D. Sustainability

In this section, we weigh the economic and democratic reforms against the macroeconomic and microeconomic evidence. Economic policy reforms need to translate into good macroeconomic performance. Yet, this is not enough. The benefits at the macro level must also be reasonably well distributed and need to translate into social conditions that at the least are not significantly deteriorating. Otherwise, the reforms may stall for lack of support, fiscal sustainability may be jeopardized, and, even more fundamentally, overall productivity may be slowed.

The quality of these data is an important issue, and numerous caveats apply. Credible cross-country comparisons are oftentimes difficult because the quality of data still varies widely throughout the transition region. In general, data for the CEE countries tend to be better than those for the Eurasian countries. Accurate time-series assessments can be difficult as well. Earlier year calculation methods sometime differ from those in latter years. Data for previous years, hence, are also sometimes subject to revisions. In the economic domain, it is widely recognized that unofficial economic activity is very significant, and that efforts to include these activities into official GDP figures fall short. Nor are the important and very substantial qualitative changes adequately reflected in the figures. Recent data that shed light on social conditions are often hard to find as well. Moreover, discrepancies between data from different sources in some of the social indicators can be significant. For example, World Bank data on various social indicators, including measures of mortality and education enrollments, can be significantly at odds with UN data for some transition countries. In general, these caveats underscore the importance of drawing from a variety of evidence, and particularly from a variety of indicators, to shape one's analyses and conclusions.

1. Macroeconomic Performance.

Tables 9 through *16* highlight macroeconomic performance. Overall, the data reveal exceptionally favorable macroeconomic trends in 2000 for the transition region. Salient among these trends are ***economic growth*** rates (*Table 9*). On average, the transition economies grew by 6.1 percent in 2000, far surpassing annual growth rates in all the previous transition years.[30] In fact, there have been only two previous years since 1989 when region-wide economic growth was even positive: in 1997, it was 1.9 percent and in 1999, 2 percent. The expansion in economic activity in 2000 was broadly shared across the subregions, highest in Eurasia (6.8 percent), but followed by strong growth in both the Southern Tier CEE (5.1 percent) and the Northern Tier CEE (4.1 percent). For the first year since the transition began, no transition country in 2000 witnessed a contraction in real GDP.

[30] The IMF in its *World Economic Outlook* (May 2001) estimates that average 2000 economic growth for the transition region was 5.8% while the EBRD in its April 2001 *Transition Report Update* finds it to be 5.4%. Presumably, the primary reason for the difference between our calculation and those of the IMF and

Assessing economic growth over the medium term (i.e., three years or more) gives us a better sense of the sustainability of economic growth, which in turn is fundamental to sustaining reforms. Here the picture changes quite a bit from a one-year snapshot in 2000. Of the three subregions, medium-term economic growth has been highest and generally far more sustainable in the Northern Tier CEE. Since 1994, average annual growth in the subregion has been relatively robust, averaging more than 4 percent annually and ranging from 2.7 percent in 1999 to 5.5 percent in 1997. Moreover, since 1994, annual economic growth in the Northern Tier CEE countries has exceeded economic growth in the EU.

Economic performance prospects in the Northern Tier remain closely tied to economic activity in the EU. A significant majority of Northern Tier exports go to the EU. Hence, when economic growth picked up in the EU from 2.6 percent in 1999 to 3.4 percent in 2000, so did Northern Tier CEE exports and economic growth (from 2.7 percent to 4.1 percent). Economic growth in the Baltic countries in 2000 was also fueled by still relatively close ties to a rapidly expanding Russian economy.

Highest sustained economic growth among the Northern Tier CEE countries has occurred in the three reform leaders of Poland, Slovenia, and Hungary. Poland's economy has been expanding at an impressive clip since 1993, from roughly 4 - 7 percent annually. Economic growth in Slovenia has been at least 3.5 percent annually since 1994. Hungary's impressive economic growth rate has been more recent; its economy has been expanding by at least 4.5 percent annually since 1997.

Four Northern Tier CEE countries (the Baltics and the Czech Republic) experienced notable rebounds in 2000 from stagnation in 1999. The Czech Republic's economy emerged from a three-year recession and grew by 3 percent in 2000. Contracting economies in Estonia (-1.1 percent) and Lithuania (-4.2 percent), and slow growth in Latvia (1.1 percent) in 1999 gave way to moderate to high growth in 2000, from 2.7 percent in Lithuania to roughly 6.5 percent in Latvia and Estonia. Slovakia's high growth from 1994 to 1998 (of close to 6 percent annually) has given way to 2 percent growth in 1999-2000.

EBRD is that we weigh country economic growth rates by population, while the IMF and EBRD use GDP weights.

Perhaps the most impressive improvement in economic performance since 1999 has occurred in the Southern Tier CEE countries. Overall, the subregion rebounded from an economic contraction in 1999 of nearly 4 percent to an expansion in 2000 in economic activity of 5 percent. This impressive turnaround stems in large part from recovery from the 1999 Kosovo conflict. A key part of that recovery has been the resumption of export growth to EU markets in 2000. All the countries of the subregion experienced an increase in economic growth from 1999 to 2000. The turnaround in Yugoslavia has been the most dramatic, from a nearly 20 percent contraction in 1999 to an 11 percent expansion in 2000. Macedonia and Bulgaria, which suffered significant economic slowdowns in 1999 due largely to impediments to access to export markets from the conflict, saw economic growth double from around 2.5 percent in 1999 to 5 percent in 2000. Romania's economy emerged from a three-year recession, and grew by almost 2 percent in 2000. The mild economic contraction in Croatia in 1999 was followed by 3.5 percent growth in 2000.

Bosnia-Herzegovina and Albania have been the only Southern Tier CEE countries able to sustain robust economic growth rates. In fact, for a number of years, both countries have been among the fastest growing economies of the all transition countries. Except for 1999 (when the pyramid schemes collapsed), Albania's economy has grown at least 7 percent annually since 1993. Bosnia-Herzegovina's performance has been even more impressive: from 1995-1997, its economy averaged an annual economic growth rate in excess of 50 percent. This was followed by 10 percent growth rate on average over the past three years (1998-2000).

These high growth rates in Albania and Bosnia-Herzegovina seem to be anomalous on at least two scores. First, the economies appear to be almost immune to economic events outside the borders. Economic growth rates in 1999, for example, remained robust (8.6 percent in Bosnia-Herzegovina and 7.3 percent in Albania) despite war in a neighboring country. Second, high economic growth rates have so far been sustained in the context of relatively little reform progress.

An examination of *Table 9* reveals that this latter observation is not confined to these two countries. The highest three-year economic growth average (for 1998-2000) goes to Turkmenistan, which (by our count in *Table 8*) has made the least progress in economic reforms. In fact, the top seven economic growth performers in the past three years are all among those countries where economic reforms have lagged the most. In addition to Turkmenistan, this includes Belarus (26th in economic reform progress), Tajikistan and Bosnia-Herzegovina (both 24th), Azerbaijan (21st), and Albania and Armenia (both 17th). If there is a link between high growth and slow reform progress, it may very well be that high growth has enabled these countries to avoid moving forward on reforms, and has occurred despite little reform progress because of the existence of some other (arguably less sustainable) contributing factors (such as the stimulus from energy exports in a bull market, or from a "rebound" response to a previous collapse in economic output).[31]

[31] Another, not insignificant issue among these countries is the reliability of the statistics. For several of these (war-torn) countries, the early collapse in output was likely accompanied with a collapse of their

Economic growth in Eurasia in 2000 was 6.8 percent, far surpassing annual growth performances for the subregion since the transition began. 1999 economic growth for Eurasia (at 2.9 percent) comes closest to this record. No Eurasian economy contracted in 2000.[32]

Russia's performance continues to significantly influence both the (population-weighted) regional averages, as well as real economic events in much of Eurasia. Russia's economy contributes close to 70 percent of all economic activity in Eurasia. Ukraine's economy is a distant second, only 11 percent of Eurasian GDP. Moreover, while economic links to Russia have decreased substantially from early transition years for the rest of Eurasia, these ties are still significant.[33] Available evidence suggests that economic growth in 2000 in much of Eurasia was fueled by growing exports, and many of these exports went to Russia. In fact, in contrast to Russia's largely import-substitution growth of 1999 (when Russian imports shrank by more than 20 percent), Russian imports in 2000 increased by 16 percent. Russia' economic growth in 2000, in other words, was largely driven by an increase in domestic demand which in turn contributed to the growth of exports elsewhere. Russian exports also grew in 2000, by 6 percent, facilitated by higher oil prices (noted below) and gains in competitiveness due to the real exchange rate depreciation in 1998-1999. Real GDP growth in Russia in 2000 (at 7.5 percent) was more than twice the rate of growth in 1999 (3.2 percent).

Trends in the prices of commodity exports for the Eurasian countries also continued to factor prominently in economic growth in 2000. The price of oil increased by close to 60 percent in 2000, coming on the heels of nearly a 40 percent increase in 1999. Natural gas prices increased by 80 percent in 2000. Energy exports play a very important role for Turkmenistan, Azerbaijan, Kazakhstan, and Russia.[34] The prices of most metals (important to Kazakhstan, Kyrgyzstan, and Russia) and some agricultural raw materials also increased. Cotton, in particular, is a key export for Uzbekistan, Tajikistan, and Turkmenistan, and its price increased by more than 10 percent in 2000.[35]

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statistical systems. Data from other countries of this group, Belarus and Turkmenistan in particular, seem highly suspect to overt manipulation by government authorities.

[32] The EBRD estimates zero growth for Moldova's economy in 2000 while the IMF calculates that it grew by 1.9%.

[33] The proportion of exports to Russia has decreased substantially for a number of Eurasian countries, particularly Kazakhstan (from 43% of total exports in 1994 to 24% in 2000), Uzbekistan (from 40% in 1994 to 19% in 1998), Ukraine (40% in 1994 to 21% in 1999), Armenia (35% in 1994 to 15% in 1999), and Kyrgyzstan (30% in 1994 to 16% in 1998). Closest economic ties with Russia are maintained by Belarus and Moldova. In fact, export shares to Russia had been increasing for both of these countries prior to the Russian financial crisis, but have since decreased. Fifty-one percent of Moldovan exports went to Russia in 1994. This increased to 58% in 1997, but decreased to 41% in 1999. Belarus had 47% of its exports going to Russia in 1994. This increased to 66% in 1998, but fell back to 48% by 2000.

[34] In recent years, roughly one-half of Turkmenistan's exports have been energy (oil and gas). For Azerbaijan, it is closer to one-third; for Russia and Kazakhstan, at least 20%.

[35] More than one-half of Uzbekistan's exports in recent years have been textiles (cotton and wool); in Tajikistan, about 40%, and Turkmenistan close to 30%. Roughly one-third of exports in Russia, Kazakhstan, and Kyrgyzstan are metals.

The natural resource exporters were among the fastest growers in 2000 in Eurasia. Turkmenistan (energy and cotton) had an economy that grew 17.6 percent in 2000; Azerbaijan (energy), 10.3 percent; Kazakhstan (energy and metals), 9.4 percent; and Russia (energy and metals), 7.5 percent. Of the commodity exporters, only Uzbekistan's economy (dependent on cotton exports) witnessed a slowdown in economic growth from 1999 (4.3 percent) to 2000 (1.5 percent).

However, even most of the energy importing Eurasian countries, which were adversely affected by the increases in prices, experienced strong economic growth in 2000, including Tajikistan (8.3 percent), Armenia (6 percent), Ukraine (6 percent), and Kyrgyzstan (5 percent). Economic growth in Ukraine in 2000 was particularly notable: this was the first year since the transition began that Ukraine's economy expanded.

Annual ***inflation*** rates much above the single-digit range erode business confidence, and the ability and incentive to invest and expand at the enterprise level. *Table 10* shows that while inflation for the transition region in 2000 as a whole, at 24 percent, is about as low as it has been since the mid-1990s (and hence since the transition began), it's still too high in most countries. Most of these countries are in Eurasia. Seven of the nine transition countries in 2000 that have inflation rates of near 20 percent or greater are in Eurasia. Yugoslavia (60 percent) and Romania (46 percent) are the CEE exceptions. Moreover, most of the CEE countries saw some increase in inflation from 1999, though in most instances, the increase was small. Nevertheless, roughly half of the transition countries have been able to hold inflation in the past two years to close to single-digits levels.

From 1994-1999, inflation rates among the Northern Tier CEE countries had been steadily declining, falling on average about 4-5 percentage points annually to an annual rate in 1999 of 7 percent. 2000 saw a departure in this trend; inflation rates increased slightly for the region as a whole (to 8 percent) and in all the countries but Lithuania. Much of this increase was likely due to temporary shocks, such as higher-priced energy imports and drought. Inflation rates ranged from one percent in Lithuania to 12 percent in Slovakia. Inflation increased in the majority of Southern Tier CEE countries as well, and generally for reasons similar to those in the Northern Tier CEE, i.e., rising energy and food prices. Rates ranged widely, however, from zero percent in Albania to 60 percent in Yugoslavia.

In contrast to inflation trends in the CEE countries, inflation in Eurasia fell from 1999 to 2000 in most countries. The subregion average fell from 65 percent in 1999 to 26 percent in 2000, closer to the rates experienced in 1997 and 1998. Greatest drops occurred in Russia (from 86 percent in 1999 to 21 percent in 2000), Georgia (from 19 percent to 4 percent), and Turkmenistan (from 24 percent to 8 percent). 1999, hence, may have been the exceptional year for the region, with inflation increasing from the higher price imports stemming from depreciation of currencies, one spillover from the Russian crisis of 1998. Azerbaijan continues to be able to sustain one of the lowest inflation rates of all the transition countries; prices have actually contracted on balance since 1997. Inflation has been very low in Armenia as well, around zero since 1999. Of all the transition countries, inflation was far and away the highest in Belarus in 2000 (169 percent). Belarus had the highest inflation rate of all the countries in 1998 and 1999 as well.

Budget deficits (*Table 11*) that remain high erode productivity and sustainable economic growth in a number of ways. Financing deficits can fuel inflation (if governments resort to printing money) and/or contribute to "crowding out" private investors to loanable funds (as the cost of borrowing rises with the demand). More fundamentally, as witnessed in Russia, persistently high budget deficits can undermine investor confidence, sparking volatility in capital flows, higher borrowing costs in international markets and higher external imbalances.

Overall, fiscal balances have improved substantially during the transition, from a population-weighted average fiscal deficit of roughly 15 percent of GDP in 1992 to a range of 5-7 percent from 1994-1998, to 3 percent in 1999, and 0.7 percent in 2000. The improvements in the fiscal balances in 2000 occurred across the subregions and were greatly facilitated by growing tax revenues stemming from growing economies. Only in a handful of countries did fiscal balances deteriorate in 2000: in the Czech Republic, Moldova, Romania, Croatia, and Armenia.

Some of the most impressive improvements in 2000 fiscal balances occurred in Eurasia countries able to reap considerable tax gains from rising prices of commodity exports. Salient among these are the four major energy exporters of Eurasia (Russia, Kazakhstan, Azerbaijan, and Turkmenistan) that have had favorable trends in fiscal balances since energy prices began increasing in 1999. Russia had a fiscal surplus of 2.5 percent of GDP in 2000, from a deficit of 1 percent in 1999, and far higher deficits in recent years past (of 8-9 percent from 1996-1998). Turkmenistan's fiscal deficit of 2.7 percent of GDP in 1998 was followed by a small surplus in 1999 (0.9 percent) and another surplus in 2000 (0.2 percent). Kazakhstan's fiscal deficit has decreased substantially from 7-8 percent of GDP in 1997-1998 to roughly 5 percent in 1999 and 0.8 percent in 2000. Azerbaijan's deficit of 5.4 percent of GDP in 1999 was cut in half to 2.6 percent in 2000.

Despite the recent favorable trends in fiscal balances, there remain seven countries that have maintained fiscal deficits in excess of 5 percent of GDP over the past three years. These are deficits, in other words, that may be unsustainably high. Four countries are in CEE (Albania, Bosnia-Herzegovina, Yugoslavia, and Lithuania) and three are in Eurasia (Kyrgyzstan, Georgia, and Armenia). Three of these countries, nevertheless, witnessed significant fiscal deficit reductions from 1999: Lithuania (from a deficit of 8.6 percent of GDP in 1999 to 3.3 percent in 2000); Yugoslavia (from 8.4 percent to 3.7 percent); and Kyrgyzstan (from 12.8 percent to 7.2 percent). Far and away, the highest three-year deficits have been maintained in Kyrgyzstan and Albania (from 1998-2000, 10.4 percent and 10.2 percent of GDP, respectively). High deficits in highly indebted countries are particularly troublesome. In Eurasia, this primarily applies to Kyrgyzstan, Georgia, Moldova, and Armenia; in CEE, Yugoslavia and Bosnia-Herzegovina.

In general, the primary fiscal challenges differ between CEE and Eurasia. In CEE, particularly for the ten CEE countries on track to EU accession (that is, the Northern Tier

CEE countries plus Romania and Bulgaria), the primary fiscal challenge is how to maintain manageable fiscal deficits while at the same time meeting very ambitious expenditure requirements implicit in EU membership. On the one hand, EU membership requires fiscal discipline to achieve macroeconomic convergence with other members. A key Maastricht financial criterion for joining the EU is that fiscal deficits are not to exceed 3% of GDP. In 2000, four of the ten CEE accession countries failed to meet this criterion: Romania; Hungary; Slovakia; and the Czech Republic.

At the same time, accession to the EU will require substantial expenditure to bring these economies up to EU standards. Accession requirements include additional expenditure in upgrading environmental standards and nuclear safety, transport infrastructure, legal reforms, the steel industry, the energy sector, agriculture, telecommunications, and social policy. It is estimated that annual EU transfers leading up to membership will range from around 0.3 percent of GDP (for Slovenia) to 2 percent of GDP (for Bulgaria).[36] However, EU assistance is not likely to come close to filling the financing gap. According to some estimates, annual accession costs could be as high as 11 percent of annual regional GDP over a ten-year period.[37] Moreover, these costs must be addressed in the context of existing constraints imposed by already large public sectors and high tax burdens.

The primary fiscal challenge for Eurasia is even more fundamental, namely increasing the capacity of government to raise revenues (and to fend off powerful interest groups intent on undermining that capacity). For some of these countries, this amounts to efforts to mitigate or avert mounting and unsustainable debt burdens. General government revenues as a percent of GDP are extraordinarily low in some Eurasian countries: perhaps 15 percent of GDP in Tajikistan and Georgia. On average, general government revenues in Eurasia less Russia are 24 percent of GDP. This compares to government revenues of 40 percent of GDP in CEE.

Table 12 shows trends in domestic investment and the share of the economies in private sector hands. The ***private sector share of the economy*** is a rough proxy of the extent of economic restructuring, either through the privatization process or the growth of new private-sector firms. Those economies where private sector output predominates are much more likely to generate momentum towards greater economic expansion overall.

Twenty countries of the region in fact now have a private sector generating at least 50 percent of GDP. The average for all of the transition countries is 63 percent. This represents very impressive gains; in 1989, the region's private sector share was probably closer to 10 percent of GDP.

Most OECD economies have private sectors that range from 70-85 percent of GDP. Nine transition countries (six Northern Tier countries, Russia, Albania, and Bulgaria) now have private sectors that meet this threshold. The private sector share of GDP is highest in Hungary and the Czech Republic (both at 80 percent). Slovenia's private sector as a

[36] EBRD, *Transition Report Update* (April 2001), p. 9.
[37] EBRD, *Transition Report 2000* (November 2000), p. 56.

share of GDP is 55 percent. This is the lowest among the Northern Tier countries, though perhaps not much different from that of its neighbors, Austria and Italy.

There is a close fit between progress in economic reforms and the size of the private sector. As noted, the reform leaders of Hungary and Poland have the highest private sector share of GDP. Moreover, the seven countries that have private sector shares less than 50 percent of GDP all rank at the bottom of progress in economic reforms (in *Table 8*). Smallest private sectors are found in Belarus (20 percent of GDP) and Turkmenistan (25 percent). The two "outlier" countries are Slovenia, which ranks relatively high in economic reforms (4^{th}), yet has a relatively small private sector share (55 percent of GDP), and Albania, which ranks only 17^{th} in economic reforms, yet has among the highest private sector shares (75 percent of GDP).

Domestic investment (*Table 12*) contributes to the productive capacity of the economy and hence helps provide the momentum that is necessary for sustained economic expansion further down the road. Of the three subregions, domestic investment as a percent of GDP was highest in Eurasia at the outset of the transition (30 percent of GDP in 1990), but has since fallen the most there, to 18 percent of GDP in 1999. The proportion of domestic investment of GDP is also 18 percent on average in Sub-Saharan Africa. In contrast, domestic investment as a percentage of GDP has increased slightly in the Northern Tier CEE countries from 1990-1999, and at 27 percent is not far below the average (of 30 percent) found in the East Asian developing countries. Domestic investment in the Southern Tier falls somewhere in between the other two regions; 21 percent of GDP in 1999, a decrease from 26 percent in 1990.

Five countries (for which data are available) have witnessed a precipitous drop in the domestic investment share of GDP; that is, at least a 40 percent decline from 1990-1999: Albania; Russia; Armenia; Kazakhstan; and Uzbekistan.

Trends in ***labor productivity***, or output per employee, can provide important insights into the extent to which firms are restructuring. The efficiency gains from an increase in productivity can stem from a number of factors, including fewer excess workers, greater skilled and/or motivated workers, improved capital stock, and/or a greater capacity to manage.

Productivity growth in industry (*Table 13*) over the entire transition has been the most impressive in the Northern Tier CEE, growing on average by more than 8 percent annually since 1992. This growth has been particularly impressive in Poland and Hungary. While much of the earlier year productivity gains in the Northern Tier countries stemmed from labor shedding (or employment reduction), much of the more recent gains have stemmed from relatively rapid output growth and technological innovations. Productivity gains in the Southern Tier countries (for which data are available) have been more modest and even negative in recent years for some countries. Of this subregion, productivity gains have been greatest in Croatia.

The highest productivity growth in industry in the past several years has occurred in a handful of Eurasian countries, most notably in Kyrgyzstan, Georgia, Armenia, Russia, Belarus, Kazakhstan, and Azerbaijan. The most recently available three-year productivity growth averages in these countries have all been greater than 10 percent. As with patterns in output, rapid productivity growth in recent years in most if not all of these countries comes on the heels of very significant productivity drops in earlier transition years.[38] Particularly in the context of relatively stagnant labor markets for many of these countries (that is, relatively minimal labor shedding, mobility, and/or turnover), this may suggest that recent labor productivity gains in these countries are more a reflection of output recovery than of any significant enterprise restructuring.

The productivity pattern in Uzbekistan is an interesting contrast. Consistent with the GDP pattern in Uzbekistan, the change in productivity has exhibited little of the "J-curve" trend (that is, a large initial drop followed by recovery) that has been the transition norm elsewhere. More generally, the economic data for Uzbekistan suggest that it is in a transition category all its own, or in some sense, still in a pre-transition stage. Salient in this regard is insignificant progress in economic reforms with a relatively low private sector share of GDP, coupled with relatively stagnant output and productivity trends, and virtually no official unemployment.

How and to what extent these economies integrate into the world economy figure prominently into the type of their transition path and its sustainability. *Tables 14* through *16* highlight some key aspects of this integration: export growth and openness to trade; institutional integration; current account balances; foreign direct investment; and external debt.

Table 14 looks at international trade and "institutional integration" into the world economy. The gains from trade can be substantial, and range from the tangible (of increasing an economy's quantity and quality of available goods, including capital goods) to the intangible (of providing incentives and a constituency to maintain the market-based reforms which also serve as pre-requisites to institutional integration with the industrial market economies).

Certainly there are also downsides to integrating into the world economy through trade. As has been evident in the transition region in recent years, not only the magnitude but also the nature of trade links are key in this regard. In general, the greater the dependency on few trading partners and few exports products, particularly primary products, the more vulnerable is the economy to "exogenous shocks." Many of the Eurasian countries have recently been reaping benefits from such dependencies (on Russia and commodity exports), but, as has happened in the past, these dependencies could just as easily turn to liabilities.

Exports rebounded significantly in 2000 for the region as a whole from little to no growth in recent years past. Available data indicate that exports contracted by roughly 8

[38] See *Figure 4*, *Monitoring Country Progress*, No. 6 (May 2000).

percent region-wide in 1998 and about 1 percent in 1999, while growing from 10-15 percent in 2000.[39] Virtually all the CEE countries witnessed double-digit export growth rates in 2000, reflecting in large part an increase in demand in Western Europe and renewed access to these markets (due to restoration of peace and relative stability in the Balkans). All the Eurasian countries (for which data are available) witnessed export growth in 2000 as well with one exception (Uzbekistan). As previously noted, export revenues in Eurasia grew largely as a result of an increase in demand from Russia as well as favorable prices of commodity exports.

Table 14 also provides data on ***openness to trade*** or a country's outward orientation. To what extent are these economies integrated into the world economy? Are they becoming more or less integrated over time? In short, these data suggest several salient observations: (1) there is wide variation across the region in terms of outward-orientation; (2) there is considerable scope for further integration (even among the Northern Tier CEE countries); and (3) in fact, more recent trends, at least through 1999, suggest that most countries have become more inward-oriented or autarchic in recent years.

The Northern Tier CEE countries are the most outward-oriented; their merchandise exports plus imports on average equaled 32 percent of (purchasing power parity) GDP in 1999. Such openness to trade, to some extent, is a reflection of the competitiveness of an economy (though smaller economies also tend to be more open out of necessity). The Northern Tier average on this score is roughly comparable to the average of the advanced economies (37 percent of GDP), though it falls short of the EU average of 53 percent. This suggests that there remains significant scope for expansion of trade between Western Europe and the Northern Tier countries.

The Eurasian countries and the Southern Tier CEE countries generally have considerably smaller trade sectors than do the Northern Tier CEE countries; 12 percent and 19 percent of GDP on average, respectively. By comparison, trade sector shares of GDP in Latin America and the Caribbean and Sub-Saharan Africa are 18 percent and 16 percent, respectively. In other words, by this measure, the Southern Tier CEE and Eurasian transition countries have global integration profiles much closer to developing countries than OECD countries.

A comparison of outward-orientation of the transition economies with per capita income (*Table 19* below) reveals a strong link between the two; namely, the more outward-oriented the transition economy is, the higher is its per capita income. Slovenia has the highest per capita income of all the transition countries ($16,804 in purchasing power parity dollars in 2000), and alongside Estonia, is the most outward-oriented (59 percent of PPP GDP). Virtually all the relatively autarchic economies (those with small trade sectors) are also the poorest economies (those with the lowest per capita income). Of the twenty countries for which PPP per capita income data are available, the poorest six countries have trade sectors ranging from 6 percent of GDP (Georgia), 8 percent

[39] The IMF estimates that exports grew for the region by 15% export in 2000, from 0.6% in 1999. *World Economic Outlook* (May 2001).

(Uzbekistan and Kyrgyzstan), 9 percent (Azerbaijan), 12 percent (Moldova) to only 13 percent of GDP (Armenia).

A very broad indicator of integration into the global economy of *Table 14* is the ***growth of real trade less GDP growth*** from 1989-1999. By this measure, most of the transition economies have become more outward-oriented since communism's collapse, particularly the Northern Tier CEE countries. However, the large initial drops in GDP in the early transition years for most countries makes interpretation of this indicator difficult. For many countries (at least for some years), a positive number may primarily mean that the trade sector has been contracting less than the overall drop in economic activity. In any event, three countries (for which data are available) have experienced growing autarchy by this measure (i.e., a negative figure of significant magnitude): Armenia (-11.7 percent); Belarus (-5.1 percent) and Bulgaria (-4.1 percent).

More recent available trends on openness to trade are less favorable. In fact, there has been a notable fall in the proportion of trade to GDP in all three subregions from 1997-1999. For the transition region as a whole, trade as a proportion to GDP fell from 27 percent in 1997 to 16 percent in 1999. The largest fall occurred in Eurasia: from 24 percent to 12 percent. Only in the highly autarchic economies of Albania and Armenia, did the trade share rise during this period. These trends coincide with largely unfavorable trends in the world economy (starting with the global financial crisis of 1997, to Russia's financial crisis in 1998, to the 1999 Kosovo conflict). Hence, 2000 data may reveal a reversal in the region's trend towards inward-orientation, and this bears watching.

Finally, *Table 14* also tabulates key indicators of ***institutional integration***. An important means to catalyze the reform progress and to lock-in the gains from reforms is through the institutionalization of global integration, or memberships in international organizations. For our purposes, this includes membership or participation towards membership in the OECD, the World Trade Organization, NATO, and the European Union. As shown in *Table 14*, institutional integration, as so defined, is taking place almost exclusively among the CEE countries, and primarily still in the Northern Tier. Of all the transition countries, the Czech Republic, Hungary, and Poland continue to have the closest institutional ties with the West. All three are members of both the OECD and NATO. All three plus Slovenia and Estonia were invited in 1997 to participate in the next round of negotiations towards EU membership. All three are WTO members.

In October 1999, five more transition countries were invited to participate in negotiations towards EU membership: Slovakia, Latvia, Lithuania, and two Southern Tier countries, Romania, and Bulgaria. As a preliminary step towards this invitation, the EU had previously negotiated Association Agreements (AA) with all ten of these countries. More recently, Macedonia has become the first country of a newly designated West Balkan region to begin negotiations with the EU towards a Stabilization and Association Agreement (SAA), a step removed from an AA. Croatia is likely to soon follow.

Since our last review (May 2000), Slovakia has become a member of the OECD, and four countries have joined the World Trade Organization (WTO): Lithuania; Croatia; Albania;

and Georgia. Presently fourteen transition countries are members of the WTO. Twelve countries are in CEE and two (Kyrgyzstan alongside Georgia) are in Eurasia. Armenia's membership into the WTO is imminent.

To some extent, as the economies climb out of the "transition trough" and incur robust economic growth, ***current account deficits*** can be expected, and may reflect positive developments (*Table 15*). Such deficits may be temporary if much of the imports are capital goods that in turn spur an increase in competitiveness and exports. This is certainly part of the story in some CEE countries, in the Northern Tier CEE in particular. In addition, current account deficits are less burdensome if, as is the case in many Northern Tier CEE countries, they can be financed in large part by FDI inflows.

Nevertheless, macroeconomic stability can be at significant risk in the presence of large current account deficits, particularly if they are sustained over several years. Similarly, financing the deficit can contribute to unsustainable debt burdens if alternative sources (such as FDI) are not forthcoming.

Current account trends differ widely across the transition region. On the one hand, several Eurasian countries have benefited from high-energy prices and/or depreciated currencies that in turn have contributed to very favorable current account balances. Russia's high current account surplus in 1999 (of 12.4 percent of GDP) was followed by an even higher surplus in 2000 (18.4 percent). Ukraine and Kazakhstan also experienced growing and significant surpluses from 1999 to 2000. Turkmenistan and Azerbaijan were able to reverse very high (double-digit) current account deficits in recent years to a small deficit in 2000 in the case of Azerbaijan (1.5 percent of GDP) and even a slight surplus in the case of Turkmenistan (0.9 percent).

Yet, there remain many transition countries across the three subregions with current account deficits that are too high. In the Northern Tier CEE countries, current account deficits remain above 5 percent of GDP in the three Baltic countries and Poland. Nevertheless, all but Estonia and the Czech Republic of the Northern Tier countries saw a reduction in the deficits from 1999-2000. In the Southern Tier CEE, current account deficits continue to be too high in Bosnia-Herzegovina (above 20 percent of GDP on average since 1996; 21 percent in 2000), Yugoslavia (about 13 percent of GDP in 1999-2000); and Albania (8-9 percent of GDP since 1996). In Eurasia, current account deficits are highest in the countries with the highest debt burdens: Kyrgyzstan (9.2 percent of GDP in 2000); Georgia (8.1 percent); Armenia (14.5 percent); Moldova (7.8 percent); and Tajikistan (6.4 percent).

Foreign direct investment (FDI) is key to the transition (*Table 15*). It helps meet the substantial fixed investment needs of the region that arise from obsolete fixed capital stocks and inadequate infrastructure. It does so without adding to the external debt burden. In the context of highly volatile short-term capital flows, it is a stabilizing influence. And, it brings with it some very important externalities, including access to advanced technology and export markets, and exposure to advanced management and marketing techniques. Not only does FDI follow reforms, it contributes towards catalyzing and sustaining them, as well.

The Northern Tier CEE countries continue to receive the lion's share of FDI: on a per capita basis since 1989, nine times more than in Eurasia, and roughly three times more than in the Southern Tier CEE countries. The Czech Republic surpassed Hungary in 2000 in attracting the greatest cumulative FDI per capita of all the transition countries since 1989. Relative to other transition countries, Estonia and Latvia have received significant FDI as well on a per capita basis.

Two primary elements in the transition region have attracted FDI. First and foremost, FDI has been attracted to a stable business environment and to countries where economic reforms are well advanced. Similarly, much of the FDI has been associated with large-scale privatization. In fact, six large-scale privatizations accounted for one-third of the total FDI in the Northern Tier CEE countries in 2000. Large-scale privatizations have also accounted for considerable FDI flows in the Southern Tier CEE. Second, countries rich in energy resources have been able to attract FDI even in the absence of much reform progress. The salient case is Azerbaijan, though this also pertains to Kazakhstan and Turkmenistan.

Even in the Northern Tier CEE countries, however, there is considerable scope for more FDI. This is illustrated when one compares the magnitude of FDI flows in the region with FDI to other parts of the world. *Table 15* shows such a comparison of gross FDI as a percent of purchasing power parity GDP, albeit for only one year (1999). By this measure, 1999 FDI flows to the Northern Tier were only one-third the amount that went to the EU, and even less than the amount that went to Latin America and the Caribbean. FDI flows to Eurasia as a percent of GDP were of the same magnitude as those that went to Sub-Saharan Africa. As with the openness to trade measure, this comparison of FDI flows suggests that most transition countries have global integration profiles much closer to developing countries than to the industrial market economies.

A key challenge for those transition countries nearing the completion of large-scale privatization is to attract FDI into existing and/or new ("Greenfield") private sector ventures. Until further reform progress is made, however, FDI will generally continue to favor the industrialized market economies as well as some other emerging markets.

External debt and debt burden continue to grow in the majority of transition countries (*Table 16*). For a handful of transition countries, most of them low-income Eurasian countries, the external debt burden is very high and perhaps unsustainable.

From 1996 to 2000, total external debt as a percent of exports increased in all three subregions and in nineteen of the twenty-seven transition countries. In 2000, region-wide external debt was 137 percent of exports, somewhat below the average of 173 percent for all the developing countries. A large majority of transition countries have also experienced an increase in debt service as a percent of exports, though the region-wide average remains relatively low; at 14 percent in 2000, this is equal to the average debt service ratio in Sub-Saharan Africa, but much below that found in Latin American and the Caribbean (42 percent). Moreover, only five transition countries in 2000 had debt service in excess of 20 percent (Latvia, Kyrgyzstan, Turkmenistan, Moldova, and Uzbekistan).

According to the World Bank's indebtedness classification scheme, two transition countries in 1996 were severely indebted (Bulgaria and Bosnia-Herzegovina) and four were moderately indebted (Hungary, Macedonia, Georgia, and Kyrgyzstan). This had increased by 1999 to three countries that were severely indebted (Bulgaria, Bosnia-Herzegovina, and Kyrgyzstan) and seven that were moderately indebted (Hungary, Estonia, Russia, Moldova, Georgia, Turkmenistan, and Armenia), excluding Yugoslavia for which data are not available.[40]

External debt in the Northern Tier CEE countries, while not insignificant, appears to be manageable, particularly given the potential for further economic growth and development in the subregion. For much of the transition, and for most indicators of debt, Hungary has had the highest debt of this group. However, debt service as a percent of exports has fallen significantly in Hungary from 37 percent in 1997 to 17 percent in 2000. Slovenia has the lowest external debt of the Northern Tier countries. Debt service as a percent of exports is quite high in Latvia (21 percent), Lithuania (18 percent), and Slovakia (18 percent).

External debt is much more troublesome in the Southern Tier CEE. Of all the transition countries, external debt as a percent of exports was highest in Yugoslavia in 2000 (565 percent). Most of Yugoslavia's debt is in arrears, and debt restructuring and reductions may be a necessity. Albania had the second highest level of external debt as percent of exports in 2000 (358 percent). However, more than half of this debt is concessional, and thus Albania's debt service burden is low. External debt in Bosnia-Herzegovina remains high as well, though debt reduction agreements with the London Club in 1997 and the Paris Club in 1998 significantly reduced its debt burden. Roughly 40 percent of Bosnia-Herzegovina's debt is concessional. Of the ten CEE countries on the EU accession track, only Bulgaria exceeded the Maastricht debt ceiling of 60 percent of GDP in 2000. As with Yugoslavia, virtually all of Bulgaria's debt is nonconcessional and thus more onerous to service.

In Eurasia, external debt burdens are particularly high and by most counts, increasing in five relatively poor countries: Kyrgyzstan; Georgia; Tajikistan; Armenia; and Moldova.

[40] This scheme is based on the present value of debt which is defined as the sum of short-term debt plus the discounted sum of total debt service payments due on public, publicly guaranteed, and private nonguaranteed long-term external debt of the life of existing loans. Evidence from developing countries has shown that debt service difficulties become increasingly likely when the ratio of the present value of debt to exports reaches 200% and the ratio of debt service to GNP exceeds 40%. Drawing from this experience, the World Bank has classified countries with a present value of debt service greater than 220% of exports or 80% of GNP as severely indebted; countries that were not severely indebted but whose present value of debt service exceeded 132% of exports or 48% of GNP as moderately indebted; and countries that did not fall into the above two groups as less indebted.

In 2000, external debt as a percent of exports averaged 250 percent in these countries, ranging from 195 percent in Armenia to 306 percent in Kyrgyzstan. Debt service as a percent of exports is highest in Kyrgyzstan (26 percent) and Moldova (22 percent). A key reason it is not higher is that much of the debt is concessional: about 55 percent on average for the five countries in 1999, ranging from 25 percent in Moldova to almost 60 percent in Tajikistan. External debt has been accumulating rapidly in these countries given the debt-free start at the outset of the transition in 1991.[41] The current levels of debt in this group are particularly problematic in the context of limited scope for economic growth and development.

[41] In 1991, Russia assumed all the financial liabilities of the former Soviet Union.

Table 9. Growth in Real GDP (%)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	1998-2000 average
Turkmenistan	-5.3	-10.0	-17.3	-7.2	-6.7	-11.3	5.0	16.0	17.6	12.9
Bosnia-Herzegovina	…	…	…	32.4	85.8	39.9	12.8	8.6	10.0	10.5
Azerbaijan	-22.6	-23.1	-19.7	-11.8	1.3	5.8	10.0	7.4	10.3	9.2
Albania	-7.2	9.6	9.4	8.9	9.1	-7.0	8.0	7.3	7.8	7.7
Belarus	-9.6	-7.0	-12.6	-10.4	2.8	11.4	8.3	3.4	6.0	5.9
Tajikistan	-29.0	-11.0	-21.4	-12.5	-4.4	1.7	5.3	3.7	8.3	5.8
Armenia	-41.8	-14.1	5.4	6.9	5.9	3.3	7.3	3.3	6.0	5.5
Hungary	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.5	5.3	4.9
Slovenia	-5.5	2.8	5.3	4.1	3.5	4.6	3.8	5.2	4.9	4.6
Poland	2.6	4.3	5.2	6.8	6.0	6.8	4.8	4.1	4.1	4.3
Latvia	-34.9	-14.9	0.6	-0.8	3.3	8.6	3.9	1.1	6.6	3.9
Bulgaria	-7.3	-1.5	1.7	2.2	-10.9	-6.9	3.5	2.4	5.0	3.6
Kyrgyzstan	-19.0	-15.5	-19.8	-5.4	7.1	10.0	2.1	3.7	5.0	3.6
FYR Macedonia	-8.0	-7.5	-1.8	-1.1	1.2	1.4	2.9	2.7	5.1	3.6
Kazakhstan	-2.9	-9.2	-12.6	-8.2	0.5	1.7	-1.9	2.8	9.4	3.4
Uzbekistan	-11.1	-2.3	-4.2	-0.9	1.6	2.5	4.3	4.3	1.5	3.4
Estonia	-14.2	-8.2	-2.0	4.3	3.9	10.6	4.7	-1.1	6.4	3.3
Slovakia	-6.5	-3.7	4.9	6.9	6.6	6.5	4.1	1.9	2.2	2.7
Georgia	-44.8	-29.3	-10.4	2.6	10.5	10.7	2.9	2.9	2.0	2.6
Russia	-14.5	-10.4	-11.6	-4.2	-3.4	0.9	-4.9	3.2	7.5	1.9
Croatia	-11.7	-8.0	5.9	6.8	6.0	6.6	2.5	-0.4	3.5	1.9
Lithuania	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-4.2	2.7	1.2
Ukraine	-13.7	-14.2	-23.0	-12.2	-10.0	-3.3	-1.9	-0.4	6.0	1.2
Czech Republic	-0.5	0.1	2.2	5.9	4.8	-1.0	-2.2	-0.8	3.1	0.0
Yugoslavia	-27.9	-30.8	2.7	6.0	7.8	10.1	1.9	-19.0	10.7	-2.1
Romania	-8.8	1.5	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.6	-2.3
Moldova	-29.1	-1.1	-31.2	-1.4	-5.9	1.6	-6.5	-3.4	0.0	-3.3

Regional Averages	1992	1993	1994	1995	1996	1997	1998	1999	2000	1998-2000 average
CEE & Eurasia	-12.3	-8.3	-8.5	-2.1	-0.2	1.9	-0.5	2.0	6.1	2.5
Northern Tier CEE	-2.2	0.6	3.4	5.4	5.0	5.5	3.7	2.7	4.1	3.5
Southern Tier CEE	-12.8	-6.6	3.6	7.5	8.1	1.3	0.3	-3.7	5.1	0.6
Eurasia	-14.8	-10.9	-13.8	-5.9	-3.1	1.1	-1.8	2.9	6.8	2.6
European Union	1.2	-0.4	2.8	2.4	1.7	2.6	2.7	2.6	3.4	2.6
Advanced Countries	2.1	1.4	3.3	2.7	3.2	3.4	2.4	3.4	4.1	3.1
Developing Countries	6.4	6.4	6.7	6.1	6.5	5.7	3.5	3.8	5.6	4.3

Benchmarks (a) 3 years positive economic growth, (b) 3 year average growth rate of 2% or more

These figures should be interpreted only as indicative of broad orders of magnitude in large part because the growth of output of new private enterprises of the informal economy is not fully reflected, particularly in recent years. IMF, *World Economic Outlook* (May 2001); EBRD, *Transition Report Update* (April 2001).

Table 10. Inflation

	1994	1995	1996	1997	1998	1999	2000	1999-00	1998-00
Azerbaijan	1,664	412	20	4	-1	-9	2	-4	-3
FYR Macedonia	127	16	3	2	0	-1	6	2	2
Lithuania	72	40	25	9	5	1	1	1	2
Bosnia-Herzegovina	780	-4	-14	10	0	3	5	4	3
Armenia	5,273	177	19	14	9	1	-1	0	3
Latvia	36	25	18	8	5	2	3	3	3
Estonia	48	29	23	11	8	3	4	4	5
Croatia	98	2	4	4	6	4	6	5	5
Czech Republic	10	9	9	9	11	2	4	3	6
Albania	23	8	13	33	21	0	0	0	7
Slovenia	21	14	10	8	8	6	9	7	8
Georgia	15,607	163	39	7	4	19	4	12	9
Kazakhstan	1,892	176	39	17	7	8	13	11	10
Poland	32	28	20	15	12	7	10	9	10
Slovakia	13	10	6	6	7	11	12	11	10
Bulgaria	96	62	123	1,082	19	3	10	7	11
Hungary	19	3	24	18	14	10	10	10	11
Turkmenistan	1,748	1,005	992	84	17	24	8	16	16
Ukraine	891	377	80	16	11	23	28	25	20
Kyrgyzstan	229	41	31	26	12	37	19	28	22
Moldova	330	30	24	12	8	39	31	35	26
Uzbekistan	1,568	305	54	59	29	29	25	27	28
Tajikistan	350	7	418	88	44	28	34	31	35
Yugoslavia	7.9E+10	72	93	19	30	37	60	49	42
Russia	311	198	48	15	28	86	21	53	45
Romania	137	32	39	154	59	46	46	46	50
Belarus	2,221	709	53	64	73	294	169	232	179

REGIONAL AVERAGES	1994	1995	1996	1997	1998	1999	2000	1999-00	1998-00
CEE & Eurasia	784	190	61	50	23	49	24	37	32
Northern Tier CEE	28	21	18	13	11	7	8	7	9
Southern Tier CEE	167	38	53	283	35	27	33	30	32
Eurasia	1,077	264	74	23	23	65	26	46	38
European Union	3.0	2.9	2.5	1.8	1.4	1.4	2.3	1.9	1.7
Advanced Countries	2.6	2.6	2.4	2.1	1.5	1.4	2.3	1.9	1.7
Developing Countries	54.7	23.2	15.3	9.7	10.1	6.6	6.2	6.4	7.6
Benchmarks								< 10.0	< 15.0

Retail/consumer prices, annual average. 1994 regional average excludes Yugoslavia.

IMF, *World Economic Outlook* (May 2001); EBRD, *Transition Report Update* (April 2001).

Table 11. Fiscal Balance as Percent of GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	1998-00 average
FYR Macedonia	-9.8	-13.4	-2.7	-1.0	-1.4	-0.4	-1.8	0.0	1.0	-0.3
Bulgaria	-2.9	-8.7	-3.9	-5.7	-10.4	-2.1	0.9	-0.9	-1.0	-0.3
Turkmenistan	-9.4	-4.1	-2.3	-2.6	0.3	0.0	-2.7	0.9	0.2	-0.5
Slovenia	0.3	0.6	-0.2	-0.3	-0.2	-1.7	-1.4	-0.9	-1.0	-1.1
Estonia	-0.3	-0.7	1.3	-1.3	-1.9	2.2	-0.3	-4.6	-0.7	-1.9
Ukraine	-25.4	-16.2	-7.7	-6.1	-6.1	-5.0	-3.0	-2.5	-0.5	-2.0
Uzbekistan	-18.3	-10.4	-6.1	-4.1	-7.3	-2.4	-3.0	-1.8	-1.2	-2.0
Russia	-18.9	-7.3	-10.4	-6.0	-8.9	-7.6	-8.0	-1.0	2.5	-2.2
Belarus	-3.3	-5.2	-1.3	-6.9	-1.9	-1.2	-0.6	-5.6	-0.6	-2.3
Tajikistan	-30.5	-20.9	-5.2	-5.3	-5.8	-3.3	-3.8	-3.1	-0.6	-2.5
Latvia	-0.8	0.6	-4.4	-3.9	-1.8	0.3	-0.8	-4.2	-2.7	-2.6
Poland	-4.9	-2.4	-2.2	-3.1	-3.3	-3.1	-3.2	-3.3	-3.0	-3.2
Czech Republic	-3.1	0.5	-1.1	-1.4	-0.9	-1.7	-2.0	-3.3	-4.2	-3.2
Moldova	-26.6	-7.5	-5.9	-5.8	-9.7	-7.5	-3.2	-3.2	-4.0	-3.5
Slovakia	-11.9	-6.0	-1.5	0.4	-1.3	-5.2	-5.0	-3.6	-3.3	-4.0
Azerbaijan	2.7	-15.3	-12.1	-4.9	-2.8	-1.6	-4.2	-5.4	-2.6	-4.1
Romania	-4.6	-0.4	-2.2	-2.5	-3.9	-4.6	-5.0	-3.5	-4.0	-4.2
Croatia	-3.9	-0.8	-1.2	-1.4	-1.0	-1.4	-0.4	-6.2	-6.7	-4.4
Kazakhstan	-7.3	-4.1	-7.7	-3.4	-5.3	-7.0	-7.7	-5.3	-0.8	-4.6
Hungary	-7.2	-6.6	-8.4	-6.7	-5.0	-6.6	-5.6	-5.6	-3.6	-4.9
Armenia	-13.9	-54.7	-9.0	-8.6	-5.8	-6.0	-3.7	-5.9	-6.3	-5.3
Yugoslavia	…	…	…	-4.3	-3.7	-7.6	-5.4	-8.4	-3.7	-5.8
Lithuania	0.5	-5.3	-4.8	-4.5	-4.5	-1.8	-5.8	-8.6	-3.3	-5.9
Georgia	-25.4	-26.2	-7.4	-5.3	-4.9	-7.0	-6.5	-6.7	-4.6	-5.9
Bosnia-Herzegovina	...	...	-17.0	-0.3	-4.4	-0.5	-7.4	-5.7	-5.5	-6.2
Albania	-23.1	-15.5	-12.7	-10.1	-12.1	-12.6	-10.4	-11.3	-8.8	-10.2
Kyrgyzstan	-17.4	-14.4	-5.7	-8.4	-8.8	-8.8	-11.2	-12.8	-7.2	-10.4

REGIONAL AVERAGES	1992	1993	1994	1995	1996	1997	1998	1999	2000	1998-00 average
CEE & Eurasia	-14.6	-8.3	-7.1	-5.0	-6.3	-5.4	-5.3	-2.9	-0.7	-3.0
Northern Tier CEE	-4.9	-2.8	-2.9	-3.1	-3.0	-3.2	-3.4	-3.9	-3.2	-3.5
Southern Tier CEE	-6.0	-4.0	-3.3	-3.7	-5.1	-4.9	-4.2	-4.8	-3.9	-4.3
Eurasia	-18.4	-10.4	-8.7	-5.7	-7.4	-6.0	-6.0	-2.3	0.6	-2.6
European Union	-5.2	-6.3	-5.6	-5.4	-4.3	-2.4	-1.6	-0.6	1.3	-0.3
Advanced Countries	-4.3	-4.7	-4.0	-3.8	-3.1	-1.7	-1.2	-0.8	0.3	-0.6
Developing Countries	-3.6	-3.7	-3.8	-3.2	-2.7	-3.1	-4.6	-5.0	-3.7	-4.4
European Union Target										-3.0
Benchmark										-3.0

Fiscal balance is overall general balance (i.e. all levels of government). 1999 and 2000 figures for Yugoslavia exclude Kosovo.
EBRD, *Transition Report Update* (April 2001); IMF, *World Economic Outlook* (May 2001).

Table 12. Domestic Investment and Private Sector Share of GDP

Country	Gross Domestic Investment 1990	Gross Domestic Investment 1999	Gross Domestic Investment 1990-1999	Private Sector Output 1996	Private Sector Output mid-2000
	% of GDP		*% change*	*% of GDP*	
Czech Republic	25	28	12	75	80
Hungary	25	29	16	70	80
Albania	29	17	-41	75	75
Estonia	30	25	-17	70	75
Slovakia	33	32	-3	70	75
Lithuania	33	23	-30	70	70
Poland	25	26	4	60	70
Russia	30	15	-50	60	70
Bulgaria	26	19	-27	45	70
Latvia	40	26	-35	60	65
Romania	30	20	-33	60	60
Armenia	47	19	-60	50	60
Croatia	10	23	130	50	60
Georgia	...	17	...	50	60
Kyrgyzstan	24	18	-25	50	60
Ukraine	27	20	-26	50	60
Kazakhstan	32	18	-44	40	60
FYR Macedonia	19	21	11	50	55
Slovenia	17	28	65	45	55
Moldova	29	22	-24	40	50
Uzbekistan	32	15	-53	40	45
Azerbaijan	...	40	...	25	45
Yugoslavia	...	13	...	...	45
Tajikistan	...	9	...	20	40
Bosnia-Herzegovina	...	35	...	...	35
Turkmenistan	40	46	15	20	25
Belarus	27	24	-11	15	20

REGIONAL AVERAGES	1990	1999	1990-1999	1996	mid-2000
	% of GDP		*% change*	*% of GDP*	
CEE & Eurasia	29	20	-31	54	63
Northern Tier CEE	26	27	3	64	73
Southern Tier CEE	26	21	-20	57	61
Eurasia	30	18	-41	50	61
High Income	23	22	-4	70-85	
Low and Middle Income	26	23	-12		
Sub-Saharan Africa	15	18	20		
East Asia/Pacific	35	30	-14		
Benchmarks			*no decline*	*more than 70%*	

Source: World Bank, *World Development Indicators 2001* (2001); and EBRD, *Transition Report 2000* (November 2000). Yugoslavia figures are recent World Bank estimates.

Table 13. Labor Productivity

Region/Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1997-99[1] average	1999/1989[2] (%)
	Labor Productivity in Industry (% change)											
Kyrgyzstan	-0.4	7.4	-23.7	-17.0	-14.5	-25.8	16.5	48.8	18.0	…	27.8	88
Georgia	...	-14.9	-20.5	-7.7	-34.4	-0.6	49.9	2.8	-7.3	…	15.1	...
Armenia	-9.9	-0.3	-41.5	0.5	7.4	19.0	20.4	12.4	7.8	…	13.5	98
Russia	2.1	-6.3	-13.9	-11.9	-11.4	4.5	0.8	12.0	19.1	7.3	12.8	97
Belarus	3.6	0.7	-4.7	-6.3	-13.1	-0.9	...	18.6	10.5	7.5	12.2	...
Kazakhstan	0.7	-2.4	-10.7	-1.0	-21.2	0.0	-3.1	18.6	1.8	13.8	11.4	91
Azerbaijan	-3.5	7.3	-18.4	-12.0	-21.0	-16.6	...	17.3	3.5	…	10.4	...
Albania	…	…	…	…	…	23.8	26.5	-8.8	9.0	…	8.9	...
Hungary	-4.0	-8.2	3.9	16.4	14.8	10.5	4.3	9.3	7.4	9.4	8.7	181
Croatia	-10.4	-13.1	-0.8	-2.8	1.6	5.8	11.4	14.1	7.4	3.8	8.4	114
Poland	-19.7	0.0	12.5	13.8	13.0	6.5	9.1	11.6	4.3	9.1	8.3	171
Lithuania	...	...	...	-23.1	-11.1	14.1	6.5	2.4	8.0	…	5.6	...
Uzbekistan	0.4	0.5	-1.7	2.3	10.5	-1.6	4.4	6.3	5.3	…	5.3	129
Moldova	0.9	-4.4	-20.0	7.3	-23.6	12.0	8.6	10.5	-3.2	…	5.3	82
Slovakia	-4.0	-15.7	7.3	-1.1	9.0	4.0	2.5	3.8	7.8	2.6	4.7	115
Slovenia	-7.9	...	...	...	-10.5	-3.9	4.0	2.7	5.4	5.7	4.6	...
Ukraine	3.7	-4.0	-1.8	-3.0	-20.3	-4.5	2.5	7.3	2.8	…	4.2	82
FYR Macedonia	-7.5	-10.3	-10.1	-9.7	-4.1	5.2	-7.8	14.0	-0.2	-1.9	4.0	70
Latvia	...	...	...	-26.7	2.7	10.5	7.4	2.5	11.0	-2.7	3.6	...
Bulgaria	-8.6	-3.8	7.9	2.3	9.9	-3.3	...	-4.3	12.3	-2.8	1.7	...
Czech Republic	0.6	-9.5	26.3	-1.0	8.7	11.2	12.0	0.7	3.4	-2.5	0.5	156
Estonia	...	...	...	...	...	3.7	8.2	-1.0	9.6	-10.9	-0.8	...
Turkmenistan	-0.5	9.4	-12.3	-5.9	-25.9	21.4	26.0	-38.7	4.3	…	-2.8	65
Romania	-21.1	-18.7	-10.0	10.4	8.6	16.3	...	5.6	-14.9	…	-4.7	...
Tajikistan	-1.5	-1.7	-22.5	8.2	-22.5	-3.2	-23.1	-16.6	10.4	…	-9.8	43

REGIONAL AVERAGES	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1997-99[1] average	1999/1989[2] (%)
	Labor Productivity in Industry (% change)											
CEE & Eurasia	-2.5	-5.0	-6.6	-3.4	-6.7	3.4	4.1	9.3	9.0	4.5	7.6	105
Northern Tier CEE	-12.5	-4.1	12.9	7.6	10.2	7.7	8.0	8.0	5.4	6.1	6.5	158
Southern Tier CEE	-16.3	-14.3	-4.9	5.9	7.3	11.2	12.5	3.8	-4.1	-0.6	-0.3	96
Eurasia	1.7	-3.9	-11.2	-7.3	-12.9	1.2	2.7	10.5	11.9	7.9	10.1	97

Note: Productivity is calculated as the ratio of industrial production to industrial employment.

[1]1996-1998 for Albania, Armenia, Georgia, Kyrgyzstan, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. 1997-1998 for Azerbaijan and Romania. [2]1998/1989 ratio for Armenia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

EBRD, *Transition Report 2000* (November 2000); and earlier editions.

Table 14. Integration into the World Economy (I)

Country	Export Growth[1] (avg annual %) 1997-1999	Real Export Growth (% Change) 1999	2000	Growth in Real Trade less GDP growth 1989-99	Openness to Trade[2] (% of PPP GDP) 1997	1998	1999	Institutional[3] Integration 2000
Czech Republic	8	6.6	18.8	9.9	48	44	42	(1) (2) (3) (4) (5)
Hungary	16	13.2	23.0	7.6	55	42	46	(1) (2) (3) (4) (5)
Poland	7	1.0	5.0	11.3	27	26	22	(1) (2) (3) (4) (5)
Slovakia	5	3.6	15.9	11.1	51	46	38	(1) (2) (4) (6)
Slovenia	1	1.8	…	0	76	67	59	(2) (4) (5)
Estonia	12	-2.4	3.4	13	92	58	59	(2) (4) (5)
Latvia	9	-6.4	14.0	7	45	37	31	(2) (4) (6)
Bulgaria	-6	-5.2	20.0	-4.1	25	23	23	(2) (4) (6)
Romania	2	9.7	23.9	6.4	20	15	14	(2) (4) (6)
Lithuania	-1	-18.3	16.4	12	57	40	32	(2) (4) (6)
Croatia	-1	-0.2	7.8	…	54	44	37	(2)
Albania	10	…	…	10.5	11	11	14	(2)
Kyrgyzstan	-3	-10.4	…	-0.4	12	12	8	(2)
Georgia	6	…	…	…	11	8	6	(2)
FYR Macedonia	2	2.5	17.4	6.1	45	…	33	(4)
Belarus	2	-2.3	…	-5.1	32	24	18	
Turkmenistan	5	…	…	-1	32	15	17	
Ukraine	-7	-7.9	15.7	7.8	39	19	14	
Kazakhstan	-1	18.7	16.6	8.5	19	18	13	
Armenia	-4	5.9	…	-11.7	12	13	13	
Moldova	-16	-24.5	13.9	14.6	32	20	12	
Russia	-5	-4.5	6.0	1.5	21	14	11	
Azerbaijan	12	67.1	7.9	25.2	13	14	9	
Uzbekistan	-8	-1.9	-6.6	1.4	13	15	8	
Tajikistan	-5	…	…	…	22	25	…	
Bosnia-Herzegovina	44	…	…	-0.7	...	…	…	
Yugoslavia	…	-46.9	15.3	…	...	...	...	
CEE & Eurasia	-2	-1.4	9.9	4.8	27	20	16	
Northern Tier CEE	6	2.4	11.2	11.5	40	35	32	
Southern Tier CEE	4	-6.8	19.5	3.9	25	20	19	
Eurasia	-5	-1.5	7.8	3.5	24	16	12	
Europe EMU					51	54	53	
High Income Countries					39	38	37	
Latin America and the Caribbean							18	
Sub-Saharan Africa							16	

1 Export growth is in US dollar terms. 2 Openness to trade is the sum of merchandise exports plus imports expressed as a percentage of purchasing power parity GDP. 3 Institutional integration refers to membership or participation in (1) OECD, (2) WTO, (3) NATO, (4) Europe Agreements with EU, (5) invited to participate in July 1997 in negotiations toward EU membership, (6) invited to participate in October 1999 in negotiations toward EU membership.

EBRD, *Transition Report Update* (April 2001); World Bank, *World Development Indicators 2001* (2001).

Table 15. Integration into the World Economy (II)

Country	Current Account Balance (% of GDP)			Foreign Direct Investment (net inflows in U.S. $ per capita)				Gross FDI as a % of PPP GDP
	1996-98	1999	2000	1989-2000	1998	1999	2000	1999
Czech Republic	-5.3	-3.0	-4.8	2,102	256	605	434	4.0
Hungary	-3.6	-4.3	-3.5	1,935	144	140	164	2.0
Poland	-2.9	-7.5	-6.1	751	128	164	240	2.6
Slovakia	-10.0	-5.7	-3.6	669	70	130	278	1.3
Slovenia	-0.2	-3.9	-2.9	768	125	72	67	0.7
Estonia	-10.2	-5.8	-6.7	1,337	397	154	168	3.6
Latvia	-7.4	-9.7	-6.8	1,027	124	139	139	2.4
Bulgaria	1.3	-5.5	-5.5	407	65	98	120	2.1
Romania	-7.6	-3.8	-3.7	303	92	48	45	0.8
Lithuania	-10.5	-11.2	-6.0	642	249	129	96	2.7
Croatia	-8.2	-7.6	-4.4	907	173	304	167	4.8
Albania	-9.1	-8.0	-8.5	161	13	15	27	0.4
Kyrgyzstan	-17.9	-16.3	-9.2	97	23	9	9	0.3
Georgia	-9.4	-8.0	-8.1	128	41	11	19	0.6
FYR Macedonia	-7.6	-4.0	-8.3	219	88	14	85	0.3
Belarus	-5.5	-2.2	-1.5	78	14	22	9	0.3
Turkmenistan	-21.0	-16.0	0.9	165	13	18	19	0.9
Ukraine	-2.8	2.7	4.8	67	15	10	12	0.3
Kazakhstan	-4.3	1.0	5.3	571	74	106	77	2.2
Armenia	-19.2	-16.6	-14.5	159	58	34	39	2.6
Moldova	-15.2	-2.6	-7.8	102	20	8	23	0.6
Russia	0.9	12.4	18.4	85	12	5	14	0.5
Azerbaijan	-27.2	-13.0	-1.5	502	129	64	61	2.2
Uzbekistan	-4.5	-1.0	1.0	28	9	5	3	…
Tajikistan	-7.6	-3.4	-6.4	23	4	3	4	…
Bosnia-Herzegovina	-25.9	-22.2	-21.0	71	24	21	27	…
Yugoslavia	-9.5	-13.1	-12.6	13	11	6	35	…
CEE & Eurasia	-4.0	1.5	4.9	326	51	57	64	1.1
Northern Tier CEE	-4.4	-6.4	-5.3	1,111	155	214	243	2.6
Southern Tier CEE	-8.1	-7.7	-7.5	345	69	62	62	1.4
Eurasia	-3.1	5.4	9.9	119	20	15	18	0.7
European Union	1.3	0.3	-0.3					7.8
Advanced Economies	1.5	-0.5	-1.0					
Sub-Saharan Africa								0.7
Latin America and the Caribbean								3.0
Less Developed Countries								1.3
Benchmarks	3 year average current account balance no worse than -5%							

Note: Foreign direct investment figures for 1989-2000 are cumulative. FDI data for Bosnia-Herzegovina exclude capital transfers for reconstruction. Current account figures for Bosnia-Herzegovina exclude official transfers. Current account figures for Advanced Economies and the European Union exclude Belgium-Luxembourg, Denmark and the Netherlands.

EBRD, *Transition Report Update* (April 2001); IMF, *World Economic Outlook* (May 2001); World Bank, *World Development Indicators 2001* (2001).

Table 16. Integration into the World Economy (III)

Country	External Debt (% of exports): Debt 1996	Debt 2000[1]	Debt Service 1997	Debt Service 2000[2]	Present value of External Debt in 1996: % of GNP	% of Exports	Present value of External Debt in 1999: % of GNP	% of Exports	1999 Debt Category
Czech Republic	70	60	15	10	62	70	43	64	Less
Hungary	144	105	37	17	41	158	60	99	Moderately
Poland	170	214	7	9	31	102	33	125	Less
Slovakia	70	80	12	18	41	66	44	69	Less
Slovenia	38	58	9	10	21	36	…	…	…
Estonia	48	65	4	6	9	14	54	68	Moderately
Latvia	78	145	21	21	9	20	39	79	Less
Bulgaria	154	152	14	16	89	151	77	157	Severely
Romania	89	82	20	17	23	89	27	90	Less
Lithuania	49	97	11	18	16	35	34	80	Less
Croatia	68	119	10	18	24	56	47	106	Less
Albania	320	358	6	8	32	101	18	67	Less
Kyrgyzstan	205	306	12	26	37	130	104	228	Severely
Georgia	265	237	5	17	26	209	45	136	Moderately
FYR Macedonia	86	99	9	12	74	106	37	83	Less
Belarus	14	12	2	3	4	21	4	16	Less
Turkmenistan	34	91	27	22	18	39	54	116	Moderately
Ukraine	45	54	9	13	18	48	34	75	Less
Kazakhstan	83	115	25	12	14	48	41	89	Less
Armenia	167	195	15	17	27	114	…	135	Moderately
Moldova	87	218	14	22	39	92	74	126	Moderately
Russia	133	122	12	14	25	97	35	153	Moderately
Azerbaijan	50	58	7	7	10	45	22	57	Less
Uzbekistan	61	150	9	26	9	56	…	131	…
Tajikistan	169	297	15	15	24	69	37	92	Less
Bosnia-Herzegovina	550	221	38	13	53	408	35	…	Severely
Yugoslavia	454	565	1	2	…	…	…	…	…
CEE & Eurasia	123	137	12	14	26	87	37	115	
Northern Tier CEE	131	153	13	12	35	93	40	104	
Southern Tier CEE	212	216	14	13	41	129	39	103	
Eurasia	104	117	12	15	21	79	36	124	
Developing Countries	168	173	25	21					
Sub-Saharan Africa				14					
Latin America and the Caribbean				42					
Benchmark	debt service less than 20%				below the "moderately indebted" threshold (i.e., debt < 132% of exports)				

1 Datum for Georgia is for 1999. 2 Data for Armenia, Georgia and Russia are for 1999. Yugoslavia has been in default on virtually all of its external debt since 1992.

The debt classification is per the World Bank. Countries with a present value of debt service greater than 220% of exports or 80% of GNP are considered severely indebted; countries that are not severely indebted but whose present value of debt service exceed 132% of exports or 48% of GNP are classified as moderately indebted; countries that do not fall into the above two groups are classified as less indebted. The present value of debt is the sum of short-term external debt plus the discounted sum of total debt service payments due on public, publicly guaranteed, and private nonguaranteed long-term external debt over the life of existing loans. Debt service as a % of current account revenues. The IMF estimates that the debt service ratio of the transition countries overall decreased from 16.5% in 1999 to 14.4% in 2000.

World Bank, *World Development Indicators 2001* (2001); EBRD, *Transition Report Update* (April 2001); IMF, *World Economic Outlook* (May 2001).