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***EU CANDIDATE AND  
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ECONOMIC QUARTERLY***

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# CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIC QUARTERLY

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## Contents

<b>OVERVIEW.....</b>	<b>3</b>
<b>CROATIA .....</b>	<b>5</b>
<b>THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA .....</b>	<b>9</b>
<b>ICELAND.....</b>	<b>13</b>
<b>TURKEY .....</b>	<b>17</b>
<b>ALBANIA .....</b>	<b>21</b>
<b>BOSNIA AND HERZEGOVINA .....</b>	<b>25</b>
<b>MONTENEGRO.....</b>	<b>29</b>
<b>SERBIA .....</b>	<b>33</b>
<b>KOSOVO*.....</b>	<b>37</b>

\*as defined by UNSCR 1244

## OVERVIEW

***Recent economic developments in pre-accession countries in the first half of 2010 have been rather contrasted. While Croatia and Iceland were still struggling with the crisis, and continued negative GDP growth, Turkey's economic rebound has been spectacular. In most Western Balkan countries however, while the economic downturn appears to have come to an end, the recovery is still weak, with rather modest growth. Labour markets have generally continued to deteriorate, and public finances have remained under pressure. Net exports appear to be contributing to growth in the Western Balkans, contrary to Turkey where internal demand is the main driving element.***

In the second quarter GDP declined further in Croatia - by -2.5% year-on-year - mainly due to negative consumer spending growth. While other Western Balkan economies appear to have been less durably affected by the crisis, the economic recovery in the region is timid. Serbia posted a moderate GDP growth in the first half of 2010 (+1.2%). The former Yugoslav Republic of Macedonia recovered in the second quarter from an economic contraction that was felt until the first quarter. Montenegro's economy, which suffered from a brutal downturn in 2009 (-5.7% of GDP) appears - according to a number of indicators - to be slowly recovering, as is Bosnia's. In Albania, the country that has been the least affected by the crisis so far, available data suggest that growth continued in the second quarter, after having increased by 2 % of GDP in the first quarter of 2010. Latest economic developments in Kosovo are less easy to grasp, in the absence of reliable data: the IMF expects growth to reach 4.6% of GDP in 2010.

Turkey posted year-on-year growth of 10.3% in the second quarter, after 11.7% in the first quarter, fed by booming investment and high internal consumption. There are however some indications that growth may at present be slowing down.

Iceland remains an outlier as the severe economic and financial crisis that hit the country in 2008 is still producing negative effects, with a year-on-year GDP contraction of 8.7% in the second quarter.

In view of the usual lagged effects of economic cycles on the labour markets there has so far been no tangible improvement in the unemployment situation in the Western Balkans. Unemployment rates even continued to deteriorate in Croatia, Bosnia and Herzegovina and Montenegro. Unemployment continued to increase in Iceland.

Turkey is the only country to have recorded a labour market improvement with a significant decline (2 percentage points) in the unemployment rate.

Trade and current account balances have generally improved in the Western Balkans, due to sluggish imports while exports started to pick up again. As a result net exports in these countries have mainly had a positive contribution to growth. In spite of this, current account deficits in the second quarter remained high in Albania (-11%) and Montenegro (-29%), representing a continued source of macro-economic vulnerability. Conversely, the Turkish trade and current account, which had markedly improved in 2009, has significantly deteriorated since the beginning of the year. In Iceland the trade surplus has been counter-balanced by a negative income balance deficit, leading to an increased current account deficit.

Monetary policy developments were rather diverse. Monetary policy gradually continued to be eased in Iceland and Albania, and remained accommodating in Croatia. The previous loosening has come to an end in Serbia, where the Central Bank recently had to increase its reference rate in view of inflationary pressure. In Turkey, after major cuts in 2009, the central bank has kept its policy rate constant at 7% since May, arguing that core inflation remained moderate in spite of increases in headline inflation, mainly due to food prices.

While credit growth has generally remained sluggish in the Western Balkans it was particularly strong in Turkey. Icelandic banks, continuing to struggle with balance sheet restructuring, have not been able to reverse the trend.

The dynamic Turkish recovery allowed for improved budget revenue performance and a lower-than-planned deficit in the first half of the year. In Iceland revenue performance was favourable on the back of tax increases, allowing for a first semester deficit below planned levels.

In the Western Balkans, where the planned fiscal stance for 2010 was generally restrictive, budget outcomes for the first part of 2010 have been mixed with worse than foreseen outcomes so far in Bosnia and Herzegovina, Croatia, Serbia, and the former Yugoslav Republic of Macedonia. In Albania and Montenegro the deficit declined compared to the same period in 2009, mainly due to higher than foreseen revenue in Albania and sizeable expenditure cuts in Montenegro. Kosovo has so far been able to post a budget execution in surplus when taking into account an exceptional dividend from the telecoms incumbent.

## Candidate and potential candidate countries: Summary table

						ECFIN April Forecast							
	2005	2006	2007	2008	2009	2010	2011	Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>Gross domestic product</b> (in real terms, annual % change)													
Croatia	4.2	4.7	5.5	2.4	-5.8	-0.5	2.0	-2.5	-2.5	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	4.1	4.0	6.1	5.0	-0.8	1.3	2.0	-1.1	0.4	:	n.a.	n.a.	n.a.
Iceland	7.5	4.6	6.0	1.0	-6.8	:	:	-6.3	-8.4	:	n.a.	n.a.	n.a.
Turkey	8.4	6.9	4.7	0.7	-4.7	4.7	4.5	11.7	10.3	:	n.a.	n.a.	n.a.
Albania	5.7	5.4	5.9	7.7	3.3	:	:	2.0	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	3.9	6.1	6.2	5.7	-2.9	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	4.2	8.6	10.7	6.9	-5.7	:	:	-1.5	:	:	n.a.	n.a.	n.a.
Serbia	5.6	5.2	6.9	5.5	-3.1	:	:	0.4	2.0	:	n.a.	n.a.	n.a.
Kosovo*	3.8	3.9	3.9	5.4	4.0	:	:	:	:	:	n.a.	n.a.	n.a.
<b>Unemployment</b> (LFS, in % of workforce)													
Croatia	n.a.	n.a.	9.6	8.4	9.1	11.5	11.0	11.2	12.4	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	37.3	36.0	34.9	33.8	32.2	31.7	31.0	33.5	32.1	:	:	:	:
Iceland	2.6	2.9	2.3	3.0	7.2	:	:	7.6	8.7	:	n.a.	n.a.	n.a.
Turkey	10.2	9.9	9.9	11.0	14.1	13.9	13.4	14.4	11.0	:	:	:	:
Albania	14.3	13.9	13.3	12.7	13.0	:	:	13.8	13.8	:	:	:	:
Bosnia and Herzegovina	44.7	44.2	42.9	40.6	42.7	:	:	42.6	43.1	:	43.2	:	:
Montenegro	18.5	14.7	11.9	10.7	11.4	:	:	12.5	11.9	11.7	11.8	11.6	11.7
Serbia	21.8	21.6	18.8	14.7	17.4	:	:	19.5	:	:	:	:	:
Kosovo*	41.4	44.9	43.6	47.5	45.4	:	:	:	:	:	:	:	:
<b>Current account balance</b> (% of GDP)													
Croatia	-5.6	-7.0	-7.6	-9.3	-5.4	-5.5	-5.9	-4.4	-3.1	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-2.6	-0.4	-7.1	-12.7	-7.2	-6.2	-7.9	-3.1	-2.3	:	n.a.	n.a.	n.a.
Iceland	-16.1	-23.8	-16.3	-22.1	-2.2	:	:	-2.9	-4.7	:	n.a.	n.a.	n.a.
Turkey	-4.6	-6.1	-5.9	-5.6	-2.3	-4.5	-5.4	-3.4	-4.1	:	n.a.	n.a.	n.a.
Albania	-8.9	-6.6	-10.6	-15.4	-15.1	:	:	-14.2	-13.1	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-17.1	-8.0	-10.7	-14.4	-6.9	:	:	-5.9	-5.5	:	n.a.	n.a.	n.a.
Montenegro	-8.5	-24.7	-37.8	-50.7	-30.1	:	:	-29.2	-28.9	:	n.a.	n.a.	n.a.
Serbia	-8.4	-12.4	-16.1	-18.8	-6.2	:	:	-5.6	-6.9	:	n.a.	n.a.	n.a.
Kosovo*	-7.4	-6.7	-8.8	-16.0	-18.6	:	:	:	:	:	n.a.	n.a.	n.a.
<b>Inflation</b> (Consumer price index, annual % change)													
Croatia	3.3	3.2	2.9	6.1	2.4	1.5	3.0	0.9	0.7	:	1.0	0.9	:
The former Yugoslav Republic of Macedonia	0.5	3.2	2.3	8.3	-0.8	1.3	2.0	0.5	1.1	1.8	1.5	1.9	2.0
Iceland	4.0	6.7	5.1	12.7	12.0	:	:	7.4	7.1	4.3	4.8	4.5	3.7
Turkey	8.2	9.6	8.8	10.4	6.3	9.0	7.8	9.3	9.2	:	7.6	8.3	:
Albania	2.4	2.4	2.9	3.4	2.3	:	:	4.3	3.4	:	3.4	3.5	:
Bosnia and Herzegovina	4.3	6.1	1.5	7.4	-0.4	:	:	1.7	2.5	:	1.7	1.7	:
Montenegro	2.4	3.0	4.3	7.4	3.4	:	:	0.6	0.3	:	1.0	-0.1	:
Serbia	n.a.	n.a.	11.0	8.6	6.6	:	:	4.5	4.1	:	5.1	6.6	:
Kosovo*	-1.4	0.6	4.4	9.4	-2.4	:	:	0.8	2.0	:	2.7	5.9	:
<b>General government balance</b> (% of GDP)													
Croatia	-3.5	-3.1	-2.6	-1.4	-4.1	-4.0	-3.9	:	:	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	0.2	-0.5	0.6	-1.0	-2.8	-2.5	-2.5	:	:	:	n.a.	n.a.	n.a.
Iceland	4.9	6.3	5.4	-13.5	-9.9	:	:	-6.1	-8.2	:	n.a.	n.a.	n.a.
Turkey	-0.6	-0.1	-1.0	-2.2	-5.7	-3.5	-3.0	:	:	:	n.a.	n.a.	n.a.
Albania	-3.4	-3.2	-3.5	-5.5	-6.8	:	:	-0.4	-1.8	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	2.4	2.9	1.3	-2.0	:	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	-2.3	2.7	6.4	-0.4	-3.6	:	:	-1.2	-0.4	:	n.a.	n.a.	n.a.
Serbia	0.9	-1.6	-2.0	-2.5	-4.1	:	:	-3.3	:	:	n.a.	n.a.	n.a.
Kosovo*	-3.1	2.5	7.1	-0.2	-0.8	:	:	:	:	:	n.a.	n.a.	n.a.

\* as defined by UNSCR 1244

Forecast: ECFIN forecast Spring 2010

# CROATIA



## Key developments

In August, the government proposed and the parliament approved a revision of the state budget for 2010. It had already become clear in the first half of the year that the projections of the original budget adopted last December could not be met. The projected fiscal deficit has been raised significantly in the revised budget.

The government's proposed amendments to the labour act (which would limit the period during which expired collective agreements remain in force) is in a state of legal and political uncertainty following the collection of 700.000 signatures requesting a referendum on the issue.

## Real sector

There is still no clear sign that the recession in Croatia has ended. Real GDP continued to decline by 2.5% year-on-year in the second quarter of 2010. It is unofficially estimated that this corresponds to a decline of economic activity of 0.6% in seasonally adjusted quarter-on-quarter terms. Calculated this way, GDP has now contracted for eight consecutive quarters.

Consumer spending, the largest component of GDP, fell by 2.5% year-on-year in real terms. Gross fixed capital formation dropped by 13.4%. On the other hand, net exports improved sharply as exports of goods and services increased by 7.0% while imports of goods and services decreased by 4.2%. The general government lowered its consumption expenditure by 1.8%.

Final domestic demand subtracted 5.7 percentage points from GDP growth. Net exports pulled strongly in the opposite direction by adding 4.7 percentage points to GDP growth. This shows that the recession continues to induce a relative shift of economic activity from the domestic to the external sector.

Recently released monthly data are inconclusive as to whether economic activity has started to increase in the third quarter. The trend in industrial production continued to be virtually flat over the summer months at a level which

was about 2% lower year-on-year and 14% below the cyclical peak in 2008. Construction remained on a downward trend through July when it was 19.2% lower year-on-year.

Household demand remains weak reflecting falling employment and disposable income. Monthly retail sales were still at a depressed level in the first half of 2010, but the year-on-year change turned positive (0.7%) in July. Foreign tourist arrivals and time spent in Croatia increased by about 4% in the first eight months of 2010 as compared to the corresponding period of the preceding year.

## Labour market

According to the latest labour force survey, the unemployment rate stood at 12.4% in the second quarter of 2010. This was 0.8 percentage points higher than in the first quarter and 3.5 percentage points higher year-on-year. The rise in unemployment would have been 1 percentage point higher over the past year if the labour force had not decreased partly because discouraged workers dropped out. Employment fell by 4.8% between the second quarter of 2009 and the second quarter of 2010.

In the context of the increasing slack in the labour market, downward pressures on wages have continued. Average gross earnings of persons in paid employment fell by 2.0% month-on-month in July and are 1.4% lower on a year-on-year basis.

## External sector

As a consequence of the domestic recession and the recovery in Croatia's main export markets, the current account has improved significantly. The deficit narrowed from 9.3% of GDP in 2008 to 3.1% between mid-2009 and mid-2010.

The narrowing of the current account deficit in recent quarters is not only due to sharply lower goods imports, but also to a recovery of goods exports. The monthly data for merchandise trade show that exports are 13.4% higher year-on-year



in the first eight months of 2010 while imports are 4.2% lower in value terms. The ratio of goods exports to imports improved from 49% in the first eight months of 2009 to 58% in the corresponding period in 2010. Exports have clearly benefited from the recovery in the euro area and other important export markets whereas imports continue to decline in parallel with overall domestic demand.

In contrast to the balance of trade for goods, the services balance has not improved: the surplus declined by 1.5% year-on-year in the first half of 2010. The deficit on income and transfers narrowed by 31.4% over the same period.

Croatia's total gross external debt increased from €43.1 billion at the end of 2009 to €43.6 billion at the end of June 2010 (excluding round-tripping transactions). As a share of GDP, external indebtedness increased by half a percentage point to 95.0% in this six-month period.

Official foreign exchange reserves have increased by about €1 billion in the first eight months of 2010. This was partly a result of the central bank's foreign exchange purchases in June and July. At EUR 11.4 billion they correspond now to about 25% of current GDP.

### Monetary developments

In an environment of ample liquidity and depressed economic activity the Croatian National Bank did not change its accommodative monetary policy stance over the past quarter. The overnight money market interest rate has remained around the low level of 1%. The central bank countered the appreciation pressure on the kuna in June and July by purchasing a total of €363.7 million from banks.

The year-on-year increase of the consumer price index has been at or below 1% in recent months (0.9% in August). Excess supply in many parts of the economy, not least the labour market, is clearly keeping inflationary pressures down. Core inflation has continued to be slightly negative in recent months.

Upward pressure on the kuna in June and early July pushed the nominal exchange rate of the kuna against the euro briefly below 7.20, but subsequently the kuna was exposed to mild

depreciatory pressures. At the end of September, the exchange rate stood at 7.31.

### Financial sector

Against a background of ample liquidity in the financial system, banks' lending and deposit interest rates continued the downward trend started last year. Nevertheless, interest rates for both corporate and household loans remained relatively high at 7.3% and 12.6%, respectively (short-term non-indexed kuna loans in July). Credit growth continued to be almost exclusively accounted for by corporate loans which recorded an annual growth rate of 6.4% at the end of July. Household loans continued to stagnate with an annual growth rate of 0.2%. Following a 13% slide in the second quarter, the stock market index stabilised over the summer months and ended the third quarter 3% higher. Its level remains about 60% lower than at its peak in 2007.

Last year's sharp rise in non-performing loans has continued in 2010. Their share of total bank loans has increased from 7.8% at the end of 2009 to 9.5% at the end of June. This was mainly driven by a deterioration of residential loans quality.

### Fiscal developments

Following the adoption of the revised state budget for 2010 in August, this year's deficit of general government is projected to be 5.2% of GDP, significantly higher than the previous projection of 3.3%. In 2009 the general government deficit amounted to 4.1% in 2009. The main reason for the revised deficit projection is the worse-than-expected economic development. The continuing contraction of economic activity has automatically lowered tax and other revenues and increased certain public expenditures. A number of limited discretionary measures have been introduced to contain the rising deficit including increases in excise taxes on petrol and tobacco.

General government debt (including state guarantees) amounted to 49.5% of GDP at the end of June compared to 46.9% at the end of 2009. About 37% of this debt is held by foreigners.

# TABLE



European Commission, ECFIN-D-1

## CROATIA

		2005 2006 2007 2008 2009					ECFIN April Forecast		2010 2011			Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>1 Real sector</b>																	
Industrial outlook <sup>1.1</sup>	Balance	N.A.	N.A.	70.9	38.0	-33.3	:	:	5.0	0.0	-9.0	N.A.	N.A.	N.A.			
Industrial production <sup>1.2</sup>	Ann. % ch	5.1	4.5	5.6	1.6	-9.3	:	:	-0.5	-3.3	:	-3.3	0.9	:			
Gross domestic product <sup>1.3</sup>	Ann. % ch	4.2	4.7	5.5	2.4	-5.8	-0.5	2.0	-2.5	-2.5	:	N.A.	N.A.	N.A.			
Private consumption <sup>1.4</sup>	Ann. % ch	4.4	3.5	6.2	0.8	-8.5	-0.5	2.0	-4.1	-2.5	:	N.A.	N.A.	N.A.			
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	4.9	10.9	6.5	8.2	-11.8	0.5	3.0	-13.9	-13.4	:	N.A.	N.A.	N.A.			
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	N.A.	N.A.	11.8	-6.5	:	:	-18.6	-16.8	:	-19.2	N.A.	:			
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	-15.3	:	:	-6.3	-4.4	:	0.7	N.A.	:			
<b>2 Labour market</b>																	
Unemployment <sup>2.1</sup>	%	N.A.	N.A.	9.6	8.4	9.1	11.5	11.0	11.2	12.4	:	N.A.	N.A.	N.A.			
Employment <sup>2.2</sup>	Ann. % ch	N.A.	N.A.	1.8	1.3	-1.9	-2.0	0.5	-2.8	-4.8	:	N.A.	N.A.	N.A.			
Wages <sup>2.3</sup>	Ann. % ch	4.4	6.2	6.2	7.1	2.2	0.6	3.0	-0.9	-1.0	:	-1.4	:	:			
<b>3 External sector</b>																	
Exports of goods <sup>3.1</sup>	Ann. % ch	7.9	16.1	8.8	5.1	-20.3	:	:	2.8	:	:	7.6	31.4	:			
Imports of goods <sup>3.2</sup>	Ann. % ch	9.1	12.9	11.0	8.9	-25.6	:	:	-11.3	:	:	-0.3	16.6	:			
Trade balance <sup>3.3</sup>	% of GDP	-21.0	-21.3	-22.0	-22.8	-16.3	-16.1	-16.4	-15.3	:	:	N.A.	N.A.	N.A.			
Exports goods and services <sup>3.4</sup>	% of GDP	42.6	43.4	42.8	41.9	36.1	:	:	36.5	37.3	:	N.A.	N.A.	N.A.			
Imports goods and services <sup>3.5</sup>	% of GDP	49.1	50.4	50.4	50.3	39.4	:	:	38.7	38.4	:	N.A.	N.A.	N.A.			
Current account balance <sup>3.6</sup>	% of GDP	-5.6	-7.0	-7.6	-9.3	-5.4	-5.5	-5.9	-4.4	-3.1	:	N.A.	N.A.	N.A.			
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	3.4	6.5	8.0	6.6	2.6	:	:	2.7	:	:	N.A.	N.A.	N.A.			
<b>4 Monetary Developments</b>																	
CPI <sup>4.1</sup>	Ann. % ch	3.3	3.2	2.9	6.1	2.4	1.5	3.0	0.9	0.7	:	1.0	0.9	:			
Producer prices <sup>4.2</sup>	Ann. % ch	:	:	:	:	-0.4	:	:	3.6	4.8	:	3.8	3.3	:			
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	2.5	3.4	10.0	1.7	:	:	-3.1	-2.7	:	-1.0	-0.7	:			
M4 <sup>4.4</sup>	Ann. % ch	9.6	14.3	17.9	10.9	1.6	:	:	1.1	2.1	:	2.5	3.2	:			
Exchange rate HRK/EUR <sup>4.5</sup>	Value	7.39	7.30	7.33	7.22	7.34	:	:	7.28	7.25	7.25	7.21	7.25	7.28			
Nominal eff. exchange rate <sup>4.6</sup>	Index	100.0	98.8	97.2	94.2	96.7	:	:	96.10	97.35	:	96.94	97.13	:			
<b>5 Financial indicators</b>																	
Interest rate (3 months) <sup>5.1</sup>	% p.a.	6.21	4.46	5.66	7.19	8.96	:	:	2.21	2.27	2.66	2.49	2.72	2.77			
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	5.9	6.4	:	:	5.8	5.7	5.7	5.7	5.7	5.8			
Stock markets <sup>5.3</sup>	Index	1,920	2,771	4,673	3,299	1,871	:	:	2,161	2,001	1,873	1,857	1,848	1,916			
Credit growth <sup>5.4</sup>	Ann. % ch	14.9	22.0	19.4	11.6	5.0	:	:	-0.7	1.7	:	3.6	4.7	:			
Deposit growth <sup>5.5</sup>	Ann. % ch	18.5	51.6	27.2	7.4	-15.2	:	:	-25.7	-21.8	:	-19.4	-15.8	:			
Non performing loans <sup>5.6</sup>	% of total	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.			
<b>6 Fiscal developments</b>																	
General government balance <sup>6.1</sup>	% of GDP	-3.5	-3.1	-2.6	-1.4	-4.1	-4.0	-3.9	:	:	:	N.A.	N.A.	N.A.			
General government debt <sup>6.2</sup>	% of GDP	38.3	35.7	33.0	33.5	:	42.5	44.5	:	:	:	N.A.	N.A.	N.A.			

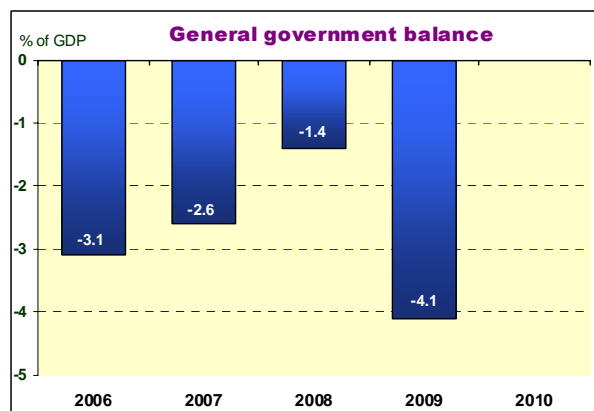
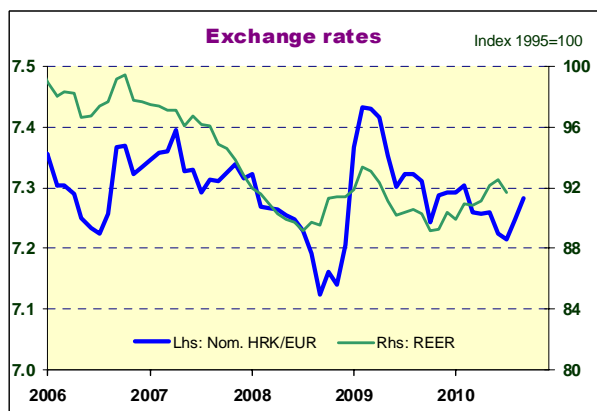
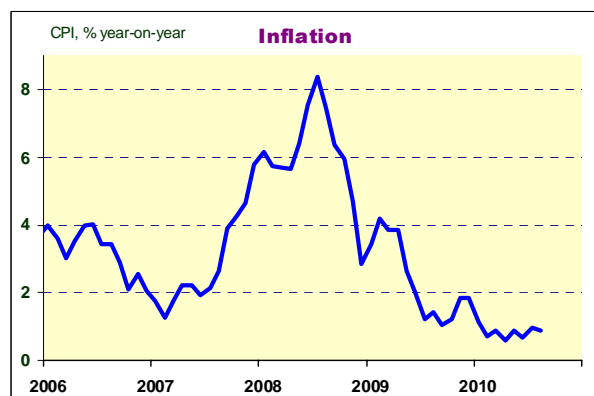
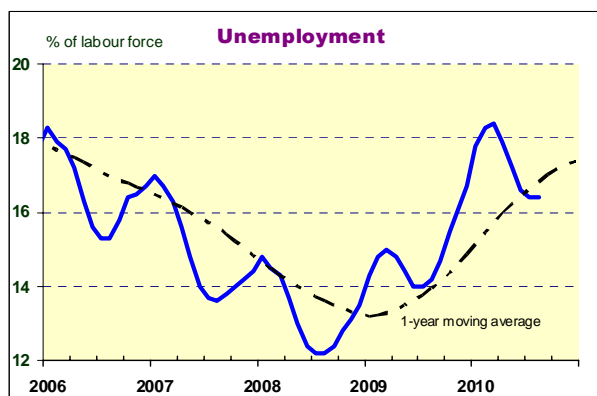
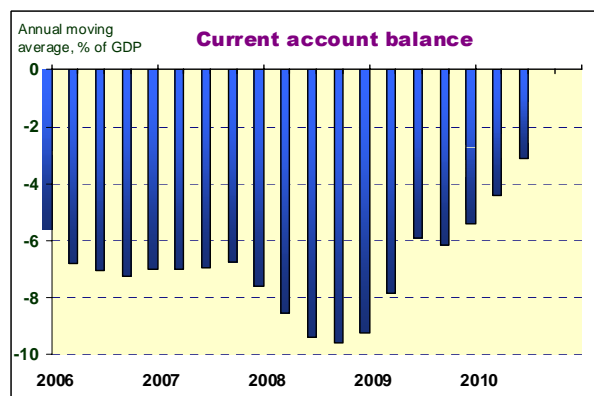
f: ECFIN forecast Spring 2010

# CHARTS



European Commission, ECFIN-D-1

## CROATIA





# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



## Key developments

In mid-September, the government presented a 4<sup>th</sup> anti-crisis package. The package contains 23 measures, largely steps to accelerate and simplify administrative procedures. So far, no estimates on the fiscal implications of this package are available.

The Central Bank lowered again its key interest rates. On 11 August, the bank lowered the rate for 28-day central bank bills by 0.5 percentage points to 4.5% and on 13 August the Lombard rate from 6.5% to 6%.

## Real sector

In the second quarter of 2010, real GDP increased by 0.4% year-on-year, compared to a decline by 0.9% in the first quarter of 2010. Thus, in the first half of 2010, output was 0.3% lower than a year before. The main positive contribution to growth appears to have been exports, while all domestic demand components registered lower output than a year before, in particular investment, which in real terms is reported to be some 20% lower than in the first half of 2009. However, imports declined in line with domestic demand, which prevented a significantly sharper output decline.

On the supply side, public administration and financial services were the growth supporting factors, while manufacturing and agriculture were those sectors with the biggest negative growth contribution.

High frequency indicators, such as industrial production, point to a continued overall weakness in domestic production. However, the production level of export-oriented industries, such as the production of base metals, or the manufacture of wearing apparel is above last year's levels.

## Labour market

According to official statistics, the overall labour market situation continued to deteriorate in the second quarter, with a year-on-year decline in employment by 1.4% (i.e., 10 000 persons). The number of unemployed also decreased by 0.5% or 1 000 persons. However, despite the slight decline in unemployment, the official unemployment rate actually increased by 0.2 percentage points, reaching 32.1%, compared to 31.9% the year before. This is mainly the result of a decline in the active labour force.

The employment decline is a result of a significant drop in employment in manufacturing, trade and transport agriculture (by some 16 000 jobs in absolute numbers), which however was partly compensated by an increase in public sector employment (by some 3 000 persons). Overall, the number of employed persons was some 9 000 persons lower than a year before. About 20% of the unemployed are between 15-24 years old. Unemployment in this age group remained largely stable at some 55%. Nominal wage growth slowed to 0.3% in the second quarter.

## External sector

During the second quarter of 2010, the situation in the external sector continued to improve, benefitting from declining imports, improving exports and continued private capital inflows. FDI inflows remained weak. In the first half of 2010, export revenues were 23% higher than before, while spending for commodity imports rose by 7% only. As a result, the trade deficit dropped to 22% of GDP, compared to 25% of GDP a year before. The inflow of private transfers increased to annualised 19% of GDP, compared to 11% a year before. FDI inflows remained largely unchanged at some 3.7% of GDP in the first half of 2010.

Foreign exchange reserves also remained stable at around EUR 1.7 billion. However, mainly as a

result of the declining imports, the import coverage has recovered to some 4.3 months of expected imports.

By March-2010, gross external debt amounted to about 56% of GDP, compared to some 50% of GDP a year before. The main contributor to the increase was government borrowing abroad and higher interbank lending, each adding about 2 percentage points of GDP to the increase in the debt ratio.

### Monetary developments

Overall CPI inflation remained rather moderate, increasing by 2.0% year-on-year in September. During the first three quarters of 2010, headline consumer prices were 1.1% higher than a year before. However, the main contribution to low inflation came from food prices, which declined by 1.8% on average during the first three quarters of 2010, while prices for fuel and lighting rose by 8.6% and for housing by 4.9%.

The exchange rate of the Denar has remained largely stable against the euro at a level of 61.5 MKD/EUR. However, during 2009, the Central Bank had to intervene more frequently than in the past to maintain the stability of the exchange rate to the euro. The Central Bank continues to be strongly committed to maintaining the current informal peg to the euro.

### Financial sector

Since October 2009, monetary conditions continued to soften slightly. Average weighted nominal lending rates had increased from 9.7% at the beginning of 2009 to 10.3% in September, but dropped slightly to 9.2% in August 2010. Interest rates on deposits increased from 6.8% in January to 7.5% in February but dropped to 7.0% in August. The spread between lending and borrowing rates remained at about 2½ percentage points. The overall credit-to-GDP level is still relatively low at some 43% of GDP. Year-on-year growth of M4 accelerated again in the second quarter of 2010, increasing to 13.8% year-on-year, compared to 2.7% in the second quarter of 2009. In the second half of 2010, growth in M4 started to decelerate slightly, reaching 12.4% in August.

The country's stock market continued its downward trend. After the sharp drop in autumn

2008, the stock market index started to recover in the second half of 2009. However, towards the end of 2009, the market capitalisation started to decline again and is currently some 30% of GDP.

The ratio of non-performing loans has increased to 10.1% by end-June 2010, compared to 7.5% a year before. Profitability has not materially changed against last year, with the return on assets increasing to 0.4%, while the return on equity came down to 3.2%, compared to 4.3% a year before, a level that is significantly lower than in recent years (in Dec. 2008 it stood at 12.5%).

### Fiscal developments

In the first half of 2010, total revenues were some 2% lower than a year before. The main contributors to this decline were lower "other revenues" and direct taxes, while the biggest revenue category – the Value Added Tax amounting to some 47% of total revenues, remained largely unchanged. Total expenditure was some 1% lower than a year before, mainly due to reductions in spending for intermediate goods and interest payments, while social transfers were increased. As a result, the cash-based fiscal deficit in the first half of 2010 amounted to some annualised 2.8% of GDP. This is broadly in line with the end-year deficit target of 2.5% of GDP. However, during the first half of 2010, the government appears to have accumulated important payment arrears, which on an accrual base would result in a higher deficit.

In mid-August, the government adopted another anti-crisis package, with some 23 measures to boost economic activity. Many of the measures envisage the acceleration and simplification of administrative procedures. The government claims to have incorporated the costs of this package in the June rebalancing budget already.

By end-August, public debt had increased to some 34% of GDP, compared to 32.1% end of 2009. The main reason for the increase was recourse to foreign and domestic lending for financing government activities. Some 65% of the public debt is denominated in EUR, while the share of debt denominated in domestic currency rose from 14% in 2009 to 18% in mid-2010.

## TABLE



European Commission, ECFIN-D-1

### The former Yugoslav Republic of Macedonia

							ECFIN April Forecast							
		2005	2006	2007	2008	2009	2010	2011	Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	7.2	2.3	4.1	5.9	-7.3	:	:	-9.1	-1.5	:	8.3	-1.5	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	4.1	4.0	6.1	5.0	-0.8	1.3	2.0	-1.1	0.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	5.7	6.0	9.8	8.1	-4.1	1.0	2.0	2.4	4.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	-5.4	11.6	13.3	16.5	:	4.0	6.0	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Retail sales <sup>1.7</sup>	Ann. % ch	15.9	9.5	17.1	11.6	-3.8	:	:	1.4	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	37.3	36.0	34.9	33.8	32.2	31.7	31.0	33.5	32.1	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	4.3	4.6	3.5	3.2	3.4	1.5	2.0	-0.4	-1.4	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	2.7	8.0	4.8	8.7	14.1	0.7	0.9	1.1	0.3	:	0.3	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	22.2	16.5	29.2	8.6	-28.4	:	:	20.5	25.4	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	10.7	16.6	25.3	21.4	-21.7	:	:	-8.0	21.4	:	:	:	:
Trade balance <sup>3.3</sup>	% of GDP	-18.4	-19.7	-19.8	-26.0	-23.0	-21.9	-22.3	-20.7	-21.4	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	43.2	46.9	52.4	50.9	38.8	:	:	40.0	41.9	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	62.1	66.5	70.8	76.2	60.2	:	:	58.9	61.2	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-2.6	-0.4	-7.1	-12.7	-7.2	-6.2	-7.9	-3.1	-2.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	1.6	6.8	8.5	6.1	2.5	:	:	2.4	2.5	:	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	0.5	3.2	2.3	8.3	-0.8	1.3	2.0	0.5	1.1	1.8	1.5	1.9	2.0
Producer prices <sup>4.2</sup>	Ann. % ch	3.2	4.5	1.6	10.4	-6.4	:	:	7.5	9.7	:	7.5	7.7	:
Food prices <sup>4.3</sup>	Ann. % ch	-1.2	2.1	3.7	14.4	-1.4	:	:	-2.3	-0.9	:	0.2	0.9	:
Monetary aggregate M4 <sup>4.4</sup>	Ann. % ch	15.1	10.0	28.9	21.3	3.5	:	:	8.9	13.8	:	12.8	12.4	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.30	61.19	61.18	61.26	61.28	:	:	61.40	61.55	:	61.52	61.51	:
Nominal eff. exchange rate <sup>4.6</sup>	Index	99.8	100.0	99.6	100.6	106.6	:	:	106.1	:	:	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	9.95	6.40	5.60	6.69	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	1,930	3,219	6,971	5,149	2,497	:	:	2,825	2,533	2,315	2,363	2,362	2,219
Credit Growth <sup>5.4</sup>	Ann. % ch	46.7	25.0	35.0	40.3	14.2	:	:	2.7	4.4	:	6.0	7.1	:
Deposit growth <sup>5.5</sup>	Ann. % ch	38.7	21.0	31.4	23.5	4.6	:	:	9.6	14.4	:	14.0	13.5	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	0.2	-0.5	0.6	-1.0	-2.8	-2.5	-2.5	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	46.9	40.2	27.3	28.8	32.1	25.4	26.7	:	:	:	N.A.	N.A.	N.A.

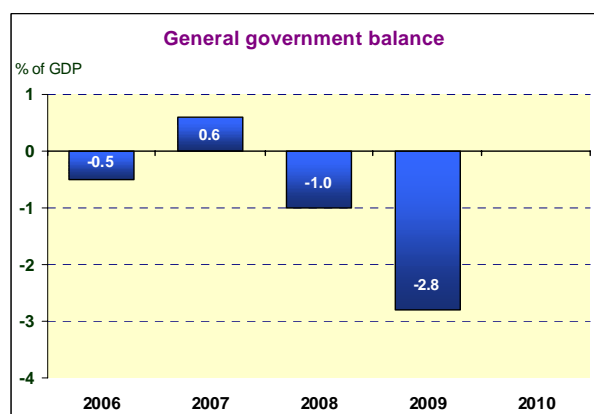
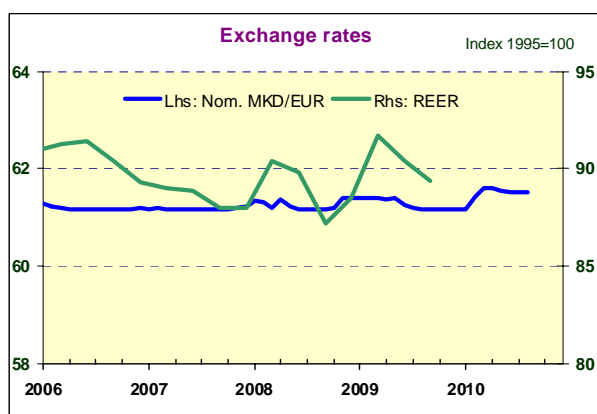
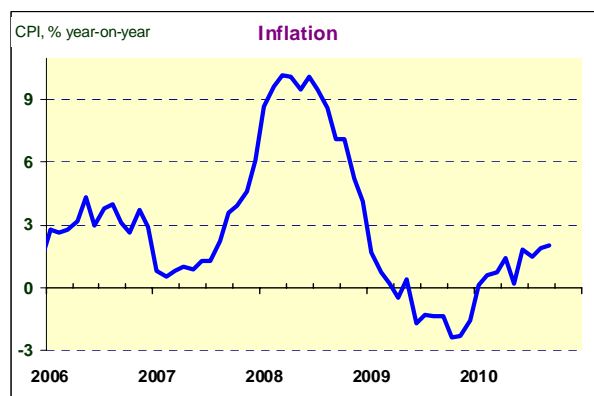
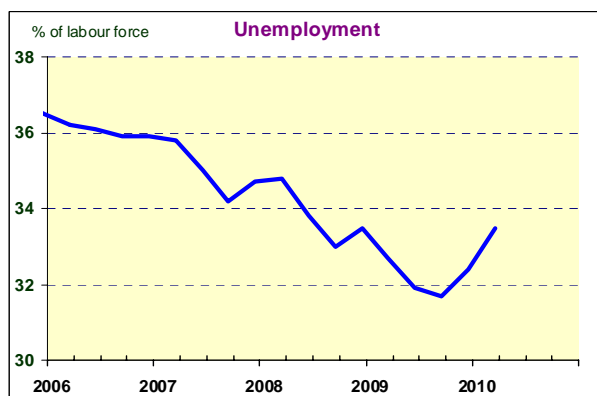
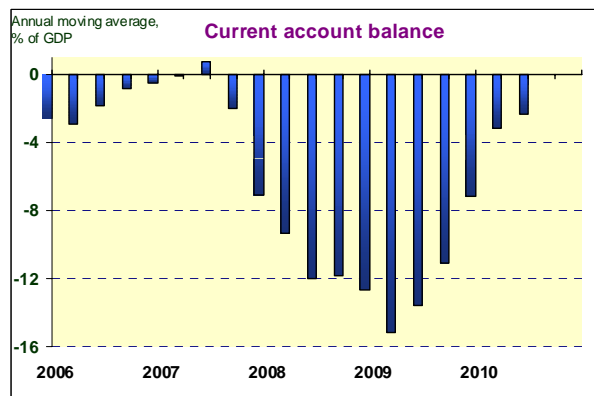
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# CHARTS

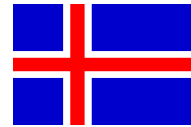


European Commission, ECFIN-D-1

## The former Yugoslav Republic of Macedonia



# ICELAND



## Key developments

EU accession negotiations were formally opened on 27 July.

On 2 September, a reshuffle of the Icelandic government was announced with a view to merging and reducing the number of ministries.

In mid-September, the Supreme Court issued a new decision on exchange rate indexed loans, clarifying the original June ruling. On this basis, bank recapitalisation needs appear to be smaller than previously estimated. However, the precise effect of the ruling on banks' balance sheets will only be known after the adoption and implementation of secondary legislation which the government announced following the new Court decision.

The third review under the IMF stand-by arrangement was successfully concluded on 29 September which opened the way for the disbursement of the fourth tranche (around € 120 million) under the programme.

## Real sector

According to a recent revision of national accounts data, real GDP in 2009 fell by 6.8%, more strongly than the previously estimated rate of 6.5%. The economy contracted further during the first half of 2010. Real GDP fell by 7.6% year-on-year in the first quarter, followed by a drop of 8.7% in the second quarter. Moreover, the quarterly growth rate deteriorated in seasonally adjusted terms from -1.2% in the first quarter to -3.1% in the second quarter, confirming that the recession has not yet bottomed out. The rebound in private consumption, which started growing in the second half of 2009, turned out to be temporary as growth rates became again negative in the first half of 2010. The speed of contraction of investment slowed somewhat but prospects for positive investment growth remain uncertain, due also to delays in projects in the aluminium sector, reflecting financing constraints and internal political debates. More recently, during the third quarter, consumer sentiment and expectations have somewhat improved (from a

low base), but high frequency data do so far not suggest a strengthening of economic activity.

## Labour market

The crisis seriously affected developments on the labour market as unemployment increased markedly and the number of employed dropped compared to pre-crisis levels. Those effects were still being felt through the first half of 2010. Elements of flexibility seem to have provided a degree of cushion, such as a reduced level of hours worked, increased part-time work and real wage flexibility. Nonetheless, according to the Labour Force Survey, the unemployment rate continued to rise to 8.7% in the second quarter, from 7.6% in the first quarter. Moreover, long-term unemployment has risen rapidly with currently a third of the unemployed being without job for more than a year. Total employment increased by 1.2% year-on-year in the second quarter, following a drop of 1% in the first quarter, bringing the average employment in the first half of the year to the same level as in the corresponding time of the previous year.

The growth of nominal wages accelerated somewhat recently. Following an average increase of around 4% year-on-year in the first half of 2010, the wage index rose by 6% in both July and August. Higher wage growth together with falling annual inflation led to an increase of real wages by around 1.2% in July and August, following a real wage decline in the first half of the year.

## External sector

Thanks to a good export performance, the surplus in the trade of goods and services increased to around 10% of GDP in the first half of 2010, compared to around 7.5% in the first half of the previous year. However, the current account balance deteriorated (mainly due to a three-fold increase in the income balance deficit) and recorded a deficit of 3.5% of GDP, compared to a surplus of 2.8% a year before. The (annual cumulative) current account deficit in the four quarters to end-June increased to



close to 5%, compared to 2.2% in 2009. More recent merchandise trade data suggest some deterioration as exports dropped in August by 5% year-n-year. Imports recovered after having fallen in July.

In the first half of 2010, total net capital inflows, including official borrowing, have been larger than the amounts needed to finance the current account deficit. As a result, official foreign exchange reserves held at the central bank continued to increase. They stood at around 38% of GDP in mid-2010, compared to 32% at end-year 2009.

Estimates of the size of the country's external debt have been rapidly changing following the financial crisis, due to uncertainties about the impact of the main banks' collapse on the level of foreign debt. Excluding the latter, the stock of gross foreign debt is now estimated at around 230% of GDP at mid-2010, compared to a pre-crisis level (end-2007) of around 570% of GDP. The private sector accounts for two thirds of the external debt stock (the private non-financial sector for about 55%).

### Monetary developments

Increased stability of the exchange rate allowed the Central Bank to continue during the third quarter 2010 a process of gradual easing of the monetary policy stance. In September, the key policy rate (seven day collateralised lending rate) was cut for the fourth time in 2010 to 6.25%, the lowest rate since 2004. Also as a result of this reduction, rates on the three months interbank market have come down during the third quarter, to 6.45% compared to 7.63% in the second quarter.

The exchange rate of the Icelandic krona has continued to strengthen vis-à-vis the euro during the third quarter of the year, when it appreciated by around 5% compared to the previous quarter. During the first nine months of the year, the krona appreciated by close to 17%. Annual inflation continued to decrease to a three year low 3.7% in September, from its peak of 18.6% in January 2009.

### Financial sector

Due to the collapse of the Icelandic banking sector in late 2008, reliable data on banks' balance sheets are not yet available. The Central Bank published preliminary banks' balance sheet data, suggesting that domestic credit by deposit

money banks (banks and savings banks) stood at around 125% of GDP at end-August, compared to a pre-crisis level of above 300% of GDP.

Due to balance sheet uncertainties, standard financial stability indicators are scarcely available. The recent financial stability report published by the central bank estimates the return on equity of commercial banks at 17%. With respect to the quality of the loan portfolio, the report estimates that at present around 40% of the banks' loans are being paid on time, around 20% loans are being paid following restructuring, while over 40% are in default.

Since their collapse in late 2008, domestic equity markets have been playing a much smaller role in financial intermediation. The stock market index increased further by 6.5% during the third quarter. By end-September, the index stood at 17% of its average 2008 value. Market capitalisation stood at 17% of GDP, compared to 120% prior to the crisis.

### Fiscal developments

The 2010 budget foresees a reduction of the general government deficit by three and a half percentage points to 5.6% of GDP (from an estimated 9.9% in 2009), supported by increases in indirect taxes and social contributions and by cuts in current and capital spending. In the first half of 2010, total general government revenues increased by close to 10% year-on-year. The increase in indirect taxes was much higher (14%) than the rise in direct taxes, helped by higher VAT, excises and energy taxation. Social contributions, which represent a share of around 10% in total revenues, rose by 55%. Overall, budget revenue execution was above plan while some downside risks remain related to slower than expected economic recovery. Total general government spending rose by 4% year-on-year in the first half. The significant deceleration in spending was supported by a lower wage bill (-2%), as well as by cuts in social spending (-7%) and in capital spending (-27%). The general government deficit in the first half of 2010 amounted to 3.5% of projected annual GDP, lower than the 4.6% recorded in the first half of 2009.

Gross general government debt increased from around 29% of GDP in 2007 to 106% at end-2009. The increase resulted from strong cyclical effects on the budget balance, the costs of financial sector restructuring, and from government external borrowing to bolster foreign exchange reserves.



# TABLE



European Commission, ECFIN-D-1

## ICELAND

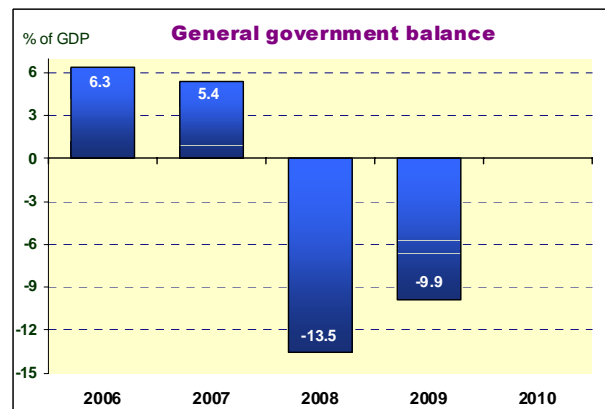
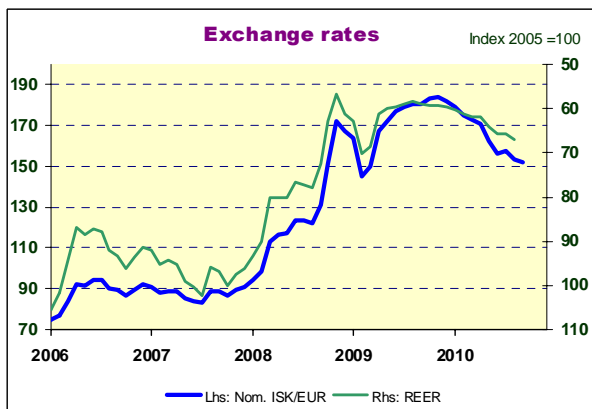
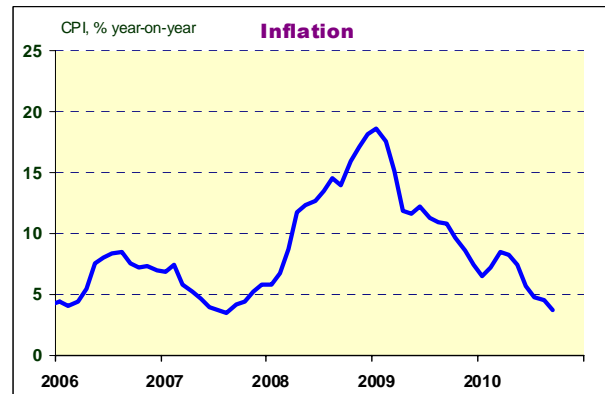
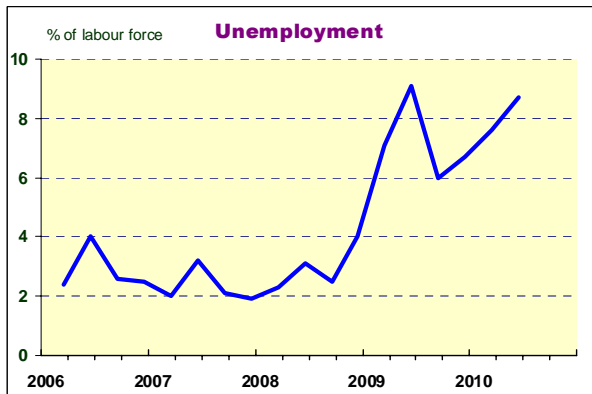
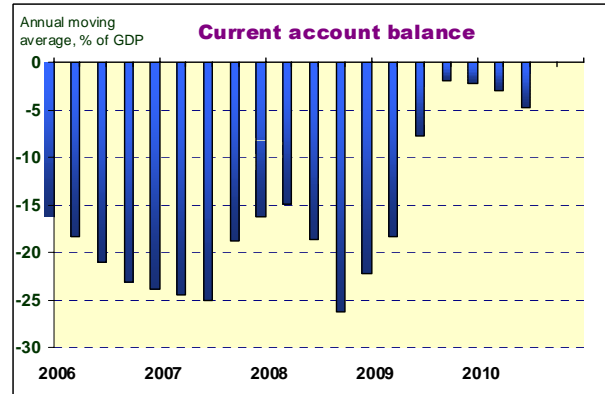
		2005	2006	2007	2008	2009	Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>1 Real sector</b>												
Industrial outlook <sup>1.1</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	-2.6	18.7	28.5	76.9	10.3	0.6	2.4	:	-5.2	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	7.5	4.6	6.0	1.0	-6.8	-6.3	-8.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	12.7	3.6	5.6	-7.9	-16.0	0.0	-2.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	35.7	22.4	-11.1	-20.9	-50.9	2.4	-26.3	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	31.3	27.9	12.1	-21.2	-23.4	:	:	:	:	:	:
Retail sales <sup>1.7</sup>	Ann. % ch	13.0	8.0	7.9	-9.2	-22.9	-9.2	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	2.6	2.9	2.3	3.0	7.2	7.6	8.7	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	3.3	5.1	4.5	0.7	-6.1	-1.0	1.2	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	6.8	9.5	9.0	8.1	3.9	3.5	4.7	:	6.0	6.0	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	-3.7	24.9	25.7	52.6	7.3	17.4	27.5	:	5.8	-5.1	:
Imports of goods <sup>3.2</sup>	Ann. % ch	20.6	38.9	-1.5	20.2	-13.3	15.0	12.8	:	-4.4	9.9	:
Trade balance <sup>3.3</sup>	% of GDP	-9.1	-13.4	-6.7	-0.5	6.0	6.3	7.5	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	31.7	32.2	34.6	44.5	53.0	54.2	56.4	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	44.0	50.0	45.3	47.4	44.2	45.1	46.3	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-16.1	-23.8	-16.3	-22.1	-2.2	-2.9	-4.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	-24.6	-10.2	-16.5	30.5	-17.6	-12.0	-26.0	:	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	4.0	6.7	5.1	12.7	12.0	7.4	7.1	4.3	4.8	4.5	3.7
Producer prices <sup>4.2</sup>	Ann. % ch	:	:	1.8	31.0	11.3	25.2	19.2	:	6.1	1.8	:
Food prices <sup>4.3</sup>	Ann. % ch	-2.6	8.0	-1.1	16.0	17.5	6.3	6.7	3.1	4.1	3.4	1.8
M3 <sup>4.4</sup>	Ann. % ch	19.0	19.8	36.1	:	:	:	:	:	:	:	:
Exchange rate ISK/EUR <sup>4.5</sup>	Value	78.17	87.84	87.66	127.58	172.15	175.61	163.12	154.27	157.20	153.52	152.08
Nominal eff. exchange rate <sup>4.6</sup>	Index	100.0	89.5	90.9	65.9	47.6	45.7	47.8	:	49.4	50.4	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	9.36	12.35	14.28	15.84	11.28	8.25	7.63	6.45	7.05	6.60	5.71
Bond yield <sup>5.2</sup>	% p.a.	7.70	9.21	N.A.	11.00	8.15	7.16	5.37	4.22	4.30	4.28	4.09
Stock markets <sup>5.3</sup>	Index	3,991	5,494	7,017	3,510	465	522	571	580	568	581	591
Credith growth <sup>5.4</sup>	Ann. % ch	47.5	45.5	27.3	-34.0	-8.5	:	:	:	:	:	:
Deposit growth <sup>5.5</sup>	Ann. % ch	19.1	19.9	36.5	31.5	-1.3	:	:	:	:	:	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	4.9	6.3	5.4	-13.5	-9.9	-6.1	-8.2	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	25.4	30.1	28.6	70.6	106.4	:	:	:	N.A.	N.A.	N.A.

# CHARTS



European Commission, ECFIN-D-1

## ICELAND



# TURKEY



## Key developments

In late July, the IMF board took stock of economic developments in Turkey (Article IV consultation). The Fund urged "passage of the draft fiscal rule without further delay," saying "failure to pass the rule quickly may forfeit the window of opportunity that could close ahead of the approaching election cycle, and risk weakening the credibility of the authorities' commitment to fiscal discipline."

On September 12, the Turkish population went to the polls and passed the constitutional reform package, supported by the government. 58% of the voters backed the 26 proposed constitutional amendments while 42% opposed the changes. Markets reacted positively to the outcome under the expectation that a coalition government - seen as potentially less stable - is less likely to emerge after the 2011 elections.

In early October, Moody's upgraded Turkey's local and foreign currency ratings by one notch. This upgrade was justified by improvements in the country's economic and fiscal resilience.

## Real sector

Real GDP increased in the first half of 2010 by 11% from a year earlier, up from 2% in the second half of 2009. All sectors demonstrated strong positive growth: trade, industry and construction expanded by over 15% in the first semester of 2010.

Domestic demand and in particular investment were particularly strong, as the year-on-year growth in gross fixed capital formation amounted to a sheer 22%. The high growth in domestic demand translated into real imports growth amounting to 20%. Net exports pulled down the growth performance by 3.4%. Consumer and corporate loans have maintained their rapid pace and continue to spur domestic demand. High frequency indicators point at a growth slowdown – albeit gradual and from very high levels – starting in mid-2010.

## Labour market

In tandem with the recovery, the unemployment rate declined to 11% by mid-2010 from 13% in mid-2009. The non-farm unemployment rate, which stood at 17% in mid-2010, showed a broadly similar downward trend. The youth unemployment rate dropped faster, most likely due to the priority given to this segment in the employment package, to 20% from over 24% in July last year.

Employment data show a marked improvement, as the number of employed increased by over 1,400,000 compared with July last year. The employment rate went up from 41.6% in mid-2009 to 44% in the same period of 2010. Female labour participation increased by over 1.5 percentage points since mid-2009, but female employment remains particularly low, at just half the overall rate. Given the high unemployment rate and the annual growth rate of 1.2% in the working-age population, the labour market needs to absorb not only the unemployed but also one million new entrants every year.

## External sector

Pressures on the current account – which had seen a major crisis-led improvement – started in late 2009, as robust domestic demand and higher energy prices fuelled imports, which increased by 30% in the first half of 2010. In tandem with the rise in imports, exports performed relatively well and rose by about 15% in the first six months of 2010. Consequently, the trade deficit more than doubled, from 3% of GDP in the first half of 2009 to 6.2% of GDP in the same period in 2010. The current account balance broadly shows similar patterns and the deficit is widening rapidly. In the first six months of 2010, the deficit amounted to 6.2% of GDP, compared with 2.7% in the same period of 2009.

Total financing needs have almost doubled in 2010. The financing has been shifting dramatically towards more portfolio and in

particular more cross-border credits to domestic banks (covering two thirds of the current account deficit) and less direct investment. Reserves rose by about EUR 4 billion to roughly EUR 40 billion.

The gross external debt stock amounted to 37% of GDP in the first half of 2010, down by about five percentage points from the same period in 2009. About two thirds is held by the private sector.

### Monetary developments

In the September Monetary Policy Committee (MPC) meeting, the base policy rate was maintained at 7%. At the same time, the borrowing rate was reduced from 6.5% to 6.25% and the lending rate from 9% to 8.75%. A combination of several unfavourable developments, such as price increases for unprocessed food and oil, base effects and administered price rises, has however led to a significant increase in inflation since the last quarter of 2009. These factors pushed headline inflation significantly above the central bank target, leading to an adverse impact on inflation expectations. Between November 2009 and April 2010, inflation rose from 5.1% to 10.2% before falling to 8.3% in August, reflecting large volatility in food prices. The central bank nevertheless expects inflation to fall towards the end of 2010 to 6.5%. Core inflation went up from about 3% in mid-2009 to 5% by mid-2010. Turkey's real policy rate is now low given the economic upsurge.

Cuts in the policy rate over the previous 18 months were transmitted to market rates, but at speeds and pass-through rates that varied across instruments. Rates on corporate lending declined the most, by more than 15 percentage points. Recovering domestic demand and easing lending standards in the second half of 2009 helped revive credit supply which accelerated further to an annualized rate of around 30% in the first half of 2010. The Turkish central bank is looking ahead to a period of strong growth and has announced plans to roll back the extraordinary measures put in place during the economic crisis in 2009 and to inject less liquidity into the market. The operational structure of the central bank's liquidity management has been changed in order to ensure a better allocation of liquidity

within the banking system and to reduce the dependence of banks on the central bank's lending facilities. Taking into account its reading of the – not yet closed – output gap (according to estimates by the central bank), the Monetary Policy Committee has indicated that the monetary tightening/exit strategy should be prudent and slow.

### Financial sector

The banking sector has shown marked resilience to the global financial crisis, largely due to major improvements made to the regulatory and supervisory framework in previous years. Risk ratios remained robust. The sector also benefited from the central bank's liquidity measures and some easing of regulations governing loan classification and provisioning requirements. These measures helped the nominal capital adequacy ratio to increase to 20% by mid 2010, substantially higher than the EU legal requirement of 12%.

Non-performing loans fell to about 5% by mid-2010 from a peak of about 6% at the end of 2009 and stress tests by the regulator show that the sector is sound.

The Istanbul Stock Exchange expanded from 37% in 2009 to over 40% of GDP by mid-2010.

### Fiscal developments

The adverse effects of the crisis have been partly mitigated by fiscal measures to stimulate economic growth, which amount to about 5% of GDP in the 2009-2011 period. They appear to have successfully propped up private consumption, and are being phased out gradually. But they have also caused the budget deficit to soar dramatically from 2.2% of GDP in 2008 to about 5.7% of GDP in 2009, while the public debt stock rose by around 6% year-on-year to about 45% of GDP in mid-2010. Budget realizations in the first half year of 2010 have been much better than anticipated, and the deficit fell by about half compared with the same period in 2009 to about 3% of GDP. Strong consumption is supporting the revenues performance (up 20% year-on-year) through higher tax revenues, while tax hikes also contributed.

# TABLE



## TURKEY

European Commission, ECFIN-D-1

		2005	2006	2007	2008	2009	ECFIN April Forecast		Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
							2010	2011						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	102.8	102.4	110.3	89.0	87.1	:	:	106.0	115.2	:	112.7	111.0	:
Industrial production <sup>1.2</sup>	Ann. % ch	:	7.3	7.0	-0.6	-9.9	:	:	17.3	13.8	:	8.6	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	8.4	6.9	4.7	0.7	-4.7	4.7	4.5	11.7	10.3	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	7.9	4.6	5.5	-0.3	-2.2	3.5	3.7	8.5	6.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	17.4	13.3	3.1	-6.2	-19.1	4.6	8.4	15.2	28.7	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	74.9	38.7	9.8	-4.4	-9.5	:	:	-4.4	81.2	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	10.2	9.9	9.9	11.0	14.1	13.9	13.4	14.4	11.0	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	1.7	-0.4	-3.6	1.3	0.4	0.9	1.4	7.5	7.5	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	12.4	11.0	9.5	11.3	9.7	6.4	7.2	10.1	:	:	:	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	16.6	14.8	14.9	14.8	-18.2	:	:	0.3	33.0	:	16.6	20.8	:
Imports of goods <sup>3.2</sup>	Ann. % ch	20.1	17.7	11.6	10.4	-26.3	:	:	25.9	44.0	:	37.5	33.3	:
Trade balance <sup>3.3</sup>	% of GDP	-6.9	-7.8	-7.2	-7.1	-4.0	-5.4	-6.1	-5.0	-5.6	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	21.9	22.7	22.3	23.9	23.2	:	:	22.3	22.2	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	25.4	27.6	27.5	28.3	24.4	:	:	24.6	25.3	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-4.6	-6.1	-5.9	-5.6	-2.3	-4.5	-5.4	-3.4	-4.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	1.9	3.6	3.1	2.1	1.0	:	:	0.8	0.8	:	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	8.2	9.6	8.8	10.4	6.3	9.0	7.8	9.3	9.2	:	7.6	8.3	:
Producer prices <sup>4.2</sup>	Ann. % ch	5.9	9.3	6.3	12.7	1.2	:	:	7.2	9.1	:	8.2	9.0	:
Food prices <sup>4.3</sup>	Ann. % ch	4.9	9.7	12.4	12.8	8.0	:	:	11.8	8.0	:	5.5	10.4	:
M4 <sup>4.4</sup>	Ann. % ch	31.3	32.9	17.8	23.7	17.4	:	:	14.9	22.0	:	24.5	24.0	:
Exchange rate TRY/EUR <sup>4.5</sup>	Value	1.67	1.80	1.78	1.91	2.16	:	:	2.08	1.96	1.95	1.97	1.95	1.95
Nominal eff. exchange rate <sup>4.6</sup>	Index	28.11	26.18	26.73	25.77	23.24	:	:	23.66	:	:	:	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	16.74	18.07	18.85	18.04	10.68	:	:	7.50	8.04	8.15	8.25	8.10	8.09
Bond yield <sup>5.2</sup>	% p.a.	:	:	18.13	19.30	11.66	:	:	8.92	9.08	8.25	8.39	8.22	8.13
Stock markets <sup>5.3</sup>	Index	29,353	39,867	48,270	37,582	37,510	:	:	53,373	56,571	60,185	58,156	59,218	63,180
Credit growth <sup>5.4</sup>	Ann. % ch	44.7	48.6	28.6	31.5	8.0	:	:	15.2	27.1	:	34.3	35.6	:
Deposit growth <sup>5.5</sup>	Ann. % ch	:	33.1	17.7	21.8	18.0	:	:	13.5	18.0	:	20.2	20.3	:
Non-performing loans <sup>5.6</sup>	% total	6.7	5.2	4.7	4.2	6.4	:	:	6.7	6.0	:	5.5	:	:
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-0.6	-0.1	-1.0	-2.2	-5.7	-3.5	-3.0	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	52.3	46.1	39.4	39.9	45.5	45.1	44.5	:	:	:	N.A.	N.A.	N.A.

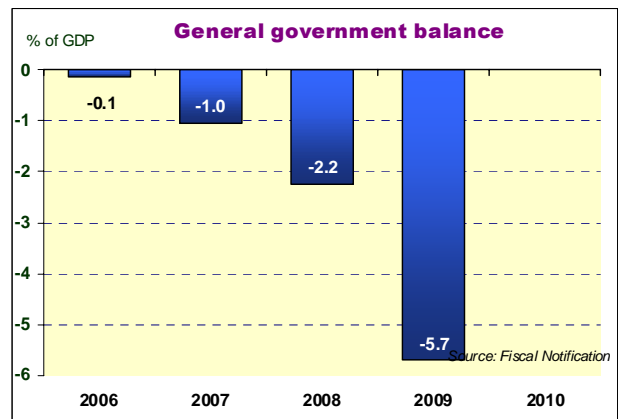
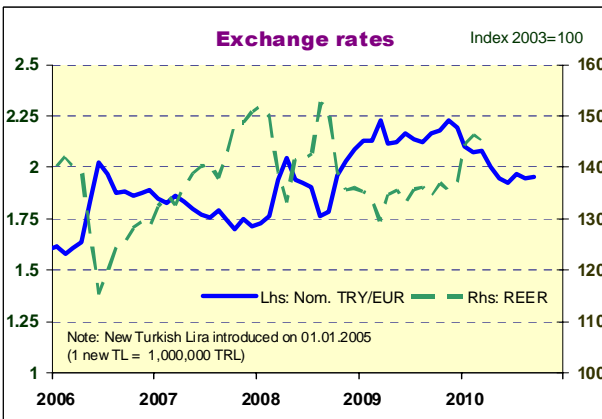
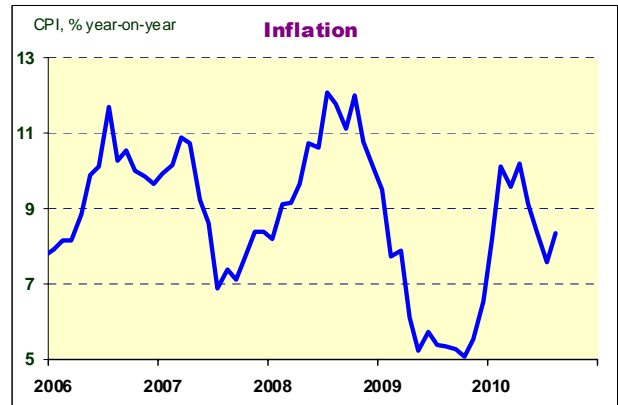
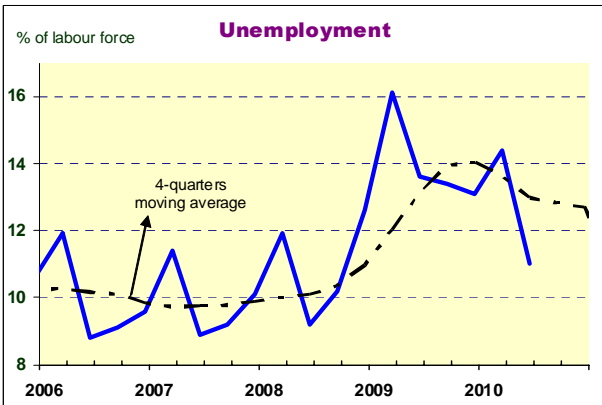
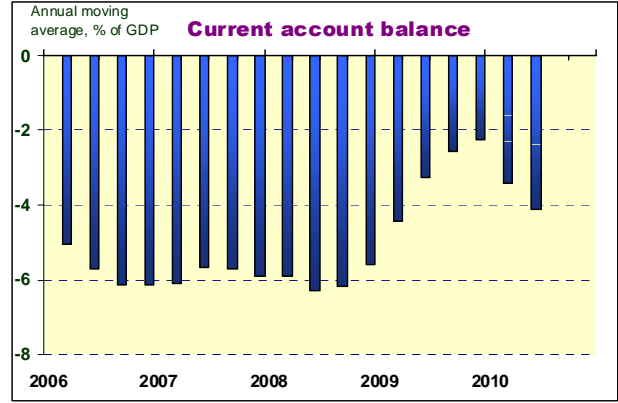
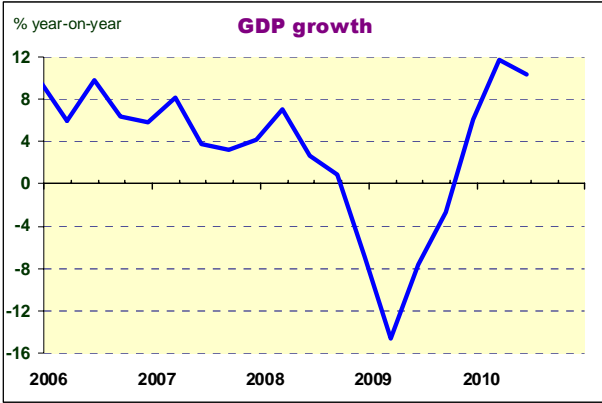
f: ECFIN forecast Spring 2010

# CHARTS

European Commission, ECFIN-D-1



## TURKEY







## Key developments

On the back of a weaker-than- projected half-yearly revenue performance, the government revised its macroeconomic fiscal framework and budget for 2010 (adopted by parliament on 19 July). The budget re-balancing aims at reducing the deficit to 3.1% of GDP against a lower expected economic growth of 4.1% in 2010. The lower budget deficit is planned to be achieved through expenditure restraint. Compared to the original budget, current spending is planned to be reduced by 0.8 percentage point of GDP, while capital outlays are expected to be 1 percentage point lower. This is expected to neutralise revenue which has also been revised downwards by the same amount.

## Real sector

Leading indicators suggest that the recovery that was recorded in the first quarter of 2010, when GDP grew by 2%, continued in the second trimester. Economic sentiment indicators published by the Bank of Albania show that all sectors of the economy recorded an improvement, with confidence in the services sector posting above-average results. In contrast to a contraction in the volume of retail sales in the second quarter of 2010, consumer confidence also improved sizeably on account of better consumers' financial situation and general economic development expectations.

## Labour market

In the second quarter of 2010, the number of persons registered as employed increased by 4,175, compared to the first trimester. Almost all of this increase was generated by the non-agriculture private sector. Public sector employment grew marginally, while jobs in agriculture remained unchanged. The number of registered unemployed increased slightly. As the net impact of these developments is negligible, the unemployment rate stood at 13.8% in the second quarter of 2010, unchanged from the previous two quarters. During the second quarter average public sector wages increased by 6.7% (year-on-year).

## External sector

In the first half of 2010, the current account deficit narrowed by a notable 28%, year-on-year. This improvement was sufficient to reduce the current account deficit for the four quarters to Q2 2010 to EUR 1.2 billion from EUR 1.4 billion in the corresponding period a year earlier.

The decline in the current account deficit in the first half of 2010 was primarily due to a lower merchandise trade gap. This was a result of higher foreign sales of goods in all categories but was mostly pronounced for electricity exports and construction materials. Electricity exports benefited from a rebound in energy prices as well as full capacity of the local hydropower generation. Imports of goods rose at a modest pace, reflecting the normalisation of imported machinery and equipment from the exceptional levels reached in the corresponding period of the previous year. These positive trends in exports and imports of goods continued in July and August. The deficit on the services account almost halved compared to the levels in the first half of 2009. The negative income balance increased in the wake of a significant rise in investment income outflows. During the first half of 2010, the current transfers surplus, consisting mainly of remittances, declined by 2.2%, year-on-year. Workers' remittances fell by 7.6%, partly offset by higher other current inflows. In the same period, capital inflows dropped by 8.7%. Following a substantial increase in the first quarter, FDI inflows declined between April and June pushing down the total for the half year by 21% (year-on-year). The result for the second quarter reflects a base effect following the exceptional FDI resulting from the sale of shares in April 2009 of the distribution arm of the electricity provider. Other financial flows declined significantly. International reserves increased marginally by around EUR 3 million. Gross external debt continued to increase and stood at EUR 3.5 billion, up from EUR 3.1 billion in the same period in 2009. Government long-term borrowing constitutes slightly more than half of gross external debt.

## Monetary developments

In the third quarter, the annual growth of the

monetary aggregate M2 continued its downward trend reaching 3.8% in August.

Following a peak of 4.4% in February, largely due to higher utility tariffs, consumer prices fell back within the Bank of Albania's target band of 3% +/- 1 percentage point. Inflation stood at 3.5% in August 2010. The decline primarily reflects lower food prices, helped by the arrival of local seasonal foodstuffs, as well as a continued fall in clothing and footwear. Due to its sizeable weight in the CPI, the decline in the food index offset the significant price increases in healthcare and alcohol and tobacco, the latter owing to higher excise duty rates.

The lower inflationary pressures prompted the Bank of Albania to lower the base rate by 50 basis points in July to 5%. Subsequently, its supervisory board on its 29 September meeting kept the repo rate unchanged. This represents the lowest rate since 2005 and follows some easing during 2009 when the key repo rate was lowered by a total of 100 basis points. After appreciating in the second quarter, the Albanian currency remained stable in the third trimester vis-à-vis the euro but appreciated by some 9% against the US dollar compared to the previous quarter.

## Financial sector

In the second quarter of 2010, interest rates on deposits broadly continued the downward trend started in the final quarter of 2009. The decline has been more pronounced for longer-term deposits with the 60-month interest rate falling by 70 basis points in June compared to May 2010. The cost of short-term borrowing in lek (one year or less) also declined during the second quarter of 2010. The 6-month interest rate, displaying the highest drop, stood at 12.8% in June, down from 16.4% in May. The decline in the average yield of 12-month Treasury bills which started in November 2009 continued, reaching 7.9% in August 2010.

Deposits continued to recover in the second quarter of 2010. Year-on-year growth in deposits reached 14.8% and increased further to 16.6% by August as public confidence in the banking system continued to strengthen. Foreign-currency deposits continued to record the strongest yearly increase reaching slightly more than 24% in June, against some 10% for deposits denominated in lek. Notwithstanding higher deposits, credit growth continued to decelerate, albeit at a slower pace during the second quarter of 2010. The growth of outstanding credit fell from 8.9% in the first quarter to 8.4% (year-on-year) in the second trimester and remained at

broadly the same rate until August. The deceleration was due to lek-denominated loans, while foreign-currency lending grew at a faster pace. The deceleration in lending affected mostly the household sector, while credit to the corporate sector grew at a faster pace, particularly between May and July.

The loan-to-deposit ratio fell slightly to 63.4% in July 2010, however with significantly varying levels: 93.7% for the foreign currency ratio, whereas the lek loan-to-deposit ratio remained below 40%. External borrowing by the banking sector declined during the period April-July 2010.

The loan portfolio quality of the banking sector deteriorated marginally in the second quarter of 2010. The share of non-performing loans as a percentage of total loans increased to 12%, up from 11.5% in the first quarter. Profitability indicators showed a broad improvement in the second quarter. At end-June the capital adequacy ratio improved marginally and stood at 16.2%.

## Fiscal developments

Government accounts show that by mid-year, total revenue was some 10% less than projected in the original 2010 budget. Current spending was slightly less than originally planned, while capital outlays overshot the budget. The underperformance of revenue prompted the government to re-balance the budget in July.

In the period January-August 2010, fiscal revenue rose by 5.7% (year-on-year). Tax revenue increased by 4.1%, spurred primarily by higher yield from excise taxes owing both to a rise in excise rates on fuel, coffee and cigarettes as well as an increase in the international price of commodities. Non-tax revenue was some 27% higher year-on-year, mostly on account of one-off revenue from the sale of immovable property to the Bank of Albania. Total expenditure declined by 5.5% in the first eight months of 2010 as a result of lower capital outlays (down by around 38%), reflecting both a base effect caused by the high investment in 2009 and government attempts to reign in spending. Current expenditure increased by almost 8.5% over year-earlier levels. As a result of these developments, the budget deficit in January-August 2010 was Lek 23.2 million, or half that registered over the same period of 2009. Around four-fifths of the deficit was financed from domestic sources.

# TABLE

European Commission, ECFIN-D-1



## ALBANIA

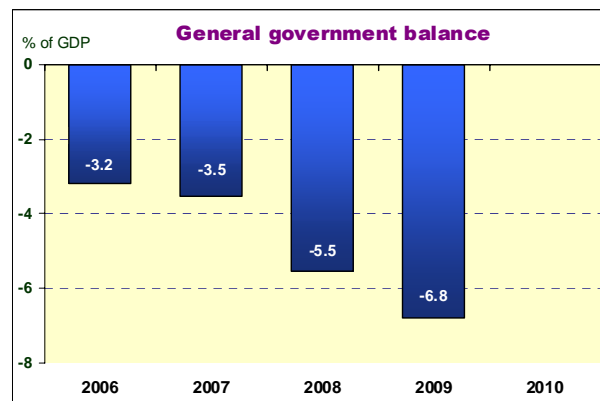
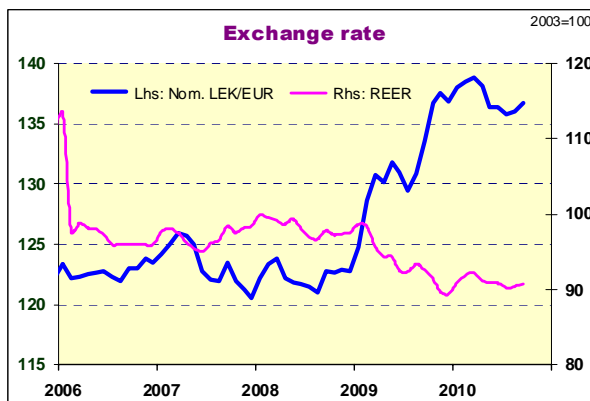
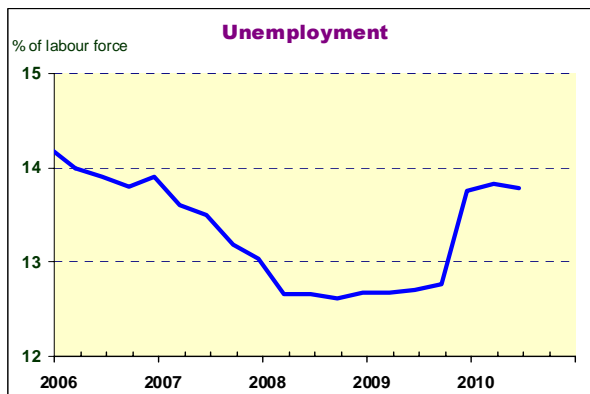
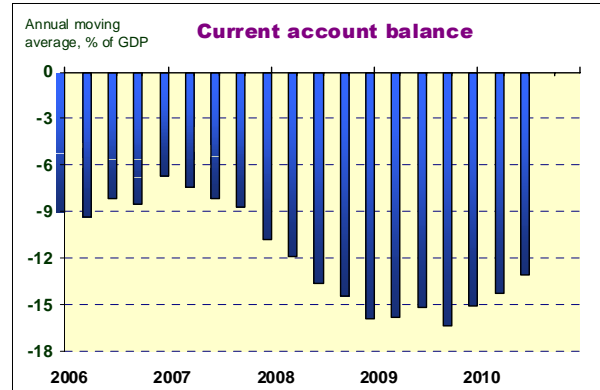
		2005	2006	2007	2008	2009	Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Percent	-4.4	3.8	0.9	0.5	-13.4	-7.4	-6.5	:	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	11.7	12.1	-9.7	9.4	:	:	:	:	:	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	5.7	5.4	5.9	7.7	3.3	2.0	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	8.8	7.2	13.4	9.8	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	1.5	16.2	6.5	12.9	:	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	1.4	1.1	2.5	1.2	0.0	0.1	0.2	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	10.9	23.7	-1.7	5.7	-2.5	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	14.3	13.9	13.3	12.7	13.0	13.8	13.8	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	0.9	0.2	0.2	3.6	-1.5	-7.4	-7.0	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	9.9	7.5	17.2	8.2	11.8	6.6	6.7	:	:	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	6.4	18.0	25.0	15.7	-11.8	56.8	93.9	:	50.1	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	10.9	13.3	26.5	15.0	-1.7	5.2	12.9	:	29.9	:	:
Trade balance <sup>3.3</sup>	% of GDP	-22.4	-23.1	-26.8	-27.3	-25.9	-25.2	-24.0	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	22.7	24.9	28.0	29.3	27.7	28.5	29.7	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	47.3	48.4	54.6	55.8	52.2	52.3	52.2	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-8.9	-6.6	-10.6	-15.4	-15.1	-14.2	-13.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	3.2	3.5	6.0	7.0	7.6	7.2	5.0	4.8	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	2.4	2.4	2.9	3.4	2.3	4.3	3.4	:	3.4	3.5	:
Producer prices <sup>4.2</sup>	Ann. % ch	N.A.	0.8	3.5	6.5	-1.7	-0.2	0.2	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	N.A.	3.0	5.2	4.9	6.8	4.0	:	4.2	4.3	N.A.
M2 <sup>4.4</sup>	Ann. % ch	11.7	7.6	9.8	7.4	8.7	4.7	4.4	:	3.5	3.8	:
Exchange rate LEK/EUR <sup>4.5</sup>	Value	123.73	122.76	123.31	122.39	131.82	138.41	136.93	136.19	135.79	136.02	136.76
Nominal eff. exchange rate <sup>4.6</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	5.55	5.49	5.92	6.24	:	:	:	:	:	5.69	:
Bond yield <sup>5.2</sup>	% p.a.	8.11	7.18	8.22	8.43	9.24	9.10	8.60	8.38	8.40	8.40	8.35
Stock markets <sup>5.3</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth <sup>5.4</sup>	Ann. % ch	61.6	60.9	53.9	43.8	20.5	8.9	8.5	:	9.4	8.6	N.A.
Deposit growth <sup>5.5</sup>	Ann. % ch	N.A.	N.A.	N.A.	14.8	-0.1	12.2	14.8	:	17.1	16.6	N.A.
Non performing loans <sup>5.6</sup>	% total	2.6	3.3	3.2	4.7	9.1	11.5	12.0	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	-3.4	-3.2	-3.5	-5.5	-6.8	-0.4	-1.8	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	56.7	55.7	53.2	54.9	59.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

# CHARTS



European Commission, ECFIN-D-1

## ALBANIA





## Key developments

General and presidential elections were held in Bosnia and Herzegovina on 3 October. While the current Serb and Croat members of the tripartite Presidency, Mr Radmanović and Mr Komšić, were re-elected, Mr Izetbegović was elected as the Bosniak member, winning over the incumbent member, Mr Silajdžić.

The second IMF review mission for the Standby Arrangement was concluded in September after the Federation had rebalanced its budget and progressed in the audit process for war disability benefits recipients. The next instalment of around EUR 38 million is expected to be disbursed soon, upon IMF board approval of the review.

The ratification procedure in Bosnia and Herzegovina for the World Bank's Development Policy Loan has not been concluded yet.

The Memorandum of Understanding with the European Commission for the EU's macro-financial assistance to Bosnia and Herzegovina is expected to be signed soon.

The Fiscal Council has still not adopted the Global Fiscal Framework for 2011-2013, which the budgetary law foresees for the end of May. This puts in question a smooth adoption of 2011 budgets and the medium-term budgetary planning.

## Real sector

The growth of industrial production has been quite volatile in recent months. After negative year-on-year rates in June and July it strongly picked up in August (by 7.1%). The accumulated volume of industrial production from January to August grew by a modest 1.1%. While growth in mining and quarrying was still negative (-7.7%), it was positive in manufacturing (3%) and electricity, gas and water supply (0.2).

Judging from available indicators, domestic demand is picking up. Retail sales are estimated to have increased by 7% year-on-year in the

second quarter of 2010, showing an even stronger performance over the summer.

The Agency for Statistics has released first results for the national accounts 2009, displaying a drop in real output of 2.9%, slightly correcting earlier estimates.

## Labour market

The Bosnian labour market continues being quite fragmented and rigid. The high level of registered unemployment persisted during 2010, reaching 43.2% in July, slightly above the first quarter figures. The sector most affected by rising unemployment in 2010 (January-July) was the processing industry. On the other hand, the highest growth of employment was registered in financial intermediation and transport. According to the annual Labour Force Survey following ILO methodology conducted in May, unemployment significantly increased to 27.2% in 2010 from 24.1% in 2009.

Wage dynamics have continued to be subdued in the second quarter 2010, but have reversed their declining trend as nominal average gross wages increased by 1% (0.8% compared to end-2009). Nevertheless, wage growth has come down significantly when compared to the pre-crisis dynamics which may contribute to an increasing competitiveness of the Bosnian economy.

## External sector

The trade balance continued its improvement in 2010 and the deficit fell by 10% year-on-year (January-August). Unlike in 2009, this development was driven by exports, which soared by 28.8% year-on-year, while imports increased moderately by 7.7%. However, the trend of an improving trade balance was reversed in July and August when the trade gap widened again for the first time in 20 months, as import growth exceeded export growth in absolute terms. Agriculture and manufacturing were the main sectors recording export growth.

The current account continued to improve in the second quarter 2010 with the deficit falling by 19% year-on-year. However, this is far below



the 61% improvement recorded in the first quarter. Net FDI were negative in the second quarter 2010. Official foreign exchange reserves increased by 3.7% between April and August 2010, covering around six months of imports.

### Monetary developments

Monetary policy settings have remained unchanged. The annual growth of the monetary aggregate M2 picked up from 8.1% in April to 9.5% in August.

Inflation did not continue its upward trend from the first half of the year. Annual inflation fell to 1.7% in August, down from 2.6% in May, bringing the 12-month moving average inflation rate up to a moderate 1%. The recent disinflationary trend was caused by falling prices in housing, water, electricity, gas and other fuels, food and non-alcoholic beverages, clothing and footwear, and transport. In an annual comparison, a hike in excises on tobacco and alcohol resulted in an increase in this category of 11.2% in August, while communication and transport costs rose by 6.9% and 3.9%, respectively. Food prices were stable.

### Financial sector

Market short-term interest rates for loans have increased from 7.7% in April to 8.3% in August for the corporate sector and from 9.4% to 10.3% for households (non-indexed loans in local currency), reversing earlier falling trends. On the other hand, interest rates for deposits have continued their decline from 2.6% to 2% for the corporate sector and from 3.4% to 2.9% for households (time and savings deposits in local currency).

Annual credit growth turned slightly positive again reaching 0.6% in August after it had been in negative territory since September 2009. Credits to households continued to drop (by 3%), though at a lower pace, while those to private enterprises were growing by 2.2%. Deposits continued their recovery and recorded an annual increase of 6.5%. Both private households and the corporate sector increased their savings (by 14.1% and 8.6% respectively), while the government sector decreased them. As a consequence of these developments, the loans-to-deposit ratio further declined to 111.4% in August from 113.7% in April.

In the third quarter 2010 the performance of the two stock markets in Bosnia and Herzegovina was unequal. While the main index of the Sarajevo Stock Exchange lost another 9%, the index of the Banja Luka Stock Exchange could regain some lost ground and increased by 4.1%.

Following the economic downturn with a lag, the quality of the loan portfolio is further deteriorating: The share of non-performing loans to total loans increased from 7.1% in the first quarter 2010 to 8.7% in the second, the highest level since 2004. Banking profitability indicators have also worsened: The return on average equity fell further from -0.3% to -2.9%, its lowest level since 2002. The return on average assets also turned negative and fell from 0.0% to -0.3%. Liquidity indicators remained relatively stable with the rate of liquid to total assets decreasing from 30.6% in the first quarter to 29.5% in the second and liquid assets to short-term financial liabilities marginally falling from 50.6% to 49.3%. The situation was worse in the micro-finance sector, where the proportion of poor quality loans had risen to 20% as it was – contrary to its traditional role – heavily engaged in consumer lending.

### Fiscal developments

In the first half of 2010, budget deficits remained below those targeted in the IMF programme (a 4½% of GDP consolidated budget deficit is targeted for 2010), mainly due to improved revenue collection (increasing by 2.9% year-on-year). As regards indirect taxes, this increase resulted mainly from the growth of revenues from excise duties and road tolls, which had both been increased in the context of the IMF programme. Collection was nevertheless still lower than in the pre-crisis period (first half 2008), especially VAT, where there has been no change of taxation policy. As regards direct taxes, the highest increase was registered in corporate profits tax. Expenses increased by 3.1% year-on-year in the first half of 2010. While the wage cuts agreed in the context of the IMF programme resulted in a decrease of the nominal wage bill by 2.2%, social benefits, accounting for 38% of the consolidated budget expenditures, were still rising by 2%.

In the second quarter 2010, official foreign debt climbed by 4.7%, mainly due to disbursements made by international financial institutions.



# TABLE

European Commission, ECFIN-D-1



## BOSNIA AND HERZEGOVINA

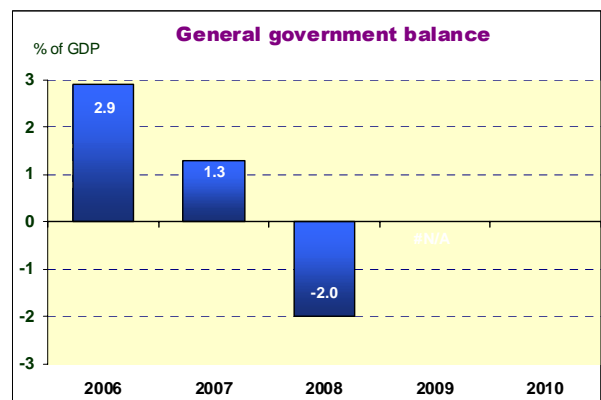
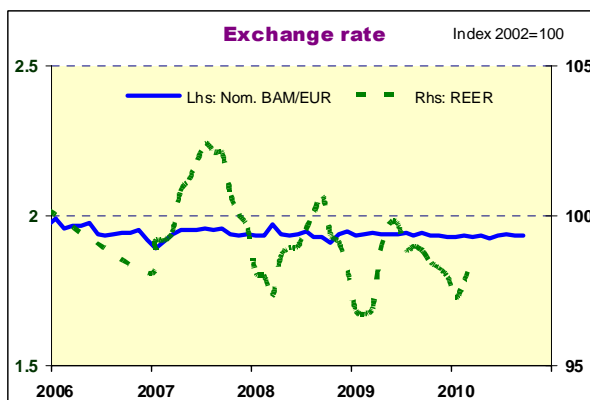
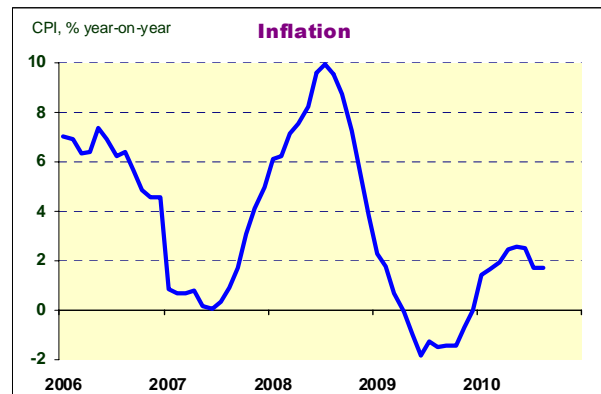
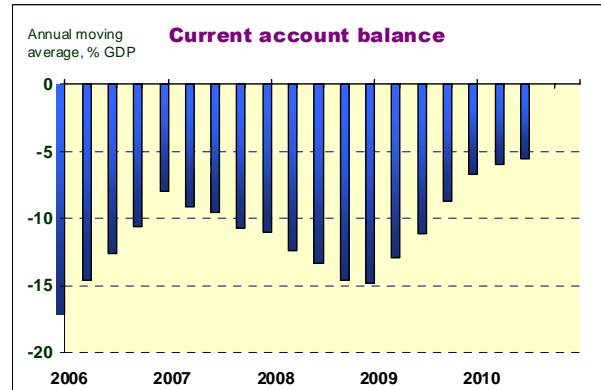
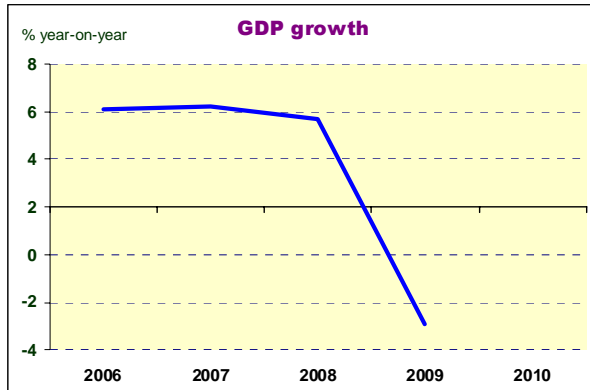
		2005	2006	2007	2008	2009	Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	10.6	11.6	6.7	10.8	-1.2	3.5	2.8	:	-4.7	7.1	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	3.9	6.1	6.2	5.7	-2.9	:	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	10.0	4.5	10.8	10.3	2.0	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	20.9	-9.4	38.3	16.7	-20.1	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	N.A.	N.A.	11.7	8.8	34.0	49.7	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	0.7	7.0	:	12.7	11.7	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	44.7	44.2	42.9	40.6	42.7	42.6	43.1	:	43.2	:	:
Employment <sup>2.2</sup>	Ann. % ch	0.8	2.3	4.4	2.7	-2.8	-3.4	-2.3	:	-2.0	:	:
Wages <sup>2.3</sup>	Ann. % ch	6.1	9.6	9.8	16.6	8.2	0.2	0.8	:	0.7	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	22.8	30.5	15.0	13.9	-17.1	23.8	36.9	:	23.2	25.3	:
Imports of goods <sup>3.2</sup>	Ann. % ch	12.5	1.2	18.7	15.4	-24.2	-1.7	9.9	:	13.2	21.3	:
Trade balance <sup>3.3</sup>	% of GDP	-45.2	-34.6	-37.2	-38.2	-27.8	-26.1	-25.3	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	32.6	36.5	37.3	36.8	32.0	32.7	34.8	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	-72.8	-65.7	-68.8	-69.9	-55.4	-54.6	-55.8	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-17.1	-8.0	-10.7	-14.4	-6.9	-5.9	-5.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	5.6	6.2	13.5	5.0	1.5	0.1	-0.9	:	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	4.3	6.1	1.5	7.4	-0.4	1.7	2.5	:	1.7	1.7	:
Producer prices <sup>4.2</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	8.3	2.9	12.1	-0.9	-3.3	-2.1	:	-0.6	0.1	:
M2 <sup>4.4</sup>	Ann. % ch	17.6	21.1	25.1	13.6	-1.2	4.9	8.2	:	8.8	9.5	:
Exchange rate BAMEUR <sup>4.5</sup>	Value	1.95	1.95	1.94	1.94	1.94	1.93	1.93	1.94	1.94	1.93	1.93
Nominal eff. exchange rate <sup>4.6</sup>	Index	100.0	99.72	100.28	100.07	96.32	96.55	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	N.A.	N.A.	4,330	2,251	1,038	1,044	975	887	887	886	888
Credit growth <sup>5.4</sup>	Ann. % ch	21.5	24.5	27.5	27.7	5.2	-3.1	-2.0	:	-1.0	0.6	:
Deposit growth <sup>5.5</sup>	Ann. % ch	23.5	27.7	36.1	15.4	-3.6	2.2	6.8	:	3.9	6.5	:
Non performing loans <sup>5.6</sup>	% total	5.4	4.7	3.4	3.0	4.5	7.1	8.7	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	2.4	2.9	1.3	-2.0	:	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	25.4	21.2	18.2	17.2	:	:	:	:	N.A.	N.A.	N.A.

# CHARTS

European Commission, ECFIN-D-1



## BOSNIA AND HERZEGOVINA





## Key developments

The government placed successfully in early September a EUR 200 million Eurobond issue. Bids were placed by 140 investors from 25 countries and demand exceeded threefold the amount on offer. The five-year bonds carry an annual fixed interest of 7.87%. Part of these funds will be used for repayment of existing obligations as well as increasing reserves. Overall, the government estimates public debt could reach 42% of GDP by year's end.

Following the reorganisation of the port of Bar one year ago, the government approved in September a concession agreement with an Italian consortium for managing the Maritime Operations company. The government also launched a call for tender for a 30% minority stake in the national carrier Montenegro Airlines.

The coastal regional water supply system was finalised on 29 September. The 107-km project worth EUR 82 million is a key element for the development of the regional tourism industry.

## Real sector

According to the statistical office (Monstat), the economy contracted by 5.7% in 2009. As a result of the credit crunch and the decline in construction, private consumption and GFCF dropped by 7.7% and 25.3% year-on-year respectively, while stock depletion reached 87.3%. Positive contributions to growth in 2009 came from an expansion of government consumption (30%), and the contraction of net imports of goods and services by 18.8%.

Industrial production which started to increase in the second quarter of 2010 continued recovering. In August, it expanded by 31.5% year-on-year as the metal industry registered the first signs of recovery since March 2008. Utilities and mining continued expanding rapidly, although from a low basis. Overall, during the first eight months of the year, industrial production rose by 5.6% year-on-year.

The construction sector also showed signs of recovery in the second quarter of 2010. The value of total finalised construction works in the

second quarter of 2010 increased marginally (0.7% year-on-year), while the value of new construction orders surged by 92% year-on-year.

Retail sales also started growing in the second quarter of 2010 and expanded by 6.9% year-on-year in August, although a 10% decline was recorded in July. These positive developments reflect a base effect but also the good results of the tourism sector.

Overall, the Central Bank estimates a gradual recovery of the economy in the course of 2010. After a 1.5% GDP contraction in the first quarter, the Central Bank considers that the economy might have - although weakly- come out of recession at the end of the third quarter.

## Labour market

The unemployment rate reached 11.6% by the end of September, compared to 10.8% in January 2010. Since the beginning of the year the Employment Agency (ZZZ) recorded 11,720 new employed workers, and 11,020 work permits to non-residents. However, most of these new jobs were of temporary nature, or balanced the losses from the restructuring of the metal and mining industries in the first quarter of 2010.

Gross wages surged by 17.3% year-on-year in August, following a 9.4% expansion in the previous month. The strongest increases were recorded in fishing (17%), health and social care (15%) and public administration (14%). The average net wage increased in August by 9.3% year-on-year to EUR 504.

## External sector

The current account deficit in annualised terms reached 29% of GDP at the end of June 2010, contracting in nominal terms by 8% thanks to a reduction of 5% (both year-on-year) of the trade deficit for goods which however still remains very high (45% of GDP). The balances of services and current transfers improved in the first half of 2010 by 8% and 40% year-on-year. The income balance deteriorated sharply, although still remaining positive by EUR 1

million. In the first six months of 2010 the current account deficit (10.5% of GDP) was practically financed by net FDI (10.1% of GDP) while Central Bank reserves increased by EUR 35 million.

### Monetary developments

Bank deposits gradually increased in the first seven months of 2010, although credit growth still remained negative during the same period. This enabled some banks to allocate significant funding for servicing their liabilities to their foreign parent banks. Moreover, the reduction of banks lending also resulted in a contraction of their reserves of 4% year-on-year in July.

Inflation turned negative in August (-0.1% year-on-year), driven by a sharp deceleration in transport prices, as well as the stabilisation of food prices (0.9% increase) and the contraction of housing prices (-7%). Since the start of the year, the month-on-month cumulative inflation reached 0.1% in August.

### Financial sector

The weighted average effective interest rate on loans was 9.57% in July (or 20 basis points higher than a year before), while the weighted average interest rate for deposits slightly rose to 3.72% from 3.64% a year earlier.

The contraction of credit remains an important issue for the Montenegrin economy. Bank lending continued to fall by 0.9% month-on-month in July, translating into an annual contraction of 11.4%. Lending to businesses recorded a 15.2% year-on-year drop, while households credits declined by 9.5%. Overall, the loans/GDP ratio amounted to 74.2% of GDP in July, compared to 87.7% a year earlier.

Confidence in the banking system seems to have strengthened as deposits rose in July by 4.5% year-on-year, for the fifth consecutive month. Households accounted for 49.6% of total deposits, regaining the status of net depositors for the first time since the start of the crisis in October 2008. Moreover, corporates increased their savings by 3.9% year-on-year in July.

The merger of the two stock exchanges companies took place in early October. Their combined market capitalisation accounted for 148% of GDP after contracting by 18.5% year-

on-year in August. Their aggregated turnover dropped faster, by 77% year on year.

Banks recapitalisation continued in the second quarter of 2010. The increase in capital by an average 25.6% year-on-year in June, brought the sector's capital adequacy ratio (CAR) to 16.5% compared with 11.8% a year before. The aggregate return on assets (ROA) as well as the return on equity (ROE) remained negative at -3.2% and -31.6% respectively. Non-performing loans (NPL) grew to 16.8% of total loans in June.

The Austrian insurer Vienna Insurance Group (VIG), through its local subsidiary Wiener Stadtische Zivotno Osiguranje Podrognica a.d., was granted a licence to offer life insurance, thus becoming the eleventh company to enter the domestic insurance market.

### Fiscal developments

In the first half of 2010 the general government budget execution posted a deficit of EUR 12 million (or 0.4% of GDP) as a result of a restrictive fiscal policy that reduced expenditures by 6.3% year-on-year. This reduction in spending mostly came from a lower wage bill (-13.8%) and cuts in capital expenditures (-43%). On the revenue side, the level of tax revenues was still 2.5% below plan, although 1.9% higher than in the first half of 2009. Almost all revenue items recorded some improvement, notably those from social contributions (24.8% year-on-year). The increase of revenues from taxes on international trade (8.3% year-on-year) and those from VAT (5.3%) confirms the current recovery of private consumption, though corporate income revenues contracted by 55% in the same period.

Public debt reached 35.8% of GDP in June 2010 after having decreased by 2.2% in nominal terms since the beginning of the year. The reduction was a consequence of the partial reimbursement amongst other of restitution bonds and pension arrears, reducing domestic public debt by EUR 62.8 million. Overall, it represents 33.8% of the total public debt. External debt increased by EUR 37.9 million in the first half of the year, mostly due to the disbursement of funds related to several infrastructure projects financed by international financial institutions. This decrease is now expected to be reversed as a result of the EUR 200 million bond placement of September.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

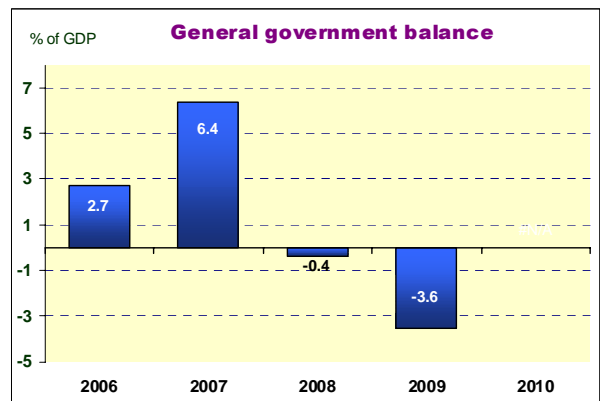
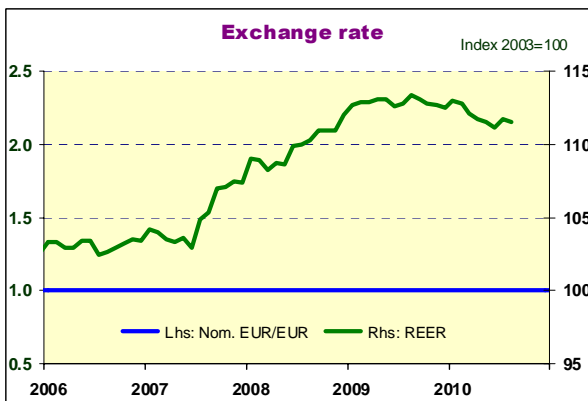
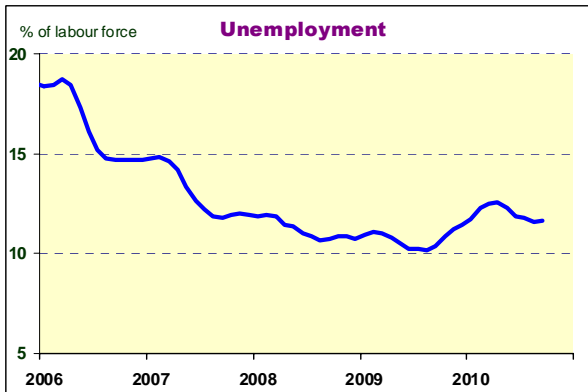
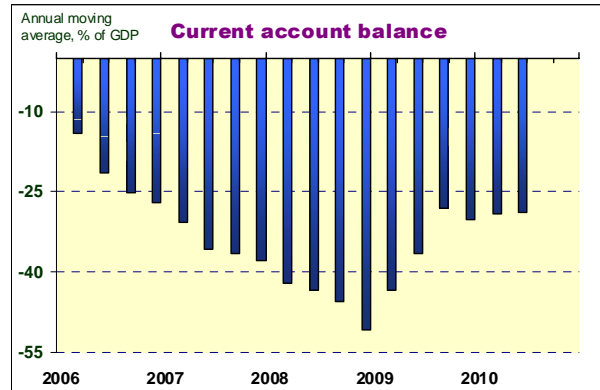
		2005	2006	2007	2008	2009	Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	-1.9	1.0	0.1	-2.0	-32.3	-14.4	22.0	:	38.5	31.5	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	4.2	8.6	10.7	6.9	-5.7	-1.5	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	:	:	:	:	-7.7	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	:	:	:	:	-25.3	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	N.A.	-3.2	45.7	-21.5	-20.8	0.7	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	40.8	22.3	-9.0	-2.8	5.2	:	-10.0	6.9	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	18.5	14.7	11.9	10.7	11.4	12.5	11.9	11.7	11.8	11.6	11.7
Employment <sup>2.2</sup>	Ann. % ch	0.6	4.5	3.7	6.3	4.8	1.1	:	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	8.0	15.6	14.2	22.8	5.7	7.1	9.2	:	9.4	17.3	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	1.9	40.7	-20.4	-9.4	-36.6	-21.2	63.7	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	12.2	53.7	39.6	22.0	-34.6	-11.6	7.1	:	:	:	:
Trade balance <sup>3.3</sup>	% of GDP	-28.3	-39.5	-56.1	-67.5	-46.0	-44.7	-45.4	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	43.5	49.4	42.4	39.5	32.1	:	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	61.1	79.1	82.8	94.0	65.4	:	:	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-8.5	-24.7	-37.8	-50.7	-30.1	-29.2	-28.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	21.0	21.7	19.9	17.9	30.6	31.5	30.5	:	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	2.4	3.0	4.3	7.4	3.4	0.6	0.3	:	1.0	-0.1	:
Producer prices <sup>4.2</sup>	Ann. % ch	2.1	3.1	8.5	14.0	-3.8	-5.7	0.0	:	2.9	2.5	:
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	N.A.	N.A.	9.0	3.3	-1.1	-1.2	:	1.1	0.9	:
M21 <sup>4.4</sup>	Ann. % ch	58.7	82.9	71.9	-14.3	:	:	:	:	:	:	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate <sup>4.6</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	1.20	1.21	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	3.09	1.17	0.90	:	3.63	3.96	3.50	3.40	:	3.36	3.43
Stock markets <sup>5.3</sup>	Index	5,670	14,406	36,159	19,947	13,303	14,611	13,859	13,579	13,143	13,672	13,921
Credit growth <sup>5.4</sup>	Ann. % ch	33.6	125.3	165.1	24.6	-14.3	-12.2	-11.4	:	-11.4	:	:
Deposit growth <sup>5.5</sup>	Ann. % ch	78.6	120.5	94.4	-4.8	-8.3	0.4	2.9	:	4.5	:	:
Non-performing loans <sup>5.6</sup>	% of total	5.3	7.6	3.7	7.2	13.5	14.6	16.8	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	-2.3	2.7	6.4	-0.4	-3.6	-1.2	-0.4	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	38.6	32.6	26.3	29.0	38.2	36.3	35.8	:	N.A.	N.A.	N.A.

# CHARTS

European Commission, ECFIN-D-1



## MONTENEGRO







## Key developments

On 5 July 2010, an agreement on EU macro-financial assistance for a maximum amount of EUR 200 million was signed. Serbia may use this loan facility to cover balance-of-payments and budgetary needs provided that a set of requirements is fulfilled, including a satisfactory implementation of the economic policy programme agreed with the IMF and priority reforms of the public finance management.

Following the required prior adoption by government of the fiscal responsibility legislation, the IMF concluded on 28 September the fifth review of the EUR 2.97 billion worth Stand-By Arrangement (SBA) with the approval of disbursement of EUR 366.5 million. Similarly to the two preceding reviews, Serbia decided to draw the available funds only partially given the ample foreign exchange reserves. After the release of EUR 53.5 million, i.e. 15% of the tranche, the total disbursements under the SBA amounted to EUR 1.46 billion. According to the revised programme, Serbia is expected to draw EUR 1.53 billion over the period 2009-2011, i.e. 50% of the SBA's total amount.

## Real sector

In the second quarter of 2010, GDP increased by 2% year-on-year while quarterly growth accelerated to 0.8% from 0.3% in the first quarter. Up 1.2% in the first half of year, the economy's slow recovery was on track. The projected GDP growth of 1.5% for the whole year (according to the SBA-supported programme) is within reach assuming that the pace of recovery is maintained and supported by the continued industrial production growth. The main impetus to growth came from vigorous export activity fuelled by the gradual economic revival in Serbia's main trading partners and also helped by the depreciating dinar.

Economic activity was driven by services, with financial intermediation and transport recording the highest growth rates. Industrial production continued to expand in the second quarter thanks to solid growth of mining and manufacturing. It increased by some 6% year-on-year, up from 3% in the first quarter. However, since May output

growth in manufacturing has been moderating (5% in August) but mining activity remained buoyant, growing at above 10%. In the period to September, industrial production was 4.7% higher compared to the same period last year but stood some 1.5% below the 2009 average level.

In the first half of 2010, activity remained constrained in construction and in the sector of hotels and restaurants, albeit with rates of decline gradually improving, due to subdued domestic demand. Private spending strengthened since May as revealed by the accelerating retail trade turnover. Between January and August, turnover was nevertheless around 3% lower (measured in constant prices) than last year.

## Labour market

Despite the gradual economic upturn, the labour market remains weak, with 1.85 million employed persons at historic lows. While the number of registered unemployed persons decreased by 2.1% year-on-year in September, this was largely the result of administrative barring of inactive persons. According to the national labour force survey of April 2010, the number of unemployed stood at 573,000, i.e. 19.2% of the workforce.

Notwithstanding a one-off increase in salaries for the lowest-earning civil servants in July, wage growth was modest throughout the eight months to September against the nominal freeze of public sector salaries. Compared to the same period last year, the average net wage rose by 6.9% in nominal terms and by 2.4% in real terms. Wage growth is expected to accelerate from 2011 given the plans to carry out three adjustments of public sector salaries (and pensions alike) next year, as agreed with the IMF during the last review.

## External sector

Over the seven months to August 2010, the current account deficit widened by some 12% in comparison with the same period last year. This was the result of a significantly lower surplus on the current transfers account (down by 20% in annual terms) and a higher income account deficit (up by 60% year-on-year). The trade deficit continued to narrow owing to strong

export growth. In the period to September, Serbia's trade deficit amounted to EUR 3.4 billion, which was around 7% lower than a year ago. Export expansion (20.3% year-on-year) was broad based. Import growth was picking up steadily (7% year-on-year) in step with the strengthening domestic industrial production. Given the weak investment activity, however, the imports of capital goods remained lower by some 10% compared to last year.

Foreign currency inflows have been modest in 2010. In the period to August, FDI and other investment were considerably lower than a year ago. At the same time, private sector's external liabilities decreased as the companies advanced repayments of foreign loans. While this helped to lower total foreign debt in July, Serbia's indebtedness had risen by around EUR 1.5 billion since the beginning of the year, to EUR 23.3 billion, i.e. close to 80% of GDP (as forecast by the national authorities).

### Monetary developments

Inflation was on a downward trend in the first half of 2010 but inflationary pressures have been building up since July due to rising food prices, the dinar depreciation and also based on the expected strengthening of domestic demand in step with the gradual pick-up of economic activity and higher bank lending. In August CPI inflation accelerated to 6.6% year-on-year, bringing the cumulative rate since the beginning of the year to 4.7%. Inflation is expected to rise further in the next months given the rallying producer prices. Regulated prices are to grow by 9-13% as planned since the government refused a second electricity price hike but conditioned a possible increase in gas prices on the situation in the world market. Recently, the state's influence on the free formation of market prices increased after the government interfered in response to the shortages of dairy and cooking oil products. The end-year CPI inflation is likely to stand close to the upper level of the 4-8% target range set by the National Bank of Serbia (NBS).

In line with commitment to price stability, the NBS reverted from the gradual easing of monetary conditions, pursued since 2009, to a monetary tightening and hiked the reference interest rate twice by 50bp, to 9%. The NBS also maintained regular interventions on the interbank market in support of the exchange rate stability. However, the dinar continued to slide, losing more than 10% over the nine months to October. In the second quarter, the monetary aggregate M2 accelerated further based on

higher lending to the non-government sector.

### Financial sector

In the first half of 2010, the banking sector's performance improved compared to last year. Banking assets continued to rise and lending activity strengthened on the back of the state's subsidising of loans. By June, the credit-to-GDP ratio increased further to 86.6% (83.4% in March). Lending levels remained, however, significantly lower compared to the pre-crisis period. The share of non-performing loans rose to 12%, up from 10% in the first quarter, on the back of the dinar depreciation.

In the period to October, the Belgrade Stock Exchange index has been on a downward trend on average. Since the beginning of the year, the main index has lost around 7% of its value.

### Fiscal developments

Public finances remained under pressure in the face of slow economic recovery, prompting significant cuts in capital expenditure. Current expenditure has been constrained by the nominal freeze of public administration salaries and pensions since mid-2009. In the period from January to August 2010, the budget deficit widened compared to last year and accounted for over 2% of the projected GDP for 2010. By the end of the year, the budgetary gap is to widen to 4.8% of GDP as foreseen by the supplementary budget proposal slated for adoption by parliament in October. To secure the budgetary financing, the government approved in late September borrowing of EUR 250 million with commercial banks since the treasury bills auctions have been undersubscribed. Over the eight months to September 2010, public debt grew by more than 1 billion and reached almost EUR 11 billion, i.e. 36.3% of GDP.

With the aim to strengthen fiscal discipline, the government adopted amendments to the budget system law in late September. A set of quantitative rules have been designed to underpin fiscal consolidation in the medium run. Improved procedures as well as the setting-up of a fiscal council are deemed to anchor fiscal responsibility. Together with the new pension law, which extends the working period and age for assuming pension rights and adjusts the indexation mechanism, this may enhance the long-term sustainability of public finances. The laws are tabled for urgent adoption by parliament in October.

## TABLE

European Commission, ECFIN-D-1



# SERBIA

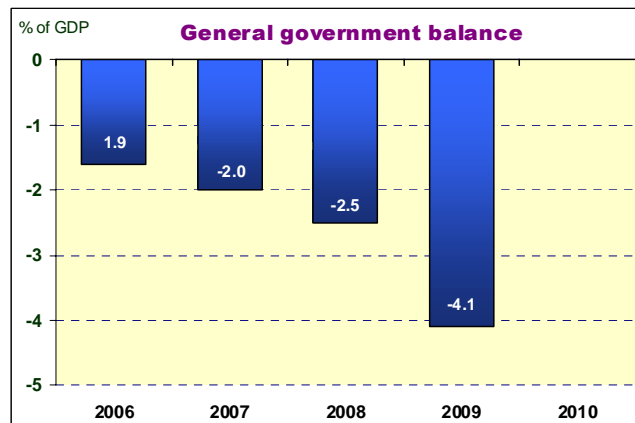
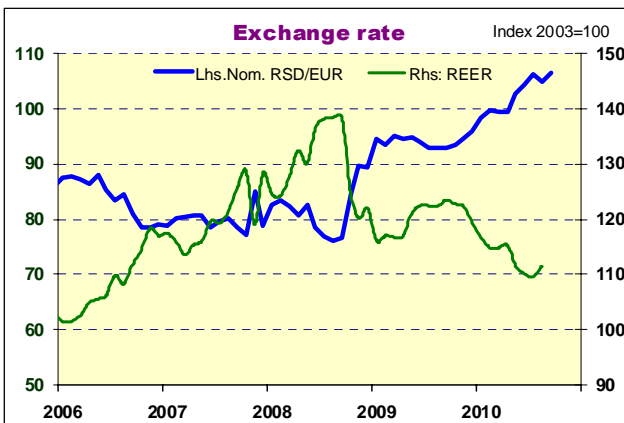
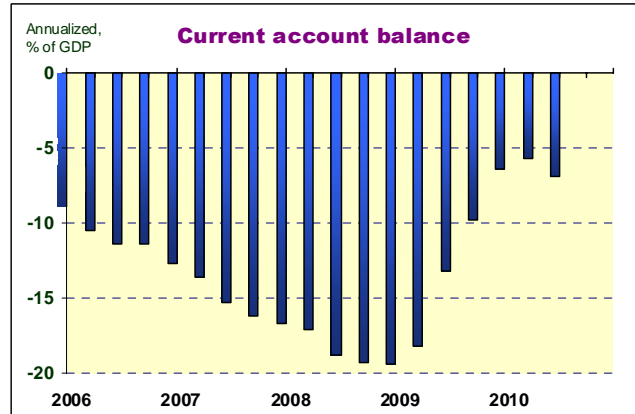
		2005	2006	2007	2008	2009	Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	0.8	4.7	3.7	1.1	-12.1	3.0	5.8	:	5.1	3.4	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	5.6	5.2	6.9	5.5	-3.1	0.4	2.0	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	25.7	27.1	25.4	4.9	-18.8	-23.0	-14.1	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	29.3	8.1	25.7	3.4	-11.4	-8.9	-3.3	:	2.8	5.3	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	21.8	21.6	18.8	14.7	17.4	19.5	:	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	0.4	-1.4	-1.2	0.1	-4.6	-6.1	-4.6	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	6.8	11.3	15.0	4.5	1.0	1.4	3.4	:	2.3	1.8	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	20.0	37.2	24.8	15.9	-19.6	13.9	22.4	:	21.1	20.3	:
Imports of goods <sup>3.2</sup>	Ann. % ch	-5.8	22.2	29.8	14.6	-26.7	-3.4	13.8	:	6.7	7.0	:
Trade balance <sup>3.3</sup>	% of GDP	-22.3	-21.2	-23.2	-23.3	-15.5	-14.8	-15.2	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	25.0	29.1	30.3	31.0	26.0	26.7	28.5	21.7	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	47.3	50.5	54.4	54.6	41.4	41.4	43.5	33.4	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-8.4	-12.4	-16.1	-18.8	-6.2	-5.6	-6.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	5.9	14.6	6.4	5.6	4.2	3.2	2.8	2.5	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	:	:	11.0	8.6	6.6	4.5	4.1	:	5.1	6.6	:
Producer prices <sup>4.2</sup>	Ann. % ch	15.4	7.3	9.8	9.0	7.4	10.5	12.2	12.6	11.6	12.1	14.0
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	N.A.	18.4	13.8	0.8	-0.9	-1.7	:	0.8	4.4	:
M3 <sup>4.4</sup>	Ann. % ch	39.1	37.4	41.1	29.6	11.5	19.6	21.1	:	24.9	:	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	83.25	83.91	79.90	81.94	94.08	99.20	102.11	105.82	106.20	104.93	106.34
Nominal eff. exchange rate <sup>4.6</sup>	Index	92.4	103.2	99.6	97.1	94.0	95.6	91.6	:	88.6	89.1	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	17.22	13.46	6.48	4.98	13.51	9.50	:	10.62	10.35	10.58	10.94
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	1,737	2,186	4,096	2,604	1,197	1,338	1,321	1,218	1,211	1,217	1,226
Credit growth <sup>5.4</sup>	Ann. % ch	45.4	32.3	22.9	31.8	29.4	22.5	26.2	:	30.3	:	:
Deposit growth <sup>5.5</sup>	Ann. % ch	43.1	40.8	42.3	31.4	12.4	21.9	22.5	:	26.3	:	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	N.A.	N.A.	N.A.	N.A.	10.0	12.0	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	0.9	-1.6	-2.0	-2.5	-4.1	-3.3	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	50.3	36.2	29.4	25.6	31.3	31.9	36.3	:	N.A.	N.A.	N.A.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA



# KOSOVO\*

\*as defined by UNSCR 1244

## Key developments

On 21 July the Executive Board of the IMF approved an 18-month Stand-By Arrangement in amount of SDR 92.7 million (Kosovo had become an IMF member in June 2009). In August Kosovo drew the first tranche of SDR 18.8 million. The programme aims to restore fiscal sustainability and to safeguard financial stability by a number of revenue-increasing measures and restraint on current spending in order to accommodate the large increase in capital expenditures. The programme reflects fully the estimated cost of the new route 7 motorway construction. As a result of the agreement, the 2010 budget deficit target remained almost unchanged at 3.4% of GDP but revenue and expenditure estimates have been adjusted and made more realistic.

In early September, the European Commission disbursed the first tranche (EUR 30 million) of an outstanding EU exceptional financial assistance to Kosovo. The money entered the budget as a grant after Kosovo fulfilled attached policy conditions.

In September, the Constitutional court ruled that it was not constitutional for the President of Kosovo to be holding simultaneously the office of President and the office of Chairman/President of the Democratic League of Kosovo. Subsequently, on 27 September, the President resigned and handed over his duty to the President of the Assembly to serve as Acting President pending the election of a new president.

## Real sector

The latest IMF estimates put the 2010 real GDP growth at 4.6%. As in 2009, public consumption and investments are expected to be the main drivers of economic growth.

In September, five companies responded to the call for pre-qualification for participation in the tender for the privatisation of the Post and Telecommunication of Kosovo (PTK). The government expects at least EUR 300 million from the privatisation of the company to enter the budget in 2011. The privatisation of PTK is

also a structural benchmark under the IMF agreement and should be completed by the end of 2010.

## Labour market

According to the Ministry of Labour and Social Welfare data, in the second quarter of 2010 the average number of registered unemployed persons reached 335,880, down 0.8% compared to the second quarter of 2009. Semi-skilled and skilled unemployment registered a 5.3% and 2.4% drop, respectively. In a reversal of the trend of the previous months, unskilled unemployment declined as well (-0.5%). By end of June 2010 the unskilled unemployment had a share of 60.1% in overall unemployment.

The average monthly public sector net wage reached EUR 272 in March. The first quarter average wage increased by 16.4% compared to the same period last year.

## External sector

Foreign trade continued to recover and by end-July exports of goods (mainly base metals) increased by 107%, although from a very low base, over the same period last year. Imports of goods increased by 12.3%. As a result, the accumulated trade deficit (January-July) increased to EUR 992 million compared to EUR 949 million a year earlier.

According to Balance of Payments statistics, in the first quarter of 2010 the current account deficit was EUR 70.0 million, marking a slight decrease from the EUR 89.1 million in the first quarter of 2009. The decrease in the deficit was driven by better performance in the net exports of goods, income, and current transfers' accounts, while trade in services recorded a lower surplus.

The surplus on the capital and financial account (EUR 39.8 million) was not sufficient to cover the current account deficit. Net foreign direct investments' inflow (EUR 59.3 million) was more than offset by the outflow of portfolio investments abroad (EUR 91.7 million). Net errors and omissions remained significant in the first quarter at EUR 30.2 million.



## Monetary developments

Broad money reached EUR 1,494.7 million in July, decreasing by 0.5% over the previous year. The drop was mainly due to a significant decline in public non-financial corporations' deposits.

Inflation continued to accelerate in the summer and reached 5.9% (year-on-year) in August when there was a pronounced spike due to surging bread prices (23.2% year-on-year). Bread and cereals prices alone contributed 2.3 percentage points to the headline inflation. Pronounced increases in fruits (13.4%) and vegetable (11.9%) prices brought food price inflation to 10.6%. By the end of August, the goods and services with positive contribution to inflation had a total weight of close to 75% in the whole CPI basket. The surge in this indicator over the last two months thus reflects more broad-based inflationary pressures.

## Financial sector

In August 2010 the interest rate spread between loans and deposits was 11.3 percentage points. The 12-month moving average spread stood at 10.4 percentage points.

Growth in deposits has been decelerating since the beginning of the year and reached 11.1% (year-on-year) in August. Households' deposits continued to grow at close to 25% and increased their share in total deposits to 67% by end-August. Public non-financial corporations' deposits decreased by 68.3% over a year and stood at EUR 90.5 million, while other non-financial corporations' deposits significantly grew by 19.1%.

Credit growth accelerated again and reached 11.3% in August. Credit to non-financial corporations grew by 4.1% and credit to households by 28.5%.

The share of credit to non-financial corporations fell below 70% of total credit, as banks' relative exposure to households increased faster. The sector of services continued to attract most of the credit but their share have fallen since the start of the year by 2.4 percentage points to reach 68.3% of the credit to nonfinancial corporations. The credit to the sector of industry, energy and construction continued expanding

(23% growth year-on-year) and by end-August it reached 28% of all nonfinancial corporations' credit.

The loans to deposit ratio was 78.3% in August, below the informal benchmark according to which loans to deposits should not exceed 80%.

Interest income covered all expenditures and by end-July the net profit of the banking sector increased by 46.6% (year-on-year) to EUR 20.7 million.

## Fiscal developments

In line with the IMF agreement, in July certain excise rates on tobacco, alcohol and fuels have been increased. The estimated increase in revenues is about 1% of GDP per year. The Law on Public Financial Management and Accountability has been revised to provide for more detailed reporting on government finances. It also envisages that intra-year budgetary amendments should not result in any increase in current year expenditure that is not at least equally offset by a reduction in expenditure and/or measures to increase revenues.

According to preliminary data from the Ministry of economy and finance (MEF), by end-August the general government posted a surplus of EUR 85 million, which was mostly due to a one-off EUR 80 million dividend payment from the Post and Telecommunications of Kosovo.

Total revenue (excluding the IMF loan) stood at EUR 759.4 million in August. The underlying revenue growth (net of dividends) was 13.4%, underpinned by strong performance of border taxes (12.8%) and own source revenues at central level (58.4%). After sluggish performance in the first half of the year, domestic tax revenues recovered and grew by 12.2%. Non tax revenue collection (-3.8%) lagged behind.

Total expenditure reached EUR 674.1 million by the end of August. Expenditure at central level grew by 12.2% and at municipal level by 7.1%. Overall, until end-August, capital outlays increased substantially (24.0%), followed by spending on wages and salaries (15.8%) and on goods and services (6.5%). Subsidies and transfers expenditure was 3.6% lower compared to the same period last year.



# TABLE

European Commission, ECFIN-D-1

## KOSOVO\*

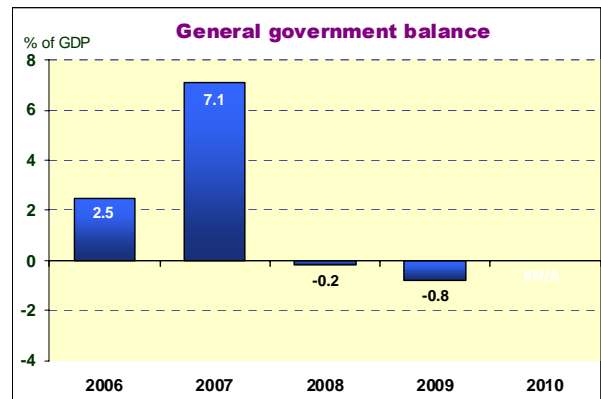
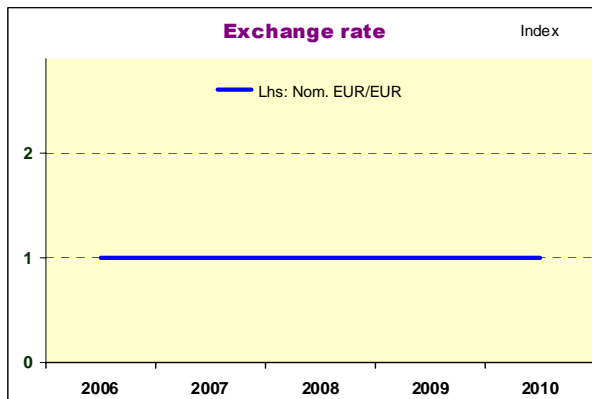
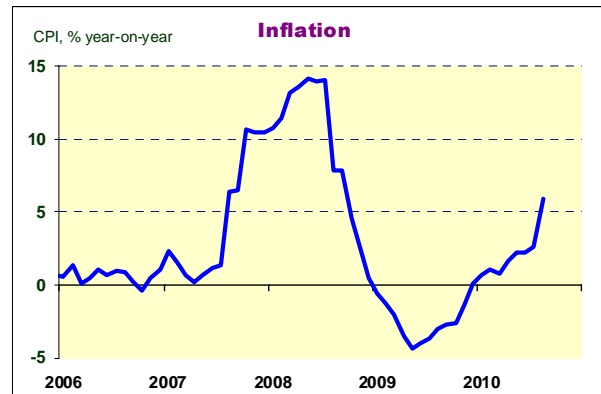
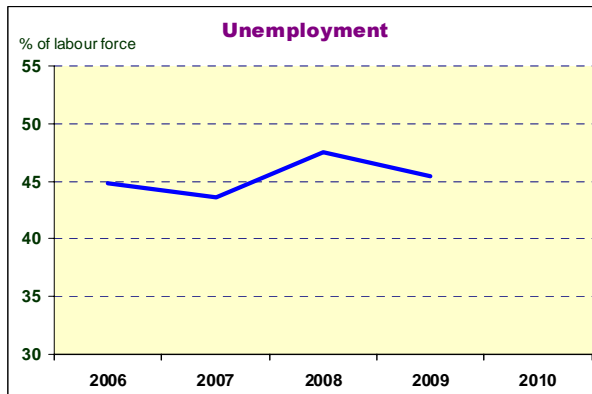
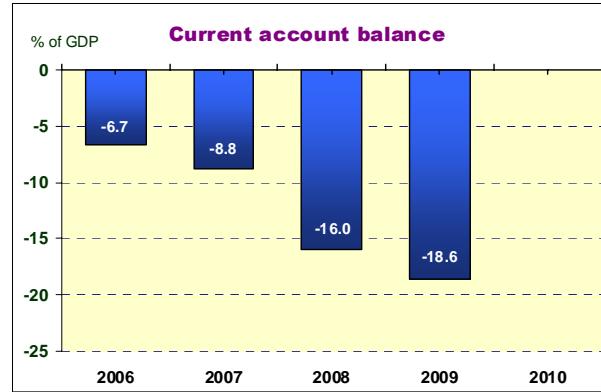
		2005	2006	2007	2008	2009	Q1 10	Q2 10	Q3 10	Jul 10	Aug 10	Sep 10
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann. % ch	3.8	3.9	3.9	5.4	4.0	:	:	:	:	:	:
Private consumption <sup>1.4</sup>	Ann. % ch	7.5	4.3	8.9	5.8	2.1	:	:	:	:	:	:
Investment <sup>1.5</sup>	Ann. % ch	-6.1	1.3	3.9	15.5	13.1	:	:	:	:	:	:
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	41.4	44.9	43.6	47.5	45.4	:	:	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	-1.1	-10.1	8.1	-12.9	:	:	:	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	8.5	:	:	:	:	:	:	:	:	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	-0.5	96.8	49.1	20.2	-16.7	109.2	129.7	:	43.2	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	8.9	12.8	20.7	22.3	0.4	4.3	12.4	:	26.1	:	:
Trade balance <sup>3.3</sup>	% of GDP	-34.0	-35.8	-39.0	-42.5	-44.8	-44.5	:	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	11.1	14.1	15.1	14.9	14.1	:	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	47.2	50.7	53.7	56.4	54.4	:	:	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-7.4	-6.7	-8.8	-16.0	-18.6	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	2.6	9.1	12.6	8.9	7.8	:	:	:	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	-1.4	0.6	4.4	9.4	-2.4	0.8	2.0	:	2.7	5.9	:
Producer prices <sup>4.2</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	3.8	5.0	0.2	:	N.A.	N.A.	N.A.
Food prices <sup>4.3</sup>	Ann. % ch	-1.7	3.6	9.1	16.7	-4.4	0.0	2.1	:	2.7	10.0	:
Broad money liabilities <sup>4.4</sup>	Ann. % ch	20.3	5.5	23.4	23.6	11.2	5.3	-0.6	:	-0.5	:	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) <sup>4.6</sup>	Index	-5.0	-2.8	-0.1	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3-12 months) <sup>5.1</sup>	% p.a.	15.60	15.38	15.25	16.61	14.11	17.36	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth <sup>5.4</sup>	Ann. % ch	44.9	30.6	29.7	38.7	17.4	8.2	9.4	:	10.9	11.3	:
Deposit growth EUR/EUR <sup>5.5</sup>	Ann. % ch	25.8	14.8	19.3	25.6	20.2	22.4	17.1	:	11.7	11.1	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	-3.1	2.5	7.1	-0.2	-0.8	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	N.A.	N.A.	N.A.	N.A.	6.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

\* as defined by UNSCR 1244

# CHARTS

European Commission, ECFIN-D-1

## KOSOVO\*



\* as defined by UNSCR 1244



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Business Surveys, Economic Outlook, Industry	Ecwin/Reuters
1.2.	Industrial production	Annual percentage change, volume, excluding construction. 2009 onwards base year 2005 and new methodology.	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (reference year 2000)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (reference year 2000)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, volume (reference year 2000)	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, total, 2005=100, volume,	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, Retail Trade Turnover, real, total, 2005=100	Ecwin/Reuters
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data.	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data.	Ecwin/Reuters
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in kuna)	Ecwin/Reuters
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. HRK, fob. Customs reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. HRK, cif Customs reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume (1997 prices)	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, volume (1997 prices)	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
<b>4. Monetary developments</b>			
4.1.	Interim CPI	Annual average percentage change, HICP not yet available for Croatia	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, without construction, index 2001	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages	
4.4.	M4	Annual percentage change, M4 (Broadest money)	Ecwin/Reuters
4.5.	Exchange rate HRK/EUR	Period averages, midpoint exchange rates	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index 2001, period averages	Ecwin/Reuters
<b>5. Financial indicators</b>			
5.1.	Interest rate	Zagreb Interbank 3 month - middle rate	Ecwin/Reuters
5.2.	Bond yield	Government Benchmarks, Bid, 5 Year, Yield, Close	Ecwin/Reuters
5.3.	Stock markets	CROBEX index	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, HRK	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, savings and time deposits, HRK	Ecwin/Reuters
5.6.	Non-performing loans	N.A	
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	Nat. sources

6.2. General government debt In percent of GDP

Nat. sources



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change, volume, excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (previous year prices)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (previous year prices)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, volume (previous year prices)	SSO
1.6.	Construction index	Not available	
1.7.	Retail sales	Annual percentage change, Retail trade, turnover, total,	Ecwin/Reuters
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data, registered otherwise	SSO
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data, registered otherwise	SSO
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	SSO
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume	SSO
3.5.	Imports goods and services	In percent of GDP, volume	SSO
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Annual average percentage change, HICP not yet available for fYRoM	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, industrial products	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	Ecwin/Reuters
4.4.	M4	Annual percentage change, M4 (Broadest money)	Ecwin/Reuters
4.5.	Exchange rate MKD/EUR	Averages, spot close	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Nominal Effective Exchange Rate, MKD, Index 2003=100	Ecwin/Reuters
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Interest rate Denar deposits	Ecwin/Reuters
5.2.	Bond yield	Not available	
5.3.	Stock markets	MSE Index (MBI-10)	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, DMB, total, overall, with Saving houses, MKD	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, with Saving houses, total, MKD	Ecwin/Reuters
5.6.	Non-performing loans	Not available	
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	MoF
6.2.	General government debt	In percent of GDP	MoF



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial outlook	Not available	
1.2.	Industrial production	Annual percentage change, aluminium, total, ton	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, total (2000 prices)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (2000 prices)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, volume (2000 prices)	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, turnover/sales, SA, ISK	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, total, constant prices, ISK, 2000=100	Ecwin/Reuters
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	LFS, In percent of total labour force, Total	Ecwin/Reuters
2.2.	Employment	LFS, Annual percentage change, Total, over all	Ecwin/Reuters
2.3.	Wages&Salaries	Annual percentage change, Total, Index, ISK 1998M12=100	Ecwin/Reuters
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio ISK, fob. Statistics Iceland reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. ISK, cif Statistics Iceland reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, volume	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Annual average percentage change, All items, Index, ISK, 1988M5=100	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, total, index, 2005Q4=100	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, ISK, 1997=100	Ecwin/Reuters
4.4.	M3	Annual percentage change, M3 (Money supply)	Ecwin/Reuters
4.5.	Exchange rate ISK/EUR	Period averages, midpoint exchange rates	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index 2005, period averages	Ecwin/Reuters
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	REIBOR, 3 month, fixing, ISK	Ecwin/Reuters
5.2.	Bond yield	Government Benchmarks, bid, 5 year, yield, close	Ecwin/Reuters
5.3.	Stock markets	OMX, Main Index (All-Share), price return, close	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, ISK	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, demand, sight and time deposits, ISK	Ecwin/Reuters
5.6.	Non-performing loans	Not available	
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	Ecwin/Reuters
6.2.	General government debt	In percent of GDP	Ecwin/Reuters





No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (1987 prices)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (1998 prices)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change,	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	Ecwin/Reuters
1.7.	Retail sales	Not available	
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey data	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin/Reuters
2.3.	Wages	Annual percentage change; index of real earning per production worker in manufacturing industry	Nat. sources
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	Ecwin/Reuters
4.4.	M3	Annual percentage change	Ecwin/Reuters
4.5.	Exchange rate YTL/EUR	Period averages	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index 1999, period averages	Ecwin/Reuters
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Deposit rates, 3 month, close	Ecwin/Reuters
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	Ecwin/Reuters
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	Ecwin/Reuters
5.6.	Non-performing loans	In percent of total lons	Ecwin/Reuters
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	Ecwin/Reuters
1.2.	Industrial production	Annual percentage change, total, constant prices	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, total, 2005=100	Ecwin/Reuters
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force	Ecwin/Reuters
2.2.	Employment	Annual percentage change	Ecwin/Reuters
2.3.	Wages	Average monthly wages in State sector	Ecwin/Reuters
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. EUR	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, including official transfers	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP	Ecwin/Reuters
<b>4. Monetary developments</b>			
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, Total, index (1998)	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	Ecwin/Reuters
4.4.	M2	Annual percentage change	Ecwin/Reuters
4.5.	Exchange rate LEK/EUR	Period averages	Ecwin/Reuters
4.6.	Change in real eff. exchange rate	Not available	
<b>5. Financial indicators</b>			
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	Ecwin/Reuters
5.2.	Bond yield	Government Benchmarks, 2 Year Bond, Yield	Ecwin/Reuters
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, total	Ecwin/Reuters
5.6.	Non-performing loans	Credit Portofolio Quality, NPLs %	Ecwin/Reuters
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt	In percent of GDP	IMF



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Entity indices weighted by shares in GDP	NSI
1.3.	Gross domestic product	Annual percentage change	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, Households, Total, 2004=100	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	Ecwin/Reuters
1.7.	Retail sales	Not available	
<b>2. Labour market</b>			
2.1.	Unemployment	Registered, in percent of total labour force	Ecwin/Reuters
2.2.	Employment	Registered, annual percentage change	Ecwin/Reuters
2.3.	Wages	Annual percentage change, average gross wages, BAM	Ecwin/Reuters
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
<b>4. Monetary developments</b>			
4.1.	CPI	Consumer price index from 2006; Retail price index otherwise.	CBBH/ Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, retail sales, total, CPPY=100, weighted Fed B&H 65% and SerbRep 35%.	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, 2005=100,	Ecwin/Reuters
4.4.	M2	Annual percentage change, M2 (broadest money)	Ecwin/Reuters
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index (2002 Apr=100); 9 Trade partners selected in order to set up the index (Austria, France, Germany, Hungary, Italy, Slovenia, Croatia, Serbia and Switzerland)	Ecwin/Reuters
<b>5. Financial indicators</b>			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, Close	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, loans, total, BAM	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM	Ecwin/Reuters
5.6.	Non-performing loans	NPLs to total loans, BAM	Ecwin/Reuters
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP. Certain local level data not included	CBBH
6.2.	General government debt	External public debt only	CBBH



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, annual data, chain index	Ecwin/Reuters
1.4.	Private consumption	Not available	
1.5.	Gross fixed capital formation	Not available	
1.6.	Construction index	Annual percentage change, value of performed work, current prices	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, turnover, total	Ecwin/Reuters
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of active population, e.o.p.	Ecwin/Reuters
2.2.	Employment	Annual percentage change of registered employment, avrg.	Ecwin/Reuters
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	Ecwin/Reuters
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, thou. EUR	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, thou. EUR	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	Annual data	MONSTAT
3.5.	Imports goods and services	Annual data	MONSTAT
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	Ecwin/Reuters
4.4.	M21	Annual percentage change, M21 (Broadest money)	Ecwin/Reuters
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Nominal exchange rate	Not available	
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	Ecwin/Reuters
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	Ecwin/Reuters
5.3.	Stock markets	NEX20 Index, Close	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	Ecwin/Reuters
5.6.	Non-performing loans	% of total	Min. of Finance
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change, total, 2005=100, SA, Index	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change at constant (average) prices 2002 Production approach	Ecwin/Reuters
1.4.	Private consumption	Not available	
1.5.	Gross fixed capital formation	Not available	
1.6.	Construction index	Annual percentage change, value of construction work done, total, 2008=100	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, retail trade turnover, total, constant prices, CPPY=100	Ecwin/Reuters
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Monthly and quarterly data are based on annual LFS and adjusted on the basis of monthly/quarterly changes of data on registered unemployment.	Ecwin/Reuters
2.2.	Employment	Annual percentage changes are based on LFS. Monthly and quarterly percentage changes (period of year in relation to the same period of previous year) data are based on official data on registered employment.	Ecwin/Reuters
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	Ecwin/Reuters
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Consumer Prices, Total, CPPY	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, total, CPPY=100	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	Ecwin/Reuters
4.4.	M3	Annual percentage change, M3 (broad money), RSD	Ecwin/Reuters
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Period average, moving base year, RSD	Ecwin/Reuters
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Treasury Bills, 3 month, yield, average, RSD	Ecwin/Reuters
5.2.	Bond yield	Not available	
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, total, RSD	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	Ecwin/Reuters
5.6.	Non-performing loans	Not available	
<b>6.</b>	<b>Fiscal developments</b>		

6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	Min. of Finance
6.2.	General government debt	Public sector debt. In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Not available.	
1.2.	Industrial production	Not available.	
1.3.	Gross domestic product	Annual percentage change.	IMF
1.4.	Private consumption	Annual percentage change.	IMF
1.5.	Gross fixed capital formation	Annual percentage change.	IMF
1.6.	Construction index	Not available.	
1.7.	Retail sales	Not available.	
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force.	Statistical Office of Kosovo (SOK)
2.2.	Employment	Annual percentage change of number of employees according to the Tax Register.	Statistical Office of Kosovo (SOK)
2.3.	Wages	Annual percentage change, average monthly wages according to the Tax Register.	Statistical Office of Kosovo (SOK)
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change.	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change.	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP.	Statistical Office of Kosovo (SOK)
3.4.	Exports goods and services	In percent of GDP.	IMF
3.5.	Imports goods and services	In percent of GDP.	IMF
3.6.	Current account balance	In percent of GDP, Annual data.	IMF, Central Banking Authority (CBAK)
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, Annual data.	CBAK
<b>4.</b>	<b>Monetary developments</b>		
4.1.	Interim CPI	Annual average percentage change, index (May 2002 = 100)	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, total, 2007=100	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	Ecwin/Reuters
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	Ecwin/Reuters
4.5.	Exchange rate EUR/EUR	Not applicable.	
4.6.	Real eff. exchange rate	Price change % CPI.	IMF
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Interest rates, short-term (3-12 months loans to non-financial corporations)	Ecwin/Reuters
5.2.	Bond yield	Not available.	
5.3.	Stock markets	Not available.	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing.	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, ODC deposits.	Ecwin/Reuters
5.6.	Non-performing loans	Not available.	
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP.	IMF, Ministry of Finance and Economy
6.2.	General government debt	In percent of GDP.	Ministry of Finance and Economy

