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**REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND TO THE COUNCIL**

**ON THE IMPLEMENTATION OF MACRO-FINANCIAL ASSISTANCE
TO THIRD COUNTRIES IN 2000**

List of abbreviations

BiH	Bosnia and Herzegovina
CAMEL	Capital, assets, management, earnings, liquidity (parameters used in international system for rating banks)
CBA	Currency Board Arrangement
CEECs	Central and East European Countries
CPI	Consumer Price Index
DEM	German Mark
EBRD	European Bank for Reconstruction and Development
EC	European Community
EFF	Extended Fund Facility
EIB	European Investment Bank
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FESAL	Financial and Enterprise Structural Adjustment Loan
FRY	Federal Republic of Yugoslavia
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
MFA	Macro-Financial Assistance
MoU	Memorandum of Understanding
NIS	New Independent States
PRGF	Poverty Reduction and Growth Facility (formally ESAF)
SAA	Stabilisation and Association Agreement
SAF	Structural Adjustment Facility
SBA	Stand-By Arrangement
SDR	Special Drawing Right
UN	United Nations
UNMIK	United Nations Interim Administration Mission in Kosovo
USD	Dollar of the United States of America
VAT	Value Added Tax
WTO	World Trade Organisation

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I. INTRODUCTION

This report assesses the economic situation, the progress of reforms and the prospects of the countries that received macro-financial assistance in 2000, with particular reference to the implementation of the conditions attached to it.

Chapter II provides an overview of the EC macroeconomic assistance to third countries, with an historical background, a summary of the operations in 2000, and an analysis of the burden-sharing among the international donor community.

The following chapters discuss relevant aspects of the transition process in the countries for which either new macro-financial assistance operations have been decided by the Council or disbursements under previously decided operations have been made in 2000.

This report is submitted in accordance with the Council Decisions regarding Community macro-financial or exceptional financial assistance to third countries and follows on from the reports presented in previous years[1].

The complete list of macro-financial assistance operations decided by the Council with the corresponding disbursements up to the end of 2000 appears in Annex 1. Annex 2 summarises the macro-financial assistance provided by bilateral and multilateral donors to the countries that received EC macro-financial assistance. Finally, selected macroeconomic indicators are summarised in Annex 3.

II. OVERVIEW

1. Background

Initially conceived for intra-Community balance-of-payment support, macro-financial assistance (MFA) from the Community has been extended since 1990 to third countries, mainly those of Central and Eastern Europe, but progressively also to other countries in the Western Balkans, the former Soviet Union and in the Mediterranean area, with a view to supporting their political and economic reform efforts.

Early in the 1990s, the European Community decided to extend MFA to the Central and East European Countries (CEECs) with a view to support their process of transition to market economies. It was also decided that, in the context of the assistance co-ordination process agreed among the 24 industrial countries (G-24), the Commission should enlist other donors to contribute in a similar way to support the economic

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1 See the following Communications from the Commission to the Council and the European Parliament with the title 'Report on the implementation of macro-financial assistance to third countries':
COM(92)400 of 16 September 1992
COM(94)229 of 7 June 1994
COM(95)572 of 27 November 1995
COM(96)695 of 8 January 1997
COM(98)3 of 13 January 1998
COM(1999)580 of 15 November 1999.
COM(2000)682 of 27 October 2000.

programmes that the CEECs were implementing in agreement with the International Monetary Fund (IMF) and the World Bank.

A number of balance-of-payment support operations by the EC and the G-24 took place between 1990 and 1994 covering most CEECs. Since then, EC macro-financial assistance in the region has been mainly concentrated in the Balkan countries, and more particularly in the countries that were formerly part of the republic of Yugoslavia. Outside the region of Central and Eastern Europe, several other operations for some Newly Independent States and a few Mediterranean countries were decided by the Council.

MFA supports the political and economic reform efforts of the beneficiary countries and is implemented in association with support programmes from the IMF and the World Bank. It has continued to incorporate a set of principles which underline the exceptional character of this assistance, its complementarity to financing from the IFIs and its macroeconomic conditionality. In particular, Community MFA has supported efforts by recipient countries to bring about economic reforms and structural changes. In close co-ordination with the IMF and the World Bank, it has promoted policies that are tailored to specific country needs with the overall objective of stabilising the financial situation and establishing market-oriented economies. The Commission implements this type of assistance in consultation with the Economic and Financial Committee.

2. Macro-financial assistance in 2000

a) New decisions

The year 1999 had been a year of enhanced MFA to Balkan countries, when, as a result of increased balance-of-payments difficulties and of the Kosovo crisis, five operations for a maximum amount of EUR 460 million had been decided by the Council for Albania, Bosnia and Herzegovina, Bulgaria, the former Yugoslav Republic of Macedonia (FYROM) and Romania. In the year 2000, new MFA operations were decided for two Balkan entities, Kosovo and Montenegro, and one NIS, Moldova. In March 2000, the Council also decided to extend to Tajikistan the exceptional assistance decided in November 1997 for Armenia and Georgia, and to increase accordingly the maximum amounts of the grant and loan envelopes foreseen for this assistance.

In February 2000, the Council decided to provide exceptional financial assistance to **Kosovo** of up to EUR 35 million in the form of grants. The funds were to be made available to the United Nations Interim Administration Mission in Kosovo (UNMIK) through its Central Fiscal Authority (CFA). Taking into consideration the considerable progress achieved by UNMIK in establishing essential administrative functions and developing a sound economic framework in Kosovo under very difficult circumstances, a first tranche of EUR 20 million was released in the second half of March 2000. A Commission review mission that took place in June 2000 found that UNMIK had made good progress in establishing an economic framework in Kosovo and that the conditions attached to the disbursement of the second tranche had been broadly fulfilled. It was therefore decided to proceed with the disbursement of the second tranche of EUR 15 million in the second half of August. This exceptional assistance, which forms part of an overall European Community assistance package, was complementary to the resources provided by the World Bank and bilateral donors.

Montenegro's macroeconomic situation, which had already deteriorated during a decade of gradual dissolution of the Socialist Federal Republic of Yugoslavia, suffered from the outbreak of the Kosovo crisis and the large influx of refugees from Kosovo. In recognition of the difficult situation of the government of Montenegro, the Council decided on 22 May 2000 to provide Montenegro with exceptional Community financial assistance of up to EUR 20 million in the form of an outright grant, which was to be released in at least two successive tranches, and to be subject to economic policy conditionality. Following the signature of the Memorandum of Understanding (MoU) between the Republic and the Commission, the first tranche of the assistance, amounting to EUR 7 million, was disbursed in August 2000. As the authorities broadly met the economic policy conditions attached to this assistance, set out in the MoU, by undertaking accelerated efforts towards the creation of a market-oriented economy, the release of a second tranche of EUR 12.95 million was disbursed in early January 2001, while some EUR 50,000 was used for technical support in the context of the implementation of this assistance.

In 2000, **Moldova** continued to be faced with serious economic problems. On 1 December 2000, the government signed a three-year memorandum of understanding with the IMF in the context of a Poverty Reduction and Growth Facility. Subsequently, in the last week of 2000, Moldova received, in total, external financing of roughly USD 42 million. In July 2000, the Council decided to provide MFA of up to EUR 15 million to Moldova. The release of a first tranche, amounting to EUR 10 million, is subject to a review by the IMF of satisfactory implementation of its agreement.

The Council also decided in March 2000 to extend to **Tajikistan** the exceptional financial assistance already agreed for Armenia and Georgia in November 1997. It decided accordingly to increase the maximum amount of this type of assistance by EUR 110 million (EUR 75 million in loans and EUR 35 million in grants) to a total of EUR 375 million (EUR 245 million in loans and EUR 130 million in grants). Negotiations concerning the terms, amounts and conditions attached to the financial assistance led to an agreement being formally signed by the Tajik authorities in December 2000.

b) Disbursements

Disbursements of macro-financial assistance amounted to a total of EUR 265 million in 2000, including EUR 50 million disbursed in the first days of January 2001 on the basis of procedures launched in December 2000. These disbursements consisted of EUR 35 million for Kosovo, EUR 20 million for Montenegro, EUR 20 million for Bosnia, EUR 30 million for the former Yugoslav Republic of Macedonia, EUR 60 million for Bulgaria and EUR 100 million for Romania. The last four disbursements were part of previously decided operations. Disbursements to Kosovo and Montenegro were related to operations decided during 2000.

Of the EUR 265 million disbursed, EUR 85 million took the form of grants. These were for the former Yugoslav Republic of Macedonia (EUR 20 million), Kosovo (EUR 35 million), Bosnia (EUR 10 million) and Montenegro (EUR 20 million). The rest of the assistance took the form of long-term loans (for the former Yugoslav Republic of Macedonia, EUR 10 million, for Bosnia, EUR 10 million, for Bulgaria, EUR 60 million and for Romania, EUR 100 million).

c) Repayments and undisbursed operations

Several repayments took place in 2000: both Estonia (EUR 20 million) and Latvia (EUR 40 million) discharged on time their financial obligations and have no more outstanding debts towards the EC. Other repayments were made on the due date by Lithuania (EUR 50 million), Romania (EUR 80 million) and Moldova (EUR 5 million).

Some MFA operations decided in the first half of the 1990s have not been fully paid out as initially foreseen. This has been the result of either improved external financial conditions, (as in the cases of the Baltic countries, Hungary, Slovakia and more recently also Algeria) or of a difficult political climate and/or the slowing-down of the reform process (as in the cases of Belarus and again of Algeria). In these cases, the disbursement of the remaining tranches is not programmed anymore. Among the recently decided operations, some delays have occurred in the disbursements to Armenia, Georgia, Ukraine, Albania and Bosnia, whereas the operations for the former Yugoslav Republic of Macedonia, Romania and Moldova are likely to be implemented as originally foreseen. The last column of Annex 1 provides details concerning the undisbursed amounts.

d) Other

In the course of the year 2000, the Commission submitted no other MFA proposal to the Council.

3. Trends and tendencies in macro-financial assistance

The Community's macro-financial assistance was originally intended to support macroeconomic stabilisation and the balance of payments. Over the years, the number of countries to which it was appropriate for the Community to extend such support expanded, as a growing number of countries neighbouring the Community committed themselves to rigorous programmes of economic reform. This led to a change in the geographic balance of assistance from the early years, when most beneficiary countries were in the immediate vicinity of the Community. As a result of the conflicts in the Western Balkans and in particular the Kosovo conflict of 1999, a tendency for a relative increase of MFA to the countries of the Balkans developed through the 1999 and 2000 Council decisions. In 2000, assistance decided for this region amounted to some 30%, compared to 34% in 1999 and to 3% for the period 1990-1998.

A particularity of the decisions taken in 2000 was that three out of the four operations decided were designed to support the budget of the beneficiary countries or entities. Also, two operations were decided in favour of entities which could not benefit from an IMF-supported economic programme. As observed already in 1999, MFA is aimed not only at promoting macroeconomic stabilisation and the balance of payments, but also plays a very useful role in supporting the government’s programme of structural reform. Thus it has been effectively combined with assistance from the Phare, Tacis or OBNOVA programmes to strengthen the capacity of institutions that were essential to the success of the necessary structural reform measures.

Tables 1 and 2, and their accompanying Graphs 1a and 2a underline the exceptional character of the EC MFA. The highest volumes of MFA operations were decided and disbursed in the years immediately after the changes in the political and economic systems of the countries of Central and Eastern Europe. Since then, the fluctuations in the amounts of MFA reflect decisions taken on a case-by-case basis after an assessment of the macro-economic situation and financing needs of the potential beneficiary countries. Graph 1a for operations decided over the whole period from 1990 to 2000 (totalling up to EUR 5.4 billion) and Graph 2a for actual amounts disbursed (totalling EUR 4.3 billion) show the important concentration of the assistance in the CEECs that are candidates for EU accession (around 60% of total macro-financial assistance over the last decade). As explained earlier, assistance to the candidate countries was largely concentrated in the first half of the past decade, which indicates a progressive phasing out of this kind of assistance in parallel with progress in macroeconomic adjustment and reform in the recipient countries. More recently, macro-financial assistance has been mainly provided to the Western Balkans (operations in 1999 and 2000) and some low income NIS. The relatively low amounts for the Mediterranean countries (15% of the overall amounts authorised, but no new authorisation since 1996) are explained by the other forms of macroeconomic support (notably the MEDA Structural Adjustment Facilities) made available to these countries.

TABLE 1 - MACRO-FINANCIAL ASSISTANCE, 1990-2000

MAXIMUM AMOUNTS AUTHORISED, MILLION EURO

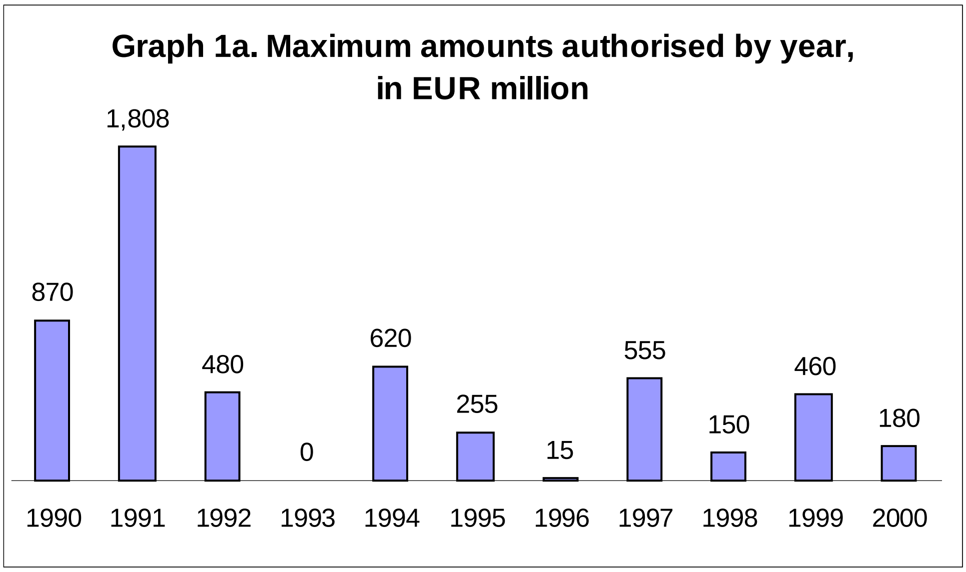
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Totals
By region												
EU Candidate Countries	870	1220	410		255			250		300		**3305**
Western Balkans			70		35			40		160	55	**360**
NIS					130	255	15	265	150		125	**940**
Mediterranean		588			200							**788**
Total amounts authorised	**870**	**1808**	**480**	**0**	**620**	**255**	**15**	**555**	**150**	**460**	**180**	**5393**
of which, grants		28	70		35			95		70	90	**388**

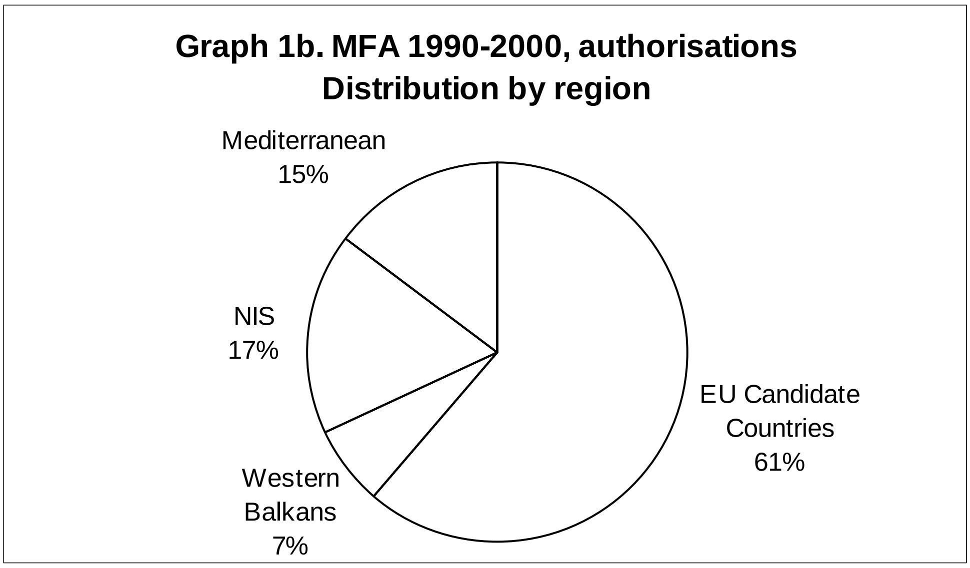
TABLE 2 - MACRO-FINANCIAL OPERATIONS, 1990-2000

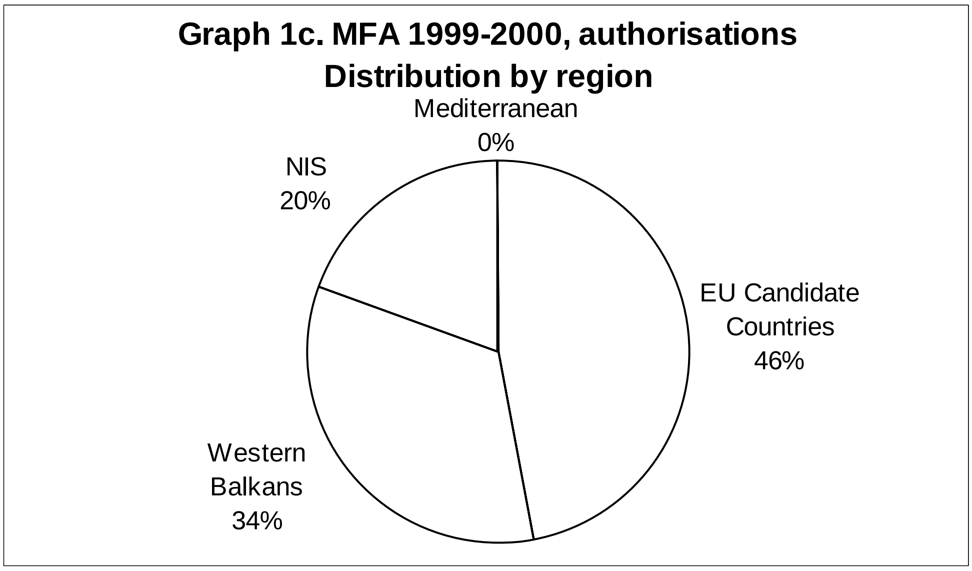
DISBURSEMENTS, MILLION EURO

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Totals
By region												
EU Candidate Countries	350	695	705	270	70	80	40	70	250	40	160	**2730**
Western Balkans			35	35		15	20	25	15	25	105	**275**
NIS					25	135	115	100	156	71		**602**
Mediterranean			438		150	100						**688**
Total amounts disbursed	**350**	**695**	**1178**	**305**	**245**	**330**	**175**	**195**	**421**	**136**	**265**	**4295**
of which, grants			63	35		15	20		18	28	85	**264**

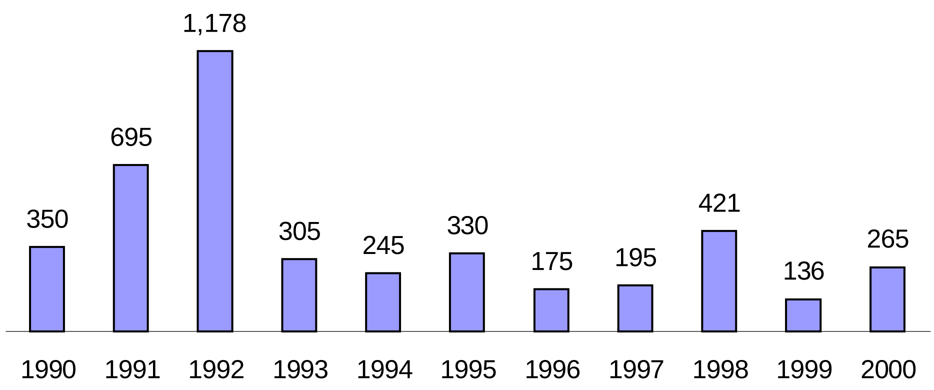
NB: 2000 figures include disbursements to Bosnia, the former Yugoslav Republic of Macedonia and Montenegro which, for technical reasons, took place in early January 2001.


Graph 1a. Maximum amounts authorised by year,
in EUR million
870
1,808
480
0
620
255
15
555
150
460
180
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000

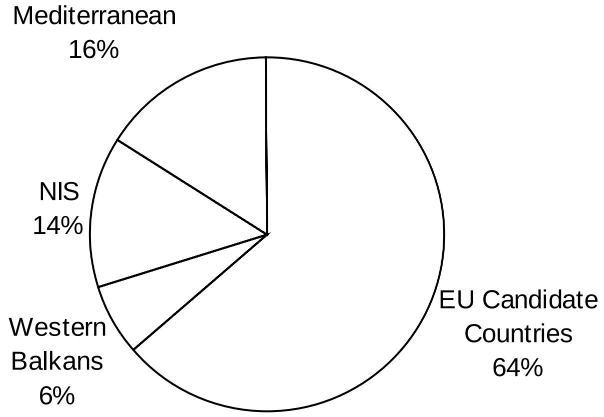

Graph 1b. MFA 1990-2000, authorisations
Distribution by region
Mediterranean
15%
NIS
17%
Western
Balkans
7%
EU Candidate
Countries
61%


Graph 1c. MFA 1999-2000, authorisations
Distribution by region
Mediterranean
0%
NIS
20%
Western
Balkans
34%
EU Candidate
Countries
46%

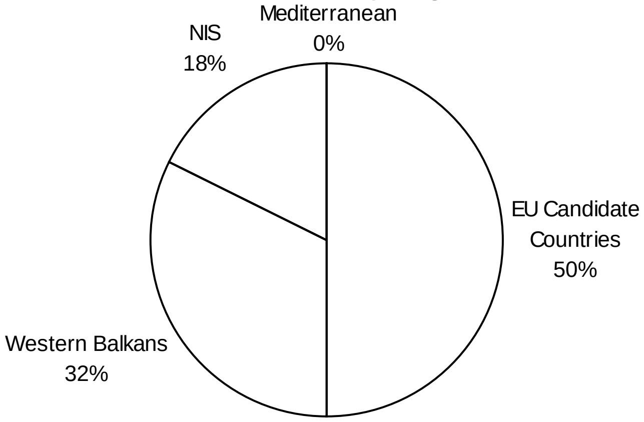
Graph 2a. Amounts disbursed by year, in EUR million



Graph 2b. MFA 1990-2000, disbursements, Distribution by region



Graph 2c. MFA 1999-2000, disbursements, Distribution by region



4. Burden-sharing

In the context of the donor co-ordination process in support of CEECs and the Western Balkans, the European Commission in liaison with the World Bank has organised pledging conferences where the needs for external financing are assessed and potential contributions from the IFIs and bilateral donors -including the EC- are agreed in principle. A similar approach has been followed for other potential beneficiary countries through Consultative Group meetings convened at the initiative of the World Bank.

The resources provided by various donors to support the residual external financing needs of the countries that receive EC MFA are summarised in Annex 2. Details by recipient country for the year 2000 are provided in Annex 2.1.

Since the inception of MFA, the absolute amounts committed by the EC have fluctuated substantially, in parallel with the volume of financial support provided by the international community (see Annex 2 and similar tables in previous MFA reports).

Initially, Community assistance was substantial in comparison with funding provided by IFIs. The Community indeed played a key role, both as a major provider of these funds and as the co-ordinator of bilateral assistance for the CEECs through the G-24 process. However, as the IFIs were progressively able to mobilise more resources through new instruments, their share in the financing packages rose substantially[2].

At the same time, contributions from external creditors, both public and private, were mobilised in the form of debt-relief and debt-reduction operations which were particularly important in 1994, 1995 and 1999. Among the countries receiving EC MFA, those concerned by these debt-relief and similar operations were Algeria in 1991 and 1994; Bulgaria in 1991, 1994 and 1997; Moldova in 1996; Ukraine in 1994, 1995 and 1999, and the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina and Albania in 1999. In 2000, no debt relief took place for any country receiving EC MFA.

[2] In the year 2000, as indicated above, two out of the four EU operations (Kosovo and Montenegro) were decided outside of the context of an IMF programme. This can partly explain why the share of the IFIs in 2000 was very small compared to previous years.

III. ALBANIA

1. Executive summary

Under the IMF 3-year programme adopted in May 1998, the Albanian authorities managed to make further progress in macroeconomic stabilisation: GDP growth for 2000 reached 7.8%, similar to the 1998 and 1999 figures, both the fiscal deficit and the current account deficit were significantly reduced, the exchange rate of the Lek remained strong against the dollar and annual inflation was maintained at a low level (some 4%).

On the structural reform side, significant progress was registered. In the area of financial sector reform, one state-owned bank was privatised and steps were taken for the privatisation of the remaining one, while the central bank abandoned its direct control over credits. The 1997 SME privatisation programme was completed in 2000, and an important advance was made in the privatisation of strategic sectors in June 2000 with the sale of the mobile phone company AMC. Finally, significant progress was also registered in the strengthening of tax collection and in public expenditure management.

The implementation of the macro-financial assistance of up to EUR 20 million decided by the Council in April 1999 did not start because of the reticence of the Albanian authorities to increase non-concessional borrowing under a relatively comfortable Net International Reserve (NIR) position.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Prices mostly market-determined, with the exception of a few selected public services.
2. Trade liberalisation No quantitative restrictions on imports and last remaining export bans removed in September 1999. Four different levels of tariff rates (0, 5, 10 and 20%). Acceded to WTO in September 2000.
3. Exchange regime Since July 1992 free floating exchange rate. Exchange system largely free of restrictions on current account transactions, including profit repatriation.
4. Foreign direct investment Liberal legislation. Sale of land to foreigners permitted. Land registration completed in most accessible areas.
5. Monetary policy Bank-by-bank credit ceilings removed in November 1999. Banks free to determine lending rates. Removal of minimum short-term deposit rates in July 2000. Treasury bill auctions (3, 6, 12 months).
6. Public finances VAT introduced in July 1996. In 2000, budget revenue and expenditure estimated respectively at 23% and 32.6% of GDP.
7. Privatisation and enterprise restructuring Privatisation of arable land largely completed. Privatisation of some 470 SMEs (1997 programme) completed in 2000. First large state-owned strategic enterprise (AMC) privatised in 2000. Stock exchange set up in March 1996.
8. Financial sector reform Two-tier banking system dominated by the remaining large state-owned bank, the Savings Bank. National Commercial Bank privatised in 2000.

2. Macroeconomic performance

Between 1993 and 1996, Albania made important progress in the stabilisation and liberalisation of its economy and in the implementation of structural reforms, supported by substantial international assistance. After a period of unrest in 1997, following the collapse of the pyramid schemes, the new government managed to restore macro-economic stability.

Following a six-month emergency programme, the Albanian authorities implemented a comprehensive medium-term macroeconomic and structural adjustment programme supported by the IMF under a Poverty Reduction and Growth Facility (PRGF, formerly ESAF). The successful start of recovery in 1998 was maintained in 1999 with GDP growth of some 8% for the second year in a row. Annual inflation as of end-1999 was negative, the domestically financed budget deficit was further reduced, while the current account deficit, which was expected to increase sharply as a consequence of the Kosovo crisis, was limited to 8.5% of GDP.

Owing to the improved internal political situation, as well as to the strengthening of institutions, sufficient stability was achieved for the economy to record impressive results in 2000. GDP growth reached 7.8%, mainly supported by construction, transport, and agriculture. Despite the increase in oil prices and the energy crisis which emerged in the last quarter, inflation remained under control (4% on an end-of-year basis), owing to strict monetary control, a general increase in productivity and the stability of the currency, the Lek. Positive developments also occurred in the fiscal area. Thanks to a sharp increase in tax revenues (25% with respect to 1999), the fiscal deficit is estimated to have decreased from 11.5% of GDP in 1999 to 9.5% in 2000. Whereas the domestic financing decreased only slightly (5.0% in 2000 compared to 5.4% in 1999), the large amounts of privatisation receipts allowed a sharp reduction in borrowing. On the expenditure side, the implementation of the 2000 budget was in line with the forecasts. The current account balance also improved in 2000. As usual, large remittances from Albanians living abroad (about USD 160 million were transferred during the first half of 2000) partly compensated for the still high trade deficit, so that the current account deficit is expected to have been about USD 260 million, equivalent to some 7% of GDP (8% in 1999). A significant increase in foreign direct investment was recorded, especially thanks to revenues from the privatisation of the mobile phone company AMC. Gross official reserves reached USD 550 million as of end-2000, equivalent to 4.5 months of imports.

The potential impact of the energy crisis on the economic situation should, however, not be underestimated. It is indeed expected that energy shortages will have a negative impact on industrial production, whereas inflation might pick up because of higher energy prices. On the fiscal side, a reduction in tax revenues could be registered if companies have to stop their activity, whereas subsidies paid by the Government on imported energy might increase. In this context, a power sector action plan has been defined, aiming, in the short term, at fighting against electricity theft and non-payment of electricity bills, and, in the longer term, at modernising the largely outdated electricity production and distribution networks.

3. Structural reforms

In the area of financial sector reform, some progress was made in the privatisation of the two remaining state-owned banks. The National Commercial Bank was sold to foreign investors in November 2000, but the privatisation of the Savings Bank was delayed. Preparatory steps were taken, however, with the adoption by Parliament of the necessary privatisation law, the auditing of the accounts by an international audit company, KPMG, and the recapitalisation by the state to cover the negative capital of the bank. Initial steps were also taken in the privatisation of the state-owned insurance company, INSIG. Private banking activity was encouraged by the central bank's relinquishing of direct control over credits.This, together with the recovery in economic activity, contributed to a significant increase in credits granted by banks to the private sector.

For enterprise privatisation and restructuring, the year 2000 was successful. The mobile phone company AMC was sold for the unexpectedly high amount of USD 86 million (or EUR 91 million), and the investors rapidly launched investments to improve the network quality and to meet increasing customer demand. The four medium-sized enterprises that remained to be privatised in the framework of the 1997 privatisation programme were also sold during the year. Further progress was recorded in the strategic sectors : the oil-sector service company, Servcom, was restructured and the law on its privatisation was passed by Parliament in December 2000, and a new action plan for the restructuring of the power sector began to be implemented.

Reform of tax collection contributed to an increase in tax revenues for the year 2000 of about 25%, compared to 1999. The main measures taken on customs revenues included changes in key personnel in the major customs houses, better control of goods in transit and regular revision of reference prices. As far as domestic taxes are concerned, improved enforcement led to a significant increase in the number of registered VAT and small business taxpayers. Improved co-ordination between the tax and customs administrations also contributed to a reduction in tax evasion.

Good progress was also made in the reform of public expenditure management with the adoption of the Medium Term Expenditure Framework (MTEF) covering the period 2001-2003. The MTEF was adopted after intense discussions among the ministries concerned and the donor community. It is supposed to be revised on a regular basis. It identifies four key areas of expenditure : infrastructure, education, health and social affairs. It also represents a first, concrete sign of improved efficiency of the public administration in Albania.

4. Implementation of macro-financial assistance

In the context of the IMF 3-year PRGF-supported programme, approved in May 1998, the Council decided on 22 April 1999 to provide Albania with a macro-financial assistance facility of up to EUR 20 million. Contrary to the previous two macro-financial assistance operations (EUR 70 million grant decided in 1992 and EUR 35 million grant decided in 1994), this assistance was to take the form of a loan.

The implementation of the EC macro-financial assistance was not initiated because the Albanian authorities twice indicated - in December 1999 and in June 2000 – to

Commission staff missions that they wished to reflect more carefully on whether to engage in non-concessional borrowing under the present relatively strong NIR position. The Commission services have indicated that they envisage de-programming this assistance.

On 30 June 2000, the IMF Board approved the third annual Poverty Reduction and Growth Facility (PRGF) arrangement covering the period July 2000-July 2001. The mid-term review of this third-year arrangement is expected to be completed in January 2001. Since the Kosovo crisis, the World Bank has put more immediate emphasis on support to the social sectors and on emergency interventions in infrastructure. In the framework of the Country Assistance Strategy for Albania for the period 1998-2001, the World Bank pursued the implementation of the USD 45 million Structural Adjustment Credit (SAC) decided in June 1999.

At the end of 2000, Albania ceased to be eligible for the PHARE assistance programme. It will in future be eligible for the new Community instrument for the Western Balkans, CARDS (Community Assistance for Reconstruction, Development and Stabilisation).

IV. ARMENIA

1. Executive summary

After stagnating in early 2000, GDP growth accelerated to around 4% year-on-year over the first 10 months of the year, despite the fact that agricultural production was affected by a severe drought during the summer.

The completion of the third mid-term review under the IMF ESAF programme for Armenia took place in late 1999. The Armenian authorities are currently negotiating a new three year programme under the IMF Poverty Reduction and Growth Facility.

Armenia has so far implemented appropriate macro-economic policies, but still runs high budget and current account deficits, which partly result from the commercial blockade imposed on the country (a consequence of the unsolved Nagorno Karabakh conflict). There are also concerns about the speed of economic reforms and the privatisation process, as well as the state of the budget income. The IMF insists on Armenia using privatisation proceeds to reduce its huge external debt.

The absence of a clear prospect of Armenia reaching a new agreement with the IMF before the end of the year 2000, the disappointing fiscal results, as well as the slow structural reform process prompted the Commission to postpone the disbursement of the third tranche of grant assistance initially scheduled for 2000.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices liberalised and consumer subsidies sharply reduced. Prices of very few items subject to regulation.
2. Trade liberalisation Liberal trade policy. Simple and relatively open import regime with a low tariff structure. No quantitative restrictions. Accession to the WTO expected in 2001.
3. Exchange regime Floating exchange rate. Limited official intervention. Very liberal exchange system. Access to foreign exchange unrestricted. Interbank market dominant for foreign exchange.
4. Foreign direct investment Liberal policy towards foreign direct investment, notably absence of restrictions on repatriation of profits and capital.
5. Monetary policy Central bank is fully independant. Inflation remained very low, despite a more relaxed monetary policy towards the end of 2000.
6. Public finances Budget revenue estimated at around 17% of GDP in 2000; total expenditure estimated at about 24% of GDP.
7. Privatisation and enterprise restructuring The privatisation process continued at a rather slow pace for medium and large sized enterprises. The liquidation process of numerous not sold enterprises has been launched. The Government is still in the process of privatising the power distribution companies.
8. Financial sector reform The banking system consists of the CBA and 31 commercial banks, of which three foreign owned. The Government decided to privatise the Savings Bank and offered strategic investors to participate in the privatisation tender. Recent Law on the Securities market. Securities and Exchange Commission as well as Central Depository for Securities are operational.

2. Macroeconomic performance

After stagnating in early 2000, GDP growth accelerated to around 4% year-on-year over the first 10 months of the year thanks to an acceleration in industrial production and construction. However, agricultural production was affected by a severe drought during the summer.

In 2000, budget revenues continued to be below projected levels, resulting in expenditure cuts and a rapid build-up in expenditure arrears. Inflation was halted, with a price decline of about 0.5% despite a substantial increase in energy prices. The Armenian currency depreciated by about 6% in nominal terms against the USD in 2000.

In the first eight months of 2000, the trade turnover increased by 13% (year-on-year) to USD 740 million. However, the trade deficit grew slightly year-on-year in the first nine months of the year, despite a substantial acceleration of export growth. The trade and current account deficits are expected to remain very high (above 20% of GDP), as long as the external commercial blockade resulting from the unsettled Nagorno-Karabakh conflict remains in force.

The total volume of FDI increased substantially in the first half of 2000, reflecting heavy inflows from established foreign investors and resurgent investment from Russia. Foreign exchange reserves were still comfortable at more than 3 months of imports. External debt amounted to around USD 850 million or 47% of GDP at the end of 1999, while its servicing was equivalent to 17% of budget revenue. External debt is large in terms of the debt stock and debt service to export ratios, but the country is expected to benefit from substantial transfers and investment from abroad. The external debt is deemed to be reasonably sustainable when measured by the debt stock and debt service to fiscal revenue ratios.

3. Structural reform

Serious steps were begun to restructure the public administration: draft laws or programmes were prepared or submitted to the Parliament on compulsory declaration of incomes and property by senior officials; on state control over inspections and licensing; and on reform of the civil service. Despite announcements that radical cuts were being considered in the inflated state apparatus, it appears that the trend in the number of state employees is increased slightly.

In the energy sector, thanks to the tight fiscal package adopted in August 1999, all arrears were cleared by September 1999. However, in 2000, the fiscal situation severely deteriorated and new arrears accumulated. A programme was drawn up which aimed at the financial recovery of the energy system of Armenia during 2000-2002; it covered the regulation of financial flows, debts and financial relations between different sectors of production.

The Government did achieve major improvements in cost recovery in the irrigation sector. The overall collection level for the 1999 irrigation season was close to the agreed target of 65%.

In the financial sector, the Law on the Securities Market was adopted. The Securities and Exchange Commission was created and a Central Depository for Securities became operational. In August 2000, the Government adopted a decision on the privatisation of the Savings Bank and, in December 2000, invited potential strategic investors to participate in the privatisation tender.

With regard to privatisation, 65% of the 10,000 small enterprises had been privatised at the end of 1998. In February 2000, 1,500 of the 2,000 medium and large enterprises had been privatised. The pace of privatisation of medium and large enterprises slackened, from almost 200 in 1998 to 54 in 1999 and 33 in the first eight months of 2000. The main reason was that over 300 medium and large enterprises were offered for privatisation several times and nevertheless failed to find buyers. Since then, the

Government has made a decision to wind up these enterprises, and many of them are in the process of liquidation.

On 25 April 2000, the Armenian Parliament decided to exclude the electricity distribution networks from the list of state properties to be privatised in 1998-2000. However, a specific privatisation law adopted in August 2000 provided for 51% of the shares of the four power distribution companies to be sold to strategic investors in 2001 (20% of the shares have already been sold to the EBRD, and the remainder will be sold to the workers).

4. Implementation of exceptional financial assistance

Under the EUR 1250 million Community trade credit facility made available to the NIS in 1992, Armenia benefited from some EUR 58 million in the form of loans. However, owing to difficult political, economic and financial conditions, the country was unable properly to service its external financial obligations, including those towards the Community. In order to support the country's adjustment and reform efforts and to facilitate the settlement of this debt problem, the Council adopted in November 1997 a Commission proposal to provide Armenia and Georgia with exceptional financial assistance and agreed in principle to make available loans of up to EUR 170 million and grants of up to EUR 95 million.

In December 1998, after Armenia had fully settled its arrears towards the Community (EUR 51 million) and the IMF-supported programme had come back on track, the Commission disbursed the first tranche of exceptional financial assistance, (a loan of EUR 28 million and a grant of EUR 8 million). The second tranche (EUR 4 million of grant money) was disbursed in December 1999, soon after the successful completion of the third mid-term review under the IMF ESAF and after a principal repayment by Armenia of EUR 5 million of the EUR 28 million loan provided in 1998.

In July 1999, an agreement in principle had been reached between the Armenian authorities and the Commission services on the structural conditionality to be attached to the disbursement of the third tranche of assistance scheduled for 2000. However, the Armenian authorities failed to ratify this agreement. Moreover, there was no clear prospect of the country reaching an agreement with the IMF on a new three-year programme before the end of the year 2000, as fiscal results were disappointing, while structural reform had slowed down in 1999 and 2000. Therefore, the Commission staff mission which visited Yerevan in June 2000 considered that the conditions did not exist for allowing a tranche of grant money to be disbursed in 2000.

V. BOSNIA AND HERZEGOVINA

1. Executive summary

Under the present IMF-supported stand-by arrangement, BiH has made significant progress towards macroeconomic stability thanks to adherence to the strict rules under the currency board arrangement as well as fiscal restraint. The IMF completed the fourth and fifth reviews under the Stand-By Arrangement on 22 December 2000. Following this, and given satisfactory progress with regard to structural conditions attached to Community macro-financial assistance, the Commission disbursed the second tranche amounting to EUR 20 million at the end of 2000. In the area of structural reforms, marked progress has been made in small-scale privatisation, payments systems reform, customs administration reform and recently also banking sector reform. However, in order to stimulate private sector development and foreign investment, the authorities need to move ahead with large-scale enterprise privatisation, further tax harmonisation, and establishing a transparent and uniform investment regime, and more generally to improve inter-Entity collaboration so as to put in place a single economic space.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices have been liberalised with the exception of a few selected public services
2. Trade liberalisation The preferential trading arrangements of both Entities with Croatia and the FRY were effectively dismantled in May 1999. A uniform customs code has been in place since January 1999 with a common tariff regime comprising four product categories, in the range of 0 - 15%. BiH is not yet a member of the WTO.
3. Exchange regime The common currency, KM, has been pegged to the DM at parity under the currency board arrangement since June 1998.
4. Foreign direct investment Highly unfavourable environment resulting from perceived high risks and non-transparent policies. The Federation still needs to implement fully the State Law on FDI.
5. Monetary policy The Central Bank of BiH is responsible for operating the Currency Board Arrangement. The CBBH and other banks are prohibited from lending money to the government.
6. Public finances Larger than expected budget deficits have resulted from increasing wage and pension bills combined with a shortfall in revenues. Further reforms to enhance revenue collection and to create viable social protection systems are necessary.
7. Privatisation and enterprise restructuring While small-scale privatisation has advanced well in both Entities recently, the process of large-scale enterprise privatisation has been slow. It is expected to gain new momentum thanks to external technical assistance for tender procedures.
8. Financial sector reform The regulatory framework for banking has been laid down in both Entities but the process of privatisation or liquidation of state banks has been delayed, and is not expected to be completed before mid-2001. Reform of the payments system is well advanced with the official closure of the Payments Bureaux, the transfer of their functions to private and public actors and the establishment of a central clearing house.

2. Macroeconomic performance

GDP growth in 1999, adversely affected by the Kosovo crisis, is estimated to have reached 9%. For the year 2000, the authorities had originally foreseen GDP growth in the range of 12-15%. However, the estimated growth has been put lower, at 10%, because of the adverse impact of one of the worst droughts experienced by BiH in recent years. High economic growth has had little impact on unemployment: 40% of the labour force was officially estimated to be without employment at end-1999.

Adherence to the rules of the currency board arrangement (CBA) has helped to moderate inflationary pressures. Annual inflation measured in Konvertible Marka (KM), the currency issued by the currency board since mid-1998, is expected to record 3% for the year 2000 in both Entities. As of end-2000, the acceptance of the KM in BiH appears to be almost universal. The sharp rise in the foreign reserves held by the Central Bank bear witness to this; at end-1999, they stood at 866 million KM (covering about 2.5 months of imports) compared to 300 million KM at end-1998. On the fiscal side, the overall fiscal deficit to GDP ratios (before grants) were initially projected at 1.6% and 3.3% for the Federation and the Republika Srpska, respectively (1.1% and 2.1% after grants). However, larger than expected deficits as a result of increased spending on wages and pensions and shortfalls in revenues have forced both Entities to take action to bring current expenditure into line with available resources.

The current account deficit declined significantly in 1999 (to about 21% of GDP, as compared to 32% in 1998) as a result of slower-than-planned implementation of reconstruction projects and slower growth of private domestic demand. This deficit declined further in 2000, and continued to be financed mainly by donor assistance. Foreign debt remains at high levels (about 70% of GDP in 1999), which partly is the result of a substantial debt burden inherited from the former Socialist Republic of Yugoslavia. Debt service as a percentage of exports of goods and services, however, is relatively low, reflecting the concessional nature of much of the debt as well as favourable debt rescheduling agreements with the London and Paris Clubs.

3. Structural reforms

Progress has been achieved at both State and Entity level with regard to public expenditure management and reform. At the State level, following the passing by the Parliament of the necessary law in September 2000, a Ministry of Treasury was set up. In the Entities following the adoption of the legal framework, a similar process has taken place through the establishment of a Treasury unit attached to the respective Ministry of Finance. The legal framework for the creation of the Supreme Audit Institutions was adopted at the end of 1999 in both Entities. The condition that real military expenditure should not increase in real terms in the 2000 Entity budgets was met (in the adopted budgets, autumn 1999). As regards pension reforms, the proposed legislation on the merger of the two pension funds was submitted to the Federation Parliament on 26 August 1999 but has not yet been adopted, owing to strong political opposition.

In the area of customs and tax reforms, tangible progress has been achieved, especially thanks to improved inter-Entity co-operation. In particular, with regard to customs reforms, both Entities have been working closely together with the EU-funded CAFAO mission. The merger of the tax control and enforcement components of the Federation Financial Police with the Federation Tax Administration is well advanced. The tax administration now reports directly to the Federation Ministry of Finance. As for the establishment of large-trader control, and investigation and intelligence units, the legislative framework has been put in place and is being implemented (Law on Federation Tax Administration in force as of 31 August 2000). Customs regulations including sub-laws on customs powers, penalties and offences have recently been passed (in the Republika Srpska in April 2000 and in the Federation in early September) and staff are now being trained in the enforcement of these laws. Some progress has been made in eliminating parallel structures in the Federation, although it cannot be considered satisfactory. However, especially in the cities of Mostar and Travnik, co-ordination is still lacking and the two predominant ethnic groups apparently continue to work separately, despite the fact that they now physically share the same premises. Excise and sales tax rates have been gradually harmonised. On 4 July 2000, an agreement was reached between the Entities on how to proceed with excise and sales tax reforms in terms of collection and revenue attribution, following recommendations by the IMF and the World Bank.

The acceptance and use of the KM is now widespread in BiH, and the majority of transactions are effected in KM in both Entities. This development follows measures adopted by both Entity governments to promote the use of the KM, including the prohibition of non-cash payments using other currencies than the KM. Payments systems reform has advanced well in both Entities with the closure of the Payments Bureaux (SPP, ZAP, and ZPP) at the end of 2000. Non-payments functions, such as tax control and information collection, were relocated to relevant institutions and a central clearing house for inter-bank transactions was established by the Central Bank.

Small-scale enterprise privatisation has advanced well recently in both Entities.In the Federation, which started the process earlier (in May 1999) than the Republika Srpska, the authorities were expected to complete the process for 150 small-scale enterprises and 350 business premises by the end of 2000. The World Bank estimates that in the Republika Srpska around one-third of all small-scale enterprises that were expected to be privatised (169 in total) have been sold. Following serious delays initially related to the registration and distribution process, the voucher privatisation scheme started on 16 October in the Republika Srpska. The World Bank considered the privatisation agencies of the Entities (including that of the Mostar canton in the Federation) adequately staffed and operational already in January 2000. The medium-term challenge consists of moving forward the process of large-scale enterprise privatisation and the restructuring of key public utility companies.

As far as the banking sector reform and privatisation process of state-owned banks is concerned, Open Balance Sheets (OBS) have been submitted to the respective Entity Banking Agencies and solvency tests are being carried out before the banks can be put up for sale. In the Federation, three state banks are expected to be put up for sale shortly (The Union Banka, the Central Profit Bank, and the Federation Investment Bank). In the Republika Srpska, which started far later, the process has advanced well recently. Out of 11 State Banks, 10 have had their OBS approved, and privatisation plans are being prepared. The Law on Commercial Banks was passed in July 1999 in the Republika Srpska. The Law on Deposit Insurance was passed in the Federation in August 2000, but has yet to be adopted in the Republika Srpska.

4. Implementation of macro-financial assistance

The Council adopted on 10 May 1999, a decision providing for exceptional macro-financial assistance to Bosnia and Herzegovina. This assistance amounts to a maximum of EUR 60 million, comprising a grant element of up to EUR 40 million, and a loan element of EUR 20 million. Following the completion of the first review under the IMF programme and the full clearance by BiH of its outstanding obligations to the Community and the EIB, the Commission in December 1999 disbursed a first tranche totalling EUR 25 million, comprising a EUR 15 million of grant money, and a EUR 10 million loan. Following satisfactory progress under the IMF programme, including the completion of the fourth and fifth reviews and the satisfactory fulfilment of the specific conditions attached to the Community assistance (relating to structural reform), the second tranche, amounting to EUR 20 million, was disbursed at the end of 2000. EUR 2 million of the EUR 10 million grant element was made available to the State budget, in view of its financing needs, while the remainder was made available to the Entity budgets. The disbursement of the third tranche, EUR 15 million grant, has been linked to a set of structural reform criteria as well as to continued progress under the IMF programme.

In May 1998, the IMF approved the SBA (USD 81 million). In June 1999, the IMF decided to augment its assistance by USD 23 million as a result of the adverse impact of the Kosovo crisis. Following some delays in policy implementation, the fourth and the fifth IMF reviews were completed on 22 December 2000, making available USD 21 million, and the programme was extended to May 2001. The World Bank is currently implementing two policy-based operations in support of public finance reforms (PFSAC II) and privatisation and banking sector reforms (EBPAC), which amount to USD 72 million, and USD 50 million, respectively.

As of 2001, Bosnia and Herzegovina is no longer eligible for the OBNOVA assistance programme. Instead, it is now eligible for the new Community instrument for the Western Balkans, CARDS (Community Assistance for Reconstruction, Development and Stabilisation).

VI. BULGARIA

1. Executive summary

Economic stability in Bulgaria persisted in 2000. Economic reforms continued and the Currency Board Arrangement was maintained.

Macro-economic stability and structural reforms contributed to a substantial economic growth which is expected to be close to 5 per cent in 2000.

The Bulgarian government continues its structural reforms in both privatisation and regulatory reform. Despite vast improvements with structural reforms, Bulgaria cannot be seen as a functioning market economy, able to cope with the competitive pressures and market forces in the EU in the medium term.

Bulgaria continued to require macro-financial assistance. On 8 November 1999 the Council decided on a loan of EUR 100 million for Bulgaria – the fourth of its kind. A first tranche of EUR 40 million was disbursed in December 1999 and a second tranche of EUR 60 million in September 2000.

EU assistance will increase from 2000 onwards as the pre-accession instruments ISPA and SAPARD are put in place. Total grant assistance is expected to reach a yearly EUR 256 million in the 2000-2006 period.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation The share of administered prices in the CPI basket stood at nearly 20% in 2000. The prices of energy products and in particularly heating are being progressively liberalised.
2. Trade liberalisation The regime is largely liberalised.
3. Exchange regime Lev pegged to the Euro since January 1999, under a currency board arrangement: 1 Lev equals 1 DEM
4. Foreign direct investment Foreign investors can freely repatriate profits and proceeds.
5. Monetary policy Central bank responsible for operating the currency board, which has remained credible and is supported by high reserves.
6. Public finances A 1.5 per cent deficit was planned for 2000 (and 2001), a major step forward over 1999. This goal was likely to be realised easily.
7. Privatisation and enterprise restructuring A first wave of privatisations has been implemented (just under two thirds of state assets). A second wave involving public utilities and other infrastructure enterprises has begun.
8. Financial sector reform The financial position of the banking sector has improved substantially since the crisis in 1996. Main problems are reluctance to lend to a still weak private sector and delayed privatisation.

The IMF's three-year Extended Fund Facility Arrangement for Bulgaria was approved in September 1998 for a total amount equivalent to SDR 627.62 million (about USD 814 million). In September 2000, the fourth review under this arrangement was completed, which enabled the release of SDR 52.3 million (about USD 68 million) from the IMF, bringing total disbursements under the programme to SDR 470.7 million (about USD 610 million).

Also in September 2000, the World Bank approved a EUR 30 million (USD14.39 million) loan for Bulgaria to help support the implementation of the Education Modernisation Project.

2. Macroeconomic performance

Favourable external and internal economic developments pushed up growth in Bulgaria, and led to a fiscal performance that was better than planned. Annual real GDP growth is expected to be close to 5% in 2000. Exports grew faster than imports, which should help the trade deficit to narrow. Real GDP grew by 5.2% in the first half of 2000 compared to the same period of 1999. Growth accelerated in the second quarter of 2000, reaching 5.5% compared to 4.8% in the first quarter. It was driven mainly by exports and investment. Fixed investment grew by 12% year-on-year in real terms in the second quarter of 2000, following 18% in the previous quarter. Industrial output gradually picked up and in September was 10.4% higher than in the same month of 1999. The trade deficit widened slightly in the first eight months of 2000 compared with the same period of last year. The dollar value of exports increased by nearly 23%, while imports were about 19% higher than in the first eight months of 1999. Almost half of the increase in the value of imports was due to the higher price of energy. Although Bulgaria is a net importer of oil, it is also a major exporter of oil products. Their value trebled in the second quarter of 2000 compared with the same period of 1999. Another favourable development was the unusually good tourist season. All these developments resulted in a narrowing of the current account deficit from USD 434 million in the first eight months of 1999 to USD 361 million in the first eight months of 2000; in the same period the trade deficit widened from USD 682 million to USD 727 million. Foreign direct investment in Bulgaria in the first eight months of 2000 amounted to USD 366 million, which more than covered the current account deficit in the same period. Investment in the banking sector, including the sale of United Bulgarian Bank, accounted for USD 126 million. . After the first attempt to privatise the national tobacco company attracted little interest, the government decided to re-launch Bulgartabac's sale. Delays have also marked the privatisation of the telecommunications monopoly BTC.

Consumer price inflation, which was 0.4% on average in 1999, gradually increased to 12% in October 2000 on a year-on-year basis. Higher prices of fuels contributed to rising inflation, whereas the rise in food prices abated somewhat in comparison with the rise in August. The consumer price index increased by significantly more than the end-year target of 8-9% for 2000. Bulgaria's main interest rate was raised in several steps; the average annual yield on three-month Treasury bills approached 4.5% at the end of October.

Unemployment edged down from its peak level of 19% in April to 17.8% in September. This partly reflected seasonally high employment in agriculture and tourist services, and partly new jobs created in the services sector. The number of registered unemployed fell to just below 680,000, but trade unions put the actual number above one million. It is also estimated that 1.2 million people, out of an active population of 4.7 million, are employed in the grey economy. Measures are being undertaken to stimulate the incorporation of the grey sector into the official economy.

3. Structural reforms

The restructuring of the economy proceeded in line with the plan set out in the medium-term economic programme. The first results of the monitoring programme, which surveys 154 troubled enterprises, indicated that tax and social security arrears were substantial and increasing in a limited number of monitored enterprises. An action plan for the district heating companies was agreed which will involve the closure of companies that are not viable in the longer term and increased subsidies to restructure those which are assumed to have a future.

Privatisation entered a second stage. The first stage focussed on enterprises and involved about 63% of all state-owned assets. The second phase of the privatisation programme concerns mainly utilities and infrastructure. Monitoring results for the 154 troubled enterprises showed that losses were still substantial, pointing to the urgency of further restructuring. The privatisation of the banking sector progressed and was expected to lead to a substantial and much-needed improvement of financial intermediation. Important reforms of health insurance, social security and the pension system continued, further reinforcing the market orientation of the economy.

4. Implementation of macro-financial assistance

The fourth macro-financial assistance operation took place in 1999-2000[3]. The Kosovo conflict's impact on the current account led to an increase in the financing gap and the Commission proposed in July 1999 a EUR 100 million macro-financial assistance loan. The Council adopted this proposal on 8 November 1999 (Decision 1999/731/EC). The Commission shortly after finalised the negotiation of the conditions attached to the loan, which consists of two tranches. Disbursement of the first tranche was made conditional on a successful second review of the IMF medium-term programme. This was confirmed in late November, making it possible to disburse a first instalment of EUR 40 million in December 1999. The second instalment was conditional on Bulgaria's performance in relation to a number of structural reform measures. The conditions were consistent with the conditionality framework of the Medium Term Programme (IMF) and a World Bank structural adjustment loan (FESAL). They emphasised, however, reforms that were of particular importance to the accession process, notably restructuring of state-owned enterprises, transparency of state aids and environmental legislation. In view of the progress with these reforms, the second tranche was disbursed in September 2000.

3 Previous macro-financial assistance loans were approved by the Council in: June 1991 (EUR 290 million disbursed in August 1991 and March 1992), October 1992 (EUR 110 million disbursed in December 1994 and August 1996), and July 1997 (EUR 250 million disbursed in February 1998 and December 1998).

VII. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

1. Executive summary

In the period after the foundation of the former Yugoslav Republic of Macedonia in 1992 the country suffered a significant fall in GDP. This was followed by several years of positive but low GDP growth. Thus the level of GDP by 2000 was still significantly below that recorded in 1992.

In 2000 economic growth was quite strong for the first time since independence, as real GDP grew by some 6%. Contrary to late 1999, when growth was mostly driven by the post-conflict boom in Kosovo, growth in 2000 was entirely driven by a surge in domestic demand, both private consumption and investment. The international support for FRY/Kosovo created an important market for exports of a range of goods and services and the substantial presence of relief, military and other personnel in the former Yugoslav Republic of Macedonia added to domestic demand. The re-establishment of international trade routes and the surge in domestic demand implied strong import growth and the current account deficit widened.

The negotiations with the IMF on a new programme that could be supported by a PRGF/EFF arrangement were finally completed in autumn 2000 and the IMF Board approved the three-year arrangement in November while the World Bank approved a second FESAL arrangement in December. The Government is committed to an ambitious programme of economic reform in this framework.

The establishment of a new economic programme and the successful conclusions of the negotiations with the Fund and the World Bank as well as agreement on a Memorandum of Understanding setting out the conditionality for Community macro-financial assistance allowed the Commission to start implementing the assistance of up to EUR 80 million decided by the Council in November 1999.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Price liberalisation has been essentially completed. Price controls exist for only very few products, including oil and oil derivates.
2. Trade liberalisation A small number of tariff and non-tariff barriers remain in place. The recently completed SAA will imply more liberal market access for EU products and gradual reduction of tariffs on most important products.
3. Exchange regime From early 1994, de facto peg of the denar to the Euro; since the devaluation of July 1997 it stands at some 60.5 denar to one Euro.
4. Foreign direct investment The environment for FDI has improved. However, approval from the government is still requested to carry out some types of foreign direct investment, while the absence of a properly functioning market for land also hampers FDI inflows. FDI inflows have been erratic in recent years and have mainly comprised a few large transactions.
5. Monetary policy Monetary policy is essentially based on the exchange-rate anchor.
6. Public finances Very substantial revenue was recorded in 2000, partly due to the introduction of VAT in April as well as to generally stronger economic activity. Some slippage of the wage bill early in the year partly eroded these budget gains. A surplus of 2.2% of GDP is estimated.
7. Privatisation and enterprise restructuring Privatisation programme begun in 1993; some 1200 out of 1216 enterprises have finalised privatisation though only some have been restructured. 40 major loss-making enterprises must be sold or closed before end-2001; currently 9 enterprises have been dealt with and the privatisation process seems to have regained momentum.
8. Financial sector reform Two-tier banking system. There are 20 banks, one branch of a foreign bank and 19 savings banks. The sector is dominated by Stopanska Banka, which has been restructured and has now been sold to the National Bank of Greece. Banking supervision through National Bank.

The disbursement of the first tranche of the assistance, comprising a grant of EUR 20 million and a loan of EUR 10 million, took place in December 2000 and January 2001.

2. Macroeconomic performance

From mid-1999 the post-conflict developments in Kosovo triggered strong growth in the former Yugoslav Republic of Macedonia. Shortly after the end of the Kosovo crisis exports to FRY/Kosovo surged and Skopje's location as the main base for international intervention in Kosovo implied significant service income as well. Throughout 2000, the post-conflict boom continued, but growth was driven by domestic demand, in particular private consumption rather than by net exports. Real GDP in 2000 expanded by an estimated 6% as growth was underpinned by a strong surge in domestic demand, which is estimated to have grown by close to 8% in real terms. Private consumption, in particular in the first quarter of the year before the introduction of VAT on 1 April, expanded significantly and gross capital formation (including stock building) is estimated to have grown by almost 30%, after a marked fall in 1999. With domestic demand growing at some 8% and real GDP growth of 6%, economic growth was entirely driven by domestic demand.

Imports grew faster than exports and the external side constituted a drag on growth. As for the current account deficit, it turned out significantly worse than in 1999, as it widened to some 6.5% of GDP in 2000 against 4.0% of GDP in 1999 and thus returned to levels recorded in most years since independence. The deterioration in 2000 was mainly due to very strong growth in imports of goods, whereas the services balance improved slightly. The rather strong export performance was outweighed by imports for private consumption as well as machinery, etc., required for capital formation.

During 2000 fiscal performance was particularly strong. The rebound of economic activity and especially the better-than-expected results in VAT collection after it was introduced on 1 April led to a general government budget surplus of about 2¼% of GDP for the year as a whole. Following a major slippage in the wage bill of the central government early in the year, the authorities introduced direct control by the Prime Minister's office of recruitment and wage levels in several line ministries.

The unemployment rate remained high, despite a slight fall. The labour force survey conducted in spring 2000 showed an unemployment rate of 32.1%, slightly lower than the registered average unemployment rate in 1999 of 32.4%. Substantial structural problems in the labour market make it unlikely that strong economic growth alone can reduce the unemployment rate substantially.

Inflation stood at 6.1% year-on-year, somewhat higher than in previous years, mainly due to the one-off effect of introducing VAT. However, the authorities broadly managed to contain inflation, as the effects on prices of the introduction of VAT petered out during the first three months. Monetary policy remained unchanged; the denar exchange rate was kept stable against the Euro throughout the year without major tensions.

3. Structural reform

As part of the negotiations with the Fund and the World Bank about a new economic programme that could be supported by the IFI's the Government presented an ambitious multi-annual reform programme, covering most areas of economic reform.

As regards fiscal reform, the action of the authorities during the year 2000 followed the guiding principles agreed with the IFI's for a medium-term transformation of the fiscal domain. Those principles include improved fiscal transparency, budget design and preparation; shifting the tax burden from direct to indirect taxes; reform of public administration and rationalisation of expenditure; integration of core off-budget special revenue into central government accounts; and enhanced debt management. Several actions were undertaken during the year, notably the introduction of VAT. Among other measures, the authorities established a Treasury Department at the Ministry of Finance, issued negotiable government bonds in exchange for frozen foreign currency deposits and established a debt monitoring unit in the Ministry of Finance.

Substantial progress was made in the financial sector. The banking sector was already predominantly privately owned, and the privatisation of the largest commercial bank, Stopanska Banka, was finally completed in April. Privatisation took place through sale to foreign investors (National Bank of Greece). This sale, like the previous sale of Kreditna Banka, the closure of Almako Banka and the announcement of the sale of the third largest bank, was a major step in the restructuring of the sector. Those steps were reinforced by the enactment of a new Banking Law in June. The legislation strengthened the legal framework of bank supervision and enhanced the monitoring ability of the Central Bank.

Privatisation of large enterprises has been unsatisfactory in recent years. As a direct result of the earlier reluctance of the government to conduct the necessary privatisation of a range of state-owned loss-making enterprises, the ESAF programme agreed with the IMF was considered to be off track. However, the privatisation process accelerated significantly in mid-2000, and 9 of the companies were sold (to investors or to the workers) or liquidated. The privatisation of the largest loss-maker, FENI - a nickel smelting firm - was completed in November. This was the last prior action to be undertaken by the authorities before IMF and World Bank Board approval.

In November the Government and the European Commission on behalf of the Community reached agreement on a Stabilisation and Association Agreement, which will imply closer co-operation in most fields of common interest and gradual establishment of a free trade area. The former Yugoslav Republic of Macedonia is the first country to conclude such an agreement with the Community.

4. Implementation of macro-financial assistance

On 8 November 1999 the Council decided to provide up to EUR 80 million of supplementary macro-financial assistance to the former Yugoslav Republic of Macedonia. This assistance consists of up to EUR 50 million of loans and up to EUR 30 million of grants. In view of the fragile economic situation in the former Yugoslav Republic of Macedonia at the time of the decision, and in particular foreign debt levels (over 40% of GDP and rapidly increasing), the Council decided, exceptionally, to provide part of the macro-financial assistance in the form of a grant. A first assistance operation of EUR 40 million had been in the form of loans disbursed in September 1997 and February 1998.

As foreseen in the Council Decision, the release of the first tranche of the Community macro-financial assistance of up to EUR 80 million was to be undertaken "on the basis of an agreement between the country and the IMF on a macroeconomic programme that is supported by a PRGF/EFF arrangement." The IMF Board approval, together with the signature of the MoU and the Loan and Grant Agreements, constituted the conditionality for release of the first tranche of the assistance, against the background of good progress in economic stabilisation and reform. The MoU and the Loan and Grant Agreements were agreed in November and subsequently signed through an exchange of letters. In parallel the IMF Board approved the economic programme and the upper credit tranche arrangement (PRGF/EFF). Hence all the conditions were fulfilled for the release of the first tranche of the Community macro-financial assistance. Accordingly, the first tranche was released in late December 2000. It amounted to EUR 30 million, of which EUR 20 million was in the form of grants and EUR 10 million was a loan[4].

Furthermore, the Community continued to implement up to EUR 25 million of exceptional budgetary support to help the country cope with the costs related to the inflow of refugees during the Kosovo crisis.

In November the IMF approved a three-year EFF loan of USD 31 million and a three-year PRGF loan amounting to USD 13 million[5]. The IMF facility is intended to support the Government's economic programme and the Poverty Reduction Strategy Programme. In December, the World Bank Board approved the second Financial and Enterprise Sector Adjustment Programme (FESAL II). The programme amounts to USD 50.3 million, of which USD 30.3 million is a loan while USD 20 million consists of IDA credits. The FASAL II facility is intended to support the Government's financial and enterprise sector reform programme and thus to stimulate private sector growth and job creation. One of the strategic aims of the FESAL II facility is to sell large firms to strategic foreign investors.

As of 2001, the former Yugoslav Republic of Macedonia is no longer eligible for the PHARE assistance programme. Instead, it is now eligible for the new Community instrument for the Western Balkans, CARDS (Community Assistance for Reconstruction, Development and Stabilisation).

4 For technical reasons, the loan element of the first tranche was released on 15 January 2001.

5 The PRGF loan was agreed in principle on 29 November and finally approved on 15 December.

VIII. GEORGIA

1. Executive summary

As a result of a severe drought which caused a significant decline in agricultural production, the economy is expected to have grown by only 1.2% in 2000. Given Georgia's heavy external debt burden and its limited debt service capacity, substantial deficits, both internal and external, are expected to persist over the next few years. With regard to structural reform, a number of important measures were taken to improve tax enforcement and strengthen the civil service. The reform of the judiciary system has been initiated. A number of large-scale enterprises have been privatised, although more needs to be done in this area. Georgia has also made substantial progress in reforming its energy sector.

In July 1999, the IMF Board favourably concluded the mid-term review under the third annual ESAF arrangement. Since then, recurrent shortfalls in revenue, combined with inappropriate spending priorities, led to further accumulation of expenditure arrears. However, after a satisfactory track record of several months in fiscal revenue, the country benefited from a positive IMF decision on a new three-year programme (Poverty Reduction and Growth Facility) on 12 January 2001.

The absence of a clear prospect of Georgia reaching a new agreement with the IMF before the end of the year 2000, mainly because of the disappointing fiscal results, prompted the Commission to postpone the disbursement of the third grant tranche of assistance initially scheduled for 2000.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices have been liberalised.
2. Trade liberalisation Liberal international trade policy. Most import and export restrictions have been eliminated. Georgia became a member of the WTO in 1999.
3. Exchange regime The lari is not subject to exchange restrictions. Auctions at the Tbilisi Interbank Currency Exchange.
4. Foreign direct investment Adequate overall legislation. Unlimited repatriation of capital and profits and no limitations on holding foreign currency bank accounts. Foreign investors are not allowed to own agricultural land, only to lease it. Progressive privatisation establishing title and registeringof urban and industrial land.
5. Monetary policy The central bank is fully independent. The prudent monetary policy contributed to low inflation and a stable exchange rate in 2000.
6. Public finances Improved revenue collection . Budgetary revenue (including grants) estimated at 15% of GDP; total expenditure and net lending estimated at 19.5% of GDP. The recently appointed anti-corruption commission has proposed a set of reforms to increase transparency and strengthen governance.
7. Privatisation and enterprise restructuring In the energy sector, privatisation has made good progress with public offers being issued for companies in western and eastern Georgia. But the weakness of the power sector remains a major obstacle to economic growth. Privatisation of the telecommunications sector is going ahead: invitations to bid in tenders for the two state-owned companies were sent to 150 strategic investors.
8. Financial sector reform 32 commercial banks. By mid-January 2001, only half of the banks had managed to meet the new minimum capital requirement (lari 5 million). The banking sector appeared increasingly fragile with low CAMEL ratings for 21 banks, while public confidence remained low.

2. Macroeconomic performance[6]

The macroeconomic situation of Georgia deteriorated in 2000, with a GDP decline of 0.2% year-on-year over the first three quarters of the year. This resulted from a severe drought, which caused a significant decline in agricultural production. However, industrial production, trade, transport, communications and services expanded. As a result, the economy is now expected to have grown by 1.2% in 2000.

In the first eight months of 2000, state budget revenue was again below target mainly as a result of weak administration, corruption and difficulty in collecting revenue, in particular customs duties, in a divided country with a sizeable black economy. End-year inflation was expected to remain below the 1999 level, at around 7% only. In 2000, the exchange rate of the Lari was stable at around 2 Lari/USD.

In 2000, Georgia’s current account deficit was expected to remain at the very high level of 14% of GDP. Foreign trade was expected to suffer from the severe drought and the resulting lower agricultural production. Foreign exchange reserves were still low at around 1.1 months of imports. External debt at end-2000 amounted to around USD 1.8 bn or about 59% of GDP (48% of GDP in 1998). In 2000, the country reached new rescheduling agreements with major creditors which will make the debt service burden more sustainable for the near future.

3. Structural reforms

To address corruption, one of the major problems impeding reform, the newly appointed anti-corruption commission prepared a report proposing a broad set of reforms to increase transparency and strengthen governance. Georgia's tax system was being reformed through a USAID programme. Strong measures were taken, such as dismissal of heads of services for having missed targets and establishment of a "financial legion" to secure tax enforcement. A specialised unit for collecting petroleum and tobacco taxes was being considered. The reform process in the customs department was still in its early stages. A major factor in the persistent high level of tax arrears was the unwillingness of the authorities to pursue arrears of state enterprises. The Tax Department nevertheless requested sequestration of the bank accounts of 1,399 enterprises which had arrears totalling USD 71.5 million, and Court rulings were made with regard to half of them. However, there was a delay in paying the cash into the budget, because of the inflexibility of the judicial administration. Although 204 cases of bankruptcy had been presented to the court, only five enterprises had so far been declared bankrupt, though from these five USD 13 million had been collected. The creation of an independent organisation called "Bankruptcy Bureau" was being considered to make the Bankruptcy Law more effective. A reform of the Judiciary was ongoing: judges were required to pass an examination in order to retain positions.

It is estimated that 1,292 or 80% of medium-sized and large enterprises had been privatised, largely to insiders, but few of these companies had subsequently been restructured. The remaining 20% represented a significant part of the total asset value. They were the largest strategic enterprises, including those relating to infrastructure.

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6 The authorities have recently revised the nominal GDP data. The new estimates of nominal GDP are about 34% lower than the previously published data, mainly because of a revision of the estimates for informal activities.

In 2000, around USD 13 million from privatisation was transferred to the state budget. Georgian Airlines, Kaspi Cement and Chiaturmanganese were privatised, as well as shipbuilding and aircraft repair companies. Documents related to licensing and tariff policy in the telecommunications sector were submitted to the Parliament, and 150 foreign companies were invited to bid in tenders for the two state-owned telecommunications companies . Globally, Georgia has made substantial progress in reforming its energy sector. Power generating and distributing companies were offered for privatisation in eastern and western Georgia, while progress towards privatisation was made in the gas sector. Georgia is one of the few countries of the Former Soviet Union that has sold power distribution companies to strategic investors.

The absence of a capital market hindered an improvement in corporate governance that would have come about from the establishment of proper rules for the disclosure, trading and listing of securities. The banking system appeared increasingly fragile and public confidence remained low, despite the appropriate banking regulations and supervision efforts implemented by the National Bank of Georgia.

Establishing title and registration of industrial and urban landwere important, especially for SMEs, since interest rates were high and banks cautious, requiring collateral. By end-1999, over 3,200 private enterprises had registered their land holdings with the regional and municipal registrars of the State Department of Land Management. Renewed efforts were made in this area in 2000.

4. Implementation of exceptional financial assistance

Under the EUR 1250 million Community trade credit facility made available to the NIS in 1992, Georgia benefited from some EUR 113 million in the form of loans. However, owing to difficult political, economic and financial conditions, the country was unable properly to service its external financial obligations, including those towards the Community. In order to support the country's reform efforts and facilitate the settlement of this debt problem, the Council adopted in November 1997 a Commission proposal to provide Armenia and Georgia with exceptional financial assistance and agreed in principle to make available loans of up to EUR 170 million and grants of up to EUR 95 million.

In July 1998, when Georgia had fully settled its arrears towards the Community (EUR 131 million) and its IMF programme was back on track, the Commission disbursed the first tranche of the exceptional financial assistance (EUR 110 million loan and EUR 10 million grant). The second tranche (EUR 9 million grant) under this assistance was disbursed in September 1999, soon after a principal repayment by Georgia of EUR 10 million of the EUR 110 million loan provided in 1998.

The absence of a clear prospect of Georgia reaching a new agreement with the IMF on a new three-year programme before the end of the year 2000, in particular because of disappointing fiscal results (customs revenue remained very low), prompted the Commission to postpone the disbursement of the third grant tranche of assistance initially scheduled for 2000.

IX. KOSOVO

1. Executive summary

Even before the crisis of spring 1999, the economy of Kosovo suffered from the international isolation of the Federal Republic of Yugoslavia (FRY), the slow pace of economic reform, and a total neglect of investment for almost a decade. As a consequence of the conflict, housing and public facilities were damaged, agricultural and industrial production came to a standstill and even the few basic payment functions carried out by the formal financial sector ceased to exist.

The international community and more particularly the EU have supported the reconstruction and development of the province with large-scale financial assistance since the conflict ended in June 1999. On the basis of Security Council Resolution 1244 (1999), the United Nations Interim Administration Mission in Kosovo (UNMIK) was established and has achieved substantial progress in various fields. In the economic domain, UNMIK, and particularly its EU-led Pillar IV, responsible for economic reconstruction and development, has advanced in setting up a sound institutional and economic framework including the legalisation of the D-Mark and a Kosovo Consolidated Budget. Progress has been made in important economic areas, such as the promotion of the reconstruction process, private sector development, banking and payments, as well as the development of the revenue base and pursuit of sound budgetary policies.

As a result, renewed economic activity is visible,having resumed with considerable speed after the conflict, though it is essentially restricted to trade, some services and basic reconstruction. The political situation of Kosovo remains difficult - internally and externally - and continues to be marked by ethnic and social tensions.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Prices are liberalised with the exception of a few public services.
2. Trade liberalisation In August 1999, UNMIK amended the existing FRY customs code, introducing a 10% customs rate, varying excise duties, and sales tax (15%) on imported goods. UNMIK has maintained the preferential trading arrangements of FRY with the former Yugoslav Republic of Macedonia.
3. Exchange regime The use of the D-Mark (and other currencies) has been legalised, albeit the Yugoslav Dinar remains the legal tender.
4. Foreign direct investment Highly unfavourable environment resulting from perceived high risks and legal uncertainties. UNMIK adopted a regulation on FDI at the end of 2000.
5. Monetary policy Given its status, Kosovo does not have a Central Bank nor a monetary policy. The Banking and Payments Authority of Kosovo (BPK) exercises a number of functions usually attributed to a central bank.
6. Public finances A smaller than expected budget deficit in 2000 was due to higher than expected local revenues. Further expansion of taxes and measures to enhance revenue collection are necessary. For the time being, there is no comprehensive social protection system.
7. Privatisation and enterprise restructuring Privatisation of public enterprises hampered by legal uncertainties. UNMIK began to commercialise enterprises through management contracts.
8. Financial sector reform The regulatory and supervisory framework for banking has been established and is in the process of implementation. The introduction of the payments system is advanced with transactions essentially working off-line. The regulation of insurance products is under preparation.

In February 2000, following a Commission proposal, the Council decided to provide exceptional Community financial assistance to Kosovo of up to EUR 35 million in the form of a grant. Disbursements took place in two tranches released in March and August 2000.

2. Macroeconomic performance

Even before the crisis of spring 1999, the economy of Kosovo suffered from the international isolation of the Federal Republic of Yugoslavia (FRY), the slow pace of economic reform, and a total neglect of investment for almost a decade. As a consequence of the conflict, housing and public facilities were damaged, agricultural and industrial production came to a standstill and even the few basic payment functions carried out by the formal financial sector ceased to exist. In October 1999, the International Labour Organisation (ILO) estimated the rate of unemployment to be well over 50% and to be particularly high among the younger age groups which account for a significant proportion of the population.

Although there are no reliable statistical data, there is evidence that economic activity resumed with considerable speed after the conflict. In 2000, agricultural production was estimated to be at more than 75% of its pre-war level; construction and some trade-related services were booming. But industrial production appeared to be still very low. GDP per capita in 1995 was unofficially estimated at about USD 500. Preliminary, highly tentative estimates produced by the IMF indicated GDP per capita in 2000 to be in the range of USD 650-850. UNMIK data suggest that GDP per capita may even exceed USD 1,000. Workers' remittances from abroad remain a major source of household income.

Anecdotal evidence suggests that inflation has not been a problem to date and there are no complaints of rising prices or of shortages of key commodities. Imports are estimated to correspond to about 80% of GDP. There are hardly any exports, although there is some unrecorded trade with the rest of Serbia.

3. Structural reforms

The development of the private sector has been identified as a key priority area for the transformation of the Kosovar economy. UNMIK is proceeding with a mixed strategy defined in, among others, a "White Paper" circulated in May 2000, which foresees support to the existing enterprises and incentives for the creation of new ones. In the case of existing public enterprises, UNMIK's strategy is aimed at attracting private investors through concessions, leases or management contracts. A first example of a management contract that UNMIK hopes to replicate for other medium and large enterprises is the contract concluded with the Swiss Holderbank for the Sharr cement factory. The contract envisages a 10-year concession for the exploitation of the plant in return for substantial investment and industrial restructuring. Other main elements of the "White Paper” are the commercialisation of non-private enterprises in the short term, the completion of the legal framework, the definition of property rights and the building of social consensus around privatisation. In the long term, public enterprises will be transferred to a "Kosovo Enterprise Agency (KEA)", which will decide on their restructuring and commercialisation. While institutional uncertainty prevails, privatisation remains extremely difficult.

Following the recommendations of the IMF, the Banking and Payments Authority of Kosovo (BPK), set up in November 1999, has made important progress in establishing the legal and regulatory framework for a sound banking and payments system. Progress has been faster than expected in the area of bank licensing and supervision. The only licensed bank in Kosovo (Micro Enterprise Bank) so far appears to operate smoothly, continuously to expand its coverage and range of products and to increase its staff and staff qualifications. The BPK granted preliminary approval to seven other applicants for a banking license,but no further full licenses were issued in 2000 for several reasons: the inability of some new banks to raise adequate capital; the necessity to carry out investigations on some major shareholders; and some unresolved property issues regarding bank premises. In addition, the BPK granted approval to nine micro-finance and non-bank groups to provide limited deposit-taking and micro-type lending, essentially covering the non-bankable segment of the market. Eight institutions are already operational.

The BPK continued to develop its payments system to offer payment services to UNMIK, the Kosovo civil administration and NGOs. A modern system donated by Norway was installed and became operational in June 2000. Training of staff is ongoing. BPK took over imports of cash as well as cash shipments within the province. The process of preparing for the changeover from the D-mark to the Euro in 2002 has started.

Equally important institutional development has been promoted by UNMIK in the fiscal area. The establishment of the Central Fiscal Authority (CFA) in November 1999 was a first, significant step towards the creation of a modern budget management system. The CFA, which became a JIAS department in 2000, has specific responsibilities for the design and execution of the Kosovo budget. The UNMIK Tax Administration was officially established in April 2000. Since then, an organisational structure based upon taxation administration functions (returns processing, audit, collection, taxpayer service and education, appeals etc) has been set up. Two taxes – a Hotel Food and Beverage Sales Tax and a Presumptive Tax – began to be administered in 2000. The UNMIK Customs Service was established officially at the end of August 1999, with the support of the Customs Assistance Mission in Kosovo (CAM-K) funded by the EC. The Customs Services essentially collects revenues at international border crossing points, the Administrative Boundary Line (ABL) with Montenegro and an inland Tax Collection Point.

After an initial phase in which the CFA experienced some problems in increasing and stabilising revenue levels as well as controlling expenditures, notably for public service wages and utilities, the budgetary situation showed signs of substantial improvement, in particular from summer 2000 onwards. Revenue developed quite favourably and had reached DM 216.6 million at the end of November. On the expenditure side, the actual spending relative to budgeted amounts was below pro-rata; total expenditure as of November 2000 stood at DM 321.8 million. Certain budget adjustments were initiated in August which shifted budgeted allocations between departments and left overall expenditures almost unchanged (DEM 430.8 million). Against this background, the CFA expects a deficit of roughly DEM 300 million in the budgetary sphere (including some DM 100 million not entirely integrated into the budget and financed by donor-designated grants) in 2000, which will be fully funded by external assistance.

While the performance in 2000 was broadly positive, there were some setbacks. The introduction of a 15% wage withholding tax was put on hold as the UN refused to grant the requested waiver of the general practice of exempting remuneration of UN local staff from taxation. The lack of any form of taxation exacerbates the difference in salary levels between local staff employed directly by the UN and those (including judges and Kosovar department heads) working for the Kosovo administration. Elsewhere the CFA had to remain particularly vigilant to avoid major policy slippage in the control of expenditures of the big spending departments. This applied in particular to the of public utilities, most notably the energy sector.

4. Implementation of macro-financial assistance

In February 2000, following a Commission proposal, the Council decided to provide exceptional Community financial assistance to Kosovo of up to EUR 35 million in the form of a grant[7]. The funds were to be made available to the United Nations Interim Administration Mission in Kosovo (UNMIK) through its Central Fiscal Authority (CFA).

Taking into consideration the considerable progress achieved by UNMIK in establishing essential administrative functions and developing a sound economic framework in Kosovo, a first tranche of EUR 20 million was released in the second half of March 2000.

The second tranche of EUR 15 million was disbursed in the second half of August. A review mission in June had found that the conditions attached to the disbursement of the second tranche had been broadly fulfilled in the following areas: promotion of the reconstruction process, private sector development, banking and payments as well as the development of the revenue base and pursuit of sound budgetary policies. This exceptional assistance, which forms part of an overall European Community assistance package totalling some EUR 300 million (including about EUR 73 million in the budgetary sphere but excluding humanitarian assistance), was complementary to the resources provided by the World Bank and bilateral donors.

7 2000/140/EC of 14 February 2000, OJ L 47, 19.2.2000, p. 28-29

X. MOLDOVA

1. Executive summary

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation
The vast majority of prices were liberalised at an early stage of transition. Only very few administered prices are left .
2. Trade liberalisation
Moldova maintains a very liberal trade regime. The tariff structure features three bands (5,10 and 15%) and the simple average tariff is only 7%. Moldova hopes to join the WTO in early 2001.
3. Exchange regime
Freely floating exchange rate, full current account convertibility
4. Foreign direct investment
The FDI regime is open and non-discriminatory.
5. Monetary policy
Conservative policies, aiming at price stability by the use of monetary aggregates as nominal anchors.
6. Public finances
An impressive, and necessary, reduction in the budget deficit was made in 1999 and 2000, mainly by reductions in health care, education and public sector expenditure. The debt/GDP ratio is roughly 110%, and the bulk of debt servicing is due in the next three years.
7. Privatisation and enterprise restructuring
Structural reforms accelerated markedly in 2000. Substantial progress was recorded in the energy sector, land reform was on schedule, and the privatisation of the economically very important wine and tobacco sectors was finally approved in October 2000.
8. Financial sector reform
The banking sector is small and underdeveloped, partly because it lacks attractive investment opportunities. The central bank is constantly spurring banking sector consolidation. Markets remain undercapitalised.

In 2000, Moldova continued to be faced with serious economic problems. However, the adverse weather conditions affecting agricultural output were compensated by an upturn in industry, transport, and construction, which brought GDP in 2000 to the same level as the previous year. Fiscal policies were substantially tightened and important progress was registered in the area of structural reform, notably with the wineries, the energy sector, and land privatization.

The inflation rate was halved in 2000, to just over 20% in the year to December. The current account deficit increased, however, largely due to higher imports caused by stronger domestic demand. In spite of the total lack of external financing and the significant external debt servicing, gross reserves remained virtually unchanged over the year, covering around 2 ½ months of imports of goods and services. The exchange rate was broadly stable at around 12.5 lei/USD .

The government signed a new three-year memorandum of understanding in the context of a PRGF with the IMF on 1 December 2000, one day after parliament granted final approval to the 2001 budget. Subsequently, Moldova received, in total, external financing of roughly USD 42 million in the last week of 2000.

In July 2000, the Council of the European Union approved a EUR 15 million macro-financial asistance loan to Moldova. The release of the first tranche was tied to a review by the IMF of satisfactory implementation of its agreement.

2. Macroeconomic performance

The Moldovan economy has contracted by over 60% since the country became independent in 1991. Moldova is still suffering seriously from disruptions resulting from the Russian crisis, and unfavourable weather conditions and rising energy prices adversely affected growth in 2000. However, sound financial policies in combination with a gradual improvement in the economies of Moldova's main trading partners triggered some financial and macro-economic stabilisation, though at very low levels.

The latest forecasts point to GDP growth of 1.0% for the year 2000. The recovery resulted mainly from a rise in consumption demand. The retail trade turnover (of registered enterprises) increased by about 5.0%, following a 27.8% plunge in 1999. Owing to the drought, agricultural production fell by just under 10%. Industrial output recovered remarkably, though, rising over 2% after a 9% decline in 1999.

After a sharp acceleration of inflation in 1999, to about 45%, a substantial tightening of the fiscal and monetary policy mix succeeded in reducing the CPI increase to the year-end to just over 20%.

Fiscal policy developments in 1999 and 2000 were both impressive and unprecedented, thanks largely to a rationalisation of health care, education and public sector expenditure. The government budget deficit as a percentage of GDP was reduced from over 8% in 1998 to 2.6% in 1999 and just over 1% in 2000.

Monetary policy was tightened in 2000. Strong foreign exchange inflows caused the leu exchange rate to appreciate slightly, while allowing the central bank to replenish its international reserves, despite large debt service obligations.

The current account deficit widened in 2000 to about 8% of GDP, largely because of higher imports, which started to recover in line with incomes. Exports remained sluggish, in part because of the effects of the drought. Exports increased by 5%, while imports rose by over 30% in the year to December 2000.

In 2000, steps were taken to reduce arrears on debt service obligations and energy payments. In March, USD 137 million of arrears due to Gazprom were settled through (i) the issuance of promissory notes valued at USD 90 million to pay off the debts for natural gas deliveries in 1996 and 1997, and (ii) an agreement on a debt-equity swap in the gas sector, whereby Gazprom acquired 51% of Moldovagaz in return for the clearance of USD 47 million of arrears (mainly through this operation, FDI-inflows accelerated markedly, from 2.6% of GDP in 1999 to 10% of GDP, or USD 143 million). In April, the rescheduling agreement with the Russian authorities covering the total debt to Russia, including that to Oneximbank, was eventually signed. Also, rescheduling discussions were launched with a number of commercial creditors holding government guarantees. Notwithstanding efforts to reach rescheduling agreements with creditors and to normalise relations with energy suppliers, the sustainability of Moldova’s external debt remainsin doubt.

3. Structural reforms

Political developments prompted a standstill in reforms in 1999, in particular with the failure of the parliament to pass legislation for privatisations in the wine and tobacco sectors. However, in 2000, substantial progress was made with privatisations in the energy sector. In addition, the key privatisations of wineries and tobacco plants were finally approved in October 2000.

The preparations for the privatisation of Moldtelecom, Moldova's national telecom operator, has proceeded slowly. However, an independent regulatory body has been established to assist in restructuring this sector.

There was a significant acceleration in land reform. Half of all state and collective farms scheduled for privatisation started restructuring, and half of the land parcels intended for registration in the Cadaster system in 2000 were in fact registered.

Firm restructuring and bankruptcy procedures were formally initiated for a number of firms with large debts to the budget, some of them long outstanding.

While substantial progress was made in structural reform in 2000, further reform of the legal and regulatory environment remains essential to improve governance and the investment climate.

4. Implementation of macro-financial assistance

On 10 July 2000, the Council decided to provide Moldova with a macro-financial assistance package of up to EUR 15 million. However, given that the IMF programme was off track, the Commission could not disburse it.

On 1 December, the government signed a new three-year memorandum of understanding with the IMF in the context of a Poverty Reduction and Growth Facility (PRGF), one day after parliament granted its final approval to the 2001 budget. Subsequently, Moldova received, in total, external financing of roughly USD 42 million in the last week of 2000.

The Commission also reached an agreement ad referendum on the conditions for the release of its macro-financial assistance. Accordingly, EUR 10 million will be disbursed in a first tranche, and the remaining EUR 5 million in the second instalment. The release of the first tranche is subject to the successful conclusion of the first review under the PRGF with the IMF, as well as to progress made with respect to a number of structural reforms agreed between the Commission Services and the Moldovan authorities. The conditions for the second tranche are to be negotiated subsequently.

On 7 December 2000, Moldova made a first principal repayment of EUR 5 million of a previous EU macro-financial loan, in spite of the difficult financial situation the country faced.

XI. MONTENEGRO

1. Executive summary

Montenegro is a constituent republic of the Federal Republic of Yugoslavia (FRY) of some 600,000 inhabitants. Montenegro's macroeconomic situation deteriorated steadily during a decade of gradual dissolution of the Socialist Federal Republic of Yugoslavia, disruption of trade patterns, wars in the region and economic decline in the large Serbian market. The outbreak of the Kosovo crisis and the large influx of refugees from Kosovo led to a further sharp deterioration of the economic situation in the Republic.

In recognition of the difficult situation of the Government of Montenegro, the Council decided on 22 May 2000 to provide Montenegro with exceptional Community financial assistance of up to EUR 20 million in the form of a grant to be released in at least two successive tranches, and subject to economic policy conditionality. The assistance was aimed at sustaining and accelerating the efforts of the reform-minded government towards the creation of a market-oriented economy and in particular its efforts to enhance budgetary transparency and to improve the tax and revenue base while increasing public expenditure efficiency.

During the second half of 2000 and before the release of the second tranche the authorities undertook important reform measures and broadly met the economic policy conditions attached to this assistance. In particular, considerable progress was made in the area of budget preparation. Also, important steps in the reform of tax policy and administration were achieved. The final adoption of an organic budget law in December 2000 should constitute a major prerequisite for increasing public expenditure management and control.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Many prices have been liberalised in the past two years. Prices of milk and bread are expected to be liberalised in the course of 2001. Before fully liberalising main food price categories, which are still subject to controls, government will identify compensation schemes for neediest groups of population (in the framework of EU Food Security Programme).
2. Trade liberalisation Some progress has been made; the number of items subject to restrictions has been reduced; reform of the Customs Service is being discussed with, inter alia, business representatives. .
3. Exchange regime DM became sole legal tender in December 2000.
4. Foreign direct investment Investment environment still considered unfavourable because of perceived high risks, non-transparent policies, and political uncertainties with regard to future constitutional arrangements.
5. Monetary policy Newly adopted law of the central bank gives the central bank responsibility for supervising and regulating domestic banks; de facto no control over monetary policy as the supply of base money is determined by the balance of payments outcome.
6. Public finances Adoption of organic budget law in December 2000 should provide basis for strengthening the role of the Ministry of Finance in budget execution and expenditure control and may also pave the way for the introduction of a Treasury System.
7. Privatisation and enterprise restructuring Mass Voucher Privatisation covers some 191 companies and is expected to be completed before mid-2001. A further 110 companies are in the process of being privatised through tenders, auctions, or bankruptcy procedures. Tenders have been invited for the telecommunications and electricity companies.
8. Financial sector reform Banking sector reform is expected to progress as the law on the banking system was adopted in December 2000. Currently 14 domestic banks operating in Montenegro, most of which may need huge financial resources before they can be transformed into viable financial institutions. New foreign bank started operations in Montenegro recently.

2. Macroeconomic performance

The lack of a national accounting framework and the limited availability of economic data in the Republic make it difficult to assess the macroeconomic situation. Moreover, the large size of the grey economy casts doubts on the relevance of official statistics as a measure of the country's welfare or as a tool for economic policy and fiscal projections.

During the first three quarters of 2000, economic activity seemed to be largely constrained by the disruption of trade with Serbia and hardly any economic recovery was observed. Industrial production, however, rebounded somewhat in October 2000, mainly owing to the resumption of production in the large aluminium company. For the first ten months, industrial output increased by almost 4% compared to the same period in 1999. Cost pressures continued to impact adversely on production and employment so the Secretariat for Development's estimate of 5% real growth in 2000 may not materialise.

The macroeconomic environment can be described as a combination of expansionary fiscal and income policies under tight monetary conditions. Public spending was significantly affected by a boost in wages for public employees and in social benefits related to wages, amounting to two thirds of total expenditure of the Republic budget. Given the shortfall in public revenues, fiscal expansion is being financed to a large extent by inflows of external aid.

From December 1999 to September 2000 the minimum wage increased by 60% and average nominal wages rose by 55%. Inflation eroded only part of this increase; consumer prices rose by 17% during the same period so that real incomes still improved markedly. Inflation decelerated steadily, reaching a monthly rate of 1% in October 2000 after a peak of 5% in January. This still meant an annualised inflation of almost 13%.

The boost in real income has supposedly fuelled imports, leading to an increase of the trade deficit to USD 45 million for the first ten months of 2000, compared to USD 31.5 million for the corresponding period in 1999. A resumption of trade with Serbia should have had a favourable impact on the volume of trade for the balance of 2000.

Public finances in the Republic remained in a critical condition. For the year 2000, the deficit before grants is estimated at about DM 90 million (7.5% of estimated GDP). Arrears are estimated to have reached DM 85 million at end-2000. This implies an actual overall deficit of the Republic budget on accrual basis of DM 175 million, or 14.6% of GDP. Grants are likely to reach DM 110 million (from US estimated at DM 59 million; from EU estimated at DM 51 million), so the amount of DM 20 million exceeding the expected cash deficit could be used to reduce the outstanding arrears.

For the first ten months of 2000, the consolidated budget (including the Republic budget and the extra-budgetary funds) reached a deficit of almost DM 100 million. Net arrears of the consolidated budget at end of 2000 were expected to reach some DM 120 million.

3. Structural reforms

The main expression of the Government's commitment to market-oriented reforms is the extension of the privatisation programme started in 1991. The present phase of the programme (Mass Voucher Privatisation) covers 191 companies and is expected to be completed before the middle of 2001. In addition, 110 enterprises are in the process of being privatised through "batch" sales, tenders, auctions, or bankruptcy procedures. Tenders have already been invited for the telecommunications and electricity companies.

Price liberalisation is proceeding. The authorities are aware that energy prices need to be freed before procedures for the privatisation of the electricity company and Yugopetrol, the state owned entity which controls the import, refinery and distribution of petrol, can be launched. Some progress has been made with regard to trade liberalisation, as the number of items subject to restrictions has been reduced.

The new laws on the Central Bank of Montenegro and on the Banking System were adopted by Parliament in 2000. These laws, which comply with international standards, should provide the basis for transforming the current cash economy into a market-oriented system of financial intermediation. However, it will still be necessary to define the respective roles of the central bank in Podgorica and the Federal central bank in Belgrade in the light of the political developments in Yugoslavia. The restructuring of the banking sector requires a major effort and huge financial resources; it remains to be seen to what extent the 14 domestic banks that are currently operating in Montenegro can be transformed into viable financial institutions. A new foreign bank has started operations and requests from three other foreign institutions were under review by the authorities at the end of 2000.

4. Implementation of macro-financial assistance

On 22 May 2000, the Council of the European Union decided to provide the Republic of Montenegro with exceptional financial assistance of up to EUR 20 million in the form of a grant to be disbursed in at least two successive tranches. The objective of this assistance was to alleviate the Republic's financial constraints through budget support. In particular, the assistance was aimed at sustaining and accelerating the current efforts of the authorities of Montenegro to enhance budgetary transparency and to take further steps to improve the tax and revenue base while increasing public expenditure efficiency.

Following the signature of the Memorandum of Understanding (MoU), the first tranche of the assistance, amounting to EUR 7 million, was disbursed in August 2000. The release of a second tranche of EUR 12.95 million, which was subject to a number of policy measures set out in the MoU, was launched at the end of 2000 (disbursed in early January 2001) after the Commission Services had verified that the conditionality had been fulfilled. EUR 50,000 of this assistance was used for technical support aimed at assisting the authorities, most notably the Ministry of Finance, in the implementation of reform measures related to some of the conditions outlined in the MoU.

In line with the Council decision and given the lack of a comprehensive macro-economic programme supported by the IFIs, the policy conditions of this assistance mostly concentrate on measures to improve budgetary procedures and to enhance fiscal transparency, rather than on specific fiscal and budgetary performance targets. In its review of the conditionality, the Commission concluded that the authorities had broadly fulfilled the economic policy conditions. Particular progress had been achieved in the area of budget preparation and in tax policy and administration reform. Less progress had been made in public expenditure management and control, though the adoption of an organic budget law by the government in December 2000 was an important step towards strengthening the role and capability of the Ministry of Finance in public expenditure control, as it would also provide the legal basis for the establishment of a Treasury System.

XII. ROMANIA

1. Executive summary

Although Romania's macro-economic situation remains fragile, there were signs of a gradual improvement during 2000. The large reduction in the current account deficit, the full and timely repayment of all external obligations and the rebuilding of official reserves were important achievements. The revival of exports and real GDP growth during 2000 are encouraging signs. However, the inflation rate continued to be extremely high and the level of foreign direct investment inflows was extremely disappointing.

There was a lack of significant progress on structural reforms and the financial discipline of the enterprise sector continue to be weak. While privatisation of small and medium-sized companies continued at a rapid pace, less progress was made in privatising and restructuring large loss-making public companies. Many privatisation operations were initiated, but only a few were finalised, and the majority had to be postponed or cancelled. The situation within the agricultural sector - by far the largest source of employment - continued to deteriorate. Private sector growth was hampered by legal, political and economicdifficulties, such as a dysfunctional financial system and ambiguous property rights.

In November 1999, the Council of the European Union had approved a EUR 200 million macro-financial assistance in support of the government's efforts to accelerate reforms and ensure macroeconomic stability, backed by an IMF programme. The first tranche of EUR 100 million was disbursed when the IMF approved the first review of the stand-by arrangement. Unfortunately, the IMF programme went quickly off track and the subsequent review of the programme, which was due in September 2000, was not completed. As a consequence, the second tranche of the macro financial assistance loan was not disbursed.

Summary Status of Economic Reform
1. Price liberalisation The number of controlled prices (essentially public utilities and energy), represented about 7% of the CPI basket at the end of 1999.
2. Trade liberalisation In 1999, average applied MFN rate was about 16% for industrial products and about 34% for agricultural products. Romania has signed a Europe Agreement with the EU and free trade agreements with CEFTA, EFTA, Moldova and Turkey. An import surcharge was introduced in 1998 and stood at 4% in 1999.
3. Exchange regime The leu freely floats, but the central bank intervenes frequently in an effort to maintain external competitiveness. There is full current account convertibility.
4. Foreign direct investment The FDI regime is open and non-discriminatory; profit may be freely repatriated. Since early 1997, foreign investors can own land necessary to carry out their activities. Portfolio investment by non-residents in fixed income securities was not possible in 1999. Laws regulating FDI and portfolio investment were repeatedly modified in 1997-99, creating legal uncertainty.
5. Monetary policy The National Bank of Romania is independent. The Law on the central bank restricts its mandate to ensuring price stability and limits the amount of financing that it can grant to the government. The effectiveness of monetary policy remained hampered by the absence of a secondary market for government securities.
6. Public finances Basic tax reform already completed, but major steps to consolidate public finances remain to be implemented, including pension and health reforms, strengthening financial discipline, tackling unfunded liabilities and improving budgeting and expenditure control
7. Privatisation and enterprise restructuring By the end of 2000, most small and medium-sized companies had been privatised, but most large-scale companies remained public. Corporate governance and financial discipline of mostly large and loss-making public companies remained weak. The authorities are committed to privatising 63 large state-owned enterprises as part of a World Bank private sector adjustment loan.
8. Financial sector reform Reform of the banking sector was slow at first, leading to serious difficulties in 1997 and 1999. However, the authorities took a major step forward by closing a major loss-making state-owned bank accounting for 1/3 of the banking system. Capital markets remain small and underdeveloped.

In November 2000, Romania elected a minority PDSR (Partly of Social Democracy) government. In December 2000 the new government announced its programme. Economic issues were given significant attention. The objectives of the new programme are ambitious. It implies commitment to the core principles of the Medium Term Economic Strategy agreed by the previous coalition in March 2000. However concrete measures are yet to be taken.

2. Macroeconomic performance

After three years of recession, Romania enjoyed a modest increase in economic activity during 2000. Preliminary data for the first nine months of 2000 suggest that the economy grew by 2.1 per cent. Industrial production was 8.2 per cent higher than in the same period of 1999, confirming the moderate upturn in activity. The external sector was the chief source of the recovery, as the acceleration of EU growth increased demand for exports. The agricultural sector performed poorly, as a drought depressed production. In contrast, domestic demand remained subdued as private-sector consumption was constrained by moderate real wage growth.

The current account performed well and preliminary data suggest that the deficit in 2000 may have been 3.2% of GDP. The current account deficit narrowed during the first nine months of 2000. The cumulative deficit fell to USD 682 million compared to USD 781 million for the same period of 1999. Export receipts during the first half of 2000, in terms of US dollars, recorded 27 per cent growth and reached their highest level in ten years. Imports also surged, albeit at a slightly lower rate than exports. Nonetheless, a large component of the correction is due to the current transfers surplus and improvements in the services balance, which places a question mark on the quality of the current account improvement.

Owing to the uncertain macroeconomic environment, FDI inflows declined during the first half of 2000. In the first six months of the year, gross FDI inflows reached about USD 347 million, compared to USD 688 million in 1999. Nevertheless, concerns about Romania's external creditworthiness and its capacity to service its foreign debt obligations subsided, as the authorities made full and timely payment of external obligations.

There is no sign that inflation has started a downward path. Average inflation in 2000, at 49%, was higher than the 1999 rate of 45.8%. The economy lacks an effective nominal anchor. Loose monetary conditions placed significant downward pressure on the nominal exchange rate. Between January and December the Lei fell by 40 per cent against the US dollar and by a third against the Euro.

The fiscal position in 2000 did not improve. The general government deficit was 3.7%, as in 1999. The fiscal stance was loosened in the summer of 2000, but, in the closing months of the year, the upturn in economic activity boosted tax revenues, and relieved fiscal pressures slightly. The previous government also introduced various measures designed to increase tax payments and limit the growth of inter-enterprise arrears. These initiatives had some limited success. Despite these recent positive developments, the fiscal position remains fragile. Pressures to increase public sector wages will continue to be strong, the interest payment burden is large, and tax arrears continue to place severe strains on fiscal policy management.

3. Structural reforms

Structural reform, in particular privatisation, within the banking sector stalled in 2000. Despite commitments under the IMF stand-by arrangement, there is no firm progress towards the privatisation of BCR (Banca Comerciala Romana). Moreover, another state-owned bank – Banca Agricola – continued to require significant liquidity support from the central bank. The largest investment fund went bankrupt, causing the largest of the credit co-operatives to suspend payments. A number of small banks and credit co-operatives were closed down or went bankrupt. These problems had their origin in an inadequate legislative and supervisory framework for the financial sector. Nonetheless, the authorities acted with determination, ensuring that the problems, which culminated in May-June 2000, did not translate into a systemic crisis. Subsequently, they introduced legislation for the credit co-operatives and forced a few private banks to stop their activity.

The financial system does not play its normal role of channelling savings to investment. Romania does not have a functioning financial system supporting the development of economic activity and long-term investment. Owing to a combination of weak economic activity and poor confidence of the general public, domestic credit to the non-government sector fell from 14.8% of GDP in June 1999 to 10.7% in June 2000.

The lack of financial discipline continued to be a serious problem in 2000. Although the stock of arrears to the budget stabilised towards the end of the year, the overall stock was extremely high. The problem was particularly serious within the large state-owned utilities sector. However, a recommendation by the gas and electricity utilities regulator to raise prices, which could have helped to alleviate the problem, was rejected.

Business creation has remained seriously hampered by uncertainty about property rights, and significant and repeated changes in the legal and regulatory environment. Indications are that market entry has become more difficult: the registered number of new foreign-owned companies fell in 1999 and in the first months of 2000. While a better bankruptcy law was established and a new State Aid law was passed at the beginning of 2000, market exit is not satisfactory in Romania. Too many unviable companies are allowed to continue their operations, through the state's disregard of hard budget constraints, the reluctance to enforce state aids rules and the long and difficult implementation by courts of bankruptcy legislation.

Steps were taken to continue the restructuring of some industries, in particular the mining and maritime sectors, and to launch new ones. There were instances of success in such industries as textiles, furniture and electronic sub-contracting, demonstrating that there is an untapped potential for economic growth. In addition, business practices improved, and a few of the largest loss-making companies were closed or restructured. Finally, ambitious restructuring strategies were devised and began to be implemented in the gas and power sectors, involving the unbundling of activities.

4. Implementation of macro-financial assistance

At the end of 1998, the Romanian authorities started negotiations on a new macroeconomic stabilisation programme with the IMF and the World Bank. A stand-by arrangement amounting to SDR 400 million was approved in August 1999. Two disbursements were made, amounting to SDR 140 million. In June 1999 the World Bank approved credits amounting to USD 325 million, including a new private sector adjustment loan (PSAL) amounting to USD 300 million. A first tranche of USD 150 million was disbursed. The first review of the IMF stand-by arrangement was completed in June 2000. The second and final tranche of the PSAL, amounting to USD 150 million, was disbursed afterwards.

Following the signature of a letter of intent between the Romanian authorities and the IMF, , the Council decided, on 8 November 1999, to grant Romania a new long-term balance of payments loan of up to EUR 200 million. This was the fourth such loan since 1992. At the end of 1999, the Commission and the Romanian authorities reached agreement on the conditions for the release of the assistance. It was agreed that payment would be made in two equal instalments. The first tranche was released after the successful completion of the first review under the IMF stand-by arrangement. The second tranche was subject to the continued satisfactory implementation of the IMF programme, progress with respect to a number of structural reforms (notably enterprise restructuring and privatisation in the banking sector) and the establishment of a coherent medium term economic strategy.

During the summer of 2000, the then government's commitment to the macroeconomic framework weakened in the run up to parliamentary and presidential elections. The IMF stand-by agreement, which was extended in June 2000, lapsed after the review in September, when the then government could not deliver its commitment to reduce state-owned enterprise arrears, limit the growth of public-sector wages, or restructure and privatise the remaining state-owned banks. As a consequence, the second tranche of the macro-financial assistance loan was not disbursed.

XIII. TAJIKISTAN

1. Executive summary

Real GDP grew by 9.6% (year-on-year) in the first eight months of the year. Growth was driven by manufacturing. However, a severe drought resulted in a very bad grain harvest (50% of the 1999 level), which was expected to reduce GDP growth to 5% for 2000 as a whole. The progress in the implementation of structural reforms was acceptable. Significant steps were made in fiscal reform and the privatisation of smaller enterprises. Also banking regulation and supervision improved, and the restructuring of the banking sector progressed. However, Tajikistan was slower in privatising larger companies.

On 27 January 2000, the IMF Board favourably concluded the first and second reviews under the second year of the PRGF programme. However, in March, the third review was not favourably completed and the last tranches under the second year programme were not disbursed. However, a new annual arrangement was decided by the IMF Board on 3 November 2000.

The Commission reached an agreement with Tajikistan on the implementation of the exceptional financial assistance adopted by the Council in March 2000 (2000/244/EC).

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices had already been liberalised at end-1996.
2. Trade liberalisation Relatively liberal trade system with average tariff rate of 8% and absence of major non-tariff barriers. Applying for membership in the WTO. Customs union with Russia, Belarus, Kazakhstan and Kyrgyz Republic.
3. Foreign exchange regime Relatively liberal exchange regime. An interbank foreign exchange market began operating in July 2000 replacing the Tajikistan International Currency Exchange and resulting in a more market-determined exchange rate. New currency, the Somoni, since October 2000.
4. Foreign direct investment Modest foreign direct investment due to high perceived country risk, despite a relatively liberal legal regime. No legal obstacles to foreign direct investment or to foreign ownership of shares, no restrictions on the repatriation of profit and capital.
5. Monetary policy Independence of the National Bank reasonably assured by law. In practice, until mid-2000, the NBT performed quasi-fiscal functions dictated by broader economic and political considerations.
6. Public finances Budgetary revenue estimated at 14% of GDP in 2000; expenditure estimated at 15% of GDP. New Tax Code and reinforcement of the Treasury.
7. Privatisation and enterprise restructuring The privatisation of small enterprises has been completed. Slower progress with regard to larger enterprises. Successful privatisation of all cotton ginneries. 55% of total agricultural land is in private hands. Land reform is not free of corruption. Officials continue to intervene in the operations of new private farms and firms.
8. Financial sector reform 19 commercial banks. Significant progress in improving banking regulation and supervision. Restructuring agreements between the NBT and the four main banks. Lending to insiders and non-collection of loans remain widespread. Confidence in the system is still low and ability to mobilise savings remains limited.

2. Macroeconomic performance

Real GDP grew by 9.6% (year-on-year) in the first eight months of the year. Growth was driven by manufacturing, where higher capacity utilisation continued to increase productivity. However, a severe drought resulted in a very bad grain harvest (50% of the 1999 level), which is expected to have reduced GDP growth to 5% for 2000 as a whole.

In 2000, fiscal consolidation was achieved through improved revenue collection, resulting in a surplus of about 1.7% of GDP in the first half of the year. Recent increases in international oil prices and in food prices, as well as the depreciation of the new currency, induced a sharp increase in inflation towards the end of the year. The Tajik currency depreciated by 18% between end-March and mid-September 2000. Its depreciation accelerated towards the end of the year 2000.

The current account deficit in the first half of 2000 (6% of GDP) was lower than in the same period of 1999. However, drought and higher oil prices increased pressures on the balance of payments. Moreover, capital inflows from official and private sources (especially cotton sector financing) were lower than expected, causing pressure on gross foreign exchange reserves (below 2 months of imports coverage).

Tajikistan's external debt represented 103% of GDP at the end of 1999,and was very high when measured by the debt stock and debt service to fiscal revenue ratios.

3. Structural reforms

Independence of the National Bank is reasonably assured by law, but in practice, until March 2000, the NBT performed quasi-fiscal functions dictated by broader economic and political considerations. The NBT's direct exposure to the cotton sector was, however, expected to be eliminated and its indirect involvement to diminish after the privatisation of the sector. Financing of the 2000 cotton crop was expected to be covered by limited lending from the commercial banks funded through credit auctions by the NBT, by the cotton sector's retained export earnings, and by new loans from external private creditors.

With the adoption of a new Tax Code and the reinforcement of the Treasury, significant progress was made in transforming the fiscal system into a modern rule-based instrument of government policy: all fiscal revenues, including tax collections of the State Customs Committee were brought under the Treasury’s control, regional Treasuries were set up, and efforts were made to restructure the central Treasury and to strengthen internal audit and control.

With regard to privatisation, small-scale privatisation neared completion (5,286 small enterprises sold out of a total of 5,400). In the privatisation process, however, poor transparency was a major concern. Tajikistan was slower in privatising the largest enterprises. While most large enterprises had been “incorporated” (733 out of 750), less than one third (214) of them had been sold at end-August 2000. The relatively slow pace is attributable to the existence of a de facto minimum price. Another problem was the delays in receiving full payment for the enterprises after the sale contract was signed. The failure to privatise the Turzunzade aluminium smelter was indicative of the problems faced by the larger enterprises in the country. The plant's inefficiency, low world metals prices and a huge debt (USD 120 million) kept investors away. Given the importance of the cotton sector for the Tajik economy, the successful completion of the long-delayed privatisation of the cotton ginneries, with full payment received for all ginneries, was especially commendable. By end-September 2000, some 290 state and collective farms (out of 600) had been privatised. As of end-July 2000, the farm privatisation process had converted 55% of total agricultural land into private farms (2.6 million hectares). The process was, however, not free of corruption.

The authorities made significant progress in improving banking regulation and supervision. In particular, the minimum capital requirement was increased from USD 300,000 to USD 1 million from 1 January 2000. Banking supervision improved as the NBT expanded and restructured its Banking Supervision Department (BSD) and strengthened its prudential regulations. However, the banking system remained weak and highly concentrated. Most banks were saddled with non-performing loans; operational management was often weak and the financial system suffered from a weak regulatory environment and a lack of functioning capital markets. As a result, overall confidence in the system was still low and banks' ability to mobilise savings remained limited. The number of banks declined from 28 in 1997 to 19 in 2000.

The National Bank of Tajikistan signed restructuring agreements with the four major commercial banks. These four banks are the successors of the specialised banks of the Soviet period and collect most deposits (70%) and issue most loans (75%). These banks were audited according to international accounting standards by international agencies and began preparing their first business plans. Some achieved a somewhat higher-than-expected loan recovery. Restructuring schemes were agreed with some smaller banks. No other financial institutions, apart from a number of small insurance companies, have emerged yet.

4. Implementation of macro-financial assistance

In March 2000, the Council adopted a decision to extend to Tajikistan the exceptional financial assistance already agreed for Armenia and Georgia. The total loan component of this assistance for the three countries was raised to a maximum of EUR 245 million, with a maximum maturity of 15 years and a grace period of 10 years. The grant component of this assistance consists of an amount of up to EUR 130 million during the 1997 to 2004 period, with a maximum of EUR 24 million annually. The assistance was to be disbursed if the country fully settled its arrears towards the Community (EUR 78 million on 31 December 2000), if it remained on track with its IMF programme and if it proceeded with substantial annual reductions in its net debtor position towards the Community.

A Commission staff mission visited Tajikistan in May 2000 to negotiate the terms, amounts and conditions attached to the Community exceptional financial assistance. It reached an agreement in principle with the Tajik authorities on a new loan and on a total grant amount to be disbursed over the 2000-2004 period, as well as on the requested reduction by Tajikistan in its net debtor position towards the Community. The agreement was formally signed by the Tajik authorities in December 2000.

XIV. UKRAINE

1. Executive summary

After a decade of negative growth, the Ukrainian economy began to recover in late 1999 and is estimated to have expanded by 6% in 2000. Inflation accelerated in 2000, reflecting the sharp depreciation of the hryvnya in late 1999/early 2000, higher oil prices and other factors, but is expected to decline in 2001. Assisted by the positive impact on revenues of the economic recovery, the deficit of the consolidated government declined to 1.5% in 2000.

Ukraine’s external financial position strengthened considerably. Supported by healthy export growth, the current account posted a substantial surplus in 2000. Also, in April 2000, Ukraine successfully restructured some USD 2.6 billion of foreign debt held by the private sector.

In the area of structural reform, although the reformist government formed in December 1999 took significant steps in areas such as privatisation, banking regulation, land reform and energy sector reform (including the decision to close Chernobyl on 15 December 2000), much remains to be accomplished. In particular, progress with gas sector reform has been elusive and significant weaknesses remain in some large banks. Also, Ukraine continues to impose a number of trade restrictions that are not only inadvisable from an economic point of view but violate the rules of its Partnership and Cooperation Agreement (PCA) with the EU.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices have been liberalised. Communal services tariffs (such as gas, electricity, heating, and rents) are subject to administrative control and tend to be below full-cost recovery levels.
2. Trade liberalisation Import regime free of quantitative restrictions, with a few exceptions for health and safety reasons. Trade-weighted average import tariff was 7.5% in mid-1999. A uniform 2% import surcharge was imposed in July 1999 for six months. Few export restrictions (there are export duties on hides and skins and on sunflower seeds). PCA with EU entered into force on 1 March 1998. In 1999, Ukraine introduce several trade restrictions that were incompatible with the PCA.
3. Foreign exchange regime Full current account convertibility (Article VIII status at the IMF) since September 1996. Certain foreign exchange restrictions on current transactions were reintroduced between September 1998 and August 1999 to defend the currency.
4. Foreign direct investment Tax relief granted to some investments constituting at least 20% of an enterprise's capital and to investments in the automobile industry above USD 100 million. FDI inflows have remained very low on a per capita basis (they reached only USD 747 million, or USD 15 per capita, in 1998).
5. Monetary policy Increasing reliance on indirect monetary instruments. Central bank credit to commercial banks allocated mostly through the Lombard facility, credit auctions and repurchasing agreements. Reserve requirements were unified in April 1997 at 11%, raised to 16.5% during 1997-98, and cut back to 15% in January 1999.
6. Public finances General government expenditure reduced from about 70% of GDP in 1992 to some 38% in 1998. Public employment cut by 1 million (to 4.7 million) between 1994 and 1998. Consolidated government deficit reduced from 5.2% of GDP in 1997 to 1.5% of GDP in 2000. Social security contributions, the VAT and the profit tax are the main sources of revenue, accounting together for about 70% of consolidated government tax revenues.
7. Privatisation and enterprise restructuring Small-scale privatisation virtually completed. Over 9,500 enterprises privatised through a mass (voucher) privatisation scheme launched in early 1995. Over a quarter of 200 large enterprises privatised. Limited involvement of foreign or strategic investors. According to the government, private sector accounted for about 60% of industrial output in 1998.
8. Financial sector reform Significant efforts made since 1997 to strengthen banking supervision and regulation, including the adoption of new law on the central bank in July 1999, the introduction of the International Accounting Standards, and the establishment of a new reporting system for banks. Most banks are privately owned. The banking system, however, remains weak, with several of the largest banks in poor condition. Capital markets remain underdeveloped.

After more than a year of difficult discussions, complicated by allegations about the irregular use of IMF funds by the National Bank of Ukraine (NBU) during 1997-98, the IMF approved in December 2000 the reactivation of the extended arrangement (EFF). In December 2000, a Commission staff mission travelled to Kiev to agree on the policy measures related to the disbursement of the second tranche of the EUR150 million macro-financial assistance approved by the EU in October 1998.

2. Macroeconomic performance

Following a further drop (of 0.4%) in 1999, the economy recovered strongly in 2000, led by robust export performance. Real GDP grew by 6 percent and industrial production by 12 percent, the first positive yearly rates since the country's independence.

Year-on-year CPI inflation accelerated from 18.4% in October 1999 to 28.9% in November 2000, reflecting the sharp depreciation of the hryvnya at the time of the Presidential elections of October/November 1999, the increase in oil prices, adjustments in administrative prices, and relatively fast monetary growth. Money supply expanded at an annual rate of about 36%. This partly reflected a structural re-monetisation of the economy but also the monetary impact of the government's failure to service its debts to the NBU, which the latter has not been able to fully compensate through liquidity-mopping operations.

The deficit of the consolidated government, measured on a cash basis and including privatisation revenues "below the line", declined from 2.4% of GDP in 1999 to an estimated 1.5% of GDP in 2000. This partly reflected the positive effect on fiscal revenues of stronger-than-expected economic activity but also the delays in debt service payments to the NBU and the accumulation of certain arrears in the energy sector.

Ukraine’s current account swung from a deficit of about 3% of GDP in 1998 to a surplus of 2.7% of GDP in 1999, reflecting the negative effect of shrinking output on imports, which amply offset a new drop in exports. Supported by the depreciation of the hryvnya and stronger demand in Ukraine's main trading partners, however, exports have been growing strongly since late 1999. Although import growth has also accelerated reflecting the recovery of domestic demand, the current account posted a substantial surplus in the first three quarters of 2000.

In April 2000, some USD 2.6 billion of foreign debt, mostly eurobonds held by private investors but also part of Ukraine's debt to the Russian gas company Gazprom, were swapped into 7-year bonds denominated in Euros or dollars. Ukraine, stopped servicing its debts to the Paris Club in January 2000, and sought a rescheduling of these debts (which amount to about USD 700 million). Following the IMF's decision to resume its lending to Ukraine, the Paris Club was expected to consider a rescheduling of Ukraine's debts to its member countries.

Despite the improved current account and the rescheduling of private bond debt, the balance of payments remains vulnerable. Foreign direct investment inflows continued to be disappointing, and official foreign exchange reserves remained low (USD 1.15 billion at end-November 2000, or the equivalent of 3¾ weeks of imports). Moreover, the need to undertake substantial imports of fuel was expected to have a negative effect on the balance of payments during the winter of 2000-01[8]. In January 2000, Moody’s,

8 As of October 2000, Ukrainian fuel stocks were clearly insufficient to cover production needs for the winter. In October 2000, the EBRD approved a USD100 million "Fuel Purchase Loan Facility" to help the state-owned power-generation companies purchase imports of fuel during the winter.

reflecting what it perceived as an increased risk of default, downgraded Ukraine's rating from B3 to Caa1 (a default grade rating).

Following a depreciation of about 20% between July 1999 and January 2000, the hryvnya was relatively stable. The relative stability against the dollar, coupled with the appreciation of the US currency and Ukraine's large inflation differential against its main trading partners, resulted in a considerable real exchange rate appreciation from February 2000, particularly vis-à-vis the Euro area (given the Euro's marked depreciation against the dollar). This real appreciation, however, can be largely seen as a correction to the over-depreciation suffered in late 1999 and early 2000, and the exchange rate is thought to still be competitive.

3. Structural reforms

Although the reformist government formed in December 1999 took significant steps in the area of structural reform, progress in this field remained mixed and much remained to be accomplished.

In agriculture , the President passed a decree in December 1999 allowing the effective sale of individual plots from the collective agricultural enterprises and paving the way for the development of a private land market. A subsequent Presidential decree, however, in June 2000 partly restored state control of the grain market.

On the privatisation front, the President signed in December 1999 a decree on priority measures to expedite privatisation, and, in early 2000, a privatisation programme for 2000-02 foreseeing the sale of large companies was adopted by parliament. At over 2 billion hryvnias, privatisation revenues more than doubled in 2000. Some sales, however, were not conducted in a transparent manner: there were some instances of companies being excluded from the bidding process without a clear justification.

Banking regulation and supervision have been considerably strengthened in recent years with technical assistance from foreign donors. Significant weaknesses remain, however, in some of the largest banks. Restructuring programmes for those banks were adopted in 2000 and their implementation is a key aspect of the conditionality of the World Bank, the IMF and the EU's macro-financial assistance. Two of these banks, namely Banka Ukrainia and the state savings bank, made little progress in implementing their programmes and were in a very weak position. Revised resolution plans for these banks, however, were in the process of being adopted. Also, in December 2000, the parliament passed a new law on banks and banking activities that strengthened the supervisory powers of the NBU and better defined the framework for dealing with bank bankruptcies.

Progress with energy sector reform has been slow but a number of encouraging steps have been taken since late 1999. On 15 December 2000, Chernobyl was finally closed down, opening the way for an international financial package, led by the EU and the EBRD, aimed at completing with acceptable safety standards the nuclear power plants of Khmelnitsky and Rovno (the so-called K2R4 project). Also, there was some progress in the area of power sector reform. In particular, privatisation tenders for 7 power distribution companies were launched in October/November and a tender for the selection of the privatisation adviser for a third batch of 6/7 companies was at an advanced stage. There was also a significant improvement in cash collection rates in the power sector in the second half of 2000.

In the area of the trade liberalisation, Ukraine has made some progress since the spring of 2000 towards removing a number of trade restrictions that were incompatible with the PCA but more needs to be done. As part of the conditionality linked to the disbursement of the EU's macro-financial assistance, the authorities have been discussing with the Commission a timetable for the elimination of the remaining restrictions (see below).

4. Implementation of macro-financial assistance

In September 1998, the IMF approved an EFF for Ukraine of USD 2.2 billion, which was later augmented to USD 2.6 billion. The EFF ran off-track a couple of months after its approval because of fiscal and structural slippages but resumed under a revised economic programme in the spring of 1999. The easing of macroeconomic policies, the failure to implement a number of structural reforms and the impasse created by the Presidential election, however, led to a second interruption of the EFF in the autumn of 1999. After more than a year of difficult negotiations, the IMF decided in December 2000 to reactivate the EFF in support of a new economic programme agreed with the authorities.[9]

In October 1998, the EU Council granted Ukraine a third macro-financial loan of up to EUR 150 million[10]. The loan was to be disbursed in at least two tranches and has da maximum maturity of 10 years. The disbursement of the first tranche was delayed because of the initial problems with the IMF's EFF. Following the resumption of the EFF and the implementation of a number conditions agreed between the EU and the Ukrainian authorities, the first tranche (EUR 58 million) was disbursed in July 1999. At the same time, the Commission staff agreed in principle with the authorities on the policy conditions for the release of the second tranche of the loan, stated in a Supplementary Memorandum of Understanding. This first version of the document, however, was never signed, owing to the insistence by some Ukrainian ministries on minor changes to the text and a new interruption, in the autumn of 1999, of the EFF.

In December 2000, when the reactivation of the EFF seemed within reach, a Commission staff mission went to Kiev to resume discussions on the conditions for the release of the second tranche of this assistance. The mission agreed ad referendum with the authorities on practically all the policy measures contained in a revised Supplementary Memorandum of Understanding. These measures focused on the elimination of trade restrictions that contravened the PCA, the reform of the energy sector, the privatisation of large enterprises, the strengthening of the banking system,

9 One factor that complicated the resumption of IMF lending was the allegations about the irregular use of IMF funds by the NBU in 1997-98. An independent audit commissioned in early 2000 at the request of the IMF found that the NBU had overstated its reserves, allowing it to obtain several IMF disbursements that it would otherwise not have received. On the other hand, the audit found no evidence of misappropriation of IMF funds. In late August, Ukraine repaid to the IMF ahead of schedule the funds that it had purchased inappropriately by overstating its reserves (SDR 72.5 million). Also, In September 2000, Ukraine agreed to take remedial measures to avoid a repetition of these irregularities.

10 Council Decision 98/592/EC of 15 October 1998. The fist and second macro-financial assistance operations had been approved by the Council in December 1994 and October 1995. The first loan, amounting to EUR 85 million, was disbursed during 1995. The second one, amounting to EUR200 million, was disbursed in 1996 and 1997.

and the creation of a level playing field and a favourable climate for foreign investment. The Commission staff proposed, ad referendum, a second tranche of €42 million.

ANNEX 1 A: COMMUNITY MACRO-FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY DATE OF COUNCIL DECISIONS

Status of effective disbursements as of December 2000 (in millions of EUR)

	Authorisations			Disbursements			
Country	Date of Council Decision	Reference of Council Decision	**Maximum amount**	Dates of disbursements	Amounts of disbursements	**Totals**	**Undisbursed**
Hungary I (Structural adjustment loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260** **(Suspended)**
Czech and Slovak Federal Republic (BOP loan)	25.02.91	91/106/EC	**375**	Mar. 1991 Mar. 1992	185 190	**375**	
Hungary II (BOP loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Bulgaria I (BOP loan)	24.06.91	91/311/EC	**290**	Aug. 1991 Mar. 1992	150 140	**290**	
Romania I (BOP loan)	22.07.91	91/384/EC	**375**	Jan. 1992 Apr. 1992	190 185	**375**	
Israel[1] (structural adjustment soft loan)	22.07.91	91/408/EC	**188**	Mar. 1992	188	**188**	
Algeria I (BOP loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Albania I (BOP grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Bulgaria II (BOP loan)	19.10.92	92/511/EC	**110**	Dec. 1994 Aug .1996	70 40	**110**	
Baltics (BOP loans) of which :	23.11.92	92/542/EC	**220**			**135**	**85** **(Suspended)**
Estonia			**(40)**	Mar. 1993	20	**(20)**	**(20)**
Latvia			**(80)**	Jul. 1993	40	**(40)**	**(40)**
Lithuania			**(100)**	Jul. 1993 Aug. 1995	50 25	**(75)**	**(25)**
Romania II (BOP loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Moldova I (BOP loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Romania III (BOP loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec 1997	55 40 30	**125**	
Albania II (BOP grant)	28.11.94	94/773/EC	**35**	Jun. 1995 Oct. 1996	15 20	**35**	
Algeria II (BOP loan)	22.12.94	94/936/EC	**200**	Nov. 1995	100	**100**	**100** **(Suspended)**
Slovakia (BOP loan)	22.12.94	94/939/EC	**130**			**Cancelled** (Jul. 1996)	**130** **Cancelled**
Ukraine I (BOP loan)	22.12.94	94/940/EC	**85**	Dec. 1995	85	**85**	
Belarus (BOP loan)	10.04.95	95/132/EC	**55**	Dec. 1995	30	**30**	**25** **(Suspended)**
Ukraine II (BOP loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sept. 1997	50 50 100	**200**	
Moldova II (BOP loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	

1 Assistance to Israel includes a loan principal amount of ECU 160 million and grants of ECU 27.5 million in the form of interest rate subsidies.

ANNEX 1 A: COMMUNITY MACRO-FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY DATE OF COUNCIL DECISIONS

CONTINUED

	Authorisations			Disbursements			
Country	Date of Council Decision	Reference of Council Decision	**Maximum amount**	Dates of disbursements	Amounts of disbursements	**Disbursed**	**Undisbursed**
FYROM I (BOP loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Bulgaria III (BOP loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Armenia, Georgia and Tajikistan[2] (Structural adjustment loans and grants) of which:	17.11.97 28.03.2000	97/787/EC modified by 00/244/EC	**375**			**169**	**206**
Armenia			**(58)**	Dec. 1998 Dec. 1998 Dec. 1999	28 (loan) 8 (grant) 4 (grant)	**(40)**	**(18)**
Georgia			**(165)**	Jul. 1998 Aug. 1998 Sep. 1999	110 (loan) 10 (grant) 9 (grant)	**(129)**	**(36)**
Tajikistan			**(110)**				**(110)**
Ukraine III (BOP loan)	15.10.98	98/592/EC	**150**	Jul. 1999	58	**58**	**92**
Albania III (BOP loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia I[3] (BOP loan and grant)	10.05.99	99/325/EC	**60**	Dec. 1999 Dec. 1999 Jan. 2001 Jan. 2001	15 (grant) 10 (loan) 10 (grant) 10 (loan)	**45**	**15**
Bulgaria IV (BOP loan)	08.11.99	99/731/EC	**100**	Dec. 1999 Sep. 2000	40 60	**100**	
FYROM II[4] (BOP loan and grant)	08.11.99	99/733/EC	**80**	Dec. 2000 Jan. 2001	20 (grant) 10 (loan)	**30**	**50**
Romania IV (BOP loan)	08.11.99	99/732/EC	**200**	Jun. 2000	100	**100**	**100**
Kosovo[5] (Grant budgetary support)	19.02.00	00/140/EC	**35**	Mar. 2000 Aug. 2000	20 15	**35**	
Montenegro[5] (Grant budgetary support)	22.05.00	00/355/EC	**20**	Aug. 2000 Jan. 2001	7 13	**20**	
Moldova III (BOP loan)	10.07.00	00/452/EC	**15**				**15**
TOTAL			**5393**			**4295**	**1098**

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2 Exceptional financial assistance, which includes loans for a maximum amount of ECU 245 million and grants for a maximum amount of ECU 130 million.

3 Includes a loan principal amount of EUR 20 million and grants of EUR 40 million.

4 Includes a loan principal amount of up to EUR 50 million and grants of up to EUR 30 million.

5 Exceptional financial assistance

ANNEX 1 B: COMMUNITY MACRO-FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY REGION

Status of effective disbursements as of December 2000 (in millions of Euro)

Country	Authorisations: Date of Council Decision	Authorisations: Reference of Council Decision	Authorisations: Maximum amount	Disbursements: Dates of disbursements	Disbursements: Amounts of disbursements	Disbursed	Undisbursed
A. EU Accession Countries							
Baltics (BOP loans) of which :	23.11.92	92/542/EC	**220**			**135**	**85** **(Suspended)**
Estonia			**(40)**	Mar. 1993	20	**(20)**	**(20)**
Latvia			**(80)**	Jul. 1993	40	**(40)**	**(40)**
Lithuania			**(100)**	Jul. 1993 Aug. 1995	50 25	**(75)**	**(25)**
Bulgaria I (BOP loan)	24.06.91	91/311/EC	**290**	Aug. 1991 Mar. 1992	150 140	**290**	
Bulgaria II (BOP loan)	19.10.92	92/511/EC	**110**	Dec. 1994 Aug .1996	70 40	**110**	
Bulgaria III (BOP loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Bulgaria IV (BOP loan)	08.11.99	99/731/EC	**100**	Dec. 1999 Sep. 2000	40 60	**100**	
Czech and Slovak Federal Republic (BOP loan)	25.02.91	91/106/EC	**375**	Mar. 1991 Mar. 1992	185 190	**375**	
Hungary I (Structural adjustment loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260** **(Suspended)**
Hungary II (BOP loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Romania I (BOP loan)	22.07.91	91/384/EC	**375**	Jan. 1992 Apr. 1992	190 185	**375**	
Romania II (BOP loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Romania III (BOP loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec 1997	55 40 30	**125**	
Romania IV (BOP loan)	08.11.99	99/732/EC	**200**	Jun. 2000	100	**100**	**100**
Slovakia (BOP loan)	22.12.94	94/939/EC	**130**			**Cancelled** (Jul. 1996)	**130** **Cancelled**
TOTAL A			**3305**			**2730**	**575**
B. Western Balkans							
Albania I (BOP grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Albania II (BOP grant)	28.11.94	94/773/EC	**35**	Jun. 1995 Oct. 1996	15 20	**35**	
Albania III (BOP loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia I[1] (BOP loan and grant)	10.05.99	99/325/EC	**60**	Dec. 1999 Dec. 1999 Jan. 2001 Jan. 2001	15 (grant) 10 (loan) 10 (grant) 10 (loan)	**45**	**15**
FYROM I (BOP loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
FYROM II[2] (BOP loan and grant)	08.11.99	99/733/EC	**80**	Dec. 2000 Jan. 2001	20 (grant) 10 (loan)	**30**	**50**
Kosovo[3] (Grant budgetary support)	19.02.00	00/140/EC	**35**	Mar. 2000 Aug. 2000	20 15	**35**	

1 Includes a loan principal amount of EUR 20 million and grants of EUR 40 million.

2 Includes a loan principal amount of up to EUR 50 million and grants of up to EUR 30 million.

ANNEX 1 B: COMMUNITY MACRO-FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY REGION

CONTINUED

Country	Authorisations: Date of Council Decision	Authorisations: Reference of Council Decision	Authorisations: Maximum amount	Disbursements: Dates of disbursements	Disbursements: Amounts of disbursements	Disbursed	Undisbursed
Montenegro[3] (Grant budgetary support)	22.05.00	00/355/EC	**20**	Aug. 2000 Jan. 2001	7 13	**20**	
TOTAL B			**360**			**275**	**85**
C. New Independent States (NIS)							
Armenia, Georgia and Tajikistan[4] (Structural adjustment loans and grants) of which:	17.11.97 28.03.00	97/787/EC modified by 00/244/EC	**375**			**169**	**206**
Armenia			**(58)**	Dec. 1998 Dec. 1998 Dec. 1999	28 (loan) 8 (grant) 4 (grant)	**(40)**	**(18)**
Georgia			**(165)**	Jul. 1998 Aug. 1998 Sep. 1999	110 (loan) 10 (grant) 9 (grant)	**(129)**	**(36)**
Tajikistan			**(110)**				**(110)**
Belarus (BOP loan)	10.04.95	95/132/EC	**55**	Dec. 1995	30	**30**	**25** **(Suspended)**
Moldova I (BOP loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Moldova II (BOP loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	
Moldova III (BOP loan)	10.07.00	00/452/EC	**15**				**15**
Ukraine I (BOP loan)	22.12.94	94/940/EC	**85**	Dec. 1995	85	**85**	
Ukraine II (BOP loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sept. 1997	50 50 100	**200**	
Ukraine III (BOP loan)	15.10.98	98/592/EC	**150**	Jul. 1999	58	**58**	**92**
TOTAL C			**940**			**602**	**338**
D. Mediterranean Countries							
Algeria I (BOP loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Algeria II (BOP loan)	22.12.94	94/936/EC	**200**	Nov. 1995	100	**100**	**100** **(Suspended)**
Israel[5] (structural adjustment soft loan)	22.07.91	91/408/EC	**188**	Mar. 1992	188	**188**	
TOTAL D			**788**			**688**	**100**
TOTAL A+B+C+D			**5393**			**4295**	**1098**

3 Exceptional financial assistance.

4 Exceptional financial assistance, which includes loans for a maximum amount of ECU 245 million and grants for a maximum amount of ECU 130 million.

5 Assistance to Israel includes a loan principal amount of ECU 160 million and grants of ECU 27.5 million in the form of interest rate subsidies.

ANNEX 2 - BALANCE OF PAYMENTS SUPPORT TO RECIPIENTS OF EU MACRO-FINANCIAL ASSISTANCE BY CONTRIBUTOR, 1990-2000 ([1])

2a. In millions USD

	1990	1991	1992	1994	1995	1996	1997	1998	1999	2000
IFI's	**419**	**5607**	**1564**	**4086**	**1877**	**250**	**732**	**2800**	**1751**	**36**
IMF	219	4177	909	3206	1477	195	584	2200	1009	12
World Bank	200	1430	655	880	400	55	148	600	742	24
Bilaterals	**1618**	**5600**	**708**	**11202**	**3885**	**67**	**582**	**336**	**872**	**238**
EU ([2])	1108	2190	423	855	330	19	329	168	556	189
Other bilaterals ([3])	511	1406	285	702	150	10	73		264	49
of which										
USA		35		100		10	15		75	13
Japan	200	850	120	350	150		54		22	7
Debt relief		2004		9645	3405	38	180		52	
Paris Club		554		4920					52	
London Club				4380						
Other ([4])		1450		345	3405	38	180			

2.b In percent of total commitments, including debt relief

	1990	1991	1992	1994	1995	1996	1997	1998	1999	2000
IFI's	**21**	**50**	**69**	**27**	**33**	**79**	**56**	**94**	**67**	**13**
IMF	11	37	40	21	26	62	44	74	38	4
World Bank	10	13	29	6	7	17	11	20	28	9
Bilaterals	**79**	**50**	**31**	**73**	**67**	**21**	**44**	**6**	**33**	**87**
EU ([2])	54	20	19	6	6	6	25	6	21	69
Other bilaterals ([3])	25	13	13	5	3	3	5		10	18
of which										
USA		0		1		3	1		3	5
Japan	10	8	5	2	3		4		1	3
Debt relief		18		63	59	12	14		2	
Paris Club		5		32					2	
London Club				29						
Other ([4])		13		2	59	12	14			

2c. In percent of total commitments, excluding debt relief

	1990	1991	1992	1994	1995	1996	1997	1998	1999	2000
IFI's	**21**	**61**	**69**	**72**	**80**	**90**	**65**	**92**	**68**	**13**
IMF	11	45	40	57	63	70	52	59	39	4
World Bank	10	16	29	16	17	20	13	33	29	9
Bilaterals	**79**	**39**	**31**	**28**	**20**	**10**	**35**	**8**	**32**	**87**
EU ([2])	54	24	19	15	14	7	29	8	22	69
Other bilaterals ([3])	25	15	13	12	6	4	7		10	18
of which										
USA		0		2		4	1		3	5
Japan	10	9	5	6	6		5		1	3

1 For the purpose of these table recipients of EC MFA means all countries listed in Table 1. No operation was decided in 1993.

2 EU macro-financial assistance.

3 Including EU Member States.

4 Syndicated commercial banks loan in favour of Algeria in 1991, - debt relief in favour of Ukraine by Russia and Turkmenistan in 1994 and 1995, and rescheduling agreements with international banks in 1998 and 1999; - debt rescheduling in favour of Moldova by Russia in 1996; - debt rescheduling in favour of Bulgaria and FYROM in 1997.

ANNEX 2.1: BALANCE OF PAYMENT SUPPORT TO RECIPIENTS OF EC MACRO-FINANCIAL ASSISTANCE BY CONTRIBUTOR, 1999-2000[1]

(in millions of USD and in per cent of total commitments and disbursements)

Balance of payments support 1999

	Total				Albania III				Bosnia I			
	Commitments		Disbursements		Commitments		Disbursements		Commitments		Disbursements	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%
IFI's	**1751**	**67**	**964**	**67**	**108**	**53**	**88**	**67**	**206**	**62**	**133**	**65**
IMF	1009	38	472	33	58	28	38	29	84	25	56	28
WB (policy based)	742	28	492	34	50	24	50	38	122	37	77	38
Bilaterals	**872**	**33**	**478**	**33**	**97**	**47**	**43**	**33**	**128**	**38**	**71**	**35**
EU	556	21	297	21	87	43	33	25	64	19	45	22
USA	75	3	48	3					22	7	17	8
Japan	22	1										
Other bilaterals	167	6	100	7	4	2	4	3	38	11	5	2
Debt relief	52	2	34	2	6	3	6	5	4	1	4	2
London Club												
Paris Club	52	2	34	2	6	3	6	5	4	1	4	2
Other												
Total	**2624**	**100**	**1442**	**100**	**205**	**100**	**132**	**100**	**334**	**100**	**204**	**100**

	Bulgaria IV				FYROM II				Romania IV			
	Commitments		Disbursements		Commitments		Disbursements		Commitments		Disbursements	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%
IFI's	**465**	**69**	**461**	**70**	**125**	**35**	**59**	**43**	**847**	**80**	**223**	**71**
IMF	290	43	286	44	30	9	19	14	547	52	73	23
WB (policy based)	175	26	175	27	95	27	40	29	300	28	150	48
Bilaterals	**207**	**31**	**193**	**30**	**227**	**65**	**79**	**57**	**213**	**20**	**92**	**29**
EU	107	16	98	15	85	24	28	20	213	20	92	29
USA	25	4	25	4	28	8	6	4				
Japan					22	6						
Other bilaterals	75	11	70	11	50	14	21	15				
Debt relief					42	12	24	17				
London Club												
Paris Club					42	12	24	17				
Other												
Total	**672**	**100**	**654**	**100**	**352**	**100**	**138**	**100**	**1060**	**100**	**315**	**100**

Balance of payments support 2000

	Total				Kosovo				Moldova			
	Commitments		Disbursements		Commitments		Disbursements		Commitments		Disbursements	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%
IFI's	**36**	**13**	**36**	**23**	**5**	**6**	**5**	**6**	**31**	**57**	**31**	**76**
IMF	12	4	12	8					12	22	12	29
WB (policy based)	24	9	24	15	5	6	5	6	19	35	19	47
Bilaterals	**238**	**87**	**120**	**77**	**81**	**94**	**78**	**94**	**24**	**43**	**10**	**24**
EU	189	69	74	47	42	49	42	50	14	25		
USA	13	5	13	8	13	15	13	16				
Japan	7	3	7	4	7	8	7	8				
Other bilaterals	29	11	26	17	19	22	16	19	10	18	10	24
Debt relief												
London Club												
Paris Club												
Other												
Total	**275**	**100**	**156**	**100**	**86**	**100**	**83**	**100**	**55**	**100**	**41**	**100**

[1] Disbursements are shown under the year of corresponding commitments.

	Montenegro				Tajikistan			
	Commitments		Disbursements		Commitments		Disbursements	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%
IFI's								
IMF								
WB (policy based)								
Bilaterals	**32**	**100**	**32**	**100**	**102**	**100**		
EU	32	100	32	100	102	100		
USA								
Japan								
Other bilaterals								
Debt relief								
London Club								
Paris Club								
Other								
Total	**32**	**100**	**32**	**100**	**102**	**100**		

ANNEX 3: SELECTED ECONOMIC INDICATORS

	1997	1998	1999	2000 Programme (1)	2000 Estimates
GDP at constant prices	(% change)				
Albania	-7.0	8.0	7.3	7.0	7.8
Armenia	3.1	7.2	3.3	-	6.0
Bosnia-Herzegovina	30.0	18.0	9.0	12.0	10.0
Bulgaria	-7.4	4.5	2.4	4.0	5.3
FYROM	1.4	2.9	2.7	6.0	6.0
Georgia	10.7	2.9	2.9	1.2	1.9
Kosovo	-	-	-	-	-
Moldova	1.3	-6.5	-4.4	-	0.0
Montenegro	30.5	46.0	112.6	-	48.5
Romania	-6.1	-5.4	-3.2	1.5	2.0
Tajikistan	1.7	5.3	3.7	5.0	8.3
Ukraine	-3.0	-1.9	-0.4	4.2	4.5
Consumer price (end year)	(% change)				
Albania	42.1	8.7	-1.0	3.0	4.0
Armenia	21.9	-1.3	2.0	-	0.4
Bosnia-Herzegovina					
Federation	14.0	5.0	3.0	-	3.0
Republika Srpska	3.0	38.0	5.0	-	3.0
Bulgaria	579.7	1.0	6.2	3.5	11.4
FYROM	4.5	-2.4	2.6	4.9	4.9
Georgia	7.2	10.7	10.9	6.8	4.6
Kosovo	-	-	-	-	-
Moldova	11.1	18.2	43.8	-	21.0
Montenegro	-	44.7	146.0	-	50.0
Romania	151.4	40.6	54.9	30.0	41.3
Tajikistan	163.6	2.7	31.3	-	61.0
Ukraine	10.0	22.0	19.1	27.1	27.0
Fiscal balance	(% of GDP)				
Albania	-12.6	-10.4	-11.5	-9.4	-9.5
Armenia (2)	-5.8	-4.9	-7.3	-	-7.2
Bosnia-Herzegovina					
Federation	-1.9	-1.7	-1.3	-3.0	-2.8
Republika Srpska	0.0	-5.2	-5.1	-4.0	-3.8
Bulgaria	-2.6	1.4	-1.0	-1.4	-0.6
FYROM	-0.4	-1.7	0.0	2.2	2.2
Georgia	-7.0	-6.4	-6.9	-4.6	-3.9
Kosovo	-	-	-	-	-7.3
Moldova	–7.5	-8.6	-2.6	-	-1.5
Montenegro	-	-	-5.8	-	-8.3
Romania	-3.6	-4.0	-4.1	-3.5	-3.7
Tajikistan	-11.7	-3.8	-3.1	-1.2	0.2
Ukraine	-5.4	-3.5	-2.4	-1.5	-1.5
Current account	(% of GDP)				
Albania	-12.1	-6.1	-8.0	-8.4	-7.0
Armenia (3)	-28.0	-27.1	-21.7	-	-19.7
Bosnia-Herzegovina	-43.3	-31.5	-22.0		-20.0
Bulgaria	4.4	-0.5	-5.3	-4.0	-5.4
FYROM	-7.4	-9.6	-5.9	-8.5	-8.5
Georgia (3)	-16.5	-17.2	-14.9	-13.7	-13.7
Kosovo	-	-	-	-	-34.0
Moldova	-14.8	-16.7	-2.6	-	-7.9
Montenegro	-4.2	-6.0	-19.3	-	-14.6
Romania	-6.1	-7.2	-3.8	-3.4	-4.3
Tajikistan		-9.3	-3.4	-5.7	-3.9
Ukraine	-2.7	-3.1	2.7	4.8	4.0
Official foreign exchange reserves (end year)	(Months of imports)				
Albania	3.8	4.2	4.1	4.6	4.4
Armenia	3.1	3.6	3.7	-	3.5
Bosnia-Herzegovina	1.3	1.4	2.0	-	2.3
Bulgaria	4.0	5.7	6.4	6.0	8.2
FYROM	1.7	2.0	3.0	3.5	3.5
Georgia	1.5	1.0	1.3	1.2	1.0
Kosovo	-	-	-	-	-
Moldova	3.1	1.4	2.9	-	2.7
Montenegro	-	-	-	-	-
Romania	3.6	3.6	6.4	4.2	3.7
Tajikistan	0.6	1.5	1.7	1.9	1.9
Ukraine	1.4	0.6	0.8	0.8	0.8

(1) Programme targets set in IMF programmes, if any
(2) On an accrual basis
(3) Excluding official transfers

Sources: National authorities and IMF