

Classification system for transition indicators¹

Small-scale privatisation

- 1 Little progress.
- 2 Substantial share privatised.
- 3 Nearly comprehensive programme implemented.
- 4 Complete privatisation of small companies with tradable ownership rights.
- 4+ Standards and performance typical of advanced industrial economies; no state ownership of small enterprises; effective tradability of land.

Price liberalisation

- 1 Most prices formally controlled by the government.
- 2 Price controls for several important product categories, state procurement at non-market prices remains substantial.
- 3 Substantial progress on price liberalisation: state procurement at non-market prices largely phased out.
- 4 Comprehensive price liberalisation: utility pricing which reflects economic costs.
- 4+ Standards and performance typical of advanced industrial economies: comprehensive price liberalisation; efficiency-enhancing regulation of utility pricing.

¹ The classification system is simplified and builds on the judgement of the EBRD's Office of the Chief Economist. More detailed descriptions of country-specific progress in transition are provided in the Transition Indicators at the back of this Report. The

Trade and foreign exchange system

- 1 Widespread import and/or export controls or very limited legitimate access to foreign exchange.
- 2 Some liberalisation of import and/or export controls; almost full current account convertibility in principle but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates).
- 3 Removal of almost all quantitative and administrative import and export restrictions; almost full current account convertibility.
- 4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full and current account convertibility.
- 4+ Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO.

classification system presented here builds on the 1997 Transition Report. To refine further the classification system, pluses and minuses have been added to the 1-4 scale to indicate countries on the borderline between two categories.

correspond with four main elements of a market economy – markets and trade, enterprises, infrastructure and financial institutions. Progress in each of these areas represents an improvement in how well markets, enterprises, infrastructure services and financial institutions function. Progress is measured against the standards of industrialised market economies, recognising that there is neither a perfectly functioning market economy nor a unique end-point for transition. The measurement scale for the Indicators ranges from 1 to 4+, where 1 represents little or no change from a rigidly planned economy and 4+ represents the standard of an industrialised market economy.

Within the broad categorisation of market-oriented reforms, the EBRD transition Indicators in Table 2.1 measure those reform areas in which significant progress was achieved relatively early in transition. They include liberalisation of markets and trade and small-scale privatisation. On markets and trade, the indicators capture the liberalisation of prices, trade and access to foreign exchange, as well as the extent to which utility pricing reflects economic costs.² On privatisation, the indicators measure the extent to

which ownership of small-scale enterprises has been transferred to the private sector. A few countries also pursued mass privatisation programmes for large-scale enterprises relatively early in transition, including the Czech Republic, Lithuania, Russia and the Slovak Republic. However, most countries in the region tended to pursue a more gradual pace in the privatisation of larger enterprises. This pace often reflected the economic and social constraints on restructuring large-scale enterprises that were not commercially viable.³ These early-stage reforms are largely complete in most transition economies. A notable exception is FR Yugoslavia, which recently embarked on a comprehensive reform programme following the collapse of the autocratic regime of former President Milosevic in October 2000.

The EBRD transition indicators included in Table 2.2 go beyond initial phase reforms to include privatisation of large-scale enterprises and a range of institutional reforms required to support competitive markets and private enterprise. On competitive markets, the indicator assesses the extent and effectiveness of competition policy in combating the abuses of market dominance and

anti-competitive practices. In relation to enterprises, the measures indicate progress in large-scale privatisation; the implementation of reforms to cut production subsidies; the introduction of effective bankruptcy procedures; and sound corporate governance practices. On infrastructure, the indicators measure the extent of tariff reform; the commercialisation of infrastructure enterprises; and the extent of regulatory and institutional development. Regarding financial institutions, the indicators measure the extent to which interest rates have been liberalised; the establishment of two-tier banking; and the creation of securities markets. They also assess the extent to which prudential regulations have been raised towards international standards, whether they have been enforced effectively and if procedures exist for resolving the failure of financial institutions.

Chart 2.1 shows the overall transition indicator scores from 1989 to 2001 averaged across all countries of the region and across two broad dimensions of reform – liberalisation and small-scale privatisation on the one hand and large-scale privatisation and institutional development on the other. These averages provide a summary of region-wide

² As reported in the notes to Table 2.1, a transition indicator score of 4 in price liberalisation would reflect full economic pricing of utility services. In the table, a 3+ is allocated in those few countries that have achieved significant progress in tariff reform in the energy sector, the sector in which initial underpricing was probably most extreme.

³ For a discussion of enterprise restructuring, see the 1999 Transition Report, Chapter 9, and the 2000 Transition Report, Chapter 6.