
FOREWORD

The aim of this Report is to assess progress in the process of transformation and economic integration in the countries of Central and Eastern Europe in 2006 and the first half of 2007. The analysis covers 28 countries from the region of Central Europe, South-eastern Europe and the former Soviet Union. A common feature of these countries is that, before 1989, they formed a part of the eastern bloc of totalitarian communist states, and in 1989-1991 they started the process of fundamental transformation of their systems, with the purpose of building democratic states and competitive market economies in the conditions of integration with the world economy.

The report demonstrates that the process of political and economic transformation has proceeded at a different pace and achieved varying results in individual countries. The countries of Central Europe have succeeded most rapidly in building lasting parliamentary democracies based on the rule of law and effective market economies. Since their accession to the European Union and NATO, these countries have been integrated into Western Europe and the Euro-Atlantic area. The South-eastern European countries have opted to follow a similar path, although their level of progress in political and economic reforms is lower, and accession to the European Union remains only a distant possibility for the majority of them. The countries of the former Soviet Union have chosen a different path of change. Authoritarian presidential systems and greater centralization of power prevail in them, and state and political factors still play a significant role in the economy. These countries are also less open to international cooperation. In a few of the countries in this group, the transformation process has been slowed, in some cases while still at a very early stage. As a result, the divisions among the countries in transition have increased and been consolidated, separating them into two clearly defined groups – Central and South-eastern Europe and the area of the Commonwealth of Independent States – which have followed fundamentally different development paths.

The whole region demonstrated a very high rate of economic growth in 2006. In Central and South-eastern Europe it was stimulated by rapidly-increasing national and foreign demand and the inflow of structural and aid funds from the European Union. The good situation on the oil and raw materials markets was the main driving force behind growth in the countries of the former Soviet Union. In spite of the economic success, the region as a whole experienced political tensions that varied in degree between individual countries. The tensions and political conflicts in the first group of countries were solved

within the scope of democratic mechanisms, while in the countries of the second group they often led to solutions that restricted democracy and caused further centralization of state authority.

The Report is divided into six chapters. Chapter One contains a brief summary of the most important findings of the analysis. Chapter Two describes the political situation, the main directions in internal and foreign policy, and the institutional transformations in the functioning of state structures and a civil society. The third chapter contains an evaluation of economic developments, the course of action and the results of economic policy, as well as an analysis of the progress in market reform in the region. Chapter Four comprises a series of country overviews, presenting the most important economic and political events and the main statistical data for individual countries. Chapter Five illustrates the progress of the respective regions and their countries in their integration and cooperation with the European Union, and the main trends in regional cooperation. The report ends with a special study devoted to an analysis of the current political situation in the Russian Federation against the background of upcoming parliamentary and presidential elections.

As every year, the Report has been prepared by independent experts representing various research and development centres. The Report was initiated and is supported by the Foundation Institute for Eastern Studies, but it contains the personal views of the authors and does not represent the opinions of any institution, either public or private. The authors hope that the Report will contribute to a better understanding of the processes of systemic transformation in the region's countries, and that it will become, as previous Reports, a useful basis for discussion on the directions of further development of the countries in our region.

Prof. Dariusz K. Rosati, Ph.D.
Coordinator of the Report