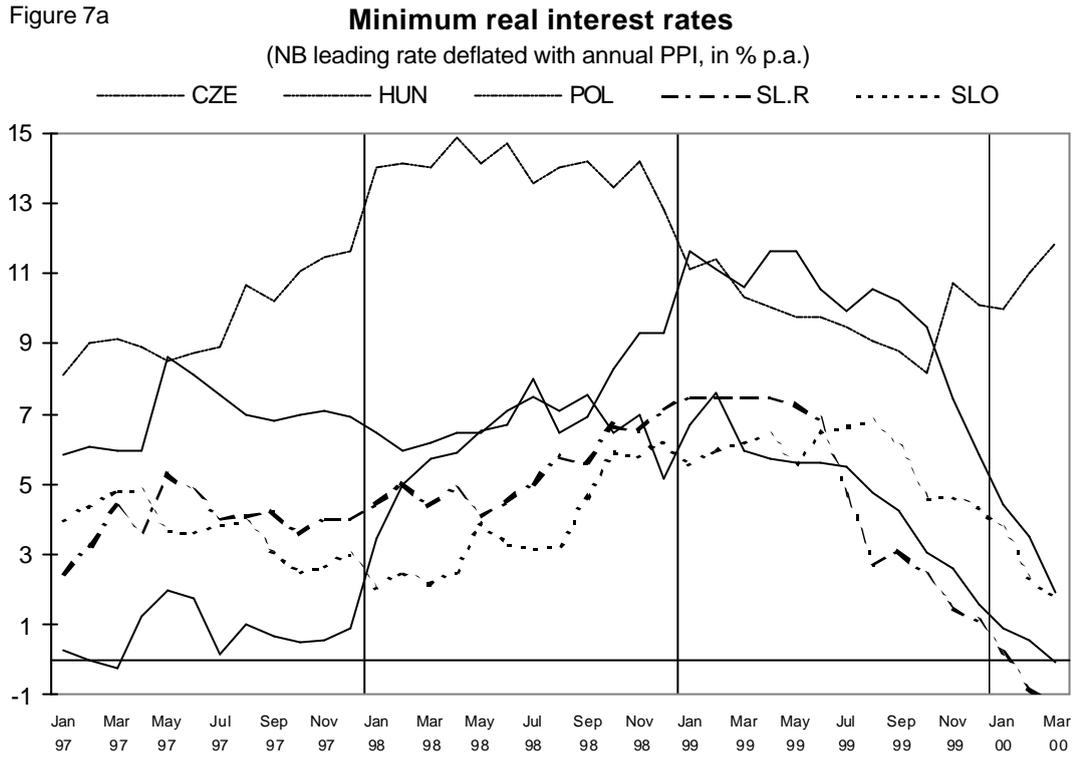
### Real exchange rates

(national currency per 1 DEM deflated with PPI, Jan 1997 = 100)



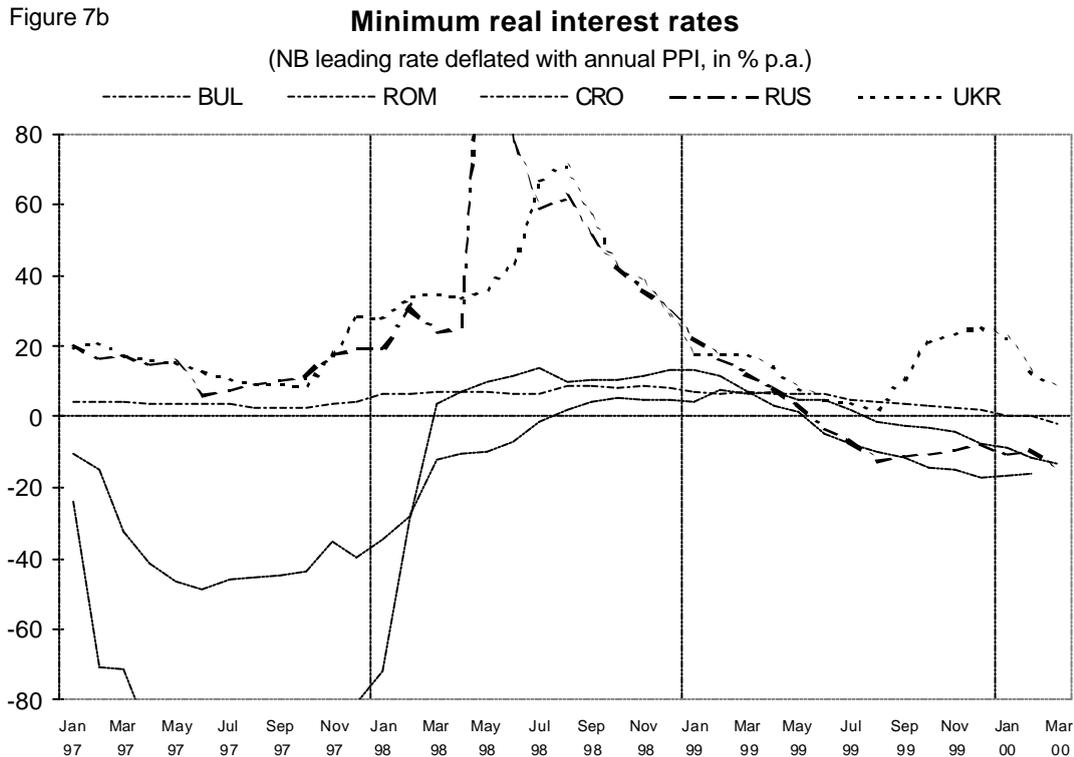
WIIW

Figure 7a



WIIW

Figure 7b



WIIW

Still, caution should be in place. First, even Hungary was not spared of an exchange rate crisis (in 1995). Second, a large part of FDI flows into banks, telecoms and other infrastructure projects (including retail trade) which do not contribute immediately and directly to rising international competitiveness. Third, even FDI within industry frequently generates high demand for imports (at least in the initial phase of the project) and the trade balance may deteriorate. And last but not least, any investment aims at gaining profits which – in the case of FDI – will at some point of time be repatriated. Still, FDI is preferable to short-term speculative capital inflows when it comes to covering the external financing gaps.

Table 12

| <b>Foreign financial position</b> |  |                   |   |             |                               |             |             |             |                                    |             |             |             |
|-----------------------------------|--|-------------------|---|-------------|-------------------------------|-------------|-------------|-------------|------------------------------------|-------------|-------------|-------------|
| USD bn, end of period             |  |                   |   |             |                               |             |             |             |                                    |             |             |             |
|                                   | <b>Gross external debt <sup>1)</sup></b> |                   | <b>Reserves of National Bank (excluding gold) <sup>2)</sup></b> |             | <b>Current account USD bn</b> |             |             |             | <b>Current account in % of GDP</b> |             |             |             |
|                                   | <b>1999</b>                              | <b>2000</b>       | <b>1999</b>   | <b>2000</b> | <b>1998</b>                   | <b>1999</b> | <b>2000</b> | <b>2001</b> | <b>1998</b>                        | <b>1999</b> | <b>2000</b> | <b>2001</b> |
|                                   | <b>March</b>                             |                   | <b>March</b>  |             |                               |             |             |             |                                    |             |             |             |
| Czech Republic                    | 22.6                                     | .                 | 12.8  | 12.6        | -1.3                          | -1.1        | -1.3        | -1.5        | -2.4                               | -2.0        | -2.4        | -2.6        |
| Hungary                           | 29.3                                     | 29.4              | 11.0  | 10.7        | -2.3                          | -2.1        | -2.1        | -2.2        | -4.9                               | -4.3        | -4.3        | -3.8        |
| Poland                            | 60.5                                     | .                 | 25.5  | 25.6        | -6.9                          | -11.6       | -13.5       | -14.0       | -4.4                               | -7.5        | -8.4        | -8.1        |
| Slovak Republic                   | 10.5                                     | .                 | 3.4   | 3.7         | -2.1                          | -1.1        | -0.8        | -0.7        | -10.1                              | -5.7        | -3.9        | -3.2        |
| Slovenia                          | 5.5                                      | 5.9               | 3.2   | 3.3         | 0.0                           | -0.6        | -0.7        | -0.8        | 0.0                                | -2.9        | -3.5        | -3.6        |
| Bulgaria                          | 10.0                                     | .                 | 2.9   | 2.6         | -0.1                          | -0.7        | -0.8        | -0.8        | -0.5                               | -5.3        | -6.3        | -5.9        |
| Romania                           | 8.2                                      | .                 | 1.5   | 1.6         | -3.0                          | -1.3        | -1.3        | -1.7        | -7.2                               | -3.8        | -3.9        | -5.0        |
| Croatia                           | 10.0                                     | 9.6 <sup>3)</sup> | 3.0   | 2.9         | -1.5                          | -1.5        | -1.5        | -1.6        | -7.1                               | -7.3        | -7.7        | -7.7        |
| Macedonia                         | 1.4                                      | .                 | 0.4   | 0.4         | -0.3                          | -0.1        | -0.3        | -0.4        | -8.8                               | -4.0        | -8.6        | -10.4       |
| Yugoslavia                        | 11.5 <sup>4)</sup>                       | .                 | 0.3 <sup>4)</sup>   | .           | -1.2                          | -0.6        | -0.8        | -1.0        | -6.4                               | -3.6        | .           | .           |
| Russia                            | 158.8                                    | .                 | 12.5  | 15.5        | 1.0                           | 25.0        | 15.0        | 10.0        | 0.4                                | 13.7        | 7.0         | 4.3         |
| Ukraine                           | 12.4                                     | .                 | 1.1   | 1.1         | -1.3                          | 0.8         | 0.3         | -0.5        | -3.1                               | 2.7         | 1.2         | -1.8        |

Notes: 1) In convertible currencies for Bulgaria, Czech Republic, Poland. For more information see country tables respectively. - 2) Forex reserves, SDR and reserve position with the IMF. Including gold for the Czech Republic, Hungary, Poland, Russia, Slovakia, Ukraine. Figures for Hungary correspond to total reserves of the country. - 3) February. - 4) End of 1998.

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

The external position of several transition countries remains precarious. Deficits on the current account are the rule (the only exception is Russia). A rapid deterioration of the current account has been underway for several years in Poland, and recently also in Bulgaria (Table 12); the Croatian current account deficit increased again in the first months of 2000 as well. All three countries can now safely cover these deficits by inflows of capital from privatization deals in the pipeline, but in the medium and long run this way of financing external disequilibria is hardly sustainable. The Polish situation, in particular, is worrying as

the domestic production is clearly losing to the foreign (including CEE) competition,<sup>4</sup> and the political instability could easily trigger an exchange rate crisis. Apart from Bulgaria and Slovenia (who also suffer from deteriorating international competitiveness), the external position of other CEECs recently improved.

The exchange rate policy thus poses a major challenge. All transition countries still have substantially undervalued currencies or, in other words, their domestic price levels are much lower than in Western Europe. One measure of this undervaluation is the so-called Exchange Rate Deviation Index (ERDI) which relates the market exchange rate (ER) to purchasing power parities (PPP). A higher ERDI is an indication of a more undervalued currency or, for that matter, of a lower domestic price level (compared to a reference country – the EU). Generally, transition countries have ERDI greater than one, and some of them by a large margin. Slovenia, Croatia and Poland have the highest price levels among the CEECs, Romania, Bulgaria and the Slovak Republic lie on the opposite side of the spectrum (see Annex Table A/2). A reduction of ERDI corresponds to a real currency appreciation (or to a reduction in the international price gaps). But can the currency appreciation be sustained? Are the efforts to contain domestic inflation compatible with the necessity to reduce excessive price gaps while integrating with Western Europe? And what are the implications from the pace of appreciation for income convergence, capital and labour markets in an integrated Europe? These and other questions have to be addressed also in the context of an appropriate exchange rate policy in a pre-accession period.

### **Outlook highlights: mostly positive expectations**

Economic growth is expected to gain momentum in all transition countries covered by this report during the next two years (Table 13). While inflation will slightly increase in 2000, it will remain moderate and will come down again next year. Current account deficits are likely to expand, but no immediate dangers are on the horizon (except perhaps in Poland) in the forecasting period. A major concern is the stubbornly high and rising unemployment which has to be addressed appropriately.

The short-term outlook for the **Bulgarian** economy is moderately positive. GDP is expected to grow by about 4%, the annual inflation will remain in the range of 3-5%. The fiscal situation remains under control, but rising unemployment will be a problem. The medium-term prospects are not so clear as the country is highly dependent on official support from international finance institutions and political turbulence may escalate.

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<sup>4</sup> Note, for example, that the estimated Polish unit labour costs are much higher than in either the Czech Republic or Hungary – see Table A/2 in the Annex.

Despite considerable progress in integration achieved by the new **Croatian** government, the economic prospects are not that bright. GDP growth will be sluggish (1.5% to 2%) as both industry and agriculture face problems. Assuming a stable exchange rate, which is still a priority policy goal, inflation will not exceed 6%. The already high unemployment rate (22% in March 2000) is going to increase as a number of enterprises face closure.

After two years of recession, economic growth, albeit a weak one, has resumed in the **Czech Republic**. But industrial restructuring is gaining speed, inflation remains low and a break-through was finally achieved in the bank privatization. In the political sphere, stability cannot be guaranteed though the main hurdles for a more pronounced growth seems now to be over.

**Hungary** has entered a dynamic period of economic development with GDP growth exceeding 5%. The fast industrial growth, spurred by the activity of foreign-owned enterprises, is spreading to the rest of the economy as well. Inflation is declining and no signs of re-emerging external disequilibria are on the horizon. The risk of overheating is presently low, but may increase with the upcoming elections in 2002.

The **Polish** economy is following a risky path. While still enjoying one of the highest GDP growth rates among the CEECs, its currency is appreciating and foreign debts are rapidly increasing. Unemployment and income disparities are rising, the popularity of the current government is falling. Early elections – and along with them also a change in economic policies – are becoming quite likely.

The economic upswing in Western Europe has helped **Romania** to achieve a meagre growth in early 2000, but it is too early to speak of a reversal of a four-year long decline. Inflation has not been overcome, and a bulk of structural and institutional problems are yet to be addressed. The political situation remains highly unstable, and the danger of a continuation of stop-go policies remains pretty high – despite monitoring by the IMF.

With the new president, a more co-operative parliament, higher world market energy prices and domestic industry still shielded from foreign competition by devaluation, the economic outlook for **Russia** definitely brightened. But undue optimism is not in place as the current upturn is based on shaky grounds and the complex structural and institutional reforms were only just put on the paper. Moderate growth is nevertheless within reach, especially if – as desired by the new government – the climate for investment were to improve.

The modest, though still unexpected growth of the **Slovak** GDP results mainly from the favourable business climate in Europe. The austerity policy pursued by the new government since early 1999 has brought much pain, especially in terms of rising unemployment, but the renewed prospect for the country's integration into Europe is one of

the welcome rewards. Bank restructuring speeded up and several privatization sales (Slovnaft, Telecom, VSZ Steel Works, etc.) are in the pipeline. Taken together, the economic situation could further improve in 2001.

**Slovenia's** economic development has been remarkably steady during the last couple of years and is expected to remain so. Maintaining a GDP growth by 4% per year is a great achievement given the country's relative affluence and geography. Hesitant privatization, a slow pace of structural reforms and the danger of losing competitiveness because of red tape and high labour costs are the main risks for an otherwise very successful Slovene transition.

For the first time in its history as an independent state, **Ukraine's** economy could grow this year. Devaluation has obviously helped to stop a decade-long fall, but the sustainability is a big issue. Apart from the usual rhetoric there is very little happening on the economic reform front and the access to Russian energy may soon become harder. A muddling through, with a delicate balancing between Russian and Western interests, is probably the best one can expect for this second largest (but hopelessly poor) European country in the coming years.

The economic and political situation in **Yugoslavia** is not improving. The problems confronting Serbia, Montenegro and Kosovo are intrinsically different and the processes are divergent. That notwithstanding, in all three the end-game is still quite far away.

Table 13

## Overview developments 1998 - 1999 and outlook 2000 - 2001

|                           | <b>GDP</b>                             |       |                  |                  | <b>Consumer prices</b>            |      |                  |                  | <b>Unemployment</b>      |      |                  |                  | <b>Current account</b> |      |                  |                  |
|---------------------------|--|-------|------------------|------------------|-----------------------------------|------|------------------|------------------|--------------------------|------|------------------|------------------|------------------------|------|------------------|------------------|
|                           | real change in % against previous year |       |                  |                  | change in % against previous year |      |                  |                  | rate in %, end of period |      |                  |                  | in % of GDP            |      |                  |                  |
|                           | 1998                                   | 1999  | 2000<br>forecast | 2001<br>forecast | 1998                              | 1999 | 2000<br>forecast | 2001<br>forecast | 1998                     | 1999 | 2000<br>forecast | 2001<br>forecast | 1998                   | 1999 | 2000<br>forecast | 2001<br>forecast |
| Czech Republic            | -2.2                                   | -0.2  | 1.5              | 2                | 10.7                              | 2.1  | 3.7              | 4.0              | 7.5                      | 9.4  | 10               | 10               | -2.4                   | -2   | -2.4             | -2.6             |
| Hungary                   | 4.9                                    | 4.5   | 5.5              | 5.5              | 14.3                              | 10.0 | 8.3              | 6.5              | 9.6                      | 9.6  | 9                | 9                | -4.9                   | -4.3 | -4.3             | -3.8             |
| Poland                    | 4.8                                    | 4.1   | 4.5              | 5                | 11.8                              | 7.3  | 8                | 7                | 10.4                     | 13.0 | 13.5             | 13.5             | -4.4                   | -7.5 | -8.4             | -8.1             |
| Slovak Republic           | 4.4                                    | 1.9   | 2                | 3                | 6.7                               | 10.6 | 15               | 11               | 15.6                     | 19.2 | 18               | 18               | -10.1                  | -5.7 | -3.9             | -3.2             |
| Slovenia                  | 3.8                                    | 4.9   | 4                | 4                | 7.9                               | 6.1  | 7.5              | 5.5              | 14.6                     | 13.0 | 11.5             | 11               | 0                      | -3   | -4               | -4               |
| CEEC-5                    | 3.1                                    | 3.0   | 3.7              | 4.2              | .                                 | .    | .                | .                | 10.4                     | 12.5 | .                | .                | -4.2                   | -5.6 | -6.1             | -5.8             |
| Bulgaria                  | 3.5                                    | 2.4   | 4                | 4                | 22.3                              | 0.3  | 5                | 3                | 12.2                     | 16.0 | 20               | 18               | -1                     | -5   | -6.3             | -5.9             |
| Romania                   | -5.4                                   | -3.2  | 0                | 1                | 59.1                              | 45.8 | 40               | 35               | 10.4                     | 11.5 | 13               | 12               | -7.2                   | -3.8 | -3.9             | -5               |
| CEEC-7                    | 1.4                                    | 1.8   | 3.0              | 3.5              | .                                 | .    | .                | .                | 10.5                     | 12.6 | .                | .                | -4                     | -5   | -6               | -6               |
| Croatia <sup>1)</sup>     | 2.5                                    | -0.3  | 1.5              | 2.5              | 5.7                               | 4.2  | 5.5              | 6                | 18.1                     | 20.8 | 23.5             | 23               | -7.1                   | -7.3 | -7.7             | -7.7             |
| Macedonia <sup>1)2)</sup> | 2.9                                    | 2.7   | 4                | 5                | 0.8                               | -1.1 | 3                | 5                | 34.5                     | 32.4 | 32               | 32               | -8.8                   | -4   | -8.6             | -10.4            |
| Yugoslavia                | 2.5                                    | -23.2 | 5                | 3                | 29.9                              | 44.9 | 50               | 70               | 25.4                     | 25.5 | 30               | 32               | -6.4                   | -3.6 | .                | .                |
| Russia <sup>2)</sup>      | -4.9                                   | 3.2   | 4                | 3                | 27.6                              | 85.7 | 20               | 15               | 13.3                     | 12.3 | 12               | 12               | 0.4                    | 13.7 | 7                | 4.3              |
| Ukraine                   | -1.7                                   | -0.4  | 1                | 3                | 10.6                              | 22.7 | 20               | 20               | 3.7                      | 4.3  | 6                | 8                | -3.1                   | 2.7  | 1.2              | -1.8             |

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

Source: WIIW (June 2000).

## **ANNEX**

### **Indicators of competitiveness**



Table A/1

**GDP per capita at current PPPs (ECU/EUR), from 2000 constant PPPs**

|                 | 1990  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000   | 2005  | 2010  | 2015  |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|--|-------|-------|-------|
|                 |       |       |       |       |       |       |       |       | projection assuming 4% p.a. GDP growth<br>and zero population growth |       |       |       |
| Czech Republic  | 10025 | 9778  | 10217 | 11265 | 12025 | 11972 | 11855 | 12011 | 12192  | 14548 | 17700 | 21534 |
| Hungary         | 7215  | 7377  | 7790  | 8330  | 8613  | 9077  | 9676  | 10315 | 10882  | 13431 | 16340 | 19881 |
| Poland          | 4540  | 4926  | 5292  | 6260  | 6742  | 7227  | 7663  | 8099  | 8463   | 10396 | 12648 | 15389 |
| Slovak Republic | 7485  | 6325  | 6756  | 7491  | 8101  | 8656  | 9133  | 9439  | 9628   | 11601 | 14114 | 17172 |
| Slovenia        | 10111 | 9934  | 10713 | 11607 | 12192 | 12834 | 13513 | 14363 | 14937  | 18174 | 22111 | 26901 |
| Bulgaria        | 4862  | 4459  | 4657  | 5007  | 4600  | 4373  | 4556  | 4763  | 4953   | 6027  | 7332  | 8921  |
| Romania         | 5339  | 4850  | 5164  | 5768  | 6113  | 5730  | 5498  | 5413  | 5413   | 6395  | 7781  | 9467  |
| Croatia         | 5980  | 4359  | 4713  | 5214  | 5833  | 6149  | 6480  | 6558  | 6657   | 7982  | 9711  | 11815 |
| Macedonia       | 3651  | 3474  | 3704  | 3770  | 3845  | 3887  | 4029  | 4172  | 4339   | 5330  | 6484  | 7889  |
| Russia          | 8417  | 6901  | 6166  | 6164  | 6074  | 6171  | 5955  | 6286  | 6537   | 7877  | 9583  | 11660 |
| Ukraine         | 5870  | 4563  | 3626  | 3337  | 3080  | 3023  | 3030  | 3088  | 3119   | 3759  | 4573  | 5564  |
|                 |       |       |       |       |       |       |       |       | projection assuming 2% p.a. GDP growth<br>and zero population growth |       |       |       |
| Austria         | 15789 | 17780 | 18553 | 19587 | 20359 | 20910 | 21931 | 22369 | 22817  | 25192 | 27814 | 30708 |
| Germany         | 14242 | 17569 | 18665 | 19894 | 19925 | 20232 | 21051 | 21472 | 21901  | 24181 | 26697 | 29476 |
| Greece          | 8792  | 10376 | 11003 | 11923 | 12323 | 12720 | 13347 | 13614 | 13886  | 15331 | 16927 | 18688 |
| Portugal        | 9071  | 10801 | 11589 | 12452 | 12746 | 13207 | 14163 | 14446 | 14735  | 16269 | 17962 | 19832 |
| Spain           | 11625 | 12903 | 13198 | 14144 | 14646 | 15225 | 16109 | 16432 | 16760  | 18505 | 20431 | 22557 |
| Turkey          | 4429  | 5146  | 4891  | 5236  | 5525  | 5850  | 6024  | 6145  | 6268   | 6920  | 7641  | 8436  |
| Japan           | 16841 | 19180 | 19678 | 21273 | 22142 | 22326 | 22053 | 22494 | 22944  | 25332 | 27968 | 30879 |
| USA             | 21941 | 23856 | 25073 | 26241 | 27143 | 28218 | 29605 | 30198 | 30801  | 34007 | 37547 | 41455 |
| EU(15) average  | 14593 | 16219 | 16981 | 18093 | 18501 | 18968 | 19816 | 20212 | 20617  | 22763 | 25132 | 27747 |

**European Union (15) average = 100**

|                 | 1990 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2005 | 2010 | 2015 |
|-----------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Czech Republic  | 69   | 60   | 60   | 62   | 65   | 63   | 60   | 59   | 59   | 64   | 70   | 78   |
| Hungary         | 49   | 45   | 46   | 46   | 47   | 48   | 49   | 51   | 53   | 59   | 65   | 72   |
| Poland          | 31   | 30   | 31   | 35   | 36   | 38   | 39   | 40   | 41   | 46   | 50   | 55   |
| Slovak Republic | 51   | 39   | 40   | 41   | 44   | 46   | 46   | 47   | 47   | 51   | 56   | 62   |
| Slovenia        | 69   | 61   | 63   | 64   | 66   | 68   | 68   | 71   | 72   | 80   | 88   | 97   |
| Bulgaria        | 33   | 27   | 27   | 28   | 25   | 23   | 23   | 24   | 24   | 26   | 29   | 32   |
| Romania         | 37   | 30   | 30   | 32   | 33   | 30   | 28   | 27   | 26   | 28   | 31   | 34   |
| Croatia         | 41   | 27   | 28   | 29   | 32   | 32   | 33   | 32   | 32   | 35   | 39   | 43   |
| Macedonia       | 25   | 21   | 22   | 21   | 21   | 20   | 20   | 21   | 21   | 23   | 26   | 28   |
| Russia          | 58   | 43   | 36   | 34   | 33   | 33   | 30   | 31   | 32   | 35   | 38   | 42   |
| Ukraine         | 40   | 28   | 21   | 18   | 17   | 16   | 15   | 15   | 15   | 17   | 18   | 20   |
| Austria         | 108  | 110  | 109  | 108  | 110  | 110  | 111  | 111  | 111  | 111  | 111  | 111  |
| Germany         | 98   | 108  | 110  | 110  | 108  | 107  | 106  | 106  | 106  | 106  | 106  | 106  |
| Greece          | 60   | 64   | 65   | 66   | 67   | 67   | 67   | 67   | 67   | 67   | 67   | 67   |
| Portugal        | 62   | 67   | 68   | 69   | 69   | 70   | 71   | 71   | 71   | 71   | 71   | 71   |
| Spain           | 80   | 80   | 78   | 78   | 79   | 80   | 81   | 81   | 81   | 81   | 81   | 81   |
| Turkey          | 30   | 32   | 29   | 29   | 30   | 31   | 30   | 30   | 30   | 30   | 30   | 30   |
| Japan           | 115  | 118  | 116  | 118  | 120  | 118  | 111  | 111  | 111  | 111  | 111  | 111  |
| USA             | 150  | 147  | 148  | 145  | 147  | 149  | 149  | 149  | 149  | 149  | 149  | 149  |
| EU(15) average  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  |

## Sources:

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

Benchmark PPPs for 1996 estimated from purchasing power standards for OECD (28) average and extrapolated with GDP price deflators. GDP per capita for OECD countries according to OECD *National Account* statistics converted into ECU.

Table A/2

**Prices, exchange rates and unit labour costs (ULC), 1990-1999**  
ECU/EUR based annual averages

|  | 1990    | 1993    | 1994    | 1995    | 1996    | 1997    | 1998    | 1999    |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
|  |         |         |         |         |         |         |         | prelim. |
| <b>Czech Republic</b>                    |         |         |         |         |         |         |         |         |
| Producer price index, 1989=100           | 104.3   | 213.3   | 224.5   | 241.6   | 253.0   | 265.4   | 278.4   | 281.2   |
| Consumer price index, 1989=100           | 109.7   | 230.5   | 253.5   | 276.7   | 301.0   | 326.6   | 361.6   | 369.2   |
| GDP deflator, 1989=100                   | 109.5   | 202.8   | 230.0   | 253.5   | 275.3   | 295.1   | 325.2   | 333.1   |
| Exchange rate (ER), CZK/ECU              | 22.89   | 34.10   | 34.06   | 34.31   | 34.01   | 35.80   | 36.16   | 36.88   |
| ER nominal, 1989=100                     | 137.9   | 205.4   | 205.2   | 206.7   | 204.9   | 215.7   | 217.9   | 222.2   |
| Real ER (CPI-based), 1989=100            | 133.0   | 107.4   | 100.5   | 95.7    | 89.3    | 88.4    | 82.1    | 83.0    |
| Real ER (PPI-based), 1989=100            | 135.6   | 103.8   | 100.6   | 98.4    | 93.7    | 94.9    | 91.0    | 91.9    |
| PPP, CZK/ECU                             | 6.03    | 10.10   | 11.20   | 11.87   | 12.68   | 13.53   | 14.73   | 14.87   |
| ERDI (ECU based)                         | 3.80    | 3.38    | 3.04    | 2.89    | 2.68    | 2.65    | 2.45    | 2.48    |
| Average monthly gross wages, CZK         | 3286    | 5817    | 6894    | 8172    | 9676    | 10691   | 11693   | 12658   |
| Average monthly gross wages, ECU (ER)    | 144     | 171     | 202     | 238     | 285     | 299     | 323     | 343     |
| Average monthly gross wages, ECU (PPP)   | 545     | 576     | 616     | 689     | 763     | 790     | 794     | 851     |
| GDP nominal, bn CZK                      | 626.2   | 1020.3  | 1182.8  | 1381.0  | 1572.3  | 1668.8  | 1798.3  | 1836.3  |
| Employment total, 1000 persons           | 5351.2  | 4848.3  | 4884.8  | 5011.6  | 5044.4  | 4946.6  | 4873.4  | 4694.8  |
| GDP per employed person, CZK             | 117018  | 210441  | 242138  | 275568  | 311683  | 337365  | 369002  | 391135  |
| GDP per empl. person, CZK at 1996 pr.    | 294169  | 285674  | 289765  | 299267  | 311683  | 314758  | 312343  | 323267  |
| Unit labour costs, 1989=100              | 94.2    | 171.7   | 200.6   | 230.2   | 261.7   | 286.3   | 315.6   | 330.1   |
| Unit labour costs, ER adj., 1989=100     | 68.3    | 83.6    | 97.7    | 111.4   | 127.7   | 132.8   | 144.9   | 148.6   |
| Unit labour costs, PPP adj., Austria=100 | 18.10   | 18.18   | 20.89   | 22.61   | 27.40   | 29.69   | 32.47   | 32.74   |
| <b>Hungary</b>                           |         |         |         |         |         |         |         |         |
| Producer price index, 1989=100           | 122.0   | 199.8   | 222.4   | 286.7   | 349.2   | 420.4   | 467.9   | 491.8   |
| Consumer price index, 1989=100           | 128.9   | 262.1   | 311.4   | 399.3   | 493.5   | 583.8   | 667.3   | 734.0   |
| GDP deflator, 1989=100                   | 125.7   | 232.5   | 277.9   | 348.8   | 422.7   | 500.9   | 564.1   | 612.0   |
| Exchange rate (ER), HUF/ECU              | 80.48   | 107.50  | 124.78  | 162.65  | 191.15  | 210.93  | 240.98  | 252.80  |
| ER, nominal 1989=100                     | 123.7   | 165.2   | 191.8   | 250.0   | 293.8   | 324.2   | 370.3   | 388.5   |
| Real ER (CPI-based), 1989=100            | 101.5   | 75.9    | 76.5    | 80.2    | 78.1    | 74.3    | 75.6    | 73.0    |
| Real ER (PPI-based), 1989=100            | 104.0   | 89.0    | 94.9    | 100.3   | 97.3    | 90.0    | 92.1    | 91.9    |
| PPP, HUF/ECU                             | 27.96   | 46.80   | 54.69   | 65.99   | 78.67   | 92.83   | 103.29  | 110.41  |
| ERDI (ECU based)                         | 2.88    | 2.30    | 2.28    | 2.46    | 2.43    | 2.27    | 2.33    | 2.29    |
| Average monthly gross wages, HUF         | 13446   | 27173   | 33309   | 38900   | 46837   | 57270   | 67764   | 77187   |
| Average monthly gross wages, ECU (ER)    | 167     | 253     | 267     | 239     | 245     | 272     | 281     | 305     |
| Average monthly gross wages, ECU (PPP)   | 481     | 581     | 609     | 589     | 595     | 617     | 656     | 699     |
| GDP nominal, bn HUF                      | 2089.3  | 3548.3  | 4364.8  | 5614.0  | 6893.9  | 8540.7  | 10085.6 | 11439.0 |
| Employment total, 1000 persons           | 5052.3  | 3827.3  | 3751.5  | 3678.8  | 3648.1  | 3646.3  | 3697.7  | 3811.5  |
| GDP per employed person, HUF             | 413534  | 927103  | 1163481 | 1526041 | 1889723 | 2342292 | 2727533 | 3001181 |
| GDP per empl. person, HUF at 1996 pr.    | 1390652 | 1685732 | 1769797 | 1849582 | 1889723 | 1976503 | 2044049 | 2072906 |
| Unit labour costs, at 1996 prices        | 0.12    | 0.19    | 0.23    | 0.25    | 0.30    | 0.35    | 0.40    | 0.45    |
| Unit labour costs, 1989=100              | 127.4   | 212.4   | 248.0   | 277.2   | 326.6   | 381.9   | 436.9   | 490.7   |
| Unit labour costs, ER adj., 1989=100     | 103.0   | 128.6   | 129.3   | 110.9   | 111.2   | 117.8   | 118.0   | 126.3   |
| Unit labour costs, PPP adj., Austria=100 | 27.66   | 28.34   | 27.99   | 22.80   | 24.16   | 26.68   | 26.78   | 28.19   |
| <b>Poland</b>                            |         |         |         |         |         |         |         |         |
| Producer price index, 1989=100           | 722.4   | 1806.0  | 2262.6  | 2837.2  | 3189.0  | 3578.0  | 3839.6  | 4058.4  |
| Consumer price index, 1989=100           | 685.8   | 2259.9  | 2987.6  | 3818.1  | 4577.9  | 5260.0  | 5880.7  | 6309.9  |
| GDP deflator, 1989=100                   | 580.1   | 1628.9  | 2091.3  | 2674.6  | 3174.9  | 3620.0  | 4043.5  | 4323.8  |
| Exchange rate (ER), PLN/ECU              | 1.209   | 2.119   | 2.696   | 3.135   | 3.377   | 3.706   | 3.923   | 4.227   |
| ER, nominal, 1989=100                    | 758.5   | 1329.1  | 1690.7  | 1966.1  | 2118.3  | 2324.1  | 2460.5  | 2651.1  |
| Real ER (CPI-based), 1989=100            | 117.0   | 70.9    | 70.3    | 65.9    | 60.7    | 59.2    | 57.0    | 58.0    |
| Real ER (PPI-based), 1989=100            | 107.7   | 79.3    | 82.2    | 79.7    | 76.8    | 75.8    | 74.5    | 76.0    |
| PPP, PLN/ECU                             | 0.3232  | 0.8213  | 1.0306  | 1.2674  | 1.4797  | 1.6800  | 1.8544  | 1.9536  |
| ERDI (ECU based)                         | 3.74    | 2.58    | 2.62    | 2.47    | 2.28    | 2.21    | 2.12    | 2.16    |
| Average monthly gross wages, PLN         | 103     | 390     | 525     | 691     | 874     | 1066    | 1233    | 1363    |
| Average monthly gross wages, ECU (ER)    | 85      | 184     | 195     | 220     | 259     | 288     | 314     | 323     |
| Average monthly gross wages, ECU (PPP)   | 319     | 475     | 509     | 545     | 591     | 634     | 665     | 698     |
| GDP nominal, bn PLN                      | 56.0    | 155.8   | 210.4   | 306.3   | 385.4   | 469.4   | 549.5   | 611.6   |
| Employment total, 1000 persons           | 16280.0 | 14330.1 | 14474.5 | 14735.2 | 15020.6 | 15438.7 | 15800.4 | 15880   |
| GDP per employed person, PLN             | 3441    | 10871   | 14536   | 20788   | 25661   | 30402   | 34775   | 38512   |
| GDP per empl. person, PLN at 1996 pr.    | 18835   | 21188   | 22069   | 24677   | 25661   | 26664   | 27305   | 28279   |
| Unit labour costs, 1989=100              | 584.0   | 1968.7  | 2541.8  | 2991.4  | 3640.1  | 4270.4  | 4823.4  | 5150.9  |
| Unit labour costs, ER adj., 1989=100     | 77.0    | 148.1   | 150.3   | 152.2   | 171.8   | 183.7   | 196.0   | 194.3   |
| Unit labour costs, PPP adj., Austria=100 | 19.57   | 30.91   | 30.81   | 29.62   | 35.35   | 39.41   | 42.13   | 41.06   |

(Table A/2 contd.)

(Table A/2 ctd.)

|  | 1990     | 1993    | 1994    | 1995    | 1996    | 1997     | 1998     | 1999<br>prelim. |
|--|----------|---------|---------|---------|---------|----------|----------|-----------------|
| <b>Slovak Republic</b>                   |          |         |         |         |         |          |          |                 |
| Producer price index, 1989=100           | 104.8    | 218.4   | 240.9   | 262.6   | 273.5   | 285.8    | 295.3    | 306.5           |
| Consumer price index, 1989=100           | 110.4    | 241.1   | 273.4   | 300.5   | 317.8   | 337.2    | 359.8    | 398.0           |
| GDP deflator, 1989=100                   | 106.6    | 184.2   | 209.6   | 230.0   | 240.3   | 256.2    | 269.2    | 286.9           |
| Exchange rate (ER), SKK/ECU              | 22.98    | 35.98   | 37.93   | 38.45   | 38.41   | 37.96    | 39.58    | 44.10           |
| ER, nominal, 1989=100                    | 138.5    | 216.7   | 228.5   | 231.7   | 231.4   | 228.7    | 238.5    | 265.7           |
| Real ER (CPI-based), 1989=100            | 132.7    | 108.3   | 103.8   | 98.7    | 95.6    | 90.8     | 90.3     | 92.1            |
| Real ER (PPI-based), 1989=100            | 135.5    | 106.9   | 104.4   | 101.4   | 97.9    | 93.4     | 94.0     | 100.8           |
| PPP, SKK/ECU                             | 7.01     | 10.96   | 12.19   | 12.86   | 13.22   | 14.03    | 14.57    | 15.30           |
| ERDI (ECU based)                         | 3.28     | 3.28    | 3.11    | 2.99    | 2.90    | 2.70     | 2.72     | 2.88            |
| Average monthly gross wages, SKK         | 3217     | 5379    | 6294    | 7195    | 8154    | 9226     | 10003    | 10728           |
| Average monthly gross wages, ECU (ER)    | 140      | 150     | 166     | 187     | 212     | 243      | 253      | 243             |
| Average monthly gross wages, ECU (PPP)   | 459      | 491     | 516     | 559     | 617     | 657      | 687      | 701             |
| GDP nominal, bn SKK                      | 278.0    | 369.1   | 440.5   | 516.8   | 575.7   | 653.9    | 717.4    | 779.3           |
| Employment total, 1000 persons           | 2478.0   | 2012.3  | 1976.9  | 2019.8  | 2036.4  | 2040.9   | 2032.1   | 1988.2          |
| GDP per employed person, SKK             | 112187   | 183430  | 222831  | 255872  | 282704  | 320394   | 353041   | 391963          |
| GDP per empl. person, SKK at 1996 pr.    | 252942   | 239379  | 255494  | 267407  | 282704  | 300590   | 315215   | 328298          |
| Unit labour costs, 1989=100              | 105.9    | 187.0   | 205.0   | 223.9   | 240.1   | 255.5    | 264.1    | 272.0           |
| Unit labour costs, ER adj., 1989=100     | 76.5     | 86.3    | 89.7    | 96.7    | 103.7   | 111.7    | 110.7    | 102.4           |
| Unit labour costs, PPP adj., Austria=100 | 21.42    | 19.84   | 20.27   | 20.74   | 23.52   | 26.40    | 26.23    | 23.84           |
| <b>Slovenia</b>                          |          |         |         |         |         |          |          |                 |
| Producer price index, 1989=100           | 490.4    | 4218.9  | 4965.8  | 5601.3  | 5982.4  | 6347.2   | 6728.1   | 6869.4          |
| Consumer price index, 1989=100           | 651.6    | 5721.7  | 6923.3  | 7857.9  | 8635.7  | 9360.9   | 10100.5  | 10716.9         |
| GDP deflator, 1989=100                   | 590.8    | 4865.6  | 5964.4  | 6868.4  | 7633.6  | 8303.2   | 8950.9   | 9541.6          |
| Exchange rate (ER), SIT/ECU              | 14.39    | 132.28  | 152.36  | 153.12  | 169.51  | 180.40   | 186.27   | 193.63          |
| ER, nominal, 1989=100                    | 446.0    | 4099.7  | 4722.1  | 4745.5  | 5253.6  | 5591.0   | 5772.9   | 6001.0          |
| Real ER (CPI-based), 1989=100            | 72.4     | 86.3    | 84.7    | 77.3    | 79.8    | 80.0     | 77.8     | 77.3            |
| Real ER (PPI-based), 1989=100            | 93.3     | 104.7   | 104.6   | 97.4    | 101.6   | 102.8    | 99.8     | 101.6           |
| PPP, SIT/ECU                             | 9.74     | 72.58   | 86.97   | 96.30   | 105.26  | 114.01   | 121.45   | 127.55          |
| ERDI (ECU based)                         | 1.48     | 1.82    | 1.75    | 1.59    | 1.61    | 1.58     | 1.53     | 1.52            |
| Average monthly gross wages, SIT         | 10172    | 75432   | 94618   | 111996  | 129125  | 144251   | 158069   | 173245          |
| Average monthly gross wages, ECU (ER)    | 707      | 570     | 621     | 731     | 762     | 800      | 849      | 895             |
| Average monthly gross wages, ECU (PPP)   | 1044     | 1039    | 1088    | 1163    | 1227    | 1265     | 1302     | 1358            |
| GDP nominal, bn SIT                      | 196.8    | 1435.1  | 1853.0  | 2221.5  | 2555.4  | 2907.3   | 3253.8   | 3637.4          |
| Employment total, 1000 persons           | 909.7    | 755.9   | 746.2   | 745.2   | 741.7   | 743.4    | 745.2    | 758.5           |
| GDP per employed person, SIT             | 216283   | 1898598 | 2483125 | 2980876 | 3445175 | 3910621  | 4366460  | 4795731         |
| GDP per empl. person, SIT at 1996 pr.    | 2794356  | 2978712 | 3178044 | 3312942 | 3445175 | 3595229  | 3723835  | 3836721         |
| Unit labour costs, 1989=100              | 483.8    | 3365.6  | 3956.9  | 4492.9  | 4981.3  | 5332.5   | 5641.5   | 6001.3          |
| Unit labour costs, ER adj., 1989=100     | 108.5    | 82.1    | 83.8    | 94.7    | 94.8    | 95.4     | 97.7     | 100.0           |
| Unit labour costs, PPP adj., Austria=100 | 77.93    | 48.41   | 48.53   | 52.08   | 55.12   | 57.80    | 59.35    | 59.71           |
| <b>Bulgaria</b>                          |          |         |         |         |         |          |          |                 |
| Producer price index, 1989=100           | 114.7    | 910.6   | 1600.0  | 2454.4  | 5645.0  | 62252.6  | 72337.5  | 74724.6         |
| Consumer price index, 1989=100           | 123.8    | 1793.7  | 3515.4  | 5698.5  | 12707.6 | 150241.7 | 183745.6 | 184296.8        |
| GDP deflator, 1989=100                   | 126.2    | 1030.2  | 1780.2  | 2897.2  | 6402.5  | 67162.7  | 82092.5  | 84637.4         |
| Exchange rate (ER), BGN/ECU              | 0.001    | 0.032   | 0.065   | 0.087   | 0.192   | 1.896    | 1.972    | 1.956           |
| ER, nominal, 1989=100                    | 107.6    | 3485.9  | 6946.7  | 9338.4  | 20612.4 | 203894.4 | 212116.3 | 210349.5        |
| Real ER (CPI-based), 1989=100            | 91.9     | 234.2   | 245.5   | 209.8   | 212.9   | 181.7    | 157.2    | 157.5           |
| Real ER (PPI-based), 1989=100            | 96.2     | 412.3   | 477.7   | 437.5   | 422.4   | 382.3    | 341.1    | 327.5           |
| PPP, BGN/ECU                             | 0.001071 | 0.00791 | 0.01337 | 0.02092 | 0.04546 | 0.475    | 0.574    | 0.583           |
| ERDI (ECU based)                         | 0.93     | 4.10    | 4.83    | 4.15    | 4.22    | 3.99     | 3.44     | 3.36            |
| Average monthly gross wages, BGN         | 0        | 3       | 5       | 8       | 13      | 128      | 183      | 205             |
| Average monthly gross wages, ECU (ER)    | 378      | 100     | 77      | 87      | 69      | 67       | 93       | 105             |
| Average monthly gross wages, ECU (PPP)   | 353      | 408     | 371     | 363     | 291     | 269      | 319      | 352             |
| GDP nominal, bn BGN                      | 0.0      | 0.3     | 0.5     | 0.9     | 1.7     | 17.1     | 21.6     | 22.8            |
| Employment total, 1000 persons           | 4096.8   | 3221.8  | 3241.6  | 3282.2  | 3285.9  | 3157.4   | 3152.6   | 3071.9          |
| GDP per employed person, BGN             | 11       | 93      | 162     | 268     | 532     | 5402     | 6844     | 7414            |
| GDP per empl. person, BGN at 1996 pr.    | 562      | 577     | 583     | 593     | 532     | 515      | 534      | 561             |
| Unit labour costs, 1989=100              | 142.3    | 1185.9  | 1800.3  | 2712.7  | 5268.1  | 52572.7  | 72656.1  | 77374.7         |
| Unit labour costs, ER adj., 1989=100     | 132.3    | 34.0    | 25.9    | 29.0    | 25.6    | 25.8     | 34.3     | 36.8            |
| Unit labour costs, PPP adj., Austria=100 | 89.45    | 18.88   | 14.13   | 15.04   | 13.98   | 14.71    | 19.58    | 20.67           |

(Table A/2 ctd.)

(Table A/2 ctd.)

|  | 1990     | 1993     | 1994     | 1995     | 1996     | 1997     | 1998     | 1999<br>prelim. |
|--|----------|----------|----------|----------|----------|----------|----------|-----------------|
| <b>Romania</b>                           |          |          |          |          |          |          |          |                 |
| Producer price index, 1989=100           | 126.9    | 3065.5   | 7372.6   | 9961.1   | 14928.8  | 37725.0  | 50287.4  | 71508.7         |
| Consumer price index, 1989=100           | 105.1    | 3138.9   | 7431.5   | 9829.0   | 13643.6  | 34758.8  | 55301.2  | 80629.1         |
| GDP deflator, 1989=100                   | 113.6    | 3290.6   | 7862.4   | 10633.6  | 15453.6  | 38173.3  | 59311.1  | 86807.7         |
| Exchange rate (ER), ROL/ECU              | 31.10    | 884.60   | 1967.56  | 2629.51  | 3862.90  | 8090.93  | 9988.36  | 16295.26        |
| ER, nominal, 1989=100                    | 189.1    | 5377.5   | 11960.9  | 15984.9  | 23482.7  | 49185.0  | 60719.5  | 99059.3         |
| Real ER (CPI-based), 1989=100            | 190.3    | 206.4    | 200.0    | 208.2    | 225.9    | 189.4    | 149.5    | 169.5           |
| Real ER (PPI-based), 1989=100            | 152.9    | 188.9    | 178.5    | 184.5    | 182.0    | 152.2    | 140.5    | 161.2           |
| PPP, ROL/ECU                             | 6.92     | 181.55   | 424.04   | 551.44   | 788.18   | 1938.76  | 2976.60  | 4292.17         |
| ERDI (ECU based)                         | 4.49     | 4.87     | 4.64     | 4.77     | 4.90     | 4.17     | 3.36     | 3.80            |
| Average monthly gross wages, ROL         | 3381     | 78347    | 181694   | 281287   | 426610   | 846450   | 1357132  | 1957731         |
| Average monthly gross wages, ECU (ER)    | 109      | 89       | 92       | 107      | 110      | 105      | 136      | 120             |
| Average monthly gross wages, ECU (PPP)   | 488      | 432      | 428      | 510      | 541      | 437      | 456      | 456             |
| GDP nominal, bn ROL                      | 857.9    | 20035.7  | 49773.2  | 72135.5  | 108919.6 | 250480.2 | 368260.7 | 521735.5        |
| Employment total, 1000 persons           | 10892.6  | 10260.0  | 10036.5  | 9752.0   | 9436.0   | 9200.9   | 8917.7   | 8650            |
| GDP per employed person, ROL             | 78755    | 1952799  | 4959219  | 7396995  | 11542984 | 27223593 | 41295711 | 60315403        |
| GDP per empl. person, ROL at 1996 pr.    | 10717506 | 9170922  | 9747361  | 10749987 | 11542984 | 11020892 | 10759697 | 10737443        |
| Unit labour costs, 1989=100              | 117.1    | 3170.7   | 6918.2   | 9711.4   | 13716.8  | 28505.3  | 46812.6  | 67669.5         |
| Unit labour costs, ER adj., 1989=100     | 61.9     | 59.0     | 57.8     | 60.8     | 58.4     | 58.0     | 77.1     | 68.3            |
| Unit labour costs, PPP adj., Austria=100 | 23.40    | 18.29    | 17.62    | 17.58    | 17.86    | 18.47    | 24.63    | 21.45           |
| <b>Croatia</b>                           |          |          |          |          |          |          |          |                 |
| Producer price index, 1989=100           | 555.6    | 204130.0 | 362535.0 | 365072.8 | 370183.9 | 378698.3 | 374153.9 | 383881.7        |
| Consumer price index, 1989=100           | 709.5    | 195909.3 | 387117.4 | 394858.7 | 408679.1 | 423391.3 | 447530.6 | 466326.7        |
| GDP deflator, 1989=100                   | 638.9    | 138658.4 | 293621.3 | 309216.7 | 320477.1 | 344066.9 | 375198.8 | 390231.5        |
| Exchange rate (ER), HRK/ECU              | 0.01     | 4.13     | 7.09     | 6.76     | 6.80     | 6.96     | 7.14     | 7.58            |
| ER, nominal, 1989=100                    | 446.0    | 128111.3 | 219657.4 | 209442.2 | 210895.8 | 215699.6 | 221182.2 | 234912.7        |
| Real ER (CPI-based), 1989=100            | 66.5     | 78.8     | 70.5     | 67.9     | 67.7     | 68.2     | 67.3     | 69.5            |
| Real ER (PPI-based), 1989=100            | 82.4     | 67.6     | 66.7     | 66.0     | 65.9     | 66.5     | 68.8     | 71.2            |
| PPP, HRK/ECU                             | 0.00982  | 1.93     | 3.99     | 4.04     | 4.12     | 4.40     | 4.75     | 4.86            |
| ERDI (ECU based)                         | 1.47     | 2.14     | 1.78     | 1.67     | 1.65     | 1.58     | 1.50     | 1.56            |
| Average monthly gross wages, HRK         | 8.61     | 848.0    | 2155     | 2887     | 3243     | 3668     | 4131     | 4551            |
| Average monthly gross wages, ECU (ER)    | 598      | 205      | 304      | 427      | 477      | 527      | 579      | 600             |
| Average monthly gross wages, ECU (PPP)   | 877      | 440      | 540      | 714      | 787      | 833      | 871      | 936             |
| GDP nominal, bn HRK                      | 0.3      | 39.0     | 87.4     | 98.4     | 108.0    | 123.8    | 138.4    | 143.5           |
| Employment total, 1000 persons           | 1567.6   | 1446.6   | 1437.1   | 1417.4   | 1329.5   | 1310.9   | 1384.8   | 1338.2          |
| GDP per employed person, HRK             | 179      | 26962    | 60846    | 69410    | 81219    | 94447    | 99936    | 107234          |
| GDP per empl. person, HRK at 1996 pr.    | 89749    | 62316    | 66411    | 71938    | 81219    | 87972    | 85361    | 88065           |
| Unit labour costs, 1989=100              | 606.7    | 86104.6  | 205335.1 | 253947.6 | 252664.5 | 263840.3 | 306232.5 | 327006.1        |
| Unit labour costs, ER adj., 1989=100     | 136.0    | 67.2     | 93.5     | 121.2    | 119.8    | 122.3    | 138.5    | 139.2           |
| Unit labour costs, PPP adj., Austria=100 | 80.33    | 32.58    | 44.49    | 54.82    | 57.25    | 60.93    | 69.11    | 68.32           |
| <b>Macedonia</b>                         |          |          |          |          |          |          |          |                 |
| Producer price index, 1989=100           | 493.9    | 86212.9  | 163202.7 | 170868.8 | 170357.8 | 177512.8 | 184667.8 | 184497.4        |
| Consumer price index, 1989=100           | 696.6    | 109299.2 | 249239.6 | 288810.8 | 295307.6 | 302985.6 | 302690.3 | 300623.1        |
| GDP deflator, 1990=100                   | 100.0    | 15432.7  | 35126.7  | 41132.0  | 42324.8  | 43764.4  | 43846.7  | 43710.9         |
| Exchange rate (ER), MKD/ECU              | 0.14     | 27.30    | 51.09    | 49.15    | 50.08    | 56.20    | 61.07    | 60.62           |
| ER, nominal, 1989=100                    | 446.9    | 84781.6  | 158661.2 | 152643.3 | 155515.9 | 174525.6 | 189641.9 | 188247.5        |
| Real ER (CPI-based), 1989=100            | 67.9     | 93.5     | 79.1     | 67.7     | 69.1     | 77.1     | 85.3     | 86.4            |
| Real ER (PPI-based), 1989=100            | 92.8     | 105.9    | 107.0    | 102.7    | 105.6    | 114.8    | 119.5    | 118.7           |
| PPP, MKD/ECU                             | 0.06537  | 9.1293   | 20.312   | 22.87    | 23.14    | 23.83    | 23.59    | 23.17           |
| ERDI (ECU based)                         | 2.20     | 2.99     | 2.52     | 2.15     | 2.16     | 2.36     | 2.59     | 2.62            |
| Average monthly net wages, MKD           | 32       | 3782     | 7754     | 8581     | 8817     | 9063     | 9394     | 9664            |
| Average monthly net wages, ECU (ER)      | 222      | 139      | 152      | 175      | 176      | 161      | 154      | 159             |
| Average monthly net wages, ECU (PPP)     | 488      | 414      | 382      | 375      | 381      | 380      | 398      | 417             |
| GDP nominal, bn MKD                      | 0.5      | 65.5     | 146.4    | 169.5    | 176.4    | 185.0    | 190.8    | 195.3           |
| Employment total, 1000 persons           | 522.5    | 457.2    | 433.1    | 391.9    | 374.5    | 354.3    | 344.8    | 345             |
| GDP per employed person, MKD             | 926      | 143326   | 338029   | 432528   | 471130   | 522066   | 553484   | 566041          |
| GDP per empl. person, MKD at 1996 pr.    | 392029   | 393078   | 407297   | 445071   | 471130   | 504893   | 534273   | 548090          |
| Unit labour costs, 1990=100              | 100.0    | 11831.6  | 23410.7  | 23708.7  | 23013.3  | 22073.6  | 21621.5  | 21682.3         |
| Unit labour costs, ER adj., 1990=100     | 100.0    | 62.4     | 65.9     | 69.4     | 66.1     | 56.5     | 51.0     | 51.5            |
| Unit labour costs, PPP adj., Austria=100 | 38.27    | 19.59    | 20.34    | 20.34    | 20.48    | 18.25    | 16.48    | 16.37           |

(Table A/2 contd.)

(Table A/2 ctd.)

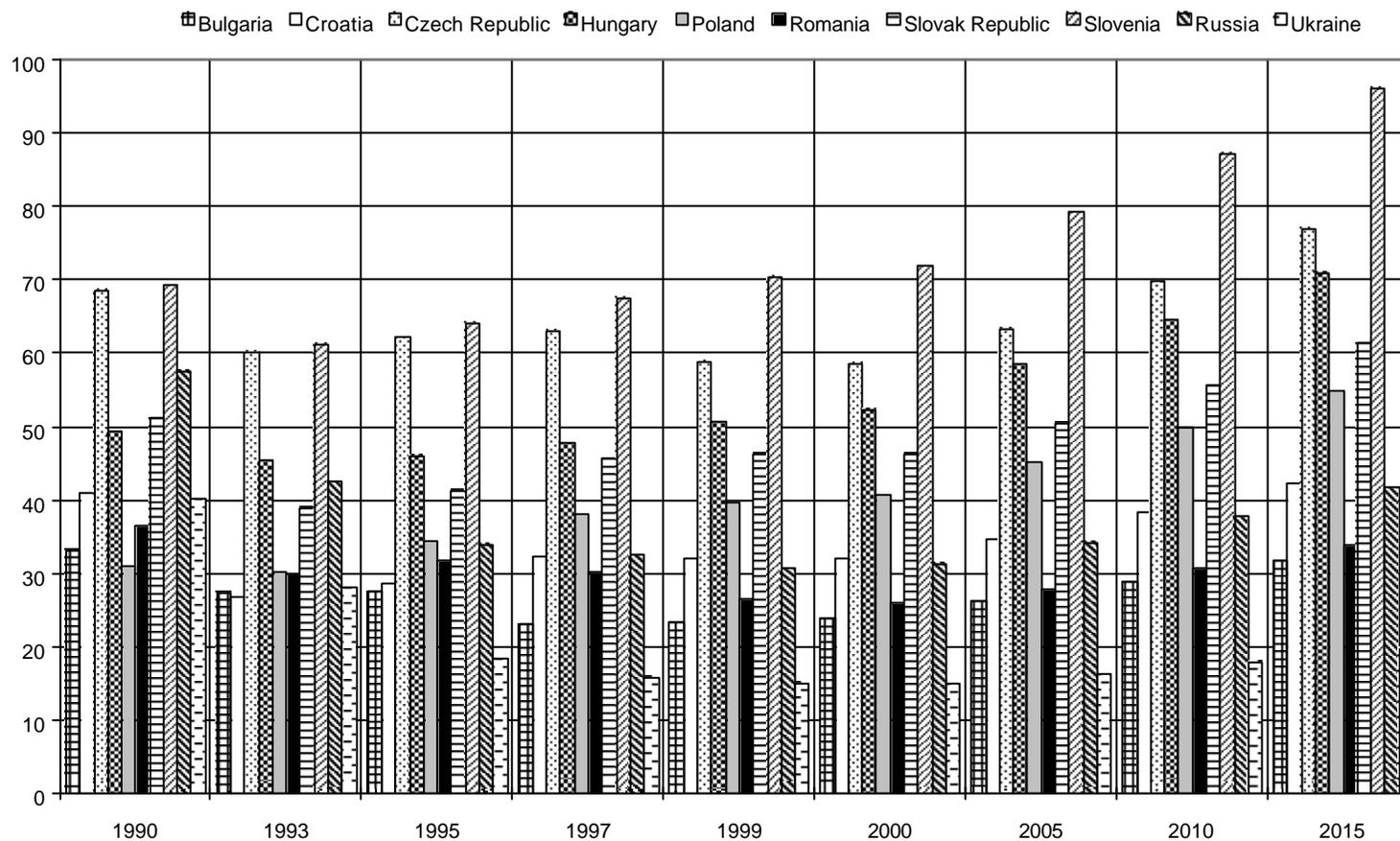
|  | 1990      | 1993      | 1994      | 1995     | 1996     | 1997     | 1998     | 1999<br>prelim. |
|--|-----------|-----------|-----------|----------|----------|----------|----------|-----------------|
| <b>Russia</b>                            |           |           |           |          |          |          |          |                 |
| Producer price index, 1989=100           | 103       | 61181     | 267281    | 899321   | 1356086  | 1559505  | 1670224  | 2653986         |
| Consumer price index, 1989=100           | 105       | 32112     | 130695    | 388817   | 574672   | 659723   | 841807   | 1563235         |
| GDP deflator, 1989=100                   | 116       | 41646     | 169848    | 446730   | 644104   | 750274   | 843470   | 1356782         |
| Exchange rate (ER), RUB/ECU              | 0.00      | 1.21      | 2.60      | 5.89     | 6.63     | 6.54     | 11.06    | 26.24           |
| ER, nominal, 1989=100                    | 107       | 174605    | 375047    | 848366   | 954960   | 941800   | 1592973  | 3778114         |
| Real ER (CPI-based), 1989=100            | 107.7     | 655.2     | 356.5     | 279.4    | 218.1    | 191.1    | 257.7    | 333.4           |
| Real ER (PPI-based), 1989=100            | 106.8     | 307.4     | 154.4     | 108.5    | 81.5     | 70.5     | 111.0    | 165.6           |
| PPP, RUB/ECU                             | 0.00052   | 0.1675    | 0.6678    | 1.6890   | 2.3950   | 2.778    | 3.086    | 4.891           |
| ERDI (ECU based)                         | 1.45      | 7.24      | 3.90      | 3.49     | 2.77     | 2.35     | 3.58     | 5.36            |
| Average monthly gross wages, RUB         | 0.3       | 64.3      | 242.6     | 532.6    | 790.2    | 950.2    | 1049.3   | 1575.0          |
| Average monthly gross wages, ECU (ER)    | 407       | 53        | 93        | 90       | 119      | 145      | 95       | 60              |
| Average monthly gross wages, ECU (PPP)   | 588       | 384       | 363       | 315      | 330      | 342      | 340      | 322             |
| GDP nominal, bn RUB                      | 0.6       | 171.5     | 610.7     | 1540.5   | 2145.7   | 2521.9   | 2696.4   | 4476.1          |
| Employment total, 1000 persons           | 75325     | 70852     | 68484     | 66441    | 65950    | 64639    | 63642    | 64525           |
| GDP per employed person, RUB             | 9         | 2421      | 8918      | 23186    | 32535    | 39015    | 42368    | 69370           |
| GDP per empl. person, RUB at 1996 pr.    | 47524     | 37439     | 33819     | 33430    | 32535    | 33494    | 32354    | 32932           |
| Unit labour costs, 1989=100              | 121.1     | 32588.8   | 136186.5  | 302503.3 | 461145.2 | 538634.2 | 615774.6 | 908054.3        |
| Unit labour costs, ER adj., 1989=100     | 112.9     | 18.7      | 36.3      | 35.7     | 48.3     | 57.2     | 38.7     | 24.0            |
| Unit labour costs, PPP adj., Austria=100 | 60.01     | 8.14      | 15.56     | 14.51    | 20.77    | 25.65    | 17.37    | 10.62           |
| <b>Ukraine</b>                           |           |           |           |          |          |          |          |                 |
| Producer price index, 1989=100           | 105       | 274001    | 3382263   | 19914767 | 30290361 | 32622718 | 36928917 | 48413810        |
| Consumer price index, 1989=100           | 105       | 143625    | 1423324   | 6786409  | 12229109 | 14172537 | 15674826 | 19233012        |
| GDP deflator, 1989=100                   | 113       | 142056    | 1495770   | 7715454  | 12819488 | 15140086 | 17135166 | 21054032        |
| Exchange rate (ER), UAH/ECU              | 0.000     | 0.053     | 0.385     | 1.928    | 2.322    | 2.113    | 2.768    | 4.393           |
| ER, nominal, 1989=100                    | 107       | 758273    | 5537698   | 27739568 | 33408633 | 30401439 | 39821583 | 63212950        |
| Real ER (CPI-based), 1989=100            | 108.2     | 636.2     | 483.3     | 523.4    | 358.6    | 287.2    | 346.0    | 453.4           |
| Real ER (PPI-based), 1989=100            | 105.2     | 298.1     | 180.2     | 160.2    | 127.6    | 108.8    | 125.4    | 151.9           |
| PPP, UAH/ECU                             | 0.0000055 | 0.0062348 | 0.0641728 | 0.31828  | 0.52012  | 0.61168  | 0.68408  | 0.82811         |
| ERDI (ECU based)                         | 1.36      | 8.45      | 6.00      | 6.06     | 4.46     | 3.45     | 4.05     | 5.31            |
| Average monthly gross wages, UAH         | 0.0       | 1.6       | 13.8      | 73.0     | 126.0    | 143.0    | 153.0    | 177.5           |
| Average monthly gross wages, ECU (ER)    | 336       | 29        | 36        | 38       | 54       | 68       | 55       | 40              |
| Average monthly gross wages, ECU (PPP)   | 456       | 249       | 214       | 229      | 242      | 234      | 224      | 214             |
| GDP nominal, bn UAH                      | 0.0       | 1.5       | 12.0      | 54.5     | 81.5     | 93.4     | 103.9    | 127.1           |
| Employment total, 1000 persons           | 25277.3   | 23923.7   | 23025.0   | 23725.5  | 23231.8  | 22597.6  | 22348.7  | 22000.0         |
| GDP per employed person, UAH             | 0.066     | 62.0      | 522.8     | 2297.8   | 3508.9   | 4131.6   | 4647.7   | 5778.5          |
| GDP per empl. person, UAH at 1996 pr.    | 7500.0    | 5593.0    | 4480.7    | 3817.9   | 3508.9   | 3498.4   | 3477.1   | 3518.4          |
| Unit labour costs, 1989=100              | 118.9     | 98966.6   | 1095212   | 6821887  | 12811424 | 14583936 | 15699225 | 18001265        |
| Unit labour costs, ER adj., 1989=100     | 110.9     | 13.1      | 19.8      | 24.6     | 38.3     | 48.0     | 39.4     | 28.5            |
| Unit labour costs, PPP adj., Austria=100 | 68.11     | 6.58      | 9.79      | 11.56    | 19.05    | 24.84    | 20.46    | 14.53           |
| <b>Austria</b>                           |           |           |           |          |          |          |          |                 |
| Producer price index, 1989=100           | 102.9     | 103.1     | 104.5     | 104.8    | 104.8    | 105.2    | 104.6    | 103.7           |
| Consumer price index, 1989=100           | 103.3     | 115.0     | 118.4     | 121.1    | 123.3    | 125.0    | 126.1    | 126.8           |
| GDP deflator, 1989=100                   | 103.4     | 115.1     | 118.4     | 121.1    | 122.7    | 124.6    | 125.3    | 126.2           |
| Exchange rate (ER), ATS/ECU              | 14.47     | 13.60     | 13.51     | 13.03    | 13.26    | 13.78    | 13.88    | 13.76           |
| ER, nominal, 1989=100                    | 99.3      | 93.4      | 92.7      | 89.5     | 91.0     | 94.6     | 95.3     | 94.5            |
| Real ER (CPI-based), 1989=100            | 101.7     | 97.9      | 97.3      | 94.6     | 96.9     | 101.4    | 103.0    | 102.8           |
| Real ER (PPI-based), 1989=100            | 99.0      | 97.6      | 97.6      | 98.2     | 100.5    | 105.0    | 106.0    | 106.0           |
| PPP, ATS/ECU                             | 14.86     | 14.95     | 15.02     | 14.78    | 14.72    | 14.90    | 14.81    | 14.68           |
| ERDI (ECU based)                         | 0.97      | 0.91      | 0.90      | 0.88     | 0.90     | 0.93     | 0.94     | 0.94            |
| Average monthly gross wages, ATS         | 21604     | 25281     | 26125     | 27095    | 27317    | 27499    | 28262    | 28811           |
| Average monthly gross wages, ECU (ER)    | 1493      | 1859      | 1934      | 2079     | 2060     | 1995     | 2036     | 2094            |
| Average monthly gross wages, ECU (PPP)   | 1454      | 1691      | 1739      | 1833     | 1856     | 1846     | 1909     | 1963            |
| GDP nominal, bn ATS                      | 1813.5    | 2125.3    | 2237.9    | 2328.7   | 2453.2   | 2522.2   | 2610.9   | 2683.6          |
| Employment total, 1000 persons           | 3344.6    | 3446.0    | 3451.8    | 3439.5   | 3415.4   | 3424.5   | 3446.6   | 3478.8          |
| GDP per employed person, ATS             | 542217    | 616744    | 648328    | 677046   | 718271   | 736516   | 757529   | 771415          |
| GDP per empl. person, ATS at 1996 pr.    | 643289    | 657330    | 671733    | 685848   | 718271   | 725064   | 741427   | 749770          |
| Unit labour costs, 1989=100              | 103.0     | 117.9     | 119.3     | 121.1    | 116.6    | 116.3    | 116.9    | 117.8           |
| Unit labour costs, ER adj., 1989=100     | 103.7     | 126.3     | 128.6     | 135.4    | 128.1    | 122.9    | 122.6    | 124.7           |
| Unit labour costs, PPP adjusted          | 0.41      | 0.50      | 0.51      | 0.54     | 0.51     | 0.49     | 0.48     | 0.49            |

ER = Exchange Rate, PPP = Purchasing Power Parity, ERDI = Exchange Rate Deviation Index (all in terms of national currency per ECU). Benchmark PPPs for 1996 were estimated from purchasing parity standards for OECD (28) average and extrapolated with GDP price deflators.

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

Figure A/1

**Real per capita GDP in the CEECs**  
**EU average = 100**



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

## Country Reports

*Anton Mihailov*

### **Bulgaria: soaring unemployment**

The sudden upshot of high unemployment is becoming a major problem in Bulgaria. Unemployment has already reached unprecedentedly high levels and bears grave economic, social and political implications. The most recent opinion polls suggest that the general public perceives unemployment as the primordial negative phenomenon in Bulgaria today. Coupled with a series of political scandals, this has resulted in a drastic decline in public confidence which, in turn, is undermining the credibility of the government and its conduct of public policy.

Unemployment leapt skywards in the second half of 1999; in a matter of ten months the number of jobless people increased by some 240,000 and the unemployment rate soared by 6.2 percentage points. By January 2000 unemployment had reached 17.0%, a record high for the ten years of transition (the previous peak rate of 16.5% had been registered in January 1994). It continued to rise rapidly thereafter and at the end of April 2000 the unemployment rate already stood at 19.0%.

The reasons for this rapid deterioration of the situation on the labour market are still not quite clear. The meteoric rise in joblessness, however, seems to stem from the combined effect of several, partly interrelated, developments. First, the year-long process of restructuring a group of inefficient major public enterprises, often involving partial or full-scale liquidation, is finally coming to an end. Secondly, Bulgarian manufacturers have been facing a continuing deterioration in their competitiveness owing to a mismatch between the growth in productivity and wages (with productivity lagging behind) under a fixed exchange rate regime. This may already have started to bite in terms of downsizing. Finally, the ongoing reform of the social security, pension and health care systems would seem to have increased the incentive for jobless people to register officially with the labour exchanges. Thus, the disparity between the rates of officially registered unemployment and the unemployment measured in labour force surveys (ILO methodology) has been gradually declining. Whereas in 1999 it was in the range of 2-3 percentage points, this disparity is almost negligible today (in March the two rates were 18.8% and 18.5%, respectively).

According to preliminary NSI estimates, GDP grew in the fourth quarter of 1999 by just 1.0% year-on-year, down from 4.5% in the third quarter, resulting in an average rate of growth of 2.4% for the year as a whole. After more than three years of persistent decline

(the cumulative drop in output over the three-year period 1997-1999 amounting to more than 31%), industrial production started to recover moderately at the beginning of 2000. Output increased by 5.2% year-on-year in the first quarter and sales rose by 7.0%. These aggregate figures mask major variances in performance across manufacturing branches. In fact, the positive outcome largely stems from a rapid upturn in selected important manufacturing industries such as metal processing (both ferrous and non-ferrous), fuels and tobacco products. Quarterly output in all those branches grew at more than 30% year-on-year, while output continued to decline in the majority of manufacturing industries.

The main factor behind the recovery in some industries has been a selective upturn in exports, after a disastrous 1999. For the most part, this was due to higher import demand in Western Europe. In the first quarter of 2000, total exports measured in current dollars increased by 24.5% year-on-year. Once again, however, export performance varied greatly among commodity groups, with metals, fuels, chemicals and clothing contributing the most to aggregate growth. In terms of destination, the EU as well as neighbouring Turkey and Yugoslavia accounted for the largest part of the percentage increase in exports. At the same time, imports continued to soar, increasing by close to 30% year-on-year (in current dollar terms) in the first quarter of the year. As a result, Bulgaria's external imbalances – in terms of both trade and current account – which had already reached worrisome proportions widened still further. In annualized terms, the current account deficit recorded in the first quarter was equivalent to some 12% of GDP.

One of the root causes of this ever growing external gap lies in the significant appreciation of the US dollar vis-à-vis all major currencies, including the euro to which the Bulgarian lev is pegged. With the share of imports traded in dollars (mostly energy and other resources) being larger than the corresponding share of exports (where the euro is the dominant currency), Bulgaria's terms-of-trade have generally worsened. Yet another factor is the recent rise in prices for crude oil: it is estimated that the combined effect of higher oil prices and the more expensive dollar accounts for half of the increase in the value of imports reported for the first quarter of 2000. However, another – and more fundamental – factor has been the persistent deterioration in competitiveness with real wages rising faster than productivity under the fixed exchange rate (currency board) regime. In fact, the recent appreciation of the dollar has somewhat eased the pressure on the real effective exchange rate. However, if this trend were to be reversed – and if income policy were not to follow suit – competitiveness is likely to start deteriorating still further.

Despite the widening of the external imbalances, the financing of the current account deficit does not seem to pose any major problems in the short term. With several major privatization deals with strategic foreign investors in the offing, the authorities will be able to cover a large share of this year's current account deficit from the proceeds. The three-year extended fund facility arrangement with the IMF (due to expire in August 2001) has stayed

on track and – unless no backtracking occurs in the one year remaining – it will also continue to provide vital balance-of-payments support. Official reserves remain at a relatively safe level (some USD 2.5 billion at the end of March). In April, Bulgaria and the EU reached agreement on an additional long-term loan for EUR 212 million (over 20-years with a five-year grace period) to cover the envisaged closure of four reactors at the Kozloduy nuclear power plant and improve safety in the remaining two reactors.

Bulgaria's political record has been recently marred by a series of scandals involving corruption among senior politicians and civil servants. This has contributed to a rapid decline in popular support for the government which is now at its lowest ebb since the government assumed office in mid-1997. This will inevitably hamper the implementation of a number of essential, but unpopular reforms, such as restructuring the energy sector (entailing further rises in energy prices) and continuing the health and pension reforms, which are part and parcel of the agreements with the IMF and the World Bank.

Overall, except for unemployment, the short-term outlook for the Bulgarian economy remains moderately positive. GDP can be expected to grow by some 4% in 2000 with annual consumer price inflation amounting to some 5%. The fiscal situation remains under control and the government intends to increase public investment in order to boost economic growth. The recent agreement with Romania on the construction of a second bridge across the Danube (after decades of dispute) has opened up several favourable avenues in this direction. However, the medium-term prospects are not so clear. Its relatively sound short-term external position notwithstanding, Bulgaria's economy still remains highly dependent on official support, yet as the privatization process nears completion, the one-time financial windfalls will dry up. The possibility of increased turbulence on the political scene is yet another potential source of concern.

Table BG

Bulgaria: Selected Economic Indicators<sup>\*)</sup>

|  | 1995    | 1996   | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000   | 2000<br>forecast   | 2001  |
|--|---------|--------|---------|---------|--------------------|---------------------|--------|--------------------|-------|
| Population, th pers., end of period                    | 8384.7  | 8340.9 | 8283.2  | 8230.4  | 8190.9             | .                   | .      | .                  | .     |
| Gross domestic product, BGN mn, nom.                   | 880.3   | 1748.7 | 17055.2 | 21577.0 | 22776.4            | 4750.7              | .      | 24900              | 26700 |
| annual change in % (real)                              | 2.9     | -10.1  | -7.0    | 3.5     | 2.4                | 0.8                 | .      | 4                  | 4     |
| GDP/capita (USD at exchange rate)                      | 1559    | 1189   | 1224    | 1484    | 1510               | .                   | .      | .                  | .     |
| GDP/capita (USD at PPP - WIIW)                         | 5370    | 4990   | 4820    | 4980    | 5170               | .                   | .      | .                  | .     |
| Gross industrial production                            |         |        |         |         |                    |                     |        |                    |       |
| annual change in % (real)                              | 4.5     | 5.1    | -10.0   | -12.7   | -12.5              | -16.2               | 5.2    | 4                  | 4     |
| Gross agricultural production                          |         |        |         |         |                    |                     |        |                    |       |
| annual change in % (real)                              | 16.0    | -11.5  | 17.4    | -1.1    | .                  | .                   | .      | .                  | .     |
| Goods transport, public, mn t-kms                      | 87210   | 79850  | 86543   | 75858   | 79116              | 16934               | .      | .                  | .     |
| annual change in %                                     | 7.9     | -8.4   | 8.4     | -12.3   | 4.3                | -9.8                | .      | .                  | .     |
| Gross fixed capital form., BGN mn, nom.                | 134.3   | 238.5  | 1841.0  | 2850.8  | 3632.2             | 440.5               | .      | .                  | .     |
| annual change in % (real)                              | 16.1    | -21.2  | -23.9   | 32.9    | 25.3               | 6.5                 | .      | .                  | .     |
| Construction output total                              |         |        |         |         |                    |                     |        |                    |       |
| annual change in % (real)                              | 5.8     | -14.0  | -4.4    | -0.2    | -17.9              | .                   | .      | .                  | .     |
| Dwellings completed, units                             | 6815.0  | 8099.0 | 7452.0  | 4942.0  | 9824.0             | .                   | .      | .                  | .     |
| annual change in %                                     | -21.4   | 18.8   | -8.0    | -33.7   | 98.8               | .                   | .      | .                  | .     |
| Employment total, th pers., average                    | 3282.2  | 3285.9 | 3157.4  | 3152.6  | 3071.9             | .                   | .      | .                  | .     |
| annual change in %                                     | 1.3     | 0.1    | -3.9    | -0.2    | -2.6               | .                   | .      | .                  | .     |
| Employees in industry, th pers., average <sup>2)</sup> | 770.4   | 728.1  | 838.7   | 778.8   | 696.6              | 736                 | 627    | .                  | .     |
| annual change in % <sup>2)</sup>                       | -5.5    | -5.5   | -2.7    | -7.1    | -10.6              | -7.3                | -14.8  | .                  | .     |
| Unemployed reg., th, end of period                     | 423.8   | 478.5  | 523.5   | 465.2   | 610.6              | 503.7               | 717.0  | 750                | 700   |
| Unemployment rate in %, end of period                  | 11.1    | 12.5   | 13.7    | 12.2    | 16.0               | 13.2                | 18.8   | 20                 | 18    |
| Average gross monthly wages, BGN <sup>2)</sup>         | 7597    | 13965  | 127.9   | 183.3   | 205.1              | 188                 | 213    | .                  | .     |
| annual change in % (real, gross) <sup>2)</sup>         | -5.5    | -17.6  | -18.3   | 17.2    | 11.7               | 15.4                | 4.0    | .                  | .     |
| Retail trade turnover, BGN mn <sup>3)</sup>            | 410.4   | 723.7  | 5469.3  | 7214.2  | 6760.0             | 1280.4              | 1519.0 | .                  | .     |
| annual change in % (real) <sup>3)</sup>                | 2.7     | -7.6   | -36.4   | 18.5    | -5.5               | -4.6                | 6.7    | .                  | .     |
| Consumer prices, % p.a.                                | 62.1    | 123.0  | 1082.3  | 22.3    | 0.3                | -1.4                | 8.8    | 5                  | 3     |
| Producer prices in industry, % p.a.                    | 53.4    | 130.0  | 1002.8  | 16.2    | 3.3                | -1.0                | 16.5   | .                  | .     |
| Central government budget, BGN mn <sup>4)</sup>        |         |        |         |         |                    |                     |        |                    |       |
| Revenues   | 197.3   | 350.0  | 2983.3  | 4245.6  | 5187.4             | 1161.0              | 1299.9 | 5138 <sup>5)</sup> | .     |
| Expenditures   | 255.2   | 540.8  | 3650.0  | 3930.8  | 4746.0             | 476.4               | 1053.0 | 5677 <sup>5)</sup> | .     |
| Deficit (-) / surplus (+)                              | -57.9   | -190.9 | -666.7  | 314.7   | 441.4              | 681.9               | 247.0  | -540 <sup>5)</sup> | .     |
| Deficit (-) / surplus (+), % of GDP                    | -6.6    | -10.9  | -3.9    | 1.5     | 1.9                | 14.4                | .      | -2.2 <sup>5)</sup> | .     |
| Money supply, BGN mn, end of period                    |         |        |         |         |                    |                     |        |                    |       |
| M1, Money  | 107.9   | 236.6  | 2266.9  | 2755.6  | 2996.6             | 2399.2              | 2877.5 | .                  | .     |
| Broad money  | 583.7   | 1310.3 | 6018.6  | 6597.2  | 7351.1             | 6261.1              | 7538.5 | .                  | .     |
| Base rate of NB % p.a., end of period                  | 38.6    | 342.1  | 6.8     | 5.2     | 4.5                | 4.9                 | 3.6    | .                  | .     |
| Current account, USD mn                                | -25.6   | 15.9   | 426.7   | -61.4   | -660.2             | -254.7              | -359.1 | -800               | -800  |
| Gross reserves of NB excl. gold, USD mn                | 1236.4  | 483.4  | 2121.0  | 2679.4  | 2892.0             | 2427.9              | 2561.2 | .                  | .     |
| Gross external debt, convert. curr., USD mn            | 10148.0 | 9601.6 | 9760.2  | 10241.6 | 9984.4             | 9492.4              | .      | .                  | .     |
| Exports total, fob, USD mn <sup>6)</sup>               | 5354.7  | 4890.2 | 4939.7  | 4297.0  | 3967.2             | 872                 | 1086   | 4300               | 4500  |
| annual change in %                                     | 34.4    | -8.7   | 1.0     | -13.0   | -5.4               | -21.0               | 24.5   | 8                  | 5     |
| Imports total, cif, USD mn <sup>6)</sup>               | 5657.6  | 5073.9 | 4932.0  | 5031.3  | 5468.7             | 1187                | 1529   | 5800               | 6000  |
| annual change in %                                     | 35.2    | -10.3  | -2.8    | 2.0     | 10.3               | -0.7                | 28.8   | 6                  | 3     |
| Average exchange rate BGN/USD                          | 0.067   | 0.176  | 1.677   | 1.760   | 1.836              | 1.743               | 1.982  | .                  | .     |
| Average exchange rate BGN/EUR (ECU)                    | 0.087   | 0.192  | 1.896   | 1.972   | 1.956              | 1.956               | 1.956  | 1.956              | 1.956 |
| Average exchange rate BGN/DEM                          | 0.047   | 0.118  | 0.968   | 1.000   | 1.000              | 1.000               | 1.000  | 1.000              | 1.000 |
| Purchasing power parity BGN/USD, WIIW                  | 0.020   | 0.042  | 0.431   | 0.525   | 0.537              | .                   | .      | .                  | .     |
| Purchasing power parity BGN/EUR, WIIW                  | 0.021   | 0.045  | 0.475   | 0.574   | 0.583              | .                   | .      | .                  | .     |

\*) On 5 July 1999, the new Bulgarian lev was introduced (1 BGN = 1000 BGL). Data in this table are presented in 'new' BGN.

1) Preliminary. - 2) Up to 1996 public sector only. - 3) Up to 1995 including public catering, from 1996 according to NACE classification. -

4) From 1999 and quarterly including some extrabudgetary funds and accounts- 5) Government draft budget. - 6) From 1999 new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Croatia: suffering from the past**

In office since February 2000, the new Croatian government has already made some progress in its efforts at integration. In late May Croatia joined the NATO Partnership for Peace and at the beginning of June it was finally granted membership in the WTO. Moreover, Croatia has met the European Union's prerequisites for starting negotiations on an accession and stabilization agreement. Croatia has agreed to the return of refugees and accepts co-operation with the International Tribunal on War Crimes in The Hague. It has adopted a law protecting its minorities. However, taking into account the experience of other countries in Central and Eastern Europe, it will take quite some time to conclude and ratify an agreement of this kind. Joining the EU may well take another ten years at least.

After contracting in 1999, industrial production rose by a meagre 1.5% in the period January-April 2000. Manufacturing, which accounts for about 80% of industrial production, increased output by 1.6%. Remarkable declines were registered in the manufacture of electrical machinery and equipment, leather products, textiles, rubber and plastic products, as well as publishing and printing. The largest manufacturing sector, food and beverages, recorded a further drop in production. The main growth branches are the manufacture of chemicals and chemical products, radio, TV and communications equipment and non-metallic mineral products.

Retail prices increased by 5% over the first five months of 2000. Only recently did the board of the central bank note that Croatia was leaving the low inflation zone and cautioned against underestimating the danger of inflationary expectations and their impact on price movements. The bank announced that it would combat rising prices by tightening monetary policy.

Total employment fell by another 4.3% during the first quarter of 2000. The number of registered unemployed has been steadily increasing with no signs of this trend reversing in the near future. By the end of March the number of jobless was some 12% higher than in the same month a year earlier; the rate of unemployment was higher for women (57% of the total) than for men, more than half of the unemployed are under the age of 34 and close to one third are seeking a job for the first time. In March the unemployment rate stood at 22%, up from 19% in March 1999. Despite the poor labour market situation real gross wages expanded by 6.4% in the first quarter of 2000.

The central budget was adopted in March 2000; it envisages total revenues and expenditures in the amounts of HRK 47 billion and HRK 48.3 billion, respectively. Budgetary expenditures have been cut (for the first time since the country gained

independence) in accordance with the government programme. On the revenue side, apart from tax revenues (the planned share of VAT in total revenues being 42%) capital revenues represent a significant portion and for the most part will include receipts from the privatization of: (i) a number of banks (Privredna banka Zagreb, Splitska and Rijecka banka); (ii) Croatian Telecom (now entering the second stage of deregulation); and (iii) Croatia Osiguranje (Croatia's largest insurance company). The deficit of HRK 1.3 billion (0.8% of the projected GDP) plus the repayment of external and internal debt (HRK 6.6 billion *in toto*) is to be financed by new credits (including the issue of government bonds).

In late May parliament approved a fiscal package designed to cut labour costs. Under that package, employers' contributions to the health insurance and pension schemes will be reduced by 2%. On the other hand, excise duties on petrol and luxury items, such as cars, alcohol, beer, coffee and cigarettes, will be increased.

Over recent years, inter-enterprise arrears have become one of Croatia's major economic problems. By the end of March no less than 32,000 enterprises employing 164,000 persons had declared themselves insolvent. The fact that the amount of unsettled obligations, HRK 24.4 billion equivalent to USD 3.2 billion, was somewhat lower than at the beginning of the year is mainly attributable to bankruptcy proceedings having been opened in respect of 39 enterprises in February. About two thirds of the companies listed have been insolvent for more than one year. Most of them (40%) are operating in the fields of wholesale and retail trade, followed by construction and the food and beverage industries.

Expressed in current USD, exports increased by 2.4% during the first four months of 2000, while imports fell by some 2% (foreign trade is compiled according to a new methodology; comparisons with previous years are misleading). The trade deficit was some USD 50 million lower than in the same pre-year period. A breakdown by countries shows a remarkable increase in exports to the EU as a whole, but a sharp decrease in exports to Germany (-15.5%), Croatia's second most important trading partner after Italy. Similar to other countries in the region, foreign trade data expressed in euro reveal a different and more dynamic picture. In euro terms, both exports and imports expanded by 16.7% and 12.3%, respectively. According to preliminary data the current account closed with a USD 607 million deficit in the first quarter of 2000, slightly higher than in the same pre-year period.

By the end of February 2000 external debt reached USD 9.6 billion equivalent to about 47% of GDP. In the three years to come Croatia will face a heavy debt servicing burden (principal and interest repayments). In 2000 alone it will amount to USD 1.8 billion. The situation will relax only in 2003, by which time the projected debt service will be down to about USD 1 billion.

Prospects for 2000 are not all that bright. Some revival in tourism and the favourable economic climate in the EU will suffice to offset industry's weak performance and the expected slowdown in agricultural production – due to the protracted drought. Under these circumstances, WIIW expects GDP to grow by 1.5% in 2000. Assuming no dramatic changes in the country (such as devaluation of the kuna or a major government crisis), some foreign exchange inflow from privatization and a further upswing in tourism, GDP should grow by some 2-3% in 2001. A continuation of the current exchange rate policy as repeatedly announced by the Croatian authorities will allow the country to maintain a stable exchange rate and keep the rate of inflation down to about 5%. With the closure of a number of enterprises still in the offing, unemployment will continue to rise. Assuming a continuation of current trends, the current account may close with a similar deficit in 2000 as in 1999.

Table HR

## Croatia: Selected Economic Indicators

|  | 1995    | 1996    | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter  | 2000                 | 2000<br>forecast | 2001   |
|--|---------|---------|---------|---------|--------------------|----------------------|----------------------|------------------|--------|
| Population, th pers., mid-year                         | 4669    | 4494    | 4573    | 4501    | .                  | .                    | .                    | .                | .      |
| Gross domestic product, HRK mn, nom.                   | 98382   | 107981  | 123811  | 138392  | 143500             | .                    | .                    | 153700           | 167000 |
| annual change in % (real)                              | 6.8     | 5.9     | 6.8     | 2.5     | -0.3               | .                    | .                    | 1.5              | 2.5    |
| GDP/capita (USD at exchange rate)                      | 4029    | 4422    | 4398    | 4833    | 4485               | .                    | .                    | .                | .      |
| GDP/capita (USD at PPP - WIIW)                         | 5590    | 6330    | 6780    | 7090    | 7120               | .                    | .                    | .                | .      |
| Gross industrial production                            |         |         |         |         |                    |                      |                      |                  |        |
| annual change in % (real)                              | 0.3     | 3.1     | 6.8     | 3.7     | -1.4               | -3.6                 | 3.7                  | 1                | 2      |
| Gross agricultural production                          |         |         |         |         |                    |                      |                      |                  |        |
| annual change in % (real)                              | 0.7     | 1.3     | 4.0     | 10.2    | .                  | .                    | .                    | .                | .      |
| Goods transport, public, mn t-kms                      | 199730  | 213172  | 203428  | 170107  | 145762             | .                    | .                    | .                | .      |
| annual change in %                                     | 1.4     | 6.7     | -4.6    | -16.4   | -14.3              | .                    | .                    | .                | .      |
| Gross fixed capital form., HRK mn, nom.                | 15398.0 | 22089.4 | 29952.2 | 32856.7 | 32753.0            | .                    | .                    | .                | .      |
| annual change in % (real)                              | .       | 37.6    | 23.3    | 3.0     | -5.9               | .                    | .                    | .                | .      |
| Construction output, in effect working time            |         |         |         |         |                    |                      |                      |                  |        |
| annual change in % (real)                              | -3.9    | 9.0     | 16.7    | 0.7     | -7.7               | .                    | .                    | .                | .      |
| Dwellings completed, units                             | 7359    | 12624   | 12516   | .       | .                  | .                    | .                    | .                | .      |
| annual change in %                                     | -24.2   | 71.5    | -0.9    | .       | .                  | .                    | .                    | .                | .      |
| Employment total, th pers., average <sup>2)</sup>      | 1417.4  | 1329.5  | 1310.9  | 1384.8  | 1338.2             | 1351.2               | 1293.5               | .                | .      |
| annual change in % <sup>2)</sup>                       | -1.4    | -6.2    | -1.4    | 0.4     | -3.4               | -1.3                 | -4.3                 | .                | .      |
| Employees in industry, th pers., average <sup>3)</sup> | 349.2   | 315.1   | 319.7   | 308.9   | 293.5              | 297.4                | 286.8                | .                | .      |
| annual change in % <sup>3)</sup>                       | -5.2    | -9.8    | -6.4    | -3.4    | -5.0               | -4.8                 | -3.6                 | .                | .      |
| Unemployed reg., th, end of period                     | 249.1   | 269.3   | 287.1   | 302.7   | 341.7              | 318.2                | 357.7                | .                | .      |
| Unemployment rate in %, end of period                  | 15.1    | 15.9    | 17.6    | 18.1    | 20.8               | 19.1                 | 21.7                 | 23.5             | 23     |
| Average gross monthly wages, HRK                       | 2887    | 3243    | 3668    | 4131    | 4551               | 4351                 | 4802                 | .                | .      |
| annual change in % (real, net)                         | 40.2    | 7.2     | 12.3    | 6.0     | 10.1               | 13.5                 | 5.7                  | .                | .      |
| Retail trade turnover, HRK mn <sup>4)</sup>            | 26054.9 | 29412.4 | 34736.1 | 36021.3 | 35689.4            | 7450.8               | .                    | .                | .      |
| annual change in % (real) <sup>4)</sup>                | 12.5    | 3.4     | 14.9    | -0.4    | -4.8               | -7.2                 | 6.6                  | .                | .      |
| Retail prices, % p.a.                                  | 2.0     | 3.5     | 3.6     | 5.7     | 4.2                | 3.4                  | 4.8                  | 5.5              | 6      |
| Producer prices in industry, % p.a.                    | 0.7     | 1.4     | 2.3     | -1.2    | 2.6                | 0.1                  | 8.5                  | .                | .      |
| Central government budget, HRK mn                      |         |         |         |         |                    |                      |                      |                  |        |
| Revenues   | 27981   | 31368   | 33846   | 43809   | 46356              | 8361                 | 11132                | .                | .      |
| Expenditures   | 28696   | 31502   | 35006   | 42552   | 48879              | 10198                | 11091                | .                | .      |
| Deficit (-) / surplus (+)                              | -715    | -134    | -1160   | 1257    | -2523              | -1837                | 41                   | .                | .      |
| Deficit (-) / surplus (+), % GDP                       | -0.7    | -0.1    | -0.9    | 0.9     | -1.8               | .                    | .                    | .                | .      |
| Money supply, HRK mn, end of period                    |         |         |         |         |                    |                      |                      |                  |        |
| M1, Money  | 8234.9  | 11368.9 | 13731.4 | 13531.4 | 13858.9            | 11982.4              | 12674                | .                | .      |
| Broad money  | 24623.0 | 36701.1 | 50742.0 | 57340.3 | 56698.6            | 56635.4              | 57978                | .                | .      |
| Discount rate % p.a., end of period                    | 8.5     | 6.5     | 5.9     | 5.9     | 7.9                | 7.9                  | 7.9                  | .                | .      |
| Current account, USD mn                                | -1451.5 | -1147.5 | 2344.0  | -1549.7 | -1468.5            | -590                 | -607                 | -1500            | -1600  |
| Gross reserves of NB excl. gold, USD mn                | 1895.2  | 2314.0  | 2539.0  | 2815.6  | 3025.0             | 2450.8               | 2925.1               | .                | .      |
| Gross external debt, USD mn <sup>5)</sup>              | 3809.1  | 5307.6  | 7451.6  | 9588.2  | 9924.6             | 9568.2               | 9562.8 <sup>6)</sup> | .                | .      |
| Exports total, fob, USD mn                             | 4632.7  | 4511.8  | 4170.7  | 4541.1  | 4279.7             | 996.6 <sup>7)</sup>  | 1020.5 <sup>7)</sup> | 4400             | 4600   |
| annual change in %                                     | 8.7     | -2.6    | -7.6    | 8.9     | -5.8               | .                    | 2.4 <sup>7)</sup>    | 3                | 4      |
| Imports total, cif, USD mn                             | 7509.9  | 7787.9  | 9104.0  | 8383.1  | 7777.4             | 1652.3 <sup>7)</sup> | 1622.6 <sup>7)</sup> | 7800             | 8000   |
| annual change in %                                     | 43.6    | 3.7     | 16.9    | -7.9    | -7.2               | .                    | -1.8 <sup>7)</sup>   | 0                | 2      |
| Average exchange rate HRK/USD                          | 5.23    | 5.43    | 6.16    | 6.36    | 7.11               | 6.66                 | 7.81                 | 7.9              | 8      |
| Average exchange rate HRK/EUR (ECU)                    | 6.76    | 6.80    | 6.96    | 7.14    | 7.58               | 7.47                 | 7.72                 | 7.9              | .      |
| Average exchange rate HRK/DEM                          | 3.65    | 3.61    | 3.56    | 3.62    | 3.88               | 3.82                 | 3.95                 | .                | .      |
| Purchasing power parity HRK/USD, WIIW                  | 3.77    | 3.80    | 3.99    | 4.34    | 4.48               | .                    | .                    | .                | .      |
| Purchasing power parity HRK/EUR, WIIW                  | 4.04    | 4.12    | 4.40    | 4.75    | 4.86               | .                    | .                    | .                | .      |

1) Preliminary. - 2) From 1998 including persons employed at the Ministry of Defence and Ministry of Internal Affairs. - 3) Up to 1995 enterprises with more than 10 employees; from 1997 according to NACE classification. - 4) From 1996 according to NACE classification. - 5) Up to 1995 excluding portion of debt of the former Yugoslav Federation. - 6) End of February. - 7) New methodology of statistical processing.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Czech Republic: fair winds and foul**

After nearly two years of recession, the Czech economy is re-entering the growth mode. This is evident from a number of indicators. The GDP had already stopped dropping in the second quarter of 1999. Although the last two quarters of 1999 recorded growth rates of 1%, the growth rate for the year as a whole was still slightly negative (-0.2%) on account of the massive decline in the first quarter. For the first quarter of 2000, a growth rate close to 2% can be expected. For most of the previous year, monthly data showed a year-on-year decline of industrial output; however, since November 1999, the industrial output index started to inch upwards again. In the first four months of 2000, output growth was especially strong in the manufacture of wood and wood products (23%), rubber and plastic products (14%), electrical and optical equipment (12%) and machinery and equipment (10%). Five industries recorded a decline in output: manufacture of leather and leather products (-12%), basic metals and fabricated metal products (-4%), coke and refined petroleum products (-3%), food, beverages and tobacco (-2%) and chemicals (-2%). Output in the construction sector has started rising again: in the first four months of 2000 it grew year-on-year by 1.8%. In retail trade, including automotive fuel, revenues in the first quarter of 2000 (calculated in constant prices) grew 6.5% annually.

Since 1998, Czech governments have placed emphasis on improving the very fundamentals of the economy. The reform of the legal system, which is of crucial importance to future economic success and accession to the EU, still encounters strong opposition. In some fields, such as bankruptcy law, a recent break-through was achieved. The privatization of the four major banks is under way – three of them have been privatized in the meantime. However, as the case of the Investment and Postal Bank (IPB), the country's third biggest commercial bank, shows, even after selling a bank to a large foreign investor, the government cannot be sure that it has secured permanent relief for itself. For Nomura Securities the bank's attractive feature was that it controlled a number of investment funds with a rich portfolio of shares in a broad variety of Czech companies, among them breweries with famous brand names. The bank's problem was an unsound debt portfolio that included non-viable loans granted to many of the notorious loss-makers. When in mid-June an audit revealed losses exceeding IPB's base capital, the Czech National Bank responded by initiating proceedings for the withdrawal of IPB's banking licence and placed IPB under forced administration. Only hours later, Československá Obchodní Banka a.s. (CSOB), which was privatized one year ago to the Belgian KBC Group, reached an agreement with the forced administrator of IPB, the CNB and the Ministry of Finance to acquire the operations of IPB. CSOB will inherit IPB's assets and liabilities in exchange for a delayed payment which will be decided after another audit conducted by two independent international auditors.

In addition to its bank privatization activities, the government has had to bail out or liquidate a large number of companies that have incurred enormous losses. Under the government's revitalization programme the fate of nine such companies has been handed over to a team of foreign advisers working for the Revitalization Agency, a new subsidiary of the State-owned Consolidation Bank.

Thanks to the country's established industrial tradition, the Czech Republic has a broad industrial basis: on one side it has the troublemakers and on the other numerous very successful or at least promising companies attractive to foreign investors. The latter have registered the government's willingness to improve the business infrastructure and have thus started to invest in earnest in the Czech economy. For them, quite obviously, the unsatisfactory growth rate hitherto is of little account. In 2000, total FDI inflow might amount to USD 5-6 billion. Furthermore, foreigners are most probably more intensively engaged in the Czech economy than official records show. The banking sector has begun once again to engage in the loan business; this time round, however, it is focusing on sound enterprises. For the first time, the capital market is showing signs of improvement.

The force behind the modest GDP growth in the second half of 1999 was the measure of growth in private consumption together with an improvement in foreign trade (goods and non-factor services). In the final quarter of 1999 and the first quarter of 2000, foreign trade developed a strong dynamic thrust. Exports in CZK terms grew 24% in the fourth quarter of 1999 and 31% in the first quarter of 2000. In the same two quarters, imports grew 23% and 29%, respectively. In USD terms, the export growth rates were 5% and 20% over the same period and the import growth rates 4% and 18%. The good business climate in the EU has had a stimulating effect on the expansion of Czech business activities. Given the considerable imports of machinery, it now seems likely that after a long period of decline, fixed capital investment is on the rise again.

The Czech exchange rate vis-à-vis the euro in the first quarter of 2000 was very similar to the 1997 average. Despite some real appreciation, the current account deficit in the first quarter of 2000 was only about 2.8% of GDP compared to 6.1% in 1997. Exports accounted for EUR 4.5 billion in the first quarter of 1997, but EUR 7.5 billion in the first quarter of 2000. Parallel to this export increase of 67%, imports rose by some 40% – from EUR 5.7 billion in the first quarter of 1997 to 8.0 billion in the first quarter of 2000. This not only reflects a good business climate in the EU, especially Germany, but it also points to the stronger market position enjoyed by Czech exporters. Given this stronger position and the high FDI inflow expected over the next few years, appreciation pressure may be more probable than depreciation. The Czech National Bank (CNB) is trying to avert excessive appreciation through relatively low interest rates.

In 1999, inflation was only 2.1%. In some months the index even dropped compared to the previous month, mainly because of a decline in prices for agricultural products and crude oil on international markets. The reversal of these tendencies will contribute to a higher inflation rate in 2000. It will range between 3.5% and 4%. While prices for many tradable goods have come relatively close to Western levels, prices for non-tradables still hover far below those levels: their adjustment will also fuel inflation in the future. Combating this kind of inflation would have a damaging effect on the real sector. The EU accession will probably increase agricultural prices and trigger interactive hikes in both food prices and wages.

Neither demand nor costs pose a threat to price stability, the prime target of the CNB. Since the banks have stopped financing notorious loss-makers, most Czech enterprises have become cost-conscious. This includes a keen awareness of labour costs. They are less generous in according wage increases to average workers and are eliminating excess employment. In the first quarter of 2000, the number of employees declined by some 78,000 workers in manufacturing and some 28,000 workers in construction, while it rose by close to 5,000 in certain service industries such as public administration and defence, social security, real estate, computer and related activities. A decrease in unit labour costs is to be observed. In the first four months of 2000, the 4.3% rise in output for Czech industry as a whole went hand in hand with a drop in employment of almost 4.6%. Correspondingly, labour productivity rose over 9% and clearly outstripped growth in nominal wages (5.8%). Real wages rose 2.1%. In mining and quarrying, output increased by about 6% and employment dropped by over 13%, yielding a 22% rise in labour productivity. In electricity, gas and water supply, both the increase in output and the decline in employment were over 6% and labour productivity rose by some 14%. In manufacturing, both the rise in output and the decline in employment amounted to around 4%.

Economic growth will probably gain in strength and confidence may well return. In the political sphere, stability cannot be guaranteed. If the current amendment to the election law now under discussion clears the remaining hurdles, the improvement in the business climate might whet the opposition's – and the semi-opposition's – appetites for putting things to the test.

Table CZ

## Czech Republic: Selected Economic Indicators

|  | 1995    | 1996    | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000   | 2000<br>forecast | 2001<br>forecast |
|--|---------|---------|---------|---------|--------------------|---------------------|--------|------------------|------------------|
| Population, th pers., mid-year   | 10330.8 | 10315.4 | 10303.6 | 10294.9 | 10282.6            | .                   | .      | .                | .                |
| Gross domestic product, CZK bn, nom.                                   | 1381.0  | 1572.3  | 1668.8  | 1798.3  | 1836.3             | 423.8               | .      | 1930             | 2050             |
| annual change in % (real)  | 5.9     | 4.8     | -1.0    | -2.2    | -0.2               | -3.3                | .      | 1.5              | 2                |
| GDP/capita (USD at exchange rate)                                      | 5035    | 5615    | 5108    | 5413    | 5166               | .                   | .      | .                | .                |
| GDP/capita (USD at PPP - WIIW)   | 12070   | 13040   | 13200   | 12970   | 13030              | .                   | .      | .                | .                |
| Gross industrial production<br>annual change in % (real) <sup>2)</sup> | 8.7     | 2.0     | 4.5     | 3.1     | -3.1               | -9.0                | 4.8    | 3                | 3                |
| Gross agricultural production<br>annual change in % (real)             | 5.0     | -1.4    | -5.1    | 0.7     | 1.1                | .                   | .      | .                | .                |
| Goods transport, mn t-kms <sup>3)</sup>                                | 35489   | 34396   | 63623   | 54411   | 54200              | .                   | .      | .                | .                |
| annual change in %   | 4.4     | -3.1    | .       | -14.5   | -0.4               | .                   | .      | .                | .                |
| Gross fixed capital form., CZK bn, nom.                                | 442.4   | 500.6   | 514.4   | 508.1   | 484.5              | 91.1                | .      | .                | .                |
| annual change in % (real)  | 19.8    | 8.2     | -3.0    | -3.9    | -5.5               | -8.3                | .      | 1                | 2                |
| Construction industry<br>annual change in % (real)                     | 8.5     | 5.3     | -3.9    | -7.0    | -6.5               | -16.0               | 4.0    | .                | .                |
| Dwellings completed, units   | 12662   | 14037   | 15904   | 21245   | 22299              | 4704                | .      | .                | .                |
| annual change in %   | -30.3   | 10.9    | 13.3    | 33.6    | 5.0                | 25.5                | .      | .                | .                |
| Employment total, th pers., average                                    | 5011.6  | 5044.4  | 4946.6  | 4873.4  | 4694.8             | 4735.0              | .      | .                | .                |
| annual change in %   | 2.6     | 0.7     | -1.9    | -1.5    | -3.7               | -3.3                | .      | .                | .                |
| Employment in industry, th pers., average                              | 1628.1  | 1614.7  | 1605.5  | 1595.6  | 1542.0             | 1572.0              | .      | .                | .                |
| annual change in %   | 0.6     | -0.8    | -0.6    | -0.6    | -3.4               | -1.8                | .      | .                | .                |
| Unemployed reg., th, end of period                                     | 153.0   | 186.3   | 268.9   | 386.9   | 487.6              | 433.3               | 493.4  | .                | .                |
| Unemployment rate in %, end of period                                  | 2.9     | 3.5     | 5.2     | 7.5     | 9.4                | 8.4                 | 9.5    | 10               | 10               |
| Average gross monthly wages, CZK <sup>4)</sup>                         | 8172    | 9676    | 10691   | 11693   | 12658              | 11366               | 12132  | .                | .                |
| annual change in % (real, gross)                                       | 8.7     | 8.9     | 2.0     | -0.8    | 6.0                | 5.4                 | 2.9    | .                | .                |
| Retail trade turnover, CZK bn  | 529.7   | .       | .       | .       | .                  | .                   | .      | .                | .                |
| annual change in % (real)  | 4.8     | 12.1    | -0.4    | -7.1    | 3.0                | 1.4                 | 6.7    | .                | .                |
| Consumer prices, % p.a.  | 9.1     | 8.8     | 8.5     | 10.7    | 2.1                | 2.9                 | 3.7    | 3.7              | 4.0              |
| Producer prices in industry, % p.a.                                    | 7.6     | 4.7     | 4.9     | 4.9     | 1.0                | 0.2                 | 4.5    | 4.2              | 4.0              |
| Central government budget, CZK bn                                      |         |         |         |         |                    |                     |        |                  |                  |
| Revenues   | 440.0   | 482.8   | 509.0   | 537.4   | 567.3              | 126.7               | 136.1  | .                | .                |
| Expenditures   | 432.7   | 484.4   | 524.7   | 566.7   | 596.9              | 124.6               | 127.7  | .                | .                |
| Deficit (-) / surplus (+)  | 7.2     | -1.6    | -15.7   | -29.3   | -29.6              | 2.1                 | 8.3    | -30              | -30              |
| Deficit (-) / surplus (+), % GDP                                       | 0.5     | -0.1    | -0.9    | -1.6    | -1.6               | 0.5                 | .      | .                | .                |
| Money supply, CZK bn, end of period                                    |         |         |         |         |                    |                     |        |                  |                  |
| M1, Money  | 453.3   | 475.3   | 445.1   | 433.4   | 479.8              | 414.4               | 479.6  | .                | .                |
| M2, Money + quasi money  | 1039.6  | 1120.5  | 1217.6  | 1280.8  | 1384.9             | 1288.9              | 1382.1 | .                | .                |
| Discount rate, % p.a., end of period                                   | 9.5     | 10.5    | 13.0    | 7.5     | 5.0                | 6.0                 | 5.0    | .                | .                |
| Current account, USD mn  | -1369   | -4292   | -3211   | -1336   | -1058              | -315                | -353   | -1300            | -1500            |
| Gross reserves of NB incl. gold, USD mn                                | 14023   | 12435   | 9774    | 12617   | 12825              | 11886               | 12573  | .                | .                |
| Gross external debt, convert. curr., USD mn                            | 16549   | 20845   | 21352   | 24047   | 22615              | 22731               | .      | .                | .                |
| Exports total, fob, USD mn <sup>5)</sup>                               | 21646.8 | 21905.7 | 22784.6 | 26349.8 | 26878.7            | 6197.6              | 7440.3 | 29000            | 31500            |
| annual change in % <sup>6)</sup>                                       | 19.9    | 1.2     | 4.0     | 15.6    | 2.0                | -1.2                | 20.1   | 8                | 9                |
| Imports total, fob, USD mn <sup>5)</sup>                               | 25252.2 | 27715.7 | 27176.6 | 28786.5 | 28849.3            | 6693.3              | 7943.6 | 31000            | 33500            |
| annual change in % <sup>6)</sup>                                       | 39.5    | 9.8     | -1.9    | 5.9     | 0.2                | -1.0                | 18.7   | 7                | 8                |
| Average exchange rate CZK/USD  | 26.55   | 27.15   | 31.71   | 32.27   | 34.57              | 33.03               | 36.18  | 36.2             | 36.2             |
| Average exchange rate CZK/EUR (ECU)                                    | 34.31   | 34.01   | 35.80   | 36.16   | 36.88              | 37.11               | 35.78  | 36.2             | 36.2             |
| Average exchange rate CZK/DEM  | 18.52   | 18.06   | 18.28   | 18.33   | 18.85              | 18.98               | 18.29  | 18.4             | 18.4             |
| Purchasing power parity CZK/USD, WIIW                                  | 11.07   | 11.69   | 12.27   | 13.47   | 13.70              | .                   | .      | .                | .                |
| Purchasing power parity CZK/EUR, WIIW                                  | 11.87   | 12.68   | 13.53   | 14.73   | 14.87              | .                   | .      | .                | .                |

1) Preliminary. - 2) From 1996 new methodology. - 3) Up to 1996 public transport only. - 4) Enterprises with more than 100, from 1997 with 20 and more employees. - 5) Converted from the national currency to USD at official exchange rate; from 1995 new methodology of 1996. - 6) Up to 1995 based on old methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Hungary: record growth performance**

The GDP growth rate of close to 7% reported by the Central Statistical Office for the first quarter of 2000 was the highest since the transition process began, nor was it ever matched during the final decades of the pre-transition era. In 1999 the GDP growth rate in the first quarter amounted to only 3.5%; in the following three quarters it rose to 3,9%; 4,5% and 4,9%, respectively. Although the high growth rate in the first quarter of 2000 can be partly explained by the relatively weak base in the previous year (and the growth rate for the whole year will be substantially lower), output indicators testify that the Hungarian economy has entered an especially dynamic phase of economic development.

Industrial output increased by 20.7% in the first quarter, export sales expanded by 31.4% and domestic sales by 7.1%. This latter is a new, positive phenomenon, insofar as any marked dynamism in industry over the past four years had been solely confined to export sales; domestic sales either declined or increased only marginally. This year industrial growth has spread to almost all sub-branches and all geographical regions of the country. Nevertheless earlier differences in growth performance have not faded away. Once again, expansion in the engineering sector (42%) was well above the industrial average; within the sector, manufacture of electronic components increased threefold and that of electrical parts for transport vehicles more than twofold (according to information provided by GKI Economic Research, Budapest). Industrial output also grew at a more rapid pace in regions where industrial production had been dynamic for years (Western Transdanubia, Central Transdanubia). While employment in industry grew by 1.5%, productivity jumped up by 18.8%.

An important and positive feature of the high growth performance is that as yet it has not been coupled with a deterioration in external balances. Earlier bursts of growth in Hungary were usually brought to a halt by rapidly increasing current account deficits. At present, this previous pattern does not seem to apply; in the first four months of the year the current account deficit amounted to USD 353 million: half of the deficit reported in the corresponding period the previous year. Obviously helped by the upturn in the business cycle in the EU, merchandise exports (BOP) in current euro prices increased by 30%, imports by 27.9% and the trade balance improved compared to the corresponding period of 1999. The balance of services also showed considerable improvement, on account of higher net revenues from tourism. In value terms, non-debt investment inflow (FDI and portfolio investment in equity) surpassed the current account deficit.

Firm growth and an improvement in the country's credit rating have also had their down side. In the first months of the year 2000 Hungary was a prime target for hot money. The

enormous inflow of speculative foreign exchange exerted noticeable revaluation pressure on the forint. In the light of low yields on government securities and low market interest rates, the central bank insisted on maintaining the exchange rate regime (crawling peg of 0.3% monthly devaluation in a narrow band of +/- 2.25% permissible fluctuation) and opted, along with other monetary policy measures, for a substantial cut in its interest rates. By the early summer pressure on the forint had eased.

Inflation declined, albeit not so rapidly as projected by the government. In the first four months, consumer price inflation amounted to 9.7% compared to the corresponding period in 1999; year on year inflation was 9.2% in April. The government's working hypothesis was 6-7% inflation for the current year and it drafted the budget accordingly. Recently the Minister of Finance revised the official forecast of CPI inflation for 2000 upwards to 7-8%. Independent observers reckon with higher inflation; the WIIW forecast is 8 to 8.5%.

This underestimation of the inflation rate has had far reaching consequences for the budget. First, tax revenues will be higher than planned (also on account of real economic growth being higher than assumed) while many of the items of expenditure will remain unchanged. Real wages in the state-owned sector and public administration will grow moderately in real terms. Lower yields on state securities will reduce the burden of interest payments on public debt. All in all, the general government balance will most probably lag somewhat behind the official deficit/GDP ratio target of 3.5%.

The question arises whether Hungary is running the risk of overheating. Fiscal policy has not been expansive over the past 12 months and will remain so in 2000. Investments have increased of late principally through activities in the business sector and state-initiated investment has started to grow from a very low base after the radical cuts last year. Moreover, previously announced programmes have been delayed. In the short term the crucial issue is one of the consumption, where contradicting effects are to be reckoned with. On the one hand, low interest rates are diminishing the propensity to save, while credits for households have been increasing substantially. On the other hand, with inflation being higher than planned, real earnings have increased only 1.2% in the first quarter across the whole economy, while in the public sector real wages even decreased. In the public sector where the nominal wage growth targeted for this year is 8.25%, corrections of the nominal wages can only be expected at a later juncture this year; the same corrective application will be applied to pensions, too. In the business sector, nominal wages will be adjusted at an earlier juncture. All in all, incomes cannot be expected to have a major impact on growth in household consumption. As a result, household consumption growth will probably lag behind GDP growth by 1 to 1.5 percentage points. In summary, overheating is no real danger at present. However, the prospects for 2001 are less certain given: (i) the government's ambitious plans for accelerating the construction of roads and housing; (ii) its intention to raise, with effect from the beginning of next year, the monthly

minimum wage by 57% to HUF 40.000 (about USD 160), if possible across the whole economy, but at least in the public sector; and (iii) its canvassing of votes for the upcoming elections in 2002. Careful monitoring of developments in the coming months is thus recommended.

This year GDP growth may range between 5 and 5.5%, more likely closer to the upper limit. Hungary's economic performance in the year 2000 will feature moderately increasing employment, lower unemployment, assertive investment activity and a sustainable current account deficit ranging between USD 2 and 2.2 billion.

Table HU

## Hungary: Selected Economic Indicators

|  | 1995    | 1996    | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000<br>1st quarter | 2000<br>forecast | 2001<br>forecast |
|--|---------|---------|---------|---------|--------------------|---------------------|---------------------|------------------|------------------|
| Population, th pers., end of period                    | 10212.3 | 10174.4 | 10135.4 | 10091.8 | 10044.0            | .                   | .                   | 10010            | 10000            |
| Gross domestic product, HUF bn, nom.                   | 5614.0  | 6893.9  | 8540.7  | 10085.6 | 11439.0            | 2532.0              | .                   | 13100            | 14700            |
| annual change in % (real)                              | 1.5     | 1.3     | 4.6     | 4.9     | 4.5                | 3.5                 | 6.8                 | 5.5              | 5.5              |
| GDP/capita (USD at exchange rate)                      | 4367    | 4433    | 4504    | 4650    | 4790               | .                   | .                   | .                | .                |
| GDP/capita (USD at PPP - WIIW)                         | 8930    | 9340    | 10010   | 10580   | 11190              | .                   | .                   | .                | .                |
| Gross industrial production                            |         |         |         |         |                    |                     |                     |                  |                  |
| annual change in % (real)                              | 4.6     | 3.4     | 11.1    | 12.5    | 10.5               | 7.0                 | 20.7                | 12               | 12               |
| Gross agricultural production                          |         |         |         |         |                    |                     |                     |                  |                  |
| annual change in % (real)                              | 2.6     | 6.3     | -3.8    | -2.1    | 0.0                | .                   | .                   | .                | .                |
| Goods transport, mn t-kms                              | 23675   | 24874   | 24789   | 27144   | 26328              | 576                 | .                   | .                | .                |
| annual change in %                                     | .       | 5.1     | -0.3    | 9.5     | -3.0               | 0.1                 | .                   | .                | .                |
| Gross fixed capital form., HUF bn, nom.                | 1125.4  | 1475.5  | 1898.9  | 2384.6  | 2703.0             | 351.0               | .                   | .                | .                |
| annual change in % (real)                              | -4.3    | 6.7     | 9.2     | 13.3    | 6.6                | 6.4                 | .                   | 10               | 11               |
| Construction industry                                  |         |         |         |         |                    |                     |                     |                  |                  |
| annual change in % (real)                              | -17.6   | 2.7     | 8.1     | 15.3    | 6.1                | 6.7                 | 4.8                 | .                | .                |
| Dwellings completed, units                             | 24718   | 28257   | 28130   | 20323   | 19287              | 2602                | 2622                | .                | .                |
| annual change in %                                     | 18.0    | 14.3    | -0.4    | -27.8   | -5.1               | -17.1               | 0.8                 | .                | .                |
| Employment total, th pers., average <sup>2)3)</sup>    | 3678.8  | 3648.1  | 3646.3  | 3697.7  | 3811.5             | 3764.6              | 3797.9              | .                | .                |
| annual change in %                                     | -1.9    | -0.8    | 0.0     | 0.7     | 3.1                | 3.4                 | 0.9                 | .                | .                |
| Employees in industry, th pers., average <sup>4)</sup> | 833.0   | 789.0   | 783.5   | 795.9   | 833.9              | 831.3               | 843.7               | .                | .                |
| annual change in %                                     | -5.4    | -5.3    | -0.7    | 1.6     | 0.8                | 1.9                 | 1.5                 | .                | .                |
| Unemployed, th pers., average <sup>2)</sup>            | 416.5   | 400.1   | 348.8   | 313.0   | 284.7              | 301.7               | 274.0               | .                | .                |
| Unemployment rate in %, average <sup>2)</sup>          | 10.2    | 9.9     | 8.7     | 7.8     | 7.0                | 7.4                 | 6.7                 | 6                | 6                |
| Average gross monthly wages, HUF <sup>4)</sup>         | 38900   | 46837   | 57270   | 67764   | 77187              | 70543               | 79903               | .                | .                |
| annual change in % (real, net)                         | -12.2   | -5.0    | 4.9     | 3.6     | 2.5                | 3.2                 | 1.3                 | .                | .                |
| Retail trade turnover, HUF bn <sup>5)</sup>            | 2389.9  | 2793.2  | 3197.6  | 3682.8  | 4323.0             | 790.9               | 890.8               | .                | .                |
| annual change in % (real) <sup>5)</sup>                | -8.1    | -5.0    | -1.0    | 12.3    | 7.7                | 6.5                 | 2.1                 | .                | .                |
| Consumer prices, % p.a.                                | 28.2    | 23.6    | 18.3    | 14.3    | 10.0               | 9.5                 | 9.7                 | 8.3              | 6.5              |
| Producer prices in industry, % p.a.                    | 28.9    | 21.8    | 20.4    | 11.3    | 5.1                | 4.7                 | 9.1                 | .                | .                |
| Central government budget, HUF bn <sup>6)</sup>        |         |         |         |         |                    |                     |                     |                  |                  |
| Revenues   | 1418.2  | 2079.3  | 2364.6  | 2624.4  | 3233.6             | 678.8               | 831.8               | .                | .                |
| Expenditures   | 1728.9  | 2209.1  | 2703.1  | 2994.6  | 3565.2             | 907.2               | 955.6               | .                | .                |
| Deficit (-) / surplus (+)                              | -310.8  | -129.8  | -338.5  | -370.2  | -331.6             | -228.4              | -123.8              | .                | .                |
| Deficit (-) / surplus (+), % GDP                       | -5.5    | -1.9    | -4.0    | -3.7    | -2.9               | .                   | .                   | .                | .                |
| Money supply, HUF bn, end of period                    |         |         |         |         |                    |                     |                     |                  |                  |
| M1, Money  | 1036.3  | 1237.2  | 1528.3  | 1789.2  | 2125.1             | 1679.2              | 1967.2              | .                | .                |
| Broad money  | 2736.4  | 3351.1  | 4009.5  | 4619.7  | 5361.1             | 4644.0              | 5341.3              | .                | .                |
| Refinancing rate, % p.a., end of period                | 28.0    | 23.0    | 20.5    | 17.0    | 14.5               | 16.0                | 12.0                | .                | .                |
| Current account, USD mn                                | -2480   | -1678   | -981    | -2298   | -2076              | -598                | -372                | -2100            | -2200            |
| Reserves total, incl. gold, USD mn                     | 12011   | 9718    | 8429    | 9341    | 10978              | 8842                | 10721               | .                | .                |
| Gross external debt, USD mn                            | 31660   | 28043   | 24395   | 27280   | 29279              | 26648               | 29427               | .                | .                |
| Exports total, fob, USD mn <sup>7)</sup>               | 12904.7 | 13119.6 | 19099.5 | 23010.0 | 25024.3            | 5789.6              | 6357.0              | 28000            | 31000            |
| annual change in %                                     | 20.2    | 1.7     | 21.8    | 20.5    | 8.8                | .                   | 9.8                 | 12               | 11               |
| Imports total, cif, USD mn <sup>7)</sup>               | 15406.1 | 16176.5 | 21211.1 | 25700.7 | 28003.7            | 6412.5              | 7060.2              | 31000            | 34300            |
| annual change in %                                     | 5.4     | 5.0     | 17.1    | 21.2    | 9.0                | .                   | 10.1                | 11               | 11               |
| Average exchange rate HUF/USD                          | 125.69  | 152.57  | 186.75  | 214.45  | 237.31             | 224.12              | 259.17              | 270              | 255              |
| Average exchange rate HUF/EUR (ECU)                    | 162.65  | 191.15  | 210.93  | 240.98  | 252.80             | 251.66              | 256.06              | .                | .                |
| Average exchange rate HUF/DEM                          | 87.84   | 101.40  | 107.68  | 122.15  | 129.25             | 128.67              | 130.92              | .                | .                |
| Purchasing power parity HUF/USD, WIIW                  | 61.58   | 72.55   | 84.20   | 94.45   | 101.75             | .                   | .                   | .                | .                |
| Purchasing power parity HUF/EUR, WIIW                  | 65.99   | 78.67   | 92.83   | 103.29  | 110.41             | .                   | .                   | .                | .                |

1) Preliminary. - 2) Based on labour force survey. - 3) Excluding persons on child care leave. - 4) Enterprises with more than 10, from 1999 more than 5 employees. - 5) From 1998 excluding catering. - 6) Excluding privatization revenues; in 1998 excluding expenditures fulfilled in bonds. - 7) Converted from the national currency to USD at official exchange rate. From 1997 including trade of firms with customs free legal status.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

*Vladimir Gligorov*

## **Macedonia: another reform year**

After recording modest GDP growth last year, Macedonia was expected to display more impressive growth this year. The early forecasts spoke of GDP growth of 6%. The expected sources of growth were industrial production, exports and investments, especially FDI. Some of these expectations have been met. Industrial production grew by around 10% in the first quarter and will continue to grow in the second quarter. It will be more difficult to predict things for the second half of the year given that the second half of last year was characterized by a recovery which, if it is to be repeated, will certainly test the ability of industry to sustain high growth rates. Exports have also recorded growth, but here again the problem arises of comparing performance against a low base. Indeed, imports are growing even faster and that bodes ill for both the trade balance and GDP growth. Finally, domestic and foreign investments are not showing much improvement; whatever their contribution, it will be small. As for other growth factors, the present drought may affect agriculture, though it is not clear to what extent. Construction continues to grow in response to the needs of non-residents, and the same also seems to hold true for services. Therefore, although a GDP growth rate of 6% appears rather optimistic, a more modest figure of 4% may well be within reach.

Growth is important, but its sustainability hinges on further reforms. Macedonia has been having problems in its negotiations with the IMF and the World Bank. Two issues seem to be the most pressing. The World Bank is pushing for the restructuring of the remaining loss-making enterprises. The demand is that they either be sold or liquidated. Furthermore, they have also asked that a rather strict deadline be set for resolving the dilemma. The government has been resisting these requests, but the current stalemate in the negotiations is having political repercussions, both at home and abroad. The local press carried reports of the World Bank having issued a report that questioned the efficiency and transparency of public governance in Macedonia. Thus, pressure is mounting on the government to speed up the reforms.

The IMF faces problems of another kind. Admittedly, the stability policy that it has supported since 1995 has succeeded in stabilizing prices, but the economic situation as a whole has remained depressed. As in other similar cases, prolonging stability with stagnation fuels demands for monetary relaxation. The prime problem is the price of money. Interest rates in Macedonia are too high. They not only reflect the risks in the money market, but they also point up those in the foreign exchange market. Over the past year or so, the inflow of foreign currency has not been a problem on account of the inflow of aid and increased spending by non-residents. All this, however, does not necessarily translate into increased confidence in the domestic currency. The money market is rather

underdeveloped and the banks are still under great pressure due to bad loans and other structural deficiencies. As a consequence, the nominal interest rate has been dropping very slowly; proposals are now being made to lower real interest rates through higher inflation. Indeed, this year inflation may reach 3% given the introduction of VAT and the more rapid growth of money supply. The debate on monetary policy is ultimately about exchange rate policy as well. Macedonia has a fixed peg regime with the German mark (more precisely., the euro). It also runs high trade and current account deficits. Last year, the current account deficit was lower owing to the increase in non-resident consumption. This year, however, the high deficit will re-emerge (probably equivalent to about 8% of GDP). Clearly, the exchange rate balances neither trade nor the current account. In an environment where debt is rising, maintaining external stability becomes problematic. Under the circumstances, monetary relaxation would probably lead to increased pressure in favour of devaluation: a development that the IMF would like to prevent.

This could only be done by speeding up the process of structural reform. The ability of the government to implement those reforms also depends on the extent of popular support. However, for reasons partly unrelated to economic developments, the current government is attracting a lot of criticism. Ever since the presidential elections in autumn last year, the opposition has been staging demonstrations that have drawn large crowds, especially in the capital Skopje. The opposition is calling for early elections and, at the very least, it intends to win in the upcoming local elections to be held this autumn. The main points of criticism are worsening security, social problems (high unemployment) and corruption.

None of these problems are in fact new. Security has been deteriorating ever since the war in Kosovo. Today, the problem is not only an issue of internal security, but also of external security. There are tensions on the border with Kosovo and distrust between Macedonians and Albanians is growing. There is increased uncertainty about regional security as long as the issue of Kosovo's final status remains unresolved. The opposition criticizes the current government for not defending Macedonian interests vigorously enough. Given the danger of it losing popular support, the government may overreact to criticism.

As in the past, the social situation is difficult. However, the problem is becoming increasingly difficult with the passage of time. Unemployment is becoming a structural problem boosting the large informal sector and crime. Unemployment has a tendency to grow, all the more so as quite a number of enterprises still have to be shut down and a number of others restructured. In addition, employment is growing in the public sector which, ultimately, will also have to shed labour once efficiency has been heightened. In that sense, major reforms still lie ahead.

The public perception of the government is that it is more corrupt than its predecessor. This is becoming a serious political issue. The government is doing little to combat corruption. This may greatly affect its ability to implement credible reforms.

Internationally, Macedonia's position is not worse than it has been for some time now. Indeed, negotiations with the EU on the stabilization and association agreements are reportedly proceeding well; there are hopes of them being concluded this year. Once concluded, the agreements will give rise to another tranche of essential reforms. It remains to be seen how they will be introduced. In any case, after a decade of transition, almost all the reforms needed still lie ahead of Macedonia.

Table MK

## FYR Macedonia: Selected Economic Indicators

|   | 1995    | 1996    | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000               | 2000<br>forecast | 2001   |
|---|---------|---------|---------|---------|--------------------|---------------------|--------------------|------------------|--------|
| Population, th pers., mid-year                      | 1966.0  | 1983.1  | 1996.9  | 2007.5  | 2020.0             | .                   | .                  | .                | .      |
| Gross domestic product, MKD mn, nom.                | 169521  | 176444  | 184982  | 190827  | 195284             | .                   | .                  | 209200           | 230600 |
| annual change in % (real)                           | -1.1    | 1.2     | 1.4     | 2.9     | 2.7                | .                   | .                  | 4                | 5      |
| GDP/capita (USD at exchange rate)                   | 2267    | 2225    | 1860    | 1746    | 1699               | .                   | .                  | .                | .      |
| GDP/capita (USD at PPP - WIIW)                      | 4040    | 4170    | 4290    | 4410    | 4530               | .                   | .                  | .                | .      |
| Gross industrial production                         |         |         |         |         |                    |                     |                    |                  |        |
| annual change in % (real)                           | -10.7   | 3.2     | 1.7     | 4.3     | -2.6               | -13.3               | 10.3               | 4                | 5      |
| Gross agricultural production                       |         |         |         |         |                    |                     |                    |                  |        |
| annual change in % (real)                           | 3.9     | -2.2    | 1.1     | 4.3     | 0.5                | .                   | .                  | .                | .      |
| Goods transport, mn t-kms                           | 1343    | 1067    | 1175    | 1302    | .                  | .                   | .                  | .                | .      |
| annual change in %                                  | -21.0   | -20.6   | 10.1    | 10.8    | -8.7               | -15.3 <sup>2)</sup> | 14.8 <sup>2)</sup> | .                | .      |
| Gross fixed capital form., MKD mn, nom.             | 28027.0 | 30654.0 | 32189.0 | 33982.0 | 34949.0            | .                   | .                  | .                | .      |
| annual change in % (real)                           | 10.2    | 6.5     | -4.3    | 1.6     | 1.2                | .                   | .                  | .                | .      |
| Construction output, value added                    |         |         |         |         |                    |                     |                    |                  |        |
| annual change in % (real) <sup>3)</sup>             | -1.9    | -0.6    | 0.2     | -7.4    | -5.0               | -11.7               | 4.7                | .                | .      |
| Dwellings completed, units                          | 4640    | 5342    | 4300    | 3256    | .                  | .                   | .                  | .                | .      |
| annual change in %                                  | -3.9    | 15.1    | -19.5   | -24.3   | .                  | .                   | .                  | .                | .      |
| Employment total, th pers., average <sup>4)</sup>   | .       | 537.6   | 512.3   | 539.8   | 545.2              | .                   | .                  | .                | .      |
| annual change in % <sup>4)</sup>                    | .       | .       | -4.7    | 5.4     | 1.0                | .                   | .                  | .                | .      |
| Employees in industry, th pers., average            | 136.6   | 127.6   | 117.6   | 113.6   | 119.8              | 115.9               | 120.0              | .                | .      |
| annual change in %                                  | -13.4   | -6.6    | -7.9    | -3.4    | 5.5                | -1.0                | 3.7                | .                | .      |
| Unemployed reg., th, end of period <sup>4)</sup>    | .       | 251.5   | 288.2   | 284.1   | 261.5              | .                   | .                  | .                | .      |
| Unemployment rate in %, end of period <sup>4)</sup> | .       | 31.9    | 36.0    | 34.5    | 32.4               | .                   | .                  | 32               | 32     |
| Average net monthly wages, MKD                      | 8581    | 8817    | 9063    | 9394    | 9664               | 9480                | 9902               | .                | .      |
| annual change in % (real, net)                      | -4.3    | 0.5     | 0.2     | 3.8     | 2.9                | 6.2                 | 0.9                | .                | .      |
| Retail trade turnover, MKD mn                       | 31682.2 | 29893.0 | 32482.8 | 33215.6 | 38530.1            | 8443.0              | 12859              | .                | .      |
| annual change in % (real, calc.)                    | -4.4    | -8.4    | 4.1     | 1.5     | 17.1               | 15.1                | 46.2               | .                | .      |
| Retail prices, % p.a.                               | 15.9    | 3.0     | 4.4     | 0.8     | -1.1               | -1.7                | 4.2                | 3                | 5      |
| Producer prices in industry, % p.a.                 | 4.7     | -0.3    | 4.2     | 4.0     | -0.1               | -0.9                | 7.2                | .                | .      |
| General government budget, MKD mn                   |         |         |         |         |                    |                     |                    |                  |        |
| Revenues  | 64254.0 | 64445.0 | .       | 78273.0 | 87903.0            | .                   | .                  | .                | .      |
| Expenditures  | 66032.0 | 65096.0 | .       | 79314.0 | 85957.0            | .                   | .                  | .                | .      |
| Deficit (-) / surplus (+)                           | -1778.0 | -651.0  | .       | -1041.0 | 1946.0             | .                   | .                  | .                | .      |
| Deficit (-) / surplus (+), % GDP                    | -1.1    | -0.4    | .       | -0.6    | 1.0                | .                   | .                  | .                | .      |
| Money supply, MKD mn, end of period                 |         |         |         |         |                    |                     |                    |                  |        |
| M1, Money   | 12521   | 12143   | 13983   | 15178   | 19694              | 14969               | 19335              | .                | .      |
| M2, Money + quasi money                             | 18703   | 18490   | 22724   | 26003   | 32837              | 24689               | 33720              | .                | .      |
| Discount rate, % p.a., end of period                | 15.0    | 9.2     | 8.9     | 8.9     | 8.9                | 8.9                 | 8.9                | .                | .      |
| Current account, USD mn                             | -232.2  | -288.1  | -276.4  | -308.2  | -136.5             | -49.1               | .                  | -300             | -400   |
| Gross reserves of NB, excl. gold, USD mn            | 257.5   | 239.5   | 257.0   | 306.1   | 429.9              | 290.8               | 413.2              | .                | .      |
| Gross external debt, USD mn <sup>5)</sup>           | 1235.9  | 1172.4  | 1133.1  | 1398.6  | 1438.5             | 1370.6              | .                  | .                | .      |
| Exports total, fob, USD mn                          | 1204.0  | 1147.4  | 1236.8  | 1310.7  | 1192.0             | 254.0               | 331.2              | .                | .      |
| annual change in %                                  | 10.8    | -4.7    | 7.8     | 6.0     | -9.1               | .                   | 30.4               | .                | .      |
| Imports total, cif, USD mn                          | 1718.9  | 1626.9  | 1778.5  | 1914.7  | 1795.8             | 345.2               | 601.0              | .                | .      |
| annual change in %                                  | 15.8    | -5.4    | 9.3     | 7.7     | -6.2               | .                   | 74.1               | .                | .      |
| Average exchange rate MKD/USD                       | 38.04   | 39.99   | 49.83   | 54.45   | 56.90              | 54.64               | 62.7               | 60               | 60     |
| Average exchange rate MKD/EUR (ECU)                 | 49.20   | 50.10   | 56.51   | 60.98   | 60.62              | 59.11               | 60.6               | .                | .      |
| Average exchange rate MKD/DEM                       | 26.54   | 26.58   | 28.70   | 30.95   | 30.99              | 30.97               | 31.0               | 31               | 31     |
| Purchasing power parity MKD/USD, WIIW               | 21.34   | 21.35   | 21.61   | 21.57   | 21.35              | .                   | .                  | .                | .      |
| Purchasing power parity MKD/EUR, WIIW               | 22.87   | 23.14   | 23.83   | 23.59   | 23.17              | .                   | .                  | .                | .      |

1) Preliminary. - 2) Excluding air transport. - 3) From 1998 effective working hours. - 4) Based on Labour Force Survey data. - 5) Medium and long-term.

Source: WIIW Database incorporating national statistics.

## **Poland: rising current account deficit, inflation and unemployment**

According to provisional estimates, Poland's GDP increased by a respectable 6% in the first quarter of 2000. However, this does not mean that the economy has returned to the high-growth path from which it strayed in the second half of 1998, when policy measures aimed at 'cooling down' a domestic credit boom were introduced. To some extent this growth rate reflects the low base of the first quarter of 1999 (in that period the GDP rose by a mere 1.6%). Much the same qualification applies to the statistically recorded rates of growth of industrial sales in the first quarter of 2000 (10.7% against 3.1% decline in the first quarter of 1999). Maintenance of high GDP growth rates and industrial sales in the coming quarters seems somewhat improbable for a number of reasons.

First, the current growth seems to have been driven solely by rising private consumer demand. However, this boom is likely to lose steam in coming months. The purchasing power of pensions and other private incomes funded by the budget (including wages in the public service sectors) are going to be eroded by inflation surpassing the targets underlying the budget. The pensions and other incomes funded by the budget were based on an assumption of 5.7% annual inflation in 2000. Inflation, however, will not be lower than 8%; in fact, inflation of the order of 9-10% is more than likely. Quite certainly pensions and other incomes will not be adjusted for higher inflation – at least during the current year. Disposable incomes earned by farmers are likely to decline further, one contributory factor being the huge losses due to severe drought. Finally, a slump in employment in the corporate sector will also depress the sector's total wage bill. Moderate increases in average real wages in that sector (3.1% in the first quarter of 2000) will thus be offset by falling employment (3.6% in the first quarter of 2000). In summary, a rise in private consumer demand can only be supported by rising disposable incomes among the entrepreneurial class or further marked expansion of consumer credit. However, after a 51.5% increase in household credit liabilities (end first quarter 2000 over end first quarter 1999), implying a 37% increase in real terms, both the household sector and banks may have already reached their borrowing and/or lending limits: household credit liabilities have stabilized recently and time-deposits increased. The ongoing increase in interest rates is likely to contribute to a discontinuation of the credit-financed spending boom. In the final analysis, private consumer demand will hinge on the disposable incomes among entrepreneurs. However, although the latter may improve (on account of strongly rising labour productivity, stronger prices and declining unit labour costs), they are more likely to contribute to a high demand for imported consumer goods and services rather than to a demand for those produced domestically.

Secondly, investment activities cannot be expected to accelerate significantly. All available liquidity indicators suggest a marked deterioration in the corporate sector's financial position. Furthermore, although the corporate sector's net profits strengthened somewhat in the first quarter of 2000, at PLN 1.5 billion they still remain very low. By comparison, in the first quarter of 1999 the corporate sector incurred a net loss of 0.8 billion. In 1996, 1997 and 1998, profits amounted to PLN 2.4, 2.5 and 1.9 billion, respectively. In real terms, current profits are a small fraction of those earned previously – despite the present corporate income tax rate (30%) being lower than it used to be (40%). A low propensity to invest is also reflected in the stagnation of the sector's liabilities to the (domestic) banks. Under these circumstances, the prevalence of high interest rates in the near future and the prospects of stagnant domestic consumer demand are certainly not conducive to greater investment activity.

Thirdly, after contributing negatively to GDP growth in 1999, foreign trade shows no signs of improvement. According to customs statistics, the trade deficit increased from USD 3.8 billion in the first quarter of 1999 to 4.2 billion in the current year. Balance of payment statistics (which cover foreign trade payments) suggest an even larger gap: increasing from USD 2.8 billion to 3.8 billion. The overall current account (CA) deficit increased still further, nudging the CA/GDP ratio above the 8% mark. Clearly, domestic production is losing out to foreign competition. Furthermore, it is hard to see how the tendency towards growing deficits, clearly a dangerous development over the long term, can be reversed in the short term. The exchange rate, the basic parameter determining the unfavourable developments in foreign trade, has been beyond any direct control (in formal terms from the day the PLN free float was introduced on 12 April 2000, but in actual fact for several years prior to that). Left to market forces, the exchange rate fluctuates quite wildly. None the less, it generally tends to appreciate in real terms against the euro (and quite often even against the USD). The behaviour of the PLN exchange rate is unlikely to change as long as Poland attracts high inflows of foreign capital, nor as long as the monetary authorities apply very high interest rates. However, given the upcoming privatization deals on a grand scale, capital inflow is likely to remain quite high. CA deficits continue to be offset by capital inflows. In the first quarter of 2000 net foreign direct investment equalled USD 1.5 billion, and net portfolio investment was close to USD 2.5 billion. Both were higher than the year previous (USD +1.1 and -0.3 billion, respectively). The government believes it needs the revenue from such deals to finance the overhaul of the pension system and other 'reforms'. And the interest rates are likely to stay very high – even if this provokes high inflows of portfolio capital exploiting huge interest-rate differentials. The monetary authorities deem this essential to reducing inflation: their main, if not sole, preoccupation. Finally, with their being no chance of meeting the inflation target set for the current year, there is rather little hope of interest rate policy changing in any way. To some extent the current acceleration in inflation is due to higher VAT and excise taxes imposed by the fiscal authorities. With expectations of much

higher fuel prices and poor harvests this year, inflation will be generally higher. All these are certainly supply-side or cost factors. Their impact will be hardly blunted by a more restrictive monetary policy normally designed to counter excessive demand. In this sense, the current monetary policy is unlikely to reduce inflation – and it may well have quite harmful side-effects.

The Polish economy is taking a risky path, with its currency plainly overvalued and mounting foreign debt. By following that path it has little chance of accelerating growth or restructuring meaningfully. Worse still, the ultimate economic destination of the journey along that path is still not clear. In social terms, two-and-a half years' rule by a government comprising the ultra-free-market Freedom Union (UW) and the nationalistic/ conservative Solidarity Electoral Action (AWS) has been horrendously costly. The unemployment rate has risen from 10% to close on 14%: 700,000 more redundancies. Cuts in budgetary spending and reforms of the health, pension and education systems have reduced most peoples' living standards quite sharply. Income disparities have widened appreciably – primarily on account of changes in the tax system favouring the rich and disadvantaging the low-income groups. The obvious failure of the ruling coalition and its unpopularity have led to demoralization: corruption and nepotism have assumed unprecedented proportions. If nothing changes, both parties responsible for the last two unfortunate years will be severely mauled in the parliamentary elections, due in about 18 months' time.

With the Freedom Union having left the government at the beginning of June, various hypothetical possibilities have opened up. The AWS minority government may remain hostage to the UW – and continue to pass policies that are both unpopular and actually counterproductive. On the other hand, it may still try to liberate itself and adopt a more common-sense approach. Whether such a policy change is possible depends on the good will – or election stratagems – of both the former partner and the opposition parties (Social Democrats, Peasants' Party). As things stand, early elections – and hence a significant change in economic policy – are more than likely.

Table PL

## Poland: Selected Economic Indicators

|  | 1995    | 1996    | 1997    | 1998    | 1999 <sup>1)</sup>   | 1999<br>1st quarter | 2000               | 2000<br>forecast | 2001   |
|--|---------|---------|---------|---------|----------------------|---------------------|--------------------|------------------|--------|
| Population, th pers., end of period            | 38609   | 38639   | 38660   | 38667   | 38654                | 38649               | 38643              | 38670            | .      |
| Gross domestic product, PLN mn, nom.           | 306318  | 385448  | 469372  | 549467  | 611576               | 133585              | .                  | 690000           | 775000 |
| annual change in % (real)                      | 7.0     | 6.0     | 6.8     | 4.8     | 4.1                  | 1.6                 | 5.9                | 4.5              | 5      |
| GDP/capita (USD at exchange rate)              | 3274    | 3702    | 3702    | 4068    | 3987                 | .                   | .                  | .                | .      |
| GDP/capita (USD at PPP - WIIW)                 | 6710    | 7310    | 7970    | 8380    | 8790                 | .                   | .                  | .                | .      |
| Gross industrial production (sales)            |         |         |         |         |                      |                     |                    |                  |        |
| annual change in % (real)                      | 9.7     | 8.3     | 11.5    | 3.5     | 4.3                  | -3.1 <sup>2)</sup>  | 10.7 <sup>2)</sup> | 6                | 7      |
| Gross agricultural production                  |         |         |         |         |                      |                     |                    |                  |        |
| annual change in % (real)                      | 10.7    | 0.7     | -0.2    | 5.9     | -5.6                 | .                   | .                  | .                | .      |
| Goods transport, mn t-kms                      | 300807  | 309272  | 329737  | 317052  | .                    | .                   | .                  | .                | .      |
| annual change in %                             | 11.3    | 2.8     | 6.6     | -3.8    | .                    | .                   | .                  | .                | .      |
| Gross fixed capital form., PLN mn, nom.        | 57405   | 80390   | 110853  | 139205  | 162102               | 24666               | .                  | .                | .      |
| annual change in % (real)                      | 16.5    | 19.7    | 21.7    | 14.2    | 6.9                  | 6.1                 | .                  | 9                | 9      |
| Construction output total                      |         |         |         |         |                      |                     |                    |                  |        |
| annual change in % (real)                      | 5.6     | 3.0     | 16.5    | 12.4    | .                    | 0.6 <sup>2)</sup>   | 4.8 <sup>2)</sup>  | .                | .      |
| Dwellings completed, units                     | 67072   | 62130   | 73706   | 80594   | 77434                | 15361               | 19102              | .                | .      |
| annual change in %                             | -11.8   | -7.4    | 18.6    | 9.3     | -3.9                 | -10.6               | 24.4               | .                | .      |
| Employment total, th pers., average            | 14735.2 | 15020.6 | 15438.7 | 15800.4 | .                    | .                   | .                  | .                | .      |
| annual change in %                             | 1.8     | 1.9     | 2.8     | 2.3     | .                    | .                   | .                  | .                | .      |
| Employees in industry, th pers., average       | 3461.1  | 3436.0  | 3433.4  | 3378.7  | 3056.0 <sup>2)</sup> | 3082 <sup>2)</sup>  | 2801 <sup>2)</sup> | .                | .      |
| annual change in %                             | 3.0     | -0.7    | -0.1    | -1.6    | -4.4 <sup>2)</sup>   | -3.4 <sup>2)</sup>  | -6.5 <sup>2)</sup> | .                | .      |
| Unemployed reg., th, end of period             | 2628.8  | 2359.5  | 1826.4  | 1831.4  | 2349.8               | 2170.4              | 2533.6             | .                | .      |
| Unemployment rate in %, end of period          | 14.9    | 13.2    | 10.3    | 10.4    | 13.0                 | 12.1                | 13.9               | 13.5             | 13.5   |
| Average gross monthly wages, PLN <sup>3)</sup> | 690.9   | 874.3   | 1065.8  | 1232.7  | 1706.7               | 1598.5              | 1868.7             | .                | .      |
| annual change in % (real, net) <sup>4)</sup>   | 3.0     | 5.7     | 7.3     | 4.5     | 3.4                  | 2.4                 | 4.7                | .                | .      |
| Retail trade turnover, PLN mn                  | 169585  | 213241  | 258166  | 291197  | .                    | .                   | .                  | .                | .      |
| annual change in % (real)                      | 2.3     | 4.5     | 6.8     | 2.6     | 16.0 <sup>2)</sup>   | 10.4 <sup>2)</sup>  | 8.8 <sup>2)</sup>  | .                | .      |
| Consumer prices, % p.a.                        | 27.8    | 19.9    | 14.9    | 11.8    | 7.3                  | 6.1                 | 10.3               | 8                | 7      |
| Producer prices in industry, % p.a.            | 25.4    | 12.4    | 12.2    | 7.3     | 5.7                  | 4.2                 | 7.8                | .                | .      |
| Central government budget, PLN mn              |         |         |         |         |                      |                     |                    |                  |        |
| Revenues                                       | 83722   | 99675   | 119772  | 126563  | 125912               | 27748               | 30950              | .                | .      |
| Expenditures                                   | 91170   | 108842  | 125675  | 139756  | 138425               | 36467               | 37877              | .                | .      |
| Deficit (-) / surplus (+)                      | -7448   | -9167   | -5903   | -13193  | -12514               | -8719               | -6927              | .                | .      |
| Deficit (-) / surplus (+), % GDP               | -2.4    | -2.4    | -1.3    | -2.4    | -2.1                 | .                   | .                  | -2.2             | .      |
| Money supply, PLN mn, end of period            |         |         |         |         |                      |                     |                    |                  |        |
| M1, Money                                      | 37353   | 61056   | 72156   | 81484   | 99388                | 84741               | 89100              | .                | .      |
| M2, Money + quasi money                        | 104255  | 136662  | 176437  | 220780  | 263499               | 230256              | 261973             | .                | .      |
| Discount rate of NB % p.a., end of period      | 25.0    | 22.0    | 24.5    | 18.2    | 19.0                 | 15.5                | 20.0               | .                | .      |
| Current account, USD mn                        | 5310    | -1371   | -4312   | -6858   | -11569               | -2239               | -3592              | -13500           | -14000 |
| Gross reserves of NB incl. gold, USD mn        | 14963   | 18033   | 20670   | 27382   | 25494                | 26598               | 25593              | .                | .      |
| Gross external debt, USD mn <sup>5)</sup>      | 43957   | 47354   | 48914   | 56867   | 60528                | 55761               | .                  | .                | .      |
| Exports total, fob, USD mn <sup>6)</sup>       | 22894.7 | 24440.0 | 25751.3 | 28228.7 | 27407.4              | 6570.7              | 7173.4             | 28200            | .      |
| annual change in %                             | 32.8    | 6.7     | 5.4     | 9.6     | -2.9                 | -6.4                | 9.2                | 3                | .      |
| Imports total, cif, USD mn <sup>6)</sup>       | 29049.2 | 37136.5 | 42306.9 | 47054.3 | 45911.1              | 10420.4             | 11389.9            | 48200            | .      |
| annual change in %                             | 34.7    | 27.8    | 13.9    | 11.2    | -2.4                 | -6.0                | 9.3                | 5                | .      |
| Average exchange rate PLN/USD                  | 2.42    | 2.70    | 3.28    | 3.49    | 3.97                 | 3.76                | 4.11               | 4.30             | .      |
| Average exchange rate PLN/EUR (ECU)            | 3.13    | 3.38    | 3.71    | 3.92    | 4.23                 | 4.22                | 4.07               | 4.30             | .      |
| Average exchange rate PLN/DEM                  | 1.69    | 1.79    | 1.89    | 1.99    | 2.16                 | 2.16                | 2.08               | .                | .      |
| Purchasing power parity PLN/USD, WIIW          | 1.18    | 1.36    | 1.52    | 1.70    | 1.80                 | .                   | .                  | .                | .      |
| Purchasing power parity PLN/EUR, WIIW          | 1.27    | 1.48    | 1.68    | 1.85    | 1.95                 | .                   | .                  | .                | .      |

1) Preliminary. - 2) Enterprises with more than 5, from January 2000 more than 9 employees. - 3) From 1999 including mandatory premium for social security. - 4) From 1999 real gross wages. - 5) From 1996 according to IMF methodology. - 6) Converted from the national currency to USD at trade exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Romania: temporary recovery**

Political consensus achieved by the new prime minister Mugur Isarescu in December 1999 has since opened the way to co-ordinated economic policy and action. All party leaders signed a statement supporting the medium-term development strategy that was submitted to the European Union. Once accession negotiations got under way, Romanian officials optimistically set the date for accession at 2007. The short-term agenda includes such items as export growth, budgetary reform and privatization of loss-making companies. These commitments were also the basis for extending the IMF facilities and disbursing other multilateral funds. The political stability, as well as the modest economic upswing and accelerated reforms put through in the first months of 2000, may come to an end later in the year.

The Romanian government speaks of 3% GDP growth being possible in 2000, thus entailing an upward correction of the previously envisaged growth of 1.3%. The GDP in the first quarter was 1.5% higher than the same pre-year period: the first quarter of positive growth since 1996. It was mainly generated by the economic upswing in Europe which allowed Romanian exports to outstrip imports. A modest upswing was to be noted in the export oriented segment of the economy. Industrial production levelled out mainly on account of a recovery in extractive industries and certain export branches. Agriculture emerged as the prime problem area in the second quarter of the year. Floods, followed more recently by drought, will reduce the corn crop by 40%. Local estimates speak of 1.5 million tonnes of grain having to be imported. Poor agricultural performance may depress some sectors of the economy, worsen the foreign trade balance and increase prices.

Domestic demand remained depressed in the first quarter of 2000. Real wages contracted by 9.6% and retail sales dropped by 22.7%. While this helps to reduce both budget expenditures and imports, it is also indicative of sluggish private demand. The lack of new investments may not prove to be a major problem at the beginning of an economic growth period as unutilized capacities abound. The prevailing supply and demand trends, however, suggest no substantial recovery of the Romanian economy in sight. Overall stagnation is the basic message of the WIIW forecast, although some positive structural changes are acknowledged.

The major targets in the budget for 2000 that was adopted by Parliament as late as May are keeping the consolidated budget deficit down to 3% of GDP and restructuring the fiscal system in order to stimulate economic growth. First quarter results show both aims well on track. The consolidated budget deficit reached ROL 4,2 thousand billion, less than one

quarter of the sum envisaged for the year (ROL 21,7 thousand billion). Tax on profits was lowered to 25% and that on export-related profits to 5%, which might well prove to be a major stimulus to economic agents. At the same time, the standardization of VAT rates at 19% will curtail consumption. Further plans to support economic growth include a draft law exempting economic agents from customs duties on technology imports as of the beginning of July. Certain special funds and related taxes will also be abolished.

The major positive news is that after a prolonged decline exports have picked up once again. In the first quarter exports stood at 26.5% above the pre-year period in current USD terms. As imports increased by only 14.3%, the foreign trade gap narrowed to USD 245 million. Furthermore, over the period January-April the trade deficit amounted to only USD 351 million down from USD 623 million over the same period in the previous year. The relief thus accruing to the current account bolsters the financial stability of the country. The structure of growth in exports shows that recovery is based mainly on traditional industries that are susceptible to fluctuations in EU demand. Most export growth occurred in textiles, clothing, metal products and oil products. However, a gradual shift towards high technology products was also to be observed. Exports of electrical machinery and transport equipment enjoyed a higher than average growth rate, but values were still low. Rapid structural change is impossible given the very slow inflow of FDI to modern industries. For 2000 international debt-servicing is set at USD 1.4 billion, far below the level of USD 2.6 billion in 1999. The National Bank's hard currency reserves stood at USD 1.6 billion at the end of May, double the pre-year level. These results, together with the agreement with the IMF, mean that the possibility of default is lower than ever before over the past two years.

In early June, the IMF approved the extension to 28 February 2001 of the stand-by agreement suspended in 1998. Loans in the amount of SDR 347 million (USD 440 million) were to come in three tranches. The first tranche was released immediately. The IMF agreement will also unblock the funds Romania has still to receive from the World Bank – USD 300 million for PSAL and ASAL programmes – and another EUR 100 million from the European Union. The key terms governing the receipt of these funds included ensuring effective control of income policy and solving the issue of the debts that the public utility companies owed by adjusting tariffs for natural gas and electricity and restructuring the companies. Monitoring Romania's commitments is based on quarterly ceilings set for salaries in the budgetary sector, the level of the utility enterprises' debts to the budget (Conel, Petrom and Romgaz) and certain privatization targets. The largest commercial bank, BCR, is to be privatized, in addition to seven large state companies. Another five groups of companies will be added to their number by the end of September, including the main steel plant Sidex and loss-making Tractorul. None of these companies can be privatized without major financial restructuring. A clear mismatch prevails between the

government's ambitious privatization aspirations and the funding available for restructuring from the IMF and the World Bank.

Privatization in the banking sector will not be easy either, as confidence in banks and investment funds was sadly shaken yet again in June 2000. The collapse of one of the largest investment funds, NFI, revealed to portfolio investors that the Romanian market is both shallow and unpredictable. Public reaction was hectic, described by President Constantinescu as a threat to political stability. In the meantime two smaller private commercial banks have also run into serious problems with their portfolios.

Temporary political stability may come to an end in the second half of the year with presidential elections due in November 2000 and parliamentary elections due some time during the winter. Opinion polls and local election results point to a victory for the leftists, the Social Democracy Party (PDSR), who ran the country between 1990 and 1996. The post-election government will probably demonstrate its Western orientation by entering into a coalition with some centrist forces. A slowdown in reforms and a possible violation of the IMF agreement can be expected. The major structural and financial problems will be carried forward another year. A low, but positive rate of economic growth, coupled with medium-to-high inflation and manageable budgetary and current account deficits is the best Romania seems able to achieve.

Table RO

## Romania: Selected Economic Indicators

|  | 1995    | 1996    | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000<br>1st quarter | 2000<br>forecast | 2001<br>forecast |
|--|---------|---------|---------|---------|--------------------|---------------------|---------------------|------------------|------------------|
| Population, th pers., mid-year                             | 22681.0 | 22607.6 | 22545.9 | 22502.8 | 22458.0            | .                   | .                   | .                | .                |
| Gross domestic product, ROL bn, nom.                       | 72136   | 108920  | 250480  | 368261  | 521736             | .                   | .                   | 730000           | 990000           |
| annual change in % (real)                                  | 7.1     | 3.9     | -6.9    | -5.4    | -3.2               | -4.2                | 1.5                 | 0                | 1                |
| GDP/capita (USD at exchange rate)                          | 1564    | 1563    | 1550    | 1844    | 1515               | .                   | .                   | .                | .                |
| GDP/capita (USD at PPP - WIIW)                             | 6180    | 6630    | 6320    | 6010    | 5870               | .                   | .                   | .                | .                |
| Gross industrial production<br>annual change in % (real)   | 9.4     | 6.3     | -7.2    | -16.8   | -8.0               | -9.6                | -0.3                | 0                | 2                |
| Gross agricultural production<br>annual change in % (real) | 4.5     | 1.3     | 3.4     | -7.6    | 5.5                | .                   | .                   | .                | .                |
| Goods transport, mn t-kms <sup>2)</sup>                    | 126719  | 106758  | 87590   | 62365   | 45989              | 11863.0             | .                   | .                | .                |
| annual change in %   | 36.7    | -15.8   | -18.0   | .       | -26.3              | -19.9               | .                   | .                | .                |
| Gross fixed investment, ROL bn, nom.                       | 12995.5 | 20945.3 | 44134.7 | 53182.7 | 70571.8            | 9820.1              | .                   | .                | .                |
| annual change in % (real)                                  | 10.7    | 3.1     | -5.4    | -18.6   | -12.3              | -12.5               | .                   | 0                | 5                |
| Construction output total<br>annual change in % (real)     | 13.2    | 3.7     | -24.4   | -18.0   | -12.2              | -18.7               | .                   | .                | .                |
| Dwellings completed, units                                 | 35822   | 29460   | 29921   | 29692   | 29342              | 2127                | .                   | .                | .                |
| annual change in %   | -2.5    | -17.8   | 1.6     | -0.8    | -1.2               | 10.1                | .                   | .                | .                |
| Employment total, th pers., end of period                  | 9493.0  | 9379.0  | 9022.7  | 8812.6  | .                  | .                   | .                   | .                | .                |
| annual change in %   | -5.2    | -1.2    | -3.8    | -2.3    | .                  | .                   | .                   | .                | .                |
| Employees in industry, th pers., average                   | 2614.7  | 2586.0  | 2443.0  | 2327.9  | 1999.9             | 2107.0              | 1905.0              | .                | .                |
| annual change in %   | -8.4    | -1.1    | -5.5    | -4.7    | -14.1              | -12.6               | -9.6                | .                | .                |
| Unemployed reg., th, end of period                         | 998.4   | 657.6   | 881.4   | 1025.1  | 1130.3             | 1182.7              | 1166.7              | .                | .                |
| Unemployment rate in %, end of period                      | 9.5     | 6.6     | 8.9     | 10.4    | 11.5               | 12.0                | 11.9                | 13               | 12               |
| Average gross monthly wages, ROL                           | 281287  | 426610  | 846450  | 1357132 | 1957731            | 1640675             | 2342798             | .                | .                |
| annual change in % (real, net)                             | 11.8    | 9.2     | -22.2   | 6.0     | -0.7               | 7.2                 | -11.3               | .                | .                |
| Retail trade turnover, ROL bn                              | 22241.8 | 35316.3 | 83035.3 | .       | .                  | .                   | .                   | .                | .                |
| annual change in % (real)                                  | 29.0    | 15.3    | -12.1   | 4.1     | -5.0               | 0                   | .                   | .                | .                |
| Consumer prices, % p.a.                                    | 32.3    | 38.8    | 154.8   | 59.1    | 45.8               | 35.4                | 53.7                | 40               | 35               |
| Producer prices in industry, % p.a.                        | 35.1    | 49.9    | 152.7   | 33.3    | 42.2               | 22.2                | 59.1                | .                | .                |
| Central government budget, ROL bn                          |         |         |         |         |                    |                     |                     |                  |                  |
| Revenues   | 12888   | 18373   | 43835   | 67216   | 93230              | 23133               | 24716               | .                | .                |
| Expenditures   | 15858   | 23732   | 52897   | 77617   | 106887             | 24779               | 32977               | .                | .                |
| Deficit (-) / surplus (+)                                  | -2970   | -5359   | -9062   | -10401  | -13656             | -1645               | -8260               | .                | .                |
| Deficit (-) / surplus (+), % GDP                           | -4.1    | -4.9    | -3.6    | -2.8    | -2.6               | .                   | .                   | .                | .                |
| Money supply, ROL bn, end of period                        |         |         |         |         |                    |                     |                     |                  |                  |
| M1, Money  | 7083    | 11173   | 18731   | 22110   | 29669              | 19301               | 25990               | .                | .                |
| Broad money  | 18278   | 30335   | 62150   | 92530   | 134114             | 100764              | 136105              | .                | .                |
| Refinancing rate of NB % p.a. <sup>3)</sup>                | 47.2    | 40.3    | 52.6    | 35.0    | 35.0               | 35.0                | 35.0                | .                | .                |
| Current account, USD mn                                    | -1774   | -2571   | -2137   | -2968   | -1303              | -277                | .                   | -1300            | -1700            |
| Gross reserves of NB excl. gold, USD mn                    | 334.1   | 545.8   | 2193.5  | 1374.8  | 1526.3             | 1199.4              | 1632.5              | .                | .                |
| Gross external debt, USD mn <sup>4)</sup>                  | 5482.1  | 7208.9  | 8584.3  | 9231.1  | 8204.0             | 8407.8              | .                   | .                | .                |
| Exports total, fob, USD mn                                 | 7910.0  | 8084.5  | 8431.1  | 8302.0  | 8504.7             | 1893.0              | 2395.2              | 9500             | 10000            |
| annual change in %   | 28.6    | 2.2     | 4.3     | -1.5    | 2.4                | -7.6                | 26.5                | 12               | 5                |
| Imports total, cif, USD mn                                 | 10277.9 | 11435.3 | 11279.7 | 11837.8 | 10392.1            | 2308.2              | 2639.1              | 11400            | 12000            |
| annual change in %   | 44.6    | 11.3    | -1.4    | 4.9     | -12.2              | -7.1                | 14.3                | 10               | 5                |
| Average exchange rate ROL/USD                              | 2033.3  | 3082.6  | 7167.9  | 8874.8  | 15333.2            | 12560.5             | 18753.8             | 22000            | 29000            |
| Average exchange rate ROL/EUR (ECU)                        | 2629.5  | 3862.9  | 8090.9  | 9988.4  | 16295.3            | 14078.7             | 18552.8             | .                | .                |
| Average exchange rate ROL/DEM                              | 1418.8  | 2048.6  | 4133.6  | 5043.5  | 8331.6             | 7198.3              | 9486.0              | .                | .                |
| Purchasing power parity ROL/USD, WIIW                      | 514.6   | 726.9   | 1758.4  | 2721.8  | 3955.5             | .                   | .                   | .                | .                |
| Purchasing power parity ROL/EUR, WIIW                      | 551.4   | 788.2   | 1938.8  | 2976.6  | 4292.2             | .                   | .                   | .                | .                |

1) Preliminary. - 2) From 1998 new methodology in road transport. - 3) Average of RNB lending rates, end of period. - 4) Medium and long-term.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

*Peter Havlik*

## **Russia: is the current pace of growth sustainable?**

As of mid-2000, Russia's economy can still be seen to be benefiting from the positive effects of the post-August 1998 devaluation and higher global energy prices. Given the remaining potential for industrial growth spurred by import substitution and combined with fairly tight fiscal and monetary policy, the short-term economic prospects are not too bad. The government's projections underlying the current budget have thus been revised upwards recently. No longer projecting GDP growth of nearly 2% for 2000, year-end inflation not exceeding 20% and a primary budget surplus of more than 3% of GDP, the official forecast for GDP growth has been raised to more than 3% and the inflation forecast slashed to 15%. At the same time, the complex institutional and structural malaise that has been primarily responsible for the disastrous economic performance over the past decade has yet to be addressed. Details of Mr. Putin's economic programmes have still to be announced (and subsequently implemented).

The growth in industrial output (more than 8% in 1999 and about 10% in the first four months of 2000) is largely explained by low output levels in the past; however, it also implies that industry has responded positively to the greater demand for domestic products following devaluation. Growth in revenue has not only improved the enterprises' financial situation, but it has also alleviated the problem of non-payments and reduced the share of barter transactions and the stock of wage arrears. The upturn in industrial production has also bolstered the GDP. In 1999 the latter increased by 3.2% and in the first quarter of 2000 by nearly 7% (from a very low base in the previous period). Monthly figures, however, point to a deceleration in industrial growth, while performance in other sectors is not very encouraging either. In May 2000 consumer prices were 23% higher and producer prices 55% higher than May the previous year. The fact that inflation was lower than expected reflects moderate growth in money supply (M2 grew 60% March on March) and a fairly stable nominal exchange rate. The Central Bank refinancing rate was cut to 45% in January 2000 and to 33% in March, implying declining, albeit still positive real interest rates.

Devaluation of the rouble had already brought about a remarkable improvement in the trade balance in 1999. Imports fell sharply (by 30%) whereas exports were flat, despite the firm recovery in world oil prices. This reflects in part supply bottlenecks and lagging contract price adjustments, but it also bears testimony to the low prices for many other Russian export commodities (such as metals and chemical products). Devaluation, however, did not give rise to any new manufactured exports – most Russian products with higher value-added remain uncompetitive whatever their price. The current account also showed improvement, reaching a record surplus of nearly USD 25 billion in 1999 (more

than 13% of GDP). In the first quarter of 2000, exports grew by nearly 50%, largely owing to delayed price effects, and the drop in imports came to an end. The trade balance surplus more than doubled and hard currency reserves have risen to nearly USD 20 billion in June.

Fiscal performance has also been better than expected, with the federal budget in primary surplus (5.6% of GDP in the first quarter) and the consolidated budget in equilibrium. This is a result of both the higher proceeds generated by the industrial upswing and the rising profits of oil exporters, as well as higher revenues from export duties. The budget for 2000 envisages a primary surplus of 3.1% of GDP, while the consolidated deficit (after debt service payments) should reach only 1% of GDP. These targets now appear within easy reach. The budget reckons with new foreign borrowing of almost USD 6 billion, mostly from the IMF (USD 2.6 billion) and the World Bank (USD 2.2 billion). It also relies on debt rescheduling since only less than USD 7 billion have been earmarked for debt-servicing. Military and social appropriations have been increased (the former by 50%).

Despite the currently favourable economic situation, sustained economic growth calls for further structural reforms and, last but not least, substantial new investments. Admittedly, an increase in gross fixed investment by 4.5% in 1999 and even by 13% during the first four months of 2000 (again from a very low level) might herald a reversal of the decade-long decline. However, the investment climate in general (and foreign direct investment, in particular) has not shown any improvement as yet. Greater political stability in the wake of the parliamentary elections in December 1999, as well as the confirmation of Mr. Putin as President in March and Mr. Kasyanov as Prime Minister in May 2000 were generally well received, but subsequent delays (and even some confusion) in the formulation of future economic policies have given rise to some disappointment.

For want of details regarding the future programme to be adopted, one can only speculate about Russia's future economic policies. As of mid-June 2000, only two pieces of new relevant legislation had been tabled: revisions of the fiscal code and the reform of regional administration. The proposed tax reform envisages a flat income tax of 13% (replacing the current progressive tax rates which vary from 12% to 30%), thus reducing the tax burden and simplifying tax regulations. It is hoped that the lower revenue will be offset by improved tax compliance. Moreover, excise taxes are to be increased (on gasoline by 500%, tobacco by 100% and alcohol by 20%). The potentially more important reform of regional administration was enacted by virtue of a presidential decree nominating presidential representatives in the federal districts as of 13 May 2000. The erstwhile federal regions, numbering 89 in all, have been subsumed in seven new federal districts identical to the current military districts. For the most part, the newly appointed presidential representatives hail from the armed forces or the security services (exceptions being the diplomat L. Drachevsky who heads up the Siberian District and the former prime minister

S. Kiriyenko in the Volga District). Furthermore, the upper chamber of parliament (Federation Council) will also undergo reform. The aim is to: strengthen presidential administrative control over the districts; avoid conflicts between regional and federal law; and, last but not least, curb the power of the regional governors. It remains to be seen whether in fact these changes will bring about a streamlining of the administration or merely create a new bureaucratic layer.

The general mood is fairly optimistic and great hopes are placed in Mr. Putin. The improved political stability is a valuable asset as the persistent stalemate between the executive and legislative branches over the past decade has been one of the principal reasons for the 'failure of the State' and other unfortunate outcomes of the reform process in Russia. Although no new upsurge of radical liberal reform is to be expected, the current political and economic situation provides a unique opportunity for implementing more consistent policies. Within the framework of this relatively optimistic scenario, the Russian economy might well display moderate growth over the medium term, with conditions for doing business being expected to improve as well. Official projections for the Russian economy now reckon with GDP growing by at least 3% in the year 2000 and envisage a balanced budget. For the period 2001-2003, the government's new optimistic scenario drawn up in April 2000 aims at an average GDP growth rate of at least 4.5% and growth in industrial production of the order of 7%, together with a drop in inflation (from 10% per year in 2001 to 7% in 2003). Furthermore, by the year 2002 per capita incomes should have risen and attained the pre-crisis (August 1998) level, while investments should grow at the expense of declining net exports.

The WIIW medium-term forecast is more cautious (see Table RU). If it is to be sustainable, even this moderate growth will call for effective progress being achieved in the implementation of a number of structural reforms, *inter alia*, to stimulate investments, as well as the continuation of fairly restrictive monetary and fiscal policies and new modes of external financing.

Table RU

## Russia: Selected Economic Indicators

|   | 1995   | 1996   | 1997   | 1998   | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000<br>1st quarter | 2000<br>forecast | 2001<br>forecast |
|---|--------|--------|--------|--------|--------------------|---------------------|---------------------|------------------|------------------|
| Population, th pers., end of period                 | 147976 | 147502 | 147105 | 146714 | 145600             | .                   | .                   | 145500           | 145000           |
| Gross domestic product, RUB bn, nom.                | 1540.5 | 2145.7 | 2521.9 | 2696.4 | 4476.1             | 836.5               | .                   | 6400             | 7600             |
| annual change in % (real)                           | -4.1   | -3.4   | 0.9    | -4.9   | 3.2                | -2.7                | 6.8                 | 4                | 3                |
| GDP/capita (USD at exchange rate)                   | 2255   | 2835   | 3011   | 1893   | 1249               | .                   | .                   | 1466             | 1588             |
| GDP/capita (USD at PPP - WIIW)                      | 6610   | 6590   | 6800   | 6510   | 6820               | .                   | .                   | .                | .                |
| Gross industrial production                         |        |        |        |        |                    |                     |                     |                  |                  |
| annual change in % (real)                           | -3.3   | -4.0   | 1.9    | -5.2   | 8.1                | -1.6                | 11.9                | 5                | 3                |
| Gross agricultural production                       |        |        |        |        |                    |                     |                     |                  |                  |
| annual change in % (real)                           | -8.0   | -5.1   | 1.5    | -13.2  | 2.4                | -2.8                | 1.5                 | .                | .                |
| Goods transport, bn t-kms                           | 3533   | 3370   | 3256   | 3147   | 3309               | .                   | .                   | .                | .                |
| annual change in %                                  | -1.0   | -4.6   | -3.4   | -3.3   | 5.2                | .                   | 16                  | .                | .                |
| Gross fixed investment, RUB bn, nom.                | 267.0  | 376.0  | 408.8  | 402.4  | 659.3              | 74.3                | 150                 | .                | .                |
| annual change in % (real)                           | -10.0  | -18.0  | -5.0   | -6.7   | 4.5                | -10.7               | 6                   | 5                | 7                |
| Construction output total                           |        |        |        |        |                    |                     |                     |                  |                  |
| annual change in % (real)                           | -9.0   | -14.5  | -6.4   | -8.0   | 5.4                | -1.7                | 9.9                 | .                | .                |
| Dwellings completed, th units                       | 602.0  | 481.5  | 430.3  | 387.7  | 413.3              | .                   | .                   | .                | .                |
| annual change in %                                  | -1.5   | -20.0  | -10.6  | -9.9   | 6.6                | .                   | 3                   | .                | .                |
| Employment total, th pers., average                 | 66441  | 65950  | 64639  | 63642  | 64525              | 63333               | 64900               | .                | .                |
| annual change in %                                  | -3.0   | -0.7   | -2.0   | -1.5   | 1.4                | -1.0                | 2.5                 | .                | .                |
| Employment in industry, th pers., average           | 17182  | 16366  | 14893  | 14132  | 14002              | .                   | .                   | .                | .                |
| annual change in %                                  | -7.5   | -4.7   | -9.0   | -5.1   | -0.9               | .                   | .                   | .                | .                |
| Unemployed reg., th, end of period <sup>2)</sup>    | 6539   | 7280   | 8133   | 9728   | 9100               | 10049               | 9124                | .                | .                |
| Unemployment rate in %, end of period <sup>2)</sup> | 9.0    | 9.9    | 11.2   | 13.3   | 12.3               | 13.6                | 12.3                | 12               | 12               |
| Average gross monthly wages, RUB                    | 532.6  | 790.2  | 950.2  | 1049.3 | 1575.0             | 1247                | 1898                | .                | .                |
| annual change in % (real, gross)                    | -28.0  | 6.0    | 5.0    | -13.4  | -23.2              | -39.3               | 21.3                | .                | .                |
| Retail trade turnover, RUB bn                       | 554.2  | 763.8  | 887.2  | 1068.2 | 1782.2             | 375.6               | 509.6               | .                | .                |
| annual change in % (real)                           | -7.2   | -2.8   | 4.0    | -4.6   | -7.9               | -14                 | 7.2                 | .                | .                |
| Consumer prices, % p.a.                             | 197.5  | 47.8   | 14.8   | 27.6   | 85.7               | 102.8               | 25.4                | 20               | 15               |
| Producer prices in industry, % p.a.                 | 236.5  | 50.8   | 15.0   | 7.1    | 58.9               | 36.8                | 60.2                | 50               | 30               |
| Central government budget, RUB bn                   |        |        |        |        |                    |                     |                     |                  |                  |
| Revenues  | 201.0  | 253.8  | 311.6  | 273.0  | 611.7              | 88.6                | 211.8               | .                | .                |
| Expenditures  | 286.2  | 427.1  | 494.8  | 407.2  | 685.9              | 128.2               | 173.7               | .                | .                |
| Deficit (-) / surplus (+)                           | -85.2  | -173.3 | -183.2 | -134.2 | -74.2              | -39.6               | 38.1                | .                | .                |
| Deficit (-) / surplus (+), % GDP                    | -5.4   | -7.9   | -7.0   | -5.0   | -1.7               | .                   | .                   | .                | .                |
| Money supply, RUB bn, end of period                 |        |        |        |        |                    |                     |                     |                  |                  |
| M1, Money   | 151.3  | 192.4  | 298.3  | 342.8  | 526.8              | 344.8               | 546.4               | .                | .                |
| M2, Money + quasi money                             | 275.8  | 357.3  | 457.2  | 628.6  | 984.7              | 675.3               | 1090.4              | .                | .                |
| Refinancing rate of NB % p.a., end of per.          | 160    | 48     | 28     | 60     | 55                 | 60                  | 33                  | .                | .                |
| Current account, USD mn                             | 8025   | 12448  | 3537   | 1037   | 24990              | 4716                | .                   | 15000            | 10000            |
| Gross reserves of NB, incl. gold, USD mn            | 17207  | 15324  | 17784  | 12223  | 12456              | 10765               | 15532               | .                | .                |
| Gross external debt, USD mn                         | 120500 | 125000 | 130800 | 145000 | 158800             | .                   | .                   | .                | .                |
| Exports total, fob, USD mn <sup>3)</sup>            | 81096  | 88599  | 88326  | 74157  | 74400              | 15500               | 22800               | 78000            | 82000            |
| annual change in %                                  | 20.1   | 9.3    | -0.3   | -16.0  | 0.3                | -15.8               | 47.1                | 5                | 5                |
| Imports total, cif, USD mn <sup>3)</sup>            | 60945  | 68828  | 73613  | 58935  | 41000              | 9400                | 9600                | 46000            | 55000            |
| annual change in %                                  | 20.6   | 12.9   | 7.0    | -19.9  | -30.4              | -48.6               | 2.1                 | 12               | 20               |
| Average exchange rate RUB/USD                       | 4.55   | 5.12   | 5.79   | 9.71   | 24.62              | 22.90               | 28.48               | 30               | 33               |
| Average exchange rate RUB/EUR (ECU)                 | 5.89   | 6.63   | 6.54   | 11.06  | 26.24              | 25.71               | 28.17               | .                | .                |
| Average exchange rate RUB/DEM                       | 3.18   | 3.41   | 3.34   | 5.62   | 13.42              | 13.15               | 14.40               | .                | .                |
| Purchasing power parity RUB/USD, WIIW               | 1.58   | 2.21   | 2.52   | 2.82   | 4.51               | .                   | .                   | .                | .                |
| Purchasing power parity RUB/EUR, WIIW               | 1.69   | 2.40   | 2.78   | 3.09   | 4.89               | .                   | .                   | .                | .                |

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

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Slovakia: unexpected growth due to export boom**

On assuming power eighteen months ago, the current government inherited an inordinately high external imbalance and a relatively low, but rapidly expanding state deficit. Given this situation, a special policy-mix emerged. The National Bank of Slovakia (NBS) switched to a floating exchange rate regime and the national currency depreciated. The government introduced austerity measures designed to reduce domestic demand. As a result of this mix, both the current account and budget deficits have diminished. GDP growth has slowed down, albeit to a lesser degree than anticipated because an unexpected export boom offset the relative weakness of domestic demand.

A rise in bankruptcies coupled with deceleration of GDP growth have made more than 100,000 people redundant since the end of 1998. Peaking at 554,000 in January 2000, the number of jobless declined slightly (to 531,000 by April 2000). However, standing at 18.8%, the unemployment rate remains inordinately high: one of the highest in the transition countries. The fact that currently 57% of those out of work are younger than 35 presents a major problem. Furthermore, the average period of unemployment has remained high: around one year per person. Regional differences are also becoming more pronounced. Benefiting from its proximity to Austria, the Bratislava region reports an unemployment rate of some 6%, whereas the poorer southern and eastern districts have jobless rates of more than 30%. The high rate of unemployment will, however, only drop to any appreciable extent once more rapid economic growth sets in coupled with an expansion of the small and medium-sized enterprise sector and its employment generation factor.

Following an expansion of 2.4% in the final quarter of 1999, GDP was up by 1.5% year-on-year in the first quarter of 2000. With domestic demand still depressed, the surprisingly high GDP growth was mostly driven by exports of goods and services. The latter rose by 19.8% in real terms, while imports were up by 8.8%. Apparently, the country's competitiveness on international markets has improved primarily on account of declining unit labour costs, despite the nominal and real appreciation of the Slovak currency against the euro. In the first quarter of 2000, real wages dropped by 6.1%, whereas labour productivity increased by around 4%. In line with the austerity policy, private consumption continues to decline (-6.4%).

The construction sector remains hard hit by the austerity programme. In the first quarter of 2000, output plunged a further 16.6%. Following a drop of 8.1% in the first quarter of 1999, gross industrial output rose by 4.5% in the first quarter this year. Whereas only a small number of FDI companies, led by VW Bratislava and Siemens, had displayed excellent

performance in previous years, their ranks are now swelling as some domestic-owned firms join in. According to the Ministry of Economy, in industrial firms with more than 20 employees total pre-tax profits rose fivefold to SKK 23.2 billion (USD 560 million) in 1999. The energy sector accounted for three quarters of this profit, the major revenue being derived from a rise in prices (by 35 to 50%) for the supply of electricity, natural gas and heating on 1 July 1999. The second largest profit-maker was the car-maker VW making full use of improved export openings.

The growth in regulated prices coupled with the re-introduction of an import surcharge and higher levies on fuel, alcoholic beverages and cigarettes (in effect since January 2000) fuelled the inflation rate to a marked degree. In the first quarter of 2000 consumer prices rose by 15.6% year-on-year compared to 6.7% in the corresponding period in 1999. At SKK 0.8 billion, the central government deficit was very low in the first quarter of 2000. However, budgetary stability in the medium term could be undermined by a drain on funds needed to cover the cost of restructuring the banking sector (over SKK 100 billion). Further burden for the budget might include coverage of potential liabilities arising from state guarantees to industrial firms in the amount of some SKK 120 billion and repaying privatization bonds that will fall due in 2001 worth over SKK 30 billion. In total, they are equivalent to nearly 30% of GDP. That notwithstanding, the Slovak government still has some manoeuvring space because officially public debt accounts for little more than 20% of GDP. In addition, Slovak Telecom will be auctioned off this summer to be followed by the privatization of the energy companies next year, both of which will boost budgetary revenues.

The foreign trade deficit was halved to USD 168 million in the first quarter of 2000, compared to the pre-year period, on account of the declining unit labour costs mentioned above. Furthermore, Slovakia is benefiting from recovery in the EU, especially Germany, which is the country's single largest trading partner accounting for nearly one half of all exports to the EU. Exports, particularly of cars and steel, are booming and they can more than offset weak domestic demand. The passive trade balance has resulted from the foreign trade deficit with Russia valued at USD 505 million in the first quarter of 2000, owing to soaring prices for crude oil imports. In the first quarter of 2000 the current account deficit was some 4% of GDP. Following some fluctuation, the foreign exchange reserves of the NBS rose to USD 4 billion on 17 May 2000, thus already providing coverage for imports of goods and services in about four months. Despite a slight recovery, FDI inflow has remained very weak. MOL, the Hungarian oil and gas company, acquired Slovnaft, the country's largest refinery, which was heavily in debt, for USD 262 million in April 2000. The sale was the country's largest single sale to date. VSZ, the country's major steel maker, will probably be taken over by US Steel in the second half of this year. In order to attract more foreign investors, corporate taxes were cut this year and the prerequisites for obtaining tax

holidays of up to ten years have been eased. In addition, red tape has been gradually reduced and commercial transparency heightened.

The government has cleaned up and recapitalized the three state-owned banks (Slovenská Sporiteľna – SLSP, Všeobecná Úverová Banka – VÚB, and Investiční Rozvojová Banka – IRB) and put them up for sale. Konsolidacní Banka, the sole state-owned bank specialized in collecting state debts, is heavily involved in this operation. Furthermore, the cabinet has invited White & Case Co. to act as its legal advisor and the J. P. Morgan investment bank as its financial advisor on this restructuring of the banking sector. Before privatizing the three banks, the share of classified loans should drop to about 15-20%. Both the VÚB and SLSP now have a capital adequacy of around 9% compared to a negative value prior to the restructuring programme getting under way. An 85% share in the VÚB is up for sale and the share in the SLSP will probably be around two thirds. In total, restructuring will cost an estimated SKK 105 billion (USD 2.3 billion) or some 12% of the GDP. The largest portion of this operation is to be financed from NBS sources, a new ten-year-bond issue and foreign loans. The process will probably start with the sale of the VÚB at the end of the year. The international capital markets have commended this approach and reciprocated by reducing borrowing costs on government bonds, with the premium over benchmark euro issues falling from over 1,000 basis points in 1998 to around 220 at present. Nevertheless, domestic banks have remained cautious and have been hesitant to lend the money.

Given the unexpected export boom firmly offsetting the continued weakness of domestic demand and the prospects of a favourable business climate in Europe, GDP will expand by 2% this year and by 3% in 2001. However, further currency appreciation may adversely affect the country's competitiveness. Exchange rate policy thus takes on particular importance. The NBS envisages a decrease in interest rates, and corresponding expectations might stabilize or even weaken the exchange rate. Economic growth will force unemployment down to some 18% this year. However, in all probability it will only decrease to any substantial degree a few years hence in the context of Slovakia's EU accession. Increases in regulated prices and the import surcharge (despite its being reduced from 7% to 5% on 1 January 2000) will nudge the average inflation rate upwards to close on 15% this year. Whereas the full-year central government deficit will probably be in line with the target (2% of GDP), the general government deficit (central government, social security funds, local governments, extra-budgetary funds) will very likely exceed 5% of GDP in 2000 mostly on account of necessity to cover large arrears in payments to the main social funds, the slow pace of pension reform and the need to offset high unemployment.

Table SK

## Slovak Republic: Selected Economic Indicators

|   | 1995   | 1996    | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000<br>1st quarter | 2000<br>forecast | 2001<br>forecast |
|---|--------|---------|---------|---------|--------------------|---------------------|---------------------|------------------|------------------|
| Population, th pers., mid-year                      | 5363.7 | 5373.8  | 5383.2  | 5390.7  | 5395.1             | .                   | .                   | .                | .                |
| Gross domestic product, SKK bn, nom.                | 516.8  | 575.7   | 653.9   | 717.4   | 779.3              | 178.2               | .                   | 890              | 1000             |
| annual change in % (real)                           | 6.9    | 6.6     | 6.5     | 4.4     | 1.9                | 1.8                 | 1.5 <sup>2)</sup>   | 2                | 3                |
| GDP/capita (USD at exchange rate)                   | 3240   | 3495    | 3613    | 3777    | 3492               | .                   | .                   | .                | .                |
| GDP/capita (USD at PPP - WIIW)                      | 8030   | 8780    | 9540    | 9990    | 10240              | .                   | .                   | .                | .                |
| Gross industrial production <sup>3)</sup>           |        |         |         |         |                    |                     |                     |                  |                  |
| annual change in % (real)                           | 8.3    | 2.5     | 2.7     | 5.0     | -3.4               | -8.1                | 4.5                 | 3                | 4                |
| Gross agricultural production                       |        |         |         |         |                    |                     |                     |                  |                  |
| annual change in % (real)                           | 2.3    | 2.0     | -1.0    | -5.9    | -1.8               | .                   | .                   | .                | .                |
| Goods transport, mn t-kms <sup>4)</sup>             | 20390  | 18721   | 17672   | 17808   | 33959              | 7643                | 8221                | .                | .                |
| annual change in % <sup>4)</sup>                    | 13.3   | -8.2    | -5.6    | 0.8     | 9.0                | -0.1                | 7.5                 | .                | .                |
| Gross fixed capital form., SKK bn, nom.             | 141.5  | 212.7   | 252.7   | 292.4   | 257.3              | 52.6                | .                   | .                | .                |
| annual change in % (real)                           | 5.3    | 39.8    | 14.5    | 11.0    | -18.2              | -13.0               | 0.5 <sup>2)</sup>   | 0                | 5                |
| Construction industry                               |        |         |         |         |                    |                     |                     |                  |                  |
| annual change in % (real)                           | 2.9    | 4.4     | 9.2     | -3.5    | -25.8              | -27.2               | -16.6               | .                | .                |
| Dwellings completed, units                          | 6157   | 6257    | 7172    | 8234    | 10745              | .                   | .                   | .                | .                |
| annual change in %                                  | -8.2   | 1.6     | 14.6    | 14.8    | 30.5               | .                   | .                   | .                | .                |
| Employment total, th pers., average                 | 2019.8 | 2036.4  | 2040.9  | 2032.1  | 1988.2             | 1972.0              | 1923.9              | .                | .                |
| annual change in %                                  | 2.2    | 0.8     | 0.2     | -0.4    | -2.2               | -1.7                | -2.4                | .                | .                |
| Employment in industry, th pers., average           | 621.2  | 621.2   | 608.9   | 583.9   | 566.7              | 578.2               | 547.8               | .                | .                |
| annual change in %                                  | 4.1    | 0.0     | -2.0    | -4.1    | -2.9               | -3.9                | -5.3                | .                | .                |
| Unemployed reg., th, end of period                  | 333.3  | 329.7   | 347.8   | 428.2   | 535.2              | 469.1               | 546.8               | .                | .                |
| Unemployment rate in %, end of period <sup>5)</sup> | 13.1   | 12.8    | 12.5    | 15.6    | 19.2               | 16.7                | 19.3                | 18               | 18               |
| Average gross monthly wages, SKK                    | 7195   | 8154    | 9226    | 10003   | 10728              | 9683                | 10497               | .                | .                |
| annual change in % (real, gross)                    | 4.0    | 7.1     | 6.6     | 2.7     | -3.1               | 0.3                 | -6.1                | .                | .                |
| Retail trade turnover, SKK bn                       | 262.1  | 296.5   | 328.8   | 379.4   | 441.2              | 97.7                | 104.3               | .                | .                |
| annual change in % (real)                           | 2.0    | 7.0     | 4.6     | 8.2     | 9.9                | 8.9                 | -1.6                | .                | .                |
| Consumer prices, % p.a.                             | 9.9    | 5.8     | 6.1     | 6.7     | 10.6               | 6.7                 | 15.6                | 15               | 11               |
| Producer prices in industry, % p.a.                 | 9.0    | 4.2     | 4.5     | 3.3     | 3.8                | 1.2                 | 9.5                 | .                | .                |
| Central government budget, SKK bn <sup>6)</sup>     |        |         |         |         |                    |                     |                     |                  |                  |
| Revenues  | 163.1  | 166.3   | 175.8   | 177.8   | 216.7              | 40.9                | 51.1                | .                | .                |
| Expenditures  | 171.4  | 191.9   | 192.8   | 197.0   | 231.5              | 39.9                | 52.0                | .                | .                |
| Deficit (-) / surplus (+)                           | -8.3   | -25.6   | -17.0   | -19.2   | -14.8              | 1.0                 | -0.8                | .                | .                |
| Deficit (-) / surplus (+), % GDP                    | -1.6   | -4.4    | -2.6    | -2.7    | -1.9               | .                   | .                   | .                | .                |
| Money supply, SKK bn, end of period                 |        |         |         |         |                    |                     |                     |                  |                  |
| M1, Money   | 148.4  | 173.9   | 166.1   | 147.2   | 154.0              | 143.0               | 144.7               | .                | .                |
| M2, Money + quasi money                             | 357.0  | 416.9   | 453.5   | 466.1   | 523.7              | 476.7               | 540.5               | .                | .                |
| Discount rate, % p.a., end of period                | 9.8    | 8.8     | 8.8     | 8.8     | 8.8                | 8.8                 | 8.8                 | .                | .                |
| Current account, USD mn                             | 391    | -2098   | -1929   | -2063   | -1083              | -257                | .                   | -800             | -700             |
| Gross reserves of NB incl. gold, USD mn             | 3418   | 3473    | 3285    | 2923    | 3425               | 2814                | 3727                | .                | .                |
| Gross external debt, USD mn                         | 5827   | 7810    | 10700   | 11900   | 10518              | 9653.0              | .                   | .                | .                |
| Exports total, fob, USD mn <sup>7)</sup>            | 8579.0 | 8829.0  | 8252.1  | 10723.1 | 10211.4            | 2354.2              | 2850.4              | 10500            | 10800            |
| annual change in %                                  | 28.2   | 2.9     | -6.5    | 10.7    | -4.8               | -5.0                | 21.1                | 3                | 3                |
| Imports total, fob, USD mn <sup>7)</sup>            | 8770.5 | 11121.0 | 10309.7 | 13076.8 | 11316.0            | 2682.7              | 3017.9              | 11500            | 11800            |
| annual change in %                                  | 32.7   | 26.8    | -7.3    | 11.1    | -13.5              | -9.5                | 12.5                | 2                | 3                |
| Average exchange rate SKK/USD                       | 29.74  | 30.65   | 33.62   | 35.23   | 41.36              | 38.63               | 42.56               | 43               | 46               |
| Average exchange rate SKK/EUR (ECU)                 | 38.45  | 38.41   | 37.96   | 39.58   | 44.10              | 43.41               | 41.07               | .                | .                |
| Average exchange rate SKK/DEM                       | 20.76  | 20.39   | 19.41   | 20.06   | 22.55              | 22.19               | 21.51               | .                | .                |
| Purchasing power parity SKK/USD, WIIW               | 12.00  | 12.20   | 12.73   | 13.33   | 14.10              | .                   | .                   | .                | .                |
| Purchasing power parity SKK/EUR, WIIW               | 12.86  | 13.22   | 14.03   | 14.57   | 15.30              | .                   | .                   | .                | .                |

1) Preliminary. - 2) Not comparable with the methodology used up to 1999. - 3) From 1999 according to EU methodology. - 4) Up to 1998 enterprises with 20 and more persons, from 1999 all organizations including those which do not have their main activity in transport. - 5) From 1997 new methodology. - 6) From 1997 according to IMF methodology. - 7) Converted from the national currency to USD at official exchange rate; from 1998 new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Slovenia: external position worsening**

Reporting an economic growth rate of 4.9%, final GDP data for 1999 have exceeded all expectations. Growth was fuelled by a surge in domestic demand ahead of the introduction of VAT in mid-1999. Investments expanded by 16% in real terms, thus increasing their share in the GDP to 27% (from 19% in 1990). This was clearly reflected in the most dynamic construction activities since Slovenia gained independence. GDP data for the first quarter of 2000 are not yet available. But, in contrast to the poor performance reported in the first half of 1999, industrial output developed favourably in the first four months of 2000, with total output up by 7.3% (first four months of 1999: -4.2 %), manufacturing grew by 7.9%. Industrial employment fell by a further 3.5% and labour productivity increased by 11%. Regrettably, reliable data on investment and consumption are lacking.

Inflation was higher than the authorities had expected. In the period January-May retail prices rose by 8.7%, fuelled primarily by an increase in import prices of raw materials and oil. Tight monetary policy should help to combat the growing inflation pressure. The Bank of Slovenia has thus decided to increase the discount rate from currently 8% to 9% and the Lombard rate from 9% to 10% as of 1 June 2000.

Total employment increased by 1.8% during the first quarter of the year, while the number of unemployed officially registered maintained a downward trend; by end-March the unemployment rate was 12.1%, down from 13.6% reported last December. This trend is also confirmed by data obtained from the labour force survey, showing an unemployment rate of 7.5% for the first quarter of 2000. Fears that growth in wages might outstrip growth in productivity did not materialize; during the first three months of 2000, average gross wages rose by a mere 0.3% in real terms.

External imbalances that had only shown up to any noteworthy extent in 1999 for the first time since the country gained independence continued to widen during the first months of 2000. Over the period January-March, total exports expressed in current USD terms increased by a mere 2.9%, while imports rose by 6.6%. The foreign trade deficit was thus USD 100 million higher than over the same period in 1999. External trade expressed in euro shows a more dynamic picture with exports up by 17% in the first quarter of 2000, but also a higher growth of imports (21%). In Slovenia's foreign trade, about 10% of its exports and 15% of its imports are denominated in USD, while more than two thirds are conducted on a euro basis and in currencies linked to the euro (such as the Croatian kuna). Originally viewed as a temporary phenomenon in 1999 due to a surge in imports in anticipation of VAT being introduced, the current account has continued to deteriorate ever since, but its deficit has remained low compared with other countries in transition. Measured in relation

to the GDP the current account deficit is not that disconcerting – about 3% in 1999. In prior years current account closure was either balanced or slightly negative. In the first quarter of 2000 the current account closed with a deficit of USD 175 million – mainly on account of the trade deficit – up from USD 33 million in the corresponding pre-year period; the services balance remained stagnant. Since most of the deficit is financed through foreign borrowing, foreign indebtedness has been permanently on the increase, amounting to USD 5.9 billion by the end of March. Only a fraction (USD 123 million) is, however, short-term debt.

Almost no foreign capital flowed into the country during the first three months of 2000: a feature characteristic of the past few years. For example, in 1999 FDI inflow totalled only USD 84 million. A recent report by the Foreign Investment Advisory Service (FIAS) concluded that foreign investors were mostly irked by the procedures regarding the purchase of industrial sites. Registration procedures are not only sluggish and arbitrary, but prices are also extremely high. Furthermore, the procedures governing the acquisition of land and the issuance of building and other permits are time-consuming, while labour laws are rigid and obsolete.

The general government budget closed with a slight deficit of 0.6% compared to GDP in 1999; a similar magnitude is also envisaged for 2000. In mid-May the Ministry of Finance issued the fiscal guidelines for the period 2001-2004 which aim at eliminating the budget deficit and generating a surplus on joining the EU. This goal is to be achieved by reducing public spending on such items as mandatory pensions and disability insurance schemes. However, it remains to be seen whether the current government or the new government to be formed after the elections will adhere to this programme.

After four years of discussion, the new Pension and Disability Insurance Act was passed in December 1999 and came into force on 1 January 2000. The new model is based on three pillars: a combination of a modified (compulsory) pay-as-you-go system with a number of opportunities for supplementary (voluntary) insurance. In the compulsory segment – the first pillar – the new law envisages modifying the current pay-as-you-go system and introducing two new pension modes: the widow(er)'s pension and a state pension for Slovene citizens aged over 65 years with no other source of income. *Inter alia*, the retirement age for men will be gradually increased to 63 and for women to 61, while the reference period for calculating the pension base will be gradually increased from the current 10 years to 18. Participation in the second pillar is mandatory for those involved in heavy and hazardous work. Contributions are to be paid by employers or they can be the subject of a collective agreement between employers and employees. The third pillar is a voluntarily funded pillar, with tax incentives providing the boost.

In April 2000 the government coalition led by the Liberal Democrat Janez Drnovsek lost its majority, after the People's Party (the major coalition partner) opted to merge with the Christian Democrats in preparation for the parliamentary elections to be held in autumn (October or November) this year. A new government headed by Andrej Bajuk as prime minister, was approved by parliament on 7 June 2000, after a first ballot has failed to gain sufficient support. The key task of the new government will be to pass legislation needed for EU membership. Other goals such as phasing out state intervention in the economy, abolishing monopolies and attracting more foreign investment will very likely remain on the agenda until after the elections. It is also very likely that the privatization of state-owned enterprises such as the national telecom operator or the repeatedly announced privatization of the country's two largest banks, Nova Ljubljanska Banka and Nova Kreditna Banka, will be further delayed.

Based on the economic results available for the first months of the year and given the favourable forecasts for the EU, the Slovene economy may grow by about 4% in both 2000 and 2001. Following the increase in oil prices and certain other raw materials on the world market, the official inflation forecasts for 2000 have been revised upwards to 7.6% by the Institute for Macro-economic Analysis and Development and to 7.8% by the Chamber of Commerce. Provided energy prices undergo no new hikes, inflation is expected to decline in 2001. Increasing oil prices, rising interest rates and the strong USD dollar may lead to the current account deficit deteriorating further in 2000.

Table SI

## Slovenia: Selected Economic Indicators

|   | 1995   | 1996   | 1997   | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000                | 2000<br>forecast | 2001  |
|---|--------|--------|--------|---------|--------------------|---------------------|---------------------|------------------|-------|
| Population, th pers., mid-year  | 1987.5 | 1991.2 | 1986.8 | 1982.6  | 1985.6             | .                   | .                   | .                | .     |
| Gross domestic product, SIT bn, nom.                                      | 2221.5 | 2555.4 | 2907.3 | 3253.8  | 3637.4             | .                   | .                   | 4070             | 4470  |
| annual change in % (real)   | 4.1    | 3.5    | 4.6    | 3.8     | 4.9                | 2.5                 | .                   | 4                | 4     |
| GDP/capita (USD at exchange rate)   | 9431   | 9481   | 9163   | 9878    | 10078              | .                   | .                   | .                | .     |
| GDP/capita (USD at PPP - WIIW)  | 12440  | 13220  | 14150  | 14780   | 15590              | .                   | .                   | .                | .     |
| Gross industrial production<br>annual change in % (real)                  | 2.0    | 1.0    | 1.0    | 3.7     | -0.5               | -3.0                | 7.2                 | 3                | 3     |
| Gross agricultural production<br>annual change in % (real)                | -0.1   | 0.7    | -1.2   | 2.5     | .                  | .                   | .                   | .                | .     |
| Goods transport, mn t-kms   | 22595  | 22371  | 22563  | 22017   | 23742              | 5457                | .                   | .                | .     |
| annual change in %  | -2.8   | -1.0   | 0.9    | -2.4    | 7.8                | -4.9                | .                   | .                | .     |
| Gross fixed capital form., SIT bn, nom.                                   | 475.0  | 576.7  | 684.1  | 799.5   | 978.0              | .                   | .                   | .                | .     |
| annual change in % (real)   | 16.8   | 9.2    | 11.3   | 11.1    | 16.1               | .                   | .                   | .                | .     |
| Construction output, in effect. working time<br>annual change in % (real) | 0.9    | -2.5   | -5.2   | 1.7     | 10.2               | 2.8                 | 2.4                 | .                | .     |
| Dwellings completed, units  | 5715   | 6228   | 6085   | .       | .                  | .                   | .                   | .                | .     |
| annual change in %  | 3.5    | 9.0    | -2.3   | .       | .                  | .                   | .                   | .                | .     |
| Employment total, th pers., average                                       | 745.2  | 741.7  | 743.4  | 745.2   | 758.5              | 747.1               | 759.7 <sup>2)</sup> | .                | .     |
| annual change in %  | -0.1   | -0.5   | 0.2    | 0.2     | 1.8                | 0.9                 | 1.9 <sup>2)</sup>   | .                | .     |
| Employees in industry, th pers., average <sup>3)</sup>                    | 252.4  | 239.2  | 248.5  | 246.2   | 242.8              | 223.6               | .                   | .                | .     |
| annual change in %  | -4.9   | -5.2   | -2.1   | -0.9    | -1.4               | -1.1                | .                   | .                | .     |
| Unemployed reg., th, end of period  | 126.8  | 124.5  | 128.6  | 126.6   | 114.3              | 122.9               | 110.1               | .                | .     |
| Unemployment rate in %, end of period                                     | 14.5   | 14.4   | 14.8   | 14.6    | 13.0               | 14.1                | 12.6                | 11.5             | 11    |
| Average gross monthly wages, SIT  | 111996 | 129125 | 144251 | 158069  | 173245             | 166173              | 180596              | .                | .     |
| annual change in % (real, net)  | 4.7    | 4.4    | 2.9    | 1.5     | 3.3                | 2.7                 | 0.3                 | .                | .     |
| Retail trade turnover, SIT bn   | 705.8  | 871.3  | 1336.8 | 1610.2  | 1798.1             | 369.7               | .                   | .                | .     |
| annual change in % (real)   | 3.1    | 2.9    | 1.0    | 2.1     | 2.9                | -5.8                | .                   | .                | .     |
| Consumer prices, % p.a.   | 13.5   | 9.9    | 8.4    | 7.9     | 6.1                | 5.6                 | 8.4                 | 7.5              | 5.5   |
| Producer prices in industry, % p.a.                                       | 12.8   | 6.8    | 6.1    | 6.0     | 2.1                | 2.0                 | 5.2                 | .                | .     |
| General government budget, SIT bn   |        |        |        |         |                    |                     |                     |                  |       |
| Revenues  | 958.2  | 1091.8 | 1222.6 | 1397.9  | 1587.4             | .                   | .                   | .                | .     |
| Expenditures  | 957.3  | 1083.6 | 1256.7 | 1423.5  | 1610.4             | .                   | .                   | .                | .     |
| Deficit (-) / surplus (+)   | 0.9    | 8.2    | -34.1  | -25.6   | -23.0              | .                   | .                   | .                | .     |
| Deficit (-) / surplus (+), % GDP  | 0.0    | 0.3    | -1.2   | -0.8    | -0.6               | .                   | .                   | .                | .     |
| Money supply, SIT bn, end of period                                       |        |        |        |         |                    |                     |                     |                  |       |
| M1, Money   | 203.9  | 235.1  | 270.5  | 332.7   | 399.8              | 335.4               | 362.6               | .                | .     |
| Broad money   | 941.9  | 1135.3 | 1411.3 | 1690.3  | 1912.3             | 1730.8              | 1962.7              | .                | .     |
| Discount rate % p.a., end of period                                       | 10.0   | 10.0   | 10.0   | 10.0    | 8.0                | 8.0                 | 8.0                 | .                | .     |
| Current account, USD mn   | -22.8  | 39.0   | 36.6   | -3.8    | -581.4             | -33                 | -175                | -700             | -750  |
| Gross reserves of NB excl. gold, USD mn                                   | 1820.8 | 2297.4 | 3314.7 | 3638.5  | 3168.0             | 3868                | 3335                | .                | .     |
| Gross external debt, USD mn <sup>4)</sup>                                 | 2970   | 4010   | 4176   | 4959    | 5491               | 5126                | 5924                | .                | .     |
| Exports total, fob, USD mn  | 8315.8 | 8309.8 | 8368.9 | 9050.6  | 8545.8             | 2116.0              | 2176.6              | 8800             | 9100  |
| annual change in %  | 21.8   | -0.1   | 0.7    | 8.1     | -5.6               | 0.5                 | 2.9                 | 3                | 3     |
| Imports total, cif, USD mn  | 9491.7 | 9421.4 | 9366.5 | 10110.9 | 9954.4             | 2401.9              | 2560.9              | 10400            | 10600 |
| annual change in %  | 30.0   | -0.7   | -0.6   | 7.9     | -1.5               | -1.7                | 6.6                 | 5                | 2     |
| Average exchange rate SIT/USD   | 118.52 | 135.37 | 159.69 | 166.13  | 181.77             | 168.53              | 201.98              | 205              | 212   |
| Average exchange rate SIT/EUR (ECU)                                       | 153.12 | 169.51 | 180.40 | 186.27  | 193.63             | 189.29              | 199.43              | .                | .     |
| Average exchange rate SIT/DEM   | 82.66  | 89.98  | 92.12  | 94.41   | 99.00              | 96.78               | 101.97              | .                | .     |
| Purchasing power parity SIT/USD, WIIW                                     | 89.86  | 97.08  | 103.40 | 111.05  | 117.54             | .                   | .                   | .                | .     |
| Purchasing power parity SIT/EUR, WIIW                                     | 96.30  | 105.26 | 114.01 | 121.45  | 127.55             | .                   | .                   | .                | .     |

1) Preliminary. - 2) January to February. - 3) Up to 1996 excluding persons employed by self-employed in enterprises with 3 and more employees. Quarterly data refer to enterprises with 3 and more persons. - 4) Up to 1995 excluding portion of debt of the former Yugoslav Federation.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

*Helen Boss*

## **Ukraine: strong growth in industry and a surge in inflation**

Ukraine's GDP in the first quarter of the year 2000 came in at 5.6% above that recorded in the first quarter of 1999; the uptrend accelerated in January-April to 5.5% year-on-year. Industrial production was up 9.7% in the first three months, rising to plus 10.2% year-on-year in January-May. Individual sectors such as food, consumer goods and metals did even better. The lagged effect of the devaluation is the obvious explanation: the currency lost 32.4% of its value against the USD during the course of 1999 and 62.3% between second-quarter 1998, before the Russian crisis, and first-quarter 2000. The devaluation not only protected the economy from import competition and stimulated the growth of exports, but also helped remonetize it. However there is much debate as to the sustainability of the upturn. The devaluation effect is certain to diminish: the currency was nominally nearly stable in the first half of 2000 while rising in real terms against the USD, in which most exports are quoted; it has also been stable against the rouble. Gains from import-substitution must inevitably be limited by domestic rates of growth as market shares of local firms approach 100%.

The food industry, where Ukraine's current comparative advantage lies, is finally benefiting from import-substitution, harder budgets and rising export demand. Food processing rose 4.7% in 1999 and 30.8% in the first quarter of 2000 year-on-year. Thanks to import substitution some 92% of food is produced locally, leaving small room for future gains in market share; future expansion must come from exports to CIS and other markets, and overcome numerous tariff and non-tariff barriers to trade. A hopeful sign given the sugar and other 'wars' of previous years is that food exports to the FSU soared 30% on an annual bop basis in the last quarter of 1999.

The Ministry of Economy is therefore forecasting GDP growth in the year 2000 of 1-2%, or USD 28.2 billion at the June 2000 exchange rate of UAH 5.44 to the USD; the government projects a 4% GDP growth rate in 2001. Industrial production is forecast at 3.4% for the year. Inflation has however picked up. Consumer prices rose 12.1% in the course of the first quarter and 14.4% in the first 5 months, even though the CPI is still officially projected to rise only 19% for the whole year, the same as in 1999, thanks in part to a planned zero-deficit budget. Despite the price surge, real incomes rose in the first quarter by 10% year-on-year, a welcome result that may be short-lived. Inflationary expectations remain high, as evidenced by the government's own assumed exchange rate for 2001, which at UAH 6.7 to the USD is 20% below the average obtaining in first-half 2000. Useable reserves of the National Bank stood at USD 993 million at the end of April, not a very safe situation. PM Yushchenko's embarrassment over the misstated reserves during his tenure

as head of the National Bank may however be forgotten if there is progress that permits resumption of the IMF and World Bank lending programmes.

Privatization of the largest enterprises is going forward slowly, on a case-by-case basis, with government revenue targets continually undershot. Parliament has opposed sell-offs that might result in majority foreign ownership or management control, seen as essential to lure would-be investors. Investment rose strongly in the first quarter of 2000 from a low base, but flight capital and western multinationals remain wary of the country's well-publicized reputation for corruption, red tape and non-sanctity of contract.

Some analysts argue Ukraine may now be in a transition 'trap' owing to the explosion of barter and other non-monetary instruments 1994 ff. The government has mounted a campaign to reduce barter and tax offsets, in part by incurring no further arrears of its own. Planned expenditures are to match revenues, and if CPI inflation is 20%, to fall as much as a fifth in real terms. Seventeen thousand state employees were made redundant in the first quarter. The successful rescheduling of USD 2.37 billion in eurobond interest and principal, plus a probable resumption of IMF lending after mid-year will allow a larger fraction of budget revenues to be spent on domestic goods, services and transfers, clearing arrears and shoring up the safety net.

The former collective farms were officially disbanded in April 2000, but things may get worse in agriculture before they get better. The president's decree failed to include a clear statement that land distributed from the (unfinished) national cadastre would become the private, mortgageable property of ex-kolkhozniks. The fact that 87% of collective farms made losses in 1999 keeps them unattractive for investors, who would have to assume the debts. Only about 5% of farms or former collective agricultural enterprises have been reorganized as entities able to pledge assets as collateral. Three-fifths of agricultural output is produced on private dacha plots and farms accounting for only 18% of agricultural land. Barter has been reduced but in the first quarter of 2000 still accounted for 41% of sales of sunflower seeds, 41% of beet sugar and 31% of cereal crops; most agricultural labour payments are in kind. Meanwhile this year's grain harvest may be even worse than last year's near post-war low of 24.4 million t: the state is attempting to exit the business of providing fuel, electricity and fertilizer in kind in exchange for part of the harvest in kind, but ex-kolkhozniki have no cash for inputs, nor credit records on which to borrow. Thus results may have to wait until 2001, when it will be clear which creditors got paid first after this year's harvest.

Foreign trade is recovering. Exports of goods and services to all destinations rose 17.8% in the first quarter year-on-year. Imports of goods and services picked up 19.1%, though the recorded trade balance remained positive. Sales of goods and services to Russia rose 18.6% in the first quarter but imports from Russia rose 20.7%, for an official deficit with

Big Brother of USD 800 million. Both the president and Energy Deputy Minister Yulia Tymoshenko have admitted unauthorized tapping of Russia's export gas, though Russia and Ukraine have agreed neither on the cumulative amount nor the consequences. The Russians have taken a hard line on CIS arrears to Russia and Gazprom, and wants assets in settlement. The CIS in January-February still accounted for 62% of Ukraine's goods imports on a customs basis, reflecting the oil and gas burden. The share of former Soviet partners is vastly less for exports despite a 30% year-on-year growth rate in January-February: only 26.3% of Ukrainian exports on a customs' basis were destined for the CIS in that period. The improvement is from a base heavily impacted by the Russian crisis: Ukrainian exports to the FSU plunged 36.5% between the second half of 1997 and the second half of 1999, and imports from the FSU, 34%.

Recent hints that NATO may be prepared to start discussing a much wider expansion, to include the Baltic States, is tempting Ukraine's elite to tilt further toward the west. Russia is sounding less friendly; both Putin and Kasyanov have upped the volume of complaint over unpaid energy bills, which may even worsen if Chernobyl is closed in December 2000, and have come out against a free-trade deal which Ukraine favours. Russia's pipeline across Belarus is closer to completion and could reduce Ukraine's bargaining power with Gazprom, though about a quarter of Europe's gas consumption travels to it via Ukraine, and rising demand in there and in Turkey may keep Ukraine's gas pipelines full. Ukraine's campaign to join the WTO is receiving renewed attention. The present EU leadership has snubbed the government's efforts to be mentioned as a possible future candidate for EU membership, and WTO accession is now seen as a step on the road to improving the country's reputation and possibly changing the EU's mind. Ukraine ended a ban on imports of used vehicles over 8 years old and passed a law to combat CD piracy, longstanding conditions for a favourable WTO hearing. Under the PCA with the EU, Ukraine would be eligible for a free trade agreement with the EU if it qualified for the WTO. The minister of justice announced in May that Ukraine will pre-emptively and voluntarily seek to harmonize its legislation with the 80,000 pages of the EU's laws and regulations, effectively admitting that the ball of creating an improved business climate is in Ukraine's court.

Table UA

## Ukraine: Selected Economic Indicators

|  | 1995    | 1996    | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000   | 2000<br>forecast    | 2001   |
|--|---------|---------|---------|---------|--------------------|---------------------|--------|---------------------|--------|
| Population, th pers., end of period                    | 51334.1 | 50894.0 | 50499.9 | 50105.6 | 49707.0            | .                   | .      | 49500               | 49300  |
| Gross domestic product, UAH mn, nom.                   | 54516   | 81519   | 93365   | 103869  | 127126             | 25157               | 32731  | 154100              | 190500 |
| annual change in % (real)                              | -12.2   | -10.0   | -3.0    | -1.7    | -0.4               | -4.7                | 5.6    | 1                   | 3      |
| GDP/capita (USD at exchange rate)                      | 721     | 876     | 993     | 846     | 619                | .                   | .      | 500                 | .      |
| GDP/capita (USD at PPP - WIIW)                         | 3580    | 3340    | 3330    | 3310    | 3350               | .                   | .      | .                   | .      |
| Gross industrial production                            |         |         |         |         |                    |                     |        |                     |        |
| annual change in % (real)                              | -11.7   | -5.1    | -1.8    | -1.5    | 4.3                | -2.4                | 9.7    | 3.5                 | 5.0    |
| Gross agricultural production                          |         |         |         |         |                    |                     |        |                     |        |
| annual change in % (real)                              | -3.6    | -9.5    | -1.9    | -9.8    | -5.7               | 0.5                 | -4.9   | 0                   | .      |
| Goods transport, bn t-kms                              | 544.0   | 450.3   | 402.3   | 391.7   | 377.0              | 83.6                | 89.4   | .                   | .      |
| annual change in %                                     | -8.3    | -17.2   | -10.7   | -2.6    | -3.8               | .                   | 7.0    | .                   | .      |
| Gross fixed investment, UAH mn, nom.                   | 9378.2  | 12557.0 | 12437.0 | 13958.0 | 14798.6            | 1860.9              | 2659   | .                   | .      |
| annual change in % (real)                              | -35.1   | -22.0   | -8.8    | 6.1     | 2.9                | -16.5               | 26.1   | 8                   | 10     |
| Construction output total                              |         |         |         |         |                    |                     |        |                     |        |
| annual change in % (real)                              | -35.2   | .       | .       | .       | .                  | .                   | 8.9    | .                   | .      |
| Dwellings completed, units                             | 118200  | 88100   | 80000   | 70000   | 71600              | .                   | 9600   | .                   | .      |
| annual change in %                                     | -18.7   | -25.5   | -9.2    | -12.5   | 2.3                | .                   | .      | .                   | .      |
| Employment total, th pers., average                    | 23725.5 | 23231.8 | 22597.6 | 22348.7 | 22000.0            | .                   | .      | 21500               | 21000  |
| annual change in %                                     | 3.0     | -2.1    | -2.7    | -1.1    | -1.6               | .                   | .      | .                   | .      |
| Employees in industry, th pers., average <sup>2)</sup> | 5035.0  | 4642.0  | 4273.0  | 4142.0  | 3965.4             | .                   | 3801   | .                   | .      |
| annual change in %                                     | -8.1    | -7.8    | -7.9    | -3.1    | -4.3               | .                   | .      | .                   | .      |
| Unemployed reg., th, end of period                     | 126.9   | 351.1   | 637.1   | 1003.2  | 1174.5             | 1099.9              | 1267.4 | .                   | .      |
| Unemployment rate in %, end of period                  | 0.5     | 1.3     | 2.3     | 3.7     | 4.3                | 4.0                 | 4.5    | 6                   | 8      |
| Average gross monthly wages, UAH <sup>2)</sup>         | 73.0    | 126.0   | 143.0   | 153.0   | 177.5              | 155.6               | 194.1  | .                   | .      |
| annual change in % (real, gross)                       | -0.1    | -4.2    | -2.1    | -3.2    | -5.4               | -10.1               | -0.3   | .                   | .      |
| Retail trade turnover, UAH mn <sup>3)</sup>            | 11964   | 17344   | 27300   | 29200   | 34400              | 4471                | 5925   | .                   | .      |
| annual change in % (real)                              | -13.9   | -5.1    | 2.2     | -4.0    | -3.0               | -11.7               | 11.9   | .                   | .      |
| Consumer prices, % p.a.                                | 376.8   | 80.2    | 15.9    | 10.6    | 22.7               | 21.2                | 25.1   | 20                  | 20     |
| Producer prices in industry, % p.a.                    | 488.8   | 52.1    | 7.7     | 13.2    | 31.1               | 35.5                | 19.9   | 20                  | 20     |
| General government budget, UAH mn <sup>4)</sup>        |         |         |         |         |                    |                     |        |                     |        |
| Revenues   | 20425.4 | 30142.0 | 36889.6 | 37398.2 | 43826.7            | 8355.9              | 11999  | 33433 <sup>5)</sup> | .      |
| Expenditures   | 24443.0 | 33759.0 | 43086.0 | 39416.5 | 45523.0            | 8551.6              | 10867  | 33433 <sup>5)</sup> | .      |
| Deficit (-) / surplus (+)                              | -4017.6 | -3617.0 | -6196.4 | -2018.3 | -1696.3            | -195.7              | 1132   | 0 <sup>5)</sup>     | .      |
| Deficit (-) / surplus (+), % GDP                       | -7.4    | -4.4    | -6.6    | -1.9    | -1.3               | -0.8                | 3.5    | 0                   | .      |
| Money supply, UAH mn, end of period                    |         |         |         |         |                    |                     |        |                     |        |
| M0, Currency outside banks                             | 2623.0  | 4041.0  | 6132.0  | 7158.0  | 9583.0             | 6716                | 9465   | .                   | .      |
| Broad money  | 6930.0  | 9364.0  | 12541.0 | 15719.0 | 22070.0            | 15923               | 24211  | .                   | .      |
| Refinancing rate of NB % p.a., end of period           | 110.4   | 39.6    | 34.8    | 74.2    | 45.0               | 60.0                | 32.0   | 30                  | .      |
| Current account, USD mn                                | -1152   | -1185   | -1335   | -1296   | 834                | -298                | .      | 300                 | -500   |
| Gross reserves of NB excl. gold, USD mn <sup>6)</sup>  | 1051    | 1960    | 2341    | 761     | 1046               | 672.6               | 1074   | 1100                | .      |
| Gross external debt, USD mn                            | 8217    | 8840    | 9555    | 11483   | 12438              | 11348               | .      | 13000               | 14500  |
| Exports total, fob, USD mn <sup>7)</sup>               | 13128   | 14401   | 14232   | 12637   | 11582              | 2435                | 3021   | 12000               | 13000  |
| annual change in %                                     | 27.8    | 9.7     | -1.2    | -11.2   | -8.4               | -21.7               | 24.1   | 4                   | 8      |
| Imports total, cif, USD mn <sup>7)</sup>               | 15484   | 17603   | 17128   | 14676   | 11846              | 2861                | 3698   | 12000               | 13000  |
| annual change in %                                     | 44.1    | 13.7    | -2.7    | -14.3   | -19.3              | -27.1               | 29.2   | 1                   | 8      |
| Average exchange rate UAH/USD                          | 1.473   | 1.830   | 1.862   | 2.450   | 4.130              | 3.557               | 5.464  | 6                   | 7      |
| Average exchange rate UAH/EUR (ECU)                    | 1.928   | 2.322   | 2.113   | 2.768   | 4.393              | 3.993               | 5.394  | .                   | .      |
| Average exchange rate UAH/DEM                          | 1.029   | 1.216   | 1.076   | 1.407   | 2.246              | 2.04197             | 2.758  | .                   | .      |
| Purchasing power parity UAH/USD, WIIW                  | 0.297   | 0.480   | 0.555   | 0.626   | 0.763              | .                   | .      | .                   | .      |
| Purchasing power parity UAH/EUR, WIIW                  | 0.318   | 0.520   | 0.612   | 0.684   | 0.828              | .                   | .      | .                   | .      |

1) Preliminary. - 2) Excluding small enterprises. - 3) Up to 1996 and quarterly officially registered enterprises only. - 4) Pension funds included. - 5) February 2000 budget, excluding pension funds. - 6) Useable. - 7) Exports and imports of goods according to customs statistics.

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

## **Yugoslavia: deterioration continues**

Yugoslavia now comprises three discrete political and economic units that are quite independent of each other: Serbia, Montenegro and Kosovo. Only nominally part of Yugoslavia, Kosovo is really a separate political and economic entity. For its part, Montenegro is currently boycotting the federal institutions and aspires to what it calls 'economic sovereignty', while Serbia takes political and economic decisions regardless of the consequences they bear for Kosovo and Montenegro. Constitutional order has thus collapsed; internal sovereignty does not exist. External sovereignty does not exist either, because Kosovo is under international jurisdiction and Montenegro is being increasingly treated as an independent partner in international relations. The current developments of these three political entities have to be treated separately.

### **Serbia**

Economic and political developments in Serbia reflect the fundamental characteristics of the country's regime. It is a closed and undemocratic country. Both characteristics have come more to the fore since the war in Kosovo. On the one hand, foreign trade diminished significantly during and after the Kosovo war and has yet to revert to pre-war levels. Serbia encounters difficulties in securing loans to finance imports and exports and the country has had a hard time recovering from the comparatively low levels that prevailed before the war. Deficits have to be covered by transfers of one kind or another or by investments. Both are lower than they used to be.

On the other hand, economic policy has been geared towards the domestic market. In fact, after the war the Serb government launched a recovery drive. The State mobilized public enterprises to repair and/or build houses, bridges and other utilities. The projects were sometimes funded by means of donations levied from the enterprises or money was simply printed. Evidently, a reconstruction programme on such a scale would be a destabilizing factor in an open economy, thus the closed character of the Serb economy has been helpful in that respect.

Through the winter and much of the spring, inflation was kept under relative control through various means of price distortions and regulation. Money expansion has also been selective. The financial system in Serbia is well adapted to credit rationing. With the segmented, distorted and regulated markets, it takes a while for monetary expansion to have inflationary consequences. This also accounts for the slow adaptation of prices to changes in the exchange rate. From autumn 1999 onwards, the Yugoslav dinar floated around 20 to 23 dinars for one German mark, while the official exchange rate was kept at

6 dinars to 1 DEM. Only at the end of May 2000 was the exchange rate partially adjusted to 20 dinars to 1 DEM. In fact, a regime of multiple exchange rates has been introduced. The official rate has been maintained at its previous level (6 to 1), a different exchange rate is used to calculate import tariffs (14 to 1) and as already mentioned the currency exchange rate is at yet another level (20 to 1). In addition, several black market rates are used: one on the streets and another for inter-enterprise exchanges.

As a consequence of the reconstruction effort, the official figures for industrial production growth and other GDP components are predictably high. They will be much higher later in the year when the very low level of the war period is taken as the basis for comparison. That notwithstanding, GDP growth for the whole year will not be all that impressive. Indeed, if real growth is judged on the basis of developments in terms of exports (which are recovering very slowly), private consumption (which is still quite depressed) and private investments (which are practically non-existent), it cannot be claimed that the economy is recovering from the slump it had already entered before the war. In addition, agricultural production is expected to fail this year (owing to a lack of funds and the drought).

Finally, the government's economic policy will give rise to serious macro-economic imbalances in a very short period of time. As foreign trade remains depressed on account of it being impossible to finance the deficit, the fiscal deficit will have to be constantly monetized. Obviously, this cannot go on for very long. Thus, at some point in time a change of policy will be essential.

The timing of that change will depend on political factors. The current economic policy is geared towards ensuring the survival of the current regime in Serbia. The first objective was to outlive the post-war revolt and get through the winter. The current objective is to stabilize the power now held. To that end, the government plans to win elections. Local and federal elections are planned for autumn while the extremely important parliamentary elections are to be held next year. Further down the road, the constitution will have to be changed so as to enable the Yugoslav president Milošević to stay in that position practically for ever.

In order to achieve these political objectives, the government has stepped up its campaign of repression. This reflects the government's belief that external legitimacy is irrelevant now that its leaders have been indicted for war crimes by the International War Crime Tribunal in the Hague. The government feels constrained only by the resistance of the opposition parties and the civil society that it is determined to crush. Once resistance has been thwarted, the government believes the elections will be a technical, rather than a political matter. In fact, it has plans for taking over the local administration that is currently run by the opposition.

Once that has been done, the constitutional change should legalize the existing power structure. The degree of ambition and the extent of constitutional changes needed for all this are difficult to judge at present, but they will certainly contribute to formalizing the current undemocratic regime in one way or another.

## **Montenegro**

Montenegro is also playing a kind of a survival game. Unlike Serbia, which has chosen to survive through isolation, Montenegro is trying to survive through co-operation with the outside world. Late last year Montenegro introduced the German mark as a parallel currency. At the beginning, it relied on a fixed exchange rate between the Yugoslav dinar and the German mark. This created problems because the official rate was lower than the black market rate in Serbia. This spring, however, the monetary authorities in Montenegro introduced a float between the two official currencies. As a consequence, the dinar is losing ground in Montenegro and now accounts for only a very small fraction of the monetary base.

The introduction of the German mark as the official currency was supported by significant inflows of financial assistance from the United States and the EU. The aim of the aid was mainly budget support. This aid will continue. It has both an economic and a political objective.

The economic objective is to support reform in Montenegro. The strategic aim of the current government of Montenegro is to attain what it calls 'economic sovereignty'. This is tantamount to control over monetary policy, fiscal policy, foreign trade policy and the transition process. The government exercises control over the first three policies and it aims to achieve control of the latter mainly through privatization. It has drawn up an ambitious privatization programme, which combines vouchers with sales to foreigners. The process is still incomplete and it is too early to comment on its consequences.

This economic strategy depends on political stability in Montenegro, something at which the political dimension of the foreign aid is aimed. Given the political situation in Montenegro, stability basically means survival of the current government. The opposition is openly pro-Serb and pro-Yugoslav and, if empowered, would in essence reverse the current economic and other policies. The recent test of the strength between the two political groupings in Montenegro, the local elections in the capital and in a large coastal city, revealed that the balance of power is not changing all that much, nor very quickly. The government won in Podgorica, the capital, but lost in Herceg-Novi, the town on the coast. The parliamentary elections will most probably produce the same fine balance.

For the time being, this situation rules out a shift from economic to political sovereignty. The declaration of independence would divide the Montenegrin public deeply and incur high political risks. Thus, there is no choice but to continue with the current strategy of economic sovereignty, without full political sovereignty. Foreign supporters will have to back this strategy financially until a political change occurs in Serbia or a political move is made in Serbia that will force a decision in Montenegro. This may come with the constitutional changes that Belgrade is planning.

## **Kosovo**

The developments in Kosovo are still part of the Yugoslav drama because, nominally, Kosovo is a part of Yugoslavia. Developments there, however, have a political impact on both Serbia and Montenegro. From an economic point of view, Kosovo does not really bear any relevance to the rest of Yugoslavia.

The economic developments in Kosovo are not easy to comment on because macro-economic data are still not available. Most reports suggest that the agricultural sector is recovering, as are services. Industrial production, however, is not moving at all, mainly because of the risks associated with investments in new enterprises and the unresolved issue of ownership in existing enterprises. In the meantime, Kosovo depends on aid and consumption by foreigners.

Politically, the situation is very difficult. Security is low, legality is practically non-existent, inter-ethnic conflicts are continuing and local governance lacks legitimacy. Local elections are planned for mid-autumn, but that constitutes only the beginning of the nation-building process. The duration of that process and its ultimate destination have yet to be determined.

## **Conclusion**

The economic and political situation in Yugoslavia is not improving. The problems confronting Serbia, Montenegro and Kosovo are intrinsically different and the processes are divergent. That notwithstanding, in all three the end-game is still quite far away.

Table YU

FR Yugoslavia: Selected Economic Indicators <sup>\*)</sup>

|  | 1995    | 1996    | 1997    | 1998    | 1999 <sup>1)</sup> | 1999<br>1st quarter | 2000                 | 2000<br>forecast | 2001<br>forecast |
|--|---------|---------|---------|---------|--------------------|---------------------|----------------------|------------------|------------------|
| Population, th pers., mid-year                         | 10547.0 | 10577.2 | 10597.0 | 10615.0 | 8372.2             | .                   | .                    | .                | .                |
| Gross domestic product, USD mn, nom.                   | 15285   | 16477   | 18146   | 18491   | 16450              | .                   | .                    | .                | .                |
| annual change in % (real) <sup>2)</sup>                | 6.1     | 5.9     | 7.4     | 2.5     | -23.2              | .                   | .                    | 5                | 3                |
| GDP/capita (USD at exchange rate)                      | 1449    | 1558    | 1712    | 1742    | 1965               | .                   | .                    | .                | .                |
| Gross industrial production <sup>3)</sup>              |         |         |         |         |                    |                     |                      |                  |                  |
| annual change in % (real)                              | 3.8     | 7.6     | 9.5     | 3.6     | -22.5              | -11.0               | -5.3                 | 5                | 5                |
| Gross agricultural production <sup>4)</sup>            |         |         |         |         |                    |                     |                      |                  |                  |
| annual change in % (real)                              | 4.1     | 1.5     | 7.3     | -3.2    | 2.7                | .                   | .                    | .                | .                |
| Goods transport, mn t-kms <sup>5)</sup>                | 4206    | 31720   | 38097   | 45378   | 22924              | 9509                | 9824                 | .                | .                |
| annual change in % <sup>6)</sup>                       | 44.9    | 141.1   | 20.1    | 19.1    | -49.5              | 6.4                 | 3.3                  | .                | .                |
| Gross fixed investment, YUN mn, nom.                   | 5348.7  | 9702.5  | 13525.3 | 17893.2 | .                  | .                   | .                    | .                | .                |
| annual change in % (real)                              | -3.7    | -5.7    | 0.8     | -2.2    | .                  | .                   | .                    | .                | .                |
| Construction output, value of work done                |         |         |         |         |                    |                     |                      |                  |                  |
| annual change in % (real)                              | -16.0   | 2.7     | 6.9     | .       | .                  | -15.4 <sup>6)</sup> | 5.8 <sup>6)</sup>    | .                | .                |
| Dwellings completed, units                             | 14337   | 15160   | 14768   | 13096   | 10841              | .                   | .                    | .                | .                |
| annual change in %                                     | -17.8   | 5.7     | -2.6    | -11.3   | -17.2              | .                   | .                    | .                | .                |
| Employment total, th pers., average <sup>7)</sup>      | 2379    | 2367    | 2332    | 2504    | .                  | 2473                | 2248                 | .                | .                |
| annual change in %                                     | -1.4    | -0.5    | -1.5    | 7.4     | .                  | -0.8                | -9.1                 | .                | .                |
| Employees in industry, th pers., average <sup>8)</sup> | 870     | 852     | 820     | 796     | 682.4              | 779.4               | 685.7                | .                | .                |
| annual change in %                                     | -2.7    | -2.1    | -3.7    | -2.9    | -14.3              | -3.5                | -12.2                | .                | .                |
| Unemployed reg., th, end of period                     | 777.0   | 826.8   | 793.8   | 849.4   | 776.0              | 875                 | 801                  | .                | .                |
| Unemployment rate in %, end of period <sup>9)</sup>    | 24.7    | 26.1    | 25.5    | 25.4    | 25.5               | 25.8                | 26.4                 | 30               | 32               |
| Average net monthly wages, YUN <sup>10)</sup>          | 340     | 658     | 803     | 1063    | 1309               | 1246                | 1817                 | .                | .                |
| annual change in % (real, net)                         | 16.1    | 1.0     | 21.2    | 1.9     | -15.1              | -5.3                | -9.7                 | .                | .                |
| Retail trade turnover, YUN mn                          | 14660.8 | 27895.7 | 35433.0 | 48748.0 | 55533.0            | 6635                | .                    | .                | .                |
| annual change in % (real, calc.)                       | 4.5     | 7.4     | 11.3    | 5.3     | -16.7              | -6.1                | 0.6                  | .                | .                |
| Consumer prices, % p.a.                                | 78.6    | 91.5    | 21.6    | 29.9    | 44.9               | 43.6                | 60.8                 | 50               | 70               |
| Producer prices in industry, % p.a.                    | 57.7    | 90.2    | 19.5    | 25.5    | 44.2               | 44.5                | 74.7                 | .                | .                |
| General government budget, YUN mn                      |         |         |         |         |                    |                     |                      |                  |                  |
| Revenues   | 18069.0 | 35941.0 | 47455.0 | 61361.0 | 79321.0            | .                   | 23628                | .                | .                |
| Expenditures   | 19249.0 | 39044.0 | 55315.0 | 70739.0 | .                  | .                   | .                    | .                | .                |
| Deficit (-) / surplus (+)                              | -1180.0 | -3103.0 | -7860.0 | -9379.0 | .                  | .                   | .                    | .                | .                |
| Deficit (-) / surplus (+), % GDP                       | -4.3    | -3.8    | -7.6    | -5.4    | .                  | .                   | .                    | .                | .                |
| Money supply, YUN mn, end of period                    |         |         |         |         |                    |                     |                      |                  |                  |
| M1, Money  | 3256.1  | 5495.3  | 9148.0  | 10807.3 | 16581.9            | 11679.2             | 17592 <sup>11)</sup> | .                | .                |
| Broad money  | 27243.6 | 31434.7 | 38948.4 | 62352.0 | 75393.7            | 63904.2             | 78037 <sup>11)</sup> | .                | .                |
| Discount rate, % p.a., end of period                   | 90.2    | 68.2    | 33.7    | 34.5    | 26.8               | .                   | .                    | .                | .                |
| Current account, USD mn                                | .       | -1317   | -1837   | -1180   | -600               | .                   | .                    | -800             | -1000            |
| Gross reserves of NB, excl. gold, USD mn               | 300     | 300     | 300     | 300     | .                  | .                   | .                    | .                | .                |
| Gross external debt, USD mn                            | 9000    | 9000    | 10500   | 11500   | .                  | .                   | .                    | .                | .                |
| Exports total, fob, USD mn <sup>12)</sup>              | .       | 2018    | 2677    | 2858    | 1498               | 472.7               | 370.0                | .                | .                |
| annual change in %                                     | .       | .       | 32.7    | 6.8     | -46.9              | .                   | -21.7                | .                | .                |
| Imports total, cif, USD mn <sup>12)</sup>              | .       | 4119    | 4826    | 4849    | 3296               | 926.2               | 864.1                | .                | .                |
| annual change in %                                     | .       | .       | 17.2    | 0.5     | -30.4              | .                   | -6.7                 | .                | .                |
| Average exchange rate YUN/USD                          | 1.79    | 4.97    | 5.72    | 9.34    | 11.09              | 10.46               | 11.89                | 33               | 40               |
| Average exchange rate YUN/EUR (ECU)                    | 2.34    | 6.30    | 6.48    | 10.46   | 11.73              | 11.73               | 11.73                | .                | .                |
| Average exchange rate YUN/DEM <sup>12)</sup>           | 1.25    | 3.30    | 3.30    | 5.33    | 6.00               | 6.00                | 6.00                 | .                | .                |

\*) Note: From 1999 all data are given excluding Kosovo and Metohia.

1) Preliminary. - 2) Based on GMP in Dinar. - 3) Excluding private enterprises. - 4) Based on final net production. - 5) 1994, 1995 and growth rate in 1996 excluding maritime transport. - 6) Effective working hours. - 7) Employees plus own account workers, excluding individual farmers. - 8) Social sector. - 9) In % of unemployed plus employment. - 10) Excluding private sector; methodological break 1996/1997. - 11) End of February. - 12) Converted from the national currency to USD at trade exchange rate. - 13) From 2000 black market rate.

Source: WIIW Database incorporating national and international statistics.

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