



ICEG EC



CORVINUS  
INTERNATIONAL INVESTMENT LTD.

ICEG EC - CORVINUS  
**SEE Monitor**



**No. 11-12.**

**2006.**

---

## TABLE OF CONTENTS

|  |           |
|--|-----------|
| <b>CANDIDATE COUNTRIES – A LONG WAY TO ACCESSION .....</b>   | <b>3</b>  |
| <b>PROGRESS REPORTS 2006 ON THE POTENTIAL CANDIDATE COUNTRIES .....</b>                            | <b>9</b>  |
| <b>ROBUST ECONOMIC GROWTH CONTINUED IN THE THIRD QUARTER OF 2006 IN BULGARIA AND ROMANIA .....</b> | <b>15</b> |
| <b>CONTINUING BUT DECELERATING GROWTH IN BULGARIAN TOURISM.....</b>                                | <b>18</b> |
| <b>PERMANENT HIGH LEVEL OF TRADE DEFICIT IN ALBANIA .....</b>                                      | <b>21</b> |
| <b>BANKING SECTOR AND PRIVATISATION IN BOSNIA-HERZEGOVINA .....</b>                                | <b>23</b> |

## CANDIDATE COUNTRIES – A LONG WAY TO ACCESSION

The EU Commission presented the Progress Reports of the two candidate countries (Croatia and The former Yugoslav Republic of Macedonia, covering the period between 1 October 2005 and 30 September 2006)) on 8 November 2006, indicating a pause not only in the progress of other Balkan countries but also that of the two candidates towards EU membership.

### THE MAIN FRAMEWORK OF FUTURE ENLARGEMENT

According to the Enlargement Strategy and Main Challenges 2006-2007, a communication from the Commission to the European Parliament and the Council, Member States need to take the lead in explaining why the accession of Balkan countries is in EU's interest. Thus a debate will be held by the European Council on enlargement in December 2006. The three basic principles, accepted by the Council as a good basis for the debate are consolidating existing commitments towards countries engaged in the process, applying fair and rigorous conditionality and intensifying communication with the public on enlargement.

One of the most important conditions of further enlargement, set by the strategic document, is the institutional reform, ensuring a more effective functioning and decision making of the EU. The Commission stressed, that a new institutional settlement should have been reached by the time the next new member is ready to join the Union, but refrained from giving out a timeline for further enlargement. However, an unofficial promise was made that Croatia will become a member before the end of this decade.

Rigorous conditionality is applied to all candidate and potential candidate countries. Progress in the accession process will depend on each country's achievements in making political and economic reforms and improving the ability to take on the obligations of membership. As the way to membership requires a long term effort, it is an important task of the EU to keep candidate and potential candidate countries motivated to continue reforms and increase transparency in the process. Benchmarks will be a new tool used to improve the quality of negotiations. Lessons learnt from the fifth enlargement (Romania and Bulgaria) will be used as benchmarks providing incentives for candidate countries to implement necessary reforms at an early stage. Benchmarks are linked to key elements of *acquis* chapters. In case the opening benchmarks of a chapter under negotiation are no longer fulfilled, the Commission may propose a suspension of the chapter's negotiation. Additionally, provisionally closed chapters can be reopened, if the closing benchmarks are no longer fulfilled.

### CROATIA

Croatia continued to meet the *political criteria*. Despite the overall progress made, further sustained efforts are needed, especially in the fields of judiciary, public administration and in the fight against corruption. In September 2006 the government adopted a policy paper in order to start preparing a strategy for public administration reform. However, finishing the strategy is long overdue, the current legal administrative system needs simplification, and the wide discretionary scope in legislation leads to inefficiency and legal uncertainty and facilitates corruption. The implementation of a judicial reform strategy has begun, but it is at an early stage, thus more efforts are needed in reducing the length of court proceedings, improving case management and rationalizing the court network. The Croatian government adopted a new anti-corruption program in March 2006, existing institutions have been strengthened and initial steps have been made in some hitherto uninvestigated corruption cases. Despite the

measures taken, corruption remained a serious problem. Without full implementation of the anti-corruption program and strong political will to increase efforts, the country cannot overcome corruption. The area of human rights and the protection of minorities experienced slow progress. Besides the problems of ethnic Serbs and refugee returns, border disputes with Slovenia and a property row with Italy need to be solved. Full cooperation with the International Criminal Tribunal is an ongoing condition for further negotiations.

Concerning *economic criteria*, the country can be regarded as a functioning market economy. There is still political consensus on the essentials of economic policy. Stability-oriented macroeconomic policies resulted in low inflation, exchange rate stability and a slight acceleration of growth and gradual fiscal consolidation has continued. Business registration procedures have been simplified, private investment has risen and unemployment has declined. Despite the above mentioned achievements, macroeconomic stability is endangered by significant and rising imbalances in the trade and current accounts and a high external debt. The slow pace of structural reforms and subsidies to loss-making companies continues to burden the government budget.

Croatia has improved its *ability to take on the obligations of membership*. However, there are still plenty of critical areas needing considerable or increased efforts, such as the development of capacity for coordination of social security systems, money laundering and procedures for acquisition of real estate by EU nationals, adoption of viable restructuring plans in steel and shipbuilding sectors, strengthening of Croatian Agency for Telecommunications, legislative alignment in the media and audiovisual field, setting up of administrative structures for the implementation, management and control of the CAP, establishment of a computerized fishing fleet register, adoption of a comprehensive food safety strategy, energy efficiency, nuclear safety, modernizing tax administration, improving IT interconnectivity, ensuring full independence of the Central Bank and setting up administrative structures necessary for implementation of regional policy funding.

TABLE 1. LEVEL OF ALIGNMENT OF CROATIA

| ACQUIS CHAPTER  | PROGRESS | ACQUIS CHAPTER   | PROGRESS |
|---|----------|--|----------|
| 1. Free Movement of Goods                               | L        | 18. Statistics   | G        |
| 2. Freedom of Movement for Workers                      | L        | 19. Social Policy & Employment*                              | L        |
| 3. Right of Establishment & Freedom to provide Services | L        | 20. Enterprise & Industrial Policy                           | G/S      |
| 4. Free Movement of Capital                             | S        | 21. Trans-European Networks                                  | S        |
| 5. Public Procurement                                   | L        | 22. Regional Policy & Coordination of Structural Instruments | S        |
| 6. Company Law  | G        | 23. Judiciary & Fundamental Rights                           | S        |
| 7. Intellectual Property Law                            | S        | 24. Justice, Freedom & Security                              | R        |
| 8. Competition Policy                                   | S        | 25. Science & Research                                       | R        |
| 9. Financial Services                                   | S        | 26. Education & Culture                                      | R        |
| 10. Information Society & Media                         | S        | 27. Environment  | G        |
| 11. Agriculture & Rural Development                     | R        | 28. Consumer & Health Protection                             | L        |
| 12. Food Safety, Veterinary & Phytosanitary Policy      | S        | 29. Customs Union  | S        |
| 13. Fisheries   | S        | 30. External Relations                                       | S        |
| 14. Transport Policy                                    | G        | 31. Foreign, Security & Defense Policy                       | R        |
| 15. Energy  | S        | 32. Financial Control  | S        |
| 16. Taxation  | L        | 33. Financial & Budgetary Provisions                         | No       |
| 17. Economic & Monetary Policy                          | S        |  |          |

L – Limited progress

S – Some progress

R – Reasonable progress

G – Good progress

intensify efforts

continue efforts

considerable efforts  
needed

increased efforts needed

good overall level of  
preparation reached

Source: According to the Croatia 2006 Progress Report

## MACEDONIA

According to the Progress Report, the former Yugoslav Republic of Macedonia is well on the way to satisfy the *political criteria*. However, the pace of reforms slowed down in 2006. The continued implementation of the Ohrid Framework Agreement increased the stability of the country. Parliamentary elections, held in July 2006 according to the reformed legal and institutional framework for elections, largely met international standards, but there were still irregularities before and during the elections. Thus further efforts are needed to ensure that standards are fully met during the next elections. The implementation of public administration reform (Law on Civil Servants, 2000) has continued. Despite the ongoing decentralization process, large scale changes occurred in the administration after the change of government. Independence and professionalism of the administration will be key issues in the future. The reform of the judicial system has been started, but further steps remain to be undertaken to ensure effective rule of law in the country. The cooperation of bodies involved in fighting corruption has been improved. Although the legal and institutional framework for ceasing corruption has been strengthened, it remains a widespread problem in Macedonia. Human rights and the protection of minorities have been improved, but telecommunication tapping is still existent and trust is still not present between ethnic communities.

Macedonia is well on the way towards a functioning market economy. In order to meet *economic criteria* of accession, continued stabilization and reform efforts are needed. Thanks to political consensus, macroeconomic stability and predictability have further increased, inflation remained under control and public sector debt has declined further. Price and trade liberalization are almost fully completed and the privatization process continued resulting in increased foreign direct investment inflows. The country can approach market economy by accelerating administrative procedures, fighting corruption, increasing legal certainty, developing the labor market and reforming education system to reflect the country's needs.

Macedonia has made further efforts to improve its *ability to assume the obligations of membership*. However, the country still faces major challenges in implementing and effectively enforcing the legislation. The following areas need considerable or increased efforts in the future: money laundering, setting up an effective remedy system, ensuring the effective implementation of company law, fighting piracy and counterfeiting, improve the standard of supervision in the banking and the insurance sectors, liberalization of the telecommunication market, ensuring the principle of non discrimination between operators, the independence of the regulatory authority of the telecommunication market, strengthening the administrative capacity in the area of tax collection, health and safety at work, employment policy, developing industrial sector policies, strengthening the institutional framework and administrative capacity on regional policy, establishing a functioning system of consumer and health protection and strengthening the public internal financial control, external audit and anti-fraud capacities.

**TABLE 2. LEVEL OF ALIGNMENT OF MACEDONIA**

| Acquis chapter  | Progress | Acquis chapter   | Progress |
|---|----------|--|----------|
| 1. Free Movement of Goods                               | S        | 18. Statistics   | S        |
| 2. Freedom of Movement for Workers                      | L        | 19. Social Policy & Employment*                              | R        |
| 3. Right of Establishment & Freedom to provide Services | No       | 20. Enterprise & Industrial Policy                           | L        |
| 4. Free Movement of Capital                             | S        | 21. Trans-European Networks                                  | S        |
| 5. Public Procurement                                   | R        | 22. Regional Policy & Coordination of Structural Instruments | L        |
| 6. Company Law  | R        | 23. Judiciary & Fundamental Rights                           | S        |
| 7. Intellectual Property Law                            | S        | 24. Justice, Freedom & Security                              | S        |
| 8. Competition Policy                                   | S        | 25. Science & Research                                       | S        |
| 9. Financial Services                                   | S        | 26. Education & Culture                                      | S        |
| 10. Information Society & Media                         | R        | 27. Environment  | S        |
| 11. Agriculture & Rural Development                     | S        | 28. Consumer & Health Protection                             | S        |
| 12. Food Safety, Veterinary & Phytosanitary Policy      | S        | 29. Customs Union  | R        |
| 13. Fisheries   | S        | 30. External Relations                                       | S        |
| 14. Transport Policy                                    | G        | 31. Foreign, Security & Defense Policy                       | S        |
| 15. Energy  | R        | 32. Financial Control  | S        |
| 16. Taxation  | S        | 33. Financial & Budgetary Provisions                         | L        |
| 17. Economic & Monetary Policy                          | L        |  |          |

**L** – Limited progress**S** – Some progress**R** – Reasonable progress**G** – Good progress

intensify efforts

continue efforts

considerable efforts needed

increased efforts needed

good overall level of preparation reached

Source: According to The former Yugoslav Republic of Macedonia 2006 Progress Report

## EXPECTATIONS

Accession negotiations with Croatia started well. Croatia has made important steps in adapting its legislation since finishing the screening process and starting negotiations. The main challenge in 2007 will be to build on the progress made and to accelerate the pace of reform, especially in the key areas of judicial and public administration reform, the fight against corruption and economic reform. Although Macedonia has also made progress in many chapters, the country is still at the very beginning of the process of adapting its legislation. It will take at least a year, until some benchmarks needed to open negotiations can be fulfilled.

The situation of Croatia seems to be harder compared to Macedonia. The latter country needs plenty of time to reach the political and economic level allowing membership, thus it can wait until the institutional reforms are implemented in the EU. Conversely, Croatia can become impatient in case EU reforms will be spun out. It follows that the EU should pay high attention to keep candidate countries motivated to continue reforms. Transparency should also be increased in order to enable countries to consider their progress in fulfilling benchmarks. As

soon as a country's progress and institutional reforms allow, deadlines for accession should be set.



## PROGRESS REPORTS 2006 ON THE POTENTIAL CANDIDATE COUNTRIES

On 8 November 2006 the European Commission approved and published the progress reports on the potential candidate countries, namely Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia. Regarding the fulfilment of the European Union's economic criteria, the reports take the conclusions of the Copenhagen summit meeting in June 1993 as a basis. According to this statement the membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union. Hence in the progress reports the Commission evaluated the Western Balkan countries' economic performance in 2005 in line with these conditions.

### THE EXISTENCE OF A FUNCTIONING MARKET ECONOMY

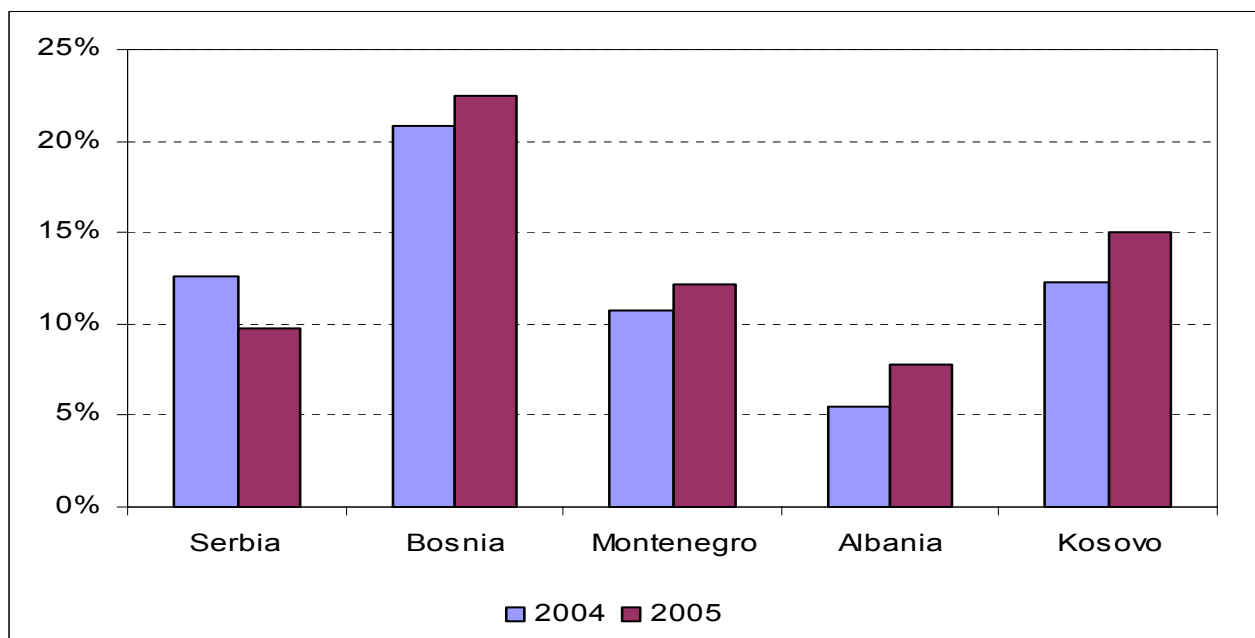
Regarding the macroeconomic stability mainly the necessity of further fiscal adjustments, the moderation of external imbalances and the need of employment creation were emphasized in the country reports. These conclusions were based on the examination of the fundamentals such as the growth rate of the GDP, the external balance, the capital inflows, the unemployment rate, inflation, budget deficit as well as the related monetary and fiscal policies.

In 2005 the highest growth rate (6.3%) was recorded in Serbia, although it decreased by 3%-point compared to the data of the previous year. One of the main reasons of this slowdown was a slump in the industrial production in the first half of 2005. Bosnia and Albania experienced a slight decrease in their growth rates, thus a value of 5.5% was recorded in both countries. However in the case of Bosnia, the base of the growth was narrow (it was generated mainly by raw materials and related manufacturing), while in Albania the slowdown can be explained by the frequent power supply shortages at the end of 2005, the weakening economic activity in the construction sector and the deceleration in the export growth. According to the Commission, 'the economic situation in Kosovo remained bleak', the GDP declined by 0.2% in 2005 mainly due to the decline in donors' support and the lack of the dynamism of the economy. Nevertheless there had been some signs of recovery in the first half of 2006 mainly due to the resilience of private sector activity. The acceleration of GDP growth could be observed only in Montenegro: it was generated mainly by the strong growth in tourism, in financial services and in construction, thus the growth rate reached the value of 4.1% in 2005.

The current account deficit widened in all Western Balkan countries in 2005, except for Serbia, where the strong growth of exports (it was up to 13.2% year-on-year) and the decrease of the imports (it was down to 6.7% year-on-year) had diminished the deficit. The decline in imports was partially the result of VAT introduction in January 2005. Bosnia had the largest deficit and the external balance had even deteriorated from 2004 to 2005, mainly due to the increased imports in the 4<sup>th</sup> quarter of 2005, in the run-up to the VAT introduction. In Montenegro the deficit was extended by the robust domestic demand (especially in consumer goods), which generated larger imports, as well as by the limited export capacity which impeded the increase of the exports. Although Albania's current account deficit had been lower compared to other Western Balkan countries, there are several perilous factors which may contribute to the further deterioration of the external balance, such as the substituting electricity imports, the lack of sufficient competitiveness in one of the country's main export sectors, the textile industry, as well as the undiversified export base. The country's poor infrastructure and the uninviting business-environment induce the lack of non-price competitiveness, which leads to the evolvment of a narrow export base. In Kosovo the external accounts have remained

precarious as the exports remained extremely low (14 times lower than imports in 2005), mainly due to the lack of export capacity and competitiveness.

**CHART 1. CURRENT ACCOUNT DEFICITS IN THE SELECTED WESTERN BALKAN COUNTRIES, 2004-2005 (% OF GDP)**



Source: European Commission

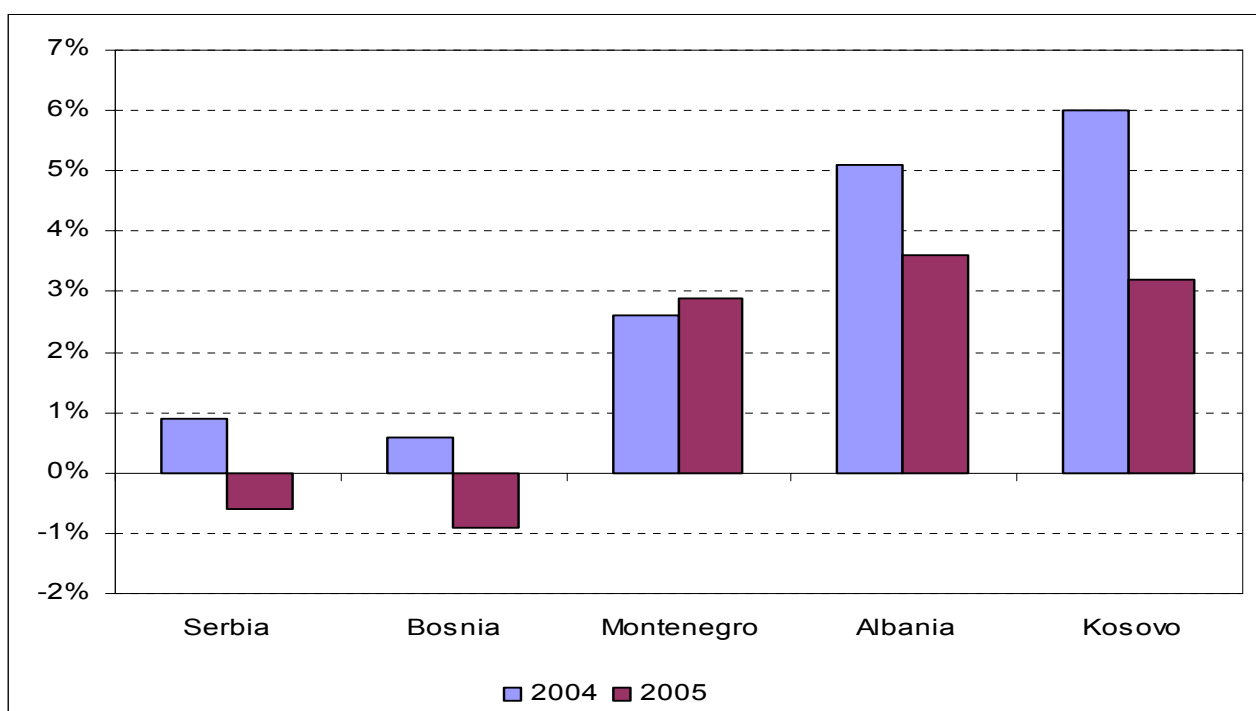
In the Western Balkan countries the FDI inflows are strongly related to the privatisation process, thus in those countries, where the large-scale privatisations have already terminated, the FDI inflows fell, while they have increased in those countries where the privatisation process is in progress. According to this tendency, in Bosnia the FDI inflows fell from 7% of GDP in 2004 to around 5.2% in 2005 and decreased further to 3.9% of GDP in June 2006, while in Serbia, the FDI inflows are continuously growing, in 2005 their ratio to the GDP was 4.3% and in the first half of 2006 this proportion amounted to 5.7%. In Kosovo and in Albania a modest gradual increase has been recorded, thus the FDI inflows accounted for the 3% and 4.6% of the GDP respectively. In Montenegro there was a record inflow of FDI in 2005 due to the privatisation of Telekom Montenegro, Podgorica Aluminium and Podgoricka Banka, this amount of foreign investments more than offset the CA deficit. However in the first half of 2006 alternately to the decreasing privatisation-related capital inflows, the greenfield investments had an increasingly important role.

High unemployment remained a significant economic problem in the Western Balkan countries, nevertheless concerning the official rates, the large and increasing extent of informal employment is emphasized in each case, which means a lower real unemployment but at the same time induces statistical, legal and taxation problems. Kosovo and Bosnia had the largest unemployment rates in 2005, 44% and 44.6% respectively. In Bosnia the unemployment has a structural nature, it varies considerably with educational levels, it is especially high among the young and as a significant problem it is also emphasized that while the informal employment is continuously increasing, the employment creation stagnated. In Serbia, the unemployment rate amounted to 27% in 2005 and important regional disparities exist both in employment and unemployment, while the agriculture remains a sizeable source of employment. A decrease in the unemployment rate had been recorded only in Montenegro and

Albania, where these proportions amounted to 18.6% and 14.2% respectively, which can be still considered as high values. In the former case, the report points out the mismatch between employers' needs and workers' skills, as well as the domination of very long-term unemployment and the rate's chronic level among young people.

Among the Western Balkan countries the inflation was at double-digit rates only in Serbia, where it had increased to 17.5% year-on-year in 2005, due to the rising costs of fuel imports, the VAT introduction, the strong domestic demand - which was combined with relatively unresponsive supply side - and because of the widespread exchange rate indexation of the prices. In Bosnia the inflation rose from low levels, after that it was 0.4% in 2005, it amounted to 7.6%, which vast increase was due to VAT introduction in January 2006, higher energy prices and increases in regulated prices. In Montenegro, the inflation remained subdued, thus in the first half of 2006 it had been only 2.3%. In Albania the inflation was also low, as it was 2.5% in 2005. Inflationary pressures had emerged only in the second quarter of 2006, which were derived from external developments, continuing excess liquidity in the banking sector and reduced supply of agricultural products. Kosovo was the only country, where the inflation was negative, the CPI inflation fell on average by 1,9% in 2005, in this case the deflation reflects the downsizing of the international community's presence and the weakness of the economic activity.

**CHART 2. BUDGET DEFICITS IN THE SELECTED WESTERN BALKAN COUNTRIES, 2004-2005 (% OF GDP)**



Source: European Commission

Concerning the macroeconomic policy mix, in Serbia in 2005 the fiscal consolidation continued as the pension system was reformed, the personal and corporate income tax grew in real terms as well as the expenditures declined by 0.4% due to permanent cuts in subsidies and transfers. However in 2006 the fiscal policy turned expansionary mainly because in addition to the increased expenditures, the government launched a national investment plan worth about EUR 1,6 billion for 2006 and 2007. The monetary policy has been tightened to curb credit

growth and to repress high inflation, for implementing the latter the National Bank of Serbia launched an inflation targeting programme in September 2006.

In Bosnia despite the relatively high growth and low inflation there are several threats to macroeconomic stability: the persistent large CA deficit - which reflects high private consumption and the insufficiency of the corporate sector – as well as the small and mostly raw-material based range of export products. The large imbalances represent a challenge especially in the context of the currency board arrangement and thus require a prudent fiscal policy. However the consolidated budget balance switched from a deficit in 2004 to a surplus in 2005.

In Montenegro the monetary policy was limited by the use of the Euro as a legal tender. The fiscal position tightened after the high budget deficits of the years 2004 and 2005, thus the deficit had diminished to 0.6% in the first half of 2006. The reasons for this positive tendency were the exceptionally high privatisation receipts of 2005, the acceleration of fiscal reforms (e.g. adoption of centralised Treasury, new tax system) and the large revenues from VAT (it was above the 50% of total revenues).

In Albania the monetary policy pursued by the Bank of Albania was evaluated as credible: it had controlled successfully the liquidity of the commercial banks as well as the appreciation of the Albanian Lek against the Euro. The fiscal consolidation has generally continued, due to improving tax administration and public expenditure management as well as because of the reform of the pension system.

In Kosovo the monetary framework remained anchored on the use of the Euro as sole legal tender thus the central bank's main tools of intervention remained the liquidity ratios and the reserve requirements. Although as the result of a tightening in the fiscal policy the budget deficit decreased, the substantial decrease of the reserve of accumulated cash deposits (it fell by EUR 70 million in 2005 to the total amount of 113 million) may induce incapability of financing the budget deficit through public borrowing. The Commission also emphasizes that the cooperation with IMF needs to remain an absolute priority also in the future.

### **THE CAPACITY TO COPE WITH COMPETITIVE PRESSURE AND MARKET FORCES WITHIN THE UNION**

Hereby three important subconditions are pointed out of the Commission's country reports.

#### *Adequate sectoral and enterprise structure*

In Serbia restructuring of large state-owned companies is still in early phase, major problems have not been yet addressed such as inadequate institutional and legal set-up, over-employment, weak transparency as well as substantial vested interests. The structural shift of the economy continued towards the service sector. The SMEs accounted for about 53% of total revenue and the sector still faces financing difficulties such as access to long-term financing and high degree of indebtedness.

In Bosnia progress in enterprise restructuring continued to be slow, mainly due to lack of incentives and because legal changes implied that debt can be rescheduled without any real restructuring of the company. There was a structural shift towards the manufacturing sector. SME policies continued to be fragmented and business-government dialogues remained weak in the country.

In Montenegro there was a slight structural shift towards the services and manufacturing sector, while the share of agriculture considerably decreased according to the available data on the distribution of employment by economic sector in 2005 (it decreased by 8% year-on-year).

SMEs further increased their role in the economy as their support was mainly provided in the form of credits through a programme which was established in 2005, thus they generated 62% of GDP in 2005.

In Albania the reform of the restructuring of the enterprises has not been completed, there were significant deficiencies especially in the railway, utility and energy sectors. The economy has continued to be geared towards the service sector, although the agricultural sector retains a significant share in total production and employment. The SMEs contributed by 64% to GDP; however the access to credit and the lack of proper accounting remained main problems.

In Kosovo only limited reliable data is available on the sectoral structure, according to statistics of 2004 the contributions to GDP were as follows: agriculture and fishing: 9%, mining, manufacturing, water and energy: 15%, services: 76%. In Kosovo the SMEs proportion is extremely high, 99% of the enterprises employed less than 9 employees

however the main barriers to business continued to be the difficult access to external finance, the unreliable power supply and the underdeveloped infrastructure.

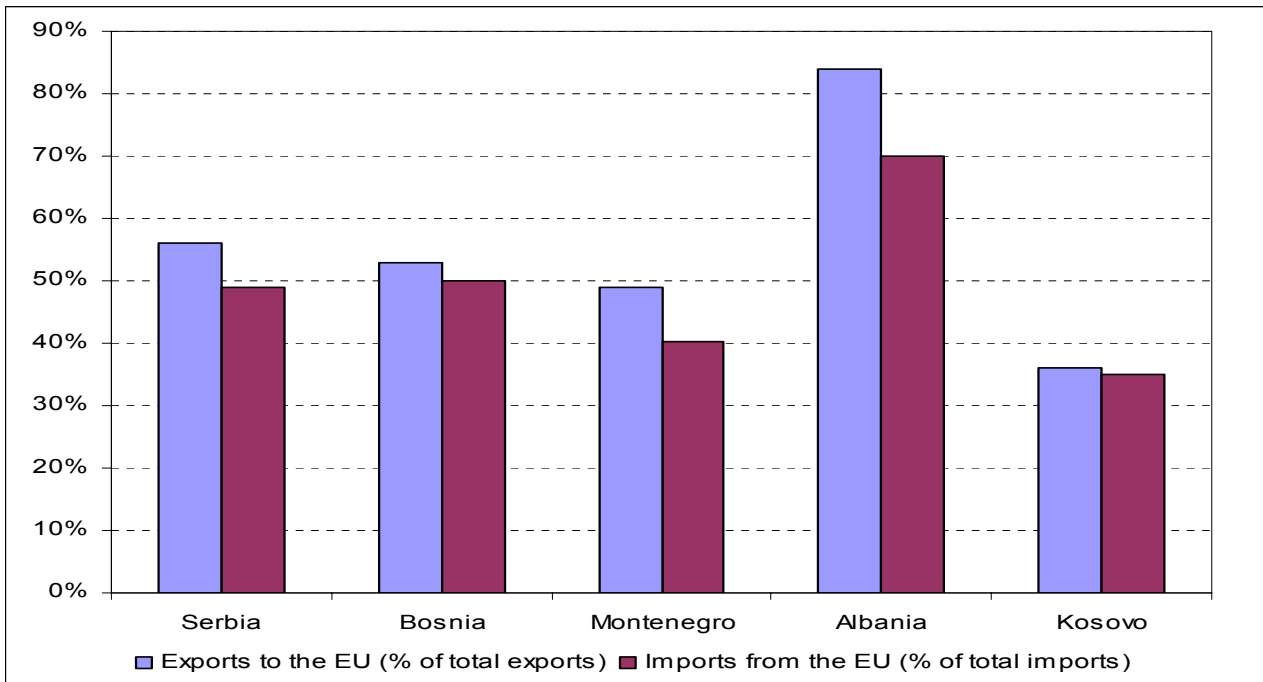
#### *State influence on competitiveness*

Direct government intervention in the economy remained prevalent in Serbia (e.g. the state revoked in 2005 the licence of a mobile phone operator and temporarily took over its operations) and Kosovo. In the latter considerable subsidies continued to be provided to public enterprises and socially-owned enterprises, these constitute a major burden on the budget, as they amounted for 12% of the budgeted revenues in 2005. In Bosnia some progress has been achieved in improving the competitiveness climate as the Competition Council was given more power and the Intellectual Property Institute has been established, although it is not yet fully operational. In Montenegro the government intervention has diminished and the budget transfers to socially-owned enterprises are negligible. In Albania the implementation of the regulations was in line with the EU's competition principles and the public subsidies represented a relatively low level, 1.6% of the total budget expenditures.

#### *Trade integration with the EU*

Due to the bilateral Free Trade Agreements (which will be integrated into a single FTA from 2007 by the extension of the CEFTA), the regional trade integration has continuously risen. Beside this tendency the increasing trade integration with the EU has also characterized the Western Balkan countries in the past two years.

In Serbia a further increase has been recorded in the first five months of 2006, the exports to the EU amounted to 59% of total exports and the imports from the EU accounted for 48% of total imports. The country's other major trade partners were the CEE countries (30% of exports, 12% of imports) and the Commonwealth of Independent States (7% of exports, 21% of imports). In Bosnia the trade openness continued to increase but with a continued dependency on a few markets and products: 70% of trade has been achieved with 5 countries (3 of these are EU members) and the composition of exports has continued to be narrow (minerals, metals and related products amounted to 40% of the exports, chemicals and wood products accounted for 20% of the exports). Montenegro has become a relatively large exporter of services mainly as a growing tourist destination; however the commodity structure of the exports remained fairly concentrated (56% of total exports were raw or intermediate materials in 2005). Albania remained an import-oriented economy (in 2005 exports: 21.6% of GDP, imports: 45.8% of GDP) while in Kosovo the export sector contained mainly lower value added goods (metal, plastic and wood accounted for the 70% of total exports).

**CHART 3. TRADE INTEGRATION WITH THE EU IN THE SELECTED WESTERN BALKAN COUNTRIES (%)**

Source: European Commission

## ROBUST ECONOMIC GROWTH CONTINUED IN THE THIRD QUARTER OF 2006 IN BULGARIA AND ROMANIA

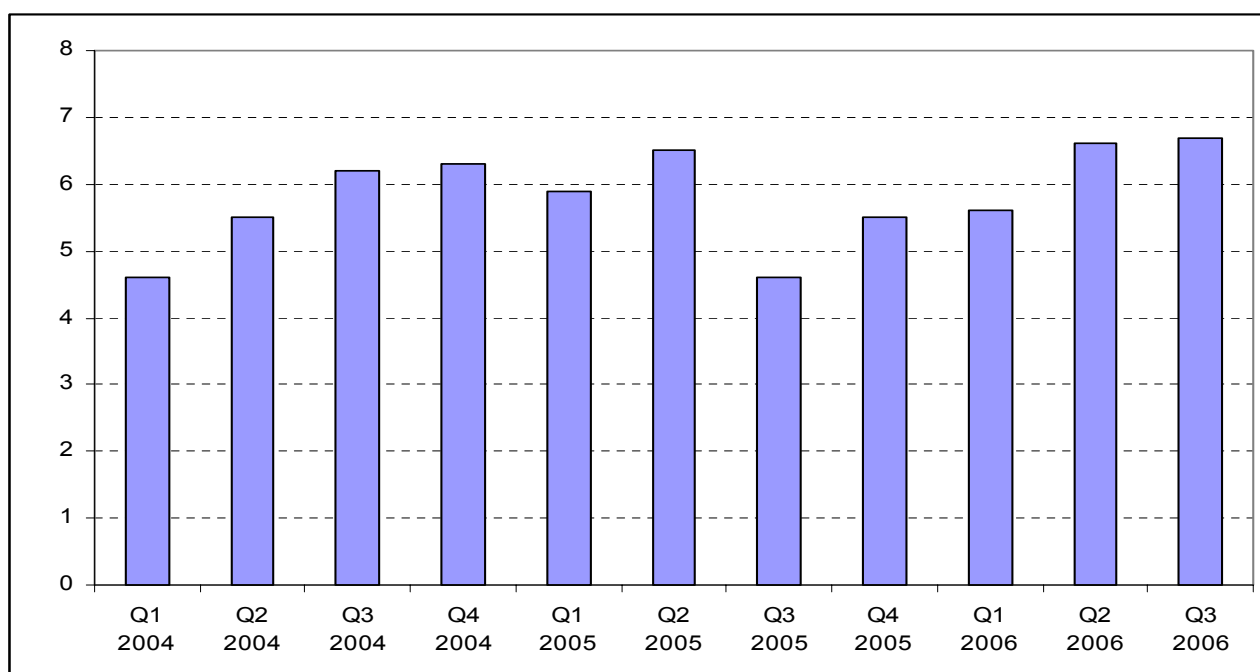
The two accession countries are characterised by high economic growth. In 2006 GDP growth rate increased in both economies in comparison with the previous year. In Bulgaria and Romania quarterly GDP growth rate went above 6.5% and 8% respectively between July and September and economic growth rates are expected to be higher than last year.

### BULGARIA

In the third quarter of 2006 the dynamic economic growth continued. Between July and September gross domestic product increased by 6.7% in comparison with the same period of the previous year. Accordingly, GDP increased by 6.3% during the first three quarters of the year.

On the expenditure side, former trends continued, namely domestic demand fuelled the Bulgarian economy. Regarding consumption, private consumption increased 7.4% in the third quarter compared to the same quarter in 2005. Private consumption is based on wage increases and credit growth. On the other hand, public consumption remained almost unchanged (+0.7%) in that period.

**CHART 4. GROWTH OF QUARTERLY GDP IN BULGARIA, 2004-2006 (% , COMPARED TO CORRESPONDING QUARTER IN PREVIOUS YEAR)**



Source: NSI

Besides consumption, investments were the other element that had a significant positive contribution to GDP growth. In the third quarter of 2006 gross fixed capital formation increased by 15.9%, which was slightly lower than the first half's figure (+20.8%). Accordingly, gross fixed capital formation per GDP figure went under 25%. It reflects that the

role of investments in economic growth decreased somewhat in comparison with the first half of the year.

Net exports continued to have a negative contribution to economic growth owing to the high import demand of the economy. The growth rate of the imports (+14.7%) significantly overpaced that of the exports (+10.5%) during the first nine months of 2006.

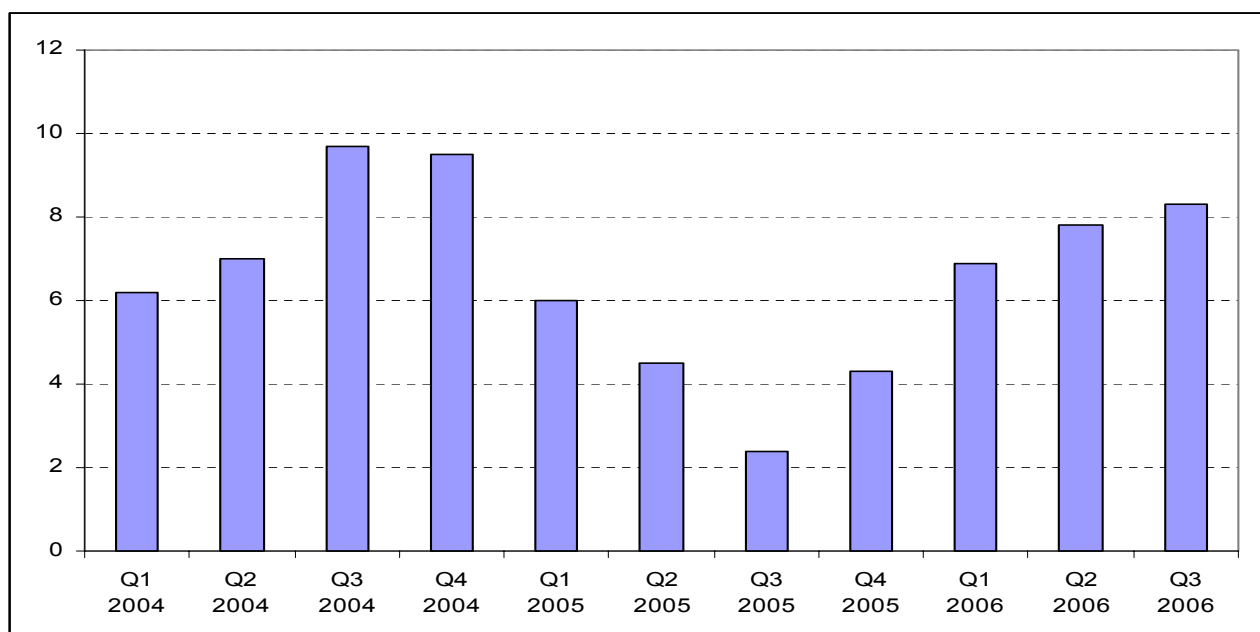
On the production side, gross value added in industry reached an outstanding performance during the third quarter of the year, it increased by 11.3%. In line with that gross value added in services increased significantly as well (+5.8%), while the performance of agriculture sector remained only moderate (+0.9%). Regarding the first three quarters of the year gross value added in agriculture basically remained unchanged (-0.2%).

## ROMANIA

In course of the third quarter of the year economic growth accelerated further in Romania. Between July and August gross domestic product increased by 8.3% in real terms in comparison with the same period of the previous year. It means that the growth rate in third quarter was the highest this year, it grew from 6.9% and 7.8% in first and second quarter respectively. This growth rate was significantly higher than that of the third quarter in 2005 (2.4%). Though, that low growth rate in 2005 was greatly influenced by the weak performance of agriculture sector owing to unfavourable weather conditions last year. Regarding the first three quarters of 2006 GDP growth reached 7.8% compared to the same period of the previous year.

On the production side, the contribution of the main sectors to GDP growth was mixed. The performance of agriculture sector remained moderate and despite of the fact that the sector's production dropped back significantly (by 14.7%) in 2005 the gross value added in agriculture increased by 5.2% in third quarter and by only 3.5% in course of the thirst three quarter of the year.

**CHART 5. GROWTH OF QUARTERLY GDP IN ROMANIA, 2004-2006 (% , COMPARED TO CORRESPONDING QUARTER IN PREVIOUS YEAR)**



Source: INSSE



The other three sectors reached excellent growth rate in the third quarter. The highest growth rate was achieved by construction sector in the third quarter (+19.2). That was the fifth consecutive quarter when gross value added in construction increased by more than 10%. Services sector, which accounted for 56% in total gross value added, increased by 7.8%, while industry sector expanded by 7.1%. The good performance of industry sector is mainly determined by the evolution of manufacturing production in this period.

On the expenditure side, the picture has not changed significantly: private consumption and investments remained the main engines of the economy. In the third quarter of the year, consumption of households increased by 12.4% in comparison with the same period of the previous year, while public consumption increased slightly (+2.9%). The dynamic growth of private consumption was mainly fuelled by significant credit growth, increase of real wages and appreciation of national currency.

Besides consumption of households, investments had a notable contribution to GDP growth. In the third three months of the year gross fixed capital formation increased by 15.6% which resulted in the fifth consecutive quarter of double-digit growth of GFCF. In the first nine months of the year gross fixed capital formation grew by 13.7%.

Regarding net export of goods and services, it had a negative contribution to GDP growth due to the fact that imports growth rate reached 21.2% while that of exports was 11.0% in the third quarter of 2006. Imports were boosted by strong domestic demand, namely private consumption and investments.

### **EXPECTATIONS**

In Bulgaria GDP growth will reach 6.3% and will be based on domestic demand, namely on investments and private consumption in 2006. In 2007 these trends are expected to continue and GDP growth can remain at 6.0% level. In Romania the current tendencies are expected to continue as well, and GDP growth is expected to reach 7.9% in 2006. In 2007 GDP growth is expected to be lower slightly and can reach 6.5%. Domestic demand will remain the main engine of the economy, while external demand will continue to have a negative contribution GDP, owing to the strong import boosting impact of expanding domestic demand.

## CONTINUING BUT DECELERATING GROWTH IN BULGARIAN TOURISM

In the first eleven months of 2006 the number of foreign tourists visiting Bulgaria increased by 5.54% compared to the same period of the previous year. The income from international tourism increased at almost the same pace, by 5% in this period. Compared to the two digit growth of the last three years this result is not that promising, however it is still very close to the expected real GDP growth (5.8%) for 2006.

### TRENDS IN BULGARIAN TOURISM

Tourism is one of the leading sectors of the Bulgarian economy. Tourism generates 12.5% of the country's GDP, nine percent of which comes from international tourism. Additionally, tourist industry is a source of tax revenues from two to three times greater than its share of national income. Bulgaria was an important tourism destination in Eastern Europe already before 1989. Thus the government invested heavily in tourism infrastructure. Investment areas included not only the Black Sea coast and ski resorts. The government supported the creation of marked hiking trails, a system of mountain huts and many large spas.

After 1989, Bulgaria lost its international tourists, as citizens from the Eastern Block preferred Western European destinations, which were not reachable before. Since the change of regime the number of tourist visits has been increasing but it has not reached the peaks the country experienced in the 1980's.

**CHART 6. NUMBER OF FOREIGN TOURIST ARRIVALS AND AMOUNT OF TOURIST REVENUES IN BULGARIA**



Source: Bulgarian Ministry of Economy and Energy

From January to November 2006, 4.84 million foreigners visited Bulgaria, and generated revenue of EUR 1.5 billion. Two years ago the Bulgarian tourism sector stood at the 20<sup>th</sup> place concerning tourist arrivals and collected the 24<sup>th</sup> biggest tourism receipts in Europe. Most

foreign tourists came from countries nearby like Serbia, Greece, Macedonia, Romania and Turkey. Germany and the United Kingdom provide the most tourists from old EU member states, while the number of tourists from the Eastern Block countries, like the Czech Republic, Poland, Russia or Hungary started to grow dynamically in the last few years (reaching a yearly growth rate from 30% up to 60%).

The rise in the number of foreign tourists is causing a rise in prices, which reduces the number of domestic vacationers as they cannot afford spending a holiday in their own country at such high prices. Yulen, a company operating ski facilities, is the latest example of this negative trend, as it doubled the price of the daily pass for the use of ski lifts compared to the previous year.

### **INFLUENCING FACTORS OF FOREIGN TOURISM**

The country has favorable geographic and climatic conditions. During the winter months ski resorts of Borovetz, Bansko, Pamporovo and Vitosha attract foreign tourists. In the summer season, mountains, resorts along the Black Sea coast, spas and historical places offer varied possibilities of recreation. Most tourists visit ski and sea resorts, while wellness tourism in spas, bike and hiking tourism and historical tourism are less attracting.

Unfortunately, many negative factors hinder further dynamic development of Bulgarian tourism sector. The main obstacle of development is the inadequacy of national and regional transportation infrastructure. Low quality of airline services and the poor condition of roads are the most urgent issues to be solved. The privatization of state owned facilities has been going well recently, however, there is still plenty to do in the fields of modernization, refurbishing and renovating facilities. Existing standards of quality assurance and quality management are underdeveloped. Even the hotel and restaurant classification standards are unclear, lot of facilities do not meet international standards of categorization and the range of services is rather limited. Additionally marketing activities, like management systems, pricing strategies and advertising methods are insufficient.

Besides the lack of improved infrastructure the most favored ski and sea resorts face the problem of over-construction. One of the examples is Bansko winter resort, where communication and some services failed in December 2006. Electricity cut-offs are daily routine, but telecommunication and internet connections have also been damaged a few times because of digging at construction sites. Infrastructure failures can worsen the quality of offered services and prevent tourists from coming back again. In order to solve the problem, the mayor of Bansko already announced a temporary construction ban, until city planning will be finalized.

### **EXPECTATIONS**

Despite the problems Bulgarian tourism will have excellent opportunities for development. The latest version of the Regional Development Operative Program for the period 2007-2013 provides EUR 204 million for tourism, which is 15% of total EU funds for regional development. 85% of this amount (about EUR 174 million) will be spent mainly for the improvement of infrastructure and the quality of services and for facilitating tourism development at local level. Regions developing spa tourism, holding authentic folklore events and cultural tourism destinations will have the highest chances to receive EU funds. The rest of the funds can be received by the State Agency for Tourism (SAT) in case it works out projects and strategies for popularization and promotion of Bulgaria abroad as an attractive tourist destination. This program is to be approved in Brussels in February 2007.

Additionally a new law on tourism was drafted in November this year. The proposed bill aims at regulating hostels and apartment complexes and information centers. The law is expected to provide more opportunities for public private partnership in the development of tourism infrastructure. It will also deal with animators, tour guides, ski instructors and mountain guides in order to increase the quality of services. The star rating of hotels and restaurants has recently been regulated by the SAT allowing existing five-star hotels to avoid downgrades.

With the help of the new law on tourism and EU funds, favorable conditions for developing the industry will be present. In case the government focuses on the development of infrastructure, the city planning of well-known holiday resorts and the extension of tourist season by creating new facilities, only few, but important barriers of attracting more tourists will be diminished. Thanks to these measures, two or three times the current visitors would come to Bulgaria. The support of other forms of tourism like cultural, rural, religious, ornithological, wine, congress and wellness in spas could attract even up to 50 times more visitors in the coming decade.

## PERMANENT HIGH LEVEL OF TRADE DEFICIT IN ALBANIA

According to statistic data, in the first quarter of 2006 deepening trade deficit and in line with that worsening CA deficit characterised the Albanian economy. In this period the total volume of exports amounted to EUR 144 million - a 19% increase compared to the same period in 2005 - while the volume of imports reached EUR 539 million that represented a 29% increase. This process resulted in a remarkable trade deficit: the 2006Q1 data was EUR 394.5 million, a nominal increase of 33.8% compared to the same period of 2005.

**TABLE 3. MAIN TRADE INDICATORS IN ALBANIA, 2002-2005**

|                                   | 2002   | 2003   | 2004   | 2005   |
|-----------------------------------|--------|--------|--------|--------|
| <b>Current Account (mill USD)</b> | -420.8 | -406.7 | -432.0 | -637.5 |
| <b>Exports (mill USD)</b>         | 330.4  | 448.1  | 605.4  | 659.0  |
| <b>Imports (mill USD)</b>         | 1505.8 | 1859.6 | 2296.1 | 2602.0 |
| <b>Exports/GDP (%)</b>            | 7,4%   | 7,3%   | 7,4%   | 7,8%   |
| <b>Imports/GDP (%)</b>            | 33.5%  | 30.4%  | 28.2%  | 30.8%  |
| <b>Exports/Imports (%)</b>        | 21.9%  | 24.1%  | 26.4%  | 25.3%  |
| <b>Trade deficit (mill USD)</b>   | 1175.4 | 1411.5 | 1690.6 | 1943.0 |
| <b>Trade deficit/GDP (%)</b>      | 26.2%  | 23.1%  | 20.8%  | 23.0%  |

*Source: Albanian Centre for International Trade*

After a slight improvement in the trade balance during 2003 and 2004 a significant turnaround was observable in this indicator. In the aforementioned period stable exports-to-GDP ratio, decreasing imports-to-GDP ratio, and accordingly, improving export/import coverage ratio and trade balance characterised the Albanian economy.

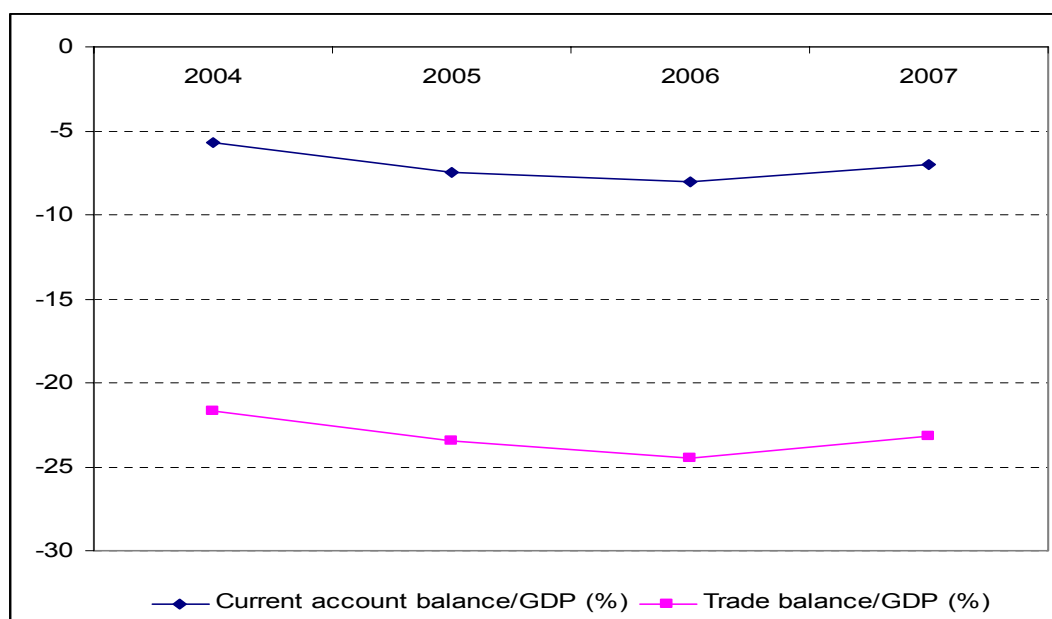
However, in 2005 the Albanian trade deficit started to widen as a result of the slowdown of the exports' growth pace - its annual increase was estimated only at about 9%, compared to the 23% growth in 2004 - and the continuation of imports expansion. In that year imports grew faster than exports even in relative terms compared to the previous year, and especially in the second half of the year the growth rate of exports was very limited. As a result, in 2005 trade deficit exceeded USD 1.9 billion, which is 15% higher than that of the previous year.

Some external factors contributed to the worsening trade deficit in this period. The significant increase in oil prices appeared in the expanding import expenditures, while the outbreak of avian flu created some negative effects in the consumption of poultry products and in relating industries. The opening of the European markets towards some Eastern countries, such as China, Turkey or India set back the competitiveness of the Albanian export products on its main foreign markets. The increasing competition pressure to the key Albanian export-oriented industries, such as footwear and textiles industries by the rapidly expanding exports from these countries also contributed to the slowdown of the Albanian export growth.

This increasing pressure was a hard hit for Albania, mainly according to 2005 data, 88% of the total exports and almost 60% of the total import transactions were carried out with the Member States of the European Union. In 2005 72.4% of total exports and 30.3% of total imports volume were originated from Italy, and another significant proportion, 10.5% and

17.4% respectively from Greece. However also worth mentioning that Albania is constantly increasing its foreign trade with the neighbouring countries: Albania signed free trade agreements with the Southeast European countries in the previous years, and in 2005 both exports and imports with these economies increased by 19 and 31,5 % respectively, compared to 2004. Currently Macedonia and Kosovo represents the biggest market for Albanian export products in the region.

**CHART 7. EVOLUTION OF TRADE BALANCE AND CURRENT ACCOUNT BALANCE IN ALBANIA, 2004-2007\* (% OF GDP)**



Source: ICEG EC SEE Quarterly Forecast; \* 2006-2007 figures are forecasts

Among the main exported goods of the Albanian economy are textiles (30%), footwear (28%), and main metals (16%). Also worth mentioning the products related to agriculture: the aggregate amount of exported prepared food and vegetable products represent more than 6 % of the total export volume of the country. Contrarily the main import goods of the economy are mechanical and electrical machinery with a rate of 16,4%. It is ascertainable that a greater proportion of goods with higher value added in the export structure of the country could help to reduce the extreme level of Trade Balance of the economy.

Although the permanently high level of trade balance - that continuously exceeds 20% of total GDP - reflects huge imbalances in the economy, it does not seem to set back the developing process: the average annual GDP growth of the country continuously exceeds 5%. However the negative trade balance is mainly responsible for the also permanent Current Account deficit of the country: that amounted to 7.7% of GDP in 2005 vs. 2004's 5.7%. Although the large trade deficit is partly compensated by foreign transfers in the current account, mainly through Albanian foreign workers' remittances, the rate of the index remains at a high level.

According to the expectations for 2006, slightly decreasing foreign trade deficit and improving Current Account balance will characterize the economy this year. The prospectively diminishing negative external effects on foreign trade activity might reduce the level of Trade Balance, which is expected to reach only about 20% of the aggregate GDP. Beside the decreasing trade deficit, the inflowing capital from several privatisation projects planned for this year might also have a positive impact on the Current Account balance of the country, which will expectedly draw on the 6% level (6,2%) in 2006.

## BANKING SECTOR AND PRIVATISATION IN BOSNIA-HERZEGOVINA

Bosnia- Herzegovina (BH) – with around 4 million inhabitants - is one of the less developed countries of the former Yugoslavia. The republic passed through a dramatic war from 1991 to 1995, which has naturally a long-lasting effect on its economy, and every part of its life. After the war, BH had to recover and made favourable circumstances for the democratic life and economy with international help.

It was noted that Bosnia-Herzegovina had made progress towards a sustainable market economy during the mid-last nineteenth. The main achievements included the country-wide acceptance of the Konvertible Marka, the commitment to initiating privatisation and strengthening the administration of government finances.

**TABLE 4. MAIN MACROECONOMIC INDICATORS IN BiH, 1999-2006\***

|  | 1999    | 2000     | 2001     | 2002     | 2003     | 2004     | 2005     | 2006*    |
|--|---------|----------|----------|----------|----------|----------|----------|----------|
| Nominal GDP BiH, current prices (in millions of KM)      | 9752,00 | 10908,00 | 11909,00 | 12650,00 | 13324,00 | 14658,00 | 15749,00 | 19320,00 |
| Real GDP (growth rate in %)                              | 10      | 5,5      | 4,5      | 5,5      | 3        | 6        | 5,5      |          |
| Retail Prices growth rate in BH (in %)                   | 3,7     | 4,8      | 3,1      | 0,4      | 0,6      | 0,4      | 3,7      | 3,7      |
| Government expenditure - Overall balance (as a % of GDP) | -7,2    | -6,4     | -3,1     | -0,1     | 0,7      | 1,7      | 2,2      | 1,8      |
| Broad money - M2 (as a percentage of GDP)                | 22,2    | 22,6     | 39,2     | 40,1     | 41,2     | 46,6     | 51,3     | 41,8     |
| Credit to non-government sector (as a percentage of GDP) | 28,1    | 27,3     | 27,8     | 33,4     | 38,1     | 40,1     | 47,6     | 38,8     |
| Trade balance (in millions of USA \$)                    | -3300   | -2770    | -2958    | -3341    | -4157    | -4568    | -4956    | -4956    |

Source: Central Bank of BiH; \* Expectations

The establishment of a sound and modern financial sector in Bosnia and Herzegovina is a priority for structural reforms in the country. The reform process was planned by the authorities cooperated with the World Bank in 1998.

By planning, they had to count with the following: changes in the institutional and regulatory framework, privatisation of the state-owned banks, enhancing the bank supervision.

In these days the Bosnian banking sector can be described as a two-steps banking system with a convertible currency, with commercial banks and an only National Bank and banking supervisor.

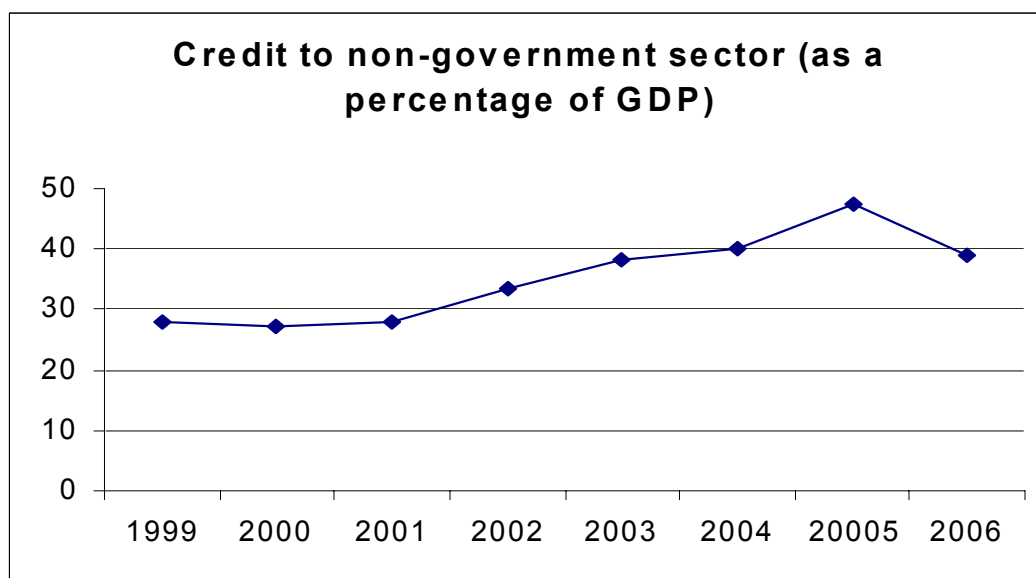
In April 1997 the presidential council agreed on a single currency, the konvertibilni marka, for both the Muslim/Croat and Bosnian Serb parts of the country. International symbol for KM is BAM. The Convertible Mark banknotes were issued for the first time on 22 June 1998. Now Bosnia has a currency board system pegging its marka to euro.

The Central Bank of Bosnia and Herzegovina was established in accordance with the Law adopted at the Parliament of Bosnia and Herzegovina on 20 June 1997. The Central Bank started its operation on 11 August 1997.

A commercial bank law that established a legal basis for banking sector supervision was adopted in both entities in 1996. In Bosnia-Herzegovina, the supervisory agency was established in 1998, which has been quite active in examining and monitoring banks.

The priority of the bank structure reform was the commercial bank privatisation, where the regulatory institution attempted to capitalize the former banks to make them viable. According to this reform, only solvent state-owned banks qualified for privatisation. Their solvency had to be certified by banking agencies. In the original privatisation program all state-owned banks in the Federation supposed to be privatised by August 2000. In practice, the bank privatisation program has been proceeding very slowly, almost all program for state owned banks were well behind the schedule.

**CHART 8. CREDIT DEVELOPMENT IN BOSNIA-HERZEGOVINA**



*Source: Central Bank of BiH*

Follow from the bank privatisation, today the banking sector is dominated by foreign-owned banks and the sector has continued to expand and deepen. The bank lending to the private sector has been increasing continuously. Credit to households also continued to expand strongly and grew by 34 percents in 2004 and credit to non-financial private enterprises increased by 33 percents. Foreign-owned banks dominate the banking sector and accounted for 84 % of total banking sector capital in 2004. The sector has also become moderately concentrated with 5 banks holding 65 % of total assets.

Till now bank privatisation has been completed in the Republika Srpska where all banks are majority-privately-owned, while in the Federation of Bosnia and Herzegovina a number of banks remained in public ownership. These banks account for 15 % of total banking sector capital, a share, which increased by 5 % in 2004 due to an increase in capital by Federation's government in one bank.

## CONCLUSIONS

The presence of foreign banks and strengthened regulation and supervision has contributed to enhancing competition and the quality of operations. The confidence in the banking sector has been rising.

Although Bosnia and Herzegovina is still facing tremendous challenges - including a high unemployment rate, slow pace in extending economic recovery beyond reconstruction activities, and a high number of refugees, internally displaced families and the development of financial sector - , but the country seems to be on the right way to fulfil these challenges.



The main financial institutions, the financial frameworks are formed now. The financial system has been evolving and it can inspire the all economy to improve and grow.

**FORMER ISSUE'S TABLE OF CONTENTS:****Number 2006/10.**

- ICEG EC Quarterly Forecast on Southeast Europe - 2006 Third Quarter
- Growth rate of the GDP in the First Semester of 2006 in Bulgaria
- Labour Costs in the SEE Countries
- Growth rate of the GDP in the First Semester of 2006 in Romania

**Number 2006/9.**

- Foreign trade of the SEE countries I. - Development of foreign trade in the region
- Foreign trade of the SEE countries II. - On the way to the creation of the Regional Free Trade Agreement
- The evolution of wages in Romania
- Credit Boom in the SEE countries

**Number 2006/8.**

- Montenegro – Economic consequences of secession
- Shadow Economy in the SEE countries
- Fighting Inflation in Serbia
- Romania 'Needs' Higher Budget Deficit

**Number 2006/7.**

- ICEG EC Quarterly Forecast on the Southeast European Countries, 2006 Second Quarter
- Exchange rate development in Romania
- Macroeconomic development in Croatia
- Current Account Trends in the Southeast European Countries

**Number 2006/6.**

- First chapter closed in the accession negotiations between Croatia and the EU
- FDI inflows in the Southeast European Countries
- Poverty reduction in Albania
- Decreasing public debt in Bulgaria

**Number 2006/5.**

- High economic growth in the SEE region in the last five years
- Accession of Bulgaria and Romania on 1 January 2007 - Realistic?
- Increasing inflation in Bulgaria
- Significant drop in economic growth in Romania

**Number 2006/4.**

- Iceg Ec quarterly Forecast on Southeast European Countries 2006 first quarter
- Kosovo in the way to final status
- Slowly decreasing unemployment rate in Croatia
- Foreign trade gap widens in Bulgaria

**Number 2006/3.**

- Heading to "Europe"? Stabilisation and Association Agreement in Serbia and Montenegro
- Real estate market of Bulgaria
- Albania signed The Stabilisation and Association Agreement
- Tourism sector in Bulgaria

**Number 2006/2.**

- Bulldozer Initiative – '50 economic reforms in 150 days'
- The Former Yugoslav Republic of Macedonia and the European Integration
- Bulgaria and Romania: One Year to Accession
- Bulgaria faces a lasting demographic crisis

**Number 2006/1.**

- ICEG EC Quarterly forecast on the Southeast European Countries- Winter 2005
- Balanced budget 2006 is planned in Bulgaria
- VAT introduction in Bosnia and Herzegovina
- Foreign Direct Investment in Serbia

**Number 2005/20.**

- Business Climate in Southeast European (SEE) countries in comparison with the New Member States
- Romania - Development of the inflation rate
- Tightening of credit expansion in Bulgaria

**Number 2005/19.**

- Foreign Direct Investments in the Southeast European (SEE) Countries in comparison with the 8 New Member States (NMS8)
- Croatia - on the way on accession
- The role of World Bank credits in the Fyr of Macedonia

**Number 2005/18.**

- Bulgaria: Inflation rate is the critical issue with regard to joining EMU after EU accession
- Strong sector with strong performance: Tourism in Croatia
- Inflation in Serbia and Montenegro in 2005-2006
- The EU-Albania relations - The present engagement of the SAA

**Number 2005/17.**

- Intra-regional Trade in Southeast Europe
- Inflation in Bulgaria in 2005 and 2006
- Still High Foreign Direct Investments Inflow in the Romanian Economy
- Deep Overview of FDI Movements in Croatia

**Number 2005/16.**

- ICEG EUROPEAN CENTER Quarterly Forecast on the Southeast European Countries (Q3 2005) - Outlook for 2005 and 2006
- (Un)employment in the Southeast European Countries I. & II.
- GDP Growth Rate of Bulgaria in the first half of 2005

**Number 2005/15.**

- Bulgaria and Romania en route to the European Union
- Agricultural Sector in South Eastern European Countries II.
- Romania: Slower Economic Growth in the first half of 2005

**Number 2005/13-14.**

- The Powerful Nature - The Romanian Floods
- Current Account Development in Bulgaria: Big Problem at First Glance
- VAT Increase in Romania- A Makeshift
- The Start of the Improvement in the Albanian Electricity Sector

**Number 2005/12.**

- The British EU-Presidency and the Prospect of the Future Enlargement of the EU
- Credit Boom and Increasing External Vulnerability in Bulgaria and Romania
- High ISPA Subsidy for Romania
- A Further Step Towards Europe - Introducing VAT In Bosnia and Herzegovina

**Number 2005/11.**

- Agricultural Sector in South Eastern European Countries I. - Albania, Bulgaria and Romania
- Balance of Payments in Bosnia and Herzegovina
- New Leu and the Future in Romania
- Croatia's Accession Negotiation with EU - Developments in European Integration

**Number 2005/10.**

- Tax Regimes in Bulgaria, Croatia and Romania
- The Impacts of General Election on the Economic Policy of Bulgaria
- Worsening Current Account Balance in Romania
- The Attractive Bulgaria - Prominent FDI Inflow in 2004

**Number 2005/9.**

- EU Begin Talks with Serbia and Montenegro
- Tax Regimes in the FYR of Macedonia and Serbia and Montenegro
- Tax Regimes in Albania and Bosnia-Herzegovina
- Interest Rate Policy in Romania: 10 Percent Off in 5 Months

**Number 2005/8.**

- More EU Assistance for the Western Balkans
- One Step Closer to EU Membership
- Bulgaria Reached Record GDP Growth in 2004
- The Development of Public and External Debt in Croatia

**Number 2005/7.**

- South Eastern Europe after EU Enlargement and before Accession
- Bulgaria: Fixed Exchange Rate of Currency Board and the Competitiveness
- Bulgarian Tourism Industry
- Plans on the Albanian Privatisation Process

**Number 2005/6.**

- Development of Inflation in Southeast European Countries
- IMF versus the Romanian Government
- 8.3% GDP Growth in 2004 in Romania – Positive Signals for Investors
- Higher Inflation and Trade Deficit in Serbia

**Number 2005/5.**

- Tax Reduction Suggested in Bulgaria
- Croatia: Delays in Starting Accession Negotiations?
- Tourism in Croatia
- Montenegro Wants to Lead its Fortune under its own Hand

**Number 2005/4.**

- Bulgaria: Record Foreign Trade Deficit in 2004
- Macroeconomic Targets in Romania for 2005
- Montenegro: Budget in 2005
- Albania – EU Accession in 2014?

**Number 2005/3.**

- World Bank Strategy for 2005-2008 – Assistance for Croatia
- Record Budget Revenues in Bulgaria in 2004 – An Estimated Surplus of the Budget Again
- Montenegro: Economic Policy Focuses on Privatisation
- Macedonia – Status of European Integration One Year after Application

**Number 2005/2.**

- Origin and Structure of FDI Inflows into Bulgaria and Romania
- Croatia: Stabilisation and Association Agreement will Come into Force on 1 February 2005
- Bank Privatisation in Serbia
- Growing External Imbalances in Romania

**Number 2005/1.**

- Hungarian Foreign Direct Investment Outflows to the Southeast European Countries
- Western Balkan Countries: Outlook for 2005
- Candidate Countries Performed Well Last Year – Outlook for 2005
- Radical Tax Reform in Romania: 16% Flat Tax Rate from 2005