III. Analysis

A. Economic Policy Reforms

Sufficient progress in economic policy reforms must entail achieving an adequate threshold of reform that is sustainable over time. To assess this, twelve economic policy reform indicators, drawn from the EBRD and grouped into two stages of reform, are tracked for twenty-six of the twenty-seven transition countries.[6] The indicators, which cover events through September 2000, are measured on a one-to-five scale, with gradations in between.[7] A “five” represents standards and performance norms typical of advanced industrial economies. In general, depending on the particular indicator, a “3” or a “4” may very well be the threshold that we seek. Descriptions of the rating categories are provided in *Appendix I*.

These indicators focus on critical reform aspects of economic liberalization, structural reform, and institution building in the transition process. Such reforms provide much of the overall enabling environment that is required for the emergence of a vibrant and sustainable market economy. Moreover, strong complementarities exist among them all. This means that possibilities for synergism derive from implementation of the total policy package. The other side to this is the possibility that insufficient progress in one reform aspect may undermine the potential gains from progress of another. As is highlighted below, this latter possibility has become an important characteristic of the reform profile among some of the transition laggards.

First Stage Reforms (*Table 1*). The first stage reforms consist of liberalization of prices, external trade and currency arrangements, privatization of small-scale units, and the establishment of key commercial laws. ***Price liberalization*** focuses on the decontrolling of wages and product market prices, including key infrastructure products such as utilities and energy, and the phasing out of state procurement at non-market prices. ***Trade and foreign exchange reforms*** focus on the removal of trade restrictions (export tariffs, quantitative and administrative import and export restrictions), progress towards membership in the WTO, and improving access to foreign exchange (current and capital account convertibility). ***Small-scale privatization*** includes small firms, small farms and plots of land, and housing. The ***legal reforms for investment*** focus on three laws: bankruptcy, pledge or collateral, and company law.

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[6] Economic reform progress in Yugoslavia is measured from Freedom House's rating scheme in its *Nations in Transit 2001* (forthcoming). Freedom House's scheme is similar to that of the EBRD's, and includes three broad aspects: (1) progress towards privatization (the scope and type of privatization; the extent of public awareness and support); (2) the development of macroeconomic policy and reform of the state (reforms in tax and public expenditure, banking and capital markets, and exchange rate policy); and (3) microeconomic policy to encourage enterprise development (commercial law development, judicial reform, price liberalization, competition policy, trade and investment reform, and energy sector reform). See *Monitoring Country Progress*, No. 4 (October 1998) for a comparison of the two schemes.

[7] In earlier *Transition Reports*, the EBRD assigned a 4* to the highest threshold and provided a separate description of the criteria to achieve that level of progress. For simplicity, their “4*” (which is now a 4+) becomes our “5”. All other “+”s and “-“s are measured by adding or subtracting a “0.3”, respectively.

Alongside the growth of new firms, privatization is an essential aspect of restructuring the economy into one that is private-sector driven. Price liberalization provides the appropriate incentives through market-based prices to better maximize efficiency. Trade and foreign exchange reforms provide further discipline for the private sector through global competition, as well as providing domestic firms with a greater capacity to compete. Consistent, nondiscriminatory, and transparent legal rules for investment are critical to developing an enabling environment for enterprise restructuring and growth, and improved corporate governance.

These first stage reforms require relatively little institution building and tend to be the easiest to do. However, as underscored by trends in Eurasia since the onset of the global financial crisis in mid-1997, progress in these reform areas can also be prone to setbacks. These dynamics, in fact, help explain why the spread between economic reform progress among the transition leaders and laggards remains the greatest in trade and foreign exchange reforms.

In the CEE countries, the first stage reforms have generally been adopted rapidly and quite thoroughly. All the CEE countries (for which data are available)[8] have implemented a comprehensive program of price liberalization; other than rents, transport and public utilities, prices are generally set by the market. With the salient exception of Bosnia-Herzegovina (where privatization just began in the second half of 1999), most CEE countries have essentially completed small-scale privatization. Bosnia-Herzegovina continued some reform momentum in small-scale privatization in 2000, and Bulgaria and Latvia made further gains as well. Latvia is now one of nine CEE countries (Croatia, plus all the Northern Tier CEE countries) with standards for and performance of small-scale private enterprise that are typical of advanced industrial economies.

Virtually all quantitative and administrative trade restrictions (apart from agriculture) have been removed in all the CEE countries but Bosnia-Herzegovina (and Yugoslavia). Moreover, notable gains in trade and/or foreign exchange liberalization in 2000 occurred in Croatia, Estonia, Albania, Lithuania, and, to a lesser extent, in Bosnia-Herzegovina. In fact, according to the EBRD's September 2000 scores, ten CEE countries (Hungary, Poland, Slovenia, the Czech Republic, Slovakia, Latvia, Bulgaria, and more recently, Croatia, Estonia, and Albania) have achieved policy standards in trade and foreign exchange systems that are comparable to those of the advanced industrial economies. All ten countries are now members of the World Trade Organization (WTO). Croatia and Albania became members in the fall 2000. On May 31, 2001, Lithuania became the newest transition country member of the WTO.

Advancements in legal reforms in CEE continue to lag behind the other first stage reforms. For only six of the CEE countries--four in the Northern Tier (Hungary, Slovenia, Latvia, and Lithuania) and two in the Southern Tier (Croatia and Bulgaria)--

[8] As noted above, Yugoslavia is not included in EBRD's rating scheme and hence is not included in the following analysis.

does comprehensive legislation exist in at least two of the three areas of commercial law that have been the focus of the EBRD survey: collateral; bankruptcy; and company law.

Legal reform results in the CEE countries in 2000 were also much more mixed and volatile than those of other first stage reforms. Notable progress occurred in Albania, and Bosnia-Herzegovina, and, to a lesser extent, Estonia and Latvia. However, Poland, the Czech Republic (as in 1999), Slovakia, and Macedonia saw some "backsliding" in this measure. This backsliding may partly reflect growing realizations of the limitations in the scope of the laws as more active efforts are made to apply them.[9] In notable contrast to virtually all other economic reform measures, progress in the extensiveness of legal reforms is now only slightly more advanced in the Northern Tier CEE countries than it is in the Southern Tier CEE and Eurasian countries.

In general, while there continues to be a large gap in first stage reform progress between the Northern Tier CEE leaders and the Eurasian countries, this past year witnessed some narrowing of the spread. This trend contrasts with that of the previous two years, and partly reflects the dissipation of the adverse spillover effects from the 1998 Russian financial crisis. In other words, some of the reform backtracking that occurred in Eurasia in 1998-1999, such as the re-introduction of price controls and/or trade and foreign exchange restrictions, turned out to be largely temporary measures to cope with close economic ties to a Russia in crisis. Russia in 2000 regained its 1997 level of price liberalization with the abolition of most of the temporary restrictions on domestic flows of goods and services introduced after the crisis in August 1998. Restrictions on trade and foreign exchange in Russia in 2000 were also reduced considerably, though these gains were partly offset by the re-introduction of oil export quotas. Moldova and Georgia further liberalized domestic prices; Georgia, Kazakhstan, Tajikistan, and Belarus lowered trade and foreign exchange restrictions.

Georgia made the greatest first stage reform gains in 2000 in Eurasia, followed by Kazakhstan and Tajikistan. Azerbaijan, Moldova, and Belarus had mixed results, gaining in one reform aspect while backtracking in another.

Of the Eurasian countries, Georgia has now advanced the furthest in first stage reforms, and is more advanced than the Southern Tier CEE countries on average. Kazakhstan and Kyrgyzstan are close behind. Moldova and Armenia, previously near the top, have slipped some in the ranking. For the three Eurasian leaders, privatization of small companies with tradable ownership rights is complete. Substantial progress on price liberalization, including energy prices, has been made. Virtually all quantitative and administrative trade restrictions have been removed in Georgia and Kyrgyzstan. Both are now WTO members; Georgia joined in 2000. Kazakhstan's trade and foreign exchange system is not quite as liberalized, though most trade restrictions have been removed. Of the three leaders, Kazakhstan is the most advanced in legal reforms. There,

[9] The legal reform scores are derived from a survey of the views of local lawyers and academics. With the exception of the environmental reform scores, all the other economic reform indicators derive directly from EBRD staff assessments. The differences in methodology may also partly contribute to more mixed and volatile results in the legal reforms.

comprehensive commercial law legislation exists in a majority of key areas surveyed by the EBRD. In Kyrgyzstan and Georgia, new or amended legislation has recently been enacted in most areas, though further refinement is needed.

Belarus and Turkmenistan continue to lag behind all other transition countries in first stage reforms, and far behind most. Moreover, Belarus backtracked further in 2000 in first stage reforms on balance even though there is very little "room" for further backsliding. In both countries, government control of prices is extensive. Trade and foreign exchange restrictions are significant. Legal rules are limited in scope and inconsistent. Overall commitment to reform continues to be very weak.

Second Stage Reforms (*Table 2*). The most challenging economic reforms are found in the second stage. In general terms, whereas much of the first stage reforms focus on liberalizing the economy from government intervention or ownership, second stage reforms concentrate in large part on building the government's capacity to govern; that is, reconstructing a leaner and more efficient government capable of enforcing the rules and providing the public goods needed for a vibrant market economy to work.

Not surprisingly, progress in the second stage reforms has been slower than that of the first stage reforms. Building institutions and effective regulatory entities by nature is an incremental, long-term process. An important part of this is developing market-oriented behavior (or informal institutions) that is compatible with the new formal institutions.[10]

Furthermore, these second stage reforms require more preparation to build political consensus. They typically generate greater political resistance and uncover stronger vested interests. In fact (and somewhat ironically), some of these vested interests were created in the early stages of reform and liberalization.

We draw from the EBRD to track eight specific reforms that we classify as part of the second stage. ***Large-scale privatization reforms*** refer to the transfer of major public sector assets to the private sector, but also the extent of outside ownership and effective corporate governance of such privatized entities. ***Enterprise restructuring reforms*** address effective corporate governance in large part through government actions to tighten credit and subsidy policy at the firm level, enforce bankruptcy legislation, and break up dominant firms. Such reforms, in other words, provide some of the financial discipline needed for vibrant growth of the private sector.

Closely related to these reforms is ***competition policy***, which focuses on the development of legislation and institutions to facilitate the entry of firms, existing or potential, into existing markets. This includes the promotion of a competitive environment through enforcement actions to reduce the abuse of market power by dominant (or non-competitive) firms. More competitive market structures contribute to more efficient firms.

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[10] These informal institutions are what the EBRD refers to as social capital or basic codes of conduct, trust, and co-operative behavior. See EBRD, *Transition Report 1999* (November 1999), p. 5.

Banking reform includes progress towards the establishment of bank solvency, well-functioning bank competition coupled with interest rate liberalization, financial deepening and extensiveness of private sector lending, and effective prudential supervision, with movement of laws and regulations towards BIS standards. ***Non-bank financial reforms*** include the development and deepening of securities exchanges, investment funds, private insurance and pensions funds, leasing companies, and associated regulatory framework, with movement of laws and regulations towards IOSCO standards.

The financial system undergirds the market economy. The private sector cannot grow and develop without a sound financial sector. It provides the capital to grow. It provides the discipline for good corporate governance. Nor can there exist a stable macroeconomic framework without a sound financial system, given its importance in overall monetary management. Moreover, an unstable financial sector can lead to crisis, and, in fact, most of the significant economic setbacks that have occurred in the transition economies have been largely triggered by financial crisis. Russia is the most recent example, though economic crises in Bulgaria and Albania in 1996-1997 and backsliding in the Czech Republic in 1997 apply as well.

The degree to which ***investment-related legal reforms*** are successfully ***implemented*** is a focus as well. This follows from tracking as part of the first stage reforms, the extensiveness of such reforms—in particular, bankruptcy, collateral, and company law. Here the focus is how clear these rules are (and the degree to which they do not discriminate between domestic and foreign investors), and how well they are administered and supported judicially.

Environmental policy reforms combine two components: (a) the degree of adherence to six key international environmental treaties, and (b) progress in preparing and implementing national environmental action plans.[11] Progress in environmental reforms contributes directly to progress in other economic reform areas and to productivity gains more broadly.

Finally, the ***restructuring of infrastructure*** includes progress assessed in three aspects of infrastructure reform (tariff reform, commercialization, and regulatory and institutional development) in five infrastructure sectors (telecommunications, electric power, railways, roads, and water and wastewater). Tariff reform includes setting prices that reflect costs, eliminating cross-subsidies, and improving collection rates. Commercialization includes corporatization and the introduction of hard budget constraints and competitiveness pressures, including various forms of private sector participation. Regulatory and institutional development includes the establishment and enforcement of laws that protect consumers (from monopoly power) as well as investors (by promoting fair competition).

[11] This is a revision from last year's environmental reform indicator that included two additional components (for which updated data are not available): progress in air and water standards; and an assessment of the extent to which environmental financial incentive mechanisms are used. Environmental reform gains noted in *Table 2* are based only on the change of the two components common to the 1999 and 2000 ratings.

The physical infrastructure plays a central role in the productivity of an economy. In general, the transition countries face very significant infrastructure investment requirements (with very limited means to meet them) due to previous policies that grossly distorted incentives. During central planning, some services, such as water and power, were oversupplied and at prices well below costs (both in an economic and environmental sense), while services such as telecommunications were largely undersupplied.

As has been noted in previous reports, all the transition countries lag considerably behind the industrial market economies in progress in second stage reforms. Nevertheless, the most striking trend in these reforms in 2000 is the impressive gains, widely shared across the three subregions. In fact, nineteen transition countries made measurable progress on balance in second stage reforms in 2000. The most significant and broadest gains occurred in Croatia, Bulgaria, and Lithuania, followed by Georgia and Ukraine. Only one transition country, Turkmenistan, which already lags far behind all the other countries, experienced backsliding in 2000 in second stage reforms.

Four Northern Tier CEE countries come closest to attaining industrial market economy standards in second stage reforms: Hungary, followed by Poland, Estonia, and the Czech Republic. All four countries made second stage gains in 2000, though progress in Estonia was mixed, moving forward in infrastructure reforms and back in legal reforms effectiveness. Poland's progress was the most impressive of the four leaders.

In at least three of these four leaders (Poland is the possible exception), more than 50 percent of large-scale state-owned enterprise assets have been privatized in schemes that have generated substantial outsider ownership. In all four countries, there have been significant and sustained actions to harden budget constraints and to promote corporate governance effectively. On competition policy, there has been a substantial reduction of restrictions on firms to enter markets, and some enforcement actions to reduce abuse of market power. Substantial progress has been made in the establishment of bank solvency and of a framework for prudential bank supervision and regulation. Banking reforms are furthest along in Hungary and include significant movement of banking laws and regulations towards Bank of International Settlements (BIS) standards and substantial financial deepening. Estonia is close behind in such progress. With further gains in 2000, Hungary and Poland now have securities laws and regulations that come close to IOSCO standards, and relatively well-functioning non-bank financial institutions and effective regulation. In all four countries, commercial laws are reasonably clear and, at least in the case of Poland and Hungary, administrative and judicial support of the law is reasonably adequate.

As with the first stage reforms, overall progress in second stage reforms in the Southern Tier CEE countries is closer to Eurasian standards than to Northern Tier CEE norms. However, diversity in progress is very large within the Southern Tier. Second stage reform progress in Bosnia-Herzegovina lags far behind all other CEE countries (except perhaps Yugoslavia) and is comparable to that in Belarus and Tajikistan. In contrast, second stage reform progress in Bulgaria is now comparable to a handful of Northern Tier CEE countries, including Lithuania and Latvia. Croatia and Romania are not far behind.

Kazakhstan is now slightly out front of all the Eurasian countries in second stage reforms, with progress comparable to that found in Macedonia. Second stage progress lags only slightly more in Russia, Georgia, Moldova, and Ukraine. Among these Eurasian "leaders," anywhere from more than 25 percent to 50 percent of large-scale state-owned enterprise assets have been privatized or are in the process of being sold, but often with major unresolved issues regarding corporate governance. On enterprise restructuring, there has been moderately tight credit and subsidy policy, but weak enforcement of bankruptcy legislation and little action taken to break up dominant firms. Competition policy legislation and institutions have been set up, and there has been some reduction of entry restrictions or some enforcement action on dominant firms. In bank reforms, significant liberalization of interest rates and credit allocation has taken place, but there has not yet been much progress in the establishment of bank solvency and of a framework for prudential supervision and regulation. Among this group, Russia continues to lag the most in bank reforms.

The effectiveness of commercial legal rules ranges widely among these five Eurasian countries. Progress in Kazakhstan in this domain approaches that found in the Northern Tier CEE countries where legal reforms are reasonably clear, and administrative and judicial support of the law is reasonably adequate. In Russia, while commercial legal rules are reasonably clear, administration or judicial support of the law remains inadequate. Progress lags further in Georgia, Moldova, and Ukraine. There, commercial legal rules are generally unclear and sometimes contradictory and few if any meaningful procedures are in place to make commercial laws operational and enforceable.

Turkmenistan remains farthest behind all the transition countries in second stage reforms. Progress in such reforms in Tajikistan and Belarus is not much more advanced. No notable progress in the privatization of medium and large enterprises occurred in 2000 in any of these three countries; in none of these countries has more than 25 percent of large-scale state-owned enterprise assets been privatized. This is reflected in small private sector shares in these economies, particularly Belarus (where only 20 percent of output is derived from the private sector) and Turkmenistan (only 25 percent).

In Turkmenistan and Belarus in particular, few reforms have been implemented to promote corporate governance, and soft budget constraints prevail. In Turkmenistan, widespread market entry restrictions for firms exist, and competition legislation and institution do not exist. In Tajikistan and Belarus, at least some competition policy legislation and institutions have been established and reduction of entry restrictions for firms has occurred. Very little progress has been made in financial reforms (banks and non-banks) in all three laggards, and banking sectors remain controlled by government. Overall, in all three countries, little progress in commercialization, regulation, and decentralization has been achieved in infrastructure reform.

Trends in Economic Reforms from 1998-2000. *Table 3* enables us to look at economic reform trends over the medium term, from 1998 to 2000, a period which covers two jolting crises for the region, the Russian financial crisis of 1998 and the Kosovo conflict in 1999. We look at the data first across countries, by subregion, then by reform areas.

Perhaps the most striking trend from these data is the significant reform slippage in Russia since 1997, both in absolute terms but particularly relative to the transition progress most elsewhere. In fact, a salient characteristic of the reform trends in Eurasia is the wide diversity in outcomes over this period. While Russia, far and away, saw the greatest reform backtracking (of all the transition countries), three other Eurasian countries also regressed on balance: Belarus, Turkmenistan, and Uzbekistan. By these measures, Armenia managed only to "tread water", moving forward in some areas, but back in others to balance it out. In contrast, Azerbaijan, Kazakhstan, and Tajikistan are among the transition leaders in terms of reform progress since 1997. Georgia and Ukraine made notable gains as well. Russia's backtracking has primarily occurred in financial sector reforms and in the liberalization of trade and foreign exchange. Overall, the data support the contention that the adverse spillover from the Russian crisis in terms of reform progress elsewhere was short-lived and/or minimal. Similarly, the backsliding in Belarus, Turkmenistan, and Uzbekistan has likely been driven more by internal politics (and by the absence of political will) than by external macroeconomic forces. Reforms in these countries had been lagging and/or backtracking well before the Russian crisis.

By subregion, the most impressive reform gains in this three-year period have occurred in the Southern Tier CEE. Bulgaria has advanced the most of all the transition countries, and has made significant gains in both first stage and second stage reforms. All other Southern Tier CEE countries have made notable gains as well, particularly Macedonia (in both first and second stage reforms) and Bosnia-Herzegovina (though almost exclusively in first stage reforms).[12] Croatia has advanced the least of the subregion since 1997. However, as noted above, reform gains in Croatia in 2000 were significant. These data reinforce trends observed in previous analyses,[13] namely, the greatest gains in economic policy reforms since at least the mid-90s have occurred among some of the "middle-tier" reformers. Key characteristics of this group include sufficient political will, significant "room" for further reform progress, and a strong pull towards memberships into Western institutions, the EU most prominently. These data also suggest that the concerns about possible reform backsliding in the subregion due to the 1999 Kosovo crisis proved largely to be unfounded. In fact, early estimates had forecast the economies of Bulgaria and Macedonia to be hardest hit as a result of the crisis and hence possibly more vulnerable to reform backsliding. While reforms in Macedonia were largely "put on hold" for much of 1999, both countries, as noted above, have remained very much on track in making transition reform progress.

Overall economic reform progress among the Northern Tier CEE countries from 1998 to 2000 has been modest, particularly for the reform leaders, Hungary, Poland, and Estonia. The Czech Republic actually regressed some in reform progress by this count; much of

[12] Again, excluding Yugoslavia for which data are not available.
[13] See *Monitoring Country Progress*, No. 6 (May 2000), p. 12.

this may have stemmed from a growing recognition of the inadequacy of the commercial law framework and the failure to adequately implement and enforce key laws. The other Northern Tier CEE countries made greater gains, particularly Latvia, followed by Lithuania. In general, progress has been converging among this group of eight countries.

Finally, from *Table 3*, what medium term assessments of relative progress across the reform areas can be made? The population weighted regional averages of the table reflect in large part the significant, largely negative, changes in Russia. Disentangling Russia from the aggregate statistics (i.e., weighing each country equally in each reform area) provides the following summary observations. First, while some backsliding since 1997 occurred in all but one of the ten reform areas examined (i.e., in all but small-scale privatization), countries that made gains outnumbered those that backtracked in each of the ten areas. Second, the greatest gains have occurred in liberalizing trade and foreign exchange (with the salient exception of Russia, and, to a lesser extent, Uzbekistan and Kazakhstan), and extending the commercial law framework. There were also notable gains in some countries towards efforts to implement and increase the effectiveness of the commercial law framework, though alongside this occurred significant backsliding in others countries.

Third, the least progress in economic reforms since 1997 has occurred in enterprise restructuring reforms, large-scale privatization, and price liberalization. Gains in banking reforms have been relatively small as well. Most countries had completed or nearly completed the liberalization of domestic prices by 1998, which largely explains the minimal change since then. In contrast, enterprise restructuring reforms (i.e., implementing hard budget constraints) and bank reforms continue to lag behind most all other reform areas. These areas continue to be among the most challenging for the transition region as a whole. Finally, while significant gains in large-scale privatization had been made prior to 1998, the pace of change has slowed considerably since then.

Table 1. First Stage of Economic Policy Reforms

	Small Scale Privatization	Trade and Foreign Exchange	Price Liberalization	Legal Reforms (Extensiveness)	1st Stage Average
Hungary	5.0	5.0	3.3	4.0	4.3
Slovenia	5.0	5.0	3.3 ↑	4.0	4.3
Croatia	5.0	5.0 ↑	3.0	4.0	4.3 ↑
Latvia	5.0 ↑	5.0	3.0	4.0 ↑	4.3 ↑
Poland	5.0	5.0	3.3	3.7 ↓	4.2 ↓
Estonia	5.0	5.0 ↑	3.0	3.7 ↑	4.2 ↑
Czech Republic	5.0	5.0	3.0	3.0 ↓	4.0 ↓
Lithuania	5.0	4.0	3.0	4.0	4.0
Slovakia	5.0	5.0	3.0	3.0 ↓	4.0 ↓
Bulgaria	3.7 ↑	5.0	3.0	4.0	3.9 ↑
Albania	4.0	5.0 ↑	3.0	3.3 ↑	3.8 ↑
Georgia	4.0	5.0 ↑	3.3 ↑	3.0 ↑	3.8 ↑
FYR Macedonia	4.0	4.0	3.0	3.3 ↓	3.6 ↓
Kazakhstan	4.0	3.3 ↑	3.0	4.0 ↑	3.6 ↑
Kyrgyzstan	4.0	4.0	3.0	3.3	3.6
Armenia	3.3	4.0	3.0	3.7	3.5
Romania	3.7	4.0	3.0	3.3	3.5
Moldova	3.3	4.0	3.3 ↑	3.0 ↓	3.4 ↓
Russia	4.0	2.3	3.0 ↑	3.7	3.2
Ukraine	3.3	3.0	3.0	3.3 ↑	3.2 ↑
Azerbaijan	3.3 ↑	3.3	3.0	3.0 ↓	3.2
Tajikistan	3.3 ↑	3.3 ↑	3.0	2.0	2.9 ↑
Bosnia-Herzegovina	2.3 ↑	3.0 ↑	3.0	3.0 ↑	2.8 ↑
Uzbekistan	3.0	1.0	2.0	3.0 ↑	2.3 ↑
Turkmenistan	2.0	1.0	2.0	...	1.7
Belarus	2.0	1.7 ↑	1.7	1.0 ↓	1.6 ↓
CEE & Eurasia	3.9	3.2 ↑	2.9 ↑	3.4 ↑	3.3
Northern Tier CEE	5.0	5.0 ↑	3.2	3.6 ↓	4.2
Southern Tier CEE	3.7	4.3 ↑	3.0	3.5 ↑	3.6 ↑
Eurasia	3.6	2.5 ↑	2.9 ↑	3.3 ↑	3.1 ↑
Industrial Countries	5.0	5.0	5.0	5.0	5.0
Benchmarks	4.0	4.0	3.0	4.0	3.8

Note: On a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 1999 through September 2000. Unless specified, all regional averages in the main body of this report are population-weighted.

EBRD, *Transition Report 2000* (November 2000).

Table 2. Second Stage of Economic Policy Reforms

	Large Scale Privatization	Enterprise Restruct.	Competition Policy	Banking Sector	Capital Markets	Legal Reform (effectiveness)	Environment Policy	Infra-structure	2nd Stage Average
Hungary	4.0	3.3	3.0	4.0	3.7 ↑	3.7	4.5	3.7	3.7
Poland	3.3	3.0	3.0	3.3	3.7 ↑	4.0 ↑	4.5	3.7 ↑	3.6 ↑
Estonia	4.0	3.0	2.7	3.7	3.0	3.3 ↓	4.0	4.0 ↑	3.5
Czech Republic	4.0	3.3 ↑	3.0	3.3	3.0	3.3 ↑	4.0	2.9	3.4 ↑
Slovenia	3.0 ↓	2.7	2.7 ↑	3.3	2.7 ↓	3.7 ↓	4.5 ↑	3.1 ↑	3.2 ↑
Slovakia	4.0	3.0	3.0	3.0 ↑	2.3	3.0	4.5 ↑	2.2	3.1 ↑
Lithuania	3.0	2.7	2.7 ↑	3.0	3.0 ↑	3.3 ↑	4.0	2.9 ↑	3.1 ↑
Bulgaria	3.7 ↑	2.3	2.3 ↑	3.0 ↑	2.0	3.7	4.5	2.9 ↑	3.1 ↑
Latvia	3.0	2.7	2.3 ↓	3.0	2.3	3.7 ↑	4.5	2.9	3.1 ↑
Croatia	3.0	2.7	2.3 ↑	3.3 ↑	2.3	3.3 ↑	4.5 ↑	2.7 ↑	3.0 ↑
Romania	3.0 ↑	2.0	2.3 ↑	2.7	2.0	3.7	4.0	3.2 ↑	2.9 ↑
FYR Macedonia	3.0	2.3 ↑	2.0 ↑	3.0	1.7	2.3 ↓	4.5 ↑	1.9	2.6 ↑
Kazakhstan	3.0	2.0	2.0	2.3	2.3 ↑	3.7 ↑	3.5 ↑	2.2	2.6 ↑
Russia	3.3	2.0 ↑	2.3	1.7	1.7	3.0 ↑	4.0	2.3	2.5 ↑
Georgia	3.3	2.0	2.0	2.3	1.7 ↑	2.0	4.0 ↑	2.7 ↑	2.5 ↑
Moldova	3.0	2.0	2.0	2.3	2.0	2.0 ↓	4.0 ↑	2.3	2.5
Ukraine	2.7 ↑	2.0	2.3 ↑	2.0	2.0	2.0	4.5 ↑	2.1 ↑	2.5 ↑
Kyrgyzstan	3.0	2.0	2.0	2.3	2.0	3.0	3.0 ↑	1.6 ↑	2.4 ↑
Armenia	3.0	2.0	1.0 ↓	2.3	2.0	2.0	4.0 ↑	2.4 ↑	2.3
Albania	2.0	2.0	1.7 ↓	2.3 ↑	1.7	1.7	4.0 ↑	2.2 ↑	2.2 ↑
Uzbekistan	2.7	1.7 ↓	2.0	1.7	2.0	2.3	3.5	1.5 ↑	2.2
Azerbaijan	1.7	2.0	2.0 ↑	2.0	1.7	2.0	4.0 ↑	1.8 ↑	2.1 ↑
Belarus	1.0	1.0	2.0	1.0	2.0	2.3 ↑	4.0 ↑	1.4	1.8 ↑
Bosnia-Herzegovina	2.0	1.7	1.0	2.3	1.0	1.0	1.5	2.1 ↑	1.6 ↑
Tajikistan	2.3	1.7	1.7 ↑	1.0	1.0	1.7 ↓	2.0	1.1	1.6
Turkmenistan	1.7	1.0 ↓	1.0	1.0	1.0	...	2.0	1.1	1.2 ↓
CEE & Eurasia	3.1 ↑	2.1 ↑	2.3 ↑	2.2	2.1 ↑	2.9 ↑	4.0 ↑	2.4 ↑	2.6 ↑
Northern Tier CEE	3.5 ↓	3.1 ↑	2.9	3.4	3.4 ↑	3.7 ↑	4.4 ↑	3.4 ↑	3.5 ↑
Southern Tier CEE	3.0 ↑	2.1	2.1 ↑	2.8 ↑	1.9	3.2	3.9 ↑	2.9 ↑	2.7 ↑
Eurasia	2.9	1.9 ↑	2.2 ↑	1.8	1.8	2.6 ↑	3.9 ↑	2.1 ↑	2.4 ↑
Industrial Countries	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Benchmarks	4.0	3.0	4.0	3.0	4.0	4.0	4.0	3.0	3.6

Note: On a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 1999 through September 2000.

EBRD, *Transition Report 2000* (November 2000).

Table 3. Change in Economic Policy Reforms: 1998-2000

	1st Stage				2nd Stage						Total
	SSP	PL	TFE	LR (ex)	LSP	ER	CP	BR	CM	LR(ef)	Change
Bulgaria	0.7	0.0	1.0	1.0	0.7	0.0	0.3	0.3	0.0	0.7	4.7
Azerbaijan	0.3	0.0	1.0	0.7	-0.3	0.0	1.0	0.0	0.7	1.0	4.3
Kazakhstan	0.7	0.0	-0.7	2.0	0.0	0.0	0.0	0.0	0.3	1.7	4.0
FYR Macedonia	0.0	0.0	0.0	1.3	0.0	0.3	1.0	0.0	0.7	0.3	3.7
Tajikistan	1.3	0.3	1.3	0.0	0.3	0.7	0.7	0.0	0.0	-1.3	3.3
Latvia	1.0	0.0	1.0	0.7	0.0	0.0	-0.3	0.0	0.0	0.7	3.0
Bosnia - Herzegovina	0.3	0.0	1.0	1.0	0.0	0.0	0.0	0.3	0.0	0.0	2.7
Lithuania	1.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.7	0.3	2.3
Romania	0.7	0.0	0.0	0.3	0.3	0.0	0.3	0.0	0.0	0.7	2.3
Georgia	0.0	0.3	1.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	2.0
Ukraine	0.0	0.0	0.0	1.3	0.3	0.0	0.3	0.0	0.0	0.0	2.0
Albania	0.0	0.0	1.0	1.3	0.0	0.0	-0.3	0.3	0.0	-0.3	2.0
Slovakia	0.0	0.0	1.0	0.0	0.0	0.3	0.0	0.3	0.0	0.0	1.7
Croatia	0.0	0.0	1.0	0.0	0.0	0.0	0.3	0.7	0.0	-0.7	1.3
Slovenia	0.0	0.3	0.0	1.0	-0.3	0.0	0.7	0.3	-0.3	-0.3	1.3
Kyrgyzstan	0.0	0.0	0.0	0.3	0.0	0.0	0.0	-0.3	0.0	1.0	1.0
Moldova	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	1.0
Estonia	0.0	0.0	1.0	-0.3	0.0	0.0	0.0	0.3	0.0	-0.7	0.3
Hungary	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.3	-0.3	0.3
Poland	0.0	0.3	0.0	-0.3	0.0	0.0	0.0	0.3	0.3	-0.3	0.3
Armenia	0.3	0.0	0.0	0.7	0.0	0.0	-1.0	0.0	1.0	-1.0	0.0
Uzbekistan	0.0	-0.7	-0.7	0.7	0.0	-0.3	0.0	0.0	0.0	0.3	-0.7
Turkmenistan	0.0	0.0	0.0	…	-0.3	-0.7	0.0	0.0	0.0	…	-1.0
Czech Republic	0.0	0.0	0.0	-1.0	0.0	0.3	0.0	0.3	0.0	-0.7	-1.0
Belarus	0.0	-1.3	0.7	-1.0	0.0	0.0	0.0	0.0	0.0	0.3	-1.3
Russia	0.0	0.0	-1.7	0.3	0.0	0.0	0.0	-0.7	-1.3	0.0	-3.3
					(Weighted) Average Change						
CEE & Eurasia	0.11	-0.03	-0.56	0.45	0.05	0.00	0.08	-0.18	-0.41	0.13	-0.04
Northern Tier CEE	0.08	0.18	0.12	-0.27	-0.01	0.12	0.02	0.26	0.24	-0.30	0.05
Southern Tier CEE	0.36	0.00	0.27	0.59	0.22	-0.03	0.20	0.12	-0.06	0.37	0.20
Eurasia	0.08	-0.09	-0.87	0.51	0.05	-0.03	0.08	-0.35	-0.63	0.11	-0.11
Benchmark											0 or greater

Note: The sub-headings refer to the following economic reforms: (SSP) small-scale privatization; (PL) price liberalization; (TFE) trade and foreign exchange reforms;(LR ex) legal reforms extensiveness; (LSP) large-scale privatization; (ER) enterprise restructuring; (CP) competition policy; (BR) bank reforms; (CM) capital market reforms; and (LRef) legal reforms effectiveness. The change is based on a rating from 1 to 5, e.g., a "1.3" score in this table might represent an advancement from 2.0 to 3.3 for the three years 1998 to 2000. Environment policy and infrastructure reform are excluded. Changes for Bosnia-Herzegovina and Tajikistan are from 1999 to 2000.

EBRD, *Transition Report 2000* (November 2000), and previous editions of the EBRD report.