

Pöschl, Josef

**Research Report**

## Transition Countries Face Up to Global Stagnation: Is It Catching?

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# WIIW Research Reports

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*Josef Pöschl et al.*

**Transition Countries  
Face Up to Global  
Stagnation:  
Is it Catching?**

Josef Pöschl, Helen Boss Heslop, Vladimir Gligorov, Gábor Hunya, Zdenek Lukas, Leon Podkaminer, Sándor Richter and Hermine Vidovic are WIIW research economists. Peter Havlik is WIIW Deputy Director.

*Josef Pöschl et al.*

**Transition Countries  
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*Josef Pöschl*

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## **Executive summary**

*The report provides an overview of macroeconomic developments in 2001 and discusses prospects for 2002 and 2003. It covers twelve transition countries: Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine and Yugoslavia. It also includes Bosnia-Herzegovina, albeit not fully, for want of data.*

*By the second half of 2001, the slowdown in global economic growth in leading economies had developed into stagnation, whereas in the countries of Central and Eastern Europe (CEECs) GDP kept on growing; some of the latter countries even recorded growth rates higher than in 2000. That notwithstanding, data related to the final months of 2001 point to a slowdown in GDP growth as well, as industrial output growth faded and foreign trade lost its dynamics.*

*In most of the CEECs, inflation dropped to rates lower than a year before, yet still higher than the EU average. Towards the end of 2001, instances of a month-to-month decline in consumer and producer prices became frequent, inducing a trend towards more stability. The more advanced CEECs except Slovenia experienced nominal appreciation of their currencies, in most cases for the first time in years. This implied strong real appreciation, yet given the slowdown in GDP and import growth, it did not lead to huge trade and current account deficits. There is, however, every danger of real appreciation veering out of control in the future. The central banks' interest rate policy varied greatly in the individual countries. Whereas the Czech national bank followed the example set by the US Federal Reserve Bank, others opted to maintain high nominal and real interest rates.*

*In the first half of 2002, most of the CEECs will not experience very much growth in GDP, industrial output and exports. In the second half, improvements in the EU business climate should boost growth again. Should these optimistic expectations materialize, high GDP growth will be back on track in 2003.*

**Keywords:** *Central and East European Transition Countries, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Macedonia, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine, Yugoslavia (Serbia and Montenegro), forecast, East-West trade, European Union, EU enlargement*

**JEL classification:** *O52, O57, P24, P27, P33, P52*

Figure 1

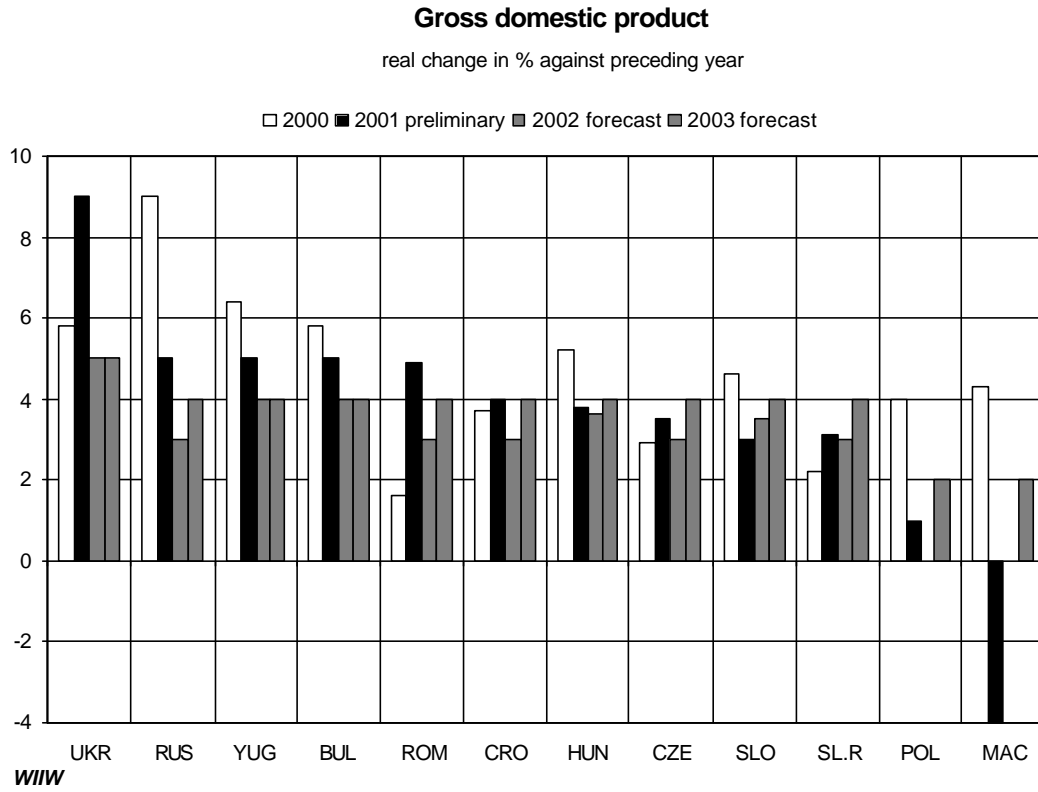
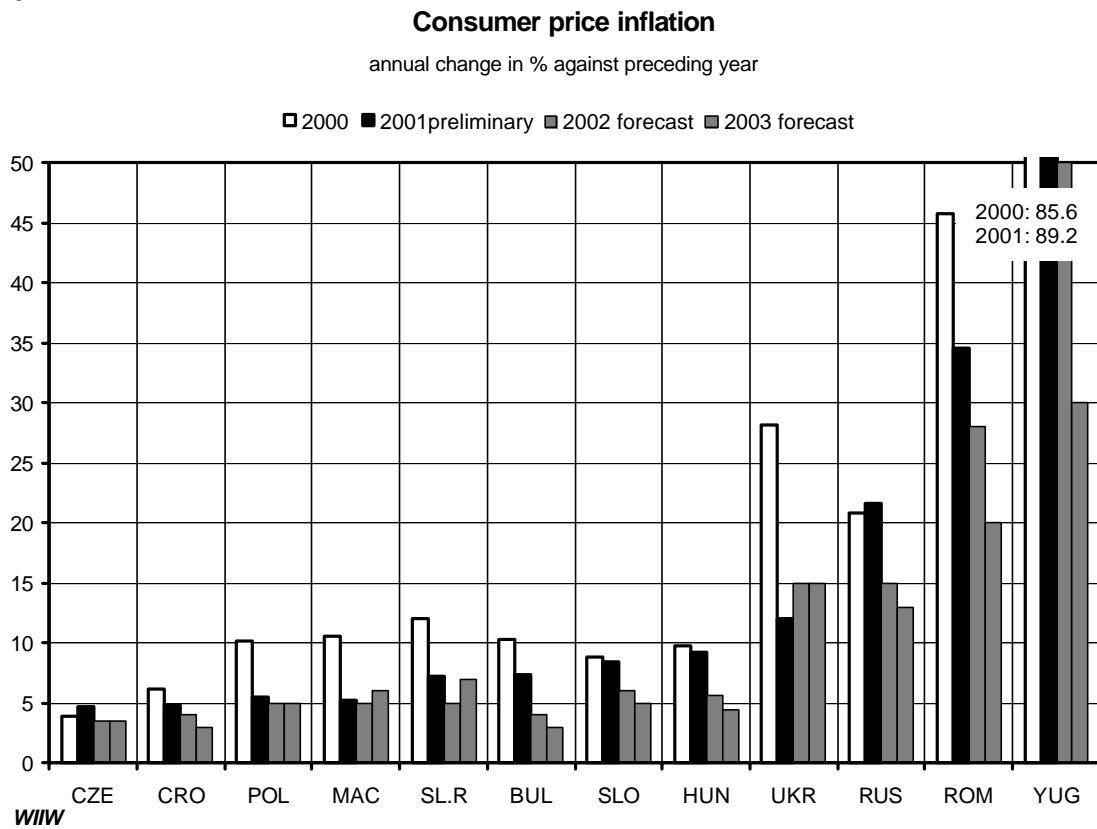


Figure 2



## OVERVIEW

*Josef Pöschl\**

### Transition countries face up to global stagnation: is it catching?

#### 1 Searching for symptoms of contagion: the real sector

##### Whole year GDP figures

If we look at the estimates for **GDP growth rates in 2001** in the countries of Central and Eastern Europe (CEECs), the picture is mixed (see outlook table on p. 32). Croatia, the Czech Republic, Slovakia, Romania and Ukraine improved their growth performance as they gradually recovered from recession or austerity measures taken in previous years. Whereas the remaining countries considered in this report (Bulgaria, Hungary, Macedonia, Poland, Slovenia, Russia, and Yugoslavia) recorded high growth rates in 2000, their performance worsened in 2001. In other words, only in part of the region can we see an analogy to the slowdown in global economic growth which in some leading economies has even developed into recession. The figures leave it open whether these latter transition countries' deceleration in growth was the result of internal forces or contagion.

##### GDP figures for individual quarters, year-on-year

Some of the CEECs publish **year-on-year growth figures for individual quarters**. Figure 3 compares Germany's GDP growth rates with those of the CEEC-5 (the Czech Republic, Hungary, Poland, Slovakia and Slovenia). Germany's slowdown in growth had already started in the first half of 2000, pausing in the first quarter of 2001 and then continuing downwards until the end of the year. Poland adhered very closely to this pattern. From close to 6% in the first quarter of 2000 the growth rate dropped to approximately 1% in the second quarter of 2001. Hungary's growth took a similar path, but the decline was less deep: from a rate close to 7% in the first quarter of 2000 down to 3.7% in the third quarter of 2001. In Slovenia growth was likewise very strong in the first quarter of 2000, but diminished over the year. Unlike Hungary and Poland, however, growth remained more or less stable during the first three quarters of 2001. In the Czech Republic, growth was highest between October 2000 and June 2001; in those three quarters, the average GDP growth rate was 3.8%. From its 4%-peak in the first quarter 2001 it gradually declined to 3.2% in the third. Slovakia's growth rates climbed from 1.5% in the first quarter 2000 up to 3.5% in the third quarter of 2001.

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Figure 3a

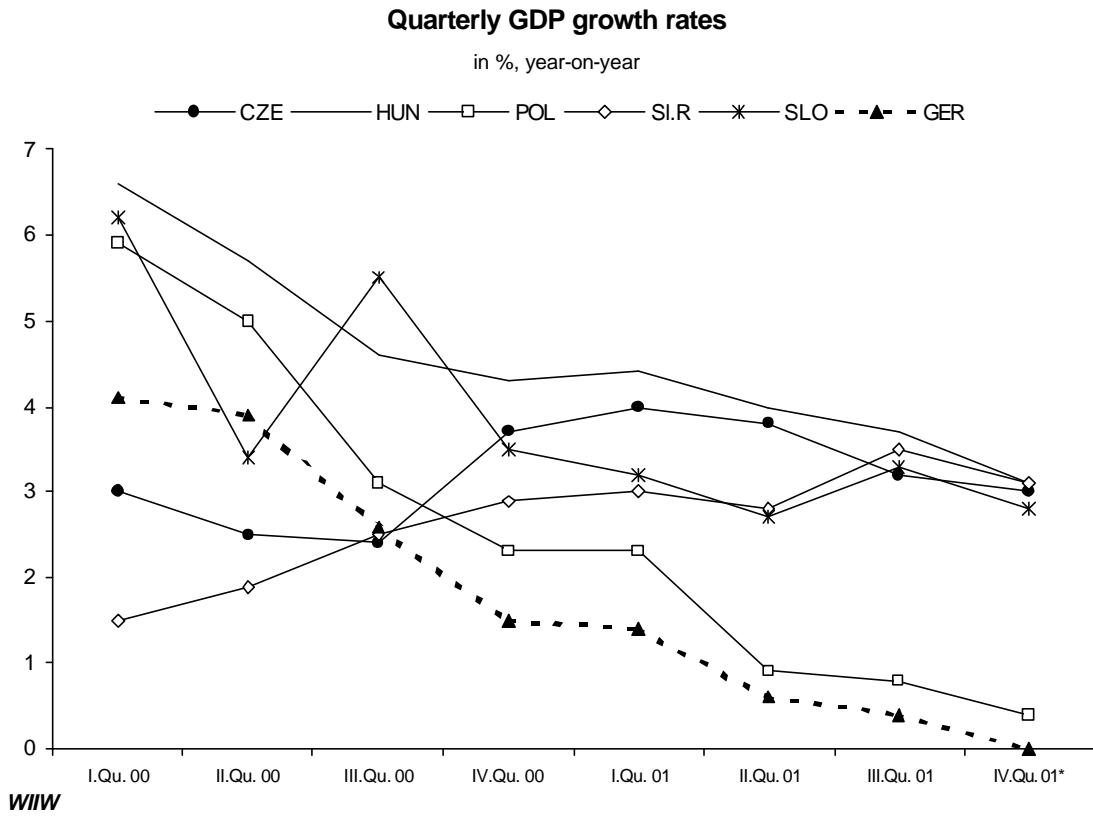
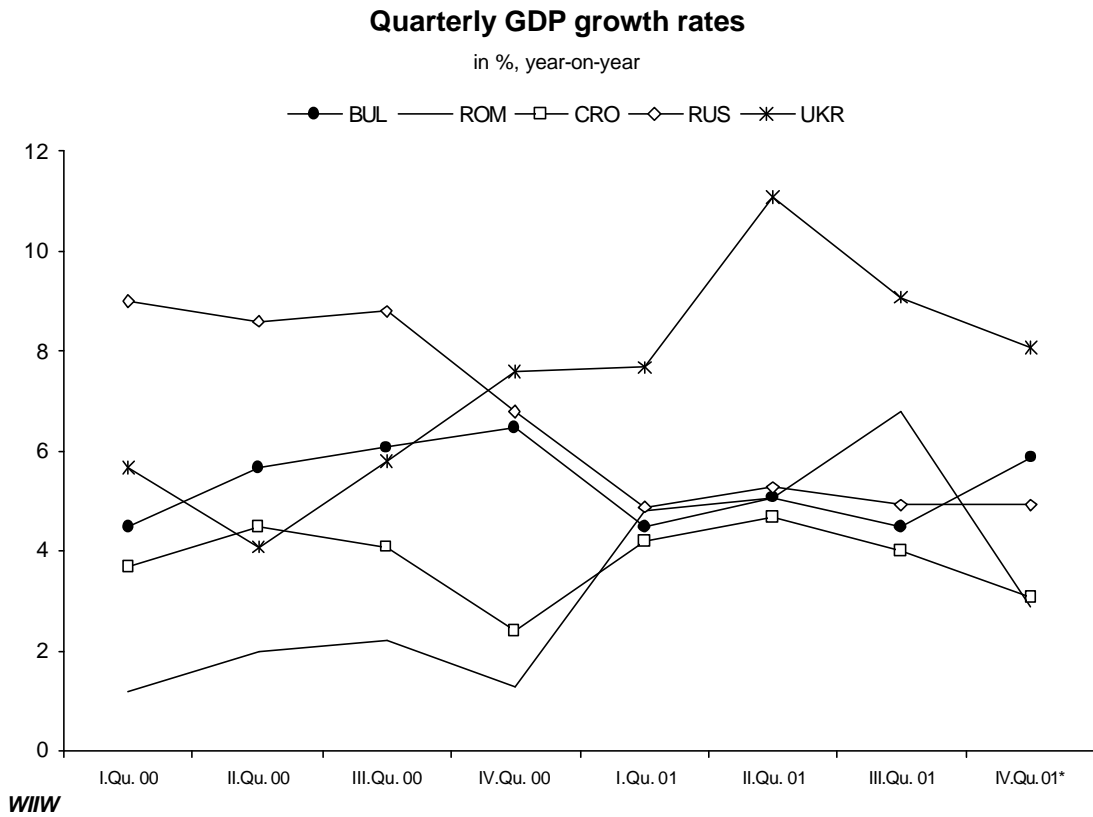


Figure 3b



\*WIIW estimates

Russia's GDP data for individual quarters point to a deceleration in growth in 2000, whereas in 2001 the GDP grew at a lower, but relatively stable rate. In mid-2001, the Ukraine was still recording growth rates of over 10%: a positive surprise after a decade of GDP shrinkage. In Figure 3, the data shown for the fourth quarter of 2001 are WIIW estimates. Their reliability is limited<sup>1</sup>, as is the case for all GDP data relating to 2001. Statistical offices tend to distil data drawn from a limited number of observations and corrections invariably follow some time later. The preliminary figures we have to date leave the impression that in 2001, the CEECs, apart from Poland, proved to be fairly resistant to worldwide recession tendencies that emerged or intensified in the latter half of 2001. Whether this is true will become clearer once data for the fourth quarter have been released. Year-on-year data for foreign trade and industrial output are also available for individual months, and they have proved a more sensitive measure of ongoing trends.

### **Export and import growth rates for individual months**

Table 1 shows year-on-year **export and import growth rates**. Calculations are based on data for individual months at current prices, converted into euros at current exchange rates.<sup>2</sup> The data for 2001 reveal a clear pattern. In each of the countries providing data, export growth decelerated from quarter to quarter. If we look at the fourth quarter in more detail and refer to the growth rates for individual months, we can see that in November 2001 most of the countries recorded lower export revenues in euro terms than one year before. The decline was especially marked in Croatia, Poland and Russia. The Czech Republic and Hungary were the only countries able to maintain export expansion, albeit at a lower rate than before.

Most remarkably, the last quarter's lack of export growth did not lead to a general explosion of the trade deficit: import dynamics revealed a pattern similar to that of exports. In most countries import growth decelerated and contracted in November. In the Czech Republic, Hungary and Slovenia, imports grew less than exports over most of the period with the trade deficit diminishing in comparison to the same period in the previous year. However, the data for one month in one country point to an exception to that rule: the previous December, in the Czech Republic imports grew more than exports. This may or may not be symptomatic for the most recent developments; for other countries, however, December data are not yet available. More about foreign trade will follow in another section. Here, the focus is the most recent business development indicators.

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<sup>1</sup> Bulgaria may serve as an example. The GDP growth rates reported for the first three quarters of 2001 are somewhat over 4% in each quarter, whereas the government forecast for the whole year stands at 5%. As experience shows, official forecasts usually prove to be accurate, hence it is prudent to accept the figure. That notwithstanding, in the absence of a revision of previously published figures, the official forecast implies a growth rate of 5.9% for the final quarter of 2001.

<sup>2</sup> Data for Romania and Russia were derived from USD values.

Table 1

**Exports and imports, at current prices<sup>1)</sup>, converted into EUR million, 2001**

	Q1	Q2	Q3	Q4	Oct-01	Nov-01	Dec-01
<b>Exports, monthly growth rates, year-on-year, in % <sup>2)</sup></b>							
Czech Republic	28.2	21.5	15.3	10.1	16.0	9.1	5.5
Hungary	24.6	18.6	7.2	4.1	3.1	5.2	.
Poland	29.5	23.3	14.1	-0.1	13.8	-12.4	.
Slovakia	18.8	13.7	9.3	0.5	2.4	-1.4	.
Slovenia	18.2	10.6	9.3	0.7	2.9	-1.4	.
Bulgaria	23.9	12.9	6.9	-7.2	-7.2	.	.
Romania	28.1	20.4	11.6	-4.2	-3.5	-4.9	.
Croatia	10.4	11.2	4.6	-1.3	22.4	-20.4	.
Russia	12.5	14.7	-1.4	-17.3	-14.0	-20.5	.
<b>Imports, monthly growth rates, year-on-year, in % <sup>2)</sup></b>							
Czech Republic	30.0	20.7	13.0	7.2	10.3	4.8	6.7
Hungary	23.3	17.6	1.5	-2.1	-2.9	-1.4	.
Poland	12.5	8.9	5.0	-2.0	2.5	-6.3	.
Slovakia	26.4	27.1	20.2	7.0	7.9	6.1	.
Slovenia	8.3	7.4	0.6	-2.3	-0.5	-4.0	.
Bulgaria	13.4	28.5	16.1	-3.3	-3.3	.	.
Romania	47.1	32.9	11.5	6.3	13.6	-0.4	.
Croatia	30.9	35.6	13.2	6.0	12.7	-0.4	.
Russia	18.5	40.4	20.0	11.6	10.8	12.3	.
<b>Trade balance, EUR million <sup>2)</sup></b>							
Czech Republic	-252	-241	-285	-393	-326	-181	-671
Hungary	-325	-321	-254	-268	-327	-209	.
Poland	-1176	-1449	-1263	-1531	-1413	-1648	.
Slovakia	-144	-176	-181	-257	-214	-300	.
Slovenia	-68	-105	-55	-95	-86	-103	.
Bulgaria	-127	-227	-200	-262	-262	.	.
Romania	-297	-466	-232	-507	-562	-453	.
Croatia	-326	-535	-398	-415	-380	-450	.
Russia	5198	5039	4781	3747	3733	3760	.

Note: 1) Exports fob, imports cif except for CZ and SK (fob). - 2) Quarterly data are averages of monthly data. The Q4 average covers as many months as are available.

## Industrial output growth rates for individual months

The five CEECs contiguous with the EU are also the most developed transition countries in terms of GDP per capita; they experienced decelerating **industrial output growth** (Table 2) throughout 2001.<sup>3</sup> In the second half of the year, cases of output decline over the same month in the previous year became frequent. The change was most spectacular in Hungary, where up to mid-2000 growth rates averaged about 20%, peaking close to 30%; in June 2001 output fell slightly marking the end of a period of high output growth. In Poland, the development was similar; except that growth rates in the first half of 2000 ranged merely between 15% and 10%. The first indications of output decline were already making themselves felt in May 2001 and for the rest of the year the rates were more often negative than positive. In Slovakia industrial growth fluctuated around 10% in the first half of 2000 and even strengthened in the second half. Thereafter things took a slightly downward trend, with a significant slowdown becoming visible only in the second half of 2001. In the Czech Republic industrial output growth showed a modest deceleration after peaking in January 2001. In Slovenia output fluctuated strongly, but came ever closer to zero in the second half of 2001. As these countries are closely linked to the EU through foreign trade and FDI, it is likely that developments in the EU, particularly in Germany, brought about the deceleration in growth in the second half of 2001. This slowdown in industrial output growth was already visible in the CEECs before the 11 September attack on the World Trade Centre, very much in keeping with the downturn in the EU business climate that was already gathering momentum, only to intensify thereafter.

Table 2

### Industrial output – growth rate year-on-year<sup>1)</sup>, 2000-2001

	Q1 00	Q2 00	Q3 00	Q4 00	Q1 01	Q2 01	Q3 01	Q4 01 <sup>1)</sup>	Oct-01	Nov-01	Dec-01
Czech Republic	4.8	5.2	6.8	4.9	10.0	7.3	4.5	5.3	4.1	6.6	.
Hungary	20.9	20.5	20.0	14.6	10.8	7.0	0.1	0.6	2.2	-1.0	.
Poland	10.4	10.2	7.3	3.2	4.4	-0.7	-0.8	-1.3	1.6	-0.7	-4.8
Slovakia	8.0	8.3	9.2	11.5	5.5	5.8	5.2	6.0	8.5	6.7	2.7
Slovenia	7.3	9.6	6.3	2.1	4.9	2.2	2.7	3.6	7.2	0.1	.
Bulgaria	4.5	6.5	5.8	4.4	7.9	1.9	6.6	0.3	-0.7	1.3	.
Romania	0.9	8.0	9.7	6.1	11.2	10.2	4.3	8.8	9.3	8.3	.
Croatia	3.7	2.0	2.7	-1.3	5.9	6.4	6.1	6.0	8.3	4.6	5.2
Russia	14.4	12.0	11.9	9.8	5.2	5.9	4.5	4.1	5.1	4.7	2.6
Ukraine	6.7	7.5	9.6	12.8	17.4	19.6	12.8	7.0	11.6	8.4	1.0

Note: 1) Quarterly data are averages of monthly rates. The Q4 01 average covers as many months as were available.

Source: WIIW Database incorporating national statistics

<sup>3</sup> In the second half of 2001 industrial production in the Eurozone changed year-on-year by -1.4% in July, 0.9% in August, -0.7% in September, -2.5% in October and -4.3% in November. For Germany, the corresponding growth rates were -1.9%, 0.1%, -1.7%, -3.3% and -4.5%. (Source: Eurostat, 22 January 2002.)

Table 3

### Foreign trade of Central and Eastern Europe, in EUR million

(based on customs statistics)

		1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2000	2001	
										change in %	
Czech Republic	Exports	16502	17691	19812	23070	24641	31483	37222	27.8	18.2	
	Imports	19404	22190	24014	25289	26387	34876	40713	32.2	16.7	
	Exports in % of imports	85.0	79.7	82.5	91.2	93.4	90.3	91.4	.	.	
	Exports in % of GDP	41.0	38.4	42.2	45.4	48.2	57.2	59.8	.	.	
Hungary <sup>2)</sup>	Exports	9972	10472	16910	20477	23491	30545	33900	30.0	11.0	
	Imports	11905	12912	18780	22871	26288	34856	37900	32.6	8.7	
	Exports in % of imports	83.8	81.1	90.0	89.5	89.4	87.6	89.4	.	.	
	Exports in % of GDP	28.9	29.0	41.8	48.9	52.1	60.7	59.6	.	.	
Poland	Exports	17710	19488	22798	25145	25729	34383	39600	33.6	15	
	Imports	22491	29677	37484	41539	43151	53122	55800	23.1	5	
	Exports in % of imports	78.7	65.7	60.8	60.5	59.6	64.7	71.0	.	.	
	Exports in % of GDP	18.0	17.0	17.9	17.8	17.7	20.1	20.1	.	.	
Slovakia <sup>3)</sup>	Exports	6634	7048	7299	9541	9602	12879	14101	34.1	9.5	
	Imports	6783	8878	9119	11635	10628	13859	16483	30.4	18.9	
	Exports in % of imports	97.8	79.4	80.0	82.0	90.4	92.9	85.5	.	.	
	Exports in % of GDP	46.7	44.7	40.4	50.3	52.0	61.8	63.6	.	.	
Slovenia	Exports	6426	6641	7413	8052	8037	9505	10348	18.3	8.9	
	Imports	7327	7536	8290	8999	9482	10996	11342	16.0	3.1	
	Exports in % of imports	87.7	88.1	89.4	89.5	84.8	86.4	91.2	.	.	
	Exports in % of GDP	44.3	44.1	46.0	46.1	42.7	48.3	51.1	.	.	
CEEC-5	Exports	57245	61340	74233	86285	91500	118794	135170	29.8	13.8	
	Imports	67909	81192	97687	110334	115936	147709	162239	27.4	9.8	
	Exports in % of imports	84.3	75.5	76.0	78.2	78.9	80.4	83.3	.	.	
	Exports in % of GDP	28.4	26.9	29.8	31.9	32.8	37.5	37.7	.	.	
Bulgaria <sup>4)</sup>	Exports	4142	4486	4368	3841	3734	5253	5700	40.7	9	
	Imports	4377	4655	4361	4476	5140	7085	7900	37.8	12	
	Exports in % of imports	94.6	96.4	100.2	85.8	72.6	74.1	72.2	.	.	
	Exports in % of GDP	40.9	49.2	48.6	35.1	32.1	40.4	39.3	.	.	
Romania	Exports	6047	6376	7434	7412	7956	11219	12711	41.0	13.3	
	Imports	7857	9019	9946	10569	9896	14128	17363	42.8	22.9	
	Exports in % of imports	77.0	70.7	74.7	70.1	80.4	79.4	73.2	.	.	
	Exports in % of GDP	22.0	22.6	23.8	19.9	24.0	28.1	29.5	.	.	
CEEC-7	Exports	67434	72202	86035	97539	103190	135266	153581	31.1	13.5	
	Imports	80143	94866	111994	125379	130972	168922	187501	29.0	11.0	
	Exports in % of imports	84.1	76.1	76.8	77.8	78.8	80.1	81.9	.	.	
	Exports in % of GDP	28.2	27.2	29.7	30.6	31.9	36.6	36.9	.	.	
Croatia <sup>5)</sup>	Exports	3595	3602	3666	4046	4027	4818	5201	18.9	8.0	
	Imports	5810	6220	8060	7477	7324	8588	10115	16.8	17.8	
	Exports in % of imports	61.9	57.9	45.5	54.1	55.0	56.1	51.4	.	.	
	Exports in % of GDP	24.7	22.7	20.6	21.0	21.4	23.4	22.6	.	.	
Macedonia	Exports	920	905	1091	1170	1117	1427	1300	27.8	-9	
	Imports	1314	1283	1568	1709	1665	2256	1800	35.5	-20	
	Exports in % of imports	70.0	70.5	69.5	68.5	67.1	63.3	72.2	.	.	
	Exports in % of GDP	26.7	25.7	32.9	36.7	32.4	36.8	33.1	.	.	
Yugoslavia <sup>6)</sup>	Exports	.	1593	2360	2518	1391	1865	2125	34.0	13.9	
	Imports	.	3251	4245	4283	3081	4016	5401	30.4	34.5	
	Exports in % of imports	.	49.0	55.6	58.8	45.2	46.4	39.3	.	.	
	Exports in % of GDP	.	12.3	14.7	15.2	9.8	17.2	17.1	.	.	
Russia <sup>7)</sup>	Exports	63372	71453	78479	66874	70960	114177	115041	60.9	0.8	
	Imports	47854	53629	63489	51785	37027	48593	59607	31.2	22.7	
	Exports in % of imports	132.4	133.2	123.6	129.1	191.6	235.0	193.0	.	.	
	Exports in % of GDP	24.2	22.1	20.7	27.0	39.1	40.7	33.2	.	.	
Ukraine	Exports	10036	11357	12550	11283	10856	15771	18100	45.3	15	
	Imports	11837	13883	15103	13103	11104	15104	16200	36.0	7	
	Exports in % of imports	84.8	81.8	83.1	86.1	97.8	104.4	111.7	.	.	
	Exports in % of GDP	35.5	32.3	28.4	30.4	36.6	45.9	42.0	.	.	

Notes: 1) Preliminary. - 2) From 1997 including trade of firms with customs free legal status. - 3) From 1998 new methodology. - 4) From 1999 new methodology. - 5) From 2000 new methodology. - 6) From 1999 excluding Kosovo and Metohia. - 7) Including estimate of non-registered trade.

Source: WIIW Database incorporating national statistics.



Towards the end of 2001, in most countries industrial output was either in decline compared to the same month in the previous year (Hungary, Poland) or was close to stagnation (Bulgaria, Slovakia, Slovenia, Russia and Ukraine). Only three countries were still recording significant output growth (the Czech Republic, Romania and Croatia).

## Unemployment

A frequently observed indicator for an improvement in or deterioration of the business climate is the change in the **number of unemployed** (Table 4). In Poland, as one would expect, the number of registered jobless was 15% higher at the end of 2001 than a year before. Slovakia and Croatia also registered a significant increase (5.5% and 4.2%, respectively). The other countries recorded a marginal increase (Czech Republic) or a decline: Romania -18%, Ukraine -13%, Russia -9%, Hungary -8% and Bulgaria -3%. In the case of the transition countries, these figures are not very reliable, however. For example, in Hungary the decrease of registered unemployed persons went hand in hand with a decrease in employment, both in industry and in the economy as a whole.

Table 4

	Registered unemployment, end of period											
	in 1000 persons					rate in %						
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	2002	2003
											forecast	forecast
Czech Republic	269	387	488	457	462	5.2	7.5	9.4	8.8	8.9	9.5	9
Hungary	464	404	405	372	343	11.0	9.6	9.6	8.7	8	8	8
Poland	1826	1831	2350	2703	3115	10.3	10.4	13.1	15.1	17.4	19	18
Slovak Republic	348	428	535	506	534	12.5	15.6	19.2	17.9	18.6	17	16
Slovenia	129	127	114	105	104	14.8	14.6	13.0	12.0	12.0	11	10
CEEC-5 <sup>1)</sup>	3036	3177	3891	4143	4558	9.9	10.4	12.5	13.3	14.6	.	.
Bulgaria	524	465	611	683	662	13.7	12.2	16.0	17.9	17.3	17	16
Romania	881	1025	1130	1007	824	8.9	10.4	11.8	10.5	8.6	9	8
CEEC-7 <sup>1)</sup>	4441	4668	5632	5833	6044	10.0	10.5	12.7	13.1	13.6	.	.
Croatia	287	303	342	379	395	17.6	18.1	20.4	22.3	23.1	22.5	21
Macedonia <sup>2)</sup>	288	284	261	262	.	36.0	34.5	32.4	32.2	34.0	35	35
Yugoslavia	794	849	774	812	861 <sup>3)</sup>	25.5	25.4	25.5	26.8	28	30	30
Russia <sup>2)</sup>	8133	9728	8904	7039	6400	11.2	13.3	12.2	9.9	9.0	9	9
Ukraine	637	1003	1175	1188	1029	2.3	3.7	4.3	4.2	3.7	4	4

Notes: 1) WIIW estimate. - 2) Based on Labour Force Survey data. - 3) November.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

Table 5

### Trade of Central and Eastern European countries with the EU, EUR million

(based on customs statistics)

		1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2000 change in %	2001
Czech Republic	Exports	9987	10364	11842	14762	17053	21588	25648	26.6	18.8
	Imports	11831	13851	14846	16055	16946	21637	25167	27.7	16.3
	Exports in % of imports	84.4	74.8	79.8	91.9	100.6	99.8	101.9	.	.
	Exports in % of GDP	24.8	22.5	25.2	29.1	33.3	39.2	41.2	.	.
Hungary <sup>2)</sup>	Exports	6249	6564	12037	14940	17906	22939	25500	28.1	11
	Imports	7322	7715	11788	14664	16929	20354	22100	20.2	9
	Exports in % of imports	85.3	85.1	102.1	101.9	105.8	112.7	115.4	.	.
	Exports in % of GDP	18.1	18.2	29.7	35.7	39.7	45.6	44.8	.	.
Poland	Exports	12398	12908	14600	17173	18127	24037	27800	32.6	16
	Imports	14540	18970	23911	27268	28016	32494	34500	16.0	6
	Exports in % of imports	85.3	68.0	61.1	63.0	64.7	74.0	80.6	.	.
	Exports in % of GDP	12.6	11.2	11.5	12.2	12.5	14.1	14.1	.	.
Slovakia <sup>3)</sup>	Exports	2481	2909	3045	5309	5701	7602	8441	33.3	11.0
	Imports	2358	3310	3597	5833	5493	6775	8206	23.3	21.1
	Exports in % of imports	105.2	87.9	84.6	91.0	103.8	112.2	102.9	.	.
	Exports in % of GDP	17.5	18.4	16.9	28.0	30.9	36.5	38.1	.	.
Slovenia	Exports	4306	4286	4705	5271	5304	6060	6500	14.3	7
	Imports	5041	5088	5588	6242	6530	7451	7700	14.1	3
	Exports in % of imports	85.4	84.3	84.2	84.4	81.2	81.3	84.4	.	.
	Exports in % of GDP	29.7	28.4	29.2	30.2	28.1	30.8	32.1	.	.
CEEC - 5	Exports	35421	37032	46228	57455	64091	82227	93888	28.3	14.2
	Imports	41092	48933	59731	70063	73914	88712	97673	20.0	10.1
	Exports in % of imports	86.2	75.7	77.4	82.0	86.7	92.7	96.1	.	.
	Exports in % of GDP	17.6	16.3	18.6	21.3	23.0	26.0	26.2	.	.
Bulgaria <sup>4)</sup>	Exports	1560	1754	1889	1905	1942	2674	3020	37.7	13
	Imports	1628	1633	1645	2010	2486	3117	4070	25.4	31
	Exports in % of imports	95.8	107.4	114.8	94.8	78.1	85.8	74.4	.	.
	Exports in % of GDP	15.4	19.2	21.0	17.4	16.7	20.5	20.8	.	.
Romania	Exports	3274	3603	4204	4783	5214	7163	8616	37.4	20.3
	Imports	3964	4721	5222	6097	6004	7996	9956	33.2	24.5
	Exports in % of imports	82.6	76.3	80.5	78.5	86.8	89.6	86.5	.	.
	Exports in % of GDP	11.9	12.8	13.4	12.9	15.8	17.9	20.0	.	.
CEEC - 7	Exports	40255	42389	52321	64143	71246	92063	105528	29.2	14.6
	Imports	46684	55287	66599	78170	82403	99825	111694	21.1	11.9
	Exports in % of imports	86.2	76.7	78.6	82.1	86.5	92.2	94.5	.	.
	Exports in % of GDP	16.8	16.0	18.1	20.2	22.0	24.9	25.4	.	.
Croatia <sup>5)</sup>	Exports	2072	1838	1823	1927	1960	2619	2843	32.1	8.6
	Imports	3609	3693	4793	4440	4136	4756	5659	14.3	19.0
	Exports in % of imports	57.4	49.8	38.0	43.4	47.4	55.1	50.2	.	.
	Exports in % of GDP	14.2	11.6	10.2	10.0	10.4	12.7	12.4	.	.
Macedonia	Exports	312	387	407	516	506	608	640	20.2	5
	Imports	527	497	581	620	677	860	760	27.0	-12
	Exports in % of imports	59.1	77.8	70.2	83.2	74.7	70.6	84.2	.	.
	Exports in % of GDP	9.0	11.0	12.3	16.2	14.7	15.7	16.3	.	.
Yugoslavia <sup>6)</sup>	Exports	.	551	939	965	504	712	917	41.1	28.8
	Imports	.	1366	1758	1847	1276	1634	2216	28.0	35.6
	Exports in % of imports	.	40.3	53.4	52.3	39.5	-922	-1299	.	.
	Exports in % of GDP	.	4.2	5.9	5.8	3.6	6.6	7.4	.	.
Russia <sup>7)</sup>	Exports	20104	21570	24691	20721	23289	39904	42000	71.3	5
	Imports	13718	12508	17258	14047	10480	12054	15800	15.0	31
	Exports in % of imports	146.6	172.5	143.1	147.5	222.2	331.1	265.9	.	.
	Exports in % of GDP	7.7	6.7	6.5	8.4	12.8	14.2	12.1	.	.
Ukraine	Exports	1074	1259	1549	1892	1986	2813	.	41.7	.
	Imports	1768	2184	2980	2831	2249	3118	.	38.7	.
	Exports in % of imports	60.8	57.7	52.0	66.8	88.3	90.2	.	.	.
	Exports in % of GDP	3.8	3.6	3.5	5.1	6.7	8.2	.	.	.

Notes: 1) Preliminary. - 2) From 1997 including trade of firms with customs free legal status. - 3) From 1998 according to new methodology. - 4) From 1999 new methodology. - 5) From 2000 new methodology. - 6) From 1999 excluding Kosovo and Metohia. - 7) Registered trade only.

Source: WIIW Database incorporating national statistics, WIIW forecast.

## **Real sector development: a summary**

To sum up, in terms of deceleration in GDP growth, Hungary, Poland and Slovenia displayed some similarities to Germany in 2000. In 2001, Poland was the only CEEC to join Germany on the path towards stagnation. Even when a world-wide deterioration of the business climate became apparent in the second half of 2001, growth rates in the CEECs scarcely reacted in the third quarter of 2001. Poland's economy focuses on internal markets; compared to GDP, exports are relatively low. Many domestic factors may have contributed to the slowdown in growth; it is unlikely, however, that contagion was the primary reason.

As we have seen, the CEECs create a different impression if we take nominal foreign trade data on a monthly basis into account. The figures suggest something akin to a communicable disease; in all CEECs, exports and imports alike lost their dynamic thrust. In tandem with export growth, industrial output also started to slow down, stagnating or even declining. Only in Poland and Slovakia, however, did the slowdown in export and industrial growth coincide with a marked increase in the number of jobless. The GDP growth rate for the fourth quarter of 2001 should reflect these most recent developments; however, only to a certain extent. It is unlikely that the growth of all GDP components decelerated as swiftly as the growth of exports and industrial output. The increase in private consumption and investment acted as an engine of GDP growth.

A slowdown in export expansion has a negative impact on GDP growth, whereas a deceleration in import growth has a positive impact. In the second half of 2001 both happened simultaneously, so that the net impact on GDP growth may vary greatly between individual countries.<sup>4</sup> Nevertheless, we can assume that the main engine of – most probably modest – growth in the last quarter of 2001 was continued expansion of domestic demand. In those CEE economies that were just overcoming a setback (the Czech Republic, Croatia, Romania and Slovakia), investment may have continued to expand, whereas in others it may have stagnated or even declined. In all probability, private consumption was the main driving force in most CEECs.

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<sup>4</sup> Here, we refer to euro-converted exports and imports of goods at current prices. In order to calculate real GDP and its growth rate, statistical offices need data on exports and imports of goods and non-factor services at constant prices. The foreign trade deficit resulting from these figures usually differs considerably from the deficit calculated at current prices.

Table 6a

<b>Foreign direct investment inflow</b>										
based on the balance of payments, USD million										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
									estimate	
Czech Republic	654	869	2562	1428	1300	3718	6324	4595	4000	5000
Hungary	2339	1147	4453	2275	2173	2036	1970	1649	2440	1800
Poland	1715	1875	3659	4498	4908	6365	7270	9342	8000	8000
Slovak Republic	168	250	202	330	220	684	390	2117	1300	2000
Slovenia	113	128	177	194	375	248	181	176	440	500
Total (5)	4988	4269	11053	8725	8977	13051	16135	17879	16180	17300
Bulgaria	40	105	90	109	505	537	819	1002	700	800
Romania	94	341	419	263	1215	2031	1041	1025	1000	1000
Total (7)	5122	4715	11563	9097	10697	15619	17995	19905	17880	19100
Estonia	162	215	202	151	267	581	305	387	500	400
Latvia	44	213	178	382	521	357	348	408	250	300
Lithuania	31	31	73	152	355	926	486	379	500	400
Total (10)	5359	5174	12015	9782	11839	17482	19134	21078	19130	20200
Croatia	120	117	121	516	551	1014	1619	1124	1200	1100
Macedonia	.	19	9	11	16	118	32	176	500	500
Bosnia & Herzegovina	.	.	.	.	.	100	90	150	200	200
Yugoslavia	.	.	.	.	740	113	112	25	300	500
Russia	1211	690	2065	2579	4865	2762	3309	2714	3000	4000
Ukraine	200	159	267	521	623	743	496	595	800	1000
Total	6891	6159	14477	13409	18633	22331	24792	25863	25130	27500

Source: National banks of respective countries, WIIW estimates.

Table 6b

<b>Foreign direct investment stock</b>										
USD million										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
									estimate	
Czech Republic	3423	4547	7350	8572	9234	14375	17552	21095	25000	
Hungary	5585	7095	11926	14961	16086	18517	19299	19863	23000	
Poland	2307	3789	7843	11463	14587	22479	26075	33603	39000	
Slovak Republic	.	897	1297	2046	2083	2890	3188	4504	5500	
Slovenia	954	1326	1763	1998	2207	2766	2657	2809	3300	
Total (5)	.	17654	30180	39040	44197	61027	68771	81874	95800	
Bulgaria	141	247	337	446	951	1488	2307	3309	4000	
Romania	211	552	971	1234	2449	4480	5521	6546	7600	
Total (7)	.	18453	31488	40720	47597	66996	76599	91728	107400	
Estonia	239	495	737	838	1148	1822	2467	2645	3200	
Latvia	75	309	616	936	1272	1558	1795	2081	2400	
Lithuania	153	310	352	700	1041	1625	2063	2334	2800	
Total (10)	.	19566	33191	43195	51057	72000	82925	98789	115800	
Croatia	120	238	359	874	1425	2439	4058	5182	6200	
Macedonia	.	19	28	40	55	173	205	381	1000	
Bosnia & Herzegovina	.	.	.	.	.	100	190	340	500	
Yugoslavia	.	.	.	.	740	853	965	990	1700	
Russia	1211	1901	3966	6545	11410	14172	17481	20195	23000	
Ukraine	370	529	796	1317	1940	2683	3179	3774	4500	
Total	.	22253	38340	51971	66627	92420	109002	129628	152700	

Source: For Czech Republic, Hungary, Poland, Slovak Republic, Slovenia, Estonia, Latvia, Lithuania, Croatia: National Banks of the respective country according to international investment position. For Bulgaria, Romania, Macedonia, Russia, Ukraine: cumulated US dollar inflows based on Table 6a.

## 2 The external position: temporary improvement?

### Overall trade balances

It is remarkable that **both export and import growth slowed down** in the course of 2001, especially in the closing months (Table 1). The reasons are manifold: the decline in world market prices for oil meant lower import prices in the CEECs, except for Russia where it had a negative impact on export revenue. Furthermore, the production of export goods usually demands imports of energy, raw materials and semi-finished goods. Given the deceleration in export growth, the volume of imports in these broad categories lessened. Finally, in those instances where GDP growth had slowed down or stopped, it also had an impact on the demand for imported goods. In the case of consumer goods, a high proportion is accounted for by the absorption of non-tradable goods and services which, by definition, are produced domestically. Demand for investment goods also comprises two parts: (a) construction which relies more on domestic inputs and includes major government-financed projects; and (b) company purchases of technical equipment with a much higher import content. In Poland, mainly on account of the latter component real gross fixed investment in 2001 was 16% less than in the previous year. Thus, only at first glance is it surprising that in 2001 in several CEECs the gradual deceleration in export growth went hand in hand with a **trade balance improvement** (Table 3). This held true for Hungary, Poland and Slovenia: countries whose GDP grew less than in the previous year. That notwithstanding, Russia with lower GDP growth than in 2000 recorded a decline in its trade surplus – owing to a drop in prices for crude oil and gas. Croatia, Romania and Slovakia recorded higher GDP growth and a larger trade deficit, whereas the Czech Republic and the Ukraine managed to achieve higher growth while their trade deficits remained more or less unchanged.

### Trade balances vis-à-vis the EU

In the CEECs with lower GDP growth in 2001, not only the overall trade balance, but also the **balance vis-à-vis the EU** (Table 5) improved. In Hungary, where this balance had been positive over recent years, it improved still further compared to 2000. In Poland the deficit lessened, and data yet to be issued for Slovenia could bear similar tidings. In countries with accelerated GDP growth in 2001, the balance vis-à-vis the EU worsened. In Slovakia the surplus diminished; in Croatia and Romania the deficit widened, whereas in the Czech Republic the balance took a positive turn despite higher GDP growth.

### Export specialization

The countries with an export surplus vis-à-vis the EU are also those countries that record a **high and growing share of machinery and transport equipment** in their total exports

Table 7

**Share of the predominant commodity group in total exports, in %**

Country	Commodity groups	1995	2000	1995 to 2000 Increase <sup>2)</sup>
Czech Republic	Machinery and transport equipment (SITC-7)	30.3	44.5	14.2
Hungary	Machinery and transport equipment (SITC-7)	25.6	60.0	34.4
Poland	Machinery and transport equipment (SITC-7)	21.1	34.2	13.1
Slovak Republic	Machinery and transport equipment (SITC-7)	18.8	39.5	20.7
Slovenia	Machinery and transport equipment (SITC-7)	31.4	36.0	4.5
Bulgaria	Miscellaneous manufactured articles (SITC-8)	9.3	21.3	12.0
Romania	Miscellaneous manufactured articles (SITC-8)	31.7	36.7	5.0
Croatia	Machinery and transport equipment (SITC-7)	16.8	27.0	10.2
Macedonia	Miscellaneous manufactured articles (SITC-8)	18.3	28.6	10.3
Yugoslavia	Manufactured goods class. by materials (SITC-6)	31.8 <sup>1)</sup>	35.2	3.5
Russia	Mineral products (HM-5)	42.9	53.8	11.0
Ukraine	Base metals and products (HM-15)	33.1 <sup>1)</sup>	44.4	11.3

Notes: 1) Year 1996. - 2) Increase of shares in percentage points.

Source: WIIW Database incorporating national statistics.

Table 8

**Foreign financial position**

USD billion, end of period

	Gross external debt <sup>1)</sup>		Reserves of National Bank <sup>2)</sup>		Current account			
	2000	2001	2000	2001	2000	2001	2002	2003
Czech Republic	21.1	21.8 <sup>3)</sup>	13.1	14.5	-2.3	-2.2	-2.7	-2.7
Hungary	30.8	32.9 <sup>4)</sup>	11.2	11.3 <sup>4)</sup>	-1.3	-1.1	-2.0	-2.5
Poland	69.5	71.8 <sup>3)</sup>	27.5	26.6	-9.9	-7.0	-7.7	-8.0
Slovak Republic	10.5	11.1 <sup>5)</sup>	4.1	4.2	-0.7	-1.5	-1.5	-1.1
Slovenia	6.2	6.7 <sup>4)</sup>	3.2	4.3	-0.6	-0.1	-0.2	-0.2
Bulgaria	10.4	10.0 <sup>4)</sup>	3.2	3.3	-0.7	-0.8	-0.8	-0.8
Romania	10.2	11.1 <sup>4)</sup>	2.5	3.9	-1.4	-2.3	-2.5	-2.6
Croatia	10.9	11.1 <sup>4)</sup>	3.5	4.7	-0.4	-0.9	-0.8	-0.9
Macedonia	1.4	1.4 <sup>4)</sup>	.	.	-0.1	-0.2	-0.3	-0.3
Yugoslavia	11.5	.	.	.	-1.3	-1.2	-1.5	-1.5
Russia	144.5	140.0	28.0	36.6	46.3	34.2	25.0	20.0
Ukraine	10.4	11.5	1.4	3.1	1.5	1.0	0.0	.

Notes: 1) In convertible currencies for Bulgaria, Czech Republic. For more information see the respective country tables. - 2) Forex reserves, SDR and reserve position with the IMF. Excluding gold except for the Czech Republic, Hungary, Poland, Russia, Slovakia. Figures for Hungary correspond to total reserves of the country. - 3) September. - 4) November. - 5) October.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

(Table 7). For all countries contiguous with the EU, this commodity group has become the predominant group; the leading countries in this respect are Hungary with a share of 60% (in 2000), the Czech Republic (45%) and Slovakia (40%). As Table 7 shows, the share of this commodity group in Hungary increased by 34 percentage points over the period 1995-2000; Slovakia's share also increased dramatically by 21 percentage points. As far back as 1995 the Czech Republic and Slovenia had already recorded a high share of this commodity group; the more recent shift, however, was less spectacular. Croatia and Poland have also shifted more towards specialization in machinery and transport equipment, albeit on a less pronounced scale.

### **Current accounts**

Hungary, Poland and Slovenia, countries which recorded lower GDP growth but better trade balances in 2001, also performed better in terms of their **current accounts** (see Outlook Table on p. 32). In Hungary, the deficit fell to 2.2% of GDP and in Poland to 4.0%. For the latter country, this came as a major relief after suffering unsustainably high deficits in 1999 (7.5%) and 2000 (6.3%). Slovenia returned to a nearly balanced account: a goal that the authorities had set themselves for the past few years, only to have missed it in 1999 and 2000 (with deficits of 3.9% and 3.4% of GDP). Russia's notorious current account surplus fell from 18% to 11% of GDP, pointing to further capital export. Similar to its trade balance, the Czech Republic's current account improved: despite higher GDP growth, the current account deficit was lower than in 2000. All other countries with accelerated GDP growth recorded a higher current account deficit: Slovakia and Romania saw their deficits leap to 7.6% and 6.0%, respectively, while Croatia registered a deficit of 4.4%. The Ukraine was in a much more comfortable situation; its surplus fell from 4.7% to 2.6% of GDP. In 2001, the aggregate current account deficit was USD 11.9 billion for the CEEC-5 and USD 15.0 billion for the CEEC-7: less than half of Russia's surplus (USD 34.2 billion).

### **Foreign direct investment**

For the CEEC-7 as a whole, the inflow of foreign direct investment (FDI) amounted to about USD 18 billion over the past year (Table 6), thus far exceeding the countries' aggregate current account deficit. However, about 90% of this inflow went to the CEEC-5: mostly to Poland (USD 8 billion) and the Czech Republic (USD 4 billion). In all CEEC-5 countries, except Slovakia, the net FDI inflow was higher than the current account deficit. The same held true for Bulgaria, but not for Romania where FDI failed to cover in full the current account deficit. Up to the end of 2001, a FDI total of some USD 107 billion had flowed into the CEEC-7. Of this amount, Poland absorbed about 36%, the Czech Republic 23% and Hungary 21%.

Figure 4a

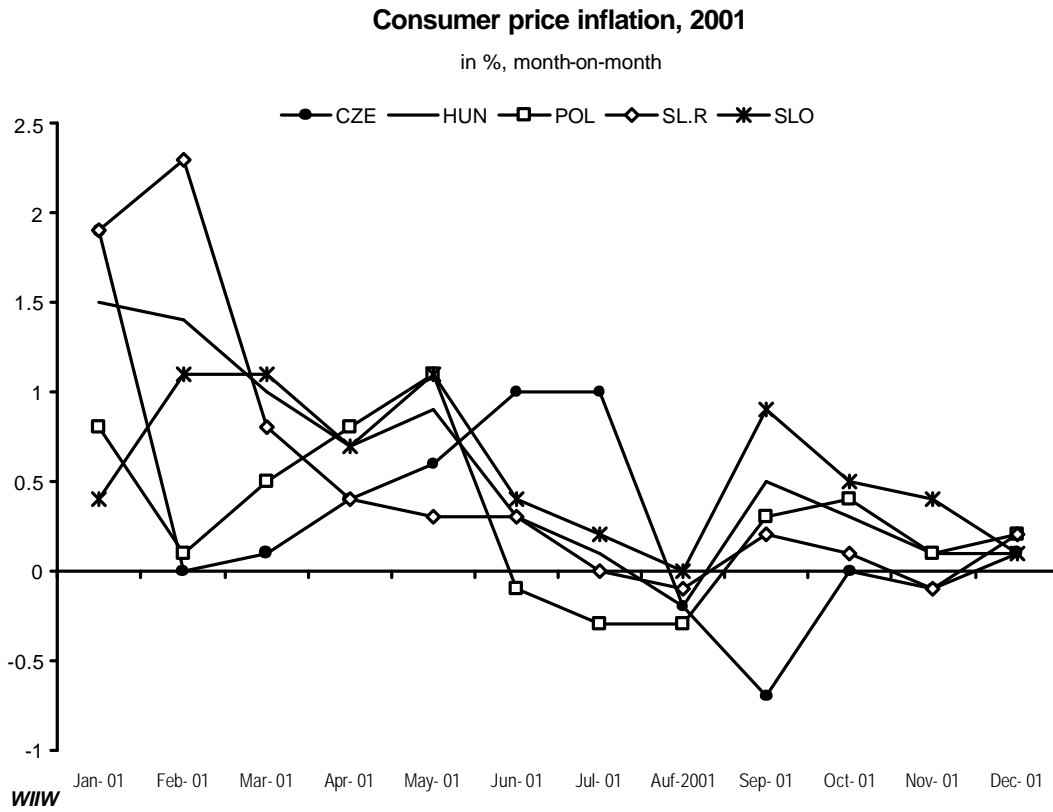
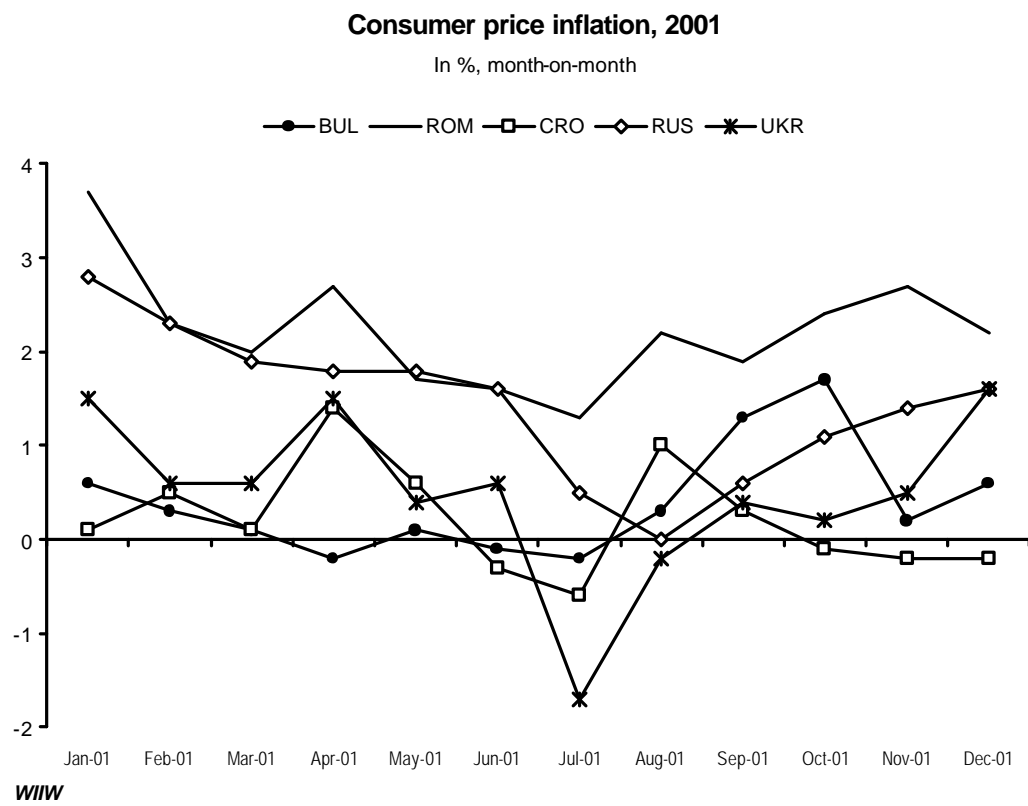


Figure 4b





## Summary

From a balance-of-payments point of view, most CEECs recorded relatively good results in terms of the current account and the FDI inflow in 2001 (Table 3). Several countries' performance was definitely better than in 2000: relative to the GDP, in the Czech Republic, Hungary, Poland, Slovenia and Yugoslavia the current account deficit decreased. However, towards the end of the year export stagnation started to rear its ugly head.

## Balkan specials

The foreign trade and current account situation in the Balkans remains unsatisfactory. In Croatia, imports grew much more than exports in 2001, and export revenues did not cover much more than half of the country's imports (51% compared to 56% in 2000). Thanks to revenues from tourism, compared to the deficit in the trade balance the size and increase of the deficit in the current account were less dramatic: 4.4% of GDP in 2001 after 2.3% in 2000. The FDI inflow may have covered the deficit in the current account. Under the impact of internal conflicts and a correspondingly high decline in GDP, Macedonia recorded decreases in both exports and imports: 9% and 20%, respectively. In 2000, Yugoslavia's exports made up less than 50% of its imports. The proportion decreased further in 2001, as imports far outstripped exports. Compared to the GDP, the deficit in the current account was more than 10%. In both Macedonia and Yugoslavia, the FDI inflow was marginal. Both countries are highly dependent on transfers and loans from abroad.

## 3 Approaching nominal stability?

### Growth of prices, wages and unit labour cost

In most of the countries, consumer price inflation was lower in 2001 than in 2000 (Table 11). The Czech Republic proved an exception; in the wake of increases in regulated prices the inflation rate was somewhat higher than in 2000. Moreover, in almost all countries producer price inflation was lower than consumer price inflation. Changes in regulated prices have a much greater impact on consumer prices than on producer prices.

Not surprisingly, nominal wages measured in national currency rise more in countries with higher inflation. For example, in both 2000 and 2001 nominal wages in industry grew about 6% annually in the Czech Republic, somewhat over 9% in Slovakia and about 15% in Hungary. In Poland they grew 10% in 2000, but only 7% in 2001. In all the above countries, **labour productivity in industry** grew even more than nominal wages in 2000. As a consequence, unit labour costs (ULCs) declined. In 2001, however, the situation in those countries was different: the increase in industrial labour productivity was much lower and lagged below the nominal wage increase. In the Czech Republic both growth rates

Figure 5a

**Real appreciation\*, 2000-2001 vis-à-vis January 2000, in %**

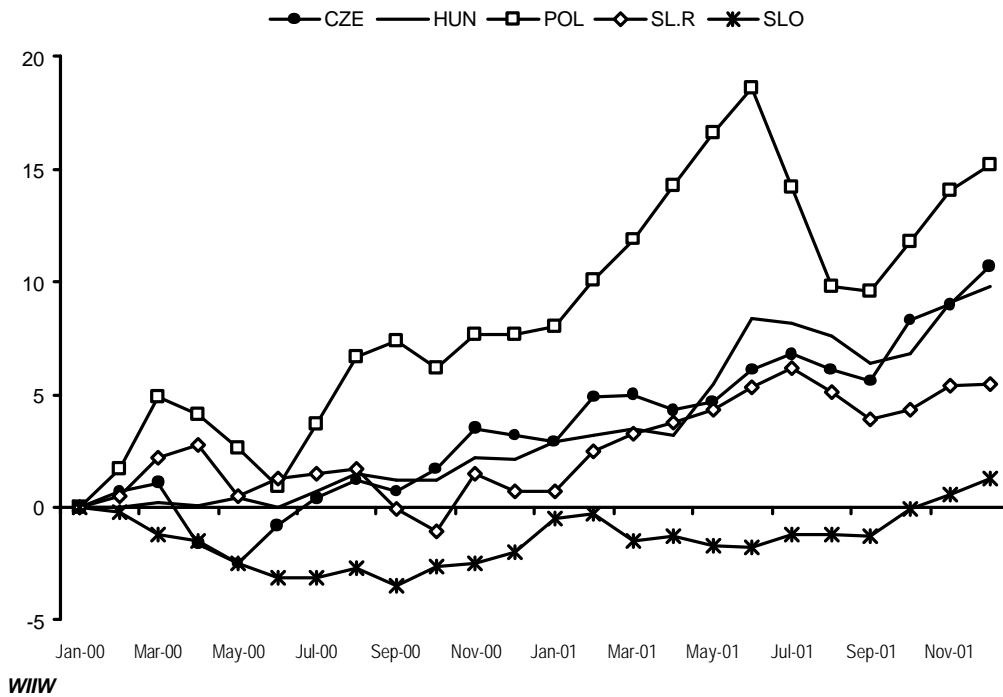
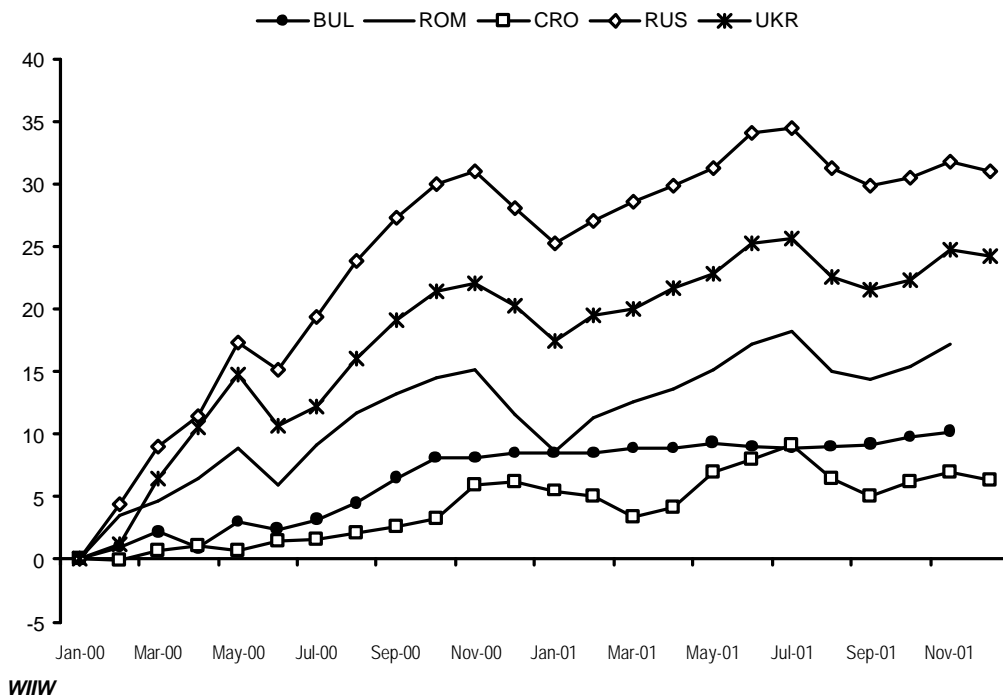


Figure 5b

**Real appreciation\*, 2000-2001 vis-à-vis January 2000, in %**



\* Change (vis-à-vis January 2000) in the ratio  $(-1) \times (\text{Exchange Rate Index} \times \text{EU-PPI-Index} / \text{domestic PPI-Index})$ .

were more or less equal, resulting in only marginal ULC change. In Hungary's industry, ULCs rose close to 8%. Looking at the behaviour of labour productivity and ULCs throughout the course of 2001, we can see that the increase in labour productivity was lower in the second half of the year (Figure 6) and thus ULCs started to rise vis-à-vis the corresponding month of 2000 (Figure 7). This pattern – a lower increase in labour productivity and a higher rise in ULCs – is typical for periods characterized by a worsening business climate. As we can see, industrial wages in 2000 did not exert any cost-push measured in terms of ULCs in national currency. In the second half of 2001, a cost-push emerged as the business climate deteriorated. However, a decline in the world market prices for oil and gas had the potential to lower industrial production costs. Exchange rate developments were decisive for the cost competitiveness in euro terms. As Table A/2 (Annex) shows, over the period 2000-2001 ULCs increased in euro terms in all the countries discussed here. Apart from Slovakia in 2000 where they fell, in the period 2000-2001 real wages in the industry of all the countries just mentioned grew year-on-year between 4.9% (Hungary in 2001) and 0.2% (Poland in 2000). In all the countries this was far below the growth in labour productivity.

### **Nominal and real appreciation**

If we switch from changes in the internal value of money to changes in its external value, we see that several countries discussed here are experiencing nominal appreciation. If we compare the year-end exchange rate (national currency units per euro) for 2000 and 2001, nominal appreciation was close to 9% in the Czech Republic and Poland, 7% in Hungary and 3% in Slovakia. In Ukraine, appreciation reached 2%; however, only when calculated vis-à-vis the USD. Slovenia (5%), Romania (16%) and Russia (7% vis-à-vis the USD) remained firmly on the path towards depreciation.

If greater than price increases in the EU, inflation together with nominal appreciation leads to real appreciation: CEE prices calculated in euro terms increase in comparison to EU prices. In 1996, Slovenia had the highest price level of all CEECs. It reached 62%<sup>5</sup> of the EU level already in 1996 and still stood there in 2001. In other words, nominal depreciation was equal to the inflation differential vis-à-vis the EU, yielding zero real appreciation. Croatia which recorded 61% in 1996, but 68% in 2001, surpassed Slovenia. In that period, Croatia's exports (at current prices in euros) increased by 44%, its imports by 63%. In other words, the shrinking price gap vis-à-vis the EU reduced manufacturers' ability to withstand foreign competition. Macedonia had ranked third in 1996, but dropped back in subsequent years. Poland attained 44% of the EU-price level in 1996, but 56% in 2001. Of

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<sup>5</sup> The following percentage rates are PPP/exchange rate ratios derived from Annex Table A/2.

Figure 6a

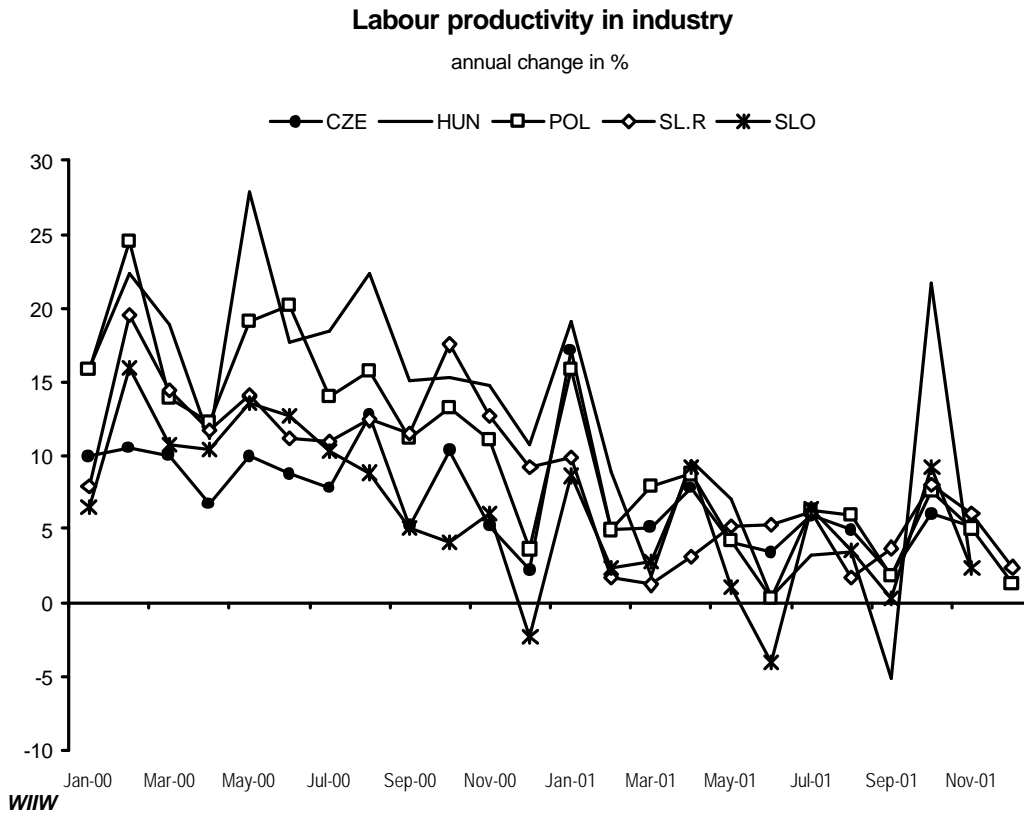
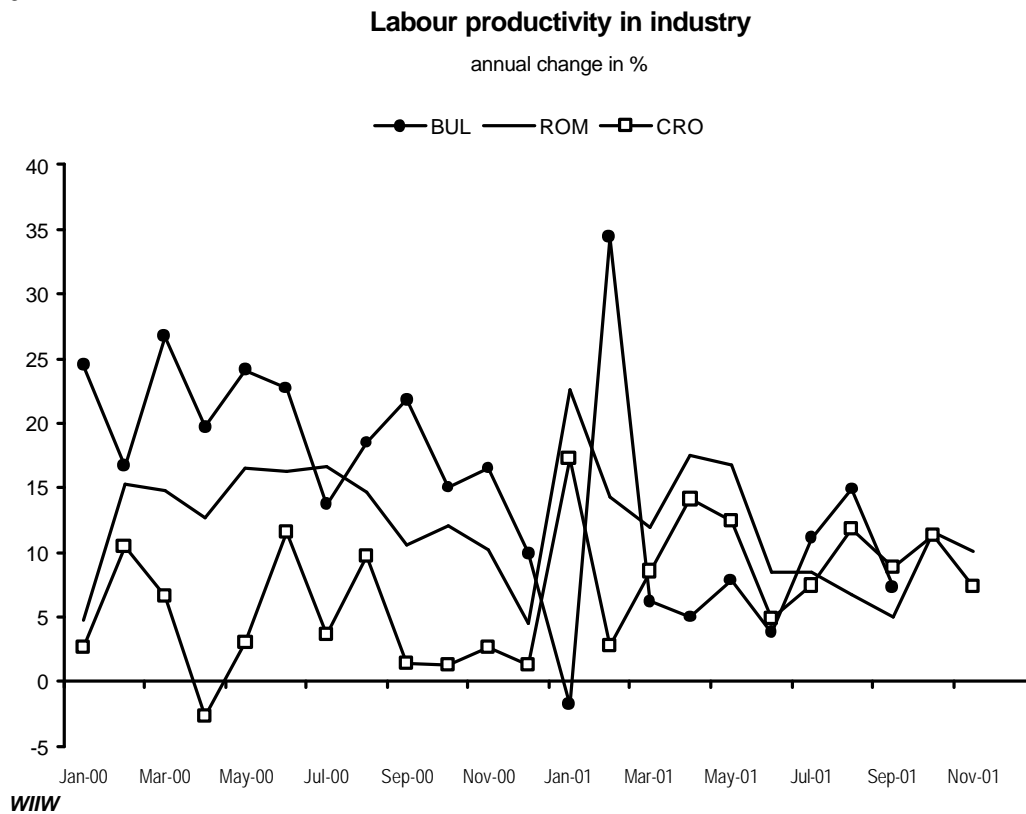


Figure 6b



all the CEECs, Poland recorded the highest leap, thereby exposing its corporate sector to increasing foreign competition. Such was the background to an increasingly tense current account situation, which in 2001 relaxed thanks to a shift in GDP towards stagnation and a corresponding deceleration of import dynamics. Hungary's relative price level shifted from 41% to 47%, the Czech Republic climbed from 37% to 44%. Slovakia moved from 34% to 37%, while Bulgaria and Romania clambered up from below 25% to over 30%. Even with prices as low as about 30% of the EU average, the latter two countries have had to struggle with a high current account deficit: a fact that points to the weakness of their corporate sectors. Ukraine remained below 25% of the EU-price level, yet achieved a surplus in the current account. Figure 5 shows that in most of the countries real appreciation dynamics were especially strong in 2001. Should this trend continue, it will threaten the international competitiveness of manufacturers in the CEECs.

### **Prices of tradable and non-tradable commodities**

The fact that CEE prices are far below the EU average has two reasons: first, when we take the current exchange rates to express the prices of tradable CEE commodities in euros, they are invariably lower than those of comparable EU products. For example, cars made in a CEEC are usually cheaper than a car with similar characteristics manufactured in the EU. The gap is there, but it is not as large as in the case of non-tradables. Very low euro-prices of non-tradable CEE goods and services are the second and decisive reason for the large gap between the EU and CEE averages. The standard of living enjoyed by the majority of the population is to a large degree determined by prices of non-tradable commodities: housing, heating, electricity, telecommunications, education, health services, etc. The low price of these non-tradables constitutes the basis for very low wages in euro terms. These low wages make the countries more attractive to foreign direct investment (FDI). Deregulation of markets such as housing and basic food, with lower subsidies being granted to public transport, education and the health system and public utility monopolies being sold to transnational companies, may lead to much higher prices of non-tradables. One scenario is that wage levels across a country's economy as a whole will rise proportionally with the increase in the prices for non-tradables; in this case, the country's attractiveness to the foreign investor would diminish. The alternative scenario is that the rise in general wage levels will remain below the increase in prices for non-tradables, thus exerting a dampening effect on mass consumption. Possibly, EU enlargement will accelerate the convergence of prices for non-tradable commodities to the EU average and thus for some time give rise to social hardship.

Figure 7a

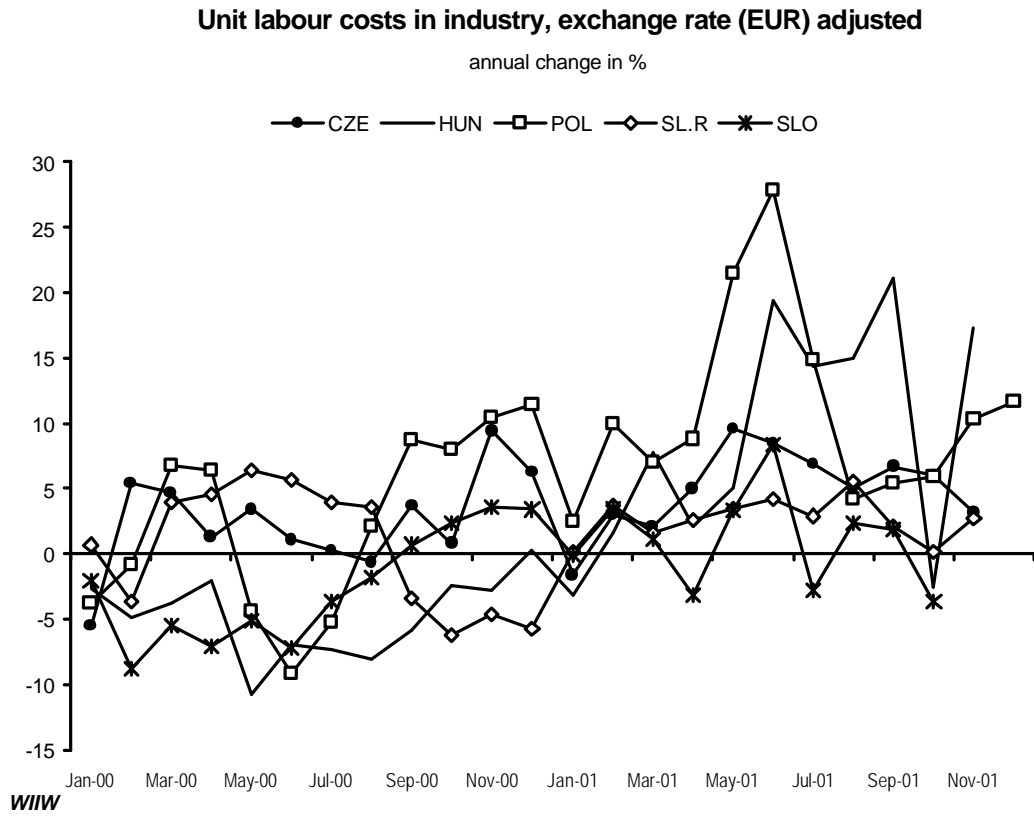
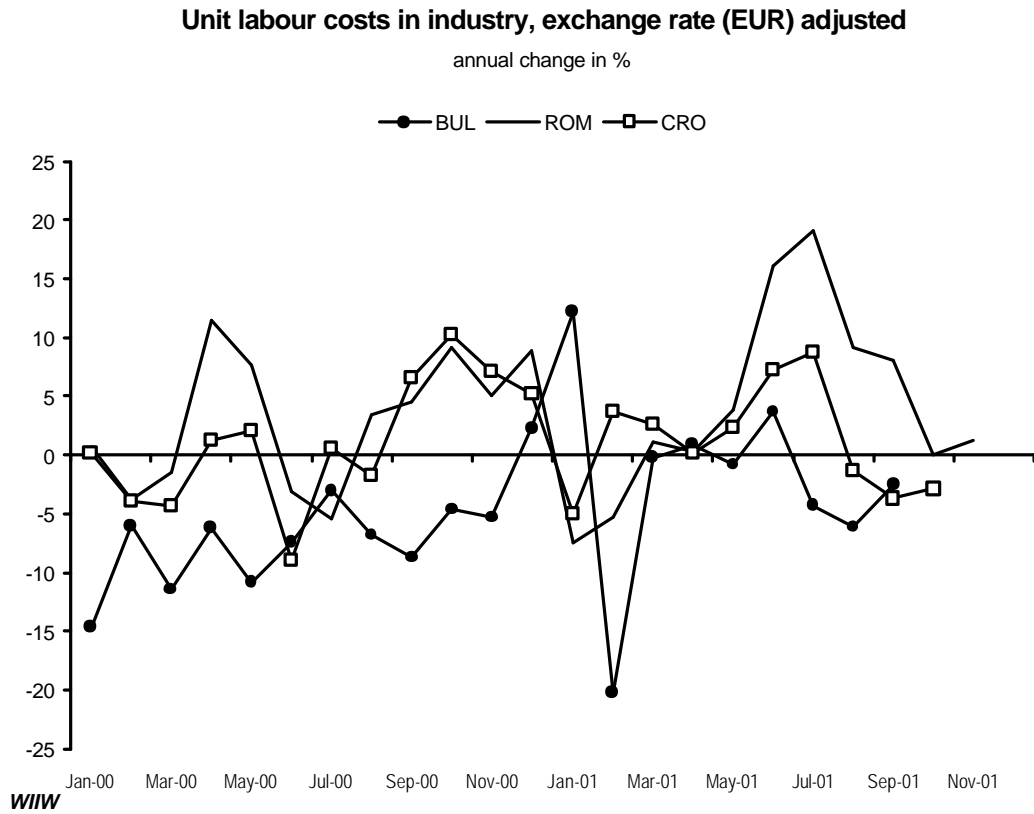


Figure 7b



#### **4 The countries' economic policy: conducive to contagion?**

##### **Influencing inflation**

A country's economic policy has an influence on the degree of real appreciation, given its impact on both inflation and nominal appreciation. It is conventional wisdom that government deficits accelerate inflation, whereas high interest rates apply the brakes. Both assumptions are more than disputable; however, this is not the issue at hand here. Generally speaking, the CEECs have since brought their government deficits under control, despite persistent differences between countries. Extra-budgetary funding for certain types of expenditure is still common practice, but this is not peculiar to the CEECs. Russia and Ukraine are now running surpluses in their central government budgets. In the Czech Republic, Poland and Slovakia the budget deficit in relation to the GDP increased in 2001 compared to 2000 (Table 9). This may have had a demand-supporting impact, depending on the actual use of expenditures. Croatia reduced the central government deficit, thus increasing its susceptibility to contagion. Russia increased its surplus.

##### **The central banks' fixing of nominal interest rates**

The central banks in the CEECs diverged markedly with respect to their interest rate policies. Some banks kept interest rates constant (Figure 8). Romania maintained a high discount rate (35%) throughout 2000 and 2001. The Slovak central bank adopted the same policy, albeit at a much lower rate (8.8%). From April 2001 onwards Croatia pursued a similar policy, at a rate still lower than in Slovakia (5.9%). The Hungarian central bank kept its nominal refinancing rate at 11% for about a year, up to May 2001 when it switched to greater flexibility, starting out with a slight initial increase followed by a minor decrease later. Russia lowered its refinancing rate from 45% to 25% in the course of 2000 and kept it at the reduced level throughout 2001. Poland's discount rate was already high at the beginning of 2000. In the course of that year, the central bank increased it further to 21.5%. Towards mid-2001, it started to lower it, down to 14%. Slovenia's monetary authority increased interest rates in three stages: from below 8% up to 11%. The central bank in the Czech Republic kept its interest rates low: at 5% in 2000 and even lower in 2001, going down to 3.25% in February 2002. The central bank in Ukraine proved to be very flexible; it reduced its interest rate from 45% at the beginning of 2001 down to 15%. Under the currency board regime, Bulgaria's national bank has no influence on interest rates; the rate fluctuated around 4%.

Table 9

**Central government: balance and expenditures in % of GDP**

	1997	1998	1999	2000	2001
<b>Balance</b>					
Czech Republic	-0.9	-1.6	-1.6	-2.4	-3.2
Hungary	-4.0	-5.5	-3.0	-2.8	-2.8
Poland	-1.2	-2.4	-2.0	-2.2	-4.5
Slovak Republic	-5.4	-2.6	-1.8	-3.1	-4.6
Slovenia	-1.1	-1.1	-0.5	-0.9	-1.1
Bulgaria	-3.9	1.5	1.8	-0.9	.
Romania	-3.6	-2.8	-2.5	-3.6	.
Croatia	-0.9	0.9	-1.8	-3.9	-2.2
FYR Macedonia	0.0	0.0	0.3	2.3	.
FR Yugoslavia	0.0	0.0	.	.	.
Russia	-3.8	-5.3	-1.1	1.2	2.8
Ukraine <sup>1)</sup>	-6.6	-2.0	-1.3	1.1	.
<b>Expenditures</b>					
Czech Republic	31.2	30.9	31.6	32.3	32.7
Hungary	31.6	31.5	31.3	31.0	30.8
Poland	26.6	25.2	22.5	22.1	23.9
Slovak Republic	31.7	26.2	28.4	27.2	26.0
Slovenia	25.4	26.1	26.4	25.5	27.1
Bulgaria	21.4	18.2	18.1	21.1	.
Romania	20.9	20.9	19.8	18.7	.
Croatia	28.3	30.9	34.3	32.2	33.3
FYR Macedonia	22.3	21.9	23.8	24.5	.
FR Yugoslavia	156.9	194.9	.	.	.
Russia	.	.	.	13.9	14.8
Ukraine <sup>1)</sup>	46.1	38.4	34.9	35.3	.

Note: 1) General government.

Source: WIIW.

**Real interest rates**

When fixing their interest rates, the central banks take account of the rate of inflation. We can see marked contrasts in the banks' behaviour. When fixing the rate at the end of 2001, the Polish central bank opted for a rate about 10 percentage points above the year's December-on-December inflation rate; taking into account the drop in Poland's price indices in the second half of 2001 (Figure 4), we realize that the real interest rate was extremely high. On the other hand, the Czech national bank fixed the discount rate at a level below the year's average inflation rate. Taking into account the fact that there too, price indices had stopped rising in the last quarter of 2001, we can deduce that the central



bank's real interest rate was still positive. All other countries followed policy that ranged between these two extremes. The central banks of Slovenia, Slovakia and Russia kept their interest rates above the year's average inflation rate.

### **Deposit rates and lending rates**

In all the countries, the commercial banks' deposit and lending rates were lower at end-2001 than they had been at the beginning of 2000. Only in Slovenia was there a marginal decrease. The spread between deposit rate and lending rate differed enormously between the countries; in countries with high inflation the spread was also high (Romania and Russia). Notwithstanding the fact that inflation had come down to 6% for producer prices and 12% for consumer prices, the spread was nevertheless extremely high in Ukraine: 10% interest for deposits, 30% for credits. This should be interpreted as a pointer to a lack of inter-bank competition and institutional shortcomings as a source of high-risk premium in the loan business. The spread was also extremely high in Romania, Russia and Poland. It was lowest in Hungary and low rates were also to be observed in Croatia, the Czech Republic and Slovakia.

Especially in the less developed CEECs, commercial banks mainly offer short-term loans; they extend long-term loans primarily to special clients: those backed by the state or by foreign owners.

### **Consequences of nominal appreciation**

The tendency towards nominal appreciation to be observed in the Czech Republic, Hungary, Poland and Slovakia could be the source of future problems, at least in some of those countries. This tendency follows on the heels of a free-floating exchange rate arrangement in tandem with capital inflows higher than the current account deficit. The capital inflow into the CEECs is mainly foreign direct investment. The monetary authorities can stimulate appreciation further by fixing high nominal interest rates that also attract other types of capital inflow. Poland is a case in point. Or, as is the case in the Czech Republic, the authorities can try to dampen appreciation pressure through low interest rates and measures designed to keep part of FDI-related payment inflows away from the currency market. As shown above, in domestic currency terms the unit labour costs (ULCs) in industry in Hungary, Poland and Slovakia rose in 2001. In euro terms, the unit labour costs increased even more for two reasons: (a) labour productivity growth rates below nominal wage growth; and (b) nominal appreciation. Such a development can undermine the international competitiveness of domestic producers. In order to be sustainable, a rise in the euro-price of a tradable CEE product has to be backed by quality improvement. In

Figure 8a

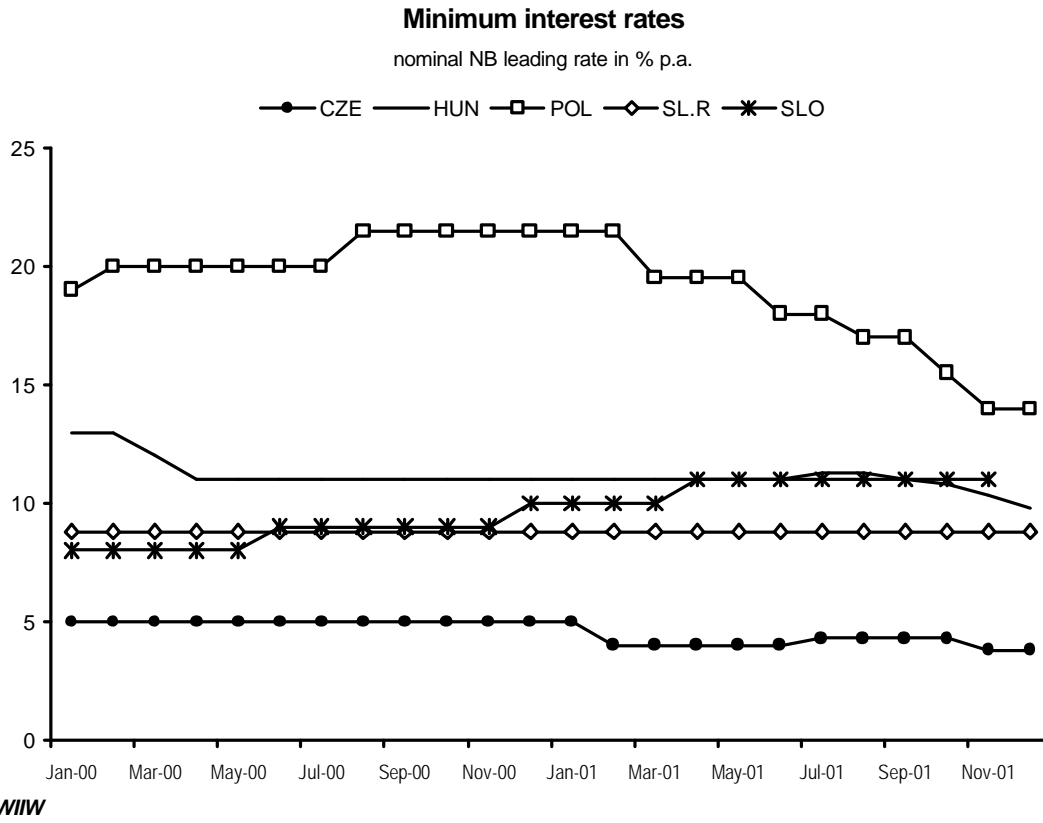
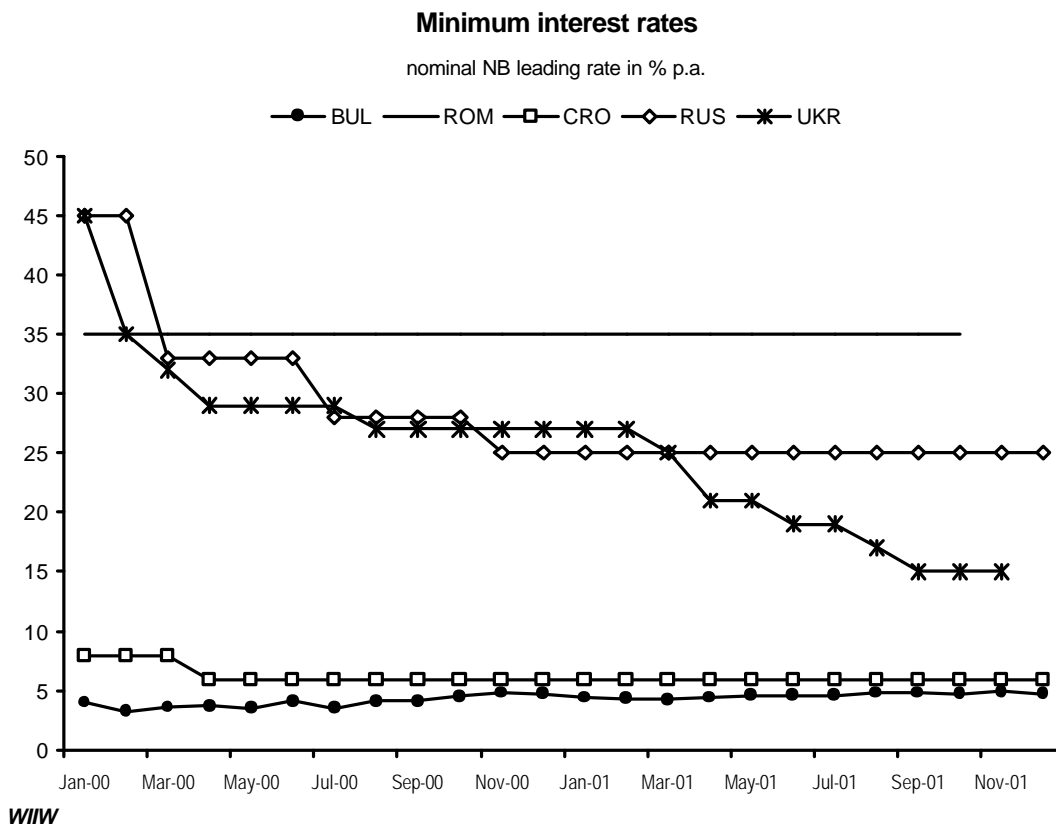


Figure 8b



the long run, appreciation driving the euro-prices for CEE tradables beyond that limit may not prove sustainable and, if maintained, may have an adverse impact on the real sector. From a short-term perspective, a policy stimulating or tolerating nominal appreciation under the present conditions would lead to a profit-squeeze in the export industry. The policy option of combining liberalization of capital flows with a free-floating exchange rate may prove a bumpier ride than one would imagine at the first glance. On the other hand, capital liberalization combined with a currency board arrangement, as established in Bosnia-Herzegovina and Bulgaria, also has its problems. The current account deficit can become very high, making import-dampening austerity the only feasible remedy. There is no need to resort to it as long as capital inflow, either from private sources or international financial institutions, is sufficient to cover the current account deficit. If coverage proves inadequate, the shortage of money would exert a depressing impact on the real sector. In Bosnia-Herzegovina, this threat looms large.

In summary, under conditions of capital liberalization both a currency board arrangement and a currency free-float pose problems. In the case of a free-float, the currency appreciation now visible in a number of countries may be sustainable in the short term on account of a large inflow of foreign direct investment, whereas long-term sustainability calls for strong growth in labour productivity and a quality improvement in CEE products.

## **5 Outlook**

### **Russia and Ukraine**

By far the largest among the countries discussed here, Russia depends heavily on its oil and gas exports and the prices those products secure on world markets. For the rest of Russia's corporate sector, it is important to know whether the exchange rate will stay at levels that keep the prices of imported consumer and investment goods high, thus protecting domestic production. If world market prices for oil and gas remain low (as we assume) and if the Russian rouble continues to appreciate in real terms (as we also expect), Russia's economy will grow at lower rates than in the recent past. Economically, all other successor states to the former Soviet Union are still strongly affected by developments in Russia; that notwithstanding, the Baltic States as future EU member states as well as Ukraine were able to develop their own dynamics.

For Russia, the WIIW forecasts a 3% GDP growth in 2002, mainly driven by an increase in private consumption. In addition to private consumption, investment might also fuel GDP growth in 2003; it may accelerate to 4%, provided that the ongoing reform measures are implemented in a consistent way. This forecast is based on the assumption that oil prices will not change dramatically in either direction. In the case of a major drop, the economy would face a severe problem.

The development of the Ukrainian economy will remain positive, despite a likely deceleration in growth to about 5% in 2002 and 2003. The current account might be balanced in 2002, whereas results for 2003 cannot really be predicted. Inflation will be kept under control.

Table 10

<b>Gross domestic product</b>												
real change in % against preceding year												
	1994	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003	Index 1990=100 2001	Index 1995=100 2001
									forecast			
Czech Republic	2.2	5.9	4.3	-0.8	-1.2	-0.4	2.9	3.5	3	4	103.3	108.5
Hungary	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8	3.6	4	112.1	126.4
Poland	5.2	7.0	6.0	6.8	4.8	4.1	4.0	1.1	0	2	144.7	129.9
Slovak Republic	4.9	6.7	6.2	6.2	4.1	1.9	2.2	3.1	3	4	108.5	126.1
Slovenia	5.3	4.1	3.5	4.6	3.8	5.2	4.6	3	3.5	4	123.7	127.4
CEEC-5 <sup>2)</sup>	4.1	5.7	4.8	4.6	3.4	2.9	3.8	2.3	1.7	3.0	125.0	123.8
Bulgaria	1.8	2.9	-10.1	-7.0	3.5	2.4	5.8	5	4	4	83.1	98.4
Romania	3.9	7.1	3.9	-6.1	-4.8	-2.3	1.6	4.9	3	4	86.8	96.7
CEEC-7 <sup>2)</sup>	4.0	5.8	3.8	1.9	1.8	1.9	3.5	3.0	2.1	3.3	114.4	116.9
Croatia	5.9	6.8	5.9	6.8	2.5	-0.4	3.7	4	3	4	90.3	124.5
Macedonia	-1.8	-1.1	1.2	1.4	3.4	4.3	4.3	-4	0	2	94.5	110.8
Yugoslavia <sup>3)</sup>	2.5	6.1	5.9	7.4	2.5	-21.9	6.4	5	4	4	48.8	101.7
Russia	-12.7	-4.1	-3.4	0.9	-4.9	5.4	9.0	5.0	3	4	69.4	111.8
Ukraine	-22.9	-12.2	-10.0	-3.0	-1.9	-0.2	5.8	9.0	5	5	47.1	98.5
Estonia	-2.0	4.6	4.0	10.4	5.0	-0.7	6.9	4.7	4	5	93.2	134.1
Latvia	0.6	-0.8	3.3	8.6	3.9	1.1	6.6	7.5	5.5	6	67.0	135.1
Lithuania	-9.8	3.3	4.7	7.3	5.1	-3.9	3.9	4.7	4.5	5	71.6	123.4
Armenia	5.4	6.9	5.9	3.3	7.3	3.3	6.1	9.5	.	.	74.4	140.9
Azerbaijan	-19.7	-11.8	1.3	5.8	10	7.4	11.1	9	.	.	64.2	153.3
Belarus	-12.6	-10.4	2.8	11.4	8.4	3.4	5.8	3	.	.	90.4	139.9
Georgia	-10.4	2.6	11.2	10.7	2.9	3	1.8	5	.	.	39.4	139.5
Kazakhstan	-12.6	-8.2	0.5	1.7	-1.9	2.7	9.6	12	.	.	77.6	126.4
Kyrgyzstan	-20.1	-5.4	7.1	9.9	2.1	3.7	5.0	6.5	.	.	70.6	139.4
Moldova	-30.9	-1.9	-5.9	1.6	-6.5	-3.4	1.9	3	.	.	35.6	90.6
Tajikistan	-21.3	-12.4	-16.7	1.7	5.3	3.7	8.3	12	.	.	64.7 <sup>4)</sup>	112.2
Turkmenistan	-16.7	-7.7	0.1	.	.	.	.	.	.	.	.	.
Uzbekistan	-5.2	-0.9	1.7	5.2	4.4	4.4	4.0	4.5	.	.	102.9	126.7
CIS	-14.2	-5.3	-3.2	1.0	-3.6	4.6	7.8	.	.	.	.	.

Notes: 1) Preliminary. - 2) WIIW estimate. - 3) Gross Material Product. - 4) 1992 = 100.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

## **Former Yugoslav countries**

The countries on the territory of Former Yugoslavia leave a mixed impression. Slovenia is the most advanced CEE country in terms of GDP per capita and price convergence. It ranks among the countries that will soon join the EU (for more about Slovenia see below). The rest of former Yugoslavia has become a very interesting export market for Slovenia, and Slovene companies are also becoming increasingly involved there as foreign direct investors. Croatia's huge trade deficit indicates that the exchange rate is at a level which undermines the ability of the country's manufacturers to withstand foreign competition to any sufficient degree. The country may well continue down this path, as it is able to finance the resultant trade deficit through tourism revenues, income transfers from abroad and a modest inflow of foreign direct investment. Only, the ultimate price it might have to pay for such policy could be gradual de-industrialization. Macedonia underwent a dramatic economic setback fuelled by internal conflicts; the country will find it difficult to achieve some level of economic prosperity – the attainment of which could help to divert the population's attention to other matters. Bosnia and Herzegovina as well as Yugoslavia (Serbia, Montenegro, Kosovo) are trying to develop their market economies by selling their industrial enterprises to investors capable of consolidating and modernizing them. The problem is that only in a few industries and a limited number of cases will it be possible to find such investors – for the most part foreign investors as nationals disposing of sufficient capital are rare. Thus, in the majority of enterprises the state will not succeed in handing over the problem to private hands. Following the advice of the international financial institutions, Bosnia and Herzegovina used vouchers to dispose of a large number of less important companies. A straightforward restructuring of the banking system is another strategy now being applied in both countries. This is certainly a necessary step, but even more essential is the creation of a situation in which manufacturing enterprises will be sound enough to rate as creditworthy, thus enjoying access to loans on affordable terms. It is likely that these economies will remain mainly trade-based: in their case that basically means import-fuelled, which in turn is tantamount to transfer- and loan- fuelled. Trade within the Balkan region itself will remain limited, despite the free trade agreements initiated in the context of the Stability Pact. The impetus is lacking as can be seen, for example, from the fact that Croatia and Yugoslavia still maintain tit-for-tat visa requirements. Another problem is that both Bosnia and Herzegovina and Yugoslavia lack a clear profile as states. They are much more agglomerates of quasi-sovereign regions. Thanks to income transfers and loans from abroad, business activities will expand even in the absence of comprehensive recovery in the ailing industrial sector.

Growth figures for Bosnia and Herzegovina are not well founded in statistical terms. An estimate of 5% GDP growth for 2001, 3% for 2002 and 2% for 2003 should thus be

Table 11

	<b>Consumer price inflation</b>									
	change in % against preceding year									
	1994	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002 forecast	2003 forecast
Czech Republic	10.0	9.1	8.8	8.5	10.7	2.1	3.9	4.7	3.9	3.5
Hungary	18.8	28.2	23.6	18.3	14.3	10.0	9.8	9.2	5.7	4.5
Poland	32.2	27.8	19.9	14.9	11.8	7.3	10.1	5.5	5	5
Slovak Republic	13.4	9.9	5.8	6.1	6.7	10.6	12.0	7.3	5	7
Slovenia	21.0	13.5	9.9	8.4	7.9	6.1	8.9	8.4	6	5
Bulgaria	96.0	62.1	121.6	1058.4	18.7	2.6	10.3	7.4	4	3
Romania	136.8	32.3	38.8	154.8	59.1	45.8	45.7	34.5	28	20
Croatia <sup>2)3)</sup>	97.6	2.0	3.5	3.6	5.7	4.2	6.2	4.9	4	3
Macedonia <sup>2)</sup>	121.7	15.9	3.0	4.4	0.8	-1.1	10.6	5.2	5	6
Yugoslavia	3.3	78.6	91.5	21.6	29.9	44.9	85.6	89.2	50	30
Russia	307.0	197.5	47.8	14.8	27.6	85.7	20.8	21.6	20	15
Ukraine	891.0	376.8	80.2	15.9	10.6	22.7	28.2	12.0	15	15

Notes: 1) Preliminary. - 2) Retail prices. - 3) On 1 August 2001 a change in the treatment of telecom prices took place, and had an inflation-reducing impact.

Source: WIIW Database incorporating national statistics, forecast: WIIW

regarded merely as indicative of a trend. A plus for the country is its countrywide use of the konvertibilna marka, the successful introduction of a clearing system between commercial banks and low inflation. A minus is the likelihood of industrial production not reverting to pre-war levels in the foreseeable future. The country thus will remain highly dependent on transfers and loans from abroad.

Given the weaker domestic demand, Croatia's GDP growth will slow down to about 3% in 2002. An increase in the exports in the shipbuilding industry will have a positive impact, while tourism will also yield higher earnings than in 2001, with European tourists possibly changing their holiday patterns in the aftermath of the 11 September WTC attack. Inflation is likely to decelerate in both 2002 and 2003; the Croatian National Bank will continue to pursue price stability as its primary goal. A rise in employment is unlikely, as the lay-offs in the government sector agreed upon with the IMF are still being implemented. More pronounced GDP growth might be expected only in 2003 following a turnaround in the global economic climate.

Yugoslavia's GDP may have grown by 5% in 2001 and should continue to expand by 4% this year and next. Registered unemployment will remain around 30%; this, however, does not reflect the real situation which is more convoluted. Innumerable employees are without work, and numerous people are economically active without being registered as employed. Any attempt to stabilize the country's exchange rate at a constant rate vis-à-vis the euro is

likely to fail, given an inflation rate that will gradually come down to 30% (our estimate for 2003) and a current account deficit that, were it not for income transfers, would be even higher than 10% of GDP. For the next three years, the government is planning to introduce intensive-care treatment for one major enterprise after another; it will take time for the industrial sector to develop a dynamic of its own and increase its export thrust.

### **Outlook for the first-wave EU candidate countries**

The cyclical pattern of the more advanced economies among the accession countries – the Czech Republic, Hungary, Poland, Slovakia and Slovenia – will more or less match that of the EU, even though there may not always be a direct causal link. The GDP will not grow much in the first quarter of 2002. In the light of the stagnation of exports, imports and industrial production in the final months of 2001, we cannot hope for strong recovery already setting in during the first half of 2002. Expansion of household demand will probably constitute the main source of GDP growth, as was the case in the last quarter of 2001. Later in the year, growth may pick up once again, depending on the initiation and intensity of EU recovery.

During the final months of 2001, inflation stopped rising or rose only marginally in several countries. Inflation might be quite low in 2002 and 2003. However, it will remain higher than in the EU, owing to the inevitable upsurge in the prices for non-tradables. Unemployment remains a severe problem in most of the countries. The current account deficit did not pose a major problem in 2001. With greater GDP growth in 2003, imports will also grow so the situation could well become touchy once more. A continuation of the trend towards strong real appreciation could exacerbate external balance problems.

If Hungary is to get out from the recession now manifest, an upturn in the business cycle in the EU will be required later in this year: a basic assumption underlying our forecasts. Hungary's economic development in 2002 may well be a sort of mirror image of its development in 2001: sluggish growth in the first half of the year followed by acceleration in the second half, at best resulting in an annual GDP growth rate of 3.6%. If that is the case, the improvement in the current account witnessed last year would be reversed, as an improved outlook would prompt the export industry, as a first step, to increase its material stocks from home and abroad, while export expansion would follow only some time later. Should the expected upturn in the EU business cycle be delayed, Hungary's economic performance this year will lag far behind that of 2001.

Poland's GDP can be expected to stagnate at best or decline in 2002. Recovery in 2003 is far from certain, although obviously not impossible, especially if fiscal and monetary policies are resolutely changed. However, there is every danger that the expected

weakening of the Polish currency might prove excessive. A weakening in export growth is but one aspect. The decline in investment is likely to accelerate in the future.

Slovakia's export growth will hardly improve in 2002, while the import growth rate may well decelerate primarily on account of cheaper energy imports. Rather than external demand, domestic demand – both investment and private consumption – will act as the driving force behind the country's GDP growth in 2002. Private consumption in particular, supported by a relaxation of government fiscal policy in the period leading up to the general election, will prove a major growth factor. The central government deficit will hover around 4% of GDP in the years to come. Pre-election factors will also militate against increases in regulated prices, resulting in the historically lowest average inflation rate of less than 5% this year. If the international business climate proves favourable, GDP growth could climb up from 3% this year to 4% in 2003.

Slovenia's economic development in 2002 and 2003 will primarily depend on the international economic environment. The business sector may face significant difficulties in the first half of 2002, but enjoy some upswing in the second half of the year. Thus, in 2002 real GDP will grow by about 3% at best, fuelled by enhanced investment activities in the public sector. A more pronounced upswing may follow in 2003, should foreign demand increase.

The Czech GDP may grow about 3% in 2002 and up to 4% in 2003. Export growth decelerated considerably towards the end of 2001, industrial output growth however remained robust – as did demand for consumer and investment goods. The prospect of EU membership in the near future should stimulate the Czech business climate. In view of the low inflation and the strong currency, the right moment for the adoption of the euro could soon become a major issue. Opinions concerning this topic are mixed both within the country and without.

### **Outlook for Bulgaria and Romania, the two less advanced EU candidate countries**

Under the impact of the global and West European growth slowdown, GDP growth in Bulgaria may be around 4% and thus lower than it was in 2001. A weakening in the export performance in the final months of 2001 may well be indicative of such a trend. Given the prospect of an improvement in the economy of Western Europe, export growth is likely to accelerate once more. Inflation seems to be firmly under control, especially on account of the drop in world market prices for oil. The situation on the labour market is unlikely to improve radically.

For Romania, the WIIW forecasts a real GDP growth of about 3% in 2002, the prerequisite being that capital inflow remains at least at its current level and thus finances the current



account deficit (approximately 6% of GDP). Depending on improvements on the main foreign markets, growth could accelerate to 4% in 2003. Consumer price inflation will come down to 28% in 2002 and about 20% in 2003.

### **Final remark**

At the outset we asked whether there was a risk of contagion. As we have seen, in most of the countries discussed in this paper exports and industrial production ceased growing: a fact that is clearly symptomatic of contagion. However, the US economy may soon enter the recovery mode. This together with the successful introduction of the euro should exert a positive influence on the business climate in the EU. In that case, the CEECs' exposure to contagion could remain within limits – a fact that the world would interpret as a sign of relative robustness.

Table 12

### Overview developments 2000-2001 and outlook 2002-2003

	GDP real change in % against previous year				Consumer prices change in % against previous year				Reg. unemployment rate in %, end of period				Current account in % of GDP			
	2000	2001	2002 forecast	2003	2000	2001	2002 forecast	2003	2000	2001	2002 forecast	2003	2000	2001	2002 forecast	2003
Czech Republic	2.9	3.5	3	4	3.9	4.7	3.9	3.5	8.8	8.9	9.5	9	-4.5	-3.9	-4.2	-3.8
Hungary	5.2	3.8	3.6	4	9.8	9.2	5.7	4.5	8.7	8	8	8	-2.9	-2.2	-3.4	-4.0
Poland	4.0	1.1	0	2	10.1	5.5	5	5	15.1	17.4	19	18	-6.3	-4.0	-4.5	-4.7
Slovak Republic	2.2	3.1	3	4	12.0	7.3	5	7	17.9	18.6	17	16	-3.7	-7.6	-7.2	-4.8
Slovenia	4.6	3	3.5	4	8.9	8.4	6	5	12.0	12.0	11	10	-3.4	-0.4	-1.0	-1.0
CEEC-5	3.8	2.3	1.7	3	.	.	.	.	13.3	14.6	.	.	-5.1	-3.7	-4.2	-4.2
Bulgaria	5.8	5	4	4	10.3	7.4	4	3	17.9	17.3	17	16	-5.9	-6.2	-5.6	-5.2
Romania	1.6	4.9	3	4	45.7	34.5	28	20	10.5	8.6	9	8	-3.7	-6.0	-6.0	-5.9
CEEC-7	3.5	3.0	2.1	3.3	.	.	.	.	13.1	13.6	.	.	-5.0	-4.0	-4.5	-4.4
Croatia <sup>1)2)</sup>	3.7	4	3	4	6.2	4.9	4	3	22.3	23.1	22.5	21	-2.3	-4.4	-3.7	-3.9
Macedonia <sup>1)3)</sup>	4.3	-4	0	2	10.6	5.2	5	6	32.2	34	35	35	-3.0	-5.7	-7.2	-6.6
Yugoslavia	6.4	5	4	4	85.6	89.2	50	30	26.8	28	30	30	-13.0	-10.8	-12.7	.
Russia <sup>4)</sup>	9.0	5.0	3	4	20.8	21.6	20	15	9.9	9.0	9	9	17.8	11.0	7.5	5.4
Ukraine <sup>3)</sup>	5.8	9.0	5	5	28.2	12.0	15	15	4.2	3.7	4	4	4.7	2.6	0.0	.

Notes: 1) Consumer prices correspond to retail prices. - 2) On 1 August 2001 a change in the treatment of telecom prices took place, and had an inflation-reducing impact. - 3) Unemployment rate according to ILO definition, period average. - 4) Unemployment rate according to ILO definition, end of year.

Source: WIIW (February 2002).

**ANNEX**

**Selected Indicators of  
Competitiveness**

Table A/1

**GDP per capita at current PPPs (ECU/EUR), from 2002 at constant PPPs**

	1990	1993	1995	1996	1997	1998	1999	2000	2001	2005	2010	2015
										projection assuming 4% p.a. GDP growth and zero population growth p.a.		
Czech Republic	10044	9796	11286	11984	12262	12072	12279	12939	13709	15884	19325	23512
Hungary	7208	7365	8316	8597	9288	9743	10403	11243	11759	13703	16672	20284
Poland	4576	4963	6302	6787	7456	7780	8264	8794	9113	10054	12232	14882
Slovak Republic	7486	6325	7914	8529	9311	9644	10013	10454	11042	12794	15565	18938
Slovenia	10111	9934	11607	12192	13158	13631	14606	15594	16443	19144	23291	28337
Bulgaria	4862	4459	5007	4600	4430	4597	4828	5248	5667	6629	8066	9813
Romania	5339	4852	5768	6113	5925	5627	5620	5845	6465	7491	9114	11088
Estonia	.	5145	5735	6125	7017	7384	7517	8252	8925	10541	12825	15604
Latvia	7112	4058	4446	4725	5337	5575	5800	6365	7022	8493	10333	12572
Lithuania	7282	4995	4974	5301	5863	6144	6027	6412	6864	8146	9911	12058
Croatia	5980	4359	5214	5833	6304	6538	6565	6993	7461	8645	10518	12796
Macedonia	3651	3474	3770	3845	3988	4084	4328	4587	4491	4955	6029	7335
Russia	8431	6894	6157	6064	6318	6001	6478	7271	7877	9127	11104	13509
Ukraine	5876	4558	3324	3066	3087	3041	3121	3406	3856	4598	5594	6806
										projection assuming 2% p.a. GDP growth and zero population growth p.a.		
Austria	15945	18093	19937	20652	21557	22220	23258	24440	25379	27472	30331	33488
Germany	15052	17593	19890	19927	20938	21528	22440	23635	24291	26293	29030	32051
Greece	8767	10395	11920	12322	12794	13568	14413	15406	16580	17946	19814	21876
Portugal	9263	11086	12761	13157	14466	14771	15782	16643	17773	19238	21240	23451
Spain	11500	12897	14141	14670	15530	16104	17303	18403	19630	21248	23460	25902
Turkey	4416	5163	5239	5534	6003	6163	5990	6468	6009	6505	7182	7929
Japan	17241	19656	21675	22606	23614	23577	24186	25124	25367	27458	30316	33471
USA	21852	23889	26141	27147	29242	30572	32095	33980	34821	37691	41614	45945
EU(15) average	14750	16282	18153	18579	19511	20382	21405	22595	23592	25536	28194	31129

**European Union (15) average = 100**

	1990	1993	1995	1996	1997	1998	1999	2000	2001	2005	2010	2015
Czech Republic	68	60	62	65	63	59	57	57	58	62	69	76
Hungary	49	45	46	46	48	48	49	50	50	54	59	65
Poland	31	30	35	37	38	38	39	39	39	39	43	48
Slovak Republic	51	39	44	46	48	47	47	46	47	50	55	61
Slovenia	69	61	64	66	67	67	68	69	70	75	83	91
Bulgaria	33	27	28	25	23	23	23	23	24	26	29	32
Romania	36	30	32	33	30	28	26	26	27	29	32	36
Estonia	.	32	32	33	36	36	35	37	38	41	45	50
Latvia	.	25	24	25	27	27	27	28	30	33	37	40
Lithuania	.	31	27	29	30	30	28	28	29	32	35	39
Croatia	41	27	29	31	32	32	31	31	32	34	37	41
Macedonia	25	21	21	21	20	20	20	20	19	19	21	24
Russia	57	42	34	33	32	29	30	32	33	36	39	43
Ukraine	40	28	18	17	16	15	15	15	16	18	20	22
Austria	108	111	110	111	110	109	109	108	108	108	108	108
Germany	102	108	110	107	107	106	105	105	103	103	103	103
Greece	59	64	66	66	66	67	67	68	70	70	70	70
Portugal	63	68	70	71	74	72	74	74	75	75	75	75
Spain	78	79	78	79	80	79	81	81	83	83	83	83
Turkey	30	32	29	30	31	30	28	29	25	25	25	25
Japan	117	121	119	122	121	116	113	111	108	108	108	108
USA	148	147	144	146	150	150	150	150	148	148	148	148
EU(15) average	100	100	100	100	100	100	100	100	100	100	100	100

## Sources:

BENCHMARK RESULTS OF THE 1996 EUROSTAT-OECD COMPARISON BY ANALYTICAL CATEGORIES, OECD, 1999; National statistics; WIFO; WIIW estimates.

Benchmark PPPs for 1996 estimated from purchasing power standards for OECD (28) average and extrapolated with GDP price deflators. GDP per capita for OECD countries according to OECD *National Account* statistics converted into ECU.

Table A/2

**Indicators of macro-competitiveness, 1993-2001**  
**EUR based (ECU till 1998), annual averages**

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
<b>Czech Republic</b>								
Producer price index, 1989=100	213.3	241.6	253.0	265.4	278.4	281.2	295.0	303.6
Consumer price index, 1989=100	230.5	276.7	301.0	326.6	361.6	369.2	383.6	401.6
GDP deflator, 1989=100	202.8	253.5	275.8	297.8	329.8	340.2	343.2	358.7
Exchange rate (ER), CZK/EUR	34.10	34.31	34.01	35.80	36.16	36.88	35.61	34.08
ER nominal, 1989=100	205.4	206.7	204.9	215.7	217.9	222.2	214.5	205.3
Real ER (CPI-based), 1989=100	107.5	95.8	89.5	88.6	82.2	83.2	79.3	74.3
Real ER (PPI-based), 1989=100	103.7	98.3	93.6	94.8	90.9	91.9	88.6	82.8
PPP, CZK/EUR	10.08	11.85	12.68	13.30	14.78	14.95	14.74	15.03
ERDI (ECU based)	3.38	2.90	2.683	2.69	2.45	2.47	2.42	2.27
Average monthly gross wages, CZK	5817	8172	9676	10691	11693	12666	13490	14724
Average monthly gross wages, EUR (ER)	171	238	285	299	323	343	379	432
Average monthly gross wages, EUR (PPP)	577	690	763	804	791	847	915	980
GDP nominal, bn CZK	1020.3	1381.0	1567.0	1679.9	1837.1	1887.3	1959.6	2120
Employment total, 1000 persons	4848.3	5011.6	5044.4	4946.6	4882.5	4760.2	4663.9	4662.0
GDP per employed person, CZK	210441	275568	310634	339613	376254	396479	420162	454739
GDP per empl. person, CZK at 1996 pr.	286200	299818	310634	314467	314653	321437	337619	349668
Unit labour costs, 1989=100	171.7	230.2	263.1	287.1	313.9	332.8	337.5	355.6
Unit labour costs, ER adj., 1989=100	83.6	111.4	128.4	133.1	144.1	149.8	157.3	173.2
Unit labour costs, PPP adj., Austria=100	16.98	21.14	25.27	27.30	29.69	30.42	31.90	34.32
<b>Hungary</b>								
Producer price index, 1989=100	199.8	286.7	349.2	420.4	467.9	491.8	549.3	577.8
Consumer price index, 1989=100	262.1	399.3	493.5	583.8	667.3	734.0	805.9	880.1
GDP deflator, 1989=100	232.5	348.8	422.7	500.9	564.1	611.4	667.0	717.7
Exchange rate (ER), HUF/EUR	107.50	162.65	191.15	210.93	240.98	252.80	260.04	256.64
ER, nominal 1989=100	165.2	250.0	293.8	324.2	370.3	388.5	399.6	394.4
Real ER (CPI-based), 1989=100	76.0	80.3	78.2	74.5	75.8	73.2	70.3	65.2
Real ER (PPI-based), 1989=100	89.0	100.2	97.3	90.0	92.0	91.9	88.6	83.6
PPP, HUF/EUR	46.80	65.99	78.67	90.55	102.37	108.78	116.01	121.79
ERDI (ECU based)	2.30	2.46	2.43	2.33	2.35	2.32	2.24	2.11
Average monthly gross wages, HUF	27173	38900	46837	57270	67764	77187	87645	103421
Average monthly gross wages, EUR (ER)	253	239	245	272	281	305	337	403
Average monthly gross wages, EUR (PPP)	581	589	595	632	662	710	755	849
GDP nominal, bn HUF	3548.3	5614.0	6893.9	8540.7	10087.4	11393.5	13075.2	14600
Employment total, 1000 persons	3827.3	3678.8	3648.1	3646.3	3697.7	3811.5	3849.1	3859.5
GDP per employed person, HUF	927103	1526041	1889723	2342292	2728020	2989243	3396950	3782873
GDP per empl. person, HUF at 1996 pr.	1685732	1849582	1889723	1976503	2044414	2066744	2152757	2228001
Unit labour costs, 1989=100	212.4	277.2	326.6	381.9	436.8	492.2	536.6	611.8
Unit labour costs, ER adj., 1989=100	128.6	110.9	111.2	117.8	118.0	126.7	134.3	155.1
Unit labour costs, PPP adj., Austria=100	26.51	21.36	22.20	24.51	24.66	26.11	27.63	31.18
<b>Poland</b>								
Producer price index, 1989=100	1806.0	2837.2	3189.0	3578.0	3839.6	4058.4	4375.0	4445.0
Consumer price index, 1989=100	2259.9	3818.1	4577.9	5260.0	5880.7	6309.9	6947.2	7329.3
GDP deflator, 1989=100	1628.9	2690.0	3194.4	3642.9	4073.4	4348.0	4655.2	4856.4
Exchange rate (ER), PLN/EUR	2.119	3.135	3.377	3.706	3.923	4.227	4.011	3.669
ER, nominal, 1989=100	1329.1	1966.1	2118.3	2324.1	2460.5	2651.1	2515.7	2300.9
Real ER (CPI-based), 1989=100	70.9	66.0	60.8	59.3	57.1	58.1	51.3	45.6
Real ER (PPI-based), 1989=100	79.2	79.6	76.8	75.8	74.5	76.0	70.0	63.4
PPP, PLN/EUR	0.8162	1.2669	1.4797	1.6391	1.8401	1.9256	2.0153	2.0512
ERDI (ECU based)	2.60	2.47	2.28	2.26	2.13	2.20	1.99	1.79
Average monthly gross wages, PLN <sup>*)</sup>	390	691	874	1066	1233	1697	1894	2026
Average monthly gross wages, EUR (ER)	184	220	259	288	314	401	472	552
Average monthly gross wages, EUR (PPP)	478	545	591	650	670	881	940	988
GDP nominal, bn PLN	155.8	308.1	387.8	472.4	553.6	615.1	684.9	722.3
Employment total, 1000 persons	14330.1	14735.2	15020.6	15438.7	15800.4	15373.5	15017.5	14717
GDP per employed person, PLN	10871	20909	25820	30595	35035	40011	45609	49079
GDP per empl. person, PLN at 1996 pr.	21318	24830	25820	26829	27474	29396	31296	32282
Unit labour costs, 1989=100	1968.7	2991.2	3640.0	4270.3	4823.1	6206.2	6504.7	6747.4
Unit labour costs, ER adj., 1989=100	148.1	152.1	171.8	183.7	196.0	234.1	258.6	293.3
Unit labour costs, PPP adj., Austria=100	28.73	27.58	32.29	35.98	38.57	45.40	50.07	55.49

\*) Methodological change in 1999 (broader wage coverage).

(Table A/2 ctd.)

(Table A/2 ctd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
<b>Slovak Republic</b>								
Producer price index, 1989=100	218.4	262.6	273.5	285.8	295.3	306.5	336.6	358.8
Consumer price index, 1989=100	241.1	300.5	317.8	337.2	359.8	397.9	445.6	478.1
GDP deflator, 1989=100	184.2	230.0	240.3	256.2	269.2	286.9	305.6	320.8
Exchange rate (ER), SKK/EUR	35.98	38.45	38.40	38.01	39.60	44.12	42.59	43.31
ER, nominal, 1989=100	216.7	231.7	231.4	229.0	238.6	265.8	256.6	260.9
Real ER (CPI-based), 1989=100	108.4	98.8	95.7	91.1	90.5	92.3	81.6	79.3
Real ER (PPI-based), 1989=100	106.8	101.4	97.8	93.5	93.9	100.9	92.9	89.0
PPP, SKK/EUR	10.96	12.86	13.22	13.69	14.44	15.09	15.71	16.09
ERDI (ECU based)	3.28	2.99	2.90	2.78	2.74	2.92	2.71	2.69
Average monthly gross wages, SKK	5379	7195	8154	9226	10003	10728	11430	12344
Average monthly gross wages, EUR (ER)	150	187	212	243	253	243	268	285
Average monthly gross wages, EUR (PPP)	491	559	617	674	693	711	727	767
GDP nominal, bn SKK	369.1	546.0	606.1	686.1	750.8	815.3	887.2	960
Employment total, 1000 persons	2117.9	2146.8	2224.9	2205.9	2198.6	2132.1	2101.7	2124.8
GDP per employed person, SKK	174282	254347	272414	311024	341472	382407	422134	451803
GDP per empl. person, SKK at 1996 pr.	227440	265813	272414	291799	304886	320295	331952	338526
Unit labour costs, 1989=100	196.4	224.7	248.5	262.5	272.4	278.1	285.9	302.8
Unit labour costs, ER adj., 1989=100	90.6	97.0	107.4	114.6	114.2	104.6	111.4	116.0
Unit labour costs, PPP adj., Austria=100	19.53	19.54	22.44	24.95	24.97	22.55	23.98	24.40
<b>Slovenia</b>								
Producer price index, 1989=100	4218.9	5601.3	5982.4	6347.2	6727.8	6869.0	7391.3	8048.9
Consumer price index, 1989=100	5721.7	7857.9	8635.7	9360.9	10100.5	10716.2	11670.2	12650.2
GDP deflator, 1989=100	4865.6	6868.4	7633.6	8303.2	8953.8	9542.2	10089.8	10695.2
Exchange rate (ER), SIT/EUR	132.28	153.12	169.51	180.40	186.27	193.63	205.03	217.19
ER, nominal, 1989=100	4099.7	4745.5	5253.6	5591.0	5772.9	6001.0	6354.5	6731.1
Real ER (CPI-based), 1989=100	86.4	77.4	79.9	80.1	78.0	77.4	77.2	77.4
Real ER (PPI-based), 1989=100	104.6	97.3	101.5	102.8	99.7	101.6	104.7	102.4
PPP, SIT/EUR	72.57	96.30	105.26	111.21	120.40	125.80	130.03	134.47
ERDI (ECU based)	1.82	1.59	1.61	1.62	1.55	1.54	1.58	1.62
Average monthly gross wages, SIT	75432	111996	129125	144251	158069	173245	191669	214861
Average monthly gross wages, EUR (ER)	570	731	762	800	849	895	935	989
Average monthly gross wages, EUR (PPP)	1039	1163	1227	1297	1313	1377	1474	1598
GDP nominal, bn SIT	1435.1	2221.5	2555.4	2907.3	3253.8	3648.4	4035.5	4400
Employment total, 1000 persons	755.9	745.2	741.7	743.4	745.2	758.5	768.2	778.9
GDP per employed person, SIT	1898598	2980876	3445175	3910621	4366460	4810186	5253404	5648801
GDP per empl. person, SIT at 1996 pr.	2978712	3312942	3445175	3595229	3722631	3848048	3974531	4031767
Unit labour costs, 1989=100	3365.6	4492.9	4981.3	5332.5	5643.4	5983.6	6409.3	7082.8
Unit labour costs, ER adj., 1989=100	82.1	94.7	94.8	95.4	97.8	99.7	100.9	105.2
Unit labour costs, PPP adj., Austria=100	45.28	48.79	50.66	53.10	54.69	54.98	55.53	56.60
<b>Bulgaria</b>								
Producer price index, 1989=100	910.6	2454.4	5645.0	60462.0	70468.5	72653.0	85149.3	91705.8
Consumer price index, 1989=100	1794.7	5702.9	12637.6	146392.9	173732.5	178203.6	196584.0	211132.0
GDP deflator, 1989=100	1030.2	2897.2	6402.5	67162.7	82092.5	84637.4	89461.7	95097.8
Exchange rate (ER), BGN/EUR	0.032	0.087	0.192	1.896	1.972	1.956	1.956	1.956
ER, nominal, 1989=100	3485.9	9338.4	20612.4	203894.4	212116.3	210349.5	210349.5	210349.5
Real ER (CPI-based), 1989=100	234.2	209.9	214.3	186.8	166.7	163.1	151.6	144.8
Real ER (PPI-based), 1989=100	411.9	437.2	422.1	393.5	349.8	336.7	300.9	280.8
PPP, BGN/EUR	0.00791	0.02092	0.04546	0.463	0.568	0.575	0.594	0.616
ERDI (ECU based)	4.10	4.15	4.22	4.09	3.47	3.40	3.29	3.18
Average monthly gross wages, BGN	3	8	13	128	183	201	238	268
Average monthly gross wages, EUR (ER)	100	87	69	67	93	103	122	137
Average monthly gross wages, EUR (PPP)	408	363	291	276	322	350	401	435
GDP nominal, bn BGN	0.3	0.9	1.7	17.1	21.6	22.8	25.5	28.4
Employment total, 1000 persons	3221.8	3282.2	3285.9	3157.4	3152.6	3087.8	2943.4	2940
GDP per employed person, BGN	93	268	532	5402	6844	7376	8648	9660
GDP per empl. person, BGN at 1996 pr.	577	593	532	515	534	558	619	650
Unit labour costs, 1989=100	1185.9	2712.7	5268.1	52572.7	72656.1	76239.4	81387.9	87133.0
Unit labour costs, ER adj., 1989=100	34.0	29.0	25.6	25.8	34.3	36.2	38.7	41.4
Unit labour costs, PPP adj., Austria=100	17.66	14.09	12.85	13.51	18.03	18.81	20.05	20.97

(Table A/2 ctd.)

(Table A/2 ctd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.
<b>Romania</b>								
Producer price index, 1989=100	3065.5	9961.1	14928.8	37725.0	50235.3	71419.2	109562.2	156674.0
Consumer price index, 1989=100	3138.9	9829.0	13643.6	34758.8	55300.0	80629.4	117477.1	158006.7
GDP deflator, 1989=100	3289.0	10633.6	15453.6	38220.3	58935.7	87637.4	127424.8	170749.21
Exchange rate (ER), ROL/EUR	884.60	2629.51	3862.90	8090.92	9989.25	16295.57	19955.75	26026.91
ER, nominal, 1989=100	5377.5	15984.9	23482.7	49184.9	60724.9	99061.2	121311.6	158218.3
Real ER (CPI-based), 1989=100	206.6	208.5	226.2	189.8	149.9	169.8	146.3	145.6
Real ER (PPI-based), 1989=100	188.8	184.4	181.8	152.2	140.5	161.3	134.9	123.6
PPP, ROL/EUR	181.46	551.44	788.18	1893.48	2931.39	4273.51	6073.99	7940.63
ERDI (ECU based)	4.87	4.77	4.90	4.27	3.41	3.81	3.29	3.28
Average monthly gross wages, ROL	78347	281287	426610	846450	1357132	1957731	2876645	4282622
Average monthly gross wages, EUR (ER)	89	107	110	105	136	120	144	165
Average monthly gross wages, EUR (PPP)	432	510	541	447	463	458	474	539
GDP nominal, bn ROL	20035.7	72135.5	108919.6	252925.7	371193.8	539356.9	796533.7	1150000
Employment total, 1000 persons	10260.0	9752.0	9436.0	9200.9	8917.7	8616.3	8524.5	8397
GDP per employed person, ROL	1952799	7396995	11542984	27489384	41624621	62597275	93440519	136959668
GDP per empl. person, ROL at 1996 pr.	9175454	10749965	11542984	11114772	10914447	11038141	11332124	12395498
Unit labour costs, 1989=100	3169.1	9711.4	13716.8	28264.5	46148.8	65826.0	94213.9	128228.9
Unit labour costs, ER adj., 1989=100	58.9	60.8	58.4	57.5	76.0	66.4	77.7	81.0
Unit labour costs, PPP adj., Austria=100	17.10	16.47	16.42	16.83	22.36	19.27	22.49	22.93
<b>Estonia</b>								
Producer price index, 1992=100	175.2	299.9	344.3	374.6	390.4	385.7	404.6	422.4
Consumer price index, 1992=100	189.8	361.7	445.2	495.1	535.7	553.3	575.5	608.9
GDP deflator, 1992=100	181.3	331.4	408.5	451.9	493.9	516.3	540.6	575.8
Exchange rate (ER), EEK/EUR	15.463	14.819	15.074	15.670	15.783	15.647	15.647	15.647
ER, nominal, 1992=100	97.2	93.2	94.8	98.5	99.2	98.4	98.4	98.4
Real ER (CPI-based), 1992=100	53.1	28.4	24.0	22.9	21.7	21.1	20.8	20.2
Real ER (PPI-based), 1992=100	56.2	33.6	30.0	28.9	27.8	27.9	27.9	26.8
PPP, EEK/EUR	2.797	4.806	5.8255	6.260	6.870	7.040	7.207	7.488
ERDI (ECU based)	5.53	3.08	2.59	2.50	2.30	2.22	2.17	2.09
Average monthly gross wages, EEK	1066	2375	2985	3573	4125	4440	4907	5545
Average monthly gross wages, EUR (ER)	69	160	198	228	261	284	314	354
Average monthly gross wages, EUR (PPP)	381	494	512	571	600	631	681	741
GDP nominal, bn EEK	21.8	40.9	52.4	64.0	73.5	76.3	85.4	95.9
Employment total, 1000 persons	708.1	656.1	645.6	648.4	640.2	614.0	608.6	601
GDP per employed person, EEK	30824	62333	81200	98773	114867	124311	140382	159650
GDP per empl. person, EEK at 1996 pr.	69458	76832	81200	89284	94998	98361	106065	113261
Unit labour costs, 1992=100	196.2	395.2	470.0	511.7	555.2	577.1	591.5	625.9
Unit labour costs, ER adj., 1992=100	201.9	424.3	496.0	519.4	559.6	586.8	601.4	636.4
Unit labour costs, PPP adj., Austria=100	12.99	25.51	30.93	33.75	36.53	37.76	38.64	39.95
<b>Latvia</b>								
Producer price index, 1992=100	217.1	284.0	322.9	336.1	342.5	328.8	330.8	336.4
Consumer price index, 1992=100	209.2	355.4	417.9	453.0	474.3	485.7	498.3	510.8
GDP deflator, 1992=100	171.5	275.2	320.7	341.8	360.6	387.3	404.1	412.2
Exchange rate (ER), LVL/EUR	0.7927	0.6818	0.6900	0.6574	0.6614	0.6237	0.5601	0.5627
ER, nominal, 1992=100	91.3	78.5	79.5	75.7	76.2	71.9	64.5	64.8
Real ER (CPI-based), 1992=100	45.2	24.3	21.5	19.3	18.8	17.6	15.8	15.9
Real ER (PPI-based), 1992=100	42.6	29.9	26.8	24.8	24.3	23.9	22.4	22.2
PPP, LVL/EUR	0.1411	0.2127	0.2438	0.2524	0.2674	0.2816	0.2871	0.2857
ERDI (ECU based)	5.62	3.21	2.83	2.60	2.47	2.22	1.95	1.97
Average monthly gross wages, LVL	47	90	99	120	133	141	150	159
Average monthly gross wages, EUR (ER)	60	131	143	183	202	226	267	283
Average monthly gross wages, EUR (PPP)	335	421	405	475	499	501	521	556
GDP nominal, bn LVL	1.47	2.35	2.83	3.28	3.59	3.90	4.33	4.74
Employment total, 1000 persons	1205.0	1045.6	1017.7	1036.8	1043.0	1037.8	1037.9	1038
GDP per employed person, LVL	1217	2247	2780	3159	3441	3755	4175	4566
GDP per empl. person, LVL at 1996 pr.	2276	2618	2780	2964	3061	3109	3313	3553
Unit labour costs, 1992=100	240.3	395.8	411.2	468.9	504.3	525.1	522.6	518.2
Unit labour costs, ER adj., 1992=100	263.1	503.9	517.3	619.2	661.8	730.8	809.9	799.4
Unit labour costs, PPP adj., Austria=100	14.34	25.66	27.32	34.07	36.59	39.82	44.06	42.49

(Table A/2 ctd.)

(Table A/2 ctd.)

	1993	1995	1996	1997	1998	1999	2000	2001
<b>Lithuania</b>								prelim.
Producer price index, 1992=100	492.0	914.0	1064.8	1128.7	1084.6	1117.2	1318.3	1301.2
Consumer price index, 1992=100	510.7	1227.0	1528.8	1664.9	1749.8	1763.8	1781.5	1804.7
GDP deflator, 1992=100	406.2	906.4	1133.8	1283.5	1369.2	1413.6	1443.7	1472.5
Exchange rate (ER), LTL/EUR	5.1193	5.1717	5.0118	4.5272	4.4924	4.2712	3.6990	3.5849
ER, nominal, 1992=100	222.7	225.0	218.0	196.9	195.4	185.8	160.9	155.9
Real ER (CPI-based), 1992=100	45.2	20.2	16.1	13.6	13.1	12.5	11.0	10.8
Real ER (PPI-based), 1992=100	45.9	26.6	22.3	19.2	19.7	18.2	14.0	13.8
PPP, LTL/ATS	0.0416	0.0883	0.1090	0.1223	0.1298	0.1331	0.1343	0.1345
ERDI (ECU based)	8.23	3.96	3.12	2.57	2.38	2.23	1.94	1.89
Average monthly gross wages, LTL	166	481	618	778	930	987	1008	1028
Average monthly gross wages, EUR (ER)	32	93	123	172	207	231	273	287
Average monthly gross wages, EUR (PPP)	267	369	385	441	492	516	528	541
Average annual gross wages, LTL	1993	5771	7418	9337	11158	11844	12096	12338
Employment total, 1000 persons	1778.2	1643.6	1659.0	1669.2	1656.1	1647.5	1586.0	1550
GDP per employed person, LTL	6518	14665	19029	22969	25959	25891	28533	31129
GDP per empl. person, LTL at 1996 pr.	18190	18344	19029	20290	21496	20766	22409	23968
Unit labour costs, at 1996 prices	0.11	0.31	0.39	0.46	0.52	0.57	0.54	0.51
Unit labour costs, ER adjusted	0.02	0.06	0.08	0.10	0.12	0.13	0.15	0.14
Unit labour costs, PPP adjusted	0.03	0.10	0.12	0.16	0.19	0.21	0.23	0.23
<b>Russia</b>								
Producer price index, 1989=100	61181	899321	1356086	1559505	1670224	2653986	3890743	4635820
Consumer price index, 1989=100	32112	388817	574672	659723	841807	1563235	1888388	2296280
GDP deflator, 1989=100	41646	446728	644091	737391	857437	1414632	1988125	2344270
Exchange rate (ER), RUB/EUR	1.21	5.89	6.63	6.54	11.06	26.24	26.03	26.13
ER, nominal, 1989=100	174605	848366	954960	941800	1592973	3778114	3747905	3762448
Real ER (CPI-based), 1989=100	655.8	279.7	218.4	191.4	258.3	334.0	281.2	238.2
Real ER (PPI-based), 1989=100	307.1	108.4	81.4	70.5	110.8	165.6	117.3	99.3
PPP, RUB/ATS	0.0112	0.1143	0.1627	0.185	0.214	0.350	0.486	0.563
ERDI (ECU based)	7.24	3.49	2.77	2.46	3.56	5.22	3.77	3.29
Average monthly gross wages, RUB	64.3	532.6	790.2	950.2	1051.5	1522.6	2223.0	3262.0
Average monthly gross wages, EUR (ER)	53	90	119	145	95	58	85	125
Average monthly gross wages, EUR (PPP)	384	315	330	357	338	303	322	410
Average annual gross wages, RUB	771.12	6391	9483	11402	12618	18271	26676	39144
Employment total, 1000 persons	70852	66409	65950	64693	63812	63963	64327	65000
GDP per employed person, RUB	2421	23197	32535	38313	42955	74524	113517	139089
GDP per empl. person, RUB at 1996 pr.	37438	33445	32535	33466	32267	33931	36776	38215
Unit labour costs, at 1996 prices	0.02	0.19	0.29	0.34	0.39	0.54	0.73	1.02
Unit labour costs, ER adjusted	0.01699	0.03243	0.04395	0.05209	0.03535	0.02052	0.02787	0.03920
Unit labour costs, PPP adjusted	0.041	0.078	0.105	0.125	0.085	0.049	0.067	0.094
Exports, USD mn	59646	82900	90600	89000	74900	75700	105500	.
<b>Ukraine</b>								
Producer price index, 1989=100	274001	19914767	30290361	32622718	36928917	48413810	58532296	63566073
Consumer price index, 1989=100	143625	6786409	12229109	14172537	15674826	19233012	24656721	27615528
GDP deflator, 1989=100	142056	7715454	12819488	15140086	16950568	21587839	27050381	29755419
Exchange rate (ER), UAH/EUR	0.053	1.928	2.322	2.113	2.768	4.393	5.029	4.814
ER, nominal, 1989=100	758273	27739568	33408633	30401439	39821583	63212950	72357554	69259957
Real ER (CPI-based), 1989=100	636.7	524.0	359.0	287.7	346.8	454.2	415.8	364.6
Real ER (PPI-based), 1989=100	297.8	160.0	127.5	108.8	125.3	151.9	150.6	133.4
PPP, UAH/ATS	0.0004174	0.0215375	0.03533	0.04135	0.04606	0.05826	0.07213	0.07792
PPP, UAH/EUR	0.0062347	0.31828	0.52012	0.59666	0.67068	0.8374	1.0257	1.1008
ERDI (ECU based)	8.45	6.06	4.46	3.54	4.13	5.25	4.90	4.37
Average monthly gross wages, UAH	1.6	73.0	126.0	143.0	153.0	177.5	230.1	311.6
Average monthly gross wages, EUR (ER)	29	38	54	68	55	40	46	65
Average annual gross wages, EUR (PPP)	2986	2752	2907	2876	2738	2544	2692	3397
GDP nominal, bn UAH	1.5	54.5	81.5	93.4	102.6	130.4	173.0	207.4
Employment total, 1000 persons	23923.7	23725.5	23231.8	22597.6	22348.7	21823.7	21268.5	21000
GDP per employed person, UAH	62.0	2297.8	3508.9	4131.6	4590.6	5977.1	8131.8	9874.7
Unit labour costs, at 1996 prices	0.00	0.23	0.43	0.49	0.53	0.60	0.72	0.88
Unit labour costs, ER adjusted	0.063	0.119	0.186	0.232	0.191	0.137	0.142	0.183
Unit labour costs, ER adj., 1989=100	13.1	24.6	38.3	48.0	39.5	28.2	29.4	37.7
Unit labour costs, PPP adjusted	0.033	0.062	0.097	0.121	0.099	0.071	0.074	0.095
Unit labour costs, PPP adj., Austria=100	6.15	10.83	17.51	22.82	18.88	13.30	13.85	17.35

Employment: Employees + self-employed + farmers.

ER = Exchange Rate, PPP = Purchasing Power Parity, ERDI = Exchange Rate Deviation Index (all in terms of national currency per ECU).

Benchmark PPPs for 1996 were estimated from purchasing parity standards for OECD (28) average and extrapolated with GDP price deflators.

Sources: BENCHMARK RESULTS OF THE 1996 EUROSTAT-OECD COMPARISON BY ANALYTICAL CATEGORIES, OECD, 1999; National statistics; WIFO; WIIW estimates.



Table A3

## Indicators of macro-competitiveness, 1993-2001

	annual changes in %								1995-2001 average
	1993	1995	1996	1997	1998	1999	2000	2001 prelim.	
<b>Czech Republic</b>									
GDP deflator	21.0	10.2	8.8	8.0	10.7	3.2	0.9	4.5	6.0
Exchange rate (ER), CZK/EUR	-6.9	0.7	-0.9	5.3	1.0	2.0	-3.4	-4.3	-0.1
Real ER (CPI-based)	-20.1	-4.9	-6.6	-1.0	-7.1	1.1	-4.7	-6.2	-4.1
Real ER (PPI-based)	-13.6	-2.1	-4.8	1.3	-4.1	1.1	-3.6	-6.5	-2.8
Average gross wages, CZK	25.3	18.5	18.4	10.5	9.4	8.3	6.5	9.1	10.3
Average gross wages, real (PPI based)	14.7	10.2	13.1	5.3	4.3	7.2	1.5	6.1	6.2
Average gross wages, real (CPI based)	3.7	8.6	8.8	1.8	-1.2	6.1	2.5	4.3	3.7
Average gross wages, EUR (ER)	34.5	17.7	19.4	5.0	8.3	6.2	10.3	14.0	10.4
Employment total	-1.6	2.6	0.7	-1.9	-1.3	-2.5	-2.0	0.0	-1.2
GDP per empl. person, CZK at 1996 pr.	1.7	3.3	3.6	1.2	0.1	2.2	5.0	3.6	2.6
Unit labour costs, CZK at 1996 prices	23.1	14.8	14.3	9.1	9.3	6.0	1.4	5.4	7.5
Unit labour costs, ER (EUR) adjusted	32.2	13.9	15.3	3.7	8.2	4.0	5.0	10.1	7.6
<b>Hungary</b>									
GDP deflator	21.3	25.5	21.2	18.5	12.6	8.4	9.1	7.6	12.8
Exchange rate (ER), HUF/EUR	5.3	30.3	17.5	10.3	14.2	4.9	2.9	-1.3	7.9
Real ER (CPI-based)	-10.9	4.8	-2.5	-4.8	1.7	-3.4	-3.9	-7.3	-3.4
Real ER (PPI-based)	-3.7	5.7	-2.9	-7.5	2.2	-0.1	-3.6	-5.7	-3.0
Average gross wages, HUF	21.9	16.8	20.4	22.3	18.3	13.9	13.5	18.0	17.7
Average gross wages, real (PPI based)	10.0	-9.4	-1.1	1.6	6.3	8.4	1.7	12.2	4.7
Average gross wages, real (CPI based)	-0.5	-8.9	-2.6	3.4	3.5	3.6	3.4	8.1	3.2
Average gross wages, EUR (ER)	15.8	-10.4	2.5	10.8	3.6	8.6	10.4	19.6	9.1
Employment total	-6.3	-1.9	-0.8	0.0	1.4	3.1	1.0	0.3	0.8
GDP per empl. person, HUF at 1996 pr.	6.0	4.5	2.2	4.6	3.4	1.1	4.2	3.5	3.2
Unit labour costs, HUF at 1996 prices	15.0	11.7	17.8	16.9	14.4	12.7	9.0	14.0	14.1
Unit labour costs, ER (EUR) adjusted	9.2	-14.3	0.3	5.9	0.1	7.4	6.0	15.5	5.8
<b>Poland</b>									
GDP deflator	30.5	28.6	18.8	14.0	11.8	6.7	7.1	4.3	10.3
Exchange rate (ER), PLN/EUR	19.9	16.3	7.7	9.7	5.9	7.7	-5.1	-8.5	2.7
Real ER (CPI-based)	-8.2	-6.2	-7.9	-2.6	-3.6	1.7	-11.6	-11.1	-6.0
Real ER (PPI-based)	-7.9	-3.0	-3.6	-1.3	-1.8	2.0	-7.8	-9.5	-3.7
Average gross wages, PLN <sup>7</sup>	34.8	31.6	26.5	21.9	15.7	10.6	11.6	7.0	15.4
Average gross wages, real (PPI based)	2.1	4.9	12.6	8.6	7.8	30.3	3.5	5.3	11.0
Average gross wages, real (CPI based)	-0.4	3.0	5.5	6.1	3.5	28.3	1.3	1.4	7.3
Average gross wages, EUR (ER)	12.4	13.2	17.4	11.1	9.2	27.8	17.6	17.0	16.5
Employment total	-2.4	1.8	1.9	2.8	2.3	-2.7	-2.3	-2.0	0.0
GDP per empl. person, PLN at 1996 pr.	6.3	11.8	4.0	3.9	2.4	7.0	6.5	3.2	4.5
Unit labour costs, PLN at 1996 prices	26.7	17.7	21.7	17.3	12.9	28.7	4.8	3.7	14.5
Unit labour costs, ER (EUR) adjusted	5.7	1.2	12.9	6.9	6.7	19.4	10.5	13.4	11.6
<b>Slovak Republic</b>									
GDP deflator	15.4	9.7	4.5	6.6	5.1	6.6	6.5	5.0	5.7
Exchange rate (ER), SKK/EUR	-1.8	1.4	-0.1	-1.0	4.2	11.4	-3.5	1.7	2.0
Real ER (CPI-based)	-17.4	-4.9	-3.2	-4.8	-0.6	2.0	-11.6	-2.8	-3.6
Real ER (PPI-based)	-15.1	-2.8	-3.5	-4.4	0.4	7.4	-7.9	-4.1	-2.1
Average gross wages, SKK	18.4	14.3	13.3	13.1	8.4	7.2	6.5	8.0	9.4
Average gross wages, real (PPI based)	1.0	4.9	8.8	8.3	5.0	3.3	-3.0	1.3	3.9
Average gross wages, real (CPI based)	-3.9	4.0	7.1	6.6	1.6	-3.0	-4.9	0.7	1.3
Average gross wages, EUR (ER)	20.6	12.8	13.5	14.3	4.1	-3.7	10.4	6.2	7.3
Employment total	-2.6	1.7	3.6	-0.9	-0.3	-3.0	-1.4	1.1	-0.2
GDP per empl. person, SKK at 1996 pr.	-1.2	4.9	2.5	7.1	4.5	5.1	3.6	2.0	4.1
Unit labour costs, SKK at 1996 prices	19.8	8.9	10.6	5.6	3.8	2.1	2.8	5.9	5.1
Unit labour costs, ER (EUR) adjusted	22.0	7.5	10.7	6.7	-0.4	-8.4	6.5	4.1	3.0
<b>Slovenia</b>									
GDP deflator	37.1	15.2	11.1	8.8	7.8	6.6	5.7	6.0	7.7
Exchange rate (ER), SIT/EUR	26.0	0.5	10.7	6.4	3.3	4.0	5.9	5.9	6.0
Real ER (CPI-based)	-1.8	-8.8	3.2	0.2	-2.6	-0.8	-0.3	0.3	0.0
Real ER (PPI-based)	5.0	-6.9	4.3	1.3	-3.0	1.9	3.1	-2.2	0.8
Average gross wages, SIT	47.8	18.4	15.3	11.7	9.6	9.6	10.6	12.1	11.5
Average gross wages, real (PPI based)	21.5	4.9	8.0	5.3	3.4	7.3	2.8	2.9	4.9
Average gross wages, real (CPI based)	11.2	4.3	4.9	3.1	1.6	3.3	1.6	3.4	3.0
Average gross wages, EUR (ER)	17.3	17.8	4.1	5.0	6.1	5.4	4.5	5.8	5.2
Employment total	-3.6	-0.1	-0.5	0.2	0.2	1.8	1.3	1.4	0.7
GDP per empl. person, SIT at 1996 pr.	6.7	4.2	4.0	4.4	3.5	3.4	3.3	1.4	3.3
Unit labour costs, SIT at 1996 prices	38.5	13.5	10.9	7.1	5.8	6.0	7.1	10.5	7.9
Unit labour costs, ER (EUR) adjusted	10.0	13.0	0.1	0.6	2.5	2.0	1.2	4.3	1.8

<sup>7</sup>) Methodological change in 1999 (broader wage coverage). Growth in 1999 comparable according to new methodology.

Table A3 (contd.)

Table A3 (contd.)

	1993	1995	1996	1997	1998	1999	2000	2001 prelim.	1996-2001 annual average
<b>Bulgaria</b>									
GDP deflator	51.1	62.7	121.0	949.0	22.2	3.1	5.7	6.3	78.9
Exchange rate (ER), BGN/EUR	7.1	34.4	120.7	889.2	4.0	-0.8	0.0	0.0	68.1
Real ER (CPI-based)	-35.8	-14.5	2.1	-12.9	-10.8	-2.1	-7.1	-4.5	-6.0
Real ER (PPI-based)	-15.4	-8.4	-3.4	-6.8	-11.1	-3.7	-10.6	-6.7	-7.1
Average gross wages, BGN	57.8	53.2	74.4	865.6	43.3	9.7	18.4	12.5	81.1
Average gross wages, real (PPI based)	23.0	-0.2	-24.2	-9.9	22.9	6.4	1.0	4.5	-1.0
Average gross wages, real (CPI based)	-8.7	-5.5	-21.3	-16.6	20.7	6.9	7.3	4.7	-0.8
Average gross wages, EUR (ER)	47.4	13.9	-21.0	-2.4	37.7	10.6	18.4	12.5	7.7
Employment total	-1.6	1.3	0.1	-3.9	-0.2	-2.1	-4.7	-0.1	-1.8
GDP per empl. person, BGN at 1996 pr.	0.1	1.6	-10.2	-3.2	3.7	4.5	10.9	5.1	1.6
Unit labour costs, BGN at 1996 prices	57.7	50.7	94.2	897.9	38.2	4.9	6.8	7.1	78.3
Unit labour costs, ER (EUR) adjusted	47.3	12.1	-12.0	0.9	32.8	5.8	6.8	7.1	6.1
<b>Romania</b>									
GDP deflator	227.4	35.3	45.3	147.3	54.2	48.7	45.4	34.0	58.8
Exchange rate (ER), ROL/EUR	121.5	33.6	46.9	109.5	23.5	63.1	22.5	30.4	46.5
Real ER (CPI-based)	-35.6	4.1	8.5	-16.1	-21.0	13.3	-13.8	-0.5	-5.8
Real ER (PPI-based)	-15.3	3.4	-1.4	-16.3	-7.7	14.8	-16.4	-8.3	-6.4
Average gross wages, ROL	208.1	54.8	51.7	98.4	60.3	44.3	46.9	48.9	57.4
Average gross wages, real (PPI based)	16.3	14.6	1.2	-21.5	20.4	1.5	-4.2	4.1	-0.5
Average gross wages, real (CPI based)	-13.5	17.1	9.3	-22.1	0.8	-1.1	0.8	10.7	-0.9
Average gross wages, EUR (ER)	39.1	15.8	3.2	-5.3	29.9	-11.6	20.0	14.1	7.4
Employment total	-3.4	-2.8	-3.2	-2.5	-3.1	-3.4	-1.1	-1.5	-2.5
GDP per empl. person, ROL at 1996 pr.	5.1	10.3	7.4	-3.7	-1.8	1.1	2.7	9.4	2.4
Unit labour costs, ROL at 1996 prices	193.2	40.4	41.2	106.1	63.3	42.6	43.1	36.1	53.7
Unit labour costs, ER (EUR) adjusted	32.4	5.1	-3.9	-1.6	32.2	-12.6	16.9	4.4	4.9
<b>Estonia</b>									
GDP deflator	81.3	30.9	23.3	10.6	9.3	4.5	4.7	6.5	9.6
Exchange rate (ER), EEK/EUR	-2.8	-3.4	1.7	4.0	0.7	-0.9	0.0	0.0	0.9
Real ER (CPI-based)	-46.9	-22.9	-15.3	-4.6	-5.2	-2.8	-1.4	-3.0	-5.5
Real ER (PPI-based)	-43.8	-19.6	-10.9	-3.5	-3.8	0.4	-0.2	-3.7	-3.7
Average gross wages, EEK	94.2	37.0	25.7	19.7	15.4	7.6	10.5	13.0	15.2
Average gross wages, real (PPI based)	10.8	9.1	9.5	10.0	10.8	8.9	5.4	8.2	8.8
Average gross wages, real (CPI based)	2.3	6.2	2.1	7.6	6.7	4.2	6.3	6.8	5.6
Average gross wages, EUR (ER)	99.8	41.9	23.6	15.1	14.6	8.6	10.5	13.0	14.1
Employment total	-7.5	-5.3	-1.6	0.4	-1.3	-4.1	-0.9	-1.3	-1.5
GDP per empl. person, EEK at 1996 pr.	-1.0	10.4	5.7	10.0	6.4	3.5	7.8	6.8	6.7
Unit labour costs, EEK at 1996 prices	96.2	24.1	18.9	8.9	8.5	4.0	2.5	5.8	8.0
Unit labour costs, ER (EUR) adjusted	101.9	28.5	16.9	4.7	7.7	4.9	2.5	5.8	7.0
<b>Latvia</b>									
GDP deflator	71.5	16.0	16.5	6.6	5.5	7.4	4.3	2.0	7.0
Exchange rate (ER), LVL/EUR	-8.7	2.9	1.2	-4.7	0.6	-5.7	-10.2	0.5	-3.1
Real ER (CPI-based)	-54.8	-15.1	-11.8	-10.3	-2.2	-6.8	-10.3	0.6	-6.9
Real ER (PPI-based)	-57.4	-3.8	-10.4	-7.6	-1.7	-1.7	-6.5	-0.7	-4.8
Average gross wages, LVL	119.7	24.5	10.3	21.6	11.1	5.8	6.1	6.3	10.1
Average gross wages, real (PPI based)	1.2	11.3	-3.0	16.8	9.0	10.2	5.4	4.6	7.0
Average gross wages, real (CPI based)	5.0	-0.4	-6.2	12.2	6.1	3.3	3.4	3.7	3.6
Average gross wages, EUR (ER)	140.6	21.0	9.0	27.6	10.4	12.2	18.1	5.8	13.6
Employment total	-6.9	-3.5	-2.7	1.9	0.6	-0.5	0.0	0.0	-0.1
GDP per empl. person, LVL at 1996 pr.	-8.6	2.7	6.2	6.6	3.3	1.6	6.6	7.2	5.2
Unit labour costs, LVL at 1996 prices	140.3	21.2	3.9	14.0	7.5	4.1	-0.5	-0.8	4.6
Unit labour costs, ER (EUR) adjusted	163.1	17.8	2.7	19.7	6.9	10.4	10.8	-1.3	8.0
<b>Lithuania</b>									
GDP deflator	306.2	38.0	25.1	13.2	6.7	3.2	2.1	2.0	8.4
Exchange rate (ER), LTL/EUR	122.7	9.7	-3.1	-9.7	-0.8	-4.9	-13.4	-3.1	-5.9
Real ER (CPI-based)	-54.8	-19.0	-20.3	-15.3	-3.9	-4.5	-12.1	-1.8	-9.9
Real ER (PPI-based)	-54.1	-10.6	-16.3	-14.0	2.8	-7.6	-23.1	-1.3	-10.4
Average gross wages, LTL	223.7	47.8	28.6	25.9	19.5	6.2	2.1	2.0	13.5
Average gross wages, real (PPI based)	-34.2	15.2	10.3	18.7	24.3	3.1	-13.5	3.3	7.0
Average gross wages, real (CPI based)	-36.6	5.9	3.2	15.6	13.7	5.3	1.1	0.7	6.4
Average gross wages, EUR (ER)	45.4	34.7	32.7	39.3	20.4	11.6	17.9	5.2	20.6
Employment total	-4.2	-1.9	0.9	0.6	-0.8	-0.5	-3.7	-2.3	-1.0
GDP per empl. person, LTL at 1996 pr.	-12.6	5.3	3.7	6.6	5.9	-3.4	7.9	7.0	4.6
Unit labour costs, LTL at 1996 prices	270.4	40.4	23.9	18.0	12.8	9.9	-5.4	-4.6	8.6
Unit labour costs, ER (EUR) adjusted	66.3	28.0	27.9	30.7	13.7	15.6	9.3	-1.6	15.4

(Table A3 contd.)

Table A3 (contd.)

	1993	1995	1996	1997	1998	1999	2000	2001	1996-2001
								prelim.	annual
									average
<b>Croatia</b>									
GDP deflator	1466.9	5.3	3.6	7.4	8.4	4.1	6.4	4.9	5.8
Exchange rate (ER), HRK/EUR	1115.1	-4.7	0.7	2.3	2.5	6.2	0.7	-2.2	1.7
Real ER (CPI-based)	-22.2	-3.7	-0.3	0.8	-1.3	3.2	-2.7	-4.3	-0.8
Real ER (PPI-based)	-23.6	-1.0	-0.1	0.9	3.3	3.6	-3.8	-5.1	-0.2
Average gross wages, HRK	1434.9	34.0	12.3	13.1	12.6	10.2	7.0	4.1	9.8
Average gross wages, real (PPI based)	-4.8	33.0	10.8	10.6	14.0	7.4	-2.5	0.5	6.6
Average gross wages, real (CPI based)	-5.1	31.3	8.5	9.2	6.5	5.7	0.7	-0.8	4.9
Average gross wages, EUR (ER)	26.3	40.5	11.6	10.6	9.8	3.7	6.2	6.4	8.0
Employment total	-2.3	-1.4	-6.2	-1.4	5.6	-1.5	-1.7	-1.0	-1.1
GDP per empl. person, HRK at 1996 pr.	-5.8	8.3	12.9	8.3	-3.0	1.1	5.5	5.0	4.9
Unit labour costs, HRK at 1996 prices	1530.1	23.7	-0.5	4.4	16.1	9.0	1.4	-0.9	4.7
Unit labour costs, ER (EUR) adjusted	34.1	29.7	-1.2	2.1	13.2	2.6	0.7	1.3	3.0
<b>Macedonia</b>									
GDP deflator	400.5	17.1	2.9	3.9	1.4	2.7	8.0	5.9	4.1
Exchange rate (ER), MKD/EUR	308.6	-3.8	1.9	12.2	8.7	-0.7	0.2	0.3	3.6
Real ER (CPI-based)	-8.4	-14.3	2.1	11.6	10.7	1.2	-2.9	-2.2	3.3
Real ER (PPI-based)	15.5	-3.9	2.8	8.7	4.0	-0.5	-3.7	-1.2	1.6
Average net wages, MKD	495.6	10.7	2.8	2.8	3.7	2.9	5.5	3.5	3.5
Average net wages, real (PPI based)	66.2	5.7	3.1	-1.4	-0.3	3.0	-3.2	1.5	0.4
Average net wages, real (CPI based)	28.9	-4.4	0.5	0.2	3.8	3.6	-0.3	-1.6	1.0
Average net wages, EUR (ER)	45.8	15.0	0.9	-8.4	-4.6	3.6	5.3	3.2	-0.1
Employment total	.	.	.	-4.7	5.4	1.0	0.8	0.0	.
GDP per empl. person, MKD at 1996 pr.	.	.	.	6.5	-1.9	3.3	3.4	-4.0	.
Unit labour costs, MKD at 1996 prices	.	.	.	-3.5	5.7	-0.4	2.0	7.8	.
Unit labour costs, ER (EUR) adjusted	.	.	.	-14.0	-2.8	0.3	1.8	7.5	.
<b>Russia</b>									
GDP deflator	888.9	163.0	44.2	14.5	16.3	65.0	40.5	17.9	31.8
Exchange rate (ER), RUB/EUR	248.5	126.2	12.6	-1.4	69.1	137.2	-0.8	0.4	28.2
Real ER (CPI-based)	-62.9	-21.6	-21.9	-12.3	34.9	29.3	-15.8	-15.3	-2.6
Real ER (PPI-based)	-66.1	-29.7	-24.9	-13.4	57.3	49.4	-29.1	-15.3	-1.4
Average gross wages, RUB	906.4	119.6	48.4	20.2	10.7	44.8	46.0	46.7	35.3
Average gross wages, real (PPI based)	-3.4	-34.7	-1.6	4.6	3.3	-8.9	-0.4	23.2	2.9
Average gross wages, real (CPI based)	3.4	-26.2	0.4	4.7	-13.3	-22.0	20.9	20.7	0.6
Average gross wages, EUR (ER)	188.8	-2.9	31.8	21.9	-34.6	-38.9	47.2	46.2	5.5
Employment total	-1.7	-3.0	-0.7	-1.9	-1.4	0.2	0.6	1.0	-0.4
GDP per empl. person, RUB at 1996 pr.	-7.2	-1.1	-2.7	2.9	-3.6	5.2	8.4	3.9	2.2
Unit labour costs, RUB at 1996 prices	984.2	122.0	52.5	16.9	14.8	37.7	34.7	41.2	32.3
Unit labour costs, ER (EUR) adjusted	211.1	-1.9	35.5	18.5	-32.1	-41.9	35.8	40.7	3.2
<b>Ukraine</b>									
GDP deflator	3333.7	415.8	66.2	18.1	12.0	27.4	25.3	10.0	25.2
Exchange rate (ER), UAH/EUR	1873.8	400.9	20.4	-9.0	31.0	58.7	14.5	-4.3	16.5
Real ER (CPI-based)	-62.6	8.3	-31.5	-19.9	20.6	31.0	-8.5	-12.3	-5.9
Real ER (PPI-based)	-58.1	-11.1	-20.3	-14.7	15.2	21.2	-0.8	-11.4	-3.0
Average gross wages, UAH	2233.0	430.7	72.6	13.5	7.0	16.0	29.6	35.4	27.4
Average gross wages, real (PPI based)	-51.1	-9.9	13.5	5.4	-5.5	-11.5	7.2	24.7	5.0
Average gross wages, real (CPI based)	-57.4	11.3	-4.2	-2.1	-3.3	-5.4	1.1	20.9	0.8
Average gross wages, EUR (ER)	18.2	6.0	43.3	24.7	-18.3	-26.9	13.3	41.5	9.4
Employment total	-2.3	3.0	-2.1	-2.7	-1.1	-2.3	-2.5	-1.3	-2.0
GDP per empl. person, UAH at 1996 pr.	-12.2	-14.8	-8.1	-0.3	-0.8	2.2	8.6	10.4	1.8
Unit labour costs, UAH at 1996 prices	2556.7	522.9	87.8	13.8	7.8	13.5	19.4	22.7	25.1
Unit labour costs, ER (EUR) adjusted	34.6	24.3	55.9	25.1	-17.7	-28.5	4.3	28.1	7.4

ER = Exchange Rate  
PPI = Producer price index  
CPI = Consumer price index

Sources: National statistics and WIIW estimates.



## **COUNTRY REPORTS**

## **Bulgaria: a relatively successful year for the economy**

Somewhat unexpectedly, growth remained relatively strong in Bulgaria in the second half of 2001. In the third quarter GDP increased by 4.4% over the same period of 2000, resulting in an average GDP growth rate of 5.0% year-on-year for the first three quarters. The preliminary government estimates suggest a similar figure for the year as whole. Against a backdrop of widespread slowdown and even recession in many parts of the world, this outcome might appear impressive. However, the sustainability of this performance path has yet to be put to the test, even in the short term.

On the production side, GDP growth was bolstered by an ongoing process of rationalization in industry which led to a rise in the value-added content of output. Thus, while gross industrial production increased by just 2.2% year-on-year in the first three quarters of 2001, industrial value-added grew by 9.0% over the same period. The services sector, in particular the tourism industry, also fared well in 2001, lending further impetus to overall economic growth. Tourism revenues in 2001 are estimated at USD 1.3 billion, the highest level since 1989, while the number of foreign visitors increased by 17% over the previous year.

On the demand side, investment was the main growth factor in 2001, with gross fixed capital formation increasing by 18.2% year-on-year in January-September. On the other hand, exports gradually ran out of steam in the course of the year. After growing at double-digit rates in January-June, exports came to a near standstill in the fourth quarter. Although the pace of imports also decelerated in the second half of the year, it still remained relatively high, boosted by the strong demand for investment goods. Overall, the net trade effect on GDP growth for the year as a whole was most probably negative.

Since coming to power, the government headed by former king Simeon II has gradually abandoned most of its populist pledges to which it partly owes its electoral victory. The main reason for this change has been the process of negotiating a new IMF agreement. The latter was considered vital not only to securing much-needed external funding in the short term, but also to boosting the credibility of the new government's policy. When drafting the 2002 budget, it became evident that some of the envisaged policy measures (such as the simultaneous lowering of taxes and expansion of social programmes) were inconsistent with the requirement that a prudent fiscal policy be pursued under the currency board arrangement. In the final analysis, the government had to bow to IMF pressure and insistence on fiscal tightening after the spending spree in the election year.

The 2002 budget envisages a deficit of 0.8% in the consolidated government budget (the initial government was a deficit of 1.5%). As part of the IMF deal the government pledged to keep the deficit in 2001 below 1% (the 2001 budget was initially adopted with a deficit figure of 1.5%). The new budget incorporates some changes to the overall fiscal structure (mostly by shifting the tax burden from corporate entities to individuals), but the aggregate effect of those changes on total revenue appears to be neutral. Thus, a certain reduction in the corporate profit tax is offset by an increase in certain excises and duties, local taxes and social security contributions. In addition, the 2002 budget is based on a rather conservative projection of fiscal revenues; this implicit reserve is actually intended to act as a fiscal buffer and so permit greater flexibility in terms of expenditures over the year. On the expenditure side, the budget envisages cuts in public investment, which the previous government had generously boosted in an attempt to invigorate the economy. In all likelihood, a move of this kind will have a negative impact on growth in 2002. The persistent deficit in the state pension fund (amounting to more than 1.5% of GDP) constitutes another serious budget constraint. The pension fund is expected to remain in deficit until 2007 at least and will thus call for an extension of the present budgetary subsidy.

While securing IMF backing for a USD 300 million deal under a two-year funding programme (due to be approved by the IMF Board of Directors in February), the government has had to pay a high price for the abrupt departure from its pre-election rhetoric: recent opinion polls indicate that by December its popular support had halved since the elections six months earlier. The electorate has also been frustrated by the apparent lack of progress with respect to other pre-election pledges, viz. easing the labour market situation (which remains tense with unemployment rising in the final months of 2001) and combating corruption. The pace of progress in the privatization programme has not come up to expectations, especially where the major privatization deals still pending are concerned, such as Telecom, Bulgartabac (the tobacco monopoly) and DZI (the largest state-owned insurance company). The presidential elections in November revealed the change in the electorate's mood: they voted into power the Bulgarian Socialist Party candidate, Georgi Parvanov, even though Simeon formally backed the incumbent, Petar Stoyanov.

On the other hand, the Bulgarian authorities achieved a significant breakthrough recently with its debut Eurobond issue. Bulgaria had not featured on international financial markets as a sovereign borrower since its debt-default in 1990; the debut issue was considered an important milestone on the path to restoring normal access to international finance. The emission (launched in London on 12 November) was considered highly successful: the EUR 250 million five-year bond bearing a coupon of 7.25% was oversubscribed and sold at an average discount of 1.145%. Since its issue the price of the bond on the secondary markets has rebounded, standing at some 2% above face value in mid-January. The

success of the debut issue will most likely encourage the government to move faster in this direction (the 2002 budget contains a provision for new emissions of up to EUR 700 million).

Bulgaria's successful return to the international financial markets was also underpinned by some major agencies recently upgrading the country's credit rating. At the beginning of November Standard & Poor's raised Bulgaria's rating to BB- from B+. A month later Moody's upgraded Bulgaria's credit rating from B2 to B1 with stable outlook. And finally, in January, Fitch upgraded Bulgaria's long-term foreign currency ratings to BB- from B+ changing the long-term outlook from 'positive' to 'stable'. As cited in their statements, the agencies were encouraged by Bulgaria's balanced budget, its continued reform of the financial sector, progress towards EU accession and its structural reforms, as well as a declining foreign debt burden: all these factors are believed to have bolstered economic stability.

The external imbalance remains the greatest structural challenge to the Bulgarian economy. In 2001 the current account deficit ran to about 6% of GDP for the second year running, while the imbalance in merchandise trade continued upwards, reaching more than 15% of GDP. Nonetheless, financing these deficits has not proved a problem: in 2001 services recorded a highly positive balance, easing somewhat the pressure of the merchandise trade deficit on the balance of payments. Furthermore, the inflow of FDI, although lower than in 2000, was sufficient to cover almost fully the gap in the current account. With the new IMF deal and renewed access to international financial markets, the government should not have major financing problems in the short term. However, it should already be drawing up its financing strategy for the time when privatization-driven FDI inflows dry up and official assistance is much less.

The economic outlook for 2002 is moderately positive. Generally, the present macroeconomic trends can be expected to continue, but growth will probably slow down somewhat. The effect of the global and western European slowdown on Bulgaria's economy has been relatively slight to date, but this may well change in 2002 (one indicator being the weakening of exports in the final months of 2001). The overall impact is uncertain, all the more so as the economic outlook for Western Europe is improving. Inflation seems to be firmly under control; with oil prices dropping, imported inflationary pressures can be expected to be low. On the other hand, radical improvements on the labour market are hardly to be expected. In its latest memorandum on economic policies to the IMF, the government defines its medium-term goals in terms of high and sustainable growth based on productivity gains through further economic restructuring and attracting larger inflows of FDI. It remains to be seen to what extent the government is really committed to these goals and whether 2002 will be a step in the right direction.



Table BG

## Bulgaria: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003
								forecast	
Population, th pers., end of period	8384.7	8340.9	8283.2	8230.4	8190.9	8149.5	.	.	.
Gross domestic product, BGN mn, nom.	880.3	1748.7	17055.2	21577.0	22776.4	25453.6	28400	30800	33200
annual change in % (real)	2.9	-10.1	-7.0	3.5	2.4	5.8	5	4	4
GDP/capita (USD at exchange rate)	1559	1189	1224	1484	1510	1459	1600	.	.
GDP/capita (USD at PPP - WIIW)	5390	4990	4700	4880	5110	5540	5990	.	.
Gross industrial production									
annual change in % (real)	4.5	5.1	-5.4	-7.9	-9.3	5.8	2	4	4
Gross agricultural production									
annual change in % (real)	16.0	-11.5	12.4	0.2	-0.6	-9.2	.	.	.
Goods transport, public, mn t-kms	87210	79850	86543	76039	79446	84767	.	.	.
annual change in %	7.9	-8.4	8.4	-12.1	4.5	6.7	.	.	.
Gross fixed capital form., BGN mn, nom.	134.3	238.5	1841.0	2850.8	3632.2	4111.3	.	.	.
annual change in % (real)	16.1	-21.2	-23.9	32.9	25.3	8.2	.	.	.
Construction output total									
annual change in % (real)	5.8	-14.0	-4.4	-0.2	8.0	-16.8	.	.	.
Dwellings completed, units	6815.0	8099.0	7452.0	4942.0	9824.0	8795.0	.	.	.
annual change in %	-21.4	18.8	-8.0	-33.7	98.8	-10.5	.	.	.
Employment total, th pers., average	3282.2	3285.9	3157.4	3152.6	3087.8	2943.4	.	.	.
annual change in %	1.3	0.1	-3.9	-0.2	-2.1	-4.7	.	.	.
Employees in industry, th pers., average <sup>2)</sup>	770.4	728.1	838.7	802.5	722.5	624.3	.	.	.
annual change in % <sup>2)</sup>	-5.5	-5.5	-2.7	-4.3	-10.0	-13.6	-4.0 <sup>I-X</sup>	.	.
Unemployed reg., th, end of period	423.8	478.5	523.5	465.2	610.6	682.8	662.3	660	610
Unemployment rate in %, end of period	11.1	12.5	13.7	12.2	16.0	17.9	17.3	17	16
Average gross monthly wages, BGN <sup>2)</sup>	7.6	14.0	127.9	183.3	201.0	238.0	.	.	.
annual change in % (real, gross) <sup>2)</sup>	-5.5	-17.1	-16.6	20.7	6.9	7.4	.	.	.
Retail trade turnover, BGN mn <sup>3)</sup>	410.4	723.7	5469.3	7214.2	8023.0	8746.0	.	.	.
annual change in % (real) <sup>3)</sup>	2.7	-7.6	-36.4	18.5	12.3	0.7	.	.	.
Consumer prices, % p.a.	62.1	121.6	1058.4	18.7	2.6	10.3	7.4	4	3
Producer prices in industry, % p.a.	53.4	130.0	971.1	16.5	3.1	17.2	7.7 <sup>I-XI</sup>	.	.
Central government budget, BGN mn									
Revenues	197.3	350.0	2983.3	4245.6	4543.5	5136.7	5302.0 <sup>I-X</sup>	.	.
Expenditures	255.2	540.8	3650.0	3930.8	4132.0	5377.4	5735.0 <sup>I-X</sup>	.	.
Deficit (-) / surplus (+)	-57.9	-190.9	-666.7	314.7	411.6	-240.7	-433.0 <sup>I-X</sup>	.	.
Deficit (-) / surplus (+), % of GDP	-6.6	-10.9	-3.9	1.5	1.8	-0.9	.	.	.
Money supply, BGN mn, end of period									
M1, Money	107.9	236.6	2266.9	2755.6	2996.6	3632.2	4664.8	.	.
Broad money	583.7	1310.3	6018.6	6597.2	7351.1	9290.7	11593.9	.	.
Base rate of NB % p.a., end of period	38.6	342.1	6.8	5.2	4.5	4.7	4.7	.	.
Current account, USD mn	-198.0	163.7	1046.3	-61.4	-651.7	-701.6	-800	-800	-800
Current account in % of GDP	-1.5	1.6	10.3	-0.5	-5.3	-5.9	-6.2	-5.6	-5.2
Gross reserves of NB excl. gold, USD mn	1236.4	483.4	2121.0	2679.4	2892.0	3154.9	3289.6	.	.
Gross external debt, convert. curr., USD mn	10148.0	9601.6	9760.2	10274.3	10204.3	10364.3	10024.7 <sup>Nov</sup>	.	.
Exports total, fob, EUR mn <sup>4)</sup>	4142.3	4486.2	4368.3	3841.2	3733.8	5253.1	5700	5900	6200
annual change in %	23.8	8.3	-2.6	-12.1	-0.4	40.7	9	4	5
Imports total, cif, EUR mn <sup>4)</sup>	4376.6	4654.7	4361.4	4475.8	5139.9	7084.9	7900	8100	8400
annual change in %	24.5	6.4	-6.3	2.6	16.4	37.8	12	3	4
Average exchange rate BGN/USD	0.067	0.176	1.677	1.760	1.838	2.124	2.185	.	.
Average exchange rate BGN/EUR (ECU)	0.087	0.192	1.896	1.972	1.956	1.956	1.956	1.956	1.956
Purchasing power parity BGN/USD, WIIW	0.019	0.042	0.437	0.535	0.543	0.563	0.583	.	.
Purchasing power parity BGN/EUR, WIIW	0.021	0.045	0.463	0.569	0.575	0.594	0.616	.	.

1) Preliminary. - 2) Up to 1996 public sector only. - 3) Up to 1995 including public catering, from 1996 according to NACE classification. - 4) From 1999 new methodology. Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Czech Republic: upswing on hold?**

In 2001, the economic upswing in the Czech Republic ran foul of a contrary development in the world's leading economies. Czech GDP growth decelerated only slightly: from close on 4% year-on-year in the first six months down to about 3.2% in the second half of the year. This is all the more surprising given the Czech economy's intense involvement in international trade. Czech exports make up about 60% of GDP; approximately 40% of the country's exports go to Germany currently plagued with recession. In fact, foreign trade developments had a negative impact on GDP growth; in the ultimate analysis, the GDP growth of about 3.5% was the outcome of strong growth in fixed investment and private consumption.

Unlike the late 1990s, the Czech economy now creates a rather robust impression. A growing number of enterprises is performing well, mainly in connection with foreign direct investment (FDI). Per capita, the Czech Republic has amassed the highest FDI stock in the region. Industry is specializing to an ever-increasing degree in the production of machinery and transport equipment. Škoda Volkswagen was able to maintain its very large share in the domestic car market, while increasing its exports dramatically. The most remarkable feature is that Volkswagen headquarters in Germany did not shut down the Czech plant's research and development department: a decision that subsequently proved far-sighted and wise. Today Toyota is about to build another huge automotive plant on a greenfield site. Machinery and transport equipment currently has a share of close to 50% in total exports.

One aspect of the economy's greater robustness is the restructuring that took place in the banking sector. The days when major banks served as cash dispensers for giant loss-making industrial enterprises are long past. Admittedly, some of those former flagships still await restructuring, but that's very much the government's problem now. The future of a few major steel producers and coalmines is a cause for headaches, especially since the Czech government and the EU have differing views on the matter. The gradual decline in the total volume of credits dating back to the financial crisis in 1997 is related to the write-off of bad loans that ran on into 2001. At the end of November 2001, the accumulated stock of credits was 18% lower than the year previous. Over that period, the share of foreign currency loans in the total volume of credits remained unchanged at 18%: a relatively low rate that does not impinge on manoeuvrability in terms of monetary policy. The people's confidence in their national currency has always stood firm; the recent trend towards nominal appreciation has served to strengthen that attitude.

The Czech National Bank (CNB) has adopted inflation targeting as a strategy. As net inflation, i.e. price growth in the unregulated segment of the consumer basket, had tended to remain somewhat below the targeted band over the past few years, the CNB in a series of steps was able to reduce interest rates to an astoundingly low level. The latest step, announced on 1 February 2002, fixed the discount rate at 3.25%. In fact, the National Bank's major concern is not inflation, but the exchange rate in the context of a managed floating regime. Standing at more than CZK 35.5 per euro in January 2001, the exchange rate fell to around CZK 32 one year later.

At end-December 2001, the CNB and the government agreed to join forces in an initiative to avoid further significant nominal appreciation. They devised a joint strategy aimed at reducing the impact of capital inflow on appreciation in the context of FDI. The government authorized the sale of a gas distributor to a foreign strategic investor, and the electricity producer and distributor CEZ might well follow suit. It is difficult to say whether this agreement will succeed in discouraging expectations of appreciation.

Currency appreciation was probably one of the reasons for the slowdown in export growth in 2001. Year-on-year, in euro terms, the growth rate of Czech exports was 28% in the first quarter, but dropped to only 10% in the last quarter. The latter figure represents a three-month average derived from 16% growth in October, 9% in November and a meagre 5.5% in December. In all likelihood, however, the main reason was the deterioration in the international and German business climate. Despite the appreciation in most months, exports grew at a faster rate than imports. This trend also had something to do with price changes. In mid-2000, the growth of export and import prices alike started to decelerate and in mid-2001 both prices began to drop: import prices even more so than export prices. The trade deficit in 2001 was somewhat smaller than the year previous despite an alarmingly high deficit in December.

The government was able to secure parliament's approval for its 2002 budget. Taking into account the fact that the government does not enjoy a stable parliamentary majority, getting the budget approved was a remarkable achievement given the parliamentary elections slated for June. Four parties or party groupings will play a significant role, and the two largest of them could emerge as almost equally powerful factions; speculation about possible future coalitions is rife. All in all, the Social Democrat government achieved some measure of success, even in areas where initially it had not cherished any great ambitions, viz. privatization. The budget deficit in 2001 was lower than many observers had expected. However, the degree to which the electorate will honour the government's achievements will also depend on economic developments over the next few months. Signs of confidence noted in opinion polls in January 2002 point to a positive shift, especially in the business world. The Czech business climate would start to worsen, were the recovery in Western Europe to take time.

The WIIW forecast for GDP growth, 3% in 2002 and about 4% in 2003, is based on the assumption that recovery in leading countries, especially the European countries, will start in the course of 2002. The recent introduction of the common currency could exert a positive impact on the business climate in Euroland, while the prospect of EU membership in the near future should stimulate the Czech business climate. In view of the low rate of inflation and the strong currency, choosing the right moment to adopt the euro could soon become a major issue. Opinion on the matter is split both within the country and without.

Table CZ

## Czech Republic: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003
	forecast								
Population, th pers., mid-year	10330.8	10315.4	10303.6	10294.9	10282.8	10272.5	10288.5	.	.
Gross domestic product, CZK bn, nom.	1381.0	1567.0	1679.9	1837.1	1887.3	1959.6	2120	2270	2440
annual change in % (real)	5.9	4.3	-0.8	-1.2	-0.4	2.9	3.5	3	4
GDP/capita (USD at exchange rate)	5035	5596	5142	5530	5305	4943	5417	.	.
GDP/capita (USD at PPP - WIIW)	12140	12990	13010	12820	12990	13650	14480	.	.
Gross industrial production									
annual change in % (real) <sup>2)</sup>	8.7	2.0	4.5	1.6	-3.1	5.4	6.8	5	7
Gross agricultural production									
annual change in % (real)	5.0	-1.4	-5.1	0.7	0.6	-4.5	.	.	.
Goods transport, mn t-kms <sup>3)</sup>	32717	32581	62460	53639	54620	57343	42900 <sup>I-IX</sup>	.	.
annual change in %	-3.7	-0.4	.	-14.1	1.8	5.0	0.1 <sup>I-IX</sup>	.	.
Gross fixed capital form., CZK bn, nom.	442.5	500.6	514.5	532.2	527.1	554.7	.	.	.
annual change in % (real)	19.8	8.2	-2.9	0.1	-0.6	4.2	7.1	5	5
Construction industry									
annual change in % (real)	8.5	5.3	-3.9	-7.0	-6.5	5.3	9.6	.	.
Dwellings completed, units	12998	14482	16757	22183	23734	25207	15495 <sup>I-IX</sup>	.	.
annual change in %	-28.4	11.4	15.7	32.4	7.0	6.2	2.2 <sup>I-IX</sup>	.	.
Employment total, th pers., average	5011.6	5044.4	4946.6	4882.5	4760.2	4663.9	4589 <sup>I-IX</sup>	.	.
annual change in %	2.6	0.7	-1.9	-1.3	-2.5	-2.0	0.0 <sup>I-IX</sup>	.	.
Employment in industry, th pers., average	1628.1	1614.7	1608.8	1583.2	1532.9	1493.1	1519 <sup>I-IX</sup>	.	.
annual change in %	0.6	-0.8	-0.4	-1.6	-3.2	-2.6	0.2 <sup>I-IX</sup>	.	.
Unemployed reg., th, end of period	153.0	186.3	268.9	386.9	487.6	457.4	461.9	.	.
Unemployment rate in %, end of period	2.9	3.5	5.2	7.5	9.4	8.8	8.9	9.5	9
Average gross monthly wages, CZK <sup>4)</sup>	8172	9676	10691	11693	12666	13490	14144 <sup>I-IX</sup>	.	.
annual change in % (real, gross)	8.7	8.9	2.0	-1.2	5.9	2.6	4.3 <sup>I-IX</sup>	.	.
Retail trade turnover, CZK bn	529.7	.	.	.	.	.	.	.	.
annual change in % (real)	4.8	12.1	-0.4	-7.1	2.4	4.0	4.6 <sup>I-XI</sup>	.	.
Consumer prices, % p.a.	9.1	8.8	8.5	10.7	2.1	3.9	4.7	3.9	3.5
Producer prices in industry, % p.a.	7.6	4.7	4.9	4.9	1.0	4.9	2.9	3.0	3.0
Central government budget, CZK bn									
Revenues	440.0	482.8	509.0	537.4	567.3	586.2	626.2	.	.
Expenditures	432.7	484.4	524.7	566.7	596.9	632.3	693.9	.	.
Deficit (-) / surplus (+)	7.2	-1.6	-15.7	-29.3	-29.6	-46.1	-67.7	.	.
Deficit (-) / surplus (+), % GDP	0.5	-0.1	-0.9	-1.6	-1.6	-2.4	-3.2	-3.5	-3.0
Money supply, CZK bn, end of period									
M1, Money	453.3	475.3	445.1	433.4	479.8	542.5	615.1 <sup>Nov</sup>	.	.
M2, Money + quasi money	1039.6	1120.5	1219.8	1285.2	1389.2	1479.5	1635.3 <sup>Nov</sup>	.	.
Discount rate, % p.a., end of period	9.5	10.5	13.0	7.5	5.0	5.0	3.75	.	.
Current account, USD mn	-1369	-4121	-3564	-1386	-1567	-2273	-2200	-2700	-2700
Current account in % of GDP	-2.6	-7.1	-6.7	-2.4	-2.9	-4.5	-3.9	-4.2	-3.8
Gross reserves of NB incl. gold, USD mn	14023	12435	9774	12617	12825	13139	14466	.	.
Gross external debt, convert. curr., USD mn	16549	20845	21352	24047	22613	21149	21825 <sup>Sep</sup>	.	.
Exports total, fob, EUR mn <sup>5)</sup>	16501.6	17691.3	19811.8	23070.4	24640.9	31482.7	37218.6	40000	44000
annual change in %	22.5	7.2	12.0	16.4	6.8	27.8	18.2	7	10
Imports total, cif, EUR mn <sup>5)</sup>	19403.7	22189.7	24014.3	25289.4	26387.4	34875.7	40709.6	44000	48000
annual change in %	32.6	14.4	8.2	5.3	4.3	32.2	16.7	8	9
Average exchange rate CZK/USD	26.55	27.15	31.71	32.27	34.60	38.59	38.04	.	.
Average exchange rate CZK/EUR (ECU)	34.31	34.01	35.80	36.16	36.88	35.61	34.08	32.0	30.5
Purchasing power parity CZK/USD, WIIW	11.01	11.69	12.53	13.92	14.13	13.97	14.23	.	.
Purchasing power parity CZK/EUR, WIIW	11.85	12.68	13.30	14.78	14.95	14.74	15.03	.	.

1) Preliminary. - 2) From 1996 new methodology. - 3) Up to 1996 public transport only. - 4) Enterprises with more than 100, from 1997 with 20 and more employees. - 5) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Hungary: ups and downs in 2001. A turnaround in 2002?**

Expansion of the economy gradually slowed down in the course of 2001 and came to a complete halt by the end of the year. That notwithstanding, the estimated annual average growth rate is assumed to have amounted to somewhat below 4%. Performance was thus weaker than in any of the previous four years, yet still some 2 percentage points higher than that of the EU, in addition to which it exceeded the growth rate of most other Central European economies.

In the first few months of 2001 key economic indicators showed a picture very different to that at the end of the year. Industrial output increased by 10.2% in the first quarter, yet by the third quarter it had already dropped below the level of the same quarter in the previous year. CPI inflation stood at more than 10% in the first half of the year, yet it too started to decline from July onwards and December-to-December inflation dropped to 6.8%. Real wage growth accelerated apace with the decrease in inflation and may well be higher than 8% for the year as a whole. And finally, the current account, whose monthly deficits up until June replicated the pattern of previous years, 'went mad' with the onset of summer producing unusually low monthly deficits in July-September and December, arriving at USD 1105 million for the whole year, USD 223 million less than in the previous year.

This strange mix of changes over the year is attributable to three factors: (a) a deterioration in the conditions to growth in the wake of the unfavourable business cycle in the global economy and, more particularly, the European Union; (b) the effect of changes in the exchange rate regime; and (c) measures initiated in the run-up to the forthcoming elections.

A change of paramount importance was the widening of the forint intervention band to +/- 15% in May. Following this step, the forint appreciated strongly, moving on average about 10% upwards towards the firmer end of the band. This change helped break a two-year impasse in the fight against inflation. Import prices dropped in forint terms; moreover, energy imports were cheaper in dollar terms than in the year previous. Relatively modest food price rises in 2001 contributed to disinflation on account of the very high base for this group of commodities in 2000. The low CPI index at the end of the year was a good start to the Central Bank's new inflation-targeting programme announced in July last year. In fact, 2001 was the first year since the present government took office when actual inflation was not substantially higher than that originally planned.

While inflation responded as expected to the appreciation of the forint, the impact on external equilibrium would appear to have been the reverse; the current account modestly

improved instead of deteriorating as many had feared when the new regime came into power. The slight improvement in the current account compared to the previous year was the result of a USD 265 million bigger deficit in trade of goods, USD 291 million higher net revenues in tourism and minor improvements in some other items. In 2001 non-debt creating financing (USD 727 million) was about half a billion USD greater than in 2000 on account of a turnaround in portfolio investments in equity securities (the moderate surplus in 2001 stood in sharp contrast to the enormous deficit in 2000) and substantially less net equity capital inflow in Hungary than in the previous year.

Net FDI (equity capital and intercompany loans) in Hungary attained USD 2443 million, a recent high, primarily due to the ample inflow of intercompany loans last year (USD 1463 million).

If the GDP data (expenditures) for the first three quarters are correct, the driving force behind economic growth must have been the improvement in net exports. GDP increased by 4% while growth in both final consumption and gross fixed investments was lower, 3.5% and a mere 3%, respectively. The low figure for final consumption is all the more surprising, as other indicators (retail trade, real wages, real pensions) would seem to hint at a rapid expansion of private consumption. The pace at which investments increased was disappointingly slow. Investments in machinery and equipment even declined in the third quarter. The production side of the GDP shows that contrary to the previous four years, industry's contribution was negligible, growth having been driven by construction, agriculture and services.

The general government closed the year with a deficit lower than planned (3.2% of GDP). Where this apparently good performance is concerned, some reservations are called for as a couple of issues tend to obscure the public finance situation. Substantial revenues were entered in the books in 2000, yet were only spent in 2001; the state-owned Hungarian Development Bank issues government guaranteed bonds and extends credits to financing projects to which the government accords top priority. The bank also purchases stakes in (thus practically re-nationalizing) firms. The privatization agency (ÁPV Rt) became a net recipient of government transfers as a number of ailing state-owned companies were saved thanks to the government injecting capital. An alternative, EU-compatible calculation of the general government position undertaken by GKI, the independent Budapest-based research institute, puts the deficit at about 5% of GDP. Growing extra-budgetary government spending and repeated instances of public procurement rules being flouted have led to an increasing portion of public financial affairs being conducted beyond the control of parliament and the general public.

It is very difficult to assess the impact of fiscal policy on aggregate demand. Information on real spending is often intermingled with and obscured by public relations rhetoric related to

the upcoming elections. For example, while the government revises (upwards) its road-building targets in terms of kilometres, hardly a new stretch of motorway has been completed in the past three years. In the framework of the Széchenyi plan (a spectacular collection of development priorities to be implemented with the assistance of the state) no more than HUF 5 billion of the HUF 94 billion earmarked for 2001 was in fact spent by the end of the year. The Central Bank estimates that in 2001 the shift in government spending (official plus extra-budgetary items) increased aggregate demand by some 2.5% of GDP. In 2002, additional demand imposed by the government will amount to 0.5% of GDP. All in all, fiscal policy took an expansive turn in the biennium 2001-2002, the actual extent of which, however, is uncertain and its impact measured in terms of increased output or imports is not yet perceptible.

2002 is election year in Hungary. This means a continuation of the current expansive fiscal policy in the first half of the year and a possible correction in the summer by the new government. No sharp macroeconomic turn or fundamentally different economic policy can be expected whatever the outcome of the elections may be.

Escaping from the recession calls for an upturn in the EU business cycle in the second half of the year. The WIIW forecast is based on the assumption that a change in the external environment to the better will lend impetus to economic growth in Hungary with a shorter or longer time-lag. Hungary's economic development in 2002 may well be a sort of mirror image of 2001 with sluggish growth in the first two quarters and acceleration in the second two quarters, yielding an annual GDP growth rate of 3.6%. The reverse of last year's improvement in the current account position is expected, as it is assumed that the foreign sector will respond swiftly when the outlook improves on main export markets in the second half of the year and the import of inputs on a massive scale ensues in tandem with a delayed increase in exports. Should the expected upturn of the business cycle in the EU be delayed, the Hungarian economy's growth performance will lag substantially behind performance levels in 2001.

It would appear that a low rate of inflation is sustainable in the first half of the year, being facilitated by the high base in the previous year, but it may prove difficult to attain a further drop in the second half of 2002 to the official central bank target of 4.5% (December-to-December level, +/- 1%). It is an open question what will happen to energy prices after the general election as they have been long been kept artificially low.

It is assumed that in 2003 economic performance will once again attain the level of the period 1997-2000 while disinflation, albeit to a moderate extent, will continue.



Table HU

## Hungary: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003 forecast
Population, th pers., end of period <sup>2)</sup>	10212.3	10174.4	10135.4	10091.8	10043.2	10197.1	10195	.	.
Gross domestic product, HUF bn, nom.	5614.0	6893.9	8540.7	10087.4	11393.5	13075.2	14600	16100	17500
annual change in % (real)	1.5	1.3	4.6	4.9	4.2	5.2	3.8	3.6	4
GDP/capita (USD at exchange rate)	4367	4433	4504	4651	4769	4621	5000	.	.
GDP/capita (USD at PPP - WIIW)	8950	9320	9860	10350	11010	11860	12420	.	.
Gross industrial production									
annual change in % (real)	4.6	3.4	11.1	12.5	10.4	18.6	4.1	5	9
Gross agricultural production									
annual change in % (real)	2.6	6.3	-3.8	-2.1	4.0	-5.3	.	.	.
Goods transport, mn t-kms	23675	24874	24789	27144	26339	26399	19031 <sup>I-IX</sup>	.	.
annual change in %	.	5.1	-0.3	9.5	-3.0	0.2	-1.2 <sup>I-IX</sup>	.	.
Gross fixed capital form., HUF bn, nom.	1125.4	1475.5	1898.9	2384.6	2724.5	3179.8	.	.	.
annual change in % (real)	-4.3	6.7	9.2	13.3	5.9	7.7	3.5	6	6
Construction industry									
annual change in % (real)	-17.6	2.7	8.1	15.3	9.0	7.9	10.4 <sup>I-XI</sup>	9	.
Dwellings completed, units	24718	28257	28130	20323	19287	21583	13676 <sup>I-IX</sup>	.	.
annual change in %	18.0	14.3	-0.4	-27.8	-5.1	11.9	50.1 <sup>I-IX</sup>	.	.
Employment total, th pers., average <sup>3)4)</sup>	3678.8	3648.1	3646.3	3697.7	3811.5	3849.1	3859.5	.	.
annual change in % <sup>3)4)</sup>	-1.9	-0.8	0.0	0.7	3.1	1.0	0.3	1	.
Employees in industry, th pers., average <sup>5)</sup>	833.0	789.0	783.5	795.9	834.0	844.8	834.4 <sup>I-XI</sup>	.	.
annual change in %	-5.4	-5.3	-0.7	1.6	0.8	1.3	-1.3 <sup>I-XI</sup>	.	.
Unemployed, th pers., average <sup>3)</sup>	416.5	400.1	348.8	313.0	284.7	262.5	232.9	.	.
Unemployment rate in %, average <sup>3)</sup>	10.2	9.9	8.7	7.8	7.0	6.4	5.7	5.6	5.6
Average gross monthly wages, HUF <sup>5)</sup>	38900	46837	57270	67764	77187	87645	.	.	.
annual change in % (real, net)	-12.2	-5.0	4.9	3.6	2.5	1.5	7	5	3
Retail trade turnover, HUF bn	2389.9	2793.2	3197.6	3682.8	4329.7	4822.0	.	.	.
annual change in % (real)	-8.1	-5.0	-1.0	12.3	7.9	2.0	6	.	.
Consumer prices, % p.a.	28.2	23.6	18.3	14.3	10.0	9.8	9.2	5.7	4.5
Producer prices in industry, % p.a.	28.9	21.8	20.4	11.3	5.1	11.7	5.2	.	.
Central government budget, HUF bn <sup>6)</sup>									
Revenues	1418.2	2079.3	2364.6	2624.4	3227.6	3681.0	4083.6	.	.
Expenditures	1728.9	2209.1	2703.1	3176.6	3565.8	4049.7	4496.8	.	.
Deficit (-) / surplus (+)	-310.8	-129.8	-338.5	-552.2	-338.1	-368.7	-413.2	.	.
Deficit (-) / surplus (+), % GDP	-5.5	-1.9	-4.0	-5.5	-3.0	-2.8	-2.8	.	.
Money supply, HUF bn, end of period									
M1, Money	1036.3	1237.2	1528.4	1791.1	2135.6	2381.7	2755.8	.	.
Broad money	2736.4	3351.1	4014.3	4624.9	5370.6	6051.3	7038.9	.	.
Refinancing rate, % p.a., end of period	28.0	23.0	20.5	17.0	14.5	11.0	9.75	.	.
Current account, USD mn <sup>7)</sup>	-2480	-1678	-981	-2298	-2081	-1328	-1105	-2000	-2500
Current account in % of GDP	-5.6	-3.7	-2.1	-4.9	-4.3	-2.9	-2.2	-3.4	-4.0
Reserves total, incl. gold, USD mn	12010	9751	8429	9341	10854	11229	11278	.	.
Gross external debt, USD mn	31660	27956	24395	27280	29336	30757	32865 <sup>Nov</sup>	.	.
Exports total, fob, EUR mn <sup>8)</sup>	9972.3	10471.6	16910.1	20476.8	23491.0	30544.5	33900	35600	38500
annual growth rate in %	10.2	5.0	35.1	21.1	14.7	30.0	11.0	5	8
Imports total, cif, EUR mn <sup>8)</sup>	11905.2	12911.6	18779.5	22871.2	26287.8	34856.3	37900	40550	43800
annual growth rate in %	-3.3	8.5	29.9	21.8	14.9	32.6	8.7	7	8
Average exchange rate HUF/USD	125.69	152.57	186.75	214.45	237.31	282.27	286.48	.	.
Average exchange rate HUF/EUR (ECU)	162.65	191.15	210.93	240.98	252.80	260.04	256.64	248	250
Purchasing power parity HUF/USD, WIIW	61.33	72.55	85.33	96.41	102.82	109.95	115.28	.	.
Purchasing power parity HUF/EUR, WIIW	65.99	78.67	90.55	102.37	108.78	116.01	121.79	.	.

1) Preliminary. - 2) From 2000 according to census 1, Feb 2001. - 3) Based on labour force survey. - 4) From 1998 new sample. - 5) Enterprises with more than 10, from 1999 more than 5 employees. - 6) Excluding privatization revenues. - 7) Up to 1995 in convertible currencies. - 8) Converted from the national currency to EUR at the official exchange rate. From 1997 including trade of firms with customs free legal status.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

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## **Poland: an ominous slump in investment and skyrocketing unemployment**

In terms of its economic situation Poland gets a pretty bad rating. Throughout 2001, GDP growth decelerated steadily, dropping to about 0.5% in the last quarter. The major contributory factor was a rapid contraction of gross fixed investment, which declined by over 10% in the course of the year. Private consumption (2% growth) and foreign trade (high export growth, low import growth) softened the impact of the investment slump. Industry (gross value-added down by 0.6%) showed clear signs of recession, as did the construction sector (gross value-added down by 7.6%). Producer prices in manufacturing fell by 1%, thus exacerbating the sector's financial position and adding to payments problems. Firms confronted with weakening demand continued to scale down their production plans and workforces, while seeking ways to save on wages and related labour costs. Production capacities established during the recent years of high investment have since proven to be superfluous and now impose a positive burden (high fixed costs, including interest on credit and other external investment financing) on current activities.

Unemployment reached record levels and shows no signs of stabilizing. If anything, the labour market situation will deteriorate further, all the more so as a wave of bankruptcies is looming in the corporate sector and a virtual decimation of small businesses (particularly in services and construction activities) seems imminent.

A strongly appreciating currency combined with weakening demand has depressed inflation. On the December/December basis, the CPI rose 3.6% in 2001. The prices of most goods scarcely rose, if at all (foodstuffs by 1.6%). Prices of services such as electricity, water supply, rents, transportation and health-care increased appreciably. For the most part, these price hikes masked increases in indirect taxation.

Though much lower than officially targeted by the Monetary Policy Council (MPC), inflation repeatedly failed to prompt an appropriate response. Throughout the year the MPC kept reducing the leading interest rates, albeit only after interminable delays and amid violent disagreements with the government and parliament. In effect, interest rates on loans remained very high (around 15%) in real terms. This was undoubtedly instrumental in nudging the economy towards recession and certainly contributed to the maintenance of an unduly strong currency.

Without doubt, the overall economic situation inherited by the new coalition government (formed by the Social Democrats and a moderate farmers' party in office since November 2001) was quite bad. As such, radical measures aimed at rapid improvements were called

for, primarily with respect to combating unemployment. However, it is still rather difficult to identify any specific policy actions taken over recent months that bear promise of definite progress on at least the most pressing issues. The budget proposed for 2002 sets forth a combination of measures that are unlikely to avert the looming recession. The burden of indirect taxation will be increased: the reduced VAT rates on many items (including building materials, flats and toys) are to go up. An excise tax will be levied on electricity, no doubt adding to costs and prices throughout the economy and thereby reducing consumption and production. Many social transfers (such as maternity leave payments and unemployment benefits) are to be cut. Spending on education, public security and health-care will be reduced once more. This too will translate into a further depression of household demand, output and employment. At the same time no attempt has been made to discontinue gigantic – and wasteful – transfers to the ill-designed private pension funds. Moreover, very little has been done to increase tax on high incomes which are unlikely to be spent on consumption or fixed investment. All in all, the fiscal policy projected for 2002 is likely to prove counterproductive, even where its narrow fiscal goals are considered. By strengthening the recession, the policy may reduce the tax revenue currently collected and increase expenditures – with a larger deficit as a result. At some point the associated social costs – primarily unemployment – will foil any renewed attempts to tighten fiscal belts.

On many specific issues the new government has proven quite indecisive or even inconsistent. This is evidenced by the recently announced governmental longer-term economic strategy proposal (the financial details of which remain yet to be properly explained). The proposal seems to stipulate a quantum jump, starting from 2003, in public support to infrastructure and housing – the items hit rather badly in the current budget. The inconsistencies may perhaps reflect tensions within the ruling coalition, with the junior farmers' party more inclined to a more activist and socially-minded policy stance and the dominant Social Democrats playing a fairly liberal tune. That tune is clearly audible in the official initiative aimed at a comparatively radical relaxation of the labour code, a reduction of the statutory minimum wage and the introduction of other measures designed to infuse more 'flexibility' into the labour market. No doubt some of the provisions proposed make sense. Yet, given the current situation the overall effect of that initiative may ultimately boil down to a general repression of wages. It is debatable whether this will help the ailing firms to any great degree because the gains in labour costs accruing to individual firms may be offset by lower sales to households whose aggregate wage incomes will be eroded in the process.

Despite a pronounced appreciation of the currency, exports performed very well throughout almost the whole year – notwithstanding the weak business climate in Germany, Poland's largest export market. Partially, the insensitivity of exports to appreciation is due to the activities of those foreign-owned firms which are integrated, through ownership and delivery chains, into large transnational corporations. For such

firms making losses (due to appreciation) on exports is rather inconsequential because these losses are offset by equivalent gains accruing to the (importing) mother companies abroad. While the share of such intra-firm exports is rising, it is still far from dominant. For most domestic exporters, especially the small ones, appreciation worsens profitability and should normally discourage exports. Of course, because of the weakness of domestic demand the domestic exporters may have no choice but to expand exports – up to the limits set by their ability to absorb temporary losses. At the same time imports continued to grow, albeit at a moderate pace. The most recent data on foreign trade for December 2001 indicate an abrupt decline in both exports and imports. This may well mark a return to an otherwise 'normal' pattern of falling exports, only to be expected when too strong a real appreciation is sustained for too long a period. This may also mark an end to foreign trade contributing positively to the overall GDP growth. Should exports start contracting on a larger scale than imports, the tendency to contract will be strengthened.

Most observers of the Polish economy – including the government economists – are fairly optimistic about its future. GDP growth in excess of 1% is generally expected for 2002, followed by 2-3% (or even higher) growth in 2003. That optimism reflects a goodly measure of wishful thinking. On closer examination a more cautious tone has to be struck. A weakening of exports is but one factor to be considered. The second factor relates to investment. In that respect firms are showing no signs of a change in attitude. If anything, the decline in investment is likely to accelerate in the future. At the end of the third quarter 2001, the estimated value of the newly launched investment projects in the corporate sector was 34% lower than a year previous. In addition, the inflow of foreign direct investment in 2001 was much lower than in 2000 and 1999. This trend is likely to continue.

Realistically, for a host of reasons Poland's GDP can be expected to decline in 2002 – or stagnate, at best. Moreover, recovery in 2003 is far from certain, though obviously not impossible, especially if there is a resolute change in the fiscal and monetary policies pursued – provided, of course, that the inevitable and long overdue weakening of the Polish currency does not prove excessive.

Table PL

## Poland: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003
	forecast								
Population, th pers., end of period	38609	38639	38660	38667	38654	38644	38635	.	.
Gross domestic product, PLN mn, nom.	308104	387827	472350	553560	615115	684926	722300	753360	801500
annual change in % (real)	7.0	6.0	6.8	4.8	4.1	4.0	1.1	0	2
GDP/capita (USD at exchange rate)	3293	3724	3725	4098	4011	4078	4566	.	.
GDP/capita (USD at PPP - WIIW)	6780	7360	7910	8260	8740	9280	9630	.	.
Gross industrial production (sales)									
annual change in % (real)	9.7	8.3	11.5	3.5	3.6	7.2	0	0	2
Gross agricultural production									
annual change in % (real)	10.7	0.7	-0.2	5.9	-5.2	-5.6	.	.	.
Goods transport, mn t-kms	300807	309272	329737	317052	310698	282559	.	.	.
annual change in %	11.3	2.8	6.6	-3.8	-2.0	-9.1	.	.	.
Gross fixed capital form., PLN mn, nom.	57405	80390	110853	139205	156690	170430	.	.	.
annual change in % (real)	16.5	19.7	21.7	14.2	6.8	2.7	-10.2	-5	-4
Construction output total									
annual change in % (real)	5.6	3.0	16.5	12.4	6.2	1.0	-9.9 <sup>2)</sup>	.	.
Dwellings completed, units	67072	62130	73706	80594	81979	87789	105926	.	.
annual change in %	-11.8	-7.4	18.6	9.3	1.7	7.1	20.7	.	.
Employment total, th pers., average	14735.2	15020.6	15438.7	15800.4	15373.5	15017.5	.	.	.
annual change in %	1.8	1.9	2.8	2.3	-2.7	-2.3	.	.	.
Employees in industry, th pers., average	3461.1	3436.0	3433.4	3378.7	3138.4	2955.0	2616 <sup>2)</sup>	.	.
annual change in %	3.0	-0.7	-0.1	-1.6	-7.1	-5.8	-5.1 <sup>2)</sup>	.	.
Unemployed reg., th, end of period	2628.8	2359.5	1826.4	1831.4	2349.8	2702.6	3115.1	.	.
Unemployment rate in %, end of period	14.9	13.2	10.3	10.4	13.1	15.1	17.4	19	18
Average gross monthly wages, PLN <sup>3)</sup>	690.9	874.3	1065.8	1232.7	1697.1	1893.7	2201 <sup>2)</sup>	.	.
annual change in % (real, net) <sup>4)</sup>	3.0	5.7	7.3	4.5	4.7	1.0	1.7 <sup>2)</sup>	.	.
Retail trade turnover, PLN mn	169585	213241	258166	291197	323687	360318	.	.	.
annual change in % (real)	2.3	4.5	6.8	2.6	4.0	1.0	0.4 <sup>2)</sup>	.	.
Consumer prices, % p.a.	27.8	19.9	14.9	11.8	7.3	10.1	5.5	5	5
Producer prices in industry, % p.a.	25.4	12.4	12.2	7.3	5.7	7.8	1.6	.	.
Central government budget, PLN mn									
Revenues	83722	99675	119772	126560	125922	135664	140300	.	.
Expenditures	91170	108842	125675	139752	138401	151055	172880	.	.
Deficit (-) / surplus (+)	-7448	-9167	-5903	-13192	-12479	-15391	-32580	.	.
Deficit (-) / surplus (+), % GDP	-2.4	-2.4	-1.3	-2.4	-2.0	-2.2	-4.5	-4.6	-5.2
Money supply, PLN mn, end of period									
M1, Money	37353	61056	72156	81484	99380	93758	103916	.	.
M2, Money + quasi money	104255	136662	176437	220780	263449	294388	334748	.	.
Discount rate of NB % p.a., end of period	25.0	22.0	24.5	18.2	19.0	21.5	14.0	10	8
Current account, USD mn	5310	-1371	-4309	-6862	-11558	-9946	-7040	-7700	-8000
Current account in % of GDP	4.2	-1.0	-3.0	-4.3	-7.5	-6.3	-4.0	-4.5	-4.7
Gross reserves of NB incl. gold, USD mn <sup>5)</sup>	14963	18220	21403	28275	27314	27466	26565	.	.
Gross external debt, USD mn <sup>5)</sup>	43957	47541	49648	59163	65397	69497	71781 <sup>Sep</sup>	.	.
Exports total, fob, EUR mn <sup>6)</sup>	17709.9	19488.2	22798.4	25145.4	25729.3	34382.6	39600	42400	45400
annual growth rate in %	21.6	10.0	17.0	10.3	2.3	33.6	15	7	7
Imports total, cif, EUR mn <sup>6)</sup>	22490.9	29677.1	37484.2	41539.3	43151.2	53121.9	55800	58000	62100
annual growth rate in %	23.5	32.0	26.3	10.8	3.9	23.1	5	4	7
Average exchange rate PLN/USD	2.42	2.70	3.28	3.49	3.97	4.35	4.09	.	.
Average exchange rate PLN/EUR (ECU)	3.13	3.38	3.71	3.92	4.23	4.01	3.67	4.0	4.2
Purchasing power parity PLN/USD, WIIW	1.18	1.36	1.54	1.73	1.82	1.91	1.94	.	.
Purchasing power parity PLN/EUR, WIIW	1.27	1.48	1.64	1.84	1.93	2.02	2.05	.	.

1) Preliminary. - 2) Enterprises sector with more than 9 employees. - 3) From 1999 including mandatory premium for social security. - 4) From 1999 real gross wages. - 5) From 1996 according to IMF methodology. - 6) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Romania: patchy growth**

The first year of the Nastase government can be deemed a relative success. Political and economic stability improved and the country made progress towards acquiring membership in the EU and NATO. Nonetheless, compared to other accession countries, Romania lags behind in terms of transforming the country into a functioning market economy, further to which it has the lowest number of temporarily closed chapters to its credit in the ongoing EU negotiations.

The major achievement in 2001 was a robust GDP growth of 4.9% with an output boom registered in all main economic sectors. The comparatively good yields in agriculture were the outcome of good weather conditions whereas growth in manufacturing output was attributable to an increase in demand and short-term government policies. The positive effects included increases in exports, in the real income of the population and a decrease in unemployment. In manufacturing, a structural shift, albeit slow, was to be observed towards commodity groups with higher value-added. Output growth was particularly strong in the food, clothing and machinery industries, yet weak in the wood-processing and automotive industries.

Economic growth was clearly driven by domestic demand. In the first three quarters of 2001 (the latest period for which detailed data are available) private consumption increased by 6.8%, public consumption by 2.4%, gross fixed capital formation by 6.0% and GDP by 5.1%. The turnaround in terms of consumption and real wages was in line with the policy objectives of the ruling Social Democrats. The government thereby secured the support of the trade unions which, in turn, yielded the benefit of social peace. Consumption lent impetus to domestic production and imports alike. The foreign trade deficit of goods and non-factor services for the first three quarters stood at 7.1% of GDP compared to 3.6% over the same period in the previous year. A growing proportion of production, however, remained unutilized as reflected in inventory increases equivalent to 2.9% of GDP compared with only 0.7% in the same period of the previous year.

The current rate of economic growth poses two sustainability problems: one relates to the increase in inventories, the other to the current account deficit. The marked increase in stocks accounts for a substantial part of the growth rate. Had stocks not increased, GDP growth would have been no more than 2.1%.<sup>6</sup> As agricultural value-added increased by 21.2%, substantial stockpiles of grain are justified. Another part of the stocks, however, relates to unsold manufacturing output, possibly the outcome of growth stimulation in the

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<sup>6</sup> Such a calculation cannot totally be taken at face value as 'inventories' include all sorts of residual items which may be distributed among other demand categories during later revisions.

public sector. The government revitalized some idle capacities and displayed greater tolerance towards tax arrears in the economy as a whole than it had previously.

Year-on-year, in the first half of 2001 the arrears accumulated by the 200 principal debtors vis-à-vis the general government increased by 70% in nominal terms. Quite possibly, the increase may not have stretched into the second half of the year: arrears drop when debts are forgiven. But forgiving debts is just another form of subsidization. In the third quarter the authorities reduced the debts of a number of major enterprises, writing them off completely in the case of the Galati steel plant SIDEX when it was privatized in October. In this one case alone, the state absorbed arrears of about USD 1 billion, whereas the direct public revenue incurred through the privatization amounted to a mere USD 65 million. The privatization deal did, however, have an immediate positive impact, with the steel plant paying its wage-tax bill for the first time that year in November 2001. As a further form of subsidization, the government kept energy prices down during the global surge in oil prices.

The current account deficit for 2001 is high but not as worrisome as feared earlier in the year. Thanks to lower international oil prices towards the end of the year, it was about 6% of GDP, still almost 60% higher than the previous year. The main source was the expansion of the deficit in commodity trade as imports grew nearly twice as fast as exports. Most of the exports continue to be the result of outward processing in the field of light industries, increasingly also in machinery. Shrinking demand in western Europe had a delayed but all the more obvious effect in November and December when exports declined below the previous year's level. While the export boom of the last two years faded away, imports stayed at a record high level. Investment goods are still under-represented in the import structure which is dominated by semi-finished and consumer goods.

Financing the current account deficit presented no problem due to the inflow of foreign capital exceeding all expectations. The country's presence on the Eurobond market is now firmly established, although the interest rates of around 10% on Romanian government securities entail an onerous risk premium. Furthermore, the government guaranteed the issuance of company bonds for state-owned companies with questionable balance sheets, thus contributing to an increase in portfolio investments. At the same time, with a volume of about USD 0.9 billion, FDI fell short of expectations despite the government's repeated efforts at stimulation. Given the high overall capital inflows, official reserves (without gold) increased from 2 to over 3 months of imports of goods and non-factor services. The debt to GDP ratio increased from 27% to a relatively modest level of 30% of GDP, and the debt service ratio stood at about 17%. These indicators suggest a remarkable degree of external financial stability also borne out by the improvement in the country's international risk ratings. This year's bond issues, the first USD 500 million expected in March, may go through with expected yields below 10%.

The economic policy framework set for the year 2002 has been incorporated in both the budget bill and the stand-by agreement signed with the IMF in November 2001. It provides for fiscal constraint and discipline (the consolidated budget deficit is to be reduced from 3.5% of GDP to 3%), a reduction in arrears and an increase in utility prices and excise duties. Good results acknowledged, the second tranche of the loan may be released by the IMF in February 2002. Trade unions do not back the shift of the economic policy from consumption generation to austerity and are about to initiate strikes.

The government forecasts a 5% increase in GDP for 2002, yet that figure is not listed among the targets set and monitored by the IMF. In the light of the global economic slowdown, the Romanian government has also prepared a worst-case scenario with 4.2% economic growth. Even this target can prove over-ambitious given the slow progress achieved on the restructuring front and the stagnation prevailing in export markets. Leaving aside unpredictable inventories, the WIIW forecasts real GDP growth of about 3% for 2002. This figure takes into account the expectation that capital inflows and thus the current account deficit will remain at their current levels.

Depending on the consistency of economic policy and the improvements expected on the main foreign markets, growth could accelerate to 4% in 2003. The government will not shy away from further privatizations but the process will remain politically delicate and therefore slow. Domestic pressure, as in the past, may force the government to violate conditionalities of the IMF agreement which refer to wage policy and restructuring in the public sector. In case the IMF agreement aborts, risk premia for sovereign loans stay high and direct investors abstain. In this case GDP growth may not surpass 3% p.a. in the medium term.

Romania has the highest inflation rate among the accession countries but has been on a disinflation track for the last two years. We expect consumer price inflation to drop still further in both the current and the following year (28% and 20%, respectively), yet it will still fall short of the official disinflation target. Government-regulated prices in the utilities sector and disruption in the food market will fuel inflation while the EUR/ROL exchange rate will show a slight real appreciation. Energy prices have started to rise in accordance with the IMF agreement. The US dollar will remain the main substitute for the local currency and its exchange rate will represent another risk factor for investors.



Table RO

## Romania: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003 forecast
Population, th pers., mid-year	22681.0	22607.6	22545.9	22502.8	22458.0	22435.0	.	.	.
Gross domestic product, ROL bn, nom.	72136	108920	252926	371194	539357	796534	1150000	1500000	1800000
annual change in % (real)	7.1	3.9	-6.1	-4.8	-2.3	1.6	4.9	3	4
GDP/capita (USD at exchange rate)	1564	1563	1565	1859	1566	1637	1770	.	.
GDP/capita (USD at PPP - WIIW)	6210	6630	6290	5980	5950	6170	6830	.	.
Gross industrial production									
annual change in % (real)	9.4	6.3	-7.2	-13.8	-2.2	8.2	8	4	4
Gross agricultural production									
annual change in % (real)	4.5	1.3	3.4	-7.5	5.2	-14.1	.	.	.
Goods transport, mn t-kms <sup>2)</sup>	126719	106758	87590	62364	45988	42131	.	.	.
annual change in %	36.7	-15.8	-18.0	.	-26.3	-8.4	.	.	.
Gross fixed capital formation, ROL bn, nom.	15424.9	24998.5	53540.1	68111.6	97169.8	147209.6	.	.	.
annual change in % (real)	7.0	5.7	1.7	-5.7	-4.2	5.5	6	2	5
Construction output total									
annual change in % (real)	13.2	3.7	-24.4	-0.5	-0.2	5.4	.	.	.
Dwellings completed, units	35822	29460	29921	29692	29517	26376	14539 <sup>I-IX</sup>	.	.
annual change in %	-2.5	-17.8	1.6	-0.8	-0.6	-10.6	9.4 <sup>I-IX</sup>	.	.
Employment total, th pers., end of period	9493.0	9379.0	9022.7	8812.6	8420.0	8629.0	.	.	.
annual change in %	-5.2	-1.2	-3.8	-2.3	-4.5	2.5	.	.	.
Employees in industry, th pers., average	2614.7	2586.0	2443.0	2272.0	1991.0	1873.0	1832.5 <sup>I-XI</sup>	.	.
annual change in %	-8.4	-1.1	-5.5	-7.0	-12.4	-5.9	-3.1 <sup>I-XI</sup>	.	.
Unemployed reg., th, end of period	998.4	657.6	881.4	1025.1	1130.3	1007.1	824.0	.	.
Unemployment rate in %, end of period	9.5	6.6	8.9	10.4	11.8	10.5	8.6	9	8
Average gross monthly wages, ROL	281287	426610	846450	1357132	1957731	2876645	4282622	.	.
annual change in % (real, net)	12.0	9.3	-22.6	3.4	-3.8	-4.0	4.5	.	.
Retail trade turnover, ROL bn <sup>3)</sup>	22242	35316	83035	125513	160137	.	.	.	.
annual change in % (real) <sup>3)</sup>	29.0	15.3	-12.1	20.6	-6.4	-3.8	-0.2 <sup>I-X</sup>	.	.
Consumer prices, % p.a.	32.3	38.8	154.8	59.1	45.8	45.7	34.5 <sup>I-XI</sup>	28	20
Producer prices in industry, % p.a.	35.1	49.9	152.7	33.2	42.2	53.4	42.3	.	.
Central government budget, ROL bn									
Revenues	12888	18373	43835	67216	93240	120342	134636 <sup>I-XI</sup>	.	.
Expenditures	15858	23732	52897	77617	106887	149169	166652 <sup>I-XI</sup>	.	.
Deficit (-) / surplus (+)	-2970	-5359	-9062	-10401	-13647	-28827	-32016 <sup>I-XI</sup>	.	.
Deficit (-) / surplus (+), % GDP	-4.1	-4.9	-3.6	-2.8	-2.5	-3.6	.	.	.
Money supply, ROL bn, end of period									
M1, Money	7083	11173	18731	22110	29669	46331	64309	.	.
M2, money + quasi money	18278	30335	62150	92530	134123	185060	270512	.	.
Discount rate, % p.a., end of period	34.1	35.0	40.0	35.0	35.0	35.0	35.0	.	.
Current account, USD mn	-1774	-2571	-2137	-2968	-1469	-1359	-2300	-2500	-2600
Current account in % of GDP	-5.0	-7.3	-6.1	-7.1	-4.2	-3.7	-6.0	-6.0	-5.9
Gross reserves of NB excl. gold, USD mn	334.1	545.8	2193.5	1374.8	1526.3	2469.7	3926.2	.	.
Gross external debt, USD mn <sup>4)</sup>	5482.1	7208.9	8584.3	9322.6	8770.7	10200.8	11113.9 <sup>Nov</sup>	.	.
Exports total, fob, EUR mn <sup>5)</sup>	6046.8	6375.9	7434.4	7412.4	7955.6	11219.2	12710.7	13300	14400
annual growth rate in %	16.8	5.4	16.6	-0.3	7.3	41.0	13.3	4	8
Imports total, cif, EUR mn <sup>5)</sup>	7856.9	9018.6	9946.3	10569.3	9896.0	14128.2	17362.5	18000	19700
annual growth rate in %	31.4	14.8	10.3	6.3	-6.4	42.8	22.9	4	9
Average exchange rate ROL/USD	2033.3	3082.6	7167.9	8875.6	15332.9	21692.7	29060.9	.	.
Average exchange rate ROL/EUR (ECU)	2629.5	3862.9	8090.9	9989.3	16295.6	19955.8	26026.9	32400	36900
Purchasing power parity ROL/USD, WIIW	512.4	726.9	1784.2	2760.7	4039.1	5756.7	7516.6	.	.
Purchasing power parity ROL/EUR, WIIW	551.4	788.2	1893.5	2931.4	4273.5	6074.0	7940.6	.	.

1) Preliminary. - 2) From 1998 new methodology in road transport. - 3) From 1998 new methodology. - 4) Medium- and long-term. - 5) Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Slovakia: solid growth mostly driven by investment**

GDP growth in 2001 was more than 3% year-on-year, the major contributory factor being some 15% growth in gross fixed capital formation as well as a rise in private consumption of close on 4%. Gross industrial production was up by 5.6% year-on-year. Though less than the previous year, it was nevertheless an important supply-side contribution to GDP growth. The number of industrial workers rose by slightly more than 1% and labour productivity rose in tandem by somewhat more than 4%. Whereas output contracted in mining and quarrying as well as in utilities by around 2%, manufacturing expanded by 7.6%. Growth rates were highest in electrical and optical equipment (36%), leather and leather products (16%), textiles and textile products (14%), and rubber and plastic products (13%). Unlike the past few years, output in the transport equipment industry rose by a mere 4%. The industry is dominated by the carmakers Volkswagen Bratislava, which in 2001 focused on preparations for a new VW Polo model. Supported by a strong FDI inflow, both production and exports have displayed a stepwise shift to greater value-added manufacturing.

Following four years of decline, agricultural production rose by some 7% in 2001, mainly on account of excellent grain yields. After three years of persistent decline, the construction sector also increased its output in 2001. Unemployment reached an historic peak (19.8%, in January 2001) and only dropped modestly thereafter (18.6% at the end of 2001). Rationalization measures adopted by domestic industrial enterprises checked any further drop in unemployment. With regional unemployment rates spread over 25 percentage points, the Slovak labour market shows the largest disparities of all candidate countries. In the short term, a marked reduction in unemployment will remain elusive. As other countries' experiences show, FDI-financed greenfield investment only creates jobs once a certain period of time has elapsed. FDI through mergers and acquisitions tends, at least initially, to reduce employment levels – or, put differently, it tends to boost labour productivity without a matching expansion of output.

The central government's deficit accounted for 4.6% of GDP in 2001 compared to 3.1% in 2000. However, figures for 2001 include restructuring-related costs in the banking sector amounting to 0.8% of GDP. That apart, the increase in the deficit was primarily due to a reduction in budgetary revenues; the government reduced the corporate income tax rate from 40% to 29% and lifted import surcharges. Furthermore, alleviating the tax burden on foreign-owned enterprises had a negative impact on income-tax revenues. Higher revenues from indirect taxes were an important element generating budget revenues. On the expenditure side, restructuring costs in the banking sector fuelled expenditures, while decentralization in the public sector had a similar effect. Public debt is gradually rising,

currently accounting for some 27% of GDP. Although this figure does not yet look alarming, the space for debt-financed government expenditures is narrowing. The ten-year fixed-term government bonds issued in 2001 in the course of the bank restructuring exercise will impose a major burden for the future, equivalent to some 11% of the GDP. Moreover, a large batch of loan guarantees are to mature soon, one portion of which will have to be paid by the state.

In 2001 the foreign trade deficit rose to an historic peak, EUR 2.4 billion. Export growth was curbed as the business climate in Europe cooled off and the currency appreciated in real terms, and in the past few months even in nominal terms. On the other hand, imports rose in the wake of the abolition of import surcharges, a rise in private consumption and a growth in new technology imports stimulated by strong FDI inflow. The higher foreign trade deficit resulted in a larger current account deficit, equivalent to some 7.8% of GDP: double the figure for 2000. That notwithstanding, the strong FDI inflow made it easier to fund the deficit. For 2001 as a whole we assume the total FDI inflow to be in the order of USD 1.3 billion (mainly related to the privatization of the banking sector) as compared to USD 2 billion in 2000.

The export growth rate will hardly change in 2002, while the import growth rate may well decelerate primarily on account of cheaper crude oil imports. Fortunately, rather than external demand, domestic demand (both investment and private consumption) is gradually emerging as the main driving force behind the country's economic growth. GDP is thus expected to expand by 3% in 2002 and by 4% in 2003. Private consumption in particular, supported by a relaxation of government fiscal policy in the period leading up to the general election, will be a major growth factor. The central government deficit will hover around 4% of GDP in the years to come. Pre-election factors will also militate against increases in regulated prices, resulting in the historically lowest average inflation rate of less than 5% this year.

If by the end of its term (September 2002) the government manages to achieve all its main privatization targets (selling gas and electricity utilities, as well as the pipeline operators), FDI inflows may well exceed USD 4 billion. FDI inflows of this magnitude will open up the currency to appreciation pressure. The central bank disposes of means to prevent (or at least reduce) this pressure, albeit not completely, especially in the run-up to a general election when the government's eagerness for privatization revenues usually knows no bounds. Such is the situation in Slovakia today. Thus, for 2002 we expect a further nominal appreciation of the Slovak koruna despite it worsening the international competitiveness of Slovak producers. If, as we expect, the current account deficit borders on USD 1.5 billion in 2002, the FDI inflow will easily fund the same. This, however, may well not be the case once the most valuable state companies have been sold off. Therefore, by the second half

of 2003, the high current account deficit could start posing a threat to economic development.

Slovakia has advanced to the ranks of the leading EU candidate countries. In addition, the government has achieved significant progress in its negotiations with NATO in the context of it possibly joining the alliance after the Prague Summit in November 2002. At present, however, two opposition parties head the opinion polls. Nevertheless, even if they were to win the majority of seats in the elections in September and set up a new coalition government, it is obvious that having introduced a number of essential reforms, Slovakia has already moved down a track that it cannot so easily abandon.

Table SK

## Slovak Republic: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003
	forecast								
Population, th pers., mid-year	5363.7	5373.8	5383.2	5390.7	5395.3	5400.6	5403.5	.	.
Gross domestic product, SKK bn, nom.	546.0	606.1	686.1	750.8	815.3	887.2	960	1000	1080
annual change in % (real)	6.7	6.2	6.2	4.1	1.9	2.2	3.1	3	4
GDP/capita (USD at exchange rate)	3423	3680	3791	3952	3649	3556	3675	.	.
GDP/capita (USD at PPP - WIIW)	8520	9250	9880	10240	10590	11030	11660	.	.
Gross industrial production <sup>2)</sup>									
annual change in % (real)	8.3	2.5	2.7	5.0	-3.6	9.1	5.6	5	6
Gross agricultural production									
annual change in % (real)	2.3	2.0	-1.0	-5.9	-2.5	-13.9	.	.	.
Goods transport, mn t-kms	20390	18785	17672	17808	19996	19825	.	.	.
annual change in %	13.3	-7.9	-5.9	0.8	12.3	-0.9	.	.	.
Gross fixed capital form., SKK bn, nom.	144.2	207.5	246.5	285.3	251.0	265.9	300	.	.
annual change in % (real)	5.3	32.0	12.0	11.1	-18.8	-0.7	15	12	10
Construction industry									
annual change in % (real)	2.9	4.4	9.2	-3.5	-25.8	-0.4	1.7 <sup>I-XI</sup>	.	.
Dwellings completed, units	6157	6257	7172	8234	10745	12931	6799 <sup>I-IX</sup>	.	.
annual change in %	-8.2	1.6	14.6	14.8	30.5	20.3	-24.1 <sup>I-IX</sup>	.	.
Employment total, th pers., average <sup>3)</sup>	2146.8	2224.9	2205.9	2198.6	2132.1	2101.7	2118.6 <sup>I-IX</sup>	.	.
annual change in %	1.7	3.6	-0.9	-0.3	-3.0	-1.4	1.1 <sup>I-IX</sup>	.	.
Employment in industry, th pers., average <sup>3)</sup>	650.5	690.0	665.8	662.5	630.3	615.2	625.2 <sup>I-IX</sup>	.	.
annual change in %	0.2	6.1	-3.5	-0.5	-4.9	-2.4	1.7 <sup>I-IX</sup>	.	.
Unemployed reg., th, end of period	333.3	329.7	347.8	428.2	535.2	506.5	533.7	.	.
Unemployment rate in %, end of period <sup>4)</sup>	13.1	12.8	12.5	15.6	19.2	17.9	18.6	17	16
Average gross monthly wages, SKK	7195	8154	9226	10003	10728	11430	11823 <sup>I-IX</sup>	.	.
annual change in % (real, gross)	4.0	7.1	6.6	2.7	-3.1	-4.9	0.3 <sup>I-IX</sup>	.	.
Retail trade turnover, SKK bn	262.1	296.5	328.8	379.4	442.1	481.1	468.1 <sup>I-XI</sup>	.	.
annual change in % (real)	2.2	6.9	4.8	8.6	9.8	2.3	4.1 <sup>I-XI</sup>	.	.
Consumer prices, % p.a.	9.9	5.8	6.1	6.7	10.6	12.0	7.3	5	7
Producer prices in industry, % p.a.	9.0	4.2	4.5	3.3	3.8	9.8	6.6	.	.
Central government budget, SKK bn <sup>5)</sup>									
Revenues	163.1	166.3	180.8	177.8	216.7	213.5	205.4	.	.
Expenditures	171.4	191.9	217.8	197.0	231.5	241.1	249.7	.	.
Deficit (-) / surplus (+)	-8.3	-25.6	-37.0	-19.2	-14.8	-27.6	-44.4	.	.
Deficit (-) / surplus (+), % GDP	-1.5	-4.2	-5.7	-2.6	-1.8	-3.1	4.6	.	.
Money supply, SKK bn, end of period									
M1, Money	148.4	173.9	166.1	147.2	153.9	187.2	229.2	.	.
M2, Money + quasi money	357.0	416.9	453.5	466.1	523.6	601.5	680.2	.	.
Discount rate, % p.a., end of period	9.8	8.8	8.8	8.8	8.8	8.8	8.8	.	.
Current account, USD mn	511	-1960	-1804	-1982	-980	-713	-1500	-1500	-1100
Current account in % of GDP	2.8	-9.9	-8.8	-9.3	-5.0	-3.7	-7.6	-7.2	-4.8
Gross reserves of NB incl. gold, USD mn	3418	3473	3285	2923	3425	4077	4189	.	.
Gross external debt, USD mn	5827	7810	10700	11900	10518	10500	11000 <sup>Nov</sup>	.	.
Exports total, fob, EUR mn <sup>6)</sup>	6634.5	7048.0	7299.0	9540.6	9602.2	12879.2	14100.5	15600	17300
annual growth rate in %	17.4	6.2	3.6	11.9	0.6	34.1	9.5	11	11
Imports total, fob, EUR mn <sup>6)</sup>	6782.6	8877.7	9119.0	11634.7	10627.7	13859.5	16483.4	17900	19300
annual growth rate in %	21.4	30.9	2.7	12.3	-8.7	30.4	18.9	9	8
Average exchange rate SKK/USD	29.74	30.65	33.62	35.24	41.42	46.20	48.35	.	.
Average exchange rate SKK/EUR (ECU)	38.45	38.40	38.01	39.60	44.12	42.59	43.31	43	42
Purchasing power parity SKK/USD, WIIW	11.95	12.20	12.90	13.60	14.27	14.89	15.23	.	.
Purchasing power parity SKK/EUR, WIIW	12.86	13.22	13.69	14.44	15.09	15.71	16.09	.	.

1) Preliminary. - 2) From 1999 according to EU methodology. - 3) Based on labour force survey. - 4) From 1997 new methodology. - 5) From 1997 according to IMF methodology. - 6) Converted from the national currency to EUR at the official exchange rate; from 1998 new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Slovenia: growth hampered by falling investments**

Economic performance in Slovenia failed to meet expectations in 2001: GDP growth slowed down to 3%. This is significantly below the target rate of 4.4% projected at the outset of the year. Shrinking investment was the main reason for this weak performance, primarily the decline in public investment over the first six months: in particular, investment in infrastructure projects such as energy and transport. The indebtedness of certain public enterprises (Slovenian Railways, the motorway management group (DARS) and the Slovenian Electricity Authority) rose to the maximum permissible limits, resulting in a significantly lower rate of borrowing from abroad compared to the previous year. Industrial production touched 3%: only half the rate achieved in 2000. In manufacturing, the highest growth rates were recorded by branches displaying above-average performance in terms of both value-added per employee and return on assets and sales, such as machinery and equipment, chemicals, electrical and optical equipment. Labour-intensive sectors, primarily the textile and wood-processing industries, reported the worst levels of performance.

Inflation remained high: 8.4% year-on-year. As in previous years, a faster than average growth rate was displayed by prices subject to government control (including oil prices) that account for about 13% of total CPI. The Bank of Slovenia (BS) aims to reduce inflation to 5.2% and 4% by the end of 2002 and 2003, respectively. According to the policy guidelines presented in November 2001, monetary policy will be based first on the broadest monetary aggregate M3 as its main pillar and only secondly on other pillars that affect price stability such as the exchange rate, balance of payments, interest rate differential and the dynamics of regulated prices.

Total employment increased for the third consecutive year. The number of registered unemployed remained at the 2000 level, accounting for an unemployment rate of 12% at the end of December. However, the findings of the labour force survey (conducted quarterly) point to the unemployment rate having dropped to 5.9% in the third quarter of 2001, one of the lowest rates among the transition countries. After years of steady decline, the number of employees in industry increased slightly in 2001.

Total exports and imports expressed in current euros rose by 9% and 3%, respectively. Deliveries to the EU performed less dynamically than, for example, those to the successor states of former Yugoslavia and Russia where exports rose by 19% and 53%, respectively. These developments are also reflected in the export structure by region: the proportion of Slovenian exports to the European Union declined from 64% in 1999 to slightly below 62% in 2001, whereas the share of exports to the Yugoslav successor states increased by one

percentage point to 17% over the same period. In its trade with that region Slovenia has customarily reported substantial surpluses.

After two years of (for Slovenia) exceptionally high deficits, available data indicate an almost balanced current account for the year 2001, with a deficit to GDP ratio of 0.4%. This was made possible through a significant reduction of the trade deficit coupled with increased earnings from tourism and transport services. FDI inflows that had been almost negligible over the past two years showed signs of recovery. Amounting to more than USD 400 million, funds were mainly directed towards the telecommunications and banking sectors. FDI might well experience a further boost in the wake of further banks (Nova Ljubljanska banka [NLB] and Nova kreditna banka Maribor [NKBM]) and insurance companies being privatized. By the end of November 2001 Slovenia's foreign indebtedness was some USD 500 million higher than in December 2000; it totalled USD 6.7 billion, equivalent to about 37% of GDP.

In December 2001, the Slovenian parliament adopted a biennial budget for the first time. The budget for 2002 is based on an assumed GDP growth rate of 3.6% (a somewhat ambitious figure given the current global economic environment) and an annual inflation rate of 6.4%. The budget envisages a deficit to GDP ratio in the order of 2.5%, mainly the outcome of a government decision to discontinue its practice of including VAT and excise duties earned in January in the previous year's revenues (the budget for 2002 thus includes only 11 months revenue). The budget deficit projected for 2003 is significantly lower: about 0.9% of projected GDP. Budget priorities in 2002 will be investments in (secondary and tertiary) education, science and technological development, transport infrastructure and health care. Public sector wages are to be cut back and interest rates reduced. As of January 2002 the general VAT rate was raised from 19% to 20%, the reduced rate from 8% to 8.5%. In keeping with EU standards, the excise duties levied on most alcoholic drinks were increased by about a third. The additional revenue derived from these tax increases will be earmarked for investment in the health sector.

Developments in 2002 will depend primarily on the international economic environment. According to a recent opinion poll, businessmen in Slovenia expect to encounter significant difficulties in the first half of 2002, but some degree of upswing in the second half of the year. Thus, real GDP will grow by about 3% (at best) in 2002, while a more pronounced upswing might only occur in 2003. Investment activities, particularly in the public sector, are expected to recover and lend impetus to economic growth in 2002, whereas foreign demand will only contribute to GDP growth in the latter half of the year. The rate of inflation will slow down as energy prices drop, only to be constrained somewhat by the rise in VAT rates. Given the modest expectations in terms of overall economic performance, unemployment will decrease only slightly.

Table SI

## Slovenia: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003
	forecast								
Population, th pers., mid-year	1987.5	1991.2	1986.8	1982.6	1985.6	1990.3	.	.	.
Gross domestic product, SIT bn, nom.	2221.5	2555.4	2907.3	3253.8	3648.4	4035.5	4400	4830	5270
annual change in % (real)	4.1	3.5	4.6	3.8	5.2	4.6	3	3.5	4
GDP/capita (USD at exchange rate)	9431	9481	9163	9878	10109	9105	9110	.	.
GDP/capita (USD at PPP - WIIW)	12490	13220	13960	14470	15450	16450	17370	.	.
Gross industrial production									
annual change in % (real)	2.0	1.0	1.0	3.7	-0.5	6.2	2.9	3	4
Gross agricultural production									
annual change in % (real)	-0.1	1.0	0.0	2.2	-1.3	2.4	.	.	.
Goods transport, mn t-kms	37757	37820	37859	36733	40041	37003	31975 <sup>I-X</sup>	.	.
annual change in %	-4.0	0.2	0.1	-3.0	9.0	-7.6	1.3 <sup>I-X</sup>	.	.
Gross fixed capital form., SIT bn, nom.	474.6	574.6	679.5	800.6	999.2	1076.8	.	.	.
annual change in % (real)	16.8	8.9	11.6	11.3	19.1	0.2	-3.8 <sup>I-IX</sup>	5	5
Construction output, in effect. working time									
annual change in % (real)	0.9	-2.5	-5.2	1.7	10.2	-1.2	-0.9 <sup>I-XI</sup>	.	.
Dwellings completed, units <sup>2)</sup>	5715	6228	6085	6518	5142	5874	.	.	.
annual change in %	3.5	9.0	-2.3	7.1	-21.1	14.2	.	.	.
Employment total, th pers., average	745.2	741.7	743.4	745.2	758.5	768.2	778.8 <sup>I-XI</sup>	.	.
annual change in %	-0.1	-0.5	0.2	0.2	1.8	1.3	1.4 <sup>I-XI</sup>	.	.
Employees in industry, th pers., average <sup>3)</sup>	252.4	239.2	248.5	246.2	242.8	241.6	243.9 <sup>I-IX</sup>	.	.
annual change in % <sup>3)</sup>	-4.9	-5.2	-2.1	-0.9	-1.4	-0.5	1.1 <sup>I-IX</sup>	.	.
Unemployed reg., th, end of period	126.8	124.5	128.6	126.6	114.3	104.6	104.3	.	.
Unemployment rate in %, end of period	14.5	14.4	14.8	14.6	13.0	12.0	12.0	11	10
Average gross monthly wages, SIT	111996	129125	144251	158069	173245	191669	212766 <sup>I-XI</sup>	.	.
annual change in % (real, net)	4.7	4.4	2.9	1.5	3.0	1.4	3.3 <sup>I-XI</sup>	.	.
Retail trade turnover, SIT bn	705.8	871.3	1290.0	1346.7	1555.0	1557.4	1463.7 <sup>I-X</sup>	.	.
annual change in % (real)	3.1	2.9	1.0	2.1	2.9	7.4	7.7 <sup>I-X</sup>	.	.
Consumer prices, % p.a.	13.5	9.9	8.4	7.9	6.1	8.9	8.4	6	5
Producer prices in industry, % p.a.	12.8	6.8	6.1	6.0	2.1	7.6	8.9	.	.
General government budget, SIT bn									
Revenues	958.2	1091.8	1222.6	1397.9	1590.0	1726.7	1590.0	.	.
Expenditures	957.3	1083.6	1256.7	1423.5	1613.3	1781.4	1613.3	.	.
Deficit (-) / surplus (+)	0.9	8.2	-34.1	-25.6	-23.3	-54.7	-23.3	.	.
Deficit (-) / surplus (+), % GDP	0.0	0.3	-1.2	-0.8	-0.6	-1.4	-0.5	.	.
Money supply, SIT bn, end of period									
M1, Money	203.9	235.1	270.5	332.7	399.8	424.0	455.3 <sup>Nov</sup>	.	.
Broad money	941.9	1135.3	1411.3	1690.3	1912.9	2206.4	2705.7 <sup>Nov</sup>	.	.
Discount rate % p.a., end of period	10.0	10.0	10.0	10.0	8.0	10.0	11.0	.	.
Current account, USD mn	-99.4	31.4	11.4	-147.2	-782.6	-611.5	-66.9	-200	-200
Current account in % of GDP	-0.5	0.2	0.1	-0.8	-3.9	-3.4	-0.4	-1.0	-1.0
Gross reserves of NB excl. gold, USD mn	1820.8	2297.4	3314.7	3638.5	3168.0	3196.0	4329.9	.	.
Gross external debt, USD mn <sup>4)</sup>	2970	3981	4123	4915	5400	6217	6711 <sup>Nov</sup>	.	.
Exports total, fob, EUR mn <sup>5)</sup>	6426.3	6640.8	7413.4	8051.9	8037.0	9505.1	10347.9	11000	11700
annual growth rate in %	11.7	3.3	11.6	8.6	-0.2	18.3	8.9	6	6
Imports total, cif, EUR mn <sup>5)</sup>	7327.0	7536.3	8289.7	8999.4	9482.0	10995.7	11341.9	11600	12200
annual growth rate in %	19.0	2.9	10.0	8.6	5.4	16.0	3.1	2	5
Average exchange rate SIT/USD	118.52	135.37	159.69	166.13	181.77	222.68	242.75	.	.
Average exchange rate SIT/EUR (ECU)	153.12	169.51	180.40	186.27	193.63	205.03	217.19	225	230
Purchasing power parity SIT/USD, WIIW	89.49	97.08	104.79	113.39	118.90	123.23	127.29	.	.
Purchasing power parity SIT/EUR, WIIW	96.30	105.26	111.21	120.40	125.80	130.03	134.47	.	.

1) Preliminary. - 2) From 1998 permits. - 3) Up to 1996 enterprises with 3 and more employees and excluding persons employed by self-employed. - 4) Up to 1995 excluding portion of debt of the former Yugoslav Federation. - 5) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.



## **Croatia: GDP growth boosted by domestic demand**

Over the first nine months of 2001 GDP increased by 4.3%, the primary force being marked domestic demand. Despite decelerating in the second and third quarters, gross fixed capital formation increased by slightly more than 7% in real terms while private consumption rose by 5%; government consumption showed a decline.

Industrial output experienced its best performance since 1997. In contrast to previous years, the manufacturing sector also showed signs of recovery with output growth performing slightly above the industrial average. The worst results in the sector were recorded for the manufacture of radio, television and communications equipment, with output down by more than one third as against a year earlier. Other branches that shrank were those manufacturing coke and refined petroleum products, and wood and wood products. The most rapid rate of expansion was to be observed in other transport equipment (including ships) and motor vehicles. However, whereas output growth translated into only a minor increase in overall exports, the relatively high industrial production growth coupled with further layoffs translated into a marked increase in labour productivity.

Inflation continued its downward trend throughout 2001, reaching 4.9% year-on-year. This came about as a result of world market prices for oil and raw materials having declined, wages having grown moderately by 2% (as required by the IMF) and the increase in excise duties on beverages and tobacco having been delayed. Furthermore, the receding inflation rate was partly attributable to methodological changes. In anticipation of the switch to the euro, household foreign exchange deposits grew rapidly from August 2001 onwards as Croatians deposited foreign currency cash holdings (esp. DEM) that they had kept stashed under their mattresses. In December alone DEM 2.5 billion (USD 1.1 billion) was deposited. Overall bank lending activities picked up in 2001; in the final months of the year corporate lending outstripped household lending.

Employment continued to decline, by about 1% for the year as a whole. The most recent data for December 2001 indicate an unemployment rate bordering on 23%, the highest among the transition countries except Yugoslavia and Macedonia. The unemployment figures published in the labour force survey (conducted twice a year) show a slight decline to 15.3% in the first half of the year as against 17% in the second half of 2000. The group most affected were young people under 24 years of age, among whom unemployment stood at a rate of 41%.

Revisions to and changes in the structure of the budget (viz. contributions to and payments for pensions were transferred to the state budget as of July) make it difficult to compare fiscal developments in 2001 with those of earlier years. After a 'technical' revision in the middle of the year, Parliament adopted a further budget revision in October, reducing the originally projected privatization receipts to HRK 5.4 billion from HRK 8.5 billion in the wake of certain major deals having fallen through, such as the privatization of Croatia osiguranje and the deregulation of two banks, Dubrovacka and Croatia banka. Overall expenditures remained unchanged, but individual items were reallocated. Some HRK 2 billion earmarked for 'other purchases of goods and services' were reallocated to wages, pensions and transfers. The latest available data indicate that the GDP deficit target of 5.3% (consolidated central government) has been achieved. The 2002 budget bill passed in December 2001 envisages reducing the deficit to GDP ratio further to 4.3%. Privatization revenues projected for 2002 are less ambitious; they have been set at HRK 2.5 billion and should for the most part come from privatization schemes that were postponed in 2001. Whereas in previous years privatization revenues were used to plug growing budgetary gaps, they will be earmarked as of 2002 for development activities administered by two newly established funds: the Regional Development Fund and the Development and Employment Fund. The privatization of the oil company INA and the electricity company HEP still await approval under a separate bill in the Croatian parliament; implementation cannot be expected before the end of 2003.

In 2001, the trade deficit widened to USD 4.4 billion, USD 900 million more than in 2000. The poor outcome was due to a high level of imports (particularly during the first half of the year) coupled with disappointing export performance. The weakness of the Croatian export sector is clearly reflected in the ratio of exports to GDP. Croatia is still the worst performer among the smaller transition countries. Thanks to an increase in tourism revenues, the current account deficit could be partly offset and narrowed to some USD 200 million in the first three quarters of 2000. FDI inflows were some USD 300 million lower than in the corresponding period a year earlier. The lion's share, however, – the privatization receipts from the sale of an additional stake in Croatian Telekom – will only have an impact on capital account operations in the final quarter of 2001. The current account deficit estimated at USD 900 million will be covered by FDI inflows. Foreign indebtedness continued to rise throughout the year, by the end of which it exceeded USD 11 billion. Some 60% of the external debt is denominated in euros, while the proportion denominated in dollars dropped to 30%. The currency structure of the external debt resembles that of foreign trade.

GDP growth will slow down to about 3% in 2002 owing to a weakening of both domestic and foreign demand. Imports will be lower than in 2001, while exports may increase slightly given fuller order books in the shipbuilding industry. Tourism is expected to yield higher earnings than in 2001 as European tourists might well change their habits in the aftermath

of the attack of 11 September. As a result the current account deficit might be somewhat reduced. Inflation is likely to slow down in both 2002 and 2003 as oil prices ease off and the Croatian National Bank continues to pursue price stability as its primary objective. A rise in employment is hardly to be expected since the agreement with the IMF to reduce the government work force will still be in effect. More pronounced GDP growth can only be expected in 2003 once global economic developments have witnessed a turnaround.

Table HR

## Croatia: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003
	forecast								
Population, th pers., mid-year	4669	4494	4573	4501	4554	4535	.	.	.
Gross domestic product, HRK mn, nom.	98382	107981	123811	137604	142700	157511	171800	184000	197100
annual change in % (real)	6.8	5.9	6.8	2.5	-0.4	3.7	4	3	4
GDP/capita (USD at exchange rate)	4029	4422	4398	4805	4406	4196	4550	.	.
GDP/capita (USD at PPP - WIIW)	5610	6330	6690	6940	6950	7380	7880	.	.
Gross industrial production									
annual change in % (real)	0.3	3.1	6.8	3.7	-1.4	1.7	6.0	4	4
Gross agricultural production									
annual change in % (real)	0.7	1.3	4.0	10.2	-3.5	-10.0	.	.	.
Goods transport. public. mn t-kms <sup>2)</sup>	199730	213172	203428	170107	146302	146852	98164 <sup>I-IX</sup>	.	.
annual change in %	1.4	6.7	-4.6	-16.4	-14.0	.	-11.4 <sup>I-IX</sup>	.	.
Gross fixed capital form., HRK mn, nom.	15398.0	22089.4	29935.6	32065.6	32956.0	33091.0	.	.	.
annual change in % (real)	.	37.6	26.4	2.5	-1.1	-3.5	6	4	6
Construction industr. hours worked <sup>3)</sup>									
annual change in % (real)	-3.9	9.0	16.7	0.7	-7.7	-9.1	2.4 <sup>I-IX</sup>	.	.
Dwellings completed, units	7359	12624	12516	12557	12175	.	.	.	.
annual change in %	-24.2	71.5	-0.9	0.3	-3.0	.	.	.	.
Employment total, th pers., average <sup>4)</sup>	1417.4	1329.5	1310.9	1384.8	1364.5	1341.0	1327.1	.	.
annual change in % <sup>4)</sup>	-1.4	-6.2	-1.4	0.4	-1.5	-1.7	-1.0	.	.
Employees in industry, th pers., average <sup>5)</sup>	349.2	315.1	319.7	308.9	299.5	291.9	283.2	.	.
annual change in % <sup>5)</sup>	-5.2	-9.8	-6.4	-3.4	-3.0	-2.5	-3.0	.	.
Unemployed reg., th, end of period	249.1	269.3	287.1	302.7	341.7	378.5	395.1	.	.
Unemployment rate in %, end of period	15.1	15.9	17.6	18.1	20.4	22.3	23.1	22.5	21
Average gross monthly wages, HRK	2887	3243	3668	4131	4551	4869	5053 <sup>I-XI</sup>	.	.
annual change in % (real, net)	40.2	7.2	12.3	6.0	10.1	3.4	1.9 <sup>I-XI</sup>	.	.
Retail trade turnover, HRK mn <sup>6)</sup>	26054.9	29412.4	34736.1	.	.	.	.	.	.
annual change in % (real) <sup>6)</sup>	12.5	3.4	14.9	0.1	-3.5	10.0	10.2 <sup>I-XI</sup>	.	.
Retail prices, % p.a. <sup>7)</sup>	2.0	3.5	3.6	5.7	4.2	6.2	4.9	4	3
Producer prices in industry, % p.a.	0.7	1.4	2.3	-1.2	2.6	9.7	3.6	.	.
Central government budget, HRK mn <sup>8)</sup>									
Revenues	27981	31368	33846	43809	46356	44636	53444	.	.
Expenditures	28696	31502	35006	42552	48879	50744	57202	.	.
Deficit (-) / surplus (+)	-715	-134	-1160	1257	-2523	-6108	-3758	.	.
Deficit (-) / surplus (+), % GDP	-0.7	-0.1	-0.9	0.9	-1.8	-3.9	-2.2	.	.
Money supply, HRK mn, end of period									
M1, Money	8235	11369	13731	13531	13859	18030	20976 <sup>Nov</sup>	.	.
Broad money	24623	36701	50742	57340	56659	73061	95006 <sup>Nov</sup>	.	.
Discount rate % p.a., end of period	8.5	6.5	5.9	5.9	7.9	5.9	5.9	.	.
Current account, USD mn	-1441.5	-1091.3	-2325.1	-1530.6	-1390.4	-432.7	-900	-800	-900
Current account in % of GDP	-7.7	-5.5	-11.6	-7.1	-6.9	-2.3	-4.4	-3.7	-3.9
Gross reserves of NB excl. gold, USD mn	1895.2	2314.0	2539.1	2815.7	3025.0	3524.8	4676.8	.	.
Gross external debt, USD mn <sup>9)</sup>	3809.1	5307.6	7451.6	9586.2	9872.3	10945.5	11131 <sup>Nov</sup>	.	.
Exports total, fob, EUR mn <sup>10)</sup>	3595.0	3602.1	3665.8	4046.2	4027.3	4818.0	5201.5	5400	5600
annual growth rate in %	0.0	0.2	1.8	10.4	-0.5	18.9	8.0	4	4
Imports total, cif, EUR mn <sup>10)</sup>	5810.5	6220.3	8059.7	7476.9	7324.1	8588.5	10114.9	10800	11900
annual growth rate in %	32.2	7.1	29.6	-7.2	-2.0	16.8	17.8	7	10
Average exchange rate HRK/USD	5.23	5.43	6.16	6.36	7.11	8.28	8.34	.	.
Average exchange rate HRK/EUR (ECU)	6.76	6.80	6.96	7.14	7.58	7.63	7.47	7.7	7.7
Purchasing power parity HRK/USD, WIIW	3.76	3.80	4.05	4.40	4.51	4.71	4.81	.	.
Purchasing power parity HRK/EUR, WIIW	4.04	4.12	4.30	4.68	4.77	4.97	5.08	.	.

1) Preliminary. - 2) From 2000 new methodology. - 3) Up to 1996 enterprises with more than 10 employees, from 1997 more than 20 employees. - 4) From 1998 including persons employed at the Ministry of Defence and Ministry of Internal Affairs. - 5) Up to 1996 enterprises with more than 10 employees; from 1997 according to NACE classification. - 6) From 1996 according to NACE classification. - 7) From Aug 2001 adjustment lowering telecom prices. - 8) From June 2001 including extrabudgetary funds. - 9) Up to 1995 excluding portion of debt of the former Yugoslav Federation. - 10) From 2000 new method of statistical processing. Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

## **Russian Federation: weaker growth, declining export surplus**

Russian GDP growth decelerated to about 5% last year. Inflation remained at 20% and the state budget recorded a surplus for the second year running. The nominal exchange rate depreciated slightly; the current account surplus fell to 11% of GDP and foreign exchange reserves reached a record level. Living standards improved and unemployment declined. The strong growth rates over the past three years were a windfall gain on account of the high prices being paid for energy on world markets and a rouble that is still undervalued. Moreover, increased political stability and gradual progress towards structural and institutional reforms are starting to bear fruit as well. Investments (albeit not FDI) have been growing. Nonetheless, the prospects of sustainable growth remain uncertain as the country depends highly on volatile commodity prices and capital flight continues unabated. Economic growth is expected to weaken further in 2002 and will remain unimpressive in 2003 as well – unless more reforms are launched and/or export revenues recover.

Industry has been losing steam since mid-2001; industrial growth was less than 5% last year. However, agricultural production expanded by about 7%, mainly on account of a bumper grain harvest (83 million tons, +30% against 2000) whereas livestock production almost stagnated. With growth rates of more than 10% each, both construction (especially housing) and the retail trade expanded faster than GDP. Transport and other services (except telecommunications) recorded only modest growth. The main growth impetus in 2001 thus came from (domestic) demand. Private consumption (+8%) expanded thanks to growing incomes (especially wages and pensions) and gross investments grew as well. Most investments, however, tend to focus on energy and related pipeline delivery systems; other sectors receive very little investment. In all likelihood, the direct contribution of net exports to real GDP growth was negative in 2001. The volume of exports increased only modestly while burgeoning consumption and investment, both aided and abetted by an appreciating rouble, resulted in a steep rise in imports.

The above notwithstanding, both the huge export surpluses in nominal terms and (more indirectly) the increased monetization of the economy are having manifold and substantial effects on the Russian economy. Last year's trade surplus amounted to some USD 50 billion (after USD 60.7 billion in 2000); the current account surplus (11% of GDP) ran to USD 34.2 billion (after 18% of GDP the previous year). First, high export revenues together with the mandatory sale of 75% of export revenues (reduced to 50% in September 2001) contributed to an increase in the Central Bank's hard currency reserves. At the end of 2001 total reserves amounted to nearly USD 37 billion (covering seven months of imports of goods and services). Secondly, given the limited possibilities for sterilization, the money supply boosted by inflows of foreign exchange grew by nearly 40%

in the course of the year; that in turn fuelled inflation (around 20% in both 2000 and 2001, December-against-December). Inflows of foreign exchange also helped to prop up the exchange rate. In nominal terms, the rouble depreciated by just 7.5% against the US dollar last year; taking the inflation differential into account, this represents appreciation of nearly 10% in real terms vis-à-vis the dollar. The growing money supply helped to reduce barter transactions still further, though not wage arrears. Last but not least, budget revenues increased (to about 17% of GDP) and the federal budget recorded a large surplus (about 3% of GDP or some USD 10 billion) which was partly used to service debt repayments.

The income situation in private households has been improving over the past two years. Real disposable incomes and private consumption grew by nearly 10% per year, average real wages by almost 20%. In addition to debt repayments, the government used a portion of the higher budget revenues to raise pensions. The situation on the labour market improved as well: the rate of unemployment dropped to 9% as of end-2001 – about four percentage points less than the peak in 1998, the crisis year. Despite these positive developments, in the third quarter of last year 27% of the Russian population were still living on incomes below the official subsistence level; real incomes and real wages have yet to reach their pre-August 1998 level (the average monthly wage in 2001 was a mere 122 euro as compared to 145 euro in 1997).

Fears that positive news about the economy may relieve some of the pressure for further structural and institutional reforms did not materialize. On the contrary, several key components of the reform legislation were adopted and put into effect during the second half of 2001. After launching the first tranche of the tax reform at the beginning of 2001 (a flat income tax of 13%, uniform social taxation and new rules for VAT), new corporate taxation rules have been in force since 1 January 2002 (capital gains tax of 24% instead of the previous 35% has been introduced and numerous exemptions simultaneously abolished). Furthermore, the new enterprise, labour and land codes were also adopted (the latter only codifies private ownership of non-agricultural land). The pension reform (introducing the famous three-pillar system) was initiated as well. Last but not least, import tariffs were lowered and streamlined in the run-up to WTO accession. Unfortunately, virtually no progress has been achieved in the projected restructuring and improved transparency of natural monopolies (including the UES Electricity System, RAO Gazprom and the railway system). Apparently, the lack of progress was due to difficulties in dealing with vested interests. A major innovation in the fiscal sphere was the decision to create a 'financial reserve fund' from windfall oil export revenues; the fund will be used mainly to service debt repayments. This is already reflected in the budget for 2002 which projects a primary surplus of 1.6% of GDP, while revenues (assuming an oil price of USD 18.5 per barrel, 12% annual inflation and a nominal GDP of RUB 10950 billion) should reach 19.4% of GDP.

Surging export revenues have been the major factor in the recent economic upswing. However, falling energy prices and growing imports – the latter fuelled by an appreciating currency and growing domestic demand – will result in a decline in the export surplus, with an estimated negative contribution to real GDP growth in the coming two years. The WIIW forecast reckons with GDP growth of just 3% in 2002; this will be mainly driven by robust private consumption. Barring any major change in oil prices, the Russian economy is forecast to grow by less than 4% in 2003. Here again the growth impetus is expected to come from private consumption, but investments (including, one hopes, FDI) should also pick up speed – provided the reforms start to bear more fruit. Should a more pronounced drop in energy prices occur, the economy would find itself in serious trouble again.

Table RU

## Russia: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003 forecast
Population, th pers., end of period	147976	147502	147105	146693	145925	145185	144500	144000	143500
Gross domestic product, RUB bn, nom.	1540.5	2145.7	2478.6	2741.1	4766.8	7302.2	9040.8	10700	12700
annual change in % (real)	-4.1	-3.4	0.9	-4.9	5.4	9.0	5.0	3	4
GDP/capita (USD at exchange rate)	2284	2835	2909	1922	1323	1784	2140	2320	2600
GDP/capita (USD at PPP - WIIW)	6630	6580	6710	6370	6850	7670	8320	8950	9520
Gross industrial production									
annual change in % (real)	-3.3	-4.0	1.9	-5.2	8.1	11.9	4.9	4	5
Gross agricultural production									
annual change in % (real)	-8.0	-5.1	1.5	-13.2	4.1	5.0	6.7	.	.
Goods transport, bn t-kms	3533	3370	3256	3147	3315	3480	.	.	.
annual change in %	-1.0	-4.6	-3.4	-3.3	5.3	5.0	3.1	.	.
Gross fixed investment, RUB bn, nom.	267.0	376.0	408.8	407.1	670.4	1171.5	1599.5	.	.
annual change in % (real)	-10.0	-18.0	-5.0	-12.0	5.3	17.7	8.7	6	8
Construction output total									
annual change in % (real)	-6.0	-16.0	-6.0	-5.0	6.0	11.0	9	.	.
Dwellings completed, th units	602.0	481.5	430.3	387.7	389.8	373.4	.	.	.
annual change in %	-1.5	-20.0	-10.6	-9.9	0.5	-4.2	9	.	.
Employment total, th pers., average	66409	65950	64693	63812	63963	64327	65000	.	.
annual change in %	-3.0	-0.7	-1.9	-1.4	0.2	0.6	1	.	.
Employment in industry, th pers., average	17161	16366	14905	14162	14297	14548	.	.	.
annual change in %	-7.6	-4.6	-8.9	-5.0	1.0	1.8	2	.	.
Unemployed, th, end of period <sup>2)</sup>	6539	7280	8133	9728	8904	7039	6400	.	.
Unemployment rate in %, end of period <sup>2)</sup>	9.0	9.9	11.2	13.3	12.2	9.9	9.0	9	9
Average gross monthly wages, RUB	532.6	790.2	950.2	1051.5	1522.6	2223.0	3262.0	.	.
annual change in % (real, gross)	-28.0	6.4	4.7	-13.3	-22.0	20.9	19.8	.	.
Retail trade turnover, RUB bn	529.8	749.0	866.1	1056.4	1782.9	2332.1	.	.	.
annual change in % (real)	-7.0	-0.4	3.6	-3.4	-7.9	8.9	10.8	.	.
Consumer prices, % p.a.	197.5	47.8	14.8	27.6	85.7	20.8	21.6	20	15
Producer prices in industry, % p.a.	236.5	50.8	15.0	7.1	58.9	46.6	19.1	17	15
Central government budget, RUB bn									
Revenues	232.1	281.9	343.4	325.9	615.5	1103.2	1592.0	2126	.
Expenditures	275.2	356.2	436.6	472.2	666.9	1014.2	1342.0	1947	.
Deficit (-) / surplus (+)	-43.1	-74.3	-93.2	-146.3	-51.4	89.0	257.6	179	.
Deficit (-) / surplus (+), % GDP	-2.8	-3.5	-3.8	-5.4	-1.1	1.3	2.9	1.6	.
Money supply, RUB bn, end of period									
M1, Money	151.3	192.4	298.3	342.8	526.8	879.3	1192.6	.	.
M2, Money + quasi money	275.8	357.3	457.2	628.6	984.9	1560.0	2122.7	.	.
Refinancing rate of NB % p.a., end of per.	160	48	28	60	55	25	25	.	.
Current account, USD mn	7484	11753	2060	687	24731	46291	34200	25000	20000
Current account in % of GDP	2.2	2.8	0.5	0.2	12.8	17.8	11.0	7.5	5.4
Gross reserves of NB, incl. gold, USD mn	17207	15324	17784	12223	12456	27972	36622	40000	.
Gross external debt, USD mn	120500	125000	130800	145000	158800	144500	140000	.	.
Exports total, fob, EUR mn <sup>3)</sup>	63372	71453	78479	66874	70960	114177	115041	100000	105000
annual change in %	11.1	12.8	9.8	-14.8	6.1	60.9	0.8	-13	5
Imports total, cif, EUR mn <sup>3)</sup>	47854	53629	63489	51785	37027	48593	59607	63000	66000
annual change in %	12.6	12.1	18.4	-18.4	-28.5	31.2	22.7	6	5
Average exchange rate RUB/USD	4.55	5.12	5.79	9.71	24.62	28.12	29.17	32	34
Average exchange rate RUB/EUR (ECU)	5.89	6.63	6.54	11.06	26.24	26.03	26.13	29	31
Purchasing power parity RUB/USD, WIIW	1.57	2.21	2.51	2.93	4.75	6.55	7.52	8.3	9.3
Purchasing power parity RUB/EUR, WIIW	1.69	2.40	2.66	3.11	5.03	6.91	7.95	.	.

1) Preliminary. - 2) Based on Labour Force Survey data. - 3) Including estimate of non-registered trade. Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.



## **Ukraine: torrid if decelerating growth, run-up to parliamentary elections**

The Kuchma government brings a useful weapon to the current parliamentary election campaign: good economic performance. Ukraine's economy had a second year of strong, broad-based growth in 2001. Preliminary data have GDP up a whopping 9% year-on-year, a considerably higher rate than the 5.8% recorded in 2000. Still, GDP has made it back up to barely half the 1991 level, and equates in per capita terms to half of that in Russia and just 16% of the EU average. Results were attributable to ongoing recovery across a range of industries serving both domestic and foreign markets, a bumper grain harvest, increased livestock production, and continued strong growth in investment. Inflation continued to be surprisingly moderate, given the continued reductions in barter and corresponding rises in cash payment. The hryvnia remained nominally stable against the dollar, and usable reserves of the national bank more than doubled, to over USD 3 billion. The small business sector continued to suffer from non-transparent practices and red tape, managing to provide only about a fifth of jobs, cf. about half in the leading candidate countries.

Industrial production has been the driver of Ukraine's 2000-2001 economic recovery. It rose about 15% in 2001 in real terms, after a rise of 12-13% in 2000. Producer price inflation as reported appeared well under control, and domestic oil and gas prices obviously tracked world prices down to some extent, even though they remained under heavy state regulation. The big percentage gainer in 2001 was oil refining, up over 50%, as FDI from Russia and Kazakhstan brought several refineries back towards their former capacity. Domestic gas extraction also rose, to 18.2 bcm. Growth has already decelerated however. Steel production, under pressure from anti-dumping actions and the world slowdown, managed a 4.9% growth rate in 2001, a far cry from 2000's 21.3%. Iron mining activity fell slightly in the second half as the world economic picture deteriorated, cf. 19.7% growth in 2000. Machine building continued to do relatively well, growing 18.8%, thanks to e.g. an increase in domestic investment and military exports. Some smaller industries such as woodworking and light industry saw their growth rates halve compared with 2000, while remaining in the double-digits. Food processing grew by 17.8%, faster than 2000's 16.5%.

Capital expenditures have risen a third in the past two years, and FDI has also increased, to an estimated cumulative USD 2.75 billion, or USD 56 per capita, according to the EBRD. Flows decelerated in the third quarter however, on account of delays in promised large privatizations.

Agricultural production was reported up 9.9% year-on-year. The grain harvest rebounded to 39.7 mt, a whopping 62%, of which 21.3 mt of wheat. The sugar beet harvest came to

15.5 mt, up 17% on 2000. Sunflower seed production fell 30% year-on-year, to 2.2 mt. Meat production rose 11%, to 2.3 mt. Weather was excellent, but the Yushchenko reforms also deserve credit.

Living standards are finally showing noticeable improvements. Real wages rose by a reported 8%, and real money incomes, by nearly 19%. The average wage was about USD 56. The low and even falling rate of unemployment reflects slow restructuring however. Preliminary results of the December 2001 census will be available in April 2002 and it is thought likely that the number of individuals who report Russian as their native language will increase substantially. Population has fallen by 3 million persons since the census of 1989, to 48.86 million.

Full-year trade data are not yet in, but in January-October 2001, merchandise exports were up 14.6%, to USD 13.5 billion (to the far abroad, 16.4% and to Russia and the rest of the CIS, 10.4%). Imports overall rose 13.2% in the same period (non-CIS imports, by 15% and CIS imports, by 11.9%), and totalled USD 12.24 billion. Low inflation has been good for competitiveness, but the increasing role of the euro creates short-term problems for Ukraine, since mattress holdings and most exports are priced in dollars.

The US imposed sanctions designed to punish Ukraine for not cracking down hard enough on compact disc piracy. WTO negotiations drag on at a snail's pace, with little action on behalf of either government or parliament on the long list of issues, most importantly hidden subsidies to agriculture.

The quality of budget execution is somewhat in question. The government claims to have a surplus to the tune of 1% of GDP, on revenues of UAH 43.9 billion. A leading think tank however reports continuing if reduced arrears on salaries and other commitments, and a surge of last-minute expenditures, and a 40% shortfall in planned privatization receipts, which pushed the fisc into deficit at yearend. Inflation in the month of January 2002 was 1%. About 10% of electricity is still unpaid for, economy-wide, and public sector arrears increased by UAH 1.8 billion.

Multilateral agency programmes are going forward. The IMF resumed its USD 2.6 billion lending programme in December 2000 after it was frozen in 1999 because of slow progress in a number of reform areas. The World Bank is considering a further USD 250 million, and an IMF mission is in town.

Ukraine's eurobond debt was the darling of intrepid institutional investors in 2001. The price of Ukraine's benchmark 10% bond due in 2007 rose an exciting 62%, and the yield plunged to just 10.9%. Moody's raised Ukraine's rating by two full notches in late January 2002, to B21; this was however still 5 notches below investment grade, and similar to

ratings for e.g. Romania and Iran. (Russia's sovereign eurobond debt remains three notches below.)

Parliamentary elections are set for 31 March 2002, with half the 450 seats to be allocated proportionally by party list and the other half in the constituency itself; the threshold for small parties is 4% of votes cast. A leading figure in the non-Kuchma camp, Yulia Tymoshenko, head of the Fatherland party, was injured in a car accident in January. A January poll reported that about 16% of those who planned to vote would vote for the Communists under P. Symonenko, and about 19.4% for parties favouring faster economic reform and a western-oriented foreign policy, including that led by former prime minister Viktor Yushchenko and the various factions of Rukh. It has been said however that the former prime minister has failed to capitalize on his popularity. The bloc of the Socialists under Moroz did not do well in that poll, winning only 2.8% of intended votes, but are not likely to do that poorly; if they do as well as last time, whistleblower Melnychenko may win a seat. The 'party of power' "For a United Ukraine" led by various Kuchma insiders and ministers, including many named in the Melnychenko tapes, are forecast to get about 15% of the vote. The outcome of the parliamentaries is widely seen as a dress rehearsal for the presidentials set for 31 October 2004. Leonid Kuchma's term should be up then, but he is claiming to have had only one term so far.

Table UA

## Ukraine: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003 forecast
Population, th pers., end of period	51334.1	50894.0	50499.9	50105.6	49710.8	49291.2	48860	48700	48500
Gross domestic product, UAH mn, nom.	54516	81519	93365	102593	130442	172952	207370	250400	302400
annual change in % (real)	-12.2	-10.0	-3.0	-1.9	-0.2	5.8	9.0	5	5
GDP/capita (USD at exchange rate)	718	872	989	833	633	642	790	860	.
GDP/capita (USD at PPP - WIIW)	3580	3330	3280	3230	3300	3590	4070	.	.
Gross industrial production									
annual change in % (real)	-12.0	-5.2	-0.3	-1.0	4.0	12.4	14.2	8	7
Gross agricultural production									
annual change in % (real)	-3.6	-9.5	-1.9	-9.8	-6.9	9.8	9.9	5	6
Goods transport, bn t-kms	544.0	450.3	402.3	391.7	388.0	394.1	.	.	.
annual change in %	-8.3	-17.2	-10.7	-2.6	-0.9	1.6	.	.	.
Gross fixed investment, UAH mn, nom.	9378.2	12557.0	12437.0	13958.0	17552.0	23629.0	26744.0	.	.
annual change in % (real)	-35.1	-22.0	-8.8	6.1	0.4	14.4	17.2	15	15
Construction output total									
annual change in % (real)	-35.2	-31.0	-9.9	2.7	-8.0	9.1	.	.	.
Dwellings completed, units	118200	88100	80000	70000	73000	62600	.	.	.
annual change in %	-18.7	-25.5	-9.2	-12.5	4.3	-14.2	.	.	.
Employment total, th pers., average	23725.5	23231.8	22597.6	22348.7	21823.7	21268.5	21000	20500	.
annual change in %	3.0	-2.1	-2.7	-1.1	-2.3	-2.5	.	.	.
Employees in industr. th pers., average <sup>2)</sup>	5035.0	4642.0	4273.0	4142.0	3932.0	3445.0	.	.	.
annual change in %	-8.1	-7.8	-7.9	-3.1	-5.1	-12.4	.	.	.
Unemployed reg., th, end of period	126.9	351.1	637.1	1003.2	1174.5	1188.0	1028.8	.	.
Unemployment rate in %, end of period	0.5	1.3	2.3	3.7	4.3	4.2	3.7	4	4
Average gross monthly wages, UAH <sup>2)</sup>	73.0	126.0	143.0	153.0	177.5	230.1	311.6	.	.
annual change in % (real, gross)	-0.1	-4.2	-2.1	-3.2	-5.4	1.1	20.9	.	.
Retail trade turnover, UAH mn	11964	17344	18933	19317	22151	28530	34050	.	.
annual change in % (real)	-13.9	-5.1	0.2	-6.6	-7.1	8.1	12.6	.	.
Consumer prices, % p.a.	376.8	80.2	15.9	10.6	22.7	28.2	12.0	15	15
Producer prices in industry, % p.a.	488.8	52.1	7.7	13.2	31.1	20.9	8.6	.	.
General government budget, UAH mn <sup>3)</sup>									
Revenues	20425.4	30142.0	36889.6	37398.2	43826.7	63034.1	41630 <sup>4)</sup>	52900 <sup>5)</sup>	.
Expenditures	24443.0	33759.0	43086.0	39416.5	45523.0	61047.6	41630 <sup>4)</sup>	52900 <sup>5)</sup>	.
Deficit (-) / surplus (+)	-4017.6	-3617.0	-6196.4	-2018.3	-1696.3	1986.5	0 <sup>4)</sup>	.	.
Deficit (-) / surplus (+), % GDP	-7.4	-4.4	-6.6	-1.9	-1.3	1.1	-3 <sup>5)</sup>	-1.7 <sup>5)</sup>	.
Money supply, UAH mn, end of period									
M0, Currency outside banks	2623	4041	6132	7158	9583	12799	17325 <sup>Nov</sup>	.	.
Broad money	6930	9364	12541	15718	22070	32084	41508 <sup>Nov</sup>	.	.
Refinancing rate of NB % p.a., end of period	110.4	39.6	34.8	74.2	45.0	27.0	12.5	.	.
Current account, USD mn	-1152	-1185	-1335	-1296	1658	1481	1000	0	.
Current account in % of GDP	-3.1	-2.7	-2.7	-3.1	5.2	4.7	2.6	0	.
Gross reserves of NB excl. gold, USD mn <sup>6)</sup>	1051	1960	2341	761	1046	1353	3095	.	.
Gross external debt, USD mn	8217	8840	9555	11483	12438	10350	11500	12500	.
Exports total, fob, EUR mn <sup>7)</sup>	10036	11357	12550	11283	10856	15771	18100	20300	.
annual change in %	16.1	13.2	10.5	-10.1	-3.8	45.3	15	12	.
Imports total, cif, EUR mn <sup>7)</sup>	11837	13883	15103	13103	11104	15104	16200	18100	.
annual change in %	30.9	17.3	8.8	-13.2	-15.3	36.0	7	12	.
Average exchange rate UAH/USD	1.473	1.830	1.862	2.450	4.130	5.440	5.372	.	.
Average exchange rate UAH/EUR (ECU)	1.928	2.322	2.113	2.768	4.393	5.029	4.814	5.4	.
Purchasing power parity UAH/USD, WIIW	0.296	0.480	0.562	0.632	0.792	0.972	1.042	.	.
Purchasing power parity UAH/EUR, WIIW	0.318	0.520	0.597	0.671	0.837	1.026	1.101	.	.

1) Preliminary. - 2) Excluding small enterprises. - 3) Pension funds included. - 4) Budget passed 30 Nov. 2000, incl. pension and social security funds. - 5) NBU Aug. 2001 projection for 2001, first draft budget for 2002. - 6) Useable. - 7) Exports and imports of goods according to customs statistics, adjusted for oil, gas and non-declarable goods. Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: WIIW Database incorporating national and international statistics; WIIW forecasts.

## **Bosnia and Herzegovina: donor money slowly drying up**

It is an indisputable fact that today Bosnia and Herzegovina (BiH) has joined the ranks of the market economies. At the same time, however, virtually all markets remain underdeveloped. The reasons are manifold – excessive regulation in some areas, insufficient regulation and adverse institutional settings in others, compounded by a lack of transparency. Given this situation, many economic agents consider long-term investment too risky an undertaking. Instead, they concentrate on activities that offer prospects of immediate gain. Imports are thus booming whereas domestic production and, in turn, exports fall far short of their potential.

The domestic use of goods and services far outstrips the country's own production. This is visible in the balance of payments statistics. The latter rely on rough estimates which indicate that the current account deficit is close to one quarter of GDP. This extremely high ratio clearly shows that a non-standard situation still persists. Total exports cover expenditures on imported food, but hardly more than that. Under normal circumstances, the country should be a net exporter of food rather than having to meet a major portion of its food requirements via imports. A high proportion of the population lives in rural areas engaged in agriculture – albeit mostly at subsistence level.

The high overall trade deficit points to producer weaknesses vis-à-vis foreign competition on both domestic and international markets. In agriculture, forestry, mining, manufacturing and construction, production has only partially recovered from the war: a fact that accounts for the high share of services in GDP. Public households together with the state-controlled production of public utilities contribute a major share to total GDP. At the same time, however, only through external support is the government able to meet the population's basic public service needs.

The extremely high rate of unemployment is a further indicator of the exceptional situation still prevailing in the economy. The officially reported rate is around 40%, yet it is only a rough figure. Many people have no job, but do not figure as unemployed. Others are registered as employed, but their employers have no work for them. At the same time, it is difficult to estimate the extent of unregistered activities. One might be tempted to interpret this high level of unemployment as a lack of entrepreneurial spirit. However, as for jobless people anywhere, starting a business of one's own, alone or in co-operation with others, is a difficult and well nigh impossible undertaking in BiH. The jobless lack resources, enjoy no access to loans and the conditions for starting a new business are unfavourable in many respects.

Pegging the konvertibilna marka to the deutschmark (1:1) has proved a remarkable success. Both the Croatian kuna, previously the dominant currency in Croat-controlled areas, and the Yugoslav dinar in the Republika Srpska lost ground and the country now has a single currency. Inflation does not pose a major problem. This holds especially true for the FBiH, where the inflation rate is on a par with the low rates to be observed in EU countries. In the Republika Srpska, where the overall price level is lower, inflation rose to over 5% in 2001.

By law, the konvertibilna marka has to be covered one hundred per cent by foreign currencies. Given the extremely high deficit in the current account, the currency in circulation would have shrunk rapidly were it not for the net capital inflow. In the initial years after the war capital inflow was massive thanks to transfers from private sources as well as from the international donor community. The result was a climate of economic progress, at least in the larger towns, notwithstanding the fact that it was primarily based on external funding and imports. In the meantime, the inflow of capital has lessened. Foreign direct investment is not enough to offset the drop in donor funding. As a consequence, the feeling is starting to spread that income growth is decelerating. It would now be time for the corporate sector to assume the role of the engine of domestically generated growth. A whole set of reforms is required; otherwise international financial organizations will have to assume the coverage of a continuing current account deficit ad infinitum.

The former Yugoslav payment system has been successfully replaced. The new ultramodern system has increased the country's attractiveness to foreign banks. The restructuring of the banking industry is now in the fast lane. This has changed the very fundamentals for the non-financial corporate sector where a large number of companies have since been privatized. However, in many cases it transpired that a company's net value might well be negative, so voucher privatization was the only feasible method of locating new owners. In such cases, privatization will hardly lead to improved performance: overdue payables and the lack of fresh capital will remain the dominant features.

Towards the end of 2001, people were confronted with the need to convert their deutschmark holdings into euro, and many felt that opening a bank account was the cheapest way of doing that. The foreign banks thus enjoyed a rapid upswing in business as people deposited money in their accounts. The Central Bank's foreign currency reserves jumped to KM 2.66 billion: equivalent to a doubling within a very short period of time. A marked contrast is now to be observed between those foreign banks and their domestic counterparts. The former have a broad lending base whereas the latter do not. Foreign banks have not exhausted their entire loan potential. To date, practically no bank extends long-term loans to domestically owned manufacturing enterprises; the risk of default is too high compared to potential profits. The loan business remains limited to short-

term credits at high real interest rates. In order to limit their risks, banks with large deposits of clients' funds invest part of the monies at their disposal in international markets.

If the political will and a genuine willingness to enter into internal co-operation prevail, BiH could become a serious candidate for EU membership. From an economic point of view, the future is not necessarily bleak. The international community has pushed ahead with a number of reforms such as risk guarantees for investors and financial support for micro-credits, and many more are to follow. Even now, the number of ongoing projects (both macro and micro) is impressive. The EU has lifted its tariff barriers on imports from the Balkan countries; administrative obstacles such as the handling of certificates of origin may remain a serious export barrier for domestically owned companies, especially the smaller enterprises. It could, however, be an incentive for foreign direct investors as they are likely to have experience of EU procedures. Export promotion facilities could become more efficient in the near future. The Investment Guarantee Agency (IGA), which is already in operation, will specialize in export guarantees.

In the context of the Stability Pact, trade barriers within the region should disappear by 2006, but this may be of limited significance. Trade with the EU will remain the all-important factor over the next few years. However, another factor of pivotal significance will be good neighbourliness: BiH and the other Balkan countries will only be able to attract foreign investors on a large scale if relaxed and friendly political relations are seen to prevail in the region. It is crucial that the countries swiftly find a lasting solution to the pending conflicts and open questions.

Table BiH

## Bosnia and Herzegovina: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002 forecast
Population, th. pers., excl. refugees overseas (USAID)	3660	3646	3651	3700	3750	.	.	.
BiH Gross domestic product, BAM mn, nom. (IMF)	2873	4125	6116	7141	8043	8773	.	.
Federation BiH	1962	3049	4748	5407	5833	.	.	.
Republika Srpska	911	1076	1368	1734	2210	.	.	.
Annual change of BiH GDP, real, in % (IMF)	50	86	40	13	9	5	3	2
GDP/capita, BAM	785	1131	1675	1930	2145	.	.	.
Industrial production, real, % change (IMF)								
Federation BiH	.	88	36	24	11	8.8 <sup>2)</sup>	8	5
Republika Srpska	.	39	27	23	2	5.6 <sup>2)</sup>	-5	0
Employment, th pers., end of period (NBBiH)								
Federation BiH	.	.	.	407.0	410.1	412 <sup>3)</sup>	.	.
Republika Srpska	.	.	.	244.3	244.3	228	.	.
Unemployment, th pers., end of period (NBBiH)								
Federation BiH	.	.	.	256.5	261.8	266	.	.
Republika Srpska	.	.	.	142.2	147.5	154	.	.
Unemployment rate in %, end of period (NBBiH)								
Federation BiH	.	.	.	38.6	39.0	39.4	41	43
Republika Srpska	.	.	.	36.8	37.6	40.1	42	45
Average net monthly wages, DEM (95-97), BAM (NBBiH)								
Federation BiH	43	168	266	357	386	413	.	.
Republika Srpska	21	50	90	237	272	277	.	.
Consumer prices (in BAM terms), % p.a. (IMF)								
Federation BiH	-4	-25	14	5	0	1.2 <sup>2)</sup>	2	1
Republika Srpska <sup>4)</sup>	13	17	-7	2	14	13.6 <sup>2)</sup>	6	4
Consolidated government, BAM [DEM] mn <sup>5)</sup> (IMF)								
Revenue (including grants)	1051	2173	2398	3148	3987	.	.	.
Expenditure	1060	2355	2429	3657	4568	.	.	.
Deficit (-) / surplus (+)	-9	-182	-31	-509	-581	.	.	.
Deficit (-) / surplus (+), % GDP	-0.3	-4.4	-0.5	-7.1	-7.2	.	.	.
Money supply, BAM mn, end of period (IMF)								
M0, Cash outside banks	.	.	113	162	515	546	.	.
% of GDP	.	.	1.8	2.3	6.4	6.2	.	.
M1, Money	.	.	252	310	1100	1295	.	.
% of GDP	.	.	4.1	4.3	13.7	14.8	.	.
M2, Broad money	.	.	1178	1547	2165	2322	.	.
% of GDP	.	.	19.3	21.7	26.9	26.5	.	.
Current account, USD mn <sup>6)</sup> (IMF)	-193	-1306	-1482	-986	-1058	.	.	.
% of GDP	-9.6	-47.6	-41.9	-24.3	-24.1	.	.	.
Gross reserves, USD mn <sup>7)</sup> (IMF)	213	235	80	175	455	.	.	.
Gross external debt, USD mn (IMF)	3361	3620	4076	2985	3095	.	.	.
Exports total, fob, USD mn <sup>6)</sup> (IMF)	152	336	575	697	649	.	.	.
annual change in %	67.0	121.1	71.1	21.2	-6.9	.	.	.
Imports total, fob, USD mn <sup>6)</sup> (IMF)	1082	1882	2333	2656	2502	.	.	.
annual change in %	21.0	73.9	24.0	13.8	-5.8	.	.	.
Trade balance, USD mn <sup>6)</sup>	-930	-1546	-1758	-1959	-1853	.	.	.
% of GDP	-46	-56	-50	-48	-42	.	.	.
Average exchange rate BAM/USD (NBBiH)	.	.	1.7301	1.7614	1.8343	2.074	.	.
Average exchange rate BAMEUR [ECU]	.	.	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Average exchange rate BAM/DEM <sup>8)</sup>	.	.	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

1) Preliminary. - 2) OHR Newsletter April 2001. - 3) A further 40,252 were on stand-by. - 4) Until mid-1998 prices were observed in YUD and converted into BAM using the YUD/DEM exchange rate in the parallel market in Belgrade (IMF). - 5) Excludes municipal government operations for RS. From 1996 on excluding military expenditures financed by external grants. - 6) Estimates. - 7) In 1995 gross international reserves, from 1996 on gross official reserve. - 8) In mid-1998 the konvertibilna marka (BAM) replaced the BH dinar, the currency used up until then in Bosniac-controlled areas. In the same way as the new currency, it was tied 1 to 1 to the German mark.

Source: National Bank of Bosnia and Herzegovina (NBBiH), IMF, OHR, USAID, WIIW database.



*Vladimir Gligorov*

## **Macedonia: hoping for stability**

Last year was a challenging one for Macedonia. It was overshadowed by threats to the country's security, which in the first six months were severe, verging close on an all-out civil war. Thanks to intervention by the United States, the EU and NATO, the conflict could be contained and a political agreement was forged between the Macedonian and Albanian parties. The implementation of that agreement has been slow and, as a consequence, the donor conference for Macedonia was postponed on two occasions. It is now scheduled for mid-March this year.

The conflict took a heavy toll of the Macedonian economy. The damage to houses, schools, infrastructure and religious and cultural objects has been estimated at more than EUR 70 million.<sup>7</sup> The GDP is reported to have decreased by more than 4%. Industrial production fell by close to 9%. Consumption decreased, as did investments. The trade deficit improved because imports decreased more than exports. Predictably enough, unemployment increased, although the figures (to the extent that they are available) are unreliable. The general budget shifted from a GDP surplus of more than 2% in 2000 to a deficit close on 7% in 2001. Inflation also increased, albeit to only more than 5%. As was to be expected, foreign investment dried up.

Parliamentary elections are to be held this year. They were initially planned for the beginning of the year and then rescheduled for spring; they will now probably be held in the autumn. The manner in which the elections will ultimately be organized and held is uncertain. Even more uncertain is the outcome. It is possible that they will culminate in further fragmentation of the current political environment, leading to a politically unstable coalition of various Macedonian and Albanian parties. If that proves to be the outcome, it will not be conducive to radical economic reform: something that is urgently needed.

The government expects a rebound in GDP and industrial production growth, but this is predicated on an improvement in the political and security situation, which cannot be taken for granted at the moment. Assuming that national security remains more or less stable and assuming that the donors' conference comes up with the money needed to plug the gaps in public finances, achieving GDP stabilization would also appear quite realistic, although the projected growth of 4% is unrealistic. Industrial production will continue to suffer because of the need to press ahead with the restructuring of the loss-making enterprises remaining. Moreover, investments cannot be expected to increase significantly

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<sup>7</sup> See European Commission and International Management Group, *Damage Assessment in the Former Yugoslav Republic of Macedonia: Revised Final Report*, November 2001.

and the same can be said about consumption. Whatever the growth, it will bring about an expansion of imports and thus of the current account deficit since a significant increase in exports cannot be expected as long as production is sluggish. All in all, another challenging year awaits Macedonia.

Table MK

## Macedonia: Selected Economic Indicators

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003 forecast
Population, th pers., mid-year	1966.0	1983.1	1996.9	2007.5	2017.1	2030.0	.	.	.
Gross domestic product, MKD mn, nom.	169521	176444	186018	194979	209010	235481	239400	251400	271800
annual change in % (real)	-1.1	1.2	1.4	3.4	4.3	4.3	-4	0	2
GDP/capita (USD at exchange rate)	2267	2225	1870	1784	1821	1761	1716	.	.
GDP/capita (USD at PPP - WIIW)	4060	4170	4230	4340	4580	4840	4750	.	.
Gross industrial production <sup>2)</sup>									
annual change in % (real) <sup>2)</sup>	-10.7	3.2	1.6	4.5	-2.6	3.5	-8.7 <sup>I-XI</sup>	-5	0
Gross agricultural production									
annual change in % (real)	3.9	-2.2	1.1	4.3	1.0	1.0	.	.	.
Goods transport, mn t-kms <sup>3)</sup>	1343	1067	1175	1302	1219	1303	.	.	.
annual change in % <sup>3)</sup>	-18.6	-20.6	10.1	10.8	-6.4	6.9	.	.	.
Gross fixed capital form., MKD mn, nom.	28027.0	30654.0	32236.0	33982.0	34710.0	.	.	.	.
annual change in % (real)	10.2	6.5	-4.3	1.6	1.2	.	.	.	.
Construction output, value added									
annual change in % (real)	-1.9	-0.6	0.2	2.9	12.2	-3.0	.	.	.
Dwellings completed, units	4640	5342	4300	3256	4479	5316	.	.	.
annual change in %	-3.9	15.1	-19.5	-24.3	37.6	18.7	.	.	.
Employment total, th pers., average <sup>4)</sup>	.	537.6	512.3	539.8	545.2	549.8	.	.	.
annual change in % <sup>4)</sup>	.	.	-4.7	5.4	1.0	0.8	.	.	.
Employees in industry, th pers., average <sup>5)</sup>	136.6	127.6	117.6	113.6	119.8	114.4	122.2 <sup>I-XI</sup>	.	.
annual change in % <sup>5)</sup>	-13.4	-6.6	-7.9	-3.4	5.5	-4.5	-5.3 <sup>I-XI</sup>	.	.
Unemployed, th, average <sup>4)</sup>	.	251.5	288.2	284.1	261.5	261.7	.	.	.
Unemployment rate in %, average <sup>4)</sup>	.	31.9	36.0	34.5	32.4	32.2	34	35	35
Average net monthly wages, MKD	8581	8817	9063	9394	9664	10193	10548 <sup>I-XI</sup>	.	.
annual change in % (real, net)	-4.3	0.5	0.2	3.8	3.6	-0.3	-1.8 <sup>I-XI</sup>	.	.
Retail trade turnover, MKD mn	31682.2	29893.0	32482.8	33215.6	38247.9	50208.6	42432 <sup>I-XI</sup>	.	.
annual change in % (real, calc.)	-4.4	-8.4	4.1	1.5	16.4	12.1	-11.0 <sup>I-XI</sup>	.	.
Retail prices, % p.a.	15.9	3.0	4.4	0.8	-1.1	10.6	5.2	5	6
Producer prices in industry, % p.a.	4.7	-0.3	4.2	4.0	-0.1	8.9	2.0	2	2
General government budget, MKD mn									
Revenues	64254	64445	.	78273	87903	103741	.	.	.
Expenditures	66032	65096	.	79314	85957	98191	.	.	.
Deficit (-) / surplus (+)	-1778	-651	.	-1041	1946	5550	.	.	.
Deficit (-) / surplus (+), % GDP	-1.1	-0.4	.	-0.6	1.0	3.5	.	.	.
Money supply, MKD mn, end of period									
M1, Money	12521	12143	13983	15178	19694	22388	20400 <sup>Nov</sup>	.	.
M2, Money + quasi money	18703	18490	22724	26003	33720	41957	44483 <sup>Nov</sup>	.	.
Discount rate, % p.a., end of period	15.0	9.2	8.9	8.9	8.9	7.9	10.7	.	.
Current account, USD mn <sup>6)</sup>	-232.2	-288.1	-276.4	-308.2	-113.4	-107.7	-200	-250	-250
Current account in % of GDP	-5.2	-6.5	-7.4	-8.6	-3.1	-3.0	-5.7	-7.2	-6.6
Gross reserves of NB, excl. gold, USD mn	257.5	239.5	257.0	306.1	429.9	.	.	.	.
Gross external debt, USD mn <sup>7)</sup>	1235.9	1172.4	1133.1	1398.6	1438.5	1436.4	1401.6 <sup>Nov</sup>	.	.
Exports total, fob, EUR mn <sup>8)</sup>	920.4	904.9	1090.6	1170.2	1116.7	1427.5	1300	1300	1300
annual change in %	0.7	-1.7	20.5	7.3	-4.6	27.8	-9	0	0
Imports total, cif, EUR mn <sup>8)</sup>	1314.0	1283.1	1568.3	1709.5	1664.9	2256.2	1800	1800	1800
annual change in %	5.2	-2.4	22.2	9.0	-2.6	35.5	-20	0	0
Average exchange rate MKD/USD	38.04	39.99	49.83	54.45	56.90	65.89	68.4	.	.
Average exchange rate MKD/EUR (ECU)	49.15	50.08	56.20	61.07	60.62	60.73	60.9	64.8	.
Purchasing power parity MKD/USD, WIIW	21.25	21.35	22.01	22.39	22.63	23.97	24.73	.	.
Purchasing power parity MKD/EUR, WIIW	22.87	23.14	23.36	23.78	23.94	25.29	26.13	.	.

1) Preliminary. - 2) Excluding small private enterprises. - 3) Road and rail. - 4) Based on Labour Force Survey data. - 5) From 2001 according to NACE. - 6) Including grants. - 7) Medium- and long-term. - 8) Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: WIIW Database incorporating national statistics.

*Vladimir Gligorov*

## **Yugoslavia: the easy part is over**

2001 was the first year of the post-Milošević era. It was marked by attempts at macroeconomic stabilization and the onset of the reform process. The results have been mixed. GDP growth was around 5% (officially 6.2%), being mainly driven by growth in agricultural production (over 20%). Industrial production stagnated at best (officially growth was zero). Exports are reported to have increased by more than 10% while imports surged by over 30%. Real net wages rose by over 13% (this figure is difficult to interpret given the significant change in the definition of net wages). Employment apparently stagnated, while unemployment increased, although the labour statistics are not very reliable. Consumer prices rose by more than 40% (December-on-December). Public expenditures increased significantly, but the deficit was contained at about 2% of GDP.

Among the major reforms introduced were amendments to the tax and tariff laws, a new labour code, the adoption of a law on privatization and a new law on foreign investment. These changes have not led to any significant structural changes to date, as it will take time to finalize and implement them. Early in January 2002, bankruptcy proceedings opened for four major banks, the ultimate aim being to liquidate them. This merely marks the beginning of the banking reform as the remaining banks are also plagued by a host of problems.

During the second half of 2001 there was some debate about the exchange rate regime and policy. Nominally floating, the Yugoslav dinar is in fact fixed to the euro. In 2001 it depreciated nominally by 2% at most. This, coupled with an inflation rate of close to 90% year-on-year, meant significant real appreciation. Some have blamed the overvalued exchange rate for the poor export performance and even more so for the ballooning trade deficit. The National Bank has resisted calls to devalue because of the steady rise in foreign reserves. It also decided that stability was still under significant threat, thus necessitating reliance on a stable exchange rate as a means of reducing inflation. Indeed, monthly inflation had decelerated to less than 1% by the beginning of 2002. Nonetheless, with fixed exchange rates not being very popular of late, various bodies, including the IMF, have intimated that an increase in flexibility would be desirable. As a result, the banks are now permitted to set their own exchange rates which can deviate by as much as 2.5% up and down from the rate set by the central bank.

Economic policy for the current year is based on expected GDP growth of 4% and inflation of 20%. It is assumed that industrial production will grow by 3%, whereas agricultural production is not expected to grow. Exports should grow somewhat, but imports less so.

Even if restructuring is limited, unemployment is expected to increase because the new law makes it easier to lay off people.

These are rather modest targets, because government strategy is to match the pace of reform with a certain level of demand, thus postponing the positive supply response to some later period. Crucial to this strategy is continuous foreign financial support. Last year aid and credits (at very low interest rates) amounted to more than USD 600 million. This year, a similar amount is expected. In addition, foreign direct investment, mainly linked to privatization, should be significant this year. FDI inflows of at least USD 200 million are expected.

Monetary policy should not change in 2002; fiscal policy, however, will have to continue playing its leading role. Yugoslavia will start servicing its foreign debt, though the initial debt service burden will not be too heavy. That notwithstanding, the debt-repayment bill for this year should be in excess of USD 200 million: equivalent to somewhere between 1% and 2% of GDP. The figure may increase if an agreement is reached with the London Club on debt restructuring.

Another major constraint on the budget are the ever-expanding dimensions of the social security net. Fearing social unrest, the Serb government has adopted a rather generous attitude towards pensioners and the recently unemployed. Although some of the increased obligations have been financed by the World Bank and donor countries, the bill is constantly rising. In the latest legislation pertaining to pensions the mandatory retirement age has been raised by three years. Furthermore, pensions have been pegged to a combination of wage increases and inflation. The latter measure should slow down the growth of pensions relative to wages. Of course, if real wages drop, for instance in the wake of spiralling inflation as a consequence of a sharper dinar depreciation, pensions will decrease more slowly than wages, thus exerting additional pressure on the budget.

Privatization should accelerate this year (last year nothing happened in this respect). The same is planned for the restructuring of state- and socially owned enterprises. At the end of last year and the beginning of the current year, three cement plants were sold to foreign investors. A number of similar sales are planned for later this year. However, privatization has yet to pick up speed in Serbia. In Montenegro, voucher privatization has taken place, facilitating the transfer of the larger part of the Montenegrin economy to private ownership. Some large companies have been looking for strategic partners, but little interest has been shown.

In Montenegro, the key issue is the budget deficit. Though it uses the euro, the country is still running large or very large budget deficits. These have been financed by foreign donors and domestic loans; the situation, however, has become unsustainable. Even last

year, the deficit had to be reduced to less than 10% of GDP; this resulted in a decrease in wages and an increase in arrears accruing to the pension fund. This year, further cuts in deficit spending are planned. As public expenditures in Montenegro amount to close to 70% of GDP (admittedly imperfectly measured), a cut in public spending would lead to a lower rate of GDP growth. It would also have significant socio-political consequences.

These are important considerations because the fate of the Yugoslav Federation is to be decided this year. Whether the federation breaks up or is reformed depends on the decision to be taken by the citizens of Montenegro. Recently, the EU has increased its pressure on Montenegro to remain in a federation with Serbia. As EU aid is important, the politics behind the fiscal deficit has become a crucial political issue in Montenegro. Its resolution takes on importance for both Montenegro and Serbia. It would set off a flurry of constitutional and other legal activities, as well as a series of elections. At the present juncture, the outcome cannot be predicted with any certainty, even its possible impact on the transition and reform process is unclear.

Table YU

## Yugoslavia: Selected Economic Indicators \*)

	1995	1996	1997	1998	1999	2000	2001 <sup>1)</sup>	2002	2003
	forecast								
Population, th pers., mid-year	10547.0	10577.2	10600.1	10616.9	10629.4	10633.5	10651.0	.	.
Gross domestic product, USD mn, nom. <sup>2)</sup>	15285	16477	18146	18491	15113	10000	11100	11800	.
annual change in % (real) <sup>3)</sup>	6.1	5.9	7.4	2.5	-21.9	6.4	5	4	4
GDP/capita (USD at exchange rate) <sup>2)</sup>	1449	1558	1712	1742	1424	940	1047	.	.
Gross industrial production <sup>4)</sup>									
annual change in % (real)	3.8	7.6	9.5	3.6	-23.1	11.2	0	3	5
Gross agricultural production <sup>5)</sup>									
annual change in % (real)	4.1	1.5	7.3	-3.2	-2.3	-12.9	.	.	.
Goods transport, mn t-kms <sup>6)</sup>	4206	28957	38164	45601	30026	32865	16690	.	.
annual change in % <sup>6)</sup>	44.9	.	31.8	19.5	-34.2	9.5	-49.2	.	.
Gross fixed investment, YUM mn, nom.	5348.7	9702.5	13525.3	17893.2	24867.8	.	.	.	.
annual change in % (real)	-3.7	-5.7	0.8	-2.2	-29.7	.	.	.	.
Construction output, value of work done									
annual change in % (real)	-16.0	2.7	6.9	-0.8	-9.9	.	.	.	.
Dwellings completed, units	14337	15160	14768	13096	13123	12732	12156	.	.
annual change in %	-17.8	5.7	-2.6	-11.3	0.2	-3.0	-4.5	.	.
Employment total, th pers., average <sup>7)</sup>	2379	2367	2332	2504	2298	2238	2232.2 <sup>IX</sup>	.	.
annual change in %	-1.4	-0.5	-1.5	-0.1	.	-2.6	-0.3 <sup>IX</sup>	.	.
Employees in industry, th pers., average <sup>8)</sup>	870.0	852.0	820.2	835.8	756.0	764.5	742.4 <sup>IX</sup>	.	.
annual change in % <sup>8)</sup>	-2.7	-2.1	-3.7	-1.9	.	-5.0	-3.0 <sup>IX</sup>	.	.
Unemployed reg., th, end of period	777.0	826.8	793.8	849.4	774.0	812.4	860.5 <sup>Nov</sup>	.	.
Unemployment rate in %, end of period <sup>9)</sup>	24.7	26.1	25.5	25.4	25.5	26.8	28	30	30
Average net monthly wages, YUM <sup>10)</sup>	340	658	803	1063	1309	2588	5545	.	.
annual change in % (real, net)	16.1	1.0	21.2	1.9	-15.1	6.5	13.3	.	.
Retail trade turnover, YUM mn	14661	27896	35433	48748	57697	117410	.	.	.
annual change in % (real, calc.)	4.5	7.4	11.8	3.9	-19.1	8.7	13.3	.	.
Consumer prices, % p.a.	78.6	91.5	21.6	29.9	44.9	85.6	89.2	50	30
Producer prices in industry, % p.a.	57.7	90.2	19.5	25.5	44.1	106.5	85.1	50	30
General government budget, YUM mn									
Revenues	18069	35941	47455	61360	79321	135580	320474	.	.
Expenditures	19249	39044	55315	70739	.	.	.	.	.
Deficit (-) / surplus (+)	-1180	-3103	-7860	-9379	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	.	.	-7.0	-6.1	.	.	.	.	.
Money supply, YUM mn, end of period									
M1, Money	3256.1	5495.3	9148.0	10807.3	16332.0	29976.5	66391	.	.
Broad money	27243.6	31434.7	38948.4	62352.0	75393.7	284236.5	.	.	.
Discount rate, % p.a., end of period	90.2	68.2	33.7	33.7	26.3	26.3	17.0	.	.
Current account, USD mn <sup>11)</sup>	-968	-1317	-1837	-1180	-1341	-1298	-1200	-1500	-1500
Current account in % of GDP	-6.3	-8.0	-10.1	-6.4	-8.9	-13.0	-10.8	-12.7	.
Reserves of NBY incl. gold, USD mn <sup>12)</sup>	1303	1239	1158	1225	1224	.	.	.	.
Gross external debt, USD mn	9000	9000	10500	11500	12500	11500	.	.	.
Exports total, fob, EUR mn <sup>13)</sup>	.	1592.8	2360.0	2517.7	1391.1	1864.6	2125.0	2100	2200
annual growth rate in %	.	.	48.2	6.7	-44.0	34.0	13.9	0	5
Imports total, cif, EUR mn <sup>13)</sup>	.	3250.6	4245.2	4283.5	3080.8	4016.1	5401.0	5500	5600
annual growth rate in %	.	.	30.6	0.9	-26.4	30.4	34.5	2	2
Average exchange rate YUM/USD	1.79	4.97	5.72	9.34	11.01	37.46	66.84	.	.
Average exchange rate YUM/EUR (ECU)	2.34	6.30	6.48	10.46	11.73	32.22	59.50	60	.

\*) Note: From 1999 all data (except population and GDP) are given excluding Kosovo and Metohia.

1) Preliminary. - 2) Based on World Bank estimates. - 3) Based on GMP in Dinar. - 4) Excluding private enterprises. - 5) Based on final net production. - 6) 1995 excluding maritime transport. - 7) Employees plus own account workers, excluding individual farmers; from 1998 including small enterprises. - 8) From 1998 including small enterprises; from 2000 according to NACE. - 9) In % of unemployed plus employment. - 10) Excluding private sector; methodological break 1996/1997. - 11) Excluding grants. - 12) Gold and foreign currency of NBY converted into USD at official exchange rate. - 13) Converted from the national currency to EUR at the official exchange rate; from 2000 converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: WIIW database incorporating national and international statistics.

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