

Veselin Vukotic<sup>\*</sup>  
Maja Bacovic<sup>\*</sup>

## **Interrelation between Economic Freedom and Economic Growth in South East Europe**

**Key words:** *Economic Freedom, Economic Development, Economic Growth, Foreign Direct Investment, Market, Institutions*

**JEL code:** F21, O11

### **1. Paper's idea**

Economic freedom, understood as absence of barriers for business entry, business operations and business exit, are source of economic development. Its impact is indirect: through institutions framework creation and environment that encourages economic development. Primarily, economic freedoms are reflection of institutional arrangement, which makes business operations and business ideas realization easier for entrepreneurs and managers, who are two extremely important groups for economic development.

Aim of the paper is to present empirical analysis of interrelation between economic freedom and economic development, expressed through several indicators as GDP, Income per capita, FDI per capita, etc.

### **2. Myths of collectivism and economic freedom**

Economic freedoms are concept of economic development, which emphasize individual and his entrepreneurial energy. According to this concept, collectivism and its care for business, or state protectionism are replaced with people's freedom in business, their entrepreneurial optimism and personal responsibility for business activities and results.

Key barrier for this approach in Balkan countries is cultural matrix based on collectivism, traditional groups, faith in society as tool to solve all individual problems, faith that state (government) will provide jobs, will give subsidies, protect domestic production.

Cultural matrix should not be underestimated. It cannot be changed quickly. But, changes may start through institutions building process, which will consider such differences.

### **3. Accession of South East European countries to European Union and economic freedoms concept**

It is paradox that the strongest opponents to economic freedoms are those who advocate faster accession to European Union. This is case in most Balkan countries.

---

<sup>\*</sup> Faculty of Economics, Podgorica; Institute for Strategic Studies and Prognoses, Podgorica

<sup>\*</sup> Faculty of Economics, Podgorica; Institute for Strategic Studies and Prognoses, Podgorica

But, is it possible to work on and advocate accession to European Union and at the same time encourage protection of domestic industry? No!

European Union's internal market counts 450 million of citizens and € 10,500 billion of GDP. For small economies, as Balkan's, it is enormous market, and dominant market. It is really unlikely for us from Montenegro to export to New Zealand, but not to Kosovo or Germany.

When we enter such large market, can we ask for protection from import of Bulgarian's papers to Montenegro, as it is case now? No!

We will be unique internal European market and competition and economic freedoms will be maximal within the market. It will be difficult, almost impossible for national governments to introduce any protectionism policies, as they are doing now in many areas.

Following graph EU represents this clearly.

Graph 1.: Map of Europe



So, entrance in EU, for all countries in the region means entrance into liberal economy concept!

#### 4. How economic freedoms can be measured (quantified)?

Heritage foundation from Washington, D.C<sup>1</sup> publishes **Index of Economic Freedom** annually.

<sup>1</sup> [www.heritage.org](http://www.heritage.org)

Ten indicators were used:

1. Trade policy,
2. Fiscal burden of government,
3. Government intervention in the economy,
4. Monetary policy,
5. Capital flows and foreign investment,
6. Banking and finance,
7. Wages and prices,
8. Property rights,
9. Regulation, and
10. Informal market activity.

Scores are:

- **Free** – countries with an average overall score of 1.99 or less;
- **Mostly free** - countries with an average overall score of 2.00 to 2.99;
- **Mostly Unfree** - countries with an average overall score of 3.00 to 3.99;  
and
- **Repressed** - countries with an average overall score of 4.00 or higher.

We particularly emphasize importance of government spending and its impact on economic freedom. It was evidenced that increase in government spending leads to decrease in real economic growth rates, due to decrease in economic freedom.

Empirical data for OECD countries (1960-1996) confirm previous statement.

Table 1.: Government spending and real GDP growth (annual) in OECD countries (1960-1996)<sup>2</sup>

Government spending (% in GDP)	Average annual GDP real growth rate
Up to 25 %	6.6
25-30%	4.7
30-40%	3.8
40-50%	2.8
50-60%	2.0
Over 60%	1.6

Higher level of government consumption reduces growth rates.

---

<sup>2</sup> James D. Gwartney, Randall Holcombe, Robert Lawson, The Scope of Government and Wealth of Nation, CATO Journal, Vol.18, No 2 (Fall 1998.)

#### 4. What is the level of economic freedom in region?

Following table shows level of economic freedom through several indicators:

Table 2.: Economic freedom index 2005<sup>3</sup>

	Trade policy	Fiscal burden	Gov. intervention	Monetary policy	Foreign investment	Banking & Finance	Wages & Prices	Property Rights	Regulation	Informal market	Index of Economic Freedom 2005
Check Republic	3.0	3.6	2.5	1.0	2.0	1.0	2.0	2.0	3.0	3.5	2.4
Hungary	3.0	2.0	2.0	2.0	2.0	2.0	3.0	2.0	3.0	3.0	2.4
Poland	2.0	2.9	2.0	1.0	3.0	2.0	3.0	3.0	3.0	3.5	2.5
Slovakia	3.0	1.8	2.0	3.0	2.0	1.0	2.0	3.0	3.0	3.5	2.4
Slovenia	2.0	3.4	2.5	3.0	3.0	3.0	2.0	3.0	2.0	2.5	2.6
Estonia	1.0	2.0	2.0	1.0	1.0	1.0	2.0	2.0	2.0	2.5	1.7
Latvia	2.0	2.1	2.5	1.0	2.0	2.0	2.0	3.0	3.0	3.5	2.3
Lithuania	2.0	2.8	2.0	1.0	2.0	1.0	2.0	3.0	3.0	3.0	2.2
Albania	4.0	2.8	2.5	1.0	2.0	3.0	2.0	4.0	4.0	4.0	2.9
Bosnia and Herzegovina	3.0	2.6	2.5	1.0	4.0	2.0	3.0	5.0	5.0	3.5	3.2
Bulgaria	2.0	2.4	2.5	2.0	3.0	2.0	2.0	4.0	4.0	3.5	2.7
Croatia	4.0	3.0	2.5	1.0	3.0	2.0	3.0	4.0	4.0	3.5	3.0
Macedonia	4.0	2.0	3.5	1.0	3.0	2.0	2.0	4.0	4.0	4.0	3.0
Romania	3.0	3.3	2.5	5.0	4.0	3.0	3.0	4.0	4.0	4.0	3.6

Economic freedom index dynamics is represented in following table.

Table 3.: Economic freedom index (1995-2005)<sup>4</sup>

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Check Republic	2.38	2.33	2.29	2.43	2.14	2.20	2.10	2.29	2.35	2.39	2.36
Hungary	2.93	2.98	3.04	2.94	2.89	2.43	2.38	2.23	2.55	2.60	2.40
Poland	3.46	3.24	3.09	2.91	2.83	2.84	2.64	2.60	2.83	2.81	2.54
Slovakia	2.88	3.18	3.18	3.31	3.38	3.18	2.85	2.76	2.71	2.44	2.43
Slovenia		3.74	3.45	3.15	3.05	3.20	3.01	3.25	2.86	2.75	2.64
Estonia	2.40	2.44	2.46	2.43	2.29	2.19	1.89	1.73	1.68	1.76	1.65
Latvia		3.24	2.91	2.84	2.74	2.69	2.49	2.49	2.30	2.36	2.31
Lithuania		3.50	3.05	2.98	2.90	2.84	2.53	2.35	2.21	2.19	2.18
Albania	3.48	3.58	3.59	3.53	3.51	3.78	3.48	3.24	3.28	3.10	2.93
Bosnia and Herzegovina				4.61	4.61	4.40	4.04	3.89	3.49	3.30	3.16
Bulgaria	3.56	3.50	3.53	3.60	3.49	3.35	3.28	3.28	3.26	2.98	2.74
Croatia		3.53	3.56	3.63	3.55	3.49	3.39	3.29	3.06	3.11	3.00
Macedonia								3.35	3.23	3.04	2.95
Romania	3.60	3.40	3.30	3.21	3.20	3.20	3.59	3.78	3.71	3.66	3.58
Serbia and Montenegro								4.21	4.28		
Belarus	3.70	3.45	3.95	4.15	4.14	4.13	4.10	4.21	4.24	4.09	3.99
Moldova	4.10	3.50	3.65	3.48	3.49	3.35	3.75	3.30	3.13	3.09	3.06
Russia	3.55	3.65	3.83	3.54	3.60	3.75	3.79	3.74	3.54	3.46	3.56
Ukraine	4.05	3.75	3.83	3.83	3.75	3.75	3.88	3.84	3.59	3.49	3.21

<sup>3</sup> Source: Heritage Foundation, Index of Economic Freedom 2005

<sup>4</sup> Source: Heritage Foundation, Index of Economic Freedom 2005

## What is rank of some countries from the region at world level (2005 rang)?

Table 4.: Index of Economic Freedom<sup>5</sup>

	2005 rank	Index
Bulgaria	52	2.74
Albania	67	2.93
Macedonia	69	2.95
Croatia	74	3.00
Romania	125	3.58
Serbia and Montenegro	n/a	
Estonia	4	1.65
Lithuania	23	2.18
Latvia	28	2.31
Check Republic	33	2.36
Hungary	35	2.40
Slovakia	36	2.43
Poland	41	2.54
Slovenia	45	2.64
Moldova	77	3.06
Bosnia and Herzegovina	84	3.16
Ukraine	88	3.21
Russia	124	3.56
Belarus	143	3.99

Estonia has the highest level of economic freedom, while only two Baltic countries are under 30<sup>th</sup> position. Basically, level of economic freedom is very low in the region, or, protectionism is very strong.

### 5. Correlation analysis of index of economic freedom and set of selected indicators

Is it possible to find empirical evidences which will show interrelation between level of economic freedom and particular indicators of economic development? We estimated several correlation coefficients.

In analysis, several indicators were used:

- Foreign Direct Investment – flow (million €, current prices)
- Foreign Direct Investment – stock (million €, current prices)
- Foreign Direct Investment per capita (€, current prices)
- Gross Domestic Product (million €, current prices)
- Gross Domestic Product per capita (€, current prices)
- Economic freedom index
- Human Development index

---

<sup>5</sup> Source: Heritage Foundation, Index of Economic Freedom 2005

Listed indicators statistics is presented in annex of the paper.

For analytical purposes, impact from several economic variables to level of economic freedom<sup>6</sup>, and vice versa, were estimated using correlation coefficients for following sets of variables:

- Foreign Direct Investment (mil €) and Economic freedom index (time period from 1995-2004 year) - corr (FDI, IEF)
- Gross Domestic Product (mil €, current prices) and Economic freedom index (time period from 1998-2004 year) - corr (GDP, IEF)
- Gross Domestic Product per capita (€, current prices) and Economic freedom index (time period from 1998-2004 year) - corr (GDPpc, IEF)
- Gross Domestic Product per capita (€, current prices) and Foreign Direct Investment per capita (€, current prices), (time period from 1998-2003 year) - corr (GDPpc, FDIpc)
- Human Development index and Foreign Direct Investment per capita (€, current prices), (time points: 1995, 2000, 2002) - corr (HDI, FDIpc)
- Human Development index and Economic freedom index, (time points: 1995, 2000, 2002) - corr (HDI, IEF)

Correlations coefficients are presented in following table:

Table 5.: Correlation coefficients

	corr (FDI, IEF)	corr (GDP, IEF)	corr (GDPpc, IEF)	corr (GDPpc, FDIpc)	corr (HDI, FDIpc)	corr (HDI, IEF)
Check Republic	-0.526	0.332	0.332	0.168	0.999	-0.520
Hungary	-0.016	-0.515	-0.513	-0.255	-0.942	-1.000
Poland	-0.466	-0.799	-0.791	-0.202	0.505	-0.997
Slovakia	-0.383	-0.957	-0.958	0.303		
Slovenia	0.059	-0.658	-0.662	0.441	0.728	1.000
Estonia	-0.703	-0.930	-0.930	0.503	0.786	-0.879
Latvia	0.056	-0.930	-0.935	0.056	0.942	-1.000
Lithuania	-0.311	-0.970	-0.970	-0.434	0.959	-1.000
Albania	-0.569	-0.740	-0.761	0.801	0.812	-0.463
Bosnia and Herzegovina	-0.687	-0.944	-0.947	0.859		
Bulgaria	-0.868	-0.952	-0.945	0.839	0.878	-0.983
Croatia	-0.675	-0.952	-0.951	0.571	0.980	-1.000
Macedonia	-0.942	-0.982	-0.987	0.131		
Romania	0.087	0.856	0.861	0.138	0.888	0.364
Serbia and Montenegro	1.000	1.000	1.000	0.863		
Montenegro				0.130		
Belarus	0.441	0.058	0.059			0.967
Moldova	-0.104					
Russia	0.829	-0.206	-0.208	-0.252	1.000	1.000
Ukraine	-0.788	-0.412	-0.447	0.777	0.904	-0.615

Analysis of correlation coefficients shows **strong positive interrelation (impact) between level of economic freedom and foreign direct investment**, which in case of

<sup>6</sup> Heritage foundation

some countries is almost perfect (Macedonia, Bulgaria, Serbia and Montenegro<sup>7</sup>). High negative value of coefficient shows that increase in FDI leads to increase in level of economic freedom, reflected to decrease in economic freedom index value.<sup>8</sup>

On the other side, higher level of economic freedom, seen as absence of any restrictions concerning foreign ownership in land and real estates, some economic sectors and industries, have positive impact on foreign investment flows and stocks. Furthermore, lack of restrictions for profit repatriation, international capital flows, access to domestic financial sources, is necessary precondition for foreign direct investment inflow.

**Positive interrelation is even more visible in case of GDP and economic freedom index.** Most of the countries have coefficient value close to (-1): Slovakia, Estonia, Lithuania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Serbia and Montenegro. Coefficients value empirically confirms statement that economic freedoms are key source of economic growth measured with GDP. Correlation coefficients in case of GDP per capita and Economic freedom index support such conclusion as well.

Analysis shown **strong interrelation between GDP per capita and FDI per capita** – coefficient values are positive and in some cases very high, around 0,8 (Albania, Bosnia and Herzegovina, Bulgaria, Serbia and Montenegro).

Step further in analysis is to quantify correlation between Economic freedom index and Human development index<sup>9</sup>. Interrelation is strong and positive, **increase in economic freedom leads to growth in human development.**

## **6. Message from the paper**

Development through economic freedom, instead through state administration, is strategy which should be followed by all countries in the region. Analysis presented in the paper support this thesis: level of economic freedom is significantly correlated with all macroeconomic indicators of development. It is important to emphasize that foreign direct investment, which are viewed as extremely important by all countries, significantly depend on economic freedom. If countries need more foreign investment, it is necessary to increase level of economic freedom and to encourage development of market economy and its institutions.

---

<sup>7</sup> Index of economic freedom for Serbia and Montenegro is available only for 2002-03, which reduce accuracy of estimated coefficients

<sup>8</sup> Value of Index of economic freedom is lower with increase in economic freedom, which is why negative coefficient value shows positive relationship between FDIs and economic freedom.

<sup>9</sup> HDI is aggregated indicator of human well being, quantified by UNDP. Measures achievements in three key components: (1) Health, using life expectancy; (2) Education, using literacy rate and gross enrolment ratio; (3) Living standard, using income per capita PPP US\$

**Reference:**

1. Heritage Foundation, Index of Economic Freedom 2005
2. James D. Gwartney, Randall Holcombe, Robert Lawson, The Scope of Government and Wealth of Nation, CATO Journal, Vol.18, No 2 (Fall 1998.)
3. The Vienna Institute for International Economic Studies: Foreign Direct Investment in South East Europe in 2003-04, Vienna, June 2004
4. Vukotic Veselin: Montenegro as Micro State, Institute for Strategic Studies and Prognoses, Podgorica, 2003
5. Vukotic Veselin: Conceptual basis of new institutional system in Montenegro, Institute for Strategic Studies and Prognoses, Podgorica, 1999
6. UNDP: Human Development Report 2004, Cultural Liberty in Today's Diverse World ([www.undp.org](http://www.undp.org))



## ANEX – Economic indicators in South East European Countries

Table 6.: FDI inflows, EUR mn <sup>10</sup>

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 f
Czech Republic	734	1,982	1,140	1,152	3,317	5,933	5,404	6,296	9,012	2,289	4,000
Hungary	966	3,696	2,625	3,681	2,988	3,106	2,998	4,391	3,026	2,182	3,000
Poland	1,581	2,831	3,592	4,343	5,676	6,824	10,334	6,372	4,371	3,756	5,000
Slovakia	231	200	285	195	609	366	2,089	1,768	4,378	506	1,500
Slovenia	98	117	138	295	194	99	149	412	1,707	160	300
New EU members-5	3,610	8,826	7,781	9,666	12,785	16,329	20,974	19,240	22,494	8,894	13,800
Estonia	184	156	120	236	511	284	425	603	307	797	600
Latvia	180	138	305	462	317	325	445	182	407	319	400
Lithuania	26	56	122	313	824	457	412	499	772	160	600
Baltic countries	390	350	547	1,011	1,653	1,066	1,282	1,284	1,486	1,276	1,600
New EU members-8	3,999	9,176	8,328	10,676	14,437	17,395	22,255	20,523	23,980	10,170	15,400
Albania	45	54	71	42	40	39	155	231	151	158	300
Bosnia and Herzegovina					60	166	159	133	282	338	200
Bulgaria	89	70	87	446	478	775	1,103	903	980	1,254	1,500
Croatia	99	88	408	471	831	1,377	1,180	1,743	1,193	1,733	1,500
Macedonia	20	7	9	27	114	31	189	493	83	84	100
Romania	287	324	210	1,076	1,805	980	1,147	1,294	1,212	1,381	2,000
Serbia and Montenegro				653	101	105	55	186	502	1,109	1,000
Montenegro								11	87	39	50
South Eastern Europe	539	542	785	2,715	3,429	3,472	3,988	4,984	4,403	6,056	6,600
Belarus	9	11	82	310	181	416	129	107	262	151	100
Moldova	10	51	19	69	67	36	147	163	123	52	100
Russia	584	1,597	1,992	4,303	2,424	3,105	2,933	3,069	3,660	1,012	1,500
Ukraine	131	204	411	549	658	466	644	884	734	1,261	1,300
European CIS	734	1,863	2,504	5,231	3,330	4,023	3,853	4,223	4,779	2,475	3,000
Asian CIS	754	1,265	2,043	2,740	2,676	2,308	2,025	4,424	4,270	5,300	6,000
CIS	1,487	3,128	4,546	7,971	6,006	6,331	5,877	8,648	9,049	7,775	9,000
Eastern Europe	6,026	12,847	13,659	21,362	23,873	27,198	32,121	34,155	37,432	24,001	31,000

<sup>10</sup> Source: The Vienna Institute for International Economic Studies: Foreign Direct Investment in South East Europe in 2003-04, Vienna, June 2004

Table 7.: Inward FDI stock, EUR mn

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Czech Republic	3,732	5,741	6,910	8,367	12,255	17,479	23,323	30,717	36,884	37,626
Hungary	5,785	8,817	10,691	16,296	17,771	23,161	24,734	31,375	36,297	37,907
Poland	3,105	6,122	9,229	13,206	19,247	25,946	36,792	46,686	45,739	48,000
Slovakia	737	1,013	1,660	1,888	2,464	3,174	5,112	6,327	8,185	9,000
Slovenia	1,081	1,376	1,612	2,000	2,369	2,675	3,110	2,952	3,918	4,000
New EU members-5	14,440	23,068	30,102	41,757	54,105	72,434	93,071	118,057	131,023	136,533
Estonia	404	574	664	1,040	1,560	2,454	2,843	3,573	4,035	5,164
Latvia	252	480	754	1,140	1,325	1,782	2,241	2,652	2,679	2,665
Lithuania	255	274	654	942	1,384	2,050	2,509	3,023	3,818	3,968
Baltic countries	911	1,328	1,983	3,123	4,269	6,285	7,593	9,248	10,532	11,796
New EU members-8	15,351	24,397	32,084	44,880	58,375	78,720	100,664	127,305	141,555	148,330
Albania	118	172	243	285	325	364	519	750	901	1,059
Bosnia and Herzegovina					60	225	384	517	799	1,136
Bulgaria	203	273	360	806	1,363	2,392	2,426	3,129	3,530	4,300
Croatia	193	274	696	1,266	1,622	2,568	3,821	5,336	6,443	9,083
Macedonia	20	28	37	63	177	208	397	890	973	2,057
Romania	333	642	885	2,128	3,783	5,447	6,966	8,656	8,656	10,118
Serbia and Montenegro				653	753	859	914	1,100	1,602	2,711
Montenegro										
South Eastern Europe	868	1,388	2,219	5,200	8,083	12,062	15,427	20,378	22,904	29,464
Belarus	24	35	123	458	608	1,148	1,403	1,585	1,570	1,502
Moldova	23	72	93	177	221	322	493	681	693	625
Russia	1,317	3,214	5,206	9,509	11,933	15,038	27,175	41,843	49,317	50,000
Ukraine	436	640	1,050	1,599	2,257	2,723	4,164	5,448	5,329	6,000
European CIS	2,100	3,960	6,473	11,744	15,018	19,231	33,235	49,557	56,908	58,127
Asian CIS	1,949	3,057	5,274	8,798	10,895	15,105	17,327	23,665	23,972	30,000
CIS	4,049	7,018	11,747	20,542	25,913	34,335	50,563	73,222	80,880	88,127
Eastern Europe	20,268	32,802	46,050	70,622	92,371	125,115	166,653	220,905	245,338	265,920

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Czech Republic	71	192	111	112	322	577	526	616	884	224
Hungary	93	358	255	358	291	303	294	431	298	215
Poland	41	73	93	112	147	177	267	165	114	98
Slovakia	43	37	53	36	113	68	387	329	814	94
Slovenia	49	59	69	148	98	50	75	207	855	80
New EU members-5	54	133	117	145	192	245	315	290	341	135
Estonia	126	109	85	168	369	207	310	442	226	589
Latvia	71	56	124	190	132	136	187	77	174	137
Lithuania	7	15	34	88	232	130	118	143	222	46
Baltic countries	51	46	73	136	225	146	177	178	207	179
New EU members-8	54	124	112	144	195	236	302	279	328	139
Albania	14	16	21	13	12	11	51	74	48	50
Bosnia and Herzegovina					16	45	42	35	74	87
Bulgaria	10	8	10	54	58	94	135	114	125	160
Croatia	21	19	91	103	185	302	266	393	269	390
Macedonia	10	4	4	13	57	15	93	242	40	41
Romania	13	14	9	48	80	44	51	58	56	64
Serbia and Montenegro				62	10	13	7	22	60	134
Montenegro								17	141	63
South Eastern Europe					64	67	79	99	88	119
Russia	4	11	13	29	17	21	20	21	25	7
Ukraine	3	4	8	11	13	9	13	18	15	26

	1998	1999	2000	2001	2002	2003	2004 f
Czech Republic	5,271.0	5,383.0	5,878.0	6,644.0	7,683.0	7,852.0	8,350.0
Hungary	4,077.0	4,402.0	4,953.0	5,679.0	6,782.0	7,231.0	8,150.0
Poland	3,885.0	3,994.0	4,670.0	5,366.0	5,299.0	4,851.0	5,110.0
Slovakia	3,661.0	3,546.0	4,061.0	4,334.0	4,784.0	5,382.0	6,170.0
Slovenia	9,383.0	10,078.0	10,421.0	11,006.0	11,771.0	12,316.0	13,000.0
Estonia	3,581.0	3,793.0	4,327.0	4,888.0	5,498.0	5,940.0	6,570.0
Latvia	2,449.0	2,833.0	3,526.0	3,900.0	4,177.0	4,216.0	4,680.0
Lithuania	2,783.0	2,881.0	3,517.0	3,876.0	4,302.0	4,710.0	5,210.0
Albania	726.0	953.0	1,174.0	1,539.0	1,636.0	1,710.0	2,046.0
Bosnia and Herzegovina	1,049.0	1,234.0	1,359.0	1,475.0	1,556.0	1,635.0	1,730.0
Bulgaria	1,377.0	1,481.0	1,674.0	1,920.0	2,101.0	2,249.0	2,510.0
Croatia	4,284.0	4,102.0	4,502.0	4,998.0	5,451.0	5,747.0	6,225.0
Macedonia	1,590.0	1,709.0	1,921.0	1,887.0	1,981.0	2,041.0	2,095.0
Romania	1,651.0	1,491.0	1,795.0	2,002.0	2,221.0	2,316.0	2,630.0
Serbia (exc.Kosovo and Metohia)			872	1542	2,015.0	2,225.0	2,370.0
Montenegro			1,668.9	2,024.8	2,109.1	2,317.9	2,473.0
Belarus	1,428.0	1,022.0	1,235.0	1,354.0	1,545.0	1,578.0	1,874.0
Russia	1,618.0	1,256.0	1,928.0	2,365.0	2,536.0	2,634.0	3,258.0
Ukraine	737.0	595.0	683.0	872.0	931.0	917.0	1,030.0

<sup>11</sup> Source: The Vienna Institute for International Economic Studies: Foreign Direct Investment in South East Europe in 2003-04, Vienna, June 2004

Table 10.: GDP (EUR mn at exchange rate)

	1998	1999	2000	2001	2002	2003	2004 f
Czech Republic	54,132.6	55,352.3	60,381.8	67,929.6	78,372.7	80,103.7	85,228.5
Hungary	41,803.1	44,995.5	50,522.1	57,783.3	68,785.8	73,153.9	82,290.6
Poland	150,221.3	154,384.1	180,467.5	207,304.7	202,522.5	185,264.5	195,074.3
Slovakia	19,735.4	19,131.7	21,932.2	23,316.1	25,731.2	28,948.7	33,208.2
Slovenia	18,602.7	20,010.9	20,740.9	21,924.0	23,491.4	24,592.6	25,961.0
Estonia	4,964.0	5,218.0	5,925.8	6,667.7	7,469.6	8,041.6	8,864.9
Latvia	5,902.1	6,772.3	8,367.2	9,184.5	9,768.3	9,803.5	10,827.6
Lithuania	9,877.7	10,153.5	12,307.7	13,493.5	14,924.1	16,269.3	17,900.5
Albania	2,449.1	3,241.3	4,012.8	4,790.0	5,145.9	5,454.9	6,526.7
Bosnia and Herzegovina	3,833.0	4,596.7	5,138.4	5,602.1	5,956.4	6,265.3	6,629.4
Bulgaria	11,333.3	12,130.7	13,642.3	15,150.9	16,484.0	17,545.1	19,581.3
Croatia	19,282.3	18,680.5	19,975.4	22,176.1	24,218.8	25,528.2	27,651.5
Macedonia	3,191.9	3,448.2	3,892.7	3,839.9	4,002.0	4,137.1	4,246.6
Romania	37,152.1	33,484.9	40,271.2	44,861.6	48,406.3	50,335.0	57,071.0
Serbia (exc.Kosovo and Metohia)			6,755.4	11,915.0	15,120.6	16,687.5	17,775.0
Montenegro			1,022.2	1,244.8	1,301.5	1,432.9	1,535.0
Belarus	14,344.3	10,239.4	12,337.7	13,473.7	15,294.0	15,541.7	18,365.2
Moldova							
Russia	236,758.7	182,822.1	279,211.0	340,451.2	367,628.7	379,738.5	467,197.2
Ukraine	36,927.8	29,577.9	33,665.9	42,254.6	44,691.3	43,669.7	48,699.2

Table 11.: GDP (EUR mn at exchange rate)

	1998	1999	2000	2001	2002	2003	2004 f
Czech Republic	6.13%	10.72%	8.95%	9.27%	11.50%	2.86%	4.69%
Hungary	7.15%	6.90%	5.93%	7.60%	4.40%	2.98%	3.65%
Poland	3.78%	4.42%	5.73%	3.07%	2.16%	2.03%	2.56%
Slovakia	3.09%	1.91%	9.52%	7.58%	17.01%	1.75%	4.52%
Slovenia	1.04%	0.49%	0.72%	1.88%	7.27%	0.65%	1.16%
Estonia	10.29%	5.44%	7.17%	9.04%	4.11%	9.91%	6.77%
Latvia	5.37%	4.80%	5.32%	1.98%	4.17%	3.25%	3.69%
Lithuania	8.34%	4.50%	3.35%	3.70%	5.17%	0.98%	3.35%
Albania	1.63%	1.20%	3.86%	4.82%	2.93%	2.90%	4.60%
Bosnia and Herzegovina	1.57%	3.61%	3.09%	2.37%	4.73%	5.39%	3.02%
Bulgaria	4.22%	6.39%	8.09%	5.96%	5.95%	7.15%	7.66%
Croatia	4.31%	7.37%	5.91%	7.86%	4.93%	6.79%	5.42%
Macedonia	3.57%	0.90%	4.86%	12.84%	2.07%	2.03%	2.35%
Romania	4.86%	2.93%	2.85%	2.88%	2.50%	2.74%	3.50%
Serbia (exc.Kosovo and Metohia)			0.81%	1.56%	3.32%	6.65%	5.63%
Montenegro			0.00%	0.85%	6.68%	2.70%	3.26%
Belarus	1.26%	4.06%	1.05%	0.79%	1.71%	0.97%	0.54%
Moldova							
Russia	1.02%	1.70%	1.05%	0.90%	1.00%	0.27%	0.32%
Ukraine	1.78%	1.58%	1.91%	2.09%	1.64%	2.89%	2.67%

Table 12.: Human Development Index<sup>12</sup>

	1995	2000	2002
Czech Republic	0.843	0.856	0.868
Hungary	0.810	0.837	0.848
Poland	0.816	0.843	0.850
Slovakia			0.842
Slovenia	0.852	0.883	0.895
Estonia	0.796	0.839	0.853
Latvia	0.765	0.808	0.823
Lithuania	0.789	0.829	0.842
Albania	0.702	0.740	0.781
Bosnia and Herzegovina			0.781
Bulgaria	0.784	0.791	0.796
Croatia	0.798	0.823	0.830
Macedonia			0.793
Romania	0.769	0.773	0.778
Serbia and Montenegro			
Montenegro		0.759	0.771
Belarus	0.752	0.775	0.790
Moldova			
Russia	0.771		0.795
Ukraine	0.751	0.762	0.777

<sup>12</sup> Source: UNDP: Human Development Report 2004, Cultural Liberty in Today's Diverse World ([www.undp.org](http://www.undp.org))