

EBRD

**Transition
Report 2004**

**Office of the Chief
Economist**



Overview – Transition Report 2004

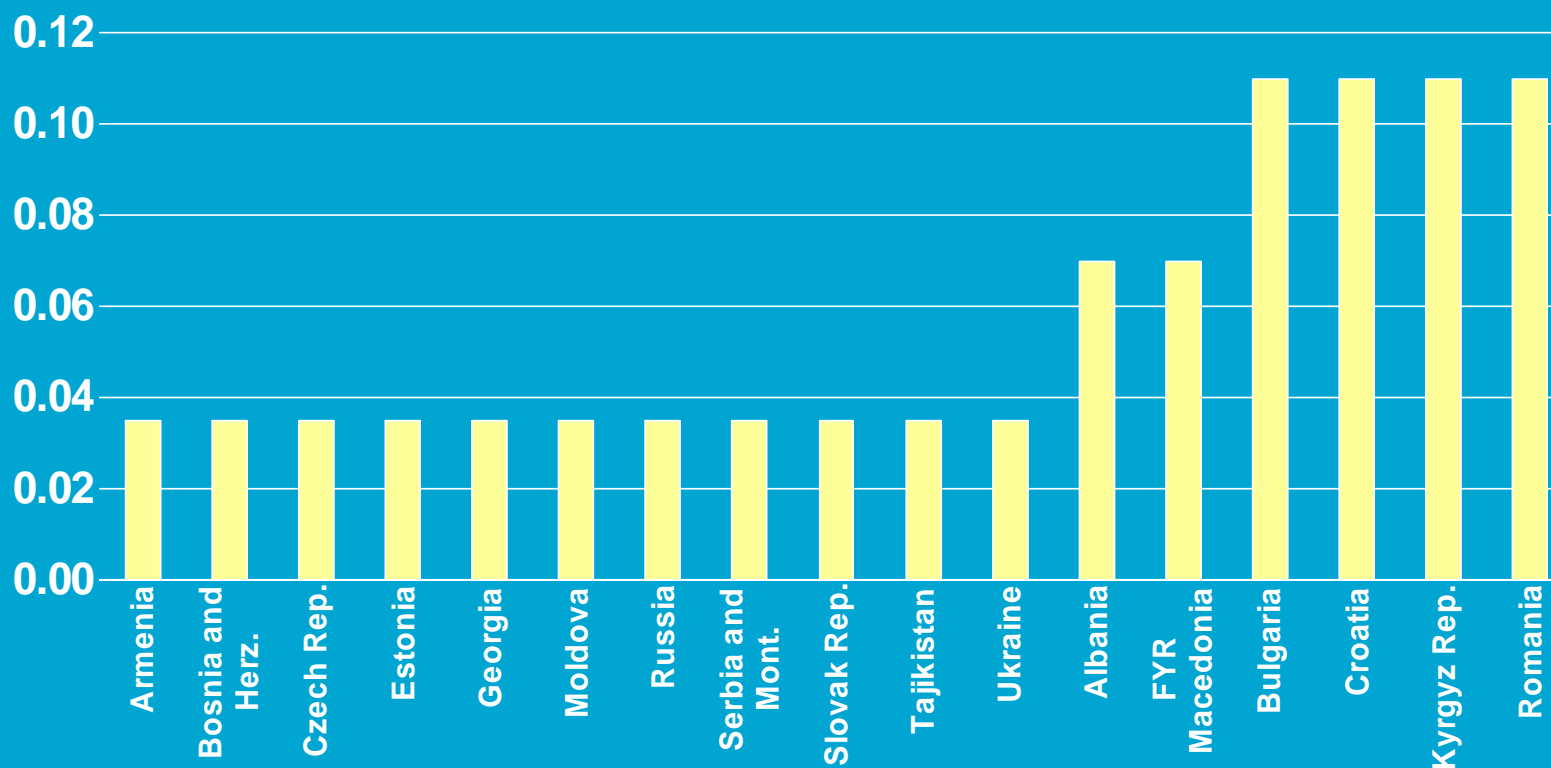
- Part I – Transition in 2003-04
 - Progress in transition
 - Macroeconomic developments
 - Links between reform and growth
- Part II – Infrastructure
 - Regulatory effectiveness
 - Private sector participation (PSP)



Progress in structural reform ...

... most prominent in the EU candidates of SEE

Change in transition scores *

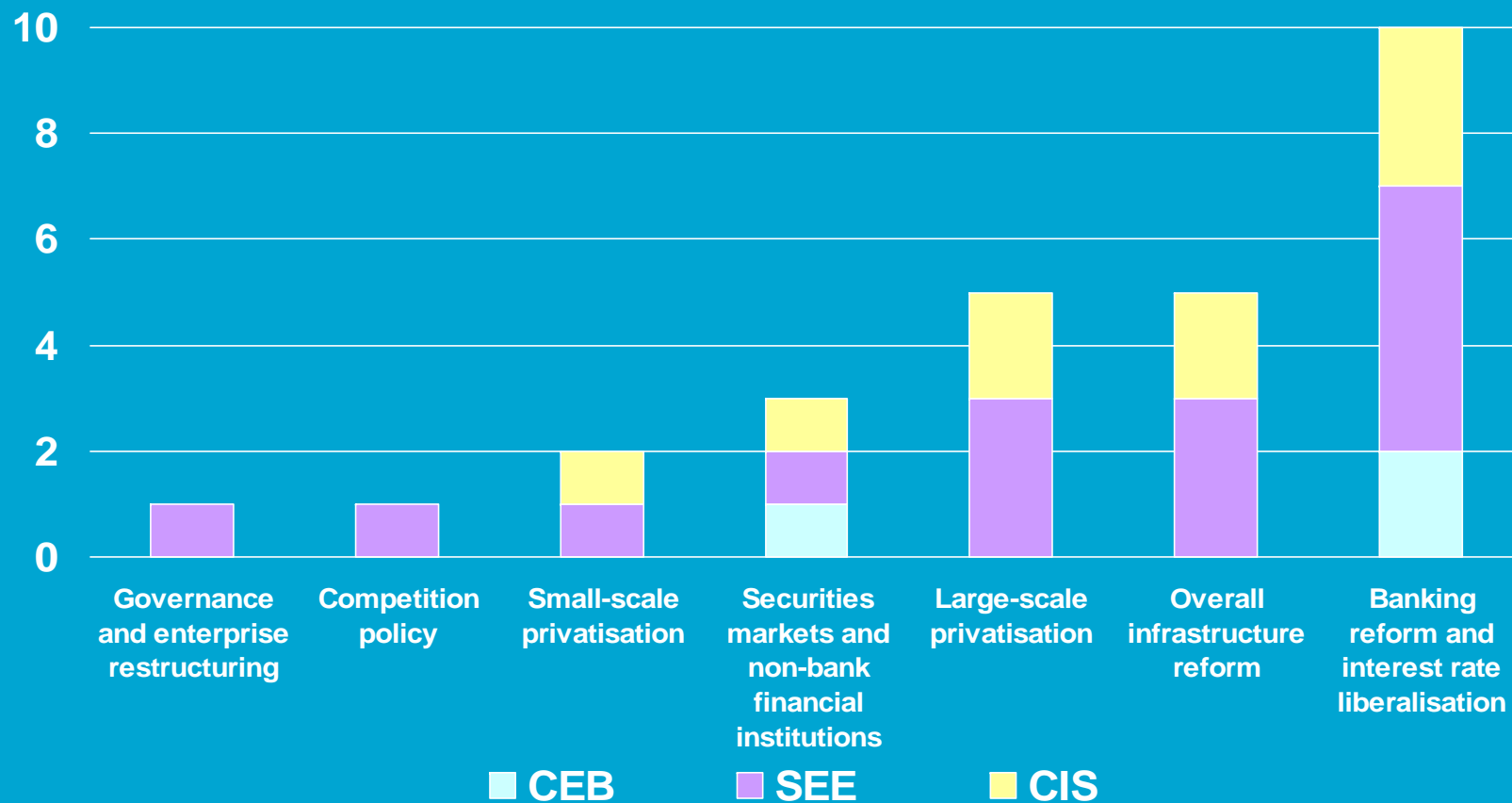


* No change was reported in the ten countries that are not listed



Most progress in financial institutions and infrastructure

Number of upgrades *

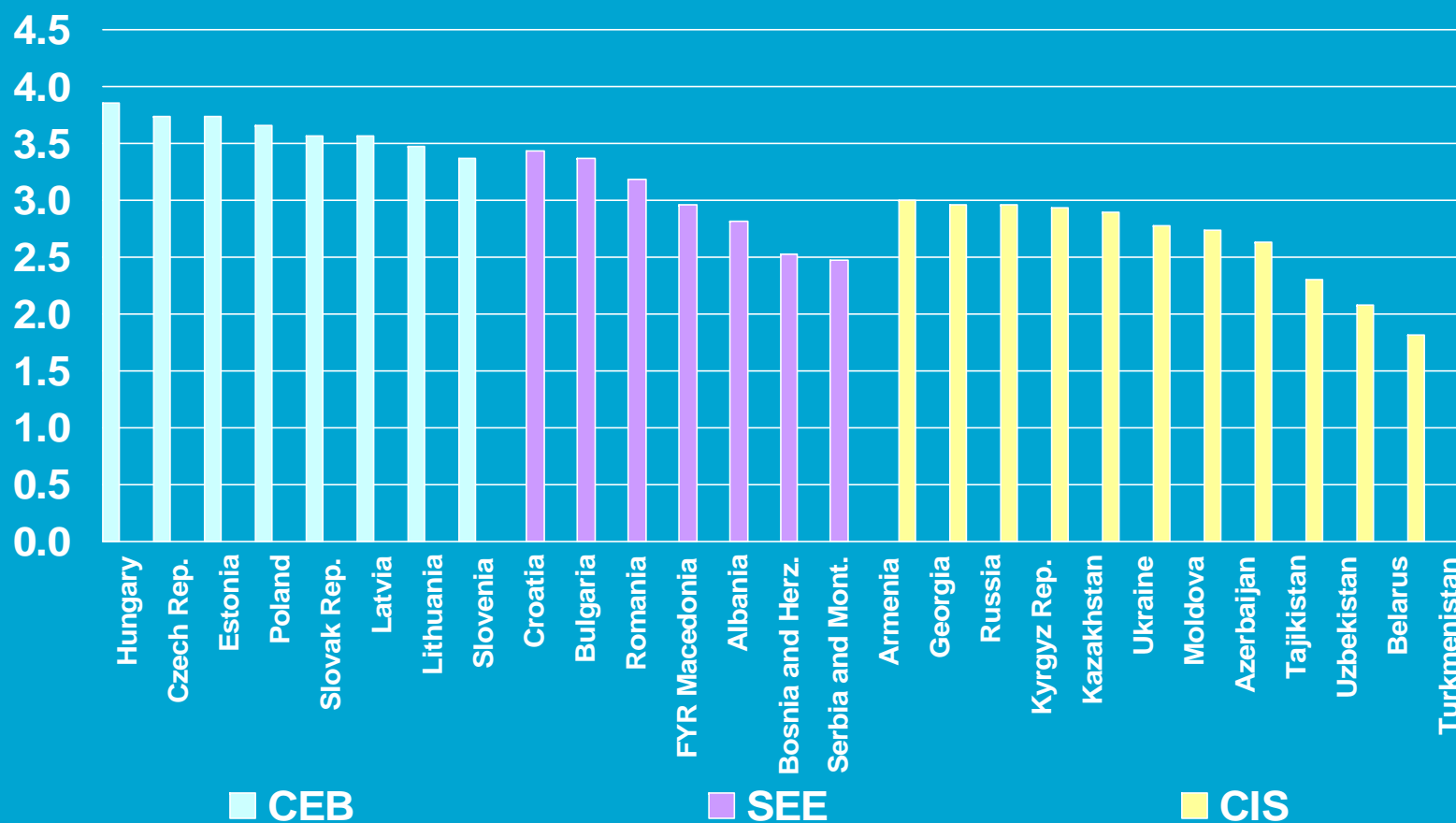


* No change was reported in price liberalisation, trade and foreign exchange system



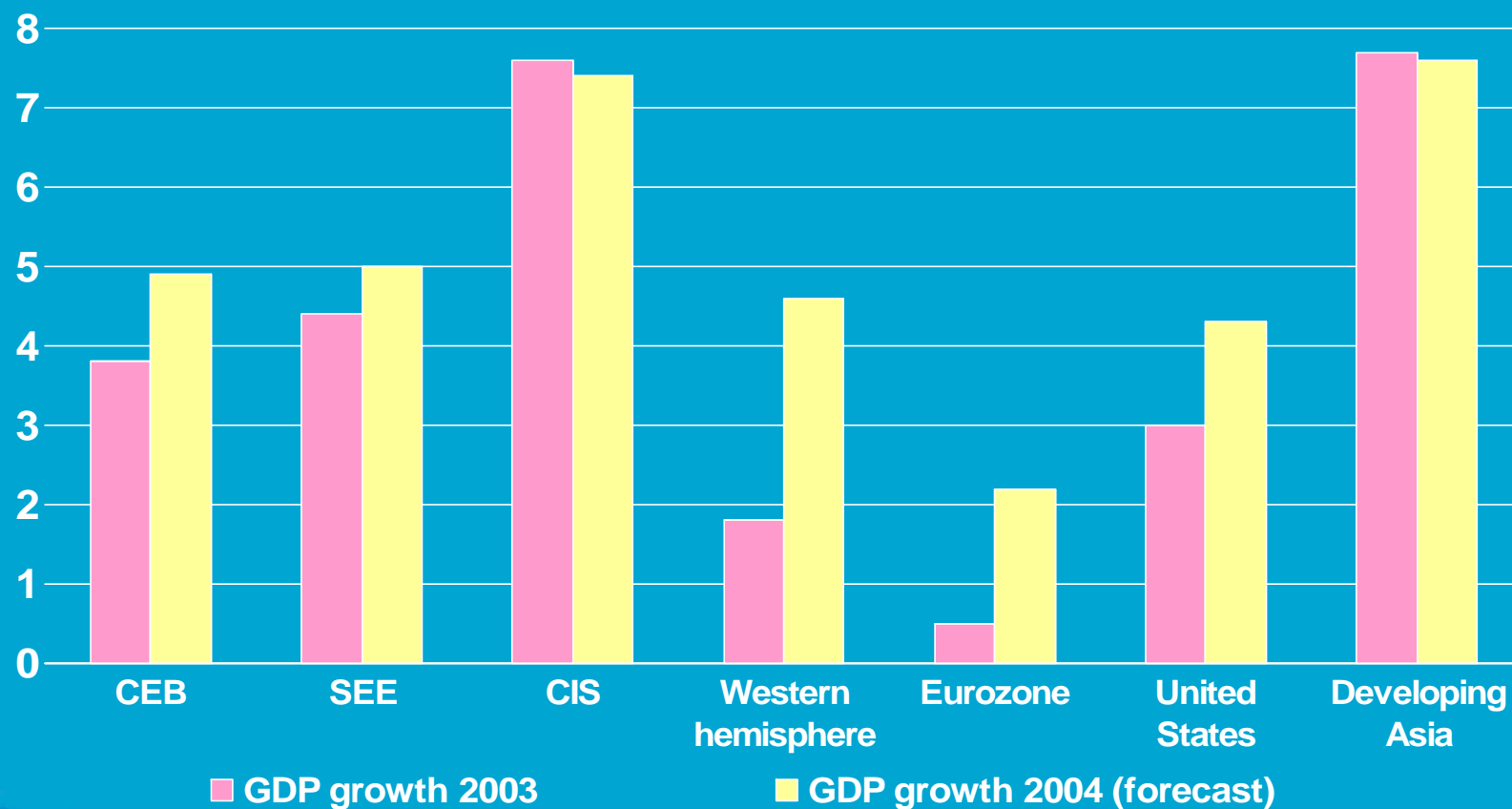
Transition achievements – 2004

Average transition score, 2004



Good growth performance

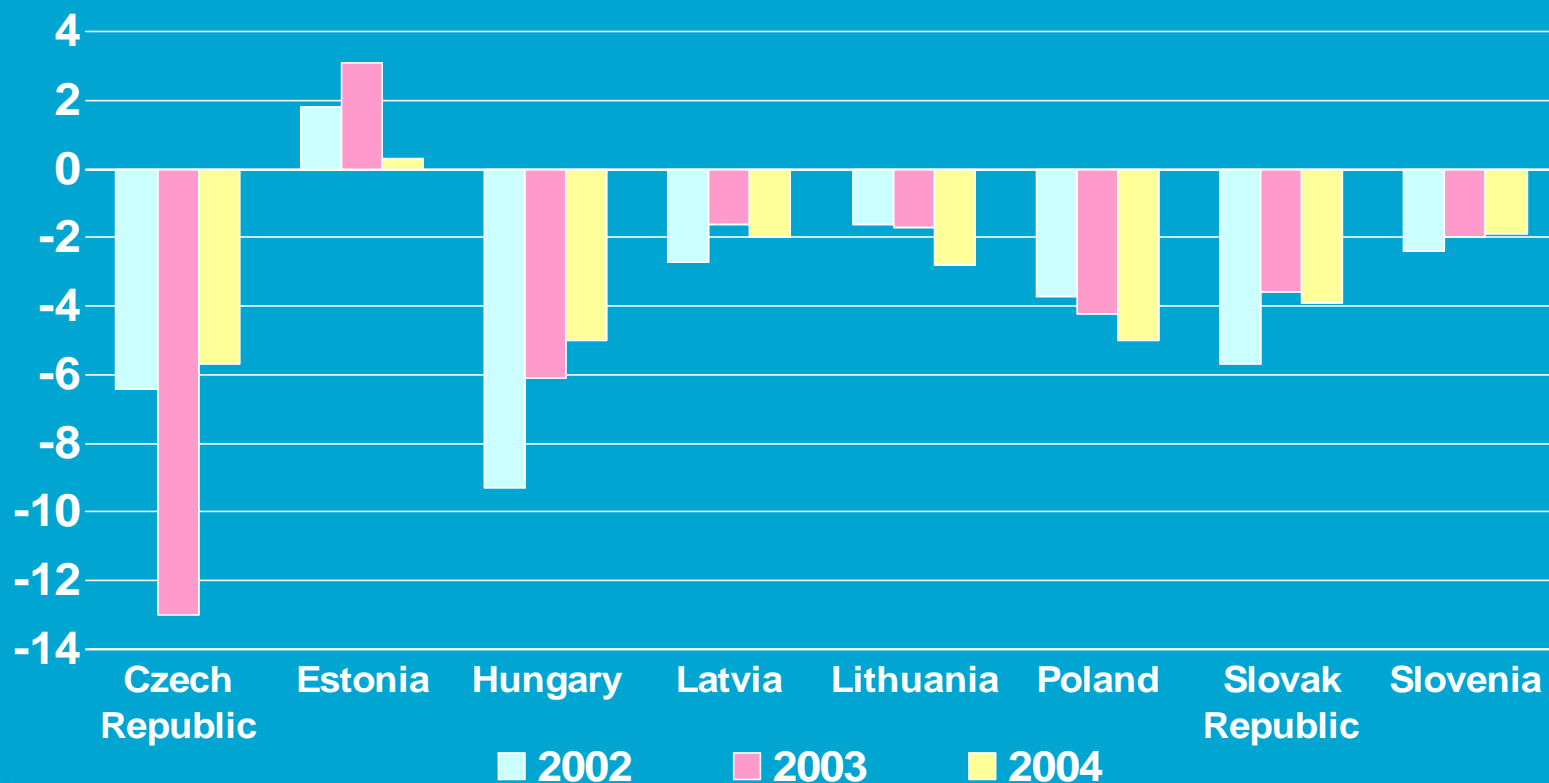
Per cent



CEB: still large fiscal deficits

Reductions in deficits are mostly cyclical

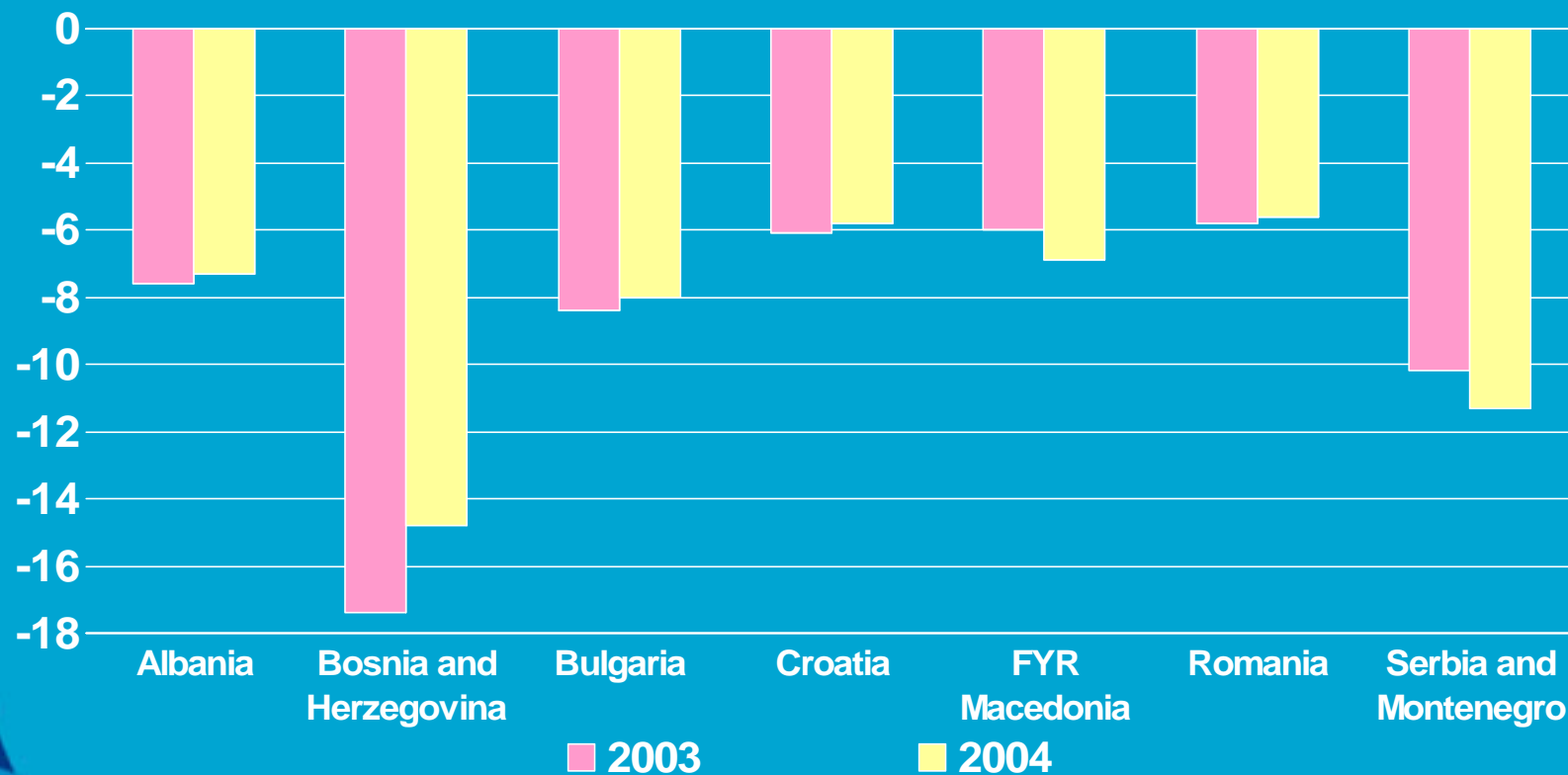
Fiscal balance in per cent of GDP



SEE: high current account deficits

Often financed by remittances and aid

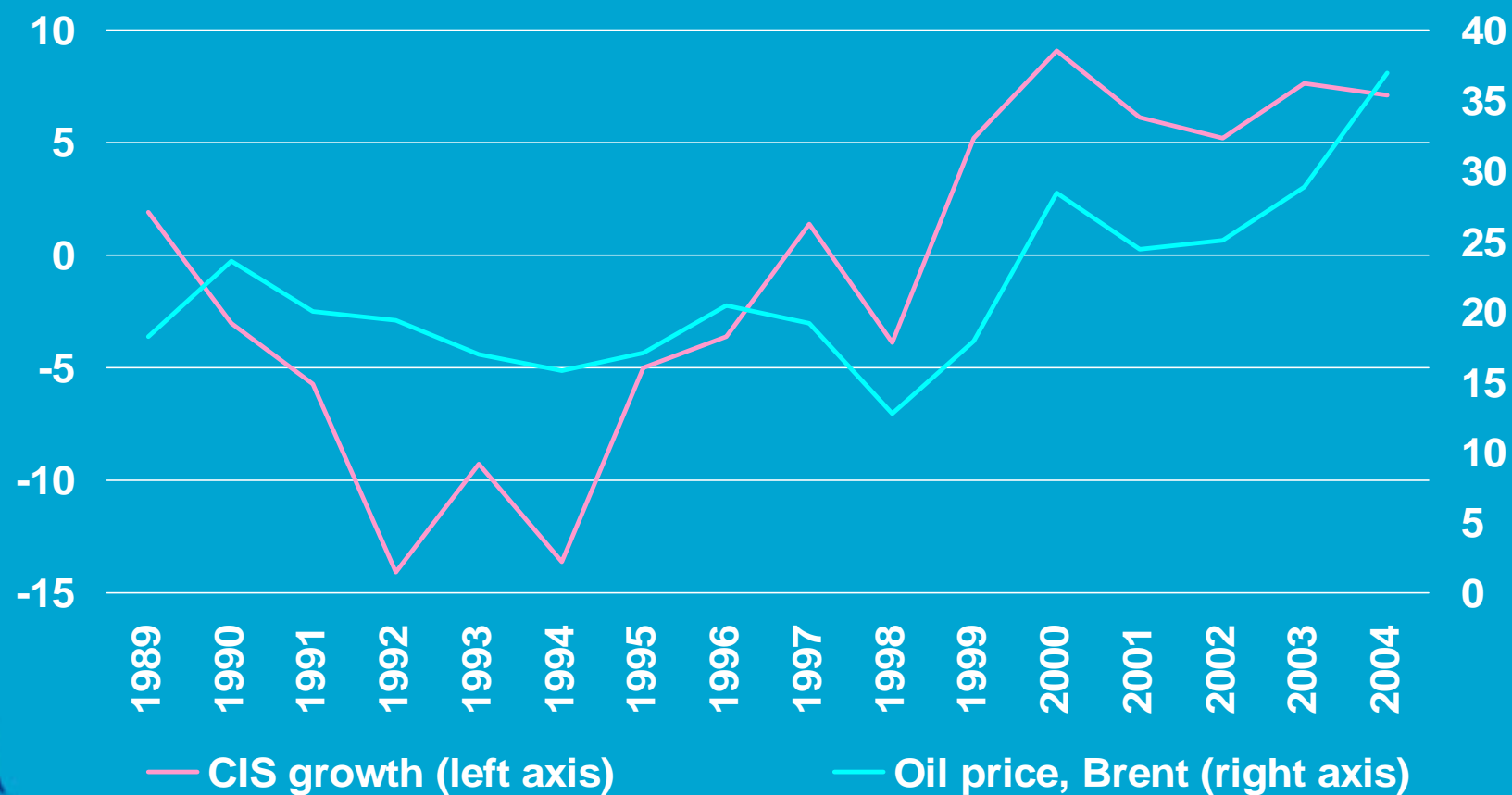
Current account in per cent of GDP



CIS: growth driven by high commodity prices and export demand

In per cent (annual weighted average)

US\$ per barrel (annual average)



Is reform good for growth?

Variables	Link to growth
Structural reforms (lagged)	+***
Initial conditions	+***
Oil balances	+
Bounce-back	+***
Macroeconomic stability (fiscal)	+***
Growth of export markets	+**

***, ** and * = statistically significant at 1,5 and 10 per cent



Part II - Infrastructure

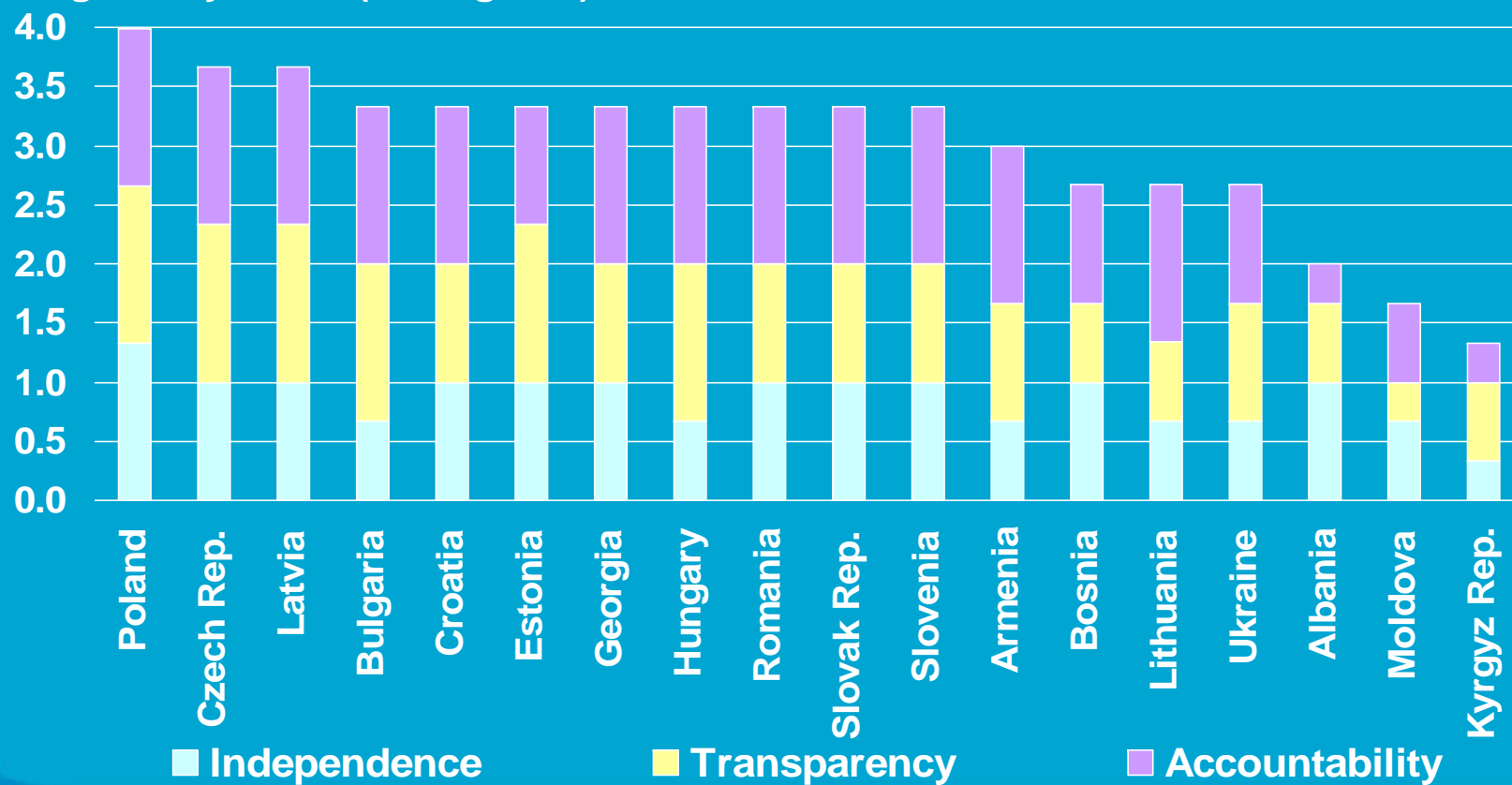
- Infrastructure reform is key to transition
 - Supports enterprise performance
 - Facilitates regional & global integration and trade
- Good infrastructure services depend on:
 - Effective regulation
 - Private sector participation (PSP)
 - Competition



Uneven regulatory effectiveness

Electricity

Regulatory score (4 = highest)

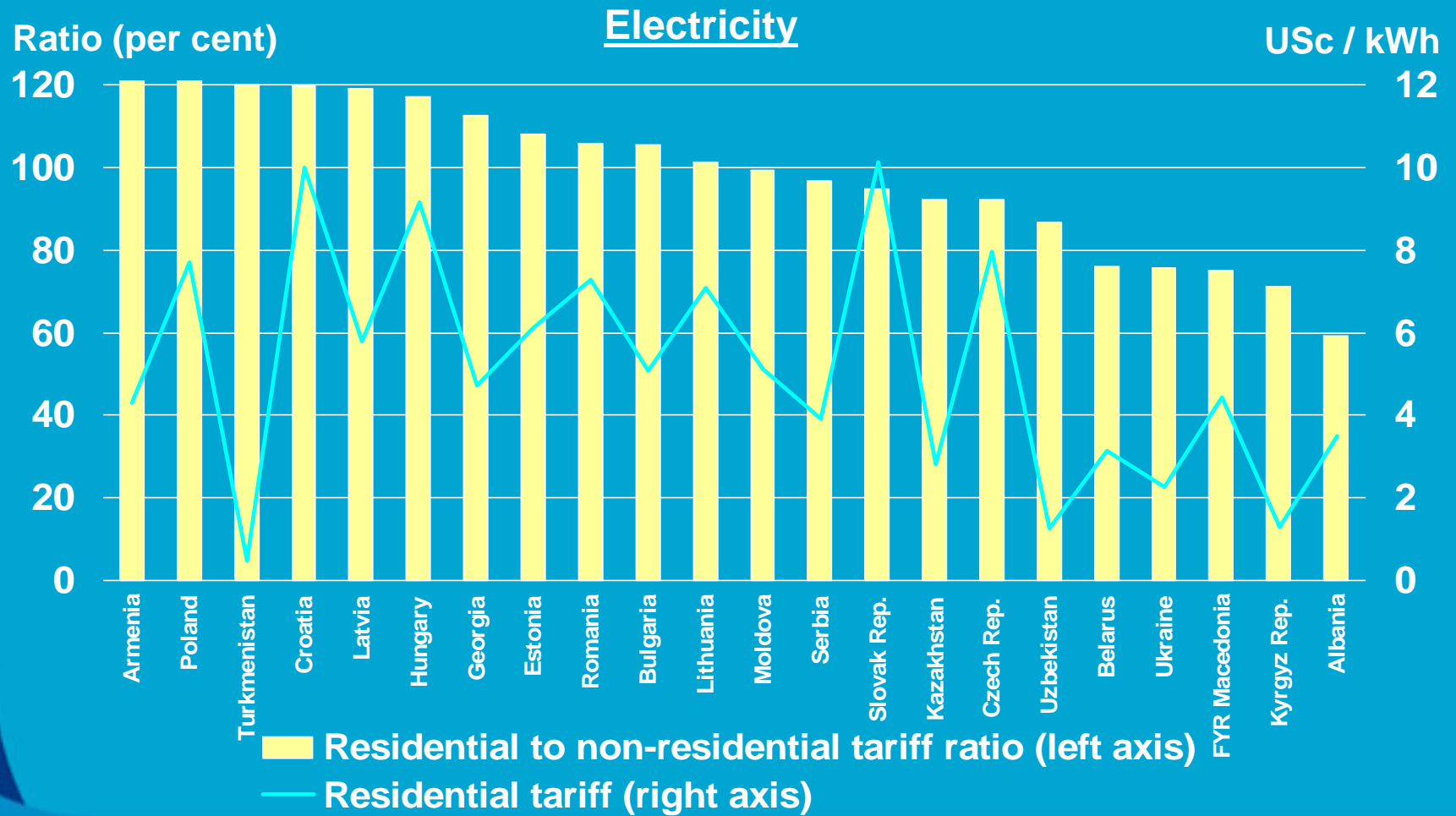


Regulatory challenges

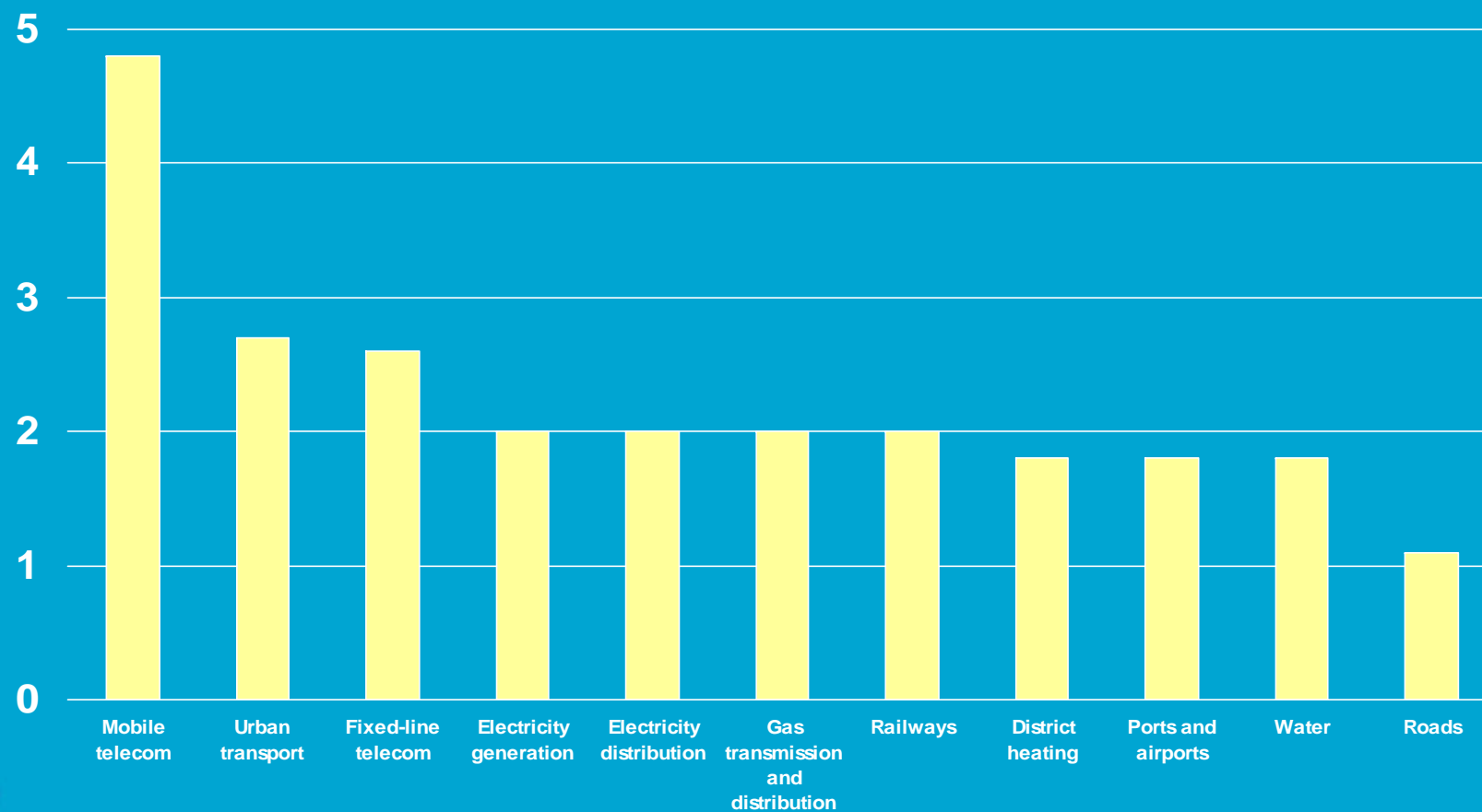
- Tariffs
 - Low tariff levels
 - Unbalanced tariff structure / cross subsidies
 - Unclear tariff setting procedures
- Competition
 - Open and non-discriminatory access to networks
 - Competition *for* the market (e.g. tenders)



Low and distorted tariffs



Uneven level of PSP: by sector



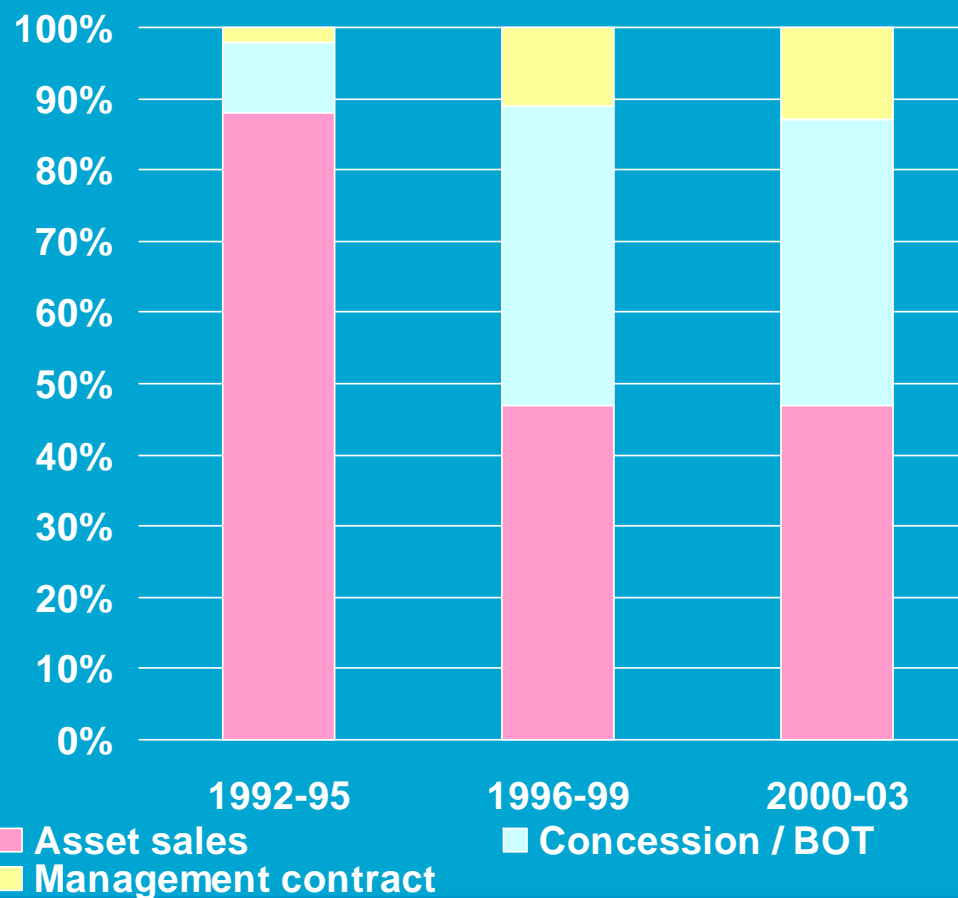
5 = Full; 4 = Substantial; 3 = Noteworthy; 2 = Small and 1 = None



Trends in PSP (excl. telecoms)

- From asset sale to concessions & management contracts
- From equity finance to debt and bonds
 - Local institutional investors
- From international to regional / national operators
 - Cez, RaoUes, Gazprom
 - National champions
 - Small local operators

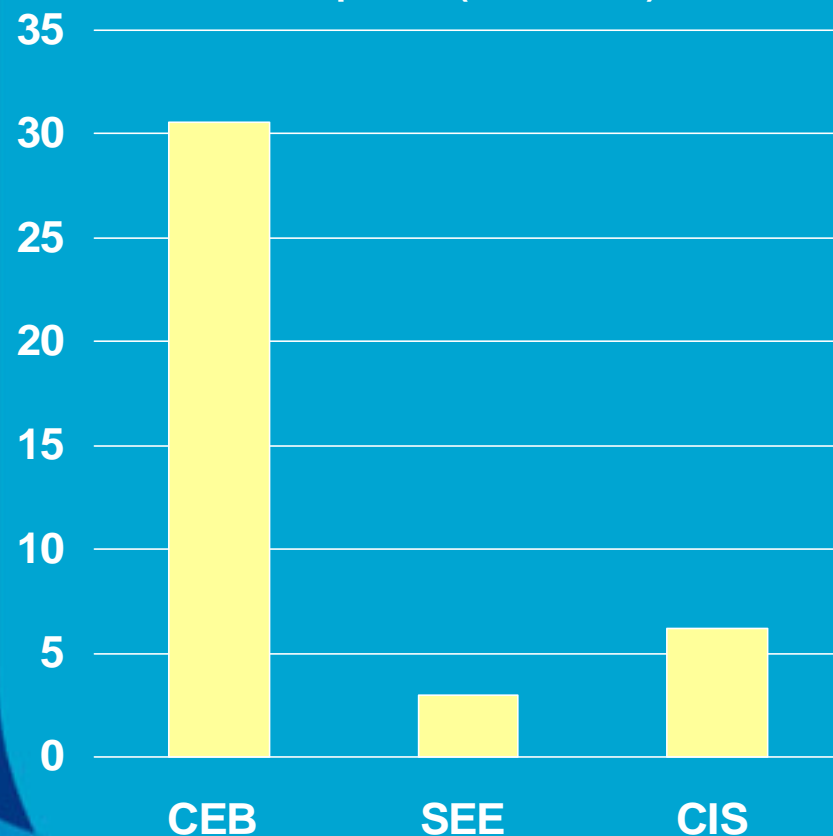
Per cent of all PSPs (number of deals)



Why PSP: proceeds from privatisation

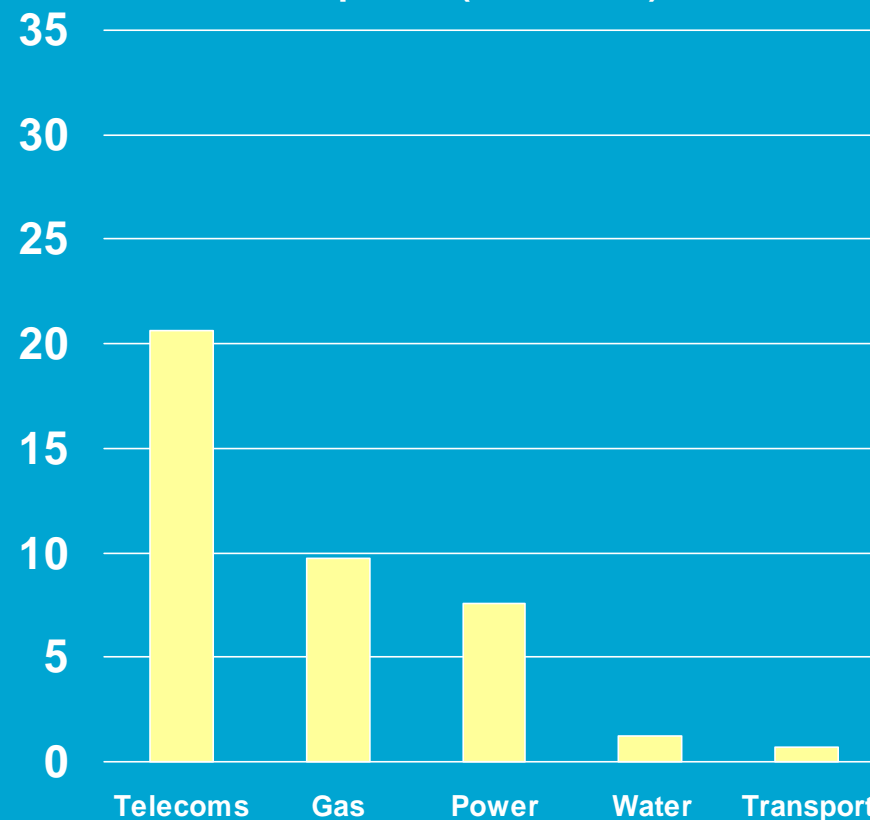
By region

In US\$ bn at 2000 prices (1992-2003)



By sector

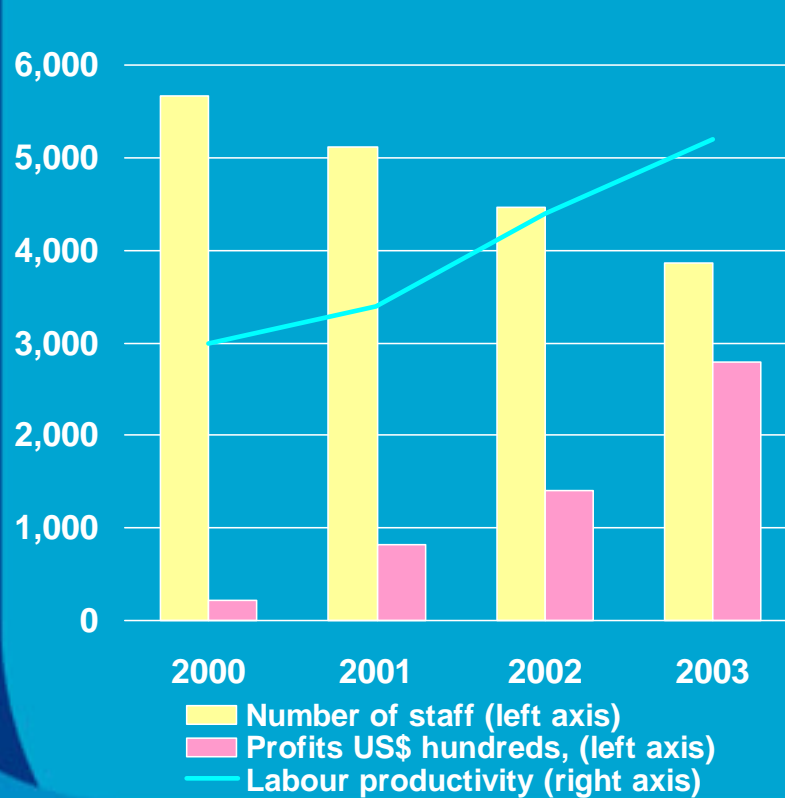
In US\$ bn at 2000 prices (1992-2003)



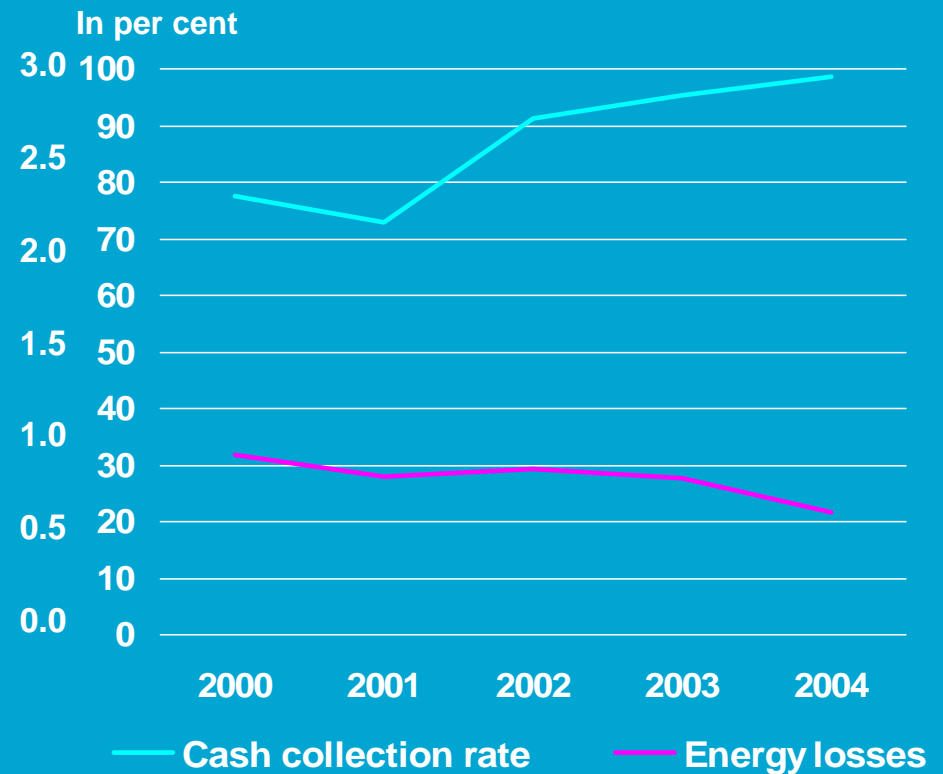
Why PSP: better performance

Only anecdotal evidence

Productivity: Estonia rail



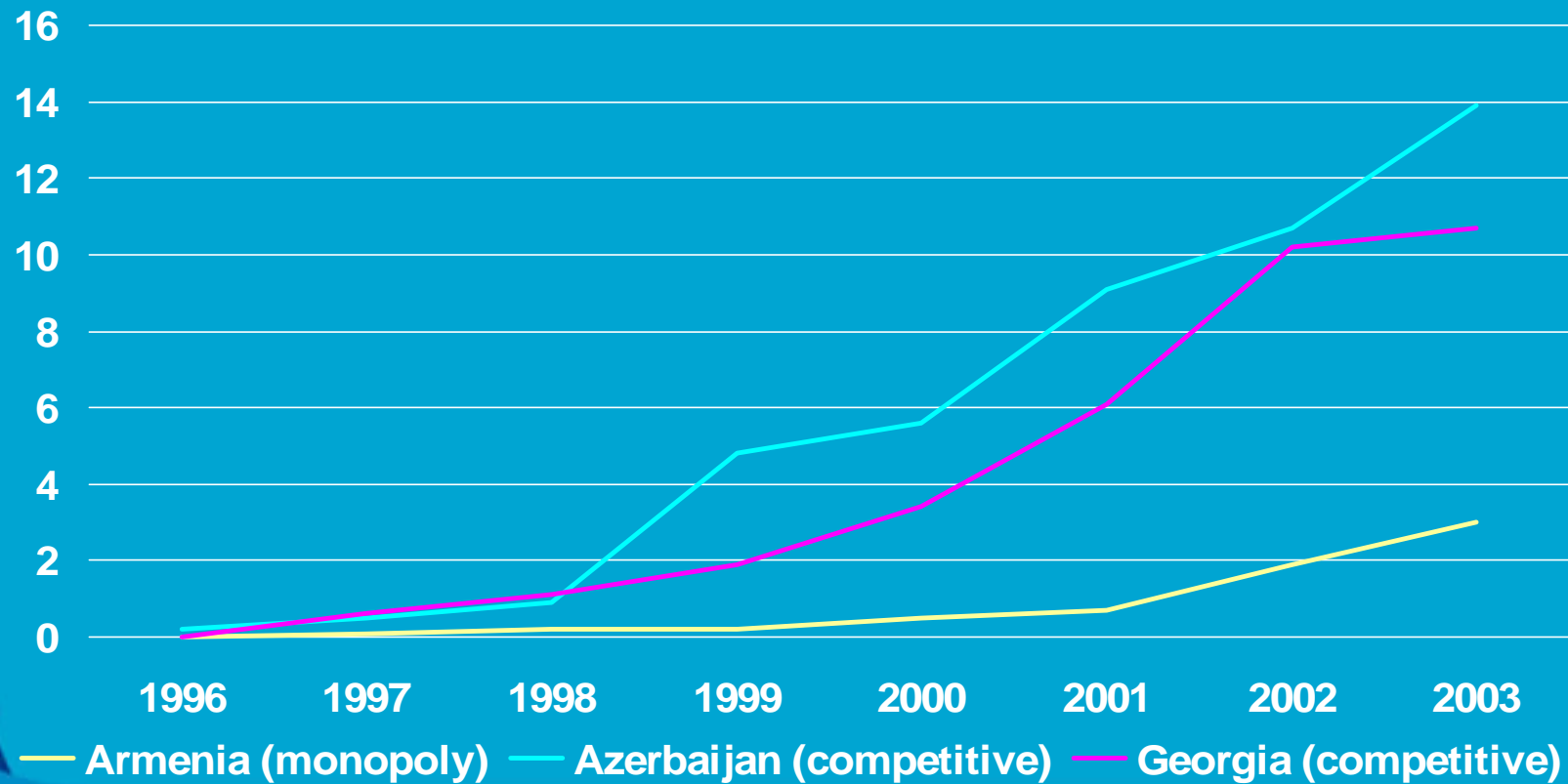
Efficiency: Moldova power



Competition as important as ownership

Telecoms in Caucasus

Mobile subscribers per 100 inhabitants



Conclusion

- **Carrots matter:** reform progress in 2004 most pronounced in EU candidates of SEE
- Region expected to grow by 6.1 per cent in 2004 and 5.5 per cent in 2005
- Growth helped by strong global growth and (in CIS) high commodity prices. Credit growth spurs domestic consumption and investment
- Sustained structural reform will stimulate growth in the longer term



Conclusion

- Competition, regulation and private sector participation (PSP) key factors for good infrastructure performance
- Many countries have found it hard to establish effective regulatory agencies
- PSP increasingly through concessions or management contracts. Outside telecoms limited role for private risk capital in infrastructure



Annual Meeting & Business Forum 2005



Good opportunity to:

- find out more about the EBRD and its countries of operations
 - network with bankers, business people and government officials
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- **22-23 May 2005 in Belgrade**
 - Parallel forum of debate and discussion on the investment climate in the region

