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Foreword

This Working Paper is a summary of the Workshop on *"Macroeconomic Stabilization of Economies in Transition"* which was held at the Hotel President, Prague, Czech Republic on 22–24 April 1993. The workshop was organized by the Economic Transition and Integration Project of the International Institute for Applied Systems Analysis (IIASA) and the Institute for Economic Policy affiliated to the Ministry of Economy of the Czech Republic.

The purpose of the workshop was to assemble responsible policy makers, interested scholars from Central and Eastern European countries, as well as western experts to thoroughly discuss the accumulated experience with macroeconomic stabilization during economic reforms in Albania, Bulgaria, Croatia, the Czech and Slovak Republics (the former ČSFR as well), Hungary, Poland, Romania, Russia, and the Ukraine. Those who presented papers and those who commented on them aimed at drawing attention to problems that are now explicit and pressing in countries which started with reforms sooner and are very likely to emerge in countries that started later. The organizers of the workshop firmly believed that the dissemination of experience from the more advanced reform countries could contribute to a better understanding of burdensome stabilization tasks and to a future improvement and refinement of stabilization policies and tools. Undoubtedly, a smoother and more successful transition will benefit not only the less advanced countries but to the region as a whole.

In retrospect we may now conclude that a good basis for a fruitful exchange of views and stimulating discussions was provided at the workshop. Many thanks go to all the policy experts and scholars who contributed to this meeting. The program and the final list of participants can be found in the Appendices.

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Macroeconomic Stabilization of Economies in Transition: Recent Experience, Preliminary Results and Some Lessons

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1 Introduction

Macroeconomic stabilization of formerly centrally planned economies is generally perceived to be an essential requirement in the transition process to a market-type economy. Fairly bulky demand- or monetary overhang accumulated in the past and inherited from the former socialist economy represented a major threat for the price stability at the very beginning of reforms. Widespread fears that latent inflationary pressures will generate (after liberalization of prices) a hyperinflationary spiral and endanger the attainment of other goals called for monetary, fiscal and wage restrictions or at least soundness. It was also suggested that some decline of output and employment is necessary, inescapable or even desirable during transition. Nevertheless, a related rise of unemployment had to stay within affordable limits which would ensure the conservation of the social peace as a necessary condition for pushing through the painful reform measures. Thus, limited government interventions in favor of ironing out the wildest fluctuations were envisaged.

Generally, the stabilization of crucial macroeconomic variables should set the stage for a smooth and rapid transformation of the institutional background, property rights, and behavioral patterns of economic agents. Consequently, the target of stabilization has been assigned a significant role in all reform blue-prints. While the initial results of stabilization programs prove to be reasonably promising in some countries or regions, there are also signs of partial, or even complete failures. In any case the stabilization phase seems to be, after several years of experience, a relatively easier task to accomplish than other parts of the reform packages.

The workshop had four main topics:

1. Price liberalization in a post-socialist economy: impact on macroeconomic stability;

2. The role of monetary, fiscal and wage policies in stabilizing the economies;

3. Exchange rate policy and external pressures: search for a stabilizing anchor;

4. Microeconomic preconditions for macroeconomic (in)stability.

The goal of this paper is to summarize the ideas presented by workshop participants and to identify topical questions arising from the discussions. Its structure loosely adheres to the above session topics. The following section presents a more comprehensive assessment of economic development of the former ČSFR. The simultaneous occurrence of both positive and negative developments illustrates an ambivalence contained in reforms in all countries.

The third section deals briefly with price liberalization which was carried out quite extensively at the beginning in all reform programs. Romanian experience in this field is analyzed and comparisons with some other countries are discussed.

The main burden of stabilization policies rests on broadly defined monetary and fiscal policies which are sometimes accompanied by wage policies. Polish and Czechoslovak cases are studied in the fourth section.

Exchange rate policy and liberalization of imports and exports play a substantial role in many respects. On the one hand, pegging a domestic currency (to a stable foreign currency or to a basket of currencies) provides an important anchor in a world of uncertain and highly fluctuating macroeconomic variables; on the other hand, the initiation of export-led growth could foster the general economic recovery and the inflow of much needed capital goods could significantly speed up industrial restructuring. The fifth section is devoted to these issues.

Macroeconomists tend to explain macroeconomic phenomena by macroeconomic causes, using macroeconomic tools. Many of these macroeconomic approaches could, however, be simply inappropriate in highly non-standard conditions (which prevail in today's post-socialist economies). Certain microeconomic explanations are, indeed, relevant. The sixth section deals with inter-relations between macro- and microeconomic elements behind our macroeconomic reasoning.

To systemize the thinking about stabilization policy in the following, we will focus on two aspects, i.e.:

(a) the role of stabilization policy in the whole reform/transition architecture, and

(b) the level of permissivity or restrictivity of stabilization policies during transition.

The first aspect refers to the *qualitative* assessment of stabilization policies. It attempts to trace changes in the attention paid by policy makers in individual countries to the stabilization goal. It focuses on the relative position of stabilization effort in certain phases of transition with respect to other targets like privatization, liberalization of prices and trade, introduction of certain levels of convertibility, or industrial restructuring of formerly centrally-planned economies. The issue of policy credibility is touched upon as well. The second aspect concentrates on *quantitative* evaluation of stabilization policies. It wants to identify what was the stance of monetary, fiscal and wage policies in different periods of transformation with respect to their permissivity or restrictivity and what were the reasons behind policy adjustments.

Taking this viewpoint into account, the final section summarizes the findings from the workshop. **Preliminary conclusions** are drawn up, **lessons to be learned** are pointed out, and an indication of some **open issues**.

It is necessary to note here, that this workshop was originally considered to be the first in a series of three workshops which were to be held in the former ČSFR, Hungary, and Poland. The purpose of the workshops was to discuss, in a more detailed way, such areas of economic transition in which these three countries were/are relatively successful. As the former ČSFR is generally regarded as a "leader" in macroeconomic stabilization, the option to organize such a meeting in Prague was straightforward. With respect to this, much of the material presented during the sessions were drawn from experience accrued in the former ČSFR and in its successor states thus having a relatively large share in this working paper.

The views contained in sections 2–6 reflect the ideas expressed by workshop participants. The opinions in section 7 are solely the responsibility of the author.[1]

[1]I wish to express my sincere thanks to my colleague, János Gács, for his valuable comments to an earlier draft of this paper. Any possible misinterpretations, inconsistencies, or flaws in the paper are, indeed, my own.

2 Positive Versus Negative Results of Ongoing Reforms: The Case of the ČSFR

The economic development of the former *ČSFR*, after several years of reforms, is regarded by many experts as being quite successful.[2] Particularly macroeconomic indicators, in comparison with other countries in transition, display really impressive results.

After some preparatory steps during 1990, reform actually started in January 1991. Its implementation followed two major lines: while the macroeconomic stabilization policies aimed at reaching both an internal and external equilibrium, the microeconomic package consisted of privatization, liberalization of prices, introduction of current account convertibility, liberalization of foreign trade transactions, privatization and setting up of a corresponding (market-type) institutional framework. Both official statements and real life events confirm that the attention of the reformers and decision makers concentrated mainly on **macroeconomic** adjustment in the initial period of the transformation. Macroeconomic stability was explicitly presented as a crucial and necessary condition enabling the implementation of other major reform steps.

In January 1991 a sort of shock therapy was initiated. Almost 80% of prices (on the basis of GDP) were liberalized overnight, a large number of subsidies were radically reduced with many of them being completely abolished. Current account convertibility and massive devaluation of the Czechoslovak crown were other measures taken.

The price jump connected with price liberalization rapidly faded out without being transformed into any inflationary spiral, as some had feared (monthly rate of inflation was 25.8% in January, 7% in February, and 4.7% in March). From the middle of 1991 through to the end of 1992 the monthly inflation rate (CPI) was not higher than 2 percentage points. In spite of: (a) the increase of domestic price level; (b) a slowly widening scope of internal currency convertibility; and (c) the foreign exchange reserves volatility at the end of 1992 (generated by the forthcoming split of the country), the relation between the Czechoslovak currency and the basket of convertible currencies—the official exchange rate—remained virtually unchanged. The original level (28 CSK for 1 US dollar) stayed for 30 months (until June 1993). This was the result of the strategy which assigned the role of anchor to the nominal exchange rate.[3] Simultaneous occurrence of domestic inflation and nominal exchange rate stability implied an implicit real revaluation of the crown.

Two explanations[4] could be found for this development: (1) in curbing inflationary pressures, combined fiscal, monetary and limited wage policies, which had been applied, were rather effective; and (2) though the aim of keeping the nominal exchange rate stable was explicit, it was not followed blindly, without respect to huge uncertainties, discontinuities, and different kinds of changes. Instead, from the earliest stage of the transition, the Czechoslovak authorities, and especially the Central Bank, tried to make only reasonable obligations and to avert, as much as possible, any back-stepping. This solution aspired to combine the advantages of setting a kind of stabilized "norm" with the advantages of flexible adjustment in case of need. There certainly remains room for discussions about the real impact of a devaluated exchange rate on the domestic price level. While the argument of an anchor does not lose its validity, its inflationary (and hence potentially destabilizing) influence could not be denied either.

Part of the costs for curbing inflation is the negative economic growth. During 1991–1992 the real GDP declined by 21.3%. This drop of economic activity was, however, reflected only

[2]The following section is based on the paper and the presentation *Macroeconomic Stabilization in Czechoslovakia: Costs and Benefits* by Jan Klacek and the ensuing discussion.

[3]Satisfying results of this strategy can be proved by the fact that in the middle of 1992 the foreign currency reserves of the former ČSFR amounted to 5 billion US dollars which was the highest level in the whole of post-war history.

[4]A more general explanation of this favorable development could be traced back not only to pre-war history when monetary authorities used to implement fairly severe policies, but also to the post-war period when the central mono-bank (despite a strong non-monetary setting of the centrally planned economy) displayed undeniable signs of monetary soundness.

very loosely by an increase in unemployment. While the rate of unemployment in the ČSFR at the end of 1991 was 6.6%, it declined to 5.1% by the end of 1992. Wide regional disparity is hidden behind these aggregate figures—in Slovakia the rate of unemployment was nearly three times higher than that in the Czech Republic. The constantly declining (and strikingly low) rate of unemployment in the Czech Republic during the Spring months of 1993 even became a puzzle.

As far as the transformation of property rights is concerned, according to estimates at the beginning of 1993, more than 70% of retail trade turnover, 30% of construction activities (in terms of value added), and 15% of industrial output originated in the private sector. Nevertheless, the future impact of voucher privatization is not clear and the behavior and impact of investment privatization funds is difficult to predict now.

Undeniable achievements should not conceal a less favorable phenomena. The dark side of reform changes seems to be the restructuring of the economy, which is far from being satisfactory. The share of low value added industries increased visibly and this trend was also reflected in the export profile. It is witnessing a decrease in the amount of machinery and transport equipment on the one hand, and an increase in the share of primary sector outputs on the other.[5] A relatively high level of concentration of production still prevails: more than 30% of industrial output originates in enterprises with more than 5,000 employees. Not much occurred in agriculture in transforming the cooperative farms and a high level of uncertainty is present in this sector.

Another negative phenomenon is the alarming scope of inter-enterprise arrears being estimated to amount to 6 billion USD in the Czech Republic after the split of the former ČSFR. The so-called "secondary indebtedness" reached about 85% of the total. The near future will answer the question of how much the existing and widespread inter-enterprise indebtedness will contribute to an expected wave of bankruptcies after the bankruptcy law came into full effect on 22 April 1993. It may turn out that, the domino effect which could accelerate within several months (after a three month "grace period") will generate a worsening of broad economic conditions with troublesome macroeconomic consequences.

Additional complications arise from the split of the former ČSFR. The Czech Republic will be exposed to at least three risks: (1) a fall in trade with Slovakia, (2) insolvency of Slovak enterprises, and (3) import surcharges in Slovakia or devaluations of the Slovak crown. These and other factors (i.e., new tax system with complicated VAT collection, excessive activation of the bankruptcy law, trade-union pressures on employment, and wage policies) are potent enough to undermine existing macroeconomic stability and hamper microeconomic transformation and restructuring.

It could be stated, that the Czechoslovak case introduces an exception. Its experience does not seem to confirm a generally shared view, that the transition period is more difficult in countries which have not implemented any reforms during their socialist era (like *Bulgaria* and *Romania*) in comparison with those that did something (like *Hungary* and *Poland*). Moreover, it is also an example, that the relatively fast approach (which is sometimes incorrectly called shock-approach) does not necessarily bring worse results than more gradual reform programs. In comparison with other countries, several factors speak in favor of the Czechoslovak situation. Firstly, the starting conditions were more favorable (low foreign debt, small macroeconomic disequilibrium, low inflation, low degree of shortages). Secondly, some painful measures, like the bankruptcy law (or VAT reform) have only been taken recently. Thirdly, Czechoslovak policy makers learned some lessons from neighboring countries which started a little bit earlier, so that some mistakes could have been at least partially alleviated.

In assessing the impacts of reform measures taken, one must not forget about the CMEA collapse and a fundamental break-up of the old trade system among former socialist countries. Especially painful was the restructuring of trade with the former Soviet Union. It would have

[5]While this conclusion is based on figures from domestic statistics, this trend need not be necessarily confirmed by using non-Czechoslovak statistical sources (e.g., OECD statistics). They indicate a slightly different picture not only with respect to the level of trade but also with respect to growth rates of trade volumes and its structure.

been a mistake to assume and hope that it was possible to initiate deep economic changes and to preserve old economic relations. It is very difficult to imagine, for example, that former socialist countries could have still bought oil for 7 US dollars per barrel in 1991 and 1992. Even without all of the implemented stabilization measures, a certain decline of economic activity was inescapable. Only an extremely expansionary policy could have "saved" the enterprises whose existence was based on the old price structure of raw materials imported from the former Soviet Union.

Several lines of criticism could be raised against the concrete way of carrying out the reform in former Czechoslovakia:

1. It was an enormous mistake to publicly discuss the level of envisaged devaluation during 1990. As a consequence, foreign currency reserves declined by 1.5 billion US dollars and, in addition, the generated expectation contributed to a sharper devaluation, which was not justified by the fundamentals and by the competitiveness of the economy. The resulting level of devaluation was thus higher than had been hoped for, half a year before.

2. According to many views, monetary policy was too restrictive at the beginning. The economy was squeezed at a time when it could have been more relaxed. A certain part of the responsibility for this development falls on the IMF which advised on the given dosage of the restriction. To tell the truth, the decisions were made in an exceedingly uncertain environment without having any idea about the possible outcomes.

3. Privatization takes too long but it is necessary to admit that due to administrative and "parliamentary" bottlenecks the whole process could not have been substantially faster.

4. The authorities failed in breaking up numerous monopolies which contributed to pushing up the general price level.

Statistical problems complicate a more precise and reliable analysis of the real economy. One example is the household consumption figures. It is difficult to believe that the level of household consumption declined by 40% over a four month period in 1991 in a country which was neither in famine or war nor experiencing a high standard of living before.

3 Price Liberalization in a Post-Socialist Economy: Romanian Gradualism

Romania started its reforms in much worse initial conditions than other former Central or East European economies.[6] Its economic structure was extremely distorted as a consequence of former industrial and investment policies which followed strictly equitable regional development. The allocation of production capacities and labor force ignored the criteria of comparative advantages given by a proximity of natural resources and networks of infrastructure in many areas. As a result, a peculiar picture of dispersed industries emerged, in which many of the municipalities were dependent upon a single industry with a one-sided specialization of the labor force in a region. This distorted system implied substantial output and employment losses when the move to a market-driven establishment was started.

At the turn of 1989 and 1990 Romania announced a commitment to embark on fully-fledged economic reform. Many steps have been taken since: partial price liberalization; full liberalization of foreign trade; the establishment of a two-tier banking system; the preparation of fiscal reform; restructuring of enterprise ownership; privatization of agriculture, small business and retail trade; the preparation of large scale privatization; the promotion of foreign investment; etc.

[6] This section draws on the paper *Price Liberalization in Romania* by Ioan Buda.

In spite of some achievements in restructuring, the macroeconomic stabilization of the economy is close to failure. Real GDP declined by 13% in 1991 and 15% in 1992. Industrial production decreased by about 50% during 1989–92. The price level increased by more than 200% in 1992. During 1989–92 the official exchange rate of the lei against the US dollar decreased by a factor of 27. Foreign exchange reserves now cover the equivalent of several weeks of imports only.

Price policy played an important role in the transformation process. It is useful to stress here that liberalization of prices in Romania followed a very specific pattern which was not applied elsewhere. In contrast with other reforming countries, price liberalization in Romania had conclusively a gradual nature. Its individual phases had the following main features:

January 1, 1990

- the introduction of a free pricing system for private producers;
- the contractual prices of agricultural products in state and cooperative sectors were increased and the possibility to sell excess quantities on the free market was granted;
- the responsibilities in forming prices in the existing institutional framework have been shifted downwards to the lower levels of decision-making. Free price formation, however, was limited in two cases:

  (a) when less than three economic agents supplied the same goods or service, and

  (b) when the prices were subsidized from the state budget.

  In these cases prices have been negotiated simultaneously by government and economic agents.

November 1, 1990

- real price liberalization was started when the principle of free negotiations came into effect;
- former limitations were, however, extended on products and services of special importance for the national economy and population;
- the income compensation-indexation system was introduced;
- the list of subsidized products contained 21 items for production purposes and 11 items for final consumption;
- the exchange rate, used as the basis for negotiations, was 35 lei/US dollar.[7]

April 1, 1991

- in order to prevent monopolistic price formation and to decrease the rate of inflation, maximum indices for price increases were introduced;
- the number of subsidized products (for production purposes) decreased from 21 to 13 ;
- the exchange rate basis was changed to 60 lei/US dollar.

July 1, 1991

- the former indicative price ceilings were abolished as they contradicted to the principle of free negotiation;

[7]The exchange rate of 21 lei/US dollar was introduced on February 1, 1990. The exchange rate of 16 lei/US dollar was previously valid.

- monthly adjustments of prices for crude oil, electricity and raw materials, and quarterly adjustments of prices for natural gas were adopted;

- the number of subsidized products increased from 13 to 15 in the first group and from 11 to 14 in the second group.

November 1, 1991

- free negotiation of prices was supposed to take into account the following factors:
  (a) the exchange rate basis was changed to 180 lei/US dollar,
  (b) the adjustment of prices of domestic raw materials, fuels and energy to the world market level, and
  (c) the new salary indexation;

- the level of mark-up was limited to 30 percentage points;

August 1, 1992

- the way of price- and tariff negotiation was modified under a condition of complete liberalization of the exchange rate of the lei;

- in price negotiations, an altered set of factors was recommended to be taken into account:
  (a) liberalization of the exchange rate of the lei,
  (b) the adjustment of domestic prices to the long run trends of prices on world markets,
  (c) the new level of social security contributions, and
  (d) the salary indexation scheme;

- the number of items subjected to the maximum indices decreased from 35 to 24;

- the subsidies of several items (i.e., sugar, meat, dairy products, railway transportation) were removed and the total amount of subsidies was further decreased.

At present, completely free negotiation of prices exists in the private sector and only 20% of prices in the state sector is subject to state supervision. The purpose of supervision is to prevent the state-owned suppliers from reaching a dominant position and gaining monopolistic profits.

One striking fact of Romanian price development is that the rate of the exchange rate depreciation was much faster than the rate of price increase. While the price level increased during the period December 1989–February 1993 by a factor of 16, the exchange rate of the lei depreciated by a factor of 32. To get a better picture of the relation between the exchange rate policy and the price index, it would be necessary to analyze other factors influencing both variables like money supply or financial policy. There is an indication, that the changes in money supply contributed to the inflationary pressures because of certain deficit financing.

It can be argued, that Romania adopted quite a unique type of strategy different from those applied in former *Czechoslovakia, Hungary,* and *Poland.* Within three years, the authorities implemented rather drastic changes in economic parameters (repeatedly adjusted exchange rate) which were accompanied by many administrative measures like price control. The emerging picture is a policy mix combining drastic changes with a gradualistic approach, which was probably powerful enough to generate pro-inflationary expectations with negative future impacts. A dilemma arises: while this strategy could be feasible in political terms (public unrest after the first round of price liberalization led to a postponement of the second round) it can prove to be very costly in economic terms. Experience stemming from this dilemma could be relevant for other countries in transition.

One crucial weakness of Romanian reform seems to be the absence of competition policy. The law has not yet been issued by Parliament and the existing draft relies more on administrative price control rather than on anti-monopoly policy. In addition, there has been a delay of about a year or two in changing the depreciation schedules of the fixed capital. As a result, the budget was actually being balanced by de-capitalizing the firms. It is true, that if one allows companies to increase depreciation charges, they can pass them through the prices. But whether they really do this depends on the market and on the macroeconomic policy which is in place in a given period.

Another important issue is a cost-plus approach of price formation. In spite of its application it has not yet led to market clearing: shortages of energy and many raw materials still remain. The idea was based on the exchange rate mechanism which does not seem to be appropriate under existing circumstances, when the currency is not convertible. As a kind of complement, an administrative allocation system governed by the Ministry of Industry has been used. However, prices held by price surveillance derived from the exchange rate did not really have a market basis either. The administrative dependence of prices on the exchange rate often led to a situation when the simultaneous occurrence of fixed prices and increasing costs resulted in enormous losses by firms. Consequently, built-in inflationary expectations were rather strong. This became especially apparent in 1992, when the attempt to fix the exchange rate was made: inflationary expectations fostered the black market, where the unofficial exchange rate skyrocketed to 800 lei per US dollar.

The explanation of these developments is that Romania, in contrast with other countries, did not, in fact, use the exchange rate as a real instrument of stabilization policy. The effects of exchange rate changes on prices, and therefore on incentives which firms face, were not allowed to come through the system. The main conclusion is, that it is very problematic to impose financial discipline on firms when prices are only partially liberalized and mark-ups are under control.

A positive issue is a kind of learning process which all firms have to experience during the process of price liberalization. As they have never had any experience in price formation, it can happen, that many of them, "unexpectedly" obtaining full responsibility in this field, simply overshoot the "right" prices. *Hungary* provides evidence of how this learning process was started under the still quasi-reform socialist environment. The step-by-step relaxation of price regulation gave firms gradually more freedom. In the course of 1988–1990, as the socialist system collapsed, this process was transformed into real market-type price liberalization. Here lies the explanation, of why the price jump in Hungary did not have such magnitude as elsewhere.

Albania provides an interesting example for comparison. With an even more distorted and isolated economic system, suffering from deep and widespread crisis,[8] the Albanian government decided to set in motion a very decisive reform program supported by a stand-by agreement with the IMF. Until 1992, Albania maintained an extremely rigid price structure which had not been altered for 45 years. "Ruthless" price liberalization was the first step in the macroeconomic adjustment program which began in August 1992. Under existing conditions such an approach seemed to be the only available instrument allowing the radical break through of an incentives structure and the easing of enormous fiscal tension. All controls of retail and wholesale prices were eliminated except for a small group of essential commodities and services. Subsidies have been temporarily retained for six items (e.g., school books, medication, heating and urban transportation). In spite of this, retail prices of essential items rose by 250–400% and up to 500% in case of wheat, bread, sugar, utility services, etc. All prices subject to control were monitored monthly to ensure that they remain roughly in line with costs.

As indicated above, price liberalization in Albania was also heavily driven by the intention to substantially decrease the cost of subsidies (connected with the old price system) and to

[8]From 1989 until the beginning of 1992, GDP dropped by about 50%, open and disguised unemployment reached one third of the labor force in the state sector, yearly inflation exceeded 100% in 1991 with monthly rates oscillating between 10–15% at the beginning of 1992.

decrease huge budget deficits caused by a dramatic drop of budget revenues: the share ratio of tax revenues to GDP declined from 42% in 1990 to 28% in 1991 and even to 16% in the second half of 1992. Another motive behind price liberalization was to provide farmers with incentives to increase agricultural production in this recently privatized sector.

4 The Role of Fiscal Policies During Transition

In the course of transition, much of the burden of stabilization task rests on fiscal policy. But while contributing to macroeconomic stabilization, the fiscal sphere itself has to go through extensive restructuring and reconsideration of its manifold roles. As a result, it becomes a point of intersection of newly formed concerns and a source of different tensions which are typically manifested by budget deficits. At the beginning of the reform process, the task of keeping deficits under control does not seem to be a difficult one. But later on, GDP falls dramatically, total profits of enterprises decline and hand-in-hand with a decline of profit margins[9] budget revenue drops. A simultaneous increase of social-related expenditures leads to the emergence of a budget crisis with potentially destabilizing implications for the balance of payments, investment, size of public debt, etc.

In tackling this issue, it is essential to identify the causes of fiscal deficits, to estimate the potential inflationary implications of budget deficits, and to devise reasonable and effective policy responses. The scale of the problem is different in the individual countries, but the danger of potential fiscal crisis is present almost everywhere.

The problem of fiscal deficit became a central macroeconomic issue in *Poland* during the last two years.[10] The collapse of profits already occurred in Poland in the second year of transition (in 1991). It is estimated, that the lower profitability of the enterprises decreased the share of budgetary revenues in GDP by 10 percentage points. As a result of separate development, the share of social expenditures (especially pensions) increased by 10 percentage points. Although the share of subsidies in total expenditures declined by 10 percentage points, the net impact is 10% as the amount of deficit (in relation to GDP) which could become reality in 1993. The scope of budget problems in the current stage (or at a later stage in general) seems to depend on mistakes incited in an earlier stage. In Poland's case they are connected with a delay in fiscal reform, with protracted dependence on corporate income tax and with an under-estimation of the importance of indirect taxation.

The ensuing increase of monetization of the deficit is being regarded in Poland as an obstacle to sustaining the downward trend of inflation and even worse as a source of igniting new inflation. Needless to say, that deficits embody a dual threat: on the one hand, the jeopardy of inflationary pressures and, on the other hand, the danger of redistribution of income from investment (not only private but also government) to consumption. The task for policy makers is to realize all of the possible consequences of the current economic trend in the fiscal sphere and to estimate such a budget deficit level which could be consistent with a targeted level of inflation. In a second step, it is necessary to introduce fiscal measures enabling this level of deficit to be reached. In Poland's case the fulfillment of certain fiscal criteria is of supreme importance with respect to maintaining the possibility of receiving any new loans from abroad and/or easing the burden of outstanding foreign debts.

The package of measures developed to decrease the deficit in Poland has impacts both on the revenue side and on the expenditure side. On the **revenue side**, the most promising and

[9]There are numerous explanations for the decline of profit margins: (1) the economic environment (both external and internal) to which the firms are exposed is much more competitive; (2) after the collapse of the CMEA, the cost structure of enterprises was rearranged in a way that the same level of fixed costs had been disbursed to the lower level of output; (3) unfavorable changes in terms of trade; (4) introduction of minimum wages; etc.

[10]This section reflects the presentation of the paper *Budget Deficit and Inflation in Transition Economies: The Case of Poland* by Stanislaw Gomulka and the ensuing discussion.

most politically feasible seemed to be an increase of turnover taxes. Another measure was the introduction of a temporary import surcharge in 1992. In spite of its certain controversial impacts (the level of effective protection increased from about 14% to about 20%) and the fact that its main purpose was a better shaping of the balance of payments, it also has fiscal implications. The third measure was the freezing of personal income tax brackets, which was politically very sensitive. And fourth, it was the freezing of depreciation allowances for investments made before 1990.

On the **expenditure side**, it was indispensable to reduce pensions relative to wages. The relation of pensions to wages increased from less than 50% to 65% during transition. In addition, the number of pensioners increased enormously. The government succeeded in persuading Parliament to reduce the ratio of pensions to wages by 9 percentage points for 1993. The reduction of the wage bill and current non-wage expenditures are being proposed as well. These cuts are to be dispersed in a more or less equitable way in order to maintain a broadly-based social support.

These combined measures aim at lowering the budget deficit to about 5% of the GDP which is being considered as the level allowing the effective control of inflation. There is, however, no guarantee that a 5% budget deficit will really bring the inflation under control. Despite the fact that a 5% deficit is lower than deficits in many western countries, they are not mutually comparable for essential reasons.

According to some views, there is not much evidence on a strong "crowding out" effect of budget deficits in Poland. There are even fears, that lower deficits would decrease the aggregate demand without pushing commercial banks to provide more credits because of the burden of bad debts inherited from the past.

It is instrumental to inspect the fiscal policy in Poland on the background of general economic policy. In the first half of 1990, the economic policy was very stringent. It implemented the nominal targeting of money and credit expansion, very liberal trade regime, and even a budget surplus. Since, the economic policy parameters became much softer: import surcharge is being tolerated (and even encouraged by IMF), monetary and credit targets are now much looser, and a 5% budget deficit is acceptable.

Like Poland, also *Hungary* faces the problem of increasing budget deficits which emerged during the last two years. The reasons, again, stem from the low level of revenues, on the one hand, and the overloaded social network, on the other. Nevertheless, with respect to slightly different specific conditions an interesting comparison of the two countries arises. While in *Poland* the partial financing of the budget deficit by the Central Bank could lead to an increase of the expected inflation rate, in *Hungary* it could lead to an outflow of foreign exchange.

Due to progress in developing the capital market in Hungary, budget deficits are not financed by the Hungarian Central Bank,[11] but rather by emissions of marketable government securities. These may be bought by the Central bank and immediately sold the "next day" on the capital market. It seems, that in this respect Hungary has a wider maneuvering space (than Poland) in managing the monetary policy regardless of the current needs of the budget sphere. This advantage also stems from the increased propensity to save on the population side. The savings ratio of households increased from 2–3% (savings/disposable income) to almost 15% during the last three years, thus providing more liberty in financing much higher budget deficits without harming the foreign exchange position. Of course, it is questionable how long this situation could be relied upon.

Apart from the budget deficit an issue of outstanding debt is present. Hungary accumulated a large debt in the past which it is, according to some Hungarian experts, desirable to be reduced by the receipts from privatization. According to this view, not only current revenues and expenditures, but also public assets and liabilities should get into equilibrium in the medium- or long-run.

In former *Czechoslovakia*, certain preparatory measures in the budget sphere were taken

[11] This is also partly because of legal limitations.

before the implementation of crucial reform steps.[12] Already in 1990 the process of reducing the overall tax burden started especially by decreasing income tax rates. As is generally known, the tax burdens in former centrally planned economies were exceedingly high (at the end of 1980s, the profit tax ranged between 75 and 85% in Czechoslovakia). Another step, logically consisted of reducing individual levies on profits. In July 1990, the so-called negative turnover tax was eliminated especially on foodstuffs (which resulted in the price increase of foodstuffs by about 25%). In order to compensate the social impact of that measure, a kind of lump-sum flat payment was paid from the budget to every citizen.[13] From a global fiscal point of view this operation was completely neutral, only the structure of certain budget items was changed.

The restrictive stance of the new government coming into power after the revolution can be seen in the fact that, while the former budget for 1990 (prepared by the communist government) was compiled as a deficit one, the second version made at the beginning of 1990 was outlined as a surplus one. The idea behind this was to break the "overheating" of the economy before implementing liberalization steps at the beginning of 1991.

It is remarkable, that fiscal development in 1991 followed a pattern which was partially repeated in 1993. Immediately after price liberalization, profits increased significantly leading to an increase of budget revenues and to a huge budget surplus during the period January–April. At approximately the same time, output started to decline so that the tax base started to shrink and the budget slipped into trouble. The combination of these developments sharpened the problem of lack of liquidity in the corporate sector, because corporate taxes were paid from profits which were only accounting profits not being based on sales of production. This unhappy coincidence contributed to the huge amount of inter-enterprise arrears and later on also to tax arrears. These two phenomena seem to be very general and typical ones in economies in transition.

In June 1991, when this development was still not so explicit, a decision was taken to spend about 47 billion crowns (approximately 10% of the budget expenditures) for different purposes which contributed to the disappearance of the surplus during the second half of the year and creating a deficit at the level of 2% of GDP by the end of the year.

Similarly, at the beginning of 1993, a jump in prices, connected with a comprehensive tax reform, contributed to a budget surplus; but further shrinking of the tax base, ensuing from an output decline—generated partially by the split of the country—is worsening the budget perspectives in the medium-run.

The year 1991 brought an important lesson: it is necessary to retain control over budget expenditures. There were two unsatisfactory budget results at the end of the year in addition to what was indicated above. On the one hand, the behavior of spending agencies became quite autonomous and followed their own expenditure policy, which did not correspond to the overall budget development especially in the second half of the year. On the other hand, there was asymmetry between the federal budget level and the two republican budgets which adopted different paths of expenditure policy and spent enormous amounts of money. This called for instruments enabling the flexible and efficient control of expenditures.

In considering budgetary development, the impact of three long-term factors should be kept in mind. Firstly, ongoing output decline decreases the tax base and consequently, other things equal, budget revenues. Secondly, the same impact has a step-by-step decrease of marginal tax rates to the levels consistent with reasonable market conditions. Thirdly, the deflators for public sector expenditures are considerably higher than the indexes for any other segment of the economy. This means, in other words, that more money in nominal terms (in comparison with average price indexes) need to be funneled to the public sector in order to maintain the same level of expenditures in real terms. Taking into account the simultaneous occurrence of all these factors, a good shape of public finance (decreasing the share of expenditures was not faster than

[12]This section is based on the paper and presentation *The Budget Reform in Czechoslovakia and the Czech Republic* by Pavel Štěpánek and on the ensuing discussion.

[13]This payment to citizens could be considered as a kind of negative poll tax.

decreasing the share of revenues) in former Czechoslovakia (and later in the Czech Republic) has been a good achievement. One explanation for this result was the realistic assessment of how much could be collected in taxes.

The Czechoslovak experience in the fiscal sphere could be summarized as follows:

1. It is extremely difficult to predict the tendencies in budget development in a transition period when most macroeconomic aggregates display wild fluctuations. The assessment of every process must be very careful in order to avoid wrong decisions.

2. The easiest part of the budget reform is done at the very beginning of reform by cutting subsidies to the corporate sector.

3. The above stated cuts do not save much money to the budget because the need of increased social transfers immediately arises to compensate for the loses in the corporate sector.

The two last points suggest, that the bulk of social related expenditures (social services and public consumption) remains roughly unchanged both in terms of quantity and in terms of the approach to providing these payments at the beginning of budget reforms. The general reform of this sphere is mostly still ahead and only fundamental restructuring of the whole public sector will change the entire economic environment. Among the changes, a crucial role will be assigned to the abolishment of the egalitarian approach, to the privatization of some activities, and to an increase in the efficiency of budget expenditures.

One general issue arises in all economies in transition. It could be assumed, that cuts in subsidies had been partly transformed into inter-enterprise indebtedness still prevailing in the state sector which remains largely untouched. Commercial banks forced by different political pressures cannot stop giving credits to big but basically unhealthy firms because of the threat of mass bankruptcies. As these credits will be quite "bad" (because firms have not yet started any substantial restructuring), the portfolio of banks will worsen and their position will weaken. In solving this situation, the Central Bank will be asked to intervene and to render the last resort. The circle is thus being closed because the state body will again be responsible for the final outcome. The only difference in this metamorphosis is, that the direct tool of budget subsidies (in the hands of Ministry of Finance) is being substituted by less direct tool (in the hands of the Central Bank) consisting in granting credits to banks in danger. This reasoning provokes a question of whether the process of transformation could be started by macroeconomic stabilization leaving microeconomic restructuring for a later date, or more generally, whether the transformation process could be carried out in such a way that only some of its elements do remain under the control of the government? Thus, as an alternative to sharp cuts in subsidies there is an option to retain certain control over subsidies and not allow enterprises to behave in a chaotic manner and afford such financial undiscipline which is currently displayed in all post-socialist economies.

5 Exchange Rate Policies: Do They Stabilize?

Exchange rate policy occupies an important place in stabilization packages in many economies in transition. *Hungary* introduced an adjustable peg system with the forint being pegged to a basket of two currencies (50% US dollar and 50% ECU) approximately reflecting the trade pattern of Hungary.[14] The decisions on the change of the exchange rate is derived from the joint responsibility of the Central Bank and the government. While the government may decide about devaluation at any extent, the Central Bank has an authority to carry out any change within a pre-determined band of ± 5% during one year.

[14] This section draws on the paper and presentation *Possibility for Using the Exchange Rate as Nominal Anchor for the Domestic Price Level: Some Evidence from the Hungarian Case* by Artúr Szengyörgyvári and the ensuing discussion.

It is remarkable, that the even price and import liberalization (the latter started in 1989 and was finished in 1991) accompanied by the appreciation of the real effective exchange rate did not lead to a collapse of the balance of payments.[15] It suggests a certain undervaluation of the forint before price liberalization and thus a certain level of protection for domestic producers against foreign competition.

In comparing the inflation rate and exchange rate one could conclude that deceleration of devaluations that happened at the beginning of 1990 probably contributed to the deceleration of inflation which followed about a year later despite a constant growth in money supply (expressed by broad money aggregate). In other words, the exchange rate served as an anchor for domestic inflation even if the nominal rate was modified several times. This conclusion (however persuasive when using simple macroeconomic modelling) is a bit surprising with respect to the fact that Hungarian officials did not attribute this anchoring role at all to the exchange rate of the forint (at least not to the nominal rate).

In thinking about anchor hypothesis as such one major issue arises: what could be expected from anchoring a currency in general? While anchoring inflation is probably feasible in the short run (the credible announcement by the Central Bank to maintain a certain nominal exchange rate has the power to break short run inflationary expectations), it becomes questionable in the medium- and long-run. In the medium- and long-run, the adjustment of the exchange rate to import and export competitiveness seems to be reasonable and advisable. This is implied by *Polish* experience indicating that using the exchange rate policy as a nominal anchor in 1990 was a very difficult task. Two explanations could be pointed out here:

1. Inflationary (or better non-inflationary) expectations reacted to the declared exchange rate stability with a very long lag—reaching up to 12 months. Such a long lag understandably undermines the efficiency of this tool.

2. Some phenomena seem to suggest that the anchor was put in the wrong place which led to an unexpected trade surplus at the beginning of 1990 on the one hand, but simultaneously generated strong cost-push pressures on the other.

Another limitation of using the exchange rate as an anchor stems from the difficulty to indicate, what the likely and equilibrium exchange rate is in the medium-run. The common feature of developments in *Poland*, *Hungary*, and the former *Czechoslovakia* is that in the initial period of reforms, currencies in all three countries appreciated in real terms. The reasons could be described as follows:

- the aggregate demand declined and understandably the demand for imports declined;

- the real money stock declined; and

- the abolishment of subsidies to imported raw materials substantially decreased the volume of their imports.

When these factors are present, the exchange rate policy has a certain basis for decision making but after these factors fade, the next direction of exchange rate movements becomes a big puzzle.

In addition, an issue of wage policy exists. The attempts to use the exchange rate policy as a tool for reducing inflation can only be successful when real wages are kept down. If real wages respond rapidly to even small changes in the nominal exchange rate, then the real exchange rate remains unchanged.

To sum up, it seems that while *Poland* tried to use the exchange rate as an anchor and this attempt was close to failure, *Hungary* did not intend to do this but accidently succeeded in

[15] The forint appreciated in real terms because the rate of growth of inflation differential was faster than the rate of appreciation of the nominal exchange rate.

doing it.[16] Nevertheless, one positive aspect remains in the Polish way of anchoring: it reversed the process of dollarization of the economy.

In *Russia*, even the basic economic and policy issues have not yet been clarified.[17] There is no clear concept of what type of economic reform should be implemented. On the basis of this general indecision one may ask the question of whether the Central Bank of Russia contributed to the stabilization of the exchange rate of the ruble or rather to its destabilization recently. In order to answer this question it is useful to mention something about the institutional framework of the exchange rate policy.

Before 1992, a multiple exchange rate system existed. Each foreign trade transaction corresponded to its particular exchange rate—which were counted in thousands. At the beginning of 1992, the system was retained but partially simplified by the gradual reduction of the number of different exchange rates. Nevertheless, the system as a whole still provided very negative signals for exporters—these were stimulated to keep foreign exchange revenues abroad and if they needed to return them to Russia they did not use the official exchange rates for the conversion into rubles. The introduction of the unified exchange rate system had been prepared during the first half of 1992. In the autumn of 1991, the Central Bank had a target of 80 rubles per 1 US dollar; in June 1992 the exchange rate was 112 rubles per dollar after an appreciation from 200 rubles per dollar in January 1992.

The officially declared intention to maintain the nominal exchange rate within a certain range led to a complete run-down of foreign exchange reserves. In reaction to that, the policy of the Central Bank became more relaxed; even worse, June was the last month of a more or less responsible monetary policy or simply any policy. From that time, policy attitudes reversed—money supply started to increase in line with prices and the exchange rate of the ruble started an irrepressible upward-sloping trend (depreciation).

The unification of numerous exchange rates[18] in July brought some positive incentives for exporters. They started selling their revenues through the official interbank market which allowed the Central Bank to gradually decrease its participation in this market. It could be maintained, however, that the foreign exchange interbank market is still a relatively thin one despite its strengthening in recent months. With the pure inflow of foreign exchange being no higher than 15–16 billion US dollars in 1992,[19] the ratio of the volume of foreign currencies sold on the interbank market to total export receipts increased from the level of 2–4% during January–May 1992 to 12–14% during June–December 1992 and even to 22–24% during January–March 1993. The latter figures are a bit higher than the prescribed 20% obligatory surrender (sale on this market).

Despite these positive results, several reasons in favor of active engagement in the exchange market remain justified. One reason consists in mitigating the impacts of political factors on which the exchange rate is very sensitive—capital flight and speculative bubbles are a constant phenomena. According to some estimates capital flight ranged between 3–5 billion USD in 1992.

Secondly, the existing regulatory framework with ill-defined obligations of economic agents also brings a good deal of uncertainties. It is, for example, clearly stated that the obligatory surrender of 30% of export revenues are to be sold to the Central Bank within a period of 14 days. Another 20% of export revenues are to be sold on the exchange market (see above) but there is no time limit for this transaction. As a result, a hoarding of foreign exchange occurs and

[16]It is straightforward that such a complex phenomenon like inflation could not be explained on the basis of exchange rate only.

[17]This section is based on the paper and presentation *Stabilizing the Market? 1992 Exchange Rate Policy of the Central Bank of the Russian Federation* by Andrei F. Kovalev and the ensuing discussion.

[18]Two remarks are needed here. First, new exchange rates (with respect to the newly emerged currencies in the territory of the former Soviet Union) appeared. These should not be, however, confused with multiple exchange rates formerly applied to different kinds of transactions. Second, because a remarkable amount of imports (about 40%) is still being subsidized and because the system of licensing and export quotas still exists in some sectors and even regions, an indirect quasi-multiple system of exchange rates still exists.

[19]Probably more than 50% of all foreign trade transactions are made on a barter basis.

quite massive sales are being realized at the moment (four times a year) when balances should be closed for tax purposes.

Different simple criteria (like the so-called profitability criterion developed by M. Friedman or the criterion developed by Mayer and Taguchi) could be applied to assess the effort of the Central Bank aimed at stabilizing the ruble exchange rate. Realizing many limitations of such criteria in explaining the turbulent economic condition, it may be concluded that in contrast with the first half of 1992, the second half witnessed much more success in this field. With respect to scarce statistics and their low reliability, it is impossible (with available macroeconomic data) to judge whether the stabilization goal in itself was good or not. For example, there is no evidence, that exchange rate volatility had some adverse impact on investments.

At the beginning of 1992 the price level in Russia was estimated as 1.5% of that in the USA. By the spring of 1993 it increased to about 15% which represents a 10-fold increase within 15 months. This was also reflected in wage evolution. During the first half of 1992 dollar wages increased sharply; while in December 1991 the average wage was 7 USD per month, in June it was already 41 dollars which represents a 6-fold increase. In sustaining that trend the average dollar wage could have reached 100 dollars per month by the end of the year. The turnover of monetary policy in June reversed that trend—the dollar wage diminished and moved within the range 25–35 USD in the spring of 1993.

One way to improve the existing situation and break inflationary and devaluation expectations is to impose a 100% foreign currency surrender and to implement a fixed exchange rate for a certain period of time. There are, however, strong fears that these measures could be introduced only on paper but not in reality. Due to the broad inefficiency of administrative measures it would be imperative to substantially increase the credibility of monetary policy and of economic policy in general.

There was a prevailing consensus in former *Czechoslovakia* that the satisfactory functioning of the exchange regime is of crucial importance for the whole reform strategy.[20] The issues like, for instance, what should be the type of exchange regime, the role of exchange rate, and the level of exchange rate, had been evaluated very extensively at the very beginning of the reform in an *ex ante* way when devising the global transition strategy.

After two years of transition, when entering the second stage[21] of transition, the exchange rate regime and exchange rate policy again become the central policy issues in the Czech Republic. But unlike the beginning, in this period some lessons not only from their own experience but also from the experience of other economies in transition could be learned.

It is clear enough, that there is no ready theoretical concept of the exchange rate regime for a transition period. Despite the fact that the optimum currency area theory provides some insights into the relation between macroeconomic advantages of floating rates and microeconomic advantages of fixed rates, there are several dimensions for studying the problem with no one bringing ready solutions. In terms of size of the economy it seems that the smaller the economy (and more open) the more justified is the fixed exchange regime. But experience in the smaller countries is diversified. Similarly diversified is the experience of a certain country in different phases of the transition.

At the beginning of the transition, the issue of exchange regime was closely linked to the issues of the scope of currency convertibility and to the creation of conditions allowing the chosen variant of convertibility to be sustained. Currently, the questions of how to go on with capital

[20]This section reflects the paper and presentation *The Exchange Rate and the Transition: The Case of the Czech Republic* by Miroslav Hrnčíř and the ensuing discussion.

[21]At least two stages of the transition period could be identified. In the first stage microeconomic stabilization, deregulation, and price- and foreign trade liberalization played a major role; in this period (which in former Czechoslovakia extended roughly from 1990 to 1992) the institutional changes could only be started. The second stage could be called as the adjustment and consolidation stage. Here the issues of microeconomic restructuring and developing those changes which were started in the first period arise (establishment of factor markets like the labor market and capital market, etc.). It could be assumed that concepts of the exchange rate regimes are different in these two stages of transition.

account convertibility and external convertibility emerge.

In Czechoslovakia, the choice of the fixed exchange rate was made, particularly for stabilization reasons. It is notable that the monetary authorities did not make any commitment to maintain the nominal exchange rate for any preannounced period. The surprising stability of the nominal exchange rate of the crown contrasts with experience made in neighboring countries like *Hungary* and *Poland.* Quite positive results of the exchange rate strategy chosen are the surplus in current accounts (trade deficit is more than outweighed by the surplus in services) in both years 1991 and 1992 and the fact that the outflow of short term capital just matches the inflow of direct foreign investment and loans.

Despite many qualifications to the quality of data and analytical tools used, it is interesting to compare the exchange rate and purchasing power parity. It turns out that in Czechoslovakia the ratio was approximately the same at the end of 1992 as in 1990. Judging from the fact that this development is different from the development in *Hungary* and especially in *Poland* we may arrive at the conclusion that the Czech crown is undervalued not only *vis-à-vis* convertible currencies but also *vis-à-vis* the Polish zloty and the Hungarian forint.

Another interesting insight is provided by calculating the real exchange rate. Although there was real appreciation during 1991–1992 the real exchange rate shows about the same position as at the beginning of the transition. Even unit labor cost (in spite of a huge decrease of economic activity and a decline of labor productivity) is lower than before.

At the beginning of the reform, Czechoslovakia had some specific comparative disadvantages which made the devaluation of the currency necessary. Among these the following could be mentioned: comparative disadvantage in marketing and in the design of products, discrimination in foreign markets, low price elasticity both for Czech goods abroad and for foreign goods at home, etc. Although from the analysis of fundamentals (purchasing power parity, parallel market rate, nominal effective exchange rate, real effective exchange rate, unit labor costs) a target for exchange rate policy cannot be derived, they indicate a relative undervaluation of the Czech crown and thus room for its gradual revaluation.

The existing gap between the exchange rate and purchasing power parity generates another round of discussions of how to proceed with the exchange rate in the future. It is clear enough, that the existing policy of a relatively fixed exchange rate could not be based on an irrevocably fixed exchange rate. Such a step would not be justified at all because its macroeconomic costs could prove to be substantially higher than macroeconomic advantages. Also the introduction of capital account convertibility should be assessed with great care. It is advisable to only carry out this step when the danger of speculation is small.

In forming the exchange rate policy a certain role could be assigned to an income policy. A positive development of current account balance via increased competitiveness could be influenced by a reasonable curtailment of wage growth. Austrian post-war income policy development could serve as a reasonable example.

The improvement of current account records calls for a broadly based export promotion combined with anti-import measures. Export promotion measures comprise of tax reliefs for indirect taxes and for direct taxes for exporters; accelerated depreciation for exporters; preferential loans according to export performance; specific instruments for providing information for exporters; insurance of export credits; supplying all export services; etc. Anti-import measures could, according to some views, consist of non-tariff barriers or import surcharges. In any case, export promotion measures should at least approach the standards currently applied in established market economies. These policies seem to be more preferable than changing the nominal exchange rate. However, any export promotion should be carefully handled because of the obligations connected with the Association Agreement with the European Communities and some other international agreements. The system should not use direct export subsidies and should not support any particular group or sector of the economy. It should stay transparent despite the strong tendency of certain pressure groups in all post-socialist states to introduce discretionary and protective regulations. Their danger consists of difficulties in their withdrawal once they are introduced.

At the initial stages of the reform, Czechoslovakia became overnight a more open economy than some other economies in transition and even more open than many western economies. The average tariff incidence is below 6% and all of the other means of protection (like import surcharge) had been replaced during 1992. Moreover, the original protective advantage of a devalued currency is currently fading out. This opening was driven by a strong commitment to build up a fully-fledged market-oriented economy. In such an environment the exporters have many comparative disadvantages in comparison with their competitors in western countries. They have no access to export credits, no guarantees to export credits, no infrastructure, no established contacts, little information, bad communication networks at their disposal, and so on. This is why the export promotion policies should focus on improving the environment of the exporters.

A certain burden of maintaining the current account in a good shape could also be imposed on a so-called "fiscal devaluation" consisting of combining relatively high indirect taxes with relatively low income taxes. Taxes like VAT raise the prices of consumer goods but do not increase the prices for exported goods.

6 Microeconomic Issues in the Macroeconomic Context

A transitional economy is an economy moving from a system of macro-based over-centralized quasi-economic optimization to a system of micro-based optimization. When studying microeconomic aspects of transition, at least two fields of analysis come to the forefront:

1. the building up of a macroeconomic environment for developing the micro-based optimization, and

2. the macroeconomic impacts of microeconomic behavior.

The microeconomic environment in the *Ukraine* is being formed by many complicated factors, frequent contradictory policy objectives, and unfavorable external influences.[22] For example, price liberalization (which started in early 1992) was initiated by the decision of the Russian not the Ukrainian government. Therefore, it could not have been incorporated properly into any broader reform strategy of domestic provenance. Such circumstances partially contributed to a dramatic worsening of the economic situation in the Ukraine.

Apart from a sizable output decline, the price level increased about 25 times during 1992. One important reason was a substantial increase in the price of oil imported from Russia under ill-clarified conditions containing even some discriminatory features in comparison with all the other CIS countries. But, in explaining the inflation record, a crucial role should be attributed to very loose (or even undefined) fiscal and monetary policies. According to the data of the Ukrainian Ministry of the Economy, the budget deficit reached 17% of the GDP or even 32% (when also including some extra-budgetary funds) in 1992. But, alas, any formal procedures leading to cuts in budget deficits are completely missing. Certain wishes to cut budget deficits in 1993 do not seem to be substantiated. Money supply (M_2) increased 13–14 times during the period March–December 1992. Total credit to the economy increased 25–26 times during January 1992–January 1993. The huge wage increase acted in the same inflationary direction. It is quite understandable that the ensuing high nominal interest rates darken all major parameters for any reliable microeconomic decision-making. With a 90% discount rate and a 160–200% interest rate on credits, the formation of any investment policy is being heavily deterred. Inflationary expectations are fostered by the permanent postponement of introducing the Ukrainian currency. In other words, current monetary and fiscal policies distort the macroeconomic environment which deters the formation of a new private sector.

[22] This section is based on the paper and presentation *Microeconomic Precondition for Macroeconomic (In)Stability* by Vladimir Schevchenko and the ensuing discussion.

Policy-based inconsistencies or even explicit mistakes are only sharpened by the existing structure of the political scene dominated by agrarian and industrial lobbies. There are strong indications that these lobbies dictated to the government those policies thus causing both macroeconomic and microeconomic mismanagement. It would be a mistake to assume that these lobbies want to restore the former economic system and return to the centrally planned economy with central control. In fact, they like the existing way of autonomy of having no financial constraints and responsibilities.

Another explanation of the many-sided unfavorable development consists of a high dependency of Ukrainian industries on energy. Although the Ukrainian economy is about 50% larger than the *Polish* one, its high energy intensive industries consume more than twice as much energy as *Poland*. This calls for massive restructuring programs and for an inescapable output decline in the most obsolete sectors. The immediate negative impacts of this restructuring could be temporarily mitigated by lower prices granted by Russia—gas and oil are still being sold by Russia for something like 60–70% of world prices.

In absolute terms, this level of prices for oil and gas could be considered as an indirect subsidization of the non-Russian Republics from Russia. But if we take into account that many commodities were delivered from the Ukraine to Russia for 15–30% of the world prices, the case of subsidization becomes rather doubtful.

The above described developments occurred at a time when the Ukraine was still staying in the ruble zone with no financial, monetary, and clearing arrangements being settled among the republics. The absence of this framework created tremendous bilateral and multilateral inter-enterprise debts which also strongly influenced the microeconomic behavior of enterprises.

The disintegration of the former Soviet Union generates at least three market options which lead to three different types of microeconomic behavior:

1. On the domestic market, the economic agents more or less drive the market towards a market equilibrium, adjusting themselves more or less to market conditions and trying to fulfill the customer's needs.

2. On the market of the former CIS countries, the firms face tremendous problems caused especially by the volatile exchange rates of the ruble and by differing clearing settlements within different countries. Undervaluation of the Ukrainian currency is driven by a huge demand for rubles which are urgently needed to pay for imports of Russian oil. Undervalued currency stimulates enterprises to export any conceivable products which could be exported, thus negatively influencing the domestic market. Although certain attempts to regulate trade transactions between CIS countries had been made,[23] inflationary expectations are generated and firms are motivated to trade with countries in the hard currency area.

3. As far as hard currency trade transactions is concerned, the Central Bank of the Ukraine introduced the floating exchange rate of the Ukrainian currency (karbovanetz) in March 1993. The US dollar appreciated against the Ukrainian currency by 143% within one month. Surprisingly enough, the official exchange rate (which is based on the interbank currency exchange rate) is much higher than the exchange rate on the black market. The floating exchange rate system thus works in an unpredictable way which has negative implications for the behavior of exporters and producers. The same adverse impact has a very slow development of the multilateral clearing system which is supposed to substitute for the existing bilateral trade.

[23] One solution consists in introducing the so-called "matrix of ruble exchanges" containing rubles originating in non-Russian CIS countries and having different exchange rates than the ruble itself. It is becoming apparent that rubles originating in certain countries are not demanded at all. Moreover, ruble transactions are going through the Russian Central Bank which opens the possibility to regulate economic relations of the Ukraine with some other CIS countries.

Faced with enormous economic difficulties, the Ukrainian government initiated certain changes in the strategy of the reform which mean a reversal to some paternalistic approaches. This can be seen in two areas. On the one hand, the government did not make any progress in institutional changes. Small privatization is more or less freezed (only about 200 cases has been reported until now) and large privatization has not yet even started. On the other hand, the government enforced some old-type ministerial regulations like cutting off some leasing contracts, shrinking the possibilities of enterprises to enter into joint-stock companies, etc. Moreover, some previously adopted laws (like the anti-monopoly law and the bankruptcy law) are still not effective. According to some preliminary indications, 200 enterprises out of 2,000 currently scrutinized, are going to be declared as bankrupt, but purely on an administrative basis. Another example of a reversal in the reform effort is the fate of the governmental decree on the corporatization of enterprises adopted in January 1993. According to this decree all state enterprises with assets up to 1,5 billion Ukrainian karbovanetz had to be converted into open joint-stock companies until the beginning of July 1993. The activation of this decree was completely stopped by the Ukrainian Parliament.[24]

One could conclude, that the doubts arising around the general strategy of the reform which were mentioned in case of *Russia* are even more explicit in the case of the *Ukraine*. Even worse, the *Ukraine* is an example of very strong conservative attitudes in economic policy. Making a cross-country illustrative comparison one could observe that *Russia* is somewhere in the middle of the spectrum of the former CIS countries with *Latvia* and *Estonia* on the one end of the pole with relatively stable and predictable economic policies and the *Ukraine* on the other end of the pole with very unstable and unpredictable policies. This way of doing reform could be named as muddling through. "Self-inflicted" policy mistakes are only aggravated by the higher dependency of the Ukraine on deliveries of oil and gas and by generally less favorable external conditions and shocks coming from outside. Because of the above stated uncertainties as well as the numerous negative external factors, the fate of reform in the Ukraine remains pretty unclear. Taking into account the fragility of the political scene, the emergence of damaging political forces deteriorating the future of the country could be reasonably predicted.

The nature of inflation in economies in transition after price liberalization and the nature of current output decline attract the constant attention of researchers. The problem is that there is not enough information on what is going on in these peculiar economies. A combination of macroeconomic, microeconomic, institutional, and behavioral explanations is needed.

The decrease of GDP in former *Czechoslovakia* had its reasons on both the demand and the supply side.[25] A decrease of demand was caused by both external reasons (like dissolution of the former CMEA, collapse of eastern markets in general, world recession and so on), and by internal (reform-induced) reasons like restrictive fiscal and probably also monetary policies. On the supply side of the economy some other factors also occurred: cost increases pushed especially by the devaluation of the crown; energy price increases; terms of trade deterioration; continuing trend of diminishing the total factor productivity (which already started at the beginning of 1970s); and monopolization of the economy.

Monopolistic structure plays a special role in the conditions of post-socialist economies because that kind of monopoly, inherited from the centrally planned past, is incomparable with what is known in western countries. In former socialist Czechoslovakia (according to the 4-digit classification), there was only a single producer in more than 50 industries, in about 35% of the industries there were 2–3 producers, and only in the remaining 10% of the industries there were more than 10 producers. With a slight exaggeration, we may suggest that the only thing which happened during price liberalization and the step-by-step marketization of the economy was the transformation of this phenomenon from a less visible form to a more visible one. A

[24] The official explanation of this step pointed out the option (opened to the managers) to buy 10% of the shares during three years which seems to contradict the "official ideology" coined by some top political forces.

[25] This section is based on the paper and presentation *Product Slump in Czecho-Slovakia: A Critical Overview* by Pavel Mertlík and the ensuing discussion.

blurred structure of property rights, typical for the centrally planned economy, was somewhat formally changed, but its nature seems to be basically preserved in the state sector. The former soft budget constraint was hardened but, for many reasons, it still cannot be considered as a hard one. The sector of state owned enterprises is rolling on with great inertia possibly with its "big bang" still ahead.

Despite the fact that the explanation of output decline as a result of strong monopolies is a tempting one, one should not forget to develop persuasive arguments which really prove this. It would be instrumental, for example, to look at profit margins and the profits of enterprises. The *Polish* case, namely, brings very little evidence that monopoly power would be a major factor in price formation. Profits accumulated at the beginning of the transition could be attributed mainly to inflation and price liberalization, being thus more or less a kind of paper profits.

Another group of factors is related to institutional changes. The rapid abolishment of the central planning system before the emergence of a market-led type of economic coordination opened a kind of institutional vacuum. The lack of efficient state control during a certain period of time enabled so-called spontaneous privatization—the informal transfer of state property into the hands of private entrepreneurs. These somewhat hidden processes between the state sector and the newly born private sector contributed to the distortion of the picture of the economy. While the decline of the state sector was relatively well recorded and its magnitude was sometimes quite alarming, the real growth of the infant private sector was probably underestimated because of the lack of reliable statistical data. Spontaneous privatization was dynamized by strong incentives to grab the most "juicy" pieces of state-owned assets.

The second type of institutional changes relates to large privatization. Its main features were defined in the middle of 1990, in the spring of 1993 large privatization was still in process. Needless to say, that such a long process without any definite results imputed a great deal of uncertainty which goes beyond the ordinary level of uncertainty known in normal market economies. As a consequence, a great number of economic agents followed only short-term goals and displayed behavior accordingly. This was manifested, for example, by a very low level of investment in important segments of the economy and generally by a sharper decline of the GDP than would be substantiated by "objective" reasons. Because some activities related to privatization move along the border between legal and illegal ones, no comprehensive data is available. Some knowledge can be gained from anecdotic evidence or from sociological studies. Typically, the managers of state-owned enterprises struggle for obtaining control over enterprises they manage. The most recent information seem to indicate that numerous managers prefer the indirect forms of control (frequently with the use of voucher privatization) and disfavor direct forms of take-overs of firms. Ill-defined property rights, in the case of voucher privatization, give a large decision-making space for managers and bring a less troublesome way to reach the targets in comparison with the direct purchase of property from the government. A specific strategy of managers during spontaneous privatization consists of decreasing the market value of enterprises by reducing such indicators like output or profits, in the hope of a later and cheaper buy-out. The lesson from *Hungarian* experience is, that in the case of rapid privatization, managers of state-owned enterprises cannot be excluded from participating in spontaneous privatization.

In addition to output decline issues, the formation of the private sector has, indeed, fiscal consequences. It seems that the faster the transformation, the higher the tax losses because of the diminishing ability and/or willingness of private firms to pay taxes. With the possibility of tax evasion and tax avoidance, tax receipts decrease faster than the output. The source of tensions in budget arises from the confrontation of diminishing revenues with "socially incompressible" expenditures linked strongly to the inherited and distorted type of "socialist welfare state". The crucial difference between post-socialist economies and market economies is that while the private sector in market economies developed in an "organic" way before the emergence of the real welfare state, in post-socialist economies the formation of the private sector must "catch up" with the heritage. The low level of budget deficits in the Czech Republic could testify that the economy still remains in a "pre-transformation" phase.

Another sign of the fact that the Czech economy is still a rather immature market economy could be identified by the hesitation of managers to lay off redundant workers in larger quantities. The same kind of hesitation pertained in *Hungary* but in a certain moment of transformation it abruptly changed and unemployment started to rise. Surprisingly enough, a good portion of the lay offs was accomplished even before privatization took place.

There are assumptions that the voucher type of privatization contains the risk of reproducing the monopoly setting of the economy. If reforms will not go beyond the pure and simple modification of existing monopolies, all of the other steps of the transformation process could have difficulties. Some fears could be connected with the penetration of foreign capital and thus with the reinforcement of a monopoly situation. Nevertheless, it should not be ignored, that foreign capital (in contrast with domestic capital) can bring some positive assets like management schemes, new technology, work discipline, and a rational way of negotiating with trade unions, etc.

In the former Czechoslovakia, the voucher type of privatization led to a dominant position of institutional owners (investment privatization funds established mostly by commercial banks) combined with a strong position of the state (realized mainly through the influence of commercial banks where the state has an important share). A relevant question could be asked, as to whether the banks, obtaining control over a growing amount of property, will prove to be the right owners. It is noteworthy that the emerging structure of ownership is different from the structure in many market economies, where the non-institutional owners (individuals, families) are more typical.

In search for the causes of the output slump, one may also think about the shift of the economic regime from the supply constrained to the demand constrained. The former socialist type of economic coordination generated an excess demand, overheated the economy, imposed the administrative price formation, and forced the economic agents to a substitution both in consumption and in production. We may assume that the disappearance of these phenomena and the implementation of a fully-fledged market system will lead to a weakening of the primary and secondary sectors and to a strengthening of the tertiary sector. Before all types of changes are completed, complex reallocations can only temporarily worsen economic performance.

7 Summary

The prevailing ideas expressed by the participants during the workshop can be summarized as follows:

1. The task of stabilizing the economies had been accepted in the participating countries in a different way and with various degrees of urgency. The most zealous countries in this field are *Hungary, Poland, Slovakia*, and especially the *Czech Republic.* These countries display reasonable macroeconomic results. There are signs that the aggregate economic activity in terms of **gross domestic output** (or industrial output) is bottoming out (*Hungary*) or even recovering (*Poland*). The perspectives of economic growth in the territory of the former *ČSFR* still remains unpredictable because of uncertainties connected with significant changes in property rights and delayed industrial restructuring. **Inflation rates** in the *Czech Republic, Hungary*, and *Slovakia* are quite comfortable and are still manageable in Poland. **Unemployment rates** are high (except for the puzzling case of the *Czech Republic*) but not importantly higher than in some less developed countries in Western Europe. **Foreign trade sectors** were the sources of major disturbances in the region at the beginning of the transformation process but after initial adjustments they are more or less settled. A certain exception is Hungary in 1993 and to some extent Poland. Devaluations help to keep trade balances in affordable imbalances, but a more vigorous export-led growth is being hampered by the revitalization of western protectionism and world-wide recession. The ability of some countries to shift exports from eastern to western markets is noticeable.

In *Albania, Bulgaria, Croatia, Romania, Russia,* and the *Ukraine* the prospects for global economic recovery are much more problematic. Due to the many deep distortions inherited from the past, output decline in these countries is more dramatic and structurally unbalanced. Numerous firms and large segments of the economies are endangered by the lack of both domestic and international competitiveness. These territories are also much more prone to ethnic conflicts and long-term social unrests. These circumstances, multiplied by the existence of weak (or even corrupt) central authorities, will undermine the ability of central governments to implement painful measures with sufficient speed and necessary efficiency. The willingness of the population to bear the burden of transformation is also not unlimited. **Output** declines are more steep and the prospects for economic recovery are very uncertain. **Inflation rates** are out of control (with the exception of Bulgaria) because stabilization packages proved to be either partial, contradictory and ineffective or not seriously meant. Some measures were shaped to support employment only and to postpone economic collapse. This is the reason, why **unemployment**, for example, in Romania and Russia, is still not very high. **Trade balances** are acceptable but this is mostly because of domestic depressions and because the countries cannot borrow to finance their imports. Apart from some "objective" factors which are beyond any control, many failures in macroeconomic stabilization could be attributed to disguised populist policies which underestimated or ignored (purposefully or not) the imperatives of long run macroeconomic stability.

2. When considering the far-reaching transformation of post-socialist economies, it appears that **the initial stabilization is not such a difficult task to accomplish if a balanced, comprehensive, and consistent package (either explicit or implicit) of measures is launched and if there is enough consensus in the society to accept the inescapable discomfort connected with its implementation.** Indeed, the initial enthusiasm of broad layers of the society after anti-communist revolutions; accumulated (though very limited) personal wealth from the past; and the already declining paternalistic activities of the socialist state to its citizens helped to maintain the consensus for a while. But after the expiration of these "assets" the impacts of many economic adjustments impute weaknesses, tensions and potential fragility into the economy which **generates a need for new "rounds" of stabilization effort.** Typically, such a chain runs via the fiscal sphere where widening deficits call for additional anti-inflationary measures which lower the aggregate demand and thus sharpen global decline. Another pattern appears in the foreign trade sector where devaluations, apart from a transient impact on export, also provide inflationary stimuli which, after their price and wage adjustments, may open the space for another devaluation.

3. It is customary to distinguish between the shock and the gradualistic approach to stabilization of the economies. Even if we accept this somewhat misleading terminology (because in reality it is much more complex than these simple labels) it seems that **whichever path post-socialist countries choose at the beginning they arrive, after some time, to surprisingly similar issues in the further transformation** of the economies. These are, for example, lagging restructuring of large segments of industries, immature labor and capital markets, lack of the supply response, under-capitalization of enterprises and banks, the abuse of advantageous positions during privatization, unrecorded shadow activities (which cause great fiscal losses) or even economic criminality, widespread inter-enterprise indebtedness, short-run oriented goals of economic agents, and so on. Many of these issues cannot be solved by any macroeconomic policy; rather **institutional reforms**, completion of the **legislative framework, public sector transformation** and many-fold **micro-based policies** (e.g., export promotion, private sector promotion, competitive policy, etc.) are highly needed. It is obvious that these complex measures will take a good deal of time to be developed and become effective. Thus, the fast, smooth and bal-

anced shift of attention of policy-makers from macroeconomic policies to microeconomic policies seem to be on several basic preconditions for the success of transition.

4. Features of macroeconomic policies in a region has evolved. In some countries (like Poland, Slovakia, or Russia) the **initial stringency** manifested by restrictive monetary, fiscal and wage policies was **partly (or fully) relaxed and coordinated with respect to other economic policy- or political goals.** The period from 1990–1992 could be labeled, with some exaggeration, as a transition from an "academic enlightenment" to a "pragmatic awakening". While shifting from "clean-table-ideas" to an "everyday-dirty-bargaining-with-power-groups" the governments frequently loose the conceptual way of policy making from sight and their time horizons for decision-making do not extend beyond the next election day. The movement in the direction of the least resistance and political compromises are becoming typical. Political interests and partisan maneuvering seem to dominate over pure economic rationales.

5. The **efficiency of stabilization policies is uncomfortably limited by numerous factors inherited from the past** whose replacement will take a long time. To enumerate just some of them: undeveloped financial markets (under-developed and under-capitalized banking system, absence of many financial instruments); no real labor market; rudimentary capital market and lack of capital in general; strong position of state owned monopolies; under-developed infrastructure; huge over-dimensioned energy and material intensive industries; lack of managerial skills, marketing and financial knowledge; missing or only evolving legislative framework; heavily polluted environment; strong egalitarian attitudes; etc. But there is a mutual or even circular interdependency: the further development of all these areas is conditioned by macroeconomic stability but without having important policy tools at its disposal (like, for example, consolidated banking system or efficient tax system), and/or without having the functioning markets the maintenance of reasonable macroeconomic stability is rather difficult.

6. It is extremely important and advisable for any country in transition to launch **credible** and as far as possible **transparent** economic policy. Equally important is to **maintain the momentum of the reforms** and not allow interest groups to consolidate their positions and anti-reform attitudes. As this is also the case in established market economies, it is even more relevant advice for countries in transition, which provide many "irresistible" opportunities for (for example) reaping wind-fall profits or benefiting from exclusive and prominent posts which are very difficult to eliminate later. *Ukrainian* agrarian and industrial lobbies serve as a negative example.

7. When transforming the economies one gloomy circumstance emerges. At a certain moment in time the "old world" already does not exist and the contours of a "new one" are not yet visible. The ensuing economic and social frustration is ideal ground for the **renaissance of "third way" ideas.** However attractive these ideas seem to be, they embody the danger of a back-water. If the economy is stuck in no-mans-land between "centrally planned system" and market society it "gains" the flaws of both without having the benefit of any.

8. Comparison of the results of ways the price liberalization was carried out in countries under consideration supports the fast and rather comprehensive approach in contrast with phased and drawn out approach that was implemented in Romania. Though the former approach, indeed, imposes a shock leading to a steep decline of consumer demand, the latter approach (especially when accompanied by repeated devaluations and extensive price controls) generates strong and long-run inflationary expectations with all possible negative consequences for crucial economic variables like investments, savings, etc.

9. Fiscal policy becomes a focus of many unfavorable developments during transition: on the one hand a major threat of rising deficits emerges (coincidence of declining receipts

connected with poor macroeconomic performance with pressures for an increase of social expenditures), on the other hand a deep restructuring of both revenue- (new tax systems) and expenditure side (reshaping of public sector) is needed to comply with a market economy. Fiscal sphere can become a source of many economic disturbances (excessive taxation, crowding out effects, unsatisfactory social net) whose effects should be timely foreseen, carefully evaluated and as much as possible *ex ante* minimized. However, the future budget development is extremely difficult to predict in a period when macroeconomic aggregates display wild fluctuation.

10. Exchange rate regimes and policies were important parts of stabilization packages. While exchange rate policy in Russia was close to failure, Hungarian adjustable peg and Czechoslovak fixed exchange rate (in contrast to Poland) work pretty well. There are indicators that nominal exchange rate really did assist in anchoring the inflation in both countries. However, for a more general assessment of inflation records some other variables (like money creation, wage policy, etc.) should be taken into account. Because current account convertibility works smoothly in the Czech Republic the introduction of capital account convertibility is being slowly considered.

APPENDIX A

PROGRAM FOR THE WORKSHOP ON

Macroeconomic Stabilization of Economies in Transition

Hotel President, Prague, Czech Republic, 22–24 April 1993

Thursday, 22 April

12:30 REGISTRATION
13:00 *Lunch*
14:00 OPENING REMARKS

TOPIC 1: Price Liberalization in a Post-Socialist Economy: The Impact on Macroeconomic Stability
Chairman: Miroslav Hrnčíř

- MACROECONOMIC STABILIZATION IN CZECHOSLOVAKIA: COST AND BENEFITS by Jan Klacek
  Comments by Wim Swaan, Ján Foltín and Jeremy Carter
- PRICE LIBERALIZATION IN ROMANIA by Ioan Buda
  Comments by Karel Kouba and Alma Kanani

TOPIC 2: The Role of Monetary, Fiscal, and Wage Policies in Stabilizing the Economies

- BUDGET DEFICIT AND INFLATION IN TRANSITION ECONOMIES: THE CASE OF POLAND by Stanislaw Gomulka
  Comments by Werner Riecke and Mario Nuti

18:45 *Close of Session*
19:00 Social event

Friday, 23 April

08:30 TOPIC 2: Continued – *Chairman:* Jenö Koltay

- SOLVING PROBLEMS OF THE STATE OWNED ENTERPRISES; UNCOLLECTIBLE CREDITS AND THE CLEANING UP OF THE COMMERCIAL BANKS PORTFOLIO AS A MACROSTABILIZATION CRITERION IN THE TRANSITION TO A MARKET ECONOMY by Nadezda Sandolova
  Comments by Aurel Berea and Marek Dabrowski

- THE BUDGET REFORM IN CZECHOSLOVAKIA AND IN THE CZECH REPUBLIC by Pavel Štěpánek
  Comments by Gorazd Nikič and Karol Lutkowski

- MONETARY EQUILIBRIUM IN THE ECONOMICS TRANSFORMATION: THE POLISH CASE by Andrzej Sopočko
  Comments by Andrei Illarionov, Stefan Sotirov and Grant Kirkpatrick

- *Press Conference*

13:30 *End of Press Conference and Lunch*

14:30 *Workshop Reconvenes*

TOPIC 3: Exchange Rate Policy and External Pressures: Search for a Stabilizing Anchor
Chairman: Stanislaw Golmulka

- THE POSSIBILITY FOR USING THE EXCHANGE RATE AS A NOMINAL ANCHOR FOR THE DOMESTIC PRICE LEVEL—SOME EVIDENCE FROM THE HUNGARIAN CASE by Artur Szentgyörgyvári
  Comments by Andrzej Topinski and Štefan Adamec

- STABILIZING THE MARKET? 1992 EXCHANGE RATE POLICY OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION by Andrei Kovalev
  Comments by Peter Havlik and Anton Pashov

- EXCHANGE RATE AND THE TRANSITION: THE CASE OF THE CZECH REPUBLIC by Miroslav Hrnčíř
  Comments by Jan Stanovsky and Anila Bashllari

19:30 *Close of Session*

Saturday, 24 April

09:00 *Workshop Reconvenes*

TOPIC 4: Macroeconomic Preconditions for Macroeconomic (In)Stability
Chairman: Grant Kirkpatrick

- MICROECONOMIC PRECONDITIONS FOR MACROECONOMIC (IN)STABILITY
  by Vladimir Shevchenko
  Comments by Elena Dumitrescu and Jean-Louis Brillet
- PRODUCT SLUMP IN CZECHO-SLOVAKIA: A CRITICAL OVERVIEW by Pavel Mertlík
  Comments by Zvonimir Baletič and Jenö Koltay
- FREE DISTRIBUTION SCHEMES IN EAST EUROPEAN PRIVATIZATION
  by Iván Major
  Comment by Daneš Brzica
- Country Presentation—Albania

13:30 *End of the Workshop, Lunch*

APPENDIX B

FINAL LIST OF PARTICIPANTS FOR THE WORKSHOP ON

Macroeconomic Stabilization of Economies in Transition

Prague, Czech Republic, 22–24 April 1993

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Ministry of Economy and Finance
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Dr. Jean-Louis Brillet
INSEE, France

Dr. Daneš Brzica
Ústav ekonomické teorie SAV
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Dr. Ioan Buda
Ministry of Finance, Romania

Dr. Jeremy Carter
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Dr. Pavel Mertlík
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