

Foreword

This *Transition Report*, the tenth in an annual series, is dedicated to the memory of John Flemming, Chief Economist of the EBRD from its inception in 1991 to 1993. His many contributions to the economics of transition in eastern Europe include initiating the EBRD Annual Economic Outlook, the natural predecessor of the *Transition Report*, and contributing to the first *Transition Report* in 1994. He helped to establish the framework for understanding and measuring progress in transition that has been a central feature of all subsequent *Transition Reports*.

The *Transition Reports* chart the progress of transition from a command to a market economy in each of the 27 countries of central eastern Europe and the Baltic states (CEB), south-eastern Europe (SEE) and the Commonwealth of Independent States (CIS) in which the European Bank for Reconstruction and Development (EBRD) operates. They also identify and analyse the challenges of the coming years.

The EBRD seeks to foster the transition to an open market-oriented economy and to promote private and entrepreneurial initiative in all 27 of its countries of operations. It does this as a participant investor with a private sector focus. It works with its partners on projects that are financially sound and advance the transition, and that would be unlikely to emerge or to function well without its participation. For the EBRD to perform this task effectively, it needs to analyse and understand the complex process of transition. The *Transition Reports* contribute to this learning process and allow the Bank to share its analyses with its partners, other investors, policy-makers in the region, the research community and the public at large.

Part I of the Report focuses on progress in transition over the last year along its key dimensions – liberalisation, stabilisation, privatisation, governance and enterprise restructuring. Complemented by detailed country-by-country assessments, the Report also tracks developments on financial sector, infrastructure and social sector reform.

The Report seeks to identify drivers of reform and the factors that may influence the direction of future reforms and aggregate economic performance, including initial conditions, early reform choices and success in building market-supporting institutions. This analysis helps to identify the characteristics of countries that have pressed ahead steadily with reforms and that have realised the benefits of these measures in sustained economic growth. It also highlights the pitfalls in transition that have impeded reforms in other countries. Central to this analysis is an assessment of the role of democratic political processes in helping to sustain progress in market-oriented reform.

Part II of each *Transition Report* is devoted to a special theme. Jointly these themes represent a focused analysis of the transition and the forces shaping its progress. They also provide an examination of the policies that help to develop the institutions and practices required to support well-functioning markets and private enterprise. It is important, therefore, to consider the Reports as a series, in which each instalment represents both a self-contained thematic study and an interlocking contribution to a wider analysis.

The special themes of the previous *Transition Reports* have been:

- 1994 – Institutional reform and economic openness;
- 1995 – Fixed investment and enterprise development;
- 1996 – Commercial infrastructure and contractual savings institutions;
- 1997 – Enterprise performance and growth;
- 1998 – Financial sector in transition;
- 1999 – Ten years of transition (a special issue);
- 2000 – Employment, skills and transition;
- 2001 – Energy in transition; and
- 2002 – Agriculture and rural transition

This year's *Transition Report*, with its special theme of integration and regional cooperation, draws from and builds on this previous work.

As accession to the European Union approaches for eight countries of the region – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia – the second part of the Report looks at the role that economic cooperation and integration have played in fostering transition. The prospect of EU accession has undoubtedly been a key factor behind the strong reform progress and macroeconomic performance in the EU accession countries. A key challenge for the region is to strengthen the process of international integration in those countries that are not EU candidate members, including through accelerated accession to the World Trade Organization.

The assessments and views expressed in this *Transition Report* are not necessarily those of the EBRD. The responsibility for them is taken by myself on behalf of the Office of the Chief Economist. While we have attempted to be as up to date as possible, the “cut-off” date for most of the information in the Report is end-September 2003.



Willem Buiter

Chief Economist and Special Counsellor to the President

1 October 2003