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Economic policy related to enlargement (ECFIN-D-1)

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CCEQ

- CANDIDATE COUNTRIES' ECONOMIES QUARTERLY -

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BULGARIA



COMMENTS

Recent political and other developments

The Comprehensive Monitoring Report on Bulgaria's progress towards accession was adopted on 25 October. Regarding the economic criteria, the report concluded that Bulgaria has broadly maintained macroeconomic stability, even if external deficits have further risen. Bulgaria continued implementing its structural reform programme, albeit not equally vigorously in all fields. Bulgaria is a functioning market economy, and the continuation of the current pace of its reform path should enable it to cope with competitive pressure and market forces within the Union. The report also identified a number of areas where serious shortcomings in transposing and implementing the *acquis* still existed and where urgent action was needed. These concern in particular agriculture, intellectual property rights, structural funds, border management, and fight against crime, fraud and corruption.

On 2 December, the government announced its intention of an early debt repayment to the IMF and the World Bank in the order of EUR 280 mill. The actual repayment is likely to take place in January 2006.

Output and demand

Following the very strong expansion in the first half of the year, real GDP growth slowed down considerably to 4.6% year on year in the third quarter. This deceleration is largely due to the heavy floods during the summer months. Worst hit has been agriculture, which contracted by 6.6% compared to the previous year. But industry and in particular services have also been affected with a marked slow-down in growth.

On the demand side, the investment boom continued unabated with gross fixed capital formation growing by more than 25% year on year. Consumption also continued to expand strongly at a rate of 9.7%. As a result, growth in the third quarter has become increasingly unbalanced with net imports of goods and

services contributing very negatively with more than -11% to real GDP growth.

Industrial production growth slowed down during the course of the year to just 5.4% in the third quarter, reflecting to some extent flood-related disruptions but also less favourable developments in the markets for basic metals and steel.

Industrial confidence weakened slightly in the third quarter probably in response to oil price increases as well as floods. But it still remained at a relatively high level compared to previous years and showed some signs of recovery again in November. This is mirrored by the development in consumer confidence which also deteriorated until October but has improved somewhat in November.

Labour market

Unemployment (ILO methodology) dropped below 10% for the first time since the financial crisis in 1996/97 and reached 9.2% of the labour force in the third quarter, compared to 11.0% one year earlier. Employment growth was particularly strong in tourism and construction explaining the acceleration of overall employment growth to 2.4% in the third quarter.

According to National Statistical Institute data, nominal wage inflation slowed down to 8.0% in the third quarter, implying an average real wage increase of 3.2% compared to the previous year.

International transactions

The gap between exports and imports widened further, with the trade deficit increasing to 18.1% of GDP in the 12 months to September. Imports surged by 32.6% in the third quarter compared to the previous year. This is almost exclusively driven by rising oil prices and the investment boom triggering higher imports of investment goods. At the same time, export growth slowed down markedly to just over 10%. This can partly be explained by flood-related disruptions, especially as regards exports of agricultural products. But it also reflects a major

drop in steel exports as a response to the deterioration in world steel markets.

In line with the widening trade deficit, the 12-month current account deficit increased to 13.4% of GDP until the end of September. Net FDI inflows remained very strong, boosted in particular by the finalisation of the take-over of the main mobile phone operator by Telekom Austria in July. But unlike in previous years, FDI inflows will probably fall short of fully financing the current account deficit in 2005.

Prices

Consumer price inflation (interim HICP) in the third quarter remained almost stable at 4.8% year on year compared to the previous quarter. However, increases in oil and food prices have led to a considerable acceleration in October to 6.5%. This trend is set to continue implying a substantially higher end-of-year inflation. Producer price inflation largely followed this pattern and accelerated to 7.5% in November.

Monetary and financial indicators

The downward trend in credit growth continued since the introduction of de facto ceilings in April. Credit growth to the private sector slowed down further to 32.9% until the end of November. The reduction is most pronounced for credits to enterprises where the growth rate has slowed down to 21.8% until the end of November. As witnessed by the steady increase in private foreign debt, there are, however, clear indications that enterprises have increasingly turned to direct foreign lending as an alternative source of financing.

Short-term interest rates remained stable at around 2.7% for the whole year 2005, implying a further significant decline compared to 2004. Government bond yields also showed little fluctuation and reached 3.4% on average in the fourth quarter, slightly up from the previous quarter, but still markedly lower than at the start of the year.

The index of the Sofia stock exchange (SOFIX) reached a record high in late September, briefly surpassing even the 900 point mark. The index declined somewhat in the final quarter, but over the whole year it still recorded an increase of more than 32%.

In view of the currency board which pegs the lev to the euro, the Bulgarian currency followed the development of the euro vis-à-vis the US dollar. As a consequence, the nominal effective exchange rate continued to depreciate slightly in the third quarter.

The Bulgarian National Bank adopted additional measures in November to curb credit growth further in 2006. The de facto ceilings on credit growth, which came into effect in April 2005, have been slightly modified and the targeted rate of credit growth has been reduced from 30% in 2005 to 20% this year. In addition, new provisioning requirements for household and mortgage loans have been introduced.

General government balance

The general government balance (ESA 95) showed an increased surplus of 1.3% in 2004, reflecting revenue over-performance as a result of strong growth and attempts to contain the widening current account deficit by limiting public expenditures. The pattern of revenue over-runs continued in the first nine months of 2005 with the accumulated budget surplus reaching 3.9% of GDP on a cash basis. The Fiscal Reserve Account thus remained almost stable at above 12% of GDP despite a further buy-back of Brady bonds in July.

In the fiscal notification to the Commission of March 2005, the Bulgarian authorities reported a continued decline in the level of general government debt (ESA 95 methodology) reaching 38.8% of GDP in 2004, down from 46.3% in 2003 and 54.0% in 2002.

The 2006 budget law was adopted on 20 December, foreseeing a fully balanced budget with an option of switching to a 2% of GDP surplus during the year in case of a continued widening of the current account deficit. As part of the 2006 fiscal package, pension contributions have been reduced by 6 percentage points whereas excise duties on alcohol and cigarettes have been increased and aligned with EU minimum rates.

TABLE

European Commission, ECFIN-D-1



BULGARIA

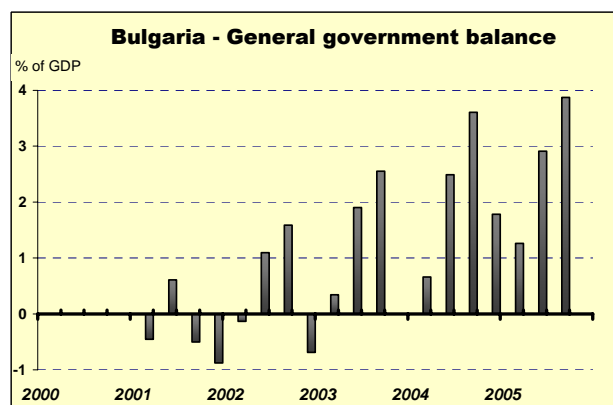
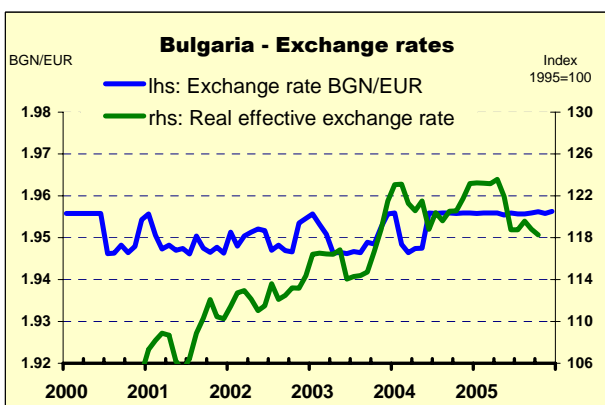
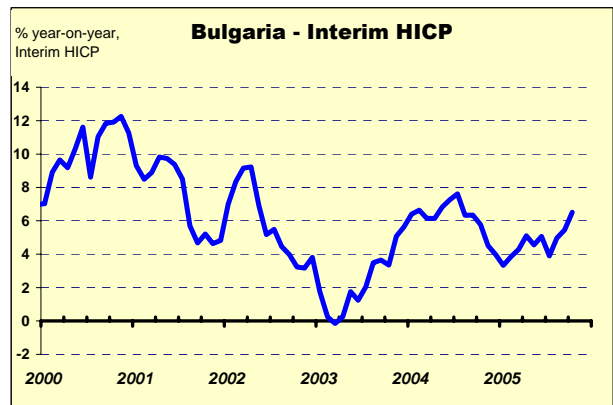
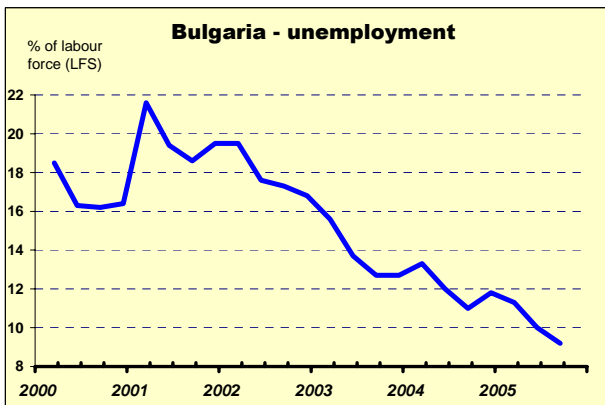
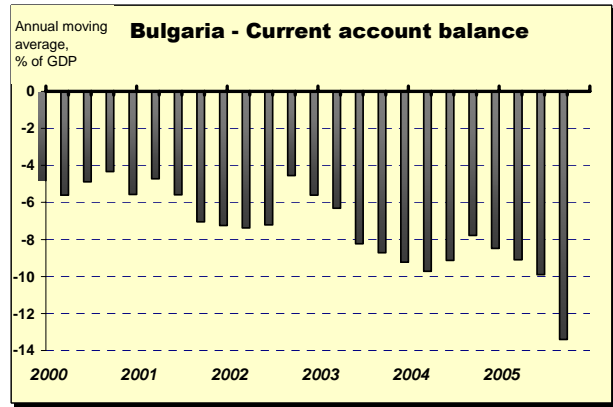
		2000	2001	2002	2003	2004	200501	200502	200503	200504	200510	200511	200512
							Q1	Q2	Q3	Q4	Oct	Nov	Dec
1 Output and demand													
Industrial confidence ^{1.1}	Balance	-9.5	-6.2	-5.2	-2.1	0.1	1.2	2.0	1.6	:	1.0	1.4	:
Industrial production ^{1.2}	Ann. % ch	N.A.	2.2	4.6	14.0	17.7	11.1	9.4	5.4	:	8.0	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.4	4.1	4.9	4.5	5.6	6.0	6.4	4.6	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	-31.2	-31.7	-27.7	-25.3	-22.2	-25.3	:	-32.2	-26.5	:
Private consumption ^{1.5}	Ann. % ch	4.9	4.6	3.4	7.1	4.8	7.3	5.7	9.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	15.4	23.3	8.5	13.9	12.0	9.2	16.8	25.4	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	2.6	2.4	1.5	2.4	2.6	2.5	2.9	4.1	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	16.9	19.8	17.8	13.7	12.0	11.3	10.0	9.2	:	:	:	:
Employment ^{2.2}	Ann. % ch	NA	-3.4	1.5	3.5	3.1	2.0	1.3	2.4	:	:	:	:
Wages ^{2.3}	Ann. % ch	12.8	8.3	6.6	6.2	7.0	9.5	9.3	8.0	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	40.7	8.8	6.1	10.0	19.7	21.1	21.5	10.6	:	23.9	:	:
Imports of goods ^{3.2}	Ann. % ch	37.8	14.7	3.5	14.4	20.8	22.7	24.2	32.6	:	34.6	:	:
Trade balance ^{3.3}	% of GDP	-9.4	-11.7	-10.2	-12.5	-14.0	-14.5	-15.4	-18.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	55.7	55.6	53.1	53.6	58.4	59.4	60.3	60.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	61.1	63.1	59.8	63.0	68.7	70.5	72.6	75.7	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-5.6	-7.3	-5.6	-9.2	-8.5	-9.1	-9.9	-13.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	8.0	5.9	5.8	10.3	9.2	9.0	7.1	12.6	:	N.A.	N.A.	N.A.
4 Prices													
Interim HICP ^{4.1}	Ann. % ch	10.3	7.4	5.8	2.3	6.1	3.8	4.9	4.8	:	6.5	:	:
GDP Deflator ^{4.2}	Ann. % ch	7.1	7.0	3.9	2.3	4.4	2.6	4.2	4.1	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	3.6	1.3	4.9	6.0	6.3	6.8	6.7	:	6.2	7.5	:
Import prices ^{4.4}	Ann. % ch	N.A.	-1.7	-3.9	-4.4	7.5	5.8	5.8	11.6	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	4.6	5.1	4.9	3.6	3.3	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Bond yield ^{5.2}	% p.a.	N.A.	7.1	6.7	5.4	4.8	3.7	3.5	3.2	3.4	3.3	3.6	3.4
Stock markets ^{5.3}	Index	109.0	94.6	143.1	324.7	534.0	820.8	768.3	834.3	828.7	831.1	829.4	825.5
M3 ^{5.4}	Ann. % ch	28.1	27.6	17.7	16.6	22.5	28.8	27.4	27.3	:	27.0	27.3	:
Exchange rate BGN/EUR ^{5.5}	Value	1.95	1.95	1.95	1.95	1.95	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate ^{5.6}	Index	99.9	106.5	111.2	117.6	119.5	119.4	118.3	117.1	:	116.8	116.3	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-0.5	1.4	-0.2	0.6	1.3	1.3	2.9	3.9	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	73.6	66.2	54.0	46.3	38.8	37.7	38.0	34.1	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



BULGARIA



CROATIA



COMMENTS

Recent political and other developments

On 7 December, the fugitive war crimes' indictee, General Ante Gotovina, was arrested in Spain and subsequently extradited to the Hague War Crimes Tribunal.

On 8 December, Finance Minister Suker submitted the second Croatian Pre-Accession Economic Programme to DG ECFIN. The programme envisages continued fiscal consolidation to keep public debt below 60% of GDP and to stabilise external debt at the current level of around 83% of GDP.

An IMF mission visited Zagreb during the first half of December in the context of the second review under the current programme and warned about strong domestic credit and foreign debt growth.

Output and demand

Economic growth accelerated slightly from the second to the third quarter from 5.1% to 5.2% year on year, the highest growth rate recorded since late 2002. Average annual growth in the first three quarters was 4.1%, above the growth rate of 3.8% recorded in 2004. Economic activity in the third quarter was mainly driven by a further acceleration of gross fixed capital formation growth to 5.8% year on year, after 0.3% in the first and 3.2% in the second quarter. Moreover, real exports of goods and services continued to grow at a relatively strong pace (4.9%), while the growth of imports slowed considerably as compared to the previous quarter (from 5.8% to 2.3%). In line with the usual seasonality, net exports added a significant contribution to real GDP growth in the third quarter (2 percentage points), following negative contributions in the first and second quarter. Also, the contribution of gross fixed capital formation increased from 1.0 to 1.5 percentage points, while the contribution of private consumption declined significantly from 2.8 to 2.0 percentage points. Recent high frequency indicators suggest a mixed picture on economic performance in the beginning of the fourth

quarter. Industrial production growth accelerated further in October and November to 6.2% and 6.5% year on year, respectively, after 5.9% in the third quarter. The number of foreign tourist soared by 12% year on year, but retail trade dropped by 1.2% in real terms.

Labour market

The officially registered unemployment rate increased slightly to 17.8% in November, up from 17.5% in October, largely due to seasonal factors, but it was lower than a year ago (18.2%), suggesting a gradual improvement of the domestic labour market situation. This is confirmed by recent labour force survey data, according to which the unemployment rate declined to 13.1% in the first half of 2005, as compared to 13.8% in the first half of 2004.

Average gross wages grew more moderately in the third quarter by 4.1%, as compared to 4.5% during the first and second quarter. Deflated by consumer price changes, this translates into a real wage increase of 0.6% year on year in the third quarter. In October, nominal gross wages increased by 4.5% year on year, bringing the annual average nominal increase in the first 10 months to 4.4%.

International transactions

According to recent data published by the Croatian National Bank, the current account recorded a surplus in the third quarter, as usual due to the tourism season. Moreover, the current account surplus increased by 13.3% year on year. The annual current account deficit, as measured on a four quarter rolling basis, declined from 7.0% in the second quarter to 5.9% in the third quarter, which is mostly due to a higher surplus in the services account, by 1.5 percentage points. The latter is the result of a strong tourism season in combination with a significant decline in services imports.

According to data released by the Statistical Office, the trade deficit increased by 13% year

on year in the first eleven months, as merchandise imports grew stronger (10.5%) than exports (7.7%). The trade deficit accounted for 24.3% of estimated GDP, as compared to 22.8% in the first eleven months of the previous year.

Net FDI inflows more than doubled in the third quarter as compared to the third quarter of 2004, and they increased by around 80% in the first three quarters year on year (in domestic currency terms). On a four-quarter rolling basis, net FDI inflows increased to 4.2% of GDP in the third quarter as compared to 3.7% in the second quarter.

At the end of November 2005, official reserve assets of the Croatian National Bank stood at a comfortable level of EUR 7,720.4 million, equivalent to around 6.1 months of 2004 imports of goods and services. Following a significant increase in the external debt to GDP ratio from 77.6% at end-2003 to 82.1% at end-2004, the debt ratio has started to stabilise at around 83% of GDP, supported by a shift of government borrowing from external to domestic markets.

Prices

Average annual consumer price inflation increased significantly from 2.1% in 2004 to 3.3% in November 2005 (twelve months moving average), as a result of shocks on the supply side, resulting in higher prices for energy (oil), transport and food. Industrial producer price inflation accelerated to 2.3% year on year in November, from 1.8% in October. In the twelve months to November, producer prices have increased by 3.2% on average, compared to 3.5% in 2004.

Monetary and financial indicators

Despite a continuation of tight monetary policies, since mid-2005 there has been a slight acceleration of annual growth of credit and money aggregates, fuelled by strong commercial bank borrowing abroad. Year-on-year growth of M4 accelerated from 8.6% in the last quarter of 2004 to 9.7% in the third quarter and 10.2% in October. Annual domestic credit growth increased from 14% in 2004 to 16.7% in September 2005. At the same time, year on year commercial bank lending to households has been growing stronger (22.3%) than lending to enterprises (13.8%).

Average (three months) interest rates have declined from 6.8% in the third quarter to 5.9% in December. Average lending rates for credits that are not indexed to a foreign currency have continued to decline during the first nine months from 11.8% in January to 10.7% in September 2005.

The exchange rate of the Kuna followed the usual seasonal pattern during the early summer months. Following an appreciation of 2.2% against the euro in the second compared to the first quarter, the Kuna depreciated by 0.2% in the third quarter, before it slightly appreciated again in October and November. In the first 11 months, the Kuna appreciated by 2.4% vis-à-vis the euro. In nominal effective terms, the Kuna remained rather stable in the twelve months to November 2005. In the twelve months to October, the real effective exchange rate deflated with consumer prices appreciated by 2.1%, and depreciated by 2.5% when deflated with producer price developments.

General government balance

According to recently published preliminary budget data, general government budget revenues increased by almost 8% while spending rose by 6.2% in January to September 2005 as compared to the same period a year ago. During this period, the general government deficit (GFS 1986) amounted to HRK 7691 billion, or 3.5% of expected 2005 GDP. This represents already some 83% of the revised annual deficit target of 4.2% agreed in the context of the current IMF programme. The stock of public debt continued to grow to 45.1% of GDP by end-September 2005, from 44.2% at end-2004.

On 29 November, the 2006 budget was adopted by the Parliament. The general government deficit is planned at 3.3% of GDP, in line with the medium term fiscal policy guidelines adopted in July.

TABLE

European Commission, ECFIN-D-1



CROATIA

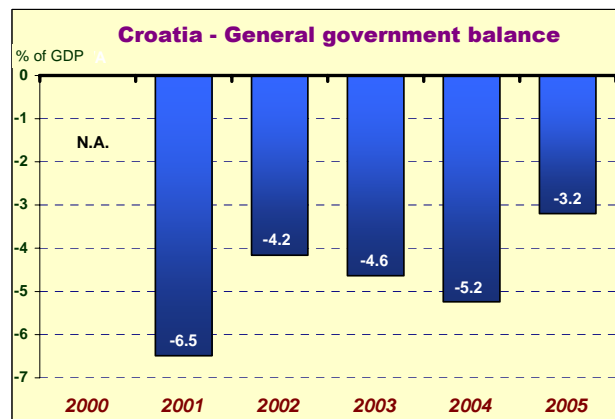
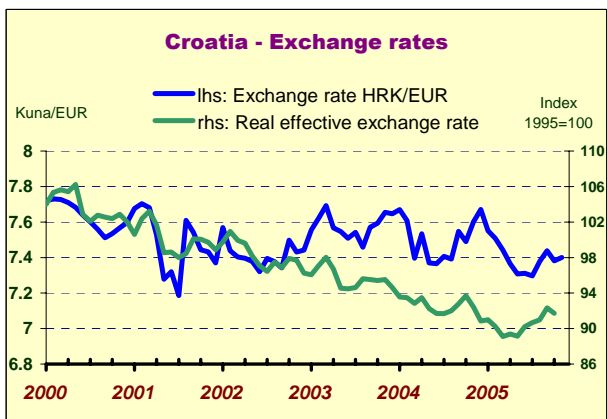
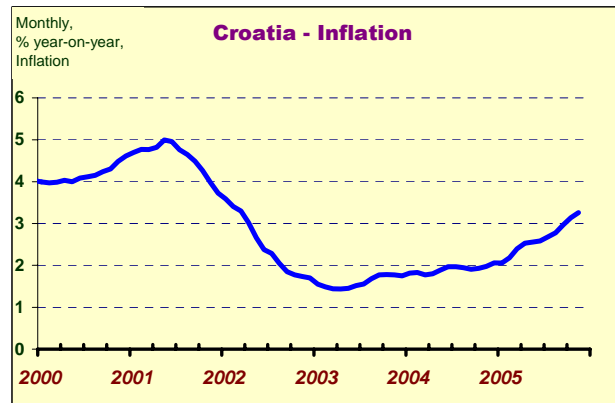
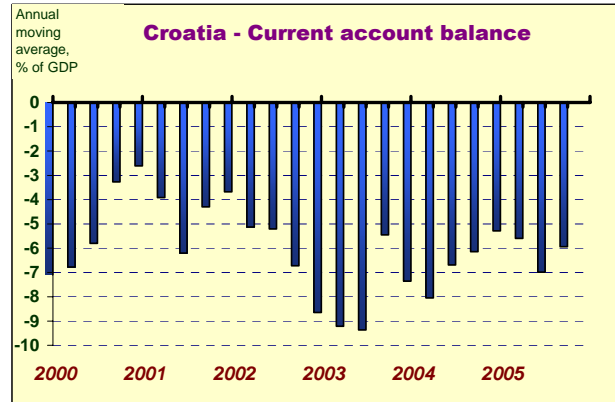
		2000	2001	2002	2003	2004	200501	200502	200503	200504	200510	200511	200512
							Q1	Q2	Q3	Q4	Oct	Nov	Dec
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	6.3	5.4	4.2	3.1	1.9	7.8	5.9	:	6.2	6.5	:
Gross domestic product ^{1.3}	Ann. % ch	2.9	4.4	5.2	4.3	3.8	1.8	5.1	5.2	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	4.2	4.5	7.5	4.1	3.9	2.4	4.4	3.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	-3.8	7.1	12.0	16.8	4.4	0.3	3.2	5.8	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	-1.6	1.6	3.8	2.9	2.6	2.8	3.2	3.0	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	16.5	16.3	15.2	14.7	14.2	19.3	18.0	17.0	:	17.5	17.8	:
Employment ^{2.2}	Ann. % ch	4.9	-5.4	4.4	0.1	1.6	-0.3	-0.7	-0.3	:	-0.1	0.1	:
Wages ^{2.3}	Ann. % ch	7.0	1.3	8.7	5.1	6.1	4.4	4.5	4.1	:	4.5	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	20.8	4.7	-1.3	7.6	17.3	1.4	15.1	6.2	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	17.5	14.6	12.6	13.9	5.1	4.5	9.0	9.5	:	:	:	:
Trade balance ^{3.3}	% of GDP	-17.5	-20.7	-24.6	-27.3	-24.3	-24.4	-24.2	-24.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	47.1	48.4	45.4	47.1	47.5	47.1	47.1	47.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	52.3	54.5	54.7	56.8	55.7	55.4	55.3	54.8	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-2.6	-3.7	-8.6	-7.4	-5.3	-5.6	-7.0	-5.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	5.7	5.9	2.7	6.9	2.6	2.4	3.7	4.2	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	4.6	3.7	1.7	1.8	2.1	3.1	3.0	3.4	:	3.1	3.3	:
GDP Deflator ^{4.2}	Ann. % ch	4.7	4.0	2.9	3.2	3.3	3.5	3.0	3.2	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	9.6	3.7	-0.5	1.9	3.5	4.9	3.1	2.0	:	3.5	3.2	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	4.6	5.4	7.3	6.5	5.7	6.8	5.8	5.7	5.8	5.9
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	851.4	971.0	1166.8	1128.9	1284.5	1950.7	1777.2	1937.9	2016.1	2025.6	2025.3	1997.5
M4 ^{5.4}	Ann. % ch	15.3	31.6	30.8	11.4	8.2	8.7	9.4	9.7	:	10.2	10.8	:
Exchange rate HRK/EUR ^{5.5}	Value	7.63	7.48	7.42	7.58	7.50	7.50	7.33	7.37	:	7.38	7.40	:
Nominal eff. exchange rate ^{5.6}	Index	101.4	100.0	97.8	94.9	91.7	90.5	89.5	90.4	:	91.1	91.5	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	N.A.	-6.5	-4.2	-4.6	-5.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	N.A.	40.1	39.9	41.5	44.2	:	:	:	:	N.A.	N.A.	N.A.

Charts

European Commission, ECFIN-D-1



CROATIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



COMMENTS

Recent political and other developments

On 17 December the European Council granted candidate status to the former Yugoslav Republic of Macedonia. Negotiations will start once sufficient progress with complying with the Copenhagen criteria and the Stabilisation and Association Agreement has been achieved.

On 27 October, the World Bank approved USD 30 million (€25 million) for a Programmatic Development Policy Loan. This is the first of three World Bank loans to support the improvement of the business climate and the efficiency of public administration.

The privatisation of the distribution segment of the Electric Power Company (ESM) has entered the next stage with 4 foreign energy providers having met the criteria set in the pre-qualification tender.

On 4 January, a one-stop registration procedure for new companies has been established. This system should reduce the duration for founding a new company from 48 days to 5 days. The establishment of this system is an important step in improving the business climate and in facilitating job creation.

Output and demand

Output generation continues to gain strength, although the current growth performance still is below potential. In 2004, real GDP growth accelerated to 4.1%, compared to 2.8% the year before. Important sources for this improvement were stronger private consumption, increasing by some 6% and gross fixed investment, which rose by some 11%. As a result, the share of gross fixed investment in total GDP increased from 20% in 2003 to 21.6% in 2004. During the first 3 quarters of 2005, output growth reached a peak of 4.8% in the second quarter, reflecting the reopening of steel production. Overall, output growth was 3.8% during the first 3 quarters of 2005, compared to 3.1% during the same period the year before. The main sectors contributing to economic growth where

manufacturing and mining, wholesale and retail and transport. Construction output declined by nearly 7% in the first 3 quarters. For the whole year of 2005, an annual growth rate of some 3¾% is expected, which should slightly accelerate to 4% in 2006.

Industrial production, which accounts for some 15% of total value added, declined by 2.2% in 2004, reflecting the temporary closure of a few, significant production sites due to changes in ownership. The reopening of production in those plants in mid-2005 has helped to boost industrial output levels, by 13.5% in the second quarter and by 6% in the third quarter. During the first 11 months of the year, industrial output rose 7.4% compared to the same period the year before.

Labour market

Overall, unemployment still is very high. According to labour force survey data, unemployment reached a peak of 38.7% of the labour force in the first quarter of 2005, but has declined to 36.5% by the third quarter of 2005. Besides seasonal effect, government measures to support job creation probably have contributed to this decline in unemployment.

The trend of decelerating wage growth appears to continue. After strong growth of nominal gross wages in the post-crisis period 2002-2004, wage growth moderated to 1.1% in the second quarter and 2.2% in the third quarter. Overall, nominal wages increased by 2.3% during the first 10 months of the year, while the increase in real terms was 1.8%.

International transactions

Current account data indicates a significant improvement in the external balance during the first 3 quarters of 2005. Compared the same period a year ago, the accumulated first 3 quarters show a decline in the current account deficit from -7.5% of GDP in the first 3 quarters of 2004 to -1.3% of GDP in 2005. About half of

the improvement is due to higher exports, whose share increased from 31% of GDP to 34% of GDP. Net private transfers increased from 14.5% of GDP to 16.7%, adding another 2¼ percentage points to the improvement in the current account balance. Foreign direct investment declined slightly, from 2.3% of GDP during the first 3 quarters in 2004 to 2.0% by autumn 2005.

Monthly trade data for the first 11 months of 2005 show an improved export performance. Nominal exports increased by 25%, while imports rose by 13% only. The strong increase of exports is largely based on the export of iron and steel, which accounted for 28% of total exports and which increased by nearly 38% during this period. The export of clothes and textiles, which accounted for 25% of total exports, rose by about 2% only.

At the end of December 2005, official reserve assets of the National Bank stood at a level of EUR 1.1 billion, equivalent to slightly less than approximately 4 months of 2005 imports of goods and services.

Prices

The consumer price index increased by 0.5% on average in 2005, compared to a decline by 0.4% in 2004. Important factors behind this low rise in consumer prices were declining food prices as a result of import liberalisation required by the countries accession to WTO. However, during 2005, higher prices for energy led to an acceleration of prices towards the end of the year, with a year-on-year CPI increase by 1.2% in December. For 2006, the authorities expect an annual average inflation of about 2%.

Monetary and financial indicators

Monetary conditions remained tight during 2005 with an average weighted lending rates of some 12%, while interest rates on 3-months deposits were at about 6%. Credit growth to the private sector continued to be high, at some 23% during the first 8 months of the year. Year on year growth of M4 was 13.7% during first 9 months of the year.

The exchange rate of the Denar has remained largely unchanged against the euro on a level of 61.2 MKD/EUR. The National Bank intends to maintain its current peg vis-à-vis the EUR.

General government balance

During the first 3 quarters of 2005, central government revenues increased by about 8%, compared to the same period a year before. Central government expenditures rose by 4.5%. As a result, the central government balance registered a surplus of about 1.4% of GDP, compared to a surplus of 0.7% of GDP at the same time the year before. For the whole year of 2005, a general government surplus of less than 1% of GDP is likely, compared to a targeted deficit of some 0.4% of GDP. One important reason for the better than expected fiscal performance is lower than planned public investment.

On 3 January, the 2006 central government budget was adopted by Parliament. The budget envisages a central government deficit of 0.6% of GDP, compared to an estimated surplus of 0.7% of GDP in 2005. This target is in line with the medium term fiscal framework agreed in the new IMF Stand-by Agreement, which had been approved on 1 September.

TABLE

European Commission, ECFIN-D-1



The former Yugoslav Republic of Macedonia

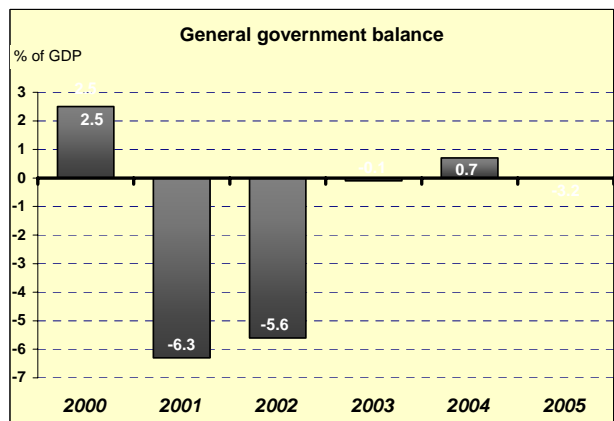
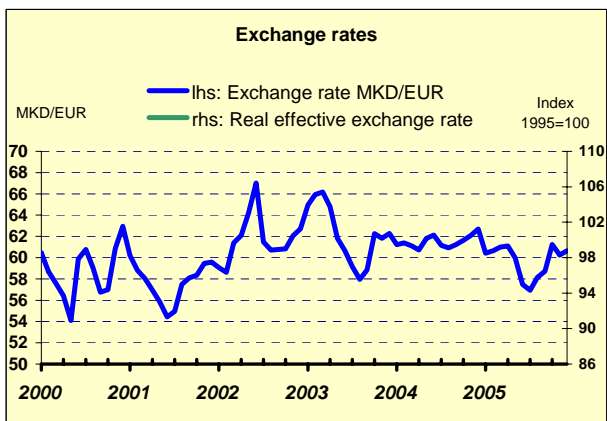
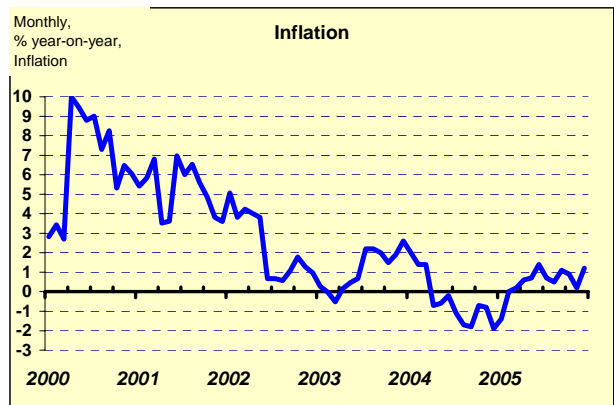
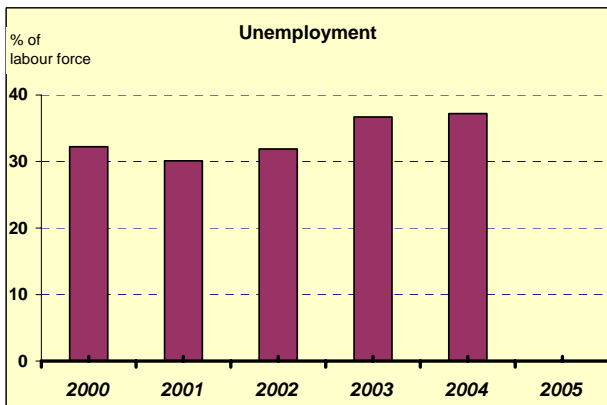
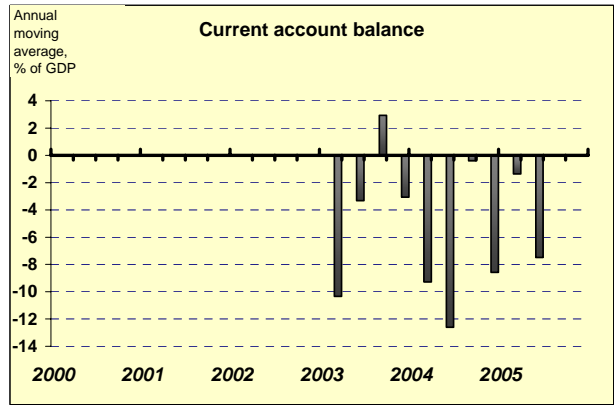
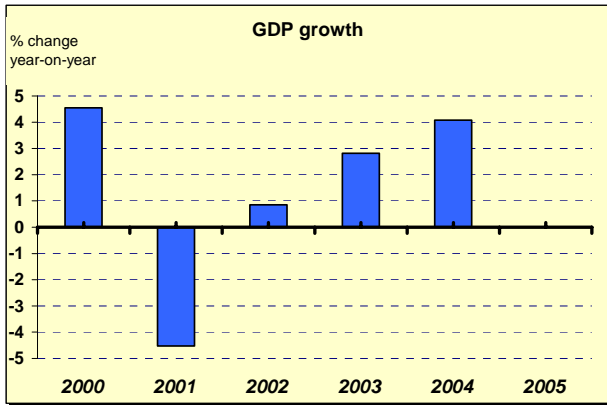
		2000	2001	2002	2003	2004	200501	200502	200503	200504	200510	200511	200512
							Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
1 Output and demand													
Industrial confidence ^{1.1}	Balance	:	:	:	:	:	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	3.6	-3.0	5.3	4.7	-2.2	4.8	13.5	6.0	:	3.3	5.5	:
Gross domestic product ^{1.3}	Ann. % ch	4.5	-4.5	0.9	2.8	4.1	2.7	4.7	3.9	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	:	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Private consumption ^{1.5}	Ann. % ch	11.2	-11.6	12.5	-1.5	6.2	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	-1.5	-8.6	17.6	1.1	10.9	:	:	:	:	:	:	:
Change in stocks ^{1.7}	% of GDP	6.0	4.2	4.0	3.2	3.7	:	:	:	:	:	:	:
2 Labour market													
Unemployment ^{2.1}	%	32.2	30.1	31.9	36.7	37.2	38.7	37.4	36.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	0.8	9.0	-6.3	-2.9	-4.1	-2.3	2.1	6.1	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.5	3.5	6.9	4.8	4.0	3.0	1.1	2.2	:	0.8	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	11.0	-12.5	-3.6	22.5	22.4	31.7	39.0	14.3	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	17.9	-19.1	17.8	15.6	25.9	13.8	24.6	8.8	:	:	:	:
Trade balance ^{3.3}	% of GDP	-17.7	-14.1	-21.4	-18.4	-20.9	-12.4	-22.8	-17.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	42.2	48.6	42.7	38.0	37.9	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	52.2	63.5	56.6	58.2	54.8	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-1.9	-6.5	-9.5	-3.3	-7.7	-1.4	-7.5	5.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	4.5	11.8	2.1	2.0	2.8	2.3	2.2	1.3	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	5.8	5.5	1.8	1.2	-0.4	-0.4	0.9	0.8	0.8	0.9	0.2	1.2
GDP Deflator ^{4.2}	Ann. % ch	8.2	3.6	3.4	0.3	1.3	:	:	:	:	N.A.	N.A.	N.A.
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	N.A.	-0.2	1.2	1.9	2.7	4.5	:	4.3	2.9	:
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (deposit) ^{5.1}	% p.a.	10.7	10.0	9.2	6.7	6.5	:	:	:	:	:	:	:
Bond yield/T- Bills 3 M, Average ⁵	% p.a.	:	:	:	:	8.5	9.9	10.5	10.4	:	9.8	8.9	:
Stock markets ^{5.3}	Index	:	1000	1095	1179	1352	1322.4	1988.2	2028.9	:	2486.5	2425.3	:
M4 ^{5.4}	Ann. % ch	21.8	61.7	-9.8	16.0	16.3	:	:	:	:	:	:	:
Exchange rate MKD/EUR ^{5.5}	Value	60.73	60.91	60.98	61.26	61.32	61.4	61.4	61.2	:	61.23	60.26	:
Nominal eff. exchange rate ^{5.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	2.5	-6.3	-5.6	-0.1	0.7	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	48.0	48.8	42.9	39.0	37.6	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



The former Yugoslav Republic of Macedonia



ROMANIA



COMMENTS

Recent political and other developments

The Commission's Comprehensive Monitoring Report on Romania's progress towards accession was published on 25 October 2005. As regards the economic criteria, it was concluded that Romania has broadly maintained macroeconomic stability even if the policy mix turned less prudent and raised concern about the sustainability of recent stabilisation achievements. The pro-cyclical effect of the tax reform and slippage in the public sector wage policy bear a responsibility for this and priority should be given to re-establishing a prudent fiscal policy and a cautious public sector wage policy. Romania continued implementing its structural reform programme, although not vigorously in all fields. The report also concludes that Romania continues to meet the political requirements for membership. A number of shortcomings were identified, such as reform of public administration and judiciary and fight against corruption. In most areas of the *acquis*, preparations for membership are well advanced, but the report identifies a limited number of issues of serious concern.

The IMF and Romania could not conclude the 2nd and 3rd review under Romania's Stand-By Arrangement in late-October. This was expected since the distance between the government and the IMF on the appropriate economic policy line, notably the need to adjust fiscal policy, has gradually increased since June this year, where agreement was reached but not signed due to insufficient political backing by Romania's government.

On 21 December, Austrian Erste Bank won the tender for a 61.8% stake in Romania's largest bank, BCR, for the amount of 3.75 billion EUR, of which 2.2 billion will go to the Romanian state and the rest to EBRD/IFC. The actual transfer of ownership will take place in some months.

Output and demand

In 2004 GDP grew by 8.3%, boosted by an exceptionally vast harvest. Growth was driven by a further strengthening of household

consumption, growing by 10.8%, on the back of high real wage gains, and by strong gross fixed capital formation, growing by 10.1%. With exports being outpaced by rapid import growth, net exports contributed negatively by 2.8% of GDP to real growth.

In the first three quarters of 2005, GDP grew by 3.6%, well below expectations. The slowdown was caused by a 12.6% decline in agricultural production and a growth in industrial production of only 2% due to the energy price shock, import competition and loss of competitiveness following high wage growth and rapid exchange rate appreciation. Household consumption grew by 9.7% and gross fixed capital accelerated to a 9.4% growth. Net exports had a negative contribution to real GDP growth of 5.7% and stock-building was strongly negative following the impact of floods.

Labour market

The decline in registered unemployment in the first half of 2005 was reversed and the unemployment rate inched up to 5.7% in November as compared to 6.1% one year earlier. Based on seasonally adjusted Labour Force Survey data, the unemployment rate has increased from 7.6% to 8.0 from the second to third quarter of 2005. Total working-age employment went up by 0.4% in the second quarter of 2005 compared to one year earlier. National data show that employment was 2.2% higher in October 2005 than one year earlier. Average net nominal wages in October were 22.2% higher than one year before. Deflated by consumer price inflation, average real wages in October grew by 13.5% compared to one year before.

International transactions

In 2004, exports grew by 21.3%, but continued to be outpaced by rapid import growth of 24.0%, while the trade deficit grew to 9.0% of GDP. For the first eleven months of 2005, the trade deficit has widened to close to 10% of GDP with export growth of 17.6% continued to be

outpaced by import growth of 24.5%. The 2004 current account deficit was in December 2005 revised significantly up to 8.7% of GDP. For the first ten months of 2005, the deficit remained around this level. Increasing remittances continue to partly finance the deficit.

In 2004, net inflows of FDI spurred to 8.7% of GDP, mainly due to a number of major privatisations. For the first ten months of 2005, net FDI has returned to a more moderate level of 4.5% of GDP. The central bank continues to accumulate large foreign exchange reserves, covering by end-October 6.5 months of imports.

Prices

In 2004, consumer prices rose on average by 11.9% while the end-year inflation stood at 9.3%, slightly above the authorities' target of 9%. For the first eleven months of 2005, inflation decreased to 8.7% year-on-year. In October 2005, the rise in producer prices decelerated to 11.0% year-on-year from 15.4% in January, which was caused entirely by lower price increases in manufacturing due to low growth in raw materials prices.

Strong aggregate demand, sizeable real wage gains, abundant liquidity in the financial sector, high international energy prices and adjustments of administered prices all added to inflationary pressures, while the appreciation of the *leu* over the course of 2005, although reversed since September, help to sustain disinflation. The reacceleration of inflation in November makes it increasingly difficult to reach even the upper limit of the revised inflation target of 7.5% +/- 1%-point, which was set in August when the NBR officially switched its monetary policy regime to inflation targeting.

Monetary and financial indicators

After having eased its interest rate policy until October 2005 in an attempt to stem growing capital inflows, the central bank decided in November to tighten interest rates by increasing sterilisation of excess liquidity. As a result, money market interest rates have recovered to the September level, which remains, however, low in view of inflationary pressures. On 21 December, the central bank raised the

minimum reserve requirement on foreign currency-denominated liabilities from 30% to 35% and further tightened control over liquidity in order to reduce credit growth and counter growing inflationary pressures. The central bank took this decision in the view that consumption growth is unsustainable, which requires a tighter economic policy mix to safeguard continued disinflation in the medium run.

The gradual tightening of prudential and administrative measures in the banking system, which was stepped up in late-September, has not prevented a reacceleration of private sector credit growth, to 49.5% (37.6%) in November 2005 compared to one year before. Higher reserve requirements on lending in foreign currency, stricter risk classification system for household clients and the limit on foreign currency lending to three times the equity of a bank have, however, slowed the expansion in foreign exchange-denominated loans to 41.3% in November (48.8% when expressed in EUR), while lending in RON-denominated loans exhibited a strong rise of 61.6% (48.7% in real terms). Household loans, notably in foreign currency, continue to grow particularly fast.

After a strong rally of 95% in 2004, the index of the Bucharest stock exchange rose by another 59% in 2005 (51% in EUR).

General government balance

In 2004, the general government balance (ESA 95) turned out at -1.5% of GDP against the background of strong revenue growth and public debt declined to 18.1% of GDP. In 2005, strong growth in revenue from VAT and import duties due to vivid consumption, slow implementation of public investment programmes, restrained spending on materials and equipment and an exceptional increase in non-tax revenue and grants have eased the negative impact of the tax reform on fiscal revenues. The government confirmed in a budget rectification in mid-November its 1% deficit target for 2005, but with a budgetary surplus of 1% of GDP in November, a smaller than planned general government deficit is likely.

TABLE



European Commission, ECFIN-D-1

ROMANIA

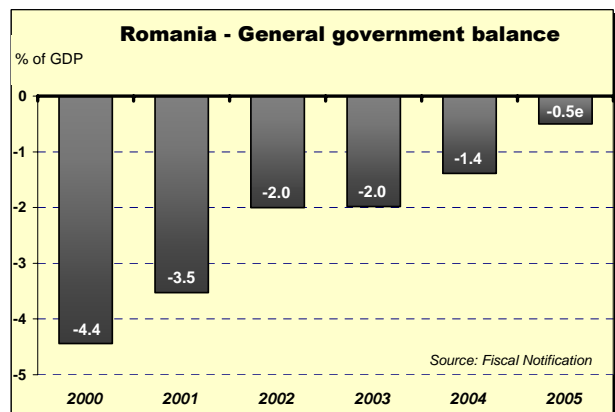
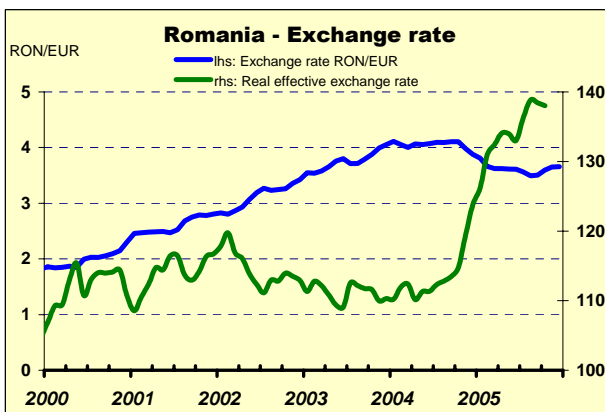
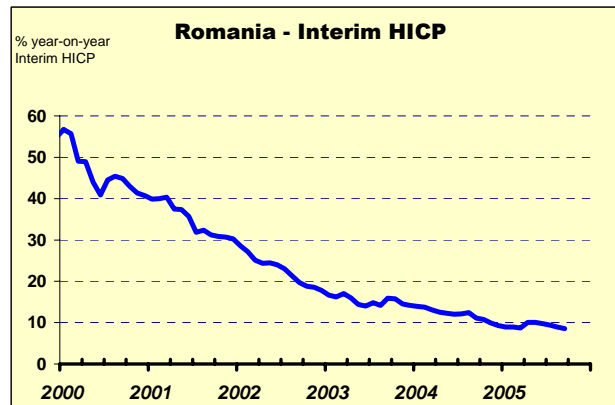
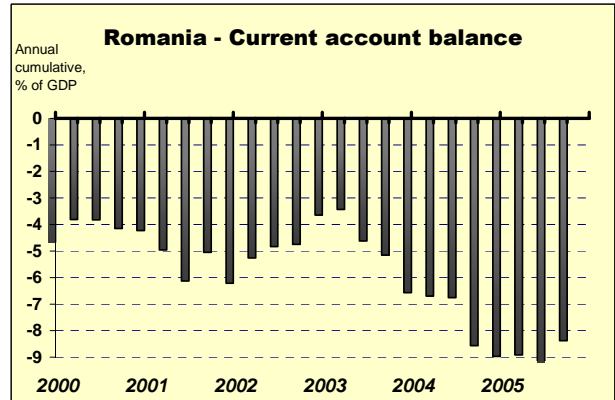
		2000	2001	2002	2003	2004	200501 Q1	200502 Q2	200503 Q3	200504 Q4	200510 Oct	200511 Nov	200512 Dec
1 Output and demand													
Industrial confidence ^{1.1}	Balance	-2.5	-0.7	-1.1	8.3	4.9	3.6	-2.1	-1.0	:	-0.1	3.0	:
Industrial production ^{1.2}	Ann. % ch	8.0	8.2	6.0	3.1	5.3	5.3	3.0	1.5	:	1.4	:	:
Gross domestic product ^{1.3}	Ann. % ch	2.1	5.7	5.1	5.2	8.3	5.9	4.1	1.8	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	-28.2	-28.5	-18.4	-16.8	-21.8	-24.7	:	-25.6	-26.3	:
Private consumption ^{1.5}	Ann. % ch	0.2	6.8	4.8	7.2	10.8	12.5	11.1	7.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	5.5	10.1	8.2	9.1	10.1	5.2	9.0	10.5	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	0.6	1.9	0.4	0.7	0.8	0.8	0.7	0.2	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	11.2	9.0	N.A.	7.6	6.8	6.3	5.7	5.6	:	5.7	5.7	:
Employment ^{2.2}	Ann. % ch	-6.8	1.1	N.A.	-4.5	0.8	2.6	3.1	2.4	:	2.2	:	:
Wages ^{2.3}	Ann. % ch	N.A.	40.9	26.8	25.4	22.5	23.1	24.2	24.4	:	22.2	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	41.3	12.9	15.3	6.4	21.3	17.5	15.7	19.5	:	10.8	22.2	:
Imports of goods ^{3.2}	Ann. % ch	43.4	22.1	8.6	12.3	24.0	21.6	24.0	25.1	:	26.9	25.6	:
Trade balance ^{3.3}	% of GDP	-4.6	-7.4	-5.7	-7.8	-9.0	-9.4	-9.9	-10.0	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	32.9	33.3	35.4	36.0	37.1	36.5	35.7	35.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	38.5	41.1	41.1	43.8	46.4	46.1	45.8	45.3	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-3.7	-5.5	-3.3	-6.0	-8.4	-8.9	-9.2	-8.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.9	2.9	2.5	3.8	10.5	10.2	10.2	7.4	:	N.A.	N.A.	N.A.
4 Prices													
Interim HICP ^{4.1}	Ann. % ch	45.7	34.5	22.5	15.3	11.9	8.9	9.9	9.0	:	:	:	:
GDP Deflator ^{4.2}	Ann. % ch	45.2	39.6	24.6	20.5	17.2	15.7	13.3	10.7	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	53.8	42.0	24.8	19.7	18.6	14.3	14.0	11.1	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	50.8	40.9	27.3	17.7	19.1	12.3	8.4	7.4	5.4	4.6	5.2	6.4
Bond yield ^{5.2}	% p.a.	49.6	34.7	22.3	14.2	12.8	7.6	7.6	7.3	:	:	:	:
Stock markets ^{5.3}	Index	13593.1	9628.8	10264.0	10951.2	19797.2	22885.9	13615.3	12990.6	14622.1	12233.4	17241.5	14391.4
M2 ^{5.4}	Ann. % ch	40.1	42.9	40.6	30.5	32.3	41.0	45.7	40.8	:	41.3	43.1	:
Exchange rate ROL/EUR ^{5.5}	Value	1.9937	2.5999	3.1237	3.7528	4.0509	3.6994	3.6152	3.5214	3.6340	3.5959	3.6513	3.6549
Nominal eff. exchange rate ^{5.6}	Index	80.5	63.8	54.5	47.3	44.3	48.6	49.4	50.4	:	49.2	48.3	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-4.4	-3.5	-2.0	-2.0	-1.4	-1.1	-0.8	0.4	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	23.9	23.2	23.3	21.3	18.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.



CHARTS

European Commission, ECFIN-D-1

ROMANIA



TURKEY



COMMENTS

Recent political and other developments

Turkey's EU entry talks have started on 3 October with a screening exercise, whereby Turkish legislation is compared to the EU *acquis communautaire*. The legal framework is broken down in 35 chapters. This first stage is dealt with simultaneously for Turkey and Croatia, and should be finished by mid-October.

The IMF Board concluded in December 2005 the first and second review of the Stand-By Arrangement (2005-2007). Completion of this review enabled Turkey to draw an amount equivalent to about EUR 1.1 billion.

Output and demand

Annual real GDP growth fell from 8.9% in 2004 to a more sustainable 5.5% in the first nine months of 2005.

Gross fixed capital formation strongly rose by 18.1% in the first three quarters of 2005. Driven by lower interest rates and rising consumer lending, private consumption also outpaced overall growth and rose by 6.9% year-on-year. Export growth slowed down significantly, from over 11% in the first quarter of the year to less than 3% in the third quarter. Imports grew at roughly 10% during the whole of 2005, and as a result the foreign contribution to growth worsened dramatically.

The slowdown in GDP growth was accompanied by slowing growth of industrial production, from 9.8% in 2004 to 4.7% in the first nine months of 2005. However, business survey indicators showed a modest pick-up in industrial confidence in the final months of 2005, and the downward trend in consumer confidence seen the second and third quarter was reversed in the final quarter of last year.

Labour market

The small decline in the jobless rate observed in the first half of 2005, which stemmed mainly

from growth in shorter-term employment in the agricultural sector of seasonal nature, appears to be reversed. The official unemployment rate stood at 9.7% in September 2005, roughly unchanged from a year earlier.

The economic recovery has, since early 2004, caused acceleration in wage growth throughout the economy. The trend continued in 2005 and in the third quarter real wages per worked hour in the manufacturing sector increased by about 13% year-on-year. The government set the 2005 average civil-servant pay raise at 10.7% in nominal terms, which, if enacted in full and government projections on inflation are met, would result in a public sector real wage growth of 2.7% in 2005.

International transactions

Robust economic growth, low inflation, a strong lira and falling interest rates caused imports to grow very strongly in 2004 and early 2005. During 2005, however, merchandise import growth fell from rates of over 30% in the first quarter to less than 10% year-on-year in November. Interestingly, this slowdown has been observed solely in imports of capital and consumption goods, while intermediary goods continued to perform well.

In tandem, export growth slowed from roughly 20% in the beginning of 2005 to a mere 0.4% in November 2005, which is partly explained by the strengthening of the Turkish lira and the previous rapid boost in exports. However, exports of textile products and apparel, which represent about 20% of total exports, appeared to have suffered only marginally from WTO liberalization as they grew by 8.8% in the first nine months of 2005 (BoP). The external deficits continued to widen; the trade deficit increased by 27% in the first eleven months of 2005.

However, due strong tourism receipts (up by almost 40% compared to 2004) the current account deficit seems to have widened much less, from 5.2% of GDP in 2004 to 6.1% of GDP in the first nine months of 2005.

As in 2004, a large part of the deficit continued to be financed by short-term investment, mainly portfolio investment and trade credits. Inflows of foreign direct investment (FDI) had in previous years relatively small.

However, privatisation receipts picked up significantly in 2005 which contributed to a doubling of net FDI (1.0% of GDP), in part due to the successful privatization of Turkish Telekom. The new owner of a 55% stake in the national telecom operator, Oger telecom, a joint project of Telecom Italia and a Saudi group, paid almost €5.5billion.

Prices

After rapid disinflation during the past three years, its pace has been falling significantly in 2005, mainly due to the appreciation of the lira, and by increasing energy prices.

CPI inflation fell from 9.3% year-on-year in December 2004 to 7.7% in the same month of 2005, for the third year well below the year end inflation target (8%). Producer prices rose by only 2.7% last year, compared to 13.8% in the year to December 2004.

Monetary and financial indicators

Lower interest rates, increased competition and a better functioning banking sector in the aftermath of the 2001 financial crisis have fuelled strong growth in domestic credit. Particularly striking has been the increase in consumer credit, which in lira terms almost doubled in 2004. The growth stemmed primarily from loans typically for automobile purchases and credit card borrowing.

Measures taken to slow down credit growth seem to have had some effect as consumer credit growth fell back to less than 20% year-on-year in nominal terms in the third quarter of 2005.

Mortgage loans rose particularly strongly, by one third in flow terms and almost 50% in stock terms compared to 2004.

Turkish interbank rates (TRLibor) have fallen gradually from levels of 30-50% in 2003, in line with Central Bank rates and government bond yields. Since the beginning of 2005, the central bank cut its benchmark rates by a cumulative 650 basis points to 13.5%. In November 2005, interest rates on deposits amounted to 19-20% with very little differences for one to twelve months maturities, down from about 23% one year earlier.

The Istanbul Stock Exchange Index rebounded strongly by 60% in both 2004 and 2005. The ISE-100 index reached 40660 in early January 2006 compared to 25440 one year earlier. The upward trend was rather stable during the whole of 2005.

General government balance

In 2004, the budget deficit narrowed to 3.9% of GDP (ESA 95 definition, equal to 7.1% using national methodology). General government gross fixed capital formation amounted to a relatively high 4.3% of GDP.

In 2005, fiscal discipline continued to be very strong. The cash budget balance narrowed by 68.1% year-on-year in real terms, on the back of 38.5% real decrease in the interest expenditures. Other expenditures increased by 10.5%, mainly due to significantly higher than budgeted shortages in the social security system.

For 2006 and 2007, the government has announced that it plans to keep its primary budgetary surplus stable at 6½ % of GNP.

General government gross debt came down to just over 80% of GDP by the end of 2004, after 87.2% of GDP at the end of 2003 (ESA 95). According to Commission Services calculations based on official statistics, it came down to less than 75% by the third quarter of 2005.

TABLE

European Commission, ECFIN-D-1



TURKEY

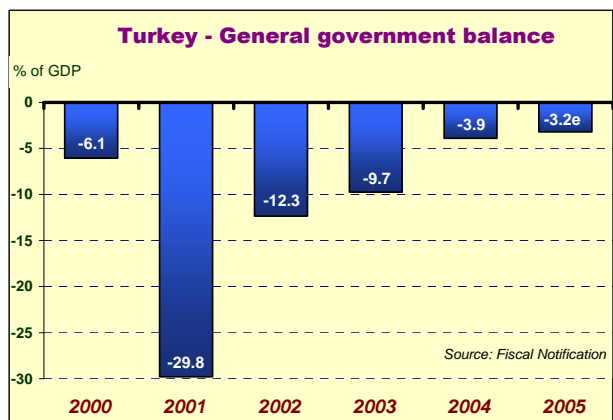
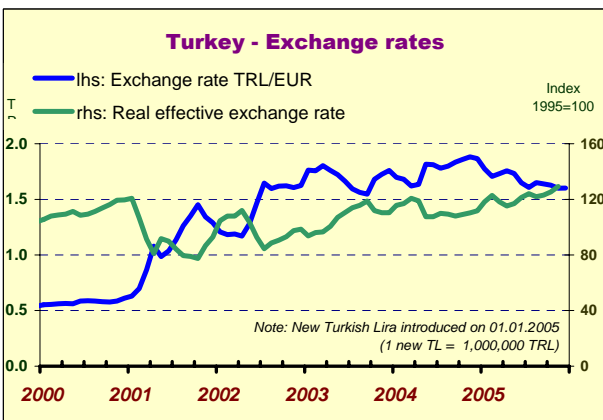
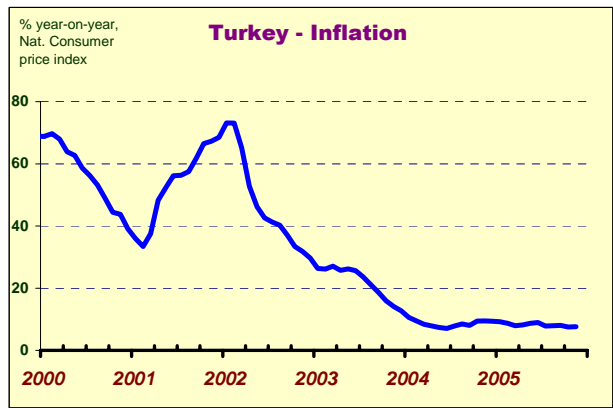
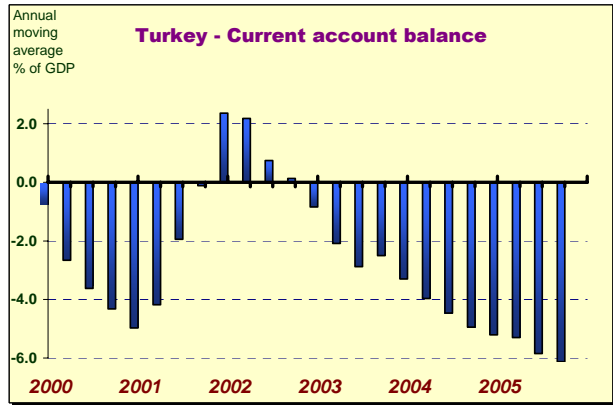
		2000	2001	2002	2003	2004	200501	200502	200503	200504	200510	200511	200512
							Q1	Q2	Q3	Q4	Oct	Nov	Dec
1 Output and demand													
Industrial confidence ^{1.1}	Balance	101.0	76.8	102.0	104.1	106.8	104.0	102.5	102.0	:	102.7	102.9	:
Industrial production ^{1.2}	Ann. % ch	6.1	-8.7	9.4	8.7	9.8	6.1	3.0	4.5	:	7.0	:	:
Gross domestic product ^{1.3}	Ann. % ch	7.3	-7.5	7.9	5.8	9.0	4.8	4.2	7.0	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	106.7	104.2	99.9	97.4	:	98.1	99.5	:
Private consumption ^{1.5}	Ann. % ch	6.2	-9.2	2.1	6.6	10.1	4.0	4.4	11.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	16.9	-31.5	-1.1	10.0	32.4	6.9	17.9	27.8	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	2.2	-1.4	4.7	7.3	7.9	7.9	7.7	6.7	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	6.6	8.5	10.4	10.5	10.3	11.7	9.2	9.4	:	:	:	:
Employment ^{2.2}	Ann. % ch	:	0.0	-0.3	-0.8	2.0	4.7	2.4	-0.2	:	:	:	:
Wages ^{2.3}	Ann. % ch	55.8	31.8	37.2	23.0	13.4	12.6	12.4	12.6	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	6.5	11.9	16.7	27.6	30.8	24.9	14.3	10.0	:	9.8	0.4	:
Imports of goods ^{3.2}	Ann. % ch	34.0	-24.0	24.5	34.5	40.7	23.0	20.0	20.3	:	23.7	9.1	:
Trade balance ^{3.3}	% of GDP	-11.1	-2.6	-4.0	-5.8	-8.0	-8.1	-8.5	-8.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	24.0	33.7	29.2	27.4	28.9	29.3	28.9	27.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	31.5	31.3	30.7	30.7	34.7	35.2	35.2	34.6	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-5.0	2.4	-0.8	-3.3	-5.2	-5.3	-5.8	-6.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.1	1.9	0.5	0.5	0.6	0.6	0.5	1.0	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	54.9	54.4	45.0	21.6	8.6	8.6	8.6	7.9	7.6	7.5	7.6	7.7
GDP Deflator ^{4.2}	Ann. % ch	50.0	54.7	44.3	22.5	9.8	-14.8	4.7	13.1	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	51.4	61.6	50.1	22.7	14.6	10.9	6.6	4.3	2.3	2.6	1.6	2.7
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	47.2	74.7	50.5	37.7	24.3	20.7	20.0	20.5	:	20.4	20.4	:
Bond yield ^{5.2}	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	14458	10127	11013	12312	19899	26691	25248	30158	35317	32480	35052	38418
M4 ^{5.4}	Ann. % ch	56.0	56.0	36.5	31.9	40.9	21.2	28.2	35.3	:	36.0	34.4	:
Exchange rate TRY/EUR ^{5.5}	Value	0.58	1.09	1.43	1.69	1.77	1.74	1.71	1.63	1.61	1.63	1.60	1.60
Nominal eff. exchange rate ^{5.6}	Index	74.2	41.5	31.1	27.5	26.8	27.5	27.5	28.6	:	28.6	29.0	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-6.1	-29.8	-12.3	-9.7	-3.9	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	57.4	105.2	94.3	87.2	80.1	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



TURKEY





Recent economic developments in candidate countries – Explanatory notes			
No.	Indicator	Note	Source
1 Output and demand			
1.1.	Industrial confidence indicator	Industry survey, average of balances to replies on production expectations, order books, and stocks (the latter with inverted sign)	Ecwin
1.2.	Industrial production	Annual percentage change, volume (index 2000), excluding construction	Ecwin
1.3.	Gross domestic product	Annual percentage change, volume (compared to previous year)	Ecwin
1.4.	Consumer confidence indicator	Consumer survey, average of balances to replies on five questions	Ecwin
1.5.	Private consumption	Annual percentage change, volume (compared to previous year)	Ecwin
1.6.	Gross fixed capital formation	Annual percentage change, volume (compared to previous year)	Ecwin
1.7.	Change in stocks	In percent of GDP, volume (compared to previous year)	Ecwin
2 Labour market			
2.1.	Unemployment	In percent of total labour force, ILO definition, seasonally adjusted, Labour Force Survey data	Ecwin
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin
2.3.	Wages	Annual percentage change; average wages and salaries by economic activity	Ecwin
3. International Transactions			
3.1.	Exports of goods	Annual percentage change, mio. BGN, fob	Ecwin
3.2.	Imports of goods	Annual percentage change, mio. BGN, fob	Ecwin
3.3.	Trade balance	In percent of GDP, fob-fob	Ecwin
3.4.	Exports goods and services	In percent of GDP, volume (compared to previous year)	Ecwin
3.5.	Imports goods and services	In percent of GDP, volume (compared to previous year)	Ecwin
3.6.	Current account balance	In percent of GDP	Ecwin
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Moving average of direct investment in reporting economy minus direct investment abroad	Ecwin
4. Prices			
4.1.	Interim HICP	Annual percentage change, interim harmonized index of consumer prices	Ecwin
4.2.	GDP deflator	Annual percentage change, implicit GDP price deflator	Ecwin
4.3.	Producer prices	Annual percentage change, index 2000	Ecwin
4.4.	Import prices	Annual percentage change, index (compared to previous year)	Ecwin
5. Monetary and financial indicators			
5.1.	Interest rate	Percent p.a., 3-month interbank money market rate, period averages	Ecwin
5.2.	Bond yield	Percent p.a., lowest level prevailing on the secondary market, gross of tax, with around 10 years' residual maturity	Ecwin
5.3.	Stock markets	SOFIX index (last value)	Ecwin
5.4.	M3	Annual percentage change	Ecwin
5.5.	Exchange rate BGL/EUR	Period averages	Ecwin
5.6.	Nominal eff. exchange rate	Index 1999, period averages	Ecwin
6. Government balance and debt			
6.1.	General government balance	In percent of GDP, net lending (+) or net borrowing (-) general government, ESA 95 methodology. Quarterly data on a cash basis.	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



Recent economic developments in candidate countries – Explanatory notes			
No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	N.A.
1.2.	Industrial production	Annual percentage change, volume, excluding construction	Ecwin
1.3.	Gross domestic product	Annual percentage change, volume (1997 prices)	Ecwin
1.4.	Consumer confidence indicator	Not available	N.A.
1.5.	Private consumption	Annual percentage change, volume (1997 prices)	Ecwin
1.6.	Gross fixed capital formation	Annual percentage change, volume (1997 prices)	Ecwin
1.7.	Change in stocks	In percent of GDP, volume (1997 prices)	Ecwin
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data, registered otherwise	Ecwin
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data, registered otherwise	Ecwin
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in kuna)	Ecwin
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Ecwin
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Ecwin
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin
3.4.	Exports goods and services	In percent of GDP, volume (1997 prices)	Ecwin
3.5.	Imports goods and services	In percent of GDP, volume (1997 prices)	Ecwin
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin
4.	Prices		
4.1.	Interim CPI	Annual average percentage change, HICP not yet available for Croatia	Ecwin
4.2.	GDP deflator	Annual percentage change	Ecwin
4.3.	Producer prices	Annual percentage change, without construction, index 2001	Ecwin
4.4.	Import prices	Not available	N.A.
5.	Monetary and financial indicators		
5.1.	Interest rate	Zagreb Interbank 3 month - middle rate	Ecwin
5.2.	Bond yield	Not available	N.A.
5.3.	Stock markets	CROBEX index	Ecwin
5.4.	M4	Annual percentage change, M4 (Broadest money)	Ecwin
5.5.	Exchange rate HRK/EUR	Period averages, midpoint exchange rates	Ecwin
5.6.	Nominal eff. exchange rate	Index 2001, period averages	Ecwin
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP	Nat. sources



Recent economic developments in candidate countries – Explanatory notes			
No.	Indicator	Note	Source
1 Output and demand			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change, volume, excluding construction	SSO
1.3.	Gross domestic product	Annual percentage change, volume (previous year prices)	SSO
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Annual percentage change, volume (previous year prices)	SSO
1.6.	Gross fixed capital formation	Annual percentage change, volume (previous year prices)	SSO
1.7.	Change in stocks	In percent of GDP, volume (previous year prices)	SSO
2 Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data, registered otherwise	SSO
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data, registered otherwise	SSO
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	SSO
3. International Transactions			
3.1.	Exports of goods	Annual percentage change, fob	NBRM
3.2.	Imports of goods	Annual percentage change, cif	NBRM
3.3.	Trade balance	In percent of GDP, fob-cif	NBRM
3.4.	Exports goods and services	In percent of GDP, volume	SSO
3.5.	Imports goods and services	In percent of GDP, volume	SSO
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	NBRM
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	NBRM
4. Prices			
4.1.	CPI	Annual average percentage change, HICP not yet available for fYRoM	SSO/EcoWin
4.2.	GDP deflator	Annual percentage change	SSO
4.3.	Producer prices	Annual percentage change, industrial products	SSO
4.4.	Import prices	Not available	SSO
5. Monetary and financial indicators			
5.1.	Interest rate	Interest rate on 3 month Denar deposits	NBRM
5.2.	Bond yield	Not available	NBRM
5.3.	Stock markets	MSE Index (MBI-10)	Macedonian SE
5.4.	M4	Annual percentage change, M4 (Broadest money)	NBRM
5.5.	Exchange rate MKD/EUR	Averages, spot close	EcoWin
5.6.	Nominal eff. exchange rate		
6. Government balance and debt			
6.1.	General government balance	In percent of GDP	MoF
6.2.	General government debt	In percent of GDP	MoF



Recent economic developments in candidate countries – Explanatory notes			
No.	Indicator	Note	Source
1 Output and demand			
1.1.	Industrial confidence indicator	Industry survey, average of balances to replies on production expectations, order books, and stocks (the latter with inverted sign)	Ecwin
1.2.	Industrial production	Annual percentage change, volume (index 2000), excluding construction	Ecwin
1.3.	Gross domestic product	Annual percentage change, volume (1995 prices). National sources for 2004 data.	Ecwin
1.4.	Consumer confidence indicator	Consumer survey, average of balances to replies on five questions	Ecwin
1.5.	Private consumption	Annual percentage change, volume (1995 prices)	Ecwin
1.6.	Gross fixed capital formation	Annual percentage change, volume (1995 prices)	Ecwin
1.7.	Change in stocks	In percent of GDP, volume (1995 prices)	Ecwin
2 Labour market			
2.1.	Unemployment	In percent of total labour force, harmonised definition, seasonally adjusted	Ecwin
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin
2.3.	Wages	Annual percentage change; net average salary earning	Ecwin
3. International Transactions			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	Ecwin
3.2.	Imports of goods	Annual percentage change, mio. EUR, fob	Ecwin
3.3.	Trade balance	In percent of GDP, fob-fob	Ecwin
3.4.	Exports goods and services	In percent of GDP, volume (1995 prices)	Ecwin
3.5.	Imports goods and services	In percent of GDP, volume (1995 prices)	Ecwin
3.6.	Current account balance	Cumulative, end of period, in percent of GDP	Ecwin
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, direct investment in reporting economy minus direct investment abroad	Ecwin / Nat. sources
4. Prices			
4.1.	Interim HICP	Annual percentage change, interim harmonized index of consumer prices	Ecwin
4.2.	GDP deflator	Annual percentage change, implicit GDP price deflator	Ecwin
4.3.	Producer prices	Annual percentage change, index (as compared to the same period of previous year)	Ecwin
4.4.	Import prices	Annual percentage change, index (previous year equals 100)	Eurostat
5. Monetary and financial indicators			
5.1.	Interest rate	3 months, BUBID-BUBOR average	Ecwin / Nat. sources
5.2.	Bond yield	Percent p.a., Interest-bearing government bonds, average rate. 2-years government bond yields. There is not yet a substantial Romanian bonds market for 3-years terms or above.	Ecwin / Nat. sources
5.3.	Stock markets	BET index (points)	Ecwin
5.4.	M2	Annual percentage change, Broad money, end of period	Ecwin
5.5.	Exchange rate ROL/EUR	Period averages	Ecwin
5.6.	Nominal eff. exchange rate	Index 1999, period averages	Ecwin
6. Government balance and debt			
6.1.	General government balance	In percent of GDP, net lending (+) or net borrowing (-) general government, ESA 95 methodology.	Ecwin
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Eurostat / Nat. sources



Recent economic developments in candidate countries – Explanatory notes			
No.	Indicator	Note	Source
1 Output and demand			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	Ecwin
1.3.	Gross domestic product	Annual percentage change, volume (1987 prices)	Ecwin
1.4.	Consumer confidence indicator	Consumer tendency survey	Nat. sources
1.5.	Private consumption	Annual percentage change, volume (1987 prices)	Ecwin
1.6.	Gross fixed capital formation	Annual percentage change	Ecwin
1.7.	Change in stocks	In percent of GDP	Ecwin
2 Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey data	Ecwin
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin
2.3.	Wages	Annual percentage change; index of real earning per production workers in manufacturing industry	Nat. sources
3. International Transactions			
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Ecwin
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Ecwin
3.3.	Trade balance	In percent of GDP, annualised moving average	Ecwin
3.4.	Exports goods and services	In percent of GDP	Ecwin
3.5.	Imports goods and services	In percent of GDP	Ecwin
3.6.	Current account balance	In percent of GDP, annualised moving average	Ecwin
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	Ecwin
4. Prices			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	Ecwin
4.2.	GDP deflator	Annual percentage change	Ecwin
4.3.	Producer prices	Annual percentage change, wholesale prices index (1994)	Ecwin
4.4.	Import prices	Annual percentage change, index (1994)	Ecwin
5. Monetary and financial indicators			
5.1.	Interest rate	Percent p.a., Interest rates on deposits, weighted averages of 3-months deposit	Ecwin
5.2.	Bond yield	Not available	N.A.
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	Ecwin
5.4.	M3	Annual percentage change	Ecwin
5.5.	Exchange rate YTL/EUR	Period averages	Eurostat
5.6.	Nominal eff. exchange rate	Index 1999, period averages	Eurostat
6. Government balance and debt			
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources