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Contents

The first paper by Mario Holzner from WIIW deals with the exchange rate distortions in Southeast Europe. It highlights the differences between this region and other transition economies, looks at various ways in which distortions could be measured and ends with suggestions for further research.

The second paper is by Vladimir Gligorov and is overview of the transition polices pursued in the Balkans or Southeast Europe. The paper discusses differences between the policies pursued in this region that are different that can be found in other transition and development regions and countries.

In the forthcoming issues of the EBO we will bring more papers on policy dilemmas facing policy makers in Southeast Europe. We intend to look at the free trade agreements in the region and at the problems of employment and unemployment and labour market reforms.

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Real Exchange Rate Distortion in Southeast Europe

Introduction

As compared to the Central and East European New EU Member States (NMS) Southeast European Countries (SEECs) run high and partly unsustainable current account deficits. These deficits (in % of GDP) are on average more than double the size of the NMS countries (see Table 1). Two countries (Bosnia and Herzegovina and Serbia) exhibit even double digit deficit figures as percentages of GDP. This trend is likely to continue in the years to come.

Moreover, when examining the single components of the current account (see Table 2) it is striking that the average SEEC has a deficit in the balance of goods as high as about a quarter of its GDP. One major source of finance for these deficits are high remittances inflows from Southeast European emigrants in Western Europe. This can be seen from the highly positive figures in the balance of transfers. To make a point, it could be argued that instead of goods SEECs export their workers to Western Europe. One may argue that continuous migration from Southeast Europe (SEE) to the European Union (EU) is neither in the interest of the EU (given the bad state of its labour markets and social tensions on the issue of migration) nor is it in the interest of SEE (given the enormous brain drain from the region).

A straightforward explanation for these developments would be that the relative prices of goods produced in SEE are too high – i.e. the Real Exchange Rate (RER) might be overvalued.

Table 1

Current account

in % of GDP

	2003	2004	2005 forecast	2006 forecast
Czech Republic	-6.3	-5.2	-2.1	-2.1
Hungary	-8.8	-8.8	-8.1	-7.7
Poland	-2.2	-1.5	-1.3	-1.7
Slovak Republic	-0.8	-3.5	-4.7	-4.0
Slovenia	-0.4	-0.9	-0.6	-0.6
NMS-5 1)2)	*-4.0*	*-3.8*	*-3.0*	*-3.0*
Albania	-6.7	-4.4	-5	-4
Bosnia and Herzegovina	-24.5	-23.3	-21.4	-18.8
Bulgaria	-9.2	-7.4	-7.5	-6.4
Croatia	-6.9	-4.5	-4.4	-4.5
Macedonia	-3.3	-7.7	-6.6	-6.3
Romania	-6.0	-7.5	-8.3	-7.4
Serbia	-9.2	-13.1	-14	-13
Montenegro	-7.4	-9.7	-5	-5

Notes: NMS: The New EU Member States. - 1) wiiw estimate. – 2) Current account data include flows within the region.
Source: wiiw (June 2005).

It is first the aim of this research to investigate to which extent the real exchange rate is distorted away from a hypothetical free-trade level in the SEECs and to compare the findings with other countries. Second, the determinants of real exchange rate distortion shall be analysed at a more general and global level. Finally, a policy change away from a possible distorted real exchange rate in SEE shall be simulated.

The following chapters will thus provide a brief overview of the existing literature on the equilibrium exchange rate; a description of the chosen methodology and the data employed in the research; a summary of the results and a policy simulation.

The equilibrium real exchange rate theory & empirics

This chapter provides a brief synopsis of the theory and empirics of the equilibrium real exchange rate, its determination and possible misalignment. The synopsis is based on a recent in-depth overview paper on the issue by Égert (2004). The starting point is the Purchasing Power Parity (PPP) theory. It states that in the very long run the nominal exchange rate (E) is the domestic price level (P) divided by the foreign price level (P*) as shown in equation 1:

$$E^{PPP} = \frac{P}{P*} \qquad (1)$$

where E^{PPP} is the long-term nominal exchange rate. However, in the short run the nominal exchange rate might deviate from its PPP level. Thus the real exchange rate (Q) could be described in the following way:

$$Q = \frac{E}{E^{PPP}} \qquad (2)$$

If E is higher than E^{PPP} the real exchange rate is undervalued and vice versa. Now there is a number of reasons why the real ex

Table 2

Components of the current account, in % of GDP

	Balance on goods			Balance on services			Balance on incomes			Balance on transfers		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**	**2002**	**2003**	**2004**	**2002**	**2003**	**2004**
Albania	-23.9	-21.9	-19.6	-0.1	-1.4	-0.6	2.6	2.8	2.2	12.9	13.7	13.6
Bosnia & Herzegovina	-59.2	-58.4	-55.4	3.3	3.7	4.5	9.1	7.5	5.4	24.6	22.7	22.2
Bulgaria	-10.2	-12.5	-14.0	2.9	3.0	3.7	-1.7	-3.2	-1.8	3.4	3.5	4.6
Croatia	-24.6	-27.3	-24.3	13.6	19.8	17.7	-2.4	-4.2	-2.2	4.8	4.9	4.3
Macedonia	-21.3	-18.4	-20.9	-0.6	-0.1	-0.8	-0.8	-0.7	-0.7	13.2	15.9	14.7
Romania	-5.7	-7.8	-9.0	0.0	0.1	-0.4	-1.0	-2.4	-2.3	3.3	4.0	4.2
Serbia	-24.7	-24.2	-31.7	1.9	1.5	1.8	-0.7	-1.1	-1.0	10.0	12.1	15.3
Montenegro	-32.7	-25.1	-28.1	7.6	7.8	9.1	5.8	6.9	6.8	6.7	3.2	2.9

Source: wiiw Database incorporating national statistics.

change rate might be deviating from its long run equilibrium and why the PPP concept might be misleading altogether. There are several restrictive assumptions such as the Law of One Price (LOOP) secured by perfectly competitive free international trade and the equal composition of price baskets throughout the world. Moreover and most important, productivity driven differences in the price levels of non-tradable goods in countries at different stages of economic development are influencing the PPP very much. Developing countries experiencing productivity gains in the tradable sector will face a trend appreciation of their equilibrium real exchange rate through an increase in the wages of both the tradable and the non-tradable sector. This is also known as the Balassa-Samuelson effect (see Balassa 1964 and Samuelson 1964).

Given the above and other restrictions, several approaches try to capture the equilibrium exchange rate in the medium run. Here we shall examine some of them. Williamson (1994) defined the Fundamental Equilibrium Exchange Rate (FEER) to be the real effective exchange rate that secures simultaneously the internal and external balances. The first is achieved at the Non-accelerating Inflation Rate of Unemployment (NAIRU) and the second at sustainable balance of payments and external debt positions. However, both are difficult to grasp. For the former potential output growth must be estimated while the latter would require a definition of the optimal level of the external debt-to-GDP-ratio. In any case, once the targeted current account position at the potential output path is determined and the elasticity of the Real Effective Exchange Rate with regard to the current account is estimated econometrically it is possible to calculate the exchange rate misalignment.

Another approach is the Natural Rate of Exchange (NATREX) by Stein (1995). This approach distinguishes a medium and a long term equilibrium exchange rate. The medium term rate is defined similarly to the FEER approach. In addition to that a system of interlinked equations also includes the capital stock and the stock of foreign debt. For the medium term the current values are assumed while for the long term steady state levels are calculated. NATREX can be estimated with the help of econometric techniques.

The Behavioural Equilibrium Exchange Rate (BEER) approach developed by MacDonald (1997) and Clark and MacDonald (1998) is based on the so called Uncovered Interest Rate Parity (UIP), which is defined by the following relationship in log terms:

$$q_t = E_t(q_{t+1}) - (r_t - r_t^*) \quad (3)$$

where q_t is the observed real exchange rate in period t, E_t (q_{t+1}) is the expected value of q in period t+1 and r_t and r_t* are the domestic and foreign real interest rates in t. Practically the real exchange rate can be estimated econometrically by long- and medium-term fundamentals and short-term variables. The misalignment can be calculated by setting the short-term variables to zero.

Besides discussing some other approaches, Égert (2004) also provides for an overview of empirical applications of the theoretical approaches for the Central and East European transition countries. The various results are often rather divergent depending on which models, variables and data were used. This is also what was found in a meta-regression analysis by Égert and Halpern (2005).

Methodology & data issues

Applying the traditional approaches as described in the chapter above to the countries of Southeast Europe unfortunately appears to be almost impossible. The reasons are the same as in many other fields of economics related to the Balkans. Some of the data does not exist at all or is of very bad quality (such as productivity data due to bad labour statistics) and if it exists the time series are very short. Thus we have to use a fairly simple method that is not too data demanding. This method as well as the data used will be discussed in the following paragraphs.

The present analysis of real exchange rate distortion shall be based on the methodology developed by Dollar (1992). Dollar used as a measure for the real exchange rate the relative price level (RPL) index. RPL can be calculated by dividing each country's price level of consumption in 1996 international USD, taken from the Penn World Table Version 6.1 (see Heston, Summers, Aten 2002), by the price level of consumption of the United States of America as the benchmark country (in our research Germany, being one of the most important trading partners for the SEECs, will act as the benchmark country).

However, as discussed in the previous chapter and also proven empirically (see e.g. Holzner 2005), a relatively high domestic price level does not necessarily mean that the real exchange rate is distorted. According to Balassa (1964) the price level of non-tradables can be explained by the level of development in a country. More developed countries should have a higher price level of non-tradables because the productivity advantages of more developed countries tend to be greater in traded goods industries and there is a competitive labour market across sectors assumed.

Following the methodology of Dollar (1992) an effort can be made in order to detect the Real Exchange Rate Distortion index (RERD). RERD is calculated by dividing the actual price level RPL by the predicted price level (PPL). This provides a measure of the extent to which the real exchange rate is distorted away from a hypothetical free-trade level. Thus, this measure is in a more general sense a measure for outward orientation, including the effects of exchange rate policy as well as of trade policy[1], transport costs and other 'distortions'. Estimating the PPL is based on the assumption that there is a systematic relationship between the per capita GDP and the price level. The applied regression equation is:

$$RPL_{it} = a + b_1 rgdpl_{it} + b_2 rgdpl^2_{it} + c_t d_t \quad (4)$$

where the rgdpl variables for the respective countries i and years t represent real GDP per capita in 1996 international dollars, again taken from the Penn World Table Version 6.1 (see Heston, Summers, Aten 2002), and where the d_t's are the year dummies for each year other than the initial year. The quadratic rgdpl² variable is used in order to check for the possibility of nonlinearities. Having obtained from the regression results the PPL for each country and each year allows us to calculate RERD by dividing the actual

[1] In this respect e.g. high tariff protection has to be seen as a potential source of real exchange rate distortion.

price level RPL by the predicted price level PPL.

From previous empirical research we know that introducing the RERD variable into a basic growth regression (see Holzner 2005) yields a negative coefficient. This implies that a distorted real exchange rate and inward orientation is negatively related with economic growth in the long run. Additionally, the Real Exchange Rate Variability (RERV), measured as the variation of each country's RERD index around its mean, is significantly negatively related to economic growth after controlling for the standard variables explaining growth. Accordingly countries with an unstable real exchange rate seem to have lower economic growth rates.

Unfortunately, the Penn World Table (PWT) dataset does not include several of the SEECs (Bosnia and Herzegovina as well as Serbia and Montenegro). Moreover for those countries existing in the database recent years are not available. PWT includes data up to the year 2000. Thus it was necessary to extend the PWT using data available from the Eurostat and the wiiw database.

For the EU25, Bulgaria, Romania, Turkey, Iceland, Norway and Switzerland Eurostat data for 2001-2003 was used to calculate the price level of consumption (PPP/exchange rate) using the PPPs of actual individual consumption as well as the respective exchange rates. For Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, Russia and the Ukraine, wiiw general PPP estimates and exchange rate data was employed. Similarly to the data needed to calculate the additional RPLs, real GDP per capita data from the same sources for the same set of countries was acquired. Using PPP EUR/USD conversion factors in addition to 1996 USD price conversion factors (obtained by applying US CPI data for 2001-2003), growth rates for the respective GDP per capita at PPP data were calculated. With their help, existing year 2000 rgdpl data from the PWT was extended up to the year 2003. For Cyprus, Malta, Bosnia and Herzegovina and Serbia and Montenegro no year 2000 rgdpl data was available. Thus for these four countries the newly calculated year 2000-2003 data was included in the dataset. Overall the PWT dataset was extended by data for 38 countries, which relates to about a quarter of the countries in the original dataset. This enabled us to run a regression as described in equation (4) for about 170 countries for all the years available over the period of 1970-2003.

Table 3

Real Exchange Rate Distortion (RERD) in SEE

	2000	2001	2002	2003
Albania	103.1	112.0	108.3	107.6
Bosnia & Herzegovina	87.5	100.2	94.7	97.4
Bulgaria	65.4	75.2	76.4	78.1
Croatia	99.8	120.9	116.2	115.9
Macedonia	89.2	87.4	85.1	85.5
Romania	87.6	92.6	85.1	84.2
Serbia & Montenegro	168.9	90.3	101.4	109.0

Table 4

Real Exchange Rate Distortion (RERD) in CEE

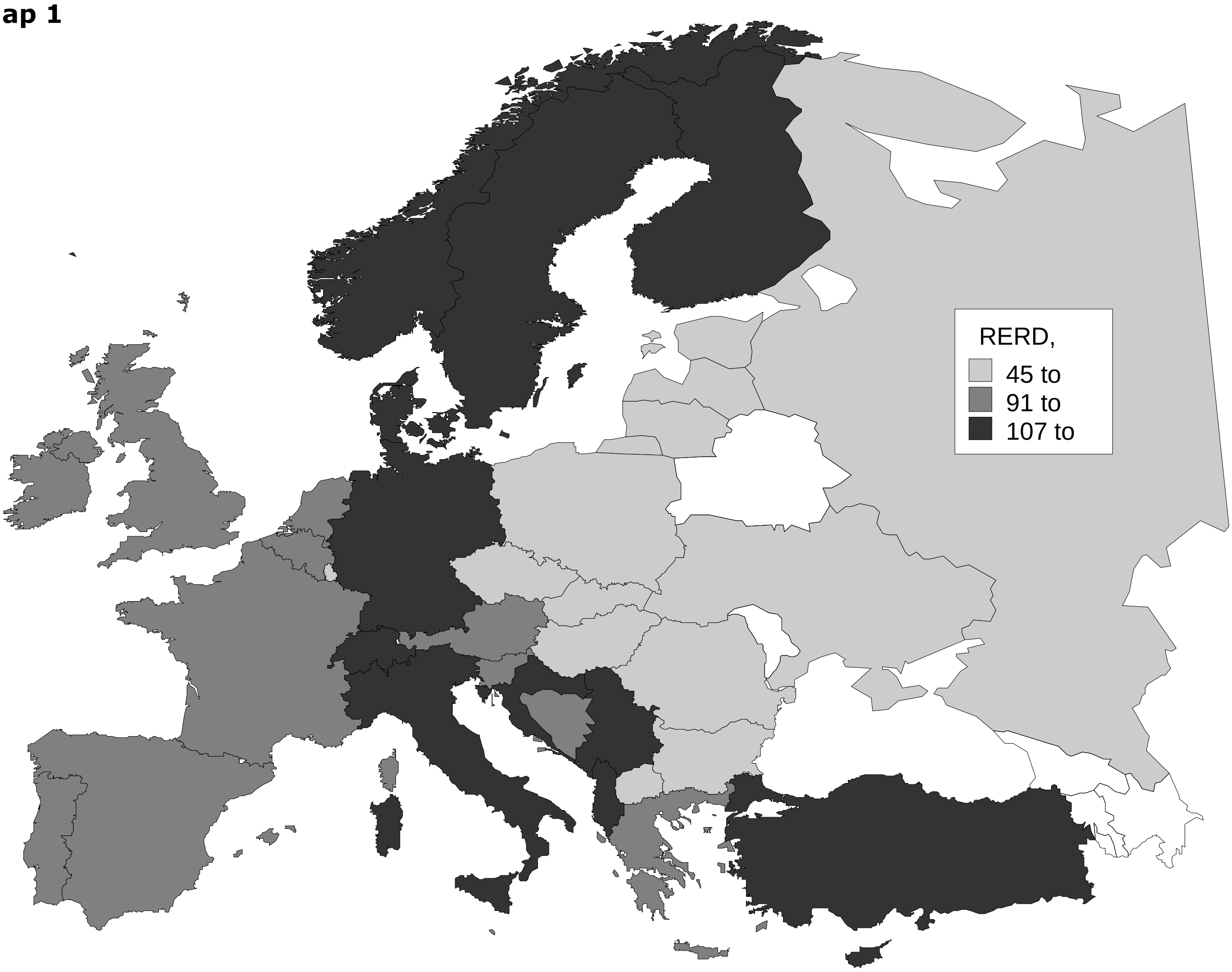
	2000	2001	2002	2003
Czech Republic	55.0	65.7	69.3	69.0
Hungary	82.0	76.4	81.3	83.0
Poland	86.8	105.0	97.6	87.1
Slovak Republic	54.4	64.7	61.4	67.3
Slovenia	88.6	93.2	93.2	93.6

Source: own calculations.

Results & policy simulation

Estimating the regression equation (4) on the extended dataset as described in the chapter above yields the PPL and in turn also the RERD index for each country and year. An index value of above 100 indicates that the real exchange rate is overvalued as compared to the average of the sample as a whole and vice versa. Again it has to be stressed that RERD is in a more general sense a measure for outward orientation, including the effects of the exchange rate as well as trade policy, transport costs and other 'distortions'. Table 3 shows the results for the SEE countries between 2000 and 2003. It can be seen that in 2003 three out of the seven countries were overvalued by around 10%, one country had a real exchange rate that was fairly in line with the predicted one and another three countries had an undervalued real exchange rate by some 20%.

Map 1



If we compare this to the RERD indices of the CEE countries (in Table 4) it becomes obvious that some of the SEE countries face strong price competition on shared markets. None of the CEE countries appear to be overvalued. One country has a real exchange rate that is pretty similar to the one that is predicted given its level of development. Two countries appear to be undervalued by about 15% and another two by some 30%.

Map 1 gives us a broader picture of the year 2003 results across Europe. Interestingly enough most of the West Balkan countries are part of a group of overvalued countries along an axis including the Scandinavian countries, the countries in the centre of Europe all the way to the Southern Mediterranean countries. The East Balkan countries though are part of a group of undervalued countries which is almost solely made up of transition countries. Countries in Western Europe do not seem to have real exchange rates distorted away from a hypothetical free trade level.

One reason for the difference between the West Balkan countries and the transition countries might be that most of the West Balkan countries share a common ex-Yugoslav history of a relatively high initial (pre-transition) price level.

At the same time most of the other transition countries had before transition a very low price level. Given the Balkan wars, the GDP drop in the 1990s was much bigger in the West Balkans than in the other transition countries. Wages did not adjust to the lower productivity levels. As a consequence these countries have a too high price level given their stage of development. In the case of Albania it was probably not the war but rather a massive emigration at the beginning of transition causing a permanent strong inflow of remittances to Albania also importing the price level of the countries of emigration. This could be one way of explaining the difference between the transition countries.

However, the reasons determining the calculated RERD indices are certainly manifold and we shall try in further research to investigate these by using various econometric techniques. Here one could think of employing various econometric methods, such as for instance panel data Vector Auto Regressions (VARs) and Granger causality tests. The RERD figures could be used as the dependent variables. Explanatory variables such as for instance nominal exchange rate policy and tariff and non-tariff trade barriers will be tested. Moreover one could also control for the effects of high remittances as well as high tourism exports, which both might have a negative influence on the real exchange rate, if the mechanism is similar to what is predicted by the 'Dutch Disease' theory in the case of high natural resources exports (see e.g. Corden and Neary 1982 and Corden 1984). This could help us to detect some relevant policy issues which could be applied to reduce real exchange rate distortions.

By coincidence a similar map as Map 1 in this paper was produced in a recent research done on tax evasion in consumption by Christie and Holzner (2005). By contrast the countries were split in three groups according to the level of Concealed Consumption Share (CCS) in percent of total consumption of taxable goods and services. The picture is almost perfectly inverted. The countries in the East of Europe have high levels of tax evasion of Value Added and Excise Taxes, while the countries of the central axis exhibit low levels. Again, the West of Europe is at an intermediate level. This would hint at the fact that tax evasion of consumption taxes lower the domestic price level and as a consequence decrease the real exchange rate. Thus we will also make use of these tax evasion estimates in our further analysis of the determinants of RERD.

The final part of our research is devoted to the simulation of a policy change in the case of a distorted real exchange rate. In a first approach we employed the global simulation model (GSIM) for the analysis of global, regional, and unilateral trade policy changes by Francois and Hall (2003)[2]. The model is a multiregion, imperfect substitutes model of world trade employing a partial equilibrium approach. Though it is not a fully-fledged general equilibrium model it has still some useful advantages because it allows for a relatively rapid and transparent analysis of a wide range of commercial policy issues with a minimum of data and computational requirements. Having the limitations of the partial equilibrium approach in mind, useful insights can be drawn with regard to relatively complex, multi-country trade policy changes. The results of the GSIM allow the assessment of importer and exporter effects related to tariff revenues, exporter (producer) surplus, and importer (consumer) surplus, changes in trade, output and prices. The model requires the input of a bilateral trade matrix at world prices, an initial matrix of bilateral import tariffs in ad valorem form, a final matrix of bilateral import tariffs in ad valorem form, export supply elasticities, aggregate import demand elasticities and elasticities of substitution. Using additional data, domestic production effects can also be fitted into the framework. For a more detailed description of the model see Francois and Hall (2003). The model has been used in our previous research on the costs of protection in Southeast Europe (see Holzner 2004[3]).

[2] The GSIM model can be downloaded, implemented in an Excel spreadsheet, from Joseph Francois' Homepage at: http://www.intereconomics.com/handbook/Models/Index.htm

[3] This and other studies conducted within the project 'Measuring the Costs of

Assuming that each measure of economic policy can be substituted by another one with regard to its effects we shall feed the GSIM instead of tariff rates with the RERD indices of those three SEE countries where an overvaluation was estimated in 2003. These countries are Albania, Croatia and Serbia and Montenegro with a real exchange rate overvalued by about 8%, 16% and 9% respectively. Three models, one for each of the mentioned countries, were estimated separately in order to estimate the effects of a devaluation of the real exchange rate to the predicted level with regard to the stage of economic development.

2003 Balance of Payments total trade data as well as the GDP data were taken from the wiiw database. The model consist of two regions – the respective country analysed and the 'Rest of the World' (ROW). An estimate of the ROW GDP was taken from the ECB. In the initial state we assume zero 'tariffs' for imports of the respective SEE country from the ROW and the RERD overvaluation percentage as a ROW 'tariff' with regard to imports from the respective SEE country. In the final state we assume that, after a real exchange rate devaluation to the extent of the estimated RERD overvaluation percentage, the SEE country's exports to the ROW don't face anymore 'tariffs', while on the contrary, the SEE country's imports from the ROW become more costly and thus face a 'tariff' in the order of the RERD overvaluation percentage. Finally the elasticities were set. The export supply elasticity (1.5), aggregate import demand elasticity (-1.25) and the elasticity of substitution (5) were adopted from Francois and Hall (2003). However, in the case of the ROW an 'infinite' export supply elasticity (9999999) was assumed. This flattens out the supply curve and is in line with a small vs. very large country assumption. For the respective SEE country it was assumed that the elasticity of substitution is at 7.5, indicating that citizens of the West Balkan countries prefer to a lesser extent local products to foreign as compared with the ROW. This is based on anecdotal evidence and the fact that the West Balkan countries are in many respects rather heterogeneous countries with parts of the population having very tight relationship with neighbouring countries and/or the EU. These are certainly very simplified assumptions. However, due to scarce data it would be almost impossible to estimate 'true' elasticities. It could be thought of employing average elasticities as e.g. described in 22 industry studies by Messerlin (2001). There, especially the elasticities of substitution seem to be in general much lower than 5. However, in the literature an elasticity of substitution of 5 is used quite often (see also Fujita, Krugman and Venables 2000).

Protection in Southeast Europe' financed by the Jubiläumsfonds of the Oesterreichische Nationalbank can be found at: http://www.wiiw.ac.at/balkan/costofprotection.html

Table 5

GSIM estimates of a real exchange rate devaluation

	Albania	Croatia	Serbia & M.
Change in output	5.4%	15.1%	6.6%
Change in exports	22.8%	37.6%	26.5%
Change in imports	-27.1%	-37.4%	-31.1%
Change in trade with self	6.5%	16.7%	8.0%

Source: own calculations.

Disregarding the estimated welfare effects as calculated by the model we want to focus on the estimated changes in output and trade. The estimated results of the GSIM modelling can be observed in Table 5. A devaluation of the real exchange rate to a level that is compatible with what can be expected of a country at the particular level of development yields significant general output increases.

The magnitude of the output increases is similar to the former level of RERD. This increase of output is due to a substantial estimated double digit surge of exports to the ROW as well as a rise in trade with self (i.e. import substitution) after imports became more costly and diminished as a consequence. Assuming the GSIM results to be accurate it could be expected that a realignment to a balanced real exchange rate might have also very positive effects on employment.

In a last step we plan to counter-check the above results of the PE model by using a more sophisticated CGE model. This shall be done with the help of the standard Global Trade Analysis Project (GTAP) model, which is a multiregion, multisector, computable general equilibrium model, with perfect competition and constant returns to scale. Bilateral trade is handled via the Armington assumption. The GTAP project is coordinated by the Center for Global Trade Analysis, which is housed in the Department of Agricultural Economics, Purdue University. GTAP also provides the relevant data necessary to run the model (i.e. the input-output tables) for the following SEECs: Albania, Bulgaria, Croatia and Romania. For more details on the data see Walmsley and McDougall (2005).

In our further research we might also try various types of simulation scenarios. One could be to assume that trade policy does not change and the real exchange rate is being reduced through nominal exchange rate devaluation and/or e.g. wage policy (as it was implicitly assumed in our GSIM modelling above). The other scenario is to assume further tariff and non-tariff trade barriers reductions together with the real exchange rate devaluation. Also it could be interesting to make estimates of the real exchange rate resiliency to a nominal exchange rate devaluation. This would translate the necessary real exchange rate depreciation into concrete nominal exchange rate targets.

The empirical findings of economically positive results of policies reducing real exchange rate overvaluation in SEE could help to change both domestic as well as EU policies on SEE and to improve their impact.

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Balkan Transition

Introduction

In the next couple of years the main unresolved issues in the Balkans will have to be addressed. At the same time, economic developments, that set this region apart from those in Central Europe, should be turned around. That means that policies pursued, which have also been different than in more successful transition countries, should be reformed. In this policy brief, main security and political issues will be reviewed, differences in developments will be sketched, differences in economic policies will be analyzed, and some policy conclusions will be drawn.

I. Security: moving away from the *provisorium*

Immediate security risks are not very high. However, most of the underlying causes for the violent conflicts in the last decade of the last century have not yet been resolved or have been resolved inadequately. These conflicts have been calmed down or put under control by

(i) an introduction of a constitutional *provisorium*,
(ii) the adoption of the politics of ambiguity, and
(iii) with the reliance on aid and other financial incentives to steer the development towards more stable and permanent political and economic structures.

The results could have been predicted. Thus, about a decade after the end of the war in Bosnia and Herzegovina and six years after the war in Kosovo, the constitutional agenda is practically unchanged. What is the main source of the existing security risks? The constitutional *provisorium* itself. Perhaps the easiest way to see this is to discuss the constitutional problems case by case.

Bosnia and Herzegovina.[1] The Dayton constitution of 1995 is a transitory arrangement that is typical of the strategy that has been applied to the Balkans. There is a very weak central government, one strong local government, the Serbian Republic, another much weaker local government, Federation of Bosnia and Herzegovina, ten quite autonomous cantons, of which three informally function as a separate local state, Herceg-Bosna, and one special municipality, Brcko. The strengths and weaknesses of these various political units can be expressed in their respective fiscal powers. Those are strong in the cantons and in the Serbian Republic, but are quite weak, by design, in the common government. This is so because the distribution of power as envisaged by the Dayton constitution is such that most everything is the competency of the two entities, the cantons and the district of Brcko.

The problem with this constitutional arrangement is not just that it is dysfunctional, which it is. Its main problem is lack of legitimacy. The distribution of power frozen by the constitution is the outcome of the violent conflict that was not definitely resolved. This fact, that Dayton's constitution is essentially a cease-fire agreement, is the major security threat. It is also the main barrier to the possibility of political change.

The guiding idea, that can also be found in the initial programs of the World Bank, was that privatized, market economy will make this institutional arrangement irrelevant or would lead to the rise of spontaneous demands for institutional reforms.[2] With that in mind, currency board was put in place and foreign trade policy was expected to be quite liberal,

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[1] For an early assessment of the constitutional arrangement introduced by the Dayton agreement see Gligorov (1995).

[2] More on that see Gligorov (1995).

i.e., that there would be few if any barriers to trade. That proved to be a miscalculation. Privatization has been slow and trade barriers proved to be persistent. Even the currency board did not immediately confirm the credibility on the central bank.

Lesson 1. Legitimate authority is needed for institution-building as well as for liberalization and privatization.

Thus, ten or so years later, constitutional change is necessary both for reasons of functionality and even more legitimacy. Dayton constitution, however, stands in the way of the constitutional change too. It is hard to see that a new constitution can be imposed while the internal consensus on the new constitutional set up seems all but impossible to emerge spontaneously. There are two ways in which the change could still be possible.

One is to anchor the change of the constitution into the process of EU integration. That requires a firm commitment on the part of the EU that does not exist and is not forthcoming. The process whereby the EU expects that the commitment of Bosnia and Herzegovina to join the EU is greater than the commitment of the EU to take it in does not seem to be working and will in all probability not work in the near future. Indeed, it is the rising cost of staying out and lagging even in comparison with the other Balkan states that is providing some push for change in Bosnia and Herzegovina.

Another way to introduce constitutional change is an international agreement that a new constitution is necessary. The new constitution would have to dissolve the two local states, or entities as they are called, and would require the agreement from both Croatia and Serbia. That agreement, especially from Serbia, may be difficult to secure. In any case, that would require greater clarity on the part of the international community and especially the European Union as to what is it that they aim at in Bosnia and Herzegovina. As long as current politics of ambiguity is pursued, the progress will be slow and costly and will not be free of risks.

State union of Serbia and Montenegro. [3] For reasons that are a mystery to most researchers and other observers, the EU has insisted on the creation and now insists on the preservation of the state union of Serbia and Montenegro. There have been three main beneficiaries of that union so far: the Serbian army, the Serbian nationalist parties, and the Montenegrin post-Milosevic opposition. It is clear what are their interests.

The Army has an interest in the state union because it makes the civil control of the army all but impossible: the constitutional arrangement put in place through the Constitutional Charter signed by Serbia and Montenegro, in 2002, has the consequence that it is not the state union that has an army, but the army has a state union.

Serbian nationalist parties have an interest in the state union because it keeps the Milosevic project alive and thus boosts their political standing. Finally, Montenegrin post-Milosevic opposition fears that the independence of Montenegro will lead to their definite marginalization and may even open up the question of their political and even criminal responsibility.

The conjunction of these three interests would have been enough to strengthen the resolve of the pro-independence parties in Montenegro to hold a referendum and declare independence of that state. However, because of the stubborn and growing commitment on the part of the EU to preserve the state union, the outcome of the planned (for spring 2006) referendum is very much in doubt. It is in fact in doubt whether Montenegro will be allowed to hold the referendum at all. If it is not, however, there will be a constitutional crisis that may have significant security consequences. This problem seems to have not been noticed in the EU. Which is it?

For all practical purposes, Montenegro is an independent state except that it lacks international recognition: it has internal, but not external sovereignty. Thus, if it is not allowed to decide whether it wants to be independent or not, it will have to be reintegrated with Serbia without an explicitly expressed will of the citizens of Montenegro. This is not the same as reintegrating the Serbian Republic and the Federation of Bosnia and Herzegovina, the two so-called entities in Bosnia and Herzegovina, which is difficult enough, but would be in principle legitimate.

[3] More in Gligorov (2004).

In the case of Montenegro, that would raise major legitimacy problems and could destabilize not only that small state but the wider region too. If the referendum on independence were to be rejected, that reintegration would still be difficult but would not raise the issue of legitimacy. If it were successful, it would make the Montenegrin government internationally responsible, which is desirable in itself.

Lesson 2. Provisional or non-standard constitutional arrangements are not stabilizing in the Balkans.

Kosovo.[4] Certainly the most sensitive issue is that of Kosovo. The so-called final status is not so much a problem, as is the way to achieve it. At the moment, Kosovo is gradually taking over its internal sovereignty while its external sovereignty is still handled by the international community. The strategy so far ("standards before status") has been to make Kosovo fully internally sovereign eventually (by it fulfilling standards) and than transferring external sovereignty to its government (which settles the status issue). This process of fulfilling standards and attaining the status was also supposed to take care of (i) Serbian interests in Kosovo, and (ii) strengthen regional stability by requiring the Kosovo state to be a responsible international subject. The process was also supposed to be anchored in EU integration, which is why Kosovo is tracking the stabilization and association process of the Western Balkans.

One aspect of this strategy that has perhaps not gained that much recognition, but is proving to create problems for its implementation, is the so-called politics of ambiguity that has been implanted into the whole process from the very beginning with the UN Resolution 1244. Though the process that has been set up and also the facts on the ground clearly point in the direction of the independence of Kosovo, this was left open or ambiguous in the Resolution 1244. It has raised conflicting expectations in Kosovo and Serbia and has opened up an opportunity for disagreement in the international community. That is the source of the residual security threats emanating from this problem.

In addition to the problems that this politics of ambiguity has brought about in respect to the final status of Kosovo, it has contributed to the confusion about the principles on which the decision will be based and on their impact on regional security. The issue that is often raised is what may be the possible effect of Kosovo independence on Macedonia, which I will discuss in the context of the comment on the situation in this state. The other problem is connected with the stability of Bosnia and Herzegovina. The process of reintegration of Bosnia and Herzegovina may be halted and reversed because of the possibility that it will be argued that if Kosovo can be independent so can Republika Srpska. Otherwise, the international community will be accused of using double standards.

It is clear, however, that political reintegration of Kosovo and Serbia is hard to engineer. It is also becoming increasingly clear that the transfer of sovereignty from the international community to Kosovo has to be speeded up. Thus, the politics of ambiguity will have to be given up in favour of the politics of clarity, which, however and unfortunately, is yet to emerge.

Lesson 3. Ambiguities in international interventions may prove to sustain rather than resolve a conflict.

Macedonia.[5] Though questions are still being raised about the stability of Macedonia, it is reasonable to assume that the issue has been settled with the so-called Ohrid Agreement with which the crises of 2001 was resoled. Other constitutional developments in the region, discussed above, should not present serious challenges to the existence of Macedonia as a state. This should be sealed with the eventual positive response from the EU to the Macedonian application for membership. That process cannot be discontinued, barring major new developments in the EU and in Macedonia, though it can be slowed down and made more demanding.

It is often speculated in this context that the impending independence of Kosovo may destabilize Macedonia. This is mostly based on false premises and is also one of the unfortunate conse-

[4] More in Gligorov (2000 and 2003).

[5] More in Gligorov and Mojsovska (2005).

quences of the above mentioned politics of ambiguity. In fact, with the resolution of the Kosovo issue, the whole Albanian question should be put to rest. Albanians living in Albania and Kosovo will have acquired full self-governance and the rest of the Albanian population should enjoy full rights in the states it lives in. There is nothing exceptional about that in Europe and certainly not in the Balkans.

Lesson 4. Unambiguous support for democratic resolution in the face of violent conflicts is stabilizing.

The role of the European anchor. The final constitutional outcome in the Balkans seems clear now. The real issue is how will it be anchored in the regional and the European context. That is where the roles of Europe and also of the US are so crucial. If the EU anchor is not firm and if there is no coordination between the EU and the US, Balkans is certainly capable of producing problems.

II. Transition: from socialism to a developing region

Deindustrialization, imbalances and inequality

The contrast between developments in Central European and Balkan countries in transition is stark, but is perhaps most striking when it comes to industrial development. Though communist economies were all over-industrialized, at the expense of services, reindustrialization of the Central European economies started relatively quickly after the initial transitional recession, while it is still lagging in the Balkans. Though industrial production is increasing after 1999-2000 in the region as a whole, it is still below, and in a number of cases well below, the pre-transition level and its recovery is still not altogether convincing. If only former-Yugoslav countries are considered, reindustrialization has been going on in Slovenia and more recently in Croatia, while the situation in the other three or four states is much less encouraging. In the Balkans as a whole, Albania is an exception, though the high growth rates of its industrial production are almost entirely attributable to the low initial level.

Significant deindustrialization and delayed reindustrialization have been accompanied with other macroeconomic developments that set most Balkan countries apart from those in Central Europe. As a rule, external and internal imbalances are larger and more persistent. Trade deficits are usually higher, though growing export of services, mainly tourism and transportation, are improving the picture in a number of countries. Current account deficits, however, are often much better due to significant transfers and remittances. Still, external imbalances are a major concern.

Employment is also lower and unemployment higher than in Central European countries in transition. Invariably, employment tends to decline in the initial transitional recession, but then stagnates because growth is mostly due to increased productivity. In a number of Balkan countries, employment continues to decline even after several years of positive growth. Similarly, unemployment rates tend to be high or very high and to be stuck at high levels for a prolonged period of time. In some cases, outward migration accounts both for the low level of employment and for the declining rate of unemployment. Again, Balkans is traditionally a migrant region and transition has tended to exacerbate that characteristic.

Connected with delayed industrialization, investments, both domestic and foreign, have been low. Foreign investments have started to increase, but the flows are still not very impressive in a number of countries and they tend to vary from year to year. In Central European countries in transition, in most cases foreign investments contributed decisively to reindustrialization and to the growth of exports. That also had a positive effect on the sustainability of the external balances and on the stabilization of the labor market.

Finally, the development of the public sector is rather different in the Balkans in comparison to Central Europe. While in the latter, though not in the Baltics, public expenditures tend to stay at a high level during the transition, in the Balkans there are countries with exceptionally high level of public spending and also those with low levels of public spending, indicating the existence of weak or even failed states. Though there are marked differences in the levels of public expenditures across the region, there is not much difference in the strength of the rule of law. In general, law is less important than informal rules, which is only partly revealed in the high level of corruption and informal activities.

In this context, it may be of interest to mention that within-state regional differences tend to be large, but social inequality, measured by the Gini-coefficient, is not too high, though it is growing. In addition, extreme poverty is rare, though the general level of income and welfare is certainly lower than in Central European countries in transition. It is opportunities that the region is lacking: opportunities for work and for entrepreneurship. There are also distinct developmental issues, especially those connected with infrastructure and human capital development.

Restrictive and repressive economic policies

These developments in the Balkans may be seen as effects of different causes, among which recent developments in economics usually single out institutional deficiencies and supply side constraints. In this piece, some of the peculiarities of the economic policies pursued in the Balkans will be analyzed and it will be suggested that those are at least partly to blame for the way transition has progressed in this region. In general, it will be argued that:

Lesson 5. Restrictive and even repressive economic policies have been followed and those have had consequences for the disappointing growth performance.

Though things have been improving since 1999-2000 and especially in last couple of years, changes in economic policies could still be conducive to institutional development, i.e., overall process of transition, and for assuring the sustainability of growth.

There are several stylized facts about Balkan economic policies. Here, initially, exchange rate, monetary and fiscal policies will be considered. Later on, trade and structural policies will be looked into.

Fixed exchange rates: The bulk of the region is on fixed exchange rates. Bulgaria and Bosnia and Herzegovina have introduced currency boards, Macedonia has a strict peg with the euro, Croatia allows some flexibility of its de facto peg with the euro and Serbia has moved from a fixed peg of its dinar to the euro to an undeclared crawling peg. Montenegro and Kosovo do not have their own currencies but use euro instead. Albania has a float that increasingly resembles a fixed exchange rate regime, and only Romania has moved from a crawling band to pure float, at least that is the declared intention of its central bank.

Nominal rigidity is accompanied by diverse real exchange rate movements. In most cases, inflation rates have come down and have stayed at levels comparable to those to be found in the euro zone, so that real exchange rates have remained stable too. It is interesting to see that in the case of some former-Yugoslavia countries, i.e., Slovenia, Croatia and Macedonia, real exchange rates have remained stable over a prolonged period of time, even in cases, like in Slovenia, where exchange rate was managed and mainly depreciated. Similar developments should be true for Bosnia and Herzegovina and Montenegro, though the disinflation took a bit longer in these countries. Similarly, in Bulgaria, after the introduction of the currency board, real exchange rate has been rather stable.

These developments contrast with those in Central Europe (and in Romania, as already mentioned) where after initial sharp devaluation and a period of fixed exchange rates, real exchange rate was allowed to appreciate. This was the consequence of the greater flexibility of the nominal exchange rate and the prolonged period of higher inflation. In some cases, sharp real appreciation in early years ended with exchange rate adjustment and in a change in the exchange rate policy towards greater flexibility. In the Balkans, Romania, and recently Serbia, have been trying to follow the same exchange rate policy with mixed success.

The reason for the policy of the stability of the exchange rate that most former-Yugoslavia countries have followed is that they have inherited relatively high price levels. In the case of other post-communist countries, the initial price level was much lower, while their official exchange rates were highly overvalued, which was possible because they ran highly protectionist economies. However, in the case of Yugoslavia, the inherited price level was already higher due to higher trade liberalization and an inherited more realistic exchange rate. In addition, currency substitution was much higher initially and has remained much higher afterwards too. Thus, these countries opted for lower inflation and relied on fixed exchange rates to keep the real exchange rate from appreciating.

Restrictive monetary policy: An advantage of the fixed exchange rate should be that a country pegging the currency can import the monetary policy of the anchor country. Assuming free flow of capital, the elimination of the exchange rate risk should lead to the convergence of the interest rates in the two currencies connected with the fixed exchange rate. That could have the effect that investments will flow to countries with higher productivity of capital, which should in principle be the less developed countries that are relying on the fixed exchange rates. In that case, significant current account deficit could emerge and persist, but should not lead to problems with the servicing of the foreign debt because the debt to GDP ratio need not increase.

This perhaps works for currency unions, but need not work for fixed exchange rate regimes. The reason is that in the system with fixed exchange rates, it may necessary to keep the growth of money supply down in order to insure the convergence of the inflation rates. Otherwise, real appreciation of the exchange rate may create problems for the sustainability external equilibrium. Thus, it often happens that interest rates stay at a level well above that of the anchor country. This has three unhappy consequences.

For one, monetary expansion and the expansion of credits are sapped; in other words, monetary policy is persistently restrictive.

For another, currency substitution stays high, as the difference between the international and the home interest rates introduces the persistent risk of depreciation or even surprise devaluation.

Finally, higher interest rates invite foreign investment inflows that tend to increase the trade and current account deficits and thus may present problems for economic stability.

As most countries in the Balkans rely on fixed exchange rates, monetary policy has tended to be quite restrictive over a long period of time. For instance, in Croatia, Serbia and Macedonia, reserve requirements tend to be high and quite sensitive to credit expansion. Thus, though in most countries, except for Croatia, monetization and credit are low, central banks fear for the stability of the financial system constantly. Of course, restricted supply of money and credit and high interest rates have negative consequences for the level and the allocation of investments.

Fiscal policies. Unlike monetary and exchange rate policies that do not differ all that much across the Balkan region, fiscal policies have diverged in a number of ways. Perhaps one similarity is the constant preoccupation with fiscal policy mainly because it has to be supportive of fixed exchange rate policy. Thus, in the region as a whole, fiscal adjustment is constantly on the agenda of the policy makers.

In the majority of countries, fiscal adjustment has been quite successful. Initially high fiscal deficits have been put under control and in several countries budgets have been balanced, e.g., in Bulgaria and Macedonia and lately in Bosnia and Herzegovina and Serbia too. In a number of other countries, deficits have come down quite significantly, e.g., in Albania and Montenegro and in Romania too. Croatia is perhaps the only country that has problems with putting its budget under control, though the overall situation is improving.

The stress on tight fiscal policy has led to different types of problems and distortions in different countries. Putting aside countries and territories like Bosnia and Herzegovina and Kosovo, that have received very significant inflows of financial support for their post-war reconstruction, the other countries relied on some donations and soft credits, but those have not contributed too much to their reconstruction. Thus, they either have had to keep collecting high public revenues or have had to run down public expenditures.

In most cases, and especially in the case of the post-Yugoslavia states, high public revenues were collected in order to finance quite high levels of public expenditures. Thus, Serbia, Montenegro and Croatia have large public sectors, somewhat higher than Central European transition economies and higher than the European Union average. Macedonia and Albania, however, have low levels of public expenditures, around or just above 30 per cent of their respective GDPs. In the case of Macedonia, expenditures are decreasing, while in the case of Albania they are rising slowly reflecting slow recovery of public revenues. The intermediate case is Romania, where public expenditures are somewhat lower than in most other transition economies, but that is partly the consequence of its size, Romania being the largest economy in the region.

The structure of public expenditures is also quite important. In most cases, social welfare dominates over the resources spent on development. With the exception of Croatia, that has been investing in infrastructure, most other Balkan states have spent little to upgrade their infrastructure, except for the investments in post-war reconstruction. In addition, investments in human capital are low by the standard of the other transition economies. This is especially a problem in the post-Yugoslav countries because they are not wage-competitive because of their relatively high price levels. In Bulgaria and Romania wages are less of a problem from the point of view of competitiveness, but that is not the case in all the other Balkan states, except for Albania.

Thus, in general, fiscal policy has been relied on to support macroeconomic stability, public expenditures have tended to be high, and social welfare has been more important than development.

Trade policy. Initially, illiberal trade was the rule in most of the Balkans. That was the consequence of the wars and political disintegration. After 1999 and especially after 2000, trade has been gradually liberalized throughout the region. At the moment, the region as a whole enjoys rather liberal access to the European Union market. In addition, all the countries in the region have signed bilateral free-trade agreements with each other and there is an initiative to transform these bilateral agreements into one multilateral free-trade agreement creating a free-trade area in the Balkans.

In the last few years, foreign trade both within and without the Balkan region has increased. That is the consequence of the fact that growth has returned to the region. Indeed, in the last couple of years, this has been one of the fastest growing regions in Europe. In most cases, this has not been an export led growth. As a rule, it has been the growth of domestic demand that has led to growth and to increased foreign trade. Thus, trade liberalization has not, at least so far, been a significant engine of growth. In a number of cases, tourism has contributed to growth significantly, but exports of goods have been recovering only lately and not too convincingly.

Looking at the regional trade in particular, it is clear that exports of the countries of the region to the region have been increasing more than imports. In other words, countries in the region try to sell other countries in the region, but tend to import from countries outside of the region. In fact, if looked into more closely, the data on regional trade seems to indicate that a number of countries in the region sell goods to Bosnia and Herzegovina and Kosovo, while the rest of the regional trade is not all that significant. It also seems not to react too much to trade liberalization measures.

This, if true, would indicate that non-tariff barriers are probably more important than tariff barriers. It is perhaps the case that not-trade barriers are still more important than all the trade barriers put together, whether tariff or non-tariff ones. Also, the factors that create trade opportunities may have more to do with the inflow of financial resources than with trade policy as such. Aid, donations and private transfers lead to increased imports and, in some cases, to increased exports too.

Thus, trade policy has real limitations in the Balkans and may be rather less important than structural and development policy.

Structural policies. Development of market economy is lagging in the Balkans. This is the consequence of the problems with the liberalization of the economic relations, but also of the deficiencies in their institutionalization. The causes of this state of affairs are many and varied. There are problems with corporate governance, there are problems with labor market regulations, there are problems with public governance, the latter fueling especially shadow economy and corruption. Financial markets are also underdeveloped and repressed. Thus, there is a lot of scope for structural reforms.

Some of those are connected with the way state and social property was privatized and how it was not privatized. Privatizations have often been targeting redistribution of assets rather than their efficient allocation. Thus, non-standard corporate structures have emerged and also markets for products have been monopolized. In the region as a whole, competition policy hardly exists. Even if there are laws, they are not implemented. Thus, oligarchic structures have emerged that bring in quite a number of structural problems.

Without going into details, it is enough to point out that Balkan countries are still among the worst ones on the various rankings of progress in transition, in competitiveness or in economic and overall liberty.

III What is to be done?

Policy advice needs to be anchored in the experience of the Central European transition economies that are now members of the European Union. One may notice three differences between these two groups of countries.

One is that Central European countries have stayed away from too restrictive monetary and fiscal policies. Balkan countries, for one reason or another, have, for the most part, pursued restrictive monetary policies and are increasingly relying on tight fiscal policies. This has had consequences for their growth and employment. At this moment, there is some scope in a number of countries to modernize their monetary policies and to restructure their fiscal policies away from redistribution to development.

Another is faster and more comprehensive liberalization both on the current and on the capital account. In the Balkans, there is some preference for stimulating imports and for adopting mercantilism for investment. Thus, large trade deficits are sustained by misaligned exchange rates and by restrictions on the capital account transactions. It would be better if imports were to be supported and capital account transactions were to be fully liberalized.

Finally, structural reforms should be speeded up. In the context of Central European transition, the main driving forces for structural reforms were the will to get as far away from the communist economy as possible and by the wish to join the European Union as soon as possible. Ina most Balkan countries both motives have, for different reasons, lacked. As a consequence, institution-building ahs been slow and the process of EU integration has been delayed.

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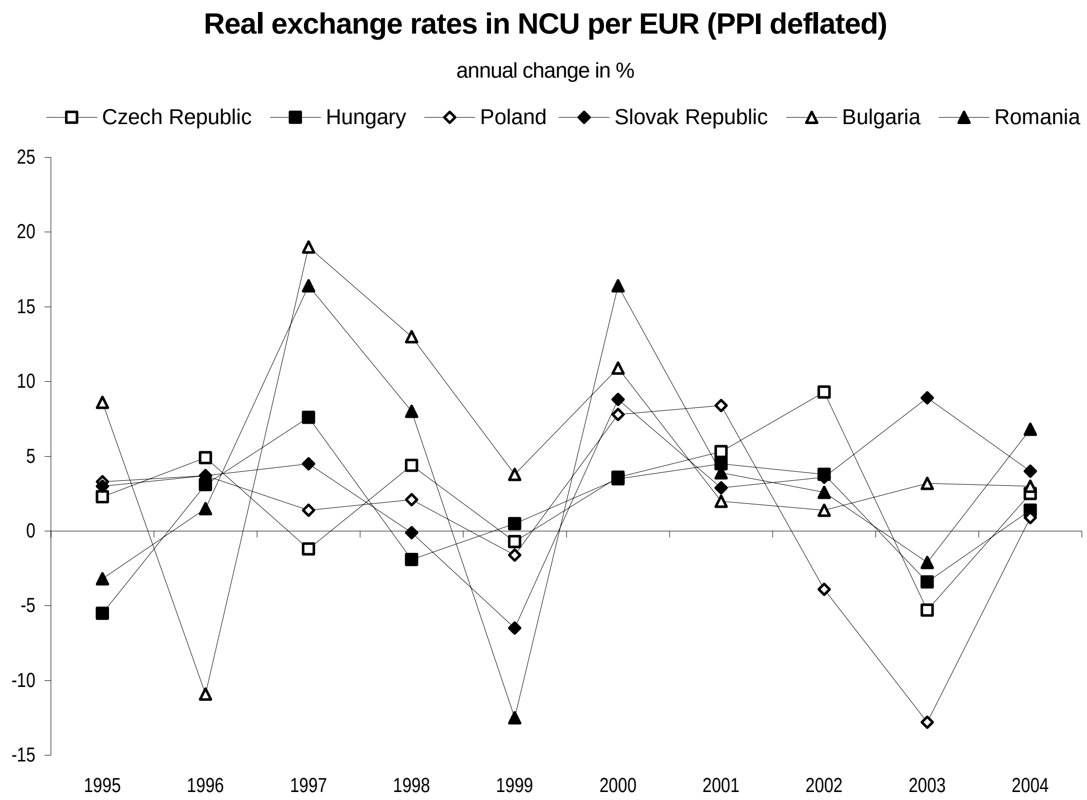
Figure 1:



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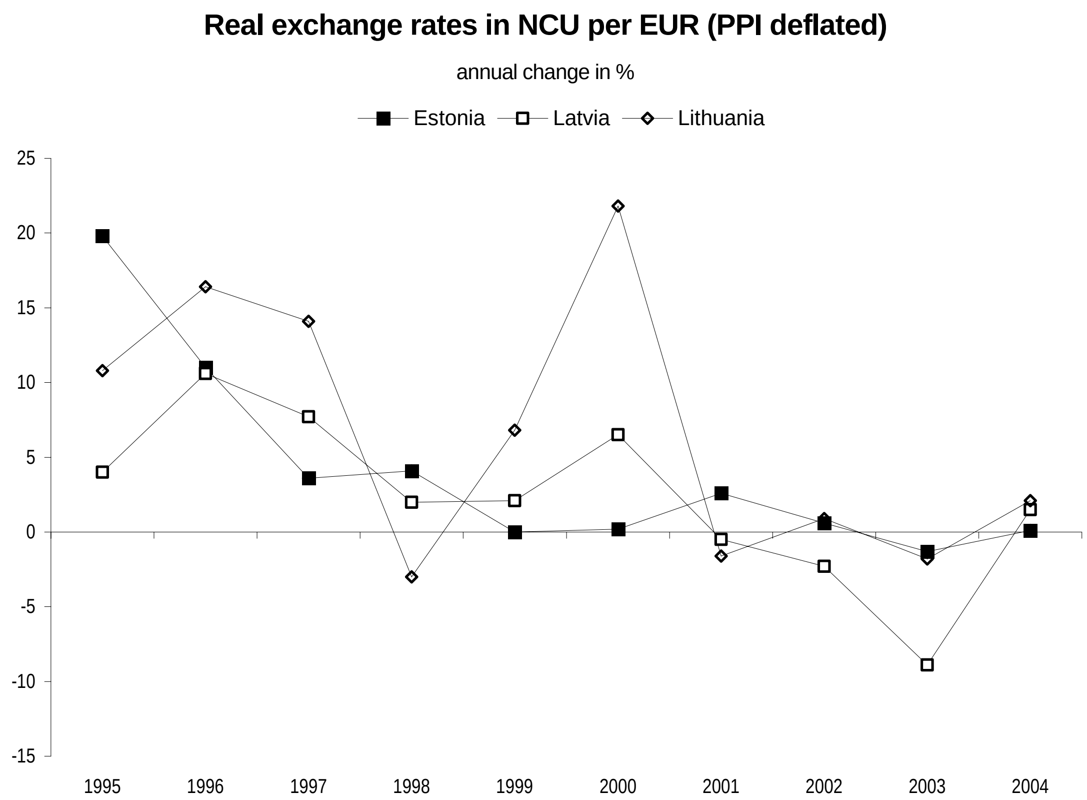

Source: wiiw Database.

Real exchange rates in NCU per EUR (PPI deflated)

annual change in %

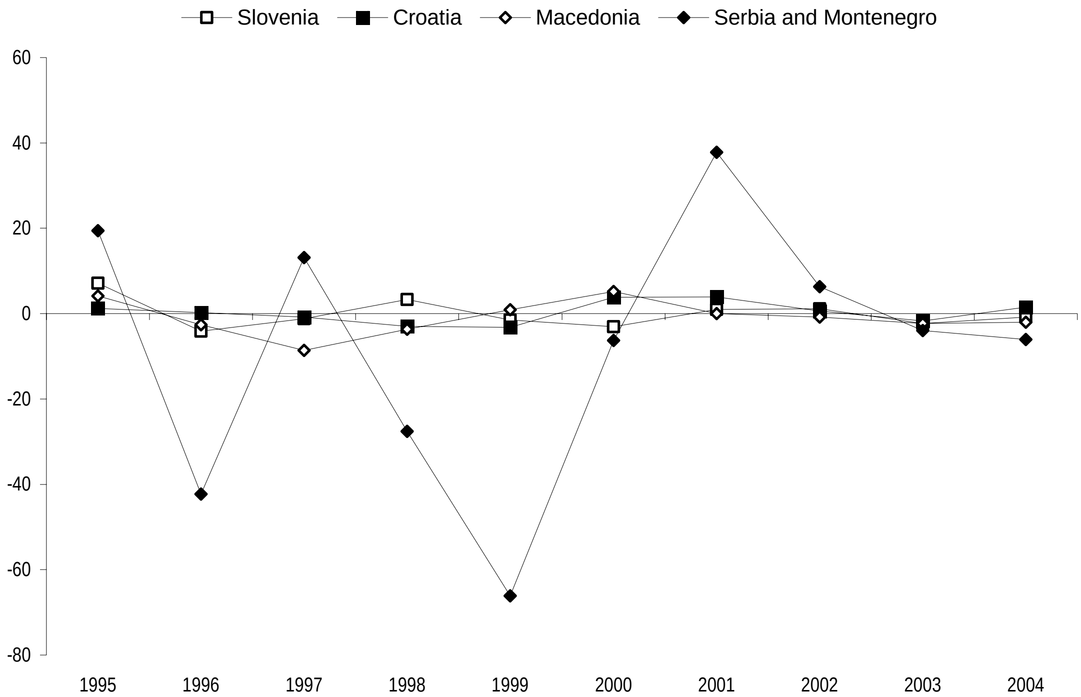

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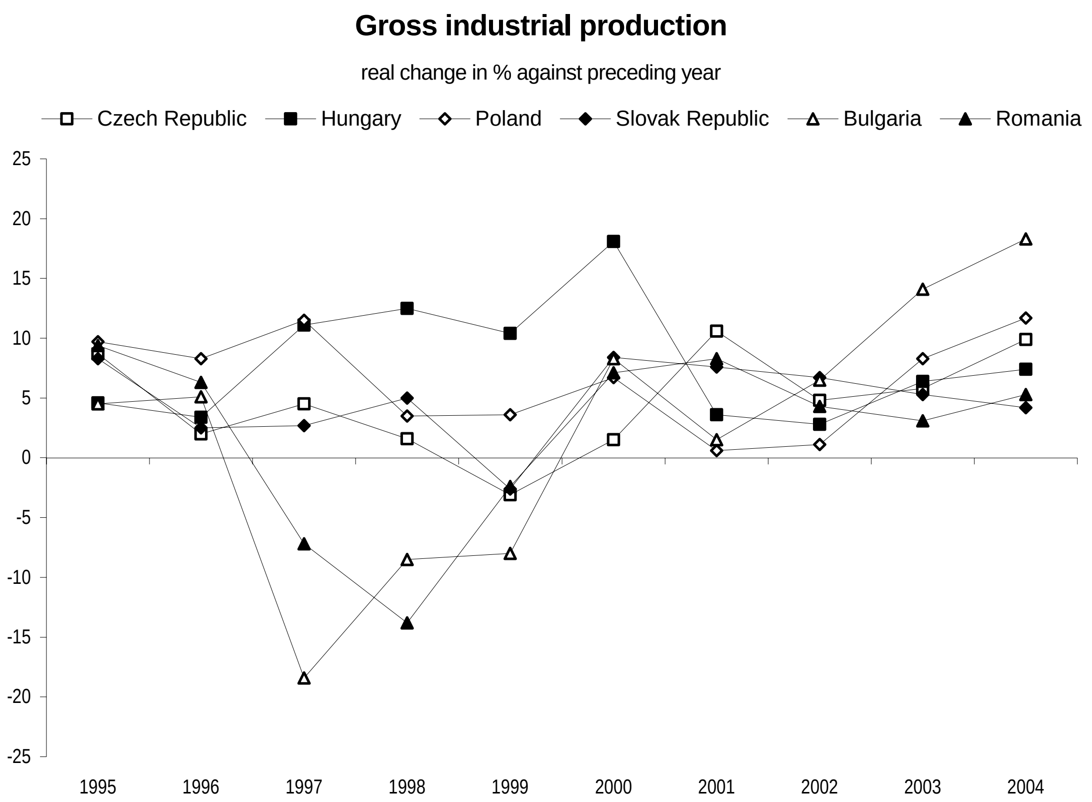
Figure 2:



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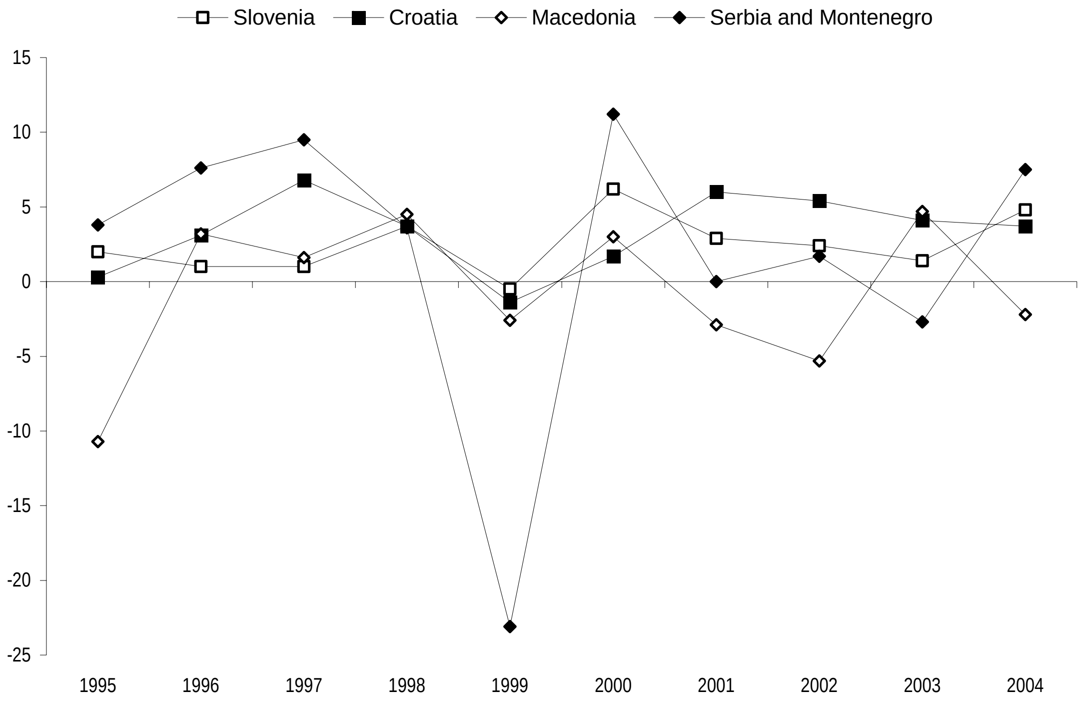
Source: wiiw Database.

Gross industrial production

real change in % against preceding year



Source: wiiw Database.

Gross industrial production, 2000=100

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Czech Republic	122,6	118,6	93,5	86,1	81,5	83,2	90,5	92,3	96,4	97,9	94,9	100,0	106,5	111,6	118,1	129,8
Hungary	73,6	66,1	55,1	49,8	51,8	56,7	59,3	61,4	68,2	76,7	84,7	100,0	103,6	106,5	113,4	122,8
Poland	77,2	58,5	53,8	55,3	58,8	66,0	72,4	78,4	87,4	90,5	93,7	100,0	100,6	101,7	110,2	123,0
Slovak Republic	111,9	107,4	86,6	78,5	75,5	79,1	85,6	87,8	90,2	94,7	92,3	100,0	107,6	114,8	120,9	126,0
Slovenia	124,6	111,5	97,7	84,8	82,4	87,7	89,4	90,4	91,3	94,6	94,2	100,0	102,9	105,4	106,8	112,0
NMS-5	**89,0**	**76,1**	**65,6**	**63,4**	**64,4**	**69,9**	**75,6**	**79,6**	**86,3**	**90,1**	**92,3**	**100,0**	**103,2**	**106,1**	**113,3**	**124,2**
Estonia	.	153,2	142,1	91,5	74,5	72,2	73,6	75,7	86,8	90,4	87,3	100,0	108,9	117,8	130,8	140,6
Latvia	211,0	212,7	211,4	138,5	94,0	84,7	81,6	86,1	97,9	101,0	95,5	100,0	109,2	118,4	126,1	133,6
Lithuania	.	272,7	264,5	185,2	121,5	89,2	93,9	98,6	101,8	110,2	97,8	100,0	116,0	119,6	138,9	153,8
NMS-8		**83,0**	**72,8**	**67,5**	**66,5**	**70,7**	**76,2**	**80,2**	**86,9**	**90,9**	**92,5**	**100,0**	**103,7**	**106,8**	**114,5**	**125,6**
Cyprus																
Malta																
NMS-10, excl. Malta		**83,1**	**73,0**	**67,7**	**66,6**	**70,8**	**76,3**	**80,3**	**86,9**	**90,9**	**92,5**	**100,0**	**103,7**	**106,8**	**114,5**	**125,4**
EU-15, Eurostat original		84,2	84,5	83,4	80,7	84,7	87,5	87,7	91,0	94,0	95,5	100,0	100,0	99,2	99,5	101,2
EU-25, Eurostat original		83,7	84,0	83,0	80,3	84,2	87,0	87,4	90,8	93,8	95,4	100,0	100,2	99,6	100,2	102,4
EU-25, wiiw weighted = used		**84,2**	**83,4**	**81,8**	**79,3**	**83,3**	**86,4**	**87,0**	**90,6**	**93,7**	**95,2**	**100,0**	**100,4**	**99,9**	**100,8**	**103,3**
Albania												100,0	107,1	109,0	112,0	115,4
Bosnia and Herzegovina												100,0	104,9	110,9	116,5	130,6
Bulgaria	226,5	188,6	150,5	122,8	110,7	122,4	127,9	134,4	109,7	100,4	92,3	100,0	101,5	108,2	123,4	146,0
Croatia	175,7	155,8	111,4	95,1	89,5	87,1	87,4	90,1	96,2	99,7	98,3	100,0	106,0	111,7	116,3	120,6
Macedonia	212,0	189,3	157,1	132,5	113,8	101,9	91,0	93,9	95,4	99,7	97,1	100,0	96,9	91,8	96,1	94,0
Romania	201,4	163,1	125,9	98,3	99,6	102,9	112,6	119,6	111,0	95,7	93,4	100,0	108,3	113,0	116,5	122,7
Serbia											89,8	100,0	100,1	101,9	98,8	105,9
Montenegro											95,8	100,0	99,0	100,0	102,1	116,2
SEE-7																

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