



Part IV

Macroeconomic performance

Chapter 8. Recent economic developments

8.1 Introduction – 110

8.2 Growth in eastern Europe and the Baltics, further output contraction in the CIS – 110

8.3 Inflation – 111

8.4 Capital flows and the current account of the balance of payments – 113

8.5 Productivity and competitiveness – 117

8.6 Concluding remarks – 121

Annex 8.1 Estimates of GDP per capita at purchasing power parity exchange rates – 122

Chapter 9. Forecasts and prospects

9.1 Forecasts of growth and inflation 1996-97 – 123

9.2 The accuracy of forecasts – 131

9.3 Medium-term growth prospects – 133

9.4 Concluding remarks – 133

Recent economic developments

8.1 Introduction

The past three years have seen strong economic growth in eastern Europe and the Baltics and a slowdown of the pace of output decline in the CIS. Growth in eastern Europe and the Baltics remained strong during the first half of 1996, albeit a little lower than the 5 per cent achieved in 1995. Full-year projections for 1996 point to significantly negative growth, however, in Bulgaria, which recorded positive growth in output in 1995.¹ It is likely that the slowdown in east European growth reflects primarily short-term factors, including a drop in recent quarters in western Europe's output growth and import demand, as well as fiscal contraction in a few east European countries. Growth prospects remain strong in the medium to long term for those countries of eastern Europe that have advanced the most in market-oriented reform (see Chapters 2 and 9).

The largest countries in the CIS still await the initial appearance of positive growth but eight of the smaller CIS countries recorded increases in industrial output in the first half of 1996 (compared with the same period of 1995). Despite earlier optimism amongst most forecasters (see Chapter 9), official data indicate that the pace of decline in Russia's real GDP failed to slow during the first half of 1996 from the annualised rate of about 4 per cent seen in 1995, while real GDP in Ukraine in the first half of 1996 was a full 8 per cent below the level one year earlier. However, at least in the case of Russia, both industrial production and oil output have recently flattened, indicating that the trough has been reached.

The current account has deteriorated sharply over the past year in parts of eastern Europe and the Baltics. Some of these countries remain crucially dependent on official assistance from abroad, notably from the IMF, to retain a manageable cushion of foreign exchange reserves. The first half of 1996 saw Bulgaria and Romania suffer from declining levels of reserves, sharp currency depreciation (both in nominal and real terms²) and a significant increase in inflationary pressure. Both were able to replenish reserves in the middle of the year (Bulgaria obtained IFI funding and Romania successfully completed two large international bond issues). Nevertheless, the difficulties experienced recently by these countries underlines their continued vulnerability, which

they share with many other countries in the region, to policy inconsistencies and to external shocks.

In a number of countries, rising labour productivity has, over the last few years, been offsetting the negative impact on industrial competitiveness of real currency appreciation. Thus, figures on output-prices and unit labour costs indicate that the recent current account deterioration in many countries in eastern Europe has happened alongside an improvement in profitability of production in manufacturing.

The current account deterioration has mainly been the consequence of a sharp pick-up in domestic demand (with the underlying cause of the pick-up differing from country to country), alongside sluggish growth in export demand from the European Union. The few east European countries that have escaped a current account deterioration have done so on account of a substantial tightening of fiscal and monetary policies.

8.2 Growth in eastern Europe and the Baltics, further output contraction in the CIS

Nominal GDP in eastern Europe, the Baltics and the CIS increased in ECU terms by about one-fifth in 1995, and in dollar terms by about one-third.^{3,4} A further, albeit probably more modest, increase took place in the first half of 1996. The 1995 increase in dollar GDP was caused exclusively by real currency appreciation. In fact, real GDP for the region as a whole declined slightly in 1995 as strong growth in eastern Europe was offset by GDP declines in the CIS (see Chart 8.1). Real currency appreciation continued in most countries in the first half of 1996, albeit at a slower pace, and with a few reversals, notably in Bulgaria and Romania.⁵

Eastern Europe and the Baltics: continued growth

Eastern Europe is well into its seventh year of market-oriented reform and its fourth year of economic recovery.⁶ GDP in eastern Europe and the Baltics as a whole is likely to grow this year, in real terms, by about 4 per cent, only marginally down from the impressive 5 per cent level achieved in 1995. Growth has been held back by the weakness of demand from stagnating west European

¹ It should be emphasised that the tables on pages 185 to 209 and the assessment in this chapter of the growth in output rely almost exclusively on current official estimates from the national statistical offices in the region. It is widely recognised that official GDP estimates for many countries overstate the output decline that took place in the early years of transition (for a discussion of statistical issues, see Annex 11.1 of the *Transition Report* 1995).

² The real exchange rate is a term that has been given a number of different definitions and interpretations. It will be used here to refer to the ratio between the dollar price of a representative consumer-basket of goods and services in the domestic (say, Russian) economy and the dollar price of the same basket in trading partner countries (such as the United States). The term "real currency appreciation" will be used to cover an increase in the real exchange rate, i.e. an increase in the dollar value of goods and services in the domestic economy over and above the increase taking place abroad.

³ The average ECU/dollar-rate dropped by about 10 per cent in 1995.

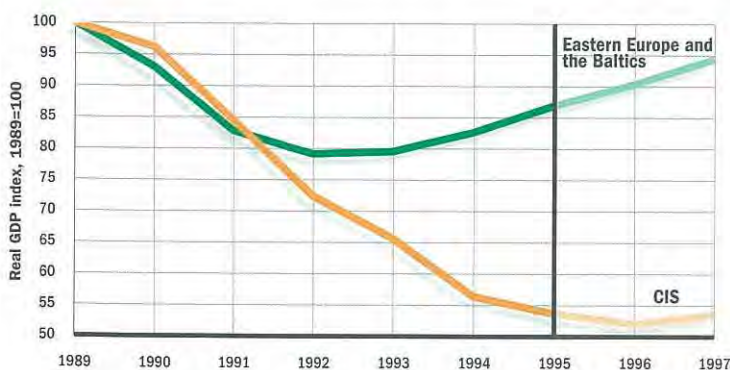
⁴ For a detailed discussion of the causes of real currency appreciation in the region, see *Transition Report Update*, April 1996.

⁵ For a detailed discussion of the causes and consequences of real currency appreciation in the region, see the *Transition Report Update*, April 1996.

⁶ The starting date for reform and for the return to positive growth varies from country to country. Hungary initiated price and import liberalisation in earnest in 1988, and phased in the bulk of its market liberalisation gradually over three years. Poland implemented comprehensive liberalisation of prices and imports in 1990, and the former Czechoslovakia did the same in 1991. Bulgaria and Romania also embarked on market-oriented reform in 1991. The Baltic countries initiated reform in earnest in 1992-93.

Chart 8.1

Real GDP 1989-97: Regional averages



Source: Table 8.1. Data for 1996 and 1997 are EBRD projections.

economies, notably from Germany which has become the main export destination for the central European transition economies.⁷ A tightening of domestic demand management policies has also played a substantial role in a few countries (see below).

Activity in the industrial sector remains buoyant in the Czech Republic, Estonia, Poland, Romania and the Slovak Republic. Most of these countries saw industrial output growth of the order of about 10 per cent during the first half of 1996. The output increase has been accompanied in all of these countries by a significant increase in domestic demand and by a deterioration in the trade balance (see also Section 8.4).

Bulgaria and Hungary continue to experience much slower growth than the remainder of eastern Europe. In Hungary a tightening of fiscal, monetary and incomes policy since March 1995 (aimed at reducing the current account deficit from a level of about 9 per cent of GDP in 1993 and 1994) continues to dampen activity and has helped to sharply reduce the current account deficit. The main independent Hungarian forecasting agencies have scaled down their forecast for GDP growth in 1996 to 1–1.5 per cent (from earlier forecasts of 2 per cent). The Bulgarian government embarked on a tightening of fiscal and monetary policy during the first half of 1996 and began in the middle of the year (in the context of a new IMF programme) to implement further fiscal adjustment and closure of major loss-making enterprises. As a consequence of these policies, full-year real GDP in Bulgaria may be substantially lower in 1996 than it was in 1995.

In Latvia and Lithuania, the banking crisis in 1995 (see Chapter 2) has resulted in more restricted access for the private sector to credit from banks (and to money held on deposit). There has also been a cut-back in government investment expenditure. These factors have restrained domestic demand and dampened the pace of real GDP growth, which is now expected in both countries to be within a 0–2 per cent range for the full year 1996.

Only Poland is expected to reach the pre-1990 level of output in 1996 (see Table 8.1). Output in most other countries in eastern Europe and the Baltics is likely to return to pre-1990 levels in two to three years' time. It should be noted, however, that these statements are based on the official data for growth, which are subject to the caveats mentioned in Section 8.1.

CIS: slower decline in output

Output of the largest CIS countries continued to decline during the first half of this year. The official Russian measurement of real GDP dropped 5 per cent in the first half of 1996 (compared with the same period in 1995). Ukraine recorded a decline of 8 per cent. It is now clear that positive full-year growth will at the earliest be achieved in these two countries in 1997, although it remains possible, especially for Russia, that month-to-month changes in real GDP will turn positive during the second half of 1996.

Some of the smaller CIS countries recorded positive growth in 1995 (in the case of Armenia, positive growth was recorded already in 1994), and others saw positive growth emerge during the first half of 1996. Real GDP grew in Armenia at annualised rates of 5–7 per cent in both 1994 and 1995, and both Georgia and Kyrgyzstan recorded modest positive growth in 1995. Turkmenistan and Uzbekistan both saw positive GDP growth in the first half of 1996, following steep declines in preceding years. The relatively early return to positive growth in Armenia should be seen against the background of a particularly sharp output contraction in the preceding years. The reopening of factories has been made possible by a partial revival in 1994 of foreign trading links, including energy supply routes, that had previously been severed due to armed conflicts in the region.

Historical growth data for the CIS should be utilised with caution. For example, the data in Table 8.1, which indicate that real GDP fell during 1990–95 in Russia, Ukraine and some other CIS countries to less than half of the pre-1990 level, probably exaggerate significantly the “true” extent of the output decline. The under-recording of activity in the new private enterprises, the activities of which are likely to be growing fast, is a problem in most transition economies. It is likely to be particularly pronounced in the CIS countries.⁸

8.3 Inflation

Eastern Europe and the Baltics

By the end of 1995 no country in eastern Europe and the Baltics was suffering from annual inflation of more than 40 per cent (see Table 8.2). In fact, inflation fell in 1995 to single digit levels in six countries: Albania, Croatia, the Czech Republic, FYR Macedonia, the Slovak Republic and Slovenia. No country in the region had been recording single digit inflation two years earlier.

⁷ Real GDP growth in Germany slowed from 3.7 per cent in the second quarter of 1995 (compared to the same quarter one year earlier) to 0.1 per cent in the third quarter, -0.6 per cent in the fourth, and -1.5 per cent in the first quarter of 1996 (according to JP Morgan's *World Financial Markets – Third Quarter 1996*).

⁸ A detailed discussion of alternative indicators of GDP growth was included in the EBRD *Transition Report 1995*, Annex 11.1.

Table 8.1

Growth in real GDP in eastern Europe, the Baltics and the CIS¹

	1990	1991	1992	1993	1994	1995 Estimate	1996 Projection	Estimated level of real GDP in 1995 (1989=100)	Projected level of real GDP in 1996 (1989=100)
Individual countries	(Percentage change)								
Albania	-10.0	-27.7	-9.7	11.0	9.4	8.6	5.0	77	81
Armenia	-7.4	-10.8	-52.4	-14.8	5.4	6.9	6.5	38	40
Azerbaijan	-11.7	-0.7	-22.6	-23.1	-21.2	-8.3	-3.5	38	36
Belarus	-3.0	-1.2	-9.6	-10.6	-12.2	-10.2	-5.0	61	58
Bulgaria	-9.1	-11.7	-7.3	-2.4	1.8	2.6	-4.0	76	73
Croatia	-8.6	-20.0	-10.0	-3.7	0.8	2.0	5.0	65	68
Czech Republic	-0.4	-14.2	-6.4	-0.9	2.6	4.8	5.1	85	90
Estonia	-8.1	-11.0	-14.2	-8.5	-2.7	3.2	3.0	64	66
FYR Macedonia	-9.9	-12.1	-21.1	-8.4	-4.0	-1.5	3.0	54	56
Georgia	-12.4	-13.8	-40.3	-39.0	-35.0	2.4	8.0	18	20
Hungary	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.5	86	87
Kazakstan	-0.4	-13.0	-13.0	-12.0	-25.0	-8.9	0.5	45	46
Kyrgyzstan	3.2	-5.0	-19.0	-16.0	-26.5	1.3	2.0	50	51
Latvia	2.9	-8.3	-35.0	-16.0	0.6	-1.6	1.0	51	52
Lithuania	-5.0	-13.4	-37.7	-24.2	1.0	3.1	1.5	40	41
Moldova	-2.4	-17.5	-29.0	-1.0	-31.0	-3.0	4.0	38	39
Poland	-11.6	-7.0	2.6	3.8	5.2	7.0	5.0	99	103
Romania	-5.6	-12.9	-8.8	1.3	3.9	6.9	4.5	84	88
Russia	-4.0	-13.0	-14.5	-8.7	-12.6	-4.0	-3.0	55	53
Slovak Republic	-2.5	-14.6	-6.5	-4.1	4.8	7.4	5.5	84	89
Slovenia	-4.7	-8.1	-5.4	1.3	5.3	3.5	3.0	91	94
Tajikistan	-1.6	-7.1	-29.0	-11.1	-21.5	-12.5	-7.0	40	37
Turkmenistan	2.0	-4.7	-5.3	-10.0	-20.0	-10.0	0.0	60	60
Ukraine	-3.4	-9.0	-10.0	-14.0	-23.0	-11.8	-7.0	46	43
Uzbekistan	1.6	-0.5	-11.1	-2.3	-4.2	-1.2	-1.0	83	82
Eastern Europe, the Baltics and the CIS	-5.1	-11.7	-10.2	-5.0	-5.6	0.3	0.7	68	68
Eastern Europe and the Baltic countries ²	-6.9	-11.0	-4.4	0.5	3.9	5.2	4.0	87	90
The Commonwealth of Independent States ³	-3.7	-12.2	-14.3	-9.4	-13.9	-4.8	-3.0	54	52

¹ Data for 1990-95 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1995 are preliminary actuals, mostly official government estimates. Data for 1996 represent EBRD projections.

² Estimates for real GDP represent weighted averages for Albania, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The weights used were EBRD estimates of nominal dollar-GDP for 1995.

³ Here taken to include all countries of the former Soviet Union, except Estonia, Latvia and Lithuania. Estimates for real GDP represent weighted averages. The weights used were EBRD estimates of nominal dollar-GDP for 1995.

Inflation rose, however, in a number of countries in the region during the first half of 1996. A particularly strong rebound was recorded in Bulgaria and Romania (of a much greater order of magnitude in Bulgaria than in Romania). The increase in inflation was, in both countries, partly the consequence of a precipitous drop in the nominal exchange rate. This was in turn caused in Bulgaria primarily by a substantial weakening in the confidence amongst depositors in the strength of the financial system, as evidenced by a run on many banks since the end of 1995. In addition, there was concern during much of the first half of 1996 about whether the Bulgarian government would reach agreement with the IMF on a new stand-by arrangement and on a complementary arrangement with the World Bank in time to be able to finance large debt-service payments that would be due in July (in practice, the government reached agreement with the IMF and the World Bank in June, leading to a replenishment of the stock of reserves). In the case of Romania, pressure on the exchange rate has in part been a consequence of a loosening of domestic credit policies and

political uncertainty associated with the forthcoming elections (scheduled for November 1996). In August, year-on-year inflation reached 141 per cent in Bulgaria, and 44 per cent in Romania. Inflation has also been rising in Albania, as fiscal and wages policies have been loosened. After falling to 6 per cent at the end of 1995, Albania's inflation is now projected by the EBRD to rise to 20 per cent before the end of 1996.

On a much more modest scale, Slovenia also saw an increase in inflation during the first half of 1996. Year-on-year inflation moved from 8.6 per cent at the end of 1995 to more than 10 per cent in July 1996. Croatia's inflation rose marginally to 4.3 per cent year-on-year in July 1996, from 3.7 per cent at the end of 1995.

The Commonwealth of Independent States

Armenia, Azerbaijan, Georgia, Kazakstan and Uzbekistan have all seen inflation fall from more than 1,000 per cent in 1994 to less than 100 per cent by mid-1996. At the most successful end of the

Table 8.2

Inflation in eastern Europe, the Baltics and the CIS¹

	1991	1992	Retail/consumer prices (end-year)		1995 Estimate	1996 Projection
			1993	1994		
Individual countries			(Percentage change)			
Albania	104	237	31	16	6	20
Armenia	25	1,341	10,996	1,885	32	19
Azerbaijan	126	1,395	1,294	1,788	86	15
Belarus	93	1,558	1,994	1,957	244	61
Bulgaria	339	79	64	122	33	165
Croatia	249	937	1,150	-3	4	5
Czech Republic	52	13	18	10	8	9
Estonia	304	954	36	42	29	24
FYR Macedonia	115	1,935	230	55	9	2
Georgia	131	1,176	7,488	7,144	65	23
Hungary	32	22	21	21	28	22
Kazakhstan	150	2,567	2,169	1,160	60	26
Kyrgyzstan	170	1,771	1,366	87	32	27
Latvia	262	958	35	26	23	19
Lithuania	345	1,161	189	45	36	26
Moldova	151	2,198	837	116	24	18
Poland	60	44	38	29	22	19
Romania	223	199	296	62	28	60
Russia	144	2,318	841	203	131	25
Slovak Republic	58	9	25	12	7	6
Slovenia	247	93	23	18	9	10
Tajikistan	204	1,364	7,344	5	1,500	200
Turkmenistan	155	644	9,750	1,330	1,000	250
Ukraine	161	2,000	10,155	401	182	55
Uzbekistan	169	910	885	1,281	117	35

¹ Data for 1991-95 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1995 are preliminary actuals, mostly official government estimates. Data for 1996 represent EBRD projections.

scale, Moldova, Georgia and Kyrgyzstan have reduced inflation to less than 30 per cent. Only Tajikistan and Turkmenistan have yet to reduce inflation to a level below 200 per cent. Tajikistan, however, has embarked on an IMF-supported stabilisation programme which may help reduce inflation to a much more modest level over the coming one to two years. Turkmenistan has also tightened monetary policy substantially in the current year.

Inflation in Russia has declined gradually in recent years, from more than 800 per cent in 1993 to about 37 per cent in August 1996 (based on the increase in consumer prices between August 1995 and August 1996). Ukraine has also edged closer towards price stability, albeit somewhat unevenly. After rising by more than 10,000 per cent in 1993 – a 100-fold increase in one year – Ukrainian consumer prices rose by a more modest 400 per cent in 1994 and 180 per cent in 1995. Year-on-year inflation in Ukraine fell to 80.5 per cent in July 1996 (but rose to 82.4 per cent in August, partly on account of an increase in rents for government-owned housing).

8.4 Capital flows and the current account of the balance of payments

Total private and official capital flows

Increased financial stability has helped trigger a sharp rise in inflows of funds from abroad. Figures from the World Debt Tables (published by the World Bank) point to an increase in the gross

flow of lending, foreign direct investment (FDI) and portfolio placements into eastern Europe, the Baltics and the CIS to a record level of US\$ 45 billion in 1995, up from US\$ 31-33 billion per year in 1991-94 (see Tables 8.3–8.5). Preliminary data for the first half of 1996 point to a further increase during this period.

Funding from abroad was boosted in the early 1990s mainly by significant increases in the flow of official finance. Between 1989 and 1991 total gross flows of medium to long-term finance to the countries of eastern Europe, the Baltics and the CIS rose from about US\$ 18 billion to almost US\$ 32 billion (see Table 8.3). The entire increase during this period was due to a sharp rise in finance from official sources abroad (about US\$ 5 billion of which came from the IMF, the World Bank, the EBRD and other multilateral organisations, with the IMF being the dominant single source). Such finance had been negligible until reforms were initiated.

By contrast, the increase in aggregate inflows seen in 1995 was caused entirely by flows from private sources which rose from about US\$ 21 billion in 1994 to about US\$ 31 billion in 1995 (see Tables 8.3 and 8.4). The percentage increase in such flows (+48 per cent) was much greater for eastern Europe, the Baltics and the CIS than for the group of developing countries as a whole (+5 per cent). The flow of FDI into eastern Europe, the Baltics and the CIS almost doubled in 1995 to about US\$ 12.2 billion

Table 8.3

Financial flows to eastern Europe, the Baltics, and the CIS¹

	1990	1991	1992	1993	1994	1995	1976-1980	1981-1985	1986-1990	1991-1995
	<i>(annual flow in billions of US dollars)</i>						<i>(average annual flow in billions of US dollars)</i>			
Gross medium to long-term flows <i>(incl. IMF)</i>	24.1	31.6	32.1	32.5	33.3	45.4	1.6	6.0	18.5	35.0
Official medium to long-term finance	7.1	16.7	13.4	12.0	13.7	17.0	0.5	1.4	3.0	14.6
Grants (excl. technical assistance)	0.6	6.5	5.9	4.8	4.6	4.3	0.0	0.0	0.1	5.2
Loans	6.5	10.2	7.5	7.1	9.1	12.7	0.5	1.4	2.9	9.3
Bilateral	4.8	4.5	2.8	1.9	1.8	1.6	0.2	0.5	1.8	2.5
Multilateral, excl. IMF	1.0	1.9	2.3	3.0	3.1	3.4	0.2	0.4	0.9	2.7
IMF	0.7	3.7	2.4	2.3	4.2	7.7	0.1	0.4	0.2	4.1
Total medium to long-term private flows	17.0	14.9	18.7	20.5	19.7	28.4	1.1	4.6	15.5	20.4
Debt flows	16.6	12.7	14.5	13.9	12.1	14.2	1.1	4.6	15.4	13.5
Guaranteed by government in recipient country	16.6	12.7	13.9	12.3	9.3	9.2	1.1	4.6	15.4	11.5
Commercial bank loans	2.3	1.4	2.2	1.6	2.2	2.8	0.9	3.6	7.7	2.0
Bonds	1.6	1.5	1.5	4.8	3.7	3.0	0.0	0.1	1.2	2.9
Others	12.7	9.7	10.3	5.9	3.4	3.4	0.2	0.9	6.5	6.5
Non-guaranteed	0.0	0.0	0.6	1.6	2.8	5.0	0.0	0.0	0.0	2.0
Foreign direct investment	0.3	2.2	4.2	6.6	6.7	12.2	0.0	0.0	0.1	6.4
Portfolio flows	0.2	0.0	0.1	0.0	0.8	2.0	0.0	0.0	0.0	0.6
Net medium to long-term flows <i>(incl. IMF)</i>	11.4	18.4	25.7	25.2	20.7	30.7	1.2	1.8	5.0	24.1
Official net medium to long-term financial flows	6.2	16.1	12.0	10.7	10.4	12.0	0.3	0.8	1.1	12.2
Grants (excl. technical assistance)	0.6	6.5	5.9	4.8	4.6	4.3	0.0	0.0	0.1	5.2
Loans	5.6	9.6	6.1	5.8	5.8	7.7	0.3	0.8	0.9	7.0
Bilateral	4.4	4.2	2.4	1.5	1.3	0.2	0.1	0.2	1.1	1.9
Multilateral, excl. IMF	0.8	1.7	1.9	2.3	2.2	2.0	0.2	0.3	0.1	2.0
IMF	0.3	3.6	1.8	2.0	2.4	5.5	0.0	0.3	-0.3	3.1
Total net medium to long-term private flows	5.2	2.3	13.7	14.5	10.2	18.7	0.9	1.0	3.9	11.9
Debt flows	4.7	0.1	9.4	7.9	2.7	4.5	0.8	1.0	3.8	4.9
Guaranteed	4.7	0.1	9.1	7.0	1.1	1.0	0.8	1.0	3.8	3.6
Commercial bank loans	-4.5	-4.4	-0.4	-0.9	-1.8	-1.2	0.7	0.7	0.1	-1.7
Bonds	1.6	1.4	0.9	4.2	2.6	1.9	0.0	0.1	1.2	2.2
Others	7.7	3.0	8.5	3.8	0.3	0.3	0.1	0.2	2.5	3.2
Non-guaranteed	0.0	0.0	0.3	0.9	1.7	3.5	0.0	0.0	0.0	1.3
Foreign direct investment	0.3	2.2	4.2	6.6	6.7	12.2	0.0	0.0	0.1	6.4
Portfolio flows	0.2	0.0	0.1	0.0	0.8	2.0	0.0	0.0	0.0	0.6
Flows deflated/inflated to the average price level in the US in 1990 <i>(as measured by the GDP-deflator)</i>										
Total gross medium to long-term flow	24.1	30.2	30.1	29.8	29.9	39.6	2.7	7.7	20.0	31.9
Total official gross flow	7.1	16.0	12.5	11.0	12.3	14.8	0.8	1.8	3.2	13.3
Total private gross flow	17.0	14.2	17.5	18.8	17.6	24.8	1.9	5.9	16.8	18.6
Total net medium to long-term flow	11.4	17.6	24.1	23.1	18.5	26.8	2.0	2.3	5.3	22.0
Total official net flow	6.2	15.4	11.3	9.8	9.4	10.5	0.6	1.1	1.1	11.2
Total private net flow	5.2	2.2	12.8	13.3	9.2	16.3	1.4	1.2	4.2	10.8
Share of private (nominal) long-term flows in total (nominal) long-term flows							<i>(based on total flows in each five-year period)</i>			
Ratio for gross flows	71%	47%	58%	63%	59%	63%	71%	77%	84%	58%
Ratio for net flows	46%	13%	53%	58%	50%	61%	73%	54%	79%	49%

Source: *World Debt Tables 1996* (published by the World Bank) and EBRD staff estimates.

¹ For 1985-94, each item was computed as the sum of observations in the World Debt Tables for the EBRD's 25 countries of operations. The 1996 edition of the World Debt Tables does not include country-by-country tables covering 1995 for the EBRD's countries of operations. The 1995 estimates that are quoted above were derived on the basis of figures quoted in the World Debt Tables for the country grouping labelled "Europe and Central Asia", which includes the EBRD's 25 countries of operations plus Gibraltar, Greece, Malta, and Turkey. Data for Turkey, extending all the way through 1995, are quoted in the World Debt Tables. However, separate country data

were not available for Greece, Gibraltar and Malta. The data for Turkey were subtracted from the data for "Europe and Central Asia" to arrive at a series for a revised grouping ("Europe and Central Asia, excluding Turkey"). For this revised grouping, the percentage changes between 1994 and 1995 were computed for all data items (i.e. for each line item appearing in the table above). These percentage changes were then used as the basis for taking the 1994 observations in the table above forwards to 1995. However, for private flows, the "Loanware" information system was used to establish the 1995 estimates.

Table 8.4

Financial flows to all developing countries¹

	1991	1992	1993	1994	1995	1971-1975	1976-1980	1981-1985	1986-1990	1991-1995
	(annual flow in billions of US dollars)					(average annual flow in billions of US dollars)				
Gross medium to long-term flows (incl. IMF)	222.0	255.7	321.7	323.8	370.5	36.1	97.5	142.6	165.2	298.7
Official medium to long-term finance	102.6	90.9	90.0	91.5	127.3	14.6	32.1	55.6	73.4	100.5
Grants	37.5	31.9	29.4	32.5	32.9	4.4	9.1	11.9	20.0	32.8
Loans	65.1	58.9	60.6	59.1	94.5	10.2	23.0	43.7	53.3	67.6
Bilateral	26.2	23.7	22.7	21.5	36.4	6.4	12.7	20.7	23.7	26.1
Multilateral, excl. IMF	29.2	28.2	30.9	29.2	32.6	2.5	7.0	14.8	24.1	30.0
IMF	9.7	7.1	7.0	8.4	25.4	1.3	3.3	8.2	5.5	11.5
Total medium to long-term private flows	119.4	164.8	231.7	232.2	243.1	21.5	65.4	86.9	91.8	198.3
Debt flows	76.9	104.2	117.8	117.2	130.8	18.3	59.6	76.2	71.3	109.4
Guaranteed	58.0	69.4	74.8	67.4	74.6	10.7	44.0	60.4	59.9	68.9
Commercial bank loans	16.5	22.3	17.9	20.7	na	6.2	28.1	37.2	28.2	na
Bonds	12.8	13.9	31.0	23.4	na	0.4	2.7	4.1	6.4	na
Others	28.7	33.2	25.9	23.3	na	4.0	13.3	19.1	25.3	na
Non-guaranteed	18.9	34.7	43.1	49.8	56.2	7.7	15.5	15.8	11.4	40.5
Foreign direct investment	35.0	46.6	68.3	80.1	90.3	3.1	5.9	10.7	18.6	64.1
Portfolio flows	7.6	14.1	45.6	34.9	22.0	0.0	0.0	0.1	1.9	24.8
Net medium to long-term flows (incl. IMF)	130.2	156.4	209.0	209.0	247.0	25.6	66.1	87.0	75.0	190.3
Official net medium to long-term financial flows	68.7	56.2	54.7	50.2	79.8	11.9	25.5	41.3	41.6	61.9
Grants	37.5	31.9	29.4	32.5	32.9	4.4	9.1	11.9	20.0	32.8
Loans	31.1	24.2	25.3	17.7	47.0	7.4	16.4	29.4	21.5	29.1
Bilateral	13.2	10.8	9.4	6.1	18.9	4.6	9.0	12.4	11.4	11.7
Multilateral, excl. IMF	14.8	12.3	14.3	10.1	12.6	2.0	5.9	11.4	13.4	12.8
IMF	3.1	1.2	1.6	1.6	15.6	0.8	1.5	5.7	-3.3	4.6
Total net medium to long-term private flows	61.5	100.3	154.3	158.8	167.2	13.7	40.6	45.7	33.5	128.4
Debt flows	19.0	39.6	40.4	43.8	54.8	10.6	34.8	35.0	12.9	39.5
Guaranteed	10.4	19.2	23.0	19.0	21.4	6.9	28.1	29.9	12.5	18.6
Commercial bank loans	-3.3	1.9	-2.7	1.8	na	4.8	18.5	20.5	3.5	na
Bonds	10.0	4.6	18.8	14.7	na	0.2	2.2	2.4	1.9	na
Others	3.7	12.7	6.9	2.4	na	1.9	7.4	6.9	7.0	na
Non-guaranteed	8.6	20.4	17.4	24.8	33.4	3.7	6.7	5.1	0.4	20.9
Foreign direct investment	35.0	46.6	68.3	80.1	90.3	3.1	5.9	10.7	18.6	64.1
Portfolio flows	7.6	14.1	45.6	34.9	22.0	0.0	0.0	0.1	1.9	24.8
Flows deflated/inflated to the average price level in the US in 1990 (as measured by the GDP-deflator)										
Total gross medium to long-term flow	211.9	239.4	294.9	290.6	322.9	94.0	177.1	186.9	178.5	271.9
Total official gross flow	97.9	85.1	82.5	82.2	111.0	38.1	58.3	72.6	79.3	91.7
Total private gross flow	114.0	154.3	212.4	208.5	211.9	55.9	118.8	114.3	99.2	180.2
Total net medium to long-term flow	124.2	146.5	191.5	187.6	215.3	66.1	120.5	114.9	80.7	173.0
Total official net flow	65.5	52.6	50.1	45.1	69.6	30.7	46.4	54.2	44.9	56.6
Total private net flow	58.7	93.9	141.4	142.5	145.7	35.4	74.1	60.7	35.9	116.4
Share of private (nominal) long-term flows in total (nominal) long-term flows						(based on total flows in each five-year period)				
Ratio for gross flows	54%	64%	72%	72%	66%	60%	67%	61%	56%	66%
Ratio for net flows	47%	64%	74%	76%	68%	54%	61%	53%	45%	67%

Source: World Debt Tables 1996 (published by the World Bank).

¹ World Bank concept of "all developing countries".

Table 8.5

Foreign direct investment

	FDI-inflows in 1994 <i>(in millions of US dollars)</i>	FDI-inflows in 1995 <i>(in millions of US dollars)</i>	Cumulative FDI-inflows 1989-95 <i>(in millions of US dollars)</i>	Cumulative FDI-inflows 1989-1995 per capita <i>(in US dollars)</i>	FDI-inflows per capita in 1995 <i>(in US dollars)</i>	Ratio of FDI in 1995 to GDP in 1995 ¹
Albania	53	70	200	63	22	3.5%
Bulgaria	105	100	302	36	12	0.8%
Croatia	98	68	251	53	14	0.4%
Czech Republic	850	2,500	5,481	532	243	5.6%
Estonia	214	204	637	413	132	5.8%
Hungary	1,146	4,453	11,466	1,113	432	10.2%
Latvia	155	160	409	164	64	3.5%
Lithuania	60	55	228	61	15	0.8%
FYR Macedonia	24	14	38	18	7	0.3%
Poland	542	900	2,423	63	23	0.7%
Romania	341	367	879	39	16	1.0%
Slovak Republic	187	180	623	117	34	1.1%
Slovenia	88	150	505	253	75	0.8%
Eastern Europe and the Baltics	3,864	9,221	23,442	203	80	2.8%
Armenia	3	19	22	6	5	1.4%
Azerbaijan	50	206	276	37	28	11.7%
Belarus	10	7	85	8	1	na
Georgia	8	6	92	17	1	na
Kazakhstan	635	723	1,831	110	43	3.8%
Kyrgyzstan	45	88	143	32	20	5.5%
Moldova	18	63	95	22	15	3.5%
Russia	1,000	1,500	3,100	21	10	0.4%
Tajikistan	12	13	29	5	2	na
Turkmenistan	100	100	215	54	25	10.6%
Ukraine	91	120	581	11	2	0.4%
Uzbekistan	85	120	287	13	5	1.5%
The Commonwealth of Independent States	2,057	2,965	6,756	24	10	0.6%
Total	5,920	12,187	30,198	76	30	1.5%

¹ Nominal GDP-figures for Tajikistan and Turkmenistan in 1995 were set equal in per capita terms to the 1994 observation for Kazakhstan.

(see Table 8.5). FDI inflows into this region accounted for about 13 per cent of all FDI flows to developing countries in 1995, up from slightly more than 8 per cent in 1994.

FDI accounted for more than half of the net private capital flows to the region in 1995. Most of this was received by four countries: Hungary, the Czech Republic, Russia and Poland (although Estonia was running third to Hungary and the Czech Republic in terms of FDI-flows per capita).

Hungary attracted FDI inflows of about US\$ 4.5 billion in 1995 (equivalent to 10 per cent of GDP), up from US\$ 1.1 billion in 1994. Hungarian balance-of-payments statistics do not distinguish between portfolio flows and FDI.⁹ However, portfolio flows to Hungary in 1995 are likely to account for no more than a few hundred million dollars out of the total US\$ 4.5 billion. The massive increase in FDI inflows into Hungary reflected sales by

the government, especially in December 1995, of shares in electricity and gas distribution, banking and telecommunications (see Chapter 2 for further details).

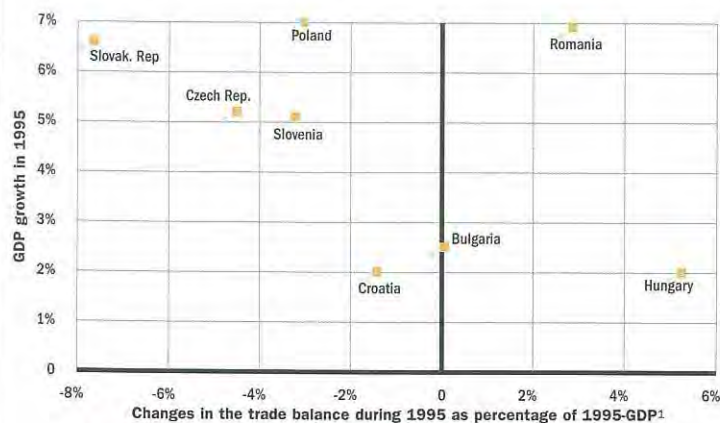
FDI flows into the Czech Republic rose to about US\$ 2.5 billion in 1995 (5 per cent of GDP) from US\$ 0.8 billion in 1994, helped by the sale of a 27 per cent stake in the local telecommunications company (accounting for FDI inflows of US\$ 1.3 billion).

More modest increases took place over this period in Russia (from US\$ 1 billion in 1994 to roughly US\$ 1.5 billion in 1995) and in Poland (from US\$ 0.5 billion in 1994 to about US\$ 0.9 billion in 1995). A significant increase was also recorded in the flow of portfolio investment from abroad into Poland (rising from a negligible level in 1994 to more than US\$ 1 billion in 1995) whereas portfolio investment flows into the Czech Republic remained at the 1994 level of slightly less than US\$ 1 billion.

⁹ According to the *Balance of Payments Manual* (fourth edition, issued by the IMF in 1977), "direct investment refers to investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise", whereas the term portfolio investment "covers long-term bonds and corporate equities other than those included in the categories for direct investment and reserves".

Chart 8.2

Large deteriorations in the trade balances of most high-growth countries



Source: The Vienna Institute's Monthly Reports, nos 229 and 225.

1. Annualised difference between two half-year observations, one covering 95Q4-96Q1, and another covering 94Q4-95Q1.

The cumulative flows of FDI into the region since 1989 remain concentrated on a few countries in the region. The main recipients, in per capita terms, have been Hungary, the Czech Republic, Estonia and Slovenia. These four countries are relatively advanced with respect to social stability and macroeconomic stabilisation, and therefore with respect to investor-perceptions of country risk. It is likely, however, that there have been other important influences on the distribution throughout the region of FDI-inflows.¹⁰ One such influence is geographical and cultural proximity to countries that are the main sources of FDI. Within the CIS the level of natural resources of individual countries has already been an important influence and will no doubt continue to be so in the years ahead. Another important factor has been the privatisation strategy in recipient countries. For example, flows of FDI into Hungary and Estonia have been greatly buoyed by the deliberate focus of these countries on sales of state assets to foreign strategic investors (see Chapter 2 for further details). As the figure for FDI inflows into countries of the region was boosted exceptionally in 1995 by the Hungarian sell-off in December of major utilities, the full-year inflow of FDI is likely to be somewhat lower in 1996 than it was in 1995.

Total flows to the region of private finance from international bond issuance by east European governments and enterprises and from borrowing from foreign banks amounted during the first half of 1996 to US\$ 7 billion, of which US\$ 1.3 billion flowed into Hungary, and US\$ 1.1 billion into the Czech Republic. On an annualised basis, this level of inflows is broadly unchanged from the full-year figure of US\$ 15.4 billion that was registered in 1995 (out of which a massive US\$ 5.6 billion flowed into Hungary alone, and US\$ 2.2 billion into the Czech Republic).¹¹

The current account of the balance of payments

The current account deteriorated sharply during the course of 1995 and early 1996 in the Czech Republic, Poland, the Slovak Republic, Slovenia and in all three Baltic countries. Most of these countries experienced particularly high growth in 1995 (see Chart 8.2). The combination of high output growth and deteriorating trade balances points to a particularly strong expansion of domestic demand and may in part be the result of capital inflows. It also reflects a rise in investor and consumer confidence in parts of eastern Europe at a time of sluggish growth in the main export markets within the European Union. It does not appear to reflect a deterioration in export competitiveness (see Section 8.5).

In some countries of eastern Europe the direct positive influence on the trade balance of tighter fiscal policy (which has held back domestic demand) and sharp increases in labour productivity has outweighed the negative impulse from a weakening in economic growth in west European export markets. In 1995 the trade balance strengthened, for example, in Bulgaria (marginally) and Hungary – the two countries in eastern Europe with the lowest growth. In all the countries with high growth (except Romania, whose currency had depreciated sharply) the trade balance deteriorated substantially. At least that is the indication that follows from a comparison between, on the one side, data covering the 6 months from October 1995 to March 1996, and, on the other, data covering the 6 months from October 1994 to March 1995 (see Chart 8.2).

Russia's current account has been remarkably resilient to rapid real currency appreciation.¹² Russian balance-of-payments statistics are uncertain, and many different estimates for the trade balance for any particular year can be found in competing statistical publications from Russian government sources and from international financial institutions. However, all available full-year data point to a substantial strengthening of the current account in 1995 and to no substantial change from the 1995-level in the first half of 1996. Among the contributing factors have been a significant improvement in the terms of trade (reflecting rising prices for raw materials), the influence on domestic demand of tighter fiscal and monetary policies, and the gradual reduction in export taxes (see Chapter 2).

8.5 Productivity and competitiveness

Available data suggest that the average dollar wage in manufacturing rose in 1995 by 17–30 per cent in Russia and in each of the six eastern European countries listed in Table 8.6, except Hungary.¹³ However, the dollar cost of labour per unit of output rose at a much more modest pace as labour productivity continued to increase strongly. The average wage level in 1995 (see Table 8.7) remains far below west European levels throughout the region.

¹⁰ For a more detailed discussion of factors affecting the flow of FDI, see Chapter 4 of the EBRD *Transition Report 1995*, and Chapters 7 and 9 of the EBRD *Transition Report 1994*.

¹¹ The source of these figures is the "Loanware database", which provides information about each transaction. The totals quoted here include some transactions that would be categorised in Table 8.3 as "portfolio flows".

¹² Real appreciation implies an increase in the dollar price of consumer goods domestically over and above the increase taking place in partner and/or competitor countries. Real appreciation might, on this basis, indicate that it has become more difficult for domestic producers to compete against products that are manufactured in other countries. However, the use of the real exchange rate as an indicator of competitiveness is problematic. Difficulties of interpretation are discussed in Section 8.5 below.

¹³ In Russia, specifically, dollar-wages rose sharply during the course of 1995 and were, in the first quarter of 1996, a massive 87 per cent above the level one year earlier.

Table 8.6

Indicators of competitiveness

	1990	1991	1992	1993	1994	1995	1996 (1Q)
Bulgaria¹							
<i>(percentage change, year on year)</i>							
<i>Percentage change in:</i>							
industrial gross output	-16.0	-27.8	-15.0	-7.0	4.1	1.6	-2.5
employment in industry	-6.2	-18.8	-15.1	-11.8	-8.8	-6.8	-4.7
wage in industry (expressed in local currency)	20.7	167.7	139.5	51.7	53.9	58.1	23.1
exchange rate (leva per US dollar)	116.7	364.1	28.9	18.4	96.3	23.7	13.0
wage in industry (expressed in US dollars)	-44.3	-42.3	85.7	28.1	-21.6	27.8	8.9
labour productivity in industry (output per employee)	-10.4	-11.1	0.2	5.5	14.2	9.0	2.3
unit labour cost in industry (in US dollars)	-37.8	-35.1	85.4	21.5	-31.4	17.3	6.5
Czech Republic²							
<i>Percentage change in:</i>							
manufacturing gross output	-3.5	-26.4	-14.5	-9.9	0.2	7.9	7.5
employment in manufacturing	-3.1	-11.8	-7.5	-6.6	-3.7	-10.4	-2.5
wage in manufacturing (expressed in local currency)	-1.7	16.8	17.6	25.2	16.3	18.7	17.8
exchange rate (Czech Crowns per US dollar)	19.3	64.2	-4.1	3.1	-1.2	-7.8	-0.1
wage in manufacturing (expressed in US dollars)	-17.6	-28.9	22.7	21.4	17.8	28.8	17.9
labour productivity in manufacturing (output per employee)	-0.4	-16.6	-7.6	-3.5	4.0	20.5	10.3
unit labour cost in manufacturing (in US dollars)	-17.3	-14.8	32.8	25.8	13.2	6.9	6.9
Hungary³							
<i>Percentage change in:</i>							
manufacturing gross output	-10.3	-21.1	-8.2	3.3	9.3	5.3	-1.4
employment in manufacturing	-10.6	-3.9	-17.1	-12.9	1.9	-5.3	-8.0
wage in manufacturing (expressed in local currency)	22.9	25.6	25.9	24.7	21.5	21.3	22.3
exchange rate (forint per US dollar)	7.0	18.2	5.7	16.4	14.4	19.6	27.3
wage in manufacturing (expressed in US dollars)	14.8	6.2	19.2	7.1	6.3	1.5	-3.9
labour productivity in manufacturing (output per employee)	0.4	-17.9	10.7	18.5	7.3	11.2	7.2
unit labour cost in manufacturing (in US dollars)	14.4	29.4	7.6	-9.6	-1.0	-8.7	-10.3
Poland⁴							
<i>Percentage change in:</i>							
manufacturing gross output	-24.1	-12.3	4.8	12.2	13.7	11.4	9.6
employment in manufacturing	-3.7	-0.4	-10.5	-2.0	-4.7	1.7	-0.2
wage in manufacturing (expressed in local currency)	374.2	63.3	37.7	39.1	38.4	34.6	29.1
exchange rate (zloty per US dollar)	560.2	11.3	28.8	33.1	25.3	6.7	6.2
wage in manufacturing (expressed in US dollars)	-28.2	46.7	6.9	4.5	10.5	26.1	21.5
labour productivity in manufacturing (output per employee)	-21.1	-11.9	17.1	14.5	19.2	9.6	9.7
unit labour cost in manufacturing (in US dollars)	-8.9	66.5	-8.7	-8.8	-7.3	15.1	10.8
Romania⁵							
<i>Percentage change in:</i>							
industrial gross output	-23.7	-22.8	-21.9	1.3	3.3	9.4	5.7
employment in industry	1.2	-5.3	-10.9	-7.0	-7.4	-4.5	-4.3
wage in industry (expressed in local currency)	9.4	125.0	173.5	204.2	131.6	49.2	50.0
exchange rate (lei per US dollar)	40.2	240.6	303.1	146.8	117.8	22.8	37.5
wage in industry (expressed in US dollars)	-22.0	-33.9	-32.2	23.3	6.4	21.5	9.1
labour productivity in industry (output per employee)	-24.6	-18.5	-12.3	9.0	11.6	15.7	10.4
unit labour cost in manufacturing (in US dollars)	3.5	-18.9	-22.6	13.1	-4.7	5.0	-1.2
Slovak Republic⁶							
<i>Percentage change in:</i>							
industrial gross output	-	-	-9.5	-3.7	4.7	8.3	7.1
employment in industry	-	-	-15.8	-4.3	-2.0	4.1	1.5
wage in industry (expressed in local currency)	-	-	16.4	23.1	17.5	15.2	13.8
exchange rate (Slovak crowns per US dollar)	-	-	-4.1	8.8	3.9	-7.1	-0.5
wage in industry (expressed in US dollars)	-	-	21.3	13.1	13.1	24.1	14.4
labour productivity in industry (output per employee)	-	-	7.4	0.6	6.8	4.0	5.5
unit labour cost in industry (in US dollars)	-	-	13.0	12.4	5.9	19.3	8.4

Table 8.6 continued

Indicators of competitiveness

	1990	1991	1992	1993	1994	1995	1996 (1Q)
Russia⁷							
<i>Percentage change in:</i>							
industrial gross output	–	–	–	-16.3	-22.7	-3.2	-7.0
employment in industry	–	–	–	-2.3	-10.6	-7.5	-6.4
wage in industry (expressed in local currency)	–	–	–	798.2	261.3	144.0	108.4
exchange rate (roubles per US dollar)	–	–	–	346.6	120.9	108.1	11.4
wage in industry (expressed in US dollars)	–	–	–	101.1	63.6	17.3	87.1
labour productivity in industry (output per employee)	–	–	–	-14.2	-13.6	4.7	-0.6
unit labour cost in industry (in US dollars)	–	–	–	134.5	89.3	12.0	88.3
Germany⁸							
<i>Percentage change in:</i>							
unit labour cost (in US dollars)	19.0	1.6	12.2	-2.1	-4.1	13.0	5.1
United Kingdom⁹							
<i>Percentage change in:</i>							
unit labour cost (in US dollars)	14.4	6.1	1.8	-14.6	2.0	6.7	0.2

1 The computation of percentage changes in industrial gross output, employment and wages under the heading "Bulgaria" was based on data extracted from OECD *Short Term Economic Indicators*, No. 3, 1996. Data on exchange rates were taken from *The Annual Report 1994* of the Bulgarian National Bank (BNB), *The Bulgarian Banking System*, issued by BNB in November 1995 and *Bulgarian National Bank Monthly Report*, June 1996. All data quoted on wages for Bulgaria concern wages net of income tax. All data quoted on Bulgarian industrial output, wages and employment concern only the state-owned and cooperative part of the industrial sector.

2 The computation of percentage changes quoted in this table under the heading "Czech Republic" were based on series extracted from OECD *Short Term Indicators*, No. 1, 1996 and data series in *Monthly Statistics of the Czech Republic*, 3, 96, of the Czech Statistical Office, *The Czech National Bank Monthly Bulletin*, No. 1, 1996, and *Statistical Yearbook of the Czech Republic 1995*. All data quoted on wages for the Czech Republic concern wages before income tax (gross wages). Percentage changes quoted for 1990-92 cover only enterprises with more than 100 employees: those for 1993 onwards cover enterprises with more than 25 employees.

3 The computation of percentage changes quoted in this table under the heading "Hungary" for the period 1992-96 was based on data from the *Monthly Bulletin of Statistics* (of the Hungarian Central Statistical Office, various issues, including the one from April 1996) and *The Hungarian Statistical Yearbook 1993*. The computation of percentage changes for 1991 and 1992 was based on data supplied directly to the EBRD by the Hungarian Central Statistical Office. Percentage changes for 1990 were computed on the basis of data extracted from OECD *Short Term Indicators*, No. 3, 1996. All data quoted on wages for Hungary concern wages before income tax (gross wages).

4 The computation of percentage changes quoted in this table under the heading "Poland" for the period 1994-96 was based on data from the *Monthly Bulletin of Statistics* of the Polish Central Statistical Office, various issues, including the one from April 1996). Percentage changes for 1990-93 were computed on the basis of data extracted from OECD *Short Term Indicators*, No. 4, 1995. For 1990-93 the quoted percentage changes in wages for Poland concern wages net of income tax: for 1994-96 they concern wages before income tax (gross wages).

5 The computation of percentage changes quoted in this table under the heading "Romania" for the period 1990-96 was based on data from the *Quarterly Bulletin of the National Bank of Romania* (including the issue from the first quarter of 1996) supplemented by the data directly provided by the National Bank of Romania. Percentage changes until 1993 on industrial employment were computed on the basis of data extracted from OECD *Short Term Indicators*, No. 3, 1996. All data quoted on wages for Romania concern wages net of income tax.

6 The computation of percentage changes in employment, wages, and exchange rates quoted in this table under the heading "Slovak Republic" for the period 1993-96 was based on data from the *Monitor of the Economy of the Slovak Republic* (of the Slovak Central Statistical Office, various issues, including the one from April 1996). Percentage changes in the same variables for 1992 were computed on the basis of data extracted from OECD *Short Term Indicators*, No. 3, 1996, as were percentage changes in output for 1992-96. All data quoted on wages for the Slovak Republic concern wages before income tax (gross wages). Percentage changes quoted for 1990-92 cover only enterprises with more than 100 employees: those for 1993 cover enterprises with more than 25 employees: those for 1994-96 cover all industrial companies.

7 The computation of percentage changes quoted in this table under the heading "Russia" for output, wages and employment was based on data from *Russia Economic Trends* (various issues). Data on exchange rates were based on the IMF's *International Financial Statistics*, June 1996. All data quoted on wages for Russia concern wages before income tax (gross wages).

8 The computation of percentage changes quoted in this table under the heading "Germany" was based on data supplied directly to the EBRD by the German Federal Office of Statistics. Data for 1990-95 cover only West Germany.

9 The computation of percentage changes quoted in this table under the heading "United Kingdom" was based on data supplied directly to the EBRD by the UK Treasury.

In five of the countries listed in Table 8.6 – Bulgaria, the Czech Republic, Hungary, Poland and Romania – the quantity of output per worker in manufacturing rose by 9-20 per cent in 1995. More modest labour productivity growth of 4-5 per cent was recorded in Russia and the Slovak Republic.

Such productivity gains are likely to reflect the combination of two separate phenomena. One is the increasing effectiveness of labour on account of a greater effort or skill per worker, reallocation of labour within enterprises, and/or shedding by enterprises of staff who were previously kept on the payroll as a "social support mechanism" (to help sustain full employment). The other phenomenon involves renewal and expansion of the capital stock and

improvements in the organisation and management of capital (see Chapter 4 of the *Transition Report 1995*).

While opportunities for labour-shedding may be limited, the other processes that help raise the productivity of labour may in principle proceed at a relatively rapid pace as long as new and old enterprises can maintain technological, educational and managerial progress (for example, by importing production techniques from the West and adapting them to local circumstances). The scope for such progress will be likely to exist as long as there is a substantial gap between the transition economies and the advanced industrialised countries in the effectiveness with which individual factors of production are being used.

Table 8.7

Gross monthly wages in manufacturing

1. Annual average of monthly wages in US dollars, gross of income tax and of employee-part of payroll taxes, net of employer-part of payroll taxes¹

	1994	1995	1996 (1Q)
Bulgaria ²	97	109	132
Czech Republic	231	297	306
Hungary	304	309	286
Poland	229	288	308
Romania ³	113	138	106
Slovak Republic	203	252	251
Russia	105	123	171

2. Annual average of monthly wages in US dollars, gross of income tax and of all payroll taxes³

	1994	1995	1996 (1Q)
Bulgaria ²	138	155	187
Czech Republic	316	407	420
Hungary	458	465	430
Poland	339	427	456
Romania ³	150	183	141
Slovak Republic	280	348	347
Russia	146	172	240

Sources:

The wage levels quoted here are EBRD staff estimates based on the sources that are listed in the footnotes to Table 8.6. Payroll tax levels were extracted from the EBRD *Transition Report 1995, Emerging Markets Profiles* (Ernst and Young, September 1995) and from *Bulgaria – Private Sector Assessment*, World Bank, January 1996.

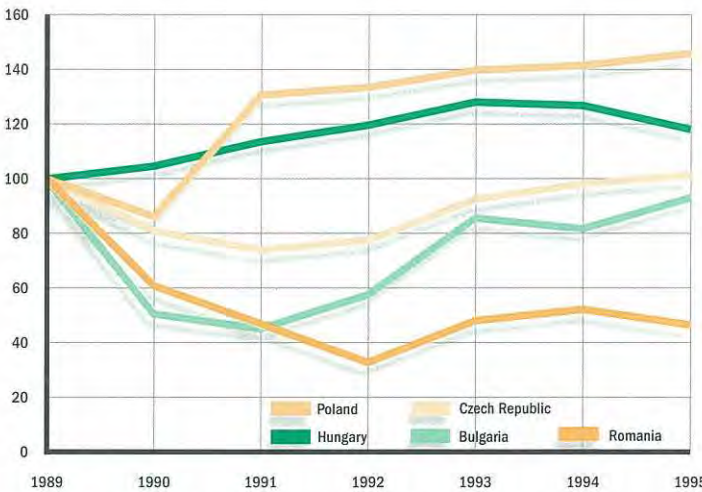
- 1 For Bulgaria, Slovak Republic and Russia, wage levels quoted here represent monthly dollar wages in industrial sector, rather than in the more narrow manufacturing sector.
- 2 The wage levels quoted here concern only enterprises in the state-owned and cooperative sector.
- 3 The data in this table were computed on the rough assumption that the most recently available estimate of the employer's part of the payroll tax level applied fully in both 1994 and 1995.

Despite productivity gains, Bulgaria, Poland, the Slovak Republic and Russia saw unit labour costs (in US dollar terms) rise in 1995 at a rate that exceeded or was broadly comparable with that recorded in Germany (also in US dollar terms – see Table 8.6, and Charts 8.3–8.5). However, unit labour costs in the Czech Republic and Romania rose in US dollar terms by 4–7 per cent in 1995, a lower rate of increase than that of West Germany (13 per cent). In Hungary, unit labour costs in US dollars fell for the third year running. The main cause of decline in Hungary in 1995 was the tight stabilisation programme which was implemented in March of that year and which included as a key component an active effort by the government to elicit moderation in wage growth.

It should be emphasised that even if reliable data on unit labour costs were available, these would still represent an insufficient basis for a precise assessment of changes in competitiveness. Ideally, the applied productivity measure should focus on value added (rather than gross output) and should incorporate changes in the cost and quantity of both labour and capital (as well as land). Unfortunately, meaningful data on the capital stock, and for capacity utilisation, are not available for the countries in the region. Moreover, sectoral data on real value added for these countries tend to become available only with long lags (up to several years). An attempt to use data on real value added in the computa-

Chart 8.3

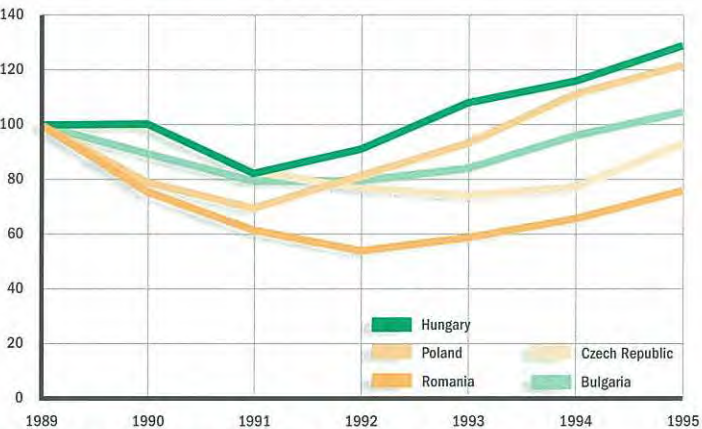
Real exchange rate (CPI-based) against DM (1989=100)



Source: Tables 8.2 and 8.6, and the IMF's *International Financial Statistics* (for German data).

Chart 8.4

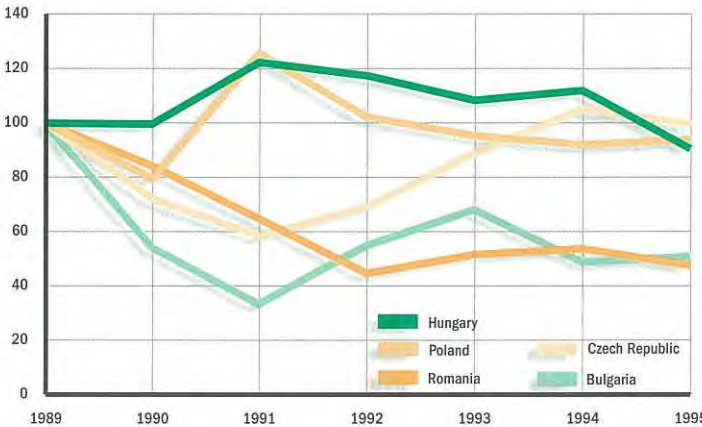
Labour productivity in manufacturing (units of output per full-time employee) (1989=100)



Source: Table 8.6. Covers "industry" rather than "manufacturing" for Bulgaria and the Slovak Republic.

Chart 8.5

Real exchange rate (unit labour cost based) against DM (1989=100)



Source: Table 8.6.

tion of unit labour costs would, therefore, not shed much light on the recent evolution of foreign trading competitiveness.

The profitability in manufacturing in east European countries may have followed a more favourable path in the most recent years than that indicated by the data series for unit labour costs. A comparison between the evolution in unit labour costs (expressed in US dollars) and the evolution in output prices (also expressed in US dollars) would suggest this. When output prices rise more quickly than unit labour costs, the dollar-value of “gross profits” per unit of output (before deducting the cost of depreciation and the cost of material inputs) will rise. Increases in this concept of “gross profits” per unit of output have indeed been emphatic in some central European countries in recent years. Expressed in US dollar terms, Czech industrial producer prices rose in 1995 by 16 per cent (partly on account of depreciation of the dollar *vis-à-vis* the main European currencies) while unit labour costs rose by “only” about 7 per cent. In Hungary the average dollar price of industrial exports grew by 12 per cent, and the dollar price of domestic sales of output from the manufacturing sector rose by 6 per cent. Meanwhile, unit labour costs in the Hungarian manufacturing sector dropped (in US dollar terms) by almost 9 per cent. In Poland, industrial producer prices rose in dollar terms by 18 per cent in 1995, slightly more than the 15 per cent recorded for unit labour costs in the manufacturing sector.

These figures on relative unit labour costs and profitability in manufacturing for 1995 suggest caution in jumping to the conclusion, based on the observed widening of current account deficits in parts of eastern Europe, that there is a growing “competitiveness problem” to the extent that competitiveness is taken to mean profitability of production and investment. In the Czech Republic, in particular, the large current account deficits that have emerged recently are more likely to have been generated largely by an investment boom (and some slackening in fiscal discipline). However, caution is also required in the use of these data as the basis for consideration of competitiveness over future years. First, the quoted figures on profitability ignore the cost of capital which may have risen more sharply than output prices. Second, the sharp increases in productivity in 1995 arose from a combination of rapidly rising output (short-run labour productivity will tend to rise in these circumstances) and labour shedding (which was stronger than in preceding years). Third, sharply rising producer prices can be a short-run phenomenon associated with a boom and lead to some ‘pricing out of the market’ in the medium term. On the other hand, it is also possible that rising output prices reflect growing quality, and perception of quality, in domestically produced tradeable products. Again, even if the more positive interpretation is correct, maintenance of the profitability gain would require further enterprise restructuring and supporting policies.

8.6 Concluding remarks

The current year has seen a modest decline in the (still high) rate of growth in eastern Europe and little sign of a halt to the output decline in the largest CIS countries. Lower than expected growth throughout the region has been a reflection of short-term effects:

tighter fiscal policies and slow growth in the main export markets in western Europe.

The medium-term growth developments are likely to be determined to a much greater extent by the organisation and utilisation of available production inputs, and by the level of high-quality investment in human and physical capital. In this regard, prospects remain bright. The countries in the region have an educated labour force and are moving towards greater macroeconomic stability (albeit with occasional setbacks in some countries). In addition, most of them are moving decisively towards the establishment of market-oriented economic systems which, while welcoming entrepreneurship, subject enterprises to competitive pressure both domestically and in foreign trade. These are factors that have produced high medium to long-term growth in developing countries in other parts of the world, including some of the countries in South-East Asia. There is every reason to believe that these factors can produce the same results in eastern Europe, the Baltics and the CIS, provided that the policy framework adopted by the countries in the region will allow them the flexibility and time to do so.

Most of the country tables on pages 179-203 include estimates of GNP per capita in US dollar terms at purchasing power parity (PPP) exchange rates. These estimates were drawn from the *World Bank Atlas 1996*.

In the computation of PPP-based GDP-estimates, the World Bank divides nominal GNP for each country by the country's purchasing power parity, defined as the number of units of the country's currency that would be required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

A major effort has been mounted internationally in recent years, in the context of the "International Comparison Programme" (ICP), to improve the accuracy of PPP-based GDP-estimates. This exercise, in which Eurostat, the OECD, the ECE and the World Bank are active participants (and to which the EBRD contributes financially), will generate substantial revisions (associated with increased accuracy) to the PPP-based estimates of GDP. Some preliminary results from the ICP exercise are presented in the table below.

To put the estimates into context, it is worth recounting briefly the history of the ICP. The first phase of the ICP was initiated at the end of the 1960s, and was organised mainly by the United Nations' Statistical Office and the University of

Pennsylvania with the latter taking the leading role. Phase I, which produced estimates for 1970, had the participation of five European countries (out of a total of 10 countries). Phase II (1973) and Phase III (1975) covered, respectively, seven and 15 European countries. In Phase III, the effort became more regionalised - Eurostat became responsible for organising the comparison for the members of the European Communities. Phase IV (1985) and Phase V (1990), in which the number of participating European countries rose to 18-20, were organised to an even greater extent on a regional basis, with UNSO at the centre with responsibility for worldwide coordination.

The European Comparison Programme (ECP) was initiated in 1979 (within the ICP framework) by the Conference of European Statisticians. Countries participating in the ECP are divided into two groups: Group I contains the west European countries and Group II the remainder of Europe.

The first and second rounds of the ECP coincided with Phases V and VI of the ICP. These rounds produced estimates for 1980 (published in 1985), and for 1990 (published in 1994). The estimates from the second ECP are the basis for the PPP-data for 1994 that were published in the *World Bank Atlas 1996*, and are the ones quoted in the country tables on

pages 179-203. The 1990 observations have essentially been extrapolated to 1994 on the basis of observations for real GDP growth, population growth and US inflation.

Of course, some of the countries in eastern Europe, the Baltics and the former Soviet Union did not exist in 1990. PPP-estimates for these countries, as extracted from the *World Bank Atlas 1996*, are based on a substantially weaker data-foundation than are estimates for other countries.

The third and latest ECP was initiated a few years ago. It coincides with, and constitutes a part of, the current Phase VII of the ICP. The third ECP has 1993 as the reference year and provides estimates for 42 countries (based on detailed data for consumption and income patterns in each country). These include a total of 23 countries in eastern Europe, the Baltics and the CIS.

Preliminary results from the third ECP are shown in the Table below, alongside the corresponding earlier estimates, as published in the 1995 and 1996 editions of the *World Bank Atlas*. The ECP-figures are in some cases very different from the "older" estimates, especially for Estonia and Latvia. Revised ECP figures are to be published by the OECD and the World Bank before the end of 1996.

PPP-based estimates of GDP per capita

	PPP-based estimates of GDP per capita in 1993		PPP-based estimates of GDP per capita in 1994 data
	New ECP ¹	World Bank Atlas 1995	World Bank Atlas 1996
	(in US dollars)	(in US dollars)	(in US dollars)
Albania	na	na	na
Armenia	na	2,080	2,170
Azerbaijan	na	2,230	1,720
Belarus	4,962	6,360	5,010
Bulgaria	4,193	3,730	4,230
Croatia	3,828	na	na
Czech Republic	8,322	7,700	7,910
Estonia	3,785	6,860	na
FYR Macedonia	na	na	na
Georgia	na	1,410	1,160
Hungary	5,976	6,260	6,310
Kazakhstan	na	3,770	2,830
Kyrgyzstan	na	2,420	1,710
Latvia	3,070	5,170	5,170
Lithuania	3,681	3,160	3,240
Moldova	2,215	3,210	na
Poland	4,666	5,010	5,380
Romania	3,698	2,910	2,920
Russia	4,950	5,240	5,260
Slovak Republic	6,299	6,450	6,660
Slovenia	9,234	na	na
Tajikistan	na	1,430	1,160
Turkmenistan	na	na	na
Ukraine	3,310	4,030	3,330
Uzbekistan	na	2,580	2,390

¹ For Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, Slovenia, and Romania, the source of the data in this column was the OECD *Short Term Economic Indicators*, No.3, 1996, p. 142. For the Czech Republic, the source was OECD *Main Economic Indicators*, August 1996, p. 197. For all other countries, the source was OECD *Purchasing Power Parities for Countries in Transition - Methodological Papers* (Paris, 1995), p. 12, and data presented directly to the EBRD by the World Bank.

Forecasts and prospects

This chapter presents projections of the growth of output and inflation for the region as shown in the latest estimates (most of which are published) from a number of institutions. The main aim is to provide a summary of forecasters' views of trends in output and inflation for the period up to the end of 1997, although reference is made to medium-term prospects at the end of the chapter.¹

The forecasts presented in this chapter include those of a number of international organisations – the IMF, the OECD, the United Nations and the European Union – as well as those prepared by the Office of the Chief Economist at the EBRD. They also include those of a number of other organisations which were willing to let us use their forecasts for these purposes. These include two banks, JP Morgan and CS First Boston; the consultants PlanEcon and the Economist Intelligence Unit (EIU) and two research institutes, the Vienna Institute for Comparative Economic Studies and the Kopint-Datorg Institute for Economic and Market Research in Budapest.

On the basis of the “average” results calculated from the forecasts, there is an expectation that economic growth will gradually strengthen throughout the region as a whole, accompanied by further falls in inflation. There is a broad consensus that the general outlook for eastern Europe and the Baltic states is one of continued growth, although at somewhat slower rates than in 1995, a scenario that is likely to extend into the medium term. Inflationary pressures, as measured by changes in the consumer price index, continue to ease. There is, however, a perception among forecasters that for those countries which have now lowered their annual inflation rates to single digits, it is becoming increasingly difficult to achieve further large reductions.

For the CIS countries the expectation of the surveyed forecasters is that the recession is now reaching its trough, and the overall view is encouraging in so far as most of the CIS countries are expected to record positive growth rates in 1997. Much will depend on developments within Russia given the impact that stronger growth in that country can have on CIS trade, both directly by increasing imports from other CIS countries and more indirectly by contributing to a recovery in CIS regional trade. Most forecasters now expect another year of negative growth in Russia followed by a recovery in 1997; the medium-term forecasts presented here project strong growth in Russia for the remainder of the decade. Further substantial declines in the rates of inflation are projected for several CIS countries in 1996. Although inflation is expected to remain at double digit levels in most CIS countries in 1997, the average level of inflation is projected to fall to below 25 per cent in several of them.

All these forecast results are subject to considerable uncertainty. Few of the results are based on detailed econometric models of the economies, owing to the lack of suitable time series for most variables. In addition, and especially within the CIS countries, differences in estimates of output from the shadow economy can lead to differing estimates of GDP, while uncertainty over the extent of barter trade can sometimes lead to very different estimates of trade volumes. Therefore, most forecasters continue to rely on informal techniques to estimate the variables, including the use of judgemental factors.

As with the forecast of any industrial or developing country economy, forecasters will have taken a view on a range of political and economic issues in making their assessments. These will have included the outcome of elections and the prospects for the continuity of policy – for example, the presidential elections in Russia and the parliamentary elections in the Czech Republic in mid-1996. External economic developments will have remained important, including the impact of weaker growth in western Europe on exports from eastern Europe and the extent of the pick-up in trade among the CIS countries. Above all, forecasters need to make a judgement on the macroeconomic pressures that governments will face and how they will respond. The deficit on general government account remains high in some countries, especially in the CIS. In certain cases the deficits have been contained by cutting expenditure across the board, or alternatively by allowing arrears to mount, while longer-term measures, including improving methods of tax collection and more specific targeting of social spending programmes, are formulated and implemented. However, in these circumstances the pressures for some immediate relaxation of policy can be considerable. Within some east European countries the rebound of growth has been so strong that the authorities have had to adjust policy to slow down the growth of domestic demand and to curb the rise in trade and current account deficits. These are measures which will continue to have an impact on growth and inflation over the forecast period.

The estimates from the various forecasting institutions are presented in Section 9.1. Section 9.2 reviews the accuracy of last year's forecasts of growth and inflation for 1995. Medium-term prospects for countries at the more advanced stages of transition are presented in Section 9.3.

9.1 Forecasts of growth and inflation 1996-97

Eastern Europe and the Baltic states

Within eastern Europe the growth rates of the majority of the countries are expected by most forecasters to lie between 3.5 per cent and 5.5 per cent by 1997 (see Tables 9.1 and 9.2). For 1996,

¹ This chapter omits any reference to Bosnia and Herzegovina, for which there are insufficient forecasts. In the tables, estimates from some institutions have been rounded to the nearest whole number or one decimal place.

however, the forecasts show considerable variations in expected growth. For most of the countries that recorded high rates of growth in 1995, including Albania, the Slovak Republic, Romania and Poland, growth is projected by most forecasters to remain strong, albeit slightly below the rates achieved in 1995. In some of those countries where growth to date has been slower, such as Slovenia and Croatia, growth is projected to strengthen throughout the period under review.

One of the possible exceptions to this pattern is the Czech Republic, which recorded strong growth in 1995 and is projected by several forecasters to grow at over 5 per cent in 1996 and 1997. Although there is a broad consensus among forecasters that the growth of output in the Czech Republic will be maintained – this being reflected in the fairly narrow range of forecasts in both 1996 and 1997 – some of the more recent projections have tended to be closer to 5 per cent than to 6 per cent in the light of the measures taken by the Czech National Bank in mid-1996 to contain inflationary pressures.

Differences in the timing of preparation of the forecasts have proved particularly important in the case of Bulgaria. Forecasts that were completed before the conclusion of the Standby Arrangement (SBA) with the IMF and the Structural Adjustment Loan with the World Bank in mid-1996 generally anticipated modest growth of 2 to 3 per cent and inflation of about 30 per cent a year, continuing the gradual improvement in the economy which had been recorded in 1994 and 1995. However, doubts about the likelihood that an IMF programme would be agreed in advance of the maturity of large debt service obligations in July 1996 contributed to sharp falls in both reserves and the currency. The precipitous currency depreciation has been followed in recent months by a strong rebound of inflation. In June 1996 the government reached agreement with the IMF on a programme that involves fiscal tightening and enterprise closures, which looks likely to hold back GDP growth. Most forecasters, therefore, have significantly reduced their forecasts for growth in 1996 and raised their predictions for inflation.

For the Baltic states the surveyed forecasters project GDP growth to strengthen gradually throughout the period 1996-97, although the growth rates are on average projected to be below those expected for eastern Europe. From the average of all projections shown, growth in 1996 is expected to slow in Lithuania as a result of the initial reduction in liquidity following the banking crisis at the end of 1995 and to remain at only modest levels in Latvia, followed by stronger growth in 1997. There are some exceptions to this general view – PlanEcon expects the Baltic countries to grow on average by at least 5 per cent in 1996 and by 7 per cent in 1997.

The projections of strong growth in most of the countries reflect the expectation that there will be further increases in investment and labour productivity as restructuring proceeds. Various factors account for the expectation that growth in a number of countries will decelerate in the near term after the strong performance shown in 1995, although their impact differs between countries. Most countries will have been affected by the slowdown in demand

in western Europe, and in particular in Germany, one of the region's main export markets. Domestic demand has strengthened in a number of countries, resulting in a sharp deterioration in the trade and current account balances, as occurred in the Czech Republic in 1995 and in the Slovak Republic in 1996. In both countries the negative contribution to growth from the deterioration in the trade balance will partly offset the strength of domestic demand, while the monetary tightening that the authorities in both countries implemented in mid-1996 to lower inflationary pressures is likely to dampen the growth of domestic demand.

Inflation in Croatia, the Czech Republic, FYR Macedonia, the Slovak Republic and Slovenia is expected to remain at 10 per cent or below throughout the period 1996-97, on the average of forecasts surveyed (see Tables 9.3 and 9.4). This is a reflection of the progress that has already been made in lowering inflation and an assumption that the stance of monetary and fiscal policy will remain anti-inflationary. Only modest falls in inflation in these countries are expected in 1997, mainly because continued growth of domestic demand will put upward pressure on costs and prices, although some countries are likely to have to deal with the monetary consequences of capital inflows. Several countries will also have to make further adjustments in administered prices for energy, housing and transport. Croatia is generally expected to record the lowest annual inflation rate in the region at less than 4 per cent in 1996. The uncertainty which surrounds the forecasts for inflation in 1997 is well illustrated by the Croatian case. The EIU expects a further decline in inflation in Croatia to 3 per cent, whereas PlanEcon projects a sharp increase to over 16 per cent in 1997.

Most forecasters are expecting further declines in inflation for Poland and Hungary, to levels between 17 and 18 per cent in 1997. The range of forecasts is, however, greater in the case of Hungary. In the Baltic states, inflation is projected to fall steadily in Latvia, from 25 per cent in 1995 to an average of a little over 14 per cent by 1997, with PlanEcon projecting a lower rate for 1996 compared with the average. In Estonia inflation is also expected to fall, from 29 per cent in 1995 to around 20 per cent by 1997, although PlanEcon is relatively pessimistic about the extent to which the rate will be lowered in 1996 compared with the average projection. Inflation is also projected to decline in Lithuania, from the 39 per cent recorded in 1995, although the average figure shown in the table is affected by the relatively low estimate for 1997 from the European Union.

As noted above, the most recent forecasts point to a very large increase in inflation in Bulgaria in 1996. Thus, most of those forecasts prepared in August and September, for example those of the Vienna Institute, CS First Boston and Kopint-Datorg, expect inflation in 1996 to average well over 100 per cent. All these forecasters, including the EBRD which projects a smaller increase in inflation this year, nevertheless expect the average rate of inflation to fall somewhat in 1997.

The inflation estimates discussed above all represent the change between two years in the average monthly consumer price level for the year in question. The 1995 *Transition Report* explained the

Table 9.1

GDP growth forecasts for 1996

(in per cent)¹

Eastern European and the Baltic States	Average ²	Range ³	EBRD (August 1996)	OECD (June 1996) ⁴	IMF (May 1996)	Project Link (May 1996) ⁵	European Union (May 1996)	PlanEcon (June/Aug. 1996)	EIU (June 1996) ⁶	Vienna Institute (July 1996)	JP Morgan (Sept 1996)	CS First Boston (July 1996)	Kopint- Datorg (June 1996) ⁷
Albania	6.6	4.9	5.0	–	7.0	5.0	–	9.9	6.0	–	–	–	–
Bulgaria	-1.3	13.5	-4.0	2.5	0.0	3.5	2.1	2.3	1.0	-2.0	-5.5	-10.0	-4.0
Croatia	4.0	2.0	5.0	–	5.0	–	–	4.7	3.0	3.5	–	–	3.0
Czech Republic	5.1	1.9	5.1	5.6	5.2	5.5	5.5	5.9	5.0	5.0	5.2	4.0	4.5
Estonia	3.8	4.0	3.0	–	3.1	2.5	4.0	6.5	3.5	–	–	–	–
FYR Macedonia	3.0	0.0	3.0	–	3.0	–	–	–	3.0	–	–	–	–
Hungary	1.6	1.7	1.5	2.0	1.2	2.5	2.1	2.5	1.5	1.5	0.8	1.0	1.3
Latvia	1.6	4.0	1.0	–	2.1	0.3	1.2	4.2	0.6	–	–	–	–
Lithuania	2.2	6.1	1.5	–	1.6	3.3	1.0	6.1	0.0	–	–	–	–
Poland	5.4	1.5	5.0	5.5	5.5	5.8	6.0	5.8	4.9	5.5	5.6	4.5	5.0
Romania	4.4	2.0	4.5	4.0	4.0	5.5	4.5	5.3	4.5	4.0	–	–	3.5
Slovak Republic	5.7	1.5	5.5	5.0	6.5	5.8	5.5	6.0	5.0	6.0	–	–	6.0
Slovenia	3.3	2.5	3.0	5.0	3.0	–	4.4	2.6	3.0	2.5	–	–	3.0
Average	3.5	3.5	–	–	–	–	–	–	–	–	–	–	–
Commonwealth of Independent States													
Armenia	6.8	2.1	6.5	–	6.5	–	–	8.1	6.0	–	–	–	–
Azerbaijan	-2.9	3.9	-3.5	–	-3.8	–	–	-0.1	-4.0	–	–	–	–
Belarus	-4.1	2.5	-5.0	–	-5.5	–	–	-3.0	-3.0	–	–	–	–
Georgia	10.0	6.0	8.0	–	8.0	–	–	14.0	–	–	–	–	–
Kazakhstan	0.9	1.1	0.5	–	0.4	–	–	1.2	1.5	–	–	–	–
Kyrgyzstan	3.2	4.2	2.0	–	2.4	–	–	6.2	2.0	–	–	–	–
Moldova	4.7	2.8	4.0	–	4.0	–	–	6.8	4.0	–	–	–	–
Russia	-2.1	6.0	-3.0	1.0	-1.3	0.5	–	-1.8	-1.0	-5.0	-3.7	-2.0	-5.0
Tajikistan	-5.9	10.4	-7.0	–	-7.0	–	–	0.4	-10.0	–	–	–	–
Turkmenistan	3.9	6.2	0.0	–	6.2	–	–	4.9	4.5	–	–	–	–
Ukraine	-6.0	6.9	-7.0	–	-8.0	-3.1	–	-3.6	-5.0	-5.0	–	–	-10.0
Uzbekistan	1.2	6.8	-1.0	–	-1.0	–	–	5.8	1.0	–	–	–	–
Average	0.8	4.9	–	–	–	–	–	–	–	–	–	–	–

¹ All forecasts in this table were published or reported to the EBRD between May and September 1996 (see also the references at the end of this chapter). There may, for a number of institutions, be a substantial lag between preparation and publication of forecasts. The dates in brackets indicate in which month the forecasts were reported or published by each institution.

² The numbers at the bottom of these columns refer to the mean of all the average forecasts shown in each column.

³ This column shows the difference between the highest and the lowest of the forecasts.

⁴ These forecasts were published by the OECD in EO 59 (*Economic Outlook*, 1996, no. 59) in June 1996. However, GDP in the Slovak Republic is projected to grow at 6.0 per cent according to the OECD's *Economic Survey of the Slovak Republic*,

published September 1996.

⁵ This column in this and other tables in the chapter shows forecasts from the United Nations, which unless otherwise stated are from *Project Link World Outlook*. However, forecasts for GDP growth in 1996 are from the United Nations, *World Economic and Social Survey*, 1996.

⁶ The Economist Intelligence Unit forecast for FYR Macedonia is social product instead of GDP.

⁷ Kopint-Datorg is the Institute for Economic and Market Research and Informatics in Hungary.

Table 9.2

GDP growth forecasts for 1997(in per cent)¹

Eastern European and the Baltic States	Average²	Range³	EBRD (August 1996)	OECD (June 1996)	IMF (May 1996)	Project Link (May 1996)	European Union (May 1996)	PlanEcon (June/Aug. 1996)	EIU (June 1996) ⁴	Vienna Institute (July 1996)	JP Morgan (Sept 1996)	CS First Boston (July 1996)	Kopint-Datorg (June 1996) ⁵
Albania	7.2	3.0	9.0	—	—	—	—	6.7	6.0	—	—	—	—
Bulgaria	1.5	9.1	2.0	3.0	—	5.1	1.7	4.8	3.0	2.0	-2.8	-4.0	0.0
Croatia	5.7	3.5	6.0	—	—	—	—	7.5	4.0	5.0	—	—	6.0
Czech Republic	5.1	1.9	5.3	5.8	—	5.9	5.9	5.2	4.7	5.0	4.8	4.0	4.5
Estonia	4.9	5.0	4.0	—	—	—	3.8	8.3	3.3	—	—	—	—
FYR Macedonia	5.0	0.0	5.0	—	—	—	—	—	5.0	—	—	—	—
Hungary	3.2	3.7	3.0	3.0	—	3.6	3.5	5.5	3.5	3.0	1.8	2.0	3.0
Latvia	3.4	4.3	3.0	—	—	—	2.2	6.3	2.0	—	—	—	—
Lithuania	3.8	4.6	4.0	—	—	—	2.5	6.6	2.0	—	—	—	—
Poland	5.1	1.5	5.0	5.0	—	5.3	5.5	5.1	5.2	5.5	5.3	4.0	5.0
Romania	4.3	2.1	3.5	4.0	—	3.1	5.2	5.2	4.5	5.0	—	—	3.5
Slovak Republic	4.7	1.6	4.5	5.0	—	5.3	4.6	5.6	4.1	4.0	—	—	4.5
Slovenia	4.2	1.5	3.5	5.0	—	—	4.6	5.0	4.0	4.0	—	—	3.5
Average	4.5	3.2	—	—	—	—	—	—	—	—	—	—	—
Commonwealth of Independent States													
Armenia	7.0	—	7.0	—	—	—	—	7.6	6.5	—	—	—	—
Azerbaijan	6.1	—	4.0	—	—	—	—	10.4	4.0	—	—	—	—
Belarus	2.6	1.0	2.0	—	—	—	—	2.8	3.0	—	—	—	—
Georgia	11.2	—	10.0	—	—	—	—	12.3	—	—	—	—	—
Kazakstan	3.2	4.5	1.0	—	—	—	—	5.5	3.0	—	—	—	—
Kyrgyzstan	5.6	5.0	8.0	—	—	—	—	5.9	3.0	—	—	—	—
Moldova	5.9	3.8	4.0	—	—	—	—	7.8	6.0	—	—	—	—
Russia	2.0	5.3	3.0	3.0	—	2.0	—	3.3	3.0	2.0	1.5	2.0	-2.0
Tajikistan	-1.6	8.2	-3.0	—	—	—	—	3.2	-5.0	—	—	—	—
Turkmenistan	3.7	2.0	3.0	—	—	—	—	3.0	5.0	—	—	—	—
Ukraine	0.2	6.9	1.0	—	—	1.5	—	2.9	-1.0	1.0	—	—	-4.0
Uzbekistan	2.7	4.1	1.0	—	—	—	—	5.1	2.0	—	—	—	—
Average	4.1	4.5	—	—	—	—	—	—	—	—	—	—	—

¹ All forecasts quoted here were published or reported to the EBRD between May and September 1996. The dates in brackets indicate the month in which the forecasts were reported or published by each institution.

² The numbers at the bottom of these columns refer to the mean of all the average forecasts shown in each column.

³ This column shows the difference between the highest and the lowest of the forecasts.

⁴ The Economist Intelligence Unit forecast for FYR Macedonia is social product instead of GDP.

⁵ Kopint-Datorg is the Institute for Economic and Market Research and Informatics in Hungary.

Table 9.3

Inflation forecasts for 1996

(change in the average consumer price level, in per cent)¹

Eastern European and the Baltic States	Average ²	Range ³	EBRD (August 1996)	OECD (June 1996) ⁴	IMF (May 1996)	Project Link (May 1996) ⁵	European Union (May 1996)	PlanEcon (June/Aug. 1996)	EIU (June 1996) ⁶	Vienna Institute (July 1996)	JP Morgan (Sept 1996)	CS First Boston (July 1996)	Kopint- Datorg (June 1996) ⁷
Albania	10.8	4.0	13.0	—	12.0	—	—	9.1	9.0	—	—	—	—
Bulgaria	89.3	147.0	95.0	—	73.0	36.4	33.0	58.0	100.0	180.0	98.0	130.0	150.0
Croatia	3.7	1.7	3.5	—	3.0	—	—	4.7	3.5	4.0	—	—	5.0
Czech Republic	8.8	1.3	9.0	8.4	9.0	8.2	8.5	8.5	8.7	9.0	8.9	9.5	9.5
Estonia	25.1	7.4	26.0	—	27.0	—	20.0	27.4	25.0	—	—	—	—
FYR Macedonia	6.0	3.0	4.0	—	7.0	—	—	—	7.0	—	—	—	—
Hungary	22.8	4.5	24.0	—	23.0	19.5	23.0	20.7	24.0	24.0	23.8	23.5	24.5
Latvia	18.8	4.0	19.0	—	21.0	—	18.5	17.0	18.5	—	—	—	—
Lithuania	28.5	2.3	28.0	—	29.0	—	28.0	27.7	30.0	—	—	—	—
Poland	20.9	4.0	21.0	—	19.0	23.0	21.0	20.1	21.0	21.0	22.1	20.0	19.0
Romania	30.1	17.0	40.0	—	23.0	26.1	24.0	33.6	34.0	30.0	—	—	40.0
Slovak Republic	6.7	1.5	7.0	7.0	6.0	7.5	6.5	6.3	6.0	7.0	—	—	7.0
Slovenia	10.0	2.3	10.0	—	10.0	—	8.7	10.4	10.0	11.0	—	—	9.5
Average	21.7	—	—	—	—	—	—	—	—	—	—	—	—
Commonwealth of Independent States													
Armenia	26	11	25	—	26	—	—	31	20	—	—	—	—
Azerbaijan	24	7	20	—	23	—	—	27	24	—	—	—	—
Belarus	70	22	70	—	70	—	—	58	80	—	—	—	—
Georgia	51	4	50	—	50	—	—	54	—	—	—	—	—
Kazakhstan	39	1	40	—	39	—	—	38	39	—	—	—	—
Kyrgyzstan	27	10	30	—	20	—	—	29	30	—	—	—	—
Moldova	24	4	25	—	24	—	—	25	21	—	—	—	—
Russia	53	15	45	—	51	55	—	51	52	50	53	53	60
Tajikistan	718	738	700	—	633	—	—	1,138	400	—	—	—	—
Turkmenistan	925	997	500	—	904	—	—	1,497	800	—	—	—	—
Ukraine	95	155	90	—	70	200	—	90	91	80	—	—	45
Uzbekistan	55	16	50	—	49	—	—	65	56	—	—	—	—
Average	175.4	—	—	—	—	—	—	—	—	—	—	—	—

¹ All forecasts in this table were published or reported to the EBRD between May and September 1996 (see also the references at the end of this chapter). There may, for a number of institutions, be a substantial lag between preparation and publication of forecasts. The dates in brackets indicate in which month the forecasts were reported or published by each institution.

² The numbers at the bottom of these columns refer to the mean of all the average forecasts shown in each column.

³ This column shows the difference between the highest and the lowest of the forecasts.

⁴ The OECD's EO 59 (*Economic Outlook*) includes end-year forecasts of the Consumer Price Index for selected countries (see Table 12.5). The average CPI forecasts shown here were taken from the OECD *Economic Survey of the Czech Republic*, published in July 1996, and the OECD *Economic Survey of the Slovak Republic*, published in September 1996.

⁵ Project Link forecasts are consumption deflators, with the exception of Hungary for which the figure quoted is the Net Material Product deflator.

⁶ The Economist Intelligence Unit forecast for FYR Macedonia is social product instead of GDP.

⁷ Kopint-Datorg is the Institute for Economic and Market Research and Informatics in Hungary.

Table 9.4

Inflation forecasts for 1997

(change in the average consumer price level, in per cent)¹

Eastern European and the Baltic States	Average ²	Range ³	EBRD (August 1996)	OECD (June 1996) ⁴	IMF (May 1996)	Project Link (May 1996) ⁵	European Union (May 1996)	PlanEcon (June/Aug. 1996)	EIU (June 1996) ⁶	Vienna Institute (July 1996)	JP Morgan (Sept 1996)	CS First Boston (July 1996)	Kopint- Datorg (June 1996) ⁷
Albania	9.4	2.3	10.0	–	–	–	–	10.3	8.0	–	–	–	–
Bulgaria	60.2	71.1	74.0	–	–	28.9	30.0	49.0	65.0	60.0	90.0	100.0	45.0
Croatia	8.2	12.7	6.0	–	–	–	–	16.2	3.5	–	–	–	7.0
Czech Republic	8.4	2.6	8.2	8.0	–	7.4	7.4	7.5	8.2	9.0	8.6	9.5	10.0
Estonia	20.4	4.5	21.0	–	–	–	18.0	22.5	20.0	–	–	–	–
FYR Macedonia	5.5	5.0	3.0	–	–	–	–	–	8.0	–	–	–	–
Hungary	17.6	5.2	17.0	–	–	14.1	18.0	15.6	19.0	18.0	19.3	18.0	19.0
Latvia	14.2	4.3	16.0	–	–	–	14.0	11.7	15.0	–	–	–	–
Lithuania	23.0	6.0	24.0	–	–	–	19.0	23.8	25.0	–	–	–	–
Poland	17.4	1.4	18.0	–	–	18.2	17.0	17.8	18.0	17.0	17.1	16.8	17.0
Romania	29.4	15.0	35.0	–	–	26.0	20.0	32.8	27.0	30.0	–	–	35.0
Slovak Republic	6.9	4.0	6.5	6.0	–	6.0	6.0	7.5	6.3	7.0	–	–	10.0
Slovenia	8.5	2.8	7.0	–	–	–	7.0	9.8	8.5	9.0	–	–	9.5
Average	17.6	10.5	–	–	–	–	–	–	–	–	–	–	–
Commonwealth of Independent States													
Armenia	16	15	14	–	–	–	–	25	10	–	–	–	–
Azerbaijan	17	8	12	–	–	–	–	20	20	–	–	–	–
Belarus	43	12	40	–	–	–	–	38	50	–	–	–	–
Georgia	20	10	15	–	–	–	–	25	–	–	–	–	–
Kazakstan	23	5	20	–	–	–	–	25	25	–	–	–	–
Kyrgyzstan	23	8	20	–	–	–	–	28	20	–	–	–	–
Moldova	16	8	15	–	–	–	–	20	12	–	–	–	–
Russia	27	35	22	–	–	20	–	24	35	30	15	23	50
Tajikistan	250	200	150	–	–	–	–	–	350	–	–	–	–
Turkmenistan	306	150	250	–	–	–	–	268	400	–	–	–	–
Ukraine	43	20	50	–	–	30	–	38	45	50	–	–	45
Uzbekistan	38	19	30	–	–	–	–	49	35	–	–	–	–
Average	69	41	–	–	–	–	–	–	–	–	–	–	–

¹ All forecasts in this table were published or reported to the EBRD between May and September 1996 (see also the references at the end of this chapter). There may, for a number of institutions, be a substantial lag between preparation and publication of forecasts. The dates in brackets indicate in which month the forecasts were reported or published by each institution.

² The numbers at the bottom of these columns are calculated as the mean of all the average forecasts shown in each column.

³ This column shows the difference between the highest and the lowest of the forecasts.

⁴ The OECD's EO 59 (*Economic Outlook*) includes end-year forecasts of the Consumer Price Index for selected countries (see Table 12.5). The average CPI forecasts shown here were taken from the OECD *Economic Survey of the Czech Republic*, published in July 1996, and the OECD *Economic Survey of the Slovak Republic*, published in September 1996.

⁵ Project Link forecasts are consumption deflators, with the exception of Hungary for which the figure quoted is the Net Material Product deflator.

⁶ The Economist Intelligence Unit forecast for FYR Macedonia is social product instead of GDP.

⁷ Kopint-Datorg is the Institute for Economic and Market Research and Informatics in Hungary.

Table 9.5

Inflation forecasts for 1996(change in the end-year consumer price level, in per cent)¹

Eastern Europe and the Baltic States	Average	EBRD (August 1996)	OECD (June 1996) ²	JP Morgan (Sept 1996)	EIU (Sept. 1996)	PlanEcon (June 1996)
Albania	14.2	20.0	–	–	12.0	10.7
Bulgaria	120.2	165.0	40.0	170.0	150.0	76.0
Croatia	5.0	5.0	–	–	3.5	–
Czech Republic	8.9	9.0	–	9.2	8.5	8.7
Estonia	22.0	24.0	–	–	20.0	–
FYR Macedonia	4.5	2.0	–	–	7.0	–
Hungary	20.8	22.0	22.0	19.8	22.0	18.2
Latvia	18.5	19.0	–	–	18.0	–
Lithuania	24.0	26.0	–	–	22.0	–
Poland	19.0	19.0	19.0	18.9	19.0	19.3
Romania	39.3	60.0	25.0	–	35.0	37.2
Slovak Republic	6.3	6.0	7.0	–	6.0	–
Slovenia	10.2	10.0	10.0	–	9.5	11.1
Commonwealth of Independent States						
Armenia	19	19	–	–	–	–
Azerbaijan	15	15	–	–	–	–
Belarus	61	61	–	–	–	–
Georgia	23	23	–	–	–	–
Kazakhstan	26	26	–	–	–	–
Kyrgyzstan	27	27	–	–	–	–
Moldova	18	18	–	–	–	–
Russia	33	25	50	23	–	–
Tajikistan	200	200	–	–	–	–
Turkmenistan	250	250	–	–	–	–
Ukraine	55	55	–	–	–	–
Uzbekistan	35	35	–	–	–	–

¹ All forecasts in this table were published or reported to the EBRD between May and September 1996 (see also the references at the end of this chapter). There may, for a number of institutions, be a substantial lag between preparation and publication of forecasts. The dates in brackets indicate in which month the forecasts were reported or published by each institution.

² In the Slovak Republic, the projection of end-year inflation is 6.0 per cent, according to the OECD *Economic Survey of the Slovak Republic*, published in September 1996.

difference in the information contained between inflation measures that are based on, respectively, the annual average and the end-year (December on December) observations of the consumer price index.² There can be marked differences between the two measures, especially when inflation rates are high. Only a few institutions prepare projections for end-year inflation figures (see Table 9.5). In the case of Poland and Hungary, for example, inflation between December 1995 and December 1996 is projected to be somewhere between the forecast for the change in the average price level in 1996 and that of 1997, implying that continuous progress is expected in lowering inflation.

The Commonwealth of Independent States

A number of the CIS countries are projected to record positive growth of output from 1996 onwards, according to the EBRD, EIU, IMF and PlanEcon. This is a sharp contrast with 1995, when most countries recorded negative growth. Armenia is expected to record growth of around 7 per cent a year in 1996 and 1997, while a strong rebound of growth in Georgia to over 10 per cent a year is also projected. For both countries, strong growth reflects in part the reopening of trading routes and production sites that were

previously closed as a result of armed conflict in the region. In both Kyrgyzstan and Moldova the growth of output is expected to increase to over 5 per cent by 1997 as a result of the successful implementation of stabilisation policies under IMF programmes and the positive effect of economic reform measures.

For most other countries the expectation of a gradual return to positive growth is a result of greater price stability, facilitating investment decisions; progress with structural reform; and in particular the expectation that Russia, which remains an important market for many of these countries, will achieve positive growth at least from 1997 onwards. Towards the end of 1995 some forecasters were expecting that Russia would record positive growth during 1996. However, political uncertainty in the run-up to the presidential elections, combined with the continuation of the tight monetary stance, contributed to a further period of negative growth in the first half of 1996. Although there is a range of views on the outcome for 1996, most of the recent forecasts project negative growth (with an average of -2 per cent) followed by a recovery with growth of around 2 per cent in 1997.

² See 1995 *Transition Report*, p. 216.

Table 9.6

The accuracy of forecasts of GDP growth in 1995 (in per cent)¹

Eastern Europe and the Baltic States	Average absolute value of error ³		EBRD		OECD		IMF		Project Link		European Union		PlanEcon		EIU		Vienna Institute		JP Morgan		CS First Boston		Kopint-Datorg	
	Actual ²		Forecast (Sept) ³	Error	Forecast (June) ³	Error	Forecast (May) ³	Error	Forecast (April) ³	Error	Forecast (June) ³	Error	Forecast (June) ³	Error	Forecast (Sept) ³	Error	Forecast (June) ³	Error	Forecast (Sept) ³	Error	Forecast (July) ³	Error	Forecast (June) ³	Error
Albania	8.6	2.4	6.0	2.6	–	–	6.0	2.6	–	–	–	–	6.9	1.7	6.0	2.6	–	–	–	–	–	–	–	–
Bulgaria	2.6	0.9	2.5	0.1	2.0	0.6	–	–	1.0	1.6	1.6	1.0	5.0	-2.4	2.0	0.6	2.0	0.6	3.0	-0.4	–	–	1.5	1.1
Croatia	2.0	2.1	2.0	0.0	–	–	–	–	–	–	–	–	–	–	4.0	-2.0	7.0	-5.0	–	–	–	–	3.5	-1.5
Czech Republic	4.8	0.8	4.0	0.8	4.0	0.8	3.8	1.0	4.0	0.8	4.2	0.6	4.8	0.0	4.0	0.8	4.0	0.8	4.0	0.8	3.5	1.3	3.5	1.3
Estonia	3.2	2.7	6.0	-2.8	–	–	6.0	-2.8	–	–	–	–	6.4	-3.2	5.0	-1.8	–	–	–	–	–	–	–	–
FYR Macedonia	-1.5	2.0	-3.0	1.5	–	–	–	–	–	–	–	–	–	–	1.0	-2.5	–	–	–	–	–	–	–	–
Hungary	1.5	0.8	3.0	-1.5	1.0	0.5	0.2	1.3	1.8	-0.3	0.3	1.2	3.0	-1.5	1.5	0.0	1.0	0.5	1.3	0.2	0.7	0.8	2.0	-0.5
Latvia	-1.6	4.5	1.0	-2.6	–	–	4.6	-6.2	–	–	–	–	5.0	-6.6	1.0	-2.6	–	–	–	–	–	–	–	–
Lithuania	3.1	1.7	5.0	-1.9	–	–	6.7	-3.6	–	–	–	–	4.3	-1.2	3.0	0.1	–	–	–	–	–	–	–	–
Poland	7.0	1.3	6.0	1.0	5.5	1.5	5.0	2.0	4.9	2.1	5.0	2.0	7.2	-0.2	5.9	1.1	6.0	1.0	6.6	0.4	5.0	2.0	6.0	1.0
Romania	6.9	3.5	4.0	2.9	3.0	3.9	–	–	3.9	3.0	2.8	4.1	4.8	2.1	3.0	3.9	2.0	4.9	–	–	–	–	3.5	3.4
Slovak Republic	7.4	2.7	5.0	2.4	5.0	2.4	4.0	3.4	3.7	3.7	3.0	4.4	6.0	1.4	5.7	1.7	4.0	3.4	5.5	1.9	5.0	2.4	4.5	2.9
Slovenia	3.5	1.9	6.0	-2.5	–	–	5.0	-1.5	–	–	–	–	7.0	-3.5	5.5	-2.0	5.0	-1.5	5.3	-1.8	–	–	4.0	-0.5
Average absolute value of the error – 1995	–	2.1	–	1.7	–	1.6	–	2.7	–	1.9	–	2.2	–	2.2	–	1.7	–	2.2	–	0.9	–	1.6	–	1.4
– 1994	–	2.0	–	1.5	–	2.0	–	2.3	–	1.7	–	2.2	–	1.1	–	2.2	–	2.5	–	-1.4	–	–	–	–
– 1993	–	4.9	–	–	–	2.9	–	–	–	3.7	–	3.2	–	4.0	–	–	–	4.7	–	1.5	–	–	–	–
Commonwealth of Independent States																								
Armenia	6.9	3.3	5.0	1.9	–	–	–	–	–	–	–	–	11.6	-4.7	–	–	–	–	–	–	–	–	–	–
Azerbaijan	-8.3	8.7	-15.0	6.7	–	–	–	–	–	–	–	–	2.3	-10.6	–	–	–	–	–	–	–	–	–	–
Belarus	-10.2	0.5	-10.0	-0.2	–	–	–	–	–	–	–	–	-11.2	1.0	-10.0	-0.2	–	–	–	–	–	–	–	–
Georgia	2.4	5.3	-5.0	7.4	–	–	–	–	–	–	–	–	5.5	-3.1	–	–	–	–	–	–	–	–	–	–
Kazakhstan	-8.9	2.2	-12.0	3.1	–	–	–	–	–	–	–	–	-6.5	-2.4	-10.0	1.1	–	–	–	–	–	–	–	–
Kyrgyzstan	1.3	3.3	-5.0	6.3	–	–	–	–	–	–	–	–	1.0	0.3	–	–	–	–	–	–	–	–	–	–
Moldova	-3.0	4.3	-5.0	2.0	–	–	–	–	–	–	–	–	3.5	-6.5	–	–	–	–	–	–	–	–	–	–
Russia	-4.0	1.4	-3.0	-1.0	-5.0	1.0	–	–	-4.4	0.4	–	–	-2.7	-1.3	-2.0	-2.0	-7.0	3.0	-3.5	-0.5	-3.0	-1.0	-6.5	2.5
Tajikistan	-12.5	7.1	-12.0	-0.5	–	–	–	–	–	–	–	–	1.1	-13.6	–	–	–	–	–	–	–	–	–	–
Turkmenistan	-10.0	12.9	-5.0	-5.0	–	–	–	–	–	–	–	–	2.7	-12.7	–	–	–	–	–	–	–	–	–	–
Ukraine	-11.8	3.2	-5.0	-6.8	–	–	–	–	–	–	–	–	-5.5	-6.3	-8.0	-3.8	-10.0	-1.8	-12.0	0.2	–	–	-12.0	0.2
Uzbekistan	-1.2	2.1	-4.0	2.8	–	–	–	–	–	–	–	–	-2.6	1.4	–	–	–	–	–	–	–	–	–	–
Average absolute value of the error – 1995	–	4.2	–	3.6	–	1.0	–	–	–	0.4	–	–	–	5.3129	–	1.8	–	2.4	–	0.4	–	1.0	–	1.4
– 1994	–	11.6	–	9.6	–	5.0	–	–	–	1.7	–	–	–	11.1	–	8.4	–	4.0	–	1.0	–	–	–	–
– 1993	–	6.6	–	–	–	–	–	–	–	–	–	–	–	6.5	–	–	–	2.4	–	–	–	–	–	–

¹ All forecasts in this table were published or reported to EBRD between April and September 1995. There may, for a number of institutions, be a substantial lag between preparation and publication of forecasts. The dates in brackets indicate in which month the forecasts were reported or published by each institution. The EBRD forecasts were prepared in August and published in October.

² "Actuals" represent the most recent official estimate of outturns for 1995, as reflected in publications from the national authorities, the IMF, the World Bank, the OECD, PlanEcon and the Institute of International Finance.

³ What is referred to as "errors" denotes the difference between actuals and forecasts (measured in percentage points).

In Ukraine the severe winter of 1995-96 and the failure to meet all the performance targets of the first Standby Arrangement towards the end of 1995 will have contributed to another year of negative growth in 1996. There is no consensus among the forecasts surveyed as to whether growth will resume in 1997, although three of the latest estimates prepared, those of PlanEcon, the EBRD and the Vienna Institute, anticipate a return to positive growth in that year. In addition to Ukraine, the only other CIS countries that most forecasters expect to experience negative growth in 1996 are Azerbaijan, Belarus and Tajikistan.

Most CIS countries are expected to achieve further substantial declines in their inflation rates in 1996, although the rates forecast for 1996-97 remain high in both Tajikistan and Turkmenistan. If these two countries are excluded, the average level of inflation in the CIS region is projected to fall from 46 per cent in 1996 to 27 per cent in 1997. Inflation, as measured by the change in the average price level, is expected to fall to an annual average of 53 per cent in Russia in 1996 and to below 30 per cent in 1997. Most forecasters expect the other CIS countries to make further progress in lowering inflation from the high levels recorded in the early 1990s. Armenia, Azerbaijan, Georgia, Moldova, and Kazakstan are projected by the EIU, PlanEcon and by the EBRD to see inflation slow to 25 per cent or less in 1997. Much will depend on the continuation of sound monetary policies. This in turn will depend crucially on improvements in tax collection to maintain government revenues as well as the extent to which governments meet some of the inevitable pressures for higher spending. Demographic pressures will necessitate improvements to the targeting of many health, pension and other social benefits if budget deficits are to be contained in the medium term.

9.2 The accuracy of forecasts

Previous editions of the *Transition Report* have emphasised the uncertainty associated with forecasting for transition economies. As noted in the introduction to this chapter, this uncertainty derives from a number of factors, including inadequacies in the methods by which economic activity is measured, the rapid pace of structural change and the general difficulty of anticipating the exact timing of sometimes sharp turnarounds from precipitous output declines to strong growth. This section reviews the accuracy of forecasts prepared in the middle of 1995 for full-year growth and inflation in 1995. When comparing the forecasts from different institutions, it is important to bear in mind the date when each forecast was completed – those produced later in the year can be based on a greater amount of information. In addition, it should be noted that even the “outturns” may be associated with great uncertainty and may be subject to revisions several years after the period to which they pertain. In this section we have used as “outturns” data from the selected economic indicators for each country in transition on pages 185-209. The original source of these figures is, in most cases, statistical offices in the region.

The accuracy of growth forecasts

A summary of the comparison of growth forecasts for 1995 is shown in Table 9.6. All the forecasts were prepared or published between April and September 1995. The table includes two columns for each

institution: the first column quotes the forecast of that particular institution; the second contains the “error” defined as the difference between the outturn and their forecast. The average of the absolute value of the errors (i.e. ignoring negative values) is shown at the foot of the table for 1995 as well as for the previous two years.

There was no improvement in the accuracy of forecasts in 1995 compared with 1994 for eastern European and the Baltic states although there was for the CIS countries. The average absolute error for eastern Europe and the Baltic states fell from 4.9 percentage points in 1993 to 2.0 percentage points for 1994, but rose slightly to 2.1 percentage points for 1995. The small decline in the overall accuracy of the forecasts for 1995 was mainly attributable to the tendency for most forecasters to underestimate growth in those countries that achieved the strongest growth increases, such as Albania, Romania and the Slovak Republic. This was reflected in the large size of the average error for these countries. By contrast, forecasters were reasonably accurate in their projection of the 7.0 per cent growth recorded in Poland, partly because 1995 was the fourth successive year of growth in that country. Overall, the level of the errors is considerably less than for the CIS countries. This is mainly a result of the tendency of a number of countries in eastern Europe and the Baltic states to move towards more stable growth paths as transition progresses.

Within the CIS there was a sharp reduction in the value of the absolute error, from 11.6 percentage points reported for the 1994 forecasts to 4.2 percentage points for 1995. Most forecasters accurately predicted that the majority of countries would record another year of negative growth in 1995. There was, however, a tendency to underestimate the extent of the output declines.

The accuracy of inflation forecasts

The accuracy of inflation forecasts is presented in Table 9.7 and follows a similar format to the previous table, with the exception that the average value of the errors has not been calculated. This is mainly because of the large differences in inflation rates between countries in the region. One percentage point error is more significant when inflation is low than when it is very high, but this is not accurately reflected in the average absolute value. The forecasts of inflation were more accurate for eastern Europe and the Baltic states than for the CIS, where inflation was higher and thus more difficult to predict. The main feature which emerges from this table, shown by the number of negative errors for the forecasting institutions, was the tendency to underestimate the extent to which inflation could be brought down. This applies particularly to the CIS, but was also true of certain east European countries where inflation was relatively high – for example, Romania.

A comparison of the accuracy of forecasts from different institutions

Only a few of the surveyed institutions provide projections for growth and inflation for all the countries in the region, although the majority project these variables for the Czech Republic, Hungary, Poland, the Slovak Republic and Russia. Tables 9.8 and 9.9 compare the accuracy of forecasts across forecasting institutions. It should be stressed again that the forecasts were completed at

Table 9.7

The accuracy of forecasts of inflation in 1995 (change in the average consumer price level, in per cent)¹

Eastern Europe and the Baltic States	Average absolute value of error ³		EBRD		OECD		IMF		Project Link		European Union		PlanEcon		EIU		Vienna Institute		JP Morgan		CS First Boston		Kopint-Datorg	
	Actual ²		Forecast (Sept) ³	Error	Forecast (June) ³	Error	Forecast (May) ³	Error	Forecast (April) ³	Error	Forecast (June) ³	Error	Forecast (June) ³	Error	Forecast (Sept) ³	Error	Forecast (June) ³	Error	Forecast (Sept) ³	Error	Forecast (July) ³	Error	Forecast (June) ³	Error
Albania	8.0	6.3	7.0	1.0	–	–	11.0	-3.0	–	–	–	–	23.0	-15.0	14.0	-6.0	–	–	–	–	–	–	–	–
Bulgaria	62.0	7.5	68.0	-6.0	–	–	–	–	53.2	8.8	75.0	-13.0	75.0	-13.0	68.0	-6.0	65.0	-3.0	69.2	-7.2	–	–	65.0	-3.0
Croatia	1.6	1.6	0.0	1.6	–	–	–	–	–	–	–	–	–	–	4.0	-2.4	3.0	-1.4	–	–	–	–	0.5	1.1
Czech Republic	9.1	0.7	10.0	-0.9	9.0	0.1	8.0	1.1	9.5	-0.4	10.0	-0.9	9.6	-0.5	9.0	0.1	10.0	-0.9	9.8	-0.7	10.0	-0.9	10.5	-1.4
Estonia	29.0	3.3	25.0	4.0	–	–	26.0	3.0	–	–	–	–	25.0	4.0	27.0	2.0	–	–	–	–	–	–	–	–
FYR Macedonia	16.0	21.5	50.0	-34.0	–	–	–	–	–	–	–	–	–	–	25.0	-9.0	–	–	–	–	–	–	–	–
Hungary	28.2	1.0	29.0	-0.8	27.0	1.2	28.0	0.2	–	–	25.0	3.2	27.3	0.9	28.0	0.2	29.0	-0.8	28.3	-0.1	26.0	2.2	29.0	-0.8
Latvia	25.0	2.8	25.0	0.0	–	–	19.0	6.0	–	–	–	–	20.0	5.0	25.0	0.0	–	–	–	–	–	–	–	–
Lithuania	39.5	6.0	35.0	4.5	–	–	30.0	9.5	–	–	–	–	30.0	9.5	40.0	-0.5	–	–	–	–	–	–	–	–
Poland	27.8	2.5	27.0	0.8	23.0	4.8	25.0	2.8	21.7	6.1	30.0	-2.2	25.0	2.8	26.5	1.3	29.0	-1.2	27.5	0.3	31.3	-3.5	29.0	-1.2
Romania	32.2	8.0	40.0	-7.8	45.0	-12.8	–	–	29.7	2.5	40.0	-7.8	37.0	-4.8	35.0	-2.8	45.0	-12.8	–	–	–	–	45.0	-12.8
Slovak Republic	9.9	1.0	11.0	-1.1	10.0	-0.1	10.0	-0.1	10.5	-0.6	10.0	-0.1	11.5	-1.6	10.6	-0.7	12.0	-2.1	10.5	-0.6	11.3	-1.4	12.0	-2.1
Slovenia	12.6	2.8	15.0	-2.4	–	–	5.0	7.6	–	–	–	–	15.0	-2.4	13.0	-0.4	16.0	-3.4	13.0	-0.4	–	–	9.8	2.8
Commonwealth of Independent States																								
Armenia	177	125	210	-33	–	–	–	–	–	–	–	–	393	-216	–	–	–	–	–	–	–	–	–	–
Azerbaijan	412	176	425	-13	–	–	–	–	–	–	–	–	750	-338	–	–	–	–	–	–	–	–	–	–
Belarus	709	384	700	9	–	–	–	–	–	–	–	–	1,360	-651	1,200	-491	–	–	–	–	–	–	–	–
Georgia	169	601	250	-81	–	–	–	–	–	–	–	–	1,289	-1,120	–	–	–	–	–	–	–	–	–	–
Kazakhstan	180	73	180	0	–	–	–	–	–	–	–	–	390	-210	170	10	–	–	–	–	–	–	–	–
Kyrgyzstan	43	5	45	-2	–	–	–	–	–	–	–	–	50	-7	–	–	–	–	–	–	–	–	–	–
Moldova	30	15	35	-5	–	–	–	–	–	–	–	–	55	-25	–	–	–	–	–	–	–	–	–	–
Russia	190	18	205	-15	–	–	–	–	–	–	–	–	173	17	200	-10	180	10	181	9	170	20	130	60
Tajikistan	635	445	120	515	–	–	–	–	–	–	–	–	260	375	–	–	–	–	–	–	–	–	–	–
Turkmenistan	1,005	795	1,800	-795	–	–	–	–	–	–	–	–	1,800	-795	–	–	–	–	–	–	–	–	–	–
Ukraine	375	67	350	25	–	–	–	–	–	–	–	–	421	-46	380	-5	400	-25	440	-65	–	–	140	235
Uzbekistan	305	78	325	-20	–	–	–	–	–	–	–	–	440	-135	–	–	–	–	–	–	–	–	–	–

¹ All forecasts in this table were published or reported to EBRD between April and September 1995. There may, for a number of institutions, be a substantial lag between preparation and publication of forecasts. The dates in brackets indicate in which month the forecasts were reported or published by each institution. The EBRD forecasts were prepared in August and published in October.

² "Actuals" represent the most recent official estimate of outturns for 1995, as reflected in publications from the national authorities, the IMF, the World Bank, the OECD, PlanEcon and the Institute of International Finance.

³ What is referred to as "errors" denotes the difference between actuals and forecasts (measured in percentage points).

Table 9.8

Comparison of growth forecasts for 1995 from different institutions¹

	EBRD error	OECD error	IMF error	Project Link error	European Union error	PlanEcon error	EIU error	Vienna Institute error	JP Morgan error	CS First Boston error	Kopint- Datorg error
Czech Republic	0.8	0.8	1.0	0.8	0.6	0.0	0.8	0.8	0.8	1.3	1.3
Hungary	-1.5	0.5	1.3	-0.3	1.2	-1.5	0.0	0.5	0.2	0.8	-0.5
Poland	1.0	1.5	2.0	2.1	2.0	-0.2	1.1	1.0	0.4	2.0	1.0
Slovak Republic	2.4	2.4	3.4	3.7	4.4	1.4	1.7	3.4	1.9	2.4	2.9
Russia	-1.0	1.0	—	0.4	—	-1.3	-2.0	3.0	-0.5	-1.0	2.5
Average absolute value of the error – EE4	1.4	1.3	1.9	1.7	2.1	0.8	0.9	1.4	0.8	1.6	1.4
– EE4 and Russia	1.3	1.2	—	1.5	—	0.9	1.1	1.7	0.8	1.5	1.6

¹ The EE4 group of countries includes the Czech Republic, Hungary, Poland, the Slovak Republic. What is referred to as “errors” denotes the difference between actuals and forecasts (measured in percentage points).

different times, implying not only that more current data would have been available for the later projections, but that quite possibly more accurate estimates of the values of 1995's variables, especially of growth, would also have been available. With these caveats in mind, it is apparent that JP Morgan, PlanEcon and the EIU had the most accurate forecasts of GDP growth for the countries shown. The average absolute error has been calculated for the inflation estimates in the four east European countries in this case, since inflation was lower and more stable. JP Morgan provided the most accurate estimates of inflation followed closely by the EIU.

9.3 Medium-term growth prospects

The evidence of this chapter (and Chapter 8) indicates that the recovery has gained impetus over the past two years and that there are good prospects that it can be sustained. Only three of the institutions surveyed here – the EIU, PlanEcon and Project Link – publish comprehensive forecasts for more than 18 months ahead. Data for selected countries are shown in Table 9.10.³

GDP in the east European countries shown in the table is expected to grow at rates between 4 per cent and 5 per cent per year for the remainder of the decade, according to the three forecasts. This partly reflects the assumption made by the forecasters that fixed investment will increase steadily. The main difference between the sets of projections concerns Hungary and the Czech Republic. In the case of Hungary, Project Link predict lower rates of increase in investment, and thus average rates of growth. The converse applies in the case of the Czech Republic. All three forecasters expect positive growth in Russia next year, followed by a strong recovery; the recovery in Ukraine is projected especially by Project Link to be more subdued.

9.4 Concluding remarks

The forecasts surveyed in this chapter provide an encouraging view of the region's prospects. For east European countries and the Baltic states, especially those in the advanced stages of transition, the prospects are for a continuation of growth between 4 per cent and 5 per cent per year for the remainder of the decade, with further falls in inflation. However, demand pressures and in some cases strong

capital inflows suggest that monetary policy will have to remain tight to preserve the gains already made in lowering inflation.

Performance in the CIS countries has generally lagged behind that of eastern Europe. This is a reflection of the greater length of time it has taken to implement successful stabilisation policies and the generally slower rate at which reforms have been introduced. There are of course exceptions to this: Armenia and Georgia are projected to record growth in 1996 and 1997 that is even stronger (albeit from a low base) than that achieved in certain east European countries in 1995. Moldova and Kyrgyzstan are also projected to record strong growth in 1996 and 1997. In fact most CIS countries are expected to see positive growth in 1996, which is projected to average 1 per cent for the CIS as a whole. Stronger growth is projected in 1997 – 4 per cent for the CIS as a whole – which partly reflects the return to positive growth in Russia. The average forecasts for the CIS countries assume that there will be further progress in lowering inflation in 1997, although inflation remains at high levels in two countries in the early stages of transition: Tajikistan and Turkmenistan.

The survey of forecast results has emphasised the uncertainty which surrounds these estimates. Even though the accuracy of the growth forecasts for eastern Europe and the Baltic states declined slightly in 1995, this was mainly explained by the underestimation of the strong rebound in growth in certain countries. The error in the forecasts for 1995 was greater for the CIS countries, mainly explained by the continuation of steeper than expected falls in output, although this merely serves to emphasise the difficulty of estimating the turning points. It was also evident that on average the forecasts underestimated the extent to which inflation could be brought down in most CIS countries.

The results indicate that the attainment of more stable paths of growth and inflation depend on a continuation of stabilisation policies to lower inflation, especially given the demand pressures that some countries currently face and the fiscal pressures that most will encounter in the medium term. It will also depend on maintaining high rates of quality investment and utilising in the most productive manner the stock of human and social capital, which is

³ Both the EIU and PlanEcon publish medium-term forecasts for the majority of the countries in the region.

Table 9.9

Comparison of inflation forecasts for 1995 from different institutions¹

	EBRD error	OECD error	IMF error	Project Link error	European Union error	PlanEcon error	EIU error	Vienna Institute error	JP Morgan error	CS First Boston error	Kopint- Datorg error
Czech Republic	-0.9	0.1	1.1	-0.4	-0.9	-0.5	0.1	-0.9	-0.7	-0.9	-1.4
Hungary	-0.8	1.2	0.2	–	3.2	0.9	0.2	-0.8	-0.1	2.2	-0.8
Poland	0.8	4.8	2.8	6.1	-2.2	2.8	1.3	-1.2	0.3	-3.5	-1.2
Slovak Republic	-1.1	-0.1	-0.1	-0.6	-0.1	-1.6	-0.7	-2.1	-0.6	-1.4	-2.1
Russia	-15.0	–	–	–	–	17.0	-10.0	10.0	9.0	20.0	60.0
Average absolute value of the error – EE4	0.9	1.6	1.1	2.4	1.6	1.5	0.6	1.3	0.4	2.0	1.4

¹ The EE4 group of countries includes the Czech Republic, Hungary, Poland, the Slovak Republic. What is referred to as “errors” denotes the difference between actuals and forecasts (measured in percentage points).

generally acknowledged to be high in relation to income levels. While these are necessary conditions for economic growth, the 1995 *Transition Report* examined the reasons why the productivity of investment might be expected to increase throughout the region.⁴ These included the scope for raising productivity through better management and working practices and as a result of technical progress embodied in much of the new capital equipment

which will be required as part of industrial restructuring. Foreign direct investment can play an important role in this respect, not just through providing investment finance, but also by transferring technology, providing management expertise and by strengthening corporate governance. In addition, it is also important that government policies create and maintain a favourable market-oriented environment, in which investment decisions can be taken. This requires continued progress with macroeconomic stabilisation and market-oriented reform. Under these conditions, the returns to investment are likely to be enhanced, so that every dollar invested contributes to stronger growth.

Table 9.10

Medium-term growth forecasts

(in per cent, selected countries)¹

		1996	1997	1998	1999	2000
Czech Republic	PlanEcon	5.9	5.2	4.9	4.5	4.1
	Project Link	5.4	5.9	5.8	5.8	–
	EIU	5.0	4.7	5.0	4.6	4.9
Hungary	PlanEcon	2.5	5.5	5.4	5.4	5.2
	Project Link	2.5	3.6	3.8	3.8	–
	EIU	1.5	3.5	4.5	4.0	4.8
Poland	PlanEcon	5.8	5.1	5.0	3.9	4.5
	Project Link	5.7	5.3	5.0	5.0	–
	EIU	4.9	5.2	5.7	5.1	4.9
Romania	PlanEcon	5.3	5.2	5.1	2.9	4.8
	Project Link	5.2	3.1	4.1	3.7	–
	EIU	4.5	4.5	4.6	4.5	4.7
Slovak Republic	PlanEcon	6.0	5.6	5.1	4.6	3.9
	Project Link	5.8	5.3	4.2	4.4	–
	EIU	5.0	4.1	4.3	4.0	4.4
Russia	PlanEcon	-1.8	3.3	4.4	5.0	5.3
	Project Link	-1.2	2.0	3.9	5.0	–
	EIU	-1.0	3.0	5.0	5.0	5.0
Ukraine	PlanEcon	-3.6	2.9	4.9	5.1	4.6
	Project Link	-3.1	1.5	2.3	3.0	–
	EIU	na	na	na	na	na

¹ PlanEcon forecasts were published in June and August 1996, whereas Project Link forecasts were compiled in May 1996 (see the references at the end of this chapter for the sources). Some of the Project Link forecasts for 1996 differ slightly from the estimates from the same institution shown in Table 9.1 for the reasons given in footnote 5 for that table. The EIU forecasts were taken from the latest individual country forecasts, published by the EIU during 1996.

⁴ See the discussion on incremental capital output ratios in Chapter 3 of the *Transition Report* 1995.

References

Note that in addition to the references listed below we have communicated extensively with some of the forecasting institutions quoted in this chapter.

CS First Boston (1996), *Emerging Europe 1996: Q3*, London, July 1996.

EBRD (1995), *Transition Report*, London, October 1995.

EIU (1996), Communication with the Economist Intelligence Unit, London, June 1996.

European Commission (1996), “Optimistic Outlook for Countries in Transition Despite Slower Growth in Western Europe”, European Commission Directorate General II Economic and Financial Affairs, Brussels, May 1996.

IMF (1996), *World Economic Outlook*, Washington DC, September 1996.

Institute for Economic and Market Research and Informatics (Kopint-Datorg), Budapest, July 1996.

JP Morgan (1996), *World Financial Markets, Fourth Quarter 1996*, New York, September 1996.

OECD (1996), EO 59 (*Economic Outlook*, no. 59), Paris, June 1996.

United Nations (1996), *Project Link World Outlook*, Department of Economic and Social Information and Policy Analysis (DESIPA), New York, May 1996.

United Nations (1996), *World Economic and Social Survey, 1996*, New York, June 1996.

PlanEcon (1996), *Review and Outlook – For the Former Soviet Republics*, Washington, DC, August 1996.

PlanEcon (1996), *Review and Outlook – For Eastern Europe*, Washington, DC, June 1996.

WIIW (1996), L. Podkaminer et al. “Transition Countries: Economic Developments in early 1995 and Outlook for 1996, Part 1, Slower Growth in Central and Eastern Europe, Delayed Stabilisation in Russia and Ukraine”, Vienna Institute for Comparative Economic Studies, Research Reports no. 228, Vienna, July 1996.