

Transition Questions

1. Do differences in transition outcomes reflect primarily reform strategies or initial conditions?
2. Is it necessary to begin with liberalization and stabilization?
3. How crucial is privatization to marketization?
4. Does transition require that a gulf emerge between winners and losers?
5. Is there only one path that the transition can take? Or are there alternatives to the Washington consensus?
6. How long will the transition last?

Sectoral Shares

Agriculture Industry Services

OECD (1991)

8 richest countries	5.5	29.8	64.7
8 middle countries	5.8	30.4	63.9
8 poorest countries	17.9	29.5	52.6

Centrally Planned

Economies (1998)

GDR	10	44.1	45.9
Czechoslovakia	11.6	46.8	41.6
Hungary	17.5	36.1	46.4
Poland	27.2	36.3	36.4

	<i>Socialist Countries^a</i>	<i>Capitalist Countries^b</i>
<i>Total Manufacturing</i>		
Average employment per firm	197	80
Percentage of those employed in firms with more than 500 workers	66	32
<i>Textile Industry</i>		
Average employment per firm	355	81
Percentage of those employed in firms with more than 500 workers	75	17
<i>Ferrous Metals</i>		
Average employment per firm	2,542	350
Percentage of those employed in firms with more than 500 workers	95	79
<i>Machinery</i>		
Average employment per firm	253	82
Percentage of those employed in firms with more than 500 workers	61	28
<i>Chemicals</i>		
Average employment per firm	325	104
Percentage of those employed in firms with more than 500 workers	79	35
<i>Food Processing</i>		
Average employment per firm	103	65
Percentage of those employed in firms with more than 500 workers	39	16

Source: Ehrlich (1985)

^aSample, including Czechoslovakia, GDR, Hungary, and Poland.

^bSample, including Austria, Belgium, France, Italy, Japan, and Sweden

Distribution of Employment by Size of Firm

	0-100	100-500	500 and more
<i>West Germany</i>	14.1	23.9	62
<i>France</i>	22.5	24.9	52.6
<i>Italy</i>	32.3	27.3	40.4
<i>GDR</i>	1	11.1	87.9
<i>Czechoslovakia</i>	0.1	3.4	96.5
<i>Hungary</i>	4.5	16.3	79.3
<i>Poland</i>	1.4	18.2	80.4

source: OECD data for West Germany, France and Italy are for 1987, and for the other countries are for 1989.

Declining Growth Rates

	<i>Bulgaria</i>	<i>Czechoslovakia</i>	<i>German Democratic Republic</i>	<i>Hungary</i>	<i>Poland</i>	<i>Romania</i>	<i>USSR</i>
1951-55	12.2	8.1	13.2	5.7	8.6	14.2	11.3
1956-60	9.6	7.0	7.4	6.0	6.6	6.6	9.2
1961-65	6.6	1.9	3.5	4.5	6.2	9.1	5.7
1966-70	8.7	6.9	5.0	6.7	5.9	7.7	7.1
1971-75	7.9	5.7	5.4	6.3	9.7	11.3	5.1
1976-80	6.1	3.7	4.1	2.8	1.2	7.2	3.7
1981-85	3.7	1.8	4.5	1.4	-0.8	4.4	3.2
1986-90	-0.5	1.0	-1.8	-0.5	-0.5	-3.5	1.3

Soviet Growth, 1928-1987

<i>period</i>	<i>Industry Official</i>	<i>Industry Western</i>	<i>Total Economy Western</i>
<i>Growth rate of output per worker</i>			
1928-1987	6.3	3.4	3.0
1928-1939	12.5	5.0	2.9
1940-1949	0.1	-1.5	1.9
1950-1959	8.9	6.2	5.8
1960-1969	5.7	2.8	3.0
1970-1979	5.2	3.4	2.1
1980-1987	3.4	1.5	1.4
<i>Growth rate of capital per worker</i>			
1928-1987	6.2	3.2	4.9
1928-1939	11.9	6.5	5.7
1940-1949	1.5	-0.1	1.5
1950-1959	8.0	3.9	7.4
1960-1969	6.1	3.4	5.4
1970-1979	6.3	4.1	5.0
1980-1987	5.6	4.0	4.0

source: Easterly and Fischer (1994)

Female Labor-Force Participation

Labor Force Participation Rates for Women, age 40-45.

	1950	1970	1985
<i>Socialist Countries</i>			
Bulgaria	78.6	88.5	93.3
Czechoslovakia	52.3	79.9	92.4
East Germany	61.9	79.1	86.1
Hungary	29.0	69.4	84.7
Poland	66.4	79.5	84.7
Romania	75.8	79.5	85.1
Soviet Union	66.8	93.2	96.8
<i>North European Countries</i>	30.9	53.8	71.1
<i>West European Countries</i>	34.5	46.4	55.6
<i>South European Countries</i>	22.4	29.7	37.1

source: Gros and Steinherr, p. 65.

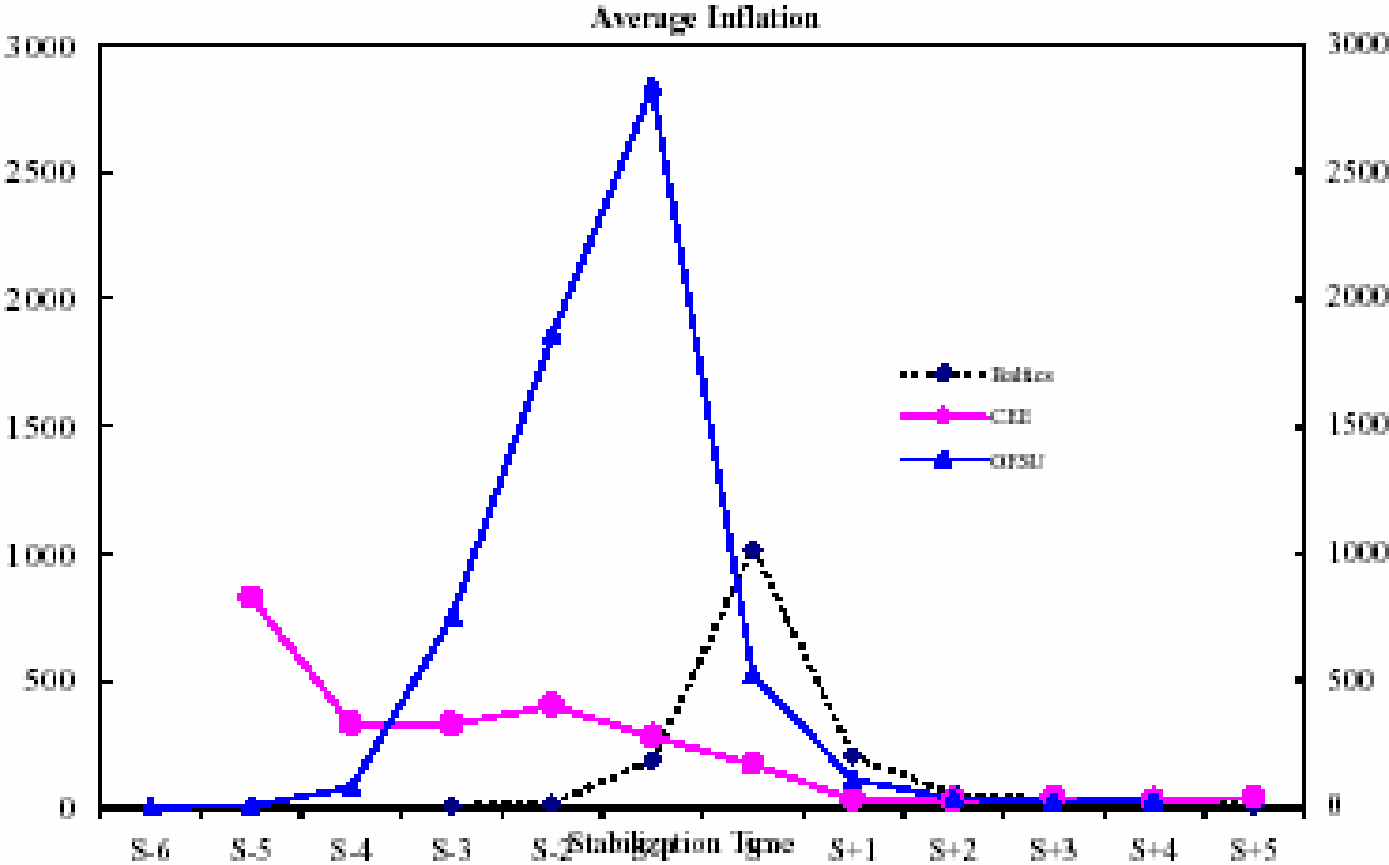
Indicators of Raw Materials and Energy Consumption

	USSR	USA	Germany	Japan
Crude Steel production (millions of metric tons)	250	19	11	34
ratio USSR to		14.7	25.5	8.2
Refined Copper Production (thousands of metric tons)	1,173	381	114	307
ratio USSR to		4.5	15	5.6
Primary aluminum production (thousands of metric tons)	4,116	809	300	11
ratio USSR to		5.1	20.6	374.2
Synthetic rubber production (thousands of metric tons)	4,262	477	132	418
ratio USSR to		8.9	32.3	10.2
Primary energy consumption (millions of bbls/day oil equivalent)	46	8	1	2
ratio USSR to		5.8	46	23

source: Handbook of Economic Statistics,
CIA (1989), IFS, IMF; and the Economist.

Average Inflation by Region

Stabilization time



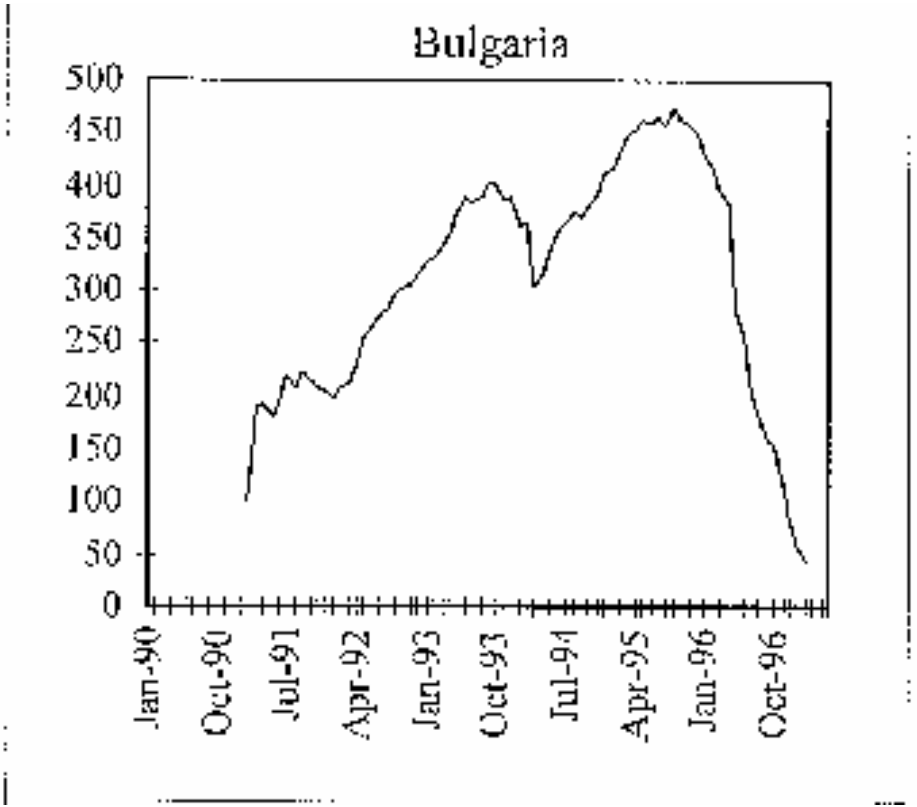
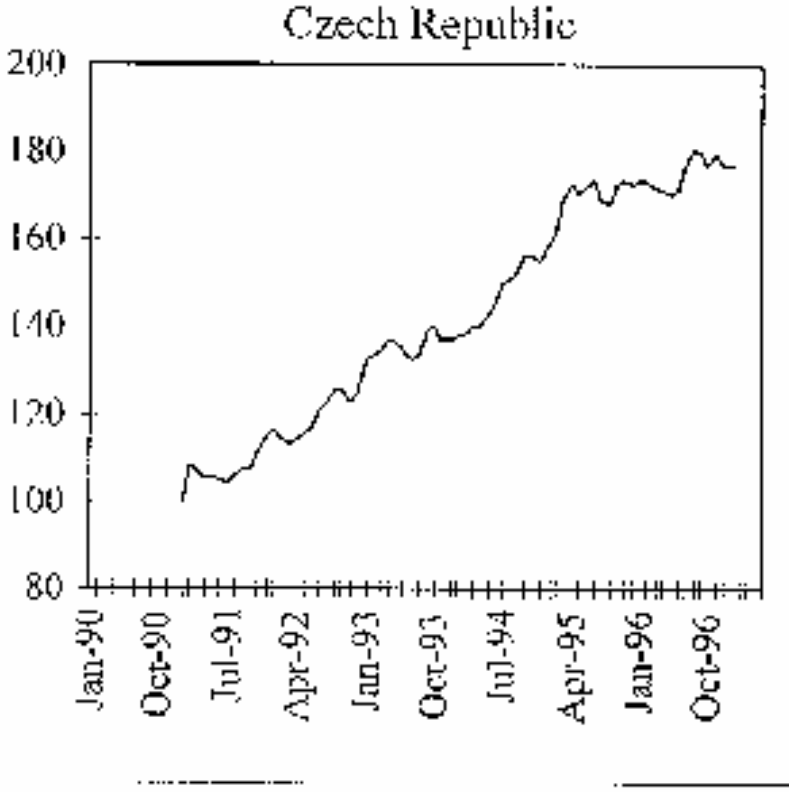
Earnings Distribution, Full-time Workers

(male and female)

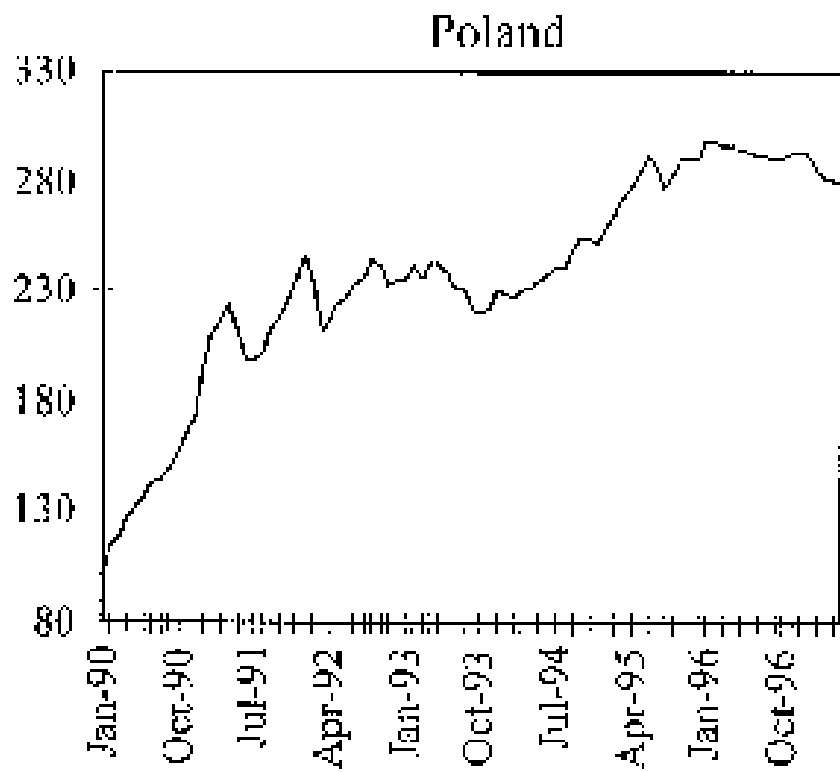
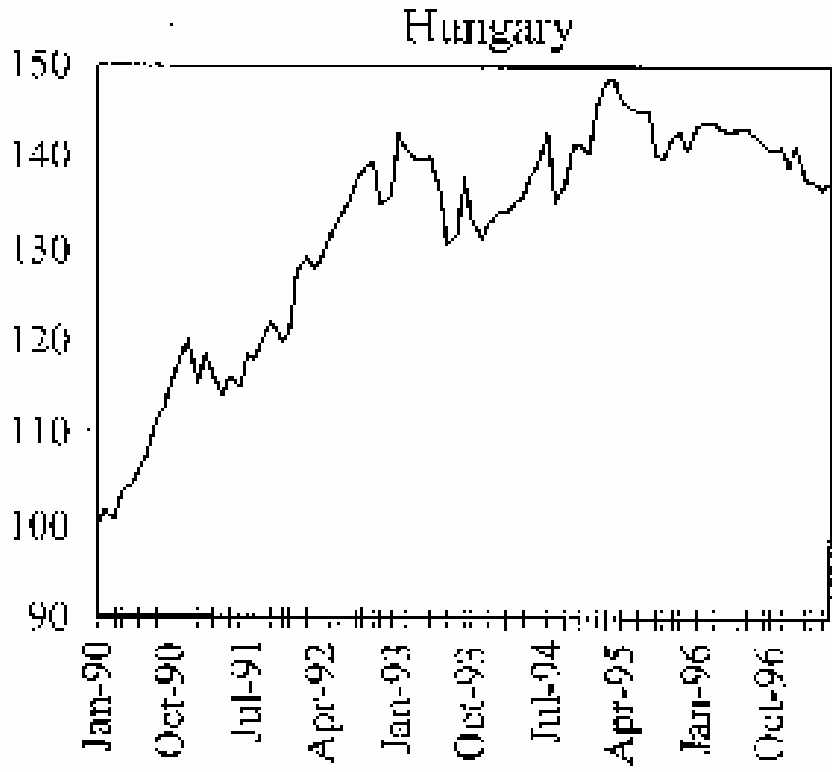
	Gini	P_{10}	P_{25}	P_{75}	P_{90}	P_{95}	$\frac{P_{90}}{P_{10}}$
Czechoslovakia (1987)	19.7	63.2	78.3	125.8	154.6	173.4	2.45
Hungary (1986)	22.1	62.0	77.9	128.7	163.9	192.5	2.64
Poland (1986)	24.2	60.9	77.6	129.3	169.1	206.5	2.77
USSR (1986)	27.6	55.7	72.1	136.4	182.8		3.28
Great Britain (1986)	26.7	55.7	72.9	135.3	179.7	217.3	3.23

P_{10} measures the proportion of income in the lowest 10% of the population relative to the median level.

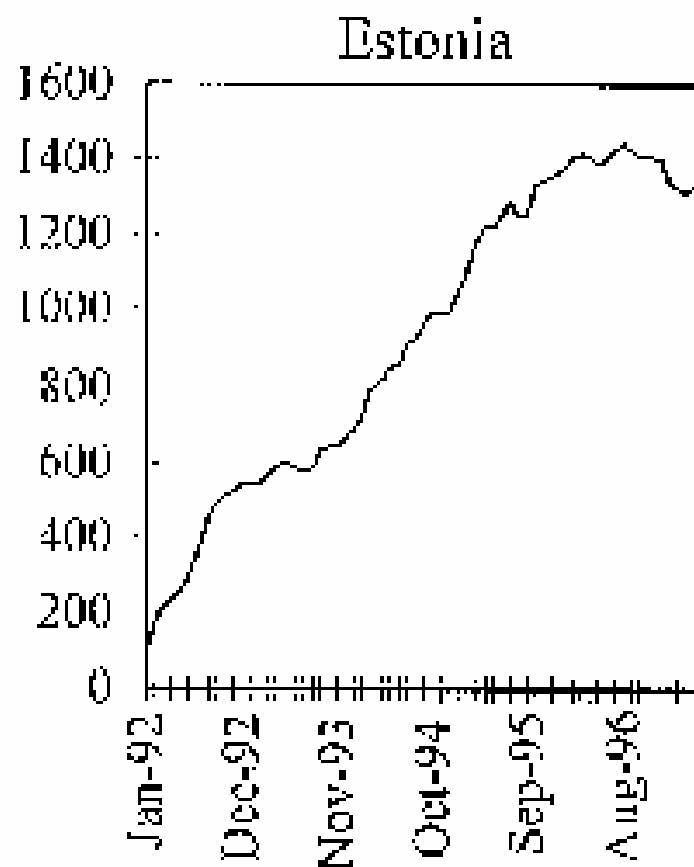
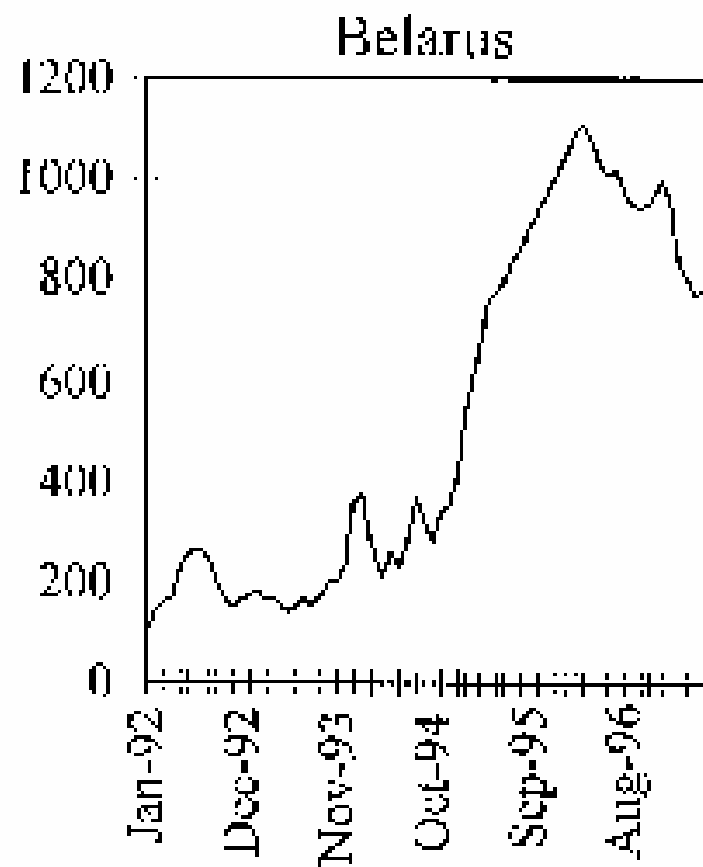
Real Exchange Rate versus US Dollar



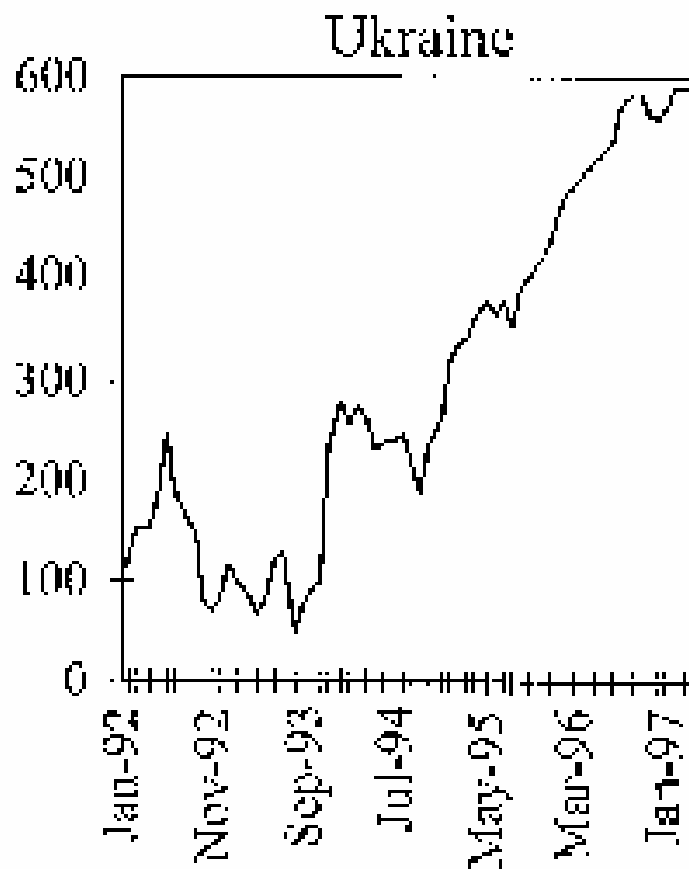
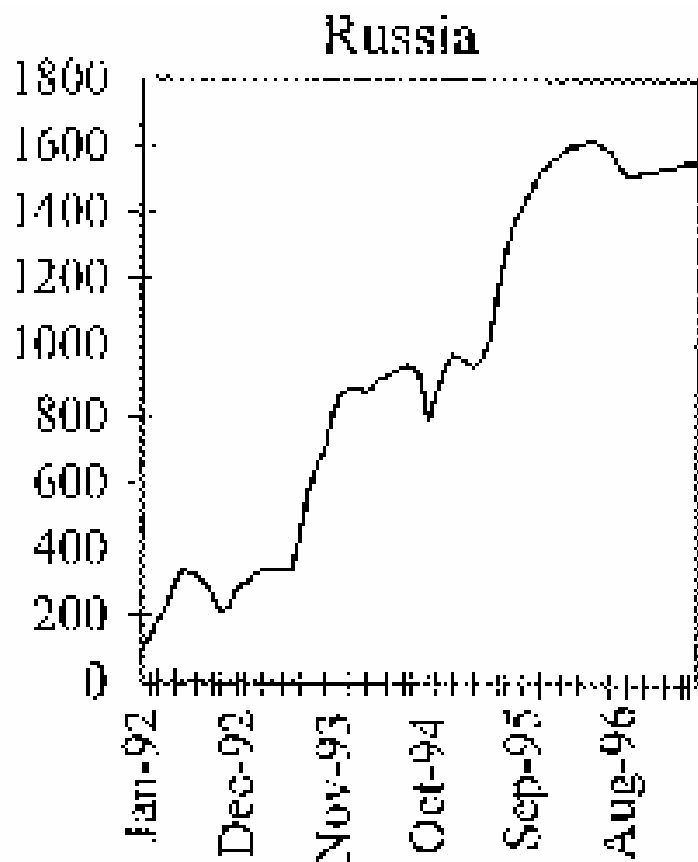
Real Exchange Rate versus US Dollar



Real Exchange Rate versus US Dollar

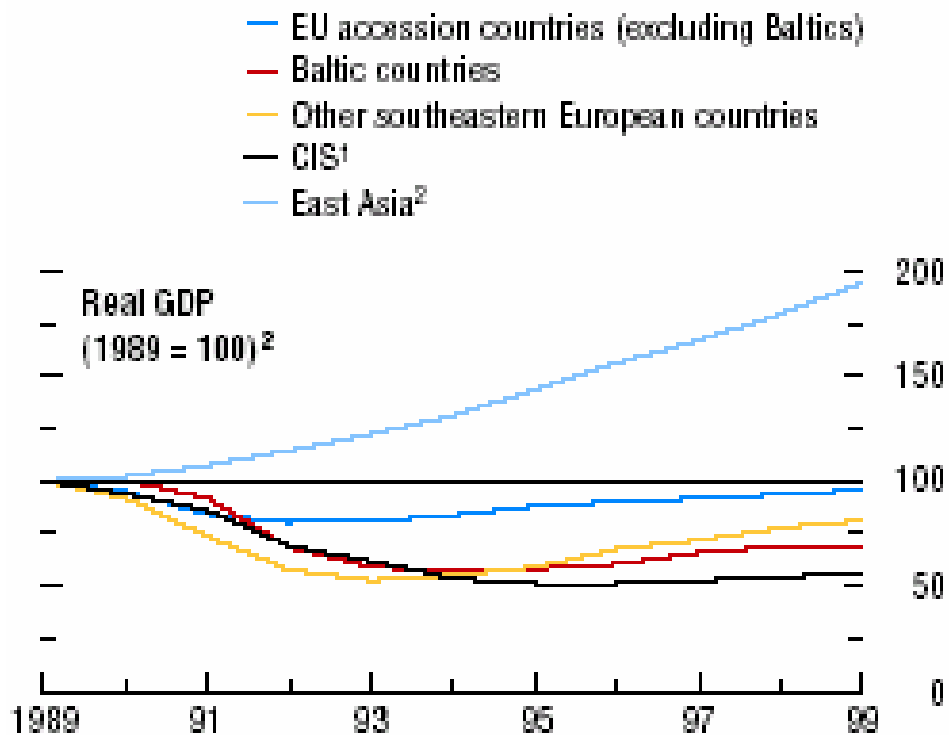


Real Exchange Rate versus US Dollar

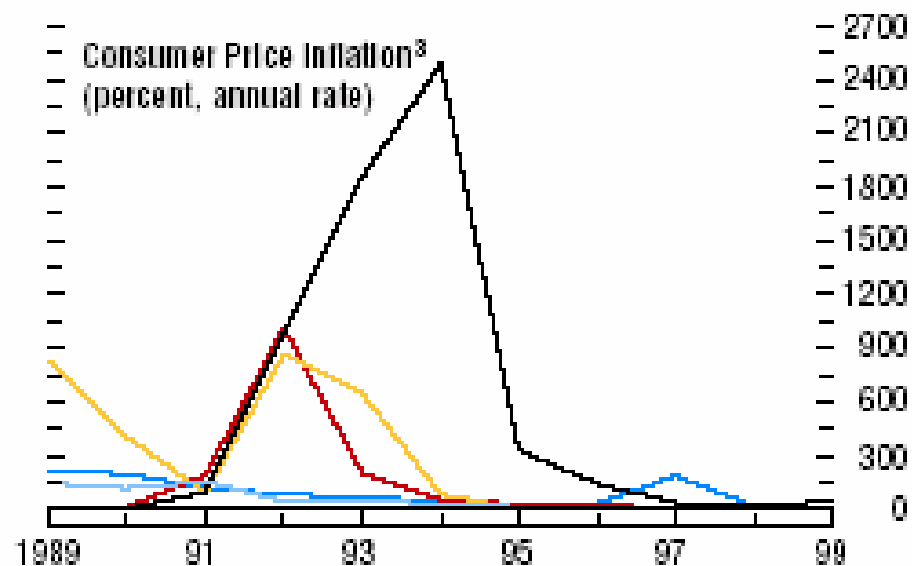


Real GDP

The evolution of output and inflation during the transition has differed considerably among countries.



Inflation



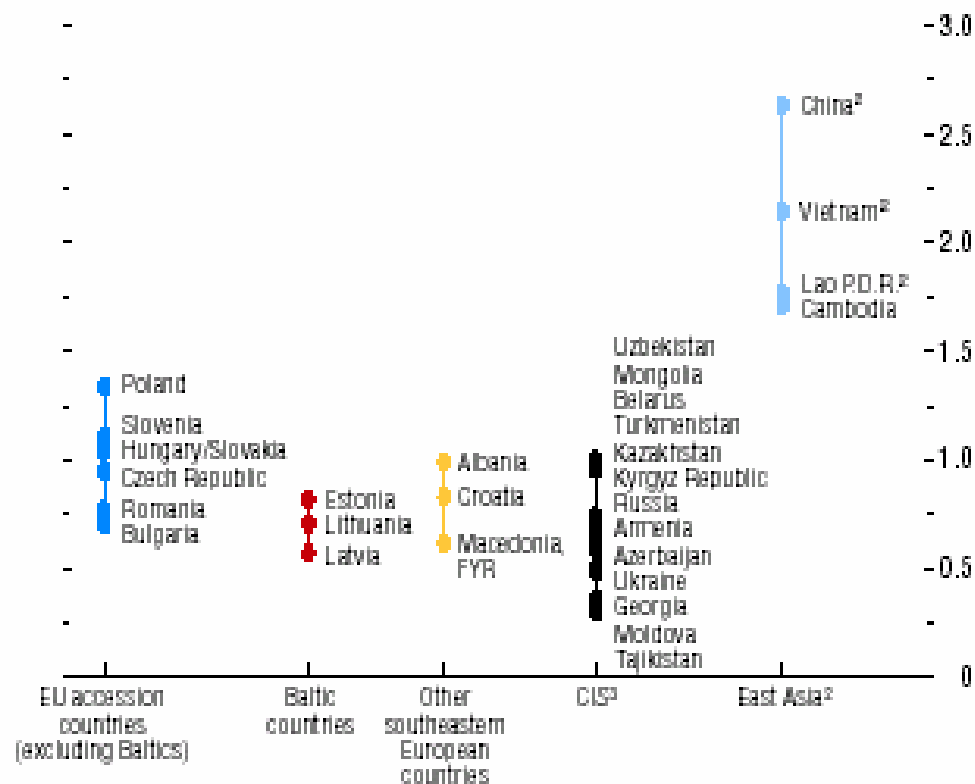
¹Data include Mongolia.

²Chart is adjusted for three east Asian countries whose transitions began prior to 1989. The first 11 years of transition for the following countries are as follows: China (1978–89), Lao P.D.R. (1986–97), and Vietnam (1986–97).

³The increase in the EU accession group's inflation, in 1997, is largely accounted for by the hyperinflation experienced in Bulgaria that year.

Figure 3.4. Real GDP Ratio, 2000 to 1989¹

Only in the east Asian transition economies does the current level of output greatly exceed the level recorded at the start of transition.



¹Output projections for 2000 are IMF staff estimates.

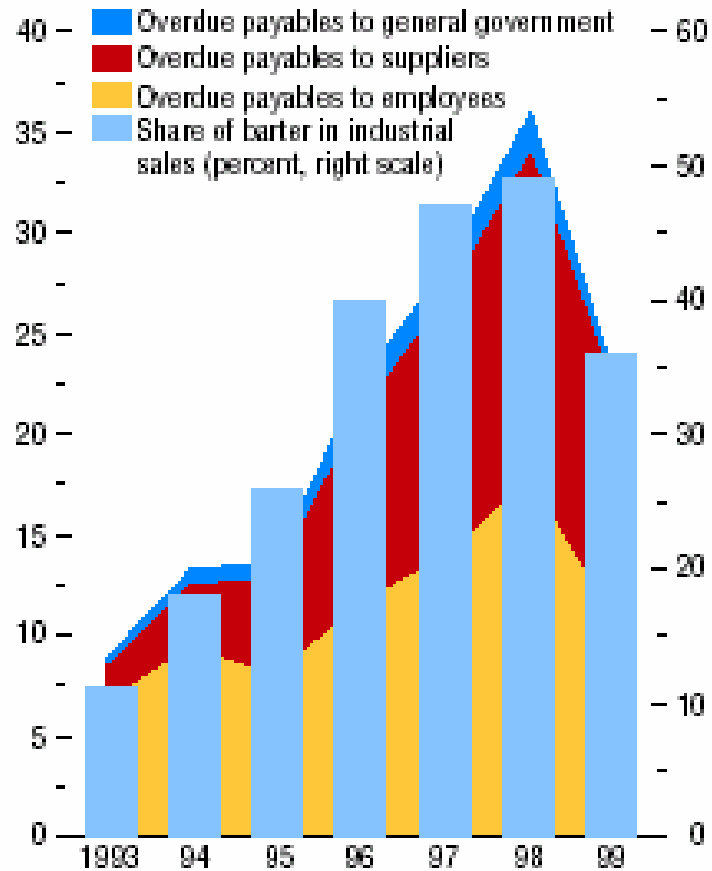
²Chart is adjusted for three east Asian countries whose transitions began prior to 1989.

The first 11 years of transition for the following countries are as follows: China (1978–89), Lao P.D.R. (1986–97), and Vietnam (1986–97).

³Data include Mongolia.

Evolution of Arrears and Barter in Russia

(Percent of GDP unless otherwise noted)

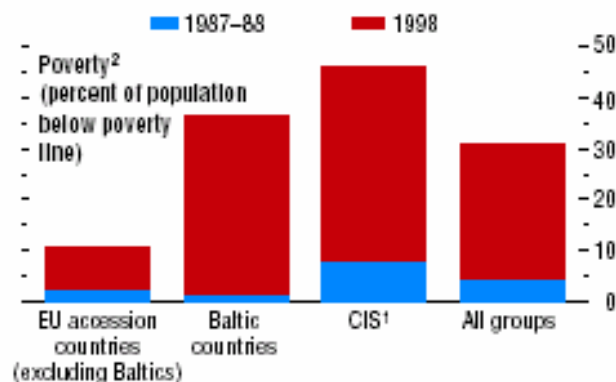
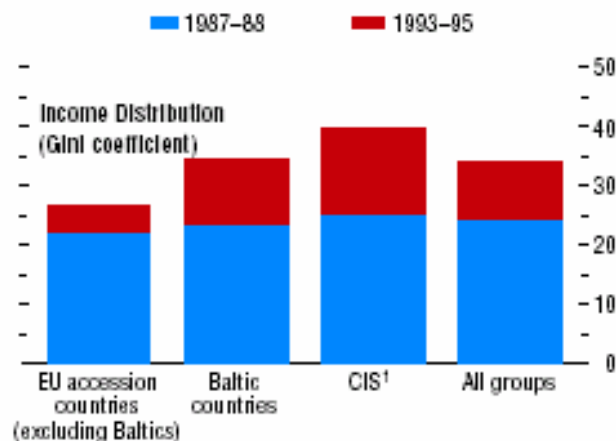


Source: Data communicated by Russian European Center for Economic Policy, Moscow.

Figure 3.6. Change in Poverty and Income Distribution

(Simple country averages for each group)

Except for the east Asian transition economies, the incidence of poverty rose in all countries during transition, and income distribution became more uneven.



Source: Branka Milanovic, *Income, Inequality and Poverty during the Transition from Planned to Market Economy*, The World Bank Regional and Sectoral Series (Washington: World Bank, 1998).

¹Data exclude Armenia, Azerbaijan, Georgia, and Tajikistan.

²Poverty is defined as having an income of less than four U.S. dollars per day in purchasing-power-parity terms.

Table 3.5. Proxy Measures of Human Capital

(Average across years)

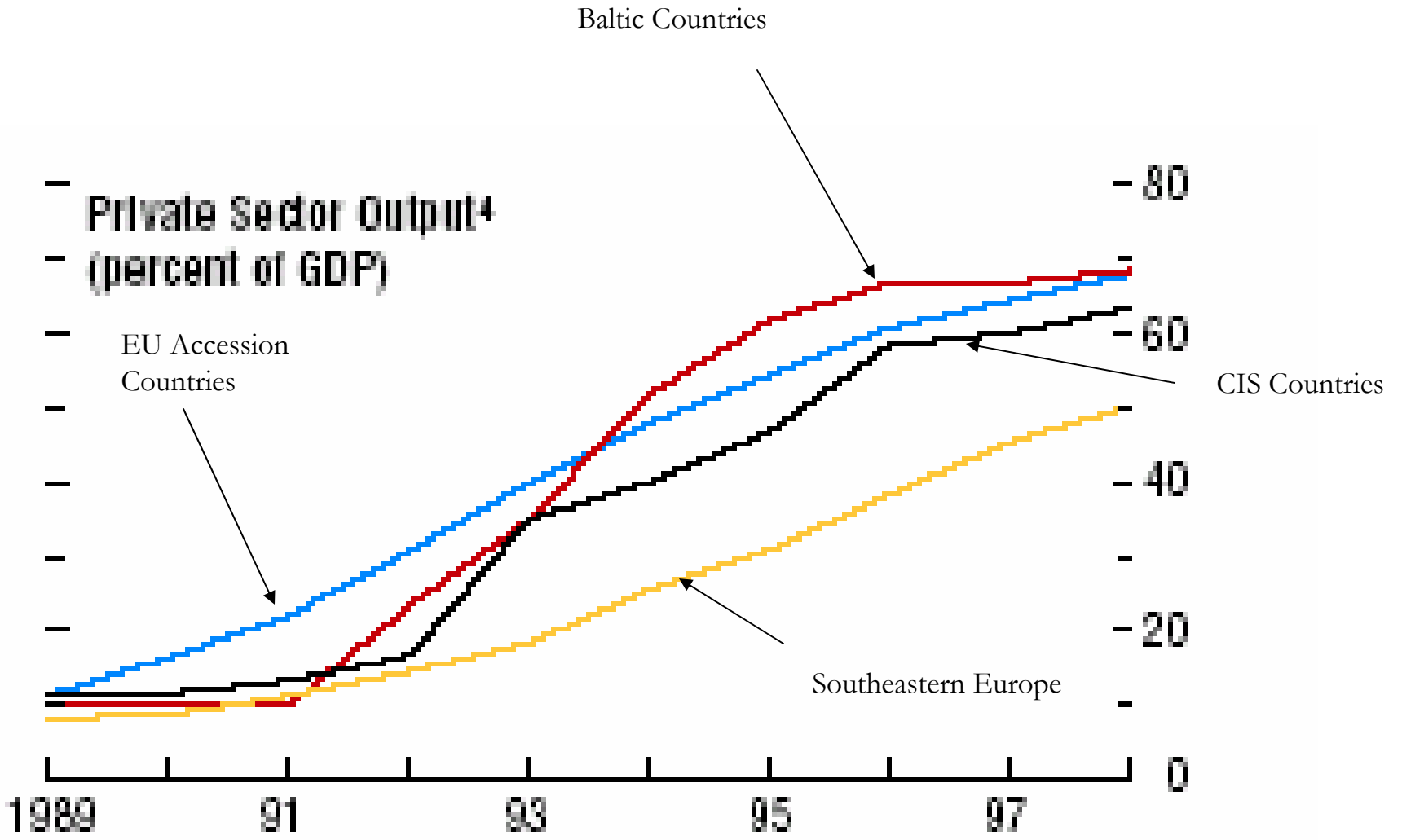
Country Group ¹	Primary School Enrollment (gross) 1995–99	Life Expectancy at Birth (years) 1998–99	Infant Mortality Rate per 1,000 Live Births 1998–99	Adult Illiteracy (percent of people aged 15 and over) 1998–99	Memorandum Purchasing Power Parity GDP per Capita 1998–99
EU accession countries (excluding Baltics)	99.9	72.2	10.4	1.1	9,897
Baltic countries	94.0	70.3	11.1	0.4	6,737
Other southeastern European countries	92.9	72.4	16.5	9.3	4,514
Commonwealth of Independent States ²	93.8	68.4	21.8	7.0	3,278
East Asia	115.6	61.5	65.5	35.2	1,987
<i>Other Economies</i>					
Advanced economies	101.9	77.5	5.2	4.8	23,278
Developing countries ³	93.7	60.5	61.3	30.2	4,435
Low income	78.0	52.3	89.1	45.0	1,401
Lower middle income	101.2	66.9	42.2	19.9	4,305
Upper middle income	102.8	69.4	26.6	13.3	9,287

Sources: World Bank; IMF staff estimates.

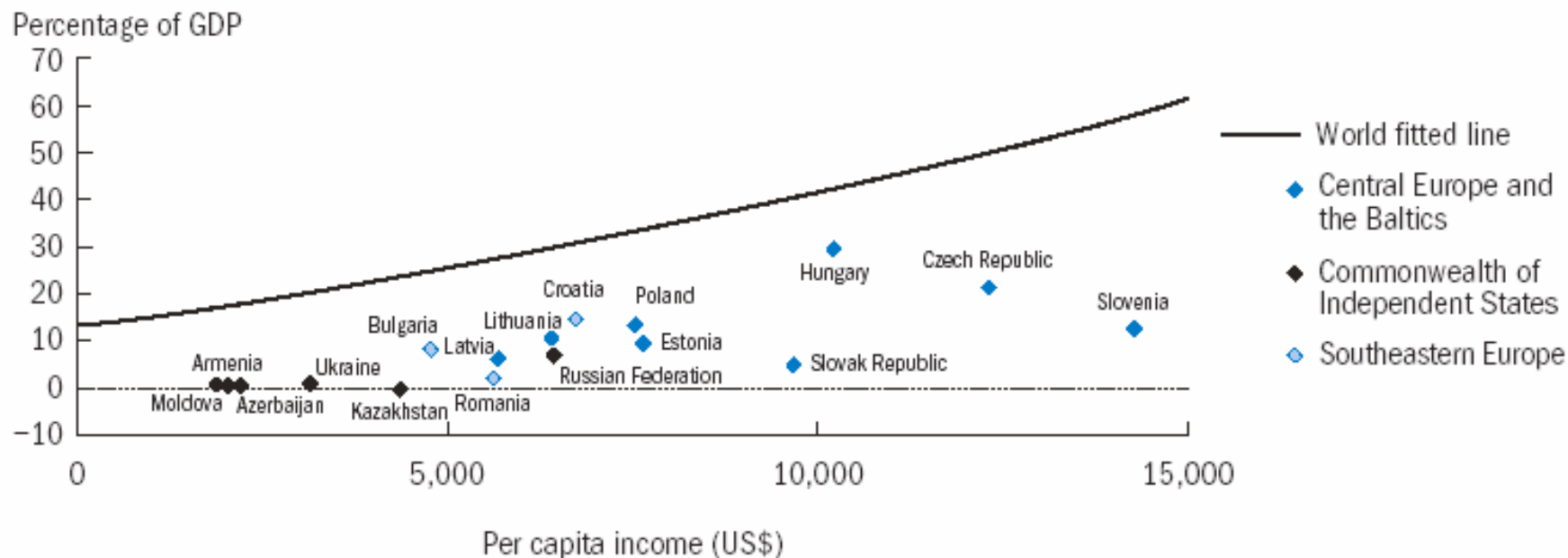
¹Data for country groups are simple averages of group member data.

²Data include Mongolia.

³Data exclude Cambodia, China, Lao P.D.R., Mongolia, and Vietnam.



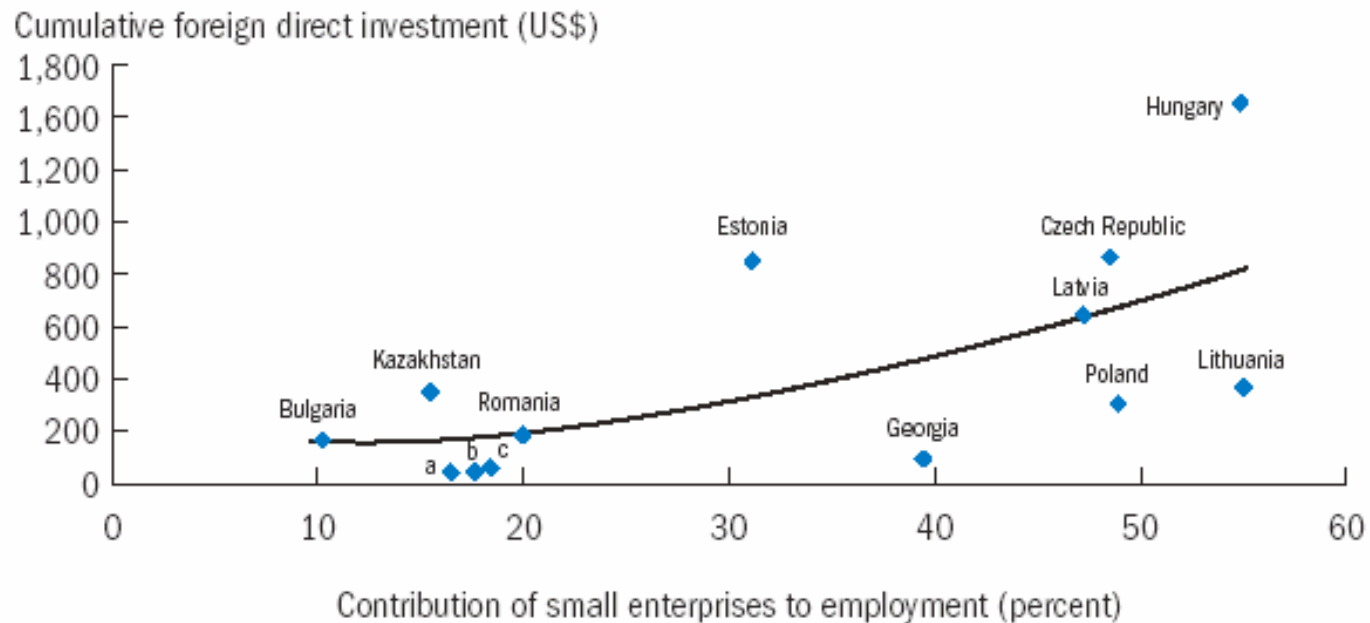
Stock Market Capitalization and Per Capita Income, 1998



Note: The world fitted line represents the average of all countries in the world in that per capita income range.

Source: Eichengreen and Ruehl (2000).

Cumulative Foreign Direct Investment Per Capita and Employment in Small Enterprises, 1998

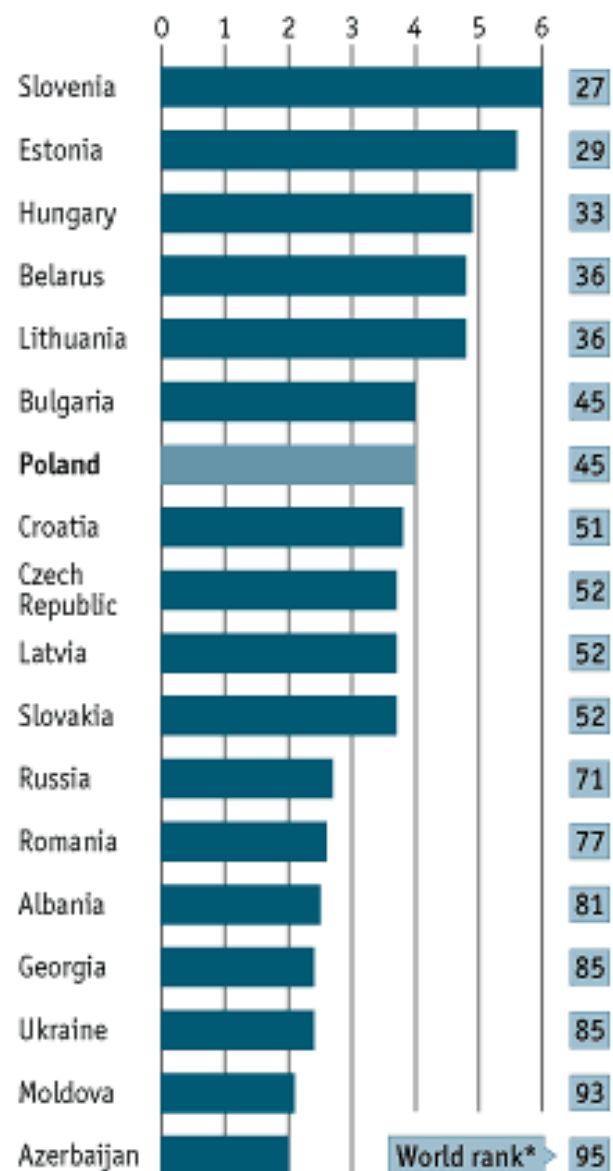


- a. Ukraine.
- b. Belarus.
- c. Russian Federation.

Source: EBRD (2000); World Bank database on SMEs.

Table of the tarnished

Perceived corruption, 2002, 10-least corrupt



*Out of 102 countries assessed

Source: Transparency International

Table 8: Governance Indicators

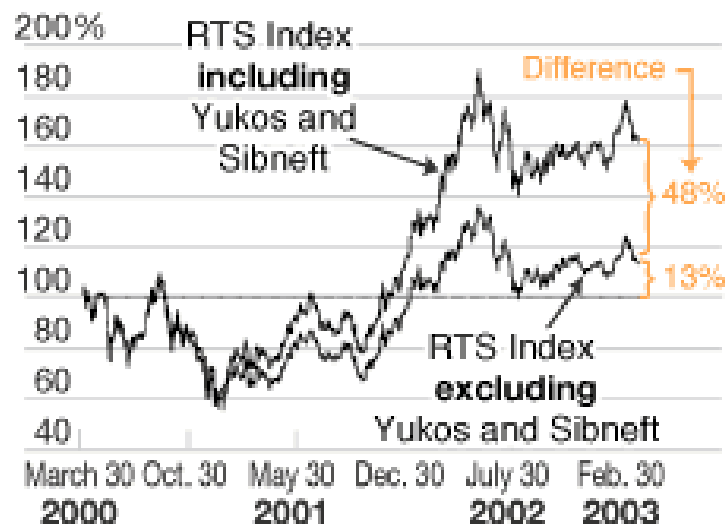
	Voice, Accountability		Political Stability		Government Effectiveness		Regulatory Quality		Rule of Law		Control of Corruption	
	2000-01	1997-98	2000-01	1997-98	2000-01	1997-98	2000-01	1997-98	2000-01	1997-98	2000-01	1997-98
<i>RUS</i>	-0.35	-0.19	-0.41	-0.69	-0.57	-0.59	-1.40	-0.30	-0.87	-0.72	-1.01	-0.62
<i>IND</i>	-0.40	-1.13	-1.56	-1.29	-0.50	-0.53	-0.43	0.12	-0.87	-0.92	-1.01	-0.80
BU	0.59	0.47	0.37	0.43	-0.26	-0.81	0.16	0.52	0.02	-0.15	-0.16	-0.56
CZ	1.04	1.20	0.74	0.81	0.58	0.59	0.54	0.57	0.64	0.54	0.31	0.38
EE	0.94	0.86	0.73	0.79	0.86	0.26	1.09	0.74	0.78	0.51	0.73	0.59
HUN	1.19	1.22	0.75	1.25	0.60	0.61	0.88	0.85	0.76	0.71	0.65	0.61
LAT	0.81	0.75	0.50	0.46	0.22	0.07	0.30	0.51	0.36	0.15	-0.03	-0.26
LIT	1.00	0.88	0.29	0.35	0.26	0.13	0.30	0.09	0.29	0.18	0.20	0.03
POL	1.21	1.12	0.69	0.84	0.27	0.67	0.41	0.56	0.55	0.54	0.43	0.49
ROM	0.50	0.29	-0.08	0.02	-0.54	-0.57	-0.28	0.20	-0.02	-0.09	-0.51	-0.46
SVK	0.99	0.52	0.62	0.65	0.23	-0.03	0.27	0.17	0.36	0.13	0.23	0.03
SVN	1.07	1.03	0.87	1.09	0.70	0.57	0.52	0.53	0.89	0.83	1.09	1.02

Source: Kaufmann et al. (2002)

Yukos, Sibneft, and RTS

CRUDE CALCULATIONS

Performance of RTS index including Yukos and Sibneft vs. performance of RTS index excluding Yukos and Sibneft



Note: Initial values (as of March 30, 2000) are rebased to 100%.

Sources: RTS, Troika Dialog; Hermitage Capital Management

Roofs, and the Rule of Law

Country	Romania (4 cities)	Poland (Warsaw)	Russia (Moscow)
Used courts in last two years	0.20	0.14	0.19
Needed to use courts but did not	0.15	0.10	0.45
Can use courts against government	0.51	0.41	0.50
Can use courts against business partner	0.67	0.45	0.65
Contacted by racket in the last 6 months	0.00	0.08	0.39
Does one need a 'roof' ('umbrella') to operate?	0.01	0.06	0.76

Table 1: Measuring Administrative Corruption¹⁰

Country	Administrative Corruption¹¹	Standard error
Albania	4.0	(0.4)
Bulgaria	2.1	(0.4)
Croatia	1.1	(0.2)
Czech Republic	2.5	(0.4)
Estonia	1.6	(0.2)
Hungary	1.7	(0.3)
Latvia	1.4	(0.3)
Lithuania	2.8	(0.5)
Poland	1.6	(0.2)
Romania	3.2	(0.4)
Slovak Republic	2.5	(0.4)
Slovenia	1.4	(0.3)
Average CEE	2.2	
Armenia	4.6	(0.7)
Azerbaijan	5.7	(0.7)
Belarus	1.3	(0.4)
Georgia	4.3	(0.6)
Kazakhstan	3.1	(0.5)
Kyrgyzstan	5.3	(0.6)
Moldova	4.0	(0.6)
Russia	2.8	(0.2)
Ukraine	4.4	(0.4)
Uzbekistan	4.4	(0.6)
Average CIS	3.7	
Overall (unweighted average)	3.0	

¹⁰ Firms were asked, on average, what percent of revenues do firms like yours typically pay per annum in unofficial payments to public officials?

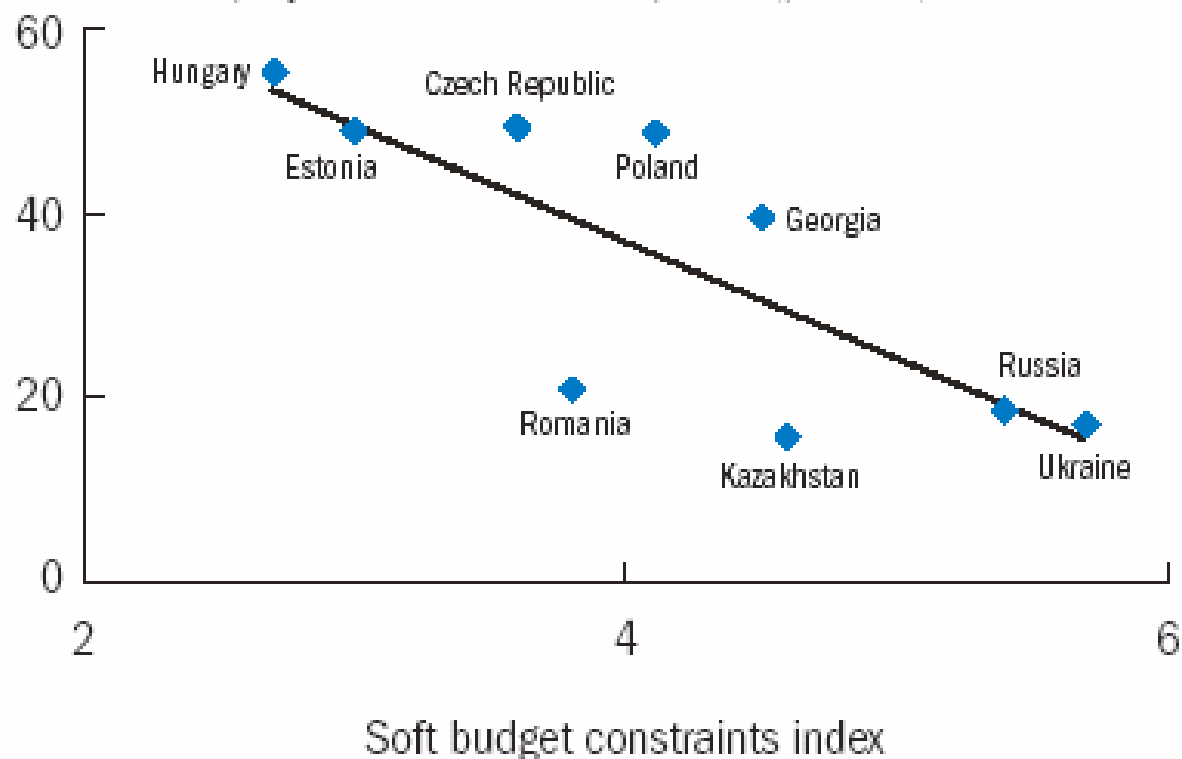
0%; less than 1%; 1 - 1.99%; 2 - 9.99%; 10 - 12%; 13 - 25%; Over 25%.

The categories were imputed at 0%; 1%; 2%; 6%; 11%; 19%; 25% and the mean calculated.

FIGURE 4.7.

Soft Budget Constraints and Employment in Small Enterprises, 2000

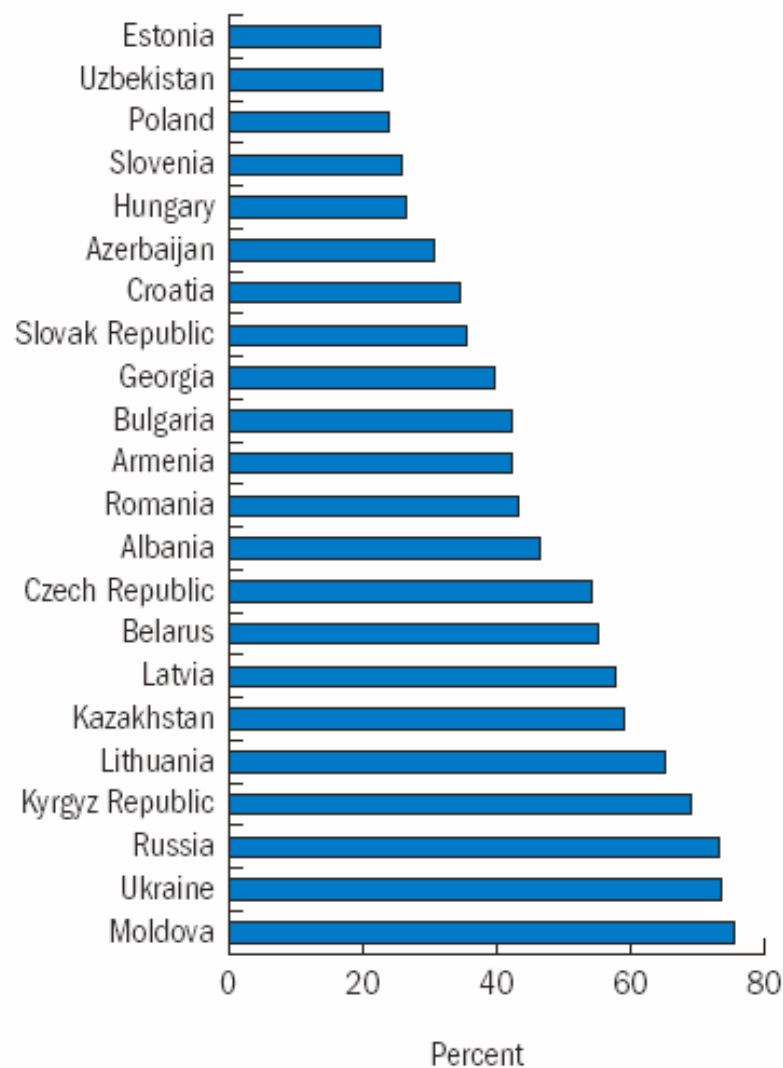
Share of employment in small enterprises (percent)



Source: EBRD (2000); World Bank database on SMEs.

FIGURE 6.1.

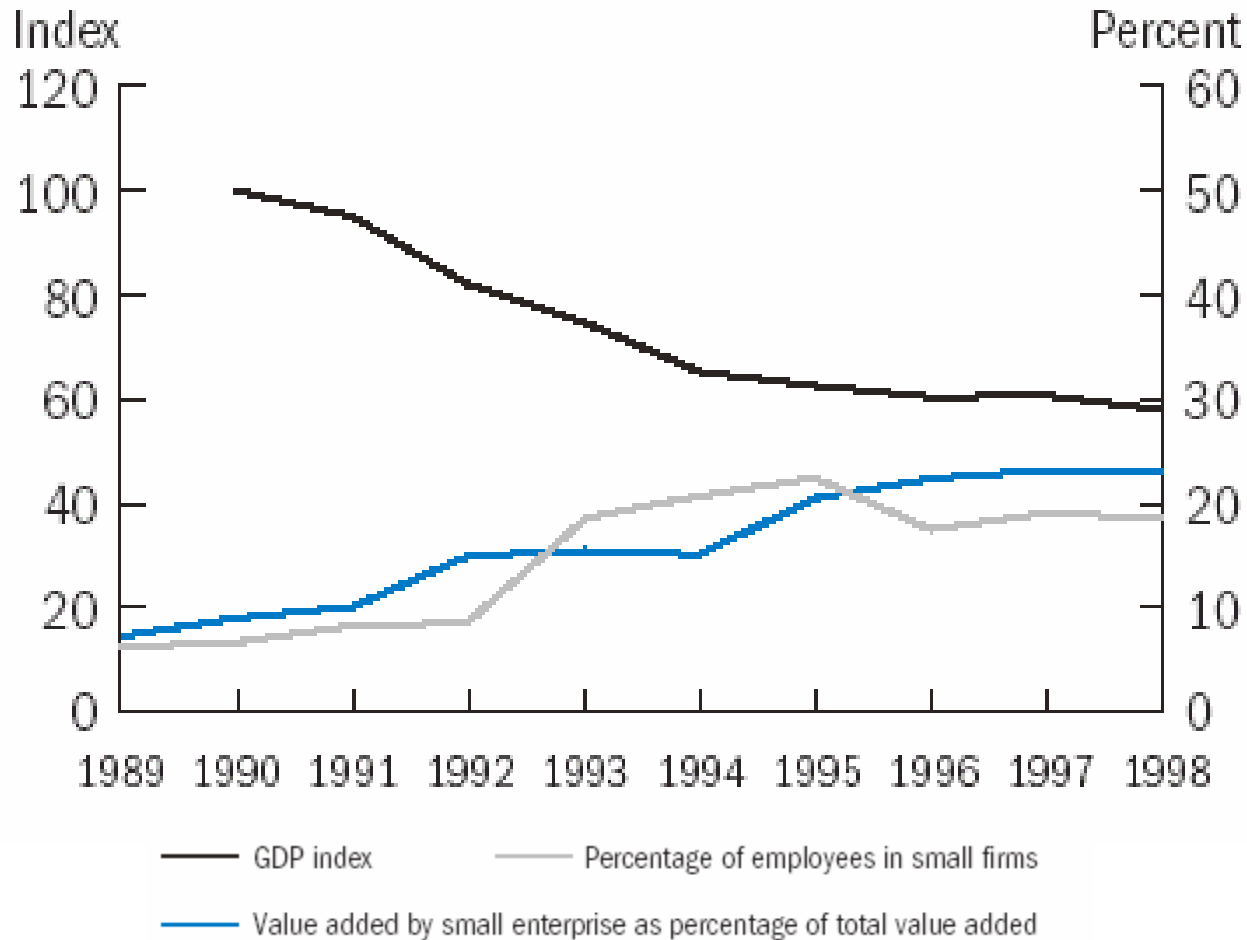
Insecurity of Property Rights in Transition Economies, 1999



Source: EBRD (2000).

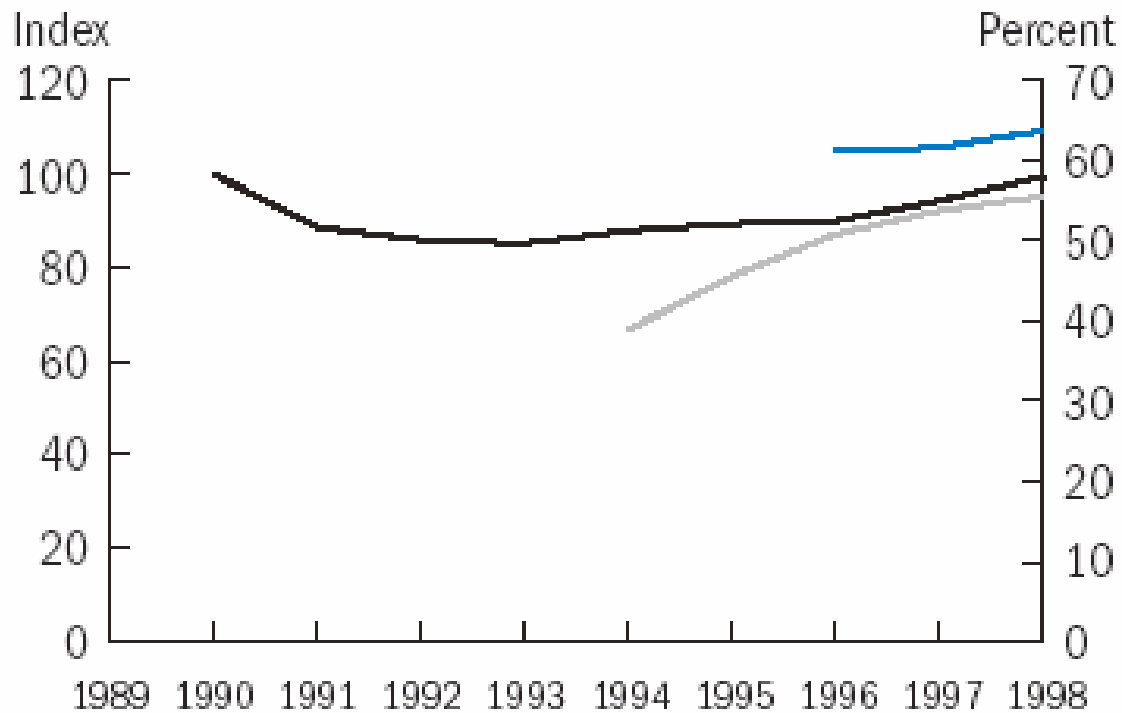
Output and Value Added in Small Enterprises

Russia



Output and Value Added in Small Enterprises

Hungary

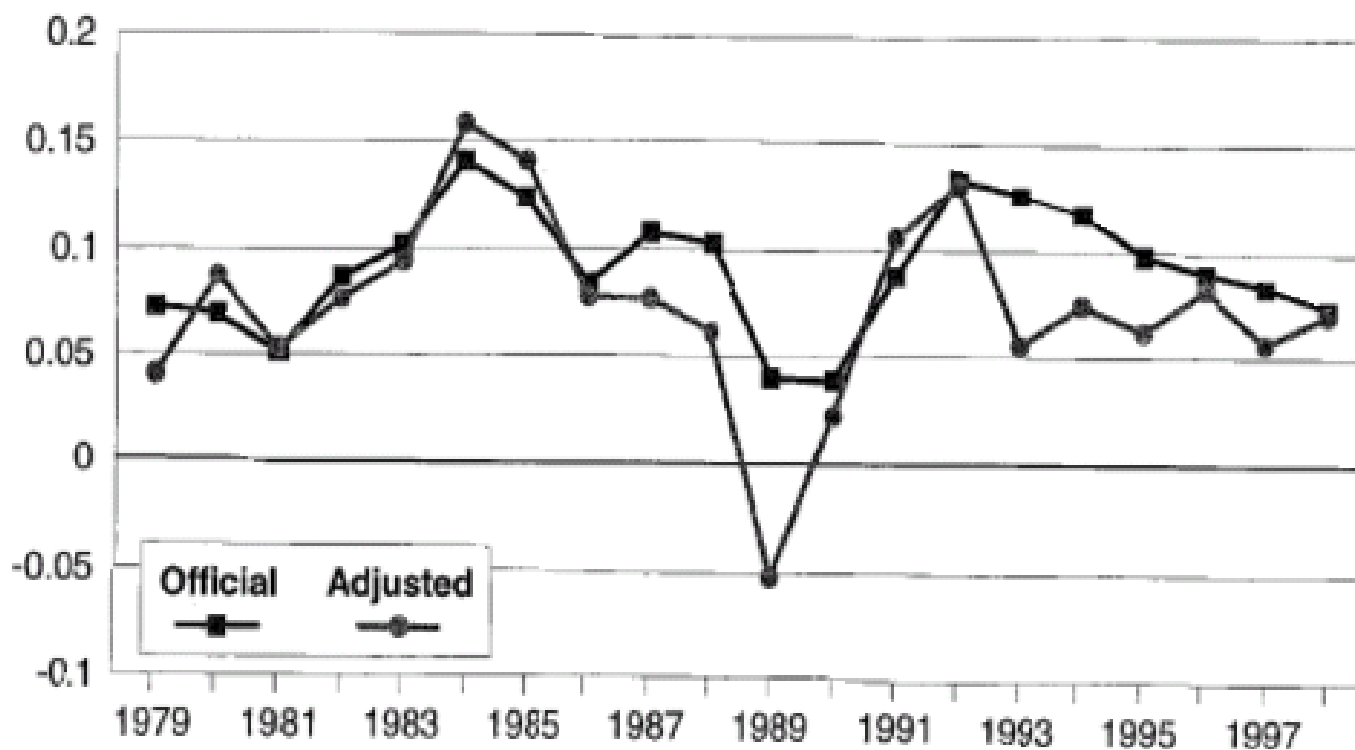


— GDP index

— Percentage of employees in small firms

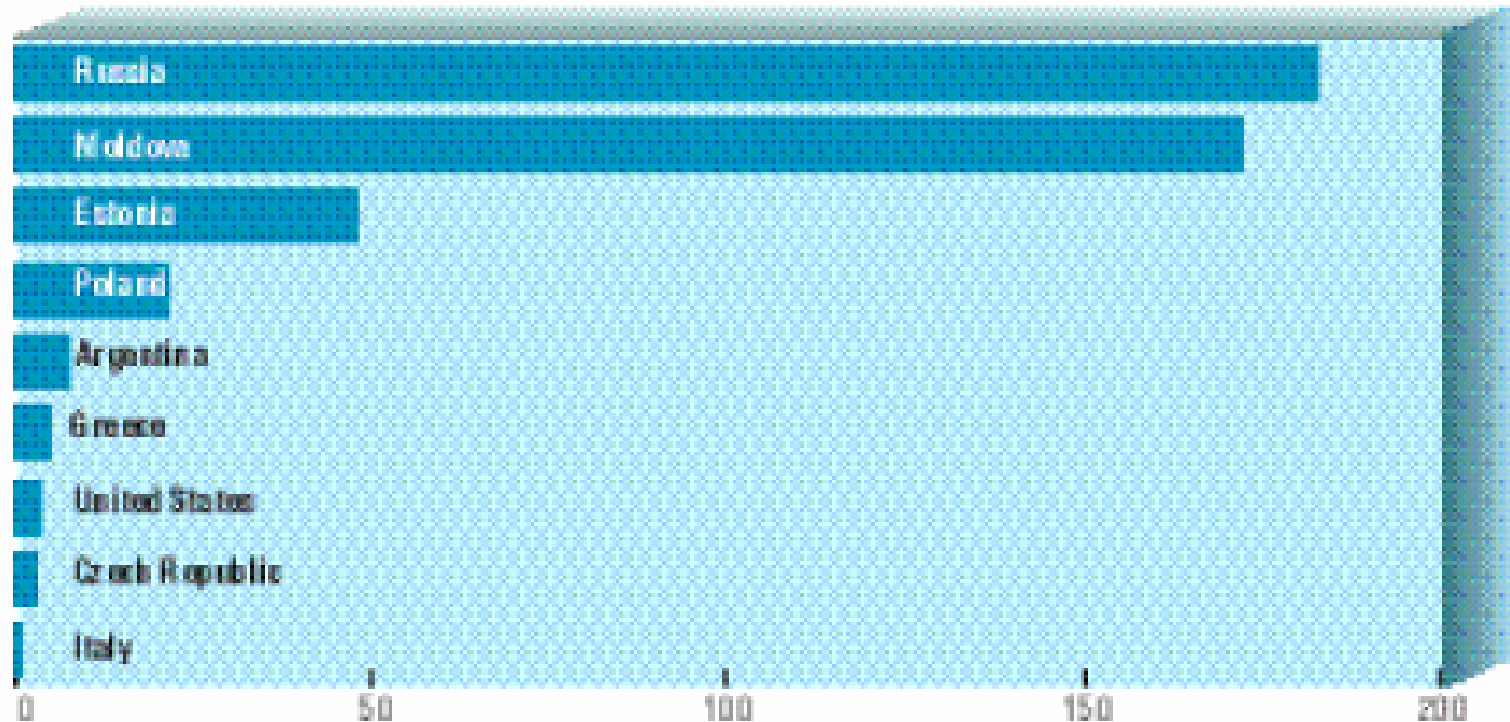
— Value added by small enterprise as percentage of total value added

Figure I: GDP Growth during the Reform Period



Relative Price Variability

Chart 1
Relative price variability is high in some transition economies ¹
(average in the first three quarters of 1995)



Source: Shamini Cooray, Mauro Mecagni, and Erik Olovsson, 1996.

¹ Measured by variance calculated as the weighted sum of squared deviations of individual economy's inflation rates from the weighted overall inflation rate, in logarithms.

Sources of Money Growth

Sources of money growth, 1992–95 ¹

(average growth rates per quarter)

	Czech Republic	Poland	Estonia	Moldova	Russia
Broad money	4.6	7.8	8.6	26.1	36.0
Base money	4.6	6.0	10.6	27.3	39.8
Net domestic assets ^{2, 3}	-17.8	1.4	-1.1	28.1	36.4
Net international reserves ³	22.4	4.6	11.7	-0.8	3.4

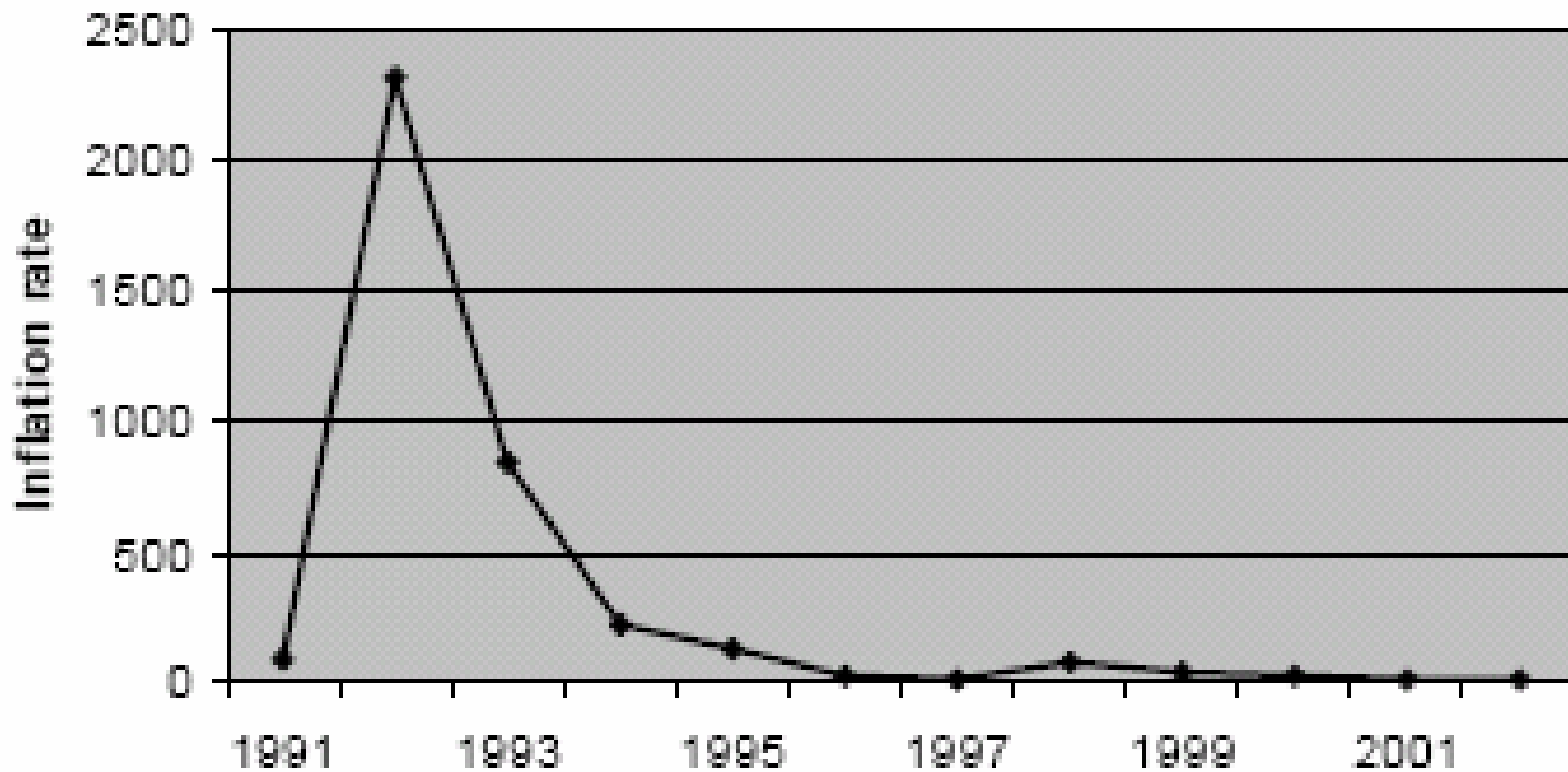
Source: Cooney, Mecagni, and Offordal, 1996.

¹ From the last quarter of 1992 through the third quarter of 1995, on an end-of-period basis, except for Poland, for which data are through the second quarter of 1995.

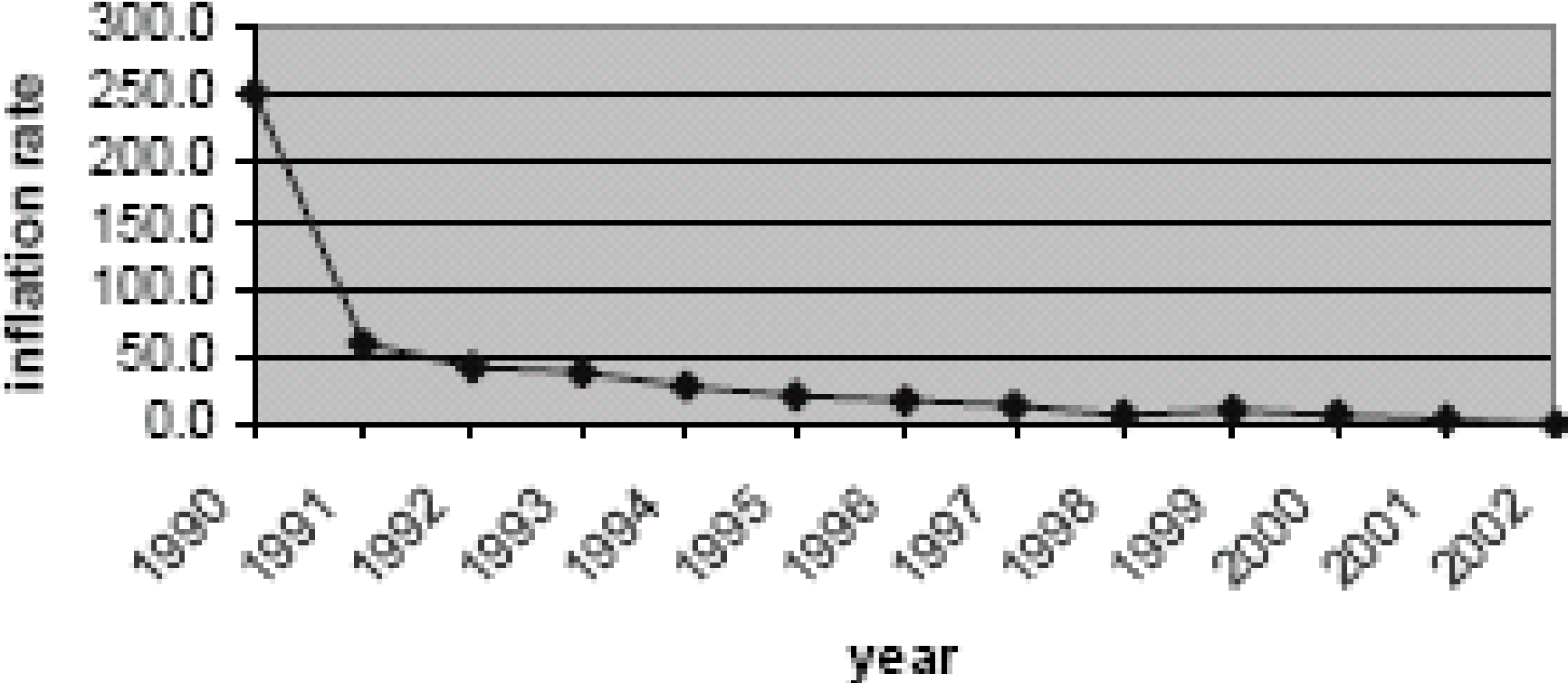
² Derived residually.

³ Contributions to the growth in base money.

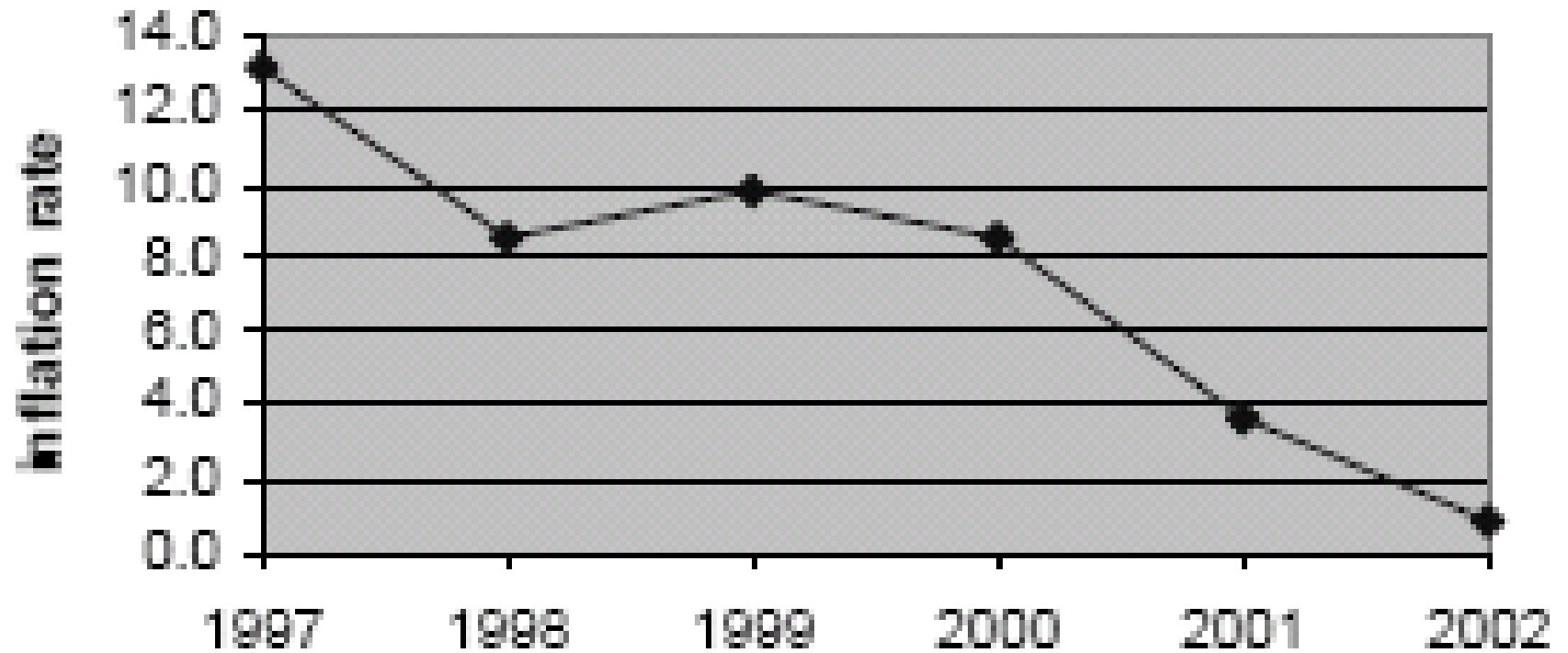
Russian Inflation, 1991-2002



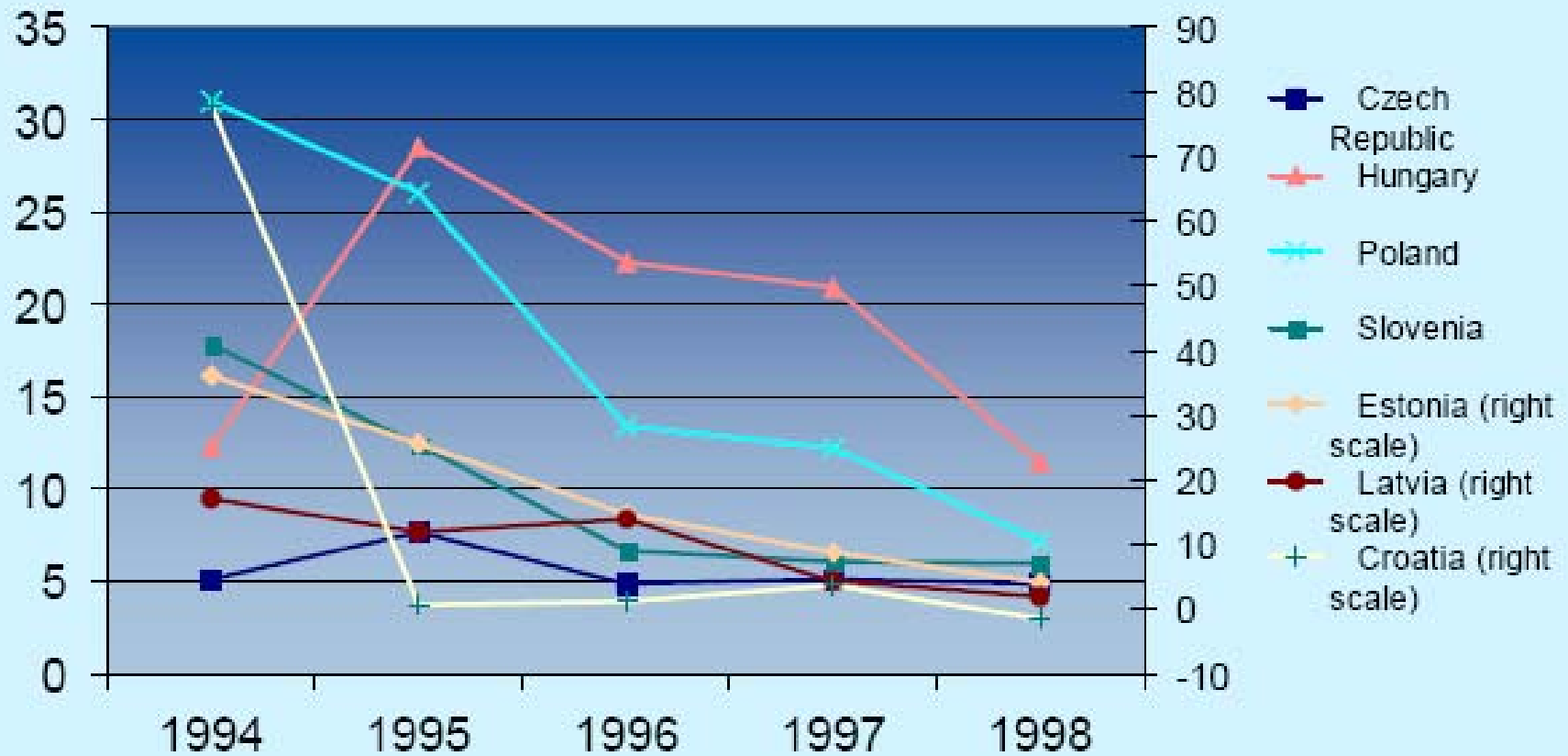
Polish Inflation, 1990-2002



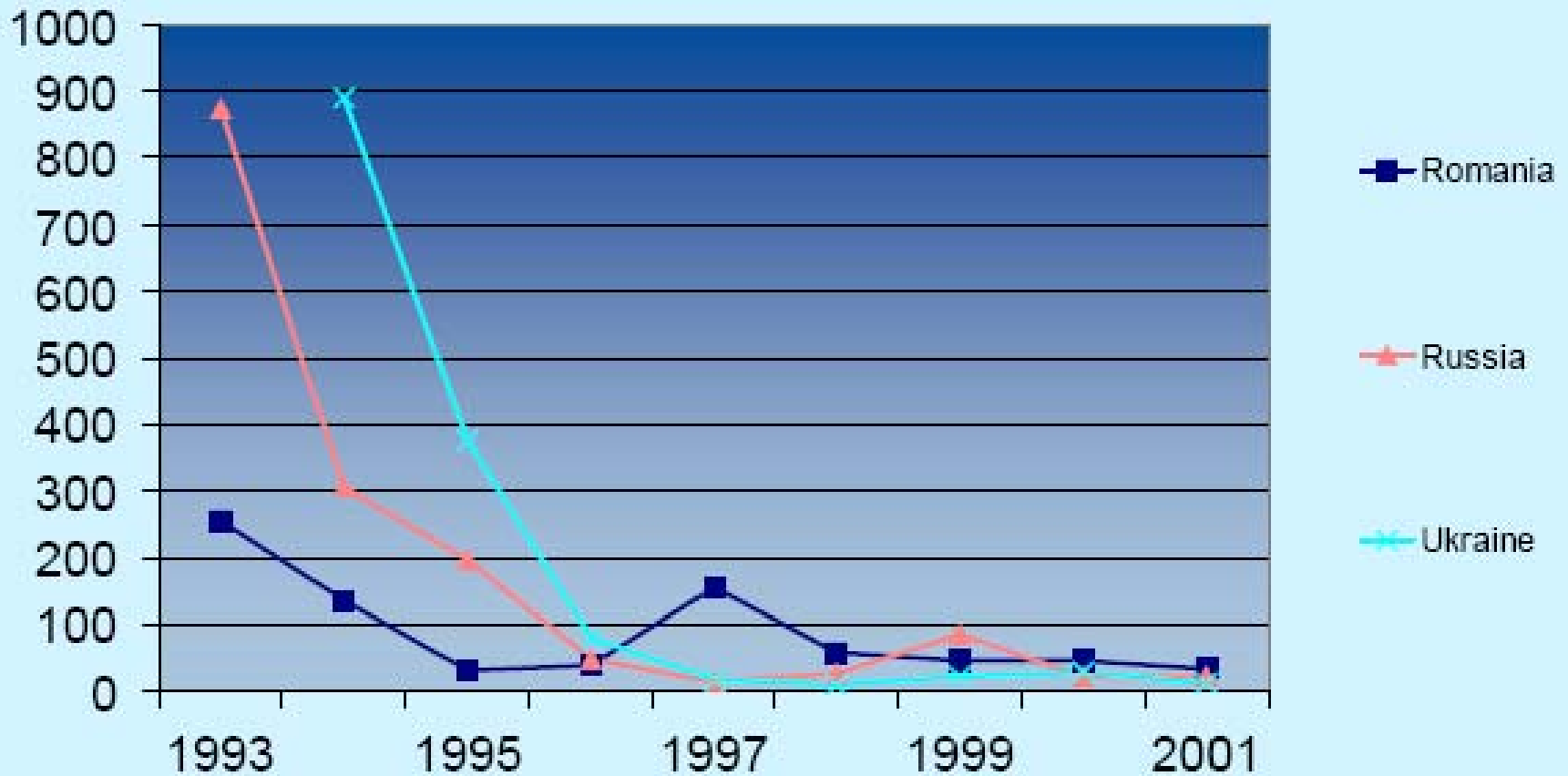
Polish Inflation, 1997-2002



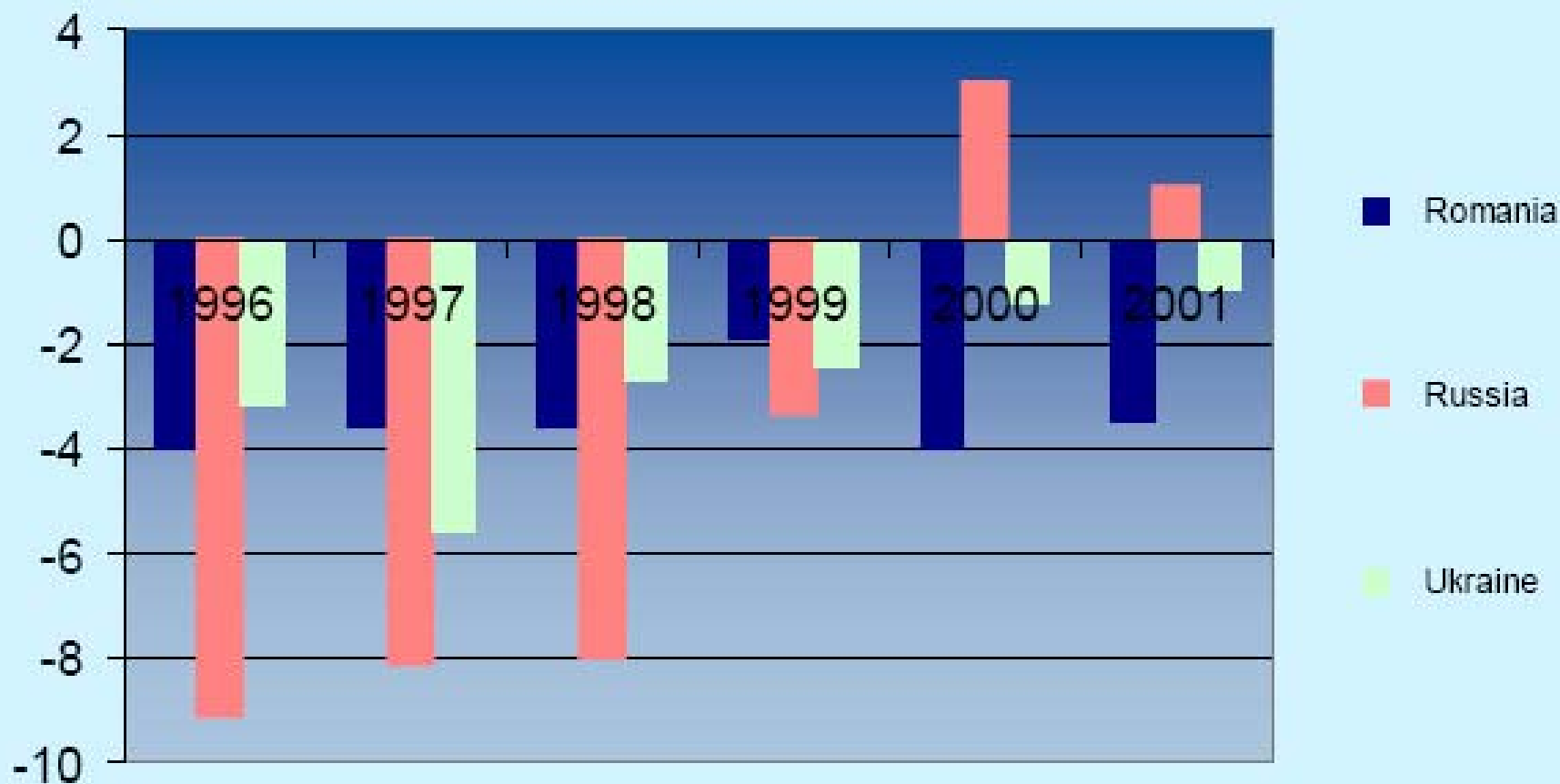
Annual Average Change in CPI



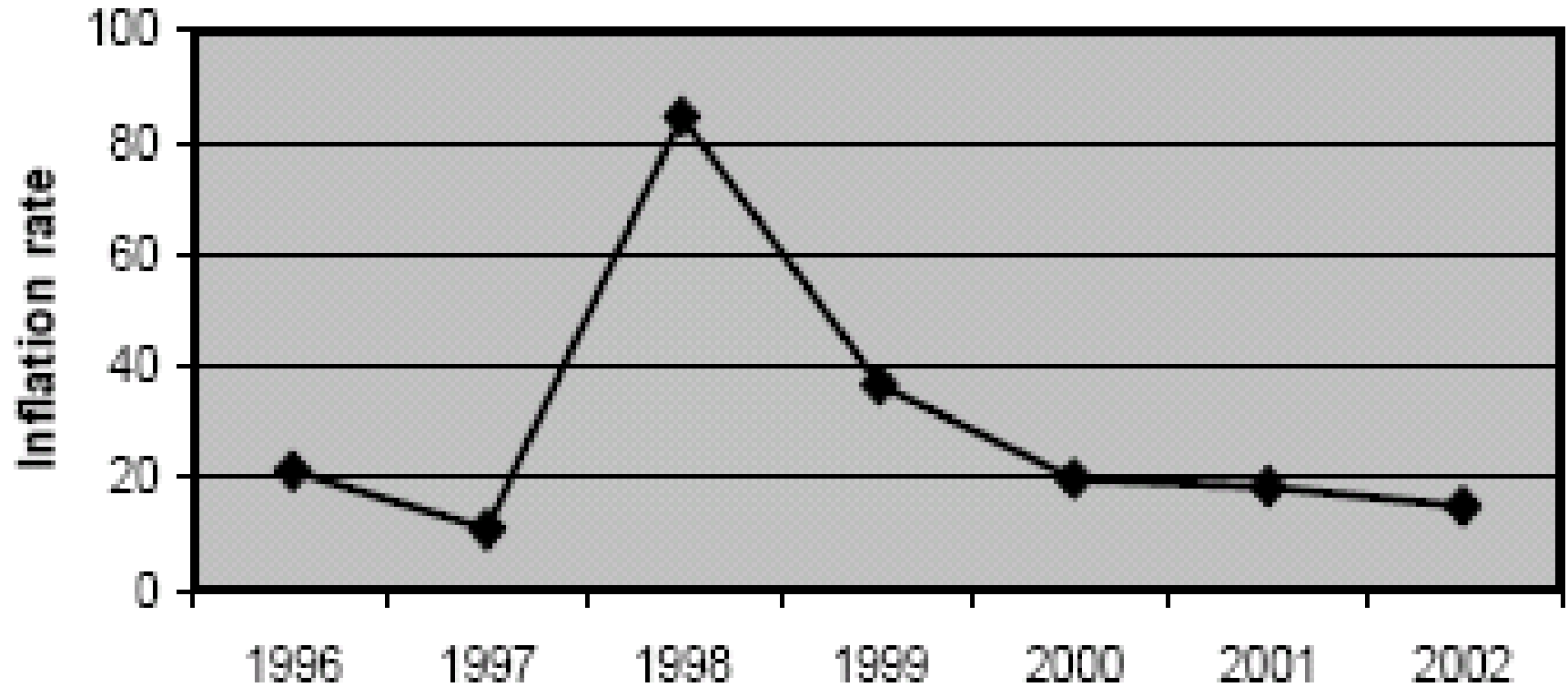
CPI in Romania, Russia, and Ukraine



Fiscal Balance in Romania, Russia, and Ukraine



Russian Inflation, 1996-2002



Inflation in Transition Economies (CEE's and Baltics

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Central eastern Europe and the Baltic states													
Croatia	123	665.5	1,517.5	97.6	2	3.5	3.6	5.7	4.2	6.2	4.9	2.4	2.4
Czech Republic	52	11.1	20.8	9.9	9.1	8.8	8.5	10.7	2.1	3.9	4.7	1.8	0.2
Estonia	210.5	1,076.0	89.8	47.7	29	23.1	11.2	8.1	3.3	4	5.8	3.6	1.4
Hungary	35	23	22.5	18.8	28.2	23.6	18.3	14.3	10	9.8	9.2	4.8	4.7
Latvia	172.2	951.2	109.2	35.9	25	17.6	8.4	4.7	2.4	2.6	2.5	1.9	3.3
Lithuania	224.7	1,020.5	410.4	72.1	39.6	24.6	8.9	5.1	0.8	1	1.3	0.3	-0.8
Poland	70.3	43	35.3	32.2	27.8	19.9	14.9	11.8	7.3	10.1	5.5	1.7	0.5
Slovak Republic	61.2	10	23.2	13.4	9.9	5.8	6.1	6.7	10.6	12	7.1	3.3	8.5
Slovenia	117.7	207.3	32.9	21	13.5	9.9	8.4	7.9	6.1	8.9	8.4	7.5	6.1
<i>Median</i>	<i>117.7</i>	<i>207.3</i>	<i>35.3</i>	<i>32.2</i>	<i>25</i>	<i>17.6</i>	<i>8.5</i>	<i>7.9</i>	<i>4.2</i>	<i>6.2</i>	<i>5.5</i>	<i>2.4</i>	<i>2.4</i>
South-eastern Europe													
Albania	35.5	226	85	22.6	7.8	12.7	33.2	20.6	0.4	0.1	3.1	5.4	3.5
Bulgaria	333.5	82	73	96.3	62	123	1,082.0	22.2	0.7	9.9	7.4	5.9	2
FYR Macedonia	114.9	1,664.4	338.4	126.5	16.4	2.5	0.8	2.3	-1.3	6.5	5.3	2.4	1.5
Romania	170.2	210.4	256.1	136.7	32.3	38.8	154.8	59.1	45.8	45.7	34.5	22.5	14.5
Serbia and Montenegro	121	9,237.0	16.5 × 10 ¹²	3.3	78.6	94.3	21.3	29.5	37.1	60.4	91.3	21.4	12
<i>Median</i>	<i>121</i>	<i>226</i>	<i>170.6[†]</i>	<i>96.3</i>	<i>32.3</i>	<i>38.8</i>	<i>33.2</i>	<i>22.2</i>	<i>0.7</i>	<i>9.9</i>	<i>7.4</i>	<i>5.9</i>	<i>3.5</i>

Inflation in Transition Economies (CIS)

Commonwealth of Independent States

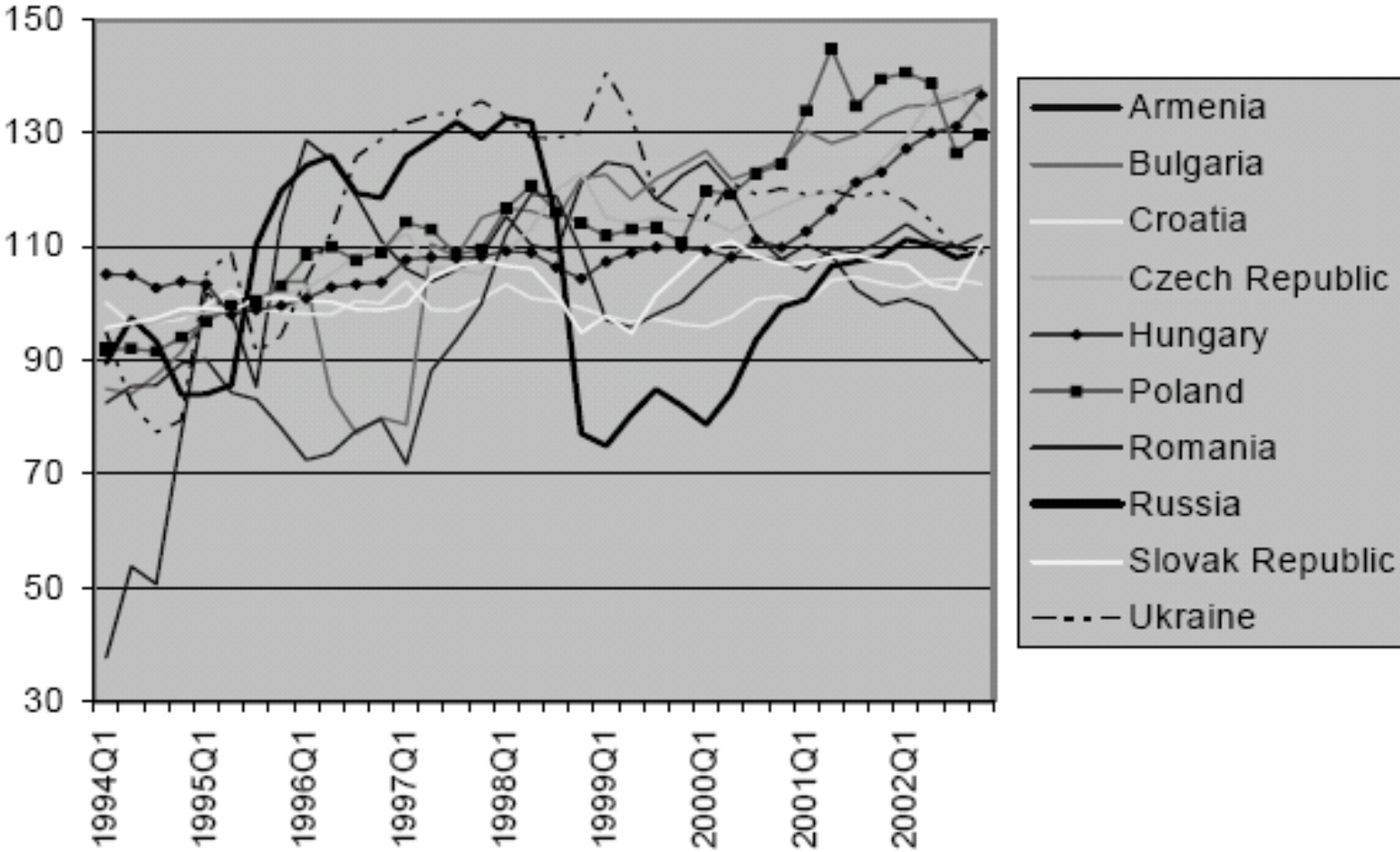
Armenia	274	1,346.0	1,822.0	4,962.0	175.8	18.7	14	8.7	0.7	-0.8	3.2	1.2	6.1
Azerbaijan	107	912	1,129.0	1,664.0	412	19.7	3.5	-0.8	-8.5	1.8	1.5	2.8	2.1
Belarus	94.1	970.8	1,190.2	2,221.0	709.3	52.7	63.8	73.2	293.8	168.9	61.4	42.6	29
Georgia	79	887.4	3,125.4	15,606.5	162.7	39.4	7.1	3.6	19.2	4.1	4.6	5.6	5
Kazakhstan	78.8	1,381.0	1,662.3	1,892.0	176.3	39.1	17.4	7.1	8.3	13.2	8.4	5.8	6.1
Kyrgyz Republic	85	855	772.4	180.7	43.5	31.9	23.4	10.5	35.9	18.7	6.9	2.1	2.4
Moldova	98	1,276.4	1,184.0	487	30.2	23.5	11.8	7.7	39.3	31.1	9.6	5.2	10
Russia	92.7	1,526.0	875	311.4	197.7	47.8	14.7	27.6	86.1	20.8	21.6	15.7	13.9
Tajikistan	112	1,157.0	2,195.0	350	609	418	88	43.2	27.6	32.9	38.6	12.2	16
Turkmenistan	103	493	3,102.0	1,748.0	1,005.3	992.4	83.7	16.8	24.2	8.3	11.6	10.6	9.6
Ukraine	91	1,210.0	4,734.0	891	377	80	15.9	10.6	22.7	28.2	12	0.8	5.1
Uzbekistan	109.7	645.2	534.2	1,568.3	304.6	54	70.9	29	29.1	25	27.2	27.6	12.4
<i>Median</i>	<i>96.1</i>	<i>1,063.9</i>	<i>1426.3</i>	<i>1,616.2</i>	<i>2512</i>	<i>43.6</i>	<i>16.6</i>	<i>10.5</i>	<i>25.9</i>	<i>19.8</i>	<i>10.6</i>	<i>5.7</i>	<i>7.9</i>
2004 and 2007 EU Accession countries													
<i>Median</i>	<i>144</i>	<i>62.5</i>	<i>54.2</i>	<i>34.1</i>	<i>28</i>	<i>21.5</i>	<i>8.9</i>	<i>9.4</i>	<i>4.7</i>	<i>9.4</i>	<i>6.5</i>	<i>3.4</i>	<i>2.7</i>

Real Appreciation in Transition

Country	Increase from trough or first available data	Year of Trough or first available data
Bulgaria	65.1	1991
Czech Republic	90.4	1993
Estonia	225.2	1993
Hungary	42.7	1990
Latvia	75.5	1994
Lithuania	558.3	1992
Poland	175.5	1990
Romania	124.8	1990
Russia	201.1	1992
Slovak Republic	61.1	1993
Slovenia	64.0	1991
Ukraine	173.0	1992

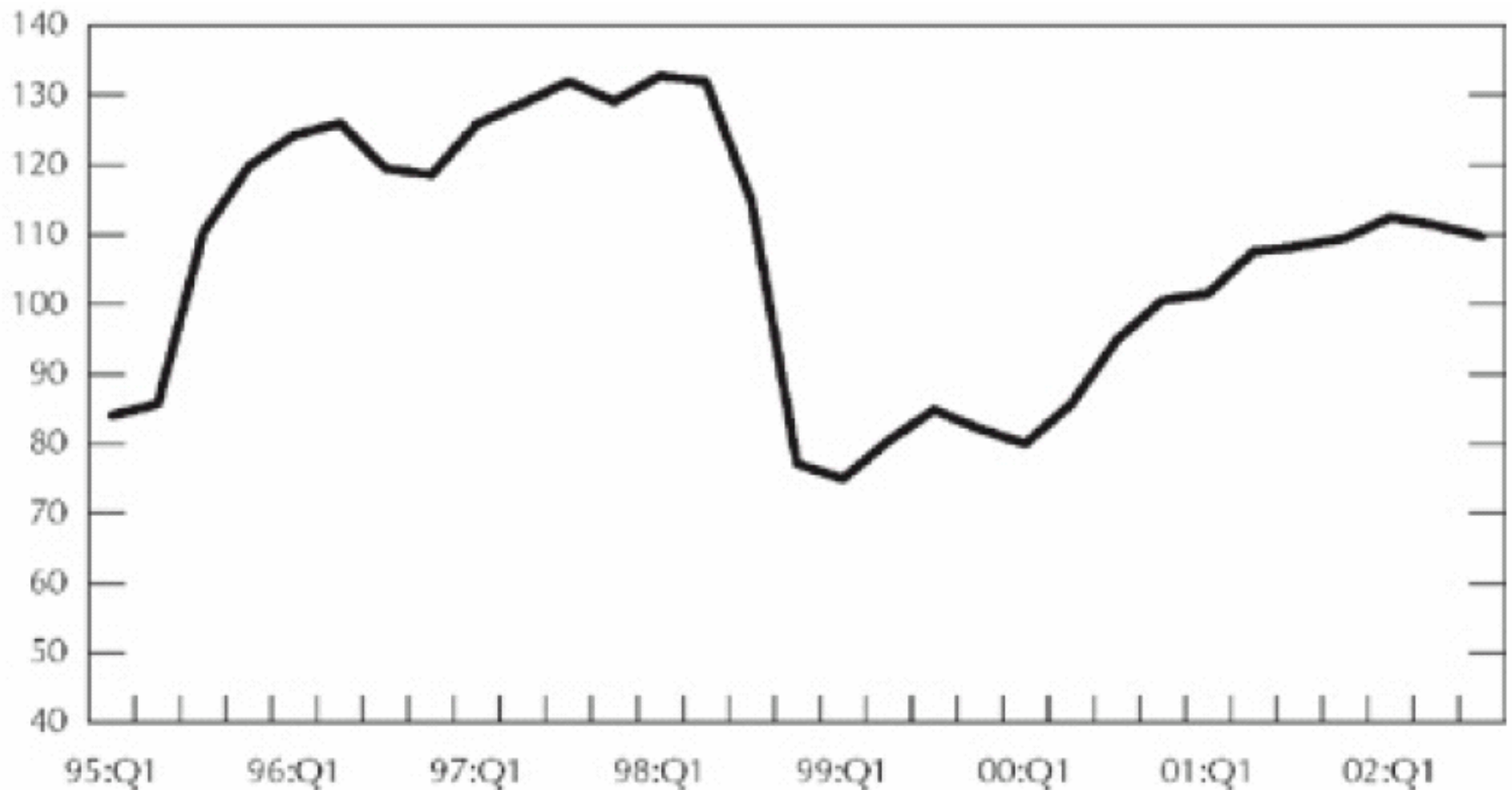
Source: Halpern and Wyplosz 1998a

Real Exchange Rates in Transition

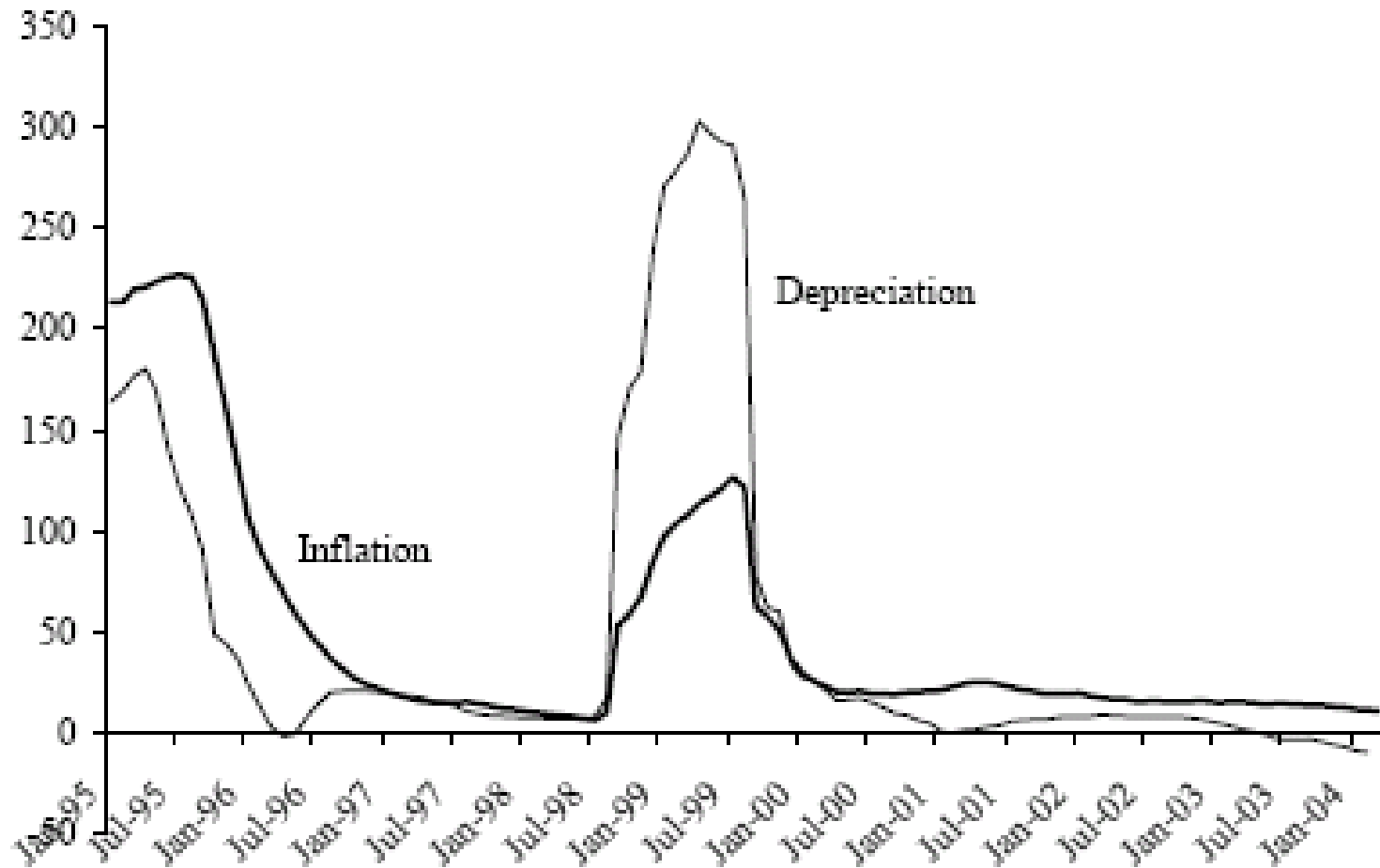


Real Effective Ruble Exchange Rate

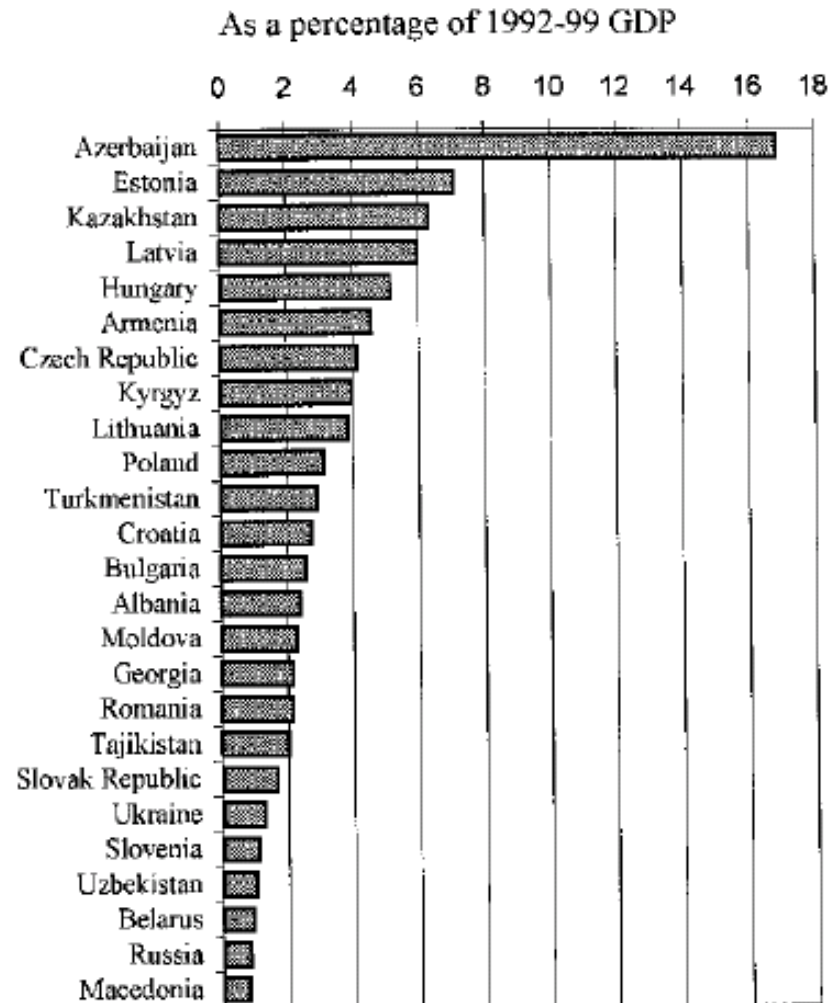
Index, 1995=100



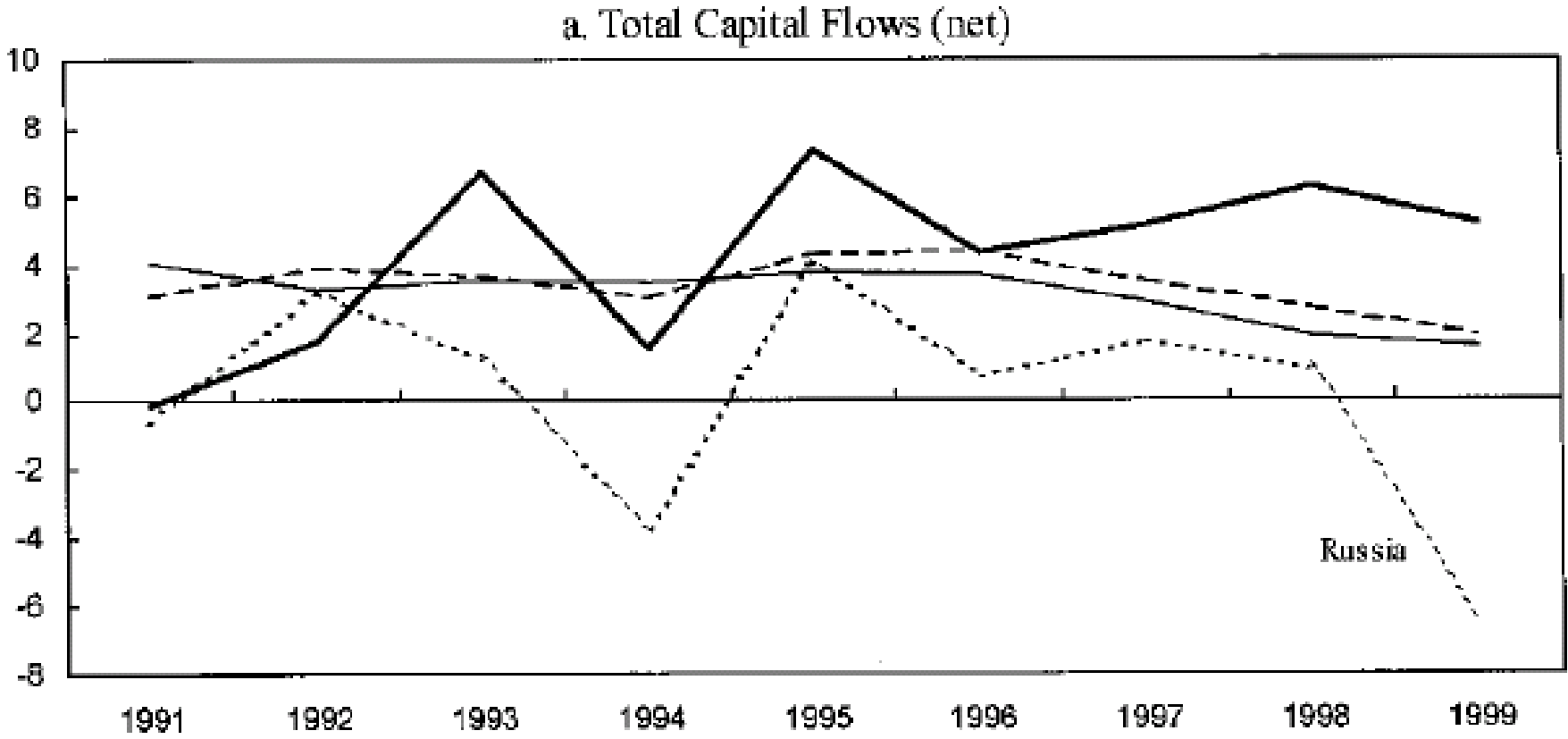
12-month Inflation and Ruble Depreciation



FDI as share of GDP, 1992-99

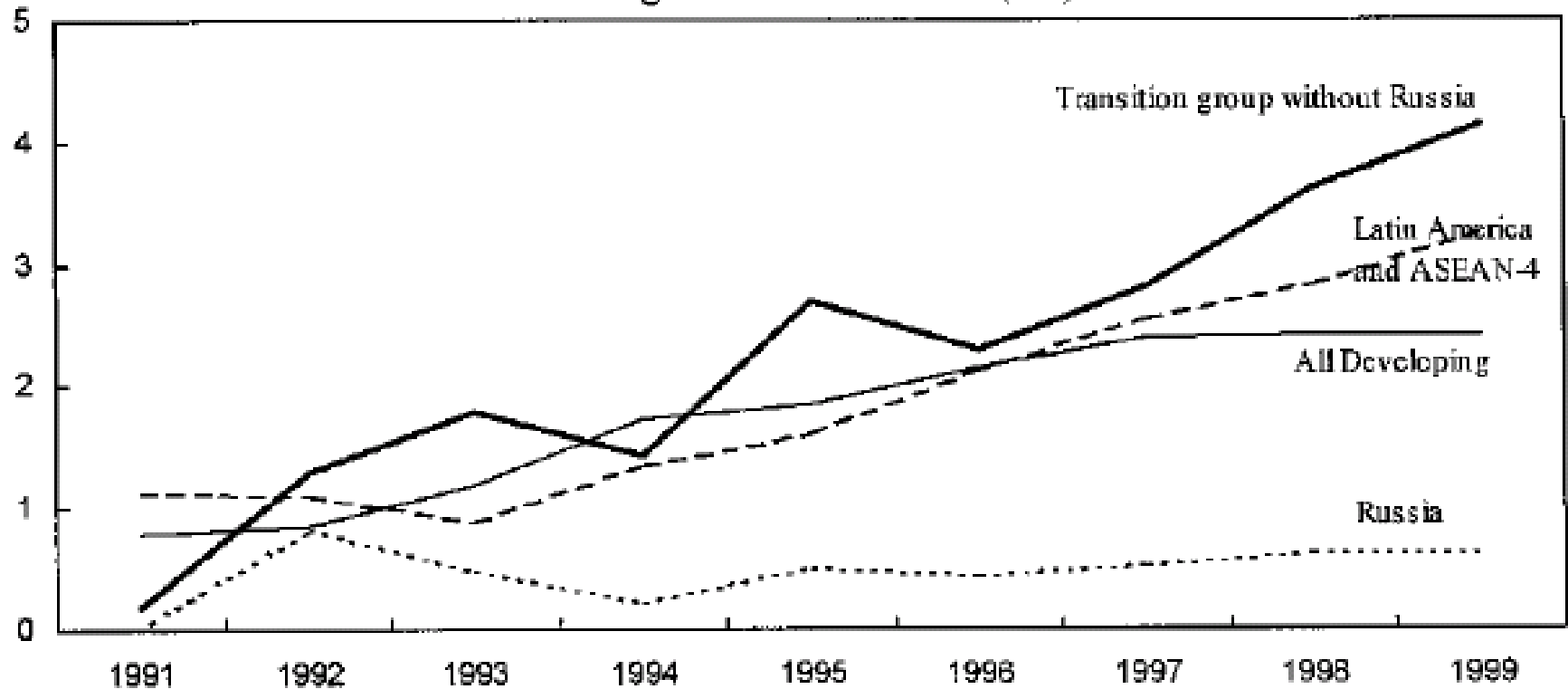


Capital Inflows by Group

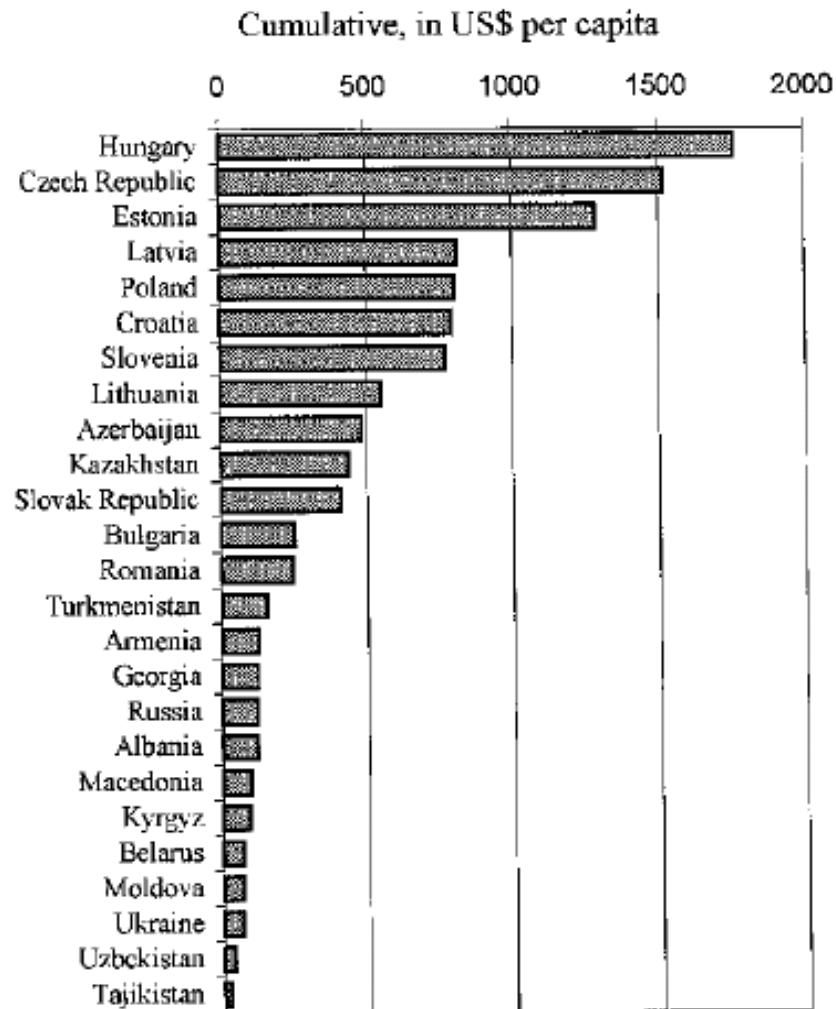


FDI in the 1990's by Group

b. Foreign Direct Investment (net)

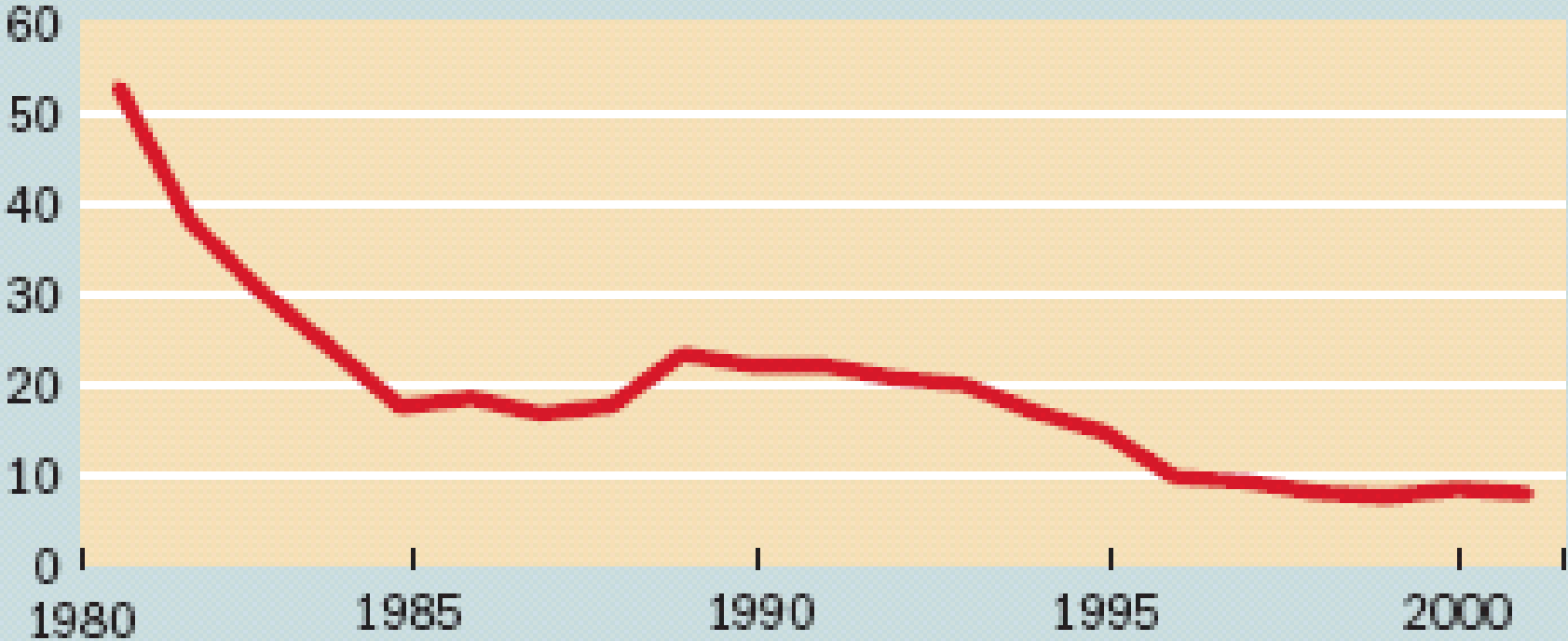


FDI per-capita, 1992-99



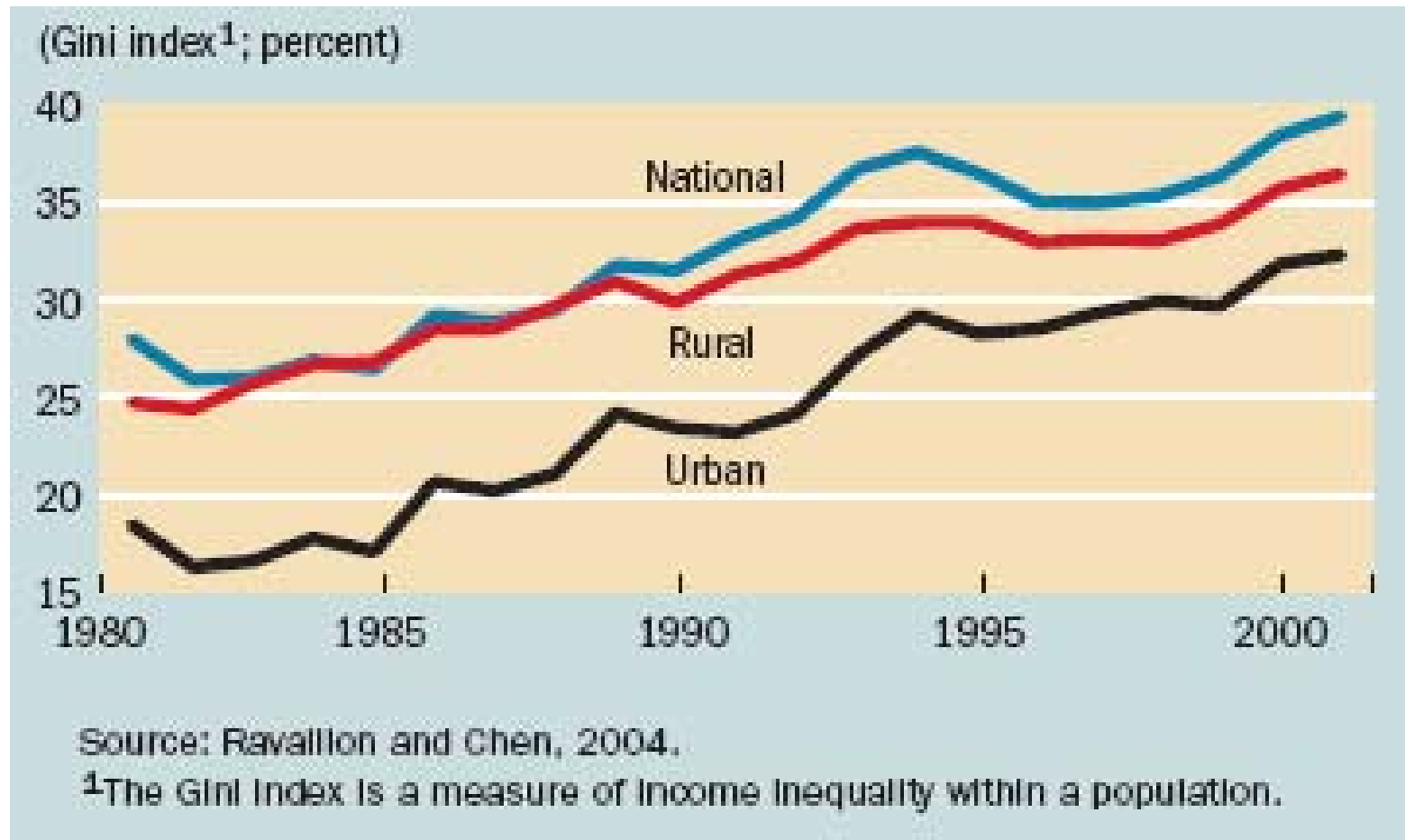
Chinese Poverty

(percent below poverty line)



Source: Ravallion and Chen, 2004.

Inequality in China



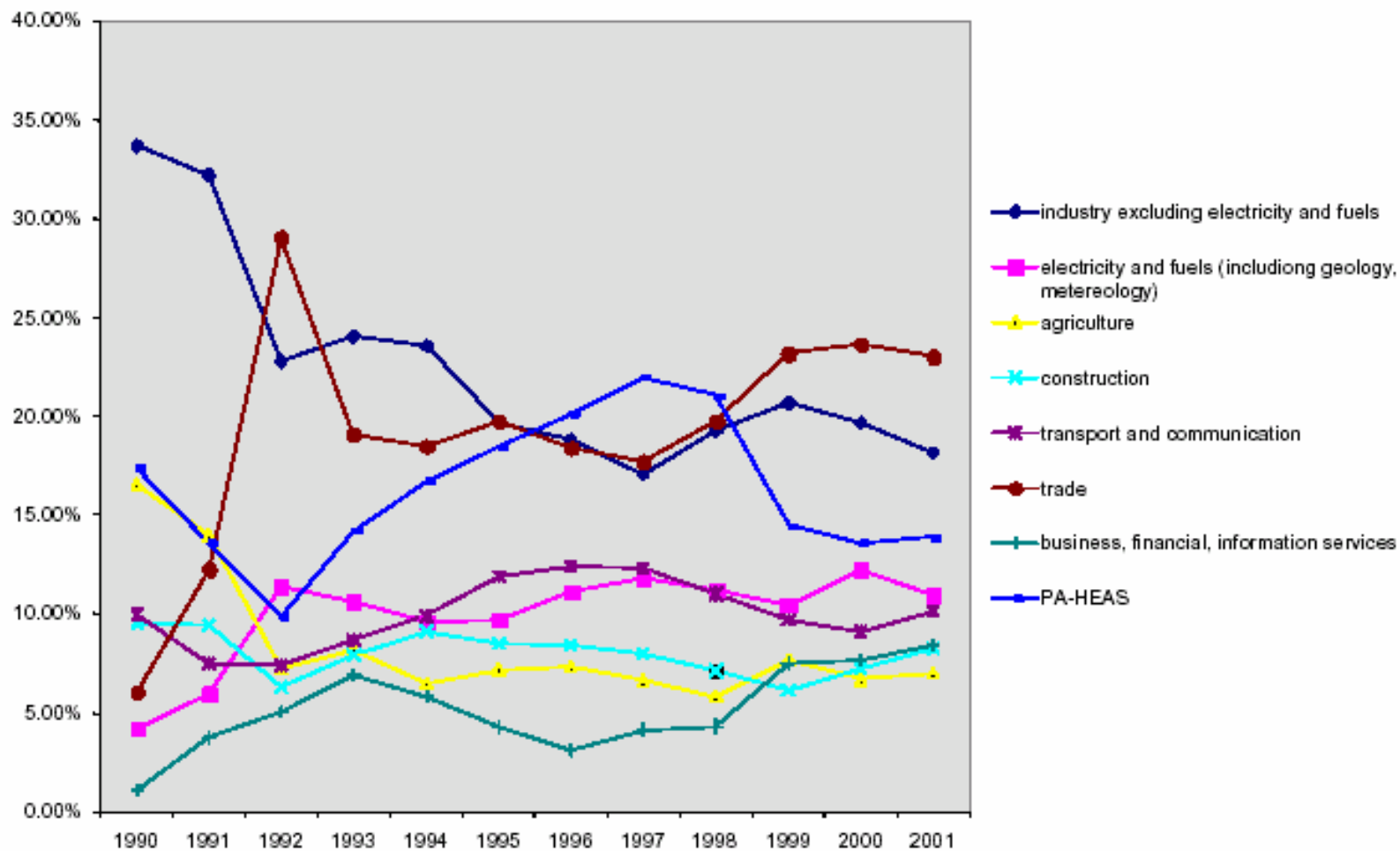
Tradeoff Between Inequality and Growth?

The periods of rising inequality were not the periods of higher growth.

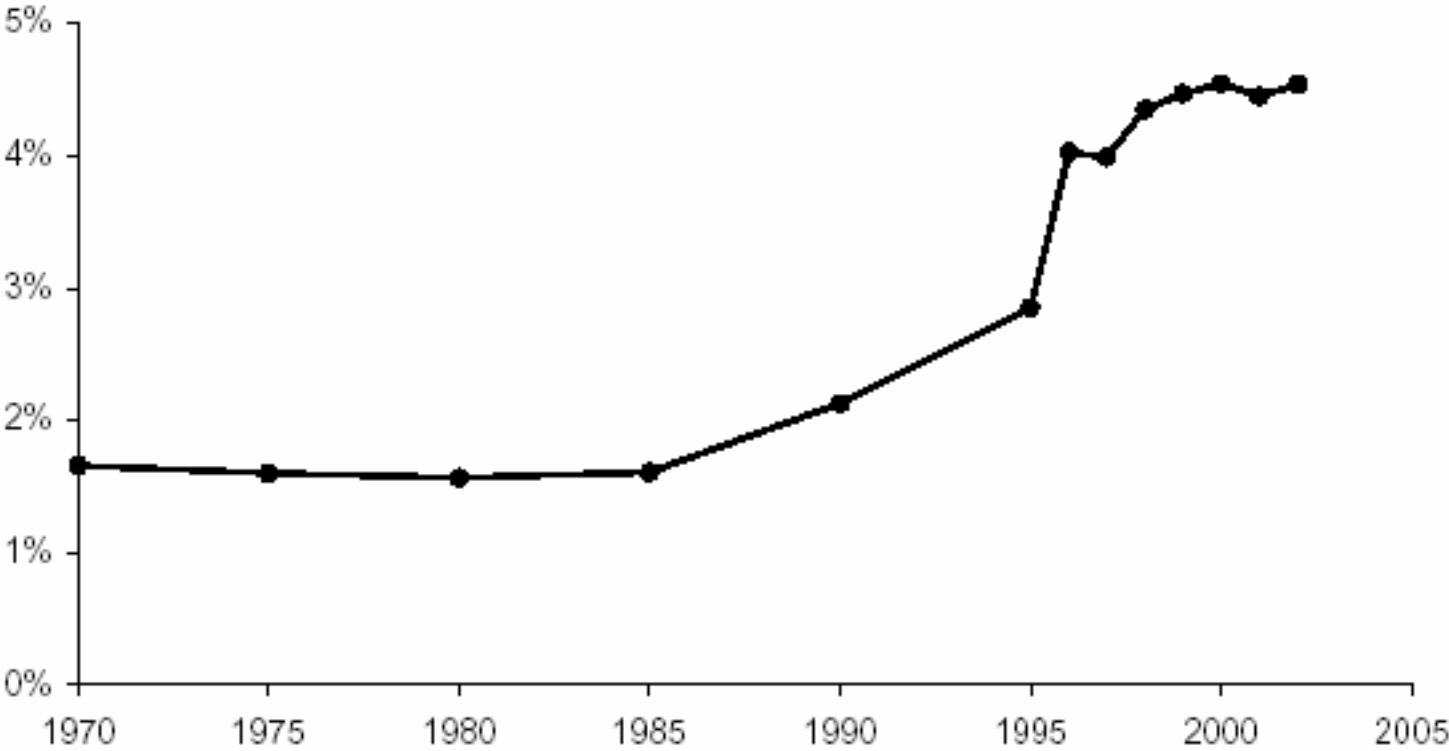
	Inequality	Growth rate in household income per capita (percent a year)
1981-85	Falling	8.9
1986-94	Rising	3.1
1995-98	Falling	5.4
1999-2001	Rising	4.5

Source: Ravallion and Chen, 2004.

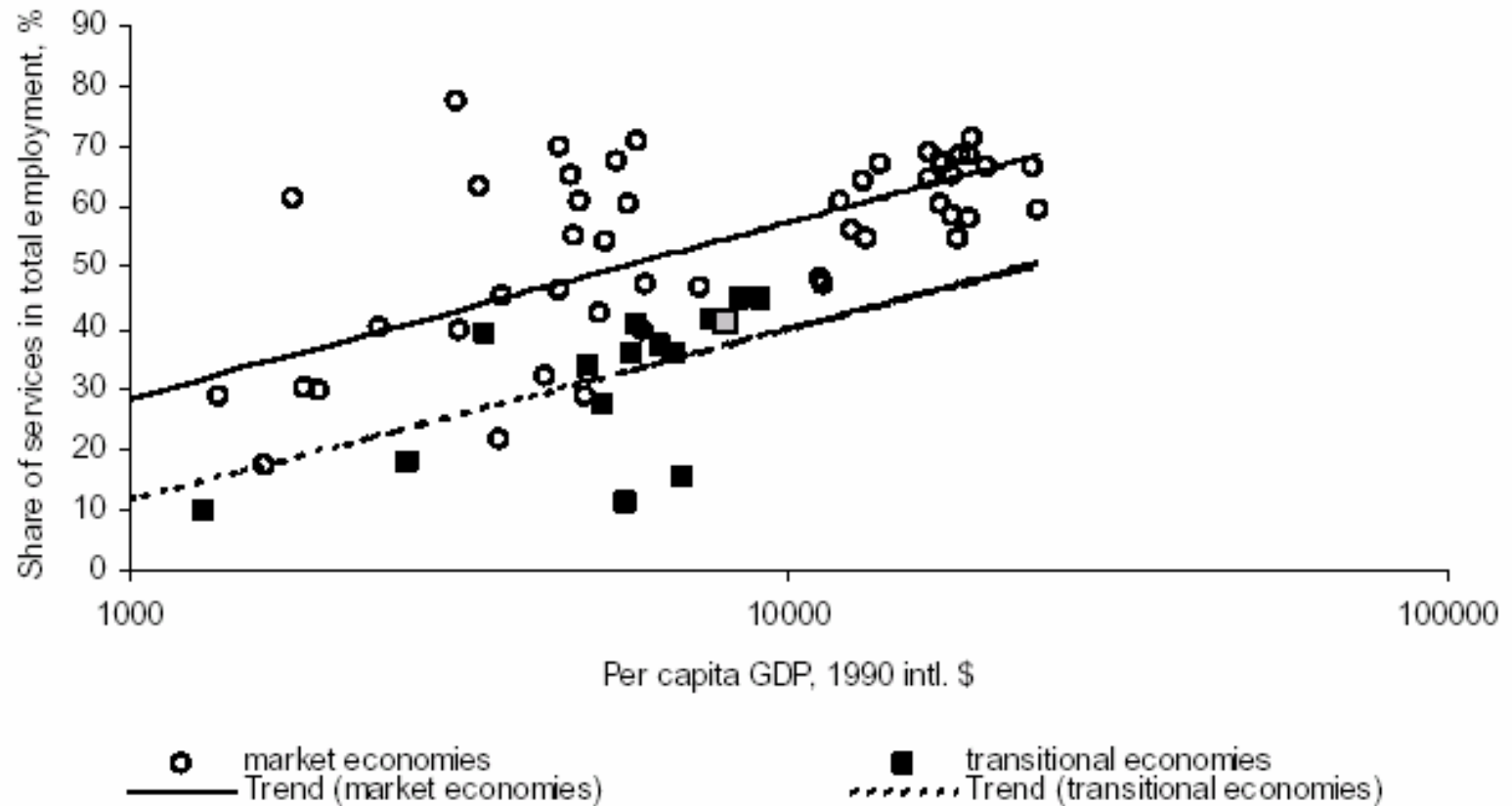
Shares of Value Added in Russia, 1990-2001



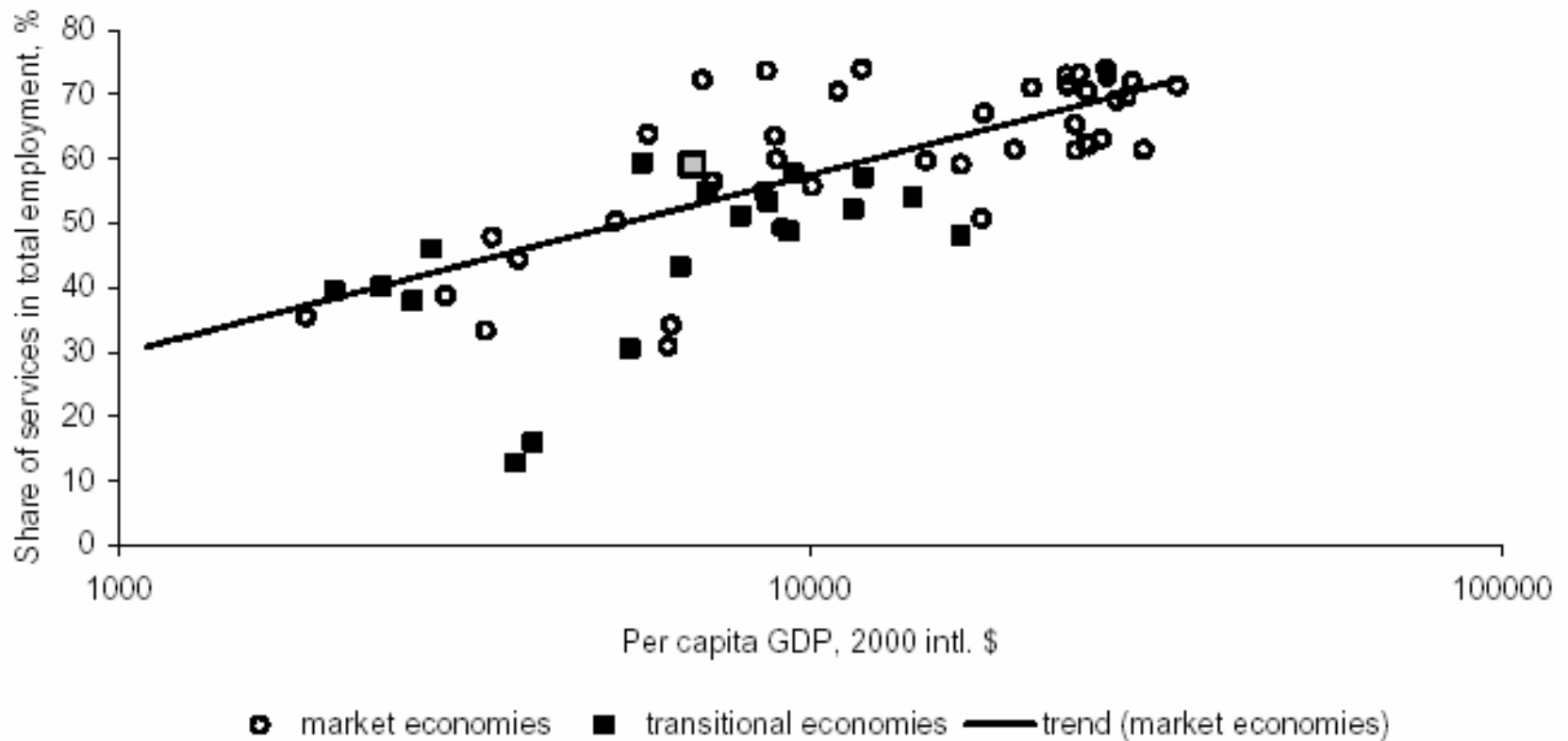
Govt Employment as share of Total, 1970-2002



Level of Development and Services, 1990



Level of Development and Services, 2000



Central European Currencies

