
Transition Report 2010

Recovery and Reform

Franto Ricka

Economist

17 May 2011

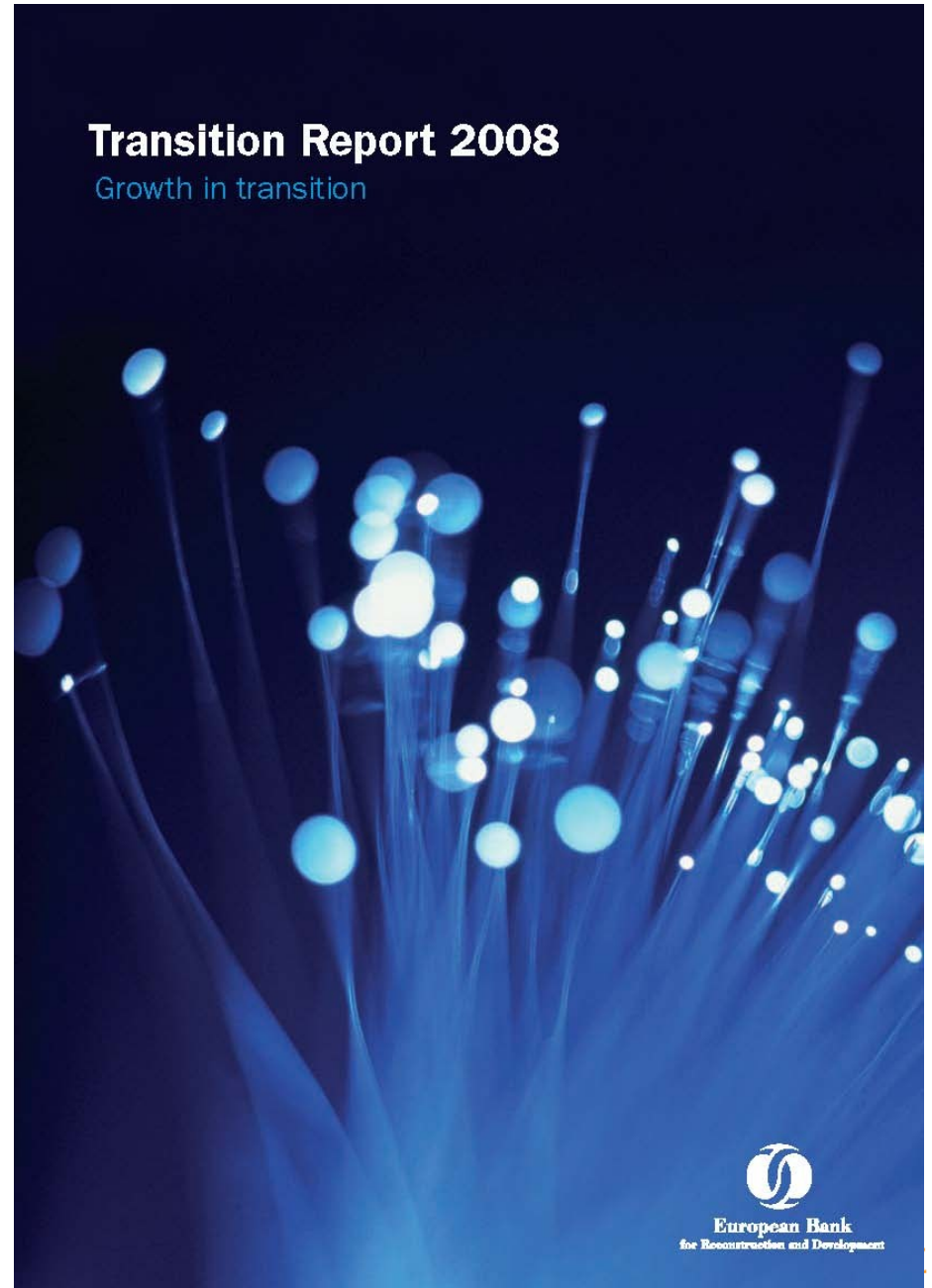


European Bank
for Reconstruction and Development

Transition Report 2010

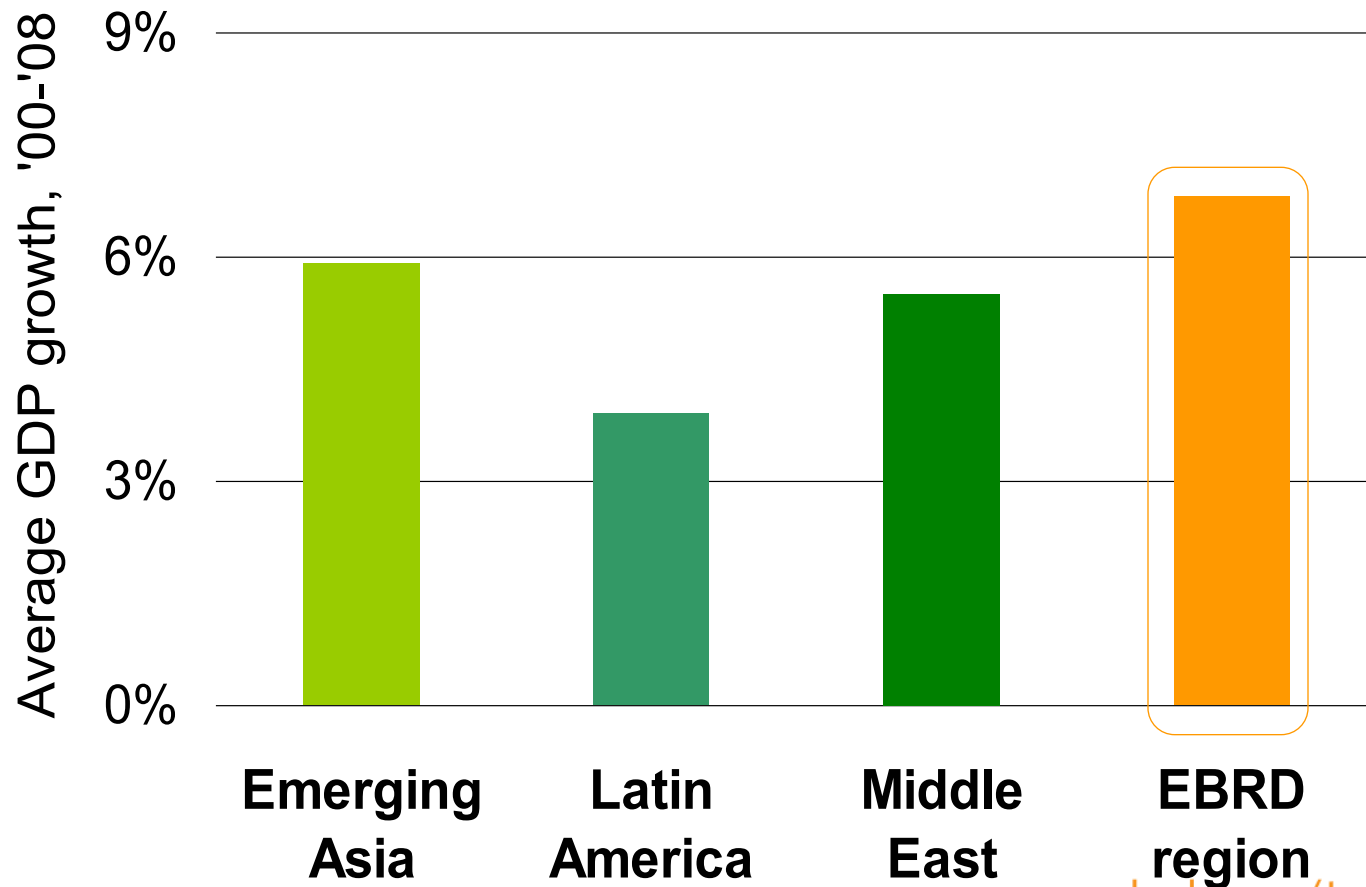
The transition region's pre-crisis growth model

Vigour...



Pre-crisis rapid growth in the EBRD region...

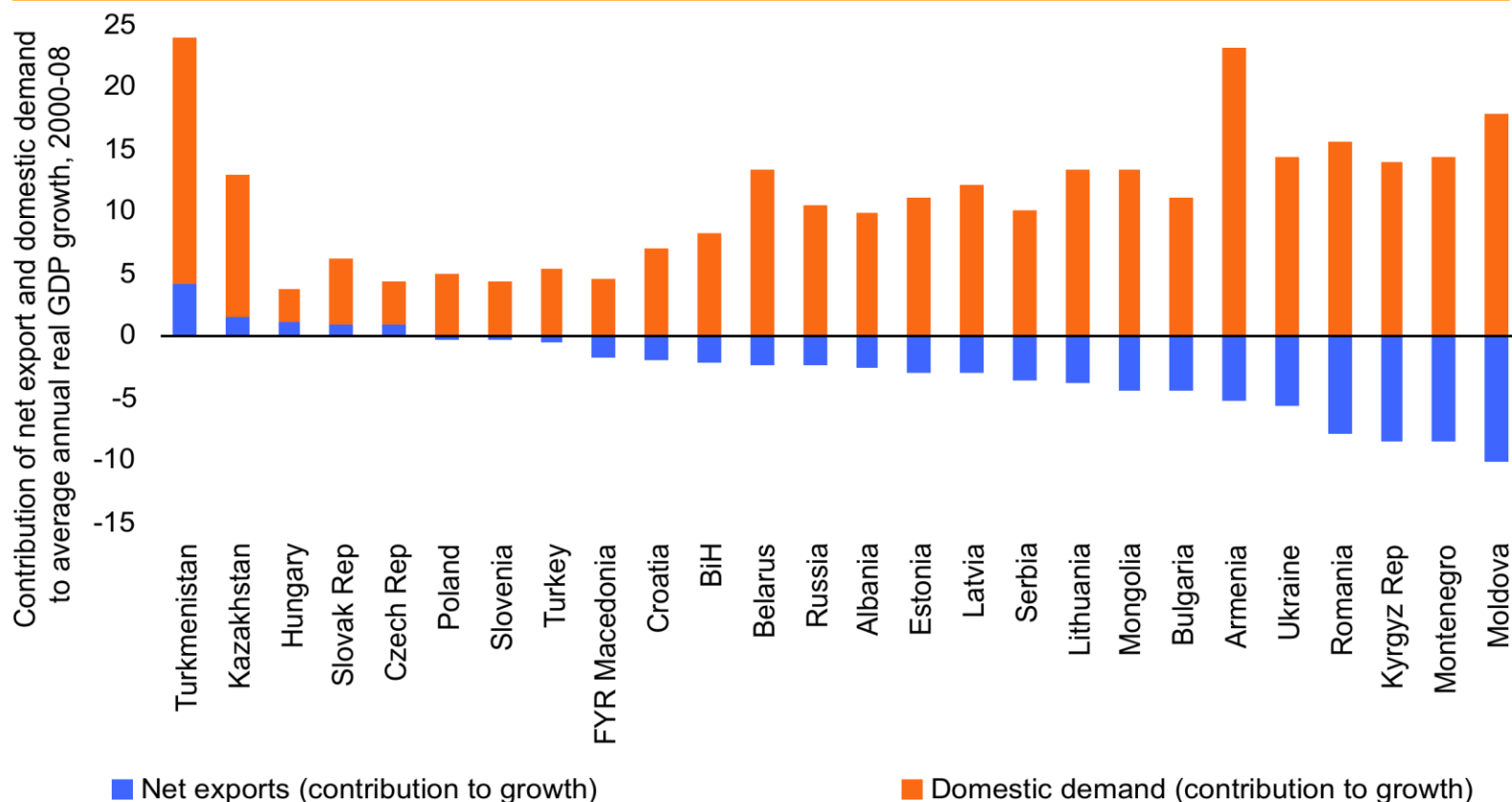
EBRD region grew faster than Asia before the crisis



Transition Report 2010

...was driven by domestic demand with high imports...

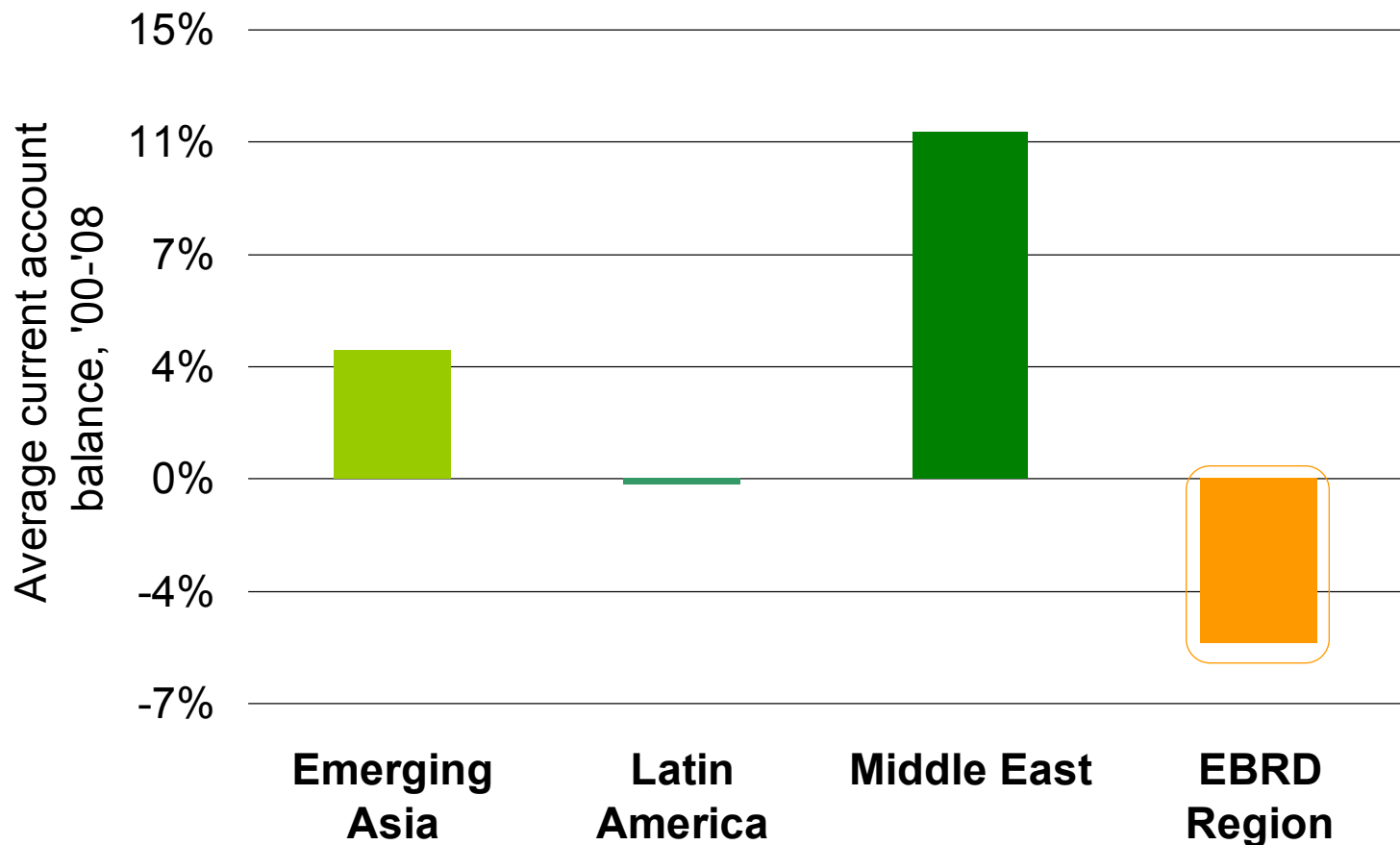
Most transition countries had negative trade balances



Transition Report 2010

...resulting in high current account deficits

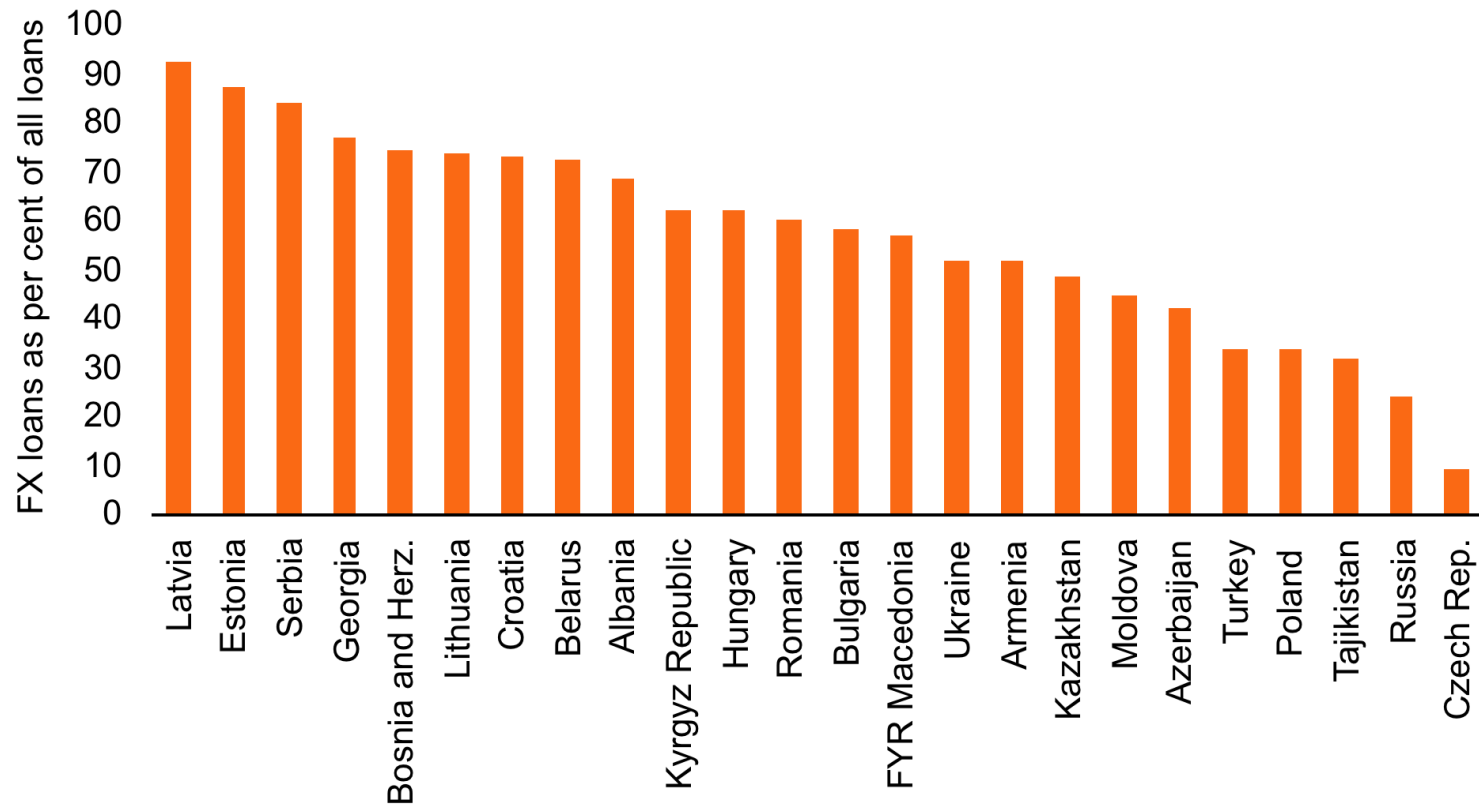
EBRD region current account deficit was over 5% of GDP



Transition Report 2010

Together with other weaknesses, such as high dollarization...

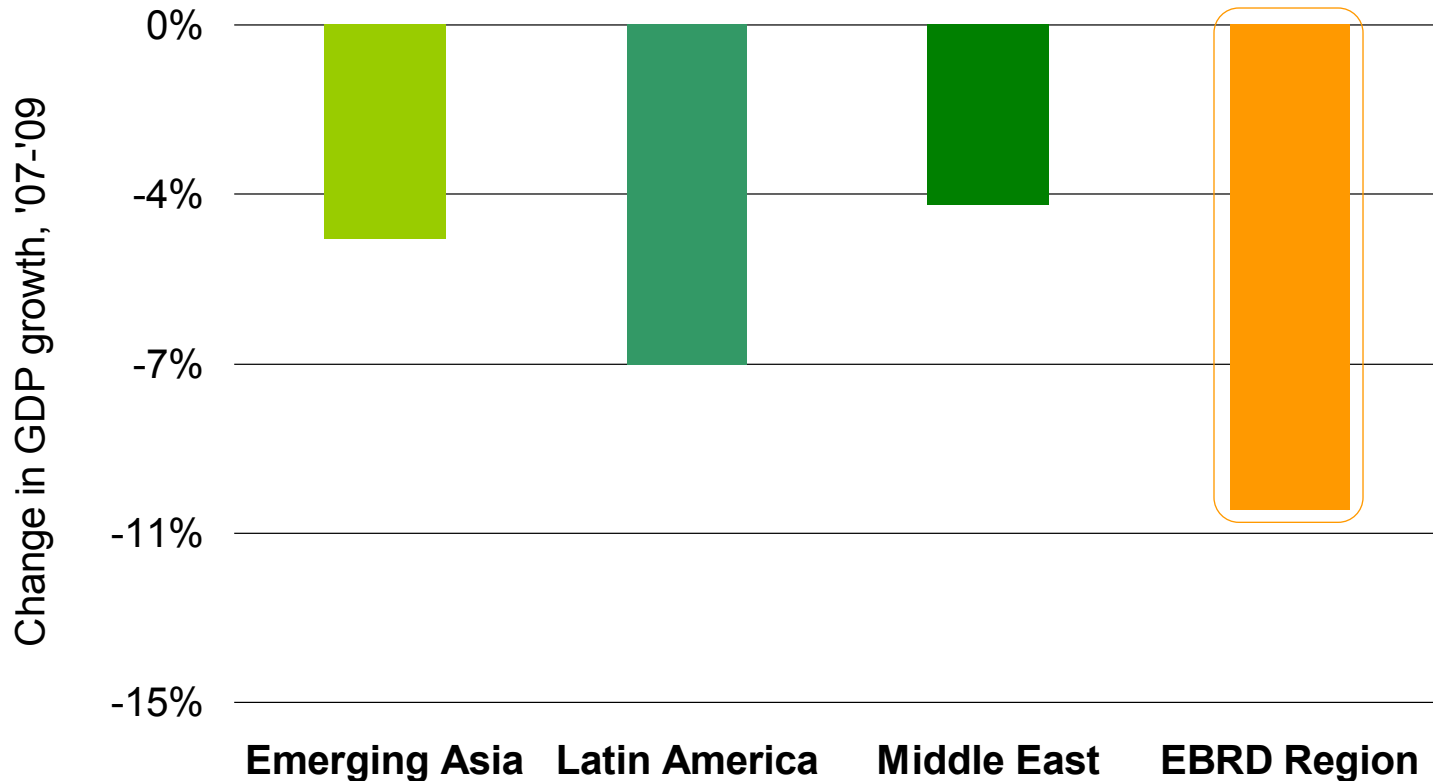
Many transition countries are over 50% dollarized



Transition Report 2010

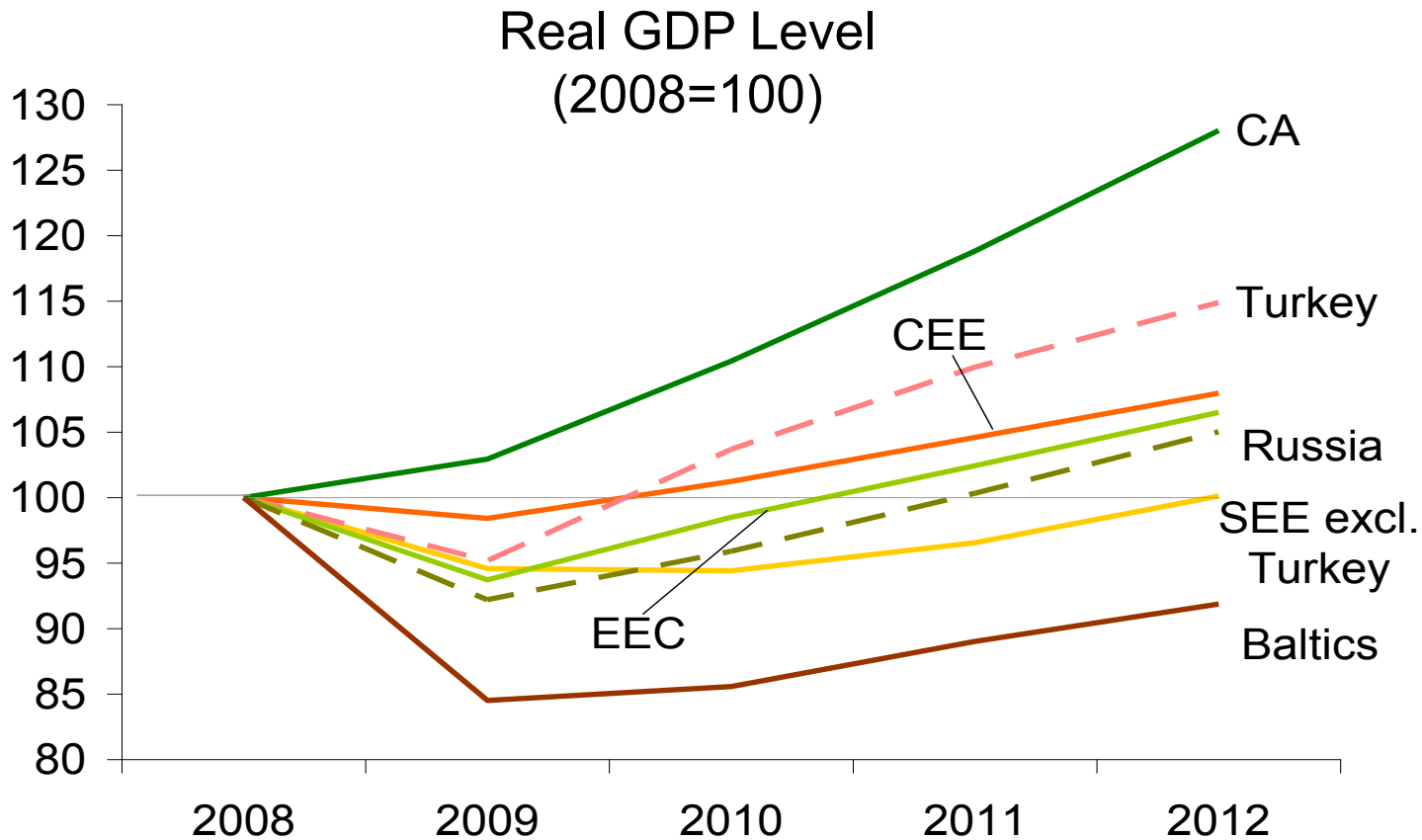
...they contributed to a sharp fall in growth during the crisis

GDP growth rate in transition countries dropped on average over 10% between 2007 – 2009



Transition Report 2010

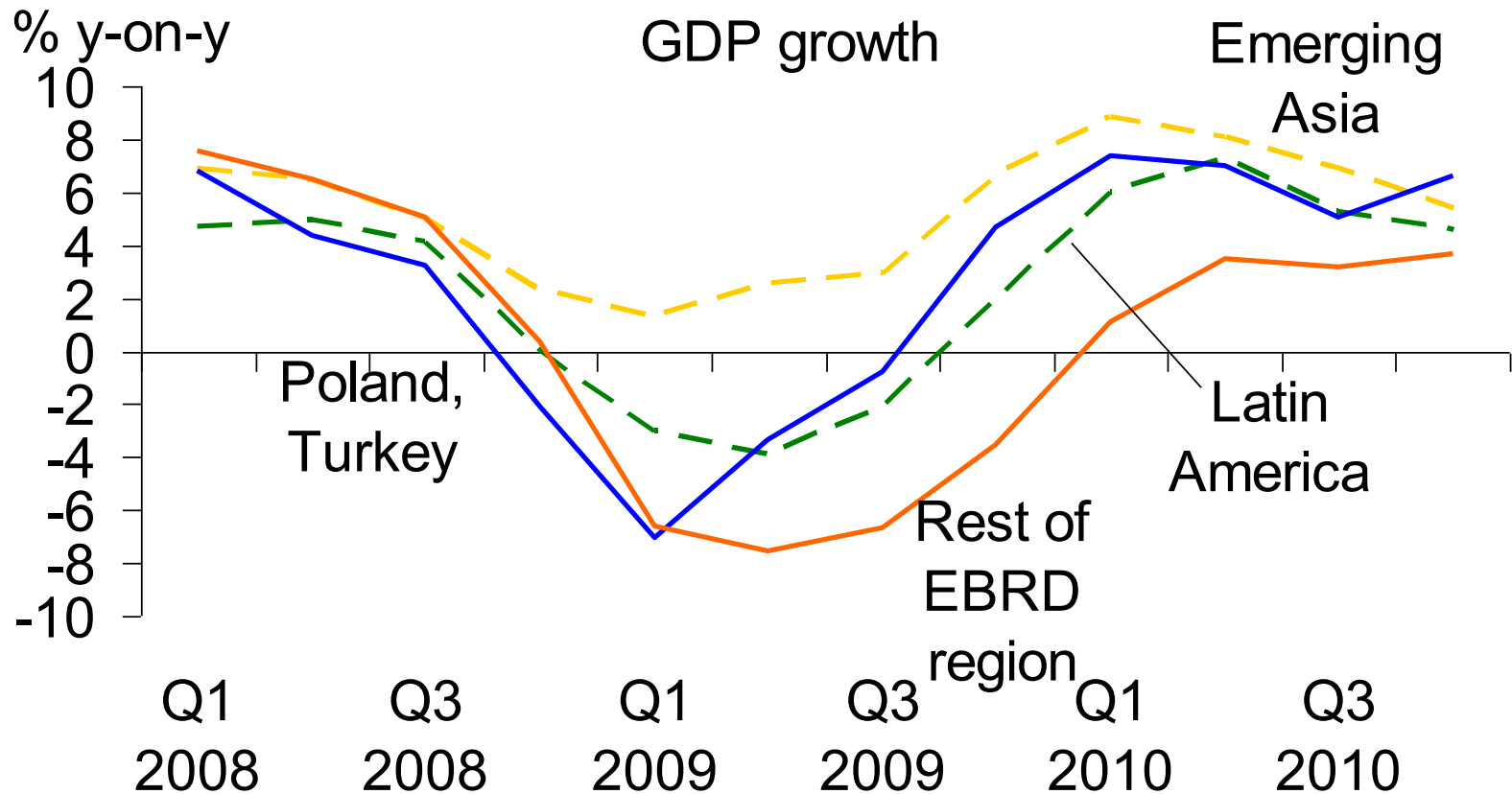
Recovery is currently under way, but has a way to go in many transition regions



Note: Unweighted averages.

Transition Report 2010

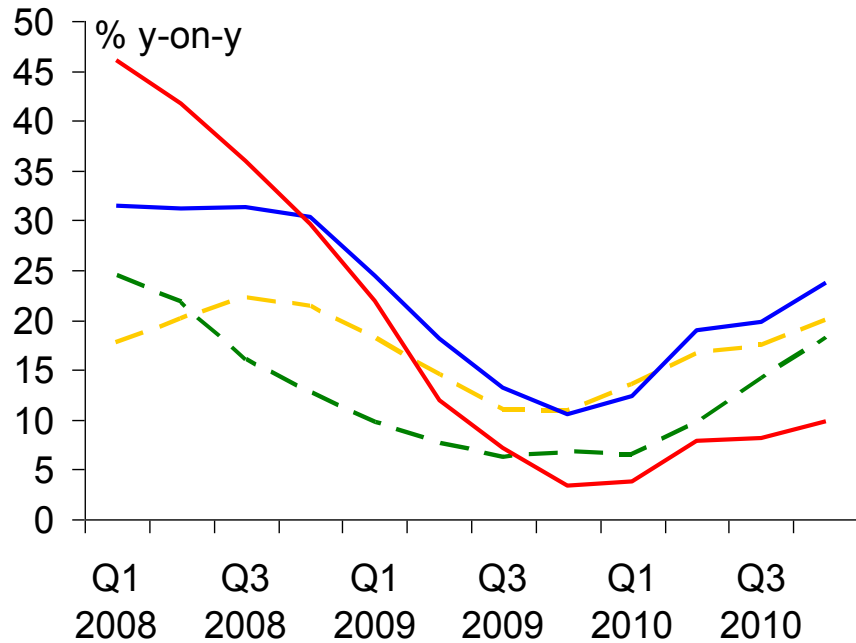
Overall it is lagging behind other emerging markets, except for Poland, Turkey...



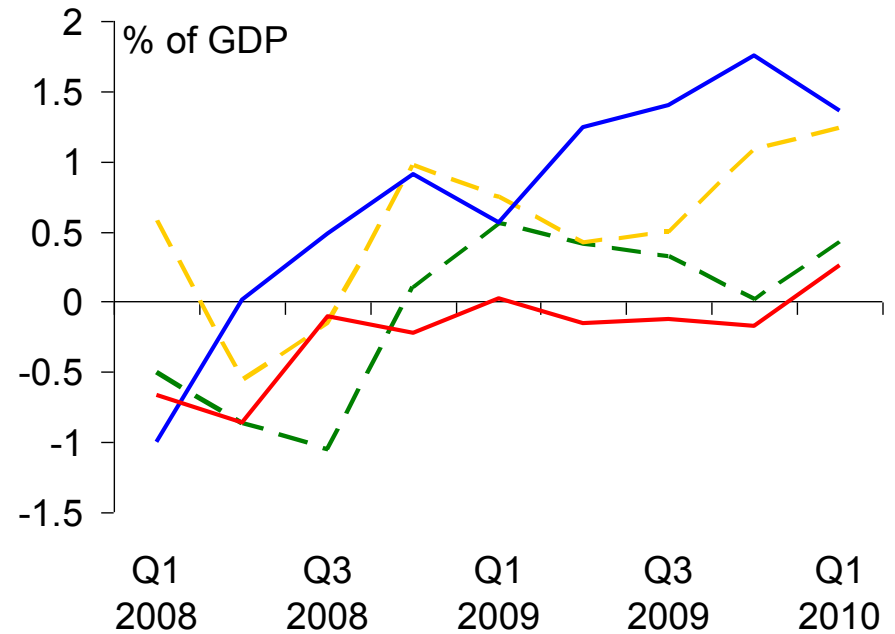
Transition Report 2010

...which are the region's "capital magnets"

Private sector credit growth



Non-FDI Capital Inflows



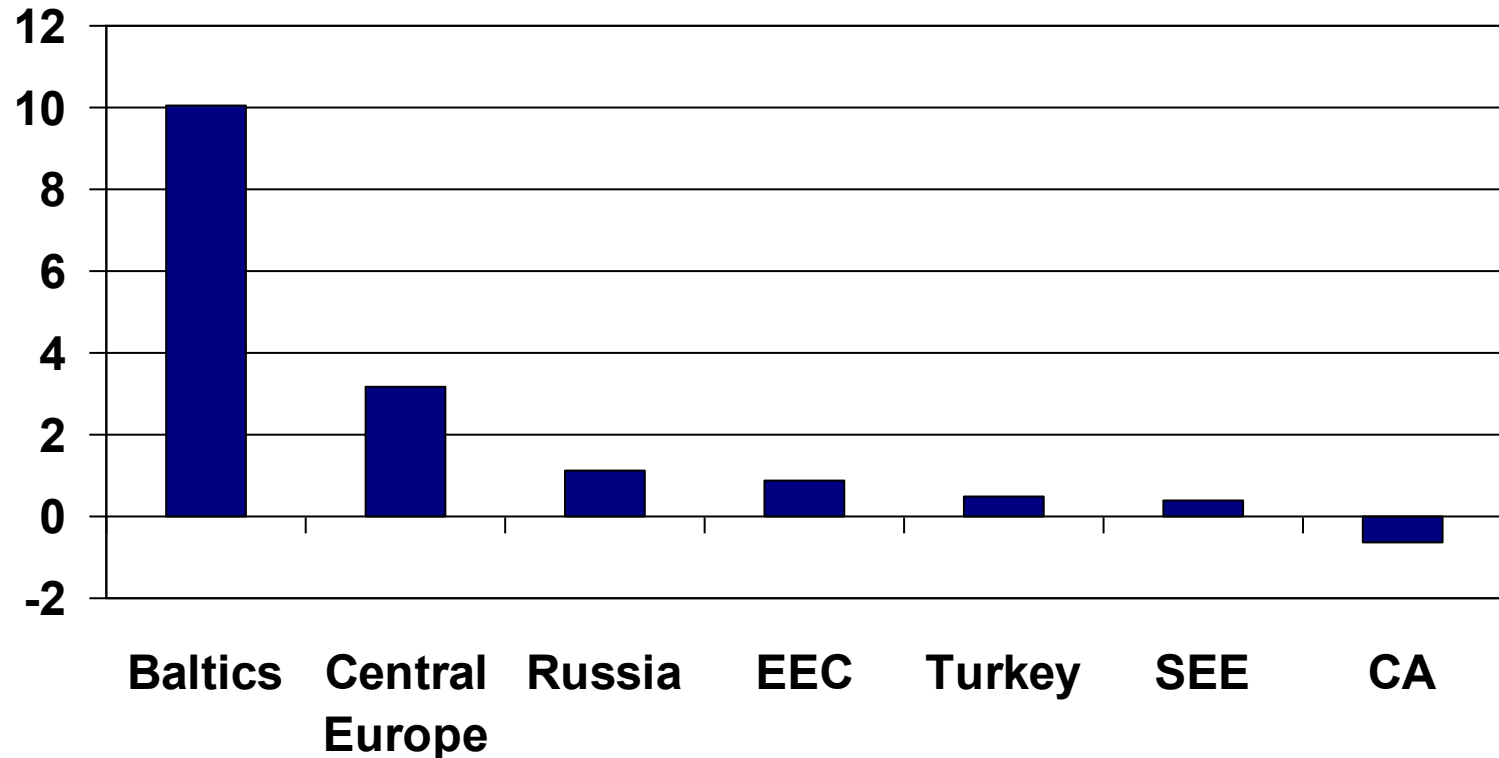
— Poland, Turkey — Rest of EBRD region

- - Latin America - - Emerging Asia

Transition Report 2010

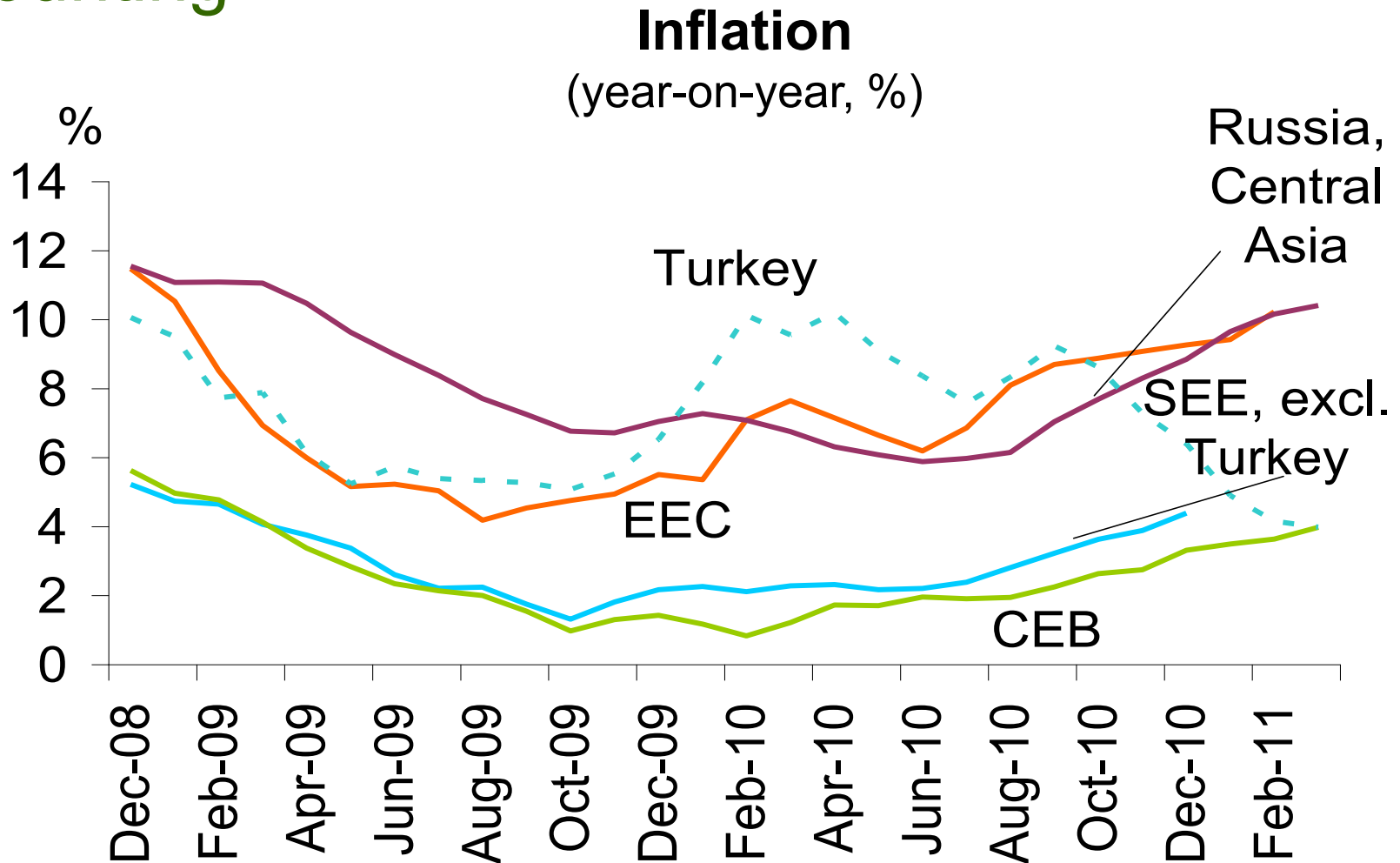
Western transition region: Many countries struggling with high unemployment

Average unemployment increase between 2007-2010

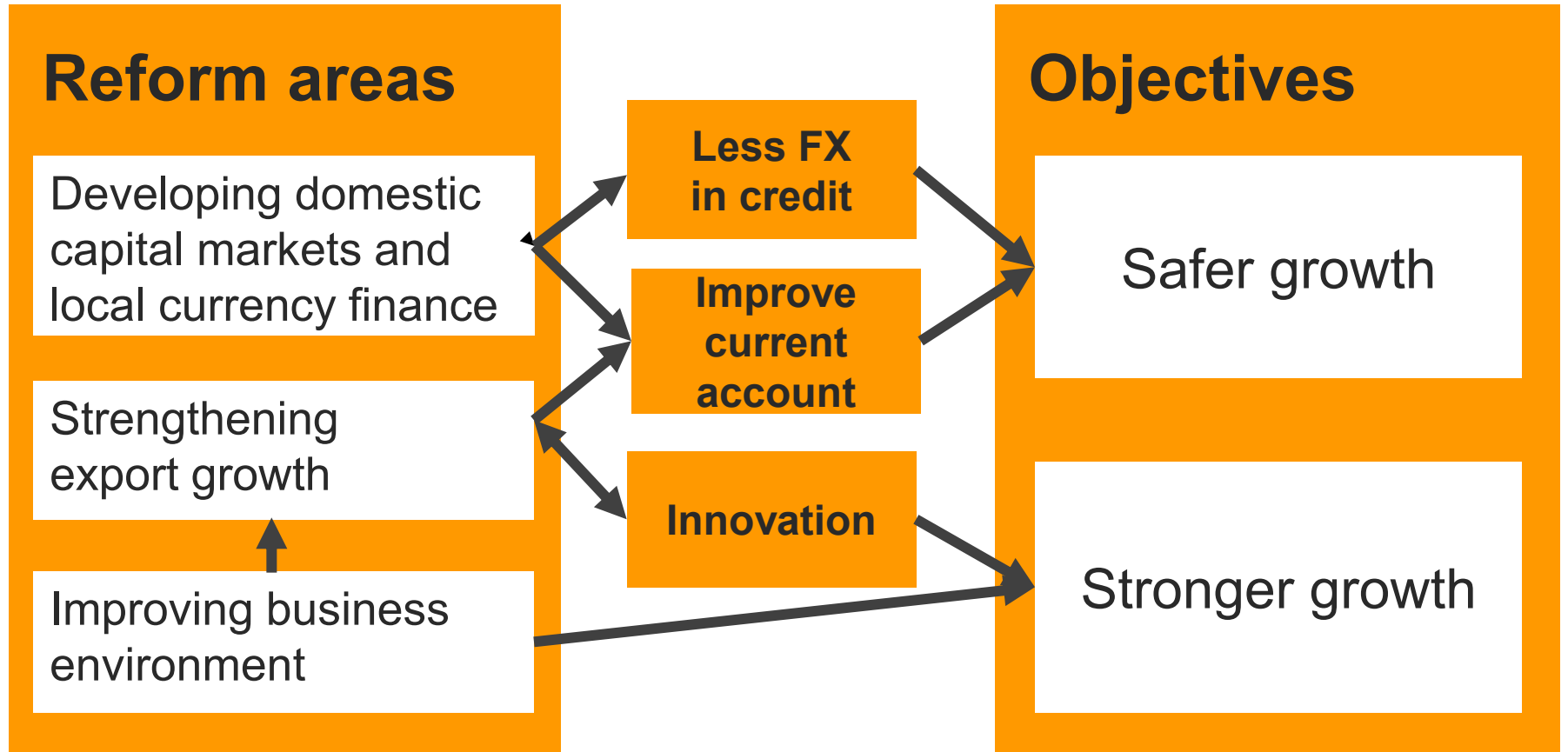


Transition Report 2010

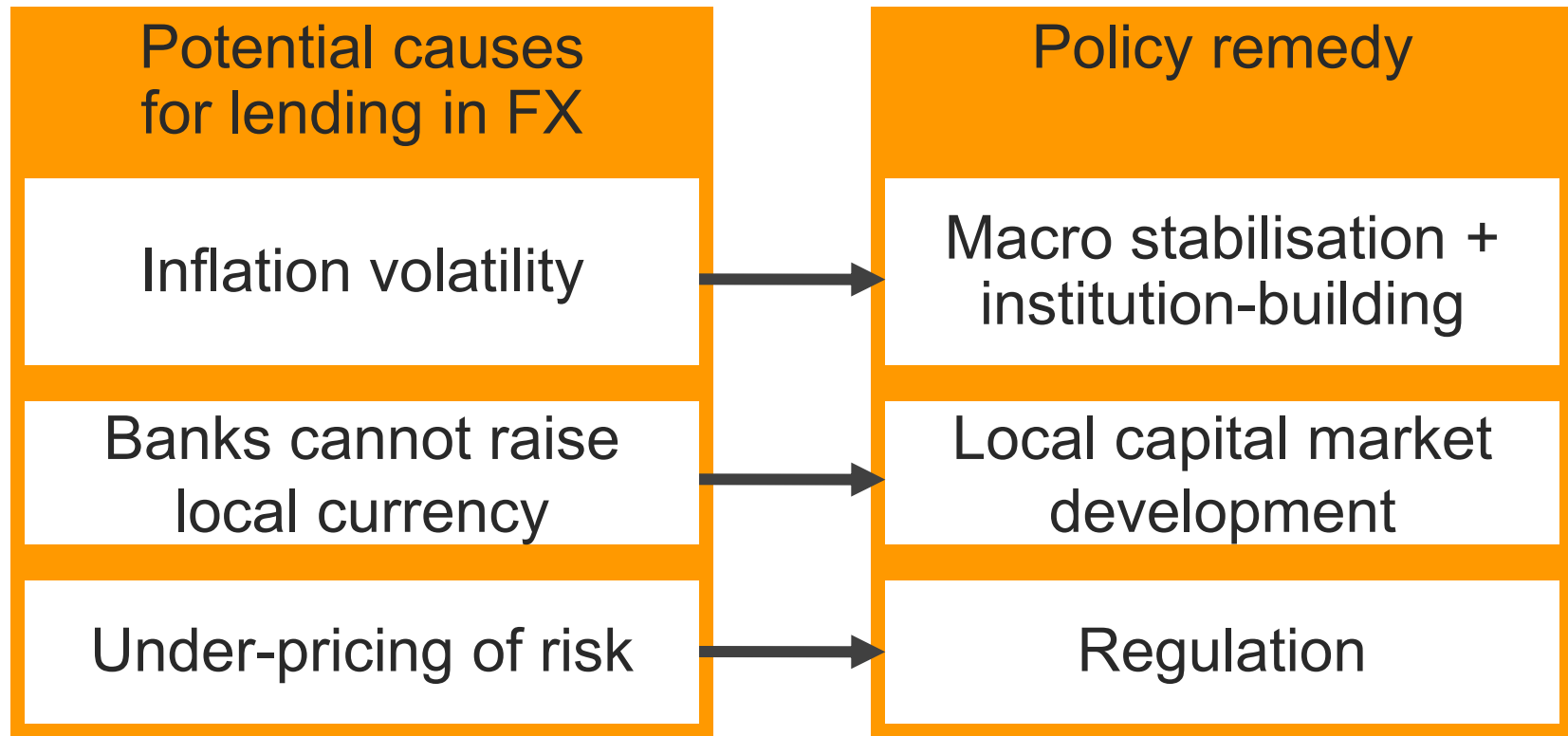
Eastern transition region: Inflation pressures mounting



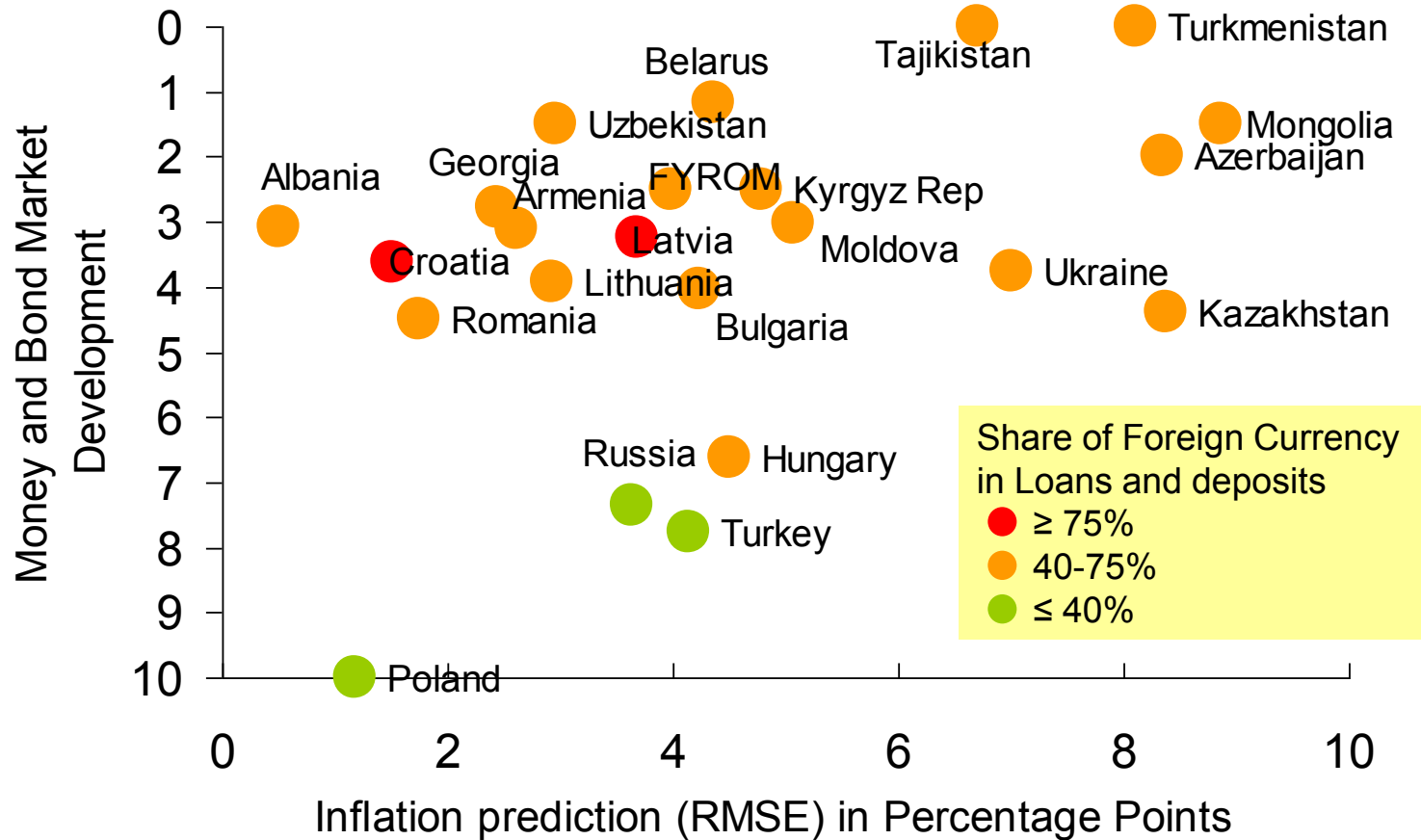
A New Growth Agenda: Necessary to return to strong, but safer growth



Encouraging local currency finance: understanding the underlying causes

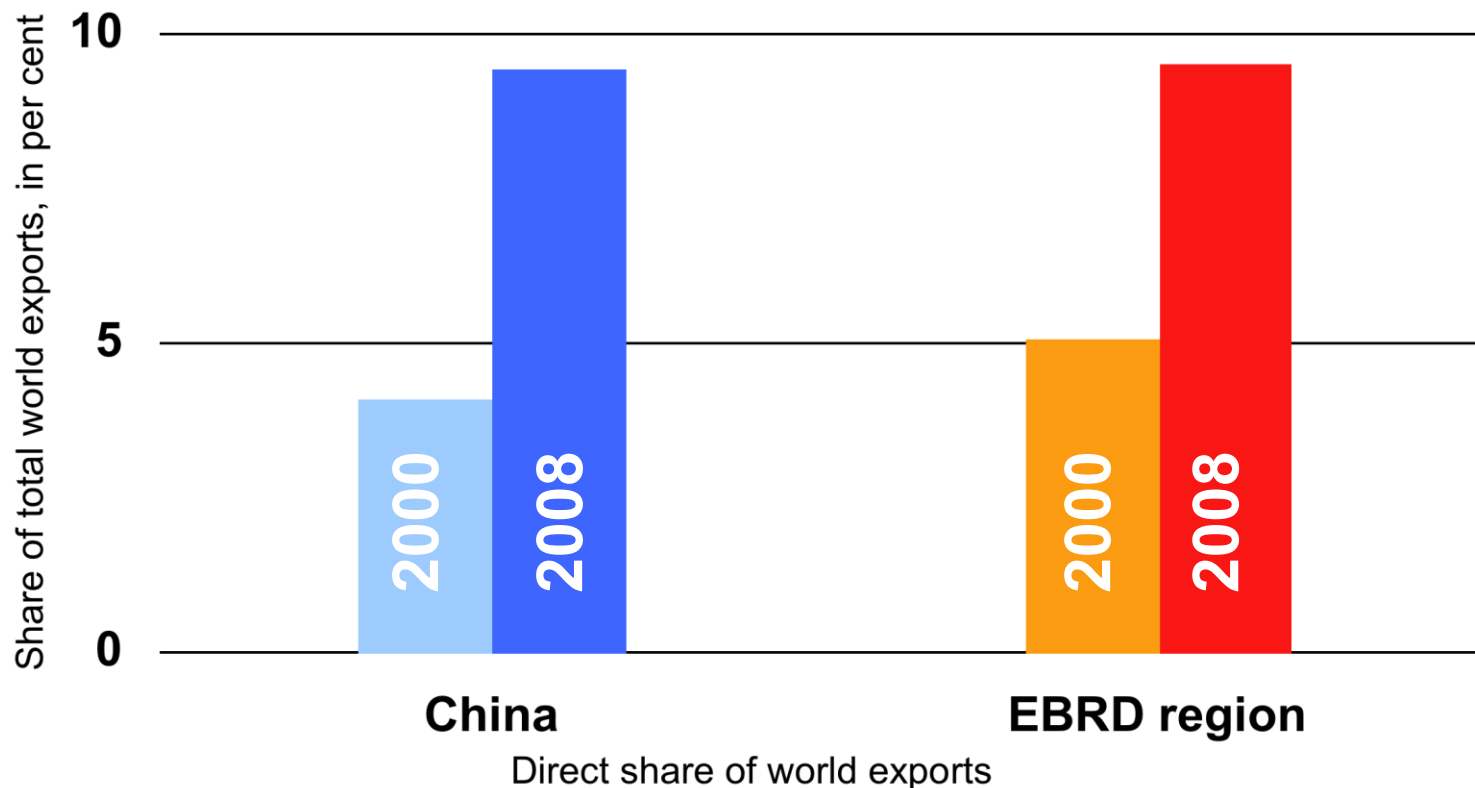


Mapping obstacles to local currency finance



Transition Report 2010

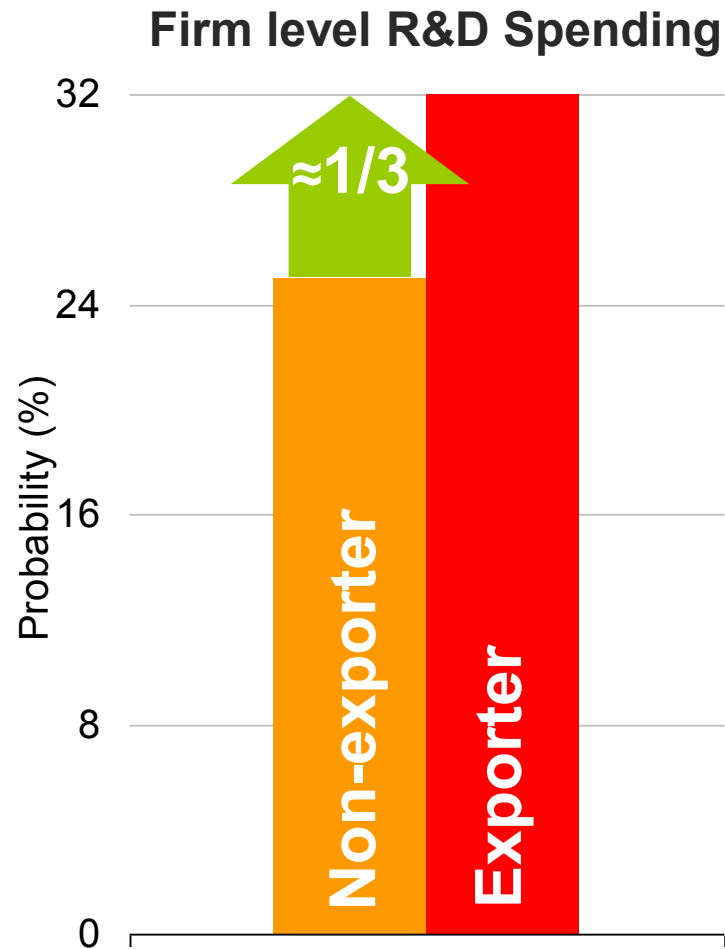
Pre-crisis: regional exports remarkably successful...



...important driver of innovation in firms...

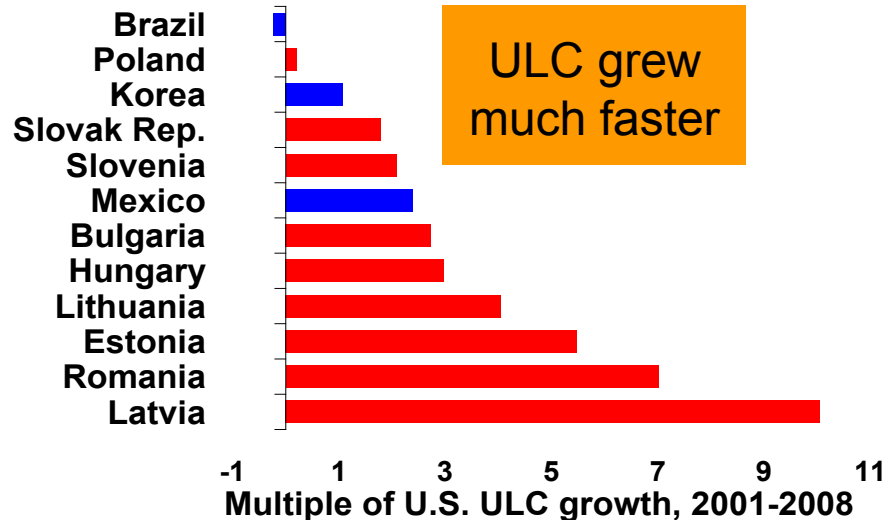
Exports ► Innovation ► Growth

Export activity significantly raises probability of R&D



... but past export growth drivers are fading

Labor costs catching up with advanced countries



Tariffs generally already at low levels

2007 average trading partner tariff only **8.5%**

Slower projected growth of large trading partners

2010-15 trading partner to grow 1 percentage point lower than before crisis

Invigorating exports requires structural reforms

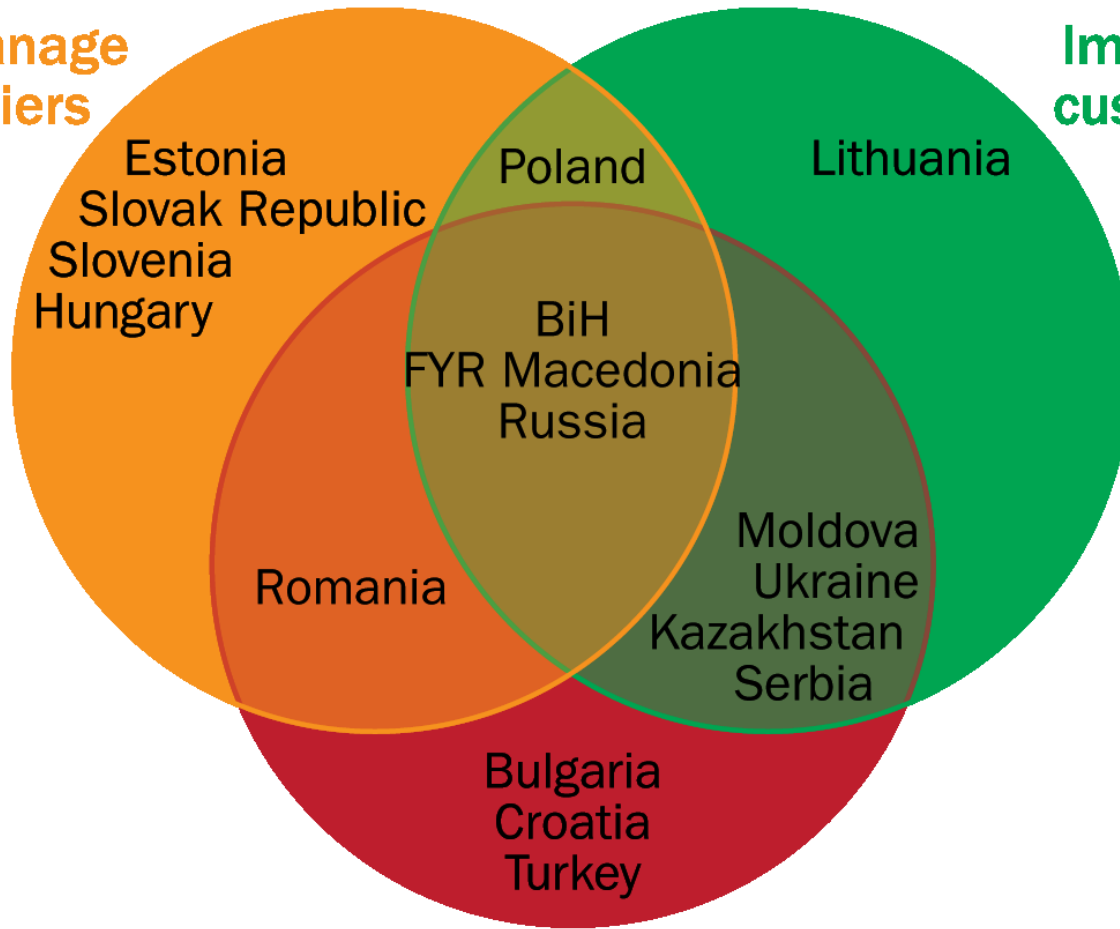
Statistical analysis points to key policy levers:

- Focus on reducing or managing non-tariff barriers
- Increase efficiency of customs
- Reduce corruption and entrench rule of law

Top priorities to improve export-friendliness

Reduce or manage non-tariff barriers

Improve customs



Reduce corruption

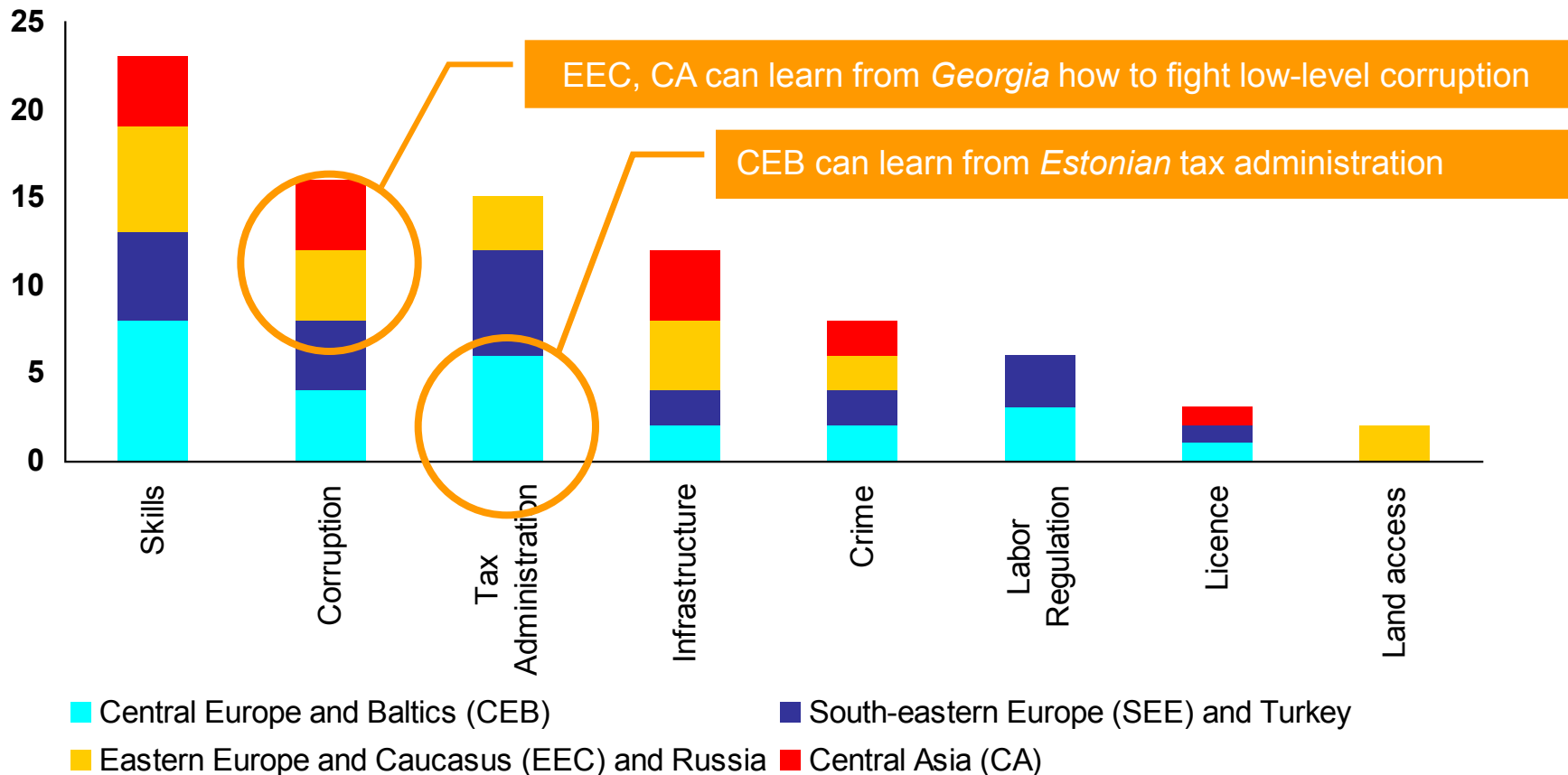
Business environment diagnostic: identify key constraints, find examples to learn from

- BEEPS business-level data identifies relatively most burdensome **business environment constraints** in each country
- Pair-wise comparisons of **similar countries** point to **good and relevant examples**

Transition Report 2010

Skills availability and corruption are viewed as top constraints to business

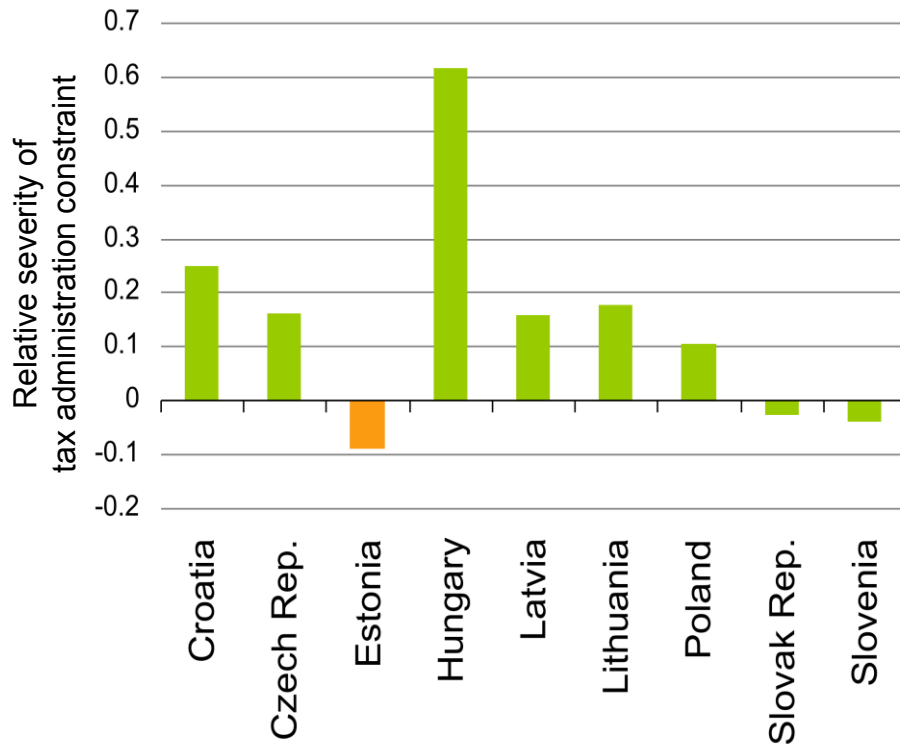
Number of countries where a constraint is among top three concerns



Transition Report 2010

Cross-country and over-the-time analysis help identify examples to follow

Tax administration: Estonia



Corruption since 1999: Georgia

