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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 UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

OVERVIEW

Most of the pre-accession economies continued along the growth path initiated in early 2013. GDP growth which had picked up in the first quarter, accelerated in the second quarter in the former Yugoslav Republic of Macedonia, Montenegro and Turkey as well as in Iceland where output growth had significantly weakened in the first trimester. GDP surprised on the upside in the second quarter, expanding by 3.4% to 4.4% year-on-year. Higher growth is also expected in Bosnia and Herzegovina. In contrast, growth decelerated significantly to a still positive but mere 0.2% in Serbia and to 1.1% in Albania. With the exception of Serbia where unemployment increased in the second quarter, output growth translated into some improvements or a stabilisation in labour market conditions. Consumer price inflation decelerated in almost all countries in the second quarter and further in July and August. Only in Iceland have price pressures increased since July. In Turkey, headline inflation increased until July before receding slightly in August and September. The adjustment of external imbalances experienced in all countries except Turkey in the first quarter has given way to a somehow more differentiated pattern in the second quarter. While the current account deficit continued to widen in Turkey, it also deteriorated in the former Yugoslav Republic of Macedonia, Albania and Kosovo. The pace of budgetary consolidation is slowing. Apart from Kosovo, Turkey and Bosnia and Herzegovina, budget deficits in the first eight months were in many cases already close to or even exceeded their initial full-year targets.

GDP growth further accelerated in the second quarter in the former Yugoslav Republic of Macedonia (3.9%), Montenegro (3.4%) and Turkey (4.4% year on year). It also accelerated in Iceland (4.2%) after it had weakened to 0.3% in the first quarter and to a lesser extent Bosnia and Herzegovina. The drivers of growth in the second quarter were country specific ranging from public demand in Albania to exports in Serbia and Montenegro and private consumption in Turkey, supported by the performance of the labour market and high credit growth. However, Turkey rather

stands out an exception as private demand has remained generally subdued in most countries. In contrast to this general growth pattern, GDP growth decelerated in Albania (from 1.7% to 1.1%) and even more in Serbia (from 2.7 to 0.2%) where exports were the only driver of growth while all the components of domestic demand continued to contract.

Economic growth in the first half of the year spilled over, to some extent, to the labour markets. The unemployment rate either decreased in line with the pick-up in economic activity, or at least stabilised. Serbia is the main exception to this overall pattern as registered unemployment increased by 2.6% year-on-year in July and 2.2% on average since the beginning of the year. In Turkey, employment growth fell short of labour force growth, resulting in an increasing unemployment rate year-on-year. These generally positive signs cannot however lead to complacency. Unemployment remains very elevated in the Western Balkans and, albeit somewhat declining, very high long-term and youth unemployment rates continue to point to structural weaknesses.

While a further significant adjustment of external imbalances was a common feature -except for Turkey- in the first quarter of 2013, a more differentiated pattern has emerged in the second quarter. The adjustment continued, as evidenced by the further narrowing of the current account deficit over the four quarters to June, in Iceland, Bosnia and Herzegovina, Montenegro and Serbia. In the latter three countries, the improvement was mainly driven by a reduction in the merchandise trade deficit. In Iceland, the current account deficit even turned into a small surplus while the trade balance surplus somewhat declined. On the other hand, the current account deficit continued to widen in Turkey to 6.6% of GDP alongside a deterioration of the trade balance as the growth in goods exports turned negative while imports increased, notably due to a reversal in gold trade. The current account deficit also deteriorated in Albania, in the former Yugoslav Republic of Macedonia and in Kosovo, in spite of some improvement in the trade deficits.

Consumer price inflation continued to decelerate in practically all countries in the second quarter and beyond. However, this downward trend was

reversed in Iceland in the third quarter. In Turkey, headline inflation increased until July before receding slightly in August and September. Inflation differentials remain significant across countries. In Turkey and Serbia, inflation reached respectively 8.2% and 7.3% in August (year-on-year) while Bosnia and Herzegovina is heading towards deflation for the first time since November 2009.

Credit growth has continued to further decelerate in all countries, except in Turkey, in the second quarter of 2013 and sometimes also in July-August. In the latter two months, it was negative in Albania and Serbia. In Iceland lending activity practically came to a standstill in the first half of 2013 before it modestly expanded in August. The further shrinking of bank lending to the private sector which reflects a combination of low credit demand and tight credit supply conditions -as credit risks remain elevated in most countries and uncertainty weighs on investment and consumption decisions- adds to the factors constraining domestic demand. The deceleration was generally more severe in the corporate sector than for households. Only in Turkey was credit growth buoyant and accelerating over the period January to August, reaching 25% year-on-year in August.

In most countries fiscal consolidation is not on track. Actual budget deficits close or even

exceeding the initial full-year targets have in several cases led to the latter's upward revision. In the former Yugoslav Republic of Macedonia where the central government deficit had already reached about 84% of the target at the end of August due to the settlement of arrears and weaker than expected revenue collection, a budget revision raising the target from 3.6 to 3.9% of GDP has been submitted to parliament. In Montenegro, a budget revision to finance expenditures resulting from the bankruptcy of the aluminium company (KAP) had to be withdrawn in August due to limited support within the government coalition. In Albania, due to pre-election spending and weak revenues, the budget deficit in the first eight months already exceeded the full year target by some 11%. The outgoing government took steps in July-August to rein in expenditure overruns. In Serbia, where a budget revision already lifted the target to 5.3% of GDP, the general government deficit by the end of August stood at about 57% of the revised target. In Iceland, the general government deficit in the first half of 2013 stood at 2.9% of the period's GDP against the initial objective of a balanced budget. Conversely, budget performance is on track in Kosovo, Turkey and Bosnia and Herzegovina where in the latter country the general government balance for the first six months turned positive and amounted to 0.4% of annual GDP.

Candidate and potential candidate countries: Summary table

						ECFIN May Forecast							
	2008	2009	2010	2011	2012	2013	2014	Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
Gross domestic product (in real terms, annual % change)													
The former Yugoslav Republic of Macedonia	5.1	-1.0	2.9	2.8	-0.3	1.5	2.0	2.9	3.9	:	N.A.	N.A.	N.A.
Iceland	1.2	-6.6	-4.1	2.7	1.4	1.8	3.0	0.3	4.2	:	N.A.	N.A.	N.A.
Montenegro	6.9	-5.7	2.5	3.2	-2.5	1.8	2.6	1.1	3.4	:	N.A.	N.A.	N.A.
Serbia	3.8	-3.5	1.0	1.6	-1.7	1.7	1.9	2.7	0.2	:	N.A.	N.A.	N.A.
Turkey	0.7	-4.8	9.2	8.8	2.2	3.2	4.0	2.9	4.4	:	N.A.	N.A.	N.A.
Albania	7.5	3.3	3.8	3.1	1.6e	:	:	1.7	1.1	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	5.6	-2.8	0.7	1.0	-0.9	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo*	7.2	3.5	3.2	4.4	2.5	:	:	:	:	:	:	:	:
Unemployment (LFS, in % of workforce)													
The former Yugoslav Republic of Macedonia	33.8	32.2	32.0	31.4	31.0	30.5	30.0	29.9	28.8	:	N.A.	N.A.	N.A.
Iceland	3.0	7.2	7.5	7.1	6.0	5.2	4.7	5.8	6.8	:	N.A.	N.A.	N.A.
Montenegro	10.7	11.4	12.2	13.2	13.5	:	:	14.2	13.1	:	13.0	13.3	:
Serbia	13.6	16.1	19.2	23.0	23.9	24.0	23.2	24.1	:	:	:	:	:
Turkey	11.0	14.1	12.0	9.8	9.2	8.6	8.8	10.5	8.8	:	:	:	:
Albania	12.8	13.6	13.7	13.4	12.9	:	:	12.8	12.8	:	:	:	:
Bosnia and Herzegovina	40.6	42.7	42.7	43.8	45.9	:	:	44.7	44.4	:	44.6	:	:
Kosovo*	47.5	45.4	:	44.8	30.9	:	:	:	:	:	:	:	:
Current account balance (% of GDP)**													
The former Yugoslav Republic of Macedonia	-12.8	-6.8	-2.0	-2.5	-3.0	-5.0	-5.2	-3.0	-3.4	:	N.A.	N.A.	N.A.
Iceland	-24.6	-11.5	-8.0	-6.3	-5.5	-4.2	-4.7	-2.7	0.1	:	N.A.	N.A.	N.A.
Montenegro	-49.8	-27.9	-23.0	-17.7	-18.7	-17.4	-16.8	-17.1	-16.1	:	N.A.	N.A.	N.A.
Serbia	-18.8	-7.2	-7.6	-9.2	-10.6	-8.0	-8.2	-8.5	-6.8	:	N.A.	N.A.	N.A.
Turkey	-5.4	-2.0	-6.2	-9.7	-6.0	-6.8	-7.2	-5.9	-6.6	:	N.A.	N.A.	N.A.
Albania	-15.5	-15.3	-11.5	-13.0	-10.8	:	:	-10.0	-10.4	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-14.2	-6.6	-6.2	-9.9	-9.2	:	:	-8.7	-7.5	:	N.A.	N.A.	N.A.
Kosovo*	-11.7	-9.3	-12.0	-13.8	-7.7	:	:	-7.6	-7.7	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
The former Yugoslav Republic of Macedonia	8.3	-0.8	1.6	3.9	3.3	3.2	2.8	3.5	3.6	2.8	4.0	2.8	1.6
Iceland	12.7	12.0	5.4	4.0	5.2	4.0	3.2	4.3	3.3	4.0	3.8	4.3	3.9
Montenegro	7.4	3.4	0.5	3.1	4.1	2.7	2.5	3.6	2.8	:	2.7	2.2	:
Serbia***	8.6	6.6	10.3	7.0	12.2	8.4	5.7	11.2	9.8	:	8.6	7.3	:
Turkey	10.4	6.3	8.6	6.5	8.9	6.6	5.6	7.2	7.0	8.3	8.9	8.2	7.9
Albania	3.4	2.3	3.6	3.5	2.0	:	:	2.5	2.2	:	1.6	1.2	:
Bosnia and Herzegovina	7.4	-0.4	2.1	3.7	2.1	:	:	1.0	0.5	:	0.5	0.0	:
Kosovo*	9.4	-2.4	3.5	7.3	2.5	:	:	2.9	2.4	:	2.3	1.2	:
General government balance (% of GDP)													
The former Yugoslav Republic of Macedonia**	-1.0	-2.7	-2.5	-2.5	-3.8	-3.6	-3.3	0.0	0.0	:	N.A.	N.A.	N.A.
Iceland	-13.5	-9.9	-10.1	-5.6	-3.8	-1.7	0.0	-2.1	-3.8	:	N.A.	N.A.	N.A.
Montenegro	-0.4	-5.7	-4.9	-5.4	-5.6	-3.2	-2.2	-1.9	-5.0	:	:	:	:
Serbia**	-2.6	-4.5	-4.7	-4.9	-6.4	-4.5	-4.1	-5.4	-5.1	:	N.A.	N.A.	N.A.
Turkey	-2.2	-7.0	-2.6	-2.2	-2.3	-2.1	-2.4	0.9	0.6	:	N.A.	N.A.	N.A.
Albania**	-5.5	-7.0	-3.1	-3.6	-3.5	:	:	-1.1	-2.8	:	:	:	:
Bosnia and Herzegovina	-2.2	-4.4	-2.5	-1.3	-1.9	:	:	-0.2	0.7	:	N.A.	N.A.	N.A.
Kosovo*	-0.1	-0.7	-2.6	-1.7	-2.6	:	:	-2.4	:	:	N.A.	N.A.	N.A.

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Forecast: ECFIN forecast Autumn 2012

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

*** End of period, Forecast = average

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



Key developments

In view of the further deterioration in the fiscal position over the summer, the government submitted plans for a budget revision to parliament in September. The draft foresees a rise in the general government's deficit target for 2013 from 3.6% to 3.9% of GDP.

The government also adopted the 2014 budget bill, which envisages a deficit of 3.5%, based on projected real GDP growth of 3.2%, as well as a draft fiscal strategy for 2014-2016 outlining the key budgetary projections and spending priorities in the medium-term. It foresees a gradual lowering of the budget deficit to 2.6% in 2016.

Real sector

The economy continued its recovery in the second quarter of 2013, with annual real GDP growth accelerating to 3.9%, from 2.9% in the first quarter. Investment growth, although still resilient, slowed to 7%, from 9.4%, compared to average growth of 16% in 2012. The external side did not contribute to growth, although export volumes increased by 6.8%, after a slight decline in the first quarter. There was a small rise in import volumes, too, after a decline in the first quarter.

The biggest contribution to GDP growth came from construction, which increased its output by 33% year-on-year. Indications earlier in the year for a turnaround in industrial production were somewhat dampened in the second quarter and beyond. In the first eight months of 2013, industrial production increased by only 1.7% year-on-year, carried by strong increases in mining and quarrying. Output in manufacturing, which accounts for over 75% of the industry structure, was unchanged from a year earlier.

Labour market

There was some further improvement in employment and unemployment figures in the

second quarter. In the first eight months of 2013, employment rose by almost 5% year-on-year, mainly accounted for by a 27% gain in the construction sector, with only a marginal increase of 0.7% in industry, where strong employment creation in the energy sector and in mining and quarrying was mitigated by virtual stagnation in the manufacturing sector.

The labour force increased only marginally by 1%, with total labour force participation remaining virtually unchanged at about 57%. This resulted in an increase in the employment rate to 40.7%, up from 38.8% a year earlier. The increase in employment is accounted for, to a large part, by higher participation and lower unemployment of women. A large number of additional employment creation results from part-time and self-employment, as well as additional public sector jobs.

Unemployment declined by 7%, resulting in a decrease in the unemployment rate to 28.8%, down from 31.2% a year earlier. The labour market situation for 15 to 24 year olds remains challenging, even though the number of young unemployed decreased by almost 10% in the second quarter, compared to a year earlier. While the unemployment rate declined from 54.9% to 51.7%, this is due, to some extent to a 4.1% decline in the labour force. With nominal wage growth remaining below inflation, real net wages continued to decline in the first eight months of the year, by 2.1% on average, compared to a year earlier.

External sector

The current account deficit widened somewhat, from 3% of GDP at end-March to 3.4% at end-June. On a monthly basis, the balance has been improving gradually since April, swinging into surplus in July for the first time this year,, mainly on account of an improving merchandise trade balance, and in spite of lower current transfers. In the first seven months of 2013, exports of goods increased by 4% on the year, while imports decreased slightly by 0.3%, lowering the merchandise trade deficit by 5%.

Current transfers declined by 9% in the second quarter compared to a year earlier. FDI inflows strengthened further, increasing from 1% of GDP at the end-March to 1.4% at end-July.

The international reserve position weakened slightly. At the end of August, reserves amounted to 2 billion Euro or about 25% of GDP, compared to 2.2 billion Euro, or about 28% of GDP a year earlier. This is mainly due to central bank interventions in the forex market, and to government transactions in the second quarter. The reserves covered about 5.8 months of prospective imports of goods and services, unchanged from a year earlier.

Gross external debt rose further, and, at end-June, stood at 5.2 bn EUR, or 70.6% of GDP, up from 69.2% at end-March. Public external debt increased by 0.6 percentage points, to 31.7% of GDP, private external debt increased by 0.8 percentage points to 38.9%. The share of short-term external debt continued to grow proportionately strongly.

Monetary developments

Annual consumer price inflation relented significantly in the summer. The CPI has declined consecutively since June, reaching 1.6% in September, mainly due to relenting pressures from housing costs. Annual price rises for food and clothing were also increasingly contained, and, on a monthly basis, even registered declines. Food, housing, and clothing account for the biggest shares in the index.

Overall, in the first nine months, average inflation accelerated to 3.3%, compared to 2.8% in the same period a year earlier. The accumulated rise was due to a renewed pick-up in inflation in the spring, after price pressures had relented in March. Some further mitigation in price pressures is expected from cuts in regulated retail prices of gasoline and fuel, and in electricity rates, effective on 1 July.

Monetary conditions eased somewhat since the first quarter. Deposit and lending rates both decreased slightly, leaving the spread almost unchanged. Average weighted nominal lending rates stood at 8% in August 2013, while interest rates on deposits declined somewhat faster, to 4.3%. Consequently, the spread between lending and borrowing rates increased only marginally, to 3.7%, since the end of the first quarter. In July, the central bank lowered the interest rate on the 7-day deposit facility further, by 25 bp to

1.50%. The rate on central bank commercial bills was further lowered by 25bp to 3.25%.

Financial sector

Credit extension to the private sector has strengthened somewhat since May, when the previous, 12-month-long consecutive deceleration in overall loan growth came to an end. In August, the loan stock had expanded by 3.6%, compared to a year earlier. Credit growth is almost entirely accounted for by loans to private households, which expanded by about 8% in August, with loans to nonfinancial corporations up by only 0.7%. The overall credit-to-GDP ratio remains low, at some 49% of projected GDP. The stabilisation in credit growth takes place in spite of further deteriorating quality of banks' credit portfolios. The share of non-performing loans in total loans to the private and public sector continued to rise, to 12.3%, up from 11.9% at end-March.

Fiscal developments

The fiscal position fell further behind target – between January and August, the central government deficit reached about 84% of the targeted full-year deficit, or 3% of projected GDP, due to settlement of arrears owed to the private sector and weaker than expected revenue collection. Total expenditure levels in the first eight months increased by 5.2% from a year earlier, with capital spending rising by 3.5%, while revenues increased by 0.7%. In view of these developments, the government submitted plans to parliament for raising the general government deficit target for the year by 0.4 percentage points to 3.9% of GDP. The draft fiscal strategy for 2014-2016 was adopted by the government in September,

Central government debt had somewhat decreased, to 2.7 bn EUR, or 33.6% of GDP, at the end of July 2013, down from 34% at end-March. While domestic debt levels increased, external debt decreased proportionately more strongly.

TABLE

European Commission, ECFIN-D-1



The former Yugoslav Republic of Macedonia

		2008	2009	2010	2011	2012	ECFIN Forecast		Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
							2013	2014						
1 Real sector														
Industrial confidence ^{1.1}	Balance	6.8	-13.7	-9.6	18.4	14.7	:	:	12.1	12.2	:	11.9	12.0	:
Industrial production ^{1.2}	Ann. %ch	5.6	-8.4	-4.6	4.0	-7.4	:	:	2.7	:	:	3.9	-1.2	:
Gross domestic product ^{1.3}	Ann. %ch	5.1	-1.0	2.9	2.8	-0.3	1.5	2.0	2.9	3.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	8.1	-4.8	2.3	7.4	0.9	-0.3	1.0	2.1	0.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	16.5	0.5	1.8	9.6	16.0	8.0	7.0	9.4	7.0	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. %ch	-2.8	5.3	11.7	25.3	6.2	:	:	36.8	33.2	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	11.6	-3.8	4.2	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	33.8	32.2	32.0	31.4	31.0	30.5	30.0	29.9	28.8	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	3.2	3.4	1.3	1.1	0.8	1.0	1.3	3.9	4.7	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	8.7	14.1	1.0	1.2	0.2	4.2	3.8	1.1	1.7	:	1.3	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	8.9	-28.2	30.9	26.9	-3.2			1.0	1.0	:	13.3	:	:
Imports of goods ^{3.2}	Ann. %ch	21.9	-21.6	13.9	22.2	0.3			-2.1	-1.2	:	8.0	:	:
Trade balance* ^{3.3}	% of GDP	-26.2	-23.3	-20.5	-22.1	-23.6	-23.3	-23.2	-22.9	-22.3	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	50.9	39.0	46.6	54.9	53.6			53.1	52.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	76.2	60.6	65.3	74.5	76.3			74.9	73.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-12.8	-6.8	-2.0	-2.5	-3.0	-5.0	-5.2	-3.0	-3.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	6.1	2.0	2.2	4.5	1.0	:	:	1.0	1.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1496.9	1598.7	1715.3	2302.3	2330.4	:	:	2230.0	2039.0	:	2055.0	2085.0	:
Int. reserves / months imp ^{3.9}	Ratio	4.0	5.5	5.2	5.7	5.7	:	:	6.3	6.0	:	5.8	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	8.3	-0.8	1.6	3.9	3.3	3.2	2.8	3.5	3.6	2.8	4.0	2.8	1.6
Producer prices ^{4.2}	Ann. %ch	10.4	-6.4	8.3	11.1	4.6	:	:	2.9	0.9	:	2.9	-1.4	:
Food prices ^{4.3}	Ann. %ch	14.4	-1.4	0.3	6.2	2.3	:	:	3.4	5.2	:	5.3	4.9	:
Monetary aggregate M4 ^{4.4}	Ann. %ch	21.3	3.5	12.1	10.5	7.5	:	:	5.0	3.7	:	2.0	4.5	:
Exchange rate MKD/EUR ^{4.5}	Value	61.26	61.28	61.51	61.53	61.53	:	:	61.59	61.66	:	61.65	61.50	:
Nominal eff. exchange rate ^{4.6}	Index	100.6	106.6	106.0	106.9	108.3	:	:	108.3	:	:	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	5.30	:	:	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	9.69	10.07	9.48	8.87	8.50	:	:	8.25	8.12	:	8.04	8.00	:
Stock markets ^{5.3}	Index	5 149	2 497	2 472	2 407	1 890	:	:	1 860	1 784	1 658	1 702	1 626	1 646
Credit Growth ^{5.4}	Ann. %ch	40.3	14.2	5.4	8.1	7.3	:	:	4.7	3.6	:	3.5	3.6	:
Deposit growth ^{5.5}	Ann. %ch	23.5	4.6	13.0	10.9	7.2	:	:	4.8	3.2	:	3.1	5.7	:
Non-performing loans ^{5.6}	% total	6.7	8.9	9.0	9.5	10.1	:	:	11.9	12.3	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-1.0	-2.7	-2.5	-2.5	-3.8	-3.6	-3.3			:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	20.6	23.9	24.6	28.2	32.1	34.3	36.1	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2013

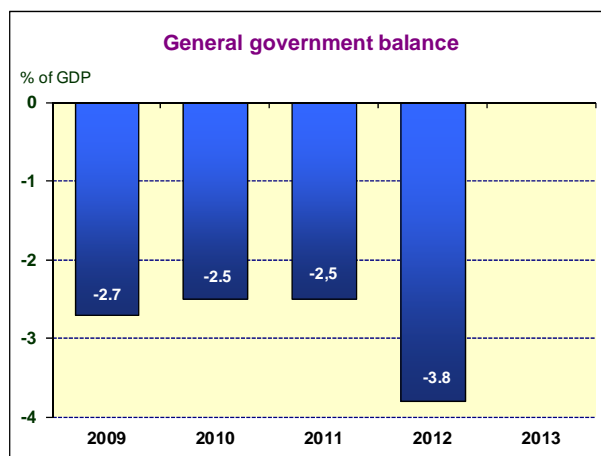
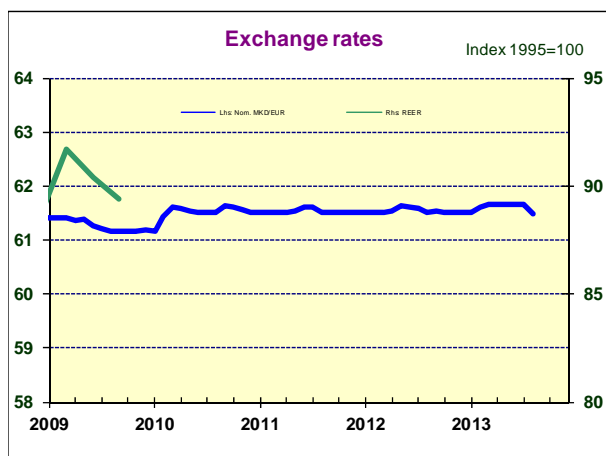
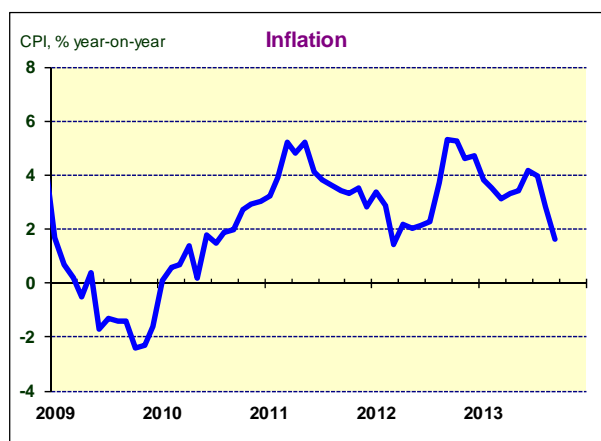
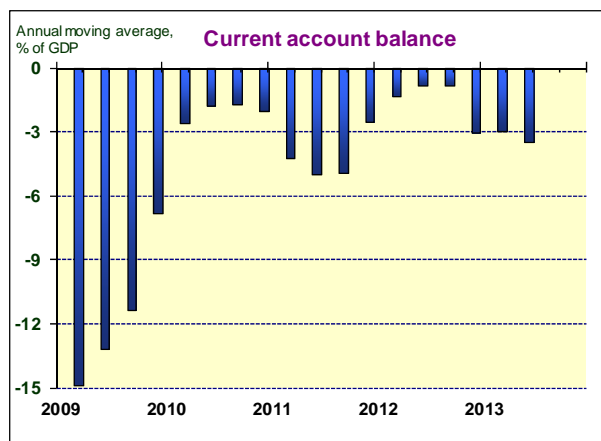
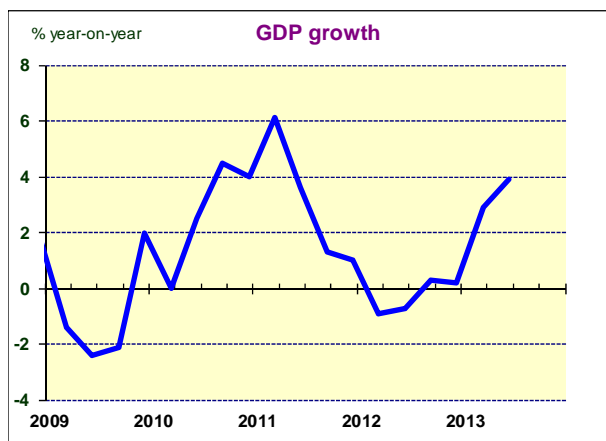
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia



ICELAND



Key developments

On 26 July, the rating agency Standard&Poor's downgraded Iceland's medium-term outlook from stable to negative. The agency cited uncertainty concerning the financing of government plans to reduce household debt and their impact on the country's public debt as the main reason for the downgrade. At the same time, the agency affirmed its sovereign's long- and short-term foreign and local credit ratings.

On 21 August, the Central Bank published its latest forecast. The CBI expects that a slightly weaker outlook for the global economy is likely to dampen exports and investment. For 2013, the Bank left its growth projection largely unchanged (at 1.8% compared to 1.9%, expected in May). However, for 2014 and 2015, the downward revisions were slightly stronger, from originally expected 3.0% growth in 2014 to 2.8% and from 3.5% in 2015 to 2.9%. The favourable performance in the labour market is seen to continue. Inflation is expected to be somewhat higher than anticipated.

Real sector

Non-seasonally adjusted, year-on-year output growth was rather strong in the second quarter, increasing by 4.2%, compared to 0.3% in the first quarter of 2013. However, unusually large fluctuations in fishery inventories distort the overall picture. Private and public consumption remained rather strong with an increase by 1.4% and 0.9% respectively. Gross fixed capital formation was 5.5% lower than a year before. However, this drop is probably to a large extent due to particular high investment in the first half of 2012. Exports were 1.8% higher than in the second quarter of 2012. However, the export dynamics is significantly lower than a year before, when export growth was still 5.8%. When looking at the first half of 2013, the overall picture is one of relatively stable private consumption, increasing by 1.2%, a clear deceleration of exports, rising by 1.1% only and a clear decline in investment, dropping by 13%, which probably had a large impact on lowering imports, which declined by 4.6% year-on-year.

The sharp decline in investment is probably exaggerated by special, one-off investment projects.

However, high frequency indicators, such as the credit card turnover - a usually reliable indicator for private consumption - points to significantly weaker private demand in the third quarter. This pattern is in line with a sharp decline in consumer confidence, which dropped by a third during July and August, but recovered slightly in September. On the other hand, data on tourist overnight stays for the first eight months of the year point to another record high, which should boost revenues, employment, but also imports.

Labour market

Labour market conditions continued to improve. According to LFS, employment rose in the second quarter of 2013 by 1.7% year-on-year, compared to 1.2% a year before. At the same time, the number of unemployed declined by some 3%, compared to a drop by 16% the year before. This brought the 2nd quarter unemployment rate down to 6.8%, compared to 7.2% the year before. The share of long-term unemployed in total unemployed dropped from 21.2% in the second quarter of 2012 to 15.8% in the second quarter of 2013. However, this level is still significantly higher than before the crisis. Unemployment among young (age group 16-24) was 16.2% in the second quarter, compared to 17.9% the year before. This positive trend continued with registered unemployment dropping to 4.4% in August, compared to 5.7% the year before. This is the lowest unemployment rate since the outbreak of the financial crisis. Average weekly hours of work rose slightly, from 39.8 hours in the second quarter of 2012 to 40.5 hours in the second quarter of 2013.

Nominal wages rose by some 5.6% year-on-year in the second quarter, and maintained a similar increase in July and August, of 5.5% and 5.7% respectively. However, inflation rose from 3% in the second quarter to 4% in the third quarter, implying slight losses in real household income.

External sector

The surplus in trade with goods declined during the first eight months of 2013, largely due to lower prices for exported commodities, in particular manufacturing but also marine products. Export revenues were by some 5% lower during this period. Spending for imports was 3.1% lower than a year before. However, this is largely due to base effects, since import spending in 2012 had been boosted by purchases of ships and airplanes.

Trade in services continued to develop favourably, largely thanks to strong earnings from tourism, increasing by 5.4% in the second quarter of 2013, compared to 11.4% the year before. The 4-quarter moving average current account was largely balanced in the second quarter of 2013, compared to a deficit of 2.7% in the four quarters to March.

Gross official foreign exchange reserves dropped by some 2.8% in the second quarter and the first month of the third quarter. In August, the level of foreign reserves remains largely unchanged. As a share of GDP, reserves account for some 30% of GDP.

Iceland's international investment position was at the end of the second quarter at a gross deficit of 458% of the estimated 2013 GDP. However, this includes debt of the old banks, which probably will be written off to a large extent. When corrected for this factor, the underlying IIP probably is at a deficit of some 65% of GDP, which is close to the level registered at the end of 2004.

Monetary developments

Policy rates have remained unchanged since November 2012, e.g. at 6% for loans with collaterals. The Central Bank publicly announced that further interest rate decision would largely depend, among other things, on wage settlement agreements during 2013.

12-months inflation declined slightly to 3.9% in September, compared to 4.3% in August. A year before, the price level rose slightly faster, by 4.1%. During the first nine months of 2013, average inflation stood at 3.9%, compared to 5.4% the year before.

Following a depreciation during the second half of 2012, the exchange rate of the króna vis-à-vis the euro regained some ground, trading at 161.51 ISK against the EUR in September, which is some 7% stronger compared to end-

January, when the króna had reached a local low against the euro.

Financial sector

During the last months, financial intermediation has remained weak, with largely zero credit growth during the first half of 2013. However, in August, credit expanded slightly by 1.5% year-on-year. The level of deposits has started to increase again, at a rate of some 2.4% year-on-year in the second quarter which further accelerated in July and August to 4.4% and 5.4%, respectively, possibly reflecting lower consumer spending.

The total capital adequacy ratio of the three largest banks further increased to some 25% by end-2012 (most recent available data), well above the minimum requirement of 16%. All banks remained profitable with returns on equity at 11.5%, 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. The share of non-performing loans has declined since its peak in 2010, but still remains rather high, at some 8% of total loans (September 2013).

Fiscal developments

On 1 October, the government submitted the 2014 draft budget. Based on expected GDP growth by 2.7% and an inflation rate of 3%, the authorities intend to achieve a slight surplus, based on spending cuts and a broadening of the tax base. Among others, the government plans to increase taxation of banks and the estates of failed banking in the winding-up process.

During the first half of 2013, general government revenues recorded a rather strong growth of around 9% year-on-year, while total expenditure rose by 6.2%, with investment spending expanding by 15%. The deficit expanded strongly from 2.1% of GDP in the first quarter to 3.8% in the second quarter, averaging at 2.9% in the first six months. This compared to a general government deficit of 3.8% in 2012.

According to Iceland's latest fiscal notification, submitted in September, public sector debt declined from 99.1% in 2011 to 96.4% in 2012.

TABLE



European Commission, ECFIN-D-1

ICELAND

		2008	2009	2010	2011	2012	ECFIN Forecast		Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
							2013	2014						
1 Real sector														
Industrial outlook ^{1.1}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann.%ch	76.9	10.3	-0.6	0.1	-1.6	:	:	0.0	3.9	:	11.9	:	:
Gross domestic product ^{1.3}	Ann.%ch	1.2	-6.6	-4.1	2.7	1.4	1.8	3.0	0.3	4.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	-7.8	-15.0	0.1	2.6	2.4	2.3	2.8	1.0	1.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	-20.4	-51.4	-9.4	14.3	5.0	1.0	14.0	-20.5	-5.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	-21.2	-23.4	:	:	:	:	:	:	:	:	:	:	:
Retail sales ^{1.7}	Ann.%ch	-9.2	-22.8	-3.1	1.9	4.3	:	:	2.8	:	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	3.0	7.2	7.5	7.1	6.0	5.2	4.7	5.8	6.8	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	0.9	-6.2	-0.3	0.0	1.1	1.0	1.4	2.5	1.9	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	8.1	3.9	4.8	6.8	7.8	5.3	5.6	5.2	5.6	:	5.5	5.7	:
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	52.6	7.3	12.0	10.5	2.1	:	:	-0.6	-11.2	:	13.7	-16.3	:
Imports of goods ^{3.2}	Ann.%ch	20.2	-13.3	7.4	18.6	6.3	:	:	-5.8	-5.4	:	5.1	5.9	:
Trade balance* ^{3.3}	%of GDP	-0.5	6.0	7.8	6.0	4.6	4.2	3.8	4.9	4.3	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	44.4	52.9	56.4	59.1	59.4	:	:	59.2	57.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	47.2	44.2	46.3	50.7	53.3	:	:	52.5	50.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-24.6	-11.5	-8.0	-6.3	-5.5	-4.2	-4.7	-2.7	0.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	30.5	-18.2	20.7	7.7	31.6	:	:	16.1	15.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	2 565.3	2 661.7	4 369.0	6 580.6	3 251.8	:	:	3 120.1	3 030.9	:	2 965.6	2 965.5	:
Int. reserves / months Imp ^{3.9}	Ratio	8.0	13.4	19.1	24.3	11.3	:	:	11.1	10.8	:	10.6	10.6	:
4 Monetary developments														
CPI ^{4.1}	Ann.%ch	12.7	12.0	5.4	4.0	5.2	4.0	3.2	4.3	3.3	4.0	3.8	4.3	3.9
Producer prices ^{4.2}	Ann.%ch	31.0	11.3	11.8	9.2	1.1	:	:	-0.2	-8.1	:	-3.0	-3.0	:
Food prices ^{4.3}	Ann.%ch	16.0	17.5	4.2	3.8	6.1	:	:	5.9	5.5	4.7	3.7	5.4	5.1
M3 ^{4.4}	Ann.%ch	41.2	15.7	-6.6	-2.1	2.5	:	:	-2.6	2.4	:	4.3	5.3	:
Exchange rate ISK/EUR ^{4.5}	Value	127.58	172.15	161.62	161.20	160.75	:	:	167.62	157.28	160.21	160.02	159.10	161.51
Nominal eff. exchange rate ^{4.6}	Index	135.2	98.1	100.0	100.0	97.6	:	:	94.7	101.2	:	100.1	101.3	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	%p.a.	15.84	11.28	6.79	4.26	5.51	:	:	6.15	6.20	6.20	6.20	6.20	6.20
Bond yield ^{5.2}	%p.a.	11.00	8.15	5.38	5.23	4.98	:	:	4.41	5.47	5.69	5.59	5.66	5.81
Stock markets ^{5.3}	Index	3 510	465	563	602	649	:	:	763	752	760	746	774	761
Credith grow th ^{5.4}	Ann.%ch	-34.0	-8.5	-3.2	-1.7	5.6	:	:	-0.1	0.1	:	0.2	1.5	:
Deposit grow th ^{5.5}	Ann.%ch	31.5	-1.3	-7.0	-2.6	2.3	:	:	-2.8	2.4	:	4.4	5.4	:
Non-performing loans ^{5.6}	%total	N.A.	14.0	18.0	12.0	8.6	:	:	:	:	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance ^{6.1}	%of GDP	-13.5	-9.9	-10.1	-5.6	-3.8	-1.7	0.0	-2.1	-3.8	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	70.5	87.9	93.0	99.1	96.4	95.7	90.5	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2013

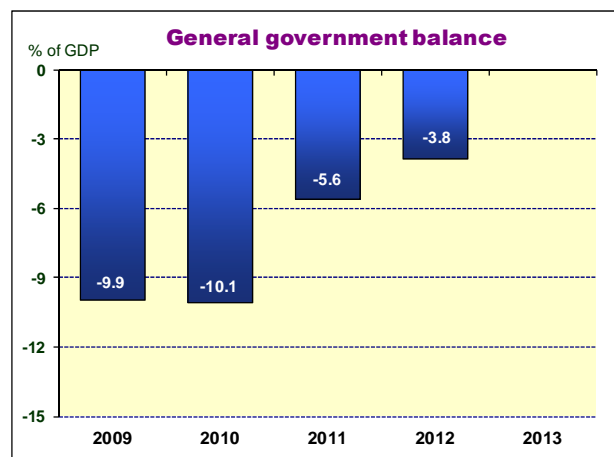
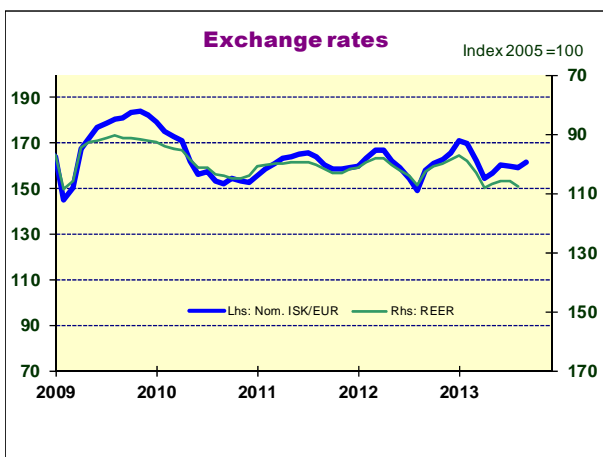
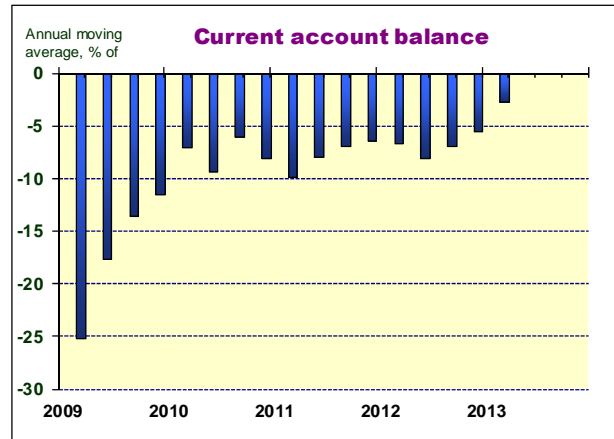
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

ICELAND





Key developments

The government prepared a revision of the budget for 2013 in the summer in order to finance unplanned expenditures resulting from the bankruptcy of the aluminium firm KAP. However, limited support within the government coalition resulted on the withdrawal from parliament of the budget rebalance law in August. The alternative to passing a budget revision would be to compensate the budget overruns by spending cuts and/or higher taxes in the last quarter of the year.

In August, the Ministry of Economy issued a public tender for oil and gas concessions in the southern coast of Montenegro. Authorities received 26 letters of interest.

The privatisation council green-lighted the purchase agreement with the Turkish company Global Ports Holding for acquiring 62% of the container and general cargo terminals at the port of Bar. The tender commission for the privatisation of cigarette factory NDKP decided on 17 September not to grant a third extension of the payment deadline to the buyer, proposing to cancel the sale.

Real sector

The statistical office (MONSTAT) revised the real growth of GDP down to -2.5% compared to preliminary -0.5%. In 2012, only government expenditure and to a lesser extent stocks, had a positive contribution to growth. By contrast, private consumption and gross fixed capital investments declined (by some 3% each). Also net exports had a negative contribution to growth due to a mild rise of imports and further contraction of exports.

In the second quarter, GDP expanded by real 3.4% year-on-year, following a 1.1% output increase in the first quarter. Although the expenditure breakdown is not released, net exports seems to be the main driver of this year's recovery as in the first half of 2013 exports of goods and services increased by 6.4% year on year while imports declined in the same period by 2.3%. Overall, in the first half of 2013, the economy recovered by 2.4% year-on-year.

Labour market

The unemployment rate has been largely stagnant at around 20% since 2009. The Labour Force Survey (LFS) recorded some improvement in the second quarter of 2013, when the unemployment rate declined to 19.2%, down from 21.5% in the previous quarter and 20% in the same quarter a year before. The employment and activity rates improved marginally by almost one percentage point to 40.9% and 50.6% respectively, compared to the quarter before. Most recent data from the employment agency points to an increase of the unemployment rate in July (13%) and August (13.3%) compared with a year before, despite the expected upswing of the tourism season, while continued, though decelerating, the growth of employment.

After having stagnated in the second quarter and slightly dropped in July, gross wages inched up by 0.7% year-on-year in August in nominal terms, resulting in an annual real contraction of 1.5%. Net wages in Montenegro has been contracting in real annual terms since March 2011 (with the exception of April 2012). In August 2013 alone, the average net wage declined by real 1% year-on-year to EUR 475.

External sector

External imbalances have been narrowing but remain still very large. In the four quarters to June 2013, the current account deficit narrowed to 16% of GDP, down from 17% at the end of March. The trade deficit contracted to some 41% of GDP as a result of the improvement of electricity exports. After benefiting from a low base effect in the first quarter of 2013, hydropower production surged thanks to exceptional weather conditions in the second quarter. The service account surplus edged down marginally to some 19% of GDP as higher tourism proceeds could not offset falling revenue from transportation and other services. Current transfers and net income surpluses totalled 6% of GDP.

In the twelve months to June 2013, net FDI accounted for some 14% of annual GDP, compared to 11% a year ago. Portfolio investments' negative net balance rose to 0.9%

of GDP compared to 0.4% a year earlier. Net errors and omission totalled some 5% of GDP.

In July and August 2013, exports performance decelerated markedly. Merchandise sales abroad slowed down to 1.4% year-on-year in July and contracted by 10.7% in August, as the base effect of electricity production fade out. Yet, imports of good remained on negative territory, contracting by 3% year-on-year in July and 5% in August.

Monetary developments

Consumers' price inflation continued declining in the second quarter of 2013, averaging 2.8% compared to 3.6% in the first quarter and 4.1% for the whole 2012. The increase of the upper VAT rate in July had a moderate impact on consumer prices. From a 2.2% year-on-year rate in June, inflation rose to 2.7% in July to settle again at 2.2% in August. The main drivers of inflation in August were food, beverages and tobacco, accounting for 42% weight in the total index. By contrast, transport, furnishing, recreation and culture as well as restaurant and hotels prices contracted over the year.

The weighted average effective lending interest rate on new loans declined for the third straight month in August, falling by 1.9 percentage points year-on-year to 8.95%, due to the declining rates on corporate and retail loans.

Financial sector

Bank lending has been showing signs of recovery since January 2013. In the second quarter of 2013, bank lending moderated slightly to 4.8% year-on-year, compared to 6% expansion in the first quarter. Lending activity reaccelerated in July and August, recording some 5.5% annual expansion each month. Bank deposits have been growing at a faster pace than loans. In the second quarter of 2013, total deposits grew by 9% year-on-year, slightly decelerating in July to 8.3%, to pick up in August at 9.7%.

In the second quarter of 2013, the share of non-performing loans (NPL) decreased slightly to 18.8%, compared to 19.8% the previous quarter. In the first six months to June 2013, bank's capital expanded 4%, lifting the capital adequacy ratio to 15.5%. The rebound of economic activity in the first six months of 2013

conveyed positive return on assets and on equity of banks (1.3% and 9.2% respectively), along with an aggregated profit of €18.5 million.

The bourse recorded some improvements in August 2013. The market capitalisation rose by 2.2% year-on-year to some 84% of annual GDP, and the MONEX20 index, tracking performance of the twenty biggest companies listed, inched up 11% year-on-year. Yet, the turnover of the Montenegro stock exchange fell by 5.4% year-on-year to EUR 4.6 million, although improving from a 34% contraction the month before.

Fiscal developments

In the first half of 2013 total revenue grew by 5.3% year-on-year, supported by accelerating economic activity and more efficient revenue collection, while saving measures reduced expenditures by 5.2% year-on-year. As a result, the cumulated general government deficit fell to some EUR 80 million until June (equivalent to some 5% of half-year GDP), compared to 100 million a year before.

However, the fiscal position of the government remains challenged by substantial contingent liabilities and growing debt. At the end of August 2013, the budget ended with a cumulated (cash) deficit of EUR 115 million after the government paid EUR 103 million state guarantees from KAP. As a result, total expenditures increased by almost 8% above the plan despite the contraction of current and capital spending. Social contributions improved marginally compared to the previous year but underperformed by 3% compared to the plan. On a more positive note, current revenues increased by almost 7% year-on-year, and by 3% compared to the plan, driven by the strong performance of VAT income, surging by almost 20% compared to a year before.

The surge in external liabilities resulting from the foreign bank loans to cover KAP guarantees pushed public debt further up from 53.6% of GDP in June to 56% at the end of August. Meanwhile the stock of domestic debt (some 13% of GDP) declined by EUR 9 million.

In July 2013, the government adopted a budget and fiscal responsibility law (i.e. fiscal rules), setting upper limits for public debt and budget deficit at 60% and 3% of GDP respectively. The rules will be applied with the 2015 budget.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

		2008	2009	2010	2011	2012	ECFIN Forecast		Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
							2013	2014						
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	-16.2	-32.2	17.5	-10.3	-7.1	:	:	3.0	18.5	:	5.1	9.0	:
Gross domestic product ^{1.3}	Ann. %ch	6.9	-5.7	2.5	3.2	-2.5	1.8	2.6	1.1	3.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	:	-12.9	2.0	4.2	-3.2	2.4	2.6	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	:	-30.1	-18.5	-10.3	-3.3	2.7	4.7	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	45.7	-21.5	13.1	10.7	-13.2	:	:	5.7	-0.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	22.3	-9.0	1.6	12.6	6.7	:	:	8.9	8.9	:	11.5	:	:
2 Labour market														
Unemployment ^{2.1}	%	10.7	11.4	12.2	13.2	13.5	:	:	14.2	13.1	:	13.0	13.3	:
Employment ^{2.2}	Ann. %ch	6.3	4.8	-7.1	0.8	2.1	0.9	1.3	3.5	6.6	:	3.3	2.1	:
Wages ^{2.3}	Ann. %ch	N.A.	5.7	11.0	1.0	0.8	0.1	2.4	-1.6	0.0	:	-0.6	0.7	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	-6.8	-34.2	20.3	33.6	-17.8	:	:	6.3	9.2	:	1.4	-10.7	:
Imports of goods ^{3.2}	Ann. %ch	22.1	-34.6	0.9	9.2	-0.1	:	:	-8.8	-1.0	:	-3.0	-5.1	:
Trade balance* ^{3.3}	% of GDP	-65.6	-44.3	-41.1	-40.4	-44.1	-44.0	-43.5	-42.3	-41.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	39.5	32.1	34.7	42.8	44.1	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	94.0	65.4	63.1	64.9	68.8	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-49.8	-27.9	-23.0	-17.7	-18.7	-17.4	-16.8	-17.1	-16.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	18.9	35.8	17.5	12.0	14.7	:	:	14.4	14.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	313.0	397.5	416.4	303.5	347.9	:	:	331.4	304.0	:	312.8	349.1	:
Int. reserves / months Imp ^{3.9}	Ratio	1.5	2.9	3.0	2.0	2.3	:	:	2.2	2.0	:	2.1	2.4	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	7.4	3.4	0.5	3.1	4.1	2.7	2.5	3.6	2.8	:	2.7	2.2	:
Producer prices ^{4.2}	Ann. %ch	14.0	-3.8	-0.7	3.2	1.9	:	:	4.2	3.5	:	2.2	-2.0	:
Food prices ^{4.3}	Ann. %ch	9.0	3.3	0.3	2.8	4.2	:	:	5.8	5.2	:	6.0	5.5	:
M21 ^{4.4}	Ann. %ch	-14.3	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate ^{4.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	:	2.27	5.32	:	:	3.23	:	:	:	3.44	:
Bond yield ^{5.2}	% p.a.	:	3.63	3.37	2.45	4.75	:	:	3.55	:	:	:	3.51	3.34
Stock markets ^{5.3}	Index	19947	13303	13993	11896	9091	:	:	9982	9586	9370	9427	9261	9420
Credit growth ^{5.4}	Ann. %ch	24.6	-5.5	-4.8	-6.3	-0.7	:	:	6.0	4.8	:	5.5	5.7	:
Deposit growth ^{5.5}	Ann. %ch	-4.8	-8.3	-1.9	1.5	9.0	:	:	11.5	9.0	:	8.3	9.7	:
Non-performing loans ^{5.6}	% of total	7.2	13.5	21.0	15.5	17.6	:	:	19.8	18.8	:	:	:	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-0.4	-5.7	-4.9	-5.4	-5.6	-3.2	-2.2	-1.9	-5.0	:	:	:	:
General government debt ^{6.2}	% of GDP	29.0	38.2	40.9	45.9	54.0	52.7	54.0	53.4	53.6	:	55.1	56.1	:

f: ECFIN forecast Spring 2013

* Q figures refer to a 4 quarters moving average.

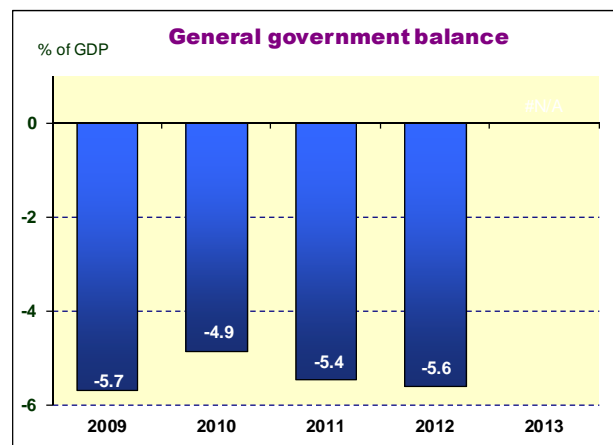
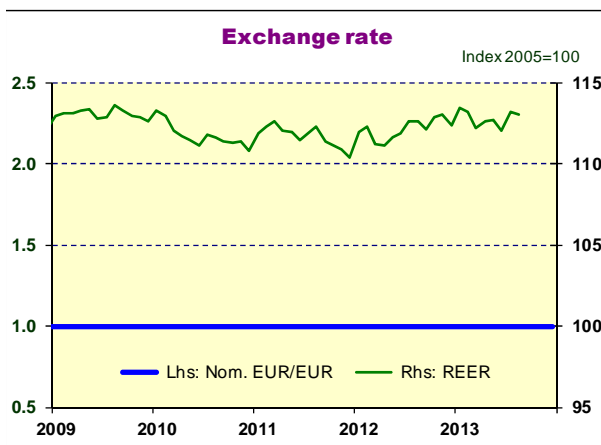
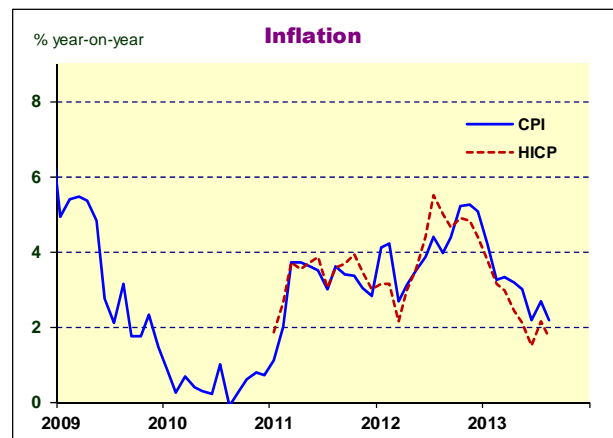
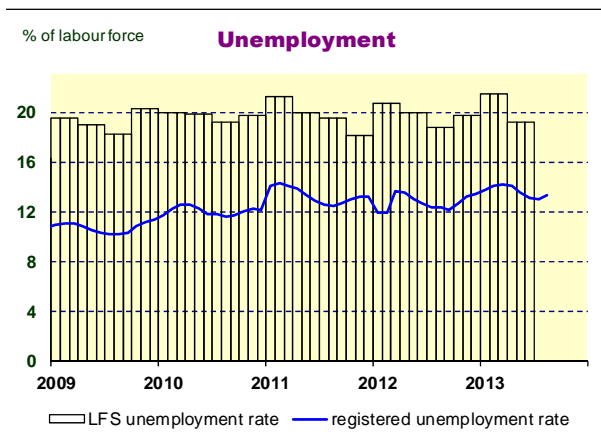
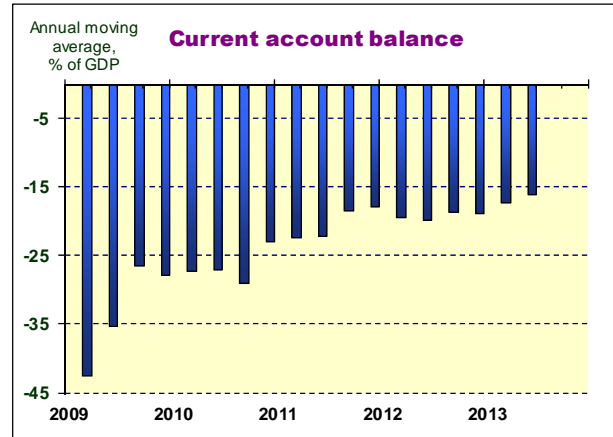
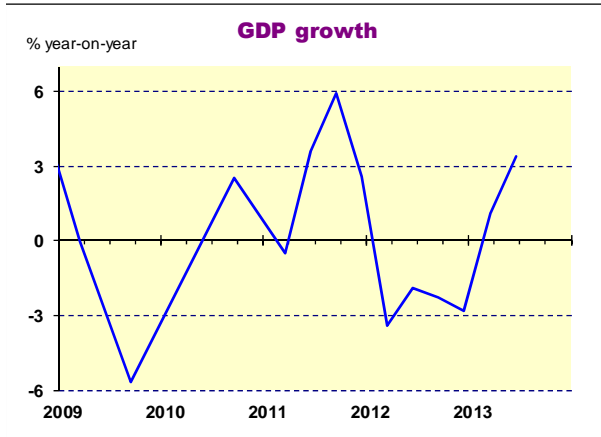
** 2013 GDP ratios recalculated based on ECFIN forecast of GDP nominal growth over 2012 revised GDP.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO



SERBIA



Key developments

In late July, the smallest party in the three-party coalition left the government. A new government was sworn in in early September. The ministry of finance and economy has been split into two and new ministers, without a party affiliation, have been appointed.

In September, in the framework of the EU-facilitated dialogue, Belgrade and Pristina reached an agreement on telecoms and energy. Both sides have also made steps to ensure the fullest possible participation in the Kosovo municipal elections on 3 November.

After all Member States had ratified it, the Stabilisation and Association Agreement with Serbia entered into force on 1 September. In late September, the European Commission and Serbia launched the screening of the "acquis" by chapter 23 (Judiciary and fundamental rights).

IMF staff mission is visiting Serbia from 1 to 7 October to discuss the draft 2014 budget and medium-term fiscal and structural reforms plans.

Real sector

Second quarter data confirmed the fragility of the ongoing recovery. Real GDP increased by 0.2% (year-on-year), following a revised 2.7% growth in the first quarter. In seasonally adjusted terms, the GDP fell by 0.3% (quarter-on-quarter). Exports were the only driver of growth, increasing by 9.1% (year-on-year), supported by the operation of a FIAT factory, which opened in the second half of 2012.

Domestic demand weakened further. Poor labour market conditions and declining real incomes contributed to a ninth consecutive quarter of falling private consumption (-1.2% year-on-year). The slump in public consumption deepened (-6.6%) due to base effects and efforts to control government spending. However, investment activity saw the most pronounced drop (-18.5%), as construction continued its free fall and contracted by 42.5%. Mirroring the lack of demand, imports stagnated.

On the supply side, most of the sectors worsened their performance. Important branches, like retail trade (-4.7%) and real estate (-1.4%)

accelerated their decline, while other sectors, like transportation or financial activities shrank after a year of strong growth. Still, two of the biggest sectors – manufacturing (1.0%) and agriculture (20.5%; driven by base effects due to the very bad weather conditions in 2012), pulled the economy up in the second quarter.

High frequency indicators point at a continuing weakness of domestic demand. Retail trade turnover declined by a real 4.0% (year-on-year) in July and 4.6% in August. On the other hand, after a small drop in May, industrial activity picked-up during the summer months. In the period January-August, it grew by 5.3%, supported by almost equally strong increases in mining, manufacturing and electricity, gas and steam production. The good performance of manufacturing was mainly due to few industries (automotive, pharmaceutical, chemical and petroleum). However, about two-thirds of its subsectors continued to decline.

An action plan to finalise the restructuring of 179 companies was adopted in June, and a bankruptcy procedure for 26 of them has already been initiated.

Labour market

The weak and narrow-based economic growth in the first half of the year has not spilled over to the labour market. The number of registered employed continued falling (by 0.8% year-on-year in July and 0.6% on average since the beginning of the year), while registered unemployment crept up (by 2.6% in July and 2.2% on average).

Since September last year, in line with the bleak labour market situation, gross and net wages have been declining in real terms. Although in the summer this trend decelerated, in August real gross wages still fell by 1.6% (year-on-year) bringing the average decline for the period January-August to 4.0%. Some sectors, like construction and administrative activities saw an even steeper adjustment in wages, which declined also in nominal terms.

External sector

In the period January-July, the current account

deficit shrank by 55% in euro terms (year-on-year) to EUR 910 million. The improvement continued to be driven mainly by a strong increase in exports of goods (23.8%), while imports growth (2.9%) remained subdued because of weak demand. Private remittances growth decelerated rapidly but was still robust at 13% by the end of July. As a ratio to GDP, the current account deficit narrowed to 6.8% in the four quarters to June from 10.6% in 2012.

The financial account registered a surplus of around EUR 800 million in the period January-July only because of a government Eurobond issue in February. Apart from this, net financial inflows remained marginal. Net FDIs have been on a small scale and portfolio and other investments were mostly negative since April, as capital continued to trickle out of the country. The central bank foreign exchange reserves remained broadly unchanged at a comfortable EUR 10.7 billion in August, covering more than seven months' worth of imports.

Monetary developments

Since November last year, monthly inflation rates have come down, averaging 0.2 % in the period until August. An uptick in monthly inflation to 0.4% in August, despite a good agricultural season which pushed food prices down, was mainly due to administered price (electricity, tobacco, medicines) adjustments. Overall, weak demand and base effects continued to exert a disinflationary pressure and the headline inflation decelerated to 7.3% (year-on-year) in August.

Despite falling annual inflation, the central bank has kept its key interest rate unchanged at 11%. The monetary policy stance tightened in view of perceived risks stemming from the international environment, increased investors' risk-aversion and depreciating pressures following the Federal Reserve announcement of a possible tapering of its quantitative easing. After a dip in May-June, the dinar remained broadly stable with limited interventions by the central bank to smoothen excessive daily volatility.

Financial sector

Lending activity accelerated its decline in the summer months. By the end of August, company loans fell by a nominal 6.8%. The steep contraction in lending was more pronounced in its short-term segment, especially after subsidised lending was suspended due to

exhaustion of funds. Households lending stagnated nominally and fell in real terms. Commercial banks opted for relatively low-risk investments, increasing their net foreign assets and net claims on government, while keeping their holdings at the central bank elevated. A weak labour market and falling incomes have undermined the growth of non-monetary sector deposits, which stood at 4.8% (year-on-year) by the end of August. Households foreign currency deposits remained the predominant source of financing with a share of 60% in all non-monetary sector deposits.

The gross non-performing loans ratio remained very high at 19.9 % in June. However, the regulatory capital to risk-weighted assets of the system stood at 20.2 %, well above the required minimum of 12 %, and total provisions covered 120% of the gross non-performing loans.

Fiscal developments

By the end of August, the general government deficit stood at SRD 113.7 billion or about 57% of the revised annual target. The primary balance was less than half of the overall deficit and fell by 37% year-on-year, indicating that rising interest payments have eaten up most of the space created by fiscal consolidation efforts.

Revenues continued to disappoint and increased by only 5.9% (year-on-year) in the period January-August. Income and customs tax revenues turned out even below their nominal levels in the corresponding period of the previous year. Despite uneven monthly execution, revenue from VAT and excises grew by around 10%, while social contribution revenues received a boost from the increased employees' social security contribution rate, adopted in July, and accelerated their monthly growth to 16.6% in August.

August also saw a significant monthly increase in spending (18% year-on-year), bringing the accumulated expenditure growth since the beginning of the year to 4%. In January-August, current non-interest expenditure rose by 4.8%, while spending on interests increased by 50.9%. Although in the summer months, capital spending accelerated, it was still 30% below its level in the corresponding period last year.

By the end of August, government debt increased to EUR 19.1 billion or 60.9% of the estimated GDP.

TABLE

European Commission, ECFIN-D-1



SERBIA

		2008	2009	2010	2011	2012	ECFIN Forecast		Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
							2013	2014						
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann.%ch	1.3	-12.4	3.1	2.0	-3.4	:	:	5.4	3.0	:	12.5	5.7	:
Gross domestic product ^{1.3}	Ann.%ch	3.8	-3.5	1.0	1.6	-1.7	1.7	1.9	2.7	0.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	6.8	-2.7	-1.0	-1.2	-2.0	-1.7	0.9	-1.8	-1.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	8.5	-22.1	-5.5	8.4	-3.4	2.3	7.3	-2.9	-18.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	4.9	-18.8	0.1	27.6	-2.2	:	:	-21.1	-47.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	3.4	-11.4	-0.7	-14.6	-3.9	:	:	-11.4	-5.2	:	-4.0	-4.6	:
2 Labour market														
Unemployment ^{2.1}	%	13.6	16.1	19.2	23.0	23.9	24.0	23.2	24.1	:	:	:	:	:
Employment ^{2.2}	Ann.%ch	-0.1	-6.1	-3.6	-3.1	-1.1	0.1	1.1	-0.7	-0.5	:	-0.8	:	:
Wages ^{2.3}	Ann.%ch	4.5	1.0	7.4	11.1	9.2	:	:	6.1	5.8	:	6.4	5.6	:
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	16.2	-19.4	23.8	14.0	4.5	:	:	21.9	18.7	:	43.5	:	:
Imports of goods ^{3.2}	Ann.%ch	18.3	-30.3	9.7	13.0	3.7	:	:	0.3	3.6	:	8.0	:	:
Trade balance* ^{3.3}	% of GDP	-26.2	-17.7	-17.1	-16.9	-18.3	-14.8	-14.9	-16.6	-15.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	31.0	29.2	36.1	36.4	39.8	:	:	40.4	41.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	57.5	46.8	53.1	52.8	57.4	:	:	56.5	55.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-18.8	-7.2	-7.6	-9.2	-10.6	-8.0	-8.2	-8.5	-6.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.7	4.7	3.1	5.9	0.8	:	:	2.5	2.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	8 161.8	10 601.9	10 001.6	12 058.2	10 914.7	:	:	11 844.4	10 672.8	:	10 719.8	10 689.2	:
Int. reserves / months Imp ^{3.9}	Ratio	6.5	11.5	9.8	10.5	9.2	:	:	9.9	8.9	:	8.9	:	:
4 Monetary developments														
CPI ^{4.1}	Ann.%ch	8.6	6.6	10.3	7.0	12.2	8.4	5.7	11.2	9.8	:	8.6	7.3	:
Producer prices ^{4.2}	Ann.%ch	12.4	5.6	11.8	14.5	5.6	:	:	6.5	4.8	:	3.5	2.8	:
Food prices ^{4.3}	Ann.%ch	13.8	0.8	10.7	6.4	15.4	:	:	14.8	12.6	:	9.2	5.2	:
M3 ^{4.4}	Ann.%ch	9.8	21.5	12.9	10.3	9.4	:	:	8.2	4.5	:	3.4	5.3	:
Exchange rate RSD/EUR ^{4.5}	Value	81.94	94.08	103.48	102.01	113.52	:	:	111.31	112.31	114.12	113.75	114.30	114.30
Nominal eff. exchange rate ^{4.6}	Index	96.9	89.6	79.3	81.8	74.1	:	:	75.1	73.9	:	73.8	74.0	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	%p.a.	5.20	13.40	10.85	12.56	12.50	:	:	9.99	:	:	9.39	:	:
Bond yield (12 months) ^{5.2}	%p.a.	:	11.86	10.60	12.90	13.04	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	2 604	1 197	1 283	1 270	932	:	:	1 051	1 032	997	971	990	1 030
Credit growth ^{5.4}	Ann.%ch	48.5	21.4	32.3	5.5	12.9	:	:	-1.8	-2.9	:	-7.0	-6.8	:
Deposit growth ^{5.5}	Ann.%ch	8.8	23.6	14.4	9.2	10.4	:	:	9.3	4.4	:	3.5	4.8	:
Non-performing loans ^{5.6}	%total	11.3	15.7	16.9	19.0	18.6	:	:	19.9	19.9	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance* ^{6.1}	% of GDP	-2.6	-4.5	-4.7	-4.9	-6.4	-4.5	-4.1	-5.4	-5.1	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	29.2	34.7	44.5	48.2	59.3	62.1	65.5	63.9	60.7	:	:	:	:

f: ECFIN forecast Spring 2013

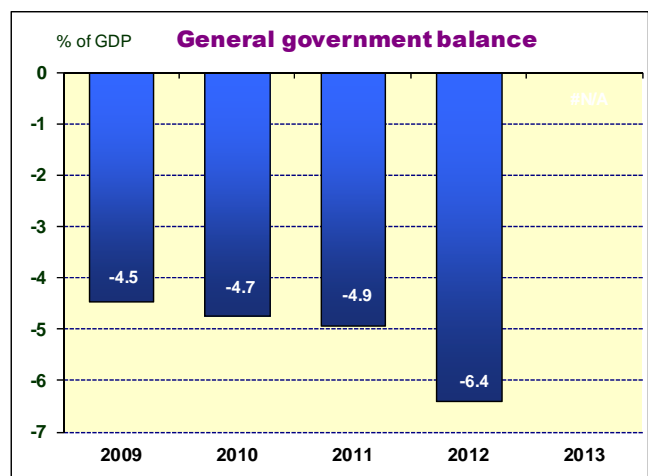
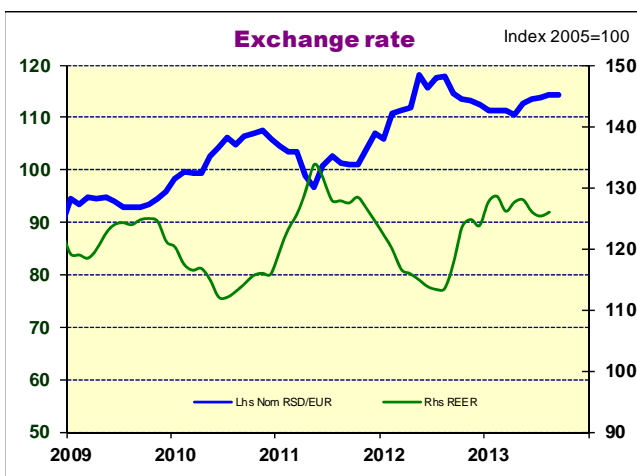
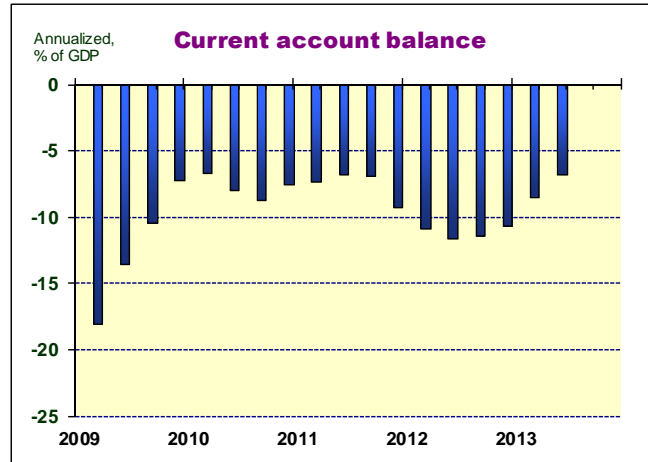
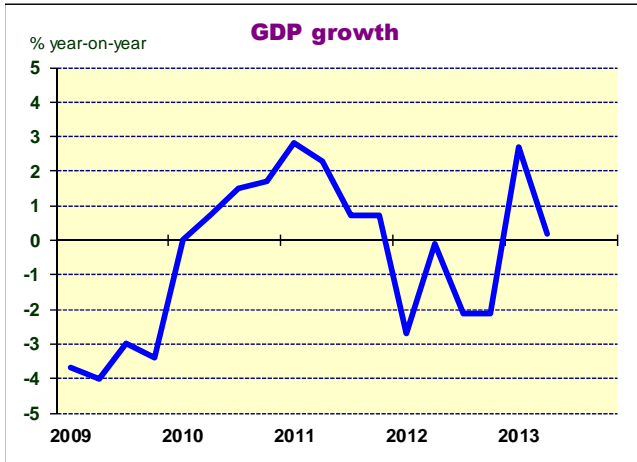
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

Turkey's financial markets and the lira continued to be under downward pressure for most of the third quarter. Growing expectations that US monetary policy might become less accommodative reduced the relative attractiveness of high-yielding emerging market assets in general. In the case of Turkish assets, the risk assessments of international investors are likely to have deteriorated as a result of the social unrest which had started in May/June and continued sporadically throughout the third quarter. In August, the escalation of the civil war in neighbouring Syria added to the sell-off of Turkish assets, reflecting – inter alia - Turkey's dependence on energy imports from the Middle East.

The central government's fiscal performance has improved in the first eight months of 2013 with an overall budget balance close to zero.

Real Sector

Real GDP accelerated to a year-on-year growth rate of 4.4% in the second quarter following a 2.9% gain in the first quarter. Supported by rising employment and accelerating bank lending, private consumption was the strongest growth driver. It increased by 5.3% year-on-year and contributed 3.4 percentage points to GDP growth. The second most important contribution to GDP growth (2.3 percentage points) came from inventories which increased sharply following two consecutive quarters of destocking. Like in the first quarter, public spending was also a significant source of GDP growth. Public investment, in particular, continued to surge (36.7% year-on-year) which added 1.4 percentage points to GDP growth. Government consumption was 7.4% higher, contributing 0.8 percentage points to growth. Negative contributions to GDP growth came from private investments and net exports. Private investments declined 2.0% year-on-year which lowered GDP growth by 0.5 percentage points. A bigger drag was exerted by net exports (-3.0 percentage points) as exports of goods and

services increased by a modest 1.2% while imports surged by 11.7% year-on-year. As in the preceding quarter, much of the deterioration of net exports was due to a reversal of gold trade from net outflows to net inflows.

The available data for the third quarter suggest, on balance, a deceleration of domestic demand. In July, the seasonal and calendar adjusted industrial production index increased by 0.9% month-on-month. On a year-on-year basis, the calendar adjusted index was 4.6% higher (5.8% unadjusted). The capacity utilisation rate in the manufacturing industry remained unchanged between June and September. On a year-on-year basis it was 1.4 percentage points higher in September. The business confidence index for the industrial sector fell for three consecutive months before edging higher in September. The manufacturing PMI has been hovering around an index value of 50 in the summer months, which is the dividing line between expansion and contraction. Consumer confidence was relatively stable in the first eight months of the year before dropping by 5.1 index points in September to an eleven-month low of 72.1. In July and August, the average level of nominal goods imports was 7.7% lower than in the second quarter (in seasonally and calendar adjusted terms).

Turkey's export performance seems to have improved in the summer months following quasi-stagnation in the second quarter. In July and August, the average level of nominal goods exports was 1.5% higher than in the second quarter (in seasonally and calendar adjusted terms). On a year-on-year basis, exports are still down significantly. The share of exports going to the EU has increased from 33.7% in August 2012 to 41.4% in August 2013.

Labour market

Employment continued to expand at a robust rate in the second quarter and was 2.9% higher year-on-year in June according to the household labour force survey. Due to an even stronger rise in the labour force (3.7%), the unemployment rate increased from 8.0% in June 2012 to 8.8%

in June 2013 (national definition). More than half of the rise in the labour force can be attributed to a 1.1 percentage point year-on-year increase of the participation rate to 51.9% in June 2013. The hourly labour cost index increased by 13.1% year-on-year in the second quarter, only slightly less than in the preceding quarter.

External sector

The current account deficit widened significantly in the first seven months of 2013. Goods exports were only 2.7% higher year-on-year in this period whereas goods imports rose by 7.6%. In July, the 12-month cumulative current account deficit amounted to USD 55.8 billion which corresponds to 6.8% of GDP at the average exchange rate in the period compared to 6.0% last December. It has to be recalled that Turkey's external trade performance has been distorted by strong fluctuations in exports and imports of non-monetary gold in recent years. Net exports of gold in 2012, corresponding to 0.7% of GDP, have been succeeded by large net imports in the current year.

The bulk of the current account deficit continued to be financed by inflows of portfolio investments (although these turned into outflows in June and July). Net inflows of foreign direct investments covered 12.2% of the deficit in the first seven months of 2013. The central bank's foreign exchange reserves fell from €4 billion at the end of June to €1 billion at the end of August (14.4% of GDP). Gross external debt has surged from 42.5% of GDP at the end of 2012 to 47.8% at the end of the second quarter, mainly due to the lira's depreciation in May and June.

Monetary developments

After rising from 6.1% in April to 8.9% in July, headline inflation has receded to 7.9% in September. Higher food prices was a major factor behind the rise in spring and early summer while pass-through from lira depreciation started to contribute in July. More recently, a renewed softening of food prices, together with base effects, has lowered headline inflation. In July, the central bank raised its forecast for year-end inflation from 5.3% to 6.2% referring to the developments in the exchange rate and oil prices.

The Turkish lira depreciated by 8.4% against the euro over the third quarter which came on top of a 7.9% depreciation in the second quarter. In

real effective terms, the lira depreciated by 8.2% between April and August. In July and August, the central bank countered the lira's depreciation by selling foreign exchange equal to €5.4 billion directly in the currency markets.

In addition to direct foreign exchange interventions, the central bank switched to a less accommodative monetary policy stance in the third quarter to counter the lira's depreciation and capital outflows. The upper band of the interest rate corridor (the overnight lending rate) was raised in two steps from 6.5% to 7.75%. This rate has now become the effective policy rate since the one-week repo auctions based on the official policy rate of 4.5% have been suspended until further notice. The central bank stated in September that *"the cautious monetary policy stance will be maintained and additional monetary tightening will be implemented at the appropriate frequency.."*

Financial sector

Credit growth increased from 22.7% year-on-year in the second quarter to 25% in August. Bank deposits were 19.7% higher year-on-year in the same month. The share of non-performing loans in total loans remained broadly stable in the current year and registered 3.2% in August. The capital adequacy ratio of banks has decreased slightly in the first seven months of 2013 and stood at 15.9% in July.

Compared to the sharp fall in May/June, the stock market was relatively stable from the beginning of July to mid-August. The Syrian crisis led to a temporary sell-off in the second half of August with the main index falling by about 12% in less than two weeks. Stock prices recovered in September and the index only retreated by 2.9% over the quarter.

Fiscal developments

Total revenues of central government increased by 17.9% year-on-year in the first eight months of 2013 due to strong growth in tax revenues and privatisation receipts. In the same period, total expenditures rose by 13.4%. The central government's budget was close to balance in the January-August period compared to a deficit equal to 0.6% of annual GDP in the same period in 2012. The twelve-month rolling budget deficit of central government amounted to 1.3% of GDP at the end of August which compares favourably with the rather unambitious budgetary target of 2.2% of GDP for 2013.

TABLE



European Commission, ECFIN-D-1

TURKEY

		2008	2009	2010	2011	2012	ECFIN Forecast		Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
							2013	2014						
1 Real sector														
Industrial confidence ^{1.1}	Balance	90.1	87.3	110.3	110.5	106.3	:	:	107.2	112.1	108.2	108.7	107.5	108.5
Industrial production ^{1.2}	Ann. %ch	-0.6	-9.9	12.8	10.1	2.5	:	:	1.3	3.2	:	5.8	:	:
Gross domestic product ^{1.3}	Ann. %ch	0.7	-4.8	9.2	8.8	2.2	3.2	4.0	2.9	4.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	-0.3	-2.3	6.7	7.7	-0.6	2.2	3.0	3.1	5.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-6.2	-19.0	30.5	18.0	-2.7	7.1	8.6	2.3	3.7	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	-4.4	-7.9	77.4	-16.2	29.0	:	:	5.9	10.3	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	11.0	14.1	12.0	9.8	9.2	8.6	8.8	10.5	8.8	:	:	:	:
Employment ^{2.2}	Ann. %ch	1.3	0.4	6.2	6.7	3.0	1.4	2.0	5.2	3.4	:	:	:	:
Wages ^{2.3}	Ann. %ch	11.5	9.9	11.8	9.7	11.5	6.6	7.1	10.6	11.7	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	23.1	-22.6	11.5	18.5	13.0	:	:	4.8	-2.1	:	2.0	-12.9	:
Imports of goods ^{3.2}	Ann. %ch	18.8	-30.2	31.7	29.8	-1.8	:	:	5.0	9.1	:	10.2	-3.4	:
Trade balance* ^{3.3}	% of GDP	-7.1	-4.0	-7.7	-11.5	-8.3	-8.7	-8.7	-8.2	-8.7	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.9	23.3	21.2	24.0	26.4	:	:	26.3	26.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	28.3	24.4	26.8	32.6	31.5	:	:	31.2	31.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-5.4	-2.0	-6.2	-9.7	-6.0	-6.8	-7.2	-5.9	-6.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.3	1.2	1.0	1.8	1.1	:	:	1.0	0.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bio EUR	86.5	77.1	83.2	84.1	104.8	:	:	109.5	104.1	:	107.2	:	:
Int. reserves / months Imp ^{3.9}	Ratio	7.6	9.2	7.1	5.8	6.8	:	:	7.1	6.6	:	6.8	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	10.4	6.3	8.6	6.5	8.9	6.6	5.6	7.2	7.0	8.3	8.9	8.2	7.9
Producer prices ^{4.2}	Ann. %ch	12.7	1.2	8.5	11.1	6.1	:	:	2.0	3.0	6.4	6.6	6.4	6.2
Food prices ^{4.3}	Ann. %ch	12.8	8.0	10.6	6.2	8.4	:	:	6.8	8.9	10.5	12.7	10.2	8.7
M3 ^{4.4}	Ann. %ch	18.9	17.6	15.0	19.9	8.8	:	:	12.2	14.0	:	15.7	17.5	:
Exchange rate TRY/EUR ^{4.5}	Value	1.91	2.16	2.00	2.33	2.31	:	:	2.35	2.40	2.61	2.53	2.61	2.69
Nominal eff. exchange rate ^{4.6}	Index	91.73	82.77	86.24	74.13	72.43	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	18.04	10.68	7.95	9.09	10.31	:	:	5.30	6.17	7.66	7.36	7.89	7.73
Bond yield ^{5.2}	% p.a.	19.30	11.66	8.47	8.83	8.31	:	:	5.83	5.94	8.82	8.64	9.15	8.67
Stock markets ^{5.3}	Index	37 582	37 510	59 484	60 751	63 731	:	:	81 137	83 565	72 934	74 351	71 616	72 834
Credit growth ^{5.4}	Ann. %ch	22.4	4.4	33.5	23.8	17.4	:	:	18.0	22.7	:	24.5	25.0	:
Deposit growth ^{5.5}	Ann. %ch	21.8	18.0	18.0	19.2	11.3	:	:	13.7	14.8	:	17.3	19.7	:
Non-performing loans ^{5.6}	% total	4.2	6.5	5.8	3.6	3.2	:	:	3.4	3.3	:	3.1	3.2	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-2.2	-7.0	-2.6	-2.2	-2.3	-2.1	-2.4	0.9	0.6	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	39.5	45.5	42.4	39.8	37.9	36.7	36.0	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2013

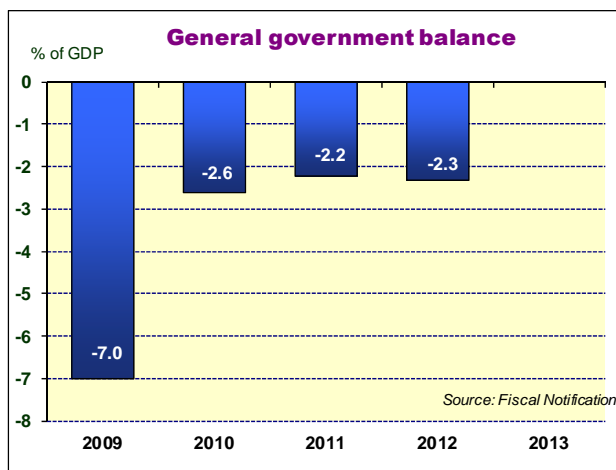
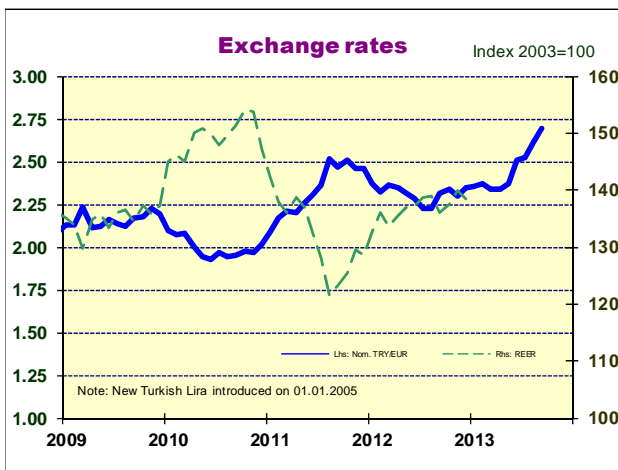
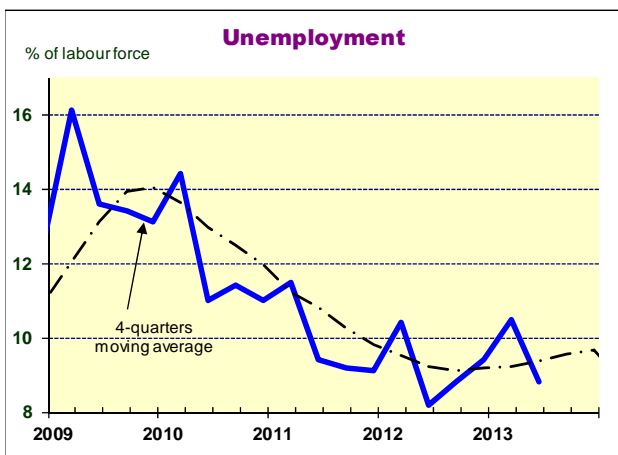
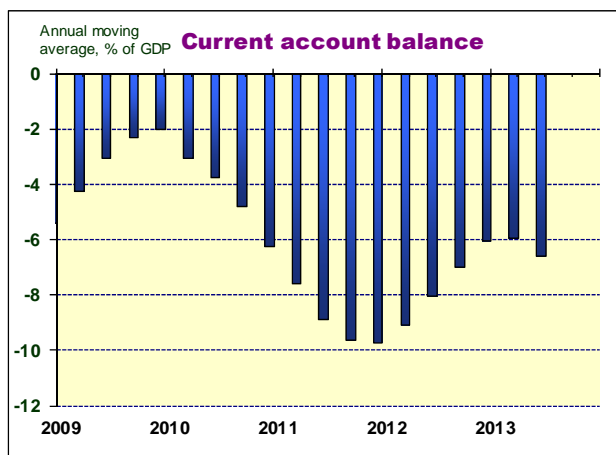
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

TURKEY



ALBANIA



Key developments

The new Albanian government led by Prime Minister Edi Rama won the approval of parliament on 14 September, following the victory in the June election of the coalition formed by the Socialist Party and the Socialist Movement for Integration. The cabinet consists of 20 members, among them Shkëlqim Cani, the new minister of finance and a former central bank governor.

The government programme for 2013-2017 recognises the limitations of the development model based on a remittances-fuelled construction boom and raw material exports, and aims to shift the focus to new sources of growth by identifying manufacturing, energy, tourism and agribusiness as priority areas. The programme also pledges fiscal discipline and the payment of accumulated public arrears. It also envisages a progressive personal income tax and the establishment of an agricultural development bank.

In September, an IMF staff visit to Albania concluded that a gradual but sustained fiscal consolidation, starting with the 2014 budget, was necessary to address growing vulnerabilities linked with high public debt. The clearance of unpaid bills, whose amount was estimated at 4% of GDP, would facilitate the resumption of credit growth by helping lower nonperforming loans (NPLs) and support domestic demand.

Real sector

Contrary to some expectations, annual real GDP growth decelerated in the second quarter to 1.1% from 1.7% in the previous three months. The long-ailing construction sector, boosted by public investment spending, staged an impressive turnaround and expanded by 16% year-on-year, after contracting in the preceding five quarters. The annual growth of industrial output decelerated from 14.8% in the first quarter to 1.3% in the second, partly as a result of receding base effects. Agriculture maintained a positive growth of 3%, higher than the 2.1% achieved in the previous quarter but well below the growth rates of 6-9.5% recorded in all four quarters of 2012. On the other hand, all services branches experienced a fall in output led by

transport (-5.3%), post and communication (-4.6%) and trade, hotels and restaurants (-2.8%).

Unlike in previous quarters, the public sector was the main driver of aggregate demand growth in April to June. Private domestic demand remained sluggish on the whole. Business confidence deteriorated in the second quarter across all sectors and private investment spending remained weak, as reflected in decreasing imports of machinery and equipment. On the other hand, consumer confidence improved for the second quarter in a row and the retail trade index was trending up. The contribution of external demand fell compared with the previous quarter.

Labour market

Labour market conditions continued to show signs of improvement in the second quarter, according to administrative data. Total employment increased by 1.5 % year-on-year, driven exclusively by more non-agricultural private sector jobs (+7.6%). The registered unemployment rate remained flat at 12.8%. However, the quarterly labour force survey paints a different picture, with unemployment at 14.5% in the first quarter of 2013, up 1.1 pp year-on-year.

External sector

The five-quarter long trend toward a narrowing current account deficit was broken in the April to June period, when the deficit increased by 17% year-on-year to EUR 295 million. Still, in the four quarters to June, the current account deficit fell to 10.4% of GDP from 12.6% in the corresponding period a year earlier. The second quarter outcome is the result of a still shrinking merchandise trade deficit (down 16.4% year-on-year on the back of a 16.5% surge in exports and a 1.6% fall in imports), which was offset by a worsening services account (mainly due to the tourism balance that turned negative) as well as a 28% annual decrease in net current transfers. This latter was caused by a steep 39% fall in remittances from migrant workers.

On a positive note, net FDI inflows recorded a 23% year-on-year increase in the second quarter (9.1% in January to June) and financed some 80% of the current account deficit in the same

period. Official reserves increased slightly and covered in June 4.7 months of imports.

By end-June, gross external debt stood at EUR 5.4 billion or some 54% of projected GDP. It grew 6.8% in annual terms, driven by increases in liabilities of banks and the government sector. Around 43% of the gross external debt stock is composed of government long-term borrowing.

Monetary developments

The monetary aggregate M2 grew by 5.4% in the second quarter after a 3.3% increase recorded in each of the previous two quarters.

The rate of annual consumer price inflation decelerated to 2.2 % in the second quarter from 2.5% in the first three months, inching closer to the lower limit of the central bank target range. Higher prices for unprocessed food accounted for the bulk of inflation, whereas processed food and non-food items made a low contribution to the headline rate. Housing's contribution continued to be negative. Due to the moderate rise in seasonal food prices, annual inflation decelerated further to 1.6% in July and 1.2% in August.

In the context of weak demand-side pressures, the absence of supply-side shocks and subdued inflation expectations, monetary policy continued to be accommodative with the Bank of Albania (BoA) lowering the base interest rate by 25 bps to a new historic low of 3.5% at the end of July.

The foreign exchange market did not exert pressure on the domestic currency. In the second quarter the Albanian lek (ALL) depreciated slightly by 0.7% against the euro in quarterly terms.

Financial sector

The transmission of the monetary policy stance to deposit rates and government security yields continued, but lending rates moved more slowly, partly as a result of high risk premia. The average rate on 12-month ALL deposits decreased to 3.83% in August from by 5.11% in May, while the downtrend in government yields intensified. The average interest rate on new ALL loans fluctuated without a clear direction until July, but the pronounced fall in August (to 9.44% from 10.93% the month before) might signal that a more tangible pass-through of monetary policy decisions to lending rates is within reach.

According to BoA's bank lending survey results, credit standards applied to businesses continued to tighten during the second quarter. However, lending standards for household loans eased further, and demand for both consumption and mortgage loans increased for the first time in two years.

Dragged down by weak lending to businesses, bank lending continued to slow down, registering an annual growth of only 0.7% in the second quarter (against 9.2% in the same period last year) and even turning negative in July (-0.9%) and August (-1.3%). Due to a larger fall in foreign currency lending, loans denominated in ALL made up 39% of the total loan stock in August, up from 36% a year earlier.

NPLs remained very high but their rate of increase eased: their share climbed to 24.4% in April to June from 24.0% in the previous quarter. The capital adequacy ratio rose to 17.0% in the second quarter from 16.8% in the previous three months, staying comfortably above the BoA's minimum requirement of 12%.

Fiscal developments

Continuing weaknesses on the revenue side and pre-election spending increases left their mark on the budget. In the period January to August, total revenues were 7.2% below the initial plan and were even 3.8% lower than in the same period last year, on account of significantly underperforming revenues from direct taxes. Receipts from VAT, the single largest item on the revenue side, fell short of budget estimates by 12.3% (-8.2% compared with the same period last year), while excise tax revenues underperformed by 16.7% (-4.6% compared with last year), which points to still fragile domestic demand as well as inefficient tax collection.

By freezing public procurements and investments, the outgoing government took steps in July and August to rein in expenditure overruns following the pre-election spending spree that still weighs on cumulative figures. Total expenditure in January-August increased by 9.2% on the year, but was 3.3% lower than budgeted. Overall, the budget deficit in the first eight months surpassed last year's comparable figure by 129% and was 16% higher than planned. It already exceeded the full year target laid down in the initial budget by some 11%. Public debt climbed further and in the second quarter reached 64% of the projected full-year GDP.

TABLE

European Commission, ECFIN-D-1



ALBANIA

		2008	2009	2010	2011	2012	Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
1 Real sector												
Industrial confidence ^{1.1}	Percent	0.4	-13.4	-5.8	-3.8	-10.2	-6.3	-11.7	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann.%ch	8.7	10.6	18.6	-3.0	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann.%ch	7.5	3.3	3.8	3.1	1.6e	1.7	1.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	9.8	6.2	5.7	7.2	8.0	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	12.9	-2.3	-1.3	4.2	-4.7	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	1.2	0.0	0.3	0.5	0.6	1.2	1.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	23.7	-1.7	5.4	-3.7	-0.7	13.7	11.3	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	12.8	13.6	13.7	13.4	12.9	12.8	12.8	:	:	:	:
Employment ^{2.2}	Ann.%ch	2.9	-5.9	-0.1	2.3	3.6	1.3	1.5	:	:	:	:
Wages ^{2.3}	Ann.%ch	8.3	11.9	6.7	7.0	7.3	5.9	5.9	:	:	:	:
3 External sector												
Exports of goods ^{3.1}	Ann.%ch	15.7	-11.8	62.5	22.2	7.6	17.4	:	:	:	:	:
Imports of goods ^{3.2}	Ann.%ch	16.4	-1.9	11.3	14.6	-4.0	-10.8	:	:	:	:	:
Trade balance* ^{3.3}	%of GDP	-27.3	-26.4	-23.4	-24.4	-21.1	-19.5	-18.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	29.2	28.9	32.8	34.4	33.5	33.7	33.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	55.7	53.4	53.6	57.4	52.5	51.7	51.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-15.5	-15.3	-11.5	-13.0	-10.8	-10.0	-10.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	7.5	8.2	8.9	8.1	7.9	7.7	8.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1638.9	1567.4	1825.3	1852.4	1910.7	1900.3	1946.7	:	1943.3	1980.8	:
Int. reserves / months Imp ^{3.9}	Ratio	5.5	5.8	6.3	5.7	6.1	6.3	:	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann.%ch	3.4	2.3	3.6	3.5	2.0	2.5	2.2	:	1.6	1.2	:
Producer prices ^{4.2}	Ann.%ch	6.5	-1.7	0.3	2.6	1.1	-1.2	-0.5	:	:	:	:
Food prices ^{4.3}	Ann.%ch	5.2	4.9	4.8	4.8	2.4	5.0	5.3	:	4.0	2.8	:
M2 ^{4.4}	Ann.%ch	7.4	8.7	4.5	6.6	4.9	3.3	5.4	:	6.3	6.6	:
Exchange rate LEK/EUR ^{4.5}	Value	122.39	131.82	137.48	140.07	138.83	139.50	140.53	140.11	140.11	139.84	140.39
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	%p.a.	6.24	:	:	:	5.16	5.06	4.75	:	4.00	3.69	:
Bond yield ^{5.2}	%p.a.	8.43	9.24	8.55	8.04	8.23	7.43	6.87	5.77	6.50	5.90	4.90
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann.%ch	43.8	20.5	8.6	11.7	7.4	1.6	0.7	:	-0.9	-1.3	:
Deposit growth ^{5.5}	Ann.%ch	14.8	-0.1	15.5	14.5	9.4	6.0	4.8	:	2.4	1.9	:
Non performing loans ^{5.6}	%total	4.7	9.1	12.6	17.0	21.7	24.0	24.4	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance* ^{6.1}	%of GDP	-5.5	-7.0	-3.1	-3.6	-3.5	-1.1	-2.8	:	:	:	:
General government debt* ^{6.2}	%of GDP	54.8	59.5	58.5	60.3	62.9	63.2	64.1	:	N.A.	N.A.	N.A.

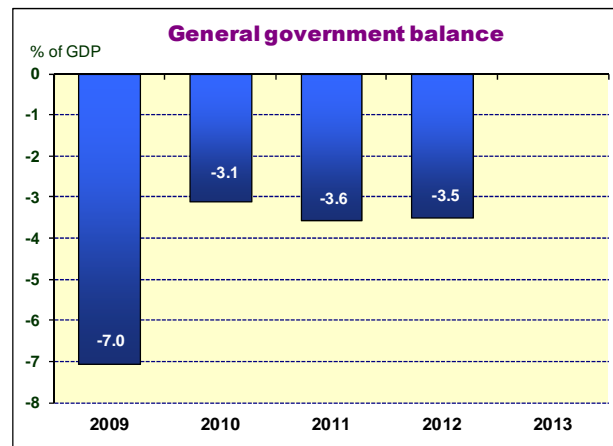
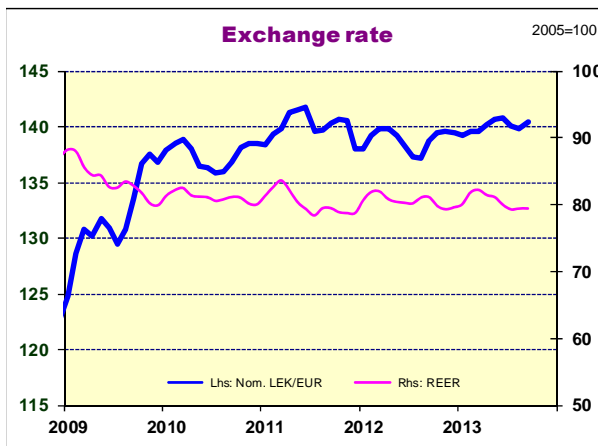
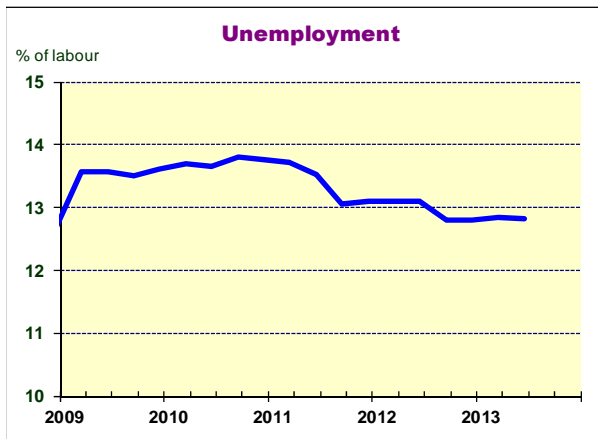
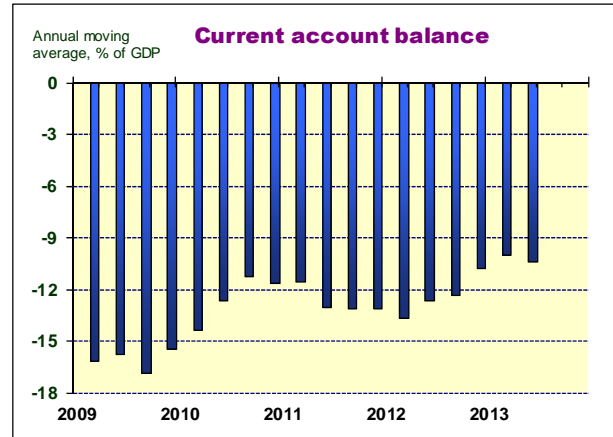
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

ALBANIA





Key developments

On 17 September, the Fiscal Council of Bosnia and Herzegovina adopted the Global Fiscal Framework 2014-2016, which foresees that tax revenues in 2014 remain unchanged at 750 million KM, as approved in the 2013 government budget.

The second and last tranche (€50 million) of a loan totalling €100 million under the EU macro-financial assistance instrument was disbursed as of end-September, following a satisfactory compliance with the attached economic policy conditions.

On 10 September, two projects in the agricultural sector under the Instrument for Pre-accession Assistance (IPA) had to be cancelled due to the failure of the authorities to agree on the structures through which to channel EU agricultural and rural development assistance funds.

Real sector

According to preliminary data published by the state statistical office at the beginning of October, growth of real GDP slipped into negative territory and declined by 0.9% in 2012. Private consumption declined by 0.8%, mirroring the deteriorating labour market conditions and falling real wages. In contrast, both government consumption and gross fixed capital formation increased slightly by 0.8% and 1.5% year-on-year, respectively.

The rebound of economic activity started in the first quarter and continued in the following months. Accordingly, the country-wide industrial production accelerated its pace of increase from 6.6% in the first quarter to 7.1% in the second quarter and 6.8% in July. However, the accelerated rebound seems to have waned in August with its pace almost halved to 3.8% year-on-year. Since the start of the year, industrial production fell by 6%, as compared to a 7.6% decline a year ago. In particular, the utility sector registered the largest output increase (9.6% year-on-year), while the mining and quarrying sector posted the largest output contraction (-8.8%).

Labour market

The overall situation on the labour market deteriorated further in the second quarter. The already high level of registered unemployed stood at 44.4%, showing thus an increase by 0.6 percentage points year on year. According to preliminary results of the annual Labour Force Survey conducted in April, unemployment edged down to 27.6% in 2013 from 28% in the same period in 2012. Unemployment among young population, aged between 15 and 24, remains the highest, however, coming to 59.1% down from 63.1% a year earlier. The level of employment in the formal sector declined by 0.6% year on year and fell by further 0.5% in July due to significant decrease in construction as well as a further drop in agriculture and water supply. On the other hand, the employment in administrative and support services and the real estate activities posted the largest increase on year-on-year basis.

Wage growth remained in slightly negative territory in the second quarter of 2013. Average nominal gross wage decreased by the same magnitude as in the first quarter (-0.2% year-on-year), before they recorded a slightly positive growth rate of 0.2% in July. In real terms, the gross wage in the first seven months of 2013 fell by 0.5% compared to a rise of 0.7% in the same period of 2012.

External sector

According to revised data released by the central bank (CBBH), the current account deficit narrowed further significantly by 41.9% year-on-year in the second quarter of 2013 as compared to a reduction by 25% in January-March. As a percentage of GDP, current account deficit over the four quarters to June came down to 7.9% from 10.5% a year earlier. The improvement in the second quarter was mainly a result of the 12.5% annual contraction of the trade deficit (compared to a 7.3% contraction in the first quarter) but also due to favourable developments in the services balance (up by 1.2%).

As of the financing side, net FDI inflows more than doubled year-on-year in the first half of

2013 however from a low base. Over the four quarters up to June 2013, net FDI came down to 2.5% of GDP and could cover only 38.6% of the current account deficit. On a positive note, foreign exchange reserves increased by 10% year on year in the second quarter and by some 11% in July-August, thus covering nearly 6 months of imports.

Monetary developments

The annual growth of the monetary aggregate M2 surged from 4.2% in the first quarter to 5.1% in the second quarter, while accelerating further in August to 6.2% year-on-year.

Inflation continued its downward trend edging to deflation for the first time since November 2009. Thus, annual CPI in August came down to 0% bringing the 12-month moving average inflation rate to 1.1%. In detail, the falling prices in the food and clothing industries could not be balanced off by the increase in prices of electricity and transport.

Financial sector

Declining annual loan growth characterised the first eight months of 2013 coming down to 1.8% year-on-year in August (from 3.2% in the second quarter) mainly due to moderating growth in the corporate sector which accounts for roughly 46% of the total outstanding loan portfolio of the banking sector. In contrast, loans to the household sector showed some feeble signs of recovery in August increasing in nominal terms to 2.1% year-on-year. Government borrowing increased marginally reaching 5.4% of total loans in August.

The growth of total deposits accelerated from 3.8% in the first quarter to 4.4% and 5.4% year-on-year in the second quarter and in August, respectively, driven by a robust 9-10% year-on-year increase in households' and firms' deposits. The loans-to-deposit ratio decreased slightly reaching some 116%.

While short-term interest rates for loans in the corporate sector stood at 8.1% in the second quarter before moderating to 7.7% in July, the moderation of interest rates in the household sector has already set in in the second quarter coming down to 7.8%. On the deposit side, interest rates in the corporate sector declined from 3.2% in January-April to 2.3% in the second quarter going hand in hand with a

reduction of the interest rates for household sector deposits to 2.1% in July.

The quality of the loan portfolio continued to deteriorate in the second quarter by reaching 14.3% of total loans up by 1.6 percentage points a year earlier. On a positive note, banking profitability indicators improved quarter on quarter with the return on average equity edging up markedly from 2% to 4.2%. In the meantime, liquidity indicators deteriorated slightly with the rate of liquid to total assets increasing to 24.2%. The capital adequacy ratio of the whole banking system stood at a comfortable level of 17.7% in the fourth quarter of 2012, up from 17% in January-March.

In the third quarter of 2013, the downward correction on the Banja Luka Stock Exchange continued although at a slower pace and its main index lost on average 0.5% compared with the previous quarter. Conversely, the main index of the Sarajevo Stock Exchange rose marginally. The combined turnover of the two bourses soared by more than one fourth year-on-year in September, mainly influenced by the placed T-bills issues of the governments of both entities.

Fiscal developments

Despite a widening of fiscal imbalances in the first quarter of 2013, the rebound of economic activity in the first half of 2013 was increasingly felt in public finances. Consolidated revenues grew by 1% year on year in the first half of 2013, while total expenditures declined, thus allowing for an improved fiscal position. Tax revenues increased by 1.1% in the first half of the year against a 0.1% rise in 2012. On the expenditure side, a fiscal consolidation in the second quarter on the back of lower current spending (e.g. on wages) and by delays in the implementation of some public investment projects has been recorded and fiscal expenditures decreased marginally by 0.6% year-on-year. Thus, the general government balance in the first six months of 2013 turned positive and amounted to 0.4% of annual GDP. Capital spending increased in the second quarter by 4.4%, but from a very low basis.

In the second quarter of 2013, the pace of increase of the official foreign debt decelerated somewhat to 4.4% after an increase by 6.7% in January-March. Thus, it has reached some 28% of GDP, compared to 27.1% in 2012.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

		2008	2009	2010	2011	2012	Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	N.A.	N.A.	1.6	5.9	-5.3	6.6	7.1	:	6.8	:	:
Gross domestic product ^{1.3}	Ann. %ch	5.6	-2.8	0.7	1.0	-0.9	:	:	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	5.5	-4.6	0.1	1.6	-0.8	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	5.3	-16.8	-12.2	7.9	1.5	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	11.7	8.8	33.9	-24.4	1.3	77.1	-1.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	N.A.	N.A.	7.8	12.5	1.5	:	:	:	:	:	:
2 Labour market												
Unemployment ^{2.1}	%	40.6	42.7	42.7	43.8	45.9	44.7	44.4	:	44.6	:	:
Employment ^{2.2}	Ann. %ch	2.7	-2.8	1.9	-1.6	0.1	-0.6	-0.6	:	-0.5	:	:
Wages ^{2.3}	Ann. %ch	16.6	8.2	1.1	4.4	1.5	-0.2	-0.2	:	0.2	:	:
3 External sector **												
Exports of goods ^{3.1}	Ann. %ch	21.2	-5.4	33.2	19.9	-1.9	11.4	9.9	:	:	:	:
Imports of goods ^{3.2}	Ann. %ch	19.8	-21.8	8.3	13.2	0.0	-0.5	-3.6	:	:	:	:
Trade balance* ^{3.3}	%of GDP	-42.8	-32.2	-30.8	-32.5	-31.0	-31.0	-29.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	26.3	24.8	29.2	31.3	29.2	30.1	30.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	59.6	49.1	51.3	55.6	52.4	53.1	52.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-14.2	-6.6	-6.2	-9.9	-9.2	-8.7	-7.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	5.3	1.4	2.1	2.6	2.0	2.9	2.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	3 230.1	3 219.7	3 330.5	3 333.3	3 353.2	3 268.0	3 347.5	:	3 406.2	3 531.9	:
Int. reserves / months imp ^{3.9}	Ratio	5.3	6.8	6.5	5.7	5.8	5.6	5.8	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. %ch	7.4	-0.4	2.1	3.7	2.1	1.0	0.5	:	0.5	0.0	:
Producer prices ^{4.2}	Ann. %ch	8.6	-3.2	0.9	3.8	1.5	-0.1	-2.4	:	-2.9	-3.3	:
Food prices ^{4.3}	Ann. %ch	12.1	-0.9	-0.7	6.0	1.8	1.9	1.6	:	1.0	0.3	:
M2 ^{4.4}	Ann. %ch	13.5	-1.6	7.8	5.6	4.6	4.4	5.2	:	4.9	6.2	:
Exchange rate BAMEUR ^{4.5}	Value	1.94	1.94	1.93	1.93	1.93	1.94	1.93	1.93	1.93	1.93	1.93
Nominal eff. exchange rate ^{4.6}	Index	100.0	104.15	103.73	104.60	105.63	106.05	:	:	:	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Bond yield ^{5.2}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Stock markets ^{5.3}	Index	2 251	1 038	954	979	737	784	767	761	755	754	774
Credit growth ^{5.4}	Ann. %ch	28.4	5.4	-0.9	5.6	4.9	3.5	3.2	:	2.5	1.8	:
Deposit growth ^{5.5}	Ann. %ch	15.4	-4.0	4.7	2.6	2.6	3.8	4.4	:	5.0	5.4	:
Non performing loans ^{5.6}	%total	3.0	4.5	9.1	12.0	12.7	13.8	14.3	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	%of GDP	-2.2	-4.4	-2.5	-1.3	-1.9	-0.2	0.7	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	N.A.	N.A.	39.3	40.5	44.0	44.0	:	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

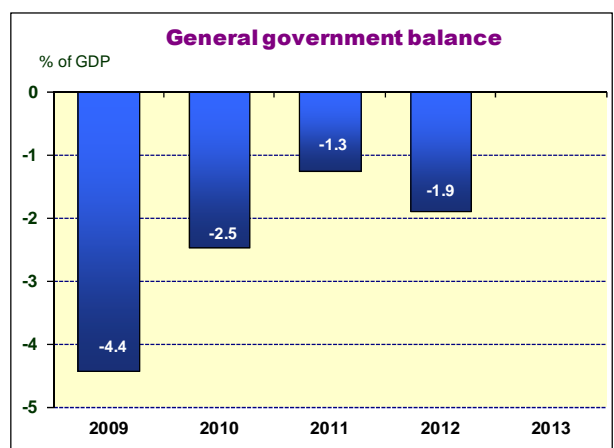
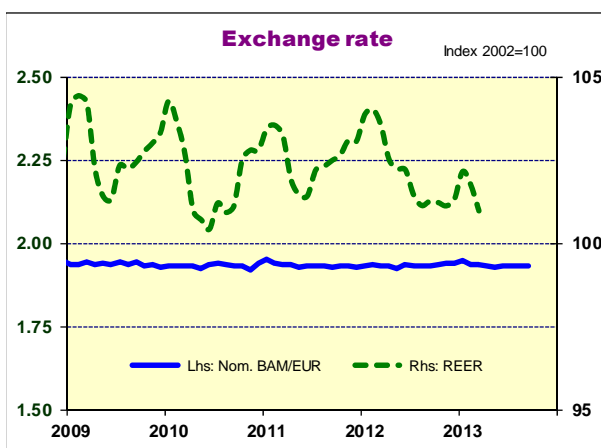
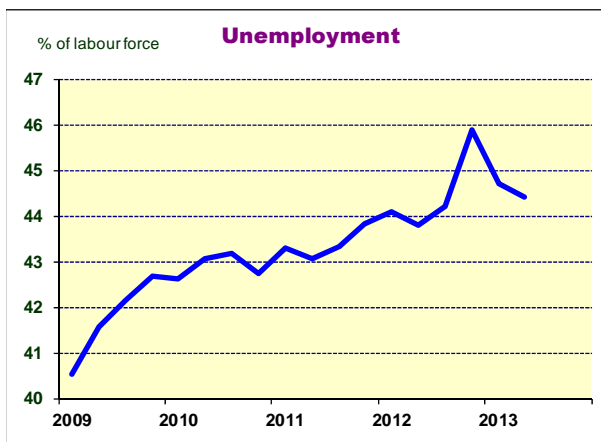
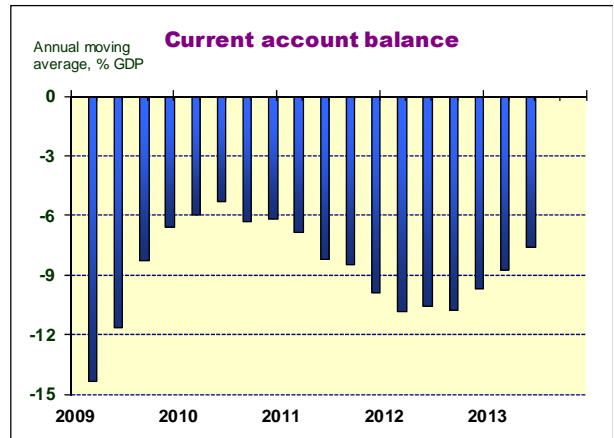
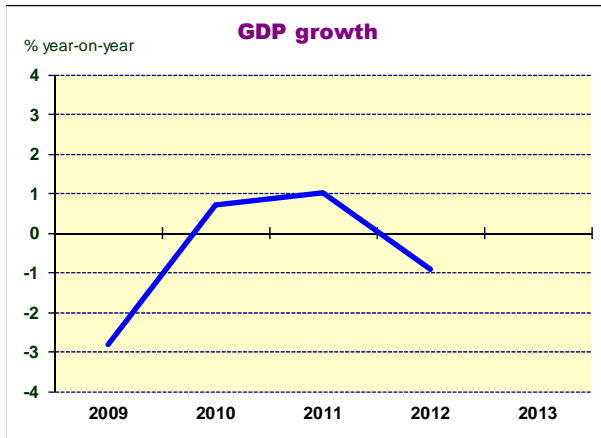
** 2013 Q GDP ratios based on ECFIN estimation of 2013 Y GDP.

CHARTS

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA



KOSOVO*

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

Key developments

Following the agreement reached in April between Pristina and Belgrade, several adjustments have been made in the security, judiciary and municipal structures. Municipal elections, which will also take place in northern Kosovo, are scheduled for November and Kosovo's Central Electoral Commission completed the registration of political entities. The two sides have also reached an agreement in the fields of energy and telecommunications in September.

In July, the IMF Executive Board concluded the fourth review of the Stand-By Arrangement that allows the disbursement of SDR 4.251 million. The authorities have continued treating the arrangement as precautionary.

In September, Kosovo signed a USD 20 million public sector loan agreement with OPEC Fund for International Development to finance the expansion project of Pristina-Mitrovica motorway. Another loan and financing agreement, worth EUR 23.5 million, has been signed with German Development Bank (KfW) to support the transmission network.

Real sector

Latest data published by the statistics office shows that GDP growth has come down from a revised 4.4% in 2011 to 2.5% in 2012. Subdued demand, translated into lower imports of goods and services, helped reduce the trade deficit. Despite the slight contraction in exports, the substantial decline in imports led to a positive contribution of net exports to growth for the first time since 2007 and thus, emerged as the main contributor at 4.0 percentage points. Due to the slump in private investment, gross fixed capital formation fell by a real 11.6% generating a negative 3.4 percentage point contribution to growth. The contribution of total consumption stood at 2.0 percentage points as households' consumption rose by a real 2.8%, and government consumption fell by 0.9%. In 2013, alongside with the slight recovery in Europe, domestic demand is expected to regain momentum due to an increase in remittances and better export performance.

The privatisation process of the state-owned Post and Telecommunications of Kosovo, initially envisaged to be concluded by July, has experienced delays with the ultimate completion remaining uncertain. The deal is expected to bring €277 million to the budget.

Labour market

At the end of September, Kosovo Agency of Statistics published the complete yearly results of the 2012 Labour Force Survey (LFS). Apart from the previous LFS, which provided only basic statistics for the first half of 2012, it was the first comprehensive report since 2009. The September report provided important aspects about the labour market even though it does not allow comparisons with previous years due to methodological changes. Survey results revealed that 63.1% of the working age population were not economically active. The unemployment rate was very high (30.9%) with significant gender and age differences. Although the full report was an important effort, labour market data remained scarce and are published with significant delays. There are no publicly available data on registered unemployment for 2013.

External sector

The current account deficit increased by 11% (year-on-year) in the second quarter of 2013. The deficit increased marginally to 7.7% of GDP in comparison to the end of first quarter (7.6%) on a four quarter rolling basis. The trade deficit (EUR 456 million), even though it contracted by 2.5% due to lower imports of goods and services, remained significant. Current transfers to other sectors increased significantly (14.1%). However, they were offset by the deterioration (almost by one third) in current transfers to central government and income account. Total inflows generated by current transfers and the income account declined by EUR 25 million (0.5% of GDP) year-on-year.

The surplus on the financial account, despite considerable net outflows in portfolio investments (1.7% of GDP), is restored mainly due to a sharp increase in other investments

accompanied by a recovery in foreign direct investment. Reserve assets increased by EUR 14.6 million.

In the first half of 2013, gross external public debt slightly fell by 1.6% to EUR 331.3 million compared to end of 2012.

Monetary developments

The growth in broad money decelerated and stood at 6.1% (year-on-year) in August. Net foreign assets continued to increase reaching its historical high to EUR 1.8 billion. However, the pace of accumulation slowed significantly in the third quarter. Net domestic assets decreased slightly compared to the previous quarter due to falling claims on non-government sector.

Inflation decelerated further and fell to 1.2% (year-on-year) in August mainly due to base effects and the on-going deflationary trend in food and energy prices. Bread, cereals and vegetable prices moderated, while fruit prices remained highly elevated. Core inflation stood 1.3% in August, having decelerated only marginally by 0.1 percentage point over the last three months.

Financial sector

The declining trend in average effective interest rates on commercial bank loans since February has continued in the last three months and effective interest rates were reduced to 12.0% in August. As the average effective interest rates on deposits hovered around 3.6%, the interest rate spread decreased to 8.6%, its lowest level in the last four years.

The growth in bank deposits decelerated to 6.3% in the second quarter, before it slightly picked up to 6.7% (year-on-year) in August. The share of households' deposits in total deposits decreased to 72.7% as a result of the slowdown in their growth rate since May. The share of private non-financial corporations' deposit grew by 1.0 percentage point to 15.1% in the same period.

Credit growth (gross loans and lease financing) continued to decelerate to 3.1% y/y in the second quarter and further to 2.1%, (historical low) in August. As lending activity stalled and the deposit base continued to grow steadily, the banking system remained highly liquid. The share of cash holdings and balances with the central bank in total assets reached its highest level (15.3 %) since 2008. The loans to deposits

ratio came down to 75.5% by the end of August.

In the first eight months of the year, commercial banks have extended EUR 473.8 million in new loans, 3.1% less than the corresponding period in 2012. New investment loans to non-financial corporations fell by 9.5% year-on-year, while non-investment loans decreased by 9.9%. The decline was particularly pronounced in loans with maturity above one year. Consumer and mortgage loans, on the other hand, continued to increase strongly – by 13.9% and 5.6%, respectively.

After suffering negative income growth in the first seven months, the banking sector managed to increase income by 0.6% year-on-year by the end of August, thanks to better performance of non-interest income. Stricter criteria for loans limited the loan provisions and helped reduce non-interest expenditures by 4.5% while the interest expenditure grew by 3.8% mainly due to the expanding deposit base. As a result, accompanied by the fall in total expenditures, positive income growth led to a 27.5% rise in net profits by the end of August compared to the same period last year.

Fiscal developments

The consolidated budget posted a EUR 43.1 million deficit for the period January to August, more than quadrupling compared to the same period a year ago. Budget expenditures stood at EUR 902.1 million in January-August or 5.1% higher than in the corresponding period of last year. Spurred by the hikes in subsidies (23.7%) and wages/salaries (14.9%), current expenditures increased significantly by 13.7% reaching EUR 600.6 million. Spending on subsidies to publicly-owned enterprises has already reached their annual limits on subsidies for railways, heating, energy and import of electricity. In the first eight months, total revenue rose only by 1.3% year-on-year as the revenues from major taxes, especially border VAT and customs duties, decelerated significantly in the May-August period.

Treasury bills' yields continued to decline in the third quarter. The yield on the 182-day bill, after oscillating around 1.5% in July-August, declined to 1.24% in September. In the same period, the yield on the 91-day bills also declined gradually to 0.45% from 0.5% in June. In July-September domestic borrowing stood at EUR 93.5 million in line with the issuance calendar for 2013.

TABLE

European Commission, ECFIN-D-1

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		2008	2009	2010	2011	2012	Q1 13	Q2 13	Q3 13	Jul 13	Aug 13	Sep 13
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. %ch	7.2	3.5	3.2	4.4	2.5	:	:	:	:	:	:
Private consumption ^{1.4}	Ann. %ch	8.6	2.1	3.1	3.0	2.8	:	:	:	:	:	:
Investment ^{1.5}	Ann. %ch	15.3	10.7	12.3	11.3	-10.9	:	:	:	:	:	:
Construction index ^{1.6}	Ann. %ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	47.5	45.4	:	44.8	30.9	:	:	:	:	:	:
Employment ^{2.2}	Ann. %ch	-12.9	8.7	:	:	44.7	:	:	:	:	:	:
Wages ^{2.3}	Ann. %ch	:	:	:	:	:	:	:	:	:	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. %ch	20.2	-16.7	79.0	7.8	-13.5	13.7	6.9	:	5.2	:	:
Imports of goods ^{3.2}	Ann. %ch	22.3	0.4	11.5	15.5	0.6	7.0	-3.7	:	-2.0	:	:
Trade balance** ^{3.3}	%of GDP	-42.3	-41.2	-40.8	-43.1	-42.2	-42.0	-41.0	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	%of GDP	14.0	16.4	19.5	20.1	18.8	18.7	18.4	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	%of GDP	53.5	52.8	56.9	57.3	53.9	53.5	52.4	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	%of GDP	-11.7	-9.3	-12.0	-13.8	-7.7	-7.6	-7.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)** ^{3.7}	%of GDP	8.7	7.0	7.7	7.9	4.3	4.3	5.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 110.7	1 198.5	1 246.9	1 234.6	1 469.1	1 480.5	1 478.4	:	1 498.6	1 548.3	:
Int. reserves / months Imp ^{3.9}	Ratio	6.9	7.4	6.9	5.9	7.0	7.0	7.1	:	7.2	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. %ch	9.4	-2.4	3.5	7.3	2.5	2.9	2.4	:	2.3	1.2	:
Producer prices ^{4.2}	Ann. %ch	N.A.	3.8	4.7	5.7	1.7	8.3	4.9	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. %ch	16.7	-4.4	4.8	12.4	1.0	4.2	3.9	:	3.7	1.8	:
Broad money liabilities ^{4.4}	Ann. %ch	23.6	11.2	12.9	8.8	7.1	9.9	4.5	:	4.7	6.5	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate (3-12 months) ^{5.1}	%p.a.	16.61	14.11	18.24	18.13	16.30	16.06	15.16	:	13.91	14.29	:
Bond yield ^{5.2}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	2.26	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth ^{5.4}	Ann. %ch	38.7	17.4	10.1	15.4	8.9	4.1	3.1	:	2.8	2.1	:
Deposit growth EUR/EUR ^{5.5}	Ann. %ch	25.6	20.3	14.8	12.2	8.0	7.7	6.3	:	4.6	6.7	:
Non-performing loans ^{5.6}	%total	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	%of GDP	-0.1	-0.7	-2.6	-1.7	-2.6	-2.4	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	N.A.	7.7	7.6	6.7	8.3	7.9	8.6	:	N.A.	N.A.	N.A.

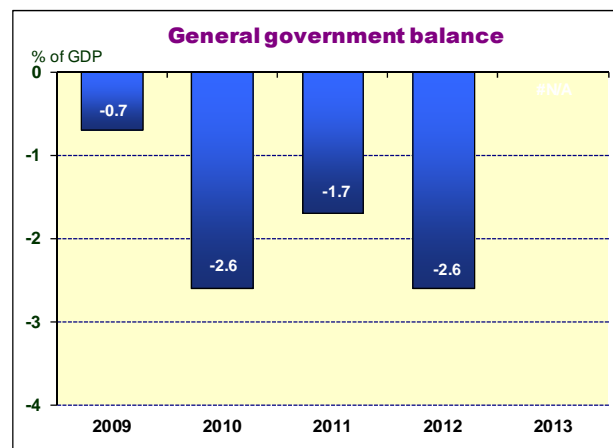
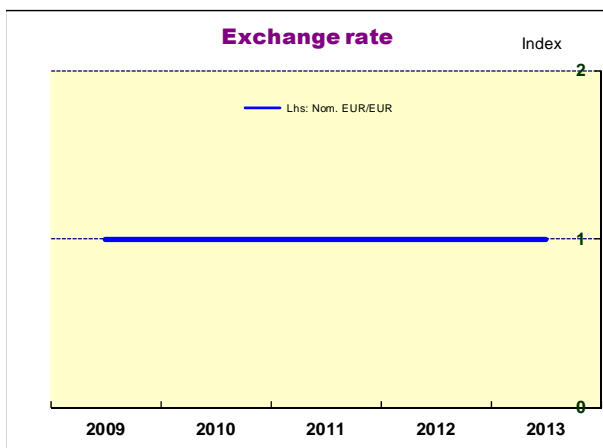
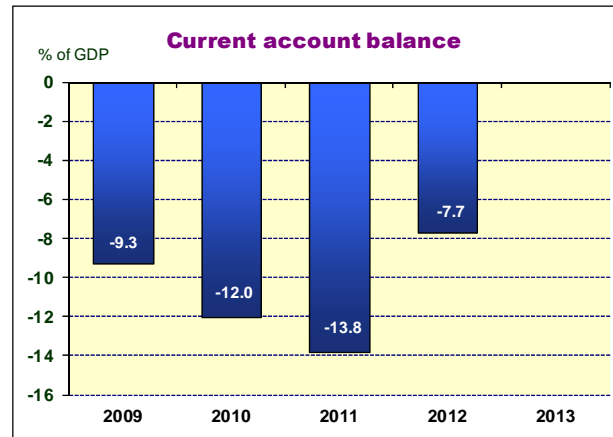
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** Q figures refer to a 4 quarters moving average.

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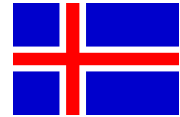
KOSOVO*



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Source of data: IMF, national sources



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial outlook	Not available	
1.2.	Industrial production	Annual percentage change, aluminium, total, ton	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, total (2000 prices)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (2000 prices)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change, volume (2000 prices)	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, turnover/sales, SA, ISK	Ecwin/Reuters
1.7.	Retail sales	Annual percentage change, total, constant prices, ISK, 2000=100	Ecwin/Reuters
2.	Labour market		
2.1.	Unemployment	LFS, In percent of total labour force, Total	Ecwin/Reuters
2.2.	Employment	LFS, Annual percentage change, Total, over all	Ecwin/Reuters
2.3.	Wages&Salaries	Annual percentage change, Total, Index, ISK 1998M12=100	Ecwin/Reuters
3.	External sector		
3.1.	Exports of goods	Annual percentage change, mio ISK, fob. Statistics Iceland reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. ISK, cif Statistics Iceland reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, volume	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
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
4.	Monetary developments		
4.1.	CPI	Annual average percentage change, All items, Index, ISK, 1988M5=100	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, total, index, 2005Q4=100	Ecwin/Reuters
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, ISK, 1997=100	Ecwin/Reuters
4.4.	M3	Annual percentage change, M3 (Money supply)	Ecwin/Reuters
4.5.	Exchange rate ISK/EUR	Period averages, midpoint exchange rates	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index 2005, period averages	Ecwin/Reuters
5.	Financial indicators		
5.1.	Interest rate	REIBOR, 3 month, fixing, ISK	Ecwin/Reuters
5.2.	Bond yield	Government Benchmarks, bid, 5 year, yield, close	Ecwin/Reuters
5.3.	Stock markets	OMX, Main Index (All-Share), price return, close	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, domestic credit, ISK	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, demand, sight and time deposits, ISK	Ecwin/Reuters
5.6.	Non-performing loans	Loans in default over 90 days, %	Ecwin/Reuters
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	Ecwin/Reuters
6.2.	General government debt	In percent of GDP	Ecwin/Reuters



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	Ecwin/Reuters
1.3.	Gross domestic product	Annual pc 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 pc change, value of construction work done, total, 2008=100	Ecwin/Reuters
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	Ecwin/Reuters
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Monthly and quarterly data are based on annual LFS and adjusted on the basis of monthly/quarterly changes of data on registered unemployment.	Ecwin/Reuters
2.2.	Employment	Annual percentage changes are based on LFS. Monthly and quarterly percentage changes (period of year in relation to the same period of previous year) data are based on official data on registered employment.	Ecwin/Reuters
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	Ecwin/Reuters
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. 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, 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.	International reserves NBS	Total, mio EUR.	Ecwin/Reuters
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	Ecwin/Reuters
4. Monetary developments			
4.1.	CPI	Consumer Prices, Total, CPPY, end of period. Forecast = average.	Ecwin/Reuters
4.2.	Producer prices	Annual average percentage change, domestic market	Ecwin/Reuters
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	Ecwin/Reuters
4.4.	M3	Annual percentage change, M3 (broad money), RSD	Ecwin/Reuters
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Period average, moving base year, RSD	Ecwin/Reuters
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 3 month, yield, average, RSD	Ecwin/Reuters
5.2.	Bond yield	Weighted average interest rate on RS government bills.	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, monetary survey, 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
1. Real sector			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (1987 prices)	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, volume (1998 prices)	Ecwin/Reuters
1.5.	Gross fixed capital formation	Annual percentage change,	Ecwin/Reuters
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	Ecwin/Reuters
1.7.	Retail sales	Not available	
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey data	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin/Reuters
2.3.	Wages	Annual percentage change; index of real earning per production worker in manufacturing industry	Nat. sources
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	Ecwin/Reuters
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
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	Ecwin/Reuters
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	Ecwin/Reuters
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	Ecwin/Reuters
4.4.	M3	Money supply M3, total, TRY	Ecwin/Reuters
4.5.	Exchange rate YTL/EUR	Period averages	Ecwin/Reuters
4.6.	Nominal eff. exchange rate	Index 1999, period averages	Ecwin/Reuters
5. Financial indicators			
5.1.	Interest rate	Deposit rates, 3 month, close	Ecwin/Reuters
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	Ecwin/Reuters
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	Ecwin/Reuters
5.6.	Non-performing loans	In percent of total lons	Ecwin/Reuters
6. Fiscal developments			
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, CPPY=100	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change	Ecwin/Reuters
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	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
2. Labour market			
2.1.	Unemployment	Registered, in percent of total labour force	Ecwin/Reuters, NSO
2.2.	Employment	Registered, annual percentage change. New methodology as per Dec 2012 – data not fully comparable.	Ecwin/Reuters
2.3.	Wages	Annual percentage change, average gross wages, BAM	Ecwin/Reuters
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
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
4. Monetary developments			
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 pc 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 (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	Ecwin/Reuters
5. Financial indicators			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	Ecwin/Reuters
5.4.	Credit growth	Annual percentage change, loans, total, BAM, End of period	Ecwin/Reuters
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM, End of period	Ecwin/Reuters
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	Ecwin/Reuters
6. Fiscal developments			
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	Ecwin/Reuters

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

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