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FIRST CHAPTER CLOSED IN THE ACCESSION NEGOTIATIONS BETWEEN CROATIA AND THE EU

Every long journey needs a first step – and Croatia did it on 12 June 2006 when the country provisionally closed the first chapter out of 35 needed to be closed before becoming a member of the European Union. Chapter Science and Research has been opened and closed on the same day of a ministerial accession conference in Luxembourg, which means that the Croatian government does not need to pass new legislation in this field. However, Croatia has to ensure that the country is able to cooperate in the framework of the European Commission programs for science and research. Further steps of this long journey – that can be finished by 2010 – will be much more difficult.

EU RELATIONS WITH CROATIA – THE BEGINNINGS

Croatia became independent in June 1991. The declaration of independency led to war with the remainder of Yugoslavia. Soon, in 1992, diplomatic relations were established with the EU. Five years later the Council determined the political and economic conditions for developing bilateral ties with Croatia. In 1999 a new Stabilization and Association Process (SAP) was offered by the EU for five Southeast European countries, including Croatia. Negotiations for a Stabilization and Association Agreement (SAA) were opened in November 2000 after the Commission adopted a positive feasibility report in May 2000. The two parties signed the SAA in October 2001. Croatia submitted its application for EU membership on 21 February 2003. According to the Council's decision on 18 June 2004 the review procedure aiming at assessing Croatia would start as of 2005 and accession talks were given green light. Later that year, on 13 December foreign ministers of the EU decided that membership negotiations could be opened in spring 2005. Unfortunately foreign ministers postponed the launch of negotiations in March 2005 because of the insufficient cooperation with the war crimes tribunal in The Hague. Membership talks could finally be opened on 3 October 2005. The decision of the EU was reinforced by the arrest of General Gotovina in the Canary Islands.

SITUATION AT THE START OF NEGOTIATIONS

According to the first progress report on Croatia issued on 9 November 2005 the country faces no major difficulties concerning political criteria. The candidate has stable democratic institutions and there are no major problems as regards the rule of law and respect for fundamental rights. However, there are several areas where further sustained efforts are required, such as:

- continuing full cooperation with the international war crimes tribunal in The Hague, as the remaining indictees must still be located and arrested;
- slower legislative activities and a number of political conflicts hampered the work of the Croatian Parliament, thus improvements are needed;
- the ad-hoc law-making process has to be made more systematic;
- the decentralization of state administration to local and regional authorities must be accelerated;
- public administration reforms have to become a matter of urgent priority;

- functioning of the judiciary has to be improved and significant judicial reforms wait for implementation;
- despite the legal framework to combat corruption, it continues to be a serious problem that need increased efforts to solve;
- disadvantaged position of the Roma population must be improved;
- treatment of other minorities is problematic (issues such as ethnic Serbs returning to the country and not getting back their homes needs solution).

Concerning the economic field the economy has experienced stable development. The economy can be characterized by low inflation rate (3.3% in the previous year) and exchange rate stability. Although the growth rate of GDP is on a decreasing trend it was above 4% in 2005 and government deficit is close to fulfilling the Copenhagen criteria (3.4% in 2005). (Further data on these economic indicators can be found in SEE Monitor No. 4./2006.) According to the progress report the country is considered to have a functioning market economy as advanced and stable as some existing EU members. Nevertheless, the government has to make increased efforts in the following fields:

- allocation of more resources to design, implement and communicate economic policies is inevitable;
- although the Croatian economy is well integrated with that of the EU there are significant external and fiscal imbalances to handle as these imply potential risks to macroeconomic stability;
- social security system needs to be reformed.

The report states that the ability of Croatia to take on the obligations of membership has made some progress. The progress of achieving legislative alignment with the *acquis* has been good in the fields of the free movement of goods, public procurement and information society, education and culture and foreign, security and defense policy. The report highlighted some areas which require increased effort, such as the free movement of capital, company law, fisheries, transport, energy, consumer and health protection, customs union and financial control. The most critic was addressed to the field of environment where very significant efforts are needed.

SCHEDULE OF THE ACCESSION TALKS

After launching membership negotiations the process of screening started on 20 October 2005. Screening means an in-depth analysis of the level of adjustment of Croatia's legislation to that of the EU. Till now screening was completed for half of the *acquis* but the Commission has drawn up reports for only four chapters (science and research, education and culture, public procurement and market competition) so far. In case of public procurement and market competition the Commission suggested Croatia to meet certain standards (benchmarks) before opening these chapters for negotiation. It is to expect that benchmarks will be set for most chapters to avoid the bad experience of some unprepared countries of the previous enlargement round. The requirement of meeting benchmarks even before opening chapters will slow down the negotiation process, but later it can become faster as the implemented reforms make the closure of chapters easier.

Although the first chapter Science and Research was considered as one of the least complex chapters, it took several months to reach a deal with the EU member states. In case of this chapter Croatia does not need to transpose any EU rules into its national legislation. However, the implementation of the Union's 6th Framework Program and the Euratom Framework Program on nuclear research is an obligation. Besides these requirements the government has to ensure the allocation of adequate budgetary resources and improve capacity building in research programs funded by the EU. In line with this criterion the Croatian Foreign Minister Kolinda Grabar-Kitarovic announced that Croatia would increase investment in the science and research sector.

The next chapter to be negotiated will be the chapter on Education and Culture, which is also a relatively easy area. Starting with the easiest chapters can increase the Croatian self-confidence and gives the possibility to the candidate to improve other, critical areas in the meantime. 34 more chapters wait for being negotiated. The following table enumerates the chapters, the progress made in the chapters and the level of difficulty.

TABLE 1. NEGOTIATION PROGRESS

Acquis chapter	Progress	Acquis chapter	Progress
1. Free Movement of Goods	Fs	19. Social Policy & Employment*	Fs
2. Freedom of Movement for Workers	-	20. Enterprise & Industrial Policy	Fs
3. Right of Establishment & Freedom to provide Services	Fs	21. Trans-European Networks	-
4. Free Movement of Capital	Fs	22. Regional Policy & Coordination of Structural Instruments	-
5. Public Procurement	Fs	23. Judiciary & Fundamental Rights	-
6. Company Law	-	24. Justice, Freedom & Security	Fs
7. Intellectual Property Law	Fs	25. Science & Research	X
8. Competition Policy	Fs	26. Education & Culture	Fs
9. Financial Services	Fs	27. Environment	S
10. Information Society & Media	-	28. Consumer & Health Protection	-
11. Agriculture & Rural Development	Fs	29. Customs Union	Fs
12. Food Safety, Veterinary & Phytosanitary Policy	Fs	30. External Relations	-
13. Fisheries	Fs	31. Foreign, Security & Defense Policy	-
14. Transport Policy	-	32. Financial Control	-
15. Energy	S	33. Financial & Budgetary Provisions	-
16. Taxation	-	34. Institutions	-
17. Economic & Monetary Policy	Fs	35. Other Issues	-
18. Statistics	-		

Source: EU Commission; *including anti-discrimination and equal opportunities for men and women.

S – screening of the chapter	non-acquis chapter – nothing to adopt	considerable efforts needed
Fs – finished screening	no major difficulties expected	very hard to adopt
O – opened chapter	further efforts needed	current situation totally incompatible with EU acquis
X – closed chapter		

EXPECTATIONS

Except for one chapter the highest difficulty rate was “considerable efforts needed”. It can be concluded that negotiations can proceed smoothly in the future and the date of end of 2007 for finishing set by the Commission can be held. Thus the date of accession only partly depends on Croatia. Faltering reforms could suspense accession but the major threats are the slow negotiation with “partner candidate” Turkey, the stalemate over the Constitution and the widespread skepticism of EU citizens towards enlargement.

Finnish Presidency will start on 1 July 2006. According to the Finnish Prime Minister Vanhanen, one of the main objectives of the Finnish Presidency will be enlargement. During his visit in Croatia in May he stated that the candidate’s timetable would depend only on Croatia’s own actions and is not connected to the progress of the negotiations with Turkey.

The stalemate over the Constitution seems to be the main delaying factor. Enlargement Commissioner Olli Rehn made clear that Croatia will not join the EU until the end of this decade, as the EU will not be able to receive any more members after Bulgaria and Romania without a new “institutional settlement”. The Commission is going to publish a report on the absorption capacity of the EU in December this year, but the chance of an accession in 2009 is relatively low.

Citizens support misses not only from European side, where according to the latest polls only 55% think positively about enlargement, but also Croatian are not fond of the idea belonging to the EU. Opinion polls from the first half of 2005 showed that only a bit less than 50% of Croatians back the country’s entry into the EU, although public support for membership stood at 70% in January 2004. In order to increase support among EU citizens, the Commission is going to publish a review on the benefits of enlargement in December.

According to Rehn Croatia will be the next country on the list, “but enlargement is a sustainable and safe train and its quality is more important than its speed”, thus the ambition of Croatia to join the EU before the next European Parliament elections in 2009 seems a bit unrealistic at this point. Croatia needs the Constitution for accession – as soon as possible.

FDI INFLOWS IN THE SOUTHEAST EUROPEAN COUNTRIES

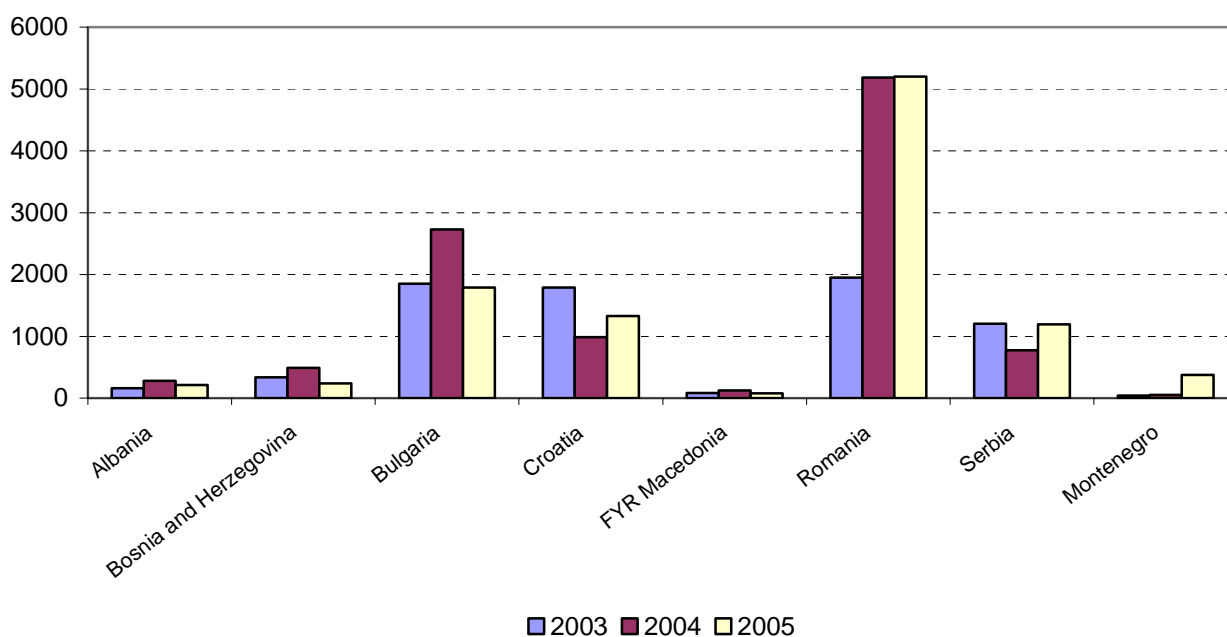
In one of our previous SEE Monitor in last year (SEE Monitor No. 19. - 2005), we wrote about some main characteristics of foreign direct investment (FDI) in South-Eastern Europe until 2005. Now we focus on the year 2005 and the first quarter of 2006.

In many cases we face rapid economic growth in the region - compared to most of the EU member countries - and according to expectations it will perform similarly this year as well, in spite of the increasing oil prices. Although conditions are still underdeveloped, compared to the EU members, generally business climate is improving. One other major advantage is that most of the countries in Southeast Europe are taking steps into the direction of their EU accession. Overall it can be stated that companies do have opportunities, thus more and more decide to invest in the region.

After the remarkable growth of FDI in South-Eastern Europe in 2004 (from EUR 7.4 billion in 2003 to EUR 10.6 billion in 2005), 2005 performed a slight decline to EUR 10.4 billion. However, this fall is not an overall phenomenon, because Croatia, Romania, Serbia and Montenegro recorded increasing FDI inflows. It is usual, that the amount of FDI inflows is determined by the number of large privatisation deals, but the importance of the greenfield investments is slowly increasing. As for the structure of the investors, it is typical that most of them are from the old EU members and neighbouring countries. In 2005 banking and energy sector privatisation, and a growth of the FDI in the manufacturing sector were important characteristics.

On the next graph one can see the tendencies and the differences concerning the amount of FDI inflow by countries can well be detected.

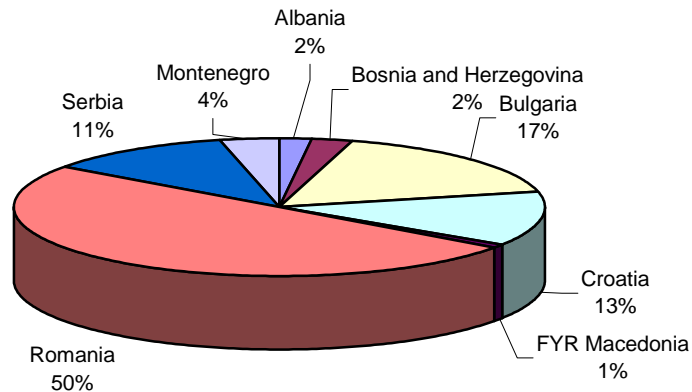
GRAPH. 1. FDI INFLOWS IN THE SEE COUNTRIES, 2003-2005 (MILLIONS OF EUROS)



Source: the central banks of the countries, WIIW (The Vienna Institute for International Economic Studies)

As the next graph shows, most of the FDI flowed into the official EU acceding or candidate countries. In 2005 half of the FDI inflow was directed to Romania, 17% to Bulgaria, 13% to Croatia, 15% to Serbia and Montenegro, while the other three countries gained only 5% of the total FDI inflow.

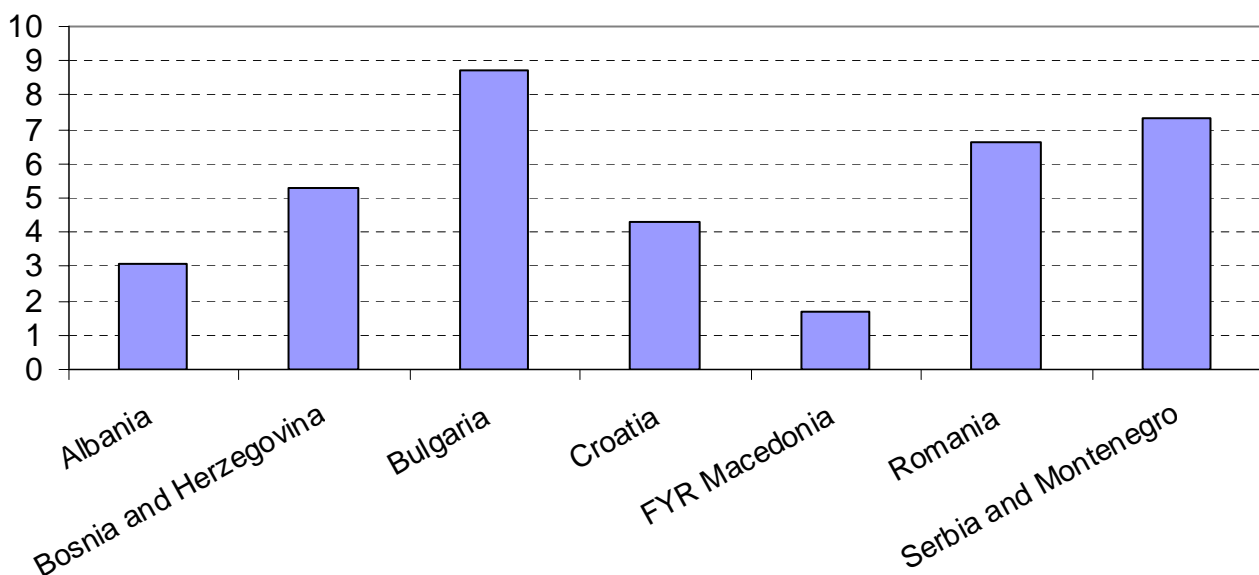
GRAPH. 2. FDI INFLOWS BY COUNTRIES (2005, SEE-8=100%)



Source: the central banks of the countries, WIIW (The Vienna Institute for International Economic Studies)

The following graph demonstrates that the countries are not homogenous even if we compare the FDI/GDP ratio. This also proves the obvious fact that beside the level of GDP so many other factors determine the amount of investments.

GRAPH. 3. FDI IN % OF GDP IN THE SEE COUNTRIES



Source: Bank Austria Creditanstalt

ALBANIA

Albania is among the countries in the region that have a low level of FDI inflow. According to the Albanian central bank, FDI in the first quarter of 2006 amounted to EUR 56.7 million, while a year ago it was EUR 43.3 million. They mention that capital inflows in the processing and manufacturing industry contributed to these investments. As far as the yearly data are concerned, in 2004 FDI in Albania – mainly due to the ongoing privatisation - reached its highest level and was EUR 278 million, while in 2005 this number decreased and amounted to EUR 213 million.

BOSNIA AND HERZEGOVINA

Likewise Albania, Bosnia and Herzegovina also reported record-high FDI in 2004, reaching EUR 489 million as a result of several big privatisation deals, mostly in the production and banking sectors. In 2005 the inflow of FDI was weaker and amounted around EUR 240 million. The sectors' share of the FDI showed a slight change, due to the decreasing ratio of the production sector (42%), while the largest share still went to the banking sector (50%). Overall the FDI inflow in 2005 decreased in all sectors, but mainly in the non-banking sector (-10%), trade (-9%) and tourism (-9%).

BULGARIA

Bulgaria as well recorded the highest FDI inflow in 2004 (EUR 2.7 billion), mainly as a result of the privatisation of electricity distribution companies and the Bulgarian Telecommunications Company, and some additional investments of a GSM operator (GloBul). In 2005 FDI inflow amounted to EUR 1789 million, due to the privatisation process and additional investments mainly in the banking, telecommunication, energy and production sector. In the first quarter of 2006, FDI inflow was EUR 755 million, and the yearly data is expected to be well over EUR 2000 million.

CROATIA

After the decline of FDI inflow in 2004 (EUR 989 million), in 2005 it recorded EUR 1328 million and in this year the growth is expected to continue. In the first quarter of 2006 the inflow of FDI was EUR 256.9 million, while reinvested earnings amounted to EUR 52.6 million. In the same period, almost half (45.4%) of the investment arrived from Austria, 15.4% from the Netherlands, 9.5% from Slovenia. One fourth (25.78%) of this FDI was invested to the banking sector, while on the second place we find the telecommunication sector (9.42%).

FYR OF MACEDONIA

In Macedonia FDI inflow can be considered very low, and it performs the lowest numbers in South-Eastern Europe. After the relative good result in 2004 (EUR 126 million), in 2005 a drop could be observed and thus FDI inflow resulted around EUR 78 million, which is the lowest in the region, even if we compare it to the GDP (in 2005 it was 1.7%). In 2005, 35.9% of the investments went to the manufacturing sector (mainly concerning chemical and metal products), while Italy, Switzerland, Russia were the largest investors. For 2006 a record amount of FDI inflow is expected, and thus the yearly data may result well over EUR 300 million.

ROMANIA

Whether FDI inflow or FDI/GDP is concerned, Romania shows outstanding results (the latter was around 8.4% in 2004 and 6.6% in 2005). The country can be characterised by the large number of companies with foreign shareholders and ownership. As the privatisation process is slowing down, greenfield investments are already getting increasing importance. FDI inflow in 2004 was over EUR 5.1 billion and in the next year it amounted around EUR 5.2 billion. As far as this year is concerned, a record high amount is expected, which may amount around EUR 8 billion, due to big privatisations and greenfield investments. According to the Romanian central bank, in the first two months of 2006, FDI inflow reached EUR 1 billion, thus almost doubling (94.2%) compared to the same period in the previous year. 43% of this inward FDI was gained by inter company transactions, 35.6% by reinvested earnings and 21.4% by equity capital.

SERBIA

Despite certain political hazards and economic weaknesses, business environment is improving and FDI is increasing in Serbia, moreover even the FDI/GDP ratio can be considered relatively high (in Serbia and Montenegro in 2005 it was 7.3%, which was the second highest in the region after Bulgaria). Besides the privatisation process, some greenfield investments also took place - e.g. in 2004 Metro made the largest greenfield investment of the region in Belgrade. Serbian investments are winning international awards – for example in 2005 Serbia won an OECD award third time in a row for The Best Greenfield Investment in the region. In 2004 FDI inflow declined and was EUR 777 million, but a year later it reached EUR 1196 million, mainly due to the privatisation of several large banks. In the first quarter of 2006, FDI inflow was around EUR 180 million, while in the same period a year ago it reached EUR 262 million. According to the Serbian government's plan, FDI inflow in 2006 may reach a new record. They forecasted EUR 2 billion for this year, but the Norwegian Telenor finally paid almost the double (USD 1.5 billion) for the GSM operator Mobi 36 (The government plans to spend EUR 1.5 billion on infrastructure development, education and health system in 2006 and 2007).

MONTENEGRO

Montenegro recorded EUR 51 million FDI inflow in 2004, but in 2005 this increased to EUR 375 million. It is a question of the future that how will the new independent country perform on its own.

POVERTY REDUCTION IN ALBANIA

In the 1990s the UN sponsored a series of world summits and global conferences with the target of laying out a comprehensive development agenda. In September 2000 189 heads of states adopted the Millennium Declaration, which touched upon the following topics: human rights, peace, security, good governance, and development concerns. The development objectives were summarized in the set of Millennium Development Goals (MDGs). The MDGs are quantitative goals, with time-bound targets and numerical indicators.

The eight Millennium Development Goals are the following:

- Reducing extreme poverty and hunger
- Achieving universal primary education
- Promoting gender equality
- Reducing under-five mortality
- Reducing maternal mortality
- Reversing the spread of HIV/AIDS, malaria and tuberculosis
- Ensuring environmental sustainability
- Developing a global partnership for development

Although the Millennium Development Goals are few in number, and therefore may appear overly simplistic, they are stable over time, and are easy to communicate. 18 targets, and more than 40 indicators have been created in connection to them.

The following overview is based on the National Human Development Report of Albania published in 2005 (by UNDP Albania, SEDA).

The proportion of the Albanian population living in absolute poverty is around 20%, and the proportion living in extreme poverty is approximately 4%. Absolute poverty is defined as the percentage of the adult population living on an income of less than 2 USD per day, while extreme poverty is the percentage of the adult population living on an income of less than 1 USD per day.

Poverty is a complex phenomenon. It captures various dimensions of deprivation. It consists of the following factors: hunger, being homeless, ill and not being able to have medical care, being unemployed and fearing an insecure future, being illiterate, and lacking many services and tools for daily life. The definition of poverty changes from time to time and from country to country.

The Albanian National Human Development Report contains six Millennium Development Goal targets. These concern the reduction of extreme poverty, the reduction of proportion of people suffering from malnutrition, unemployment reduction, an open trading and financial system for more inclusive economic growth, the spread of information and communication technologies, and the increase of availability of electricity for all. It will take substantial efforts to achieve the targets (some of them time-bound).

Half of Albania's population lives in rural areas. 29.6% of the Albanian rural population and 20.1% of the urban population lives below the poverty line. The mountain districts in North-eastern Albania are the poorest, with 46% of the country's poor living there. More than 25% of the population in this region lives below the extreme poverty line. The poorest areas of Albania are Dibra, Elbasani and Kukes.

At the same time the level inequality is quite low in Albania. While poverty measurements focus on the situation of individuals at the bottom of the distribution, inequality is a broader concept, that applies to the entire population, not only to the population below a certain poverty line. 60-65% of the Albanian population lives in similar, very bad conditions. This is the main contributing factor to the low level of inequality in the country.

The transition process in Albania has been long and brought with it many social and economic problems. Democracy is still fragile, state and government institutions are weak and lacking essential resources. The foundations for sustainable growth are fragile. The Albanian development approach is still dominated by the economic growth paradigm in which the social objectives and consequences of growth are of secondary importance. Until recently only little attention has been given to the effects on the country of high levels of external and internal migration, the decline and stagnation of a significant number of outlying regions, as well as problems associated with over-concentration of national growth into a narrow development corridor between Tirana and Durrës. The sharp decline in industrial production and its effect on unemployment, rising inequality and vulnerability, struggling health and education services, severe problems of access to water, energy and services, mounting environmental challenges and deplorable state of infrastructure are also among the most serious issues.

Poverty disproportionately affects young households and those families that have migrated to the major cities. Gender differences are identified more clearly in the labour market, which discriminates particularly against women, and the active population closer to the retirement age. The most vulnerable social groups at risk include children, elderly, physically and mentally disabled persons, and Roma and Egyptian children. Young people in Albania constitute the most vulnerable social group. The reason for this is, that they live in poor domestic household conditions and in large families. The vulnerable groups of young people are mostly found in rural areas. The majority of poor people live in families with seven or more members.

Children at risk is the social category that is most vulnerable to social problems as a result of the transition Albania is going through. Due to the lack of public order and security, children have become victims of trafficking and crime. About 5000 children are believed to have been subject to trafficking to the neighbouring countries of Italy and Greece. The number of employed and street children is approximately 6700.

In order to improve the situation of the vulnerable groups, a number of pilot projects have been proposed. One of these projects involves the distribution of basic nutrition (one egg, milk, cheese) and vitamins (and other medicines) to the poor children who go to school. Expected results include the elimination of hunger and malnutrition of children, the improvement of children's health protection through medicines and vitamins, increased enrolment in schools and reduction of dropout rates. Another pilot project aims to raise awareness of women through education about rights and opportunities. The project will involve starting special education programs in local and national television. A third program will establish and re-establish maternal health care centres in rural areas. In these centres basic services and several important diagnosis and medicines will be offered free of charge. The expected result of the project will be improved maternal and child healthcare.

DECREASING PUBLIC DEBT IN BULGARIA

Bulgaria is making its last steps towards EU accession, and will join the EU in 1st of January 2007, according to the current roadmap. One of the most important criteria is the stable economy, and a balanced economic development. As a part of that, the trend of public debt shows the right direction.

BACKGROUND OF ECONOMY

The development of Bulgaria continues, as GDP growth stays above five percent, unemployment rate decreases, foreign trade and markets get more liberalized. Meanwhile, public debt decreased under 30% as a share of GDP, so Bulgarian economy grows without running into debt.

TABLE 2. MACROECONOMIC INDICATORS OF BULGARIA

	2001	2002	2003	2004	2005	Q1 2006
GDP growth (%)	4.1%	4.9%	4.5%	5.7%	5.5%	5.6%
CPI (%)	4.8%	3.8%	5.6%	4.0%	6.5%	8.0%
Unemployment rate (%)	17.3%	16.3%	13.5%	12.2%	10.7%	9.7%
Current Account balance (in % of GDP)	-5.6%	-2.4%	-5.5%	-5.8%	-11.8%	-4.6%
Net FDI (in % of GDP)	5.9%	5.9%	10.5%	13.9%	8.3%	3.1%

Source: Bulgarian National Bank, NSI

Foreign trade administration was eased a lot in the past, as many agreements came into force with countries like the Former Yugoslav Republic of Macedonia, Albania, Bosnia-Herzegovina or Serbia and Montenegro. Most of the trade is conducted with the EU countries, in 2006 export of Bulgaria grew by 30.2%, and import grew by 29.5% compared to 2005. The biggest difference was observed in case of the CIS countries, where import grew by more than 70%, especially with Kazakhstan and the Russian Federation. This trend seems to be changed in January-February 2006 when import grew by 33.7%, while export increased by only 31.4%.

The buoyant economic growth was powered by the boost of domestic consumption, which has two major consequences to mention:

- Residents were accorded more credit, so private sector debt increased significantly
- Current account deficit also increased

The current account deficit was over 10% in 2005, and it is not expected to decrease this year, in consequence of domestic consumption – financed mostly from credit – and the sharp increase of raw material prices – especially crude oil. Net FDI was 18% lower in 2005 – as no major privatisation was conducted.

APPROACHING TO EURO ZONE

EU accession is just ahead, but macroeconomic fundamentals already show that Bulgaria is on the right track towards the Euro zone. The entry not only depends on Bulgaria but also on Romania due to the fact that the European Union treats the two countries together.

One important factor of economic growth is that the incentives for investments and the subsidy policy for companies are very emphasized.

TABLE 3. DEBT STATISTICS OF BULGARIA

	2001	2002	2003	2004	2005	Q1 2006
Public Debt (% of GDP)	63.8%	48.2%	39.9%	32.8%	24%	19.6%
Private Sector Debt (% of GDP)	14.7%	17%	20.3%	31.4%	43.7%	44.6%
Budget Deficit (% of GDP)	-0.6%	-0.6%	0%	1.7%	3.2%	0.9%

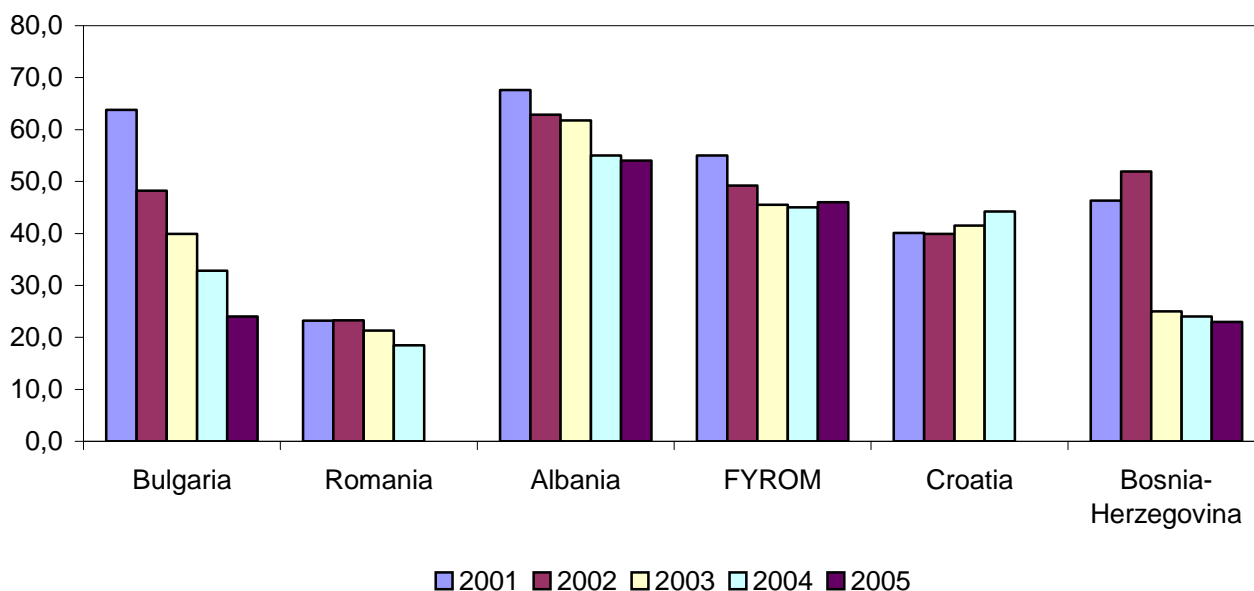
Source: National Bank of Bulgaria

Public debt is extremely low in Bulgaria, it dropped almost under 20% as a share of GDP, which is way below the 60% limit of Maastricht, and way below than the data of many European country. In line with the decrease of public debt, private sector debt increased with the same buoyancy. This was mostly caused by the boost of domestic credits by residents.

An authentic fiscal policy is necessary to a successful economic growth. The tax revenues of government always kept pace with the increase of expenditures. A typical problem is when government spending is exaggerated and budget deficit increases. In Bulgaria, there was a slight deficit at the beginning of the century, which turned into a surplus of 3.2% of GDP last year.

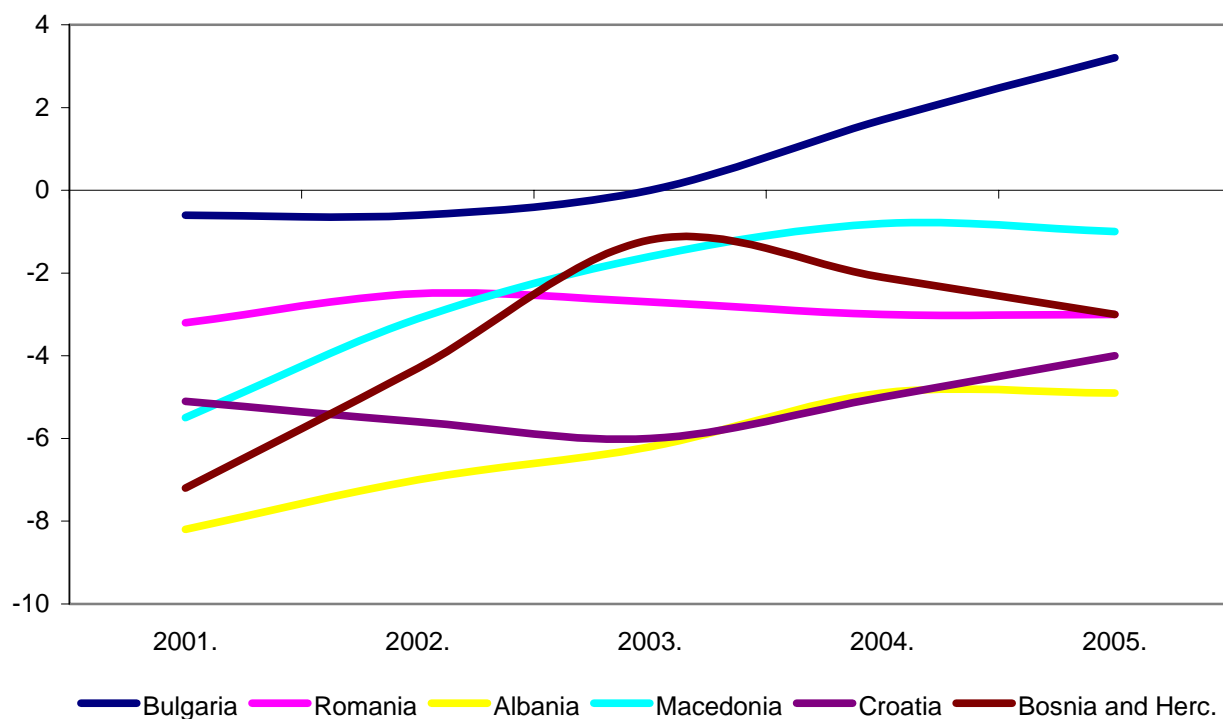
The government was not forced to implement some tax increasing decrees thanks to the stable public finance, so it could take part successfully in the „tax race” of the region. In terms of competitiveness, it is very important to attract foreign investors into the country, and low tax burden is one of the best opportunities for that.

CHART 1. GENERAL GOVERNMENT DEBT IN THE REGION (% OF GDP)



Source: Eurostat, OECD, IMF, Ministry of Finance

The most significant change in the evolution of public debt was that the government debt declined from over 60%, almost under 20%, while in other countries in the region, it remained at the same level or only a slight decrease was observed.

GRAPH. 4. GENERAL GOVERNMENT DEFICIT IN THE REGION, 2001-2005 (% OF GDP)

Source: Eurostat, OECD, IMF, Ministry of Finance

The development of budget deficit shows the same, as Bulgarian deficit is far the best in the region. This low level of deficit – or even surplus – was the base of the opportunity to decrease government debt.

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