

Eurasia's Boom Continues

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Postcommunist Growth, 1990-98

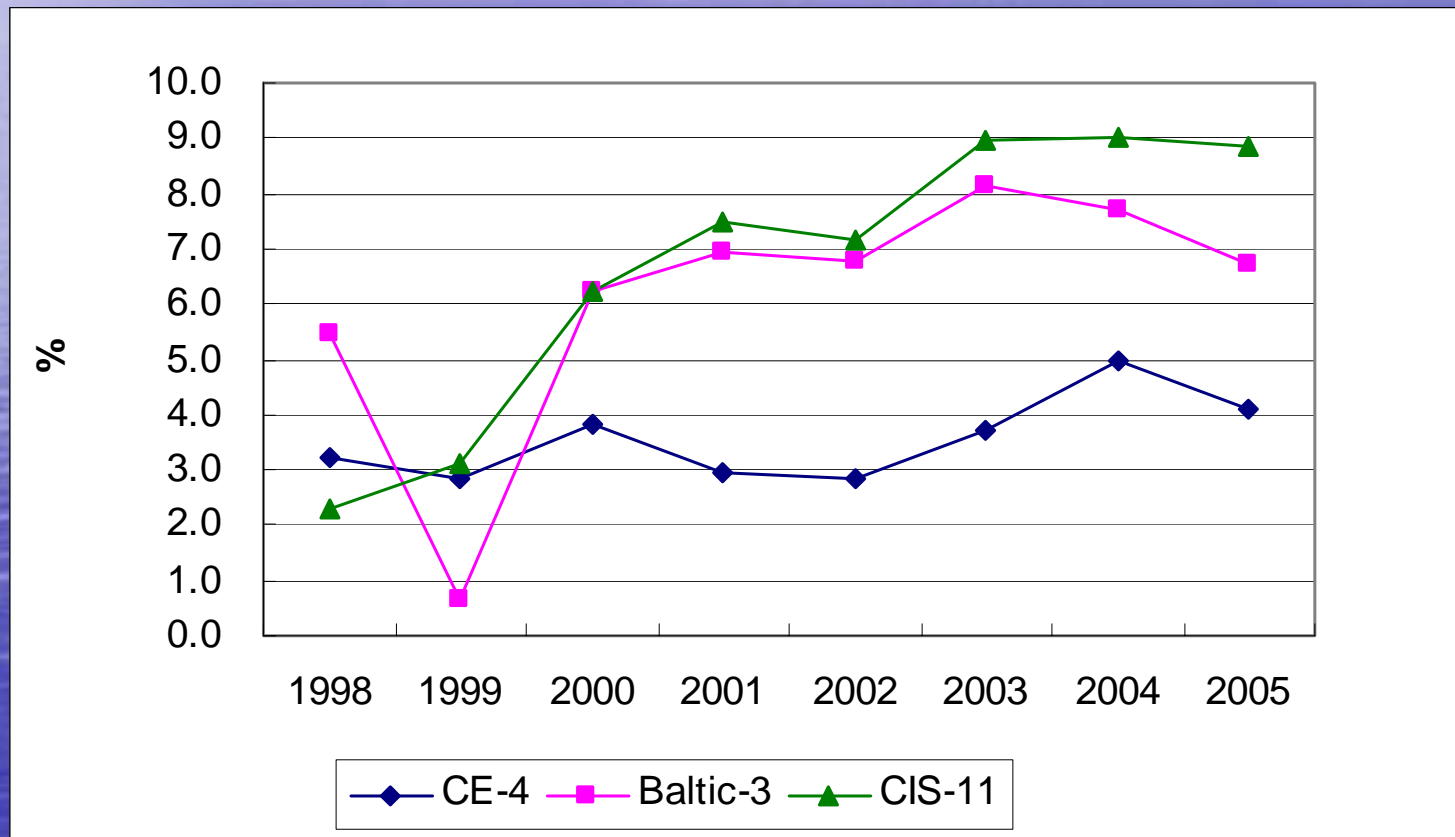
- Radical & comprehensive reforms: early, strong growth
- Macroeconomic stabilization
- Vigorous deregulation
- Privatization
- Central Europe took the lead

Conclusion: Washington Consensus worked

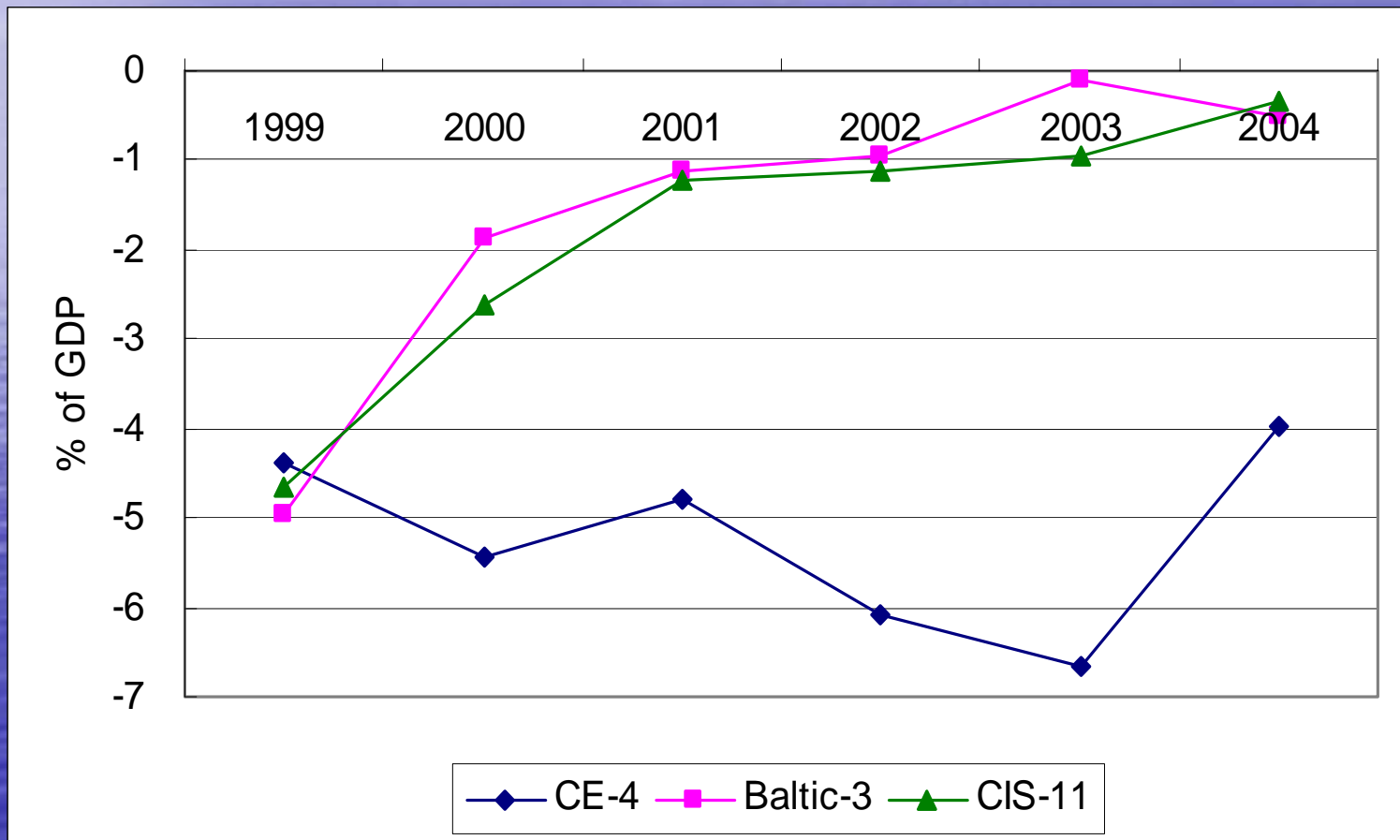
1999-2005: Losers Turn Winners

- 11 CIS countries' annual average growth: 7.3 percent
- 4 CE countries: 3.6 percent
- CIS advantage: 3.7 percent a year

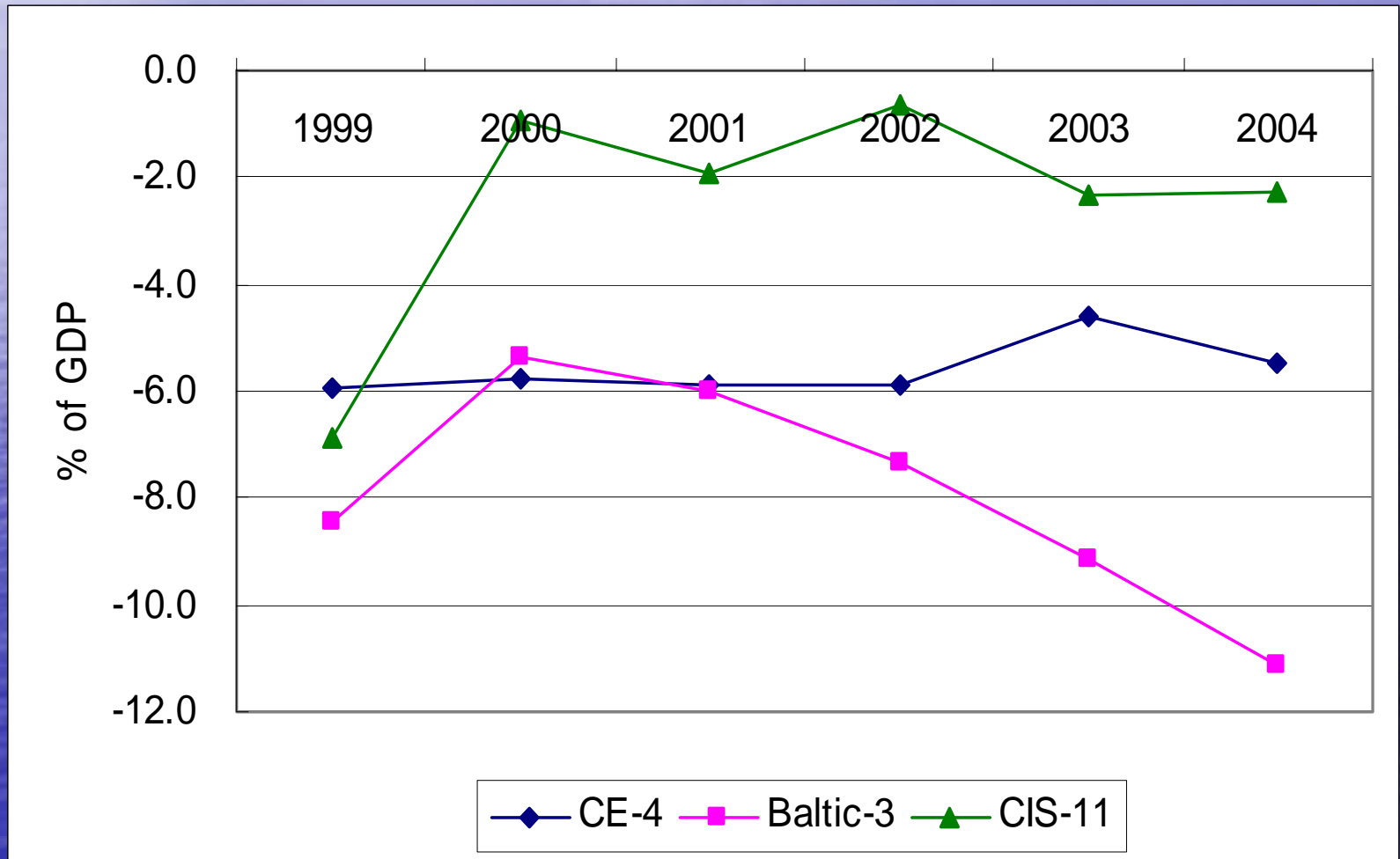
GDP Growth Rates in CE-4, Baltic-3, CIS-11



Budget Balance in CE-4, Baltic-3, and CIS-11



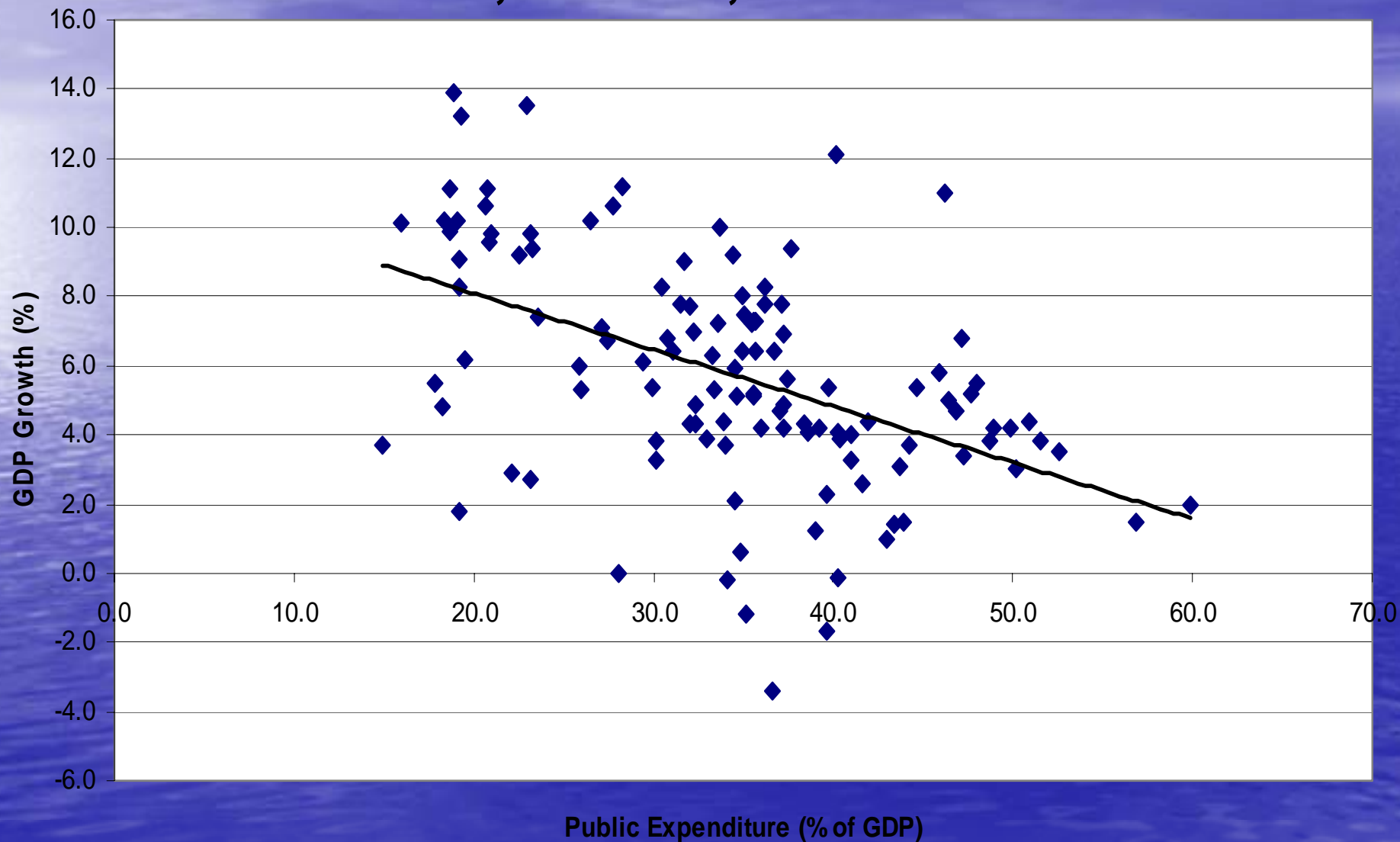
Current Account Balance in CE-4, Baltic-3, and CIS-11



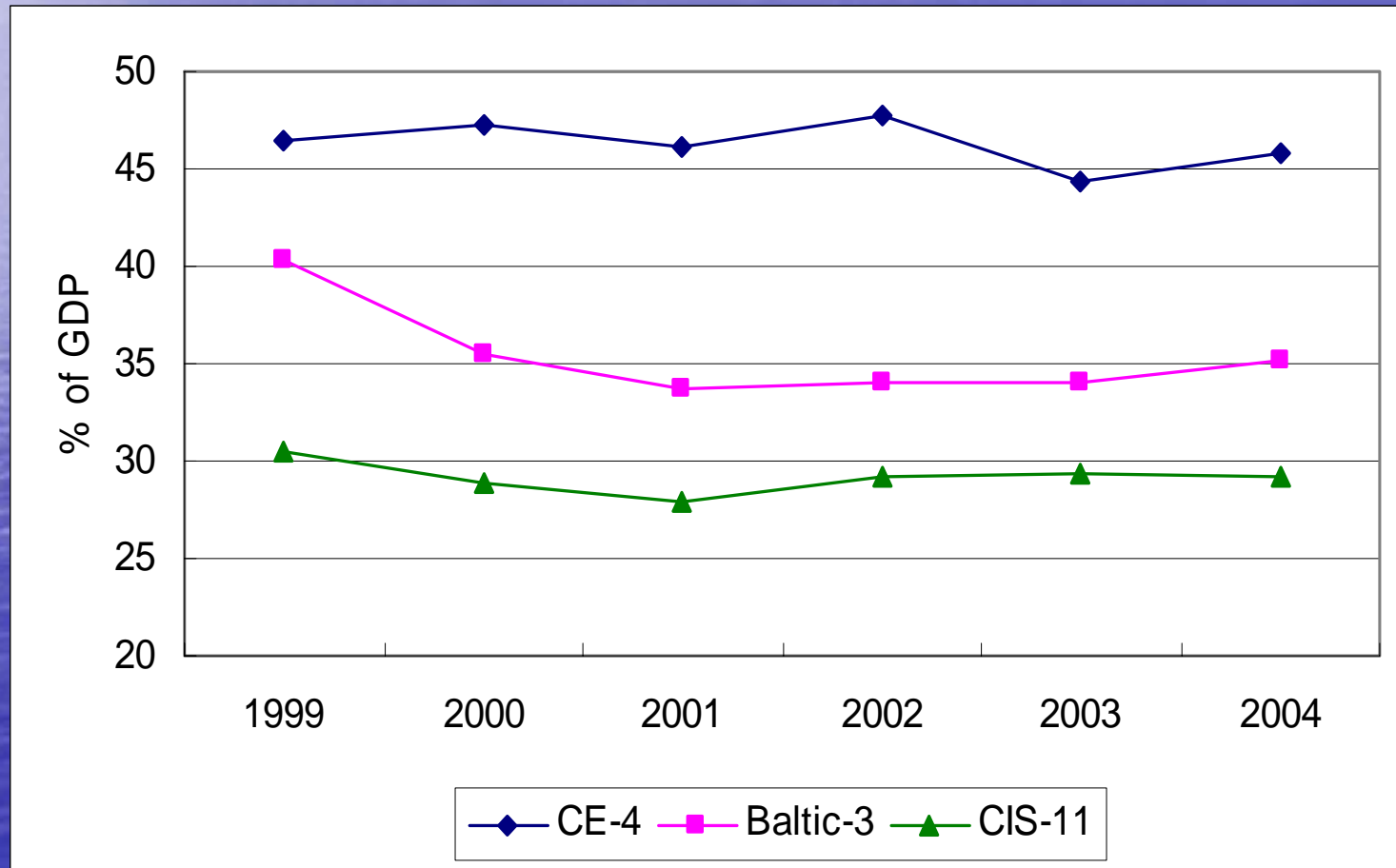
Why CIS Advantage?

- Low government spending
- Energy exports: Russia, Kazakhstan, Azerbaijan and Turkmenistan
- Drawback: corruption

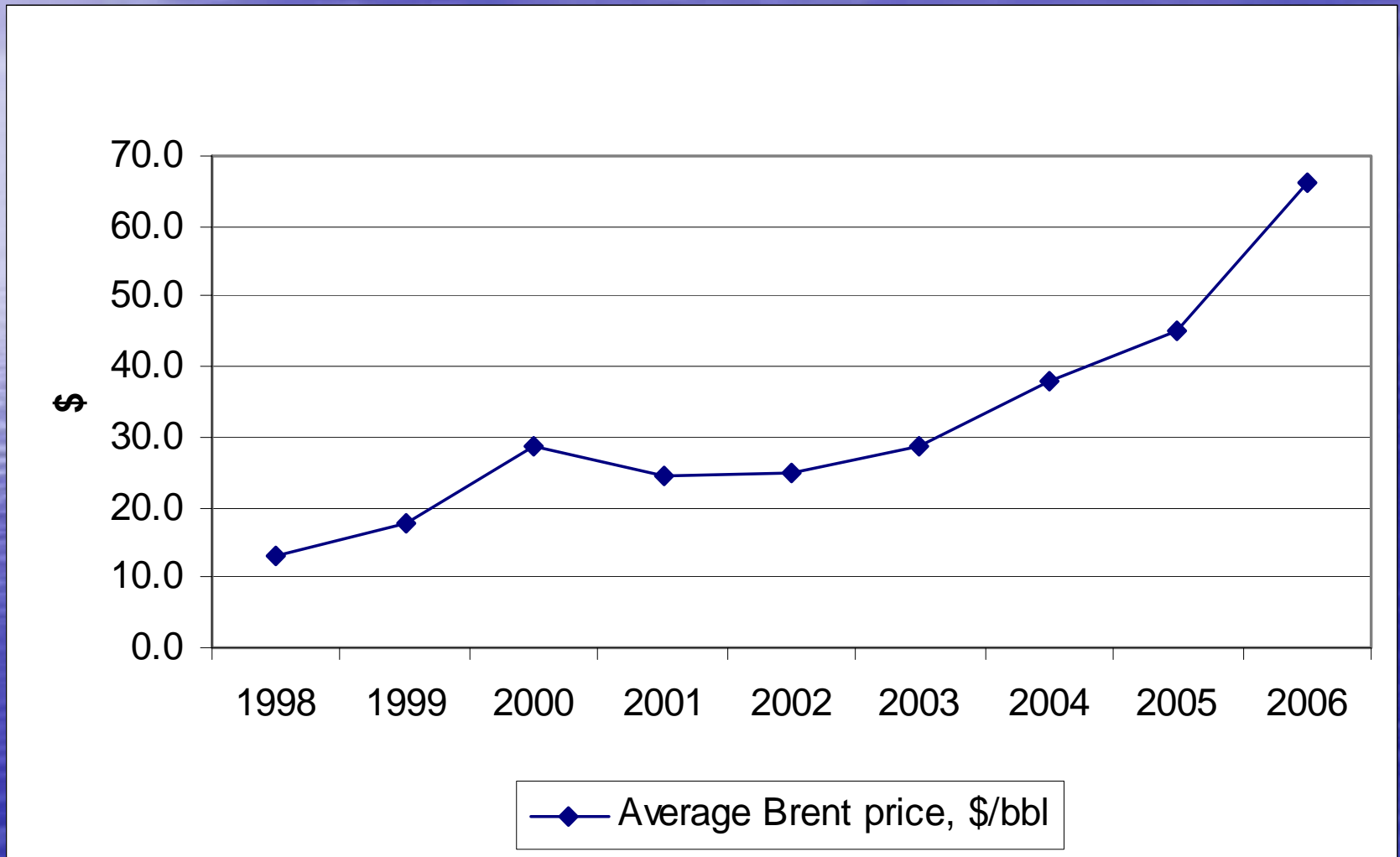
Public Expenditure and Growth in CIS-11, CE-4, Baltic-3, 1999-2004



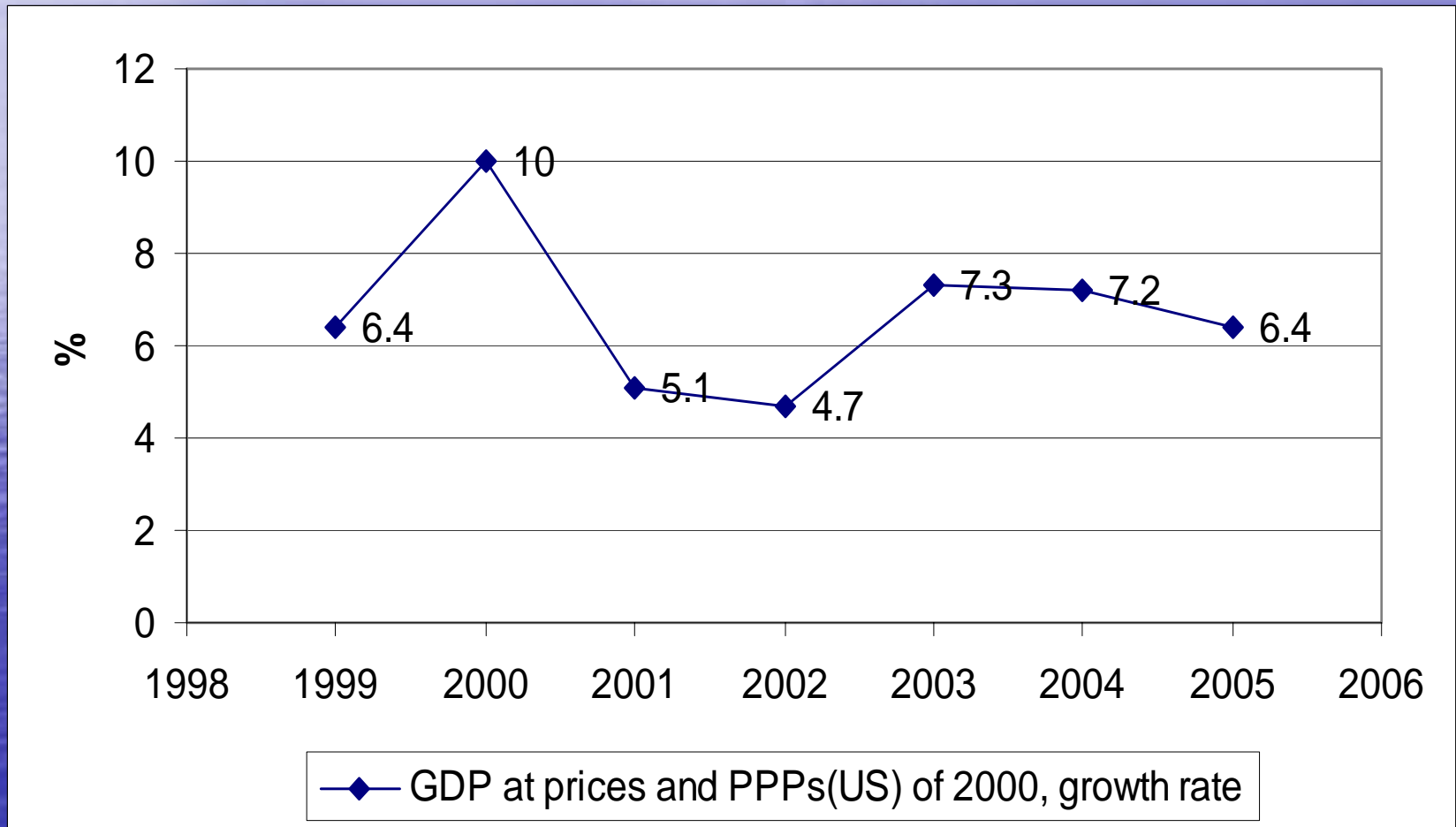
Public Expenditure in CE-4, Baltic-3, and CIS-11



Oil Price, 1998-2006



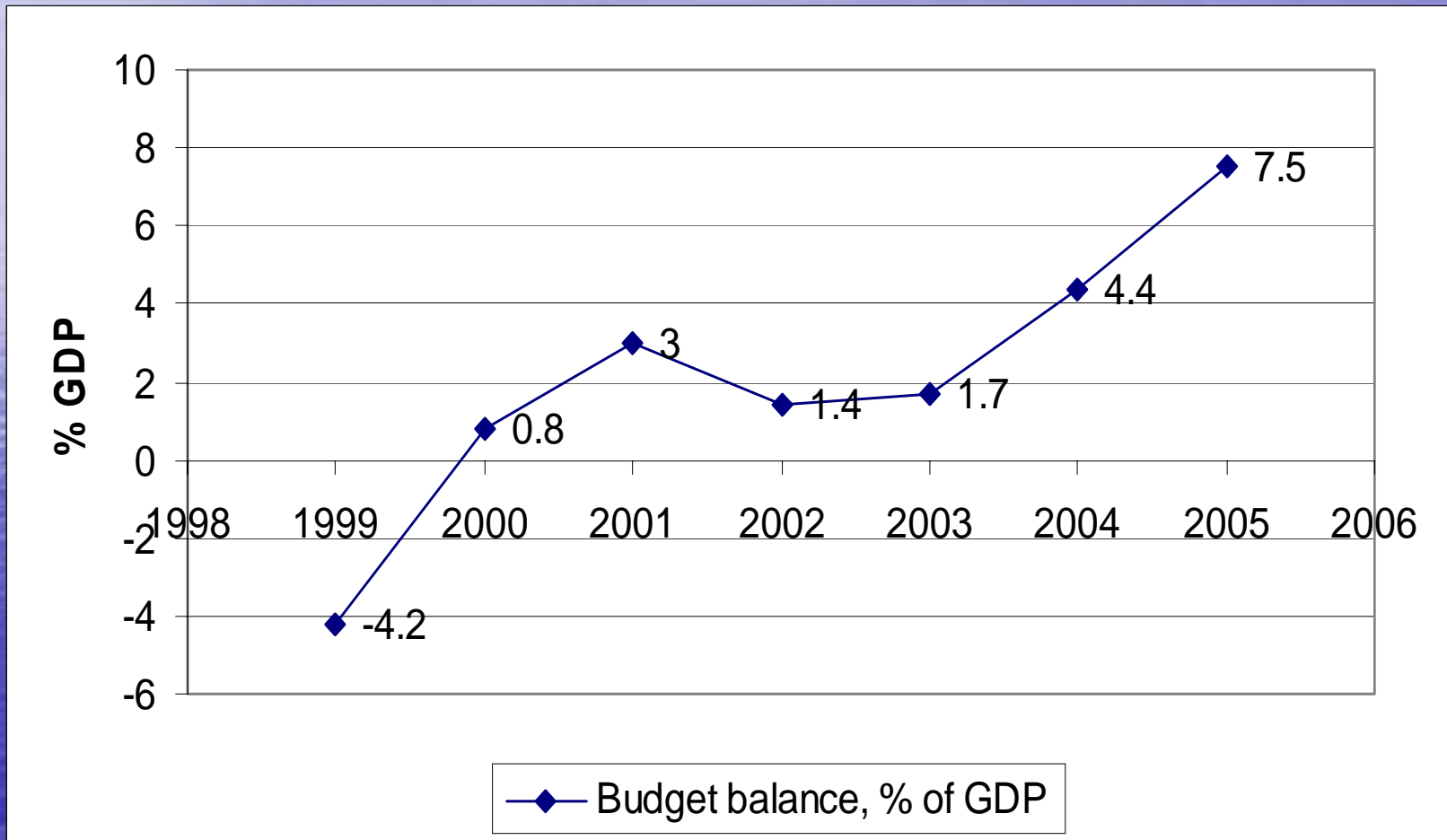
Russia: Sound Growth 7% a Year



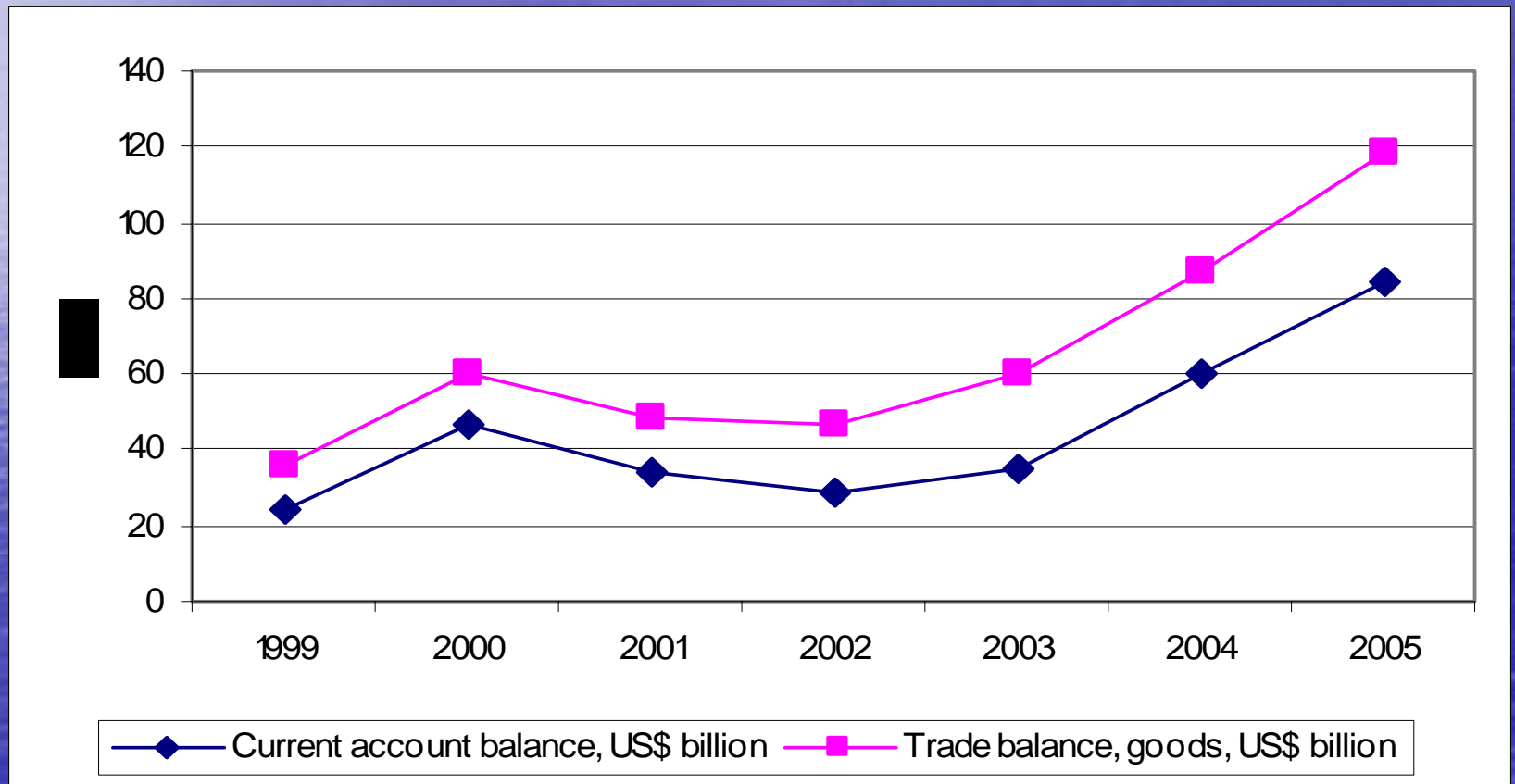
Explanations of Russian Growth

- Critical mass of market reforms and privatization
- Oil boom
- Minimal Reforms since 2004, but stability

Solid Budget Surplus



Huge External Surpluses



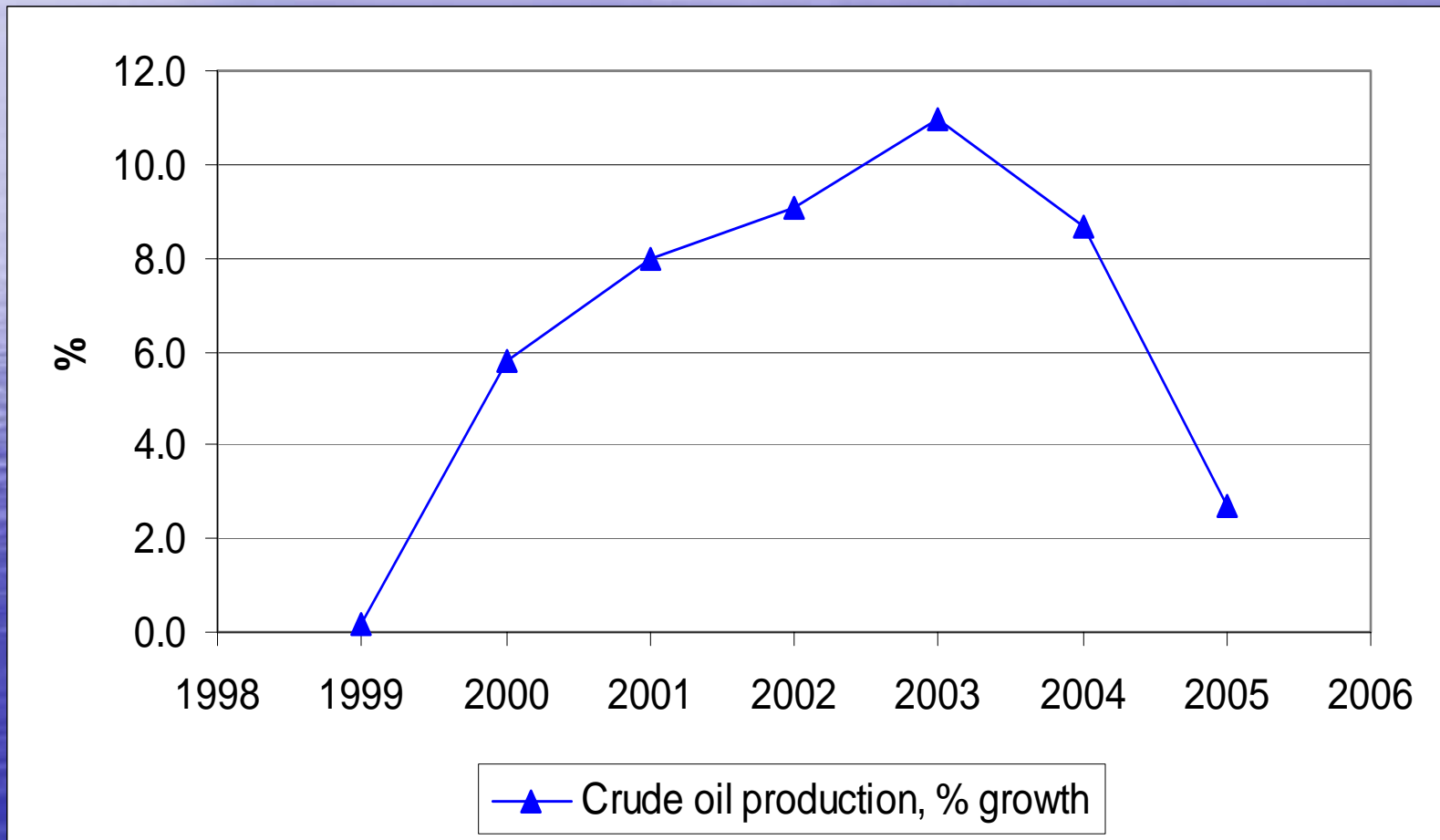
Strong External Account

- External reserves skyrocketing
 - 1999: \$13 bn
 - Now: \$206 bn
- Public foreign debt falling
 - Spring 1999: 100% of GDP
 - Now: 11% of GDP

Worries about Russia

- Dutch Disease: Dollar wages rising by 30% a year, \$62 a month in 1999 to \$301 in 2005.
- Energy production: near stagnation after strong growth
- Re-nationalization: Private share of GDP from 70% of GDP in 2004 to 65% in 2005
- Political uncertainty: Presidential elections in March 2008

Oil Output: Up and Down



Underinvestment in Energy

- Yukos destroyed & Sibneft stalemated
- State firms acquire companies instead of investing
- Remaining private companies afraid of investing

Greatest Damage: Re-Nationalization

Poor state firms buy well-run private companies

- Rosneft seized Yukos
- Gazprom bought Sibneft & OMZ
- UES bought Power Machines
- Five state banks on buying sprees
- United Aircraft Corporation
- Automotive merger under way
- Norilsk Nickel? Surgut? Etc.

Hungary: Weakest

Forecasts for 2006:

- Acceptable GDP growth: 4.3%
- Patently big budget deficit: 6.8% of GDP
- Steady, excessive current account deficit: 8.9% of GDP
- Populist elections April 9 & 23: No improvement in sight

Conclusions

- Russia looks solid
- Hungary worrisome
- Focus on current account