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POSITIONS OF NMS-8 COUNTRIES ON THE ROAD TOWARDS INFORMATION SOCIETY

The role of information and communication technologies (ICT) has gained importance in economic and social developments of all over the world. Eastern part of the European Union (EU) is also getting better at adapting to new ways of living and working based on ICT. However, some of the NMS-8 countries are not only well ahead of others in the region, but in many aspects they reached the level of more matured Member States. The level of ICT infrastructure, the usage of ICT, the level of advanced digital services and the importance of the e-Business vary considerably among NMS-8 countries.

NMS-8 INFORMATION SOCIETIES IN GLOBAL COMPARISON

Preconditions of the information society, like physical and human ICT infrastructure, as well as legal structure and policy direction of a country influence strongly e-Business and e-Services in a country. According to global benchmarking indexes NMS-8 countries perform different. While Estonia and Slovenia has made use of ICT efficiently and therefore are ranked ahead; Poland, Slovakia, Latvia and Lithuania have much lower scores in global comparisons. Hungary and the Czech Republic perform in the middle for many aspects, showing a mixed picture of information society development.

Table 1. Global Information Society Rankings

Indices	**EE**	**SI**	**CZ**	**HU**	**LV**	**SK**	**PL**	**LT**	***ES***	***GR***
Economist Intelligence Unit e-readiness[1] *2007, rank of 69*	28	29	31	34	37	39	40	41	*26*	*32*
Networked Readiness Index[2] *2006-2007 rank of 122*	20	30	34	33	42	41	58	39	*32*	*48*
Digital Opportunity Index[3] *2005/2006 rank of 181*	24	30	42	36	46	44	53	33	*21*	*49*
ICT Opportunity Index[4] *2005 rank of 183*	24	30	37	40	34	42	46	38	*29*	*48*

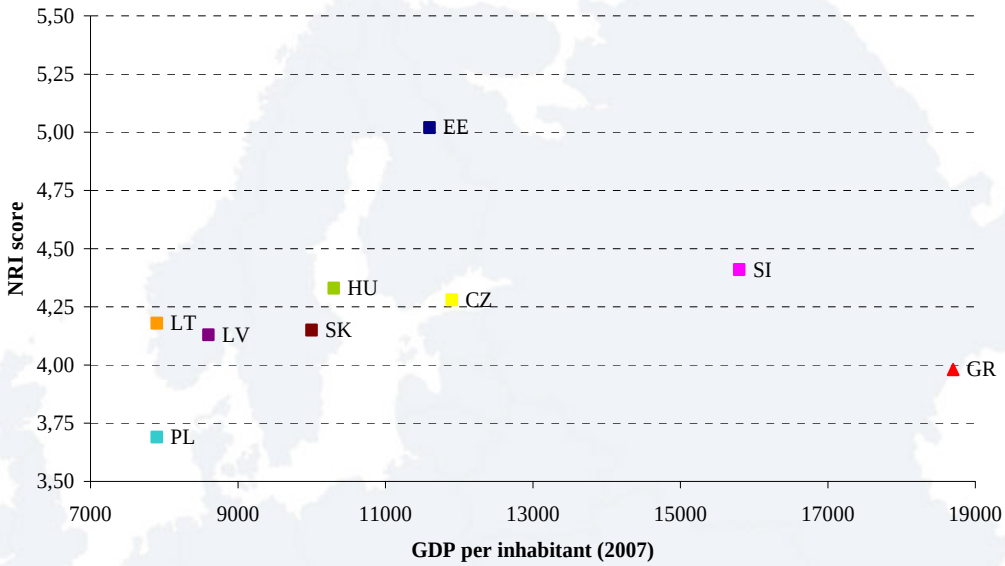
Source: Economist Intelligence Unit, World Economic Forum and World Information Society Report

According to global rankings most of the NMS-8 made some progress in infrastructural developments, the readiness of individuals, business and governments as well as in the usage of ICT. An interesting link can be observed between economic development levels and information society indices. Having a closer look at Networked Readiness Index results one could find that higher GDP per inhabitant value may indicate higher NRI value. However,

[1] E-readiness is the "state of play" of a country's ICT infrastructure and the ability of its consumers, businesses and governments to use ICT to their benefit. The e-readiness rankings are a weighted collection of nearly 100 quantitative and qualitative criteria.
[2] The NRI is composed of three component indices which assess: environment for ICT offered by a country or community, readiness of the community's key stakeholders (individuals, business and governments). Use of ICT among these stakeholders.
[3] Digital Opportunity Index is a composite index comprising eleven separate indicators, grouped in three clusters of opportunity, infrastructure and utilization.
[4] The building blocks of the ICT Opportunity Index are info-density and info-use and their components ICT infrastructure, ICT skills, ICT uptake and ICT intensity of use.

there are countries that perform much better or worse than the average regarding information society development. It reveals from *Chart 1* that Estonia and Poland vary significantly from the average. Estonia with similar or even lower GDP per capita performs much better than all of the NMS-8 countries. Moreover, Estonia reached higher scores than France, Belgium and Ireland in 2007. On the other hand Poland performs much worse than it would be expected from its economic performance. The other three Visegrád countries have similar scores and they are ranked in the average. Some of the NMS-8 countries exploit the advantages of the information society better than South European economies, such as Greece, Spain, Portugal and Italy.

Chart 1. Relation between Networked Readiness Index and the Level of Economic Development



Source: Eurostat, World Economic Forum

E-readiness of nations strongly depends on the government, acting both as promoter and adopter of ICT. Outstanding performance of Estonia can be explained by the intensive role of the state in information society issues. Bad positions are partly the result of weak government commitment, the lack of infrastructure initiatives and incentive programmes.

PRECONDITIONS: PHYSICAL AND HUMAN INFRASTRUCTURE

Level and quality of ICT infrastructure is behind the EU27 averages in most NMS-8 countries. Computer access, broadband connectivity and Internet access both in households and at enterprises are below the mentioned average in most NMS-8 countries. Citizens and enterprises access to computer and Internet is extremely low in Poland, Lithuania, Latvia and Hungary in comparison to other EU members. Widespread connectivity has increasing importance, since without access to communication networks advantages of digital services cannot be made use of. The Czech, Slovak and Lithuanian broadband connectivity in households is among the lowest in Europe. On the other hand, Czech Republic, Slovenia, Slovakia and Estonia are performing well if taking into account ICT penetration indicators at enterprises.

Table 2. Selected ICT Penetration Indicators, 2006

	CZ	EE	LV	LT	HU	PL	SK	SI	*EU27*
Percentage of households									
with computer access	39	52	41	40	50	45	50	65	*60*
with Internet access	29	46	42	35	32	36	27	54	*50*
with broadband access	17	37	23	19	22	22	11	34	*30*
Percentage of enterprises									
with computer access	97	94	92	92	89	93	97	97	*96*
with Internet access	95	92	80	90	80	89	93	96	*92*
with broadband access	69	76	59	57	61	46	61	75	*73*

Source: Eurostat

Beside physical infrastructure ICT literacy and at least basic e-Skills are preconditions for using Internet services. According to *Eurostat*, in all NMS-8 countries, except for Estonia and Slovenia, high proportion of individuals aged 16-74 doesn't possess at least basic computer skills. A further important indicator, the ICT skills of the workforce, shows that basic ICT skills among employees are above EU average only in Latvia, Lithuania, Hungary and Slovenia. ICT expert skills among employees in the Czech Republic, Slovakia and Slovenia are close to well performing European countries.

Table 3. Digital Literacy, 2006

	CZ	EE	LV	LT	HU	PL	SK	SI	*EU25*
Percentage of individuals									
without basic computer skills	-	37	44	53	57	46	29	39	*37*
with high level computer skills	-	29	11	18	20	13	19	27	*22*
Percentage of persons employed									
with ICT user skills	17.3	17.1	18.9	19.6	20.1	15.2	15.3	19.0	*18.5*
with ICT specialist skills	4.0	2.6	3.1	1.6	2.9	2.7	3.3	3.2	*3.1*

Source: Eurostat

DIGITAL CONTENTS AND E-SERVICES

If measuring digital economy developments more attention should be paid to users, since the utilisation of digital channels by individuals and businesses determines considerably how matured an information society in a given country, and how ICT influences its population's work and life. It is not enough to have physical infrastructure to build up a digital economy, the available digital channels should be useful in completing transactions both in the case of citizens and businesses.[5]

In e-ready countries high proportion of individuals and companies use the Internet for buying and purchasing, for e-banking, for learning and for interacting with government agencies. In contrary, most NMS-8 countries perform in the middle low end for most aspects of usage of digital services in European comparison.

[5] Economist Intelligence Unit: The 2007 e-readiness rankings, Raising the bar

Table 4. Usage of Digital Services, 2006

	CZ	EE	LV	LT	HU	PL	SK	SI	*EU27*
Percentage of individuals									
having ordered /bought goods or services for private use	7	4	5	2	5	9	7	8	*20*
using e-government services	17	29	25	13	17	13	32	30	*24*
using Internet banking	10	48	22	15	8	9	13	16	*22**
using Internet for seeking health information	10	18	12	15	17	11	14	22	*20**
Percentage of enterprises									
total turnover from e-commerce	7.1	2.0	1.3	5.1	7.0	5.9	0.0	9.2	*11.7**
using e-government services	76	69	40	76	45	61	77	75	*63*
using e-learning applications for training and education of employees	32	30	34	44	18	25	36	42	*21*
with integrated internal business processes	27.5	23.8	14.6	18.5	4.5	19.5	22.2	19.7	*37.3**

Note: refers to EU25*
Source: Eurostat and i2010-AnnualInformation Society Report 2007

Indicators suggest that the usage of advanced digital services among citizens is below the EU average in most NMS-8 countries. However, some countries, like Lithuania and Hungary made good progresses in Internet take-up and use of media services. Usage of Internet banking is well ahead in Estonia and Latvia, while Hungary and Poland are lagging far behind them.

Usage of digital public services is also below EU average for citizens in Hungary, Poland and Lithuania and very low in the case of enterprises in Hungary, Poland and Latvia compared to other EU members. Usage of basic public services among enterprises is above EU average in countries where enterprises connectivity and the online availability of public services are also advanced, like in the Czech Republic, Estonia and Slovenia.

Enterprise connectivity low and therefore e-Business is one of the weakest points in Hungary, Slovakia, Latvia and Lithuania. E-business indicators show relative low performance, particularly regarding usage of integrated business processes. Doing eCommerce is far behind of more matured European economies, however progress can be observed in the last three years in Lithuania, Poland, Hungary and Slovenia. Hardly any indicators show better performance for NMS-8 countries compared to EU27 average than usage of e-learning by enterprises. Relative high proportion of NMS-8 enterprises uses e-learning application for education and training.

CONCLUSIONS

NMS-8 countries present a somewhat divided image of information society developments. Well advanced infrastructure is coupled generally with strong ICT usage in well performing economies, while in others middle-low level of infrastructure is assumed generally the most important obstacle for creating a digital economy. Number, level and quality of digital services show also a mixed picture in the region. Leading role of Estonia and Slovenia among NMS-8 countries can be explained by the effective combination of infrastructural, political, commercial, legal and social attributes. The role of the government in promoting and adopting information communication technologies, as well as in creating advanced infrastructure is crucial. Better infrastructure and advanced digital services, higher level of e-Skills of

population are all requirements for reducing digital gap between well performing European economies and weak performing NMS countries, which process can be strongly influenced by political measures and the enhancement of public-private partnership.

ALTERING TAX RULES IN THE CZECH REPUBLIC, RUSSIA AND GEORGIA

Tax rules and tax systems frequently change in countries to serve various purposes. This peculiarly applies to the transitional countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS). In these regions - beside fiscal policy considerations - a common reason for altering tax rules is the desire to attract foreign direct investments (FDI). It might be advantageous to keep up with the latest shifts in tax systems and to consider different economic policy attempts to draw foreign capital. Hereinafter we take a look at the recent changes in the tax systems of three, really different countries of two regions - the Czech Republic, Russia and Georgia.

MACROECONOMIC OUTLOOK

Table 5 shows some key macroeconomic indicators of investigated countries. Countries are characterised by high growth rates and the two CIS-countries have relatively high inflation rates. The employment situation is region specific – the participation rates are about 70% and the unemployment rates are not low.

Table 5. Main Economic Indicators in 2005

Indicator	Czech Republic	Russia	Georgia
Population (million)	10.2	143.1	4.5
GNI per capita (USD)	11220	4460	1320
GDP (USD billion)	124.36	763.72	6.39
GDP growth (annual, %)	6.1	6.4	9.3
Inflation (CPI, annual, %)	1.8	12.7	8.2
Participation rate (labour force/15-64, %)	70.7	68.9	69
Unemployment rate	8.3	7.9	12.6

Source: World Bank

In the Czech Republic, recent economic developments have been favourable, with considerable growth rates, significant fiscal consolidation, low inflation and strong balance of payments. Inflows of foreign direct investment (FDI), among the highest in the region, have contributed significantly to the economy's strength. The stock of FDI in the country amounts to around 50% of GDP.

The performance of the Russian economy since the 1998 crisis has been impressive. Between 1998 and 2006, Russian GDP expanded by an estimated 58%. Unprecedented macroeconomic stability was achieved in the context of strong budgetary and current account surpluses. Important reforms in areas such as taxation, budgetary institutions, and the removal of administrative barriers to business motivated rapid development of market institutions in many areas.

Georgia has continued prudent macroeconomic policies in the past few years and structural reform programmes are expected to promote future growth. A great amount of growth was due to intense activity in the industrial and communications sectors and construction of the Baku-Tbilisi-Ceyhan oil pipeline. GDP growth was 9.3% in 2005 and it is projected to increase in the future.

RECENT AND FORTHCOMING TAX CHANGES

Looking at *Table 6*, the current tax rates are very similar in the three analyzed countries. What really make difference for investment companies are the various incentive programmes offered by governments. In the following, we take an insight into the latest efforts of the three countries to attract more investments.

Table 6. Current Principal Tax Rates

Tax	Czech Republic	Russia	Georgia
VAT general rate (%)	19	18	18
Corporate income tax rate (%)	24	24	20
Individual income tax rate (%)	12-32	24	12

Sources: Ministries of Finance

In the Czech Republic with effect from 1 January 2007, the minimum level of investment required to receive state support was reduced from the current level of CZK 200 million (approx. EUR 7.28 million[6]) to CZK 100 million (EUR 3.64 million). Certain benefits that were previously treated as tax non-deductible for employers can now be treated as tax-deductible costs. On 18 April 2007, the Ministry of Industry and Trade launched a new investment incentives programme for technology and business support centres. The new rules bring a number of important changes to incentives in these areas. The minimum investment level to get tax relieves for all types of support centre projects was reduced significantly, from CZK 15-30 million (approx. EUR 0.55 - 1.10 million) to CZK 10 million (EUR 0.36 million). The period for claiming corporate income tax relief was put down from ten to five years. The minimum investment level in regions with high unemployment was reduced to CZK 50 million (approx. EUR 1.82 million). In August 2007, the Czech parliament voted for a gradual reduction of corporate taxes from 24% to 21%, 20% and 19% in the years of 2008, 2009 and 2010.

The Russian Law "On Special Economic Areas" introduces "tourist-recreation areas". In February 2007 a list of seven areas was introduced by resolutions of the Russian government. These are special economic areas with favourable tax regimes. Dividends received from "strategic investments" will be exempt from Russian income tax (technically, a 0% tax rate will apply). An investment is considered strategic when, for instance, the owner owns at least 50% of the capital of the dividend payer, or the value of the investment is at least RUB 500 million (approx. EUR 14.2 million[7]). Amendments to the Employment Code concerning the minimum wage came into effect on 1 September 2007 where the minimum wage was raised from RUB 1100 (approx. EUR 31) to RUB 2300 (EUR 65) per month. Russian regional governments may set their own minimum wage, but it must not be lower than the federal minimum wage.

The Georgian government is considering further liberalisation of its tax policy. The latest proposal is to lower the corporate income tax rate by 5 percentage points to 15% starting from 1 January 2008. This change is intended to benefit businesses and encourage investment. In addition to this possible change, there is another government proposal to combine personal income tax and social tax into one tax. The proposed tax rate would be 25%. The current 20%

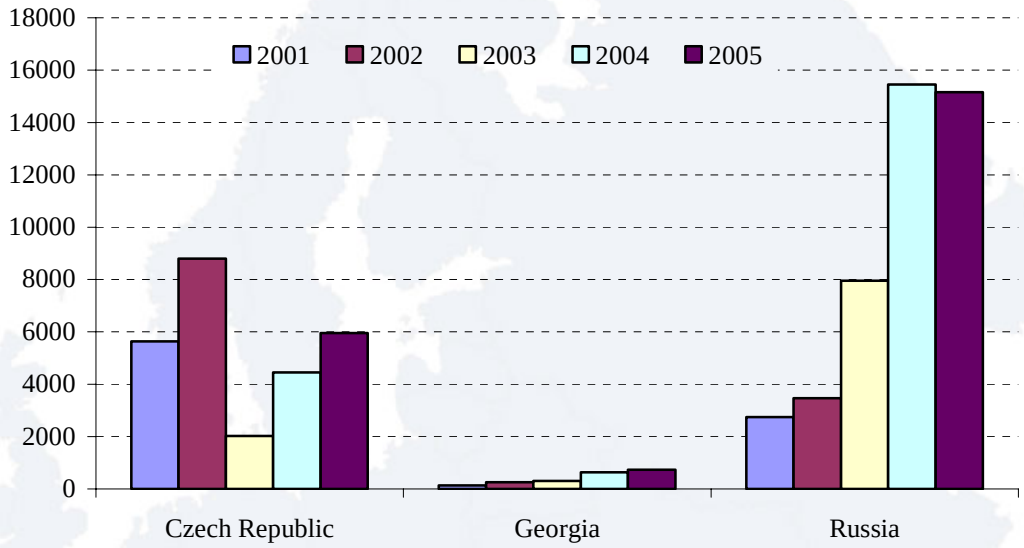
[6] At an ECB exchange rate of 27.487 CZK/EUR
[7] At an ECB exchange rate of 35.225 RUB/EUR

social tax (that is employer's cost) would be eliminated and the personal income tax rate of 12% would increase to 25%. This proposed change is intended to simplify tax administration. With this act the government creates practically a flat rate.

DISCUSSION

The tendency of efforts seems to be clear. The countries are on the way to simplify tax systems and expand the range of tax relieves in various forms – cutting corporate tax rates, reducing required investment levels and create special investment friendly areas to fight against unemployment or help the less developed regions in the country. They hope to keep up the recently increased FDI that shows *Chart 2*.

Chart 2. Foreign Direct Investment Net Inflows (USD million)



Source: National Statistical Offices

We must keep in mind however, that the purpose of taxation is to gain resources to finance government expenditures on public goods and to provide basic social services, and therefore taxation and expenditures should be analyzed together. If one considers the expenditure changes in the CIS and in the Central and Eastern European and Baltic (CEEB[8]) countries, he will find that public expenditures as a proportion of GDP reached 45% to 50% at the beginning of transition, fell during the 1990s and in 2000 ranged from 29% in the CIS countries to about 40% in the CEEB countries. This process may have helped the countries to grant tax holidays but there still exist fiscal limits from the expenditure side. Along with cutting tax rates it is useful to aim only new investments with relieves. The Czech Republic and the Russian Federation are exactly doing this.

Furthermore, if particular regions of a country experience high double-digit unemployment as is the case in many countries in CEEB and CIS regions, the solution may lie not in a rush to grant tax holidays and the like, but instead in directly addressing the sources of the problem - providing educational opportunities to match skills to labour demand, reducing disincentives to labour supply arising from unreasonably generous social expenditures, cutting the cost of labour by lowering relevant taxes just like in the Czech Republic or increasing labour

[8] Croatia and the eight new EU member states of Central and Eastern Europe (NMS-8)

mobility. A step like the enormous Russian minimal wage increase is not exactly compatible with the above mentioned but a political decision is never of one dimension.

YEARS OF RECORD GROWTH IN AZERBAIJAN

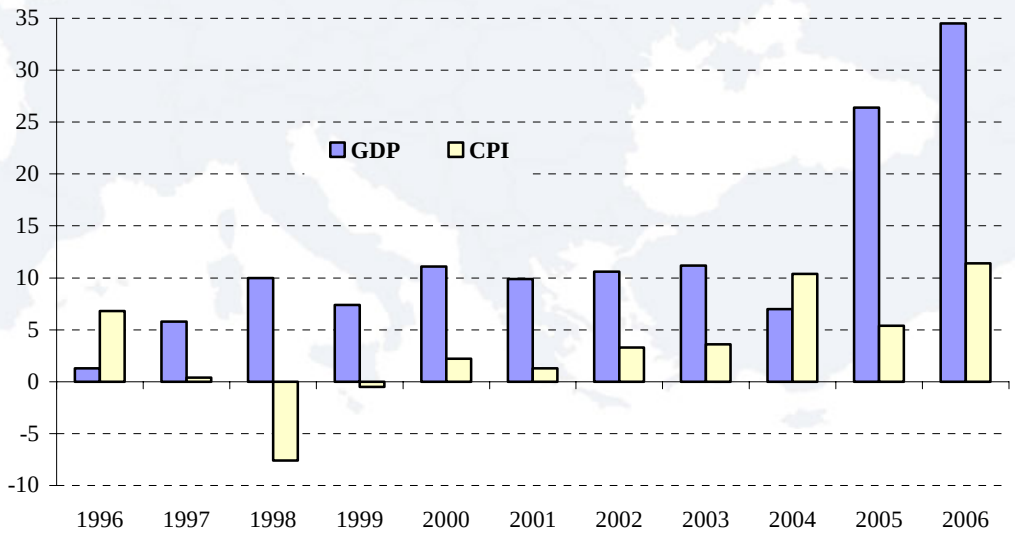
After regaining independence in 1991, the Republic of Azerbaijan needed almost fourteen years to recover. An economic decline was followed by a long-lasting period of macroeconomic stabilisation in 1996-2004, when the first positive signs of growth could be recognised. Dynamic economic development began, inflation rate and budget deficit decreased while real GDP growth rate averaged around 10% between 1998 and 2004. Already in 2005, Azerbaijan was among the top performing economies in the world, realising annual real GDP of 26.4%. Nowadays the country has become a global leader in economic growth with a record rate of 34.5% for the year 2006, on the back of large-scale oil and gas exports to the world market since the opening of the Baku-Tbilisi-Ceyhan pipeline connecting the Caspian offshore fields with the Mediterranean Turkish port.

SUCCESS OF THE CASPIAN NATION

Azerbaijan's liberal economic system was founded on institutional development, support for businesses, privatisation and several international oil and gas projects.

During the economic paralysis that characterised the country in 1991-1995, poverty level drastically increased and there were no foreign investments at all. Under the period of moderation when economic stability was achieved, the basis of a socio-oriented economic system was founded. The imaginative independent economy was meant to be sustainable and dynamically developing in every respect, including technical and scientific improvements where possible. The support of such financial institutes as the World Bank and the International Monetary Fund (IMF) was indispensable for the realisation of the economic reforms of the period. In addition, the country even applied for membership in the World Trade Organization (WTO) in the year of 1997.

Chart 3. Real GDP Growth and Consumer Price Index in 1996-2006 (%, y-o-y)



Source: National Bank of Azerbaijan

The success of the stabilisation policy became more and more visible, inflation was restrained, and since 1996, real GDP growth could be observed (first time 1.3% year-on-year

in 1996). Even the agriculture sector could recover after the economic decline, which later contributed to the approximately 10% annual GDP growth with its large quantity of export.

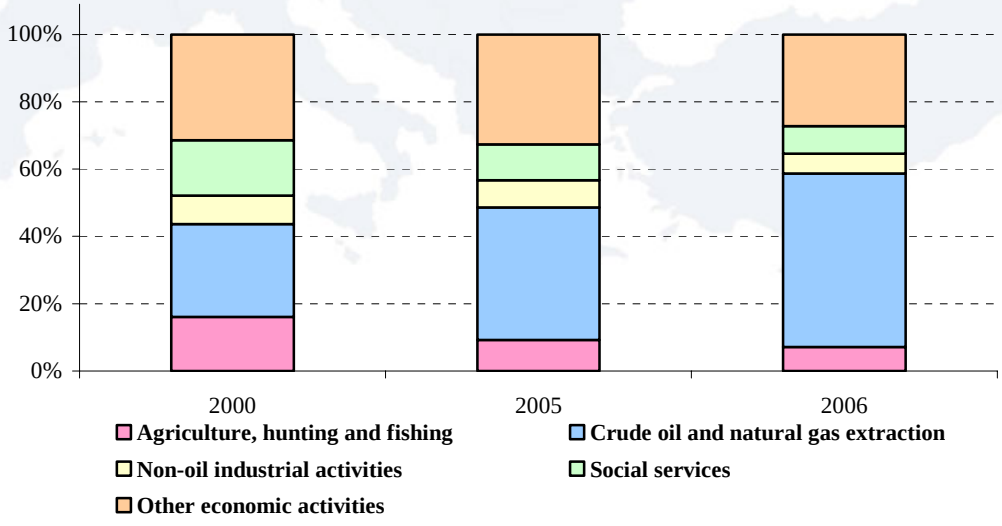
Outstanding performance in 2005-2006 – without significant macroeconomic imbalances – could be achieved basically thanks to the contribution of two major factors: the significant role of the private sector and the boom in oil sector that was immediately followed by a record amount of Foreign Direct Investment (FDI) inflow. The main source countries of investment are the United Kingdom, the United States of America and Turkey. The cumulative FDI was around USD 4800 million already in 2004. Apart from the oil and gas sector, investments were mainly in the construction, services, manufacturing and transport sector.

It is important to point out that the share of private sector in GDP production has not simply increased, but constitutes more than three quarters of all production today. Last years record level, namely 81% (76% in 2005) was reached due to several stages of privatisation of such formerly state owned properties as enterprises of communication, transport, manufacturing and fuel-energy complexes in the oil and gas sector. The favourable environment created in the latter sector of economy opened for international businesses in 1994. Since then it attracted such principal oil businesses as BP, Total, Exxon, Lukoil etc.

THE ROLE OF OIL

The role of huge oil revenues was the most significantly contributing factor to the record level of economic growth. In 2005 and 2006, the share of industry sector together with the oil sector in nominal GDP was 47.5% and 58.3% respectively. The oil sector has started to experience a strong growth period in the recent years; the key success factor besides the significant rise in oil prices was the Baku-Tbilisi-Ceyhan oil pipeline connecting the Caspian offshore fields with the Mediterranean Turkish port. The transport capacity of the pipe is over 1 million barrel a day and the crude with which the pipeline is filled is sold at the Turkish port of Ceyhan. As for further improvement, Azerbaijan created several projects of oil and gas pipeline networks all over the region to be a part of international cooperation and trade. With the adoption of the policy of construction the country provides substantial cash inflow since 2006. Last year's growth in oil sector was 64.8% while in non-oil sector only 11.2%.

Chart 4. GDP by Main Activities (%)



Source: The State Statistical Committee of the Republic of Azerbaijan, own calculations

SUSTAINABLE DEVELOPMENT

The biggest challenges Azerbaijan has to face are maintaining the buoyant investment activity and the management of oil and gas revenues. The State Oil Fund of the Azerbaijan Republic (SOFAR) is one of the public institutions established in 1999 to assist in achieving sustainable development through the transformation of scarce resources into sustainable ones by appropriate spending of revenues from the oil and gas production. During the current strategy period, the government's economic policy has been appropriate by tightening its fiscal policy to compensate the effects on liquidity, caused by the capital inflows to the oil sector. However, with elections scheduled for 2007 and 2008, pre-election spending should be moderate in order to avoid fiscal deficit. Moreover, since inflationary pressures have begun to develop this year, inflation should be kept largely under control to counterbalance the effects of the new economic policy; bringing gas and power prices closer to market levels.

The main objective is to ensure a dynamic socio-economic development in the country with efficient integration to the world economy by breaking away from the dominating oil sector driven economy. A number of steps have already been taken to reduce the country's dependency on the oil revenues. Strategies of regional and non-oil sector development are being carried out to strengthen sustainability and economic diversification. Oil sector generated capital makes it possible to succeed in the improvement of other sectors, such as manufacturing industry and services.

As a result of the huge economic growth in Azerbaijan from 2005, unemployment rate started to decrease as it has created new workplaces continuously. Ensuring development of an efficient and diversified employment base that is sustainable in the long-term, nominal wages were increased by 21.9% in the year 2005. The conditions of working climate have improved rapidly as well as the quality of social services. But still, positive changes in the education system and poverty reduction have to be achieved to sustain economic development in the future.

CHALLENGES OF ECONOMIC STRUCTURE TRANSITION IN TURKMENISTAN

States of the former Soviet Union have experienced significant economic growth and relatively favourable processes after critical transition period of varying length. Turkmenistan is one of these countries, still facing the challenge of prolonged turning from centrally planned economy to market economy. This essay makes attempt to show, how the Turkmen economy tries to comply with this challenge and what kind of economic achievements the country has reached so far.

TURKMENISTAN IN BRIEF

Turkmenistan is a middle-sized country in Central Asia, bordered by Afghanistan, Iran, Kazakhstan and Uzbekistan. The Turkmen constitution was adopted in 1992, one year after regaining its independence. However, the first multi-candidate presidential election was held only in 2007 after the death of the former president, Saparmurat Niyazov (Turkmenbashy), and Gurbanguly Berdimuhammedow became the new president. The political system is autocratic that is reflected not only in economic policy, but also in the structure of economy.

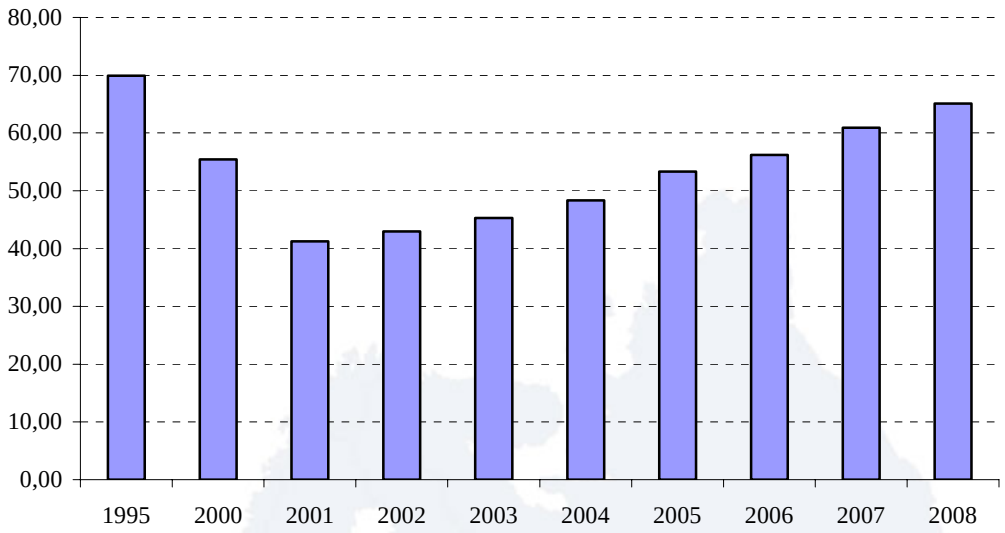
FIRST YEARS OF INDEPENDENT TURKMEN ECONOMY

Concerning the development level measured by GDP per capita, the Turkmen economy possesses a relatively good position among the countries of the Commonwealth of Independent States (CIS), since it has the fifth largest one that reaches 5067 USD (at prices and PPP of 2000) in 2005. With a population of 4,833 thousand, it defines the fourth largest economy by nominal GDP in the Caucasian and Central Asian (CCA) region.

Until the millennium, a significant drop could be experienced in the relative development of the economy by the time series of Turkmen GDP per capita relative to CIS average GDP per capita. By this methodology however, since 2001, Turkmenistan has continuously converged to the CIS average. (*Chart 5*) 2006 was the first year, when the economy reached the GDP level of 1990.[9]

[9] Tamás Borkó: Overall development and the role of competitiveness in Caucasian and Central Asian countries, Caucasus and Central Asia (CCA) Review, Vol.1, No.2, July 2007
http://www.icegec.hu/eng/publications/_docs/cca_review/CCA_Review_August2007.pdf

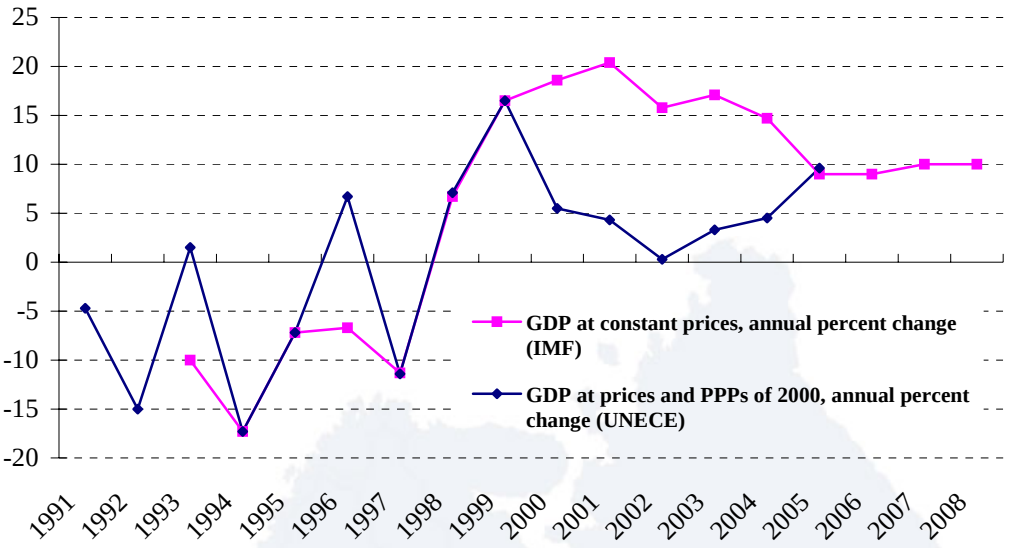
Chart 5. Turkmen GDP Per Capita in PPP (%, in percentage of the CIS average GDP per Capita)



Note: data for 2005-2007 are estimates.
Source: own calculation based on data of World Bank

Until 2000, growth rates indicate hectic, stop-go economic performance that is in line with shocks in the gradual and slow transition period, the country had to face. (*Chart 6*) After the Asian and Russian economic crisis, the economy started to show positive growth rates in consecutive years. It is fair to mention however, that the paces of this growth are unidentified, or at least unreliable, since then the statistics of different organisations have predicted different economic growth in Turkmenistan. While data of UNECE shows more moderate results, the IMF data gives different picture for the same period. The reasons of it are unexplainable methodologically – while one can experience difficulties in finding appropriate data from domestic resources in Turkmenistan. Only 1997-1999 and 2005 seem to show near similar data, while the other years differ considerably. Thus, it is difficult to say what really happens in the Turkmen economy – that is possibly in line with the aim of the current political formation.

Chart 6. Real GDP Growth, 1991-2008 (%)



Note: 2005-2008 real GDP growth rates of IMF are estimations
Source: IMF, UNECE Statistical Division

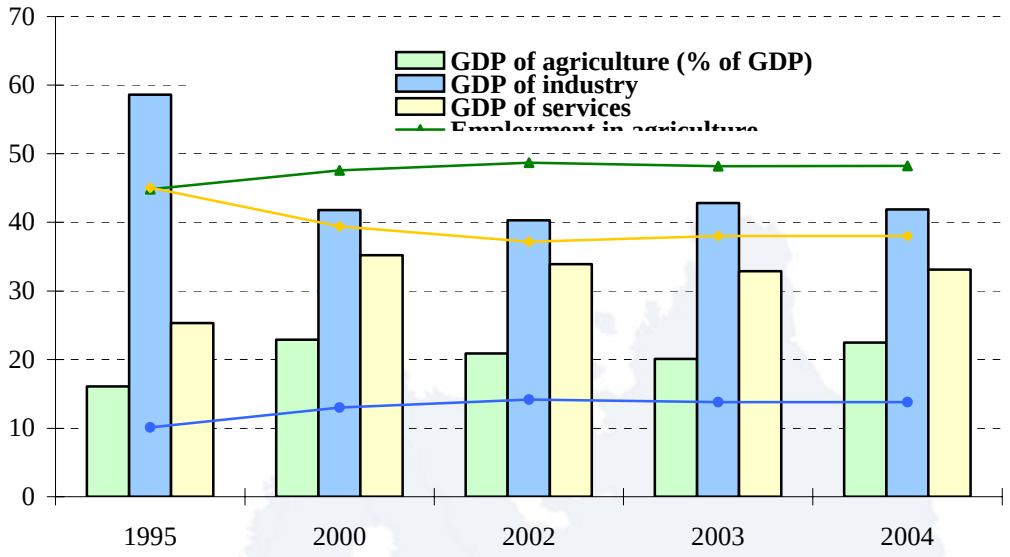
As for the change of consumer prices, Turkmenistan faces the same problems as other CIS countries, in the first years of nineties, these countries (Turkmenistan too) had to fight against hyperinflation. The government introduced a new national currency (manat) in November 1993, but because of structural problems and unfavourable Russian actions made regarding natural gas hyperinflation appeared and caused serious disequilibrium. The average change of consumer prices exceeded the 3100% in 1993. Then the annual inflation rate started to decelerate and it became double-digit first time in 1997 (83.7%). In recent years monetary policy managed to push it below 10%, but it has to be mentioned that there are still serious tensions determined by administrative interaction into price developments.

The structure of GDP from production side has not changed a lot (*Chart 7*). The most important sector is still the industry – emphasising manufacturing, electricity and gas, followed by the services sector and the agriculture.

As for agriculture, cotton was the main agricultural product in the country (Turkmenistan was among the ten largest cotton exporters in the world). In the last decade, the importance of it decreased, while that of the cereals (especially wheat) increased. While in 1995, ten times more cotton was produced than wheat, the wheat production was almost three times higher than the cotton in 2005. In spite of this process, the primary sector contributes to the Turkmen output in such an extent as it did ten years ago, what's more the importance of agriculture increased by 6.4 percentage points during the investigated period that can be explained by better crop selection and by phasing out the ineffective and environmentally costly cotton production.

In line with decreasing role of the industry in GDP, the services sector became more important. However it is true, its significance still stands at a lower level than that of the industry. The tertiary sector is still underdeveloped despite the economic potential and the global processes.

Chart 7. Output and Employment by Main Sectors of Economy in 1995-2004 (% of total)



Source: own calculation based on data of Asian Development Bank

Nevertheless, the secondary sector seems to be the most productive sector in Turkmenistan, as the structure of employment by main sectors shows that the least workers are employed in this branch (*Chart 3*). On the contrary, the agricultural sector (contributing less to the output) still employs the largest number of workers and it seems to be increasing. As for the rate of employed in the tertiary sector, it is about 10 percentage point lower than that of the agriculture.

The structure of employment and GDP may describe the development level of these sectors. The relatively high employment level in the primary sector may refer to the fact that the agriculture is still a labour-intensive sector and regarding the tendency, significant changes haven't happened for the higher level of automation. On the contrary, the relatively low employment level in the secondary sector may be the consequence of the natural automation particularly originated from Soviet era. The services sector is used to be labour-intensive.

As for the unemployment rate, it is extremely low in Turkmenistan (according to Asian Development Bank): this rate was 2.4% in 1990 and almost the same in 2004 (2.6%).

FURTHER DEVELOPMENT?

Although the investigated indicators may refer to further improvement, we cannot say it so simply because of the hard and uncertain access to economic data. This fact is supported by the *World Factbook* issued by the CIA, which says "Turkmenistan's economic statistics are *state secrets*, and GDP and other figures are subject to wide margins of error". Therefore the restrictions standing in front of the further development may describe the situation better.

The analysis of the *Heritage Foundation* and *the Wall Street Journal* about economic freedom (issued in 2007) says that Turkmenistan has the 152nd place in the freedom rank and reflects that the fiscal and trade freedom (relatively low taxes and tariffs) and the freedom from government (i.e. the rate of government expenditures, consumption and transfer payments) are favourable in Turkmenistan, while there are great problems with business-, investment-,

financial-, labour freedom, property rights and corruption. All these are the consequence of the non-transparent regulatory system causing difficulties in the business operations. The freedom from government seems to be relatively favourable; the government has extremely great impact on the economy by its interventions on foreign investments and on the process of privatisation.

Consequently, the main problem in Turkmenistan (as in most of the CIS-countries) is that the government takes great, restrictive actions in the economy. Therefore the policy should intervene in a lower extent in the economy and ensure more favourable business environment (more flexible labour market, accelerated privatisation, FDI attraction etc) to comply with the requirements of market economy. Nevertheless it is doubtful in view of known scientific literature, that it is possible without rethinking the political structure of the country.