



Center for Social and Economic Research

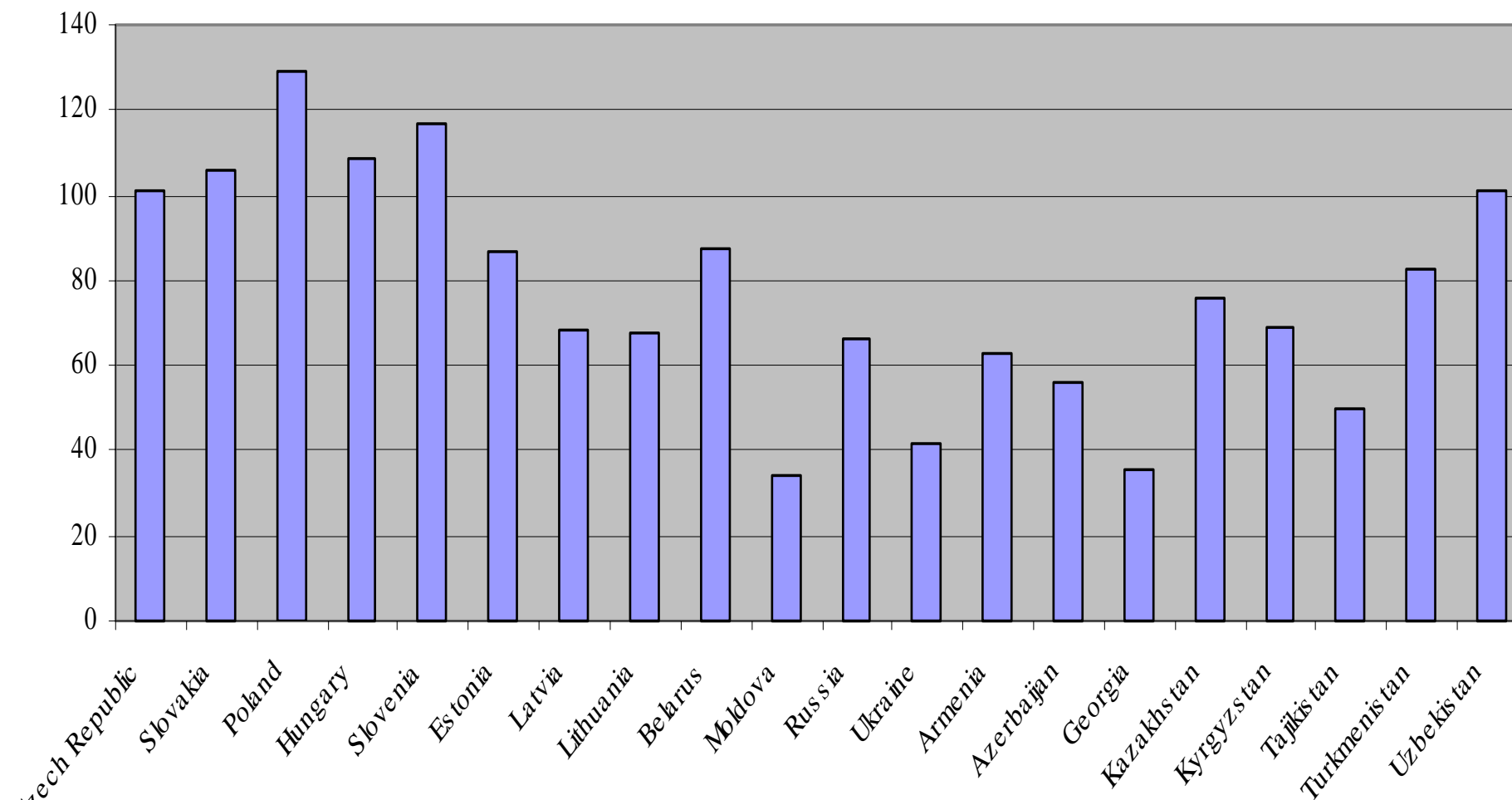
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**Post-communist
Transition – Success or
Failure?**

Too early to answer this question:

- Relatively short period of transition while cross-country growth comparisons need at least 20 years long data series
- Incomparability of pre- and post-transition statistics
- Period of initial output decline ('transformation recession') and post-decline take-off
- Windfall factors (e.g. oil prices)

Real GDP Growth in 2001 (base year=1989)*



* Source: TransMonee 2002

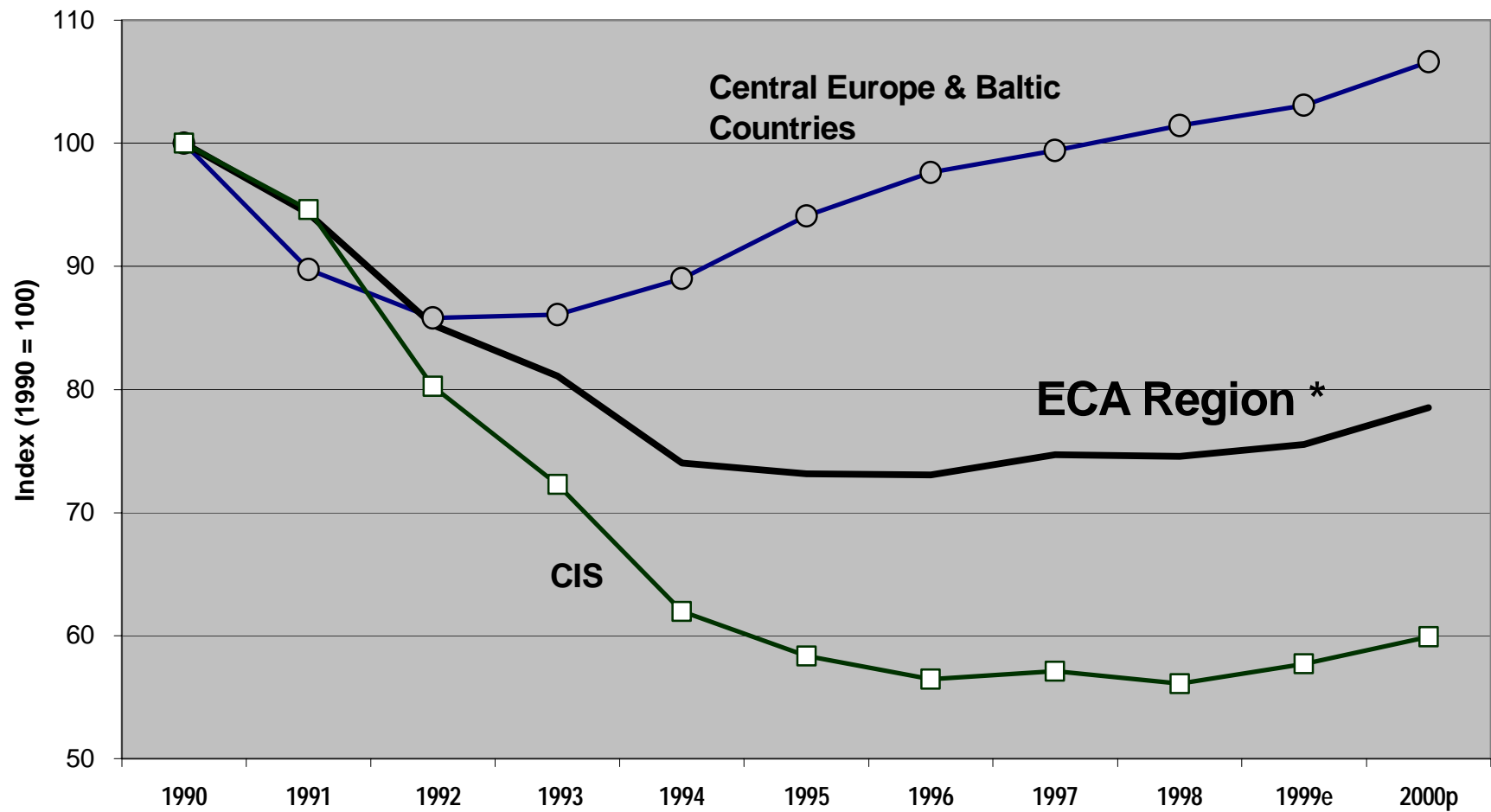
Pre-transition starting point:

- Low utility and low quality of final output/ limited consumption choice (structural distortions)
- Prices (and exchange rates) not reflecting relative scarcity of goods and market equilibrium
- High inflation/ hyperinflation
- Over-reporting (*pripiska*) versus underreporting during transition
- Transition from NMP to GDP

Initial output decline

- Consequence of inherited structural distortions
- Result of policy mistakes (slow and inconsequent transition)

Index of Real GDP



(*) The ECA Region includes CEB and CIS countries plus Turkey

Output recovery

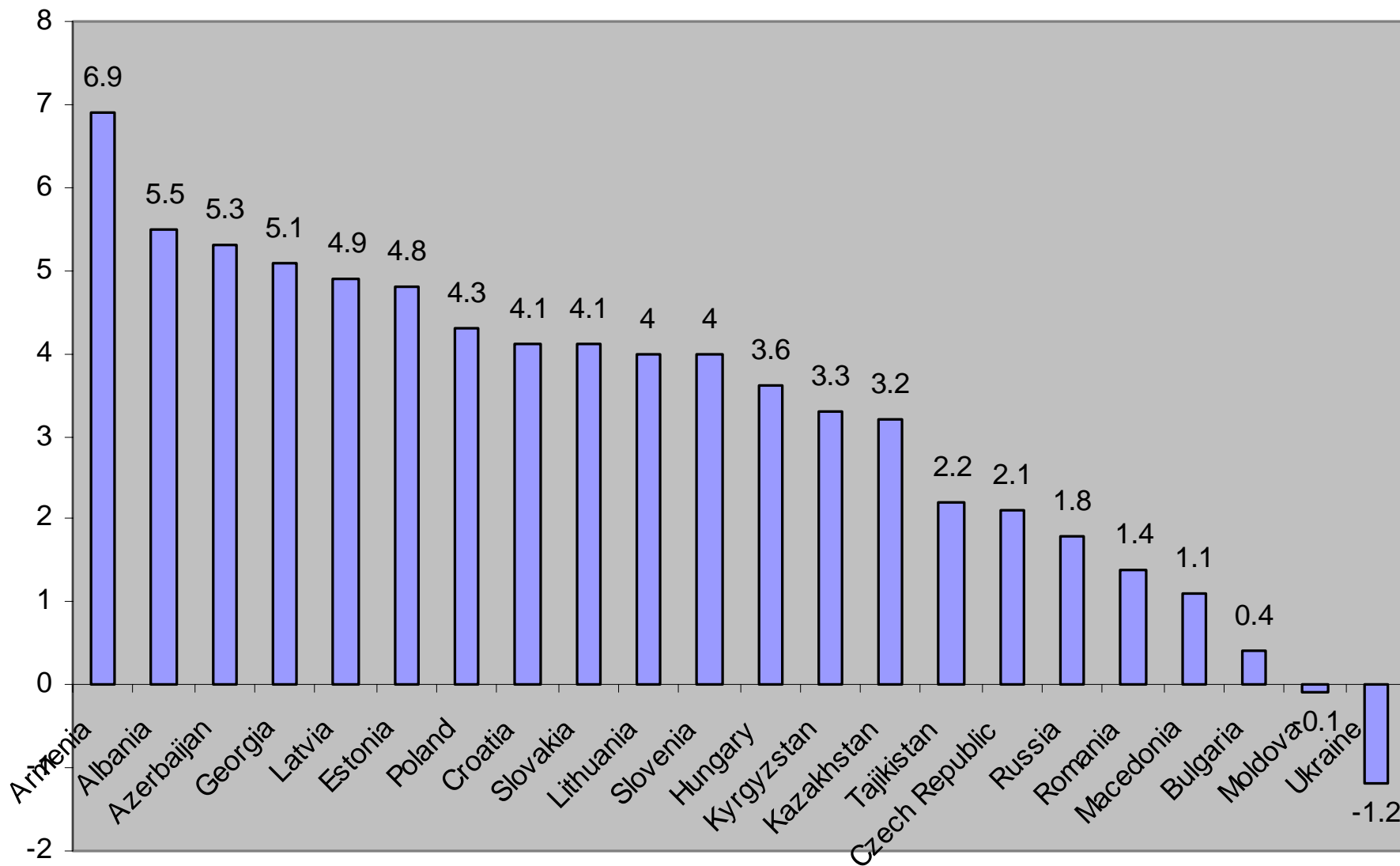
- Result of the first reform package
- First stage (3-5 years) relatively easy – mainly reallocation of existing resources and capacities
- Possibly countries with deeper output decline have more simple reserves
- Sustainability of economic growth depends of further reform steps

Average annual GDP growth by main regions in %

Countries	1985-1994	1995-2004
Advanced economies	3.0	2.7
- United States	2.9	3.2
- Germany	2.7	1.3
- Japan	3.4	1.3
Developing economies	5.2	5.1
- Africa	1.9	3.6
- Developing Asia	7.7	6.6
- Middle East (+Turkey)	3.0	4.2
- Latin America	3.1	2.2
Transition economies	-2.1	2.8
- Central and Eastern Europe		3.4
- CIS & Mongolia		2.4

Source: World Economic Outlook, October 2003, Appendix, Table 1 & 2

Transition Countries: Average Annual Growth Rate in %

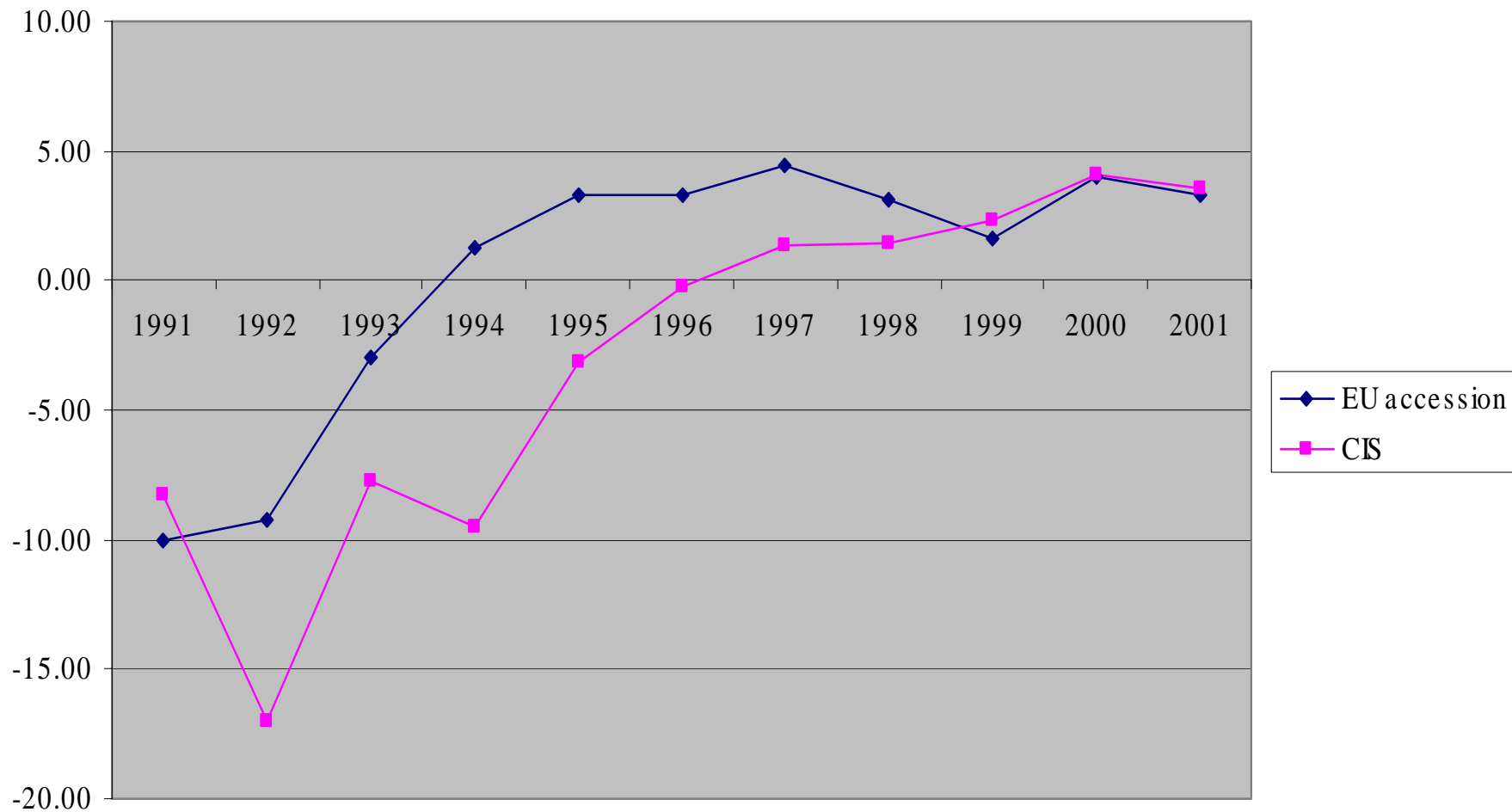


General picture of late 1990s

- Relative success of Central European and Baltic countries
- Almost total failure of CIS (particularly Russia and Ukraine)

Starting from 2000 situation has changed: economic recovery in CIS and slowdown in Central Europe

Average Real GDP Growth (percentage change)*



*Source: TransMonee 2002

Transition economies: Average annual GDP growth in %

Group of countries	2000	2001	2002
Baltic countries	5.5	6.6	6.3
Central Europe	3.9	2.2	2.2
SSE Europe	2.9	5.1	4.6
CIS	8.4	6.4	4.9

Source: World Economic Outlook, October 2003, Tables 1.8 & 1.9

Growth barriers (Central Europe)

- Excessive social expenditures
- High taxation
- Rigid labor market
- EU-imported overregulation

Growth barriers (CIS)

- **Bad entrepreneurial and investment climate (weak SME and FDI sector)**
- **Weak state / corruption**
- **Deficit of democracy**
- **Trade barriers**