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WP/96/138
Correction 1

January 27, 1997

Subject: **Disinflation in Transition Economies—The Role of Relative Price Adjustment**

CORRIGENDUM

Chart 1 (pages 32–34): Chart renumbered and the series for the unweighted variance has been substituted for the series for the weighted variance.

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads
Division Chiefs

Table 8. Country Performance in Key Areas

Annual Inflation Rates (December on December)						
	1990	1991	1992	1993	1994	1995
Czech Republic	19.7	52.0	12.6	18.8	9.7	8.1
Poland	249.3	60.3	44.4	37.7	29.4	22.6
Estonia	...	...	946.7	35.7	41.6	28.8
Moldova	...	136.3	2198.4	835.8	116.0	23.8
Russia	...	...	561.9	841.6	202.7	131.4

Fiscal Balance (in percent of GDP)						
	1990	1991	1992	1993	1994	1995
Czech Republic 1/	0.4	0.6	-1.3	-2.4
Poland 2/	3.4	-6.7	-6.6	-2.9	-2.0	-2.7
Estonia	...	5.2	-0.3	-0.7	1.3	-0.8
Moldova	-23.4	-8.9	-8.1	-4.6
Russia	-18.9	-7.6	-10.1	-4.9

Current Account Balance (in percent of GDP)						
	1990	1991	1992	1993	1994	1995
Czech Republic	...	4.7	0.2	2.2	0.0	-4.2
Poland	...	2.2	3.2	0.9	2.9	2.7
Estonia	3.4	1.4	-7.5	-5.3
Moldova	-4.5	-13.4	-6.9	-5.9
Russia	-4.8	0.2	1.2	1.3

Average Monthly Wage in U.S. Dollars						
	1990	1991	1992	1993	1994	1995
Czech Republic	204.7	240.7	288.6
Poland	...	172.5	218.2	225.9	248.9	297.2
Estonia	28.7 3/	82.5	131.5	205.7
Moldova	14.8	17.1	26.1	28.8
Russia	27.1	63.5	98.9	106.5

Liberalization Index 4/ (values ranging from 0 to 1)							
	Reform Grouping	Annual					Cumulative Index (1989-94)
		1990	1991	1992	1993	1994	
Czech Republic	Advanced	0.16	0.79	0.86	0.90	0.90	3.61
Poland	Advanced	0.68	0.72	0.82	0.82	0.86	4.14
Estonia	High intermediate	0.20	0.32	0.64	0.81	0.89	2.93
Moldova	Low intermediate	0.04	0.10	0.38	0.51	0.55	1.62
Russia	Low intermediate	0.04	0.10	0.49	0.59	0.66	1.92

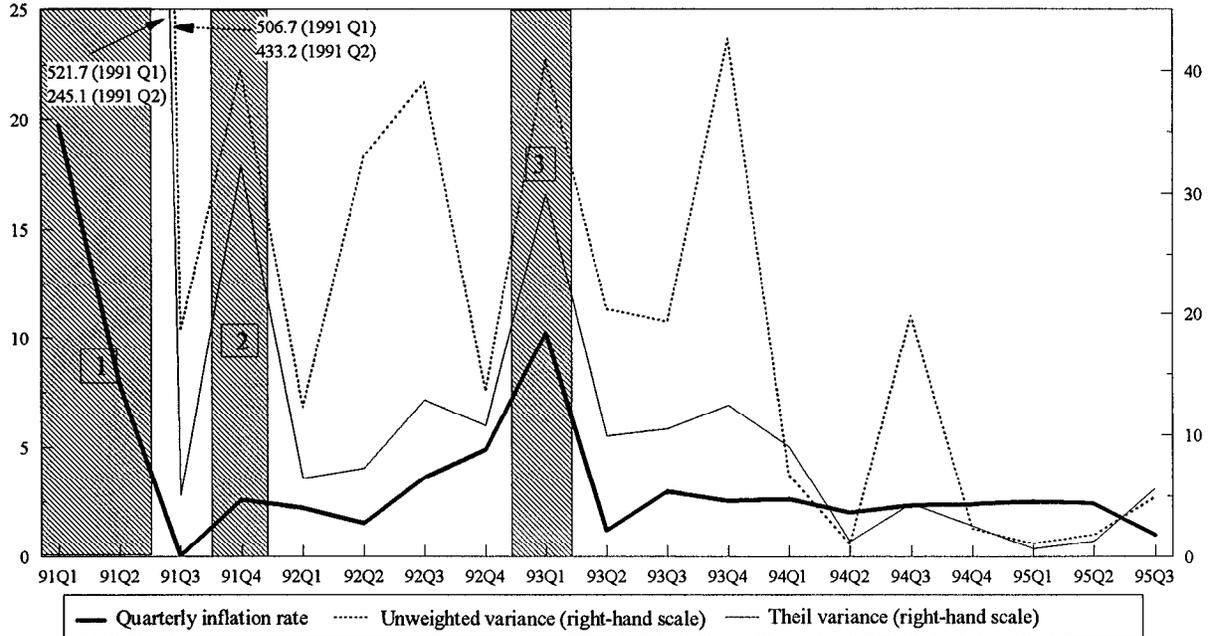
1/ Excludes proceeds from privatization as fiscal revenues.

2/ Includes proceeds from privatization as fiscal revenues.

3/ June-December 1992.

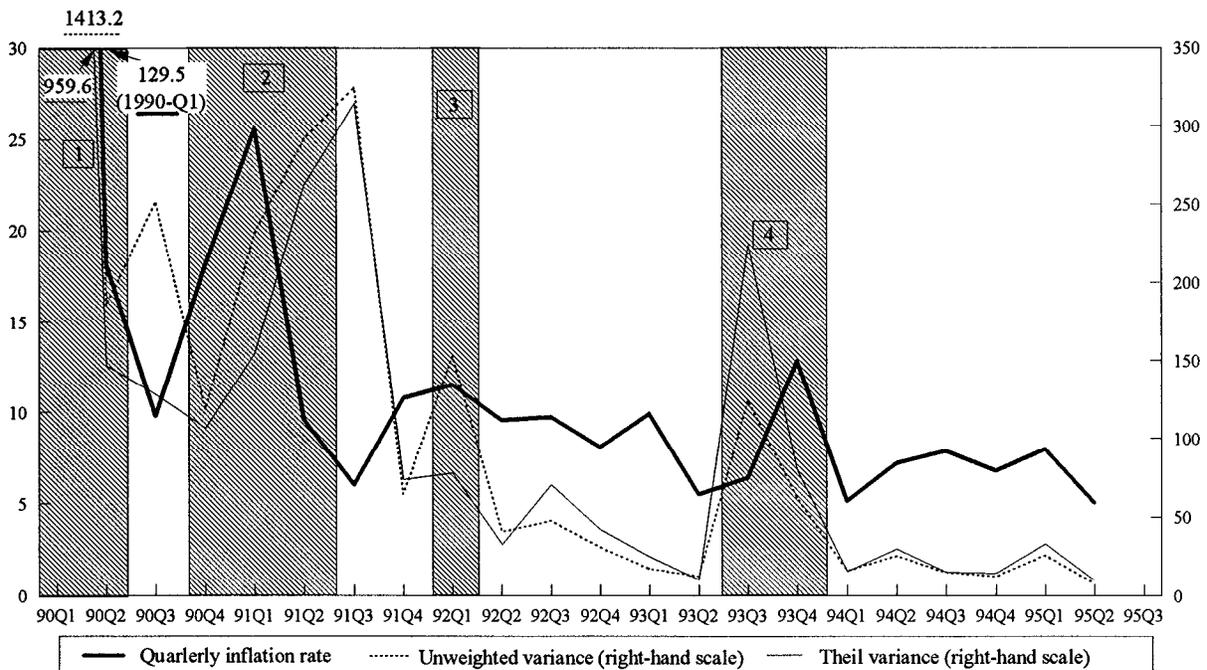
4/ Liberalization index and reform grouping from De Melo, Denizer, and Gelb (1995) based on rankings in three areas: internal markets, external markets, and private sector entry; reflects the judgment of the authors, World Bank staff, and work by the EBRD.

CHART 1
Inflation and Relative Price Variance
CZECH REPUBLIC



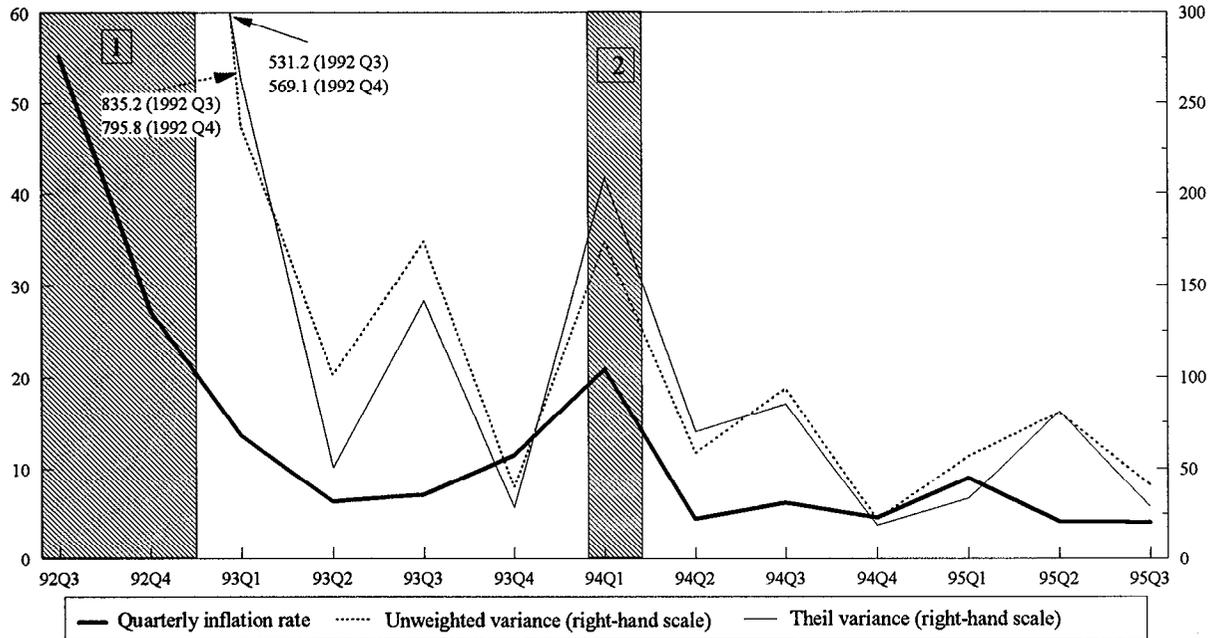
- 1 (1991-Q1/Q2): Price liberalization, collapse of CMEA, and pass-through to administered prices of devaluations in 1990.
- 2 (1991-Q4): Administered price adjustments and further price liberalization.
- 3 (1993-Q1): Mainly introduction of VAT, but also adjustments of administered prices and uncertainty related to break up of federation.

POLAND



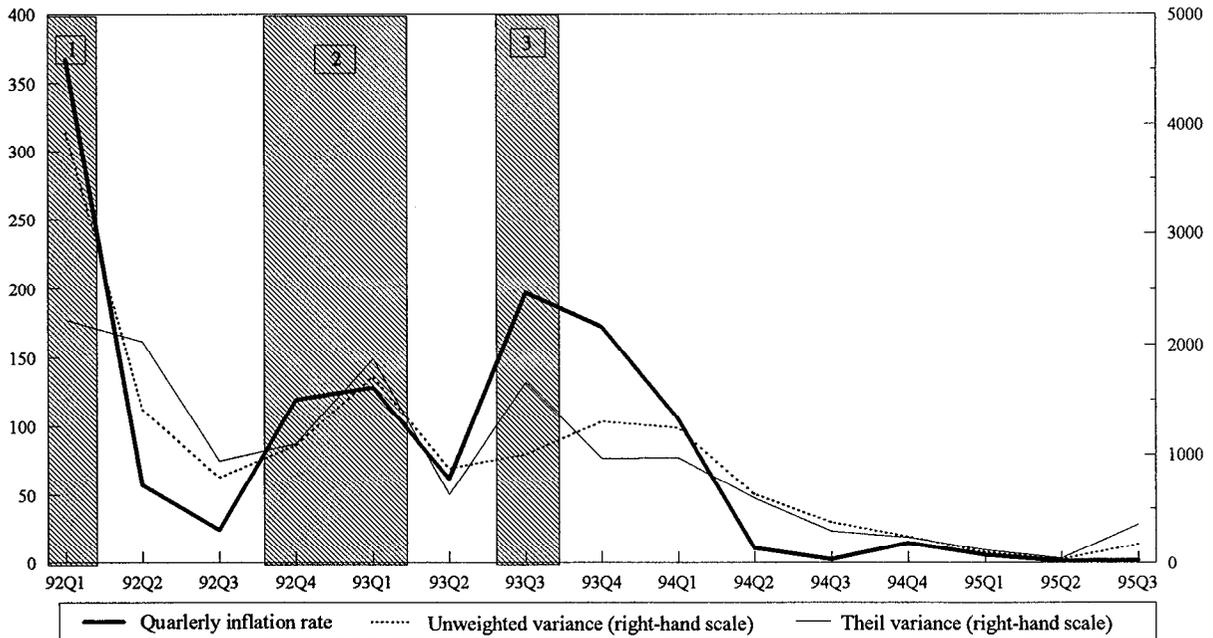
- 1 (1990-Q1/Q2): Devaluation of zloty and price liberalization.
- 2 (1990/Q4-1991/Q2): Relaxation of monetary policy, wage increases, and increase in domestic cost of imported oil, breakup of CMEA.
- 3 (1992-Q1): Increases in certain excises, import duties, and administered prices (energy, heating and hot water).
- 4 (1993-Q3/Q4): Devaluation in end-August, surge in wages at year-end (in part a result of change in government).

CHART 1 (continued)
Inflation and Relative Price Variance
ESTONIA



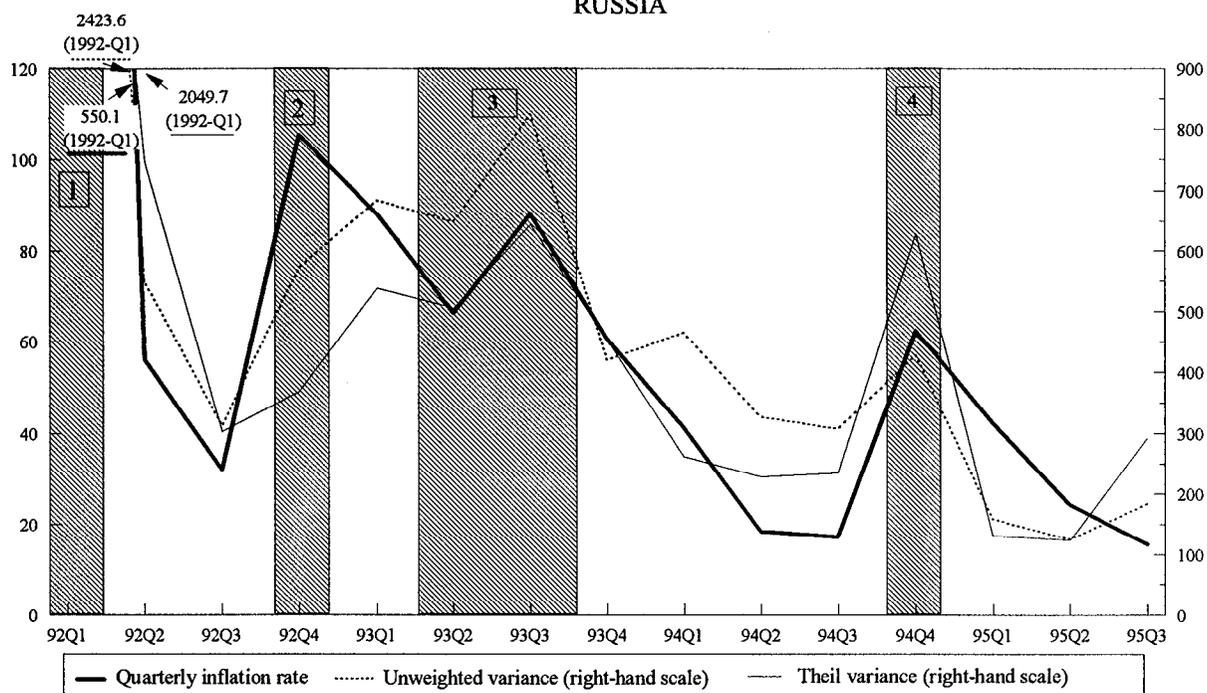
- 1 (1992-Q3/Q4): Price and trade liberalization; changes in VAT; introduction of currency board.
- 2 (1994-Q1): Real appreciation of Russian ruble vis-a-vis kroon in 1993 Q3 which amounted to a terms of trade shock (EBS/94/61).

MOLDOVA



- 1 (1992-Q1): Price liberalization and introduction of VAT and excises.
- 2 (1992-Q4/1993-Q2): Spill-over from lax financial policies in Russia, increased energy prices, and changes in VAT and excises.
- 3 (1993-Q3): Second round of price liberalization, large administered price increases, and sharp depreciation of (temporary) Moldovan ruble in anticipation of introduction of national currency.

CHART 1 (concluded)
Inflation and Relative Price Variance
RUSSIA



- 1 (1992-Q1): Price liberalization.
- 2 (1992-Q4): Carry-over of energy price increase in September and some effect of relaxation of financial policies in Q3 (domestic credit), in particular initiation of netting and clearing of enterprise arrears.
- 3 (1993-Q2/Q3): Relaxation of financial policies, further price liberalization, and adjustments in administered prices.
- 4 (1994-Q4): Substantial relaxation of financial policies (SM/95/105, SM/95/121, EBS/95/149).