



European Commission



**Economic
and Financial Affairs**
DIRECTORATE-GENERAL

ISSN 1830-6292

ECFIN Unit D-1

Current update: 12 January 2011

Next update: April 2011

***EU CANDIDATE AND
PRE-ACCESSION COUNTRIES
ECONOMIC QUARTERLY***

CCEQ

CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIC QUARTERLY

Contents

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

*as defined by UNSCR 1244

OVERVIEW

Economic recovery generally gathered pace in the third quarter of 2010, although it remains fragile and uneven across pre-accession countries. Turkey remains an outlier as real GDP, though gradually slowing down, still increased by 5.5% in the third quarter. Growth accelerated in Albania, Serbia and to a lesser extent in the Former Yugoslav Republic of Macedonia. The Croatian economy is beginning to recover and signs of a turnaround emerged in Montenegro. Iceland experienced a more moderate decline in real GDP in the third quarter. While net exports are still the main driver of growth in the Western Balkans, the recovery may be broadening out as domestic demand, mainly private consumption, is strengthening. Everywhere, the unemployment trend is still increasing or at best stabilising. The only exception is Turkey which experienced a significant improvement. Public finances have remained under pressure and consolidation ranks high on the 2011 budgetary agendas. Some countries, however, performed better than expected.

In the third quarter, year-on-year GDP growth further accelerated in Albania (4.9%), the country least affected by the crisis, in Serbia (2.7%) and in the former Republic of Macedonia (1.3%). Growth was mildly positive in Croatia (0.2%) and turned positive, according to preliminary estimates, in Montenegro (2%). Positive signs are noticeable in Bosnia and Herzegovina. In Kosovo, a number of indicators suggest that growth - having remained positive throughout the crisis - gained momentum in 2010.

Turkey posted year-on-year growth of 5.5% in the third quarter, reflecting an expected and gradual slowdown after the very strong performance of the first two quarters. Domestic demand, in particular strong investment, continued to be the key driver.

In Iceland, real GDP declined by 1.6% on an annual basis in the third quarter, a much more moderate fall than those of the first (7.3%) and second (7.5%) quarters. Seasonally adjusted data even suggest a possible turnaround in the third quarter.

While external rebalancing has meant that net exports have been - e and still remain - the main driver of growth in the Western Balkans, some internal rebalancing may be under way. The recovery may become more broad-based as domestic demand, mainly private consumption, strengthens in Croatia and Bosnia and Herzegovina and remains relatively strong in the former Yugoslav Republic of Macedonia (as well as in Iceland).

There has not been yet any significant improvement in labour market conditions. Only in Turkey did the

unemployment rate, in tandem with economic growth, decline significantly (2 percentage points). Some countries (Croatia, Iceland) recorded an improvement in the third quarter but this is partly due to seasonal effects; the underlying unemployment trend is still rising. Unemployment seems to have stabilised in Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Serbia and Kosovo, albeit at very high levels.

Thanks to strong exports in line with the dynamics of global growth and trade and despite the pick up of imports, trade deficits have continued to narrow and subsequently current account balances to improve in the Western Balkans. Only in Kosovo have the trade and current account deficits increased. In Bosnia and Herzegovina, however, the trend has reversed in the third quarter and the trade and current account deficits widened for the first time since the fourth quarter of 2008. In Turkey, the current account and the trade deficit strongly deteriorated and roughly doubled in the period January to September 2010 as compared with 2009. Conversely, in Iceland, the annualised current account deficit fell markedly, as the trade surplus increased in the third quarter while the current account turned from deficit to surplus.

Monetary policy developments were rather diverse, reflecting country-specific situations. Monetary policy continued to be gradually further eased in Iceland and the former Yugoslav Republic of Macedonia. It was further tightened in Serbia, where the Central Bank increased its reference rate three times since September in view of renewed inflationary pressure. In Turkey, the Central Bank cut its policy rate to 6.5% in December and announced an increase in minimum reserve requirements. In Bosnia and Herzegovina, such requirements will be reduced to improve the liquidity of the banking sector. Measures were taken in Montenegro to stimulate credit growth.

While credit growth has generally remained sluggish in the Western Balkans, it was particularly strong in Turkey. In Iceland, financial sector restructuring further advanced but new lending remained very limited.

Public finance pressure translated into budget revisions and increases in deficit targets in 2010 in Serbia, Croatia and Bosnia Herzegovina. On the other hand, some countries have performed better than expected. Turkey is expected to post a deficit for 2010 that is half the 2009 one. Deficits are also likely to be lower than in 2009 in Iceland, Albania, and the Former Yugoslav Republic of Macedonia. Almost all countries have embarked on a fiscal consolidation phase in 2011, as evidenced by the budgets adopted before the end of 2010.

Candidate and potential candidate countries: Summary table

	2006	2007	2008	2009	2010	ECFIN Nov Forecast		Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
						2011	2012						
Gross domestic product (in real terms, annual % change)													
Croatia	4.7	5.5	2.4	-5.8	-1.8f	1.5	2.1	2.5	0.2	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	4.0	6.1	5.0	-0.9	1.3f	2.2	2.5	1.1	1.3	:	n.a.	n.a.	n.a.
Iceland	4.6	6.0	1.0	-6.8	-3.5f	0.7	2.1	-7.5	-1.6	:	n.a.	n.a.	n.a.
Turkey	6.9	4.7	0.7	-4.7	7.5f	5.5	4.5	10.2	5.5	:	n.a.	n.a.	n.a.
Albania	5.4	5.9	7.7	3.3	:	:	:	3.3	4.9	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	6.1	6.2	5.7	-2.9	:	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	8.6	10.7	6.9	-5.7	:	:	:	0.0e	2.0e	:	n.a.	n.a.	n.a.
Serbia	5.2	6.9	5.5	-3.1	:	:	:	2.0	2.7	:	n.a.	n.a.	n.a.
Kosovo*	3.8	4.0	5.4	4.0	4.6	:	:	:	:	:	n.a.	n.a.	n.a.
Unemployment (LFS, in % of workforce)													
Croatia	n.a.	9.6	8.4	9.1	12.5f	12.3	11.2	12.4	11.5	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	36.0	34.9	33.8	32.2	31.9f	31.1	30.0	32.1	31.7	:	:	:	:
Iceland	2.9	2.3	3.0	7.2	7.8f	7.3	6.3	8.7	6.4	:	n.a.	n.a.	n.a.
Turkey	9.9	9.9	11.0	14.1	12.2f	11.7	11.3	11.0	11.4	:	:	:	:
Albania	13.9	13.3	12.7	13.0	:	:	:	13.8	13.5	:	:	:	:
Bosnia and Herzegovina	44.2	42.9	40.6	42.7	:	:	:	43.1	43.2	:	43.2	:	:
Montenegro	14.7	11.9	10.7	11.4	12.1	:	:	11.9	11.8	12.1	12.0	12.2	12.1
Serbia	20.9	18.1	13.6	16.1	:	:	:	:	:	:	:	:	:
Kosovo*	44.9	43.6	47.5	45.4	:	:	:	:	:	:	:	:	:
Current account balance (% of GDP)													
Croatia	-7.0	-7.6	-9.3	-5.5	-2.8f	-3.7	-4.7	-2.9	-2.9	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-0.4	-7.1	-12.8	-6.7	-3.3f	-4.1	-5.3	-2.3	-1.9	:	n.a.	n.a.	n.a.
Iceland	-23.8	-16.3	-24.9	-10.7	-4.5f	-4.9	-4.6	-7.1	-2.4	:	n.a.	n.a.	n.a.
Turkey	-6.1	-5.9	-5.6	-2.3	-5.5f	-6.6	-7.1	-4.2	-5.3	:	n.a.	n.a.	n.a.
Albania	-6.6	-10.6	-15.4	-15.1	:	:	:	-13.1	-11.2	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-8.0	-10.7	-14.4	-6.8	:	:	:	-5.4	-6.4	:	n.a.	n.a.	n.a.
Montenegro	-24.7	-37.8	-50.7	-30.1	:	:	:	-29.4	-32.1	:	n.a.	n.a.	n.a.
Serbia	-11.7	-15.9	-20.1	-7.0	:	:	:	-7.6	-8.3	:	n.a.	n.a.	n.a.
Kosovo*	-6.7	-8.8	-16.0	-18.6	-18.5	:	:	:	:	:	n.a.	n.a.	n.a.
Inflation (Consumer price index, annual % change)													
Croatia	3.2	2.9	6.1	2.4	1.1f	1.8	2.0	0.7	1.1	:	1.4	1.2	:
The former Yugoslav Republic of Macedonia	3.2	2.3	8.3	-0.8	1.6	2.3	2.5	1.1	1.8	2.9	2.7	2.9	3.0
Iceland	6.7	5.1	12.7	12.0	5.4	2.5	2.3	7.1	4.3	2.8	3.3	2.6	2.5
Turkey	9.6	8.8	10.4	6.3	8.6	6.5	5.5	9.2	8.4	7.4	8.6	7.3	6.4
Albania	2.4	2.9	3.4	2.3	:	:	:	3.4	3.4	:	3.0	2.8	:
Bosnia and Herzegovina	6.1	1.5	7.4	-0.4	:	:	:	2.5	1.8	:	2.2	2.3	:
Montenegro	3.0	4.3	7.4	3.4	:	:	:	0.3	0.4	:	0.6	0.8	:
Serbia	n.a.	11.0	8.6	6.6	:	:	:	4.2	7.7	:	8.9	9.6	:
Kosovo*	0.6	4.4	9.4	-2.4	3.5	:	:	2.0	4.8	6.2	6.0	6.2	6.6
General government balance (% of GDP)													
Croatia	-3.0	-2.5	-1.4	-4.1	-5.7f	-6.1	-5.6	:	:	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-0.6	0.6	-1.0	-2.7	-2.5f	-2.6	-2.3	:	:	:	n.a.	n.a.	n.a.
Iceland	6.3	5.4	-13.5	-9.9	-6.2f	-4.2	-3.2	-7.4	-6.7	:	n.a.	n.a.	n.a.
Turkey	-0.1	-1.0	-2.2	-5.7	-3.7f	-2.8	-2.2	:	:	:	n.a.	n.a.	n.a.
Albania	-3.3	-3.5	-5.5	-6.8	:	:	:	-1.8	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	2.9	1.2	-2.2	-4.4	:	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	2.7	6.4	-0.4	-4.4	:	:	:	-0.4	0.0	:	n.a.	n.a.	n.a.
Serbia	-1.6	-1.9	-2.6	-4.3	:	:	:	-1.6	-2.3	:	n.a.	n.a.	n.a.
Kosovo*	2.5	7.1	-0.2	-0.8	:	:	:	:	:	:	n.a.	n.a.	n.a.

* as defined by UNSCR 1244

Forecast: ECFIN forecast Autumn 2010

CROATIA



Key developments

As the economy showed first signs of recovery after a long recession, Croatia made significant progress towards EU membership. An intergovernmental conference on 5 November closed three chapters in the accession negotiations (free movement of capital, transport policy, institutions). Another three chapters (justice, freedom and security; foreign, security and defence policy; environment) were closed at the intergovernmental conference on 22 December. Thus, a total of 28 of 35 chapters had been closed provisionally by the end of 2010.

With the aim to improve fiscal governance, parliament adopted a new law on fiscal responsibility on 23 November. At the same time the government's proposal for the 2011 state budget and budget projections for the two following years were adopted.

As part of a broader change in the cabinet of Prime Minister Kosor, Martina Dalić replaced Ivan Šuker as Minister of Finance on 29 December. Mrs Dalić is a professional economist and former state secretary in the finance ministry.

Real sector

Recent data indicate that the recession, which had started in 2008, bottomed out in mid-2010 and that the economy is slowly beginning to recover. Real GDP increased 0.2% year-on-year in the third quarter. The trend of industrial production has stabilised and the monthly retail sales volume has increased year-on-year since July (2.5% in November). Merchandise exports accelerated to 30% year-on-year growth in the October-November period as exporters seem to benefit increasingly from the recovery in the EU and other important export markets.

The GDP data for the third quarter (in real terms) show that consumer spending increased year-on-year for the first time in two years (1.9%). Typically for an early recovery phase, investment activity remained at a subdued level. In particular, as monthly data indicate, the trend

in the building sector is still downward with construction output 14.9% lower year-on-year in October. Nevertheless, the 9.5% decline of gross fixed capital formation in the third quarter is a relative improvement compared to double-digit contractions in the previous six quarters. Net exports continued to rise as exports of goods and services (+5.7%) increased by more than imports (+3.0%). This was the first quarterly rise in imports since 2008 and it is consistent with the return to growing economic activity overall.

In terms of contribution to GDP growth, the largest input in the third quarter came again from net exports (1.7 percentage points), but to a diminished degree since imports are now rising again. For the first time in two years, private consumption contributed positively (0.9 percentage points). Fixed investment remained the major drag (-2.5 percentage points) while government consumption and stock changes balanced each other out at a low level.

Labour market

In spite of the incipient turnaround of economic output, the labour market remained weak last autumn. The labour force survey showed a decline in the unemployment rate from 12.4% in the second quarter to 11.5% in the third quarter of 2010. But this decline is not seasonally adjusted and more than half of it reflects a falling labour force. In year-on-year terms the unemployment rate was 2.8 percentage points higher in the third quarter and the underlying trend is still rising. This is corroborated by the registered unemployment rate which stood at 18.3% at the end of November compared to a seasonal low of 16.4% in August and 16.1% in November 2009.

The large slack in the labour market continued to exert downward pressure on wages, but possibly to a diminishing degree. Having recorded a negative trend throughout the first three quarters of 2010, nominal gross wages rose by 1.4% in October which lifted the year-on-year change back into positive territory (0.1%).

External sector

The recession has narrowed the current account deficit sharply. It registered 2.9% of GDP over the four quarters to the end of last September, down from 9.3% in 2008. Although imports of goods started rising again in the third quarter in year-on-year terms, the trade balance still managed to improve slightly on the back of continued strong growth in goods exports.

The recent narrowing of the current account deficit stems exclusively from trade in merchandise goods. The large tourism-related surplus in services trade (12.5% of GDP in 2009) remained virtually flat in the first three quarters of 2010. Although the physical indicators of tourism were strong (foreign tourist arrivals were 4.8% higher year-on-year in the first eleven months of 2010), the value of service exports were slightly lower year-on-year in the first three quarters. This suggests that the average tourist spending has declined, as was already the case in 2009. The combined balance on income and transfer payments has improved by around 0.1% of GDP over the past year.

Croatia's total gross external debt increased from €43.1 billion at the end of 2009 to €43.7 billion at the end of August 2010 (excluding round-tripping transactions) which represented 96% of GDP. Gross international reserves increased from €10.4 billion at the end of 2009 to €11.2 billion at the end of the third quarter before declining to €10.7 billion at the end of 2010. This corresponds to 24% of GDP or about seven months of imports of goods and services.

Monetary developments

Inflationary pressures remained subdued in the autumn although the year-on-year increase of the consumer price index rose back up above the 1% mark. It registered 1.4% in September and October before receding to 1.2% in November. The rise in headline inflation was to a large extent due to energy prices which increased by 8.3% year-on-year in November.

The liquidity of the monetary system remained ample. Broad money (M4) was 4% higher year-on-year in November. Against the background of the still depressed level of economic activity, the accommodative stance of monetary policy was not changed during the fourth quarter.

In the foreign exchange market the kuna remained broadly stable. Slight downward pressure on the currency lifted the nominal

exchange rate against the euro from just below 7.20 in early July to 7.43 in late November. At the end of 2010 the exchange rate stood at 7.38 kuna per euro. The central bank intervened in the foreign exchange market on one occasion in November by selling €116 million against kuna.

Financial sector

High liquidity levels in the domestic financial system maintained downward pressure on market interest rates. The rate on overnight loans remained roughly unchanged in the interbank market over the fourth quarter to finish just above 1%. Interest rates on short- and long-term credits to businesses and households were relatively stable. Credit growth for these two sectors stood at 7% and 2% year-on-year, respectively, at the end of November. The stock market index drifted lower in October and November, but a strong December-rally lifted the index by 10% over the quarter and 5% over the year. Bank profits have declined by 7.8% year-on-year in the first eleven months of 2010.

Fiscal developments

Following the revision of Croatia's state budget in August, the European Commission has forecasted a general government deficit of 5.7% of GDP in 2010. This compares to a 4.1% deficit in 2009 and a planned deficit of 3.3% in the original budget for 2010 (all figures according to ESA95 standards).

Following the release in early October of *Economic and Fiscal Policy Guidelines*, the government's draft state budget for 2011 was adopted by parliament on 23 November. It is based on the assumption of 1.5% real GDP growth and 2.1% inflation in 2011. In nominal terms, revenues are expected to decline by 0.8% compared to 2010 due to changes in the tax system, while expenditures are projected to stay at the same level. The new budget implies a deficit for consolidated general government of 4.9% of GDP (cash basis, national concept).

Concurrently with the 2011 budget a new law on fiscal responsibility was adopted. It envisages an annual reduction of general government expenditure by 1 percentage point of GDP until the primary fiscal balance becomes zero or positive. Thereafter, the aim is to achieve a cyclically-adjusted primary fiscal balance of zero or positive in order to stabilise and reduce the public debt to GDP ratio. In practice, the law will be applied from the 2012 budget onwards.

TABLE



European Commission, ECFIN-D-1

CROATIA

		2006	2007	2008	2009	2010	ECFIN Forecast		2010			2011		
							2011	2012	Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
1 Real sector														
Industrial outlook ^{1.1}	Balance	N.A.	70.9	38.0	-33.3	3.0	:	:	0.0	-9.0	16.0	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	4.5	5.6	1.6	-9.3	:	:	:	-3.3	0.1	:	-4.5	0.2	:
Gross domestic product ^{1.3}	Ann. % ch	4.7	5.5	2.4	-5.8	-1.8f	1.5	2.1	-2.5	0.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.5	6.2	0.8	-8.5	-2.5f	1.3	2.0	-2.5	1.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	10.9	6.5	8.2	-11.8	-12.0f	2.0	4.3	-13.4	-9.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	11.8	-6.5	:	:	:	-16.8	-15.3	:	-14.9	:	:
Retail sales ^{1.7}	Ann. % ch	N.A.	N.A.	N.A.	-15.3	:	:	:	-4.4	1.7	:	0.3	2.5	:
2 Labour market														
Unemployment ^{2.1}	%	N.A.	9.6	8.4	9.1	12.5f	12.3	11.2	12.4	11.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	N.A.	1.8	1.3	-1.9	-4.3f	-0.2	1.0	-4.8	-4.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	6.2	6.2	7.1	2.2	-0.4f	0.4	0.6	-1.0	-0.2	:	0.1	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	16.1	8.8	5.1	-20.2	:	:	:	20.4	17.0	:	41.2	18.4	:
Imports of goods ^{3.2}	Ann. % ch	12.9	11.0	8.9	-25.6	:	:	:	-3.8	4.9	:	-5.8	9.2	:
Trade balance ^{3.3}	% of GDP	-21.3	-22.0	-22.8	-16.3	-15.0f	-15.8	-16.7	-13.0	-13.7	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	43.4	42.8	41.9	36.1	:	:	:	36.0	52.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	50.4	50.4	50.3	39.4	:	:	:	39.1	37.4	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-7.0	-7.6	-9.3	-5.5	-2.8f	-3.7	-4.7	-2.9	-2.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	6.6	8.1	6.7	2.7	:	:	:	1.8	2.7	:	N.A.	N.A.	N.A.
4 Monetary Developments														
CPI ^{4.1}	Ann. % ch	3.2	2.9	6.1	2.4	1.1f	1.8	2.0	0.7	1.1	:	1.4	1.2	:
Producer prices ^{4.2}	Ann. % ch	:	:	:	-0.4	:	:	:	4.8	3.8	:	5.0	4.7	:
Food prices ^{4.3}	Ann. % ch	2.5	3.4	10.0	1.7	:	:	:	-2.7	-0.5	:	0.3	-0.1	:
M4 ^{4.4}	Ann. % ch	14.3	17.9	10.9	1.6	:	:	:	2.1	3.2	:	5.1	4.0	:
Exchange rate HRK/EUR ^{4.5}	Value	7.30	7.33	7.22	7.34	7.29	:	:	7.25	7.25	7.36	7.32	7.38	7.39
Nominal eff. exchange rate ^{4.6}	Index	98.8	97.2	94.2	96.7	:	:	:	97.35	97.17	:	96.60	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	4.46	5.66	7.19	8.96	2.44	:	:	2.27	2.66	2.61	2.57	2.45	2.81
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	5.9	6.4	5.8	:	:	5.7	5.7	5.9	5.7	6.0	6.0
Stock markets ^{5.3}	Index	2,771	4,673	3,299	1,871	1,990	:	:	2,001	1,873	1,922	1,869	1,787	2,111
Credit growth ^{5.4}	Ann. % ch	22.0	19.4	11.6	5.0	:	:	:	1.7	4.5	:	5.9	6.4	:
Deposit growth ^{5.5}	Ann. % ch	51.6	27.2	7.4	-15.2	:	:	:	-21.8	-17.3	:	-16.5	-12.4	:
Non performing loans ^{5.6}	% of total	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-3.0	-2.5	-1.4	-4.1	-5.7f	-6.1	-5.6	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	35.5	32.9	28.9	35.3	40.9f	45.9	49.9	:	:	:	N.A.	N.A.	N.A.

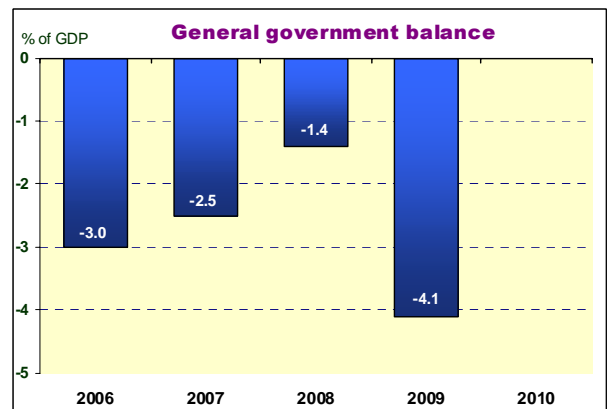
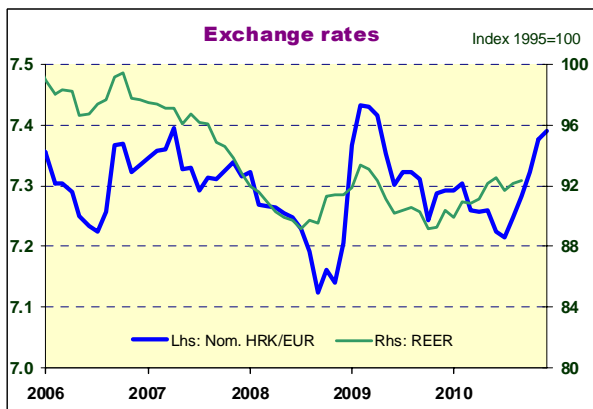
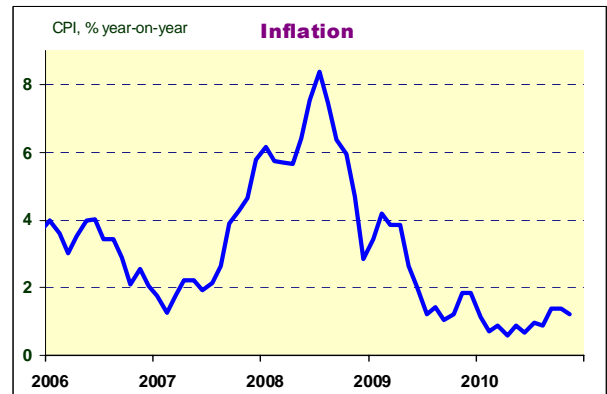
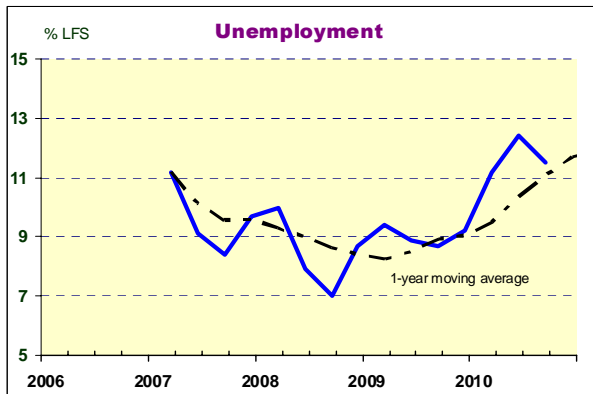
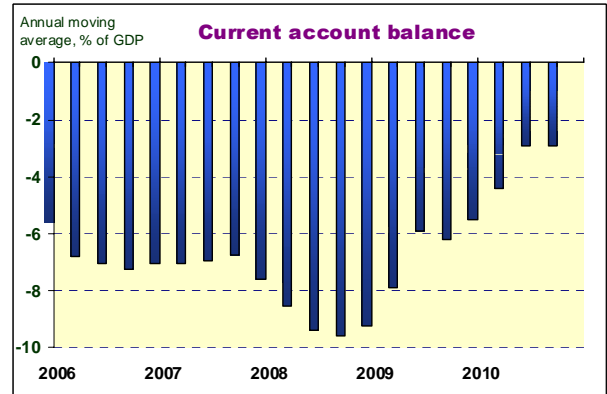
f: ECFIN forecast Autumn 2010

CHARTS



European Commission, ECFIN-D-1

CROATIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



Key developments

On 8 December, the government agreed with the IMF on a 2-year pre-cautionary credit line (PCL), which in case of significant external imbalances entitles the authorities to draw up to EUR 400 million (about 6% of GDP) in 2011 and up to EUR 480 million by the end of the second year.

The Central Bank continued to lower its key interest rates in December, reducing the rate for 28-day central bank bills from 4.5% to 4.11% and the Lombard rate from 6% to 5.5%.

Real sector

Economic activity appears to have slightly accelerated in the third quarter of 2010. Real GDP increased by 1.3% year-on-year, compared to an increase of 1.1% in the second quarter and a decline by 1.3% in the first quarter of 2010. The year before, output had declined by 2.2%. The main positive contribution to growth came from net-exports and private consumption, while investment was still lower than a year before. Import growth accelerated, in line with stronger private consumption and exports. Overall, during the first three quarters of 2010, output is now slightly higher than a year ago, by some ¼% according to preliminary national account data.

On the supply side, construction and financial services registered the highest growth rates.

High frequency indicators, such as industrial production, point to a continued overall weakness in domestic production, with a decline by 1.7% in the third quarter of 2010. In the first 11 months of 2010, employment in the industrial sector is about 5% lower than a year before. In general, export oriented industries, such as base metals, or the manufacture of wearing apparel perform better than domestic oriented ones.

Labour market

The overall labour market situation remained bleak. Employment increased by about 1% the third quarter. However, the number of unemployed rose too, leaving the unemployment rate at 31.7%, the same rate as a year before. The main sectors with a higher number of registered employment were agriculture, hotels and restaurants and public administration, while employment declined in the trading sector and in manufacturing. A positive development is the decline in youth unemployment (age bracket 15-24 years), from 54.6% in the third quarter of 2009 to 51.9% in the third quarter of 2010. At the same time, the share of youth unemployed in total unemployment went down from 21.1% in the third quarter of 2009 to 18.9% in the third quarter of 2010. Probably one important factor for this decline is the recent opening of decentralised university facilities, facilitating the enrolment in higher education courses. The strong increase in agricultural employment (by some 9 000 jobs) might reflect additional incentives from the authorities to register so far unregistered employment.

Nominal wage growth rose to 0.9% in the third quarter, which however implied a decline by 0.9% in real terms, when taking into account consumer price inflation in that quarter.

External sector

During the third quarter of 2010, the situation in the external sector continued to improve. Similar to the year before, the current account registered a surplus of about 1¼% of the third quarter GDP, as stronger private transfers largely compensated slight deteriorations in the goods, service and income accounts. FDI inflows remained weak. In the first three quarters of 2010, export revenues were some 25% higher than before, while spending for commodity imports rose by 11% only. As a result, the trade deficit dropped to 21.8% of GDP, compared to

23.5% of GDP a year before. The inflow of private transfers increased to annualised 19.6% of GDP, compared to 14.3% a year before. FDI inflows remained low, at some 1.6% of annualised GDP in the first three quarters of 2010.

Foreign exchange reserves remained stable at around EUR 1.7 billion. However, mainly as a result of the still relatively low imports, the import coverage has recovered to some 4.3 months of expected imports.

By September-2010, gross external debt amounted to about 59% of GDP, compared to some 56% of GDP a year before. The main contributor to the increase was intercompany lending and bank lending.

Monetary developments

Overall CPI inflation accelerated in late 2010, rising to 3.0% year-on-year in December. During the whole year of 2010, the level of consumer prices were 1.6% higher than a year before. The main inflationary pressures came from prices increases of energy and housing, rising by 8.7% and 5.1% respectively. Food prices, which account for about 40% of the consumer basket, rose by 0.3% in 2010, contributing to a relatively low average inflation. However, towards the end of the year, food prices started to accelerate too, reaching 3.2% year-on-year in December.

Year-on-year growth of M4 slowed down slightly in the third quarter of 2010, increasing by 12.9% year-on-year, compared to 13.8% in the second quarter. In October, growth in M4 declined further to 12.3%.

The exchange rate of the Denar has remained stable against the euro at a level of 61.5 MKD/EUR.

Financial sector

Since October 2009, monetary conditions continued to soften. After an increase in weighted nominal lending rates to 10.3% in September 2009, rates started to decline slightly during 2010, reaching 9.1% in November 2010.

Interest rates on deposits had increased to 7.5% in March 2010, but have come down to 6.7% in November. 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.

The ratio of non-performing loans to total loans has increased to 10.4% by end-September 2010, compared to 9.3% a year before. Profitability has improved but not yet fully recovered. End-September the return-on-assets ratio slightly improved, reaching 0.5%, compared to 0.4% end-June and 0.7% a year before. Return on equity rose to 4.0%, compared to 3.2% end-June and 6% a year before.

The country's stock market maintained its downward trend. After the sharp drop in autumn 2008, the stock market index started to recover in the second half of 2009. However, since then, the market capitalisation started to decline again and currently amounts to some 30 % of GDP.

Fiscal developments

In the first eleven months of 2010, total revenues were some 2.3% higher than a year before. The main contributor to this increase came from the Value Added Tax, amounting for some 47% of total revenues and increasing by 7.8%. Total expenditure was some 1.4% higher than last year, mainly due to higher capital spending. As a result, the cash-based fiscal deficit of the central government in this period amounted to some annualised 2.3% of GDP. Provisional data for December points to a central government deficit of 2.5% for the whole year. This is in line with the deficit target for this year. The budget for 2011 envisages a central government deficit of 2.2% of GDP.

By end-August, public debt had remained largely unchanged at some 24% of GDP, compared to 24.7% 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

		2006	2007	2008	2009	2010	ECFIN Forecast							
							2011	2012	Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
1 Real sector														
Industrial confidence ^{1.1}	Balance	4.3	7.0	6.8	-13.8	:	:	:	-13.2	-6.7	:	-5.8	0.1	:
Industrial production ^{1.2}	Ann. % ch	2.3	4.1	5.9	-7.3	:	:	:	-1.5	-1.7	:	-4.4	-1.5	:
Gross domestic product ^{1.3}	Ann. % ch	4.0	6.1	5.0	-0.9	1.3f	2.2	2.5	1.1	1.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	6.0	9.8	8.1	-5.6	1.0f	2.0	2.5	6.3	4.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	11.6	17.1	5.4	0.5	-6.0f	7.0	8.0	:	:	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	N.A.	7.6	25.6	13.7	:	:	:	7.6	:	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	9.5	17.1	11.6	-3.8	:	:	:	2.7	6.3	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	36.0	34.9	33.8	32.2	31.9f	31.1	30.0	32.1	31.7	:	:	:	:
Employment ^{2.2}	Ann. % ch	4.6	3.5	3.2	3.4	1.0f	2.0	2.5	-1.4	1.0	:	:	:	:
Wages ^{2.3}	Ann. % ch	8.0	4.8	8.7	14.1	2.1f	3.4	5.1	0.3	0.9	:	0.6	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	16.5	29.2	8.9	-28.7	:	:	:	25.4	28.5	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	16.6	25.3	21.9	-22.1	:	:	:	21.4	20.4	:	:	:	:
Trade balance ^{3.3}	% of GDP	-19.7	-19.8	-26.2	-23.0	-22.2f	-22.1	-22.4	-21.5	-21.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	46.9	52.4	50.9	38.8	:	:	:	42.2	44.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	66.5	70.8	76.2	60.2	:	:	:	61.6	63.7	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-0.4	-7.1	-12.8	-6.7	-3.3f	-4.1	-5.3	-2.3	-1.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	6.8	8.5	6.1	2.0	:	:	:	2.2	1.6	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	3.2	2.3	8.3	-0.8	1.6	2.3	2.5	1.1	1.8	2.9	2.7	2.9	3.0
Producer prices ^{4.2}	Ann. % ch	4.5	1.6	10.4	-6.4	:	:	:	9.7	7.7	:	8.7	7.1	:
Food prices ^{4.3}	Ann. % ch	2.1	3.7	14.4	-1.4	:	:	:	-0.9	1.1	:	3.3	3.3	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	10.0	28.9	21.3	3.5	:	:	:	13.8	12.9	:	12.3	:	:
Exchange rate MKD/EUR ^{4.5}	Value	61.19	61.18	61.26	61.28	:	:	:	61.55	61.55	:	61.62	61.55	:
Nominal eff. exchange rate ^{4.6}	Index	100.0	99.6	100.6	106.6	:	:	:	104.9	:	:	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	6.40	5.60	6.69	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% 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 ^{5.3}	Index	3,219	6,971	5,149	2,497	2,472	:	:	2,533	2,315	2,214	2,129	2,243	2,270
Credit Growth ^{5.4}	Ann. % ch	25.0	35.0	40.3	14.2	:	:	:	4.4	6.9	:	8.0	:	:
Deposit growth ^{5.5}	Ann. % ch	21.0	31.4	23.5	4.6	:	:	:	14.4	14.0	:	13.3	:	:
Non-performing loans ^{5.6}	% total	11.2	7.5	6.7	8.8	:	:	:	:	:	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-0.6	0.6	-1.0	-2.7	-2.5f	-2.6	-2.3	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	30.5	22.7	20.7	23.9	25.6	26.8	27.6	:	:	:	N.A.	N.A.	N.A.

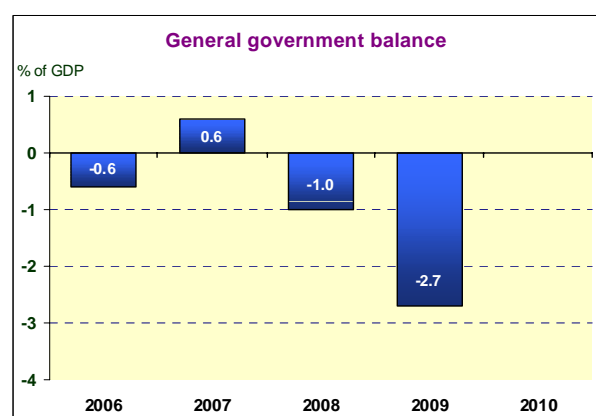
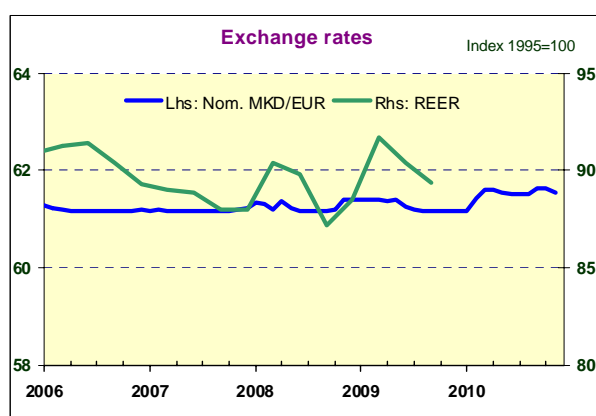
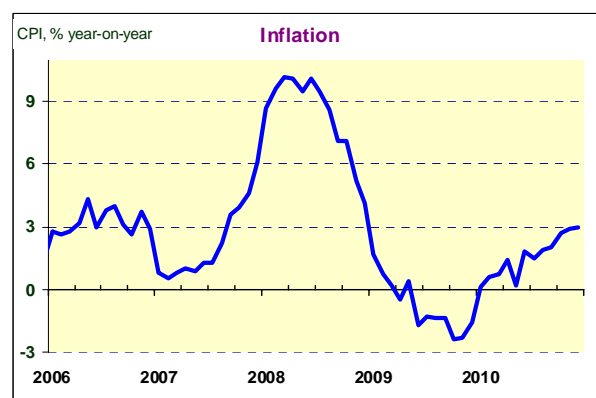
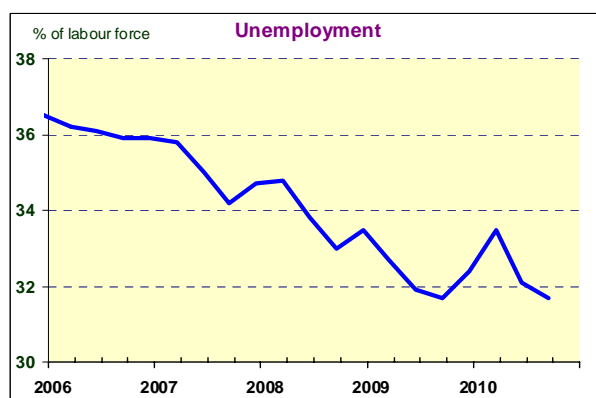
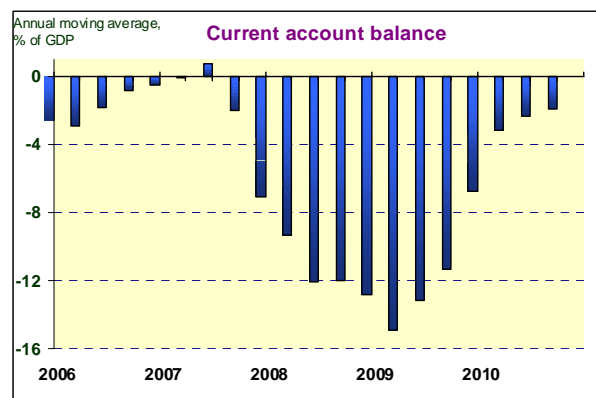
f: ECFIN forecast Autumn 2010

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia



ICELAND



Key developments

The European Commission's first Progress Report on Iceland of 9 November noted further progress in macroeconomic stabilisation. It also stressed that fiscal risks related to financial sector weaknesses, a huge domestic debt overhang and capital movement restrictions represented key economic challenges.

On 23 November, the Icelandic government released its revised economic forecast (2010-2015) with a downward revision of 2011 GDP growth projections, e.g. from 3.2% to 1.9%. The European Commission (EC) in its autumn forecast projects 2011 GDP growth at 0.7%.

In early December, Iceland reached a new draft agreement on Icesave with the UK and the Netherlands on the terms to compensate the two countries for depositor claims stemming from the failure of Landsbanki in October 2008. The new deal, which still needs to be approved by Icelandic Parliament, offers more favourable terms to Iceland. It was estimated that it saves the Treasury approximately ISK 110 billion (7% of GDP) compared to the previous deal voted down in a referendum in early 2010.

In December, the government signed a Memorandum of Understanding with financial institutions and pension funds on debt relief measures for private households. They include, inter alia, debt write-offs on a case by case basis, an extension of the tax rebate on interest and a new general, but temporary interest rate subsidy on mortgages. Also, a government's agreement with the financial sector and the employers' association foresees debt relief measures for up to 7,000 small and medium-sized enterprises.

On 10 January, the IMF approved the fourth review under the current stand-by programme, releasing a further loan tranche of US-\$ 160 million to bolster Iceland's foreign reserves.

Real sector

Seasonally adjusted national accounts data (which are often due to later revisions and must therefore be treated with some caution) suggest a turnaround in economic activity in the third

quarter of 2010. GDP increased by 1.2% in volume terms, compared to the previous quarter, following seven quarters of negative growth rates. Private consumption recorded a relatively strong growth (3.8%), while investments and public consumption continued to fall (by 5.6% and 0.6%, respectively). Exports rose by a mild 0.8% and import growth accelerated to 6.8%, in line with stronger consumption.

On an annual, non-adjusted basis, real GDP declined by 1.6% in the third quarter, a more moderate decline than the fall of 7.3% in the first and of 7.5% in the second quarter. Particularly, private consumption has strengthened and grew by 1.8%, while investments fell by close to 11% and public consumption by close to 3%. Total exports stagnated, while imports grew by 1.6%. For the first nine months of 2010, real GDP recorded a cumulative 5.5% fall, compared to the same period a year before. During the fourth quarter, consumer sentiment and expectations have somewhat improved, though from a low base. The EC's autumn forecast projects GDP to have fallen by 3.5% for the year 2010 as a whole.

Labour market

Unemployment remained far above pre-crisis levels. According to the Labour Force Survey, the unemployment rate fell to 6.4% in the third quarter, down from 8.7% in the previous one, partly due to seasonal effects. But the rate still increased compared to the same quarter a year before when it stood at 6%. Total employment dropped by 0.8% year-on-year. The total labour force shrank compared to a year before, partly due to continued net emigration, driven by the return of migrant workers.

The growth of nominal wages accelerated somewhat during the third quarter. Following an average increase of around 4% year-on-year in the first half of 2010, the wage index rose 6% in the July to October period, before moderating somewhat in November. Higher wage growth together with falling annual inflation led to an increase in real wages by around 1.5% in the third quarter and close to 2.5% in October/November.

External sector

In the third quarter, total exports of goods and services virtually stagnated compared to the same period a year before, while total imports dropped by 2.6%. The balance in goods and services recorded a surplus of 14.5% of GDP, compared to 13.5% in the same quarter a year before. The current account recorded a surplus of 6% of GDP, compared to a 12% deficit a year before, the huge swing being largely due to changes in the net factor income balance which is extremely volatile. The annualised current account balance (four quarters moving average) improved markedly. The deficit fell to 2.4% of GDP in the four quarters to September, compared to a deficit of 7.1% during the year to end-June. Recent merchandise trade data suggest an acceleration of export growth in November (+9% year-on-year) and a decline in imports (-10%), further strengthening the trade surplus.

Balance of payments statistics record net capital outflows of around 16% of GDP in the third quarter, thus larger than the receipts from the current account surplus, leading to a fall in foreign reserves at the central bank. They stood at 32.5% of GDP at the end-September, compared to 38% in mid-2010, but recovered again to slightly above 36% of GDP by November.

Excluding banks in winding-up proceedings, the stock of gross foreign debt is estimated at around 220% of GDP at end-September, compared to 240% at end-2009. The private sector accounts for roughly three quarters of the external debt stock (the private non-financial sector for about two thirds).

Monetary developments

Stability of the exchange rate allowed the Central Bank to continue a gradual easing of monetary policy during the second half of the year. The key policy rate was reduced in successive steps to a historical low of 4.5% in December, compared to 10% at the beginning of the year. The three months interbank rate has continued to fall to 4.3% in December.

The Icelandic krona remained rather stable vis-à-vis the euro during the fourth quarter. For the year 2010 as a whole, it appreciated by around 14%. The current rate of ISK 153/€ (fourth quarter) is still far below the pre-crisis exchange rate of ISK 87.6/€ (2007). Annual inflation continued to fall to a three-year low 2.5% in December, from its peak of 18.6% in January 2009.

Financial sector

Financial sector restructuring has further advanced. The new banks which focus on domestic operations are much smaller in size and each of them fulfils the minimum capital requirement of 16%. Preliminary data on banks' balance sheets suggest that domestic credit (by deposit money banks, e.g. banks and savings banks) stood at around 130% of GDP at end-October, compared to a pre-crisis level of above 300% of GDP. The new banks do not yet fully perform their financial intermediation role. Changes in assets are largely due to revaluations and new lending remains very limited.

Banks are exposed to weak asset quality (official estimates put the ratio of non-performing loans at 39%) and suffer from currency and maturity mismatches. Deposits represent by far the largest share in bank funding, equivalent to around 90% of outstanding loans in October. Deposits are currently "protected" by capital controls and a government blanket guarantee.

Bond and stock markets continue to be severely impaired by the financial crisis and still play a very minor role in financial intermediation, with most trading taking place in government-guaranteed bonds. The stock market index has recovered somewhat, but remains volatile.

Fiscal developments

The execution of the 2010 budget has been broadly kept in line with plans. In the first three quarters, total revenues of the general government increased by around 7% year-on-year, due to a strong growth of indirect taxes and social contributions. The rise in total spending was kept below 1%, despite a surge in interest payments. Investment spending fell by some 30%. The budget recorded a deficit of around 5% of projected annual GDP, which compares to a deficit target of 6.6% for the year as a whole.

The 2011 budget, adopted in December, targets a primary surplus and contains fiscal measures equivalent to around 2.5% of GDP, including freezes on wages and transfers and further cuts in spending and increases in capital gains and inheritance tax rates. Fiscal risks remain related to financial sector weaknesses (e.g. Housing Financing Fund). General government debt increased from around 29% of GDP in 2007 to 106% at end-2009. The jump reflects cyclical effects, costs of financial sector restructuring, as well as external borrowing to bolster foreign reserves.

TABLE



European Commission, ECFIN-D-1

ICELAND

		2006	2007	2008	2009	2010	ECFIN Forecast		Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
							2011	2012						
1 Real sector														
Industrial outlook ^{1.1}	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 ^{1.2}	Ann. % ch	18.7	28.5	76.9	10.3	:	:	:	2.4	-4.1	:	0.0	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.6	6.0	1.0	-6.8	-3.5f	0.7	2.1	-7.5	-1.6	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.6	5.6	-7.9	-16.0	-0.5f	1.5	1.9	-3.4	1.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	22.4	-11.1	-20.9	-50.9	-5.0f	5.0	10.0	-16.1	-10.8	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	27.9	12.1	-21.2	-23.4	:	:	:	:	:	:	:	:	:
Retail sales ^{1.7}	Ann. % ch	8.0	7.9	-9.2	-22.9	:	:	:	-2.6	:	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	2.9	2.3	3.0	7.2	7.8f	7.3	6.3	8.7	6.4	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	5.1	4.5	0.7	-6.1	-0.6f	0.5	1.0	1.2	-0.8	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	9.5	9.0	8.1	3.9	2.3f	2.5	2.9	4.7	6.0	:	6.0	4.7	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	24.9	25.7	52.6	10.2	:	:	:	15.8	-1.0	:	0.3	9.2	:
Imports of goods ^{3.2}	Ann. % ch	38.9	-1.5	20.2	-12.4	:	:	:	7.9	0.4	:	6.0	-10.1	:
Trade balance ^{3.3}	% of GDP	-13.4	-6.7	-0.5	6.6	6.2f	5.9	6.1	7.7	7.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	32.2	34.6	44.5	53.0	:	:	:	56.3	56.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	50.0	45.3	47.4	44.2	:	:	:	46.0	45.4	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-23.8	-16.3	-24.9	-10.7	-4.5f	-4.9	-4.6	-7.1	-2.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	-10.2	-16.5	30.5	-18.1	:	:	:	-26.4	-22.1	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	6.7	5.1	12.7	12.0	5.4	2.5	2.3	7.1	4.3	2.8	3.3	2.6	2.5
Producer prices ^{4.2}	Ann. % ch	:	1.8	31.0	11.3	:	:	:	19.2	3.1	:	1.1	2.9	:
Food prices ^{4.3}	Ann. % ch	8.0	-1.1	16.0	17.5	4.2	:	:	6.7	3.1	1.0	1.4	0.5	1.1
M3 ^{4.4}	Ann. % ch	19.8	36.1	41.2	15.6	:	:	:	-6.9	-8.7	:	-10.6	-9.6	:
Exchange rate ISK/EUR ^{4.5}	Value	87.84	87.66	127.58	172.15	161.62	:	:	163.12	154.27	153.47	154.64	153.08	152.67
Nominal eff. exchange rate ^{4.6}	Index	89.5	90.9	65.9	47.6	:	:	:	47.8	50.3	:	51.1	51.3	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	12.35	14.28	15.84	11.28	6.79	:	:	7.63	6.45	4.82	5.30	4.85	4.30
Bond yield ^{5.2}	% p.a.	9.21	N.A.	11.00	8.15	5.38	:	:	5.37	4.22	4.75	4.51	4.71	5.02
Stock markets ^{5.3}	Index	5,494	7,017	3,510	465	563	:	:	571	580	578	583	575	575
Credit growth ^{5.4}	Ann. % ch	45.5	27.3	-34.0	-8.5	:	:	:	0.4	-1.5	:	-4.3	-2.2	:
Deposit growth ^{5.5}	Ann. % ch	19.9	36.5	31.5	-1.3	:	:	:	-7.4	-9.2	:	-11.1	-10.2	:
Non-performing loans ^{5.6}	% total	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	6.3	5.4	-13.5	-9.9	-6.2f	-4.2	-3.2	-7.4	-6.7	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	30.1	28.6	70.6	106.4	91.5f	93.5	92.8	:	:	:	N.A.	N.A.	N.A.

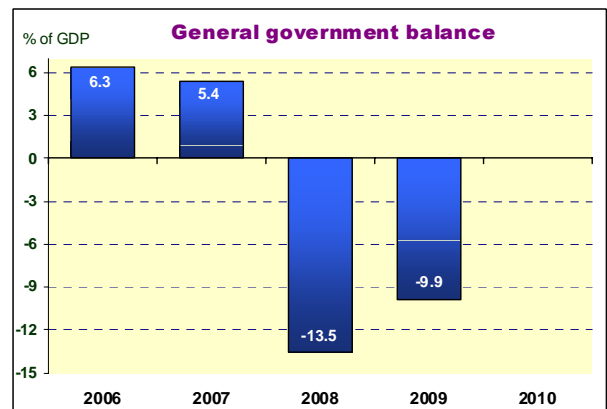
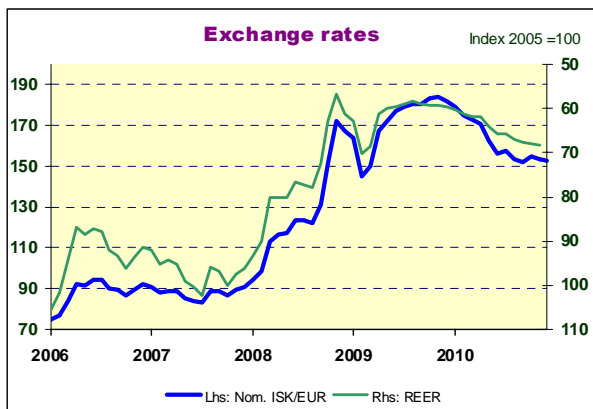
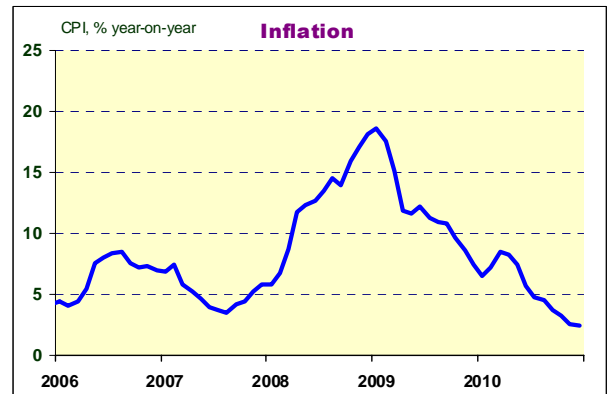
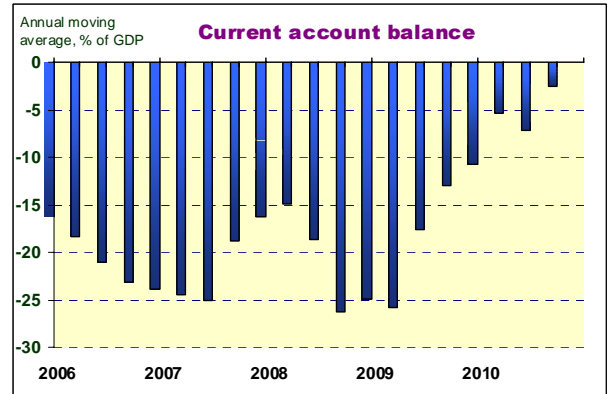
f: ECFIN forecast Autumn 2010

CHARTS

European Commission, ECFIN-D-1



ICELAND



TURKEY



Key developments

In mid-December, following the second post-programme monitoring discussions, the IMF recommended a combination of macroprudential and fiscal tightening and a rebalancing of foreign currency purchases with liquidity withdrawal. Policies that discourage excessive uptake of external savings and limit resource-misallocation and pricing risks would temper the magnitude of the economic correction if capital inflows slow or reverse. The Fund also advised Turkey to build countercyclical buffers and prevent the accumulation of systemic risk through rapid growth of general-purpose loans and foreign-currency lending to unhedged borrowers.

Real Sector

Real GDP increased in the third quarter of 2010 by 5.5% from a year earlier, which brings growth in the first nine months of 2010 to 8.9%. All sectors except agriculture demonstrated strong positive growth. Trade, industry and construction expanded by about 15% in the first three quarters of 2010.

In 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 25% in the January-September period. The high growth in domestic demand translated into real imports growth amounting to 19%. Net real exports pulled down the growth performance by 2.8%. The economy lost some momentum in the third quarter of 2010, with industrial output rising a modest 1.2% on the quarter. However, the continuation of very strong bank lending growth to both consumers and corporates and a pick-up in the manufacturing PMI survey point to the slowdown being gradual. Even assuming zero growth in the fourth quarter, this should still be sufficient to generate 8% GDP growth in 2010 as a whole.

Labour market

In tandem with the recovery, the unemployment rate declined to 11% by September 2010 from 13% a year before. The non-farm unemployment rate, which stood at 17% a year earlier, showed a broadly similar downward trend as it fell to 14.3% by September 2010. The youth unemployment rate most likely due to the priority given to this segment in the employment package, dropped somewhat faster to 21% from over 24% in September last year.

Employment data show a marked albeit decelerating improvement, as the number of employed increased by over 950,000 compared with September last year. The employment rate went up by 5% in the third quarter of 2010, down from 7.5% in the previous quarter. The overall labour participation amounts to 49%, with a significant gender imbalance. While the labour participation is 71% for men, it is as low as 28% for women. In spite of such a low proportion of the female population actively looking for work, the female unemployment rate is 13.2%, slightly higher than the 12.8% male unemployment rate.

External sector

The current account deficit edges up rapidly, in tandem with the widening trade deficit. Robust domestic demand and higher energy prices fuel imports, which increased by 30% in the first nine months of 2010. In tandem with the rise in imports, nominal exports performed relatively well - largely due to price effects - but rose at a much slower pace by about 10% in the same period. Consequently, the trade deficit has roughly doubled, from 4% of GDP in January-September 2009 to almost 8% in the same period in 2010. The current account balance broadly shows similar patterns and the deficit is widening rapidly. In the first nine months of 2010, the deficit amounted to 5% of GDP, compared with 2.5% in the same period of 2009.

While total financing needs have almost doubled in 2010, the financing has been shifting towards

more portfolio and cross-border credits to domestic banks (covering 40% of the current account deficit) and less direct investment. Reserves rose by about EUR 10 billion to roughly EUR 45 billion (i.e. 4 months of imports).

The gross external debt stock amounted to 40% of GDP in the third quarter of 2010, slightly down from a year earlier. About two thirds is held by the private sector.

Monetary developments

In the December Monetary Policy Committee (MPC) meeting, the base policy rate was cut by 50 bps to 6.5%. At the same time, the MPC widened the overnight money market corridor by 50 bps, via a 25 bps cut on the borrowing rate (down to 1.5%) and an equal hike on the lending rate (up to 9%). In a statement following this decision, the central bank announced that commercial bank minimum reserve requirement ratios were increased and will differ according to the maturity, and that it gave priority to restoring financial stability. Recent central bank measures particularly aimed at capping the rapid deterioration in the current account deficit through lowering the policy rate, so that the lira would weaken, which in turn may slowdown import growth.

Inflation came down dramatically, from 9.2% in September 2010 to 6.4% in December 2010. In the same period, the Turkish lira weakened by 7% vis-à-vis the euro. Looking forward, strong base year effects are likely to pull down the headline inflation even further down in the coming months, in the absence of administrative price hikes, unlike in 2009.

Financial sector

The banking sector has shown marked strength, both during the global financial crisis and the recovery, largely due to major improvements made to the regulatory and supervisory framework in previous years. The sector also benefited from the central bank's liquidity measures and some easing of regulations governing loan classification and provisioning requirements. In the first eleven months of 2010, Turkish banks' profits increased by 8.4% year-on-year to EUR 10bn. Total assets grew by 20% year-on-year, amounting to EUR 480bn while loans increased by 30% year-on-year to EUR

250bn. Deposits also increased by 17%, reaching EUR 290bn. The capital adequacy ratio stood at 19.3% at end-November 2010, versus 20.4% a year earlier.

The rapid and strong loan growth helped to bring non-performing loans down from about 5% of total lending by mid-2010 to less than 4% by the end of 2010 and stress tests by the regulator conclude that the sector is sound. Recently, the depreciation of the lira appears to have been instrumental for local investors to reduce their foreign exchange exposure, as foreign exchange denominated investments fell by 5% in December 2010 (month-on-month).

The Istanbul Stock Exchange Index rose by 27% in 2010.

Fiscal developments

The budget performed much better than expected in 2010, especially due to the robust recovery in domestic demand, which supported indirect tax revenues significantly. Overall real tax revenues rose by 37% year-on-year in the January-November period, and real expenditure grew by 15%. Consequently, the primary surplus almost tripled and the overall central government budget deficit fell by about half.

The general government budget deficit can therefore be expected to have fallen from 5.7% in 2009 to about 3% in 2010 (against a programmed level of 4.7% of GDP). The 2011 central government budget discussion has been finalized in late December. The 2011 central government budget projects a deficit of TRL 34bn (EUR 17 bn) which seems in real terms slightly higher than the expected 2010 outcome.

The public debt stock fell significantly in the second half of 2010, thereby fully mitigating early year increases, and is expected to amount to about 43% of GDP by the end of 2010. The privatisation administration announced that concession tenders for motorways and bridges may be launched towards the end of the first quarter of 2011. Depending on market conditions a second public offering in the partly state-owned Halk bank would be on the agenda. In addition, the administration plans to complete the privatisations of four thermal power plants in the first half of 2011. With such a busy privatisation schedule, public debt can be expected to fall further in 2011.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2006	2007	2008	2009	2010	ECFIN Forecast		Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
							2011	2012						
1 Real sector														
Industrial confidence ^{1.1}	Balance	102.4	111.5	90.1	87.3	110.3	:	:	115.3	111.7	107.1	107.2	107.6	106.4
Industrial production ^{1.2}	Ann. % ch	7.3	7.0	-0.6	-9.9	:	:	:	13.8	9.9	:	9.8	9.1	:
Gross domestic product ^{1.3}	Ann. % ch	6.9	4.7	0.7	-4.7	7.5f	5.5	4.5	10.2	5.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.6	5.5	-0.3	-2.2	6.8f	4.5	3.0	6.2	7.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	13.3	3.1	-6.2	-19.1	9.2f	9.2	5.2	28.7	31.3	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	38.7	9.8	-4.4	-9.5	:	:	:	81.7	58.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	9.9	9.9	11.0	14.1	12.2f	11.7	11.3	11.0	11.4	:	:	:	:
Employment ^{2.2}	Ann. % ch	-0.4	-3.6	1.3	0.4	6.2f	0.9	1.4	7.5	4.9	:	:	:	:
Wages ^{2.3}	Ann. % ch	10.9	9.8	11.7	9.9	3.1f	7.0	4.9	9.9	:	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	14.8	14.9	14.8	-18.2	:	:	:	32.7	17.7	:	15.8	16.1	:
Imports of goods ^{3.2}	Ann. % ch	17.7	11.6	10.4	-26.3	:	:	:	44.1	36.7	:	44.3	48.6	:
Trade balance ^{3.3}	% of GDP	-7.8	-7.2	-7.1	-4.0	-8.1f	-9.9	-10.2	-5.6	-6.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	22.7	22.3	23.9	23.2	:	:	:	22.2	21.5	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	27.6	27.5	28.3	24.4	:	:	:	25.3	25.9	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-6.1	-5.9	-5.6	-2.3	-5.5f	-6.6	-7.1	-4.2	-5.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.6	3.1	2.1	1.1	:	:	:	0.8	0.7	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	9.6	8.8	10.4	6.3	8.6	6.5	5.5	9.2	8.4	7.4	8.6	7.3	6.4
Producer prices ^{4.2}	Ann. % ch	9.3	6.3	12.7	1.2	8.5	:	:	9.1	8.7	9.0	9.9	8.2	8.9
Food prices ^{4.3}	Ann. % ch	9.7	12.4	12.8	8.0	10.6	:	:	8.0	10.4	12.1	17.1	12.4	7.0
M4 ^{4.4}	Ann. % ch	32.9	17.8	23.7	17.4	:	:	:	22.0	24.1	:	22.9	23.5	:
Exchange rate TRY/EUR ^{4.5}	Value	1.80	1.78	1.91	2.16	2.00	:	:	1.96	1.95	1.99	1.98	1.97	2.01
Nominal eff. exchange rate ^{4.6}	Index	26.18	26.73	25.77	23.24	:	:	:	24.56	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	18.07	18.85	18.04	10.68	7.95	:	:	8.04	8.15	8.11	8.17	8.13	8.03
Bond yield ^{5.2}	% p.a.	:	18.13	19.30	11.66	8.47	:	:	9.08	8.25	7.64	7.78	7.69	7.45
Stock markets ^{5.3}	Index	39,867	48,270	37,582	37,510	59,484	:	:	56,571	60,185	67,808	68,787	68,599	66,037
Credit growth ^{5.4}	Ann. % ch	48.6	28.6	31.5	8.0	:	:	:	27.1	35.6	:	37.4	38.5	:
Deposit growth ^{5.5}	Ann. % ch	33.1	17.7	21.8	18.0	:	:	:	18.0	20.1	:	19.6	19.8	:
Non-performing loans ^{5.6}	% total	5.2	4.7	4.2	6.4	:	:	:	6.0	4.4	3.7	:	:	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-0.1	-1.0	-2.2	-5.7	-3.7f	-2.8	-2.2	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	46.1	39.4	39.5	43.7	42.8f	42.1	42.0	:	:	:	N.A.	N.A.	N.A.

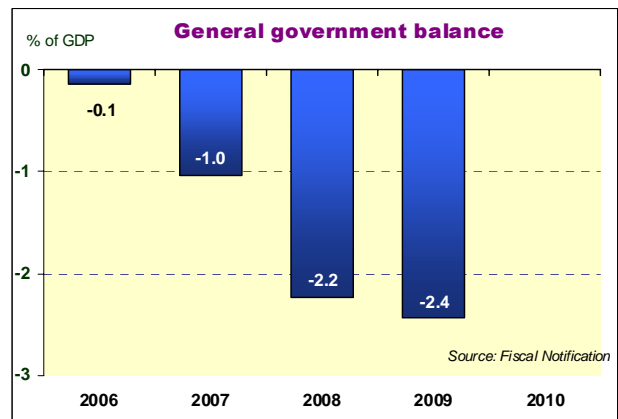
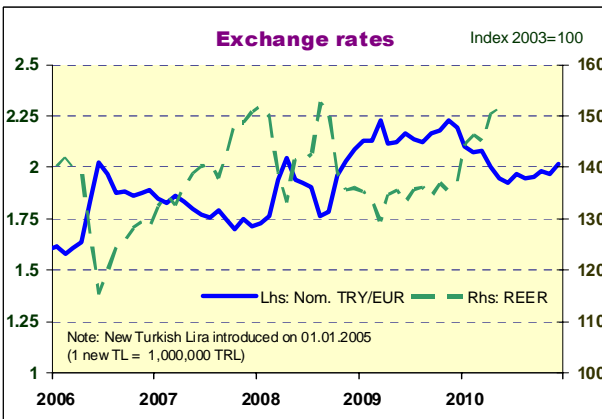
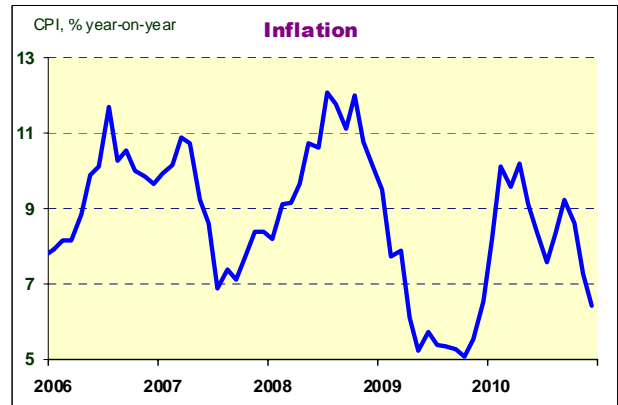
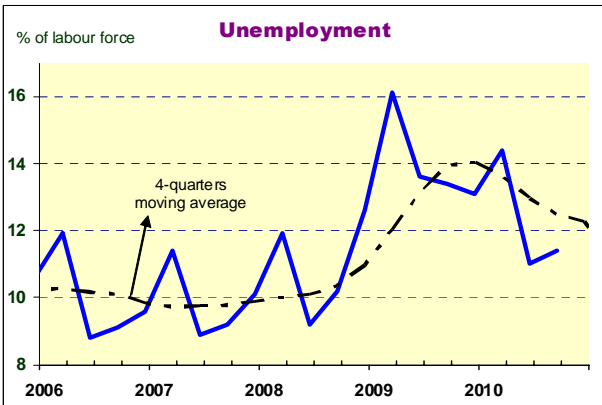
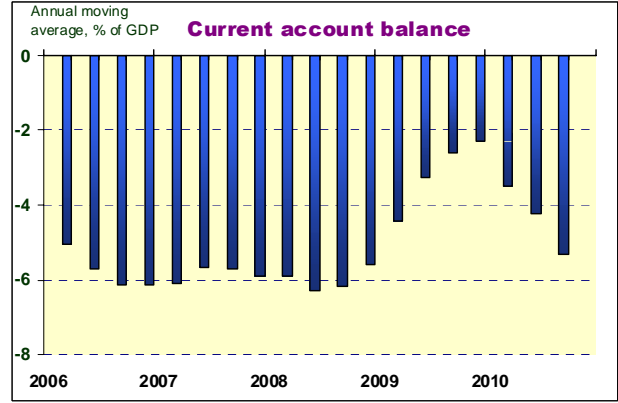
f: ECFIN forecast Autumn 2010

CHARTS

European Commission, ECFIN-D-1



TURKEY





Key developments

On 8 November 2010, the Council decided to lift visa requirements for Albanian and Bosnian citizens on short-term travel in the Schengen area. The visa liberalisation entered in force on 15 December 2010.

On 14 December, the Council endorsed the Commission's Opinion on Albania's membership application, adopted on 9 November, in which it is concluded that, although good progress was made during the previous 12 months, further reforms were needed before the country can be recognised as a candidate country and ready to start accession negotiations.

In December, the President signed the 2011 budget previously approved by Parliament which foresees a public deficit of 3.5% of GDP.

Following previous unsuccessful attempts, Albania issued its first-ever Eurobond for a total of EUR 300 million on 28 October. The bond has a maturity of 5 years and carries an interest rate of 7.5%. Three-quarters of the proceeds from the issue, rated at B1 by Moody's and B+ by S&P, will be used to repay the 2009 syndicated loan, while the rest will be used to replace short-term domestic T-bills.

Real sector

Economic growth accelerated to 4.9% quarter-on-quarter in the third quarter following real GDP growth of 2.6% and 3.3% in the first and second quarters, respectively. The main driver of growth remained industry, to a large extent due to high electricity production. The trade, hotels and restaurants sector continued to expand in the third quarter reflecting a strong performance of tourism. The contraction in the construction sector recorded in the first half of 2010, continued in the third trimester, albeit at a lower pace.

Labour market

In the third quarter of 2010, the number of employed persons rose by some 11,000, compared to the second trimester. Most of this increase was generated by the agriculture sector,

while jobs in the non-agriculture private sector grew marginally. Public sector employment remained unchanged. The number of registered unemployed declined by 2,000 and as a result the unemployment rate fell to 13.5% in the third quarter, down from 13.8% in the previous trimester. During the third quarter, average public sector wages rose by 6.4% (year-on-year).

External sector

The current account deficit continued to narrow in the third quarter of 2010, helped mainly by a lower trade deficit mostly on the back of strong exports of goods and lower services imports. As a result, the current account deficit for the four quarters to Q3 2010 declined to EUR 1 billion from EUR 1.5 billion in the corresponding period a year earlier.

The merchandise gap continued to narrow as exports of goods grew at a faster pace than imports. Foreign sales of goods rose by 51% (year-on-year) in the period July-September, spearheaded mostly by food and beverages, textiles and footwear and construction materials. Electricity exports also benefited from a rebound in energy prices as well as production at full capacity of the local hydropower generation. These positive trends in exports of goods continued in October and November. Imports of goods rose at a more modest pace, reflecting the normalisation of imported machinery and equipment from the previous year's exceptional level. The services account posted a surplus reflecting both higher travel inflows as tourism reaches a peak as well as lower outflows due to less Albanians travelling abroad between July and September 2010. Inflows of current transfers, consisting mainly of remittances, rose by 12%, year-on-year. This was mostly due to official transfers which almost doubled. Inflows of remittances were 5.3% higher, year-on-year. Following a decline in the second quarter, FDI inflows increased by 30% in the third trimester. However, the higher FDI was more than offset by declines in portfolio and other investment and capital transfers which led to a fall in capital inflows. Overall, the balance of payments posted a surplus in the third quarter which led to a corresponding increase in reserves of some EUR 53 million. Foreign reserves in the third quarter

provided 4.6 months of import cover. In the third quarter of 2010, gross external debt stood at EUR 3.5 billion, a year-on-year increase of 5.6% but slightly lower than the second quarter figure. Government long-term borrowing constitutes around half of gross external debt.

Monetary developments

Following a peak in October, the monetary aggregate M2 declined to 4.6% year-on-year in November.

After returning back within the Bank of Albania's target band of 3% +/- 1 percentage point in the second quarter of 2010, CPI inflation remained stable in the third trimester. Between July and September inflation hovered around 3.4% year-on-year and declined to 3% in October and further to 2.8% in November. The decline primarily reflects lower prices of food, clothing and footwear, education and medical care, the latter having accelerated significantly since the beginning of the year.

During the fourth quarter, the repo rate was kept unchanged at 5%. This represents the lowest rate since 2005 and a cut in July of 25 basis points. In the fourth quarter of 2010, the Albanian currency weakened by 1.6% vis-à-vis the euro and by some 2.4% against the US dollar compared to the previous quarter.

Financial sector

In the period January-October 2010, interest rates on deposits continued the downward trend started in the final quarter of 2009. The decline has been more pronounced for longer-term deposits with the 36-month interest rate falling by 70 basis points to 6.96% by October compared to December 2009. The cost of short-term borrowing in lek (one year or less) broadly declined during this period. The 6-month interest rate stood at 8.1% in October, down from 12.2% in December 2009. The decline in the average yield of 12-month Treasury bills which started in November 2009 continued, reaching 7.7% in October 2010.

Deposits continued to grow in the third quarter of 2010. Year-on-year growth in deposits reached 17.3% by end-September, boosted by higher tourism earnings and workers' remittances. In October and November deposits increased by 16.8% and 17.4%, respectively. Foreign-currency deposits continued to record the strongest increase reaching 26% in September, against almost 11% for deposits denominated in lek. Notwithstanding higher

deposits, credit growth continued to decelerate from 9.4% year-on-year in July to 6.8% in October but recovered somewhat to 9.2% in November. The deceleration in credit by end-September was due both to lek-denominated and foreign-currency lending. Lending to both the private sector and households decelerated, whereas credit to the public sector, which accounts for a small share of the total, contracted.

The loan-to-deposit ratio fell to slightly below 60% in September, from 65.4% a year earlier. Significant varying levels of loan-to-deposit ratios persisted: 86.2% for the foreign currency ratio, whereas for lek the ratio remained below 40%. External borrowing by the banking sector continued to decline during the period July-September 2010.

The share of non-performing loans as a percentage of total loans increased to 13.5% in the third quarter, up from 12% in the second quarter. Profitability indicators weakened in the third quarter. At end-September the capital adequacy ratio declined to 15.7%.

Fiscal developments

Against an expected real GDP growth of 5.5%, the 2011 budget assumes revenue to increase by 9%, whilst expenditure is expected to rise by 10%. Social transfers are expected to increase by 7%, partly reflecting the planned higher pensions. Capital outlays are foreseen to be 22% higher in 2011.

Cash-based government data show that in the period January-November 2010, the budget deficit shrank to almost one-third the figure of the same period of the previous year. The decline was due both to an increase in total revenue, which rose by 9.4% year-on-year and lower total spending which declined by 4.9%.

In the first eleven months, tax revenue increased by 5.5% (year-on-year) mostly spurred by a higher yield from excise taxes owing both to a hike in excise rates on fuel, coffee and cigarettes as well as an increase in the international price of commodities. Current spending rose by 7.7% year-on-year in the period January-November 2010. The rise in current spending was more than offset by lower capital outlays which in the first eleven months declined by some 36% year-on-year. As a result of these developments, the budget deficit in January-November 2010 amounted to Lek 23.1 billion (some 60% of the revised annual deficit). Around two-thirds of the deficit was financed from domestic sources.

TABLE

European Commission, ECFIN-D-1



ALBANIA

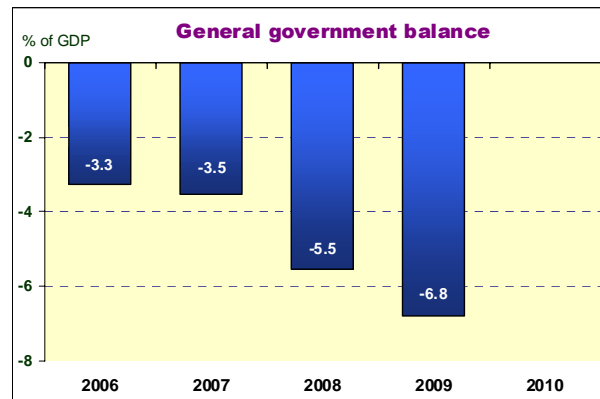
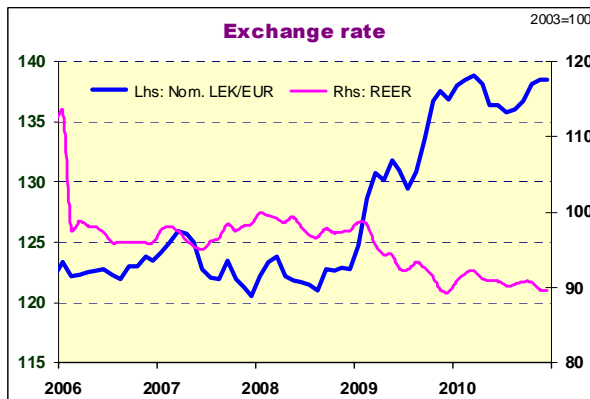
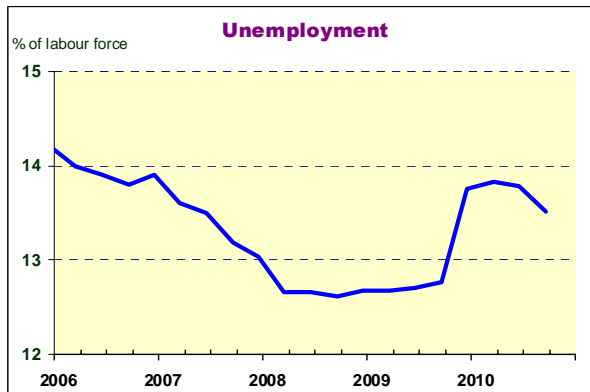
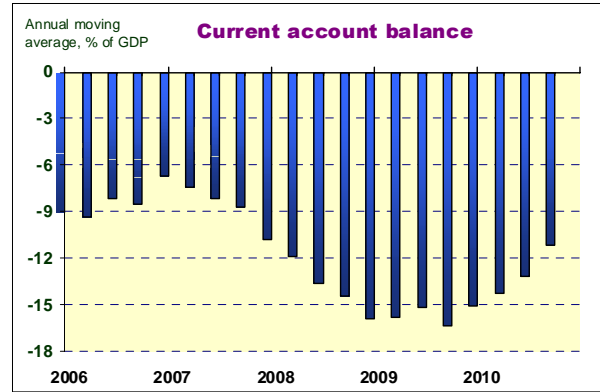
		2006	2007	2008	2009	2010	Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
1 Real sector												
Industrial confidence ^{1.1}	Percent	3.8	0.9	0.5	-13.4	:	-6.5	:	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	12.1	-9.7	9.4	0.6	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.4	5.9	7.7	3.3	:	3.3	4.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	7.2	13.4	9.8	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	16.2	6.5	12.9	:	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	1.1	2.5	1.2	0.0	:	0.2	0.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	N.A.	10.9	23.7	-1.7	:	-2.5	-0.7	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	13.9	13.3	12.7	13.0	:	13.8	13.5	:	:	:	:
Employment ^{2.2}	Ann. % ch	0.2	0.2	3.6	-1.5	:	-7.0	-5.7	:	:	:	:
Wages ^{2.3}	Ann. % ch	7.5	17.2	8.2	11.8	:	6.7	6.4	:	:	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	18.0	25.0	15.7	-11.8	:	93.9	50.9	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	13.3	26.5	15.0	-1.7	:	12.9	13.4	:	:	:	:
Trade balance ^{3.3}	% of GDP	-23.1	-26.8	-27.3	-25.9	:	-24.0	-23.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	24.9	28.0	29.3	27.7	:	29.7	30.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	48.4	54.6	55.8	52.2	:	52.2	52.5	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-6.6	-10.6	-15.4	-15.1	:	-13.1	-11.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.5	6.0	7.0	7.6	6.1	5.2	5.3	6.1	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	2.4	2.9	3.4	2.3	:	3.4	3.4	:	3.0	2.8	:
Producer prices ^{4.2}	Ann. % ch	0.8	3.5	6.5	-1.7	:	0.2	0.4	:	:	:	:
Food prices ^{4.3}	Ann. % ch	N.A.	3.0	5.2	4.9	:	4.0	4.3	:	4.2	3.6	:
M2 ^{4.4}	Ann. % ch	7.6	9.8	7.4	8.7	:	4.4	4.0	:	4.9	4.6	:
Exchange rate LEK/EUR ^{4.5}	Value	122.76	123.31	122.39	131.82	137.48	136.93	136.19	138.37	138.10	138.51	138.51
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	5.49	5.92	6.24	N.A.	:	:	:	:	:	5.45	:
Bond yield ^{5.2}	% p.a.	7.18	8.22	8.43	9.24	8.55	8.60	8.38	8.10	8.30	8.15	7.85
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	60.9	53.9	43.8	20.5	:	8.5	8.6	:	6.8	9.2	:
Deposit growth ^{5.5}	Ann. % ch	N.A.	N.A.	14.8	-0.1	:	14.8	17.3	:	16.8	17.4	:
Non performing loans ^{5.6}	% total	3.3	3.2	4.7	9.1	:	12.0	13.5	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	% of GDP	-3.3	-3.5	-5.5	-6.8	:	-1.8	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	56.8	54.8	53.9	59.5	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

CHARTS



European Commission, ECFIN-D-1

ALBANIA





Key developments

After the general elections of 3 October 2010, only the government of the Republika Srpska (RS) has been formed so far. It was approved by the Parliament on 29 December and is headed by the former Finance Minister Aleksandar Džombić. Government formation is still ongoing in the Federation and at State level.

An IMF staff mission in November stated that the performance under the Standby Arrangement was broadly on track. However, the 4th programme review could not be concluded as the authorities had failed to adopt the Global Fiscal framework 2011-2013. The World Bank's first Development Policy Loan was disbursed in October (approximately EUR 85 million) after all prior actions had been met.

The Memorandum of Understanding with the European Commission for the EU's macro-financial assistance to Bosnia and Herzegovina was signed in November. The related Loan Agreement is expected to be ratified soon.

The rating agency Standard & Poor's affirmed its B+ long-term and B short-term sovereign credit ratings with a stable outlook in December.

Real sector

After negative year-on-year rates in September and October, the growth of industrial production turned positive again in November (2%). From January to November it grew by a modest 0.9% in volume. While growth in mining and quarrying was still negative (-5%), it was positive in manufacturing (1.8%) and electricity, gas and water supply (1.6%).

Judging from available indicators, domestic demand has gained speed in the second half of 2010. Retail sales are estimated to have increased by 11.7% year-on-year in the third quarter of 2010.

According to the latest projections by the government and the IMF, real GDP is expected to have increased by around 0.5% in 2010. For the first time ever, the Statistical Institute of the

Republika Srpska published production side quarterly national account data for the Entity in December, according to which real GDP in the RS grew by 2.0% in 2010Q3, after 0.9% in Q2 and three previous quarters of negative growth.

Labour market

The labour market remained stagnant. The high level of registered unemployment persisted during 2010, reaching 43.2% in October, unchanged from second quarter figures. Throughout 2010 (January-October), employment fell most in construction, manufacturing and hotels and restaurants, while on the other hand, the highest growth of employment was registered in financial intermediation and transport.

Wages remained practically unchanged in the third quarter 2010, registering a 1% annual increase in October (nominal average gross wages), or 0.8% compared to end-2009. Wage growth has come down significantly when compared to pre-crisis dynamics.

External sector

When looking at the trade balance in 2010, the annual trend is still positive as it improved by 5.4% (January-November). Unlike in 2009, this development was driven by exports, which soared by 28.2% year-on-year (in 2009 it was the shrink in imports that explained the lower deficit). Manufacturing, accounting for almost 90% of overall exports, recorded a 30.7% growth, while the export of agricultural products grew by 50%, but agriculture accounts for a mere 2.3% of overall exports. Nevertheless, the trend of an improving trade balance was reversed in the second half of the year when the increase of imports exceeded that of exports in volume, as import levels are much higher than export levels. Over the first eleven months, import growth reached 9.7%.

For the first time since the fourth quarter 2008, the quarterly current account deficit widened year-on-year in 2010Q3. The increase was quite substantial reaching 67%. This development is mainly driven by the first year-on-year increase

of the quarterly trade deficit (goods), also since 2008Q4. Encouraging signs come from the development of net FDI which turned positive again after two quarters of negative volumes. Official foreign exchange reserves increased further by 1.2% between August and November 2010, covering around six months of imports.

Monetary developments

On 4th January 2011, the Central Bank decided to cut minimum reserve requirements for short-term deposits from 14% to 10%, to become effective as of February, in order to improve the liquidity situation of the banking sector. The annual growth of the monetary aggregate M2 remained high at 9.7% in November, almost unchanged from August.

After a slight drop over the summer, annual inflation resumed its upward trend from the first half of the year, reaching 2.3% in November, bringing the 12-month moving average inflation rate up to 1.9%. The hike of excises on tobacco and alcohol from the beginning of 2010 is still reflected in the prices of these goods which grew by 12.2%. Other price drivers were communication (7%), transport (4.2%), housing, water, electricity, gas and other fuels (2.4%), education (2.3%), food and non-alcoholic beverages (2.1%). Clothing and footwear registered the largest price decreases (-5.5%).

Financial sector

Market short-term interest rates for loans have decreased from 8.3% in August to 7.9% in October for the corporate sector and from 10.3% to 9.8% for households (non-indexed loans in local currency), reversing earlier rising trends. On the other hand, interest rates for deposits have increased from 2% to 2.5% for the corporate sector and remained stable at slightly below 3% for households (time and savings deposits in local currency).

Annual credit growth further recovered and reached 1.8% in November. While credits to households were still shrinking by 1.3%, though at a lower pace, those to private enterprises were growing by 2.8%. Deposits continued their recovery and recorded an annual increase of 7.9%. Both private households and the corporate sector increased their savings (by 15.3% and 4.1% respectively). The loans-to-deposit ratio increased from 111.4% in August to 112.2% in November, in contrast to earlier trends.

The main index of the Sarajevo Stock Exchange recorded a first quarterly upswing of 2010 in Q4 when it increased by 5.6%, bringing the overall loss of the year to 10.4%. The main index of the Banja Luka Stock Exchange almost recovered all earlier losses in the second half of 2010, standing 3.6% lower than at the end of 2009 and 11.4% higher than at the end of 2010Q3.

The quality of the loan portfolio is further deteriorating, though at a slower pace: The share of non-performing loans to total loans increased from 8.7% in Q2 to 9.2% in Q3, the highest level since 2004. Banking profitability indicators have also worsened: The return on average equity fell further from -2.9% to -3.5%, its lowest level since 2002. The return on average assets also kept dropping from -0.3% to -0.4%. Liquidity indicators remained relatively stable with the rate of liquid to total assets decreasing from 29.5% in Q2 to 29.3% in Q3, and liquid assets to short-term financial liabilities marginally increasing from 49.3% to 50.3%. The rising ratio of non-performing assets net of provisions to tier 1 capital (39.6% in 2010Q3 compared to 25.9% in 2009Q4) raises some concern, even though the Capital Adequacy Ratio of the whole banking system stood at a comfortable 15.6% in Q3, slightly up from 15.3% in Q2. The banking system recorded losses in the first three quarters of 2010 as a result of increasing provisions for non-performing loans and lower income from the credit portfolio. However, this figure is somewhat blurred by the result of one bank that performed particularly badly.

Fiscal developments

The consolidated budget deficit increased by 29.5% in the first three quarters of 2010 compared to the same period in 2009. Given this performance, it remains to be seen whether the 2010 fiscal target agreed with the IMF of a deficit of 4½% of GDP will be reached.

Due to the fact that Parliaments have not been fully constituted in the Federation and at State level, provisional budgets are being implemented there. The Parliament of the RS started plenary discussions on the Entity's budget for 2011 in December. The 2011 budget is planned at the same nominal expenditure level as in the budget for 2010 (though above the expected actual 2010 outcome). Tax revenues are expected to increase by 5.7%, partly spurred by a rise in the income tax rate from 8% to 10% as of 2011.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

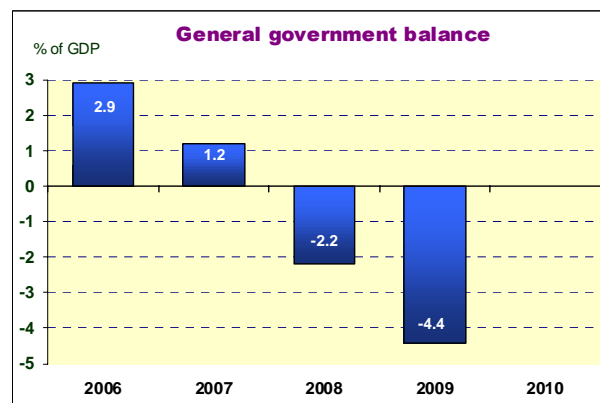
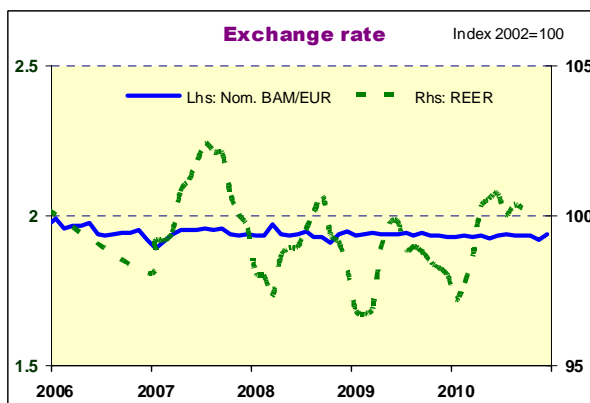
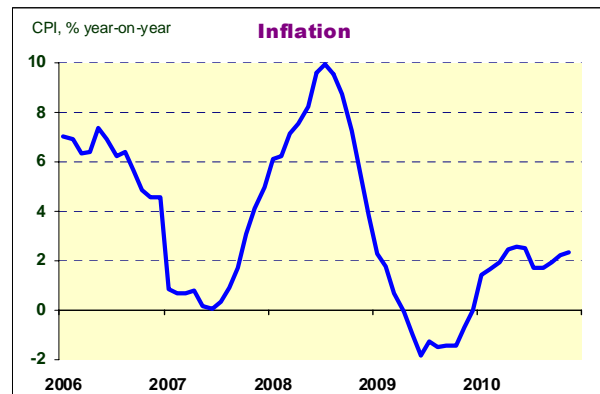
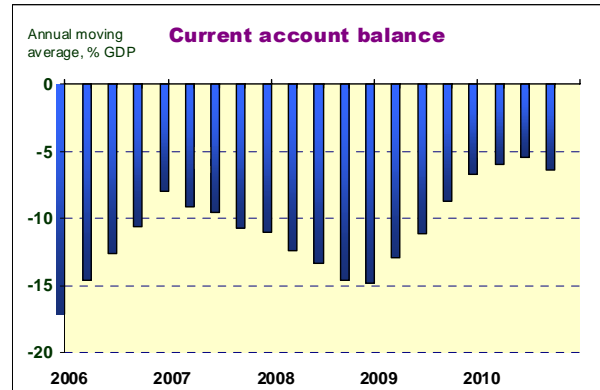
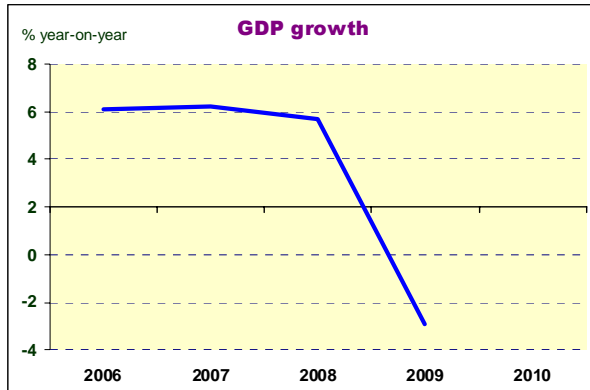
		2006	2007	2008	2009	2010	Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	11.6	6.7	10.8	-1.2	:	1.2	0.4	:	-0.1	2.0	:
Gross domestic product ^{1.3}	Ann. % ch	6.1	6.2	5.7	-2.9	:	:	:	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.5	10.8	10.3	2.0	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-9.4	38.3	16.7	-20.1	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	11.7	8.8	:	49.7	-23.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	7.0	11.7	:	:	:	:
2 Labour market												
Unemployment ^{2.1}	%	44.2	42.9	40.6	42.7	:	43.1	43.2	:	43.2	:	:
Employment ^{2.2}	Ann. % ch	2.3	4.4	2.7	-2.8	:	-2.3	-1.4	:	-1.0	:	:
Wages ^{2.3}	Ann. % ch	9.6	9.8	16.6	8.2	:	0.8	1.6	:	1.0	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	30.5	15.0	13.9	-17.1	:	37.6	23.1	:	13.8	31.5	:
Imports of goods ^{3.2}	Ann. % ch	1.2	18.7	15.4	-24.2	:	9.9	16.8	:	7.9	20.9	:
Trade balance ^{3.3}	% of GDP	-34.6	-37.2	-38.2	-27.8	:	-25.2	-25.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	36.5	37.3	36.8	32.0	:	34.9	36.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	-65.7	-68.8	-69.9	-55.3	:	-55.7	-57.9	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-8.0	-10.7	-14.4	-6.8	:	-5.4	-6.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	6.2	13.5	5.0	1.5	:	-0.7	-0.4	:	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	6.1	1.5	7.4	-0.4	:	2.5	1.8	:	2.2	2.3	:
Producer prices ^{4.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Food prices ^{4.3}	Ann. % ch	8.3	2.9	12.1	-0.9	:	-2.1	0.2	:	1.4	2.1	:
M2 ^{4.4}	Ann. % ch	21.1	25.1	13.6	-1.2	:	8.2	8.7	:	8.8	9.7	:
Exchange rate BAMEUR ^{4.5}	Value	1.95	1.94	1.94	1.94	1.93	1.93	1.94	1.93	1.93	1.92	1.94
Nominal eff. exchange rate ^{4.6}	Index	99.7	100.28	100.07	96.29	:	97.20	96.66	:	:	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Stock markets ^{5.3}	Index	N.A.	4,330	2,251	1,038	954	975	887	909	895	915	915
Credit growth ^{5.4}	Ann. % ch	24.5	27.5	27.7	5.2	:	-2.0	0.1	:	0.7	1.8	:
Deposit growth ^{5.5}	Ann. % ch	27.7	36.1	15.4	-3.6	:	6.8	4.9	:	6.6	7.9	:
Non performing loans ^{5.6}	% total	4.7	3.4	3.0	4.5	:	8.7	9.2	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	% of GDP	2.9	1.2	-2.2	-4.4	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	21.2	18.2	17.2	21.8	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA





Key developments

Montenegro suffered severe flooding at the end of November, resulting in more than 6,500 people evacuated and diverse infrastructure damages. The situation only stabilised after 10 December. The government has allocated EUR 10 million to cover the repair cost.

On 17 December the European Council granted Montenegro candidate country status, endorsing the recommendation set out in the Commission's Opinion of 9 November 2010. The EU also listed priorities to be addressed by the country before opening accession negotiations.

On 21 December Prime Minister Milo Djukanović resigned. He was succeeded by his deputy and so far Minister of Finance, Igor Luksić. The Assembly voted into office the new cabinet on 29 December.

The privatisation council approved end-November a 30-years lease for the development of a tourist resort at Valdanos' coast. However, the sale of a 30% public stake in Montenegro Airlines failed.

Real sector

Preliminary estimates of the Central Bank of Montenegro suggest that the economy grew by some 2% year-on-year in the third quarter of 2010. The recovery was driven by domestic demand boosted by the good performance of the tourism season, as well as the revival of export-oriented industrial production after two years of continuous contraction. By November, industrial output kept expanding at a rate of 48.4% year-on-year, driven by the revitalization of the metal industry but also reflecting a significant base effect after a long period of stagnation.

The construction sector also showed some signs of recovery recording a 1.8% year-on-year expansion of the value of finalised construction works in the third quarter of 2010. In addition, the number of construction workers rose marginally by 0.3% in the same period, expanding for the first time since 2008. To reactivate the local industry, the government launched in October the "1000+ flats" project, worth EUR 50 million, and co-financed by the

Council of Europe Development Bank (CEB) together with some local commercial banks. The government will subsidise the loans interest rate to bring them down to 4.9%.

Retail sales growth moderated to 2.1% year-on-year in October after the 11.2% expansion recorded a month earlier, reflecting the strong seasonal character of this sector. The cumulative turnover of retailers during the first ten months of the year increased by 1.8% in real terms, and accounted for 24% of GDP.

Labour market

The unemployment rate reached 12.1% by the end of 2010, marginally down from 12.2% recorded a month earlier. The stabilisation in the last months of the year suggests a seasonal adjustment following the end of the summer tourism season. Since the beginning of the year the Employment Agency has recorded 18,893 new employed workers, and 13,870 work permits to non-residents.

Gross wages expanded by 13% year-on-year in November. The strongest increase was recorded in manufacturing (29%). The average net wage increased by 5.3% year-on-year in November, to EUR 480, although it still remained below the EUR 500 peak reached in August.

In November, the Government, the Trade Union Alliance (SSCG) and the Employers Federation (UPCG) agreed on amendments to the general collective agreement. One of the main changes concerns the introduction of a minimum wage calculated as 30% of the average salary in the previous six months (e.g. EUR 144) replacing the ancient 'minimum labour cost' concept.

In December, the parliament approved amendments to the Pension and Disability Insurance Law that will increase gradually the age for retirement to 67 for both men and women, as well as change the indexation formula for pensions.

External sector

The current account deficit in annualised terms reached 32% of GDP at the end of September 2010, contracting in nominal terms by 15.5%

year-on-year. The trade deficit shrank by 7% year-on-year thanks to the revitalisation of exports, largely reflecting the recovery of the metal industry, while imports increased albeit more moderately. The positive balances of services and current transfers also contributed to the narrowing of the current account deficit. The income balance deteriorated sharply, but it barely accounts for 0.3% of GDP. The annualised current account deficit was financed by net FDI worth 21% of GDP and by the surge of net portfolio investments to 7% of GDP.

Monetary developments

On 15 November, the Central Bank Council adopted temporary measures to stimulate credit growth. These consist in adapting credit classification allowing for loan portfolios' restructuring, increasing from 25% to 40% the limit for banks' investments in real estate, and cutting by half tariffs charged to banks for payment operation services and cash transfers.

Consumer price inflation accelerated in November to 0.8% year-on-year, up from 0.6% a month before. The growth was mainly driven by food and health services prices, increasing by 2.8% and 5.1% year-on-year respectively. Conversely housing prices decelerated by 7.1% year-on-year, while transport moderated its expansion.

Financial sector

The weighted average effective interest rate on loans was 9.59% in October (or 12 basis points higher than a year before). By contrast, the weighted average interest rate for deposits decreased to 3.52% from 3.72% a year earlier.

Bank lending overall contracted by 11.7% year-on-year in October. Lending to businesses decreased by 16.3% year-on-year, while households credits declined by 8.6%. Overall, the loans-to-GDP ratio amounted to 74.5% of GDP in October, compared to 85.7% a year earlier.

Bank deposits contracted by 2.8% year-on-year in October, driven by the contraction of corporate and government deposits by 16.4% and 33.2% respectively. However, household savings, which represents 52% of total deposits, increased by 13.6% year-on-year.

While the capital adequacy ratio had increased to 16.5% during the first half of 2010 due to the

recapitalisation of several banks, it contracted to 14.6% in September. The aggregate return on assets as well as the return on equity remained negative at -4.2% and -41% respectively. The ratio of non-performing loans out of total loans increased to 17.6%.

The Deposit Protection Fund signed a precautionary loan agreement worth EUR 30 million with the European Bank for Reconstruction and Development (EBRD). These funds are intended as a safeguard during the three years transition period needed for the reform of the current bank deposit protection level from EUR 5,000 to EUR 50,000 by 2012.

The stock exchanges remained morose in November, recording an annual contraction of 3.7% of their market capitalisation. On 31 December the two stock exchanges merged into the Montenegro Stock Exchange, to operate as a single bourse as of 10 January 2011.

Fiscal developments

The consolidated state budget recorded a marginal cash deficit of EUR 0.02 million in the first nine months of 2010. Current revenues were 3% below the plan while the level of consolidated expenditures was 18% below the plan. The largest savings were recorded in capital expenditures, which at 1.2% of GDP, used only 36% of the appropriated funds. Revenues from personal income tax, custom duties and contributions outperformed the plan by 10% on average, while those from VAT and excise duties were marginally below the plan, but still higher than one year before. The weakest performance was recorded in corporate tax revenues, short by 60% both against the plan and year-on-year.

Public debt increased by 19% year-on-year, to reach 42.3% of GDP in September 2010. The increase was a consequence of the rapid expansion of the external debt, which represents 72% of the total public debt, by 31% since the beginning of the year. The emission of EUR 200 million Eurobonds in September accounts for 22% of the total external debt.

On 16 December the Assembly adopted the 2011 budget, amounting to EUR 1.25 billion (or 39.5% of GDP). The budget targets a deficit of 2.6% of GDP to be financed by external borrowing worth EUR 83 million.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

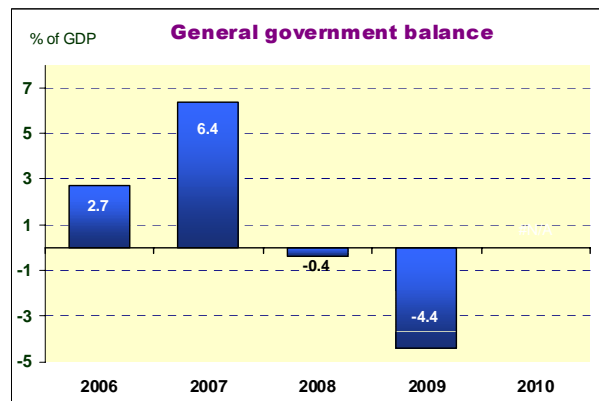
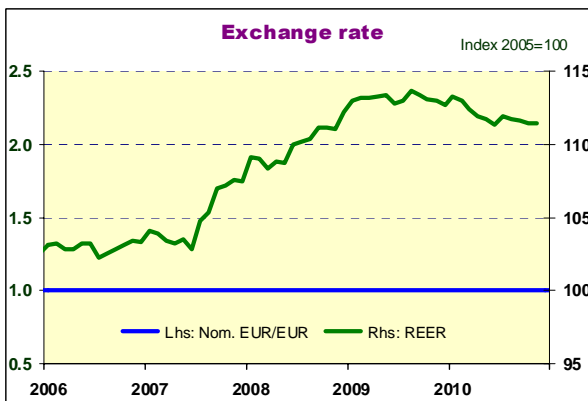
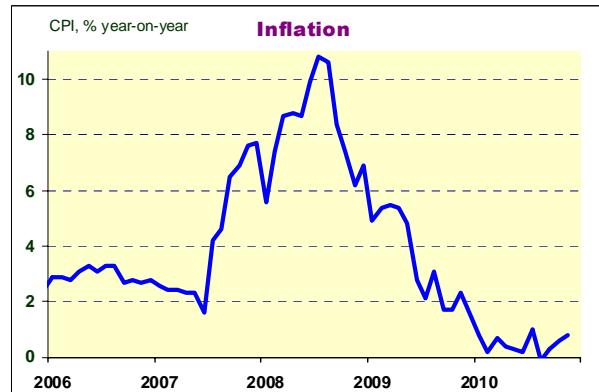
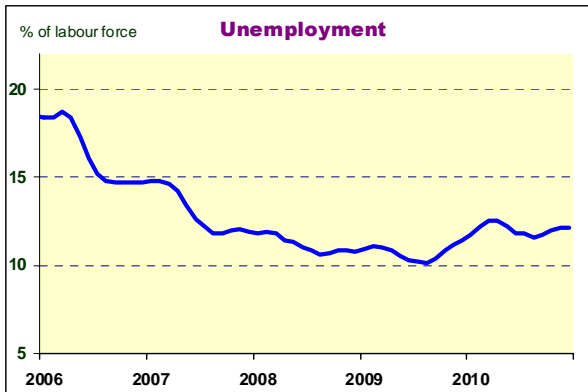
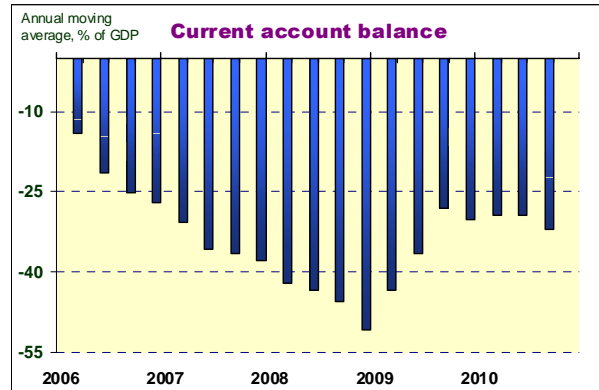
		2006	2007	2008	2009	2010	Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	1.0	0.1	-2.0	-32.3	:	22.0	41.7	:	37.1	48.4	:
Gross domestic product ^{1.3}	Ann. % ch	8.6	10.7	6.9	-5.7	:	0.0e	2.0e	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	:	:	:	-7.7	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	:	:	:	-25.3	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	-3.2	45.7	-21.5	:	0.7	1.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	N.A.	40.8	22.3	-9.0	:	5.2	3.2	:	2.1	:	:
2 Labour market												
Unemployment ^{2.1}	%	14.7	11.9	10.7	11.4	12.1	11.9	11.8	12.1	12.0	12.2	12.1
Employment ^{2.2}	Ann. % ch	4.5	3.7	6.3	4.8	:	-9.4	-10.9	:	-10.0	-9.7	:
Wages ^{2.3}	Ann. % ch	15.6	14.2	22.8	5.7	:	9.2	13.5	:	12.3	13.1	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	40.7	-20.4	-9.4	-36.6	:	63.7	17.2	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	53.7	39.6	22.0	-34.6	:	7.1	6.6	:	:	:	:
Trade balance ^{3.3}	% of GDP	-39.5	-56.1	-67.5	-46.0	:	-46.1	-52.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	49.4	42.4	39.5	32.1	:	34.6	41.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	79.1	82.8	94.0	65.4	:	67.4	77.1	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-24.7	-37.8	-50.7	-30.1	:	-29.4	-32.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	21.7	19.9	17.9	30.6	:	31.0	21.0	:	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	3.0	4.3	7.4	3.4	:	0.3	0.4	:	0.6	0.8	:
Producer prices ^{4.2}	Ann. % ch	3.1	8.5	14.0	-3.8	:	0.0	2.3	:	0.7	:	:
Food prices ^{4.3}	Ann. % ch	N.A.	N.A.	9.0	3.3	:	-1.2	1.1	:	2.2	2.8	:
M21 ^{4.4}	Ann. % ch	82.9	71.9	-14.3	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	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 ^{4.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	1.21	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	1.17	0.90	:	3.63	3.37	3.50	3.40	2.58	2.58	:	:
Stock markets ^{5.3}	Index	729.9	1844.6	886.3	649.4	527.4	527.9	488.9	478.2	469.6	472.4	492.6
Credit growth ^{5.4}	Ann. % ch	125.3	165.1	24.6	-14.3	:	-11.4	-12.0	:	-11.7	:	:
Deposit growth ^{5.5}	Ann. % ch	120.5	94.4	-4.8	-8.3	:	2.9	-6.2	:	-2.8	:	:
Non-performing loans ^{5.6}	% of total	7.6	3.7	7.2	13.5	:	16.8	17.6	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	% of GDP	2.7	6.4	-0.4	-4.4	:	-0.4	0.0	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	32.6	26.3	29.0	38.2	:	36.9	42.3	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO





Key developments

The IMF Board confirmed on 22 December the conclusion of the sixth review of the Stand-By Arrangement (SBA). Following the required prior referral of the draft 2011 budget bill and the amended pension law for adoption by parliament, EUR 373 million were released for disbursement. As in the four preceding reviews, the National Bank of Serbia announced that given the comfortable level of foreign exchange reserves only a portion of the available amount would be used. EUR 54.5 million, i.e. 15% of the tranche, are expected to be drawn, keeping the total disbursements under the SBA at about half of the programme's funds.

In light of the broadly satisfactory implementation of the economic policy programme, as assessed by the IMF, and fulfilment of specific conditions required for payment of the second instalment of the budget support grant under the EU Instrument for Pre-Accession, the European Commission released at the end of December EUR 50 million.

Real sector

According to the flash estimate of economic trends in 2010 by the national statistical office, GDP increased by 1.5% last year. In the third quarter, annual GDP growth accelerated further to 2.7%, bringing the average growth rate for the three quarters to 1.7%. The economy was strengthening steadily, with the output growth rate in every quarter more than double compared to the preceding one. Given the preliminary estimates for the year as a whole the impetus seems to have withered in the fourth quarter.

The economic upturn in 2010 was largely driven by foreign demand while domestic consumption and investment remained constrained against the background of a weak labour market and stringent financing conditions. As economic recovery was gradually underway in Serbia's main trading partners, and the dinar continued to depreciate, export activity boomed.

Economic revival was particularly marked in "supporting" services. In the third quarter, transport and financial intermediation again recorded the highest growth rates. Economic

activity was also driven by solid industrial production, up by 3% annually in 2010 according to the preliminary estimates. Output growth in manufacturing moderated in the second half of the year while mining activity remained robust until October but slowed considerably in November. In the period to December, industrial production was 3.2% higher than the year before. Given the preliminary estimate for the entire year, we assume that industrial activity decelerated further in December.

By contrast, construction and public utilities as well as agriculture contracted throughout 2010 in the face of unfavourable market conditions and subdued domestic demand. The retail trade and hospitality sectors too are estimated to have shrunk in 2010 despite the gradually strengthening private spending. While retail trade turnover (measured in constant prices) between January and November was still below the level of the same period a year earlier, it is expected to accelerate in 2011 as consumption is spurred by the unfreezing of public sector wages and pensions.

Labour market

The negative trends on the labour market became more subdued in the second half of 2010 but the situation remained strife. According to the national labour force survey, the unemployment rate stayed unchanged at 19.2% between April and October. At the same time, the employment rate fell by 0.4 pp, to 37.7%.

Wage moderation prevailed throughout 2010 owing largely to the agreement to keep public sector wages frozen in nominal terms. The unexpected inflation hikes towards the end of the year resulted in the average net wage dropping in real terms compared to the previous year. Over eleven months, annual wage growth was 7.6% in nominal terms and 2% in real term. Wage rises are expected to be more substantial from 2011 onwards as indexation of public sector salaries is re-introduced but are likely to remain subdued given the weak labour market.

External sector

Serbia maintained solid external position thanks

to vigorous export activity which helped to keep the current account gap contained. In the period to December, the current account deficit was some 3% lower than the year before, owing to a smaller trade deficit. Over eleven months, Serbia's trade deficit amounted to EUR 4.3 billion, which was around 7% lower compared to the same period a year earlier. Export growth remained buoyant and broad based throughout the year (22.3% year-on-year). Imports were picking up steadily (8.8% year-on-year) as manufacturing sustained the momentum driven by strong foreign demand. However, capital goods imports were still around 6% lower than the year before in the face of modest investment activity. Between January and November the current account deficit was smaller compared to the same period a year earlier despite the higher income account deficit (up by a quarter year-on-year) and the slightly lower surplus on the current transfers account (down by 5% year-on-year). Relative to GDP, the current account deficit is likely to stay close to the 2009 level.

In the period to December, foreign currency inflows were smaller compared to the same period in 2009. While portfolio investment turned positive, FDI was substantially lower than the year before. At the same time, private sector's external liabilities decreased as companies and banks repaid foreign loans. This contributed to the gradual reduction of the total foreign debt as of mid-2010. At end-October, total debt amounted to EUR 23 billion, accounting for around three quarters of GDP.

Monetary developments

By the end of 2010 inflation accelerated considerably, overshooting the 4-8% target range set by the National Bank of Serbia (NBS). The disinflationary trend was reversed in the middle of the year due to rising agricultural/food prices and the pass-through from dinar depreciation. Pressures built up in the last quarter due higher utility prices. Price stability has remained the key policy objective but inflation is likely to accelerate further as a result of the base effect, i.e. lower inflation rates in early 2010, and also based on expectations that the hikes in producer prices will translate to consumer prices. Additional pressures might be generated by higher consumer spending following adjustments of wages and pensions in 2011. The effect of the liberalisation of oil derivatives imports as of 1 January on fuel prices also remains to be seen.

In view of the renewed inflationary tensions, the NBS stepped up monetary tightening and increased the reference interest rate to 11.5%. The effectiveness of the inflation targeting policy continued to be undermined by the NBS's regular interventions on the interbank market, aiming to dampen dinar depreciation pressures. Following some strengthening of the dinar towards the end of the year, the RSD/EUR exchange rate depreciated by around 10% over 2010. By end-November, the NBS foreign reserves declined to EUR 9.7 billion, down by EUR 1 billion since January. In the second half of the year, M2 growth decelerated against lower lending to the corporate sector.

Financial sector

In the third quarter of 2010, the banking sector activity slowed as lending to companies and households more than halved compared to the previous quarter in the face of more limited assets. The credit-to-GDP ratio stabilised at over 86%. The share of non-performing loans stayed flat at a relatively high level around 12%. During 2010, the Belgrade Stock Exchange main index lost around 4% of its value.

In December, the government initiated financial system reforms by proposing a new capital markets bill and a foreign exchange operations bill as well as amendments to the financial leasing act and the investment funds act. The reform aims to create a level-playing field for foreign investors in the country

Fiscal developments

By end-November, parliament endorsed the 2010 supplementary budget bill, increasing the government deficit by 0.4pp to top up social assistance and subsidies, to 4.8% of GDP. To finance the gap, Serbia raised EUR 199 million by issuing six-month euro-nominated treasury bills at a 5.25% yield. In 2010, public debt rose by almost 2 billion, approaching 40% of GDP.

On 29 December, parliament enacted the 2011 budget bill, which foresees a reduction of the deficit to 4.1%. In the challenging conditions of narrower revenue sources, following the abolition of the 10% tax on mobile phone services and lower tariffs in trade with the EU, the government announced tax system reforms. Abiding by the new fiscal responsibility legislation will be key for achieving the targets.

TABLE

European Commission, ECFIN-D-1



SERBIA

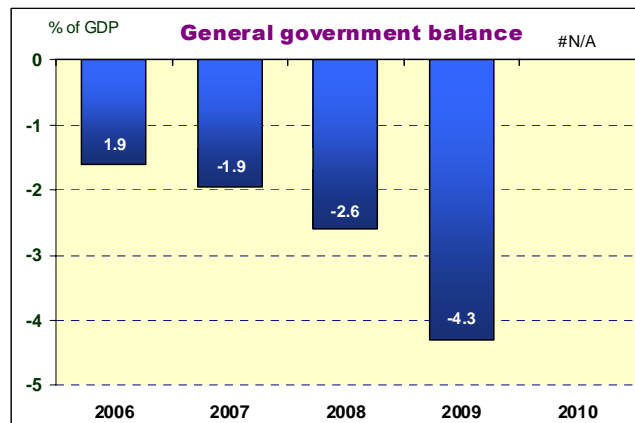
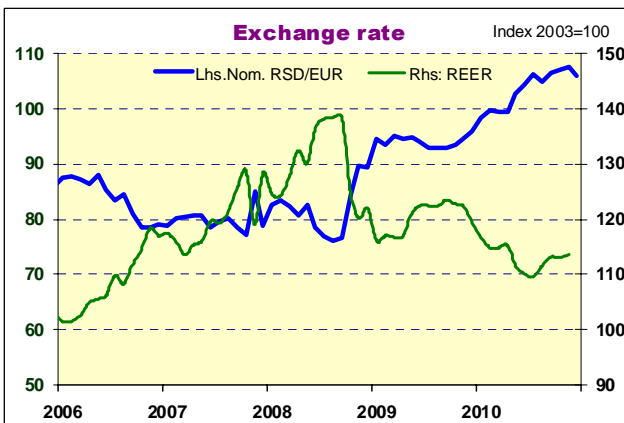
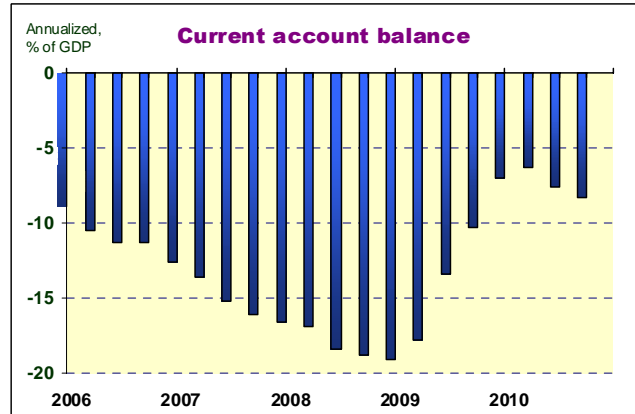
		2006	2007	2008	2009	2010	Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	4.4	3.3	0.9	-12.2	:	21.8	18.6	:	3.7	3.2	:
Gross domestic product ^{1.3}	Ann. % ch	5.2	6.9	5.5	-3.1	:	2.0	2.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	27.1	25.4	4.9	-18.8	:	-13.8	-7.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	-16.4	16.3	-17.8	-14.3	:	4.1	17.4	:	23.3	25.3	:
2 Labour market												
Unemployment ^{2.1}	%	20.9	18.1	13.6	16.1	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	-1.4	-1.2	0.1	-4.8	:	-3.7	-4.0	:	-3.3	:	:
Wages ^{2.3}	Ann. % ch	11.3	15.0	4.5	1.0	:	7.3	8.4	:	8.3	9.1	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	37.2	24.8	15.9	-19.7	:	22.1	24.6	:	20.2	:	:
Imports of goods ^{3.2}	Ann. % ch	22.2	29.8	14.6	-26.4	:	13.7	17.3	:	1.7	:	:
Trade balance ^{3.3}	% of GDP	-20.0	-22.9	-24.9	-17.3	:	-16.5	-16.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	29.1	30.3	30.4	28.2	:	29.6	31.4	23.8	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	50.5	54.4	53.6	45.1	:	45.4	47.7	35.8	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-11.7	-15.9	-20.1	-7.0	:	-7.6	-8.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	13.8	6.3	6.0	4.7	:	3.1	3.3	2.0	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	N.A.	11.0	8.6	6.6	:	4.2	7.7	:	8.9	9.6	:
Producer prices ^{4.2}	Ann. % ch	7.3	9.8	9.0	7.4	16.2	11.3	14.0	16.2	15.0	15.1	16.2
Food prices ^{4.3}	Ann. % ch	N.A.	18.4	13.8	0.8	:	-1.3	6.2	:	8.3	9.4	:
M3 ^{4.4}	Ann. % ch	38.3	42.5	9.8	21.5	:	22.1	20.1	:	21.0	17.9	:
Exchange rate RSD/EUR ^{4.5}	Value	79.11	78.76	89.48	95.88	105.93	104.36	106.34	105.93	107.02	107.40	105.93
Nominal eff. exchange rate ^{4.6}	Index	110.7	102.1	88.6	92.8	:	89.1	89.3	:	88.7	87.9	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	13.46	6.48	5.20	13.40	:	:	10.62	11.94	11.22	11.68	12.93
Bond yield (12 months) ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	9.9	12.3	:	:	:	:
Stock markets ^{5.3}	Index	2,186	4,096	2,604	1,197	1,283	1,321	1,218	1,257	1,231	1,257	1,283
Credit growth ^{5.4}	Ann. % ch	15.3	32.5	34.2	24.4	:	29.9	30.7	:	30.2	28.7	:
Deposit growth ^{5.5}	Ann. % ch	39.6	46.9	8.8	23.6	:	23.3	21.3	:	21.7	19.4	:
Non-performing loans ^{5.6}	% total	N.A.	N.A.	N.A.	N.A.	N.A.	12.0	11.9	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	% of GDP	-1.6	-1.9	-2.6	-4.3	:	-1.6	-2.3	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	36.2	29.4	25.6	31.3	:	32.2	34.9	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



SERBIA



KOSOVO*

*as defined by UNSCR 1244

Key developments

Following the resignation of the President of Kosovo in September, due to a Constitutional court ruling, his party quit the government in October and all its ministers and deputy ministers resigned. As a result, a non-confidence motion was voted by the assembly, the Parliament was dissolved and early parliamentary elections were announced for and held on 12 December. According to the preliminary results, PDK (the ruling party) came first with 33.5% of the votes. The announcement of the final results and the formation of the new Assembly will be delayed because the Electoral Commission concluded that there were substantial irregularities in some municipalities in which it ordered re-runs of the elections in early January.

As a consequence of the dissolution of the Assembly, the 2011 budget has not been approved. Thus, the IMF could not complete the first review of the Stand-By Arrangement by the end of November, as originally envisaged, and disburse the second tranche of the IMF loan. In addition, the absence of a functioning parliament prevented the adoption of the strategy for privatisation of the Post and Telecommunications of Kosovo (PTK), effectively delaying its privatisation (a structural benchmark for the IMF programme, which has not been met) and creating significant uncertainty for the 2011 budgetary plans and execution. In its last session, the outgoing Assembly adopted a version of the Labour law that is clearly deviating from the understanding reached with the IMF and from the commitments made to the European Commission.

Under these circumstances, it was not clear whether the agreement with the IMF remained on track, which was a key condition for the release of the second tranche of the EU macro-financial assistance to Kosovo, thus preventing its disbursement before the assistance expired in December.

In early January, the Prime Minister announced a government decision to increase substantially public sector wages. If implemented, this decision will seriously threaten the overall fiscal

and economic stability.

Real sector

The Statistical Office announced a revision of GDP data for 2004-2009. It published, for the first time, estimates about the real GDP growth rates. The economic growth in 2009 was 2.9%, lower than the 4.0% estimated by the IMF. It was driven mainly by investments, which rose by 13.6%. Households consumption increased moderately by 1.5%, while donor consumption (wages) shrunk by 14.8%.

In the first half of 2010 coal production increased by 6.2%. Production of electricity rose by 6.8% and final electricity consumption by 11.4%. Electricity losses dropped by 4 percentage points to 37.6% of total production, while net import of electricity remained almost unchanged and covered about 10% of the final consumption.

Labour market

In the second and third quarter, the number of registered unemployed remained stable at around 335 thousand, though about 1% lower than a year ago. According to the Ministry of Labour and Social Welfare data, registered unemployment decreased across all skill levels. Nevertheless, by end-August, with a share of 60%, unskilled unemployment is still dominant.

Across regions, the number of registered unemployed declined only in Gjilan and Peja, while it continued to increase in the other five regions. The highest number of unemployed is registered in Mitrovica (19.3% of total), followed closely by Prishtina (19.1% of total).

External sector

Foreign trade continued to recover and by end-October exports of goods (mainly base metals) increased, although from a very low level, by 86% over the same period last year. Imports of goods increased as well, by 11%. As a result, the accumulated trade deficit (January-October) increased to EUR 1,501 million compared to

EUR 1,440 million a year earlier.

According to balance-of-payments statistics, in the first half of 2010 the current account deficit was EUR 312.3 million, increasing against a deficit of EUR 267.5 million in the first half of 2009. This deterioration was mainly driven by increased payments for construction services in the second quarter of the year.

The surplus on the capital and financial account (EUR 193.6 million) was not sufficient to cover the current account deficit. Net foreign direct investments' inflow (EUR 112.6 million) was more than offset by negative net portfolio investments (EUR -137.5 million). Net errors and omissions increased almost threefold over the first half of 2009 and reached EUR 118.7 million.

Monetary developments

Broad money reached EUR 1.6 billion in October, increasing by 12.6% over the previous year. This marks a sharp reversal of the trend, as by September broad money was still on a declining trajectory. Two factors played a role. First, the expiration of the base effect of the transfer in October 2009 of EUR 200 million in dividend payment from the PTK to the government budget and the corresponding reduction in public non-financial corporations deposits. And secondly, the continuous build-up of households deposits, which by October 2010 increased by 23.7%, reaching more than EUR 1.1 billion.

After accelerating in the summer, inflation continued creeping-up to a relatively high level of 6.6% (year-on-year) by the end of December. The main drivers of the inflationary dynamic continue to be food and fuel prices, contributing respectively 4.4 and 0.8 percentage points. The prices of basic goods, such as bread and cereals and oils and fats have increased by close to 30%, hitting disproportionately the poor segments of the population. By the end of 2010, the goods and services with positive contribution to inflation had increased their weight to 85% of the whole CPI basket, pointing to a broad-based inflationary pressure.

Financial sector

In October 2010 the interest rate spread between loans and deposits was 11.5 percentage points. The 12-month moving average spread stood at 10.8 percentage points. It increased by almost

one percentage point since the beginning of the year, driven both by a reduction in deposit interest rates and increases in interest rates on loans.

Growth in deposits decelerated to 7.1% (year-on-year) in October. Households deposits growth remained stable at around 25% (year-on-year), compensating the significant reduction in central government deposits. Credit growth remained in the double-digit territory and was 10.6% in October. Credit to non-financial corporations grew by only 3.0% and credit to households by 27.2%.

The loans to deposit ratio was 81.3% in October, close to the informal Central Bank benchmark according to which loans to deposits should not exceed 80%.

Interest income continued to cover all expenditures and by end-October the net profit of the banking sector increased by 80% (year-on-year) to EUR 31.3 million. The higher profit was mainly due to lower provisions for loan and other assets losses and to lower other non-interest expenditures.

A recently published Central Bank Financial Stability Report suggests a relatively high level of banking sector resilience.

Fiscal developments

According to preliminary data from the Ministry of economy and finance, by end-November the general government still had a small surplus of EUR 6.6 million.

Total revenue stood at EUR 1,063.6 million. The underlying revenue growth of 11.5% (excluding dividends and grants) was underpinned by strong performance of almost all revenue components. Total expenditure reached EUR 1,057.0 million. Expenditure at central level grew by 6.6% and at municipal level by 9.9%. Capital outlays increased by 24.9% at central government level and by 13.7% at municipal level, followed by increased spending on wages and salaries – by 20.7% at central and 10.9% at local level.

By the end of November, the execution of all spending categories was below 90% of the annual plan – indicating possible savings on the expenditure side by the year-end. Coupled with the strong performance on the revenue side, it is likely to signal a lower than planned underlying budget deficit (excluding dividends and grants) in 2010.

TABLE

European Commission, ECFIN-D-1

KOSOVO*

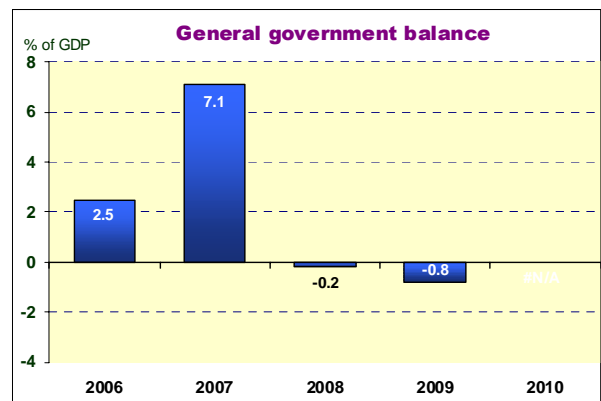
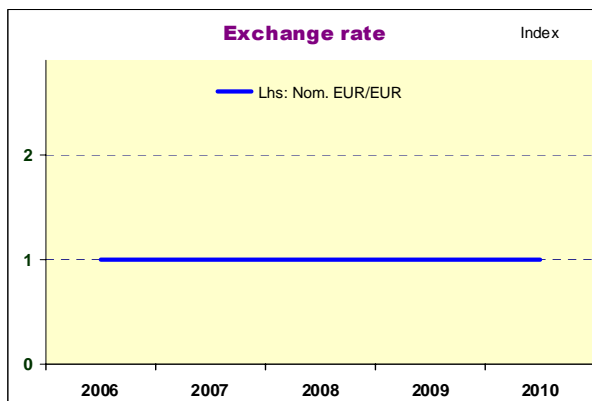
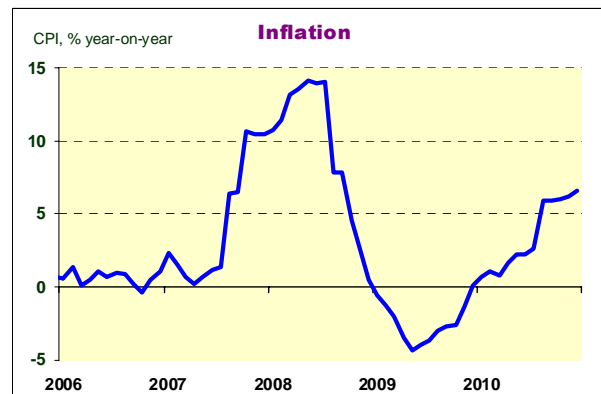
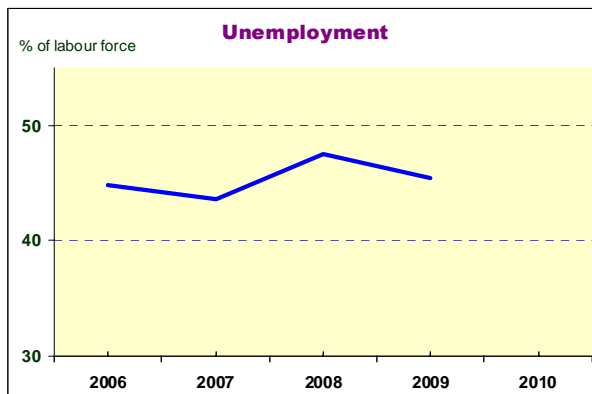
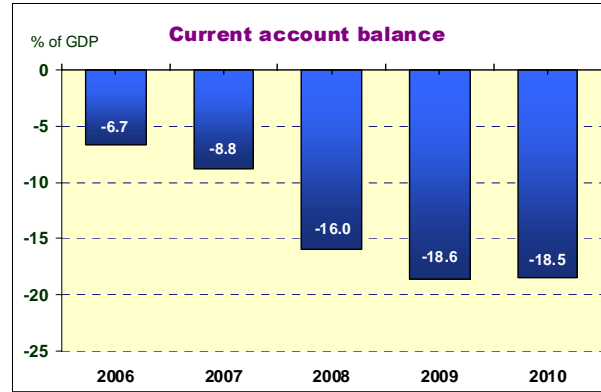
		2006	2007	2008	2009	2010	Q2 10	Q3 10	Q4 10	Oct 10	Nov 10	Dec 10
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	3.8	4.0	5.4	4.0	4.6	:	:	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.3	8.9	5.8	2.1	2.8	:	:	:	:	:	:
Investment ^{1.5}	Ann. % ch	1.3	3.9	15.5	13.1	14.9	:	:	:	:	:	:
Construction index ^{1.6}	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 ^{1.7}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	44.9	43.6	47.5	45.4	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	-10.1	8.1	-12.9	8.7	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	96.8	49.1	20.2	-16.7	:	129.7	52.9	:	46.2	:	:
Imports of goods ^{3.2}	Ann. % ch	12.8	20.7	22.3	0.4	:	12.4	16.7	:	4.8	:	:
Trade balance ^{3.3}	% of GDP	-37.6	-40.3	-43.3	-42.8	:	:	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	14.1	15.1	14.9	14.1	15.6	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	-50.7	-53.7	-56.4	-54.4	-57.6	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-6.7	-8.8	-16.0	-18.6	-18.5	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	9.1	12.6	8.9	7.8	:	:	:	:	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	0.6	4.4	9.4	-2.4	3.5	2.0	4.8	6.2	6.0	6.2	6.6
Producer prices ^{4.2}	Ann. % ch	N.A.	N.A.	N.A.	3.8	:	0.2	1.5	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	3.6	9.1	16.7	-4.4	4.8	2.1	7.2	9.9	9.3	9.8	10.5
Broad money liabilities ^{4.4}	Ann. % ch	5.5	23.4	23.6	11.2	:	-0.6	-1.6	:	12.6	:	:
Exchange rate EUR/EUR ^{4.5}	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) ^{4.6}	Index	-2.8	-0.1	:	:	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate (3-12 months) ^{5.1}	% p.a.	15.38	15.25	16.61	14.11	:	18.00	19.02	:	19.88	:	:
Bond yield ^{5.2}	% 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 ^{5.3}	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 ^{5.4}	Ann. % ch	30.6	29.7	38.7	17.4	:	9.4	11.0	:	10.6	:	:
Deposit growth EUR/EUR ^{5.5}	Ann. % ch	14.8	19.3	25.6	20.2	:	17.1	10.8	:	7.1	:	:
Non-performing loans ^{5.6}	% total	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	% of GDP	2.5	7.1	-0.2	-0.8	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	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
Source of data: IMF, national sources



No.	Indicator	Note	Source
1.	Real sector		
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
2.	Labour market		
2.1.	Unemployment	In percent of total labour force. Labour Force Survey	Ecwin/Reuters
2.2.	Employment	Annual percentage change. Labour Force Survey	Ecwin/Reuters
2.3.	Wages	Annual percentage change. Average nominal gross wages	Ecwin/Reuters
3.	External sector		
3.1.	Exports of goods	Annual percentage change. Balance of payments statistics for annual and quarterly data, customs reports for monthly data.	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change. Balance of payments statistics for annual and quarterly data, customs reports for monthly data.	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP. Goods only. Balance of payments statistics.	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP. National Accounts.	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP. National Accounts.	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP. Rolling four-quarter basis for quarterly data. Balance of payments statistics.	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP. Rolling four-quarter basis for quarterly data. Balance of payments statistics.	Ecwin/Reuters
4.	Monetary developments		
4.1.	Interim CPI	Annual average percentage change.	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 aggregate)	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
5.	Financial indicators		
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	
6.	Fiscal developments		
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
1.	Real sector		
1.1.	Industrial confidence indicator	Current Situation, Assessment, Enterprises, total, MKD	Ecwin/Reuters
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	Value Added, Economic Activity, Current Prices, MKD	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, Retail trade, turnover, total,	Ecwin/Reuters
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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
5.	Financial indicators		
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	In percent of total	Ecwin/Reuters
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	MoF
6.2.	General government debt	In percent of GDP	MoF



No.	Indicator	Note	Source
1.	Real sector		
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
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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
5.	Financial indicators		
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	
6.	Fiscal developments		
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
1.	Real sector		
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	
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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
5.	Financial indicators		
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
6.	Fiscal developments		
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
1. Real sector			
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
2. Labour market			
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
3. External sector			
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
4. Monetary developments			
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	
5. Financial indicators			
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
6. Fiscal developments			
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt	In percent of GDP	IMF



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, CPPY=100	Ecwin/Reuters
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	
2. Labour market			
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
3. External sector			
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
4. Monetary developments			
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
5. Financial indicators			
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
6. Fiscal developments			
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
1.	Real sector		
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
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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	
5.	Financial indicators		
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	MOSTE 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
6.	Fiscal developments		
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
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	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
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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
5.	Financial indicators		
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	
6.	Fiscal developments		

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
1. Real sector			
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.	
2 Labour market			
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)
3. External sector			
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
4. Monetary developments			
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
5. Financial indicators			
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.	
6. Fiscal developments			
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

