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ICEG EC QUARTERLY FORECAST ON THE SOUTHEAST EUROPEAN COUNTRIES 2006 FIRST QUARTER

ICEG European Center published its latest Quarterly Forecast on the Southeast European countries. Regarding economic growth the Forecast reports that economic growth in 2005 declined somewhat in comparison with the previous year. The average GDP growth rate of the SEE region in last year was 4.8% which is almost 1%-point lower than that of 2004. Moreover this growth pace is lower by more than 1.5%-points than the average growth of the NMS. Compared to the previous year four out of the seven SEE countries' growth decreased, namely Bulgaria, Macedonia, Romania and Serbia and Montenegro.

One can see that the most significant decline was observable in Romania where GDP growth halved from 8.3% to 4.1%. The main reason for this significant drop was the weak performance of agriculture due to the unfavourable weather conditions in the summer. Floods had the same negative impact on Bulgaria's economy through its agriculture sector in last year. However, the negative effect was lower in case of Bulgaria thus the drop-back was also smaller. In case of Serbia and Montenegro, Serbia reached a relatively good economic growth rate (6.5%), while the smaller republic of the Union performed relatively weakly, thus the performance of Serbia and Montenegro decreased in comparison with the previous year.

The most significant increase in growth was achieved by Croatia where GDP growth rate went above 4% again. In case of Croatia the main engines of the economy were investments and exports, while in case of the aforementioned countries (such as in Bulgaria and Romania) mainly domestic demand (private consumption and investments) fuelled the economy.

The highest growth (5.9%) was achieved by Albania in 2005 in the SEE region, according to our expectations, while the slowest growth was performed by the former Yugoslav Republic of Macedonia (3.5%)

For 2006 we forecast a higher economic growth in the region. According to our expectations GDP growth can reach 5.2% in average. Certainly, these expectations assume more favourable weather conditions in the summer. However, the relatively low base of agriculture sector in the given countries in last year could result in a better economic growth in this year. Besides that, domestic demand, namely private consumption and investments will remain the main engines of most of the economies.

TABLE 1. SUMMARY INDICATORS OF THE ANALYSED 7 SOUTHEAST EUROPEAN COUNTRIES

| SEE7 Average | 2003 | 2004 | 2005* | 2006** |
|------------------------------------|------|------|-------|--------|
| GDP growth (%) | 4.0 | 5.7 | 4.8 | 5.2 |
| Inflation (%) | 4.7 | 4.8 | 5.4 | 5.3 |
| General Government balance/GDP (%) | -2.2 | -1.4 | -0.7 | -0.7 |
| Current Account/GDP (%) | -9.2 | -9.7 | -9.6 | -10.0 |
| Unemployment (%) | 21.8 | 21.6 | 21.2 | 20.8 |

* Preliminary data; ** Forecasts

Regarding inflation, consumer prices increased more in average in 2005 than in the previous year. Average inflation was 5.4% in last year which is 0.6% higher than that of 2004. In spite of the increase of average inflation rate, inflation is either remained low or disinflation process continued. In three countries (Albania, Bosnia-Herzegovina and the former Yugoslav Republic of Macedonia) inflation was between 0.5% and 2.5% in last year, while inflation was moderate

in Bulgaria (5%) and Croatia (3.6%). In these economies inflation will remain on that level or increase slightly except for Bulgaria. In 2006 our forecast is that CPI will increase to 7.5% from 5% due to the increase of administrative prices and indirect taxes.

In Romania disinflation process continued and yearly average consumer price index went under 10% for the first time since transition. However, it is worth mentioning that the National Bank of Romania slightly missed its first ever inflation target (7.5% +/-1%-point) for December 2005, it was 8.6%. For 2006 the target of NBR is 5% with the same range but it seems hardly achievable, our expectation for 2006 annual CPI is 7.5%.

The only SEE country characterised by relatively high and growing inflation rate is Serbia and Montenegro. In Serbia and Montenegro consumer prices increased by more than 15% in 2005. There were several reasons for the increase of CPI (mainly in Serbia), such as the increase of administrative prices, a one-off rise in retail prices caused by the VAT introduction, a soar in world oil prices and heightened aggregate demand. For 2006 a significant drop is expected and CPI can go under 12% in Serbia and Montenegro.

General government balance generally improved in the SEE region. In most economies of the region, general government balance had a surplus or only a slight deficit. In Bosnia-Herzegovina, Bulgaria, the former Yugoslav Republic of Macedonia and Serbia and Montenegro budgets had a surplus (0.1%-3.2% of GDP), while budget had only a slight deficit in Romania (-0.8% of GDP).

In Albania and Croatia budget deficit reached 4-5% in last year. In Albania the revenue generation and collection is improving but still vulnerable, while, in Croatia the moderate economic growth and the increasing budget expenditures had a negative impact on the annual budget. It is an interesting fact that despite the introduction of flat tax at the beginning of 2005 general government balance improved in Romania, while the corporate tax rate cut in Bulgaria had no significant negative impact on the balance.

For 2006 we expect that the average general government balance of the SEE region will be the same as last year, it is expected to be -0.7% of GDP. Accordingly, the surplus and low deficit of budgets in the SEE region can help these countries to decrease further their general government debt/GDP ratio in 2006, too.

The average current account balance per GDP figure changed only slightly. In 2005 the average current account deficit reached 9.6% of GDP while it was 9.7% in the previous year. In five out of the seven SEE countries current account balance deteriorated, namely in Albania, Bosnia-Herzegovina, Bulgaria, Croatia and Romania. The highest widening of the current account deficit was observable in Bulgaria where CA deficit increased from 5.8% to 11.8% of GDP. The deterioration also reached at least 1%-point in Bosnia-Herzegovina, Croatia and Romania. The higher CA balances were mainly due to the widening trade deficits in these countries. The strong domestic demand (consumption and/or investments) boosts import of goods which had a negative impact on current account through trade balance.

In the FYR of Macedonia and Serbia and Montenegro current account balance improved significantly. In both countries the good performance of the export sector, accordingly the improving trade balance had a positive impact on the evolution of current account balance in last year.

For 2006 current tendencies are expected to continue and average CA deficit is expected to grow to 10% of GDP. Small deterioration of CA balance is forecasted in all SEE economies except for Bosnia-Herzegovina and Serbia and Montenegro.

Unemployment is a key issue in Southeast European countries; the official unemployment rate exceeds 20% on average. Until 2006, there was only one country where unemployment rate was a single digit figure: Romania. Now it seems Bulgaria joined the 'club' where unemployment rate decreased significantly in course of 2005. Besides Bulgaria, slight improvement was observable in Croatia and Romania related to unemployment, while the rest of the countries was not able to decrease significantly the unemployment rate in 2005.

On the other hand, one can observe the highest unemployment rate in Bosnia-Herzegovina, in the former Yugoslav Republic of Macedonia and in Serbia and Montenegro, unemployment rates are over 25% in these economies. According to estimations, the real unemployment rate is significantly lower in these economies; it can be around 20%. However, this rate is still really high.

In 2006 further decline of unemployment rate is expected in case of the EU acceding and candidate countries owing to the accelerating economic growth in the region. On the other hand, the unemployment rate will not decrease significantly in case of the other countries.

KOSOVO ON THE WAY TO FINAL STATUS

Negotiations on the final status of Kosovo began on the 20th of February 2006, in Vienna. The province is still officially part of the union of Serbia and Montenegro, but it has been administered by the UN since 1999, the end of the NATO bombing campaign. The main stakeholders at the negotiations are the Kosovo Albanians, Kosovo Serbs, and the representatives of Serbia and Montenegro, the country that Kosovo Albanians aim to secede from. Other participants at the negotiations include Russia, the European Union and the United States. 90% of Kosovo's population is ethnic Albanian, while Serbs form a minority and live in enclaves. Besides Serbs, Kosovo's minorities also include Turks and Bosniaks. Kosovo's Albanian majority want full independence from Serbia and Montenegro, while Belgrade refuses to negotiate about any agreement that would eventually ensure the province's secession and independence.

RECENT HISTORY

As for the process leading to the present situation, after NATO bombing in March 1999 and Milosevic's capitulation in June, Kosovo became a UN protectorate under the UN Mission in Kosovo (UNMIK) with UN Security Council resolution 1244 (1999). By April 2001 a Constitutional Framework was established, which defined the authority of the provisional institutions of self-government (PISG), although UNMIK kept some key powers. There have been constant clashes between UNMIK and PISG, as the former has been continuously condemning the latter's declarations concerning Kosovo's status, and PISG's demands for more powers for itself.

March 2004 brought a new wave of violence in Mitrovica, when Albanians attacked the Serb population and the UNMIK, as retaliation for the drowning of Albanian children, allegedly done by Serbs. The riots lasted two days. 19 people were killed, and 900 wounded. Disorganised action by KFOR and UNMIK seriously harmed their credibility among Kosovo Serbs. Because of the March 2004 events that happened in Mitrovica, this area of Kosovo must be dealt with in a different way during the final status negotiations than the rest of the province, as tensions in this area are still higher.

POLITICS IN KOSOVO

In October 2004 elections took place in Kosovo, which was boycotted by the Serb minority. The election resulted in Ramush Haradinaj becoming prime minister. He had substantial support among the Albanian majority, however as he was indicted by the International Criminal Tribunal for Yugoslavia of committing war crimes, he had to hand power over to Bajram Kosumi. Mr. Kosumi proved to be a rather ineffectual prime minister, and was replaced by Agim Ceku, who enjoys strong public support among Albanians. The latter has been a military commander in the Kosovo Liberation army (UCK), and was in a superior position to Mr. Haradinaj. Now, in the political field he might find it difficult to cooperate with his former subordinate. At the same time Mr. Ceku is respected by UNMIK, Kosovo's UN administration. However Serbs may refuse to negotiate with him, as he has been indicted of war crimes by courts in Serbia.

Mr. Ceku may face difficulties in domestic politics. To get the prime minister's post, he had to join the Alliance for the Future of Kosovo (AAK) party, which is one of the small political parties

in the province. At the same time he has to find the way to cooperate with the Democratic League of Kosovo (LDK), the dominant Kosovar Albanian party, which was the party of the late President Ibrahim Rugova. After Mr. Rugova's death Fatmir Sejdiu became President of Kosovo.

NEGOTIATIONS FOR FINAL STATUS

The final status negotiations are led by Martti Ahtisaari, a former Finnish president, who has been chosen as the UN Special Envoy charged with resolving the status process. The final status negotiations are extremely important, as Kosovo Albanians are frustrated with their unresolved status and the resulting economic situation. If Kosovo's status is not settled the province might return to conflict, which could cause instability in the whole region.

One of the possible outcomes of the negotiations could be an agreement on decentralization within Kosovo, which would be implemented under international oversight for three years, similarly to the Ohrid Agreement in Macedonia. This arrangement would give rights to Kosovo's minorities to create their own central institutions, protect their religious and cultural heritage, and be included and represented in core government institutions. The relevant mother country should be involved in the fields of culture and education. International presence would be maintained in Kosovo, but the new international mission should have fewer powers than the High Representative of Bosnia. This will put more responsibility on Kosovo's politicians, who will be answerable to their own electorates.

Kosovo's independence should only be put on the agenda, if the Albanian majority is willing to provide the before mentioned serious offers to minorities, which include their inclusion in central institutions, decentralization and protection of their cultural heritage.

The status of the northern part of Kosovo, the Mitrovica area should be dealt with separately. After the events of March 2004 the Serb minority living in the area completely lost trust in UNMIK, and created parallel structures that defy both UNMIK and PISG (the provisional government, made up of Albanians). Therefore a new transitional international authority should be established in this area, to maintain stability after the status negotiations.

The EU will play a vital role in providing assistance to Kosovo after the final status negotiations. EU member states must expand their commitment, and provide resources for development. These should include resources to improve education, and rural development. Visa liberalisation would tremendously improve the situation of Kosovo's inhabitants.

SLOWLY DECREASING UNEMPLOYMENT RATE IN CROATIA

The unemployment rate has been decreasing since reaching its peak in 2000. This trend has continued during 2005. The unemployment rate according to ILO Labour Force Survey (LFS) dropped to 13.1% during the first half of 2005 and the rate of registered unemployed decreased as well by 0.1 percentage points to 17.9%.

BACKGROUND OF THE CROATIAN ECONOMY

After declaring its independence the transition from planned economy to market economy was slowed down in Croatia because of a war. The war ended on 14th December 1995, when leaders of Croatia, Bosnia and Serbia signed the Dayton peace accords. However, dynamic growth of the Croatian economy started only after 2000. The real GDP growth rate increased by 1.5 percentage points from 2000 to 2001 and exceeded the 5% level in the following two years. A small throw-back happened in 2004 but according to the data on the first half of 2005 the economic growth accelerates again. The same trends are characteristic to the inflation rate with the slight difference that it seems to remain relatively high in 2005.

TABLE 2. MAIN ECONOMIC INDICATORS 1998-2005

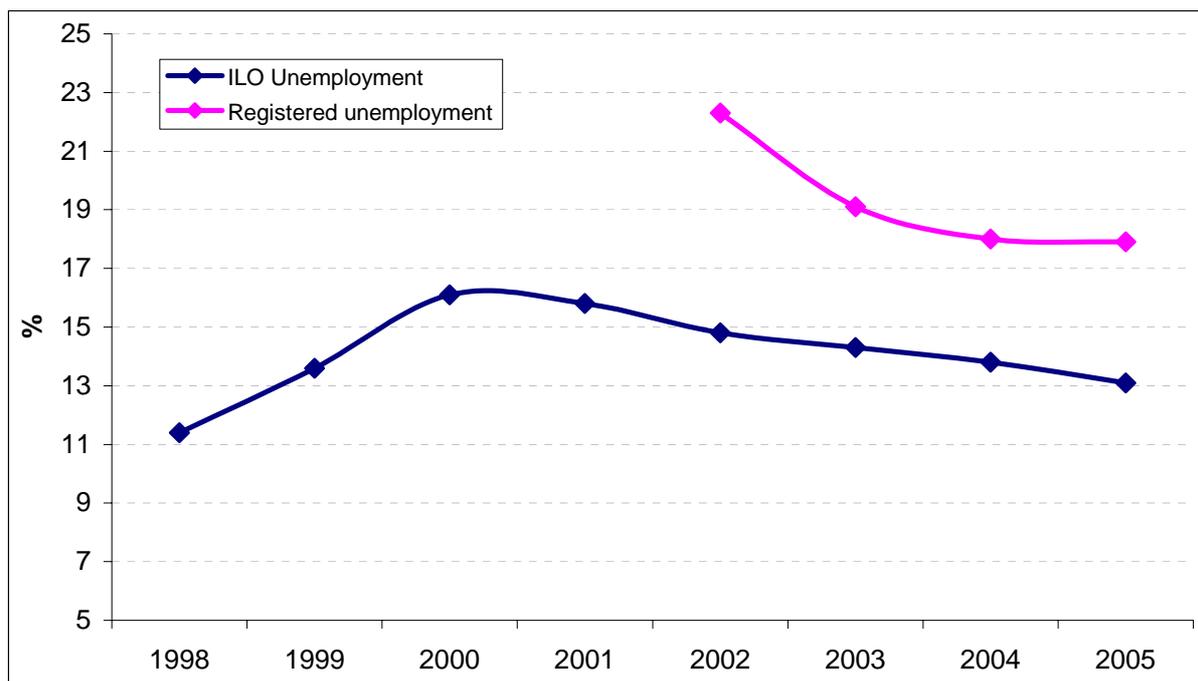
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005* |
|-------------------------------|------|------|------|------|------|------|------|-------|
| GDP growth (%) | 2.5 | -0.9 | 2.9 | 4.4 | 5.6 | 5.3 | 3.8 | 4.3 |
| Inflation rate (%) | 5.7 | 4.0 | 4.6 | 3.8 | 1.7 | 1.8 | 2.1 | 3.3 |
| Government deficit (% of GDP) | - | -6.5 | -7.1 | -6.7 | -4.5 | -4.8 | -4.6 | -3.4 |

*Source: National Bank of Croatia; *for the first half of the year.*

Because of political stability, economic growth, low inflation and macroeconomic stability EU leaders granted Croatia official candidate status in June 2004 and accession negotiations were originally scheduled to start on 17th March 2005. However, the launch of talks was postponed because of inadequate co-operation with the UN war crimes tribunal. Finally, accession talks were opened on the 3rd October 2005 and the screening process started on the 20th October 2005. The negotiation process with the EU could motivate Croatia to continue aiming stable economic growth in the coming years.

DEVELOPMENT OF THE UNEMPLOYMENT RATE

The unemployment rate has been decreasing since the beginning of a dynamic economic growth (2000). However, both indicators, the ILO unemployment rate (calculated based on the Labour Force Survey) and registered unemployment diminished at a slow pace. The ILO unemployment rate decreased from 16.1% in 2000 to 13.1% in the first half of 2005, but only by 0.7 percentage points in the last period. The registered unemployment rate was higher than 22% but diminished to 17.9% in 2005, only 0.1 percentage points lower than in the previous year. The high rate of unemployment is the result of the slow transition process from planned to market economy. The economic output dropped and inflation increased in the first years of independency and during the war. The higher unemployment rate of this period resulted from the underestimation of employment as those fighting in the war were not registered as employed. (The development of unemployment rate is shown in Chart 1.) In contradiction to unemployment the employment rate decreased from 47% in 1998 to 41.8% in 2001 and stabilized around 43% in the last four years.

CHART 1. DEVELOPMENT OF THE UNEMPLOYMENT RATE

Source: Croatian Employment Service; ILO

The decrease of unemployment was caused by growing demand on labour. This demand originates from acceleration of real GDP growth rate, increasing foreign capital attraction, capacity building in industry and tourism and the reforms aimed at more flexibility of the labour market. One of the biggest obstacles of decreasing unemployment is the great extent of the shadow economy in Croatia. According to the Center for the Study of Democracy the shadow economy was 23.5% of the GDP in the period of 1990-1993 and increased to 28.5% in the period of 1994-1995. Using another method the tendency is the same: the shadow economy increased from 24.6% (1990-1993) to 32.4% (2000-2001). Other barriers of lower unemployment are the unsatisfactory structure of the education system and the low level of labour mobility.

The duration of joblessness has been growing since 1998. 20% of the unemployed found a job within 3 months and 16.7% had to search for at least 3 but maximum 6 months in 1998. The proportion of people searching for a job between 1 and 2 years was 21%, and 21% of unemployed had not found a job for more than 3 years. Only 18.4% could find a job within 3 months and 11.5% became employed in more than 3 but less than 6 months in 2005. Contrary to short-term unemployed the proportion of those not having a job for more than 3 years increased to 32.1% which means a change of 11.1 percentage points compared to 1998.

Unemployment affects people differently depending on gender, education and the location of a household. It is more difficult for women to find a job. 51.9% of unemployed were women in 1998 and the situation worsened as already 58.6% of jobseekers were women in 2005. The registered unemployment rate of women was on average 4% higher than the total registered unemployment rate during 2005.

In 1998 it was the hardest to find a job for skilled workers. 34.1% of unemployed belonged to this group. Unskilled workers and those finishing only secondary school had approximately the same proportion among unemployed with 21.9% and 23.3%. Those who finished any kind of upper education (college or university) represent only 6.4% of unemployed. Skilled workers

represented the biggest group among unemployed with 39.1% in 2005. But instead of unskilled workers (6.4% in 2005) the proportion of semi-skilled workers and those finishing only a primary school increased to 23.1% in 2005 compared to 14.1% in 1998. The proportion of those finishing secondary school did not change significantly (24.6% in 2005) but there are more Croatian graduated at collage or university looking for a job (6.8%). (*Source: Croatian Employment Service*) This proportion does not seem to be too high for well educated people but contributes to the "brain drain", as more and more look for opportunities abroad. In the last decade approximately 10000 scientists left Croatia. The most favoured destinations are the United States, Great Britain, Germany, France and Canada.

People living in the NUTSII regions Eastern and Southern Croatia has to face significantly higher unemployment level than those living in Central, Northern or Western Croatia. The development of unemployment rate in Eastern and Southern Croatia is characterized by the same tendencies than the national unemployment. The peak of unemployment was above 30% in these regions in 2001. On average the unemployment rate is about 10 percentage points higher compared to Central, Northern and Western Croatia. The reason for this difference is twofold. These two regions were affected more by the war and faced stronger unemployment problems during the war period, which remained after signing the Dayton peace accords. The other reason of higher unemployment is due to geographical differences which resulted in specific economic structures. Southern Croatia is the region mostly oriented to tourism. In this sector there is a tendency not to register seasonal workers as employed. Eastern Croatia is predominantly an agricultural area. Agriculture usually loses its importance in employment parallelly to economic development thus less and less people can find a job in this sector. Additionally people working in this sector usually do not register as employed as they want to avoid paying taxes and social contributions.

EXPECTATIONS

Unemployment is still a major problem in Croatia. Aiming further economic growth and stable macroeconomic processes will be ensured by EU accession negotiations. GDP growth could be accelerated by supporting foreign direct investment, simplifying the process of registering small and medium-sized businesses, continuing labour market reforms making employment more flexible, decreasing taxes on employment, and developing the system of education meeting the demands of the labour market. The specific problems mentioned above (inequality among genders, regional differences) need additional targeted measures like state aid or improved investment climate for these groups and regions. Implementing the suggested reform could lead to increased investment which creates more workplaces, and can result in higher consumption, giving another boost to economic growth.

FOREIGN TRADE GAP WIDENS IN BULGARIA

Bulgaria's foreign trade deficit totalled BGN 7.98 billion (USD 5.07 mn) in 2005, about 19.2 % of GDP. The trade deficit increased by about 51 % compared to 2004. Imports increased by about 41 % to BGN 28.7 billion, while exports rose by only 30 % or BGN 18.5 billion. By the end of the year, there was a rapid increase in fuel imports, by 52.3 % to BGN 5.78 billion. Machines, equipment and vehicles made up the largest share of the total imports (30.7 %), accounting for BGN 8.8 billion. The main export commodities included ready goods, fuels and chemical goods. Alcohol and cigarette imports shrunk by nearly 13 %, while their exports also decreased by 4 %. Merchandise exports and imports have increased at similar rates of about 23-25 %.

TABLE 3. EXPORTS AND IMPORTS FOR JANUARY-DECEMBER 2005

| MONTHS | EXPORT-FOB | | IMPORT-CIF | | IMPORT-FOB | | TRADE BALANCE FOB/FOB | |
|------------------|------------|----------|------------|----------|------------|----------|-----------------------|----------|
| | mln. levs | mln. USD | mln. levs | mln. USD | mln. levs | mln. USD | mln. levs | mln. USD |
| January-December | 18 490.6 | 11 820.6 | 28 716.4 | 18 330.3 | 26 475.4 | 16 899.8 | -7 984.8 | -5 079.2 |

Source: NSI

Regarding the geographical distribution of foreign trade of Bulgaria, the main export destinations were Italy (BGN 2.2 billion), Turkey (BGN 1.9 billion), Germany (BGN 1.8 billion) and Greece (BGN 1.7 billion). The largest share of the imports came from Russia (BGN 4.5 billion), Germany (BGN 3.9 billion) and Italy (BGN 2.6 billion). The EU-25 was the most important trading partner of Bulgaria. In the total exports and total imports of Bulgaria the EU-25 represented about 57 % and 49 %, respectively. The trade of Bulgaria with the EU-25 increased to smaller extent than with other regions or her total trade turnover.

TABLE 4. EXPORTS AND IMPORTS BY GROUPS OF COUNTRIES AND MAIN TRADE PARTNERS FOR JANUARY-DECEMBER 2004 AND 2005*

| Countries and groups of countries | Export-FOB | | | Import-CIF | | |
|---|-----------------|-----------------|---------------|-----------------|-----------------|---------------|
| | 2004 | 2005 | 2005/2004 (%) | 2004 | 2005 | 2005/2004 (%) |
| TOTAL | 15 617.1 | 18 490.6 | 118.4 | 22 725.8 | 28 716.4 | 126.4 |
| Central and Eastern European countries | 2 166.0 | 2 720.8 | 125.6 | 2 226.8 | 3 012.9 | 135.3 |
| CIS | 527.1 | 585.8 | 111.1 | 4 207.3 | 6 054.9 | 143.9 |
| of which: Russian Fed. | 196.9 | 238.7 | 121.2 | 2 874.7 | 4 486.3 | 156.1 |
| OECD | 2 961.0 | 3 360.8 | 113.5 | 3 982.1 | 4 983.0 | 125.1 |
| of which: | | | | | | |
| Turkey | 1 560.5 | 1 936.9 | 124.1 | 1 369.3 | 1 737.2 | 126.9 |
| USA | 697.7 | 558.9 | 80.1 | 497.1 | 735.2 | 147.9 |
| EU | 9 102.8 | 10 459.1 | 114.9 | 12 290.2 | 14 246.5 | 115.9 |
| France | 702.6 | 851.7 | 121.2 | 1 206.9 | 1 344.2 | 111.4 |
| Germany | 1 596.2 | 1 817.2 | 113.8 | 3 312.0 | 3 907.7 | 118.0 |
| Greece | 1 553.0 | 1 743.3 | 112.3 | 1 305.8 | 1 437.4 | 110.1 |
| Hungary | 135.6 | 144.3 | 106.4 | 275.9 | 335.2 | 121.5 |
| Italy | 2 040.2 | 2 215.4 | 108.6 | 2 232.8 | 2 578.6 | 115.5 |
| EFTA | 122.1 | 153.9 | 126.0 | 294.2 | 307.4 | 104.5 |
| Countries not included in the upper groups | 1 834.3 | 2 505.7 | 136.6 | 2 520.8 | 3 405.6 | 135.1 |

Source: NSI

The increasing trade deficit was due to the fact that the increase in imports was more substantial than that of the total exports and the fast imports was resulted in by the rapidly growing domestic demand which exceeded the supply of local producers. The dynamism of export of the local production was reduced by the increasing local demand. The combined demand of local and foreign markets could not be met by local producers and the imports had to increase unavoidably. The increasing local demand was mainly generated by the private sector because the government budget was balanced.

TABLE 5. EXPORTS AND IMPORTS BY SECTIONS OF SITC, REV.3 FOR JANUARY-DECEMBER 2004 AND 2005*

| Sections by SITC | Export-FOB | | | Import - CIF | | |
|---|-----------------|-----------------|--------------|-----------------|-----------------|--------------|
| | 2004 | 2005 | 2005/2004 % | 2004 | 2005 | 2005/2004 % |
| TOTAL | 15 617.1 | 18 490.6 | 118.4 | 22 725.8 | 28 716.4 | 126.4 |
| Food and live animals | 1 056.0 | 1 258.1 | 119.1 | 1 007.2 | 1 133.1 | 112.5 |
| Beverages and tobacco | 366.6 | 352.7 | 96.2 | 113.5 | 99.0 | 87.2 |
| Crude materials, inedible (except fuel) | 959.6 | 1 179.9 | 123.0 | 1 361.2 | 1 762.7 | 129.5 |
| Mineral fuel, lubricants and related materials | 1 601.0 | 2 396.8 | 149.7 | 3 795.4 | 5 780.4 | 152.3 |
| Animals and vegetable oils, fats and waxes | 46.5 | 56.0 | 120.4 | 78.0 | 88.2 | 113.1 |
| Chemical and related products n.e.c. | 1 202.3 | 1 406.3 | 117.0 | 2 357.8 | 2 722.7 | 115.5 |
| Manufactured goods classified chiefly by material | 4 304.1 | 4 906.7 | 114.0 | 4 912.0 | 5 780.8 | 117.7 |
| Machinery and transport equipment | 1 929.7 | 2 633.1 | 136.5 | 6 714.6 | 8 818.4 | 131.3 |
| Miscellaneous manufactured articles | 4 010.2 | 4 124.4 | 102.8 | 2 063.6 | 2 192.5 | 106.2 |
| Commodities and transactions n.e.c. | 141.1 | 176.6 | 125.2 | 322.5 | 338.6 | 105.0 |

Source: NSI

The large trade deficit was the major contributing factor to the large current account deficit, which is one of the major actual concerns of the IMF. The Bulgarian National Bank reported that the current account deficit of 2005 was BGN 4950 billion about 15 % per cent of GDP. A year earlier the current account deficit was BGN 2213 billion, about 6.6 % of GDP. The current account deficit increased particularly in the second half of the year. This large current account deficit is unsustainable and already in short term measures will have to be introduced to reduce the trade deficit of this substantial size.

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