ICEG EUROPEAN CENTER

NEWS OF THE MONTH
on EU-8 and CIS

January 2008

Budapest, Hungary, Phone: +36 1 248 1160, +36 1 248 1161 Fax: +36 1 319 0628
E-mail: office@icegec.hu Website: www.icegec.org

News of the Month, *on EU-8 and CIS*

The ICEG European Center issues its monthly publication, which includes 3-4 brief analyses dealing with underlying macroeconomic and microeconomic issues. The publication focuses on two groups of countries: *Countries of Independent States - CIS* (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan) and *Eight New Member States – EU-8* (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia).

Editor

Tamás Borkó, tborko@icegec.hu

Contact information

ICEG European Center, 6/B Dayka Gábor utca, Budapest, 1118 Hungary. Phone: (+36) 1 248 1160/108. E-mail: office@icegec.hu. Webpage: www.icegec.org

Table of Contents

Postponing euro introduction in the Czech Republic

Regina Kiss

The actualised Convergence Programme of the Czech Republic - which was published in November 2007 - does not contain a target date for the introduction of the euro, contrary to that version two years ago, which had indicated 2010 as a possible date for joining the euro zone. The entrance to the ERM-II is delayed simultaneously in order to minimise the period which will be spent as a member of the mechanism, thus a decision on this issue will be made only when the planned date for the introduction of the euro will have been already assigned. The decision of the government was induced by two main reasons: the necessity of the consolidation of the government budget and the lack of appropriate flexibility of the Czech economy (mainly the labour market).

Criteria and other factors

Regarding the formal conditions of the introduction of the euro, the Czech Republic performs well in the regional comparison. According to the expectations the economy may meet the criteria of price stability, fiscal sustainability and long-term interest rates by 2009 (*Table 1*). Besides according to the estimations of the Czech central bank and the ministry of finance, the exchange rate of the Czech koruna against the euro had not exceeded the ±15% band of the hypothetic central parity (the latter is the average of the daily exchange rates for the period between 2004 and 2006). Nevertheless, the criterion of the exchange rate stability may be formally evaluated after the country's entrance to the ERM-II.

Table 1. Fulfilment of the Maastricht criteria in the Czech Republic, 2004-2010

Criteria		2004	2005	2006	2007		2008	2009	2010
Inflation (HICP, %)	**Czech data**	**2.6**	**1.6**	**2.1**	**3.0**	***2.8***	**3.9**	**2.3**	**2.1**
	Reference	2.2	2.5	2.9	3.1	-	3.2	3.1	3.1
General government balance (% of GDP)	**Czech data**	**-3.0**	**-3.0**	**-2.9**	**-3.4**	***2.5***	**-2.9**	**-2.6**	**-2.3**
	Reference	-3.0	-3.0	-3.0	-3.0	-	-3.0	-3.0	-3.0
Gross general government debt (% of GDP)	**Czech data**	**30.4**	**30.2**	**30.1**	**30.4**	***30.3***	**30.3**	**30.2**	**30. 0**
	Reference	60.0	60.0	60.0	60.0	-	60.0	60.0	60.0
Long term interest rate (%)*	**Czech data**	**4.75**	**3.51**	**3.78**	**4.4**	***4.6***	**5.1**	**4.5**	**4.6**
	Reference	6.28	5.37	6.24	6.2	-	6.2	6.1	6.1

Note: numbers in italics are facts and ICEG EC estimations

** Long-term government bond yields on the secondary market with a residual maturity of around 10 years*

Source: Eurostat, Czech Central Statistical Office, Convergence Programme of the Czech Republic (November 2007)

The data presented shows that the economy will probably not fulfil the criterion of price stability this year. The HICP is expected to grow by 0.9 percentage points in 2008 as a result of three main factors. Firstly, several tax rates will be increased (e.g. the lower rate of the VAT will be raised from 5% to 9%) and new types of taxes will be introduced (indirect environmental tax in the case of the use of energy sources). Secondly, the further harmonisation of the tax system with EU law will also expand inflationary pressures (e.g. increase of excise duty on cigarettes to 28%). Thirdly, the growing prices on the world markets may also contribute to the shift in the domestic price level. On the whole it can be concluded that the tax increases are likely to influence the price level only temporarily and despite the fact that the inflationary effects of these changes are not unequivocally predictable, it is obvious that these developments were not the main reasons behind the postponement of the introduction of the Euro. However it is also worth mentioning that the current dynamic economic growth (the real GDP growth rate was 5.9% in 2007) is another factor which increases the uncertainty of the inflationary forecasts. Thus, in order to support the fulfilment of the price stability criterion, the Czech National Bank plans to set its inflation target at the level of 2%±1 percentage point from 1 January 2010.

The government deficit has exceeded the reference value both in 2005 and – according to the forecast of the Ministry of Finance of the Czech Republic in last October – in 2007 as well[1] (see Table 1.). In the other two years, which have passed since the country joined the EU; the government deficit decreased fewer than 3% mainly because of the tax revenues which have been higher then expected.

Nevertheless reducing the deficit below the 3% threshold is no only the first step in fulfilling the general expectation of reducing the structural deficit – that part of the deficit which is independent of the cyclical movements – near zero. Thus the Czech government committed itself in the framework of the Stability Pact to decreasing the structural deficit of the general government below 1% of GDP by 2012. One of the main reasons behind the minimisation of the structural deficit is the possible occurrence of a recession: in such periods the amount of the deficit is boosted by the automatic stabilisers and room for discretionary measures or structural reforms may be necessary as well, thus a low initial value of the structural deficit is particularly important.

For the substantial decrease of the structural deficit changes are needed both in the structure of the revenues (mainly the tax system) and the expenditures of the Czech government. It is a general criticism that the implementation of the current tax reform will not ensure the sustainability on the long run of a deficit below the 3% threshold, thus the necessary measures will remain central issues of the economic policy debates also in the future. Regarding the structural changes in the budget expenditures an important task would be to curb the upward trend of the social transfers (while the proportion of social expenditures to GDP was 11.9% in 2001, this indicator reached the value of 13% by 2007). In addition on the long run an unfavourable demographic trend is expected (the proportion of the pensioners to the economically active population grows rapidly, while the retirement age is shifted gradually to 65 years), thus the reforms of both the pension and the health systems are inevitable.

The above-mentioned reforms have a key importance as they influence such economic variables that are currently in alignment with the Maastricht criteria (e.g. gross government debt, long-term interest rates). The gross government debt had a low initial value after the transition, but its amount significantly increased as a result of the financial crisis and it could be stabilised mainly due to the dynamic economic growth and the improvement of the budget balance. However if the necessary reforms are failed to be implemented, the value of the gross government debt may increase on the long run. In addition the way of the reforms' implementation influences the confidence of the actors on the financial markets and the possible deterioration of the latter may boost the level of the long-term interest rates through the increase of the risk premium.

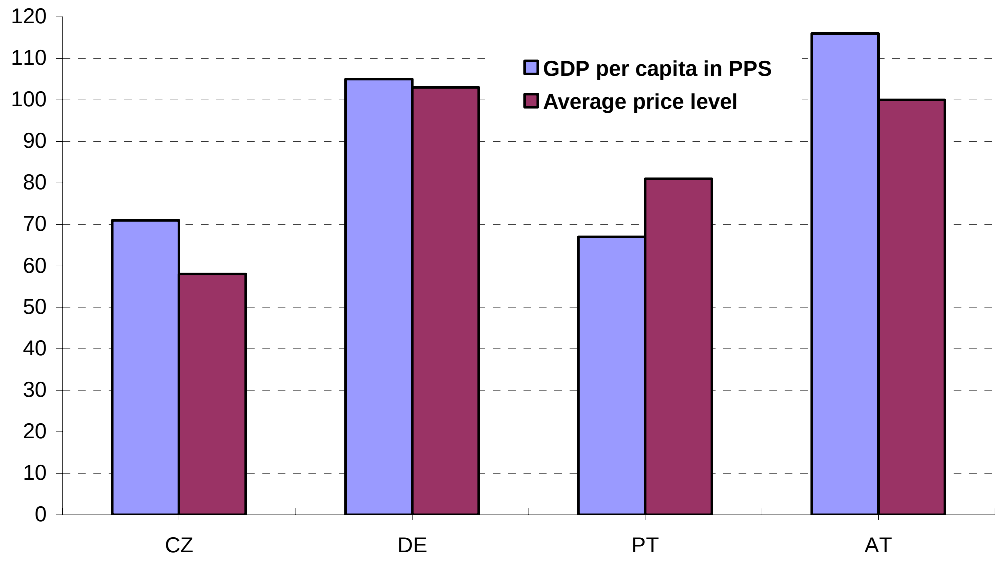
On the whole those deficiencies have led to the postponement of the introduction of the euro, which have to be remedied in order to ensure the economy's ability to react properly on the different shocks which may occur after the country's entrance to the euro zone. Thus the above-mentioned area of the public finances is only one of the problematic areas. According to the theories of the Optimal Currency Area (OCA) in the lack

[1] It is worth mentioning that according to the preliminary data of the Czech government and the quarterly forecast of the ICEG European Center the GDP proportional government deficit remained under 3% in 2007.

of monetary policy and in the presence of a limited fiscal policy the flexibility of the production factors' markets has a prominent role. From the point of view of flexibility the most problematic market is that of the labour force, just where the most significant deficiencies exist in the case of the Czech Republic. The main problems are the relatively high wage rigidity and elevated costs of the cancellation of the employment contracts.

As a conclusion of this brief analysis it is worth casting a glance at the Czech economy's degree of alignment with the Euro area economy as it is in an adverse relationship with the risks arising from the country's accession to the Euro zone. The degree of real economic convergence will be examined as it is one of the most important indicators of similarity among different economies.

Chart 1. Real economic convergence of selected states in 2007 (average of 12 euro area countries = 100)



Source: Czech National Bank, Eurostat, forecasted values

Due to the dynamic economic growth, GDP per capita has recently started to converge more quickly to the euro area average and currently its level is comparable with the least advanced euro zone countries (e.g. the forecasted value of GDP per capita relative to the EA-12 average is 71% in the Czech Republic and 67% in Portugal for 2007), though it is still considerably lower than the indicator of more advanced euro zone members (e.g. Austria and Germany). Although the price level also converged further, its difference relative to the euro area (including its least advanced countries) remains sizeable (e.g. in 2007 the relative GDP average price level was 58% in the Czech Republic, while this indicator was 81% in Portugal and 100% in Austria). Besides the narrowing of this difference, a continuing equilibrium trend of real appreciation of the koruna against the euro is expected as a result of the ongoing process of real convergence. As another result the prices of tradable goods will decline and the prices of non-tradable goods will increase prior to the euro adoption. If this trend remains persistent after the country's accession to the euro area, it will initially generate a higher rate of inflation in the Czech Republic than in the euro area and it will induce lower domestic interest rates as well. If this situation persists on the long term there would be a risk of an overheating of the economy.

Opened issue

On the whole the question arises in the case of the Czech Republic (and other new EU member states as well) that which strategy is more useful: the one which is dedicated to fulfil the criteria despite the macroeconomic tensions and structural problems, or the other one which intends to eliminate or at least moderate the sources of these tensions. Even the OCA theories are not unified whether to give preference to the institutional-structural catch-up which is forced by the introduction of the euro (and at the same time also supported by the advantages of the single currency) or to favour the strategy of pursuing an independent monetary and less limited fiscal policy in the course of the convergence process.

Slovakia is on the right track to adopt the euro in 2009

Péter Novoszáth

Slovakia is making significant progress in the economic field, as the entry of Slovakia to the euro area is possible if they are adhered. Slovakia is not yet a member of the euro area. The Slovak koruna joined the Exchange Rate Mechanism (ERM-II) on 28 November 2005 and observes a central rate of 35.4424 to the euro with standard fluctuation margins of +/- 15%. Slovakia hopes to adopt the euro on 1 January 2009.

The euro is a key objective

The economic policy of the current Slovak government continues to follow the main lines of the process of Slovakia's integration into the Economic and Monetary Union (EMU); at the same time, the government is putting a greater emphasis in its agenda on striking a proper balance between individual responsibility and solidarity of the society as a whole. The Slovak economy has grown strongly in recent years, driven by rapid productivity growth, but still has far to go to catch up to the per capita income levels in the advanced European countries. The incoming government strengthened growth prospects and reduced income inequality by raising employment rates, improving education outcomes (including by reducing the impact of socio-economic background), and by removing barriers to product-market competition.

Euro adoption will bring both benefits and disadvantages. The most important direct benefit is the elimination of transaction costs on trades in euros. Slovakia is one of the most open economies in the EU. More than 80% of this trade includes trade with European countries settled in euros. Businesses and citizens do not have to buy and sell euros for each foreign financial transaction. Currently the citizens, businesses and investors pay fees when exchanging euros or they perform the exchanges at less beneficial exchange rates. Slovak experts estimate the savings of transaction costs at 0.36% GDP. Exchange rate risk against euro will be eliminated. According to estimation the value of exchange rate risk that will be eliminated by euro adoption is 0.02% GDP. One of the direct benefits of the euro for consumers will be much comparability of prices at home and in other euro area countries. Euro adoption should lead to lower cost of capital for enterprises and thus stimulate investment activities. Small and medium sized enterprises in peripheral euro area countries benefited most from euro adoption. For example, in Greece the euro has led to 4 percentage points decline in interest rate on loans. Euro adoption will contribute to gradual significant growth of foreign trade. Slovak Government expects that after entry of Slovakia to the euro area its trade with partners within the EMU will increase by 30 to 90%. Euro adoption will facilitate the inflow of foreign investment into Slovakia. Higher inflow of foreign investment and growth of international trade should ultimately lead to a growth of GDP. Due to the euro adoption Slovak Government expect total increase of the Slovak GDP by 7 to 20% in the long run.

Immediately before and after euro adoption the state and entrepreneurs will incur costs on the adjustment of information systems, currency exchange, conversion of prices, dual pricing, personnel training etc. Estimates of such costs for the current euro member states are in range from 0.3 to 0.8% of GDP. After euro adoption banks will lose a part of their activities. Loss of independent monetary policy is considered to be most significant cost of joining the euro area. Setting of the common monetary policy by the European Central Bank may not be always adequate for Slovakia. According to a calculation of National Bank of Slovakia the abandonment of independent monetary policy represents a loss of approximately 0.04% of GDP. After the joining the euro area inflation may increase slightly. From the point of view of Slovakia the advantages of euro adoption will significantly prevail over disadvantages. Accordingly a later euro adoption means a loss of potential benefits Slovak Government have to make efforts to adopt the euro as soon as possible after the fulfilment of Maastricht criteria.

The Slovak economy as a whole is currently growing at a fast pace. The government however needs to make sure that the economic growth and its benefits to the living standard are spread more evenly across all regions of the country. It is impossible to make the development of certain backward regions more dynamic, mainly in the east of Slovakia, without putting in place a well developed infrastructure, particularly the highway network. For this reason, the government intends to step up the pace of highway construction. The government realises the importance of structural policies to the sound economic development, particularly after accession to euro zone when the room for the ability of macroeconomic policies to react to economic imbalances will narrow.

Slovakia wish to join the EMU in 2009, they put the main emphasis on the adoption of the euro.

Meeting the commitments of Slovakia's ERM II membership

When joining the ERM II system on 28 November 2005, Slovakia made commitments which once fulfilled should create appropriate conditions for the adoption of the single European currency on 1 January 2009, as planned.

Implementation of economic policies aimed at preserving macroeconomic stability and the sustainable convergence of the Slovak economy is essential for the fulfilment of these commitments. The key commitments are, in particular, to create conditions for wage growth corresponding to growth of labour productivity, budgetary discipline in order to fulfil the medium-term consolidation strategy, and structural reforms and a cautious approach to the risks related to credit growth.

On 19 March 2007, the central rate of the Slovak koruna against the euro was devalued. This step confirmed the previously mentioned commitments, mainly highlighting the issues of price stability, competitiveness and improvements in the resistance of the Slovak economy to external shocks. At the same time, it underlined the necessity consolidation efforts, in compliance with the conclusions drawn by the European Council when assessing the previous update to the Convergence Programme of the Slovak Republic on 27 February 2007. These commitments were also incorporated into Slovakia's economic policy measures.

The Ministry of Finance is rather conservative in its medium-term forecast therefore it expects robust, yet moderately declining rates of economic growth in the upcoming years.

Table 2. Forecast of the selected economic indicators (June 2007)

Indicator	**Actual**	**Forecast**			
	2006	**2007**	**2008**	**2009**	**2010**
Real GDP growth (%)	8.3	8.8	6.8	5.8	5.0
Harmonised index of consumer prices (%)	4.3	1.7	2.3	2.6	2.7
General government balance (% of GDP)	-3.7	-2.5	-2.3	-1.8	-0.8
Government gross debt (% of GDP)	30.4	30.6	30.8	30.5	29.5
Long-term interest rate (annual average, %)	3.8	4.2	4.2	4.3	4.4

Source: Ministry of Finance of Slovak Republic

The euro area entry is not just another step in Slovakia's integration into the EMU. It will also change the importance and effectiveness of the various economic policies. The loss of sovereign monetary policy must no doubt be replaced with a more active fiscal policy, and by structural policies aimed at increasing the flexibility of the economy. Slovakia is fully aware that inappropriately configured economic policies along with low real interest rates may give rise to additional inflation pressures. Bearing that in mind, the Slovak government intends to adopt short term and medium term measures to ensure price stability.

The government needs to publish price changes and monitoring of price development more frequently including by using of so-called “black lists”. It will also be important to avoid wage growth in the public sector signing of an agreement between employer association and trade unions concerning wage bargaining. An indexation of minimum wages may need to be adapted that growth of average wage in economy should be in line with labour productivity in the first years after the introduction of the euro.

To eliminate tensions mainly in the segment of low-skilled labour the government should support labour and product flexibility as this facilitates adjustment to idiosyncratic shocks in the currency union. A problem that could arise in the first years of euro area membership is that adjustment to decline in real interest rates associated with the elimination of currency risk and adaptation to a rise in steady-state inflation associated with Balassa-Samuelson effects (estimated to be 1-1.5 % per year in the long run) in a currency union could contribute to a post-entry boom-bust cycle. There is a significant scope the strengthening of the competitive environment by means of more strict sanctions for the abuse of dominant market position and more effective regulatory rules for natural monopolies.

HICP inflation fell to 2.25% (year on year) in early 2007, supported by falling international and exchange rate appreciation. Inflation is likely to fall through 2007-2008 below the Maastricht reference rate, which is estimated by the ministry of finance to be 2.9 %. According to latest estimates the inflation rate drop below 2.5%, at the end of 2007. If the price of petrol does not change substantially they will succeed.

The government adopted budget for 2007 satisfying the 3% of GDP Maastricht deficit reference value. The debt criterion is easily respected as government debt was 33% of GDP in 2006. Concerning the other two Maastricht criteria, the long-term interest rate criterion is likely to be met. Long-term interest rates are comfortably below the reference value (indeed, 10 year government bond rates are only 40 basis points higher than German rates). The exchange rate has remained within the 15% fluctuations bands around the central ERM-II, although much closer to the upper band than the lower band.

An immediate issue that Slovak Government may face following entry to the euro area is a temporary boom. Such a boom could be caused by the decline in real interest rates associated with entry to the euro area, as discussed above. In addition an increasing the current account deficit, this would tend to increase domestic inflation (especially for assets such as housing), further reducing real interest rates temporarily and hence reinforcing the boom.

Finally Slovakia is well on its way to the euro. After adopting it, Slovakia will have to adapt quickly to the new conditions of joint monetary policies and absorb potential shocks. Slovakia is well on its way to meet criteria for entering the euro area, as planned, at the start of 2009, which will favourably affect its further development. Slovakia is one of the most economically successful countries in the region, like Hungary was still some years ago. However, the successful development to date with consistently high economic growth should not be overestimated and the Slovak Republic should focus primarily on ensuring sustainable economic growth, enhancing employment rate, increasing the level of education and improving competition.

Corruption and some economic consequences in the CIS countries

Ágnes Magai

Second Session of United Nations Convention against Corruption Conference (UNCAC), held in Bali at the end of January 2008, and urged countries to put the Convention against corruption into action. The UNCAC is the first legally binding, international anti-corruption instrument, which came into force in 2005. Fight against corruption should be of high importance especially in African as well as in some South-American, Asian and European countries. Level of corruption is extensive in all countries of the former Soviet Union, where economic development is hindered by both petty and grant corruption. If government and institutions are weak, equity and efficiency in a society cannot be ensured. Poor governance, weak institutions and corruption in the Commonwealth of Independent States (CIS) are associated with high income inequality and poverty.

Corruption and some economic effects

Corruption is a complex social, political and economic phenomenon that constantly presents all over the world. "Corruption is behaviour on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them. This would include embezzlement of funds, theft of corporate or public property as well as corrupt practices such as bribery, extortion or influence peddling.[2]

According to Transparency International, corruption can be examined in different dimensions. It occurs at political level (central government, provincial, municipal), roughly corresponding to the terms petty and grand corruption. Illegal actions on one hand can influence legislation, law and rules (state capture); on the other hand influence law implementation (administrative corruption). Different actors like firms, households, public officials, politicians can be involved in corrupt transactions. One can distinguish by administrative agency or service: tax and customs, business licenses, inspections, utility connections, courts, or public education and health facilities.

Corruption is a frequent phenomenon in the countries of the former Soviet Union and affects human interactions considerably. Just looking at the news it reveals that corruption has infiltrated to political, economic and social life in the Commonwealth of Independent States. Roots of corruption can be originated in the totalitarian system, in which state controlled over the distribution of basic resources. During 70-years of central planed economy corruption is used for overcoming chronic supply shortages and rigid bureaucratic systems. While corruption of socialist era can be related to a socially necessary evil for achieving goals and surviving, as well as maintaining the national economy, corruption has served rather self-interest in the transition period.[3]

Transition to market economy demanded complete transformation of institutions of the former era. In post-socialist countries, where states were weak and good institutions couldn't evolve, economic development was hampered. Empirical evidence suggests that corruption leads to lower levels of investment, less productive public expenditure, lower productivity growth and, consequently, slower growth rates. [4] In spite of that, most countries of CIS show higher than the world average economic growth recently, however, also

[2] Transparency International definition

[3] Iwasaki - Suzuki (2007): Transition strategy, corporate exploitation, and state capture: An empirical analysis of the former Soviet states, Communist and Post-Communist Studies 40

[4] Mar Salinas Jimenez - Javier Salinas Jimenez (2006): Corruption, efficiency and productivity in OECD countries, Journal of Policy Modelling 29

driven by high oil prices. At the same time, huge social inequalities, poverty, high inflation rate, high unemployment rate and the robust role of natural resources (mineral and agriculture) are typical in most CIS countries.

Political, economic and social impacts of corruption have been readily observable in CIS countries, especially in Russia and Ukraine. If the quality of institutions is low, transaction costs are unacceptably high (for example costs of establishment of new enterprises, costs of bureaucratic processes), consequently a by-pass solution, like corruption takes place easily. Weak state, lack of rule of law, scofflaw, and lack of clear rules, principles and methods of economic regulation lead to enormous economic losses.

Economic losses from corruption are also high in CIS countries. First of all, if property rights are not well defined, wealthier agents can gain from non-productive activities, such as rent-seeking or other costly redistributive activity. Rich agents are able to protect their properties, but actors without political power must devote substantial resources (time, energy and money) to the private protection of their capital. Weak government can do little against powerful politicians and businessmen. Examples of crony capitalism and oligarchs are abounding in CIS.

In a society, where corruption is incorporated to social interactions, huge amount of money and time are used for unproductive activities and real production becomes less attractive. In a corrupt economy winners are not definitely those who are the most competitive, but those who gain advantages through bribery and special connections.[5] It distorts some the core of market economy. Costs of production and distribution are higher because of corruption overheads. Higher prices are paid by consumers. According to INDEM[6] Russian businessmen pay more than USD 30 billion a year on bribes, a sum roughly equivalent to the revenues of the 2002 budget. About 90% of the bribes are paid for corruption services related to export licensing and quotas, state budget transactions, tax transfers, custom duties privatisation deals and servicing debts to the federal budget.

Expansion of the shadow economy and tax evasion weaken state budget. Budget shortfalls may generate social problems, since provision of public goods and services are limited. Corruption is in strong relation to capital export and money laundering. Direct outflow of capital abroad is close to USD 2 billion per months in Russia.[7]

Extent of corruption in CIS

Cost of corruption is high in developing and transition economies where bribery is endemic.[8] Poor countries and poor citizens suffer most from corruptions, since those who earn less must pay higher proportion of their incomes for free services. According to recent Rosstat data income gap is widening in Russia; for 2007 a 16.8-fold gap between the richest 10% of the Russian population and the poorest 10% was represented, which was the highest level in three years.

Surveys relating corruption reflect well that corruption is strongly linked to developing and transition economies. Also the Corruption Perception Index[9] 2007 provides a piece of the puzzle linking poverty and corruption. It doesn't come as surprise that former countries of Soviet Union rank in the second part of the

[5] Levin - Satarov (2000): Corruption and institutions in Russia, European Journal of Political Economy 16

[6] Information for Democracy Institute

[7] Cheloukhine - King (2007): Corruption networks as a sphere of investment activities in modern Russia, Communist and Post-Communist Studies 40

[8] EBRD: Transition Report 1999

[9] CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt). The CPI ranks 180 countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

global list (*see Table 1*). (Nordic European countries are at the top of the list and most common-law countries perform also well, above 9.0 CPI score). In 2007 only Georgia and Armenia scored above 3.0 and performed better than in 2006. All the other countries reached lower than 3.0. They are very close to highly corrupt countries according to the survey.

Table 3. Corruption Perception Index, 2006-2007

	2006		2007	
	CPI score	Country rank	CPI score	Country rank
Georgia	2.8	99	3.4	79
Armenia	2.9	93	3.0	99
Moldova	3.2	79	2.8	111
Ukraine	2.8	99	2.7	118
Russia	2.5	121	2.3	143
Azerbaijan	2.4	130	2.1	150
Kazakhstan	2.6	111	2.1	150
Kyrgyzstan	2.2	142	2.1	150
Tajikistan	2.2	142	2.1	150
Belarus	2.1	151	2.1	150
Turkmenistan	2.2	142	2.0	162
Uzbekistan	2.1	151	1.7	175

Source: Transparency International, CPI table

Corruption in the CIS varies, as also shown by Corruption Perception Index, also depending on how deep the transition process has been. In Russia and Ukraine both elite and petty corruption has been flourishing. Similar to these results, a recent survey[10] represents relatively high level of corruption in Russia, Ukraine and Moldova[11]. 21% of respondents paid a bribe for obtaining a free public service in average in the three countries. To compare it was 1-3% in matured European countries. Tax revenue authorities, police, medical service, legal system judiciary, legislature, political parties and business sector are affected mainly by corruption in Russia, Ukraine and Moldova. According to a survey conducted in 1997[12], 90% of the Russian and Ukrainian companies made extra payments for public services. 76% and 85% of Russian and Ukrainian enterprises, respectively, made non-legal payments because of tax inspection. (The average for three CEE countries was 7%). Result of another study[13] shows that extent of bribery in Ukraine is between USD 460 million and 580 million, accounting for 0.9-1.2% of Ukraine's GDP in 2003.

How to combat against corruption?

Corruption exists all over the world; the question is not its presence but its extent. The main problem in CIS countries, and especially in those where transition to market economy has been more complete, that corruption became a norm of behaviour, a style of relationship within a very branched-out and organised structure[14]. Fighting against corruption is not easy, particularly in countries where bribery, embezzlement, and money laundering can be daily experienced. The more embedded is corruption in economic, political

[10] Transparency International Global Corruption Barometer 2007

[11] The other CIS countries were not involved in the survey.

[12] Johnson et al (2002): Property rights and finance American Economic Review 92

[13] Gorodnichenko – Sabirianova Peter (2007): Public Sector pay and corruption: Measuring bribery from micro data, Journal of Public Economies 91

[14] Cheloukhine - King (2007): Corruption networks as a sphere of investment activities in modern Russia, Communist and Post-Communist Studies 40

and social interactions; the more difficult is to reduce the extent of it. Rent-seeking groups (rich agents, oligarchs, clans) are the main beneficiaries of weak state, lack of rule of law and lack of property rights. Therefore maintenance of unclear defined property rights and corruption is not in interest of rich agents. Given that they have great influence on legislation and policy, it is difficult to fight against their interest. In spite of that fight against corruption began. Pressure and financial sources from international organisations seems to have some positive impact. Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan and Ukraine already signed the United Nations Convention against Corruption, which is the first legally binding, international anti-corruption instrument. The United Nations Office on Drugs and Crime provides a Global Programme against corruption, promoting anti-corruption measures in the public sphere, private sector and in high-level financial and political circles. Some initiatives of CIS governments against corruption have also gained importance recently. A few examples are worth for mentioning. In February 2008 President Putin made clear his intention to root out corruption. However, he announced the same eight years ago. The INDEM Foundation has launched a range of projects with the aim of reducing corruption in Russia. Georgia has had great success in development of the business environment and microfinance and in decreasing corruption appointed by EU representatives at a conference in Tbilisi in February. Since Armenia adopted an anticorruption strategy in 2003, numerous amendments to the laws on taxation, customs procedures, education and healthcare have been passed. Government of Tajikistan approved Anticorruption strategy for 2008-2012. In Ukraine the Anticorruption Committee monitors election campaigns, public procurement and education.

A highly corrupt country cannot achieve high economic development, social cohesion and democracy. Strong state and institutions with high-quality can be the main pillars prevention, detection and rooting out of corruption and, by extension, the fight against poverty and inequality.