



**MONITORING COUNTRY PROGRESS
IN CENTRAL AND EASTERN EUROPE
& EURASIA**

**USAID/E&E/PO
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Introduction

This paper presents USAID/E&E's system for monitoring country progress in the twenty-seven transition country region. It is the eighth update of the original January 1997 report. As in past editions, transition progress is tracked along four primary dimensions: (1) economic reforms; (2) democratization; (3) economic performance (which includes economic structure and macroeconomic conditions); and (4) human capital (or social conditions). An important objective of this report and the *Monitoring Country Progress (MCP)* system is to provide criteria for graduation of transition countries from USAID assistance, and, more generally, to provide guidelines in optimizing the allocation of USAID resources in the region.

Salient findings for each of the four primary dimensions are articulated in the main body of the report below. Four appendices follow: *Appendix 1* provides elaboration of indicator definitions and sources; *Appendix 2* defines the transition country classification schemes that are used in the report. *Appendix 3* provides an application of the *MCP* system to decisions regarding country and sector phase-out from USG assistance. Finally, as reference, *Appendix 4* includes a "gap analysis" for each of the 27 countries.

Findings

Economic reforms

Progress in economic reforms is documented in *Tables 1 & 2*, and *Figure 1*. Nine indicators are drawn from the EBRD and grouped into two stages of reform. The first stage reforms consist of liberalization of prices, external trade and foreign currency reforms, and privatization of small-scale and large-scale units (*Table 1*). The second stage reforms consist of enterprise restructuring (credit and subsidy policy), competition policy, financial sector reforms (including banking and capital markets), and reforms in infrastructure (*Table 2*).⁶ In general, whereas much of the first stage reforms focus on liberalizing the economy from government intervention or ownership, second stage reforms concentrate in large part on building a government's capacity to govern; that is, reconstructing a leaner and more efficient government capable of enforcing the rules and providing the public goods needed for a vibrant market economy to work.

First stage economic reforms are complete or close to being complete in the large majority of transition countries (*Table 1*). It is only in the three Eurasian slow-reformers (Turkmenistan, Belarus, and Uzbekistan) where the first stage economic reforms lag considerably. Virtually all the transition countries are much farther behind in second stage reforms than first stage reforms (though the Eurasian slow-reformers much less so), and much farther behind standards in advanced industrial economies (*Table 2*). In general (though again with the exception of the Eurasian slow-reformers where second stage reform progress is uniformly slow-to-insignificant across the five indicators), the most progress in second stage reforms has been made in banking reforms. The least

⁶ *Appendix 1* provides elaboration of the indicators.

progress has occurred in competition policy (i.e., legislation and institutions to reduce the abuse of market power and promote competitive markets), followed by non-bank financial institutions, and infrastructure reform.

Good progress was made in economic reforms in 2004 across much of the region. Fifteen of the twenty-seven countries advanced in at least one dimension of second stage reforms. Seven countries made gains in 2004 in first stage reforms. No country regressed in either stage reforms in 2004.⁷ The greatest gains occurred in the Southern Tier CEE countries, and particularly in the three Southern Tier CEE leaders (Croatia, Bulgaria, and Romania), where the pull of EU accession has been the strongest.⁸ More modest gains occurred in Eurasia and in the Northern Tier CEE. Six of the twelve Eurasian countries advanced in economic reforms in 2004, though only Kyrgyzstan and Tajikistan advanced in more than one dimension. As noted by the EBRD in its *Transition Report 2004*, most of the Northern Tier CEE countries took a “reform breather” in 2004 for the most part, likely a consequence in part of having recently succeeded in joining the EU.

Figure 1 highlights the pace of economic reforms (first and second stage combined) in the three primary transition regions since 1989. It shows slower progress in recent years in the Northern Tier CEE and in Eurasia, as compared to the early 1990s. Economic reform progress among the Southern Tier CEE countries on average has appeared to be much more linear or stable over time. However, the overall Southern Tier CEE trend masks large individual country variations in the sub-region: some countries moved forward impressively early on only to stall more recently (such as Romania at least through 2003); other countries, in no small part due to wars, did not start the economic reform process until the mid-to-late 1990s (Bosnia-Herzegovina and Serbia & Montenegro are the salient cases).

Figure 1 also shows that the Northern Tier CEE countries are well out front and have remained well out front of the rest of the countries in progress in economic reforms since the transition began. Nevertheless, the Southern Tier CEE countries have been slowly closing the gap vis-à-vis the Northern Tier CEE countries (since perhaps 1999). The Eurasian countries, in contrast, do not seem to be closing the economic reform gap.

⁷ This compares quite favorably to 2003 trends in which 9 countries moved forward in at least one dimension of second stage reforms and two regressed (Moldova and Uzbekistan); 8 countries advanced in first stage reforms and none regressed.

⁸ *Appendix 2* defines the country classifications of the various transition country groups used throughout this report.

Table 1. First Stage Economic Policy Reforms					
	Trade Liberalization	Small Scale Privatization	Large Scale Privatization	Price Liberalization	1st stage average
Czech Republic	5.0	5.0	4.0	5.0	4.8
Estonia	5.0	5.0	4.0	5.0	4.8
Hungary	5.0	5.0	4.0	5.0	4.8
Slovakia	5.0	5.0	4.0	5.0	4.8
Latvia	5.0	5.0	3.7	5.0	4.7
Lithuania	5.0	5.0	3.7	5.0	4.7
Poland	5.0	5.0	3.3	5.0	4.6
Kyrgyzstan	5.0	4.0	3.7 ↑	5.0	4.4 ↑
Bulgaria	5.0	3.7	4.0 ↑	5.0	4.4 ↑
Romania	5.0	3.7	3.7 ↑	5.0	4.4 ↑
Croatia	5.0	5.0	3.3 ↑	4.0	4.3 ↑
Armenia	5.0	4.0 ↑	3.3	5.0	4.3 ↑
Georgia	5.0	4.0	3.3	5.0	4.3
Slovenia	5.0	5.0	3.0	4.0	4.3
Albania	5.0	4.0	2.3	5.0	4.1
FYR Macedonia	5.0	4.0	3.3 ↑	4.0	4.1 ↑
Moldova	5.0	3.3	3.0	3.7	3.8
Russia	3.3	4.0	3.3	4.0	3.7
Kazakhstan	3.3	4.0	3.0	4.0	3.6
Ukraine	3.0	4.0	3.0	4.0	3.5
Azerbaijan	3.7	3.7	2.0	4.0	3.4
Bosnia-Herzegovina	3.7	3.0	2.3	4.0	3.3
Tajikistan	3.3	3.7	2.3	3.7	3.3
Serbia & Montenegro	3.3	3.3 ↑	2.3	4.0	3.2 ↑
Uzbekistan	1.7	3.0	2.7	2.7	2.5
Belarus	2.3	2.3	1.0	2.7	2.1
Turkmenistan	1.0	2.0	1.0	2.7	1.7
CEE & Eurasia	4.2	4.0	3.1	4.3	3.9
Northern Tier CEE	5.0	5.0	3.7	4.9	4.6
Southern Tier CEE	4.6	3.8	3.1 ↑	4.4	4.0 ↑
Eurasia	3.5	3.5	2.6	3.9	3.4
Industrial Countries	5.0	5.0	5.0	5.0	5.0
Northern Tier CEE at Graduation	4.8	4.9	3.5	4.5	4.4
Romania & Bulgaria 2002	4.5	3.7	3.5	5.0	4.2

Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2003 to September 2004.

EBRD, *Transition Report 2004* (November 2004).

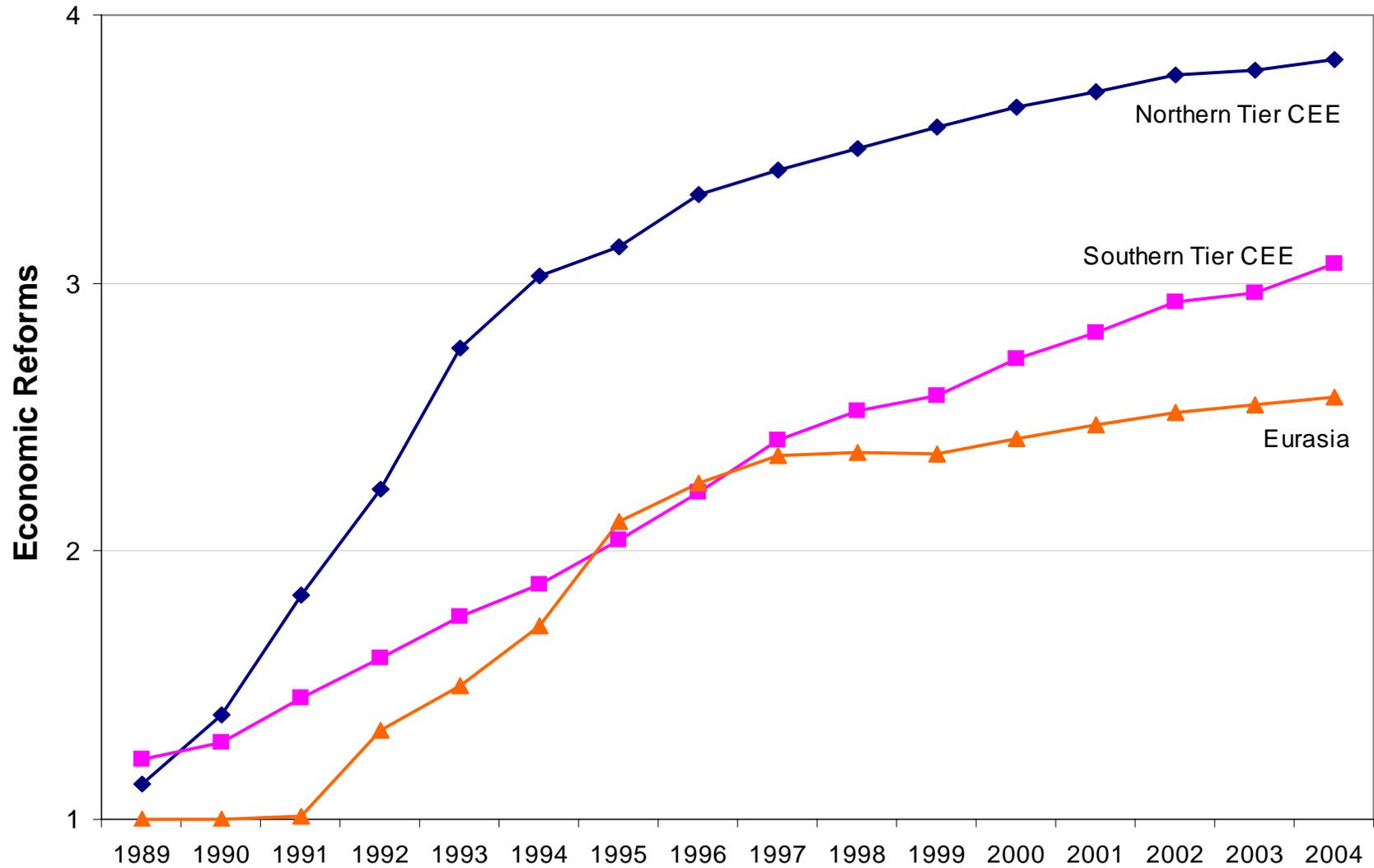
Table 2. Second Stage Economic Policy Reforms						
	Enterprise Governance	Competition Policy	Banking Reform	Capital Mkt. Reform	Infrastructure Reform	2nd Stage Average
Hungary	3.3	3.0	4.0	3.7	3.7	3.5
Czech Republic	3.3	3.0	3.7	3.3 ↑	3.3	3.3
Estonia	3.3	2.7	4.0 ↑	3.3	3.3	3.3
Poland	3.3	3.0	3.3	3.7	3.3	3.3
Latvia	3.0	2.7	3.7	3.0	3.0	3.1
Slovakia	3.0	3.0	3.7 ↑	2.7	2.7	3.0 ↑
Croatia	3.0 ↑	2.3	4.0 ↑	2.7	3.0 ↑	3.0 ↑
Slovenia	3.0	2.7	3.3	2.7	3.0	2.9
Lithuania	3.0	3.0	3.0	3.0	2.7	2.9
Bulgaria	2.7	2.3	3.7 ↑	2.3	3.0 ↑	2.8 ↑
Romania	2.0	2.3	3.0 ↑	2.0	3.3 ↑	2.5 ↑
Russia	2.3	2.3	2.0	2.7	2.7 ↑	2.4 ↑
Kazakhstan	2.0	2.0	3.0	2.3	2.3	2.3
FYR Macedonia	2.3	2.0	2.7	2.0 ↑	2.0	2.2 ↑
Armenia	2.3	2.0	2.3	2.0	2.3	2.2
Ukraine	2.0	2.3	2.3	2.3 ↑	2.0	2.2 ↑
Georgia	2.0	2.0	2.7 ↑	1.7	2.3	2.1
Albania	2.0	2.0 ↑	2.7 ↑	1.7	2.0	2.1 ↑
Moldova	1.7	2.0	2.7 ↑	2.0	2.0	2.1 ↑
Azerbaijan	2.3	2.0	2.3	1.7	2.0	2.1
Kyrgyzstan	2.0	2.0	2.3	2.0	1.7 ↑	2.0 ↑
Bosnia-Herzegovina	2.0	1.0	2.7 ↑	1.7	2.3	1.9
Serbia & Montenegro	2.0	1.0	2.3	2.0	2.0	1.9
Uzbekistan	1.7	1.7	1.7	2.0	1.7	1.8
Belarus	1.0	2.0	1.7	2.0	1.3	1.6
Tajikistan	1.7	1.7	2.0 ↑	1.0	1.3 ↑	1.5 ↑
Turkmenistan	1.0	1.0	1.0	1.0	1.0	1.0
CEE & Eurasia	2.3	2.2	2.8	2.3	2.4	2.4
Northern Tier CEE	3.2	2.9	3.6 ↑	3.2 ↑	3.1	3.1
Southern Tier CEE	2.3	1.8	3.0 ↑	2.1 ↑	2.5 ↑	2.5 ↑
Eurasia	1.8	1.9	2.2 ↑	1.9	1.9 ↑	1.9
Industrial Countries	5.0	5.0	5.0	5.0	5.0	5.0
Northern Tier CEE at Graduation	2.9	2.6	3.2	2.8	2.7	2.8
Romania & Bulgaria 2002	2.2	2.3	3.0	2.2	2.9	2.5

Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2003 to September 2004.

EBRD, *Transition Report 2004* (November 2004).

Figure 1

Economic Reform



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. EBRD, *Transition Report 2004* (November 2004 and earlier editions).