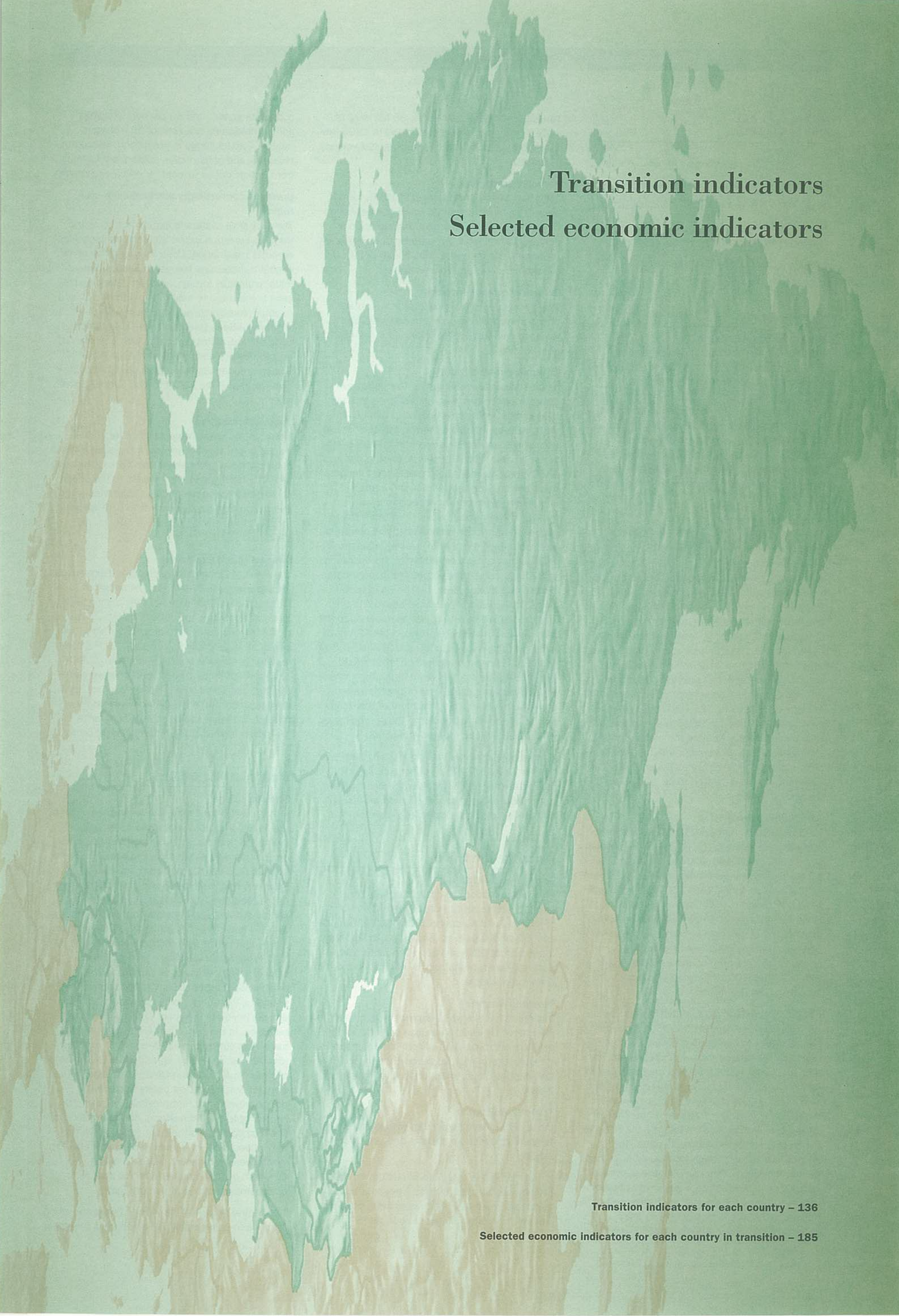

# Transition indicators
# Selected economic indicators

# Albania

*A comprehensive market-oriented reform programme was adopted in 1992. Price and trade liberalisation as well as privatisation of farm land and small-scale enterprises are virtually complete.*

## Enterprises

### Size of the private sector

Official Albanian statistics indicate that the private sector accounted in 1995 for 75 per cent of GDP and 77 per cent of employment. Agriculture, construction, road transport, retail trade and food industry are almost completely in private hands. While private sector activity has spread rapidly in recent years, the almost completely state-owned industrial sector has been decimated. Agricultural production was almost entirely privatised early on in the reform process.

### Large-scale privatisation

A new voucher-based Mass Privatisation Programme was introduced in 1995. According to this programme a total of 400 medium-sized or large state-owned enterprises are to be privatised through a system of "unpriced auctions". The programme includes all the 32 large enterprises that were in the original portfolio of the Enterprise Restructuring Agency, when it was established in 1993 to restructure or liquidate these companies. Vouchers are tradable and can be exchanged for shares in enterprises, in any one of the auction centres set up in each of Albania's 37 districts. The value of each enterprise is determined as the total sum of vouchers which individuals bid during the auction period (45 days). A total of 97 enterprises have been sold under the programme as of July 1996. The whole process is expected to be completed by the end of 1998.

### Small-scale privatisation

The Privatisation Law (1991) and subsequent amendments regulate the privatisation of small-scale entities (defined as those with less than 15 staff). Small-scale privatisation progressed rapidly already during 1991-92, largely through employee buyouts. Privatisation of retail shops is virtually complete. Since mid-1993, responsibility for the small-scale privatisation programme has rested with the National Agency for Privatisation. The programme includes entities with less than 300 employees or a book value of less than US$ 0.5 million.

Privatisation of land is regulated by the Law on Land (1991). By the end of 1993, 92 per cent of agricultural land had been privatised as farmers took over the land of former cooperatives. The sale and purchase of land was originally prohibited. In July 1995 two new laws regulating land ownership and its sale and purchase were passed. The first allows sale and purchase of agricultural land. It also transforms the titles to usage of the land into property titles. The second law allows foreign individuals or companies to buy land if they combine the purchase with a three times as large investment in the usage of the land. The sale of state-owned housing is regulated by the Law on the Privatisation of State Housing (1992) and by subsequent by-laws. By 1996, 98 per cent of state buildings had been privatised (a 1996 law regulates usage rights of remaining state-owned buildings).

### Property restitution

According to two laws passed in 1993, former owners and their heirs can claim compensation or restitution for government expropriation of non-agricultural land. For property that has been privatised, the law prescribes co-ownership between the new and former owners.

### Growth of private enterprise

There has been rapid growth of small enterprises in trade, transport and services, partly financed by a large inflow of remittances from abroad.

### Enterprise restructuring

Much enterprise restructuring has happened over the past three years in response to sharp tightening of enterprise access to bank credits and government subsidies. The rapid accumulation of inter-enterprise arrears in 1991-92 was halted in early 1993 by the nationwide move to a system of payment before delivery. Inter-enterprise arrears were netted out and a strictly limited set of financially viable firms were granted the financial means to write off their claims on non-viable companies. An Enterprise Restructuring Agency (ERA) was established in 1993 to restructure or terminate the operations of 32 large companies. Most of the large enterprises have by now been broken up in parts. Some parts have been closed down, and the viable ones are receiving management support. Employment in the enterprises in the ERA portfolio has fallen from 51,000 in 1988 to 10,000 in 1995. Those who are laid off from these enterprises are compensated in the form of one year of wages and one year of unemployment benefits. However, this treatment of the unemployed will not be extended to those employees who lose their jobs after privatisation.

A new bankruptcy law was adopted by parliament in October 1995. It defines bankruptcy procedures for all companies (the previous law from 1992 covered only state enterprises) but no bankruptcies have taken place so far.

## Markets and trade

### Price liberalisation

Price liberalisation has been extensive (the latest prices to be liberalised were those of bread, gas and kerosene in July 1996), but price controls and subsidies (amounting to less than 1 per cent of GDP) still apply for public transport, rail fares, postal tariffs, electricity and the rural water supply.

### Competition policy

A competition law was adopted by parliament in December 1995. It introduces procedures for mergers and break-ups of dominant companies. It also establishes a so-called Economic Competition Department under the Ministry of Trade.

### Trade liberalisation

Since 1992 there have been virtually no quantitative restrictions on imports and very few on exports.

In May 1995 the structure of custom tariffs was streamlined to three tariffs: 7 per cent on raw materials, machinery and equipment, previously exempt from duty; 25 per cent on most consumer goods; and 40 per cent on luxury goods (medicines are exempt from custom duties). Capital goods in production, telecommunications and construction sectors are exempt from import duties (except for office equipment).

### Currency convertibility and exchange rate regime

The exchange system is largely free of restrictions on current account transactions including on profit repatriation. Controls remain on some capital transactions but not on repatriation of initial capital by foreign investors. Albanian citizens are allowed to hold foreign currencies and maintain foreign currency accounts. The exchange rate is freely determined in the interbank market, which competes with a number of private dealers and foreign exchange bureaux. The central bank is trying to deepen the market by encouraging the banks to play a more active role.

### Wage liberalisation

There are no longer wage ceilings for state-owned or private enterprises. An agreement is in place between government and the largest trade union to index government wages to the prices of 24 basic consumer goods and services. The minimum wage was equivalent to US$ 42 per month (at the market exchange rate) in mid-1996.

### Interest rate liberalisation

The Bank of Albania sets minimum deposit rates and issues guidelines for the formation of lending rates with the aim of maintaining positive real rates on deposits and credits. There is no formal cap on deposit or lending rates, but banks have generally followed the central bank in setting rates. Real interest rates on both deposits and lending have been positive since the first quarter of 1993. However, apart from remittances from family/friends who migrated abroad, the main source of outside finance for the private sector is the informal credit sector.

## Financial institutions

### Banking reform

During 1996, three new laws on the structure of the financial sector were approved by parliament. The first concerns the organisation and the independence of the central bank. The functions of the supervisory board and of the executive board are clearly specified. Members of the executive board are now appointed by parliament, instead of by government. Relations with the government regarding the financing of the budget deficit are clarified by this law so as to fit in with the monetary policy guidelines issued by the central bank. A second law assigns clear responsibility to the central bank regarding the foreign exchange regime, policy, and portfolio management of foreign exchange reserves. In the past, the central bank did not have clear-cut responsibility on these matters which by law had to be agreed with the Ministry of Finance. A third law provides the legal framework for setting up new banks (including co-operative banks, not previously envisaged according to the old system), and the different financial operations they can conduct. On the regulations side, new minimum capital requirements were introduced. A US$ 2 million minimum capital requirement now applies for both domestic and joint venture banks.

The central bank has the right to issue operating licences to commercial banks, approve mergers and division of banks, and approve the issue of securities. The state-owned Savings Bank takes the bulk of household deposits. These deposits are channelled via the central bank to the state-owned National Commercial Bank (NCB) which undertakes more than half of all lending to enterprises. Another important state-owned bank is the Rural Commercial Bank.

None of the established commercial banks has yet been privatised. Two of the three state owned banks are expected to be privatised before summer 1997. In preparation for privatisation, the National Commercial Bank has recently been recapitalised and its capital clearly separated from that of the central bank. Auditing of all the Albanian state banks was carried out in 1995. A law to transform the state banks into joint stock banks and to privatise them has been approved in late 1995. Five partly foreign-owned private banks are currently operating in Albania: the Banca Italo Albanese (joint venture between a branch of the NCB and the Italian Banca di Roma), Dardania Bank (Kosovan owned), the Arab Albanian Islamic Bank (joint venture between a branch of the NCB and a group of Saudi banks), as well as the Tirana Bank (majority owned by the Greek Bank of Piraeus) and the International Commercial Bank (owned by a Malaysian investor), which obtained licences to operate as banks in the first half of 1996. The National Bank of Greece recently obtained the preliminary approval for a licence.

Almost all transactions are still in cash, although a "fixed value personal cheque" was introduced in July 1996. Only short-term lending (up to six months) is available from the banking sector, which is actively financing the public deficit.

**Non-bank financial institutions**
A law on investment funds has been approved. Funds may purchase vouchers from citizens, and use vouchers to build up an equity portfolio in the privatised enterprises. The first investment fund licence was granted in April 1996 to the foreign-managed Anglo-Adriatic Investment Fund.

A law has been passed regulating the establishment and operation of insurance companies (minimum capital requirement Lek 30m), so as to break the monopoly of the large state-owned insurance company INSIG.

INSIG is an active player in the T-bills auctions, as is the Savings Bank. Together with the Bank, it is trying to set up a Mortgage Bank.

**Securities markets and instruments**
New securities laws regulating the operation of the stock exchange and transactions with vouchers were adopted in 1996. A stock exchange was established in March 1996. It trades treasury bills (with one month to one year maturity), privatisation vouchers and foreign currency. A special Securities Commission has been appointed to regulate trading activity.

## Fiscal and social safety net reform

**Taxation**
Until 1990 the state budget relied on three main revenue sources: the turnover tax, enterprise profit transfers and social security contributions. All of these were paid by the enterprises. Reforms since 1991 have introduced a personal income tax, property tax and customs duties, have replaced profit transfers by profit taxation and have removed the most notable inefficiencies in the turnover tax system. In 1992 the profit tax rate was set at 30 per cent (additional taxes are payable in certain sectors such as mining and oil), the progressive rates for personal income taxation at 5-40 per cent, and the basic turnover tax at 15 per cent. The latter was replaced on 1 July 1996 by a value added tax, initially set at 12.5 per cent (likely to be increased to 15-17 per cent in 1997). Excise taxes range from 20 to 60 per cent and apply to, for example, tobacco, cigarettes, alcohol and petrol derivatives. Despite the new revenue sources, there has been a very sharp drop in revenues collected from enterprises (this phenomenon was exacerbated during the pre-electoral period in 1996). Some rates increases are likely to take place in the near future (small business tax), together with the elimination of some tax exemptions (import tariff exemption for investment goods). A four-year tax holiday for investment in manufacturing and a 60 per cent tax reduction on reinvested profits are in place.

A new law approved in 1996 states that industrial parks might request "free trade zone status" which would be phased out in a seven-year period from beginning of operations.

**Social security**
The government has, over the last 2-3 years, placed pensions and unemployment insurance on an actuarially sound basis: an individual unemployment insurance contribution has been introduced as well as phased increases in social security tax rates; there is a one-year limit on eligibility for unemployment insurance; and earnings-related unemployment benefits have been replaced by flat payments linked to minimum pensions. The government has improved targeting of social assistance to the most vulnerable groups by replacing price subsidies with targeted income transfer programmes, means-testing social assistance and enforcing eligibility requirements. Social security contributions are 32.5 per cent of the payroll (6 percentage points paid by the employer, the rest by the employee).

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, directly and, to a limited extent, through indirect investment vehicles. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals may, subject to restrictions, own or lease land (see the comments above under "small-scale privatisation"). Security interests over shares and land may be created, require notarisation and, in the case of land, entry in an official register or, in the case of shares, entry into the company share register. Security interests over contracts, receivables and moveable assets are theoretically possible, and require registration; however, registration problems currently prevent enforceable perfection of such interests.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Subordinate regulations, decrees, etc. which frequently contain substantive measures relating to investment, are in force although they are generally not published. Draft laws are usually not circulated to practitioners for comment prior to enactment. Public records in share or land registries may be up to 12 months behind current status. Despite requirement for registration, registers do not always exist. Court decisions are not generally available to practitioners. Independent professional legal advice is available. While private parties generally believe that courts will recognise their legal rights against other private parties, they do not believe that courts would enforce such rights against the state. Foreign arbitral awards are not required to be recognised and enforced by the courts, at least not without a re-examination of their merits.

# Armenia

***Although market-oriented reforms were initiated in January 1992, further progress was delayed due to the conflict in Nagorno-Karabakh and the effective trade blockade imposed on the country. The country's reform efforts regained momentum in 1994 with the support of the IMF. Substantial progress has been made since then both in the area of structural reform and in macroeconomic stabilisation.***

## Enterprises

**Size of the private sector**
In 1996, the private sector share in GDP may exceed 50 per cent on account of sharp contraction in the state sector and rapid privatisation in trade, services and agriculture.

**Large-scale privatisation**
A new phase of privatisation in Armenia began in 1994: a "voucher" privatisation programme was approved which provided for privatisation of both large and small-scale enterprises. Distribution of vouchers to the Armenian population started in October 1994 and was completed in March 1995. By mid-1995, about 1,100 medium and large-scale industrial enterprises had been converted into joint-stock companies with 20 per cent of the shares distributed to employees. The first privatisation auction, involving 10 medium and large-scale enterprises, was concluded in May 1995. As of mid-August 1996, 626 medium and large enterprises had been privatised. The majority of the enterprises were offered by public subscription and a few were sold by auction. There were also employee buy-outs. Furthermore, 10 enterprises have been earmarked to be sold through international tender. The government expects that privatisation will now continue at least until the end of 1997.

**Small-scale privatisation**
Of the approximately 5,000 enterprises earmarked for small-scale privatisation, 3,238 had been privatised by the end of August 1996. The remaining enterprises are scheduled to be privatised before the end of 1996. Employees have the first option to buy via cash or vouchers; otherwise, the enterprise is offered for sale by auction.

In the agricultural sector almost all of the more than 800 state and collective farms have been broken up, and over 300,000 private farms have been created.

Privatisation of housing is now virtually complete.

**Property restitution**
No property restitution has taken place in Armenia.

**Growth of private enterprise**
New private enterprises have emerged rapidly, although their development has been hampered by an incomplete legal framework, shortages of energy and other inputs and trade barriers imposed by Armenia's neighbours between 1990 and 1994. There were more than 18,000 private enterprises registered in November 1995.

**Enterprise restructuring**
During 1994-95, substantial financial discipline has been imposed on state enterprises by the elimination of subsidies and cheap credits, the opening up of foreign trade, and the entry of new companies.

Pre-privatisation restructuring is monitored by the government and focuses on debt workouts and reduction of arrears, labour shedding, divestitures and spin-offs, new marketing strategies, and management changes.

A law on bankruptcy was approved by parliament in 1995. However, due to lack of provisions for reorganisations and ambiguity over the judicial authority to administer the law, a new bankruptcy law is being drafted. The new law is expected to be adopted by the autumn of 1996. Eleven loss-making enterprises were placed in a restructuring programme in 1995.

## Markets and trade

**Price liberalisation**
Almost all prices have been liberalised: prices remain administered only for bread, urban transport, electricity, hot water, gas, heating, sewage services, garbage collection, state-owned housing, telephone services and irrigation. All administered prices are inflation-adjusted on a regular basis. The tariff for domestic use of electricity was sharply raised to 14 dram (approximately 3.4 US cents) per kWh on 1 January 1996. Direct price control remains in place for flour through the setting of maximum profit margins for flour mills. The only consumer subsidies that remain are on district heating and hot water, which are also under review to better target the vulnerable parts of the population.

**Competition policy**
In order to improve resource allocation state purchases above US$ 50,000 have been made through competitive tendering since February 1995. The Law on Protection of Economic Competition and the Law on Natural Monopolies are to be submitted to the parliament (by, respectively, the end of 1996 and early 1997).

**Trade liberalisation**
Armenia has progressively removed most of the regulatory obstacles to external trade. In December 1995, a five-band import tariff structure was streamlined into a two-band structure, with rates of 0 and 10 per cent. Import and export licences are required only for health, security and environmental reasons. There are no export taxes for enterprises but individuals taking goods across the border are taxed a 10 per cent export duty. All bilateral clearing arrangements that existed between Armenia and other FSU countries have been eliminated. Armenia is committed to early WTO accession. Armenia has bilateral free trade agreements with 28 countries. Currently, excise taxes on strong alcohol, beer, grape wine and passenger vehicles discriminate against imports. Equalization of the rates is planned by the end of the first quarter of 1997.

**Currency convertibility and exchange rate regime**
The dram is fully convertible for current account transactions. Export surrender requirements were eliminated by mid-1995. There are no restrictions on repatriation of profits and capital.

**Wage liberalisation**
A Wage Indexation Law was adopted in early 1992, giving the government discretion over nominal wage adjustments. A "minimum consumption basket" is used to guide monthly minimum wage adjustments to price increases. The minimum wage was increased by 18 per cent to 720 dram in January 1996.

**Interest rate liberalisation**
Interest rate limits were removed in the last quarter of 1994. The Central Bank's refinance rate is determined by the outcome of credit auctions and turned positive in real terms in early 1995. With the abolition of directed credit at the beginning of 1995, credit auctions became the main means for credit extensions to commercial banks.

## Financial institutions

**Banking reform**
A two-tiered banking system was created in 1987-88 in Armenia as in the rest of the Soviet Union. The fragility of the current banking system continues to undermine its role in savings mobilisation and financial intermediation. In August 1996, there were 39 commercial banks operating in Armenia, a significant reduction from the beginning of 1994 (at which point there was 58 resident banks and 14 foreign banks), due to the closure of banks that have failed to meet prudential regulatory standards. According to the mid-1995 data, eight banks (five former state-owned banks and three private banks) accounted for nearly 80 per cent of the Armenian banking system as measured by total assets, while their capital accounted for 60 per cent of the total capital of the banking system. In July 1996, 42 per cent of the loan-assets of the deposit money banks were non-performing.

The Central Bank of Armenia (CBA) began taking decisive moves to strengthen Armenia's banking system in early 1994: minimum capital requirements were increased; banks were required to report daily or weekly to the CBA; and on-site audits and off-site surveillance programmes were developed. In early 1995, it was decided that the capital in each bank should reach at least US$ 350,000 by the beginning of 1997, US$ 600,000 by 1998 and US$ 1 million by the beginning of 2000. In addition, banks are required to comply with the following requirements: minimum capital to risk-adjusted assets ratio of 10 per cent; a minimum liquidity ratio of 35 per cent; maximum exposure to a single borrower of 20 per cent of assets; and maximum household deposit-taking of 9 times capital. International accounting standards for banks were introduced in January 1996.

In June 1995, the 35 per cent limit on foreign shareholdings in the financial sector was abolished. The first foreign-owned bank, Midland-Armenia, began operations in January 1996, and was established as a commercial bank in March 1996.

**Non-bank financial institutions**
In late 1994, an Investment Fund Decree was passed that allowed funds to own up to 40 per cent of shares in any given enterprise. A state insurance company and several private insurance companies are active in Armenia. A private

deposit insurance company is underway, but moral hazard and adverse selection issues will have to be dealt with before further progress is made.

**Securities markets and instruments**
Securities markets are at an embryonic stage. A share registry system has been implemented and a unit in the Ministry of Finance has been established to supervise capital markets.

The government has been operating a treasury bill market since October 1995. Treasury bills are offered in weekly auctions, in which only banks are allowed to participate. By early September 1995, annualised yields were about 35-40 per cent.

## Fiscal and social safety net reform

**Taxation**
The Armenian tax regime includes the following components: a value added tax (VAT) of 20 per cent, an *ad valorem* excise tax (15-75 per cent), an enterprise profit tax (30 per cent for banks and insurance companies, 70 per cent for casinos and 12-30 per cent for other legal entities), a personal income tax (with rates at 12-30 per cent), a land tax and property tax. Newly established enterprises (including foreign enterprises) are exempt from profit tax for the first two years. Enterprises with foreign investment will receive further favourable tax treatment from the third to the tenth year (30-50 per cent reduction of profit tax). Despite the reform, tax revenues remain low: 41 per cent of expenditures in 1995. VAT and excise taxes as a percentage of total revenue were 28 per cent while enterprise income tax and personal income tax were the major source of tax revenues, totalling 50 per cent of tax revenues in 1995. The government intends to increase tax revenues by broadening the tax base, reducing tax exemptions and strengthening the revenue collection capacity.

**Social security**
The pressure on pension expenditures due to an ageing population is in itself not a serious problem in Armenia: in 1995, the number of non-working age individuals per actively employed individual in Armenia was 0.8 and population growth averaged 1.5 per cent per annum between 1985 and 1994. Due to other sources of fiscal pressure, social government expenditures (consumer subsidies, pensions, social safety net, health and education) have been sharply reduced from 18 per cent of GDP in 1994 to 8 per cent of GDP in 1995. Given the budgetary constraints, the government has been seeking to target better the most vulnerable parts of the population. In 1996, child allowances will be restricted to children aged 0-6. Pensions accounted for about 65 per cent of total social expenditures in 1995. The new Pension Law adopted in December 1995 provides for the following reforms in the pension system: a gradual increase in the retirement age; a flattening of the pension structure; a delinking of adjustments to the pension level from adjustments made to the minimum wage; and a reduction of payouts to working pensioners. The government plans to submit an Employment Law by mid-1996 which limits the maximum payout period of unemployment benefit to 12 months.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investments, including indirect investment vehicles, such as securities or investment funds. Most foreign investment proposals are not subject to governmental approval, except for security and health reasons. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Nationals can, subject to restrictions, own or lease land, while foreigners can acquire property and the right to use land, but there is no law that allows outright ownership of land by foreigners. Security interests over shares and land may be created. Security interests over land require notarisation. Security interests may be created over certain movable assets.

**Effectiveness**
The full laws are regularly published, and draft laws are usually accessible to practitioners. Reportedly, many laws are also available on a computer database. While recently enacted laws provide for the registration of security and ownership interests in specified tangible property, registers do not always exist. Court decisions are not generally available to practitioners. Independent professional legal advice is available, but from only a very limited number of lawyers. Private parties generally believe that courts would not recognise and enforce their legal rights against the state. Foreign arbitral awards are not required to be recognised and enforced by the courts without a re-examination of the merits.

# Azerbaijan

***A comprehensive stabilisation and economic reform programme - supported by the IMF - was initiated early in 1995. Good progress has been made with respect to macroeconomic stabilisation. In the realm of structural reforms, progress remains slow and uneven.***

## Enterprises

**Size of the private sector**
The private sector may account for about 25 per cent of GDP.

**Large-scale privatisation**
The legislation for the corporatisation of the large enterprises is being prepared, and vouchers are being printed. Their distribution should be completed by the end of the year, and the first voucher auction is to take place early next year. Foreigners will be allowed to participate in the process, although they will be required to buy an option to do so first.

**Small-scale privatisation**
Many shops, restaurants, small manufacturing companies, and trade and service units have been leased out and are run as private enterprises.

A new privatisation programme, approved by the parliament in July 1995, envisaged that small enterprises (less than 50 workers) would be auctioned or sold directly to individual workers. This process started on 26 March 1996. By the end of 1996, 2,500 small enterprises should be sold, including small service units, gas stations, shops and bakeries.

**Property restitution**
In November 1991 all former Soviet property in Azerbaijan was nationalised. There is no individual property restitution law.

**Growth of private enterprise**
Over 10,000 small private enterprises are registered with local authorities, but many are inactive. There is a large number of unregistered active private entities.

**Enterprise restructuring**
The pre-independence management structure and relationship between enterprises and ministries remain largely intact, supported until mid-1995 by budgetary subsidies and bank credits to enterprises.

Recently, however, some progress has been made. In its efforts to reduce inflationary pressures, the government has, over the past year, cut back on subsidies and directed credits to enterprises. With assistance from EBRD, the government is preparing a Secured Transactions Law and amending the Bankruptcy Law. A presidential decree on payment discipline will also be issued soon.

## Markets and trade

**Price liberalisation**
In January 1992, 70-80 per cent of producer and consumer prices were liberalised, with

further rounds of liberalisation later in 1992 and 1993, leaving bread and energy as the main goods under price controls.

In January 1995, the bread price subsidy and the state order system for agricultural products were abolished. Prices for oil and oil products were gradually increased during the course of 1995 to reach world market prices by the end of that year. However, prices for utilities, housing and transport remain controlled at levels that fail to cover production costs.

**Competition policy**
The State Anti-monopoly Committee, established in 1993, regulates mark-ups in nearly 1,000 enterprises categorised as "monopolistic". A Law on Unfair Competition was passed by parliament in 1993 but is still awaiting Presidential approval.

**Trade liberalisation**
The dominant role of central government in foreign trade is being reduced. All quotas and licensing restrictions for both imports and exports had been removed by the spring of 1995, with the exception of those pertaining to a selection of "strategic goods", including oil and cotton.

**Currency convertibility and exchange rate regime**
Since May 1994 the official manat rate has been set weekly, based on a weighted average of exchange rates quoted by those commercial banks that are authorised to deal in foreign exchange. Until March 1995, exporters were required to surrender a fixed proportion of their foreign currency earnings at an unfavourable exchange rate. In March 1995, the exchange rate was effectively unified when the government abolished the Unified Foreign Exchange Fund and the rate applied for surrender requirements was aligned with market rates. Capital account convertibility remains limited.

**Wage liberalisation**
The real value of the minimum wage, which sets the benchmark for determining social benefit payments and public sector wages, has declined significantly over the last 12 months.

**Interest rate liberalisation**
Real interest rates have been positive for most of 1995 and 1996.

## Financial institutions

**Banking reform**
The rudiments of a new two-tier banking system were established in August 1992 with the National Bank Law and the Law on Banks and Banking Activities. Since 1992 around 200 very small commercial banks have been created which together account for about 10 per cent of total credit to enterprises and individuals.

New National Bank and Banking Laws were adopted in June 1996. They establish the National Bank as the sole supervisory authority for the whole sector. The minimum capital requirement for new banks has increased to ECU 1.2 million. Prudential regulations were improved in 1995 and 1996. Each bank must have a minimum capital adequacy ratio of 8 per cent, a maximum exposure per borrower of 50 per cent of its own capital, and a maximum foreign exchange exposure of 30 per cent of its capital. A number of smaller banks that have persistently failed to comply with these standards have been closed.

The banking system in Azerbaijan remains weak. To avert a systemic failure, the government has, with the assistance of the World Bank and the IMF, developed a restructuring programme for the three large state banks (Agro, Prominvest, Savings), which are facing the most severe problems.

**Non-bank financial institutions**
There are no active investment funds in Azerbaijan.

**Securities markets and instruments**
Although a Law on Securities and Stock Exchange has been passed, no Stock Exchange has been established.

## Fiscal and social safety net reform

**Social security**
In 1992 the Social Protection Fund, created from a merger of two pre-existing social security programmes, was established to provide pensions and social allowances, financed by payroll contributions.

## Investment legislation

**Extensiveness**
Laws regulating both domestic and foreign investment are limited. Most foreign investment proposals do not require government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners cannot own, but may lease, land. Security interests cannot be created over land, but may be created over shares. Security interests over certain moveable assets may be created.

**Effectiveness**
The full texts of laws are published, although sometimes six months after being passed. Draft laws are usually not circulated to practitioners for comment prior to enactment. While the law provides for the registration of security and ownership interests, certain prescribed registers do not exist. Important court decisions are not usually published or accessible to practitioners. Independent professional legal advice is available, but from a limited number of lawyers. Private parties generally believe that courts would not recognise and enforce their legal rights against the state. Foreign arbitral awards are not required to be recognised and enforced by the courts, at least not without a re-examination of their merits.

# Belarus

*While progress has been achieved in macroeconomic stabilisation during 1995 and the first half of 1996, there has been slow progress with structural reforms.*

## Enterprises

**Size of the private sector**
The private sector is likely to account for only about 15 per cent of GDP. Employment in "transformed" enterprises (joint stock companies, mostly 100 per cent owned by the state) is officially estimated to have accounted for 11.4 per cent of total employment in March 1996.

**Large-scale privatisation**
In 1993 Belarus launched a privatisation programme to de-nationalise two-thirds of enterprises owned by central and local governments by 2000. In January 1996, however, only 20 per cent of the programme's total (or 1,595 enterprises) had been "transformed" into joint-stock companies, in which the government initially owns 100 per cent of the shares. Genuine privatisation of large state-owned enterprises, with majority ownership and decision-making powers transferred to private investors, has not yet taken place.The 1996 privatisation programme approved in September 1996 comprises 516 enterprises owned by central government. Shares were to be sold to the population for vouchers that had been distributed in 1994 (the number of vouchers transferred to the individual adult citizen was linked to the number of years of employment, his or her age, and the number of children in his or her family). By May 1996, no transactions under this scheme had taken place. A major obstacle has been the rules for registration of enterprises. Registration of enterprises was suspended in early 1996, so that new companies could not be registered. Nor could a change in the ownership structure of old companies be registered. This measure effectively suspended the privatisation process.

**Small-scale privatisation**
Privatisation of small service units and shops, which accounted for 30 per cent of all "transformed" enterprises in 1995, has been mostly undertaken through auctions and competitive bidding. In 1996, the privatisation process at the local level slowed, with 88 small enterprises being sold or transformed during the first seven months of the year (a total of 415 enterprises were privatised in 1995). By the end of 1995, 47 per cent of the "transformed" enterprises were in the agro-processing sector, 35 per cent in the trade sector and only 4 per cent in industry.

By the end of 1995 about 36 per cent of the total stock of government and public-owned housing had been privatised.

**Property restitution**
No property restitution has taken place to date.

**Growth of private enterprise**
As of early 1995, private companies accounted for 19.3 per cent of all companies. A total of 48 per cent of all companies were collectives, 19 per cent were state enterprises, 4.6 per cent

were cooperatives and 2 per cent were joint ventures. Fully private and cooperative enterprises accounted for only 6.6 per cent of the total employment. There are approximately 3,500 joint ventures with US$ 100 million in paid-up capital, but the majority are thought to be inactive and to be used as vehicles for tax evasion.

**Enterprise restructuring**
There has been no significant active effort by the government or the banking system to instigate restructuring of state enterprises. There is still government intervention in capital and investment decisions, and in the setting of pricing and production targets. The number of state-owned enterprises has increased by 4 per cent between the end of 1995 and April 1996. About one-third of the enterprises are loss-making.

A major obstacle to enterprise restructuring is the lack of an adequate legal environment that will enable quick bankruptcy declaration and/or liquidation. The Bankruptcy Law, which was enacted in 1992, is ineffective. The government continues to provide financial aid to priority enterprises through tax concessions (tax and import duty exemptions, limitations on tax obligations) and banking measures (earmarked credits).

The collective agricultural sector continues to be a recipient of large subsidies in the form of cheap credits or subsidies to purchase machinery and fuel.

## Markets and trade

**Price liberalisation**
A large share of producer prices were liberalised in early 1992; and the process of price liberalization was mostly completed in early 1995. However, some price controls still apply to consumer products such as meat, dairy products and bread, and administered prices are set for transport, energy and communications. Profit margin restrictions are also applied to essential agricultural products.

As of January 1996, cost recovery in household utilities had reached about 60 per cent, a significant increase from the 12 per cent level of January 1995.

**Competition policy**
The State Anti-monopoly Committee was established in 1991, and enabling legislation and administrative regulations were approved in 1992-93. The Committee also monitors and regulates monopolistic enterprises. Although the licensing system for the production of a large number of products was abolished, the structure of the economy remains highly monopolistic. Restrictions on trade and distribution among regions are creating regional monopolies in sectors such as transport and domestic trade.

Wholesale trade monopolies were broken up in 1994 and the first half of 1995. Enterprises are subject to investigation only when there is evidence of monopolistic practice. The Anti-monopoly Ministry regulates and monitors natural monopolies and enterprises with no domestic competitors.

**Trade liberalisation**
In January 1995, a custom union agreement was signed with Russia. The customs union was joined later in 1995 by Kazakstan and in March 1996 by the Kyrgyz Republic. The harmonisation of import and export duties and non-tariff regulations with Russia, which was planned for May 1995 is still incomplete. In April 1996, Belarus declared its intention to follow Russia in the elimination of all non-crude oil export duties.

Harmonisation of import duties with Russia has been broadly maintained since mid-1995 with a few exceptions such as duties for imported cars. Import duty rates range between 5 and 30 per cent. A limited number of products are subject to rates in the 40-100 per cent range.

**Currency convertibility and exchange rate regime**
In July 1996 the Russian parliament ratified an agreement with Belarus on measures to bring about mutual convertibility between the currencies of the two countries.

Formal administrative controls were reintroduced in the foreign exchange market in November 1995, including the prohibition of interbank trading, and restrictions on the purchase of foreign currency. In April 1996 the Inter-bank Currency Exchange was nationalised and is now under direct control of the central bank (NBB).

In January 1996, a 10 per cent tax on purchases of foreign currency was introduced and exporters were required to surrender 100 per cent of their foreign earnings (with many exemptions granted). In June 1996, the 10 per cent tax was removed and the surrender requirement reduced to 50 per cent.

**Wage liberalisation**
The 1990 Law on Enterprises allowed for the free determination of wages; however, many enterprises follow adjustments in public sector wages. The minimum wage is set by parliament and is periodically adjusted for inflation; as of January 1996, it was Rb 100,000. A new wage scale for the public sector was also introduced in January 1996, containing 28 grades. Enterprises that receive subsidies must follow the same wage structure as the public sector.

**Interest rate liberalisation**
Interest rates on loans to industry and commerce were deregulated in October 1994. During 1995, the government reduced the amount of directed credit that was extended at preferential rates. However, between January and March 1996 the NBB again expanded the provision of preferential rate credits through state-owned banks on government recommendations, particularly for housing and agriculture.

## Financial institutions

**Banking reform**
The Law on the National Bank (passed in 1990) and the Law on Banks and Banking Activities (1990) established the National Bank of Belarus, which operates as the central bank, and five banks constituted from former branches of the specialised banks of the former Soviet Union. A total of 47 banks have been licensed, mostly during 1994.

The government has continued to intervene in the banking sector. The National Bank (NBB) and commercial banks have been requested to earmark credits to some sectors of the economy, in particular agriculture and housing.

In September 1995, Belarus Bank (a joint-stock bank) was merged by Presidential Decree with the state-owned Sberbank.

As of December 1995, over 83 per cent of the assets of the Belarussian banking system were concentrated in Sberbank (the Savings Bank), Belagroprombank, and the five large former state banks. Foreign and joint venture banks account for less than 1 per cent of all banking assets.

During 1995, banks in Belarus were required to increase their foundation capital to the equivalent of ECU 2 million by January 1996 but only 19 of the 47 banks were able to comply immediately. The minimum size of the foundation capital has been set at ECU 5 million for foreign banks.

New prudential regulations were introduced in early 1996: loans to shareholders and banks' borrowing capacity are restricted to 100 per cent of own capital.

A deposit guarantee fund, with initial capitalisation equal to 0.3 percent of total household deposits, was established in mid-1995. The fund guarantees deposits of up to US$ 2,000.

**Non-bank financial institutions**
Assets of non-bank financial institutions represent less than 10 per cent of all assets in the financial sector. There are 71 insurance companies in Belarus. The insurance market is less concentrated in Belarus than in many other countries in the region, with the top five providers accounting for about 65 per cent of collected premiums. The state insurance company "Belgosstrakh" accounts for 35 per cent of collected premiums. At present, insurance investment returns are subject to a value added tax of 20 per cent and a profit tax of 30 per cent.

There are 34 operating licensed investment funds, holding about 8 million vouchers.

**Securities markets and instruments**
The Law on Commercial Paper and Stock Exchanges was passed in 1992. The Belarus Stock Exchange trades once a week, with shares in only 10 companies (mostly banks) actively traded. There are 30 minor stock and commodity exchanges with still less activity.

## Fiscal and social safety net reform

**Taxation**
State revenues amounted to 30 per cent of GDP in 1995 (34 per cent if contributions to non-budgetary funds are included), compared to 37 per cent in 1994. Statutory tax rates are generally high, although there are many exemptions. The VAT, which accounts for 38 per cent of revenues, is levied at a basic rate of 20 per cent. It is levied at an origin base, which favours imports and discourages exports. Individual income tax accounted for 33 per cent of state tax revenues, with corporate profits tax accounting only for another 1 per cent. The fall in the tax/GDP ratio in 1995 was due to the general economic downturn (lower profits) and tax evasion. Tax arrears accounted for 1.3 per cent of GDP at end-1995 and increased to about 2 per cent in March 1996.

**Social security**
Despite the steep decline in output (at least 40 per cent since 1991), the official rate of unemployment was only 2.8 per cent as of end-1995. An unemployment rate in the order of 5 per cent is expected by the end of 1996.

Social security payroll taxes are levied at 35 per cent of the wage bill for private companies, and

30 per cent for agricultural producers. In addition, a 12 per cent payroll tax is earmarked for Chernobyl-related expenditures. At the end of 1995, state pension expenditure represented 10.3 per cent of GDP and 19.7 per cent of general government budget. Demographic and system dependency ratios are about 33 and 49 per cent respectively. Male and female retirement age is set at 60 and 55 years respectively.

The financial position of the Social Protection Fund, which provides pensions and social benefits, and the Employment Fund deteriorated considerably in 1995 and the beginning of 1996 due to enterprise contribution arrears, which in March 1996 amounted to about 0.8 per cent of GDP.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment. Laws regulating the use of indirect investment vehicles, such as securities and investment funds, exist, but the activities of all funds were suspended in 1995. Most foreign investment proposals require government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. The ownership of land by foreigners or by foreign-owned local companies is prohibited. Foreigners or foreign-owned local companies may lease land. Security interests cannot be created over land, but may be created over shares; such security interests do not require notarisation, but require entry in an official register. Security interests over contracts, receivables and moveable assets can be created and do not require notarisation. Such security interests must be entered into an official register.

**Effectiveness**
The full texts of laws are published, although sometimes six months after being passed. Laws affecting investment, particularly indirect investment, are often issued by executive decree. Draft laws are rarely published or accessible to practitioners. While the law provides for the setting up of a system to register pledges of assets granted by way of security and ownership interests, registers do not exist or are outdated and unreliable. Important court decisions are not usually published or accessible to practitioners. Independent professional legal assistance is available, at least in Minsk. Private parties generally believe that courts would not always recognise and enforce their legal rights against the state. Foreign arbitral awards are required to be recognised and enforced without a re-examination of their merits.

# Bulgaria

***The transition process was launched in 1991. However, government intervention into markets and into enterprise finances remains significant including some backtracking on prices and foreign trade. The emergence of new small private enterprises proceeded quickly in the trade and services sectors, but the restructuring and privatisation of large enterprises and banks has been very slow. Significant progress in structural reforms is envisaged under programmes adopted with IFI support during 1996 and 1997.***

## Enterprises

**Size of the private sector**
Due to delays in large-enterprise privatisation, the private sector's share in GDP and employment has – after an initial wave of restitution and the privatisation of small units – increased primarily as a result of new entrants and of the private sector's better performance relative to the state sector. The private sector share of GDP and employment was estimated at 45 per cent and 41 per cent, respectively, in early 1996. The private sector's share of value added was 90 per cent in agriculture, 71 per cent in trade, and 57 per cent in construction, but less than 15 per cent in industry and negligible in infrastructure services.

**Large-scale privatisation**
The privatisation of 3,485 state enterprises with a fixed asset value of US$ 7.8 billion was initiated in 1993 with a programme envisaging individual sales through a variety of mechanisms (direct sales, tenders, auctions, MBOs). The Privatisation Agency (PA) is responsible for enterprises whose book value of fixed assets exceeds US$ 1 million, smaller ones are sold by line ministries. Management and employees can bid for up to 20 per cent of shares on preferential terms (50 per cent discount). The privatisation process is open to foreign investors. In November 1994, Brady Bonds and domestic bad-loan bonds (ZUNKs) became useable as payment. This provided a short-term boost for privatisation. However, the scope for transfer abroad of profits and capital from Brady privatisations is restricted, and payment in the form of Brady Bonds is limited to 50 per cent of the transaction value. The debt-equity conversion value of ZUNKs was 140 per cent of the face value until 31 July 1996, and was to fall to 130 per cent thereafter.

Cash privatisation has been proceeding at a very slow pace, with only 6 per cent of total state enterprise assets transferred to the private sector by mid-1996. There was foreign participation in only 14 transactions of significant size. Total privatisation proceeds in January-August 1996 were US$ 84 million equivalent (most sales took the form of MBOs).

Administrative procedures have been cumbersome, relevant legislation (e.g. company valuation, concession laws) has been deficient, and there has been significant resistance to privatisation from line ministry officials and management. The programme and foreign investment in it are to accelerate significantly during the second half of 1996 with the inclusion of a stake in Bulgarian Telecoms and other major companies which have previously been excluded.

Implementation of a mass privatisation programme, modelled largely on the Czech scheme, has begun in 1996. Vouchers have been acquired by 2.8 million citizens (out of a total of 6.3 million that were eligible). Approximately two-thirds of the vouchers have been transferred by their holders to specialised investment funds, 92 of which had been licensed by early August 1996. There is no restriction on foreign ownership of funds, but managers and board members need Bulgarian residency. A first auction, for shares in a little over 1,000 firms, with a book value of assets representing 11 per cent of GDP, is scheduled for October 1996. This should result in the government's stake in firms representing 20 per cent of state enterprise assets falling below that of a blocking majority. Funds can own up to 34 per cent of shares of an enterprise (representing a blocking minority for certain decisions). A second wave of mass privatisation is to follow in 1997. By mid-1998 all state-owned firms except the utilities and a small number of "strategic" enterprises are to be privatised under a government programme agreed with the IMF.

Representing an important legislative advance, a Law on Concessions was passed recently which clarifies the bidding process for enterprises in the natural resource sector and allows foreign participation.

**Small-scale privatisation**
Municipalities owned about 90 per cent of small-scale enterprises at the onset of privatisation. A law regulating small-scale privatisation was adopted in January 1993 and the process is said to be largely completed. However, 3,130 out of 4,780 small properties subject to direct sales by municipalities were still on offer at end-1995. Most small-scale privatisation has taken place through restitution of some 22,000 municipal entities (by September 1995).

**Property restitution**
Significant restitution has taken place, following the Law on Ownership Restoration (1992) and the Compensation Law (1993). However, titles to less than 20 per cent of land have been issued, causing some uncertainty. Much of the remainder was restituted through "final land decisions" recognised as ownership documents and accepted as collateral. Recent progress has been disappointing. Legislation passed in June 1995 favours cooperatives and restricts the scope for sales of restituted land. Parts of this legislation have been declared unconstitutional by the courts.

**Enterprise restructuring**
After the initial break-up of state monopolies, many of the resulting enterprises passed effectively into the control of management and workers' councils (except in strategic sectors such as energy). While direct budgetary subsidies have largely been eliminated, financing of losses through the banking system and

suppliers' and tax arrears remained pervasive to mid-1996. While gross state enterprise losses represented 15 per cent of GDP annually on average in 1993-95, no bankruptcy procedures against major companies were recorded before July 1996 (in spite of the existence of a bankruptcy law), and there were few reports of sanctions against management. A full 43 per cent of the negative net cash flow of state enterprises in 1995 was financed by the banking system.

A government programme announced in May 1996 made 134 enterprises (including utilities), which are responsible for 75 per cent of state enterprise losses, subject to a special restructuring regime. Under this regime, 64 (of the 134) enterprises, which employ 24,000 workers, are to be liquidated. Bankruptcy proceedings against some of these had been initiated by late August 1996. The remaining 70 enterprises, which employ 230,000 workers, are to operate (from 30 June) without access to new finance from the state budget or the banking system, but with a moratorium on debt service. These are to be privatised by end-1997 if restructuring is successful and are otherwise to be liquidated. Public utilities are to be supported by sizeable increases in administered prices (the National Electricity Company and State Railways will retain access to short-term emergency funding). Laid-off personnel will receive severance pay, financed from the proceeds of a World Bank loan.

## Markets and trade

### Price liberalisation

After an initial sweeping liberalisation of prices in 1991 covering 90 per cent of the consumer basket, controls were subsequently reintroduced in steps on the basis of a State Council Decree of 1988 which allows the authorities to "prevent unlawful increases in prices". The Decree establishes fixed prices, ceiling prices and the monitoring of profit margins as instruments. Since January 1995, prices covering only 54 per cent of the consumer basket have been free of administrative controls. Fixed prices apply to energy products, post and telecoms and tobacco products; and ceiling prices to most fuels. Meanwhile, the monitoring of profit margins of both producers and traders applies to goods declared to be of vital importance to the living standards of the population, including all basic food products, certain non-food products (e.g. pharmaceuticals), and passenger transportation. A Price Law was passed by parliament in 1995 enabling the government to introduce further price controls at its discretion. It has yet to be applied but, in the first seven months of 1996, the National Pricing Committee carried out three times more inspections than in all of 1995 (there were 500 inspections in July 1996 alone). The administrative structure for price controls is set to be strengthened further under a recent initiative (envisaging local structures and a larger number of controllers).

Distortions in producer prices for agricultural goods are pervasive and have increased in 1996 (including through export restrictions on grains). Uniquely in central Europe, agriculture is effectively taxed through the price and export regime (the tax amounting in 1995 to 37 per cent of gross value added in the sector).

At the same time, in 1996 there has been significant progress in adjusting administered prices, including fuels, electricity, heating, urban transport, railways and telecoms, to cost-recovery levels. Formulas have been introduced which automatically adjust prices to exchange rate movements and other key cost components on a monthly basis.

### Competition policy

The Law on Commerce (1991) eliminated *de iure* monopolies and the Law on the Protection of Competition (1991) established an anti-trust body. Former conglomerates were broken up, but there has been no active anti-trust policy in important areas such as agro-industrial wholesale trade. A regulatory framework for "natural" monopolies is missing.

### Trade liberalisation

Imports were significantly liberalised in 1991. A simplified import tariff schedule with *ad valorem* duties was adopted in 1992, with tariffs ranging from 5 to 40 per cent, few exemptions and a relatively low dispersion (average unweighted rate is 15 per cent). Specific duties apply to a few commodity groups. Only one formal import quota remains (on ice cream). Export restrictions on agricultural and certain other commodities (taxes and selected bans), however, have significantly increased in scope. Efforts to join the WTO have intensified, and accession is now expected during the second half of 1996. WTO's tariff bindings are generally below actual tariffs in Bulgaria, promising further liberalisation. However, an across-the-board import surcharge of 5 per cent was introduced in June 1996 as part of a fiscal stabilisation programme.

### Currency convertibility

The lev has been floating freely on an interbank market since February 1991 and is internally convertible. Profits and invested capital may be repatriated by foreign investors in hard currency, except for debt-equity swaps with Brady bonds where restrictions apply. There is freedom to purchase domestic forex accounts and contract forex denominated loans; otherwise capital account transactions remain restricted. A foreign exchange crisis in 1996 has led to *de facto* restrictions on drawdowns from foreign currency deposits but no new current account restrictions have been reported. There are no operational intergovernment barter or payment arrangements, except for a gas delivery contract with Russia which will expire in 1996.

### Wage liberalisation

Since 1991, the government has been imposing ceilings on the annual percentage increase in the wage bill of state enterprises. An excess wage tax applies when the ceiling is exceeded. In 1993 the ceilings began to be based on tripartite discussions between government, unions and employers in order to check social tensions. The ceilings have not allowed wages to keep pace with inflation. This has led to sustained declines in real wages except for a brief period towards the end of 1995. A continuation of the restrictive incomes policy has been agreed between the government and the IMF for 1996 as part of an effort to contain the fiscal deficit, the current account deficit and inflation.

### Interest rate liberalisation

Interest rates were freed in 1991. However, due to a thin deposit base, the central bank refinancing rate has dominated interest rate developments. Real rates on credit turned positive in 1995 and the lending/deposit spread was significantly reduced as a temporary tightening of monetary policy led to increased competition for deposits. Spreads increased again to more than 50 per cent in mid-1996 as inflation soared, and both lending and deposit rates turned highly negative in real terms. Most lending in the interbank market has been made by the State Savings Bank; since June 1996, however, interbank lending and deposits by the SSB have been proscribed, except if collateralised with government securities, under a programme of monetary stabilisation. Programmes of directed lending to the agricultural sector on favourable terms have been formulated by the government but not implemented for lack of funds.

## Financial institutions

### Banking reform

The initial breaking up of the monobank in 1989 has been followed by various consolidation rounds coordinated by the Bank Consolidation Company, the state holding company for the banking sector. At the same time, there has been significant market entry by private domestic and foreign operators. In early 1996, the sector encompassed 49 banks, of which 10 were majority state-owned and 10 were branches of foreign banks or had foreign capital. Domestic private banks held 16 per cent of the assets of the banking system (which totalled Lv 758 billion). All banks are licensed as universal banks.

Bulgaria's banking sector is insolvent, with estimates of negative net worth ranging from US$ 1 billion upwards. The financial position of the sector reflects the banks' funding of state enterprise losses. Classified loans rose to 40 per cent of GDP (75 per cent of the loan portfolio) in 1995. Legislation to recapitalise state banks was passed in December 1993, and long-term (low-yielding) so-called ZUNK bonds, with a total lev-value equivalent to US$ 2.7 billion, had been issued by December 1994 to replace (on the asset side of the banks' balance sheets) pre-1991 non-performing claims on enterprises (with a nominal lev-value equivalent to US$ 1.8 billion). However, the bonds were low-yielding, so the banks were still left in a difficult cash-flow position. Moreover, recapitalisation was not supplemented with structural reforms to impose greater financial discipline at the enterprise level, and banking regulation and supervision remained wholly inadequate. Legislation to allow the liquidation of insolvent banks was passed only in May 1996. The absence of prudential regulations on foreign exchange cover allowed banks to run up very large open positions.

During 1996, there have been intermittent runs on deposits, including a drawdown of foreign exchange deposits from US$ 2.2 billion down to US$ 1.7 billion between January and May. Liquidation procedures have been initiated against two medium-sized banks (including the largest private bank) and four small banks. In May, the authorities adopted a programme of banking sector reform, including a partial deposit guarantee scheme, limited capitalisation, restrictions on unsecured financing by the central bank, work-out procedures for 19 ailing banks and improved supervision and accounting practices. The work-out procedures focus on loan recovery, place severe restrictions on lending and provide a time-table for capital accumulation (zero capital adequacy by December, and 2 per cent by end-1997). The net worth position of the seven state banks in the restructuring programme was improved via a transfer of US$ 400 million in dollar-denominated government bonds previously held by Bulbank (which received cash for 50 per cent of the value). Further government contributions to recapitalisation are only to be made in the context of a privatisation of the banks, once buyers have been identified.

**Non-bank financial institutions**
There are around 30 active insurance companies operating on the basis of laws dating back to 1948. Life insurance penetration (ratio of premiums collected to GDP) was the highest of all transition economies in 1994, with 1.8 per cent. The draft of a new insurance law has been discussed since 1992. Foreign insurers are not allowed to establish subsidiaries in Bulgaria except in joint venture with local partners until five years after enactment of the new law. Private pension funds have been established, but operate in a legal vacuum and remain weak. By mid-August, 92 Privatisation Investment Funds had been licensed under the Mass Privatisation Scheme, and had succeeded in attracting approximately two-thirds of the vouchers that had been issued to the population. The first round of privatisation auctions is expected for October.

**Securities markets and instruments**
A primary securities market started operating in 1990 with state securities. A full range of 3-, 6- and 9-month T-bills has been issued since 1993, as well as longer-term (up to 10 years) treasury bonds. During the first five months of 1996, government lev-denominated securities worth the equivalent of approximately US$ 1 billion were issued, and secondary market trading totalled US$ 11.2 billion (more than 90 per cent with central bank as counterpart). A law on securities, stock exchanges and investment funds (July 1995) regulates proceedings connected with the trade in securities and created the Securities and Stock Exchange Commission (which regulates and supervises the issue of and transactions in securities). Seven stock exchanges and a large number of commodities exchanges started operating in 1992. These merged in early 1996 after minimum capital requirements were increased to Lv 200 million. The merger – together with a capital contribution by the government – led to the creation of the Bulgarian Stock Exchange. Trading in equity securities has remained thin because of the limited progress made in privatisation. Daily turnover has been less than US$ 50,000 and almost ceased entirely in mid-1996.

## Fiscal and social safety net reform

**Taxation**
Fiscal reform was initiated in the early 1990s. The principal innovation to date has been the introduction of an 18 per cent tax on value added in April 1994. This was increased to 22 per cent in July 1996, as part of a fiscal stabilisation programme which also encompassed increases in excise taxes and a flat import surcharge. Indirect taxes raised the equivalent of 12 per cent of GDP in revenues in 1995, while direct taxes raised the equivalent of 8 per cent of GDP (half from profit tax and half from personal income tax). Social security contributions generated revenues equivalent to 8 per cent of GDP. Tax relief for companies with foreign equity participation has been eliminated. The tax administration showed weaknesses in 1995 and early 1996, when revenues undershot budgetary targets by a significant margin.

**Social security**
Social security is financed by payroll taxes of 35-50 per cent and transfers from the state budget. At present entitlement levels and demographic trends, Bulgaria's pensions system is not sustainable. The ratio of pensioners to contributors was 86 per cent in 1994, as a result of overly generous entitlement criteria, an ageing population and the early retirement of redundant workers. Correspondingly, although expenditure on social protection represented 11 per cent of GDP in 1995, real benefit levels were extremely low. Parliament approved a Law on Social Insurance in December 1995, preparing the ground for a separation of social security from the budget, raising the mandatory retirement age, and revising the benefit formula to account for lifetime contribution rates.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, directly, and through indirect investment vehicles, such as securities or investment funds. No governmental approval is required for most investment proposals in the country. Profits are freely convertible and may be freely repatriated, except in cases where assets are acquired in the privatisation programme with part-payment in Brady bonds, in which case certain restrictions apply (see above section on privatisation). There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Although ownership of land by foreigners is not permitted, foreign-owned local companies may own land, except land intended for agricultural use. Security interests over shares and land may be created. Security interests over land require notarisation. Security interests over contracts, receivables and moveable assets appear possible.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Draft laws are usually published and accessible to practitioners. Public records in share or land registries may be up to three months behind current status. Court decisions are generally available to practitioners. Independent professional legal advice is available. Private parties believe that courts would recognise and enforce their legal rights, including against the state. Foreign arbitral awards are generally required to be recognised and enforced without a re-examination of their merits.

# Croatia

*The first elements of "market socialism" were introduced in 1952. In 1976 an "associated labour" law institutionalised "social ownership". In 1989-90 the so-called "Markovic reforms" included widespread price, import and foreign exchange liberalisation. A programme of reform was adopted in the second half of 1991, which included further liberalisation and led to the creation of an independent central banking system, the introduction of temporary currency, and a national budget. The framework for private ownership was laid down. In October 1993 the government adopted a comprehensive macroeconomic stabilisation and reform programme.*

## Enterprises

**Size of the private sector**
The private sector is likely to account for about 50 per cent of total GDP, based on statistics from ZAP, the domestic payments transfer agency. In addition a significant proportion of private sector activity may escape the official statistics.

**Large-scale privatisation**
The inheritance of "social ownership" from former Yugoslavia provided for a degree of self-management at the enterprise level at the time of Croatian independence. The Law on the Transformation of Enterprises with Social Capital (April 1991), administered by the Privatisation Fund, required the conversion of almost all socially owned enterprises into joint-stock companies. By the end of 1995 about 1,200 out of a total 2,750 had been converted and wholly sold to their employees or management (often with deferred payment, see below) and in another 900 the state retained only a minority stake.

In practice, much of this privatisation did not succeed in greatly accelerating restructuring. Partly as a consequence, parliament approved a new privatisation law in February 1996. This provides a framework for the privatisation of large public enterprises. Within this framework, vouchers will be distributed to refugees, war invalids and other displaced persons who could use them to bid for shares, either directly or through investment funds – a new law on investment funds has also recently been approved by parliament. Vouchers are likely to be distributed to about 300,000 people in all, representing 10-15 per cent of the total nominal value of Croatian enterprises (about DM 3 billion). Work is still continuing on the finalisation of the eligibility list for the receipt of vouchers and the list of enterprises for which voucher holders may bid.

The new privatisation law has also extended the period over which employee and management shareholders may pay their instalments under the earlier law, from five years to 20 years. A discount scheme encourages early payment. The new privatisation law also provides framework guidelines for the sale of several large public enterprises including INA (the oil and gas conglomerate), electricity generation and distribution, TV and radio, and telecoms. It is envisaged that foreign bidding will be permitted for at least some of these enterprises.

**Small-scale privatisation**
Extensive small-scale private sector activity already existed under former Yugoslav law. The small-scale privatisation process, started after independence, has largely been completed.

**Property restitution**
No law on restitution has yet been sent to Parliament, although a law is in preparation.

**Growth of private enterprise**
The number of registered private companies increased from 55,000 in December 1992 to 122,000 in January 1995. However, many of these enterprises are inactive. Statistics from ZAP show that the number of active enterprises increased from 35,000 in 1993 to 60,000 in 1995.

**Enterprise restructuring**
Most enterprises now face a hard budget constraint. Access to soft credit through the banking system has been heavily curtailed and government subsidies sharply reduced. Although workers' councils for enterprises have been replaced by management boards there has, in practice, been only limited success in the transformation of management structures. In most privatised enterprises, the absence of a strong majority owner has inhibited restructuring. New shareholding structures have not in many cases led to the mobilisation of new capital investment or the injection of better management. Nor is the Croatian privatisation fund, where it is the majority owner, equipped to provide these.

A Bankruptcy Law was adopted by parliament in June 1996 and will become effective from the beginning of 1997.

## Markets and trade

**Price liberalisation**
All direct price controls have been removed, including those on energy and food. Some indirect controls remain, largely through government influence on major enterprises, particularly in the energy sector.

**Competition policy**
A Law on Competition and Monopoly was passed in the autumn of 1995, dealing with conditions prohibiting restraints on trade, monopolistic practices, and abuse from mergers and dominant positions. The law creates a Council for Competition Protection, which is operative and has already delivered some opinions on draft laws to parliament. However, the law is not yet fully operational and the Competition Protection Agency is yet to be established to implement the policy.

**Trade liberalisation**
The foreign trade system is liberal. Most quantitative restrictions have been removed. The new Law on Trade applies import quotas to less than 1 per cent of tariff items, mainly petroleum derivatives, fertilisers and cement. Export quotas still apply to 35 items, mainly timber, crude oil and natural gas. Import licences also apply to some pharmaceuticals, works of art and some other items. A new customs tariff law brings Croatian tariff codes into line with international practice, which is transforming almost all the remaining import restrictions into tariffs.

Croatia has applied for membership of the WTO and it is expected that negotiations will continue into 1997. Trade with the EU is still maintained on the basis of the agreement of the EU with former Yugoslavia. Croatia has been pressing the European Community to negotiate a cooperation agreement with a view to a full EU association agreement. It is expected that negotiations with countries of the Central European Free Trade Agreement, which have made slow progress so far, are likely to accelerate as Croatia approaches full WTO membership.

**Currency convertibility and exchange rate regime**
The exchange rate of the national currency, the kuna, is floating, but the National Bank intervenes in the light of market conditions. Croatia officially notified the International Monetary Fund in 1995 that it accepted all obligations under Article VIII (implying a commitment to full current account convertibility) of the IMF Articles of Agreement. Croatia is also committed to further liberalisation of the capital account, including relaxation of restrictions on investments abroad by local residents.

**Wage liberalisation**
Some wage controls are still in place for the state-owned sector. There are no wage restrictions on private enterprises.

**Interest rate liberalisation**
Banks are free to set their own credit and deposit rates. The state-financed rehabilitation (see below) of two large banks, Rijecka Banka and Splitska Banka, triggered sharp reductions in the interbank rate in the spring and summer of 1996, introducing greater competition.

## Financial institutions

**Banking reform**
At independence the National Bank of Croatia was made the regulatory authority of a two-tiered banking system. The Banking Law of 1993 provides the main regulatory framework for commercial banks. The Law on Bank Rehabilitation (providing a procedure by which banks will be re-capitalised) and the Law on the Deposit Insurance Agency were passed by parliament in June 1994. In November 1995, Slavonska Banka (the fifth largest) entered rehabilitation, followed in the spring of 1996 by Splitska Banka and Rijecka Banka. In July 1996 it was also announced that Privredna, the largest bank, would also be put in rehabilitation and the BRA are now drawing up a full restructuring programme. In the rehabilitation phase, the bad claims of these banks are written off against the banks' capital with the state agency injecting bonds and cash into the banks, acquiring a majority shareholding. According to the law these banks will subsequently be privatised. Over fifty commercial banks are registered but the four largest account for three-quarters of all bank assets.

In mid-1995, savings and loans associations were put under the control of the National Bank. Out of about 40 operative savings banks in existence in mid-1995, 21 had obtained a licence from the National Bank and were operative in mid-1996.

**Non-bank financial institutions**
There are about 170 small savings unions and savings cooperatives. A new Insurance Law was adopted in 1994 and envisages an open market for the insurance industry. Insurance business is supervised and regulated by the Ministry of Finance. There are 14 insurance companies and two reinsurance companies.

**Securities markets and instruments**
A new legal and accounting framework was introduced in the autumn of 1994, but the securities markets are developing slowly. The Zagreb stock exchange holds auctions for privatisation shares each week. Very few shares are listed and traded, although the spring 1996 listing of Pliva (a Croatian pharmaceutical company) on the London Stock Market (it is also listed in Croatia) has greatly increased interest in the market. Total stock market turnover in 1995 was about DM 66 million. There has been modest activity in a recently established informal over-the-counter market. In the spring of 1996 a law regulating securities and a new law regulating investment funds were both passed by parliament. These laws create a Securities Commission to oversee the issuance and trading of securities, provide trading regulations, lay down provisions for the protection of investors and create a framework for take-over legislation. In addition to the Zagreb stock exchange an OTC market exists in Varazdin and Osijek.

## Fiscal and social safety net reform

**Taxation**
In January 1994 Laws on Tax Administration, Income Tax, Profit Tax and Sales Tax were enacted. There is a corporate tax on profits at 25 per cent, with relief for modernisation of production facilities and for war reparation. Turnover taxes are 26.5 per cent on many goods, but 20 per cent on petrol, cigarettes and alcohol. VAT will replace the current turnover/sales taxes at the beginning of 1997, at a flat rate of 22 per cent. Excise duties on, *inter alia*, petrol and alcoholic and non-alcoholic drinks, coffee and tobacco, were introduced in mid-1994. Income tax is levied at 35 per cent for gross incomes above 2,100 kuna and 25 per cent of gross income below that level. Local income taxes exist in most cities, ranging from 5 per cent to over 20 per cent. Sales taxes raise nearly half of total income, excises about 17 per cent, and income and profit taxes about 16 per cent, taken together.

**Social security**
Payroll taxes paid by employees, including social security contributions, run at between 50 per cent and 70 per cent of gross salary. The pension fund is likely to be reformed in response to projections which indicate that payments will exceed receipts within a few years. By mid-1995 there were 770,000 pensioners. The workforce is estimated at 1.3 million.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, directly and through indirect investment vehicles. Such investment generally

requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals may, subject to reciprocity and usage restrictions, own or lease land. Security interests over shares and land may be created and require, in the case of land, notarisation, and in each case entry in an official register. Security interests over contracts, receivables, and moveable assets are possible, and in some cases require notarisation and registration.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one to six months of enactment. Draft laws are usually published and accessible to practitioners. Public records in share or land registries may be up to 12 months behind current status. Important court decisions are usually published or accessible to practitioners within 12 months of issue. Independent professional legal advice is available. While private parties generally believe that courts will recognise their legal rights against other private parties, they do not believe the courts would enforce such rights against the state. Foreign arbitral awards are required to be recognised and enforced by the courts without a re-examination of their merits.

# Czech Republic

*After the Velvet Revolution in the Czech and Slovak Federal Republic (CSFR) in November 1989, a market-oriented reform process was initiated during 1990 and a comprehensive programme was adopted in January 1991, the implementation of which continued after the dissolution of the CSFR in January 1993. The Czech Republic's mass privatisation programme was completed in March 1995; full current account convertibility was introduced in October and at the end of the year the Czech Republic became a member of the OECD, the first country in the region to do so.*

## Enterprises

**Size of the private sector**
According to official estimates from the Czech Statistical Office, the non-state sector accounted for 64 per cent of GDP in 1995, and almost 74 per cent in early 1996. This includes many enterprises in which the state, through the National Property Fund (NPF), continues to hold a minority share. Taking into account the continued growth, some of which may be under-recorded in official statistics, the private sector may have accounted for 75 per cent of GDP in 1996.

**Large-scale privatisation**
The sale of most large-scale state assets has been implemented in two privatisation "waves", although the government retains shares in a number of major commercial and financial enterprises. The first wave was launched by the former Czechoslovakia in May 1992 and was completed by mid-1993. In the Czech Republic (where it included 1,900 enterprises with a book value of Kcs 650 billion) it comprised sales of shares (for cash) to domestic and foreign investors and the transfer of Kcs 212 billion worth of shares in 988 firms through a voucher-based "mass privatisation" scheme.

The second wave started in the Czech Republic in March 1994 with the intention of selling 2,000 more companies by a combination of conventional cash-based sales and the transfer of shares for vouchers. On 1 March 1995, when shares in "second-wave companies" had been distributed to voucher holders, the Czech mass privatisation was completed, having shifted a large proportion of the economy into private hands, with voucher privatisation accounting for around one-third of the total book value of assets privatised. In total, approximately 70 per cent of the vouchers had been placed with investment funds (so-called IPFs) which had used them to purchase shares. The Ministry of Privatisation was dissolved in mid-1996 and its remaining functions transferred to the Ministry of Finance.

Following the completion of mass privatisation, sales of state-owned companies have continued through standard methods (direct sales, public auctions and public tenders). According to the National Property Fund (NPF), the pace of privatisation accelerated in the first four months of this year as a result of an increase in the number of direct sales (540 were completed, which was almost half the total completed for 1995 as a whole), while there was also an increase in the number of auctions held. By the first quarter of 1996, over 90 per cent of all the property originally designated for inclusion in the large-scale privatisation programme had been transferred into private ownership.

In addition, the NPF retains shareholdings either as residual holdings in partly privatised companies or through its holdings in designated "strategic" enterprises. The value of NPF shareholdings was estimated at Kcs 210 billion in mid-1996, of which holdings in strategic enterprises accounted for almost Kcs 160 billion. The NPF is currently selling its residual holdings. Before the elections, the government indicated its intention of privatising the strategic companies by direct sales, including sales to foreign strategic partners. Initial cases of this approach were the sales of 49 per cent of the state-owned petrochemical company and 27 per cent of SPT Telecom to two consortia of Western companies, which were finalised towards the end of 1995. Both sales, especially the latter, contributed to the US$ 2.5 billion of foreign direct investment recorded in 1995. The new government has yet to announce its decision on the privatisation of other "strategic" entities, including the railways and the utilities.

**Small-scale privatisation**
The sale of small state-owned enterprises was launched in January 1991 and largely completed during 1992. Approximately 22,000 enterprises were auctioned in what is now the Czech Republic. Direct foreign ownership of land is not allowed, but ownership through a Czech legal entity wholly owned by foreigners is permitted.

In agriculture, farming in the communist period was carried out in cooperatives and on state farms. By 1993 the cooperatives had been transformed into either share-owning cooperatives or commercial companies; by mid-1995 almost 250 of the 316 state farms had been privatised. At the time it was estimated that 40 per cent of the agricultural land had been privatised (although small farms were never formally nationalised under the previous regime, but were in practice farmed under cooperative arrangements).

**Property restitution**
A Restitution Law was adopted by the CSFR in October 1990. About 30,000 industrial and administrative buildings, forests and agricultural plots (nationalised between 1948-55), and 70,000 commercial and residential entities (nationalised during 1955-59) have been handed back to the original owners. The value of assets returned has been estimated to be in the range Kcs 70-120 billion. The question of the return of property to the church is currently under discussion.

**Growth of private enterprise**
By 1994 the number of industrial enterprises had increased to 4,024 from 2,416 in 1992. Employees in enterprises with private ownership represented 58 per cent of total employment in 1994. Both SMEs and self-employment have accounted for a growing share of total employment.

**Enterprise restructuring**
One of the main features of Czech privatisation has been that privatisation has invariably preceded restructuring, with the latter to be carried out by the new owners. Until recently, the main pressure on enterprises to restructure came from a combination of tight subsidy and credit policies as well as import liberalisation. Commencing in 1995 there has been a consolidation of ownership among many enterprises, commonly known as the "third wave" of privatisation. An active role in this process has been played by the IPFs (as noted above, IPFs were among the largest owners of enterprises following privatisation, although they were restricted to holding no more than 20 per cent of the shares of any one company, while the holding in any one company cannot represent more than 10 per cent of the IPF's portfolio).

This process of consolidation accelerated in the first half of this year, partly because of the amendment to the Commercial Code (see below), which required those with majority holdings to offer to buy out other shareholders at the market price which prevailed over the previous six months. In addition some funds converted into holding companies where the regulations on ownership are less onerous. A number of large, domestic companies have also played a major role, while certain foreign purchasers have taken strategic stakes in companies. Although accurate data on trends in ownership are hard to come by, some unofficial estimates suggest that by mid-1996 many companies included in the mass privatisation programme had either dominant or majority owners. These trends, combined with the increase in fixed investment, is an indication that further restructuring is underway.

The first Bankruptcy Law was introduced in 1991, but it effectively excluded external creditors from forcing companies into bankruptcy. The current law, introduced in April 1993, allows all creditors to take bankruptcy cases to court after a three-month protective period (which can be extended to six months in special cases). The law was amended in October 1995, so as to make it more difficult for bankrupt enterprises to request a grace period and to limit their ability to block creditors' claims. In March 1996 parliament approved another amendment (which took effect in June) which is intended to simplify bankruptcy procedures. The number of bankruptcies declared to date remains at a low level, although the flow of cases has increased over the years, according to figures from the Czech National Bank (CNB), from 60 in 1993, to 288 in 1994 and 393 in January-July 1995. Latest estimates suggest there has been a further increase in the number of bankruptcies in the first quarter of 1996.

In July 1995, parliament approved an amendment to allow companies to write off bad debts. For debts which were due to mature before the end of December 1994, firms can write off up to 10 per cent of their unpaid receivables from their pre-tax results each year. For bad debts with a maturity date after the end of December 1994, firms can claim the cost of provisions which range from 20 per cent on debts which are more than six months overdue up to 100 per cent on debts which are more than 36 months overdue, providing attempts have been made to recover the debts.

## Markets and trade

**Price liberalisation**
Price liberalisation commenced in January 1991 and by the end of the year most prices had been deregulated. The only remaining significant controls pertain to utility charges such as heating, rents and public services, including transport. Mark-ups in the energy sector remain closely regulated. Regulated prices are, however, raised periodically, most recently in the case of gas and electricity prices for residential consumers in July 1996.

**Competition policy**
The Competition Law, passed in 1991, is designed to promote competition, avoid abuse of monopoly power and advise on mergers. It was amended in November 1993 to widen the definition of illegal practice, increase maximum fines and make the law more consistent with EU legislation.

**Trade liberalisation**
Almost complete liberalisation of quantitative controls on imports and exports was undertaken in 1991. The Czech Republic became a member of the WTO in January 1995. The Czech Republic maintains a very liberal trade regime; the average nominal import tariff is 8 per cent on an MFN basis and 6.8 per cent on a GSP basis, with an average weighted tariff of between 5.5 and 5.9 per cent. There are no serious administrative barriers to trade. As a result of the tariff reduction commitments of the Uruguay Round, the average tariff on an MFN basis will fall to 6.3 per cent.

Regional trade agreements account for some 80 per cent of merchandise trade and cover all of the Republic's main trading partners with the exception of Russia. In June 1995, the government decided to cancel the ECU-denominated clearing account through which trade with the Slovak Republic had been organised since early 1993. The bilateral Payments Agreement ceased from October 1995, although the customs union between the two countries has been maintained. Besides the customs union with the Slovak Republic, and membership of CEFTA, the Czech Republic has a Europe agreement with the EU (under which quotas on steel exports to the EU were abolished in January 1996 and restrictions on textile exports are due to be removed in January 1998).

**Currency convertibility and exchange rate regime**
The new Foreign Exchange Law, effective on 1 October 1995, provides full current account convertibility (IMF Article VIII obligations were accepted on the same day) and partial capital account convertibility. Czech citizens have the right to convert crowns into hard currency to buy foreign real estate, and Czech companies have the right to buy foreign currency to make investments abroad. Under the current law on inward investment, foreigners can repatriate profits and income from investment and other sources.

The exchange rate is pegged to a basket comprising the Deutschmark and the US dollar, with approximate weights of 65 per cent and 35 per cent, respectively. As a result of the substantial capital inflows during 1995, which with the fixed rate regime made it increasingly difficult for the Czech National Bank (CNB) to meet the inflation target, the CNB widened the fluctuation band around the central parity from +/- 0.5 per cent to +/- 7.5 per cent at the end of February 1996.

The implementation of monetary policy was complicated by the strength of capital inflows during 1995 and early 1996, much of it reflecting an increase in borrowing by domestic enterprises, utilities and banks. The CNB attempted to sterilise these flows in 1995, issuing its own paper, but also introduced various administrative measures in an attempt to slow the inflows, such as the limits that were placed in June 1995 on the amount of foreign currency borrowing banks could undertake.

**Wage liberalisation**
A tax on "excessive wage increases" was imposed during 1991, with the agreement of the unions. The tax expired at the end of 1992 but was reintroduced (unilaterally by the government) following the break-up of the CSFR in 1993 and was applied to all enterprises with more than 25 employees. Real wage increases were to be kept below 5 per cent with allowances made for trends in sales. In July 1995, the government abolished this ceiling on the grounds that it was becoming the minimum level for wage increases. The minimum monthly wage was increased to Kcs 2,500 (US$ 96) at the beginning of 1996. The average monthly wage in 1995 was Kcs 8,154 (US$ 315).

**Interest rate liberalisation**
Interest rates were completely liberalised in April 1992.

## Financial institutions

A two-tiered banking system was adopted in 1990. The CNB was established in January 1993 as the successor to the former State Bank of Czechoslovakia. At the end of March 1996, the Czech banking sector included 55 licensed commercial banks, including 14 wholly Czech-owned banks, 13 partly foreign-owned banks, 12 entirely foreign-owned banks, 9 branches of foreign banks, 6 building societies and one state financial institution. One of the newest banks is the Czech Export Bank (49 per cent state owned). All the banks operating in the Czech Republic are joint stock companies. The only exception is the state-owned Consolidation Bank. The latter was established in March 1991 to take over Kcs 110 billion of bad credits that were extended prior to 1989. However, the state, through the NPF, retains a substantial minority ownership in the main banks (47 per cent in Komercni, 43 per cent in the Savings Bank and 33 per cent in the Investment and Post Bank, with a further 7.6 per cent share held by the postal service), while the CSOB, the international trade bank, is owned by the Czech and Slovak authorities.

Following the rapid growth of banks in the early 1990s, the CNB restricted the issue of new licences as part of its aim to consolidate the sector. This included licences for foreign banks, although the moratorium on foreign bank licences was withdrawn in the first half of 1996 in response to the need to develop greater competition in the banking sector. At the end of 1995, the share of private Czech companies and natural persons in bank capital was 45.7 per cent; that of wholly owned foreign banks was 22.8 per cent with the balance reflecting state ownership. However, the state share is expected to fall substantially in coming years with the completion of privatisation of the main banks.

Most prudential regulations follow those of the EU, including the need for banks to meet the 8 per cent capital adequacy ratio by the end of 1996. For the sector as a whole, the capital position has gradually strengthened, so that at the end of 1995 the risk weighted capital adequacy ratio was 12.2 per cent, one percentage point more than at the end of 1994.

The volume of non-performing loans remains a problem and reflects bad credits inherited from the pre-1989 period (especially among the main banks) as well as more recent non-performing loans. The overall volume of classified credits was CZK 352 billion by the end of the first quarter of 1996, a little over 35 per cent of the total stock of credits of the banking system. The growth of "loss credits" (complete write-offs) has slowed; they accounted for 0.7 per cent of total credits in the first quarter of 1996. Since 1995 banks have been required to increase provisions. At the end of the first quarter of 1996, reserves and provisions amounted to CZK 109 billion. Legislative changes in 1995 allowed banks to claim tax relief on provisions against classified loans.

In January 1996, the CNB announced further measures to consolidate the banking sector. The measures were aimed mainly at the smaller banks. The banks are required to increase their share capital to cover problem loans, with the possibility that other investors will be sought if existing shareholders are unable to provide the increased capital. The main principle is to ensure bank shareholders meet the consequences of their bank's lending decisions; the interests of depositers have been covered by the Deposit Insurance Fund, with some finance provided by the CNB. The problems with small banks have, however, persisted this year. There have been a number of bank failures, resulting in the CNB withdrawing licences, placing certain banks in administration, and encouraging mergers in other cases.

On account of accumulated loan losses, the CNB closed Kreditni Bank, one of the country's larger banks, in early August 1996, and placed Agrobanka, another large bank, under administration in September. Ceska Pojistovna, the country's main insurance company, was the largest shareholder in Kreditni Bank.

Parliament has recently created the legal framework for providing mortgage credits. From July 1995, mortgage credits can be granted to interested persons for up to 70 per cent of the price of existing pledged property. A money laundering act was approved by parliament and came into force in July 1996.

**Non-bank financial institutions**
According to the Czech Statistical Office, there were 444 investment funds and companies registered in the first quarter of 1996 (compared with 410 in the first quarter a year earlier), 34 insurance companies and 21 health insurance companies.

**Securities markets and instruments**
The Law on the Stock Exchange and Securities was adopted in 1992. There are currently two main markets. The Prague Stock Exchange, which is used mainly by professionals, and the RM-system (originally established to handle trade in privatisation vouchers, though now used mainly by individuals) began operating during the first half of 1993. Foreigners are free to trade shares (except bank shares for which they need the explicit approval of the CNB). Profit repatriation is subject to the payment of income taxes on capital gains.

The Stock Exchange itself, comprising both the listed and unlisted equity and bond markets, is itself divided into three main tiers. With effect from 1 September 1995 securities traded in the former quoted and unquoted markets were divided into three (primary, secondary and free market), with the intention of improving the effectiveness of trading. The overall capitalisation of the Stock Exchange was estimated at nearly US$ 25 billion by the end of the first half of 1996, of which the primary and secondary share markets represented US$ 15 billion and the bond market US$ 3 billion. The capitalisation of the free market was US$ 6.4 billion, most of which was accounted for by unlisted equities.

In February 1995, the Rules for Direct Stock Exchange Trading were amended to allow automated data processing. In March this year, in addition to trading at fixed prices, the Stock Exchange introduced continuous trading at variable prices. Although there has been a sharp increase in the volume of trading, the Stock Exchange is not yet used by companies as a source for raising new capital.

In April 1996, parliament passed amendments to three pieces of legislation designed to improve the transparency and operation of the securities market. An amendment to the Commercial Code sets out thresholds for the disclosure of acquisitions or investments in a company, designed to give some protection to minority shareholders. An amendment to the Investment Funds Act requires them to provide more information on a regular basis, while the Securities Law was amended to improve the operations of the Securities Centre. Following the passage of the amendment on the investment funds, a number of funds converted themselves into holding companies.

## Fiscal and social safety net reform

**Taxation**
A comprehensive tax reform was implemented in January 1993. It introduced a value added tax and streamlined the corporate profit tax and personal income tax. There have been several changes to tax rates since then, including some important changes on 1 January 1995. The higher VAT rate was reduced from 23 per cent to 22 per cent, while the lower rate (mainly for food and energy) continued to be 5 per cent. This was the first of a series of VAT reductions aimed at harmonising tax rates with those applied in the EU. Since 1 January 1996, the basic rate of corporate tax has been 39 per cent. The marginal rates for income tax range from 15 per cent to 40 per cent. In March this year, the government proposed further reductions in the rates of both corporate and personal income tax.

**Social security**
The main elements of the social security system include social insurance which provides unemployment, health and pension benefits; state social support which provides benefits to specific groups, e.g. maternity and child benefit; and a system of income support for the most disadvantaged. Following the fiscal reforms of 1993, funding for these three main programmes was transferred from general taxation to an insurance based system, based on payroll taxes. The latter are currently set at 12.5 per cent of gross wages for employees and 35 per cent for employers. The present total of 47.5 per cent of gross wages compares with 49.5 per cent in 1993.

Further reforms to health care are likely since several health insurance funds have incurred losses while the debate on the future of health care funding is continuing.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investments both directly and through indirect investment vehicles. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals normally may own or lease land. Security interests over shares and land may be created, and require, in the case of land, notarisation and entry in an official register.

**Effectiveness**
The full texts of laws affecting investment are published, usually within one month of being passed. Draft laws are generally not available to practitioners for comment. Public records in official registries may be up to six months behind current status. Important court decisions are usually published or accessible to practitioners within 12 months of the issue. Independent professional legal advice is available. Private parties generally believe that the courts will recognise and enforce their legal rights, including against the state. Foreign arbitral awards are required to be recognised and enforced by the courts without a re-examination of their merits.

# Estonia

*In January 1989, while still a republic of the Soviet Union, Estonia introduced a law on economic autonomy. The law gave Estonia independence in price and wage setting, fiscal strategy and financial policies. Market reforms continued following Estonia's independence in August 1991 and accelerated in 1992 after the re-introduction of the national currency. Since then Estonia has progressed rapidly in structural reforms. Virtually all large and small-scale enterprises are in private hands. The trade and foreign exchange regimes are liberal, and the basic market economy institutions and legal infrastructure are mostly in place.*

## Enterprises

**Size of the private sector**
According to the Estonian Statistical Office, the private sector accounted for 64 per cent of GDP in 1995. Further private sector growth and finalisation of pending privatisations may have raised this ratio to 70 per cent of GDP by mid-1996.

**Large-scale privatisation**
By May 1996 virtually all of the 450 large and medium-scale enterprises that were included in the government's original programme for asset sales during 1993-95 had been privatised. In 1996 a majority stake in Estonian Air, the national airline, and Eesti Kindlustus, the state insurance company, were sold to foreign and domestic investors. A decision in favour of the sale of Esoil, the state fuel company, has also been taken by the government. The privatisation of the State Railway Company, Tallinn port and Estonian Telecom is envisaged for 1997-98. The Privatisation Act of 1993 allows for the sales of assets for both vouchers (up to 50 per cent) and cash.

The privatisation strategy under the 1993-95 privatisation programme was based on the East German Treuhand model. The majority of firms (433) were sold through tenders (9 international and 1 local) to strategic investors. The total purchase price in these tender rounds was about US$ 227 million. In addition, investors made contractual obligations to the Estonian Privatisation Agency regarding their intentions for investment and employment in privatised enterprises. Sales of minority stakes to the population (with payment in the form of vouchers that had been distributed to all residents) started in 1994 with public offering of 49 per cent of the Tallinn Department Store (51 per cent had previously been sold to a strategic investor). There are two types of privatisation vouchers: (i) "national capital vouchers", distributed to all residents with the number of vouchers per individual determined on the basis of his or her length of employment, and (ii) "compensation securities" for property that was expropriated in the 1940s. The face value of all vouchers is Ekr 300 (approximately equal to US$ 25), and they are tradable. Privatisation of the remaining state-owned enterprises, including utilities, will include public offerings of minority stakes for vouchers.

**Small-scale privatisation**
Rapid small-scale privatisation has been based on the Law on the Privatisation of State-owned Trade and Service Enterprises (1991) and amendments to this Law (passed during 1992). By the end of 1994, privatisation of some 1,500 small enterprises (e.g. shops, other services and farms) had been largely completed through employee buy-outs and domestic auctions. An Act on Privatisation of Housing was passed in May 1993. As of April 1996 over 55 per cent of residential housing had been privatised. The privatisation of land has so far been the least successful part of the privatisation effort, partly delayed by continuing uncertainty regarding restitution of land, and a comparatively slow process of land registration.

**Property restitution**
More than 200,000 claims for restitution of pre-1940 property had been submitted by the April 1993 deadline. Of these claims, 80 per cent had been processed by October 1995. However less than a third of the processed claims have at this point resulted in completion of either restitution or compensation as the finalisation of these transactions has been a drawn-out process. Nevertheless, over a third of all the land that is claimed for restitution has been returned to the former owners.

**Growth of private enterprise**
The number of private enterprises in the Estonian Enterprise register had increased to over 60,000 by mid-1996. Some 10,000 new enterprises are established annually. The majority are, however, non-operating "shells".

The establishment of new private enterprises was first permitted by the adoption of the Enterprise Law in 1989. This law was replaced by a new Commercial Code in 1995. The new Code distinguishes between five different types of companies depending on the degree of shareholders' liability and management structure. The Code sets minimum capital requirements for different type of companies.

**Enterprise restructuring**
Competition from imports, tight credit policies and privatisation have provided a major impulse for enterprise restructuring. A Bankruptcy Law was passed in September 1992 and was quickly implemented, notably during the banking crisis of late 1992. Bankruptcy proceedings have been completed for some 20 medium-sized to large state enterprises and are in progress for another 20. In addition, a large number of small enterprises have been privatised through bankruptcy proceedings. The bankruptcy law does not make any provisions for restructuring.

## Markets and trade

**Price liberalisation**
By the end of 1992 most price controls had been abolished. Utility tariffs and public housing rents remain regulated. Increases in administered prices are supervised by the Ministry of Economy and local municipalities. Electricity tariffs were raised in June 1996 (by 15 per cent for residential users and 35 per cent for industrial customers) but remain below full cost recovery levels.

**Competition policy**
A Competition Law was passed in June 1993 and amended in February 1995. Implementation is monitored by the Competition Board under the Ministry of Finance. Given the small size of the country, the main competitive force has been external trade, liberal rules for establishment of new companies, comprehensive privatisation, and tight subsidy and credit policies.

**Trade liberalisation**
The trade regime is among the most liberal in the world. Estonia is in membership negotiations with the WTO. A "Europe Agreement" with the EU was signed in June 1995 and the EU has become Estonia's largest trading partner. Estonia participates in the Baltic Free Trade Area alongside Latvia and Lithuania. A most-favoured-nation treaty was agreed with Russia in 1993, but it remains unratified, and from mid-1994 Russia doubled its tariffs on imports from countries without a most-favoured-nation agreement, including Estonia.

**Currency convertibility and exchange rate regime**
An independent national currency, the kroon (or Ekr), was introduced in mid-June 1992 under a currency board arrangement whereby all kroons (cash, current and term accounts) issued by the Bank of Estonia (the central bank) are fully backed by gold and convertible currency reserves. The kroon continues to be pegged to the Deutschmark at Ekr 8/DM 1. There is full current account convertibility and no restrictions on the capital account. Estonia accepted obligations under the IMF Article VIII (obliging the government to maintenance of current account convertibility) in August 1994.

**Wage liberalisation**
Wage setting in the economy is free and decentralised except for civil servants and top management in state-owned enterprises. A minimum wage is set by the parliament. At end-1995, the monthly minimum wage was equivalent to US$ 40 and represented 20 per cent of the gross average wage.

**Interest rate liberalisation**
Interest rates are fully liberalised. While spreads between deposit and lending rates remain very wide, they have narrowed to less than 10 per cent during the first half of 1996.

## Financial institutions

**Banking reform**
A two-tier banking system became fully operational after the currency reform in June 1992. During the four years to 1996, the number of commercial banks shrunk through liquidation and mergers from 42 to 14 (including a branch of one Finnish bank). The size of state holdings in the banking sector has been diluted and now (mid-1996) amounts to less than 15 per cent of the total share capital of the banking system.

The degree of market concentration is high. The six largest banks account for over 80 per cent of total assets and 70 per cent of share capital of domestic banks. Most bad loans were transferred to the state-owned North-Estonian bank in 1994. This bank had been created on the basis of two liquidated banks during the course of

1994. Since then, Estonia has been pursuing a regime of tight banking supervision, strengthened by the new Credit Institutions Act, which became effective in January 1995. A deposit insurance law has been drafted. A few Estonian banks have started to offer mortgages.

**Non-bank financial institutions**
As of September 1996 there were seven open-end and six closed-end investment funds in Estonia. Their activities are regulated by a number of government acts that were passed by parliament in 1994. A law on investment funds is being drafted.

There are 8 life and 16 non-life insurance companies, regulated by the 1992 Insurance Law (amended in 1995). A state-owned insurance company was recently sold to an insurance arm of a domestic bank. Leading domestic banks are increasingly active in the non-bank financial sector through their insurance and investment subsidiaries.

**Securities markets and instruments**
Before the opening of the Tallinn Stock Exchange in May 1996, shares in investment funds, enterprises and banks were traded over-the-counter at the computerised depository which opened in 1994. Stock market capitalisation amounted to 11 per cent of GDP as of mid-1996. Average total daily turnover at the stock exchange and over-the-counter market amounted to approximately US$ 1.1 million in July 1996.

The securities markets are regulated by the 1993 Securities Market Act and various other regulations adopted in 1994. The responsibility for coordination between the markets lies with the Securities Division of the Ministry of Finance, whereas supervision is the task of the State Securities Board.

## Fiscal and social safety net reform

**Taxation**
The tax structure was changed substantially in January 1994 when a flat rate income tax of 26 per cent was introduced. Over 50 per cent of government revenues are derived from indirect taxes, notably from the VAT (currently set at 18 per cent). Excise taxes have been raised in 1996 to compensate for revenue falls from raising tax thresholds for direct and indirect taxes. The authorities are continuing their effort to bring the Estonian tax system in line with EU standards.

**Social security**
Employers contribute 33 per cent of wages and salaries towards social security (20 per cent for pensions and 13 per cent for medical insurance). The average old-age pension (on a pay-as-you-go basis) was about 30 per cent of the average wage in 1995.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investments both directly and through indirect investment vehicles. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals normally have the right to own or lease land but some regional restrictions may apply (a consent of the city/local government is required when there are such restrictions). Security interests over shares and land may be created, require notarisation and entry in an official register (in respect of shares, where such shares are dematerialised). Security interests over contracts, receivables and moveable assets are possible, and require registration where registries exist.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Draft laws are usually not circulated to practitioners for comment prior to enactment. Public records in land registries may be up to one month behind current status. There are no registries for certain types of moveable assets. Important court decisions are usually published or accessible to practitioners within 12 months of being issued. Independent professional legal advice is available. Private parties generally believe that the courts will recognise and enforce their legal rights, including against the state. Foreign arbitral awards are required to be recognised and enforced by the courts without a re-examination of their merits.

# FYR Macedonia

*Reforms were initiated in 1989-1990 throughout the former Yugoslavia, including widespread price, import and foreign exchange liberalisation. FYR Macedonia gained independence in 1991, and established an independent currency in April 1992. The introduction of the new currency was accompanied by a first attempt at macroeconomic stabilisation, further price liberalisation and elaboration of plans for privatisation. A second bid for macroeconomic stabilisation was initiated early in 1994, accompanied by implementation of more far-reaching enterprise and institutional reform.*

## Enterprises

**Size of the private sector**
Private sector activity, taking into account activity in the informal sector, probably accounts for 45-55 per cent of GDP.

**Large-scale privatisation**
As of July 1996 838 of the 1,217 enterprises covered by the law on transformation of social capital (passed in June 1993) had been privatised, mainly through employee buy-outs, or had become subject to liquidation proceedings. In most cases the only bidders have been management and employees. Using the same legal framework it is intended to increase the cumulative total of enterprises in privatisation to 900 by the autumn of 1996 and 1,150 by the spring of 1997. In addition, the privatisation (through the transfer of shares to employees and management) of about 400 enterprises has been initiated under a law which pre-dated the collapse of Yugoslavia.

In April 1996, parliament passed a law enabling privatisation of agrokombinats (the Law for Transformation of Enterprises and Cooperatives with Social Capital that Manage Agricultural Land), which control 15 per cent of total agricultural land. The remainder is in private hands. This law gives the Privatisation Agency (created under the main Privatisation Law) the authority both to force privatisation of the agro-kombinats and to hive off non-core businesses, including hotels, transport and milling and baking facilities. Privatisation plans are to be drawn up or liquidation proceedings initiated for at least 75 per cent of eligible enterprises in the agriculture sector, and at least two of the four largest agrokombinats are to submit proposals to the Privatisation Agency before the autumn of 1996.

**Small-scale privatisation**
Over 95 per cent of all enterprises are privately owned. Almost all of these are small (with less than 20 employees).

A number of impediments to the creation of a free market in urban land will be removed by a draft Law on Land Use, intended for parliamentary approval by the summer of 1997, which will limit restrictions on land to standard planning considerations, simplify the transfer of land ownership and privatise a significant proportion of state-owned land.

**Property restitution**
A draft law on restitution is in preparation and has received a first reading in parliament.

**Growth of private enterprise**
According to the Statistical Bureau, the number of private enterprises had increased from 6,000 in 1992 to almost 90,000 by July 1996. This represents more than 95 per cent of the total number of registered enterprises. Initially these were mostly very small firms, although several hundred medium-sized and larger firms have entered the group as a result of the privatisation of socially owned enterprises. According to data from the Payment Operations Service, which collects income statements from registered enterprises, just over 33,000 are active. Of these, 31,400 were formed privately and another 637 are privatised enterprises. These enterprises account for around 50 per cent of GDP and a similar share of employment.

**Enterprise restructuring**
Within the overall privatisation programme a "Special Restructuring Programme" (SRP) was introduced in 1994 to restructure the 25 largest loss-making enterprises, with the imposition of a hard budget constraint, and the preparation of a restructuring plan for each enterprise (including proposals for reductions in the labour force and the hiving-off of profitable or potentially profitable sub-units). This group of enterprises includes two utilities, three agricultural kombinats, four mines, six textile companies and six chemicals and mechanical and electrical machinery producers. The group accounts for over half the total losses of the enterprise sector. Plans to restructure the two utilities, electricity and rail, would bring about full cost recovery, achieved by a combination of cost savings through rationalisation and increases in pricing. It is now intended that by the spring of 1997 over 130 business units will have been identified for privatisation from these firms, in addition to 10 firms hived off from the railways and electricity utilities. Substantial downsizing of these enterprises has already been undertaken with over 14,000 employees, or around 25 per cent of the original work force, already made redundant.

The 1989 bankruptcy law of Former Yugoslavia is still in force. A new law is before parliament.

## Markets and trade

**Price liberalisation**
About 90 per cent of prices in the retail price index are free of controls, including all retail prices for basic foods, except bread. However, guaranteed base prices for agricultural products remain for wheat, sugar, sugarbeet, sunflower and tobacco. There have been large increases in recent years in the relative price of electricity and oil derivatives, but further increases are required to bring prices to cost-recovery levels.

**Competition policy**
A draft anti-monopoly law has been in preparation for some time and is to be presented to Parliament before the end of 1996.

**Trade liberalisation**
Trade policy reform is well advanced, with the removal of import licensing and quantitative import restrictions for all but 4 per cent of all import categories (remaining restrictions apply mainly to chemicals, steel and some foodstuffs). Auction mechanisms have been created for imports still subject to quotas. A new customs tariff was introduced in July 1996 with rates ranging from zero to 35 per cent for most items. The new customs tariff system has seven bands (compared with the old system's 18 bands). The new system reduces the average rate to 15 per cent from the previous level of 28 per cent. A programme of further tariff liberalisation, consistent with negotiations for accession to the WTO, is being prepared. Administrative simplification will be achieved with the centralisation of all trade policy functions in one ministry, mainly by placing customs administration under the Ministry of Finance.

**Currency convertibility and exchange rate regime**
Officially, the denar has been floating since the beginning of 1994, but in practice it has remained closely aligned to the DM. There is near full current account convertibility.

**Wage liberalisation**
The wage control law of December 1993 restricted wage increases to 1.5-2.5 percentage points less than targeted inflation, with a subsequent adjustment to compensate 50 per cent for inflation in excess of target. This type of regulation has been extended until the end of 1996.

**Interest rate liberalisation**
Real interest rates are positive and largely market-determined, although a bank-by-bank credit ceiling has remained in place.

## Financial institutions

**Banking reform**
Financial sector reform was slow to get under way but has recently accelerated with the creation of a Bank Rehabilitation Agency (BRA), which took over the bad loans of 17 of the major socially owned loss-making enterprises. There are 25 commercial banks and 15 savings houses. The non-performing loans of the largest bank (Stopanska Banka), which comprised two-thirds of the credit base, have been transferred to the BRA. The bank's balance sheet has been partly downsized and bad loans have been partly replaced by government bonds. Five of Stopanska Banka's largest branches were split off at the beginning of 1995 and are now operating as independent banks. The only branch of the former Ljubljanska Banka from Slovenia was established as an independent Macedonian bank in 1995. In April 1996, a new banking law was passed by parliament which brings the law close to internationally accepted banking standards. The National Bank Law was passed in 1992 and amended in the spring of 1996. The law provides for independence of the Central Bank and gives it the power to enforce compliance with its decisions. A significant improvement in banking supervision has taken place with the creation of a banking supervision department in the Central Bank. Several applications for banking licences from foreign banks have recently been received. The Commercial Bank Law, passed by parliament in the spring of 1996, creates the legislative framework to enable the imposition of a new deposit insurance scheme, but this has not yet been introduced.

**Non-bank financial institutions**
Non-bank financial intermediaries are at a relatively early stage of development, as is regulation of the sector. There is only one, state-owned, insurance company.

**Securities markets and instruments**
A stock exchange was created in March 1996 but turnover is currently small.

## Fiscal and social safety net reform

**Taxation**
Over the last three years a succession of measures have fundamentally reformed the tax system, including a sharp reduction in exemptions, the simplification of the structure of tax rates and the creation of an internal revenue service to enforce collection. In early 1994 the sales tax was streamlined, reducing the number of rates from 21 to three. There is now a general rate of 25 per cent, and rates of 5 per cent for food and 10 per cent for most services. Excise duties have been simplified and the rates were increased on oil, alcohol, cigarettes and cars in the spring of 1994. Personal income tax rates have been consolidated and many exemptions have been removed. The main sources of revenue in 1995 were personal income tax (24 per cent), sales taxes (17 per cent) excises (28 per cent) and import duties (16 per cent).

Further major reforms are planned. These include the introduction of VAT, probably in 1998, to plan for which the government has already created a VAT development unit. This is already recruiting and training staff. The government is considering the elimination of extensive personal income tax exemptions, and the reduction of many of the remaining corporate tax preferences.

**Social security**
Extensive pension fund reform has been undertaken over the last three years with an increase in the retirement age and a reduction in pension entitlements. Means-testing has been introduced for most general social security benefits. There have been cuts in child allowances and also vacation allowances. Further measures are under consideration, including a reduction in the duration of cash benefits to the unemployed from the existing two years, further reductions in public pension provision and the introduction of some user charges in health care.

## Investment legislation

**Extensiveness**
A law regulating foreign investment exists. Domestic investment is not regulated, but free market principles are guaranteed by the constitution. To a limited extent, legal provisions governing economically undeveloped areas involve the use of indirect investment vehicles. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners are prohibited from owning land. Security interests over shares and land may be created, and require entry in an official register. Security interests over contracts and moveable assets are possible.

**Effectiveness**
Generally, laws are published, usually within one month of enactment. Draft laws affecting investment are generally not published or accessible to practitioners. Public records in share or land registries may be up to six months behind current status. Despite requirement for registration, registers do not always exist. Important court decisions are usually published and accessible to practitioners. Independent professional legal advice is available. While private parties generally believe that courts will recognise their legal rights against other private parties, they do not believe that courts would enforce such rights against the state. Foreign arbitral awards are required to be recognised by the courts without a re-examination of their merits.

# Georgia

***Early stabilisation efforts and structural reforms in 1992 were interrupted by a civil war which led to a drastic output decline and a suspension of structural reforms until autumn 1994. Since then, the government has implemented a comprehensive stabilisation and reform package.***

## Enterprises

**Size of the private sector**
The private sector may now account for about 50 per cent of GDP.

**Large-scale privatisation**
Large-scale privatisation began in 1994, and has accelerated over the past year. Around 880 medium and large-scale enterprises out of 1,189 enterprises identified for privatisation had been corporatised by June 1996. Of these, 407 had been privatised (in the sense that more than half of their shares had been sold to private entities or individuals). The government plans to complete the process by mid-1997. Privatisation methods include: a donation of 5 per cent of the shares to the employees; a management-employee buyout option at a 20 per cent discount for 51 per cent of the shares in each enterprise; a public offering at voucher-based auctions for a minimum of 35 per cent of shares; and cash-based auctions and/or tender for the remaining shares. A few larger enterprises may be sold in full through cash-based auctions. Foreign investors can participate in cash auctions.

While the employees at many of the corporatised enterprises applied for share options, most of them are facing difficulties in meeting the deadline for payment. Consequently, the payment deadline has been delayed several times: the final deadline for the payment is July 1996. Under the voucher programme that started in March 1995, vouchers with a face value of US$ 30 each have been distributed to the population. A total of 45 out of the planned 50 auctions had taken place by the end of June 1996. Around 30 per cent of the shares offered at these auctions had been sold. From August 1996 cash auctions are planned for the remaining shares. It is expected that bankruptcy proceedings will be filed against some enterprises with large unsold blocks of shares at the end of the privatisation programme.

**Small-scale privatisation**
Small-scale privatisation has been comprehensive. By June 1996, almost 10,000 small-scale enterprises (defined as those that had assets of less than Rb 30 million and fewer than 50 employees at end-1992) had been privatised, mainly in the retail and trade sector.

In March 1996, the Law on the Ownership of Agricultural Land had been passed. Under this law, farmers now have clearer property rights to land which was transferred to the farmers in early 1992 (representing a total of 22 per cent of agricultural land), and to land that was used for private gardens before 1992. The law provides for the rights of private entities to buy, sell, lease and inherit land, and this law applies to the land on which enterprises reside.

A significant share of housing in Georgia was already in private hands before independence. Privatisation of housing is now virtually complete.

**Property restitution**
No property restitution has taken place in Georgia.

**Growth of private enterprise**
Georgians have a tradition for entrepreneurship. There are more than 65,000 registered small businesses.

**Enterprise restructuring**
The enterprises have been faced with relatively hard budget constraints since the autumn of 1994, as government subsidies and directed credit to enterprises have been almost eliminated. Some degree of "hidden subsidisation", in the form of tolerance of payment arrears on energy bills, remains in place. Nevertheless, with the abolition of the state order system (see below) and improved energy tariff collection, such "hidden subsidies" are gradually being reduced.

A Law on Bankruptcy has been in place since 1991 but without any significant enforcement. A new bankruptcy law has been enacted this year and is to become enforced from January 1997.

## Markets and trade

**Price liberalisation**
Administrative control of prices was abolished in 1994 with the exception of prices for bread, gas, electricity, municipal services, pharmaceutical products, public transportation and telecommunications. These remaining administered prices were increased to cost-recovery levels in September 1994, effectively eliminating all direct price subsidies (although, as noted above, incomplete collection of utility tariffs continued to represent an implicit subsidy to enterprises). The state order system was completely phased out on 1 June 1995.

A restructuring plan for the energy sector was implemented in 1995 to enhance efficiency. It was, however, ill-designed and reintroduced cross-subsidisation from enterprises to residential consumers, and a variety of tariffs for different distributors. In early 1996, a uniform wholesale tariff was established. Further reforms to the wholesale and retail tariff structures are planned.

**Competition policy**
An anti-monopoly law is expected to be enacted in 1996.

**Trade liberalisation**
The system of bilateral trade agreements had been eliminated by mid-1995. Subsequently, trading arrangements have been substantially liberalised: the export tax has been abolished and a unified import tariff structure has been introduced. Export licensing is being phased out gradually and most other export restrictions are to be eliminated by the end of 1996.

**Currency convertibility and exchange rate regime**
The Georgian coupon, which was introduced in April 1993, was replaced by a new currency, the lari, in late September 1995 and became the

only legal tender on 2 October 1995. The lari is fully convertible for current account transactions. The currency surrender requirement was eliminated towards the end of 1995.

**Wage liberalisation**
According to the official statistics, the average monthly wage in 1995 was 15.7 laris (US$ 13) and during the first quarter of 1996 this has risen to 23 laris (US$ 18) in the public sector and between 60 and 90 laris (between US$ 48 and US$ 72) in the private sector.

**Interest rate liberalisation**
With progress in financial stabilisation and financial sector reforms, real interest rates have become positive and market-determined. Commercial banks are free to set their own interest rates.

## Financial institutions

**Banking reform**
A new Law on the Central Bank was passed in mid-1995 and a new draft Law on Banks and Banking Activity has been submitted to parliament.

The two-tier banking system was created in 1991. It consists of the National Bank of Georgia (the central bank), five specialised state-owned banks (in 1995, three of the five banks were merged), and about 220 small domestic commercial banks (about half of which are owned principally by state enterprises; only a few are fully private). The state-owned banks hold more than 75 per cent of the assets. Unofficial estimates indicate that bad assets comprise between 14 per cent and 35 per cent of the portfolios of state-owned banks.

The National Bank has raised the minimum capital requirement to the equivalent of US$ 100,000, and plans to increase it further to US$ 500,000 over the next few years. By end-1995, over half of 229 operating commercial banks had been closed on the grounds of non-compliance with this standard. The remaining banks are to be audited by the National Bank and certified for household deposit taking. A study of the former state sectoral banks has been commissioned with a view to develop a plan for recapitalisation.

**Non-bank financial institutions**
Although some new investment funds and a few insurance companies exist, non-bank financial institutions do not play any significant intermediation role in Georgia.

**Securities markets and instruments**
No stock exchange exists in Georgia.

## Fiscal and social safety net reform

**Taxation**
The principles of a new tax system were laid down in a law passed in December 1993. Enterprises are subject to profit taxation (governed by a law adopted in January 1994) with rates between 10 and 35 per cent, and property taxation at a rate of 1 per cent. A personal income tax was established in January 1994, with marginal rates of up to 20 per cent. There is no separate capital gains tax.

The tax reform package approved by parliament in late 1994 increased the VAT rate from 14 to 20 per cent and eliminated most VAT exemptions. Tax revenues remain at critically low levels. The fiscal strategy for 1996 continues to emphasise improvement in revenue collection.

**Social security**
The social safety net provides minimal cash benefits to half of the population, including pensioners, the unemployed, children, refugees, students, single mothers and state employees at the bottom of the wage scale. Due to the serious budgetary constraints, measures to improve targeting and increase benefits began to be implemented in late 1994. Since then, pension payments to working pensioners have been terminated, provision of child allowance has been limited (while the amount per individual has been raised) and the pension age has been increased.

## Investment legislation

**Extensiveness**
Laws exist regulating both domestic and foreign investment, directly and through indirect investment vehicles. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprise. Foreigners may not own or lease land. Security interests over shares and land may be created, and require notarisation and entry in an official register. Security interests over contracts, receivables and moveable assets may also be created, and require notarisation.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Draft laws are generally available to practitioners for comment prior to enactment. Public records in share or land registries may be up to six months behind current status. Court decisions are not generally available to practitioners. Independent professional legal advice is available, but only from a limited number of lawyers. Private parties generally believe that courts would not recognise and enforce their legal rights, whether against a state party or another private party. While foreign arbitral awards are required to be recognised and enforced by the courts without a re-examination of their merits, such enforcement remains generally untested in practice.

# Hungary

*Hungary became a member of the OECD in May 1996. Having experimented with increased enterprise autonomy since 1968, Hungary embarked on more ambitious market-oriented reforms between 1989 and 1991. Comprehensive liberalisation was introduced for prices and foreign trade, the tax system was revamped, the banking system became increasingly market-based and privatisation was initiated. Comprehensive small-scale privatisation was implemented in 1992-93. Large-scale privatisation has been implemented gradually but steadily. By the end of 1995 control of most of the formerly state-owned large companies had been transferred to the private sector.*

## Enterprises

**Size of the private sector**
The Hungarian Central Statistical Office (CSO) has estimated the GDP-share of the private sector in 1993 at 55 per cent. The independent Hungarian research company GKI has recently published estimates, putting the share at 58 per cent for 1993, 65 per cent for 1994, 70 per cent for 1995 and 73 per cent for 1996.

**Large-scale privatisation.**
A number of large privatisation deals were completed in November-December 1995. In the largest individual deal, Magyarcom (the 50/50 joint venture between Ameritech and Deutsche Telekom) acquired 37 per cent of the shares of Matav (the main Hungarian telecommunications company) for US$ 852 million. The deal raised Magyarcom's total ownership share in Matav to 67 per cent. In addition, the government (and the municipality of Budapest) sold majority stakes in six regional gas distributors for a total of US$ 556 million, large minority stakes in six regional electricity distributors for a total US$ 1,114 million, and large minority stakes in two power generating companies for US$ 215 million. A majority stake in Budapest Bank was sold in December to EBRD and GE Capital for US$ 87 million. During the course of 1995 and the first half of 1996, the government sold 23 per cent of the shares in the largest bank, the National Savings Bank (OTP), to foreign investors for about US$ 53 million (with no single investor obtaining more than a 2.5 per cent stake). An additional 5 per cent was sold to OTP staff, and 24 per cent to other domestic investors. The government also sold, in 1995, an extra 28 per cent of the already partly privatised pharmaceutical company EGIS to NatWest Markets after which the EBRD and Natwest sold their shares in EGIS to the French company SERVIER which thereby became a majority owner

of EGIS. On the back of these and other deals, the total cash foreign investment inflow into Hungary rose in 1995 to about US$ 4.5 billion.

These transactions took place under the Privatisation Law that was passed by parliament on 9 May 1995. This law merged the two main privatisation agencies (the State Property Agency and the State Holding Company) into the State Privatisation and Asset Management Company. According to intentions stated in the law, 46 companies will remain fully state-owned, including postal services and the railways. The state will maintain majority stakes in MVM which holds the electrical grid and the country's only nuclear power plant (the state attempted unsuccessfully to sell 24 per cent of MVM in December 1995). The state will also maintain 25 per cent ownership in some of the largest banks.

Implementation of a so-called "simplified privatisation" procedure was devised in 1995. Each participating company was to have total assets of less than Ft 600 million and employed less than 500 people. Towards the end of 1995, the privatisation company held 300 qualifying companies. Under the simplified procedure, bids are evaluated and contracts signed by designated privatisation committees within 60 days of the bidding round. For companies that fail to attract bids, management may attempt to privatise the company or to proceed with a management buy-out with non-cash payment being an option. By September 1996, 118 companies had been offered for sale. Of these, 50 had been sold off in the first round and another 19 were certain to be sold to the incumbent management or employees.

The bulk of the "old" Hungarian industrial enterprises have been privatised, mainly in sales undertaken between 1991 and 1995. A broad indication of the extent of this process is contained in the following numbers. When the State Property Agency was created in 1990, it held the ownership rights to 1,857 enterprises. Since then, another 30 enterprises have been transferred to the SPA from other institutions (municipalities etc.). After liquidation of some of these enterprises and break-up of others, 1,676 joint-stock companies emerged from this initial grouping. By the end of March 1996, state ownership had been reduced to less than 50 per cent in 1,109 of these companies (up from 902 in April 1995). About 190 of the original 1,676 companies were in liquidation or liquidated (in March 1996) and another 62 had been transferred to other institutions (municipalities, ministries etc.), leaving 316 joint-stock companies with majority state ownership in the hands of the state privatisation agency.

**Small-scale privatisation**
Privatisation of state-owned shops and small enterprises is virtually complete. Out of 10,423 state-owned shops and small enterprises in 1990, a total of 9,990 had been transferred into private hands by March 1995.

**Property restitution**
About 1.2 million Hungarians have been granted compensation coupons as restitution, mainly for nationalisation of property. Coupons have in practice been useable mainly towards the purchase of land, although shares in some industrial companies have also been offered for sale to coupon-holders.

By the end of 1994 about 2 million hectares of land had been sold to half a million people for compensation coupons. Coupons have been useable as a means of payment in auctions for 185,000 hectares of farmland. Shares in a number of enterprises have also been offered for sale against coupons. During 1996, shares in, for example, gas and electricity companies have been offered for sale to holders of coupons.

**Growth of private enterprise**
By March 1996, there were 878,215 registered businesses (up marginally from 874,830 at the end of 1994 but down from 901,642 at the end of 1995). Of these, 107,014 were legal entities (joint-stock companies, etc.) up from 90,824 at the end of 1994. At the end of 1995, each of about 45 per cent of the registered businesses provided full-time employment to at least one person. The remainder of the registered businesses were inactive.

**Enterprise restructuring**
Restructuring has been achieved mainly through subsidy reduction, tighter access to finance for loss-making enterprises, and greater competition on account of liberal rules for establishment of new companies and a liberal import regime. These factors have resulted in production cutbacks, rationalisation and reduction of employment in large former and current state-owned enterprises. The productivity of labour in the manufacturing sector has risen sharply in recent years (see Chapter 8).

Hungary's Law on Bankruptcy was enacted on 22 October 1991 but was substantially amended in September 1993. The new version of the law no longer forces companies with overdue liabilities to declare bankruptcy, and allows a qualified majority of creditors to decide the joint creditor-position on proposals for out-of-court restructuring settlements. The revision has slowed the rate of bankruptcies and liquidation: there were 343 new bankruptcy cases and 12,575 new liquidation cases between 1 January 1994 and the end of March 1996, compared with 987 bankruptcy cases and 7,242 liquidation cases in 1993 alone.

The framework for state-financed bank recapitalisation has included incentives for banks to help restructure the balance sheets of enterprises. In December 1992 and December 1993, the state purchased bank claims on enterprises (see details under "banking reform"), and subsequently forgave some of this debt. Separately, the government has negotiated restructuring of enterprises' bank debt in two rounds, inducing banks into settlement by offering a reduction of state claims (in the form of overdue tax and social security contributions) on the debtor enterprises in return for bank concessions. In total, the two phases led to restructuring of only about 20 per cent of enterprise debt in the 1,950 participating enterprises.

## Markets and trade

**Price liberalisation**
More than 90 per cent of consumer prices, weighted by their share in the consumer price index, are free of administrative controls. The Laws on Electricity and Gas require that prices for these products must cover costs by 1 January 1997. Following large increases in prices of electricity and gas during the course of 1995, prices for these products were raised further in March 1996 and were originally meant to rise again in October to a level that would ensure cost recovery for producers. Independent experts were to screen the energy sector to assess the required size of the final round of price increases in October 1996, before a move to a fixed formula linked to the overall producer price index. However, in late August the government decided, controversially, to postpone this price-jump until January 1997.

**Competition policy**
The Law on the Prohibition of Unfair Market Practices, passed in 1990, provided the initial legal framework for the work of a newly established anti-monopoly office. More than 100 decisions were made by the office in 1994, resulting in fines in excess of Ft 600 million. Regulation for some agricultural goods and utilities is subject to the rulings of other state bodies.

On 25 June, the Hungarian parliament adopted a new competition law, modelled on European Union competition rules. The new law will become effective on 1 January 1997. It will, *inter alia*, replace the current law's restrictions on "unfair behaviour in the market" by restrictions on "unfair competition".

**Trade liberalisation**
Trade liberalisation was phased in gradually, mainly in 1989-91. In 1989 licensing requirements and quotas were eliminated for 40 per cent of imports (in value terms based on 1988). This ratio was raised to 65 per cent in 1990, and to 90 per cent in 1991. It stood at 95 per cent in 1995.

Some consumer goods imports are regulated by the so-called "global quota", with individual ceilings set for about 20 product groups (mainly cars, textiles and precious metals). The aggregate value of the global quota has been increased gradually in recent years and was set at US$ 550 million for the first half of 1996, up from US$ 340 million during the same period of 1995. Importation of energy products, cars, and many agricultural products still requires a licence. So does exportation of energy products, pharmaceuticals and some agricultural goods.

Among the important vehicles for trade liberalisation in recent years have been Hungary's "Europe Agreement" with the EU (the trade protocol of which entered into force in March 1992). In addition, Hungary participates in the Central European Free Trade Association, which was established in 1993 (see details on the Europe and CEFTA Agreements in the 1994 *Transition Report*, pp. 108-109). Hungary was a member of GATT already in the 1980s and became a member of the WTO in December 1994.

A number of industrial and "sensitive" products (i.e. textiles and agriculture) remain substantially protected by import tariffs. Some of these tariffs are being phased out for trade with the EU in accordance with Hungary's Europe Agreement and in trade with the other members of CEFTA.

On 20 March 1995, Hungary introduced an 8 per cent import surcharge on all goods, except primary energy carriers and machinery for investment. The government has announced a schedule for the phase-out of the import surcharge. It was reduced by 1 percentage point in July 1996, and will be reduced further by 1 percentage point in October 1996, and 2 percentage points in January 1997. The remaining four percentage points will be eliminated in June 1997.

**Currency convertibility and exchange rate regime**

The Hungarian authorities declared the forint convertible for current account transactions from 1 January 1996 by pledging compliance with Article 8 of the IMF agreements.

The exchange rate is pegged to a basket of currencies. The central rate against the basket is devalued daily at a pre-announced rate. The cumulative monthly rate of devaluation was reduced from 1.3 per cent to 1.2 per cent on 1 January 1996. The spot rate may fluctuate within a band of +/-2.25 per cent of the central rate. The basket was changed in May 1994 from previously 50 per cent US dollar and 50 per cent Deutschmark to now 30 per cent US dollar and 70 per cent ECU. The government and the central bank have announced that, effective on 1 January 1997, the Deutschmark will replace the ECU in the currency basket to which the forint is pegged.

Capital account transactions have been liberalised gradually during the 1990s. Financial institutions and enterprises may borrow abroad long-term with approval from the central bank. For short-term borrowing abroad, financial institutions and enterprises are only required to report to (as opposed to obtain approval from) the central bank. Inward investment may occur without prior approval, except in the areas of banking and insurance. The Law on Investment by Foreigners in Hungary of 1988 guarantees the foreign investor the option of repatriating profits and capital in the currency of the original investment and full and immediate indemnification for any loss resulting from nationalisation or expropriation.

A number of measures were taken in mid-1996 to liberalise capital transactions so as to pave the way for Hungary's OECD membership (which became effective on 7 May 1996). Hungarian investors were granted permission to buy low-risk securities with more than one year's maturity from other OECD countries. The domestic Hungarian market was opened for trade in such securities. Foreigners were granted permission to invest freely in Hungarian debt instruments with more than one year's original maturity.

**Wage liberalisation**

Attempts to control wages by taxing wage increases above a defined limit were abandoned in 1993. About one-third of all employees are members of labour unions.

**Interest rate liberalisation**

The government removed administrative control of interest rates on deposits and loans for enterprises in 1987, and for households in 1991-92.

## Financial institutions

**Banking reform**

A two-tier banking system was introduced in 1986. The law on commercial banks, operative since January 1992, imposes the Basle-defined standard for capital adequacy on Hungarian banks, but temporary exemptions have been granted to the large state-owned banks.

State-owned banks have benefited from several rounds of state-financed recapitalisations. In 1990, the government permitted the savings banks to swap low interest housing loans for so-called housing bonds carrying market-linked interest rates. At the end of 1991, the state granted commercial banks guarantees for doubtful loans worth Ft 10 billion.

In the autumn of 1992, the government launched what became a series of initiatives to improve the balance sheets of banks that were partly state-owned and had a capital adequacy ratio below 7.25 per cent. The total state injection of bonds into the banking sector since early 1992 amounts to Ft 334 billion, about 8 per cent of 1994 GDP. Following these initiatives, capital adequacy as measured in the official audited balance sheets exceeded 8 per cent in all the large banks by the end of 1994.

Majority stakes in the Hungarian Foreign Trade Bank, Budapest Bank and the National Savings Bank have been sold to private owners (see details on the latter two transactions above under "large-scale privatisation").

Two of the five largest banks remain state-owned. The law on commercial banks requires a reduction in state ownership in all banks to less than 25 per cent by the end of 1997.

There is a substantial presence on the Hungarian banking scene of smaller private banks, most of them with foreign participation.

**Non-bank financial institutions**

Domestic insurance companies were among the first to be privatised and foreign companies have established themselves in the Hungarian insurance sector. A new Insurance Law came into force on 1 January 1996. The law establishes an independent regulator with substantial powers of authorisation and intervention, in a move to adapt Hungarian regulation to that prevailing within the European Union.

The state-run social security funds are in deficit and have been borrowers rather than investors in domestic capital markets. A law passed in 1993 enabled the first non-state pension funds to be established. The Law on Investment Funds was passed in 1991. A large number of investment funds are active in Hungary.

**Securities markets and instruments**

In June 1990, the Budapest Stock Exchange was opened and a new regulatory framework was introduced (the Act on Economic Associations, the Securities Act and the Act on Mutual Funds). Turnover is dominated by trade in treasury bills. By the end of March 1996, 42 stocks were listed. Equity capitalisation was Ft 577.2 billion (about US$ 3.8 billion) at the end of July 1996, more than twice the level at the end of 1994. A number of Hungarian companies are listed on western European and US markets.

## Fiscal and social safety net reform

**Taxation**

In 1988-89 the government introduced value added and personal income taxes, while streamlining taxation of enterprise income and radically reducing subsidies. The resultant drop in consumption taxes and direct taxation of enterprise income was largely offset by steep increases in taxation of personal income through the PIT and social security contributions.

Reforms in the last few years have focused on removing sector/activity-based tax reliefs. Special tax incentives for foreign investors were largely phased out by the end of 1993 (except for grandfathering until year 2003 for already active projects). Personal income is taxed progressively. The top rate (applying to annual incomes above Ft 900,000) was raised from 44 per cent to 48 per cent in 1996. There are two VAT-rates of 12 per cent and 25 per cent. Excise taxes (including on alcohol, tobacco and fuel) are also an important revenue source for the government.

In January 1995 the corporate income tax rate was cut from 36 per cent to 18 per cent, but a tax of 23 per cent was introduced for dividends.

**Social security**

The retirement age is 55 for women and 60 for men. A 1995 amendment raised the age at which the employer can initiate retirement for women to 56 but women can still choose to retire at 55. A 1996 amendment provided for a gradual increase in the legal retirement age to 62 for both men and women (to be phased in over the period to year 2007). Pensions have been indexed to net wages since 1992. Government efforts to tighten family allowances and sick-leave benefits were struck down by the Constitutional Court in June 1995. Eligibility for unemployment benefits has been tightened substantially over the past four years.

Employer and employee payroll tax contributions (covering contributions to funds for pensions, health, unemployment insurance and vocational training) were lowered from 52.5 per cent and 12 per cent respectively of the wage sum in 1993 to 50.5 and 11.5 per cent in 1994, and to 50.1 and 11.5 per cent in 1995.

# Kazakstan

***A comprehensive reform programme was implemented in January 1993. Tighter monetary and fiscal policies since mid-1994 have reduced inflation and succeeded in stabilising the currency. Banking reform has started more recently. The privatisation of large enterprises and farms is proceeding gradually.***

## Enterprises

**Size of the private sector**
According to official estimates, the non-state sector accounted for 20 per cent of GDP in 1994. By early 1996, this share had grown to more than 50 per cent (the non-state sector includes firms with minority private ownership). The private sector (excluding companies with majority state ownership) is likely to account for about 40 per cent of GDP.

**Large-scale privatisation**
Large-scale privatisation in Kazakstan has proceeded in three stages.

The Kazak government launched its first Programme on Destatisation and Privatisation in June 1991, alongside spontaneous ownership take-overs by employees and management. This programme aimed chiefly at the sale of retail trade and service facilities and the legitimisation of the transfer of state property to insiders (employees and managers).

The second such programme, which covered the period 1993-95, foresaw mass privatisation of medium- and large-sized enterprises (i.e those with over 200 employees) through auction sales of shares, with participation of investment privatisation funds (IPFs). This would occur in parallel with case-by-case privatisation of very large enterprises (over 5,000 employees). Approximately 170 investment privatisation funds (IPF) were established in 1994. In the second half of that year, points-denominated vouchers were distributed to the public who in turn placed their vouchers with the IPFs. A total of 1,700 companies were earmarked for privatisation through this programme. Between 51 and 90 per cent of shares in each enterprise were offered for sale (employees received 10 per cent and the state could retain up to 39 per cent). By early 1996, 60 per cent of the total equity of the 1,700 large enterprises had been transferred into private hands in 22 auctions, with private owners having a majority of voting stock in 43 per cent of the enterprises. Overall, one-third of these shares had been exchanged against vouchers, one-third against cash, and the remainder given to employees. Virtually all agro-industrial enterprises have been formally transferred into private hands, albeit often into cooperative ownership. But only five (out of 180) of the "very large" enterprises with more than 5,000 employees have been privatised.

The most important objectives of the third stage of the privatisation programme, covering the period 1996-98, are: (i) the completion of small-scale privatisation; (ii) the cash sale of further shares in medium- and large-scale enterprises; (iii) the sale of very large enterprises on a case-by-case basis. In accordance with these intentions the government started in February 1996 to divest the remaining state-held shares, including the 39 per cent stakes that had been excluded from the auctions, as well as all shares that had been offered for sale but had not been sold.

**Small-scale privatisation**
Under the small-scale privatisation programme (involving companies with less than 200 employees), approximately 11,000 entities had been sold by early 1996 (about 70 per cent of the total). In retail trade, public catering and service industries, 84 per cent of all facilities were sold. Completion of the programme is expected by the end of 1996.

About 90 per cent of all farms and about 80 per cent of the farmland had been privatised by the summer of 1996. Privatisation has involved providing farm workers with long-term leases and buy-out options to land and then distributing shares in non-land farm assets to those with land rights. Farm privatisation has often led to cooperative ownership structures. Land reform suffers from lack of clarity as to the rights applicable to different types of agricultural land.

**Property restitution**
There has been no property restitution in Kazakstan.

**Growth of private enterprise**
New firms tend to be concentrated regionally (Almaty), and in a few sectors (energy and mineral). In the spring of 1996, the government announced its intention to identify priority sectors to be supported by government investment and loan guarantees and to closely monitor price-setting behaviour.

**Enterprise restructuring**
Overall, restructuring of large loss-making units has been difficult and slow. In an attempt to foster industrial restructuring, 44 enterprises, the majority related to extraction industries, have been subjected to outside management under so-called "management contracts", whereby an enterprise is placed under the management of an interested outside party, usually a potential investor (implicitly often assumed to hold the option of buying the enterprise later). Twelve of these outsiders are foreign managers. At the other end of the quality spectrum, 30 of the biggest loss-making units have been placed under the control of the "Rehabilitation Bank" which, with World Bank funds, has been designed to restructure or liquidate them. More than 40 per cent of all enterprises were reported to operate at a loss in 1995.

While farmland appears to be almost completely privatised, restructuring in the agricultural sector has been slow. Cooperative farm ownership coupled with monopoly holdings in agribusiness still dominate this sector.

In an attempt to induce enterprise restructuring, the government introduced a new bankruptcy law in April 1995, which allows for out-of-court liquidation of insolvent enterprises. The Rehabilitation Bank and a Restructuring Agency were set up to deal with financially distressed enterprises. However, neither the agencies nor the new bankruptcy law are, as yet, fully operational.

## Markets and trade

**Price liberalisation**
Kazakstan completed price liberalisation by the end of 1994, but is yet to raise utility prices (including electricity) to cost-recovery levels. In June 1994, all fixed prices for crude oil and oil products together with ceilings on the margins of oil refiners were removed, and compulsory grain deliveries terminated.

**Competition policy**
The existence of monopolies in trade and distribution remains a serious impediment to competition. The abolition of the State Order System and the removal of internal and external trade restrictions early on provided first steps at tackling that problem. In June 1994 a new Anti-monopoly Law was introduced, giving the anti-monopoly committee the power to regulate the prices of natural monopolies. In February 1995 the government started to dismantle the 80 state holding companies, responsible for about 1,700 enterprises. Additional measures included the removal of the monopoly rights of 14 state trading organisations in external trade of strategic goods.

**Trade liberalisation**
During the course of 1995, all export quotas and most export and import licensing requirements were abolished, and barter trade was prohibited. While the ratification of the Partnership and Co-operation Agreement (PCA) with the European Union was delayed, the European Parliament in the same year passed the trade provisions of that agreement, granting MFN status to Kazakstan, as an interim solution. Kazakstan entered a Customs Union with Belarus and Russia in 1995, and also participates in trilateral agreement on free trade and economic cooperation with Uzbekistan and Kyrgyzstan.

**Currency convertibility and exchange rate regime**
The national currency, the tenge, was introduced in November 1993. A 50 per cent surrender requirement for export proceeds, was abolished in August 1995. The tenge is convertible for foreign trade. Official and commercial exchange rates are unified, with rates determined on the Kazak Interbank Currency Exchange market (the rate is floating), in which all major domestic banks participate. The ceiling on the amount of dollars an individual can take out of the country is US$ 10,000 per year. In July 1996, Kazakstan accepted all obligations under Article VIII of the IMF Agreement (committing the authorities of Kazakstan to refrain from restricting current account transactions or from implementing discriminatory currency arrangements).

**Wage liberalisation**
The Law on Employment of the Population (1991) gives the government discretion on minimum wage adjustment.

**Interest rate liberalisation**
Since 1995 interest rates, previously high in real terms, were gradually reduced, as inflation continued to decline. The budget deficit in 1995 amounted to 3.9 per cent of GDP, with approximately 30 per cent of that deficit financed through issuance of Treasury Bills. Directed credits were abolished in early 1995 and limits were placed on the amount of NBK net credits to the government. During 1995 virtually all NBK credit was extended via credit auctions (in which

only those banks that meet prudential standards can participate).

## Financial institutions

**Banking reform**
New banking legislation, adopted in August 1995, further separates investment banks from deposit-taking banks. It was held that the introduction of proper accounting procedures had to precede further liberalisation of banks' activities. Foreign banks are only allowed to have subsidiaries, joint ventures or representative offices. Foreign investors' shares in Kazak banks' capital can exceed 25 per cent (excluding portfolio investment) only with special permission from the central bank. The presence of foreign banks in Kazakstan is, however, steadily increasing.

The number of banks in Kazakstan has been subject to large fluctuations. Having risen to 210 by mid-1993, it had fallen back to 123 by April 1996, largely on account of closures imposed by the central bank. Most of the closed banks have been small. The Kazak banking system is still dominated by the four largest banks.

The Programme for the Reform of the Banking Sector of 1995 reconfirms central bank independence, requires guarantees for all bank payment orders forwarded to the NBK (the central bank) for clearing and settlement (to hinder the accumulation of inter-enterprise arrears), adoption of BIS guidelines for prudential supervision, compulsory risk classification of assets and provisioning requirements and a tougher licensing policy, involving the closure of non-viable banks. In April 1995, capital requirements were increased, and the two-thirds of all existing banks which did not meet these requirements were asked to submit a business plan to the NBK, on the basis of which a decision towards sale, merger or liquidation was to be made. In addition, attempts are underway to restructure the sector-specialised banks. This will involve the transfer of non-performing loans of Agroprombank to a new agricultural support, the split of the former foreign trade bank (Alem Bank) into a commercial bank and a state-owned Exim Bank. The State Development Bank, which was established in September 1994, is to be merged with the Exim Bank.

**Non-bank financial institutions**
The ability of IPFs to impose corporate governance on enterprises has been strengthened by an increase in the maximum ownership share which each fund is permitted to hold in a single enterprise, from previously 10 per cent to now 31 per cent. Private pension funds or insurance companies have yet to develop.

**Securities markets and instruments**
The Law on the Circulation of Securities and the Stock Exchange was adopted in June 1991, and amended in April 1993. A stock exchange (the Central Asian Stock Exchange) was subsequently established. However, most trading is conducted outside formal markets, due to taxation of distributed shares, high fees, and lack of over-the-counter operations.

## Fiscal and social safety net reform

**Taxation**
For the fiscal year 1995, overall government revenues were estimated at only about 20 per cent of GDP. A new Tax Code, effective 1 July 1995, simplifies and modernises the tax system by reducing the number of taxes from 49 to 11, improving incentives by reducing tax rates and concessions and by moving away from production-based taxes. There is a 30 per cent corporate income tax for companies (45 per cent for banks and insurance companies), and the maximum income rate tax is 40 per cent. A uniform VAT was introduced at 20 per cent. To compensate for the expected decline in revenues resulting from these changes, the average import duty was raised from 5 to 15 per cent, excise taxes were imposed on certain goods and VAT was extended to imports from non-CIS countries as well as gold purchases. However, tax revenues are expected to decline further in the fiscal year 1996 to 14 per cent of GDP.

**Social security**
Social security payments include an employment fund levy of 1 per cent of wages and a pension fund contribution of 37 per cent of wages.

Given the decline in the real value of many benefits, it has been a policy aim to improve the targeting of benefit payments. When bread prices were liberalised, for example, income supplements to vulnerable groups were increased by 30 per cent.

In 1995, as it became apparent that the Pension Fund was undercapitalised, the government increased the pension age, eliminated early retirement with full benefits and reduced pension benefits for working pensioners. Nevertheless, arrears in pension payments is a growing problem.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, directly and through indirect investment vehicles. Most foreign investment proposals must be registered with the relevant authorities and may require government approval. Profits are freely convertible and may be freely repatriated.There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals may, subject to restrictions, own or lease land. Security interests over shares and land may be created, and require notarisation and registration. Security interests over certain types of moveable assets may be created and in some cases require registration.

**Effectiveness**
The full texts of laws and decrees relating to investment are ordinarily published, usually within one month of enactment, although some decrees are not published. Draft laws may be accessible to practitioners. Public records in share or land registries may be up to 12 months behind current status. Important court decisions are not always published or accessible to practitioners. Independent professional legal advice is available. Private parties generally believe that courts will recognise their legal rights against other private parties or the state. Foreign arbitral awards are not necessarily recognised and enforced by local courts without a re-examination of their merits.

# Kyrgyzstan

*Following independence in December 1991 a comprehensive market-oriented reform programme was initiated in July 1992. Between 1992 and 1994 substantial progress was made with institutional reforms and macroeconomic stabilisation. Further structural reforms, including privatisation and agricultural reform, have accelerated under a new policy framework introduced in 1994-95.*

## Enterprises

**Size of the private sector**
According to official estimates, the non-state sector, which includes partially privatised enterprises, accounted for 58 per cent of GDP in 1994. However, given that the state still owned majority stakes in many partially privatised companies, the size of the true private sector may have been closer to 40 per cent of GDP in mid-1995 and around 50 per cent of GDP in mid-1996. The Kyrgyz authorities believe that the shadow economy constitutes around 20 per cent of GDP, of which only around 6 per cent is reflected in official GDP figures.

**Large-scale privatisation**
During 1992-93, 500-600 medium and large-scale enterprises were corporatised with shares transferred to workers' collectives, but the state retained large ownership shares in most of these enterprises.

At the beginning of 1994 the government initiated a more transparent mass privatisation programme under which remaining state shares in the corporatised companies were to be sold through voucher and cash auctions. Those medium and large-scale state-owned companies which had not previously been turned into joint-stock companies (around 1,500) were to be corporatised and then privatised with 5 per cent of the shares given for free to employees, 25 per cent sold at coupon auctions, and 70 per cent sold at cash auctions. By August 1995, 75 per cent of the total pool of vouchers had been distributed to the population.

A total of 948 companies were to be privatised in the 1994-95 mass privatisation programme. As of March 1996, 900 medium and large-scale enterprises had been put up for voucher auctions and the state's share of ownership in about 450 enterprises had been sold completely. With the aim of speeding up full divestiture in the remaining 450 enterprises, the government has recently reaffirmed its policy of selling shares in the second round of cash auctions without setting a minimum price. In addition, it has approved the 1996-97 privatisation programme which covers the 320 remaining medium and large-scale enterprises and includes the sale of shares in some of the major utilities through coupon auctions.

International tender rounds are being initiated for some of the large companies. However, the first international share auction of 13 enterprises in November 1995 was unsuccessful as shares in only one company were sold.

**Small-scale privatisation**
Privatisation of approximately 4,000 previously state-owned small trade outlets, retail and service establishments was largely completed by end-1994.

Agricultural reform began in 1991-92, when 165 (out of around 500) state and collective farms were liquidated and replaced by around 17,000 peasant farms (10-30 hectares) and new agricultural cooperatives. In January 1994 the government passed a new Concept Note recommending privatisation of all remaining state-owned small-scale agricultural enterprises (with up to 100 employees) through cash auctions. By end-1995, most state-owned farms had been corporatised into joint-stock companies. The only state farms remaining were located in the Chui region, where there is still strong opposition to reform. A significant number of the corporatised farms, however, continue to operate as cooperatives. Only around 10 per cent of agricultural output was produced by private farmers in 1995.

Land legislation and administration is still inadequate. In November 1995 a Presidential decree extended the period of land-use rights to 99 years. These rights can be sold (only to Kyrgyz citizens), exchanged, rented or used as collateral. However, the 1991 Law on Peasant Farms still gives state land-use agencies broad powers to terminate land-use rights after one year of non-use. Preparation of legislation to secure land rights through the issuance of titles and establishment of a unified land registration system is expected to be submitted to parliament by the end of 1996. Also, a draft Law on Pledge which includes procedures for land to be used as collateral was submitted to parliament in May 1996.

**Property restitution**
Kyrgyzstan has no restitution programme. The National Land Fund, for redistribution of land or compensation for nationalisation in past decades, now only controls 25 per cent of the land (down from 50 per cent in 1995) and it is expected that it will either be completely eliminated, or that its stake will be further reduced to 12 per cent.

**Growth of private enterprise**
While the formation of new private enterprises, particularly in trade and services, is accelerating, the process is impeded by a lack of finance and inadequate infrastructure. In the agricultural sector problems include bottlenecks in the distribution networks, credit availability, input and raw material supply and marketing.

**Enterprise restructuring**
In May 1994 a Presidential decree established the Enterprise Reform and Resolution Agency (ERRA) for a period of four years to oversee restructuring of the 27 largest, loss-making, state-owned enterprises. Following the audit of these enterprises, five are being fully liquidated, while others have undergone massive downsizing and restructuring, The restructured enterprises have been given working capital and a period of 6-9 months to demonstrate their financial viability, after which they are to be privatised, with the proceeds used for paying off creditors. International tenders for some of the companies are being prepared. However, the government cancelled the international tender for Maili-Sai, the first restructured enterprise, in January 1996 because the company was targeted to become part of a debt/equity swap scheme under negotiation with the Russian government.

The Insolvency Law, enacted in January 1994, was followed by a number of decrees aiming to impose financial discipline on state-owned enterprises, improve corporate governance, and restructure or liquidate large loss-making enterprises. There have been only few cases of bankruptcies. Out-of-court settlement procedures for creditors of insolvent enterprises have been introduced to side-step the implementation bottlenecks in the legal system.

## Markets and trade

**Price liberalisation**
Almost all prices for goods and services have been liberalised but utility tariffs remain controlled at highly subsidised levels. Although tariffs for electricity, hot water and heating were increased by 50 per cent in April 1996 and further increased in July 1996, they remain low relative to costs. Since 1994 domestic prices for oil, gas and coal have been close to world market levels.

**Competition policy**
In December 1993 the ceilings on profit margins for monopoly producers were eliminated. The Anti-monopoly Law of January 1994 defines "monopoly producers" as those with a domestic market share of over 35 per cent. The process of determining which firms constitute monopolies will be further examined with a view to limiting state regulation only to natural monopolies such as electricity, water and railways. In 1994 the partial break-up of bread conglomerates and large transport holding companies started. The Bread Complex Kyrgyz Dan Azyk was corporatised and ceased to manage 44 medium-sized and large-scale companies and 37 small-scale enterprises formerly under its authority. All 37 small-scale enterprises have been privatised. As of January 1996, over half of the large-scale enterprises were privatised. Plans are proceeding for the state to divest its majority ownership in another six medium- to large-scale enterprises (including two grain storage and milling enterprises) and its minority ownership in another eight. The agro-industrial enterprise Kyrgyz Tamak'Ash has also been corporatised and all enterprises under it have ceased payment of the former mandatory management fee as of December 1995.

**Trade liberalisation**
In early 1994, the trade system was substantially liberalised. Remaining import and export licensing agreements were lifted, and export taxes reduced. The export tax on hides and skin was removed in February 1996 and a temporary export tax on silk cocoons was abolished at the end of 1995. However, a 30 per cent export duty on grain was introduced in August 1996.

The customs union with Kazakstan and Uzbekistan, established in early 1994, provides for duty-free import of goods of these countries. In March 1996, Kyrgyzstan, Russia, Kazakstan and Belarus signed a customs union treaty in Moscow (foreseeing the integration of Kyrgyzstan into the already existing customs union between the other three countries). However, the treaty has not been ratified within Kyrgyzstan and operational aspects of the union are yet to be specified. The Kyrgyz authorities have stated that they do not plan to change the uniform 10 per cent import tariff on imports from non-CIS countries or tighten the present liberal trading regime. The government has applied for the WTO membership (it was granted WTO observer status in May 1996) and is negotiating a partnership and co-operation agreement with the European Union.

**Currency convertibility and exchange rate regime**
The national currency, the som, was introduced in May 1993, and the exchange rate is determined in a managed float. In March 1995 the authorities formally accepted obligations under Article VIII of the IMF's Articles of Agreement regarding full current account convertibility.

**Wage liberalisation**
Increases in wages within the state budgetary sector are limited to the 10 per cent that was granted in November 1995. A further 10 per cent increase scheduled for September 1996 was recently suspended.

**Interest rate liberalisation**
Following the introduction of the som in May 1993, the NBK introduced several indirect monetary instruments, including weekly sales of foreign exchange to the interbank market, and auctions for treasury bills and credit. Interest rates have been market determined since 1994. Segmentation of the credit market is high, with significant variation in lending and deposit rates between banks.

## Financial institutions

**Banking reform**
A two-tier banking system was established in 1991 with the National Bank of Kyrgyzstan (NBK) at its core. In addition to the NBK, the banking system consists of 18 commercial banks. The sector is facing severe solvency problems, the magnitude of which became clear in early 1995, following the adoption of regulations requiring that provisions be made for doubtful loans, the on-site inspection of banks and the strengthening of supervision by the NBK. Half of all commercial banks were found to have negative net worth, totalling 1 billion som (40 per cent of broad money). Around 84 per cent of non-performing loans belong to the four former state-owned banks (Agroprombank, AKB Kyrgyzstan, Elbank and Promstroi).

The NBK adopted a two-stage strategy to implement systemic reform of the banking system. The first stage involved assessing the long-term viability of all banks and as a result four were put under direct supervision and two had their licences suspended and were subject to temporary NBK administration. The NBK also instituted a freeze on new lending to enterprises in payment arrears, and has limited access to refinance auctions. The second stage involves the restructuring or liquidation of the former state banks, including possible recapitalisations, with the assistance of the the World Bank through its Financial Sector Adjustment Credit (FINSAC). As part of this programme, the NBK closed the former Savings Bank (Elbank) in March 1996 and worked out a deposit coverage plan for individual placements up to 3,000 soms. In addition, the NBK announced the closure of Agroprombank in May 1996, which is to be replaced in the short term by an emergency farm support programme for the provision of farm inputs and working capital, and in the medium term by a commercially viable and sustainable rural banking and cooperative system. The two other large banks will be downsized and restructured through private recapitalisations and a temporary Debt Resolution Agency (DEBRA) will be established to help collect or write-off old non-performing loans.

Lastly, the programme includes the creation of an appropriate regulatory and supervisory framework for the banking system, including legislative approval of the new banking law and the tightening of prudential regulations. Legislation preparing a deposit insurance fund and amendments to the Central Bank Law and the Commercial Bank Law are being drafted. Minimum capital adequacy requirements have been introduced, as have liquidity ratios, reserve requirements at 15 per cent, loan classification and provision guidelines, as well as limits on lending to shareholders and single borrowers. These would become applicable after bank recapitalisations.

**Non-bank financial institutions**
Though money and capital markets are underdeveloped, there are also a number of non-bank financial institutions. These include 17 investment funds, 30 insurance companies, and one significant state-owned and two smaller private pension funds. The voucher privatisation was expected to boost the emergence of investment funds, but by mid-1995 only around 30 per cent of invested coupons had gone through investment funds.

**Securities markets and instruments**
The Law on Securities and Stock Exchanges was passed in December 1991. In May 1994, the government established the State Agency for Securities with responsibility for securities regulations. In September 1994, the Coupon Trading Centre started trading in privatisation vouchers, and the Stock Exchange commenced operations in May 1995. An independent share registry and tight listing requirements should ensure a significant degree of transparency and property rights security. While trading is still very thin (10 companies listed by early 1996 with only 3-4 actively trading), the institutional basis for a secondary market in shares is given. Extension of secondary trade to T-bills, regional currencies and municipal bonds is planned.

## Fiscal and social safety net reform

**Taxation**
Profit tax is levied at 30 per cent and most exemptions and deductions were eliminated in January 1995. The personal income tax, effective from January 1995, includes in-kind payments in the tax base and requires the filing of tax declarations. Marginal personal income rates range from 10 to 40 per cent.

In 1995 the government submitted a new tax code for parliamentary approval, including revised VAT legislation, and new provisions for the income and profit tax, excise tax, and tax administration laws. The code aimed at simplifying existing tax legislation and administration. It did not involve any changes in tax rates. The revised tax code was finally approved in June 1996 for implementation in July 1996. The new VAT is a modern, invoice-based tax levied at 20 per cent. As a result of the uncertainties related to the Customs Union with Russia, Kazakstan and Belarus, it applies the origin principle for imports from CIS countries and the destination principle for imports from other countries.

**Social security**
The social safety net includes payments of old-age and other pensions, health-related benefits, unemployment benefits, and general social support programmes (family allowances and disability payments). Employers pay a payroll tax of 33 per cent on the wage bill of enterprises – of which 85 per cent is allocated to the Pension Fund and 15 per cent to the Social Insurance Fund. Pension Fund revenues are supplemented by a 2 per cent wage tax on salaries paid by employees. An additional tax of 1.5 per cent is levied on the payroll of enterprises and 0.5 per cent on salaries of employees to finance the Employment Fund. The agricultural sector pays virtually no contributions and some other sectors enjoy preferential rates. The retirement age is 60 for men and 55 for women (with a minimum of 25 and 10 years work experience respectively).

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, directly and through indirect investment vehicles. Most foreign investment proposals must be registered with the relevant authorities and may require government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals may not own or lease land. Security interests over shares and land may be created, and require notarisation and entry in an official register. Security interests over contracts, receivables and moveable assets are possible and require notarisation.

**Effectiveness**
The full texts of laws relating to investment are published, but circulation is limited and can be subject to substantial delays. Draft laws are usually published and available to practitioners. Public records in share or land registries may be up to six months behind current status. Independent professional legal advice is available. Private parties generally believe that courts will recognise their legal rights against other private parties, as well as the state. Foreign arbitral awards are not required to be recognised and enforced without a re-examination of their merits.

# Latvia

*After regaining independence in 1991, Latvia adopted in mid-1992 a comprehensive reform package, involving price and trade liberalisation, small-scale privatisation and macroeconomic stabilisation. Progress has been rapid in all of these areas. Less progress has been made on large-scale privatisation.*

## Enterprises

**Size of the private sector**
In 1995 the share of the non-state sector (where central and local governments' participation is less than 100 per cent) in industrial output and employment was 53 and 54 per cent respectively. The share of the private sector in GDP is likely to be around 60 per cent.

**Large-scale privatisation**
The distribution of privatisation vouchers, which started in 1993, was practically completed in July 1995. By then, certificates with an aggregate face value of 2.9 billion lats had been distributed to 2.4 million residents. The vouchers are tradable and can be used for the purchase of shares in state-owned companies as well as for the purchase of land and residential housing. The 1994 regulation stipulates that 50 per cent of any joint-stock company must be privatised for vouchers.

During 1994-96, 101 entities employing more than 50 employees were privatised, with more than 50 per cent of payment in vouchers. Acceleration of large-scale privatisation is expected from 1996 when the government authorised the sale of about 240 enterprises, including the Latvian Shipping Company and the state-owned gas company Latvijas Gaze, which are some of the country's biggest companies.

Other privatisation methods include international tenders of stakes in medium and large-scale enterprises (four concluded as of August 1996); restricted tenders and direct sales of large infrastructure enterprises; domestic auctions or direct sales of smaller enterprises, and public offerings of minority stakes. An important development has been that foreigners have been granted permission to purchase privatisation vouchers to pay for privatised enterprises.

Some 300 medium to large-scale enterprises were privatised predominantly through lease buy-out agreements and management and employee buy-outs in 1991-93. The number of medium to large enterprises at the start of the reforms was about 1,000.

**Small-scale privatisation**
The privatisation of small enterprises in the services and trade sector, most of which were previously owned by municipalities, is almost completed. In addition, 336 small-scale state-owned enterprises were privatised by the Latvian Privatisation Agency during 1994-96.

Very liberal draft legislation enabling unrestricted land ownership including that by foreigners has been submitted to the parliament but so far land ownership in Latvia is restricted to Latvian citizens and legal entities where majority stake belongs to Latvian citizens or foreign nationals from countries with which Latvia has mutual investment protection treaties (this excludes Russia). Purchases of land by eligible persons is further hindered by administration difficulties and the slow pace of the restitution process. Despite an increasing number of private farms, the majority of these are based on usage rather than ownership rights.

Progress in the privatisation of residential housing has so far been limited, partly delayed by the slow adoption of the necessary legal framework.

**Property restitution**
About 350,000 restitution claims for land in towns and cities have been submitted, of which less than 20 per cent had been settled by end-1995. Claims for the restitution of urban land can be submitted over a period of 10 years. In order to avoid uncertainty for new owners of privatised property, the government issues guarantees to the new owners, which basically provide for the security of ownership of the privatised land and guarantees against liabilities associated with compensation for the claimants in case their claims are accepted.

**Growth of private enterprise**
A total of 57,301 enterprises registered in the Latvian business register were thought to be active as of April 1996. Of these 2 per cent were owned by central or local authorities, 71 per cent had mixed ownership and 27 per cent were fully privately owned. There are no significant administrative obstacles to entry of new firms. As in other transition economies, one of the most important obstacles to the establishment of new private enterprises is lack of long-term finance.

**Enterprise restructuring**
Restructuring has largely been left to the new owners of privatised firms. The emphasis in Latvia's privatisation process has shifted to strategic investors including foreign investors, rather than the transfer of ownership to workers and management. Comprehensive insolvency and bankruptcy legislation was drafted in March 1996 to replace outdated and ineffective current legislation. Energy arrears that posed a serious problem after outright budgetary subsidies to enterprises were eliminated early in the transition process, fell dramatically in 1995. The government has recently removed previous restrictions on foreign investments in certain sectors of the economy.

## Markets and trade

**Price liberalisation**
Price liberalisation began in early 1991 and was virtually completed by late 1992. Few formal price controls remain. However, rents, public transport and heating prices are set by municipalities, often with inadequate allowance for capital costs. Electricity tariffs charged by the state-owned power utility are moving towards cost recovery levels (the most recent increase amounted to 10 per cent and took place in January 1996). An increase to the full economic cost level is envisaged by the authorities by year 2005.

**Competition policy**
An Anti-monopoly Law was passed in 1991, with subsequent amendments in 1993. Compliance with the law is monitored by the Anti-monopoly Committee. Competition policy is scheduled to be harmonised with EU legislation by 1998. As in other small countries with a liberal trade regime, imports are the main competitive force in the economy.

**Trade liberalisation**
As in the other Baltic countries, the trade regime continues to be very liberal for industrial goods but less so for agricultural goods. However, free trade in agricultural goods with Estonia and Latvia has been agreed as an extension of the Baltic Free Trade Agreement. By mid-September, the agricultural amendments were still awaiting ratification by the Latvian parliament (the parliaments of Estonia and Lithuania have completed ratification). Import tariffs are generally modest (1 per cent *ad valorem* on raw materials, component parts and some capital goods and 20 per cent for industrial products), except in the agricultural sector which remains protected by an average production-weighted tariff (for trade with non-Baltic countries) of more than 50 per cent.

Latvia signed the "Europe Agreement" with the EU providing for free trade in industrial goods in June 1995, and is in accession talks with the WTO. In addition, Latvia is part of the Baltic Free Trade Area and has bilateral free trade agreements with EFTA countries.

**Currency convertibility and exchange rate regime**
The national currency, the lat, has effectively been pegged to the SDR since February 1994 (although no formal announcement to this effect has been made). Latvia offers complete and effective current and capital account convertibility with no surrender requirements.

**Wage liberalisation**
Enterprises must keep wages above a legally specified minimum. Union influence on the wage-setting process is modest. The average gross monthly wage amounted to 90 lats (US$ 170) in 1995.

**Interest rate liberalisation**
Banks have been free to set interest rates since 1992. The spread between lending and deposit rates has fallen recently but remains about 10-15 percentage points. The interbank market has recovered from very low levels of activity following the 1995 banking crisis.

## Financial institutions

**Banking reform**
The 1992 Law on Central Bank established a two-tier banking system in Latvia. The banking sector is in the process of consolidation, following a period of rapid entry of new private banks during early years of economic reforms. The industry experienced a major shake-up in 1995 when the activities of more than a third of commercial banks were suspended, including Bank Baltija, an institution holding 30 per cent of total deposits.

Since then, banking supervision has been tightened considerably. The 1995 Credit Institutions Law raised the minimum capital requirement to 1 million lats (US$ 1.8 million, effective from April 1996) and introduced tighter limits on insider lending, credit concentration and foreign exchange exposure (effective from January 1996). As of August 1996 12 out of 29 commercial banks are allowed to take household deposits.

Although there is a large number of banks, the five biggest account for more than half of total assets. One western bank, Société Générale, is operating in Latvia and Hansabank from Estonia recently acquired a Latvian Deutsch-Lettische Bank. The largest state-owned bank, Unibanka, was privatised in 1996 and the privatisation of the state-owned savings bank, Latvijas Krajbanka, is underway.

**Non-bank financial institutions**
As of mid-1996 37 insurance companies were registered in Latvia, of which 12 were life insurance companies. The minimum capital requirement for insurance companies has been raised to 600,000 lats (approx. US$ 1 million) for non-life insurance companies and 1 million lats (approx. US$ 1.8 million) to life insurers. The insurance sector is dominated by private insurance companies, often with foreign participation.

Investment funds play a relatively minor role in the non-bank financial sector.

**Securities markets and instruments**
Securities markets are dominated by trade in treasury bills with three-month, six-month and one-year maturities. Foreign banks are allowed to participate in the primary market for treasury bills. Treasury bill rates have generally been falling throughout 1996. The Bank of Latvia introduced repo and reverse-repo auctions for treasury bills during 1995-96.

The Riga Stock Exchange and Latvian Central Depository started to operate in 1995. A securities law and related acts, adopted in August 1995, regulate the operation of securities markets, the stock exchange, the central depository and the Securities Market Committee, a supervisory body. Eight companies were quoted in mid-1996; the weekly turnover did not exceed 150,000 lats (US$ 270,000).

## Fiscal and social safety net reform

**Taxation**
A major new tax package was introduced in February 1995, changing direct taxes from a progressive to a proportional rate structure and introducing uniform treatment for different types of income. The standard income tax rate for both private and legal persons is 25 per cent. A 10 per cent surtax is payable on annual income in excess of 4,000 lats. The standard VAT rate has been 18 per cent since November 1993. Since mid-1994, the standard VAT rate has also applied to food. The authorities plan to harmonise the tax system with the EU standards. Tax collection remains a problem. The authorities intend to introduce a comprehensive system of tax identification numbers in 1996 to limit the extent of tax evasion.

**Social security**
The standard rate of social security tax is 38 per cent (of the wage sum) and is paid mainly by employers. Pensions and unemployment benefits are financed from revenues generated by the social security tax. A gradual transformation of the pay-as-you-go system to a partly funded system has been initiated.

Social benefits are also provided by local municipalities in the form of heating allowances, assistance in kind, food coupons and free school meals. The government intends to widen the role of means-tested social benefits.

## Investment legislation

**Extensiveness**
Laws exist regulating direct domestic and foreign investment. Indirect investment, through the use of indirect investment vehicles, such as securities or investment funds, is not specifically regulated. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals may, subject to restrictions, own or lease land. Security interests over shares and land may be created, do not require notarisation, but require entry in an official register. Security interests over contracts, receivables and moveable assets are possible and may require notarisation. Registration is not yet possible, but appropriate registers are being developed.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Draft laws are not always available to practitioners for comment prior to enactment. Where registries in respect of land or security exist, they are usually current within three months. Important court decisions are generally available to practitioners. Independent professional legal advice is available. Private parties generally believe that courts would recognise and enforce their rights against other parties, including the state. Foreign arbitral awards are required to be recognised and enforced without a re-examination of their merits.

# Lithuania

***Since regaining independence in 1991, Lithuania has introduced a comprehensive programme of market-oriented reforms and macroeconomic stabilisation. By the end of 1993 substantial progress had been achieved in the areas of price and trade liberalisation and small-scale privatisation. During 1994-95 reform efforts focused on the privatisation of large-scale enterprises and the strengthening of the financial sector, which underwent a crisis at the end of 1995.***

## Enterprises

**Size of the private sector**
According to government estimates, the share of the private sector in GDP was around 65 per cent in 1995. In terms of employment, nearly 70 per cent of the total labour force was employed in the private sector. The private sector includes joint-stock companies with more than 51 per cent share of private capital, agricultural partnerships and cooperatives, and private farms in Lithuania.

**Large-scale privatisation**
Sales of state assets in Lithuania have been based on the Law on Initial Privatisation of State Property (passed in late 1991 and amended in 1993). A total 6,644 enterprises, out of the 8,457, participated in the first phase of privatisation. These companies represented 73 per cent of all enterprise assets (by book value). By the end of June 1995, when the first phase ended, about half of these assets had been sold, representing about 30 per cent of all the assets in the total 8,457 enterprises. By industrial sectors, 31 per cent of all state assets in industry, 60 per cent in trade, 6 per cent in transport and 4 per cent in utilities were transferred into private ownership during the first phase. It is estimated that around 45 per cent of the assets had been sold against vouchers (distributed to all adult citizens) and 30 per cent for cash. Cumulative state privatisation revenues amounted by the end of 1995 to about 230 million litai (US$ 58 million).

Most of the medium-sized and large enterprises which participated in the initial privatisation round were sold through share offerings in which preference was given to employees and management (with up to 50 per cent of shares reserved for these new shareholders). This process resulted in insider-controlled corporate structures in many privatised enterprises. Foreign participation in the privatisation process has been minimal so far.

A law (passed in February 1995) that exempted "strategic" enterprises with a total book value worth 6.8 billion litai (US$ 1.7 billion) from privatisation until the year 2000 was amended in July 1996 to allow up to 30 per cent private ownership in these companies. The "strategic" enterprises are mainly in energy, transport and telecommunications sectors.

The second phase of privatisation started under the new Law on Privatisation of State and Municipal Property of July 1995. A State Privatisation Agency and a State Privatisation Commission were established in late 1995 to administer the process. During the second phase, the remaining state assets will be sold predominantly through sales for cash. The government is expecting to raise over 3 billion litai (US$ 750 million) during the second phase of privatisation from the sales of "non-strategic" enterprises. A plan for 1996 involves sales of shares of 197 companies with a book value of 300 million litai (US$ 75 million). However, no sales under this programme have as yet taken place.

**Small-scale privatisation**
Privatisation of small units has been comprehensive, with 2,727 small enterprises having been privatised. Total sales revenues amount to 165 million litai (US$ 41 million). Based on the same law as large scale privatisation, small enterprises have been sold through auctions. Privatisation of state housing stocks proceeded very rapidly after passage of the privatisation law, and was virtually complete by the end of 1993, as the vouchers could be used for the purchase of dwellings. In agriculture, 1,100 collective and cooperative farms were, in 1993, broken into 12,300 units and privatised before the end of that year. A constitutional ban on foreign land ownership was lifted in June 1996. Foreigners can now own non-agricultural land.

**Property restitution**
The deadline for restitution applications by former owners of nationalised land was March 1994. Restitution has been granted in 86,000 cases, based on 500,000 applications. Property restitution has been impeded by administrative and legal difficulties as well as cuts in the budgetary allocation for compensation to former land owners. Uncertainty surrounding the legal ownership of properties, which may yet be returned to the original owners, continues to complicate a number of privatisation cases.

**Growth of private enterprise**
The output and employment shares of truly new enterprises in the manufacturing sector remains small. But a large number of mostly small new firms have been established in the services sector.

**Enterprise restructuring**
Direct subsidies to enterprises have been largely discontinued. State subsidies for agriculture, energy and housing amounted to 0.9 per cent of GDP in 1995. Credit policies of banks have, especially in the most recent years, been tight.

Privatised companies continue to be owned, to a large extent, by worker cooperatives, favouring job security over rationalisation and labour-shedding. Management has in many cases remained intact after privatisation.

A Bankruptcy Law was passed in September 1992, but supporting regulations and institutional arrangements required for enforcement were not finalised until several years later. These are now largely in place, and five firms with approximately 500 employees were liquidated in 1995.

## Markets and trade

**Price liberalisation**
Administrative controls remain on prices for energy and housing. Some prices for transport and utilities fall short of production costs (when capital replacement is included in the cost calculation).

District heating prices have been raised significantly in a number of discrete steps since the winter of 1994 and have now reached a price level that covers 90 per cent of the operating costs. As of April 1996, average electricity tariffs for industrial and residential users were 3.5 US cents per kWh and 5.0 US cents per kWh, respectively.

**Competition policy**
Some action has been taken to split up conglomerates. An Agency for Prices and Competition has been established, with the right to negotiate margins with enterprises whose market share exceeds 40 per cent, but with no effective power to break up monopoly enterprises. Profit margins of many distribution networks continue to be very high. Competitive pressures come mainly from the liberal trade regime and from tight fiscal and monetary policies.

**Trade liberalisation**
Foreign trade has been freed of non-tariff restrictions. Import tariffs are generally moderate. Import tariffs on some agricultural products were raised in July 1994, pushing the average tariff rate from 25 per cent to 44 per cent. The average tariff has subsequently been reduced incrementally to 27.5 per cent in October 1995. Import tariffs on agricultural products were removed within the Baltic Free Trade Area in 1996. There are no quantitative restrictions or tariffs on exports except for four items (feathers and down, raw leather, raw timber and medical supplies) that are banned from exportation.

A "Europe Agreement" with the EU was signed in June 1995. A free trade agreement with Poland was signed in 1996. Negotiations are under way for signing similar agreements with other Central European countries and for membership of the WTO, for which Lithuania applied in November 1995.

**Currency convertibility and exchange rate regime**
In early 1994, Lithuania introduced a currency board system that requires full foreign exchange backing for reserve money and other litas-denominated liabilities of the Bank of Lithuania (in gross terms). The exchange rate is pegged to the US dollar at the rate of 4 litai per US dollar. This system involves a very high degree of commitment to exchange rate stability. There is full current account convertibility (Lithuania accepted IMF Article VIII in 1994) and virtually full capital account convertibility.

**Wage liberalisation**
Wage-setting was liberalised in mid-1993. A (low) minimum wage which does not significantly affect private sector wage-setting has been enforced. At the end of 1995, the minimum wage was at 35 per cent of the average wage for the whole economy.

**Interest rate liberalisation**
Banks are free to set their own interest rates. The central bank's monetary policies are restricted by the existing currency board arrangement. The spread between the average time deposit rate and the average lending rate declined in 1994-95, but has widened in 1996, following the the banking sector crisis at the end of 1995. The spread was around 7.5 per cent in March 1996.

## Financial institutions

**Banking reform**
The banking sector nearly faced a serious crisis at the end of 1995 following the suspension of operations of one large and two medium-sized private banks that held around 24 per cent of deposits in the banking system.

Lithuania's banking system is highly concentrated, with the three large state majority-owned commercial banks (the State Savings Bank, the State Agricultural Bank and the State Commercial Bank) accounting for nearly half of all the deposits. The largest private bank (one of the banks whose operations were suspended at the end of 1995) controlled around 15 per cent of all deposits. Subsequent to the planned takeover by the state of this bank, the state will control institutions that represent almost 75 per cent of all deposits in the banking system. The planned reduction to minority status of its shares in the three state-owned commercial banks has been suspended as a consequence of the banking crisis.

Lithuania's banking sector remains fragile: the majority of new banks are undercapitalised and hold a large amount of non-performing loans. Most banks were founded during 1991-92, when licensing requirements were lax and the minimum capital requirement was low. Banks failed to raise their capital proportionately to the rapid growth of their balance-sheets. Moreover, lack of lending skills, a large amount of politically motivated lending as well as insider abuse had led to a large number of non-performing loans in their portfolio. Tax laws that have not allowed banks to deduct credit losses from the tax base have also contributed to a rapid erosion of the banks' capital base.

A new Law on the Bank of Lithuania and a new Commercial Bank Law enacted in late 1994 gave the central bank (the Bank of Lithuania) the powers to enforce prudential regulations. In accordance with the new law, Bank of Lithuania enforced stricter prudential requirement during the course of 1995 that resulted in the reduction of the number of operating banks from 28 in early 1994 to 12 at the beginning of 1996. While 13 smaller banks have been liquidated, one large and two medium-sized banks' operations have been suspended (see above).

At the beginning of 1996, the government announced a banking sector restructuring plan that envisaged government recapitalisation and renationalisation of insolvent banks. In August 1996, the parliament passed a law that allows the recapitalisation of the State Commercial Bank as well as a law that will allow the establishment of a "Property Bank", which will manage bad loans carved out from the banks' portfolios.

In June 1996, the Commercial Bank Law was further amended to allow foreign banks to open branches in Lithuania.

**Non-bank financial institutions**
Investment funds held 30 per cent of all privatised state assets by the end of 1995. One state and 34 private insurance companies were operating in Lithuania at the beginning of 1996, of which 15 were providing life insurance. The gross premium of both life and non-life companies remained minimal at 150 million litai at the end of 1995, less than half a per cent of GDP.

**Securities markets and instruments**
A National Stock Exchange began operations in September 1993. At the end of 1995, around 400 securities were listed by the National Stock Exchange and market capitalisation stood at 630 million litai (around 2 per cent of GDP). However, total turnover remained very modest.

## Fiscal and social safety net reform

**Taxation**
Since mid-1990, a series of tax reforms provided Lithuania with a tax structure broadly similar to those typically seen in Western market economies. A new VAT at 18 per cent became effective in April 1994. Corporate income tax reform introduced a flat rate of 29 per cent but the many exemptions severely eroded the tax base. The personal income tax schedule is progressive up to a maximum marginal rate of 33 per cent. Recently, tax administration has been improved and a number of exemptions have been abolished and loopholes plugged. Whereas revenues from income and profit taxes declined from 61 per cent of total tax revenues in 1994 to 56 per cent in 1995, revenues from VAT and excise taxes increased from 30 per cent of total tax revenues in 1994 to 37 per cent in 1995.

**Social security**
Real levels of government transfers to households have fallen sharply in recent years. Pension payments, on a pay-as-you-go basis, represented 5 per cent of GDP in 1995. This ratio of government pension expenditure to GDP remained largely unchanged from 1994. Contributions to the social insurance payroll tax amount to 30 per cent for employers and 1 per cent for employees.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, directly and, to a limited extent, through indirect investment vehicles. Generally, foreign investment proposals require government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners or foreign-owned local companies may not own, but may lease, land. Security interests over shares and land may be created, and require notarisation and entry in a public register. Security interests over contracts, receivables and moveable assets are possible, and may require entry in an official register.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Draft laws affecting investment are generally not accessible to practitioners for comment prior to enactment. Public records in share or land registries, where available, may be up to six months behind current status. Registration systems are not yet complete, but are being developed. Important court decisions are not always published or accessible to practitioners. Independent professional legal advice is available. Private parties generally believe that courts would recognise and enforce their rights against other private parties, but not against the state. Foreign arbitral awards are required to be recognised and enforced without a re-examination of their merits.

# Moldova

*After the disintegration of the Soviet Union in 1991, a reform programme was adopted in early 1992, the legal components of which included a Property Law, a Privatisation Law and the Law of Agrarian Reform and Land Code. In March 1993 parliament adopted the "Action Plan for the Stabilisation and Recovery of the Economy" and the Privatisation Plan, leading to an IMF-supported stabilisation programme in September 1993. In July 1994, the government adopted a new constitution enshrining the rules of the market economy in the republic's guiding principles, and formally launched a large-scale voucher privatisation programme. Policy efforts, with the continued support of multilateral institutions, are now concentrating on structural reforms.*

## Enterprises

**Size of the private sector**
The private sector's share of GDP is likely to be in the range of 35-45 per cent.

**Large-scale privatisation**
The creation in 1994 of a Ministry for Privatisation and State Property Administration laid the basis to complete, in mid-1995, the 1993/94 Privatisation Plan, which envisaged the privatisation of about 1,600 enterprises (40-50 per cent of state assets), mostly through sales for vouchers distributed to the population.

The privatisation of some enterprises left over from that programme, as well as of other enterprises, was targeted by the 1995/96 Privatisation Plan adopted by Parliament in March 1995.

The first voucher-based part of the programme has been carried out by November 1995, while the planned cash privatisations have not so far met expectations: by the end of 1995 only 44 enterprises, out of the planned 183, had been sold, generating total revenues of Lei 22 million. The value of the companies still to be privatised is estimated at around Lei 400 million (US$ 87 million).

The first international tender (in the tobacco sector) was initiated in December 1995. Other tenders partly aimed at international investors are under preparation, with the aim to sell (for cash) around 40 strategic enterprises in various sectors. These would include Moldtelecom, the state telecommunications company, and Cereale and Fertilitatea, the former state monopolies in the grain and fertiliser sectors.

The 1997/98 Privatisation Programme, which will be submitted to parliament by the end of 1996, is expected to stipulate which enterprises are to remain in state ownership and to provide for the completion of the mass privatisation process.

As a result of the mass voucher privatisation, about 70 per cent of industrial enterprises were in private hands as of mid-1996. A total of 2,235 enterprises have been privatised, but many of these are small. Fiduciary companies and investment funds accounted for 80 per cent of the share subscription, while individuals accounted for the remaining 20 per cent.

Workers, former workers and management own majority stakes in 186 medium-sized or large companies.

**Small-scale privatisation**
The sale to private entities of small-scale units, which began in September 1993 under the programme described above (in the comments on large-scale privatisation), has been comprehensive.

Housing has been privatised partly against payment in the form of the vouchers that could also be used as payment for shares in state enterprises. By June 1996 more than 191,000 dwellings were in private hands, corresponding to more than 80 per cent of the total to be privatised. Of these, 54 per cent were privatised free of charge, 41 per cent in exchange for vouchers, and 5 per cent for cash. Housing privatisation is due to be completed by mid-1996.

Given the importance of agriculture in Moldova, land privatisation is a key issue for the development of a dynamic private sector, but progress in this area has been slow. Some small-scale land ownership was already permitted before Moldova gained independence. In the first stage of land privatisation, household plots of an average size of 0.3 hectare were distributed to the population. In the context of the second stage, initiated in 1992 but suspended in the same year and resumed only in 1995, land certificates are being distributed to collective farm members, with strong limitations to the exit of individuals from collective farms enforced by the Land Code, which was introduced with the explicit objective of softening the effects of privatisation (these limitations have been challenged by a recent ruling of the Constitutional Court).

By the end of 1995, 10 per cent of the total land of the country (13 per cent of total agricultural land) had been privatised. Excluding land held by individuals that continue to be part of collective farms, "true" private farming is estimated to cover only 3.7 per cent of agricultural land. The Land Code forbids trading of land until 2001, but this ban has been lifted for small plots and urban land, leading to the existence of a small market. Furthermore, transactions within collective farms are now possible. The government is working on legislation that would support free trade in agricultural land from the beginning of 1997.

**Property restitution**
No property restitution has taken place.

**Growth of private enterprise**
By June 1995, more than 44,000 private businesses had been registered in Moldova as of June 1995. Of these, 29,000 were private companies and 15,000 private farms. However, only about half of the registered entities are currently thought to be operating.

In December 1995 there were 662 registered joint ventures, up from 412 by the end of 1994.

**Enterprise restructuring**
March 1995 saw the passage of a Bankruptcy Law, which makes it easier for creditors, especially budgetary organisations, to trigger bankruptcy proceedings against debtors. Bankruptcy proceedings have been initiated against 20 state companies. Ten of these bankruptcy cases have been completed.

Enterprise restructuring is one of the priorities of Moldovan authorities. An Agency for Assistance in Restructuring Enterprises has been set up with funding from the World Bank and other institutions, and a pilot project for the restructuring of 16 industrial enterprises is under way.

Electricity and heating prices have been raised by 50 per cent by May 1996, and energy suppliers are now able to disconnect non-payers and thus increase collection rates.

## Markets and trade

**Price liberalisation**
In January 1992 all consumer goods prices were liberalised, with the exception of those for bread, dairy products, some transport prices, and utilities. By 1 January 1995 the government had removed margin controls on most goods. Prices are still controlled for a small number of public services, electricity and gas, and, in the form of margin controls, for some basic goods.

The government has already raised heating and residential electricity tariffs by 50 per cent, and is planning to increase industrial electricity tariffs by 13 per cent. As a result, average gas and electricity tariffs are at operating cost recovery levels. The government furthermore intends to raise all tariffs by the end of 1997, in order to bring them to full cost-recovery levels, and eliminate the current cross-subsidies from industries to households, and from heating to gas and electricity.

**Competition policy**
Legislation governing anti-monopoly activity was passed in early 1992 but has been relatively ineffective. Further legislation is planned by the government.

**Trade liberalisation**
On 1 December 1995 the last export quotas on grains and grain products were lifted and the maximum tariff was lowered to 20 per cent, with very few exceptions. The tariff structure is composed of 5 bands with tariffs ranging from 0 to 20 per cent. Import licences have been eliminated, with a few exceptions regarding national security and goods subject to medical and cultural regulations. The government is committed to repeal excise taxes on wine and unprocessed tobacco by July 1996. Indirect taxation of trade with CIS countries is carried out in accordance with the principle of the country of origin, whereas taxation of trade with the rest of the world follows the principle of the country of destination. The 1996 Budget Law introduced a new excise tax on petroleum.

On 28 November 1994 the EU and the Government of Moldova signed a Partnership and Cooperation Agreement, in force since March 1996, granting the country a generalised system of preferences. Wine imports are a notable exception from the concessions. A trade and economic agreement for 1996-97 has been signed with the Russian government, and should lead to the removal of the quantitative restrictions and high excise taxes on Moldovan exports of alcoholic products imposed by Russia. Moldova has signed free trade agreements with 10 countries, including Romania, and Most Favoured Nation agreements with another 14 countries. The Transdniestrian authorities have during 1996 introduced taxes on all transit trade between Moldova and other countries.

**Currency convertibility and exchange rate regime**
November 1993 saw the introduction of a new national currency, the leu. The exchange rate is determined every day at the Moldovan Foreign Currency Interbank Market. In July 1995 an agreement was signed on simultaneous circulation in Transdniestria of both the Moldovan leu and Transdniestria's rouble, introduced as a separate currency by the local authorities in August 1994. Since January 1994 most payments and transfers for current transactions and some capital transfers have been free of controls. The export-earning surrender requirement, with 35 per cent to be compulsorily sold on the domestic interbank market, was eliminated in November 1994.

In accepting Article VIII of the IMF agreement at the end of June 1995, Moldova declared its currency convertible for current account transactions.

**Wage liberalisation**
Before 1993, indicative wage levels were imposed by law. This practice has been replaced by wage floors.

**Interest rate liberalisation**
Since the introduction of the leu, Moldovan lending and deposit rates have been linked to the rate established at credit auctions for National Bank credit. The commercial banks set their own interest rates, following the refinancing rate quoted by the National Bank of Moldova.

The medium-term monetary programme envisages the gradual elimination of credit auctions and the phasing in of open market operations.

## Financial institutions

**Banking reform**
In mid-1991 a two-tier banking system was established. Credit operations of the central bank were initially subject to significant influence by the government and parliament. In 1993 the central bank's powers were enhanced, and directed and preferential credits were eliminated. Banks are subject to regulations regarding capital adequacy (minimum capital has recently been raised to Lei 4 million), the ratio of deposits to capital, the maximum exposure to single borrowers, and the weighted capital asset ratio (recently raised to 12 per cent). The reserve requirement currently stands at 8 per cent. International accounting standards are to be introduced by the beginning of 1997.

The new Financial Institutions and Central Bank Laws, introduced in January 1996, have increased the powers of the central bank, including the ability to place banks with negative capitalisation into receivership, and have instituted a loan quality classification.

The financial sector consists of four large banks and 23 other commercial banks. The banking system remains affected by serious problems: some banks remain severely undercapitalised, competition is weak, as reflected in the large spread between lending and deposit rates, and actual reserve ratios are well in excess of compulsory ratios, pointing to low levels of financial intermediation.

**Non-bank financial institutions**
There are currently 15 investment funds and eight trust companies in Moldova. Moldovan citizens can offer their national patrimonial bonds in exchange for shares in a fund. The funds participate at auctions and buy shares in the newly privatised companies. Trust companies act as intermediaries, buying shares upon instruction by the owners of the bonds.

**Securities markets and instruments**
The National Commodity Exchange of Moldova was set up in April 1991. In June 1995 the first stock exchange was opened with the support of USAID. Ninety five per cent of trading is in shares of privatised companies, and turnover reached a peak of US$ 650,000 in March 1996. Independent registrars are preparing the share registers, which are expected to be completed by July 1996.

The first auction of three-month government securities was held in March 1995, while the introduction of six-month government bonds is scheduled for 1996. The legal foundations of a securities market are in place, and a State Commission on Securities Markets with the powers of a ministry has been created to oversee the activity of market participants.

## Fiscal and social safety net reform

**Taxation**
Enterprise profits are taxed at progressive rates of up to 32 per cent. VAT is charged at 20 per cent. Fundamental changes in tax provisions approved on 8 June 1995 have affected the provisioning for losses and taxes of Moldovan commercial banks. The 1996 Budget Law eliminates the excess wage tax on enterprises. In 1995, the structure of taxation relied heavily on VAT (37 per cent of tax revenues) and profit tax (25 per cent), rather than on the personal income tax.

**Social security**
Taxes destined for the Social Fund and for the unemployment fund amounted to 45 per cent of the company payroll.

The Social Fund is increasingly burdened by arrears in payroll payments and budgetary contributions.

The government has drafted new legislation in 1996 to improve the structure of pension and social allowances, envisaging private provision of pension plans, and a reform of unemployment benefits and severance pay regulations.

Since 1996, the responsibility for paying family allowances and price compensations has been shifted to the Social Fund, so far without a clear commitment of resources in the 1996 Budget Law to allow the Fund to carry out the new tasks.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investments, and the use of indirect investment vehicles, such as securities or investment funds. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners or foreign-owned companies are prohibited from owning land, although they may lease land. Security interests over shares and land may be created, requiring notarisation and entry in an official register. Security interests over contracts, receivables and moveable assets may be created, and require notarisation and in some cases registration.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Draft laws are not usually published and accessible to practitioners. Public records in share or land registries may be up to three months behind current status. Important court decisions are not generally available to practitioners. Independent professional legal advice is available. Private parties generally believe that the courts will recognise their legal rights against other private parties, including the state. Foreign arbitral awards are required to be recognised by the courts without a re-examination of their merits.

# Poland

***Tentative market-oriented reforms began in 1981-82, with measures aimed at reducing economic administration, increasing enterprise autonomy, and strengthening workers' self-management. The Balcerowicz plan, implementation of which began in late 1989, launched much more comprehensive reforms, especially with respect to market liberalisation. With the election of a left-of-centre coalition government in September 1993, the pace of structural change, particularly that of privatisation, slowed. While implementation of the long-delayed National Investment Funds programme began in July 1995, other forms of privatisation remain stalled. New proposals link privatisation with pension reform, but both issues are complex and politically sensitive.***

## Enterprises

**Size of the private sector**
The share of the private sector has increased steadily since the start of comprehensive reform, albeit at declining pace. The private sector share of GDP rose to 55 per cent in 1995. This share is likely to have risen to about 60 per cent in 1996.

**Large-scale privatisation**
Under the 1990 Privatisation Law, enterprise participation in the national privatisation programme is voluntary, requiring the consent of enterprises and their workers' councils, and allows for different tracks to private ownership. The three main tracks are liquidation (sale or leasing of enterprise assets to a new private company), commercialisation (conversion into a treasury-owned joint-stock company) followed by privatisation through share sales, and inclusion in the National Investment Funds (NIF) programme. By the end of June 1996, 2,624 of the 8,853 enterprises that were owned by the government in July 1990 had been liquidated or privatised through asset sales, 248 had been sold in cash privatisations, while 1,049 had been commercialised. Among the latter 1,049, a total of 512 were included in the NIF programme.

The NIF programme, which involves 15 privately managed investment funds, provides for enterprise restructuring through the allocation of lead shareholdings in each enterprise to one NIF, with each of the other NIFs holding small minority stakes. While investor participation in the NIF programme has been extensive, a few problems have emerged with the NIFs themselves. The first is tension between the government-appointed supervisory boards and the private fund managers, owing to both performance failures by management teams and ambiguity in the respective roles of the boards and fund managers. Second, early sale of two enterprises to strategic investors raised concerns about the fund managers' commitment to restructuring. The third relates to the compensation of fund managers and the strength of their financial incentive to promote restructuring of enterprises in which they have lead ßßshareholdings.

The 1996 Privatisation Guidelines call for the commercialisation and sale of 90 enterprises, but this target is unlikely to be met, with only 11 sales in the first half of the year.

**Small-scale privatisation**
The bulk of the small retail, wholesale and construction enterprises (approximately 20,000) were privatised by local governments early in the reform programme.

**Property restitution**
Under current law, restitution claims may only be enforced if the nationalisation law provided for compensation and none was paid. While several thousand restitution claims have been filed, compensation has been awarded in only a few cases, although a significant amount of property has been returned to the church.

**Growth of private enterprise**
The number of private companies had reached 2.2 million by the end of June 1995.

**Enterprise restructuring**
The hardening of budget constraints and market competition (in part from liberalised trade) have initiated significant enterprise restructuring and large productivity gains. State subsidies to enterprises were substantially reduced early in the reform programme, falling from 12.9 per cent of GDP in 1989 to 3.2 per cent in 1992 and to about 2 per cent in each of the subsequent two years. Soft credits through the banking system have been largely eliminated through successful implementation of the 1992 Law on the Financial Restructuring of Enterprises and Banks.

A major restructuring challenge is the coal sector, where output per worker falls well below that in other producing countries. In April 1996, a government committee approved a draft restructuring plan calling for an 18 per cent drop in production and a 30 per cent reduction in employment. The estimated cost to the state of mine closures and related social expenditures is 2.6 per cent of GDP.

In June 1996, the government controversially allowed the state-owned Gdansk shipyard to enter bankruptcy. This move could allow renegotiation of existing sales contracts and the state to provide aid to any new shipbuilding firm that emerges in Gdansk.

## Markets and trade

**Price liberalisation**
Most prices were liberalised in 1990-91. However, those for district heating, electricity, gas, medicines (basic), rents in local authority housing, and spirits remain centrally administered. Coal prices are distorted by the continued operation of loss-making mines. The Agency for Agricultural Markets intervenes extensively in

the markets for farm products. It implements price supports, provides export subsidies, gives credit guarantees, and manages state reserves.

The average tariff for electricity remained at the equivalent of 5.5 US cents/kWh at the end of 1995 – below the estimated long-run marginal cost of 7.4 US cents. Electricity tariffs were increased by less than the rate of inflation in the 1996 budget.

**Competition**
The 1990 Law on Monopolistic Practice serves to prevent anti-competitive practices, to foster development of competition, and to safeguard consumer interests. The law also provided for establishment of the Anti-Monopoly Office (AMO). Enterprises with a market share of over 80 per cent have been monitored closely by the AMO.

**Trade liberalisation**
In 1990, most tariff and non-tariff barriers to trade were suspended or sharply reduced and the state monopoly on foreign trade was ended. Average tariffs declined to 5.5 per cent in mid-1991 from 18.3 per cent in 1989. Import and export licensing was eliminated on most products, leaving licensing requirements for only a limited range of products (cigarettes, dairy products, natural gas, petroleum and spirits). After a significant deterioration in the trade balance, previously suspended tariffs were reimposed in late 1991. The average tariff rate returned to the pre-reform level and, in 1993, a 6 per cent import surcharge was imposed. Multilateral trade agreements with the EU, EFTA and CEFTA were signed in 1992-93.

In May 1995, quantitative restrictions on agricultural imports were converted into tariffs in line with GATT (Uruguay Round) and EU commitments and in July 1995 Poland became a member of the WTO. In 1996, the average tariff rate stood at 5.6 per cent for industrial products and 20.2 per cent for agricultural goods. The import surcharge, which was cut to 3 per cent at the beginning of 1996, is to be eliminated by the end of 1996.

**Currency convertibility and exchange rate regime**
In December 1994, a new Foreign Exchange Law was passed, which allowed for the full current account convertibility of the zloty and, in June 1995, Poland accepted the obligations of Article VIII of the IMF's Articles of Agreement.

In May 1995, the exchange rate regime was modified to allow the zloty to fluctuate within a band of +/- 7 percentage points around the central rate against a basket of five currencies. The centre of the band is adjusted daily at a pre-announced rate (which was reduced in May 1995 to a level that would produce a cumulative 1.2 per cent devaluation per month). The central rate of the zloty was revalued by 6 per cent in December 1995. In January 1996 the pace of daily devaluations was slowed further to a level which produces a cumulative devaluation of 1 per cent per month.

**Wage liberalisation**
In January 1995, the new law on wage negotiations introduced a consensus approach under which negotiations between labour and management are guided by indicative norms set by a tripartite commission consisting of government, employer, and worker representatives. This approach replaced an excess-wage tax (Popiwek) for state enterprises, which was operating between 1990 and 1994.

**Interest rate liberalisation**
In January 1990, banks were permitted freely to set deposit and interest rates. The refinancing rate on credits for central investments, which used to be the main reference rate, has been replaced by more market-oriented rates, such as Lombard rates (discounts of treasury bills) and re-discount rates (discounts of bills of exchange). Since 1992, the NBP has engaged in open market operations, buying and selling treasury securities in the open market to regulate the money supply.

## Financial institutions

**Banking reform and development**
The Banking Law (1989) and the NBP Act (1989) divided the banking system into two tiers and, between 1989 and 1991, the commercial banking operations and branches of the nine regional departments of the NBP were transformed into independent commercial banks. In addition to these nine state-created commercial banks, there are four specialised state banks (two savings banks, a foreign trade bank and a bank for agriculture). Many new private banks were licensed in 1991 and 1992, but then issuance of new licences was sharply curtailed.

Banking supervision is carried out by the NBP, through its General Inspectorate of Banking Supervision. The system of prudential regulation includes: a minimum 8 per cent risk weighted capital ratio calculated substantially in accordance with international standards, monthly reporting of liquidity levels, classification of the quality of bank assets, provisions with respect to problem loans, and limits on foreign exchange positions.

The Law on Financial Restructuring provided for the recapitalisation of seven of the nine state-owned commercial banks, one of the two state savings banks and the bank for agriculture. This recapitalisation was implemented in 1993 by issuing to the troubled banks state bonds worth Zl 2.1 billion ($1\frac{1}{2}$ per cent of GDP). The state bank for agriculture and the second state savings bank received additional capital injections in 1996 amounting to Zl 0.6 billion. The pace of bank privatisation has been slower than anticipated, with only four of the nine commercial banks privatised by mid-1996. A government proposal involves consolidating several of the remaining state banks around the former foreign trade bank.

The 1994 Law on the Banking Deposit Guarantee Fund came into force in February 1995, providing a bank-funded scheme of deposit insurance for all banks. It covers deposits up to ECU 1,000 in full and provides 90 per cent coverage for deposits up to ECU 3,000.

Performance of the banking system remains weak. The ratio of total domestic credit to GDP at the end of 1995 was 35 per cent, of which only about one-third was credit to private sector. 50 per cent bank credit is short term; however, this includes a substantial amount of guaranteed housing loans and centrally directed credits extended under the previous regime.

**Non-bank financial institutions**
The 1991 Law on the Public Trading of Securities and Trust Funds permits the establishment of open-end investment funds. The first such fund was established in 1992, and in May 1995 the securities commission authorised three new open-end investment funds. A 1995 law authorised the formation of closed-end investment companies.

The 1990 Insurance Law, as amended in 1995, provides for the regulation of insurance companies. The Law establishes principles for authorisation of insurance companies, minimum capital and solvency standards, a State Office for Insurance Supervision with strengthened enforcement powers, and an Insurance Guarantee Fund. The insurance sector is dominated by a state-owned company and its subsidiary, along with a former state-owned insurer. Another 36 companies operate in the market, of which 12 are foreign controlled.

The government is considering pension reforms which may allow for the establishment of private pension funds.

**Securities markets and instruments**
The Warsaw Stock Exchange (WSE) reopened in 1991, with the Law on Public Trading in Securities and Trust Funds (1991) and the Act Establishing the Warsaw Stock Exchange (1991) providing the basic legal framework for securities activities. The Securities Law regulates the public offerings of securities, the establishment of open-end investment funds, and the operations of securities brokers. Under that law, the Securities Commission is charged with supervising the securities markets and is equipped with enforcement powers.

The WSE has expanded steadily, with 53 listed companies and a total market capitalisation of US$ 4.3 billion (3.8 per cent of GDP at end-1995). This market is among the most liquid of those in transition economies. A further 12 companies with a total market capitalisation of US$ 150 million are listed on the exchange's parallel market, while an OTC market is expected to open in mid-1996.

The stock market will receive a substantial fillip with the listing of NIFs on the WSE in early 1997 and the separate listing of some companies participating in the NIF programme on the OTC and parallel markets.

## Fiscal and social safety net reform

**Taxation**
Recent years have seen a substantial overhaul of the tax system. A corporate profits tax with a uniform rate of 40 per cent was introduced in 1989; an unemployment insurance scheme financed by a 2 per cent payroll tax was initiated in 1990; a personal income tax with three marginal rates (20, 30 and 40 per cent) was launched in 1992; and a value added tax was introduced in 1993 with three rates (22, 7 and 0 per cent). The payroll tax to fund social security was raised in two steps to 45 per cent in 1992 from 38 per cent in 1989. In 1993, the payroll tax for the Labour Fund was raised to 3 per cent, while personal income tax rates were raised in 1994 (to 21, 33 and 45 per cent). The government's medium-term economic programme calls for gradual cuts in the personal income and corporate profits tax rates.

The composition of government revenues has shifted dramatically. In 1989, levies on enterprises accounted for 43 per cent of state budget revenues, while their share had fallen to 10 per cent in 1995. The VAT and personal income tax now accounted for 68 per cent of state revenues.

**Social security**
The Social Insurance Fund and the Labour Fund are the largest extra budgetary funds for social expenditures. Outlays from these funds have increased rapidly in recent years due to demographic trends, generous incentives for early retirement, and job losses. Their expenditures amounted to 16 per cent of GDP in 1995, up from 8 per cent in 1989. With pensions and benefits indexed to wages, transfers from the state budget to these funds have increased sharply. The 1996 budget suspended for one year this indexation to wages and restricted the real increase in benefits to 2.5 per cent.

The government is considering proposals for a comprehensive pension reform involving two basic issues. The first is overhaul of the existing pay-as-you-go (PAYG) system, possibly including a shift in the basis for indexation from wages to prices, a rise in the retirement age for women and the elimination of the general early retirement provision. The second is a phased introduction of a fully funded capital system with management of pension fund assets by private financial institutions. Some proposals link capitalisation of new pension funds to privatisation of remaining state enterprises.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, directly and through indirect investment vehicles, such as securities or investment funds. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals, subject to permit, own or lease land. Security interests over land and shares (but only in favour of banks) may be created, require notarisation and entry in an official register. Security interests (only in favour of banks) over contracts, receivables and moveable assets are possible.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Draft laws are not always published and available to practitioners. Public records in share or land registries may be up to three months behind current status. Important court decisions are not always published or accessible to practitioners. Independent professional legal advice is available. Private parties generally believe that courts will recognise and enforce their legal rights, including against the state. Foreign arbitral awards are required to be recognised and enforced without a re-examination of their merits.

# Romania

*Reforms began in November 1990 with radical price liberalisation and the devolution of decision-making power to enterprises. Gradual further reforms followed in 1991-92. From mid-1993 onwards, a serious effort was made to tighten credit policy, and thereby the budget constraint facing enterprises. These efforts also involved an improvement in the efficiency of allocation of credit and foreign exchange. A comprehensive scheme of mass privatisation was launched in earnest in 1995, after having been on the drawing-board for years. The access of enterprises to purchases of foreign exchange has become more restricted in 1996 than it was in 1995.*

## Enterprises

**Size of the private sector**
According to government estimates, the private sector share of GDP has risen from 35 per cent in 1994, to 45 per cent in 1995, and further to about 50 per cent in 1996. The private sector accounted for about 57 per cent of total employment in 1995 and 62 per cent in 1996. The employment share of the private sector was, in 1995, 16 per cent in industry, 87 per cent in agriculture and about 67 per cent in construction, with shares in imports and exports of 45 and 41 per cent, respectively. The private sector share in value added for 1995 was estimated at 89 per cent in agriculture, 29 per cent in industry, 61 per cent in construction and 60 per cent in services, including trade.

**Large-scale privatisation**
By March 1996, more than 1,500 companies had been privatised, primarily through management/employee buy-outs.

In 1992, the National Agency for Privatisation designed a more comprehensive scheme for privatisation of medium-sized to large enterprises. The scheme involved the establishment of five "private ownership funds" and one "state ownership fund". The latter was initially granted 70 per cent of the shares in 6,280 "commercial companies", while the rest of the shares in these companies were transferred to the five "private" funds which were themselves established as joint-stock companies.

A new Privatisation Law was passed on 21 March 1995. Under the new Law, Romanians would be able to purchase state assets using (i) "certificates of ownership" coupons distributed to 15.5 million individuals in 1992, and (ii) new issues of "vouchers". The distribution of vouchers to all adult Romanian citizens started in August 1995. The new privatisation framework foresees the sale through various means of about 3,900 medium-sized to large companies. In exchange for coupons and vouchers, citizens can choose either to subscribe for shares directly in companies or to obtain shares in one of the five private ownership funds, which are to become mutual funds. By mid-1996, about 90 per cent of the population had subscribed, and the distribution of shares was due to be finalised by the end of September 1996. The shares will be traded on an over-the-counter market (see the comments below on Securities markets and instruments).

During the mass privatisation process, up to 60 per cent of the ownership in an individual company may be sold for coupons and vouchers, while the remaining at least 40 per cent is to be sold for cash. Prices of assets sold for coupons and vouchers will not be determined through auctions or other market-clearing mechanisms but will be based on the enterprise book value.

A bank privatisation law was been adopted by the Senate in September 1996. It identifies the State Ownership Fund, to which the shares held by private ownership funds will be transferred, as the entity legally responsible for the sale of banks. The government has yet to decide on the maximum block of shares which can be acquired by "strategic" (outside) investors.

In September 1996, the Senate approved a bill on the transformation of the five private ownership funds into investment funds.

Large-scale privatisation in the agricultural sector has advanced under the guidelines laid down in the Land Law of 1991, according to which 4.9 million Romanians are entitled to reclaim small plots from state holdings. More than 90 per cent of the new landowners have received "temporary property certificates". Conversion of these into formal land titles is progressing gradually. In October 1995, less than half of the ownership certificates had been converted into formal titles. This process may now speed up as a law on cadastral surveys came into force in July 1996. The privatisation of state farms has proceeded more slowly, particularly since the government has decided to preserve them as unified production units.

**Small-scale privatisation**
More than 7,000 small units (shops, etc.) have been put up for sale and about 3,000 have been privatised. The latter employ 13,500 individuals. Some 83 per cent of all agricultural land is in private hands, following the break-up of large farms into small units (see the description under Large-scale privatisation, above).

**Property restitution**
The law on property restitution grants partial restitution rights and compensation packages to former owners of around 250,000 residential properties that had been confiscated by the state since World War II.

**Growth of private enterprise**
The number of registered companies with private capital increased to 468,207 by September 1995, up by about 51 per cent on 1993.

**Enterprise restructuring**
The main restructuring tool has been enforcement of competitive pressure through subsidy reduction, attempts to introduce market-oriented credit policies, price liberalisation, and more liberal import competition. A renewed effort at strengthening financial discipline in enterprises was initiated in the second half of 1993 and is

still being pursued. Credit policies have been tightened (especially in 1993-94 – there appears to have been some loosening over the past year), a restructuring agency has been established (with EU-Phare support) and financial supervision has intensified for 25 enterprises that account for the bulk of inter-enterprise arrears.

In a step that may have slowed the pace of restructuring, a National Oil Company was established in August 1996, to unify oil import and export trading strategies, and also to keep control over the foreign currency transactions associated with that activity (see the section below on currency convertibility and the foreign exchange rate regime).

A Bankruptcy Law was passed by parliament in March 1995. The law does not apply to the largest state sector companies, the "regies autonomies", for which special bankruptcy legislation is being drafted.

## Markets and trade

**Price liberalisation**
Romania freed half of the prices in the consumer goods basket in November 1990. Price liberalisation picked up again in 1993 as consumer subsidies were phased out and mark-up limits eliminated. By the middle of 1995, the share of administered prices on consumer goods and services had fallen to 3 per cent. Prices for oil and other energy products remained subject to state control by the autumn of 1996, as did a few agricultural products.

**Competition policy**
A Law regulating Competition was passed in April 1996, to become effective on 1 January 1997. A Council of Competition has been established for supervisory purposes.

A law regulating copyrights was passed in June 1996. A copyright office has been created to supervise implementation and compliance.

**Trade liberalisation**
Most licensing requirements for export and import were eliminated in May 1992, leaving quantitative import restrictions only for a few products related to public health or security. There are no duties on exports, and the tariff treatment of non-agricultural imports is fairly liberal. However, very high tariffs, on average about 110 per cent, remain in place for most agricultural products.

The full version of Romania's "Europe Agreement" with the EU came into force on 1 February 1995. An interim version had been in force since May 1993. The most important aspect of the agreement is the phase-in over 10 years (from May 1993) of free trade in industrial goods between Romania and the EU. This part of the agreement was already fully operational under the interim arrangement. In June 1995, Romania applied formally for EU membership. Romania became a member of WTO in December 1994. The new tariff regulations, in accordance with WTO agreements designed to replace the old quantitative restrictions, allow in some cases for exceptionally high individual tariffs, especially in the agricultural sector.

**Currency convertibility and exchange rate regime**
For the financial and exchange rate markets, 1996 has been a difficult year. The leu is officially convertible for the purpose of foreign trade transactions and for repatriation of capital and profits of foreign investors. The exchange rate of the leu is floating. In April 1994, the interbank foreign exchange rate was in principle unified with the rate quoted by the so-called "bureaux" (which cater for individuals), although there has continuously been a gap between these rates, occasionally reaching 20 per cent in 1995.

In August 1994 Romania launched an interbank foreign exchange market. From July 1995 onwards, foreign banks with local branches were granted permission to operate as dealers on this market. Exposure was limited to US$ 1 million or the equivalent in local currency converted at the official rate for dealers and to US$ 100,000 for brokers. In an attempt to control the downward tendency of the leu, the authorities started at the beginning of 1996 to impose increasingly tight restrictions on enterprises' access to conversion of lei into foreign currency and on the foreign currency operations of commercial banks. Since March, only four banks have been able to participate in the interbank market for foreign exchange. None of these four is foreign and only one is not state-owned.

In April, the government of Romania, supported by March credit ratings of BB- (Standard and Poors) and Ba3 (Moody's), issued its first international bonds (raising a total of US$ 825 million in the two issues that had been marketed by August 1996). The official exchange rate has remained about 10-20 per cent above (i.e. more appreciated than) the "bureaux rate" over the summer of 1996.

In August 1996, the government announced new surrender requirements for a set of more than 100 firms; later these requirements have been given a liberal interpretation in official announcements, but the original decree formally remains in place.

**Wage liberalisation**
Collective bargaining is well established, but the government pursues an incomes policy, through taxation of "excessive" wage increases. The net average monthly salary stood at Lei 301,558 (approx. US$ 100) in April 1996. In July 1995 the government, the employers' association and the trade unions all signed an agreement on the stipulation of a minimum wage. Through this agreement, the government has promised to revise the gross minimum wage every six months.

**Interest rate liberalisation**
Commercial banks are free to set their interest rates. On 1 August 1994, an interbank money market was formally established. However, directed credits, mainly to agriculture, are still channelled through the banking system.

## Financial institutions

**Banking reform**
A two-tier banking system was created in December 1990 as the commercial functions of the National Bank of Romania (NBR) were spun off to the Romanian Commercial Bank (RCB). By the middle of 1996, the banking system consisted of 30 licensed banks, of which 20 have private and mixed – state and private – capital, and nine are branches or subsidiaries of foreign banks. Private banks represent an increasing percentage of the capitalisation of the banking sector, estimated to have risen to well above 40 per cent from about 30 per cent in January 1994. Many foreign banks have branches in Bucharest.

Conditions attached to the World Bank FESAL agreement included the privatisation of the Romanian Bank for Development, the preparation of a deposit insurance scheme, and the imposition of international accounting standards on banks. In August 1996 the Romanian government approved an insurance deposit system, designed to cover deposits up to Lei 10 million (approx. US$ 3,000), with the whole amount being indexed to the annual rate of inflation. In addition, the Savings Bank, the only one for which deposits are fully guaranteed by the government, was turned into a commercial bank in the middle of 1996.

A formal state-financed recapitalisation of Romanian banks took place in 1991, when the government bought from the banks 90 per cent of their non-performing claims, and then cancelled the loans, the total nominal value of which was Lei 150 billion (6.8 per cent of 1991 GDP). The banks' balance sheets improved markedly between 1991 and 1994 on account of this recapitalisation, reinforced by another injection in 1992 of state capital in the amount of Lei 50 billion (0.8 per cent of 1992 GDP) and large spreads between lending and deposit rates during much of this period. A July 1995 regulation by the NBR allows banks to make tax-deductible provisions for general credit risk.

With effect from the end of January 1996, the central bank raised to Lei 25 billion banks' minimum requirement capital. The capital of existing banks can be gradually increased to the prescribed level. Two large private banks became illiquid during the first half of 1996.

**Non-bank financial institutions**
Private open-ended mutual investment funds were set up in 1994. In April 1996, the National Securities Commission started to enforce the rules on net assets value computation, which caused the value of most unit trusts to fall steeply. The value of the biggest fund in the country fell by about US$ 71 million, or 45 per cent, in May 1996, and a number of funds were subjected to a 90-day suspension period in mid-1996. By September of 1996, 12 open-ended funds were still operational.

A total of 40 companies are active in Romania's insurance market. Most of these are privately owned, though the largest are state-owned. The insurance sector is dominated by three state firms. A new Insurance Law, effective from 1 February 1996, has led to the establishment of two funds to provide coverage to clients of bankrupt insurance companies and to victims of car accidents.

## Securities markets and instruments

The National Bank of Romania issued the first treasury bills in March 1994. The first US dollar-denominated domestic bonds were issued in August 1996.

A law establishing a public stock exchange was passed in July 1994 and at the end of the year the parliament appointed the National Securities Commission (NSC). The new stock exchange officially opened on 23 June 1995 and trading began on 20 November. The NSC, which will regulate the market, has licensed 25 securities companies to operate on the exchange. The stock exchange currently trades the stocks of 13 companies, only one of which is 100 per cent privately owned. The market capitalisation, in February 1996, amounted to Lei 131.6 billion (approx. US$ 46.17 million).

In late September 1996, an over-the-counter market (RASDAQ), based on the US NASDAQ model, will starting trading the shares created in the wake of the mass privatisation programme.

The first Romanian company to launch a private placement (of US$ 10 million) on international markets was a furniture maker, in April 1996.

### Fiscal and social safety net reform

**Taxation**
Personal income is taxed on a progressive schedule, with a maximal tax rate of 60 per cent. Value added tax is levied at a flat 18 per cent. In January 1995, that rate was reduced to 9 per cent for certain food products and medicines.

Fundamental changes to the profit tax system were introduced on 1 January 1995. A single rate corporate profit tax of 38 per cent replaced the dual-rate tax and is applicable to all permanently established legal entities, including limited-liability and joint-stock companies with foreign investment. Branches of foreign companies are subject to an additional 6.2 per cent profit tax.

**Social security**
Romania's social security system is financed in part through a payroll tax (employer's contributions are about 35 per cent of the wage sum; and employees pay an additional 1 per cent), with the difference financed by the government.

### Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, directly and through indirect investment vehicles, such as securities or investment funds. Such investment generally requires government agency approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners are prohibited from owning, although they may lease, land. Security interests over shares and land may be created, requiring notarisation and entry in an official register. Security interests over contracts, receivables and moveable assets are possible, and require in some cases entry in an official register.

**Effectiveness**
The full texts of laws affecting investment are published usually within one month of being passed. Draft laws are rarely published or available to practitioners. Public records in share or land registries may be up to one month behind current status. Important court decisions are usually published or accessible to practitioners within 12 months of being issued. Independent professional legal advice is available. While private parties generally believe that the courts will recognise their legal rights against other private parties, they do not believe that courts would enforce such rights against the state. Foreign arbitral awards are required to be recognised and enforced by the courts without a re-examination of their merits.

# Russian Federation

***Partial reforms were introduced in 1987-91 in the framework of "perestroika". A radical reform package focusing on economic liberalisation and privatisation was adopted in January 1992. Considerable progress has been made on a wide range of structural reforms, including mass privatisation, currency convertibility, creation of financial markets and legal reforms. Financial stabilisation has also taken hold since early 1995. In March 1996, an agreement was reached on a three-year Extended Fund Facility with the IMF. The programme aims to consolidate achievements in financial stabilisation and accelerate structural change, especially in areas lagging behind, such as fiscal reforms, land privatisation (and other agricultural reforms), enterprise restructuring and creation of an effective social safety net.***

### Enterprises

**Size of the private sector**
According to official sources the non-state sector, including all corporatised enterprises (irrespective of the share of state ownership) represented over 70 per cent of GDP at the beginning of 1996. Non-state industrial enterprises accounted for 89.1 per cent of industrial output, 81.8 per cent of industrial employment and 79.7 per cent of the total number of enterprises (excluding small businesses, joint ventures and industrial parts of non-industrial enterprises). The share of the "true" private sector in GDP (including only companies that are majority owned by private entities) is likely to be around 60 per cent.

**Large-scale privatisation**
By July 1994, 15,052 medium and large-scale enterprises, employing more than 80 per cent of the industrial workforce, had been privatised in a voucher-based privatisation scheme. The implementation of the second, cash-based, phase of the privatisation programme, which started in mid-1994, has proceeded at a much slower pace than had originally been planned.

The government revitalised cash-based sales through a variety of schemes in the fourth quarter of 1995. The key new scheme was the loan-for-share programme, under which financial institutions could bid, in auctions, for the right to hold shares in selected companies in trust for 1-3 years (with the exact terms varying across individual contracts). Under this scheme, payments for the right to hold shares is made by the individual buyer in the form of a low-interest loan to the government. A bid of a particular amount in the auctions is interpreted to represent an offer to lend the government that amount in return for shares in the company that is offered for sale. The successful bidder is entitled to keep 30 per cent of any capital gain they can make before reselling the shares on the market. A total of 29 initial auctions are to take place. At this stage (mid-1996), 12 have been completed. The circumstances of the auctions have in some cases been the source of significant controversy. (Parliamentary committees have been set up to examine the legality of previous privatisations but no clear decision has been reached.)

In 1995 as a whole 2,770 medium and large enterprises were commercialised and partially privatised. The privatisation revenue for the federal budget last year amounted to Rb 7.2 trillion, including Rb 4.7 trillion from the loans-for-shares scheme.

Privatisation targets for 1996 include sale of residual state-owned shares in about 1,000 enterprises, which were partly privatised under the voucher scheme. Moreover, at least five large companies are to be privatised for cash. The authorities are also committed not to initiate renationalisation of privatised enterprises. (Repayment of loans and taking back state shares from trust under the loan-for-share scheme would not mean renationalisation.) Privatisation slowed down considerably in the first half of 1996 mainly due to the uncertainties associated with the presidential election (held in June 1996).

The emphasis in the Russian large-scale privatisation efforts has shifted from speed and revenue maximisation to transparency and promotion of enterprise restructuring. A new privatisation programme reflecting the new priorities was adopted in July 1996. The programme abolishes the privileges of workers' collectives and expands the rights of local authorities in the privatisation process.

Farm privatisation continues to be blocked due to a stalemate between the Duma and the executive branch regarding property rights to agricultural land. A March 1996 Presidential Decree provides for full land privatisation but the new Land Code, adopted by the State Duma in mid-1996, preserves restrictions on land sale. The Code has, however, been rejected by the Federation Council.

**Small-scale privatisation**
By mid-1996 over 100,000 state-owned small-scale businesses (with less than 200 employees), had been transferred into private hands. The overwhelming part of the privatised businesses are in retail trade, public catering and consumer services where the privatisation rate is around 90 per cent. Progress in small-scale privatisation varies substantially across regions. Small firms have been sold primarily through employee buy-outs or public auctions.

Over the last year the number of private farms has been stagnating at 280,000 due to the adverse investment climate.

About 40 per cent of the housing stock was already in either private or cooperative ownership at the end of the Soviet period. Since then between 35 and 40 per cent of the remaining dwellings earmarked for privatisation have been transferred to private owners, including 6.5 per cent of such dwellings in 1995.

**Property restitution**
No property restitution to former owners has taken place to date.

**Growth of private enterprise**
The approximately 1 million registered new small businesses account for about 12 per cent of officially recorded GDP. Estimates suggest that an additional 2-3 million small undertakings exist but remain unregistered. Macroeconomic and legal uncertainties, registration and licensing obstacles, lack of access to external finance and commercial space as well as extortion threats are among the key obstacles to the initiation of private enterprises. The major governmental incentive has been a two-year tax holiday for small enterprises. A new federal programme for support of small businesses in 1996-97 was recently adopted by the government. Key priorities are the establishment of small farms and conversion of military enterprises. A fund which will provide finance for small businesses has recently been created. It will be able to utilise a 5 per cent levy on privatisation transactions for this purpose. In 1996 a streamlined taxation system was introduced for small enterprises.

**Enterprise restructuring**
With steady progress in financial stabilisation since early 1995 the budget constraint of the enterprise sector had tightened substantially. The sharp real appreciation of the rouble has, in the meantime, added to the restructuring pressures on enterprises in the tradable goods sectors. However, the still widespread regulatory exemptions and accumulation of arrears has partly offset such pressures. Enterprise restructuring has hitherto been achieved mainly through changes in the product mix, shedding of labour through attrition, expanded use of unpaid leave or reduced hours. Deeper restructuring in the form of factory shutdowns, changes in management, major reorganisations and modernisations would need tougher and enforceable bankruptcy rules as well as much improved corporate governance and could clearly be helped by a better functioning financial sector (providing finance for the most deserving investments).

By the end of 1995 the Federal Bankruptcy Agency, dealing with debtors with more than 25 per cent state ownership, had investigated close to 15,000 firms, declaring 3,343 insolvent. Only about 5 per cent of these cases were brought to court. Formal bankruptcy proceedings remain relatively rare, both for privately owned and for state-owned companies. A debtor company can be declared insolvent if it fails to fulfil a creditor's claim (in excess of US$ 7,000) for three months. Insolvency may be proclaimed by decision of a court or by the company itself. Russian bankruptcy law offers three options for further action: reorganisation, liquidation or reconciliation. However, creditors get little legal protection during these proceedings. The new Civil Code moves down pledged claims in the pay-back order during bankruptcy. Foreign debtors are subject to the same legislative procedures as are domestic creditors but foreign creditors can lodge insolvency claims only through their Russian subsidiaries. The draft of an amended version of the bankruptcy law, providing strengthened rights for creditors, has been submitted to the Duma.

Corporate governance remains handicapped by the continued strong concentration of ownership in the hand of insiders (workers and management). However, commercial banks are an increasingly active influence. They have taken large equity stakes in many enterprises and are exercising external control, partly in the framework of Financial Industrial Groups. Recent evidence suggests that real restructuring is coming mainly from this source. The Law on Joint Stock Companies, which became operational on 1 January 1996, introduces a new set of principles and rules for efficient corporate governance. The deadline of 1 July 1996 for companies to bring their charter into compliance with the law has been extended by one year.

## Markets and trade

**Price liberalisation**
Only basic necessities and a restricted list of producer goods and services remain subject to price controls at the federal level. However, widespread direct and indirect price controls continue to be applied at the local level. In 1995 the scope of controlled prices was estimated at 30 per cent. Domestic oil and oil product prices are liberalised. Crude oil prices currently stand at about 65 per cent of the world price levels while prices for oil products are above their international levels. Prices for natural monopolies, including gas, heat, pipeline fees and railway tariffs, have since early 1996 been linked to the increase in the overall Russian producer price level.

A March 1995 presidential decree envisages removal of all price regulations, both federal and local, for all goods and services except for those related to natural or state monopolies. The implementation of the decree will decrease the share of controlled prices to 16-17 per cent. This process, however, has been slow so far, partly due to the election campaigns.

**Competition**
The Law on Competition and Limitation of Monopolistic Activity in the Goods Market (of March 1991) has been adjusted to new developments by over 30 normative acts issued by the State Anti-monopoly Committee. The Committee has a broad mandate with regard to the development of competition, the limitation of monopolistic activities and the suppression of unfair competition. The Committee, which was given ministerial status in March 1995, may impose fines, invalidate contracts and issue binding orders to both state agencies and private companies. A special register of firms with dominant market position (defined as over 35 per cent market share) is kept by the federal and regional branches of the Committee. (At the end of the first quarter of 1996 the federal section of the registry included 486 industrial enterprises accounting for 19.2 per cent of all industrial output). Dominant market positions, including those created by cartel agreements, are monitored and (in the case of abuse) sanctioned. In addition, prior approval of an anti-monopoly committee is required for a variety of transactions such as merger, acquisition and direct investment in Russian companies above certain limits. For example, acquisitions of more than 20 per cent (recently decreased from 35 per cent) of the shares of a company, or acquisition of shares in any firms included in the register of dominant firms, requires prior approval.

In November 1995 a special Law on Financial Industrial Groups (FIGs) was adopted. A full set of implementing legislation has not been issued as yet. In mid-1996 there were about 35 such officially registered FIGs and the application for registration of over 120 was under consideration. The FIGs may be opting to register in the hope of achieving some kind of special state support. While these groups may create useful synergies between banks and industry they may also cause re-monopolisation and reduced transparency within the economy. The stance of the Anti-monopoly Committee in this regard is not as yet clear.

**Trade liberalisation**
Since the implementation of increases in mid-1995, the average weighted import duty has been about 13-14 per cent. The authorities are committed to reducing it by at least one-fifth before the end of 1998. However, in response to sharp real appreciation of the rouble, protectionist pressures from industrial enterprises have grown. Tariff dispersion is to be further reduced. The government is committed to scaling back all remaining import duties in excess of 30 per cent by the end of the third quarter of this year. To contain capital flight, the "commodity passport system", previously applied only to exports, has been extended since early 1996 to imports as well.

Having fully phased out export quotas and scrapped the system of "special exporters", the government has been implementing new liberalisation measures in the area of exports since mid-1995. By late 1995, export tariffs had been eliminated, except for gas and oil. Export tariffs on gas were replaced by excise taxes in April 1996, and so were export tariffs on oil in July 1996. Significant progress has been made in limiting the extent of centralised trade which presently amounts to less than 5 per cent of total exports.

Russia made a formal request to join the WTO in 1994. Since then three basic fact-finding working party meetings have taken place. In mid-1995 Russia created a customs union with Belarus and Kazakstan. Kyrgyzstan signed the customs union treaty in early 1996 (but the Kyrgyz parliament has yet to ratify this decision).

**Currency convertibility and exchange rate regime**
The rouble is fully convertible for current account purposes. In June 1996, Russia officially assumed the obligations of Article VIII of the IMF Charter. *De facto* convertibility for several categories of capital transactions is also in place. A 50 per cent surrender requirement continues to be applied for exports. Surrendered currency is sold at the interbank market (i.e. at the prevailing market exchange rate).

From June to the end of 1995, the exchange rate was (for the first time) pegged within a band of Rb 4,300-4,900 per US dollar. The currency corridor was extended to the first half of 1996, and the band was adjusted for that period to the range Rb 4,550-5,150 per US dollar. Since July 1996, a crawling band has been applied. Its initial range (on 1 July) was Rb 5,000-5,600. Since then, the band has been depreciated at a pre-determined rate of about 1.5 per cent per month. The band is scheduled to be Rb 5,500-6,100 by year-end (strictly speaking, the rate of depreciation is defined in absolute terms, rather than in percentage terms). Since 17 May 1996, the official exchange rate has been set daily by the Central Bank of Russia (CBR) on the basis of a string of indicators, including inflation, balance of payments and reserves, and is committed to defending this rate. Prior to this change, the official rate was determined, to a large extent without intervention, on the Moscow International Currency Exchange (MICEX) — the MICEX-rate is now a direct function of the setting of the official rate.

**Wage liberalisation**
Wages are determined without government intervention outside of the budgetary sector. The tax-based incomes policy, covering both state and non-state enterprises, was abolished in January 1996. Public sector wages are set as multiples of the nominal minimum wage. The minimum monthly wage was at the level of Rb 75,900 (US$ 15) in June 1996. At that time, the average monthly wage was about Rb 837,200 (approximately US$ 165).

**Interest rate liberalisation**
Banks in Russia are free to set deposit and lending rates without government intervention. The refinance rate is set by the CBR and has been at a high level in real terms over the past year. Its nominal monthly level was reduced from 13.3 per cent in late 1995 to 6.7 per cent in August 1996. The refinance rate sets the floor on the credit auctions but has not been actively used. Interest rates on the interbank market have been oscillating well below the refinance rate but reflect only the transactions of an elite group of banks.

## Financial institutions

**Banking reform**
To date there are fewer than 2,200 operating commercial banks in Russia, sharply down from about 2,600 in early 1995 as a result of severely tightened licensing policy. The banking system is dominated by private banks, with only three banks, including Sberbank, remaining in majority state ownership. The largest 10 banks accounted for 42 per cent of total bank assets in 1995. The banking sector as a whole is severely undercapitalised, oversized and illiquid. Only the top 10 banks have charter capital in excess of the rouble-equivalent of US$ 100 million, while 80 per cent of the banks have capital of less than US$ 1.1 million (5 billion roubles). In 1995 about 800 banks reported losses, with approximately half of them being technically insolvent. The ratio of non-performing loans to the total loan portfolio was estimated at around 30 per cent. The August 1995 crisis in the interbank market demonstrated the problems banks have in managing liquidity. To deal more effectively with short-term liquidity fluctuations, the CBR has introduced deposit auctions and a Lombard facility. Repo operations are to begin in late 1996. Financial stabilisation poses a more general challenge by eroding "easy" sources of profits in hard currency operations, high-yielding transactions in government securities and short-term lending at very high interest rates. Meanwhile, the majority of banks have yet to develop core traditional banking activities. The CBR is developing its capacity to deal with troubled banks. Special bankruptcy procedures for banks are expected to be adopted in 1996.

Following the enactment of a new Law on Banks and Banking Activity, new prudential regulations came into effect in April 1996. The minimum capital requirement for banks is to gradually rise to ECU 5 million by mid-1998 from ECU 2 million in April 1996. The minimum risk-weighted capital adequacy ratio is to rise to 8 per cent by early 1999 from 5 per cent in July 1996. Liquidity ratios and exposure limits have also been tightened. A reform programme supported by the EBRD and the World Bank aims to create a core select group of banks which will be capable of complying with international prudential standards and which will in return become eligible for certain regulatory privileges. By mid-1996 32 banks have been accredited under the programme.

**Non-bank financial institutions**
The key new development in the area of non-bank financial institutions is the establishment of the legal and regulatory framework for mutual funds in mid-1995. The first mutual funds emerged in early 1996. Many of the existing voucher investment funds and the so-called investment companies are also expected to be transformed into mutual funds. Regulations for pension funds are being revised. By June 1996, about 140 private pension funds and 52 companies managing the funds' assets were granted licences to operate.

**Securities markets and instruments**
Within the Russian securities markets, the government bond markets have seen the fastest development with the GKOs (T-bills), OFZs (federal loan bonds) and MinFins (hard currency denominated bonds) being the key instruments. Yields on GKOs and OFZs have been volatile but for most of the time extremely high in real terms. Access for foreigners to the GKO market has been permitted since early 1996 and further eased in July 1996. Yields have declined significantly since mid-1996.

Stock market prices fell almost continuously during 1995 and early 1996, driving down the market capitalisation from US$ 43 billion in September 1994 to US$ 16.5 billion in March 1996. In mid-1996, share prices doubled. They have continued to fluctuate sharply since then. The market remains illiquid, with active trading in the shares of only a few dozen "blue chip" companies. A few Russian companies have managed to issue ADRs/GDRs abroad since late 1995.

Since mid-1995 major progress has been made in the development of a legal framework for protection of shareholders' rights. Most importantly, Laws on Joint Stock Companies and on Securities Markets have been adopted. The capital market infrastructure has been strengthened, independent registrars have been created, and the Russian Trading System now links brokers in Moscow with several other other cities. This system is operated by the Professional Association of Stock Market Participants, which has been expanded into a nationwide self-regulatory organisation. The legal status and regulatory role of the Securities Commission has recently been upgraded. The Commission's priorities for 1996 are: further legal reforms to protect investors against crime; improved enforcement of the existing regulations; development of unit investment funds and continued support for market infrastructure.

## Fiscal and social safety net reform

**Taxation**
Despite some improvements in the first half of 1996, the tax regime remains a key vulnerable area in financial stabilisation and at the same time the single most important deterrent to investment. The excess wage tax and the VAT surcharge were eliminated in early 1996. Tax penalties have been streamlined during the first half of 1996, while VAT legislation has been changed to the benefit of enterprises and some progress has been made in reforming energy taxation and phasing out tax exemptions. However, the tax system as a whole remains unstable, non-transparent and highly onerous for enterprises. The main structural distortion of the tax system by international comparison is the excessive role of profit taxation and the low share of taxes on individuals and the energy sector. The cumulative nominal tax burden on enterprises was close to 100 per cent of pre-tax profits in late 1995. As a result, tax arrears, tax exemptions and outright tax avoidance are rampant. Preparatory works on a new Tax Code have been delayed and the Code is not likely to be adopted and phased in before 1997. Efforts will, in the meantime, focus on improving tax collection by strengthening tax administration, shifting VAT and profit taxes to an accruals-based system, reducing exemptions and eliminating preferential treatment of many large energy users in paying for utilities.

**Social security**
The social safety net is the weakest element of the new Russian socio-economic structure. The current system is characterised by shortcomings in its financing, the level of benefits and its coverage. It is financed mainly through a range of extrabudgetary funds (the Pension Fund, the Employment Fund, the Social Insurance Fund and the Social Support fund), local budgets and enterprise expenditures on social services. The extrabudgetary funds are financed by a combination of payroll taxes (set at 40 per cent of the wage bill) and all of them are in difficult financial straits as a result of their shrinking tax base, arrears and avoidance of contributions, plus a growing number of eligible recipients and an inefficient administrative system. The Pension Fund provides income support for about a quarter of the population. In 1995 real average pensions were equal to 38 per cent of the average wage, while minimum pensions were at 19 per cent of the average wage. A series of pension reforms aimed at creating a three-pillar system (consisting of a basic state pension, an insurance-based state pension and private pension funds) are scheduled to be implemented from 1997.

Laws delinking pension and unemployment benefits from the minimum wage are expected to be adopted before the end of 1996. Comprehensive reviews and assessments of the Pension and the Employment Funds are under way. The future coverage and benefits of the social safety net depend to a large extent on potential savings on other types of budgetary expenditures and on the future revenue performance of the state budget.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment directly and through indirect investment vehicles, such as securities or investment funds. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enter-

prises. Ownership of land by nationals, foreigners or foreign-owned local companies is restricted. The leasing of land is generally permitted. Security interests over shares and land may be created, requiring notarisation and entry in an official register. Security interests over contracts, receivables and moveable assets are possible and, in the case of moveables, require entry in an official register to be maintained by the pledgor.

**Effectiveness**
The full texts of laws relating to investment are published, usually within one month of enactment. Draft major laws are made available to practitioners for comments. Public records in share or land registries may be up to six months behind current status. Major court decisions are generally available to practitioners. Independent professional legal advice is available. Private parties generally believe that courts will recognise their legal rights against other private parties, including the state. Foreign arbitral awards are required to be recognised by the courts without re-examination of their merits.

# Slovak Republic

***After the Velvet Revolution in the Czech and Slovak Federal Republic (CSFR) in November 1989, a market-oriented reform process was initiated during 1990 and a comprehensive programme was adopted in January 1991. Rapid progress on privatisation was achieved in 1992-93, mainly via vouchers, but progress then slowed, partly reflecting changes to the government in 1994. Following the government's decision to cancel the voucher element of the second wave of privatisation in 1995, most of the subsequent privatisations have taken the form of direct sales, especially management buy-outs. The government hopes to complete this part of the privatisation programme during 1996.***

## Enterprises

**Size of the private sector**
The private sector is officially estimated to have accounted for 58 per cent of GDP in 1994. According to the latest official figures, the private sector accounted for 70 per cent of GDP in the first quarter of 1996. In April 1996 the private sector accounted for 67 per cent of industrial output and 57 per cent of total employment. These shares include enterprises where the National Property Fund (NPF) continues to hold a minority share.

**Large-scale privatisation**
A comprehensive sell-off of state assets has been pursued through two "privatisation waves". The first of these was launched by the CSFR in May 1992 and completed by mid-1993. In the Slovak Republic it involved 750 enterprises with book value of 166 billion Slovak crowns. In this process, 80 billion crowns worth of shares in 503 firms were distributed through a voucher-based "mass privatisation" scheme. The balance of the assets were sold by standard methods including direct sales and public tenders.

The second wave of privatisation commenced with the distribution of vouchers in September 1994, but was then delayed by the change of government towards the end of 1994 and by an internal debate over the most appropriate method of privatisation. In mid-1995 the government approved amendments to the 1991 Privatisation Law which cancelled voucher privatisation under the second wave. Amendments were also made to the laws regarding investment funds, and parliament adopted a law concerning state interests in enterprises.

Under the new legislation, the 3.5 million voucher holders have, in exchange for their vouchers, received five-year bonds with a nominal value of 10,000 crowns, issued (and guaranteed) by the NPF. The interest rate is the same as the discount rate of the National Bank and the principal falls due at the end of the year 2000. There are a number of options for bond holders. First, they can hold the bonds until maturity. Second, they can sell the bonds. Third, they can use the bonds to buy shares of companies in the NPF's portfolio, and this may be an option the NPF would prefer since it would reduce the number of bonds the NPF will have to redeem at the end of the year 2000. Other options include using the bonds as part-payment for apartments and/or health insurance. The bonds can also be used to pay off debts to the NPF, and it is expected that some companies will buy up bonds for this purpose.

At the beginning of August the government published the trading regulations for the bonds, having earlier set a minimum price of 75 per cent of the bond's nominal value. The NPF is responsible for determining and publishing the list of institutions entitled to purchase bonds from the general public. The initial list comprised 28 institutions, and is expected to increase over time. Trading commenced on 1 August through the RM system (described below under Non-bank Financial Institutions), although, during the early days of trading, orders to sell heavily outnumbered orders to buy.

The immediate effect of the cancellation of the voucher scheme has been that privatisation has continued via direct sales, including management and employee buy-outs, with a preference given to existing management. A typical direct sale entails the purchaser agreeing a price for the company with the NPF; making a down-payment of between 10 and 20 per cent of the purchase price and paying the balance in instalments; agreeing on an amount which will be invested in the company, and which can be regarded as a contribution towards the loan repayments to the NPF. An amendment in early 1996 to the income tax law allows companies to claim tax relief on the amount of investment management agrees with the NPF to make in the company subject to the management buy-outs.

According to estimates from the Ministry of Privatisation, over 600 privatisation proposals with a value of 136 billion crowns (US$ 4.5 billion) were submitted to the NPF by March 1996 under the "second wave". It is estimated that two thirds of these enterprises had been privatised by mid-1996. It is intended to sell the remainder (many of which are in the agricultural sector), during the second half of the year.

The law relating to state interests lists 29 companies which will not be privatised (mainly in gas and electricity generation, telecommunications, armaments and agriculture). It also lists a further 45 companies some of which have already been partially privatised, and which are defined as "strategically important" (mainly in mining, chemicals, construction, engineering and the agricultural sectors). Under the amendment the state would retain ownership either via a shareholding in excess of a third of the total number of shares or through a "golden share". Under this proposal, the state would have enjoyed special voting rights. However, in April 1996 the Constitutional Court declared that the golden share concept was unconstitutional on the grounds that it violated the rights of other shareholders. A subsequent amendment to the law (on state interests), passed in June this year, added the names of the three largest banks to those companies which could not be privatised, although, in the case of the banks, the effect of this amendment expires at the end of March 1997.

**Small-scale privatisation**
The sale of small state-owned enterprises was largely completed during the first round of privatisation in 1992, with approximately 10,000 enterprises auctioned off.

**Property restitution**
A restitution law was adopted by the CSFR in October 1990. Within the CSFR about 30,000 industrial and administrative buildings, forests and agricultural plots, which had been nationalised during 1948-55, as well as 70,000 commercial and residential entities nationalised during 1955-59, have been handed back to the original owners. A further law on restitution covering former church property was adopted in the Slovak Republic in October 1993.

A restitution fund was established by the NPF in 1993 to provide financial compensation to those whose claims could not be met by the return of property. The fund usually receives 3 per cent of shares in each privatised company and currently has stakes in some 500 companies with a market value of over 2 billion crowns. Revenues (estimated at 500 million crowns in 1995) from sales of shares and dividends are used to meet claims.

**Growth of private enterprise**
The number of profit-driven institutions rose from 42,250 in October 1995 to over 46,800 by May 1996. Over 96 per cent of these are private sector companies.

**Enterprise restructuring**
The main restructuring tools have been indirect: privatisation, tight access to credit and subsidies for enterprises, liberal rules of entry, and import competition. Restructuring has essentially been left to the new private owners. The initial Law on Bankruptcy was passed in August 1991 and came fully into effect in 1993. Although it allows creditors to bring bankruptcy cases to court after a three-month protective period and also provides scope for both creditors and debtors to propose arbitration procedures, in practice there is virtually no possibility of external creditors forcing companies into bankruptcy.

The number of bankruptcies has been small. A total of 1,530 bankruptcy petitions were filed last year, but only one company went into liquidation as a result. Recent proposals by the government on a new draft law contain certain improvements to procedures, but also exclude strategic enterprises from bankruptcy proceedings.

The government has introduced a number of programmes to support SMEs, focusing on the provision of business counselling services and training programmes. Support also includes initial capital for companies with less than 200 employees and which are majority Slovak owned; loans are also available for SMEs which have been established from former state-owned enterprises. With the support of both the EBRD and Phare, the government established in 1996 a Post Privatisation Fund amounting to a little over ECU 50 million which will invest in and, where necessary, provide technical assistance to medium-sized companies which have recently been privatised or established but which face capital constraints.

## Markets and trade

**Price liberalisation**
In January 1991, the majority of consumer prices were decontrolled. The only remaining significant controls pertained to utility charges, rents and public services. In addition, mark-ups were closely regulated in the energy sector.

In November 1995, parliament approved a law allowing the Ministry of Finance to regulate the prices of certain goods and services in the domestic market, including gas and electricity. The law took effect on 1 April this year. The government approved increases in electricity prices for both industrial consumers (10 per cent) and residential consumers (5 per cent) with effect from 1 August. This represents the first increase in electricity prices for several years.

**Competition policy**
A competition law was passed in 1991 and amended in October 1993 to bring it close to consistency with EU legislation. The European Commission's "White Paper" on Accession to the EU has indicated where changes to the legislation in this area are required to conform to EU directives. There is a liberal legal and regulatory environment for foreign investors, with no restrictions on repatriation of profits and invested capital.

**Trade liberalisation**
Almost complete elimination of quantitative controls on imports and exports was undertaken in 1991. Export licences are required only for certain natural resources.

The average weighted import tariff is 4.9 per cent (and will fall to 3.8 per cent with the implementation of the Uruguay Round). A 10 per cent surcharge on all imports of consumer goods and foodstuffs was introduced in March 1994. Following pressure from a number of sources, especially the WTO, the government agreed to reduce the surcharge to 7.5 per cent from 1 July 1996 and abolish it at the beginning of next year. The bilateral Payments Agreement for trade with the Czech Republic ceased to be effective in October 1995, although the customs union was maintained.

The Slovak Republic became a member of WTO in January 1995, succeeding the CSFR in its GATT membership. On 1 February 1995, the interim version of the Slovak Republic's "Europe Agreement" was converted into the fully fledged version. As well as maintaining the customs union with the Czech Republic, the Slovak Republic has free trade agreements with both EFTA and CEFTA, and with Romania and Bulgaria. In April this year, it signed similar agreements with both Latvia and Estonia.

**Currency convertibility and exchange rate regime**
Current account convertibility for enterprises was introduced in January 1991. Full current account convertibility, for both individuals and enterprises, was introduced on 1 October 1995, following parliament's approval of a new foreign exchange law. *Inter alia,* this allows Slovak citizens to exchange Slovak crowns for foreign payments on all current account transactions for goods and services in hard currency. Some restrictions on capital account remain including limits of foreign lending by Slovak entities and purchases of real estate by non-residents. However, the Slovak authorities intend to progressively liberalise the capital account over the next few years. The exchange rate is pegged to a basket in which the Deutschmark has a weight of 60 per cent and the US dollar a weight of 40 per cent. The National Bank of Slovakia (NBS) widened the fluctuation band around the central parity for the Slovak crown to +/- 3 per cent from the beginning of 1996 and then to +/- 5 per cent in July.

**Wage liberalisation**
A tax on "excessive increases" was imposed during 1991, with agreement from unions, to regulate the rise in real wages. The tax expired at the end of 1992. Remaining selective controls on wages were abolished in late 1994. Wages policy is currently determined via collective bargaining on a tripartite basis between the government, employers and the trade unions. As part of the agreement concluded in March this year, the minimum monthly wage was increased to 2,750 crowns, compared with an average monthly wage of 7,150 crowns in the first quarter.

**Interest rate liberalisation**
Interest rates were completely liberalised in April 1992. At the beginning of 1996 the discount rate was lowered to 8.75 per cent, although since then monetary tightening has led to higher money market rates. Lending rates have remained positive in real terms.

## Financial institutions

**Banking reform**
A two-tiered banking system was adopted in January 1990. Laws on the central bank and commercial banks were passed in February 1992. With the split of the CSFR, the National Bank of Slovakia (NBS, central bank) was established in January 1993 as the Slovak successor to the former State Bank of Czechoslovakia. At the time of independence at the beginning of 1993 there were 23 banks operating in the Slovak Republic. In 1996, 31 banks were operating in the Slovak Republic, including six wholly domestically owned banks, 16 with foreign capital participation, seven branches of foreign banks and two state-owned banks.

The sector remains dominated by the three main banks, the VUB General Credit Bank (46.9 per cent state owned), the Investment and Development Bank (36 per cent) and the Savings Bank (97 per cent). These account for some two-thirds of all loans and 70 per cent of all deposits, while the majority of all personal deposits are held with the Savings Bank.

During the CSFR period, a state-owned Consolidation Bank was established in March 1991 to take over Kcs 110 billion (20 per cent of credits to enterprises) of "permanent revolving credits" (perpetual loans characterised by low interest rates and issued for inventory financing). State-financed recapitalisation of the banks totalling Kcs 50 billion was conducted in November 1991 (these recapitalisation figures cover the CSFR as a whole).

Non-performing loans, however, remain a source of concern. At the end of 1995 classified claims (generally those where payment is overdue by more than 90 days) amounted to 132 billion crowns – 29 per cent of total claims of 451 billion crowns, most of which are on the books of the main banks. By mid-1996, the value of classified loans had fallen to 121 billion crowns.

To assist with the restructuring of banks' balance sheets, the NBS approved a regulation with effect from July 1995 that banks should adopt five categories of accounts receivable, based on a financial analysis of the debtors, and make provisions against each category. There have been discussions between the Ministry of Finance and the NBS over the extent to which banks can set aside tax-deductible provisions for loan losses, which would require changes to the tax laws (at present provisions are subject to corporate income tax).

The policy of the NBS over the last year has been to strengthen the banking sector partly by strengthening its own supervisory capability. The regulatory regime sets the required capital adequacy (following the Basle definition) at 6.25 per cent by the end of 1993 and 8 per cent by the end of 1996. At the end of 1995, it is estimated that all but two of the banks met the interim capital ratio guideline of 7.25 per cent.

In February 1996, parliament approved an amendment to the 1993 Banking Act which strengthened the powers and the position of the Supervisory Department of the National Bank. Amendments included changes to the rules on bank secrecy, making it necessary for banks to inform the NBS of any loans/guarantees in excess of 1 million crowns.

The amendment to the Banking Act of 1996 also set out the legal framework for the provision of mortgages. The act enables banks to lend up to 60 per cent of the value of the property and to take possession in the event of a default.

In March this year, parliament passed a law on the Deposit Insurance Scheme, which provides protection for personal (not corporate) deposits at all banks. Until then, only personal deposits held at the three main banks were guaranteed by law. The new law, which came into effect on 1 July, provides protection up to a limit of 30 times the average monthly salary in the Slovak Republic. The Deposit Security Fund has been financed by initial contributions from the commercial banks and the NBS, and thereafter by regular contributions from the banks in the region of 0.1 to 0.3 per cent of their deposits in the previous quarter.

The privatisation of the three main banks and the main insurance company, Slovenska Poistovna, which was intended to be undertaken early in 1996, has been postponed at least until the end of March next year. This was reported to reflect the need for further discussions with the Czech authorities on the transfer of their shares in VUB. There were, however, also differences of view on the approach to the privatisation of these banks between the coalition parties.

**Non-bank financial institutions**
At the beginning of 1995 about 160 investment funds were in operation, the majority dating from the first round of voucher privatisation. The future of some of the funds has been in doubt following the government's decision to cancel the second round of voucher privatisation. Despite the offer of cooperation from the government, some funds have suffered financial losses owing to costs incurred with the preparations for the second round. In addition, amendments to the Investment Funds Act have restricted the role of the funds on the management boards of companies they own and have also limited the share that a fund may hold in any one company to 10 per cent.

**Securities markets and instruments**
The Bratislava Stock Exchange, the RM-system (an over-the-counter exchange) and the Bratislava Options Exchange began operations during the first half of 1993. In March 1994, nine companies were listed on the stock exchange. The RM-system trades in nearly 600 companies distributed under the voucher privatisation scheme and matches buy and sell orders, mainly for retail investors, via its 150 branches throughout the country. Foreigners are free to participate in the market for shares; profit repatriation is subject to payment of income taxes on capital gains. Because the markets were fragmented and lacked liquidity, it is estimated that over 80 per cent of all trades were over-the-counter in the initial years.

The government has recently taken a number of measures to consolidate the structure of the securities market and improve transparency. In October 1995 the licence of the Options Exchange was terminated and both the Stock Exchange and the RM-system were given authority to organise the spot market for publicly traded securities. The amendment to the Securities Law approved in late 1995 requires all publicly traded companies to publish annual and semi-annual accounts to FIAS standards (on a quarterly basis for the 19 companies listed on the stock exchange), provides some protection for minority shareholders in the event of takeovers and proposes the establishment of an independent supervisory body to regulate the securities market (currently undertaken by the Ministry of Finance). Other changes that have been introduced cover block trading and the agreement of an average price for securities traded on both the stock exchange and the RM system.

In July 1996 bond issues by both the EBRD (750 million crowns for one year) and the IFC (1.2 billion crowns for three years) saw the opening of the Euro-Slovakian koruna market.

## Fiscal and social safety net reform

**Taxation**
A comprehensive tax reform was implemented in January 1993, introducing a value added tax (VAT) in two tiers, streamlining corporate and individual income taxes, and transferring funding for social security from general taxation to an insurance-based system. In July 1993, the VAT rates were raised to 25 per cent and 6 per cent. Further revisions in January 1994 reduced the corporate tax rate from 45 per cent to 40 per cent, and the maximum personal income tax rate from 47 per cent to 42 per cent. At the beginning of 1996 parliament approved a law to allow the VAT rate to be lowered to 23 per cent and for the range of goods subject to the lower 6 per cent band to be widened.

**Social security**
Employers and employees contribute 38 per cent and 12 per cent respectively of the employees' gross income for health and social security contributions. Legislation is currently under preparation to improve the targeting of social benefits.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, made directly and indirectly through the use of indirect investment vehicles, such as securities or investment funds. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals may, subject to certain conditions, own or lease land. Security interests over shares and land may be created, require notarisation and entry in an official register. Security interests over contracts, receivables and moveable assets are possible.

**Effectiveness**
The full texts of laws relating to investment are published, usually within six months of enactment. Draft laws affecting investment are not usually published. Records containing land registers are usually current within one month, while share registers are current within three months. Important court decisions are not usually published or easily accessible by practitioners. Independent professional legal advice is available. Private parties generally believe that courts will recognise and enforce their legal rights, including against the state. Foreign arbitral awards are required to be recognised by the courts without a re-examination of their merits.

# Slovenia

*In 1990, after independence, a comprehensive reform programme was adopted. Liberalisation of prices and trade, extensive restructuring of industry and banking reform have taken place, alongside successful macroeconomic stabilisation. Comprehensive mass privatisation is in progress.*

## Enterprises

**Size of the private sector**
According to official estimates, the private sector accounted for almost 20 per cent of GDP (and employment) in 1993. This ratio is likely to have risen since then but no recent official estimates are available.

**Large-scale privatisation**
Privatisation of the "socially owned" enterprises is governed by a law passed in December 1992. The government's objective is to privatise a total of 1,549 of such companies. The first step of the privatisation process has been the preparation of an "opening balance sheet" and submission of privatisation plans to the Agency for Restructuring and Privatisation. Their sale will, in part, take place through mass privatisation in support of which "ownership certificates" have been issued to all Slovene nationals. The value of each ownership certificate is linked to the age of the citizen. The certificates can be exchanged either for shares directly in enterprises or for shares in the Investment Funds.

In the privatisation plans prepared by the individual company, it has been possible to distribute a maximum of 20 per cent of the shares in the company to incumbent employees free of charge. A further 40 per cent of the shares will be transferred to three state-run funds: 20 per cent to the Development Fund, 10 per cent to the Pension Fund and 10 per cent to the Restitution Fund set up to compensate individuals for previous nationalisations. The remainder may be sold to management/ employees or to outside investors.

From January 1995 to mid-September 1996, the Privatisation Agency gave first approval to a total of 1,266 privatisation programmes, with 31 transferred to the Development Fund (SKLAD). Approximately 707 enterprises have reached the stage of second and final approval by the Agency, 25 per cent of which are currently awaiting official registration with the courts. In companies representing about half of the book value of the 707 privatised companies, employees own a majority stake. Only 100 socially managed enterprises have not presented their privatisation plans: they are mostly non-viable enterprises that will have to be restructured or closed down. It is expected that, by the end of 1996, most companies will be privatised.

Large public utilities are still majority to totally state owned. However smaller utilities are currently either minority publicly owned (either by state or municipality) or they have been privatised according to the same principles as other enterprises.

Banks and insurance companies will remain majority state-run in the short term.

**Small-scale privatisation**
Almost all small-scale trade and service activity is in the hands of the private sector. Extensive small-scale private activity existed under former Yugoslav law.

**Property restitution**
Under the 1993 Law on Denationalisation, land and buildings can be returned to former owners. A compensation fund (Restitution Fund) is being recapitalised with shares in privatised companies. Lack of clarity on land ownership is a common feature. When a conflict arises between the former owner of an enterprise to be privatised and the enterprise itself on the restitution claim and/or on the valuation of the enterprise, the conflict is resolved through mediation. Given the size of restitution claims, the Restitution Fund appears to be undercapitalised. In the context of the association agreement with the EU, the government has made a commitment to changing the current legislation which prevents foreigners from owning land.

**Growth of private enterprise**
In mid-1995, there were 56,000 private companies in Slovenia (40 per cent up on 1993) employing about 90,000 people. About 93 per cent of enterprises are small, 4 per cent medium and 3 per cent large.

**Enterprise restructuring**
Substantial action has been taken to break up large "socially managed" enterprises into smaller units. Slovenia's law on bankruptcy and liquidation became effective in 1994 and is being enforced.

In November 1994 a law was passed to regulate the privatisation of companies rehabilitated by the Slovenian Development Fund (SKLAD). SKLAD, a government agency, was established in 1990 to supervise, restructure and assist the privatisation process. In 1992 the Fund assumed ownership of 98 large and medium-sized companies, mostly in the manufacturing sector, which were in financial and operational distress and it started to implement organisational, financial and operational restructuring. SKLAD's ultimate objective was to return the enterprises on its portfolio to financial viability to enable their privatisation. SKLAD now has a controlling interest in 18 companies. The remainder of the companies originally on its portfolio have been privatised or forced into bankruptcy. As a result of restructuring carried out by SKLAD, 21,000 of 55,000 workers originally employed in the 98 enterprises were laid off.

## Markets and trade

**Price liberalisation**
Price liberalisation was almost complete by mid-1994. In the first half of 1995, the regulated energy price was raised by 15 per cent and telephone charges by 26 per cent. Electricity prices are steadily being raised (in 1995 they increased 5 percentage points over the rate of inflation, and 4.1 percentage points during the first four months of 1996) and in June 1996 amounted to just over 70 per cent of EU equivalent levels. Natural gas prices are close to EU levels. The government has, during the first half of 1996, turned down requests to raise some utility tariffs, prices of butane, city public transport and telephone services; however, it did increase petrol prices in July 1996 (but reduced the relevant tax rate).

**Competition policy**
Entry barriers have been completely removed in the manufacturing sector, but not in agriculture and services. During the first half of 1995 the anti-monopoly commission, the Office for the Protection of Competition (OPC), conducted a cartel investigation of the agreement among Slovene banks to set a maximum deposit rate. The 1994 government decree authorised OPC to handle complaints by Slovene companies about dumping and subsidised imports.

**Trade liberalisation**
By end-1994, 98 per cent of imports were free from quantitative restrictions. The estimated rate of effective protection amounts to 4 per cent (down from 38 per cent before liberalisation begun). The government is committed to further liberalisation and to the elimination of all non-tariff barriers (still substantial in sectors such as telecommunications and electrical equipment). Slovenia became a full member of GATT in September 1994, and joined the Central European Free Trade Agreement on 1 January 1996. On 10 June 1996 Slovenia signed the Association Agreement with the EU.

**Currency convertibility and exchange rate regime**
The national currency, the tolar, was introduced in October 1991 and is fully convertible for current account transactions (Slovenia accepted IMF Article VIII obligations in 1995). The exchange rate is floating. Every foreign currency loan to a Slovene beneficiary of a duration less than five years requires an interest-free deposit with the central bank of 40 per cent of the loan amount. Foreigners are permitted to repatriate profits and capital.

**Wage liberalisation**
Collective tripartite contracts between the government, employers and trade unions are the legal basis for determining wages. In an attempt to control wage increases, a law was passed in April 1994 levying a 50 per cent tax on wages above a defined level. In practice both this and previous attempts to control wages through legislation and taxation have met with limited success. The 1996 Social Agreement set the minimum wage at 53,500 tolars (US$ 390), and established that the base wage is to be indexed to retail price inflation. There is no uniform legislation on wages of civil servants, which caused some social upheaval in 1996, when the wages of members of Parliament and those of judges were changed.

**Interest rate liberalisation**
Commercial banks are free to set their deposit and lending rates. Since the establishment of the national currency, rates have been highly positive in real terms.

The government is gradually phasing in a regulation that will reduce the role of backward-looking inflation rates in the setting of interest rates (the convention has hitherto been to quote interest rates in "real" terms).

## Financial institutions

**Banking reform**
A national two-tiered banking system was introduced in 1991. The Bank of Slovenia became the central bank responsible for monetary policy, exchange rate management and the regulation

of commercial banks. To reduce the dominance of the largest bank, majority state-owned Ljubljanska Banka (LB), the government carved out separate banks from some of LB's subsidiaries. There are 33 banks in total; only nine of them are important market players, the others are small; the two largest are state-owned. Foreigners have majority ownership in five banks and two banks are fully foreign-owned. Shares of two banks are listed at the national stock exchange. In 1993 the state Agency for Bank Rehabilitation recapitalised two state-owned banks by swapping bad loans with its own bonds issued against security provided by the government. At the end of 1995, such bonds were replaced with government bonds with different maturity dates and for a total value equivalent to 6.4 per cent of 1996 expected GDP.

The banking law expected to be enacted during 1995 (concerning bank privatisation) has not yet been approved. Privatisation of the largest two state banks is not expected before 1997. Since September 1994 all banks have satisfied the minimum capital adequacy requirement, which was raised from 6.25 per cent to 8 per cent in August 1994. However, banks under rehabilitation do not comply with the requirements of investment restrictions and are still dependent on special liquidity loans from the central bank. Bank supervision is well developed.

**Non-bank financial institutions**
About 81 Authorized Investment Companies (known as privatisation funds) managed by 24 management companies are licensed to collect "ownership certificates" from citizens (see the section on Large-scale Privatisation above) and issue shares. They are closed-ended investment companies. These funds can participate in auctions organised by the Slovenian Development Fund, where shares of privatised companies are sold for cash or ownership certificates. Their total equity is currently about DM 4.5 billion. The rate of subscription at the end of 1995 was 78 per cent. Subscription is still under way in 11 investment companies. The remainder have already closed. Estimates suggest that 90 per cent of ownership certificates distributed to the population have been used.

In September 1994 the parliament passed a law regulating insurance companies, in accordance with directives about the level of capital at risk. The share of insurance and reinsurance activities in GDP did not exceed 4 per cent in 1995. There are 11 insurance and two reinsurance companies, all registered as joint-stock companies (none entirely foreign-owned, and only four partly foreign-owned).

**Securities markets and instruments**
Securities markets are regulated by the Law on Securities (1989 and 1990), the Law on Money Market and Capital Market, and the New Securities Market Act of 1994. The Ljubljana Stock Exchange was founded in December 1989. A total of 36 securities are listed, and 57 members are registered for trading. Government, municipal and enterprise bonds are traded. Market capitalisation of the stock exchange is still relatively modest (4.6 per cent of GDP at the end of 1995).

A law on financial operations with foreign entities and a take-over law are expected later in the year. Within this framework, the privatised companies appear to be waiting for these laws to be passed before going public. In January 1995 an over-the-counter market was opened on the Ljubljana Stock Exchange, with eight companies acting as brokers. The Ljubljana Commodities Exchange started futures trading in March 1996.

There is a great concentration of shareholding on the informal markets. Administrative procedures for registration of companies and share issues at the Clearing and Depository House are lengthy.

## Fiscal and social safety net reform

**Taxation**
Following a comprehensive tax reform in 1990-93, corporate profits are taxed at a flat rate of 25 per cent; 20 per cent of profits may be placed in a tax-free reserve, conditional on reinvestment within four years. Personal income tax is progressive, with a minimum rate of 17 per cent and a maximum rate of 50 per cent. The personal income tax is, however, *de facto* a wage tax (in 1994 wages and salaries represented 87 per cent of the personal income tax base). There is a sales tax of 20 per cent for goods, 5 per cent for services and equipment, and 4 per cent on exports. Dividends are taxed at a 25 per cent rate for residents and 15 per cent for non-residents. Losses may be carried forward for five years. A new customs law became effective at the beginning of 1996 and a new law on customs tariffs is currently being discussed in parliament (customs charges are to be reduced by 45 per cent). At the beginning of 1996 parliament initiated procedures for the proposed law on value added tax and for that on excise duty. From 1 January 1997, a 30 per cent capital gain tax on securities held by individuals for less than three years will be introduced (gains made on first sale of shares bought during mass privatisation programme will be exempt). In July 1997 new legislation giving more authority to tax inspectors came into effect. The government's strategy is to shift more of the burden of taxation to indirect taxes and to reduce labour costs. This is slowly being put into practice. A value added tax is expected to be introduced in January 1998.

**Social security**
The Slovene pension system was partially reformed in 1992. Social security payments are contributed in equal shares by employers and employees at a total rate of 38 per cent of the gross wage (down from 42 per cent prior to July 1996). The share of expenditures for pensions in GDP is growing and in 1995 amounted to 13.8 per cent.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment, made directly and indirectly, by issuing bonds or through the activities of private investment funds. Such investment generally requires no government approval. Profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Nationals can freely own or lease land, but foreigners cannot own land. Security interests over contracts, receivables and moveable assets are possible and, in some cases, may require notarisation.

**Effectiveness**
The full texts of laws affecting investment are usually available and published within one month of being passed. Draft laws are usually published and accessible to practitioners. Public records in share or land registries may be up to six months behind current status. Court decisions are generally available to practitioners. Independent professional legal advice is available. Private parties generally believe that courts will recognise and enforce their legal rights, including against the state. Foreign arbitral awards are required to be recognised by the courts without a re-examination of their merits.

# Tajikistan

***Due to civil war and political instability, the reform process in Tajikistan has lagged far behind that of most other countries in the region. Although an economic reform programme focusing on privatisation and liberalisation was launched in 1995, reform measures were still limited in scope and progress remained slow. In early 1996, the Tajik government embarked on a renewed effort at stabilisation and structural reforms, which aims at a sharp reduction in inflation through tighter fiscal and monetary policies, and accelerating progress on privatisation.***

## Enterprises

**Size of the private sector**
Largely as a result of slow pace of privatisation, continued government interference in product markets and armed conflict within the country, the private sector has grown very slowly. The share of the private sector in GDP is likely to be about 15-20 per cent.

**Large-scale privatisation**
The privatisation process, which proceeded rapidly initially, slowed down considerably after the civil war broke out in 1992 and little progress has been achieved since then. Among the enterprises that are subject to the privatisation law, 380 relatively small enterprises (out of a total 1,304 enterprises) had been privatised by the end of 1995. Privatisation has mainly taken the form of ownership transfers to labour collectives or leasing arrangements.

In late 1995, there was improvement in legal framework to accelerate the privatisation process by opening up all sectors to the possibility of foreign ownership and envisaging a standard method for fast privatisation with strict deadlines for completion. The Tajik government launched a new programme in May 1996, which aims at privatising 40 per cent of the total state-owned enterprises by the end of 1997. The programme foresees privatisation of 280 large state-owned enterprises, of which 20 had been sold by the end of June 1996. The programme introduces a "privatisation cheque", which will be paid out for government arrears on wages and pensions, and will be used only for purchasing shares of state-owned enterprises to be privatised under the programme.

**Small-scale privatisation**
As of end-June 1996, about 1,800 small companies (about 10 per cent of the total number of enterprises) had been privatised. While over a quarter of the consumer service sector had been privatised, very few entities have been sold in transport, wholesale trade and industry. While most transactions have involved insider privatisation, there have been cases of sales to outsiders (i.e. to individuals or entities other than the incumbent management or employees), mainly in trade and other parts of the services sector.

Private ownership of (agricultural) land is not envisaged; land has been either assigned to agricultural collectives or joint-stock companies without the right of resale, or leased to farmers on a long-term basis. In agriculture, 6 per cent of cultivated land, which accounts for an estimated 30 per cent of total agricultural production, has been leased to private farmers. A decree from November 1995 calls for all non-irrigated land to be handed over to private farmers as long as the farmers agree to grow grains. Almost all dwellings have been privatised.

**Property restitution**
There has been no property restitution in Tajikistan.

**Growth of private enterprise**
Obstacles to growth of the private sector include difficult entry and exit rules, lack of finance, limited access to business information, strict labour regulations and an incomplete legal framework. As of mid-1995, Tajikistan had only 1,600 registered new private enterprises and corporations, employing about only 16,000 workers. As of end-June 1996, about 200 joint ventures had been registered, of which 135 were actively operating.

**Enterprise restructuring**
As with privatisation, enterprise restructuring began in 1991 but stalled as a result of the war and political instability and has yet to gain momentum. A Law on Bankruptcy was passed in June 1992 but few companies have been forced into bankruptcy. The 1995 decree on "The Identification of Bankrupt Enterprises" represents an effort to speed up rehabilitation and restructuring of inefficient enterprises. However, the restructuring of loss-making enterprises has been delayed because of the fear of the emergence of mass unemployment.

The number of people on compulsory unpaid leave or shortened working hours has increased rapidly in recent years; and huge stocks of inter-enterprise arrears have been accumulated, equalling about 20 per cent of estimated GDP at end-1995.

## Markets and trade

**Price liberalisation**
In January 1992 the government lifted price controls on 80 per cent of all goods. However, in 1993 some price controls were reintroduced. Prices in industry were regulated under the monopoly law by the maximum mark-ups, and 17 basic consumer items (including bread, milk, rents and public transport) were controlled by executive order. In June 1995, prices for these goods were liberalised, except for bread and flour. Bread subsidies (cash allowances for low-income groups and subsidies to the bread complex) accounted for three-quarters of the government budget deficit in 1995. On 1 March 1996, bread and flour prices were completely freed. Currently, prices are controlled on agricultural commodities (cotton, grains and silk), electricity, fuel, telecommunications and transportation. Utility tariffs fall far short of covering costs.

**Competition policy**
A law on anti-monopoly and competition was adopted in December 1993. However, major sectors of the economy still remain highly concentrated, often with only one state-owned supplier in a given market segment. In mid-1995, the state order system had been abolished, with the exception of the 1995 cotton harvest. Later, the government decided that mandatory sales to the cotton complex would not be applied to the 1996 cotton crop. No effective competition exists in many market segments.

**Trade liberalisation**
Until recently, a command system, based on state orders, quotas, export licences and centralised trading, dominated production and trade. In 1995 and early 1996, however, there has been a substantial progress in trade liberalisation. During 1995, state monopoly export rights and requirements for export licences were abolished, except for cotton and aluminium. In February 1996, the state order systems for all trade effectively ended with abolition of the state grain fund allocation of cotton and aluminium. Surrender requirements on exports receipts had been reduced to 30 per cent from 70 per cent in October 1995, and were replaced with a repatriation requirement on all export earnings in February 1996, and export duties were abolished for all goods, effective from 1 March 1996. New barter trade arrangements were prohibited, with the exception of contracts involving aluminium. Despite these developments, most of external trade is still handled by state organisations.

**Currency convertibility and exchange rate regime**
The Russian rouble remained the official currency until 10 May 1995, when Tajikistan introduced its independent national currency (the last republic in the former Soviet Union to do so). The exchange rate of the new currency, the Tajik rouble, is in principle floating (the currency exchange started to operate in mid-May 1995). In practice, the government and the central bank control major foreign exchange transactions in order to channel resources to priority sectors via the State Foreign Exchange Fund, and currency auctions were effectively suspended as there were limited supplies of foreign exchange. From early 1996, foreign exchange transactions through the formal market were resumed, with auctions once a week. A parallel foreign exchange market has been tolerated by the government. The central bank still *de facto* controls all hard currency earnings and currency convertibility is very limited. Capital transactions require licensing by the central bank, but there are no restrictions on the repatriation of profit and capital by foreigners.

**Wage liberalisation**
Wages in the state sector are tied to the minimum wage through norms set by the government via the Law on Wage Indexation (December 1993). However, outside the budgetary sphere, centralised wage-setting no longer exists. At the end of 1995, the average monthly wage was about 1,032 Tajik roubles (US$ 3.6) well under the level it costs to cover the monthly needs of one person for basic foods. This was the lowest in the FSU, about one-third the dollar wage in Armenia and Azerbaijan, and only one-tenth the level in Kyrgyzstan and Uzbekistan.

**Interest rate liberalisation**
Until the currency introduction in May 1995, interest rates remained centrally controlled: deposit rates of the Savings Bank were regulated at 8 per cent per annum for a demand deposit and 30 per cent for a one-year savings deposit. In the context of the currency reform, all commercial bank interest rates were liberalised, except for on-lending of National Bank of Tajikistan (NBT) credit. However, the NBT still imposes maximum lending margins on commercial banks and directs credit resources to priority sectors. In response to the interest liberalisation, banks more than tripled deposit interest rates. Nonetheless, the nominal deposit rates have remained highly negative in real terms. Credit allocation has favoured priority sectors such as agriculture, and regions affected by natural disasters.

## Financial institutions

**Banking reform**
The Law on Banking Activities and the Law on the National Bank established a two-tier banking system in February 1991.

Apart from the National Bank the financial sector in Tajikistan is dominated by 19 licensed banks, three of which account for 80 per cent of total lending and hold forex licences. The first joint venture bank started operations in 1995.

Banking regulations, approved by the National Bank Board in August 1995, concerned reserve requirements, extension of large credit and the banks' asset-liability structure. In January 1996 the minimum capital requirement for newly created banks was set at US$ 300,000. A number of existing banks already comply with this requirement. More than 80 per cent of the total paid-in capital must be in the form of cash (Tajik roubles only). Foreigners cannot own more than 49 per cent of a bank in Tajikistan.

Banks are inspected annually by the Supervision Department of the central bank, which produces its own annual "audit" of the bank. Auditing standards are those of the old Gosbank. A law on collateral was adopted in the second half of 1995.

Structural weaknesses remain in the form of insolvency and low portfolio quality, inadequate capital levels, lack of banking skills and an ineffective framework of prudential regulations and supervision.

**Non-bank financial institutions**
One state and several corporative insurance companies are operating. A small leasing company was created in 1991, but closed down soon after as there was no market at the time.

**Securities markets and instruments**
A securities market has been established but it is not operating yet. A number of small insurance companies have emerged.

## Fiscal and social safety net reform

**Taxation**
The value added tax has, since early 1992, been set at 20 per cent. A flat sales tax of 3 per cent in addition to the VAT was introduced from 1 July 1994. Excise duties, which account for a significant portion of tax revenue, range from 10 per cent (on jewellery) to 90 per cent (on alcohol). The profit tax rates range from 25 per cent (for farmers and small enterprises) to 60 per cent (in brokerage) with standard rate at 40 per cent. Personal income is taxed at progressive rates of up to 40 per cent for monthly income of more than 43 times the minimum wage.

In 1995, largely due to bread prices subsidies, the budget deficit increased dramatically to 21 per cent of GDP on an accruals basis. In an effort to combat this growing deficit, the Tajik government took a number of measures in late 1995 and early 1996: introduction of presumptive taxes on cotton and aluminium; elimination of the linkage between bread subsidies and the minimum wage; and a restructuring of budgetary functions. The 1996 budget targets a deficit of 5.4 per cent of GDP.

**Social security**
A payroll tax is levied on the monthly wage bill of enterprises at the standard rate of 37 per cent, of which 85 per cent goes to the Pension Fund, and 15 per cent to the Social Insurance Fund. Employees pay 1 per cent of wages to the Pension Fund. Budgetary transfers are made to the Pension Fund to cover the cost of family benefits. For the Employment Fund, employees pay 1 per cent of wage and the government budget also contributes. In 1995, the Pension Fund and the Employment Fund failed to pay pensions and unemployment benefits on a timely basis.

## Investment legislation

**Extensiveness**
Laws exist regulating domestic and foreign investment directly, and indirectly through the use of indirect investment vehicles, such as issuing of securities. Most foreign investment proposals require government approval as to the repatriation of profits. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners are prohibited from owning, but may lease, land. Security interests may be created over shares, but not over land. Security interests over shares require notarisation and entry in an official register. Security interests over contracts, receivables and moveable assets are possible and require notarisation and entry in an official register.

**Effectiveness**
The full texts of laws affecting investment are usually published within six months after enactment. Draft laws affecting investment are generally published and accessible to practitioners. Public records in share or land registries may be up to 12 months behind current status. Despite requirement for registration, registers do not always exist. Important court decisions are not usually published or accessible to practitioners. Independent professional legal advice is available but from a limited number of lawyers. While private parties generally believe that courts will recognise their legal rights against other private parties, they do not believe the courts would enforce such rights against the state. Foreign arbitral awards are required to be recognised and enforced by the courts without a re-examination of their merits, although this rule remains largely untested in practice.

# Turkmenistan

*While very little privatisation has occurred, and implicit subsidisation (through price controls on key production inputs) remains pervasive, the government is increasingly emphasising the need for the enterprises and farms to get by without explicit government subsidisation and without reliance on state-directed credits from the banking system. Consistent with public statements to this effect, monetary data for the first half of 1996 point to a very substantial tightening of credit policies. Among the important measures introduced this year are the prohibition of barter for non-gas exports, and the unification of the "official" and "commercial" exchange rates.*

## Enterprises

**Size of the private sector**
According to government estimates, the officially recognised private production or service units employed about 22 per cent of the labour force and accounted for 9 per cent of GDP in 1995. Government estimates indicate a total private sector share of GDP of about 18 per cent in 1995, including the "home industry" and Sunday market trading.

**Large-scale privatisation**
The government aims to privatise 600 medium-sized or large enterprises during the remainder of this year but no decisions have been made as to the exact identity of these enterprises or to the privatisation methods that are to be applied. Reportedly, four enterprises, with between 100 and 500 employees each, have been privatised.

**Small-scale privatisation**
In the first stage of the government's privatisation programme (enacted in 1993), ownership has changed in 1,800 small units (mainly catering shops, tailors, hairdressers, laundries and repair shops). Within this group of units, 600 were auctioned off to private individuals. The remainder were purchased by cooperatives. The 1,800 "privatised" units represent 40 per cent of all small-scale state-owned units (with "small units" defined to be those with fewer than 20 employees). Shops for food, including small outlets for fruit and vegetables, remain fully government-owned.

Six departments of the Ministry of Agriculture were recently turned into so-called "associations" that are to act as holding companies for enterprises owned by the Ministry. Each of these holding companies is to pursue privatisation for the companies in its care. However, non-state ownership in these companies is limited by Presidential decree to at most 49 per cent.

In agriculture, a small share of the land has been leased to private individuals. Land ownership has been legalised. The maximum plot size that can be owned privately is 15 hectares.

**Property restitution**
Turkmenistan has no programme of property restitution.

**Growth of private enterprise**
Official estimates point to about 21,000 private production or service units, excluding the "home industry" and informal trading entities.

**Enterprise restructuring**
Little effort has been made to initiate orderly restructuring of enterprises. Since the second half of 1993 enterprises have been faced with shortages of imported production materials due to a sudden drop in the country's gas-related hard currency revenues, but have been helped to keep employees on the payroll through the rapid extension (until early 1996) of credits from the banking system. The Law on Bankruptcy was passed in June 1992 but few companies have been forced into bankruptcy to date.

## Markets and trade

**Price liberalisation**
During the course of 1995 and the first half of 1996, Turkmenistan's formerly comprehensive system of price controls has been loosened significantly. January 1995 saw a reduction in the number of goods and services subject to price controls and rationing from more than 400 to about 50. Remaining controls include state-defined prices for bread, meat, baby food, sugar, milk, heating and housing. The ratio of most controlled prices to the average price level has been raised sharply since the beginning of 1995. Meanwhile, market-based trading is taking place in goods that are subject to rationing (for example, in late May 1996 meat rations were sold at 200 manat per pound whereas meat in the market sold at 6,000 manat per pound). Rations of gas, electricity and water continue to be distributed to the population for free.

**Competition**
Turkmenistan does not have an anti-trust law.

**Trade liberalisation**
Centralised state trading remains a prevalent influence on both foreign trade and production. Outside this system, licences can be obtained for most imports and exports. However, duties and tariffs can be very high. The establishment of a commodity exchange, on 1 August 1994, led to further centralisation of foreign trading operations as all trade transactions (domestic or foreign) exceeding a certain modest amount (initially 250,000 manat) had, by law, to be carried out at (or be registered and endorsed at) the exchange.

The Turkmen authorities banned barter for cotton, wool, oil and oil-products from 1 May 1996. Exports of these goods must now be sold for cash at the commodity exchange.

**Currency convertibility and exchange rate regime**
There are formally few quota restrictions on imports and exports but most foreign trade is subject to licensing. Turkmenistan introduced its own fully fledged currency, the manat, on 1 November 1993. Having pursued a system of multiple exchange rates, heavy foreign trading controls and high export surrender requirements during most of 1994-95, the Turkmen authorities moved to unify the exchange rate on 2 January 1996 at a rate of 2,400 manat per US dollar, close to the parallel market rate. Prior to this, a so-called "official rate" had applied to all government transactions and a so-called "commercial rate" had applied to all other transactions, including sales of currency by individuals to commercial banks, and foreign currency conversion by foreign businesses and tourists.

After keeping the two exchange rates largely unified during January 1996, the authorities allowed a substantial wedge between the rates to emerge during the first half of February and then revalued the official rate to 1,000 manat per US dollar on 22 February. This appears to have been a response to the unpopularity of very substantial price increases for bartered goods that had occurred in the wake of the devaluation of the official rate in early January. The latter devaluation had made the effective cost of barter arrangements transparent and had moved the cost of unfavourable terms of trade in such arrangements from the exporters to the consumers (i.e. the consumers of goods that were imported from Ukraine and Georgia in return for gas deliveries from Turkmenistan). The revaluation in late February moved the cost back to the exporters and away from consumers.

On 30 March, the official rate was again devalued sharply, leading to a reunification of the official and commercial exchange rates at 3,000 manat per US dollar. By 19 July, both rates had depreciated further to 4,025 manat per US dollar. In principle, the exchange rate is to be determined in regular interbank auctions but by late May only one such auction had taken place.

Since 27 December 1995, currency receipts earned by state entities have, as a general rule, been subject to a 50 per cent surrender requirement, except in the case of oil and gas, to which a 70 per cent surrender requirement applies. There is no foreign currency surrender requirement for private sector export earnings.

**Wage liberalisation**
A statutory minimum wage is set by the state and wages tend to be adjusted at the same time and at uniform percentage rates throughout the state-owned sector. Uniformity is exercised in part through the imposition of a tax on excess wage increases. The officially recommended average salary was adjusted on 1 May 1996 to 30,000 manats per month (about US$ 10 at the then-prevailing official exchange rate), from previously 20,000 manats per month.

**Interest rate liberalisation**
Both 1994 and 1995 saw large amounts of quasi-fiscal directed credits being channelled via off-budget ministries to industry, energy extraction, agriculture and priority state investments. The flow of such credits appears to have dried up since the announcement on 27 December 1995 by the President of a move towards more reform-oriented policies. Following this announcement, nominal interest rates have risen markedly although they remain in all cases substantially below the level of inflation. The highest rates apply to lending for the small private sector. In May 1996, one of the largest private enterprises in the country informed the EBRD that it was paying a local commercial bank about 185 per cent per annum on its working capital credit. Short-term lending rates in the interbank market were 90-95 per cent.

## Financial institutions

**Banking reform**
Upon the introduction of Turkmenistan's national currency, the manat, in November 1993, the State Bank became Turkmenistan's central bank. The five largest state banks, which were established in the late 1980s as a number of so-called "specialised banks" to handle commercial lending and deposit-taking previously undertaken by the State Bank, are used heavily by the state as an instrument for distribution of directed credit and play a dominant role in the financial sector. Most banks are in need of major restructuring. Turkmenistan's banking sector now includes 15 commercial banks. Seven banks were liquidated in 1995. Some banks are owned by state enterprises which are also the main recipients of loans from these banks. Six of the commercial banks are owned by enterprises and other non-government owners: and two banks are 50 per cent foreign-owned joint-stock companies.

In mid-February 1995, the President issued a decree which retroactively instructed all banks to surrender 75 per cent of profits made in 1994 to the state budget and ordered banks to cut lending rates for state-owned enterprises to 15 per cent per annum. Interest rates have subsequently been raised substantially (see the section on interest rates above).

**Non-bank financial institutions**
No venture funds are operating in Turkmenistan.

**Securities markets and instruments**
There is no securities market in Turkmenistan.

## Fiscal and social safety net reform

**Taxation**
The standard rate of profit taxation (introduced in 1991 to replace profit transfers to the budget) was reduced from 45 per cent to 35 per cent in January 1992 and further to 25 per cent one year later. Certain exemptions apply to foreign investors and some sector-specific rates apply. The personal income tax structure was simplified in June 1994. Rates in the new system ranged from 0 to 10 per cent. This system was replaced by a new flat rate of 8 per cent in July 1995 with a tax-free threshold at twice the minimum wage. The VAT was reduced to 20 per cent in 1993 with a preferential rate of 10 per cent for certain staple goods. Export taxes were eliminated in 1994. Otherwise, few major changes to the tax system have been introduced in the past $2\frac{1}{2}$ years.

**Social security**
The social security system is partly financed by payroll taxes set at 20 per cent of wages.

## Investment legislation

**Extensiveness**
Laws exist regulating both foreign and domestic direct investment and the use of indirect investment vehicles, such as securities or investment funds. Most foreign investment proposals require government approval; profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by

foreigners and nationals of shares in companies/enterprise. Foreigners are prevented from owning, but may lease, land. Security interests over shares and land may be created, require notarisation and entry in an official register. Security interests over contracts and moveable assets are possible. No legislation exists as to security interests over receivables.

**Effectiveness**
The full texts of laws relating to investment are published usually within one month of enactment. Draft laws affecting investment are not always accessible to practitioners. Although there is a law on pledge, registers of ownership interests and pledges of assets granted by way of security rarely exist. Important court decisions are not generally available to practitioners. Independent professional legal advice is available but from limited number of lawyers. While private parties generally believe that courts will recognise their legal rights against other private parties, they do not believe that courts would enforce such rights against the state. Foreign arbitral awards are not required to be recognised and enforced by the courts without a re-examination of their merits.

# Ukraine

***In the early 1990s, several partial reform programmes were adopted only to be abandoned. Reforms during 1993 and early 1994 were gradual and inconsistent. Since October 1994, Ukraine has made headway with macroeconomic stabilisation, price and trade liberalisation, and has begun to implement a new mass privatisation programme. However, structural reform, including large-scale privatisation, has proceeded slowly, and progress with delayed land and agricultural reform has been blocked by the agrarian lobby in the parliament. At the end of June 1996, a new constitution was adopted. This resolves some of the issues regarding the division of powers between the President, the government and parliament, allows the President to issue decrees on economic issues for three years and guarantees private property rights.***

## Enterprises

**Size of the private sector**
According to Ukrainian statistics, the non-state sector (which includes companies with only a minority private ownership stake) accounted in the first quarter of 1996 for 60 per cent of the number of industrial enterprises and 48 per cent of industrial output. The private sector may account for about 40 per cent of GDP, of which a large share is in the informal sector.

**Large-scale privatisation**
Large-scale privatisation was slow until 1994. Privatisation commenced officially in 1992, mainly via non-competitive methods, including management/employee buyouts, and leasing to employees. In July 1994, mass privatisation was suspended altogether by the Ukrainian parliament. Following this suspension, a Presidential Decree of November 1994 introduced a new voucher-based mass privatisation programme (MPP) and required the State Property Fund to privatise at least 8,000 medium-sized and large-scale enterprises in 1995.

By mid-1996 it is estimated that some 3,500 enterprises had been sold to private shareholders under the MPP. The proportion of shares sold to private shareholders has differed between entities, but in some 2,000 of these enterprises, at least 70 per cent of the shares have been sold to private shareholders. Approximately 40 per cent of these enterprises are in the agro-industrial sector. However, the majority of sales have taken the form of preferential sales, share transfers and buyouts by management and employees. The authorities intend to accelerate the programme and bring the total number of companies in which 70 per cent ownership has been privatised to 5,000 in 1996.

The main reason for delays in privatisation is the opposition from the agro-industrial groups in the parliament. In early 1996 draft legislation was prepared by the parliament which stipulates a transfer of 51 per cent of shares in some 3,600 agro-industrial enterprises to the managers of collective farms, and the reversal of previous privatisations in some cases. The President has vetoed this legislation on a number of occasions, but the draft has nevertheless created considerable uncertainty over the status of these enterprises. In addition, parliament had earlier voted to exclude over 6,000 companies from the MPP altogether. The State Property Fund, however, is proceeding with privatisations, including the sale of agro-industrial enterprises. Another source of a slowdown in the pace of privatisations slowed has been the setting of minimum prices in voucher-based auctions. This often leads to under-subscription of shares and the need for multiple auctions. Procedures for the inclusion of enterprises in the auction process are also rather complicated.

Steps have been taken to accelerate the privatisation programme. These include the decision to end the voucher scheme in 1996 (although the deadline for issuing vouchers was recently extended from end-June to 1 October) and streamlining the procedures for privatisation to reduce the time required to prepare enterprises for privatisation. Compensation certificates are being distributed to holders of savings deposits to compensate them for the inflation-induced erosion in the value of their savings. These can be used to buy shares in enterprises that were not sold in the main auctions. No minimum price will be set at auctions in which companies will be sold for these certificates, and the certificates are tradable. The authorities have taken a number of other measures to improve the efficiency and transparency of the auction system, including the introduction of a comprehensive information system. In August 1996 the government approved a list of over 200 companies to be sold via international tenders.

**Small-scale privatisation**
Parliament adopted a Law on Privatisation of Small State-owned Enterprises in March 1992 (and a further law, passed by parliament in May 1996, has not altered the main thrust of small-scale privatisation). However, by the end of 1994 only around 8,000 of some 45,000 small enterprises (defined as those with less than 200 employees) had been transferred from state ownership into private hands, while approximately half of all enterprises were held in collective ownership, and obtained the right of access to production facilities through leasing arrangements. The main method of privatisation has been management and employee buy-outs; the use of leasing arrangements with buy-out rights, often extended to employee collectives, has left many enterprises in an intermediate state of privatisation.

During the course of the current year, the pace of small-scale privatisation has accelerated. By the end of June 1996, a cumulative total of about 31,000 small enterprises had been privatised. Of these, the majority had been sold to workers and management. Since September

1995, however, increasing use has been made of auctions. The remainder of small-scale enterprises are expected to be sold by the end of 1996. Residential privatisations have been successful as well, with 37 per cent of all formerly state-owned housing privatised by mid-1996. Privatisation in agriculture has had less success, mainly because of opposition from Parliament to allow sales of agricultural land.

A new constitution, adopted by Parliament in June 1996, guarantees private property rights including land ownership, but there is a six-year moratorium on land sales. The number of registered private farmers increased from 32,000 at the beginning of 1995 to 34,800 in April 1996, but the state and collective farms still account for some 85 per cent of the arable land area.

**Property restitution**
There has been no restitution to former owners of nationalised property in Ukraine.

**Growth of private enterprise**
The private sector has increased but its growth has been constrained by the frequency with which laws have been changed, high effective tax rates and the existence of numerous regulations. Part of private sector activity has therefore contributed to the growth of a large informal sector, although the latter also includes some of the activities of the state sector.

**Enterprise restructuring**
Most of the formal economy exhibits a high degree of horizontal integration and concentration. Enterprise budget constraints have remained soft because of budgetary subsidies, continued cheap directed credits, especially to depressed industrial regions, and tolerance of non-payment for utilities.

At the beginning of 1996, important changes were introduced in the gas market. The government transferred the responsibility for distribution of gas within the Ukraine to a number of commercial companies and gave them powers to cut off supplies to persistent non-payers. In early 1996 the government also announced that there would be a World Bank sponsored programme to begin restructuring in the coal sector, with the intention of closing some unprofitable mines.

The Law on Bankruptcy was adopted in May 1992. There has, however, been little enforcement thus far. A new draft law is currently under discussion.

In July 1996 the cabinet approved a resolution supporting the creation of financial-industrial groups. These groups are intended to carry out structural programmes for the development of the main sectors of industry; the intention is that the groups would be led by a manufacturing enterprise, and would include a bank.

## Markets and trade

**Price liberalisation**
In October 1994, the majority of direct price controls, most ceilings on profit margins as well as the advance notification/approval of price increases in goods of "social significance" and those produced by monopolies were eliminated.

From 1993 administered prices have been raised for energy, agricultural products and communal services with the aim of moving towards cost recovery/border-prices for these products.

Rents and the prices of some utilities (including gas and electricity) were raised in January 1996 and again in July 1996. These price adjustments increased the proportion of costs paid by consumers (to the extent tariff collection is enforced). These increases will also help lower the amount of consumer subsidies paid from the budget, although they will be accompanied by higher pensions and other means-tested benefits for those on low incomes. The only goods and services which remain subject to price controls are bread, utilities (gas, electricity, central heating, water supply and sewerage), public transport and rents.

Energy prices for industrial users were brought closer to world market levels during the course of 1995. Reforms will be introduced into the wholesale market for electricity in 1996 with the intention of promoting competition between electricity generating companies. It is also intended to establish a regulatory commission to monitor developments in the wholesale market. Industrial users of gas have been charged border-prices since March 1995, with adjustments of the local currency price being made regularly to reflect depreciation of the exchange rate. The prices paid by residential consumers of gas and electricity are subsidised, but the subsidy element fell substantially during the course of 1995 and following the above-mentioned rounds of price increases in 1996.

**Competition policy**
The February 1992 Law on Limitation of Monopolistic Activities provides the basic framework for establishment of a competition policy and created the Anti-monopoly Committee, the activities of which are further governed by the November 1993 Law on the Anti-monopoly Committee.

According to anti-monopoly regulations introduced in November 1994, the approval of the Anti-monopoly Committee is required for the creation, merger and acquisition of enterprises if (1) the aggregate asset value and sales volume exceeds US$ 2 million, if (2) the aggregate share of a particular product market held by the founders exceeds 35 per cent, or if (3) the expected market share of the entity to be established exceeds 35 per cent. These requirements may affect many newly founded enterprises. On this basis, the Committee estimated in 1995 that there are 480 national monopolies and more than 1,500 regional monopolies. The most monopolistic sectors are heavy industry and the chemical and pharmaceutical industries. In 1995, the focus of the Anti-Monopoly Committee gradually shifted from price regulation of monopolies to demonopolisation. Up until June this year, action by the Committee had led to the establishment of at least 460 additional economic units. Where possible, however, demonopolisation is undertaken at the time of privatisation, or by breaking up horizontally integrated structures that produce the same commodity.

**Trade liberalisation**
In 1994 state trading and barter trade were abolished, and the process of eliminating export quotas and licences commenced.

At the end of 1995 and in early 1996 the export regime was further liberalised. Export quotas and licences now only apply to goods subject to voluntary export restraints (VERs) under international agreements and to goods falling under the "special export regime" (coal, precious metals and alcoholic spirits). The system of indicative export prices was removed in December 1995.

In 1996, the authorities abolished the state order system for grain and eliminated quotas and licence requirements for grain exports. Exporters are now free to enter into forward contracts and to pledge deliveries of the 1996 crop. However, some recent backtracking in liberalisation has occurred through the introduction of export taxes on ferrous metals and on some agricultural products.

The overall level of nominal tariff protection is estimated at between 5 and 8 per cent on a trade weighted basis (the modesty of these figures partly reflects the large share of energy imports which are not subject to tariffs). Tariffs on some agricultural products were raised in early 1996 (generally to 30 per cent), under pressure from the agricultural sector. However, according to a Presidential decree introduced in April 1996, upper limits for import duties on industrial products were set at 30 per cent, while the intention over the medium term is that import duty rates should reflect WTO standards.

On 1 February 1996 the Interim Trade Agreement with the EU came into effect, which represents the first step towards the entry into force of the Partnership and Cooperation Agreement which grants Most Favoured Nation status to Ukraine and abolishes quantitative restrictions on trade, with some exceptions. Ukraine has also applied to join the World Trade Organisation.

**Currency convertibility and exchange rate regime**
In October 1994 a unified exchange rate was introduced. The official exchange rate is now determined by the Ukrainian Interbank Currency Exchange (UICE). The frequency of trading at the UICE has increased to five times a week with a broader access to the market. Banks are now free to sell hard currency directly to their customers within agreed margins of the official rate. In August 1995, the use of foreign currency for domestic trade was prohibited. In the same month, the central bank (NBU) liberalised the regulations governing the opening and operation of foreign currency accounts by residents and non-residents in Ukraine. In a further move, a new foreign currency law increased the amount of foreign currency which Ukrainian citizens can take overseas to US$ 1,000 per year. More recently the government has also signalled that it will ease the requirement that exporters convert 50 per cent of their foreign earnings through the UICE.

The government introduced a new currency, the hryvna, on 2 September 1996. The hryvna replaces the temporary currency, the karbovanets, at a rate of 1 : 100,000 (at the time of its introduction the karbovanets was trading at 175,000 to the dollar). The introduction of the hryvna was accompanied by the announcement of a price freeze during the first half of September.

**Wage liberalisation**
Administrative setting of wages continues. Wage coefficients for workers of different skills are set on the basis of the minimum wage. In September 1995, the government reinstated the 80 per cent wage indexation ceiling, according to which wage increases are limited to 80 per cent of CPI inflation. This policy is enforced by an excess wage tax. Wages for professionals in the budgetary sphere are indexed to the level of the industrial wage average with a one-month lag.

**Interest rate liberalisation**
Since March 1995, real interest rates have generally been positive. During 1996, there have been a series of reductions in the NBU's refinancing rate as inflation has slowed but, under the new IMF programme, the NBU will ensure that the refinancing rate remains positive in real terms.

## Financial institutions

**Banking reform**
Ukraine's financial sector is at an early stage of development and an effective regulatory system is only gradually being created. A two-tier banking system was introduced in 1991. In mid-1996 there were 228 banks registered in Ukraine, although a number of these were in the process of liquidation. The banking sector remains dominated by the five former state-owned specialised banks, two of which remain state-owned although their share of assets has declined from 90 per cent in 1994 to around 70 per cent by early 1996. Consolidation of the banking sector is accelerating and in 1995 alone more than 20 banks went out of business. Credit to the private sector is still scarce as commercial banks are risk-averse; the spread between lending and deposit rates is high and loans are mainly short-term.

Regulation and bank supervision are being tightened. The minimum capital requirement is to be raised to ECU 1 million (ECU 100,000 by July 1996 rising to ECU 1 million by January 1998) according to a law adopted in February 1996. The minimum capital requirement for banks with foreign participation is ECU 3 million and for wholly foreign-owned banks ECU 5 million. A resolution of the NBU at the beginning of 1996 provided for the establishment of a private deposit insurance fund. The authorities have also introduced prudential ratios for banks, introduced a loan classification scheme, set exposure limits and introduced legislation which prohibit insider lending.

**Non-bank financial institutions**
Non-bank financial institutions in Ukraine include trust companies, investment funds, insurance companies, credit unions and pension funds. There are around 600 insurance companies, 265 investment funds, investment companies and trust funds and a large number of brokers, with some overlap between these groups. The minimum capital requirement for investment funds is US$ 20,000.

A comprehensive regulatory framework is still lacking. Activities of investment funds are regulated by a February 1994 decree "On Investment Funds and Investment Companies", amended in March 1995. Present supervisory functions are fragmented between various government agencies. In an attempt to tighten supervision, the State Property Fund has revoked the licences of some investment funds.

**Securities markets and instruments**
The Law on Securities and Stock Exchange has been in effect since January 1992. In July 1996 new securities regulations were adopted by Parliament, establishing a commission for securities and stock market. The commission has administrative and disciplinary powers over brokers and trading activities. Most trade still takes place in Kiev in an unregulated over-the-counter market. The more centralised trading systems include the Ukraine Stock Exchange, which was established in 1991 and presently has 67 brokerage houses registered as its members, and the Central Depository system. At present only a small number of companies are officially quoted on the stock exchange and weekly trading volumes are very small. As a result the exchange suffers from a lack of liquidity. In addition there is no independent and transparent share registration and share custody system and minority shareholders' rights are not protected.

Auctions for Treasury Bills were first introduced in March 1995. The auctions are now held on a regular basis and sales, which were originally only to institutions, have now been extended to individuals.

## Fiscal and social safety net reform

**Taxation**
A Presidential decree in August 1996 announced that the tax system would be simplified. Currently, marginal rates on personal income tax are between 10 to 50 per cent. Corporate income tax is levied at 30 per cent on net income and value-added tax is levied at 20 per cent. The right of enterprises with foreign participation, registered after 1 January 1995, to enjoy a five-year tax holiday has been eliminated.

In the first half of 1996, parliament approved the introduction of new excise and customs dues. These were designed to increase revenue and protect domestic producers from import competition, especially in the case of alcohol products.

**Social security**
The extrabudgetary funds in the social sphere are financed by payroll taxes with employers paying 37 per cent of the wage bill for the social and pension funds, and 12 per cent for the Chernobyl and employment funds. Employees pay 1 per cent of their wage to the pension fund and 3 per cent to the Chernobyl fund. More than half of the expenditures of the extrabudgetary funds are funded from general taxation.

Until the end of 1994, the benefit system was not targeted. It covered approximately one-third of the population and was estimated to have accounted for over 14 per cent of GDP, of which pensions were 8 per cent and consumer subsidies over 5 per cent. The Government has already taken some measures to improve the targeting of benefits and reduce the cost. A government resolution, effective in May 1995, stipulates that a family is entitled to receive income support if its housing and energy bill exceeds 15 per cent of its total income regardless of the form of ownership of the apartment (private, state-owned or collective). The government is also considering ways in which to reform the pension system.

## Investment legislation

**Extensiveness**
Laws regulating both foreign and domestic direct investment exist. Indirect investment, such as the issuing of bonds or the activities of private investment funds, is not specifically regulated. Foreign investment proposals do not require government approval, profits are freely convertible and may be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners are prohibited from owning, although they may lease, land. Security interests over shares and land may be created and require notarisation and entry in an official register. Security interests over contracts, receivables and moveable assets are possible, and require notarisation.

**Effectiveness**
The full text of laws relating to investment are published, usually within six months of enactment. Legal rules enacted by regional or local governments are rarely accessible to practitioners. Draft laws affecting investment are not always accessible to practitioners. Legally prescribed registers for interests in respect of land, shares or other moveable assets are, where they exist, in some cases at least six months out of date. Superior court decisions are usually published or accessible to practitioners; decisions from lower courts are not always available. Independent professional legal advice is available. Private parties generally believe that courts will recognise their legal rights against other parties, including the state. Foreign arbitral awards are required to be recognised by the courts without a re-examination of their merits, but there is a lack of an adequate mechanism for enforcing awards.

# Uzbekistan

***The government of Uzbekistan initiated reforms in a partial and gradual manner in 1992-93, but accelerated the pace of reform in 1994. In 1995, a comprehensive programme was adopted, with strong assistance from multilateral financial institutions.***

## Enterprises

**Size of the private sector**

The share of the private sector in GDP is likely to have been about 40 per cent as of mid-1996. The GDP share of the non-state sector (which includes companies with majority state ownership) at the end of 1995 has officially been estimated at 67 per cent.

**Large-scale privatisation**

By end-1995, about 2,300 medium-sized or large state-enterprises out of about 11,800 (or about 20 per cent of the total number of enterprises) had been privatised. Almost all closed joint-stock companies (with limited transferability of shares) had been converted into open ones. The share of state ownership in corporatised enterprises had been significantly reduced, to an average of about 30 per cent. The government plans to privatise more than 400 medium/large enterprises during 1996.

Privatisation methods applied in 1996 and in preceding years have been diverse and include, most importantly, auctions, direct sales, joint venture privatisations and flotation on the stock exchange. Application of vouchers has been excluded from the very beginning. The first auctions of medium and large-scale enterprises took place in March 1994.

Nevertheless, while corporatisation and allocation of shares to employees have proceeded swiftly, involvement of outside investors has been much slower than planned.

A mass privatisation scheme using investment funds was adopted by the government in 1995. However, implementation of the scheme has been significantly delayed. The programme is expected to reach the implementation stage during the second half of 1996. As an important ingredient of this programme the government will limit the combined share of state and insider (employee and management) ownership in non-strategic enterprises to less than 50 per cent. The state will temporarily retain a majority interest in strategic sectors, such as energy, fuel and gold mining.

**Small-scale privatisation**

Privatisation of smaller units began in late 1992 based on the Law on Denationalisation and Privatisation (passed in November 1991) and the Law on Leasing (passed at the same time). To date, over 60,000 (or 96 per cent of the total) small-scale businesses have been privatised or leased, primarily to workers' collectives. Around 40 per cent of these businesses were originally privatised as closed companies, with 51 per cent of the shares being retained by the government. The shares in many of these companies have subsequently become tradable.

For retail trade, consumer services, public catering and local industry, small-scale privatisation is at an advanced stage. Housing privatisation is almost complete. Since January 1994 cash auction has become the basic method of small-scale privatisation. During 1994, restrictions on the output-composition and employment policy were imposed on privatised companies. These were removed in early 1995.

The state owns almost all land but long-term leases for land exist. In fact, most of agricultural land had been leased to state farms and collectives. Land for individual use (commercial and residential) and attached to a building can be owned by private individuals, but the land must be used for its original purpose and cannot be traded freely. One-fifth of the agricultural land is occupied by private farms or household plots. In January 1996, the government issued a regulation which permitted the auctioning of land with the rights of lifetime ownership and heritage.

**Property restitution**

There has been no property restitution for former owners in Uzbekistan.

**Growth of private enterprise**

By early 1996 about 90,000 new private enterprises had been registered. Among them are 14,235 private farms. The main obstacles to private sector development are unfavourable entry rules, mainly in the form of licensing procedures; financial constraints; domination of distribution channels by monopolies; unstable taxation; lack of access to commercial space; and low mobility of labour force (artificially restricted by a system of residence permits).

Presidential decrees of January and July 1995 on private entrepreneurship alleviate many of these obstacles, including registration and the tax burden. Since the introduction of these decrees, the creation of new enterprises has been rapid. About 64,000 individual and small enterprises were registered during 1995, of which 10,700 were small-scale enterprises and the remaining were agricultural cooperatives or firms with only one individual. Over half of the government's privatisation income is earmarked for financial support of SMEs.

**Enterprise restructuring**

Economic restructuring has been hindered by the slow pace of privatisation, the predominantly insider nature of the privatisation process so far, strong bureaucratic hurdles and shortage of skilled managers, as well as low degree of competition throughout the economy. There is still a lack of political will to allow widespread unemployment and bankruptcies. State farms have been transformed into cooperatives or joint-stock companies without major impact yet on enterprise behaviour. The Law on Bankruptcy was adopted in May 1994, although the effectiveness of this implementation remains uncertain. In 1995 about 20 medium or large-scale enterprises were declared bankrupt.

## Markets and trade

**Price liberalisation**

The bulk of consumer prices was liberalised in January 1992. Subsequently this process was partly reversed and a rationing system was introduced for a wide range of goods. The state order system was initially retained, covering in 1993 between 20 and 80 per cent of the production and distribution of the 200 most important commodities.

In early 1994, liberalisation of prices resumed. The state order system was phased out during 1994 and early 1995 except for cotton and grain. The remnants of the rationing system were abolished in early 1995, as were the profitability ceilings that used to apply to all goods apart from certain medicines and natural monopolies. Those prices that remain administered by the government are being adjusted to cost-recovery or world market levels, except for heating, hot water and housing. Oil and oil product prices reached world market levels in late 1995.

**Competition**

The Law on Restrictions of Monopolistic Activities was adopted in July 1992 and amended in March 1993. A new anti-monopoly law is expected to be adopted before the end of 1996. Monopolies are defined as enterprises (or specific products) with market shares of over 35 per cent, or those that engage in certain specified activities. By end-1995, there were 945 enterprises and 3,096 products identified as monopolies at either the national or the regional level. In May 1996, a Committee on Demonopolisation and Promotion of Competition was established to monitor market activity. A separate Office of Public Utility Regulation is being established for the administration of utility prices. Demonopolisation of dominant firms in the warehouse, wholesale, trade, energy and transport sectors has started with an initial focus on the transport sector.

**Trade liberalisation**

Following years of timid reform, foreign trade liberalisation started in earnest in early 1994. Customs duties on all imports were suspended until mid-1995 when import tariffs were reintroduced on 61 product groups with rates ranging from 5 per cent to 100 per cent. On 1 April 1996 the maximum rate was reduced to 30 per cent. The number of product categories subject to export quotas and export licensing systems was reduced from 70 to 11 in early 1995 and to four (cotton, oil, ferrous and non-ferrous metals) at the end of 1995. A surrender requirement of 30 per cent (15 per cent for CIS currencies) is applied to export proceeds and with an obligation to sell this amount on the currency market at the prevailing market exchange rate. The system of export tariffs, applying in 1995 to 102 product groups (and ranging from 5 per cent to 100 per cent) was simplified and liberalised in two steps in April and July 1996. By now, exports tariffs are imposed on 72 product groups, with rates ranging from 1 per cent to 100 per cent, and with the rates for most groups being between 5 per cent and 30 per cent. The bulk of foreign trade is still channelled through state-owned foreign trade companies.

**Currency convertibility and exchange rate regime**

The sum-coupon, the temporary national currency, was introduced in mid-November 1993, first as a parallel currency with the rouble, and then from early 1994 as the sole legal tender. Originally the sum-coupon was pegged 1 to 1 to the rouble.

Between mid-April 1994 and April 1995, the "official exchange rate" was set by the central bank on the basis of closed auctions attended by only a few state-owned banks.

Foreign currency auctions are now accessible to all banks, and have been held twice a week since April 1995. The amount of foreign currency channelled through the auction sharply increased in 1995. In mid-1995 the restrictions on the purchase by individuals of foreign exchange were eliminated.

However, availability of foreign exchange in the auction has declined sharply in 1996, and a very large wedge has developed between the official exchange rate and the rate quoted by banks. There is a further large wedge between the rate quoted by the banks and that quoted in the black market, pointing to increasingly severe administrative limitations on currency convertibility. The total wedge between the official exchange rate and that in the black market had widened to about 50 per cent by early September 1996. The rules (and the implementation of rules) governing access of private companies to conversion of local currency into foreign exchange remain non-transparent. The same applies to the rules for repatriation of profits generated by joint ventures in local currency.

**Wage liberalisation**

Wages in budgetary organisations are adjusted in line with the minimum wage. Outside the budgetary sector, both private and state-owned companies have, since June 1994, been subject to a strict incomes policy. Increases in the wage bill cannot exceed 70 per cent of the increase in the output value. As a supplement to this system, a tax-based income policy was adopted for state enterprises in 1995 and was subsequently extended to cover also the first half of 1996. Minimum wages and pensions are adjusted every few months to keep pace with inflation.

**Interest rate liberalisation**

During 1994-95 interest rates for both deposits and lending were raised sharply, with lending rates occasionally reaching levels that were positive in real terms. The spread between lending and deposit rates remains high, reflecting the high reserve requirement, inefficiencies of payment systems, and a high risk premium for lending. A system of directed and subsidised credits is still in place, although the scope of it has been sharply reduced. Since March 1995 the central bank refinance rate has been determined on the basis of past and expected rates of inflation.

## Financial institutions

**Banking reform**

A two-tier banking system was introduced in early 1988. The current republican law on Banks and Banking Activities were adopted in February 1991 (and amended in May 1993). In April 1996, a new law was introduced, strengthening licensing rules, prudential regulation, reporting and inspection requirements. The statutes of the Central Bank were approved in March 1992. A modern Law on the Central Bank was adopted in December 1995. There are about 32 commercial banks, including 14 private banks, out of which three are joint-venture banks. Seven foreign banks have offices but no foreign banks have as yet opened branches in the country. Corporate banking remains dominated by Agroprombank and Promstroibank while foreign exchange transactions are channelled primarily through the National Bank for Foreign Economic Activity. The Sberbank enjoys a quasi-monopoly on deposit-taking from households. Many of the new banks are state-owned, either directly or indirectly (i.e. via state-owned enterprises).They tend to have strong sectoral specialisation.

Prudential regulations, including rules for capital adequacy and provisioning and exposure limits, are still fairly loose compared with international standards. Minimum capital requirements were raised in early 1996. International audit of the largest banks has started. The Government is currently working with the World Bank on the design of a bank reform programme for the Uzbek financial system, including plans for a major restructuring of the sectoral banks.

**Non-bank financial institutions**

A national insurance company and some private insurance companies, including a major joint venture, are active in Uzbekistan. A few leasing companies have emerged. A wide range of investment funds is being established. These funds are to play a key role in further privatisation as around 30 per cent of the shares of the privatised enterprises have to be sold through these funds.

**Securities markets and instruments**

A law on Securities and the Stock Exchange was adopted in September 1993. A Republican Stock Exchange, a National Share Depository and a National Investment Fund were created in 1994. Currently 570 enterprises and banks are listed on the stock exchange but market capitalisation remains low. The regional network of the stock exchange is widening. A secondary market in shares is not yet in place but a related draft law has been submitted to the parliament. The issuance of government bonds started in early 1996. A State Commission on Securities and the Stock Exchange was established in late 1995.

## Fiscal and social safety net reform

**Taxation**

Early 1992 saw the replacement of turnover tax by new VAT and excise taxes. During the same year, the legislative basis for the tax system was created.

In 1995, the enterprise income tax was replaced by a profit tax, while a number of tax exemptions were eliminated, and property and land tax rates were raised. Extrabudgetary funds (there were 14 of them in 1994) are being integrated into the budget.

Current major taxes include a profit tax (the basic rate is 37 per cent but the tax rate is 25 per cent for enterprises with over 30 per cent foreign capital participation); VAT unified throughout all industries at 17 per cent; personal income taxes levied at rates of between 15 per cent and 40 per cent; an enterprise property tax of 2 per cent; a land tax, with rates varying with the location; and a withholding tax on profit repatriation of 10 per cent. Joint ventures and wholly foreign-owned enterprises benefit from a range of special incentives, including a tax holiday of up to five years (depending on the sector), up to 10 years of protection against adverse regulatory changes, exemptions from import tariffs for production inputs; and exemption from foreign exchange surrender requirements.

**Social security**

There is a 41 per cent payroll tax, of which 40 percentage points are paid by employers (36 percentage points for the Social Insurance Fund, 2 percentage points for Trade Unions, 2 percentage points for the Employment Fund) and 1 percentage point paid by employees to the Social Insurance Fund. Pension expenditures amounted to about 10 per cent of GDP in 1994. In 1995-96 measures have been taken to limit the pension entitlement of the less vulnerable groups and in August 1995 a revised system was introduced to reduce the real value of pension adjustments over time. The system of family allowances has been rationalised; there is now a single family benefit, which is linked to the minimum wage.

## Investment legislation

**Extensiveness**

Laws regulating both domestic and foreign investment exist. Laws exist regulating the use of indirect investment vehicles, such as securities. Certain foreign investment proposals may require government approval. Profits are freely convertible and may (subject to certain restrictions of a practical nature) be freely repatriated. There are no legal obstacles to the ownership by foreigners and nationals of shares in companies/enterprises. Foreigners and nationals may not own land, but may acquire rights to the use of land. Security interests over shares and rights to use land may be created. Security interests over contracts, receivables and moveable assets are possible.

**Effectiveness**

The full text of laws affecting investment are usually published within six months of being passed. Draft laws are not usually published or accessible to practitioners. Legally prescribed registers for interests in respect of land, shares or other moveables do not always exist. Where in existence, registers are usually 12 months out of date. Important court decisions are not always published or accessible to practitioners. Independent professional legal advice is available. Private parties generally believe that courts would not recognise and enforce their rights against the state. Foreign arbitral awards are required to be recognised by the courts without a re-examination of their merits.

# Albania

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | 9.8 | -10.0 | -27.7 | -9.7 | 11.0 | 9.4 | 8.6 | 5 |
| Industrial production | 5 | -7.6 | -36.9 | -44 | -10 | -2 | 2 | 3 |
| **Prices** | | | | | | | | |
| Consumer prices (annual average) | 0 | 0 | 36 | 226 | 85 | 23 | 8 | 13 |
| Consumer prices (end-year) | 0 | 0 | 104 | 237 | 31 | 16 | 6 | 20 |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | 14.8 | 23.4 | 104 | 153 | 74.4 | 39.5 | 20 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance (cash basis)[1] | -5.5 | -3.7 | -44 | -22 | -16 | -14 | -9.4 | -15 |
| General government balance (commitment basis) | -9 | -15 | -31 | -22 | -16 | -13 | -10.5 | -15 |
| General government expenditure (commitment basis) | 56.8 | 62.1 | 61.9 | 47.6 | 44.6 | 41 | 36 | 42 |
| **External data in convertible currencies** | | | | *(In millions of US dollars)* | | | | |
| Current account (excluding official transfers) | -49 | -122 | -293 | -442 | -268 | -243 | -107.1 | -225 |
| Current account (including official transfers) | na | -122 | -213 | -101 | 14 | -162 | -21.1 | na |
| Trade balance | -83 | -150 | -308 | -454 | -490 | -459 | -475.0 | -520 |
| External debt, net of foreign exchange reserves | 0 | 94.5 | 498 | 638 | 658 | 771 | 111.1 | na |
| | | | | *(Percentage change in the US dollar value)* | | | | |
| Exports (data from the balance of payments) | 25 | -7 | -56 | -31 | 60 | 25.8 | 44.4 | 16 |
| Imports (data from the balance of payments) | 58 | 4 | 7 | 28 | 15 | 0 | 13.1 | 12 |
| | | | | *(In months of current account expenditures, excluding transfers)* | | | | |
| Gross international reserves (end-year), excluding gold | 12.5 | 5.9 | 0.2 | 0.6 | 2.3 | 3.0 | 6.5 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | 3.2 | 3.3 | 3.3 | 3.2 | 3.2 | 3.2 | 3.2 | 3.2 |
| Employment (percentage change, annual average) | 1.9 | 0.2 | -18.6 | -27.8 | -7.8 | 9.3 | -0.1 | na |
| Unemployment rate (per cent of domestic labour force, end-year) | na | 7.6 | 11.7 | 30.3 | 22.4 | 19.2 | 13 | na |
| GDP (in millions of lek) | 18,681 | 16,813 | 16,473 | 49,519 | 113,041 | 166,297 | 204,519 | na |
| The share of agriculture in GDP (per cent)[2] | 26 | 40 | 44 | 54 | 56 | 56 | 56 | na |
| The share of industry in GDP (per cent)[2] | 37 | 37 | 32 | 17 | 14 | 13 | 13 | na |
| Exchange rate (lek per US dollar, end-year) | 8 | 10 | 25 | 97 | 101 | 95.4 | 94.1 | na |
| Exchange rate (lek per US dollar, annual average) | 8 | 8 | 14.6 | 75.1 | 102.1 | 94.7 | 92.6 | na |
| Interest rate (lending, 12 months maturity, end-year) | 1-2 | 1-2 | 8-12 | 39 | 30 | 20 | 15.8 | na |

Note:
Data for 1989-96 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, the UNECE, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Excluding from expenditures due but unpaid interest on foreign debt.

2 Based on national accounts at constant 1990-prices.

# Armenia

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 *Projection* |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | 14.2 | -7.4 | -10.8 | -52.4 | -14.8 | 5.4 | 6.9 | 6.5 |
| **Prices** | | | | | | | | |
| Consumer prices (annual average) | 4.8 | 10.3 | 100 | 825 | 3,732 | 5,273 | 177 | 25 |
| Consumer prices (end-year) | na | na | 25 | 1,341 | 10,996 | 1,885 | 32 | 19 |
| **Monetary sector** | | | | | | | | |
| Broad money (end year) | na | na | na | na | na | 684 | 65 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| Consolidated central government balance (on an accrual basis) | na | na | -1.9 | -37.6 | -48.2 | -16.1 | -8.7 | -8 |
| Consolidated central government expenditure (on an accrual basis) | na | na | -28.0 | 64.2 | 68.6 | 43.7 | 27 | 24 |
| **External data in convertible currencies** | | | | *(In millions of US dollars)* | | | | |
| Current account, excl. official transfers | na | na | na | na | na | -231 | 353 | 300 |
| Trade balance | na | na | na | -70 | -227 | -192 | -364 | -340 |
| Exports (data from the balance of payments) | na | na | na | 335 | 165 | 209 | 255 | 290 |
| Imports (data from the balance of payments) | na | na | na | 405 | 392 | 401 | 619 | 630 |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (millions) | na | 3.3 | 3.5 | 3.7 | 3.7 | 3.7 | 3.7 | na |
| Unemployment (per cent of labour force, end-year) | na | na | 4 | 19 | 26 | na | 8 | na |
| GDP (in millions of US dollars) | na | na | na | na | na | 653 | 1,337 | na |
| GNP per capita (in US dollars) at PPP exchange rates[1] | na | na | na | na | na | 2,170 | na | na |
| The share of agriculture and forestry in NMP (per cent)[2] | 15 | 17 | 26 | 41 | 55 | na | na | na |
| The share of industry in NMP (per cent)[2] | 50 | 45 | 55 | 53 | 32 | na | na | na |
| Exchange rate (dram/US dollar, end-period) | na | na | na | na | na | 287 | 406 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 PPP stands for purchasing power parity. The estimate quoted here stems from the World Bank Atlas 1996. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

2 NMP excludes depreciation and the value added from most of the service sector.

# Azerbaijan

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 *Projection* |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | -4.4 | -11.7 | -0.7 | -22.6 | -23.1 | -21.2 | -8.3 | -3.5 |
| **Prices** | | | | | | | | |
| Consumer prices (annual average) | na | 7.8 | 106 | 616 | 1,130 | 1,664 | 412 | 20 |
| Consumer prices (end-year) | na | na | 126 | 1,395 | 1,294 | 1,788 | 86 | 15 |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance | na | na | -5.0 | 2.8 | -13 | -14.8 | -7 | -3 |
| General government expenditure | na | na | 40.7 | 46.4 | 58 | 46.5 | 30 | na |
| **External data in convertible currencies** | | | | *(In millions of US dollars)* | | | | |
| Current account | na | na | 153 | 488 | 2 | -121 | -300 | -500 |
| Trade balance | na | na | 60 | 489 | -5 | -109 | -225 | -350 |
| *vis-à-vis* countries outside the former Soviet Union | na | na | -42 | 371 | 109 | 108 | na | na |
| *vis-à-vis* former Soviet Republics | na | na | 102 | 118 | -114 | -217 | na | na |
| Exports (merchandise) | na | na | 395 | 1,275 | 716 | 682 | 485 | na |
| to countries outside the former Soviet Union | na | na | 24 | 755 | 347 | 401 | na | na |
| to former Soviet Republics | na | na | 371 | 520 | 369 | 281 | na | na |
| Imports (merchandise) | na | na | 336 | 786 | 721 | 791 | 710 | na |
| from countries outside the former Soviet Union | na | na | 67 | 384 | 238 | 293 | na | na |
| from former Soviet Republics | na | na | 269 | 402 | 483 | 498 | na | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | na | na | na | 7.3 | 7.4 | 7.5 | 7.5 | 7.5 |
| GDP (in billions of manat)[1] | na | 1.5 | 2.7 | 25.1 | 157.0 | 2,078 | 7,900 | na |
| GNP per capita (in US dollars) at PPP exchange rates[2] | na | na | na | na | na | 1,720 | na | na |
| The share of agriculture in GDP (per cent) | na | 26 | 39 | 27 | 27 | 30 | 31 | na |
| The share of industry in GDP (per cent) | na | 22 | 30 | 31 | 25 | 25 | 22 | na |
| Official exchange rate (manat per US dollar) | na | na | na | 93 | 1,149 | 1,457 | 4,500 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 GDP-figures in roubles for 1989-92 were converted into manat at the rate of 10 roubles per manat.

2 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Belarus

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| GDP at constant prices[1] | 8.0 | -3.0 | -1.2 | -9.6 | -10.6 | -12.2 | -10.2 | -5 |
| Consumption at constant prices | na | na | -6.8 | -10.2 | -3.7 | -13.0 | -16.0 | na |
| Investment at constant prices | na | na | 4.4 | -18.1 | -12.5 | -33.2 | -26.1 | na |
| Industrial production | na | na | -0.2 | -5.2 | -10.5 | -19.9 | -11.5 | -7 |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 1.7 | 4.5 | 84 | 969 | 1,188 | 2,220 | 709 | 70 |
| Consumer prices (end-year) | na | na | 93 | 1,558 | 1,994 | 1,957 | 244 | 61 |
| Average real wages | 7.8 | 11.6 | -2.8 | -14.4 | 12.2 | -35.6 | 7 | -6 |
| **Monetary sector** | | | | | | | | |
| Net domestic credit (end-year) | na | na | na | 1,582 | 612 | 1,452 | 160 | na |
| Broad money (M3, end-year) | na | na | na | 508 | 928 | 1,883 | 159 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance (incl. extra-budgetary funds) | na | na | 3.6 | -1.6 | -8.3 | -2.6 | -1.9 | -2 |
| General government expenditure | na | na | 43.9 | 45.6 | 51.9 | 51 | 45.1 | 40 |
| **External data** | | | | *(In millions of US dollars)* | | | | |
| Current account | na | na | na | na | -1,113 | -599 | -254 | na |
| Trade balance | na | na | na | na | -1,051 | -710 | -529 | na |
| Exports (merchandise) | na | na | na | 3,580 | 2,941 | 2,641 | 4,621 | 4,900 |
| Imports (merchandise) | na | na | na | 3,203 | 3,217 | 3,351 | 5,149 | 5,800 |
| | | | | *(In months of current account expenditures, excluding transfers)* | | | | |
| Gross international reserves of the central bank | na | na | na | na | 0.2 | 0.3 | 0.7 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | 10.2 | 10.3 | 10.3 | 10.3 | 10.4 | 10.4 | 10.3 | 10.3 |
| Unemployment (per cent of labour force, end-year) | na | na | na | 0.5 | 1.4 | 2.1 | 2.8 | na |
| The share of agriculture in GDP (per cent) | na | 24.2 | 20.3 | 22.4 | 17.7 | 15.2 | 11 | na |
| The share of industry in GDP (per cent) | na | 38.6 | 40.2 | 36.6 | 32.2 | 30.3 | 26 | na |
| GNP per capita (in US dollars) at PPP exchange rates | na | na | na | na | na | 5,010 | na | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Figures are for NMP until 1990, GDP thereafter. NMP excludes depreciation and the value added from most of the service sector.

2 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Bulgaria

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | (Percentage change) | | | | |
| GDP at constant prices | 0.5 | -9.1 | -11.7 | -7.3 | -2.4 | 1.8 | 2.6 | -4 |
| Industrial production | -1.1 | -16.0 | -27.8 | -15.0 | -11.8 | 7.8 | 8.6 | na |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 6.4 | 26.3 | 333.5 | 82.0 | 73.0 | 96.3 | 62 | 95 |
| Consumer prices (end-year) | 10.0 | 72.5 | 338.9 | 79.4 | 63.9 | 121.9 | 32.9 | 165 |
| Real net wages the state sector (index 1991=100) | na | na | na | 17.3 | -8.7 | -23.2 | -4.5 | na |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | 10.6 | 16.6 | 122 | 43.5 | 52.9 | 78.6 | 39.6 | na |
| **Government sector** | | | | (In per cent of GDP) | | | | |
| General government primary balance | na | na | 3.2 | 0.9 | -1.5 | 7.8 | 8.6 | na |
| General government balance (cash balance)[1] | na | na | na | -13.0 | -10.9 | -5.8 | -5.7 | -5 |
| General government expenditure (cash basis)[1] | 58.4 | 65.9 | 45.6 | 45.4 | 48.1 | 46.0 | 41.7 | na |
| **External data in convertible currencies** | | | | (In billions of US dollars) | | | | |
| Current account (accrual basis)[2] | -983.0 | -1,180.0 | -406.0 | -801.0 | -1386.0 | 203.0 | 281.0 | 300 |
| Trade balance[2] | na | na | 404.0 | -212.0 | -885.0 | -17.0 | 427.8 | na |
| Gross external debt (billion US dollars, end-year)[3] | na | 9.4 | 9.9 | 12.6 | 12.9 | 10.8 | 10.4 | na |
| | | | | (Percentage change in the US dollar value) | | | | |
| Exports (balance of payments data) | na | 2,534.0 | 2,734.0 | 3,956.0 | 3,272.0 | 3,935.0 | 5,110 | na |
| Imports (balance of payments data) | na | 3,086.0 | 2,330.0 | 4,169.0 | 4,612.0 | 3,952.0 | 4,683 | na |
| | | | | (In months of current account expenditure excluding transfers) | | | | |
| Gross official reserves (end-year), excluding gold | na | na | 0.3 | 1.9 | 1.2 | 2.1 | 2.3 | na |
| **Miscellaneous items** | | | | (Denominations as indicated) | | | | |
| Population (in millions, end-year) | 9.0 | 8.7 | 8.6 | 8.5 | 8.5 | 8.4 | 8.4 | na |
| Employment (percentage change, end-year) | -2.3 | -6.1 | -13.0 | -8.2 | -1.6 | 0.6 | 2.1 | na |
| Unemployment (per cent of labour force, end-year) | na | 1.5 | 11.5 | 15.6 | 16.4 | 12.8 | 10.5 | na |
| GDP (in billions of leva) | 39.6 | 45.4 | 135.7 | 201 | 299 | 522 | 871 | na |
| GNP per capita (in US dollars) at PPP exchange rates[4] | na | na | na | na | na | 4,230 | na | na |
| The share of agriculture and forestry in GDP (per cent)[5] | 11 | 18 | 15 | 12 | 10 | 11 | 13 | na |
| The share of industry in GDP (per cent)[5] | 59 | 43 | 47 | 45 | 39 | 33 | 31 | na |
| Exchange rate (lev per US dollar, end-year) | 2.0 | 7.0 | 21.8 | 24.5 | 32.7 | 66.0 | 70.7 | na |
| Exchange rate (lev per US dollar, annual average) | 1.8 | 3.9 | 18.1 | 23.4 | 27.7 | 54.1 | 67.2 | na |

Note:

Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Excluding (from expenditures) unpaid due interest amounting to 4.1 billion in 1992, 14.5 bn in 1993, and 5.4 bn in 1994. General government includes the state, municipalities, social security and extra-budgetary funds.

2 Balance of payments data.

3 Data refer only to convertible currency debt until 1991. From 1992, they refer to total debt. In 1992, debt to CMEA institutions amounted to approximately US$ 562 million.

4 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1995*. In the computation of this estimate the country's nominal GNP per capita was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

5 At current prices.

# Croatia

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | -1.6 | -8.6 | -20 | -10 | -3.7 | 0.8 | 2 | 5 |
| Industrial production | na | -11 | -29 | -15 | -6 | -3 | 0.3 | na |
| **Prices and wages** | | | | | | | | |
| Retail consumer prices (end-year) | na | 136 | 249 | 937 | 1,150 | -3 | 3.7 | 4.5 |
| Retail consumer prices (annual average) | na | na | 123 | 664 | 1,517 | 97 | 1.6 | 3.5 |
| **Monetary sector** | | | | | | | | |
| Narrow money (end-year) | na | na | na | 598 | 889 | 110 | 23.9 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| Central government balance[1] | na | na | -5 | -4 | -1.0 | 1.7 | -0.9 | -3 |
| Central government expenditure[1] | na | na | 39 | 38 | 34.6 | 41.6 | 48.5 | na |
| **External data in convertible currencies**[2] | | | | *(In millions of US dollars)* | | | | |
| Current account[2] | na | 1,053 | -589 | 823 | 104 | 103 | -1,712 | -1,100 |
| Trade balance[2] | na | -1,168 | -536 | 137 | -763 | -969 | -2,877 | -2,400 |
| Exports[2] | na | 4,020 | 3,292 | 4,597 | 3,904 | 4,260 | 4,633 | -5,000 |
| Imports[2] | na | 5,188 | 3,828 | 4,461 | 4,666 | 5,229 | 7,510 | -7,900 |
| | | | | *(In months of imports)* | | | | |
| Gross international reserves (end-year) | na | na | 0 | 0.4 | 1.6 | 2.3 | 2.4 | na |
| Gross external debt (billion US dollars)[3] | na | na | 3.0 | 2.7 | 2.7 | 3.4 | 3.7 | |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | na | 4.8 | 4.8 | 4.8 | 4.8 | na | na | na |
| Unemployment rate (per cent of labour force)[4] | na | na | na | 12.9 | 12.8 | 12.8 | 13.4 | na |
| Exchange rate (average, kuna per dollar)[5] | na | 0.011 | 0.033 | 0.26 | 3.5 | 5.9 | 5.2 | na |
| GDP (in millions of US dollars at current exchange rates) | na | 25,363 | 12,355 | 9,889 | 11,693 | 14,226 | 18,081 | na |
| Debt/GDP per cent | na | na | 24 | 27 | 23 | 24 | 20 | |
| The share of agriculture in GDP (per cent) | na | 10.4 | 10.8 | 14.1 | 12.9 | 13.3 | 12.4 | na |
| The share of industry and construction in GDP (per cent) | na | 31.3 | 30.7 | 28.3 | 28.5 | 25.7 | 23.8 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Central government includes the state, budget and extra-budgetary funds.

2 For 1990 and 1991 these data exclude trade with Slovenia, FYR Macedonia and Bosnia. Goods only.

3 Post-1995 figures include an estimate of the debt recently assumed by Croatia, owed to external commercial bank creditors and Croatia's share of the non-allocated official debt of the SFRY.

4 With the labour force being approximated by the number of pension insured individuals plus the number of registered unemployed.

5 Dinars were converted into kuna in May 1994 (when the kuna was introduced) at the rate of 1,000 dinars to one kuna. The kuna/US$-rate shown in this table for the preceding period was based on the application of this conversion rate to the dinar/US$-rate.

# Czech Republic

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | 1.4 | -0.4 | **-14.2** | **-6.4** | **-0.9** | **2.6** | **4.8** | **5.1** |
| Private consumption at constant prices | na | na | **na** | **15.1** | **2.9** | **5.3** | **6.4** | **na** |
| Gross fixed investment at constant prices | na | na | **na** | **8.9** | **-7.7** | **17.3** | **16.1** | **na** |
| Industrial production | 0.8 | -3.5 | **-22.3** | **-7.9** | **-5.3** | **2.1** | **9.2** | **na** |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 2.3 | 10.8 | **56.7** | **11.1** | **20.8** | **10.0** | **9.1** | **9.0** |
| Consumer prices (end-year) | 1.5 | 18.4 | **52.0** | **12.7** | **18.2** | **10.2** | **7.9** | **9.2** |
| Producer prices (annual average) | -0.7 | 4.4 | **74.7** | **9.9** | **13.1** | **5.3** | **7.6** | **na** |
| Wages in industry (annual average) | 3.2 | 4.5 | **16.7** | **19.6** | **23.8** | **15.7** | **17.0** | **na** |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | 3.5 | 0.5 | 26.8 | 22.8 | **20.3** | **20.8** | **19.4** | **na** |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance | -2.8 | 0.1 | -2.0 | -3.3 | **0.8** | **0.9** | **0.4** | **0** |
| General government expenditure | 64.5 | 60.1 | 54.2 | 52.8 | **48.5** | **50.0** | **na** | **na** |
| **External data in convertible currencies** | | | | *(Percentage change in the US dollar value)* | | | | |
| Exports[1] | 8.5 | 10.1 | 39.2 | 35.2 | **9.8** | **9.2** | **19.3** | **na** |
| Imports[1] | -1.5 | 35.0 | 29.6 | 46.2 | **1.3** | **15.7** | **41.7** | **na** |
| | | | | *(In billions of US dollars)* | | | | |
| Trade balance[2] | 0.4 | -0.8 | -0.4 | **-1.0** | **0.3** | **-0.4** | **-3.8** | **-5.2** |
| Current account balance[2] | 0.4 | -1.1 | 0.4 | **0.6** | **0.1** | **-0.1** | **-1.9** | **-3.3** |
| Capital account, of which: | na | na | na | **na** | **3.0** | **3.3** | **8.4** | **na** |
| Gross foreign direct investment, cash | na | na | na | **1.0** | **0.5** | **0.8** | **2.5** | **na** |
| Portfolio investment | na | na | na | **0** | **1.1** | **0.8** | **0.9** | **na** |
| External debt, net of reserves of the banking system (end-year) | 6.8 | 7.7 | 8.3 | **3.5** | **2.3** | **1.8** | **-1.1** | **na** |
| | | | | *(In months of current account expenditures excluding transfers)* | | | | |
| Gross international reserves of the central bank (end-year) | 1.8 | 0.7 | 1.4 | 1.0 | **3.9** | **4.8** | **7.2** | **na** |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, end-year) | **10.3** | **10.3** | **10.3** | **10.3** | **10.3** | **10.3** | **10.3** | **10.3** |
| Employment (change in per cent) | na | **-0.9** | **-5.5** | **-2.6** | **-1.6** | **0.8** | **2.7** | **na** |
| Unemployment rate (per cent of labour force, end-period) | 0 | 0.8 | **4.1** | **2.6** | **3.5** | **3.2** | **2.9** | **na** |
| GDP (in billions of crowns) | **759** | **567** | **717** | **791** | **911** | **1,038** | **1,212** | **na** |
| The share of agriculture in GDP (per cent) | 6.3 | **8.4** | **6.0** | **5.7** | **6.2** | **5.6** | **5.6** | **na** |
| The share of industry and construction in GDP (per cent) | na | **na** | **na** | **45.0** | **40.0** | **39.2** | **40.1** | **na** |
| GNP per capita (in US dollars) at PPP exchange rates[3] | na | **na** | **na** | **na** | **na** | **7,910** | **na** | **na** |
| Exchange rate (crowns per US dollar, end-year) | 14.3 | 28.0 | 27.8 | 28.9 | **30.0** | **28.2** | **26.6** | **na** |
| Exchange rate (crowns per US dollar, annual average) | 15.1 | 18.0 | 29.5 | 28.3 | **29.2** | **28.8** | **26.6** | **na** |
| Interest rate (average 3 month inter-bank PRIBOR deposit rate, per cent) | na | na | na | 13.8 | **8.0** | **12.7** | **10.9** | **na** |

Note:

Figures in bold type are those for the Czech Republic, whereas figures in normal type are those for the former CSFR. Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based information from these sources.

1 Data from the balance of payments, collected on a settlement basis. The high rates of growth of trade between 1990 and 1992 reflect the fact that, as the CMEA's non-convertible trading arrangements collapsed, more trade began to be settled in convertible currencies.

2 Data for 1989-92 exclude trade with Slovakia and incorporate only trade settled in convertible currency.

3 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Estonia

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 *Projection* |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | -1.1 | -8.1 | -11.0 | -14.2 | -8.5 | -2.7 | 3.2 | 3 |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 6.1 | 23.1 | 211 | 1,076 | 89.8 | 48 | 29 | 26 |
| Consumer prices (end-period) | na | na | 304 | 954 | 36 | 42 | 29 | 24 |
| Producer prices (annual average) | na | na | na | na | na | 36 | 26 | na |
| Producer prices (end-period) | na | na | na | na | na | 33 | 22 | na |
| Average real wages | na | na | na | -39 | 4 | 10 | 8 | na |
| **Monetary sector** | | | | | | | | |
| Domestic credit (end-year) | na | na | na | 30 | 60 | 40 | 63 | na |
| Broad money (M3, end-year) | na | na | na | 71 | 87 | 31 | 30 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance[1] | na | na | 5.2 | -0.3 | -0.7 | 1.3 | -0.8 | -1.5 |
| General government expenditure[1] | na | na | na | 34.9 | 40.3 | 39.9 | 41.5 | na |
| **External data** | | | | *(In millions of US dollars)* | | | | |
| Current account | na | na | na | 36 | 23 | -171 | -186 | -330 |
| Trade balance (data from the balance of payments) | na | na | na | -90 | -145 | -361 | -694 | na |
| Exports (merchandise; data from the balance of payments) | na | na | na | 461 | 812 | 1,327 | 1,859 | na |
| Imports (merchandise) | na | na | na | 551 | 957 | 1,688 | 2,550 | na |
| Foreign direct investment | na | na | na | na | 162 | 214 | 204 | na |
| | | | | *(In months of current account expenditure excluding transfers)* | | | | |
| Gross international reserves (end-year) | na | na | na | 3.2 | 3.7 | 2.5 | 2.3 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 |
| Unemployment (per cent of labour force) | na | na | na | na | 5.0 | 5.1 | 5.0 | na |
| GDP (in millions of kroons) | na | na | na | 13,054 | 21,918 | 30,103 | 41,503 | na |
| GDP at current exchange rates (in US dollars) | na | na | na | na | 1,658 | 2,316 | 3,620 | na |
| GNP per capita (in US dollars) at PPP exchange rates[2] | na | na | na | na | 6,860 | na | na | na |
| The share of agriculture in GDP (per cent)[3] | na | na | na | 12.5 | 10.0 | 8.8 | 7.1 | na |
| The share of industry in GDP (per cent)[3] | na | na | na | 23.6 | 18.8 | 18.3 | 16.6 | na |
| Exchange rate (kroons per US dollar, end-year) | na | na | na | 12.6 | 13.9 | 12.4 | 11.5 | na |
| Exchange rate (kroons per US dollar, annual average) | na | na | na | na | 13.2 | 13.0 | 11.5 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 The general government sector includes the state, local governments and extra-budgetary funds.

2 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

3 At current prices.

# FYR Macedonia

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 *Projection* |
|---|---|---|---|---|---|---|---|
| **Output** | | | *(Percentage change)* | | | | |
| GDP at constant prices | -9.9 | -12.1 | -21.1 | -8.4 | -4.0 | -1.5 | 3 |
| Industrial production | -10.6 | -17.2 | -16.0 | -10.0 | -9.0 | -11 | 4 |
| **Prices** | | | | | | | |
| Retail prices (average) | na | na | 1,691 | 350 | 122 | 16 | 4 |
| Retail prices (end-year) | 606 | 115 | 1,935 | 230 | 55 | 9 | 2 |
| **Monetary sector** | | | | | | | |
| Private domestic credit | na | na | 512.0 | 408.0 | 47.6 | 13.2 | na |
| Private denar M2 | na | na | 446.0 | 1.123 | 43.3 | 18.3 | na |
| Short-term lending rate (in per cent/end-year) | na | na | na | na | 80.0 | 25 | na |
| Discount rate (in per cent/end-year) | na | na | 250 | 295 | 33 | 15 | na |
| **Government sector** | | | *(In per cent of GDP)* | | | | |
| General government balance | na | na | -10.0 | -14.0 | -3.0 | -1 | -1 |
| General government expenditure | na | na | 48.0 | 55.0 | 54.0 | 46 | 45 |
| Central government balance[1] | na | na | -2.5 | -9.0 | -2.5 | 0 | -1 |
| Central government expenditure[1] | na | na | 26 | 32 | 33 | 29 | 29 |
| **External data in convertible currencies** | | | *(In millions of US dollars)* | | | | |
| Current account | -400 | -262 | -19 | -88 | -213 | -270 | -275 |
| Trade balance | -418 | -225 | -7 | -172 | -186 | -232 | -275 |
| Exports[2] | 1,113 | 1,150 | 1,199 | 1,055 | 1,086 | 1,205 | na |
| Imports[2] | 1,531 | 1,375 | 1,206 | 1,227 | 1,272 | 1,437 | na |
| External debt (end-year)[3] | 828 | 806 | 848 | 828 | 865 | 900 | na |
| | | | *(In months of imports)* | | | | |
| Official reserves, gross | na | na | 0.6 | 1.2 | 1.3 | 1.9 | na |
| **Miscellaneous items** | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | 2.1 | 2.2 | 2.2 | 2.2 | 2.1 | na | na |
| Official exchange rate (new denar per US dollar, end-period) | na | na | na | 44.5 | 40.6 | 38 | na |
| Official exchange rate (new denar per US dollar, average) | na | na | na | 23.2 | 43.3 | 38 | na |

Note:
Data for 1990-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on preliminary estimates for 1995 from these sources.

1 Includes transfers to extra-budgetary funds.

2 This series includes exports to other republics of the former Yugoslavia from 1991.

3 Estimated stock of debt including interest arrears, penalty interest and the FYRM's share of the unallocated debt of the former SFRY and excluding debt to the IMF.

# Georgia

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 *Projection* |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure at constant prices** | | | | *(Percentage change)* | | | | |
| GDP at constant prices[1] | -4.8 | -12.4 | -13.8 | -40.3 | -39.0 | -35.0 | 2.4 | 8 |
| Industrial production | -6.9 | -29.9 | -24.4 | -43.3 | -21 | -40 | na | na |
| Agricultural output | -24.3 | 61.8 | -10.6 | -34.2 | -42 | -15 | na | na |
| **Prices** | | | | | | | | |
| Retail prices (annual average) | na | 3.3 | 79 | 887 | 3,126 | 17,271 | 169 | 50 |
| Retail prices (end-year) | 0.9 | 4.8 | 131 | 1,176 | 7,488 | 7,144 | 65 | 23 |
| **Monetary sector** | | | | | | | | |
| Domestic credit (end-year) | na | na | na | 794 | 2,048 | 3,448 | 28 | na |
| Broad money (end-year) | na | na | na | 464 | 4,319 | 2,229 | 114 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| Consolidated government balance (cash basis) | na | na | -3 | -37 | -26 | -7.4 | -4.8 | -4 |
| Consolidated government expenditure (cash basis) | na | na | 33 | 39 | 46 | 24 | 13 | na |
| **External data** | | | | *(In millions of US dollars)* | | | | |
| Current account | na | na | na | -248 | -354 | -276 | -124 | na |
| Trade balance | na | na | na | -378 | -448 | -363 | -343 | -320 |
| Exports | na | na | na | 267 | 457 | 381 | 347 | 390 |
| Imports | na | na | na | 645 | 905 | 744 | 690 | 710 |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 |
| Unemployment rate (per cent of labour force) | na | na | na | 5.4 | 8.4 | na | na | na |
| GNP per capita (in US dollars) at PPP exchange rates[2] | na | na | na | na | na | 1,160 | na | na |
| Exchange rate (lari per US dollar, end-period) | na | na | na | na | na | na | 1.23 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1995 reflect EBRD evaluations, partly based on information from these sources.

1 NMP for 1989-93. NMP excludes depreciation and the value added from most of the service sector.

2 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Hungary

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 *Projection* |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | 0.7 | -3.5 | -11.9 | -3.1 | -0.6 | 2.9 | 1.5 | 1.5 |
| Private consumption | 2.3 | -3.6 | -5.6 | 0.0 | 1.9 | -0.2 | -4.5 | na |
| Public consumption | -6.3 | 2.6 | -2.7 | 4.9 | 27.5 | -12.7 | -6 | na |
| Gross fixed investment | 7.0 | -7.1 | -10.4 | -2.6 | 2.0 | 12.5 | 1 | na |
| Exports of goods and services | 1.2 | -5.3 | -13.9 | -5.0 | -9.5 | 15.4 | 17.5 | na |
| Imports of goods and services | 1.8 | -4.3 | -6.1 | -10.0 | 24.2 | 12.5 | -3.0 | na |
| Industrial gross output | -5.0 | -9.3 | -18.4 | -9.7 | 4.0 | 9.6 | 4.8 | 3 |
| Agricultural gross output | -1.8 | -4.7 | -6.2 | -20.0 | -9.7 | 3.2 | 0 | na |
| **Prices and wages** | | | | *(Percentage change)* | | | | |
| Consumer prices (annual average) | 16.9 | 28.9 | 35.0 | 23.0 | 22.5 | 18.8 | 28.2 | 24 |
| Consumer prices (end-year) | 18.1 | 33.4 | 32.2 | 21.6 | 21.1 | 21.2 | 28.3 | 22 |
| Producer prices (annual average) | 15.2 | 21.8 | 32.7 | 10.7 | 11.0 | 11.3 | 28.9 | 23 |
| Producer prices (end-year) | na | 39.3 | 27.2 | 14.4 | 9.5 | 14.8 | 30.2 | 21 |
| Gross monthly earnings per full-time employee in manufacturing | na | 22.9 | 25.6 | 25.9 | 24.7 | 21.5 | 21.3 | 20 |
| **Monetary sector** | | | | *(Percentage change)* | | | | |
| Broad money (end-year) | 15.2 | 29.2 | 29.4 | 27.3 | 17.2 | 13.0 | 18.5 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance[1] | -1.4 | 0.4 | -2.2 | -5.5 | -6.8 | -8.2 | -6.5 | -4 |
| Consolidated central government balance[2] | -0.8 | 0.9 | -3.3 | -7.3 | -7.8 | -7.5 | -6.7 | -4 |
| General government expenditure[2] | na | 53.5 | 54.3 | 61.6 | 62.2 | 62.1 | 56.1 | na |
| General government debt | na | na | 75.4 | 79.4 | 90.2 | 87.7 | 85 | na |
| **External data in convertible currencies** | | | | *(In billions of US dollars)* | | | | |
| Current account[3] | -1.4 | 0.1 | 0.3 | 0.3 | -3.5 | -3.9 | -2.5 | -1.5 |
| Trade balance[3] | 0.5 | 0.3 | 0.2 | 0.0 | -3.2 | -3.6 | -2.4 | na |
| External debt, net of reserves | 19.2 | 20.2 | 18.7 | 17.1 | 17.9 | 21.8 | 19.6 | na |
| Foreign direct investment settled in cash | 0.2 | 0.4 | 1.5 | 1.5 | 2.3 | 1.1 | 4.5 | na |
| | | | | *(Percentage change in the US dollar value)* | | | | |
| Exports (data from the balance of payments)[3] | 17.1 | -1.6 | 45.9 | 8.3 | -19.3 | -5.9 | 68.3 | na |
| Imports (data from the balance of payments)[3] | 17.8 | 1.5 | 51.2 | 11.1 | 12.5 | -0.8 | 35.6 | na |
| Exports (customs/survey statistics)[3] | na | na | na | 7.4 | -17.7 | 20.1 | 21.5 | 10 |
| Imports (customs/survey statistics)[3] | na | na | na | -0.1 | 12.3 | 16.1 | 7.0 | 0 |
| | | | | *(In months of current account expenditures, excluding transfers)* | | | | |
| Gross international reserves (end-year), excluding gold | 1.5 | 1.3 | 3.8 | 3.6 | 5.2 | 5.1 | 7.0 | na |
| | | | | *(In per cent of current account revenues, excluding transfers)* | | | | |
| Debt service[4] | 48.8 | 48.2 | 33.9 | 34.4 | 43.2 | 54.8 | 45.9 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, end-year) | 10.4 | 10.4 | 10.3 | 10.3 | 10.3 | 10.2 | 10.2 | na |
| Employment (percentage change, end-year) | -0.6 | -3.1 | -9.6 | -9.3 | -5.0 | -2.2 | -1.4 | na |
| Unemployment (per cent of labour force) | 0.3 | 1.9 | 7.5 | 12.3 | 12.1 | 10.4 | 10.4 | na |
| GDP (in billions of forints) | 1,723 | 2,089 | 2,498 | 2,943 | 3,548 | 4,365 | 5,500 | na |
| GDP per capita (in US dollars) | 2,803 | 3,179 | 3,242 | 3,617 | 3,748 | 4,069 | 4,290 | na |
| GNP per capita (in US dollars) at PPP exchange rates[5] | na | na | na | na | na | 6,310 | na | na |
| The share of agriculture in GDP (per cent) | 9.7 | 9.6 | 7.8 | 6.7 | 6.2 | 6.0 | na | na |
| The share of manufacturing in GDP (per cent) | 30.1 | 28.8 | 26.7 | 25.7 | 26.6 | 27.4 | na | na |
| Exchange rate (forint per US dollar, end-year) | 62.5 | 61.5 | 75.6 | 84.0 | 100.7 | 110.7 | 139.5 | na |
| Exchange rate (forint per US dollar, annual average) | 59.1 | 63.2 | 74.8 | 79.0 | 91.9 | 105.2 | 125.7 | na |
| Interbank interest rate (14-30 days maturity, end-year) | na | na | 35.4 | 15.4 | 21.8 | 31.3 | 30.4 | na |

Note:

Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 General government includes the state, municipalities and extra-budgetary funds.

2 Including the state and extra-budgetary funds; excluding privatisation revenues (which amounted to Ft 19-22 billion in 1992-93, Ft 59 billion in 1994 and Ft 452 billion in 1995).

3 Balance of payments data are based on banking statistics and are presented on a settlement basis. Since 1993 trends in balance of payments data on exports and imports have deviated markedly from trends observed in partner country statistics, notably OECD trade statistics. Banking statistics have become less reliable over this period as statistical reporting requirements for banks have been loosened. Many observers now find the customs/survey-based series more reliable. Because of a break in the series, customs/survey-based data are quoted here only from 1992 onwards.

4 The denominator was estimated on the basis of balance of payments trade data which have been subject to large swings in recent years because of the leads and lags in payment flows and changes in the share of such flows that passes through the banking system. The numerator for 1995 excludes prepayments on debt to the IMF.

5 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Kazakstan

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | -0.4 | -0.4 | -13 | -13 | -12 | -25 | -8.9 | 0.5 |
| Industrial output | 2 | -1 | -1 | -14 | -16 | -28 | -7.9 | na |
| Agricultural output | -14 | 16 | -9 | 1 | -10 | -23 | -21.3 | na |
| **Prices and wages** | | | | | | | | |
| Retail prices (annual average) | na | 4.2 | 90.9 | 1,381 | 1,662 | 1,880 | 180 | 40 |
| Retail prices (end-year) | na | na | 149.5 | 2,567 | 2,169 | 1,160 | 60.3 | 26 |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | na | na | 211 | 391 | 692 | 560 | 116 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance | 0 | 1.4 | -7.9 | -7.3 | -1.2 | -6.8 | -2.3 | -4.0 |
| Total expenditure | 35.4 | 31.4 | 32.9 | 31.9 | 24.7 | 24 | 18.8 | 20 |
| **External data** | | | | *(In billions of US dollars)* | | | | |
| Total trade balance | na | na | na | -1.1 | -0.4 | -0.9 | 0.2 | 0.4 |
| Exports | na | na | na | 3.5 | 4.8 | 3.3 | 5.2 | na |
| Imports | na | na | na | 4.6 | 5.2 | 4.2 | 5.4 | na |
| Total current account | na | na | -1.3 | -1.5 | -0.4 | -0.9 | -0.7 | -0.9 |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, end-year) | 16.5 | 16.6 | 16.7 | 16.9 | 16.9 | 16.7 | 16.5 | 16.3 |
| Unemployment rate (per cent of labour force, end-year) | 0 | 0 | 0 | 0.5 | 0.6 | 1.6 | 2.4 | na |
| Exchange rate (annual average, roubles per US dollar until 1993, tenge per US dollar thereafter) | 0.63 | 0.59 | 117 | 222 | 930 | 36 | 60 | na |
| GNP per capita (in US dollars) at PPP exchange rates[1] | na | na | na | na | na | 2,830 | na | na |
| The share of industry in GDP (per cent) | 29.9 | 21 | 37.1 | 46.4 | 44.3 | 40.2 | na | na |
| The share of agriculture in GDP (per cent) | 34.8 | 41.8 | 34.1 | 30.4 | 31.4 | 38.8 | na | na |
| Direct investment (millions of US dollars) | na | na | na | na | 473 | 635 | 723 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Kyrgyzstan

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices[1] | 4 | 3 | -5 | -19 | -16 | -26.5 | 1.3 | 2 |
| Industrial production | 5 | -0.6 | -0.3 | -26 | -25 | -28 | -13 | na |
| Agricultural production | 0 | 1 | -10 | -5 | -10 | -15 | 4 | na |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | na | 3 | 85 | 855 | 1,209 | 280 | 43 | 30 |
| Consumer prices (end-year) | na | na | 170 | 1,771 | 1,366 | 87 | 31.9 | 27 |
| Producer prices (end-year) | na | na | 288 | 4,031 | 1,355 | 85 | 33 | na |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | na | na | 84 | 428 | 180 | 125 | 70 | na |
| Net domestic assets (end year) | na | na | na | 761 | 307 | 84 | 91 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| Government balance | 2.1 | 0.3 | 4.6 | -17.4 | -13.5 | -7.7 | -12.5 | -5.5 |
| Government expenditure and net lending | 35.9 | 38.3 | 30.3 | 33.9 | 36.6 | 28.6 | 28.1 | 23.5 |
| Government revenue (including grants) | 38 | 38.6 | 35 | 17 | 23 | 20.8 | 15.6 | 18 |
| Government tax revenue | 28 | 26.3 | 17.1 | 14.5 | 13.5 | 13.4 | 13.6 | 14 |
| **External data** | | | | *(In millions of US dollars)* | | | | |
| Current account balance, excluding official transfers | na | na | -136 | -61 | -267 | -201 | -391 | -440 |
| Official transfers into Kyrgyzstan | na | na | na | na | 105 | 75 | 100 | na |
| Trade balance | na | na | -136 | -74 | -166 | -119 | -263 | na |
| Exports | na | na | 3,719 | 258 | 335 | 340 | 409 | na |
| to non-FSU | na | na | 23 | 23 | 112 | 117 | 140 | na |
| to FSU | na | na | 3,696 | 235 | 223 | 223 | 269 | na |
| Imports | na | na | 3,855 | 332 | 501 | 459 | 672 | na |
| from non-FSU | na | na | 785 | 15 | 185 | 195 | 310 | na |
| from FSU | na | na | 3,070 | 317 | 317 | 264 | 362 | na |
| External debt | na | na | na | na | 290 | 414 | 585 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, end-year) | 4.3 | 4.4 | 4.4 | 4.4 | 4.4 | 4.5 | 4.5 | na |
| GDP (in billions of roubles until 1992, in millions of soms thereafter) | 8 | 8 | 86 | 765 | 5,720 | 12,019 | 17,369 | na |
| GNP per capita (in US dollars) at PPP exchange rates[2] | na | na | na | na | na | 1,710 | na | na |
| Exchange rate (annual average, roubles per dollar, for 1989-92, som per dollar from 1993 onwards) | 0.6 | 0.6 | 1.8 | 161.0 | 6.1 | 11.0 | 10.8 | na |
| Share of industry in GDP (per cent) | na | 26 | 27 | 32 | 25 | 20 | 16 | na |
| Share of agriculture in in GDP (per cent) | na | 32 | 35 | 37 | 39 | 38 | 40 | na |

Note:

Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD,PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Goskomstat, the national statistical office, reported a decline in real GDP of around 6 per cent in 1995. The real GDP growth of 1 per cent which is indicated above is taken from the IMF, which has applied more up-to-date weights to official data.

2 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Latvia

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | 6.8 | 2.9 | -8.3 | -35.0 | -16.0 | 0.6 | -1.6 | 1 |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 4.7 | 10.5 | 124 | 951 | 109 | 36 | 25 | 19 |
| Consumer prices (end-year) | na | na | 262 | 958 | 35 | 26 | 23 | 19 |
| Producer prices (annual average)[1] | na | na | na | na | 117 | 17 | 12 | na |
| Producer prices (end-year)[1] | na | na | na | na | 36 | 11 | 16 | na |
| Real average wage in the state sector (annual average) | na | na | -16 | -16 | 1 | 11 | 3 | na |
| **Monetary sector[2]** | | | | | | | | |
| Domestic credit (end-year) | na | na | 91 | 304 | 146 | 65 | -24 | na |
| Broad money (M2, end-year) | na | na | 153 | 170 | 84 | 49 | 3 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance | na | na | na | -0.8 | 0.6 | -4.0 | -3.3 | -2.0 |
| General government expenditure | na | na | na | 28.2 | 35.2 | 38.2 | 38.2 | na |
| **External data** | | | | *(In millions of US dollars)* | | | | |
| Current account balance | na | na | na | 25 | 151 | -86 | -171 | -160 |
| Trade balance | na | na | na | -215 | -160 | -378 | -445 | na |
| Exports (merchandise) | na | na | na | 831 | 998 | 997 | 1,306 | na |
| to FSU | na | na | na | 396 | 541 | 503 | 499 | na |
| to other countries | na | na | na | 435 | 457 | 494 | 807 | na |
| Imports (merchandise) | na | na | na | 1,046 | 1,158 | 1,357 | 1,751 | na |
| Energy | na | na | na | na | 525 | 407 | 492 | na |
| from FSU (non-energy) | na | na | na | na | 237 | 245 | 239 | na |
| from other countries (non-energy) | na | na | na | na | 396 | 722 | 1,020 | na |
| Gross foreign debt | na | na | na | 43 | 225 | 359 | 430 | na |
| | | | | *(In months of imports of goods and non-factor services)* | | | | |
| Gross international reserves | na | na | na | 2 | 4.4 | 4.5 | 3.2 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in million) | 2.7 | 2.7 | 2.7 | 2.6 | 2.6 | 2.5 | 2.5 | na |
| Unemployment (per cent of labour force, end-year) | na | na | na | 2.3 | 5.8 | 6.5 | 6.6 | na |
| GNP (in millions of lats) | 52 | 62 | 143 | 1,005 | 1,467 | 2,043 | 2,361 | na |
| GNP (current US million) | na | na | na | 1,365 | 2,173 | 3,648 | 4,472 | na |
| GNP per capita (in US dollars) at PPP exchange rates[3] | na | na | na | na | na | 5,170 | na | na |
| The share of agriculture and fishing in GDP (per cent) | na | 21.1 | 22.5 | 16.5 | 10.6 | 8.4 | 8.5 | na |
| The share of industry in GDP (per cent) | na | 33.4 | 34.9 | 26.5 | 21.1 | 17.8 | 16.8 | na |
| One month treasury bill auction rate (per cent, per annum) | na | na | na | na | 24.5 | 18.2 | 25.7 | na |
| Exchange rate (lats per US dollar, end-year) | na | na | na | 0.843 | 0.595 | 0.548 | 0.537 | na |
| Exchange rate (lats per US dollar, annual average) | na | na | na | 0.736 | 0.675 | 0.560 | 0.528 | na |

Note:

Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 For 1991-93, this series covers prices in the manufacturing sector only.

2 Figures for 1995 reflect the suspension of activities of 15 banks and 2 credit unions.

3 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Lithuania

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 *Projection* |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| GDP at constant prices[1] | 1.5 | -5.0 | -13.4 | -37.7 | -24.2 | 1.0 | 3.1 | 1.5 |
| Gross industrial output | na | na | na | na | -34.4 | -26.5 | 5.2 | na |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average)[2] | 2.1 | 8.4 | 224.7 | 1,020.5 | 410.4 | 72.1 | 39.5 | 28 |
| Consumer prices (end-year) | na | na | 345 | 1,161.1 | 188.8 | 45.0 | 35.5 | 26 |
| Producer prices (annual average) | na | na | 148.2 | 1,517.4 | 397.7 | 44.7 | 28.3 | na |
| Average monthly wages (whole economy) | 10.5 | 21.1 | 129.2 | 797.7 | 171.0 | 95.9 | 58.5 | na |
| **Monetary sector** | | | | | | | | |
| Broad money (M2) | 14.2 | 55.4 | 143.0 | 245.3 | 100.4 | 63.6 | 30.8 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance[3] | -3.6 | -5.4 | 2.7 | 0.8 | -3.1 | -4.2 | -3.3 | -3.4 |
| General government expenditure and net lending | 53.8 | 49.1 | 38.7 | 31.3 | 33.3 | 29.3 | 27.9 | na |
| **External data in convertible currencies** | | | | *(In millions of US dollars)* | | | | |
| Current account | na | na | na | 203 | -132 | -175 | -177 | -196 |
| Trade balance | na | na | na | 101 | -283 | -308 | -334 | na |
| External debt | na | na | na | 94 | 281 | 448 | 757 | na |
| Foreign direct investment (net) | na | na | na | 10 | 23 | 60 | 55 | na |
| | | | | *(percentage change in the US dollar value)* | | | | |
| Exports (merchandise, percentage change) | na | na | na | na | 49.6 | 12.9 | 14.5 | na |
| Imports (merchandise, percentage change) | na | na | na | na | 91.4 | 12.3 | 13.7 | na |
| | | | | *(In per cent of total exports or imports)* | | | | |
| Exports | | | | | | | | |
| to countries outside the FSU (in per cent of total exports) | na | na | na | 48.8 | 41.9 | 44.7 | 47.7 | na |
| to former Soviet republics (in per cent of total exports) | na | na | na | 51.2 | 58.1 | 55.3 | 52.3 | na |
| Imports | | | | | | | | |
| from countries outside the FSU (in per cent of total imports) | na | na | na | 32.9 | 26.1 | 32.4 | 35.3 | na |
| from former Soviet republics (in per cent of total imports) | na | na | na | 67.1 | 73.9 | 67.6 | 64.7 | na |
| | | | | *(In months of merchandise imports)* | | | | |
| Gross international reserves of the central bank (end-year), excluding gold | na | na | na | 0.5 | 2.1 | 2.8 | 3.6 | na |
| | | | | *(In millions of US dollars)* | | | | |
| Debt services | na | na | na | 0.2 | 0.6 | 0.8 | 2.7 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, mid-year estimate) | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.72 | 3.71 | na |
| Employment (percentage change, annual average) | na | na | 2.4 | -2.2 | -4.2 | -5.8 | -1.9 | na |
| Unemployment (per cent of the labour force) | na | na | 0.3 | 1.3 | 4.4 | 3.8 | 6.2 | na |
| GDP (in millions of litai/litai equivalent) | 122.7 | 129.0 | 381.8 | 3,268.6 | 12,219 | 22,214 | 31,096 | na |
| GDP per capita (in US dollars) | na | na | 265.4 | 492.9 | 754.1 | 1,501.1 | 2,095.4 | na |
| GNP per capita (in US dollars) at PPP exchange rates[4] | na | na | na | na | na | 3,240 | na | na |
| The share of agriculture in GDP (per cent) at current prices | 27.3 | 27.6 | 19.2 | 11.6 | 11.0 | 7.3 | 9.5 | na |
| The share of industry in GDP (per cent) at current prices | 34.5 | 32.8 | 55.7 | 39.4 | 30.4 | 25.8 | 23.5 | na |
| Exchange rate (end-year) | na | 17 | 110 | 379 | 3.9 | 4.0 | 4.0 | na |
| Exchange rate (annual average)[5] | na | na | 38.5 | 177.3 | 4.3 | 4.0 | 4.0 | na |
| Interbank interest rate (average rate with maturities up to one month) | na | na | na | na | na | 69.5 | 26.8 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Figures are for NMP until 1990, GDP thereafter. NMP excludes depreciation and the value added from most of the service sector.

2 Figures for retail prices until 1990, CPI thereafter.

3 The general government sector includes the state, municipalities and extra-budgetary funds.

4 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas* 1996. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

5 Roubles per US dollar for 1990 and 1991; talonai per US dollar in 1992; and litai per US dollar for 1993-95.

# Moldova

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | na | -2.4 | -17.5 | -29 | -1 | -31 | -3.0 | 4 |
| **Prices** | | | | | | | | |
| Consumer prices (annual average)[1] | na | 4.2 | 98.0 | 1,208 | 1,283 | 587 | 30 | 25 |
| Consumer prices (end-year)[1] | na | na | 151 | 2,198 | 837 | 116 | 24 | 18 |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| State budget balance[3] | 2 | 3 | 0 | -4.2 | -6.4 | -5.4 | -4.9 | na |
| State budget expenditures and net lending[2] | na | na | na | 24.8 | 23.8 | 29.0 | 19.6 | na |
| General government balance (GFS concept)[4] | na | na | na | -23.4 | -6.8 | -9.0 | -5.5 | -4 |
| General government expenditures and net lending (GFS concept) | na | na | na | 43.6 | 19.8 | 32.1 | 29.4 | 27 |
| **External data in convertible currencies** | | | | *(In millions of US dollars)* | | | | |
| Current account | na | na | na | -39 | -182 | -98 | 120.0 | -390 |
| *vis-à-vis* countries outside the FSU | na | na | na | -22 | -8 | -26 | -5.0 | na |
| *vis-à-vis* former Soviet Republics | na | na | na | -17 | -174 | -71 | -114.0 | na |
| Trade balance | na | na | na | -37 | -180 | -54 | -32.0 | -280 |
| *vis-à-vis* countries outside the FSU | na | na | na | -20 | -35 | -11 | 3.0 | na |
| *vis-à-vis* former Soviet Republics | na | na | na | -17 | -144 | -43 | -36.0 | na |
| Exports | na | na | na | 868 | 451 | 618 | 741.0 | 750 |
| to countries outside the FSU | na | na | na | 185 | 174 | 213 | 273.0 | na |
| to former Soviet Republics | na | na | na | 683 | 277 | 406 | 468.0 | na |
| Imports | na | na | na | 905 | 631 | 672 | 773.0 | 1,030 |
| from countries outside the FSU | na | na | na | 205 | 210 | 224 | 269.0 | na |
| from former Soviet Republics | na | na | na | 700 | 421 | 449 | 504.0 | na |
| of which: energy | na | na | na | na | na | -287 | -283 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | 4.4 | 4.4 | 4.4 | 4.3 | 4.3 | 4.3 | 4.3 | na |
| GDP (in millions of Moldovan lei) | na | na | 26 | 192 | 2,210 | 5,780 | 7,639.0 | na |
| GDP at current exchange rates (in millions of US dollars) | na | na | na | na | na | 1,410 | 1,697.0 | na |
| GDP per capita (in US dollars) at current exchange rates | na | na | na | na | na | 327 | 390.0 | na |
| The share of agriculture in GDP (per cent) | na | na | 33 | 38 | 46 | 48 | 49.0 | na |
| The share of industry in GDP (per cent) | na | na | 30 | 31 | 29 | 25 | 22.0 | na |
| GDP per capita (in US dollars) at PPP exchange rates[3] | na | na | na | na | 3,210 | na | na | na |
| Exchange rate (lei per US dollar, average for the year) | na | na | na | na | na | 4.1 | 4.5 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Retail prices for 1989-91.

2 Includes republican and local budgets except for the Trans-Dniester region.

3 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

4 1995 figure excludes net lending. GFS stands for "government finance statistics" and denotes an IMF concept of the fiscal balance.

# Poland

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | (Percentage change) | | | | |
| GDP at constant prices | 0.2 | -11.6 | -7.0 | 2.6 | 3.8 | 5.2 | 7.0 | 5.0 |
| Private consumption at constant prices | -0.3 | -15.3 | 6.3 | 2.3 | 5.2 | 4.3 | na | na |
| Public consumption at constant prices | -4.6 | 0.5 | 10.2 | 6.4 | 3.8 | 2.8 | na | na |
| Gross fixed investment at constant prices | -2.1 | -10.6 | -4.4 | 2.3 | 2.9 | 9.2 | na | na |
| Exports of goods and services at constant prices | 2.6 | 15.1 | -1.7 | 10.8 | 3.2 | 13.1 | na | na |
| Imports of goods and services at constant prices | 4.3 | -10.2 | 29.6 | 1.7 | 13.2 | 11.3 | na | na |
| Industrial production | na | na | -8.0 | 2.8 | 6.4 | 11.9 | 9.4 | 8.0 |
| Agricultural production | na | na | -1.6 | -12.7 | 6.8 | -9.3 | na | na |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 251.1 | 585.8 | 70.3 | 43.0 | 35.3 | 33.2 | 27.8 | 21.0 |
| Consumer prices (end-year) | 639.5 | 249.0 | 60.4 | 44.3 | 37.6 | 29.4 | 21.6 | 19.0 |
| Producer prices (annual average) | 212.8 | 622.4 | 48.1 | 28.5 | 32.3 | 30.1 | 25.6 | na |
| Wages and salaries (annual average) | 291.8 | 398.0 | 70.6 | 39.2 | 33.6 | 36.8 | 32.9 | na |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year)[1] | 526.5 | 160.0 | 36.9 | 57.5 | 36.0 | 38.2 | 34.8 | na |
| **Government sector** | | | | (In per cent of GDP) | | | | |
| General government balance[2] | -7.4 | 3.1 | -6.5 | -6.6 | -2.9 | -2.0 | -3.5 | na |
| General government outlays[2] | 48.8 | 39.8 | 48.0 | 50.7 | 50.5 | 47.5 | na | na |
| State budget balance[3] | -6.1 | 0.7 | -7.0 | -6.9 | -3.4 | -2.5 | -2.8 | -2.7 |
| State budget outlays[3] | 36.9 | 32.7 | 32.7 | 33.7 | 32.8 | 31.9 | 32.0 | 30.3 |
| **External data in convertible currencies** | | | | (In billions of US dollars) | | | | |
| Current account balance[4] | -1.8 | 0.7 | -2.2 | -0.3 | -2.3 | -1.1 | -2.1 | -3.5 |
| "Adjusted" current account balance[4] | na | na | na | na | na | 2.0 | 3.8 | 1.0 |
| Trade balance[4] | 0.2 | 2.2 | 0.1 | 0.5 | -2.3 | -0.8 | -1.8 | -2.5 |
| External debt | 40.2 | 48.9 | 48.3 | 48.2 | 48.7 | 40.9 | 39.4 | na |
| | | | | (Percentage change in the US dollar value) | | | | |
| Exports (data from the balance of payments)[4] | 7.6 | 10.9 | 12.8 | 14.0 | 13.6 | 24.3 | 35.5 | na |
| Imports (data from the balance of payments)[4] | 7.3 | 8.6 | 12.7 | 13.5 | 15.9 | 11.9 | 38.8 | na |
| Flow of foreign direct investment settled in cash | 0.0 | 0.0 | 0.1 | 0.3 | 0.6 | 0.5 | 0.9 | na |
| | | | | (In months of imports of goods and non-factor services) | | | | |
| Gross international reserves (end-year), excluding gold | 2.4 | 3.8 | 2.5 | 2.9 | 2.6 | 3.1 | 5.7 | na |
| **Miscellaneous items** | | | | (Denominations as indicated) | | | | |
| Population (in millions) | 38.0 | 38.2 | 38.3 | 38.4 | 38.5 | 38.6 | 38.6 | na |
| Employment (percentage change, end-year) | -0.8 | -4.2 | -5.8 | -4.2 | -2.4 | 1.8 | na | na |
| Unemployment (per cent of the labour force, end-year) | 0.1 | 6.1 | 11.8 | 13.6 | 15.7 | 16.0 | 14.9 | na |
| Exchange rate (zloty per US dollar, end-year) | 0.650 | 0.950 | 1.096 | 1.577 | 2.134 | 2.437 | 2.468 | na |
| Exchange rate (zloty per US dollar, average) | 0.145 | 0.950 | 1.058 | 1.363 | 1.812 | 2.272 | 2.425 | na |
| Interest rate (refinancing rate, end-period) | 140.0 | 55.0 | 40.0 | 38.0 | 35.0 | 33.0 | 29.0 | na |
| GDP (in billions of zloty) | 11,832 | 59,152 | 82,527 | 114,944 | 155,780 | 214,700 | 292,600 | na |
| Private sector share of GDP (per cent) | 28.6 | 30.9 | 42.1 | 45.4 | 47.5 | 53.0 | na | na |
| The share of agriculture in GDP (per cent)[5] | 11.8 | 10.3 | 9.0 | 6.7 | 6.6 | 6.2 | na | na |
| The share of industry in GDP (per cent)[5] | 44.1 | 44.9 | 40.2 | 34.0 | 32.9 | 32.2 | na | na |
| GNP per capita (in US dollars) at PPP exchange rates[6] | na | na | na | na | na | 5,380.0 | na | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Beginning December 1991, data are based on a new system of accounts and an improved reporting system.

2 "General government" includes the state, municipalities and extra-budgetary funds. The data are compiled on a commitment basis, except for external interest payments, which are cash-based.

3 For the period 1988-90 the "state budget" includes central government accounts and accounts of local and regional authorities. The state budget for 1991 and subsequent years includes the central government accounts, the accounts of regional authorities and accounts of several previously extra-budgetary funds. Flows are compiled on a commitment basis, except for external interest payments which are cash-based.

4 The unadjusted series is based on official trade data which are likely to understate exports very significantly. The "adjusted" estimates take into account export revenues that flow through the so-called "kantor" market for small-scale foreign exchange transactions. Such flows were negligible prior to 1994.

5 At current prices.

6 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Romania

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | (Percentage change) | | | | |
| National accounts | | | | | | | | |
| Real GDP | -5.8 | -5.6 | -12.9 | -8.8 | 1.3 | 3.9 | 6.9 | 4.5 |
| Private consumption | 0.6 | 8.1 | -16.2 | -9.2 | -2.1 | na | na | na |
| Public consumption | 6 | 14.1 | 10.5 | 1.8 | 2.4 | na | na | na |
| Gross fixed investment | -1.6 | -37.4 | -36.7 | 19.3 | -3.7 | 14.6 | na | na |
| Exports of goods and services | -8.2 | -41.8 | -26.2 | 2.4 | 12.1 | 25.8 | 22.2 | na |
| Imports of goods and services | 10.6 | 14.5 | -41.6 | 7.8 | 4.2 | 9 | 33.3 | na |
| Industrial output[1] | -5.3 | -23.7 | -22.8 | -21.9 | 1.3 | 3.3 | 9.4 | 9.0 |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 1.1 | 5.1 | 174.5 | 210.9 | 256.1 | 131.0 | 32.2 | 40 |
| Consumer prices (end-year) | 0.6 | 37.7 | 222.8 | 199.2 | 295.5 | 61.7 | 27.8 | 60 |
| Wages (annual average) | 3.9 | 10.6 | 121.3 | 170 | 202.1 | 129.5 | 54.1 | na |
| **Monetary sector** | | | | (Percentage change) | | | | |
| Broad money (M2, end-year) | 6.3 | 22 | 101.2 | 79.6 | 143.2 | 138.1 | 71 | na |
| **Government sector** | | | | (In percent of GDP) | | | | |
| Central goverment balance (national definition) | na | na | -1.7 | -4.4 | -2.7 | -3.0 | -4.1 | -3 |
| General government balance[2] | 8.4 | 1.2 | 0.6 | -4.6 | -0.1 | -1.0 | -2.8 | -2 |
| General government expenditure[2] | 42.7 | 39.3 | 38.7 | 42.2 | 33.7 | 32.4 | 36.3 | na |
| **External data in convertible currencies** | | | | (In billions of US dollars) | | | | |
| Current account balance | 2.9 | -1.8 | -1.3 | -1.5 | -1.2 | -0.4 | -1.3 | -1 |
| Trade balance | 2.6 | -1.8 | -1.3 | -1.5 | -1.2 | 0.4 | -1.2 | na |
| Gross external debt, net of reserves (end-year) | -0.8 | 0.6 | 1.4 | 2.4 | 3.3 | 3.4 | 4.8 | na |
| | | | | (Percentage change in the US dollar value) | | | | |
| Exports (data from the balance of payments)[3] | -7.9 | -44.0 | -1.7 | 21.1 | 13.6 | 26 | 22.2 | na |
| Imports (data from the balance of payments)[3] | 17.3 | 49.9 | -10.2 | 11.3 | 10.7 | 9.1 | 33.4 | na |
| | | | | (In months of current account expenditures, excluding transfers) | | | | |
| Gross international reserves (end-year), excluding gold | 6.0 | 0.8 | 1.0 | 1.3 | 1.6 | 3.4 | 2 | na |
| **Miscellaneous items** | | | | (Denominations as indicated) | | | | |
| Population (in millions, mid-year) | 23.1 | 23.2 | 23.2 | 22.8 | 22.8 | 22.7 | 22.6 | 22.7 |
| Employment (percentage change, end-year) | 1.3 | -1.0 | -0.5 | -3.0 | -3.8 | -2.7 | na | na |
| Unemployment rate (in per cent of the labour force, end-year) | na | na | 3.0 | 8.1 | 10.2 | 11 | 8.9 | na |
| GDP (in billions of lei) | 800 | 858 | 2,204 | 6,029 | 20,051 | 49,795 | 72,249 | na |
| GDP per capita (in US dollars) at current exchange rates | 2,321 | 1,651 | 1,245 | 859 | 1,157 | 1,325 | 1,570 | na |
| GNP per capita (in US dollars) at PPP exchange rates[4] | na | na | na | na | na | 2,920 | na | na |
| The share of agriculture in GDP (per cent)[5] | 13.9 | 21.8 | 18.9 | 19.0 | 21.0 | 20.1 | na | na |
| The share of industry in GDP (per cent)[5] | 52.8 | 40.6 | 37.9 | 38.3 | 32.4 | 32.3 | na | na |
| Exchange rate (lei per US dollar, end-year)[6] | 14.4 | 34.7 | 189.0 | 460.0 | 1,276.0 | 1,767 | 2,760 | na |
| Exchange rate (lei per US dollar, average)[6] | 14.9 | 22.4 | 76.3 | 308.0 | 760.1 | 1,580 | 2,036.6 | na |
| Bank lending rate (end-year)[7] | 3.8 | 3.8 | 19.5 | 43.6 | 86.4 | 62.4 | 41.5 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 For 1988 and 1989: industrial real value added.

2 General government includes the state, local governments and extra-budgetary funds. Figures are on a cash basis.

3 Balance of payments data; payments settled plus accrued payments due.

4 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the *purchasing power parity*, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

5 At current prices.

6 During most of the period covered in this table, the exchange rate facing individuals has differed from that facing enterprises. The rates quoted here are the officially quoted rates facing enterprises.

7 Commercial banks, average lending rates as reported by the National Bank.

# Russian Federation

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| Real GDP | na | na | -13.0 | -14.5 | -8.7 | -12.6 | -4.0 | -3 |
| Real NMP | 1.9 | -4.0 | -14.0 | -21.0 | -13.0 | -16.0 | -4.0 | na |
| Investment at constant prices | 4.1 | 0.1 | -15.0 | -40.0 | -12.0 | -26.0 | -13.0 | -10 |
| Industrial production | 1.4 | -0.1 | -8.0 | -18.8 | -16.2 | -22.8 | -4.7 | -5 |
| **Prices and wages** | | | | *(In percentage)* | | | | |
| Consumer prices (annual average) | 2.0 | 5.6 | 92.7 | 1,354 | 896 | 302 | 190 | 45 |
| Consumer prices (end-period) | na | na | 143.9 | 2,318 | 841 | 203 | 131 | 25 |
| Wages (annual average) | 12.9 | 15.2 | 80.1 | 994 | 879 | 273 | na | na |
| Industrial wholesale prices (annual average) | 1.2 | 3.9 | 138.1 | 1,949 | na | na | na | na |
| Industrial wholesale prices (end-period) | na | na | 236.3 | 3,275 | 1,007 | 345 | 179 | na |
| **Monetary sector** | | | | *(Percentage change)* | | | | |
| Credit to enterprises and households | na | na | 127 | 803 | 452 | 242 | na | na |
| Broad money (end-period)[1] | 14.6 | 17.6 | 126 | 643 | 416 | 190 | 119 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance (cash basis)[2] | na | na | -31.0 | -18.8 | -7.6 | -10.1 | -4.9 | -6 |
| **External data**[4] | | | | *(In billions of US dollars)* | | | | |
| Current account balance *vis-à-vis* non-CIS countries[3] | na | na | 3.5 | -5.7 | 2.3 | 1.2 | 5.7 | 5 |
| Trade balance *vis-à-vis* non-CIS countries[3] | na | na | 8.1 | 4.4 | 11.9 | 14.3 | 18.1 | 15 |
| Gross external debt in convertible currencies (of the Soviet Union/Russia, end of period) | 54.4 | 61.1 | 67.0 | 78.2 | 83.7 | 93.6 | 103.8 | na |
| | | | | *(Percentage change in the US dollar value)* | | | | |
| Exports to non-CIS countries (incl. gold)[3] | 0.7 | -4.8 | -28.4 | -16.8 | 4.5 | 20.0 | 24.2 | na |
| Imports from non-CIS countries[3] | 8.0 | 4.8 | -45.6 | -16.9 | -11.3 | 12.3 | 19.5 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, end-year) | 147.6 | 148.3 | 148.9 | 148.6 | 148.3 | 148.2 | 148.1 | na |
| Unemployment rate (per cent of labour force, end-year)[4] | 0.0 | 0.0 | 0.1 | 0.8 | 1.1 | 2.1 | 3.2 | na |
| Open unemployment (per cent of labour force, end-year)[5] | na | na | na | na | 5.5 | 7.1 | 8.2 | na |
| Exchange rate (roubles per US dollar, end-year) | 0.6 | 1.7 | 169.0 | 415.0 | 1,247.0 | 3,550.0 | 4,640.0 | na |
| Exchange rate (roubles per US dollar, average) | 0.6 | 1.7 | 67.1 | 222.1 | 933.2 | 2,205.0 | 4,565.0 | na |
| Refinancing rate (in per cent, end-year)[6] | na | na | 6 to 9 | 80.0 | 210.0 | 180.0 | 160.0 | na |
| Nominal GDP (in trillion roubles) | 0.6 | 0.6 | 1.4 | 19.0 | 171.5 | 630.1 | 1,888.0 | na |
| GNP per capita (in US dollars) at PPP exchange rates[7] | na | na | na | na | na | 5,260.0 | na | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 eflect EBRD evaluations, partly based on information from these sources.

1 Excluding foreign currency deposits.

2 Includes the federal and local governments, all extra-budgetary funds and unbudgeted import subsidies.

3 There are many difficult conceptual issues associated with Russian balance of payments statistics. For example, estimates from other sources for the current account balance for each of the years 1992-94 differ by up to US$ 4-6 billion from PlanEcon figures. This is because most non-governmental sources, including the IMF, the World Bank and PlanEcon, make discretionary adjustments to official estimates, and because different sources adjust to different extents for overdue (but unpaid) interest (payments as well as receipts), for under-recording of trade and for gold transactions. The main source for external data are the IMF and Russian Economic Trends. Forecasts for 1996 are those of the EBRD.

4 Officially registered unemployed.

5 Open unemployment data correspond to the ILO definition and are based on Goskomstat labour survey figures.

6 This is the refinancing rate that is quoted by the Central Bank of Russia (CBR). It does not truly reflect the compound annualised interest rate on refinancing. It is instead computed by multiplying by 12 the monthly rate charged by CBR on refinancing loans.

7 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Slovak Republic

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | 1.4 | -2.5 | **-14.6** | **-6.5** | **-4.1** | **4.8** | **7.4** | **5.5** |
| Industrial production[1] | **-0.7** | **-3.6** | **-17.6** | **-14.4** | **-10.2** | **6.4** | **8.3** | **na** |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 2.3 | 10.8 | **61.2** | **10.1** | **23.2** | **13.4** | **9.9** | **7.0** |
| Consumer prices (end-year) | 1.5 | 18.4 | **58.3** | **9.1** | **25.1** | **11.7** | **7.2** | **5.9** |
| Producer prices (annual average) | -0.7 | 4.4 | **68.8** | **5.3** | **17.2** | **10.0** | **9.0** | **na** |
| Average wages in industry | 3.2 | 4.5 | **16.5** | **20.2** | **16.8** | **17.4** | **15.3** | **na** |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | 3.5 | 0.5 | 26.8 | 4.7 | **18.5** | **18.8** | **20.7** | **na** |
| Net domestic assets (end-year) | 0.9 | 5.2 | 21.9 | 7.2 | **19.0** | **12.4** | **3.0** | **na** |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance | -2.8 | 0.1 | -2 | **-11.9** | **-7.1** | **-1.1** | **3.2** | **-1.5** |
| General government expenditure | 64.5 | 60.1 | 54.2 | **57.9** | **51.2** | **47.7** | **48.3** | **na** |
| **External data in convertible currencies** | | | | *(In billions of US dollars)* | | | | |
| Current account balance | 0.4 | -1.1 | 0.4 | 0.2 | **-0.6** | **0.7** | **0.6** | **-1.2** |
| Trade balance | 0.4 | -0.8 | -0.4 | -0.7 | **-0.9** | **0.1** | **0.0** | **-1.6** |
| Exports[2] | na | na | na | na | **5.4** | **6.7** | **8.5** | **na** |
| Imports[2] | na | na | na | na | **6.3** | **6.6** | **8.5** | **na** |
| | | | | *(Percentage change in the US dollar value)* | | | | |
| Exports (data from the balance of payments)[2] | 8.5 | 10.1 | 39.2 | 35.2 | **-16.9** | **22.8** | **27.7** | **na** |
| Imports (data from the balance of payments)[2] | -1.5 | 35 | 29.6 | 46.2 | **-12.5** | **4.0** | **28.5** | **na** |
| | | | | *(In billions of US dollars)* | | | | |
| Official reserves (excluding gold) | **na** | **na** | **na** | **na** | **0.4** | **1.7** | **3.4** | **na** |
| External debt (net of official reserves) | **na** | **na** | **na** | **na** | **3.2** | **2.6** | **2.4** | **na** |
| | | | | *(In months of imports)* | | | | |
| Official reserves | **na** | **na** | **na** | **na** | **0.7** | **2.6** | **4.0** | **na** |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, end-year) | **5.3** | **5.3** | **5.3** | **5.3** | **5.3** | **5.3** | **5.3** | **na** |
| Unemployment rate (per cent of labour force, end-year) | **0** | **1.5** | **11.8** | **10.3** | **14.4** | **14.8** | **13.1** | **na** |
| GDP (in billions of crowns) | 759 | **244** | **280** | **301** | **370** | **441** | **518** | **na** |
| The share of agriculture in GDP (per cent)[3] | 6.3 | **8.2** | **5.8** | **6.1** | **6.6** | **6.6** | **6.4** | **na** |
| The share of industry in GDP (per cent)[3] | 59.6 | **61.6** | **63.9** | **38** | **36.7** | **35.4** | **32.5** | **na** |
| GNP per capita (in US dollars) at PPP exchange rate[4] | na | **na** | **na** | **na** | **na** | **6,660** | **na** | **na** |
| Exchange rate (crowns per US dollar, end-year) | 14.3 | 28 | 27.8 | 28.9 | **33.2** | **31.3** | **29.6** | **na** |
| Exchange rate (crowns per US dollars, annual average) | 15.1 | 18 | 29.5 | 28.3 | **30.8** | **32.0** | **29.7** | **na** |
| National Bank discount rate (end-year) | na | na | na | na | **12.0** | **12.0** | **9.8** | **na** |

Note:

Figures in bold type pertain to the Slovak Republic whereas figures in normal type pertain to the former CSFR. Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflects EBRD evaluations, partly based on information from these sources.

1 Covers only state enterprises until 1991, but includes the private sector from 1992.

2 The values and the growth rates quoted take into account trade with the Czech Republic.

3 The share of NMP for 1989-90 and of GDP thereafter. NMP excludes depreciation and the value added from most of the service sector.

4 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Slovenia

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | -1.8 | -4.7 | -8.1 | -5.4 | 1.3 | 5.3 | 3.5 | 3 |
| Industrial production | -0.1 | -10.5 | -12.4 | -13.2 | -2.8 | 6.4 | 2.0 | 1.5 |
| Agricultural production | -3.3 | 1.6 | -3 | -6 | -3.7 | 1.6 | 2.5 | 3 |
| **Prices and wages** | | | | | | | | |
| Retail prices (annual average) | 1,306 | 550 | 117.7 | 201.3 | 32.3 | 19.8 | 12.6 | 10.0 |
| Retail prices (end-year) | 2,772 | 105 | 247.1 | 92.9 | 22.9 | 18.3 | 8.6 | 9.5 |
| Industrial producer prices (annual average) | 1,413 | 390 | 124.1 | 215.7 | 21.6 | 17.7 | 12.8 | na |
| Nominal wages, net of tax (annual average)[1] | 1,141 | 379 | 82.5 | 198.5 | 52.0 | 28.3 | 18.6 | na |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | na | na | na | 132 | 64.2 | 50.7 | 30.2 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance | 0.3 | -0.3 | 2.6 | 0.3 | 0.3 | -0.2 | -0.03 | -0.4 |
| General government expenditure | 42.1 | 49.6 | 41.1 | 46.2 | 46.8 | 47.3 | 46.2 | 45 |
| **External data in convertible currencies** | | | | *(In billions of US dollars)* | | | | |
| Current account[2] | 1.08 | 0.53 | 0.13 | 0.93 | 0.15 | 0.54 | -0.04 | -0.1 |
| Trade balance[2] | 0.19 | -0.61 | -0.26 | 0.80 | -0.15 | -0.34 | -0.96 | -1.0 |
| External debt, net of official reserves[3] | na | na | 1.7 | 1.0 | 1.1 | 0.8 | 1.2 | 1.5 |
| | | | | *(Percentage change in US dollar value)* | | | | |
| Exports (data from the balance of payments)[2] | 3.19 | 20.8 | -6 | 8.1 | -9 | 16.1 | 19.1 | 3 |
| Imports (data from the balance of payments)[2] | 9.9 | 47.0 | -12.6 | 0.1 | 5.9 | 14.4 | 27.2 | 5 |
| | | | | *(In months of current account expenditures, excluding transfers)* | | | | |
| Gross international reserves, excluding gold | na | 0.6 | 0.4 | 1.2 | 1.2 | 2.1 | 2.0 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, annual average) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Employment (percentage change, annual average) | -1.1 | -3.8 | -7.8 | -6.6 | -2.2 | -1.8 | -0.3 | na |
| Unemployment (per cent of labour force, annual average) | 2.9 | 4.7 | 8.2 | 11.6 | 14.4 | 14.4 | 13.9 | na |
| GDP (in 10 trillions of dinars up to 1990, in billions of tolars thereafter) | 34.8 | 196.1 | 349.4 | 1,005 | 1,435.0 | 1,844.7 | 2,198.5 | na |
| The share of agriculture in GDP (per cent) | 4.3 | 4.7 | 4.9 | 4.9 | 4.5 | 4.5 | na | na |
| The share of industry in GDP (per cent) | 44.3 | 38 | 40.8 | 37.6 | 35.4 | 35.1 | na | na |
| Exchange rate (tolar per US dollar, end-year)[4] | 11.8 | 10.7 | 56.7 | 98.7 | 131.8 | 126.5 | 126 | na |
| Exchange rate (tolar per US dollar, annual average)[4] | 2.9 | 11.3 | 27.6 | 81.3 | 113.2 | 128.8 | 118.5 | na |
| Working capital nominal interest rate (end-year) | na | na | 562.6 | 71.6 | 42.6 | 38.5 | 28.0 | na |

Note:

Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Data for 1989-91 covers only the social sector. Data for subsequent years take into account private enterprises employing three or more persons.

2 For 1989-91 excluding trade with former Yugoslavia.

3 Excluding non-allocated federal Yugoslav debt.

4 For the period prior to 8 October 1991 (the date of the introduction of the tolar) measured as the multiple of 10,000 dinars that would buy one US dollar. The tolar was introduced at 10,000 dinar per tolar.

# Tajikistan

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | -2.9 | -1.6 | -7.1 | -29.0 | -11.1 | -21.5 | -12.5 | -7 |
| Industrial production | 1.9 | 1.9 | -2.0 | -23.3 | -17.8 | -31.4 | na | na |
| Agricultural production | -13.0 | -9.2 | -4.4 | -26.7 | -4.4 | 0.1 | na | na |
| **Prices and wages** | | | | | | | | |
| Consumer price (average of period)[1] | na | 4 | 112 | 1,157 | 2,195 | 350 | 635 | 700 |
| Consumer price (end-period)[1] | na | na | 204 | 1,364 | 7,344 | 5 | 1,500 | 200 |
| Wholesale prices (annual average) | na | na | 79 | 3,450 | 4,241 | 295 | 628 | na |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | na | na | 68 | 579 | 1,429 | 159 | na | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance[2] | na | na | -16.4 | -31.2 | -25 | -10.5 | -11.2 | -6 |
| General government expenditure[2] | na | na | 49.6 | 57.8 | 52.1 | 55 | 30.6 | 22 |
| **External data** | | | | *(In millions of US dollars)* | | | | |
| Current account (incl. official transfers) | na | na | na | 52.8 | -208 | -169 | 1 | na |
| Trade balance total | na | na | na | -54.8 | -204 | -147 | 29 | na |
| *vis-à-vis* countries outside the FSU | na | na | na | -21.4 | -79 | 29 | 128 | na |
| *vis-à-vis* former Soviet Republics | na | na | na | -33.4 | -125 | -176.0 | -98 | na |
| Exports total | na | na | na | 184.8 | 456 | 559 | 657 | na |
| to countries outside the FSU | na | na | na | 110.8 | 318.0 | 406.0 | 462 | na |
| to former Soviet Republics | na | na | na | 74.0 | 139.0 | 154.0 | 195 | na |
| Imports total | na | na | na | 239.0 | 660.4 | 707.0 | 628 | na |
| from countries outside the FSU | na | na | na | 132.2 | 396.0 | 377 | 334 | na |
| from former Soviet Republics | na | na | na | 107.4 | 264.0 | 330 | 294 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, end-year) | 5.1 | 5.2 | 5.3 | 5.6 | 5.7 | 5.7 | 5.8 | 5.8 |
| GDP (in millions of roubles)[3] | 4,817 | 5,490 | 10,540 | 64,760 | 631,162 | 1,717,974 | 64,843 | na |
| GDP per capita (in US dollars) at PPP exchange rates[4] | na | na | na | na | na | 1,160 | na | na |
| Industry's share in NMP (per cent) | 37.2 | 38.3 | 43.9 | 32.8 | 36.1 | 34.6 | na | na |
| Agriculture's share in NMP (per cent) | 26.7 | 28.6 | 30.6 | 45.4 | 23 | 19.0 | na | na |
| Investment (in per cent of GDP) | na | na | na | na | na | 22.3 | 17.4 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 RPI through 1991, CPI thereafter.
2 Includes state budget, pension and employment funds.
3 NMP for 1989-91: in Russian roubles until 1994, in Tajik roubles thereafter.
4 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Turkmenistan

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | -6.9 | 2.0 | -4.7 | -5.3 | -10 | -20 | -10 | 0 |
| **Price and wages** | | | | | | | | |
| Consumer prices (annual average) | 2.1 | 4.6 | 103 | 493 | 3,102 | 1,750 | 1,005 | 500 |
| Consumer prices (end-period) | na | na | 155 | 644 | 9,750 | 1,330 | 1,000 | 250 |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| Central government expenditure[1] | 30.1 | 43.6 | 38.2 | 42.2 | 19.2 | 10.4 | 10 | na |
| Central government balance[1] | -1.9 | 1.2 | 2.5 | 13.2 | -0.5 | -1.4 | -1.6 | na |
| **External data** | | | | *(In millions of US dollars)* | | | | |
| Current account | na | na | na | na | 776 | 84 | 55 | na |
| Current account (cash basis)[2] | na | na | na | na | -151 | -462 | -10 | na |
| Trade balance | na | -249 | 590 | 1,140 | 1,100 | 486 | 536 | na |
| Exports | na | 151 | 1,238 | 2,149 | 2,693 | 2,176 | 2,008 | na |
| Imports | na | 400 | 648 | 1,009 | 1,593 | 1,690 | 1,472 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | 3.6 | 3.7 | 3.8 | 3.8 | 3.9 | 3.9 | na | na |
| Employment (in millions) | 1.49 | 1.54 | 1.57 | 1.57 | na | na | na | na |
| The share of agriculture in NMP (in per cent)[3] | 43 | 48 | 46 | 48 | 17 | na | na | na |
| The share of industry in NMP (per cent)[3, 4] | 23 | 16 | 20 | 11 | 39 | na | na | na |
| GDP per capita in purchasing power terms (US dollars)[5] | na | na | na | 3,950 | na | na | na | na |

Note:

Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Excludes many government activities. For example, activities of several key ministries are not included in the central government concept.

2 Computed as the difference between the current account and the flow-accumulation of overdue claims on other countries.

3 NMP excludes depreciation and the value added from most of the service sector.

4 The methodology used by the Turkmen Statistical Office leads to an understatement of the contribution from natural gas production.

5 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

# Ukraine

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **Output and expenditure** | | | | *(Percentage change)* | | | | |
| GDP at constant prices | 4 | -3.4 | -9.0 | -10.0 | -14.0 | -23.0 | -11.8 | -7 |
| Private consumption | 5 | 2 | -8 | -9 | -21 | -22 | na | na |
| Public consumption | 7 | 5 | 19 | -17 | -26 | na | na | na |
| Net fixed investment | -2 | -32 | -79 | -37 | -23 | na | na | na |
| Industrial production | 3 | 0 | -5 | -6 | -9 | -28 | -13 | na |
| Agricultural production | na | -4 | -13 | -8 | 2 | -16 | -2 | na |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average) | 2.2 | 4.2 | 91 | 1,210 | 4,700 | 891 | 375 | 90 |
| Consumer prices (end-year) | na | na | 161 | 2,000 | 10,155 | 401 | 182 | 55 |
| Producer prices (annual average) | na | 4.5 | 125 | 2,384 | 2,453 | 1,040 | 488 | na |
| Producer prices (end-year) | 1.7 | 4.5 | 163 | 4,129 | 9,668 | 602 | 272 | na |
| Average wages (annual average) | na | na | na | 1,523 | 2,236 | 786 | 426 | na |
| **Monetary sector** | | | | | | | | |
| Broad money (end-year) | na | na | na | 859 | 1,778 | 573 | 117 | na |
| Net domestic assets of the banking system (end-year) | na | na | na | 1,639 | 1,133 | 583 | 180 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance[1] | na | na | -13.6 | -29.3 | -9.7 | -8.2 | -5.0 | -6.5 |
| State budget balance[1] | 5.8 | 2.6 | -14.1 | -30.4 | -11.6 | -9.2 | -5.0 | na |
| State budget expenditure[1] | 27.3 | 31.4 | 41.0 | 71.9 | 54.3 | 53.5 | 45.0 | na |
| State budget revenue[1] | na | na | na | 41.5 | 42.9 | 44.3 | 40.0 | na |
| **External data** | | | | *(In billions of US dollars)* | | | | |
| Current account balance | na | na | -2.9 | -0.6 | -0.8 | -1.4 | -1.5 | -15 |
| *vis-à-vis* non-FSU countries | na | na | na | na | 0.7 | 0.4 | 0.6 | na |
| *vis-à-vis* FSU republics | na | na | na | na | -1.5 | -1.8 | -2.1 | na |
| Merchandise trade balance total | -9.0 | -12.7 | -3.4 | -0.6 | -2.5 | -2.3 | -2.3 | -3.4 |
| *vis-à-vis* non-FSU countries | -0.8 | -2.6 | -2.7 | 0.5 | 0.5 | 0.3 | 0.5 | na |
| *vis-à-vis* FSU republics | -8.2 | -10.1 | -0.7 | -1.1 | -3.0 | -2.7 | -2.8 | na |
| Exports total | 77.1 | 74.6 | 50.0 | 11.3 | 12.8 | 12.1 | 13.6 | na |
| to non-FSU | 14.0 | 13.2 | 7.3 | 6.0 | 5.2 | 4.6 | 5.7 | na |
| to FSU republics | 63.1 | 61.4 | 42.7 | 5.3 | 7.6 | 7.5 | 7.9 | na |
| Imports total | 86.1 | 87.3 | 53.4 | 11.9 | 15.3 | 14.5 | 16.0 | na |
| from non-FSU | 14.8 | 15.8 | 10.0 | 5.5 | 4.7 | 4.3 | 5.2 | na |
| from FSU republics | 71.3 | 71.5 | 43.4 | 6.4 | 10.6 | 10.1 | 10.8 | na |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions) | 51.7 | 51.8 | 51.9 | 52.0 | 52.1 | 51.7 | 51.3 | 51.2 |
| Employment (percentage change) | na | -3.5 | -1.6 | -4.0 | -2.3 | -5.3 | na | na |
| Unemployment rate (per cent, end-year) | 0 | 0 | 0 | 0.3 | 0.4 | 0.4 | 0.6 | na |
| GDP (in billions of roubles until 1991, in trillions of karbovanetsi thereafter) | 154 | 165 | 295 | 5 | 148 | 1,137 | 5,140 | na |
| GNP per capita (in US dollars) at PPP exchange rates[2] | na | na | na | na | na | 3330 | na | na |
| The share of agriculture and fisheries in GDP (per cent) | 28 | 24.4 | 24.5 | 20.8 | 18.4 | 14.3 | 13.2 | na |
| The share of industry and construction in GDP (per cent) | 42.6 | 42.6 | 54.6 | 52.1 | 36.8 | 42.4 | 43.7 | na |
| Exchange rate (roubles or karbovanetsi per US dollar, average per year)[3] | 0.62 | 0.59 | 1.74 | 253 | 8,858 | 52,225 | 158,302 | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 The general government sector includes the state, municipalities and extra-budgetary funds. The state budget includes direct credits. All balances on cash, are quoted on a cash basis. On the IMF definition of the budget defecit (foreign interest payments classified as below the line), the deficits as a share of GDP were -7.5 per cent in 1994 and -3.5 per cent in 1995 and 1996.

2 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

3 Roubles per US dollar until 1991, karbovanets per US dollar thereafter (auction exchange rate).

# Uzbekistan

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 Projection |
|---|---|---|---|---|---|---|---|---|
| **The real economy** | | | | *(Percentage change)* | | | | |
| Real GDP | 3.7 | 1.6 | -0.5 | -11.1 | -2.3 | -4.2 | -1.2 | -1 |
| Real NMP | 3.1 | 4.3 | -0.9 | -12.9 | -3.5 | na | na | na |
| Industrial output | 3.6 | 1.8 | 1.8 | -12.3 | -8.3 | na | na | na |
| Agricultural output | -4.3 | 6.3 | -5.2 | -7.3 | -0.7 | na | na | na |
| **Prices and wages** | | | | | | | | |
| Consumer prices (annual average)[1] | 0.7 | 3.1 | 82.2 | 645 | 534 | 1,568 | 305 | 50 |
| Consumer prices (end-period)[1] | na | na | 169 | 910 | 885 | 1,281 | 117 | 35 |
| Wholesale prices (annual average) | 2.1 | 7.2 | 147.3 | 3,275 | 2,545 | 1,428 | 499 | 200 |
| Wages (annual average) | 6.4 | 11.2 | 51.1 | 612 | 1,350 | 905 | 210 | na |
| **Government sector** | | | | *(In per cent of GDP)* | | | | |
| General government balance | -0.9 | -1.1 | -3.6 | -18.4 | -10.5 | -6.1 | -4.1 | -3.5 |
| General government revenue | 35.0 | 44.9 | 49.1 | 31.4 | 42.6 | 32.3 | 35.2 | 32.3 |
| General government expenditure | 35.9 | 46.1 | 52.7 | 49.7 | 53.0 | 38.4 | 39.2 | 35.8 |
| **Monetary sector** | | | | | | | | |
| Broad money (end-period) | na | na | na | 335.8 | 785.0 | 680.3 | 151 | 15 |
| **External data** | | | | *(In millions of US dollars)* | | | | |
| Exports | na | na | na | 1,424 | 2,877 | 2,940 | 3,805 | 4,006 |
| Imports | na | na | na | 1,660 | 3,255 | 2,727 | 3,598 | 4,125 |
| Trade balance | na | na | na | -236 | -378 | 213 | 207 | -119 |
| Current account | na | na | na | -239 | -429 | 117 | -53 | -512 |
| **Miscellaneous items** | | | | *(Denominations as indicated)* | | | | |
| Population (in millions, end-year) | 20.0 | 20.5 | 20.9 | 21.3 | 22.0 | 22.5 | 22.7 | na |
| Unemployment rate (per cent of labour force, end-year) | 0 | 0 | 0 | 0.1 | 0.2 | 0.4 | 0.4 | na |
| Exchange rate (annual average; roubles per US dollar for 1989-93, sum per US dollar for 1994-95) | 0.63 | 0.59 | 0.58 | 222 | 933 | 11.4 | 29.7 | na |
| Share of industry in GDP (per cent) | 26.0 | 23.8 | 26.3 | 26.6 | 22.4 | 17 | 16.4 | na |
| Share of agriculture in GDP (per cent) | 42.3 | 44.3 | 37.2 | 35.4 | 27.9 | 34.5 | 28.5 | na |
| Investment (per cent of GDP) | 32 | 32 | 26 | 24.9 | 14.7 | 18.2 | 29.6 | 33.8 |
| Nominal GDP (in billions of roubles until 1992, in millions of sum from 1992) | 30.7 | 32.4 | 61.5 | 444.0 | 5,095.0 | 64,878 | 298,530 | na |
| GNP per capita (in US dollars) at PPP exchange rates[2] | na | na | na | na | na | 2,390 | na | na |

Note:
Data for 1989-95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 reflect EBRD evaluations, partly based on information from these sources.

1 Retail prices for the period 1989-93.

2 PPP stands for purchasing power parity. The estimate quoted here stems from the *World Bank Atlas 1996*. In the computation of this estimate the country's nominal GNP per capita in local currency was divided by the PPP, defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

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