

Transition report update 2007



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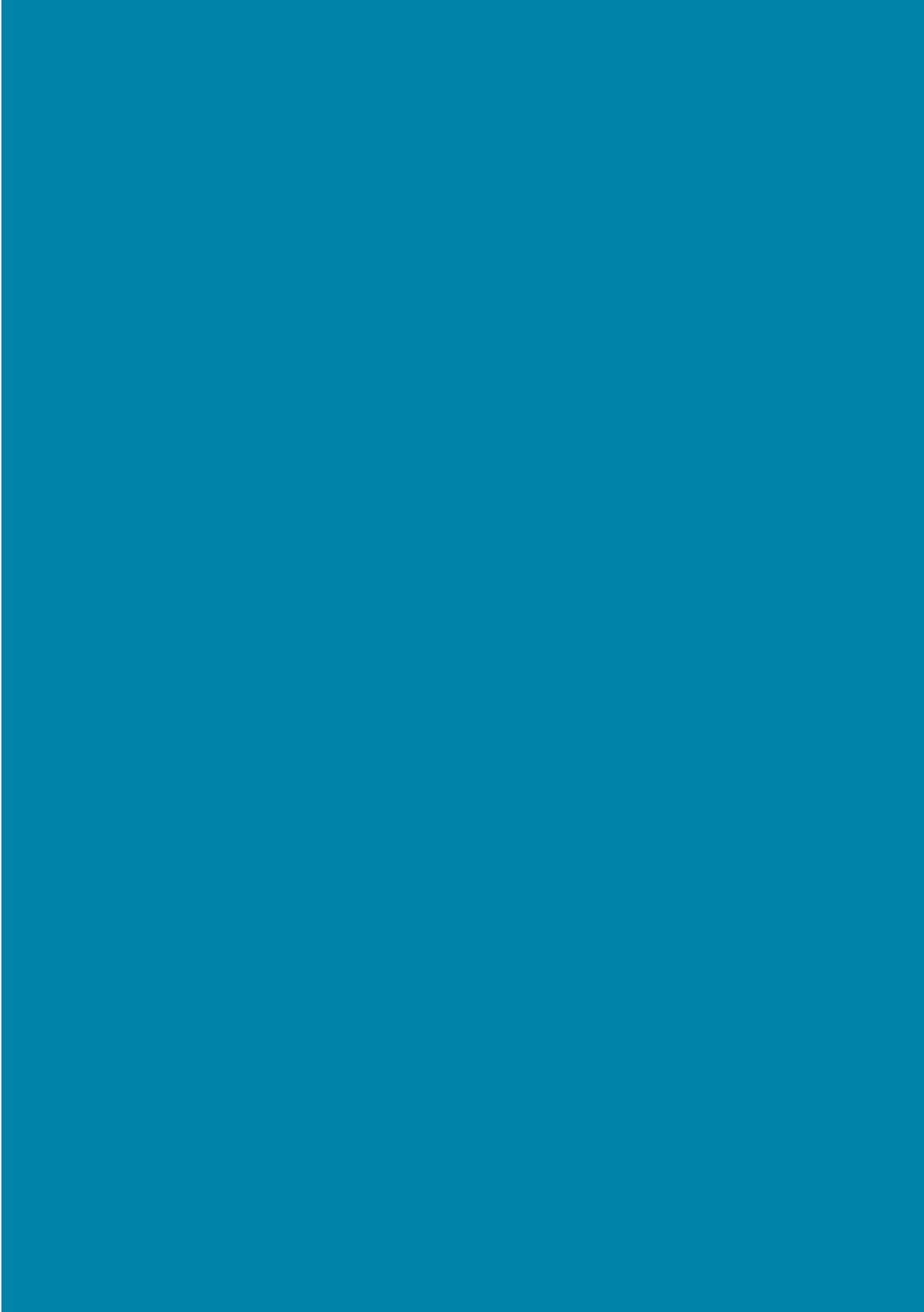
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Part I

Country assessments

Macroeconomic indicators

Albania

Economic performance

GDP growth continues to be driven by remittances and strong credit growth, but recurring power cuts, along with high current account and fiscal deficits, pose the main risks to macroeconomic stability.

Real economy

Real GDP rose by approximately 5 per cent in 2006, fuelled by domestic consumption and investments. Household consumption continues to benefit from strong remittance inflows and credit growth. Household credit is mostly used for purchasing real estate and business credit is used for investing in equipment and machinery.

The weak performance of Italy – Albania's main export market – and increasing competition from China in textiles, leather and shoe production are adversely affecting the contribution of net exports to GDP growth.

Power outages became widespread again in November and December 2006 but their impact on the economic performance in 2006 was less than that at the end of 2005.

Economic policies

The 2006 annual average consumer price index of 2.5 per cent did not change significantly from the previous year. Year-on-year inflation fluctuated between 1.4 and 3.3 per cent over the past year, influenced mostly by increasing energy prices and rapidly expanding credit. To safeguard its inflation target range of 2-4 per cent, the Bank of Albania increased its key interest rate by 25 basis points to 5.25 per cent in July 2006 and by a further 25 basis points in November 2006.

Although the headline general government deficit remains at around 4 per cent of GDP, the authorities decided to increase budget expenditures by 1.4 per cent of GDP in July

2006 thanks to stronger than expected fiscal revenues. The government also reduced social security contributions from 29 per cent to 20 per cent by cutting employers' contributions by 9 per cent; eliminated customs tariffs on machinery and equipment; and raised excise taxes on alcohol and cigarettes from 20 per cent to 30 per cent.

External sector

The current account deficit continued to increase in 2006. The trade deficit also rose due to strong imports of consumer and investment goods and a slowdown in export growth. The positive developments on the balance of payments include a strong growth in remittances, which are estimated at US\$ 1.5 billion, and robust growth in tourism revenues, up by about a third year-on-year to US\$ 1.4 billion. Foreign direct investments in 2006 are estimated at around US\$ 300 million, composed of a number of small transactions. External debt remains at around 20 per cent of GDP, while the ratio of external debt to exports has been falling from 95 per cent at the end of 2005 to 86 per cent at the end of 2006. Meanwhile, international reserves increased to about US\$ 1.6 billion and remain above the equivalent of four months of imports.

Outlook and risks

Robust GDP growth with stable prices and exchange rates is sustainable in the medium term, provided that electricity outages are addressed and the transport network is further improved. The economy has the potential to benefit from its close links to Kosovo, especially once the latter's status is finalised and the new motorway linking Kosovo with the Albanian port of Durrës is completed.

The key risk factors include high trade deficits, excessive reliance on remittances and high credit growth. Political developments, both internal and those related to wider regional stability, may also affect macroeconomic developments.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	7.1	4.3	5.7	6.7	5.5	5.0	6.0
Private consumption	na	na	na	na	na	na	na
Public consumption	na	na	na	na	na	na	na
Gross fixed capital formation ¹	na	na	na	na	na	na	na
Exports of goods and services	na	na	na	na	na	na	na
Imports of goods and services	na	na	na	na	na	na	na
Industrial gross output	7.1	-7.9	2.7	3.1	4.0	4.5	na
Agricultural gross output	2.2	2.1	3.0	3.8	3.0	4.0	na
Employment²							
<i>(Percentage change)</i>							
Labour force (end-year)	-3.0	-12.2	-0.3	-0.8	0.9	-0.5	na
Employment (end-year)	-13.8	0.0	0.7	-0.4	0.9	1.1	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	14.5	15.8	15.0	14.5	14.7	13.8	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	3.1	5.2	2.4	2.9	2.3	2.5	3.0
Consumer prices (end-year)	3.5	1.7	3.3	2.2	2.0	2.0	3.0
Producer prices (annual average)	-5.8	6.5	6.7	12.4	2.5	1.0	na
Producer prices (end-year)	-4.0	11.2	5.0	12.3	2.4	0.5	na
Gross average monthly earnings in economy (annual average)	24.7	11.7	10.0	6.0	7.3	6.5	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance	-8.5	-7.2	-4.3	-5.1	-3.6	-4.1	-4.0
General government expenditure	31.5	31.0	27.7	28.8	27.0	28.2	na
General government debt	66.6	64.7	59.1	55.9	54.8	54.4	na
Monetary sector³							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	15.4	5.3	9.2	10.8	8.4	15.1	na
Domestic credit (end-year)	4.1	6.7	11.0	7.7	13.2	14.6	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	51.7	50.9	49.2	50.2	49.2	51.8	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinancing rate ⁴	7.0	8.5	6.5	5.3	5.0	5.5	na
Treasury bill rate (3-month maturity)	8.0	11.2	7.4	6.2	5.5	5.5	na
Deposit rate (1 year)	6.9	8.0	5.5	4.5	3.0	5.0	na
Lending rate (1 year) ⁵	15.3	14.6	11.8	11.0	12.0	12.0	na
<i>(Leks per US dollar)</i>							
Exchange rate (end-year)	135.9	134.0	106.4	92.6	98.1	94.1	na
Exchange rate (annual average)	143.6	140.2	121.3	102.8	98.1	98.0	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-261	-435	-470	-355	-574	-710	-750
Trade balance	-1,027	-1,155	-1,336	-1,586	-1,868	-2,160	-2,500
Merchandise exports	305	330	447	603	671	740	1,000
Merchandise imports	1,332	1,485	1,783	2,189	2,539	2,900	3,500
Foreign direct investment, net	204	135	178	332	265	300	400
Gross reserves, excluding gold (end-year)	737	860	1,026	1,374	1,459	1,624	na
External debt stock	1,200	1,180	1,420	1,673	1,747	1,835	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	4.9	5.0	4.8	5.1	4.5	4.3	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	4.1	6.8	5.0	4.1	4.3	5.0	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	3.1	3.2	3.2	3.2	3.2	3.2	na
GDP (in billions of leks)	590	631	714	776	857	937	1,023
GDP per capita (in US dollars)	1,312	1,409	1,858	2,359	2,730	2,990	na
Share of industry in GDP (in per cent)	7.8	7.7	7.5	7.3	7.1	7.0	na
Share of agriculture in GDP (in per cent)	32.2	28.4	27.6	26.7	26.3	26.2	na
Current account/GDP (in per cent)	-6.3	-9.7	-8.0	-4.7	-6.6	-7.4	-6.8
External debt - reserves (in US\$ million)	463	320	394	299	288	211	na
External debt/GDP (in per cent)	29.2	26.2	24.1	22.2	20.0	19.2	na
External debt/exports of goods (in per cent)	142.9	128.9	121.7	104.1	94.5	85.7	na

¹ Includes changes in inventories.

² Figures do not include emigrant workers abroad who accounted for an estimated 27.4 per cent of the total labour force in 2000.

³ Data up to and including 2001 are based on the previous reporting standard. The new reporting standard, in accordance with the 2000 Monetary and Financial Statistics Manual, excludes blocked deposits from broad money.

⁴ From 2001 the figures show the repo rate of the Central Bank.

⁵ The figures show the weighted average monthly rate for new credit in leks for maturities between 6 months and 1 year in December each year.

Armenia

Economic performance

Productivity gains are necessary to offset the economy's vulnerability to commodity prices and avoid a slowdown in growth.

Real economy

The economy continued to perform strongly, recording a 13.4 per cent real growth rate in 2006. The construction sector accounts for half of this (construction output rose by 37.1 per cent) and it is now the largest sector in the Armenian economy. Output growth from services and retail trade also remained strong, rising at double digit rates. However, industrial output has slowed considerably, recording a 0.9 per cent decline in 2006. Large inflows of remittances and increased government spending on social programmes continue to boost consumption.

Economic policies

The state budget deficit was estimated at 1.8 per cent of GDP in 2005 on a cash basis. Fiscal policy is set to loosen further in 2007, with a deficit of 1.9 per cent recorded in the first three quarters of 2006. This was driven largely by higher expenditure on social and infrastructure programmes in order to meet poverty reduction targets.

Despite significant nominal increases in tax revenues over the past two years, the high incidence of tax evasion and exemptions are reflected in the persistently low ratio of tax revenue to GDP. For example, the construction sector, the largest in the economy, remains mostly exempt from taxation.

In 2006 the Central Bank shifted its main policy objective from monetary targeting to inflation targeting. Annual average inflation for 2005 was only 0.6 per cent, but surged to 5.2 per cent in 2006, substantially higher than the 3 per cent target. A poor harvest and rising energy costs were the main factors driving this surge.

External sector

Exports in dollar terms increased by 3.1 per cent in 2006 and continue to be dominated by precious stones and base metals, particularly copper. Imports, however, have increased by almost 22 per cent over the same period, largely fuelled by rising energy and consumer goods prices.

The record trade deficit continues to be offset by substantial flows of remittances. According to a recent Central Bank study, total private transfers (mainly remittances from Russia), including cash transfers not captured by the balance of payments statistics, amounted to US\$ 940 million in 2005, or 19 per cent of GDP.

The capital account recorded a modest increase in foreign direct investment in 2005, enough to cover the 4.2 per cent current account deficit. Strong foreign currency inflows, particularly in the second half of 2006, have led to substantial nominal and real appreciation of the dram against the US dollar and other major currencies. External debt stood at just over US\$ 2 billion at the end of September 2006, a modest increase year-on-year, most of which is concessional public debt.

Outlook and risks

Strong economic growth is expected to continue in the short term, particularly in construction and services, driven by remittances and supported by large bilateral grant flows. Nevertheless, continued currency appreciation, vulnerability to commodity prices, an overheated property market and dependence on soft finance from donors and multilateral institutions pose significant risks for the economy in the medium term.

Furthermore, the political situation in the region remains volatile and the restrictions on intra-regional trade mean that key markets are lost and transport costs are higher. Substantial progress in structural reforms to diversify investment and expand the productive base of the economy is required to generate sustainable growth over the medium and long term.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	9.6	13.2	13.9	10.1	14.0	13.4	8.5
Private consumption	7.5	9.0	6.9	10.2	na	na	na
Public consumption	4.3	2.2	14.1	16.1	na	na	na
Gross fixed capital formation	5.3	33.1	33.7	12.4	na	na	na
Exports of goods and services	20.8	26.3	23.2	3.7	na	na	na
Imports of goods and services	1.2	9.0	31.0	3.0	na	na	na
Industrial gross output	3.8	14.4	15.3	2.1	7.5	-0.9	na
Agricultural gross output	11.6	4.5	4.0	14.5	11.2	0.4	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	-2.5	-12.2	-0.6	-0.5	-2.6	na	na
Employment (end-year)	-1.0	-12.5	0.5	-0.1	-0.5	na	na
<i>(In per cent of labour force)</i>							
Unemployment (annual average) ¹	10.4	10.8	10.1	9.4	7.4	7.4	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	3.1	1.1	4.7	7.0	0.6	2.9	4.8
Consumer prices (end-year)	2.9	2.0	8.6	1.9	-0.2	5.2	4.8
Producer prices (annual average)	-0.4	2.5	5.9	21.7	7.9	5.8	na
Producer prices (end-year)	-3.6	0.9	21.1	25.3	-4.0	na	na
Gross average monthly earnings in economy (annual average)	10.7	12.2	21.7	22.8	29.5	18.9	na
Government sector²							
<i>(In per cent of GDP)</i>							
General government balance	-3.8	-0.4	-1.1	-1.8	-2.6	-2.8	-2.5
General government expenditure	20.9	19.3	18.9	17.1	17.6	16.6	na
General government debt	45.3	46.6	40.9	32.4	24.2	26.3	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	4.3	34.0	10.4	22.3	27.8	32.9	na
Domestic credit (end-year)	-9.8	-8.1	-9.6	41.1	54.4	30.0	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	13.4	15.6	14.4	15.0	16.3	17.1	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinancing rate	15.0	13.5	7.0	3.8	3.5	4.1	na
Money market rate	19.4	12.3	7.5	4.2	3.2	na	na
Deposit rate	14.9	9.6	6.9	4.9	5.8	na	na
Lending rate	26.7	18.8	20.7	18.2	17.3	17.2	na
<i>(Drams per US dollar)</i>							
Exchange rate (end-year)	561.8	584.9	566.0	486.3	450.2	363.5	na
Exchange rate (annual average)	555.1	573.4	578.8	533.5	457.8	416.0	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-200	-148	-189	-162	-204	-290	-242
Trade balance	-420	-369	-434	-458	-585	-771	-685
Merchandise exports	353	514	696	738	981	1,030	1,250
Merchandise imports	773	883	1,130	1,196	1,566	1,801	1,935
Foreign direct investment, net	70	111	121	217	255	220	200
Gross reserves, excluding gold (end-year)	321	425	510	576	755	775	na
External debt stock	906	1,026	1,098	1,183	1,099	1,550	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	3.9	4.6	4.4	4.6	4.6	4.2	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	9.5	10.1	11.4	7.2	4.4	5.4	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	3.2	3.2	3.2	3.2	3.2	3.2	na
GDP (in billions of drams)	1,176	1,362	1,625	1,908	2,244	2,665	3,030
GDP per capita (in US dollars)	659	740	874	1,113	1,510	1,989	na
Share of industry in GDP (in per cent)	20.5	18.9	19.9	19.7	na	na	na
Share of agriculture in GDP (in per cent)	24.9	23.4	21.3	22.5	na	na	na
Current account/GDP (in per cent)	-9.4	-6.2	-6.7	-4.5	-4.2	-4.5	-2.9
External debt - reserves (in US\$ million)	585	601	588	607	344	775	na
External debt/GDP (in per cent)	42.8	43.2	39.1	33.1	22.4	24.2	na
External debt/exports of goods and services (in per cent)	167.9	147.1	121.5	120.1	83.0	108.7	na

¹ Registered unemployed only.² Central government account only.

Azerbaijan

Economic performance

With sizeable oil revenues likely to continue, growing inflationary pressures need to be contained, while infrastructure modernisation and the high incidence of poverty are addressed.

Real economy

The economy grew by a record 34.5 per cent in 2006, surpassing the 26.4 per cent growth achieved in 2005. GDP growth was led by a rise in industrial production of 36.6 per cent during the year. The main source of growth was new oil production and high oil prices, as the sector benefited from increased export opportunities with the opening of the Baku-Tbilisi-Ceyhan (BTC) pipeline. The oil sector accounts for more than three-quarters of industry.

The non-oil sector grew by an estimated 7.5 per cent during 2006. This was partly due to spill-over effects from the oil industry and could be seen particularly in the machinery, chemical, construction and telecommunication sectors. However, agriculture grew by only about 1 per cent.

Economic policies

Budget revenues almost doubled in 2006 as a result of surging oil revenues, leading to a fiscal surplus of about 0.5 per cent of GDP. This is despite an increase of more than 80 per cent in public spending, particularly on the construction of infrastructure and transport.

The large increase in oil exports, growth in domestic demand and continued wage increases have exerted upward pressure on monetary growth. The result has been a continued increase in inflation, which reached about 11.4 per cent at the end of 2006 from 5.4 per cent at the end of 2005. In response, the Central Bank raised its refinancing rate from 9 per cent to 9.5 per cent in July 2006 and again to 12 per cent in April 2007. The real exchange rate appreciated by about 10.5 per cent year on year in 2006.

External sector

Exports increased by about 70 per cent in 2006. Oil exports, which account for about 93 per cent of total exports, surged during the same period, increasing by 75 per cent. At the same time, imports, which were associated mostly with oil and gas development projects, grew only 24.0 per cent as major capital investments were completed. This led to a large trade surplus of about 39 per cent of annual GDP compared with a surplus of 26 per cent at the end of 2005. The government has continued to reduce its external debt, which stood at 9.9 per cent of GDP at the end of 2006 compared with 13.1 per cent of GDP at the end of 2005.

Outlook and risks

The economy will continue to be supported by increased oil production, which is likely to grow by more than 20 per cent a year over the medium term. The increase in oil and gas export capacity following the opening of the BTC and South Caucasus pipelines is expected to result in a large current account surplus in the medium term. The economy remains highly dependent on the energy sector, however, and economic diversification is essential for long-term sustainability.

The expected increase in export revenues, combined with the limited power of monetary policy instruments because of the underdeveloped banking sector, will make it difficult to keep inflation low and protect the currency against real appreciation. Government spending will have to be carefully managed at a time when the need to modernise infrastructure and address the high levels of poverty is pressing.

	2001	2002	2003	2004	2005	2006 <i>Estimate</i>	2007 <i>Projection</i>
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	6.5	8.1	10.4	10.2	26.4	34.5	25.0
Private consumption	9.9	13.1	6.0	6.9	21.7	na	na
Public consumption	4.9	0.5	11.1	4.6	19.7	na	na
Gross fixed capital formation	20.6	64.8	72.6	13.0	14.6	na	na
Exports of goods and services	34.1	14.0	9.2	-9.0	70.9	na	na
Imports of goods and services	33.0	48.4	45.6	-9.5	21.9	na	na
Industrial gross output	5.1	3.6	6.1	5.7	33.5	37.0	na
Agricultural gross output	11.1	6.4	5.6	7.6	7.1	1.0	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	0.4	0.4	0.6	0.5	2.3	na	na
Employment (end-year)	0.3	0.3	0.5	0.5	2.3	na	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	1.3	1.3	1.4	1.5	1.4	na	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	1.5	2.8	2.2	6.7	9.6	8.5	16.0
Consumer prices (end-year)	1.5	3.3	3.6	10.4	5.5	11.0	14.0
Producer prices (annual average)	1.8	-2.3	16.1	12.9	10.6	na	na
Producer prices (end-year)	-4.4	-5.2	11.2	21.9	10.8	na	na
Gross average monthly earnings in economy (annual average)	17.3	21.3	21.4	26.2	21.9	19.8	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance ¹	-0.4	-0.5	-1.2	0.8	-0.7	0.5	-1.7
General government expenditure	18.7	27.7	28.3	26.0	23.5	21.5	na
General government debt	20.9	20.5	20.0	18.6	13.3	na	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	7.7	15.6	27.9	31.9	15.8	44.2	na
Domestic credit (end-year)	-38.1	85.9	26.1	39.5	50.3	78.1	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	6.6	6.7	7.3	8.0	6.6	6.5	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinance rate (6 months)	10.0	7.0	7.0	7.0	9.0	9.5	na
Interbank interest rate (3 months) ²	19.8	19.7	20.3	16.6	15.3	14.3	na
Deposit rate	8.5	8.7	9.5	9.2	8.5	10.6	na
Lending rate	19.7	17.4	15.5	15.7	17.0	17.7	na
<i>(Manats per US dollar)</i>							
Exchange rate (end-year) ³	1.0	1.0	1.0	1.0	0.9	0.9	na
Exchange rate (annual average) ³	0.9	1.0	1.0	1.0	0.9	0.9	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-49	-770	-2,020	-2,586	167	3,707	5,700
Trade balance	581	482	-98	162	3,309	7,745	na
Merchandise exports	2,046	2,305	2,625	3,743	7,659	13,014	na
Merchandise imports	1,465	1,823	2,723	3,581	4,350	5,269	na
Foreign direct investment, net	299	1,048	2,353	2,351	458	-1,306	250
Gross reserves, excluding gold (end-year) ⁴	725	721	803	1,075	1,181	1,616	na
External debt stock	1,154	2,603	3,064	3,808	6,720	8,271	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	4.1	2.8	2.0	2.0	2.1	2.5	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	4.9	4.4	5.2	3.6	1.3	1.1	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	8.1	8.2	8.3	8.3	8.4	na	na
GDP (in billions of manats)	5	6	7	9	12	18	22
GDP per capita (in US dollar)	705	760	881	1,051	1,521	na	na
Share of industry in GDP (in per cent)	37.6	37.4	37.3	37.8	43.0	na	na
Share of agriculture in GDP (in per cent)	14.8	13.8	12.2	11.3	9.0	na	na
Current account/GDP (in per cent)	-0.9	-12.3	-27.8	-29.8	1.3	18.8	na
External debt - reserves (in US\$ million)	429	1,882	2,261	2,733	5,539	6,655	na
External debt/GDP (in per cent)	20.2	41.7	42.1	43.9	52.6	42.0	na
External debt/exports of goods and services (in per cent)	49.4	97.6	100.3	89.9	81.1	60.7	na

¹ General government consolidates all levels of government, except for municipalities and state-owned enterprises, and includes the State Oil Fund and other extra-budgetary funds.

² 90-day interbank offer rate in manats, nominal.

³ In January 2006 Azerbaijan introduced a new currency denomination. One new manat is equal to 5000 old manat. All data are retrospectively converted in new manat.

⁴ By end-December 2006 there were additional foreign exchange assets of approximately US\$ 1.4 billion in the State Oil Fund.

Belarus

Economic performance

Output continued to grow strongly in 2006 but the costs of adjusting to higher prices for imported energy will be quite significant and will negatively affect economic performance in 2007.

Real economy

The economy continued to grow strongly at an estimated 9.9 per cent in 2006, reflecting the favourable external environment and government policies that have stimulated domestic demand.

Investment was particularly strong, growing at about 31 per cent, supported by a surge in lending. Private consumption also increased in line with the continued growth in household incomes. Industrial output rose by 11.3 per cent, up from the 10.5 per cent growth registered in 2005, while growth in the agricultural sector accelerated to 6.1 per cent from 1.7 per cent in 2005.

Economic policies

The consolidated budget recorded a surplus of 1.4 per cent of GDP in 2006. Revenues continued to be buoyant, supported by the favourable external environment.

The turnover tax was reduced from 3.9 to 3.0 per cent of enterprise revenue in 2006, and a new method of VAT distribution between the regions – proportional to population – was introduced. The National Development Fund financed from profits of key exporters and other highly profitable state-controlled enterprises, was created in 2006.

Despite a hike in consumer prices of 1.8 per cent in November 2006, year-end inflation remained moderate at 6.6 per cent, reflecting not only the stability of the exchange rate and the ongoing remonetisation of the economy, but also an increase in administrative price controls.

External sector

The trade deficit widened significantly to an estimated 6.5 per cent of GDP in 2006. Exports continued to be buoyant on the back of high commodity prices and strong demand from Russia.

However, imports expanded at a faster rate than exports, reflecting rapid growth in real income and an appreciating real exchange rate. The current account recorded a deficit for the year as a whole, as the surplus in services did not offset the widening trade deficit. Capital inflows, in particular loans to the banking sector, increased significantly in 2006, which helped to finance the current account deficit. Official reserves (excluding gold) decreased by 3.5 per cent over 2006.

Outlook and risks

The doubling of imported gas prices in 2007 will have a negative effect on the economy in the short term. The trade deficit is expected to widen and inflationary pressures to increase. The diminished gains from oil trade will further aggravate the difficulties.

Proceeds from the sale of a 12.5 per cent stake in Beltransgaz, as well as other state-owned assets, would provide partial financing to the current account deficit in 2007. The remaining shortfall may be financed by external borrowing from official or private sources, which would help maintain macroeconomic stability in the short term. If financing is not secured, significant exchange rate adjustment is expected in 2007, with likely negative repercussions for the financial sector. Under any scenario, growth is unlikely to be sustained at current levels. Extensive restructuring of enterprises and the wider use of energy efficient technologies is crucial to ensure sustainable growth in the medium term.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	4.7	5.0	7.0	11.4	9.4	9.9	6.5
Private consumption	17.9	11.4	7.4	9.6	14.8	na	na
Public consumption	3.1	0.3	0.3	-0.2	0.4	na	na
Gross fixed capital formation	-3.5	6.0	20.8	20.9	20.0	31.4	na
Exports	na	na	na	na	na	na	na
Imports	na	na	na	na	na	na	na
Industrial gross output	5.9	4.5	7.1	15.9	10.5	11.3	na
Agricultural gross output	1.8	0.7	6.6	12.6	1.7	6.1	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	-0.4	-0.4	-0.5	-1.2	0.0	na	na
Employment (end-year)	-0.6	-0.8	-1.0	-0.5	0.8	na	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	2.3	3.0	3.1	1.9	na	na	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	61.1	42.5	28.4	18.1	10.3	7.0	8.0
Consumer prices (end-year)	46.1	34.8	25.4	14.4	8.0	6.6	8.6
Producer prices (annual average)	71.8	40.4	37.5	24.1	12.1	8.3	na
Producer prices (end-year)	39.1	42.6	28.1	18.8	10.0	9.0	na
Gross average monthly earnings in economy (annual average)	108.8	53.8	32.5	38.6	33.4	27.4	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance	-1.9	-2.1	-1.7	0.0	-0.7	1.4	-1.5
General government expenditure	46.8	46.6	47.7	46.0	48.0	47.0	na
General government debt	13.2	11.0	10.4	8.9	8.3	6.9	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M3, end-year)	66.1	50.3	56.3	44.1	42.2	29.6	na
Domestic credit (end-year)	72.9	55.6	72.2	30.8	33.5	52.2	na
<i>(In per cent of GDP)</i>							
Broad money (M3, end-year)	15.2	15.0	16.8	17.7	19.3	20.6	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinancing rate	48.0	38.0	28.0	17.0	11.0	10.5	na
Treasury bill rate (3-month maturity)	na	na	na	na	na	na	na
Deposit rate (1 year)	34.2	26.9	17.4	12.7	9.2	7.7	na
Lending rate (1 year)	47.0	36.9	24.0	16.9	11.4	8.8	na
<i>(Belarussian roubles per US dollar)</i>							
Official exchange rate (end-year)	1,580.0	1,920.0	2,156.0	2,170.0	2,152.0	2,140.0	na
Official exchange rate (annual average)	1,390.0	1,790.9	2,051.3	2,160.3	2,153.8	2,144.6	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-411	-326	-434	-1,194	510	-1,512	-3,260
Trade balance	-807	-914	-1,256	-2,184	-491	-2,398	-4,500
Merchandise exports	7,334	7,965	10,073	13,942	16,109	19,838	20,000
Merchandise imports	8,141	8,879	11,329	16,126	16,599	22,237	24,500
Foreign direct investment, net	96	453	170	163	303	351	1,225
Gross reserves, excluding gold (end-year)	391	417	462	691	1,107	1,069	na
External debt stock	2,523	3,308	4,175	4,935	5,168	6,875	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	0.5	0.5	0.5	0.5	0.7	0.5	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	3.4	4.1	4.6	4.0	4.0	na	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	10.0	9.9	9.8	9.8	9.8	9.7	na
GDP (in billions of Belarussian roubles)	17,173	26,138	36,565	49,992	65,067	79,231	94,507
GDP per capita (in US dollars)	1,242	1,474	1,810	2,361	3,098	3,803	na
Share of industry in GDP (in per cent)	29.9	29.6	30.8	32.7	32.3	na	na
Share of agriculture in GDP (in per cent)	11.9	11.8	9.8	10.3	na	na	na
Current account/GDP (in per cent)	-3.3	-2.2	-2.4	-5.2	1.7	-4.1	-7.6
External debt - reserves (in US\$ million)	2,133	2,891	3,713	4,245	4,062	5,806	na
External debt/GDP (in per cent)	20.4	22.7	23.4	21.3	17.1	18.6	na
External debt/exports of goods and services (in per cent)	29.9	35.6	36.1	31.5	28.4	31.1	na

¹ Data refer to weighted average interest rates on new one-year deposits in commercial banks.

² Data refer to weighted average interest rates for one-year loans by commercial banks.

³ Includes medium and long-term public and publicly guaranteed debt and an estimate of private debt.

Bosnia and Herzegovina¹

Economic performance

Growth remained steady during 2006 but public spending continues to be high and the current account deficit remains large. Long-term sustainability depends on further restructuring, an improved business environment and increased integration into the regional and world economy.

Real economy

After growing 5.8 per cent in 2005, the economy is estimated to have recorded a similar increase in 2006. There was strong industrial output growth in the Republika Srpska (RS), with more modest increases in the Federation. Exports continued to grow, reflecting increasing access by Bosnian producers to regional and EU markets.

Economic policies

The introduction of value added tax (VAT) in January 2006 and higher oil prices gave a temporary upward impetus to inflation. After several years of very low single-digit inflation, the rate in both Entities rose during 2006 but remained in single-digit levels throughout the year in both cases.

Preliminary estimates from the first half of the year show that revenues from VAT are strong. However, much of this increase (relative to the previous sales taxes) is temporary and unlikely to be repeated in future years. Monetary policy continues to be guided by a strict currency board. Overall, the consolidated government budget was in slight surplus in 2005 and remained close to balance in 2006.

A National Fiscal Council has been established to help coordinate fiscal policy, but its powers are limited. Meanwhile, the problem of potentially large domestic liabilities (some arising from war claims) facing governments at all levels remains to be fully resolved, although progress has been made in putting in place the necessary laws to deal with the problem.

External sector

Bosnia and Herzegovina continues to record very high trade and current account deficits. The latter is estimated to have fallen significantly during 2006, although this is subject to considerable uncertainty. The deficit is fully covered by a combination of capital transfers, foreign direct investment (FDI) and other capital inflows.

Foreign reserves have continued to rise steadily to over US\$ 3 billion by the end of the year. FDI in 2006 is tentatively estimated to have risen to about €650 million, continuing the upward trend of recent years and reflecting some progress in large-scale privatisation (especially in the RS) and reinvestments by large companies already in the country, such as Mittal Steel.

Outlook and risks

In recent years, Bosnia and Herzegovina has managed to depend less and less on aid, and growth rates have held up well. The outlook is for continued growth in the region of 5-6 per cent a year, allied to low inflation, but with significant downside risks. The European Union is expected to provide a strong anchor for reform once the Office of High Representative is closed.

However, the main risks to this generally positive outlook lie in the small appetite of public officials for serious reform and difficulties and sensitivities related to the imminent reforms of the outdated constitutional set-up established by the Dayton Peace Agreement.

1 The territorial constitutional entities of the State of Bosnia and Herzegovina (BiH) distinguished in this assessment include Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), which are referred to as the "Entities". The District of Brčko enjoys a special status based on an Arbitration Award in accordance with the Dayton Peace Agreement.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	4.3	5.3	3.0	6.0	5.8	6.0	5.0
Total consumption	na	na	na	na	na	na	na
Gross fixed capital formation	na	na	na	na	na	na	na
Industrial gross output	-2.0	11.5	3.8	12.0	9.8	18.0	na
Agricultural gross output	na	na	na	na	na	na	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	-1.4	-0.7	0.8	1.6	0.5	na	na
Employment (end-year)	-3.4	-2.0	-1.0	0.2	2.1	na	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	40.2	41.0	42.1	42.9	42.0	41.0	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)							
Federation (KM based)	1.9	-0.2	0.2	-0.3	2.1	7.5	na
Republika Srpska (KM based)	7.0	1.7	1.8	2.2	2.7	7.0	na
Consumer prices (end-year)							
Federation (KM based)	0.3	-0.7	0.3	-0.3	4.4	6.6	na
Republika Srpska (KM based)	2.2	2.4	1.3	2.2	3.7	4.7	na
Gross average monthly earnings in economy (annual average)							
Federation	7.6	9.2	8.3	1.7	na	na	na
Republika Srpska	14.7	18.7	9.3	11.5	na	na	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance	-4.5	-3.3	-2.2	-0.6	0.8	-0.2	-1.1
General government expenditure	53.2	48.0	52.9	50.4	49.4	50.3	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	89.3	8.6	8.4	24.3	18.2	24.7	na
Domestic credit (end-year)	5.2	28.2	19.8	18.0	27.6	20.6	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	38.5	39.6	40.7	46.5	51.1	56.8	na
Exchange rates							
<i>(KM per euro)</i>							
Exchange rate (annual average)	1.96	1.96	1.96	1.96	1.96	1.96	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-888	-1,209	-1,945	-2,109	-2,425	-1,457	-3,565
Trade balance	-2,073	-3,327	-4,152	-4,572	-4,990	-4,277	-4,843
Merchandise exports	854	1,104	1,473	2,085	2,600	3,374	4,191
Merchandise imports	2,927	4,431	5,625	6,657	7,590	7,651	9,034
Foreign direct investment, net	119	266	382	608	667	723	790
Gross reserves, excluding gold (end-year)	1,221	1,295	1,765	2,389	2,720	3,160	na
External debt stock	2,818	3,637	4,518	5,106	5,659	6,137	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	4.6	3.3	3.6	4.1	4.1	4.8	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	6.2	8.7	8.0	5.7	4.7	4.5	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	3.8	3.8	3.8	3.8	3.8	3.8	na
GDP (in millions of markas)	12,137	12,806	13,492	14,678	15,791	17,750	19,792
GDP per capita (in US dollars)	1,462	1,623	2,049	2,453	2,687	2,991	na
Share of industry in GDP (in per cent)	na	na	na	na	na	na	na
Share of agriculture in GDP (in per cent)	na	na	na	na	na	na	na
Current account/GDP (in per cent)	-16.0	-19.6	-25.0	-22.6	-23.7	-12.8	-28.1
External debt - reserves (in US\$ million)	1,597	2,342	2,753	2,717	2,939	2,977	na
External debt/GDP (in per cent)	50.7	59.0	58.0	54.8	55.4	54.0	na
External debt/exports of goods and services (in per cent)	216.3	254.6	243.2	200.6	180.4	152.6	na

Bulgaria

Economic performance

The economy continues to perform well, but remains vulnerable to any deterioration in external conditions, and therefore tight fiscal and income policies are essential to preserve macroeconomic stability and support the currency board regime.

Real economy

The economy grew by an estimated 6.1 per cent in 2006, driven by sustained investment and private consumption. Investment and consumption were in turn fuelled by rapid growth of credit to the private sector, rising incomes and employment.

Economic policies

By February 2006, annual inflation had risen to 8.8 per cent (from 6.5 per cent at the end of 2005), partly as a consequence of higher excise taxes. However, inflation fell back to 6.5 per cent by the end of 2006 and further to 4.1 per cent in March 2007 because of a decline in food prices.

Income policies in 2005 and 2006 have helped to maintain moderate wage growth. Given that in the context of the currency board, monetary policy is not a tool available to policy makers, the authorities and the IMF had originally agreed (within the framework of the IMF's precautionary Stand-By Arrangement) on a very tight fiscal policy, with a target surplus of at least 3 per cent for 2006. However, the consolidated general government balance is estimated to have recorded a surplus of 3.75 per cent in 2006 (3.3 per cent of GDP on an ESA95 basis).

The government also agreed to target a fiscal surplus of 2.3 per cent of GDP for 2007, comprising a budgeted surplus of 2 per cent of GDP and additional savings linked to expenditure cuts. At the end of 2006 the fiscal reserve account stood at €3 billion (about 12 per cent of GDP),

even after debt buy-backs in 2005–06. The Central Bank and the government intend to enter the European Exchange Rate Mechanism II and adopt the euro as soon as possible.

External sector

The current account deficit widened from 11.5 per cent of GDP in 2005 to 14.8 per cent of GDP in 2006. This mainly reflected the large and increasing deficit on the 2006 trade account (21.6 per cent of GDP), despite strong export performance (up 28 per cent).

The financing of the current account deficit has been supported in the short term by very strong flows of net foreign direct investment (FDI), which covered 73 per cent of the deficit in 2005 and 114 per cent in 2006. About a third of the large flows of FDI are investments in real estate and construction.

Outlook and risks

Bulgaria's medium-term economic prospects remain favourable, especially following the country's accession to the European Union. GDP growth is expected to remain robust, supported by strong bank credit growth and EU capital inflows. The currency board regime is well established and is expected to contribute to a tight monetary policy in the run-up to eventual adoption of the euro.

The main vulnerability is the external position, with persistently high current account deficits giving some cause for concern. The government must maintain a tight fiscal policy, and further fiscal tightening may be necessary to help offset the sustained excessive buoyancy of domestic demand and enable the government to help manage the consequences of an unexpected external shock. Continued progress in structural reforms is also critical to achieving the country's growth potential.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure <i>(Percentage change in real terms)</i>							
GDP	4.1	4.9	4.5	5.7	6.2	6.1	6.0
Private consumption	4.5	3.9	7.1	4.9	5.5	7.1	na
Public consumption	4.7	6.2	3.0	6.7	4.1	1.7	na
Gross fixed capital formation	19.9	9.3	13.9	13.5	23.3	17.6	na
Exports of goods and services	8.5	6.2	8.0	13.0	8.5	9.0	na
Imports of goods and services	13.0	4.7	15.3	14.1	13.1	15.2	na
Industrial gross output	-4.8	4.0	18.3	21.5	5.8	3.0	na
Agricultural gross output	-0.1	4.2	-1.4	5.6	-5.0	na	na
Employment <i>(Percentage change)</i>							
Labour force (end-year)	-0.2	-0.5	1.1	1.2	-0.2	3.1	na
Employment (end-year)	-3.9	2.9	4.5	3.4	2.0	4.4	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	19.5	16.8	13.7	12.0	10.1	8.9	na
Prices and wages <i>(Percentage change)</i>							
Consumer prices (annual average)	7.4	5.9	2.3	6.1	5.0	7.3	2.5
Consumer prices (end-year)	4.8	3.9	5.6	4.0	6.5	6.5	2.0
Producer prices (annual average)	3.6	1.3	4.9	6.0	6.9	6.9	na
Producer prices (end-year)	-1.8	6.3	4.3	5.2	9.6	5.1	na
Gross average monthly earnings in economy (annual average)	6.5	3.4	9.2	9.1	4.3	4.6	na
Government sector <i>(In per cent of GDP)</i>							
General government balance ¹	1.9	0.1	-0.9	2.2	1.9	3.3	2.3
General government expenditure ¹	38.3	37.2	38.2	37.5	37.5	35.0	na
General government debt ²	66.2	54.0	45.9	37.9	29.2	22.8	na
Monetary sector <i>(Percentage change)</i>							
Broad money (M2, end-year)	53.0	11.7	18.8	23.3	24.4	26.8	na
Domestic credit (end-year)	25.5	27.0	32.4	33.3	35.1	17.1	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	41.7	42.8	47.7	53.4	59.0	65.2	na
Interest and exchange rates <i>(In per cent per annum, end-year)</i>							
Base interest rate ³	4.7	3.3	2.8	2.4	2.1	3.3	na
Interbank interest rate (up to 1 month)	3.7	2.5	1.1	2.0	2.2	3.5	na
Deposit rate (1 month)	2.9	2.8	2.9	3.0	3.0	na	na
Lending rate (less than 1 year)	11.1	9.4	8.8	8.8	7.9	na	na
<i>(Leva per US dollar)</i>							
Exchange rate (end-year)	2.2	1.9	1.5	1.4	1.7	1.5	na
Exchange rate (annual average)	2.2	2.1	1.7	1.6	1.6	1.6	na
External sector <i>(In millions of US dollars)</i>							
Current account	-984	-827	-1,856	-1,416	-3,133	-4,667	-4,250
Trade balance	-1,581	-1,595	-2,518	-3,643	-5,399	-6,810	na
Merchandise exports	5,113	5,692	7,541	9,848	11,740	15,064	na
Merchandise imports	6,693	7,287	10,059	13,491	17,139	21,874	na
Foreign direct investment, net	803	876	2,070	2,777	2,298	5,016	3,090
Gross reserves, excluding gold (end-year)	3,591	4,407	6,291	8,776	9,213	11,754	na
External debt stock	10,626	11,312	13,439	17,276	18,862	25,901	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	5.1	5.8	6.0	6.3	5.4	5.4	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	20.9	16.3	14.0	25.7	44.6	24.9	na
Memorandum items <i>(Denominations as indicated)</i>							
Population (end-year, million)	7.9	7.8	7.8	7.8	7.7	7.7	na
GDP (in millions of leva)	29,709	32,335	34,547	38,008	42,797	49,091	53,337
GDP per capita (in US dollars)	1,723	1,984	2,556	3,109	3,523	4,089	na
Share of industry in GDP (in per cent)	25.2	25.6	20.6	26.0	26.1	na	na
Share of agriculture in GDP (in per cent)	12.1	10.7	10.1	9.4	8.0	na	na
Current account/GDP (in per cent)	-7.2	-5.3	-9.3	-5.9	-11.5	-14.8	-12.4
External debt - reserves (in US\$ million)	7,035	6,905	7,148	8,500	9,649	14,147	na
External debt/GDP (in per cent)	78.1	72.7	67.4	71.6	69.4	82.3	na
External debt/exports of goods and services (in per cent)	146.8	140.4	125.5	124.7	117.9	128.8	na

¹ In 2003 and 2004 general government expenditure includes capital transfers for about 0.4 per cent of GDP, which were classified below the line in the Budget Law.

² From April 2001 direct debt to the Bulgarian National Bank (BNB) is excluded from domestic debt to avoid double reporting of IMF credit extended through the BNB.

³ Effective interest rate at end-month, based on the average annual yield attained at three-month government securities primary actions.

Croatia

Economic performance

The economy continues to grow steadily, aided by a positive contribution from gross domestic investment. However, a high level of external debt, a widening current account deficit and pressures for higher government spending pose continuing risks.

Real economy

Growth of GDP reached 4.8 per cent in 2006, half a percentage point higher than in 2005 and 2004, and it is expected to continue around this level in 2007. Private investment more than offset the impact of declining public investment, and exports performed better than expected. The important tourism sector (where close to 20 per cent of GDP is created) continues to develop.

Economic policies

The government aimed for a further reduction in its budget deficit in 2006 to 3 per cent of GDP, which is considered to be realistic, and to 2.8 per cent of GDP in 2007. The government's accumulated debt to pensioners, which is not part of the deficit, is estimated to be around 1.1 per cent of GDP in 2006 and 0.2 per cent of GDP in the following three to four years.

After a decreasing trend in the inflation rate from 2002 onwards, the average consumer price inflation rate increased in 2005 to 3.3 per cent, decreased to 3.2 per cent in 2006 and is estimated to stay at that level in 2007. The Central Bank remains committed to tight monetary policies, mainly aimed at exchange rate stability and the containment of credit expansion.

External sector

The current account deficit increased to 6.4 per cent of GDP in 2005, owing to the impact of higher international energy prices, and rose further to about 7.7 per cent of GDP in euro terms in 2006. It may go even higher in 2007. Inward current transfers are also expected to rise as the EU accession process progresses.

Gross external debt stood at almost €29 billion at the end of 2006, or 85.5 per cent of GDP in euro terms. The government and the Central Bank have stepped up efforts to mitigate this vulnerability in recent years. The government has increased the proportion of domestically sourced financing. However, external debt owed by banks and other sectors has more than offset the decrease in the government's external debt. The share of corporate debt increased, largely because of the Central Bank's decision to limit foreign borrowing by banks, which encouraged large private sector companies to borrow abroad directly, in many cases from the parent banks of the foreign-owned financial institutions in Croatia.

Outlook and risks

The economy is on course for moderately strong growth over the short to medium-term, while the anchor of EU accession talks should provide a strong impetus for further reforms.

Nevertheless, the authorities face a number of significant macroeconomic challenges and risks. Further progress in fiscal consolidation is essential for macroeconomic stability but will be increasingly difficult to achieve given the pressures for higher government spending in the election year. The rapid expansion in recent years in domestic credit and the growing external indebtedness of commercial banks have helped to raise external debt to levels that will require careful monitoring.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	4.4	5.6	5.3	4.3	4.3	4.8	4.7
Private consumption	4.4	7.7	4.6	4.8	3.4	3.5	na
Public consumption	-6.2	4.9	1.3	-0.3	0.8	2.2	na
Gross fixed capital formation	7.1	13.9	24.7	5.0	4.9	10.9	na
Exports of goods and services	8.1	1.3	11.4	5.7	4.6	6.9	na
Imports of goods and services	9.8	13.4	12.1	4.6	3.5	7.3	na
Industrial gross output	6.0	5.4	4.1	3.7	5.1	4.5	na
Agricultural gross output	8.5	7.7	-15.9	11.9	-8.7	na	na
Employment¹							
<i>(Percentage change)</i>							
Labour force (end-year)	-6.7	1.4	0.1	-0.2	0.7	-2.6	na
Employment (end-year)	-6.0	3.8	0.1	0.5	2.5	-2.0	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	16.4	14.5	14.4	13.8	12.3	11.7	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	3.8	1.7	1.8	2.1	3.3	3.2	3.2
Consumer prices (end-year)	2.4	1.8	1.7	2.7	3.6	2.0	2.8
Producer prices (annual average)	3.6	-0.4	1.9	3.5	3.0	2.9	na
Producer prices (end-year)	-3.1	2.3	1.1	4.8	2.7	1.9	na
Gross average monthly earnings in economy (annual average)	3.9	6.0	4.8	6.4	4.4	6.2	na
Government sector²							
<i>(In per cent of GDP)</i>							
General government balance	-6.8	-4.9	-6.2	-4.8	-4.0	-3.0	-2.8
General government expenditure	50.7	48.9	51.2	49.7	48.6	47.4	na
General government debt	40.1	40.0	41.0	43.2	43.7	40.8	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M4, end-year)	45.2	9.5	11.0	8.6	10.5	18.0	na
Domestic credit (end-year)	21.6	28.4	12.3	11.8	19.2	18.9	na
<i>(In per cent of GDP)</i>							
Broad money (M4, end-year)	64.0	64.1	65.0	65.1	66.8	72.8	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinancing rate (3 months)	5.9	4.5	4.5	4.5	4.5	4.5	na
Money market rate	2.2	1.9	7.0	6.0	4.0	3.5	na
Deposit rate ³	2.8	1.6	1.7	1.8	1.6	3.0	na
Lending rate ³	9.5	10.9	11.5	11.4	9.9	9.1	na
<i>(Kuna per US dollar)</i>							
Exchange rate (end-year)	8.4	7.1	6.1	5.6	6.2	5.4	na
Exchange rate (annual average)	8.3	7.9	6.7	6.0	5.9	5.9	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-727	-1,915	-2,132	-1,841	-2,588	-3,447	-3,829
Trade balance	-4,101	-5,648	-7,908	-8,350	-9,346	-11,014	-12,162
Merchandise exports	4,759	5,004	6,308	8,210	8,955	11,105	12,546
Merchandise imports	8,860	10,652	14,216	16,560	18,301	22,119	24,708
Foreign direct investment, net	1,182	582	1,926	877	1,548	3,516	2,363
Gross reserves, excluding gold (end-year)	4,704	5,886	8,191	8,759	8,801	11,957	na
External debt stock	11,870	15,680	24,759	31,002	30,220	38,181	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year) ⁴	5.2	5.4	5.7	5.2	4.9	5.6	na
<i>(In per cent of exports of goods and services)</i>							
Debt service ⁵	19.5	23.2	19.6	22.6	26.1	29.2	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	4.4	4.4	4.4	4.4	4.4	4.4	na
GDP (in billions of kuna)	166	181	198	215	231	251	268
GDP per capita (in US dollars)	4,742	6,084	6,666	7,943	8,675	9,582	na
Share of industry in GDP (in per cent)	20.4	19.4	19.5	20.2	20.7	20.5	na
Share of agriculture in GDP (in per cent) ⁶	7.5	7.3	6.0	6.5	6.3	6.2	na
Current account/GDP (in per cent) ⁷	-3.5	-7.1	-6.5	-5.1	-6.6	-8.1	-8.0
External debt - reserves (in US\$ million)	7,166	9,794	16,568	22,243	21,419	26,224	na
External debt/GDP (in per cent) ⁸	56.4	58.0	75.3	85.8	77.2	89.7	na
External debt/exports of goods and services (in per cent) ⁹	123.1	148.1	166.4	176.3	160.1	170.9	na

¹ Data based on labour force surveys.² Consolidated general government from 2002 onwards.³ Weighted average over all maturities.⁴ Ratio calculated in US dollars.⁵ Ratio calculated in US dollars.⁶ Agriculture includes hunting, forestry and fishing.⁷ Ratio calculated in US dollars.⁸ Ratio calculated in US dollars.⁹ Ratio calculated in US dollars.

Czech Republic

Economic performance

While growth remained strong in 2006, political weaknesses are hampering efforts to restrain fiscal expansion, which is necessary to support convergence towards entry into the eurozone.

Real economy

GDP growth amounted to 6.1 per cent in 2006 and may fall to about 4.9 per cent this year. Relative to earlier years, economic activity has become more dependent on domestic demand, underpinned by low interest rates, increasing real incomes and rapid credit growth.

Consumption and investment moderated somewhat at the end of 2006, but remain strong. Inflation has been contained in past years but is likely to increase over the next 12 months. Growth in regulated prices and changes in indirect taxes (for example the harmonisation of excise duties on tobacco products) are likely to push inflation up to just under 3 per cent in 2007. A tightening labour market is also exerting upward pressures on wages.

Economic policies

In 2006 the general government budget balance showed a deficit of 3.5 per cent of GDP. Despite buoyant growth, the deficit ratio is projected to worsen in 2007, mainly because the post-election deadlock and rising populism have weakened budgetary discipline (the 2007 budget proposes a deficit of 4 per cent of GDP). The more expansionary fiscal stance largely reflects a surge in planned social security expenditure and a rise in pensions and public sector wages. The lack of political stability will continue to hamper structural fiscal reforms.

In 1998, the Czech Republic adopted an inflation targeting framework, having abandoned the fixed peg of the koruna in favour of a flexible exchange rate regime in May 1997. The inflation target has been set at 3 per

cent with a band of +/- one percentage point. In the face of increasing demand and higher energy prices, the Central Bank raised its key policy rate twice during 2006. The Czech Republic was expected to join the European Union's Exchange Rate Mechanism II (ERM II) in mid-2007 and to adopt the euro in 2010. However, given the lack of political resolve and in the absence of further fiscal consolidation, these dates have now been dropped.

External sector

For 2007 a current account deficit of 3.9 per cent of GDP is expected, down from a deficit of 4.2 per cent last year. This deficit mainly reflects strong export performance resulting in a trade balance that is expected to be in surplus for the third year in a row. The evolution of the trade balance is driven by an expansion in production capacity boosted by past foreign direct investment (FDI) flows. The income deficit remains high, mainly reflecting FDI earnings, which are to a large extent re-invested in the country.

Outlook and risks

The prevailing political stalemate makes the timely implementation of structural fiscal reforms unlikely. As noted, the Czech Republic was expected to join ERM II in mid-2007 and to adopt the euro in 2010, but lack of political will and delays in fiscal consolidation have led to these dates being postponed, and further delays cannot be ruled out.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure	<i>(Percentage change in real terms)</i>						
GDP	2.5	1.9	3.6	4.2	6.1	6.1	4.9
Private consumption	2.3	2.2	6.0	2.5	2.8	4.0	na
Public consumption	3.6	6.7	7.1	-3.2	0.7	na	na
Gross fixed capital formation	6.6	5.1	0.4	4.7	3.6	6.6	na
Exports of goods and services	11.2	2.1	7.2	21.1	10.6	na	na
Imports of goods and services	12.8	5.0	8.0	18.2	4.9	na	na
Industrial gross output	6.7	1.9	5.5	9.6	6.7	10.5	na
Agricultural gross output	-1.6	2.5	-5.5	0.0	8.0	na	na
Employment	<i>(Percentage change)</i>						
Labour force (end-year)	0.0	1.0	0.4	0.3	0.8	na	na
Employment (end-year)	-0.1	-0.9	-1.3	0.2	1.2	na	na
	<i>(In per cent of labour force)</i>						
Unemployment (end-year)	8.0	7.5	8.3	8.4	7.9	6.7	na
Prices and wages	<i>(Percentage change)</i>						
Consumer prices (annual average)	4.7	1.8	0.2	2.8	1.8	2.5	2.8
Consumer prices (end-year)	4.2	0.6	1.1	2.8	2.2	1.8	na
Producer prices (annual average)	2.9	-0.5	-0.3	5.7	3.0	na	na
Producer prices (end-year)	0.8	-0.7	0.9	7.7	-0.3	na	na
Gross average monthly earnings in economy (annual average)	8.7	7.3	6.6	6.6	5.4	6.6	na
Government sector¹	<i>(In per cent of GDP)</i>						
General government balance	-5.8	-6.8	-6.6	-2.9	-3.6	-3.5	-4.0
General government expenditure	45.2	47.3	47.7	44.6	44.1	na	na
General government debt	25.9	28.5	30.1	30.7	30.4	30.6	na
Monetary sector	<i>(Percentage change)</i>						
Broad money (M2, end-year)	13.0	3.5	6.9	4.4	8.0	8.6	na
Domestic credit (end-year)	-5.3	-7.1	21.9	0.1	1.7	na	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	67.9	67.0	68.5	66.3	66.9	66.8	na
Interest and exchange rates	<i>(In per cent per annum, end-year)</i>						
2-week repo rate	4.8	2.8	2.0	2.5	2.0	2.3	na
3-month PRIBOR	4.7	2.6	2.1	2.6	2.2	na	na
Deposit rate	2.6	1.7	1.3	1.4	1.2	na	na
Lending rate	8.7	8.8	8.2	8.0	7.2	na	na
	<i>(Korunas per US dollar)</i>						
Exchange rate (end-year)	36.3	30.1	25.7	22.4	24.6	22.7	na
Exchange rate (annual average)	38.0	32.7	28.2	25.7	23.9	23.1	na
External sector	<i>(In millions of US dollars)</i>						
Current account	-3,273	-4,166	-5,690	-6,511	-2,575	-5,916	-6,296
Trade balance	-3,068	-2,179	-2,473	-1,029	1,685	1,700	1,800
Merchandise exports	33,378	38,319	48,568	67,027	78,307	91,500	105,600
Merchandise imports	36,446	40,497	51,041	68,056	76,622	89,800	103,800
Foreign direct investment, net	5,476	8,276	1,895	3,960	10,135	4,616	8,400
Gross reserves, excluding gold (end-year)	14,341	23,556	26,771	28,259	29,330	29,730	na
External debt stock	22,374	26,983	34,893	45,241	45,791	48,279	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	4.1	6.0	5.5	4.4	4.1	3.7	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	8.3	6.8	7.6	5.8	7.5	6.6	na
Memorandum items	<i>(Denominations as indicated)</i>						
Population (end-year, million)	10.2	10.2	10.2	10.2	10.3	na	na
GDP (in billions of korunas)	2,352	2,464	2,577	2,781	2,978	3,239	3,491
GDP per capita (in US dollars)	6,059	7,378	8,947	10,588	12,151	na	na
Share of industry in GDP (in per cent)	37.5	37.5	38.2	40.2	40.4	na	na
Share of agriculture in GDP (in per cent)	3.7	3.8	3.4	3.3	3.4	na	na
Current account/GDP (in per cent)	-5.3	-5.5	-6.2	-6.0	-2.1	-4.2	-3.9
External debt - reserves (in US\$ million)	8,033	3,428	8,122	16,981	16,461	18,549	na
External debt/GDP (in per cent)	36.2	35.8	38.2	41.8	36.8	34.4	na
External debt/current account revenues, excluding transfers (in per cent)	55.3	59.5	61.9	59.0	51.4	48.5	na

¹ Calculated according to Eurostat methodology (ESA95).

Estonia

Economic performance

Strong internal and external demand, supported by a sharp rise in domestic credit, is sustaining economic growth, but fiscal discipline is essential to correct the high current account deficit and contain accelerating inflation.

Real economy

Real GDP growth accelerated to 11.4 per cent in 2006 compared to 10.5 per cent in 2005. Private consumption, net exports and investment remained the main drivers of growth. Stronger growth was recorded across the economy, most notably in construction, financial intermediation, manufacturing and the real estate sector. Higher employment, real wage increases and rapid credit growth fuelled an increase in investment and private consumption without significantly affecting the economy's competitiveness. The housing market was buoyant in 2005 but there are signs that the pace is now beginning to slow.

Economic policies

The general government balance was in surplus by 2.3 per cent of GDP in 2005 on the back of increased tax revenues. While keeping the budget in surplus, the government decided late in the year to adopt a supplementary budget to increase spending by some 1 per cent of GDP, mostly for basic pensions and higher maternity benefits. The general government balance increased to 3.8 per cent of GDP by the end of 2006.

Estonia's long track record of fiscal discipline has meant that in 2005 it recorded a low public debt ratio of only 4.5 per cent of GDP, decreasing slightly to 4.1 per cent in 2006. Annual average consumer prices rose by 4.1 per cent in 2005 and 4.4 per cent in 2006. This was driven mostly by supply side factors, notably oil and EU accession-related price increases. However, core inflation also

accelerated, mainly through the indirect effects of higher oil prices on transport prices and demand side factors. These developments led the authorities to postpone the target date for European Monetary Union (EMU) membership, initially scheduled for January 2007. Markets have not been perturbed by the delay and confidence in the currency board remains strong, as indicated by decreasing short-term interest rate differentials with the euro.

External sector

Strong domestic demand pushed up nominal import growth and the current account deficit reached 14.8 per cent of GDP. The deficit on the income account continued, reflecting the repatriation of profits earned on foreign direct investment (FDI) that has already taken place. The current account deficit was financed by a combination of FDI inflows, bank borrowing from foreign parents and growing EU funding. Net external debt constituted 27 per cent of GDP by the end of 2006. Much of this is private inter-company debt that is unlikely to be withdrawn abruptly.

Outlook and risks

The outlook for the economy remains positive, with GDP growth still robust. However, unfavourable demographics and migration make labour shortages an increasing concern. The outlook for inflation continues to be partly dependent on oil prices, although fast credit growth and real wage increases are adding to inflationary pressures on the demand side. Unless external economic conditions worsen, the delay in EMU membership should not have major consequences on the currency regime or the credibility of the government's economic policy.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	7.7	8.0	7.1	8.1	10.5	11.4	8.5
Private consumption	7.4	11.2	6.9	6.9	8.2	15.7	na
Public consumption	2.6	1.9	0.3	2.2	1.1	2.8	na
Gross fixed capital formation	9.7	24.1	7.0	13.5	12.7	19.7	na
Exports of goods and services	2.0	1.7	7.6	17.1	21.5	10.0	na
Imports of goods and services	3.5	6.0	10.6	15.2	15.9	14.7	na
Industrial gross output	8.7	8.1	7.0	8.9	13.2	12.2	na
Agricultural gross output	-5.2	8.3	0.8	-7.2	2.3	0.2	na
Employment							
<i>(Percentage change)</i>							
Labour force (annual average)	-0.2	-1.2	1.2	-0.2	0.1	-3.7	na
Employment (annual average)	0.9	1.4	1.5	0.2	2.0	-2.1	na
<i>(In per cent of labour force)</i>							
Unemployment (annual average)	12.6	10.3	10.0	9.6	7.9	6.4	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	5.8	3.6	1.3	3.0	4.1	4.4	4.2
Consumer prices (end-year)	4.2	2.6	1.2	5.0	3.6	5.1	na
Producer prices (annual average)	4.4	0.4	0.2	2.9	2.1	4.5	na
Producer prices (end-year)	1.7	1.4	0.3	3.9	2.2	5.9	na
Gross average monthly earnings in economy (annual average)	12.3	11.5	9.4	8.4	10.8	na	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance	0.3	0.4	2.0	2.3	2.3	3.8	3.8
General government expenditure	35.1	35.6	35.3	34.2	33.2	33.2	na
General government debt	4.7	5.8	6.0	5.5	4.8	4.1	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	23.7	11.1	10.9	15.8	42.0	28.2	na
Domestic credit (end-year)	24.4	27.6	28.7	29.2	32.1	41.9	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	37.7	37.3	37.8	39.7	47.7	51.8	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Deposit rate (over 12 months)	4.5	3.7	2.4	2.1	2.3	3.6	na
Lending rate (over 12 months)	10.1	6.6	5.1	6.2	9.2	7.7	na
<i>(Kroons per US dollar)</i>							
Exchange rate (end-year)	17.6	14.9	12.4	11.5	12.5	12.3	na
Exchange rate (annual average)	17.5	16.6	13.9	12.6	12.4	12.5	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-339	-716	-1,116	-1,432	-1,446	-2,446	-2,934
Trade balance	-788	-1,089	-1,553	-1,966	-1,845	-2,739	-3,200
Merchandise exports	3,359	3,530	4,607	5,971	7,785	9,636	11,600
Merchandise imports	4,148	4,619	6,161	7,937	9,631	12,374	14,800
Foreign direct investment, net	343	153	763	781	2,250	561	790
Gross reserves, excluding gold (end-year)	820	1,000	1,373	1,790	2,407	2,420	na
External debt stock ¹	3,279	4,704	7,054	10,012	12,130	14,111	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	1.9	2.1	2.2	2.2	2.5	2.0	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	11.7	15.1	15.9	17.8	14.6	14.6	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	1.4	1.4	1.4	1.4	1.3	1.3	1.3
GDP (in billions of kroons)	108	121	133	147	173	205	228
GDP per capita (in US dollars)	4,528	5,369	7,072	8,619	10,386	12,172	na
Share of industry in gross value added (in per cent)	25.3	25.3	25.5	25.0	25.1	25.5	na
Share of agriculture in gross value added (in per cent)	4.2	3.7	3.3	3.4	3.3	2.8	na
Current account/GDP (in per cent)	-5.5	-9.8	-11.6	-12.3	-10.3	-14.9	-15.1
External debt - reserves (in US\$ million)	2,458	3,703	5,680	8,222	9,723	11,691	na
External debt/GDP (in per cent)	53.0	64.4	73.6	86.0	86.7	86.2	na
External debt/exports of goods and services (in per cent)	65.5	89.7	103.1	113.8	110.9	107.5	na

¹ Data from the Bank of Estonia and include non-resident currency and deposits, liabilities to affiliated enterprises and liabilities to direct investors.

FYR Macedonia

Economic performance

Growth remains subdued and unemployment remains high despite recent measures to improve the business climate.

Real economy

Economic growth is estimated at about 4 per cent in 2006, similar to the economic performance in the previous years. Relatively strong household consumption was supported by a substantial increase in remittances, high real wage increases and strong credit growth.

However, there was little investment in the real economy by either foreign investors or local enterprises. As a result, unemployment measured by the labour force survey remains at around one-third of the labour force. Yet these figures are subject to debate, as they may be inflated by the inclusion of people registered as unemployed but who are in fact working in the informal economy.

Economic policies

The consumer price index reached 3.2 per cent in annual average terms and stood at 2.9 per cent year-on-year in December 2006. The money market rates declined substantially throughout the year, falling from 8.5 per cent in December 2005 to 5.7 per cent in December 2006. The Central Bank's long-standing exchange rate policy of a de facto peg to the euro provides an anchor and remains stable at around 61 denar per euro. The general government deficit moved from a small surplus in 2005 to a small deficit of about 0.6 per cent of GDP in 2006. Many municipalities have arrears and blocked accounts and are negotiating with their creditors. Fiscal stability should be further improved by the reform of the health care system, implemented with the help of the World Bank.

The new government also implemented a tax reform, which reduced and unified the personal income tax rates and corporate income tax rates at 12 per cent from January 2007. The income tax rate will be further cut to 10 per cent in January 2008. In addition, the reinvested profit tax will be abolished and the government will provide further tax incentives for foreign investors in special economic zones. These reforms have encouraged the government to launch a campaign presenting the country as a "business haven" in Europe.

External sector

The current account deficit has declined further to about 0.4 per cent of GDP in 2006. However, the trade deficit remained high at around 21 per cent of GDP. The current account stability relies on remittances, which increased to US\$ 1.14 billion (19 per cent of GDP). Foreign direct investment (FDI) inflows are estimated at US\$ 350 million, up from US\$ 97 million in 2005. However, three-quarters of the FDI inflows are related to privatisation proceeds. The long-term debt to GDP ratio has remained at about 40 per cent of GDP, although this has fallen to about 87 per cent of exports of goods and services thanks to strong export growth. As a result of privatisation, international reserves increased substantially to US\$ 2 billion, equivalent to five months of imports.

Outlook and risks

GDP growth is likely to remain close to current levels over the short term. Some risks to overall stability stem from the volatile political situation as well as the uncertain status of neighbouring Kosovo.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	-4.5	0.9	2.8	4.1	3.8	4.0	4.0
Industrial gross output	-4.6	-0.8	5.1	-2.1	6.9	5.0	na
Agricultural gross output	-10.8	-2.0	4.8	4.9	3.0	4.0	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	6.3	-4.4	4.4	-3.3	6.9	-0.5	na
Employment (end-year)	9.0	-6.3	-2.9	3.0	8.0	0.3	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	30.5	31.9	36.7	37.2	37.3	35.9	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	5.5	1.8	1.2	-0.4	0.5	3.2	2.5
Consumer prices (end-year)	3.7	1.1	2.6	-1.9	1.2	2.9	2.0
Producer prices (annual average)	2.0	-0.9	-0.3	0.9	3.0	2.8	na
Producer prices (end-year)	-2.5	1.1	-0.2	1.3	2.9	2.5	na
Gross average monthly earnings in economy (annual average)	3.6	6.9	4.8	3.5	3.8	6.3	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance	-6.3	-5.6	-0.1	0.7	0.3	-0.6	-2.0
General government expenditure	40.3	40.5	38.5	35.8	37.8	35.1	na
General government debt	51.6	49.6	45.7	44.3	47.6	43.3	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	66.3	-8.0	18.4	16.1	17.7	18.4	na
Domestic credit (end-year)	-11.5	28.8	14.1	20.0	16.7	14.3	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	29.8	26.3	30.2	33.3	37.5	41.7	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Basic rate of the National Bank	10.7	10.7	7.0	6.5	6.5	6.5	na
Interbank interest rate	11.9	14.4	5.8	7.9	8.5	5.7	na
Deposit rate	10.0	9.2	6.7	6.5	5.2	5.0	na
Lending rate	19.2	17.7	14.5	12.0	12.1	10.0	na
<i>(Denars per US dollar)</i>							
Exchange rate (end-year)	69.2	58.6	49.9	49.4	48.9	48.2	na
Exchange rate (annual average)	68.1	64.7	54.3	50.0	48.5	48.9	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-244	-358	-149	-415	-81	-24	-68
Trade balance	-526	-804	-848	-1,112	-1,057	-1,285	-1,250
Merchandise exports	1,155	1,112	1,363	1,672	2,040	2,396	2,500
Merchandise imports	1,682	1,916	2,211	2,785	3,097	3,681	3,750
Foreign direct investment, net	441	78	96	156	97	350	150
Gross reserves, excluding gold (end-year)	760	730	890	980	1,395	1,771	na
External debt stock	1,494	1,641	1,840	2,079	2,274	2,435	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	4.8	4.1	4.2	3.8	4.9	5.2	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	14.7	17.2	14.8	12.2	8.9	7.9	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	2.0	2.0	2.0	2.0	2.0	2.0	na
GDP (in billions of denars)	234	244	251	265	277	295	314
GDP per capita (in US dollars)	1,717	1,885	2,316	2,653	2,855	3,016	na
Share of industry in GDP (in per cent)	17.5	17.2	17.6	16.5	17.0	17.3	na
Share of agriculture in GDP (in per cent)	9.8	9.5	9.7	9.8	9.7	9.8	na
Current account/GDP (in per cent)	-7.1	-9.5	-3.2	-7.8	-1.4	-0.4	-1.0
External debt - reserves (in US\$ million)	734	911	950	1,099	879	664	na
External debt/GDP (in per cent)	43.5	43.5	39.7	39.2	39.8	40.4	na
External debt/exports of goods and services (in per cent)	106.9	120.0	109.4	102.8	94.0	87.1	na

Georgia

Economic performance

Strong economic growth is supported by ongoing privatisation and enterprise restructuring; large associated foreign investments as the business environment improves; and a prudent monetary and fiscal policy.

Real economy

The economy grew significantly by an estimated 9.4 per cent in 2006, albeit down slightly from the 9.6 per cent in 2005. Growth was particularly strong in industry and construction, where output in the first nine months of the year rose by about 20 per cent and 12 per cent, respectively. Growth was also strong in transport and communications at 11 per cent, as well as the services sector, especially financial services, which grew by more than 50 per cent during the first three quarters of the year. However, agricultural production fell by 18.1 per cent in the same period, partly because of unfavourable weather conditions.

Economic policies

Improved tax collection and progress in tackling corruption, as well as growing privatisation revenues, helped to raise budget revenues during 2006 and allowed the government to increase fiscal spending. Consolidated budget revenues increased by 34 per cent year-on-year during 2006 and tax receipts rose by more than 43 per cent.

High oil prices, extra government spending and strong capital inflows have meanwhile increased inflationary pressures. Inflation reached 14.5 per cent in July 2006, well above the target of 6 per cent set by the Central Bank, but decreased to about 8.9 per cent by the end of 2006. To help lower inflation, the Central Bank allowed the lari to appreciate in nominal terms against the US dollar during 2006, reflecting foreign currency inflows. It also started to issue certificates of deposits to reduce the money supply from September 2006.

External sector

The trade deficit widened dramatically by about 80 per cent in dollar terms during 2006 compared with 2005. While exports grew by about 20 per cent, imports (mainly of investment goods related to pipeline construction) grew by about 43 per cent during this period. Export growth was also negatively affected by a Russian trade embargo on Georgian wine and mineral water, which took effect in March 2006. Wine was Georgia's second most important export in 2005, accounting for 9.2 per cent of total exports. This decreased to 4.2 per cent at the end of November 2006. The external debt position has improved significantly, supported by debt relief agreements with all bilateral creditors. The ratio of public external debt to GDP fell to 22 per cent in 2006 from 27 per cent in 2005.

Outlook and risks

GDP growth is expected to remain in the range of 6-7 per cent a year in the short term, driven mainly by industrial output, construction and investment activities related to the South Caucasus gas pipeline, and despite the expected negative effect of the Russian trade embargo and increase in gas prices.

Exports of services associated with the Baku-Tbilisi-Ceyhan pipeline and expected increase in foreign direct investment should lessen the negative effect of the increasing trade deficit on the current account. However, a combination of strong domestic demand, high government spending and price increases (due to deregulation of state-controlled prices) means that inflationary pressures pose a significant risk.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	4.7	5.5	11.1	5.9	9.6	9.4	7.5
Private consumption	na	na	na	na	na	na	na
Public consumption	na	na	na	na	na	na	na
Gross fixed capital formation	na	na	na	na	na	na	na
Exports of goods and services	na	na	na	na	na	na	na
Imports of goods and services	na	na	na	na	na	na	na
Industrial gross output	-4.5	7.8	14.0	12.2	13.0	na	na
Agricultural gross output	8.2	-1.4	10.3	-7.9	na	na	na
Employment¹							
<i>(Percentage change)</i>							
Labour force (end-year)	-2.2	-5.0	8.1	-4.4	0.7	na	na
Employment (end-year)	-2.1	-6.8	9.6	-6.3	-0.8	na	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	10.3	11.9	10.7	12.5	13.8	na	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	4.6	5.7	4.9	5.7	8.4	9.2	7.5
Consumer prices (end-year)	3.4	5.6	7.0	7.5	6.4	8.8	6.5
Producer prices (annual average)	3.6	6.0	2.3	3.8	7.2	na	na
Producer prices (end-year)	8.9	1.5	5.4	0.7	8.2	na	na
Gross average monthly earnings in economy (annual average)	30.8	20.5	10.4	19.9	22.5	na	na
Government sector²							
<i>(In per cent of GDP)</i>							
General government balance	-1.9	-2.0	-2.5	2.3	-1.5	-1.7	-2.4
General government expenditure	18.2	17.8	18.7	19.7	24.9	28.0	na
General government debt	68.3	67.4	61.5	47.0	36.6	28.9	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M3, end-year)	18.5	17.1	22.7	42.6	26.4	39.3	na
Domestic credit (end-year)	2.3	9.5	14.7	7.4	39.8	35.3	na
<i>(In per cent of GDP)</i>							
Broad money (M3, end-year)	11.1	11.6	12.4	15.4	16.4	19.3	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Money market rate	17.5	27.7	16.9	11.9	7.7	na	na
Treasury bill rate (3-month maturity) ³	29.9	43.4	44.3	19.2	na	na	na
Deposit rate (3-month) ⁴	7.8	9.8	9.3	7.2	7.6	na	na
Lending rate (3-month)	27.0	31.8	32.3	31.2	21.6	na	na
<i>(Laris per US dollar)</i>							
Exchange rate (end-year)	2.1	2.1	2.1	1.8	1.8	1.7	na
Exchange rate (annual average)	2.1	2.2	2.1	1.9	1.8	1.8	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-210	-196	-294	-430	-346	-742	-1,421
Trade balance	-486	-439	-598	-719	-932	-1,671	-2,274
Merchandise exports	473	553	730	1,272	1,589	1,909	2,082
Merchandise imports	959	992	1,328	1,991	2,521	3,580	4,356
Foreign direct investment, net	80	122	335	420	529	861	1,149
Gross reserves, excluding gold (end-year)	161	198	191	383	474	872	na
External debt stock	1,712	1,858	1,954	2,039	2,137	2,000	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	1.4	1.6	1.3	1.8	1.9	2.5	na
<i>(In per cent of current account revenues, excluding transfers)</i>							
Debt service	19.3	7.4	10.0	10.2	9.0	7.9	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	4.6	4.6	4.6	4.5	4.5	na	na
GDP (in millions of laris)	6,674	7,456	8,565	9,824	11,621	13,784	16,099
GDP per capita (in US dollars)	697	741	877	1,139	1,420	na	na
Share of industry in GDP (in per cent)	16.6	17.6	17.7	16.1	15.6	na	na
Share of agriculture in GDP (in per cent)	20.7	19.3	19.3	16.4	14.8	na	na
Current account/GDP (in per cent)	-6.5	-5.8	-7.4	-8.4	-5.4	-9.5	-15.2
External debt - reserves (in US\$ million)	1,551	1,660	1,763	1,656	1,663	1,128	na
External debt/GDP (in per cent)	53.2	54.7	49.0	39.8	33.3	25.7	na
External debt/exports of goods and services (in per cent)	175.6	167.2	151.7	111.4	100.9	71.1	na

¹ Figures consistent with ILO methodology.

² General government includes the state, municipalities and extra-budgetary funds.

³ Data relate to the average auction rates during the year.

⁴ Data refer to average rates for local currency from international financial statistics.

Hungary

Economic performance

Restoring balance in government finances and continued implementation of an effective austerity package are crucial to rebuilding investor confidence.

Real economy

Real GDP growth in 2006 reached an estimated 3.9 per cent, which is lower than that of neighbouring countries. Consumer spending fell due to higher expenditure taxes, tight monetary policy and hikes in utility bills. The slowdown was also driven by weak corporate investments in the face of the government's stabilisation measures. On the other hand, industrial production was boosted by rising demand in the eurozone. As a result, net exports remained the main driver of economic growth. Weaker growth below 3 per cent is likely to continue through 2007 when the full effect of tighter fiscal measures is expected to be seen on domestic demand.

Economic policies

The general government deficit in 2005 reached 7.8 per cent of GDP and the situation worsened in the first half of 2006. A collapse of public finances was prevented by the introduction of stringent fiscal austerity measures and tax increases. As a result, the full year fiscal deficit closed at an estimated 9.2 per cent of GDP in 2006, excluding the second pension pillar, and is expected to fall below 7 per cent in 2007.

Inflation accelerated to 9 per cent in March 2007, driven by tax increases and price hikes. It is expected to stay high throughout the first half of 2007, as government measures will push prices up further in the spring. While these effects are expected to be transitory, inflationary pressures motivated the Central Bank to increase the reference rate to 8 per cent in October 2006, up from

6 per cent in June 2006. However, the reference rate is expected to decrease once inflation falls in the later part of the year. The forint has appreciated against the euro by almost 10 per cent since July last year, partly on the back of an improving fiscal outlook.

External sector

The current account deficit was around 7.4 per cent of GDP in 2005, compared to 8.6 per cent in 2004. It narrowed to an estimated 5.8 per cent of GDP in 2006, mainly on the basis of a smaller trade deficit. In 2006, exports grew by 18 per cent while imports rose by only 12.6 per cent. Net foreign direct investment reached around 2.7 per cent of GDP in 2006. External debt grew substantially in 2006 and is now estimated at above 90 per cent of GDP.

Outlook and risks

Although the Hungarian economy has benefited from a sound banking sector, sustained market-oriented reforms and a large stock of foreign investments, the medium-term outlook will be affected by the fiscal difficulties and the impact of the government's fiscal austerity measures. If persistent reforms in the health care, education and administration sectors lead to a smaller fiscal deficit and a reduced tax burden in the long term, they are likely to improve Hungary's international competitiveness. Nevertheless, the short-term effects of the measures will reduce the purchasing power of consumers, increase costs for enterprises and may delay some investments in infrastructure. Furthermore, any unexpected fiscal slippage is likely to have negative consequences for overall economic performance. While the convergence programme was adopted without an official target date for euro adoption, the most likely date is now expected to be between 2012 and 2014.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	4.3	3.8	3.4	5.2	4.1	3.9	2.5
Private consumption	5.7	9.8	7.8	3.2	3.8	1.2	na
Public consumption	1.6	5.1	5.3	0.0	0.2	-5.5	na
Gross fixed capital formation	5.1	10.1	2.1	7.7	5.6	-1.8	na
Exports of goods and services	8.1	3.9	6.2	15.7	11.6	18.0	na
Imports of goods and services	5.3	6.8	9.3	14.1	6.8	12.6	na
Industrial gross output	0.4	1.8	5.9	3.9	4.3	8.6	na
Agricultural gross output	16.5	-9.8	-0.7	54.4	-2.4	-6.1	na
Employment							
<i>(Percentage change)</i>							
Labour force (annual average)	-0.4	0.2	1.4	0.1	1.3	1.1	na
Employment (annual average) ¹	0.3	0.1	1.3	-0.3	0.2	0.9	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	5.7	5.8	5.9	6.3	7.3	7.5	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	9.2	5.3	4.7	6.8	3.6	3.9	7.4
Consumer prices (end-year)	6.8	4.8	5.7	5.5	3.3	6.8	5.5
Producer prices (annual average)	5.2	-1.8	2.4	3.5	4.3	8.3	na
Producer prices (end-year)	-0.4	-1.3	6.2	1.6	4.7	9.2	na
Gross average monthly earnings in economy (annual average)	18.2	18.3	12.0	6.2	8.7	8.2	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance	-3.5	-8.4	-7.2	-6.5	-7.8	-9.2	-6.8
General government expenditure	48.3	52.1	49.1	49.0	50.0	52.9	na
General government debt	51.7	55.0	58.0	59.4	61.7	66.0	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	16.8	13.8	13.6	9.9	13.0	11.9	na
Domestic credit (end-year)	4.7	15.3	19.8	11.9	23.4	15.9	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	44.3	44.6	45.3	45.5	48.4	50.6	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinancing rate	9.8	8.5	12.5	9.5	6.0	8.0	na
Interbank interest rate (up to 30-day maturity)	10.0	8.9	12.2	9.7	6.1	8.1	na
Deposit rate weighted average (fixed for less than 1 year)	9.4	7.4	8.7	9.1	5.2	7.4	na
Lending rate weighted average (maturing within 1 year)	12.0	9.7	11.2	11.0	7.4	9.2	na
<i>(Forints per US dollar)</i>							
Exchange rate (end-year)	279.0	225.2	207.9	180.3	213.6	191.6	na
Exchange rate (annual average)	286.5	257.9	224.3	202.7	199.6	210.4	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-3,201	-4,643	-7,205	-8,767	-8,128	-6,528	-5,900
Trade balance	-2,234	-2,076	-3,271	-3,082	-1,961	-524	na
Merchandise exports	31,054	34,684	43,325	56,720	63,071	73,374	na
Merchandise imports	33,288	36,760	46,596	59,802	65,032	73,898	na
Foreign direct investment, net	3,573	2,722	479	3,542	5,412	3,055	3,154
Gross reserves, excluding gold (end-year)	10,738	10,359	12,749	15,920	18,552	21,528	na
External debt stock	33,951	36,883	53,767	70,872	86,401	105,325	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	3.3	2.9	2.7	2.7	2.9	3.0	na
<i>(In per cent of exports of goods and services)</i>							
Debt service ²	14.5	13.7	14.2	15.1	16.0	13.2	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	10.2	10.1	10.1	10.1	10.1	10.1	na
GDP (in billions of forints)	14,990	16,915	18,936	20,712	22,027	23,562	25,793
GDP per capita (in US dollars)	5,140	6,467	8,344	10,117	10,949	11,128	na
Share of industry in GDP (in per cent)	26.9	26.2	25.6	25.8	25.8	26.3	na
Share of agriculture in GDP (in per cent)	4.6	4.1	3.7	4.1	3.7	3.7	na
Current account/GDP (in per cent)	-6.1	-7.1	-8.5	-8.6	-7.4	-5.8	-5.0
External debt - reserves (in US\$ million)	23,213	26,524	41,019	54,952	67,848	83,796	na
External debt/GDP (in per cent)	64.9	56.2	63.7	69.4	78.3	94.0	na
External debt/exports of goods and services (in per cent)	89.1	87.7	103.1	104.8	114.3	121.4	na

¹ Data from labour force survey.² Excluding inter-company loans.

Kazakhstan

Economic performance

Growth has been sustained through strong domestic demand that is underpinned by higher oil prices, increased fiscal expenditures and an easing of credit conditions.

Real economy

The economy remained robust in 2006 with real GDP growing by 10.6 per cent, mainly driven by activity in the non-oil sectors such as construction and financial services.

Economic policies

The general government surplus widened further to 6.4 per cent of GDP in 2006 from 5.3 per cent in 2005, while accommodating an increase in expenditures of over 30 per cent in real terms. The rapid growth in spending reflected the buoyancy of tax revenues as oil revenues continued to surge. Non-oil revenues also rose sharply because of improved tax collection.

The budget for 2007 forecasts the overall fiscal surplus to stay at a high level. In July 2006, the National Fund of the Republic of Kazakhstan (NFRK) was fully integrated with the budget. Under this new arrangement, all oil revenues will accrue to the NFRK, which will then transfer part of the funds to finance investment and programmes for human capital development.

Inflation remains on an upward trend – the consumer price index increased from 7.6 per cent year on year in December 2005 to 8.6 per cent in December 2006. To stem inflationary pressures and dampen credit growth (which remained buoyant in the first half of the year), the Central Bank raised the refinancing rate by a cumulative one percentage point during the first seven months of 2006 and broadened reserve requirements.

External sector

The current account showed a small surplus in 2006 after a deficit of 1.3 per cent of GDP in 2005. A record trade balance surplus of 22.8 per cent of GDP due to high commodity prices was offset by a further increase in income payments associated with foreign direct investment (FDI) in the hydrocarbon sector and an increase in imports of services, also linked to investments in the hydrocarbon sector.

International reserves and NFRK assets amounted to US\$ 33 billion, more than 12 months of imports of goods and services at the end of 2006. Total external debt as a percentage of GDP increased to 79 per cent of GDP at the end of 2006. While the repayment of inter-company loans associated with FDI in the hydrocarbons sector accelerated, the external liabilities of Kazakh banks increased.

Outlook and risks

A possible levelling off of oil prices in 2007 (albeit at the current high level) may mitigate inflationary pressures arising from excess domestic liquidity. Deceleration of real GDP growth to 9 per cent is expected in 2007, reflecting the decline in oil prices, constraints on hydrocarbon production and the tightening of monetary policy in the second half of 2006. However, given continued strong appetite for external borrowing by Kazakh banks, further monetary and regulatory tightening may be required. A key risk over the medium term is the rapid credit expansion, funded through the accumulation of external liabilities of banks, and the resulting construction and real estate boom.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure <i>(Percentage change in real terms)</i>							
GDP	13.5	9.8	9.2	9.4	9.7	10.6	9.0
Private consumption	7.8	2.7	11.8	13.9	11.4	na	na
Public consumption	19.2	-7.5	8.9	10.6	11.8	na	na
Gross fixed capital formation	25.3	10.0	8.0	22.5	11.9	18.0	na
Exports of goods and services	-1.8	16.6	7.5	10.9	1.4	na	na
Imports of goods and services	0.3	3.1	-7.6	14.8	13.3	na	na
Industrial gross output	13.8	10.5	9.1	10.1	4.6	na	na
Agricultural gross output	17.3	3.4	1.6	1.0	6.7	na	na
Employment¹ <i>(Percentage change)</i>							
Labour force (end-year)	5.2	-1.1	3.5	2.2	0.8	na	na
Employment (end-year)	8.0	0.2	4.1	2.6	1.1	1.4	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	10.4	9.3	8.8	8.4	8.1	7.9	na
Prices and wages <i>(Percentage change)</i>							
Consumer prices (annual average)	8.4	5.9	6.4	6.9	7.6	8.6	8.0
Consumer prices (end-year)	6.4	6.6	6.8	6.7	7.5	8.4	8.0
Producer prices (annual average)	0.3	0.3	9.3	16.7	23.7	18.4	na
Producer prices (end-year)	-14.1	11.9	5.9	23.8	20.3	na	na
Gross average monthly earnings in economy (annual average)	20.4	17.5	13.8	22.5	20.3	na	na
Government sector² <i>(In per cent of GDP)</i>							
General government balance ³	1.8	1.0	2.0	1.9	5.3	6.4	6.8
General government expenditure ⁴	23.0	21.0	22.3	22.7	26.8	16.0	na
General government debt	18.0	15.6	13.5	10.1	7.1	6.1	na
Monetary sector <i>(Percentage change)</i>							
Broad money (M2, end-year)	40.2	30.1	34.2	68.2	26.3	79.9	na
Domestic credit (end-year) ⁵	18.0	30.2	38.1	81.1	52.3	82.0	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	17.1	19.2	21.1	27.8	27.7	38.2	na
Interest and exchange rates <i>(In per cent per annum, end-year)</i>							
Refinancing rate	9.0	7.5	7.0	7.0	8.0	9.0	na
Treasury bill rate (3-month maturity) ⁶	5.3	5.2	5.9	3.3	3.3	3.3	na
Deposit rate ⁷	12.8	11.0	10.9	9.3	9.1	na	na
Lending rate ⁸	15.3	14.1	14.9	13.7	13.0	na	na
<i>(Tenges per US dollar)</i>							
Exchange rate (end-year)	150.2	155.6	144.2	130.0	134.0	127.0	na
Exchange rate (annual average)	146.7	153.3	149.6	136.0	132.9	126.1	na
External sector <i>(In millions of US dollars)</i>							
Current account	-1,390	-1,024	-273	335	-724	768	-141
Trade balance ⁹	983	1,987	3,679	6,785	10,322	14,574	15,500
Merchandise exports	8,928	10,027	13,233	20,603	28,301	38,252	44,008
Merchandise imports	7,944	8,040	9,554	13,818	17,979	23,678	28,508
Foreign direct investment, net	2,861	2,164	2,213	5,392	1,721	4,500	2,235
Gross reserves, excluding gold (end-year)	1,997	2,555	4,236	8,473	6,084	17,737	na
External debt stock ¹⁰	15,158	18,252	22,920	31,941	41,516	60,882	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year) ¹¹	2.3	2.6	3.8	5.4	2.9	6.4	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	37.6	35.4	35.2	35.9	35.8	27.8	na
Memorandum items <i>(Denominations as indicated)</i>							
Population (end-year, million)	14.9	14.9	15.0	15.1	15.1	15.1	na
GDP (in billions of tenges)	3,251	3,776	4,612	5,870	7,457	9,739	11,467
GDP per capita (in US dollars)	1,492	1,657	2,062	2,863	3,714	5,112	na
Share of industry in GDP (in per cent)	25.2	25.3	25.3	25.4	24.3	na	na
Share of agriculture in GDP (in per cent)	10.1	9.5	8.8	8.1	7.9	na	na
Current account/GDP (in per cent)	-6.3	-4.2	-0.9	0.8	-1.3	1.0	-0.2
External debt - reserves (in US\$ million)	13,160	15,696	18,684	23,468	35,432	43,145	na
External debt/GDP (in per cent)	68.4	74.1	74.3	74.0	74.0	78.8	na
External debt/exports of goods and services (in per cent)	148.8	157.8	153.4	141.3	135.9	153.5	na

¹ Break in series in 1994 and 1998. From 1998 data based on labour force surveys.

² General government includes the state, municipalities and extra-budgetary funds and is on a cash basis.

³ Government balance includes quasi-fiscal operations and transfers to the National Fund. Balance excludes privatisation revenues.

⁴ Expenditures include extra-budgetary funds.

⁵ Domestic credit from International Financial Statistics.

Break in series in 2001. From 2001, data include National Fund from 2001.

⁶ Average effective yield of short-term NBK notes.

⁷ Deposit rate refers to the weighted average of interest rates on time deposits of individuals, in tenge by maturity.

⁸ Lending rate refers to weighted average of interest rates on credits extended to legal entities, excluding banks, in tenge by maturity.

⁹ Exports at declared customs prices and are not corrected for under-invoicing of oil and gas exports.

¹⁰ Includes inter-company debt by branches of non-resident foreign enterprises and short-term debt.

¹¹ Excludes National Fund.

Kyrgyz Republic

Economic performance

Following the political upheaval that affected the economy in 2005, growth resumed in 2006. However, reduced production at the Kumtor gold mine continued to affect overall GDP.

Real economy

The economy rebounded in 2006 with real GDP year-on-year growth of 2.7 per cent, partly reflecting stronger investment and the impact of significant remittances. GDP had contracted by 0.6 per cent in 2005 due to disruptions caused by the political events in March/April of that year and a sharp decline in production from the Kumtor gold mine (accounting for 6 per cent of GDP).

Economic policies

Despite various tax cuts introduced at the beginning of the year, the fiscal deficit for 2006 is estimated to have further narrowed to 2 per cent of GDP, compared with 3.9 per cent of GDP in 2005. This smaller deficit is due to lower interest payments in the wake of the 2005 Paris Club debt rescheduling and an increase in customs revenues (owing to a surge in imported goods).

Inflationary pressures will require a careful policy by the Central Bank, which adopted a more flexible exchange rate policy to allow the local currency to nominally appreciate against the US dollar.

External sector

The current account deficit widened further, from 8 per cent of GDP in 2005 to 20 per cent of GDP in 2006. This development partly reflects one-off factors relating to the Kumtor gold mine, in particular increased imports of gold mining equipment in 2006. It follows a scheduled decline in gold exports in the previous year, which had affected the current account in 2005.

Remittances from workers living abroad are an increasingly important source for narrowing the current account gap (as much as 17 per cent of GDP in 2006). After a record US\$ 131 million of net foreign direct investment inflows in 2004, inflows dipped to US\$ 43 million in 2005 but bounced back to US\$ 108 million during 2006.

Total public external debt amounted to 78 per cent of GDP at the end of 2005, reflecting the rescheduling of bilateral debt under the Paris Club in March that year. On the basis of 2005 year-end data, the country would have qualified for debt relief under the enhanced heavily indebted poor countries (HIPC) initiative. However, in February 2007 the government decided not to participate in the initiative.

Outlook and risks

The renewed political upheaval of spring 2007 confirmed concerns about political and legal instability in the country. While its short-term impact on the economy is likely to be small, it may undermine long-term growth by affecting foreign investment and postponing much-needed improvements in the business environment, including the quality of public institutions.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	5.3	0.0	7.0	7.0	-0.2	2.7	5.7
Private consumption	1.6	4.2	22.1	7.5	3.2	na	na
Public consumption	0.0	-0.2	-2.0	2.5	-1.0	na	na
Gross fixed capital formation	-3.2	-7.4	-6.4	7.4	10.2	na	na
Exports of goods and services	-3.2	8.1	5.3	12.8	-9.8	na	na
Imports of goods and services	-13.8	13.1	16.0	16.3	1.0	na	na
Industrial gross output	5.4	-10.9	17.0	3.7	-12.1	-10.2	na
Agricultural gross output	7.3	3.1	3.2	4.1	-4.2	1.5	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year) ¹	1.4	1.2	2.3	1.9	na	na	na
Employment (end-year)	1.1	1.1	1.7	2.3	na	na	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	7.8	8.6	8.9	9.0	9.7	na	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	6.9	2.0	3.1	4.1	4.3	5.6	5.5
Consumer prices (end-year)	3.7	2.3	5.6	2.8	4.9	5.1	5.2
Producer prices (annual average)	12.0	4.8	4.6	9.0	2.6	15.3	na
Producer prices (end-year)	11.2	7.5	13.5	4.3	6.0	10.4	na
Gross average monthly earnings in economy (annual average)	18.6	15.8	13.7	16.9	14.5	14.4	na
Government sector²							
<i>(In per cent of GDP)</i>							
General government balance	-5.6	-5.3	-5.2	-4.5	-3.9	-2.0	-2.7
General government expenditure	26.0	28.1	27.4	27.5	28.0	28.5	na
General government debt	107.3	107.3	104.9	93.8	85.3	71.7	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	11.3	33.9	33.4	32.1	10.0	51.5	na
Domestic credit (end-year)	-8.1	21.6	11.3	-18.8	19.6	39.7	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	11.1	14.6	17.5	20.6	21.2	28.6	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Official rate	10.7	4.4	4.0	4.0	4.1	3.2	na
Money market rate ³	19.1	7.0	4.0	4.0	4.3	4.2	na
Deposit rate ⁴	12.5	5.9	5.0	6.7	5.8	5.1	na
Lending rate ⁴	37.3	24.8	21.7	29.3	26.6	27.6	na
<i>(Soms per US dollar)</i>							
Exchange rate (end-year)	47.7	46.1	44.2	41.6	41.3	38.1	na
Exchange rate (annual average)	48.3	46.9	43.7	42.6	41.0	40.2	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-24	-49	-81	-75	-198	-554	-302
Trade balance	31	-74	-133	-171	-419	-921	-723
Merchandise exports	480	498	590	733	687	812	901
Merchandise imports	450	572	724	904	1,106	1,733	1,624
Foreign direct investment, net	-1	5	46	131	43	108	50
Gross reserves, excluding gold (end-year)	230	289	365	549	570	764	na
External debt stock	1,678	1,785	1,978	2,104	2,020	2,061	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	4.8	4.8	5.0	5.8	4.9	4.4	na
<i>(In per cent of exports of goods and services)</i>							
Debt service ⁵	30.8	21.0	22.3	19.1	14.8	8.3	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	4.9	5.0	5.0	5.1	5.1	5.1	na
GDP (in millions of soms)	73,883	75,367	83,872	94,351	100,899	113,176	126,000
GDP per capita (in US dollars)	309	322	381	435	480	549	na
Share of industry in GDP (in per cent)	26.8	21.3	20.2	21.7	20.0	17.6	na
Share of agriculture in GDP (in per cent)	34.5	34.4	33.6	29.9	28.5	28.9	na
Current account/GDP (in per cent)	-1.6	-3.1	-4.2	-3.4	-8.1	-19.7	-9.3
External debt - reserves (in US\$ million)	1,448	1,496	1,614	1,555	1,450	1,297	na
External debt/GDP (in per cent)	109.6	111.1	103.0	95.1	82.1	73.2	na
External debt/exports of goods and services (in per cent)	299.3	278.8	265.5	223.3	211.9	185.8	na

¹ Based on labour force data from World Bank World Development Indicators.

² General government includes the state, municipalities and extra-budgetary funds. It also includes expenditure under the foreign-financed public investment programme and net lending.

³ Weighted average rate on interbank loans in soms with 1-90 day maturities, from International Financial Statistics.

⁴ Weighted average over all maturities from International Financial Statistics.

⁵ Debt service scheduled and excludes US\$ 111 million debt rescheduling granted by the Paris Club of official creditors for 2002-04.

Latvia

Economic performance

Strong domestic demand continues to boost growth, but there has been a resurgence of inflation. Continuing credit expansion could exacerbate inflationary pressures and delay membership of the European and Economic Monetary Union.

Real economy

Real GDP growth accelerated to 10.2 per cent in 2005 and reached 11.9 per cent in 2006, the sharpest increase since independence. Growth is broad-based and strongest in trade, commercial services, transport and communications, followed by modest growth in manufacturing. The main driver continues to be domestic demand, fuelled by strong credit growth, rising employment and a notable increase in disposable income. The increased availability of credit, high demand for housing and speculative activity have resulted in accelerating real estate prices.

Economic policies

In 2005 the general government budget posted a small surplus of 0.2 per cent of GDP, reflecting strong growth and improved tax revenues. As a result of better collection of social security, value added tax and excise tax, the first three quarters of 2006 saw a similarly positive performance, although higher spending in the fourth quarter meant a small deficit was posted for the year as a whole.

Consumer prices rose by 7.1 per cent (year-on-year) in January 2007, following a 6.5 per cent average annual increase recorded in 2006. The main determinants of inflation have been the rise in regulated prices and strong domestic demand. In response, the Central Bank has continued to pursue a tight monetary policy and, among other measures, increased the refinancing rate to 4.5 per cent in July 2006 and then to 5 per cent in November. The open capital markets and the exchange regime, however, limit the effectiveness of such a measure.

External sector

Following a slight narrowing of Latvia's current account deficit in 2005, preliminary data for 2006 shows that it has widened to 19.8 per cent of GDP. An increase in consumption, fuelled by the ready availability of credit and unfavourable terms of trade, has contributed to the decline in the trade balance.

In addition, export growth has slowed owing to weaker competitiveness and increased domestic demand for some export goods such as wood. This is coupled with a worsening of the income balance, as foreign investors' earnings in Latvia increase. In 2006 the financing of the current account deficit relied on banks' long-term borrowing and foreign direct investment flows. Consequently, external debt has increased. The value of gross external debt exceeded that of GDP in 2006 as bank borrowing abroad and non-resident deposits increased.

Outlook and risks

Annual real GDP growth is projected at 9 per cent in 2007. Domestic demand will remain strong for the rest of the year on the back of credit expansion, real wage growth and increasing EU funds. Labour migration and declining unemployment, accompanied by expectations of a quick convergence to EU income levels, are likely to put pressure on inflation and real wage growth. Buoyant mortgage lending, to which a number of key banks are heavily exposed, appears to be supported by an overvalued property market and poses a certain risk to the financial sector. In addition, the prevalence of euro-denominated loans is a source of vulnerability should EMU membership be delayed.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	8.0	6.5	7.2	8.5	10.2	11.9	9.0
Private consumption	7.3	7.4	8.2	9.5	11.5	19.8	na
Public consumption	2.8	2.2	1.9	2.1	2.7	4.0	na
Gross fixed capital formation	11.4	13.0	12.3	23.8	23.6	18.3	na
Exports of goods and services	7.5	5.4	5.2	9.4	20.3	5.3	na
Imports of goods and services	14.3	4.7	13.1	16.6	14.8	17.5	na
Industrial gross output	8.7	8.8	8.0	8.3	8.4	8.2	na
Agricultural gross output	6.3	4.4	-2.4	3.3	9.4	-0.3	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	0.7	1.7	0.2	0.9	-0.1	2.8	na
Employment (end-year)	2.2	3.0	1.8	1.1	1.8	5.0	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	13.1	12.4	10.6	10.4	8.7	4.4	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	2.6	2.5	1.9	2.9	6.2	6.7	5.8
Consumer prices (end-year)	3.0	1.5	3.6	7.3	7.0	6.8	na
Producer prices (annual average)	1.7	1.0	3.2	8.6	7.8	7.8	na
Producer prices (end-year)	1.8	0.8	4.1	11.3	6.8	7.2	na
Gross average monthly earnings in economy (annual average)	3.8	7.8	8.4	9.3	17.5	18.9	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance	-2.1	-2.3	-1.2	-0.9	0.2	-1.5	-1.3
General government expenditure ¹	34.6	35.3	34.6	35.5	36.5	35.3	na
General government debt	15.0	13.5	14.4	14.5	11.8	11.5	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	20.8	21.0	21.1	27.0	36.1	30.0	na
Domestic credit (end-year)	36.2	39.8	39.2	40.2	63.2	60.0	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	29.5	32.4	35.3	38.6	43.1	45.1	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinancing rate	3.5	3.0	3.0	4.0	4.0	4.5	na
Interbank market rate ²	5.4	2.7	3.2	3.5	2.7	4.4	na
Deposit rate (short-term, under 1 year)	5.3	3.2	3.0	3.3	2.8	3.6	na
Lending rate (short-term, under 1 year)	10.8	7.5	5.4	7.5	5.9	7.2	na
<i>(Lats per US dollar)</i>							
Exchange rate (end-year)	0.6	0.6	0.5	0.5	0.6	0.6	na
Exchange rate (annual average)	0.6	0.6	0.6	0.5	0.6	0.6	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-626	-625	-920	-1,766	-1,971	-3,761	-4,900
Trade balance	-1,335	-1,479	-2,013	-2,781	-2,967	-4,941	-5,600
Merchandise exports	2,243	2,545	3,161	4,221	5,306	6,051	6,800
Merchandise imports	3,578	4,024	5,174	7,002	8,273	10,992	12,400
Foreign direct investment, net	114	250	256	596	497	840	750
Gross reserves, excluding gold (end-year)	1,149	1,241	1,432	1,909	2,579	2,879	na
External debt stock ³	5,571	7,043	9,343	12,689	16,000	17,500	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	3.2	3.1	2.8	2.8	3.1	2.7	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	20.5	15.8	19.8	19.9	16.8	na	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	2.4	2.3	2.3	2.3	2.3	2.3	na
GDP (in millions of lats)	5,220	5,758	6,393	7,434	9,059	11,265	12,618
GDP per capita (in US dollars)	3,519	3,971	4,799	5,935	6,953	8,281	na
Share of industry in GDP (in per cent)	20.8	20.5	20.0	19.9	19.1	18.9	na
Share of agriculture in GDP (in per cent)	4.7	4.5	4.3	5.3	6.3	na	na
Current account/GDP (in per cent)	-7.5	-6.7	-8.2	-12.8	-12.3	-21.1	-19.8
External debt - reserves (in US\$ million)	4,422	5,802	7,911	10,780	13,421	14,621	na
External debt/GDP (in per cent)	67.0	75.6	83.5	92.2	99.8	92.1	na
External debt/exports of goods and services (in per cent)	162.3	185.5	199.3	211.4	214.4	200.7	na

¹ General government expenditure includes net lending.² Weighted average interest rates in the interbank market.³ Includes non-resident currency and deposits, liabilities to affiliated enterprises and liabilities to direct investors.

Lithuania

Economic performance

The economy continues to perform well, supported by strong domestic consumption and export growth, and a prudent fiscal policy should be maintained to control inflation and adhere to the EU Maastricht criteria.

Real economy

Real GDP grew by at least 7 per cent in 2006 on account of strong domestic consumption and investment. In the first half of 2006, growth was highest in the manufacturing and construction sectors, followed by market services, notably in hotels and restaurants, transport, communications and trade. However, several indicators, including declining unemployment, high use of industrial capacity and buoyant asset prices point to a more prudent use of resources.

Economic policies

Although methodological changes to the fiscal statistics have resulted in a downward revision to the government deficit numbers since 2000, fiscal policy has loosened slightly in 2006. In spite of better than expected revenues on the back of economic growth and improved tax collection, Lithuania's fiscal policy is expected to continue to loosen in 2007 due to public salary increases, higher pension benefits and rising investment.

The general government deficit in 2006 is estimated to account for 1.8 per cent of GDP, up from 0.5 per cent in 2005. General government debt has fallen below 20 per cent of GDP since 2004 and is estimated to have fallen to 18.5 per cent in 2006. Foreign debt accounts for about two-thirds of it, while short-term debt is some 5 per cent of total debt.

After several years of low inflation, annual inflation increased to 3.8 per cent by the end of 2006 on the back of rising foodstuff prices and a marked increase in the price of utilities. Lithuania failed to meet the relevant Maastricht

criterion in May 2006 and had to postpone membership of European and Economic Monetary Union (EMU) beyond the planned January 2007 date. Such a development has not had negative repercussions on the markets and confidence in the currency board remains strong.

External sector

The current account deficit decreased to 7.0 per cent of GDP in 2005 as the trade balance improved on the back of fast import growth in some of Lithuania's main trading partners, notably the CIS and neighbouring EU member states. However, the strong growth of domestic consumption and consequent growth of imports are expected to have led to a deterioration of the trade and services balances in 2006. As a result, the current account deficit is expected to have widened in 2006. Foreign direct investment (FDI) and EU financing are expected to cover only 50 per cent of the 2006 deficit. Gross external debt is relatively small at just over 50 per cent of GDP and short-term debt mainly includes lending from reputable parent banks to their Lithuanian subsidiaries.

Outlook and risks

Domestic demand remains strong, especially among consumers, and the recent flow of EU funds is increasing production and strengthening competitiveness. As a result, growth is expected to remain robust in the short term. However, the growth of domestic demand needs to be contained in order to address the risk of overheating and curb inflationary pressures. A disciplined fiscal policy is necessary to make this happen and avoid further postponements to EMU membership.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure <i>(Percentage change in real terms)</i>							
GDP	7.2	6.8	10.5	7.0	7.5	7.7	6.5
Private consumption	3.7	5.8	11.1	9.7	10.4	12.6	na
Public consumption	0.7	1.4	3.8	7.5	5.6	6.6	na
Gross fixed capital formation	13.5	8.7	11.4	12.3	11.2	12.7	na
Exports of goods and services	21.2	19.5	6.9	4.2	14.3	14.0	na
Imports of goods and services	17.6	17.7	10.3	14.8	15.9	16.0	na
Industrial gross output	15.9	4.6	15.8	9.3	7.6	na	na
Agricultural gross output	-5.0	7.9	7.7	-0.8	1.3	-7.2	na
Employment¹ <i>(Percentage change)</i>							
Labour force (end-year)	-2.1	-0.3	0.7	-1.3	-0.9	-1.2	na
Employment (end-year)	-3.3	4.0	2.3	-0.1	2.6	1.7	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	17.4	13.8	12.4	11.4	8.3	5.6	na
Prices and wages <i>(Percentage change)</i>							
Consumer prices (annual average)	1.5	0.3	-1.2	1.2	2.7	3.7	3.0
Consumer prices (end-year)	2.1	-1.0	-1.3	2.9	3.1	4.5	4.9
Producer prices (annual average)	-3.0	-2.8	-0.5	6.0	11.5	7.4	na
Producer prices (end-year)	-7.8	1.9	-0.2	6.8	13.5	2.8	na
Gross average monthly earnings in economy (annual average)	1.4	3.2	19.1	8.5	10.9	19.1	na
Government sector <i>(In per cent of GDP)</i>							
General government balance	-2.0	-1.4	-1.2	-1.5	-0.5	-0.3	-0.5
General government expenditure ²	31.0	30.6	30.8	33.5	32.9	na	na
General government debt	22.9	22.3	21.2	19.5	18.7	18.2	na
Monetary sector <i>(Percentage change)</i>							
Broad money (M2, end-year)	21.4	16.9	18.2	24.1	32.9	23.8	na
Domestic credit (end-year)	25.6	22.7	37.8	32.0	56.1	34.9	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	26.1	28.6	30.9	34.9	40.7	43.7	na
Interest and exchange rates <i>(In per cent per annum, end-year)</i>							
Interbank interest rate	5.5	10.0	4.3	3.0	3.3	na	na
Treasury bill rate (3-month maturity)	4.8	3.3	2.5	2.1	2.4	na	na
Deposit rate ³	0.8	0.3	0.2	0.2	0.3	0.3	na
Lending rate ⁴	8.1	6.1	5.1	5.6	5.6	5.5	na
<i>(Litai per US dollar)</i>							
Exchange rate (end-year)	4.0	3.3	2.7	2.5	2.8	2.6	na
Exchange rate (annual average)	4.0	3.7	3.1	2.8	2.7	2.7	na
External sector <i>(In millions of US dollars)</i>							
Current account	-574	-734	-1,278	-1,724	-1,815	-2,814	-2,710
Trade balance	-1,108	-1,337	-1,704	-2,382	-2,843	-4,169	-3,030
Merchandise exports	4,889	6,031	7,658	9,305	11,791	14,124	14,080
Merchandise imports	5,997	7,368	9,363	11,688	14,634	18,292	17,110
Foreign direct investment, net ⁵	439	714	142	510	680	803	790
Gross reserves, excluding gold (end-year)	1,669	2,413	3,450	3,594	3,816	4,138	na
External debt stock ⁶	5,268	6,199	8,338	10,472	12,414	14,458	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	3.0	3.5	3.9	3.2	2.7	2.4	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	15.3	14.8	16.6	14.9	16.6	16.3	na
Memorandum items <i>(Denominations as indicated)</i>							
Population (end-year, million)	3.5	3.5	3.5	3.4	3.4	3.4	3.4
GDP (in millions of litai)	48,563	51,948	56,772	62,440	71,084	81,974	89,921
GDP per capita (in US dollars)	3,478	4,068	5,360	6,518	7,603	8,771	na
Share of industry in GDP (in per cent)	27.3	26.4	28.3	29.4	30.2	na	na
Share of agriculture in GDP (in per cent)	6.3	6.3	5.8	5.3	5.2	4.8	na
Current account/GDP (in per cent)	-4.7	-5.2	-6.9	-7.7	-7.0	-9.4	-7.8
External debt - reserves (in US\$ million)	3,599	3,786	4,888	6,878	8,599	10,320	na
External debt/GDP (in per cent)	43.4	43.8	44.9	46.6	47.7	48.5	na
External debt/exports of goods and services (in per cent)	87.1	82.5	87.4	89.1	83.3	81.8	na

¹ Data from 2000 based on the population census. Previous data from the labour force survey have not been recalculated.

² General government expenditure includes net lending.

³ Average interest rate on demand deposits in litai.

⁴ Average interest rate on loans in litai.

⁵ Covers equity capital and reinvested earnings.

⁶ Includes non-resident currency and deposits and loans to foreign subsidiaries.

Moldova

Economic performance

The economy has slowed down significantly due to large external shocks to demand (wine) and supply (energy), but growth continues to be fuelled by remittance-financed consumption.

Real economy

According to preliminary estimates, the economy grew by 4 per cent in real terms during 2006, a marked slowdown on the 7.5 per cent growth rate recorded in 2005. The twin external shocks of the ban on Moldovan wine and agricultural exports to the Russian market and the doubling of the price paid for imported gas were the key causes of the economic slowdown.

The subsequent effect of the ban on the wine and food processing industries led to a decline in industrial production of 6.9 per cent year-on-year in 2006, compared with a 6.4 per cent increase in 2005. Nevertheless, domestic demand continues to rise, with private consumption remaining the main driver of economic growth.

Economic policies

While the Central Bank Law has been amended to make price stability its sole policy objective, the sharp increase in gas import prices poses a substantial challenge to the objective of single-digit inflation. Despite repeated Central Bank interventions, the deterioration of the external account led to high volatility on the foreign exchange market in 2006. The currency depreciated sharply in May-June 2006 but resumed a trend of appreciation in the second half of 2006. Fiscal policy has remained tight. Tax rate cuts were largely offset by higher indirect tax revenues. The consolidated budget recorded a deficit of only 0.3 per cent in 2006.

External sector

The external imbalances in the economy are growing. The trade deficit reached almost 50 per cent of GDP in 2006, strongly influenced by the trade restrictions imposed by Russia. Exports declined by 3.6 per cent while imports surged by 17.5 per cent. Remittances continue to provide major support for the current account, but the growth rate of remittances is falling.

Foreign direct investment provided some US\$ 225 million of financing in 2006, the highest level ever achieved in Moldova. In the absence of substantial new sovereign borrowing and following a restructuring agreement for the Paris Club debt in May 2006, the external public debt service eased substantially. Furthermore, in spite of the large external shocks, the Central Bank's foreign exchange reserves increased to US\$ 775 million in 2006, or almost three months of exports.

Outlook and risks

The twin external shocks of more expensive gas imports and the ban on wine and agricultural exports to Russia have had a strong negative impact on the Moldovan economy, highlighting the heavy reliance on remittances and agriculture. While a political agreement in November 2006 for lifting the wine export ban was reached and a five-year contract for gas delivery has been signed with Russia, economic growth in the short term will be further hindered by high energy costs, delays in the effective resuming of wine and agricultural exports to the Russian market and difficulties with diversifying export markets.

Long-term prospects, however, will depend on productivity gains and further expansion of export-oriented production capacity. This in turn requires effective implementation of reforms and improvements in the business environment to facilitate investment and the transfer of know-how.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure <i>(Percentage change in real terms)</i>							
GDP	6.1	7.8	6.6	7.3	7.1	4.0	5.0
Private consumption	6.1	5.9	18.5	6.2	10.1	7.0	na
Public consumption	-5.8	31.4	3.2	-16.2	6.3	5.3	na
Gross fixed capital formation	5.2	1.1	13.5	10.5	11.0	15.1	na
Exports of goods and services	15.7	18.9	19.2	11.0	17.7	2.8	na
Imports of goods and services	11.1	15.8	28.7	3.6	18.1	10.3	na
Industrial gross output	13.7	10.8	15.6	8.2	7.0	-6.9	na
Agricultural gross output	6.4	3.4	-13.6	20.8	0.8	-4.6	na
Employment <i>(Percentage change)</i>							
Labour force (end-year)	-2.3	-0.1	-8.8	-3.3	-2.2	na	na
Employment (end-year)	-1.0	0.4	-9.9	-3.4	-0.6	na	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year) ¹	7.3	6.8	7.9	8.0	6.4	7.3	na
Prices and wages <i>(Percentage change)</i>							
Consumer prices (annual average)	9.6	5.2	11.6	12.5	12.0	12.8	10.5
Consumer prices (end-year)	6.3	4.4	15.7	12.5	10.2	14.0	10.0
Producer prices (annual average)	12.3	4.7	7.8	5.6	5.3	12.2	na
Producer prices (end-year)	5.7	6.7	9.2	4.9	7.0	13.1	na
Gross average monthly earnings in economy (annual average)	33.3	27.2	28.8	23.8	19.5	28.6	na
Government sector <i>(In per cent of GDP)</i>							
General government balance ²	-0.3	-2.2	1.0	0.4	1.5	-0.3	-0.6
General government expenditure ²	29.4	31.5	33.1	35.1	37.0	40.8	na
General government debt ³	78.4	73.1	58.9	46.0	34.7	34.7	na
Monetary sector <i>(Percentage change)</i>							
Broad money (M2, end-year)	37.8	30.4	24.4	44.7	36.7	12.2	na
Domestic credit (end-year)	29.6	25.2	24.3	25.8	15.8	27.5	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	18.2	20.0	20.4	25.4	29.5	28.3	na
Interest and exchange rates <i>(In per cent per annum, end-year)</i>							
Refinancing rate	13.0	9.5	14.0	14.5	12.5	14.5	na
Interbank interest rate (up to 30-days maturity)	10.8	5.2	13.0	13.3	6.3	9.5	na
Deposit rate (1 year)	20.6	14.4	12.7	15.2	13.0	11.9	na
Lending rate (1 year)	28.5	23.1	19.2	21.0	18.9	18.2	na
<i>(Lei per US dollar)</i>							
Exchange rate (end-year)	13.1	13.8	13.2	12.5	12.8	12.9	na
Exchange rate (annual average)	12.9	13.6	13.9	12.3	12.6	13.1	na
External sector <i>(In millions of US dollars)</i>							
Current account	-25	-67	-130	-58	-241	-399	-364
Trade balance	-313	-378	-623	-754	-1,192	-1,591	-1,777
Merchandise exports	567	660	805	994	1,105	1,053	1,158
Merchandise imports	880	1,038	1,429	1,748	2,296	2,644	2,935
Foreign direct investment, net	102	132	71	146	199	223	210
Gross reserves, excluding gold (end-year)	229	269	302	470	597	775	na
External debt stock	1,675	1,815	1,925	1,898	2,080	2,482	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	2.5	2.5	2.1	2.7	2.6	3.0	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	13.4	13.8	12.2	10.2	5.8	6.4	11.9
Memorandum items <i>(Denominations as indicated)</i>							
Population (end-year, million) ⁴	3.6	3.6	3.6	3.4	3.4	3.4	na
GDP (in millions of lei)	19,052	22,556	27,619	32,032	37,652	44,069	51,131
GDP per capita (in US dollars)	407	458	547	767	883	988	na
Share of industry in GDP (in per cent)	21.8	20.2	20.5	20.5	17.0	na	na
Share of agriculture in GDP (in per cent)	22.4	21.0	18.3	17.5	14.2	na	na
Current account/GDP (in per cent)	-1.7	-4.0	-6.6	-2.2	-8.1	-11.9	-9.1
External debt - reserves (in US\$ million)	1,447	1,546	1,622	1,428	1,483	1,707	na
External debt/GDP (in per cent)	113.1	109.2	97.2	73.0	69.6	74.0	na
External debt/exports of goods and services (in per cent)	226.9	207.1	181.7	142.6	138.1	161.6	na

¹ According to ILO methodology.² General government includes the state, local government, social security and health care.³ Includes public and publicly guaranteed debt.⁴ From 1997 excludes Transnistria.

Mongolia

Economic performance

With poverty still widespread, growth prospects depend on continued structural reforms and the relationship with the international community.

Real economy

Real GDP is likely to have grown by 8.4 per cent in 2006, according to the latest release from the government. This is regarded as a strong performance, given the low growth rates during the past decade. Recent economic performance was supported by rapid export growth (owing to high commodity prices and increased gold production) and increased foreign direct investment. Domestic demand was fuelled by higher incomes and growing remittances. However, textile output continued to drop as quotas were phased out when the Multi Fibre Arrangement, which governed international textile trade from 1974, expired in January 2005.

Economic policies

The 2005 budget ended with a surplus of 3 per cent of GDP, the first time a surplus was recorded since 1992. The 2006 budget remained in surplus during the first nine months, with the latest data suggesting a surplus of 3.6 per cent of GDP.

Fiscal revenues were boosted by robust economic growth and commodity prices that were higher than the budget assumed. Revenues from the newly introduced windfall tax (particularly from the sale of copper) also contributed to higher revenues.

However, the authorities are committed to upping expenditure in 2007 under a budget that envisages substantial increases to public wages, capital investment (particularly for road building) and social benefits. In addition, as part of a policy of tax reform, new tax

legislation was approved by the parliament in July 2006 (effective from January 2007) to reduce a number of tax rates, including VAT and income tax. There is a risk these policies might result in the deterioration of fiscal conditions, but increased tax collection and a reduced informal economy will mitigate this risk.

External sector

External performance continued to improve during 2006, with export growth exceeding that of imports. Although the current account figures for 2006 have not yet been released, the substantially higher foreign exchange reserves (increased to 3.6 months of imports from 1.8 months two years ago) suggest that the current account surplus will have further increased during 2006.

The external debt stock has gradually risen from US\$ 825 million in 2000 to about US\$ 1,400 million in 2006. However, owing to rapid growth over this period, the ratio of external debt to GDP declined after 2003 and is estimated to have reached some 60 per cent by the end of 2006. The authorities are keen to borrow further to finance much-needed investment in infrastructure and to facilitate trade with China.

Outlook and risks

Despite solid economic growth in recent years, poverty remains widespread and the economy remains vulnerable to variations in weather conditions as well as fluctuations in global commodity prices (especially for oil, metals and textiles). Moreover, there is uncertainty over the impact of recent government policies, especially the changes to taxation and the mineral laws. The outlook also depends on the progress in structural reforms and the relationship with the international community. If these factors remain relatively stable, economic growth is expected to stay strong at around 5-7 per cent per year over the medium term.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	1.0	4.0	5.5	10.6	6.2	8.4	8.0
Industrial gross output	0.6	1.5	3.0	15.0	-0.9	9.1	na
Agricultural gross output	1.0	5.0	3.7	17.7	7.7	na	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year) ¹	2.9	3.3	6.4	2.7	1.5	2.0	na
Employment (end-year)	2.9	4.6	6.4	2.6	1.9	2.0	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year) ²	4.6	3.4	3.5	3.6	3.3	3.3	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	8.0	0.3	5.1	7.9	12.5	4.8	6.7
Consumer prices (end-year)	8.0	1.7	4.7	11.0	9.2	7.7	6.2
Producer prices (annual average)	na	na	na	na	na	na	na
Producer prices (end-year)	na	na	na	na	na	na	na
Gross average monthly earnings in economy (annual average)	4.7	9.4	22.0	16.0	23.5	10.0	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance ³	-5.4	-5.9	-4.2	-2.1	2.9	3.8	-2.0
General government expenditure ³	43.9	44.4	41.8	39.1	30.7	37.2	na
General government debt ⁴	90.1	100.3	120.2	99.9	76.0	58.0	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	27.9	42.0	49.6	20.5	37.1	32.3	na
Domestic credit (end-year)	6.1	42.9	147.3	23.1	22.2	46.0	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	29.7	37.9	47.7	44.0	46.7	46.5	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Central bank bills rate	8.6	9.9	11.5	15.8	4.4	6.6	na
Deposit rate ⁵	14.3	13.2	14.0	14.2	13.0	13.0	na
Lending rate ⁵	30.2	28.4	26.3	25.4	23.6	21.4	na
<i>(Togrog per US dollar)</i>							
Exchange rate (end-year)	1,101	1,122	1,168	1,212	1,221	1,165	na
Exchange rate (annual average)	1,098	1,108	1,143	1,185	1,205	1,180	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-77	-108	-99	27	28	146	-67
Trade balance	-170	-229	-199	-149	-155	16	-169
Merchandise exports	523	524	627	872	1,069	1,548	1,635
Merchandise imports	693	753	827	1,021	1,224	1,532	1,804
Foreign direct investment, net	43	78	132	129	258	329	449
Gross reserves, excluding gold (end-year)	207	271	178	208	333	626	na
External debt stock	854	978	1,287	1,360	1,307	1,316	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	3.0	3.4	2.0	1.8	2.5	3.9	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	5.3	4.5	34.0	7.4	2.5	2.2	2.3
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	2.5	2.6	2.6	2.6	2.6	2.7	na
GDP (in billions of togrog)	1,116	1,241	1,474	1,926	2,489	3,306	3,768
GDP per capita (in US dollars)	403	439	500	622	780	1,047	na
Share of industry in GDP (in per cent)	22.0	22.5	25.3	29.9	35.0	40.4	na
Share of agriculture in GDP (in per cent)	24.9	20.7	20.1	20.9	20.8	18.8	na
Current account/GDP (in per cent)	-7.6	-9.6	-7.6	1.6	1.4	5.2	-2.1
External debt - reserves (in US\$ million)	647	707	1,109	1,152	974	690	na
External debt/GDP (in per cent)	84.0	87.4	99.8	83.7	63.3	47.0	na
External debt/exports of goods and services (in per cent)	134.1	138.0	154.1	112.5	88.1	66.0	na

¹ Economically active population registered at the employment registration office.

² Officially registered. According to the 2003 population census, the real unemployment rate was 17 per cent.

³ General government revenue and expenditure include grants and net lending.

⁴ Direct and assumed debt of the central government and loans guaranteed by the government.

⁵ Weighted average over all maturities.

Montenegro

Economic performance

The government has made progress in reducing deficits, but future plans for tax reform and infrastructure spending must be costed carefully to ensure long-term fiscal and debt sustainability.

Real economy

In recent years, Montenegro's economy has enjoyed lower but more stable growth on average than Serbia's. Economic performance has improved steadily, and the past two years have been the best years since the start of transition in terms of the main macroeconomic indicators. Growth may even have exceeded 6 per cent last year, according to preliminary estimates. On the downside, however, labour market participation rates are low and poverty is a serious problem in much of the country.

Economic policies

Monetary policy is relatively straightforward in Montenegro. The country has no currency of its own, having unilaterally adopted the Deutschmark in 1999 as a parallel currency to the Yugoslav dinar, then as the sole legal currency in 2000, and subsequently the euro in 2002. The policy has been successful at delivering low inflation and there are no plans to introduce a domestic currency. Reserve requirements for banks were lowered in April 2006, with the standard rate for short-term deposits falling from 23 to 19 per cent.

The administering of fiscal policy has improved significantly in recent years. While total revenue has remained steady at around 40 per cent of GDP, expenditure has been reduced gradually to about 42 per cent of GDP, resulting in a fiscal deficit in 2005 (after grants) of 1.7 per cent of GDP. During 2006, strong revenue collection, especially from VAT, put the fiscal accounts on course for being almost balanced for the year.

External sector

According to Central Bank data, the current account recorded a deficit of 8.6 per cent of GDP in 2005. Preliminary indications for 2006 show a significant increase in the deficit to nearly 30 per cent of GDP, though with considerable uncertainty about data quality. While this seems high, it should be seen in the context of the extraordinary influx of foreign direct investment (FDI) in recent years. In 2005 it was €375 million, or nearly 20 per cent of GDP. A recent report from the Foreign Investment Agency estimated that FDI rose further in 2006 to around €500 million, on the back of further privatisations and investments in the banking sector and strong greenfield investment in tourism.

Looking ahead, the size of the current account deficit is likely to decline gradually. Montenegro has a relatively liberal trade regime and exports and services (mostly related to tourism) are forecast to rise sharply over the medium term. Montenegro's level of external debt is moderate at about 38 per cent of GDP, of which less than one-quarter is private. The debt service profile is relatively favourable, since most of the debt is on a long-term basis from international financial institutions and through bilateral arrangements.

Outlook and risks

As an independent country, Montenegro has the potential to grow rapidly over the medium term. The country has had some success already in attracting reputable foreign investors and these investors can play a crucial role not only in boosting growth in the future, but also in signalling to others that Montenegro is an attractive investment destination. The main risk is that the administrative capacity to implement a comprehensive reform programme may be insufficient to realise the full potential of the country.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
	<i>(Percentage change in real terms)</i>						
GDP	-0.2	1.7	1.5	3.7	4.1	6.3	6.0
Industrial gross output	-2.0	0.7	2.2	13.8	-1.9	1.1	na
Agricultural gross output	na	na	na	na	na	na	na
Employment							
	<i>(Percentage change)</i>						
Labour force (end-year)	-1.3	-0.5	-2.7	-3.3	-4.8	0.0	na
Employment (end-year)	0.0	-0.7	2.1	0.0	0.7	10.4	na
	<i>(In per cent of labour force)</i>						
Unemployment (end-year)	36.5	36.7	33.5	31.3	27.3	19.7	na
Prices and wages							
	<i>(Percentage change)</i>						
Consumer prices (annual average)	22.6	18.2	6.7	2.2	2.6	3.0	2.6
Consumer prices (end-year)	26.6	9.3	6.0	1.6	2.5	2.8	2.5
Producer prices (annual average)	14.5	4.6	2.9	5.8	2.1	na	na
Gross average monthly earnings in economy (annual average)	16.8	30.5	17.8	12.2	7.6	na	na
Government sector							
	<i>(In per cent of GDP)</i>						
General government balance	-4.0	-3.8	-4.9	-2.6	-1.7	-0.3	-0.5
General government expenditure	39.9	37.3	45.6	43.3	42.0	41.9	na
Monetary sector							
	<i>(Percentage change)</i>						
Broad money (M2, end-year)	na	na	na	16.3	49.6	87.4	na
Domestic credit (end-year)	na	na	na	42.4	10.6	135.9	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	na	na	33.1	34.9	48.8	83.5	na
Interest and exchange rates							
	<i>(In per cent per annum, end-year)</i>						
Discount rate	na	na	na	na	na	na	na
Money market rate	na	na	na	na	na	na	na
Deposit rate	na	na	na	na	na	na	na
Lending rate (long-term)	na	na	na	na	10.8	9.1	na
	<i>(Euros per US dollar)</i>						
Exchange rate (official, end-year)	1.1	1.0	0.8	0.7	0.8	0.8	na
Exchange rate (official, annual average)	1.1	1.1	0.9	0.8	0.8	0.8	na
External sector							
	<i>(In millions of US dollars)</i>						
Current account	-169	-158	-116	-149	-180	-657	-606
Trade balance	-436	-402	-405	-518	-640	-1,197	-1,289
Merchandise exports	211	305	306	561	549	603	711
Merchandise imports	647	707	711	1,079	1,189	1,800	2,000
Foreign direct investment, net	10	84	44	63	474	550	161
Gross reserves, excluding gold (end-year)	na	na	56	75	219	251	na
External debt stock	na	700	na	na	822	867	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	na	na	0.8	0.7	1.9	1.5	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	na	4.2	4.8	3.4	2.9	3.0	na
Memorandum items							
	<i>(Denominations as indicated)</i>						
Population (end-year, million)	0.7	0.7	0.7	0.7	0.7	0.7	na
GDP (in billions of euros)	1.24	1.30	1.39	1.54	1.64	1.80	1.97
GDP per capita (in US dollars)	1,688	1,857	2,381	2,889	3,147	3,426	na
Share of industry in GDP (in per cent)	na	na	na	na	na	na	na
Share of agriculture in GDP (in per cent)	na	na	na	na	na	na	na
Current account/GDP (in per cent)	-15.2	-12.9	-7.4	-7.8	-8.6	-29.1	-22.9
External debt - reserves (in US\$ million)	na	na	na	na	603	615	na
External debt/GDP (in per cent)	na	57.1	na	na	39.6	38.3	na
External debt/exports of goods and services (in per cent)	na	148.6	na	na	86.7	80.2	na

Poland

Economic performance

Inflation remains low while strong investment flows and expanding consumption contribute to robust GDP growth. However, the unemployment rate is still the highest in the European Union.

Real economy

Real GDP growth increased to 6.1 per cent in 2006, up from 3.6 per cent in 2005, and is expected to stay at a similar level in 2007. Despite significant investment growth at around 20 per cent, the economy's overall performance is mainly due to high domestic consumption. Industrial production grew by 7.7 per cent and construction expanded by 14.6 per cent in 2006. Strong GDP growth is yet to alleviate the strong regional disparities. The unemployment rate declined to 11.8 per cent in February 2007 from 15.1 per cent a year earlier, but it remains the highest in the European Union.

Economic policies

The general government deficit fell to an estimated 3.9 per cent of GDP in 2006 from 4.3 per cent in 2005 (including full costs of pension reforms) and is expected to further decline in 2007 on the back of strong economic growth. Gross total government debt increased from 47.1 per cent of GDP in 2005 to 47.8 per cent of GDP in 2006, owing to lower privatisation receipts and higher state contributions to the pension system.

The annual consumer price index increased to 2.5 per cent in March 2007, matching the Central Bank's 2.5 per cent target rate. In response to inflationary pressures stimulated by fast economic growth and wage increases, the Monetary Policy Council increased the policy rate from 4 per cent to 4.25 per cent in April 2007. This move came after a long series of policy rate cuts; between March 2005

and February 2006 the Monetary Policy Council reduced the policy rate in seven steps from 6.5 per cent to 4 per cent, an historical low. The zloty has appreciated against the euro by almost five per cent since September 2007.

External sector

The current account deficit in 2006 amounted to €6.3 billion, which constituted 2.3 per cent of GDP. This was above the 1.7 per cent deficit in 2005. Exports rose in 2006 by 14.5 per cent while imports were up by 15.8 per cent, confirming the continued growth of domestic demand. Foreign direct investment (FDI) increased from €7.7 billion in 2005 to a record-breaking €11 billion in 2006, supported by stronger economic growth and EU membership. External debt was at around 49 per cent of GDP at the end of 2006. International reserves remained at around 4.1 months of imports of goods and services in the first quarter of 2007. The current account deficit was covered comfortably by inflows of FDI, complemented by sizeable portfolio inflows.

Outlook and risks

Given strong economic growth and expected improvements in infrastructure, the outlook remains positive. The political situation remains the key source of uncertainty in the near future. Slowdown in privatisation, political appointments to state-owned companies and lack of reforms and coherent policies towards government-controlled sectors may hamper restructuring. Fiscal reforms will become increasingly urgent, as the costs of pension reform have to be included in the headline general government deficit, while any slowdown in growth will expose structural weaknesses in government finances. Entry into the eurozone does not appear an immediate priority for the current government.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	1.2	1.4	3.9	5.3	3.6	6.1	6.0
Private consumption	2.3	3.4	2.0	4.4	2.0	5.2	na
Public consumption	2.7	1.4	4.9	3.1	5.2	3.9	na
Gross fixed capital formation	-9.7	-7.2	3.3	14.7	1.4	14.1	na
Exports of goods and services	3.1	4.8	14.2	14.0	8.0	14.5	na
Imports of goods and services	-5.3	2.7	9.3	15.2	4.7	15.8	na
Industrial gross output ¹	-0.8	-0.5	7.8	10.5	3.9	9.2	na
Agricultural gross output	6.6	1.0	2.7	6.8	-2.3	6.7	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	-0.4	-1.0	-3.4	0.7	1.0	-1.7	na
Employment (end-year)	-3.4	-2.4	-0.1	2.6	2.7	3.9	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year) ²	19.1	20.2	19.7	18.2	16.9	12.2	na
Prices and wages³							
<i>(Percentage change)</i>							
Consumer prices (annual average)	5.5	1.9	0.8	3.5	2.1	1.0	2.0
Consumer prices (end-year)	3.6	0.8	1.7	4.4	0.7	1.4	2.2
Producer prices (annual average)	1.7	1.2	2.7	7.1	0.8	2.2	na
Producer prices (end-year)	-0.3	2.3	3.7	5.4	0.2	2.4	na
Gross average monthly earnings in economy (annual average)	7.2	3.5	3.2	4.0	4.0	4.1	na
Government sector							
<i>(In per cent of GDP)</i>							
General government balance	-5.1	-5.0	-6.3	-5.7	-4.3	-3.9	-3.4
General government expenditure	43.7	44.2	44.6	42.5	43.3	44.9	na
General government debt	37.6	42.2	47.1	45.7	47.1	47.8	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	9.2	-2.4	5.5	7.3	11.0	15.8	na
Domestic credit (end-year) ⁴	9.3	2.1	7.9	3.3	13.0	21.8	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	42.1	39.6	40.1	39.2	41.0	44.1	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Rate on 28-day open market operations ⁵	11.5	6.8	5.3	6.5	4.5	4.0	na
3-months WIBOR	12.3	6.7	5.6	6.7	4.6	4.2	na
Deposit rate ⁶	8.0	4.2	2.9	3.7	2.7	2.5	na
Lending rate ⁶	16.8	11.6	9.6	10.3	8.6	7.8	na
<i>(Zlotys per US dollar)</i>							
Exchange rate (end-year)	4.0	3.9	3.8	3.0	3.3	2.9	na
Exchange rate (annual average)	4.1	4.1	3.9	3.7	3.2	3.1	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-5,376	-5,009	-4,599	-10,677	-5,105	-7,926	-8,800
Trade balance	-7,661	-7,249	-5,725	-5,622	-2,766	-4,953	na
Merchandise exports	41,663	46,742	61,007	81,862	96,395	117,294	na
Merchandise imports	49,324	53,991	66,732	87,484	99,161	122,247	na
Foreign direct investment, net	5,804	3,901	4,284	12,097	6,578	9,656	10,000
Gross reserves, excluding gold (end-year)	25,649	28,660	32,787	35,335	40,874	46,381	na
External debt stock	71,971	84,875	106,961	129,422	132,685	166,800	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	5.3	5.4	5.1	4.2	4.3	4.0	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	13.0	11.7	8.9	8.3	9.2	na	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	38.6	38.2	38.2	38.2	38.1	38.0	na
GDP (in billions of zlotys)	780	809	843	925	983	1,058	1,137
GDP per capita (in US dollars)	4,931	5,185	5,677	6,626	7,970	8,969	na
Share of industry in GDP (in per cent)	27.0	26.5	26.6	28.0	28.1	na	na
Share of agriculture in GDP (in per cent)	3.2	2.7	2.6	2.5	2.5	na	na
Current account/GDP (in per cent)	-2.8	-2.5	-2.1	-4.2	-1.7	-2.3	-3.0
External debt - reserves (in US\$ million)	46,321	56,215	74,174	94,088	91,811	120,419	na
External debt/GDP (in per cent)	37.8	42.8	49.3	51.2	43.7	48.9	na
External debt/exports of goods and services (in per cent)	140.0	149.5	148.2	135.8	117.8	121.0	na

¹ Industrial production.² Calculated according to Eurostat methodology (ESA95).³ As reported by the Central Statistical Office.⁴ Includes domestic credit to non-financial sector and general government.⁵ In 2003 and 2004 the rate refers to 14-day open market operations, from January 2005 it refers to 7-day open market operations.⁶ Weighted average, as reported by the National Bank of Poland.

Romania

Economic performance

Although direct taxation has been reduced, the capital account liberalised and formal inflation targeting introduced, these measures have not been matched by appropriate economic policies.

Real economy

Real growth slowed to 4.1 per cent in 2005 from a record rate of 8.4 per cent in 2004, but accelerated again to 7.7 per cent in 2006, showing signs of overheating. The recovery in 2006 reflected stronger growth of private consumption and investment, which rose by 12.4 and 15.6 per cent respectively in the first three quarters of 2006 on a year-on-year basis.

On the supply side, services increased by 8.5 per cent, agriculture increased by 5.2 per cent and industrial production grew by 8 per cent during the first three quarters of 2006. A slowdown in productivity growth in 2005 coupled with strong wage growth and an appreciating currency has caused a decline in competitiveness margins.

Economic policies

Year-end inflation has gradually fallen from 9.3 per cent in 2004 to 8.6 per cent in 2005, 4.9 per cent in 2006 and 3.6 per cent in March 2007. This fall has been aided by significant currency appreciation, the postponement of administered price increases and decreasing agricultural prices. The Central Bank's official inflation target for 2007 is set at 4 per cent.

The government decided to increase the 2006 budget deficit target from 0.5 per cent of GDP to 2.5 per cent in June 2006, and it finished with a 1.9 per cent deficit at the end of the year (ESA95 basis). These increases were mainly to finance investment needs in infrastructure and a 16.8 per cent rise in state pensions and public sector wages. As the budget ran a 2.04 per cent surplus in

the first 10 months of 2006, this implied a substantial spending increase in the last two months of 2006. Budget plans for 2007 imply a further fiscal loosening, with a budget deficit of 2.8 per cent of GDP, but this could be an underestimate as the budget does not include any allocation for statutory wage increases.

External sector

In 2006 the current account deficit widened to 11.6 per cent of GDP from 10 per cent of GDP in 2005. Nevertheless, exports continue to grow strongly at about 9 per cent in real terms. Foreign direct investment (FDI) covered 83 per cent of the external deficit. However, future FDI flows are hard to predict, given that €2.2 billion out of the total €9.1 billion from 2006 was linked to the privatisation of Banca Comerciala Romana. Total medium and long-term debt decreased to 28.3 per cent of GDP from 31.1 per cent in 2005, but the debt composition shifted in favour of more costly short-term private debt, pushing the debt service up to 6.2 per cent of GDP from 6.0 per cent in 2005.

Outlook and risks

Increased investment stimulated by EU accession and the completion of privatisation and enterprise restructuring should help to maintain strong economic growth. However, consistent monetary and fiscal policies are required to deter inflationary pressures and address concerns about the sustainability of the external deficit and the loss of competitiveness. The latter reflects the appreciation of the currency, slower productivity growth and strong wage growth. Real appreciation of the currency is expected to continue over the medium term, and a sustained commitment to structural reforms will be needed to improve productivity.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure <i>(Percentage change in real terms)</i>							
GDP ¹	5.7	5.1	5.2	8.5	4.1	7.7	6.0
Private consumption	6.9	5.3	8.5	14.1	9.8	na	na
Public consumption	3.6	3.0	7.5	5.0	4.4	na	na
Gross fixed capital formation	10.1	8.2	8.6	10.8	13.0	na	na
Exports of goods and services	12.1	17.5	8.4	13.9	7.6	na	na
Imports of goods and services	18.4	12.0	16.0	22.1	17.2	na	na
Industrial gross output, unadjusted series	8.3	4.3	3.1	5.3	2.1	3.9	na
Agricultural gross output	22.1	-3.0	7.6	16.8	-13.9	4.9	na
Employment <i>(Percentage change)</i>							
Labour force (end-year)	-1.2	-12.0	-1.6	0.4	-1.1	na	na
Employment (end-year) ²	-0.6	-13.7	-0.1	-0.7	-0.1	na	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year) ³	6.6	8.4	7.0	6.3	5.9	5.2	na
Prices and wages <i>(Percentage change)</i>							
Consumer prices (annual average)	34.5	22.5	15.3	11.9	9.5	6.6	7.0
Consumer prices (end-year)	30.3	17.8	14.1	9.3	8.6	4.9	6.5
Producer prices (annual average)	40.3	24.5	19.6	18.6	12.3	11.4	na
Producer prices (end-year)	32.6	20.1	20.0	16.3	10.4	11.6	na
Gross average monthly earnings in economy (annual average)	48.9	27.3	23.6	22.5	17.0	18.9	na
Government sector <i>(In per cent of GDP)</i>							
General government balance ⁴	-3.3	-2.0	-1.5	-1.5	-1.4	-1.9	-2.5
General government expenditure	33.3	32.3	30.9	31.1	31.0	32.3	na
General government debt ⁴	23.2	23.8	21.5	18.8	15.8	12.4	na
Monetary sector <i>(Percentage change)</i>							
Broad money (M2, end-year)	46.2	38.1	23.3	39.9	33.9	29.4	na
Domestic credit (end-year)	34.9	38.7	49.0	33.0	43.7	53.0	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	23.2	24.7	23.3	26.2	30.0	32.6	na
Interest and exchange rates <i>(In per cent per annum, end-year)</i>							
Discount rate	35.0	29.0	20.4	18.0	7.5	8.8	na
1-week BUBOR	36.6	20.5	22.3	17.6	7.6	8.6	na
Deposit rate (average)	26.2	18.4	10.8	11.3	6.2	4.8	na
Lending rate (average)	45.7	36.7	26.2	25.8	19.2	13.9	na
<i>(Lei per US dollar)</i>							
Exchange rate (end-year) ⁵	3.2	3.4	3.3	2.9	3.1	2.6	na
Exchange rate (annual average) ⁵	2.9	3.3	3.3	3.3	2.9	2.8	na
External sector <i>(In millions of US dollars)</i>							
Current account	-2,349	-1,573	-3,455	-6,333	-10,054	-13,754	-14,625
Trade balance	-2,969	-2,613	-4,465	-6,611	-9,873	-14,770	-14,725
Merchandise exports	11,385	13,869	17,627	23,518	28,149	32,469	40,275
Merchandise imports	14,354	16,482	22,092	30,130	38,022	47,239	55,000
Foreign direct investment, net	1,154	1,080	2,156	6,368	6,587	11,430	9,600
Gross reserves, excluding gold (end-year)	3,960	6,145	8,050	14,806	20,995	28,061	na
External debt stock	13,048	16,886	22,498	29,876	36,201	41,816	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	2.9	3.9	3.9	5.2	5.8	6.2	na
<i>(In per cent of exports of goods and services)</i>							
Debt service ⁶	21.1	18.9	16.3	18.6	18.2	19.5	na
Memorandum items <i>(Denominations as indicated)</i>							
Population (end-year, million)	22.4	21.8	21.7	21.7	21.7	21.7	na
GDP (in billions of lei) ⁵	117	151	198	246	288	342	388
GDP per capita (in US dollars)	1,793	2,103	2,738	3,484	4,549	5,617	na
Share of industry in GDP (in per cent)	28.2	28.4	25.0	24.7	24.1	na	na
Share of agriculture in GDP (in per cent)	13.3	11.3	11.6	12.8	8.5	na	na
Current account/GDP (in per cent)	-5.8	-3.4	-5.8	-8.4	-10.2	-11.3	-10.2
External debt - reserves (in US\$ million)	9,088	10,742	14,448	15,070	15,207	13,755	na
External debt/GDP (in per cent)	32.5	36.8	37.8	39.6	36.6	34.3	na
External debt/exports of goods and services (in per cent)	97.9	104.2	109.0	110.1	109.3	106.1	na

¹ From 2001 growth rates have been calculated by the National Statistical Institute using a new methodology that complies with European standards of national accounting.

² Change of definition in employment excludes economic units with up to three employees. ³ Officially registered unemployed. According to the ILO methodology, the rate of unemployment in Romania is lower than the official one.

⁴ Calculated according to Eurostat methodology (ESA95).

⁵ The Romanian lei was redenominated in July 2005. All data have been converted to new lei (RON).

⁶ Debt service payments on private and public external debt.

Russia

Economic performance

Long-term growth will need to be driven by productivity and innovation and will therefore depend on a revival of the liberal reform course.

Real economy

Economic developments in 2006 have closely met the authorities' targets and exceeded projections made earlier in the year. GDP grew by 6.7 per cent, driven by investment (13.7 per cent) and consumption (10.7 per cent). If sustained, the recent strength in these areas (particularly in consumer-oriented sectors such as services and construction) could significantly bolster future growth.

The economy is increasingly encountering capacity constraints, which explains the level of imports (real growth of about 21 per cent in 2006), while exports suffer from poor growth in the extractive sector (which grew at only 2.3 per cent). Meeting the year-end target for the consumer price index has been a further success for the authorities, and inflation has further fallen in the first quarter of this year.

Economic policies

Despite the proximity of elections, fiscal policy remained relatively prudent in 2006, with shares in GDP of the federal surplus (at 7.5 per cent) and expenditures (at 16.5 per cent) roughly unchanged from 2005.

The Oil Stabilisation Fund has proved to be a valuable instrument in saving budgetary surpluses. It reached about 9 per cent of GDP at the end of the year, and now represents an important buffer against any future shocks to the public accounts. The budget that is currently under consideration by the Duma seeks to further strengthen medium-term fiscal planning and the governance of fiscal revenues from the hydrocarbon sector.

The very substantial capital inflows and an as yet modest fiscal loosening will put further pressure on prices and exacerbate pressures on the Central Bank to allow a further appreciation of the rouble. To date, the targeted exchange rate stability has been reflected in a rapid build-up of reserves (to currently over US\$ 320 billion) and an expansion of the domestic money supply (by 41 per cent in 2006), though this may change as the exchange rate target is adjusted periodically.

External sector

Despite the substantial drop in oil prices in the second half of 2006, Russia's current account recorded a surplus of just under 10 per cent of GDP for last year. Reduced investor perceptions of country risk and buoyant domestic demand have fuelled inward foreign direct investment to about 3 per cent of GDP, which is now directed to a wider range of Russia's regions and sectors. Following the recent liberalisation of Russia's capital account, net private capital flows turned sharply positive (to over US\$ 41 billion) – a first since the early days of the Soviet era.

Outlook and risks

Growth in 2007 is likely to be roughly at last year's levels. In the lead-up to the elections, fiscal expenditures – particularly on public sector wages and the 'national projects' – will support growth, as will consumption and investment. Despite a slight easing in oil prices, capital flows will sustain liquidity in the economy, and monetary authorities will place greater emphasis on price stability by allowing further appreciation of the currency.

As political uncertainty will figure more prominently in investors' minds closer to the elections, capital flows and domestic investment may become more volatile. The key risk, however, is that if the next President does not initiate further structural reform, growth will slow as competitive pressures, energy price increases and capacity constraints take their toll.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	5.1	4.7	7.3	7.1	6.4	6.7	6.9
Private consumption	9.5	8.5	7.5	12.1	12.7	11.2	na
Public consumption	-0.8	2.6	2.2	2.1	2.2	4.2	na
Gross fixed capital formation	10.2	2.8	12.8	12.6	8.3	13.9	na
Exports of goods and services	4.2	10.3	12.5	11.8	6.4	7.2	na
Imports of goods and services	18.7	14.6	17.7	23.3	17.0	21.7	na
Industrial gross output	4.9	3.7	7.0	7.3	4.0	3.9	na
Agricultural gross output	7.5	1.5	5.5	3.0	1.5	1.7	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	-2.0	1.2	0.8	1.5	0.6	0.0	na
Employment (end-year)	-0.3	2.4	0.1	2.0	1.2	0.2	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	8.7	9.0	8.7	7.6	7.7	6.9	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	21.6	15.7	13.7	10.9	12.7	9.7	9.0
Consumer prices (end-year)	18.6	15.0	12.0	11.7	10.9	9.0	8.0
Producer prices (annual average)	19.2	14.0	16.6	22.0	18.2	12.6	na
Producer prices (end-year)	10.7	17.1	12.5	28.8	13.4	10.4	na
Gross average monthly earnings in economy (annual average)	47.3	36.7	24.4	24.0	25.3	25.4	na
Government sector¹							
<i>(In per cent of GDP)</i>							
General government balance	2.7	0.6	1.1	5.0	8.1	9.2	4.2
General government expenditure	34.6	37.1	35.7	33.6	31.6	31.3	na
General government debt	48.2	41.4	32.4	25.9	16.5	9.0	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	na	na	na	33.7	36.3	40.5	na
Domestic credit (end-year)	27.0	26.5	26.5	18.7	2.7	28.4	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	na	na	30.0	31.6	33.3	38.1	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Central Bank refinancing rate (uncompounded)	25.0	21.0	16.0	13.0	12.8	11.7	na
Treasury bill rate (all maturities)	14.7	15.0	4.5	4.5	3.9	na	na
Deposit rate	5.2	4.3	4.4	3.8	3.6	4.1	na
Lending rate	16.5	15.0	12.4	10.0	11.1	10.5	na
<i>(Roubles per US dollar)</i>							
Exchange rate (end-year)	30.1	31.8	29.5	27.9	28.8	26.3	na
Exchange rate (annual average)	29.2	31.3	30.7	28.8	28.3	27.2	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	33,934	29,116	35,845	58,592	69,401	94,467	52,083
Trade balance	48,120	46,335	60,493	85,825	103,418	124,306	99,027
Merchandise exports	101,884	107,301	135,929	183,207	268,136	334,266	350,979
Merchandise imports	53,764	60,966	75,436	97,382	164,718	209,960	251,952
Foreign direct investment, net	216	-72	-1,769	1,662	1,790	10,753	4,500
International reserves, excluding gold (end-year)	32,542	44,054	73,175	120,809	175,900	295,000	na
External debt stock	151,122	169,900	199,400	225,000	257,200	309,700	na
<i>(In months of imports of goods and services)</i>							
International reserves, excluding gold (end-year)	5.3	6.3	8.6	11.1	10.3	13.8	na
<i>(In per cent of exports of goods and services)</i>							
Debt service ²	28.0	32.1	35.3	30.0	34.2	35.0	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	144.4	145.2	144.9	144.9	144.1	na	na
GDP (in billions of roubles)	8,944	10,818	13,201	16,779	21,665	26,621	31,304
GDP per capita (in US dollars)	2,123	2,377	2,968	4,019	5,312	na	na
Share of industry in GDP (in per cent)	36.5	34.8	34.9	36.0	na	na	na
Share of agriculture in GDP (in per cent)	6.8	5.7	5.4	5.0	na	na	na
Current account/GDP (in per cent)	11.1	8.4	8.3	10.1	9.1	9.7	4.4
External debt - reserves (in US\$ million)	118,580	125,846	126,225	104,191	81,300	14,700	na
External debt/GDP (in per cent)	49.3	49.2	46.4	38.6	33.6	31.7	na
External debt/exports of goods and services (in per cent)	133.4	140.5	131.2	110.6	87.9	84.9	na

¹ General consolidated government includes the federal, regional and local budgets and extra-budgetary funds, and excludes transfers.

² Interest and amortisation

Serbia

Economic performance

Growth remains strong and inflation has returned to single-digit levels on the back of very tight monetary policies, but high public expenditure and the large current account deficit need to be addressed to ensure further development of the private sector.

Real economy

The Serbian economy has grown strongly over the past couple of years. Real growth in 2005 was around 6.3 per cent and remained close to 6 per cent in 2006, according to preliminary figures. Industrial output for the year as a whole rose by nearly 5 per cent. Several industries that have benefited in recent years from substantial foreign investment, such as tobacco and base metals, are growing particularly strongly. On the demand side, the continued rapid expansion of credit is fuelling domestic demand, but export growth has remained strong, reaching 20 per cent year-on-year in the first half of 2006.

Economic policies

The government has had considerable success over the past two years in boosting fiscal revenues. Nevertheless, the overall size of government spending remains high at over 40 per cent of GDP and, while subsidies to state- and socially-owned companies are on a downward trend, the previous government's plan for a programme of major capital investment of more than €1 billion may, if implemented, put pressure on spending targets.

Meanwhile, the Central Bank continues to address the problem of high inflation. The situation eased somewhat during 2006 – annual inflation fell from 17.5 per cent at the end of 2005 to below 7 per cent by the end of 2006, while the nominal exchange rate has appreciated slightly over the period. However, the continued strong growth of wages may add to inflationary pressures. So far, the Central Bank's main tools to combat inflation have been the repo rate and reserve requirements; the latter have been raised several times over the past few years.

External sector

Strong export growth and continued high inflows of transfers have helped to keep a lid on the current account deficit, although it is still running at more than 10 per cent of GDP in 2006, according to preliminary estimates. Flows of inward foreign investment remain very strong and are estimated to be in excess of €3 billion in 2006, about half of which was accounted for by the sale of Mobi63 to Telenor of Norway. The country's overall debt levels are moderate, but private debt is rising rapidly.

Servicing of the external public debt will continue to be a challenge over the next few years, with debt service requirements for 2006 estimated at almost US\$ 2 billion (and projected to rise further in 2007), compared with less than US\$ 1 billion two years ago.

Outlook and risks

The Serbian economy has strong growth potential, but the risks that this potential will not be realised are high in the short term. The main risks are that unresolved issues about the country's future, notably concerning the status of Kosovo, will distract attention from urgent economic reforms and progress towards EU integration and, if tensions were to escalate, could deter foreign investment. A key short-term macroeconomic risk is that credit to the private sector could be squeezed by a combination of high public investment and spending and the ongoing efforts by the Central Bank to dampen inflation.

Kosovo

Overall GDP growth has been low or non-existent over the last few years. Reliable data on economic activity in Kosovo are scarce but, according to tentative estimates, there was some upturn in 2006, driven by a robust private sector. The current estimate is that real GDP rose by 3 per cent last year.

Prices have been falling on average for several years, with the de facto adoption of the euro providing an important anchor. However, there are serious challenges on both the fiscal and external accounts. Kosovo is currently not servicing any external debt, but may inherit a substantial amount of debt once the status issue is resolved, possibly up to €900 million, which might create constraints for new public sector borrowing and will increase the importance of prioritising among many vital projects.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
	<i>(Percentage change in real terms)</i>						
GDP	5.1	4.5	2.4	9.3	6.3	5.7	6.0
Industrial gross output	0.0	1.7	-2.7	7.5	0.0	4.7	na
Agricultural gross output	23.2	3.0	-6.0	19.4	-5.2	na	na
Employment							
	<i>(Percentage change)</i>						
Labour force (end-year)	1.8	1.4	2.6	0.3	2.2	-1.1	na
Employment (end-year)	0.2	-1.7	-1.3	0.5	0.9	-2.3	na
	<i>(In per cent of labour force)</i>						
Unemployment (end-year)	26.8	29.0	31.7	31.6	32.4	33.2	na
Prices and wages							
	<i>(Percentage change)</i>						
Consumer prices (annual average)	91.1	21.2	11.3	9.5	17.2	12.5	6.0
Consumer prices (end-year)	39.0	14.2	7.6	13.4	17.5	6.6	5.0
Producer prices (annual average)	na	na	na	na	na	na	na
Gross average monthly earnings in economy (annual average)	129.6	51.7	25.3	23.7	24.1	24.4	na
Government sector							
	<i>(In per cent of GDP)</i>						
General government balance	-4.9	-8.3	-3.4	0.0	0.9	2.7	0.9
General government expenditure	43.8	51.8	46.7	45.3	43.1	42.1	na
Monetary sector							
	<i>(Percentage change)</i>						
Broad money (M2, end-year)	107.0	62.9	12.6	17.1	31.4	47.3	na
Domestic credit (end-year)	19.8	-32.7	23.4	52.6	40.7	3.8	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	9.6	12.1	11.4	11.2	11.8	14.7	na
Interest and exchange rates							
	<i>(In per cent per annum, end-year)</i>						
Discount rate	16.4	9.5	9.0	8.5	8.5	8.5	na
Money market rate	55.3	32.2	27.1	16.3	19.2	15.3	na
Deposit rate	6.4	3.8	2.1	2.0	1.5	1.9	na
Lending rate (long-term)	34.5	19.7	15.5	15.5	16.8	16.6	na
	<i>(Dinars per US dollar)</i>						
Exchange rate (official, end-year)	67.7	59.0	54.6	57.9	72.2	62.0	na
Exchange rate (official, annual average)	66.8	64.2	57.5	58.7	67.2	67.0	na
External sector							
	<i>(In millions of US dollars)</i>						
Current account	-528	-2,502	-3,122	-3,302	-2,418	-3,700	-2,160
Trade balance	-2,834	-4,111	-5,565	-6,643	-5,563	-6,200	-6,000
Merchandise exports	2,003	2,075	2,477	3,726	4,647	6,500	7,000
Merchandise imports	4,837	6,186	8,042	10,369	10,210	12,700	13,000
Foreign direct investment, net	165	475	1,360	966	1,481	4,400	3,000
Gross reserves, excluding gold (end-year)	1,169	2,280	3,550	4,245	5,843	11,888	na
External debt stock	11,125	11,230	13,575	14,099	15,467	19,606	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	2.7	4.0	4.9	4.4	5.9	9.6	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	3.9	6.3	12.9	18.8	27.4	22.9	na
Memorandum items							
	<i>(Denominations as indicated)</i>						
Population (end-year, million)	7.5	7.5	7.5	7.5	7.5	7.5	na
GDP (in billions of dinars)	708	919	1,095	1,310	1,630	1,926	2,150
GDP per capita (in US dollars)	1,413	1,910	2,542	2,977	3,234	3,835	na
Share of industry in GDP (in per cent)	27.2	34.3	na	na	na	na	na
Share of agriculture in GDP (in per cent)	17.2	19.3	na	na	na	na	na
Current account/GDP (in per cent)	-5.0	-17.5	-16.4	-14.8	-10.0	-12.9	-6.2
External debt - reserves (in US\$ million)	9,956	8,950	10,025	9,854	9,624	7,718	na
External debt/GDP (in per cent)	105.0	78.4	71.2	63.1	63.8	68.2	na
External debt/exports of goods and services (in per cent)	405.6	385.4	389.6	272.1	246.9	228.0	na

Slovak Republic

Economic performance

Buoyant exports and household consumption are supporting growth, but the authorities need to ensure the public finances remain sound to meet the government's goal of adopting the euro in 2009.

Real economy

Overall GDP grew by an impressive 8.3 per cent in 2006, up from 6.1 per cent in 2005. This year's GDP growth is projected to continue to be high, at 8.4 per cent, on the back of increased car production capacity. Private consumption is expected to slow in the years to come owing to higher interest rates, but economic growth will remain on track due to fast export and investment growth.

Economic policies

Since November 2005 the Slovak koruna has participated in the Exchange Rate Mechanism II (ERM II). In June and July 2006 the initial lack of commitment to adopting the euro and the increased global risk aversion towards emerging markets at the time led to a shift in market sentiment, and international investors subsequently sold the Slovak koruna.

Since August the new government has been striving to regain confidence among foreign investors, and cabinet members have publicly committed themselves to adopting the euro in 2009. Most importantly, the 2007 budget, approved in December 2006, contains a consolidation path that is widely perceived as credible. The aim for the budget deficit is 2.9 per cent of GDP. If the government – which usually outperforms its own budget targets – manages to achieve this goal, it will fulfil the Maastricht criterion of a government deficit not higher than 3 per cent of GDP. Partly in response to the new budget, the koruna has recently appreciated well above its original ERM II parity and during the weekend of 17 March 2007 the ERM II parity was revalued by 8.5 per cent to 35.4424 koruna per euro.

Although high inflation may still endanger the Slovak Republic's meeting the Maastricht inflation criterion, which currently stands at around 2.9 per cent, the recent revaluation has improved the prospects for euro adoption in 2009. During the second half of 2006, the inflation rate slowed to 3.7 per cent year-on-year in December (Harmonised Index of Consumer Prices definition) and is expected to be around 2.7 per cent at the end of 2007 – above the official target of 2 per cent but probably just below the Maastricht reference value. As domestic demand and inflation were both higher than expected, the Central Bank increased the policy rate in January 2006 from 3 per cent to 4.75 per cent.

External sector

After a high current account deficit of 8.6 per cent of GDP in 2005, the deficit slowly came down to 7 per cent of GDP last year and a projected 4.1 per cent this year. Underlying the narrowing of the current account is a gradual reduction in the trade deficit that mainly reflects increasing car exports. Foreign direct investment continues to cover around 50 per cent of the current account deficit.

Outlook and risks

The new government has underlined its commitment to adopting the euro in 2009. To achieve this, inflation will have to be contained and plans for higher public spending (higher social transfers and higher farm subsidies) as well as revenue cuts (tax breaks for the poor, re-introduction of a lower VAT rate) may have to be restricted.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection	
Output and expenditure¹	<i>(Percentage change in real terms)</i>							
GDP	3.2	4.1	4.2	5.4	6.1	8.3	8.4	
Private consumption	5.2	5.2	0.2	4.2	7.0	6.3	na	
Public consumption	5.2	5.2	3.9	2.0	0.5	5.0	na	
Gross fixed capital formation	12.9	0.3	-2.3	5.0	13.8	8.7	na	
Exports of goods and services	6.8	4.7	15.9	7.9	13.5	20.0	na	
Imports of goods and services	13.5	4.6	7.6	8.8	15.5	17.8	na	
Industrial gross output	7.0	6.3	5.1	3.9	3.9	10.1	na	
Agricultural gross output	-4.0	10.9	4.4	1.2	na	na	na	
Employment	<i>(Percentage change)</i>							
Labour force (end-year)	1.4	-0.5	0.1	0.8	0.1	na	na	
Employment (end-year)	0.8	0.5	0.9	1.3	2.5	na	na	
	<i>(In per cent of labour force)</i>							
Unemployment (end-year)	18.7	17.9	17.4	17.1	15.3	na	na	
Prices and wages	<i>(Percentage change)</i>							
Consumer prices (annual average)	7.3	3.3	8.5	7.5	2.7	4.5	2.5	
Consumer prices (end-year)	6.5	3.4	9.3	5.9	3.9	3.7	2.7	
Producer prices (annual average)	6.6	2.2	8.9	3.4	3.9	na	na	
Producer prices (end-year)	3.8	2.1	9.6	3.4	5.9	na	na	
Gross average monthly earnings in economy (annual average)	8.2	9.3	6.3	10.2	9.2	na	na	
Government sector²	<i>(In per cent of GDP)</i>							
General government balance ³	-6.5	-7.7	-3.7	-3.0	-2.8	-3.4	-2.9	
General government expenditure	43.8	43.3	39.4	38.9	36.8	na	na	
General government debt	49.2	43.3	42.7	41.6	34.5	35.3	na	
Monetary sector⁴	<i>(Percentage change)</i>							
Broad money (M2, end-year)	11.9	3.4	-4.9	9.5	7.3	14.0	na	
Domestic credit (end-year)	13.3	-12.7	9.3	6.9	12.0	10.8	na	
	<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	66.6	63.2	55.1	54.0	53.3	53.7	na	
Interest and exchange rates	<i>(In per cent per annum, end-year)</i>							
Refinancing rate	7.8	6.5	6.0	4.0	3.0	4.8	na	
3-month BRIBOR	7.8	6.0	6.0	3.7	3.1	4.8	na	
Deposit rate ⁵	4.8	3.5	3.0	2.0	1.4	na	na	
Lending rate ⁵	9.8	8.8	7.7	6.4	5.9	na	na	
	<i>(Korunas per US dollar)</i>							
Exchange rate (end-year)	48.2	41.1	33.6	29.1	31.9	26.2	na	
Exchange rate (annual average)	48.4	45.3	36.8	32.3	31.0	29.6	na	
External sector	<i>(In millions of US dollars)</i>							
Current account	-1,746	-1,924	-276	-1,507	-4,090	-3,956	-2,789	
Trade balance	-2,125	-2,117	-637	-1,536	-2,376	-3,500	-1,500	
Merchandise exports	12,645	14,382	21,843	27,621	32,100	40,000	49,900	
Merchandise imports	14,770	16,499	22,480	29,157	34,476	43,500	51,400	
Foreign direct investment, net	1,520	4,130	737	1,403	1,951	3,500	2,040	
Gross reserves, excluding gold (end-year)	4,141	8,809	11,678	14,418	14,923	13,355	na	
External debt stock	11,269	13,188	18,090	23,764	27,053	28,570	na	
	<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	3.0	5.6	5.5	5.3	4.6	3.3	na	
	<i>(In per cent of exports of goods and services)</i>							
Debt service due	19.5	11.7	11.6	12.1	8.0	5.2	na	
Memorandum items	<i>(Denominations as indicated)</i>							
Population (end-year, million)	5.4	5.4	5.4	5.4	5.4	na	na	
GDP (in billions of korunas)	1,021	1,111	1,213	1,355	1,472	1,666	1,846	
GDP per capita (in US dollars)	3,910	4,559	6,131	7,811	8,823	na	na	
Share of industry in GDP (in per cent)	25.2	23.5	24.3	24.5	23.9	na	na	
Share of agriculture in GDP (in per cent)	4.5	4.0	3.6	3.6	3.5	na	na	
Current account/GDP (in per cent)	-8.3	-7.8	-0.8	-3.6	-8.6	-7.0	-4.1	
External debt - reserves (in US\$ million)	7,128	4,379	6,412	9,346	12,130	15,215	na	
External debt/GDP (in per cent)	53.4	53.8	54.9	56.6	57.0	50.8	na	
External debt/exports of goods and services (in per cent)	74.5	76.8	72.0	75.8	74.1	63.8	na	

¹ Due to a revision of GDP data for the period 2000 to 2005, no consistent growth rates are available for the year 2000 for the following items: private and public consumption, gross fixed capital formation and exports and imports of goods and services.

² General government includes central government, municipalities and extra-budgetary funds.

³ The general government balance excludes privatisation revenues and is calculated according to Eurostat methodology (ESA95). In line with the Eurostat derogation the second pillar pension funds are included from 2005.

⁴ Until 2002 monetary data were compiled in national methodology. From 2003 they have been compiled in the harmonised ECB methodology.

⁵ Weighted average over all maturities.

Slovenia

Economic performance

While the current macroeconomic situation is relatively benign and a tax system reform has been approved, more fundamental progress in structural reform will be needed to improve efficiency and create more jobs.

Real economy

Real GDP growth reached 5.2 per cent in 2006, well above the 4.0 per cent recorded in 2005, representing the strongest growth since 1999. Growth was strongest in the second half of 2006, with 5.6 and 5.5 per cent year-on-year growth in the third and fourth quarter, respectively. Gross fixed capital formation reached a double-digit growth rate of 11.9 per cent. Exports rose by 10 per cent but the imports of goods and services increased even more, by 10.4 per cent. Growth is expected to slow in 2007 but still be above 4 per cent. Industrial production growth in 2006 was twice that of 2005, and stood at 7 per cent.

Economic policies

Slovenia entered the European Economic and Monetary Union on 1 January 2007. Inflation has been kept low (2.5 per cent at the end of 2005 and 2.8 per cent at the end of 2006) and the prospects for inflation over the next two years are good, although a rise in inflation during 2007 is possible due to the rounding of the tolar amounts converted into euros.

The government has successfully reduced the fiscal deficit over recent years to 1.4 per cent of GDP in 2006. The budgets projected for 2007 and 2008 plan for deficits of 1.5 per cent and 1.6 per cent of GDP, respectively. Despite these modest imbalances, long-term risks loom. The government adopted a programme of tax reform in November 2006. However, there are no concrete plans yet to reform the expenditure side

of the budget as well (there were speculations about the increase in the rate of value added tax in 2008).

Also, the European Commission has warned Slovenia that, because of its ageing population, it is among the six countries that are most vulnerable to problems with the sustainability of public finances. Moreover, Slovenia must implement further changes to the pension system or face significant growth in spending on pensions. Public debt is currently relatively low, amounting to 27.8 per cent of GDP at the end of 2006.

External sector

Slovenia's exports of goods and services grew by about 10.3 per cent in real terms, compared to import growth of 6.8 per cent, and the current account ended 2005 with a modest deficit of 2.0 per cent of GDP. The current account deficit increased to 2.5 per cent of GDP in 2006 and is likely to remain at around 2 per cent in 2007. Foreign direct investment inflows exhibited a small net outflow in 2005, which increased to 0.9 per cent of GDP in 2006; a small net inflow is expected in 2007.

External debt rose to 71 per cent of GDP in euro terms by the end of 2005, mostly due to increased bank borrowing from abroad, and reached 80.6 per cent of GDP in euro terms in December 2006. Both public and private sector external debt increased in December 2006 compared to December 2005, but around 80 per cent of the external debt is from the private sector. Less than 20 per cent of external debt falls due within one year.

Outlook and risks

The short-term outlook is positive with growth likely to remain at around 4 per cent per year, while inflation and the fiscal deficit are expected to stay low. However, while the government has an ambitious reform programme, little has so far happened to improve Slovenia's long-term competitiveness. Further progress in structural reform is necessary if the economy is to achieve its full potential.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	2.7	3.5	2.7	4.4	4.0	5.2	4.3
Private consumption	2.3	1.3	3.5	2.6	3.4	3.3	na
Public consumption	3.9	3.2	1.6	3.4	2.2	3.8	na
Gross fixed capital formation	0.4	0.9	7.1	7.9	1.5	11.9	na
Exports of goods and services	6.3	6.7	3.1	12.5	10.5	10.0	na
Imports of goods and services	3.0	4.8	6.7	13.4	7.0	10.4	na
Industrial gross output	3.1	2.5	1.4	2.3	3.4	7.0	na
Agricultural gross output ¹	-4.0	13.2	-15.7	16.9	-5.1	-4.4	na
Employment²							
<i>(Percentage change)</i>							
Labour force (end-year)	1.0	-3.2	3.2	2.6	2.4	-0.5	na
Employment (end-year)	0.6	-2.6	2.9	2.9	1.7	0.8	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	7.0	6.5	6.7	6.5	7.2	6.0	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	8.4	7.5	5.6	3.6	2.5	2.5	2.7
Consumer prices (end-year)	7.0	7.2	4.6	3.2	2.3	2.8	2.1
Producer prices (annual average)	9.0	5.2	2.6	4.3	2.7	2.3	na
Producer prices (end-year)	7.5	3.7	2.1	4.9	1.8	2.8	na
Gross average monthly earnings in economy (annual average) ³	11.9	9.8	7.5	4.4	4.9	4.8	na
Government sector⁴							
<i>(In per cent of GDP)</i>							
General government balance	-4.1	-2.5	-2.8	-2.3	-1.5	-1.4	-1.5
General government expenditure	48.9	48.0	48.0	47.4	47.0	46.3	na
General government debt	27.6	29.1	28.7	29.0	28.4	27.8	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	29.9	11.0	6.2	6.6	7.8	7.6	na
Domestic credit (end-year)	16.9	14.1	14.4	24.1	20.2	21.7	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	53.7	53.4	52.3	51.7	52.8	52.7	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Discount rate	7.8	7.3	5.0	3.3	3.8	3.8	na
Interbank market rate (average)	6.9	4.9	5.6	4.4	3.7	3.4	na
Deposit rate (31-90 days)	9.8	8.2	6.0	3.8	3.2	2.7	na
Lending rate (short-term consumer loans)	13.5	12.3	10.4	8.6	7.7	6.8	na
<i>(Tolars per US dollar)</i>							
Exchange rate (end-year)	250.9	221.1	189.4	176.2	202.4	202.4	na
Exchange rate (annual average)	242.7	240.2	207.1	192.4	192.7	192.7	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	37	244	-215	-892	-682	-942	-915
Trade balance	-615	-248	-622	-1,258	-1,258	-1,426	-1,842
Merchandise exports	9,348	10,471	12,916	16,065	18,146	21,397	26,444
Merchandise imports	9,963	10,719	13,539	17,322	19,404	22,824	28,286
Foreign direct investment, net	226	1,508	-174	281	-88	-377	603
Gross reserves, excluding gold (end-year)	4,330	6,980	8,497	8,793	8,076	9,813	na
External debt stock	9,247	12,105	16,703	20,940	24,518	31,232	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year) ⁵	4.5	6.7	6.5	5.3	4.3	4.5	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	14.8	14.6	16.6	16.9	17.5	18.4	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	2.0	2.0	2.0	2.0	2.0	2.0	na
GDP (in billions of tolar)	4,800	5,355	5,814	6,272	6,620	7,126	7,586
GDP per capita (in US dollars)	9,995	11,174	14,105	16,382	17,263	18,582	na
Share of industry in GDP (in per cent)	30.1	29.6	29.8	29.3	na	na	na
Share of agriculture in GDP (in per cent)	3.0	3.2	2.6	2.7	2.5	na	na
Current account/GDP (in per cent) ⁶	0.2	1.1	-0.8	-2.7	-2.0	-2.5	-2.1
External debt - reserves (in US\$ million)	4,917	5,125	8,206	12,147	16,441	21,419	na
External debt/GDP (in per cent) ⁷	46.8	54.3	59.5	64.2	71.4	84.5	na
External debt/exports of goods and services (in per cent) ⁸	81.9	94.7	106.3	107.3	110.8	120.8	na

¹ Agricultural value-added.

² Data based on labour force surveys.

³ Data for enterprises employing three or more persons until 2004.

From 2005, data for legal persons with one or two employees in the private sector also taken into account.

⁴ General government includes central government, municipalities and extra-budgetary funds. Data calculated according to GFS methodology until 1999. Since 2000, ESA95 methodology has been used.

⁵ Ratio calculated in US dollars.

⁶ Ratio calculated in US dollars.

⁷ Ratio calculated in US dollars.

⁸ Ratio calculated in US dollars.

Tajikistan

Economic performance

Strong economic growth is expected in the medium term, supported by higher incomes and large investment commitments in infrastructure, but macroeconomic imbalances are building.

Real economy

Steady economic growth has continued in Tajikistan, with a 7.6 per cent growth rate in 2006. An increase in GDP was fuelled by rising domestic consumption, stimulated by higher wages and increasing remittances, which reached an estimated US\$ 1.2 billion in 2006, or about 42 per cent of GDP. The reporting period was also characterised by stronger economic activity, especially in the construction, energy and service sectors. However, agricultural production lagged behind in 2006, growing by only 5.4 per cent.

Economic policies

Although inflation had been contained to 7.1 per cent in 2005 by a monetary policy focused on price stability, inflation has been rising rapidly over the last year, reaching 12.7 per cent in 2006, exceeding predictions. This was caused by rising domestic consumption well above domestic production, particularly in agriculture, and by the domestic economy's sensitivity to world price fluctuations for imported food and energy goods.

Despite recent improvements, the level of monetisation remains limited to 9.5 per cent of GDP, which restricts the efficacy of monetary policy. Fiscal policy remained prudent, and the 2006 budget recorded a surplus.

Progress in structural reforms has been mixed. Good progress has been achieved in the consolidation of the banking sector, but it remains small and vulnerable. In the energy sector, important steps

have been taken to align tariffs with costs, but state interference and remaining weaknesses in the regulatory framework undermine its potential.

External sector

After the improvements achieved in 2005 with the Russian debt-equity swap and the IMF write-off, the level of public debt rose sharply in the second half of 2006. The state foreign borrowing programme for 2007-09 considers 71 loans for a total of US\$ 1.45 billion, including nearly US\$ 1 billion of commitments from China's Eximbank. The level of public debt to GDP was still contained to 30.6 per cent of GDP in 2006, but is expected to rise to 37.4 per cent in 2007. Moreover, there is a growing concern over the failure to reduce private debt among farmers in the cotton sector; the level of debt is now estimated at US\$ 400 million (representing over 200 per cent of cotton exports in 2005).

Outlook and risks

The economy is expected to return to high growth in the medium term. In addition to higher incomes, the large investment commitments from China, Russia and Iran in key sectors such as energy and transport should result in higher production. They will also provide opportunities for closer bilateral trade and business links with these countries. However, external debt is now reaching sustainability ceilings. Moreover, the country remains dependent on two key sectors (aluminium and cotton), which are vulnerable to trade shocks, and on remittances, which could be adversely affected by the imposition of quotas on migrant workers in Russia.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP	10.2	9.1	10.2	10.6	6.9	7.6	8.5
Industrial gross output	14.4	6.3	9.9	13.8	8.5	na	na
Agricultural gross output	11.0	14.0	9.1	11.3	3.1	na	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	4.3	1.7	1.5	-0.7	1.0	1.3	na
Employment (end-year)	4.8	1.5	1.7	-0.7	0.9	na	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year) ¹	2.3	2.5	2.2	2.2	2.3	na	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	38.6	12.2	16.3	7.1	7.0	9.2	6.3
Consumer prices (end-year)	12.5	14.5	13.7	5.7	7.1	12.7	9.0
Producer prices (annual average)	28.7	10.1	15.0	17.1	10.7	na	na
Producer prices (end-year)	9.4	19.0	14.1	15.1	5.6	na	na
Gross average monthly earnings in economy (annual average)	50.6	38.6	36.9	36.3	43.1	na	na
Government sector²							
<i>(In per cent of GDP)</i>							
General government balance	-3.2	-2.5	-1.8	-2.4	-2.9	-5.1	-4.3
General government expenditure	18.4	19.2	19.1	20.3	23.0	25.0	na
General government debt	97.0	78.8	63.0	39.4	38.4	29.8	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M2, end-year)	40.0	39.7	29.3	14.3	25.8	25.6	na
Domestic credit (end-year)	95.0	14.0	-6.5	52.7	16.1	2.3	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	8.6	9.0	8.2	7.2	7.8	7.6	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Monetary policy rate	23.4	21.0	15.0	10.0	9.0	12.0	na
Deposit rate (up to 3 months)	25.5	12.1	14.6	8.6	7.3	9.1	na
Lending rate (up to 3 months)	21.3	12.1	15.6	21.3	18.7	24.4	na
<i>(Tajik somoni per US dollar)</i>							
Exchange rate (end-year)	2.5	3.0	2.9	3.0	3.2	3.3	na
Exchange rate (annual average)	2.4	2.8	3.1	3.0	3.1	3.3	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-52	-43	-20	-82	-78	-110	-70
Trade balance	-104	-94	-103	-151	-319	-372	-405
Merchandise exports	673	730	900	1,088	1,107	1,336	1,424
Merchandise imports	777	824	1,003	1,239	1,426	1,708	1,829
Foreign direct investment, net	9	36	32	272	36	60	80
Gross reserves, excluding gold (end-year)	96	96	135	189	235	252	na
External debt stock	1,022	1,010	1,031	822	872	828	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	1.4	1.2	1.4	1.6	1.7	1.5	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	16.1	14.1	6.0	6.1	5.9	na	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	6.2	6.3	6.4	6.4	6.5	6.6	na
GDP (in billions of somoni)	3	3	5	6	7	9	11
GDP per capita (in US dollars)	169	191	244	322	355	427	na
Share of industry in GDP (in per cent) ³	22.7	22.1	20.9	19.6	21.3	28.0	na
Share of agriculture in GDP (in per cent) ³	26.5	26.3	25.2	21.6	17.2	22.0	na
Current account/GDP (in per cent)	-5.0	-3.6	-1.3	-4.0	-3.4	-3.9	-2.2
External debt - reserves (in US\$ million)	926	914	896	633	637	576	na
External debt/GDP (in per cent)	97.0	84.0	66.3	39.7	37.7	29.5	na
External debt/exports of goods and services (in per cent)	138.6	126.2	105.6	70.9	73.5	58.3	na

¹ Officially registered unemployed. The World Bank estimates the true unemployment rate in 2000 was more than 30 per cent of the labour force.

² Includes externally financed public investment programmes.

³ Figures are based on current prices. Variations in the shares reflect changes in relative prices.

Turkmenistan

Economic performance

High hydrocarbon prices should continue to generate strong growth, but this growth will not be sustainable without fundamental market reforms and additional investment in gas pipeline capacity.

Real economy

The IMF estimated GDP growth to be at 9 per cent in 2006, although the government officially reported a real growth rate of more than 20 per cent. Growth has been largely attributable to higher oil and gas export prices and ambitious public investment programmes. However, gas and oil production barely increased in 2006 (by 5.2 and 0.5 per cent, respectively) while electricity production grew by 7 per cent. Meanwhile, the agricultural sector continues to deteriorate, especially in the key areas of cotton and wheat production.

Economic policies

According to official figures, the government budget remains in good shape. Although further details are not known, this is most likely attributable to expenditure cuts. Following a budget surplus of 1.9 per cent of GDP in 2005, the state budget for 2006 and 2007 was approved without a deficit. However, the budgets for health, education and pensions have been significantly reduced. Much of the country's wealth, especially its oil and gas revenues, is kept in extra-budgetary state funds that are separate from the official budget.

Monetary policy remains rigid. The official exchange rate remains fixed while the parallel market rate is approximately five times the official rate, although this did remain stable in 2006. The year-on-year inflation rate is estimated at 11.7 per cent in 2006, slightly up from 10.4 per cent in 2005, due to higher food prices.

External sector

Favourable external conditions have continued on the back of higher international energy prices. Following a current account surplus of an estimated 7.4 per cent of GDP in 2005, the trade surplus for the first five months in 2006 reached US\$ 1.1 billion (a 62 per cent increase on the same period in 2005). This is largely due to Turkmenistan having reached an agreement with Russia in December 2005 to raise gas export prices from US\$ 44 to US\$ 65 per thousand cubic metres (tcm) and annual export volumes from about 4 billion cubic metres (bcm) to 30 bcm for 2006. Moreover, a new contract agreed in September 2006 envisaged an even higher export price at US\$ 100 per tcm and an increased annual export volume of 50 bcm until the end of 2009.

A less positive development in 2006 was that China provided a number of soft loans of over US\$ 700 million for a range of projects in the manufacturing, hydrocarbon, transport and telecoms sectors.

Outlook and risks

The country is unlikely to significantly change its key policies on macroeconomic and structural reforms following the transfer of political power. The economic outlook remains heavily dependent on developments in the hydrocarbon sector. The long-term gas supply deal (and gas export price) with Russia concluded in 2003 and 2006 should support real GDP growth of around 7 per cent per year over the medium term. However, the over-dependency on hydrocarbons and the lack of economic reforms leave the economy vulnerable to external shocks. There are also constraints relating to gas production and pipeline capacity. The mismanagement of public resources and the continued deterioration in the agricultural sector may also undermine economic sustainability.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP ¹	20.4	15.8	17.1	17.2	9.6	9.0	9.0
Private consumption	na	na	na	na	na	na	na
Public consumption	na	na	na	na	na	na	na
Gross fixed capital formation	na	na	na	na	na	na	na
Exports of goods and services	4.8	13.0	4.0	na	na	na	na
Imports of goods and services	20.1	-3.7	4.3	na	na	na	na
Industrial gross output	16.8	12.8	13.5	16.4	8.5	na	na
Agricultural gross output	23.0	9.5	9.5	13.0	4.0	na	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	3.2	3.2	3.0	3.0	0.0	na	na
Employment (end-year)	2.0	2.5	2.2	na	na	na	na
<i>(In per cent of labour force)</i>							
Unemployment ²	28.8	29.3	29.8	30.2	na	na	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average)	11.6	8.8	5.6	5.9	10.7	10.5	11.1
Consumer prices (end-year)	11.7	7.8	3.1	9.0	10.4	11.7	10.4
Producer prices (annual average)	na	na	na	na	na	na	na
Producer prices (end-year)	na	na	na	na	na	na	na
Gross average monthly earnings in economy (annual average)	47.1	8.2	84.2	5.7	21.6	na	na
Government sector³							
<i>(In per cent of GDP)</i>							
General government balance	0.6	0.2	-1.3	0.0	0.9	0.6	0.5
General government expenditure	21.1	18.1	19.4	19.6	18.8	17.9	na
General government debt	na	na	na	na	na	na	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M3, end-year)	16.7	1.5	40.9	13.4	27.2	17.7	na
Domestic credit (end-year)	7.7	-2.9	-0.6	3.6	0.6	3.0	na
<i>(In per cent of GDP)</i>							
Broad money (M3, end-year)	16.1	13.0	13.9	12.9	13.0	12.7	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinancing rate	12.0	12.0	10.0	5.0	5.0	na	na
Interbank market rate	7.7	7.0	6.9	4.6	6.0	na	na
Deposit rate (6-12 months) ⁴	16.9	17.8	15.4	11.3	8.6	na	na
Lending rate (6-12 months) ⁴	26.7	21.9	20.4	17.3	17.3	na	na
<i>(Manats per US dollar)</i>							
Exchange rate (end-year) ⁵	10,060.0	10,150.0	10,390.0	10,540.0	10,870.0	10,690.0	na
Exchange rate (annual average)	9,827.9	10,097.5	10,033.5	10,375.0	11,015.2	10,881.9	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	116	583	305	84	616	1,295	900
Trade balance	515	1,030	886	706	1,302	1,963	1,800
Merchandise exports	2,623	2,862	3,465	3,854	4,939	5,935	6,300
Merchandise imports	2,108	1,832	2,579	3,148	3,637	3,972	4,500
Foreign direct investment, net	170	276	226	354	320	300	400
Gross reserves, excluding gold (end-year) ⁶	2,055	2,346	2,673	2,714	3,442	4,994	na
External debt stock	1,865	1,660	1,519	1,273	1,007	805	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	9.1	11.8	9.5	8.0	8.9	12.0	na
<i>(In per cent of exports of goods and services)</i>							
Debt service ⁷	17.3	14.3	11.6	9.6	5.6	4.6	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	5.6	5.8	6.2	6.5	6.5	6.5	6.5
GDP (in billions of manats)	36,052	45,240	59,405	72,706	91,863	110,638	134,015
GDP per capita (in US dollars)	650	774	955	1,078	1,283	1,564	na
Share of industry in GDP (in per cent)	39.8	40.9	39.7	38.6	na	na	na
Share of agriculture in GDP (in per cent)	23.0	21.8	19.6	18.4	na	na	na
Current account/GDP (in per cent)	3.2	13.0	5.2	1.2	7.4	12.7	na
External debt - reserves (in US\$ million)	-190	-686	-1,154	-1,441	-2,435	-4,189	na
External debt/GDP (in per cent)	50.8	37.1	25.7	18.2	12.1	7.9	na
External debt/exports of goods and services (in per cent)	64.8	53.9	40.8	30.2	18.9	12.7	na

¹ Official statistics until 2004, but EBRD estimates for 2005 and 2006.

² Officially registered unemployed.

³ Significant off-budget expenditures occur through extra-budgetary funds and lending.

⁴ Unweighted average deposit and lending rates for individuals (in local currency) of state commercial banks.

⁵ Turkmenistan operates a dual exchange rate system. The series refers to a weighted average between the official exchange rate and the commercial rate (given as the black market rate). Weights are variable depending on official and shuttle trade.

⁶ Includes foreign exchange reserves of the Central Bank plus the foreign exchange reserve fund.

⁷ Excludes rescheduled amounts.

Ukraine

Economic performance

Real GDP growth rebounded in 2006, driven by strong domestic demand and favourable external conditions. Political uncertainty has had limited economic impact so far, but may affect investment growth and slow down private capital inflows if it is protracted.

Real economy

The Ukrainian economy showed signs of resilience to higher energy prices and benefited from a rebound in global metal prices in 2006. According to preliminary estimates, GDP growth accelerated to 7.1 per cent in 2006, from 2.6 per cent at the end of 2005.

On the supply side, growth was broad-based: retail trade, transport and communications were the fastest growing sectors while a rebound in international steel and other metals prices fuelled the recovery in industry. A boom in private consumption and higher capital investments led growth on the demand side.

Economic policies

Inflation accelerated to 11.6 per cent by the end of 2006 on the back of higher utilities tariffs, which were adjusted in the second half of the year to account for higher gas import prices. Revenue collection was on target thanks to growing VAT and personal income tax receipts, which counterbalanced a fall in corporate income tax payments. Budgetary expenditures were kept below target. Overall, the consolidated central state budget recorded a deficit of 0.9 per cent of GDP in 2006. However, arrears on VAT refunds to exporters are growing.

On 19 December 2006, the parliament approved the 2007 state budget, which envisages a deficit of 2.65 per cent of GDP in 2007. To avoid the President's veto, the government had to accommodate his requests for higher increases in social spending than originally planned.

External sector

A deceleration in export growth and a surge in imports, boosted by the increase in energy import prices and strong investment demand, caused a weakening of Ukraine's trade balance in 2006. Despite the recovery in the price of metals, Ukraine's main export commodity, export growth decelerated in the fourth quarter of 2006, partly because of the imposition of grain export restrictions.

The current account recorded a deficit of about 1.6 per cent of GDP in 2006 from a surplus of 3.2 per cent of GDP a year earlier. Financing has been secured through a combination of net foreign direct investment inflows (US\$ 5.3 billion in 2006) and higher external sovereign borrowing (US\$ 1.6 billion in the fourth quarter of 2006). Foreign reserves reached US\$ 22.3 billion by the end of the year, equivalent to five months of imports.

Outlook and risks

Although growth accelerated this year, short-term economic risks remain. The economy is highly vulnerable to swings in metals prices and further increases in energy import prices. In the short term, the declining trend in inflation may be reversed, owing to the impact of higher utility tariffs, especially for energy. Political stalemate, if prolonged, may affect economic performance through slower growth in private investment.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure <i>(Percentage change in real terms)</i>							
GDP	9.2	5.2	9.6	12.1	2.6	7.1	5.8
Private consumption	9.0	9.5	11.5	13.1	16.6	14.4	na
Public consumption	10.4	-6.7	6.9	1.8	2.7	4.8	na
Gross fixed capital formation	6.2	3.4	22.5	20.5	-0.3	18.7	na
Exports of goods and services	3.5	7.4	10.3	21.3	-11.2	-4.9	na
Imports of goods and services	6.0	3.3	16.4	15.5	2.1	6.5	na
Industrial gross output	14.2	7.0	15.8	12.5	3.1	6.2	na
Agricultural gross output	10.2	1.2	-9.9	19.1	0.4	1.0	na
Employment <i>(Percentage change)</i>							
Labour force (end-year)	-0.1	0.5	0.3	0.0	0.4	-0.5	na
Employment (end-year)	1.7	0.3	-6.0	0.7	1.9	-1.2	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year)	3.7	3.8	3.6	3.5	3.1	2.7	na
Prices and wages <i>(Percentage change)</i>							
Consumer prices (annual average)	12.0	0.8	5.2	9.0	13.5	9.1	9.7
Consumer prices (end-year)	6.1	-0.6	8.2	12.3	10.3	11.6	7.2
Producer prices (annual average)	8.7	3.0	7.6	20.4	16.8	12.0	na
Producer prices (end-year)	0.9	5.7	11.1	24.1	9.5	14.0	na
Gross average monthly earnings in economy (annual average)	35.2	20.9	22.9	27.9	36.4	40.2	na
Government sector ¹ <i>(In per cent of GDP)</i>							
General government balance	-0.9	0.1	-0.7	-6.2	-2.3	-1.9	-2.7
General government expenditure	34.4	35.6	37.2	55.5	42.0	42.4	na
General government debt	36.9	33.5	29.3	36.4	19.7	16.5	na
Monetary sector <i>(Percentage change)</i>							
Broad money (M2, end-year)	43.2	42.3	46.9	32.8	39.4	35.0	na
Domestic credit (end-year)	21.9	28.0	38.4	24.8	34.3	57.6	na
<i>(In per cent of GDP)</i>							
Broad money (M2, end-year)	22.1	28.5	35.3	51.2	39.6	43.9	na
Interest and exchange rates <i>(In per cent per annum, end-year)</i>							
Refinancing rate	12.5	7.0	7.0	9.0	9.5	8.5	na
Deposit rate ²	11.0	7.9	7.0	7.8	8.5	na	na
Lending rate ²	32.3	25.4	17.9	17.4	16.2	na	na
<i>(Hryvnias per US dollar)</i>							
Exchange rate (end-year)	5.3	5.3	5.3	5.3	5.1	5.1	na
Exchange rate (annual average)	5.4	5.3	5.3	5.3	5.1	5.1	na
External sector <i>(In millions of US dollars)</i>							
Current account	1,402	3,173	2,891	6,804	2,531	-1,617	-2,513
Trade balance	198	710	-269	3,741	-1,135	-5,194	-7,713
Merchandise exports	17,091	18,669	23,739	33,432	35,024	38,949	41,286
Merchandise imports	16,893	17,959	24,008	29,691	36,159	44,143	48,999
Foreign direct investment, net	769	698	1,411	1,711	7,533	5,336	4,000
Gross reserves, excluding gold (end-year)	2,955	4,241	6,731	9,302	19,413	22,300	na
External debt stock ³	12,098	12,771	23,811	30,647	39,619	54,286	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	1.7	2.4	2.9	3.2	5.3	5.0	na
<i>(In per cent of exports of goods and services)</i>							
Debt service ⁴	8.7	5.7	6.2	4.6	4.9	5.1	na
Memorandum items <i>(Denominations as indicated)</i>							
Population (end-year, million)	48.5	48.0	47.6	47.3	47.1	47.1	na
GDP (in billions of hryvnias)	204	226	267	245	441	538	624
GDP per capita (in US dollars)	785	883	1,053	974	1,831	2,259	na
Share of industry in GDP (in per cent)	27.1	30.5	31.0	30.0	na	na	na
Share of agriculture in GDP (in per cent)	14.4	13.4	13.0	13.5	na	na	na
Current account/GDP (in per cent)	3.7	7.5	5.8	14.8	2.9	-1.5	-2.0
External debt - reserves (in US\$ million) ³	9,143	8,530	17,080	21,345	20,206	31,986	na
External debt/GDP (in per cent) ³	31.8	30.1	47.5	66.6	46.0	51.0	na
External debt/exports of goods and services (in per cent) ³	57.4	54.7	82.2	77.2	89.3	108.1	na

¹ General government includes the state, municipalities and extra-budgetary funds.

² Weighted average over all maturities.

³ Until end-2002, medium and long-term external debt only. From 2003 onward, the series also includes short-term external debt.

⁴ Refers to payments on official debt only.

Uzbekistan

Economic performance

Remittances and high commodity prices are supporting growth, but the medium-term outlook depends on the government's commitment to structural reform.

Real economy

The Uzbek economy grew by an estimated 7.3 per cent in 2006. A similar growth level is expected for 2007 as long as world price trends for cotton and gold – Uzbekistan's two main export products – remain positive.

Uzbekistan also increased the price of its natural gas exports to other Central Asian countries from US\$ 60 per thousand cubic metres (tcm) to US\$ 100 per tcm as of January 2007. Gross fixed capital formation (up by 6.9 per cent in real terms in 2006) mainly reflects large-scale industrial foreign direct investment (FDI) projects, such as Russian and Chinese investments in the hydrocarbon and telecoms sectors.

Private domestic consumption has not risen over the last two years and is likely to have decreased on a real per capita basis. Domestic consumption is supported by a substantial inflow of remittances, mainly from migrant workers in Russia and Kazakhstan, but poverty is not declining.

Economic policies

Broad money growth peaked at 54 per cent in 2005 and will gradually decline to the still high growth rate of 30 per cent in 2007. As a result of this high money growth, inflation has remained in double digits at 17 per cent in 2006. Rapid disinflation is unlikely: the refinancing rate was reduced further in July 2006 – from 16 to 14 per cent – and the government has not signalled that it will end its policy of gradual nominal sum depreciation.

Building on several years of tight taxation and budgetary policies, the 2006 budget continued to show a surplus of 0.4 per cent of GDP. For 2007, parliament has approved a budget with a deficit of 0.6 per cent of GDP. In the run-up to the presidential election, social spending (health care, education, arts, sports and social welfare) will account for more than half of all expenditures this year. However, rising commodity prices and the associated revenues will counterbalance these higher expenditures, and the general government debt is likely to decline further, reaching 23 per cent of GDP in 2007.

External sector

The current account surplus remained at about 12 per cent of GDP in 2006, reflecting a US\$ 2 billion trade surplus. Net FDI amounted to US\$ 164 million, with FDI increasingly coming from Russia, Turkey and Asia, and being linked to large-scale industrial projects in the hydrocarbon, telecoms and uranium mining sectors. The stock of official reserves is accumulating rapidly and covered almost 12 months of imports in 2006. External debt declined further to 23 per cent.

Outlook and risks

Although remittances and terms of trade improvements have contributed to robust growth, the economy may be vulnerable to external shocks, such as a possible slowdown in external demand. To make the economy structurally more resilient, the authorities need to embark on fundamental market reforms, diversify the agricultural sector and stimulate the private sector.

	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Output and expenditure							
<i>(Percentage change in real terms)</i>							
GDP ¹	4.1	4.0	4.2	7.7	7.0	7.3	7.7
Industrial gross output	2.7	3.4	2.8	5.4	4.2	10.8	na
Agricultural gross output	4.1	6.0	5.9	10.1	7.0	6.2	na
Employment							
<i>(Percentage change)</i>							
Labour force (end-year)	1.5	2.4	2.7	3.4	2.8	2.7	na
Employment (end-year)	1.5	2.4	2.7	3.4	2.9	2.7	na
<i>(In per cent of labour force)</i>							
Unemployment (end-year) ²	0.4	0.4	0.3	0.4	0.7	0.8	na
Prices and wages							
<i>(Percentage change)</i>							
Consumer prices (annual average) ³	47.5	44.3	14.8	8.8	21.0	16.9	14.5
Consumer prices (end-year)	58.2	24.4	7.7	15.5	18.8	15.2	12.5
Producer prices (annual average)	42.2	na	na	na	na	na	na
Producer prices (end-year)	44.0	12.2	8.0	6.5	28.1	24.0	na
Gross average monthly earnings in economy (annual average)	58.2	111.8	28.2	62.7	47.7	45.2	na
Government sector⁴							
<i>(In per cent of GDP)</i>							
General government balance	-1.3	-1.9	0.1	0.6	1.3	0.4	-0.6
General government expenditure	36.0	37.2	33.9	32.1	32.6	32.7	na
General government debt	59.4	54.6	41.6	35.1	29.5	22.6	na
Monetary sector							
<i>(Percentage change)</i>							
Broad money (M3, end-year)	54.3	29.7	27.1	47.8	54.3	37.0	30.0
Domestic credit (end-year)	90.8	40.9	-0.6	2.1	3.1	-31.3	na
<i>(In per cent of GDP)</i>							
Broad money (M3, end-year)	12.4	10.6	10.3	12.2	15.1	15.2	na
Interest and exchange rates							
<i>(In per cent per annum, end-year)</i>							
Refinancing rate	26.8	34.5	20.0	20.0	16.0	14.0	na
Treasury bill rate (3-month maturity)	17.1	17.1	na	na	na	na	na
Deposit rate (1 year)	21.2	26.0	20.3	16.1	15.5	na	na
Lending rate (1 year)	27.6	33.4	23.9	21.2	19.9	na	na
<i>(Sums per US dollar)</i>							
Exchange rate (end-year) ⁵	937.6	1,068.3	979.0	1,056.6	1,180.0	1,240.0	na
Exchange rate (annual average) ⁵	646.3	885.0	995.5	999.2	1,072.3	1,219.8	na
External sector							
<i>(In millions of US dollars)</i>							
Current account	-113	128	880	1,214	1,950	3,136	3,671
Trade balance	186	200	835	1,202	1,447	2,055	2,347
Merchandise exports	2,740	3,000	3,240	4,263	4,757	5,842	6,791
Merchandise imports	2,554	2,800	2,405	3,061	3,310	3,787	4,444
Foreign direct investment, net	83	65	70	187	88	164	194
Gross reserves, excluding gold (end-year)	1,212	1,215	1,659	2,146	2,895	4,604	na
External debt stock	4,279	4,260	4,249	4,322	4,133	3,938	na
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	4.6	4.4	6.4	6.6	8.5	12.0	na
<i>(In per cent of exports of goods and services)</i>							
Debt service	26.2	20.0	208.5	17.1	14.1	11.3	na
Memorandum items							
<i>(Denominations as indicated)</i>							
Population (end-year, million)	24.9	25.6	26.0	26.0	26.0	26.0	na
GDP (in billions of sums)	4,925	7,450	9,838	12,261	15,210	20,759	25,600
GDP per capita (in US dollars) ⁶	306	329	380	472	546	655	na
Share of industry in GDP (in per cent)	14.1	14.5	15.8	17.5	20.7	22.1	na
Share of agriculture in GDP (in per cent)	30.2	30.1	28.6	26.4	25.0	24.1	na
Current account/GDP (in per cent)	-1.5	1.2	8.7	9.9	13.0	12.0	11.8
External debt - reserves (in US\$ million)	3,067	3,045	2,590	2,176	1,238	-666	na
External debt/GDP (in per cent)	56.2	44.1	43.7	37.3	31.3	23.1	na
External debt/exports of goods and services (in per cent)	133.7	122.6	112.6	89.4	76.3	59.6	na

¹ EBRD estimate.

² Officially registered unemployed. No labour force survey estimates were available.

³ Unofficial estimates; official figures are lower.

⁴ Includes extra-budgetary funds, but excludes local government.

⁵ Dual exchange rates were in operation until October 2003.

Data show a weighted average of the official, bank, and parallel market rates.

⁶ Calculated at the weighted exchange rate for periods in which dual exchange rates were in effect.



Part II

Macroeconomic performance tables

Table 1

Growth in real GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Estimated level of real GDP in 2006
	<i>Estimate Projection</i>													
Central eastern Europe and the Baltic states														
	<i>(in per cent)</i>													<i>(1989=100)</i>
Czech Republic	5.9	4.2	-0.7	-0.8	1.3	3.6	2.5	1.9	3.6	4.2	6.1	6.1	4.9	129
Estonia	4.5	4.4	11.1	4.4	0.3	10.8	7.7	8.0	7.1	8.1	10.5	11.4	8.5	145
Hungary	1.5	1.3	4.6	4.9	4.2	6.0	4.3	3.8	3.4	5.2	4.1	3.9	2.5	134
Latvia	-0.9	3.9	8.4	4.7	3.3	8.4	8.0	6.5	7.2	8.5	10.2	11.9	9.0	113
Lithuania	3.3	4.7	7.0	7.3	-1.7	3.9	7.2	6.8	10.5	7.0	7.5	7.7	6.5	106
Poland	7.0	6.2	7.1	5.0	4.5	4.3	1.2	1.4	3.9	5.3	3.6	6.1	6.0	158
Slovak Republic	5.8	6.1	4.6	4.2	1.5	2.0	3.2	4.1	4.2	5.4	6.1	8.3	8.4	137
Slovenia	4.1	3.7	4.8	3.9	5.4	4.1	2.7	3.5	2.7	4.4	4.0	5.2	4.3	139
<i>Average</i> ¹	5.4	4.8	5.0	3.9	3.5	4.5	2.5	2.5	4.1	5.2	4.8	6.2	5.5	142
South-eastern Europe														
SEE-3														
Bulgaria	2.9	-9.4	-5.6	4.0	2.3	5.4	4.1	4.9	4.5	5.7	6.2	6.1	6.0	100
Croatia	6.8	5.9	6.8	2.5	-0.9	2.9	4.4	5.6	5.3	4.3	4.3	4.8	4.7	105
Romania	7.1	3.9	-6.1	-4.8	-1.1	2.1	5.7	5.1	5.2	8.5	4.1	7.7	6.0	113
SEE-5														
Albania	13.3	9.1	-10.9	8.6	13.2	6.5	7.1	4.3	5.7	6.7	5.5	5.0	6.0	144
Bosnia and Herzegovina	20.8	86.0	37.0	15.6	9.6	5.5	4.3	5.3	3.0	6.0	5.8	6.0	5.0	75
FYR Macedonia	-1.1	1.2	1.4	3.4	4.3	4.5	-4.5	0.9	2.8	4.1	3.8	4.0	4.0	91
Montenegro	6.2	13.9	4.2	4.0	-6.7	3.1	-0.2	1.7	1.5	3.7	4.1	6.3	6.0	73
Serbia	6.1	7.8	10.1	1.9	-18.0	5.2	5.1	4.5	2.4	9.3	6.3	5.7	6.0	64
<i>Average</i> ¹	6.0	2.1	1.3	0.6	-2.2	3.7	4.7	4.9	4.6	6.9	4.8	6.4	5.7	104
Commonwealth of Independent States and Mongolia														
Russia	-4.0	-3.6	1.4	-5.3	6.4	10.0	5.1	4.7	7.3	7.1	6.4	6.7	6.9	93
Western CIS and Caucasus														
Armenia	6.9	5.9	3.3	7.3	3.3	5.9	9.6	13.2	13.9	10.1	14.0	13.4	8.5	126
Azerbaijan	-11.8	0.8	6.0	10.0	11.0	6.2	6.5	8.1	10.4	10.2	26.4	34.5	25.0	121
Belarus	-10.4	2.8	11.4	8.4	3.3	5.8	4.7	5.0	7.0	11.4	9.4	9.9	6.5	135
Georgia	2.4	10.5	10.6	2.9	3.0	1.9	4.7	5.5	11.1	5.9	9.6	9.4	7.5	53
Moldova	-1.4	-5.9	1.6	-6.5	-3.4	2.1	6.1	7.8	6.6	7.3	7.1	4.0	5.0	49
Ukraine	-12.2	-10.0	-3.0	-1.9	-0.2	5.9	9.2	5.2	9.6	12.1	2.6	7.1	5.8	63
Central Asia														
Kazakhstan	-8.2	0.5	1.7	-1.9	2.7	9.8	13.5	9.8	9.2	9.4	9.7	10.6	9.0	125
Kyrgyz Republic	-5.4	7.1	9.9	2.1	3.7	5.4	5.3	0.0	7.0	7.0	-0.2	2.7	5.7	87
Mongolia	6.3	2.4	4.0	3.5	3.2	1.1	1.0	4.0	5.5	10.6	6.2	8.4	8.0	137
Tajikistan	-12.5	-4.4	1.7	5.3	3.7	8.3	10.2	9.1	10.2	10.6	6.9	7.6	8.5	79
Turkmenistan	-7.2	-6.7	-11.3	6.7	16.5	18.6	20.4	15.8	17.1	17.2	9.6	9.0	9.0	177
Uzbekistan	-0.9	1.6	2.5	4.3	4.3	3.8	4.1	4.0	4.2	7.7	7.0	7.3	7.7	137
<i>Average</i> ¹	-5.0	-3.6	1.4	-3.9	5.3	9.0	6.1	5.2	7.7	8.0	6.8	7.5	7.2	94
All transition countries														
<i>Average</i> ¹	0.1	0.2	2.7	-0.8	3.6	6.1	4.3	4.0	5.8	6.7	5.8	6.9	6.5	105

Note: Data for 1995-2005 represent the most recent official estimates of outcomes as reflected in publications from the national authorities, the IMF, the World Bank and Eurostat. Data for 2006 are preliminary actuals, mostly official government estimates. Data for 2007 represent EBRD projections.

¹ Weighted averages. The weights used for the growth rates are EBRD estimates of nominal dollar-GDP lagged by one year; those used for the index in the last column are EBRD estimates of GDP converted at PPP US\$ exchange rates in 1989.

Table 2**Inflation**

(change in annual average retail/consumer price level, in per cent)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	<i>Estimate Projection</i>												
Central eastern Europe and the Baltic states													
Czech Republic	9.6	8.9	8.4	10.6	2.1	4.0	4.7	1.8	0.2	2.8	1.8	2.5	2.8
Estonia	29.0	23.1	11.2	8.1	3.3	4.0	5.8	3.6	1.3	3.0	4.1	4.4	4.2
Hungary	28.2	23.6	18.3	14.3	10.0	9.8	9.2	5.3	4.7	6.8	3.6	3.9	7.4
Latvia	35.9	25.0	17.6	8.4	4.7	2.4	2.6	2.5	1.9	2.9	6.2	6.7	5.8
Lithuania	39.6	24.6	8.9	5.1	0.8	1.0	1.5	0.3	-1.2	1.2	2.7	3.7	3.0
Poland	27.8	19.9	14.9	11.8	7.3	10.1	5.5	1.9	0.8	3.5	2.1	1.0	2.0
Slovak Republic	9.9	5.8	6.1	6.7	10.6	12.0	7.3	3.3	8.5	7.5	2.7	4.5	2.5
Slovenia	13.5	9.9	8.4	8.0	6.2	8.9	8.4	7.5	5.6	3.6	2.5	2.5	2.7
<i>Median</i> ¹	28.0	21.5	10.1	8.3	5.5	6.5	5.7	2.9	1.6	3.3	2.7	3.8	2.9
<i>Mean</i> ¹	24.2	17.6	11.7	9.1	5.6	6.5	5.6	3.3	2.7	3.9	3.2	3.7	3.8
South-eastern Europe													
SEE-3													
Bulgaria	62.0	123.0	1,082.0	22.2	0.7	9.9	7.4	5.9	2.3	6.1	5.0	7.3	2.5
Croatia	2.0	3.5	3.6	5.7	4.0	4.6	3.8	1.7	1.8	2.1	3.3	3.2	3.2
Romania	32.3	38.8	154.8	59.1	45.8	45.7	34.5	22.5	15.3	11.9	9.5	6.6	7.0
SEE-5													
Albania	7.8	12.7	33.2	20.6	0.4	0.1	3.1	5.2	2.4	2.9	2.3	2.5	3.0
Bosnia and Herzegovina	na	na	na	-0.3	3.4	5.0	3.2	0.3	0.6	0.4	4.0	4.0	na
FYR Macedonia	16.4	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	3.2	2.5
Montenegro	97.0	80.2	23.4	32.4	67.6	97.1	22.6	18.2	6.7	2.2	2.6	3.0	2.6
Serbia	78.6	94.3	21.3	29.5	37.1	60.4	91.1	21.2	11.3	9.5	17.2	12.5	6.0
<i>Median</i> ¹	32.3	38.8	23.4	21.4	3.7	7.9	6.5	5.6	2.4	2.6	3.7	3.6	3.0
<i>Mean</i> ¹	42.3	50.7	188.7	21.1	19.8	28.6	21.4	9.6	5.2	4.3	5.6	5.3	3.8
Commonwealth of Independent States and Mongolia													
Russia	197.7	47.8	14.7	27.6	86.1	20.8	21.6	15.7	13.7	10.9	12.7	9.7	9.0
Western CIS and Caucasus													
Armenia	175.8	18.7	14.0	8.7	0.7	-0.8	3.1	1.1	4.7	7.0	0.6	2.9	4.8
Azerbaijan	412.0	19.7	3.5	-0.8	-8.5	1.8	1.5	2.8	2.2	6.7	9.6	8.5	16.0
Belarus	709.3	52.7	63.9	72.9	293.7	168.6	61.1	42.5	28.4	18.1	10.3	7.0	8.0
Georgia	162.7	39.4	7.1	3.6	19.2	4.1	4.6	5.7	4.9	5.7	8.4	9.2	7.5
Moldova	30.2	23.5	11.8	7.7	39.3	31.1	9.6	5.2	11.6	12.5	12.0	12.8	10.5
Ukraine	377.0	80.0	15.9	10.6	22.7	28.2	12.0	0.8	5.2	9.0	13.5	9.1	9.7
Central Asia													
Kazakhstan	176.3	39.1	17.4	7.1	8.3	13.2	8.4	5.9	6.4	6.9	7.6	8.6	8.0
Kyrgyz Republic	43.5	31.9	23.4	10.5	35.9	18.7	6.9	2.0	3.1	4.1	4.3	5.6	5.5
Mongolia	56.8	46.9	36.6	9.4	7.6	11.6	8.0	0.3	5.1	7.9	12.5	4.8	6.7
Tajikistan	609.0	418.0	88.0	43.2	27.6	32.9	38.6	12.2	16.3	7.1	7.0	9.2	6.3
Turkmenistan	1,005.3	992.4	83.7	16.8	24.2	8.3	11.6	8.8	5.6	5.9	10.7	10.5	11.1
Uzbekistan	304.6	43.1	70.9	29.0	44.7	49.5	47.5	44.3	14.8	8.8	21.0	16.9	14.5
<i>Median</i> ¹	197.7	43.1	17.4	10.5	24.2	18.7	9.6	5.7	5.6	7.1	10.3	9.1	8.0
<i>Mean</i> ¹	327.7	142.6	34.7	18.9	46.3	29.8	18.0	11.3	9.4	8.5	10.0	8.8	9.0
All transition countries													
<i>Median</i> ¹	50.2	28.5	16.7	10.5	8.3	9.9	7.4	5.2	4.9	6.1	5.0	5.6	5.9
<i>Mean</i> ¹	169.6	83.9	66.6	16.8	27.8	23.1	15.5	8.6	6.4	6.1	6.9	6.4	6.2

Note: Data for 1995-2005 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank and Eurostat. Data for 2006 are preliminary actuals, mostly official government estimates. Data for 2007 represent EBRD projections.

Estimates of inflation from parts of Bosnia and Herzegovina (for the Federation and Republika Srpska separately) are provided in Part I of this report.

¹ The median is the middle value after all inflation rates have been arranged in order of size. The mean (unweighted average) tends to exceed the median, due to outliers caused by very high inflation rates in certain countries.

Table 3

General government balances

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	<i>Estimate Projection</i>												
Central eastern Europe and the Baltic states													
	<i>(in per cent of GDP)</i>												
Czech Republic	-15.0	-4.9	-2.4	-4.2	-1.4	-3.8	-5.8	-6.8	-6.6	-2.9	-3.6	-3.5	-4.0
Estonia	-1.2	-1.5	1.9	-0.3	-3.7	-0.6	0.3	0.4	2.0	2.3	2.3	3.8	3.8
Hungary	-6.7	-5.0	-5.9	-8.0	-5.5	-3.0	-3.5	-8.4	-7.2	-6.5	-7.8	-9.2	-6.8
Latvia	-3.5	-1.7	0.7	-0.6	-4.9	-2.8	-2.1	-2.3	-1.2	-0.9	0.2	-1.5	-1.3
Lithuania	-4.2	-4.4	-1.1	-3.0	-5.6	-2.5	-2.0	-1.4	-1.2	-1.5	-0.5	-0.3	-0.5
Poland	-3.1	-3.3	-4.6	-4.3	-1.8	-3.0	-5.1	-5.0	-6.3	-5.7	-4.3	-3.9	-3.4
Slovak Republic	0.4	-1.3	-5.2	-5.0	-7.1	-12.2	-6.5	-7.7	-2.7	-2.4	-2.8	-3.4	-2.9
Slovenia	0.0	0.3	-1.1	-0.7	-0.6	-3.8	-4.1	-2.5	-2.8	-2.3	-1.5	-1.4	-1.5
<i>Average</i> ¹	-4.2	-2.7	-2.2	-3.3	-3.8	-4.0	-3.6	-4.2	-3.3	-2.5	-2.3	-2.4	-2.1
South-eastern Europe													
SEE-3													
Bulgaria	-5.6	-10.3	-0.3	1.7	0.4	-0.5	1.9	0.1	-0.9	2.2	1.9	3.3	2.3
Croatia	-0.7	-0.4	-1.3	-3.5	-8.2	-7.5	-6.8	-4.9	-6.2	-4.8	-4.0	-3.0	-2.8
Romania	-2.5	-3.9	-4.5	-3.2	-4.5	-4.6	-3.3	-2.0	-1.5	-1.5	-1.4	-1.9	-2.5
SEE-5													
Albania	-10.1	-9.7	-12.4	-11.8	-12.1	-9.2	-8.5	-7.2	-4.3	-5.1	-3.6	-4.1	-4.0
Bosnia and Herzegovina	-3.3	-3.9	-0.4	-3.6	-6.4	-8.3	-4.5	-3.3	-2.2	-0.6	0.8	-0.2	-1.1
FYR Macedonia	-1.0	-1.4	-0.4	-1.7	0.0	2.5	-6.3	-5.6	-0.1	0.7	0.3	-0.6	-2.0
Montenegro	na	na	na	na	na	-6.9	-4.0	-3.8	-4.9	-2.6	-1.7	-0.3	-0.5
Serbia	na	na	na	na	na	-1.0	-4.9	-8.3	-3.4	0.0	0.9	2.7	0.9
<i>Average</i> ¹	-3.9	-4.9	-3.2	-3.7	-5.1	-4.4	-4.6	-4.4	-2.9	-1.5	-0.9	-0.5	-1.2
Commonwealth of Independent States and Mongolia													
Russia	-6.6	-9.4	-8.5	-8.1	-3.1	3.2	2.7	0.6	1.1	5.0	8.1	9.2	4.2
Western CIS and Caucasus													
Armenia	-9.0	-8.5	-5.8	-4.9	-7.2	-6.4	-3.8	-0.4	-1.1	-1.8	-2.6	-2.8	-2.5
Azerbaijan	-3.1	-2.4	-4.0	-3.9	-4.7	-0.6	-0.4	-0.5	-1.2	0.8	-0.7	0.5	-1.7
Belarus	-2.7	-1.5	-0.7	-1.0	-2.0	-0.1	-1.9	-2.1	-1.7	0.0	-0.7	1.4	-1.5
Georgia	-5.3	-7.3	-6.7	-5.4	-6.7	-4.0	-1.9	-2.0	-2.5	2.3	-1.5	-1.7	-2.4
Moldova	-6.7	-8.0	-10.5	-7.4	-6.2	-1.8	-0.3	-2.2	1.0	0.4	1.5	-0.3	-0.6
Ukraine	-4.7	-3.2	-5.4	-2.5	-2.3	-1.1	-0.9	0.1	-0.7	-6.2	-2.3	-1.9	-2.7
Central Asia													
Kazakhstan	-3.4	-5.3	-7.0	-8.0	-5.2	-1.0	1.8	1.0	2.0	1.9	5.3	6.4	6.8
Kyrgyz Republic	-17.3	-9.5	-9.2	-9.5	-12.7	-11.4	-5.6	-5.3	-5.2	-4.5	-3.9	-2.0	-2.7
Mongolia	-5.2	-7.5	-9.1	-14.3	-12.2	-7.0	-5.4	-5.9	-4.2	-2.1	2.9	3.8	-2.0
Tajikistan	-6.1	-5.8	-3.8	-3.8	-3.1	-5.6	-3.2	-2.5	-1.8	-2.4	-2.9	-5.1	-4.3
Turkmenistan	0.4	0.3	-0.2	-2.6	0.0	-0.3	0.6	0.2	-1.3	0.0	0.9	0.6	0.5
Uzbekistan	-4.1	-7.3	-2.2	-3.3	-2.6	-2.5	-1.3	-1.9	0.1	0.6	1.3	0.4	-0.6
<i>Average</i> ¹	-5.7	-5.8	-5.6	-5.7	-5.2	-3.0	-1.5	-1.6	-1.2	-0.5	0.4	0.7	-0.7
All transition countries													
<i>Average</i> ¹	-4.8	-4.7	-4.1	-4.6	-4.8	-3.6	-2.9	-3.1	-2.2	-1.3	-0.7	-0.5	-1.2

Note: Data for 1995-2005 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank, and Eurostat. Data for 2006 are preliminary actuals, mostly official government estimates. Data for 2007 represent EBRD projections.

Table 4

Current account balances

(in per cent of GDP)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
											Estimate	Projection	
Central eastern Europe and the Baltic states													
	<i>(in per cent of GDP)</i>												
Czech Republic	-2.5	-6.6	-6.2	-2.0	-2.4	-4.8	-5.3	-5.5	-6.2	-6.0	-2.1	-4.2	-3.9
Estonia	-4.2	-8.6	-11.4	-8.6	-4.4	-5.2	-5.5	-9.8	-11.6	-12.3	-10.3	-14.9	-15.1
Hungary	-3.7	-4.0	-4.5	-7.2	-7.8	-8.5	-6.1	-7.1	-8.5	-8.6	-7.4	-5.8	-5.0
Latvia	-0.3	-4.9	-5.5	-9.7	-9.0	-4.8	-7.5	-6.7	-8.2	-12.8	-12.3	-13.0	-19.8
Lithuania	-9.6	-9.0	-10.0	-11.7	-11.0	-5.9	-4.7	-5.2	-6.9	-7.7	-7.0	-9.4	-7.8
Poland	0.6	-2.1	-3.7	-4.0	-7.4	-5.8	-2.8	-2.5	-2.1	-4.2	-1.7	-2.3	-3.0
Slovak Republic	2.0	-10.1	-9.2	-9.3	-5.3	-3.4	-8.3	-7.8	-0.8	-3.6	-8.6	-7.0	-4.1
Slovenia	-0.4	0.3	0.3	-0.6	-3.2	-2.8	0.2	1.1	-0.8	-2.7	-2.0	-2.5	-2.1
<i>Average</i> ¹	-2.3	-5.6	-6.3	-6.6	-6.3	-5.2	-5.0	-5.4	-5.6	-7.2	-6.4	-7.4	-7.6
South-eastern Europe													
SEE-3													
Bulgaria	-1.5	1.7	10	-0.5	-5	-5.6	-7.2	-5.3	-9.3	-5.9	-11.5	-14.8	-12.4
Croatia	-7.5	-4.8	-12.5	-6.7	-6.6	-2.5	-3.5	-7.1	-6.5	-5.1	-6.6	-8.1	-8.0
Romania	-5.0	-7.3	-6.1	-6.9	-3.6	-3.6	-5.8	-3.4	-5.8	-8.4	-10.2	-11.3	-10.2
SEE-5													
Albania	-7.1	-7.3	-11.5	-6.7	-7.6	-7.4	-6.3	-9.7	-8.0	-4.7	-6.6	-7.4	-6.8
Bosnia and Herzegovina	na	-24.0	-26.6	-6.1	-16.8	-13.5	-16.0	-19.6	-25.0	-22.6	-23.7	-12.8	-28.1
FYR Macedonia	-6.7	-7.7	-7.7	-7.5	-0.9	-1.9	-7.1	-9.5	-3.2	-7.8	-1.4	-0.4	-1.0
Montenegro	na	na	na	na	na	-4.5	-15.2	-12.9	-7.4	-7.8	-8.6	-29.1	-22.9
Serbia	na	-9.8	-6.5	-4.2	-4.4	-5.1	-5.0	-17.5	-16.4	-14.8	-10.0	-12.9	-6.2
<i>Average</i> ¹	-5.6	-8.5	-8.7	-5.5	-6.4	-5.5	-8.3	-10.6	-10.2	-9.6	-9.8	-12.1	-12.0
Commonwealth of Independent States and Mongolia													
Russia	2.2	2.8	0.0	0.1	12.6	18.0	11.1	8.4	8.3	10.1	9.1	9.7	4.4
Western CIS and Caucasus													
Armenia	-17.0	-18.2	-18.0	-22.1	-16.6	-14.6	-9.4	-6.2	-6.7	-4.5	-4.2	-4.5	-2.9
Azerbaijan	-13.2	-25.8	-23.1	-30.7	-13.1	-3.5	-0.9	-12.3	-27.8	-29.8	1.3	19.0	20.5
Belarus	-4.3	-3.6	-6.1	-6.7	-1.6	-3.2	-3.3	-2.2	-2.4	-5.2	1.7	-4.1	-7.6
Georgia	-7.5	-9.1	-10.6	-8.9	-7.7	-4.4	-6.5	-5.8	-7.4	-8.4	-5.4	-9.5	-15.2
Moldova	-8.0	-11.1	-14.2	-19.7	-5.8	-7.6	-1.7	-4.0	-6.6	-2.2	-8.1	-11.9	-9.1
Ukraine	-3.1	-2.7	-2.7	-3.1	5.2	4.7	3.7	7.5	5.8	14.8	2.9	-1.5	-2.0
Central Asia													
Kazakhstan	-1.3	-3.6	-3.6	-5.5	-1.4	2.0	-6.3	-4.2	-0.9	0.8	-1.3	1.0	-0.2
Kyrgyz Republic	-15.7	-23.3	-7.8	-22.2	-14.7	-5.7	-1.6	-3.1	-4.2	-3.4	-8.1	-19.7	-9.3
Mongolia	2.0	-3.2	5.4	-7.7	-6.7	-5.8	-7.6	-9.6	-7.6	1.6	1.4	5.2	-2.1
Tajikistan	-15.2	-7.8	-4.0	-7.3	-0.9	-6.0	-5.0	-3.6	-1.3	-4.0	-3.4	-3.9	-2.2
Turkmenistan	0.7	0.1	-24.8	-34.3	-23.3	13.6	3.2	13.0	5.2	1.2	7.4	12.7	7.2
Uzbekistan	-0.2	-7.8	-5.4	-0.9	-2.0	2.4	-1.5	1.2	8.7	9.9	13.0	12.0	11.8
<i>Average</i> ¹	-6.2	-8.7	-8.8	-13.0	-5.8	-0.8	-2.0	-1.6	-2.8	-1.5	0.5	0.3	-0.5
All transition countries													
<i>Average</i> ¹	-4.9	-7.8	-8.1	-9.3	-6.1	-3.3	-4.5	-5.2	-5.6	-5.3	-4.3	-5.2	-5.6

Note: Data for 1995-2005 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank, and Eurostat. Data for 2006 are preliminary actuals, mostly official government estimates. Data for 2007 represent EBRD projections.

¹ Unweighted average for the region.

Table 5

Average annual inflation forecasts for 2007

(change in the average consumer price level, in per cent)

	Average ¹	Range ²	EBRD	Official forecasts ³	European Union (May 2007)	IMF (Apr 2007)	OECD (Nov 2006)	United Nations DESA ⁴ (May 2007)	CSFB ⁵ (Apr 2007)	Dun & Bradstreet (Apr 2007)	Economist Intelligence Unit (Apr 2007)	Global Insight ⁷ (Apr 2007)	IWH ⁸ (Apr 2007)	JP Morgan (Apr 2007)	Kopint-Tarki ⁹ (May 2007)	Vienna Institute ¹⁰ (Mar 2007)	Business Monitor Online (May 2007)
Central eastern Europe and the Baltic states																	
Czech Republic	2.6	1.4	2.8	2.1	2.4	2.9	3.4	2.2	na	2.8	2.9	2.5	2.9	2.0	2.4	2.5	3.1
Estonia	4.6	5.1	4.2	4.9	5.1	4.8	na	5.1	na	4.6	4.3	4.5	4.0	na	4.2	4.2	4.7
Hungary	6.8	2.3	7.4	7.0	7.5	6.4	6.7	6.0	7.1	7.5	6.3	6.9	6.8	7.3	6.8	6.5	5.2
Latvia	6.2	1.8	5.8	5.5	7.2	7.3	na	5.8	na	5.7	6.0	7.3	6.0	na	6.3	5.7	6.1
Lithuania	3.9	1.7	3.0	4.3	4.7	3.5	na	4.0	na	3.2	4.3	3.6	4.0	3.9	3.9	4.6	4.0
Poland	2.1	0.7	2.0	2.3	2.0	2.2	1.9	2.3	2.2	1.8	2.1	2.1	2.5	2.0	2.1	1.8	2.1
Slovak Republic	2.6	1.8	2.5	2.2	1.7	2.2	2.8	2.5	na	2.5	2.5	3.5	3.5	2.5	2.6	3.0	3.1
Slovenia	2.5	0.5	2.7	2.2	2.6	2.7	na	2.2	na	2.2	2.7	2.5	2.4	na	2.5	2.6	2.5
Average	3.9	1.4	3.8	3.8	4.2	4.0	3.7	3.8	4.7	3.8	3.9	4.0	4.0	3.5	3.9	3.9	3.9
South-eastern Europe																	
SEE-3																	
Bulgaria	4.8	4.0	2.5	4.0	4.2	5.3	na	5.1	5.2	4.1	5.7	5.5	6.5	4.8	5.3	5.0	4.6
Croatia	2.6	1.3	3.2	3.2	2.3	2.7	na	2.5	1.9	2.8	2.4	2.1	na	na	2.2	3.0	2.8
Romania	5.1	3.4	7.0	3-5	4.6	4.5	na	5.8	na	6.1	4.0	3.6	5.0	4.9	4.3	6.0	5.0
SEE-5																	
Albania	2.6	1.4	3.0	2-4	na	3.4	na	2.5	na	2.2	2.5	2.8	na	na	na	2.0	2.5
Bosnia and Herzegovina	2.9	2.6	na	na	na	2.5	na	3.0	na	3.2	2.3	1.4	na	na	na	4.0	3.6
FYR Macedonia	2.7	1.5	2.5	3.0	2.0	2.5	na	2.6	na	2.2	2.8	3.5	na	na	na	3.0	2.5
Montenegro	2.9	0.9	2.6	3.4	na	na	na	na	na	na	3.0	2.5	na	na	na	3.0	2.9
Serbia	6.6	6.3	6.0	7.4	na	4.7	na	6.0	6.9	3.9	5.8	6.2	na	na	5.2	10.0	10.2
Average	3.8	2.7	3.8	4.2	3.3	3.7	na	3.9	4.7	3.5	3.6	3.5	5.8	4.9	4.3	4.5	4.3
Commonwealth of Independent States and Mongolia																	
Russia	8.1	2.0	9.0	8.0	na	8.1	8.5	8.3	8.1	8.6	7.9	7.3	8.5	7.7	8.2	8.0	7.0
Western CIS and Caucasus																	
Armenia	3.7	1.8	4.8	3.0	na	4.0	na	3.0	na	na	3.4	3.0	na	na	na	na	4.7
Azerbaijan	14.6	12.0	16.0	8-9	na	21.1	na	15.5	na	9.2	15.9	15.7	na	na	na	na	9.1
Belarus	9.7	3.9	8.0	7-9	na	11.4	na	10.5	na	10.0	11.0	7.5	na	na	na	na	9.6
Georgia	7.3	2.7	7.5	6.0	na	6.3	na	7.0	na	8.6	6.7	8.7	na	na	na	na	7.9
Moldova	11.1	1.9	10.5	11.8	na	11.4	na	11.5	na	na	11.4	9.9	na	na	na	na	11.3
Ukraine	10.5	5.5	9.7	7.5	na	11.3	na	12.0	10.9	11.1	10.4	10.3	na	13.0	10.0	10.0	10.0
Central Asia																	
Kazakhstan	8.0	1.7	8.0	5-7	na	8.8	na	8.3	8.2	7.1	8.1	7.3	na	8.5	na	na	7.9
Kyrgyz Republic	5.9	2.5	5.5	5.0-6.0	na	5.0	na	5.5	na	7.5	5.9	6.6	na	na	na	na	5.5
Mongolia	5.5	1.7	6.7	5.0	na	5.3	na	na	na	na	na	5.0	na	na	na	na	na
Tajikistan	10.0	9.9	6.3	7.0	na	11.4	na	10.0	na	8.5	10.0	16.2	na	na	na	na	10.3
Turkmenistan	9.4	4.8	11.1	na	na	6.5	na	7.5	na	9.2	11.3	11.2	na	na	na	na	8.7
Uzbekistan	10.7	8.2	14.5	5.0-5.7	na	10.4	na	10.5	na	13.0	6.3	6.7	na	na	na	na	13.2
Average	8.9	4.7	9.1	6.9	na	9.4	8.5	9.2	9.5	9.5	9.1	9.0	8.5	10.4	9.1	9.0	8.8
All transition countries																	
Average	6.1	3.1	6.2	5.0	3.9	6.4	4.7	6.2	6.3	5.9	6.0	6.0	4.7	5.9	4.7	4.7	6.1

Note: All forecasts quoted here were published or reported to the EBRD between April and May 2007. The dates in brackets indicate the months in which the forecasts were reported or published by each institution. There may in some instances be substantial lags between preparation and publication of forecasts.

¹ The number at the bottom of this column is calculated as the mean of all the average forecasts shown in this column.

² Data show the difference between the highest and the lowest of the forecasts.

³ Official forecasts are forecasts used by the governments in their budget process, usually published by the Ministry of Finance or the Ministry of Economy. Forecasts are sometimes provided by monetary authorities, in cases where the governments do not formulate their own inflation forecasts.

⁴ End of the year inflation forecast for Kyrgyz Republic, Mongolia, Tajikistan, Ukraine, Uzbekistan.

⁵ United Nations, Department of Economic and Social Affairs (DESA).

⁶ Credit Suisse First Boston.

⁷ Global Insight Inc. formerly DRI-WEFA.

⁸ Institute for Economic Research, Halle, Germany.

⁹ Kopint-Tarki is the Institute for Economic and Market Research Information, Hungary.

¹⁰ Vienna Institute for International Economic Studies (WIIW).

Table 6

GDP growth forecasts for 2007

(in per cent)

	Average ¹	Range ²	EBRD	Official forecasts ⁴	European Union (May 2007)	IMF (Apr 2007)	OECD (Nov 2006)	United Nations DESA ⁵ (May 2007)	CSFB ⁶ (Apr 2007)	Dun & Bradstreet Intelligence Unit (Apr 2007)	Economist Intelligence Unit (Apr 2007)	Global Insight ⁷ (Apr 2007)	IWH ⁸ (Apr 2007)	JP Morgan (Apr 2007)	Kopint-Tarki ⁹ (May 2007)	Vienna Institute ¹⁰ (Mar 2007)	Business Monitor Online (May 2007)
Central eastern Europe and the Baltic states																	
Czech Republic	5.1	0.6	4.9	5.3	4.9	4.8	4.8	5.4	na	5.0	5.0	5.0	5.0	5.0	5.0	5.3	5.3
Estonia	9.2	3.1	8.5	9.2	8.7	9.9	na	8.3	na	8.3	9.2	8.5	9.5	na	9.0	9.5	11.4
Hungary	2.5	0.8	2.5	2.2	2.4	2.8	2.2	2.6	2.8	2.4	2.0	2.1	2.5	2.5	2.8	2.7	2.4
Latvia	6.9	2.0	9.0	8.5	9.6	10.5	na	9.0	na	9.1	9.2	9.3	9.5	na	8.5	8.9	9.1
Lithuania	6.9	1.3	6.5	7.2	7.3	7.0	na	6.0	na	7.0	6.5	7.0	7.2	na	7.0	7.0	7.1
Poland	5.9	1.6	6.0	6.0	6.1	5.8	5.1	5.5	6.7	6.5	6.1	6.0	5.3	6.5	5.7	5.4	5.6
Slovak Republic	8.1	1.6	8.4	8.9	8.5	8.2	8.4	8.0	na	7.5	8.2	8.0	7.4	9.0	8.6	7.5	7.5
Slovenia	4.5	0.8	4.3	4.7	4.3	4.5	na	4.0	na	4.8	4.2	4.8	4.8	na	4.5	4.5	4.4
Average	6.4	1.5	6.3	6.5	6.5	6.7	5.0	6.1	4.8	6.3	6.3	6.4	6.4	5.8	6.4	6.4	6.6
Weighted average ³	5.5	1.3	5.5	5.6	5.6	5.5	na	5.3	na	5.7	5.5	5.8	5.2	na	5.5	5.3	5.4
South-eastern Europe																	
SEE-3																	
Bulgaria	6.0	1.2	6.0	5.9	6.1	6.0	na	5.6	6.5	5.6	5.3	6.0	6.5	6.4	6.0	6.0	5.7
Croatia	4.6	0.5	4.7	4.6	4.8	4.7	na	4.7	4.7	4.4	4.7	4.4	na	na	4.3	4.4	4.5
Romania	6.6	1.3	6.0	6.5	6.7	6.5	na	6.2	7.0	6.5	6.0	7.0	7.3	6.5	6.2	6.5	6.9
SEE-5																	
Albania	5.8	1.0	6.0	6.0	na	6.0	na	5.6	na	6.0	6.0	5.8	na	na	na	5.0	6.0
Bosnia and Herzegovina	5.8	1.1	5.0	na	na	6.0	na	5.5	na	6.1	5.5	6.1	na	na	na	5.7	6.1
FYR Macedonia	4.4	2.2	4.0	6.0	4.3	4.5	na	3.8	na	4.5	4.0	4.1	na	na	na	4.0	4.7
Montenegro	5.7	1.0	6.0	6.0	na	na	na	na	na	na	6.0	5.3	na	na	na	5.0	5.8
Serbia	5.6	1.0	6.0	5.0	na	5.0	na	5.5	6.0	5.7	5.6	5.9	na	na	6.0	5.0	6.0
Average	5.5	1.2	5.5	5.7	5.5	5.5	na	5.3	6.1	5.5	5.4	5.6	6.9	6.5	5.6	5.2	5.7
Weighted average ³	5.9	1.1	5.7	na	na	na	na	na	na	na	5.6	6.1	na	na	na	5.8	6.1
Commonwealth of Independent States and Mongolia																	
Russia	6.3	0.9	6.9	6.5	na	6.4	6.0	6.4	6.5	6.0	6.5	6.1	6.3	6.4	6.3	6.0	6.5
Western CIS and Caucasus																	
Armenia	8.8	4.0	8.5	6.0	na	9.0	na	9.5	na	na	10.0	9.8	na	na	na	na	8.9
Azerbaijan	27.5	9.5	25.0	29.1	na	29.2	na	29.0	na	33.0	23.5	24.8	na	na	na	na	26.7
Belarus	6.9	3.5	6.5	9.0	na	5.5	na	7.5	na	7.2	7.0	5.9	na	na	na	na	6.5
Georgia	7.3	1.6	7.5	7.5	na	7.5	na	6.8	na	8.1	6.5	6.9	na	na	na	na	7.3
Moldova	4.8	1.7	5.0	5.0	na	4.5	na	5.0	na	na	5.5	4.5	na	na	na	na	3.8
Ukraine	6.0	2.5	5.8	6.5	na	5.0	na	6.2	6.2	6.1	6.0	7.5	na	5.0	6.0	6.0	6.0
Central Asia																	
Kazakhstan	9.0	1.4	9.0	8.6	na	9.0	na	9.5	9.9	8.9	9.0	8.5	na	8.5	na	na	8.8
Kyrgyz Republic	5.0	2.9	5.7	5.5	na	6.5	na	4.5	na	4.5	4.0	3.6	na	na	na	na	5.5
Mongolia	7.9	1.6	8.0	8.6	na	8.0	na	na	na	na	na	7.0	na	na	na	na	na
Tajikistan	7.5	2.4	8.5	7.5	na	7.5	na	7.0	na	8.5	7.0	6.1	na	na	na	na	7.5
Turkmenistan	10.3	10.9	9.0	na	na	10.0	na	10.0	na	8.4	7.0	17.9	na	na	na	na	9.5
Uzbekistan	7.6	0.9	7.7	7.7	na	7.7	na	7.4	na	8.0	7.4	7.1	na	na	na	na	7.5
Average	8.8	3.5	8.7	9.0	na	8.9	6.0	9.0	6.4	10.0	8.2	8.9	6.3	5.7	6.2	6.0	8.7
Weighted average ³	6.9	1.4	7.2	na	na	6.8	na	na	na	na	na	6.8	na	na	na	na	na
All transition countries																	
Average	7.3	2.2	7.1	7.4	6.1	7.4	5.2	7.2	6.3	7.5	6.9	7.3	6.5	6.2	6.1	5.8	7.3
Weighted average ³	6.3	1.3	6.5	na	na	na	na	na	na	na	na	6.4	na	na	na	na	na

Note: All forecasts quoted here were published or reported to the EBRD between April and May 2007. The dates in brackets indicate the months in which the forecasts were reported or published by each institution. There may in some instances be substantial delays between preparation and publication of forecasts.

¹ The number at the bottom of this column is calculated as the mean of all the average forecasts shown in this column.
² Data show the difference between the highest and the lowest of the forecasts.
³ Weighted average based on EBRD estimates of nominal US dollar GDP in each country in 2006.

⁴ Official forecasts are forecasts used by the governments in their budget process, usually published by the Ministry of Finance or the Ministry of Economy.

⁵ United Nations, Department of Economic and Social Affairs (DESA).

⁶ Credit Suisse First Boston

⁷ Global Insight Inc. formerly DRI-WEFA.

⁸ Institute for Economic Research, Halle, Germany.

⁹ Kopint-Tarki is the Institute for Economic and Market Research Information, Hungary.

¹⁰ Vienna Institute for International Economic Studies (WIIW).

Table 7

Foreign direct investment

(net inflows recorded in the balance of payments)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Cumulative FDI inflows per capita 1989-2006 (in US\$ mn)	Cumulative FDI inflows per capita 1989-2006 (US\$)	FDI inflows per capita 2005	FDI inflows per cent of GDP 2005	2006	
	(in US\$ million)																			
Central eastern Europe and the Baltic states																				
Czech Republic	749	2,526	1,276	1,275	3,591	6,234	4,943	5,476	8,276	1,895	3,960	10,135	4,616	8,400	56,498	5,512	989	450	8.1	4.2
Estonia	212	199	111	130	574	222	324	343	153	763	781	2,250	561	790	6,857	5,098	1,670	417	16.1	3.4
Hungary	1,097	4,772	3,335	3,715	3,070	3,060	2,151	3,573	2,722	479	3,542	5,412	3,055	3,154	45,738	4,545	537	304	4.9	2.7
Latvia	279	245	379	515	303	331	400	114	250	256	596	497	840	750	5,054	2,203	216	366	3.1	4.4
Lithuania	31	72	152	328	921	478	375	439	715	142	510	680	803	790	5,676	1,669	199	236	2.6	2.7
Poland	1,846	3,617	4,445	4,863	6,049	7,239	9,327	5,804	3,901	4,284	12,097	6,578	9,656	10,000	80,687	2,123	173	254	2.2	2.8
Slovak Republic	236	194	199	84	374	701	1,897	1,520	4,130	737	1,403	1,951	3,500	2,040	17,246	3,194	363	648	4.1	5.1
Slovenia	129	161	167	303	221	59	71	226	1,508	-174	281	-88	-377	603	2,652	1,333	-44	-189	-0.3	-1.0
Total	4,580	11,785	10,063	11,212	15,102	18,324	19,487	17,494	21,654	8,381	23,169	27,414	22,654	26,527	220,409	3,030	376	312	5.1	3.0
South-eastern Europe																				
SEE-3																				
Bulgaria	105	98	138	507	537	802	998	803	876	2,070	2,777	2,298	5,016	3,090	17,168	2,230	298	652	8.5	15.9
Croatia	110	109	486	343	836	1,403	1,080	1,162	582	1,926	877	1,548	3,516	2,363	14,113	3,177	349	792	4.0	8.3
Romania	341	417	415	1,267	2,079	1,025	1,051	1,154	2,156	6,368	6,368	6,587	11,430	9,600	35,550	1,636	303	526	6.7	9.4
SEE-5																				
Albania	65	89	97	42	45	51	143	204	135	178	332	265	300	400	2,011	628	83	94	3.0	3.1
Bosnia and Herzegovina	0	0	0	0	100	90	146	119	266	382	608	667	723	791	3,100	816	175	190	6.5	6.4
FYR Macedonia	24	10	11	30	128	32	175	441	78	96	156	97	350	150	1,628	814	49	175	1.7	5.8
Montenegro	na	na	na	na	na	na	na	10	84	44	63	474	550	161	1,226	1,857	719	833	22.8	24.3
Serbia	na	na	0	740	113	112	25	165	475	1,360	966	1,481	4,400	3,000	9,837	1,312	197	587	6.1	15.3
Total	646	723	1,147	2,928	3,838	3,515	3,619	4,078	3,576	8,212	12,147	13,417	26,285	19,554	84,631	1,658	263	515	7.4	11.1
Commonwealth of Independent States and Mongolia																				
Russia	408	1,480	1,656	1,681	1,492	1,102	-463	216	-72	-1,769	1,682	1,790	10,753	4,500	19,916	139	13	75	0.2	1.1
Western CIS and Caucasus																				
Armenia	8	25	18	52	221	122	104	70	111	121	217	255	220	200	1,544	480	78	68	5.2	3.4
Azerbaijan	22	330	627	1,115	1,023	510	149	299	1,048	2,353	2,351	458	-1,306	250	8,980	1,069	55	-155	3.6	-5.6
Belarus	11	15	105	350	201	443	119	96	453	170	163	303	351	1,225	2,795	288	31	36	1.0	1.0
Georgia	8	6	54	236	221	62	153	80	122	335	420	529	861	1,149	3,088	684	117	191	8.3	11.1
Moldova	12	25	23	78	75	38	127	102	132	71	146	199	223	210	1,281	377	59	66	6.7	6.6
Ukraine	151	257	516	581	747	489	594	769	698	1,411	1,711	7,533	5,336	4,000	21,451	455	160	113	8.7	5.0
Central Asia	659.7	964	1,137	1,320	1,143	1,468	1,278	2,861	2,164	2,213	5,392	1,721	4,500	2,235	28,192	1,866	114	298	3.1	5.8
Kazakhstan	38	96	47	83	87	38	-7	-1	5	46	131	43	108	50	723	141	8	21	1.7	3.8
Kyrgyz Republic	7	10	16	20	19	34	40	43	78	132	129	258	329	449	1,124	420	97	123	12.5	11.7
Mongolia	12	10	18	18	25	21	24	9	36	32	272	36	60	80	591	90	6	9	1.6	2.1
Tajikistan	103	233	108	108	62	125	131	170	276	226	354	320	300	400	2,595	399	49	46	3.8	3.0
Turkmenistan	73	-24	90	167	140	121	75	83	65	70	187	88	164	194	1,356	52	3	6	0.6	1.0
Uzbekistan	1,512	3,407	4,414	5,809	5,456	4,574	2,323	4,796	5,116	5,410	13,134	13,532	21,899	14,942	93,636	333	48	78	4.4	3.8
Total	6,738	15,914	15,624	19,950	24,396	26,412	25,430	26,368	30,346	22,004	48,451	54,363	70,838	61,023	398,675	985	134	175	5.4	5.6

Sources: IMF, central banks and EBRD estimates.

Note: Regional FDI inflows per capita are weighted averages (by population). Regional FDI in per cent of GDP is an unweighted average.