



**USAID**  
FROM THE AMERICAN PEOPLE

Working Paper Series on the Transition Countries  
No. 8

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# **DIVERGENCE AND CONVERGENCE IN EASTERN EUROPE OR EURASIA: ONE TRANSITION PATH OR TWO?**

Robyn Melzig  
and  
Ron Sprout

January 2007

Program Office  
Bureau for Europe & Eurasia  
**U.S. Agency for International Development**

## **Divergence and Convergence in Eastern Europe and Eurasia: One Transition Path or Two?**

Robyn Melzig

U.S. Agency for International Development, Washington DC

Email: [rmelzig@usaid.gov](mailto:rmelzig@usaid.gov)

Ron Sprout

U.S. Agency for International Development, Washington DC

Email: [rsprout@usaid.gov](mailto:rsprout@usaid.gov)

*Abstract:* This paper attempts to assess the transition “divide” between Eastern Europe and Eurasia by examining and updating trends in five transition areas: (1) democracy; (2) health; (3) global economic integration; (4) labor markets; and (5) domestic disparities. Is there evidence that the transition to market-oriented democracies between the Central and Eastern Europe (CEE) countries and Eurasia is diverging along these dimensions? To what extent are the CEE countries taking one transition path and the Eurasian countries an alternative one?

We found evidence which suggests CEE-Eurasia divergences continue in democracy and health, mixed evidence of growing gaps and differences between CEE and Eurasia in regards to trends in labor markets and global economic integration, and the majority of evidence that differences between CEE and Eurasia in domestic disparities are narrowing.

*USAID/E&E/PO Working Paper Series on the Transition Countries  
February 2007*

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## *Summary*

This paper attempts to assess the transition “divide” between Eastern Europe and Eurasia by examining and updating trends across the economic, political, and social transition dimensions. Is there evidence that the transition to market-oriented democracies between the Central and Eastern Europe (CEE) countries and Eurasia is diverging along these dimensions? To what extent are the CEE countries taking one transition path and the Eurasian countries an alternative one?

On some economic dimensions, the CEE-Eurasian gap is narrowing. However, Eurasia’s global economic integration path is notably different than that found in CEE. In addition, CEE-Eurasia divergences continue in democracy and health. The results are more mixed in terms of growing gaps and differences between CEE and Eurasia in regards to trends in labor markets and in domestic disparities.

***The economic transition (and global economic integration).*** Recent trends in economic reforms and performance suggest that the Eurasian economies are performing at least on par with CEE. EBRD estimates of changes in 2006 in economic reforms show no backsliding in the transition region, and the most notable advancements in economic reforms in eight transition countries. Three are Eurasian countries: Russia; Kazakhstan; and Ukraine. Four are Southern Tier CEE: Bulgaria; Romania; Macedonia; and Serbia. One is Northern Tier CEE: Estonia.

Economic growth in the transition region has exceeded the world average since 2000. It has been particularly impressive in Eurasia where average annual GDP growth has been 7.1% from 2000-2006. A broader measure of economic performance, an index of seven economic measures which include macroeconomic growth, stability, and economic structural change, shows six countries with the most broad-based gains in 2004-2006. Three are Eurasian countries: Georgia; Tajikistan; and Uzbekistan. Two are Southern Tier CEE: Romania and Serbia & Montenegro. One is Northern Tier CEE: Hungary.

Global economic integration trends show more mixed results in regards to the CEE-Eurasia gap. The World Bank in fact has argued that “two new inter-regional trade blocs are emerging. One is tending toward trade with the advanced countries in Western Europe and enjoying relatively high national incomes. The other bloc is significantly poorer, and tending to pull back toward a Russia-centric sphere. Its economies are still dominated by commodity trade, and risk non-participation in the modern international division of labor.”<sup>1</sup> We find mixed support for the World Bank’s working hypothesis. We looked for evidence primarily in terms of volume, direction, and composition of trade.

Trade data show that both the Northern Tier and Southern Tier CEE countries have increased their share of exports to the Europe bloc (which consists of Western and Eastern Europe) and decreased their share of exports to Eurasia since at least 1996.

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<sup>1</sup> Harry Broadman, editor, *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade*, World Bank (2005), p. 1.

Moreover, the proportion of CEE exports to the Europe bloc is very large; almost 85% of Northern Tier CEE exports and 75% of Southern Tier CEE exports.

However, on the basis of trade flows there is little evidence of a growing Russia-centric trading bloc. Eurasian exports to Eurasia declined from 25% in 1996 to 20% in 2004. In addition, Eurasia countries still export more to the Europe bloc. Moreover, while the dependence on the Russian market among the Eurasian countries for exports remains significant, it has fallen dramatically since 1996. The most significant decreases in the percentage of total exports going to Russia have been in Kazakhstan (from 42% of total exports to Russia in 1996 to 14% in 2004), Ukraine (from 38% to 17%), and Moldova (from 54% to 35%).

Export shares of GDP have increased in all three sub-regions since 1995, and with much of the increase since 1998-1999 when economic growth resumed universally across the transition region. This means, by definition, that export growth has exceeded economic growth, the latter which, particularly in Eurasia, has been very impressive in recent years. Hence, even though the proportion of Eurasian exports to Eurasia has fallen during this time period and the proportion of such exports to Europe has held steady, overall Eurasian exports have increased. In other words, growing diversification of export partners has been the trend in recent years among the Eurasian countries.

Much of this diversification of trading partners likely stems from the changing nature of what is being exported by Eurasia, and more specifically by the growing concentration of Eurasian primary product exports. There has been a growing concentration of two key primary product exports in Eurasia in particular, energy and metals. Kazakhstan's export sector is the most concentrated in these terms, with exports in energy and metals increasing from 55% of total exports in 1997 to 86% in 2005. Turkmenistan and Azerbaijan are close behind. Overall, the concentration of energy and metal exports in much of Eurasia is far greater than the proportions found in CEE (ranging from roughly 10-20%) or in Western Europe (under 10%).

**Democracy.** We find continued evidence in 2005-2006 of a growing democratization gap between Eurasia and CEE. Freedom House's *Nations in Transit* data for 2005 (latest year available) show six Eurasian countries backsliding on democratic reforms in 2005 and only three Eurasian countries (Ukraine, Georgia, and Moldova) moving forward. In CEE, seven countries advanced in democratization in 2005 and only two countries (Hungary and Poland) regressed. Freedom House's broader measures of democratic freedoms, political rights and civil liberties indices, are available for 2006 and show evidence of more of the same. According to these data, eight transition countries witnessed measurable change in democratization in 2006. Four countries advanced, all are Southern Tier CEE: Bosnia-Herzegovina; Albania; Croatia; and Romania. Four countries regressed: Hungary; and three Eurasian countries, Azerbaijan, the Kyrgyz Republic, and Russia.

**Health.** The most recent (2004) life expectancy data suggest continued evidence of a growing health gap between CEE and Eurasia. Life expectancy rates in Eurasia have

remained stagnant over time, and are now lower overall than what they were in the early 1990s. Only four Eurasian countries had a life expectancy rate greater in 2004 than in 1990: Azerbaijan; Georgia; Armenia; and Tajikistan. Only one CEE country has not seen an increase in life expectancy since 1990: life expectancy in Bulgaria was seventy-two years in 2004 and the same in 1990.

In general, much of the health concerns in Eurasia focus on lifestyle choices and particularly among males. Men live eight years less than do women in Europe and Eurasia overall, and among the Northern Former Soviet Union (NFSU) countries (which consist of Russia, Ukraine, Belarus, Moldova, as well as the three Baltic states, Latvia, Lithuania, and Estonia), the life expectancy gender gap is twelve years on average. Moreover, the gender gap in these NFSU countries is higher today than in the beginning of the transition, and may still be increasing.

**Labor markets.** The World Bank has argued that “there are signs of an emerging divide between labor markets in the transition economies of Eastern Europe and those of low-income Eurasian countries. [According to the World Bank], labor markets in Eastern European transition economies in many respects resemble those in developed economies of Europe, in both positive (for example, productivity growth) and negative aspects (for example, high and stagnant unemployment). In contrast, labor markets in low-income Eurasian countries seem to have become similar to those in other low-income countries, with typical characteristics such as the dominant informal sector, underemployment and low-productivity employment.”<sup>2</sup>

Overall, we find significant labor market gaps and differences between the CEE countries (particularly the Northern Tier CEE) and Eurasia, but mixed evidence at best that these gaps are growing.

*Where the gaps and differences are large if not growing.* In the CEE countries, labor market adjustments have been significant in terms of both price changes (real wages) and quantity changes (employment). In contrast, the lion’s share of labor market adjustments in Eurasia has been through the price mechanism, through real wages. In Eurasia, 88% of the labor market adjustments from 1990 to 2004 occurred in the price dimension, and only 12% in quantity changes. The distribution in CEE was closer to 75% in real wages and 25% in employment. The extremes are found in Azerbaijan and Tajikistan at one end (where 95% or more of the total changes occurred via real wages) and Macedonia at the other end (where almost 40% of the total changes occurred in employment).

Estimates of informal sector employment in Eurasia range from 36% to 45% of total employment; perhaps twice the amount than in the Northern Tier CEE countries (22%) and much greater than that found in the Southern Tier CEE countries as well (31%). It is estimated that informal employment is 17% of total employment in the OECD countries.

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<sup>2</sup> J. Rutkowski and S. Scarpetta, World Bank, *Enhancing Job Opportunities in Eastern Europe and the Former Soviet Union* (2005), p. 102.

The sectoral share of employment (that is, employment in agriculture, services, and industry) in the Northern Tier CEE countries is much closer to advanced country norms than is both the Southern Tier CEE and Eurasian countries. Employment in agriculture in the Northern Tier CEE is less than 10% of total employment; in services, around 60%. Employment in agriculture in Eurasia and the Southern Tier CEE countries is greater than 30% of total employment; employment in services closer to 50%. In the EU-15, agriculture employment is close to 5% of total employment and services employment is close to 70%. Employment in agriculture as a percent of total employment decreased in the Northern Tier CEE since 1990 by 5%, and increased by 5% in the Southern Tier CEE and 8% in Eurasia. Only in the Northern Tier CEE has there been a notable proportionate increase in employment in services since the beginning of the transition.

*Where the evidence is more mixed.* Real wages have been increasing in recent years in all the transition countries. Most transition countries had real wages reach a minimum in the early or mid 1990s; by 1999, all had real wages recovering from a fall.

One half of the twenty-two transition countries (for which data exist) have actually experienced a decline in employment levels on average during the recent years of economic growth. This has included Northern Tier CEE countries (Lithuania, Latvia, Estonia, Slovakia, and the Czech Republic), Southern Tier CEE countries (Albania, Bulgaria, and Romania), and Eurasian countries (Armenia, Moldova, and the Kyrgyz Republic).

Overall, unemployment data show very wide ranging results across the transition region, both in terms of the magnitude of unemployment rates and trends over time. Nor is there clear differentiation between sub-regions. Nine transition countries have been experiencing falling unemployment rates and eight countries still experiencing rising unemployment rates. Countries with unemployment rates falling into the single digit range include Estonia, Kazakhstan, Ukraine, and Russia. Countries with low (i.e. single digit) but rising unemployment rates include Moldova, the Czech Republic, and Romania. Poland and Slovakia are two Northern Tier CEE countries with very high and rising unemployment rates (closer to 20%). Macedonia and Armenia have the highest unemployment rates (above 30%), and these rates have been rising.

*Where the gaps are “reversed” (and CEE lags behind Eurasia).* On average, labor market constraints are viewed relatively more severe among Northern Tier CEE businesses than elsewhere in the transition: 12% of Northern Tier CEE businesses view labor skills to be a major constraint to doing business vs. 9% in the Southern Tier CEE and 10% in Eurasia. In addition, more businesses in the Northern Tier CEE view labor market regulations as a major constraint (11%) than do businesses in Eurasia (4%) or the Southern Tier CEE (8%). Consistent with business perceptions, labor market rigidities (stemming from difficulty in hiring and firing workers) are higher in the CEE countries than they are in Eurasia. These rigidities are highest in Latvia, Estonia, and Slovenia and lowest in Georgia, Kazakhstan, and Belarus.

***Domestic disparities.*** Earlier estimates had inequality and poverty increasing significantly throughout the transition region, particularly in Eurasia where in a handful of countries income inequality had become comparable to that found among the most unequal economies worldwide. Have inequalities and disparities continued to grow, or as is the case in many other transition indicators, have many if not most transition countries experienced a turnaround in these disparities?

We examined income, wage, and consumption disparities primarily across quintiles, deciles, by gini-coefficient, and by standard deviations of sub-national disparity measures. We found that income inequality is highest in Eurasia and lowest in the Northern Tier CEE countries. However, income inequality differences across the transition countries are narrowing. This is because income inequality has decreased notably in Eurasia from its peak in the mid-1990s, and also because income inequality has continued to increase in CEE (and may still be increasing). Hence, convergence is the broad trend among the sub-regions by this measure. In addition, income inequality levels in the transition countries are converging to OECD levels, with the large caveat that OECD levels range widely. Moreover, in contrast to earlier estimates and forecasts, the most recent income inequality measures show that while income inequality has increased significantly with the collapse of communism, current levels do not approach the highest inequalities in the world, found primarily in Latin America and the Caribbean and Sub-Saharan Africa.

Next, we examined available measures of wage inequality, a subset of income inequality. Overall, wage inequality trends are generally consistent with income inequality between sub-regions in terms of levels and trends over time. As with income inequality, Eurasia has the highest wage inequality and most of the countries in Eurasia have witnessed falling inequality. In perhaps slightly more than one-half of the CEE countries wage inequality continues to edge upward. One salient difference between income and wage inequality emerges when the transition countries are compared to OECD norms. In particular, wage inequalities tend to be much higher in the transition region than in the OECD, while income inequalities are closer to OECD norms.

In general, consumption inequality is lower than income equality in the transition region. Nevertheless, there are some common cross-country observations. As with income inequality, Eurasia has highest consumption inequality (albeit slightly), and it has decreased some since the mid-1990s. With consumption inequality leveling off in CEE since the mid-1990s, and consumption inequality falling in Eurasia since the late 1990s, convergence in CEE-Eurasian inequalities is apparent in consumption measures as well.

Finally, we examined sub-national disparities by assessing variations in poverty rates between urban and rural areas. Using World Bank data on poverty rates since 1998 for the capital, other urban areas, and rural areas, we calculated an urban-rural disparity index by taking the standard deviation for each country of the three poverty rates. By this measure, disparities tend to be much higher in Eurasia, and highest in the low-income Eurasian countries. Trends over time can be observed in thirteen transition countries (where data are sufficient). Six countries have witnessed an increase in regional



disparities over the past several years, including Armenia, Georgia, the Kyrgyz Republic, Lithuania, Romania, and Ukraine. Five countries have experienced a decrease: Belarus; Estonia; Kazakhstan; Moldova; and Russia. Two countries have shown no change in this measure of inequality: Hungary and Poland. Hence, clear distinctions in sub-national inequality trends over time between CEE and Eurasia are not readily apparent.

## *Divergence and Convergence in Eastern Europe & Eurasia*

### *(1) Introduction*

This paper attempts to assess the transition “divide” between Eastern Europe and Eurasia by examining and updating trends across the economic, political, and social transition dimensions. Is there evidence that the transition to market-oriented democracies between the Central and Eastern Europe (CEE) countries and Eurasia is diverging along these dimensions? To what extent are the CEE countries taking one transition path and the Eurasian countries an alternative one? <sup>3</sup>

### *(2) The economic transition (and global economic integration) <sup>4</sup>*

Recent trends in economic reforms and performance suggest that the Eurasian economies are performing at least on par with CEE. EBRD estimates of changes in 2006 in economic reforms show no backsliding in the transition region, and the most notable advancements in economic reforms in eight transition countries (i.e., in countries where progress in 2006 in two or more reform dimensions occurred; *Tables 1 and 2*). Three are Eurasian countries: Russia; Kazakhstan; and Ukraine. Four are Southern Tier CEE: Bulgaria; Romania; Macedonia; and Serbia. One is Northern Tier CEE: Estonia.

Economic growth in the transition region has exceeded world average since 2000 (*Figure 1*). It has been particularly impressive in Eurasia where average annual GDP growth has been 7.1% from 2000-2006. A broader measure of economic performance, an index of seven economic measures which include macroeconomic growth, stability, and economic structural change, shows six countries with the most broad-based gains in 2005-2006 (i.e., in countries where progress in 2004-2006 in at least 3 of the seven performance dimensions occurred; *Table 3*). Three are Eurasian countries: Georgia; Tajikistan, and Uzbekistan. Two are Southern Tier CEE: Romania and Serbia & Montenegro. One is Northern Tier CEE: Hungary.

*Figure 2* provides a summary picture of those countries which made the most gains, designated by arrows, in either economic reforms or economic performance according to the most recent data. Six Eurasian countries, four Southern Tier CEE countries, and two Northern Tier CEE countries are included in this group.

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<sup>3</sup> Drawing from USAID’s Europe and Eurasia Bureau’s *Monitoring Country Progress* system, Central and Eastern Europe countries consist of eight Northern Tier CEE (Hungary, Poland, the Czech Republic, Slovakia, Slovenia, Latvia, Lithuania, and Estonia), and nine Southern Tier CEE countries or entities (Bulgaria, Romania, Albania, Macedonia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro, and Kosovo). Eurasia consists of twelve of the fifteen countries that emerged from the dissolution of the Soviet Union; i.e. excluding the three Baltic countries (Russia, Ukraine, Moldova, Belarus, Georgia, Azerbaijan, Armenia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan, and Turkmenistan).

<sup>4</sup> This section draws on an ongoing research effort as part of USAID/E&E’s working paper series on the transition countries: A. Marmar, R. Murphy, and R. Sprout, *Global Economic Integration in Eastern Europe and Eurasia*, USAID/E&E Working Paper No. 7 (2007 forthcoming).

Global economic integration trends show more mixed results in regards to the CEE-Eurasia gap. The World Bank in a 2005 study entitled, *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade*, has argued that “two new inter-regional trade blocs are emerging. One is tending toward trade with the advanced countries in Western Europe and enjoying relatively high national incomes. The other bloc is significantly poorer, and tending to pull back toward a Russia-centric sphere. Its economies are still dominated by commodity trade, and risk non-participation in the modern international division of labor.”<sup>5</sup>

We find mixed support for the World Bank’s working hypothesis from an analysis of the available data. We looked for evidence primarily in terms of volume, direction, and composition of trade.

*Figure 3* provides context, highlighting partly what’s at stake. It shows the economic size of the two economic entities that according to the World Bank study are emerging into separate trading blocs. The Russia-centric bloc is 6% of the size of the Europe-centric bloc. Clearly, to the extent that these two trading blocs are forming, *Figure 3* underscores at least on the basis of size (and the numerous benefits that derive from various economic principles including economies of scale, specialization, aggregate demand, and positive externalities), it is far better, other things equal, to be a member of the Europe club than the Eurasia club.

*Figure 4* shows that both the Northern Tier and Southern Tier CEE countries have increased their share of exports to the Europe bloc and decreased their share of exports to Eurasia since at least 1996. Moreover, the proportion of CEE exports to the Europe bloc is very large; almost 85% of Northern Tier CEE exports and 75% of Southern Tier CEE exports.

However, *Figure 4* also suggests that on the basis of trade flows, there is no evidence of a growing Russia-centric trading bloc. Eurasian exports to Eurasia declined from 25% in 1996 to 20% in 2004. In addition, Eurasia countries still export more to the Europe bloc than they do among themselves. Moreover, the proportion of Eurasian exports to Europe has changed very little from 1996 to 2004, perhaps a slight decrease from 38% to 37% of total trade.

*Figure 5* disaggregates the direction of Eurasian exports further, and highlights that the dependence on the Russian market among the Eurasian countries for exports, while still significant, has fallen dramatically since 1996. The most significant decreases in the percentage of total exports going to Russia have been in Kazakhstan (from 42% of total exports to Russia in 1996 to 14% in 2004), Ukraine (from 38% in 1996 to 17% in 2004), and Moldova (from 54% in 1996 to 35% in 2004). Even Belarus, which remains the most dependent of the Eurasian countries on the Russian market for its exports, has witnessed a drop in exports to Russia, from 51% of exports in 2000 to 46% in 2004.

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<sup>5</sup> Harry Broadman, editor, *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade*, World Bank (2005), p. 1.

*Figure 6* adds an important consideration to the “equation:” export shares of GDP have increased in all three sub-regions since 1995, and with much of the increase since 1998-1999 when economic growth resumed universally across the transition region. This means, by definition, that export growth has exceeded economic growth, the latter which, particularly in Eurasia, has been very impressive in recent years. Hence, even though the proportion of Eurasian exports to Eurasia has fallen during this time period and the proportion of such exports to Europe has held steady, overall Eurasian exports have increased. In other words, growing diversification of export partners has been the trend in recent years among the Eurasian countries.

Much of this diversification of trading partners likely stems from the changing nature of what is being exported by Eurasia, and more specifically by the growing concentration of Eurasian primary product exports. This trend is displayed in *Figure 7*. It shows the growing concentration of two key primary product exports in Eurasia in particular, energy and metals. Kazakhstan’s export sector is the most concentrated in these terms, with exports in energy and metals increasing from 55% of total exports in 1997 to 86% in 2005. Turkmenistan and Azerbaijan are close behind. Gas exports in Turkmenistan increased from around 50% of total exports in 1997 to 80% by 2005. Azerbaijan’s energy exports increased even more dramatically, from around 35% of total exports in 1997 to more than 75% in 2005.

Russia witnessed a proportionate decrease in metal exports during this period, though this was more than compensated for by a more than doubling of energy exports relative to total exports. Tajikistan, the Kyrgyz Republic, and Armenia have all seen large increases in dependency in metal or mineral exports (largely aluminum for Tajikistan, gold for the Kyrgyz Republic, and diamonds for Armenia). Overall, as shown in *Figure 7*, the concentration of energy and metal exports in much of Eurasia is far greater than the proportions found in CEE (ranging from roughly 10-20%) or in Western Europe (under 10%).

A key reason why these energy and metal exports have increased so dramatically is because the prices of these goods have increased dramatically. According to the IMF in its *World Economic Outlook* (September 2006), global fuel prices increased by 23% from 2003-2006 on an average annual basis. Prices of metals have increased even more so, by 30% annually during this period. Primary product prices fluctuate greatly, one of the clear dangers of relying on such products (for production or consumption). From 1996-2002, both energy and metal prices fell by 4% on average per annum.

*Figures 8* and *9* compare the trends over time in the price of oil and economic growth among the three major Eurasian oil exporters (*Figure 8*) and economic growth overall in Eurasia (*Figure 9*) since 1989. The close fit, particularly with the resumption of economic growth in 1998, is striking. When oil prices rose in 1998 to 2000, economic growth increased. When oil prices declined or stagnated in the next two years, so did economic growth. When the price of oil resumed its increase in 2003, economic growth increased more.

To contrast, *Figure 10* highlights that a primary and growing “driver” of economic growth in the CEE countries is economic growth in Western Europe; i.e., CEE’s growing integration into the Europe bloc.

*Figure 11* shows the “opposite side of the coin” to the large and growing concentration of primary product exports in Eurasia: low and decreasing high-technology exports. To compare, the proportion of high-tech exports to total exports in the OECD countries was 13% in 2004, up slightly from 1996. High-tech exports are a much smaller share of total exports in all of Eastern Europe and Eurasia. Only in the Northern Tier CEE countries, however, has there been a significant increase the share of these exports, from almost 3% in 1996 to close to 9% in 2004. High-tech exports constitute a much smaller share in the Southern Tier CEE countries, though it is a growing share. In contrast, high-tech exports as a percent to total exports were only 2% in Eurasia in 1996 and actually declined some by 2004.

### **(3) Democracy**

*Figure 12* shows the democratization trends by the three transition sub-regions from 1986 to 2006. It draws from data from two Freedom House sources: the more-disaggregated, region-specific data from *Nations in Transit* (for the years 1996 to 2005), and the indices of political rights and civil liberties (for the years prior to 1996 and for 2006) from *Freedom in the World*. Overall, the most recent evidence shows a continuation of a growing democratization gap between Eurasia and CEE.

Of all the transition countries, the Northern Tier CEE countries remain far ahead in democratic freedoms, though the Southern Tier CEE countries have been closing the gap since 1999. In striking contrast, Eurasia has been witnessing steady erosion in such freedoms since the break up of the Soviet Union, following notable political liberalization under Gorbachev prior to the collapse of communism. Democratic freedoms, in other words, are greater today in Eurasia than in the mid-1980s or prior to “glasnost,” but not as great as they were in the early 1990s.

Freedom House’s *Nations in Transit* data show six Eurasian countries backsliding on democratic reforms in 2005 and only three Eurasian countries (Ukraine, Georgia, and Moldova) moving forward (*Table 4*). In CEE, seven countries advanced in democratization in 2005 and only two countries (Hungary and Poland) regressed. Among the three sub-regions, the broadest gains occurred in the Southern Tier CEE countries, advancing in six of seven democracy areas, i.e., in all but electoral process reforms. The most broad-based gains in democratization in 2005 occurred in Bulgaria, Albania, and Ukraine; the countries that regressed the most were Uzbekistan, Russia, and Tajikistan.

According to Freedom House’s analysis of 2006 changes in democratic freedoms (in its *Freedom in the World 2007*), four transition countries experienced measurable gains in

such freedoms in 2006 while four countries regressed. The four countries where progress occurred were all Southern Tier CEE: Bosnia-Herzegovina; Albania; Croatia; and Romania. The four countries where backsliding occurred consisted of three Eurasian countries (Azerbaijan, the Kyrgyz Republic, and Russia) and Hungary.

*Figures 13- 20* show the democratization trends in the sub-regions and select Eurasian countries alongside trends in economic reforms. The economic reform trends are derived from our *Monitoring Country Progress* index (which draws from nine indicators from the EBRD's annual *Transition Report*). In both the Northern Tier CEE and Southern Tier CEE regions, economic and democratic reforms are progressing hand-in-hand (*Figures 13 and 14*). The picture in Eurasia is very different: modest progress in economic reforms has been coupled with democratic reform backsliding (*Figure 15*).

Three Eurasian countries which showed democratization gains in 2005---Georgia, Ukraine, and Moldova-- are shown in *Figures 16-18*. Georgia experienced the "Rose Revolution" in November 2003; Ukraine the "Orange Revolution" in November 2004. While democratization backsliding largely came to a halt in 2003 in Georgia, the first democratic gains on balance ensued with a lag after the revolution, i.e., not until 2005. Moreover, no measurable gains in democratization occurred in Georgia in 2006 by Freedom House's count. Democratic gains have been more pronounced in Ukraine than in Georgia, occurring during the year of the revolution (in 2004) as well as the following year (2005), though not in 2006.

Developments in Moldova in 2005 reversed at least temporarily several years of democratization regression. According to Freedom House, 2005 gains were made in electoral process, rule of law, and the fight against corruption. The March 6, 2005 election in Moldova led to closer relations with EU and NATO (and contributed to better constructively addressing Transnistria). According to Freedom House, greater checks and balances in the political system were established, and similarly, some of the centralizing tendencies were reversed in 2005. However, as in the cases of Georgia and Ukraine, no measurable change in democratization occurred in Moldova in 2006.

*Figure 19* shows that the "Tulip Revolution" in the Kyrgyz Republic which took place in early 2005 has not (yet) translated into economic and democratic reform gains. *Figure 20* displays the reform trends in Russia. 2006 saw advances in economic reforms in Russia alongside more backsliding in democratization.

#### **(4)Health**

One of the most basic health indicators is life expectancy. The most recent (2004) life expectancy data suggest continued evidence of a growing health gap between CEE and Eurasia (*Figure 21*). Life expectancy rates have been increasing steadily in CEE since the mid 1990s, though at less than seventy-four years on average, are still below standards in the advanced industrialized economies; life expectancy is seventy-seven years in the U.S., and eight-two years in Japan.

Life expectancy rates in Eurasia have remained stagnant over time, and are now lower overall than what they were in the early 1990s. According to World Bank data, only four Eurasian countries had a life expectancy rate greater in 2004 than in 1990: Azerbaijan; Georgia; Armenia; and Tajikistan. Only one CEE country has not seen an increase in life expectancy since 1990: life expectancy in Bulgaria was seventy-two years in 2004 and the same in 1990.

We've examined the reasons for this growing gap in previous work, and hence won't elaborate much here.<sup>6</sup> In general, however, much of the health concerns in Eurasia focus on lifestyle choices and particularly among males. *Figure 22* shows that men live eight years less than do women in Eastern Europe and Eurasia overall, and among the Northern Former Soviet Union (NFSU) countries (which consist of Russia, Ukraine, Belarus, Moldova, as well as the three Baltic states, Latvia, Lithuania, and Estonia), the life expectancy gender gap is twelve years on average. Moreover, the gender gap in these NFSU countries is higher today than in the beginning of the transition, and may still be increasing.

Worldwide trends are in stark contrast with the Eastern Europe and Eurasia experience: females worldwide live only two years more than males in the low-income developing countries, about five years more in the middle-income developing countries, and six years more in high-income economies. The life expectancy gender gaps outside the transition region have held steady or even declined some since 1990.

Trends in adult mortality rates shed similar light on the growing CEE-Eurasia health gap (*Table 5*). Nine of twelve Eurasian countries witnessed an increase in both male and female adult mortality rates from 1990 to 2004; only one Eurasian country (Armenia) had a decrease in both male and female adult mortality rates during this period. Ten of thirteen CEE countries witnessed a decrease in adult mortality rates in this period; only one CEE country (Lithuania) witnessed an increase in both male and female adult mortality rates from 1990 to 2004.

Male adult mortality rates in the transition region are much higher than female adult mortality rates. As with the life expectancy gender gap, the adult mortality rate gender gap in the transition region is the highest worldwide, and within the transition region, it is among the highest in the NFSU countries. In 2002-2004, the male adult mortality rate in the NFSU countries was 353 deaths per 1,000 adults; for females, it was 126 deaths. This means that roughly 35% of fifteen year old males in the NFSU countries will die before reaching sixty years of age. Only in Sub-Saharan Africa is the male adult mortality rate higher than in Eastern Europe and Eurasia: 519 deaths per 1,000 in the year 2000.

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<sup>6</sup> See USAID/E&E, *Monitoring Country Progress in Eastern Europe & Eurasia* No. 10 (August 2006), and A. Heinegg, R. Murphy, J. Pickett, and R. Sprout, *Demography and Health in Eastern Europe and Eurasia*, USAID/E&E Working Paper No. 1 (June 2005). See also: Anderson, G., and A. Hyder. *Non-Communicable Diseases and Injuries in Eastern Europe and Eurasia*. Johns Hopkins University. Bloomberg School of Public Health. For USAID/E&E (October 2006).

### ***(5) Labor markets<sup>7</sup>***

This section derives in part from an attempt to explore more systematically two mutually exclusive working hypotheses that emerge from the World Bank's study, *Enhancing Job Opportunities in Eastern Europe and the Former Soviet Union* (2005) about the large cross-country differences in labor market developments in the transition region.

The primary hypothesis is that “there are signs of an emerging divide between labor markets in the transition economies of Eastern Europe and those of low-income Eurasian countries. [According to the World Bank], labor markets in Eastern European transition economies in many respects resemble those in developed economies of Europe, in both positive (for example, productivity growth) and negative aspects (for example, high and stagnant unemployment). In contrast, labor markets in low-income Eurasian countries seem to have become similar to those in other low-income countries, with typical characteristics such as the dominant informal sector, underemployment and low-productivity employment.”<sup>8</sup>

The secondary hypothesis is that all the transition countries are going through the same transition process, though country progress is differentiated by (at least) three primary stages: (1) some countries are in stage one (characterized by high employment and low open unemployment); (2) others are in stage two characterized by low employment and higher unemployment; and (3) some are at stage three with the resumption of rising employment and falling unemployment.<sup>9</sup>

Overall, we find significant labor market gaps and differences between the CEE countries (particularly the Northern Tier CEE) and Eurasia, but mixed evidence at best that these gaps are growing.

#### ***(a) Significant labor market gaps and differences between transition countries.***

In the CEE countries, labor market adjustments have been significant in terms of both price changes (real wages) and quantity changes (employment) (*Figures 23 and 24*). In contrast, the lion's share of labor market adjustments in Eurasia has been through the price mechanism, through real wages. There has been very little change in formal employment levels in Eurasia, all the more extraordinary given the tremendous changes in economic output (*Figure 25*).

We calculated the total sum of the labor market price and quantity changes since 1990 by summing the average annual changes in real wages and employment levels in absolute value terms (column 1 of *Table 6* and *Figure 26*). By this measure, the Eurasian

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<sup>7</sup> This part draws on a more in-depth analysis by A. Heinegg, R. Murphy, and R. Sprout, *Labor Markets in Eastern Europe and Eurasia*. USAID/E&E Working Paper No. 6 (January 2007).

<sup>8</sup> J. Rutkowski and S. Scarpetta, World Bank, *Enhancing Job Opportunities in Eastern Europe and the Former Soviet Union* (2005), p. 102.

<sup>9</sup> *Ibid*, p. 99.



countries have experienced much greater changes in the labor markets during the transition than the CEE countries. The low-income Eurasian countries have experienced the most changes, particularly Tajikistan, Uzbekistan, and the three Caucasus countries. These findings are broadly consistent with the scope of changes in economic output across the transition region since the collapse of communism; that is, where economic output collapsed the most and often subsequently recovered sharply, one finds parallels with the scope of change in the labor markets.

We also calculated how the total labor market change has been distributed between the price and quantity adjustments and found very different results according to sub-regions (columns 2 and 3 of *Table 6* and *Figures 27* and *28*). In Eurasia, 88% of the labor market adjustments occurred in the price dimension, and only 12% in quantity changes. The distribution in CEE was closer to 75% in real wages and 25% in employment. The extremes are found in Azerbaijan and Tajikistan at one end (where 95% or more of the total changes occurred via real wages) and Macedonia at the other end (where almost 40% of the total changes occurred in employment).

With very little change in employment levels in Eurasia (alongside very significant changes in real wages and output), one might expect the existence of a large informal sector economy in Eurasia. The available estimates of informal sector employment are consistent with this observation (*Table 7* and *Figure 29*). Estimates of informal sector employment in Eurasia range from 36% to 45% of total employment; perhaps twice the amount than in the Northern Tier CEE countries (22%) and much greater than that found in the Southern Tier CEE countries as well (31%). It is estimated that informal employment is 17% of total employment in the OECD countries.

The sectoral share of employment (that is, employment in agriculture, services, and industry) in the Northern Tier CEE countries is much closer to advanced country norms than is both the Southern Tier CEE and Eurasian countries (*Tables 8* and *9* and *Figure 30*). Employment in agriculture in the Northern Tier CEE is less than 10% of total employment; in services, around 60%. Employment in agriculture in Eurasia and the Southern Tier CEE countries is greater than 30% of total employment; employment in services closer to 50%. In the EU-15, agriculture employment is close to 5% of total employment and services employment is close to 70%.

***(b) Evidence of growing gaps between transition countries in the labor markets is mixed at best.***

***(i) Where the evidence does support growing gaps. Sectoral changes.*** The gap between the Northern Tier CEE countries and the rest of the transition countries has increased in regards to the structural changes in employment by economic sectors. Employment in agriculture as a percent of total employment decreased in the Northern Tier CEE since 1990 by 5%, and increased by 5% in the Southern Tier CEE and 8% in Eurasia (*Table 8* and *Figure 31*). Only in the Northern Tier CEE has there been a notable proportionate

increase in employment in services since the beginning of the transition (*Table 9* and *Figure 31*).

**(ii) Where the data don't support growing gaps Real wages.** Real wages have been increasing in recent years in all the transition countries (*Table 10*). Most transition countries had real wages reach a minimum in the early or mid 1990s; by 1999, all had real wages recovering from a fall.

*Tertiary enrollments (and labor skills).* Most of the transition countries have been witnessing rising tertiary enrollments (all but Turkmenistan, Uzbekistan, Azerbaijan, and Tajikistan) and virtually all of these countries which have been experiencing rising enrollments (all but Armenia) have been experiencing these increases since the early years of the transition (anywhere from 1989 to 1994) (*Table 11* and *Figures 32-35*).

*Growth elasticity of employment.* One half of the twenty-two transition countries (for which data exist) have actually experienced a decline in employment levels on average during the recent years of economic growth (*Table 6* and *Figure 36*). This has included Northern Tier CEE countries (Lithuania, Latvia, Estonia, Slovakia, and the Czech Republic), Southern Tier CEE countries (Albania, Bulgaria, and Romania), and Eurasian countries (Armenia, Moldova, and the Kyrgyz Republic).

*Unemployment.* Overall, unemployment data show very wide ranging results across the transition region, both in terms of the magnitude of unemployment rates and trends over time (*Table 12* and *Figures 37-41*). Nor is there clear differentiation between sub-regions. Nine transition countries have been experiencing falling unemployment rates and eight countries still experiencing rising unemployment rates. Countries with unemployment rates falling into the single digit range include Estonia, Kazakhstan, Ukraine, and Russia. Countries with low (i.e. single digit) but rising unemployment rates include Moldova, the Czech Republic, and Romania. Poland and Slovakia are two Northern Tier CEE countries with very high and rising unemployment rates (closer to 20%). Macedonia and Armenia have the highest unemployment rates (above 30%), and these rates have been rising.

**(iii) Where the gaps are "reversed"(and CEE lags behind Eurasia).** *Perceived labor market constraints.* On average, labor market constraints are viewed relatively more severe among Northern Tier CEE businesses than elsewhere in the transition: 12% of Northern Tier CEE businesses view labor skills to be a major constraint to doing business vs. 9% in the Southern Tier CEE and 10% in Eurasia (*Tables 13* and *14*). In addition, more businesses in the Northern Tier CEE view labor market regulations as a major constraint (11%) than do businesses in Eurasia (4%) or the Southern Tier CEE (8%).

*Labor market rigidities.* Consistent with business perceptions, labor market rigidities are higher in the CEE countries than they are in Eurasia (*Table 15* and *Figure 42*). Three types of rigidities from the standpoint of businesses are measured (by the World Bank's *Doing Business* series): difficulty in hiring; rigidities in employment; and difficulty in

firing. An average of the three measures reveals that labor market rigidities are highest in Latvia, Estonia, and Slovenia and lowest in Georgia, Kazakhstan, and Belarus.

*Tax burden on labor.* The tax burden (or tax wedge which includes payroll taxes and income taxes) is much higher in the CEE countries than it is in Eurasia (*Table 16*). The range is very significant, from under 30% in Armenia, Kazakhstan, and Tajikistan, to close to 50% or more in Montenegro, the Czech Republic, Romania, and Hungary.

## **(6) Domestic Disparities<sup>10</sup>**

Earlier estimates had inequality and poverty rates increasing significantly throughout the transition region, particularly in Eurasia where in a handful of countries income inequality had become comparable to that found among the most unequal economies worldwide.<sup>11</sup> Have inequalities and disparities continued to grow, or as is the case in many other transition indicators, have many if not most transition countries experienced a turnaround in these disparities? What do the latest data tell us about convergence vs. divergence in disparity measures? Do different disparity measures tell the same story? Attempting to answer these questions is the focus of the section.

We examined income, wage, and consumption disparities primarily across quintiles, deciles, by gini-coefficient, and by standard deviations of sub-national disparity measures. *Figure 43* and *Table 17* show income inequality trends as measured by the gini coefficient since the transition began. Several observations emerge. First, income inequality is highest in Eurasia and lowest in the Northern Tier CEE countries. However, perhaps the most salient observation is that the inequality differences across the transition countries are narrowing. This is because income inequality has decreased notably in Eurasia from its peak in the mid-1990s, and also because income inequality has continued to increase in CEE (and may still be increasing). Hence (secondly), convergence is the broad trend among the sub-regions by this measure. Third, income inequality levels in the transition countries are converging to OECD levels, with the large caveat that OECD levels range widely (from Sweden to the U.S., as shown in the *Figure 43*). Moreover, in contrast to earlier estimates and forecasts, the most recent income inequality measures show that while income inequality has increased significantly with the collapse of communism, current levels do not approach the highest inequalities in the world, found primarily in Latin America and the Caribbean and Sub-Saharan Africa.

Next, we examined available measures of wage inequality, a subset of income inequality (*Table 18*). Three measures of wage inequality were compared: wage (or earnings) inequality (gini coefficient, from UNICEF), the wage ratio of the ninth population decile to the first (or bottom) population decile (from World Bank), and the minimum wage to

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<sup>10</sup> Drawn from R. Murphy, C. Peters, and R. Sprout, *Domestic Disparities in Eastern Europe and Eurasia*, USAID/E&E Working Paper No. 5 (2007 forthcoming), and Heinegg, Murphy, and Sprout, *Labor Markets*, USAID/E&E WP No. 6 (January 2007).

<sup>11</sup> See, for example, B. Milanovic, *Income, Inequality, and Poverty during the Transition from Planned to Market Economy* (World Bank, 1998).

average wage ratio (World Bank). We calculated the average rank of the inequality measures to decrease the variability of the results. We were able to draw observations on levels and trends over time in seventeen countries for which at least two inequality measures were available.

Four of the five most unequal countries in wage terms are Eurasian. Azerbaijan has the most unequal wage distribution of all the seventeen countries, followed by Russia, Armenia, Estonia, and Moldova. At the other extreme, Macedonia has the most equal wage distribution, followed by all the Northern Tier CEE countries, except Estonia. Estonia, hence, is very much the Northern Tier CEE outlier on this dimension.

The World Bank estimates that wages of the ninth population decile in the OECD countries are roughly 3.3 times greater than those of the first decile (*Figure 44* and *Table 18*). Of the sixteen transition countries where these data are available, only the Czech Republic has a lower ratio or a more equal wage distribution than the OECD average. Wage inequality in Slovenia is OECD comparable. In contrast, wage inequality in Azerbaijan by this measure is more than four times greater than the OECD norm; such inequality in Russia is almost as high.

UNICEF provides time series trends on wage inequality. From that series, we tried to identify whether wage inequality has been increasing or decreasing, whether a maximum inequality level has been reached, and when (*Table 18*). Roughly one-half of the sixteen countries for which time series are available have recently been experiencing a fall in wage inequality. There does not seem to be a discernable pattern by level of inequality: some of the most unequal economies have been experiencing a decline (Moldova, the Kyrgyz Republic, and Russia); but so too some of the most equal (Macedonia and Slovenia). However, a much smaller proportion of Northern Tier CEE countries have been witnessing a decline in wage inequality than have the Eurasian for which data are available and trends are clear: two out of seven Northern Tier CEE countries vs. five out of seven in Eurasia.

Overall, wage inequality trends are generally consistent with income inequality between sub-regions in terms of levels and trends over time. As with income inequality, Eurasia has the highest wage inequality and most of the countries in Eurasia have witnessed falling inequality. In perhaps slightly more than one-half of the CEE countries wage inequality continues to edge upward. One salient difference between income and wage inequality emerges when the transition countries are compared to OECD norms. In particular, wage inequalities tend to much higher in the transition region than in OECD, while income inequalities are closer to OECD norms.

Mitra and Yemtsov (2006) note the numerous caveats in interpreting these income and wage inequality data.<sup>12</sup> Among them is one that stems from the fact that wages and public income transfers as a percent of household incomes vary widely across the transition region. According to Mitra and Yemtsov, wages account for over 60% of

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<sup>12</sup> P. Mitra and R. Yemtsov, *Increasing Inequality in Transition Economies: Is There More to Come?* World Bank (2006), pp. 7-8.

household incomes in the Northern Tier CEE and yet less than 15% in some of the low-income Eurasian countries. Public transfers are also much larger in CEE; 25-30% of total incomes in the Northern Tier CEE vs. less than 10% in Moldova and Georgia. In contrast, other sources of income, and in particular, income from the informal economy, play a much larger role in the low-income Eurasian countries than in CEE, and are much less likely to be adequately captured in measures of official income inequality.

This caveat is one key reason why measures of consumption inequality are likely to be more accurate than income or wage inequality. In general, consumption inequality is lower than income equality in the transition region (*Figure 45*). Nevertheless, there are some common cross-country observations. As with income inequality, Eurasia has the highest consumption inequality (albeit slightly), and it has decreased some since the mid-1990s. With consumption inequality leveling off in CEE since the mid-1990s, and consumption inequality falling in Eurasia since the late 1990s, convergence in sub-regional inequalities is apparent in consumptions measures as well.

Finally, we examined sub-national disparities by assessing variations in poverty rates between urban and rural areas within countries. Using World Bank data on poverty rates since 1998 for the capital, other urban areas, and rural areas, we calculated an urban-rural disparity index by taking the standard deviation for each country of three poverty rates (*Table 19* and *Figure 46*). By this measure, disparities tend to be much higher in Eurasia, and highest in the low-income Eurasian countries. Trends over time can be observed in thirteen transition countries (where data are sufficient). Six countries have witnessed an increase in regional disparities over the past several years, including Armenia, Georgia, the Kyrgyz Republic, Lithuania, Romania, and Ukraine. Five countries have experienced a decrease: Belarus; Estonia; Kazakhstan; Moldova; and Russia. Two countries have shown no change in this measure of inequality: Hungary and Poland. Hence, clear distinctions in sub-national inequality trends over time between CEE and Eurasia are not readily apparent. Four Eurasian countries witnessed an increase in regional disparity and four a decrease. One Northern Tier CEE country experienced an increase, one a decrease, and two no change in this disparity measure. One Southern tier CEE, Romania, witnessed an increase in regional disparity.

TABLE 1. FIRST STAGE ECONOMIC POLICY REFORMS IN 2006						
	TRADE	SMALL SCALE	LARGE SCALE	PRICE		1ST STAGE
	LIBERALIZATION	PRIVATIZATION	PRIVATIZATION	LIBERALIZATION		AVERAGE
CZECH REPUBLIC	5.0	5.0	4.0	5.0		4.8
ESTONIA	5.0	5.0	4.0	5.0		4.8
HUNGARY	5.0	5.0	4.0	5.0		4.8
LITHUANIA	5.0	5.0	4.0	5.0		4.8
SLOVAK REPUBLIC	5.0	5.0	4.0	5.0		4.8
LATVIA	5.0	5.0	3.7	5.0		4.7
POLAND	5.0	5.0	3.3	5.0		4.6
BULGARIA	5.0	4.0	↑	4.0	5.0	4.5
ARMENIA	5.0	4.0		3.7	5.0	4.4
GEORGIA	5.0	4.0		3.7	5.0	4.4
KYRGYZ REPUBLIC	5.0	4.0		3.7	5.0	4.4
ROMANIA	5.0	3.7		3.7	5.0	4.3
CROATIA	5.0	5.0		3.3	4.0	4.3
MACEDONIA	5.0	4.0		3.3	5.0	4.3
ALBANIA	5.0	4.0		3.0	5.0	4.3
SLOVENIA	5.0	5.0		3.0	4.0	4.3
MOLDOVA	5.0	3.7		3.0	4.0	3.9
KAZAKHSTAN	3.7	4.0		3.0	4.0	3.7
UKRAINE	3.7	4.0		3.0	4.0	3.7
RUSSIAN FEDERATION	3.3	4.0		3.0	4.0	3.6
AZERBAIJAN	4.0	3.7		2.0	4.0	3.4
SERBIA	3.3	3.7	↑	2.7	4.0	3.4
MONTENEGRO	3.3	3.0		3.3	4.0	3.4
BOSNIA AND HERZEGOVINA	3.7	3.0		2.7	4.0	3.3
TAJIKISTAN	3.3	4.0		2.3	3.7	3.3
KOSOVO	3.7	3.0		1.0	4.0	2.9
UZBEKISTAN	2.0	3.3	↑	2.7	2.7	2.7
BELARUS	2.3	2.3		1.0	2.7	2.1
TURKMENISTAN	1.0	2.0		1.0	2.7	1.7
CEE & EURASIA	4.2	4.0		3.1	4.3	3.9
NORTHERN TIER CEE	5.0	5.0		3.8	4.9	4.7
SOUTHERN TIER CEE	4.3	3.7	↑	3.0	4.4	4.0
EURASIA	3.6	3.5		2.5	3.9	3.4
INDUSTRIAL COUNTRIES	5.0	5.0		5.0	5.0	5.0
ROMANIA & BULGARIA 2002	4.5	3.7		3.5	5.0	4.2
NORTH. TIER CEE AT GRADUATION	4.8	4.9		3.5	4.5	4.4

Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2005 to September 2006.

EBRD, *Transition Report 2006* (November 2006).

**TABLE 2. SECOND STAGE ECONOMIC POLICY REFORMS IN 2006**

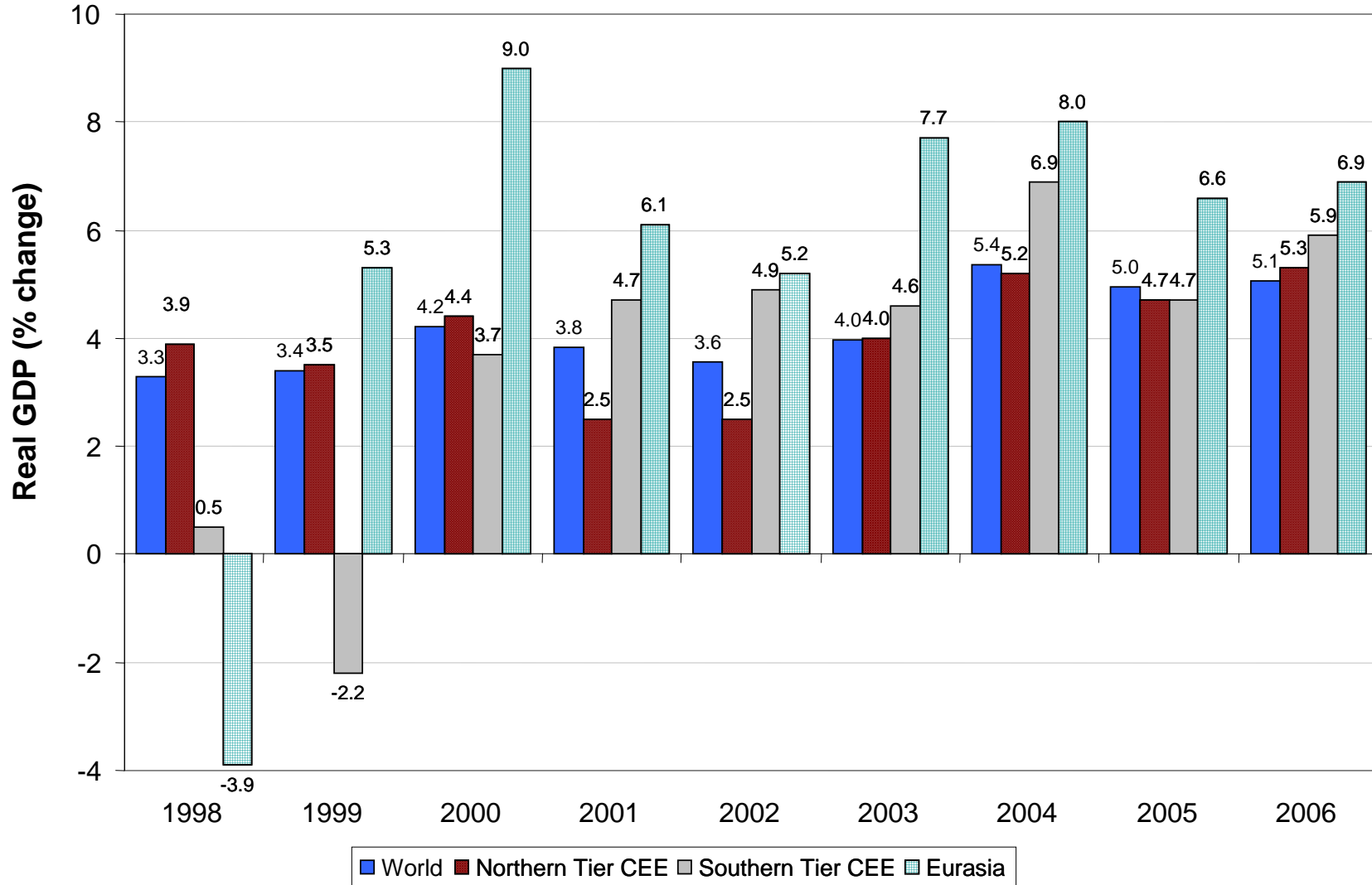
	ENTERPRISE		COMPETITION		BANK	CAPITAL		INFRASTRUCTURE		2ND STAGE	
	GOVERNANCE		POLICY		REFORM	MKT. REFORM		REFORM		AVERAGE	
HUNGARY	3.7		3.3		4.0		4.0		3.7		3.7
ESTONIA	3.7		3.7	↑	4.0		3.7	↑	3.3		3.7
POLAND	3.7		3.0		3.7		3.7		3.3		3.5
CZECH REPUBLIC	3.3		3.0		4.0		3.7		3.3		3.5
SLOVAK REPUBLIC	3.7		3.3		3.7		3.0	↑	3.0		3.3
LITHUANIA	3.0		3.3		3.7		3.0		3.0	↑	3.2
LATVIA	3.0		3.0		3.7		3.0		3.0		3.1
CROATIA	3.0		2.3		4.0		3.0	↑	3.0		3.1
BULGARIA	2.7		2.7		3.7		2.7	↑	3.0		2.9
SLOVENIA	3.0		2.7		3.3		2.7		3.0		2.9
ROMANIA	2.7	↑	2.7	↑	3.0		2.0		3.3		2.7
RUSSIAN FEDERATION	2.3		2.3		2.7	↑	3.0	↑	2.7		2.6
KAZAKHSTAN	2.0		2.0		3.0		2.7	↑	2.7	↑	2.5
MACEDONIA	2.7	↑	2.0		2.7		2.3	↑	2.3		2.4
UKRAINE	2.0		2.3		3.0	↑	2.3		2.3	↑	2.4
ARMENIA	2.3		2.3		2.7		2.0		2.3		2.3
GEORGIA	2.3		2.0		2.7		1.7		2.3		2.2
MOLDOVA	2.0		2.0		2.7		2.0		2.3		2.2
ALBANIA	2.3	↑	2.0		2.7		1.7		2.0		2.1
SERBIA	2.3		1.7	↑	2.7		2.0		2.0		2.1
BOSNIA AND HERZEGOVINA	2.0		1.7	↑	2.7		1.7		2.3		2.1
AZERBAIJAN	2.0		2.0		2.3		1.7		2.0		2.0
KYRGYZ REPUBLIC	2.0		2.0		2.3		2.0		1.7		2.0
MONTENEGRO	2.0		1.0		2.7	↑	1.7		2.0		1.9
UZBEKISTAN	1.7		1.7		1.7		2.0		1.7		1.7
BELARUS	1.0		2.0		1.7		2.0		1.3		1.6
TAJIKISTAN	1.7		1.7		2.3	↑	1.0		1.3		1.6
KOSOVO	1.7		1.7		2.0		1.0		1.0		1.5
TURKMENISTAN	1.0		1.0		1.0		1.0		1.0		1.0
CEE & EURASIA	2.4		2.3	↑	2.9		2.3	↑	2.4	↑	2.5
NORTHERN TIER CEE	3.4		3.2	↑	3.8		3.3	↑	3.2		3.4
SOUTHERN TIER CEE	2.4	↑	2.0	↑	2.9		2.0	↑	2.3		2.4
EURASIA	1.9		1.9		2.3	↑	1.9	↑	2.0	↑	2.0
INDUSTRIAL COUNTRIES	5.0		5.0		5.0		5.0		5.0		5.0
ROMANIA & BULG. 2002	2.2		2.3		3.0		2.2		2.9		2.5
NORTHERN TIER CEE AT GRADUATION	2.9		2.6		3.2		2.8		2.7		2.8

Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2005 to September 2006.

EBRD, *Transition Report 2006* (November 2006).

Figure 1

# Economic Growth Trends Worldwide



EBRD, *Transition Report 2006* (November 2006) and IMF, *World Economic Outlook* (September 2006).



**TABLE 3. ECONOMIC PERFORMANCE IN 2004-2006**

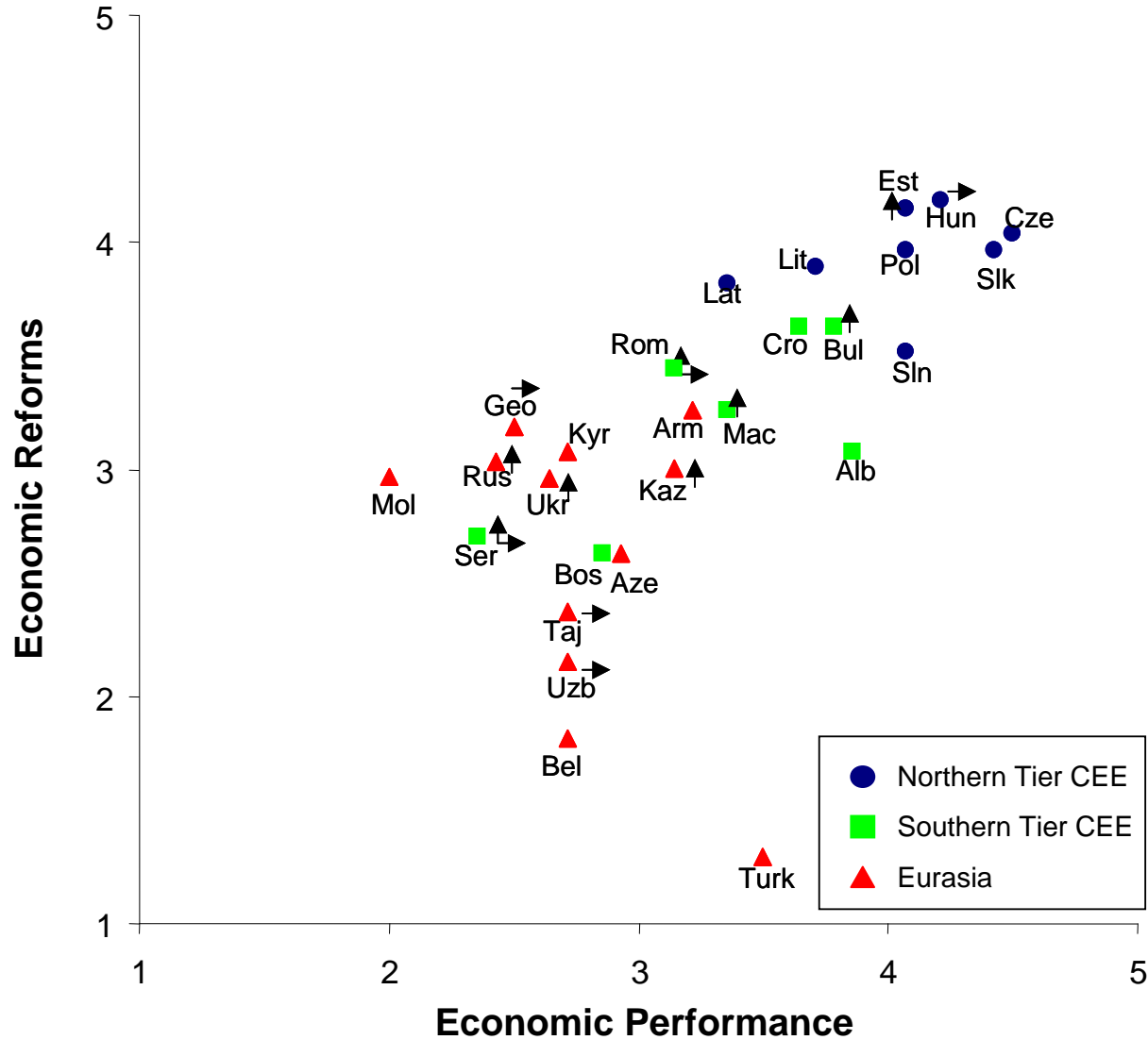
	GDP% OF 1989 GDP 2006	PRIVATE		EXTERNAL DEBT (% OF GDP) 2005	INFLATION		SME		FDI								
		↑	SECTOR SHARE OF GDP (%) 2006		3 YEAR AVERAGE (%) 2004-2006	SHARE OF EMPLOYMENT (%) 2001	EXPORT SHARE (% OF GDP) 2005	CUMULATIVE PER CAPITA 1989-06	↑								
												↑	↓	↑	↓		
																↑	↓
CZECH REPUBLIC	4.5	↑	5.0	3.5	5.0		4.0	4.5	5.0								
SLOVAKIA	5.0	↑	5.0	2.5	4.5	↑	4.0	5.0	5.0								
HUNGARY	5.0	↑	5.0	2.0	4.5	↑	3.5	4.5	5.0	↑							
ESTONIA	4.0		5.0	1.0	4.5	↓	4.0	5.0	5.0								
POLAND	5.0		4.5	3.0	5.0		5.0	1.5	4.5	↑							
SLOVENIA	5.0		3.5	2.0	5.0	↑	4.5	4.0	4.5								
ALBANIA	5.0		4.5	4.5	5.0		5.0	0.5	2.5	↑							
BULGARIA	3.0		4.5	2.0	4.5		4.5	3.5	4.5	↑							
LITHUANIA	3.5	↑	4.5	3.5	4.5	↓	2.5	3.0	4.5	↑							
CROATIA	3.5	↑	3.0	1.0	5.0	↓	5.0	3.0	5.0								
TURKMENISTAN	5.0	↑	0.5	4.5	3.5	↑	4.5	4.5	2.0								
LATVIA	3.5	↑	4.0	1.0	4.0	↓	5.0	1.0	5.0	↑							
MACEDONIA	2.5		3.5	3.5	5.0		4.5	2.0	2.5								
ARMENIA	4.0	↑	4.5	4.0	5.0	↑	2.0	1.0	2.0								
KAZAKHSTAN	4.5	↑	3.5	2.0	3.5	↓	1.0	3.0	4.5								
ROMANIA	4.0	↑	4.0	4.0	3.5	↑	1.5	1.5	3.5	↑							
AZERBAIJAN	4.0	↑	3.0	4.5	3.0	↓	0.5	2.5	3.0	↓							
BOSNIA & HERZ.	1.5		2.5	4.0	4.5	↓	4.0	1.0	2.5	↑							
BELARUS	4.5	↑	0.5	5.0	3.0	↑	0.5	4.0	1.5								
KYRGYZ REPUBLIC	2.5		4.5	1.0	4.5	↑	4.0	1.5	1.0								
TAJIKISTAN	2.0		2.5	3.5	4.0	↑	3.5	3.0	0.5								
UZBEKISTAN	4.5	↑	1.5	4.0	3.5	↑	3.5	1.5	0.5								
UKRAINE	1.5		3.5	4.0	3.0	↓	1.0	4.0	1.5	↑							
GEORGIA	1.0	↑	4.0	4.0	4.0	↑	1.0	1.5	2.0								
RUSSIA	3.0	↑	3.5	4.0	3.0		1.5	1.0	1.0	↑							
SERBIA & MONT	1.5	↑	2.5	2.5	3.0		2.5	1.0	3.5	↑							
MOLDOVA	0.5		3.5	2.0	3.0		0.5	3.0	1.5								
CEE & EURASIA	3.5	↑	3.6	3.1	4.1		3.1	2.6	3.1	↑							
NORTHERN TIER CEE	4.4	↑	4.6	2.3	4.6		4.1	3.6	4.8	↑							
SOUTHERN TIER CEE	3.0	↑	3.5	3.1	4.4		3.9	1.8	3.4	↑							
EURASIA	3.1	↑	3.1	3.5	3.6	↑	2.1	2.6	2.1								
ROM & BULG 2002	2.5		4.0	3.0	3.3		3.3	2.0	2.3								
NORTH. TIER CEE AT GRADI	2.8		4.1	3.3	2.0		3.8	3.0	2.7								

World Bank, World Development Indicators 2006 (2006), EBRD, Transition Report 2006 (November 2006).

SME data for 2001 are from UNECE, SME Databank (2003); 1990 -94 SME data are from World Bank, Transition: The First Ten Years (2002); and Ayyagari, Beck, and Demircuc-Kunt, Small and Medium Enterprises across the Globe: A New Database, World Bank Policy Research Working Paper 3127, (August 2003).

Figure 2

# Economic Reforms and Economic Performance in 2004-06

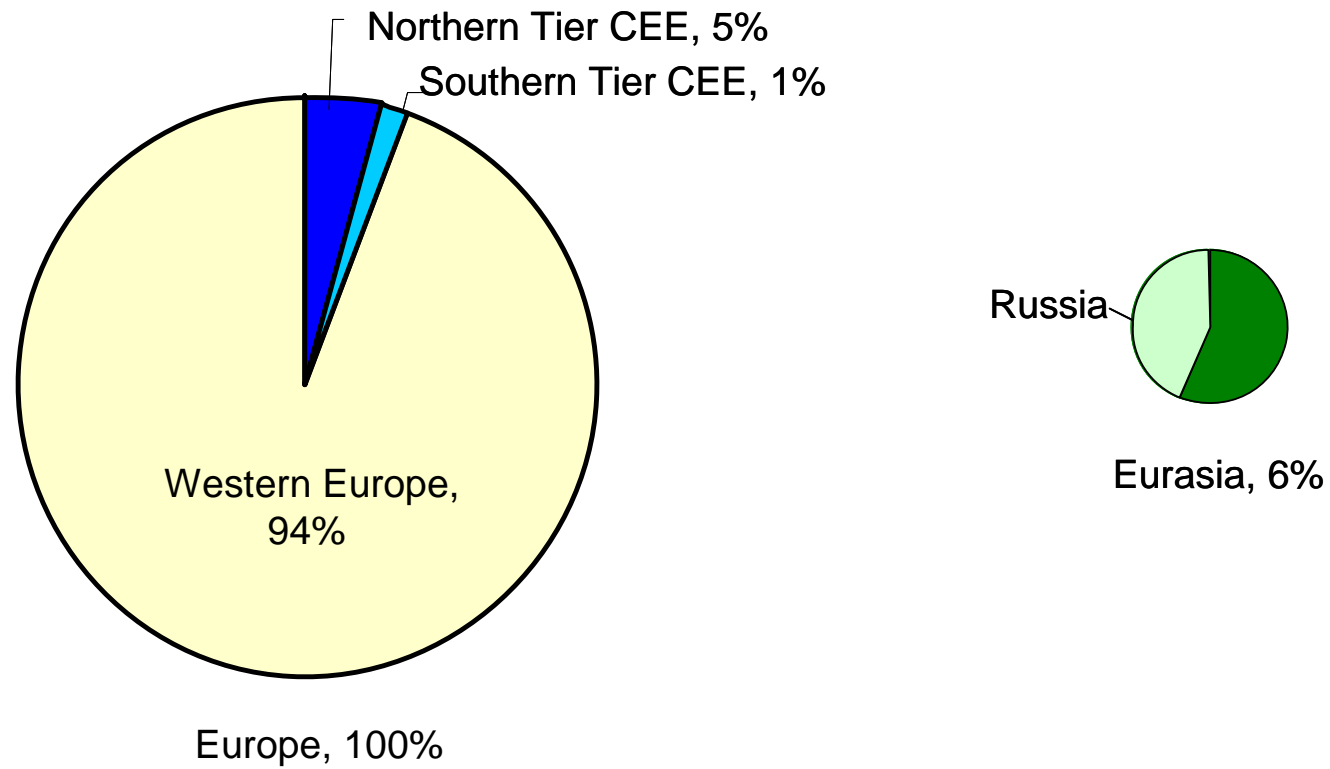


Ratings are based on a 1 to 5 scale, with 5 representing most advanced. World Bank, *World Development Indicators 2006* (2006); EBRD, *Transition Report* (November 2006); UNECE, *SME Databank*.



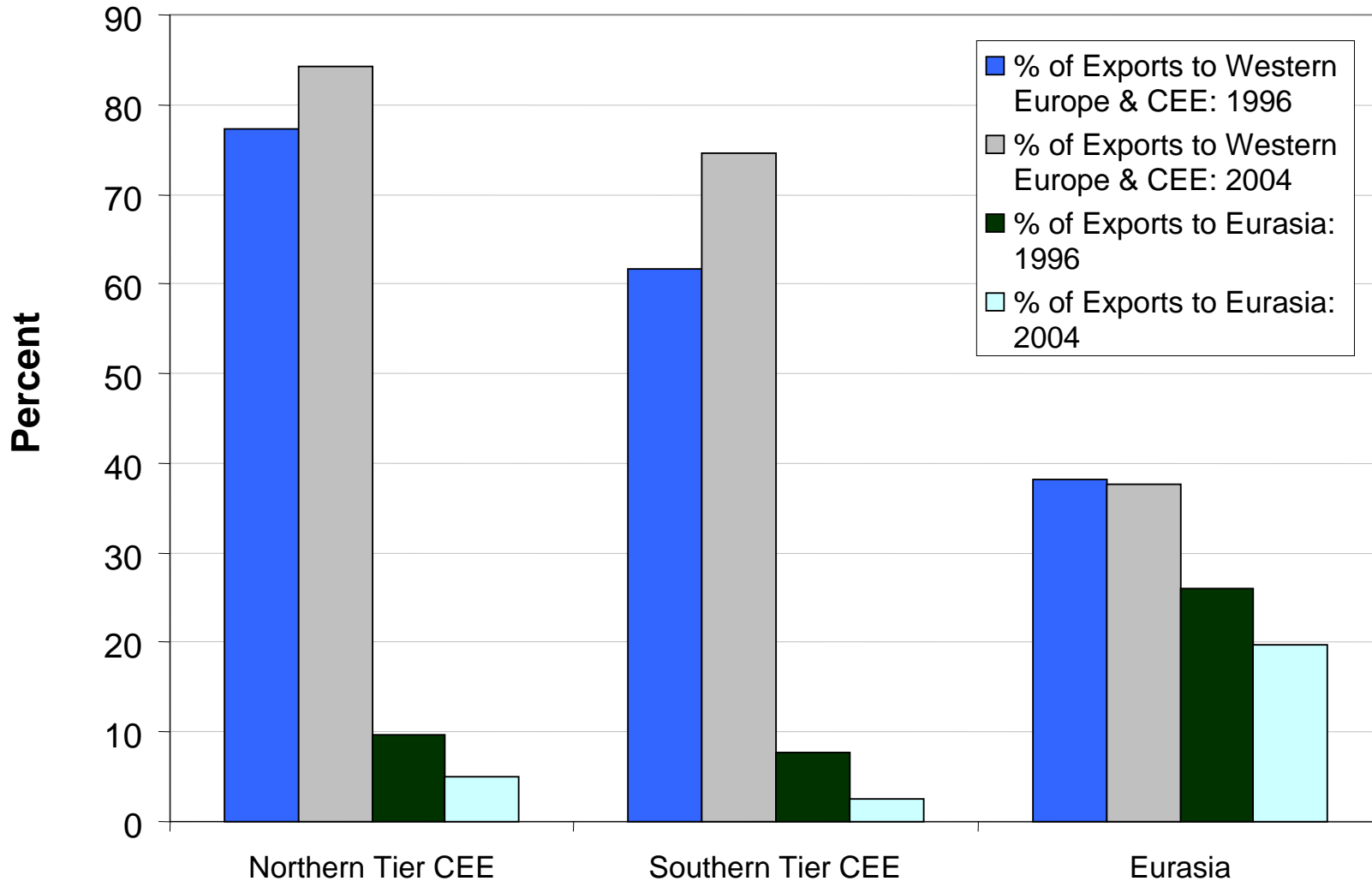
Figure 3

## Economic Size of Europe vs. Eurasia



World Bank, *World Development Indicators* (2006).

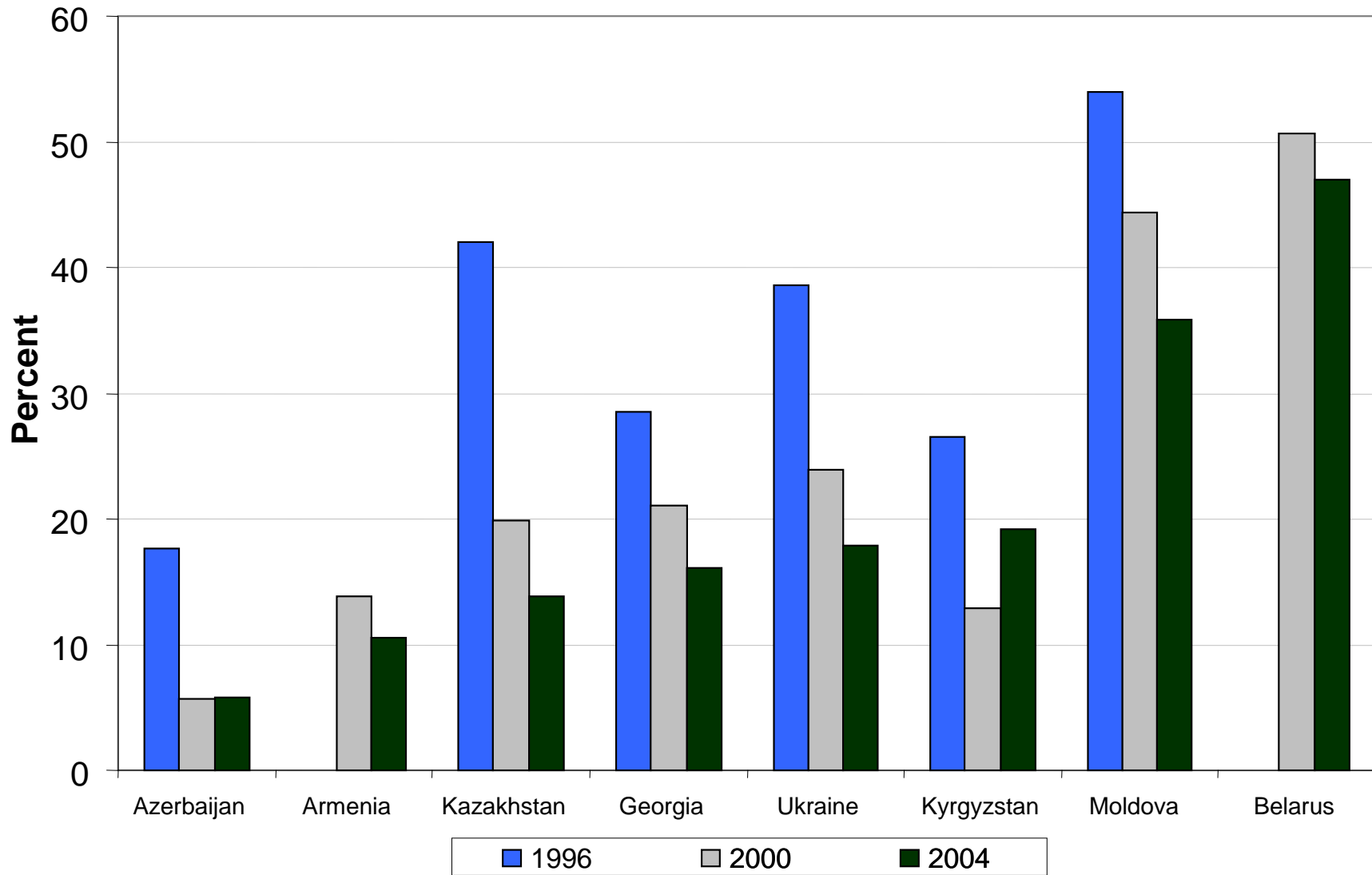
## Percentage of Exports Destined for Western Europe & CEE vs. for Eurasia



United Nations, *Comtrade Statistical Database* (2006). '1996' data for Albania, Armenia, Belarus, Tajikistan, and Turkmenistan are from 2000.

Figure 5

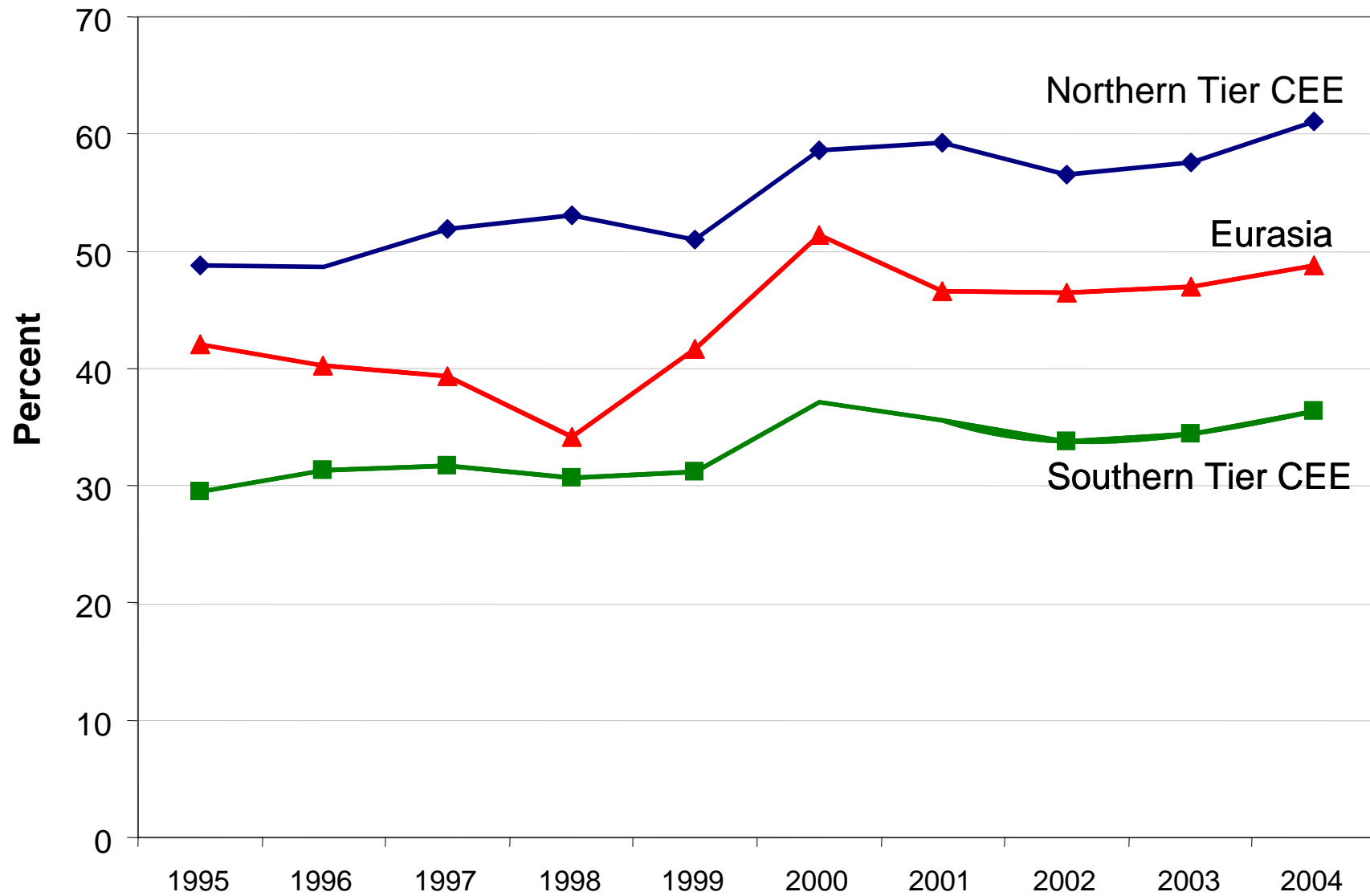
# Percentage of Eurasian Exports Destined for Russia



United Nations, *Comtrade Statistical Database* (2006).

Figure 6

## Exports as a % of GDP

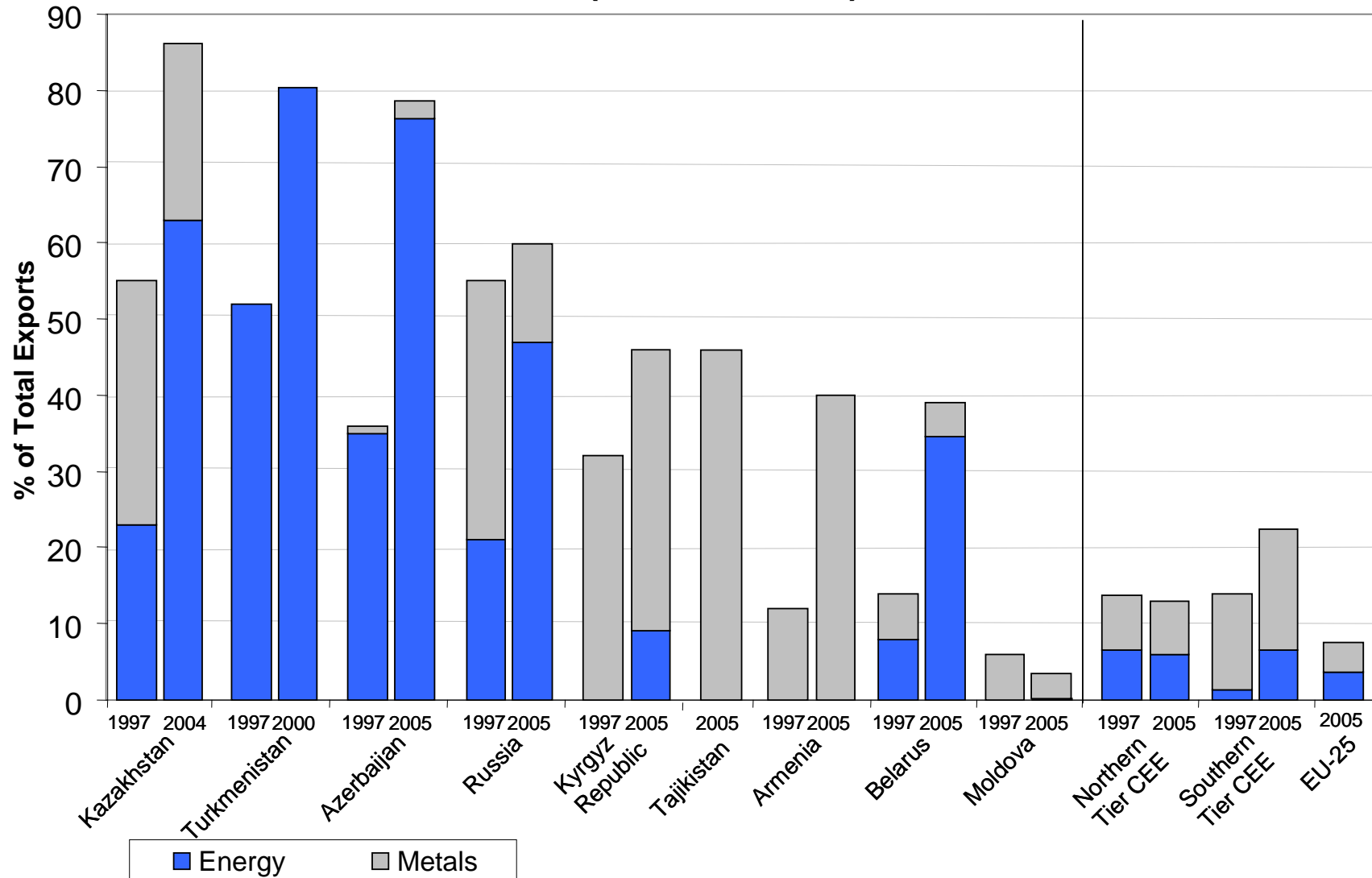


World Bank, *World Development Indicators* (2006).



Figure 7

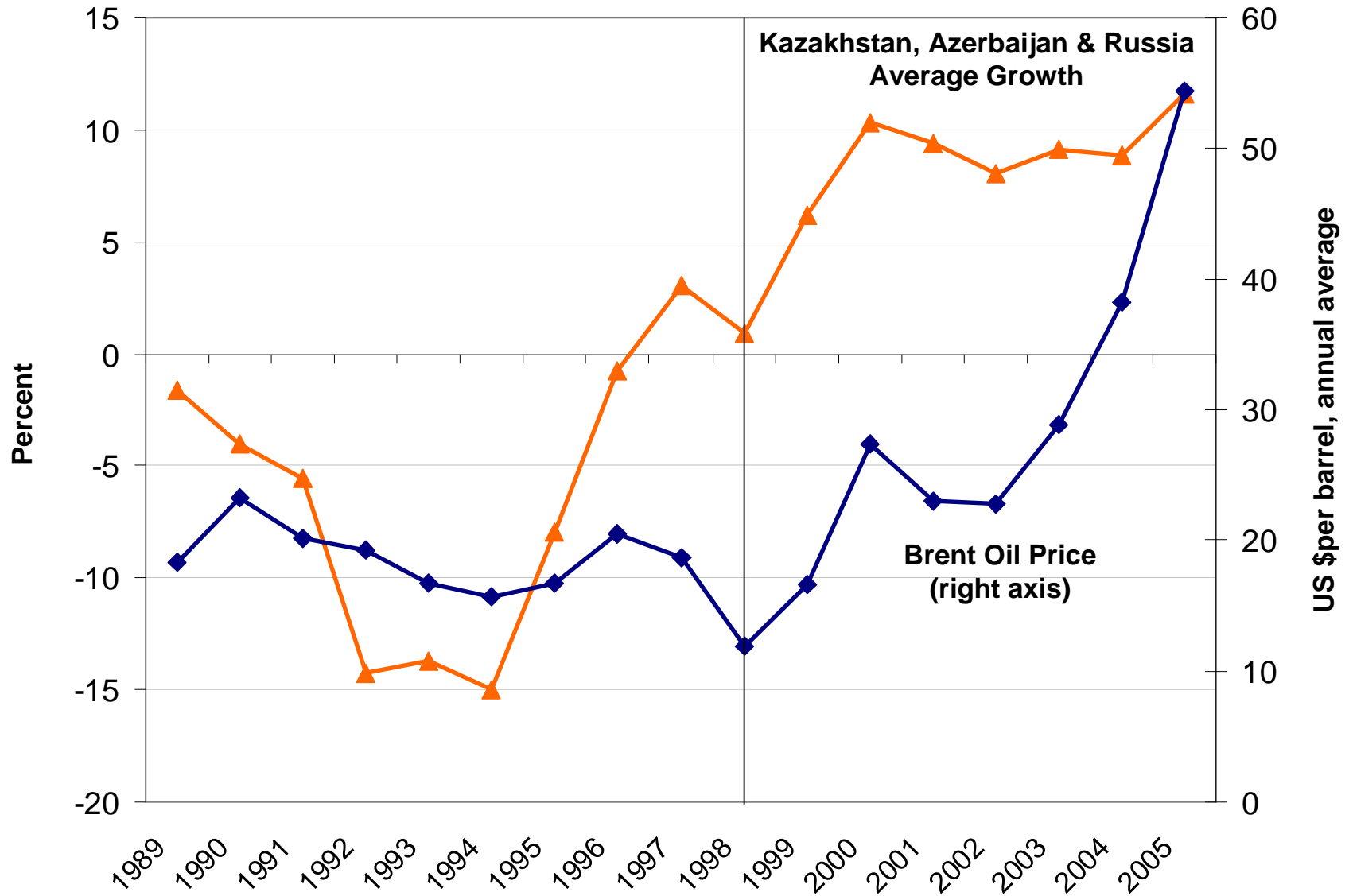
## Primary Product Exports: Energy and Metals (1997 vs. 2005)



UN Comtrade Database (2006) and IMF, *World Economic Outlook* (September 2006). Data for Kazakhstan, Poland, Czech Republic, and Lithuania are 2004; data for Tajikistan and Turkmenistan are 2000. No available data for Uzbekistan. Energy: petroleum, petroleum products and related materials and gas, natural and manufactured; Metals: Ores, gold, slag and ash, iron and steel, copper, nickel, aluminum, lead, zinc, tin and articles thereof.

Figure 8

# Oil Prices and Growth in Eurasia

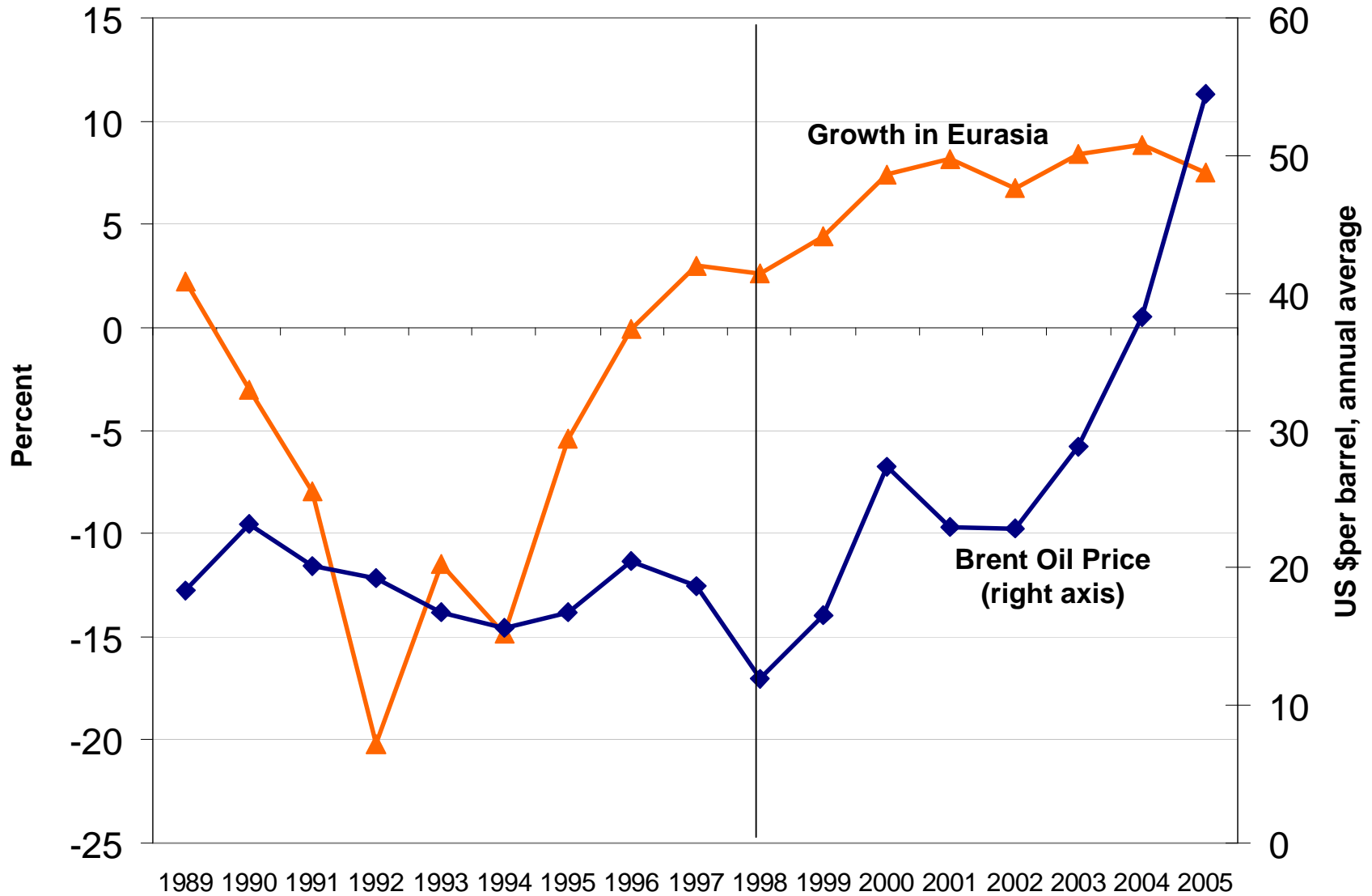


EBRD, *Transition Report 2005* (November 2005); and World Bank, *Commodity Price Data, Pink Sheet* (January 2006).



Figure 9

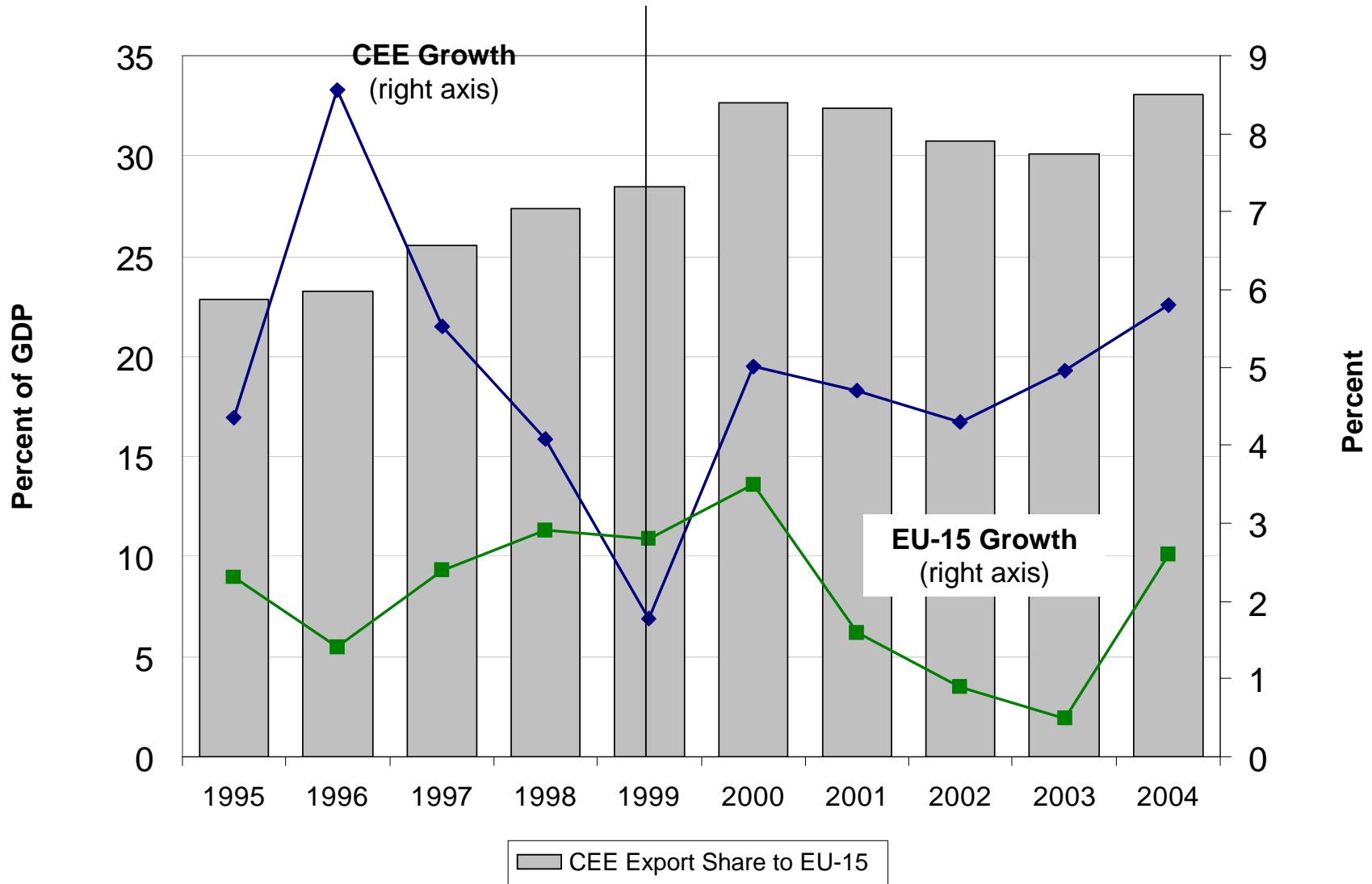
# Oil Prices and Growth in Eurasia



EBRD, *Transition Report 2005* (November 2005); and World Bank, *Commodity Price Data, Pink Sheet* (January 2006).

Figure 10

# Trade and Growth in Central and Eastern Europe & EU-15

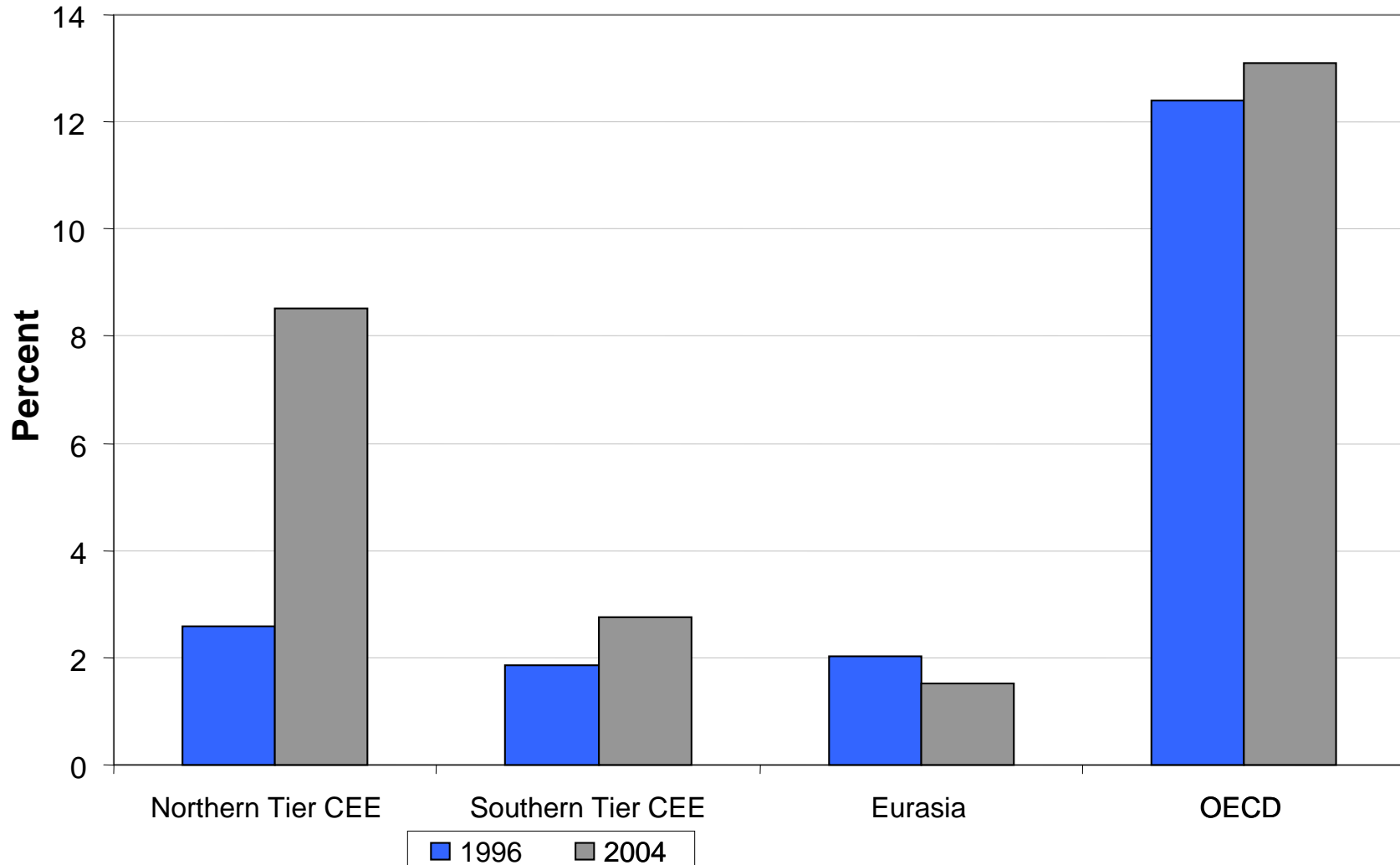


EBRD, *Transition Report 2005* (November 2005); World Bank, *World Development Indicators 2005* (2005); and IMF, *Direction of Trade Database* (January 2006).



Figure 11

## High-Tech Exports as a % of Total Exports



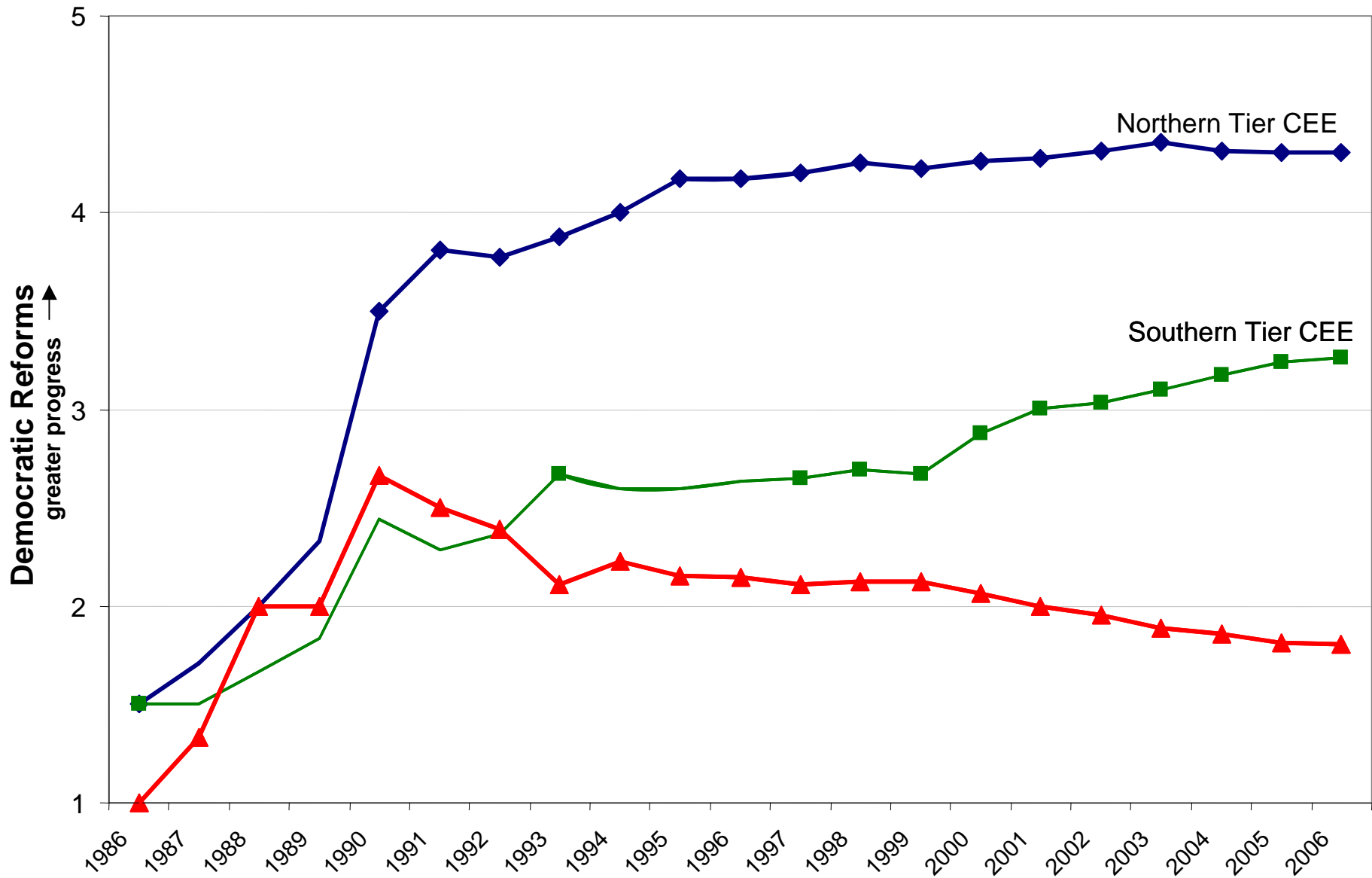
World Bank, *World Development Indicators* 2006.

'2004' data for Ukraine is from 2000. '2004' data for Kyrgyz Republic is from 2003. '1996' data for Armenia is from 1997.

Examples of High Tech Exports: highly processed chemicals, electrical machinery, combustion engines, electronics, optical goods.

Figure 12

# Democratic Reforms & Freedoms



Ratings from 1 to 5, with 5 representing the greatest progress. The data draw from Freedom House, *Freedom in the World 2007* (2007) and *Nations in Transit* (2006).

**TABLE 4. DEMOCRATIC REFORMS IN 2005**

	ELECTORAL PROCESS	CIVIL SOCIETY	INDEPENDENT MEDIA	NATIONAL GOVERNANCE	LOCAL GOV.	RULE OF LAW	CORRUPTION	AVERAGE
SLOVENIA	4.7	4.5	4.5 ↓	4.3	4.7	4.7	4.2 ↓	4.5
ESTONIA	4.7	4.3	4.7	4.2	4.0	4.7	4.0	4.4
SLOVAK REPUBLIC	4.8	4.8	4.2	4.3	4.3 ↑	4.3	3.7	4.4 ↑
HUNGARY	4.8	4.8	4.0	4.3	4.2	4.5	3.7 ↓	4.3 ↓
LATVIA	4.5	4.5	4.7	4.3 ↑	4.0	4.5	3.5 ↑	4.3 ↑
POLAND	4.5	4.8	4.5 ↓	3.8 ↓	4.3	4.2 ↓	3.5 ↓	4.2 ↓
LITHUANIA	4.5	4.7	4.5	4.0	4.0	4.7 ↑	3.0 ↓	4.2
CZECH REPUBLIC	4.3	4.7	4.3	4.0	4.3	4.2 ↑	3.3	4.2 ↑
BULGARIA	4.5	3.8	3.5 ↑	3.7 ↑↑	3.7 ↑↑	3.7 ↑	3.2 ↑	3.7 ↑
ROMANIA	3.8	4.2	3.0	3.3	3.7	3.0	2.8	3.5
CROATIA	3.5 ↓	3.8 ↑	3.2	3.3	3.2	2.8 ↑	2.5	3.2
SERBIA	3.5	3.8	3.5	3.0	3.2	2.8	2.5 ↑	3.2
MONTENEGRO	3.3 ↓	3.7 ↓	3.5	2.7	3.3	2.8	2.2	3.1
MACEDONIA	3.5 ↓	3.5	2.8	3.2 ↑	3.2 ↑	3.2	2.5 ↑	3.1 ↑
ALBANIA	3.3 ↑	3.7 ↑	3.2 ↑	3.0	3.8 ↑	2.8 ↑	2.2	3.1 ↑
BOSNIA AND HERZ.	3.7 ↑	3.2	3.0	2.5	2.5	3.0 ↑	2.8 ↑	3.0 ↑
UKRAINE	3.5 ↑	3.8 ↑	3.2 ↑↑	2.7 ↑	2.2	2.8	1.8	2.9 ↑
GEORGIA	2.5	3.3	2.8	2.0	1.8 ↑	2.5 ↑	2.0 ↑	2.4 ↑
MOLDOVA	3.2 ↑	3.0	2.3	1.8	1.8	2.7 ↑	1.7 ↑	2.4 ↑
ARMENIA	1.8	3.3	2.0	2.3	2.0	2.3 ↑	1.8	2.2
KOSOVO	2.5	2.8 ↓	2.0	1.8	2.0	1.8	1.7	2.1
KYRGYZ REPUBLIC	1.8 ↑	2.7	1.8	1.7	1.5 ↓	2.0	1.7	1.9
RUSSIA	1.5 ↓	2.3 ↓	1.7	1.7 ↓	1.8	2.2	1.7 ↓	1.8 ↓
TAJIKISTAN	1.5 ↓	2.3 ↓	1.5 ↓	1.5 ↓	1.8	1.8	1.5	1.7 ↓
AZERBAIJAN	1.3 ↓	2.3 ↓	1.7	1.7	1.7	1.8	1.5	1.7 ↓
KAZAKHSTAN	1.3	1.8 ↓	1.2 ↓	1.2 ↓	1.5	1.5	1.3	1.4 ↓
BELARUS	1.0	1.2	1.2	1.0 ↓	1.3	1.2	1.5 ↓	1.2 ↓
UZBEKISTAN	1.2	1.0 ↓	1.0 ↓	1.0 ↓	1.2 ↓	1.2 ↓	1.3 ↓	1.1 ↓
TURKMENISTAN	1.0	1.0	1.0	1.0	1.0	1.0	1.2 ↓	1.0
CEE & EURASIA	3.1	3.4	2.9	2.7	2.8	2.9	2.4	2.9
NORTHERN TIER CEE	4.6	4.6	4.4 ↓	4.2	4.2	4.5 ↑	3.6 ↓	4.3
SOUTHERN TIER CEE	3.6	3.7 ↑	3.2 ↑	3.0 ↑	3.3 ↑	3.0 ↑	2.5 ↑	3.2 ↑
EURASIA	1.8	2.3 ↓	1.8	1.6 ↓	1.7 ↓	1.9	1.6	1.8
ROM. & BULG. 2002	4.3	3.5	3.3	3.2	3.2	3.3	2.8	3.4
NORTHERN TIER CEE AT GRADUATION	4.5	4.5	4.5	4.1	4.1	4.4	3.6	4.3

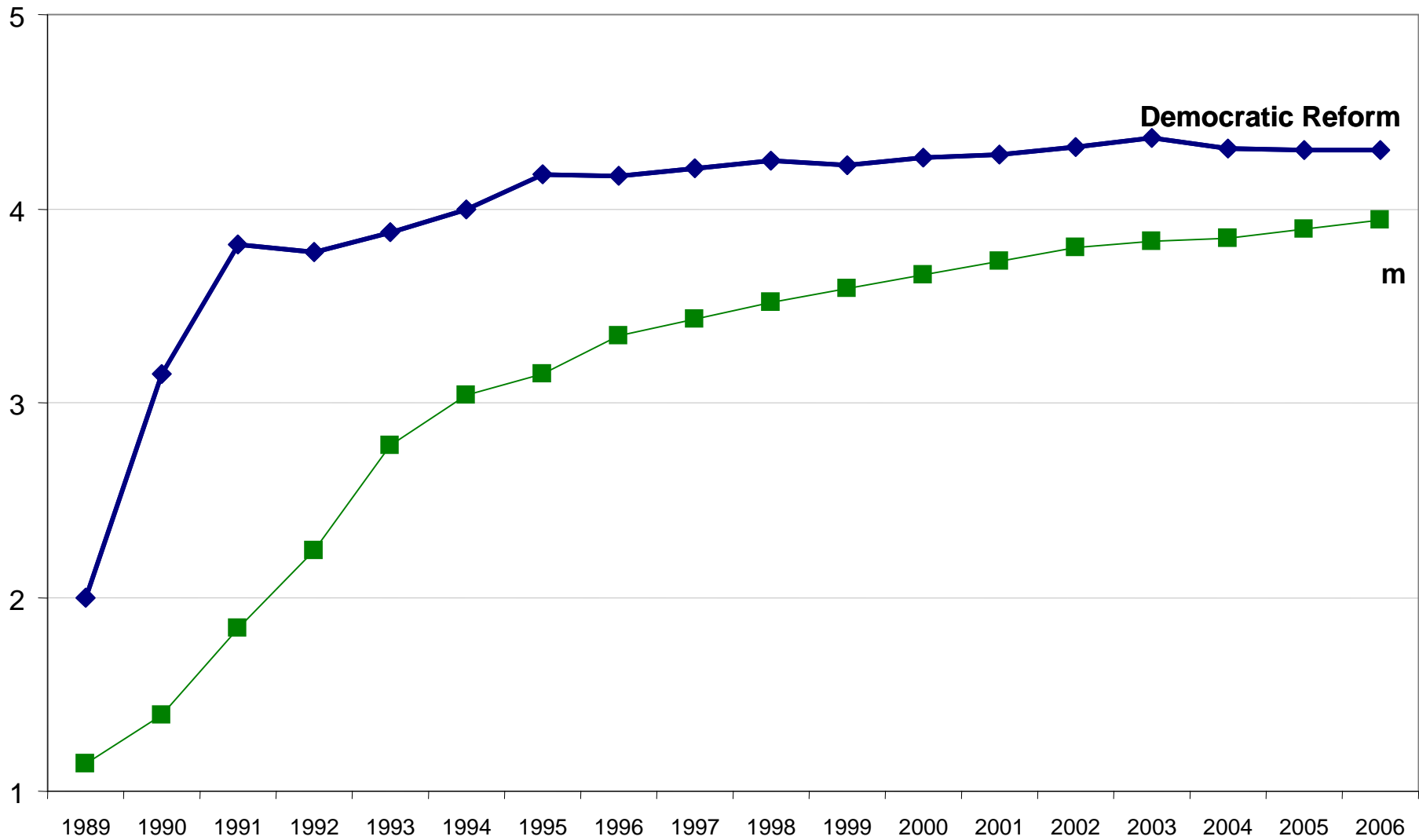
Ratings are based on a scale from 1 to 5, with 1 representing most advanced--or, in the case of corruption, most free.

A "↑" indicates an increase in democratization since 2002; a "↓" signifies a decrease. One arrow represents a change greater than 0.1 and less than 0.5; two arrows represents change 0.5 and greater.

Data depict trends from November 2004 through December 2005.

Freedom House, *Nations in Transit 2006* (2006).

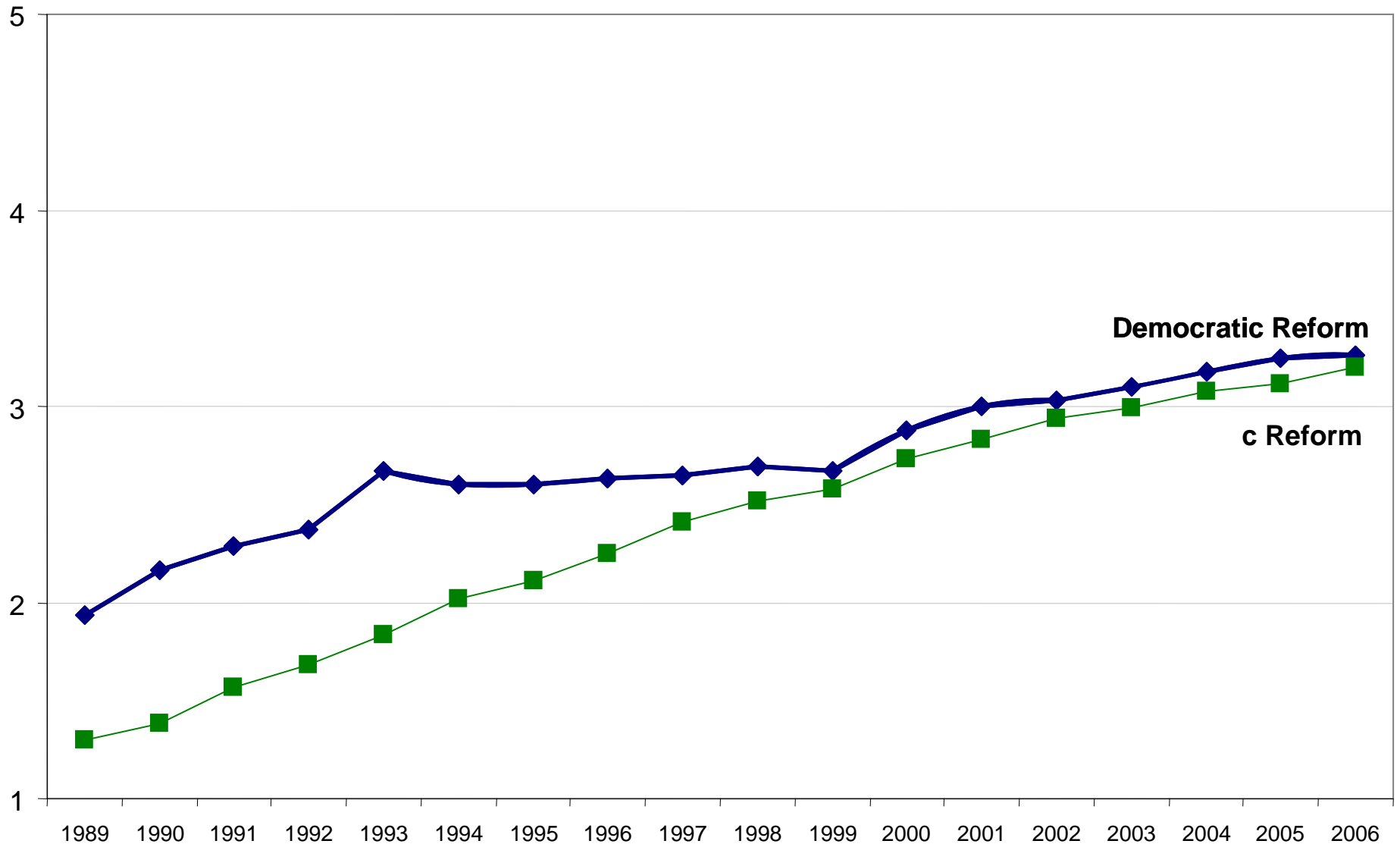
# Economic and Democratic Reforms in the Northern Tier CEE



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID's Monitoring Country Progress drawing from Freedom House, *Nations in Transit 2006* (2006) & *Freedom in the World 2007* (2007); and EBRD, *Transition Report 2006* (November 2006).

Figure 14

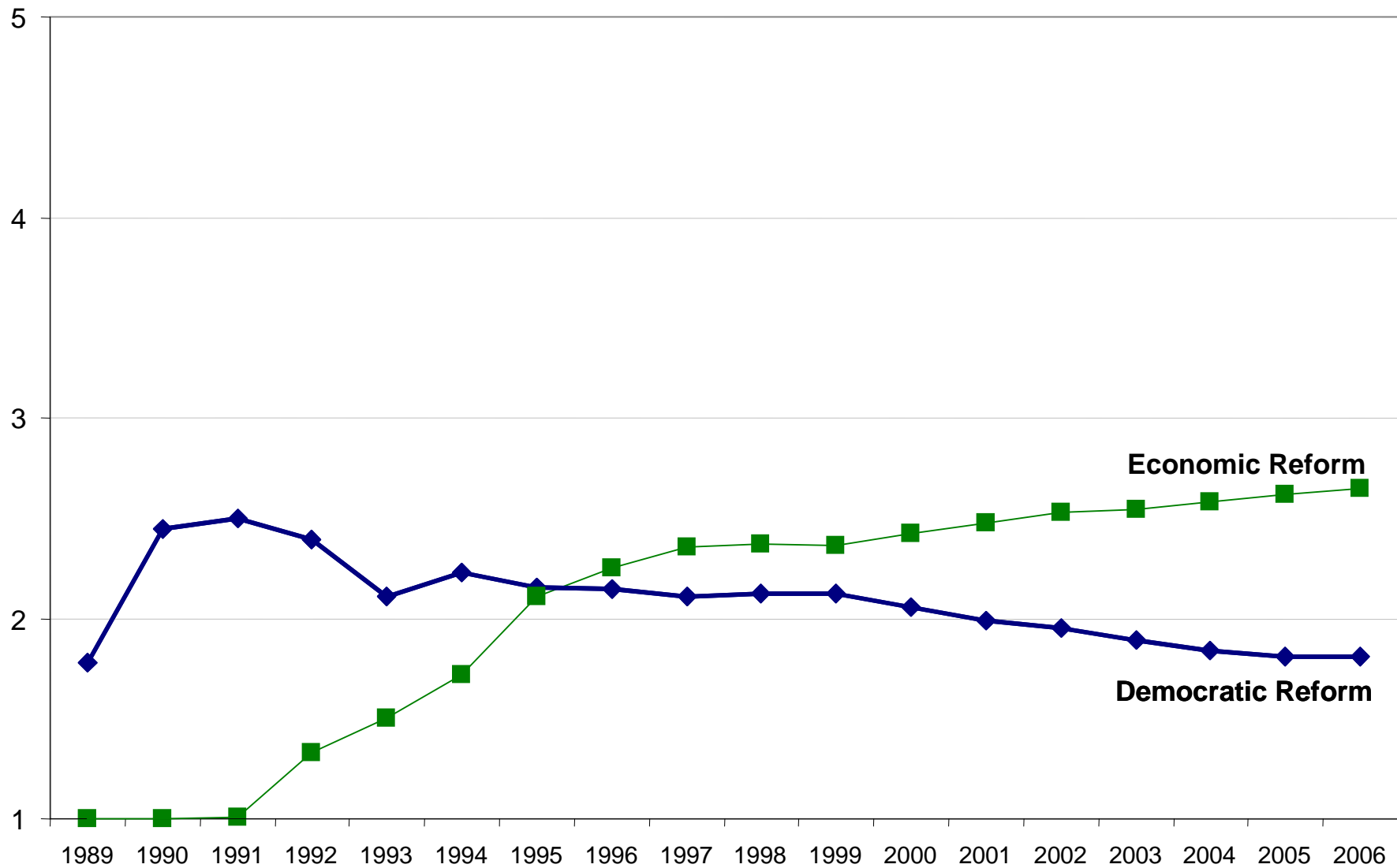
# Economic and Democratic Reforms in the Southern Tier CEE



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID's Monitoring Country Progress drawing from Freedom House, *Nations in Transit 2006* (2006) & *Freedom in the World 2007* (2007); and EBRD, *Transition Report 2006* (November 2006).

Figure 15

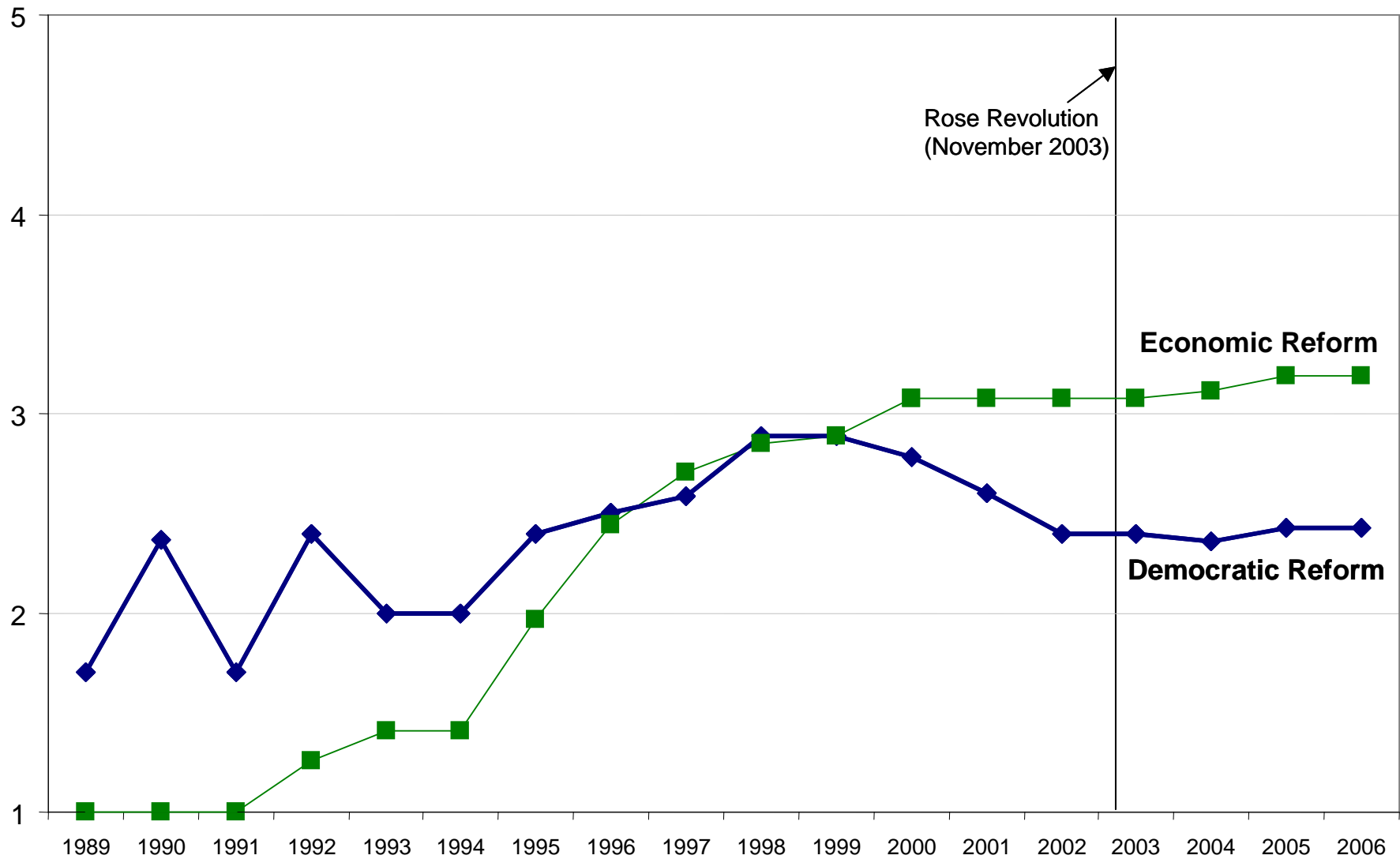
# Economic and Democratic Reforms in Eurasia



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID's Monitoring Country Progress drawing from Freedom House, *Nations in Transit 2006* (2006) & *Freedom in the World 2007* (2007); and EBRD, *Transition Report 2006* (November 2006).

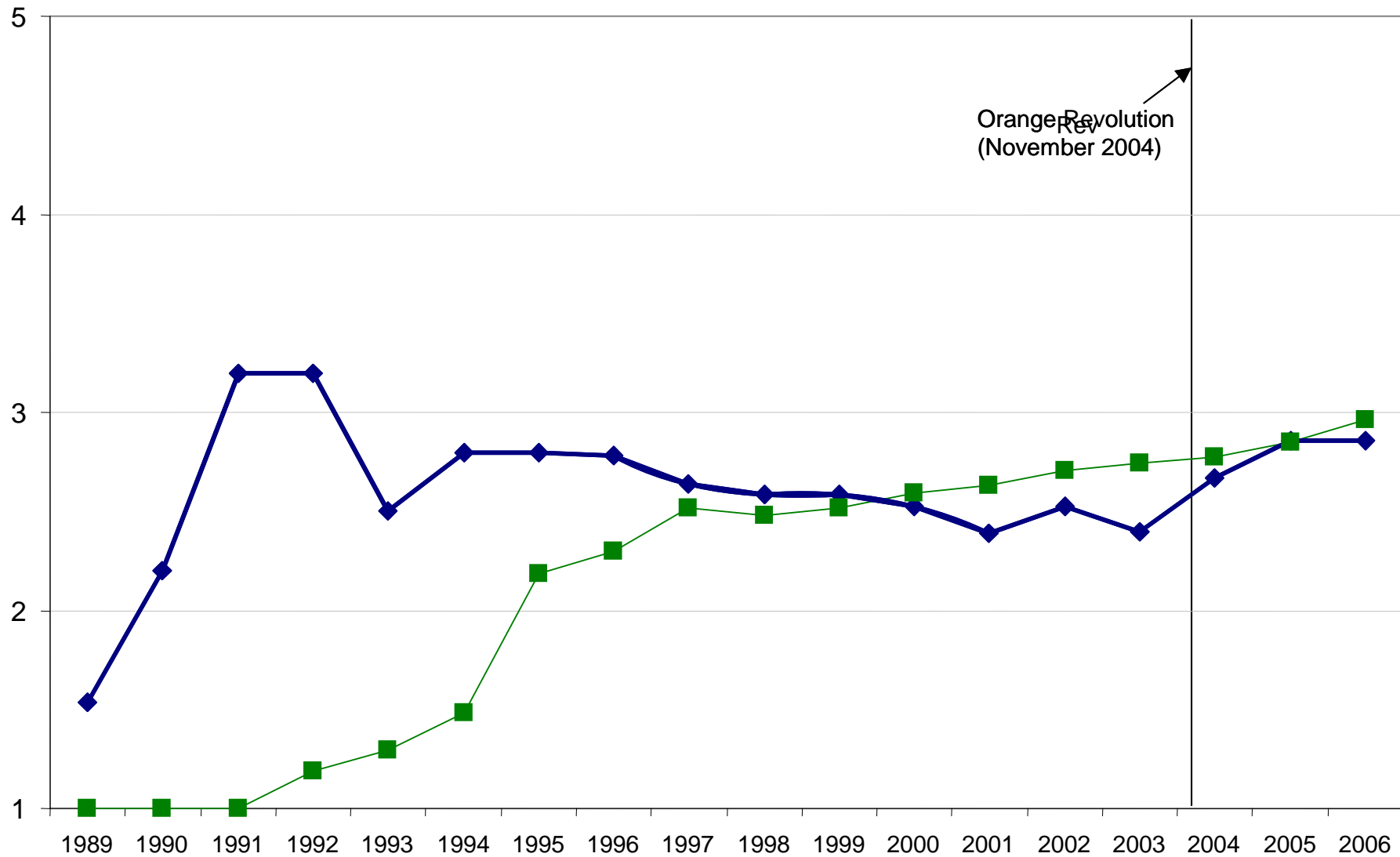


# Economic and Democratic Reforms in Georgia



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID's Monitoring Country Progress drawing from Freedom House, *Nations in Transit 2006* (2006) & *Freedom in the World 2007* (2007); and EBRD, *Transition Report 2006* (November 2006).

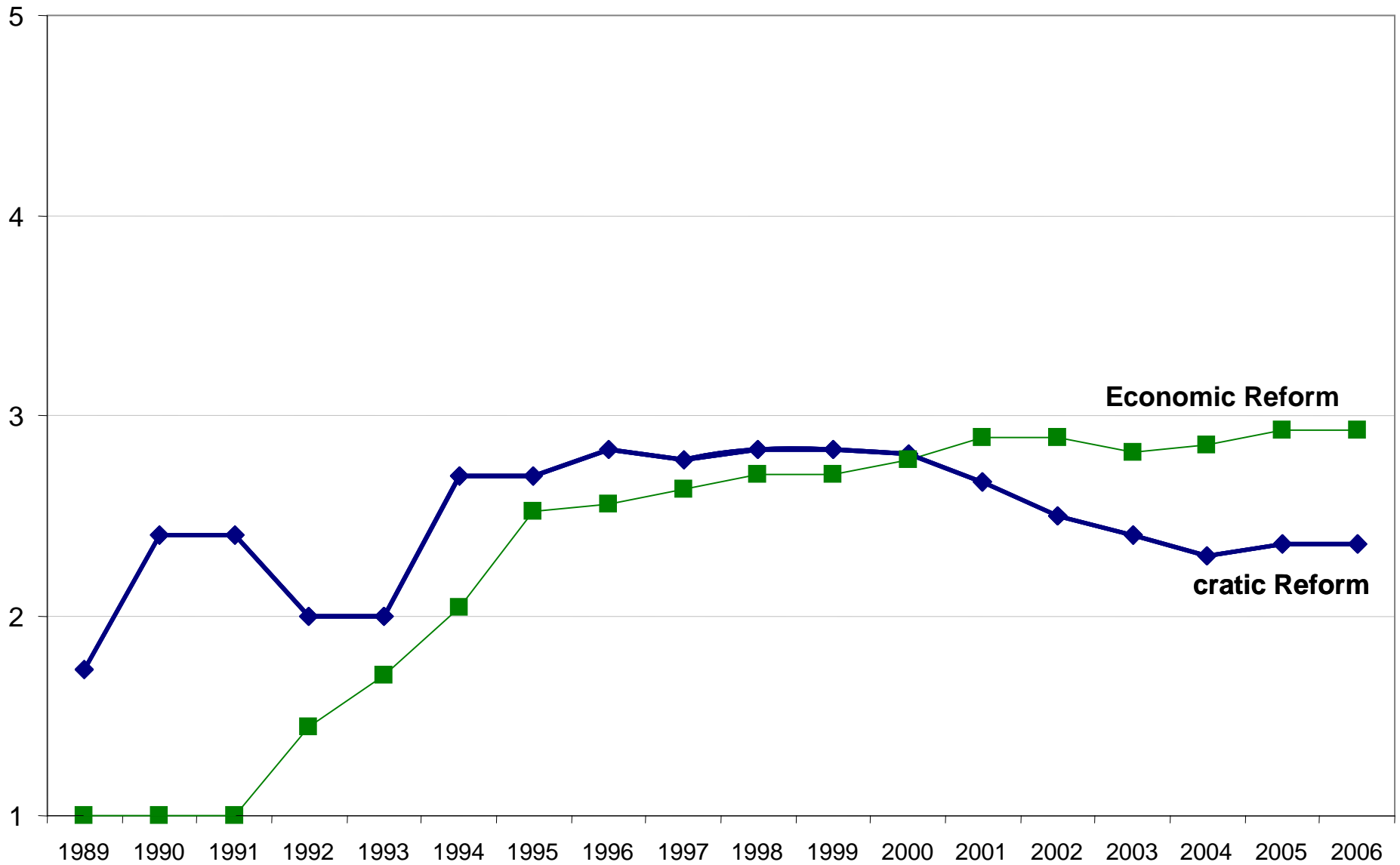
# Economic and Democratic Reforms in Ukraine



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID's Monitoring Country Progress drawing from Freedom House, *Nations in Transit 2006* (2006) & *Freedom in the World 2007* (2007); and EBRD, *Transition Report 2006* (November 2006).

Figure 18

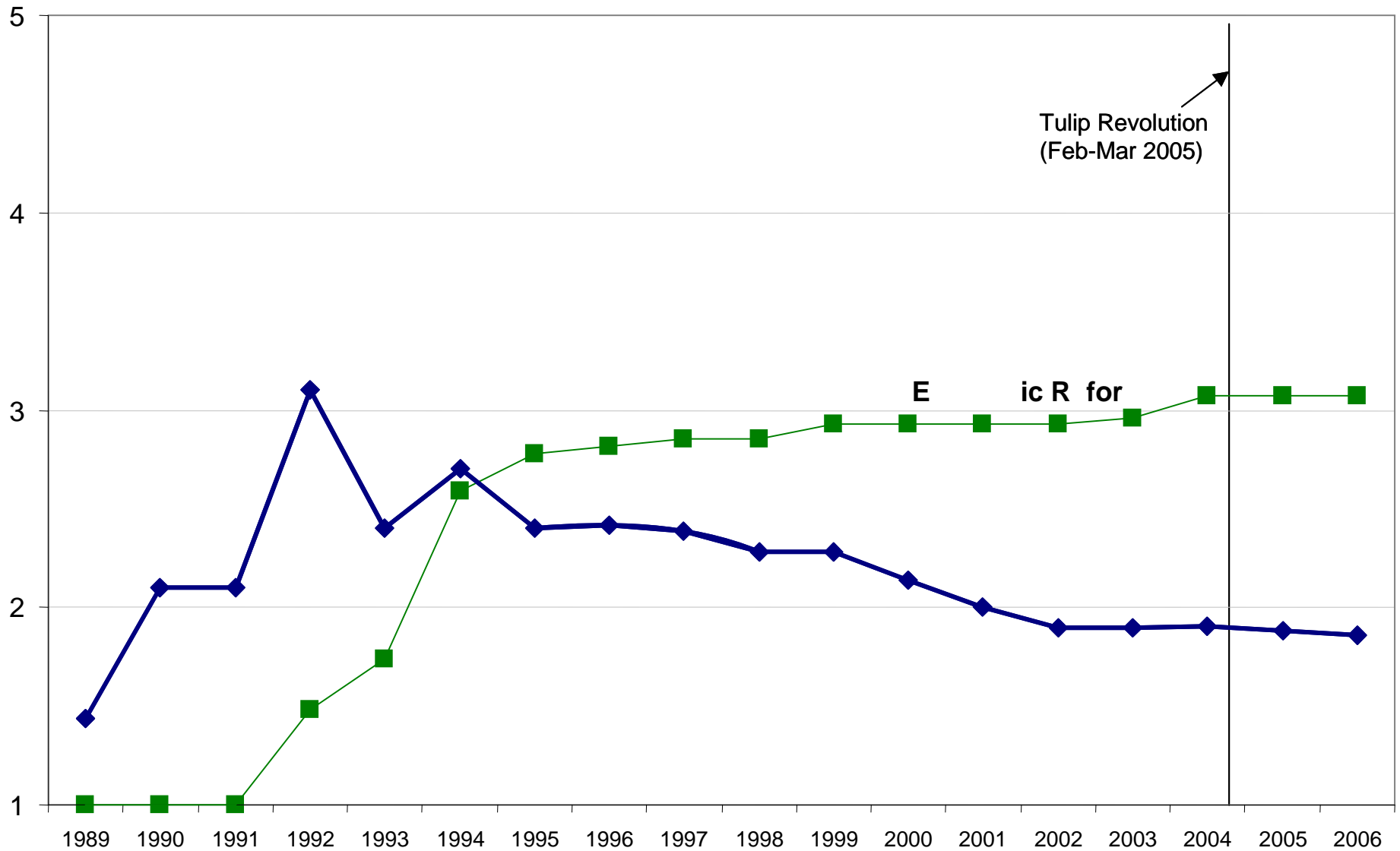
# Economic and Democratic Reforms in Moldova



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID's Monitoring Country Progress drawing from Freedom House, *Nations in Transit 2006* (2006) & *Freedom in the World 2007* (2007); and EBRD, *Transition Report 2006* (November 2006).

Figure 19

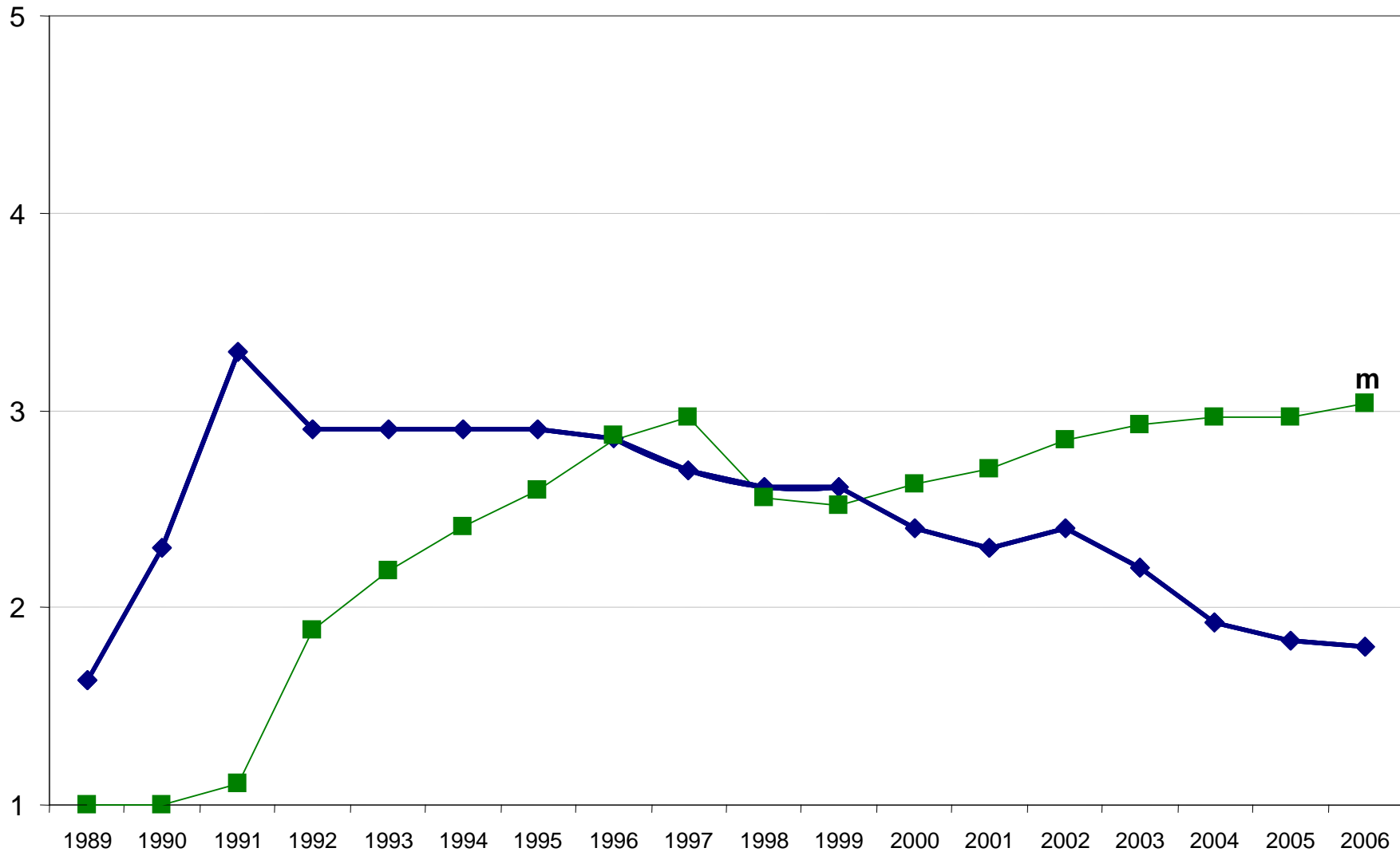
# Economic and Democratic Reforms in Kyrgyz Republic



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID's Monitoring Country Progress drawing from Freedom House, *Nations in Transit 2006* (2006) & *Freedom in the World 2007* (2007); and EBRD, *Transition Report 2006* (November 2006).

Figure 20

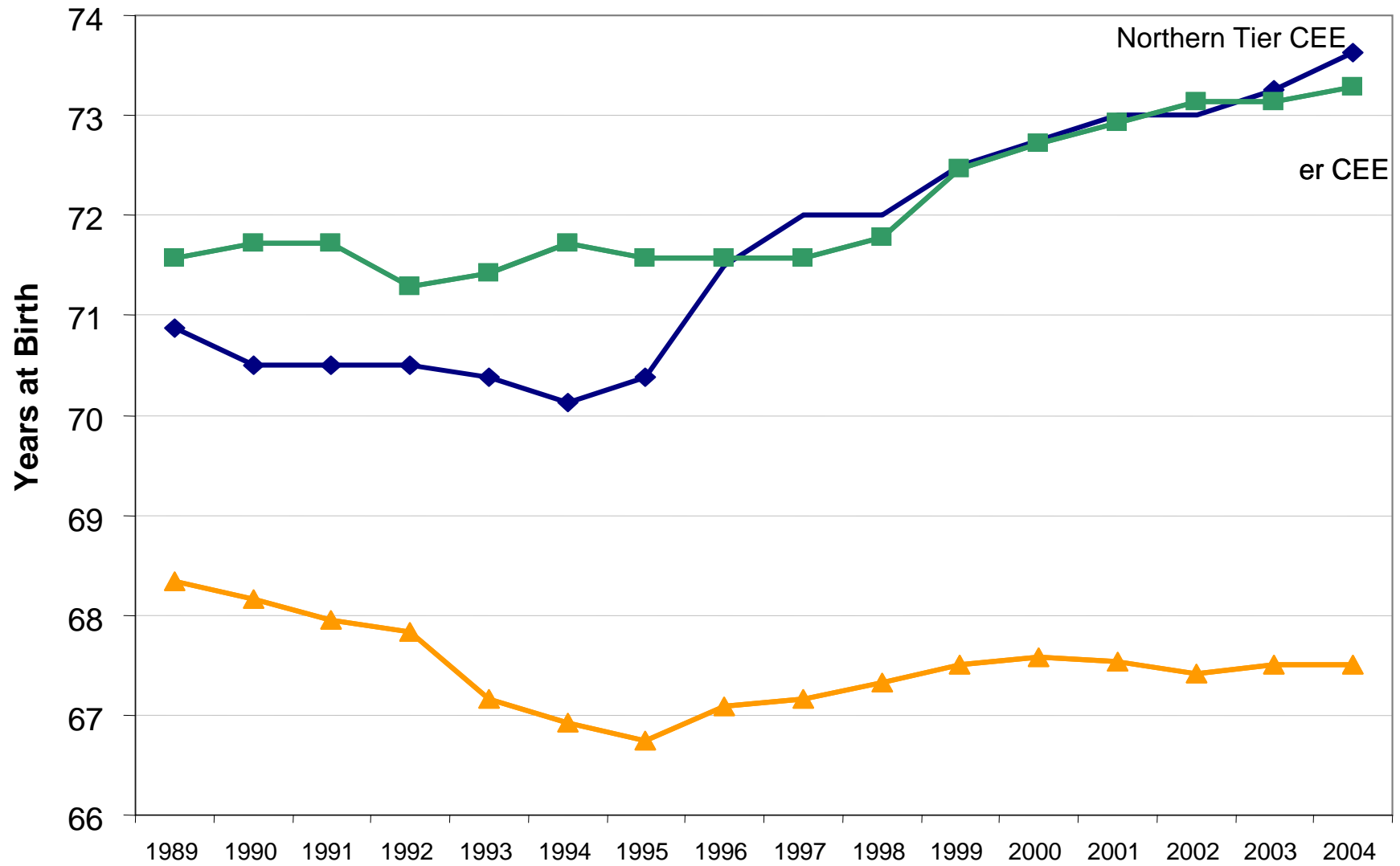
# Economic and Democratic Reforms in Russia



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID's Monitoring Country Progress drawing from Freedom House, *Nations in Transit 2006* (2006) & *Freedom in the World 2007* (2007); and EBRD, *Transition Report 2006* (November 2006).

Figure 21

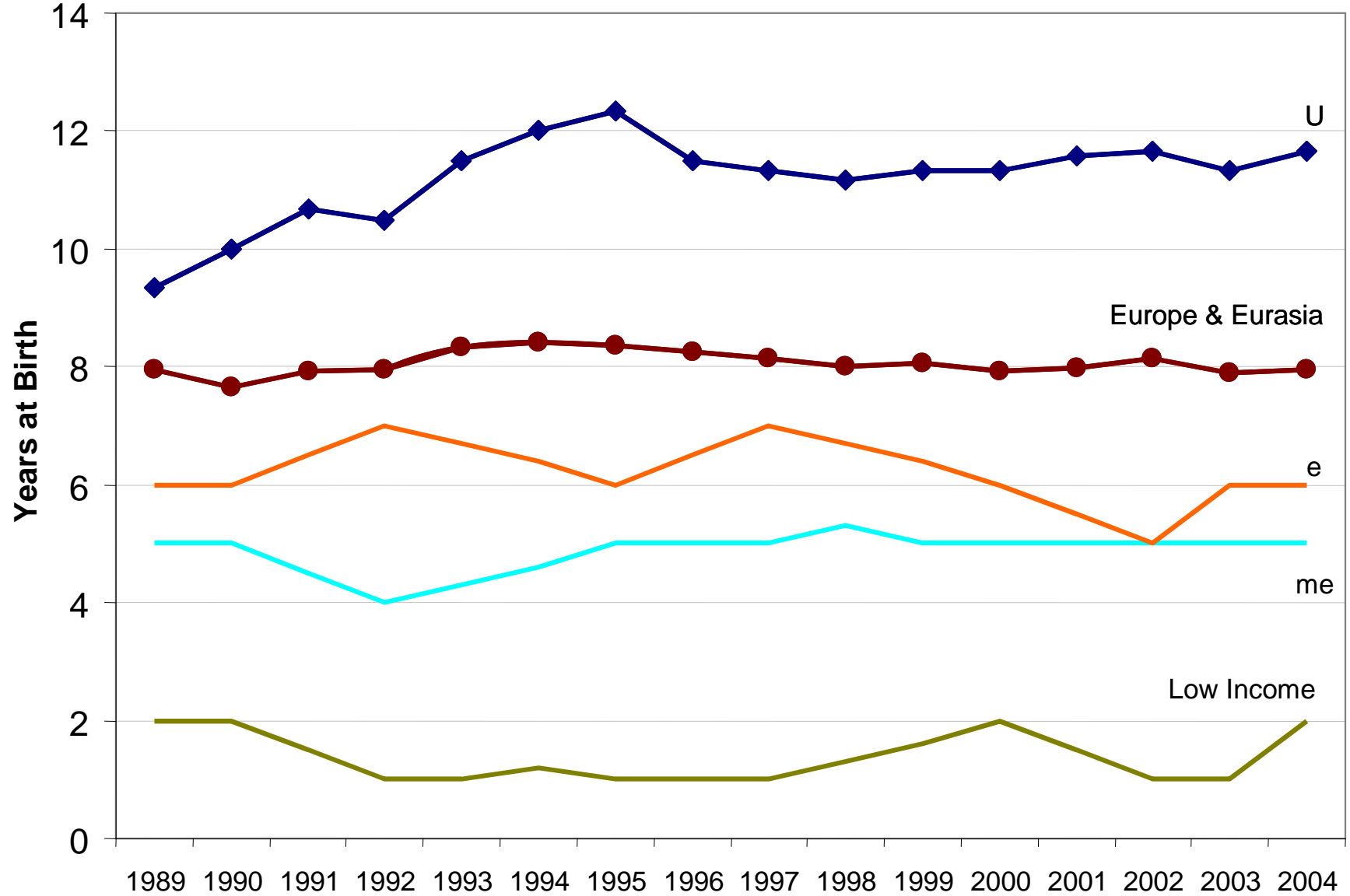
# Life Expectancy at Birth



World Bank, *World Development Indicators* (2006).

Figure 22

# Life Expectancy Gender Gap



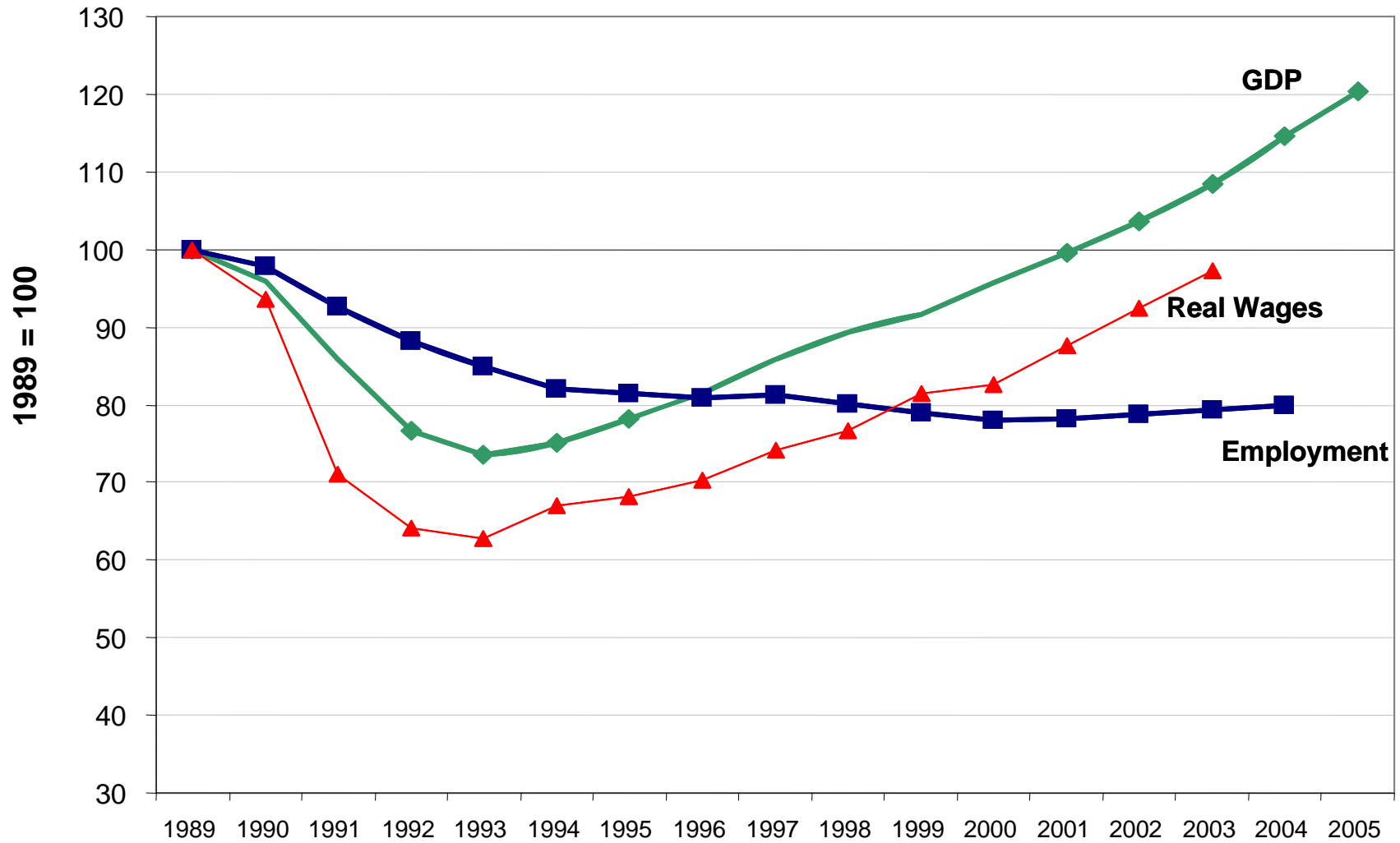
World Bank, *World Development Indicators* (2006). The life expectancy gender gap is female life expectancy minus male life expectancy.

	1990		1997		2000		2002-2004	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
RUSSIA	298	107	410	146	428	156	431	153
KAZAKHSTAN	306	136			366	201	351	158
UKRAINE	268	105			365	135	421	161
BELARUS	254	98	361	128	381	133	366	131
TURKMENISTAN	250	135	282	159	343	217	311	161
KYRGYZ REPUBLIC	291	143			335	175	273	129
LATVIA	295	108			328	122	294	112
ESTONIA	286	106			316	114	310	101
LITHUANIA	246	92			286	106	294	96
MOLDOVA	269	146			325	165	302	154
TAJIKISTAN	168	106			293	204	223	149
HUNGARY	290	135	295	123	295	123	242	105
UZBEKISTAN	207	109			282	176	252	149
ROMANIA	237	114	257	119	260	117	234	101
AZERBAIJAN	216	96			261	153	230	107
BULGARIA	211	107	222	112	239	103	208	89
GEORGIA	195	90			250	133	219	84
SLOVAKIA	247	100	225	90	216	83	178	71
ARMENIA	216	119			223	106	209	95
POLAND	264	102	238	91	226	88	201	78
MACEDONIA	147	100			160	89	145	84
BOSNIA & HERZEGOVINA	186	109			200	93	159	82
SERBIA & MONTENEGRO	168	101					172	94
CROATIA	207	96	162	119	178	74	173	76
ALBANIA	203	101			209	95	99	56
CZECH REPUBLIC	230	99	181	82	174	75	157	79
SLOVENIA	211	91	179	77	170	76	151	66
CEE & EURASIA	236	109			273	127	245	108
NORTHERN TIER CEE	259	104			251	98	228	89
SOUTHERN TIER CEE	194	104			208	95	170	83
EURASIA	276	109			381	157	299	136
N.FSU	275	103			351	128	353	126
MUSLIM MAJORITY	226	116			288	169	227	120
EUROPEAN MONETARY UNION	145	68	130	61	125	58		
EAST ASIA & PACIFIC	187	152	179	134	184	129		
LATIN AMERICA & CARIB.	198	130			222	125		
MIDDLE EAST & NORTH AFR.	211	183			193	143		
SOUTH ASIA	248	250			252	202		
SUB-SAHARAN AFRICA	448	372			519	461		
LOW-INCOME COUNTRIES	293	267			310	259		
MIDDLE-INCOME COUNTRIES	195	137	205	131	211	128		
HIGH-INCOME COUNTRIES	150	76	130	67	128	66		

World Bank, *World Development Indicators* (2005 and previous editions).



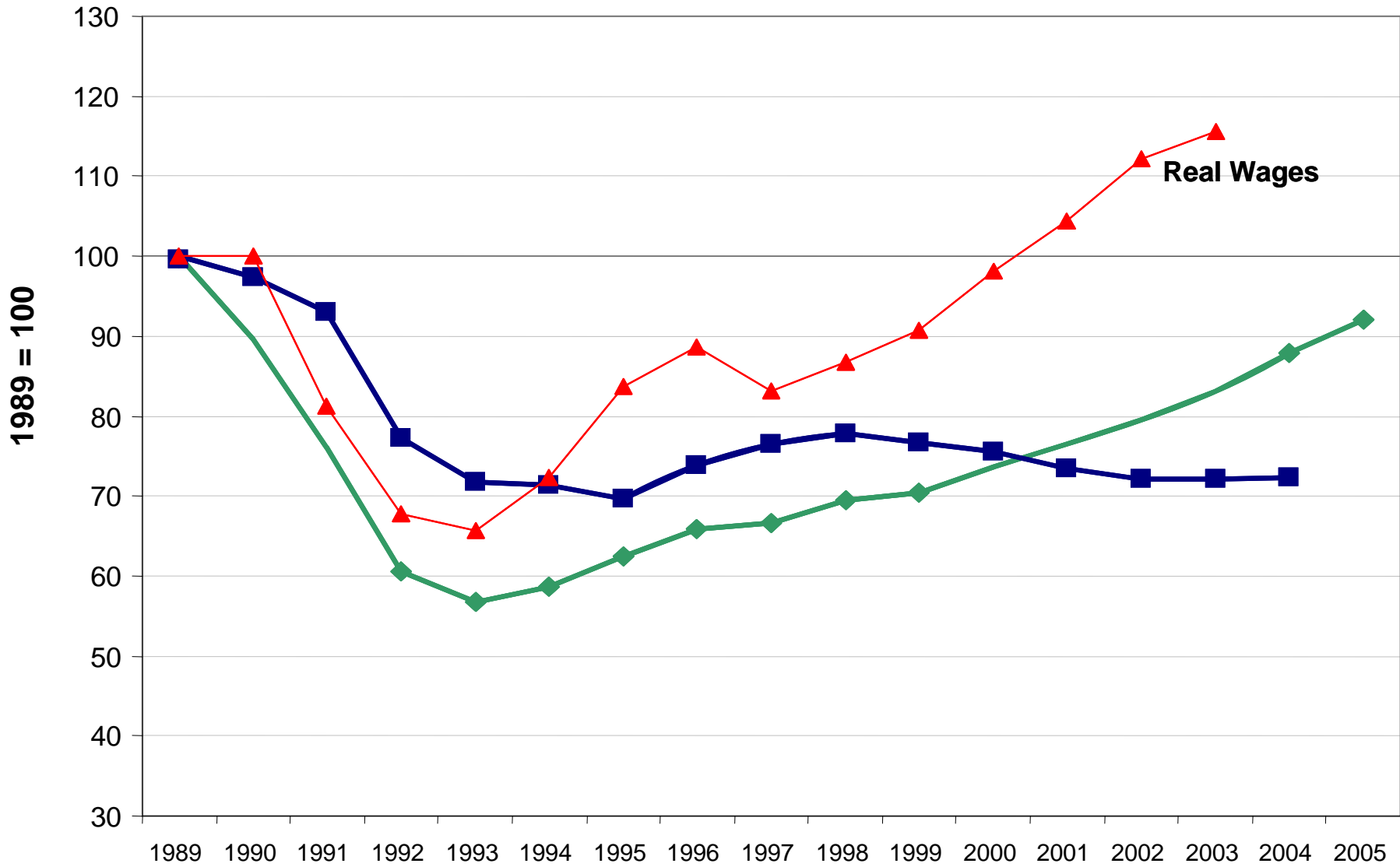
## Price, Quantity & Output Adjustments in Labor Markets in Northern Tier CEE



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

Figure 24

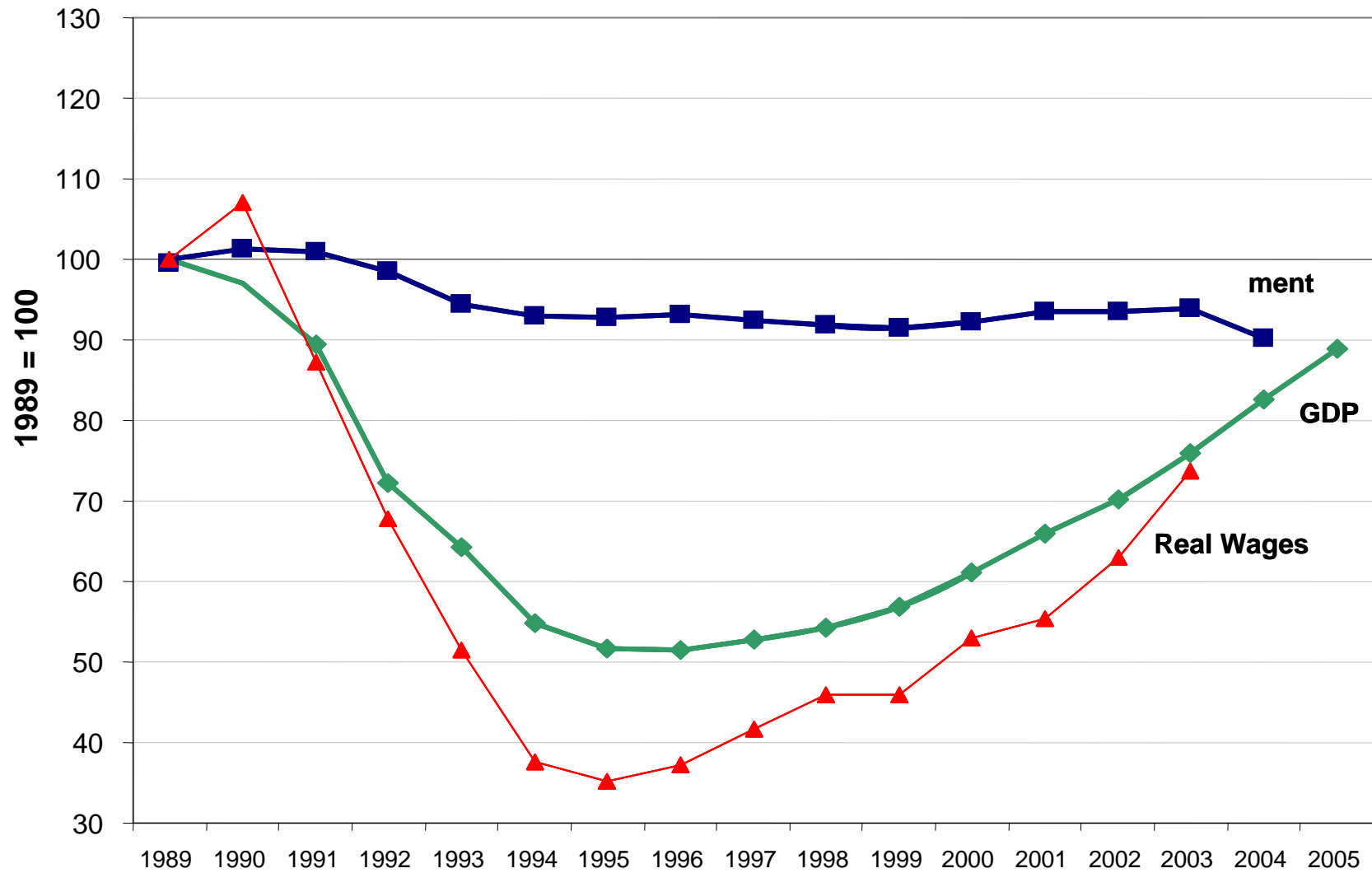
# Price, Quantity & Output Adjustments in Labor Markets in Southern Tier CEE



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

# Price, Quantity & Output Adjustments in Labor Markets in Eurasia

Figure 25



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

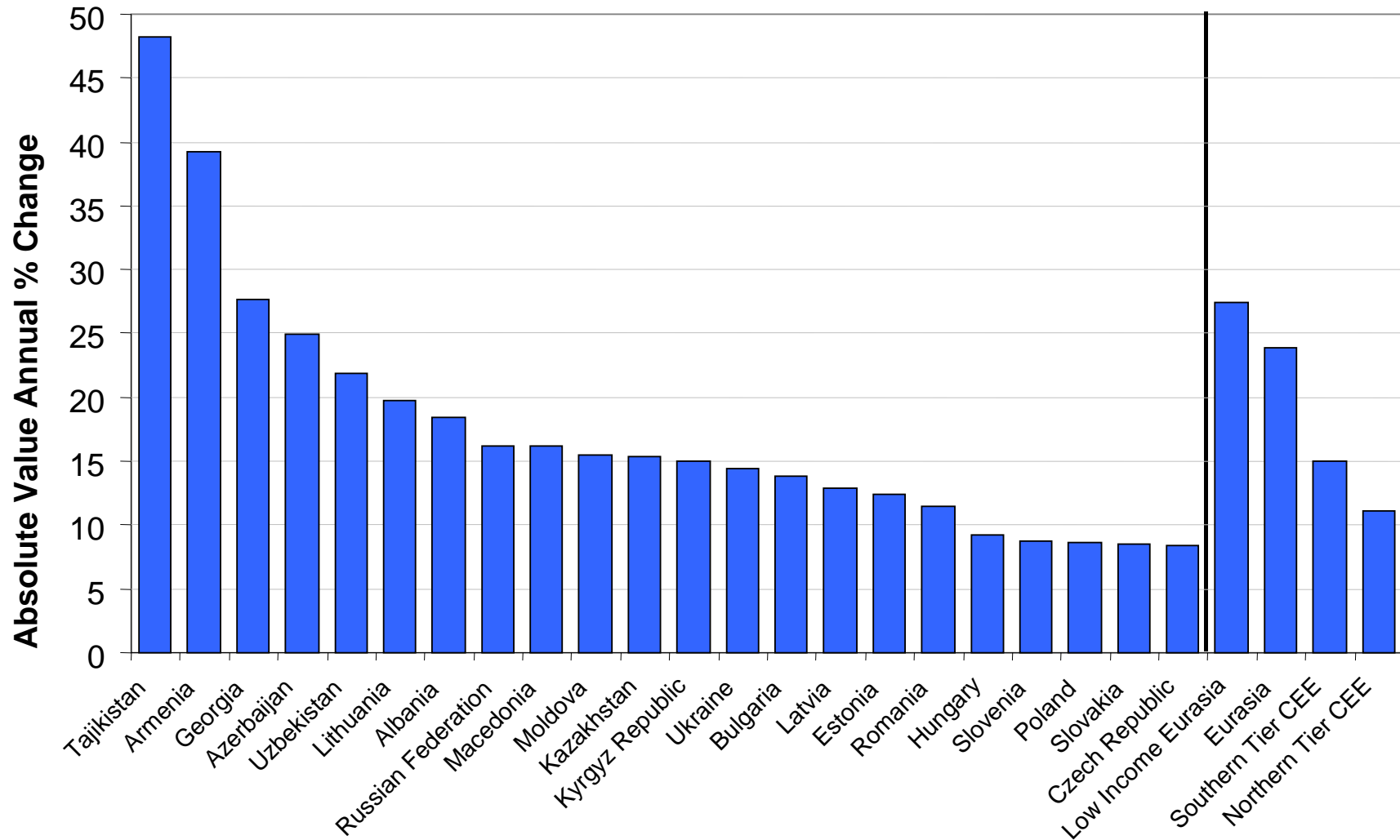
**TABLE 6. LABOR MARKET ADJUSTMENTS**

	Overall Labor Market	Distribution of Labor Market		Responsiveness to GDP Change	
	Change in Absolute Value: Wages & Employment from 1990	Changes in Absolute Value from 1990		from Resumption of Growth	
		Wages	Employment	Wages	Employment
TAJIKISTAN	48	95	5	1.20	0.06
ARMENIA	39	92	8	0.74	-0.42
GEORGIA	28	90	10	5.60	0.03
AZERBAIJAN	25	97	3	1.09	0.08
UZBEKISTAN	22	92	8	4.95	0.40
LITHUANIA	20	76	24	1.92	-0.62
ALBANIA	18	77	23	0.88	-0.10
RUSSIAN FEDERATION	16	91	9	1.61	0.10
MACEDONIA	16	62	38	0.49	0.13
MOLDOVA	15	80	20	3.80	-1.03
KAZAKHSTAN	15	86	14	1.01	0.19
KYRGYZ REPUBLIC	15	76	24	0.95	-0.04
UKRAINE	14	86	14	1.48	0.03
BULGARIA	14	77	23	-0.66	-0.05
LATVIA	13	75	25	0.66	-0.21
ESTONIA	12	78	22	1.01	-0.17
ROMANIA	12	78	22	0.72	-0.16
HUNGARY	9	70	30	1.41	0.29
SLOVENIA	9	74	26	0.60	0.11
POLAND	9	71	29	1.13	0.02
SLOVAKIA	9	73	27	0.29	-0.02
CZECH REPUBLIC	8	82	18	1.65	-0.09
<b>NORTHERN TIER CEE</b>	<b>11</b>	<b>75</b>	<b>25</b>	<b>1.08</b>	<b>-0.09</b>
<b>SOUTHERN TIER CEE</b>	<b>15</b>	<b>73</b>	<b>27</b>	<b>0.36</b>	<b>-0.05</b>
<b>EURASIA</b>	<b>24</b>	<b>88</b>	<b>12</b>	<b>2.24</b>	<b>-0.06</b>
<b>LOW INCOME EURASIA, N=7</b>	<b>27</b>	<b>89</b>	<b>11</b>	<b>2.62</b>	<b>-0.13</b>

EBRD, Transition Report 2005 (November 2005). UNICEF, TransMONEE Database (December 2005).

Low income Eurasia include Tajikistan, Kyrgyz Republic, Uzbekistan, Moldova, Georgia, Azerbaijan and Armenia.

## Labor Market (Absolute Value) Change over the Transition: Wages and Employment (1990-2004)

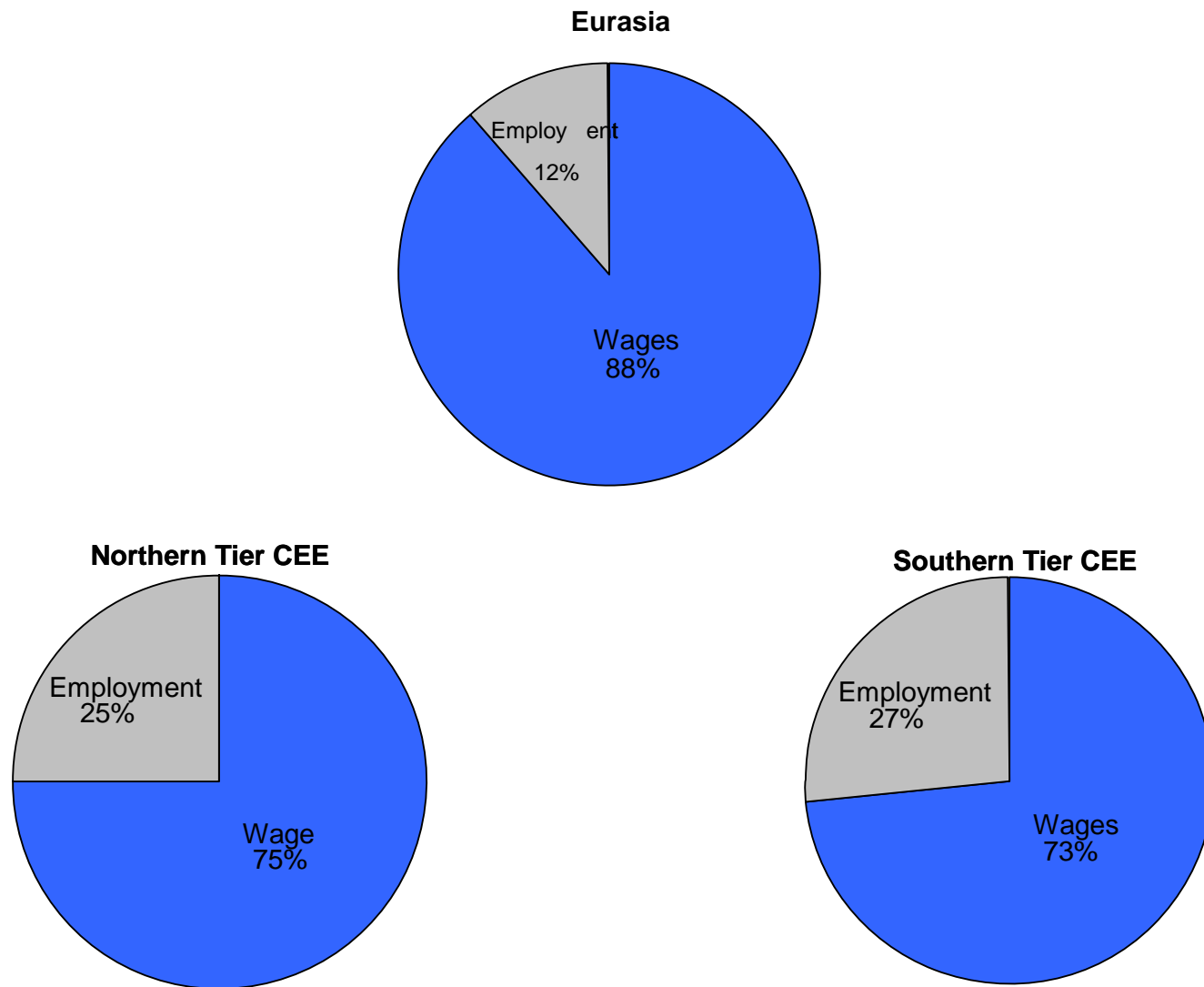


EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).



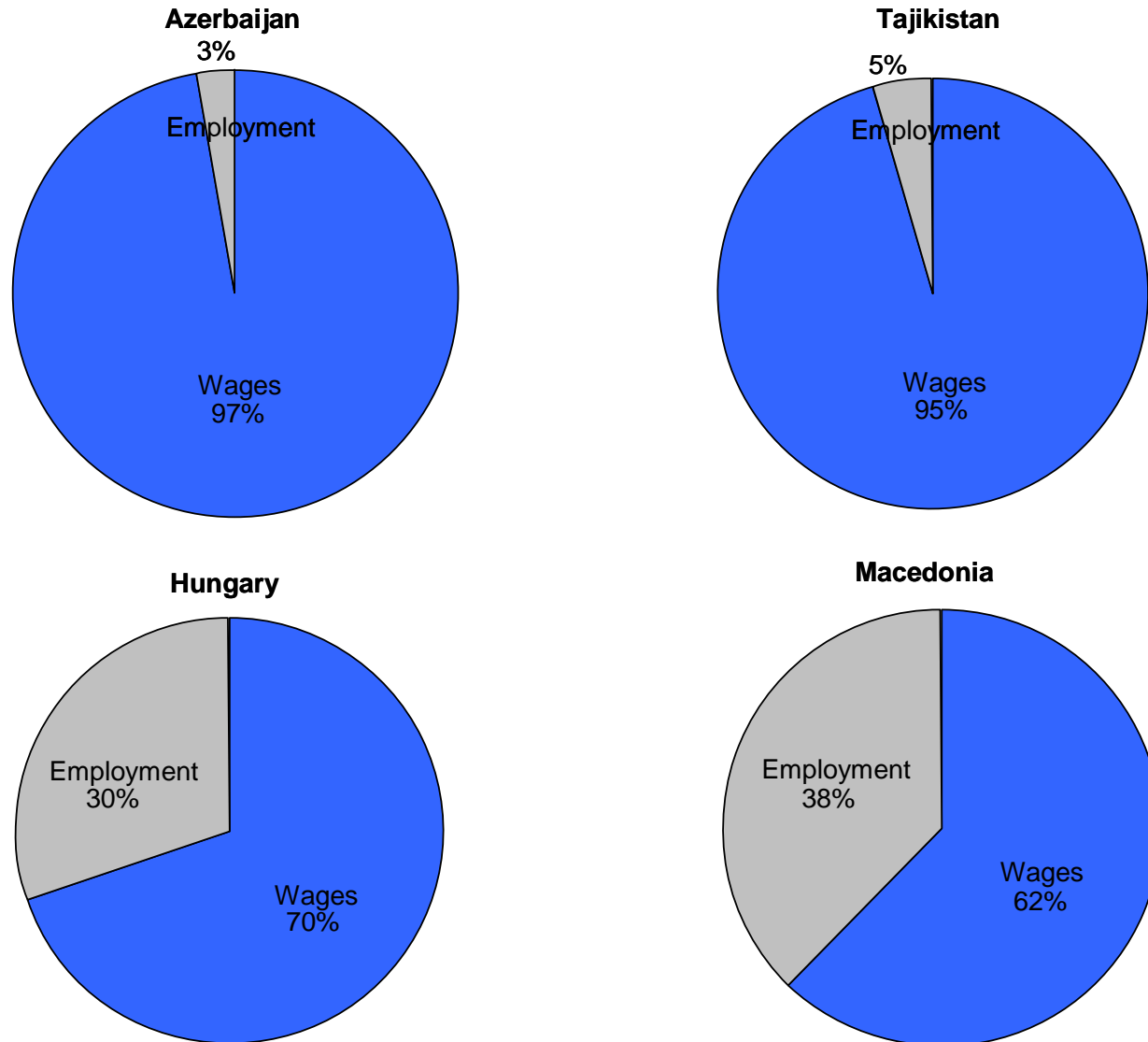
Figure 27

# Distribution of Labor Market Changes from 1990-2005



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

# Distribution of Labor Market Changes from 1990-2005



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

<b>TABLE 7. INFORMAL SECTOR EMPLOYMENT % OF TOTAL EMPLOYMENT</b>					
	<b>source</b>	<b>1995-1997</b>	<b>1998-99</b>	<b>2000-2001</b>	<b>2003-04</b>
KYRGYZ REPUBLIC	(a)	---	34	---	---
	(e)	71	59	---	---
KAZAKHSTAN	(a)	---	54	---	---
AZERBAIJAN	(a)	---	51	---	---
	(e)	38	---	---	---
ARMENIA	(a)	---	40	---	---
	(e)	32	45	---	---
GEORGIA	(a)	---	33	---	---
	(e)	---	42	---	---
RUSSIAN FEDERATION	(a)	---	41	---	---
BELARUS	(a)	---	41	---	---
UKRAINE	(a)	---	41	---	---
	(b)	---	---	---	16
TAJIKISTAN	(e)	---	41	---	---
BOSNIA & HERZEGOVINA	(c)	---	---	---	41
UZBEKISTAN	(a)	---	33	---	---
	(e)	---	---	40	---
MACEDONIA	(a)	---	35	---	---
MOLDOVA	(a)	---	35	---	---
	(e)	31	---	26	---
ESTONIA	(a)	---	33	---	---
SERBIA	(d)	---	---	31	---
BULGARIA	(a)	---	30	---	---
LATVIA	(a)	---	29	---	---
CROATIA	(a)	---	27	---	---
ROMANIA	(a)	---	24	---	---
SLOVENIA	(a)	---	22	---	---
POLAND	(a)	---	21	---	---
HUNGARY	(a)	---	21	---	---
LITHUANIA	(a)	---	20	---	---
SLOVAKIA	(a)	---	16	---	---
CZECH REPUBLIC	(a)	---	12	---	---
<b>NORTHERN TIER CEE</b>		---	---	---	22
<b>SOUTHERN TIER CEE</b>		---	---	---	31
<b>EURASIA</b>		---	---	---	36-45
<b>OECD</b>		---	---	---	17

(a) WB drawing from Schneider

(b) WB Ukraine(2005)

(c) WB B-H (2005)

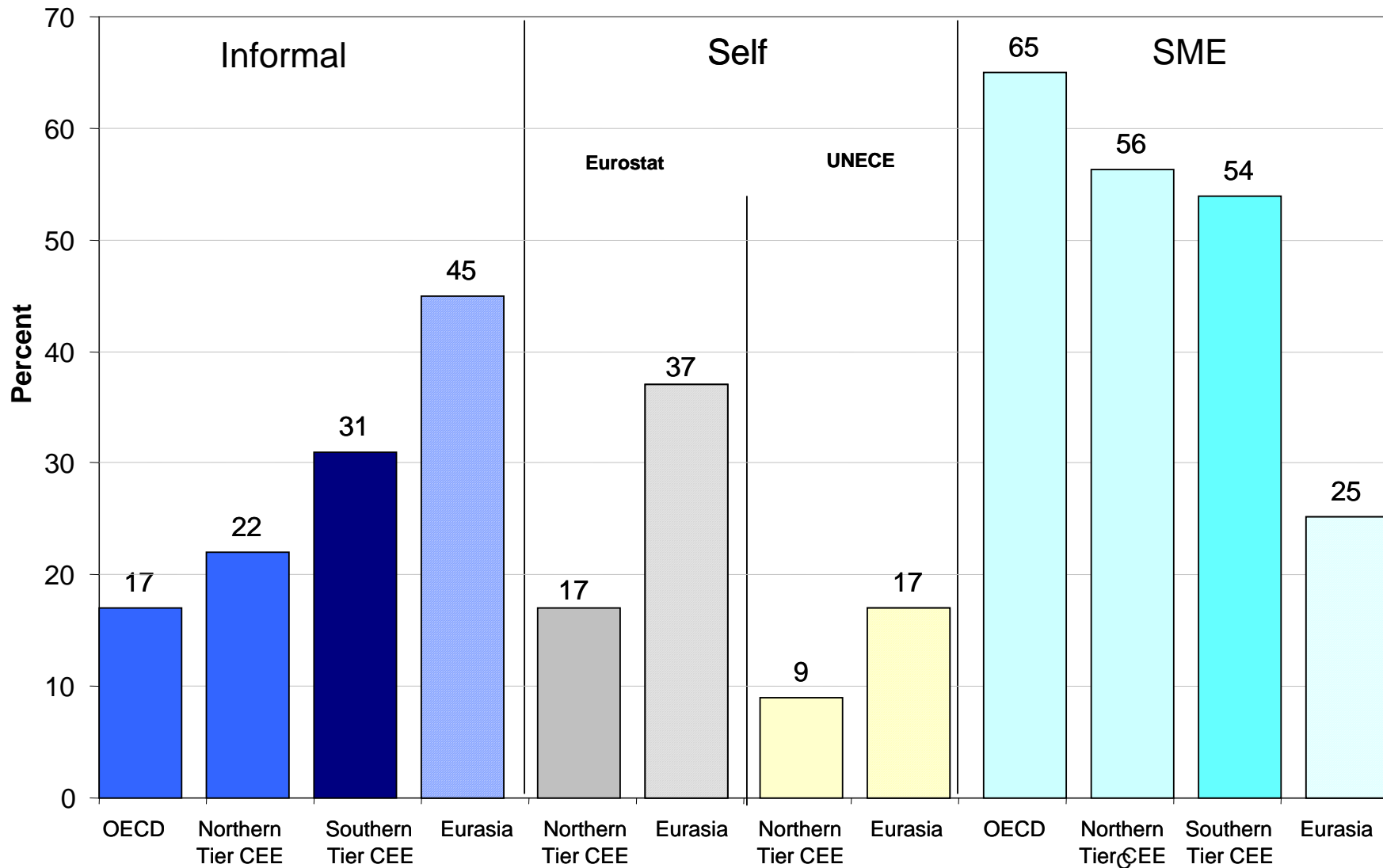
(d) WB Serbia (2004)

(e) Yoon et al (2003)



Figure 29

# Type of Employment by Size



UNECE, *Statistical Division Database* (2006) & *SME Databank* (2003); Eurostat, *Statistical Yearbook* (2006); Schneider, *Size of Shadow Economies* (Dec 2004).

**TABLE 8: SECTORAL SHARE OF EMPLOYMENT IN AGRICULTURE (%)**

	PERCENTAGE OF TOTAL EMPLOYMENT IN AGRICULTURE							CHANGE		
	1990	1995	2001	2002	2003	2004	2005	1990-95	1995-03	1990 to 03-05
	CZECH REPUBLIC	10	7	5	5	5	4	4	-3	-2
SLOVAKIA	12	9	6	6	6	5	5	-3	-3	-6
HUNGARY	18	8	6	6	5	5	5	-9	-3	-13
ESTONIA	12	10	7	7	6	6	5	-2	-4	-6
BULGARIA	18	24	26	10	10	10	9	6	-14	-8
SLOVENIA	12	10	10	9	8	10	9	-2	-2	-4
RUSSIAN FEDERATION	13	12	12	12	11	---	---	-1	-2	-3
LATVIA	16	17	15	15	14	13	12	1	-3	-2
LITHUANIA	19	21	16	18	18	16	14	2	-3	-1
CROATIA	---	20	16	15	17	16	17	---	-3	---
BELARUS*	19	21	16	---	---	---	---	2	-5	-3
POLAND	26	23	19	19	18	18	17	-3	-4	-8
UKRAINE	20	20	22	20	19	---	---	0	-1	-1
MACEDONIA	---	19	25	24	22	---	---	---	3	---
ROMANIA	28	40	43	37	36	32	32	12	-5	8
KAZAKHSTAN	23	21	22	36	35	---	---	-2	14	12
UZBEKISTAN*	39	44	39	---	---	---	---	5	-5	0
AZERBAIJAN	31	31	40	40	40	---	---	0	9	9
MOLDOVA	33	44	22	50	43	---	---	11	-1	10
KYRGYZ REPUBLIC	33	47	53	49	43	---	---	14	-4	10
ARMENIA*	17	37	44	---	---	---	---	20	7	27
TAJKISTAN*	43	59	46	---	---	---	---	16	-13	3
TURKMENISTAN*	42	43	49	---	---	---	---	1	6	7
GEORGIA	25	31	62	54	55	---	---	6	24	30
SERBIA & MONTENEGRO*	---	6	6	---	---	---	---	---	0	---
ALBANIA	49	68	72	---	---	---	---	19	---	---
BOSNIA & HERZEGOVINA	11	---	---	---	---	---	---	---	---	---
<b>CEE &amp; EURASIA</b>	24	27	27	23	22	---	---	2.9	0.2	3.2
<b>NORTHERN TIER CEE</b>	16	13	11	11	10	10	9	-2.5	-2.6	-5.1
<b>SOUTHERN TIER CEE</b>	27	30	31	---	---	---	---	3.1	1.6	4.7
<b>EURASIA</b>	28	34	36	---	---	---	---	6.0	1.4	7.5
<b>EU-15</b>	8.9	6.8	5.3	5.2	4.4	---	---	-2.1	-2.4	-4.5
<b>UNITED STATES*</b>	2.9	2.9	2.5	2.5	---	---	---	0.0	-0.4	-0.4

World Bank, *World Development Indicators* (2006); UNECE, *Statistical Division Database* (2006) and *Trends in Europe and North America* (2003).

\*Change in years are calculated through 2001 instead of 2003.

**TABLE 9. SECTORAL SHARE OF EMPLOYMENT IN SERVICES**

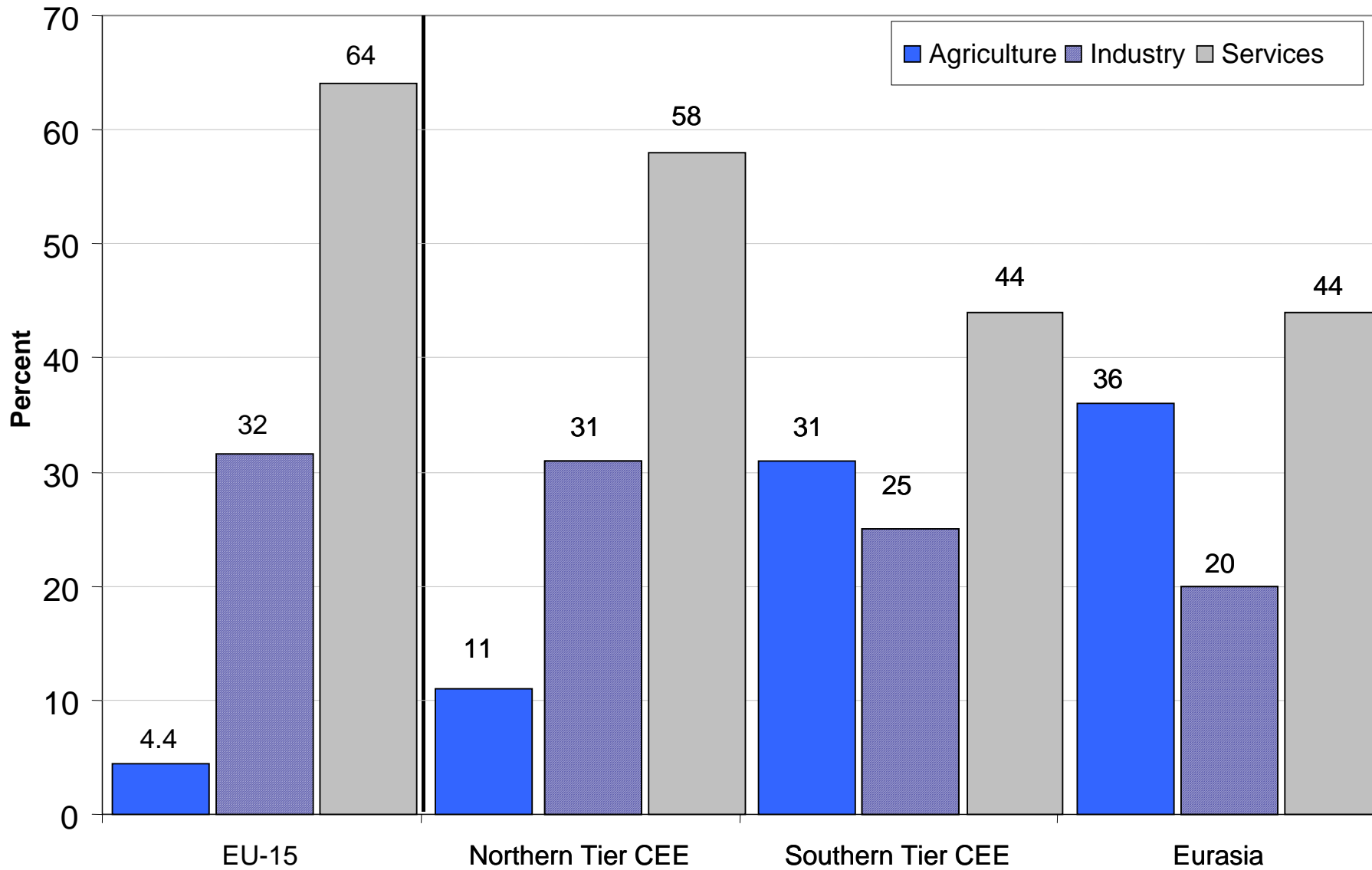
	PERCENTAGE OF TOTAL EMPLOYMENT IN SERVICES							CHANGE		
	1990	1995	2001	2002	2003	2004	2005	1990-95	1995-03	1990 to 03-05
HUNGARY	51	59	59	60	61	62	63	7.6	2.5	7.7
LATVIA	45	56	58	59	59	60	62	10.5	3.6	29.0
ESTONIA	42	56	60	62	61	59	61	13.8	5.8	43.8
SERBIA & MONTENEGRO	---	57	59	---	---	---	---	---	---	---
LITHUANIA	52	58	56	55	54	56	57	6.3	-4.5	3.5
RUSSIAN FEDERATION	36	45	50	59	58	---	---	9.5	12.9	40.8
BULGARIA	37	43	46	58	57	57	57	5.3	14.4	8.8
CZECH REPUBLIC	42	51	55	55	56	56	57	8.9	4.7	12.6
SLOVAKIA	54	52	56	55	56	56	56	-2.0	4.0	4.5
CROATIA	---	46	54	55	53	54	54	---	---	---
SLOVENIA	44	46	51	52	53	53	54	2.5	7.0	6.9
POLAND	36	45	50	52	53	53	53	9.5	7.7	14.6
UKRAINE	49	54	50	49	51	---	---	4.9	-2.6	0.6
AZERBAIJAN	31	36	49	48	48	---	---	4.7	12.6	18.1
KAZAKHSTAN	41	50	48	48	48	---	---	9.0	-1.9	18.2
UZBEKISTAN*	46	43	48	---	---	---	---	-3.3	5.2	1.9
TAJIKISTAN*	18	22	47	---	---	---	---	3.7	25.2	28.9
MACEDONIA	---	43	49	43	44	---	---	---	---	48.5
KYRGYZ REPUBLIC	39	36	37	39	42	---	---	-3.3	5.6	-2.7
ARMENIA*	38	36	42	---	---	---	---	-2.3	6.2	3.9
MOLDOVA	47	40	35	36	41	---	---	-6.5	0.9	-11.4
TURKMENISTAN*	48	47	38	---	---	---	---	-1.0	-8.5	-9.5
ROMANIA	27	29	32	34	34	37	37	1.3	5.3	4.1
GEORGIA	---	---	38	38	37	---	---	---	---	---
ALBANIA	---	23	22	---	---	---	---	---	---	---
BELARUS	36	---	---	---	---	---	---	---	---	---
BOSNIA & HERZEGOVINA	41	---	---	---	---	---	---	---	---	---
<b>CEE &amp; EURASIA</b>	41	46	49	51	52	---	---	4.4	6.1	---
<b>NORTHERN TIER CEE</b>	46	53	56	56	57	57	58	7.1	3.8	12.0
<b>SOUTHERN TIER CEE</b>	---	40	44	---	---	---	---	---	3.2	---
<b>EURASIA</b>	39	41	44	---	---	---	---	1.8	2.5	---
<b>EU-15</b>	57	61	64	64	64	---	---	4.0	3.0	---
<b>UNITED STATES*</b>	71	73	75	76	---	---	---	2.1	0.9	---

World Bank, *World Development Indicators* (2006); UNECE, *Statistical Division Database* (2006) and *Trends in Europe and North America* (2003).

\*Change in years are calculated through 2001 instead of 2003.

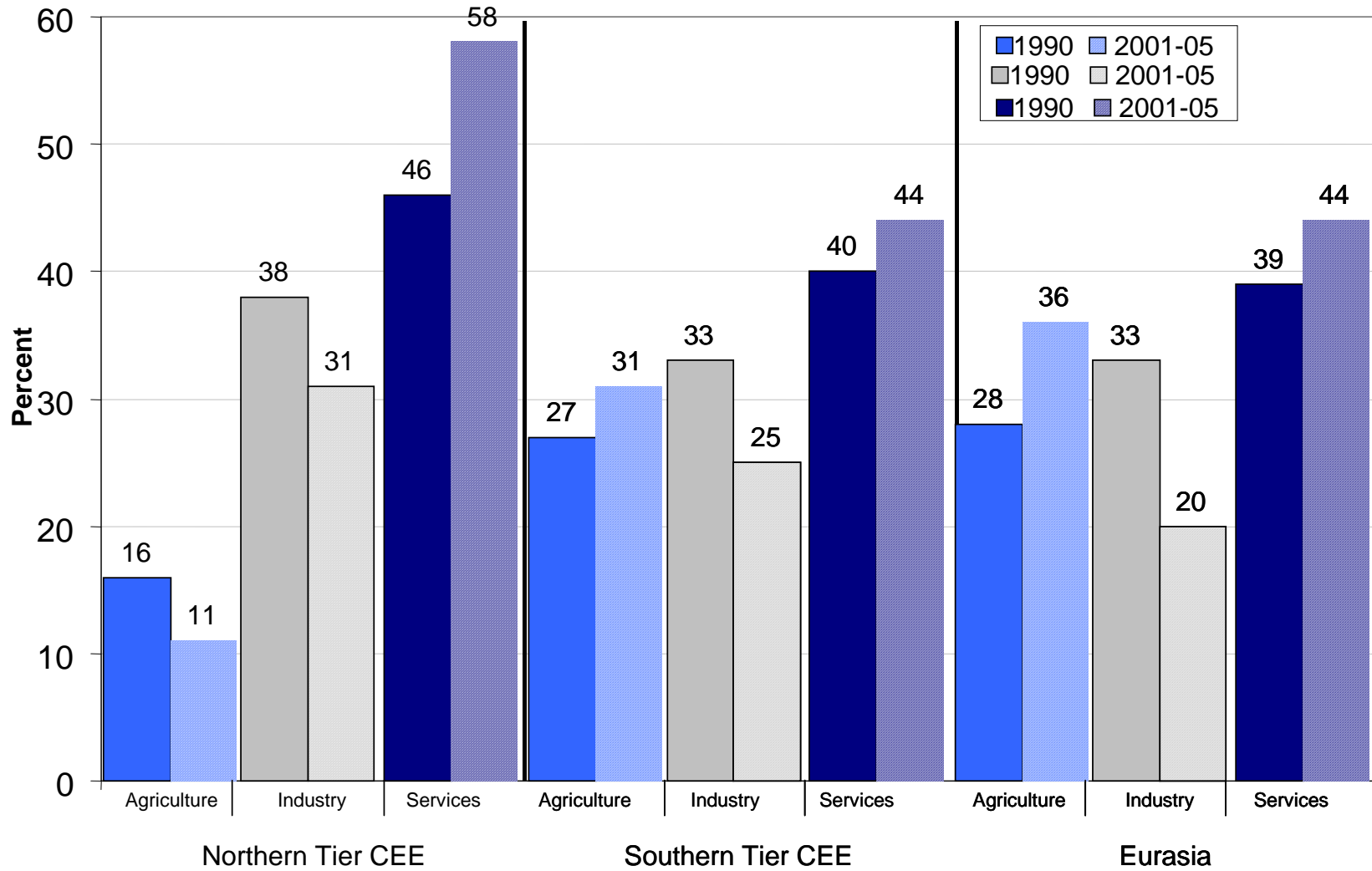
# Type of Employment by Sector

Figure 30



World Bank, *World Development Indicators* (2006); UNECE, *Statistical Division Database* (2006) and *Trends in Europe and North America* (2003).

# Sectoral Share of Employment



World Bank, *World Development Indicators* (2006); UNECE, *Statistical Division Database* (2006) and *Trends in Europe and North America* (2003).

**TABLE 10. REAL WAGES INDEX (1989=100)**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
CZECH REPUBLIC	100	94	72	79	82	88	96	104	106	105	111	114	118	124	132
POLAND	100	76	75	73	71	72	74	78	83	85	110	111	114	115	119
GEORGIA	100	111	77	50	24	34	28	44	60	75	77	79	99	112	118
HUNGARY	100	94	88	86	83	89	82	79	82	84	86	89	96	109	117
AZERBAIJAN	100	101	80	95	62	25	20	24	36	43	52	61	71	84	100
SLOVENIA	100	74	62	60	69	73	77	80	82	83	86	87	90	92	93
MOLDOVA	100	114	105	62	62	50	51	54	56	60	52	53	65	78	90
ESTONIA	100	103	57	45	46	51	54	55	59	64	66	70	75	80	87
ROMANIA	100	108	92	81	69	70	79	88	69	67	69	72	77	78	86
SLOVAKIA	100	94	67	74	71	73	76	81	87	88	85	81	82	87	85
UKRAINE	100	109	114	124	63	56	62	59	58	56	48	49	59	71	83
LATVIA	100	105	72	49	51	58	57	54	60	64	66	68	71	76	82
RUSSIAN FEDERATION	100	109	102	69	69	63	45	51	54	47	36	44	53	61	68
LITHUANIA	100	109	77	51	33	37	39	41	47	54	57	55	55	57	62
MACEDONIA	100	79	68	42	57	51	49	49	49	51	53	53	52	54	56
BULGARIA	100	109	67	75	68	53	51	42	45	43	47	49	51	53	55
ARMENIA	100	104	37	21	7	18	22	32	29	35	39	44	46	51	54
TAJIKISTAN	100	106	90	39	14	7	24	15	13	17	17	17	19	23	28
UZBEKISTAN	100	109	96	95	18	10	9	13	13	15	19	23	26	29	---
BOSNIA & HERZEGOVINA	---	---	---	---	---	---	---	---	100	118	135	143	151	165	---
SERBIA & MONTENEGRO	---	---	---	---	---	100	116	116	116	119	107	132	147	---	---
CROATIA	---	---	---	---	---	---	100	109	118	126	133	134	133	138	142
ALBANIA	---	---	---	---	---	---	---	100	83	83	91	107	120	130	138
BELARUS	---	---	---	---	100	61	58	61	69	81	87	98	---	---	---
TURKMENISTAN	---	---	---	---	100	53	25	20	24	30	30	50	65	64	111
KYRGYZ REPUBLIC	---	100	71	59	50	42	43	44	49	55	51	50	55	63	69
KAZAKHSTAN	---	---	100	65	49	33	33	34	36	39	44	47	52	58	62
<b>CEE &amp; EURASIA*</b>	100	100	79	67	54	51	52	55	57	60	62	64	69	75	84
<b>NORTHERN TIER CEE</b>	100	94	71	65	63	68	69	72	76	78	83	85	88	92	97
<b>EURASIA**</b>	100	108	81	60	31	24	26	30	35	41	43	46	54	63	78

UNICEF, *TransMonee Database 2005* (December 2005).

Country minimum is highlighted with boxes.

\*Excludes countries for which data do not start in 1989: Albania, Croatia, Bosnia-Herzegovina, and Serbia-Montenegro.

\*\*Excludes countries for which data do not start in 1989: Belarus, Turkmenistan, Kazakhstan and Kyrgyz Republic.

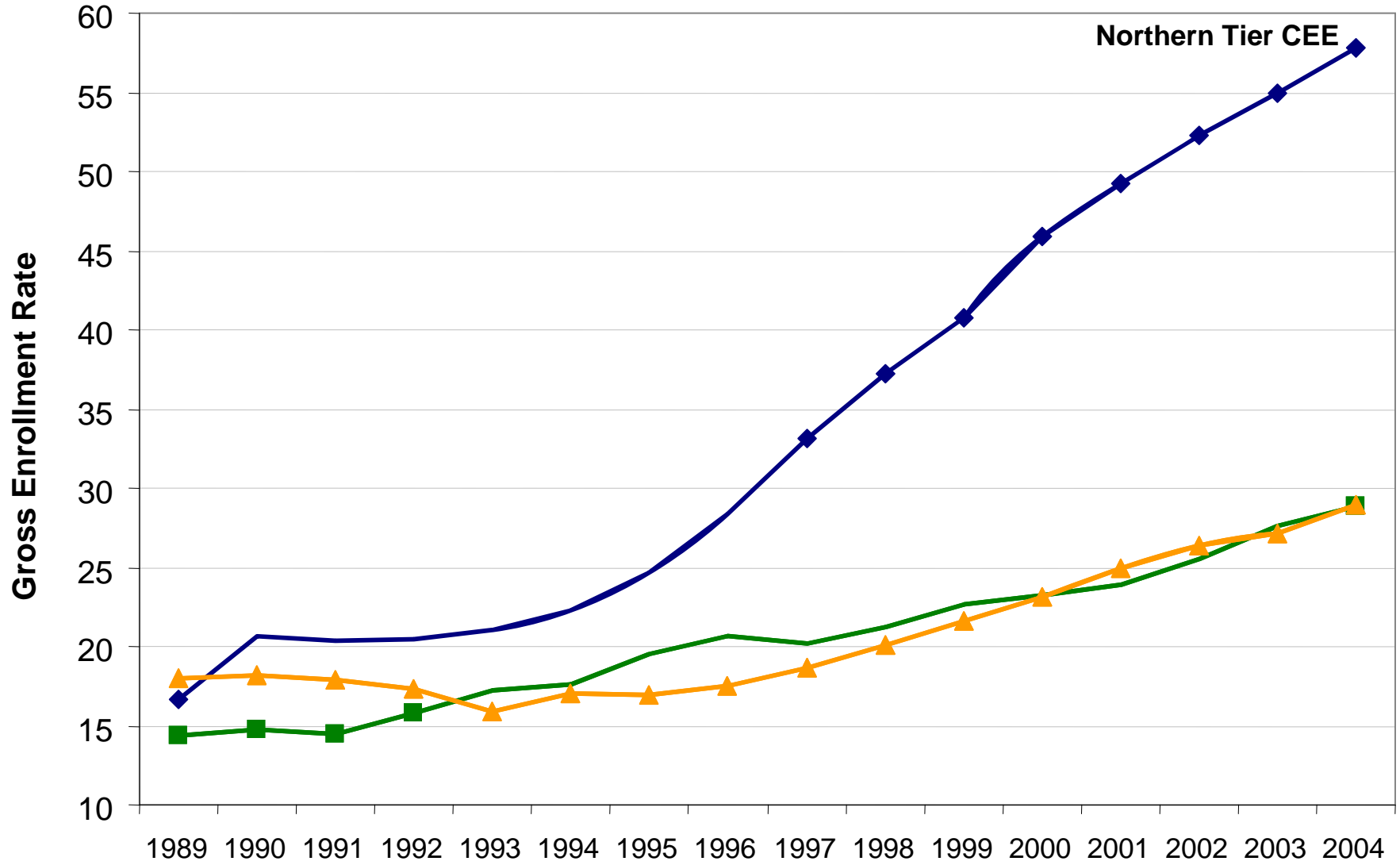
**TABLE 11. HIGHER EDUCATION ENROLLMENTS  
(GROSS RATES, PER CENT OF POPULATION AGED 19-24)**

	1990	1995	2000	2001	2002	2003	2004
SLOVENIA	22.9	32.6	61.0	67.2	70.1	73.7	79.5
ESTONIA	34.5	33.9	60.1	61.5	62.9	---	---
LITHUANIA	26.3	25.2	49.3	53.5	58.4	62.3	65.9
LATVIA	20.8	21.7	56.4	60.0	62.5	64.8	63.6
HUNGARY	12.1	18.2	35.3	39.3	44.6	56.8	59.6
POLAND	17.0	27.2	47.4	50.6	52.4	53.9	55.9
RUSSIAN FEDERATION	24.6	22.2	35.4	39.6	42.0	44.5	46.7
BELARUS	34.0	31.4	39.1	40.7	42.0	43.2	45.4
UKRAINE	21.7	20.8	32.6	36.7	38.7	41.4	44.8
KAZAKHSTAN	18.7	16.6	29.0	33.4	37.6	40.7	44.7
CZECH REPUBLIC	17.2	19.8	28.2	30.9	35.1	39.9	43.9
GEORGIA	20.9	29.2	34.9	37.3	38.5	35.2	39.6
SLOVAKIA	14.3	18.3	29.4	31.2	32.0	33.3	36.3
KYRGYZ REPUBLIC	12.9	12.9	34.5	37.4	35.0	34.7	36.2
ROMANIA	9.2	17.5	26.8	29.5	32.5	34.0	35.5
CROATIA	18.1	22.2	28.2	29.5	31.5	32.7	35.1
BULGARIA	21.7	30.2	31.8	31.2	32.2	31.9	33.6
SERBIA AND MONTENEGRO	20.6	20.2	25.3	23.9	---	---	---
MOLDOVA	15.7	16.2	21.1	22.6	24.1	25.7	27.7
ARMENIA	20.1	15.2	15.5	16.3	21.8	22.7	23.9
BOSNIA HERZEGOVINA	8.5	---	17.9	18.6	19.8	---	---
MACEDONIA	17.6	17.1	18.6	20.2	22.9	22.6	21.2
ALBANIA	7.8	10.2	14.3	14.3	14.3	17.1	19.0
TAJIKISTAN	11.8	12.1	11.4	11.9	13.0	13.8	14.4
AZERBAIJAN	12.6	12.7	14.3	14.0	13.5	13.2	13.2
UZBEKISTAN	15.2	7.6	6.6	7.3	7.9	8.3	8.3
TURKMENISTAN	9.9	6.4	3.0	2.7	2.6	2.5	2.5
<b>NORTHERN TIER CEE</b>	20.6	24.6	45.9	49.3	52.2	54.9	57.8
<b>SOUTHERN TIER CEE</b>	14.8	19.6	23.3	23.9	25.5	27.6	28.9
<b>EURASIA</b>	18.2	17.0	23.1	25.0	26.4	27.2	28.9
<b>FINLAND</b>			82.8	84.3	84.8	86.9	89.5
<b>UNITED STATES</b>			69.2	70.1	80.7	82.6	82.4
<b>LEBANON</b>			37.0	42.3	44.8	44.7	47.6
<b>THAILAND</b>			34.2	37.9	39.1	40.1	41.0
<b>COLOMBIA</b>			23.1	24.0	24.2	24.0	26.9
<b>CHINA (P.R.C.)</b>			7.6	9.8	12.6	15.4	19.1
<b>TANZANIA</b>				0.7	0.8	0.9	1.2

UNICEF, *TransMONEE Database* (2006) and World Bank, *World Development Indicators 2006*.

Figure 32

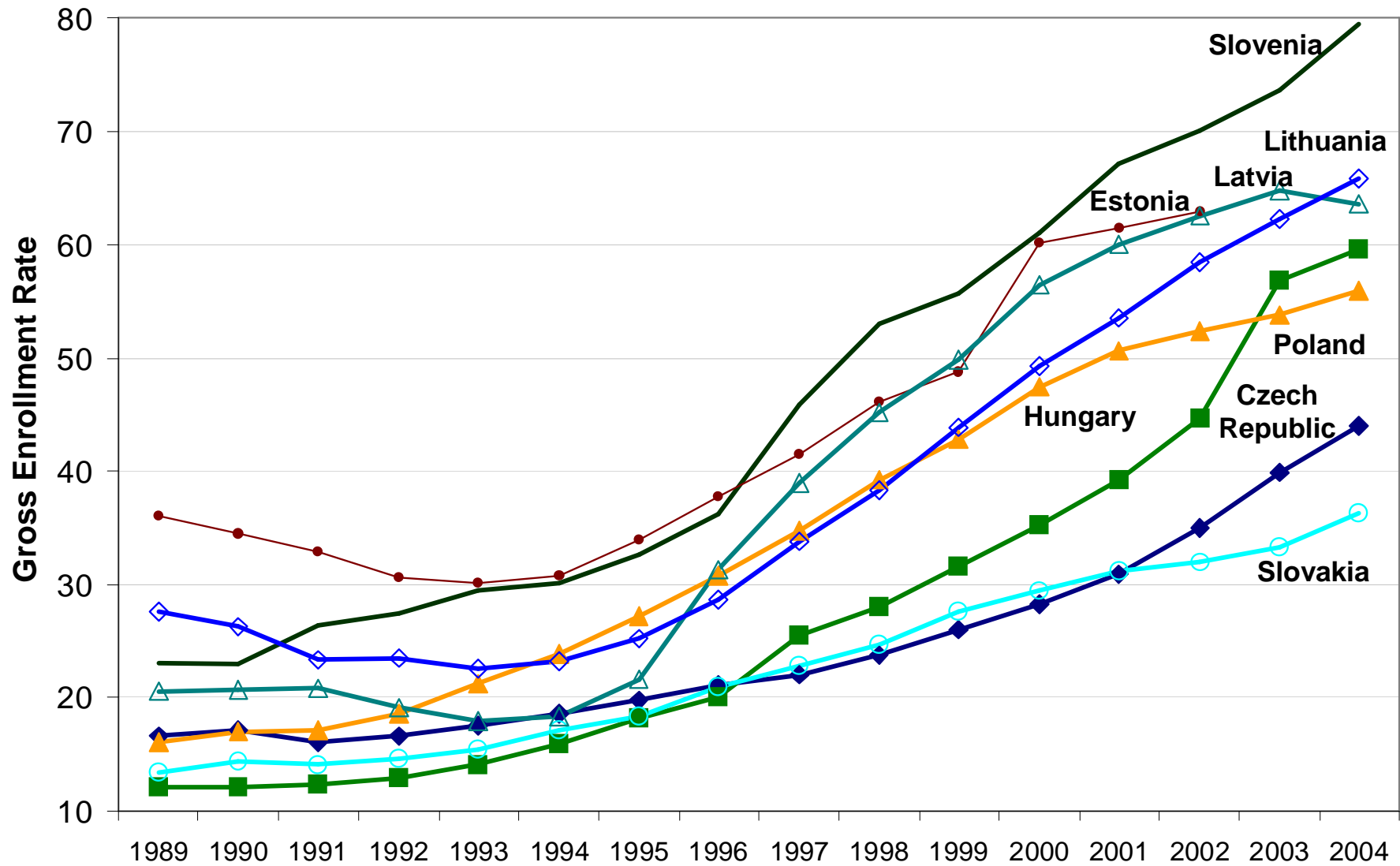
# Higher Education Enrollment



UNICEF, TransMONEE Database (2006).



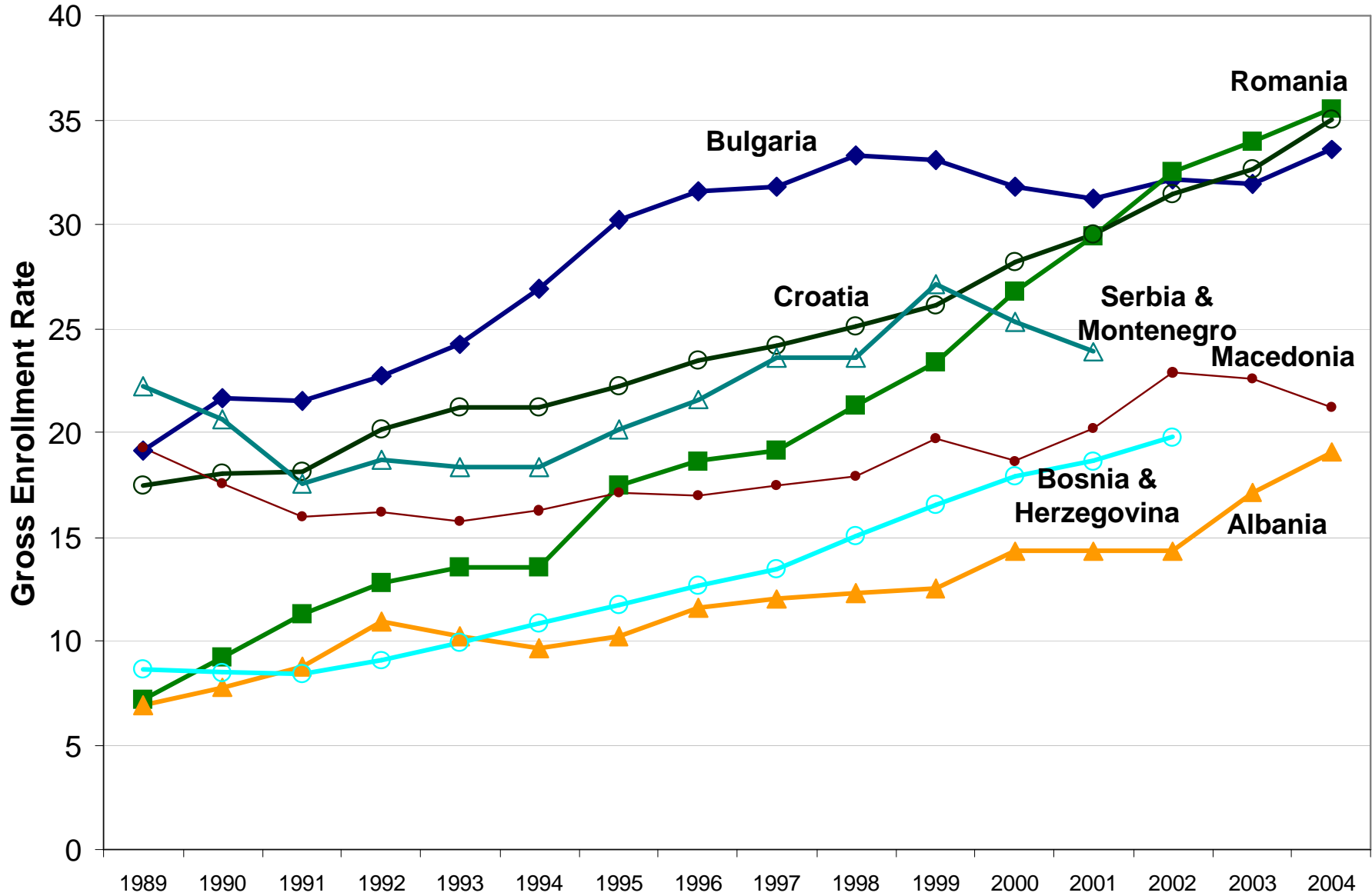
# Higher Education Enrollment: Northern Tier CEE



UNICEF, TransMONEE Database (2006).

Figure 34

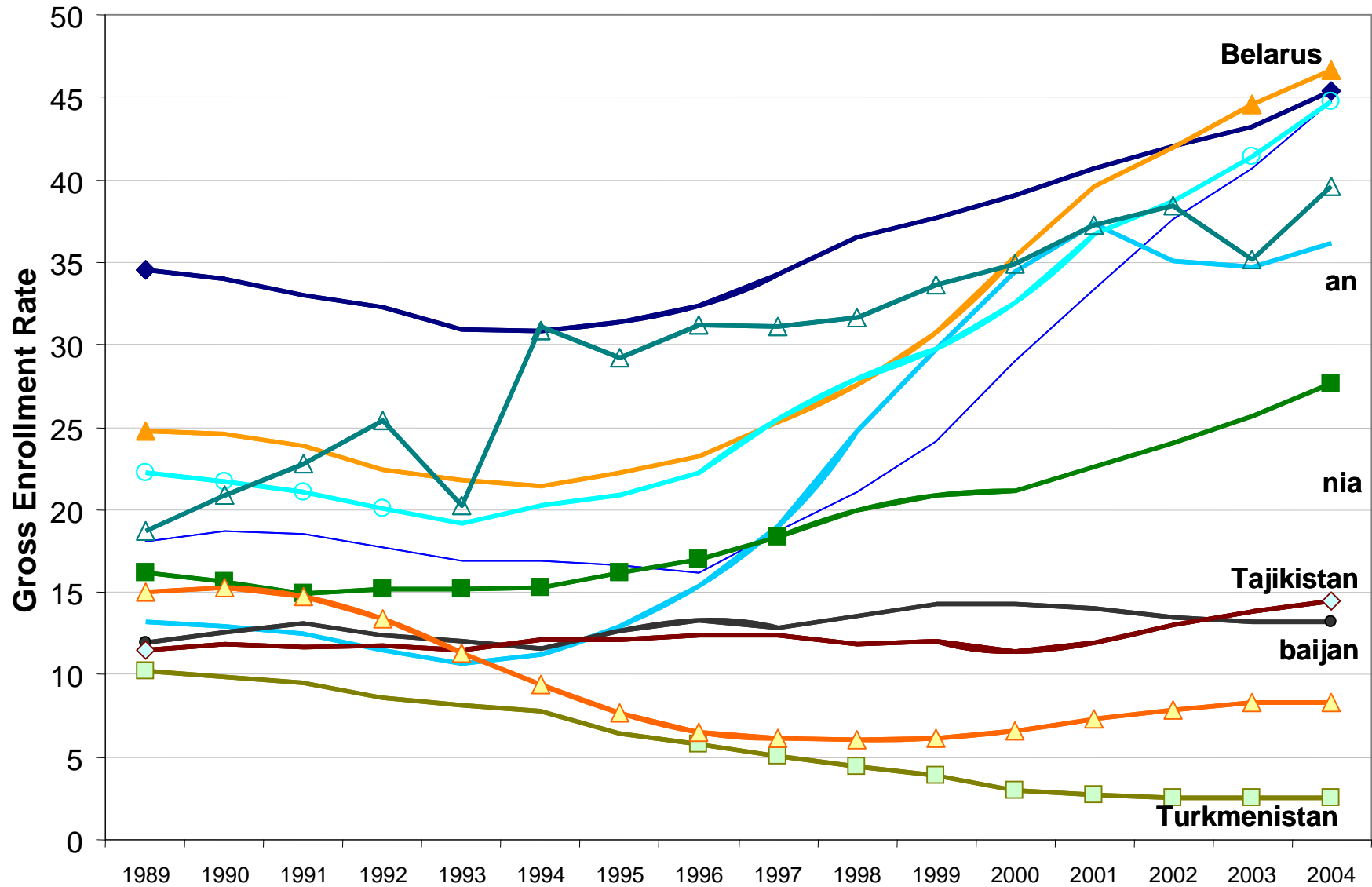
# Higher Education Enrollment: Southern Tier CEE



UNICEF, *TransMONEE Database* (2006). Missing data were interpolated.

Figure 35

# Higher Education Enrollment: Eurasia

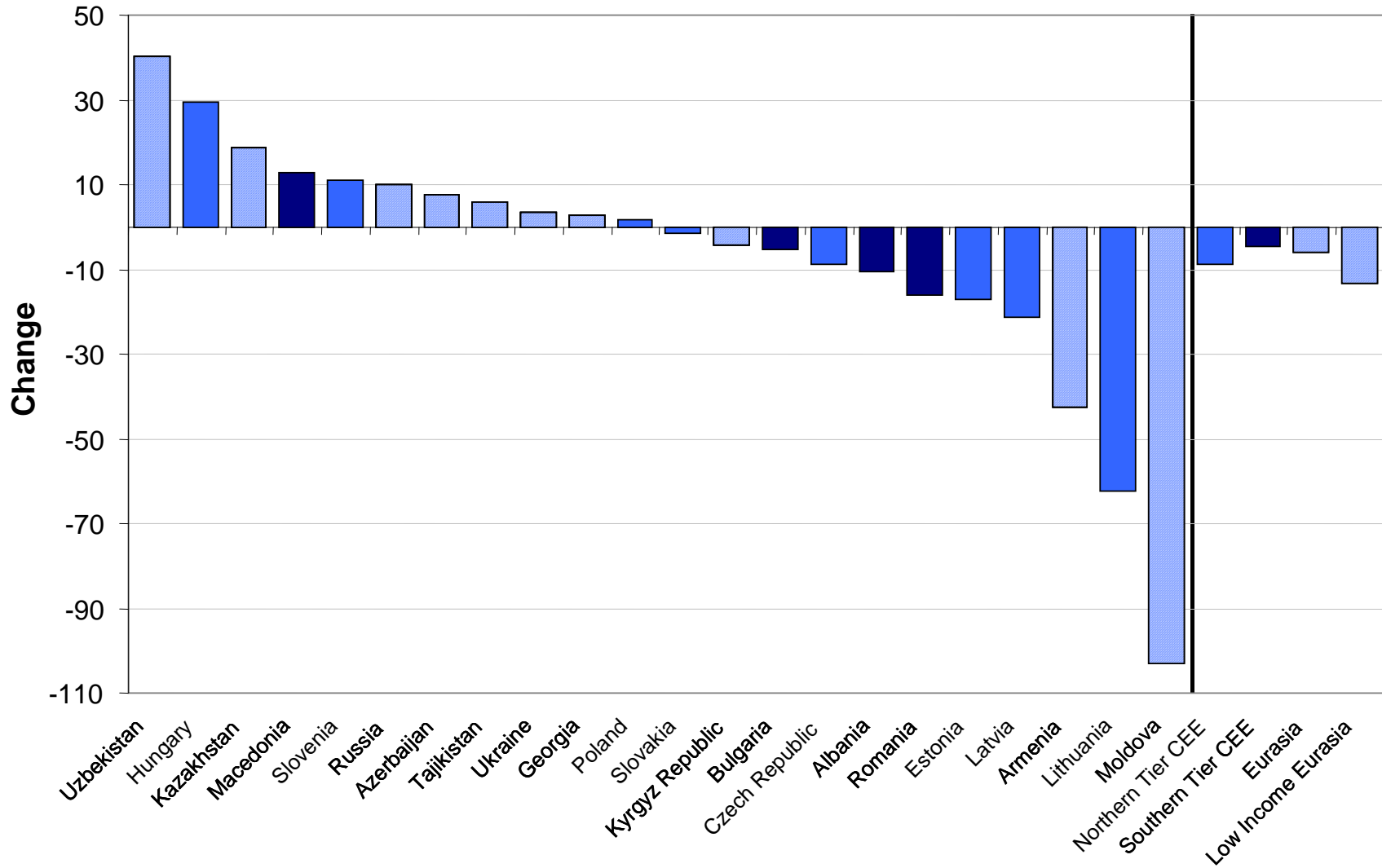


UNICEF, TransMONEE Database (2006).



Figure 36

# Responsiveness of Employment to Economic Growth



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

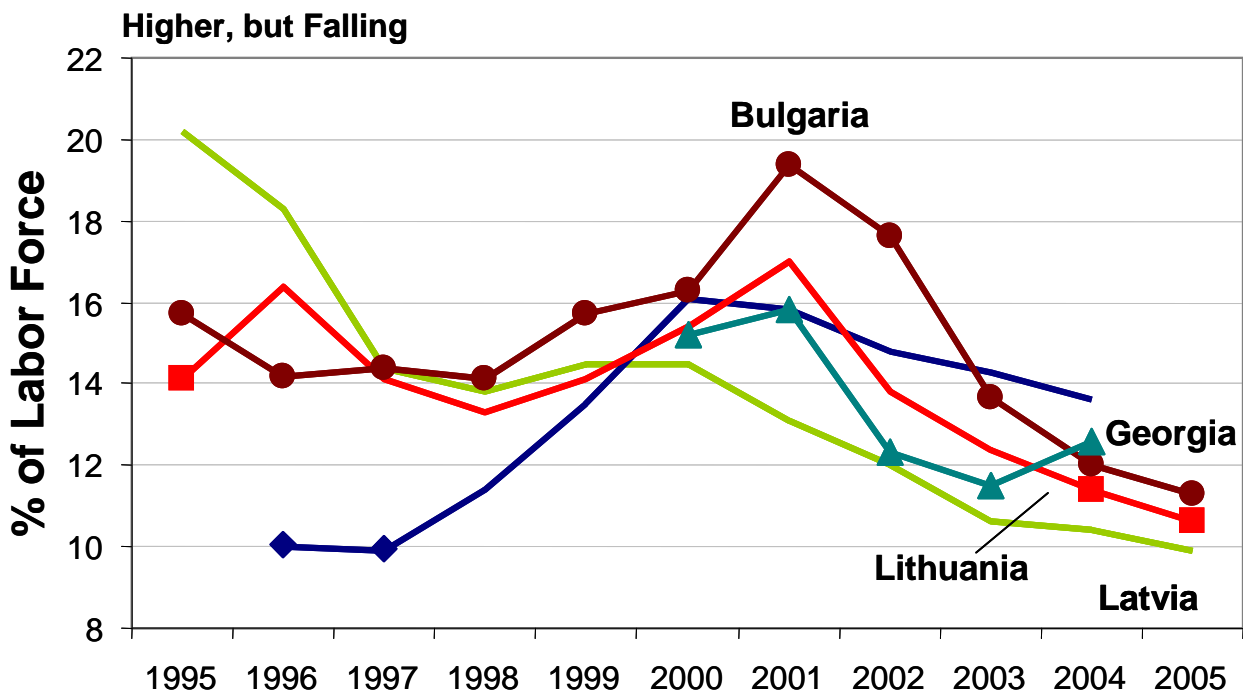
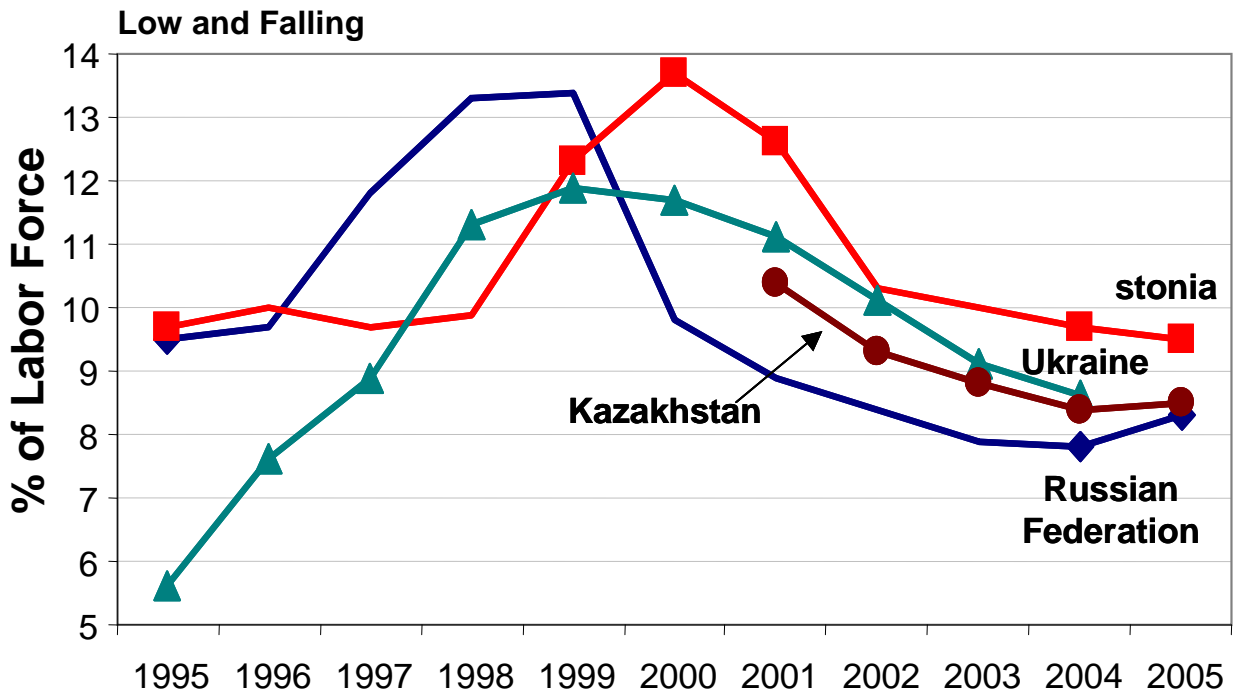
**TABLE 12. LABOR FORCE SURVEY UNEMPLOYMENT RATE  
(UNEMPLOYED AS A % OF LABOR FORCE)**

	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Q1 2005
UZBEKISTAN	---	---	---	---	---	---	---	6.0	---	---	---	---
SLOVENIA	---	7.4	7.3	7.1	7.7	7.4	7.2	5.9	5.9	6.7	6.3	6.9
HUNGARY	---	10.2	9.9	8.7	7.8	7.0	6.4	5.7	5.8	5.9	6.1	7.1
ROMANIA	---	8.0	6.7	6.0	6.3	6.8	7.1	6.6	8.4	7.0	8.0	---
RUSSIAN FEDERATION	---	9.5	9.7	11.8	13.3	13.4	9.8	8.9	---	7.9	7.8	8.3
CZECH REPUBLIC	---	4.0	4.1	5.4	7.3	9.0	8.8	8.1	7.3	7.8	8.3	8.4
KAZAKHSTAN	---	---	---	---	---	---	---	10.4	9.3	8.8	8.4	8.5
UKRAINE	---	5.6	7.6	8.9	11.3	11.9	11.7	11.1	10.1	9.1	8.6	---
ESTONIA	---	9.7	10.0	9.7	9.9	12.3	13.7	12.6	10.3	10.0	9.7	9.5
MOLDOVA	---	---	---	---	---	1.1	8.5	7.3	6.8	7.9	8.1	9.6
LATVIA	---	20.2	18.3	14.4	13.8	14.5	14.5	13.1	12.0	10.6	10.4	9.9
KYRGYZ REPUBLIC	---	---	---	---	---	---	---	---	12.5	9.9	---	---
ALBANIA	---	---	---	---	---	---	---	---	10.3	---	---	---
LITHUANIA	---	14.1	16.4	14.1	13.3	14.1	15.4	17.0	13.8	12.4	11.4	10.6
AZERBAIJAN	---	---	---	---	---	---	---	---	---	10.7	---	---
BULGARIA	21.4	15.7	14.2	14.4	14.1	15.7	16.3	19.4	17.6	13.7	12.0	11.3
TAJIKISTAN	---	---	---	---	---	16.0	---	---	12.0	---	---	---
GEORGIA	---	---	---	---	---	---	15.2	15.8	12.3	11.5	12.6	---
CROATIA	---	---	10.0	9.9	11.4	13.5	16.1	15.8	14.8	14.3	13.6	---
BOSNIA & HERZEGOVINA	---	---	---	---	---	---	---	16.1	---	---	---	---
SLOVAKIA	---	13.1	11.3	11.8	12.5	16.2	18.6	19.2	18.5	17.4	18.1	17.5
POLAND	13.5	13.3	12.3	11.2	10.5	13.9	16.1	18.2	19.9	19.6	19.0	18.9
SERBIA & MONTENEGRO	---	13.4	13.2	13.8	13.7	13.7	12.6	12.8	13.8	20.8	---	---
ARMENIA	---	---	---	---	27.3	24.4	---	31.0	29.0	31.2	31.6	---
MACEDONIA	---	---	31.9	36.0	34.5	32.4	32.2	30.5	31.9	36.7	37.2	---
<b>CEE &amp; EURASIA</b>	---	11.1	12.2	12.2	13.4	13.5	13.5	14.3	13.4	13.3	13.2	10.5
<b>NORTHERN TIER CEE</b>	---	11.5	11.2	10.3	10.4	11.8	12.6	12.5	11.7	11.3	11.2	11.1
<b>ADVANCED ECONOMIES</b>	6.5	7.0	7.1	6.9	6.8	6.4	5.8	5.9	6.4	6.6	6.3	6.1
<b>USA</b>	5.6	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.5	5.3
<b>EU-15</b>	6.9	9.9	9.8	9.2	8.4	7.6	6.8	6.2	6.6	7.0	7.0	6.9

UNECE, *Trends in Europe and North America 2003 and 2005* (2003 and 2005), ILO LABORSTA (2005), IMF *World Economic Outlook* (2005)

Peak years are highlighted with boxes.

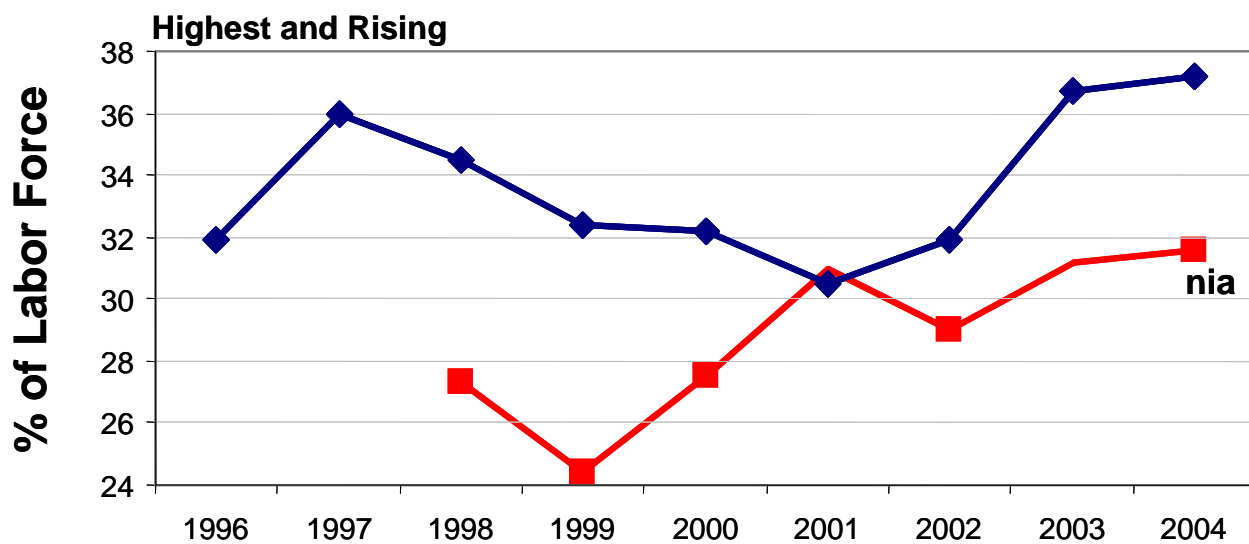
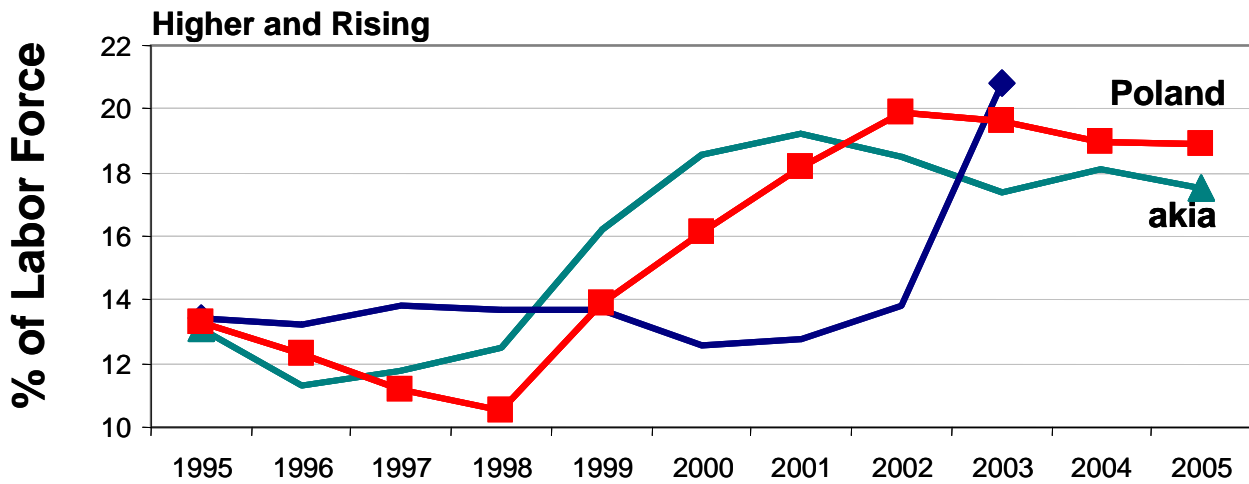
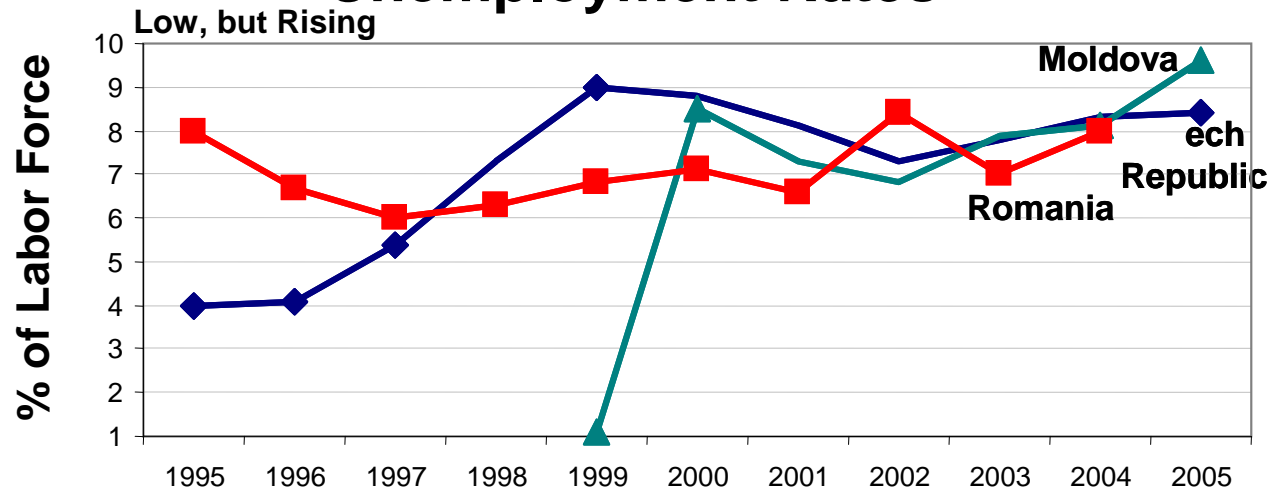
# Labor Force Survey Falling Unemployment Rates



UNECE, *Trends in Europe and North America* (2003 and 2005); and National Surveys.

Figures 39-41

# Labor Force Survey Rising Unemployment Rates


 UNECE, *Trends in Europe and North America* (2003 and 2005); and National Surveys.

**TABLE 13. WORLD BANK INVESTMENT CLIMATE SURVEYS: MAJOR CONSTRAINTS TO BUSINESS**

	<b>Policy</b>	<b>Labor Constraints</b>		<b>Regulations and Tax Admin.</b>		
	<b>Uncertainty</b>	<b>Regulations</b>	<b>Skills</b>	<b>Tax Rates</b>	<b>Tax Admin.</b>	<b>Licensing</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
POLAND	42.7	17.9	15.3	57.7	41.0	13.5
GEORGIA	45.2	7.6	14.1	35.7	47.1	9.9
SERBIA & MONTENEGRO	61.2	13.4	10.7	29.5	29.3	7.8
ROMANIA	33.9	16.4	14.2	34.1	33.2	23.2
MOLDOVA	31.6	8.2	12.0	37.8	47.6	24.6
UKRAINE	31.3	6.5	19.8	45.7	34.9	18.2
ALBANIA	19.1	2.5	10.4	40.9	25.0	22.9
CZECH REPUBLIC	22.0	15.6	12.5	59.1	19.8	10.2
KYRGYZ REPUBLIC	33.2	2.5	18.9	31.3	35.1	11.6
MACEDONIA	27.9	9.2	6.1	20.7	15.1	17.4
BOSNIA & HERZEGOVINA	35.1	3.2	3.6	15.6	26.0	11.9
BULGARIA	27.6	7.8	10.4	20.4	13.0	15.1
HUNGARY	26.3	10.3	12.9	50.6	13.7	3.3
LITHUANIA	23.2	8.9	15.3	40.9	19.8	8.1
RUSSIAN FEDERATION	26.2	3.1	13.1	21.8	31.8	14.6
ARMENIA	12.2	2.9	2.3	38.4	37.7	9.0
BELARUS	23.4	3.4	6.6	20.4	44.2	25.8
LATVIA	22.3	3.5	17.8	29.4	27.6	9.2
CROATIA	17.9	3.0	7.2	12.0	7.7	9.2
UZBEKISTAN	11.5	3.0	4.6	18.3	22.7	7.7
TAJIKISTAN	5.6	1.5	4.6	22.2	21.8	14.2
SLOVAKIA	13.0	4.6	8.2	8.3	19.8	17.9
KAZAKHSTAN	9.2	2.5	8.6	15.6	14.3	9.0
AZERBAIJAN	2.9	1.5	1.8	22.9	17.5	10.1
ESTONIA	5.3	18.8	7.1	3.0	4.5	11.2
SLOVENIA	11.5	4.5	5.4	12.7	5.9	3.2
<b>CEE &amp; EURASIA</b>	<b>23.9</b>	<b>7.0</b>	<b>10.1</b>	<b>28.7</b>	<b>25.2</b>	<b>13.0</b>
<b>NORTHERN TIER CEE</b>	<b>20.8</b>	<b>10.5</b>	<b>11.8</b>	<b>32.7</b>	<b>19.0</b>	<b>9.6</b>
<b>SOUTHERN TIER CEE</b>	<b>31.8</b>	<b>7.9</b>	<b>8.9</b>	<b>24.7</b>	<b>21.3</b>	<b>15.4</b>
<b>EURASIA</b>	<b>21.1</b>	<b>3.9</b>	<b>9.7</b>	<b>28.2</b>	<b>32.2</b>	<b>14.1</b>
<b>BRAZIL</b>	<b>75.9</b>	<b>56.9</b>	<b>39.6</b>	<b>84.5</b>	<b>66.1</b>	<b>29.8</b>
<b>CHINA</b>	<b>32.9</b>	<b>20.7</b>	<b>30.7</b>	<b>36.8</b>	<b>26.7</b>	<b>21.3</b>
<b>ERITREA</b>	<b>31.5</b>	<b>5.2</b>	<b>41.0</b>	<b>31.1</b>	<b>16.2</b>	<b>2.7</b>
<b>KENYA</b>	<b>51.5</b>	<b>22.5</b>	<b>27.6</b>	<b>68.2</b>	<b>50.9</b>	<b>15.2</b>
<b>UGANDA</b>	<b>27.6</b>	<b>10.8</b>	<b>30.8</b>	<b>48.3</b>	<b>36.1</b>	<b>10.1</b>
<b>ZAMBIA</b>	<b>57.0</b>	<b>16.9</b>	<b>35.7</b>	<b>57.5</b>	<b>27.5</b>	<b>10.1</b>

World Bank, *World Development Indicators* (2006) and *World Development Report* 2004.

Percentage of businesses surveyed which find this aspect of doing business to be a major obstacle.



**TABLE 14. WORLD BANK INVESTMENT CLIMATE SURVEYS: MAJOR CONSTRAINTS TO BUSINESS--RANKINGS**

	Policy	Regulations and Tax Admin.			Labor Constraints		Infrastructure and Business Environment				
	Uncertainty	Tax Rates	Tax Admin.	Licensing	Regulations	Worker Skills	Electricity	Finance	Courts	Crime	Corruption
POLAND	2	1	3	10	7	8	11	4	5	9	6
GEORGIA	2	3	1	10	11	8	4	5	9	6	7
SERBIA & MONTENEGRO	1	4	5	10	8	9	11	2	3	7	6
ROMANIA	2	1	3	5	8	10	11	6	7	9	4
MOLDOVA	4	2	1	5	10	8	11	3	6	9	7
UKRAINE	3	1	2	7	10	6	11	4	8	9	5
ALBANIA	8	1	4	6	11	9	2	7	5	10	3
CZECH REPUBLIC	3	1	5	11	8	10	9	6	2	7	4
KYRGYZ REPUBLIC	2	4	1	8	11	7	10	5	8	6	3
MACEDONIA	4	5	7	6	10	11	9	2	3	8	1
BOSNIA & HERZEGOVINA	1	7	2	8	11	10	9	3	5	6	4
BULGARIA	1	3	7	6	10	9	11	2	5	8	4
HUNGARY	3	1	4	10	6	5	11	2	8	9	7
LITHUANIA	2	1	3	10	9	4	11	7	4	8	6
RUSSIAN FEDERATION	2	3	1	6	11	7	10	5	8	9	4
ARMENIA	6	1	2	7	9	10	8	3	5	10	4
BELARUS	3	5	1	2	8	6	11	4	9	10	6
LATVIA	3	1	2	6	10	4	9	7	8	11	5
CROATIA	3	5	7	6	10	8	11	4	1	9	2
UZBEKISTAN	4	2	1	7	11	10	8	3	9	5	5
TAJIKISTAN	7	1	2	4	11	9	5	6	8	10	3
SLOVAKIA	4	6	1	2	10	7	11	8	3	9	5
KAZAKHSTAN	5	1	3	6	11	7	10	2	8	9	4
AZERBAIJAN	8	1	3	4	11	10	6	5	9	9	2
ESTONIA	5	9	6	2	1	3	8	4	10	11	7
SLOVENIA	2	1	5	9	7	6	10	3	4	11	8
CEE & EURASIA	3	1	2	7	11	8	10	4	6	9	5
NORTHERN TIER CEE	2	1	3	9	8	6	11	4	5	10	7
SOUTHERN TIER CEE	1	4	6	7	11	10	9	3	4	8	2
EURASIA	3	2	1	6	11	8	10	4	7	9	5
BRAZIL	2	1	5	10	6	8	11	3	9	7	4
CHINA	2	1	6	8	9	3	4	7	---	10	5
ERITREA	4	5	6	8	7	2	3	1	---	10	8
KENYA	5	3	6	10	9	8	7	4	---	2	1
UGANDA	7	2	5	10	9	6	3	1	---	8	4
ZAMBIA	3	2	9	11	10	8	6	1	7	4	5

World Bank, *World Development Indicators* (2006).

"1" represents the largest perceived business obstacle in the country.

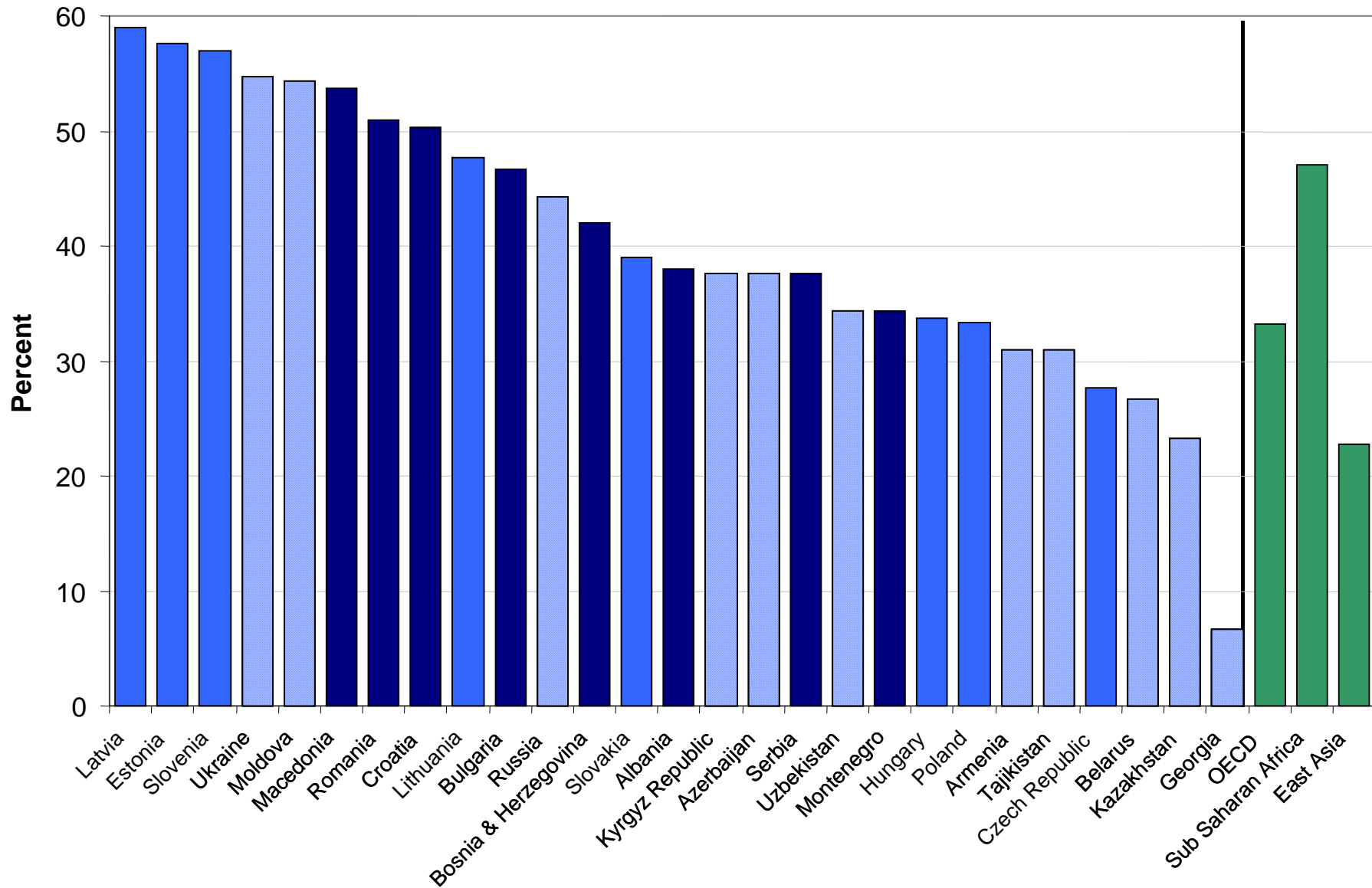
**TABLE 15. DOING BUSINESS: LABOR MARKET RIGIDITIES**

	DIFFICULTY OF HIRING		RIGIDITY OF HOURS		DIFFICULTY OF FIRING		FIRING COSTS		AVERAGE OF 3 INDICES	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
	GEORGIA	0	0	60	20	70	0	4	4	43
KAZAKHSTAN	0	0	60	60	10	10	9	9	23	23
BELARUS	0	0	40	40	40	40	22	22	27	27
CZECH REPUBLIC	33	33	20	20	30	30	22	22	28	28
ARMENIA	0	33	40	40	30	20	17	13	23	31
TAJIKISTAN	---	33	---	20	---	40	---	22	---	31
POLAND	11	0	60	60	40	40	13	13	37	33
HUNGARY	11	11	80	80	10	10	35	35	34	34
UZBEKISTAN	33	33	40	40	30	30	30	30	34	34
MONTENEGRO	---	33	---	40	---	30	---	39	---	34
KYRGYZ REPUBLIC	33	33	40	40	40	40	17	17	38	38
AZERBAIJAN	33	33	40	40	40	40	22	22	38	38
SERBIA	28	33	20	40	30	40	19	27	26	38
ALBANIA	44	44	40	40	30	30	64	64	38	38
SLOVAKIA	17	17	60	60	40	40	13	13	39	39
BOSNIA & HERZEGOVINA	56	56	40	40	30	30	33	33	42	42
RUSSIA	33	33	60	60	40	40	17	17	44	44
BULGARIA	61	50	80	80	10	10	9	9	50	47
LITHUANIA	33	33	80	80	30	30	30	30	48	48
CROATIA	61	61	40	40	50	50	39	39	50	50
ROMANIA	67	33	80	80	40	40	3	3	62	51
MACEDONIA	61	61	40	60	40	40	35	22	47	54
MOLDOVA	33	33	60	60	70	70	29	29	54	54
UKRAINE	44	44	40	40	80	80	13	13	55	55
SLOVENIA	61	61	60	60	50	50	40	40	57	57
ESTONIA	33	33	80	80	60	60	35	35	58	58
LATVIA	67	67	40	40	70	70	17	17	59	59
<b>CEE &amp; EURASIA</b>	34	33	52	50	40	37	23	24	42	40
<b>NORTHERN TIER CEE</b>	33	32	60	60	41	41	26	26	45	44
<b>SOUTHERN TIER CEE</b>	54	46	49	53	33	34	29	30	45	44
<b>EURASIA</b>	21	25	48	42	45	37	18	18	38	35
<b>EU-15</b>	33	33	54	53	38	38	39	39	42	41
<b>OECD</b>	26	27	48	45	27	27	31	31	34	33
<b>LATIN AMERICA &amp; CARIB.</b>	44	34	43	35	25	26	65	59	37	32
<b>SUB-SAHARAN AFRICA</b>	46	44	53	52	43	45	69	71	47	47
<b>EAST ASIA &amp; PACIFIC</b>	24	24	25	25	20	20	42	42	23	23
<b>MIDDLE EAST &amp; N. AFRICA</b>	28	30	45	45	33	33	57	57	35	36
<b>SOUTH ASIA</b>	39	42	25	25	38	38	70	72	34	35

World Bank, *Doing Business in 2007* (2006). Eurasia average excludes Turkmenistan.

Figure 42

# Labor Market Rigidities

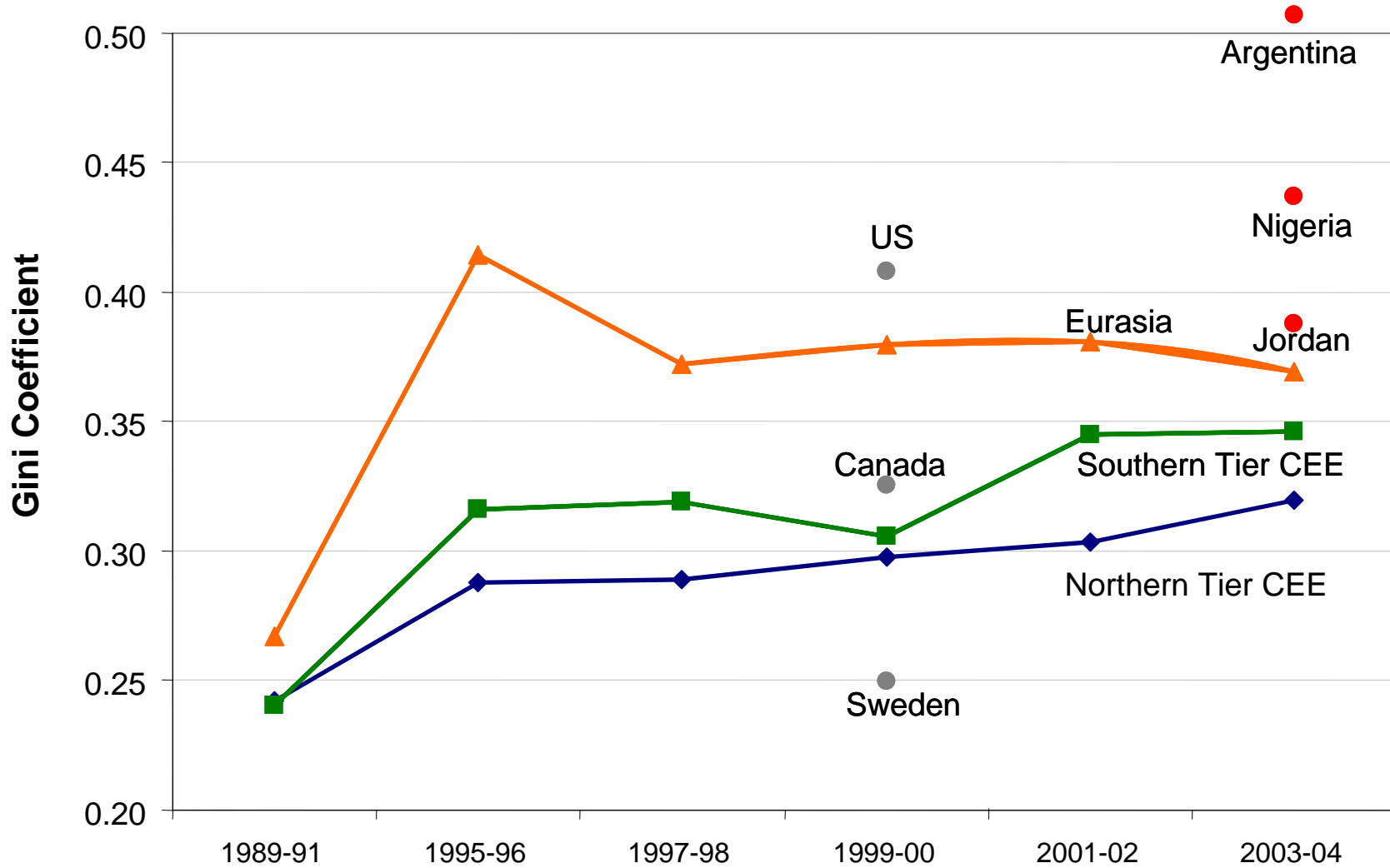


World Bank, *Doing Business in 2007* (2006). Data are an average of 3 indicators: difficulty of hiring, difficulty of firing and rigidity of hours.

<b>TABLE 16. TAX WEDGE ON LABOR</b>	
	<b>THE DIFFERENCE BETWEEN LABOR COST TO THE EMPLOYER AND TAKE HOME PAY AS % OF LABOR COST</b>
ARMENIA	23
KAZAKHSTAN	24
TAJIKISTAN	25
SLOVENIA	33
ALBANIA	33
AZERBAIJAN	35
RUSSIAN FEDERATION	36
BELARUS	36
KYRGYZ REPUBLIC	37
UKRAINE	37
UZBEKISTAN	40
GEORGIA	41
SERBIA	41
MACEDONIA	43
LATVIA	43
CROATIA	43
ESTONIA	44
LITHUANIA	45
POLAND	45
TURKEY	46
MONTENEGRO	48
CZECH REPUBLIC	48
ROMANIA	52
HUNGARY	62

World Bank, *Enhancing Job Opportunities, Eastern Europe and the Former Soviet Union* (2005).

# Income Inequality in the E&E Region



UNICEF, *TransMONEE Database* (Dec. 2005).

**TABLE 17. INCOME INEQUALITY**

	1989-91	1995-96	1997-98	1999-00	2001-02	2003-04
CZECH REPUBLIC	0.19	0.22	0.23	0.23	0.24	0.24
SLOVENIA	0.27	0.26	0.24	0.25	0.24	0.24
BELARUS	0.23	0.25	0.25	0.24	0.25	0.25
HUNGARY	0.22	0.24	0.25	0.26	0.27	0.27
SLOVAKIA	---	0.24	0.26	0.26	0.27	0.30
LITHUANIA	0.26	0.35	0.32	0.35	0.36	0.31
MACEDONIA	---	0.30	0.30	0.33	0.33	0.34
BULGARIA	0.23	0.37	0.36	0.33	0.35	0.35
ROMANIA	0.24	0.30	0.30	0.30	0.35	0.36
POLAND	0.27	0.32	0.33	0.34	0.35	0.36
KYRGYZ REPUBLIC	0.27	---	0.41	0.41	0.38	0.36
UKRAINE	0.23	0.47	---	0.34	0.35	---
LATVIA	0.26	---	0.33	0.33	0.36	0.39
SERBIA AND MONTENEGRO	---	---	0.29	0.32	0.38	---
ESTONIA	0.28	0.38	0.36	0.38	0.39	0.40
MOLDOVA	0.25	---	0.46	0.44	0.44	0.42
RUSSIAN FEDERATION	---	0.47	0.45	0.43	0.42	---
ARMENIA	0.25	0.42	---	---	0.36	0.47
GEORGIA	0.28	---	0.50	---	0.46	---
AZERBAIJAN	0.31	---	---	---	---	---
TAJIKISTAN	0.28	---	---	0.47	---	---
KAZAKHSTAN	0.28	---	---	---	---	---
TURKMENISTAN	0.28	---	---	---	---	---
UZBEKISTAN	0.28	---	---	---	---	---
ALBANIA	---	---	---	---	---	---
BOSNIA HERZEGOVINA	---	---	---	---	---	---
<b>NORTHERN TIER CEE</b>	0.24	0.29	0.29	0.30	0.30	0.32
<b>SOUTHERN TIER CEE</b>	0.24	0.32	0.32	0.31	0.34	0.35
<b>EURASIA</b>	0.27	0.41	0.37	0.38	0.38	0.37
<b>ARGENTINA</b>						0.53
<b>NIGERIA</b>						0.44
<b>JORDAN</b>						0.39
<b>US</b>				0.41		
<b>CANADA</b>				0.33		
<b>SWEDEN</b>				0.25		

UNICEF, *TransMONEE Database* (2006).

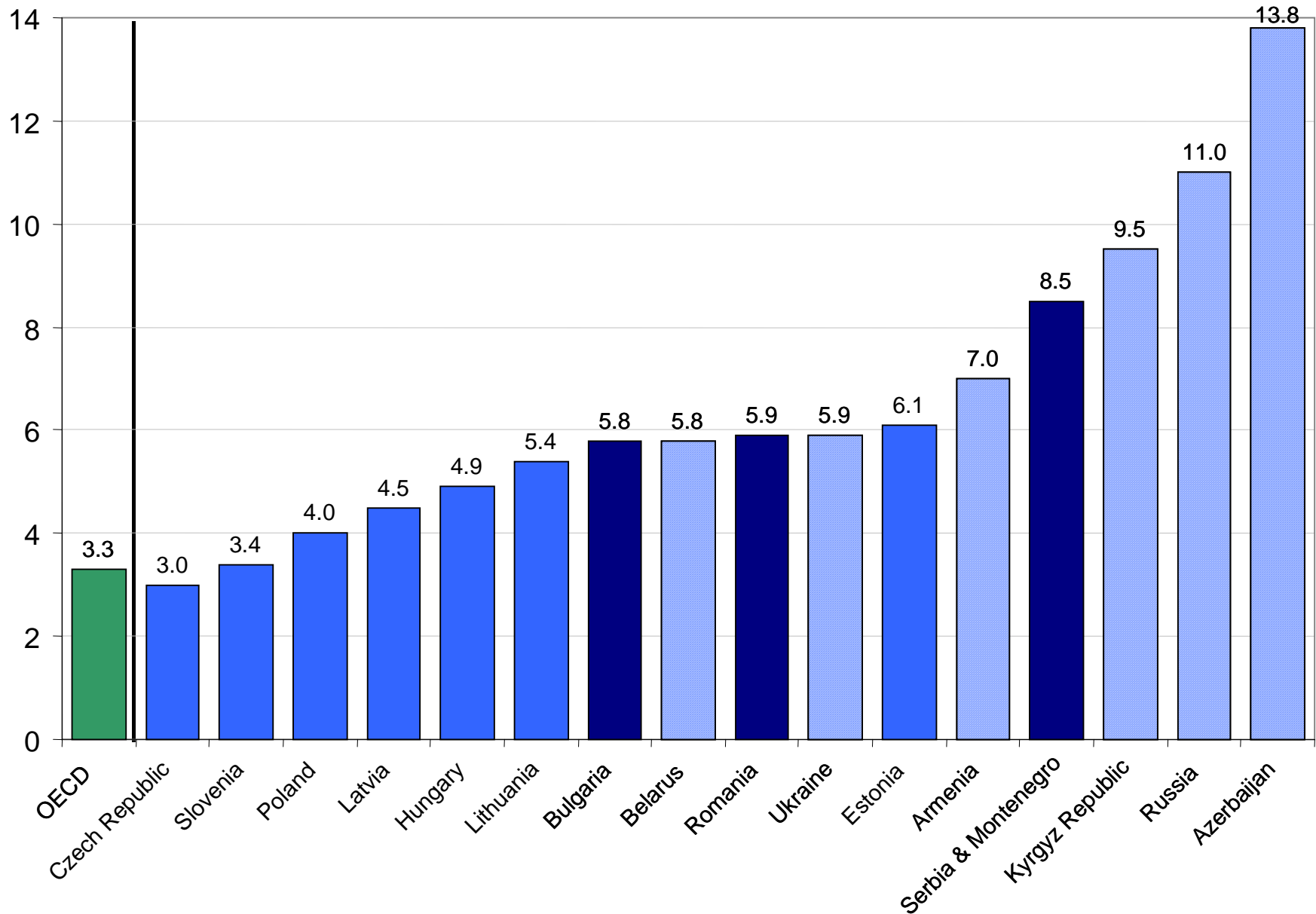
**TABLE 18. MEASURES OF WAGE INEQUALITY**

	WAGE INEQUALITY		EARNINGS INEQUALITY				MIN. WAGE TO		AVERAGE RANK OF 3 MEASURES OF INEQUALITY
	9TH DECILE TO 1ST DEC.		UNICEF GINI 03 OR LATER	EVIDENCE OF DECREASING?	MAX	RANK	AVE WAGE		
	2002	RANK					TO	RANK	
AZERBAIJAN	13.8	1	0.508	no	2002	2	8	1	1.3
RUSSIAN FEDERATION	11	2	0.491	maybe	2001	4	10	3	3.0
ARMENIA	7	5	0.543	no	---	1	18	5	3.7
ESTONIA	6.1	6	0.388	unclear	1999	8	33	7	7.0
MOLDOVA	---	---	0.372	yes	1999	10	15	4	7.0
KYRGYZ REPUBLIC	9.5	3	0.478	yes	2001	11	---	---	7.0
BULGARIA	5.8	9	---	---	---	---	32	6	7.5
BELARUS	5.8	9	0.34	yes	1995	13	9	2	8.0
ROMANIA	5.9	7	0.358	yes	2000	12	33	7	8.7
UKRAINE	5.9	7	0.408	yes	2000	6	44	15	9.3
HUNGARY	4.9	12	0.386	no	2001	9	41	14	11.7
LITHUANIA	5.4	11	0.393	no	2003	7	58	18	12.0
LATVIA	4.5	13	0.332	yes maybe	1996	14	35	10	12.3
POLAND	4	14	0.305	no	---	15	34	9	12.7
SLOVENIA	3.4	15	0.305	yes	2001	15	40	13	14.3
CZECH REPUBLIC	3	16	0.273	no	2001	17	37	11	14.7
MACEDONIA	---	---	0.262	yes	2001	19	46	16	17.5
SERBIA & MONTENEGRO	8.5	4	---	---	---	---	---	---	---
BOSNIA HERZEGOVINA	---	---	---	---	---	---	56	17	---
SLOVAKIA	---	---	---	---	---	---	38	12	---
KAZAKHSTAN	---	---	0.359	---	---	11	---	---	---
<b>OECD</b>	<b>3.3</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>

World Bank, *World Development Indicators* (2006), *Growth, Poverty and Inequality* (2005); and UNICEF, TransMONEE Database (December 2005).

# Wage Inequality (9<sup>th</sup> decile to 1<sup>st</sup>)

Figure 44



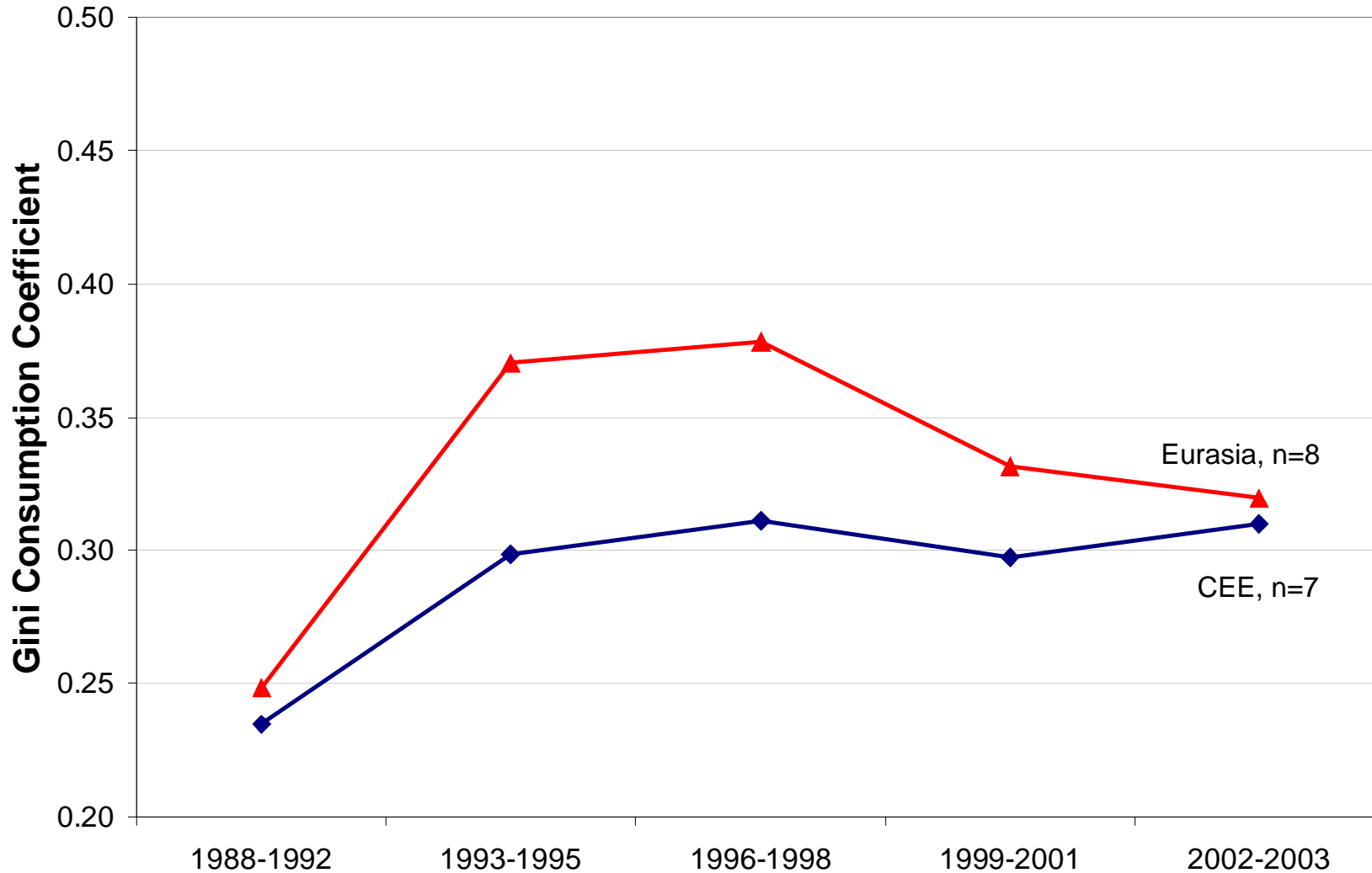
World Bank, World Development Indicators (2006), Growth, Poverty and Inequality (2005); and UNICEF, TransMONEE Database (December 2005).





Figure 45

## Consumption Inequality in the E&E Region



Mitra, P., Yemtsov, R., World Bank, *Increasing Inequality in Transition Economies: Is there More to Come?* (September 2006). Missing data was interpolated. Northern Tier CEE includes Estonia, Hungary, Latvia, Lithuania & Poland; Southern Tier CEE includes Romania and Bulgaria; Eurasia includes Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan.

**TABLE 19. REGIONAL DISPARITY, UNWEIGHTED STANDARD DEVIATION**

	1998	1999	2000	2001	2002	2003	2004
HUNGARY	0.6	0.0	0.6	0.6	0.0		
POLAND	0.6	1.2	1.0	1.0	0.6		
ESTONIA			2.1	1.5	1.7	0.6	
BELARUS	2.1	2.1	2.6	1.5	1.0		
UKRAINE					1.0	1.0	
MACEDONIA					1.2	1.0	
AZERBAIJAN					1.2		
LATVIA					1.5	2.0	
BOSNIA HERZEGOVINA				1.2			2.0
SERBIA AND MONTENEGRO					2.5		
BULGARIA				4.4		3.2	
LITHUANIA	2.0	3.1	4.4	2.9	4.2	3.8	
RUSSIAN FEDERATION	6.4	3.1	2.6	5.5	4.7		
ALBANIA					5.7		
ROMANIA	7.4	10.3	9.3	9.6	9.6	8.5	
MOLDOVA	17.4	14.9	16.5	15.7	16.2	11.8	
TAJIKISTAN		10.4				11.9	
ARMENIA	7.0	7.0		4.5	10.2	12.7	
KAZAKHSTAN				16.5	15.0	14.6	
GEORGIA	6.0	4.4	5.6	11.5	13.3	15.1	
KYRGYZ REPUBLIC			15.5	16.2	15.7	18.2	
UZBEKISTAN			18.6	1.9	26.7		

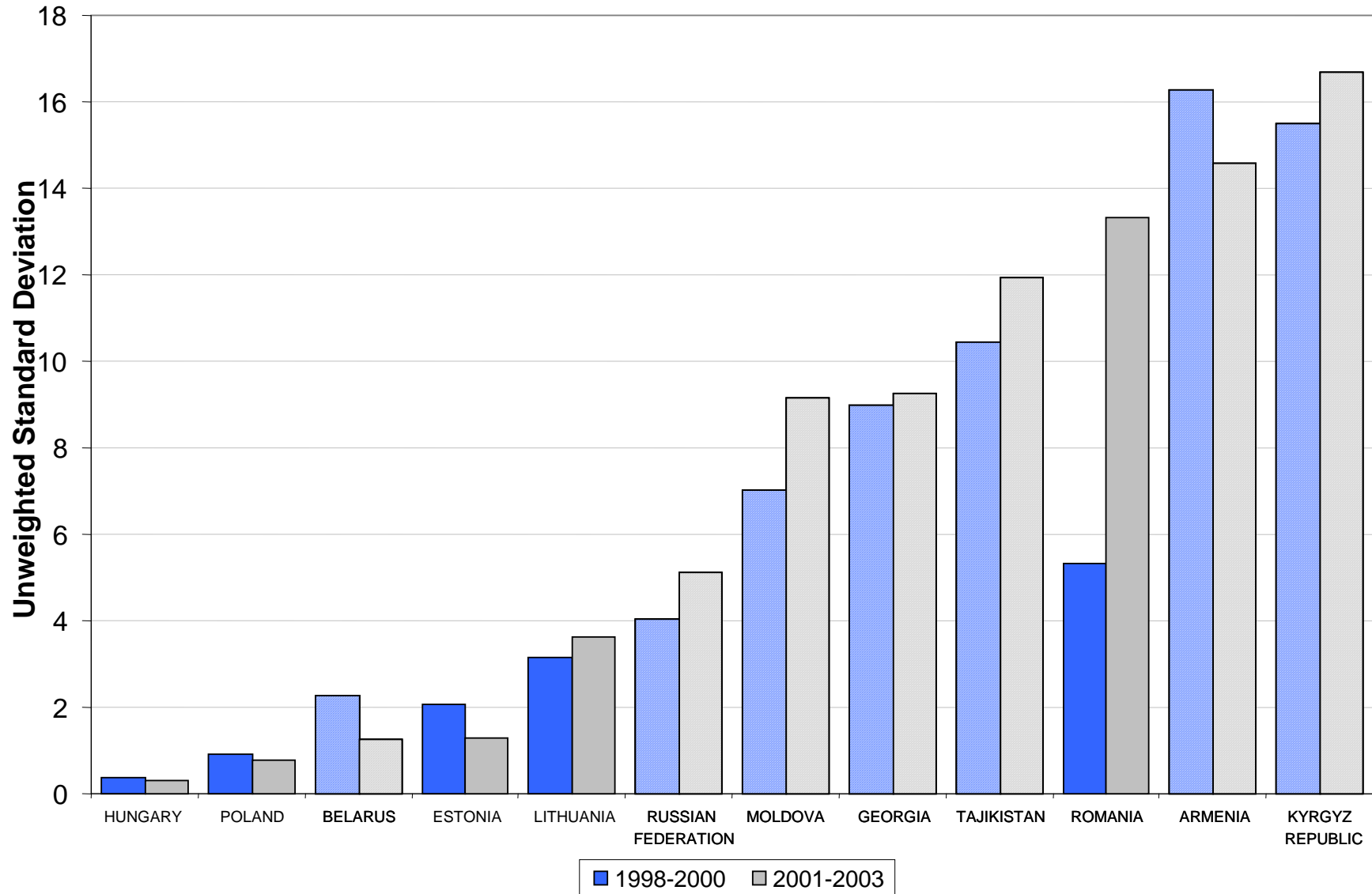
Drawing from Alam, A., Murthi, M., Yemtsov, R., Murrugarra, E., Dudwick, N., Hamilton, E., and E. Tiongson. 2005.

"Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union," World Bank.



Figure 46

# Regional Disparity



USAID, *Domestic Disparities in Europe and Eurasia, Working Paper # 5* (forthcoming) drawing from Alam, A., Murthi, M., Yemtsov, R., Murrugarra, E., Dudwick, N., Hamilton, E., and E. Tiongson. 2005. "Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union," World Bank.

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