

# Transition report 1996

Infrastructure and savings

Albania Armenia Azerbaijan  
Bahrain Belarus Bosnia  
and Herzegovina Bulgaria  
Croatia Czech Republic  
Estonia FYROM  
Macedonia Georgia  
Hungary Kazakhstan  
Kyrgyzstan Latvia  
Lithuania Moldova Poland  
Romania Russian Federation  
Slovak Republic Slovenia  
Tajikistan Turkmenistan  
Ukraine Uzbekistan

Economic  
transition in  
eastern Europe  
and the former  
Soviet Union

Progress in transition

Infrastructure for  
transition

Promoting savings

Macroeconomic  
performance



European Bank  
for Reconstruction and Development



# Guide to readers

## Country groupings

The Report uses the following collective terms to refer to country groupings:

|                         |  |
|-------------------------|--|
| Eastern Europe          | Albania, Bulgaria, Croatia, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic and Slovenia  |
| Former Soviet Union     | Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan |
| Baltic states           | Estonia, Latvia and Lithuania  |
| CIS                     | The countries of the former Soviet Union excluding the Baltic states   |
| Countries of operations | The EBRD's member countries in eastern Europe and the former Soviet Union  |

## Abbreviations

|                |   |
|----------------|---|
| The Bank, EBRD | The European Bank for Reconstruction and Development  |
| BIS            | Bank for International Settlements  |
| CEFTA          | Central European Free Trade Agreement   |
| CIS            | Commonwealth of Independent States (which includes as full or associate members all countries of the former Soviet Union, except the Baltic states) |
| CMEA           | Council for Mutual Economic Assistance (former)   |
| CPI            | consumer price index  |
| CSFR           | Czech and Slovak Federal Republic   |
| ECE            | Economic Commission for Europe  |
| ECMT           | European Conference of Ministers of Transport   |
| ECU            | European Currency Unit  |
| EFTA           | European Free Trade Area  |
| EIU            | Economist Intelligence Unit   |
| EU             | European Union  |
| FDI            | foreign direct investment   |
| FYR            | Former Yugoslav Republic  |
| G-7            | Group of 7 (Canada, France, Germany, Italy, Japan, UK and USA)  |
| GATT           | General Agreement on Tariffs and Trade  |
| GDP            | gross domestic product  |
| GNP            | gross national product  |
| IFC            | International Finance Corporation   |
| IFI            | international financial institution   |
| IMF            | International Monetary Fund   |
| IOSCO          | International Organisation of Securities Commissions  |
| MFN            | most-favoured nation: GATT principle that gives a country tariff treatment equal to the lowest rate generally offered to other countries            |
| na             | not available   |
| OECD           | Organisation for Economic Cooperation and Development   |
| Phare          | Poland and Hungary: Aid for Economic Restructuring (EU)   |
| PPP            | purchasing power parity   |
| SMEs           | small and medium-sized enterprises  |
| UN             | United Nations  |
| VAT            | value added tax   |
| WTO            | World Trade Organisation  |

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# Infrastructure and savings



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# Foreword

The purpose of this Report, the third in an annual series, is to chart the progress of transition from the command to the market economy and to identify and analyse the challenges of the coming years in the countries of eastern Europe, the Baltics and the CIS. The special focus of this year's Report is the change, during the period of market-oriented transition, in the role and character of physical infrastructure and of household and enterprise savings.

It is the EBRD's task to help promote the transition in all 26<sup>1</sup> of its countries of operations. The EBRD does this as a participant investor with a private sector focus. It works with its partners on projects that are financially sound, move the transition forward, and would be unlikely to emerge or function well without its intervention. In this sense, it works as an investor on the frontiers of the transition process. It is therefore of great importance for the EBRD to study the process and how it moves forward, to share its analysis with its partners, and to adapt its activities to the circumstances and stage of transition in each country. Thus the series of *Transition Reports* has an investment perspective. While the Report is about the region (rather than the EBRD), it draws extensively on the EBRD's unique experience as an investor in all its countries of operations.

The process of market-oriented transition has yielded markedly different experiences in different countries. Together with the diverse initial economic and political conditions in the various countries, these experiences have shown clearly that any generalising across countries or country groups requires caution. While some generalisations are essential to any conceptual analysis, it remains crucial for investors, policy-makers and researchers to look closely at the problems and experiences of each country individually. The EBRD is in a special position, with its direct experience as an investor throughout the region, to contribute to this country-level analysis and to the comparative analysis of country experience.

The transition has now been in progress for between three and seven years in most countries of the region. The comparative analysis of this experience, which is at the heart of the Report, now covers a long enough period and sufficiently many countries to provide real insights both into the process of change itself and into the challenges that have arisen, and are arising, at different stages of transition. We are no longer, as analysts, facing the beginning of an unprecedented process. The process may be unprecedented, but it is now a long way from its beginning.

The past 12 months have seen continued progress in the transition in most countries in the region. Building a new system, with its methods of working, skills, institutions and governance, is a lengthy and difficult process. It involves disruptions and disagreements, and competition between different interest groups. The workings of the associated political processes cannot always be expected to result in smooth and unhesitating advance towards the market economy. From a historical perspective, it is likely that the pace of progress will be seen as remarkably rapid in much of the region. However, the legacies of the many decades of the command economy cannot be overcome in only a few years and there are major tasks to be accomplished in taking reform forward, even in those countries of the region that have advanced the most in transition.

<sup>1</sup> Bosnia and Herzegovina became the 26th country of operations in June 1996.

Many essential tasks in the transition, such as price and trade liberalisation and the privatisation of small-scale enterprises, which could (and should) be carried out quickly, are close to completion in many (but not all) countries. However, some of the more difficult tasks at the heart of the transition, such as enterprise restructuring, the rehabilitation and rebuilding of infrastructure, and the building of strong financial and legal institutions, have a long way to go.

The special topics of this year's Report are the building of a market approach and new institutions for infrastructure and savings. The infrastructure of central planning was oriented to the peculiar production patterns and priorities of that system and paid little attention to economic costs, environmental conditions, or to the demands and preferences of producers and consumers. Put simply, it was uneconomic and uncommercial. Accordingly, its commercialisation and restructuring are central to the transition. Financial intermediation also played only a limited role under the old regime. The need for financial intermediation has grown sharply during the period of market-oriented transition, as enterprise savings have become a less important source of investment finance. The creation of new savings instruments and institutions, as well as the strengthening of linkages between savings institutions and providers of investment finance, are, therefore, central parts of the transition.

As in previous years, we have made an effort to combine cross-country studies with detailed analysis of the reform process country by country. We have opted this year to concentrate the country-specific descriptions of the reform process at the end of the Report to add to the user-friendliness of the publication.

The assessments and views expressed in this *Transition Report* are not necessarily those of the EBRD. The responsibility for them is taken by myself on behalf of the Office of the Chief Economist. While we have attempted to be as up to date as possible, the "cut-off" for revisions to most of the draft chapters was early August 1996.



Nicholas Stern

Chief Economist

2 October 1996



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The collection of material on legal reform in Chapter 2 (including Box 2.1 and the sections on law in the indicators at the back of the Report) was coordinated by Wayne McArdle, with the contribution of other lawyers of the EBRD’s Office of the General Counsel. Timothy Murphy prepared Box 2.4 on issues associated with the measurement of environmental developments. Luisa Affuso, Roger Stiegert and Maria Vagliasindi contributed to the work on infrastructure; Peter Falush to that on contractual savings instruments; and Rika Ishii to that on macroeconomic performance.

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