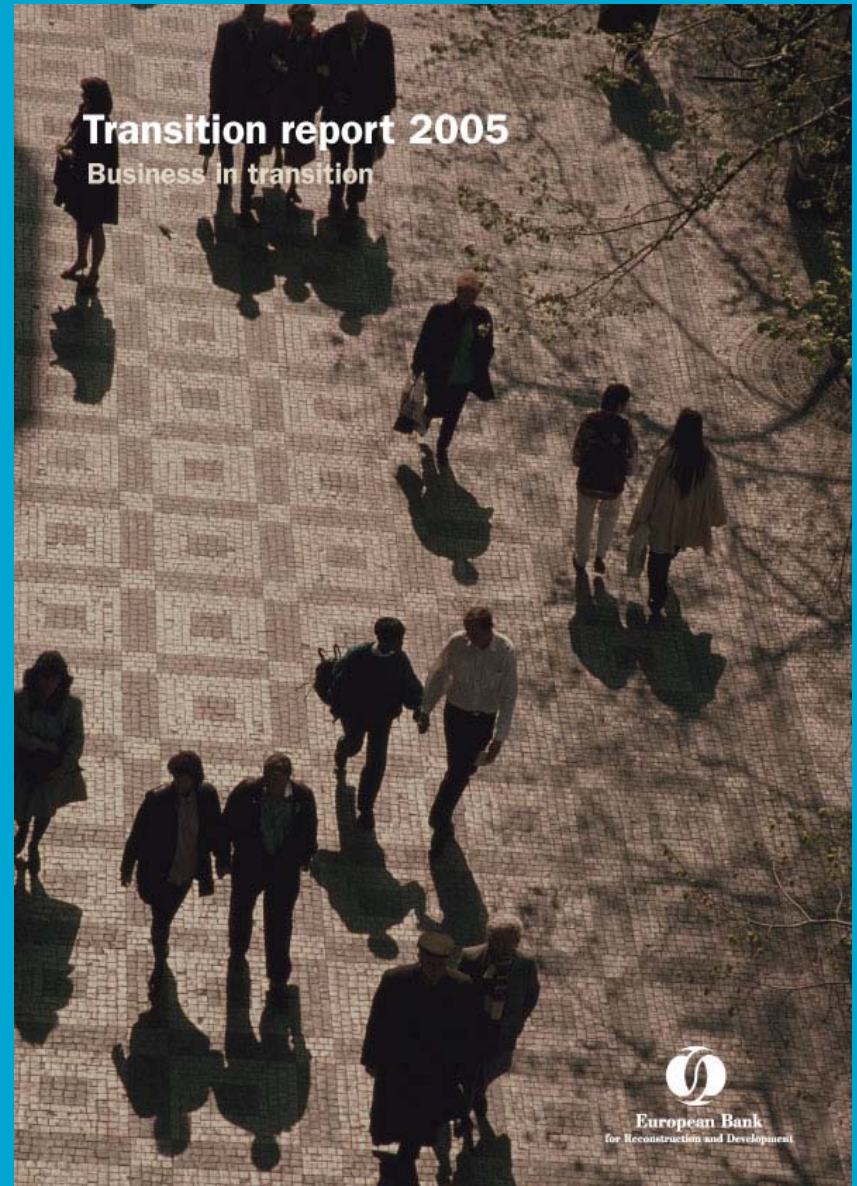


EBRD

**Transition
Report 2005**

**Office of the Chief
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Overview – Transition Report 2005

- Part I – Transition in 2004-05
 - Transition advances, especially in CEB and Western CIS
 - Strong macro performance, fuelled by rapid credit growth
- Part II – Business in transition
 - Improvement in business environment, but obstacles remain
 - Performance is strongest among private and foreign firms



Overview – Transition in SEE

- Slowdown in candidate countries – a pre-accession break?
- Serbia and Montenegro leads in reform progress, but from a low base
- Limited progress in western Balkans
- Clear improvement in business environment, but time tax remains significant

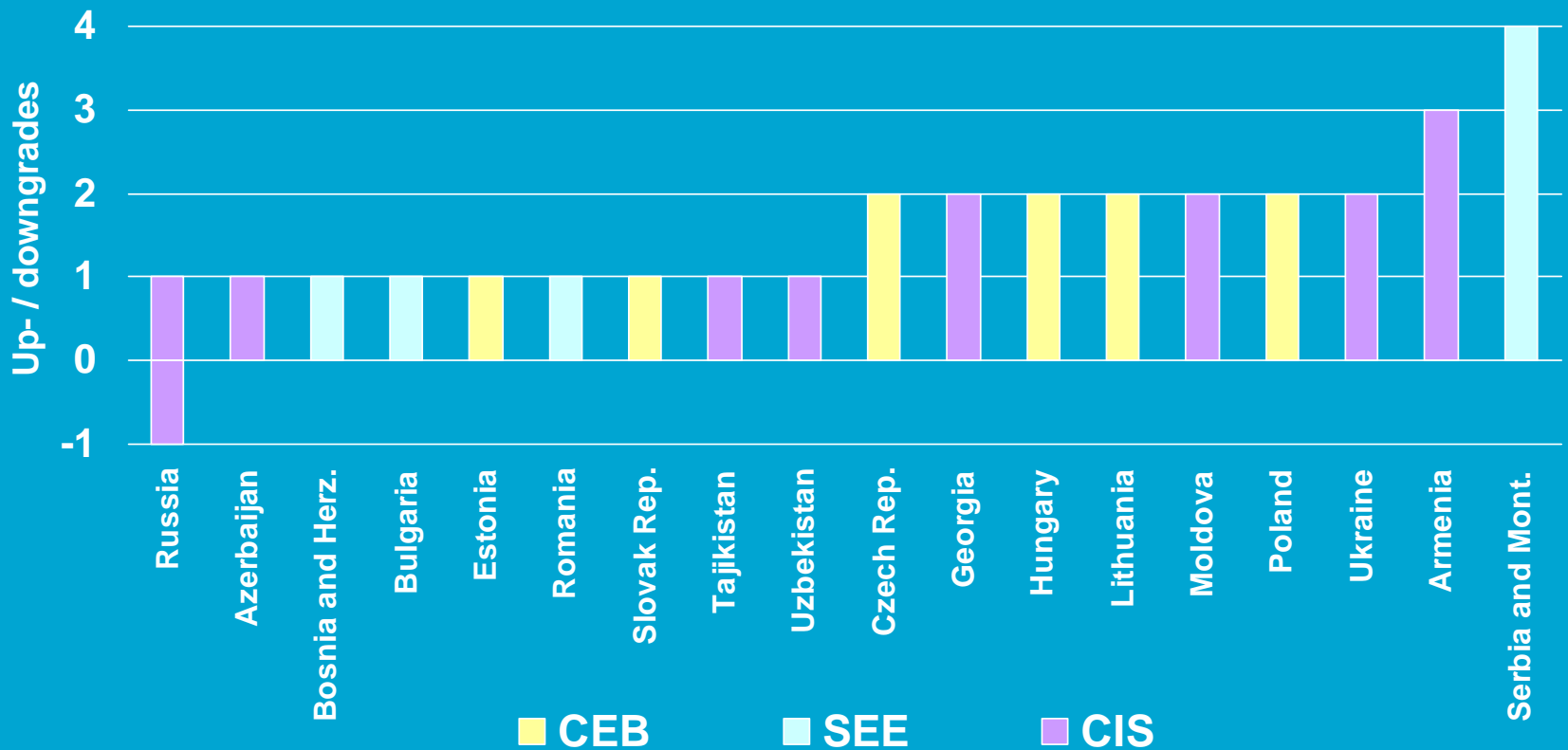


EBRD Transition Indicators

- Scale: 1 = little/no progress; 4+ = standards of advanced market economy
- Initial Reforms: small-scale privatisation, price and trade liberalisation
- Institutional Development: large-scale privatisation, governance, competition, infrastructure, banks, and non-bank financial institutions



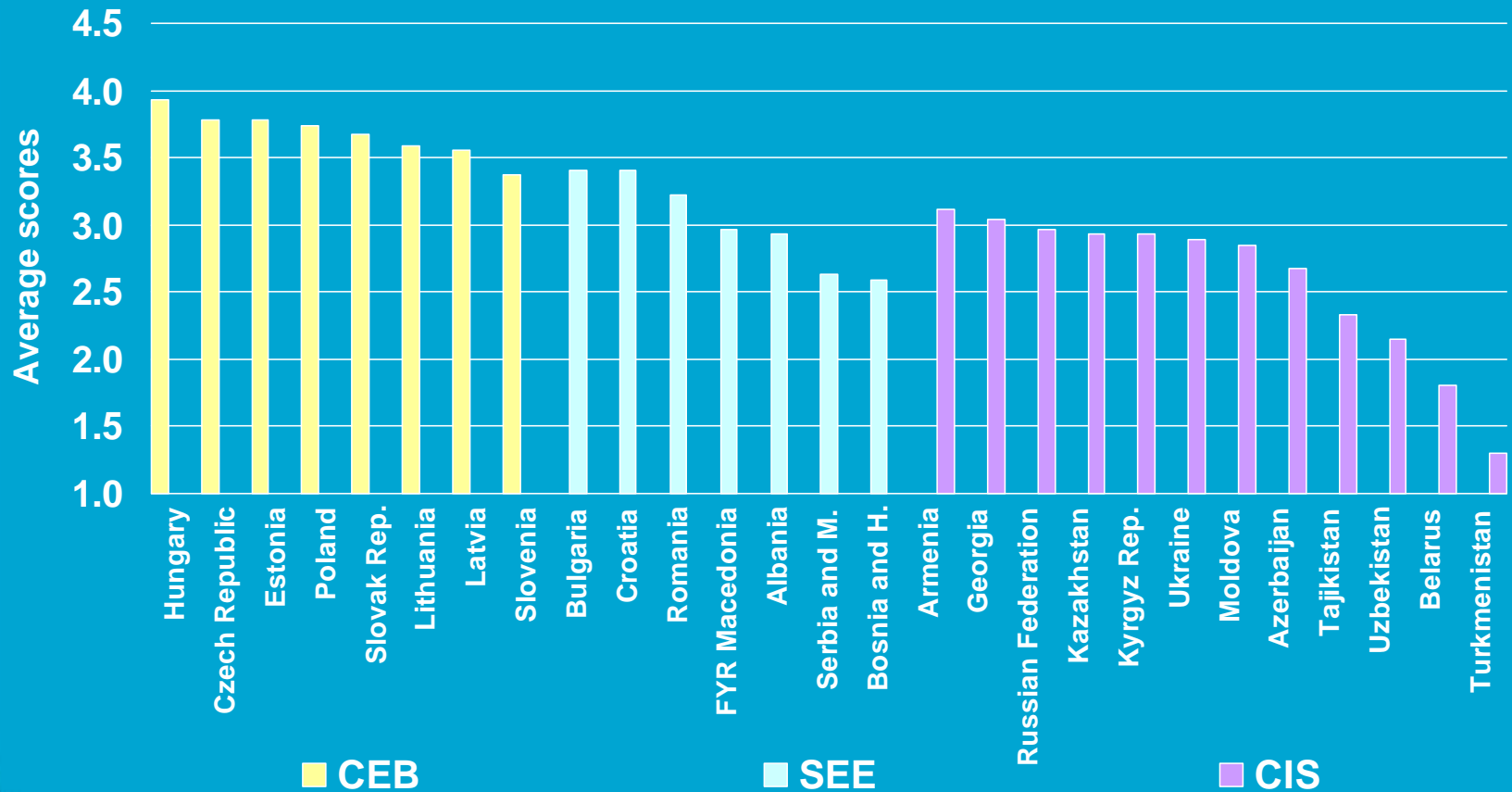
Progress in structural reform



Note: No change was reported in the nine countries that are not listed. Scores range from 1 (pure central planning) to 4+ (fully functioning market economy).



Transition achievements – 2005

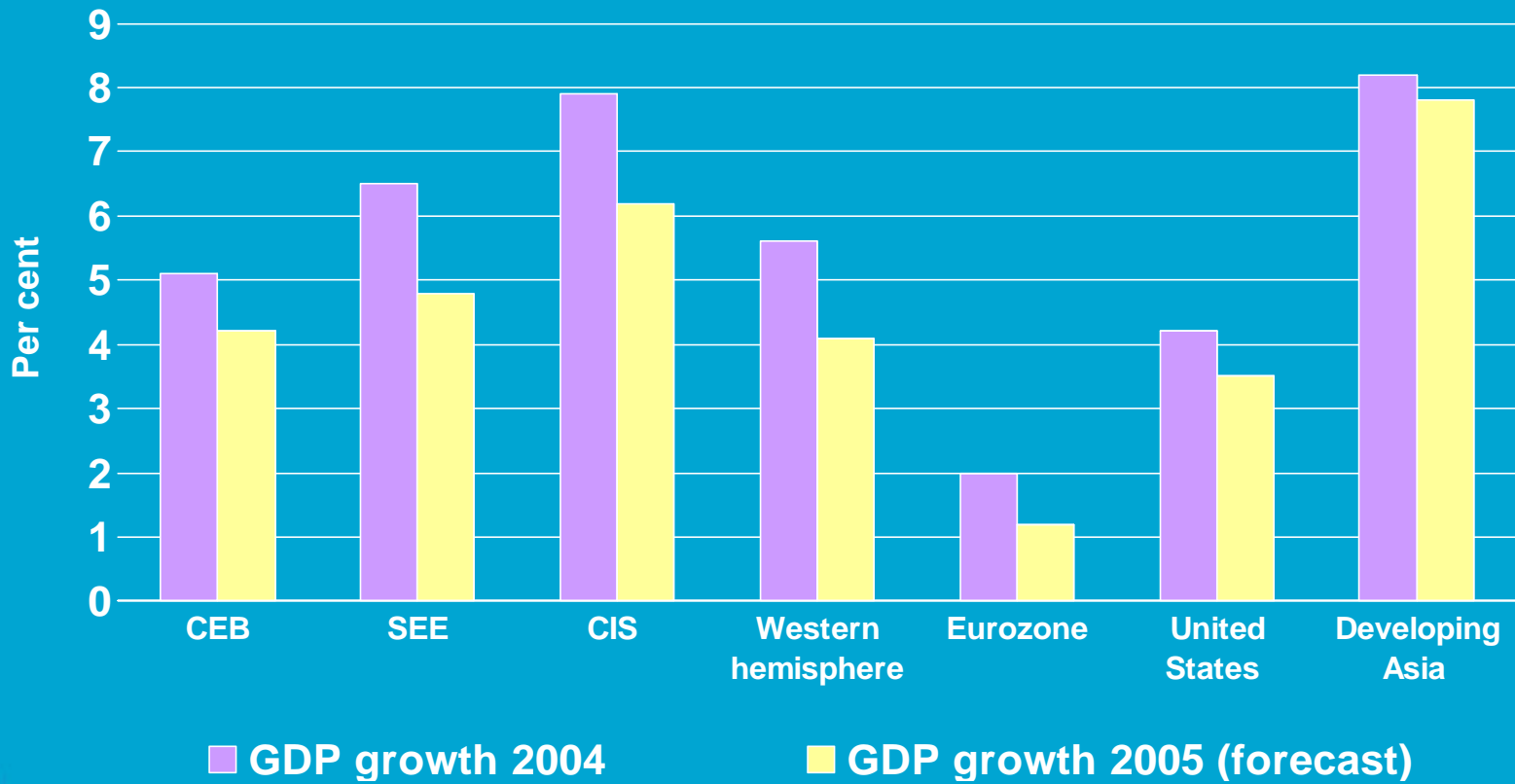


Note: Scores range from 1 (pure central planning) to 4+ (fully functioning market economy).



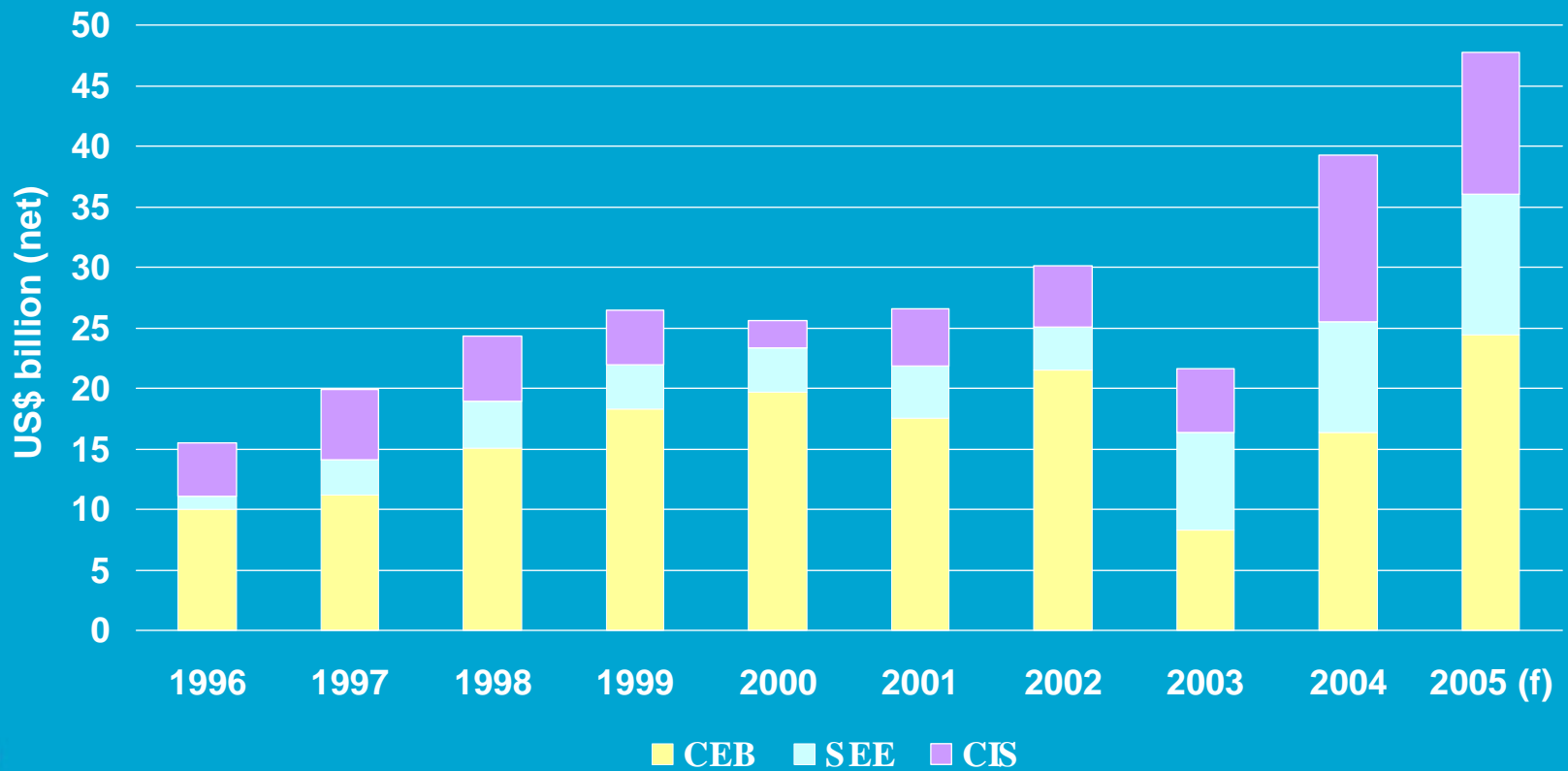
Good growth performance 2004/05

SEE outpacing CEB again



Record levels of FDI

SEE expecting nearly \$12 bn in 2005

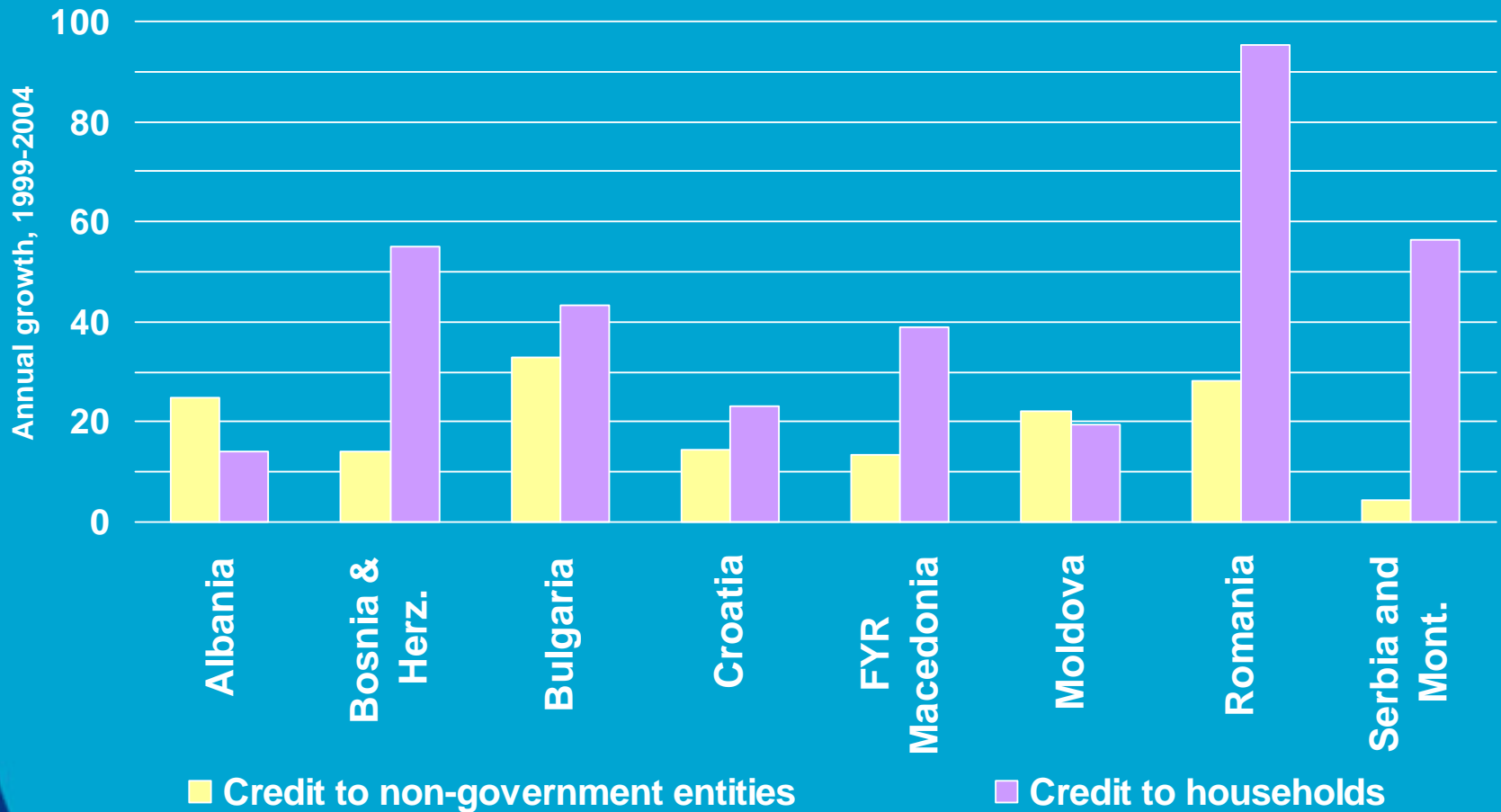


Key vulnerabilities in SEE

- Current account deficits in all countries
- Fiscal deficits in Albania and Croatia
- External debt in Croatia and Serbia and Montenegro
- Political risks (especially Kosovo-related) remain



Rapid credit growth across SEE/Moldova



Business in transition: the BEEPS

- Transition indicators do not cover some aspects of economic governance
 - protection of contract and property rights
 - evenhanded business regulation
 - control of crime and corruption
- EBRD/World Bank periodic surveys of firms in the region address these issues
- Third round of the BEEPS in 2005 – over 9,500 firms in 26 transition countries



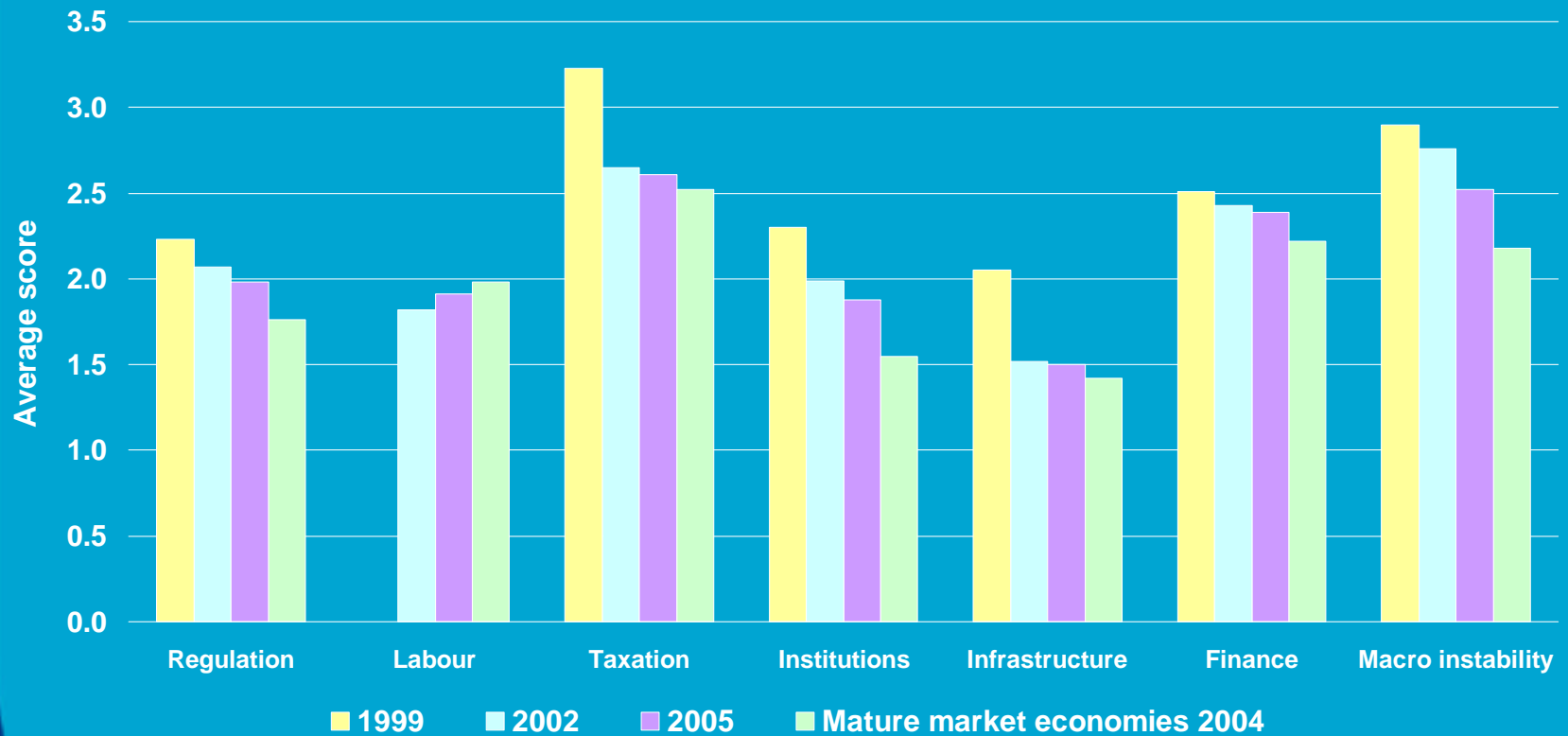
BEEPS: Obstacles to doing business

- Seven types of obstacles
 - Regulation
 - Labour
 - Taxation
 - Institutions
 - Infrastructure
 - Finance
 - Macro instability
- Numerical scale: 1 = no obstacle; 4 = major obstacle



The business environment is improving

Although there is significant variation by country

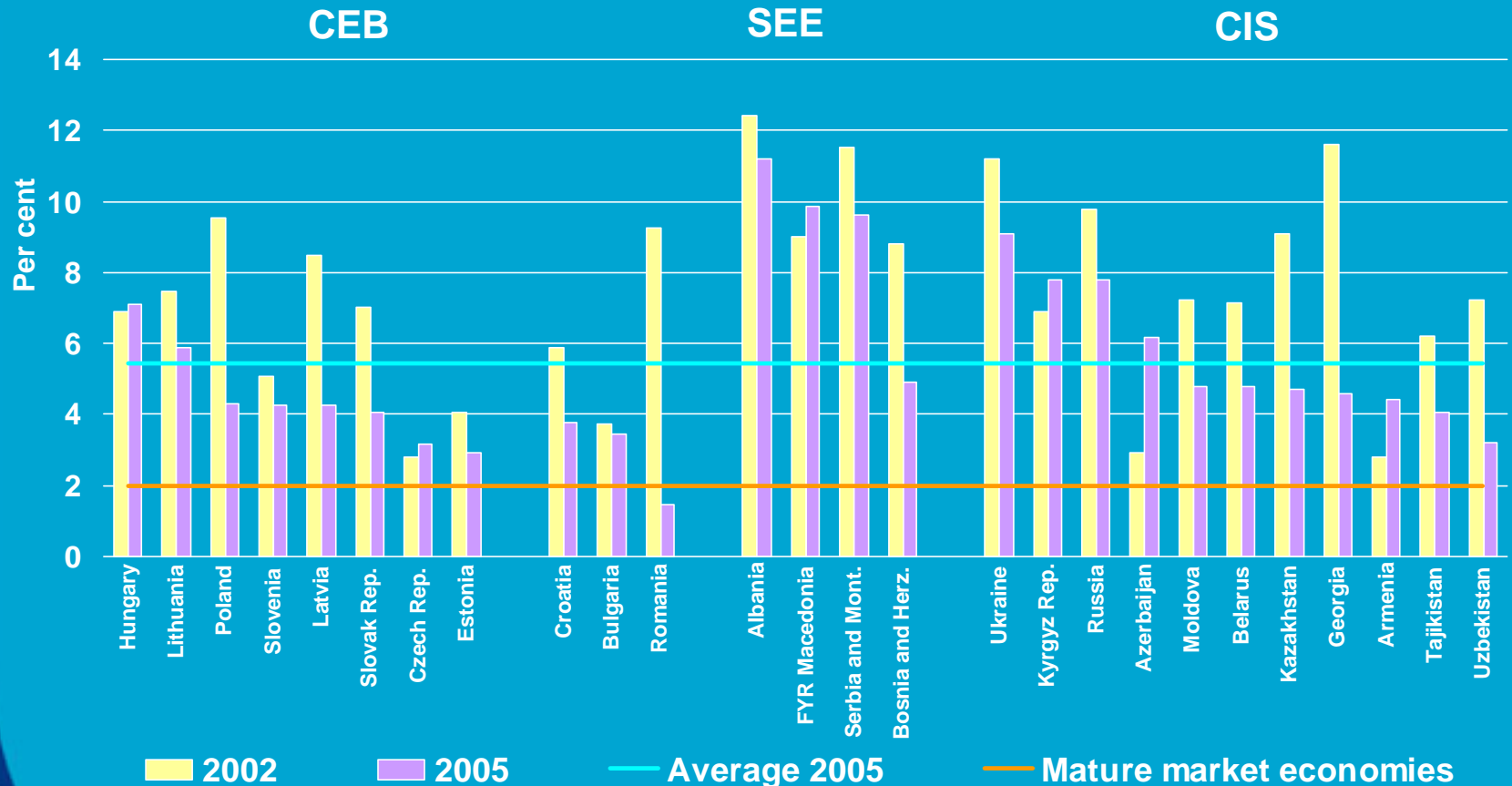


Note: Firms were asked to report how problematic different factors were to their operation and growth. Scores range from 1 (no obstacle) to 4 (major obstacle).



Senior managers are spending less time dealing with public officials

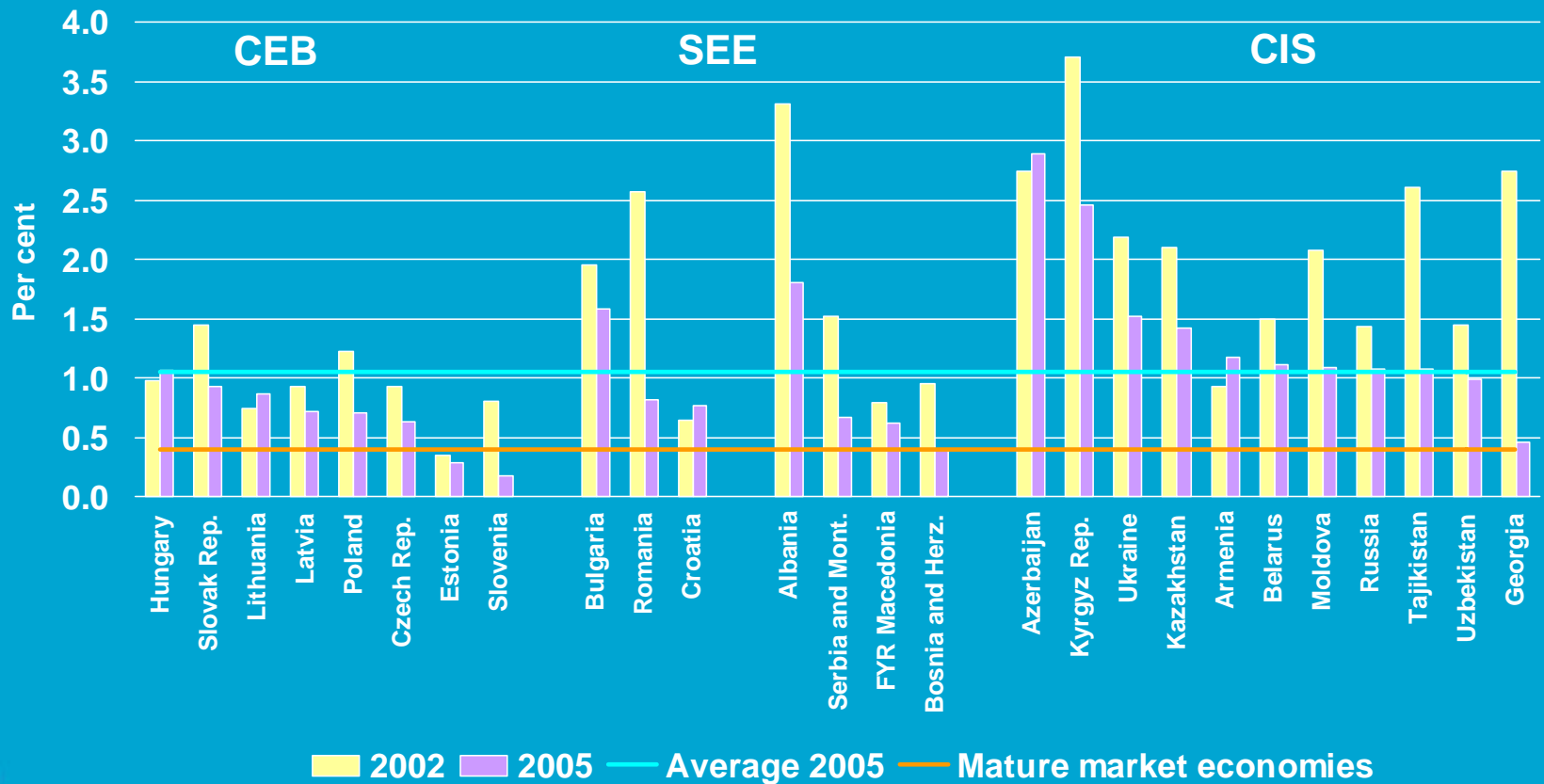
But western Balkan time tax is severe



Note: Senior managers were asked what percentage of their time was spent dealing with public officials (so-called time tax).



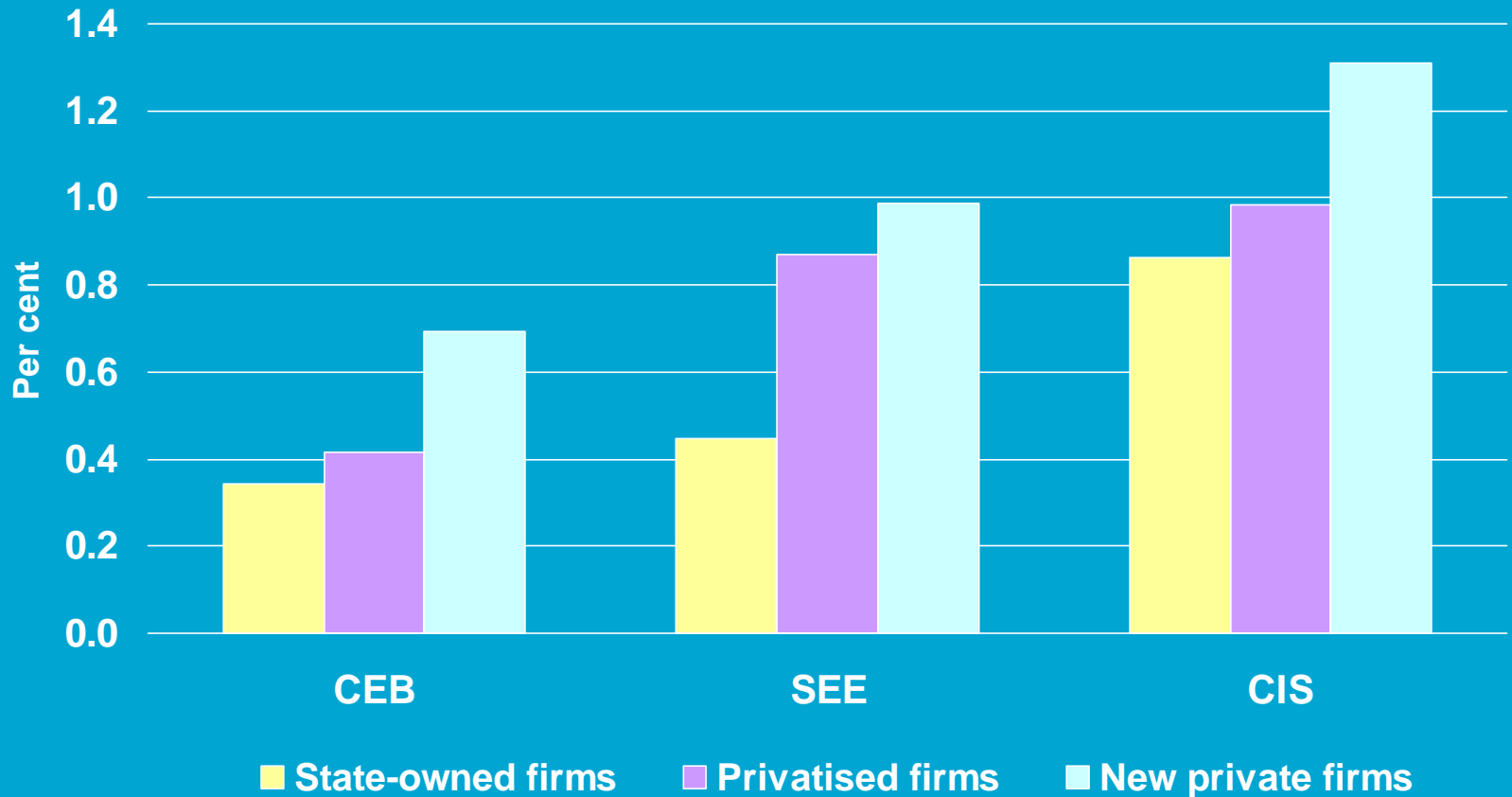
The bribe tax has come down in most countries since 2002



Note: The bribe tax is the share of annual revenue spent on bribes.



But private firms pay more in bribes

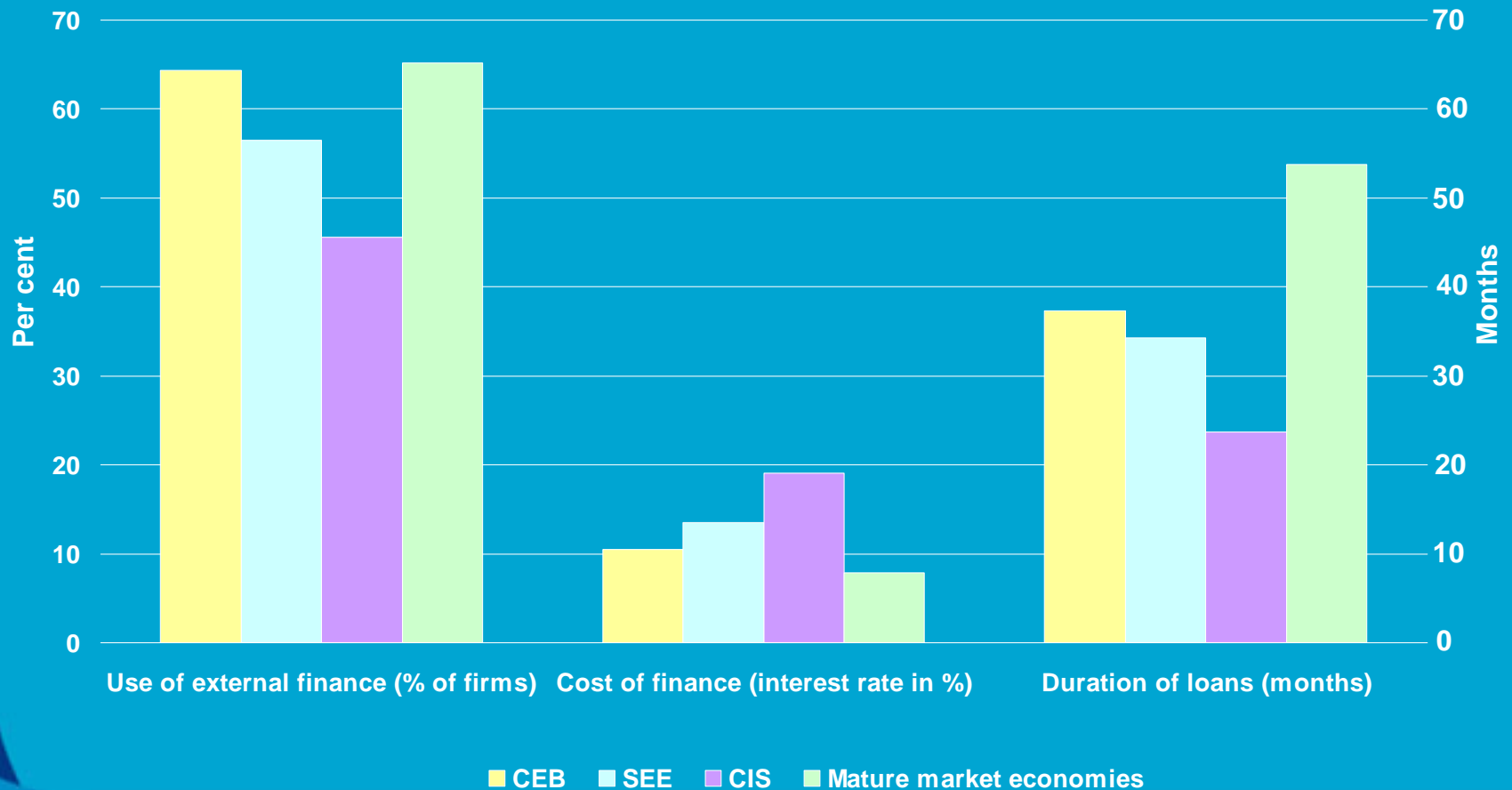


Note: The bribe tax shows the share of annual revenue spent on bribes.



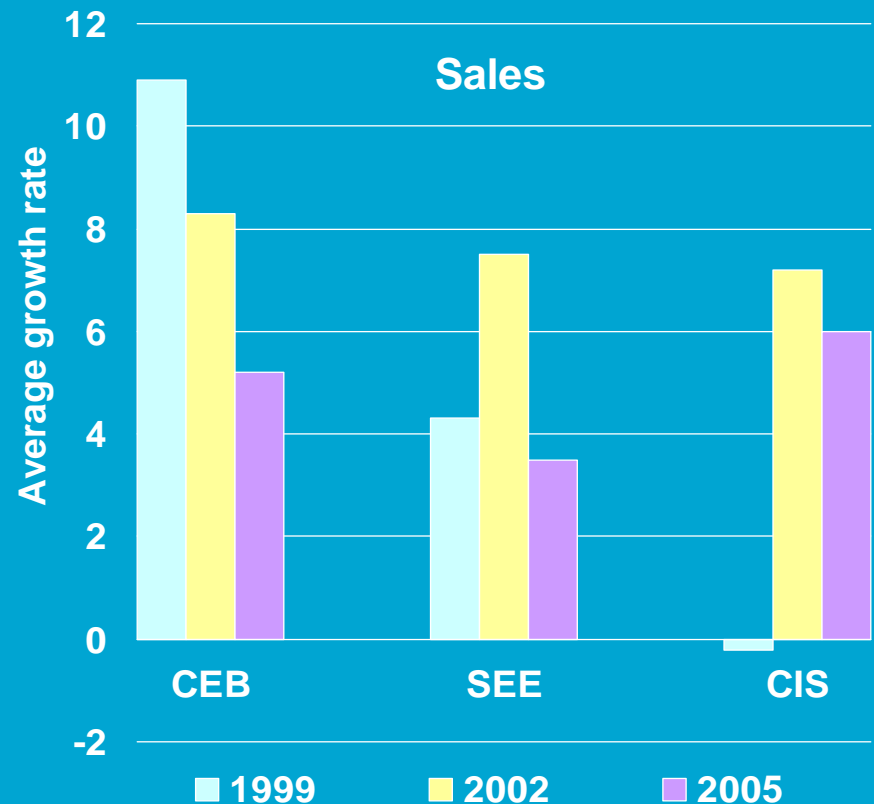
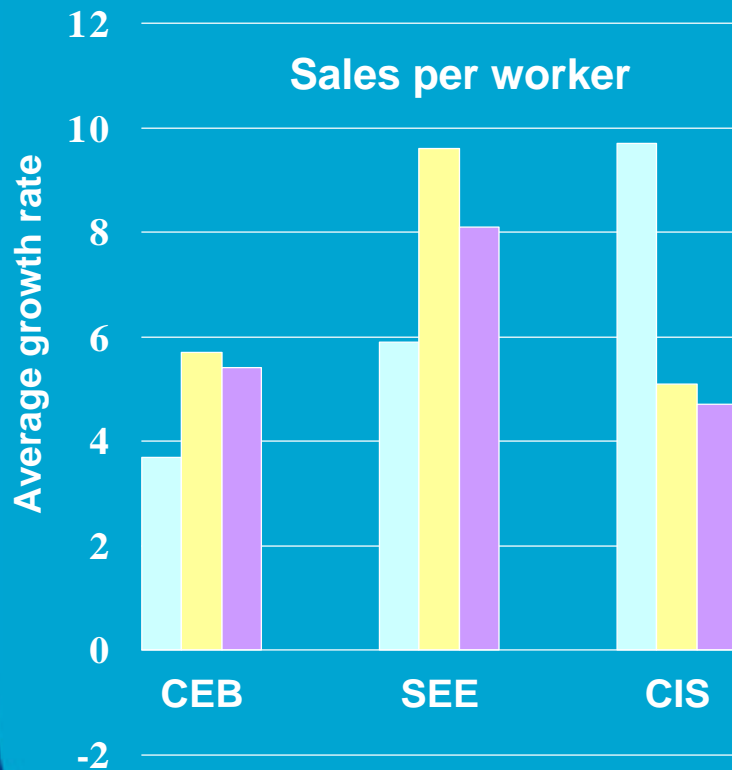
Access to finance differs by region

Firms in CEB use banks more and receive better loan terms



Improvements in firm performance

Although at a decreasing rate



Conclusions for SEE

- Much of SEE took a reform break, but Serbia and Montenegro catching up
- Economic growth slowing but still robust at a forecast 4.8 per cent in 2005.
- The business environment has improved but business obstacles are still higher than in CEB and in mature market economies.



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