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AGRICULTURAL SECTOR IN SOUTH EASTERN EUROPEAN COUNTRIES I. – ALBANIA, BULGARIA AND ROMANIA

ALBANIA

The rural population in Albania is 56% of the total population. 25% of total GDP comes from agriculture. Agricultural land reaches 40% of the total land area of the country. 20% of the total land is arable. 30% of agricultural land is irrigated. Agricultural exports made up of 7.7% of total exports in 2002. Major export goods are crude organic materials (42.2% of total agricultural exports), tobacco leaves (17.3%), and fruit juice (2.5%).

The Albanian Ministry of Agriculture and Food (MoAF) developed the European Partnership Action Plan. The main objectives of the action plan are the following:

- To improve the functioning of agri-food markets, and increase competitiveness (including agri-food commodity trade, fisheries, livestock breeding and animal feed, advisory services and marketing infrastructure, standards and practices)
- To improve food safety and consumer protection in line with EU standards
- To improve Veterinary and Phytosanitary regulatory framework and services in line with EU standards
- To improve rural living standards and rural infrastructure
- To develop a functioning land market
- To ensure the protection of natural resources (including land, water, biodiversity, forestry, pastures, fish)
- To develop MoAF institutional capacity and services to support the European integration process.

Some steps have already been taken to achieve these goals. For the regulation of agricultural quality and standards a National Food Authority will be established. There have been two projects, by FAO and SIDA to support the development of 10 and 3 rural markets respectively, in agricultural producer areas. The projects included investment in market infrastructure, market services, management systems and development of networks of rural producers in commodity groups.

BULGARIA

The rural population in Bulgaria is 30% of the total population. 13% of total GDP comes from agriculture. Agricultural land reaches 48% of the total land area of the country. 30% of the total land is arable. 11% of agricultural land is irrigated. Agricultural exports made up of 12% of total exports in 2002. Major export goods are wheat (18.6% of total agricultural exports), wine (12.6%), and tobacco leaves (11.1%).

Currently there is no land consolidation in force in Bulgaria, which makes the enlargement of farm holdings a matter of the willingness of the landowners. There have been a number of pilot projects for land consolidation in different regions of the country, in order to gather practical experience, and set up a proper framework for effective land use.

Before EU accession (probably in 2007) Bulgaria has numerous obligations to fulfill to comply with EU regulations. In 2005 the pre-accession funds of the SAPARD Program will be of crucial importance in order to achieve one of the main objectives of government policy: sustainable rural development – the improvement of living and labor conditions of people employed in agriculture and forestry. The SAPARD Program will also create the conditions necessary to increase investments in agriculture and establish

competitive production structures that will produce high quality foods and help withstand the competitive pressure of the EU markets.

ROMANIA

Agriculture plays a major role in the Romanian economy. Romania has a large rural (45% of total) population, thus the agricultural sector poses the major EU integration challenge. 12% of the country's GDP came from the agricultural sector in 2002. 62% of total land is agricultural land. 39% of the total area is arable land. 12.9% of agricultural land is irrigated. Despite the competitiveness of Romanian agricultural products, especially wheat, sunflower, corn and wine, exports remained low. This was the result of a number of factors, such as the lack of sufficient infrastructure (warehouses, roads, port facilities), and problems with the land ownership structure.

About 43% of the total area of Romania is used for agricultural activities (pasturage or cultivation). In the food industry large complexes have been broken up, especially in the meat processing industry. The industry faces several problems, such as increasing import competition, shortages of raw products, low productivity, and increasing energy costs.

The land reform process in Romania started in 1991, but it is still not completed. The two major difficulties in the way of completion of the land reform are the restitution of land to previous owners or their legal heirs, and the restitution of state-owned land to private owners and restructuring of the state farms sector. In 2005 the ratio of restituted land reached 95%, while in 1999 it was only slightly above 80%.

As for the farming structure, in 2002 54% of farms were individual holdings, 23% were public administration units, 14% belonged to commercial companies, 6% to farm associations, and 3% of the land belonged to other types of holdings. As for the farm size, 54% of individual farms have a size of 1 to 5 hectares. Thus miniaturization prevails among individual farms. At the same time 97% of corporate farms are larger than 100 hectares. Corporate farms account for approximately 0.02% of the number of farms, and 29% of agricultural land in Romania.

Land markets are a successful tool for farm restructuring and improving competitiveness. They operate through both lease and sale. In Romania 50% of landowners are more than 60 years old, and 40% of them are pensioners. Pensioners own 65% of land in rural areas, while about 500,000 landowners are urban residents. Farm consolidation should be facilitated in Romania in coordination with rural pension policies, and non-agricultural employment opportunities have to be provided in rural areas to ease unemployment and social tensions that could result from the farm restructuring process. Rural pensions are inadequate, therefore a high proportion of the elderly are still active in farming. This slows down the process of farm restructuring, because it impedes capacity to release land. Therefore pension reform can have a positive impact on agricultural competitiveness. In case of accession to the EU the CAP direct payments cannot substitute for adequate pensions, but the CAP Pillar 2 Early Retirement Scheme can complement pension schemes. Providing viable employment opportunities outside agriculture would help slow down migration to urban areas and abroad. The CAP Pillar 2 measures also have an important role in creating conditions for the development of the rural non-farm economy.

The strategic objectives of the Romanian Ministry of Agriculture, Forests and Rural Development are the following:

- Completion of the Land Property Reform
- Stimulating the family farms to convert in commercial farms – establishing the legal framework for granting the annuity allowance
- Supporting the marketing of the agricultural output through market mechanisms

- Supporting the processing units to improve the marketing of their products and to increase the added value
- National Plan for Rural Development 2007 – 2013
- Agriculture and rural area sustainable development
- Forests sustainable management and extending the Romanian forests area by minimum 1% within 4 years – “Green Offensive”
- Food safety and animal health
- Institutions reforming and establishing the specific framework for CAP
- Efficient allocation of the budgetary resources in order to support the farmers and European funds absorption.

BALANCE OF PAYMENTS IN BOSNIA AND HERZEGOVINA

Taking into account the main macroeconomic figures (consumer prices, budget balance, etc.) in Bosnia and Herzegovina, the macroeconomic environment is considered to be stable, but on the other hand, there are two topics that show elementary problems in the structure of the economy. The high unemployment and the significant current account deficit remain the two biggest problems in the country, and both can be solved only in the long run by structural reforms, development in all fields of the economy. In both cases positive tendencies can be expected. In this article we write down what are the main parameters of the balance of payments in Bosnia and Herzegovina.

CURRENT ACCOUNT

In the fourth quarter of 2004 the current account deficit was KM 857 million in Bosnia and Herzegovina. This shows a slight decrease (-0.3%) compared to the third quarter of 2004, but if we compare this number to the same quarter of the previous year, we can see that the current account deficit grew by KM 44.5 million. The reason of this deficit growth was the increasing deficit on goods and income, which could not be compensated by the small improvement of the balance of services and current transfers.

TABLE 1. CURRENT ACCOUNT (in millions of KM)

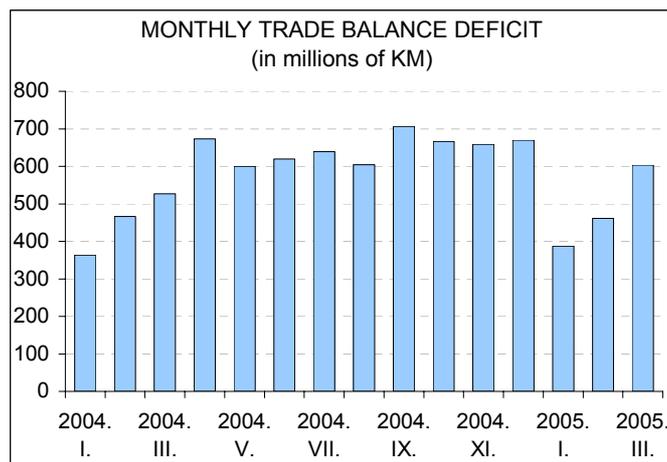
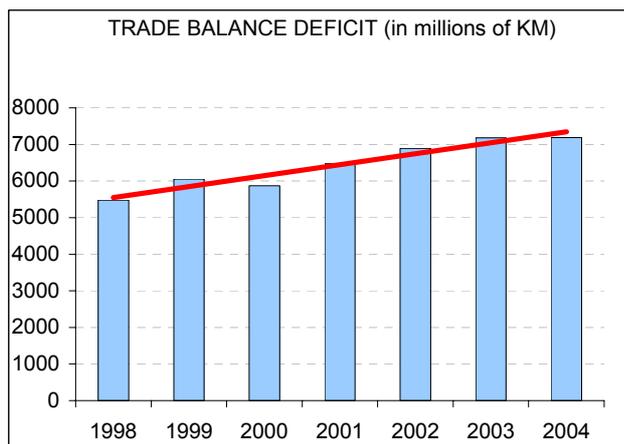
Year	Goods	Services	Income	Current transfers	Total
1998	-5.482	309	1.424	3.097	-653
1999	-6.052	298	1.309	3.441	-1.004
2000	-5.868	323	1.225	3.338	-983
2001	-6.470	432	1.177	3.095	-1.766
2002	-6.892	386	1.057	2.869	-2.579
2003	-7.180	460	921	2.788	-3.011
2004	-7.192	584	703	2.884	-3.021

Source: Central Bank of Bosnia and Herzegovina

The most important cause of the current account deficit is the large trade deficit, which cannot be financed by the current transfer either, which includes the significant amount of remittances from abroad. (According to certain estimations, repatriations from people working abroad are up to KM 2 billion a year.)

TRADE BALANCE

In the first quarter of 2005 the trade balance shows decreasing export (-8.0%) and import (-21.1%) since the fourth quarter of 2004. However if we compare the numbers with the first quarter of 2004 the tendency is different: the export grew by 23.5% while import increased by 12.6%. This means that the coverage of imports by exports (37.3% in the first quarter of 2005) and the trade balance is slightly improving.



Source: Central Bank of Bosnia and Herzegovina

Assuming the absence of seasonal factors, the value of import products was KM 949.2 million in March, while the export amounted to KM 332.7 million. In the first quarter of 2005 22.7% of goods was exported to Croatia, 15.9% to Italy, 12.5% to Serbia and Montenegro, while the main import partners were Croatia (15.3%), Germany (11.9%), Serbia and Montenegro (9.7%). Bosnia and Herzegovina exported more than it imported of wood and wood products; arms and ammunition, parts and accessories thereof; and various products. The base metals contributed the most to export growth by 6.9%.

CAPITAL AND FINANCIAL ACCOUNT

Current account deficit is financed by the capital account and other investments. Other investments decreased significantly due to the reduction of assets, particularly commercial banks and other sectors. As a result in the fourth quarter of 2004 other investments amounted to KM 155 million, which means 71% decrease compared to the fourth quarter of 2003 and 64% less than in the third quarter of 2004.

Until 1999 inflows of FDI have been modest due to the country's instability in the past and the lack of experience in promoting FDI. Foreign investments came mainly from Croatia and Slovenia. Owing to the privatization of some of the larger companies and the growing confidence of the foreign investors, nowadays, direct investments finance significant part of the current account deficit. In 2004 net FDI inflow increased by almost 20% and reached EUR 400 million.

International reserves showed a slight growth in the fourth quarter of 2004 compared with the previous quarter.

FOREIGN DEBT SERVICING

According to the plans for 2005, Bosnia and Herzegovina will repay KM 232.9 million. More than 56% of this amount will go to IMF (KM 70.2 million) and IBRD (KM 60.4 million), while the rest will be paid to government and governmental organizations (KM 26 million) and private creditors (KM 14.3 million). Overall foreign debt amounted to KM 4.1 billion at the end of the observed period. Contracted non-disbursed funds increased due to the new loan from EBRD (KM 70 million) for example.

CONCLUSIONS

External imbalances continue to be high in Bosnia and Herzegovina, which can mean danger to the country's long term self-sustainability, even to the currency board. In 2005 improvements are expected in the export sector as well, but there is no real probability of a radical decrease of the current account deficit. According to the plans, VAT with a rate of 17% will be introduced in the beginning of 2006, so as a result a one-off surge in imports is expected in the last quarter of 2005.

NEW LEU AND THE FUTURE IN ROMANIA

Romania arrived at the beginning of a new period on 1 March, when the initiative of the National Bank of Romania has become operative, and the hard currency has appeared. The Balkan country - where the average monthly salary is around LEU 7.5 million or USD 250 - decided to redenominate its currency. Four zeros were cut from the end of the old money.

The prices of the goods and services have to be represented by the old and by the new Leu from 1 March 2005 to 30 June 2006. The chamber of deputies has decided that the old and the new prices have to be appeared in the public services compacts and bills as well. The initiation of the new hard currency was due on 1 July 2005, and from this date 10 000 old Leu equals 1 new Leu. The old currency can be used to 31 December 2006, but it could be redeemed in the banks in additional 3 years.

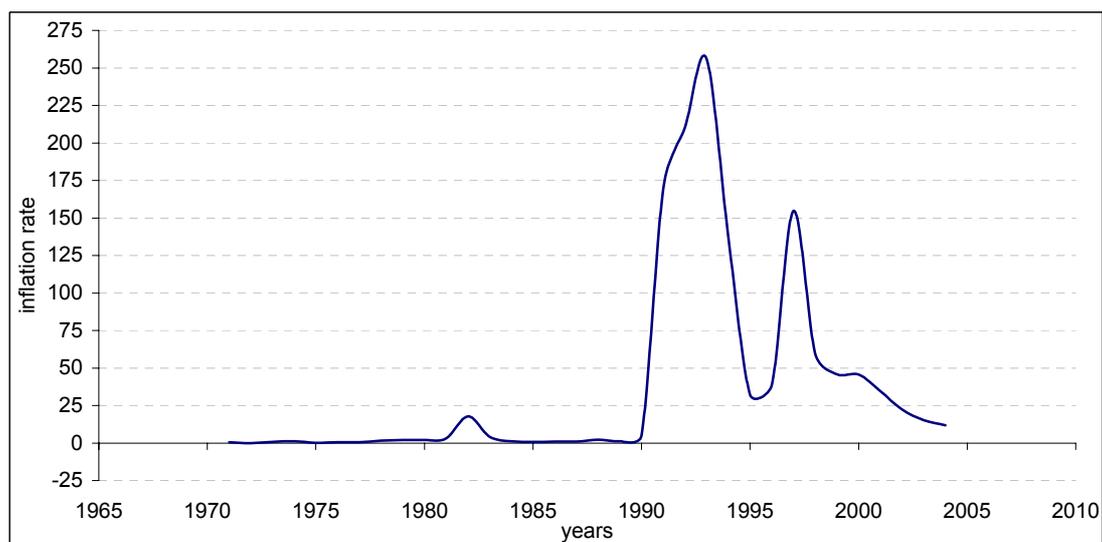
The aim of the arrangement about the indication of the new prices (besides to accustom the people to the new money) is to keep down the inflation resultant from the conversion.

The people of Romania addressed the new currency with gladness, because it has caused a lot of difficulties in the commerce and in the day to day life of the people. They think it will be easier to count in Leu without so many zeros.

According to a Romanian newspaper (Adevarul), the bigger companies are prepared for the change for months with the assistance of many consultants, but the smaller shops did a sum of the new prices only in head, and it could cause an important price-boosting impact on the economy. "The experience of other countries shows that the impact on inflation was less than 0.2-0.3% for the whole year when they redenominated their currency," said economist Liviu Voinea, from the Group of Applied Economics. He said costs for printing the currency would decrease and that accounting and statistics transactions would be much easier in the country which had a gross domestic product of 497.25 trillion Lei (\$16.71 billion) in the first quarter this year.

The most important economic achievement of Romania was the gradual disinflation process in the last few years. Romania has begun to burden its national currency with zeros at the beginning of the 90s.

CHART 2. INFLATION RATE BETWEEN 1971 AND 2004



Source: INSSE, own calculations

After 1997 the rate has started to decline constantly due to – among others - the restrictive wage control in the public sector.

	1997	1998	1999	2000	2001	2002	2003	2004
Yearly rate of the inflation (%) (Previous year=100%)	154.8	59.1	45.8	45.7	34.5	22.5	15.3	11.9

Source: INSSE, NBR

In November 2004 the 12-month inflation rate consisted of one digit (9.9%), for the first time since the collapse of the old regime. In February 2005 the Romanian government reported more inclement arrangements to decrease the inflation rate and the deficit of budget and of current account balance. It determined that the level of the state's expenses will decrease, and the energy prices will grow in the future. Furthermore, the interest- and capital gain-taxes were increased from 1% to 10%. As a result of these measures, in February the 12-month inflation decreased to 8.9% and in March 2005 it stood at 8.7%. Romania plans to cut inflation to 7.5 percent this year and to up to 6.5 percent in 2006.

The National Bank also aims to make the market of the deposits in Leu less attractive, and to take away the fancy of the investors to appreciate the exchange rate of the currency too much. Analysts and central bank officials said the fact that prices have been posted in both currencies starting with March meant the introduction of the new currency would not fuel inflation, which was 10 percent year-on-year last month. In medium term (for 2007-2008), the National Bank of Romania plans to achieve 2-3% yearly rate of the inflation.

According to the plans, the new currency will be in circulation for less than 10 years, because Romania desires to introduce the Euro around 2010-2012. However, now the major objective of Romania is to be an official EU-member in 2007.

CROATIA'S ACCESSION NEGOTIATION WITH EU – DEVELOPMENTS IN EUROPEAN INTEGRATION

The launch date of the accession negotiation can not be specified exactly, according to Jacques Wunenburger (outgoing head of the European Commission Delegation to Croatia). The talks of full membership can start very soon, within 2-3 months but probably the negotiation can start at the end of 2005. All depend on the fact when Croatia will fulfil its obligation to ICTY. So far the Action Plan to catch general Gotovina has no result, thus, negotiation is still postponed.

BACKGROUND

Uncertainty around the beginning of negotiations can result in two possible outcomes. According to the first scenario Croatia could join the EU in around 2009 -2010, while, the second estimation foresees that Croatia can join the EU after 2015 together with the other SEE countries, as it would be an enlargement with Western Balkan countries. The framework of accession negotiation is already fixed, only the launch date is delayed.

Croatia has become an official EU candidate in June 2004. The European Council in December 2004 has decided that accession talks can begin on 17 March in 2005. The negotiation had been postponed without date due to the fact that Croatia has not fulfilled its obligation to Haag tribunal.

Beginning of negotiation between EU and Croatia mostly depends on the country's cooperation with ICTY (International Criminal Tribunal For The Former Yugoslavia). The Croatian government has adopted an Action Plan to catch general Ante Gotovina who is accused of being responsible for killing many Serbs. One of the main problems is that there is no accordance in sources whether the general is still in the country or not.

For the EU, it is important that SEE countries fulfil their international obligation – such as co-operation with ICTY in case of Serbia and Montenegro and Croatia - the existence of legal ground (constitutional state) is essential. Thus, the postponement of negotiation with Croatia is a warning for Serbia and Montenegro that full cooperation is required with Haag to make progress with the EU.

Serbia and Montenegro is up to start SAA negotiation in October 2005. The Stabilization and Association Agreement determine the framework of pre-accession period. Main elements of it are the approximation of the countries legislation to EU acquis, the ensurance of political dialog and improvement and the support of gradual realisation of the four freedoms. In Serbia and Montenegro the condition for starting the negotiation has only been created recently.

Croatia had signed SAA in 29th October 2001, and it entered into force at the beginning of February 2005. Croatia is closer to EU membership than other Western Balkan countries, the political, economical terms are more favourable. With its progressed structural reform process Croatia is basically ahead of Serbia and Montenegro, but the cooperation with Haag can hold up Croatia from further steps.

There are two reasons which could strengthen the second scenario. Firstly, the EU needs to work out a strategy for enlargement and in the EU the important questions are going through a long discussion period which demands time. Secondly, on a Sofia summit in June 2005 the countries of the SEE region have committed themselves to simplify their current trade network by creating a Free Trade Area. The signing countries have declared that the negotiation on a Free Trade Area Agreement should be started in 2006 and their main goal is to provide a transparent and consistent framework for business and trade in the region. WTO membership of these countries is also an expressed term which could give the framework of the

relationship between the countries. The conclusion of the agreement is expected in next year. In fact, the former Yugoslav trade cooperation could be renewed by creating Free Trade Area in the region.

CONCLUSIONS

This agreement brings Croatia closer to the Balkan that can mean the country will join the EU with the other future candidates of the region. For Croatia the delay of accession negotiation is not favourable. Although the free trade area could bring benefits to Croatia. As one of the most developed state of the former Yugoslavia, Croatia can enhance to make stable trade cooperation and boost its investment in the region.

For Croatia the positive side of delay in EU membership is that the country can have trade benefits due to the asymmetric trade agreement with the EU and the country receives pre-accession technical and financial support. Croatia's economy is already integrated into the EU, and - except for beef, wine products and fish - all products are free of duty towards EU Member States. In this economic association Croatia could benefit from being one of the most developed countries in the region. Sectors characterised with low competitiveness could be in difficult situation in the short term but gradual liberalization could support these sectors to overcome problems.

After all, the main goal is to start negotiation on full membership as soon as possible. The best for Croatia in long term period is to be a full member of EU. Croatia has stable democratic institutions and well functioning market economy. Although both areas need some improvement, the implementation of EU standards and expectations has no major obstacle. It is also notable to mention that observing the main Maastricht criteria, Croatia is basically comply all indicators, even neglecting the methodology differences.