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

***CCEQ***

# CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIC QUARTERLY

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\*as defined by UNSCR 1244

## OVERVIEW

*Data from the first quarter of 2011 broadly confirmed the continuing and somewhat firmer recovery, although the pace of growth still varied across pre-accession countries. Rapid economic expansion continued in Turkey and real GDP turned positive in Iceland for the first time since the recession. Signs of acceleration are noticeable in the former Yugoslav Republic of Macedonia and in Serbia, while Albania continued to experience positive, albeit slightly decelerating, growth. However, in Croatia, real GDP contracted again in the first quarter of 2011. With the exception of Turkey, conditions in the labour markets are stabilising and improvements are only very gradual. Consumer price inflation is picking up, largely because of the surge in international commodity prices.*

Turkey remains an outlier with 11% year on year domestically-driven GDP growth in the first quarter of 2011, following a steep recovery (8.9%) in 2010.

In the Western Balkans, growth was much more subdued but further consolidated. First quarter 2011 GDP growth data point to accelerating rates (year-on-year) in the former Yugoslav Republic of Macedonia (5.1%) and Serbia (3.4%). Albania continued to register positive growth, as it did throughout the global crisis, though at a slightly decelerating pace (3.4%). Indicators also point to some acceleration compared to 2010 in Bosnia and Herzegovina. Only in Croatia is growth still negative (-0.8%).

In Iceland, real GDP turned positive (3.4%) in the first quarter 2011, after two years of recession, driven by relatively strong investment growth.

While external imbalances had been substantially adjusted in 2010 in most countries, data for the first quarter of 2011 point to some deterioration that may signal a return to pre-crisis patterns. Current account deficits remained relatively stable in Croatia, Serbia, Albania and Montenegro. However, stronger deteriorations occurred in Bosnia and Herzegovina, Kosovo, Iceland, and the former Republic of Macedonia, while the deficit continued to widen in Turkey. These developments were generally driven by a deterioration of trade deficits as imports increased, in line with the expansion of economic activity.

With the exception of Croatia where the unemployment rate further increased in the first quarter 2011 (14.3%), labour market conditions tended to stabilise in the Western Balkans.

Improvements are hampered by severe structural deficiencies in the functioning of labour markets that had led to very high pre-crisis unemployment rates. In Turkey the unemployment rate, which had already substantially decreased in 2010 in tandem with the strong recovery, declined further to 10.8% in March 2011. In Iceland, unemployment rose to 7.8%.

Against a growing current account deficit and strong short term capital inflows, the setting of monetary policy remains highly challenging for the central bank of Turkey. The monetary stance was eased in the first quarter of 2011 in Iceland (the key policy rate fell further to a historical low of 4.1% in May) and in Serbia (after a hike in April, the reference rate was cut in early June and July to reach 11.75%). Inflationary tensions have accelerated in nearly all countries, reflecting the surge in commodity prices and some country-specific features. While consumer price inflation remained contained in Croatia, it reached two digits in Kosovo (10.4%) and Serbia (13.4%) in May. Even if the latter is expected to decelerate, Serbia's targeted inflation range at end 2011 will not be reached. In Albania, although it eased, inflation at 4.2% in May is slightly above the target range. Similarly, in Turkey the CPI increase of 6.2% in June is above the end-year inflation target.

Credit growth still remained moderate in the Western Balkans, even though lending activity was quite robust in Kosovo, continued to recover in Bosnia and Herzegovina and accelerated in Albania. It stayed negative in Iceland (- 3.7%). In contrast, credit growth continued to be very strong in Turkey (36% over the first quarter), significantly outpacing the 25% target set by the authorities and non-performing loans continued to decline. While NPLs have stabilised in Serbia and Montenegro, albeit at very high levels, they rose significantly in Albania, Bosnia and Herzegovina, and Iceland.

According to available data, five out of the nine pre-accession economies achieved lower general government deficits in 2010 than in 2009. In the first quarter of 2011, Turkey continued to post strong fiscal results thanks to surging tax revenues, while Iceland's general government deficit was the lowest since the crisis hit the country. In general, higher fiscal revenues in line with growing activity tend to improve budget balance prospects in the Western Balkans but there are differentiated patterns across countries. In Croatia, fiscal revenues have declined and are significantly greater than expenditures. In Albania, the increase in revenues in the period January-May was very modest while expenditure growth was high, leading to a widening budget deficit.

## Candidate and potential candidate countries: Summary table

	2006	2007	2008	2009	2010	ECFIN May Forecast		Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
						2011	2012						
<b>Gross domestic product</b> (in real terms, annual % change)													
Croatia	4.9	5.1	2.2	-6.0	-1.2	1.1	2.0	-0.6	-0.8	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	5.1	6.2	5.1	-1.0	1.7	2.5	3.3	3.8	5.1	:	n.a.	n.a.	n.a.
Iceland	4.6	6.0	1.4	-6.9	-3.5	1.5	2.5	0.0	3.4	:	n.a.	n.a.	n.a.
Montenegro	8.6	10.7	6.9	-5.7	1.1e	2.4	4.0	:	:	:	n.a.	n.a.	n.a.
Turkey	6.9	4.7	0.7	-4.8	8.9	6.1	5.5	9.2	11.0	:	n.a.	n.a.	n.a.
Albania	5.4	5.9	7.5	3.3	4.1	:	:	5.6	3.4	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	6.0	6.2	5.7	-3.0	0.9	:	:	:	:	:	n.a.	n.a.	n.a.
Serbia	5.2	6.9	5.5	-3.1	1.8	:	:	1.7	3.4	:	n.a.	n.a.	n.a.
Kosovo*	3.4	6.3	6.9	2.9	4.0	:	:	:	:	:	n.a.	n.a.	n.a.
<b>Unemployment</b> (LFS, in % of workforce)													
Croatia	n.a.	9.6	8.4	9.1	11.8	11.3	9.8	12.1	14.3	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	36.0	34.9	33.8	32.2	32.1	31.4	30.5	30.9	31.2	:	:	:	:
Iceland	2.9	2.3	3.0	7.2	7.5	6.9	6.2	7.4	7.8	:	n.a.	n.a.	n.a.
Montenegro	14.7	11.9	10.7	11.4	12.2	19.4	17.9	12.2	12.4	:	12.2	11.3	:
Turkey	9.9	9.9	11.0	14.1	12.0	10.2	9.8	11.0	11.5	:	:	:	:
Albania	13.9	13.4	12.8	13.0	13.7	:	:	13.5	13.4	:	:	:	:
Bosnia and Herzegovina	44.2	42.9	40.6	42.7	42.7	:	:	42.7	:	:	:	:	:
Serbia	20.9	18.1	13.6	16.1	20.0e	:	:	:	:	:	:	:	:
Kosovo*	44.9	43.6	47.5	45.4	:	:	:	:	:	:	:	:	:
<b>Current account balance</b> (% of GDP)													
Croatia	-6.7	-7.2	-8.9	-5.3	-1.3	-2.2	-2.5	-1.3	-1.4	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-0.4	-7.1	-12.8	-6.7	-2.8	-3.1	-3.7	-2.8	-4.4	:	n.a.	n.a.	n.a.
Iceland	-23.8	-15.7	-24.5	-11.6	-9.7	-6.2	-5.5	-9.7	-11.8	:	n.a.	n.a.	n.a.
Montenegro	-24.7	-39.6	-51.3	-30.1	-25.7	-27.3	-31.0	-25.7	-23.6	:	n.a.	n.a.	n.a.
Turkey	-6.1	-5.9	-5.6	-2.3	-6.6	-7.7	-8.1	-6.5	-7.9	:	n.a.	n.a.	n.a.
Albania	-6.6	-10.6	-15.4	-15.4	-11.9	:	:	-11.9	-11.8	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-8.0	-10.7	-14.2	-6.2	-5.6	:	:	-5.6	-6.7	:	n.a.	n.a.	n.a.
Serbia	-11.7	-16.1	-20.6	-7.4	-7.4	:	:	-7.2	-7.3	:	n.a.	n.a.	n.a.
Kosovo*	-7.2	-10.4	-16.3	-15.4	-16.0	:	:	:	:	:	n.a.	n.a.	n.a.
<b>Inflation</b> (Consumer price index, annual % change)													
Croatia	3.2	2.9	6.1	2.4	1.0	2.8	2.5	1.5	2.2	:	2.4	2.5	:
The former Yugoslav Republic of Macedonia	3.2	2.3	8.3	-0.8	1.6	4.3	3.8	2.9	4.1	4.7	4.8	5.2	4.1
Iceland	6.7	5.1	12.7	12.0	5.4	3.0	2.7	2.8	2.0	3.5	2.8	3.4	4.2
Montenegro	3.0	4.3	7.4	3.4	0.5	3.7	2.2	0.7	2.3	:	3.7	3.6	:
Turkey	9.6	8.8	10.4	6.3	8.6	6.5	5.5	7.4	4.3	:	4.3	7.2	:
Albania	2.4	2.9	3.4	2.3	3.6	:	:	3.1	4.0	:	4.1	4.2	:
Bosnia and Herzegovina	6.1	1.5	7.4	-0.4	2.1	:	:	2.5	3.2	:	4.0	4.2	:
Serbia	n.a.	11.0	8.6	6.6	10.3	:	:	10.3	14.1	:	14.7	13.4	:
Kosovo*	0.6	4.4	9.4	-2.4	3.5	:	:	6.2	9.2	:	10.6	10.4	:
<b>General government balance</b> (% of GDP)													
Croatia	-3.0	-2.5	-1.4	-4.1	-5.2f	-6.0	-5.0	:	:	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-0.6	0.6	-1.0	-2.7	-2.5	-2.5	-2.2	:	:	:	n.a.	n.a.	n.a.
Iceland	6.3	5.4	-13.5	-10.0	-7.8	-4.9	-3.6	-13.8	-3.5	:	n.a.	n.a.	n.a.
Montenegro	3.4	6.6	0.5	-4.4	-3.7	-3.1	-0.1	-3.0	-1.7	:	n.a.	n.a.	n.a.
Turkey	-0.1	-1.0	-2.2	-5.7	-3.6	-2.8	-2.2	:	:	:	n.a.	n.a.	n.a.
Albania	-3.3	-3.5	-5.5	-7.0	-3.1	:	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	2.9	1.2	-2.2	-3.6	-3.8	:	:	:	:	:	n.a.	n.a.	n.a.
Serbia	-1.6	-2.0	-2.6	-4.5	-4.8	:	:	-4.8	-0.8	:	n.a.	n.a.	n.a.
Kosovo*	2.5	7.1	-0.1	-0.7	-2.8	:	:	:	:	:	n.a.	n.a.	n.a.

\* as defined by UNSCR 1244  
Forecast: ECFIN forecast Spring 2011

# CROATIA



## Key developments

The accession negotiations between the EU and Croatia were closed successfully on 30 June. This should allow for the signature of the Accession Treaty by the end of the year and, following treaty ratification in Croatia and all EU Member States, Croatia's accession to the EU by mid-2013.

From the seven negotiating chapters which were still open at the end of March, two were closed on 19 April, viz. 'Regional Policy' and 'Agriculture'. The chapter on 'Fisheries' was closed on 6 June and the intergovernmental conference on 30 June wrapped up the negotiations by closing the chapters on 'Competition', 'Judiciary and Fundamental Rights', 'Financial and Budgetary Provisions' and 'Other issues'. The European Commission was charged with closely monitoring up to the date of accession Croatia's fulfilment of the commitments undertaken in the negotiations and its continued preparations to assume the responsibilities of EU membership upon accession.

Meanwhile Croatia's economy remained depressed and unemployment reached a new cyclical height in the first quarter.

## Real sector

Real GDP contracted again in the first quarter of 2011. The growth rate was -0.8% year-on-year following -0.6% in the preceding quarter. The fall was 0.7% in seasonally-adjusted quarter-on-quarter terms. Significantly, the only GDP component adding to growth was inventories, whereas final demand was sharply lower.

Consumer spending edged down by 0.1% year-on-year following two quarterly increases. The decline in government consumption was more pronounced with 0.9%. Fixed investment fell for a ninth consecutive quarter, although at a decelerating rate (-6.7%). Export volumes, which had increased over the past four quarters, suffered a sharp setback (-11.1%) mainly due to an unfavourable base effect caused by a surge in

ship exports in 2010. Import volumes, which had started to recover in the preceding two quarters, declined by 5.3%. In spite of falling imports, the sharper drop in exports meant that net exports exerted a significant drag on growth for the first time since 2008. Overall, the GDP data point to a renewed weakening of economic activity in the first quarter.

Monthly data indicate, on balance, a stabilisation of economic activity at a low level in the second quarter. The volume of industrial production has started a slight upward trend (+2.7% in April and -0.4% in May, year-on-year) following a softening in the winter months. The trend in retail sales volume is also slightly upward following year-on-year growth rates of 3.7% and 1.0% in April and May, respectively. The declining trend in construction, however, re-accelerated in April when the sector's output was 15.3% lower year-on-year. Exports of goods were 8.9% higher year-on-year in nominal terms in April-May while imports were 4.8% higher.

## Labour market

Against the background of an on-going recession, the labour market weakened further in the first quarter of 2011. According to the labour force survey, employment was 5.6% lower year-on-year. The unemployment rate increased from 12.1% in the fourth quarter to 14.3% in the first quarter. In year-on-year terms the unemployment rate was 3.1 percentage points higher and the underlying trend is still rising. The registered unemployment rate stood at 17.5% in May which is 0.2 percentage point higher year-on-year. Labour productivity was 2.7% higher year-on-year in May.

The average nominal gross wage increased 1.9% year-on-year in April. In real terms, however, the average gross wage declined 0.5%.

The preliminary results from a new census show that the country has 4.29 million inhabitants. This is fewer than recorded in 2001, but the data are not comparable since the statistical definition of the total population has changed.

## External sector

Revised data from the central bank show that the current account deficit in 2010 corresponded to 1.3% of GDP. This is less than the 1.5% estimated previously and a sharp reduction from the recent peak of 9.2% in 2008. However, the decline of the current account deficit was not extended to the first quarter of 2011 when the deficit registered close to €1.5 billion which is 11% more than in the same quarter of 2010. On a rolling four-quarter basis, the current account deficit edged up to 1.4% of GDP. This widening was due to lower exports of goods (-3.4%) and services (-7.7%), higher imports of goods (+1.0%), higher income payments (+8.5%) and lower transfer receipts (-9.2%). Lower service imports (-14.3%) could only provide partial offset. In the capital account, FDI inflows dropped by 77.6% year-on-year to a modest €129 million in the first quarter.

Croatia's total gross external debt at the end of 2010 has been revised up by €0.6 billion to €46.4 billion. Over the first quarter of 2011 it increased further to €47.1 billion which corresponds to 103.5% of GDP. Gross international reserves amounted to €1.4 billion (25.2% of GDP) at the end of May which is unchanged from the end of March, but up from €10.7 billion at the end of 2010. This means that the rise of the external debt in the first quarter has been matched by the rise in international reserves.

## Monetary developments

Headline inflation has risen significantly over the past six months and registered 2.5% in May, up from 1.2% last November. The rise was mainly due to the worldwide price increase for agricultural products, energy and raw materials. Higher commodity prices have spilled over into areas like transport services and processed food, pushing up core inflation to close to 2%. Domestic inflationary pressures, however, have remained contained.

Following stagnation in the previous quarter, broad money (M4) declined 1.5% in the first quarter of 2011. In year-on-year terms it was still 3.3% higher at the end of March. Bank lending to the corporate sector continued to advance moderately and was 6.5% higher year-on-year at the end of March. Household loans declined slightly and were 1.1% lower year-on-year at the end of March, excluding exchange

rate effects. The central bank reduced the discount rate from 9% to 7% in June in response to the gradual downward trend in interest rates on the money and credit markets.

The kuna remained broadly stable against the euro in the second quarter. The nominal exchange rate moved between 7.36 and 7.46 kuna per euro and stood at 7.40 at the end of June compared to 7.38 at the end of March. The central bank did not intervene in the foreign exchange market during the quarter.

## Financial sector

Liquidity in the domestic financial system remained ample through April and money market interest rates declined slightly to 0.6%. Interest rates of commercial banks held steady at a relatively high level in the first four months of the year. For instance, interest rates on long-term household loans with a currency clause (i.e. indexed to the value of a foreign currency, typically the euro) stood at 8.2% in March. The overall spread between lending and deposit rates remained slightly above 7%. The stock market index fell by 2.6% in the course of the second quarter in tune with the declining trend in major stock markets abroad. However, the index was still up by 20.3% year-on-year at the end of June thanks to the strong rally last winter.

## Fiscal developments

Preliminary data from the Ministry of Finance show that the 2010 budget deficit of general government amounted to 4.9% of GDP (ESA95), i.e. below the 5.2% projected last autumn. The lower-than-projected deficit was the result of public investment expenditure remaining significantly below budget appropriations. For 2011, the budgeted deficit of general government is 5.5% of GDP.

The first five months of 2011 saw a decline in central government revenues of 2.5% year-on-year while the budget projects a decline of 0.3% for 2011 as a whole. Total expenditures decreased by 0.9% while the budget projects an increase of 0.3% for the year as whole. The deficit increased by 11.5% in the January-May period against a budgeted increase of 4.5% for the whole year. This comparison suggests that weaker-than-expected growth has kept revenues below budget, while government spending has been kept well within the budgetary limit. On balance, however, the revenue shortfall has outweighed spending discipline in this period.

# TABLE



European Commission, ECFIN-D-1

## CROATIA

		2006	2007	2008	2009	2010	ECFIN Forecast		Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
							2011	2012						
<b>1 Real sector</b>														
Industrial outlook <sup>1.1</sup>	Balance	N.A.	70.9	38.0	-33.3	3.0	:	:	16.0	15.0	-8.0	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann.% ch	4.5	5.6	1.6	-9.0	-1.4	:	:	-1.6	-4.9	:	2.7	-0.4	:
Gross domestic product <sup>1.3</sup>	Ann.% ch	4.9	5.1	2.2	-6.0	-1.2	1.1	2.0	-0.6	-0.8	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.% ch	3.2	6.3	0.8	-8.5	-0.9	0.8	1.2	1.2	-0.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.% ch	11.1	7.1	8.2	-11.8	-11.3	-0.5	5.0	-8.0	-6.7	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.% ch	N.A.	N.A.	11.8	-6.5	-15.9	:	:	-12.8	-8.5	:	-15.3	:	:
Retail sales <sup>1.7</sup>	Ann.% ch	N.A.	N.A.	N.A.	-15.3	-1.8	:	:	0.9	-0.4	:	3.7	1.0	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	N.A.	9.6	8.4	9.1	11.8	11.3	9.8	12.1	14.3	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.% ch	N.A.	1.8	1.3	-1.9	-4.0	-0.2	1.2	-4.1	-5.6	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.% ch	6.2	6.2	7.1	2.2	-0.4	0.3	0.3	0.5	0.5	:	1.9	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.% ch	16.1	8.8	5.1	-20.2	17.3	:	:	27.4	4.6	:	39.2	-15.8	:
Imports of goods <sup>3.2</sup>	Ann.% ch	12.9	11.0	8.9	-25.6	-1.1	:	:	5.4	5.0	:	4.3	5.4	:
Trade balance <sup>3.3</sup>	% of GDP	-21.0	-21.7	-22.6	-16.2	-12.9	-14.0	-14.3	-12.9	:	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	42.7	42.1	41.7	35.4	38.3	:	:	38.3	38.0	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	49.8	49.8	49.9	39.4	38.8	:	:	38.8	38.7	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-6.7	-7.2	-8.9	-5.3	-1.3	-2.2	-2.5	-1.3	-1.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	6.4	8.0	6.7	2.7	1.3	:	:	1.3	:	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	8 725.3	9 307.4	9 120.9	10 375.8	10 660.3	:	:	10 660.3	11 423.8	:	11 336.3	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.1	5.9	5.3	8.2	8.5	:	:	8.5	9.0	:	8.9	:	:
<b>4 Monetary Developments</b>														
CPI <sup>4.1</sup>	Ann.% ch	3.2	2.9	6.1	2.4	1.0	2.8	2.5	1.5	2.2	:	2.4	2.5	:
Producer prices <sup>4.2</sup>	Ann.% ch	:	:	:	-0.4	4.3	:	:	5.1	7.6	:	8.1	7.3	:
Food prices <sup>4.3</sup>	Ann.% ch	2.5	3.4	10.0	1.7	-1.5	:	:	0.4	3.4	:	3.3	4.2	:
M4 <sup>4.4</sup>	Ann.% ch	14.3	17.9	10.9	1.6	2.7	:	:	4.5	3.6	:	3.1	3.6	:
Exchange rate HRK/EUR <sup>4.5</sup>	Value	7.30	7.33	7.22	7.34	7.29	:	:	7.36	7.40	7.39	7.36	7.40	7.41
Nominal eff. exchange rate <sup>4.6</sup>	Index	98.7	98.0	96.1	97.2	98.2	:	:	99.37	100.09	:	98.78	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	4.46	5.66	7.19	8.96	2.44	:	:	2.61	2.63	1.66	1.91	1.58	1.50
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	5.9	6.4	5.8	:	:	5.9	5.9	5.3	5.6	5.3	5.0
Stock markets <sup>5.3</sup>	Index	2 771	4 673	3 299	1 871	1 990	:	:	1 922	2 275	2 248	2 234	2 279	2 231
Credit growth <sup>5.4</sup>	Ann.% ch	22.0	19.4	11.6	5.0	2.9	:	:	6.4	6.0	:	6.6	7.7	:
Deposit growth <sup>5.5</sup>	Ann.% ch	51.6	27.2	7.4	-15.2	-19.8	:	:	-13.4	-1.4	:	4.7	6.1	:
Non performing loans <sup>5.6</sup>	% of total	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-3.0	-2.5	-1.4	-4.1	-5.2f	-6.0	-5.0	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	35.5	32.9	28.9	35.3	0.0	45.2	48.4	:	:	:	N.A.	N.A.	N.A.

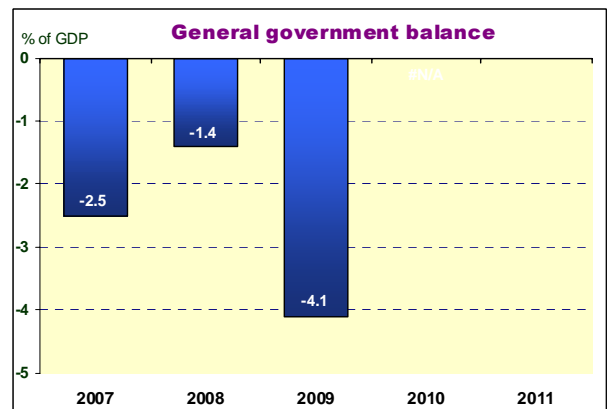
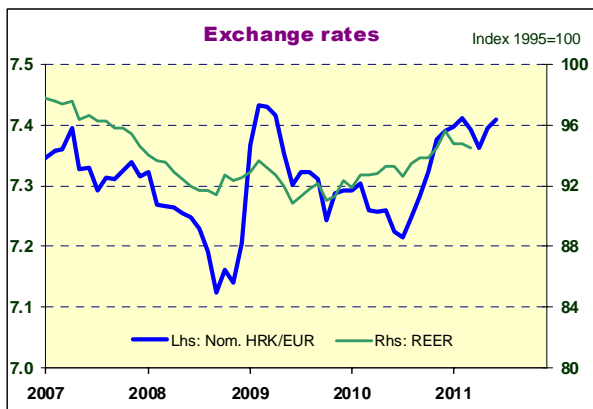
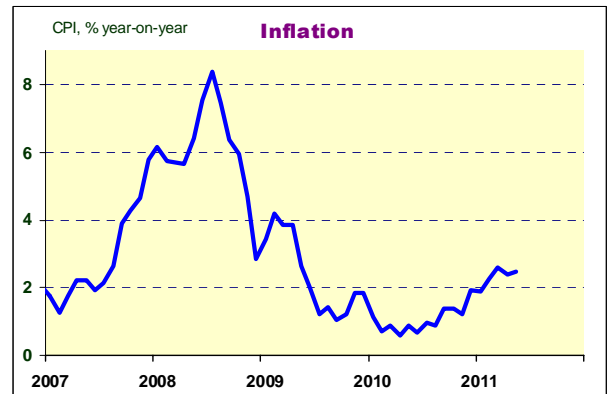
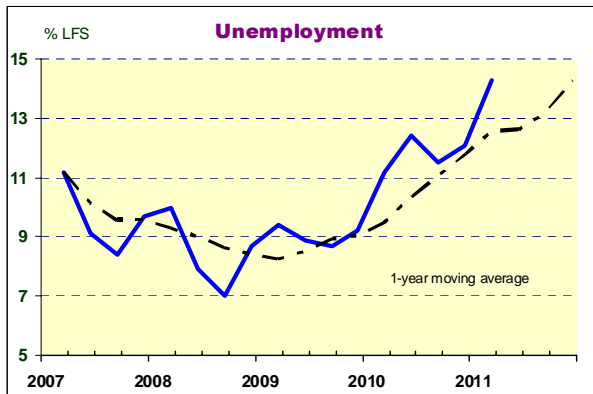
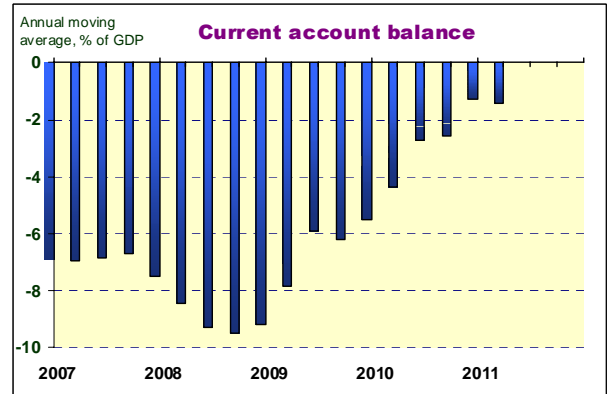
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# CHARTS



European Commission, ECFIN-D-1

## CROATIA





# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



## Key developments

On 5 June, early parliamentary elections largely confirmed the incumbent coalition government, albeit with a less comfortable parliamentary majority. The new government is expected to take office in July.

## Real sector

Real GDP growth data for 2010 was revised up, from preliminary 0.7% year-on-year to 1.8%, compared to -0.9% the year before. The main reason for the upward revision was stronger than estimated gross fixed capital formation. While the main sources for growth in the first half of 2010 were net-exports, gross fixed capital formation became the main driver for the economy's growth acceleration in the second half of the year. Private consumption growth decelerated during the year and registered an unexpected and sharp decline in the fourth quarter. In the first quarter of 2011, real GDP rose by 5.1%, compared to a drop by 0.5% the year before. The main sources for growth were exports and – again – gross fixed capital formation, increasing by 60% year-on-year, compared to a drop by 47% the year before. Exports were 35% higher than a year ago, while imports were 37% higher. To some extent, strong growth rates in the first quarter of 2011 reflect a weak base a year before.

On the supply side, growth in 2010, - in particular in the second half of the year and in the first quarter of 2011 - appears to have been mainly driven by construction, while the overall contribution of manufacturing to growth was negative, despite significant increases in a few export oriented sectors.

High frequency indicators, such as industrial production, point to a recent strengthening of domestic production, with a year-on-year increase by 13% in the first quarter of 2011. 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 improved slightly. In the first quarter of 2011, employment increased by 5.5% year-on-year, compared to a decline by 0.4% the year before. The main sectors with employment gains appear to have been agriculture, but also manufacturing, in particular the textiles and base metals industries. However, a change in the LFS sector classification scheme impedes year-on-year comparability. The number of unemployed dropped in the first quarter by 4.8%, i.e. by 15.000 persons. Overall, labour supply increased by 2%, which limited the drop in the unemployment rate to 31.2% of the labour force, compared to 33.5% the year before. A positive development is the continued decline in youth unemployment (age bracket 15-24 years), from 57.1% in the first quarter of 2010 to 52.5% in the first quarter of 2011. At the same time, the share of youth unemployment in total unemployment went down from 20.1% in 2010 Q1 to 17.7% in 2011Q1. A key factor for this marked decline has been a strong reduction in youth unemployment among women. Furthermore, facilitated access to higher education courses helped to reduce unemployment rates.

Nominal wages continued to rise by 1.7% in the first quarter of 2011. However, this implied a decline by some 2.4% in real terms, when taking into account consumer price inflation.

## External sector

During the first quarter of 2011, the trade deficit increased to some 23% of GDP (moving annual average), mainly due to an increase of imports by 37%. Current transfers were slightly lower at some 19.3% of GDP. As a result, the current account deficit stood at 4.4% of GDP, compared to 3.3% a year before. However, the rise in the current account deficit was accompanied by an even higher increase in capital inflows, amounting to some 5% of GDP. The two main

sources were FDI, where inflows, increased from 2.5% of GDP (moving annual average) in 2010 Q1 to 5.2% and "other inflows", increasing from 3.1% of GDP in 2010 Q1 to 5% in 2011Q1. These latter inflows are mainly related to the use of the IMF's pre-cautionary facility, resulting in an increase in foreign reserves by nearly 3% of GDP.

After a sharp increase in the first quarter, foreign exchange reserves drop back to around EUR 1.8 billion by end June. Due to the recent sharp increase in imports, the import coverage has remained limited to slightly below 5 months of expected imports.

Gross external debt amounted to about 60% of GDP in the first quarter of 2011, compared to 56% of GDP a year before. The main contributor to the increase was public debt, contributing 2.6 percentage points of GDP to the increase of the external debt-to-GDP ratio. Private bank lending increased the external debt ratio by 1.4 percent points.

### Monetary developments

Overall CPI inflation continued to accelerate, reaching 4.1% year-on-year in June, bringing inflation in the first half of 2011 to 4.4%. End of 2010, inflation had reached 3%, while the annual average was still 1.6%. The main inflationary pressures still come from price increases of food and renting costs rising by 7.7% and 7.0% respectively. Fuel prices rose by 5.5% year-on-year in June. Food prices account for about 40% of the consumer basket.

Year-on-year growth of M4 continued to slow slightly in the first quarter of 2011, increasing by 11.7% year-on-year, compared to 12.7% in the fourth quarter of 2010. In May, growth in M4 declined further to 8.5%.

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

### Financial sector

Since October 2009, monetary conditions have 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 8.9% in May 2011. Interest rates on deposits had increased to 7.5% in March 2010, but have come down to 6.0% in May 2011. The spread between lending and

borrowing rates widened slightly to nearly 3 percentage points, mainly due to a faster decline in deposit rates. The overall credit-to-GDP level is still relatively low at some 45% of GDP.

The ratio of non-performing loans to total loans has declined from 10.4% end-September to 9.3% in March 2011. Profitability of the banking sector was weak in the first quarter of 2011. End-March, the sector's return-on-assets ratio was at -0.1%, compared to 0.5% end-September. Return on equity stood at 1% end-March 2011, compared to 4.0% end-September. However, larger banks register profits, while the indicators for medium and small banks are still negative.

The country's stock market continued to recover. After reaching a peak in 2007, the market capitalisation started to decline again and currently amounts to some 30 % of GDP.

### Fiscal developments

Revenue collection in the first quarter of 2011 was better than a year ago, benefitting from a significantly better economic performance. Central government total revenues were some 6.5% higher than in the first quarter of 2010, mainly due to higher VAT revenues. The year before, total revenues had dropped by 5.7%. Total spending in 2011Q1 was some 4.5% higher than a year before, mainly due to higher transfers, but also higher capital spending. The first quarter's fiscal deficit amounted to 3.6% of the first quarter's GDP, compared to some 4.5% a year before. The 2010 deficit was 2.5% of GDP, while the budget for 2011 envisages a deficit of 2.2% of GDP for the central government deficit and of 2.5% for the general government.

By end-2010, general government debt had slightly increased, from 32.1% of GDP in 2009 to some 34% of GDP end of 2010. The main reason for the increase was the recourse to foreign and domestic borrowing 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 22%.

## TABLE



European Commission, ECFIN-D-1

### The former Yugoslav Republic of Macedonia

		2006	2007	2008	2009	2010	ECFIN Forecast		Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
							2011	2012						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	4.3	7.0	6.8	-13.8	-9.6	:	:	-0.1	10.5	:	14.4	18.1	:
Industrial production <sup>1.2</sup>	Ann. % ch	2.3	4.1	5.9	-7.3	-4.2	:	:	-4.5	13.8	:	:	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	5.1	6.2	5.1	-1.0	1.7	2.5	3.3	3.8	5.1	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	6.0	9.8	8.1	-4.8	1.8	2.0	3.0	-5.5	3.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	11.6	13.3	16.5	0.5	-7.5f	8.5	8.0	:	:	:	N.A.	N.A.	N.A.
Construction <sup>1.6</sup>	Ann. % ch	11.6	18.5	-2.8	5.3	20.0	:	:	43.1	29.7	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	9.5	17.1	11.6	-3.8	4.2	:	:	5.8	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	36.0	34.9	33.8	32.2	32.1	31.4	30.5	30.9	31.2	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	4.6	3.5	3.2	3.4	1.3	2.0	2.5	5.9	5.5	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	8.0	4.8	8.7	14.1	1.0	3.4	4.9	1.7	1.7	:	0.3	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	16.5	29.2	8.9	-28.7	29.8	:	:	42.7	41.2	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	16.6	25.3	21.9	-22.1	14.1	:	:	21.7	47.0	:	:	:	:
Trade balance <sup>3.3</sup>	% of GDP	-19.7	-19.8	-26.2	-23.1	-21.1	-21.4	-21.4	-21.1	-23.0	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	46.9	52.4	50.9	39.0	47.3	:	:	47.3	49.7	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	66.5	70.8	76.2	60.6	66.0	:	:	66.0	69.8	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-0.4	-7.1	-12.8	-6.7	-2.8	-3.1	-3.7	-2.8	-4.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	6.8	8.5	6.1	2.0	3.2	:	:	3.2	5.2	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1439.7	1551.2	1496.9	1598.7	1715.3	:	:	1715.3	1900.6	:	1927.3	1993.3	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.9	5.1	4.0	5.5	5.2	:	:	5.2	5.3	:	:	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	3.2	2.3	8.3	-0.8	1.6	4.3	3.8	2.9	4.1	4.7	4.8	5.2	4.1
Producer prices <sup>4.2</sup>	Ann. % ch	4.5	1.6	10.4	-6.4	8.3	:	:	8.3	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	2.1	3.7	14.4	-1.4	0.3	:	:	3.2	6.8	:	8.0	9.3	:
Monetary aggregate M4 <sup>4.4</sup>	Ann. % ch	10.0	28.9	21.3	3.5	12.1	:	:	12.7	11.7	:	9.0	8.5	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.19	61.18	61.26	61.28	61.51	:	:	61.56	61.51	:	61.52	61.53	:
Nominal eff. exchange rate <sup>4.6</sup>	Index	100.0	99.6	100.6	106.6	:	:	:	:	:	:	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	6.40	5.60	5.30	:	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	11.3	10.2	9.7	10.1	9.5	:	:	9.1	9.0	:	8.9	8.9	:
Stock markets <sup>5.3</sup>	Index	3 219	6 971	5 149	2 497	2 472	:	:	2 214	2 599	2 579	2 528	2 584	2 626
Credit Growth <sup>5.4</sup>	Ann. % ch	25.0	35.0	40.3	14.2	5.4	:	:	7.5	7.3	:	7.8	8.4	:
Deposit growth <sup>5.5</sup>	Ann. % ch	21.0	31.4	23.5	4.6	13.0	:	:	14.0	12.8	:	9.6	8.8	:
Non-performing loans <sup>5.6</sup>	% total	11.2	7.5	6.7	8.9	9.0	:	:	9.3	9.4	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-0.6	0.6	-1.0	-2.7	-2.5	-2.5	-2.2	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	40.2	27.3	28.8	32.1	35.1	27.7	29.6	:	:	:	N.A.	N.A.	N.A.

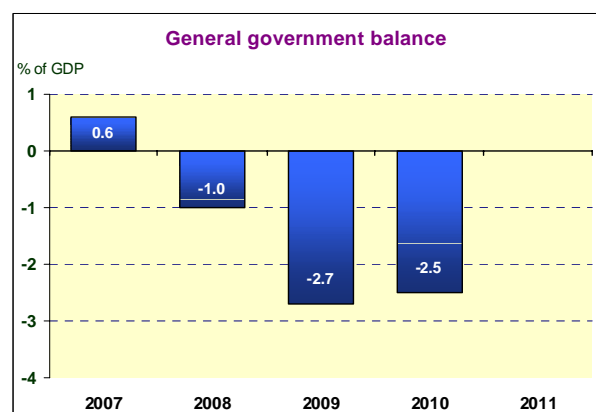
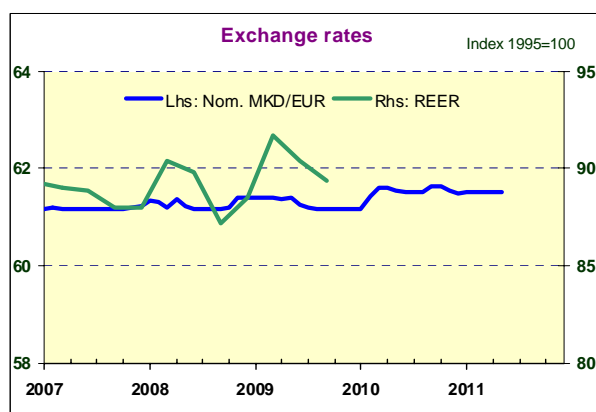
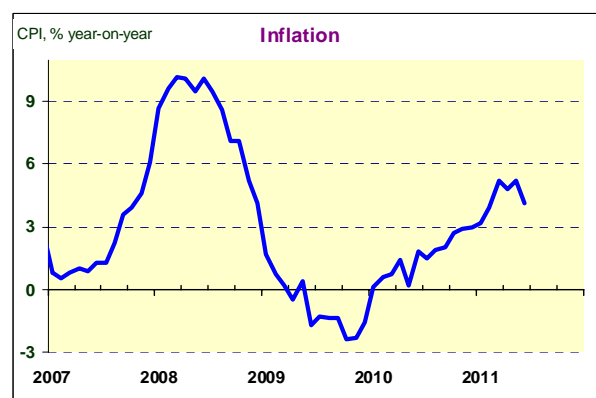
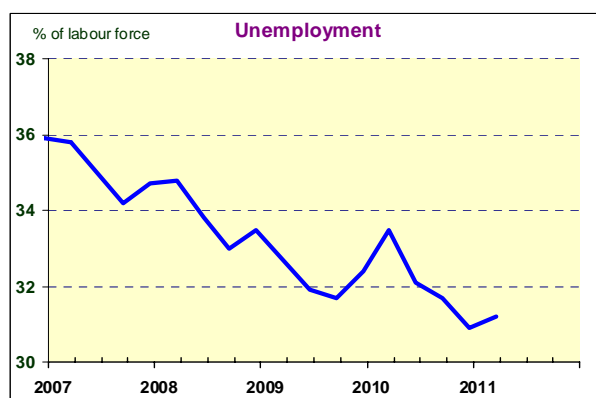
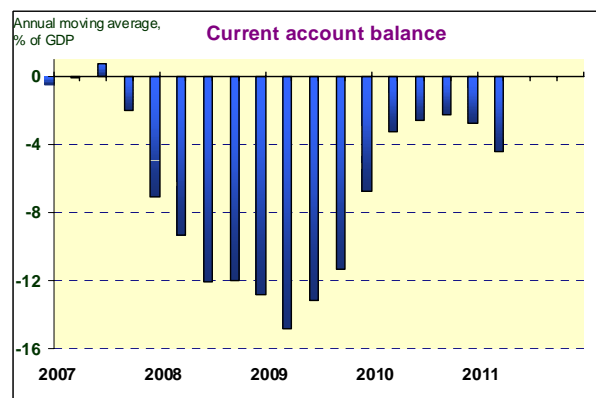
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# CHARTS



European Commission, ECFIN-D-1

## The former Yugoslav Republic of Macedonia



## ICELAND



### Key developments

The Icesave agreement was rejected in a referendum on 9 April and will be settled through legal channels.

On 3 June, the fifth review under the current IMF stand-by programme was successfully completed, leading to the disbursement of the sixth tranche, amounting to €155 million. Total disbursements so far add up to €1.2 billion.

On 9 June, Iceland issued international bonds in the amount of US\$ 1 billion with a 5-year maturity at an interest rate of 4.99%. This was the first international issue after the onset of the crisis two and a half years ago. The transaction was well received by global investors and the amount was two times over-subscribed.

At the intergovernmental conference on 27 June 2011, the first four chapters of negotiations on Iceland's accession to the EU were opened and two of these chapters were already provisionally closed (science/research and education/culture).

### Real sector

The economy is recovering slowly as balance sheet vulnerabilities in the private sector continue to impede a stronger recovery of domestic demand. In the first quarter of 2011, GDP grew by 2% quarter-on-quarter (in seasonally adjusted terms), following a fall of 1.5% in the fourth quarter of 2010. However, all domestic demand components declined and the contribution of net exports to growth was very small (0.2 percentage points). Thus, the positive growth rate was exclusively due to a large increase in the stock of inventories. On an annual basis, real GDP rose by 3.4%, driven by a 1.5% growth of private consumption and a 13.3% in total investments.

High-frequency indicators for the second quarter indicate continued, albeit nascent, economic growth. Industrial production remained flat in April, but consumer sentiment and expectations have improved somewhat in May.

### Labour market

The labour market remains weak with unemployment close to historically high levels and the number of employed very low compared to pre-crisis levels. These crisis-related effects continued to be felt in the first quarter of 2011 as unemployment rose to 7.8%, compared to 7.6% in the same period a year before. Total employment continued to fall, by 1% year-on-year. At the same time, elements of flexibility seem to have provided a degree of cushion, such as a reduced level of hours worked (which remain 6.5% below pre-crisis levels), increased part-time work and net migration, preventing an even larger increase in unemployment.

Despite a high unemployment, the growth of annual average gross wages accelerated to 5.3% in May, from around 4.4% in the first 4 months of the year. Real wages increased slightly to 1.8% in May from 1.6% a month before.

### External sector

The annualised balance in goods and services recorded a slightly lower surplus of 10% of GDP in the four quarters to end-March. The annualised current account deficit widened by around 2 percentage points of GDP, to 11.8% of GDP mainly due to a higher deficit in the income balance. Excluding accrued interest of the banks in winding-up proceedings, the current account recorded a much smaller annualised deficit of 3% of GDP in the same period, according to estimates of the central bank.

Merchandise trade data for the second quarter indicate a further deterioration of the trade balance. Both merchandise export and import growth accelerated in May, but the growth of imports continued to outpace exports growth. The trade surplus declined both in April and May, by 17.5% and close to 60%, respectively. In fact, in the first five months, goods imports have been growing around three times faster than goods exports, leading to a lower trade surplus during this period as compared to the corresponding pre-year period (i.e. 2.7% of GDP as compared to 3.6%).

Total net capital inflows in the first quarter of 2011 were larger than the amounts needed to finance the current account deficit. As a result, gross official foreign exchange reserves held at the central bank increased by an amount equivalent to around 6% of GDP, reaching 50% of GDP by end-March.

A very high level of external debt continues to represent a key challenge to the Icelandic economy. Official debt statistics report the stock of gross foreign debt at 867% of GDP (end-2010). However, corrected for foreign debt of banks in winding up proceedings and of one single international company (the pharmaceutical company Actavis) with headquarters in Iceland but nearly its entire operations abroad, Iceland's total external debt appears to be considerably lower. The central bank estimates the "corrected" external debt stock at around 200% of GDP and Iceland's net international investment position at a negative 23% of GDP. This compares favourably with a pre-crisis external debt of around 570% of GDP.

### Monetary developments

The continuation of monetary policy easing led to a further fall of the key policy rate to a historical low at 4% in May 2011, compared to the peak of 18% in March 2009. The overnight interbank rate has remained somewhat below the policy rate as a result of the banking sector's high liquidity.

Annual inflation fell below the Central Bank's official 2.5% target at the beginning of 2011. However, since then it accelerated markedly to 4.2% in June, largely due to a weaker currency, rising oil prices and higher costs for housing and food. Inflation expectations have risen in recent months after having fallen in 2010.

In early 2011 the króna started to weaken slightly, partly due to large purchases of foreign exchange by the central bank at end-2010 and as a result of seasonal factors. In the first five months of 2011, the króna lost 7.5% of its value vis-à-vis the euro.

### Financial sector

The refinancing of the banking sector has been largely completed even though further operational and financial restructuring is required to allow for the resumption of bank lending and consolidation in the sector. The market remains dominated by the three 'new' banks that emerged from the financial collapse in autumn 2008. They have been recapitalised

and are now much smaller in size compared to pre-crisis levels, focusing on domestic operations. Credit growth continued to be negative in the second quarter and domestic private credit is estimated at 105% of GDP in mid-2011, somewhat lower than a year before and only a fraction of the pre-crisis level.

Despite rather high capital adequacy ratios of above 12% of tier 1 capital, banks are faced with vulnerabilities arising from weak asset quality and currency and maturity mismatches. Private households and businesses continue to suffer from high indebtedness and default is widespread. The non-performing loan ratio has further increased to 45% of total loans by mid-2011. Efforts at private sector debt restructuring have continued on the basis of new measures for households and SMEs in December. Deposits continued to fall in the second quarter. Nonetheless, deposits represent by far the largest share in bank funding, equivalent to around 90% of outstanding loans at mid-2011.

Bond and stock markets still play a very minor role in financial intermediation, with most trading taking place in government-guaranteed bonds. The stock market index continued to recover somewhat, but remains volatile.

### Fiscal developments

The 2011 budget targets a primary surplus and contains fiscal consolidation measures equivalent to around 2.7% of GDP with most of the adjustment on the expenditure side (2% of GDP), including freezes on wages and transfers and cuts in investments. In the first three months of the year, total general government revenues increased by 3.2% and total spending dropped by 1.4% compared to the same quarter of the previous year. The decrease in spending was largely the result of a 20% fall in investment spending and lower interest costs, while current primary spending continued to increase in nominal terms. The general government balance recorded a deficit of 3.5% of (quarterly) GDP, the lowest since the crisis hit public finance. This compares to a deficit of 5.6% in the first quarter of 2010.

General government debt level remained relatively high, estimated at close to 100%. This compares to around 29% of GDP in 2007, prior to the crisis. The jump reflects cyclical effects, costs of financial sector restructuring, as well as external borrowing from official sources to bolster foreign reserves. The government's official target is to reduce the central government debt ratio to 70% of GDP by 2014.

# TABLE



European Commission, ECFIN-D-1

## ICELAND

		2006	2007	2008	2009	2010	ECFIN Forecast		Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
							2011	2012						
<b>1 Real sector</b>														
Industrial outlook <sup>1.1</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	18.7	28.5	76.9	10.3	-0.6	:	:	-1.0	-1.5	:	0.1	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	4.6	6.0	1.4	-6.9	-3.5	1.5	2.5	0.0	3.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	3.6	5.6	-7.9	-15.6	-0.2	2.3	2.7	2.8	1.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	22.4	-11.1	-19.7	-50.9	-8.1	14.0	16.0	-8.1	13.3	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	27.9	12.1	-21.2	-23.4	:	:	:	:	:	:	:	:	:
Retail sales <sup>1.7</sup>	Ann. % ch	8.0	7.9	-9.2	-22.8	-4.2	:	:	-1.7	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	2.9	2.3	3.0	7.2	7.5	6.9	6.2	7.4	7.8	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	5.1	4.5	0.7	-6.1	-0.3	0.6	1.1	-0.5	-1.0	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	9.5	9.0	8.1	3.9	4.8	4.0	4.0	5.1	4.3	:	4.4	5.3	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	24.9	25.7	52.6	7.3	12.0	:	:	6.2	0.6	:	2.2	8.3	:
Imports of goods <sup>3.2</sup>	Ann. % ch	38.9	-1.5	20.2	-13.3	7.4	:	:	3.6	7.0	:	6.4	39.5	:
Trade balance <sup>3.3</sup>	% of GDP	-13.4	-6.7	-0.4	6.0	7.8	7.1	6.8	7.8	7.3	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	32.2	34.6	44.3	52.9	56.5	:	:	56.5	55.8	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	50.0	45.3	47.1	44.3	45.9	:	:	45.9	45.8	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-23.8	-15.7	-24.5	-11.6	-9.7	-6.2	-5.5	-9.7	-11.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	-10.2	-16.5	30.4	-18.2	38.8	:	:	38.8	31.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1 824.5	1 793.5	2 565.3	2 661.7	4 369.0	:	:	4 369.0	4 747.3	:	4 655.5	4 320.3	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	4.8	4.7	8.0	13.4	19.1	:	:	19.1	19.9	:	19.3	17.5	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	6.7	5.1	12.7	12.0	5.4	3.0	2.7	2.8	2.0	3.5	2.8	3.4	4.2
Producer prices <sup>4.2</sup>	Ann. % ch	:	1.8	31.0	11.3	11.8	:	:	2.2	3.5	:	6.0	6.3	:
Food prices <sup>4.3</sup>	Ann. % ch	8.0	-1.1	16.0	17.5	4.2	:	:	1.0	1.7	2.2	0.2	1.8	4.6
M3 <sup>4.4</sup>	Ann. % ch	19.8	36.1	41.2	15.6	-6.6	:	:	-10.0	-8.8	:	-7.9	-7.0	:
Exchange rate ISK/EUR <sup>4.5</sup>	Value	87.8	87.7	127.6	172.2	161.6	:	:	153.5	158.6	164.1	163.1	164.0	165.3
Nominal eff. exchange rate <sup>4.6</sup>	Index	89.5	90.9	65.9	47.6	48.7	:	:	51.1	49.3	:	48.8	48.3	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	12.35	14.28	15.84	11.28	6.79	:	:	4.82	4.04	4.00	4.00	4.00	4.00
Bond yield <sup>5.2</sup>	% p.a.	9.21	N.A.	11.00	8.15	5.38	:	:	4.75	5.01	5.76	5.32	5.82	6.14
Stock markets <sup>5.3</sup>	Index	5 494	7 017	3 510	465	563	:	:	578	611	620	621	627	613
Credit growth <sup>5.4</sup>	Ann. % ch	45.5	27.3	-34.0	-8.5	-3.1	:	:	-2.2	-3.7	:	-3.0	-3.5	:
Deposit growth <sup>5.5</sup>	Ann. % ch	19.9	36.5	31.5	-1.3	-7.1	:	:	-10.6	-9.4	:	-8.6	-7.6	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	6.3	5.4	-13.5	-10.0	-7.8	-4.9	-3.6	-13.8	-3.5	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	30.1	28.6	70.3	106.8	124.1	94.3	93.0	:	:	:	N.A.	N.A.	N.A.

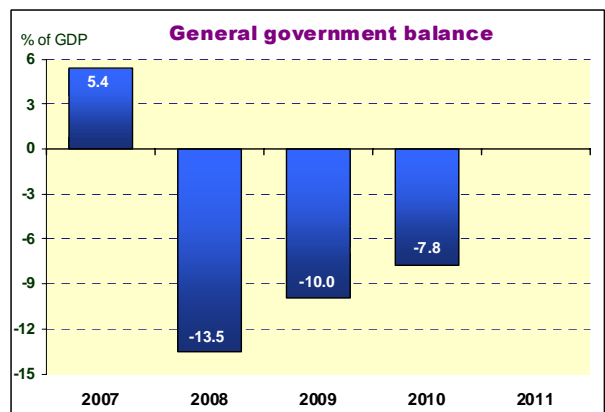
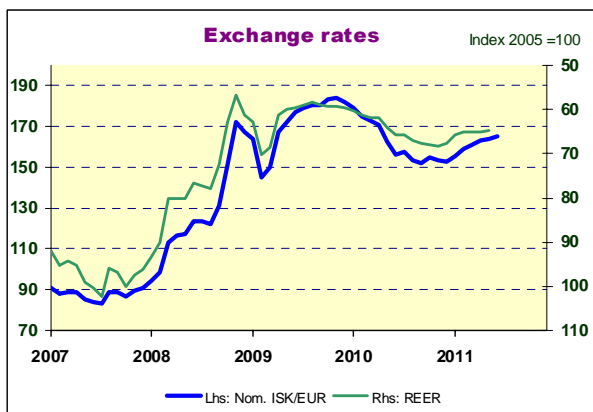
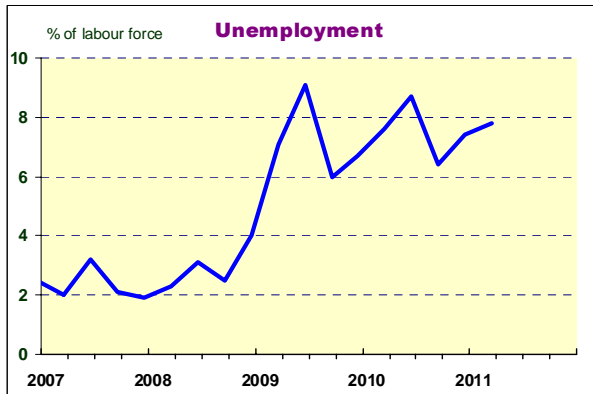
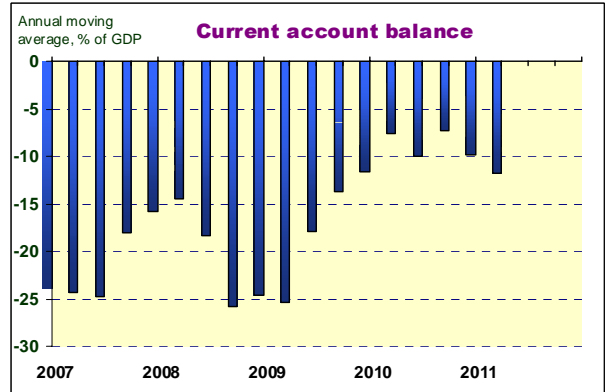
f: ECFIN forecast Spring 2011

# CHARTS

European Commission, ECFIN-D-1



## ICELAND







## Key developments

On 1<sup>st</sup> July Montenegro and Croatia initiated the implementation of a trade liberalization agreement, enabling duty free import of goods from Montenegro and a gradual liberalisation of imports from Croatia.

The Privatisation Council published the tenders for the sale of the hotel company Ulcinjska Rivijera as well as the long-term lease (90 years) of the land and other facilities of this company and for the holiday resort of Valdanos Beach.

## Real sector

According to preliminary Eurostat estimates, Montenegro GDP per capita in purchasing power standards (PPS) stood at 40% of the EU27 average in 2010.

Industrial production fell by 24% year-on-year in May, contracting by 65% over the year. This primarily results from base effects as energy production was high in 2010. Mining, steel, food, beverages and tobacco also recorded contraction over the year. By contrast, overall manufacturing increased by 9%, led by the expansion of non-ferrous metals, as well as by production of chemicals, construction materials, machinery and equipment. The construction industry continued expanding in the first quarter of 2011, recording increases in the value of finalised construction works (18% year-on-year), as well as a 25% expansion of the number of effective working hours in this sector.

On the demand side, retail sales expanded in nominal terms by 15.7% year-on-year in May. The cumulative turnover in the first five months of the year accounted for 11% of annual GDP.

## Labour market

The unemployment rate further declined reaching 11.3% in June, compared to 12.2% at the end of 2010 and 11.9% in the same month last year. The number of job vacancies in the first half of 2011 increased by 18% year-on-year, while the number of newly employed foreign workers (9,700) increased faster than domestic ones (8,900).

Gross wages contracted by 1.8% year-on-year in May and net wages by 1.6%. Moderation was driven by the agriculture, mining, manufacturing and construction sectors, while services (trade, health, education and state administration) witnessed some acceleration. The indexation of salaries, in compliance with the General Collective Agreement adopted last December, started in July, resulting in an average increase of public sector wages by 2.1% to EUR 470.

## External sector

Merchandise exports contracted by 7% year-on-year in May, after they had surged in the previous nine months. At the same time, the preparation of the summer tourist season translated into an acceleration of imports (14% year-on-year), resulting in a deterioration of the trade deficit of 22% to EUR 125 million.

During the first five months of the year the number of tourist increased by 4.2% year-on-year. While the number of domestic tourist surged by 11%, foreign ones increased more moderately by 2.4%. Yet, the overall number of overnights increased modestly by 0.5%.

Net FDI fell by 16% year-on-year in the first four months of 2011, totalling EUR 145 million or some 4.5% of the projected GDP for the year. Equity investments represented some 70% of total inflows, of which 26% referred to real estate sales, and 23% to intercompany debt. In the outflow structure, residents' investment abroad (EUR 9.4 million) were slightly higher than non-residents withdrawals (EUR 8.6 million).

## Monetary developments

The Central Bank announced a decrease of the reserves requirement ratio in October for deposits with maturity above one year, the statutory reserves of domestic commercial banks have contracted by 1.7% year-on-year in April to EUR 165 million.

The Central Bank removed in April the ban set on Prva Banka lending activities since end 2008, after the bank was recapitalised, in compliance with the supervisory action plan. The largest domestic bank (CKB) also recovered in May from a long period of credit inactivity after clearing-out its balance sheet. The bank also increased its share capital by 10% in early June.

Consumer price inflation slightly declined to 3.6% in May after two consecutive months at 3.7%. The highest price increases were recorded in tobacco and beverages as well as transport, health and food. By contrast, housing and household furnishing sustained a downward trend. The inflation since the start of the year moderated to 3.1% from 3.3% in April.

### Financial sector

The weighted average effective interest rate on loans was 9.68% in April 2011 (or 23 basis points higher than a year before). By contrast, the weighted average interest rate for deposits further contracted to 3.04% from 3.99% a year earlier.

Bank assets increased by 0.7% year-on-year in April, after falling by 0.5% in the previous month. The assets of domestic banks had recorded almost a two-year period of decline until January 2011. Bank assets represent some 92% of GDP in April.

Bank lending contracted by 10.8% year-on-year in April, although the total amount of loans remained unchanged compared with the previous month. The total credits extended by commercial banks accounted for 65% of GDP, compared to 77% a year earlier.

Bank deposits increased in April by 2.7% year-on-year. The growth was mainly driven by the increase of households' savings by 14% year-on-year, as those from the corporate and government sector contracted by 0.6% and 14% respectively.

Overall, banks' capital contracted in the first quarter of 2011, bringing the capital adequacy ratio down to 15.4% in March, compared with 15.9% at the end of last year. Banks recorded an aggregated loss of EUR 17 million. The aggregate return on assets as well as on equity remained negative in March at -2.4% and -23% respectively. The ratio of non-performing loans accounted for 21% of total loans at the end of March.

In order to support the liquidity of domestic SMEs the Investment Development Fund introduced in June a factoring facility of EUR 5 million for 2011.

The Securities Commission licensed in June the brokerage company Bull and Bear for margin trading. Meanwhile, the value of the Montenegro Security Exchange MONEX20 remained on a downward trend, contracting by 21% in the first half of 2011.

### Fiscal developments

General government revenues totalled EUR 239 (or 7.5% of GDP) in the first quarter of 2011. Both social security contributions and VAT income performed some 3% above the plan. However, revenues from the personal income tax and the corporate income tax fell short of the target by 2.5% and 27% respectively. Moreover, despite the increase of tobacco excises, this source of revenues was 10% below the plan. Total public consumption represented 9.2% of GDP in the same period. Most of the expenditure items were below the target with the exception of gross wages and contributions (99%) as well as social protection transfers (106%). Major cuts of some 40% were recorded in maintenance, other personal income, and capital budget. Overall, the consolidated budget deficit reached EUR 55 million, or 1.7% of GDP.

Montenegro successfully concluded negotiations with the World Bank on a EUR 59 million loan for budget support and financial sector reforms, to be disbursed by the end of 2011. The loan's interest will equal the six-month EURIBOR plus 0.8 pps.

Public debt reached 40% of GDP in March 2011, down from 42% at the end of 2010. However, the debt stock increased in the first quarter of 2011 by 0.8% in nominal value, driven by the increase of domestic debt by EUR 24 million, of which 18 million concerned the issuance of new state guarantees. By contrast, public foreign debt, which accounts for 70% of total indebtedness, decreased by EUR 13 million during the same period.

## TABLE

European Commission, ECFIN-D-1



### MONTENEGRO

		2006	2007	2008	2009	2010	ECFIN Forecast		Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
							2011	2012						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	1.0	0.1	-2.0	-32.3	23.3	:	:	43.7	0.0	:	-20.4	-24.4	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	8.6	10.7	6.9	-5.7	1.1e	2.4	4.0	:	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	:	:	:	-7.7	3.1f	4.7	6.1	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	:	:	:	-25.3	3.9f	7.1	12.1	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	-3.2	45.7	-21.5	13.1	:	:	60.7	22.5	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	40.8	22.3	-9.0	1.6	:	:	-0.1	18.7	:	11.7	15.7	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	14.7	11.9	10.7	11.4	12.2	19.4	17.9	12.2	12.4	:	12.2	11.3	:
Employment <sup>2.2</sup>	Ann. % ch	4.5	3.7	6.3	4.8	-7.1	0.7	2.5	-9.0	-7.8	:	0.9	2.6	:
Wages <sup>2.3</sup>	Ann. % ch	15.6	14.2	22.8	5.7	11.0	5.1	3.8	14.4	7.8	:	1.7	-1.8	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	40.7	-20.4	-12.7	-34.2	20.3	:	:	31.4	91.8	:	37.0	-6.8	:
Imports of goods <sup>3.2</sup>	Ann. % ch	53.7	39.6	22.1	-34.6	0.3	:	:	-3.5	12.2	:	9.6	14.0	:
Trade balance <sup>3.3</sup>	% of GDP	-39.5	-58.7	-68.1	-46.0	-43.6	-45.0	-49.6	-43.6	-42.4	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	49.4	44.4	39.5	32.1	36.5	:	:	36.5	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	79.1	86.7	94.0	65.4	65.2	:	:	65.2	:	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-24.7	-39.6	-51.3	-30.1	-25.7	-27.3	-31.0	-25.7	-23.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	21.7	20.8	18.9	35.8	18.0	:	:	18.0	17.2	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	310.3	467.9	313.0	397.5	416.4	:	:	416.4	307.8	:	469.4	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	N.A.	3.3	1.5	2.9	3.0	:	:	3.0	2.2	:	3.3	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	3.0	4.3	7.4	3.4	0.5	3.7	2.2	0.7	2.3	:	3.7	3.6	:
Producer prices <sup>4.2</sup>	Ann. % ch	3.1	8.5	14.0	-3.8	-0.7	:	:	0.5	4.3	:	4.7	1.9	:
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	N.A.	9.0	3.3	0.3	:	:	2.3	3.5	:	6.1	6.1	:
M21 <sup>4.4</sup>	Ann. % ch	82.9	71.9	-14.3	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate <sup>4.6</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	1.21	:	:	:	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	1.17	0.90	:	3.63	3.37	:	:	2.58	2.69	2.72	2.72	:	:
Stock markets <sup>5.3</sup>	Index	14406	36159	19947	13303	13993	:	:	13923	14298	12317	12898	12190	11864
Credit growth <sup>5.4</sup>	Ann. % ch	125.3	165.1	24.6	-14.3	-8.2	:	:	-8.2	-11.2	:	-10.8	:	:
Deposit growth <sup>5.5</sup>	Ann. % ch	120.5	94.4	-4.8	-8.3	-1.9	:	:	-1.9	0.9	:	2.7	:	:
Non-performing loans <sup>5.6</sup>	% of total	7.6	3.7	7.2	13.5	21.2	:	:	21.2	:	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	3.4	6.6	0.5	-4.4	-3.7	-3.1	-0.1	-3.0	-1.7	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	32.6	27.5	29.0	38.2	42.0	44.7	42.7	42.0	40.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2011

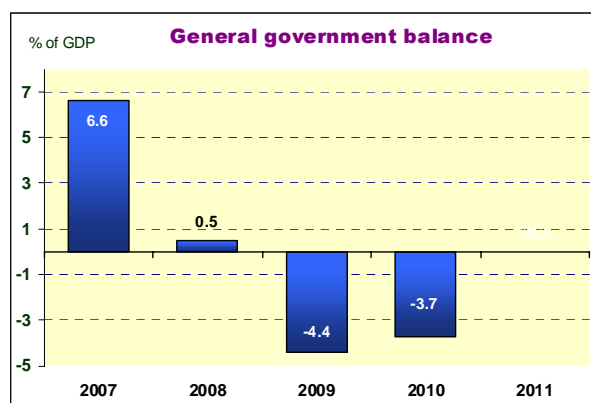
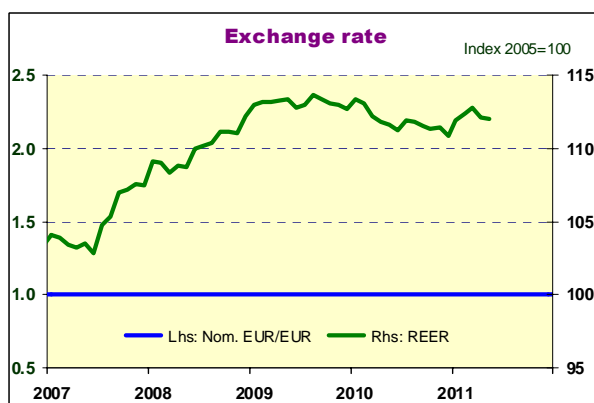
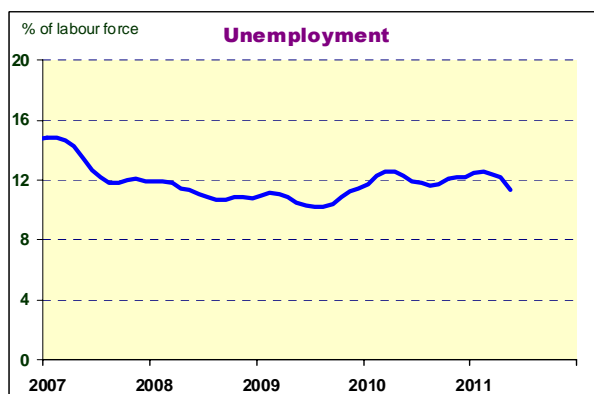
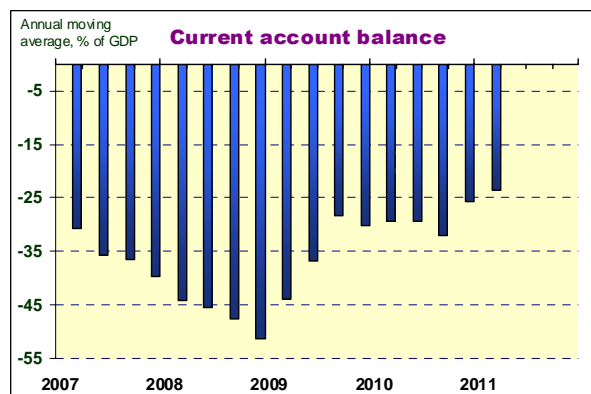
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# CHARTS

European Commission, ECFIN-D-1



## MONTENEGRO



# TURKEY



## Key developments

The results of the general election on 12 June 2011 have allowed the AK Party to form a single-party government for a third consecutive term. However, because the main opposition party, the Republic People's Party (CHP) increased its share of the vote and the number of independent candidates elected also rose, the government has a smaller majority of 326 out of a total of 550 seats in parliament, down from 341 before the election.

Prime Minister Erdogan received the official mandate from President Gul to form the new government, and unveiled the new cabinet, which includes 25 ministers on 6 July. Most key ministers, including Foreign minister Davutoglu, deputy Prime Minister Babacan, and finance minister Simsek kept their posts in the new government. Turkey's new parliament opened in a tense atmosphere as the main opposition party and Kurdish deputies boycotted the meetings in protest over lawmakers kept in prison.

## Real Sector

After a steep recovery in 2010 when the Turkish economy grew by 8.9% year-on-year, rapid economic expansion continued with a 11% year-on-year GDP growth in the first quarter of 2011. However, on a quarterly basis, growth slowed to 1.4%, compared to 3.6% quarter-on-quarter in the final quarter of 2010.

Growth remains domestically-driven, with private consumption expanding 12.1% year-on-year and gross fixed capital formation growing by 33.6%. Government consumption increased 6.7% year-on-year in the first quarter of 2011, preceding the June parliamentary elections. While exports increased by 7.7%, import growth of 27% caused net exports to contribute negatively to the first quarter GDP growth.

On the supply side, several sectors recorded double digit growth; manufacturing expanded 12.3% year-on-year, construction also contributed to the strong GDP growth with 14.8%. The trade sector grew at 17.2% year-on-year while the transport sector's expansion came in at 12.2%. (I delete because it breaks the sequencing of the text here but you can re-insert it somewhere else). However, the behaviour of leading indicators (PMI, industrial orders), and the slippage in month-on-month manufacturing growth suggest that there could be a noticeable reversal to some of these trends.

## Labour market

In tandem with the strong recovery, the unemployment rate declined. Unemployment fell by 3% in the year to March 2011, and stood at 10.8%, the lowest figure since July 2010. The seasonally-adjusted unemployment figure amounted to 9.9% compared with 12.6% a year before. On a month-on-month basis, overall and non-farm unemployment declined by 0.7% and 0.8% respectively.

Employment data show a marked improvement, as the number of employed increased by over 1.55 million in the year to March 2011, 75% being in the non-agricultural sector. The labour participation rate rose to 49% in March from 48.2% a year ago. Nevertheless, substantial gender disparities in labour markets persist and female employment remains particularly low, at about 20%, compared with over 60% for men.

## External sector

As in previous months, Turkey's trade deficit continued to widen in May 2011, with the growth of imports (43%) outstripping that of exports (12%). Export growth was the lowest in over one year, and although the slowdown was widespread, it was more pronounced in intermediate goods category.

Most likely due to political developments, the share of exports to Near and Middle East fell slightly. By and large, Turkey's widening trade

deficit reflects a rise in global commodity prices, especially energy products, as well as the large divergence between robust domestic demand and sluggish external demand. The current account deficit edged up rapidly, in tandem with the widening trade deficit.

After reaching 6.6% of GDP in 2010, Turkey's current account deficit continued to widen in early 2011. In the 12 months to April, the current account deficit reached USD 63.4 billion, or around 8% of GDP. Turkey easily financed its current account deficit by capital account surpluses of about EUR 1 billion every month. However, the financing continued to rely on shorter-term capital inflows, while the share of FDI remains low by historical standards. Reserves rose by about EUR 4 billion to roughly EUR 85 billion (i.e. 7 months of merchandise imports).

### Monetary developments

Concerns about Turkey's growing current-account deficit and the impact on the country's financial stability of this and strong short-term capital inflows continued to make the central bank of Turkey's task of setting monetary policy highly challenging. Instead of raising rates, as central banks in most booming emerging markets have done, the Turkish central bank cut its key interest rate, the one-week repo (repurchase) lending rate, by a total of 75 basis points in late 2010 and early 2011, to 6.25%, to try to dampen short-term capital inflows; and it simultaneously aggressively raised banks' required reserves for short-term liabilities.

The Turkish currency, government securities and equity prices were under pressure in the second half of May and early June. In nominal effective terms (50% EUR and 50% USD) the currency depreciated by a cumulative 10% since early January. To lend some support to the TRL, the central bank decided in June to reduce its foreign-exchange purchases. The weaker currency, in combination with a decline in the unemployment rate towards pre-crisis levels (in the face of higher labour force participation) may indicate that demand-pull inflation pressures could combine with high commodity prices and less favourable base effects and put strong upwards pressure on inflation.

In June, annual CPI increased by 6.2% year-on-year, above the central bank's 5.5% central end-year inflation target. Food prices rose by 8.1% and transport prices increased 9.5%. Producer

prices continued to rise, reaching 10.2% year-on-year in June from 9.6% in May. Both the central bank's core inflation indexes increased in June (up 5.7% and 5.3%, respectively).

### Financial sector

The robust recovery has been accompanied by strong credit growth, fuelling consumption and investment. Credit provision has been broad-based across currency, type of bank and borrower, with a recent tilt toward housing and profitable general purpose loans. According to the Turkish banking regulator, credit growth continues to expand at a significantly higher pace than the 25% targeted by the authorities. Through the first four months of 2011, total loans increased 36% over the same period last year. Total consumer loans, excluding credit cards, increased almost 42% year-on-year in April, while consumer loans including credit cards increased by 36% year-on-year.

In an attempt to actively curb loans, the banking regulation and supervision agency announced various macroprudential measures, mostly targeting consumer lending, including by increasing provisioning requirements and changing the risk-weighting attached to short-term consumer loans. While most analysts agree that these measures are a move in the right direction, some question the overall effectiveness of the recent decisions and wonder whether more measures are needed.

### Fiscal developments

Thanks primarily to cyclical factors, Turkey continues to report strong fiscal results, with the overall budget balance improving on an annual basis due to a surge in tax revenues and falling interest expenditures. Non-interest expenditures have increased 6.2% year-on-year in the five months preceding the elections, while budget revenues were up 16.3% year-on-year. Interest expenditures were down 13.8% year-to-date in 2011 compared to 2010.

The budget deficit target for 2011 amounts to 2.8% of GDP compared with a deficit of 3.6% in 2010. The government announced a tax amnesty in June and expects an additional revenue of EUR 6.8 bn this year (about 1% of GDP), which would be primarily used for debt reduction. Since 2009, public debt fell significantly and currently amounts to about 40% of GDP.

# TABLE



## TURKEY

European Commission, ECFIN-D-1

		2006	2007	2008	2009	2010	ECFIN Forecast		Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
							2011	2012						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	102.4	111.5	90.1	87.3	110.3	:	:	107.1	113.1	116.2	116.7	117.2	114.6
Industrial production <sup>1.2</sup>	Ann. % ch	7.3	7.0	-0.6	-9.9	13.1	:	:	12.1	14.2	:	8.3	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	6.9	4.7	0.7	-4.8	8.9	6.1	5.5	9.2	11.0	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	4.6	5.5	-0.3	-2.3	6.6	5.1	4.3	9.0	12.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	13.3	3.1	-6.2	-19.0	29.9	15.0	5.1	42.1	33.6	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	38.7	9.8	-4.4	-7.9	77.4	:	:	185.6	-21.6	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	9.9	9.9	11.0	14.1	12.0	10.2	9.8	11.0	11.5	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	-0.4	-3.6	1.3	0.4	6.2	0.9	1.4	5.1	7.2	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	10.9	9.8	11.7	9.9	10.8	7.0	4.9	12.0	8.2	:	:	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	14.8	14.9	14.8	-18.2	17.5	:	:	20.5	22.0	:	17.3	-2.3	:
Imports of goods <sup>3.2</sup>	Ann. % ch	17.7	11.6	10.4	-26.3	39.2	:	:	48.1	46.8	:	30.1	24.8	:
Trade balance <sup>3.3</sup>	% of GDP	-7.8	-7.2	-7.1	-4.0	-7.7	-10.3	-10.4	-7.7	-9.0	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	22.7	22.3	23.9	23.3	21.1	:	:	21.1	21.3	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	27.6	27.5	28.3	24.4	26.6	:	:	26.6	28.3	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-6.1	-5.9	-5.6	-2.3	-6.6	-7.7	-8.1	-6.5	-7.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	3.6	3.1	2.3	1.1	1.1	:	:	1.1	1.3	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	bio EUR	68.8	74.4	84.8	75.0	80.3	:	:	80.3	81.2	:	79.4	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	7.4	7.2	7.4	8.9	6.9	:	:	6.9	6.4	:	6.1	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	9.6	8.8	10.4	6.3	8.6	6.5	5.5	7.4	4.3	:	4.3	7.2	:
Producer prices <sup>4.2</sup>	Ann. % ch	9.3	6.3	12.7	1.2	8.5	:	:	9.0	10.6	:	8.2	9.6	:
Food prices <sup>4.3</sup>	Ann. % ch	9.7	12.4	12.8	8.0	10.6	:	:	12.1	5.0	:	2.8	12.6	:
M4 <sup>4.4</sup>	Ann. % ch	32.9	17.8	23.7	17.4	21.2	:	:	23.5	25.1	:	24.9	24.6	:
Exchange rate TRY/EUR <sup>4.5</sup>	Value	1.80	1.78	1.91	2.16	2.00	:	:	1.99	2.16	2.25	2.20	2.26	2.31
Nominal eff. exchange rate <sup>4.6</sup>	Index	26.18	26.73	25.77	23.24	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	18.07	18.85	18.04	10.68	7.95	:	:	8.11	8.00	8.50	8.17	8.49	8.84
Bond yield <sup>5.2</sup>	% p.a.	:	18.13	19.30	11.66	8.47	:	:	7.64	8.26	8.79	8.59	8.74	9.03
Stock markets <sup>5.3</sup>	Index	39 867	48 270	37 582	37 510	59 484	:	:	67 808	64 676	65 453	68 123	65 645	62 591
Credith growth <sup>5.4</sup>	Ann. % ch	48.6	28.6	31.5	8.0	29.5	:	:	39.2	43.7	:	43.5	43.6	:
Deposit growth <sup>5.5</sup>	Ann. % ch	33.1	17.7	21.8	18.0	18.0	:	:	20.1	20.4	:	19.3	19.8	:
Non-performing loans <sup>5.6</sup>	% total	5.2	4.7	4.2	6.4	5.8	:	:	4.9	4.2	:	3.8	3.7	:
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-0.1	-1.0	-2.2	-5.7	-3.6	-2.8	-2.2	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	46.1	39.4	39.5	43.7	41.6	40.1	38.5	:	:	:	N.A.	N.A.	N.A.

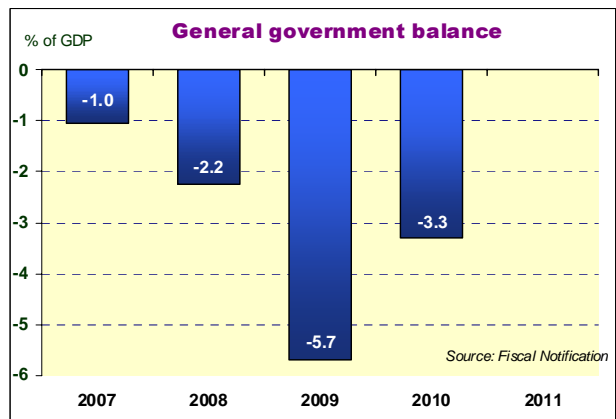
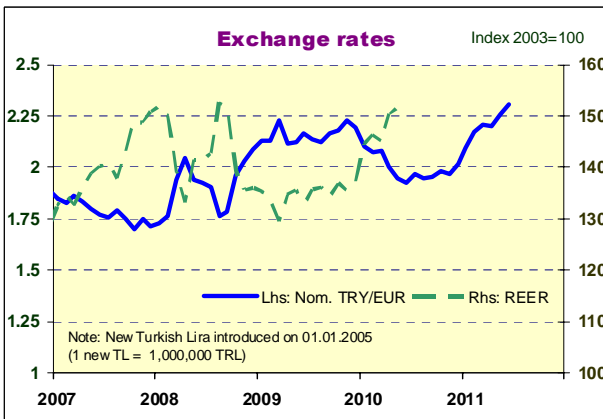
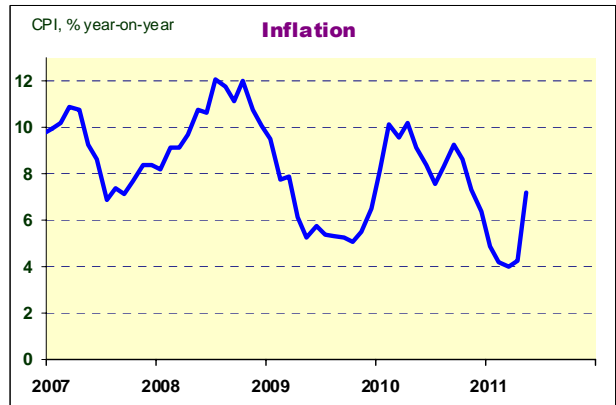
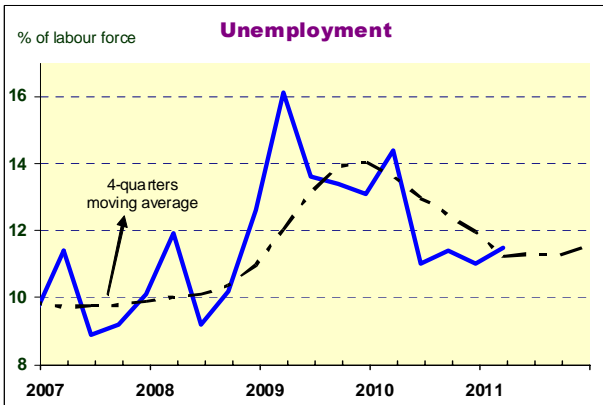
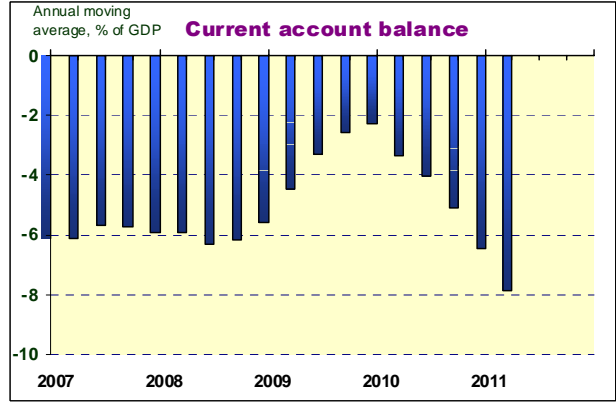
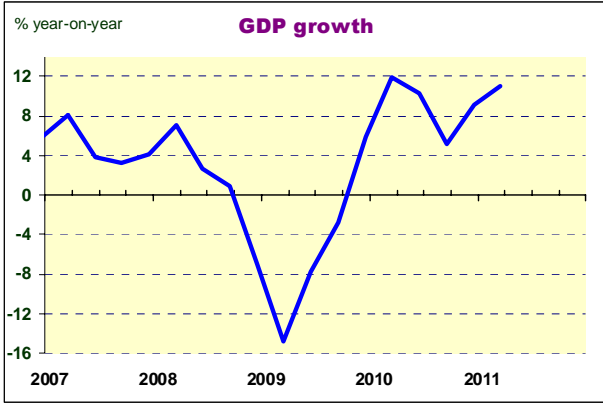
f: ECFIN forecast Spring 2011

# CHARTS

European Commission, ECFIN-D-1



## TURKEY







## Key developments

The local government elections were held on 8 May. According to the OSCE, the elections were competitive and transparent, but were marred by a high degree of polarisation and mistrust between the political parties. The deep divisions along party lines together with the delayed conclusive results for the election of Tirana's mayor continue to weigh on the country's economic performance.

In April, the parliament adopted a fiscal amnesty law by which individuals and businesses can legalise undeclared assets and have unpaid taxes and social contributions pardoned subject to certain conditions. There has been no official estimate of the budgetary impact of the law, which came into force in mid-May, and of the potential number of eligible applicants.

On May 26, the parliament endorsed an agreement between the government and the Islamic Development Bank (IDB) for the financing of the Tirana-Elbasan highway. According to the agreement, the IDB will be providing some EUR 152 million with a maturity of 17 years and an interest rate of around 5%. Construction work on the project, which is estimated to cost EUR 270 million, began in May and is planned to be completed by mid-2013.

## Real sector

Provisional data show that real GDP grew by 3.4% year-on-year in the first quarter of 2011, decelerating from 5.6% in the final trimester of 2010. The slower pace of economic activity was due to lower growth in the industry, trade, hotels and restaurants and transport sectors which together account for some two-fifths of output. Construction, which contracted in the previous five quarters, grew by 4.8% reflecting base effects as well as increased public capital spending. Post and communication continued to contract in the first quarter of 2011, albeit at a lower pace.

## Labour market

The rate of unemployment remained practically

unchanged at 13.4% in the first quarter of 2011, representing a decline of 205 registered jobseekers compared to the previous quarter. Year-on-year employment growth amounted to 2.2% in the first trimester, mostly due to a strong increase of 4.2% year-on-year in private non-agriculture employment. Employment with the public sector continued to decline, while the sector's average wage rose by 8.3%, year-on-year.

## External sector

The current account deficit deteriorated in the first quarter of 2011, increasing by 4.7% year-on-year. Nevertheless, the current account deficit for the four quarters to Q1 2011 declined to EUR 1.1 billion from EUR 1.3 billion in the corresponding period a year earlier, reflecting the improvement in the external imbalance in recent quarters.

In the first quarter of 2011, foreign sales of goods rose by a sizeable 46% year-on-year, driven primarily by higher exports of electricity and construction materials. Leather goods and textiles also posted strong increases. In April merchandise exports decelerated and contracted in May following a sharp fall in electricity exports. Imports of goods rose by some 16% in the first quarter of 2011, boosted by higher import of machinery and equipment amid an increase in public investment. Increases were also recorded for import of food as well as minerals and fuel in the wake of higher global prices of these commodities. Imports of goods continued to increase in April and May. As is characteristic in the first quarter, the services account posted a deficit which, however, was higher than in the same period of 2010 as the increase in travel outflows surpassed the rise in earnings from inbound tourism. In the first quarter of 2011, current transfers declined by almost 7% year-on-year amid a continued decline in workers' remittances. Inflows of remittances, which represent the bulk of current transfers, fell by almost 10% compared to the same period a year before.

Net FDI in the first quarter of 2011 was around one-third that registered in the corresponding period of 2010. Although FDI inflows increased year-on-year, a significant amount of foreign capital was repatriated resulting in a sharp drop

in net FDI. The negative balance on portfolio investment fell marginally in the first quarter of 2011. Other investment increased fivefold mostly in the wake of higher currency and deposits inflows. The balance of payments was in deficit in the first quarter of 2011 which led to a corresponding fall in reserves of some EUR 77 million. Foreign reserves in the first quarter of 2011 provided 4.3 months of import cover. Gross external debt stood at EUR 3.7 billion in the first quarter of 2011, representing a year-on-year increase of slightly less than 10%. Government long-term borrowing constitutes some 51% of gross external debt.

### Monetary developments

The annual growth of the monetary aggregate M2 accelerated during the first half of 2011, rising from 5.3% in January to 6.8% in May.

After reaching a peak of 4.5% (year-on-year) in February 2011, inflation eased somewhat thereafter and stood at 4.2% in May, slightly above the Bank of Albania's (BoA) target range of 2-4%. The main contributor to the high inflation was food, which rose by 6.5% in May, and to a lesser extent fuel reflecting developments in international commodity prices. Higher prices were also recorded for tobacco.

The Supervisory Council of the BoA kept the key repo rate at 5.25% during the second quarter, after raising it by 25 basis points in March. In the second quarter of 2011, the Albanian currency weakened by 1.7% vis-à-vis the euro but appreciated by some 1.3% against the US dollar compared to the previous quarter.

### Financial sector

Interest rates on deposits generally continued to decline in the first five months of 2011. Compared to end-2009, the decline has been more pronounced for the 1-month interest rate which fell by 68 basis points to 4% by May 2011. The downward trend in the average yield of the 12-month Treasury bills, which started in November 2009, bottomed out at 6.8% in January 2011 before increasing again thereafter and stood at 7.4% in May 2011.

Deposits' growth slowed down in the first quarter of 2011 reaching 15.9% year-on-year and grew at practically the same pace in April and May. Foreign-currency deposits posted the strongest increase reaching 28% in May, against 14% for deposits denominated in lek. Credit growth accelerated in the first quarter of 2011 to

9.6% year-on-year but remains subdued by historical comparison. Lending growth continued to increase in April and May by 11.1% and 10.5%, respectively. Credit to the private sector accelerated from 13.9% year-on-year in January of 2011 to 16.1% in April, before receding slightly to 14.2% in May. The acceleration of household lending was more consistent, rising from 1.9% in January to 4.3% in May, year-on-year. During the period January-May 2011, credit to the public sector, which accounts for a small share of the total, continued to contract, although at a slower rate.

The loan-to-deposit ratio stood at 60.5% in May 2011 with relatively higher levels for foreign currency denominations (87%), whereas the ratio for loans and deposits denominated in lek remained below 40%. External borrowing by the banking sector increased slightly from 4.9% in January to 5.4% in May 2011.

The quality of bank loans continued to deteriorate with the share of non-performing loans as a percentage of total loans reaching 14.4% during the first quarter of 2011. During the same period, profitability indicators weakened while the capital adequacy ratio declined marginally to 14.8%, still above the BoA minimum requirement of 12%.

### Fiscal developments

According to cash-based government finance data, total revenue in the period January-May 2011 increased by 0.8%, year-on-year. Revenue from VAT and excise taxes - the major components of tax receipts - declined by 0.6% and 4.5%, respectively, partly reflecting the continued weak domestic demand. Social contributions increased by 9.4%, on the back of continued employment growth. Total expenditure rose by a significant 10.1% year-on-year in the period January-May. Current spending increased by 8.7%, mainly due to higher expenditure in operations and maintenance, subsidies and public service wages. Capital outlays rose by almost 10% as a result of new capital projects.

As a result of these developments, the budget deficit in the period January-May 2011 increased by more than 2.5 times to Lek 20.5 million from Lek 7.7 million in the same months of 2010. The deficit for the first five months of 2011 was slightly over one-fourth higher than planned. Almost nine-tenths of the deficit was financed from domestic sources.

# TABLE

European Commission, ECFIN-D-1



## ALBANIA

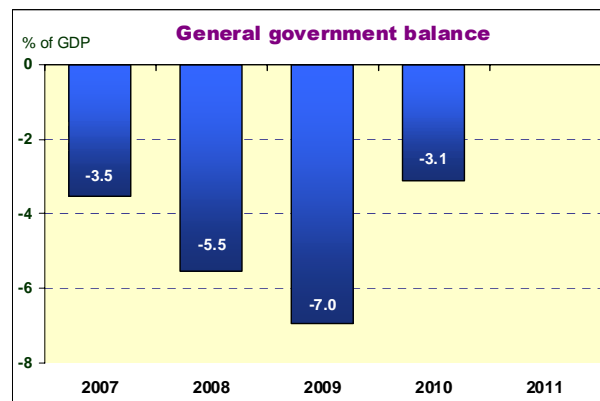
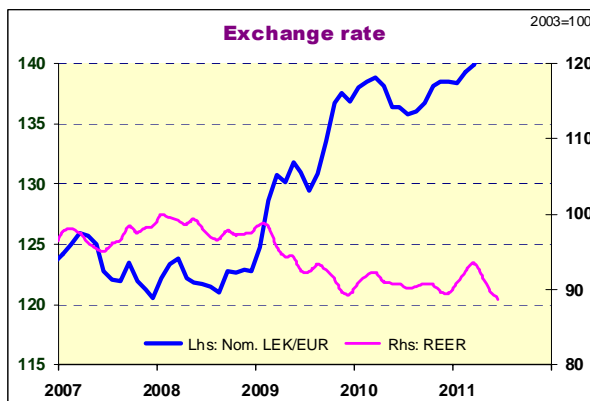
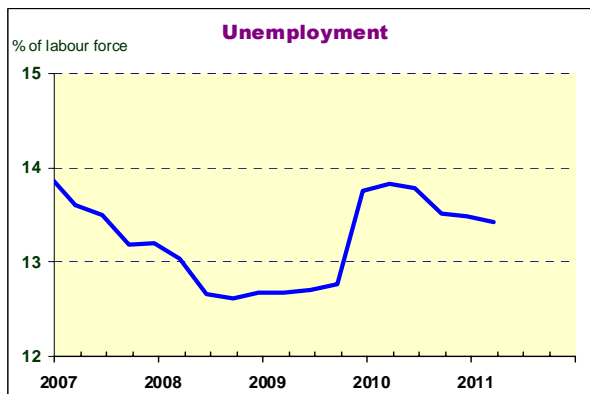
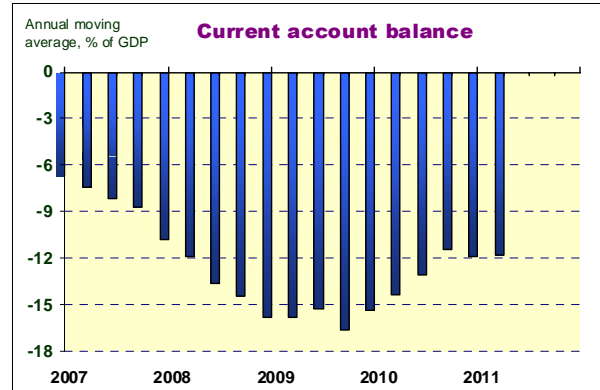
		2006	2007	2008	2009	2010	Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Percent	3.8	0.9	0.4	-13.4	-5.9	-1.7	1.0	:	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	12.1	-9.7	8.7	7.2	:	:	:	:	:	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	5.4	5.9	7.5	3.3	4.1	5.6	3.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	7.2	13.4	9.8	7.7	2.2	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	16.2	6.5	12.9	2.4	-5.2	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	1.1	2.5	1.2	0.0	0.3	0.5	0.5	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	10.9	23.7	-1.7	0.2	-1.1	-5.9	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	13.9	13.4	12.8	13.0	13.7	13.5	13.4	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	0.2	0.2	2.9	-0.8	-4.7	2.0	2.2	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	7.5	17.1	8.3	11.9	6.7	7.1	8.3	:	:	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	18.0	25.0	15.7	-11.8	62.5	50.2	46.1	:	13.5	-8.3	:
Imports of goods <sup>3.2</sup>	Ann. % ch	13.3	26.5	15.0	-1.7	10.9	11.4	16.2	:	19.5	11.7	:
Trade balance <sup>3.3</sup>	% of GDP	-23.1	-26.8	-27.3	-26.4	-23.4	-23.7	-23.3	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	24.9	28.0	29.2	28.3	32.2	32.7	33.9	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	48.4	54.6	55.7	53.2	53.6	54.4	55.5	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-6.6	-10.6	-15.4	-15.4	-11.9	-11.9	-11.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	3.5	6.0	7.0	7.8	5.9	5.9	6.8	7.6	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1305.8	1418.7	1638.9	1567.4	1825.3	1825.3	1710.8	:	1686.1	1713.2	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.8	5.9	5.9	6.2	6.7	6.7	6.1	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	2.4	2.9	3.4	2.3	3.6	3.1	4.0	:	4.1	4.2	:
Producer prices <sup>4.2</sup>	Ann. % ch	0.8	3.5	6.5	-1.7	0.3	0.6	3.1	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	3.0	5.2	4.9	4.8	4.1	5.8	:	6.1	6.5	:
M2 <sup>4.4</sup>	Ann. % ch	7.4	9.6	7.4	8.7	4.5	4.7	5.6	:	7.2	6.8	:
Exchange rate LEK/EUR <sup>4.5</sup>	Value	122.76	123.31	122.39	131.82	137.48	138.37	139.18	141.52	141.30	141.53	141.72
Nominal eff. exchange rate <sup>4.6</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	5.49	5.92	6.24	N.A.	:	:	:	:	:	5.51	:
Bond yield <sup>5.2</sup>	% p.a.	7.18	8.22	8.43	9.24	8.55	8.10	7.47	7.92	7.50	8.10	8.15
Stock markets <sup>5.3</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth <sup>5.4</sup>	Ann. % ch	60.9	53.9	43.8	20.5	8.6	8.6	9.6	:	11.1	10.5	:
Deposit growth <sup>5.5</sup>	Ann. % ch	N.A.	N.A.	14.8	-0.1	15.5	17.6	15.9	:	16.4	15.1	:
Non performing loans <sup>5.6</sup>	% total	3.3	3.2	4.7	9.1	12.6	13.6	14.4	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	-3.3	-3.5	-5.5	-7.0	-3.1	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	56.8	54.8	53.9	59.7	59.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

# CHARTS

European Commission, ECFIN-D-1



## ALBANIA





## Key developments

Nine months after the last general elections both the parliaments in the Federation and at state level have been constituted and Bosnia's tripartite presidency is currently negotiating the appointment of a new Prime Minister. However, the formation of an executive government at State level is still ongoing as political parties failed to reach a coalition agreement.

The state budget was not approved by Parliament on 22 June. As the interim financing arrangement for the second quarter expired on 30 June, a temporary financing decision for the third time this year was adopted on 29 June.

## Real sector

After reaching double-digit growth rates in the first quarter (10.7%), industrial production started slowing down, recording 3.2% in April and 2.3% in May year-on-year. Subsequently, the country-wide growth rate for the first five months of 2011 stood at 7.2%. Mining and quarrying expanded (20.8%), while manufacturing slowed down (2.0%) and the volume of production in electricity, gas and water supply fell by 5.2% in May, year-on-year.

According to entity level statistics, both Federation BiH and Republika Srpska recorded an expansion in industrial production in the first five months 2011, mainly driven by the mining and manufacturing sectors.

Domestic demand continues to recover. After having increased by 11.8% in the fourth quarter 2010 and 12.6% in the first quarter 2011, retail sales continued to rise in April (18.8%) and May 2011 (13.2%).

## Labour market

Unemployment remained high throughout 2010, reaching a rate of 42.7% in the fourth quarter. The employment rate rose by 1.9% in the fourth quarter of 2010 but fell again in the first quarter of 2011. In April 2011, employment declined by 0.8%. Whereas the number of employed persons increased most notably in financial intermediation and transport, the greatest decline

in employment was recorded in construction and manufacturing as well as in the restaurant and hotel sector.

Following strong increases in previous years, wages remained fairly stable in 2010. However, they began to increase again in early 2011, albeit in more moderate terms than in the pre-crisis period. In April 2011, wages reached a growth rate of 4%.

## External sector

Preliminary data from the Central Bank shows that, after narrowing down by 5.6% in the fourth quarter 2010 y/y, the current account deficit more than tripled in the first quarter of 2011 compared to Q1 2010 and reached 6.7% of GDP due to the strong recovery of imports. External trade continued to return to its pre-crisis features in the first quarter of 2011 with exports rising by 24.5% and imports growing strongly by 23.0%, thus increasing the trade gap by 20.0%. While surpluses in the services and income fell by 13.8% and 22.8% respectively, surplus in current transfers grew by 4.2%. In April and May 2011, overall trade kept growing rapidly, with exports rising by 16.5% year-on-year and imports increasing by 11.6%. After net inflows of foreign direct investments had sharply declined in 2010 (EUR 12.6 million) despite a recovery in the second half of the year, they reached EUR 66.2 million in Q1 2011, an amount still 18.2% lower than in Q4 2010. Official foreign exchange reserves continued their slight decline, falling by 3.0% between January and May 2011, covering over 5 months of imports.

## Monetary developments

After the reduction of minimum reserve requirements for short-term deposits from 14% to 10% in February 2011, the annual growth of the monetary aggregate M2 continued to slow down from 7.1% in February to 5.1% in May 2011.

Annual inflation continued to rise, reaching 4.2% in May 2011, which is almost one percentage point higher than in February. The most significant price surge was recorded in

food and non-alcoholic beverages from 6% in February to 8.3% in May, reflecting international price developments. The increases in excises on tobacco and alcohol products from the beginning of 2010 are still reflected in the prices of these goods which grew by 8.1%. Other price drivers were transport (7.8%) and communication (5.4%). Prices decreased in clothing and footwear (-7.9%) as well as in the health sector (-2.4%).

## Financial sector

Market short-term interest rates for loans to the corporate sector have continued to decrease from 7.7% in February to 7.5% in May while the upward trend for households was slightly reversed as interest rates decreased from 10.2% to 10.0% (non-indexed loans in local currency). Interest rates for deposits for the corporate sector, which had shown volatility over recent months, fell steeply to 2.0% in May from 3.5% in January 2011 (time and savings deposits in local currency). The more stable interest rates for the household sector deposits have slightly decreased from February by 0.1 percentage point to 2.9% in May. The spread between average lending and deposit interest rates stood at 7.53 percentage points in May 2010, 34 basis points below the December level.

The recovery of annual credit growth continued in May, reaching 5.4% from 3.9% in February. Credits to households were rising by 1.9% in May while those to private enterprises continued to show a stronger performance, growing by 6.8%. Deposits also continued recovering, though at a very slow pace, recording a modest annual increase of 1.2%. Private households increased their savings by 11.0% whereas the corporate sector decreased its savings by 7.7%. The loans-to-deposit ratio continued to increase as in previous months and reached 119.1% in May.

According to the latest available data, the Sarajevo Stock Exchange recorded an increase of 7.2% in May from March, while the Banja Luka Stock Exchange recorded a loss in

performance of 6.0% in Q2 2011 compared to Q1 2011.

The quality of the loan portfolio is further deteriorating: The share of non-performing loans to total loans increased from 11.4% in Q4 2010 to 11.7% in Q1 2011, the highest level since 2004. Banking profitability indicators recorded an improvement, turning positive for the first time since Q1 2010. The return on average equity rose from -5.5% in Q4 2010, their lowest level since 2002, to 1.4% in Q1 2011, whereas the return on average assets increased from -0.6% to 0.2%. Liquidity indicators slightly weakened as the rate of liquid to total assets decreased from 29% in Q4 2010 to 28% in Q1 2011, and liquid assets to short-term financial liabilities from 49.7% to 48.5%. Banks operating in Bosnia and Herzegovina recorded accumulated losses of EUR 63.6 million in 2010. In total, 23 banks recorded profits, and only six losses. In the Federation banks recorded profits worth EUR 11.7 million in Q1 2011 as opposed to the EUR 3.0 million in losses recorded in Q1 2010. The Capital Adequacy Ratio of the whole banking system decreased slightly to 15.8% in Q1 2011 from 16.2% in Q4 2010.

## Fiscal developments

The Global Fiscal Framework 2011-2013 has not been adopted nor the one for the period 2012-2014.

The 2011 State budget has not yet been adopted by the Parliament.

On 21 June, the Federation government proposed a revision of its 2011 budget including further expenditure cuts but also an increase in specific social benefits. In the Republika Srpska, the government adopted the budget framework for the period 2012-2014.

Indirect tax revenue receipts grew robustly in May, contributing to an annual increase of 7% in receipts from this source between January and May 2011.

# TABLE



European Commission, ECFIN-D-1

## BOSNIA AND HERZEGOVINA

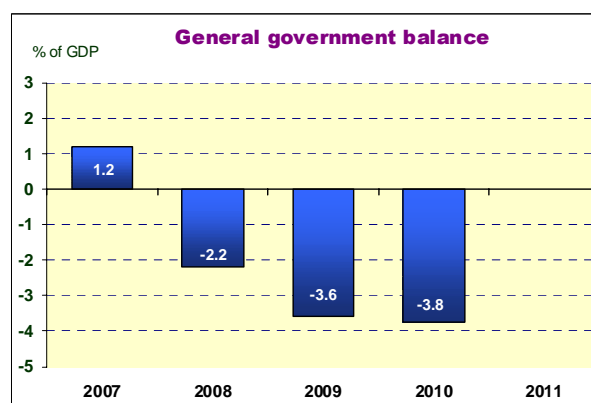
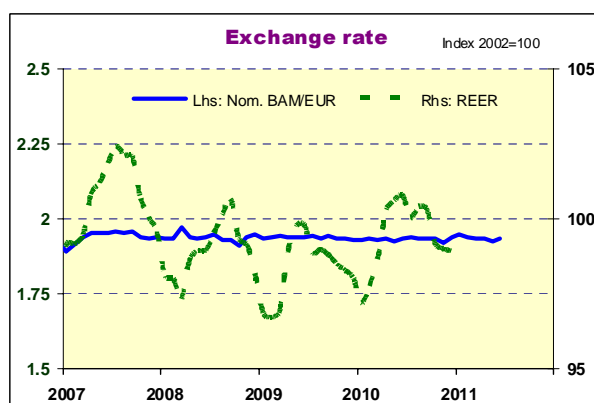
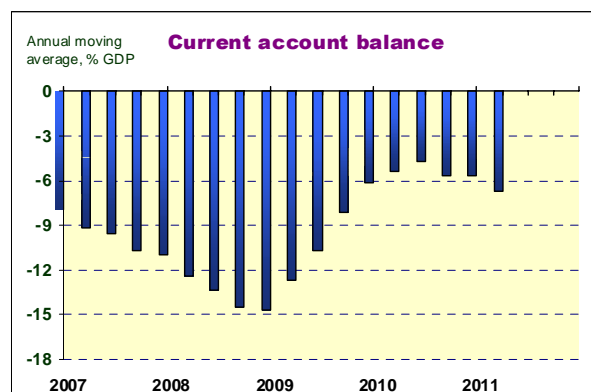
		2006	2007	2008	2009	2010	Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	:	:	:	:	1.6	3.5	10.7	:	3.2	2.3	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	6.0	6.2	5.7	-3.0	0.9	:	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	4.5	10.8	10.3	2.0	1.3e	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	-9.4	38.3	16.7	-20.1	-18.8e	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	N.A.	11.7	8.8	33.9	40.8	-33.2	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	7.8	11.8	12.6	:	18.8	13.2	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	44.2	42.9	40.6	42.7	42.7	42.7	:	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	2.3	4.4	2.7	-2.8	1.9	1.9	-0.7	:	-0.8	:	:
Wages <sup>2.3</sup>	Ann. % ch	9.6	9.8	16.6	8.2	1.1	1.8	3.9	:	4.0	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	30.5	15.0	13.9	-17.1	27.7	25.2	24.5	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	1.2	18.7	15.4	-24.1	10.2	14.3	23.0	:	:	:	:
Trade balance <sup>3.3</sup>	% of GDP	-34.6	-37.2	-38.2	-27.8	-26.2	-26.3	-27.2	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	36.4	37.3	36.8	32.2	37.9	38.0	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	-65.6	-68.8	-69.7	-55.3	-59.9	-60.0	:	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-8.0	-10.7	-14.2	-6.2	-5.6	-5.6	-6.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	6.2	13.5	5.0	1.5	0.1	0.1	1.1	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	2 837.9	3 458.5	3 230.1	3 219.7	3 330.5	3 330.5	3 173.1	:	3 165.3	3 159.7	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.6	5.7	4.6	6.0	5.7	5.7	5.2	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	6.1	1.5	7.4	-0.4	2.1	2.5	3.2	:	4.0	4.2	:
Producer prices <sup>4.2</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	8.3	2.9	12.1	-0.9	-0.7	2.5	6.1	:	7.6	8.3	:
M2 <sup>4.4</sup>	Ann. % ch	21.1	25.1	13.4	-1.6	7.3	8.2	7.0	:	5.4	5.1	:
Exchange rate BAM/EUR <sup>4.5</sup>	Value	1.95	1.94	1.94	1.94	1.93	1.93	1.94	1.93	1.94	1.93	1.93
Nominal eff. exchange rate <sup>4.6</sup>	Index	99.7	100.28	100.07	96.27	96.53	95.79	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	N.A.	4 330	2 251	1 038	954	909	1 078	1 034	1 067	1 025	1 010
Credit growth <sup>5.4</sup>	Ann. % ch	24.5	27.5	27.7	5.2	-0.8	2.0	4.2	:	4.7	5.4	:
Deposit growth <sup>5.5</sup>	Ann. % ch	27.7	36.1	15.3	-4.1	4.6	5.7	4.1	:	1.3	1.2	:
Non performing loans <sup>5.6</sup>	% total	4.7	3.4	3.0	4.5	9.1	11.4	11.7	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	2.9	1.2	-2.2	-3.6	-3.8	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% 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

After the expiry of the two-year Stand-By Arrangement in mid-April, the authorities requested further IMF assistance in anchoring macroeconomic stability and the structural reform commitments during the forthcoming election cycle. The negotiations on a new 18-month precautionary programme are underway and the plan is to have it adopted by the IMF Board by end-September. This arrangement will give Serbia the possibility to draw on financial aid of up to EUR 1 billion would the economic conditions deteriorate sharply.

## Real sector

In the first quarter of 2011, economic activity accelerated, with real GDP up 3.4% year-on-year (1.4% in the last quarter of 2010). The recovery regained pace as output increased by 1.5% quarter-on-quarter seasonally adjusted following a stint of slow-down (-0.1% in the previous quarter), the first since the upturn in mid-2009.

GDP growth continued to be fuelled by export expansion based on the revival in Serbia's main trading partners, despite the strengthening dinar. Domestic demand remained subdued in early 2011 owing to very modest private consumption in the face of constrained disposable income.

Stimulus to output growth in the first quarter of 2011 came from the strengthening industrial activity against the background of buoyant foreign demand. In particular, manufacturing and the utilities picked up vigorously, increasing by 6.2% and 7.5% year-on-year, while growth in "supporting" transport services stayed robust at almost 10%. Solid industrial production has been sustained since the beginning of the year, up by around 5% between January and May compared to the same period last year. Output in mining and the utilities expanded by around 10% while manufacturing strengthened by 3.5% year-on-year over the five months. Industrial activity is likely to decelerate in the coming months given the gradual building up of inventories, of capital goods in particular.

In early 2011, construction activity continued to contract in the face of ongoing economic

rebalancing and tight financing conditions. As household income has been constrained due to jobless recovery and rising inflation, private consumption remains very modest. In the five months to June, retail trade turnover (measured in constant prices) was more than 12% lower compared to the same period last year.

## Labour market

After the negative trends had stabilised during 2010, the labour market deteriorated in early 2011 despite the steady economic upturn. According to the national labour force survey, the employment rate decreased by 1.5pp, to just above 36%, and the unemployment rate surged to above 22%, up by 3pp from October 2010. By contrast, the data by the national employment office showed that in the first half of the year the number of unemployed stood at around 750,000, down by 2,000 compared to a year ago. Also, a slight increase in new jobs was registered since the beginning of the year.

Following the re-introduction of wage and pension indexation to past inflation from January 2011, the second adjustment of public sector salaries was carried out in April. Over the first five months, average net wages increased nominally by close to 10% compared to the same period last year. In real terms, however, wages fell by around 3% year-on-year due to the inflation spike.

## External sector

Since the beginning of the year, the current account deficit has been widening in step with the strengthening imports. In the first four months, the current account gap was around 14% higher in comparison with the same period the year before. The worsening of the current account is largely a consequence of the increase in trade deficit (+9.5% year-on-year) but also lower current transfers surplus (-7% year-on-year) while the deficit on the income account was slightly lower (-7% year-on-year). Export expansion continued, against the solid external demand. In the period between January-May exports were 26% higher year-on-year. However, imports were catching up rapidly, up by 21% year-on-year, partly owing to the global

energy price hike but also solid industrial activity, as witnessed by rapid growth of intermediate goods imports. Capital goods imports also surged over the first five months, reflecting a gradual strengthening of investment activity in view of the upbeat prospects.

In early 2011, subdued foreign currency inflows were largely insufficient to cover the current account gap. Over the four months to May, the financial account was 13.5% lower than a year ago. The corporate sector continued to repay the pre-crisis foreign loans. The outflow was buffered by the hefty inflow into debt securities and higher FDI, up by almost 17% in comparison with the same period the year before. Foreign exchange reserves with the NBS remained largely stable at around EUR 10 billion, sufficient to cover some 8 months' of imports. Following a stint of external debt retraction during the first quarter of 2011, total foreign debt increased again in April, standing at around EUR 22.7 billion, i.e. more than three quarters of GDP.

### Monetary developments

Since the beginning of 2011, inflation accelerated as a result of the base effect as well as the food price hikes and higher utility prices. Following the government approval of a 15% electricity price increase, inflation peaked in April at close to 15% year-on-year but slowed down in May to around 13.5% year-on-year. The targeted inflation range of 3% and 6% for end-2011 is out of reach, despite the anticipated deceleration in the coming months. Inflation is expected to gradually subside based on the projected easing of food prices given the recent fall in global agricultural commodity prices and in view of the upbeat outlook for domestic agricultural production. Furthermore, the inflationary pressures are to stay contained against the background of still modest consumer spending. Inflation is forecast to return within the target band in the first half of 2012. However, risks to the anticipated trajectory remain. The government regulator approved an increase of fixed telephony prices as of 1 August, which was not requested by the telecoms monopoly operator but was deemed necessary because of market liberalisation. The impact of the liberalisation of oil derivatives imports as of 1 January on fuel prices remains to be seen as the discriminatory higher excise duties on imported oil, which were in breach with the interim trade agreement, were only

removed in June.

In view of the signs of the decelerating inflation and the dinar appreciation earlier in the year, the National Bank of Serbia (NBS) discontinued monetary tightening. After hiking the reference interest rate to 12.5% in April, the NBS recently relaxed the stance somewhat by cutting the policy rate by 50bps in early June and by further 25bps a month later, to 11.75%. On the other hand, the NBS's foreign exchange interventions on the interbank market were limited in light of the dinar strengthening in the beginning of the year. In the period between January and June 2011, the RSD/EUR exchange rate appreciated by around 5%. Since the beginning of the year, monetary aggregate M2 has been contracting in annual terms against the decelerating deposits and slowing lending to the non-government sector.

### Financial sector

Since the beginning of 2011, the banking sector activity has been slowing down. In the first quarter, total assets were lower by around 3% compared to end-2010. While total loans were only marginally higher, the share of non-performing loans stabilised at around 17% of total loans. Total deposits, which accounted for 57% of total banking sector liabilities, were 7% lower than in the previous quarter.

### Fiscal developments

The recent national accounts revision resulted in a slight increase of the past general government deficits: the 2010 deficit of 4.7% of GDP was 0.2pp higher than estimated previously. In the first half of 2011, the (unconsolidated) budgetary gap amounted to almost 60% of the yearly plan. Higher expenditure was largely compensated for by higher corporate income tax and non-tax revenues while personal income tax and VAT inflows were broadly in line with expectations. At end-May, public debt stood at about EUR 13.2 billion, i.e. about 38% of GDP.

In light of the solid current revenue performance, the budget seems well poised to achieve the planned deficit reduction to 4.2% of GDP. However, the recent adoption of the bill on the financing of local governments, which i.a. increased the share of income tax that municipalities retain from 40% to 80%, may challenge the implementation of consolidation as set out in the fiscal responsibility legislation from late 2010.

# TABLE

European Commission, ECFIN-D-1



## SERBIA

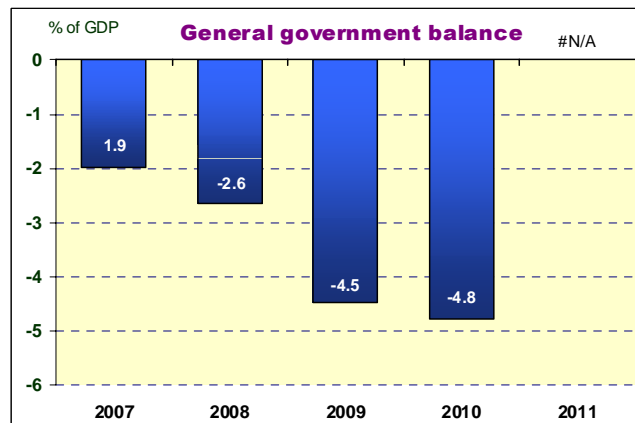
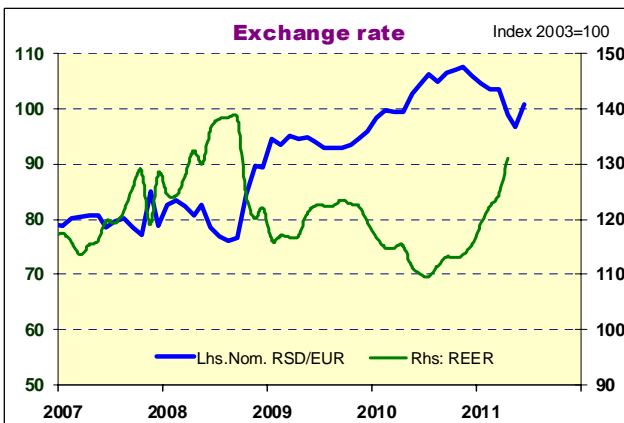
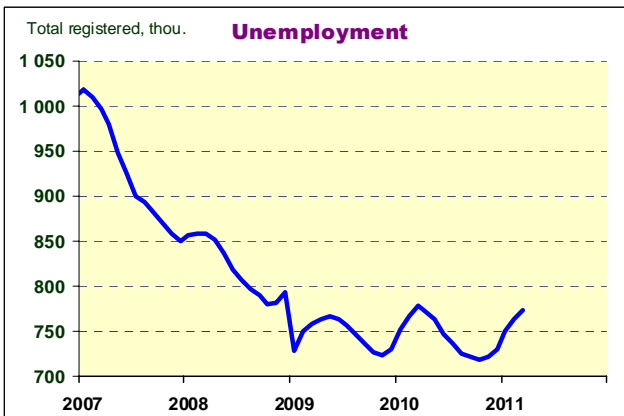
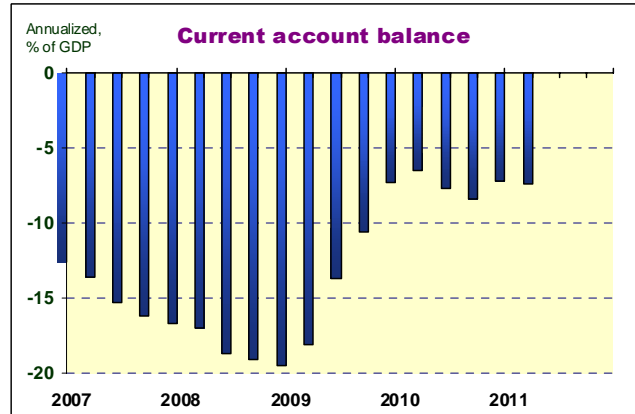
		2006	2007	2008	2009	2010	Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	5.7	3.3	1.3	-12.4	3.1	-1.4	5.6	:	0.7	6.8	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	5.2	6.9	5.5	-3.1	1.8	1.7	3.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	27.1	25.4	6.7	-20.2	-9.9	2.3	2.2	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	8.1	25.7	3.4	-11.4	-0.7	5.8	-8.1	:	-14.1	-16.1	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	20.9	18.1	13.6	16.1	20.0e	:	:	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	-1.4	-1.2	0.1	-6.1	-3.7	-4.7	-3.6	:	-2.4	:	:
Wages <sup>2.3</sup>	Ann. % ch	11.3	15.0	4.5	1.0	7.4	8.3	10.2	:	12.4	5.6	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	37.2	24.8	15.9	-19.6	24.0	33.1	31.9	:	24.1	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	22.2	29.8	14.6	-26.1	9.9	11.9	22.4	:	16.2	:	:
Trade balance <sup>3.3</sup>	% of GDP	-20.0	-23.1	-25.5	-18.1	-16.7	-16.8	-17.0	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	29.1	30.7	31.1	29.3	34.3	34.3	35.4	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	50.5	55.0	54.8	47.0	50.5	50.5	51.6	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-11.7	-16.1	-20.6	-7.4	-7.4	-7.2	-7.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	13.8	6.4	6.2	4.8	3.0	3.0	3.0	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	9 020.0	9 633.6	8 161.8	10 601.9	10 001.6	10 001.6	9 918.9	:	9 951.9	10 064.2	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	10.7	8.8	6.5	11.5	9.8	9.8	9.3	:	9.2	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	N.A.	11.0	8.6	6.6	10.3	10.3	14.1	:	14.7	13.4	:
Producer prices <sup>4.2</sup>	Ann. % ch	7.3	9.8	9.0	7.4	16.2	16.2	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	18.4	13.8	0.8	10.7	10.7	22.9	:	22.1	19.3	:
M3 <sup>4.4</sup>	Ann. % ch	38.3	42.5	9.8	21.5	12.9	12.9	8.0	:	5.0	0.7	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	79.11	78.76	89.48	95.88	105.93	105.93	103.41	100.67	98.92	96.65	100.67
Nominal eff. exchange rate <sup>4.6</sup>	Index	110.7	102.1	88.6	92.8	89.5	89.5	103.1	:	108.3	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	13.46	6.48	5.20	13.40	10.85	11.94	13.36	:	13.07	12.84	:
Bond yield (12 months) <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	11.45	13.7	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	2 186	4 096	2 604	1 197	1 283	1 257	1 401	1 420	1 413	1 421	1 426
Credit growth <sup>5.4</sup>	Ann. % ch	15.3	32.5	34.2	24.4	29.9	29.9	22.0	:	17.7	12.0	:
Deposit growth <sup>5.5</sup>	Ann. % ch	39.6	46.9	8.8	23.6	14.4	14.4	9.3	:	6.0	1.2	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	N.A.	N.A.	N.A.	11.5	11.9	:	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	-1.6	-2.0	-2.6	-4.5	-4.8	-4.8	-0.8	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	36.2	29.4	25.6	31.3	41.4e	:	:	:	N.A.	N.A.	N.A.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA



# KOSOVO\*

\*as defined by UNSCR 1244

## Key developments

The 18-month Stand-By Arrangement with the IMF was derailed, mainly due to the significant increase in government sector wages. In June, the Kosovo authorities and the IMF reached an agreement on a non-disbursing Staff Monitored Programme (SMP), to run until the end of 2011. The SMP, which entails conditionality, is an important test and attempt to regain some of the credibility of economic and fiscal policy. If implemented successfully, it could lead to a new disbursing IMF programme in 2012.

Following the Constitutional Court declaration on the unconstitutionality of Behgdjet Pacolli's election, in early April the Assembly elected a new President – Mrs Atifete Jahjaga.

In early July, in the framework of the EU-facilitated dialogue, Kosovo and Serbia reached agreements in the areas of civil registry, freedom of movement and acceptance of university and school diplomas. They will take effect as soon as operationally feasible and their implementation will be assured by tripartite joint working groups.

## Real sector

According to the Households budget survey, households consumption increased by a nominal 1.5% in 2010. The structure of consumption remained broadly unchanged, with the notable exception of housing, which saw its share reduced from 36% to 31%. There were marginal increases in the shares of spending on food and non-alcoholic beverages (from 36% to 37%), alcohol and tobacco (from 3% to 4%), clothing and footwear (from 5% to 6%), transport (from 5% to 6%), and hotels and restaurants (from 1% to 3%). Domestic food production represented additional 7% of total consumption. On the income side, public sector wages and salaries continue to be the most important source (26% of total), followed by private sector wages and salaries (21%), and other household businesses (14%).

In June, two companies (Hrvatski telecom, owned by Deutsche Telecom, and Telecom Austria), out of the five which had declared

interest, were announced to qualify for the next stage of the Post and Telecommunications of Kosovo (PTK) privatisation. The privatisation of the KEK Distribution and Supply proceeded as well, with four companies pre-qualifying to participate in it.

## Labour market

In the first quarter of 2011, the average number of registered unemployed decreased by around 1% (year-on-year) to 336 thousand. The slight reduction was mostly driven by the segment of unskilled unemployment, while the number of job seekers with university degree steadily increased. The number of registered job vacancies increased by almost 50% (year-on-year) to 2,396, about 80% of them being for unskilled and low-skilled jobs.

Employment in the government sector, in particular in education and general administration, increased by close to 2% (year-on-year) to more than 77 thousand people. Following the government decision to increase significantly wages in the sector, the average wage reached EUR 345 by the end of March (27% increase year-on-year).

## External sector

The growth of exports of goods decelerated markedly to 24% (year-on-year) by end-May, mainly due to a slowdown in the main export group (base metals). After a very strong first quarter growth, imports of goods have also cooled-down, but still grew by a robust 17%. Overall, in the period January-May the trade deficit widened by about a EUR 100 million to EUR 743 million.

The current account deficit increased in the first quarter to EUR 77 million (EUR 59 million in Q1 2010). The deterioration was entirely driven by the worsening balance in trade in goods, while surpluses in current transfers and in services accounts increased. Workers' remittances increased by 4%, far less than consumer inflation.

The surplus on the capital and financial account in the first quarter (EUR 53 million) remained

broadly at its last year's level. Net FDI went down from EUR 72 million to EUR 57 million, portfolio investments (in debt securities abroad) stood at EUR -39.4 million, and net other investments increased from EUR 79 million to EUR 93 million. Reserve assets increased by EUR 56 million and net errors and omissions remained significant at EUR 24 million.

## Monetary developments

The growth in broad money accelerated to 21.3% (year-on-year) by end-May. Although, its dynamics continued to be affected by the significant withdrawals of dividends from the state telecom (PTK), the underlying positive trend has been sustained by a steady increase in net foreign assets and robust net domestic assets expansion.

Consumer inflation peaked in March (10.8% year-on-year) and remained high at 10.4% in May. Food and energy prices, which are still the main sources of inflationary pressure, have started to reduce their contributions to inflation. At the same time, there is some evidence that inflation is becoming more persistent as core inflation (non-food, non-energy) is still on the rise. It reached 1.6% in May, while usually being below 1%. About 96% of the goods and services in the CPI basket exhibited increasing prices. The inflation level and composition hits disproportionately the poor and puts under strain existing consumption patterns.

## Financial sector

The 12-month moving average interest rate spread between loans and deposits stabilised at around 11 percentage points in May. After dropping at the end of last year, effective interest rates on deposits have been in the range of 3.3-3.4%. Effective interest rates on loans have been more volatile but remained high at above 13%, with 12-month moving average at 14.6% in May.

Growth in commercial banks deposits accelerated to 11.4% in May. The pace of sight deposits growth has come down to 19.1% and time and savings deposits posted an 8.1% annual increase. Although negatively impacted by the government withdrawals of PTK dividends, banks deposits continued to be attracted mostly from the households and other non-financial corporations. Households deposit growth, in particular, has been very stable, staying at double-digit rates in the last eight years. By end-

May, households deposits increased by close to 20% (year-on-year), with strong performance over all maturities. Other non-financial corporations' deposits grew by 19.2% but their increase was entirely driven by sight deposits, while deposits with longer maturities have even declined by 7.0%.

Lending activity has been quite robust – gross loans and lease financing increased by 15.9% (year-on-year) by end-May. About two-thirds of the new lending since the beginning of the year went to other non-financial corporations. Short-term corporate loans (up to one year) grew by 18.0%, while longer-term financing expanded at a slower pace by 12.3%. The sector of services, and especially wholesale and retail trade, continued to absorb most of the loans. In May there has been a slight increase in construction and manufacturing loans but banks exposures to these two sectors remain limited, representing about 8% of all loans and lease financing. Households lending, predominantly for consumption, gained momentum and by end-May increased by close to 18%.

Banks interest income increased by a hefty 11% (year-on-year) by end-May. Spending on interest declined by 6% but total expenditures grew by 13.2%, spurred by the significant rise in provisions for loan and other assets losses (89.3% annual increase). Nevertheless, the banking system remained profitable by the end of May.

## Fiscal developments

By the end of May the budget was in surplus of EUR 79 million. Total revenue stood at EUR 479 million or 5.8% higher than in the corresponding period of last year. Domestic and customs revenue performed strongly, increasing by close to 20% (year-on-year), although their growth rates are on a clear downward path, with border revenue following closely imports of goods dynamics. The combined non-tax and own-source revenue remained broadly unchanged. Dividends receipts, mainly from the PTK, stood at EUR 45 million.

Total expenditures have gathered pace, after a restrictive first quarter, reaching EUR 400 million by end-May (14% increase year-on-year). Current spending, especially on wages, remains uneven and executed with delays. Capital outlays have almost doubled to EUR 123 million, the bulk of them being executed at central level on the route 7 motorway.

# TABLE

European Commission, ECFIN-D-1

## KOSOVO\*

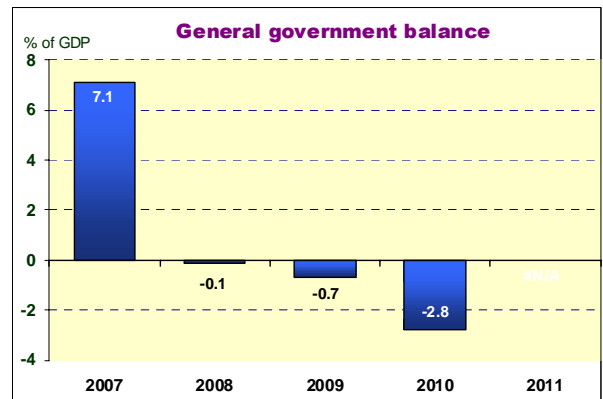
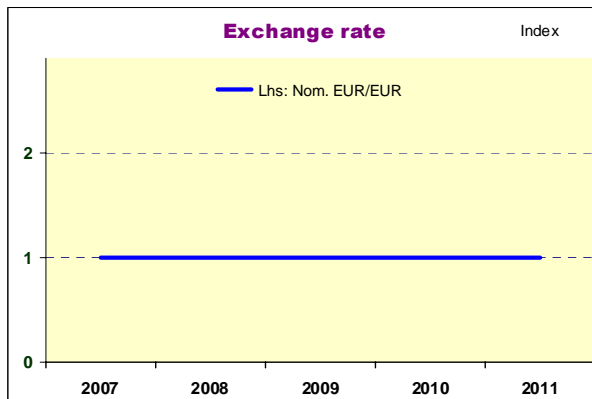
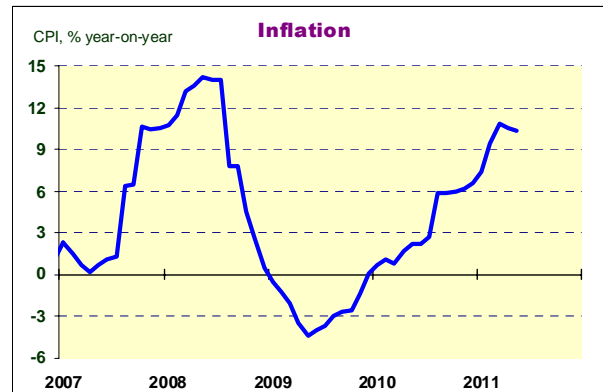
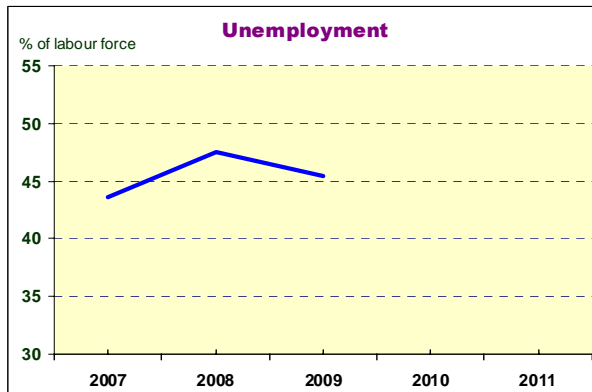
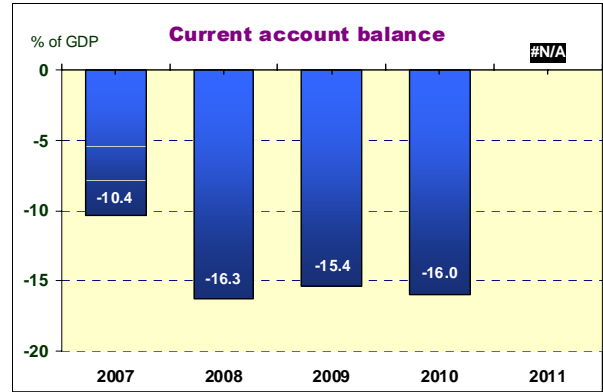
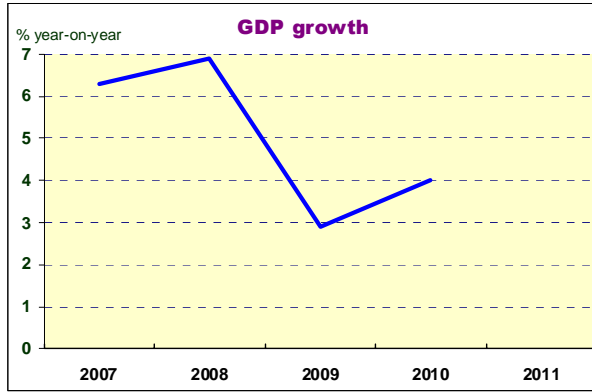
		2006	2007	2008	2009	2010	Q4 10	Q1 11	Q2 11	Apr 11	May 11	Jun 11
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann. % ch	3.4	6.3	6.9	2.9	4.0	:	:	:	:	:	:
Private consumption <sup>1.4</sup>	Ann. % ch	4.3	10.0	8.6	1.5	3.2	:	:	:	:	:	:
Investment <sup>1.5</sup>	Ann. % ch	1.3	4.1	15.3	10.7	5.2	:	:	:	:	:	:
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	44.9	43.6	47.5	45.4	:	:	:	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	-10.1	8.1	-12.9	8.7	:	:	:	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	96.8	49.1	20.2	-16.7	77.8	47.8	43.4	:	15.2	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	12.8	20.7	22.3	0.4	10.8	7.2	21.0	:	8.7	:	:
Trade balance <sup>3.3</sup>	% of GDP	-37.6	-40.3	-43.3	-42.8	-41.9	:	:	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	13.8	14.7	14.3	15.5	20.1	:	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	51.1	54.6	57.1	55.2	60.8	:	:	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-7.2	-10.4	-16.3	-15.4	-16.0	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	9.3	12.7	8.9	7.2	7.5	:	:	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	641.2	1 057.6	1 110.7	1 198.5	1 246.9	1 246.9	1 292.2	:	1 297.6	1 316.2	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.9	8.1	6.9	7.4	7.0	7.0	7.0	:	6.9	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	0.6	4.4	9.4	-2.4	3.5	6.2	9.2	:	10.6	10.4	:
Producer prices <sup>4.2</sup>	Ann. % ch	N.A.	N.A.	N.A.	3.8	2.2	2.3	:	:	N.A.	N.A.	N.A.
Food prices <sup>4.3</sup>	Ann. % ch	3.6	9.1	16.7	-4.4	4.8	9.9	15.9	:	19.2	18.3	:
Broad money liabilities <sup>4.4</sup>	Ann. % ch	5.5	23.4	23.6	11.2	12.9	12.9	14.2	:	17.6	21.3	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) <sup>4.6</sup>	Index	-2.8	-0.1	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3-12 months) <sup>5.1</sup>	% p.a.	15.38	15.25	16.61	14.11	18.24	18.57	19.24	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth <sup>5.4</sup>	Ann. % ch	30.6	29.7	38.7	17.4	10.2	11.9	13.5	:	13.3	15.9	:
Deposit growth EUR/EUR <sup>5.5</sup>	Ann. % ch	14.8	19.3	25.6	20.2	14.8	9.9	8.2	:	9.3	11.4	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	% of GDP	2.5	7.1	-0.1	-0.7	-2.8	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% 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
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Business Surveys, Economic Outlook, Industry	Ecwin/Reuters
1.2.	Industrial production	Annual percentage change, volume, excluding construction. 2009 onwards base year 2005 and new methodology, SA.	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (reference year 2000)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (reference year 2000)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, volume (reference year 2000)	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, total, 2005=100, volume,	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, Retail Trade Turnover, real, total, 2005=100	Ecwin/Reuters
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force. Labour Force Survey	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
<b>3. External sector</b>			
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
3.8.	Reserves, International reserves of the National Bank	Mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
<b>4. Monetary developments</b>			
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
<b>5. Financial indicators</b>			
5.1.	Interest rate	Zagreb Interbank 3 month - middle rate	Ecwin/Reuters
5.2.	Bond yield	Government Benchmarks, Bid, 5 Year, Yield, Close	Ecwin/Reuters
5.3.	Stock markets	CROBEX index	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, HRK	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, savings and time deposits, HRK	Ecwin/Reuters
5.6.	Non-performing loans	N.A	

**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
<b>1.</b>	<b>Real sector</b>		
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
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data, registered otherwise	SSO
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data, registered otherwise	SSO
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	SSO
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume	SSO
3.5.	Imports goods and services	In percent of GDP, volume	SSO
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Annual average percentage change, HICP not yet available for fYRoM	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, industrial products	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	Ecwin/Reuters
4.4.	M4	Annual percentage change, M4 (Broadest money)	Ecwin/Reuters
4.5.	Exchange rate MKD/EUR	Averages, spot close	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Nominal Effective Exchange Rate, MKD, Index 2003=100	Ecwin/Reuters
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Interest rate Denar deposits	Ecwin/Reuters
5.2.	Bond yield	Not available	
5.3.	Stock markets	MSE Index (MBI-10)	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, DMB, total, overall, with Saving houses, MKD	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, with Saving houses, total, MKD	Ecwin/Reuters
5.6.	Non-performing loans	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
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial outlook	Not available	
1.2.	Industrial production	Annual percentage change, aluminium, total, ton	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, total (2000 prices)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (2000 prices)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, volume (2000 prices)	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, turnover/sales, SA, ISK	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, total, constant prices, ISK, 2000=100	Ecwin/Reuters
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	LFS, In percent of total labour force, Total	Ecwin/Reuters
2.2.	Employment	LFS, Annual percentage change, Total, over all	Ecwin/Reuters
2.3.	Wages&Salaries	Annual percentage change, Total, Index, ISK 1998M12=100	Ecwin/Reuters
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio ISK, fob. Statistics Iceland reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. ISK, cif Statistics Iceland reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, volume	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
3.8.	Reserves, International reserves of the National Bank	Gross foreign currency reserves, total, mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Annual average percentage change, All items, Index, ISK, 1988M5=100	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, total, index, 2005Q4=100	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, ISK, 1997=100	Ecwin/Reuters
4.4.	M3	Annual percentage change, M3 (Money supply)	Ecwin/Reuters
4.5.	Exchange rate ISK/EUR	Period averages, midpoint exchange rates	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index 2005, period averages	Ecwin/Reuters
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	REIBOR, 3 month, fixing, ISK	Ecwin/Reuters
5.2.	Bond yield	Government Benchmarks, bid, 5 year, yield, close	Ecwin/Reuters
5.3.	Stock markets	OMX, Main Index (All-Share), price return, close	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, ISK	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, demand, sight and time deposits, ISK	Ecwin/Reuters
5.6.	Non-performing loans	Not available	
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	Ecwin/Reuters





No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, annual data, chain index	Ecwin/Reuters
1.4.	Private consumption	Not available	
1.5.	Gross fixed capital formation	Not available	
1.6.	Construction index	Annual percentage change, value of performed work, current prices	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, turnover, total	Ecwin/Reuters
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of active population, e.o.p.	Ecwin/Reuters
2.2.	Employment	Annual percentage change of registered employment, avrg.	Ecwin/Reuters
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	Ecwin/Reuters
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, thou. EUR	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, thou. EUR	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	Annual data	MONSTAT
3.5.	Imports goods and services	Annual data	MONSTAT
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	Ecwin/Reuters
4.4.	M21	Annual percentage change, M21 (Broadest money)	Ecwin/Reuters
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Nominal exchange rate	Not available	
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	Ecwin/Reuters
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	Ecwin/Reuters
5.3.	Stock markets	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
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	Min. of Finance

6.2. General government debt In percent of GDP

Min. of Finance





No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (1987 prices)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (1998 prices)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change,	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	Ecwin/Reuters
1.7.	Retail sales	Not available	
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey data	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin/Reuters
2.3.	Wages	Annual percentage change; index of real earning per production worker in manufacturing industry	Nat. sources
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	Ecwin/Reuters
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	Ecwin/Reuters
4.4.	M3	Annual percentage change	Ecwin/Reuters
4.5.	Exchange rate YTL/EUR	Period averages	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index 1999, period averages	Ecwin/Reuters
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Deposit rates, 3 month, close	Ecwin/Reuters
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	Ecwin/Reuters
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	Ecwin/Reuters
5.6.	Non-performing loans	In percent of total lons	Ecwin/Reuters
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	Nat. sources





No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	Ecwin/Reuters
1.2.	Industrial production	Annual percentage change, total, constant prices	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, total, 2005=100	Ecwin/Reuters
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force	Ecwin/Reuters
2.2.	Employment	Annual percentage change	Ecwin/Reuters
2.3.	Wages	Average monthly wages in State sector	Ecwin/Reuters
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. EUR	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, including official transfers	Ecwin/Reuters
3.7.	Direct investment (FDI, net)	In percent of GDP	Ecwin/Reuters
3.8.	Reserves, International reserves of the National Bank	Net foreign assets, total, mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
<b>4. Monetary developments</b>			
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, Total, index (1998)	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	Ecwin/Reuters
4.4.	M2	Annual percentage change	Ecwin/Reuters
4.5.	Exchange rate LEK/EUR	Period averages	Ecwin/Reuters
4.6.	Change in real eff. exchange rate	Not available	
<b>5. Financial indicators</b>			
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	Ecwin/Reuters
5.2.	Bond yield	Government Benchmarks, 2 Year Bond, Yield	Ecwin/Reuters
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, total	Ecwin/Reuters
5.6.	Non-performing loans	Credit Portfolio 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
<b>1. Real sector</b>			
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	
<b>2. Labour market</b>			
2.1.	Unemployment	Registered, in percent of total labour force	Ecwin/Reuters
2.2.	Employment	Registered, annual percentage change	Ecwin/Reuters
2.3.	Wages	Annual percentage change, average gross wages, BAM	Ecwin/Reuters
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
<b>4. Monetary developments</b>			
4.1.	CPI	Consumer price index from 2006; Retail price index otherwise.	CBBH/ Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, retail sales, total, CPPY=100, weighted Fed B&H 65% and SerbRep 35%.	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, 2005=100,	Ecwin/Reuters
4.4.	M2	Annual percentage change, M2 (broadest money)	Ecwin/Reuters
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index (2002 Apr=100); 9 Trade partners selected in order to set up the index (Austria, France, Germany, Hungary, Italy, Slovenia, Croatia, Serbia and Switzerland)	Ecwin/Reuters
<b>5. Financial indicators</b>			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, Close	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, loans, total, BAM	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM	Ecwin/Reuters
5.6.	Non-performing loans	NPLs to total loans, BAM	Ecwin/Reuters

**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
<b>1.</b>	<b>Real sector</b>		
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
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Monthly and quarterly data are based on annual LFS and adjusted on the basis of monthly/quarterly changes of data on registered unemployment.	Ecwin/Reuters
2.2.	Employment	Annual percentage changes are based on LFS. Monthly and quarterly percentage changes (period of year in relation to the same period of previous year) data are based on official data on registered employment.	Ecwin/Reuters
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	Ecwin/Reuters
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	Ecwin/Reuters
3.8.	Reserves, International reserves of the National Bank	Total, mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Consumer Prices, Total, CPPY	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, total, CPPY=100	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	Ecwin/Reuters
4.4.	M3	Annual percentage change, M3 (broad money), RSD	Ecwin/Reuters
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Period average, moving base year, RSD	Ecwin/Reuters
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Treasury Bills, 3 month, yield, average, RSD	Ecwin/Reuters
5.2.	Bond yield	Not available	
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, total, RSD	Ecwin/Reuters

5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	Ecwin/Reuters
5.6.	Non-performing loans	Not available	
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	Min. of Finance
6.2.	General government debt	Public sector debt. In percent of GDP	Min. of Finance



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

6.2.

General government debt

In percent of GDP.

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