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## **BULLDOZER INITIATIVE – ‘50 ECONOMIC REFORMS IN 150 DAYS’**

The negative impact of the socialist regime and the follow-up by a devastating war can still be detected in Bosnia-Herzegovina. Although there is development and some major reforms already took place, the country has much to do concerning the transition process from socialism to a modern market economy. The Bulldozer Initiative was a significant initiative aiming to change the inherited socialist law and unfriendly entrepreneurship environment, thus helping to curtail the immense unemployment and grey economy. The name covers a process which targets to “bulldoze” away the roadblocks, obstacles that set back the businesses’ prosperity. Businessmen expect that reforms and privatization would bolster money and technology investment in order to turn the rusting, state-owned companies into modern, self-sustainable and profitable businesses. The Bulldozer Initiative was a unique bottom-up approach, which can be examined as an interesting case study as well.

### **“50 ECONOMIC REFORMS IN 150 DAYS”**

Initiated by the High Representative, the Bulldozer Committee was launched in November 2002 by a group of businesspeople from Bosnia-Herzegovina and representatives from international organizations. The IMF ensured that the proposals complied with the macroeconomic standards; the World Bank studied if the proposed changes corresponded to the poverty reduction strategies and they fitted in their so called Business Adjustment Credit; the European Commission guaranteed that the reforms are adequate for the EU’s standards; the USAID helped vetting the proposals against private sector development principles; the OHR (Office of the High Representative) checked if the proposals fitted in the context of the international and local environment. Under the motto of “50 economic reforms in 150 days”, the main goal was to build certain partnership between the politicians and businessmen, furthermore to identify clauses in legislation that mean obstacles for business expansion and job creation.

In the first step more than 500 firms were inquired about the main “roadblocks”. A whole range of proposals were received, concerning the enterprise law, banking and finance, double taxation, trade, fees, labour practices, cumbersome bureaucracy, etc. The proposals were examined by lawyers and economists, who offered legal solutions and studied the possible economic consequences. In order to evaluate the reform proposals, the Bulldozer Committee worked with more than 20 local associations (the Employers’ Confederation, regional business associations, the Micro-Credit Network, the Foreign Investment Promotion Agency, the Central Bank, etc.). By voting on the proposals, the 50 best were selected and handed in to the governing bodies. After this process intensive dialogue took place between the Bulldozer Committee and the country’s Council of Ministers, and the two entities’ (Republika Srpska and the Federation of Bosnia-Herzegovina) Governments. Only 30 days beyond the 150-day deadline, all 50 proposals were adopted - depending on the competence - by the governments or the parliaments.

The reforms from Phase I. are sorted in the following groups:

- Enterprise (e.g. harmonizing and lowering the LLC minimum capital requirement, eliminating double corporate profit taxation, removing counterproductive amendments in the RS law on privatization of state capital)

- Environment and forestry (e.g. removing double taxation of revenue for FBiH forest industry)
- Tourism (e.g. rationalization of tourism companies' contributions and accommodation tax in FBiH)
- Labour (e.g. harmonizing conditions for company activity registration)
- Trade (e.g. easing export of drugs and medicines from BiH, free trade zones operation under the BiH law on free trade zones)
- Registration (e.g. removing need for registration of foreign representative office, simplifying registration procedure of foreign direct investments)
- Chambers (e.g. transforming membership from compulsory to voluntary)
- Finance (e.g. defining the term "capital" in federation laws and practice, shortening procedures for increasing bank capital)
- Transport (e.g. removing the reciprocity rule in inter entity transport)

### **FURTHER PHASES**

Due to the Bulldozer Initiative's first success a second phase was launched in June 2003. Here the lead was given to the local level, so six Regional Committees were created, besides a specialized committee on agriculture, agribusiness and natural resources. All of them were established by organizations that represent the local businesses. These committees were in charge for identifying proposals at the municipal, cantonal or regional level and monitoring the implementation of the reforms from the first phase at the local level. Four inter-ministerial working groups were established as well – named "Emergency Reform Units" – for assessing the proposals and negotiating with the government departments. The dialogue was extended to all three partners; the private sector, the governing bodies and the unions as well. All leading politician signed the so called "The Protocol for Prosperity" agreement that commits them to go on with the Bulldozer reform process.

The proposals in phase II. had the same aim like in the first case; bulldozing away the obstacles, encouraging local and foreign investment, thus helping to create jobs and decreasing grey economy. The topics were similar: administrative requirements; enterprises; finance; forestry, environment and agriculture, investment; labour; trade; utilities and construction. The reforms made further step towards creating a single economic space in Bosnia-Herzegovina by harmonizing certain law, for example in the tax or trade system. Reducing monopoly in the communication and marketing sector, equalizing rights of local and foreign investors, clarifying incentives to foreign direct investment in the Federation Law on Corporate Income Tax, enabling employment of disabled persons by introducing tax relief, etc. – these were also among the 50 reforms.

The Bulldozer Committee continued its work and began a third phase in July 2004 with the same goals like in the first two cases, plus controlling the accomplishments of the previous phases. The Bulldozer Coordination Unit was disconnected from international agencies, while the regional and specialized committees were linked through a state-level NGO. The initiative continued its work with complete localization.

It is worth mentioning that even during the first phase, a broad media campaign was created to inform the society and the entrepreneurs about the reforms. The press helped to maintain a debate on the reforms and it informed the entrepreneurs about the changes and the better opportunities. The media also helped to shape public awareness more "entrepreneur-friendly".

Besides all, an important achievement was that politicians started to be more focused on economic issues, while entrepreneurs became perhaps more conscious.

From the beginning the Bulldozer Initiative has had all sorts of critics. The reason for this was natural scepticism, certain politicians felt threatened, and some thought the initiative would endanger the long term reform processes. The Chambers of Commerce felt directly threatened and from the start led an anti-Bulldozer campaign.

## CONCLUSIONS

One of the most important achievements of Bulldozer Initiative was that the business sector was activated and the government's responsiveness increased. In the fractured and cumbersome state structure of Bosnia-Herzegovina, accomplishing reforms within a few months is a great achievement. It is hard to measure the real impact of the reforms, and unfortunately there was no systematic data collection campaign, but no doubt that the initiative had a positive impact on the economy and in the respective sectors business conditions improved. Administrative and bureaucratic obstacles at business and investment were significantly decreased. The harmonization in the fractured economic space is also inevitable for Bosnia-Herzegovina's economic recovery.

Certain progress has been made by the Bulldozer Initiative, but further improvements are required. The lack of political will, the question of corporate governance and the corruption discourages investment. According to the data from the UNCTAD, FDI inflow was 119 millions of USD in 2001, 265 in 2002, 381 in 2003 and 497 in 2004 – so the number is improving but is still considered very low. It is worth mentioning that the introduction of the VAT from 2006 is a milestone in the process of turning Bosnia-Herzegovina into a modern market economy. To sum up, as we can see certain steps can always be detected that help improving the country's economy, but major problems still remain.

## THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA AND THE EUROPEAN INTEGRATION

The enlargement is one of the most efficient policy instruments in the hand of the European Union. The attractive perspective of the Integration has made the Central and East European countries to change their communist political system into modern democracy. In the recent years many successful reforms started in Croatia, Turkey and in other Western Balkan countries as well. After the decades of the diversification and conflicts the EU wants to create a peaceful United Europe. Macedonia is a significant part of this process as well.

The Former Yugoslav Republic of Macedonia got closer to the European membership in November 2005, when the leaders of the Union said yes for the beginning of the membership negotiations with the country. From that time, the European Community considers Macedonia as a candidate country. Although the exact date of the beginning of the talks is not set yet, with this event Macedonia is another country from the Former Yugoslav Republics, which won green way for the negotiations from Brussels in the last year.

Tony Blair said that he hoped the EU's blessing "emphasises that again, in the future, we hope to see a Europe reunited in all its aspects. Obviously, Macedonia is an important part of that vision".

The Macedonian Prime Minister, Vlado Buckovski also welcomed the decision and explained that it was a very important step for the country in the recognition of the reforms of the past years.

Olli Rehn, the high commissioner of the European enlargement policy said that the decision was important not only for Macedonia but also for the whole Balkan as well. "This decision is also the right political signal to send to the region of the western Balkans as a whole: the EU has given a clear European perspective to these countries, provided they fulfil the conditions," Rehn said.

In the face of the decision and of the positive opinions about the candidate status of Macedonia, there was a country, which was absolutely on the other side. France was worried about the EU budget, which is (according to the French opinion) very hard to keep with the 10 new members as well, so it will not sustain the additional enlargement of the European Union. So with 5 days before the final decision, the French veto exposed to danger the Macedonian step.

Although Rehn said that "the country is a European and more general success story in terms of political stability and democratic development", there are problems yet in the economy as well. It is doubtless that the country had a lot to do to achieve the candidate status and the decision of the European Commission was the admission of the significant "approach" process to the pre-requirements of the membership negotiations of the country. After the survival of the civil war in 2001, the country focused all of its energy for the preparation to be the member of the European club in the future. The main successful points of the outcomes of this process are the democratic policy and the free-market economy.

It is nowadays a question when the country will become an official EU Member State, and the answer is up to themselves and to the speed of the execution of the reforms.

Macedonia is a country suffered hardly with the disintegration of the Yugoslav Republic and with the crisis in 2001.

But the country has achieved a lot of outcomes towards the catching up, and perhaps the most important one is the democratic policy. Mr Buckovski is the leader of the SDSM and the main issues of the present government are to focus all of its energy for the attainment of the EU accession in the future. This will require sustained support to the full implementation of the Ohrid Framework Agreement and implementing the necessary political, institutional and economic reforms.

#### **The Ohrid Framework Agreement**

It is an agreed framework for securing the future of Macedonia's democracy and permitting the development of closer and more integrated relations between the Republic of Macedonia and the Euro-Atlantic community. This Framework promotes the peaceful and harmonious development of civil society while respecting the ethnic identity and the interests of all Macedonian citizens. It contains 10 points, they are:

##### 1. Basic Principles

1.1. The use of violence in pursuit of political aims is rejected completely and unconditionally.

Only peaceful political solutions can assure a stable and democratic future for Macedonia.

1.2. Macedonia's sovereignty and territorial integrity, and the unitary character of the State are inviolable and must be preserved. There are no territorial solutions to ethnic issues.

1.3. The multi-ethnic character of Macedonia's society must be preserved and reflected in public life.

1.4. A modern democratic state in its natural course of development and maturation must continually ensure that its Constitution fully meets the needs of all its citizens and comports with the highest international standards, which themselves continue to evolve.

1.5. The development of local self-government is essential for encouraging the participation of citizens in democratic life, and for promoting respect for the identity of communities.

##### 2. Cessation of Hostilities

##### 3. Development of Decentralized Government

##### 4. Non-Discrimination and Equitable Representation

##### 5. Special Parliamentary Procedures

##### 6. Education and Use of Languages

##### 7. Expression of Identity

##### 8. Implementation

##### 9. Annexes

##### 10. Final Provisions

Done at Skopje, Macedonia on 13 August 2001

*Source: <http://www.european-defence.co.uk/keydocuments/ohrid.pdf>*

The main points of the problems and assignments that have to be solved by the country and that Macedonia adopted by the Council on 14 June 2004 on the basis of a proposal by the Commission are:

- The full implementation of the Ohrid Framework Agreement;
- Improving the functioning of the public administration;
- Strengthening the rule of law and reforming the judicial system in order to guarantee its independence, competence and efficiency;
- Upgrading the fight against corruption and organised crime;
- Introducing economic reforms with the aim to attract investment by curbing administrative red tape and creating a level-playing field for businesses.

The country's biggest dream is to be an official member of the European Integration, so it submitted an application for the membership on 22 March 2004. The Commission has been tasked by the European Council in May 2004 to prepare an Opinion on this application and make a recommendation whether or not to open accession negotiations with the country.

In September 2004, the first Stabilisation and Association Council between the EU and the former Yugoslav Republic of Macedonia took place. It contained the officials hope that this step will help avert more violence in the country.

The latest big step into the EU happened in the country's life in the end of the last year. The EU has recognized all the efforts Macedonia did for the candidate status but it emphasised that there are yet problems that are waiting for solution. To this day, the biggest problems in the economy are:

- The low level of the transparency in the economic decision-making process,
- The inefficient regulation,
- The corruption,
- The lack of the efficiency in the courts.

So although we can see a success story in the case of Macedonia, they have to note that this decision was "only" the first step to achieve their main objective. And the further steps depend on their future economic performance and the efficiency of the reforms on the problem fields mentioned above.

## BULGARIA AND ROMANIA: ONE YEAR TO ACCESSION

### BULGARIA

#### INTRODUCTION

Bulgaria was one of the first SEE countries to establish diplomatic relations with the EU in 1989. In 1993, the Europe Agreement with Bulgaria was signed, and in 1995, Bulgaria submitted its formal application for membership. Accession talks started in February 2000. The treaty of accession was signed in April 2005. The treaty envisages that Bulgaria will join the EU on January 1<sup>st</sup>, 2007.

#### POLITICAL CRITERIA

By and large, Bulgaria is widely regarded as having met the political requirements of EU membership. That said, there are areas where some progress is still to be made. Bulgaria needs to work hard to create an efficient, decentralized and democratically accountable public administration system. The judiciary continues to remain very slow and lacks transparency. High-level corruption, though some progress has been made, is still a serious concern. In terms of human rights; trafficking in human beings and the integration of the Roma minority are issues that need to be addressed much more seriously.

#### ECONOMIC CRITERIA

Bulgaria continues to be regarded as a functioning market economy by the European Commission and has displayed an impressive macroeconomic stability in recent years. Average GDP growth has reached the levels of the new member states in the period between 2000 and 2006. This has been accompanied by a relatively low level of inflation and falling unemployment. Current account deficit has decreased. Bulgarian authorities have in recent years adopted a strict fiscal policy with the effect that the country produced a fiscal surplus in 2004. Despite the overall positive performance, there remain causes for concern though, mainly in terms of external vulnerability and a worryingly high rate of private sector credit expansion.

Despite all this, Bulgaria remains one of the poorest countries of Europe, with its per capita income (2003, PPP) being a meagre 30 and 57 percent of EU-25 countries and the new member states, respectively (source: World Bank). This coupled with the fact that Bulgaria has a rapidly ageing population, means that a lot of economic development is needed if Bulgaria is to catch up with other European states in terms of incomes and standard of living.

**TABLE 1.: BULGARIA KEY MACROECONOMIC DATA**

	2001	2002	2003	2004	2005
Real GDP growth	4.1	4.9	4.5	5.6	5.3(3Q)
CPI	7.5	5.8	2.3	6.1	6.4
Unemployment	6.7	n.a.	7.1	8.1	8.5
CA/GDP	-7.3	-5.6	-9.2	-7.5	n.a.
overall balance of public sector/GDP	-0.9	-0.6	-0.4	1.8	n.a.

*Source: IMF, National Statistical Institute of Bulgaria, Eurostat*

## STRUCTURAL REFORMS

As far as structural reforms are concerned, the picture is varied. The business climate has long been a concern of foreign investors and international organizations. Bulgaria is seriously engaged in streamlining business registration, cutting red tape and making market entry and exit easier, yet a lot remains to be done. Taxation, the land registration system and bankruptcy legislation are areas that need urgent attention. Also, administrative processes in general need to be simplified and authorities still have to embrace a more client-oriented attitude. Good progress has been made, however, in privatisation: the privatisation of the former telecom monopoly has been completed and the privatisation of the energy sector is going ahead, although with some minor setbacks. Impressive steps have been taken in terms of the liberalization of the energy sector, transportation and telecommunications: although in the latter case, the quasi-monopoly of the former state telecom company persists in fix-lined telephony. Labour legislation, however, remains quite rigid, which in turn makes the task of reducing unemployment quite difficult. Likewise, the long-awaited reform of the education system has so far failed to gain momentum.

## ROMANIA

### INTRODUCTION

Romania established diplomatic relations with the EU in 1990. In 1993, the Europe Agreement with Romania was signed, and in 1995, Romania submitted its formal application for membership. Accession talks started in February 2000. The treaty of accession was signed in April 2005. The treaty envisages that Romania will join the EU on January 1<sup>st</sup>, 2007.

### POLITICAL CRITERIA

The latest report of the European Commission confirms that Romania has, by and large, met the political requirements of EU membership. Nevertheless, there are areas where some progress is still to be made. Romania needs to work hard to create an efficient, professional and independent public administration system. The independence and efficiency of the judicial system has also been a serious concern for years: the recently formed new government has initiated ambitious and wide-ranging reforms yet it remains to be seen just how much of this will be actually implemented on time. There is still a very long way to go in terms of fighting corruption: both legislation and law enforcement needs to be upgraded in this respect. In terms of human rights; trafficking in human beings, the integration of the Roma minority and the rights of children and disabled or mentally ill people are issues that need to be addressed much more seriously.

### ECONOMIC CRITERIA

Romania continues to be regarded as a functioning market economy by the European Commission. As far as macroeconomic trends are concerned, however, the picture is at best varied. GDP growth has decreased significantly due to the effects of a massive flooding and slowing export growth, yet it is still quite strong at about 4 percent taking into account the circumstances. The rate of disinflation has slowed down. High domestic demand and the appreciation of the lei has had a negative effect on trade balance, and the current account deficit has widened further. These structurally-rooted imbalances were exacerbated by an

imprudent fiscal policy, one example of which was an economically unwholesome rise in public sector wages. There are some positive developments though: unemployment is decreasing and budget deficit has remained largely stable. Thus, besides steadfastly continuing reforms, Romania needs to adopt a more strict fiscal policy in the future.

**TABLE 2.: ROMANIA KEY MACROECONOMIC DATA**

	2001	2002	2003	2004	2005(est.)
Real GDP growth	5.7	5.1	5.2	8.3	4
CPI	30.3	17.8	14.1	9.3	8.6
Unemployment	8.6	8.4	7.2	6.2	6.1
CA/GDP	-6.5	-3.3	-6	-8.7	-9.4
overall balance of public sector/GDP	-3.2	-2.6	-2.3	-1.1	-0.8

*Source: IMF*

### STRUCTURAL REFORMS

As far as structural reforms are concerned, the picture is varied. The business climate has long been a concern of foreign investors and international organizations. Romania has engaged in some reforms in streamlining business registration, cutting red tape and making market entry and exit easier, yet a lot remains to be done. The legal system, especially bankruptcy legislation needs urgent attention. Also, administrative processes in general need to be simplified and authorities still have to embrace a more client-oriented attitude. The pace of privatisation remains slow: the high number of post-privatisation legal disputes is also worrying. Decisive steps remain to be taken in terms of the liberalization and privatisation of the energy sector and the mining industry. State-owned railway companies have so far largely resisted reforms and continue to make tremendous losses: the dismantling of non-viable enterprises should be one of the most urgent items on the reform agenda. Labour legislation remains quite rigid, which in turn makes the task of reducing unemployment difficult.

### CONCLUSION

As far as the political criteria are concerned, both countries, by and large, meet the requirements of the EU. In terms of macroeconomic stability, the achievements of Bulgaria are quite impressive. The situation of Romania is much more precarious and much depends on the fiscal stance the government is going to take. As far as structural reforms are concerned, however, both countries have a long way to go: they must make a number of wide-ranging reforms if they are indeed to join the EU by the coveted date, January 2007.

## BULGARIA FACES A LASTING DEMOGRAPHIC CRISIS

In Bulgaria, the birth rate has been dropping rapidly for the last more than 15 years. Compared to 1989, when 112 289 babies were born, in 2005 their number was 72 751 only. The mortality rate is relatively high and it is constantly about 13 to 14 in 1000. In an international comparison, Bulgaria's birth rate is among the lowest in Europe, while its mortality rate is among the highest.

These facts of birth rate and mortality rate have resulted in that the number of the population has decreased. The rate of population shrinkage - the deficit between the rate of births and rate of deaths - is about 40 to 50 thousand people a year. Some demographic estimates include an even higher figure, of about 90 000 a year. Bulgarians live on the average 7 to 9 years less than people in Western Europe. The life expectancy for women is slightly below 76 years and for men 69 years.

If the natural shrinkage of the population is combined with the factor that an estimated 700000 people have left the country since 1989, the population projections foresee that the actual population will drop by a million by 2020, and if the trends continue the population will be between 4.5 million and 5.5 million only by 2050. The falling number of Bulgaria's population became a "national security issue". Such description cannot be considered as an exaggeration because of the rapidity of the decline in the number of the population and its serious economic and social consequences.

It is no wonder that the issue of population decrease was discussed even by the National Security Council of Bulgaria in January, 2006 and a number of steps to counteract this problem were proposed. These proposals included:

- short-term measure: giving Bulgarian emigrants and expatriates financial incentives to return to Bulgaria;
- long term measure: improving the financial incentives for people to have children.

Social and political forces of the country are urging the government to elaborate strategies against the ingravescient demographic crisis and to introduce effective policy measures. The rapidly declining number of the Bulgarian population and its following demographic crisis will have profound various socio-economic aspects. One of these aspects is that some areas of the country will be depopulated or the number of inhabitants will decrease significantly. It will have serious regional development consequences. The country's population density will decrease from the highest figure 85 people/sq km in 1985 to 65 people/sq km in 2020.

Some analysis forecast a scene for a serious labour market crisis in decades to come. Thus, already in a short term, an effective action plan against potential labour market crisis will be necessary. The trend of educated people leaving the country, and of a higher proportion of the population being poorly educated, could lead to a labour market crisis and other serious economic problems.

It is important that this demographic problem should not to be politicised, and people should regard all children born in Bulgaria as Bulgarians who are not discriminated on the basis of their ethnic origin. Demographic projections claim that about 40 % of the country's population

will be people from ethnic minorities by 2050. This statement raised concern and criticism from nationalist circles.

The minority issue is particularly relevant in the case of the Roma population of Bulgaria. The Roma minority is more fertile than the Bulgarians and produce 13 % of the births in each year. The key issue is that a half of the Roma minority is illiterate or had a low level of education. These facts result in an unfavourable trend, namely that the share of an undereducated stratum of the society is to increase because of relatively higher birth rate in a shrinking population. This situation demonstrates the complexity of the demographic problems.

Bulgaria needs not only to produce children, but to ensure that they had quality upbringing. Increasing income, standards of living, education and health are key elements to encourage demographic development. Bulgaria is among the European countries having the highest child mortality rates. Only Albania, Bosnia, Serbia, Romania and Moldova have worse indicators. Thus, addressing the demographic problem, the emphasis should be on investments in education and health, rather than on direct funding for children.

To find a solution to Bulgaria's demographic problems is a matter of urgency. The state must acknowledge that there is a problem, and to make the issue a national priority. It is, however, not enough. A wide-ranging public debate on the issue was called for, and urged the media and NGOs to participate in this debate. Special strategies and a dedicated group are being set up to counteract the steady decline in Bulgaria's population numbers.

Several proposals were already made to handle the mounting problems. These proposals include a consolidation of research on children in Bulgaria, alternative forms of social protection for the needy, and incentives to encourage Bulgarians living outside the country to return. Moreover, steps are needed to encourage responsible parents who take good care of their children, and measures to sanction irresponsible parents.

A strategy for demographic development will be worked out by the end of 2006. This strategy includes two plans to be worked out for demographic development, one covering 2006 to 2020, and the other 2007 to 2009. A special ministerial department is to set up to deal with "demographic policy, social investments and equal opportunities". This body will engage in researching and monitoring demographic changes. Legislation was already drafted to introduce the concept of "social investments". A "social investments in children" programme is to be launched soon in seven municipalities, and is to last six months. After an evaluation, the programme will be expanded to the rest of the country.

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