United Nations Economic Commission for Europe

[Index]

PRESS RELEASE

Geneva, 2 May 2002

Transition economies: one of the fastest growing regions in the world in 2001 slower growth in 2002

UNECE releases its *Economic Survey of Europe, 2002 No. 1*

"Despite the negative repercussions of the global economic slowdown, 2001 turned out to be a successful year for the ECE transition economies:* almost all of them posted positive rates of GDP growth and in some countries these were higher than in 2000," stresses Mrs. Brigita Schmögnerová, Executive Secretary of the United Nations Economic Commission for Europe (UNECE) commenting the latest issue of the Economic Survey of Europe, just released by the UNECE. "The transition economies' aggregate GDP increased by 5 per cent, making them one of the fastest growing regions in the world". The main factor behind this outcome was buoyant growth in the Commonwealth of Independent States where a strong recovery continued for a third consecutive year.

Russia: reforms pay back

As in 2000, Russia remained the principal engine of growth for the CIS countries in 2001 with a 5 per cent increase in GDP. After the 1998 financial crisis, the Russian government introduced sweeping policy reforms, which have led to major structural adjustments in the economy and have moved it on to a path of strong growth. Between 1999 and 2001, Russia's GDP increased by almost 21 per cent giving a much-needed boost to popular support for the reforms. All the indications are that the Russian economy has crossed an important threshold in its systemic reforms, making the process of its transformation to a market economy now look irreversible.

Despite these positive developments, there are a number of uncertainties regarding Russia's economic prospects. Russia is still far from the end of the reform process and it is not yet clear whether the institutional environment will be capable of implementing and enforcing efficiently all the newly adopted laws and regulations. The heavy dependence of the Russian economy on oil exports also entails risks for the economy due to the volatility of international oil prices.

Strong growth of the Commonwealth of Independent States (CIS) …

Russia was not in fact the fastest growing economy in the region: 8 of the remaining 11 CIS member States in 2001 had annual rates of GDP growth higher than that of Russia (see table 1.3.1). In most cases (Armenia, Kazakhstan, the Republic of Moldova, Turkmenistan, Ukraine, Tajikistan), strong growth was underpinned by the expansion of exports, partly due to rising import demand within the CIS itself.

An important development in the CIS region has been the continuing strong recovery of two of the larger economies, Kazakhstan and Ukraine. In the case of energy exporting Kazakhstan, the recent record rates of growth (13.2 per cent in 2001 after 9.8 per cent in 2000) reflect the impact of a favourable external environment and balanced policies. In Ukraine, strong domestic demand boosted by the recent disinflation also contributed to the 9.1 per cent GDP growth in 2001.

… as well as in Eastern Europe …

In 2001, strong rates of growth prevailed in most of the east European and Baltic states. In Croatia, the Czech Republic, Romania, Slovakia, Latvia and Lithuania the rate of GDP growth not only accelerated from 2000 but was also above expectations at the start of the year (table 1.3.1). Economic activity remained high, and in line with expectations in Albania, Bosnia and Herzegovina, Bulgaria and Estonia. In contrast, growth decelerated in Hungary and Slovenia; in these two economies the effects of weakening west European import demand were probably most pronounced. Nevertheless, in both countries the annual rates of GDP growth were considerably higher than the west European average. A relatively strong postwar recovery has continued in Yugoslavia and the new government has made considerable effort to launch a comprehensive reform agenda despite the chronic economic problems.

… except Poland and The former Yugoslav Republic of Macedonia.

Two economies, Poland and The former Yugoslav Republic of Macedonia, have recently encountered serious economic difficulties. After nine years of uninterrupted and rapid expansion, the Polish economy came to a near standstill in 2001. The reasons for this are complex and deep-seated but they are indicative of the fact that even the more advanced reform countries are prone to unexpected setbacks. Some of the current problems in Poland stem from the reluctance by the authorities to undertake important but unpopular reforms during the boom period, when the excellent macroeconomic performance tended to mask some chronic economic problems.

The former Yugoslav Republic of Macedonia was the only transition economy with falling GDP in 2001. This was not surprising against the background of widespread disruption caused by the internal military conflict; however, given the country's past record, it is likely that this can be regarded as a one-off setback.

What is driving growth amidst a global slowdown?

In view of the increasing openness of the transition economies and given the considerable weakening of global trade in 2001, the relatively strong performance of the transition economies in 2001 comes as a surprise. In this regard it is worth drawing attention to the likely importance of two recent developments in the region.

First of all, thanks to the successful implementation of market reforms which have bolstered consumer and investor confidence and spending propensity, domestic demand in the transition economies has been growing steadily in recent years. Notably, the recent global downturn has affected private consumption and investment in these economies to a lesser extent than in most of the industrialized countries. This robust domestic demand partly offset the negative effect of the deteriorating external environment. Another sign of resilience was the absence of negative repercussions from the crisis in Argentina (in contrast to the situation after the Russian crisis of 1998): the flow of inward FDI to the transition economies was unabated, in many cases giving a further boost to final domestic demand.

Secondly, thanks to recent productivity gains, most east European transition economies have been able to improve their cost competitiveness vis-à-vis their main trading partners. This on-going improvement in competitive position obviously helped east European exporters to perform better on west European markets in 2001 than some of their competitors. The gains in competitiveness and the improved export performance has led to an increase in eastern Europe's share of the EU's extra-EU imports from 9.9 per cent in 2000 to 11.1 per cent in 2001.

However, the significance of these positive developments should not be overestimated and there is no room for policy complacency. Domestic demand has only limited potential as a leading factor of growth in view of the fact that a number of these countries suffer from persistently large current account deficits. As for their trade performance, it may well be that due to lags in the economic system there will be negative carry-over effects in 2002 as well.

The short-term outlook

It is generally expected that growth will moderate somewhat in the transition economies in 2002: according to the available official forecasts, aggregate GDP in the CIS will grow by close to 5 per cent, in the Baltic states by slightly more than 4 per cent and in eastern Europe by some 2.75 per cent (table 1.3.1).

These average figures are very much dominated by the expected developments in two of the largest economies in the region: Russia and Poland. In Russia, the 2002 budget assumes a 4.3 per cent rate of GDP growth. However, Russia's growth will depend on the development of world oil prices; lower oil prices may lead to a reduction in the expected rate of GDP growth in 2002. In Poland, a revised 2002 budget reflecting the government's anti-crisis programme was voted in March. The budget contains some austerity measures which are expected to dampen further domestic demand and economic activity: the expected rate of GDP growth in 2002 is just 1 per cent, similar to the outcome in 2001.

In the rest of eastern Europe, some deceleration of growth in 2002 is envisaged in Bulgaria, Croatia, the Czech Republic, Hungary, Romania and Yugoslavia (table 1.3.1). The main reason for this are the lagged effects of the global and west European slowdown. Nevertheless, the annual rates of GDP growth in most of these countries are expected to remain in the range of 3 to 4 per cent. In contrast, GDP growth in Slovakia is expected to accelerate in 2002, consolidating the adjustment effort undertaken in 1999-2000, while The former Yugoslav Republic of Macedonia envisages a return to growth after the 2001 downturn.

After two years of robust output, growth is expected to slow down in the Baltic states in 2002. The deceleration is likely to be more pronounced (with GDP growing by some 4 per cent or even less) in Estonia and Lithuania, both of which are rather dependent on external factors. In Latvia, where strong GDP growth in 2001 was mainly underpinned by buoyant domestic demand, aggregate output is likely to continue to grow at a high rate (around 5 per cent) in 2002.

Despite a certain slowdown, the CIS is likely to remain the fastest growing subregion within the ECE area in 2002. Ukraine's GDP is expected to grow by 6 per cent in 2002 while Kazakhstan's 2002 budget is based on a 7 per cent growth rate assumption. In Georgia the budget projections envisage GDP growth of 3.5 per cent in 2002, although the Ministry of Economy, Industry and Trade is more optimistic and expects GDP growth to be in the range of 4.9 to 7.1 per cent. In the majority of the other CIS countries, governments are expecting GDP growth rates in the range of 5 to 8 per cent in 2002.

____

* Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria , Croatia, Czech Republic, Hungary, Poland, Romania , Slovakia, Slovenia, The former Yugoslav Republic of Macedonia, Yugoslavia, Baltic states: Estonia,

Latvia, Lithuania, CIS : Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan

TABLE 1.3.1

Annual changes in real GDP in eastern Europe, the Baltic states and the CIS, 1999-2002
(Per cent)

	1999	2000	2001 April forecast	2001 Actual outcome	2002 official forecast
Eastern Europe	1.7	3.7	4.2	3.0	2.7
Albania	7.3	7.8	5-7	7*	7
Bosnia and Herzegovina[a]	..	9.1	7-9	8*	6
Bulgaria	2.4	5.8	5	4.9	4
Croatia	-0.4	3.7	3-4	4.3*	4
Czech Republic	-0.4	2.9	3	3.6	2.4-3.4
Hungary	4.2	5.2	4.5-5	3.8	3-4
Poland	4.1	4.0	4.5	1.1	1
Romania	-1.2	1.8	4.1	5.3	4.5
Slovakia	1.9	2.2	3.2	3.3	3.6
Slovenia	5.2	4.6	4.5	3*	2.9-3.6
The former Yugoslav Republic of Macedonia	4.3	4.6	6	-4.6	4
Yugoslavia[b]	-17.7	6.4	5	6.2	4
Baltic states	-1.7	5.4	4.7	6.2	4.2
Estonia	-0.7	6.9	6	5.3	3.5-4
Latvia	1.1	6.8	5-6	7.6	4.5-5.5
Lithuania	-3.9	3.9	3.7	5.7	4
CIS	4.5	8.3	4.2	6.2	4.8
Armenia	3.3	6.0	6.5	9.6	6
Azerbaijan	7.4	11.1	8.5	9.9	8.5
Belarus	3.4	5.8	3-4	4.1	4-5
Georgia	3.0	2.0	3-4	4.5	3.5
Kazakhstan	2.7	9.8	4	13.2	7
Kyrgyzstan	3.7	5.4	5	5.3	4.5
Republic of Moldova[c]	-3.4	2.1	5	6.1	6
Russian Federation	5.4	9.0	4	5.0	4.3
Tajikistan	3.7	8.3	6.7	10.2	8
Turkmenistan[d]	17.0	17.6	16	20.5	18
Ukraine	-0.2	5.9	3-4	9.1	6
Uzbekistan	4.4	4.0	4.4	4.5	5.1
Total above	3.3	6.5	4.2	5.0	4.0
Memorandum items:					
CETE-5	3.0	3.8	4.1	2.3*	2.1
SETE-7	-1.7	3.5	4.5	4.9*	4.4

Source: National statistics, CIS Statistical Committee and direct communications from national statistical offices to UNECE secretariat.

Note: Aggregates are UNECE secretariat calculations, using PPPs obtained from the 1996 European Comparison Programme. Forecasts are those of national conjunctural institutes or government forecasts associated with the central budget formulation. Aggregates shown are: eastern Europe (the 12 countries below that line), with sub-aggregates CETE-5 (central European transition economies: Czech Republic, Hungary, Poland, Slovakia, Slovenia) and SETE-7 (south-east European transition economies: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, The former Yugoslav Republic of Macedonia and Yugoslavia); Baltic states (Estonia, Latvia, Lithuania); and CIS (12 member countries of the Commonwealth of Independent States).

[a] Data reported by the Statistical Office of the Federation; these exclude the area of Republika Srpska.

[b] Data exclude Kosovo and Metohia.

[c] Excluding Transdniestria.

[d] Figures for Turkmenistan should be treated with caution. In particular, the deflation procedures that are used to compute officially reported growth rates are not well documented and the reliability of these figures is questionable.

For further information please contact:

UNECE Economic Analysis Division
Palais des Nations

CH - 1211 Geneva 10, Switzerland
Tel: +41(0)22 917 24 79
Fax: +41(0)22 917 03 09
E-mail: info.ead.@unece.org
Web site:
http://www.unece.org/ead/ead_h.htm

Ref. ECE/GEN/02/09