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# THE ECONOMIC TRANSFORMATION AND ITS RESULTS IN SELECTED EUROPEAN COUNTRIES[1]

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*ABSTRACT. The changes that took place after 1989 in the countries of Central-Eastern Europe were political, social and economic. They were especially combined with the economic transformation. Due to the lack of comparable transformation experiences, the governments and societies of the countires that took up the "challenge" of transformation were left on their own to organise their own programmes and activities.*
*The aim of this study is to analyse and evaluate the economic transformation, with particular focus on three areas: the initial conditions, the progress, the results. At the same time, the fundamental hypothesis of this study is that from the very beginning od the systemic changes in the transitional economies there was a strong correlation between the actual changes and the scale and intensity of changes in the economy.*

***JEL Classification**:* P20, P24 **Key words**: *transitional economies*

## Introduction

The changes that took place after 1989 in the countires of Central-Eastern Europe and in the countires that were part of the USSR, were at the same time political, special and economic.
The changes involved especially economic transformation, however, further in this study we present the transition as the total and radical transformation of goals, principles and operating conditions of all economic entities, including the state itself. The transformation was not a limited (or partial) attempt at reforming the previously existing system of centrally governed authoritarian economy. It was an effort to create a system bearing the characteristics of a democratic market economy. While there was social awareness of the need and necessity to effect such a ground-breaking and quality systemic change – both among the political and economic elits and the common members of the societies – what remained vague was not only the particular variant or model of the developed market-oriented economy to be achieved, but also – which was even more important – the method of effecting the systemic transition and economic changes in particular, as well as the scope, pace of the changes, etc.
In the face of the lack of described and historically comparable transitional experiences of other countires and in the light of the scale of changes, the governments and societies of the countries that took up the "challenge" of transformation were left on their own to apply various (though admittedly significant) elements of theoretical and practical achievements of market economies (especially the highly developed ones) on the one hand and on the other hand – to invent their

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own, often pioneering, programmes and activities, taking into account diverse historical and contemporary conditions of their socio-economic situations.
Therefore, when undertaking a closer (though still highly synthetic) analysis and evaluation of the economic transformation, taking into accout particularly the experiences and achievements of a selected (but also especially compact and representative) group of transitional economies, we concentrate on three areas in particular: the initial conditions, the progress and the results. At the same time, the fundamental hypothesis of this study is that from the beginning of the systemic changes in the transitional economies there was a strong correlation between the actual changes and the scale and intensity of changes in the economy. Moreover, the economic policy of the state as well as the accompanying reorganisation of the institutional order contributed significantly to both achievements and failures of transformation.

**Initial conditions**

Although similar in many respects, the transitional economies were – and still are – significantly different with respect to political, economic, social and cultural acpects (Kozarzewski, 2006, p. 37; Fischer, Sahay, 2000, p. 35). The differences had an impact on the progress and the results of the transformation[2].
Therefore, this study first analyses selected political, social and economic aspects of the functioning of 13 transitional countires (*TC*-13) in the year preceding the transformation (*t*-1). The countries have been selected according to their affiliation to particular regions (the initial year of the transformation is given in the brackets). The group consists of the following regions and countries:
a) Central-Eastern Europe and Baltic states (CEE): the Czech Republic (1991), Estonia (1992), Lithuania (1992), Latvia (1992), Poland (1990), Slovakia (1991), Hungary (1990);
b) South-East Europe (SEE): Albania (1991), Bulgaria (1991), Croatia (1990), Macedonia (1990), Romania (1991), Slovenia (1990)[3].
The common features distinguishing all the 13 countries are in particular: the previous economic system (centrally governed), being the effect of the long years of the communist rule (45 years on average – see table 5 in the annex), which led to economic crisis in all of the countries. The nationalisation of property contributed to the formation of the state monopoly in the overwhelming majority of economic sectors. The functioning of the system led also to the control regulation of most goods and services, in particular: commodities, means of production, financial assests and other. Citizens' initiatives were subject to strict control of the state authorities and the censored media were used not only for information but also for propaganda. The extended system of order and distribution was accompanied with a kind of welfare state attempting to provide – by means of budgetary transfers – "socialist" equality with respect to education, culture, health services, social benefits, etc. Also state businesses were to provide social security to people (Tomidajewicz, 2009, p. 33-34), as one of their purposes was to permanently reduce the economic threats that could affect the employees. The system led to a noticeable growth of the socio-economic gap between the analysed transitional countries (*TC*-13) and developed market economies.
Furthermore, the analysed countries were characterised by similar parameters describing the political institutions operating in them. As a result, the level of political freedom in 1989 – measured with the Freedom in the World index – indicated that Albania, Bulgaria, Czechoslovakia, Romania and other Baltic states were countries with practically no freedom (see table 5 in the annex). Only the societies of Croatia, Macedonia, Poland, Slovenia and Hungary were partially free. This relative political freedom in these countries made it possible for them to

[2] The initial conditons are one of the significant causative factors of transformation, next to the Policy of the state, the external influences and the accompanying processes. Taken together, they create the so-called inconsistency of the causative factors of the transformation. More: (Bałtowski, Miszewski, 2006, p. 97–99).
[3] The analysis does not take into account Russia and former Soviet republics (except for the Baltic states), countries embroiled in war: Bosnia and Hercegovina, Serbia and later separated Montenegro and Kosovo.

outpace the other transitional countries with respect to the initial state of institutional reforms that preceded the systemic transformation.

One of the fundamental differences between the analysed countries was their demographic potential. In the last year before the transformation the population of the analysed countries was 116 million, 33% of which were the citizens of Poland (see table 5 in the annex) and 20% – the inhabitants of Romania. Also Hungary and the Czech Republic had relatively numerous populations (more than 10 million). Bulgaria was a medium-sized country, whereas the other 8 countries were inhabited by the total number of about 25.4 million people, which constituted 21.9% of the population of all the analysed countries. The country with the smaller number of citizens was Estonia, with the population on 1.58 million (Piotrowska, 2006, p. 21-37).

At the "initial" point of the transformation the general level of economic development measured with the GDP *per capita* index was different for particular countries. In order to illustrate the differences in the level of economic activity in all of the countries, let us use the data from 1989, when some of the countries, particularly the so-called "early reformers" (Croatia, Czekoslovakia, Hungary, Poland and Slevenia) were already implementing their attempts at reforms, whereas the Baltic states were to operate for at least two more years within the social, political and economic structures of the USSR. The data on the GDP level *per capita* in the transitional economies shown by the purchasing power capacity (PPP) of American dollar are presented in table 5. As the data indicate, the level of GDP *per capita* in 1989 is characterised by significant discrepancies between particular countries, as the group of transitional countries consists of both countries whose level of GDP per capita by PPP equalled 2,833 dollars (Albania) and those in the case of which it amounted to more than 11.5 thousand dollars (Slovenia, the Czech Republic). Poland, Romania and Macedonia were characterised by lower than average values of GDP *per capita*.

The diversified production levels in 1989 was the effect developmental differences between the economies of the analysed countries, as well as the economic crisis that took place before the start of transitional programmes. In the year preceding the start of the transformation, particular countries recorded not only the diversified levels of production but also the dynamics of the social product. Apart from Macedonia, Hungary and Poland, the transitional countries were all affected by recession, though of different intensity. The strongest was the recession in the Baltic states, Albania, Bulgaria and Romania. The dynamics of GDP in the analysed transitional economies was shown in table 5 in the annex.

Essential differences between *TC*-13 countries manifest themselves also in the remains of the former market system, especially as far as the share of the private sector in the economy is concerned. According to the estimates of EBRD, the share of the private sector oscillated between 5% in Albania and 25-30% in Hungary and Poland respectively (*Transition Report 1999. Ten Years of Transition*, 1999, p. 184, 228, 252). The aversion to the capitalist ownership of means of production, characteristic for socialist economies, manifested itself strongly in the Baltic states and the former Czechoslovakia. With this respect, the situation in Hungary and Poland was special, as the private sectors in these two countries were relatively the largest. The private sector in Poland was constituted by individual farming and small manufacturing, mostly craft. In Hungary, the private sector was developed as a result of – among others – the reforms of 1956.

Yet another difference between the analysed countries lied in the level of sustainability of economies, which in turn caused different levels of inflationary pressure, more or less suppressed by the authorities (Balcerowicz, Gelb, 1995, p. 8) (see table 5 in the annex). In the region of CEE countries, relatively sustained were only the economies of Czechoslovakia and Hungary, where the rationing of goods was not excessive. Hence, these two countires recorded relatively low inflation level. The hyperinflationary growth of the average level of prices took place in the countries of former Jugoslavia, in Poland and in the Baltic states.

The phenomenon of unemployment was formally absent from the centrally governed economies, because work – just as all other goods – was "scarce". In reality, however, there was hidden unemployment – not included in the official statistics (Balcerowicz, Gelb, 1995, p. 31). Due to this approach to unemployment, most of the countries were characterised by the zero or close to

zero value of the "official unemployment rate"[4]. In some countries statistics revealed data on the under-utilisation of the work factor even before the start of the transitional programmes. These were the countries of former Jugoslavia and Albania.
As a result of nationalisation the transitional countires had developed public sectors, which in turn led to high budgetary spending and in consequence – problems with achieving budgetary balance. In the region of Central Europe, only smaller countires, i.e., Slovenia and Estonia, recorded budgetary surplus. Few countries, among them Hungary, Moldavia and the Czech Republic, managed to maintain budgetary balance. The rest of the countries recorded deficits, in some cases were relatively high in relation to the GDP, for instance: 11.9% in Slovakia, 8.1% in Bulgaria, 7.4% in Poland. The data concerning the budgetary results of particular countries and the budgetary redistribution are shown in table 5 in the annex.
The transitional countries differed also with respect to the current account balance and the size of the foreign debt in relation to the GDP (see table 5 in the annex). The high foreign trade deficit, amounting to 29.1% in relation to the GDP was recorded by Albania. At the opposite end of the spectrum was Latvia, whose foreign trade surplus exceeded 17% in relation to the GDP. As for the foreign debt, the infamous leader of the ranking remained Slovenia, with the external indebtedness level amounting to 186.9% in relation to the GDP. Relatively highly indebted were also such countires as: Albania (66.0%), Hungary (65.8%), Poland (49.3%), Bulgaria (48.2%) and Latvia (36.8%).
At the beginning of the transformation, the level of infrastructure necessary for the proper functioning of the societies and economies in the countries that undertook the transition was relatively low. Deficiencies were particularly visible in the area of technological infrastructure, especially in the fields of telecommunication and transport. A good example of the infrastructural backwardness was the number of telephone lines per 100 inhabitants. While none of the countries exceeded the number of 25 telephone lines per 100 inhabtants, the countries varied significantly with this respect, with the record discrimination of the people of Albania[5], where there were only 1.2 telephones per 100 inhabitants. In the region of the CEE countries, the infrastructural backwardness of Poland was the most significant. The best developed infrastructure was in the Baltic states and the former Jugoslavia and Bulgaria.
The descriptive characteristics of individual transitional countries presented above are obviously insufficient to clearly and comprehensively evaluate the differences between the analysed countries as regards the initial level of their preparedness to the systemic change. Therefore, in order to more specifically estimate the position of particular countries (and particular countries against the background of distinguished regions), let us use ranking and cluster analysis[6]. The general conclusion that can be drawn from the results of the ranking is that, against the background of all the analysed 13 countries, the countries of South-Eastern Europe (except for Slovenia) had relatively worse initial conditions for transformation. Better initial conditions were characteristic for the countries of Central-Eastern Europe, with the Czech Republic as the leader in the area and Poland with relatively the worst starting position.
The results of cluster analysis taking into account such criteria as: the GDP dynamics, the inflation rate, the unemployment rate, the budgetary balance and the current account in relation to the GDP are shown in Figure 1. The dendrogram data confirm the previously drawn conclusions. The particular countries were characterised by quite significant relative diversification of the initial conditions for reforms, which allows us to discriminate five clusters of countries: two Baltic states (Estonia and Latvia), the countries that emerged from the disintegration of the former Jugoslavia (Croatia, Macedonia and Slovenia, the latter falling behind the resto of the countries),

[4] We must remember that official data did not include work trias abroad.
[5] According to the EBRD data: www.ebrd.com, DOA 25.01.2011.
[6] The description of methods of multi-dimensional grouping, also known as the cluster analysis can be found in, for example: (Poczta-Wajda, 2010, p. 77-82). For the purpose of this study, we adopted the Ward method and the Euclidean distance.

the countries of the best initial conditions – the Czech Republic and Hungary, five countries of the Central Europe (Bulgaria, Lithuania, Poland, Romania and Slovakia), and Albania.

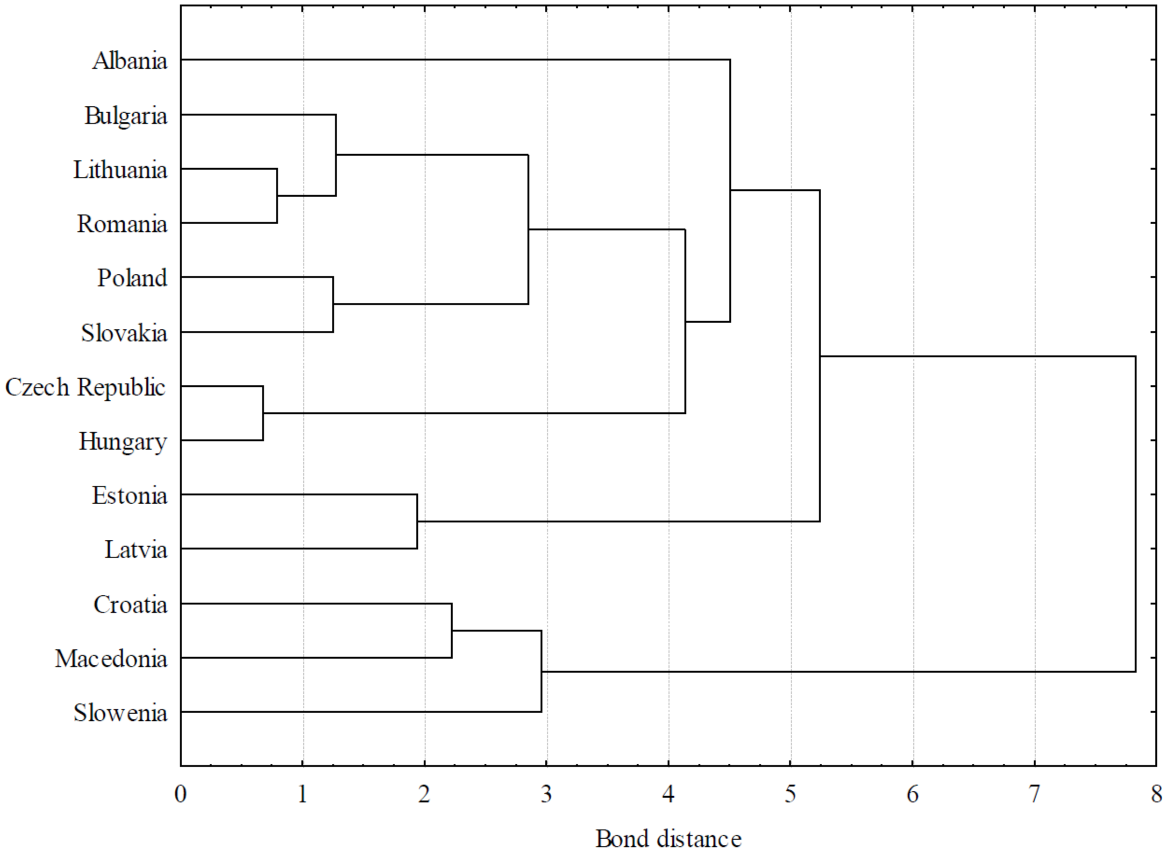


Figure 1. Cluster analysis dendrogram for *TC*-13
Source: own study.

**The progress of transformation**

Transitional recession

The transition from the centrally governed economy to the market economy was accompanied with great expectations concerning the improvement of the living conditions. The societies of transitional countries expected that they would quickly achieve the level of prosperity characteristic for developed countries. The high hopes were the result of the belief that the exchange of the wasteful system of the centrally governed economy for an economically efficient market economy must lead to the increase in production and welfare.
Bearing in mind the findings concerning the initial conditions in the transitional countries, let us now consider the progress of the transformation itself and its results, analysing and evaluating the 13 transitional countries in the period of 1989-2009. The transformation in these countries started in 1990 (5 states), in 1991 (5 states) and in 1992 also in the former countries of the USSR (3 states). In the first period of the transformation all of these countries experienced deep recession (the transitional recession). The production of the countries decreased regardless of both the economic conditions prevailing at the moment when the transformation started and the method of transition into the market economy itself[7].
Figure 2 shows the changes in the size of production in the transitioning countries by groups. Compering the experience of the countries of Central-Eastern Europe and the Baltic states and the

[7] As for the persistence and debt of the transitional recession, it has been indicated that the official statistical data seriously overestimate the depth of the transitional recession (Bartholdy, 1997, p. 131; Berg, 1993, p. 40-41).

countries of South-Eastern Europe in the 90s, we can clearly see a significantly lower pace of economic growth in the other group. Whereas the curve depicting the changes in production in Central-Eastern Europe and in the Baltic states looks like a letter “J” in the diagram (which means several years of recession followed by the return of the economic growth and, as a result, the increase in the production level exceeding the one recorded in 1989), the shape of the curve for the countries of South-Eastern Europe is irregular, which indicates longer recession also followed by the increase in production but at a much slower pace.

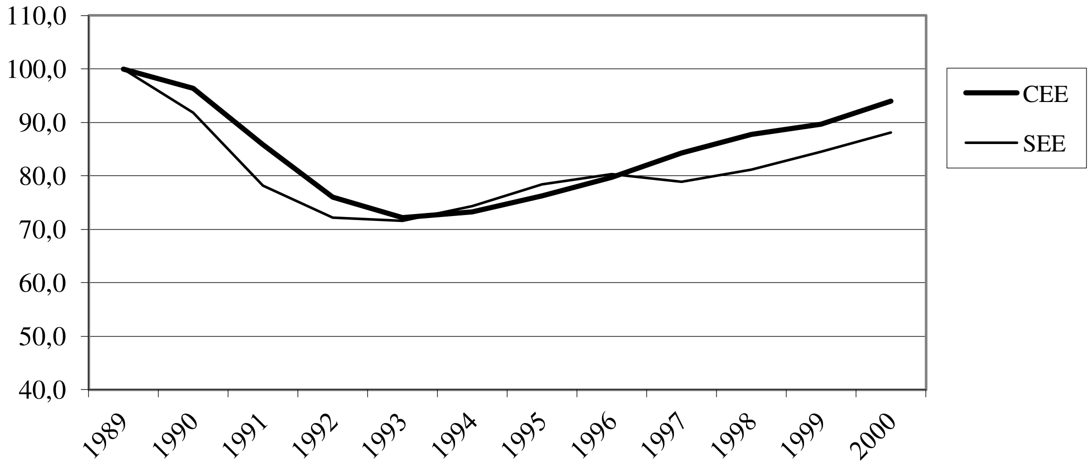


Figure 2. Changes in the GDP values in *TC*-13 (1989=100)
Source: “Transition report 1997”, EBRD, London 1997; “Transition report 2000”, EBRD, London 2000; “Transition report 2007”, EBRD, London 2007.

Taking 1989 as the base year we can see that the recession was the least severe in the Czech Republic, Poland, Slovenia and Hungary (where the production did not fall beneath 80% of the production level in 1989; see table 6 in the annex). The countries most affected by the recession were: Bulgaria (where the recession lasted particularly long – 7 years), Croatia, Lithuania and Latvia (where at its lowest point, the production did not exceed 60% of the one in the base year). Moreover, whereas the countries of Central-Eastern Europe and the Baltic states “returned” to the growth path, the experiences of the countries of South-Eastern Europe were different. After the period of the transitional recession the production grew, but it grew slower than in CEE or even suffered more temporal decreases (as in, for instance, Bulgaria or Romania).

The above data confirm that the transitional recession was a common experience of all the countries going through the transformation. Neither relatively good economic conditions at the start of the transition nor a particular transitional strategy could save any of the countries from the recession, although the conditions had an impact on its persistence and depth. The most important causes of recession, most often mentioned in the relevant literature, were: the restrictive macroeconomic policy (Balicki, 1994), the collapse of the COMECON (Gács, 1995; Rodrik, 1993), the backwardness of the financial sector (Campos, Coricelli, 2002; Calvo, Coricelli, 1993), the transition from the seller’s market to the buyer’s market (Winiecki 1991; Berg, 1994), the transformation of the structure of the economy (Fardmanesh, Tan, 2005; Hernández-Cata, 1997), the problems with the coordination of economic activities (Kornai, 1994; Blanchard, Kremer 1997; Blanchard 1996, 1997).

The example of Czechoslovakia (i.e., the country from 1990 to 1992 that existed under the name of the Czech and Slovak Federal Republic) indicates the importance of the structure of the economy for the depth of the transitional recession. Before the state dissolved in 1993, the same transitional strategy had been implemented in both its parts, but its negative results were initially much greater in the case of Slovakia. One of the reasons behind it was the fact that the Slovakian economy was dominated by heavy industry – much more difficult to restructure, of smaller potential and significantly technologically backward – and that it delivered less processed products, and was highly dependant on foreign partners (Gurbiel, 2001, p. 12). Other political factors that influenced the length of the transitional recession were political instability and ethnic conflicts. Such were the experiences of the countries that emerged after the collapse of the USSR and Jugoslavia (de Melo, Denizer, Gelb, Tenev, 1997; Popov, 2000; Staehr, 2003).

In the analysed period all the countries exceeded the GDP level from the year preceding the start of the economic transition. This was first achieved in Poland (5 years), then in Slovakia and Slovenia (7 years) and Albania and Estonia (8 years), as a result of the implementation of the transitional programmes. The most difficult was the situation in Bulgaria and Macedonia where only in 2008 the production achieved the level from before the transformation, but as a result of recession the level of production in Bulgaria in 2009 reached only 97.8% of the GDP level from the year before the start of the transformation (see table 6).

The average pace of the changes in the GDP after achieving the minimum GDP level in the analysed countries oscillated between 6.3% in Albania and 2.6% in Macedonia. High average annual growth rate (exceeding 4%) was recorded also in the Baltic states, in Bulgaria, Poland and Slovakia. At the same time, the countries that were more developed at the begining of the transformation, such as the Czech Republic and Hungary, had a lower production growth rate (2.8% average annual; see table 6).

Programmes of macroeconomic stabilisation

All of the analysed transitial countries introduced stabilisational programmes at the very beginning of the transformation (colums 2 in tables 6 and 7). The main aim of the stabilisation of the economy was first of all to reduce the inflation and the budget deficit. A year before the implementation of the stabilisation programmes most of the economies struggled with very high inflation, which in most of the countries – with the exception of the Czech Republic, Slovakia and Hungary – was actuallty two- or three-digit hyperinflation.

The sources of the inflation included first of all the excess demand (the inflation bias) and the increase in costs stemming from the rapid wage growth, as well as the inefficient activities of enterprises (Matkowski, 2003, p. 751). The governments of the countries applied various instruments to combat inflation (the realignment of the money supply, restrictive monetary policies, a nominal anchor in the form of the fixed exchange rate). More generally, we can say that the struggle against inflation in the transitional countries ended in a success. Assuming that the stabilisation of inflation can be indicated by, for example, its permanent drop beneath the level of 40%, it can be concluded that all of the analysed countries met this condition (see Figure 3). Moreover, in most of the countires the goal was achieved within the period of 1-3 years. The process lasted the longest in Romania (8 years). In 2008 the highest inflation rate was recorded in Latvia, Lithuania, Estonia and Bulgaria (about 10%).

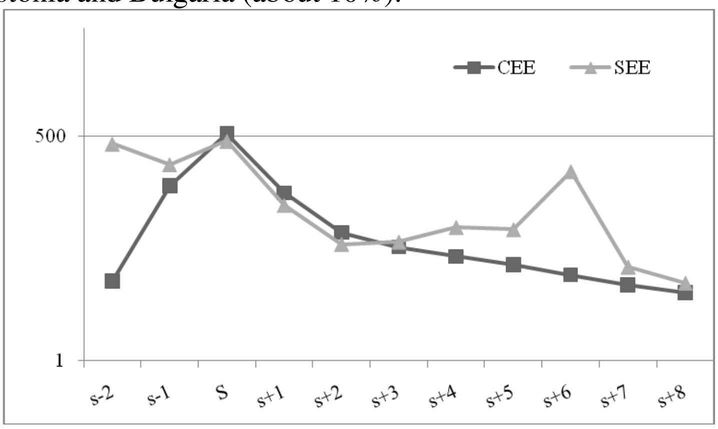


Figure 3. Inflation level (logarithmic scale) by groups

Source: own study based on the data of: *IMF Economic Outlook Database*, April 2010. Note: S – refers to the year preceding the implementation of the stablilisation programme in a given country.

Another significant goal of the stabilisation programme was to balance the public finances, including the reduction of the budgetary deficit, which clearly grew at the beginning of the transformation (as a result of the transitional recession, but also due to the lack or slow changes in the structure of budgetary expenditures), while increasing the social spending (see Figure 4.). The high budgetary deficit could contribute to growing inflationary pressure (Fischer, Sahay, Végh, 1996, p. 231).

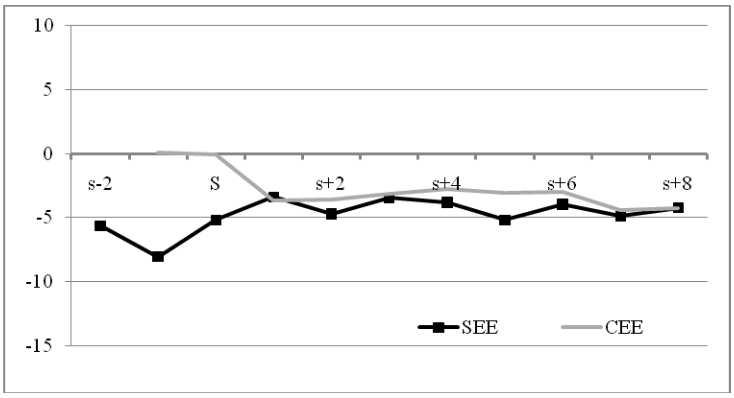


Figure 4. State budget balance in relation to the GDP of the countries by groups (in %)
Source: own study based on: (*Transition Report* 2009, 2009; *Transition Report* 2000, 2000).
Note: S – refers to the year in which the stabilisation programmes were implemented in given countries.

Liberalisation and privatisation

As we know, the transitional countries also started intensive reforms aimed at the deregulation of enterprises' operations, price liberalisation, the liberalisation in the foreign trade and in the bank sector. As for the liberalisation of forein exchange and foreign trade the countries relatively quickly achieved results characteristic for market economies. This concerned especially the countries negotiating the accession to the European Communities, because these changes were perceived as a clear criterion the meeting of which confirmed the maturity of the countries' economies as "market-oriented" and as such – "worth" the accession to the EU (see table 1).

Table 1. EBRD index of enterprises reforms and price liberalization

| Country | Index of enterprises reforms | | | Index of price liberalisation | | |
|---|---|---|---|---|---|---|
| | t | t+5 | 2009 | t | t+5 | 2009 |
| Albania | 1,0 | 2,0 | 2,3 | 1,0 | 3,7 | 4,3 |
| Bulgaria | 1,0 | 2,0 | 2,7 | 4,3 | 2,7 | 4,3 |
| Croatia | 1,0 | 2,0 | 3,0 | 3,7 | 4,0 | 4,0 |
| Czech Republic | 2,0 | 3,0 | 3,3* | 3,0 | 4,3 | 4,3* |
| Estonia | 2,0 | 3,0 | 3,7 | 2,7 | 4,3 | 4,3 |
| Lithuania | 1,0 | 2,7 | 3,0 | 2,7 | 4,0 | 4,3 |
| Latvia | 2,0 | 2,7 | 3,0 | 4,0 | 4,3 | 4,3 |
| Macedonia | 1,0 | 2,0 | 2,7 | 3,7 | 4,0 | 4,3 |
| Poland | 2,0 | 3,0 | 3,7 | 3,7 | 4,0 | 4,3 |
| Romania | 1,0 | 2,0 | 2,7 | 2,7 | 4,0 | 4,3 |
| Slovakia | 2,0 | 3,0 | 3,7 | 4,0 | 4,0 | 4,3 |
| Slovenia | 1,0 | 2,7 | 3,0 | 3,7 | 3,7 | 4,0 |
| Hungary | 1,0 | 3,0 | 3,7 | 4,0 | 4,3 | 4,3 |

Source: own study based on: *Transition Report 1999*, op.cit., *Transition Report 2003,* op.cit., *Transition Report 2009,* op.cit. Note: t – the initial year of the economic transformation; * available data up to 2007, because the Czech Republic was excluded from the *Transition Report* as the country where the transformation has completed.

Also, in all the transitional countries the privatisation processes started almost immediately or with little delay. The privatisation was mostly mass (general) or mixed, with the use of various techniques (manager and/or employee buyouts, vouchers, direct sales). Studies (J. Bennett'a et al., 2007) show that it was the mass privatisation that had the greatest significance for the economic growth.

Tables 2 and 3 show the characteristics of privatisation processes in the transitional countries.

Table 2. Privatisation processes

| Country | Privatisation | | Share of the private sector in the GDP (%) | | | |
|---|---|---|---|---|---|---|
| | Year* | Main techniques | 1990 | 1995 | 2000 | 2008 |
| Albania | 1995 | MEBO, voucher | 5 | 60 | 75 | 75 |
| Bulgaria | 1993 | direct sale, voucher | 10 | 45 | 70 | 75 |
| Croatia | 1992 | MEBO, voucher | 15 | 40 | 60 | 70 |
| Czech Republic | 1992 | voucher, direct sale | 10 | 70 | 80 | 80* |
| Estonia | 1993 | direct sale, voucher | 10 | 65 | 75 | 80 |
| Lithuania | 1991 | voucher, direct sale | 10 | 65 | 70 | 75 |
| Latvia | 1992 | direct sale, voucher | 10 | 55 | 65 | 70 |
| Macedonia | 1993 | MEBO, voucher | 15 | 40 | 55 | 70 |
| Poland | 1990 | direct sale, MEBO | 30 | 60 | 70 | 75 |
| Romania | 1992 | MEBO, direct sale | 15 | 40 | 60 | 70 |
| Slovakia | 1995 | direct sale, voucher | 10 | 60 | 80 | 80 |
| Slovenia | 1998 | MEBO, voucher | 15 | 45 | 65 | 70 |
| Hungary | 1990 | direct sale, MEBO | 25 | 60 | 80 | 80 |

Source: as with table 1. Note: MEBO – management/employee buy-out; * available data up to 2007.

Table 3. EBRD large- and small-scale privatisation indexes

| Country | Large-scale privatisation | | | Small-scale privatisation | | |
|---|---|---|---|---|---|---|
| | t | t+5 | 2009 | t | t+5 | 2009 |
| Albania | 1,0 | 2,0 | 3,7 | 2,0 | 4,0 | 4,0 |
| Bulgaria | 1,0 | 2,0 | 4,0 | 1,0 | 3,0 | 4,0 |
| Croatia | 1,0 | 2,0 | 3,3 | 3,0 | 4,0 | 4,3 |
| Czech Republic | 1,0 | 4,0 | 4,3 | 3,0 | 4,0 | 4,3 |
| Estonia | 1,0 | 4,0 | 4,0 | 2,0 | 4,3 | 4,3 |
| Lithuania | 2,0 | 3,0 | 4,0 | 2,7 | 4,0 | 4,3 |
| Latvia | 2,0 | 3,0 | 3,7 | 2,0 | 4,0 | 4,3 |
| Macedonia | 1,0 | 2,0 | 3,3 | 3,0 | 4,0 | 4,0 |
| Poland | 2,0 | 3,0 | 3,3 | 3,0 | 4,0 | 4,3 |
| Romania | 1,7 | 2,0 | 3,7 | 1,0 | 2,7 | 3,7 |
| Slovakia | 1,0 | 3,0 | 4,0 | 3,0 | 4,0 | 4,3 |
| Slovenia | 1,0 | 2,0 | 3,0 | 3,0 | 4,0 | 4,3 |
| Hungary | 2,0 | 3,0 | 4,0 | 1,0 | 3,7 | 4,3 |

Source: as with table 1.

The maximum values are shown against the grey background. t – the year when the economic transformation started.

As can be seen from the presented data, as a result of the applied privatisation techniques, but also as a result of the bottom-up privatisation, the contribution of the private sector to the GDP grew significantly. At the same time, the countries of Central-Eastern Europe and the Baltic states achieved "the greatest successes" with this respect, as the "small-scale privatisation" in these countries has been definitely completed (with the index at the value equalling 4.3, i.e. at the level characteristic for countries of developed market economies), whereas the value of the "large-scale privatization" index equals 3.8 on average. The private sector produces more than 77% of the GDP. At the same time, the countries of South-Eastern Europe achieved worse results, with the "small-scale privatisation" index at the average level of 4 and the "large-scale privatisation" index – at 3.6. The private sector produces on average 72% of the GDP.

## Conclusions

Table 4 includes data depicting the changes in the develpmental level of the transitional countries.

Table 4. Chnages of the relative developmental level in the transitional countries

| Countries | GDP | | | |
|---|---|---|---|---|
| | 1989 | | 2009$^{E}$ | |
| | USD, p.c., PPP | average for the whole group = 100 | USD, p.c., PPP | average for the whole group = 100 |
| **Central-Eastern Europe, including Baltic states** | | | | |
| Czech Republic | 11626 | 145 | 24271 | 146 |
| Estonia | 8635 | 108 | 17695 | 107 |
| Lithuania | 8867 | 110 | 16529 | 100 |
| Latvia | 8383 | 104 | 14291 | 86 |
| Poland | 6113 | 76 | 18050 | 109 |
| Slovakia | 9432 | 118 | 21245 | 128 |
| Hungary | 8739 | 109 | 18506 | 111 |
| *Average* | *8828* | *110* | *18655* | *112* |
| **South-Eastern Europe** | | | | |
| Albania | 2833 | 35 | 7169 | 43 |
| Bulgaria | 7330 | 91 | 11883 | 72 |
| Croatia | 8127 | 101 | 17707 | 107 |
| Macedonia | 6553 | 82 | 9183 | 55 |
| Romania | 5814 | 72 | 11869 | 71 |
| Slovenia | 11868 | 148 | 27470 | 165 |
| *Average* | *7088* | *88* | *14214* | *86* |
| ***Total*** | ***8025*** | ***100*** | ***16605*** | ***100*** |

E – forecasts.

Source: own calculations based on the *World Economic Outlook. Database*, IMF, September 2005; *World Economic Outlook. Database*, IMF, October 2010.

Basing on the data presented above we can point out the following, more general phenomena that took place in the group of transitional countries. There was a significant spread of incomes in the whole group; in 2009 the relation between the values of the GDP *per capita* by the purchasing power parity in the richest (Slovenia) and the poorest country (Albania) was 3.8:1. Moreover, one could observe the increase in the developmental gap between the countries of Central-Eastern Europe and the Baltic states and the countries of South-Eastern Europe. Furthermore, the developmental position of some of the countries from the group improved significantly (especially in the case of Poland, Slovakia, Slovenia).

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**Statistical annex**

Table 5. Characteristics of selected initial conditions in *TC*-13

| Specification | Initial year of the transformation | No of years under communist | Freedom in the World | | | Population | | GDP *per capita* by ppp in USD | GDP dynamics | Inflation | Unemployment | State budget result (% GDP) | Current account balance (% GDP) | Foreign debt (% GDP) | Private sector contribution to GDP | Final ranking |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | PR | CL | | (million) | (% total) | | | | | | | | | |
| Albania | 1991 | 45 | 7 | 7 | NF | 3,3 | 2,8 | 2833 | -10,0 | 0,0 | 9,5 | -6,1 | -29,1 | 66,0 | 5,0 | 13 |
| Bulgaria | 1991 | 43 | 7 | 7 | NF | 8,7 | 7,5 | 7330 | -9,1 | 26,3 | 1,6 | -8,1 | -8,2 | 48,2 | 10,0 | 12 |
| Croatia | 1990 | 44 | 5 | 5 | PF | 4,8 | 4,1 | 8127 | -1,6 | 609,5 | 9,3 | -4,2 | -3,8 | 17,9 | 15,0 | 11 |
| Czech Republic | 1991 | 43 | 6 | 6 | NF | 10,3 | 8,9 | 11626 | -1,2 | 9,7 | 0,7 | -0,2 | 1,3 | 17,1 | 10,0 | 1 |
| Estonia | 1992 | 51 | 6 | 5 | NF | 1,6 | 1,4 | 8635 | -13,6 | 210,5 | 1,5 | 1,2 | 3,3 | 5,7 | 10,0 | 3 |
| Lithuania | 1992 | 51 | 6 | 5 | NF | 3,7 | 3,2 | 8867 | -5,7 | 224,7 | 0,3 | -5,5 | -3,4 | 12,4 | 10,0 | 6 |
| Latvia | 1992 | 51 | 6 | 5 | NF | 2,7 | 2,3 | 8383 | -10,4 | 172,2 | 0,6 | -3,9 | 17,3 | 36,8 | 10,0 | 7 |
| Macedonia | 1990 | 44 | 5 | 5 | PF | 2,1 | 1,8 | 6553 | 0,9 | 1246,0 | 18,0 | -4,5 | -9,2 | 14,8 | 15,0 | 10 |
| Poland | 1990 | 42 | 5 | 5 | PF | 38,0 | 32,7 | 6113 | 0,2 | 251,1 | 0,3 | -7,4 | -2,2 | 49,3 | 30,0 | 9 |
| Romania | 1991 | 43 | 7 | 7 | NF | 23,2 | 20,0 | 5814 | -5,7 | 5,1 | 0,0 | -4,6 | -9,6 | 16,5 | 15,0 | 8 |
| Slovakia | 1991 | 43 | 6 | 6 | NF | 5,3 | 4,6 | 9432 | -0,4 | 10,8 | 1,2 | -11,9 | -4,5 | 13,0 | 10,0 | 4 |
| Slovenia | 1990 | 44 | 5 | 5 | PF | 2,0 | 1,7 | 11868 | -1,8 | 1285,3 | 7,3 | 2,6 | 7,1 | 186,9 | 15,0 | 5 |
| Hungary | 1990 | 41 | 5 | 4 | PF | 10,4 | 9,0 | 8739 | 0,7 | 17,0 | 0,5 | 0,0 | -4,6 | 65,8 | 25,0 | 2 |

Note: PR – political rights, CL – civil liberties; NF – no freedom, PF – partially free.

Source: EBRD data: www.ebrd.com, Freedom House: www.freedomhouse.org and own calculations.

Table 6. GDP changes in 1989-2009

| Country | Initial year of the transformation | Year when GDP was the lowest since beginning of transformation | Transitional recession duration | The lowest GDP | GDP after 10 years | GDP in 2009E | Year after exceeding the initial year level | Year of the GDP maximum | Average GDP changes pace after reaching the minimum (%) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | The year before the transformation in the country is the base year = 100 | | | | | |
| Albania | 1991 | 1992 | 2 | 66,8 | 122,8 | 188,0 | 1999 | 2009 | 6,3 |
| Bulgaria | 1991 | 1997 | 7 | 59,3 | 69,2 | 97,8 | 2008 | 2008 | 4,3 |
| Croatia | 1990 | 1993 | 4 | 59,5 | 78,8 | 104,7 | 2006 | 2008 | 3,6 |
| Czech Republic | 1991 | 1992 | 2 | 85,6 | 104,3 | 136,2 | 2000 | 2008 | 2,8 |
| Estonia | 1992 | 1994 | 3 | 76,8 | 125,8 | 153,4 | 2000 | 2007 | 4,7 |
| Lithuania | 1992 | 1994 | 3 | 59,5 | 85,7 | 113,4 | 2004 | 2008 | 4,4 |
| Latvia | 1992 | 1993 | 2 | 57,7 | 86,2 | 107,7 | 2004 | 2007 | 4,1 |
| Macedonia | 1990 | 1995 | 6 | 70,3 | 81,3 | 100,2 | 2008 | 2008 | 2,6 |
| Poland | 1990 | 1991 | 2 | 86,3 | 134,3 | 189,4 | 1995 | 2009 | 4,5 |
| Romania | 1991 | 1992 | 2 | 79,4 | 89,8 | 128,2 | 2004 | 2008 | 2,9 |
| Slovakia | 1991 | 1993 | 3 | 76,9 | 107,7 | 160,5 | 1998 | 2008 | 4,7 |
| Slovenia | 1990 | 1992 | 3 | 82,0 | 114,5 | 147,9 | 1997 | 2008 | 3,5 |
| Hungary | 1990 | 1993 | 4 | 81,9 | 104,8 | 136,3 | 2000 | 2008 | 2,8 |

Note: E – forecast from the *World Economic Outlook Database October 2010*, IMF, http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx (DOA: 7.02.2011).

Source: own study based on: *Transition Report 1999. Ten Years of Transition*, European Bank for Reconstruction and Development, London 1999; *World Economic Outlook Database October 2010*, IMF, http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx (DOA: 7.02.2011).

Table 7. Stabilisation programmes (1989-2009)

| Country | Date of the implementation of the stabilisation programme | Inflation one year before the implementation (%) | Maximum inflation | | Minimum inflation | | Year when inflation permanently dropped below 40% | Inflation after 5 years of programme (%) | Inflation after 2009 (%) | Foreign exchange rate system adopted at the start of stabilisation |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Level (%) | Year | Level (%) | Year | | | | |
| Albania | 08.1992 | 35,7 | 226,0 | 1992 | 0,0 | 2000 | 1994 | 33,2 | 2,2 | floating |
| Bulgaria | 02.1991 | 23,9 | 1061,2 | 1997 | 2,6 | 1999 | 1998 | 123,0 | 2,5 | floating |
| Croatia | 10.1993 | 665,5 | 1517,0 | 1993 | 1,7 | 2002 | 1995 | 5,7 | 2,4 | fixed |
| Czech Republic | 01.1991 | 9,7 | 52,0 | 1991 | 0,1 | 2003 | 1992 | 8,8 | 1,0 | fixed |
| Estonia | 06.1992 | 210,5 | 1076,0 | 1992 | 1,3 | 2003 | 1995 | 11,2 | -0,1 | fixed |
| Lithuania | 06.1992 | 224,7 | 1020,5 | 1992 | -1,1 | 2003 | 1995 | 10,3 | 4,2 | floating/ fixed* |
| Latvia | 06.1992 | 172,2 | 951,2 | 1992 | 2,0 | 2002 | 1994 | 8,1 | 3,3[E] | floating/ fixed** |
| Macedonia | 01.1994 | 338,7 | 1620,4 | 1992 | -0,4 | 2004 | 1995 | -0,3 | -0,8 | fixed |
| Poland | 01.1990 | 251,1 | 585,8 | 1990 | 0,8 | 2003 | 1993 | 27,9 | 3,5 | fixed |
| Romania | 10.1993 | 210,4 | 256,1 | 1993 | 4,8 | 2007 | 2001 | 59,1 | 5,6 | floating |
| Slovakia | 01.1991 | 10,8 | 61,2 | 1991 | 1,9 | 2007 | 1992 | 5,8 | 0,9 | fixed |
| Slovenia | 02.1992 | 115,0 | 1285,3 | 1989 | 2,5 | 2006 | 1993 | 8,4 | 0,9 | floating |
| Hungary | 03.1990 | 17,0 | 34,2 | 1991 | 3,6 | 2005 | whole period | 28,3 | 4,2 | fixed |

Note: * in April 1994 the *currency board* system was introduced; ** SDR-linked currency in February 1994; E – forecast from *World Economic Outlook Database October 2010*, IMF, http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx (DOA: 7.02.2011). Source: own study based on: *Transition report 1999*, op.cit. (the date of the introduction of the stabilisation programme; data for the period 1989-1992); *World Economic Outlook Database April 2010 Edition*, IMF, http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx (DOA: 7.02.2011).