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# CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIC QUARTERLY

## 3/2012

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# CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIC QUARTERLY

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\* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

## OVERVIEW

*The recovery in the Western Balkans looks increasingly fragile. The economic situation which had worsened in the first quarter of 2012 further deteriorated in the second quarter in many countries. While GDP growth turned from negative to slightly positive in Montenegro, output continued to decline in Croatia, the former Yugoslav Republic of Macedonia, Serbia, and - judging from available indicators - in Albania and Bosnia and Herzegovina. In Iceland and Turkey, growth was positive but slowed down, rather sharply in the former and gradually in the latter. In line with the country-specific growth outlooks, labour market conditions further deteriorated in Croatia and Bosnia and Herzegovina. They continued to improve in Turkey, Montenegro and Iceland and stabilised in the other countries. Bosnia and Herzegovina besides, inflationary pressures increased in the Western Balkans over the period April to end-August, driven in most cases by surging food prices. In contrast, inflation which had accelerated in the first quarter, slowed down in the second and third trimesters in Iceland and to a lesser extent in Turkey.*

Albeit following a gradually declining trend since mid-2011, the growth performance of Turkey in the second quarter (2.9% year on year) significantly outpaced that of the few pre-accession countries, where quarterly data point to still positive growth. In Iceland, GDP growth which had accelerated to 4.5% year on year in the first quarter significantly slowed down to 0.5%. While the further decline of domestic demand in Turkey confirmed the shift to net exports as the driver of growth, economic activity in Iceland was largely fuelled by private consumption with a negative trade contribution. Croatia stands out among the Western Balkan countries which experienced negative growth in the second quarter. Not only has the country been in recession for four years but the pace of contraction seems to have accelerated in the second quarter to 2.2% year on year from 0.4% and 1.3% in the two preceding ones. However seasonally adjusted GDP has hardly changed in the second quarter of 2012 in Croatia. In Albania, where growth

had remained positive over the past four years, GDP contracted by 0.2% in the first quarter and surveys point to a likely deterioration in the second one. In Bosnia and Herzegovina, industrial production fell by some 6% since the start of the year. On the other hand, growth is positive in Kosovo and the pace of the output decline seems to be softening in the second quarter in the former Yugoslav Republic of Macedonia and in Serbia. The latter had faced difficult weather conditions in winter followed by a severe summer drought that significantly hit agricultural production.

A quite mixed picture emerges from the evolutions of external imbalances in the Western Balkans. The current account deficit substantially narrowed in the second quarter in Croatia amounting to 0.5% of GDP. It also narrowed in Albania and Bosnia and Herzegovina. In the former Yugoslav Republic of Macedonia, the deficit has declined to 2% of GDP in the first seven months of 2012 compared with 4.3 the year before. In contrast, the deficit continued to increase in Serbia and Montenegro and, marginally, in Kosovo. It also widened in Iceland to 8.1% of GDP as the surplus in trade in goods and services narrowed due to stronger merchandise imports. In Turkey, the current account deficit further narrowed -in line with the trade deficit- to 8.2% of GDP in mid- 2012 due to weaker domestic demand. While the current account performance in several countries, such as Iceland, Montenegro, Serbia and Turkey seems to be largely driven by trade dynamics, the evolution of the income balance - and notably of current transfers - played a non-negligible role in other economies.

Strong cross-country differences persist in labour markets. Employment growth accelerated in Turkey in the second quarter and was positive in Iceland, the former Yugoslav Republic of Macedonia and, albeit at a slower pace, in Albania. Reflecting also the growth performance over the past year, the unemployment rate continued to significantly decline in Turkey (to 8.2%) while it slightly improved or remained stable in the other three countries. In the other economies, the labour market conditions have continued to deteriorate. Unemployment rates are particularly high in Bosnia and Herzegovina,

Kosovo, the former Yugoslav Republic of Macedonia and Serbia.

The disinflation process that had started in mid-2011 and generally continued in the first quarter of 2012 in the Western Balkans seems to have given way to inflationary pressures in the second and third quarters. Bosnia and Herzegovina stands as an exception. In most cases consumer price inflation was driven by surging food prices, in line with the strong pick up of international prices since June and specific domestic market conditions such as those resulting from a severe drought in Serbia. In Croatia, the upward pressure still reflects the increase in the general VAT rate in March and increases in administered energy prices. In contrast, annual inflation has gradually come down from its April peak in Iceland and somewhat decelerated in Turkey where it however still reached 9.2% in September.

Lending activities have moderated in the second quarter in all pre-accession countries, except Iceland, in line with the slow-down or contraction of economic activity. They further decelerated over the months of July and August, although double-digit credit growth rates still prevail in Turkey and Serbia. In Serbia, such rates are mostly driven by the dinar depreciation which continued against the euro in July and August and lead the central bank to increase its policy rate to 10.5%. Credit growth is still negative in Montenegro where the quality of the loan portfolio further

deteriorated. The NPL ratio, which had dropped to 14.7% in the first quarter increased to 17.1% in the second trimester. NPL ratios also increased in Albania to 21.2%, and in Croatia, and Bosnia and Herzegovina. Only in Serbia did they slightly decrease, while they remained stable and low in Turkey.

Budgetary performance is in line with the stated objective of fiscal consolidation in many countries. Compared to the corresponding period in 2011 (i.e. the first six to eight months, depending on the country), the deficit has been reduced in Croatia, Iceland, Montenegro and Albania (where, however, it is much higher than planned). The deficit even turned into a small surplus in Bosnia and Herzegovina and Kosovo. On the other hand, fiscal policy has been relaxed in the former Yugoslav Republic of Macedonia, where the authorities raised the deficit target from 2.5% to 3.5% of GDP. In Turkey and Serbia the deficit is higher than in the previous year. In both countries consolidation measures have subsequently been implemented. In Turkey, the government introduced a number of revenue generating measures in mid-late September. In Serbia, a rebalancing of the budget was adopted in September which targets a deficit of 6.7% of GDP through consolidation measures mainly on the revenue side.

## Candidate and potential candidate countries: Summary table

						ECFIN Nov. Forecast							
	2007	2008	2009	2010	2011	2012	2013	Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
<b>Gross domestic product</b> (in real terms, annual % change)													
Croatia	5.1	2.1	-6.9	-1.4	0.0	-1.2	0.8	-1.3	-2.2	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	6.2	5.1	-1.0	2.8	3.3	1.7	2.5	-1.3	-0.9	:	n.a.	n.a.	n.a.
Iceland	6.0	1.2	-6.6	-4.0	2.6	2.1	2.4	4.2	0.5	:	n.a.	n.a.	n.a.
Montenegro	10.7	6.9	-5.7	2.5	3.2	0.4	2.0	-2.4	0.3	:	n.a.	n.a.	n.a.
Serbia	4.4	4.5	-3.6	1.3	1.5	0.3	1.9	-2.5	-0.8	:	n.a.	n.a.	n.a.
Turkey	4.7	0.7	-4.8	9.2	8.5	3.3	4.6	3.3	2.9	:	n.a.	n.a.	n.a.
Albania	5.9	7.5	3.3	3.8	3.1e	:	:	-0.2	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	6.1	5.6	-2.9	0.7	1.3	:	:	:	:	:	n.a.	n.a.	n.a.
Kosovo*	8.3	7.2	3.5	3.2	4.5	:	:	:	:	:	n.a.	n.a.	n.a.
<b>Unemployment</b> (LFS, in % of workforce)													
Croatia	9.6	8.4	9.1	11.8	13.5	13.4	12.7	16.4	14.5	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	34.9	33.8	32.2	32.0	31.4	31.0	30.5	31.6	31.2	:	n.a.	n.a.	n.a.
Iceland	2.3	3.0	7.2	7.5	7.1	6.4	6.0	7.2	7.2	:	n.a.	n.a.	n.a.
Montenegro	11.9	10.8	11.4	12.2	13.2	:	:	13.6	12.7	12.1	12.4	12.3	12.1
Serbia	18.1	13.6	16.1	19.2	23.1f	23.4	22.4	25.5	:	:	:	:	:
Turkey	9.9	11.0	14.1	12.0	9.8	8.4	8.2	10.4	8.2	:	:	:	:
Albania	13.4	12.8	13.0	13.7	13.3	:	:	13.3	13.3	:	:	:	:
Bosnia and Herzegovina	42.9	40.6	42.7	42.7	43.8	:	:	44.1	43.8	:	43.9	:	:
Kosovo*	43.6	47.5	45.4	:	:	:	:	:	:	:	:	:	:
<b>Current account balance</b> (% of GDP)**													
Croatia	-7.3	-9.0	-5.2	-1.1	-0.9	-1.3	-2.1	-0.9	-0.5	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-7.1	-12.8	-6.8	-2.2	-2.7	-3.0	-3.7	-1.6	-2.0	:	n.a.	n.a.	n.a.
Iceland	-15.7	-24.6	-11.6	-8.0	-7.0	-5.6	-4.4	-7.3	-8.1	:	n.a.	n.a.	n.a.
Montenegro	-39.5	-50.6	-29.6	-24.7	-19.6	-20.5	-20.2	-20.6	-20.7	:	n.a.	n.a.	n.a.
Serbia	-16.1	-20.6	-7.3	-7.8	-9.6	-10.8	-10.0	-10.7	:	:	n.a.	n.a.	n.a.
Turkey	-5.9	-5.5	-2.2	-6.4	-10.0	-9.3	-8.7	-9.3	-8.3	:	n.a.	n.a.	n.a.
Albania	-10.5	-15.5	-15.3	-11.5	-12.0	:	:	-12.4	-10.9	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-10.7	-18.1	-10.9	-10.5	-14.3	:	:	-15.0	-14.7	:	n.a.	n.a.	n.a.
Kosovo*	-10.2	-16.0	-10.3	-13.0	-14.1	:	:	-13.5	-13.5	:	n.a.	n.a.	n.a.
<b>Inflation</b> (Consumer price index, annual % change)													
Croatia	2.9	6.1	2.4	1.0	2.3	2.4	2.0	1.5	3.5	:	3.4	4.0	:
The former Yugoslav Republic of Macedonia	2.3	8.3	-0.8	1.6	3.9	2.0	2.5	2.6	2.1	3.8	2.3	3.7	5.3
Iceland	5.1	12.7	12.0	5.4	4.0	5.1	3.9	6.4	5.8	4.3	4.6	4.1	4.3
Montenegro	4.3	7.4	3.4	0.5	3.1	3.9	2.7	3.2	3.5	:	4.5	4.3	:
Serbia	11.0	8.6	6.6	10.3	7.0	5.0	4.8	3.2	5.5	:	6.1	7.9	:
Turkey	8.8	10.4	6.3	8.6	6.5	5.8	6.6	10.5	9.4	9.0	9.1	8.9	9.2
Albania	2.9	3.4	2.3	3.6	3.5	:	:	1.1	1.9	:	2.7	2.8	:
Bosnia and Herzegovina	1.5	7.4	-0.4	2.1	3.7	:	:	2.4	2.0	:	1.4	1.8	:
Kosovo*	4.4	9.4	-2.4	3.5	7.3	:	:	1.7	1.3	:	2.2	3.1	:
<b>General government balance</b> (% of GDP)													
Croatia	-2.5	-1.4	-4.1	-4.9	-5.1	-5.1	-5.0	:	:	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	0.6	-1.0	-2.7	-2.5	-2.5	-2.5	-2.5	-1.2	-2.2	:	n.a.	n.a.	n.a.
Iceland	5.4	-13.5	-9.9	-10.1	-5.4	-2.8	2.0	-2.0	-2.9	:	n.a.	n.a.	n.a.
Montenegro	6.2	-0.4	-5.7	-4.9	-5.4	-2.6	-1.8	-1.2	-3.7	:	-3.0	-2.5	:
Serbia	-2.0	-2.6	-4.5	-4.7	-5.1	-5.3	-4.8	-5.7	-6.4	:	n.a.	n.a.	n.a.
Turkey	-1.0	-2.2	-5.7	-3.6	-1.4f	-1.6	-1.8	:	:	:	n.a.	n.a.	n.a.
Albania	-3.5	-5.5	-7.0	-3.1	-3.5	:	:	-0.7	-1.6	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	1.2	-2.2	-4.4	-2.5	-1.3	:	:	:	:	:	n.a.	n.a.	n.a.
Kosovo*	7.1	-0.1	-0.7	-2.6	-1.7	:	:	:	:	:	n.a.	n.a.	n.a.

\* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

Forecast: ECFIN forecast Autumn 2011

\*\* Q figures refer to a 4 quarters moving average.

## CROATIA



### Key developments

In addition to Croatia, thirteen EU Member States had ratified the treaty on Croatia's accession to the EU by the end of September 2012. The treaty has to be ratified by all 27 Member States before Croatia's accession in mid-2013.

The government adopted its "Economic and Fiscal Policy Guidelines for the Period 2013-2015" in early August which projects a gradual reduction of the government's fiscal deficit by 1.8 percentage points over the next three years with a focus on expenditure-led consolidation.

### Real sector

The recession continued in the second quarter of 2012 with real GDP declining 2.2% year-on-year following contractions of 0.4% and 1.3% in the two preceding quarters. Adjusting the official GDP data for seasonal variations suggests, however, that economic activity may only have contracted modestly between the first and the second quarter.

The various GDP components indicate that the year-on-year contraction is broadly based. The fall in consumer spending increased to 3.4% in real terms in the second quarter following a decline of 0.3% in the first quarter. Government consumption declined by 0.2% compared to -1.5% in the preceding quarter. Fixed investment contracted at an increasing rate (-5.9 % compared to -2.8%). Export volumes (goods and services combined), which had gained 2.4% in the first quarter, shrank by 1.8% in the second quarter. Import volumes, which had increased by 1.1% in the first quarter, fell by 3.3% in the second quarter. In terms of growth contributions (also in year-on-year terms), private consumption and investment exerted a drag whereas inventory variation and particularly net exports contributed positively to GDP growth.

The available data for the third quarter are somewhat mixed, but suggest on balance that economic activity continued to be suppressed. The volume of retail sales was 3.2% lower year-

on-year in August. Following a sharp drop last winter, the trend in industrial production has stabilised in recent months, although its level was still down by 2.7% year-on-year in July and August combined. The trend for construction activity was still declining with the index 9.7% lower year-on-year in July (working-day adjusted data). In foreign trade, the value of exported goods was 3.3% higher year-on-year in July-August while the value of imported goods was up by 5.4%. An extreme summer drought is likely to reduce agricultural inventories sharply on a year-on-year basis at the end of the third quarter. The physical indicators of tourism (arrivals and nights stayed) point to 2-3% increase in tourism compared to 2011.

### Labour market

The long-standing weakness of the labour market continued in the second quarter of 2012 according to the labour force survey. Employment was 1.0% lower year-on-year while the unemployment rate was 1.0 percentage point higher at 14.5%. The more timely data on registered unemployment suggest a further deterioration in the third quarter. The registered unemployment rate stood at 17.5% in July and at 17.7% in August which is, respectively, 0.7 and 1.0 percentage point higher year-on-year. Despite the high level of unemployment, the average nominal gross wage was 1.5% higher year-on-year in July and was up by the same amount in the first seven months of 2012 on average.

### External sector

The current account deficit narrowed by more than 40% year-on-year in the second quarter. Over the four quarters to end-June, the deficit amounted to 0.5% of GDP (based on values in kuna), down from 0.9% in 2011. Exports of goods and services increased 1.0% year-on-year in the second quarter while imports increased slightly faster at 1.6%. The slight deterioration of the goods and services balance was more than offset by an improvement of the balance for income and transfer payments. In particular,



income payments (related to declining profits of foreign-owned companies), fell sharply which contributed almost 90% to the overall improvement of the current account in the second quarter. The capital account of the balance of payments shows that foreign direct investments inflows remained subdued in the second quarter when they were 43.5% lower year-on-year.

Croatia's total gross external debt amounted to € 46.5 billion (105% of GDP) at the end of the second quarter of 2012, up from € 45.9 billion at the end of the first quarter (103% of GDP). Gross international reserves stood at € 11.5 billion at the end of August (25.8% of GDP), down by € 0.1 billion since the end of the second quarter.

### Monetary developments

Recent data on consumer price inflation has continued to reflect the 2 percentage point increase of the general VAT rate in March. Increases in administered energy prices have added to the upward pressure on consumer prices since then. The monthly year-on-year reading of the overall CPI has increased to 4.0% in August compared to 1.2% in January. Nevertheless, underlying inflationary pressures have remained subdued.

Following a contraction in the first quarter, broad money (M4) started to increase again in the second quarter. This trend strengthened in July and August when M4 gained 1.9%, respectively 1.4%, month-on-month. Due to the previous decline it was nevertheless only 2.7% higher in year-on-year terms.

In the foreign exchange market, the kuna trended higher against the euro in the third quarter. The kuna/euro rate moved from 7.52 at the beginning of the quarter to 7.45 at the end which corresponds to a kuna appreciation of 1.0%. The central bank intervened directly in the foreign exchange market on 19 September by purchasing € 58.1 million to mitigate the kuna's appreciation.

### Financial sector

Total assets of Croatian banks had declined 0.9% over the first half of 2012. In July they edged up 0.1% month-on-month and were 2.0% higher year-on-year. Lending to households and enterprises declined in July as it had done in the first six months of the year. On the other hand,

lending to the government sector surged 17.9% over the first seven months of the year mainly as a result of reclassifying bank loans to shipyards as government debt. The increase corresponds to 3.1% of GDP.

Croatia's banking sector remains well capitalised with the capital adequacy ratio increasing to 20.2% at the end of June. Bank profitability declined in the first half of 2012 following two years of slight improvement. The quality of bank loans has continued to deteriorate with the share of non-performing loans in total loans rising by 1.4 percentage points year-on-year to 13.3% at the end of June. Bank interest rates, which had remained almost unchanged quarter-on-quarter in the first quarter, edged down to an average of 9.24% in July for kuna credits (+31 basis points year-on-year). The average interest rate on credits indexed to foreign currency fell to 7.20% in July (-24 basis points year-on-year). The Croatian stock market index was little changed over the third quarter (+1.2%), but is 7.5% lower year-on-year.

### Fiscal developments

The government adopted its "Economic and Fiscal Policy Guidelines for the Period 2013-2015" in early August. It is based on a macroeconomic projection with real GDP growth rates of 0% in 2012, 1.8% in 2013, 3.0% in 2014 and 3.5% in 2015. The fiscal deficits of general government, which are presented in accordance with the national accounting plan methodology and not directly comparable with the ESA95 standard, are projected to decline from 4.5% of GDP in 2011 (5.1% in ESA95 terms) to 3.4% in 2012 (3.9% in ESA95 terms). In the following three years, the deficit is planned to be reduced gradually by a total of 1.8 percentage points to 1.6% of GDP by 2015. The planned fiscal consolidation is projected to take place mainly on the expenditure side. The share of general government expenditure in projected GDP is targeted to decline between 1.0 and 1.3 percentage point per year in 2012 – 2015 in accordance with Croatia's Fiscal Responsibility Law.

Regarding budget execution, total revenues increased 3.4% year-on-year in the first six months of 2012 whereas expenditures decreased 0.1%. Net borrowing of general government (in ESA95 terms) amounted to 2.0% of full-year GDP in the first six months according to the Ministry of Finance. This compares with a budgeted deficit of 3.9% of GDP for 2012 as a whole.



# TABLE

European Commission, ECFIN-D-1



## CROATIA

		2007	2008	2009	2010	2011	ECFIN Forecast		Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
							2012	2013						
<b>1 Real sector</b>														
Industrial outlook <sup>1.1</sup>	Balance	70.9	38.0	-33.3	3.0	-0.8	:	:	-19.0	11.0	-15.0	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann.%ch	5.6	1.6	-9.0	-1.5	-1.2	:	:	-6.0	-6.2	:	-5.5	0.6	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	5.1	2.1	-6.9	-1.4	0.0	-1.2	0.8	-1.3	-2.2	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	6.3	1.3	-7.6	-0.9	0.2	-0.6	0.4	-0.3	-3.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	7.1	8.7	-14.2	-15.0	-7.2	-5.0	6.5	-2.8	-5.9	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	N.A.	11.8	-6.5	-15.9	-9.1	:	:	-12.0	-10.9	:	-7.9	:	:
Retail sales <sup>1.7</sup>	Ann.%ch	N.A.	N.A.	-15.3	-1.8	1.0	:	:	0.5	-5.6	:	-5.2	-3.2	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	9.6	8.4	9.1	11.8	13.5	13.4	12.7	16.4	14.5	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	1.8	1.3	-1.9	-4.0	-3.2	-1.3	0.0	-5.6	-1.0	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	6.2	7.1	2.2	-0.4	1.5	0.9	1.3	2.1	0.9	:	1.5	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	8.7	4.8	-20.0	17.2	10.1	:	:	0.7	:	:	5.2	1.3	:
Imports of goods <sup>3.2</sup>	Ann.%ch	11.0	8.9	-25.6	-1.0	9.4	:	:	4.2	:	:	2.7	8.7	:
Trade balance <sup>3.3</sup>	%of GDP	-21.8	-22.8	-16.6	-13.3	-14.2	-14.1	-14.7	-14.5	:	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	42.3	42.1	36.6	39.4	41.8	:	:	42.1	42.2	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	49.5	49.8	40.1	39.9	41.9	:	:	42.3	42.5	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	%of GDP	-7.3	-9.0	-5.2	-1.1	-0.9	-1.3	-2.1	-0.9	-0.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	%of GDP	7.9	6.7	3.4	0.9	2.3	:	:	2.7	2.4	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	9 307.4	9 120.9	10 375.8	10 660.3	11 194.9	:	:	11 340.1	11 635.3	:	11 607.2	11 532.4	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.9	5.3	8.2	8.5	8.3	:	:	8.3	8.6	:	8.6	8.5	:
<b>4 Monetary Developments</b>														
CPI <sup>4.1</sup>	Ann.%ch	2.9	6.1	2.4	1.0	2.3	2.4	2.0	1.5	3.5	:	3.4	4.0	:
Producer prices <sup>4.2</sup>	Ann.%ch	:	:	-0.4	4.3	7.1	:	:	5.6	5.2	:	5.0	5.7	:
Food prices <sup>4.3</sup>	Ann.%ch	3.4	10.0	1.7	-1.5	3.5	:	:	2.2	3.0	:	4.0	4.7	:
M4 <sup>4.4</sup>	Ann.%ch	17.9	10.9	1.6	2.7	3.7	:	:	2.4	3.5	:	3.2	2.7	:
Exchange rate HRK/EUR <sup>4.5</sup>	Value	7.33	7.22	7.34	7.29	7.43	:	:	7.55	7.52	7.47	7.49	7.48	7.43
Nominal eff. exchange rate <sup>4.6</sup>	Index	98.0	96.1	97.2	98.2	100.2	:	:	102.56	102.43	:	102.86	102.97	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	%p.a.	5.66	7.19	8.96	2.44	3.14	:	:	5.14	2.91	3.40	3.12	3.59	3.50
Bond yield <sup>5.2</sup>	%p.a.	N.A.	5.9	6.4	5.8	5.7	:	:	6.9	6.2	5.9	6.1	6.2	5.5
Stock markets <sup>5.3</sup>	Index	4 673	3 299	1 871	1 990	2 079	:	:	1 783	1 721	1 698	1 698	1 680	1 715
Credit growth <sup>5.4</sup>	Ann.%ch	19.4	11.6	5.0	2.9	6.5	:	:	5.5	1.3	:	-1.6	-2.3	:
Deposit growth <sup>5.5</sup>	Ann.%ch	27.2	7.4	-15.2	-19.8	7.3	:	:	15.2	12.6	:	10.4	8.8	:
Non performing loans <sup>5.6</sup>	%of total	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	%of GDP	-2.5	-1.4	-4.1	-4.9	-5.1	-5.1	-5.0	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	32.9	29.3	35.8	42.2	46.7	51.3	57.1	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2012

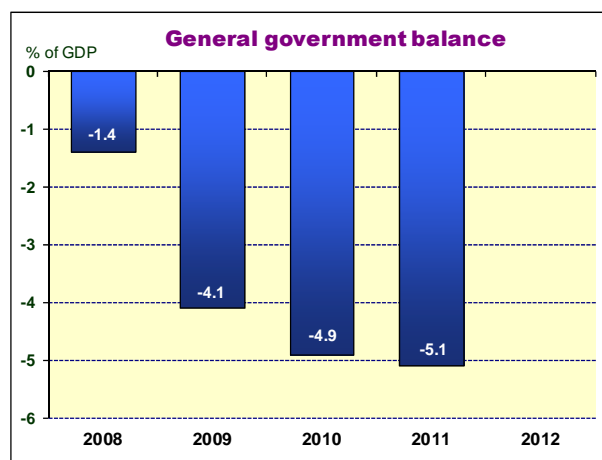
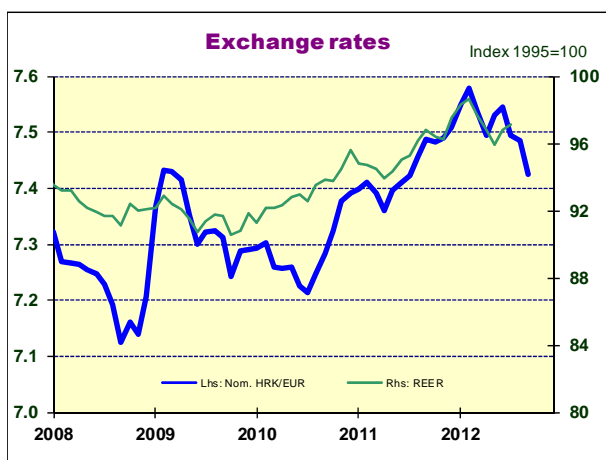
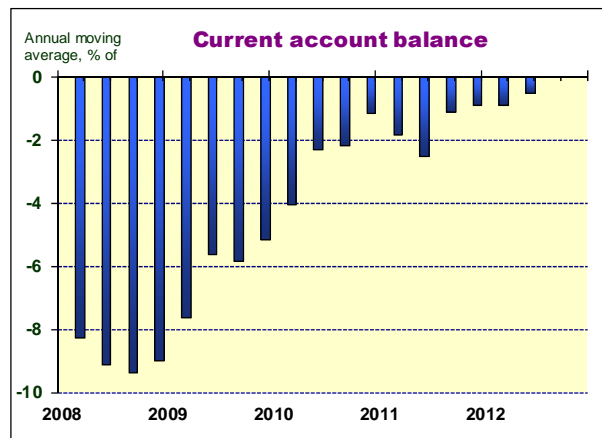
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## CROATIA



# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



## Key developments

On 24 September, the authorities announced the increase in the deficit target for 2012 from 2.5% of GDP to 3.5%. This should allow the payment of so far unrecorded public sector payment arrears. The arrears accumulated as a result of lower than expected revenues, while spending targets were largely maintained.

With respect to the 2013 budget, the authorities announced an increase in pensions by 5% in real terms, while the increase in public sector wages will be delayed. The current budgetary discussions are geared towards a deficit target of 3.5% of GDP.

## Real sector

Production remained below pre-year levels in the second quarter. Overall GDP was 0.9% lower than in the second quarter the year before. Together with a year-on-year output decline of 1.3% in the first quarter, GDP was 1.1% lower in the first half of 2012 than a year before. However, in the first half of 2011, output had been boosted by strong pre-election spending. Private consumption and gross investment appear to have remained rather strong in the first half of 2012. However, the import content of those demand components seems to be very high, resulting in a negative contribution of net exports to growth. Furthermore, exports were also lower than a year before.

The weak domestic dynamic is confirmed by markedly lower industrial production, which during the first 8 months of the year was some 8% lower than a year before. The decline is not only due to lower output in export oriented industries, such as wearing apparel, basic metals, but also due to domestic oriented activities, such as the production of coke and petroleum, and also energy.

## Labour market

The labour market situation improved slightly in the second quarter, with an increase in employed persons by 0.8%. However, the number of unemployed rose by 0.3%. As a result of higher employment, the ratio of unemployed to the active labour force declined marginally to 31.2%, from 31.3 % a year before. The main sectors with employment gains were education and municipal services, while employment declined in manufacturing and agriculture. Youth unemployment (age bracket 15-24 years) continued to increase to 54.9% in the second quarter of 2012, compared to 54.6% the year before. This age group accounts for about 10% of the labour force, but for some 18% of total unemployed.

Nominal wage growth remains below inflation. In the second quarter, nominal wages dropped by 0.5%, compared to an average increase of 1.2% in 2011. This translated into a real wage decline by some 2½% in the second quarter of 2012.

## External sector

The current account deficit continued to diminish in the first seven months of 2012, to about 2% of the projected annual GDP, compared to 4¼% the year before. The main factor for the improvement was a continuously strong inflow of current transfers, while the trade deficit remained largely unchanged. Current transfers were nearly 3 percentage points of GDP higher than a year before, at 12½% of the estimated full-year GDP, compared to 9¾% of GDP the year before. The inflow of foreign direct investment was weak in the first 4 months of the year, but improved later in the year reaching 1½% of GDP in July, compared to 2¾% the year before. In 2011, FDI inflows amounted about 4% of GDP.

By August, foreign exchange reserves were slightly higher than at the end of 2011, at around

EUR 2.4 bn, equivalent to some 30% of GDP. As a result of decelerating imports, the coverage of foreign reserves is at 5¾ months of realised imports.

Gross external debt<sup>1</sup> stood at 63.8% of GDP by end-June 2012, compared to 60.9% the year before. Without repo purchases, external debt was at 51% of GDP end of June 2012, compared to 46% the year before.

### Monetary developments

Inflation accelerated markedly in August and September, rising to 3.7% and 5.3% respectively. This brought average inflation during the first nine months of the year to 2.8%, compared to 4.1% the year before. The main factors for the strong increase were agricultural products, but also housing, textiles and energy.

Year-on-year growth of M4 continues to decelerate. In the first eight months, it dropped to 6%, compared to an increase by 12.3% the year before.

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

### Financial sector

Monetary conditions have remained largely unchanged. Weighted nominal lending rates continued to decline in August, albeit marginally, to 8.4%. Interest rates on deposits declined slightly faster, reaching 4.9% in August. As a result, the spread between lending and borrowing rates thus has slightly increased, to 3.5 percentage points. The overall credit-to-GDP level is still relatively low at some 50% of GDP.

The ratio of non-performing loans (NPLs) to total loans was 10% end of June 2012, compared to 10.2% end-of March. There was a further increase in the NPL ratio for small-sized banks, raising to 22.4%, compared to 21.1% the quarter before. In the sector of medium-sized banks, the ratio rose from 9% to 9.4%, while in the group of large banks the NPL ratio rose from 8.3% to 9.3%. When looking at developments during the last year, the most noteworthy change was the strong increase in the ratio of non-performing loans of small banks, rising from 15.2% in June 2011 to 22.4% in June 2012. At the same time,

NPL ratios dropped in the case of medium-sized banks, from 11.8% in June 2011 to 9.4% in June 2012. Profitability of the sector as a whole improved slightly in the second quarter of 2012, mainly due to positive returns on assets of medium-sized banks, while those returns deteriorated further in the case of small-sized banks, dropping by 4.2% in the second quarter, compared to a decline by 3.8% the quarter before. The banking sector's return-on-equity was negative in the second quarter (-2.5%, compared to 3.4% the quarter before), mainly due to losses of small-sized banks.

In line with international developments, the stock market registered losses in the first half of 2012. At the beginning of October, the stock market index was some 15% lower than a year before. The total market capitalisation currently amounts to some 25% of GDP.

### Fiscal developments

In the first 8 months of the year, published fiscal balances registered a deficit of about 2% of the estimated full-year GDP, despite significantly lower than expected revenue. However, on 24 September the authorities announced they would raise the deficit target for 2012 from 2.5% of GDP to 3.5%, in order to settle so far unregistered payment arrears, while maintaining spending targets. The financing of the higher deficit will be covered mainly through foreign loans.

By end-August, central government debt was close to 30% of the projected full-year GDP. About three quarters of total central government debt is financed via external sources, in particular through lending from International Financial Institutions (IFIs).

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<sup>1</sup> Including repo purchases of the monetary authorities

## TABLE



European Commission, ECFIN-D-1

### The former Yugoslav Republic of Macedonia

		2007	2008	2009	2010	2011	ECFIN Forecast							
							2012	2013	Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	7.0	6.8	-13.7	-9.6	18.4	:	:	18.4	15.5	:	14.8	14.3	:
Industrial production <sup>1.2</sup>	Ann. %ch	4.3	5.6	-8.4	-4.6	4.0	:	:	-8.4	-5.6	:	-6.9	-8.1	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	6.2	5.1	-1.0	2.8	3.3	1.7	2.5	-1.3	-0.9	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	9.8	8.1	-4.8	2.3	7.4	2.0	3.0	1.6	2.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	13.3	16.5	0.5	1.8	6.0f	8.0	11.0	:	:	:	N.A.	N.A.	N.A.
Construction <sup>1.6</sup>	Ann. %ch	18.5	-2.8	5.3	11.7	22.5	:	:	-8.4	-3.7	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	17.1	11.6	-3.8	4.2	:	:	:	:	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	34.9	33.8	32.2	32.0	31.4	31.0	30.5	31.6	31.2	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. %ch	3.5	3.2	3.4	1.3	1.1	0.6	1.5	-0.9	0.8	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. %ch	4.8	8.7	14.1	1.0	1.2	3.6	5.0	0.8	-0.5	:	-0.2	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	29.2	8.9	-28.2	29.0	27.5	:	:	-0.5	-3.5	:	13.0	:	:
Imports of goods <sup>3.2</sup>	Ann. %ch	25.3	21.9	-21.6	13.4	22.7	:	:	-4.7	5.3	:	0.3	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-19.8	-26.2	-23.3	-20.8	-22.3	-23.0	-23.4	-21.6	-22.9	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	52.4	50.9	39.0	46.6	54.4	:	:	54.0	53.5	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	70.8	76.2	60.6	65.3	73.9	:	:	73.3	74.3	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-7.1	-12.8	-6.8	-2.2	-2.7	-3.0	-3.7	-1.6	-2.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	8.5	6.1	2.0	2.2	4.0	:	:	2.2	3.2	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1551.2	1496.9	1598.7	1715.3	2302.3	:	:	2365.1	2261.3	:	2336.5	2376.7	:
Int. reserves / months imp <sup>3.9</sup>	Ratio	5.1	4.0	5.5	5.2	5.7	:	:	5.9	5.6	:	5.8	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	2.3	8.3	-0.8	1.6	3.9	2.0	2.5	2.6	2.1	3.8	2.3	3.7	5.3
Producer prices <sup>4.2</sup>	Ann. %ch	1.6	10.4	-6.4	8.3	:	:	:	:	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann. %ch	3.7	14.4	-1.4	0.3	6.2	:	:	1.3	0.2	:	1.4	2.7	:
Monetary aggregate M4 <sup>4.4</sup>	Ann. %ch	28.9	21.3	3.5	12.1	10.5	:	:	9.8	8.4	:	7.3	6.0	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.18	61.26	61.28	61.51	61.53	:	:	61.50	61.59	:	61.57	61.50	:
Nominal eff. exchange rate <sup>4.6</sup>	Index	99.6	100.6	106.6	106.0	106.9	:	:	107.6	:	:	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	5.60	5.30	:	:	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	10.2	9.7	10.1	9.5	8.9	:	:	8.7	8.5	:	8.4	8.4	:
Stock markets <sup>5.3</sup>	Index	6 971	5 149	2 497	2 472	2 407	:	:	2 026	1 950	1 836	1 844	1 832	1 831
Credit Growth <sup>5.4</sup>	Ann. %ch	35.0	40.3	14.2	5.4	8.1	:	:	8.4	8.0	:	7.4	7.2	:
Deposit growth <sup>5.5</sup>	Ann. %ch	31.4	23.5	4.6	13.0	10.9	:	:	9.4	8.3	:	6.7	5.3	:
Non-performing loans <sup>5.6</sup>	% total	7.5	6.7	8.9	9.0	9.5	:	:	9.9	9.7	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	0.6	-1.0	-2.7	-2.5	-2.5	-2.5	-2.5	-1.2	-2.2	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	24.0	20.6	23.9	24.6	28.2	34.0	38.0	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2012

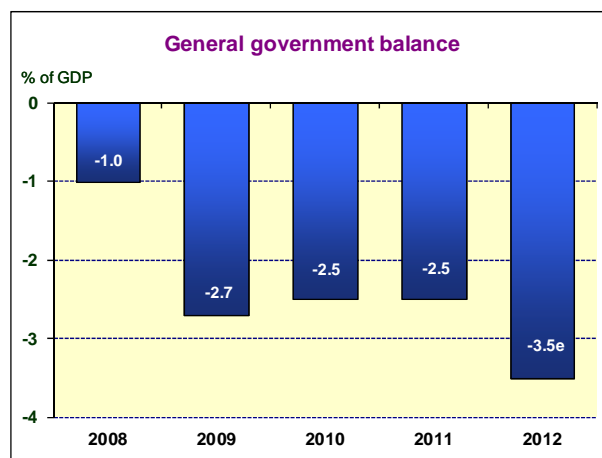
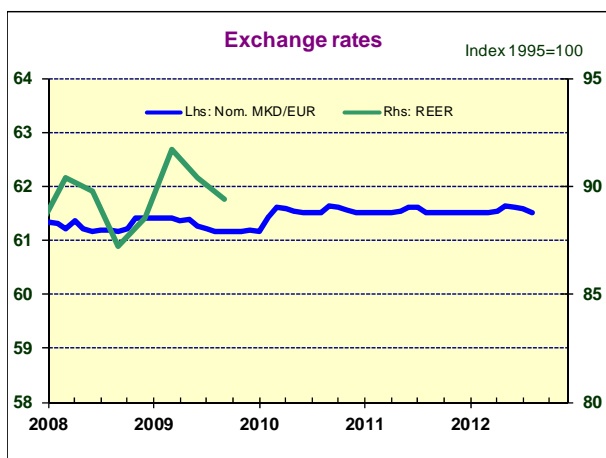
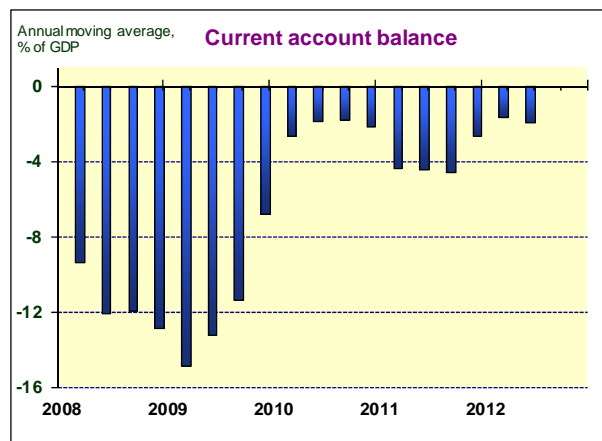
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## The former Yugoslav Republic of Macedonia



## ICELAND



### Key developments

On 11 September, the 2013 central government budget plan was adopted and sent to Parliament. It targets a balanced budget (0.1% of GDP) for the first time since the start of the financial crisis in 2008. Total revenues are planned to increase more strongly (7%) than total spending (2.5%).

On 20/21 September, the "Ad Hoc Group on the Removal of Iceland's Capital Controls" held its first meeting. The group is tasked to assess the state of play and prospects for the lifting of capital controls and to assist in forming a common understanding of the challenges in the process. The group consists of representatives of the Icelandic Government, the European Commission, the European Central Bank and the International Monetary Fund.

### Real sector

The economy continued to grow in the second quarter, but output growth slowed to 0.5% year-on-year, from 4.2% in the first quarter. Economic activity in the second quarter was largely driven by private consumption growth, which accelerated to 4.7%, supported by higher real disposable incomes, rising asset prices and improved balance sheets after debt write-offs granted to indebted borrowers. In contrast, government consumption continued to fall, by around 1% year-on-year, reflecting – inter alia – continued government efforts to curb current spending in line with the fiscal consolidation strategy. Patterns of investment spending remain rather volatile. Growth of investment dropped to 4.5%, from 36.2% in the first quarter. Total imports continued to increase more strongly (8.5%) than total export (5.3%), leading to a negative contribution of trade to growth.

Iceland Statistics in its most recent National Accounts data release stated that bi-annual growth rates present a more adequate picture of the state of the economy than quarterly growth rates, due to strong seasonality and significant changes in inventories between quarters. The average growth in the first half of 2012 was recorded at 2.4%, suggesting that the economy

continued growing at a similar pace as in 2011 (2.6%).

Recent high-frequency and leading indicators suggest a rather mixed picture of economic activity in the third quarter. On the one hand, consumer confidence indicators rose for sixth months in a row in September and tourism has performed exceptionally well. On the other hand, payment and credit card turnover – a reliable indicator for private consumption – suffered a significant setback in August when it fell by 2.6% year-on-year in real terms.

### Labour market

Labour market conditions continued to gradually improve. According to the Labour Force Survey, the unemployment rate stood at 7.2% in the second quarter, unchanged from the first quarter, but significantly lower than the rate of 8.5% recorded in the same period a year ago. The level of total employment increased by 1.2% year-on-year, the strongest increase since the crisis. Data on registered unemployment confirm positive trends. The registered rate fell to 4.7% in July, the lowest rate since December 2008, and increased slightly to 4.8% in August. The average unemployment rate in the first eight months was 6%, compared to 7.7% a year before. At the same time, the high and increasing rate of long-term unemployment (27% of total unemployed) remains a particular concern. Also, the youth unemployment rate remained at elevated levels of close to 18% in the second quarter of 2012.

Significant wage pressures have developed in the economy. The annual average growth of gross wages accelerated sharply to around 10% in the second quarter, and thus almost doubled from the same period in 2011. Average real wages increased from 2.5% to 4.2% during the same period.

### External sector

External trade developments point to a narrowing surplus in trade with goods and services, primarily due to stronger merchandise imports. The surplus fell from 8.5% in 2011 to



6.6% in the four quarters to June 2012. The current account deficit widened from 7% of GDP in 2011 to 8% in the four quarters to June 2012. Reported current account balances remain highly influenced by accrued interest of banks in winding-up proceedings which do not reflect any current (or future) outflow of funds. Corrected for these factors, the "underlying" current account recorded a much lower deficit of around 1% of GDP, according to the Central Bank estimates.

Merchandise trade data for July and August surprised on the downside. Exports fell by around 8% and 6%, respectively. The growth of imports decelerated to 7% in July, and recorded a negative growth of 14.5% in August. However, monthly trade figures are highly "distorted" by large one-off transactions. Cumulative export growth in the first eight months 2012 has been much weaker (4%) than the growth of imports (10%), leading to a further erosion of the trade surplus, which stood at 2.9% of GDP during this period, compared to 4% of GDP in the same period a year before.

In the second quarter, gross official foreign exchange reserves held at the central bank decreased by an equivalent of around 7% of GDP to around 49% of GDP by end-June, mainly due to early re-payments of loans received from the IMF and Nordic countries. Official debt statistics report the stock of gross foreign debt at around 840% of GDP at end-March 2012. However, corrected for foreign debt of banks and holding companies in winding up proceedings, the Central Bank estimates the external debt stock at around 220% of GDP and Iceland's net international investment position at a negative 52% of GDP. This compares favourably with a pre-crisis external debt of around 570% of GDP.

### Monetary developments

In view of the economic recovery, higher capacity utilisation and the deteriorating inflation outlook, the Central Bank continued to tighten the monetary policy stance by further raising policy rates by 0.25 percentage points both in May and June. Since then, the Central Bank left interest rates unchanged, arguing that a stronger exchange rate had improved the medium-term inflation outlook. Annual inflation has gradually come down from the 2012 peak of 6.5% in April to 4.3% in September.

Since May, the króna gradually recovered and appreciated relatively strongly by some 11% vis-à-vis the euro by mid-August, mainly due to

inflows from tourism, tighter capital controls, and a lower accumulation of reserves by domestic companies. Since then, the króna lost some 8.5% of its value by end-September, primarily due to outflows related to debt service payments. In annual comparison, the currency is trading roughly at pre-years level.

### Financial sector

A more stable banking system, improved positions of households and enterprises, and an on-going economic recovery have eventually led to some resumption of bank lending. Annual credit growth accelerated further, to 7% in the second quarter, and mildly moderated to 5.9% in August. The growth of bank deposits slowed to 5.8% year-on-year and further to 0.7% in July and -0.5% in August. The total capital adequacy ratio of the three banks increased to 23% in the first half of 2012, well above the minimum requirement of 16%. All banks remained profitable with returns on equity at 11.5% in the first half of 2012, down from 16% a year before, but banks are still faced with uncertain asset quality. Moreover, they carry relatively high cost-to-income and cost-to-asset ratios. Non-performing loans (measured at cross-default rates) remain exceptionally high, at 20% of total loans at mid-2012.

### Fiscal developments

The 2012 budget targets a reduction of the general government deficit to 1.4% of GDP. It includes new consolidation measures of around 1.7% of GDP with most of the adjustment on the revenue side (1.2% of GDP). Expenditure restraint measures are projected at 0.5% of GDP, encompassing cuts in current expenditure and transfers and investment. Fiscal performance during the first half of 2012 saw a solid 11% year-on-year rise in general government revenues, the strongest increase since 2007. This resulted mainly from higher intake from income taxes and – to a lesser extent – taxes on goods and services. However, compared to initial plans, some fiscal loosening continued on the expenditure side, estimated at 0.5-1% of GDP. Total spending rose by around 6.6%, with a particularly strong increase in wages and debt service costs. Public investments continued to decline, by around 9% year-on-year. The deficit in the first half fell to 2.5% of GDP (or 1.2% of projected annual GDP), compared to 4.1% in the first half of the previous year. Gross general government debt rose further to 98.7% at end-2011 and debt levels remain high compared to pre-crisis levels of around 30%.

## TABLE



European Commission, ECFIN-D-1

## ICELAND

		2007	2008	2009	2010	2011	ECFIN Forecast		Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
							2012	2013						
<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	28.5	76.9	10.3	-0.6	0.1	:	:	1.0	-2.4	:	-6.4	:	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	6.0	1.2	-6.6	-4.0	2.6	2.1	2.4	4.2	0.5	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	5.7	-7.8	-15.0	0.0	2.7	2.3	2.1	3.4	4.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-12.2	-20.4	-51.4	-8.6	12.8	10.8	10.1	36.2	4.5	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	12.1	-21.2	-23.4	N.A.	N.A.	:	:	:	:	:	:	:	:
Retail sales <sup>1.7</sup>	Ann.%ch	7.9	-9.2	-22.8	-4.2	3.5	:	:	:	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	2.3	3.0	7.2	7.5	7.1	6.4	6.0	7.2	7.2	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	4.5	0.7	-6.1	-0.3	0.0	0.5	0.5	0.7	1.2	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	9.0	8.1	3.9	4.8	6.8	7.3	6.1	10.8	9.9	:	6.0	5.9	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	25.7	52.6	7.3	12.0	10.5	:	:	8.4	6.4	:	-7.9	-6.2	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-1.5	20.2	-13.3	7.4	18.6	:	:	19.7	11.0	:	7.0	-14.6	:
Trade balance* <sup>3.3</sup>	%of GDP	-6.7	-0.5	6.0	7.8	6.0	5.4	5.0	5.2	4.9	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	34.6	44.4	52.8	56.3	59.3	:	:	59.3	59.7	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	45.3	47.2	44.2	46.2	50.8	:	:	51.8	53.0	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-15.7	-24.6	-11.6	-8.0	-7.0	-5.6	-4.4	-7.3	-8.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	-16.5	30.5	-18.2	20.7	8.4	:	:	20.8	20.8	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1 793.5	2 565.3	2 661.7	4 369.0	6 580.6	:	:	5 859.2	5 339.8	:	5 379.4	5 277.4	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	4.7	8.0	13.4	19.1	24.3	:	:	20.9	18.5	:	18.5	18.2	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann.%ch	5.1	12.7	12.0	5.4	4.0	5.1	3.9	6.4	5.8	4.3	4.6	4.1	4.3
Producer prices <sup>4.2</sup>	Ann.%ch	1.8	31.0	11.3	11.8	9.2	:	:	5.7	1.9	:	-4.2	-6.0	:
Food prices <sup>4.3</sup>	Ann.%ch	-1.1	16.0	17.5	4.2	3.8	:	:	5.8	6.9	5.7	7.1	5.2	4.7
M3 <sup>4.4</sup>	Ann.%ch	36.2	41.2	15.7	-6.6	-2.2	:	:	7.6	5.9	:	0.9	-0.2	:
Exchange rate ISK/EUR <sup>4.5</sup>	Value	87.66	127.58	172.15	161.62	161.20	:	:	163.15	162.89	153.70	154.22	148.97	157.91
Nominal eff. exchange rate <sup>4.6</sup>	Index	186.4	135.2	98.1	100.0	100.0	:	:	96.9	96.4	:	100.0	103.7	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	%p.a.	14.28	15.84	11.28	6.79	4.26	:	:	4.82	5.38	5.75	5.75	5.75	5.75
Bond yield <sup>5.2</sup>	%p.a.	N.A.	11.00	8.15	5.38	5.23	:	:	5.07	5.49	4.80	5.00	4.71	4.68
Stock markets <sup>5.3</sup>	Index	7 017	3 510	465	563	602	:	:	620	678	653	670	645	646
Credith grow th <sup>5.4</sup>	Ann.%ch	27.3	-34.0	-8.5	-3.2	-1.8	:	:	5.9	7.0	:	6.6	5.9	:
Deposit grow th <sup>5.5</sup>	Ann.%ch	36.6	31.5	-1.3	-7.0	-2.7	:	:	7.5	5.8	:	0.7	-0.5	:
Non-performing loans <sup>5.6</sup>	%total	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	%of GDP	5.4	-13.5	-9.9	-10.1	-5.4	-2.8	2.0	-2.0	-2.9	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	28.6	70.5	106.6	124.3	98.8f	91.7	88.3	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2012

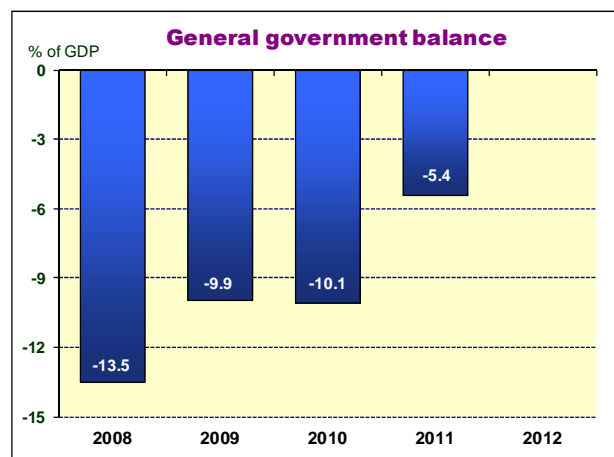
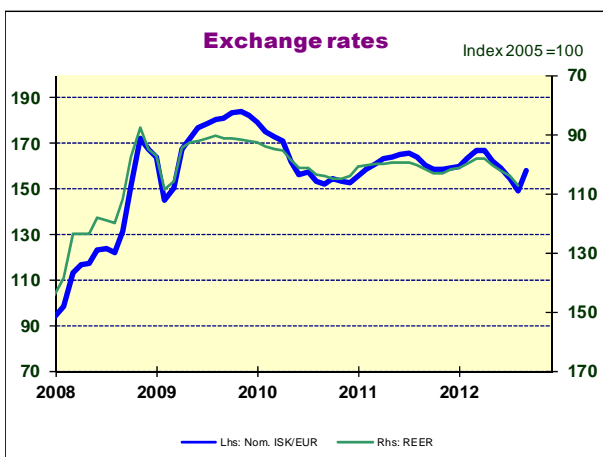
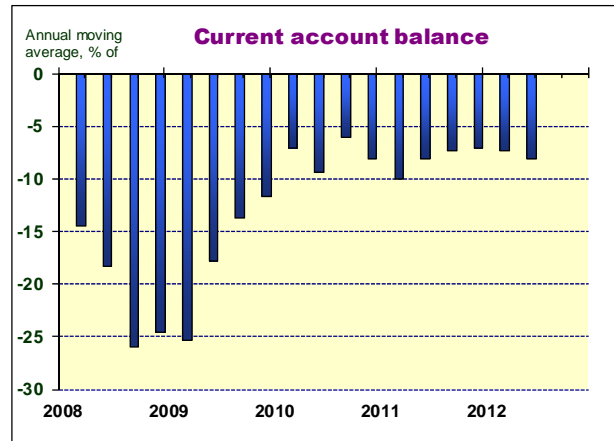
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## ICELAND





## Key developments

At the initiative of the ruling coalition the Montenegrin assembly voted in July the shortening of its term with the aim of giving the new government a fresh mandate as it engages into accession negotiations with the EU. President Filip Vujanovic fixed the date for the elections on 14 October, six months ahead of schedule.

In September, Krnovo Green Energy (a joint venture of Japanese Mitsubishi Heavy Industries and Austrian Ivica Consulting) launched a prequalification tender for an engineering, procurement and construction contract for the grid connection works for the company's 72-MW wind power plant.

In September, the European Bank for Reconstruction and Development (EBRD) approved a EUR 10 million loan for reconstruction of the railway track Vrbica-Bar. In addition, the Railway Infrastructure Company (ZICG) and the Civil Engineering Institute launched a feasibility study for a rail line between Pljevlja and Berane. In October, the railway line Podgorica-Niksić was officially opened after six years of reconstruction.

## Real sector

The economy expanded by 3.2% in real terms in 2011, driven by a 4.2% expansion of private consumption (which accounts for 84% of nominal GDP) as well as by the acceleration of exports (14% year-on-year). However, fixed investments and government consumption declined by 10.3% and 1.6% respectively. On the production side, value added was driven by double digit growth rates in trade, agriculture, manufacturing and construction. However, transport declined by real -2.5% year-on-year, while electricity supply (which accounts for 3% of total GVA) contracted sharply by -33%.

Further deterioration of net exports and industrial output brought GDP down by -0.9% year-on-year in the first half of 2012. The negative impact of harsh winter conditions in the first quarter of 2012 resulted in an annual contraction of GDP in real terms of -2.4%. The economy recorded a slightly positive annual

growth of 0.3% in the second quarter.

## Labour market

In the second quarter of 2012 the labour force survey (LFS) reported that the unemployment rate remained at the same level as a year earlier (20.1%). Yet, the rate for employment was, by 0.4 percentage points, marginally lower than a year before. Meanwhile, the registered rate of unemployment presented a marked seasonal pattern, decreasing further to 12.1% in September 2012, from 12.7% recorded in June as well as in September of the previous year.

In August, the average gross wage (EUR 716) remained unchanged compared to the previous month, although increasing by 1% year-on-year in nominal terms. Average net wages also increased at a slower rate than inflation, by 0.6% year-on-year compared to 4% for the CPI. Overall, the wage hikes recorded in real estate, water supply and mining sectors were balanced by declines in administration, electricity and construction.

The payment of severance packages to some 3,000 workers who lost their jobs due to bankruptcy or restructuring before August 2008, and therefore were not eligible for compensation by the Labour Fund, started in September. The funds (EUR 6 million) were provided from the sale of 5-year government bonds at 7% interest rate in the stock exchange.

## External sector

In the first half of 2012 the current account deficit increased by 8.7% year-on-year, reaching 20.7% of GDP in annualised terms, or one percentage point of GDP higher than at the end-2011. The deterioration largely reflects trade dynamics, with exports of goods contracting by 14% year-on-year while merchandise imports grew by an additional 2.5%. Higher surpluses in the balances of services and current transfers (by 22% and 16% year-on-year, respectively) did not suffice to offset the trade gap. The income balance remained positive although it contracted by 44% year-on-year. The financial account balance covered 93% of the current account deficit, while Central Bank reserves contributed with EUR 15 million to close the

gap. Net FDI contracted markedly, by 21% year-on-year, but still covered 54% of the deficit, while additional 40% came from other investments (i.e. bank loans).

In the first eight months of 2012 the trade deficit further broadened by 10% year-on-year to some 29% of annual GDP. The external gap also reflects underlying terms of trade dynamics as, during the same period, export prices of industrial metal products declined by 7% year-on-year while the prices of imported items rose by 1.7%.

### Monetary developments

The consumer price index slightly decelerated in August to 4.3% year-on-year, down from 4.5% a month earlier. On an annual basis, increases of some 11% were recorded in alcoholic beverages and tobacco, housing (which includes water and electricity), as well as in restaurants and hotels. By contrast, clothing and furnishing prices recorded marginal negative growth. Food prices, which account for 43% of the consumer's basket, increased in August by 3.2% over the year.

The foreign exchange reserves stock increased by 3.7% year-on-year in August, totalling EUR 395 million, or 11.6% of GDP, a similar level as a year earlier. Foreign exchange reserves represented the equivalent of two and a half months of imports.

### Financial sector

Average effective interest rate on new loans in July edged up to 11.16% compared to 9.64% at the end of 2011. In the same seven month period, deposit interest rates contracted marginally, from 3.02% down to 2.94%.

Bank deposits increased by 3.4% year-on-year in August, and by 7.5% since the start of the year, totalling EUR 1.95 billion. Households and non-financial institutions increased their savings by 8.5% and 4.2% year-on-year respectively. Banks' lending continued declining in August, by 5% year-on-year and by 2.3% compared to the previous month. In August the stock of credits declined to EUR 1.91 billion, or 56% of annual GDP, compared to 61% a year earlier.

The ratio of non-performing loans (NPL) reaccelerated in the second quarter of 2012 to 17% of total loans, compared to 15% in the previous quarter and to 25% a year earlier. The

aggregate capital of the banks registered a quarterly contraction of 4%, reducing the capital adequacy ratio to 14.5% in the second quarter from 15.9% in the previous one. The banks' return on assets as well as on equity remained negative at -1.3% and -11.9% respectively. Banks recorded a combined loss of some EUR 11 million until June 2012. In September the largest domestic lender, Crnogorska Komercijalna Banka (CKB) raised its capital by additional EUR 8 million.

The insurance market expanded by 6.8% year-on-year to EUR 46 million or 1.3% of annual GDP in the first eight months of 2012. During the same period, life insurance gross premiums grew faster (by 8% year-on-year) than general insurance (6.6%).

In August 2012, market capitalisation on Montenegro stock exchange dropped by 6.6%, while total turnover surged by 122% year-on-year to EUR 5 million. The MONEX20 index dropped by 21% compared to the same period a year before.

### Fiscal developments

After recording a consolidated deficit of 3.7% of GDP in the first half of 2012, the budget execution presented positive balances in July and August of EUR 22 and 16 million respectively. As a result, the cumulated cash deficit contracted to 2.5% of GDP in the first eight months of 2012. Several revenue items still continued to underperform, like taxes on property, VAT, or excises, all falling short of target by some 5 percentage points. However, these were balanced by better than expected performance in corporate as well as personal income taxes and contributions. While total revenues came in line with the plan (99.9%), further consolidation took place on current expenditures and on capital spending, reduced by some EUR 8 million each.

In the second quarter of 2012 the public debt reached 48% of GDP, three percentage points higher than in the previous quarter. External debt, which accounts for 74% of total public debt, rose by 12.7% year-on-year, while domestic indebtedness increased by 16.5%.

## TABLE

European Commission, ECFIN-D-1



# MONTENEGRO

		2007	2008	2009	2010	2011	ECFIN Forecast							
							2012	2013	Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. %ch	0.1	-20.3	-24.6	45.7	-37.1	:	:	-4.1	-19.6	:	-1.8	-5.5	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	10.7	6.9	-5.7	2.5	3.2	0.4	2.0	-2.4	0.3	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	:	:	-7.7	4.2	0.0	0.6	1.6	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	:	:	-25.3	-21.2	-0.1	0.2	1.7	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	-3.2	45.7	-21.5	13.1	10.7	:	:	1.6	-23.7	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	N.A.	N.A.	-0.4	-2.3	25.1	:	:	14.6	10.0	:	2.1	1.1	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	11.9	10.8	11.4	12.2	13.2	:	:	13.6	12.7	12.1	12.4	12.3	12.1
Employment <sup>2.2</sup>	Ann. %ch	3.7	6.3	4.8	-7.1	0.8	0.2	1.5	2.3	0.3	:	1.5	3.0	:
Wages <sup>2.3</sup>	Ann. %ch	14.2	22.8	5.7	11.0	1.0	0.6	2.1	-1.1	2.6	:	0.8	1.0	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	4.6	-6.8	-34.2	20.3	33.6	:	:	-22.9	-5.0	:	-8.8	-23.9	:
Imports of goods <sup>3.2</sup>	Ann. %ch	42.0	22.1	-34.6	0.9	9.2	:	:	6.5	-0.4	:	0.3	14.3	:
Trade balance* <sup>3.3</sup>	%of GDP	-57.6	-65.6	-44.3	-41.1	-40.4	-40.1	-39.0	-41.9	-41.8	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	44.4	39.5	32.1	34.7	40.2	:	:	27.2	36.1	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	86.7	94.0	65.4	63.1	66.2	:	:	69.9	72.6	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-39.5	-50.6	-29.6	-24.7	-19.6	-20.5	-20.2	-20.6	-20.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	21.2	18.9	35.8	17.5	12.0	:	:	10.1	10.8	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	468.0	313.0	397.0	416.0	303.0	:	:	289.0	288.0	:	408.0	395.0	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	3.3	1.5	2.9	3.0	2.0	:	:	1.9	1.9	:	2.7	2.5	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	4.3	7.4	3.4	0.5	3.1	3.9	2.7	3.2	3.5	:	4.5	4.3	:
Producer prices <sup>4.2</sup>	Ann. %ch	8.5	14.0	-3.8	-0.7	3.2	:	:	-1.0	0.4	:	0.9	5.1	:
Food prices <sup>4.3</sup>	Ann. %ch	N.A.	9.0	3.3	0.3	2.8	:	:	1.7	2.8	:	4.8	3.2	:
M21 <sup>4.4</sup>	Ann. %ch	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.	:	:	:	:	2.27	:	:	:	:	5.32	5.32	:	:
Bond yield <sup>5.2</sup>	%p.a.	:	:	3.63	3.37	2.41	:	:	5.25	4.97	4.73	:	4.73	:
Stock markets <sup>5.3</sup>	Index	36117	20009	13316	14003	11889	:	:	9336	9096	:	8452	8498	:
Credit growth <sup>5.4</sup>	Ann. %ch	165.1	24.6	-14.3	-8.2	-11.1	:	:	-6.1	-4.3	:	-4.2	-5.1	:
Deposit growth <sup>5.5</sup>	Ann. %ch	94.4	-4.8	-8.3	-1.9	1.5	:	:	0.5	0.3	:	4.2	3.4	:
Non-performing loans <sup>5.6</sup>	%of total	3.2	7.2	13.5	21.0	15.5	:	:	14.7	17.1	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	%of GDP	6.2	-0.4	-5.7	-4.9	-5.4	-2.6	-1.8	-1.2	-3.7	:	-3.0	-2.5	:
General government debt <sup>6.2</sup>	%of GDP	27.5	29.0	38.2	40.9	45.9	50.1	49.7	45.1	47.9	:	:	:	:

f: ECFIN forecast Spring 2012

\* Q figures refer to a 4 quarters moving average.

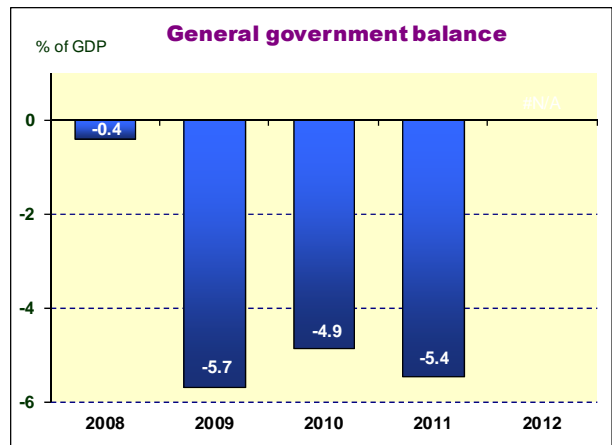
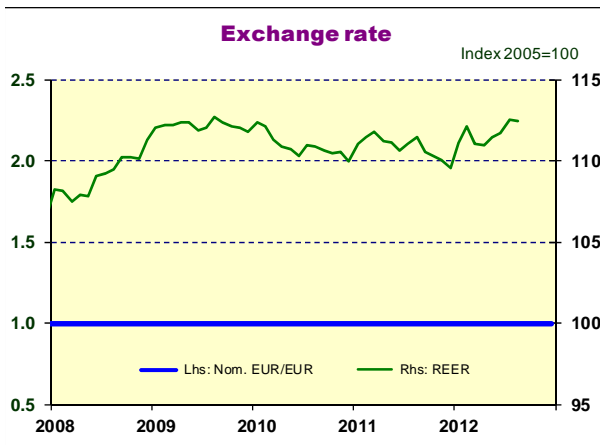
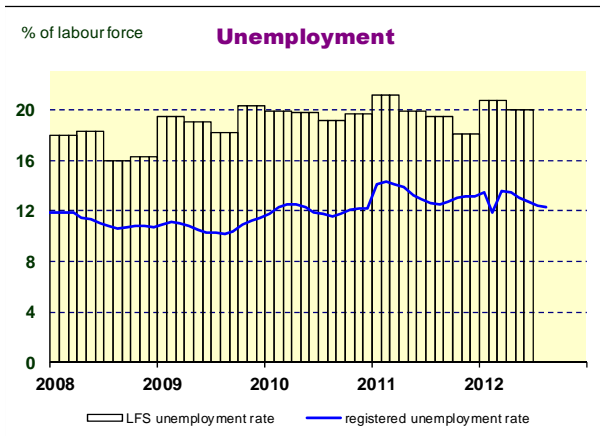
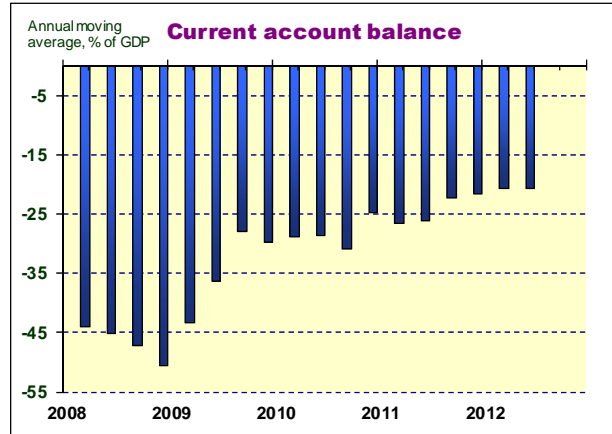
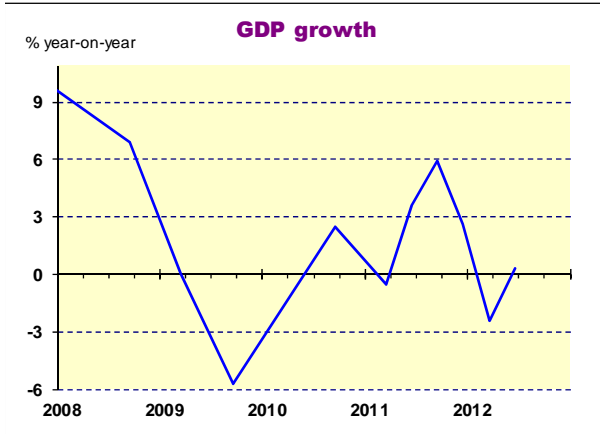


# CHARTS

European Commission, ECFIN-D-1



## MONTENEGRO





# SERBIA



## Key developments

Following parliamentary elections in the spring, a new coalition government was elected in end-July. It is dominated by the Serbian Progressive Party, the Socialist Party and the United Regions of Serbia.

In early August, the Parliament passed amendments to the central bank law, which challenged the independence of the central bank. The central bank governor resigned in protest, followed by the resignations of one of the vice governors and several members of the central bank council. The amendments and the worsening economic situation triggered a downgrade by Standard & Poor's of Serbia's credit rating. Jorgovanka Tabaković, a high-ranking member of the Serbian Progressive Party was appointed as governor. In late September, Tabaković was elected deputy president of the Serbian Progressive Party.

In September, the Parliament adopted a rebalancing of the 2012 budget, targeting an annual consolidated deficit of 6.7% of GDP.

## Real sector

The Statistical Office revised downwards its estimate for the first quarter GDP growth to -2.5% (year-on-year) from a previous -1.3%. The revision was mainly driven by a worse than expected performance of agriculture, which declined by 19%. In the second quarter, agriculture continued falling (-17.2%) and, together with declining output of mining (-7.7%) and electricity supply (-14.6%), triggered another contraction of economic activity, this time by 0.8% (year-on-year). Despite the overall weak economic performance, important sectors continued registering positive growth rates, such as information and communication (11.7%), public administration and defence (2.4%), or have switched to growth after having declined for several quarters – manufacturing (3.2%), wholesale and retail trade (2.0%), and transportation (4.2%).

A number of high frequency indicators suggest that the rebound of activity in some sectors may have been temporary. In July and August, retail trade turnover plunged by 5.7% and 5.1% year-

on-year in real terms. Industrial production fell in June-July (-4.0%), although less so in August (-0.9%). Manufacturing activity has also been less upbeat in comparison to late spring, declining by 6.2% in July and 0.5% in August. In addition, a severe summer drought has hit the agricultural sector, with expected sharp decreases, of up to 46%, in the yields of major crops and fruits.

## Labour market

The level of total employment stabilised in the second quarter at a very low level. The number of registered employed at end-June were reported around 1.73 million, or 1% lower than a year before. The number of registered unemployed fell to 755 thousand, but stayed almost unchanged in comparison to the same period last year. The share of persons without qualification remained at close to a third of all unemployed.

Following a buoyant first half of the year, wage growth decelerated in the summer. Still, in August gross wages increased by 1.8% in real terms (year-on-year), bringing the average increase in the first eight months to 4.4%.

## External sector

The pace of expansion of the current account deficit slowed-down. Nevertheless, by end-July the deficit was still up by 38% (year-on-year) to EUR 2.1 billion. The trade deficit reached EUR 3.3 billion, growing by 14% over the same period last year. Following a negative performance in the first few months of the year, due to bad weather conditions, exports have slowly recovered and in the period January-July were 0.8% higher (in euro terms) in comparison to the same period last year. Imports have been growing steadily, on average by 5.7% (in euro terms), in the first seven months of the year. Since April, the drop in private remittances inflows decelerated but still remains significant at 13% by end-July.

Net capital inflows have been negative in most of the months this year and, by end-July, the financial account (excluding reserve assets) registered an outflow of EUR 320 million. Net foreign direct investments turned negative in the beginning of the year, mostly because of the

repurchase of 20% of the state owned Telecom Srbija in January. In the following months, net inflows have been very low, only about a third of their levels in the corresponding period of the previous year and by end-July, the accumulated FDIs were still negative (EUR 105 million). Portfolio investments performed poorly as well and stood at EUR 44 million, a mere 5% of their level in the same period of 2011. In addition, there was a net outflow of other investments of EUR 260 million. Because of the widening current account deficit and weak net capital inflows, the foreign exchange reserves of the central bank continued to fall. However, by the end of August they still remained at a relatively healthy level of EUR 9.9 billion, covering about 7 months of imports. After being broadly stable in the first half of the year, the external debt increased by EUR 346 million, mainly because of new borrowing from the EIB, to EUR 24.4 billion in the end of July.

### Monetary developments

Inflation accelerated strongly to 7.9% in August, moving above the central bank target band. It was driven mainly by surging food prices. In view of the severe drought, which had impacted heavily important crops, the depreciation of the dinar and increased indirect taxation, short-term inflation pressures are likely to remain acute.

The dinar continued to weaken against the euro in July and August when it reached its low of 119.4. Since then it appreciated and stabilised at around 115 dinars for euro by the end of September – still 10% below its level in the beginning of the year. The central bank continued its interventions on the foreign exchange market but at much smaller amounts and, to stem further depreciation of the dinar, in July and August, it raised its policy rate in two steps to 10.5%. In addition, in order to withdraw dinar liquidity from the market, the bank has also increased the dinar share of allocations under foreign exchange required reserves, while keeping required reserve ratios unchanged.

### Financial sector

Following the failure of Agrobanka, in August the central bank took additional measures to increase its supervision of the banking system, focusing in particular on banks with significant share of custody accounts and state ownership.

Credit activity has been weak in the summer months. In the period June-August, total credit expanded by little over 2%, most of which has been driven by increased credit to the

government, while credit to companies has declined in real terms. Total deposits increased at a similar pace, and continued to be heavily dominated by short-term foreign currency deposits. The level of non-performing loans declined slightly, from 20.4% in the first to 19.5% in the second quarter.

### Fiscal developments

The consolidated budget deficit continued to increase and by end-July it reached RSD 113.3 billion (3.4% of GDP) or 26% higher than in the corresponding period of the previous year. However, since May, the monthly levels of the deficit have been close to, or even lower than, their respective levels in the year before. Total revenue continued their sound performance, with all major taxes and social contributions growing in real terms. Following the pre-election surge in expenditure, in June and July, total expenditure increased by a modest 3.6% and 2.9%. However, the accumulated expenditure growth still remained high at a nominal 11.6% by end-July.

In September, the Parliament adopted a rebalancing of the 2012 budget, targeting a consolidated deficit of 6.7% of GDP. The consolidation measures are mainly on the revenue side, as a number of taxes have been increased (VAT – from 18% to 20%; excises on cigarettes and some fuels; corporate income tax – from 10 to 12%; tax on dividends and interest – from 10% to 15%). The government is also envisaging increasing its overview and control of the budget by centralising the own-source revenues of budgetary organisations. In addition, a number of different fees and charges will be abolished with a view to reducing the administrative burden on companies. On the expenditure side, the major savings are to come from lower indexations of public sector wages and pensions. However, these savings are more than offset by increases in some expenditures (additional payment to pensioners with low pensions, agricultural subsidies to alleviate the effects of the summer drought, increased spending on social protection).

Government debt increased further in the summer months and reached 54% of GDP in August. In the autumn, the government is expected to present a medium-term programme with measures to bring it back within the legally binding threshold of 45%. In September, helped by abundant liquidity on the international markets, Serbia was able to issue successfully an USD 1 billion Eurobond.

## TABLE

European Commission, ECFIN-D-1



## SERBIA

		2007	2008	2009	2010	2011	ECFIN Forecast		Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
							2012	2013						
<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	3.3	1.3	-12.4	3.1	2.0	:	:	-6.2	-3.1	:	-4.0	-0.9	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	4.4	4.5	-3.6	1.3	1.5	0.3	1.9	-2.5	-0.8	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	:	:	:	:	-0.5f	-0.2	0.7	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	:	:	:	:	9.3f	2.3	4.3	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	25.4	4.9	-18.8	-6.2	29.1	:	:	23.4	7.5	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	25.7	3.4	-11.4	-0.7	-14.6	:	:	-1.5	2.2	:	-5.7	-5.1	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	18.1	13.6	16.1	19.2	23.1f	23.4	22.4	25.5	:	:	:	:	:
Employment <sup>2.2</sup>	Ann. %ch	-1.1	-0.1	-6.1	-3.6	-3.1	-1.9	0.3	-1.8	-1.2	:	-1.0	:	:
Wages <sup>2.3</sup>	Ann. %ch	15.0	4.5	1.0	7.4	11.1	:	:	10.9	9.8	:	5.7	9.8	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	24.8	15.9	-19.6	24.0	14.0	:	:	-5.1	5.9	:	2.9	:	:
Imports of goods <sup>3.2</sup>	Ann. %ch	29.8	14.6	-26.1	9.9	13.0	:	:	5.6	6.8	:	4.1	:	:
Trade balance* <sup>3.3</sup>	%of GDP	-23.1	-25.5	-18.1	-17.6	-18.3	-17.4	-16.7	-18.5	:	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	30.7	31.1	29.2	36.1	37.6	:	:	36.6	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	55.0	54.8	46.8	53.2	54.5	:	:	54.1	:	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-16.1	-20.6	-7.3	-7.8	-9.6	-10.8	-10.0	-10.7	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	6.4	6.2	4.8	3.2	6.3	:	:	4.2	4.2	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	9 633.6	8 161.8	10 601.9	10 001.6	12 057.7	:	:	11 073.1	10 160.8	:	10 140.7	9 905.3	:
Int. reserves / months imp <sup>3.9</sup>	Ratio	8.8	6.5	11.5	9.8	10.5	:	:	9.5	8.6	:	8.5	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	11.0	8.6	6.6	10.3	7.0	5.0	4.8	3.2	5.5	:	6.1	7.9	:
Producer prices <sup>4.2</sup>	Ann. %ch	9.8	9.0	7.4	16.2	:	:	:	:	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann. %ch	18.4	13.8	0.8	10.7	6.4	:	:	-2.5	4.5	:	4.9	8.8	:
M3 <sup>4.4</sup>	Ann. %ch	42.5	9.8	21.5	12.9	10.3	:	:	14.0	18.1	:	15.5	15.0	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	78.76	89.48	95.88	105.93	106.95	:	:	111.40	115.56	114.70	117.47	117.87	114.70
Nominal eff. exchange rate <sup>4.6</sup>	Index	102.1	88.6	92.8	89.5	100.3	:	:	94.6	89.8	:	88.0	87.8	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	%p.a.	6.48	5.20	13.40	10.85	:	:	:	:	:	:	12.70	:	:
Bond yield (12 months) <sup>5.2</sup>	%p.a.	N.A.	N.A.	N.A.	11.45	:	:	:	:	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	4 096	2 604	1 197	1 283	1 270	:	:	1 002	942	875	876	881	867
Credit growth <sup>5.4</sup>	Ann. %ch	32.5	34.2	24.4	29.9	7.4	:	:	14.1	16.2	:	18.9	19.9	:
Deposit growth <sup>5.5</sup>	Ann. %ch	46.9	8.8	23.6	14.4	9.2	:	:	12.5	17.5	:	15.1	14.0	:
Non-performing loans <sup>5.6</sup>	%total	9.2	11.3	15.7	16.9	19.0	:	:	20.4	19.5	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance* <sup>6.1</sup>	%of GDP	-2.0	-2.6	-4.5	-4.7	-5.1	-5.3	-4.8	-5.7	-6.4	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	30.9	29.2	34.7	44.5	47.7	50.4	52.1	51.1	53.2	:	54.4	54.1	:

f: ECFIN forecast Spring 2012

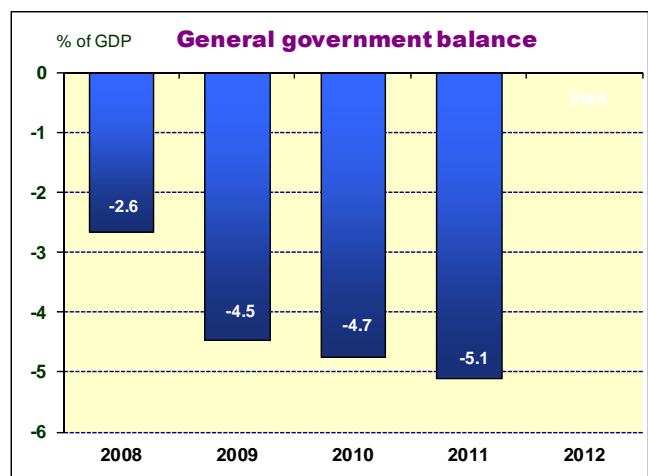
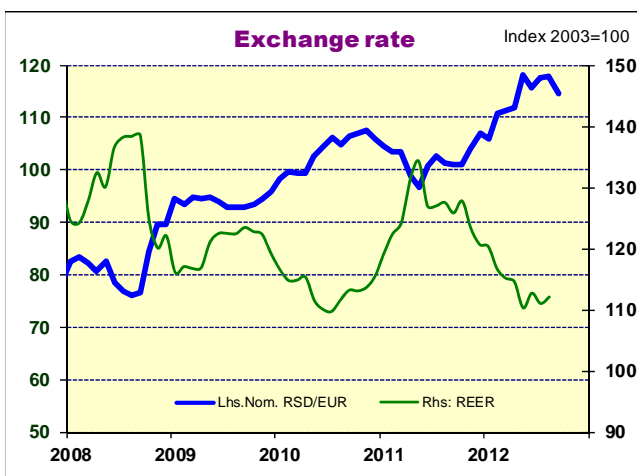
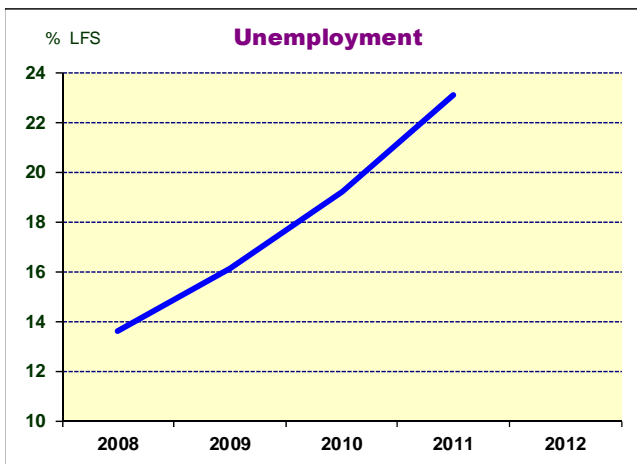
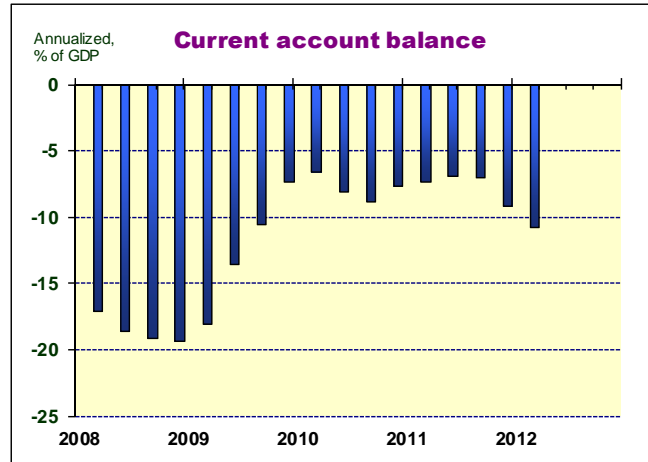
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA



## TURKEY



### Key developments

The government introduced a number of revenue generating measures in mid- and late September 2012, including a hike to the special consumption tax on fuel that resulted in a 8-13% increase in fuel prices as from 1 October.

Both natural gas and electricity prices were increased by 10%, as well as title deed fees and taxes on alcohol and motor vehicles.

### Real Sector

Economic growth has steadily lost momentum since, and slowed again from 3.3% in the first quarter to 2.9% in the second quarter of 2012. .

The decline in both private consumption (contracting 0.5% year-on-year) and investments (declining 7.9% year-on-year) accounted for a negative contribution to GDP of 2.8 percentage points from domestic demand, the first contraction since 2009. Net exports' contribution to growth amounted to 5.7 percentage points as exports of goods and services (national accounts definition) rose 19.8% year-on-year, while imports contracted by 3.6%.

On the production side, agriculture and manufacturing grew by almost 3.5% year-on-year whereas services' growth eased to 2.9% from 3.5% year-on-year in the first quarter of 2012. At the same time, the seasonally adjusted GDP rose by 1.8% quarter-on-quarter in the second quarter of 2012, the fastest pace of expansion since early 2011. However, this strength was entirely driven by surging exports, boosted by extraordinary gold sales to Iran.

High-frequency indicators suggest a weakening export performance in the third quarter, and show a slight improvement in industrial production and manufacturing prospects (PMI).

### Labour market

The major improvements in the labour markets registered in the previous year appear to have

slowed down in tandem with a slowdown in economy activity.

Conversely, employment growth accelerated from 2.4% in the first quarter of 2012 to 3.4% in the second quarter. The number of employed people rose in all sectors, except the industry.

The unemployment rate amounted to 8.2% in the second quarter of 2012, down from 10.4% in the first quarter, while seasonally adjusted data remained unchanged at 9.0%. Non-agricultural unemployment stood at 10.4% in May 2012, and the number of unemployed amounted to 2.4 million people.

### External sector

The trade and current-account deficits narrowed substantially in 2012 due to weaker domestic demand. The current account deficit to GDP ratio, which reached 10% at the end of 2011, declined by almost 2 points to 8.2% as of mid-2012, and recent figures indicate a further improvement.

In particular, Turkish exporters have been doing quite well over the last year despite the crisis and the slowdown in global trade – benefiting from increased sales to Central Asia, the Middle East and North Africa and a more competitive currency. Their performance in the second quarter of 2012 was boosted by a huge rise in gold sales to Iran, driven by rising worries about inflation and sanctions. Total seasonally adjusted goods' exports in EUR terms increased by EUR 2.2bn between the first and second quarter of 2012. Gold exports continued to distort the picture on the trade front in the third quarter of 2012, albeit to a different destination. In August alone, the United Arab Emirates grasped 17% of Turkish total monthly exports and 90% of Turkish gold exports, worth over EUR 1 billion.



## Monetary developments

In light of persistent inflationary pressures and downside risks to the lira, the Central Bank continued to pursue its unorthodox, “flexible” policy mix, utilizing the wide interest rate corridor (between the repo rate of 5.75% and the lending rate of 10%) as the main policy tool to manage liquidity and regulate TRY against the EUR/USD basket. At its regular monthly meeting in September, the Monetary Policy Committee (MPC) of the Central Bank of Turkey reduced its overnight lending rate—the upper limit of the so-called interest rate corridor—from 11.5% to 10%. The MPC also hinted at the possibility of “a further measured step in the same direction in the forthcoming period”. The official policy lending rate, the one-week repo lending rate, was left unchanged at 5.75%.

The latest MPC decision represents an extension of a new loosening bias, adopted since mid-2012, which is expected to cheapen commercial lending. Other interest rates are unlikely to be affected. The rallying debt market had largely priced in the decision, and the yield on the benchmark government bond traded on the secondary market remained little changed at 7.3% down from over 9% just three months ago.

On the inflation front, the Central Bank continues to expect consumer price inflation to ease to 6.8% by the end of 2012, aided by base effects, compared with 9.2% in September and an official year-end target of 5% with a tolerance band of  $\pm 2$  percentage points. The main risks to this benign scenario appear to stem from the recent price increases and tax hikes in response to a worsening budget position, resurgent global oil prices, rather than from domestic demand pressures. The bulk of the impact of these tax and price hikes will be observed in October inflation. Experts say that the total impact may be between 0.8-1 percentage points. The impact on September inflation was minimal: annual headline CPI inflation was up to 9.2% in September, from 8.9% in August, largely due to higher unprocessed food and energy prices. Core inflation, on the other hand, decelerated to 6.7% year-on-year in September, down from 7.2% in August. This corresponds to the lowest reading in the last one-year period. Energy prices increased by 2.5% month-on-month in September, Food prices rose by 2.1% month-on-month in September, bringing annual food inflation up to 10.4%.

## Financial sector

After some appreciation in the first months of 2012 in part due to central bank interventions, the lira weakened again vis-à-vis major currencies, owing to Turkey's large current-account deficit and policy of low interest rates. In the third quarter of 2012, the Turkish lira depreciated by about 2.6% vis-à-vis the euro. Bond and equity markets weakened in tandem, reflecting mainly the perception that the situation in the euro zone is not sufficiently stabilised.

Credit growth continued to lose momentum, albeit at a slower pace. Year-on-year credit growth in August amounted to 13.7% down from almost 40% a year ago. Non-performing loans amounted to 3.2% at the end of September 2012, unchanged from a year earlier. Deposits in lira grew by 5.1% in the year to September 2012, while deposits in foreign exchange, which make up about 20% of all bank deposits, increased by 10.4% year-on-year.

Following a prolonged slide in 2011, the main Istanbul Stock Exchange (ISE) index rose, albeit at a decelerating pace, to 67,500 in mid-September from a low point of 49,837 points in January.

## Fiscal developments

In the first half of 2012, the central government budget deficit amounted to about 2.5% of GDP, 1.2 percentage points higher than in 2011. Year-to-date total budget revenues increased by 10.8%, significantly lower than the 16.3% increase in total expenditures. In particular, personnel and social security related expenditure increased rapidly, at about 20%. At the other end, VAT revenues grew by only 2.6% year-on-year.

An additional revenue creating package of about TRL 10 billion has been implemented in October 2012, which included tax hikes in automotive, tobacco products, and fuel, as well as energy price increases. Privatization revenues in the first half of 2012 amounted to 1.7% of GDP, in line with the 2012 public finances planning. Public debt currently amounts to less than 39% of GDP, unchanged from a year ago.

## TABLE



European Commission, ECFIN-D-1

## TURKEY

		2007	2008	2009	2010	2011	ECFIN Forecast		Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
							2012	2013						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	111.5	90.1	87.3	110.3	110.5	:	:	107.3	112.6	105.0	107.3	104.5	103.1
Industrial production <sup>1.2</sup>	Ann.%ch	7.1	-0.5	-10.0	13.1	8.9	:	:	2.8	3.5	:	3.4	:	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	4.7	0.7	-4.8	9.2	8.5	3.3	4.6	3.3	2.9	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	5.5	-0.3	-2.3	6.7	7.8	3.2	3.3	0.2	-0.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	3.1	-6.2	-19.0	30.5	18.5	6.3	5.0	1.5	-7.4	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	9.8	-4.4	-7.9	77.4	-16.2	:	:	61.6	40.3	:	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	11.0	14.1	12.0	9.8	8.4	8.2	10.4	8.2	:	:	:	:
Employment <sup>2.2</sup>	Ann.%ch	-3.6	1.3	0.4	6.2	6.7	1.1	1.7	2.4	3.4	:	:	:	:
Wages <sup>2.3</sup>	Ann.%ch	9.5	11.6	9.9	11.8	10.1	5.7	5.8	12.2	:	:	:	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	14.9	14.8	-18.2	17.5	12.7	:	:	17.3	28.3	:	26.0	32.4	:
Imports of goods <sup>3.2</sup>	Ann.%ch	11.6	10.4	-26.3	39.2	23.3	:	:	3.7	8.4	:	14.6	10.1	:
Trade balance* <sup>3.3</sup>	% of GDP	-7.2	-7.1	-4.0	-7.7	-11.5	-11.1	-10.3	-11.0	-10.1	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	22.3	23.9	23.3	21.2	23.7	:	:	24.3	25.3	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	27.5	28.3	24.4	26.8	32.6	:	:	32.6	32.7	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-5.9	-5.5	-2.2	-6.4	-10.0	-9.3	-8.7	-9.3	-8.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	3.1	2.3	1.1	1.0	1.7	:	:	1.6	1.8	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	bio EUR	76.3	86.5	77.1	83.2	84.1	:	:	83.9	90.3	:	95.8	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	7.4	7.6	9.2	7.1	5.8	:	:	5.8	6.1	:	6.4	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann.%ch	8.8	10.4	6.3	8.6	6.5	5.8	6.6	10.5	9.4	9.0	9.1	8.9	9.2
Producer prices <sup>4.2</sup>	Ann.%ch	6.3	12.7	1.2	8.5	11.1	:	:	9.5	7.4	:	6.1	4.6	:
Food prices <sup>4.3</sup>	Ann.%ch	12.4	12.8	8.0	10.6	6.2	:	:	11.4	7.6	:	9.1	9.1	10.4
M4 <sup>4.4</sup>	Ann.%ch	17.8	23.7	17.4	21.2	21.5	:	:	7.1	:	:	:	:	:
Exchange rate TRY/EUR <sup>4.5</sup>	Value	1.78	1.91	2.16	2.00	2.33	:	:	2.35	2.32	2.26	2.22	2.23	2.32
Nominal eff. exchange rate <sup>4.6</sup>	Index	26.73	25.77	23.24	24.33	20.94	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	18.85	18.04	10.68	7.95	9.09	:	:	12.01	11.50	10.28	11.19	10.11	9.54
Bond yield <sup>5.2</sup>	% p.a.	18.13	19.30	11.66	8.47	8.83	:	:	9.81	9.31	7.65	7.94	7.68	7.32
Stock markets <sup>5.3</sup>	Index	48 270	37 582	37 510	59 484	60 751	:	:	58 258	58 867	65 160	62 689	65 302	67 488
Credit growth <sup>5.4</sup>	Ann.%ch	33.2	22.4	4.4	33.5	23.8	:	:	21.3	16.7	:	14.1	13.7	:
Deposit growth <sup>5.5</sup>	Ann.%ch	17.7	21.8	18.0	18.0	19.2	:	:	12.3	12.4	:	10.9	8.6	:
Non-performing loans <sup>5.6</sup>	% total	4.8	4.2	6.5	5.8	3.6	:	:	3.2	3.2	:	3.1	3.2	:
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-1.0	-2.2	-5.7	-3.6	-1.4f	-1.6	-1.8	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	39.4	39.5	45.5	41.6	38.4f	37.1	35.5	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2012

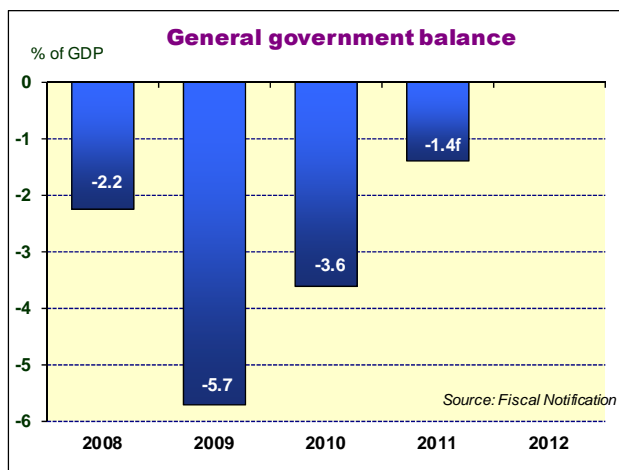
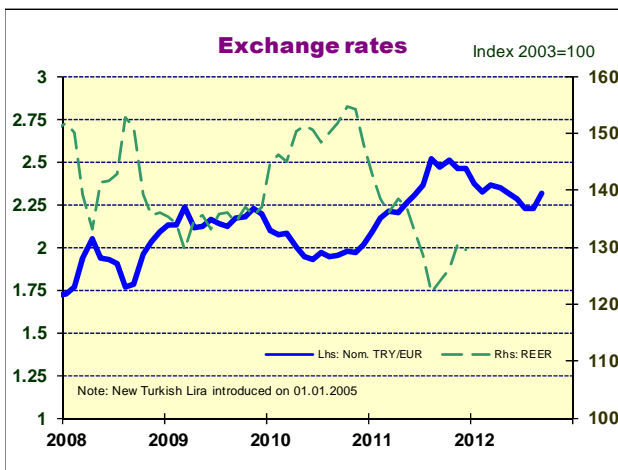
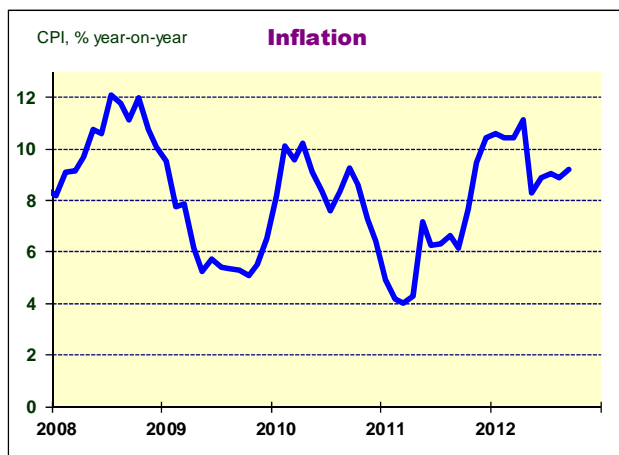
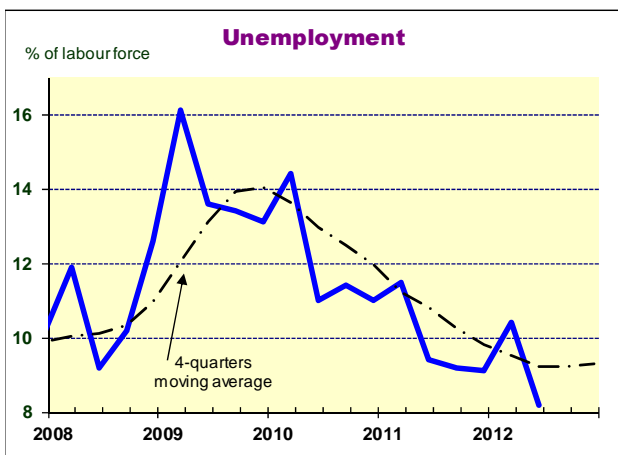
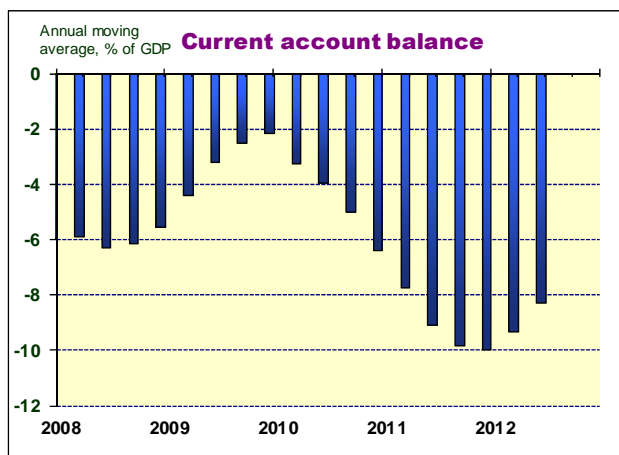
\* Q figures refer to a 4 quarters moving average.



# CHARTS



## TURKEY





## Key developments

In July, the government adopted the macroeconomic fiscal framework (MEFF) for the period 2012-2015. Compared to the 2012 budget, the MEFF envisages a downward revision of both revenue and expenditure in 2012. The government deficit is projected to remain unchanged at 3% of GDP in 2012 and decline to 2.3% by 2015. Public debt is planned to remain just below 60% of GDP in the period 2012-2015 – a trajectory which is significantly less ambitious than foreseen in the 2012 Economic and Fiscal Programme. The macroeconomic scenario underlying the MEFF assumes a much slower pace of GDP growth. Economic growth in 2012 is projected at 3%, accelerating gradually to 4.5% by 2015.

In June, Moody's confirmed Albania's B1 government bond ratings and stable outlook. The agency noted that a rating upgrade would require Albania to implement further structural reforms including strengthening the institutional capacity. In particular, Moody's underlined the need to improve the judicial system, which is vital to attract foreign investment in Albania.

## Real sector

National accounts data continue to be published with a delay. The latest available GDP data refer to the first quarter of 2012 and show a sharp economic slowdown compared to the preceding quarter. In year-on-year terms, real GDP contracted by 0.2% in the first three months of 2012 down from 3.7% in the previous quarter. Industry and construction shrank by 19.3% and 17.6%, respectively, partly due to weather-related disruptions. Trade, hotels and restaurants and other services posted positive growth of 5.3% and 11%, respectively.

Survey results published by the Bank of Albania (BoA) show a further worsening in economic sentiment in the second quarter of 2012. All economic sectors registered lower confidence. The largest deterioration was recorded by services. The indicators for industry, consumer confidence and construction also reported lower readings. Capacity utilisation in industry and services continued to decline.

## Labour market

The labour market performance continued to soften in the second quarter of 2012. Employment

growth declined to 0.4% year on year, from 1.4% in the first three months, and compared to a 2.7% growth in the same quarter of the previous year. The private non-agriculture sector continued to be the main driver of jobs with the level of employment in this sector increased by 1.6%. The public sector continued shedding jobs. The unemployment rate remained unchanged at 13.3%. Salaries in the public administration rose by 7.3% year on year in the second quarter, unchanged from the wage growth reported in the first quarter.

## External sector

In the second quarter of 2012, the current account deficit narrowed by slightly more than 37% year on year, mostly due to a lower merchandise trade gap and higher services account surplus. The current account deficit for the four quarters to Q2 2012 fell to 10.8% of estimated GDP from 12.1% in the corresponding period a year earlier.

Following a contraction in the first quarter of 2012, exports of goods rose by some 19% in the second quarter helped by higher sales of food, manufactures, minerals and fuels and lubricants. Imports of goods fell by some 4.5% in the second quarter primarily due to lower imports of machinery and equipment, suggesting lower investment as well as manufacturing activity. In July and August, exports continued to recover with improvements registered in almost all categories. In the same months, imports of goods continued to decline by 0.6 and 1.8%, respectively.

The services account posted a surplus in the second quarter of 2012, representing a significant turnaround from the deficit in the same period of the previous year. The surplus on the travel account continued to rise thanks to higher tourist arrivals, which increased by some 25%, as well as a sharp drop in expenditure by Albanians travelling abroad. Current transfers contracted by 1.2%, weighed down by lower remittances which fell by almost 6% year on year.

FDI inflows fell by slightly more than 14% in the second trimester of 2012. This outcome was partly due to unfavourable base effects caused by higher inflows in the banking sector in the second quarter of 2011 as some banks strengthened their capital base.

The balance of payments in the second quarter of 2012 posted a surplus which led to a corresponding increase in reserves of some EUR 7.5 million. The stock of foreign reserves in the second quarter of

2012 provided 4.4 months of import cover. Gross external debt in the second quarter of 2012 stood at EUR 4.9 billion or 49.1% of estimated 2012 GDP, representing a significant increase of almost 20% year on year. Around 46% of gross external debt consists of government long-term borrowing.

### Monetary developments

The growth in the monetary aggregate M2 decelerated further to 5.6% during the second quarter of 2012 from 6.4% in the previous trimester. In July and August, M2 growth slowed further, stabilising at around 5%.

After reaching a multi-year low of 0.6% year on year in February 2012, inflation picked up in the subsequent months and reached 2.8% in August. The acceleration was driven mainly by an increase in the food index - which accounts for a substantial weight in Albania's CPI. Inflation averaged 1.9% in the second quarter, just below the lower bound of the BoA target range of 2-4%. In July, inflation continued to rise to 2.7% and stabilised at around that level in August, pushed by food prices which accelerated by some 4.1%.

In the context of weak domestic demand and low inflationary pressures, the Supervisory Council of the BoA decided to lower the key repo rate by 25 basis points in July to a multi-year low of 4%. Since September 2011, the BoA has cut the benchmark rate in five equal steps for a total of 125 basis points. In the third quarter of 2012, the exchange rate of the Albanian currency appreciated marginally by 1% quarter on quarter vis-à-vis the euro. It gained around 1.5% compared to the same quarter in 2011.

### Financial sector

Interest rates on short-term deposits continued to generally decline in June-August 2012. Compared to December 2011, the most pronounced decline was for the 12-month interest rate which fell by 77 basis points to 5.06% by August. The interest rates on 60-month deposit rose by 104 basis points to 7.44%. The rising trend in the average yield of the 12-month Treasury bills, which began in January, was reversed in July. The yield on the 12-month Treasury bills fell to 7.19% by August.

Deposits grew by 10.6% year on year in the second quarter – unchanged from the previous trimester. In July, deposit growth stabilised at around this rate. Credit growth continued to decelerate in the period April-May 2012 to 9.2% and slowed further in July to 7%.

Credit growth in foreign currency was the main factor behind this slower pace, while lek-

denominated lending was broadly stable. On a sectoral basis, private sector credit growth relented further, while the contraction in household lending, which began in December 2011, accelerated. The loan-to-deposit ratio stood at 58% in August 2012 with higher levels for foreign currency denominations (74.6%). The ratio for loans and deposits denominated in lek remained below 40%. External borrowing by the banking sector declined since May and stood at 6.6% of total liabilities in August.

The share of non-performing loans (NPLs) as a percentage of total loans continued to increase, reaching 21.2% in the second quarter of 2012, compared to 20.1% in the first trimester. The capital adequacy ratio rose to 15.7% in the second quarter, above the BoA's minimum requirement of 12%.

### Fiscal developments

Government finance cash data published by the Ministry of Finance show an increase of 3.7% year on year in total revenue in the period January-August 2012, significantly below the budget plan. Tax receipts rose by 2.5% but were some 5% below the target. VAT revenue, the largest tax category, was up 2.7% in the same period but underperformed projections significantly by 6%, reflecting continuing weak domestic demand. Revenue from excise tax, the second largest category, fell by 6.1%. On the other hand, social contributions increased by 3.2%, while receipts from profit tax dropped significantly by 16.6%, mainly due to lower earnings by the power operator due to the weather-related lower electricity output.

Total expenditure declined by 0.4% year on year, and 1.4% lower than planned in the 2012 budget. This outcome was obtained thanks to sharply lower capital outlays which fell by almost 17%. Current spending, on the other hand, rose by 2% on account of higher expenditure in social insurance (4.6%), interest payments (4.1%) and salaries (2.5%).

As a result of these developments, the budget deficit declined to Lek 22.2 million in January-July 2012 from Lek 31.2 million in the corresponding period of the previous year. Nevertheless, the government deficit was more than three fifths higher than planned. Domestic financing accounted for almost 60% of the deficit.

Total public debt continued to rise in the second quarter of 2012 reaching 59.4% of GDP from 59.2% in the first trimester of 2012.

TABLE

European Commission, ECFIN-D-1



ALBANIA

		2007	2008	2009	2010	2011	Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Percent	0.9	0.4	-13.4	-5.9	-3.8	-8.3	-10.1	:	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann.%ch	-9.7	8.7	10.6	18.6	:	:	:	:	:	:	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	5.9	7.5	3.3	3.8	3.1e	-0.2	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	13.4	9.8	7.7	2.2	2.6e	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	6.5	12.9	2.4	-5.2	3.6e	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	:	:	0.0	0.3	0.5	0.3	0.8	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	10.9	23.7	-1.7	5.4	-3.7	-8.3	-1.2	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	13.4	12.8	13.0	13.7	13.3	13.3	13.3	:	:	:	:
Employment <sup>2.2</sup>	Ann.%ch	0.2	2.9	-0.8	-4.7	2.0	1.4	0.4	:	:	:	:
Wages <sup>2.3</sup>	Ann.%ch	17.1	8.3	11.9	6.7	7.0	7.3	7.3	:	:	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann.%ch	25.0	15.7	-11.8	62.5	22.2	-12.2	17.1	:	9.7	27.5	:
Imports of goods <sup>3.2</sup>	Ann.%ch	26.5	16.4	-1.9	11.3	14.6	2.0	-6.1	:	-0.6	-1.8	:
Trade balance* <sup>3.3</sup>	%of GDP	-26.8	-27.3	-26.4	-23.4	-23.8	-24.4	-22.9	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	28.1	29.2	28.9	32.8	33.5	32.9	33.0	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	54.6	55.7	53.4	53.6	55.9	55.6	53.9	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-10.5	-15.5	-15.3	-11.5	-12.0	-12.4	-10.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	6.1	7.5	8.2	8.9	8.0	9.2	8.7	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1418.7	1638.9	1567.4	1825.3	1852.4	1830.0	1872.3	:	1932.9	1970.9	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.9	5.9	6.2	6.7	6.1	6.0	6.2	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann.%ch	2.9	3.4	2.3	3.6	3.5	1.1	1.9	:	2.7	2.8	:
Producer prices <sup>4.2</sup>	Ann.%ch	3.5	6.5	-1.7	0.3	2.6	2.5	1.5	:	:	:	:
Food prices <sup>4.3</sup>	Ann.%ch	3.0	5.2	4.9	4.8	4.8	0.1	1.9	:	4.1	4.2	:
M2 <sup>4.4</sup>	Ann.%ch	9.6	7.4	8.7	4.5	6.6	6.4	5.6	:	5.1	5.0	:
Exchange rate LEK/EUR <sup>4.5</sup>	Value	123.31	122.39	131.82	137.48	140.07	139.02	139.08	137.71	137.24	137.16	138.73
Nominal eff. exchange rate <sup>4.6</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	%p.a.	5.92	6.24	N.A.	N.A.	:	5.22	5.28	:	5.23	5.07	:
Bond yield <sup>5.2</sup>	%p.a.	8.22	8.43	9.24	8.55	8.04	8.48	8.40	8.30	8.40	8.40	8.10
Stock markets <sup>5.3</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth <sup>5.4</sup>	Ann.%ch	53.9	43.8	20.5	8.6	11.7	11.2	9.2	:	7.0	:	:
Deposit growth <sup>5.5</sup>	Ann.%ch	N.A.	14.8	-0.1	15.5	14.5	10.6	10.6	:	10.6	:	:
Non performing loans <sup>5.6</sup>	%total	3.2	4.7	9.1	12.6	17.0	20.1	21.2	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance* <sup>6.1</sup>	%of GDP	-3.5	-5.5	-7.0	-3.1	-3.5	-0.7	-1.6	:	N.A.	N.A.	N.A.
General government debt* <sup>6.2</sup>	%of GDP	54.8	54.8	59.5	58.5	58.8	59.2	59.4	:	N.A.	N.A.	N.A.

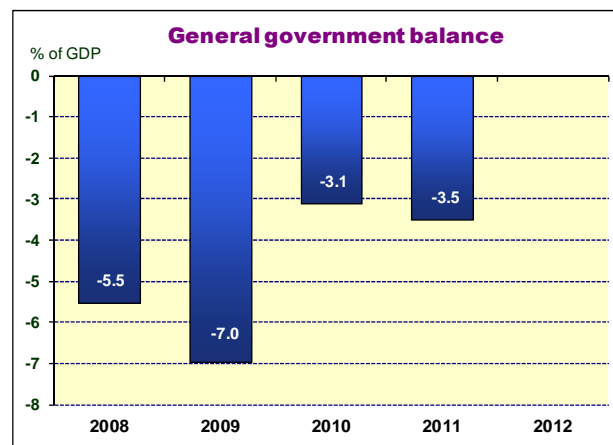
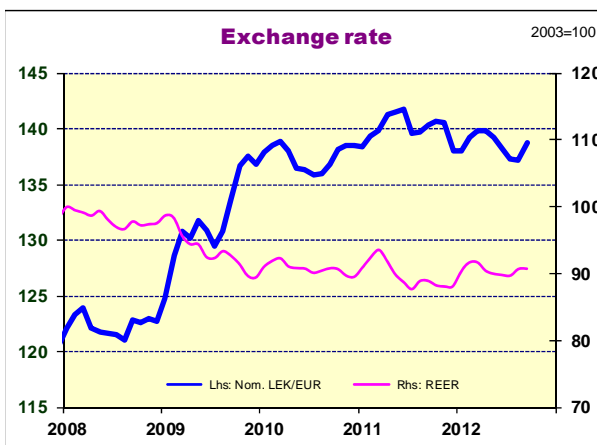
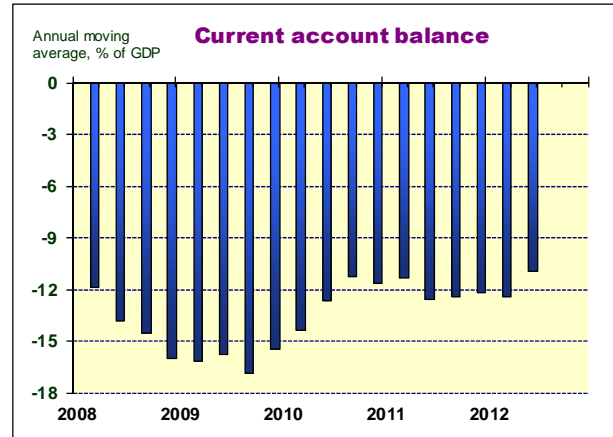
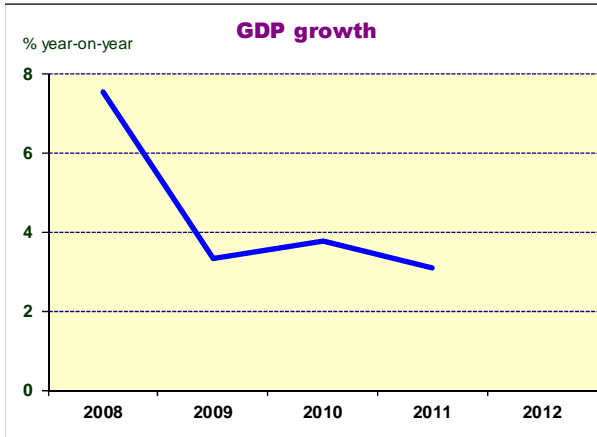
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## ALBANIA





## Key developments

In September, the IMF Board approved a two-year, SDR 338 million (around EUR 407 million) Stand-By Arrangement, aiming at countering the effects of the worsening external environment, preserving fiscal sustainability and improving the resilience of the financial sector. Following the Board approval, the first tranche of about EUR 60 million was immediately disbursed.

International rating agency Moody's revised in July its outlook on Bosnia's sovereign ratings from negative to stable on the perspectives for an IMF funded programme.

## Real sector

According to preliminary data published by the state statistical office, real GDP grew by 1.3% in 2011, slightly accelerating from a 0.7% annual rise in the previous year. Mining and transport and communication industries witnessed the highest expansion, while construction and agriculture continued to underperform.

Country-wide industrial production continued to fall, although at a decelerating pace, by around 4% in the second quarter, compared to 9.5% in the first quarter. The contraction continued in July and August, when industrial output dropped by 5.4% and 3% year-on-year, respectively. Since the start of the year, industrial production fell by 6%, as compared to a 7.6% rise a year ago. Utility sector registered 7.9% output contraction, followed by manufacturing (5.7%) and mining (3.8%).

Judging from available indicators, domestic demand, and in particular private consumption, remained on a downward trend. Retail sales, which had stagnated in the second quarter, contracted by 0.6% and 1% year-on-year, respectively in July and August, after a strong expansion in 2011.

## Labour market

The overall labour market situation continued to deteriorate in the second quarter. The high level of registered unemployment persisted at 43.8%-

43.9%, representing a 0.6-0.7 percentage point year-on-year increase. According to the annual Labour Force Survey following ILO methodology conducted in April, unemployment increased further to 28% in 2012 from 27.6% in 2011. It was particularly high among the young population (63.1% for people aged between 15 and 24, up from 57.9% a year earlier). The level of total employment in the formal sector fell by 0.7% year-on-year in the second quarter, and dropped by a further 1% in July as a result of significant drops in construction and agriculture, as well as of a further decline in the manufacturing industry. On the other hand, the number of employed workers in public sector and financial intermediation increased in year-on-year comparison.

Wage growth slowed further down in the second quarter of 2012. The average nominal gross wage increased by 1.3% year-on-year, against 2.8% in the first trimester, before slightly accelerating to 1.9% in July. Average gross wages in the first seven months rose by 2%, compared to 4.4% in 2011. Adjusted for inflation, they fell by 0.1% in the first seven months of the year, compared to 0.7% rise in the same period a year before.

## External sector

The central bank has published balance of payments data for the second quarter, compiled using a new methodology, and has revised substantially historical data (going back to 2007) of several major categories, including a significant upward revision (of over 60%) of the current account deficit. According to these published data, the current account deficit narrowed by 8.2% year-on-year in the second trimester, as compared to a 45.1% widening in January-March. The improvement was mainly a result of the 1.6% annual contraction of the trade deficit (compared to an 11.4% expansion in the first trimester) but also of favourable developments in the income (surging by 54.7%) and services (up by 6.5%) balances. Goods exports rose by 3.9%, following a 10.1% drop in January-March, while import growth moderated further to 0.5%. In the meantime, the surplus in the current transfers account fell by 1.1%, despite the relatively stable flow of remittances. As a result, the current account deficit decreased



to 14.7% of GDP in the four quarters to end-June, compared to 15% in the four quarters to end-March.

FDI inflows surged over threefold year-on-year in the first half of 2012 but from a very low base. In the four quarters to June, FDI accounted for 3.8% of GDP, and was thus significantly lower than the current account deficit. Official foreign exchange reserves decreased by 3.4% year-on-year in the second quarter covering slightly over five months of imports.

### Monetary developments

The annual growth of the monetary aggregate M2 accelerated slightly from 5% in the first trimester to 5.1% in the second before it moderated to 4.1% in August.

Inflation did not continue its downward trend from the first half of the year even if it remained at a relatively low level. Annual inflation accelerated to 1.8% in August, bringing the 12-month moving average inflation rate to 2.6%. The recent acceleration in the price of food and transport, reflecting international developments, was the main driver. On the other hand, the falling prices in health and education, as well as the moderating housing prices, exerted a downward pressure on the overall price level in the country.

### Financial sector

Market short-term interest rates for loans to the corporate sector stagnated at 7% in the second trimester before it moderated to 6.9% in July, while the interest rates for households remained broadly unchanged reaching 10%. Interest rates for deposits for the corporate sector have increased from 2.4% to 2.5% in the second quarter, while interest rates for the household sector deposits grew marginally reaching 3.1%.

Annual credit growth accelerated slightly, reaching 5.2% in August from 4.9% in the second quarter. However, this was to a large extent due to rapidly surging government borrowing, which has accelerated further by 16.3 percentage points over the last three months reaching 60.7% year-on-year in August. Credits to private corporate sector rose only marginally and lending to households moderated further. In the meantime, deposit growth moderated to 2.7% in August, down from 3% in the second quarter. Households increased their savings by 9.2%, while the decline in deposits from the

government sector moderated to 11.8. The loans-to-deposit ratio fell slightly to 120.7%.

The quality of the loan portfolio deteriorated further. The share of non-performing loans to total loans increased from 12.1% in the first quarter to 12.6% in the second. However, banking profitability indicators improved. The return on average equity rose from 1.8% to 4.2%, while the return on average assets increased from 0.2% to 0.5%. Liquidity indicators also improved slightly with the rate of liquid to total assets marginally increasing to 24.8% in the second trimester and liquid assets to short-term financial liabilities growing from 42.3% to 43%.

In the third quarter of 2012, the downward correction on the two stock markets in Bosnia and Herzegovina was reversed. The main index of the Sarajevo Stock Exchange gained some 9.3% and the main index of the Banja Luka Stock Exchange rose by 2.4%. However, the cumulative turnover of the two bourses grew by only 0.3% year-on-year in July-September.

### Fiscal developments

In the first half of 2012, fiscal consolidation efforts continued and the consolidated budget posted a marginal surplus of 0.1% of GDP, compared to a deficit a year earlier. Consolidated revenues grew by 2.8% year-on-year, outstripping the pace of total expenditures (1.6%), thus allowing for an improved fiscal position. However, the repercussions of the worsened external environment were increasingly felt in public finances, as tax revenue fell by 0.1% in the first half of the year, against a 4.4% rise in 2011. On the expenditure side, fiscal restriction continued and the wage bill of the government remained broadly unchanged in year-on-year comparison, while social spending rose by 1%, compared to a 15.8% expansion a year earlier. Capital spending soared by 29.3%, but from a very low basis.

In September, both entity budgets have been revised slightly in accordance with the newly reached agreement with the IMF. Total planned spending of Republika Srpska has been corrected downwards by 0.8%, while the Federation has reduced its budget expenditure envelope by about 2%, when adjusted for financing items and reclassification effects.

In the first half of 2012, official foreign debt fell slightly by 2.1%, after rising by 5.9% in 2011. Thus, it has reached 25% of GDP, compared to 26.1% at the end of the previous year.



## TABLE



European Commission, ECFIN-D-1

### BOSNIA AND HERZEGOVINA

		2007	2008	2009	2010	2011	Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
<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	5.9	-9.5	-4.1	:	-5.4	-3.0	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	6.1	5.6	-2.9	0.7	1.3	:	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	10.9	10.3	2.3	-0.9	3.0e	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	34.3	22.8	-17.7	-9.9	9.7e	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	N.A.	11.7	8.8	33.9	-24.4	9.2	18.4	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	N.A.	N.A.	N.A.	7.8	12.5	6.6	0.2	:	-0.6	-1.0	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	42.9	40.6	42.7	42.7	43.8	44.1	43.8	:	43.9	:	:
Employment <sup>2.2</sup>	Ann. %ch	4.4	2.7	-2.8	1.9	-1.6	-0.8	-0.7	:	-1.0	:	:
Wages <sup>2.3</sup>	Ann. %ch	9.8	16.6	8.2	1.1	4.4	2.8	1.3	:	1.9	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. %ch	15.0	13.9	-5.4	33.2	19.9	-10.1	3.9	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann. %ch	18.7	15.4	-21.8	8.3	13.2	2.5	0.5	:	:	:	:
Trade balance* <sup>3.3</sup>	%of GDP	-37.1	-43.1	-32.4	-31.0	-32.8	-32.8	-32.7	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	37.2	36.8	32.1	37.7	40.5	:	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	-68.6	-69.6	-55.2	-58.9	-64.1	:	:	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-10.7	-18.1	-10.9	-10.5	-14.3	-15.0	-14.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	13.4	5.5	0.9	1.9	2.1	1.9	3.5	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	3 458.5	3 230.1	3 219.7	3 330.5	3 333.3	3 163.3	3 044.4	:	3 048.3	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.9	5.4	6.8	6.5	5.7	6.1	5.2	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. %ch	1.5	7.4	-0.4	2.1	3.7	2.4	2.0	:	1.4	1.8	:
Producer prices <sup>4.2</sup>	Ann. %ch	N.A.	8.6	-3.2	0.9	3.8	1.1	2.9	:	0.8	1.3	:
Food prices <sup>4.3</sup>	Ann. %ch	2.9	12.1	-0.9	-0.7	6.0	1.9	0.9	:	1.2	1.6	:
M2 <sup>4.4</sup>	Ann. %ch	23.5	13.5	-1.6	7.8	5.6	5.0	5.1	:	4.3	4.1	:
Exchange rate BAMEUR <sup>4.5</sup>	Value	1.94	1.94	1.94	1.93	1.93	1.93	1.93	1.93	1.93	1.93	1.93
Nominal eff. exchange rate <sup>4.6</sup>	Index	100.3	100.07	96.27	96.51	95.71	95.00	:	:	:	:	:
<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	4 330	2 251	1 038	954	979	792	729	688	674	684	708
Credit growth <sup>5.4</sup>	Ann. %ch	27.4	28.4	5.4	-0.9	5.6	5.2	4.9	:	4.3	5.2	:
Deposit growth <sup>5.5</sup>	Ann. %ch	36.6	15.4	-4.0	4.7	2.6	2.5	3.0	:	2.2	2.7	:
Non performing loans <sup>5.6</sup>	%total	3.4	3.0	4.5	9.1	12.0	12.1	12.6	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	%of GDP	1.2	-2.2	-4.4	-2.5	-1.3	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	18.1	17.1	21.8	25.6	26.1	26.0	25.0	:	N.A.	N.A.	N.A.

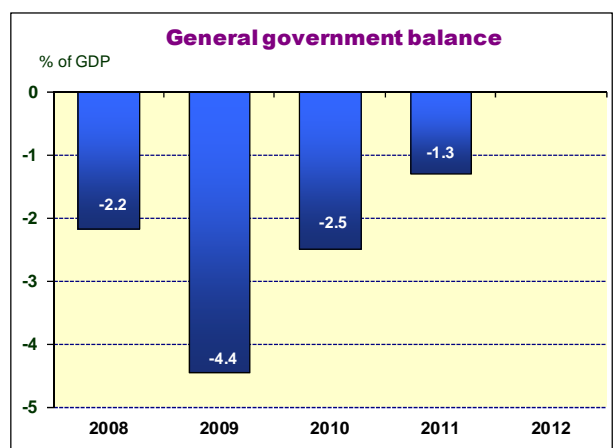
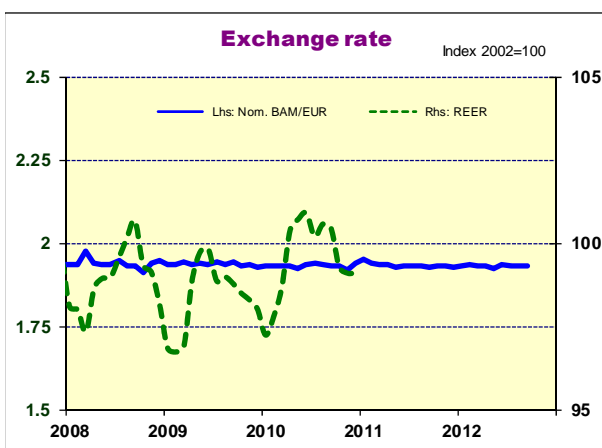
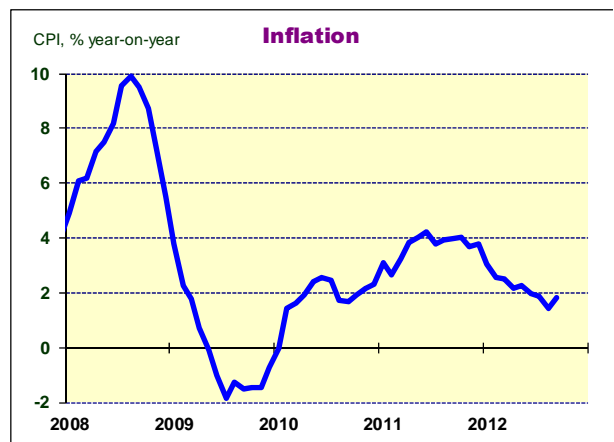
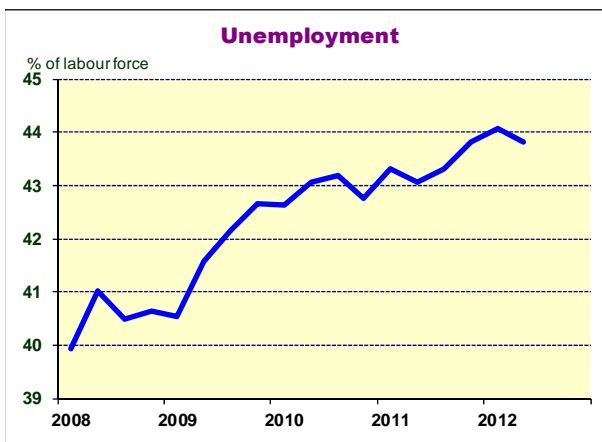
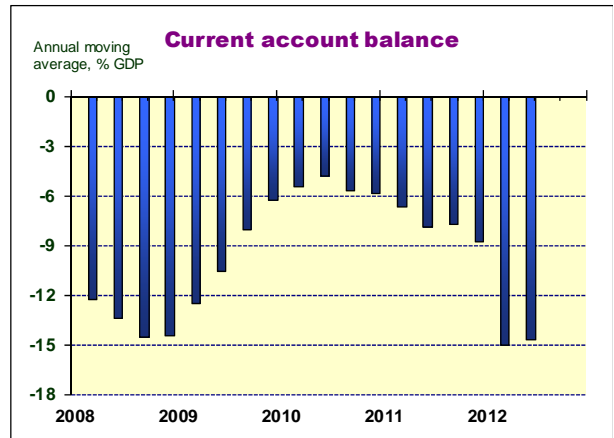
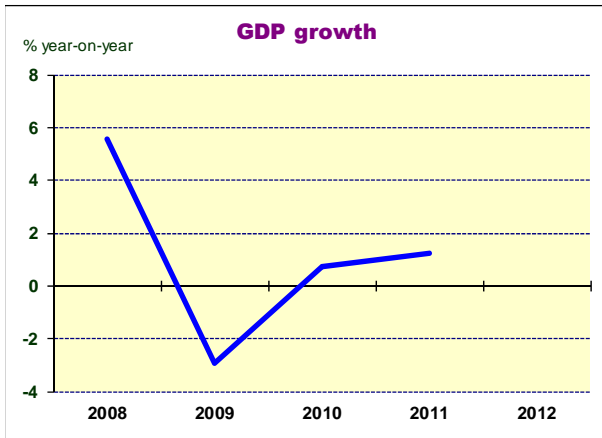
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## BOSNIA AND HERZEGOVINA



## KOSOVO\*

\*as defined by UNSCR 1244

### Key developments

In September, the International Steering Group declared the end of supervision of Kosovo's independence and the end of the mandate of the International Civilian Representative. The decision followed the package of amendments to the Constitution and to primary legislation adopted by the parliament, which transposed the remaining elements of the Comprehensive Settlement Proposal within the Kosovo legal framework. As of September 10, the Constitution constitutes the sole basis for the country's legal framework.

In July, the IMF Board approved the first review under the SDR 91 million (around EUR 107 million) Stand-By Arrangement (SBA), allowing for the disbursement of the second tranche of about EUR 48 million into the central bank's special reserve fund for emergency liquidity assistance. The 20-month SBA had been approved in April 2012, followed by the disbursement of the first tranche of about EUR 5 million.

### Real sector

In September, the statistical office published its estimates of the 2011 GDP. The economy expanded by a real 4.5%, as compared to a revised 3.2% increase a year earlier. Gross fixed capital formation remained strong (real growth of 12.1%), thus being the main contributor to the economy's expansion. Households' consumption rose by a real 3%, while government consumption fell by 4.5% after three consecutive years of growth. Robust domestic demand fuelled imports growth (5.3%), while exports of goods and services increased by 10.1%, but from a very low base. Thus, the contribution of net exports to growth remained negative at 1.1 percentage points. The IMF has foreseen a deceleration of real GDP growth to 3.8% in 2012, on concerns about FDI and remittances inflows as a result of deteriorating labour market conditions in some European countries with significant Kosovar diaspora.

In August, the authorities announced that five companies and consortia have qualified for the next stage of the Post and Telecommunications

of Kosovo (PTK) privatisation. The tender for 75% of the telecom company is expected to be opened in October.

In August, the ministry of trade and industry cancelled the 35% tariff on the import of cement from Albania, which had been introduced in July.

### Labour market

In the first four months of 2012, the average number of registered unemployed plummeted by 20.9% year-on-year after a slight decline throughout 2011. However, this sharp reduction was mainly a result of the digitalization process of the unemployment registry within the Public Employment Service which has been launched in early-2012.

### External sector

According to preliminary figures from the Central Bank, the current account deficit increased marginally, by 0.2% year-on-year, in the second quarter of 2012, following a 29% widening in January-March, reaching about 13.5% of GDP. The trade deficit increased further by 7.9% on the back of imports recovery. Imports of goods grew by 4.4% in euro terms in April-June, as compared to a 3.4% annual decline in the previous quarter (precipitated by bad weather conditions). In the meantime, the contraction of goods exports decelerated from 20.4% to 14.8%. Surpluses in the services and income balances also registered slight improvements. Net current transfers, covering about two-thirds of the foreign trade gap, soared by 12.6% year-on-year in the second quarter (up from 11.3% in January-March), thus partially offsetting the negative dynamics of the trade deficit. The increase in current transfers was mainly due to higher inflows to the central government, while net workers' remittances remained nominally unchanged over the same period last year.

Net FDI plummeted by 76.2% (year-on-year) in the second quarter of 2012, following a 32.7% contraction in January-March, and covered less than a fifth of the current account deficit. In the

four quarters to June, net FDI accounted for 5.5% of GDP, compared to 7% in the four quarters to end-March.

In the first half of 2012, Kosovo's gross external debt fell slightly by 2.9%, after rising by 5.8% in 2011. Thus, it has reached approximately 27% of GDP, as compared to 29.9% at the end of the previous year.

### Monetary developments

The growth in broad money stood at 6.3% year-on-year by the end of August, as compared to 21% a year ago. Net foreign assets rose by 5.1%, while the pace of accumulation of net domestic assets moderated to 11.4%.

After registering a two-year-low rate of 0.6% year-on-year in March, consumer inflation has been gradually accelerating again in the summer months mainly on the back of the evolution of food prices, in line with developments on the international markets. Annual inflation reached 3.1% in August, compared to 1.3% in the second quarter and 2.2% in July. About 71% of the goods and services in the CPI basket exhibited increasing prices in August. Core inflation reached 1.4% in August, having accelerated only marginally by 0.1 percentage point over the last three months.

### Financial sector

The interest rate spread between loans and deposits declined further over June-August and reached 8.8 percentage points in August. The effective interest rates on deposits increased slightly, to about 3.9%, while effective interest rates on loans decreased to 12.7%.

Growth in commercial banks deposits decelerated further from 8% year-on-year in the second quarter to 5.2% in August. The pace of time and savings deposits growth moderated slightly to 8.8%. Contrary to this, demand deposits posted a 1.4% annual decline in August, after they had grown by 4.6% growth in the second quarter and by 6.1% in July. The main contributor for overall deposit growth moderation was the households sector. Nonetheless, households remained the main depositors in the banking system although their share in total deposits fell to 71.2% in August, down from 72.6% in the second quarter. Other non-financial corporations' deposits grew by 15.7% in August on simultaneous acceleration of sight deposits and deposits with longer

maturities growth.

In line with the deposit growth slowdown, lending activity has also moderated. Annual credit growth reached 10.7% in the second quarter, down from 14.3% in the first semester, and went further down to 8.5 and 7.5% in July and August, respectively. Corporate loans, accounting for about two-thirds of total lending, grew by 3.4% year-on-year after expanding by 5.9% in the second quarter of the year. The composition of lending by industry remained broadly unchanged and the services sector, in particular wholesale and retail trade, continued to absorb most of the corporate loans. In the meantime, lending to households remained strong, albeit also slightly moderating to 11.9% year-on-year at end-August.

Consolidated net earnings of commercial banks shrank by 35.4% year-on-year by the end of August, as growth of total expenditure (12.3%) surpassed those of revenue (5.1%). Notably, provisions for loan and other assets losses surged by 37.1%, thus triggering a faster total expenditure increase. Banks interest income increased by 4.7%, while fees and commissions rose by 6.9%.

### Fiscal developments

The consolidated budget posted a EUR 23.7 million surplus (0.5% of GDP) by the end of August, as compared to a deficit of EUR 16 million (-0.3% of GDP) a year ago. The fiscal consolidation was mainly a result of a significant moderation of expenditure growth, and to a lesser extent due to stronger revenues.

The general budget expenditures stood at EUR 839 million in the period January to August or 1.1% higher than in the corresponding period of last year. Both current spending and capital outlays have decelerated in the recent months, thus contributing to the lower deficit. The wage bill of the government fell by 4.8% year-on-year and spending for subsidies and transfers decreased by 1.4%.

In the first eight months, total revenue rose by 6% year-on-year to a total of EUR 863 million, positively affected by a budget support grant of the World Bank worth EUR 36.7 million disbursed in June. Border tax revenue, accounting for about 60% of total budget receipts, increased only slightly by 2.2%, while the collection of domestic revenue remained relatively strong at about 8%.

## TABLE

European Commission, ECFIN-D-1

### KOSOVO\*

		2007	2008	2009	2010	2011	Q1 12	Q2 12	Q3 12	Jul 12	Aug 12	Sep 12
<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	8.3	7.2	3.5	3.2	4.5	:	:	:	:	:	:
Private consumption <sup>1.4</sup>	Ann. %ch	10.0	8.6	2.1	3.1	3.0	:	:	:	:	:	:
Investment <sup>1.5</sup>	Ann. %ch	4.1	15.3	10.7	12.3	11.3	:	:	:	:	:	:
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>	%	43.6	47.5	45.4	:	:	:	:	:	:	:	:
Employment <sup>2.2</sup>	Ann. %ch	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	49.1	20.2	-10.7	72.1	6.5	-20.4	-14.8	:	-13.6	:	:
Imports of goods <sup>3.2</sup>	Ann. %ch	20.7	22.3	-5.1	12.5	15.9	-3.4	4.4	:	5.8	:	:
Trade balance** <sup>3.3</sup>	% of GDP	-39.5	-42.3	-41.2	-40.8	-43.1	-40.7	-41.5	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	15.8	15.5	16.4	19.5	20.1	:	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	51.7	53.5	52.8	56.9	57.3	:	:	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-10.2	-16.0	-10.3	-13.0	-14.1	-13.5	-13.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	12.5	8.7	7.0	7.7	7.9	7.0	5.5	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1 057.6	1 110.7	1 198.5	1 246.9	1 234.6	1 254.0	1 262.1	:	1 395.9	1 452.3	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	8.1	6.9	7.9	7.3	6.2	6.1	6.0	:	6.6	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. %ch	4.4	9.4	-2.4	3.5	7.3	1.7	1.3	:	2.2	3.1	:
Producer prices <sup>4.2</sup>	Ann. %ch	N.A.	N.A.	3.8	4.7	5.7	-1.6	1.4	:	N.A.	N.A.	N.A.
Food prices <sup>4.3</sup>	Ann. %ch	9.1	16.7	-4.4	4.8	12.4	-0.3	-2.3	:	-0.2	1.5	:
Broad money liabilities <sup>4.4</sup>	Ann. %ch	23.4	23.6	11.2	12.9	8.8	8.9	8.2	:	8.7	6.1	:
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	-0.1	:	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3-12 months) <sup>5.1</sup>	%p.a.	15.25	16.61	14.11	18.24	18.13	17.48	17.90	:	14.54	14.45	:
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	29.7	38.7	17.4	10.1	15.4	14.2	10.6	:	8.5	7.5	:
Deposit growth EUR/EUR <sup>5.5</sup>	Ann. %ch	19.3	25.6	20.3	14.8	12.0	10.2	8.0	:	10.1	5.2	:
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	7.1	-0.1	-0.7	-2.6	-1.7	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	N.A.	N.A.	7.7	7.6	6.7	6.8	6.9	N.A.	N.A.	N.A.	N.A.

\* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo

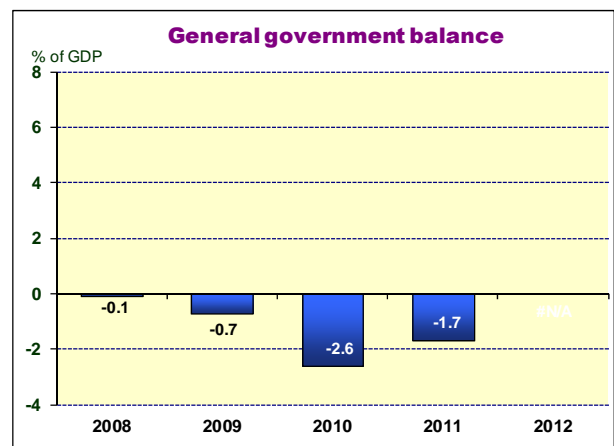
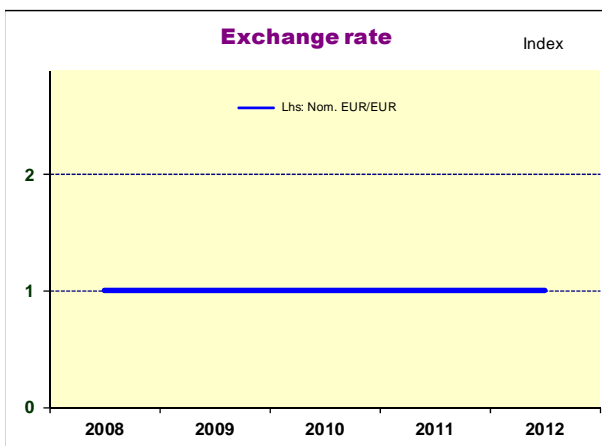
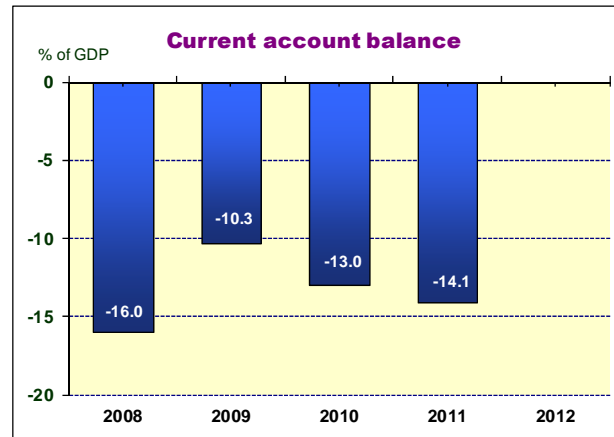
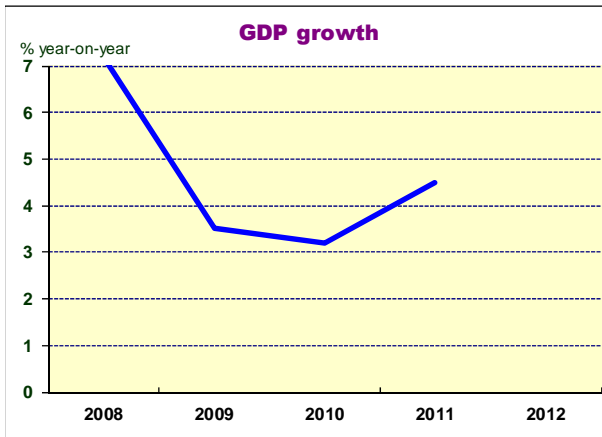
Declaration of Independence.

\*\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1

## KOSOVO\*



\* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.  
Source of data: IMF, national sources

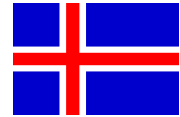




No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Business Surveys, Economic Outlook, Industry	Ecwin/Reuters
1.2.	Industrial production	Annual percentage change, volume, excluding construction. 2009 onwards base year 2005 and new methodology, SA.	Ecwin/Reuters
1.3.	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	Ecwin/Reuters
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	Ecwin/Reuters
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP	Nat. sources



No.	Indicator	Note	Source
<b>1. 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. 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. 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. 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. 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
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	MoF
6.2.	General government debt	In percent of GDP	MoF



No.	Indicator	Note	Source
<b>1. 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. 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. 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. 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. 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. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	Ecwin/Reuters
6.2.	General government debt	In percent of GDP	Ecwin/Reuters



No.	Indicator	Note	Source
<b>1. 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. 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. 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. 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. 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. 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. 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. 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. 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. 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. 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	Provisioning against losses	Ecwin/Reuters

**6. Fiscal developments**

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





No.	Indicator	Note	Source
<b>1. 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. 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. 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. 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. 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. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	Ecwin/Reuters
1.2.	Industrial production	Annual percentage change, total, constant prices	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, total, 2005=100	Ecwin/Reuters
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force	Ecwin/Reuters
2.2.	Employment	Annual percentage change	Ecwin/Reuters
2.3.	Wages	Average monthly wages in State sector	Ecwin/Reuters
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. EUR	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, including official transfers	Ecwin/Reuters
3.7.	Direct investment (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
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	IMF





No.	Indicator	Note	Source
<b>1.</b>	<b>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	Total sale, index CPPY=100, weighted average Federation of Bosnia and Herzegovina 65% Serb Republic 35%	Ecwin/Reuters
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	Registered, in percent of total labour force	Ecwin/Reuters, NSO
2.2.	Employment	Registered, annual percentage change	Ecwin/Reuters
2.3.	Wages	Annual percentage change, average gross wages, BAM	Ecwin/Reuters
<b>3.</b>	<b>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.</b>	<b>Monetary developments</b>		
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	Ecwin/Reuters
4.2.	Producer prices	Domestic, total, index CPPY=100	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.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, loans, total, BAM	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM	Ecwin/Reuters
5.6.	Non-performing loans	NPLs to total loans, BAM	Ecwin/Reuters
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP, consolidated budget, net lending	Ecwin/Reuters

6.2. General government debt In percent of GDP, external public debt

Ecowin/Reuters

# KOSOVO\*

\* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

## Explanatory notes

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



**6. Fiscal developments**

6.1.	General government balance	In percent of GDP.	IMF, Ministry of Finance
6.2.	General government debt	In percent of GDP.	Ministry of Finance