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# CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIC QUARTERLY

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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

***The growth performance of the pre-accession countries improved in 2013. GDP growth turned positive in the four Western Balkan economies that had experienced recession in 2012 and gathered pace in the other countries where it had slowed down. Albania might be the sole exception to this general pattern. Having picked up in the first quarter and generally accelerated in the second quarter, growth further increased in the third quarter in several countries, including in Serbia where it had significantly weakened in the second trimester. It was driven in several cases by a surge in exports, a positive development albeit supported by volatile factors such as favourable weather conditions. Higher growth generally translated into some improvements or a stabilisation in labour market conditions but unemployment remains at very high levels in all Western Balkan economies. A common pattern of reduction of some macro-economic imbalances prevailed. Consumer price inflation further decelerated in the third quarter, except in Turkey, and average annual inflation declined in all countries in 2013. Similarly, the adjustment of external imbalances continued, except in Turkey. On the other hand, fiscal consolidation offers a more differentiated picture. It proved challenging in Albania, Montenegro and Serbia where deficits are high and government debt keeps rising.***

The growth trend initiated in early 2013 continued in the third quarter. GDP growth further accelerated in Iceland (4.9% year-on-year), Montenegro (4.0%) and Serbia (3.7%) while its pace stabilised or slightly decelerated in Turkey (4.4%), the former Yugoslav Republic of Macedonia (3.3%) and Bosnia and Herzegovina. A main exception to this pattern is Albania where growth which had slowed down in the second quarter (to a revised 1.7%) contracted by 2.3% in the third one. In several cases, the recovery or higher growth in the Western Balkans was driven by an increase in exports while domestic demand remained weak. This was particularly striking in Serbia where exports of goods continued their stellar performance in the third quarter, growing in the period January-October by 26.2% in euro terms (year-on-year). Such developments are positive for countries that attempt to change their growth model by shifting towards more export and investment-led growth but may still be

fragile. The modest recovery of the Eurozone, a major trading partner, in the second and third quarters is likely to have helped but also some rather volatile factors such as favourable climatic conditions which boosted agricultural and energy productions and allowed for increased hydropower-electricity exports from countries such as Albania and Montenegro. In Iceland also, exports of goods and services -especially tourism- were the main driver of growth and contributed more than half of the output increase (3.1% year-on-year) in the first three quarters of 2013. In contrast, exports of goods and services declined in Turkey and private consumption, supported by fast-rising borrowing, continued to be the strongest growth driver. While available indicators for the fourth quarter give mixed signals, all countries except Albania will have significantly improved their growth performance in 2013. In Kosovo, growth is likely to be of the same magnitude as in 2012.

Economic growth has translated in most cases into an improvement or at least a stabilisation of labour market conditions. In Iceland, the unemployment rate further declined to 4.4% in the third quarter and to 4.2% in November, its lowest level since the outbreak of the financial crisis. The LFS unemployment rate also declined to 17.8% in Montenegro in the third quarter and to 20.1% in Serbia in October, the lowest level over the past three years in each country. Compared to the previous quarter, unemployment rates were flat in the third quarter in the former Yugoslav Republic of Macedonia and in Albania. Only Kosovo, Bosnia and Herzegovina and Turkey -where employment growth continued to fall short of labour force growth- experienced some deterioration. However, unemployment levels remain very high in the Western Balkans and large differences in labour market performance persist across countries with unemployment rates ranging from 4.2% in Iceland to 44.8% in Bosnia and Herzegovina.

While some differentiation across countries was noticeable in the second quarter, a quite homogeneous pattern of further significant adjustment of external imbalances has re-emerged in the third quarter. The only exception is Turkey where the current account deficit continued to deteriorate to 7.2% of GDP year-on-year, mainly due to a turnaround in gold trading (related to Iran-sanctions) from a large surplus in 2012 to an even larger deficit in 2013. Everywhere else, the current account deficit was significantly reduced while

Iceland even increased its surplus to 1.7% of GDP. The improvement was quite sharp in Serbia. Thanks to the surge in exports, the trade deficit was down by nearly 30% (year-on-year) in October, contributing to a 56% reduction in the current account deficit which narrowed to 5.6% in the four quarters to September from 10.7% in 2012. Similarly, the improvement of the current account was mainly driven by the reduction of the trade deficit in Albania, Bosnia and Herzegovina, Kosovo and the former Yugoslav Republic of Macedonia. The latter even recorded a sizeable current account surplus in the third quarter, also due to strong inflows of current transfers. In Montenegro, the improvement was mainly driven by the balance of services which recorded in the four quarters to September a surplus equivalent to 25% of GDP, 98.7% due to tourism. In Iceland also, the current account surplus benefited from a strong performance in tourism, in addition to subdued imports. In the third quarter, the service balance posted a record surplus of nearly 16% of the quarter's GDP.

Except in Turkey, consumer price inflation further decelerated in the third quarter and beyond, resulting in a significant decline of average annual inflation in 2013 in all countries. The main factors behind such a downward trend were easing international energy prices and, in the Western Balkans, good weather conditions for agriculture, the fading impact of tax and administrative price increases and broadly stable exchange rates. The decline was sharp in Serbia where inflation reached a historic low of 1.6% year-on-year in November. In Bosnia and Herzegovina, the deflationary trend started in August accelerated and annual CPI inflation declined by 1.2% in October. In Turkey the year-end inflation (7.4% in December) was, however, significantly above the medium term target of 5% while in Iceland the annual CPI increased to 4.2% in December as inflationary pressures remained higher than expected.

In spite of ample liquidity, accommodative monetary policies -with further cuts in key policy rates in Albania and Serbia in the last quarter- and generally declining commercial lending rates, credit growth decelerated in 2013 in all countries, except in Montenegro and Turkey. Credit shrank in Albania (by 1.3% year-on-year) and in Serbia (by 6.9%) in the third quarter and

also in October and November. While positive, credit growth continued to decelerate in Kosovo and Bosnia and Herzegovina. Some more encouraging signs emerged in the former Yugoslav Republic of Macedonia where credit growth accelerated in November for the 4<sup>th</sup> consecutive month and in Iceland where a very weak, practically zero growth, in the first three quarters gave way to a slight acceleration towards the end of the year. In contrast, lending activity continued to expand in Turkey (by more than 30% year-on-year in the fourth quarter) and in Montenegro (by 5.7% in the first eleven months of 2013). In spite of a few slight improvements, NPL ratios remain very high in Albania (24.3%), Serbia (21.1%), Montenegro (17.7%), Bosnia and Herzegovina (14.9%) and the former Yugoslav Republic of Macedonia (11.8%) leading to credit constraints that weigh on the corporate sector and on the reallocation of resources towards tradables.

Public finances offer a mixed picture. Bosnia and Herzegovina, Iceland, Turkey and Kosovo are expected to achieve further fiscal consolidation in 2013 while Albania, Serbia and Montenegro faced deep fiscal and debt challenges. In the first three quarters of 2013, the fiscal deficit turned into a surplus of 0.7% of full year GDP in Bosnia and Herzegovina. In the same period, the general government deficit in Iceland reached 1.4% of the period's GDP compared to 2.3% a year before. Turkey is likely to meet the central government target of 1.2%, thanks to strong revenues stemming from privatisation and changes in indirect taxes. In contrast, Albania faced a large budgetary slippage which led to a substantial revision of the deficit target from an initial 3.5% to 6.2% of GDP, although the final outcome might be slightly more favourable. In Serbia, the general government deficit at end-November represented 76% of the revised 5.6% of GDP target. In Montenegro, despite a strong increase in revenues, the deficit at the end of September reached 5.6% of the period's GDP, well above the full-year target of 2.7% as a state guarantee on a loan to the aluminium company KAP had to be paid. In all three countries deficits remain high and public debt levels continue to increase. Debt is also increasing in the former Yugoslav Republic of Macedonia where at the end of November the central government deficit reached 93% of the revised target of 3.8% of GDP.

## Candidate and potential candidate countries: Summary table

						ECFIN May Forecast							
	2009	2010	2011	2012	2013	2014	2015	Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
<b>Gross domestic product</b> (in real terms, annual % change)													
The former Yugoslav Republic of Macedonia	-1.0	2.8	3.0	-0.4	2.1f	2.5	2.8	3.5	3.3	:	N.A.	N.A.	N.A.
Iceland	-6.6	-4.1	2.7	1.4	1.7f	2.3	2.5	3.8	4.9	:	N.A.	N.A.	N.A.
Montenegro	-5.7	2.5	3.2	-2.5	1.9f	2.3	3.1	3.4	4.0	:	N.A.	N.A.	N.A.
Serbia	-3.5	1.0	1.6	-1.5	1.7f	1.5	2.0	0.6	3.7	:	N.A.	N.A.	N.A.
Turkey	-4.8	9.2	8.8	2.2	3.5f	3.0	4.3	4.5	4.4	:	N.A.	N.A.	N.A.
Albania	3.3	3.8	3.1	1.6e	:	:	:	1.7	-2.3	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-2.8	0.7	1.0	-1.1	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo*	3.5	3.2	4.4	2.5	:	:	:	:	:	:	:	:	:
<b>Unemployment</b>													
The former Yugoslav Republic of Macedonia	32.2	32.1	31.4	31.0	30.0f	29.0	28.1	28.8	28.7	:	N.A.	N.A.	N.A.
Iceland	7.2	7.5	7.1	6.0	5.0f	4.8	4.5	6.8	4.4	:	N.A.	N.A.	N.A.
Montenegro	11.4	12.1	11.5	13.5	15.0	:	:	13.2	13.3	15.0	14.1	14.8	15.0
Serbia	16.1	19.2	23.0	23.9	24.0f	24.0	23.1	24.1	N.A.	20.1	N.A.	N.A.	N.A.
Turkey	14.0	11.9	9.8	9.2	9.6f	9.9	9.2	9.0	9.7	:	:	:	:
Albania	13.6	13.7	13.4	12.9	:	:	:	12.8	12.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	42.7	42.7	43.8	45.9	:	:	:	44.4	44.8	:	44.8	:	:
Kosovo*	45.4	:	44.8	30.9	:	:	:	:	:	:	:	:	:
<b>Current account balance</b> (% of GDP)**													
The former Yugoslav Republic of Macedonia	-6.8	-2.0	-2.5	-3.0	-4.5f	-5.3	-6.5	-3.6	-2.7	:	N.A.	N.A.	N.A.
Iceland	-11.5	-8.0	-6.3	-5.1	-0.2f	-0.7	-1.0	0.5	1.7	:	N.A.	N.A.	N.A.
Montenegro	-27.9	-23.0	-17.7	-18.7	-16.9f	-16.3	-17.1	-16.1	-15.0	:	N.A.	N.A.	N.A.
Serbia	-6.6	-6.9	-9.2	-10.7	-4.9f	-4.7	-5.2	-6.9	-5.6	:	N.A.	N.A.	N.A.
Turkey	-2.0	-6.2	-9.7	-6.0	-7.0f	-6.6	-6.9	-6.7	-7.2	:	N.A.	N.A.	N.A.
Albania	-15.3	-11.5	-13.0	-10.5	:	:	:	-10.3	-9.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-6.6	-6.2	-9.9	-9.7	:	:	:	-7.7	-6.3	:	N.A.	N.A.	N.A.
Kosovo*	-9.3	-12.0	-13.8	-7.7	:	:	:	-7.7	:	:	N.A.	N.A.	N.A.
<b>Inflation</b> (Consumer price index, annual % change)													
The former Yugoslav Republic of Macedonia	-0.8	1.6	3.9	3.3	2.8	2.7	2.5	3.6	2.8	1.3	1.3	1.1	1.4
Iceland	12.0	5.4	4.0	5.2	3.9	4.5	4.0	3.3	4.0	3.8	3.6	3.7	4.2
Montenegro	3.4	0.5	3.1	4.1	2.0f	2.1	2.9	2.8	2.2	:	0.5	0.0	:
Serbia***	6.6	10.2	7.0	12.2	8.2f	4.9	5.3	9.8	4.9	:	2.2	1.6	:
Turkey	6.3	8.6	6.5	8.9	7.5	7.7	7.2	7.0	8.3	7.5	7.7	7.3	7.4
Albania	2.3	3.6	3.5	2.0	:	:	:	2.2	1.5	:	1.7	1.0	:
Bosnia and Herzegovina	-0.4	2.1	3.7	2.0	:	:	:	0.4	-0.3	:	-1.2	:	:
Kosovo*	-2.4	3.5	7.3	2.5	:	:	:	2.4	1.2	:	0.2	0.8	:
<b>General government balance</b> (% of GDP)													
The former Yugoslav Republic of Macedonia**	-2.7	-2.4	-2.5	-3.9	-3.7f	-3.5	-3.3	:	:	:	N.A.	N.A.	N.A.
Iceland	-9.9	-10.1	-5.6	-3.8	-2.0f	-0.7	0.0	-3.8	-0.5	:	N.A.	N.A.	N.A.
Montenegro	-5.7	-4.9	-5.4	-5.6	-4.9f	-3.6	-2.8	-5.0	-5.6	:	:	:	:
Serbia**	-4.5	-4.7	-4.9	-6.5	-5.6f	-5.3	-4.6	-5.4	-5.9	:	N.A.	N.A.	N.A.
Turkey	-7.0	-2.6	-2.2	-2.3	-1.7f	-2.3	-1.9	0.6	-0.6	:	N.A.	N.A.	N.A.
Albania**	-7.0	-3.1	-3.6	-3.4	:	:	:	-3.5	-4.3	:	-3.9	:	:
Bosnia and Herzegovina	-4.4	-2.5	-1.3	-2.1	:	:	:	0.7	0.3	:	N.A.	N.A.	N.A.
Kosovo*	-0.7	-2.6	-1.7	-2.6	:	:	:	:	:	:	N.A.	N.A.	N.A.

\* 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.

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

On 20 December, the Macedonian Parliament adopted the 2014 budget, which foresees a general government budget deficit of 3.5%, compared to 3.9% in 2013. The budget is based on expected 3.2% real GDP growth. The majority of the envisaged expenditure increase – by 6% compared to the revised 2013 allocations – would be spent on capital investment, pensions, public wages and subsidies.

At end-November, the rating agency Standard&Poor's upheld its BB-/B rating for sovereign credit, confirming the stable outlook.

## Real sector

Preliminary data for the third quarter and revised data for the first half of 2013 suggest a substantial change in the GDP growth composition compared to 2012. Private consumption, and, in the third quarter, net exports, have taken over from investment as growth drivers. In the third quarter, output increased by 3.3% yoy, in spite of a 16.4% decline in investment. GDP growth figures for the first half of the year were substantially revised downwards, to 2.6% in the first quarter, and 3.5% in the second quarter, from 2.9% and 3.9% respectively. This was mainly due to a strong downward revision of investment, which declined by almost 25% yoy in the first quarter of 2013, and by 6.5% in the second quarter, even though output growth in the construction sector picked up significantly. Private consumption, on the other hand, strengthened more vigorously in the first half of the year than estimated earlier, by some 7% each quarter yoy, relenting in the third quarter to a 1.6% increase. Net exports were still negative in the third quarter, but with export volumes rising by 8.8% yoy, and imports declining by 4.7%, the gap was smaller than a year ago and in the second quarter.

The biggest contribution to GDP growth came from construction, which increased its output by 33% year-on-year. After two strong quarters, output increases in industrial production relented

to 1.7%yoy in the third quarter. The average increase for the first 11 months of 2013 amounted to 2.6% yoy, driven by strong increases in mining and utilities. Output in the manufacturing sector, which accounts for about three quarters of the industry structure, increased by only 1.9% during this period, yet marking a slight recovery after its contraction in 2012.

## Labour market

In the third quarter 2013, the number of unemployed, according to the Labour Survey, declined by 4.6% compared to the same period a year earlier, while the labour force increased by 2%. This resulted in a decrease in the unemployment rate to 28.7%, from 30.6% a year earlier. Compared to the previous quarter, the unemployment rate remained largely stagnant, reflecting an increase in the number of unemployed, while the labour force grew proportionately stronger. However, the situation for young people remained strained, with the unemployment rate for 15 to 24 olds largely unchanged at 52% over the year. The activity rate among women increased by over 2% in this period, and there was a noticeable surge in the unemployment rate in particular for young women, of over 4pp to 56%.

Total employment increased by 4.6% compared to the previous quarter, with the employment in manufacturing, in spite of declining output growth, increasing by 2.7%, and in trade by 6%. Employment in construction dropped by some 10%. Yet, latest figures point to a slowdown in employment creation in manufacturing during October and November. With nominal wage growth remaining below inflation, real net wages continued to decline in the third quarter and beyond. In October they dropped on average by 0.3% compared to a year earlier.

## External sector

The current account posted a sizeable surplus in the third quarter, helped by a further narrowing of the merchandise deficit, and strong inflows of



current transfers. Hence, in the four quarters to September 2013, the current account deficit amounted on average to 2.7% of GDP. Current transfers remained resilient, increasing by 2% in the third quarter, after having dropped in the second quarter. However, in the first ten months in total, they were some 5.1% lower than in the same period a year earlier. FDI inflows continued to strengthen during the third quarter and beyond, increasing from 1.5% of projected GDP at the end of June to 3% at end-September.

The international reserve position weakened somewhat further, mainly in response to forex interventions and government transactions. At end-December, reserves amounted to just under 2 billion Euro, or about 24% of projected GDP, compared to 2.2 billion Euro, or about 28% of GDP a year earlier. The reserves cover about 5 months of prospective imports of goods and services. Gross external debt rose further during the third quarter, albeit at a slower annual pace than in the second quarter. At end-September, it had increased by 8.3% yoy, and stood at 64% of projected GDP, somewhat lower than at end-June. Increases in both components, public and private debt, were less marked than in the same period a year earlier. After having risen continuously throughout 2012, short-term external debt declined in absolute terms and as a share of total external debt in the third quarter.

### Monetary developments

After consecutive monthly decreases since June, annual consumer price inflation picked up again slightly in December, by 0.3pp compared to the previous month, to 1.4%. This was mainly due to a sharp increase in food prices, which rose by 1.8% compared to December 2012. Average consumer price inflation in 2013 declined to 2.8%, compared to 3.3% in 2012, even though food prices, the biggest share in the index, rose on average by 3.6% in 2013, compared to 2.3% in 2012. The strongest price increases in 2013 were observed for clothing and footwear.

After a series of easing measures in the second and third quarter, monetary policy remained largely stable towards the end of the year. The rate on central bank commercial bills –the key interest rate of the National Bank - was kept at 3.25%. The Central Bank relaxed banks' obligations to hold liquid assets, with a view to facilitating liquidity risk management in the banking sector. M4 money supply growth accelerated to 5% yoy at end-November,

compared to 4.7% a month earlier. Lending and borrowing rates both decreased slightly, leaving the spread almost unchanged. Average weighted nominal lending rates for loans in national currency stood at 7.8% in November, while rates on deposits declined to 4.2%. Consequently, spreads have narrowed marginally by 1pp to 3.6% since the end of August.

### Financial sector

The annual growth of private sector credit continued to accelerate in November for the fourth consecutive month. Loans to households and non-financial private companies increased by 4.9%, compared to 4.2% in October. While loan growth to companies accelerated significantly, to 1.6% yoy, up from 0.9% in October, the bulk of the increase fell again on household loans, which increased by 9.5% compared to 8.6%. In line with monetary policy strategy, the total growth was almost entirely accounted for by loans in national currency.

While credit growth continued to stabilise, the quality of banks' credit portfolios improved only marginally. The share of non-performing loans in total loans to the private and public sector amounted to 11.8% at end-September, down from 12.3% at end-June.

### Fiscal developments

In early November, the parliament adopted the government's proposal for a supplementary 2013 budget, and a revision of the full-year general government deficit target to 3.9%, from previously 3.6%. The revision had been necessitated by repayments of accumulated arrears, recent pension increases and additional expenditure for education, which had not been fully reflected in the original budget.

At end-November, the central government deficit reached 93% of the revised full-year central government deficit target of 3.8%. The consolidated central government debt was some 12% higher than a year ago, at 34% of projected GDP, up from 33.6% at the end of September. Compared to a year earlier, the domestic share of the debt stock had expanded by 41%, while the external share decreased by 1.7%.



## TABLE



European Commission, ECFIN-D-1

### The former Yugoslav Republic of Macedonia

		2009	2010	2011	2012	2013	ECFIN Forecast		Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
							2014	2015						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	-13.8	-9.6	18.4	14.7	:	:	:	12.2	12.0	:	13.0	13.1	:
Industrial production <sup>1.2</sup>	Ann. %ch	-8.4	-4.6	4.0	-6.6	:	:	:	1.1	2.6	:	6.9	3.1	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-1.0	2.8	3.0	-0.4	2.1f	2.5	2.8	3.5	3.3	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	-4.8	2.3	7.4	-0.7	1.0f	2.8	3.0	7.1	1.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	0.5	1.8	9.6	16.0	5.5f	7.0	7.5	-6.5	-16.4	:	N.A.	N.A.	N.A.
Construction <sup>1.6</sup>	Ann. %ch	5.3	11.7	25.3	4.2	:	:	:	33.7	30.5	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	-3.8	4.2	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	32.2	32.1	31.4	31.0	30.0f	29.0	28.1	28.8	28.7	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. %ch	3.4	1.3	1.1	0.8	2.5f	2.0	2.2	4.7	4.6	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. %ch	14.1	0.9	1.3	0.2	2.5f	3.1	3.6	1.7	1.0	:	1.1	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	-28.2	30.9	26.9	-3.2	:	:	:	1.0	4.1	:	2.1	:	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-21.6	13.9	22.2	0.1	:	:	:	-0.7	-1.7	:	-4.8	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-23.3	-20.5	-22.1	-23.6	-22.7f	-22.9	-23.4	-22.7	-21.8	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	39.0	46.6	54.9	53.6	:	:	:	53.2	53.6	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	60.6	65.3	74.5	76.3	:	:	:	75.0	73.9	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-6.8	-2.0	-2.5	-3.0	-4.5f	-5.3	-6.5	-3.6	-2.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	2.0	2.2	4.5	1.0	:	:	:	1.5	3.0	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1595.2	1726.5	2305.0	2330.0	:	:	:	2402.9	2349.6	:	2336.3	2307.9	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.5	5.2	5.7	5.7	:	:	:	6.0	5.9	:	5.8	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	-0.8	1.6	3.9	3.3	2.8	2.7	2.5	3.6	2.8	1.3	1.3	1.1	1.4
Producer prices <sup>4.2</sup>	Ann. %ch	-6.4	8.3	11.1	4.5	:	:	:	0.9	0.1	:	-2.0	-2.6	:
Food prices <sup>4.3</sup>	Ann. %ch	-1.4	0.3	6.2	2.3	3.6	:	:	5.2	4.0	1.2	1.0	0.9	1.8
Monetary aggregate M4 <sup>4.4</sup>	Ann. %ch	3.5	12.1	10.5	7.5	:	:	:	2.7	3.9	:	4.7	5.0	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.28	61.51	61.53	61.53	61.58	:	:	61.66	61.55	61.54	61.50	61.51	61.61
Nominal eff. exchange rate <sup>4.6</sup>	Index	103.9	102.2	103.7	102.5	:	:	:	103.4	104.4	:	105.2	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	10.07	9.48	8.87	8.50	:	:	:	8.12	8.00	:	7.89	7.82	:
Stock markets <sup>5.3</sup>	Index	2 497	2 472	2 407	1 890	1 726	:	:	1 784	1 658	1 604	1 611	1 584	1 616
Credit Growth <sup>5.4</sup>	Ann. %ch	14.2	5.4	8.1	7.3	:	:	:	3.6	3.6	:	4.2	4.9	:
Deposit growth <sup>5.5</sup>	Ann. %ch	4.6	13.0	10.9	7.2	:	:	:	3.2	5.1	:	5.9	6.2	:
Non-performing loans <sup>5.6</sup>	% total	8.9	9.0	9.5	10.6	:	:	:	12.3	11.8	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
Central government balance <sup>6.1</sup>	% of GDP	-2.7	-2.4	-2.5	-3.9	-3.7f	-3.5	-3.3	:	:	:	N.A.	N.A.	N.A.
Central government debt <sup>6.2</sup>	% of GDP	23.8	24.2	28.0	34.0	36.1f	37.9	39.4	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2013

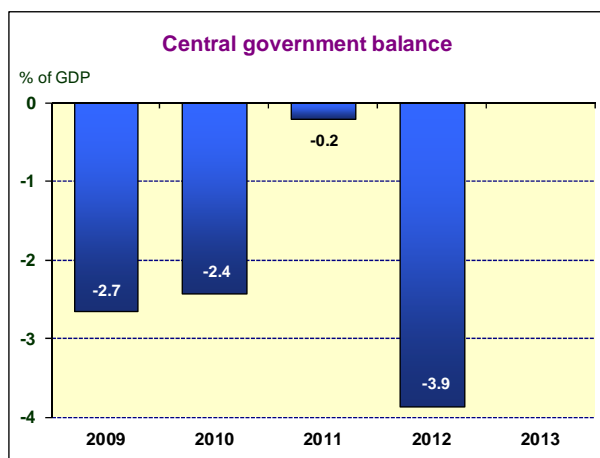
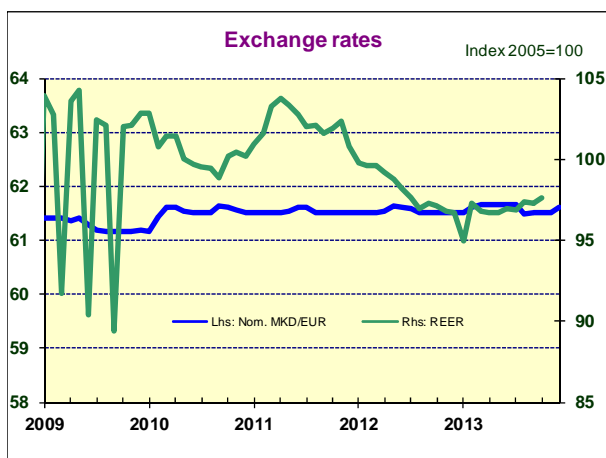
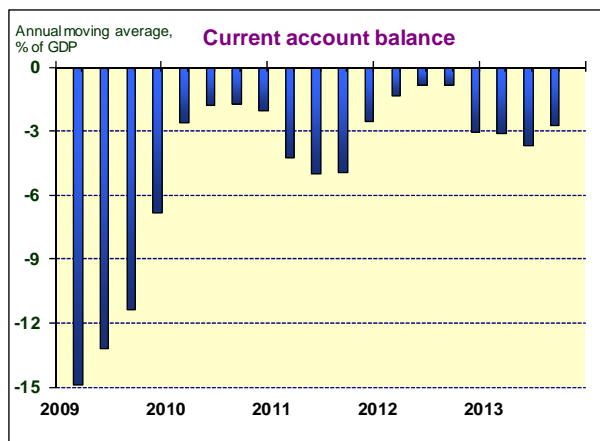
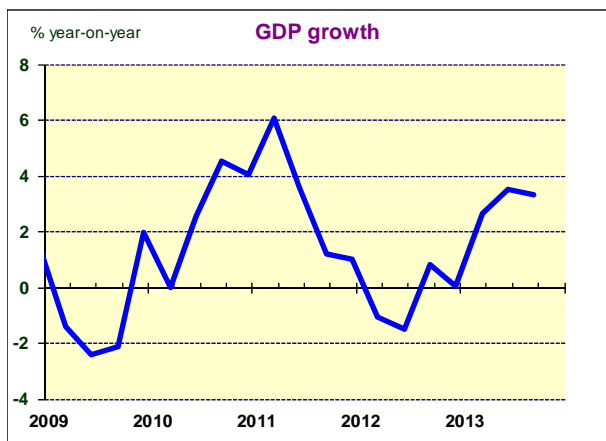
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## The former Yugoslav Republic of Macedonia



## ICELAND



### Key developments

On 6 and 15 November, the Icelandic Central Bank and Statistics Iceland (Icestat) published their latest economic outlook for 2013 – 2015. Economic growth in 2013 is expected to reach 1.7% - 2.3% respectively and is seen to accelerate further in 2014 and 2015, to 2.5- 2.7% in 2014 and to 2.8% in 2015. Main drivers for growth will be domestic components but also exports, while inflation is expected to decline further. The labour market situation is seen to improve further. Thus, by 2015, most of the negative effects of the 2008 financial crisis should be largely overcome.

End November, the government presented details on its household-debt relief programme, a key election promise of one of the coalition parties. The government envisages reducing household debt by some 8 % of GDP over 4 years. About half of this reduction should be financed by financially supporting the use of voluntary pension savings for debt redemption. The other half is supposed to be financed via a tax on banks. The government expects that those measures will raise economic growth by 0.1 percentage points annually, while also slightly deteriorating external accounts. Household debt would be reduced from currently some 108% of GDP to around 100%.

### Real sector

Output growth continued to be strong in the third quarter, with an year-on-year GDP increase by 4.9%. The main sources of growth were exports of goods and services, increasing by 8.3% and contributing 3.9 percentage points to overall growth. About half of this contribution is based on a strong increase in tourism. Private consumption was another important driver of growth, increasing by 2.4% and contributing about 1 percentage point to growth. Investment was 5.3% higher than a year before, contributing 0.6 percentage points to overall growth. However, lower investment during the first 3 quarters of 2013 helped to contain imports, which increased year-on-year by 1.6% only. Overall economic output was 3.1% higher during the first three quarters, than a year before.

More than half of this increase (1.8 percentage points) were the result of stronger export growth, while the growth contribution of private and public consumption was ½ percentage point each. Investment grew to a lesser extent than the overall economy, leading to a negative growth contribution of this aggregate. To some extent, the relatively lower investment figures are due to base effects, primarily the purchase of ships and airplanes the year before.

High frequency indicators from November, such as the credit card turnover point to rather stable consumption during the last months of the year. However, a bigger than usual share of those purchases might have been used for imports, which would dampen output growth in that quarter.

### Labour market

Labour market conditions continued to improve. According to LFS, employment rose in the third quarter by 4.3% year-on-year, compared to 0.5% a year before. At the same time, the number of unemployed declined by some 8.8%, compared to a drop by 15% the year before. This brought the 3<sup>rd</sup> quarter unemployment rate down to 4.4%, compared to 5.0% the year before. The share of long-term unemployed in total unemployed dropped from 35.6% in the third quarter of 2012 to 22.5% in the third quarter of 2013. This represents about 1 % of the labour force. However, this level is still higher than prior to the crisis. Unemployment among young (age group 16-24) was 7.7% in the third quarter, compared to 7.9% the year before. This positive trend continued in November with unemployment dropping to 4.2%, compared to 4.3% the year before. This is the lowest unemployment rate since the outbreak of the financial crisis. Average weekly hours of work continued to increase slightly, from 40.8 hours in the third quarter of 2012 to 41.8 hours in the second quarter of 2013.

Nominal wages continued in the third quarter to be some 5.7% higher than a year before. In October and November nominal wages were even some 6% higher than a year before, which is some 2 percentage points above inflation.

Social partners agreed on a rather moderate rise in wages during the next 12 months, increasing on average by 1.8% only.

### External sector

The external sector benefitted from the strong performance in tourism and subdued imports. With a record surplus of nearly 16% of the quarter's GDP, the service balance was the main contributor to the third quarter's surplus in the current account. The year before, the service account had registered a surplus of 11% of the third quarter's GDP. The surplus in the trade balance was a bit lower than before, at 7.2% compared to 8.2% in the third quarter of 2012. The deficit in the primary balance declined, from 8.5% in the third quarter 2012 to 3.2% this year. Here the main factor was lower interest payments abroad. Net current transfers deteriorated slightly, from a deficit of 0.8% of GDP in the third quarter of 2012 to 1.2% this year. Overall, the traditionally favourable third quarter current account balance improved further in 2013, to a surplus of 18.4%, compared to a surplus of 11.4% the year before. When looking at the moving average during the last 4 quarters, the trade surplus deteriorated slightly to 4.1% of GDP, while the current account surplus increased to 1.7% of GDP.

Gross official foreign exchange reserves were some 2.4% lower in the third quarter than in the quarter before. However, in November, reserves recovered to levels registered in the third quarter. As a share of GDP, reserves account for some 27% of GDP.

Iceland's international investment position was at the end of the third quarter at a gross deficit of some 450% 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 records an estimated 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 indicated that it expects the inflationary effect of the government's debt relief package to be higher than the government's estimate of 0.1 percentage point. Together with stronger than expected output growth, this could raise the probability of higher policy rates in 2014.

Despite declining import prices, inflationary pressures remained higher than expected. In December, 12-months inflation rose to 4.2%, compared to 3.7% in August. This brought average annual inflation to 3.9% for 2013, compared to 5.2% 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 160.82 ISK against the EUR in December 2013 compared to 166.0 a year before. On average, the króna's exchange rate against the EUR was in 2013 some 9% weaker than in 2012, but on a similar level as in 2010.

### Financial sector

Financial intermediation has remained weak, with largely zero credit growth during the first 3 quarters of 2013. However, towards the end of the year, credit growth accelerated slightly. The level of deposits has started to increase again, at a rate of some 2.3% year-on-year in the third quarter, which further accelerated in October and November to 3.2% and 3.8%, respectively.

The total capital adequacy ratio of the three largest banks remained at some 25% by mid-2013, well above the minimum requirement of 16%. All banks remained profitable, but banks are still face uncertain asset quality. The share of non-performing loans has declined since its peak in 2010, reaching some 5% of total loans by mid-2013 (or 13%, when using the stricter cross-default method).

### Fiscal developments

In the third quarter, the general government registered a deficit of -0.5% of the quarter's GDP, compared to -3.8% in the second quarter and -1.5% a year before.

During the first three quarters, the general government deficit was at -1.4% of the period's GDP, compared to -2.3% a year before. The improvement is due to an increase in revenues by 5.4%, mainly based on a better performance of income taxes, while expenditure was only 3% higher. In 2012, the deficit for the whole year had been 3.8%, compared to 5.6% in 2011.

Central Government debt was at 82.5% of GDP in December 2013, compared to 87.5% the year before.

## TABLE



European Commission, ECFIN-D-1

### ICELAND

		2009	2010	2011	2012	2013	ECFIN Forecast		Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
							2014	2015						
<b>1 Real sector</b>														
Industrial outlook <sup>1.1</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann.%ch	10.3	-0.6	0.1	-1.6	:	:	:	3.9	4.9	:	:	:	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-6.6	-4.1	2.7	1.4	1.7f	2.3	2.5	3.8	4.9	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-15.0	0.1	2.6	2.4	1.3f	1.5	2.0	0.9	2.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-51.4	-9.4	14.3	5.0	-4.0f	12.0	9.0	-5.2	5.3	:	N.A.	N.A.	N.A.
Construction, completed <sup>1.6</sup>	Ann.%ch	-70.0	28.6	-50.8	91.5	:	:	:	:	:	:	:	:	:
Retail sales <sup>1.7</sup>	Ann.%ch	-22.8	-3.1	1.9	4.3	:	:	:	0.9	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	7.2	7.5	7.1	6.0	5.0f	4.8	4.5	6.8	4.4	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	-6.2	-0.3	0.0	1.1	2.8f	1.7	1.5	1.9	4.3	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	3.9	4.8	6.8	7.8	5.2f	4.6	4.9	5.6	5.7	:	6.0	6.1	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	7.3	12.0	10.5	2.1	:	:	:	-11.2	1.7	:	-12.9	0.8	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-13.3	7.4	18.6	6.3	:	:	:	-5.5	3.6	:	-0.3	-5.2	:
Trade balance* <sup>3.3</sup>	% of GDP	6.0	7.8	6.0	4.6	3.7f	3.0	2.6	4.3	4.1	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	52.9	56.4	59.1	59.4	:	:	:	57.9	58.0	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	44.2	46.3	50.7	53.3	:	:	:	51.0	50.7	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-11.5	-8.0	-6.3	-5.1	-0.2f	-0.7	-1.0	0.5	1.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	-18.2	20.7	7.7	31.2	:	:	:	13.4	13.3	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	2 651.1	4 356.5	6 581.5	3 257.1	:	:	:	3 028.9	2 957.2	:	2 941.0	3 024.0	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	13.4	19.1	24.4	11.3	:	:	:	10.8	10.6	:	10.5	10.9	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann.%ch	12.0	5.4	4.0	5.2	3.9	4.5	4.0	3.3	4.0	3.8	3.6	3.7	4.2
Producer prices <sup>4.2</sup>	Ann.%ch	11.3	11.7	9.2	1.1	:	:	:	-8.1	-2.6	:	-6.4	-5.9	:
Food prices <sup>4.3</sup>	Ann.%ch	17.5	4.2	3.8	6.1	5.1	:	:	5.5	4.7	4.3	4.7	3.9	4.2
M3 <sup>4.4</sup>	Ann.%ch	15.7	-6.6	-2.1	2.8	:	:	:	2.4	4.6	:	3.2	3.8	:
Exchange rate ISK/EUR <sup>4.5</sup>	Value	172.51	162.16	161.45	160.93	162.30	:	:	157.52	160.40	163.21	164.70	164.11	160.82
Nominal eff. exchange rate <sup>4.6</sup>	Index	98.1	100.0	100.0	97.6	:	:	:	101.2	100.4	:	98.4	98.7	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	%p.a.	12.32	6.96	4.26	5.51	6.19	:	:	6.20	6.20	6.20	6.20	6.20	6.20
Bond yield <sup>5.2</sup>	%p.a.	8.26	6.09	5.98	6.19	:	:	:	5.59	5.89	:	5.81	:	:
Stock markets <sup>5.3</sup>	Index	465	562	602	649	774	:	:	753	760	820	784	818	858
Credith grow th <sup>5.4</sup>	Ann.%ch	-8.5	-3.2	-1.7	6.3	:	:	:	-0.7	0.7	:	1.7	1.6	:
Deposit grow th <sup>5.5</sup>	Ann.%ch	-1.3	-7.0	-2.6	4.8	:	:	:	-0.9	2.3	:	3.2	3.8	:
Non-performing loans <sup>5.6</sup>	%total	14.0	18.0	12.0	8.0	:	:	:	4.7	:	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-9.9	-10.1	-5.6	-3.8	-2.0f	-0.7	0.0	-3.8	-0.5	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	87.9	93.0	99.1	96.4	94.2f	90.2	85.4	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2013

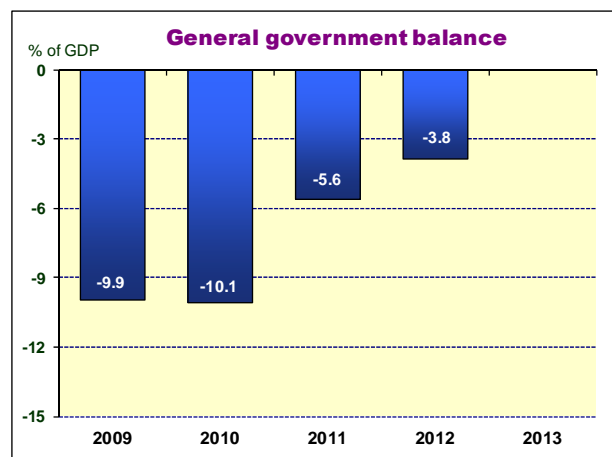
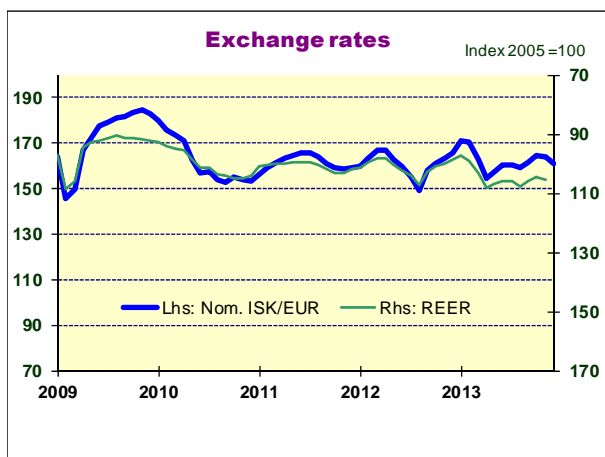
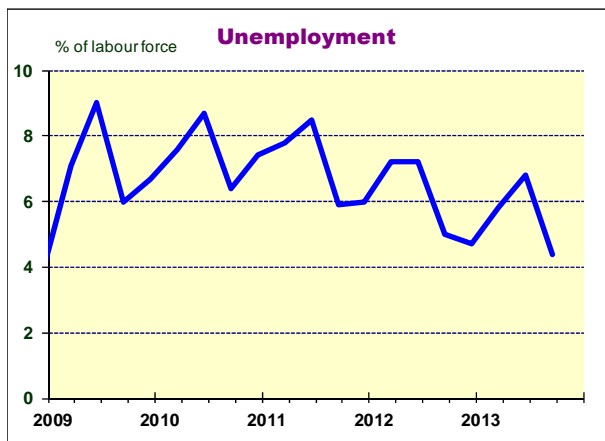
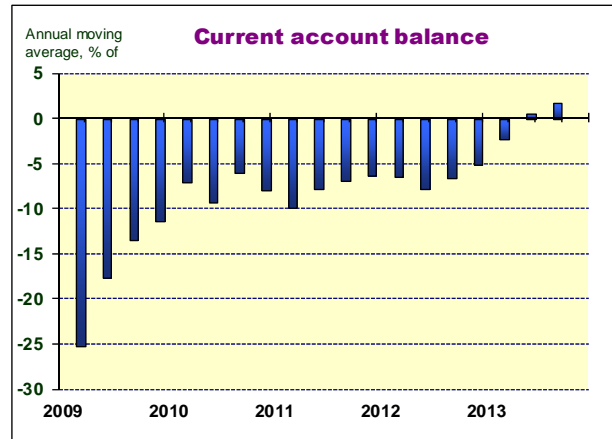
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## ICELAND







## Key developments

Following the declaration of bankruptcy of the aluminium firm KAP by the commercial court on 9 October 2013, Montenegro launched on 6 December a tender for the sale of the company assets. The bidding deadline was set to 8 January 2014. The largest creditors of KAP are the Montenegrin government with claims worth EUR 148 million, followed by the plant's former owner Russia's CEAC with some EUR 50 million, other creditors are the electricity firm EPCG, and Russia's En+ Group and VTB Bank.

On 19 November, the commercial court started insolvency proceedings at the bauxite mining company, also owned by CEAC, over an unpaid loan of EUR 1.6 million.

On 29 November, Standard & Poor's affirmed Montenegro's long- and short-term BB-/B sovereign credit ratings, albeit downgraded the outlook from stable to negative due to persistent external vulnerabilities.

In early December, Turkish Ziraat Bank formally applied for a banking licence to operate in Montenegro.

## Real sector

In the third quarter of 2013, Montenegro's real GDP grew by 4.0% year-on-year, accelerating from a 3.4% real growth in the second quarter and a 1.1% GDP expansion in the first quarter. According to the statistical office, tourism, trade, transport, construction, utilities and agriculture were the main drivers of growth in the third quarter.

A continuation of this growth trend could be expected in the last quarter of 2013. In November, industrial production grew by 21.4% year-on-year from 10.5% the month before on the back of rising manufacturing and utilities. The tourism post-season improved, with the number of visits in the months of October and November expanding by 21% and 7% year-on-year respectively. Some revival of private consumption could be expected too. In October, retail sales expanded by 15% year-on-year in real terms, up from almost 10% a month before and 10.4% in the third quarter.

## Labour market

The strong economic performance in the third quarter of 2013 had a mildly positive impact on labour market dynamics. The Labour force survey (LFS) presented an unemployment rate of 17.8% in the third quarter, its lowest level in the past three years, down from 19.2% in Q2 and 18.8% a year ago. However, long-term unemployment remains very high, reaching 83.7% in Q3, up from 82.2% a year before. In the third quarter of 2013, the employment rate increased to 42%, or by 1.1 pps quarter-on-quarter, but it marginally declined (0.2 pps) on a year-on-year basis. Yet, the number of economically inactive persons decreased by 1.8% year-on-year in Q3, reducing their share in total working age population to 48.0% down from 48.9% a year earlier. According to the Employment Agency, the unemployment rate recorded 15% at the end of 2013 compared to 13.5% a year before, while employment registered an average annual growth of 3% in the first eleven months of 2013.

Two years after their amendment, the Labour Law provisions prescribing employers to conclude a permanent job contract with all workers employed for over two years or terminate their employment came into effect in December 2013. The employers Federation requested a postponement to be discussed by the government in January 2014.

After stagnating in the third quarter of 2013, the gross average wage increased by nominal 2% year-on-year to EUR 727 in November, after edging up 0.6% a month before.

## External sector

In the four quarters to September 2013, the current account deficit narrowed to 15% of GDP, one percentage point of GDP down from the previous quarter and three and a half points lower compared to the same period a year before. The improvement was largely driven by the balance of services and to a lesser extent by the contraction of the trade deficit and modest surpluses of the net income and current transfers' balances. The services account recorded a surplus equivalent to 25% of GDP, of which, the travel sub-balance (i.e. tourism) accounted for

98.7%. The trade deficit contracted to 40.5% of GDP, down from 43.6% a year before.

The current account deficit was largely financed by net FDI inflows of some 12.6% of GDP. Net outflows from portfolio investments and from other investments, were to a large extent offset by unrecorded remittances included under "net errors and omissions", estimated at 7.6% of GDP.

In the first eleven months of 2013, the trade deficit narrowed further to an estimated 38.7% of full-year GDP due to a faster decline of imports than exports, the latter contracting for a fourth consecutive month in November.

### Monetary developments

Prices continued declining in the third quarter of 2013, averaging 2.2% compared to 2.8% in the previous three months. Price indices stagnated in November (both the consumer price index and the harmonised index of consumer prices) after edging up 0.5% year-on-year in October. Price dynamics reflect the falling costs of food and non-alcoholic beverages (which have the strongest weight in the consumer's basket) as well as transport due to the decline of fuel costs.

The weighted average effective lending interest rate on new loans, after reaching an annual low of 8.95% in August, started rising to reach 9.67% in September and 10.75% in October.

### Financial sector

In November 2013, bank loans expanded by 5.4% year-on-year (to EUR 2.46 billion equivalent to 74.4% of GDP), from 4.8% a month before, bringing the average annual growth rate of lending in the first eleven months to 5.7%. Household lending recorded 8.4% annual expansion while corporate loans increased more moderately (by 3.2%) and lending to financial institutions contracted 12% year-on-year. Lending to general government surged by 90% year-on-year, reflecting the activation of the aluminium factory guarantees.

Bank deposits grew by 5.1% year-on-year to EUR 2.08 billion at the end of November, led by households' deposits, expanding by 7.6% year-on-year, followed by financial institutions

(6.5%), general government (5.3%) and corporates (2.1%).

Bank lending remains constrained by the high level of non-performing loans (NPL), which at the end of November accounted for 17.7% of total loans. In the first nine months of 2013, bank's capital grew by 9.3%. The capital adequacy ratio declined to 14.9% in September compared to 15.5% in June, but remained well above the prescribed minimum of 10%.

In November 2013, the turnover on the Montenegro Stock Exchange increased almost 40% year-on-year, partially compensating for the 54% decline a month before. However, market capitalisation and the MONEX20 index slightly contracted by 0.4% and 0.2% year-on-year respectively. On 16 December, Turkey's Borsa Istanbul acquired a 24.4% stake in the Montenegro stock exchange.

### Fiscal developments

At the end of September, the budget cumulated a EUR 138 million deficit, or 5.6% of nine-month GDP, exceeding the full-year target of 2.7% as a result of the repayment in August of EUR 103mn of state guarantees on KAP's loans. At the end of November, the central government deficit declined to EUR 122 million or 4% of GDP thanks to the strong performance of taxes and contributions, growing 10% year-on-year. Consequently, the government expects the consolidated budget deficit for the whole 2013 year to reach EUR 152 million or 4.6% of GDP.

In the third quarter of 2013, the public debt totalled 55.8% of GDP, climbing to 56.5% of GDP at the end of the year after the government consummated the 2013 budget's ceiling for debt issuance without requiring a rebalance of the budget.

On 27 December, the parliament approved the budget draft for 2014, targeting higher revenue and expenditure by 8.2% and 2% year-on-year respectively, yielding a deficit of 1.99% of GDP (based on a 3.6% real growth rate). The capital budget is set to rise by 38% to EUR 90 million while pensions should remain unchanged. The budget also foresees EUR 240 million borrowing and EUR 25 million issuance of state guarantees.

## TABLE

European Commission, ECFIN-D-1



## MONTENEGRO

		2009	2010	2011	2012	2013	ECFIN Forecast		Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
							2014	2015						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	11.2	7.0	N.A.	6.4	13.5	N.A.
Industrial production <sup>1.2</sup>	Ann. %ch	-32.2	17.5	-10.3	-7.1	:	:	:	18.5	5.7	:	10.5	21.4	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-5.7	2.5	3.2	-2.5	1.9f	2.3	3.1	3.4	4.0	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	-12.9	2.0	4.2	-3.2	-0.7f	1.8	2.6	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	-30.1	-18.5	-10.3	-3.3	1.7f	2.7	4.5	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	-21.5	13.1	10.7	-13.2	:	:	:	-0.9	3.8	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	-9.0	1.6	12.6	6.7	:	:	:	8.9	12.6	:	16.3	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	11.4	12.1	11.5	13.5	15.0	:	:	13.2	13.3	15.0	14.1	14.8	15.0
Employment <sup>2.2</sup>	Ann. %ch	4.8	-7.1	0.8	2.1	1.4f	2.1	2.7	6.6	2.1	:	0.2	-0.6	:
Wages <sup>2.3</sup>	Ann. %ch	5.7	11.0	1.0	0.8	-1.4f	1.3	2.3	0.0	0.0	:	0.6	2.0	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	-34.2	20.3	33.6	-17.8	:	:	:	9.3	-4.2	:	-7.4	-3.7	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-34.6	0.9	9.2	-0.1	:	:	:	-1.0	-3.5	:	1.7	-4.5	:
Trade balance* <sup>3.3</sup>	% of GDP	-44.3	-41.1	-40.4	-44.1	-42.3f	-42.7	-42.8	-41.4	-40.3	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	32.1	34.7	42.8	44.1	:	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	65.4	63.1	64.9	68.8	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-27.9	-23.0	-17.7	-18.7	-16.9f	-16.3	-17.1	-16.1	-15.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	35.8	17.5	12.0	14.7	:	:	:	14.4	12.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	397.5	416.4	303.5	347.9	:	:	:	304.0	367.9	:	368.9	367.0	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	2.9	3.0	2.0	2.3	:	:	:	2.0	2.5	:	2.5	2.5	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	3.4	0.5	3.1	4.1	2.0f	2.1	2.9	2.8	2.2	:	0.5	0.0	:
Producer prices <sup>4.2</sup>	Ann. %ch	-3.8	-0.7	3.2	1.9	:	:	:	3.5	-0.1	:	-0.9	-1.1	:
Food prices <sup>4.3</sup>	Ann. %ch	3.3	0.3	2.8	4.2	:	:	:	5.2	5.0	:	0.3	-0.8	:
M21 <sup>4.4</sup>	Ann. %ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate <sup>4.6</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	:	:	2.27	5.32	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	3.63	3.37	2.45	4.75	:	:	:	:	:	:	2.65	:	1.83
Stock markets <sup>5.3</sup>	Index	13303	13993	11896	9091	9532	:	:	9586	9364	9197	9090	9075	9425
Credit growth <sup>5.4</sup>	Ann. %ch	-5.5	-4.8	-6.3	-0.7	:	:	:	4.8	4.6	:	4.8	5.4	:
Deposit growth <sup>5.5</sup>	Ann. %ch	-8.3	-1.9	1.5	9.0	:	:	:	9.0	8.6	:	7.1	5.1	:
Non-performing loans <sup>5.6</sup>	% of total	13.5	21.0	15.5	17.6	:	:	:	18.8	18.4	:	17.7	:	:
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-5.7	-4.9	-5.4	-5.6	-4.9f	-3.6	-2.8	-5.0	-5.6	:	:	:	:
General government debt <sup>6.2</sup>	% of GDP	38.2	40.9	45.9	54.0	56.5	59.6	59.2	53.2	55.8	56.5	:	:	:

f: ECFIN forecast Autumn 2013

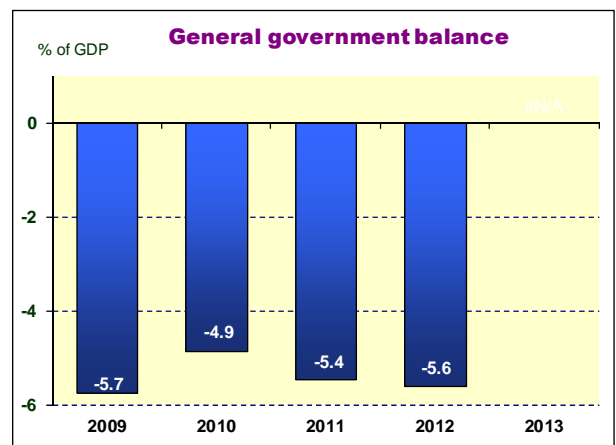
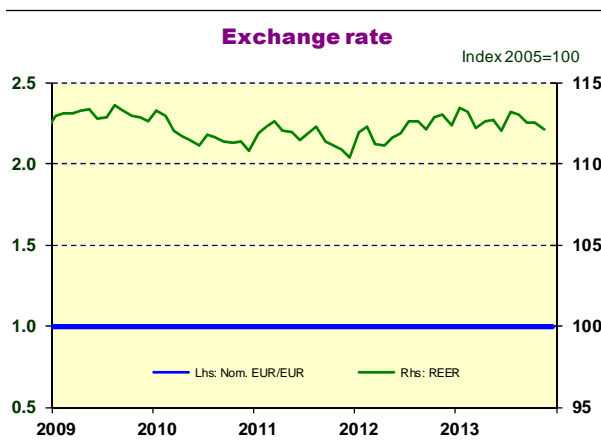
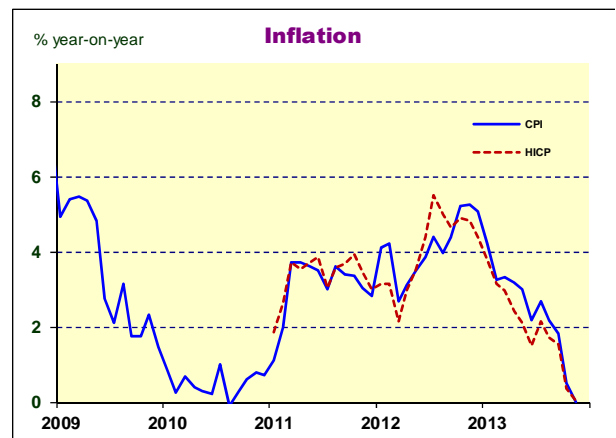
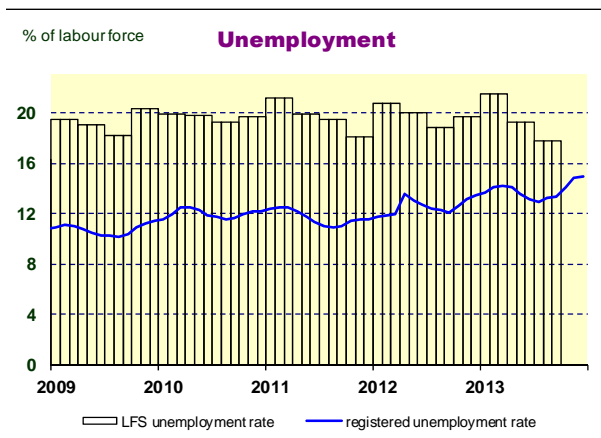
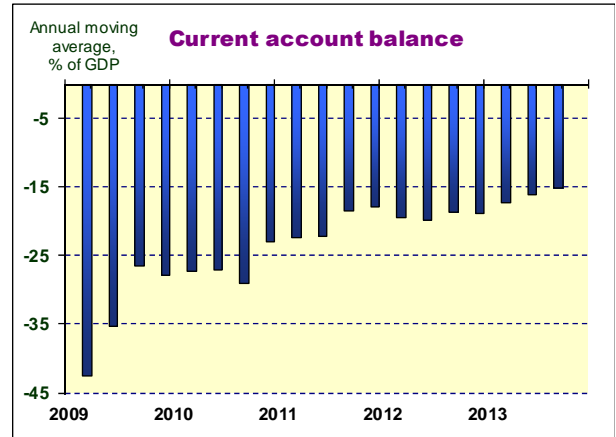
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## MONTENEGRO





## Key developments

On 17 December, the General Affairs Council of the EU adopted a negotiating framework which sets out the principles governing the accession negotiations with Serbia. EU ministers agreed that the first intergovernmental conference with Serbia would take place in January 2014. The Council decision came after Serbia and Kosovo had made further progress in implementing the agreements reached in the framework of the EU facilitated dialogue.

The 2014 budget was approved in December. The Fiscal Strategy for 2014-2016 envisages a reduction of the consolidated budget deficit from 7.1% of GDP in 2014 (including servicing of activated government guarantees and other financial transactions) to 3.2% in 2016.

## Real sector

Growth accelerated strongly to 3.7% in the third quarter (year-on-year), following an upward revision of data in the first two quarters to 3.0% and 0.6%. There was also a significant revision of 2012 data, in particular regarding growth of investments (from -3.4% to 14.4%), exports (from 4.5% to 1.8%) and imports (from 4.2% to 1.9%). Preliminary estimates of the Statistical Office point to a more subdued growth of 2.3% in the last quarter of 2013 and a 2.4% growth for the year as a whole.

The robust economic performance in the third quarter was driven mainly by very strong exports. In an environment of weak domestic demand, exports increased by 26.7% year-on-year, more than doubling their growth rate from the first half of the year. In the same quarter, households consumption fell by 2.1% and investments contracted by 10.3%. However, the growth of government consumption turned (unexpectedly) positive (1.8%) after a year of decline. Imports increased by 6.9%.

There has been little change in the supply side composition of growth in the third quarter. Strong performance of agriculture, manufacturing, and information and communication led the recovery, while construction continued to fall (-26.0%). However, a marked increase in electricity, gas

and steam supply (growing by 20.5% year-on-year) and a far less pronounced decline in wholesale and retail trade have boosted growth in the third quarter.

High frequency indicators point at a rebound in domestic demand in the last months of the year. Retail trade turnover turned to a real growth in October (0.1% year-on-year) and November (3.1%) and further accelerated in December on the back of increasing real wages and a slight increase in employment. After picking-up in September (13.4% year-on-year), industrial production remained robust in October and November and with an average growth of 6.0% in the period January-November. The good performance of manufacturing, growing 5.5% in the same period, was due to few industries (automotive, pharmaceutical, chemical and petroleum), while most of the other sectors remain in negative territory.

## Labour market

The discrepancy between the registered and Labour force survey (LFS) employment data increased. According to the October 2013 LFS, the number of unemployed fell by 9.3% (year-on-year) to slightly more than 600 thousand, while the registered unemployed increased over the same period by 1% to 760 thousand. Different trends have been registered by the two sources also regarding the level of employment.

In October, the LFS unemployment rate dropped to 20.1%, marking its lowest level in three years. The activity rate increased to 49.0% and close to 100 thousand people found employment since the October 2012 Survey. However, a quarter of them went into agriculture and the share of those with a casual, seasonal or temporary job increased by 2 percentage points to 16.7% of total employment.

After a year in decline, since September real wages started to go up again. Following their indexation in October, pensions and government wages have also increased in real terms. Despite a still tense labour market situation, the rapid deceleration of inflation supported the bouncing up of real wages. However, in the period January-November, the average gross real wages have still been in decline (2.5% year-on-year).



## External sector

Since July, exports of goods continued their stellar performance and their cumulative growth in the period January-October reached 26.2% in euro terms (year-on-year). Imports have also started catching-up, growing by 5.0% over the same period. By end-October, the trade deficit was down by nearly 30% (year-on-year) and contributed the most to a 56% reduction in the current account deficit which stood at slightly less than EUR 1.2 billion. As a ratio to GDP, the current account deficit narrowed to 5.6% in the four quarters to September from 10.7% in 2012.

Net financial flows remained meagre and continued to trickle out of the country. Portfolio and other investments were negative in each of the months since July and, despite some revival, net foreign direct investments were not far above their (low) levels in the corresponding period of the previous year. In three months (July-October), reserve assets fell by some EUR 300 million, fully reversing the gains made in the beginning of the year. Still, the central bank foreign exchange reserves remained at a comfortable EUR 10.4 billion in November, covering about seven months' worth of imports of goods and services.

## Monetary developments

Inflation continued decelerating rapidly, reaching a historic low of 1.6% (year-on-year) in November. Monthly inflation rates have averaged 0.2% since the beginning of the year (July and November saw a deflation), bringing the annual inflation to 2%. Since the summer, due to a very good agricultural season, food prices have had a deflationary impact. Together with lower fuel prices, broadly stable exchange rate and some base effects (2012 increases in indirect taxation) they were the main factor behind the strong deceleration of inflation in the second half of the year.

After entering the central bank tolerance band ( $4\pm 1.5\%$ ) in September, inflation rates have remained below the lower margin of the band. The central bank reacted to lower inflationary pressure and expectations by reducing its key interest rate in three steps by half a percentage point each in October, November and December, setting its rate at 9.5%. The dinar remained broadly stable against the euro and in October-November the central bank intervened buying euros to smoothen excessive daily

volatility on the market.

## Financial sector

Lending activity to non-government sectors continued to decline, falling by a nominal 5.1% (year-on-year) by end-November. Company loans fell by 10.0%, while loans to households increased by 3.3% year-on-year. Credit to the government surged in the autumn and stood at 17% of total domestic credit by the end of November. Deposits growth remained positive at 4.8%, providing an important source of financing, as both the central bank and commercial banks continued reducing their foreign liabilities. The gross non-performing loans ratio increased to 21.1% in September and the regulatory capital to risk-weighted assets of the system fell to 19.9%, but remained still well above the required minimum of 12%.

In October, the central bank revoked the operating license of Privredna banka. The Postal Savings Bank and the Deposit Insurance Agency are to assume part of the assets and liabilities of the failed bank. In December, the central bank adopted a Strategy for Implementation of Basel III Standards in Serbia.

## Fiscal developments

By the end of November, the general government deficit stood at SRD 159.9 billion or about 76% of the estimated annual target (5.6% of GDP).

The growth of revenues decelerated further and stood at a nominal 3.5% (year-on-year) in the period January-November. Total revenue reached RSD 1,315 billion (88.9% of the annual estimate) and are likely to fall short of the annual target of RSD 1,479 billion due to underperformance of VAT, excises and non-tax revenue. In the autumn, total expenditure growth remained subdued and by end-November, the cumulative expenditure from the beginning of the year increased by 2.1% (year-on-year), less than foreseen. Current spending increased by 5.0%, boosted mainly by rising interest payments (37.7%), while capital expenditure saw a strong under-execution, falling by 31%.

In November, the government issued a USD 1 billion, five-year Eurobond, at a yield of 6.125%. By the end of November, government debt increased to EUR 19.5 billion or 60.1% of the estimated GDP, compared to 60.0% at the beginning of the year.



## TABLE

European Commission, ECFIN-D-1



## SERBIA

		2009	2010	2011	2012	2013	ECFIN Forecast		Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
							2014	2015						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. %ch	-12.4	3.1	2.0	-3.4	:	:	:	3.0	10.5	:	5.2	4.2	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-3.5	1.0	1.6	-1.5	1.7f	1.5	2.0	0.6	3.7	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	-2.7	-1.0	-1.2	-1.9	-1.4f	-0.3	0.6	-1.7	-2.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	-22.1	-5.5	8.4	14.4	-7.6f	7.3	9.9	-16.4	-10.3	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	:	13.6	28.6	-14.6	:	:	:	-48.0	-19.3	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	-11.4	-0.7	-14.6	-3.9	:	:	:	-5.2	-5.7	:	0.1	3.1	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	16.1	19.2	23.0	23.9	24.0f	24.0	23.1	24.1	N.A.	20.1	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. %ch	-6.1	-3.6	-3.1	-1.1	0.0f	0.3	1.0	-0.5	-0.6	:	-0.3	:	:
Wages <sup>2.3</sup>	Ann. %ch	1.0	7.4	11.1	9.0	:	:	:	5.8	5.9	:	4.1	3.4	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	-19.4	23.9	14.0	4.3	:	:	:	18.7	38.2	:	24.0	:	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-31.4	9.8	14.9	3.5	:	:	:	3.6	10.7	:	5.9	:	:
Trade balance* <sup>3.3</sup>	%of GDP	-17.1	-16.4	-17.0	-18.4	-12.9f	-12.3	-12.3	-15.5	-13.6	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	29.3	36.2	36.5	40.3	:	:	:	41.8	44.0	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	46.3	52.6	52.9	58.1	:	:	:	56.5	56.6	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-6.6	-6.9	-9.2	-10.7	-4.9f	-4.7	-5.2	-6.9	-5.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	4.7	3.1	5.8	0.8	:	:	:	2.2	2.5	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	10 601.9	10 001.6	12 058.2	10 914.7	:	:	:	10 672.8	10 444.4	:	10 298.3	10 362.0	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	11.6	10.0	10.5	9.2	:	:	:	8.9	8.5	:	8.3	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	6.6	10.2	7.0	12.2	8.2f	4.9	5.3	9.8	4.9	:	2.2	1.6	:
Producer prices <sup>4.2</sup>	Ann. %ch	7.4	16.2	9.7	6.4	:	:	:	4.3	1.6	:	0.5	0.7	:
Food prices <sup>4.3</sup>	Ann. %ch	0.8	10.6	6.4	15.4	:	:	:	12.6	0.4	:	-3.0	-4.3	:
M3 <sup>4.4</sup>	Ann. %ch	21.5	12.9	10.3	9.4	:	:	:	4.5	6.1	:	7.5	5.9	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	93.94	102.90	101.96	113.01	113.09	:	:	112.15	114.19	114.32	114.19	114.06	114.71
Nominal eff. exchange rate <sup>4.6</sup>	Index	89.6	79.3	81.8	74.1	:	:	:	73.9	73.7	:	74.3	74.2	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	%p.a.	13.40	10.85	12.56	12.50	9.49	:	:	:	9.31	:	9.25	9.09	:
Bond yield (12 months) <sup>5.2</sup>	%p.a.	11.86	10.60	12.90	13.04	10.67	:	:	:	:	:	:	10.70	:
Stock markets <sup>5.3</sup>	Index	1 197	1 283	1 371	932	1 035	:	:	1 032	997	1 059	1 031	1 060	1 087
Credit growth <sup>5.4</sup>	Ann. %ch	21.4	32.3	5.5	12.9	:	:	:	-3.9	-6.9	:	-2.7	-1.2	:
Deposit growth <sup>5.5</sup>	Ann. %ch	23.6	14.4	9.2	10.4	:	:	:	4.4	5.9	:	7.1	4.8	:
Non-performing loans <sup>5.6</sup>	%total	15.7	16.9	19.0	18.6	:	:	:	19.9	21.1	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance* <sup>6.1</sup>	%of GDP	-4.5	-4.7	-4.9	-6.5	-5.6f	-5.3	-4.6	-5.4	-5.9	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	34.7	44.5	48.2	60.0	62.7f	68.8	71.1	61.6	60.8	:	:	:	:

f: ECFIN forecast Autumn 2013

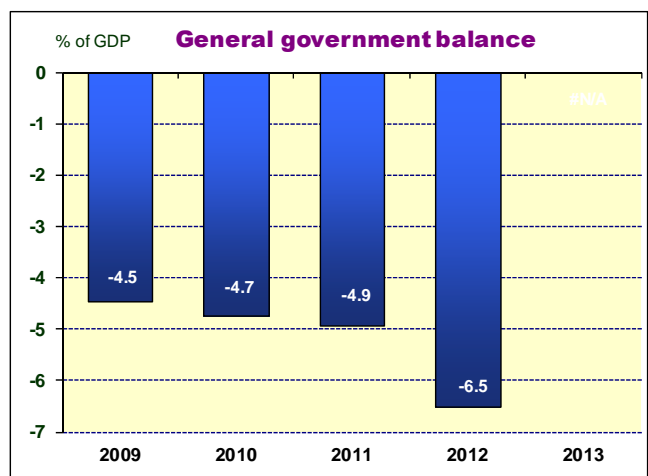
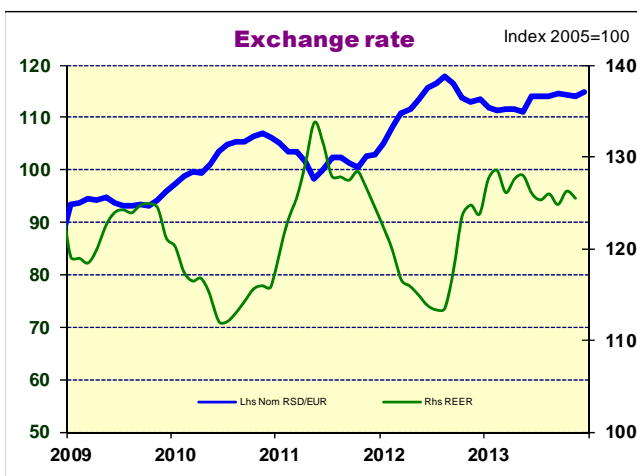
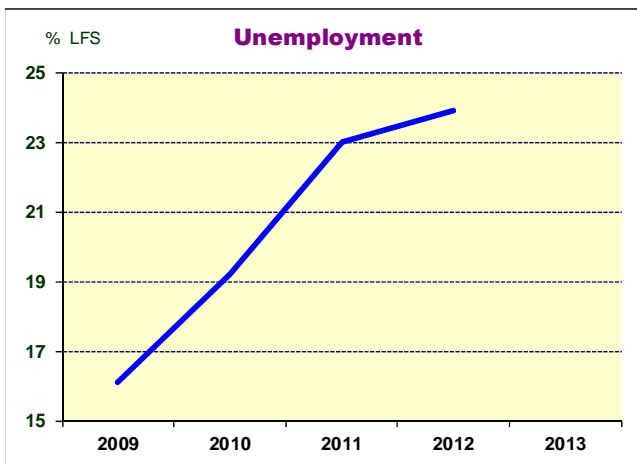
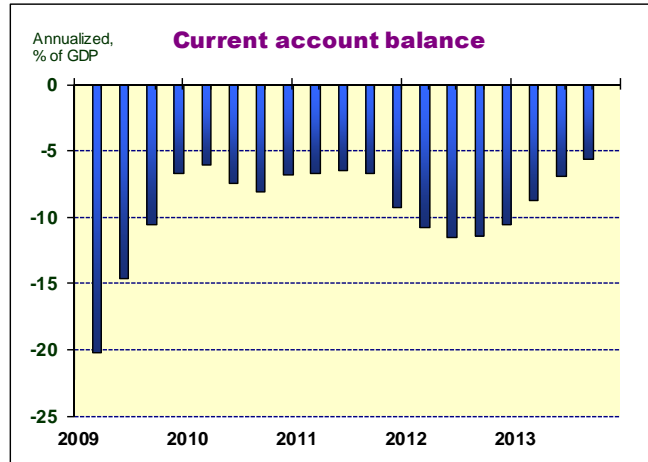
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA





### Key developments

The government released its annual Medium Term Programme (2014-2016), including main macroeconomic and fiscal targets, on 8 October. Compared to the previous MTP, projected GDP growth was lowered to 3.6% for 2013, 4.0% for 2014 and 5.0% for 2015-2016. Inflation is seen to fall gradually and to reach the 5%-target at the end of 2015. In spite of the projected growth acceleration, the current account deficit is expected to fall to 5.5% of GDP by 2016.

The domestic political crisis, which followed the launch of a wide-ranging corruption investigation by judiciary and police on 17 December, triggered a selloff of Turkish assets. Over the last two weeks of the year, the Turkish lira depreciated 5.5% against the euro, stock prices plunged and the yield on government bonds increased significantly.

On 20 December, the parliament approved the central government's 2014 budget which targets a deficit of 1.9% of GDP.

### Real Sector

Real GDP posted 4.4% year-on-year growth in the third quarter which was close to the (upwardly revised) 4.5% gain in the second quarter. The dynamics of GDP growth have rotated from the government to the private sector as private investments started to expand again after five consecutive quarters of contraction. Private consumption, supported by fast-rising borrowing, continued to be the strongest growth driver. It increased by 5.1% year-on-year and contributed 3.3 percentage points to GDP growth. Fixed investments by the private sector increased 5.3% and added a full percentage point to overall growth. Following a surge in the first half of the year, public consumption decelerated to 0.6% growth which added only 0.1 percentage point to GDP growth. Public investment was reined in as well to a relatively modest growth rate of 9.1% which added 0.4 percentage points to overall growth. Net exports exerted a drag on growth for the third

consecutive quarter (-2.2 percentage points). Somewhat surprisingly, exports of goods and services declined by 2.2% in spite of the improvement in main export markets. With a growth rate of 6.0%, imports of goods and services increased less strongly than in the preceding two quarters. An important contribution to GDP growth came again from inventory accumulation (1.9 percentage points) seemingly related to the large gold imports.

The available data for the fourth quarter indicate that final domestic demand has increased moderately. The volume of retail sales was 6.4% higher year-on-year in November while consumer confidence remained practically unchanged compared to the summer months. Industrial production was 4.7% higher year-on-year in November and capacity utilisation in the manufacturing industry climbed further. The manufacturing PMI stayed in expansionary territory with a December-reading of 53.5. Business sentiment declined in the course of the quarter, but remained relatively optimistic.

The foreign trade data suggest that net exports have continued to subtract from GDP growth in the fourth quarter. The level of nominal goods exports in October and November was 0.6% below the third quarter (in seasonally and calendar adjusted terms). On a year-on-year basis, the value of goods exports declined 2.3%. The level of nominal goods imports in October and November was 4.9% above the third quarter. On a year-on-year basis, the value of goods imports increased 2.9%. The share of exports going to the EU increased by 2.9 percentage points year-on-year to 44.0% in October-November.

### Labour market

Employment stagnated in seasonally adjusted terms in the third quarter and was only 1.3% higher year-on-year in September. The unemployment rate (national definition) increased with 0.8 percentage points year-on-year to 9.9% in September on the basis of an expanding labour force (2.2% year-on-year). The labour force participation rate was up by 0.3

percentage points year-on-year although it had stopped rising over the summer months. The hourly labour cost index increased by 11.5% year-on-year in the third quarter, significantly less than in the preceding two quarters.

### External sector

The current account deficit amounted to USD 51.9 billion in the first ten months of 2013 compared to USD 39.6 billion in the same period in 2012. The worsening deficit is more than accounted for by a turnaround in gold trading (related to international sanctions on Iran) from a large surplus in 2012 to an even larger deficit in 2013. The 12-month cumulative current account deficit amounted to USD 60.9 billion in October corresponding to 7.4% of GDP at the average exchange rate in the period. The deficit on gold trade alone was equal to 1.1% of GDP.

The bulk of the current account deficit continued to be financed by inflows of portfolio investments. Net inflows of foreign direct investments covered 13.9% of the deficit in the first ten months of 2013. The central bank's gross foreign exchange reserves increased from €80.7 billion at the end of September to €82.4 billion at the end of December (15.0% of GDP). Gross external debt rose to 50.0% at the end of the third quarter, up from 47.8% three months earlier.

### Monetary developments

Headline inflation stood at 7.4% in December, down from 7.9% in September. Year-end inflation exceeded the central bank's forecast from October (6.8%) and was significantly above the medium-term target of 5%. Higher food prices and the pass-through from currency weakness have been the strongest inflationary forces in recent months.

The Turkish lira depreciated by 7.1% against the euro over the fourth quarter most of which happened in the last two weeks of December. For 2013 as a whole, the lira lost 20.4% of its value against the euro. In real effective terms, the lira depreciated by 9.6% in the twelve months to December 2013. In support of the lira, the central bank sold foreign exchange worth € 5.1 billion in the fourth quarter, more than half of it on the last eight trading days of the year.

The central bank refrained from raising official interest rates to combat currency depreciation

and inflationary pressures in the fourth quarter. In particular, the "interest rate corridor" was left unchanged with overnight borrowing and lending rates at 3.5% and 7.75%, respectively. However, liquidity conditions were tightened successively by fine-tuning operations to push the marginal cost of funding in the interbank market towards 7.75% and by scaling down the funding provided via one-week repo auctions (at an unchanged interest rate of 4.5%). Concerning future monetary policy measures, the central bank maintained a tightening bias.

The banking supervisory authority introduced new macro-prudential measures in October designed to rein in the expansion of consumer loans, particularly credit card loans. Nevertheless, credit growth continued unabated at around 30% year-on-year in the fourth quarter.

### Financial sector

The net income of the banking sector increased by 11.6% year-on-year in the first ten months of 2013. Although the portfolio of non-performing loans increased by 22% year-on-year, its share of total loans remained relatively low and stable at around 3%. The capital adequacy ratio of banks was 15.8% at the end of October, down by 1.1 percentage points year-on-year.

Stock and bond markets were relatively stable from the beginning of October to mid-December. Between the eruption of the political crisis on 17 December and the end of the year, the main stock index of the Borsa Istanbul dropped by 9.4% while the yield on the benchmark 2-year government note increased from 8.9% to 10.1%.

### Fiscal developments

The growth in central government revenues has surpassed expenditure growth by a wide margin in 2013 due to strong privatisation receipts and a surge of revenues from changes in indirect taxation and higher social security premiums. Based on budget realisations for the first eleven months of the year, it seems likely that the central government's deficit target of 1.2% of GDP can be achieved (revised in October from an original 2.2%). The 2014 budget foresees a rise in the deficit to 1.9% of GDP as privatisation receipts are projected to fall and the growth in tax revenues to normalise. For 2015 and 2016, the MTP projects a decline in this deficit to 1.6% and 1.1%, respectively.

## TABLE



European Commission, ECFIN-D-1

## TURKEY

		2009	2010	2011	2012	2013	ECFIN Forecast		Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
							2014	2015						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	87.3	110.3	110.5	106.3	108.1	:	:	112.1	108.2	104.7	107.5	104.5	102.1
Industrial production <sup>1.2</sup>	Ann. %ch	-9.9	12.8	10.1	2.5	:	:	:	3.2	3.8	:	-0.5	4.7	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-4.8	9.2	8.8	2.2	3.5f	3.0	4.3	4.5	4.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	-2.3	6.7	7.7	-0.6	3.4f	1.5	3.1	5.6	5.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	-19.0	30.5	18.0	-2.7	2.3f	3.1	8.8	4.0	6.0	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	-7.9	77.4	-16.2	29.0	:	:	:	13.4	23.6	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	N.A.	N.A.	8.9	5.3	:	:	:	-0.6	6.7	:	8.5	6.4	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	14.0	11.9	9.8	9.2	9.6f	9.9	9.2	9.0	9.7	:	:	:	:
Employment <sup>2.2</sup>	Ann. %ch	0.5	6.2	6.5	3.2	3.0f	2.6	3.7	3.5	2.0	:	:	:	:
Wages <sup>2.3</sup>	Ann. %ch	9.9	11.8	9.7	11.5	10.7f	8.2	9.0	11.7	12.6	:	:	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	-22.6	11.5	18.5	13.0	:	:	:	-2.2	-3.5	:	-8.5	3.6	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-30.2	31.7	29.8	-1.8	:	:	:	9.1	3.7	:	3.7	2.2	:
Trade balance* <sup>3.3</sup>	% of GDP	-4.0	-7.7	-11.5	-8.3	-9.1f	-8.9	-9.2	-8.7	-9.1	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	23.3	21.2	24.0	26.4	:	:	:	25.9	25.8	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	24.4	26.8	32.6	31.5	:	:	:	31.4	31.7	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-2.0	-6.2	-9.7	-6.0	-7.0f	-6.6	-6.9	-6.7	-7.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	1.2	1.0	1.8	1.1	:	:	:	0.8	1.0	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	bio EUR	76.8	83.2	83.9	104.8	:	:	:	104.1	109.6	:	109.4	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	9.1	7.1	5.8	6.8	:	:	:	6.6	7.0	:	7.0	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	6.3	8.6	6.5	8.9	7.5	7.7	7.2	7.0	8.3	7.5	7.7	7.3	7.4
Producer prices <sup>4.2</sup>	Ann. %ch	1.2	8.5	11.1	6.1	4.5	:	:	3.0	6.4	6.5	6.8	5.7	7.0
Food prices <sup>4.3</sup>	Ann. %ch	8.0	10.6	6.2	8.4	9.1	:	:	8.9	10.5	10.2	11.1	9.8	9.7
M4 <sup>4.4</sup>	Ann. %ch	17.6	15.2	19.6	8.4	:	:	:	14.4	18.5	:	19.1	20.8	:
Exchange rate TRY/EUR <sup>4.5</sup>	Value	2.16	1.99	2.33	2.31	2.53	:	:	2.40	2.61	2.76	2.72	2.73	2.82
Nominal eff. exchange rate <sup>4.6</sup>	Index	82.77	86.24	74.13	72.43	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	9.06	7.18	8.34	8.44	6.60	:	:	5.59	7.57	7.65	6.96	7.75	8.22
Interest rate, long term <sup>5.2</sup>	% p.a.	17.20	14.99	14.19	16.03	:	:	:	15.67	15.16	:	14.70	14.70	:
Stock markets <sup>5.3</sup>	Index	37 518	59 484	60 751	63 731	77 977	:	:	83 565	72 934	74 272	77 139	74 801	70 875
Credit growth <sup>5.4</sup>	Ann. %ch	9.7	40.8	35.2	18.6	33.4	:	:	26.4	32.2	33.4	32.1	33.0	33.4
Deposit growth <sup>5.5</sup>	Ann. %ch	18.3	16.6	20.3	10.8	17.4	:	:	15.0	19.1	21.5	20.5	21.5	22.4
Non-performing loans <sup>5.6</sup>	% total	6.0	5.4	3.4	3.0	3.0	:	:	3.1	2.9	2.9	2.9	3.0	2.9
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-7.0	-2.6	-2.2	-2.3	-1.7f	-2.3	-1.9	0.6	-0.6	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	45.5	42.4	39.8	37.9	34.6f	33.8	32.2	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2013

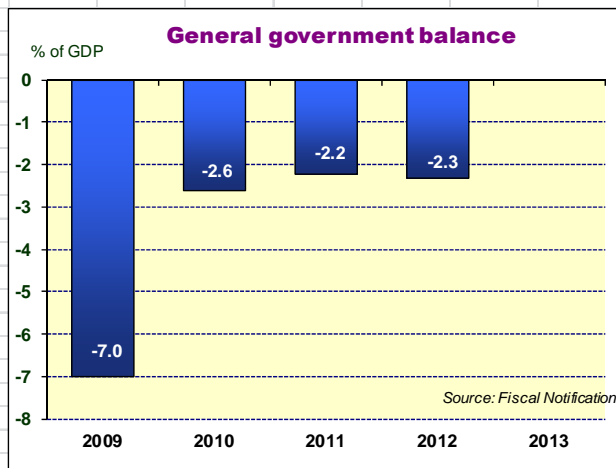
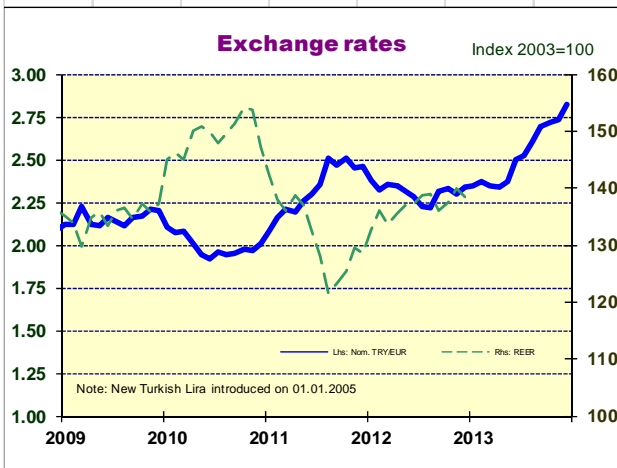
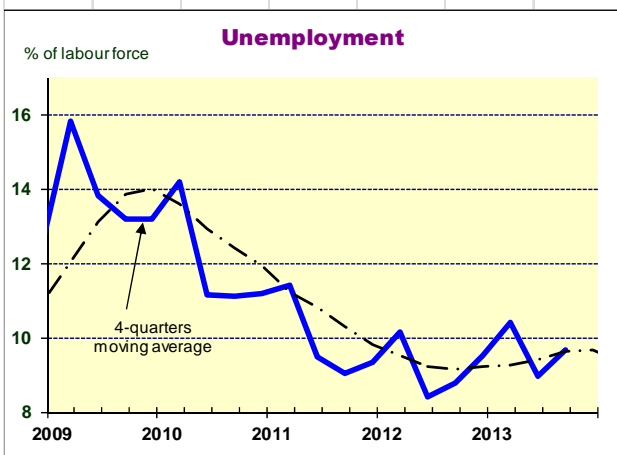
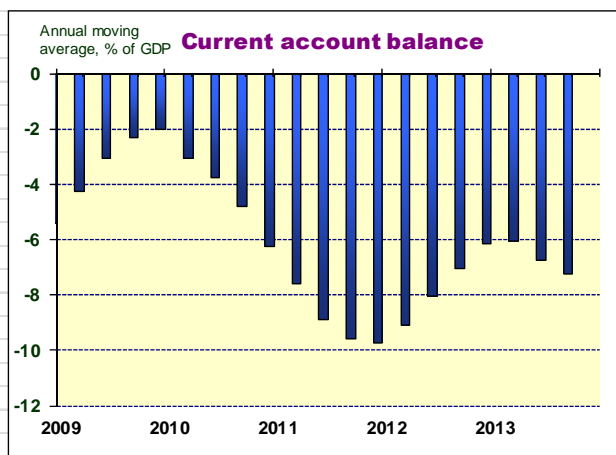
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## TURKEY







## Key developments

The Council of the European Union welcomed in December the adoption by Albania of the relevant key judicial, public administration and parliamentary reform measures as well as the successful conduct of the parliamentary elections in June. The Council also commended the action taken by Albania in the fight against corruption and organised crime. The decision on granting Albania candidate status, recommended by the Commission in its 2013 Progress Report, was however postponed to June 2014, subject to further progress by Albania and endorsement by the European Council.

In December, Standard & Poor's lowered Albania's long-term sovereign credit rating to 'B' from 'B+' following a significant increase in public debt. The outlook is negative due to heightened roll-over risks.

Deteriorating public finances led the authorities to request an economic assistance programme from the IMF. In December, staff level agreement was reached on a 36-month Extended Fund Facility (EFF) with a proposed total assistance of EUR 300 million. The programme, due to be approved by IMF Management and the Executive Board in early spring, aims to support economic recovery and macroeconomic stability over the medium term, in particular by reversing the upward trend in public debt and clearing the government's arrears. The World Bank is expected to provide further financial assistance.

## Real sector

The continuing sluggishness of private demand, exacerbated by tight lending conditions and falling remittances, weighed heavily on third quarter growth, offsetting the fading fiscal stimulus. Real GDP contracted by 2.3% in annual terms, as only agriculture registered growth (+2.9%) while construction (-10%), and all services branches experienced a slump (transport -4.2%; trade, hotels and restaurants -3.4%; post and communication -1.2%; other services -0.6%). Industry was also down 4.6% year-on-year, as the extracting industry's sharply decelerating but still positive growth (6.3% compared with rates of 20-30% in previous quarters) was outweighed by a decline in manufacturing (-7.1%).

The statistical office also revised previous quarterly estimates: first quarter annual growth was raised to 1.9% from 1.7%, and the second quarter outcome was improved to 1.7% from 1.1%.

## Labour market

Despite the economic slump, total employment continued its uptick in the third quarter (+0.5% year-on-year), according to administrative data. This was exclusively due to more non-agricultural private sector jobs (+5.8%), whereas employment in agriculture (by far the largest sector in terms of employment) and the public sector contracted slightly on an annual basis. As the labour force also expanded, the registered unemployment rate remained flat at 12.8%. However, continuing weaknesses in labour market statistics call for some caution in interpreting these figures.

## External sector

In the third quarter, the current account deficit shrunk by over 20% year-on-year, thus continuing the trend toward a narrowing shortfall that was interrupted in the previous three months. In the four quarters to September, the current account deficit fell to 9.8% of GDP from 12.3% in the corresponding period a year earlier. The third quarter outcome is the result of a 19% annual improvement in the merchandise trade deficit on the back of an enduring export boom (+13.2% year-on-year) as well as falling imports of goods (-5.4%). This was partly offset by the services balance that, although positive following two consecutive quarters in the red, was some 60% below its performance in the same period of the previous year, mainly due to weaker tourism. Net current transfers continued to shrink on an annual basis (-11.8%) thanks to a 15.6% drop in remittances, although the pace of contraction eased somewhat from the second quarter.

Net FDI inflows continued to be strong at EUR 259 million in the third quarter, increasing by some 65% year-on-year. The overall balance of payments was positive; as a result, official reserves increased by EUR 34 million and covered 7.1 months of merchandise imports.

Following a 4.4% annual increase, the stock of gross external debt stood at EUR 5.47 billion in the third quarter, or some 56% of projected full-year GDP. Around 43% of it consists of government long-term borrowing.

### Monetary developments

The rate of annual consumer price inflation decelerated further to 1.5% in the third quarter from 2.2% in the previous three months, undershooting the lower limit of the central bank target range of 2-4%. Unprocessed food continued to account for the bulk of inflation in the third quarter, but its contribution was lower than in the previous three months thanks to increased domestic production. A stable exchange rate and global prices dampened processed food inflation. Housing and non-food consumer goods made negative contribution to the headline rate. Inflation continued to hover below 2% in October to December.

In the context of low inflation and a weak economy, the Bank of Albania (BoA) pursued its accommodative stance and cut the base interest rate in November and December by a total of 50 bps to a new historic low of 3%.

In the third and fourth quarter, the Albanian lek (ALL) depreciated against the euro in annual terms by 1.7% and 0.5%, respectively. The nominal effective exchange rate remained unchanged due to a weaker USD and increase in trade with China and Turkey.

### Financial sector

The transmission of the monetary policy easing to the economy continued to be constrained by high risk premia applied by banks and low levels of crediting.

The average interest rate on new ALL loans came down to 9.36% in November from 10.21% a year earlier, lagging behind the much more pronounced downtrend in 12-month ALL deposit rates (from 5.23% to 2.65%).

The level of non-performing loans (NPLs) remained very high at 24.3% in the third quarter, constituting one of the main factors behind continuing tight lending standards. On a positive note, for the first time since their steep increase started in 2008, NPLs decreased slightly from the previous quarter, which might signal a turning point.

Reflecting both supply and demand factors, outstanding credit to the economy shrank by 1.3% year-on-year in the third quarter, and the

rate of decrease accelerated in October (-2.2%) and November (-2.4%).

The capital adequacy ratio of the banking sector as a whole rose to 17.8% in the third quarter from 17.0% in the previous three months, staying comfortably above the BoA's minimum requirement of 12%. On the other hand, the sector's net income turned negative, mainly on account of high loan loss provisioning.

### Fiscal developments

Large budgetary slippages, caused mainly by disappointing revenue from direct taxes, necessitated the adoption of a substantially revised 2013 budget in October. The amendment lowers total revenues by some 10.7% compared with the initial budget, leaving them more than 3% below even their 2012 level. Apart from personal income tax, revenues are lowered across the board, but the bulk of the shortfall comes from underperforming VAT (-13.7% compared with the initial budget) and excise taxes (-17.5%). Expenditures are cut by 1%, helped by lower than anticipated debt service costs. The full year deficit is expected to be 71% higher than planned; this, along with a downward revision of nominal GDP, would result in a budget shortfall of 6.2% of GDP, compared with initial plans of 3.5%. Based on the January-November figures, the actual fiscal outturn for the year might be slightly more favourable.

Receipts from the earlier privatisation of four hydro power plants are used to plug some 15% of the deficit, but the need for additional borrowing means that public debt (not including government arrears) climbed to 64.4% of GDP in the third quarter.

The 2014 budget, adopted by the Parliament on 28 December, expects total revenues to increase by 13.1% year-on-year, raising the revenue-to-GDP ratio to 26.3% from 23.8% in 2013. Increases in excise duties, the lifting of some VAT and excise exemptions in the hydrocarbon sector, and the hike in the corporate income tax rate from 10% to 15% (with a lower rate of 7.5% for small businesses) are expected to boost revenues, while a progressive personal income tax is forecast to yield less than the previous flat rate. Expenditures are projected to increase by 13.4% year-on-year as the clearance of a substantial part of arrears, amounting to 2.8% of GDP, is budgeted. The deficit is projected to widen to 6.6% while public debt is to climb to 73.6% of GDP in 2014.

TABLE

European Commission, ECFIN-D-1



ALBANIA

		2009	2010	2011	2012	2013	Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Percent	-13.4	-5.8	-3.8	-10.2	:	-11.8	-10.2	:	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann.%ch	-1.2	19.9	-10.2	16.6	:	58.2	:	:	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann.%ch	3.3	3.8	3.1	1.6e	:	1.7	-2.3	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	6.2	5.7	7.2	8.0	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-2.3	-1.3	4.2	-4.7	:	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	0.0	0.3	0.5	0.6	:	1.0	0.5	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	1.4	-1.2	-4.0	-0.7	:	6.4	2.9	:	:	:	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	13.6	13.7	13.4	12.9	:	12.8	12.8	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	-5.9	-0.1	2.3	3.6	:	1.5	0.5	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	11.9	6.7	7.0	7.3	:	5.9	2.6	:	N.A.	N.A.	N.A.
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann.%ch	-11.8	62.5	22.3	7.5	:	17.6	15.0	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-1.7	10.9	14.2	-4.3	:	-0.5	-3.7	:	:	:	:
Trade balance* <sup>3.3</sup>	%of GDP	-26.5	-23.5	-24.5	-20.6	:	-18.5	-17.5	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	29.1	32.9	34.5	32.8	:	33.6	33.7	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	53.6	53.7	57.6	51.5	:	51.3	51.3	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-15.3	-11.5	-13.0	-10.5	:	-10.3	-9.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	7.7	9.4	7.8	7.5	:	7.9	9.0	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1562.7	1823.1	1847.5	1907.6	:	1946.7	1985.5	:	1951.0	1947.8	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.1	6.7	6.1	6.5	:	6.8	7.1	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann.%ch	2.3	3.6	3.5	2.0	:	2.2	1.5	:	1.7	1.0	:
Producer prices <sup>4.2</sup>	Ann.%ch	-1.7	0.3	2.6	1.1	:	-0.5	0.0	:	:	:	:
Food prices <sup>4.3</sup>	Ann.%ch	4.9	4.8	4.8	2.4	:	5.3	3.6	:	3.5	2.1	:
M2 <sup>4.4</sup>	Ann.%ch	8.0	5.5	6.7	4.7	:	5.7	7.2	:	7.2	6.8	:
Exchange rate LEK/EUR <sup>4.5</sup>	Value	132.06	137.79	140.33	139.04	140.26	140.71	140.28	140.39	140.85	140.11	140.21
Nominal eff. exchange rate <sup>4.6</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	%p.a.	6.23	5.76	5.46	5.16	:	4.75	3.71	:	3.43	3.41	:
Bond yield <sup>5.2</sup>	%p.a.	7.82	7.25	6.53	6.77	:	6.57	5.90	:	4.94	4.75	:
Stock markets <sup>5.3</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth <sup>5.4</sup>	Ann.%ch	20.5	8.6	11.7	7.4	:	0.7	-1.3	:	-2.2	-2.4	:
Deposit growth <sup>5.5</sup>	Ann.%ch	-0.1	15.5	14.5	9.4	:	4.7	2.4	:	1.7	2.3	:
Non performing loans <sup>5.6</sup>	%total	9.1	12.6	17.0	21.7	:	24.4	24.3	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance* <sup>6.1</sup>	%of GDP	-7.0	-3.1	-3.6	-3.4	:	-3.5	-4.3	:	-3.9	:	:
General government debt* <sup>6.2</sup>	%of GDP	59.5	58.5	60.3	61.5	:	64.3	64.4	:	N.A.	N.A.	N.A.

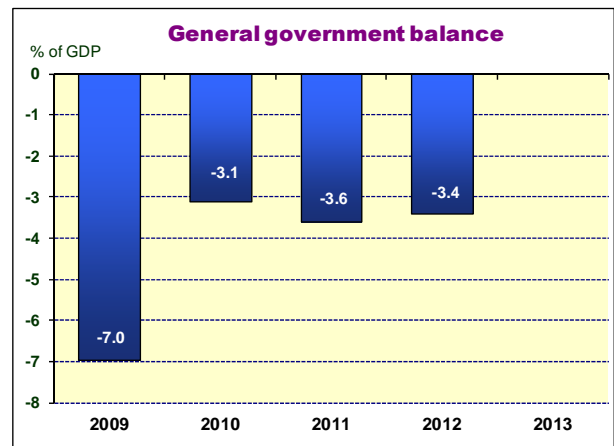
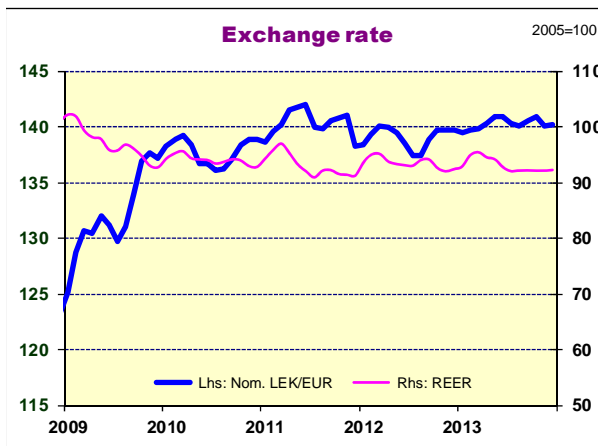
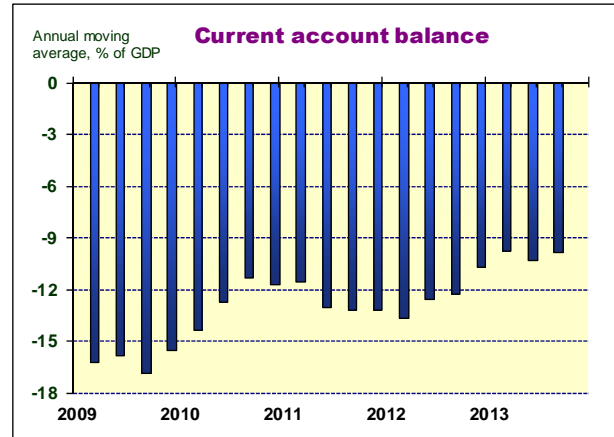
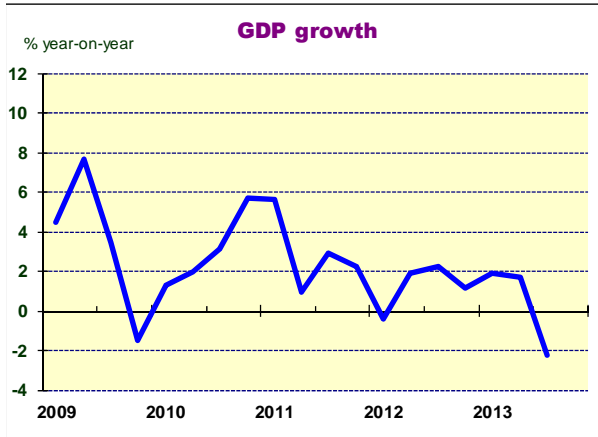
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## ALBANIA





## Key developments

The first post-independence population census in Bosnia and Herzegovina was conducted in the first half of October 2013. According to its preliminary results, the population substantially decreased to 3.8 million in 2013 from 4.3 million in 1991 with approximately 2.4 million recorded in the Federation Bosnia and Herzegovina, 1.3 million in Republika Srpska and about 0.1 million in the Brčko District.

In November 2013 the IMF concluded a mission for the fifth review under the Stand-By Arrangement with Bosnia and Herzegovina. However, so far the disbursement of a tranche under the programme has been postponed since the 2014 fiscal budget was only adopted as of end-December 2013 which was beyond the deadline of 9<sup>th</sup> December set by the IMF. The completion of this review would trigger a disbursement of a tranche of 38 million euro as well as the consideration of the authorities' request for the extension and augmentation of the current arrangement by the IMF Executive Board.

Due to the enduring failure of the authorities to agree on the structures through which to channel EU development assistance funds and after several agriculture projects financed under IPA (2008-2012) were cancelled in September 2013, the European Commission decided to cut further funds from IPA 2013 by 45 million euro from originally 87 million euro and to postpone discussions on IPA II (2014-2020) until the country has made progress in setting up an coordination mechanism for EU assistance.

## Real sector

Following a modest decline by 1.1% in 2012, the rebound of the economic activity started in the first half of 2013 and continued also in the following months. Country-wide industrial production increased by around 7% in the second quarter, compared to 6.6% in the first quarter, and continued to grow at a decelerating pace at 4.9% year on year in the third quarter. Overall, in the first three quarters of the year, industrial production grew by 6.9%, as compared to a 5.4% decline a year ago. The manufacturing sector, followed by the utility

sector, registered the largest output increase (8.8% and 8.2%, respectively), while the mining sector posted a decrease of -5.8% year on year in the same period.

Judging from high-frequency indicators with a changed methodology and thus allowing for a comparison only on quarter-on-quarter basis, domestic demand, and in particular private consumption recovered somewhat in the third quarter in 2013. In particular, retail sales in Republika Srpska, increased in the third quarter by 8.8%, while retail sales in the Federation Bosnia and Herzegovina increased in the third quarter by 6.3% quarter on quarter.

## Labour market

The overall situation on the labour market deteriorated further in the third quarter. The already high level of registered unemployed stood at 44.8%, showing thus an increase by 0.6 percentage points year on year. This was partly due to the rising labour force, as well as to the continuing unfavourable developments in some sectors (construction and agriculture among others). The level of total employment declined furthermore in the second and third quarters by 0.7% and 0.6%, respectively.

Nominal wage growth turned positive in the third quarter of 2013 (0.5%) after marginally declining year-on-year in the first half of 2013. A slightly positive growth rate of 0.2% was recorded in October. In real terms, the gross wage in the first ten months of 2013 fell marginally by 0.1% compared to a decrease of 0.4% in the same period of 2012.

## External sector

According to preliminary data released by the central bank (CBBH), the pace of decline of the current account deficit continued broadly unchanged narrowing by 47.8% year-on-year in the third quarter of 2013 as compared to a reduction by 51.2% in April-June. As a percentage of GDP, the current account deficit over the four quarters to September came down to 8.2% from 10.5% a year earlier. The improvement in the third quarter was mainly a result of the 12.9% annual contraction of the trade deficit (compared to a 10.1% contraction



in the first half of 2013), while the balance of services remained broadly unchanged year-on-year.

Despite a substantial decrease in the third quarter, net FDI inflows declined only marginally down to 2.5% of GDP over the four quarters up to September 2013. They covered 40.4% of the current account deficit. On a positive note, due to an increase in other net capital inflows, foreign exchange reserves rose by 11.2% year on year in the third quarter and by some 10% in October-November, thus covering nearly 6 months of imports.

### Monetary developments

The annual growth of the monetary aggregate M2 surged from 5.2% in the second quarter to 5.9% in the third quarter, while accelerating further in November to 7.3% year on year.

The deflationary trend started in August 2013 accelerated its pace on the back of falling prices in the food and clothing industries which could only partly be balanced off by the increase in prices of electricity and alcoholic beverages. Thus, annual CPI in October declined by 1.2%, bringing the 12-month moving average inflation rate to 0.7%, compared to a rate of 2% in 2012.

### Financial sector

Annual credit growth slowed down slightly in the third quarter, reaching 1.9% down from 2.8% in April-June mirroring somewhat extended lending to households balanced off by moderating lending to the private corporate sector. Going further, in October-November credit growth accelerated somewhat reaching 2.1% year-on-year. In addition, government borrowing posted a slight increase as well reaching 5.4% of total loans in November.

In the meantime, deposit growth increased to 6.6% in November, up from 5.5% in the third quarter. Households increased their savings by 9.1%, while the decline in deposits from the government sector stood at 9.7%. As a consequence, the loans-to-deposit ratio decreased slightly to 116%.

While short-term interest rates for loans in the corporate sector stood at 7.9% in the third quarter moderating slightly to 7.8% in November, the interest rates in the household sector started markedly to decline in November coming down to 6.9% from 7.9% in the third quarter. On the deposit side, interest rates in the

corporate sector in the third quarter remained broadly on the same level of 2.3% as in April-June, while a more pronounced decline to 2% was registered in November. On the contrary, interest rates on deposits in the household sector remained unchanged and hovered around 2% in the third quarter.

The trend of continuous deterioration in the quality of the loan portfolio continued in the third quarter as the share of non-performing loans to total loans increased – albeit only marginally – to 14.9%. In addition, banking profitability indicators deteriorated both quarter on quarter and year and year with the return on average equity markedly edging down to 3.8% from 4.2% and 6.8%, respectively. On a positive note, liquidity indicators improved slightly with the rate of liquid to total assets increasing to 25.3%. The capital adequacy ratio of the whole banking system stood at a comfortable level of 17% in the third quarter of 2013, marginally decreasing from 17.2% in April-June.

In the fourth 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 0.4% compared with the previous quarter. In contrast, the main index of the Sarajevo Stock Exchange edged up slightly by 0.2% quarter on quarter.

### Fiscal developments

In the first three quarters of 2013, the consolidated revenues decreased marginally by 0.2% year on year on the back of both falling tax revenues (-0.4%) and decreasing grants and other revenues (-4.6%) balanced off by somewhat rising social contributions (0.8%). This went hand in hand with a fall in consolidated fiscal expenditures by 1.1%. In particular, spending on subsidies and wages fell by 12.3% and 1.5%, respectively, while spending on goods and services registered a 1.3% increase. Thus, the consolidated budget posted a surplus of 0.7% of full-year GDP remaining broadly at the same level as a year earlier. In the same period, capital expenditures soared by some 15% year on year but still accounted for only 2% of the overall expenditures.

In the third quarter of 2013, the pace of increase of the official foreign debt accelerated somewhat to 6.1% year on year after a slight decrease by 4.4% in April-June. Thus, foreign public debt reached some 28.6% of GDP, compared to 27.1% in 2012.

## TABLE



European Commission, ECFIN-D-1

### BOSNIA AND HERZEGOVINA

		2009	2010	2011	2012	2013	Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. %ch	N.A.	1.6	5.9	-5.3	:	7.1	4.9	:	7.9	8.9	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-2.8	0.7	1.0	-1.1	:	:	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	1.8	0.9	1.6	2.2	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	-16.8	-12.2	7.9	5.6	:	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	12.5	29.4	-24.4	1.3	:	17.5	16.4	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	N.A.	8.2	11.2	1.6	:	:	:	:	:	:	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	42.7	42.7	43.8	45.9	:	44.4	44.8	:	44.8	:	:
Employment <sup>2.2</sup>	Ann. %ch	-2.8	1.9	-1.6	-0.4	:	-0.6	-0.7	:	:	:	:
Wages <sup>2.3</sup>	Ann. %ch	8.2	1.1	4.4	1.5	:	-0.2	0.5	:	0.2	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. %ch	-5.1	33.5	20.2	-1.8	:	10.0	6.2	:	2.2	1.8	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-21.8	8.3	13.2	0.0	:	-3.6	-6.2	:	-3.8	7.9	:
Trade balance* <sup>3.3</sup>	%of GDP	-32.8	-31.5	-33.3	-33.7	:	-31.5	-30.0	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	24.2	28.5	30.5	30.2	:	30.7	30.5	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	49.1	51.3	55.6	55.6	:	53.8	52.2	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-6.6	-6.2	-9.9	-9.7	:	-7.7	-6.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	1.4	2.1	2.6	2.1	:	2.9	2.5	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	3 174.2	3 301.8	3 283.0	3 330.2	:	3 347.5	3 575.0	:	3 552.8	3 584.7	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.8	6.5	5.7	5.8	:	5.8	6.3	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. %ch	-0.4	2.1	3.7	2.0	:	0.4	-0.3	:	-1.2	:	:
Producer prices <sup>4.2</sup>	Ann. %ch	-3.2	0.9	3.8	1.3	:	-2.4	-3.3	:	-3.9	:	:
Food prices <sup>4.3</sup>	Ann. %ch	-0.9	-0.7	6.0	1.8	:	1.6	-0.1	:	-2.8	:	:
M2 <sup>4.4</sup>	Ann. %ch	-1.6	7.8	5.6	4.6	:	5.2	5.9	:	6.5	7.3	:
Exchange rate BAMEUR <sup>4.5</sup>	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate <sup>4.6</sup>	Index	104.2	103.73	104.60	105.63	:	106.12	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	1 038	931	979	737	770	767	761	767	768	779	753
Credit growth <sup>5.4</sup>	Ann. %ch	5.4	-0.9	5.6	5.2	:	2.8	1.9	:	1.8	2.2	:
Deposit growth <sup>5.5</sup>	Ann. %ch	-4.0	4.7	2.6	2.6	:	4.4	5.5	:	6.4	6.6	:
Non performing loans <sup>5.6</sup>	%total	4.5	9.1	12.0	12.7	:	14.3	14.9	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	%of GDP	-4.4	-2.5	-1.3	-2.1	:	0.7	0.3	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	N.A.	39.3	40.5	45.1	:	:	:	:	N.A.	N.A.	N.A.

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

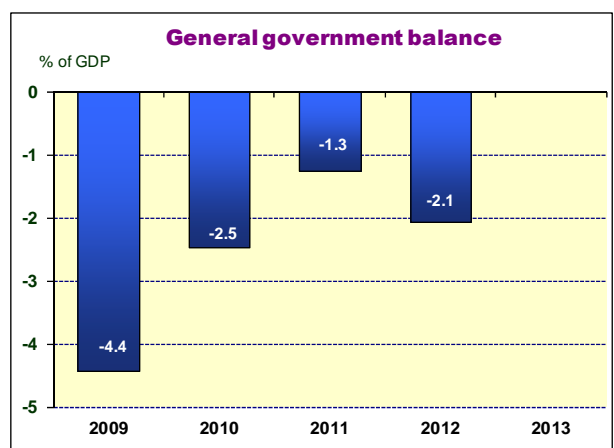
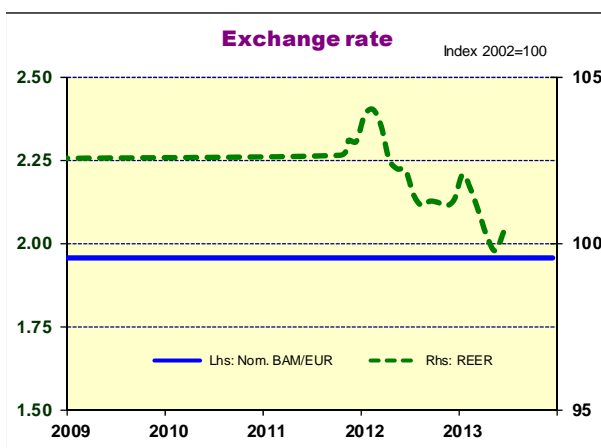
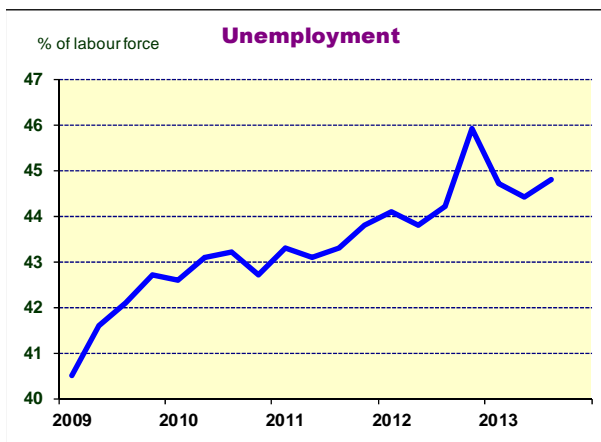
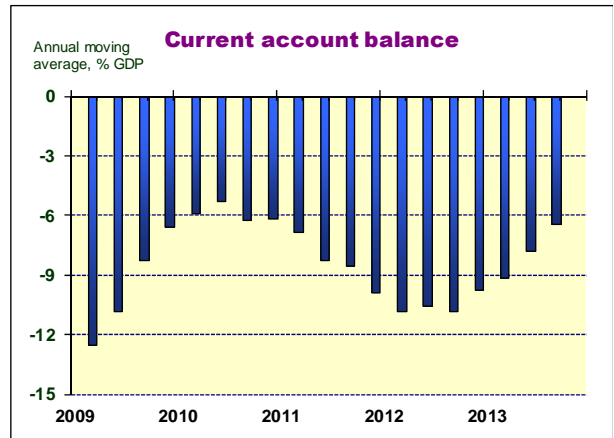


# CHARTS

European Commission, ECFIN-D-1



## BOSNIA AND HERZEGOVINA



## KOSOVO\*

\* 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

The official opening of the Stabilisation and Association Agreement (SAA) negotiations between the EU and Kosovo in October was an important step towards Kosovo's European integration objectives. The negotiations are aimed at to be completed by spring 2014. Through the implementation of the agreement Kosovo is expected to gradually establish a bilateral free trade area and should align its legislation with the EU.

Municipal elections, despite some incidents in northern Kosovo during the first round in November, have been completed without major incidents in December.

Following the fifth and final review by the IMF Executive Board, the 20-month Stand-By Arrangement expired in December. The authorities continued treating the agreement as precautionary and stated their intention to discuss the possibility of a successor program in the first half of 2014.

In November, Kosovo became a member of the Council of Europe Development Bank (CEB) and in December, signed a loan agreement (USD 16 million) with Saudi Fund for Development to finance the expansion project of Pristina-Mitrovica motorway.

### Real sector

Available indicators seem to point out to a subdued growth for 2013. Domestic tax collection is better than 2012 and credit growth revived partially in the last quarter. On the other hand, the decline in imports led to a contraction in border taxes in the first nine months of the year. However, there is some evidence rendering that the decline is mainly due to decreasing import prices and import substitution to some extent rather than the decline in quantity of imported goods.

The latest IMF projections foresee growth at 2.5 percent for 2013 and a recovery to 4 percent in 2014 backed by forecasts of improved conditions in main Diaspora host countries.

In December, the privatisation of the state-

owned Post and Telecommunications of Kosovo (a deal that was expected to bring € 277 million to the budget) has been cancelled after several extensions of the privatization process within 2013.

### Labour market

The rising trend in the total number of registered unemployed people has continued in September and reached a level of 266,569 (a 3.9% increase year-on-year). The unskilled segment constituted the highest share (57.4 %) albeit it decreased by 0.1 percentage points. On the other hand, the number of unemployed with a university degree has increased by almost 21% reaching 5,731 people whilst its share rose by 0.3 percentage points. These figures point out crucial weaknesses in the labour market. There is no publicly available data on unemployment rate for 2013,

### External sector

In the January-September period, the current account deficit decreased by 14% (year-on-year) following the contraction in imports of goods (-2.5%) and an increase in exports (4.0%). In the same period, current transfers remained unchanged as the decrease in transfers to central government was compensated by the increase in transfers to other sectors. In the four quarters to September, the current account deficit stood at 6.7% of GDP which is 4.5 percentage points less than to the same period a year before.

Net outflows in portfolio investments have continued in the third quarter (-1.8% of GDP). However, inflows through other investments (1.8% of GDP) and foreign direct investments (1.0% of GDP) counterbalanced those outflows.

In the third quarter, net errors and omissions, even though it had shrunk almost by half in comparison to the third quarters of the previous years, stood high at EUR 99 million covering more than the whole current account deficit (EUR 96 million).

By the end of September, gross external public debt fell by 3.4% to EUR 325.5 million compared to end of 2012.

## Monetary developments

The growth in broad money accelerated after the third quarter of the year and stood at 10.4% (year-on-year) in November. Net foreign assets continued to rise and reached its historical high level of EUR 1.9 billion as the pace of year-on-year accumulation rose to 11.5%.

The deceleration in inflation continued further and the CPI fell to 0.8% (year-on-year) in November mainly as a result of base effects and falling prices of food and energy. The contributions of food and energy prices were -0.4% and -0.3% respectively. The observed increase in prices was due to services and alcoholic beverages-tobacco inflation whose contributions were 0.4% and 0.5%. Core inflation stood at 1.3% in November and stayed almost constant over the last three months.

## Financial sector

The effective interest rate on deposits stood at 3.22% whereas the effective interest rate on loans was 12.19% in November. The interest rate spread between the commercial bank loans and deposits stayed at the same level as last year at 8.75 percentage points even though both rates decreased by 50 basis points.

The growth in commercial bank deposits dropped to 4.6% in November after having reached 7.3% in October. The payment of overdue salaries in the government sector lifted up the households' demand deposits and brought the households' deposit share to 73.5% from 72.7% in October.

Lending activity continued to stay modest and the growth in gross loans and lease financing decreased to 2.5% year-on-year in November. The banking system remained highly liquid and the ratio of cash balances to total assets reached its highest level (15.7%) since 2008. The loans to deposits ratio stood at 76.4%.

In January-November period, commercial banks have extended EUR 676 million in new loans, only EUR 5 million higher than the corresponding period in 2012. Due to strong flows in October and November, new investment loans to non-financial corporations increased by 2.6% year-on-year by the end of November (which was 9.4% less than the corresponding period of last year by the end of

September). Non-investment loans decreased by 4.1% year-on-year. Consumer and mortgage loans, on the other hand, continued to increase strongly by 6.9% and 13.6%, respectively.

By the end of November, banking sector's income increased by 0.5% year-on-year while the total expenditures remained constant. Led by the better performance of non-interest income, lower loan provisions and lower administrative expenses, income growth yielded an increase in net profits by 14.3%.

## Fiscal developments

The consolidated budget deficit reached EUR 107.7 million (2.1% of GDP) by the end of November.

Budget revenues remained below the projected levels mainly due to the underperformance of the border tax revenues which were partly offset by the over-performance of domestic tax revenues. In the period January-November total revenues increased by only 0.5% year-on-year reaching EUR 1.2 billion, while domestic tax revenues rose by 9.3% (to EUR 255 million) and border tax revenues decreased by 0.2% (to EUR 752 million).

Budget expenditures (especially capital spending) are under-executed in order to compensate for the shortfall in budget revenues and delays in PTK privatization. Total expenditures stood at EUR 1.3 billion in January-November or 2.6% higher than the corresponding period of last year while the total capital spending stood at EUR 458 million or -0.3% lower. Latest data points out that the overall budget deficit would be remarkably smaller than the -3.5% target of the 2013 budget.

In December the Assembly adopted the 2014 budget envisaging a 2.0% of GDP deficit in line with the fiscal rule. The 2014 budget also includes allocations for benefits to former political prisoners, pension for war veterans and civil service reform.

As liquidity in the banking sector remained high, Treasury bills' yields continued to decline in the last quarter. The yield on the 364-day bills, declined to 1.72% in December, indicating a 53 basis points decrease compared to 2.25% in April.

In 2013, domestic borrowing stood at EUR 306 million while total principal payments were EUR 226.8 million and the total interest payments were EUR 1.2 million.

TABLE

European Commission, ECFIN-D-1

KOSOVO\*

		2009	2010	2011	2012	2013	Q2 13	Q3 13	Q4 13	Oct 13	Nov 13	Dec 13
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann.%ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann.%ch	3.5	3.2	4.4	2.5	:	:	:	:	:	:	:
Private consumption <sup>1.4</sup>	Ann.%ch	2.1	3.1	3.0	2.8	:	:	:	:	:	:	:
Investment <sup>1.5</sup>	Ann.%ch	10.7	12.3	11.3	-10.9	:	:	:	:	:	:	:
Construction index <sup>1.6</sup>	Ann.%ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	45.4	:	44.8	30.9	:	:	:	:	:	:	:
Employment <sup>2.2</sup>	Ann.%ch	8.7	:	:	44.7	:	:	:	:	:	:	:
Wages <sup>2.3</sup>	Ann.%ch	-13.6	-13.1	-1.3	-3.0	:	:	:	:	:	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann.%ch	-16.7	79.0	7.8	-13.5	:	6.9	8.5	:	2.4	-10.8	:
Imports of goods <sup>3.2</sup>	Ann.%ch	0.4	11.5	15.5	0.6	:	-3.7	-8.7	:	-1.6	-3.1	:
Trade balance** <sup>3.3</sup>	%of GDP	-41.2	-40.8	-43.1	-42.2	:	-41.0	:	:	N.A.	N.A.	N.A.
Exports goods and services** <sup>3.4</sup>	%of GDP	16.4	19.5	20.1	18.8	:	18.4	:	:	N.A.	N.A.	N.A.
Imports goods and services** <sup>3.5</sup>	%of GDP	52.8	56.9	57.3	53.9	:	52.4	:	:	N.A.	N.A.	N.A.
Current account balance** <sup>3.6</sup>	%of GDP	-9.3	-12.0	-13.8	-7.7	:	-7.7	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)** <sup>3.7</sup>	%of GDP	7.2	8.5	8.3	4.7	:	5.4	:	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1 198.5	1 246.9	1 234.6	1 469.1	:	1 478.4	1 548.0	:	1 698.8	1 653.5	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	7.4	6.9	5.9	7.0	:	7.1	7.6	:	8.3	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann.%ch	-2.4	3.5	7.3	2.5	:	2.4	1.2	:	0.2	0.8	:
Producer prices <sup>4.2</sup>	Ann.%ch	3.8	4.7	5.7	1.7	:	3.3	-0.1	:	N.A.	N.A.	N.A.
Food prices <sup>4.3</sup>	Ann.%ch	-4.4	4.8	12.4	1.0	:	3.9	1.6	:	-1.4	-1.2	:
Broad money liabilities <sup>4.4</sup>	Ann.%ch	11.2	12.9	8.8	7.1	:	4.5	5.7	:	14.4	11.0	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) <sup>4.6</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>												
Interest rate (3-12 months) <sup>5.1</sup>	%p.a.	14.11	18.24	18.13	16.30	:	15.16	14.01	:	12.48	14.47	:
Bond yield <sup>5.2</sup>	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	2.26	N.A.	1.72	1.98	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth <sup>5.4</sup>	Ann.%ch	17.4	10.1	15.4	8.9	:	3.1	2.4	:	2.9	2.5	:
Deposit growth <sup>5.5</sup>	Ann.%ch	20.3	14.8	12.2	8.0	:	6.3	5.9	:	7.3	4.6	:
Non-performing loans <sup>5.6</sup>	%total	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance** <sup>6.1</sup>	%of GDP	-0.7	-2.6	-1.7	-2.6	:	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	7.7	7.6	6.7	8.3	:	8.6	8.9	:	N.A.	N.A.	N.A.

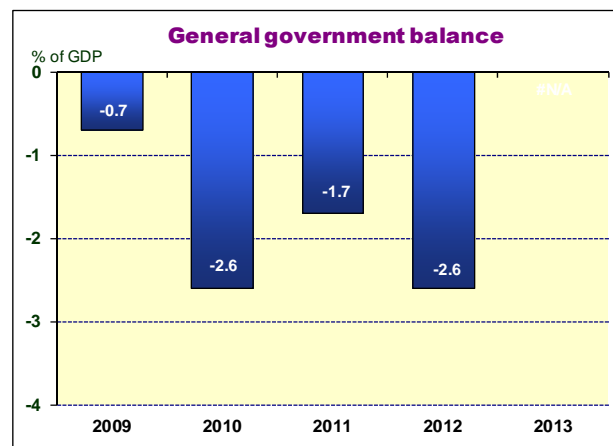
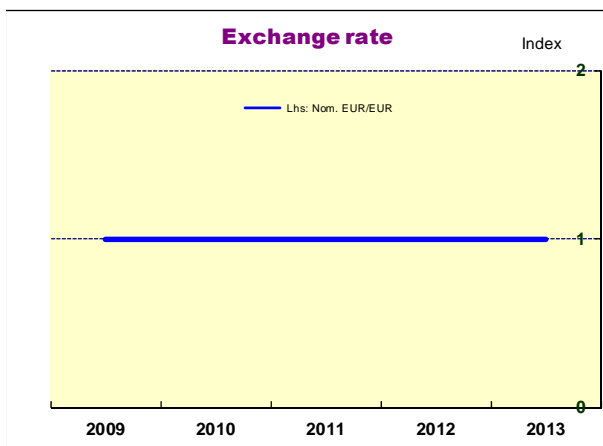
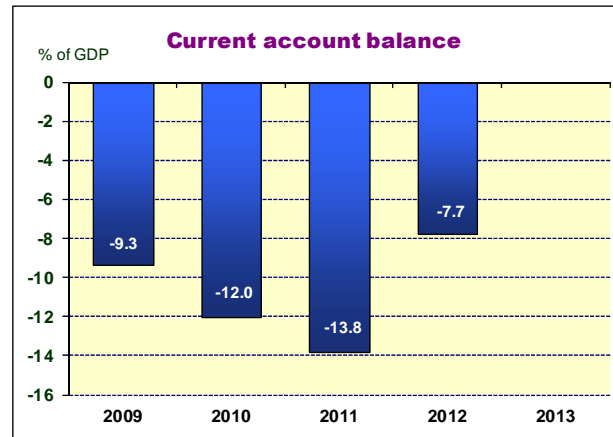
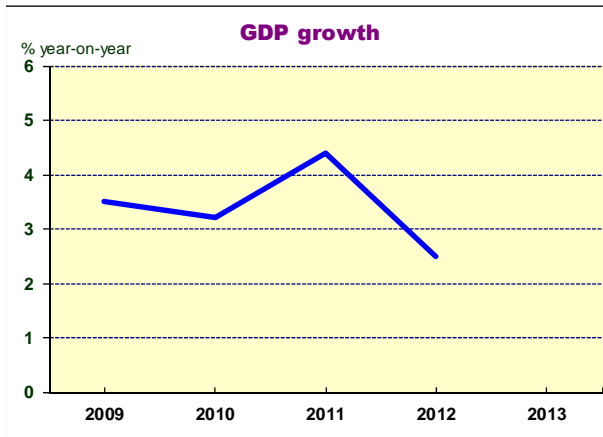
\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

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

# CHARTS

European Commission, ECFIN-D-1

## KOSOVO\*

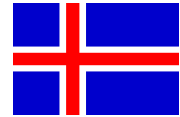


\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.  
Source of data: IMF, national sources



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Current Situation, Assessment, Enterprises, total, MKD	IHS/DataInsight
1.2.	Industrial production	Annual percentage change, volume, excluding construction	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, volume (previous year prices)	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, volume (previous year prices)	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change, volume (previous year prices)	SSO
1.6.	Construction	Value Added, Economic Activity, Current Prices, MKD	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, Retail trade, turnover, total,	IHS/DataInsight
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data, registered otherwise	SSO
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data, registered otherwise	SSO
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	SSO
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, fob-cif	IHS/DataInsight
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	IHS/DataInsight
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4. Monetary developments</b>			
4.1.	CPI	Annual average percentage change, HICP not yet available for FYRoM	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, industrial products	IHS/DataInsight
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	IHS/DataInsight
4.4.	M4	Annual percentage change, M4 (Broadest money)	IHS/DataInsight
4.5.	Exchange rate MKD/EUR	Averages, spot close	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Nominal Effective Exchange Rate, MKD, Index 2005=100	IHS/DataInsight
<b>5. Financial indicators</b>			
5.1.	Interest rate	Interest rate Denar deposits	IHS/DataInsight
5.2.	Bond yield	Not available	
5.3.	Stock markets	MSE Index (MBI-10)	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, domestic credit, DMB, total, overall, with Saving houses, MKD	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, with Saving houses, total, MKD	IHS/DataInsight
5.6.	Non-performing loans	In percent of total	IHS/DataInsight
<b>6. Fiscal developments</b>			
6.1.	Central government balance	In percent of GDP	MoF
6.2.	Central government debt	In percent of GDP	MoF





No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial outlook	Not available	
1.2.	Industrial production	Annual percentage change, aluminium, total, ton	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, total (2000 prices)	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, volume (2000 prices)	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change, volume (2000 prices)	IHS/DataInsight
1.6.	Construction	Annual percentage change, Housing and Construction, Residential Buildings, Completed, number	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, total, constant prices, ISK, 2000=100	IHS/DataInsight
<b>2. Labour market</b>			
2.1.	Unemployment	LFS, In percent of total labour force, Total	IHS/DataInsight
2.2.	Employment	LFS, Annual percentage change, Total, over all	IHS/DataInsight
2.3.	Wages&Salaries	Annual percentage change, Total, Index, ISK 1998M12=100	IHS/DataInsight
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio ISK, fob. Statistics Iceland reports used for monthly data. Central Bank's otherwise.	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. ISK, cif Statistics Iceland reports used for monthly data. Central Bank's otherwise.	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, fob-cif	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP, volume	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP, volume	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	IHS/DataInsight
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Gross foreign currency reserves, total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4. Monetary developments</b>			
4.1.	CPI	Annual average percentage change, All items, Index, ISK, 1988M5=100	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, total, index, 2005Q4=100	IHS/DataInsight
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, ISK, 1997=100	IHS/DataInsight
4.4.	M3	Annual percentage change, M3 (Money supply)	IHS/DataInsight
4.5.	Exchange rate ISK/EUR	Period averages, midpoint exchange rates	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Index 2005, period averages	IHS/DataInsight
<b>5. Financial indicators</b>			
5.1.	Interest rate	REIBOR, 3 month, fixing, ISK	IHS/DataInsight
5.2.	Bond yield	Yield 5-year non-indexed government bonds / Quantum (non-additive or stock figures)	IHS/DataInsight
5.3.	Stock markets	OMX, Main Index (All-Share), price return, close	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, domestic credit, ISK	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, demand, sight and time deposits, ISK	IHS/DataInsight
5.6.	Non-performing loans	Loans in default over 90 days, %	IHS/DataInsight
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	IHS/DataInsight
6.2.	General government debt	In percent of GDP	IHS/DataInsight



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



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	IHS/DataInsight
1.3.	Gross domestic product	Annual pc change at constant (average) prices 2002 Production approach	IHS/DataInsight
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	IHS/DataInsight
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	IHS/DataInsight
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Semi-annual data.	IHS/DataInsight
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.	IHS/DataInsight
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	IHS/DataInsight
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	IHS/DataInsight
3.8.	International reserves NBS	Total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Consumer Prices, Total, CPPY, end of period. Forecast = average.	IHS/DataInsight
4.2.	Producer prices	Annual average percentage change, domestic market	IHS/DataInsight
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	IHS/DataInsight
4.4.	M3	Annual percentage change, M3 (broad money), RSD	IHS/DataInsight
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Period average, moving base year, RSD	IHS/DataInsight
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Treasury Bills, 3 month, yield, average, RSD	IHS/DataInsight
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	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, monetary survey, domestic credit, total, RSD	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	IHS/DataInsight
5.6.	Non-performing loans	Provisioning against losses	IHS/DataInsight
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	Min. of Finance
6.2.	General government debt	Public sector debt. In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, volume (1987 prices)	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, volume (1998 prices)	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change,	IHS/DataInsight
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, volume, 2010=100	
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey data	IHS/DataInsight
2.2.	Employment	Annual percentage change, Labour Force Survey data	IHS/DataInsight
2.3.	Wages	Annual percentage change; index of real earning per production worker in manufacturing industry	Nat. sources
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised moving average	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised moving average	IHS/DataInsight
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	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4. Monetary developments</b>			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	IHS/DataInsight
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	IHS/DataInsight
4.4.	M3	Money supply M3, total, TRY	IHS/DataInsight
4.5.	Exchange rate YTL/EUR	Period averages	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Index 1999, period averages	IHS/DataInsight
<b>5. Financial indicators</b>			
5.1.	Interest rate	Deposit rates, 3 month, close	IHS/DataInsight
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	IHS/DataInsight
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	IHS/DataInsight
5.6.	Non-performing loans	In percent of total lons	IHS/DataInsight
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	IHS/DataInsight
1.2.	Industrial production	Annual percentage change, total, constant prices	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	IHS/DataInsight
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, total, 2005=100	IHS/DataInsight
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force	IHS/DataInsight
2.2.	Employment	Annual percentage change	IHS/DataInsight
2.3.	Wages	Average monthly wages in State sector	IHS/DataInsight
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. EUR	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR	IHS/DataInsight
3.3.	Trade balance	In percent of GDP	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP. Annual data	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP. Annual data	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, including official transfers	IHS/DataInsight
3.7.	Direct investment (FDI, net)	In percent of GDP	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Net foreign assets, total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4. Monetary developments</b>			
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, Total, index (1998)	IHS/DataInsight
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	IHS/DataInsight
4.4.	M2	Annual percentage change	IHS/DataInsight
4.5.	Exchange rate LEK/EUR	Period averages	IHS/DataInsight
4.6.	Change real eff. exchange rate	Not available	
<b>5. Financial indicators</b>			
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	IHS/DataInsight
5.2.	Bond yield	Government Benchmarks, 2 Year Bond, Yield	IHS/DataInsight
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, total	IHS/DataInsight
5.6.	Non-performing loans	Credit Portfolio Quality, NPLs %	IHS/DataInsight
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt	In percent of GDP	IMF



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, CPPY=100	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change	IHS/DataInsight
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	IHS/DataInsight
1.7.	Retail sales	Total sale, index CPPY=100, weighted average Federation of Bosnia and Herzegovina 65% Serb Republic 35%	IHS/DataInsight
<b>2. Labour market</b>			
2.1.	Unemployment	Registered, in percent of total labour force	IHS/DataInsight, NSO
2.2.	Employment	Registered, annual percentage change. New methodology as per Dec 2012 – data not fully comparable.	IHS/DataInsight
2.3.	Wages	Annual percentage change, average gross wages, BAM	IHS/DataInsight
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised data	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4. Monetary developments</b>			
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	IHS/DataInsight
4.2.	Producer prices	Domestic, total, index CPPY=100	IHS/DataInsight
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100,	IHS/DataInsight
4.4.	M2	Annual percentage change, M2 (broadest money)	IHS/DataInsight
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	IHS/DataInsight
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)	IHS/DataInsight
<b>5. Financial indicators</b>			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, loans, total, BAM, End of period	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM, End of period	IHS/DataInsight
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	IHS/DataInsight
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP, consolidated budget, net lending	IHS/DataInsight
6.2.	General government debt	In percent of GDP, external public debt	IHS/DataInsight



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Not available.	
1.2.	Industrial production	Not available.	
1.3.	Gross domestic product	Annual percentage change.	Statistical Office of Kosovo (SOK)
1.4.	Private consumption	Annual percentage change.	SOK
1.5.	Gross capital formation	Annual percentage change.	SOK
1.6.	Construction index	Not available.	
1.7.	Retail sales	Not available.	
<b>2</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force.	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
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change.	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change.	IHS/DataInsight
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.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4.</b>	<b>Monetary developments</b>		
4.1.	Interim CPI	Annual average percentage change, index (May 2002 = 100)	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, total, 2007=100	IHS/DataInsight
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	IHS/DataInsight
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	IHS/DataInsight
4.5.	Exchange rate EUR/EUR	Not applicable.	
4.6.	Real eff. exchange rate	Price change % CPI.	CB Kosovo
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Interest rates, short-term (3-12 months loans to non-financial corporations)	IHS/DataInsight
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.	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, ODC deposits.	IHS/DataInsight
5.6.	Non-performing loans	Not available.	CB Kosovo
<b>6.</b>	<b>Fiscal developments</b>		
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.