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BULGARIA AND ROMANIA EN ROUTE TO THE EUROPEAN UNION

Both Bucharest and Sofia have waited just 10 years for the moment, which came through on 25 April 2005: the two countries signed the accession contracts with the European Union in Luxembourg. According to these obligations, Bulgaria and Romania could be full members of the EU on 1 January 2007. Romania made a petition for the membership on 22 July, 1995, and Bulgaria on 14 December 1995.

Jean-Claude Juncker, the prime minister of Luxembourg has outlined that the accession of these two countries means for Europe more democracy and freedom. The subsequent enlargement gives the EU a fair show to broaden its set points, the protection of the human rights, the safety and the peace.

The Romanian prime minister, Traian Basescu called the day of the accession historical for Romania, and has laid down that the country will continue the preparation with resolve and strong energy, because they "do not want to lose the rendezvous in 2007".

Szimeon Szakszkoburggotszki, the Bulgarian chairman sounded that the signature of the contracts means a milestone in the history of the country, and he stated his confidence in the assistance of the EU and the other member states to ratify the accession engagements timely.

But what has happened since April 2005? What is the economical situation currently in the two countries, and where are they staying now in the way to the European Union? Is the date, 2007 realistic yet? The answer is vexed.

BULGARIA

RELATION WITH THE EU

Bulgaria established its diplomatic relations with the EU in 1988. In 1993, the European Agreement on association was signed before entering into force in 1995. In December 1995, Sofia submitted its application for EU membership, and two years later preliminary negotiations were launched.

Accession negotiations between Bulgaria and the EU started on 15 February 2000. The country aims to be a full member from 1 January 2007. The "final step" to this objective, on 25 April 2005, Sofia signed the country's EU Accession Treaty, which was ratified by Parliament on 11 May.

SOME WORDS ABOUT THE ECONOMY

Bulgaria is a middle income country with a gross national income per person of 3,101 USD in 2004. This is 92 per cent of the level in 1989 in real terms when the country began democratic reform. Agriculture, tourism, light industry, and metallurgy are the key sectors of the economy. Over the last several years Bulgaria has made impressive progress towards long-term stability and sustained growth. In spite of the transition to a 'new' government in July 2001, Bulgaria remained committed to the market reforms undertaken in 1997. Prime Minister's economic team continued to implement measures that helped sustain stable economic growth and control unemployment. As a result of their measures, in October 2002 the European Commission declared Bulgaria as a "Functioning Market Economy." Measures

introduced by the government were targeted at reducing corporate and individual taxes, curtailing corruption, and attracting foreign investment. The government also implemented a set of measures that helped restructure the country's foreign debt and revive the local stock market. It also moved ahead with long-delayed privatization of some of the major state monopolies. As a result of sound macroeconomic policies and deep structural reforms, average growth has reached the levels of the eight recent EU entrants (EU8) at close to 5 per cent per year in 2000-04. A structural reform program and the privatization contributed to solid recent economic performance. Growth is led by the private sector which now accounts for 75 per cent of the economy. Integration with external markets has expanded, FDI flows increased, and investor confidence has improved both domestically and externally. As a result, overall standards of living have improved.

THERE ARE AGENDAS TO BECOME ABLE TO JOIN IN 2007

But...! While macroeconomic data show growth in the private sector, double-digit increase in exports and imports and higher foreign investment, incomes remain low. So despite overall positive performance, Bulgaria continues to be one of the poorest countries in Central and Eastern Europe. The country's per capita income in 2003 (at purchasing power parity), was just 30 and 57 per cent of the average level of EU25 and EU8 countries respectively. The large income differences reflect significant gaps in investment and productivity, and quality of human and physical capital stock, in the functioning of products and factor markets, and, despite many recent measures in the whole quality of the Bulgarian policy and institutional frameworks. Improving efficiency of the economy, and closing these gaps, is the central challenge of convergence towards EU averages and sustained improvements in living standards.

Bulgaria's new prime minister vowed to catch up lost ground in preparing to join the European Union in January 2007, as the EU's executive arm warned the Balkan state's entry date could yet be delayed. "There is a sense of urgency," said Barroso. "It is important for the Bulgarian public to understand... time is running out. There is not so much time now to the earmarked, desired date of 1 January 2007."

It is doubtless that Bulgaria has achieved a lot but there is still a lot to do to complete the preparation. For example some progress has been achieved in curbing corruption yet but this should remain a priority as a key element of a modern state administration and of taxation and customs in particular. Furthermore the country's legal system has often been criticised as too slow, inefficient and incapable of holding notorious criminals who are left at liberty to settle scores with a scenic degree of violence.

According to the World Bank, Bulgaria has a lot of challenges ahead:

- **Tackling poverty.** Pockets of poverty persist among certain groups, particularly the unemployed, the ethnic minorities (mainly the Roma), and large households. Considerable scope exists to reduce poverty further through the development of targeted poverty interventions, such as for the Roma, and improvements in the targeting of social assistance, especially to mitigate the impact of reforms.
- **Increasing employment opportunities.** Reducing unemployment based on private sector-led growth will require a better business climate for the creation of jobs, improved skills among the population through education and training, increased labor-market flexibility, and the implementation of well- targeted employment services.

- **Improving governance.** Weak governance is limiting investment and constraining the business climate. Governance needs to be improved through aggressive implementation of anti-corruption measures, reform of public administration, reform of the judiciary and the strengthening of local government.
- **Meeting requirements for EU Accession.** Reforming the judicial system, developing institutional capacities and fighting against corruption are among the concerns expressed recently by the European Commission for moving Bulgaria towards full membership in 2007.
- **Modernizing education and health services.** Like many transition countries with aging populations, inadequate delivery systems, and excess infrastructure, the modernization of education and health services poses a major challenge. Substantial reforms and investment in the education and health sectors will be required to reverse the deterioration in social indicators and to improve Bulgaria's competitiveness.
- **Investing in physical infrastructure.** Strengthening transport infrastructure would enhance Bulgaria's competitiveness. Management and delivery of water, waste water and waste services should be improved at the municipal level.
- **Improving external balances.** Large current account deficits over the past four years are likely to continue. A continued inflow of foreign investment is needed to finance the current account deficit and sustain an adequate level of reserves.

Source: <http://www.worldbank.bg/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/BULGARIAEXTN>

So, Bulgaria has a lot to do to build up a strong economy, but to become able to join the European Union in 2007, the most important things, which are waiting for achievement are: reforming the judicial system, developing institutional capacities, reducing the income differences and fighting against corruption.

ROMANIA

RELATION WITH THE EU

Romania was the first of the Central and Eastern European countries, which have established official relations with the European Community. Romania established diplomatic ties with the European Union in 1990, and in 1991 the Trade and Cooperation Agreement was also signed. In 1995, the bilateral Europe Agreement entered into force. Romania submitted its formal application for membership of the EU on 22 June 1995. The decision on the application came only at the Luxembourg European Council in December 1997. 'Finally' on 25 April 2005, at the Neumunster Abbey in Luxembourg, the President of Romania, Traian Basescu, signed the Treaty of Accession to European Union.

SOME WORDS ABOUT THE ROMANIAN ECONOMY

Romania is a lower middle income country with a GNI per capita of 2,310 USD. With a population of some 21.7 million, it is the second largest country in Central and Eastern Europe.

Romania's transition, which starting in 1990, was more difficult than in the other countries of Central and Eastern Europe in many respects. This was partly because by the late 1980s, Romania's economy was on the verge of collapse after 40 years of rigid central planning that emphasized self reliance, an excessive focus on heavy industry, and large, uneconomic infrastructure projects. In the late 1990s, experiment to impose macroeconomic stability

without full structural support led to negative economic growth and a doubling of the poverty rate from 20 percent in 1996 to 41 percent in 1999.

Since 2000, the Government has implemented macroeconomic policies which are supportive of growth. A disciplined fiscal policy, which complemented a tight monetary policy led to improved financial discipline in the enterprise sector and has placed public finances and the financial system on much starker footing. This resulted in robust GDP growth for five consecutive years. In addition, inflation and interest rates declined steadily, the fiscal deficit was brought under control, foreign exchange reserves increased to historic highs, and external debt was held to comfortable levels. Export growth remained vigorous, fuelled by private investment and the initial competitive depreciation of the national currency.

In January 2005, Romania's new Tariceanu government imposed major fiscal reforms, replacing Romania's progressive tax system with a 16% flat tax on both personal income and company profit. Romania now has one of the most liberal taxation systems in Europe, and it is expected that this, along with increased FDI inflows, will boost economic growth in the coming years, causing a lower corruption and reducing the grey economy. The tax cuts have led a 12 per cent jump in household consumption, which was also boosted by a 13 per cent rise in wages.

Romania is now a visible and attractive destination for the international investors as a result of better sovereign ratings and improved access to international capital markets.

THERE ARE AGENDAS TO BECOME ABLE TO JOIN IN 2007

Despite robust economic growth over the past five years, important challenges remain. Further structural reforms are crucial to build a competitive market economy capable of opposing the pressures of EU integration. Moreover, poverty persists with 25.5 per cent of the population living below the poverty line. Two-thirds of Romania's poor live in rural areas despite the country's substantial potential in agriculture, forestry, and fisheries.

Romania faces a number of challenges as it strives alleviate poverty alleviation and meet its EU integration commitments. These challenges include the following - according to the World Bank:

- Accelerating structural reforms. Key challenges include completing the privatization agenda, improving the business climate by eliminating administrative barriers, and implementing a transparent, predictable and efficient tax system aimed at enhancing revenue collection in order to co-finance the absorption of the EU Structural and Cohesion Funds that Romania will receive after accession.
- Reforming public institutions and improving governance. Public services need to be delivered in a manner which benefits the population. This can be achieved through the development of a merit-based civil service that is adequately remunerated. A supportive legal and regulatory framework is also needed.
- Reforming the legislative process and the judiciary. In the past, reforms were impeded by frequent changes in legislation and the lack of capacity to implement new laws. It is therefore essential to streamline existing legislation and develop an effective system to pass new laws. In addition, the professionalism and integrity of judges needs to be enhanced and the independence of the judiciary strengthened. The judicial process also needs to be improved through greater speed and efficiency in courts.

- Reforming the pension system. The Romanian pension system faces a severe demographic challenge with 1.4 beneficiaries to every contributor. Reforming the system is therefore essential to ensure its sustainability.
- Developing rural areas and reducing poverty. With the majority of Romania's poor living in rural areas, agricultural-sector reforms are essential to reduce the country's high levels of poverty. Although Romania has fertile agricultural land, vast tracts of forest, and a rich network of rivers, its rural areas suffer from inadequate infrastructure and inefficient agricultural production. In addition, access to education and social services in these areas must be improved.
- Reforming the energy sector. Although energy sector reforms have been impressive, payment arrears still exist and power sector subsidies continue. These continuing subsidies have been one of the major factors contributing to the country's recent fiscal imbalances.

Source: <http://www.worldbank.org.ro/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/ROMANIAEXTN/>

Furthermore according to the '2004 Regular Report on Romania's progress towards accession', the country has a lot to do in the future. The set points are the followings:

- Efforts to improve the policy-making and legislative process should continue. Further efforts are also needed to strengthen local and regional governance with a view to ensuring proper implementation of the *acquis* at those levels.
- The management of court cases and the quality of judgments needs to improve.
- Corruption in Romania continues to be serious and widespread. Romania's anticorruption legislation is generally well developed, but its ability to curb corruption will depend on the effective implementation of the law. In particular, additional efforts are required to ensure the independence, effectiveness and accountability of the National Anti-Corruption Prosecution Office.
- Although the restitution of agricultural land is almost completed, a more speedy and transparent approach is needed to further the restitution of buildings and religious property.
- Fiscal sustainability needs to be strengthened by advancing expenditure reform and further improving tax compliance. The privatisation process should be accomplished, post-privatisation disputes be settled and non-viable enterprises more actively dismantled.

Source: http://europa.eu.int/comm/enlargement/report_2004/pdf/rr_ro_2004_en.pdf

SUMMATION

Two things are doubtless: both countries have achieved a lot in the past few years to get closer to the European Union, but both countries must still complete extensive economic and political reforms to meet EU standards by 2007. Currently there is a vexed question whether they are able to meet these requirements, and the date of 2007 is realistic yet or not. The two prime ministers are desperate and stand up for the achievement of the criteria. Is it enough? Really not. But it is the first step, and both countries has proved in the last few years, that they think it seriously, and could make big things to belong to the "European family" as soon as possible. They stand before a difficult period, but if they don't give up its aim, and they will get all assistances, they could be able to big things. And the EU accession in 2007 is a big thing!

AGRICULTURAL SECTOR IN SOUTH EASTERN EUROPEAN COUNTRIES II.

BOSNIA AND HERZEGOVINA

Agricultural GDP as a share of total GDP reached 17.9% in Bosnia and Herzegovina in 2002. The agricultural labour force in BiH was 4% of the total labour force in 2002, showing a slight decrease compared to previous years. The major items of agricultural production are maize, fresh cow milk, and pimento. The agricultural trade balance showed a 688.4 million US dollar deficit in 2002. The main agricultural import products are cigarettes, food preparations, and non-alcoholic beverages, while the major agricultural export products include wet-salted cattle hides, prepared fruits, and food preparations.

The 1992-95 war had a detrimental effect on the agricultural sector of BiH. At the same time weather and soil conditions in the country are favourable for various types of agricultural production. Livestock production makes up about 50 percent of overall agricultural production, which is significantly lower than before the war.

As the agricultural infrastructure of the country is yet to be re-developed, domestic production is very limited. The problems of the sector include stagnation, the unresolved legal status of farmers and their families, lack of structural harmonization between primary production and processing, lack of adequate protection of domestic primary agricultural production, and neglect of professional institutions. The transformation of the sector, and the establishment of market conditions are still to be carried out. At the same time the country is faced with the challenges of accession to European and world associations. The agriculture sector administration reform at the state level is taking place now, with the goal to create a more efficient structure to support the agriculture sector, and to meet the requirements for the future EU accession process. The revival of rural areas and the improvement of socio-economic conditions also depend on the success of the efforts to diversify agricultural production in BiH.

Currently the priorities for improving the agriculture of BiH include the support of existing producers, creating conditions to attract foreign capital to the sector, strengthening the necessary public professional institutions, stabilizing the BiH market, and developing a system of support for exports of agricultural and food products.

As for the institutional framework, there are two entity and seven cantonal ministries of agriculture that are responsible for the sector in BiH. Because of the high number of institutions, there is a high level of inefficiency and fragmentation in administrative and inspection services. The issue of quality control and certification of goods in production and sales is unresolved, and experts are lacking in key sectors. This state of affairs must be changed in order to improve the situation in the agriculture sector of BiH.

THE FYR MACEDONIA

Agricultural GDP as a share of total GDP reached 12.3% in the Former Yugoslav Republic of Macedonia in 2002. The agricultural labour force in the FYR Macedonia was 12% of the total labour force in 2002, showing a slight decrease compared to previous years. The major items of agricultural production are grapes, wheat, and fresh cow milk. The agricultural trade balance showed an 85.6 million US dollar deficit in 2002. The main agricultural import products are beef and veal, wheat, cattle, and chicken meat, while the major agricultural export products include tobacco leaves, wine, and non-alcoholic beverages.

In 2004 the structural and legal reform of the Ministry of Agriculture, Forestry and Water Economy began in the FYR Macedonia. Steps taken in the direction of trade liberalisation provided the background for the structural reform. The WTO accession of the country took place in 2002, which put obligations on the state to prepare legislative amendments and adjust the national legislation to WTO requirements and rules. At the same time the FYR Macedonia also has commitments and deadlines to implement the Acquis Communautaire.

The two departments that were most effected by the 2004 reform are the Veterinary Department and the Seed and Seedlings Department. Within the Veterinary Department, reforms started in the fields of animal disease reporting, EU compatible border import control system for live animals and products of animal origin, veterinary drugs licensing, and capacity building in continuous quality assurance in laboratories, among others.

In the Seed and Seedling Department instruction manuals were developed for crop inspectors, seed samplers and seed analysts. Seed certification procedures were laid down. At the same time the transposition of approximately 25 European Council and Commission directives (that are relevant in the broad sense to seeds marketing) began.

SERBIA AND MONTENEGRO

Agricultural GDP as a share of total GDP reached 15.6% in Serbia and Montenegro in 2002. The agricultural labour force in Serbia and Montenegro was 18% of the total labour force in 2002, showing a decrease compared to previous years. The major items of agricultural production are maize, indigenous pig meat, and fresh cow milk. The agricultural trade balance showed a 115 million US dollar deficit in 2002. The main agricultural imports are cigarettes, food preparations, cattle, and chocolate products, while the major agricultural export products include prepared fruits, refined sugar, and wheat.

Agricultural production in Serbia is a more important part of the economy than in Montenegro. In 2002 19.5% of Serbian GDP came from agricultural production. In 2004 agricultural output was strong in Serbia, with a growth rate above 10% compared to the previous year.

The major objectives of Serbian agricultural policy are to boost competitiveness and to introduce market mechanisms particularly in price setting. The authorities are also aiming to comply with WTO and EU standards. In the future agricultural subsidies provided by the state will be accompanied by credit financing, with the role of subsidies gradually decreasing.

CROATIA

Agricultural GDP as a share of total GDP reached 8.4% in Croatia in 2002, which is comparably lower than in the other former republics of Yugoslavia. The agricultural labour force in Croatia was 7% of the total labour force in 2002, showing a decrease compared to previous years. The major items of agricultural production are maize, fresh cow milk, and grapes. The agricultural trade balance showed a 442.4 million US dollar deficit in 2002. The main agricultural imports are food preparations, cattle, and crude organic materials, while the major agricultural export products are cigarettes, food preparations, and refined sugar.

ROMANIA: SLOWER ECONOMIC GROWTH IN THE FIRST HALF OF 2005

In the first semester of 2005, economic growth remained strong in Romania, however, the pace of growth decreased. During the first six months of the year gross domestic product (GDP) increased by 4.9% in real terms compared to the same period of 2004. In the first quarter, GDP growth was close to 6.0% (5.9%); after that economic growth slowed down somewhat. GDP was mainly driven by domestic demands which had a major role in achieving this good economic performance.

On the demand side, it is observable that consumption is still quite strong. In the first half of the year, final consumption increased by 11.2% which is stronger than the average of the last year (+10.3%). It means consumption – basically the consumption of households - accelerated mainly due to the introduction of the new tax system (flat tax), which resulted in higher real wages and disposable income.

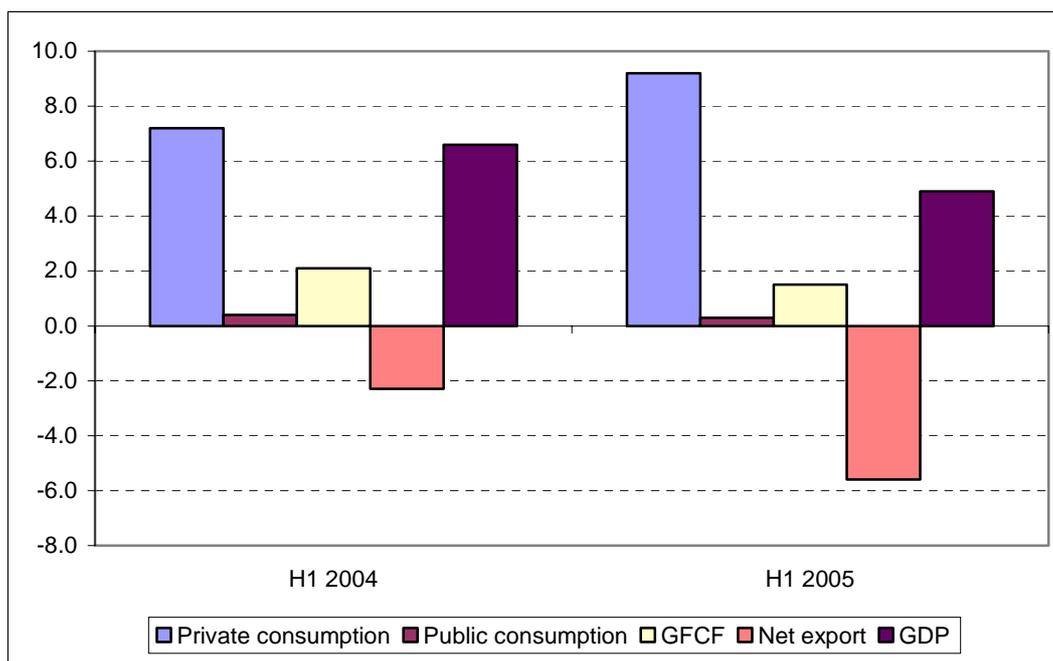
TABLE 1.: EVOLUTION OF GDP BY CATEGORIES (DEMAND AND SUPPLY SIDE, SAME PERIOD OF PREVIOUS YEAR= 100)

	H1 2004	H1 2005
GDP	106.6	104.9
Demand side		
Final Consumption	108.8	111.2
Private Consumption	109.0	111.7
Public Consumption	106.0	104.3
GFCF	110.4	107.6
Export	117.1	105.9
Import	119.1	117.1
Supply side		
Agriculture, sylviculture and pisciculture	105.3	92.9
Industry	105.9	103.6
Construction	108.6	103.9
Services	106.5	106.9

Source: INSSE

On the other hand, the other main engine of the economy, the gross fixed capital formation (GFCF) increased moderately in this period, by 7.6%. It means consumption became more determining factor in the Romanian economy, while the role of GFCF in economic growth decreased somewhat in the first part of the year.

Owing to the strong consumption and the appreciation of the Romanian currency (Leu), the growth rate of imports overpaced that of the exports. The growth rate of imports reached 17.1% while that of the exports was "only" 5.9%. The relatively bad performance of the export sector is mainly due to the appreciation of the Romanian currency, the Leu. From the beginning of the year, the Romanian currency appreciated by approximately 11.5% against the euro in nominal terms in the first eight months. It is obviously a disadvantage for the exporter companies, the appreciation had a negative impact on their competitiveness. Accordingly, net exports had a higher negative impact on the economic growth than in the first half of previous year. Furthermore, trade balance also worsened significantly.

CHART 1.: CONTRIBUTION OF THE COMPONENTS TO GDP GROWTH, H1 2004 & H1 2005 (%-POINT)

Source: INSSE, own calculations

Regarding the contribution of each demand factors to GDP, one can see that the role of private consumption increased (to 9.2%-point from 7.2%-point), while, that of the gross fixed capital formation declined (to 1.5%-point from 2.1%-point). On the other hand, the negative contribution of net export increased extensively from -2.3% to 5.6%.

On the supply side, the gross value added from services and industry were significant, growths of these sectors reached 6.9% and 3.6% respectively. Good performance of services sector is in connection with the strong consumption, explicitly the latter factor had a positive impact on retail sales. In case of industry, the modernisation of the sector lost of its some momentum because industrial production increased more than gross value added of the sector (4.0% against 3.6%). Construction increased below GDP (+3.9%) mainly due to seasonality.

Regarding agriculture, the gross value added of the sector decreased significantly (-7.1%). The bad performance of the sector was a result of the unfavourable weather conditions and natural disasters taking place in course of the spring. July flood had another negative impact on the sector which will be observable in the third quarter GDP.

Due to the decrease of the gross value added of the agriculture sector, its share in GDP shrunk further to 4.2%. Industry and construction has a 34.3% share, while, the rest of GDP is the production of services sector.

In course of the year, the mentioned processes are expected to continue, namely mainly consumption and partly GFCF will play major role in economic growth. The introduction of flat tax resulted in higher disposable income which boosts consumption. July flood may have a slight negative effect on this year GDP but this effect is expected to be limited. Considering these factors, we expect that GDP growth can reach 5.2% which is one of the highest in the region.