APPENDIX 2
COUNTRY REPORTS / DEMOGRAPHY AND ECONOMY

1. ALBANIA

The Republic of Albania, located in the western part of the Balkan Peninsula; is bounded in the north-west and north by Serbia and Montenegro, in the east by FYROM, in the south-east and south by Greece, and in the west by the Adriatic Sea.

Albania is divided into 26 districts.

Albania is predominantly mountainous. Lowlands, which comprise less than one-quarter of the land area, are limited to a belt along the Adriatic coast north of Vlore and to various river valleys extending inland from the coast. The coastal lowlands have rich soils, but in many places the land is marshy or poorly drained.

Albania is rich in mineral resources particularly in high-quality chromium ores. Among the other minerals present are oil, natural gas, copper, nickel, coal, iron ore and phosphates.

1.1 Population

Albania has a population of 3,422,000 (2000 estimate). Population density is 118 people per square kilometre, but varies depending on relief. Density can reach 290 inh/km² on the coasts and in the large central basin. About 40 per cent of the people is classified as urban.

According to 1996 data, the population has tripled compared with 1938. However, the birth rate has strongly dropped, because of westernization of the population. The population is very young; 41% of Albanians are under 19.

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<thead>
<tr>
<th>Population (million)</th>
<th>Annual population growth %</th>
<th>Annual population growth % (1999-2015)</th>
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<tbody>
<tr>
<td>2.7</td>
<td>3.4</td>
<td>3.9</td>
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<td>1980</td>
<td>1999</td>
<td>2015</td>
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<td>1.2</td>
<td>1.0</td>
<td>Ages 0-60</td>
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<td>-0.7</td>
<td>1.4</td>
<td>Ages +60</td>
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<td>2.6</td>
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Migration balance (1999) : Over the 1996-1998 period, 500.000 persons have left Albania (mainly towards Greece (350.000), and towards Italy (130.000)).

The main cities are Tirana with a population of 251,000 (2000 estimate). Other major cities are the port and industrial centre of Durres (125,000), the agricultural marketing centre of Elbasan (101,000), the ancient town of Shkoder (84,000) and the seaport of Vlore (88,000).

About 1.6 million Albanians were economically active in the mid-1990s. About 45 per cent of the wage labour force was estimated to be engaged in agriculture, 20 per cent in industry, and 35 per cent in services. Unemployment reached 12.4% in 1997 and 17.7 in 1998.

Income and Consumption :
Albania is the country with the lowest income per capita in Europe, with high differences between the private and the public sector (3 to 1 ratio). Despite poverty, the cost of living is very high. According to the Albanian institute of statistics, an average household spends 80% of its income on food.

1.2 Economy

Albania’s gross national product (GNP) per capita was USD 1,481 in 1999 (World Bank estimate; PPP method)
Economy & Unit | 1995 | 1998  
--- | --- | ---  
GDP at market prices (current USD billion) | 2.4 | 3.1  
GDP growth (annual %) | 8.9 | 8  
Agriculture, value added (% of GDP) | 55.8 | 54.4  
Industry, value added (% of GDP) | 22.5 | 24.5  
Services, etc., value added (% of GDP) | 21.7 | 21  
Exports of goods and services (% of GDP) | 11.9 | 9.5  
Imports of goods and services (% of GDP) | 34 | 32.2  

Source: The World Bank, Albania Data Profile

The share of agriculture in national wealth is quite high compared with most European countries: 54% of GDP and 54% of labour. Indeed, more than half of the population lives in the countryside.

According to official sources, from 1992 to 1997, Albania has been one of the European countries with the most spectacular development, characterized by a low inflation rate, a strong and stable currency, a tripling of income per capita and a subsequent increase of vehicle registrations. The new economical policy conducted by the government since 1991 has brought the country to a transition economy. From 1992 to 1996, GDP has grown by 45%. In 1997, following the financial pyramid crisis, this growth considerably slowed down (-7%). According to latest forecasts, GDP should increase in 1999 by 13.8%, and by 8% in 2000. Albania has been able to stabilize its inflation around 9% since 1998.

The foreign deficit reached in June 1999 8.2 billion lek, with a rate of cover of imports by exports of 34%. Albania has been able to progressively restructure its foreign debt, which shifted from 500 billion dollars in 1995 to 472 billion dollars in 1998.

Foreign investments however did not reach the level expected. Indeed, according to the Albanian National Bank, those have kept on decreasing, from 90 billion dollars in 1996 to 45 billion dollars in 1998. Following the collapse of the communist bloc in 1991, the policy of privatisation of Albanian economy carries on, with the support of the IMF and the World Bank.

Albanian economy keeps relying on trade. Indeed, according to the latest ISTAT statistics, close to half of companies are involved in “buy-sell” types of activity, which represent 52% of the economy. Besides, about 10,000 companies belong to the Services sector, and close to 20,000 to Civil Engineering sector. However, the risk of bankrupt is still important.

**AGRICULTURE, LIVESTOCK, FORESTRY AND FISHING**

Most of population lives in rural zones and live out of agriculture. Agricultural production used to be controlled by 550 cooperatives, which have been taken by 45,000 family exploitations whose average size is 1.1 ha. Arable lands represent 25% of the country surface (0.7 million ha). The major crops include wheat, maize, sugar beet and potatoes. Grapes, citrus fruits, olives, cotton and tobacco are also grown. Livestock population includes cattle, sheep and pigs. Albania’s forests are an important natural resource, yielding wood for fuel,
timber, and veneers. The total annual fish catch from the Mediterranean Sea is of several thousand tons. Before
1990, 60% of lands were irrigated, whereas only 11% are still now. In 1999, production grew by 6% in comparison with 1998, due to an increase of the arable land, particularly vegetables and potatoes (+8%), beans, orchard trees and vineyard (respectively +20%, +5% and +2%).

The State has adopted for the first time, in collaboration with international organisations, an action plan to foster the development of the sector. This plan, based upon the distribution of lands through a process of sale by auction, aims at improving productivity and rural living conditions, addressing more efficiently the nutritious needs of the population, stabilizing agricultural markets and growing public awareness of environmental problems.

Throughout 1998, the imports of fertilizers has been above those of preceding years. Besides, during the first trimester 1999, the amount of fertilizers imported was 3 times higher than those of 1995 and 1997.

**Agricultural inputs** : During this period, the price of inputs stabilized, sometimes with a slight trend to decrease, in particular because of oil prices.

**Irrigation** : Several projects implemented have allowed the irrigation of 70000 ha of arable land (World Bank and IFAD projects, 2.2 million USD). 33 districts can already count on fully refurbished systems. The Albanian government is now conducting an important reform in the water sector, transferring the management of irrigation infrastructures to water users associations.

**Breeding** : This sector represents half of the agriculture production, and provides 70% of their income to farmers reorganized into more productive organizations. Aside from a significant improvement of breeding conditions, this sector has gone through deep modifications. Indeed the different farms have been equipped with new techniques, allowing artificial insemination.

**Food industry** : This industry represents 1,900 companies - most of them are small size -, specialized particularly in meat industry. Some of them are about to be privatised, and show opportunities for potential investors. Nowadays, food industry covers 96% of domestic needs of vegetables, 76% of fruit needs, 96% of meat needs and 99% of milk product needs.

The milk industry and the wine industry have particularly gone through a remarkable development. Indeed new milk farms have been built in Kavaja and Durres, and many wine growers settled there.

**Fishing** : Fishing is an important resource to Albania. This sector includes sea fishing, fresh water fishing, aquaculture, and fish transformation industry. The sector is completely privatized and employed, in early 1999, 3000 persons. However, due to the present dynamism of exports, 2000 hiring are expected shortly. The Albanian fishing fleet comprises 150 ships. New local and foreign private companies settled in Albania, and are in competition with the four former State companies.

**INDUSTRY**

Mining plays an important role in the Albanian economy. Oil extraction centred in the Berat and Fier districts is expected to increase from 350,000 tonnes in 1997 to 2.5 million tonnes by 2016. Production methods in the mining sector are still labour intensive. Other major exploited minerals are copper, chrome, nickel, coal, iron ore and phosphates.

The manufacturing sector includes factories producing chemicals, cement, fertilizers and machinery. Other new plants include oil refineries, textile mills, and an iron and steel mill at Elbasan. Other manufactured products include asphalt, copper items, cigarettes, beer and processed foods.

Several hydroelectric plants are expected to be built, mainly on the Drin River. Technical studies have already identified the sites of implementation.

**1.3 Commerce and trade**

In 1999, Albania has considerably increased its foreign trades. Characterized by a slow renewal of local industry (more than 40% of Albanian exports are local production goods, whereas the other 60% have only been partially produced in Albania), foreign trade has significantly increased in 1999, after a 2 years standby.
Albanian imports (1.19 billion USD), have displayed a strong renewal (+28.15%) compared with 1998. Exports have also risen by 20%. The balance trade deficit, which amounts 22.4% of GDP, has been subsidized in 1999 through the international community. In 1998, this support represented 48 million USD. Emigrant’s cash flow into the country is also important.

The adhesion of Albania to WTO has been, throughout 1999, one of the government priorities in term of economical and commercial development. Custom legislation reforms have been launched to reach international standards, and to ease the definition of long term international trade strategy.

In the framework of accession to EU, Albania foresaw the creation of a free zone between FYROM, Bulgaria and Turkey.

**INVESTMENT AND DEVELOPMENT ZONES**

According to the Albanian Economic Development Agency in 1998, investment opportunities, which correspond to future growing sectors, are light industry (clothes and leather), food transformation, wood transformation and construction. Other investments could come from privatisation processes now under way, in the following sectors : tourism, mines, hydrocarbons, gas…

Italy remains the main commercial partner with Albania. Besides in December 1999, 600 Italian companies were registered in Albania (97% are small scale). 60% are production companies and the rest are commercial companies. In 1999, Italian investments represented about 154 million USD, mostly in construction and food industry, shoes, textile and wood. Italian commerce employs 300.000 Albanian (1.5% of labor). A significant increase is still expected, particularly in energy, chrome, cement and mineral water sectors.

More than 30% of companies are gathered in the district of Tirana (18.000), then Vlora (4.750), Durres (4.700), Elbasan (3.000), Fier and Lushnje (2.000).

The corridor between Tirana and Durres seems to be one of the most attractive regions because of the high number of companies and port facilities. More than 60% of foreign investments are implied in this zone, which represents 27% of the domestic trade.

In order to promote foreign investments, the government foresees to implement a metropolis between Durres and Tirana. It would represent 30 ha and comprise 1.3 million inhabitants. Besides, a group of potential investors plans to set up an industrial zone on 32 ha between the two cities.

**TRADE PRODUCTS**

The principal imports are textile and footwear material (16% of total value in 1999), vegetable products (12%), heavy machinery and electrical equipment (11%), foodstuffs, beverages & tobacco (9%) and mineral fuels and lubricants (9%). Other imports consist of iron and steel items, and electronic and precision equipment.

Principal exports include textile and footwear (60% of total value in 1999); mineral products (crude oil, asphalt for 6%); base metals (iron ore, chromium ore, copper for 5%); food (vegetables and fruit, tobacco and wine for 5%). However, 85% of shoes and 73% of textiles imported are re-exported after transformation.

In 2000, annual exports earned about USD 300 million and imports cost about USD 1,000 million. It was reported that Albanian migrant workers remitted about USD500 million annually.

**TRADE DESTINATIONS**

The main destinations of official exports, for 1999, were Italy (67% of total value), Greece (14%), Germany (6%), Austria and FYROM (2%).

The main origins of official imports in 1999 were Italy (38%), Greece (28%), Germany (6%), Turkey (6%) and Bulgaria (3%).

*External trade of Albania is represented in the two following plans.*
2. BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina, is bounded in the north and west by Croatia, and in the east and south by Serbia and Montenegro. Its area is 51,129 square kilometer.

Mountains traverse much of Bosnia and Herzegovina's territory. The northern part is heavily forested, while the south, has flatter regions of fertile soil which are primarily used as farmland. The country also has about 20 km of coastline along the Adriatic Sea.

Bosnia and Herzegovina is rich in natural resources, including large tracts of arable land, extensive stands of timber, and valuable deposits of such minerals as salt, manganese, silver, lead, copper, iron ore, chromium, and coal.

2.1 Population

At the year end 2000, the total population was estimated at 4.3 million inhabitants.

About 40% of the total population was considered as urban. Nearly 60% of population still live in rural areas.

The main cities are Sarajevo (526,000), Zenica, (146,000), Banja Luka (145,000), Tuzla (132,000), Mostar (126,000) and Prijedor (112,000).

<table>
<thead>
<tr>
<th>Population (million)</th>
<th>Annual population growth %</th>
<th>Annual population growth % (1999-2015)</th>
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<tr>
<td>4.1</td>
<td>3.9</td>
<td>4.3</td>
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2.2 Economy

MACROECONOMIC BACKGROUND AND PROSPECTS (IMF analysis)

The monetary unit of Bosnia & Herzegovina is the mark (2.12 mark equal one USD, average for 2000).

Bosnia and Herzegovina's economy remains largely based on agriculture, with tobacco and fruit as the major products. Much of the industry is located in regions occupied by Serbs, and it was estimated that 80 per cent of the industrial plants were destroyed.

The country's gross national product (GNP) per capita, PPP method reached USD 1,494 in 1999.

The pre-war economy of Bosnia –Herzegovina was fairly diversified, with a large industrial base and a highly educated labor force. The average per capita GDP in 1990 was US$2,446 and nearly half the annual GDP was produced in the industrial sector of the economy, notably in energy and raw materials (electricity generation, wood production and mining), and manufactured goods (textiles, footwear, machinery and electrical equipment). Agriculture accounted for just about 10 percent of GDP. International trade was an important factor, with exports and imports accounting for 24% of GDP and 19% of GDP, respectively. Although closely integrated with the former Socialist Federal Republic of Yugoslavia, and to a lesser extent with the socialist bloc, Bosnia and Herzegovina also exported a wide variety of goods, constituting nearly half of its total exports, to « hard currency » Western countries.

However, by the end of the war in 1995, GDP had contracted by about 80 percent from its pre-war level, and the annual per capita GDP had shrunk to just about US$500. The physical infrastructure of the country had almost been completely destroyed, an industrial activity in the country had contracted by 90 percent from its pre-war level. Trade had been virtually paralyzed during the war, and by the end of the war exports of nearly all products had dried up.
Growth in the period immediately following the war reflected primarily reconstruction of the country financed by the exceptionally large levels of donor assistance (nearly US$5.1 billion between 95 and 99). Jump-started by the reconstruction effort, real GDP grew at an annual average rate of some 36% during the period 1996-98. Industrial production nearly doubled, and was mainly concentrated in the production of wood products, textiles and apparel, and foodstuff and beverages. Agricultural activity also recovered, with the production of food crops (mainly wheat) rising to about 80% of its pre-war level. In the initial post-war period, growth was largely restricted to the Federation of Bosnia and Herzegovina, which began receiving donor assistance earlier, and in larger amounts, than the Republic of Srpska. During this period, growth in the Republic was generally less rapid than that experienced in the Federation, partly because it has a higher base owing to considerably less war devastation and dislocation experienced by the Republic of Srpska than in the Bosnian areas of the Federation.

In the spring of 1999, the momentum of recovery that had been established in both entities of Bosnia and Herzegovina was interrupted by the conflict in the FRY. In particular, the disruption of economic activity linked with the FRY had a severe impact on the economy of the Republic of Srpska, which was heavily dependent on the FRY as a source of raw materials, and also as its chief market for finished goods. The recent, gradual emergence of inter-entity trade has partially mitigated the adverse consequences of the Kosovo conflict on the Country.

Medium-term prospects

Against this background the key challenges facing the economy of Bosnia and Herzegovina are to regenerate the momentum of growth that was interrupted by the crisis in the FRY, and to foster a favorable environment for private investment.

The medium-term macroeconomic framework for Bosnia and Herzegovina is designed with a view to achieving annual average real GDP growth of more than 9% over the period 2001-05. Attaining such growth rates will entail non-government investment ratios to be maintained at about 16% of GDP during this period. To facilitate adjustment of the current account necessary to reach this goal, Bosnia and Herzegovina’s exports will have to grow at an average of 14% during 2000-05. At the same time, non-reconstruction imports will have to grow by some 10% in order to support the rapid growth of private investment. However, imports of consumption goods will decline as the domestic industry recovers, and imports for reconstruction, that are projected to reach nearly $530 million in 2001, are expected to decline sharply to just about US$150 million in 2005.

If Bosnia and Herzegovina is successful in growing at the targeted rates over the period 1998-2005, it will double its annual per capita GDP to SUS2,000 in 2005, about 20% below its pre-war level. For Bosnia & Herzegovina to realize its full potential, both the agricultural and industrial sectors of the economy will have to experience sustained growth in the period ahead. This will entail the implementation of sound macroeconomic policies, and a determined effort to ease several impediments to private investments and real GDP growth.
AGRICULTURE, LIVESTOCK, FORESTRY AND FISHING

Agriculture has always characterized the Bosnian way of life and has played an important role in the country economy as it employed during the war 20% of labor on full time, and at least the same percentage on half time. Severe damages have been inflicted to irrigation systems, equipment, infrastructure, livestock, cultures. The cost of damages was estimated at 4.5 billion USD.

Besides, many factors still limit its recovery: weakness of infrastructures, insufficient financial and political support from the State, out-of-date technologies, equipment and training.

The food industry is the sector that went through the strongest development in the 70’s, even though it represented a slight share of GDP, compared with other industries. The most advanced segments were the transformation of fruits and vegetables, bakery, food pastes, and flour. The sector represented, in 1997, respectively 13.2% and 5.7% of the industrial production in the Federation and in Republic of Srpska.

Flour mills and industrial bakeries were implanted in most large cities and conglomerates vertically integrated realized most of food sector production: Meat, cookies in Velika Kadusa, fruits, vegetables and wines in Mostar, all sectors in Sarajevo, fruits and vegetables in Banja Luka.

The whole sector may develop quickly with the support of a strategy of substitution to food imports (which still represent 50% of needs).

INDUSTRY

In the Federation of BiH in 2000, the industrial production increased by 8.8% compared to the average in 1999. The industrial production recorded the biggest volume in the fourth quarter. The increase in the total of industrial production was mainly affected by the increase in production of energy, which takes 35.3% of the total industrial production.

Given the branches, the highest increase of production was recorded in the area of energy products supply, when compared to the average production recorded in 1999. In the Republic of Srpska, the industrial production in 2000 increased by 5.6% compared to the average in 1999. The production of non-ferrous metals and chemical base industry recorded the highest increase in 2000 compared to the average in 1999. Given the purpose of production and compared to an average production recorded in 1999, the production of raw materials increased by 8.6%, instruments of labour by 2.3%, while consumer goods production decreased by 1.5%.

Mining and manufacturing: Mining has traditionally been the major industry in Bosnia and Herzegovina with metal semi-processing. The recovery of activities is unequal. This sector employed more than 100 000 persons in 1991, and has been widely developed between 1950 and 1990. It played an important role in the industrial development of the country and mainly in the under-developed regions, where female labour had little chance to find a job in other sectors. Nowadays, this sector employs 20 000 persons in the Federation, 15% of the total industrial labour.
Textile: Spinning and weaving appeared after the confection sector, but have never been really performing and remain little engaged in exports. Natural resources are rare, and producers often imported their raw materials or were linked by sub-contracts, which limited the needs of the economy in raw materials. Hence, there is almost no integration nor intra-industrial relations in the Bosnian textile sector. Leather industry produced principally shoes, a part of which was exported mainly towards Italy or Germany.

2.3 Commerce and trade

Warning: Those local statistics should be analysed with care, since the collection of data is still very approximate and fragmentary: Serb entity is in general not taken into account, the figures only concern the Federation.

The principal imports are machinery & transport equipment (27% of total value in 1999), industrial products (21%), foodstuffs, beverages & tobacco (16%) and miscellaneous manufacturing.

Principal exports include industrial products (27% of total value in 1999); miscellaneous manufacturing (25%); crude material excluding fuel (24%), machinery and transport equipment (10%). In 1999, annual exports earned about USD 830 million and imports cost about USD 2,580 million.

Unstructured and almost non-existent during the 4 years of conflict, foreign trades have significantly increased after 1996, due to the restart of GDP, almost dependant on foreign aid. During this period, the rate of coverage of imports by exports has only reached 23.3% in the Federation and 24.9% in the Republic of Srpska.

The following table indicates the exchanges for the Federation (the Republic of Srpska is considered to realise 50% of imports and 75% of exports with FRY). According to latest data, the reduction of deficit should have carried on in 1999 and 2000, thanks to the rise in exports and to the drop in imports.

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<tbody>
<tr>
<td>Total exports</td>
<td>336</td>
<td>570</td>
<td>445</td>
<td>474</td>
<td></td>
</tr>
<tr>
<td>Total imports</td>
<td>1800</td>
<td>2200</td>
<td>2854</td>
<td>1988</td>
<td></td>
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<tr>
<td>Balance</td>
<td>-1464</td>
<td>-1630</td>
<td>-2409</td>
<td>-1514</td>
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</tbody>
</table>

*: projections from first semester results

TRADE DESTINATIONS

The geographical analysis of trades of the Federation show that, despite important annual fluctuations in trade with its foreign partners, the countries of the Mark zone are by far BiH’s main providers and clients. The two former Yugoslavian Republics, Croatia and Slovenia, with whom BiH had intensive trade exchanges before the war, are still main partners. Italy and Germany are also traditionally widely represented in BiH foreign trade. A third group is constituted by other EU countries, with the first rank being the Netherlands, France and the UK. Hence, Western Europe represents in total 60/65% of total imports/exports with this country. Finally, the share of Eastern European countries (Hungary first) tends to increase.

TRADE COMMODITIES

a. Imports: Considering the particular background of Bosnia and Herzegovina, under certain priorities in terms of reconstruction and population basic needs, the panel of imports, still dedicated to these tasks, is quite narrow. It comprises 3 major groups of products; as well, as a direct consequence of war damages to the production sector, Bosnian interest is restrained towards rather traditional goods.
b. In exports, 3 sectors are in leading position: Federation sales, which have increased by 50% between 1996 and 1999, rely essentially on several products: raw minerals, half-manufactured products, industrial products and transport equipment; manufactured products come from the transformation of paper, leather and wood; textiles, whose share tend to increase significantly. Other sectors make little contribution to exports. The growth trend of exports, initiated in 1996, has been concentrated on the 3 major sectors.

*External trade of Bosnia and Herzegovina is represented in the two following plans.*
3. BULGARIA

The Republic of Bulgaria, situated in the Balkan Peninsula, is bounded in the north by Romania, in the east by the Black Sea, in the south by Turkey and Greece, and in the west by Yugoslavia and FYROM. The capital and largest city is Sofia. The area of Bulgaria is 110,994 square kilometres.

More than half of Bulgaria is hilly or mountainous. The Balkan Mountains cross the country from the north-western corner to the Black Sea and form the watershed between the River Danube and the Aegean Sea.

The main resources of Bulgaria are agricultural. The country also has a wealth of metallic and non-metallic minerals, mainly iron ore and coal. Other mineral reserves are small, but some deposits of manganese and oil seem to be valuable.

Approximately one-third of Bulgaria is forested, and half this area supports tall trees suitable for timber.

3.1 Population

The last official estimate of the population of Bulgaria is 7,974,000. The 1985 census population was 8,950,000, and the subsequent decrease is partly attributed to the mass migration of Turks fleeing government persecution in the late 1980s. Population density is about 80 people per square kilometre. In the early 1990s about 68 per cent of the people were defined as urban.

Bulgaria’s principal political divisions include 28 administrative regions, the city of Sofia (with 12 districts), and more than 4,000 village communes (obshtinas).

The major cities are Sofia, with an estimated population of 1,122,000 in 2000, Plovdiv (343,000), a centre for light industry; Varna (300,000), the principal seaport, Burgas (195,000), Ruse (166,000), Stara Zagora (148,000) and Pleven (122,000).

<table>
<thead>
<tr>
<th>Population (million)</th>
<th>Annual population growth %</th>
<th>Annual population growth % (1999-2015)</th>
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<tbody>
<tr>
<td>1980</td>
<td>1999</td>
<td>2015</td>
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<tr>
<td></td>
<td>Ages 0-15</td>
<td>Ages 0-60</td>
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<tr>
<td></td>
<td>Ages +60</td>
<td></td>
</tr>
<tr>
<td>8.9</td>
<td>8.2</td>
<td>7.3</td>
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<tr>
<td>-0.4</td>
<td>-0.7</td>
<td>-2.2</td>
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<tr>
<td>-2.2</td>
<td>-0.6</td>
<td>0.5</td>
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</table>

3.2 Economy

The monetary unit of Bulgaria is the lev (2,123 lev equal one USD average 2000).

In 1999, the country’s Gross National Product per capita (PPP method) was USD 4,094.

<table>
<thead>
<tr>
<th>Economy</th>
<th>Unit</th>
<th>1995</th>
<th>1998</th>
<th>1999</th>
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<tbody>
<tr>
<td>GDP at market prices</td>
<td>current USD billion</td>
<td>13.1</td>
<td>12.3</td>
<td>12.1</td>
</tr>
<tr>
<td>GDP growth</td>
<td>annual %</td>
<td>2.9</td>
<td>3.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Agriculture, value added</td>
<td>% of GDP</td>
<td>12.7</td>
<td>18.7</td>
<td>18</td>
</tr>
<tr>
<td>Industry, value added</td>
<td>% of GDP</td>
<td>31</td>
<td>25.5</td>
<td>27</td>
</tr>
<tr>
<td>Services, etc., value added</td>
<td>% of GDP</td>
<td>56.4</td>
<td>55.7</td>
<td>55</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>% of GDP</td>
<td>44.7</td>
<td>45.2</td>
<td>38.5</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>% of GDP</td>
<td>46.3</td>
<td>46.3</td>
<td>42.8</td>
</tr>
</tbody>
</table>

Source: The World Bank, Bulgaria Data Profile

OVERVIEW AND PROSPECTS

1. Medium prospects (IMF 2001 analysis)

Bulgaria’s growth performance in the last decades has been uneven. The extensive growth model introduced under central planning more than 40 years ago was initially highly successful in achieving rapid growth. But the strategy based on industrialisation and high investment has exhausted its growth potential by the early 80s, and the authorities’ inability to change course left Bulgaria with a highly distorted economy and a heavy external debt burden at the onset of the transition in the 1990. Sound economic policies since 1997 have, however, resulted in a turnaround. Notwithstanding unfavourable external developments, including the Kosovo crisis,
GDP growth has been positive since 1998, and it accelerated to a robust 5 percent in 2000. However, Bulgaria is still lagging the advanced transition countries in the recovery from the transformational recession.

Despite the remarkable turnaround since 1997, conditions for self-sustained growth appear not to be fully in place. Aggregate demand in recent years has been driven mainly by the rebound from 1996-97 crisis and external factors. A look at the supply side also suggests that the economy is still in a recovery phase, with production factors being far from fully utilised (late renewal of industrial production, decline of a disorganised agriculture). Moreover, significant structural and institutional bottlenecks continue to curtail Bulgaria’s growth potential. Enterprises’ access to bank financing is low and corporate governance remains weak. Foreign direct investment and exports are still concentrated in more traditional sectors, and the quality of the institutions and the business climate falls short of what is needed to support a dynamic private sector.

2. Optimistic prospects (DFER 2001 analysis)

Industrial and agricultural production drops resulting from a process of restructuring and privatisation of State enterprises have not impeded these reforms to have very positive impacts on the economy. Foreign investments have steadily increased since the beginning of reforms in 1997, and the private sector shows off a good level of investment. The stabilisation success has been widely confirmed in year 2000, with a strong GDP growth, close to 5%. Restructuring of the economy has continued, with great successes in term of privatisation, despite the drop in the Euro and the oil crisis.

But the weak structural points should not detract from the considerable progress that has been made in less than 3 years: from being one of the latest countries to transition and struck by a serious financial crisis in 1997, the country has just signed the first SAPARD agreement (European funds for agriculture). This demonstrates the determination and the capacity of the authorities to move forward and to join the European Union as fast as possible.

By the end of September 2000, GDP reached 8,621 Million USD, which represents an augmentation of 5.6% in comparison with January-September 1999. The added-value created by the private sector represents 69% of GDP (+14% compared with 1999). The services sector has created 56.2% of GDP added-value, industry 28.6%, agriculture 15.5% (-2% compared with 1999). These figures show the deep evolution of a restructured economy towards an economy lead by services.

The informal economy is estimated at more than 30% of GDP, and is considered by the IMF to employ about 1 million persons, most of them in precarious conditions.

**AGRICULTURE & LIVESTOCK**

After 1992 land was returned to its former owners. The chief crops are wheat, rye, maize, barley, oats, cotton, tobacco, grapes, tomatoes, sugar beet, potatoes, and cabbage.

The principal Bulgarian timber areas are in the vicinity of the Rila, Rhodope, and Balkan mountains. About 3.5 million cubic metres of timber are produced each year.

The fishing industry produces a catch of about 20,000 tons annually. Canning and processing plants are located at Varna and Burgas, on the Black Sea coast.

Agriculture will be one of the biggest problems during negotiations on *aquis communautaire*. It is very weakly restructured: the restitution of land is almost over, but leads to huge imbalances, which do not facilitate the renewal of normal production: On one side, thousands of small farms with very low productivity (self-sufficiency agriculture without development potential); on the other side, larger holdings are badly managed by...
cooperative-like institutions. A great deal has also to be undertaken at the institutional level: Ministries should carry on the reforms initiated 2 years ago by government.

a. Cereals

Wheat production: wheat is the principal component of Bulgarian agriculture. In 1999, wheat lands represented 1 113 370 ha, versus 1 361 868 in 1988 (18.3% decrease). However, according to the Ministry of Agriculture, farmers wish to increase the land area of wheat culture (+5% in 2000).

b. Fruits and vegetables

Despite many difficulties, Bulgaria remains a major producer of fruit and vegetables: in 1997, 942,000 tons of vegetables (130,000 tons of fruit on 250,000 ha). From now on, private vegetable producers are in the majority, and their main products are the following: tomatoes (83%), peppers (55%), potatoes (92%). This production is sufficient to meet domestic needs and export. However, the fruit sector faces serious difficulties: the bad condition and ageing of orchards because of a lack of maintenance (drop of production). This deplorable situation is in fact directly linked to the restitution of lands to their owners. As long as these neo-owners don’t have access to low rate loans, they won’t invest in new plantations or in modern and reliable equipment.

c. Breeding

Before the vote of a law on privatisation and land reforms, agriculture was dominated by the State. In 1991, breeding has been overwhelmed by the elimination of rural cooperatives set up in the 80s. This has been fatal to the sector: a part of the livestock has been liquidated. Nowadays, this sector faces many difficulties, on the quantitative and qualitative aspects (for example, incomplete veterinarian and sanitary controls, identification of cattle and registration of animals, lack of hygiene in the exploitations…). On one side, the demand of meat and milk consumers is rising (5 to 17%); on the other side, local production is not able to address this demand.

Since 1991, livestock has dropped by 30%. Caprine and bovine slightly increased by 2% in 1999. One third of the breeding dedicated to the milk industry has disappeared between 1991 and 1995. Today, the average farm comprises 3 animals.

Milk: Milk production is constantly decreasing (-20% between 1992 and 1997) and is characterised by milk of bad quality. This crisis is structural before all: livestock in bad shape, seasonal production...

Meat: Meat production (386,000 tons in 1999) tends to decrease because slaughtering infrastructure are old and lack equipment

Prospects:

With the evolution of consumption habits, influenced by Western Europe, there is a potential market for meat and its derivatives. The Ministry of Agriculture has set up a policy, whose priorities are the evolution of the livestock in the short term, technical monitoring and training in new transformation technologies, the implementation of financial aids and new legislation.

MINING AND MANUFACTURING (more precise information is not available)

Bulgaria has a large variety of mineral resources including metallic and non-metallic ores. Coal constitutes the majority of Bulgaria’s mineral production. Total annual coal production was about 28.7 million tons in the mid-1990s. In the mid-1990s about 263,880 barrels of crude oil were produced each year. Annual production of iron ore was about 268,000 tons. Copper, zinc, lead, and natural gas are also commercially exploited.

In the mid-1990s the manufacturing and construction together accounted for more than 35 per cent of the country’s gross domestic product. The metalworking and chemical industries, as well as the food-processing, tobacco-processing, and machinery-manufacturing enterprises, are among the newer, more productive areas. Textiles are the oldest manufacturing activity in Bulgaria and, except for cotton goods, largely use domestic raw materials. The manufacture of building materials, including cement, brick, and glass, is well developed. Leather goods and leather and rubber footwear are well-established industries but are not yet equal to demand. Metallurgical and metalwork industries are largely dependent on imports of raw materials. The domestically mined ores, however, are refined and fabricated into products in Bulgaria. Machine-building and engineering are being expanded, especially for light electrical equipment.
3.3 Commerce and trade

In year 2000, and for the first time in many years, exports have risen by 20% in comparison with 1999. The success shows that the modernisation of Bulgarian industry, thanks to a privatisation policy, starts to bear fruit. However, due to a comparable increase of imports (17.7%), this performance is not enough to address the commercial and current account deficits.

A STRUCTURAL DEFICIT

In year 2000, despite a record export level of 14.8 billion USD, commercial deficit has worsened for the third year in a row (+12%), to reach the record amount of 1 681 million USD. This deterioration is mainly due to a strong rise in imports, which edges with the weak precedent increases:

- 1998 : + 1.4%
- 1999 : + 9.9%
- 2000 : +17.7%

This important slide is due in great part to the rise in the dollar and of oil products. It reflects, to a smaller degree, the growing needs in means of production of a newly privatised industry, and also, a slight increase of domestic consumption, which boosts imports of consumables: +10% of tourism vehicles in 2000 compared with 1999.

The drop of exports, almost continuous since 1992, confirmed in 1998 (-13%) and in 1999 (-6%) is over, and exports have at last increased in 2000 by 20%. This good performance isn’t however enough to counterbalance the simultaneous rise in imports (+17%).

The accumulation of negative balances since 1992 (except 1997, when imports collapsed), give evidence of the disorganisation of Bulgarian economy and the impact of foreign crises during the 10 first years of transition. In total, commercial trade, which had only progressed by 1.3% in 1999, jumped by 18.7% in 2000.

COMPOSITION OF TRADES

Annual exports in 2000 were valued at about USD 4.5 billion. The chief exports were textiles & clothes (947 USD million), base metal products (USD 648 million), animal and food (USD 631 million), machinery & transport equipment (USD 584 million), chemicals, plastics & rubber (USD 501 million), and minerals & fuels (USD 434 million).

Yearly imports, in 2000, were estimated at about USD 5.9 billion. The principal imports, in 1999, were machinery & transport equipment (USD 1,716 million), mineral products & fuels (USD 1,411 million), textiles & clothes (USD 791 million), chemicals, plastics & rubber (USD 673 million), animal and food (USD 340 million) and base metal products (USD 288 million).

The importance of Bulgarian imports of equipment goods illustrates the need for entrepreneurs to modernise their production tools: these purchases represent one quarter of imports in year 2000, a high level which attests to the modernisation effort underway. This also correlates with the implementation of numerous equipment and infrastructure projects, and international financing.

The same percentage occurs in the import of raw materials (outside of petroleum and natural gas), which, after a serious drop between 1998 and 1999, seems to have stabilised in 2000. This suggests the end of the industrial activity collapse.

On the other hand, the increase of gas and petroleum invoices (+46% in year 2000) are heavier and heavier on total imports for the country, as they now represent 26.8% of the total, compared with 21.5% last year. This reflects of course the rise in dollar and energy prices.

The relative share of consumables imports slightly diminished (-1.3% in 2000), and represents 7.5% of all foreign purchases made last year.

The level of exports of manufactured and transformed products is increasing, and represents in 2000 more than 47% of exports (44.9% last year). The high share of manufactured products illustrates the growth of sub-contracted Bulgarian workshops.

The sale of raw materials, minerals and chemical products, which had traditionally the largest share in exports, is now confronted with more and more competitive markets, and now only represents one third of exports. Equipment goods and machines sales also dropped (11.2% in 1999 ➔ 9.6% in 2000). The export of agriculture
and food products, including tobacco, is also dropping (13.1% in 1999 → 9.2% in 2000), which illustrates the difficulties of agriculture developing again.

**COMMERCIAL PARTNERS & ADHESION TO EUROPEAN UNION**

The preponderant role of the European Union as a commercial partner, already confirmed in 1999, has strengthened in 2000, which now represents 44.5% of Bulgarian foreign trade. Commercial integration to the EU grows at the expense of Russia.

Since 1999, imports have increased by 30% with Spain, by 26.4% 18.5% with Italy, by 4.6% with UK and by 2% with Greece. Italy and Germany are the best clients, followed by Greece, France and Turkey. The main commercial partner, Russia, has significantly lost ground, even though the rise of gas and oil imports has slowed this trend. Exports towards Russia have dropped by 63% in 1999, and by 20% towards Eastern European countries.

Bulgarian adhesion to CEFTA has implied a strong progression of trades with countries of this zone, which, in 2000, represented 6.7% of foreign trades, which illustrates its false integration in the regional environment. With the lifting of the Yugoslavian embargo, sales to this country have increased outstandingly in one year (+228%).

**CONCLUSION**

The Bulgarian economy still remains very vulnerable to foreign crisis. The significant increase of Bulgarian exports is the tangible sign that modernisation of the industrial sector, recently privatised, begins to bear fruit. Under the impulse of foreign investors and purchasers, attracted by the improvement of production techniques and methods, many small companies participate in this process. The trade balance will also depend on the capacity of other sectors to modernize, such as agriculture.

*External trade of Bulgaria is represented in the two following plans.*
4. CROATIA

The Republic of Croatia, in the Balkan Peninsula, is bounded in the north by Slovenia and Hungary, in the east and south by Bosnia and Herzegovina, and in the east by Serbia. The area around the Croatian city of Dubrovnik, located at the southernmost tip of the republic's long western coastline on the Adriatic Sea, has a short border with Montenegro. The country has an area of about 56,538 square kilometres.

Croatia is divided administratively into 20 counties, 2 districts (under Serbian control), 68 towns, and 324 municipalities, all administered by elected councils.

Croatia's diverse territory includes flat plains, low mountains, a coastline of 1,778 km, and offshore islands.

Croatia is rich in mineral resources, and before the outbreak of war in 1991, mining and quarrying were important sources of employment. Natural gas, oil, bituminous coal, lignite (brown coal), bauxite, low-grade iron ore, and china clay are the most abundant of the mineral resources found in Croatia. In certain regions calcium, natural asphalt, silica, mica, and salt can also be found.

4.1 Population

The total population of Croatia according to the 1991 census was 4,784,265; it was estimated in 2000 at 4,600,000. Half the population lives in urban areas.

The main cities are Zagreb, the primary industrial centre, with a population of 868,000 (estimate for 2000); Split (200,000) and Rijeka (168,000), two important seaports; and Osijek (130,000), an industrial centre. The remainder live in smaller towns including Zadar (80,000), Pula (62,000), Karlovac (60,000), Slavonaki Brod (56,000), Dubrovnik, Sisak and villages.

Demography prospects:

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<tbody>
<tr>
<td>1980</td>
<td>4.6</td>
<td>4.5</td>
<td>4.3</td>
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4.2. Economy

GENERAL ECONOMY

Before the outbreak of war in mid-1991, close to two-thirds of the country's land was cultivated (sugar beet, wheat, and maize). Abundant mineral resources supported a productive mining industry. Other industries included oil refineries, iron and steelworks, shipyards, and plants producing chemicals, foodstuffs, machinery, cement and concrete, metal products, and textiles.

The GDP per capita, PPP method, for 1999, was estimated at $5,287.

<table>
<thead>
<tr>
<th>Economy</th>
<th>Unit</th>
<th>1995</th>
<th>1998</th>
<th>1999</th>
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</thead>
<tbody>
<tr>
<td>GDP at market prices</td>
<td>current USD billion</td>
<td>15.8</td>
<td>20.9</td>
<td>20.4</td>
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<tr>
<td>GDP growth</td>
<td>annual %</td>
<td>6.8</td>
<td>2.5</td>
<td>-0.3</td>
</tr>
<tr>
<td>Agriculture, value added</td>
<td>% of GDP</td>
<td>10.7</td>
<td>8.9</td>
<td>8.6</td>
</tr>
<tr>
<td>Industry, value added</td>
<td>% of GDP</td>
<td>34.3</td>
<td>32.4</td>
<td>32.0</td>
</tr>
<tr>
<td>Services, etc., value added</td>
<td>% of GDP</td>
<td>55.0</td>
<td>58.7</td>
<td>59.4</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>% of GDP</td>
<td>38.6</td>
<td>40.0</td>
<td>40.7</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>% of GDP</td>
<td>49.5</td>
<td>49.0</td>
<td>48.1</td>
</tr>
</tbody>
</table>

Source: The World Bank, Croatia Data Profile
The economic growth has started to recover in 2000, with an increase of 3.6%, whereas it was negative in 1999. The industrial production has risen by only 1.7% between 1999 and 2000. This positive trend has been observed at the end of the year, which leads to expectations of a better situation in 2001. The Chemical industry goes through the best growth (+10%), whereas the maritime industry contracts and loses 9 points.

Since late 1999, growth and production are recovering, though quite weakly. Important sectors for economy, such as the maritime industry, food industry and textiles are more active than the previous years. Besides, tourism is now in very good shape.

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<tr>
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</thead>
<tbody>
<tr>
<td>Energy</td>
<td>92.4</td>
<td>96.4</td>
<td>100</td>
<td>109.3</td>
</tr>
<tr>
<td>Intermediate goods</td>
<td>98.2</td>
<td>96.3</td>
<td>100</td>
<td>99.0</td>
</tr>
<tr>
<td>Capital goods</td>
<td>93.2</td>
<td>99.0</td>
<td>100</td>
<td>94.7</td>
</tr>
<tr>
<td>Durable consumer goods</td>
<td>77.6</td>
<td>101.7</td>
<td>100</td>
<td>109.7</td>
</tr>
<tr>
<td>Non-durable consumer goods</td>
<td>91.4</td>
<td>95.9</td>
<td>100</td>
<td>94.2</td>
</tr>
</tbody>
</table>

Pessimistic analysis and prospects (DFER):

Companies are paralysed and don’t invest despite a slight decrease in loan interest rates. The previous government has not wished to set up an industrial restructuring policy, to reform or to liquidate the public companies showing debit balance, and kept subsidising them. The new government inherited a critical situation, since inter-enterprise debts are at their highest. Companies are thus unable to self-finance their investments, and face prohibitive interest rates in the financial markets (15 to 17%). Structural problems will still last a long time.

Optimistic analysis and prospects (Croatian Ministry of Economy):

Beginning year 2000, the Croatian economy was in recession; it has been impoverished and affected by the high cost of public expenditure. After a few years of macroeconomic stability, based mainly on monetary and fiscal discipline measures, in 1998, the signs and tendencies of recession arose, which clearly indicated that the overall stability had come to an end. In the previous period, the overall economic growth was stimulated by the growth of domestic demand and supported by the imports of consumer goods. The serious lagging behind of structural reforms and privatisation, followed by the problems in the banking sector were clear evidence that the Croatian recession was structural.

The new Croatian Government is committed to start with gradual, but accelerated solutions of accumulated problems, implementing structural reforms, tactical measures and minor daily moves, which will eventually result, in their totality, with the desired economic recovery and progress. In this regard, particular emphasis will be placed on technological, manufacturing, market, business and ownership restructuring of production. Special incentives will promote the inflow of foreign capital into new production activities.
In order to overcome recession and to create preconditions for a more efficient market economy, the Croatian Government wishes to achieve the following objectives:

- political and macroeconomic stability,
- economic growth of at least 3% to 5%,
- exports growth faster than GDP growth, reduction of the balance of payments deficit,
- increase in foreign direct investments,
- acceleration of privatisation of large enterprises.

**AGRICULTURE, LIVESTOCK, FORESTRY AND FISHING**

Almost two-thirds of the Republic's land is cultivated. Agriculture is diversified in the plains in north and central part of the country (wheat, maize, sugar beet, hop and cow stock breeding); sheep breeding is practised in the karst mountainous area and Dalmatian littoral produces renowned wine.

**a. Milk industry**

Since 1991 (and the civil war years that caused an important rural exodus), the bovine livestock keeps decreasing in Croatia: 731,000 heads in 1991 to 426,000 in 2000.

The milk production is realised by a multitude of small farms, which makes collection difficult. Production shifted form 889 million litres in 1990 to 602 million litres in 1999. Only 6% of the production is handled by cooperatives, and 51% is sold to milk industries, highly subsidised by the State. The rest is kept mainly for local distribution and consumption.

**b. Meat and delicatessen**

Meat and delicatessen are important food products in the Croatian food sector. For a long time self-sufficient and exporting, Croatia know faces a strong deficit in this sector, except in poultry. This can be partially explained by a diminution of half of the livestock in 10 years (1 million to 500,000). Due to war, many farms have been abandoned. Furthermore, former State companies which integrated breeding, slaughtering and meat transformation have suffered severe destruction and have particularly badly managed their conversion to the market economy.

**INDUSTRY**

**a. Mining and manufacturing**

Commercial coal mining ceased in 1999. The production of bauxite and silicon sand has declined to a very small amount.

**b. Construction**

Construction represents a large share of the economic activity due to post-war reconstruction since 1995, and the implementation of major road projects to ensure good communications with the country’s northern neighbours, and within the country.

After a fast expansion from 1996 to 1998, the sector faces budget difficulties, which have had a significant impact on activities. Croatia remains a country with a strong potential due to a rapid urbanisation of population and to the necessary development of transportation infrastructure to ensure a sustainable development, particularly in tourism.

Like the overall Croatian economy, the building sector has collapsed recently (-20% in 1997-1998). In 1999, the sector generated 1,468 billion USD, 7% of GDP (70 000 employees), which represents a 5% drop in activity. The sector is highly competitive: In august 2000, there were 2245 civil-engineering enterprises. The sector has been restructuring since 1995, with a growth of mid-sized companies.

The sector should continue its progress in the mid-term, fostered by large reconstruction projects. Besides, in the tourism sector, reconstruction and the upgrade of hotels, as well as transport infrastructures for tourism, should ensure a significant continuation of activities in civil engineering.
c. **Motor vehicles**

The vehicle market, completely dependant on imports, has been exposed to important fluctuations during the war, the transition and the regional integration of the Croatian economy. 70,000 to 100,000 vehicles were registered every year before 1993, and only 59,000 in 1999. Because of the weakness of the number of cars, compared with other EU countries, and the aging of the vehicles, exceptional development opportunities may be envisaged. After year 2000, certain companies consider that the sector should recover its pre-war level, with 80,000 vehicles per year.

d. **Leather**

Croatia has been the most important shoe producer in former-Yugoslavia. The Leather industry (80% represented by shoe industry), remains an important element of the Croatian transformation industry.

### 4.3 Commerce and trade

The recovery of activities allowed by European growth has boosted Croatian foreign trade in the early 2000, but it slowed down during the second semester. The overall situation keeps affected by a very weak volume of exchanges, by an excessive geographic concentration, a lack of diversity and a low cover of imports by exports (55.5%).

In year 2000, exports have reached 4.4 billion USD, whereas imports reached 7.9 billion USD. Compared with 1999, exports grew by 2% and imports by 1.4%. If the economical transition launched since 1993 has allowed an important reorientation of Croatian trades, particularly towards the European Union (13.3% raise compared with 1999), it has not significantly entailed the country’s integration into international trade (compared with other countries in the region).

The overall volume of trade remains weak (12.3 billion USD), mainly due to the stagnation of exports (96% are manufactured goods), which progress only very slowly. Because of the high level of wages and the over valuation of the national currency compared with other Balkan countries, Croatian products are not competitive. This does not foster local companies (protected by custom barriers) to export, nor foreign companies to invest in Croatia to re-export products towards the European market. The neighbouring countries as members of the Central European Foreign Trade Association, such as Slovenia or Hungary, are much more competitive for this reason to foreign investors. Hence the stagnation of exports has not allowed Croatia to balance the rise in imports - mainly of manufactured products, during recent years.

Croatian foreign trade is also characterised by its geographical concentration and its lack of diversity. In term of products, the trade balance is positive in the traditional sectors, which are under strong competition, and where the market share is more and more difficult to maintain, such as: maritime industry, 11.2% loss this year (640 million USD), textile, 14.2% loss (389 million USD), wood industry (200 million USD, as for the previous year). It still relies strongly on foreign imports of energy or food, and is thus vulnerable to increases in the prices of raw materials.

Besides, the high concentration of trade with the EU, particularly Italy and Germany, and the pegging of the kuna to the DM, links Croatian trade to the European economy.

The reduction of the commercial deficit has speeded up in 2000 (-22% in 1998, -9% in 1999 and +0.1% in 2000). It is not the result of a more competitive position of Croatian products, but of a significant drop in imports. Last year, imports have slightly risen, by 1.4%, and exports by 2%.

The new custom legislation, imposed by the WTO, weakens custom protection and prompts all production sectors to improve significantly and improve performance to counter international competition.

### SECTOR ANALYSIS

The main exports were transport equipment (excluding vehicles, (17% of total value), textiles & clothes (14%), chemicals (12%), food products, beverages and tobacco (9%), coke, petroleum products and nuclear fuel (8%).
The principal imports, in 1999, were chemicals (12% of total value), motor vehicles (10%), machinery &
engineering equipment (10%), crude oil and natural gas (9%) and other transport equipment (excluding
vehicles, 6%) other miscellaneous products such as steel, cellulose, and timber.

As for previous years, equipment goods (-5% in 1999-2000) and intermediary goods (+9%) each represented
about one third of imports in 2000. Consumables imports remain at the same level (871 million USD, 12% of
total), whereas exports of this sector diminished by 10%. The most remarkable rise in this sector concerns
telecommunication equipment, which increased by 35% in 2000 after a 63% drop in 1999. This increase is
directly linked to the Russian market, since the Ericsson subsidiary produces mainly for the Russian market.
The food sector represents 8% of imports and 9% of exports, and dropped by 21% in 1999 and in 2000.
Petroleum products imports and exports have considerably risen (25% in 1999 and 42% in 2000 for exports).

**TRADE DESTINATIONS**

Exchanges with the European Union are constantly growing (54 % of exports and 56 % of imports), and have
risen by 4% in 2000.

In 1999, the main origins of imports were: Germany (19%), Italy (16%), Russia (9%), Slovenia (8%), Austria
(7%) and France (5%). The main destinations of exports, in 1999, were: Italy (18%), Germany (16%), Bosnia &
Herzegovina (13%), Slovenia (11%), Austria (6%) and Norway (3%).

Croatian exchanges with CEFTA (608 million dollars exports and 1.2 billion dollars imports) still represent
14% of trade. They are mainly dominated by Slovenia, which represents 78% of exports and 54% of imports in
this zone. Trade with Hungary is growing fast ; a free-trade agreement, signed in February 2001, expected to be
followed by other agreements with European countries, could foster regional integration.

Trade with Bosnia-Herzegovina, the third most important for Croatia, has been decreasing since 1998 (-10% for
exports and -30% for imports).

*External trade of Croatia is represented in the two following plans.*
5. FEDERAL REPUBLIC OF YUGOSLAVIA

The Federal Republic of Yugoslavia, located in the Balkan Peninsula, and comprising the Republics of Serbia and Montenegro, and the autonomous provinces of Kosovo and Vojvodina, located within Serbia. The Federal Republic of Yugoslavia is bounded in the north by Hungary, in the east by Romania and Bulgaria, in the south by FYROM and Albania, and in the west by the Adriatic Sea, Croatia, and Bosnia and Herzegovina. The total land area is 102,173 square kilometers.

Serbia and Montenegro have a diverse landscape. Serbia, which lies to the north, accounts for 86 per cent of the land area of the country. Rich and fertile plains comprise much of the north, while limestone ranges and basins characterize the east. In the south-east ancient mountains and hills rise up from the plains, while a 199 km coastline on the Adriatic Sea forms the south-west boundary, where the republic of Montenegro is located.

5.1 Population

The population of Yugoslavia at the 1991 census was 10,406,751, it was estimated at 10.7 million in 2000.

Half of the population of the federation live in urban areas. About 94 per cent of the population live in the republic of Serbia. The country has a density of 102 people per square kilometre. Its largest cities include Belgrade, the capital, with a population (2000) of 1,168,000; Novi Sad (180,000); Niš (176,000); Kragujevac (146,000); Podgorica (118,000); Priština (118,000); and Subotica (108,000).

5.2 Economy

GENERAL ANALYSIS (Economist Intelligence Unit and DFER analysis)

GDP at market prices is estimated to have declined from USD 18.5 billion in 1998 to USD 6.2 billion in 2000. Recent estimates made in the country put this latest figure at 16.2 instead, probably including the informal economy. This figure appears more in line with other activities, including foreign trade.

The GNP should grow in year 2001 by 7 to 10%. If climatic conditions are normal, this growth should be fostered by agriculture production, which suffered severe drought last year. The recovery of investments in the energy sector, despite the bilateral and multilateral subsidies and financing, could be another growth factor. Finally, the private sector, which generates 30% of GDP, might launch new investments, so far restrained by political instability.

In 2000, GDP represented only 40% of 1990 GDP, and 50% of 1996 GDP. The informal economy remains the safety net which has prevented the country from collapsing so far. It is estimated to represent more than 40% of the total economy, but does not contribute to the calculation of the above figures of GDP.

Industrial reform was hardly a priority for a country so close to collapse and with FRY industry badly damaged by the war years. In the 1980s the old Yugoslavia had set up a series of joint ventures with foreign companies and firms usually had Western equipment.
But as Yugoslavia entered into war in the early 1990s, strategic companies (around a quarter of the total) were nationalised. The rest remained in social ownership, controlled by owner-workers who simply wanted to hang onto jobs. Some local economist opinion estimates industry is over-manned by as much as 50% whilst less than a third of the economy is private.

Many companies should now simply be bankrupted. Bankruptcy legislation was actually suspended last year in an attempt to slow down the unemployment figures. About 25% of Yugoslavs are officially unemployed. That rises to half the workforce when people employed by insolvent companies are included.

The only way to get them back to permanent employment is to resurrect any existing companies that have the capacity, if not the sales, to provide jobs. The first move, therefore, was to end the country's isolation so that companies can export - on the basis of price, with average wages down to DM88 a month.

Back into international institutions

In January 2001, Yugoslavia has been integrated to EBRD and to the IMF. The EBRD considers participating in the development of infrastructures and might finance, in part, the development of small scale enterprises.

This country will have to remain under international assistance until the exterior debt problem is partially resolved. The government aims at recovering independence regarding bilateral aid (280 million USD in 2001) by mid-2002. 2001 and 2002 should be marked by the stabilisation of the Yugoslavian economy.

AGRICULTURE, LIVESTOCK, FORESTRY AND FISHING

Agriculture contributed to 20% of the social product in 1998. Over 65 percent of arable land in Yugoslavia was devoted to the cultivation of cereals, particularly corn, wheat, and rye. The principal non-food crop was tobacco, which supplied the domestic cigarette industry; hemp, cotton, and hops also were widely cultivated and processed domestically. Historically almost all the cotton and more than half of the tobacco came from what is now FYROM, while more than 60 percent of hops were grown in Slovenia. All regions of the country produced wine, each area with its own characteristic varieties. Yugoslavia was also known for cultivation of orchard fruits, particularly plums, apples, pears, and peaches.

Pigs, sheep, horses, and cattle were the main types of livestock raised in Yugoslavia. Pigs and poultry were raised for meat, cattle for meat and dairy products, sheep mainly for wool. Serbia was the largest pig-breeding area. Sheep raising was centred in the uplands of Serbia and Macedonia (FYROM now), beef and dairy cattle in the northern areas of the country (now Bosnia and Herzegovina).

Agriculture production, which stood for many years as a pole of stability, collapsed in 2000. The drop of production is considered to represent 19.7% in volume, the cereal sector being most severely hit. This phenomenon is however mostly linked to unfavourable weather conditions occurring.

INDUSTRY

Industrial production includes crude steel, cement, plastic, synthetic rubber, caustic soda, passenger cars, tractors, radio receivers, television sets, washing machines, refrigerators, food and textile products.
Breakdown of heavy industry production (1999):

<table>
<thead>
<tr>
<th>Product</th>
<th>Unit</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal Mining</td>
<td>Thousands of tons</td>
<td>63 000</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>“ “</td>
<td>24 000</td>
</tr>
<tr>
<td>Non-ferrous ores</td>
<td>“ “</td>
<td>17 000</td>
</tr>
<tr>
<td>Machinery (tons)</td>
<td>Tons</td>
<td>9 000</td>
</tr>
<tr>
<td>Motor vehicles (unit)</td>
<td></td>
<td>10 500</td>
</tr>
<tr>
<td>Basic chemicals</td>
<td>Thousand of tons</td>
<td>540</td>
</tr>
<tr>
<td>Building materials (lime, cement)</td>
<td>“ “</td>
<td>1 900</td>
</tr>
</tbody>
</table>

Year 2000 has been a bad year for the Yugoslav industry. Of course, activities have recovered after the severe collapse inflicted by NATO strikes, and industrial production has gone beyond 1999 levels by 10.9%, but remains 15% under the 1998 level. Industrial production could take several years to recover this pre-war situation.

Mining and manufacturing:

Minerals are the primary natural resources of Yugoslavia. Its deposits of antimony and lead are among the most significant in Europe. Coal, oil, gas, zinc, gold, chrome, and copper are also commonly found. Mining and manufacturing are important contributors to the social product of FRY (34% in 1998). Some of Europe's largest reserves of copper ore are located in Serbia. There are also significant deposits of bauxite, coal, lead, and zinc. Key manufacturing for Yugoslavia includes chemicals, electronics, iron and steel, machinery, textiles, and transport equipment.

The copper mining region of Bor is the second most important production centre in Europe. In 1997, production represented 160 000 tons, 60 000 in 1999, yet reached hardly 25 000 in 2000. This collapse is linked to the mediocre management of mines (the most lucrative lodes have been exploited at the expense of other lodes and prospecting), and to recent economical disruptions, which restrained investments and thus the purchase of equipment.

5.3 Commerce and trade

For the year 2000, the amount of exports of goods was estimated at USD 10.2 billion. The amount of imports of goods was estimated at USD 11.6 billion.
The main trading partners for 1998 and 1999 are listed in the following tables:

<table>
<thead>
<tr>
<th>Exports (FOB) to, in USD million</th>
<th>1990</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>22%</td>
<td>13%</td>
</tr>
<tr>
<td>Italy</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>Russia</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Hungary/Czech Republic/Slovakia</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Middle East/Asia/Oceania</td>
<td>22%</td>
<td>10%</td>
</tr>
<tr>
<td>America/Africa</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>22%</td>
<td>39%</td>
</tr>
</tbody>
</table>

In year 2000, Yugoslav exports amounted to 1.723 billion USD (15% increase compared with 1999, 40% under the value of 1998). Foreign trade shows debit balance (2 billion USD in 1999). Considering the recent numerous economic disruptions, the foreign trade balance remains the most stable parameter of the economy.

The slight drop of commercial deficit (only 0.2% compared with 1998) seems remarkably stable within a completely disorganised economy. In fact this figure does not reflect the much lower volumes of trade. Behind the impact of international sanctions, the decrease of exports is directly linked to the slow down of manufacturing industry. However, the export of Yugoslav products remains in the international market, as a result of low labour costs. This comparative advantage should be reinforced by the devaluation of the dinar, implemented in 2000.

The slump of Yugoslav imports can be more evidently explained by the lack of liquidity in the private sector, linked to the banking sector crisis. The insolvency and the large arrears of many enterprises have also discouraged traditional foreign providers.

The sector breakdown of trades is highly unbalanced (mainly those towards Western Europe).

The structure of commercial trade has remained even over the last couple of years, moving even further from the Western European trade structure model. Indeed, Yugoslav exports are predominantly composed of primary and intermediate goods, mostly industrial and agricultural, with high labour elements. Imports are characterised by the importance of electrical and mechanical equipment (decreasing steadily since 1991), more intensive in capital, and by raw materials dedicated to heavy (petroleum, mining) or light industry (textiles).

Despite years of sanctions, the EU remains Yugoslavia’s main client (more than 1/3 of exports) provider (nearly one half of imports). This exchange asymmetry between FRY and EU is particularly marked; exports towards Western Europe being mainly food products, live animals, textiles and basic manufactured products. On the other side EU represents 60% of manufactured products and industrial equipment imported by FRY.

Western and Central European countries only represent a modest share in the foreign trade (9% of exchanges), while they were a real opportunity before 1991 for non-competitive industrial products on Western markets.

The Yugoslav trade remains characterised by the orientation towards former Yugoslavian Republics. This structure of trade was inherited from the embargo, which has prompted exporting enterprises to sell their products to neighbouring countries, mainly Bosnia and Herzegovina (Republic of Srpska in particular) and FYROM. Excluding this phenomenon, the main clients are Germany, Italy and Switzerland, while the main providers are (by far) Germany, Italy and Russia (mainly in the energy field).

Prospect: The commercial deficit is likely to develop in the next two years. The persistently weak purchasing power, the reorganisation of the banking sector, the stream of international aid could lead to and increase in the level of imports and therefore the commercial deficit in the next years (2,300 million USD in 2001, 2,500 million USD in 2002). This trend will probably be enhanced by the expected renunciation of tariff and non-tariff obstacles to trade, as a wish to align Yugoslav legislation to EU legislation. Finally, the government recently proposed the reduction of custom duties and rates significantly.

*External trade of FRY is represented in the two following plans.*
FORMER YUGOSLAV REPUBLIC OF MACEDONIA

FYROM, located in the south-central part of the Balkan Peninsula is bounded in the north by FRY, in the east by Bulgaria, in the south by Greece and in the west by Albania. Its area is 25,713 square kilometres.

The country is divided into 123 municipalities including 30 urban areas and 1,614 rural communities.

Though mostly mountainous, the country also encompasses the valleys of the Aliákmon, Axios, Nestos, and Strimon rivers, all of which flow into the Aegean Sea.

6.1 Population

According to the 1994 census final results, the population on 20 June 1994 was 1,945,932. An estimated 60% of the population lived in urban areas. In 2000, the total population estimate was 2.0 million.

The major cities are: Skopje (445,000); Bitola (86,000); Prilep (72,000); Kumanovo (95,000) Tetovo (65,000) and Veles (57,000).

<table>
<thead>
<tr>
<th>Population (million)</th>
<th>Annual population growth %</th>
<th>Annual population growth % (1999-2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.9</td>
<td>2.0</td>
<td>2.2</td>
</tr>
</tbody>
</table>

6.2 Economy

GENERAL OVERVIEW (IMF analysis)

The national currency of FYROM is the denar (MKD) of 100 deni. The average exchange rate for the year 2000 was 65,19 MKD for one USD. The Gross Domestic Product, PPP method, in 1999, was estimated at USD 1,039 per capita.

<table>
<thead>
<tr>
<th>Economy</th>
<th>Unit</th>
<th>1995</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at market prices</td>
<td>Current USD billion</td>
<td>2.5</td>
<td>3.4</td>
</tr>
<tr>
<td>GDP growth</td>
<td>Annual %</td>
<td>9.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Agriculture, value added</td>
<td>% of GDP</td>
<td>11.2</td>
<td>11.4</td>
</tr>
<tr>
<td>Industry, value added</td>
<td>% of GDP</td>
<td>27.4</td>
<td>28.3</td>
</tr>
<tr>
<td>Services, etc., value added</td>
<td>% of GDP</td>
<td>61.4</td>
<td>60.3</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>% of GDP</td>
<td>33.0</td>
<td>41.0</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>% of GDP</td>
<td>42.8</td>
<td>56.6</td>
</tr>
</tbody>
</table>

Source: The World Bank, Macedonia Data Profile

Following a long recession in the first half of the 1990s, real economic growth turned positive in 1996 and accelerated to 2.9 percent in 1998, the highest growth achieved since independence. In 1999, despite the Kosovo crisis, growth is estimated to have slowed down only slightly. However, the pattern of sector growth dramatically changed in 1999: on the demand side, net foreign demand became a major driving force, while on the supply side, industry relinquished its growth-leading role to construction, communications and trade sectors.

Following 2 years of rapid growth, domestic demand was sluggish in 1999, the investment environment deteriorated with the onset of the Kosovo crisis in the first half of 1999. Trade disruptions adversely affected the import-intensive investment in equipment and machinery. This was partially offset, however, by a surge in investment, which accounts for one half of the fixed investment. With the severe compression of imports, net foreign demand was the driving force behind the overall growth in 1999.
On the supply side, growth during 1996-98 was spurred by a strong pickup in industry and a gradual recovery in transport and communication. Following a sustained decline (over 12% during the period 1991-95), industrial output recovered in 1996 and grew at an average of 4% over the period 1996-98. The registered recent economic growth is not due to the intensified structural reforms in the real and financial sphere, but rather to the greater utilisation of existing capacities and increased production. It was helped by a number of favourable developments, including

- the reactivation of idle capacities, especially in the iron and steel metal processing industries, following their divestiture to foreign strategic investors in 1998
- increased access to foreign markets, particularly after the trade cooperation agreement was signed with the European Union in November 1997.

There were signs already in 1998, however, that structural weaknesses in the enterprise sector, as well as developments in neighbouring FRY, an important export market for industrial output in Macedonia\(^1\), stood in the way of sustained economic growth in the industrial sector. The outbreak of the crisis in Kosovo in mid-1999 delivered a major blow to industrial production in 1999, which is estimated to have declined by 2.5% for the year as a whole. The decline occurred despite a pickup of production of a number of industrial products (construction materials, food, beverages and tobacco) following the surge in Kosovo-related demand.

The positive growth rate is of significant importance if one takes into account the extremely unfavourable circumstances under which it was achieved. Several sectors benefited in the aftermath of the Kosovo crisis, and they took up the growth-leading role played in the previous years by industry. The main generators of the registered growth of GDP in 1999 were transport and telecommunications\(^2\) (13.7%) and construction (12.2%), resulting from the intensified activities related to the road infrastructure in the country, catering and tourism (9.2%), as a result of the increased presence of non-residents in the country, and trade (6.7%). Hence, the unfavourable developments in industry and mining were not only fully compensated with the increase in tertiary activities, but also there was an increase in value added activities.

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\(^1\) The sectors that traditionally export to the region have suffered most in 1998. For example, production of construction materials in 1998 fell by 12.1%, beverages by 7.8% and electrical equipment by 9%.

\(^2\) In the transport and communication sector, the buoyant telecommunications activity (due to the fast expansion of the mobile phone network) was partially offset by the fall in transport activities during and following the military conflict, as roads, bridges and river routes through the neighboring FRY were destroyed during the conflict and took time to restore.
AGRICULTURE, LIVESTOCK, FORESTRY AND FISHING

Agriculture is the primary occupation in the region. Tobacco, cereals, cotton, and fruit are the leading crops. Much of the rugged terrain is also used for raising sheep and goats.

Agricultural land totals 1.3 million hectares, of which 43% is arable, 4% is in vineyards and orchards, and the rest is meadows and pastures. The private sector cultivates around 80% of the agricultural land. FYROM has excellent conditions for agriculture and is nearly self-sufficient in food products. Crop production, growing of early market-garden vegetables, fruit, grapes and tobacco are linked to food processing, wineries and cigarette production or exports.

In 1999, the volume of agricultural output was higher by 0.5%, than in the previous year. The main generator of the realised increment is fruit processing, which in 1999 compared to 1998 increased by 25.5%. In 1999, an increase is registered in livestock breeding (of 1.2%), while in husbandry and vineyard activity the output declined by 0.6%, and 3.0%, respectively.

INDUSTRY

Contrary to the period 1996-1998, in 1999 the GDP growth was not determined by increased production activity in the industrial sector. Thus, the volume of the industrial output in 1999 is lower compared to 1998 by 2.6%. The fall in industrial output was exceptional in the January - May 1999 period, when compared to the same period of 1998 a decline of 12.5% was registered. That is due to the following factors:

a) limited access of the iron and steel industry products to certain foreign markets due to announcements for imposing anti-damping measures from EU and the USA for exports of those products;

b) the implementation of administrative measures by FR Yugoslavia in the second half of 1998 and in 1999, limiting the flow of Macedonian products to and through FRY;

c) escalation of the crisis in the region, culminating in military activities in Kosovo.

For FYROM, it meant a loss from the market of the second most important trading partner, as well as hindrance to exports of FYROM products to other countries due to the closed transport corridor through FR Yugoslavia. Discouraged by the lost possibility for imports of the necessary raw materials, as well as considerably deteriorated exports of finished products, the domestic industrial producers considerably slowed down their production activity.

The industrial sector of the economy is well diversified and can be a sound base for further economic development. It was badly hit in the last decade because of loss of the former markets, imposed embargoes, surrounding political risks and restructuring. The output contracted. The upward trend of industrial production commenced in 1996 - 3.2% growth rate, then 1.7% in 1997, up to 5% in 1998 before a new collapse in 1999.
The prospects for industries as clusters for competitive businesses are:
- Raw materials based industries: non-metals, ferrous and non-ferrous metals, iron and steel products, etc. – have immense opportunities for new added value
- The mature traditional industries: clothing, footwear, beverages, cigarettes, electronic equipment and accessories, metal fabrications, etc. - can be competitive if restructured and market niches are discovered
- The high growth and skilled labour force intensive industries: pharmaceuticals, telecommunication equipment, computer hardware, etc.

After the end of the war in FR Yugoslavia, a favourable environment for a revival of the industrial output in FYROM was created. Thus, in the June – December 1999 period, the fall in industrial output was considerably reduced. That was a result of:

a) decline of the political risk and uncertainties with the domestic producers;
b) intensified export activity toward the Yugoslav market after the end of the military activities in Kosovo;
c) re-established access to the transport corridors through FR Yugoslavia;
d) facilitated supply of the producers with raw and reproduction materials;
e) access to foreign markets for certain products, which contributed to re-opening of the production capacities in iron and steel industry, taking into consideration that the announced implementation of anti-damping measures did not occur.

From the structural point of view, in 1999, the decline in industrial output was registered in all three components. The most significant decline was registered in the production of tools (by 8.6%), while the production of reworked materials and the production of consumer goods decreased by 2.5%, and by 2.0%, respectively. The fall of the industrial production in 1999 is comprehensive, considering that in 23 out of 32 analysed industrial branches, the output in 1999 is lower than in 1998. The industrial branches that reduced their output account for 72.8% of the total industrial output.

With respect to the most important industrial branches, the fastest decline of 21.0% is registered in the production of base chemical products, which is primarily due to the dependence of this industrial branch on the market in FR Yugoslavia, as a source of raw materials and as a sales market. Considerably impeded exports, especially in the first five months, caused the production of beverages in 1999 to be lower by 16.2% than the respective one in 1998. Considerable decline is registered in the non-ferrous metal production and in the iron and steel industry, equating to 15.1% and 10.6%, respectively. On the other hand, the most significant increment in 1999 relative to 1998 is registered in: the production of construction materials (25.1%), as a result of the enhanced exports demand in FR Yugoslavia (primarily in Kosovo) in the process of reconstruction after the war; the tobacco industry (24.1%), which is due to opening of the Yugoslav market after the war; and the chemical products industry (10.7%).

Outlook on mining and manufacturing : FYROM has a complex geological structure and a large number of ore deposits, including reserves of lead-zinc (2% of world production), copper, nickel, coal, decorative and architectural building stone and non-metallic minerals. Significant deposits of non-ferrous metals and minerals exist. The timber industry employs many inhabitants in the south-west part of the country. Several sectors of industry still face difficulties as a result of a reliance on Yugoslavia for transport.

6.3 Commerce and trade

The economic recovery launched in 2000 has boosted exports slightly. The energy bill has significantly increased last year, causing a deterioration in the chronic trade balance deficit. The commercial position of the country still remains weakened by a low volume of trade and geographical and excessive sector concentrations.

THE WEAK RECOVERY OF EXPORTS IN A CONTEXT OF CHRONIC DEBIT BALANCE.
Confirming the resumption of export growth (5.1% in 2001), exports have recovered their 1998 level (1.3 billion USD). Imports are following the same trend, topping the 1998 level by only 0.17 billion USD. The volume of trade, estimated in USD over the 4 last years, has increased by 13%, from 3.0 billion USD in 1997 to 3.4 billion USD in 2000. This increase mainly reflects the 2000 GDP growth and the strong rise of hydrocarbon import costs, on which the country is highly dependent. The economic statistics published by the country, show a regular increase in the trade balance deficit. It reached 765 million USD in 2000 (+30.7% compared with 1999). This deficit might continue due to weak foreign investments. For this reason, the government, encouraged by the IMF, has set up a State enterprise sales programme. Other privatisations are expected this year. Only the upgrading of industrial installations will improve the trade balance.

**EXPORTS ARE STILL LIMITED TO A SMALL NUMBER OF SECTORS.**

Basic metals, textile and food products are the three most dynamic export sectors, followed by tobacco and clothing. Diversification opportunities are rare. Regarding the mediocre results of food industry (low added-value), the best development may be expected in this sector.

Imports concern mainly petroleum products and automobiles.

**NEIGHBORING COUNTRIES ARE STILL PREDOMINATE IN EXCHANGES**

Although FYROM has a common border with Greece, the volume of trade with the European Union is low in comparison with exchanges between the EU and other former-Yugoslavian countries or Eastern and Central European countries. This is true for imports (38.2%) as well as for exports (42.5%). The reason for that is the importance of the FRY market, which remains the major client for the country and exports to Slovenia and the US which import mainly textile products, since the closure of the Yugoslav market. Outside of Germany (or the Ukraine and Russia for energy imports), the main partners are the neighbouring countries or the former Yugoslav countries. Greece has significantly increased exports towards FYROM in the last 5 years as more and more Hellenic enterprises (banks, distribution, food…) are investing in the country.

*External trade of FRY is represented in the two following plans.*
7. ROMANIA

The Republic of Romania is bounded in the north by Ukraine; in the east by Moldova; in the south-east by the Black Sea; in the south by Bulgaria; in the south-west by FR Yugoslavia; and in the west by Hungary. The total area of Romania is about 237,500 square kilometres.

A reorganization of local government in 1968 divided Romania into 39 (now 40) districts plus the city of Bucharest.

7.1 Population

Romania has a population of 22,400,000 (2000 estimate). Population density is about 94 people per square kilometre. The population is about 55 per cent urban.

Bucharest has a population of 2,400,000 (2000), and it is also the prime industrial and commercial centre of the country. Other major cities are Constanta (360,000), the only Romanian port on the Black Sea; Brasov (355,000), noted for the manufacture of textiles, chemicals, and metal products; Timisoara (338,000), an industrial centre; Iasi (345,000), a commercial center; Cluj-Napoca (325,000), a commercial and industrial centre; Galati (324,000), a naval and metallurgical center; Craiova (307,000), a textile, electrical, and chemical centre; and Ploiești (254,000), hub of the oil industry.

Demography prospects:

<table>
<thead>
<tr>
<th>Population (million)</th>
<th>Annual population growth %</th>
<th>Annual population growth % (1999-2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1999</td>
<td>2015</td>
</tr>
<tr>
<td>22.2</td>
<td>22.5</td>
<td>21.3</td>
</tr>
<tr>
<td>0.1</td>
<td>-0.3</td>
<td>Ages 0-60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ages +60</td>
</tr>
<tr>
<td>0.5</td>
<td></td>
<td>0.5</td>
</tr>
</tbody>
</table>

7.2 Economy

The Gross Domestic Product, PPP method, in 1999, was estimated at **USD 4,034** per capita.

<table>
<thead>
<tr>
<th>Economy</th>
<th>Unit</th>
<th>1995</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at market prices</td>
<td>current USD billion</td>
<td>32.8</td>
<td>38.2</td>
<td>33.8</td>
</tr>
<tr>
<td>GDP growth</td>
<td>annual %</td>
<td>7.1</td>
<td>-7.5</td>
<td>-4.5</td>
</tr>
<tr>
<td>Agriculture, value added (%)</td>
<td>% of GDP</td>
<td>20.6</td>
<td>16.4</td>
<td>16.1</td>
</tr>
<tr>
<td>Industry, value added (%)</td>
<td>% of GDP</td>
<td>42.7</td>
<td>40.1</td>
<td>40.1</td>
</tr>
<tr>
<td>Services, etc, value added (%)</td>
<td>% of GDP</td>
<td>36.7</td>
<td>43.4</td>
<td>43.9</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>% of GDP</td>
<td>27.6</td>
<td>25.7</td>
<td>28.9</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>% of GDP</td>
<td>33.2</td>
<td>34.2</td>
<td>33.4</td>
</tr>
</tbody>
</table>

Source: The World Bank, Romania Data Profile

For the third year in a row, the growth has been negative in 1999. The decrease of the GDP has reached 20% in a 3 year period. The industrial production has decreased by 8.4%, to be compared to an 18% drop in 1998. Theses figures do not take into account the informal economy, considered by experts as close to 50% of the declared economy.

However, the National Bank of Romania expects a sustained growth of GDP from 4.1 % in 2001 to 6 % in 2004.
AGRICULTURE, LIVESTOCK

About 65 per cent of the total area of Romania is used for pasture and cultivation, which in the mid-1990s employed about 35 per cent of the labour force.

Summary:
The principal crops include corn, wheat and rye; sugar beet, sunflower seed, potatoes, grapes, and a wide range of fruit. Its extensive vineyards make Romania a major wine producer. In 1998 Romanian livestock included some 3.1 million cattle, 6.8 million pigs, 9.6 million sheep, and 71 million chickens.

Forests, covering approximately 28 per cent of the total land area, are State property. Production is about 10 million cubic metres annually. The Black Sea and the Danube delta regions are known for their sturgeon catch, and the country undertakes considerable fishing operations in the Atlantic Ocean. In 1998 the yearly catch totalled about 35,000 tons.

The speeding up of the privatisation process in the sector, with the transfer of State farms to private entities, does not immediately provide significant cash flow; however it will permit a new impulse of investment and set up a competitive position of private entities.

In 1999, agriculture has strongly decreased compared with 1990, both in vegetal and animal activities. By the end of 1999, it represented 14.6% of GDP (13.9% in 1997). Agricultural trade balance also deteriorated, mainly because of a rise in meat imports.

PRODUCTIONS

a. Vegetal Productions

Apart from oleaginous and vegetable products, all productions have decreased since 1995 (despite a relative improvement in 1999 compared with 1998), because of a drop in productivity. The reduced use of fertilizer leaves production very vulnerable to weather changes. Very bad conditions since the beginning of 2000 (drought and flooding) might affect vegetal productions (mainly cereals) strongly, reducing production by 40% in certain regions.

Cereals: Romania’s natural conditions favour the cultivation of cereals, which occupy 2/3 of arable land (6 million hectares). 80% of production concerns wheat or corn and cultivation is mainly located in 5 departments (judets): Arad and Timis in the West, Dolj in the South, Calarasi and Constanta in the East. The drop of cereal production is due to a decrease in areas under cultivation and to very low productivity, considerably below European standards. More than 80% of cereals are produced by the private sector.
Oleaginous: Oleaginous cultivation represents less than 10% of arable land, and is mainly represented by sunflower (90%). The State still plays a significant role (30% of production in 1998), and realises better productivity than the private sector.

Sugar beet: Beet crops now experience an unprecedented crisis since the import of unrefined sugar coming from Moldavia with a “0 right” and the custom tariff of 45% for other countries leaves uncompetitive sugar beet on the domestic trade. Cultivation has dropped from 200,000 ha in the beginning of the 90s to 53,000 ha in 1999. 43,000 are announced for year 2000.

Wine: Because of numerous structural problems, wine production has significantly dropped in the last 15 years, and finally stabilised around 6-7 millions hl in 1995-1996.

Fruit: After a 3 year fall fruit productions have increased in 1999. The sector however suffers from an aging stock and lack of maintenance. Apples and plums each represent 40% of the production and are the main fruits commercialised and eaten.

Vegetable: The rise of production is due to an increased areas of cultivation. Tomato and onion production (traditional produce in Romania) have significantly developed.

b. Animal productions

The number of animals has diminished strongly since 1990, the main decrease concerns ovine and caprine. Bovine and porcine in particular have kept on dropping in 1999, while poultry was slightly increasing.

This trend is due to the process of restructuring in the sector, with privatisation leading to an excessive division of livestock (ex. 1.5 milk cow/farming); the new individual farms don’t possess sufficient financial resources to safeguard the medical and sanitary conditions of their cattle. The state sector is meant to disappear completely in the forthcoming years; more than 95% of livestock is now owned by private entities. According to the data of the Ministry of Agriculture and Food, production and performance indicators are slightly improving.

In parallel to reduced efficiencies, animal production has dropped considerably, bovine, ovine and caprine meat being most affected. Breeding related industry is far from its production capacity (only 20 to 25%). Aside from the lack of investment made during the 10 last years and the obsolescence of infrastructures, the main cause is the lack of raw materials.

The meat sector has been influenced by the privatisation or liquidation of large complexes, which are not yet completed. The sector thus faces a difficult position but should resist the increase of imports.

TRADE:

a. Evolution of foreign trade balance

Despite a slight improvement in 1999, Romania has a debit balance structurally in terms of agricultural and food trade: in 1999, the balance was -311.6 million US$, which represents 16.5% of total foreign trade balance deficit.

b. Structure of trades

The year 1999 has been marked by a reduction in the trade deficit in terms of animal production: imports have decreased by more than 40% in comparison with 1998, due in particular to the rise in custom duties to 45% for meat imports coming from Hungary. In terms of vegetal production, the trade balance shifted from -44.7 million in 1998 to +26 million US$ in 1999, because of cereal exports (762,745 tons in 1999). Since 1995, Romania indeed exports more cereals than it imports, with a trade balance of respectively +60 million US$ in 1998 and 1999. Despite a slight increase in 1999, agriculture and food trade shows a strong debit balance.
<table>
<thead>
<tr>
<th>Exports</th>
<th>Imports</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>EU</td>
</tr>
<tr>
<td>Animal and animal products</td>
<td>115.8</td>
<td>67.0</td>
</tr>
<tr>
<td>Vegetal products</td>
<td>249.5</td>
<td>106.0</td>
</tr>
<tr>
<td>Fat and animal or vegetal oil</td>
<td>54.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Food products, beverage, tobacco</td>
<td>63.7</td>
<td>30.6</td>
</tr>
<tr>
<td>Total agricultural products</td>
<td>483.4</td>
<td>210.4</td>
</tr>
<tr>
<td>% of all trades</td>
<td>5.7%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

The main Romanian partner, both for imports and for exports (34% of total food exports and 32% of food imports) is the European Union. Exports mainly concern Italy (32% of exports towards EU), Germany (23%), Greece (13%). The main providers are Germany (21%), Austria (12%), France (11%), the Netherlands (11%) and Greece (11%).

**PROSPECT:**

*a. Privatisation*

The government has launched in 1999 a privatisation process of old State farms, which represent close to 1.8 million ha. The speed of restitution to former owners and of concessions to private investors might allow, in the future, the implementation of a real land market. This development in the agriculture sector should keep on accelerating, under the IMF, the World Bank and EU pressures. In parallel, foreign investors who are already active, are a sign of the potential development for the sector and for the whole economy.

*b. Integration with the EU*

New association agreements have been concluded with Romania on the 26th of May 1999. They allow for the immediate liberalisation of most products, including many Mediterranean products, the progressive liberalisation of meat, poultry and cheese sectors on the basis of a double “0” approach. Tariff concessions have also been granted for other products.

The European financing program SAPARD (150 million Euro per year) should start in year 2001, creating investment opportunities for the renewal of agriculture machine equipment, the rehabilitation of breeding structures and rural infrastructure.

**INDUSTRY**

**Mining and Manufacturing**

The principal mineral resource of Romania is oil. In the mid-1990s annual crude-oil production was about 49 million barrels and that of natural gas, about 19.5 billion cu m. The leading oil centre is Ploiesti, and important new deposits were found under the Black Sea in the early 1980s. However, oil reserves are being depleted and were expected to be exhausted by the year 2000. The western part of the Transylvanian Alps has deposits of bituminous coal and iron ore, and the country also has scattered lignite deposits. Annual coal production in the mid-1990s was about 40 million tons. In 1996, iron-ore production totalled some 860,000 tons, Bauxite 175,000 tons, Copper 24,400 tons, lead 21,400 tons and Zinc 32,100 tons.

Large salt deposits in the Carpathians yield more than 2 million tons annually.

Crude steel production reached about 13.9 million tons in the late 1980s, but had declined to 6.7 million tons in 1997, hampered by shortages of electricity and raw materials. Other major manufactures were chemical fertilizers (about 1 million tons annually); cement (7.3 million tons); radio and television sets; cars; tractors, processed food; rubber goods; cotton, woollen, and silk fabrics; clothing; footwear; and refrigerators.

**Iron and steel**

Between the late 40s and the revolution in 1989, under the impulse of the Soviet industrialisation model, the sector has experienced outstanding development. Steel production shifted from 300,000 tons in 1948 to 1.8 million tons in 1960, 6.5 in 1970, 13.1 in 1980 and 14.0 in 1989.
After 1990, a strong recession brought production back to 9.7 million tons of steel in 1990 and to 4.9 million tons in 1999. This decline followed the continuous drop of Romanian GDP and of world markets.

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (M tons)</th>
<th>Capacity (M tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>1992</td>
<td>5.4</td>
<td>15</td>
</tr>
<tr>
<td>1997</td>
<td>6.8</td>
<td>13</td>
</tr>
<tr>
<td>1998</td>
<td>5.9</td>
<td>12</td>
</tr>
<tr>
<td>1999</td>
<td>4.9</td>
<td>12</td>
</tr>
</tbody>
</table>

**Industry of consumables**

Romanian industry in general, and agriculture and consumables industry in particular have deeply suffered from the economic and financial transitions which have lasted for 10 years. The privatisation of several State industries has somehow boosted the economy. Despite a strong effort to modernise their fabrics, small industries keep on struggling with overwhelming financial difficulties, which emphasises the need to find foreign investors to help them renew their equipment and to update their knowledge of sales and marketing techniques. All the following industries have gone through a complex process of restructuring and modernisation in order to ensure the viability of the sector.

**Wood industry**: Production capacity reached 10 million m³ per year. Furniture fabrication sector has been intensively modernised, at the expense of the forestry sector. Most units have already been privatised. This industry generates 1 billion US$ per year, 75% of which is exported towards 54 countries. More than 2500 small industries have developed, thanks to foreign and local investors.

**Paper**: This industry comprises 75 fabrics (22 state-owned). This sector, in the process of restructuring and development has a production capacity of 650,000 tons of paper.

**Glass and ceramic production**: This energy-consuming industry, requiring constant process innovation, has suffered considerably from a decrease of energy production by state plants. 36 out of the 44 plants have been privatised. This sector generates 350 million US$, 50% of which is exported.

**Fabrication construction materials**: All the companies have already been privatised. Most products are meant to be used inside the country.

**Textile and leather**: The sector (8000 fabrics) has been completely privatised. This is one of the most active and attractive sectors for foreign investors. A considerable effort has been made to modernise this activity, which generates a turnover of 3 billion US$.

**Motor vehicles**

After seven years of growth and a slight contraction in 1998, the motor vehicle market has dropped significantly in 1999 (18%). The decrease of purchasing power of the middle class, linked to the 20% drop of GDP over the 3 last years, is the main cause.

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism vehicles</td>
<td>109,189</td>
<td>103,931</td>
<td>88,313</td>
</tr>
<tr>
<td>Commercial vehicle, &lt;3.5t</td>
<td>18,263</td>
<td>21,492</td>
<td>17,368</td>
</tr>
<tr>
<td>Commercial vehicle, 3.5 to 7t</td>
<td>281</td>
<td>138</td>
<td>52</td>
</tr>
<tr>
<td>Commercial vehicle, &gt; 7t</td>
<td>1,658</td>
<td>1,076</td>
<td>816</td>
</tr>
<tr>
<td>Bus</td>
<td>327</td>
<td>267</td>
<td>78</td>
</tr>
<tr>
<td>Total</td>
<td>129,718</td>
<td>126,904</td>
<td>106,897</td>
</tr>
</tbody>
</table>

With 85,578 tourism and commercial vehicles, the main producer, Dacia, has dropped by 19% between 1998 and 1999, mainly because of the decrease of purchasing power and of the precarious situation of many small client companies.
Chemicals : the example of paint and varnish industry

In 1989, the production of paints and varnish has reached the top level of 150,000 tons/year, most of which being exported towards Russia and Eastern European countries. The political changes have implied a strong reduction of trade within this zone. The production of varnish and paints has significantly dropped to 32,000 tons by 1999. The decline of production is also due to the decrease in domestic demand, linked to global economic difficulties. By 1999, only 9 producers remain and experience a lack of financial means to modernise their equipment, most often obsolete, and are no longer able to be competitive with foreign producers.

Construction

Romanians have a solid know-how in terms of construction and public works, led by the original great companies of the communist era. The sector has been unequally helped by the State since 1945 : the housing sector has been boosted in the 80s by the collective housing programme launched by president Ceaucescu, and was then completely abandoned after 1989. Road maintenance has been neglected since 1945, to the benefit of railway, tramways and metro. After a serious crisis in the beginning of the 90s, the sector began its restructuring, with the emergence of a dynamic private sector : the weight of private entities keeps growing, being responsible for more than half of the total investments in the sector and construction works activities in 1999. Romania’s needs are huge, but several factors limit the growth:

- the very high interest rate on bank loans,
- the impossibility for banks, until recently, to grant long term credits in local currency due to inflation,
- a weak solvent demand by public and private sectors,
- the lack of investment funds and promoters,
- the difficulty to commercialise large scale programmes,
- the payment delays between companies.

7.3 Commerce and trade

In 2000, exports were estimated about USD 10.2 billion, the principal items included fuels, machinery and equipment, basic metals and products, furniture, textile products, and chemical products. Imports, valued at about USD 11.6 billion, in 2000, included agriculture, food and beverages, crude oil, chemical products, textile products and industrial equipment.

In 1999, 66% of exports were sent to European Union countries, while 11% were sent to Central and Eastern European countries, including the Commonwealth of Independent States (CIS). The main destinations of exports for 1999 are included in the table below. In 1999, 60% of imports were coming from European Union countries, while 19% were coming from Central and Eastern European countries, including the Commonwealth of Independent States (CIS). The main origins of imports for 1999 are included in the table below.

<table>
<thead>
<tr>
<th>Exports 1999</th>
<th>Imports 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>23%</td>
</tr>
<tr>
<td>Germany</td>
<td>18%</td>
</tr>
<tr>
<td>France</td>
<td>6%</td>
</tr>
<tr>
<td>Turkey</td>
<td>5%</td>
</tr>
<tr>
<td>Others</td>
<td>47%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

In term of foreign trade balance, the commercial deficit has been reduced from 3.5 to 1.8 billion dollars: the exports have slightly increased, from 8.3 to 8.5 billion dollars, which is not so bad considering the withdrawal from sale of several highly subsidised and non profitable products (such as chemical products).

The imports (8.22 billion dollars) have dropped by 15%, because of the low levels of investments and of household consumption.

After this period of stagnation, Romanian foreign trade has increased by 23% in the first quarter of 2000, in comparison with the same period for 1999. Exports have reached their highest point for 10 years, and the trade balance deficit improved by 25%, even though the weight of imports had been loaded by world- wide energy inflation.
The association agreement between Romania and the European Union, effective since 1995, as well recent open negotiations about its membership, have fostered trades with the Community, which now represents 2/3 of Romanian foreign trade.

Manufactured products, in particular textile and clothing, footwear, confectionary, account for 32% of exports, metallurgy, machine and equipment goods, 17% each, chemicals and plastic products 8%, minerals and energy products, 7% and wood 6.5%. The Romanian economy has been able to reinforce its competitive position in the market of manufactured products, thanks to its know-how and to the existence of industrial infrastructure, and to the low cost of its labour.

The increase of the energy bill and the depreciation of national currency foster imports: during the first quarter of 2000, imports reached 5.4 million USD, rising by 19.8%, mainly because of an increase in the volume of imports (37%), of the improvement of the panel of products (27.2%), and the rise of external prices (8.8%). Imports of final products represented 64% of total imports, while imports of goods for re-working and re-export represent 36%. Net imports of energy products reached 394.4 million USD, nearly twice as much those in the first quarter of 1999, being responsible for 81% of the trade balance deficit.

Romanian imports are mainly composed of 25% of equipment goods, machines and means of transportation, 20% of textile and leather, transformed in Romania before export, 15% of minerals and energy, 13% of chemicals, 7% of food products.

The trade balance deficit of the first quarter has significantly improved, reaching only 485 million USD, its lowest level since 1994. The deficits of chemical products, machines, equipment and means of transportation has decreased, while those of minerals, energy, food products and other goods have increased.

Foreign trade is oriented towards the European Union: the main commercial partners are by far, developed countries (68% of exchange), particularly those of the EU (60%). However, their share in Romanian trade has decreased regarding the 1999 first quarter. This evolution benefits the transition countries, whose share in Romanian trade increased by 3.2% (exports) and 6.4% (imports). The Russian Federation and Turkey, in particular, respectively its third provider (9% of Romanian imports, mainly hydrocarbon), and its third client (6.4% of exports), are the main beneficiaries of this trend.

The share of exchange with CEFTA countries (Hungary, Czech Republic, Poland, Bulgaria, Slovenia, Slovakia), joined by Romania in 1977, has also slightly increased (8.8% of foreign trade). The four main commercial partners are Italy, Germany, France and UK. Sub-contracting trends in Romania are now the main driving forces for trade dynamics, in particular with EU countries. Growth acceleration in Romania (2% previewed in 2000), that will come with a noticeable renewal of imports, will develop this increase during the second quarter. If growth speeds up in 2001, on the basis of 3% per year, trade might grow in the future in favour of imports (considering the size of the Romanian population, the process of restructuring of industrial complexes on the way towards privatisation, the lack of equipment of households, the progressive increase of purchasing power), which should boost the economy. Given the membership opportunities of the European Union, this increase in imports should benefit the EU and CEFTA countries.

*External trade of Romania is represented in the two following plans.*