

Contents

Summary	i
---------------	---

Part A: The new EU member states

Strong domestic demand fuels growth and employment.....	1
--	----------

Favourable external conditions likely to worsen in 2007	1
---	---

Bulgaria and Romania join the EU and Slovenia the euro club.....	2
--	---

Sources of growth: the lead role of consumption and investment.....	2
---	---

Gross fixed capital formation	5
-------------------------------------	---

Household consumption	6
-----------------------------	---

The role of household credit	8
------------------------------------	---

External trade	9
----------------------	---

Faster growth in industrial production	11
--	----

Faster expansion of foreign trade in goods	17
--	----

As unemployment drops, labour shortages emerge	21
--	----

Fiscal deficits remain a low priority	23
---	----

Low inflation in the 'old' NMS and exchange rates getting stronger all the time	24
---	----

Stable foreign financial position of the 'old' NMS	29
--	----

General outlook for the region: continuing high growth in 2007 and 2008.....	30
--	----

Country reports

Bulgaria: entering the EU in high gear	33
--	----

The Czech Republic: after record trade surplus, growth to slow down	36
---	----

Hungary: first impacts of the austerity programme	39
---	----

Poland: investment expansion gathers momentum	42
---	----

Romania: economic boom with growing foreign imbalance.....	46
--	----

Slovakia: very high growth, few changes in policy	49
---	----

Slovenia: smooth entry into the eurozone	52
--	----

Part B: Southeast European countries

Strong growth despite political uncertainties	57
Introduction	57
Robust GDP and productivity.....	58
Trade and regional integration expand.....	64
Bubble fears.....	68
Monetary policy and exchange rates.....	71
External balances	76
Social risks.....	80
The Kosovo issue.....	81
Other political imponderables.....	82
EU integration prospects.....	82
Overall prospects.....	83

Country reports

Albania: periodic evils	85
Bosnia and Herzegovina: economic performance better than its reputation.....	87
Croatia: widening external imbalances	90
Macedonia: low taxes are the key.....	93
Montenegro: the fruits of independence	95
Serbia: stability at risk	98
Turkey: high interest rates slow down growth.....	101

Part C: Russia and Ukraine; China

Country reports

Russian Federation: growth peak is already behind	105
Ukraine: riding on the wave of high steel prices	108
China: economic growth higher than expected	111

Appendix: Selected Indicators of Competitiveness

117