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## EU Candidate & Potential Candidate Countries' Economic Quarterly

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European Commission

Directorate-General for Economic and Financial Affairs

# **EU Candidate and Potential Candidate Countries' Economic Quarterly (CCEQ)**



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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

*While economic growth had significantly strengthened in all economies except Albania in 2013, available quarterly GDP growth data point to renewed softness in the first quarter of 2014. Only in the former Yugoslav Republic of Macedonia did the pace of growth further accelerate while Turkey maintained a solid performance. At the other end of the spectrum, growth decelerated sharply compared to the fourth quarter 2013 in Serbia and Iceland, translating into quasi-stagnation in year on year terms. Widening growth differentials have already had some impact on unemployment in the first quarter. Thus, the unemployment rate continued to decline, albeit slightly, in the former Yugoslav Republic of Macedonia while it deteriorated in Iceland and Serbia. Except in Turkey, price pressures remain low and continued to decline as a result of both external factors such as falling non-energy commodity prices and broadly stable or appreciating exchange rates as well as domestic ones, in particular a weak economic environment. Three Western Balkan countries, i.e. Bosnia and Herzegovina, Montenegro and as of April the former Yugoslav Republic of Macedonia, are now experiencing deflation. The significant adjustment of external imbalances recorded in most countries in 2013 has given way to a more uneven pattern. The current account deficit deteriorated in the first quarter in four Western Balkan economies and Iceland's surplus turned into deficit. An improvement was only observed in Turkey where the deficit started declining and in Serbia and Montenegro where it further narrowed. Fiscal positions also remain somewhat uneven. Budget performance was nevertheless on track in the first five months of 2014 in most of the countries, with the deficit even turning to surplus in Iceland and Bosnia and Herzegovina.*

Real GDP growth substantially decelerated in the first quarter of 2014 compared to the last quarter of 2013 in all countries where data are available. Only the former Republic of Macedonia and Turkey stand out as exceptions. In the former, growth further accelerated to 3.9% year-on-year while in the latter it continued to post a solid 4.3%

increase. The strongest declines were recorded in Iceland and Serbia and translated into a stagnation of economic activity year-on-year (respectively -0.1 and +0.1%). The surprisingly low performance of Iceland is mainly due to a sharp drop in inventories. In Serbia, where expectations were already low, the heavy spring floods will take a toll on short-term growth, as already reflected in the fall in industrial production in May (by 7% y-o-y). Floods will also impact negatively Bosnia and Herzegovina's economic activity which had apparently mildly decelerated in the first quarter, and so did Albania. Montenegro also experienced a sharp decline quarter-on-quarter but still recorded a 1.7% growth y-o-y. Subdued world trade in the early months of 2014, following a strong acceleration in the 2nd half of 2013, might have had some impact since the 2013 recovery was predominantly export-led. However, 1st quarter data provide limited evidence, rather suggesting that domestic factors and base effects were more important. Indeed, despite weak global activity, exports of goods continued to significantly increase in the first quarter in Serbia (by 16.7% y-o-y), the former Yugoslav Republic of Macedonia (12.7%), or Albania (12.4%). Even in Turkey, the composition of growth significantly shifted towards the external sector and exports of goods increased by 11.4%. In Iceland and Kosovo, exports of goods contracted but the service balance improved. In Montenegro, the strong contraction in goods and services was mainly due to base effects as electricity production had been especially buoyant in 2013. As a result of these contrasted evolutions, growth differentials have widened with GDP growth rates in the 1st quarter ranging from 4.3% to -0.1%.

Since 2013, labour market conditions seem to react to the cycle earlier than expected. In the first quarter of 2014, growth differentials have already had some impact on unemployment in several countries. Thus, the unemployment rate continued to improve, albeit slightly, in the former Yugoslav Republic of Macedonia (to 28.4%) while it somewhat worsened in Serbia (to 20.8%) and to a higher extent due to seasonal factors in Iceland (5.8%). In the latter case, the unemployment rate improved significantly in April and May. In Turkey high growth went hand in hand with a strong pick-up in employment but the unemployment rate deteriorated due to a rapid

increase in the labour force. In Albania and Montenegro, there seems to be a more lagged response of employment to the cycle. In Montenegro, there was no significant change in the first quarter but the situation improved in the period April to June with a one and half percentage point decline in the unemployment rate. In Albania, unemployment increased in the first quarter. In spite of some mild improvements over the past year and over the first quarter, unemployment remains excessively high in Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia, calling for determined and credible structural reforms in the labour and product markets.

The significant adjustment of external imbalances recorded in 2013 in six out of eight countries gave way to a more uneven pattern in the first quarter. Only in three countries (Montenegro, Serbia and Turkey) did the current account deficit narrow in the four quarters up to March 2014. In Turkey the deficit narrowed to 7.5% of GDP, after it had widened to 7.9% in 2013. In Montenegro, it remains very high (14.2% of GDP) despite some improvement. In Serbia, a very sharp adjustment reduced the deficit from 4.9% of GDP in 2013 to 3.9%, thanks to continuing strong export performance and subdued imports. The other countries have all experienced deteriorations but their magnitude differs. It is rather modest in the former Yugoslav Republic of Macedonia, more significant in Bosnia and Herzegovina and Albania and rather sharp in Kosovo where the current deficit doubled in the first quarter, year-on-year. In Iceland, the deterioration is even more pronounced as the surplus of 3.9% of GDP in 2013 turned into a deficit of 2.8%, due to much lower export earnings.

The sharp deceleration of consumer price inflation over 2013 continued further in all countries except Albania and Turkey. While the upward pressure on prices continued to accelerate in Turkey in the second quarter, it eased in Albania in April-May. The disinflationary trend was supported by broadly stable or appreciating exchange rates, lower food prices, weak domestic demand and moderate cost pressures and sometimes expiring or limited effects of hikes in taxes and administered prices. Low inflationary pressures led to an easing of monetary policy

through cuts in the policy rates in Albania (in May) and Serbia (in May and June). Although inflation diverged further from its target, the one-week repo rate was also cut in Turkey in May and June. Disinflation has now turned into deflation in three Western Balkan economies, namely Bosnia and Herzegovina, Montenegro and since April the former Yugoslav Republic of Macedonia. If such a situation was prolonged, the short-term benefits of increased real disposable incomes that could potentially support private consumption and GDP growth would be more than offset by the impact of increases in the real value of private and public debts and in real interest rates.

Bank lending remains generally weak, influenced by both supply and demand factors. Turkey still stands as an outlier with credit growth of 33.1% in the first quarter, albeit slowing sharply to 22% by mid-June. On the one hand, credit growth accelerated in the former Yugoslav Republic of Macedonia and increased very mildly in Bosnia and Herzegovina and Iceland. New loans rose significantly (35% y-o-y) in Kosovo in the first five months of 2014. On the other hand, credit growth continued to contract in Montenegro, Albania and Serbia over the period January to May. In the latter two countries, negative credit growth has gone hand in hand with an increase in NPL ratios in the first quarter (to respectively 24.1% and 22.3%). In Montenegro, despite some decline, the NPL ratio still reaches 18.5%. In all cases, there is an obvious need to clean bank balance sheets in a sustainable manner.

Budget performance in 2013 was uneven. In half of the countries, the budget deficit increased compared to 2012. In the other half where it improved, the reduction may sometimes have been smaller than initially estimated. This seems to be the case in Montenegro where execution data point to a budget deficit of 5.3% of GDP, significantly higher than the preliminary estimate of 2.6%. Data for the first five months of 2014 indicate a more even pattern, at least temporarily. Budget performance is largely on track in six countries, namely Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Turkey, and Iceland. In Iceland, the general government budget even registered a surplus in the first quarter of 2.5% of the quarterly GDP compared to a deficit of 2.1% the year before, partly thanks to a dividend payment from the state-owned Landsbankinn bank. Also Bosnia and Herzegovina registered a small surplus of 0.3% of full-year GDP in the first quarter but such

situation is unlikely to persist due to the impact of the floods and elevated external refinancing needs. In Kosovo, results up to now are in line with the fiscal rule. In the two other countries, deficits in the period January to May have

widened and already reach a substantial percentage of the full-year target: over 70% in the former Yugoslav Republic of Macedonia and about 47% in Serbia where the impact of the floods will lead to a further deterioration.



## Candidate and potential candidate countries: Summary table

	2009 2010 2011 2012 2013					ECFIN May Forecast		2014 2015			Q4 13 Q1 14 Q2 14			Apr 14 May 14 Jun 14		
	<b>Gross domestic product (in real terms, annual % change)</b>															
Albania	3.4	3.7	2.6	1.6	1.4	:	:	2.2	1.7	:	N.A.	N.A.	N.A.			
The former Yugoslav Republic of Macedonia	-1.0	2.8	3.0	-0.4	2.9	3.0	3.2	3.1	3.9	:	N.A.	N.A.	N.A.			
Iceland	-6.6	-4.1	2.7	1.5	3.3	2.8	3.2	3.8	-0.1	:	N.A.	N.A.	N.A.			
Montenegro	-5.7	2.5	3.2	-2.5	3.5	2.9	3.6	4.7	1.7	:	N.A.	N.A.	N.A.			
Serbia	-3.5	1.0	1.6	-1.5	2.5	1.1	1.9	3.0	0.1	:	N.A.	N.A.	N.A.			
Turkey	-4.8	9.2	8.8	2.1	4.0	2.6	3.3	4.4	4.3	:	N.A.	N.A.	N.A.			
Bosnia and Herzegovina	-2.7	0.8	1.0	-1.2	2.1	:	:	2.0	:	:	N.A.	N.A.	N.A.			
Kosovo*	3.5	3.2	4.4	2.5	:	:	:	:	:	:	:	:	:			
<b>Unemployment</b>																
Albania	13.6	13.7	13.4	13.9	16.2	:	:	17.0	18.3	:	N.A.	N.A.	N.A.			
The former Yugoslav Republic of Macedonia	32.2	32.1	31.4	31.0	29.0	28.5	27.5	28.6	28.4	:	N.A.	N.A.	N.A.			
Iceland	7.2	7.5	7.1	6.0	5.4	5.0	4.5	4.5	5.8	:	5.0	4.6	:			
Montenegro	20.3	19.7	18.1	20.6	19.5	:	:	19.5	:	:	N.A.	N.A.	N.A.			
Serbia	16.1	19.2	23.0	23.9	22.1	22.6	22.5	20.1	20.8	:	N.A.	N.A.	N.A.			
Turkey	13.0	11.2	9.2	8.4	9.1	10.5	10.4	9.3	10.1	:	:	:	:			
Bosnia and Herzegovina	42.7	42.7	43.8	45.9	44.5	:	:	44.5	44.1	:	43.7	:	:			
Kosovo*	45.4	:	44.8	30.9	:	:	:	:	:	:	:	:	:			
<b>Current account balance (% of GDP)**</b>																
Albania	-15.4	-11.3	-13.2	-10.3	-10.6	:	:	-10.6	-11.2	:	N.A.	N.A.	N.A.			
The former Yugoslav Republic of Macedonia	-6.8	-2.0	-2.5	-3.0	-1.9	-3.7	-3.8	-1.9	-2.0	:	N.A.	N.A.	N.A.			
Iceland	-11.5	-8.0	-6.3	-5.3	3.9	0.2	-1.3	3.9	-2.8	:	N.A.	N.A.	N.A.			
Montenegro	-27.9	-23.0	-17.7	-18.7	-14.6	-14.4	-14.5	-14.6	-14.2	:	N.A.	N.A.	N.A.			
Serbia	-6.6	-6.9	-9.2	-10.8	-4.9	-4.6	-4.3	-4.9	-3.9	:	N.A.	N.A.	N.A.			
Turkey	-2.0	-6.2	-9.7	-6.1	-7.9	-6.0	-3.9	-7.9	-7.5	:	N.A.	N.A.	N.A.			
Bosnia and Herzegovina	-6.5	-6.1	-9.7	-9.3	-5.5	:	:	-5.5	:	:	N.A.	N.A.	N.A.			
Kosovo*	-9.3	-12.0	-13.8	-7.7	:	:	:	:	:	:	N.A.	N.A.	N.A.			
<b>Inflation (Consumer price index, annual % change)</b>																
Albania	2.3	3.6	3.5	2.0	1.9	:	:	1.5	1.9	:	1.7	1.6	:			
The former Yugoslav Republic of Macedonia	-0.8	1.6	3.9	3.3	2.8	2.5	2.3	1.3	0.6	:	-1.1	-0.6	:			
Iceland	12.0	5.4	4.0	5.2	3.9	2.7	3.2	3.8	2.5	2.3	2.3	2.4	2.2			
Montenegro	3.4	0.5	3.1	4.1	2.2	1.8	2.7	0.3	-0.6	:	-1.4	-1.3	:			
Serbia***	6.6	10.2	7.0	12.2	2.2	3.8	4.5	2.2	2.3	:	2.1	2.1	:			
Turkey	6.3	8.6	6.5	8.9	7.5	8.6	7.4	7.5	8.0	9.4	9.4	9.7	9.2			
Bosnia and Herzegovina	-0.4	2.1	3.7	2.0	-0.1	:	:	-1.3	-1.7	:	-1.4	-1.2	:			
Kosovo*	-2.4	3.5	7.3	2.5	1.8	:	:	0.5	0.2	:	0.2	0.5	:			
<b>General government balance (% of GDP)</b>																
Albania	-7.0	-3.1	-3.5	-3.5	-4.9	:	:	-4.9	-0.4	:	:	:	:			
The former Yugoslav Republic of Macedonia	-2.7	-2.4	-2.5	-3.9	-4.1	-4.2	-3.9	-2.7	-10.2	:	N.A.	N.A.	N.A.			
Iceland	-9.9	-10.1	-5.6	-3.8	-2.1	-0.3	-0.7	-5.0	2.5	:	N.A.	N.A.	N.A.			
Montenegro	-5.7	-4.9	-5.4	-6.1	-5.3	-0.6	1.0	-5.3	-1.4	:	:	:	:			
Serbia	-4.5	-4.7	-4.9	-6.5	-5.0	-6.3	-5.9	-4.2	-7.6	:	N.A.	N.A.	N.A.			
Turkey	-6.5	-2.9	-0.8	-1.5	-1.6	-2.9	-2.5	:	:	:	N.A.	N.A.	N.A.			
Bosnia and Herzegovina	-4.4	-2.5	-1.3	-2.0	-2.2	:	:	:	:	:	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 Winter 2014

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

\*\*\* End of period, Forecast = average

## ALBANIA



### Key developments

At the General Affairs Council meeting on 24 June, Ministers from EU Member States agreed, based on the recommendation by the European Commission, to grant EU candidate status to Albania. On 27 June, heads of EU governments formally endorsed the Council conclusions, which also underlined that Albania should intensify its efforts to ensure implementation of the key priorities, notably the reform of the public administration and the judiciary, the fight against organised crime and corruption, the protection of human rights and implementation of property rights.

The dispute following the earlier revocation of the privatised electricity distributor CEZ Shpërndarje's licence was resolved in June with a deal according to which Czech energy group CEZ receives, in annual instalments until 2018, €95 million as payment of receivables and for the transfer of shares. The agreement is still to be endorsed by the Albanian parliament and CEZ.

The World Bank approved two development policy loans, with a combined amount of \$220 million, for Albania in May. The two operations aim to help Albania implement key financial sector reforms, strengthen public finance management and improve fiscal sustainability through tax, pension and energy sector reforms.

### Real sector

In the first quarter, the economy expanded by 1.7% year-on-year, somewhat slower than the upwardly revised growth of 2.2% recorded in the preceding quarter. Agriculture's performance (+3.1% year-on-year) was the best for more than a year, while industry continued to post strong growth (+8.2%), driven by a booming extraction sector (+41.6%) that offset manufacturing's third consecutive quarter of contraction (-9.9%). On the other hand, construction experienced a 5.3% decline, making the uptick seen in the preceding quarter short-lived. The services sector's lacklustre overall performance (+0.5%) masks diverging developments in terms of expanding trade, hotels and restaurants (+2.7%), post and

communication (+3.6%) and other services (+2%) and the continuing steep fall in transport (-25%).

### Labour market

The unemployment rate continued to rise to 18.3% in the first quarter, up by 3.4 percentage points year-on-year and 1.3 percentage points quarter-on-quarter.

Total employment accelerated its decline and shrank by 8.7% year-on-year in the first quarter, as a large 22% fall in LFS-estimated agricultural employment outweighed the continuing increase in registered non-agricultural jobs in the private sector (up by 11% in annual terms). Agriculture remains the biggest employer in the economy, but its share fell to 46% in the first quarter from 54% a year earlier.

Reflecting the labour market slack, confidence survey data indicate a slowdown in the pace of wage rises in the economy in the first quarter.

### External sector

In the first three months of 2014, the current account deficit widened by 31% year-on-year to €300 million. Similarly to the pattern observed in the preceding quarter, the merchandise trade deficit worsened by 6% on an annual basis as healthy growth in exports of goods (+12.4% year-on-year) was offset by a continuing pickup in goods imports (+9.4%). The services account deficit also widened (by 18%) even as inbound tourism showed signs of improvement, as tourism outflows also increased, along with the deficit in transport services. The current transfer surplus continued to shrink (-13% year-on-year) as the decline in remittances inflows slowed down but did not reverse (-4.1%). In the four quarters to March, the current account deficit rose to 11.2% of GDP from 9.7% in the corresponding period a year earlier.

Net FDI inflows in the first quarter increased by 17% year-on-year and continued to cover the bulk of the current account shortfall. Following an annual increase of 1.3%, international reserves stood at €1.92 billion, covering 4.4 months of imports.

The stock of gross external debt increased by 2.9 % year-on-year and stood at €5.73 billion in the first quarter, or 57 % of projected full-year GDP. Government long-term borrowing continues to make up around 40 % of the total.

### Monetary developments

Weak aggregate demand, low imported inflation and subdued inflation expectations continued to dampen price rises. The rate of annual consumer price inflation edged up to 1.9 % in the first three months from 1.5 % recorded in each of the previous two quarters, but it still remained below the lower bound of the central bank target range of 2 %-4 %. Unprocessed food continued to account for the bulk of inflation, while the impact of tax rises, taking effect at the beginning of the year and concerning in particular alcohol, tobacco and fuel, was lower than predicted. Inflation continued to hover below 2 % in April and May.

In the context of low inflation and weak aggregate demand, the Bank of Albania (BoA) continued its accommodative path and cut in May the policy rate by 25 bps down to a historic low of 2.5 %.

Despite repeated cuts in the policy rate, the Albanian lek (ALL) appreciated in the second quarter by 0.5 % in annual terms against the euro.

### 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 increased slightly to 9.1 % in April-May, up by 0.3 percentage points from the preceding quarter's average. The downtrend in the 12-month ALL deposit rate continued, as it fell to 1.9 % in May from an average of 2.3 % in the first three months.

In the first quarter, the level of non-performing loans (NPLs) increased again by 0.9 percentage points to 24.1 %, reversing the small decline registered in the previous two quarters. This suggests that further efforts are necessary to clean bank balance sheets in a sustainable manner, even if the clearance of government arrears, expected to have a positive impact on loan performance, only got started during this period. High NPLs continue to be one of the main factors behind continuing tight lending standards, which became even more stringent for

businesses. On the other hand, lending standards eased somewhat for households in the first quarter.

Reflecting both supply and demand factors, the stock of outstanding loans shrank by 1.8 % year-on-year in the first three months, marking the third consecutive quarter of lending decline. The drop continued in April (-2.1 %) and May (-1.7 %). The shift towards local currency lending continued as the stock of ALL-denominated loans increased whereas foreign currency loans, which still make up 59.5 % of the total, shrank. The pace of deposit growth slowed to 1.8 % year-on-year in the first quarter compared with 5.9 % a year earlier.

The capital adequacy ratio of the banking sector stood practically unchanged at 17.9 % in the first quarter, while profitability indicators showed a clear improvement.

### Fiscal developments

Budgetary performance remained on track in the first five months. Reflecting tax rises at the beginning of the year as well as efforts to improve collection, revenues increased by 9 % year-on-year, driven by a 20.5 % surge in VAT, the largest item on the revenue side. Profit tax revenue rose by 25 % following a 50 % hike in the corporate income tax rate. On the other hand, personal income tax receipts declined by 9 % year-on-year, reflecting the introduction of progressive rates with generous thresholds. Excise tax revenues also fell by 7.4 %, which might partly be attributed to advanced purchases ahead of the excise rate increases that took effect at the beginning of the year.

On the expenditure side, spending restraints affecting operation and maintenance (-28.3 % year-on-year) and especially investments (-60.2 % year-on-year and falling short of the budgeted amount by a third) helped keep overall expenditure 7.5 % lower than in the same period last year, despite the start of arrears clearance. Until May, arrears worth 0.8 % of GDP were paid, with more than half of this sum settling outstanding tax refund claims.

Overall, the budget deficit in the first five months was down by 67.7 % compared with the same period last year and amounted to 0.8 % of estimated full-year GDP. This compares to a deficit target of 6.5 % of GDP for the year as a whole. Public debt stood at 63.3 % of GDP in the first quarter (without the accumulated arrears).

## TABLE



European Commission, ECFIN-D-1

## ALBANIA

		2009	2010	2011	2012	2013	Q4 13	Q1 14	Q2 14	Apr 14	May 14	Jun 14
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Percent	-12.1	-5.3	-3.0	-10.6	-9.5	-7.4	-3.2	:	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann.%ch	-1.2	19.9	-10.2	16.6	-13.1	-12.5	:	:	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann.%ch	3.4	3.7	2.6	1.6	1.4	2.2	1.7	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	:	5.7	7.2	8.0	3.1	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	:	-1.3	4.2	-4.7	3.7	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	0.0	0.3	0.5	0.6	1.0	1.2	0.2	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	1.4	-1.2	-4.0	-0.7	5.3	0.5	:	:	:	:	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	13.6	13.7	13.4	13.9	16.2	17.0	18.3	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	-5.9	-0.1	2.3	3.6	-0.3	-4.7	-8.7	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	11.9	6.7	7.0	7.3	4.1	2.1	1.9	:	N.A.	N.A.	N.A.
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann.%ch	-11.8	62.5	22.2	7.6	14.5	9.6	11.6	:	10.3	8.7	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-1.8	10.9	14.2	-4.3	-0.9	8.5	10.2	:	6.8	6.7	:
Trade balance* <sup>3.3</sup>	% of GDP	-26.6	-23.1	-24.2	-21.0	-17.9	-18.0	-18.6	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	29.2	32.4	34.0	33.5	35.0	35.0	35.4	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	53.8	53.0	56.7	52.2	52.8	52.8	53.3	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-15.4	-11.3	-13.2	-10.3	-10.6	-10.6	-11.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	7.7	9.3	6.6	6.8	9.2	9.2	9.5	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1563.5	1821.4	1848.6	1907.7	1955.7	1955.7	1923.0	:	1899.3	1908.9	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.1	6.7	6.1	6.5	6.8	6.8	:	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann.%ch	2.3	3.6	3.5	2.0	1.9	1.5	1.9	:	1.7	1.6	:
Producer prices <sup>4.2</sup>	Ann.%ch	-1.7	0.3	2.6	1.1	-0.4	0.1	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann.%ch	4.9	4.8	4.8	2.4	4.2	3.1	2.8	:	1.8	2.1	:
M2 <sup>4.4</sup>	Ann.%ch	8.0	5.5	6.7	4.7	5.7	6.5	5.6	:	2.9	2.2	:
Exchange rate LEK/EUR <sup>4.5</sup>	Value	132.06	137.79	140.33	139.04	140.26	140.39	140.39	140.04	140.01	139.99	140.13
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	4.23	3.41	3.25	:	2.94	3.07	:
Bond yield <sup>5.2</sup>	% p.a.	7.82	7.25	6.53	6.77	6.03	4.77	4.30	:	3.78	3.38	:
Stock markets <sup>5.3</sup>	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth <sup>5.4</sup>	Ann.%ch	20.5	8.6	11.7	7.4	-0.2	-2.0	-1.8	:	-2.1	-1.7	:
Deposit growth <sup>5.5</sup>	Ann.%ch	-0.1	15.5	14.5	9.4	3.7	2.0	1.8	:	0.4	1.0	:
Non performing loans <sup>5.6</sup>	% total	9.1	12.6	17.0	21.7	24.0	23.2	24.1	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance* <sup>6.1</sup>	% of GDP	-7.0	-3.1	-3.5	-3.5	-4.9	-4.9	-0.4	:	:	:	:
General government debt* <sup>6.2</sup>	% of GDP	59.7	57.7	59.4	62.5	65.2	65.2	63.3	:	N.A.	N.A.	N.A.

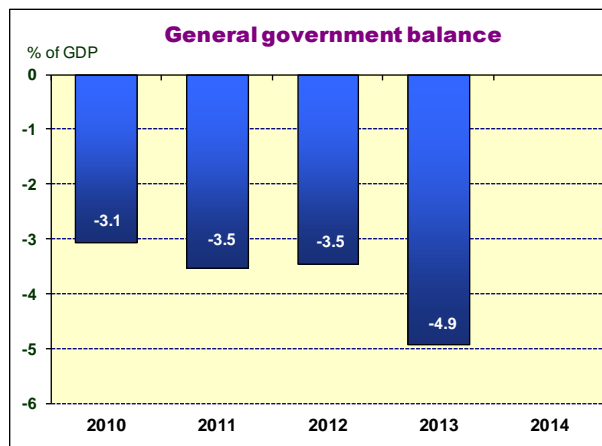
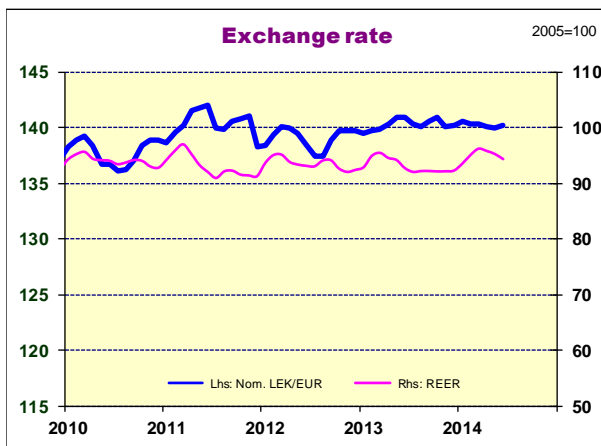
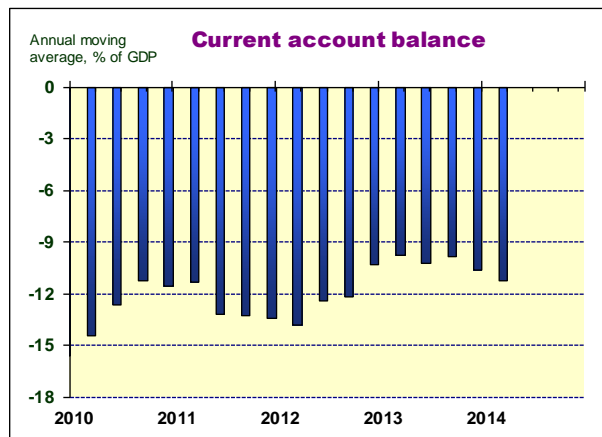
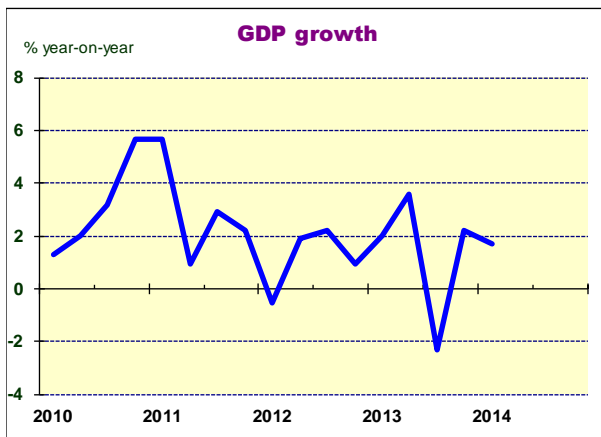
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## ALBANIA



# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



## Key developments

In its conclusions on the country's 2014 Pre-Accession Economic Programme, the May Joint Ecofin Council invited the authorities to step up their reform efforts in particular with regard to improving medium-term budget planning and execution, and enhancing workers' employability by better aligning education with labour demand needs.

On 27 April, early parliamentary elections confirmed the majority of the ruling party. The vast majority of MPs from the main opposition party laid down their mandates. In June, the parliament elected the new, fourth government of the ruling VMRO-DPMNE, which has been in power since 2006.

## Real sector

The economy gained further pace in the first quarter, with GDP growth accelerating to an estimated 3.9% y-o-y, from 3.1% in the last quarter of 2013. Gross capital formation, which had contracted sharply in 2013, posted an increase of 26.5%, on the back of the start of major public infrastructure works and the establishment of new foreign entities. Private consumption remained resilient, with household expenditure increasing by 1.6%, and thus continuing to grow steadily at about the same moderate pace of the previous two quarters. Annual increases of household consumption are nevertheless far below the 4.2% average for 2013. The Statistical Office revised downwards the GDP figures for 2013 – to 2.9% annual growth, from previously estimated 3.1%.

Construction remained the most dynamic sector of the economy, expanding by some 14% y-o-y, although this is some way below the 2013 output surge. Industrial production proved resilient, growing by 3% on the year in the first quarter, which is nevertheless roughly only half the pace of the preceding quarter. In April and May, industrial output growth rebounded to 6% on average, bringing the total increase for the first

five months to 4.5%. The continued rebounding in industrial production is carried by the manufacturing sector, which accounts for about three quarters of the industry structure. Manufacturing output growth slowed down slightly to 8% in the first quarter. In April and May, the sector posted further solid increases, accelerating to 16.2% in May. The expansion of manufacturing is driven by the machinery and equipment sector, which increased its output by 20% y-o-y in the first quarter, with growth accelerating to 45% y-o-y in May. Cloth manufacturing, which accounts for about 11% of the industry structure, also strengthened considerably in the first quarter and beyond. Yet, according to the Statistics Office, the strongest increase in manufacturing took place in motor vehicles, owing to the start and expansion of production by foreign entities. In the first quarter, its output – still accounting for only about 0.2% of the industry structure – had quadrupled on the year. Retail sales disappointed, with a steep decline in trade levels of 10.2% y-o-y during the first quarter, and a further loss on the year in April, by 3.2%.

## Labour market

The trend of declining unemployment continued in the first quarter. The number of unemployed declined by 4%, compared to the same period a year earlier, according to the Labour Force Survey, while the labour force increased by 0.5%. This resulted in a further decrease in the overall unemployment rate by 1.5pp to 28.4%. On the downside, the rate for young workers rose again, from 53.5% in the first quarter of 2013, to 54.6%. Reflecting the strong recovery of manufacturing output since autumn 2013, employment in industry increased by 6.9% yoy in the first five months, compared to an annual average of 1.1% in 2013. Employment increases in manufacturing remained strong in April and May, at 8.1% on average, propelled by three-digit jumps in employee numbers in the motor vehicle industry, following the recent establishment of foreign entities in this sector.



After continued declines during the first quarter, average monthly net real wages recorded a plus of 2% y-o-y in April, supported by an increase in nominal wages, and consumer price deflation.

## External sector

In the first four months, the current account deficit increased by 46% over the same period a year earlier. This was mainly on account of a sizeable increase (9%) in the trade deficit, and a 7% drop in current transfers. Exports of goods surged by 18% compared to the same period in 2013, while imports expanded by 7.7% y-o-y. The surplus in the services balance decreased significantly (-68.6%). Overall, in the four quarters to March, the current account deficit slightly increased to 2% of GDP, up from 1.9% in 2013. At about 78%, the share of exports to the EU remained unchanged in the first quarter compared to a year earlier.

FDI inflows were driven by strong equity investments, supported by retained earnings in the first quarter and beyond, leading to an increase of 43% in overall FDI inflows y-o-y in the first four months of the year. This is equal to about 1.1% of projected full-year GDP. The bulk of new investment was directed towards metal and machinery manufacturing, and the services.

The international reserve position weakened further in the first quarter. Reserve levels fell by 13% y-o-y, mainly owing to a decline in foreign currency reserve values, resulting to a large part from valuation effects. At end-May, reserves in terms of projected GDP had declined slightly to 22.7%, covering about 4.4 months of prospective imports of goods and services. Gross external debt, excluding debt of the monetary authorities, stood at some 70% of GDP at the end of the first quarter, up by over 2pp from the end of the previous quarter, and 1pp below its level of a year earlier. Increases were recorded for government external debt, nonfinancial corporations, and intercompany lending.

## Monetary developments

Annual consumer price inflation decelerated each month throughout the first quarter, bringing total quarterly CPI increase down to 0.6%, compared to 1.3% in the preceding quarter. The annual growth of the CPI was negative in April and in May. Prices for the two biggest categories of the CPI basket, food, and housing and utilities, declined in the first five months

compared to the same period a year earlier, by 0.6% and 2% respectively. The expansion of M4 money supply remained almost at the level of the previous quarter, at 5.8%, accelerating to 8.7% on average in April and May.

## Financial sector

Private sector credit growth accelerated further in the first quarter and thereafter. With the exception of April, growth in total private sector loans accelerated each month since August 2013. Between January and May, loans increased on average by 7.1% yoy. Loans to public corporations grew significantly. Credit to non-financial corporations, which had been lagging the dynamic development of household loans until late 2013, picked up further. Loan rates are stagnating – at the end of April, average weighted nominal lending rates for loans in national currency stood at 7.6%, the same as in February, and down by only 0.1pp since end-2013. Deposit rates increased by 0.1pp to 3.9%, compared to end- February, leading to a marginal narrowing of spreads.

The quality of banks' portfolios improved somewhat further, as the share of non-performing to total loans decreased between January and March for the third quarter in a row. It remains high, at 10.6%, yet the coverage of NPLs by banks' provisions rose further, and reached its highest level since 2009.

## Fiscal developments

Further to the frontloading of transfer spending in this election year, the central government budget deficit reached 2.7% of the full-year projected GDP at end-May, amounting to over 70% of the 2014 deficit target (3.5% of GDP). Implementation of capital expenditures during this period amounted to about one quarter of budgeted funds.

The consolidated central government debt lowered to 34.9% of GDP in May, compared to 35.9% on average in 2013. The share of external debt in total central government debt did not change significantly compared to 2013, and remained at just over half of total debt.

## TABLE



European Commission, ECFIN-D-1

### The former Yugoslav Republic of Macedonia

		2009	2010	2011	2012	2013	ECFIN Forecast		Q4 13	Q1 14	Q2 14	Apr 14	May 14	Jun 14
							2014	2015						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	-13.8	-9.6	18.4	14.7	12.3	:	:	13.0	11.1	:	10.6	11.0	:
Industrial production <sup>1.2</sup>	Ann.%ch	-8.4	-4.6	4.0	-6.6	3.2	:	:	6.5	3.7	:	2.2	9.7	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-1.0	2.8	3.0	-0.4	2.9	3.0	3.2	3.1	3.9	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-4.9	1.5	2.9	-3.0	4.2	3.0	2.7	1.4	1.6	:	N.A.	N.A.	N.A.
Gross capital formation <sup>1.5</sup>	Ann.%ch	-0.9	-4.3	15.7	21.2	-12.1	10.6	9.0	-4.1	26.5	:	N.A.	N.A.	N.A.
Construction <sup>1.6</sup>	Ann.%ch	5.3	11.7	25.3	4.2	-32.7	:	:	26.8	13.7	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	-3.8	4.2	N.A.	N.A.	-0.8	:	:	0.1	15.5	:	-1.5	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	32.2	32.1	31.4	31.0	29.0	28.5	27.5	28.6	28.4	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	3.4	1.3	1.1	0.8	4.3	1.9	1.9	4.2	2.6	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	14.1	0.9	1.3	0.2	1.2	4.3	3.2	0.7	-0.3	:	0.7	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	-28.2	30.9	26.9	-3.2	3.2	:	:	6.4	12.7	:	13.5	:	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-21.6	13.9	22.2	0.1	-1.5	:	:	-1.7	9.2	:	-1.9	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-23.3	-20.5	-22.1	-23.6	-20.6	-20.3	-20.5	-20.6	-20.5	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	39.0	46.6	54.9	53.6	53.9	:	:	53.9	54.9	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	60.6	65.3	74.5	76.3	72.8	:	:	72.8	73.4	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-6.8	-2.0	-2.5	-3.0	-1.9	-3.7	-3.8	-1.9	-2.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	2.0	2.2	4.5	1.0	3.3	:	:	3.3	3.3	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1 597.5	1 714.5	2 068.9	2 193.3	1 993.0	:	:	1 993.0	1 941.2	:	1 899.2	1 920.1	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.5	5.2	5.7	5.7	5.0	:	:	5.0	4.8	:	:	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann.%ch	-0.8	1.6	3.9	3.3	2.8	2.5	2.3	1.3	0.6	:	-1.1	-0.6	:
Producer prices <sup>4.2</sup>	Ann.%ch	-6.4	8.3	11.1	4.5	0.4	:	:	-2.2	-2.2	:	-1.8	-0.2	:
Food prices <sup>4.3</sup>	Ann.%ch	-1.4	0.3	6.2	2.3	3.4	:	:	1.2	0.6	:	-2.7	-2.0	:
Monetary aggregate M4 <sup>4.4</sup>	Ann.%ch	3.5	12.1	10.5	7.5	4.0	:	:	5.0	5.8	:	9.0	8.4	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.28	61.51	61.53	61.53	61.58	:	:	61.54	61.65	61.65	61.69	61.59	61.68
Nominal eff. exchange rate <sup>4.6</sup>	Index	101.6	100.0	101.4	100.3	101.6	:	:	102.8	103.4	:	103.3	:	:
<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	8.04	:	:	7.81	7.63	:	7.57	:	:
Stock markets <sup>5.3</sup>	Index	2 497	2 472	2 407	1 890	1 726	:	:	1 604	1 731	1 709	1 719	1 720	1 687
Credit Growth <sup>5.4</sup>	Ann.%ch	14.2	5.4	8.1	7.3	4.3	:	:	5.2	7.1	:	7.1	7.6	:
Deposit growth <sup>5.5</sup>	Ann.%ch	4.6	13.0	10.9	7.2	4.8	:	:	6.1	6.5	:	9.4	8.5	:
Non-performing loans <sup>5.6</sup>	%total	8.9	9.0	9.5	10.1	11.8	:	:	10.9	10.6	:	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	-4.1	-4.2	-3.9	-2.7	-10.2	:	N.A.	N.A.	N.A.
Central government debt <sup>6.2</sup>	% of GDP	23.8	24.2	28.0	34.1	35.8	38.7	40.8	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2014

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

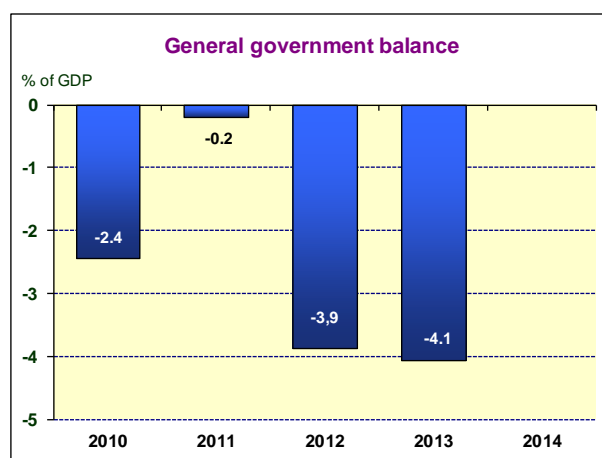
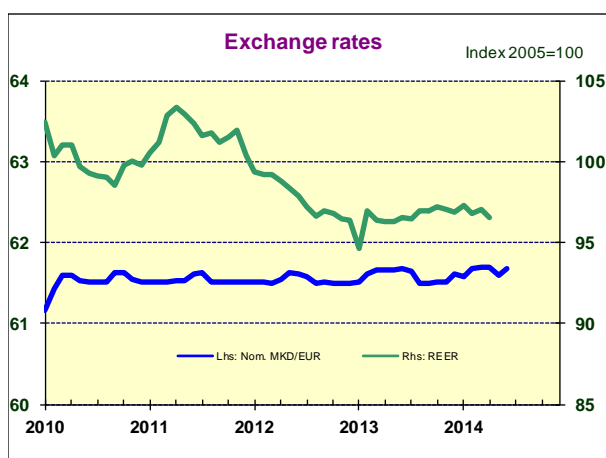
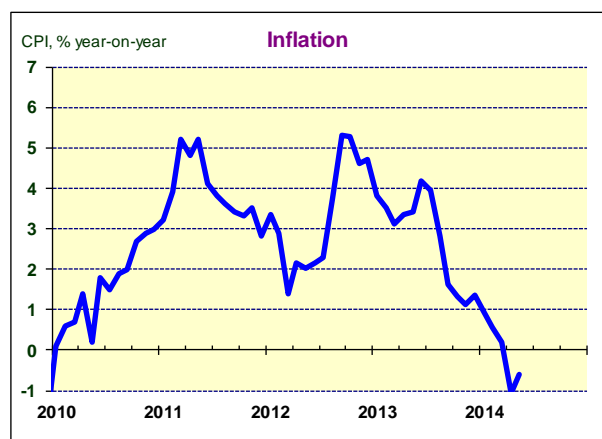
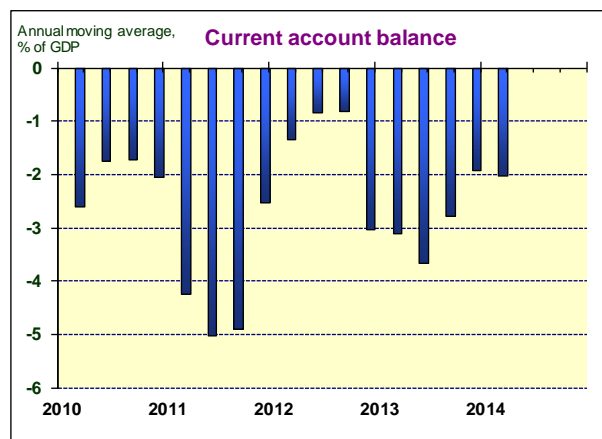


# CHARTS



European Commission, ECFIN-D-1

## The former Yugoslav Republic of Macedonia



## ICELAND



### Key developments

On 23 May, the IMF concluded its fourth Post-Program Monitoring Mission, pointing to a positive outlook, the Central Bank's appropriate monetary policy and the government's commitment to achieve a balanced budget and to reduce the public debt. The Fund also encouraged the authorities to maintain its fiscal stance also in 2015, to proceed with adopting and implementing the new budgetary framework, to strengthen financial supervision and resolve the issue of a chronically loss-making public financial institution.

On 1 July, a bi-lateral Free Trade Agreement with the People's Republic of China entered into force. Besides liberalising trade of goods and services between the two countries, the agreement envisages a further increase of cooperation in the areas of labour and environment. A Joint Free Trade Commission will supervise the functioning of the agreement. Currently, trade with China accounts for some 7.7% of Iceland's total imports, and for about 0.8% of total exports. The trade deficit with China represents some 2% of Iceland's GDP.

### Real sector

Overall GDP growth surprised on the downside in the first quarter of 2014, being 0.1% lower than a year before. The main reason was a sharp drop in inventory, while private consumption and investment were rather strong, increasing by 3.9% and 17.6%, respectively. However, the strong growth in investment is largely due to a base effect, while the actual investment level was in line with previous quarters. Import growth was strong too, increasing by 12% year-on-year. However, here too, a significant base effect played an important role. The latest forecast of the Statistics Iceland expects GDP growth for 2014 to be slightly above 3% in 2014. The EU Commission's spring forecast expects 2.8% for this year.

High frequency indicators for April-May, such as credit card turnover, point to rather strong

consumption during that period. In particular in May, turnover on domestic credit cards was particularly strong. Turnover of foreign credit card continued to rise sharply, indicating a rather stable tourist season.

### Labour market

According to LFS, employment rose in the first quarter by 2% y-o-y, compared to 2.5% a year before. The number of (estimated) unemployed rose slightly from 10 300 persons to 10 500. However, due to the increase in labour supply, the unemployment rate remained unchanged compared to the first quarter a year before, at 5.8% of the labour force. Due to seasonal factors, unemployment in the previous quarter, i.e. the fourth quarter of 2013, was significantly lower, at 4.8%. Monthly, seasonally adjusted data points to further decline in unemployment, with unemployment dropping to 4.6% in May, compared to 5% the year before. For the seventh quarter in a row, the share of long-term unemployed in total unemployed continued to decline, reaching 16% in the first quarter, compared to 25% the year before, representing less than 1% of the labour force. However, this level is still higher than prior to the crisis. Unemployment among young (age group 16-24) was 11.4% in the first quarter, compared to 10.8% the year before. Average weekly hours of full-time work continued to increase slightly, from 44.0 hours in the first quarter of 2013 to 44.5 hours in the first quarter of 2014.

Nominal wages in the first quarter were some 5.2% higher than a year before. This is currently some 3 percentage points above inflation.

### External sector

Iceland's external balances deteriorated in the first quarter, mainly due to decelerating export earnings, while some components, such as the import of food and transport equipment are picking up. The current account balance turned from a surplus in the first quarter of 2013 (of some 3% of the quarter's GDP) into a deficit (of some 2.8%), mainly due to a drop in the trade

surplus and a sharp increase in (largely hypothetical) interest payments to financial institutions in winding-up procedure. The trade surplus deteriorated from 6.2% of the quarter's GDP to 2.2% of the quarter's GDP in the first quarter of 2014. The service balance improved by ¼ percentage points of GDP, while the deficit in the income balance was some 2 percentage points higher than a year before, mainly reflecting higher payments for debt service and lower reinvested equity earnings. The current account switched from a surplus of 3.9% in 2013 to a deficit of 2.8% in the four quarters to March 2014.

Trade data for the second quarter points to a continuous deterioration in the trade balance: Revenues from exports of goods were some 8% lower than in the same period a year before, while spending for imports of goods was only 0.4% lower. Imports for industrial supplies, fuels and capital goods were significantly lower than a year before, while imports of transport vehicles were some 7.8% higher than a year before. This pattern is largely in line with indications for weak investment and de-stocking. In particular in June, commodity imports rose quite sharply, i.e. by 11.9% year-on-year, with particularly strong increases in the import of consumer goods.

Gross official foreign exchange reserves remained largely unchanged during the first 5 months of 2014. In February and March, reserves dropped slightly, but recovered again in April and May. As a result, end of May reserves were some 1.5% higher than at the end of 2013. As a share of GDP, reserves still account for some 27% of GDP.

Iceland's international investment position was at the end of the fourth quarter at a gross deficit of some 420% of the 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 60% of GDP.

## Monetary developments

Consumer price inflation remained remarkably low. In the first half of 2014, 12-month inflation dropped to slightly above 2%, which is significantly below the Central Bank's inflation target of 2.5%. Key factors for this decline are the strength of the exchange rate, but also moderate wage agreements, reducing domestic cost pressures, as well as lower import prices. Average annual inflation was 3.9% in 2013.

The exchange rate of the *króna* vis-à-vis the euro regained some ground during the last 9 months, trading at 154.6 ISK against the EUR in June 2014, compared to 165 ISK in October 2013. This represents a strengthening of the ISK against the EUR by some 7%.

## Financial sector

Financial intermediation has remained weak. Credit provision increased by 1% only in the first quarter, slightly weaker than in the fourth quarter of 2013. However, recent data points to a slight acceleration in May, with year-on-year credit growth of 2.3%, compared to 1.6% the month before. The level of deposits is increasing at significantly higher rates, registering a growth of 7% in the first quarter, but decelerated markedly in April and May, falling to 5.2%.

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

## Fiscal developments

In the first quarter, the general government registered a surplus of 2.5 of the quarter's GDP, compared to a deficit of -1.8% in the same quarter of the year before. The surplus is a result of a strong increase in revenue, by 12.4% year-on-year. However, this positive revenue performance is mainly the result of a divided payment by the largely state-owned *Landsbankinn* bank. Without this transfer, the revenue increase would have been 5.3% only. Spending rose by 4.7% only. About 40% of the additional spending was used for financing a higher wage bill, which rose by 5.7% year-on-year. Spending for investment was 20% higher than a year before, increasing from 1.8% of the quarter's GDP to 2.1%. Social benefit payments were 4.9% higher than a year before, while spending for the purchase of goods and services rose by 3.1%.

General government debt was at 81.3% of GDP in December 2013, compared to 88.8% the year before.

# TABLE



European Commission, ECFIN-D-1

## ICELAND

		2009	2010	2011	2012	2013	ECFIN Forecast		Q4 13	Q1 14	Q2 14	Apr 14	May 14	Jun 14
							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	4.4	:	:	7.7	-1.7	:	1.4	:	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-6.6	-4.1	2.7	1.5	3.3	2.8	3.2	3.8	-0.1	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-15.0	0.1	2.6	2.4	1.2	4.3	4.0	1.4	3.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-51.4	-9.4	14.1	5.5	-3.4	5.0	10.0	6.6	17.6	:	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	-12.8	13.3	4.1	1.6	:	:	1.1	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	7.2	7.5	7.1	6.0	5.4	5.0	4.5	4.5	5.8	:	5.0	4.6	:
Employment <sup>2.2</sup>	Ann.%ch	-6.2	-0.3	0.0	1.1	3.4	2.1	2.0	4.6	2.1	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	3.9	4.8	6.8	7.8	5.7	2.5	3.5	6.0	5.2	:	4.8	5.2	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	7.3	12.0	10.5	2.1	-3.5	:	:	-4.5	:	:	-27.3	15.6	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-13.3	7.4	18.6	6.3	-2.6	:	:	-2.2	:	:	-7.0	-4.3	:
Trade balance* <sup>3.3</sup>	% of GDP	6.0	7.8	6.0	4.6	3.9	2.3	1.1	3.9	:	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	52.9	56.4	59.1	59.4	57.5	:	:	57.5	56.8	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	44.2	46.3	50.7	53.3	50.1	:	:	50.1	50.3	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-11.5	-8.0	-6.3	-5.3	3.9	0.2	-1.3	3.9	-2.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	-18.2	20.7	7.7	31.1	-0.3	:	:	-0.3	:	:	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	3 028.8	:	:	3 028.8	2 999.6	:	3 018.6	3 077.2	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	13.4	19.1	24.4	11.3	10.9	:	:	10.9	10.7	:	10.8	11.0	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann.%ch	12.0	5.4	4.0	5.2	3.9	2.7	3.2	3.8	2.5	2.3	2.3	2.4	2.2
Producer prices <sup>4.2</sup>	Ann.%ch	11.3	11.7	9.2	1.1	-4.4	:	:	-6.5	-10.6	:	-3.3	-2.2	:
Food prices <sup>4.3</sup>	Ann.%ch	17.5	4.2	3.8	6.1	5.1	:	:	4.3	2.4	0.5	0.4	0.8	0.2
M3 <sup>4.4</sup>	Ann.%ch	15.7	-6.6	-2.1	2.8	2.0	:	:	3.7	6.9	:	6.6	5.2	:
Exchange rate ISK/EUR <sup>4.5</sup>	Value	172.51	162.16	161.45	160.93	162.30	:	:	163.21	156.55	154.86	155.18	154.83	154.56
Nominal eff. exchange rate <sup>4.6</sup>	Index	98.1	100.0	100.0	97.6	98.9	:	:	99.6	104.4	:	105.7	:	:
<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	6.19	6.06	6.09	6.02	6.08
Bond yield <sup>5.2</sup>	% p.a.	8.26	6.09	5.98	6.19	5.79	:	:	6.13	6.40	:	6.23	6.40	:
Stock markets <sup>5.3</sup>	Index	465	562	602	649	774	:	:	820	865	835	837	834	834
Credit growth <sup>5.4</sup>	Ann.%ch	-8.5	-3.2	-1.7	6.3	0.1	:	:	1.3	1.0	:	1.6	2.3	:
Deposit growth <sup>5.5</sup>	Ann.%ch	-1.3	-7.0	-2.6	4.8	-0.2	:	:	3.7	7.0	:	6.6	5.2	:
Non-performing loans <sup>5.6</sup>	% total	14.0	18.0	12.0	8.0	:	:	:	:	:	:	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	-2.1	-0.3	-0.7	-5.0	2.5	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	87.7	84.2	91.9	88.8	81.3	91.7	87.7	81.3	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2014

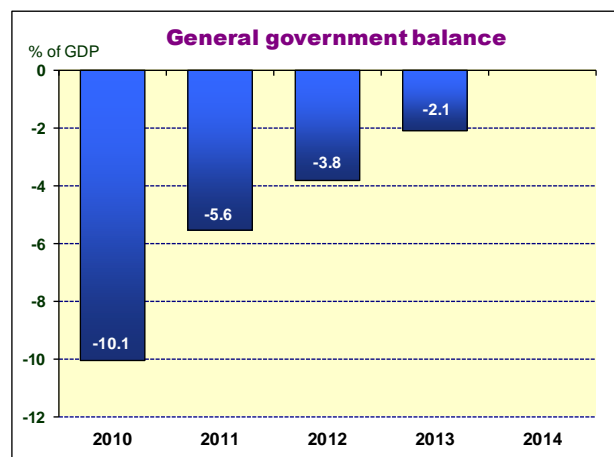
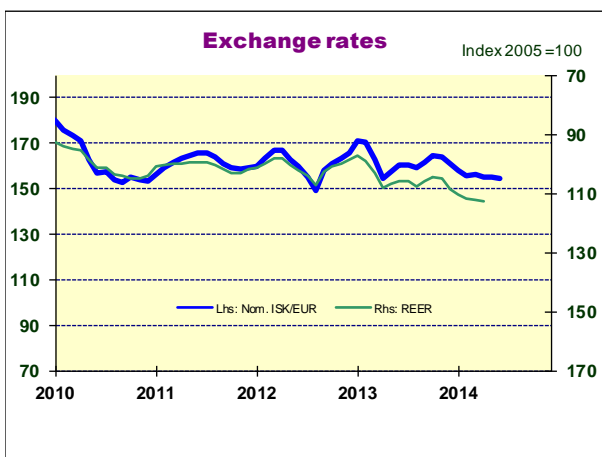
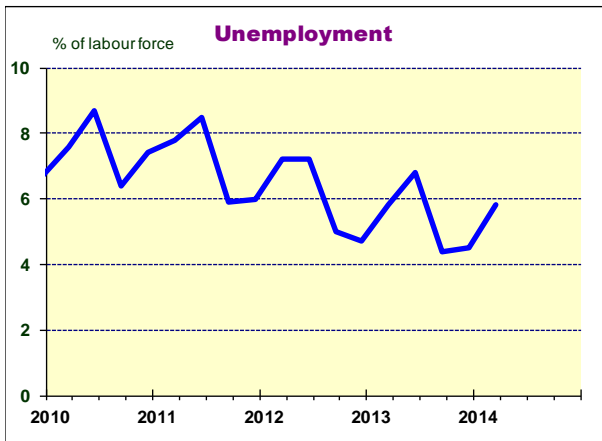
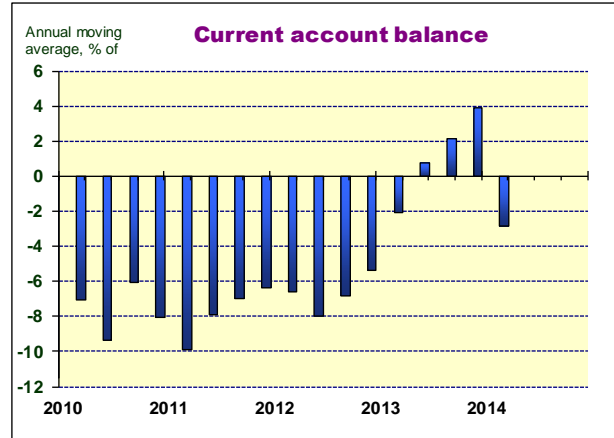
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## ICELAND





## Key developments

In its conclusions on Montenegro's 2014 Pre-Accession Economic Programme (PEP), the May Joint ECOFIN Council recommended to Montenegro to step up its efforts in order to put public debt on a declining path, address the high burden of banks' non-performing loans, and improve the business environment and labour market conditions.

In the process of accession negotiations with the EU, three more negotiation chapters –relating to free movement of capital, financial control and foreign, security and defence policy– were opened in June, raising the number of chapters opened to 12 out of a total of 35.

On 14 April, the parliament adopted the Law on Budget and Fiscal Responsibility (i.e. fiscal rules), prescribing upper limits for the budget deficit and public debt at 3% and 60% of GDP respectively.

On 10 June, the sale of the aluminium plant concluded the liquidation process of the bankrupt metal conglomerate KAP. All its assets (smelter, processing plant, rolling mill, forging plant, red mud ponds, and others) have been sold separately to local firms.

Montenegro's Vektra Jakic, one of the largest wood processing firms in the region, announced it would restart production in mid-July after exiting from two-year bankruptcy proceedings.

## Real sector

The recovery that started in early 2013 continued in the first quarter of 2014. The economy grew by real 1.7% y-o-y, higher compared to 1.1% a year before, albeit slowing from a 4.7% in the preceding quarter. Although a breakdown by category is not available yet, early indicators point to investments –notably construction– and to net exports (reflecting a contraction of imports) as the main drivers of growth. Retail sales and fiscal data suggest a positive but more modest contribution from private and public consumption as wages and bank lending remained in negative territory.

In May 2014, industrial production fell for a third consecutive month, contracting by 23%

y-o-y, mainly driven by lower output of utilities. Rising production from mining –namely coal– and from some manufacturing sectors failed to offset the impact of falling beverages, pharmaceutical, basic metals and other non-metallic mineral products.

## Labour market

The labour market presents a strong seasonal pattern, largely related to tourism. For the last quarter of 2013, the Labour Force Survey reported a reversal of the unemployment rate, climbing to 19.5% from 17.8% in the previous quarter, but still one percentage point lower compared to the last quarter of 2012. The latest reports from the Employment Agency confirm that labour market conditions remained weak during the first quarter of 2014 with an unchanged unemployment rate. The situation started improving somewhat as of April due to stronger employment growth. The unemployment rate registered a one and a half percentage points decline in the three months to June. However, weak employment data confirms that the economic recovery is not fully translating yet into improved labour conditions, including wages. Thus, in the first five months of 2014, gross wages continued contracting by nominal -0.9% y-o-y on average.

## External sector

The current account deficit further narrowed in early 2014. In the four quarters to March, the external gap eased to 14.2% of GDP compared to 17% a year before. The improvement was driven by a reduction in the trade deficit combined with surpluses in the balances of services, transfers and income. However, in April and May the trade deficit widened again, growing by more than 16% y-o-y each month, due to a strong contraction of exports replicating base effects from electricity production, as well as a mild growth in imports in May.

The current account deficit was largely financed by net FDI flows as well as other transfers recorded under net errors and omissions. In the four quarters to March, net FDI totalled 10% of GDP, compared to 14.4% a year ago. Yet, in the four months to April, net foreign investments recorded a substantial increase of 14% compared



to the same period of the previous year. Almost half of these investments relate to intercompany debt while 38% refer to real estate operations.

### Monetary developments

In early 2014, disinflation turned into deflation. In May, the consumer price index contracted by 1.3% y-o-y, mainly driven by declining prices of food, housing, and communications. By contrast, alcoholic beverages, health and transport –the latter due to rising fuel prices– recorded mild increases. Yet, on a monthly basis, the consumer price index rose by 0.3% in May, reversing a 0.2% monthly decline in April.

### Financial sector

Despite further contraction in bank lending, commercial banks' assets kept rising thanks to higher cash and deposits held with the central bank. In May 2014, bank loans declined 3.8% y-o-y, deepening the contraction registered in the month before as well as in the first quarter of the year (around 3.4% y-o-y). The contraction in bank lending is being driven by falling loans to companies and to financial institutions, while lending to foreign companies, households and public institutions continued to grow.

Meanwhile, bank deposits maintained their expansion in the first five months of 2014, improving domestic banks access to local funding. In May alone, deposits grew by 7.1% y-o-y, easing from 7.3% a month before. Corporate deposits are growing faster than retail ones, hinting to a higher reliance of local firms on own sources to finance their investments. In the first five months of 2014, corporate deposits grew on average by 9.6% y-o-y compared to a 6.9% expansion of household deposits.

After easing in the first four months of 2014, the ratio of non-performing loans (NPL) returned in May back to its level of end 2013 (i.e. 18.5% of total loans). Risk aversion increased pressure on the weighted average lending interest rate, which rose in May to 10.65% from around 10% a month before

Several developments took place in May: The

Insurance Supervision Agency delivered the first licence to a Montenegrin bank (Hypo Alpe-Adria Bank) to engage in insurance operations. The central bank awarded an operating license to Lovcen Banka AD, raising the number of banks operating in the country to 12. Meanwhile, Russia revoked the license for the operation of Atlas Bank subsidiary in Moscow, claiming suspicious transactions.

In May, the stock exchange capitalisation expanded by 5.6% y-o-y to EUR 2.9 billion, recording an average turnover of EUR 330 thousand compared to 93 thousand a month earlier. Also in May, the bourse registered its first trade in government bonds.

### Fiscal developments

According to the government's draft final account of the 2013 budget, the general government deficit reached 5.3% of GDP, significantly above the preliminary estimate of 2.6%. This difference emerged after an amount of EUR 60 million had to be carried over for repayments of obligations from previous years related to restitution, old foreign currency saving and some court decisions claims. Moreover, additional EUR 20 million were distributed to cover diverse expenditures of the Health Fund.

The central government budget for the first five months of 2014 planned a deficit of EUR 119 million. Yet, a combination of higher revenue and underspending lead to a significantly lower budget gap of EUR 58 million. This represents 1.7% of the full year GDP, compared to a deficit of 2.3% in the same period a year before. In May alone, the central government budget posted EUR 0.7 million surplus, compared to a planned deficit of EUR 13 million.

In the first quarter of 2014, the public debt eased to 57% of GDP, or one percentage point lower than at the end of 2013. The debt stock further declined to 56.6% in April, but increased again in May following a 5-year Eurobonds issuance worth EUR 280 million, of which EUR 85 million will be used to refinance existing debt. The finance ministry maintains its public debt forecast of 57% of GDP for 2014.

## TABLE

European Commission, ECFIN-D-1



## MONTENEGRO

		2009	2010	2011	2012	2013	ECFIN Forecast							
							2014	2015	Q4 13	Q1 14	Q2 14	Apr 14	May 14	Jun 14
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	8.7	:	:	8.6	9.2	17.6	15.9	17.4	19.6
Industrial production <sup>1.2</sup>	Ann.%ch	-32.2	17.5	-10.3	-7.1	10.7	:	:	15.5	-2.5	:	-27.9	-23.4	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-5.7	2.5	3.2	-2.5	3.5	2.9	3.6	4.7	1.7	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-12.9	2.0	4.2	-3.2	:	1.0	1.5	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-30.1	-18.5	-10.3	-3.3	:	9.5	11.5	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	-21.5	13.1	10.7	-13.2	9.7	:	:	28.0	30.4	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	-9.0	1.6	12.6	6.7	11.3	:	:	14.4	1.8	:	3.1	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	20.3	19.7	18.1	20.6	19.5	:	:	19.5	:	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	-2.7	-2.2	-6.1	2.2	1.1	1.9	2.6	-0.1	:	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	5.7	11.0	1.0	0.8	-0.2	1.0	2.2	0.7	-0.6	:	-0.6	-0.3	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	-34.2	20.3	33.6	-17.8	1.0	:	:	-0.9	-17.2	:	-37.3	-35.0	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-34.6	0.9	9.2	-0.1	-3.2	:	:	0.8	-6.2	:	-2.6	3.2	:
Trade balance* <sup>3.3</sup>	% of GDP	-44.3	-41.1	-40.4	-44.1	-39.8	-40.2	-40.5	-39.8	-39.4	:	-40.0	-40.5	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	32.1	34.7	42.8	44.1	41.7	:	:	42.6	41.7	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	65.4	63.1	64.9	68.8	61.9	:	:	63.7	61.9	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-27.9	-23.0	-17.7	-18.7	-14.6	-14.4	-14.5	-14.6	-14.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	35.8	17.5	12.0	14.7	9.7	:	:	9.7	10.0	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	397.5	416.4	303.5	347.9	423.7	:	:	423.7	415.5	:	356.1	540.2	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	2.9	3.0	2.0	2.3	2.9	:	:	2.9	2.8	:	2.4	3.7	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann.%ch	3.4	0.5	3.1	4.1	2.2	1.8	2.7	0.3	-0.6	:	-1.4	-1.3	:
Producer prices <sup>4.2</sup>	Ann.%ch	-3.8	-0.7	3.2	1.9	1.7	:	:	-0.9	-0.9	:	-0.2	-0.1	:
Food prices <sup>4.3</sup>	Ann.%ch	3.3	0.3	2.8	4.2	4.0	:	:	-0.4	-1.0	:	-3.4	-3.6	:
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	3.39	:	:	:	1.33	1.86	1.86	:	:
Bond yield <sup>5.2</sup>	% p.a.	3.63	3.37	2.45	4.75	3.19	:	:	2.24	1.72	2.20	2.20	:	:
Stock markets <sup>5.3</sup>	Index	13 303	13 993	11 896	9 091	9 532	:	:	9 197	10 295	9 995	10 218	9 947	9 820
Credit growth <sup>5.4</sup>	Ann.%ch	-5.5	-4.8	-6.3	-0.7	3.1	:	:	3.1	-3.4	:	-3.2	-3.8	:
Deposit growth <sup>5.5</sup>	Ann.%ch	-8.3	-1.9	1.5	9.0	5.9	:	:	5.9	5.3	:	7.3	7.1	:
Non-performing loans <sup>5.6</sup>	% of total	13.5	21.0	15.5	17.6	18.4	:	:	18.4	17.2	:	17.9	18.5	:
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-5.7	-4.9	-5.4	-6.1	-5.3	-0.6	1.0	-5.3	-1.4	:	:	:	:
General government debt <sup>6.2</sup>	% of GDP	38.2	40.9	45.9	54.0	58.0	58.5	59.4	58.0	57.0	:	56.6	:	:

f: ECFIN forecast Spring 2014

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

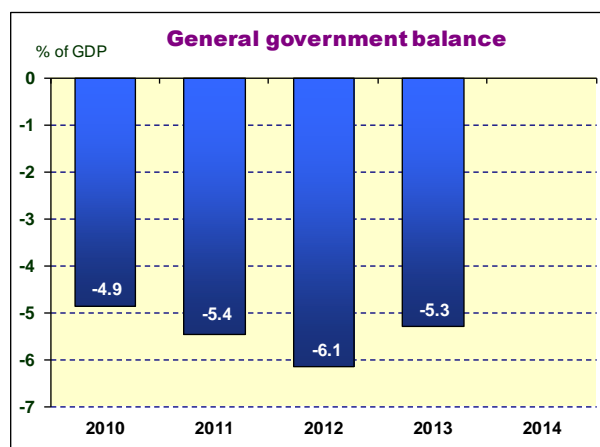
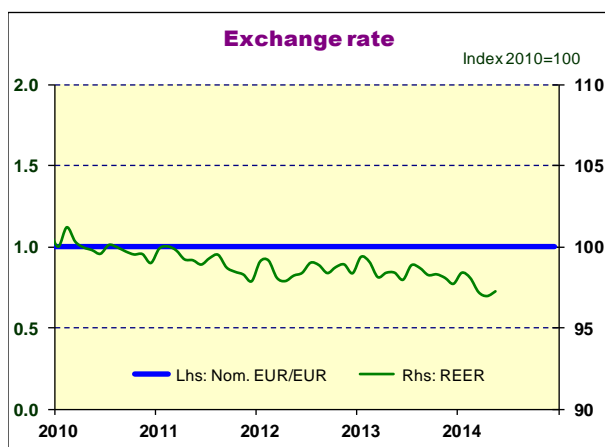
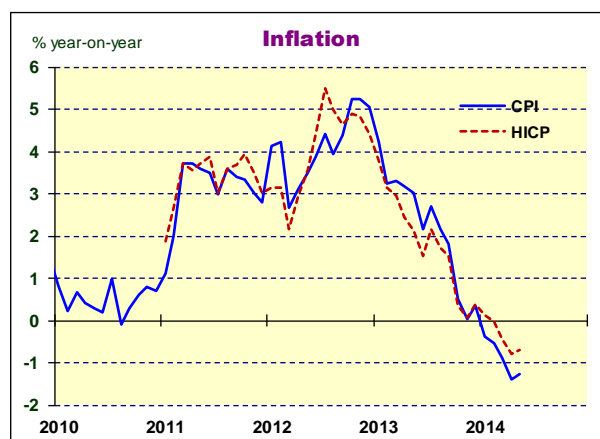
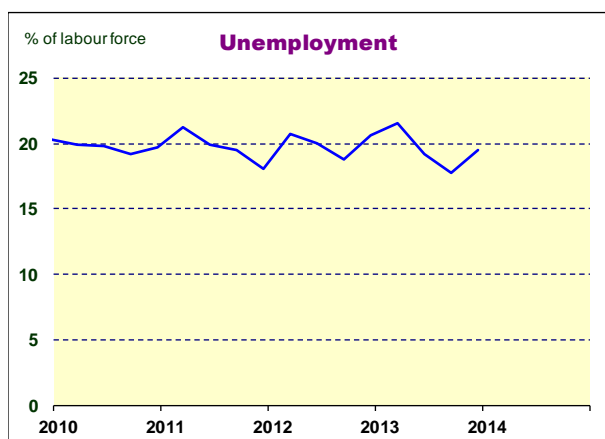
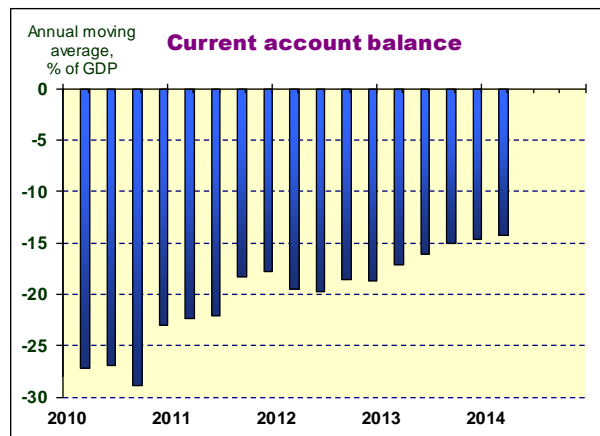


# CHARTS

European Commission, ECFIN-D-1



## MONTENEGRO





## Key developments

Following the early elections in March, the two major parties in the previous government (the Serbian Progressive Party and the Socialist Party) remained in power, establishing a coalition government. A number of ministers, including the minister of finance, have been reappointed in the new government.

In May, heavy floods hit the central and western parts of the country, seriously damaging agriculture, transport and energy sectors. Preliminary estimates by the EBRD put the damages at EUR 1.5-2.0 billion.

In its conclusions on Serbia's 2014 Pre-Accession Economic Programme, the Joint ECOFIN Council invited Serbia to strengthen fiscal consolidation efforts, by taking additional measures to reduce the budget deficit in 2014 and the following years and to further support the envisaged medium-term consolidation path by credible public sector reforms. It also recommended a range of structural reforms, including the completion of restructuring of state-owned enterprises, to improve the business environment and medium-term growth prospects.

## Real sector

The economy stagnated in the first quarter, growing by 0.1% y-o-y. Domestic demand remained weak and, following a small uptick in the last quarter of the previous year, households consumption turned negative again (-2.1% y-o-y). Government consumption was subdued due to restrained government spending and fell by 2.1% as well. The overall bleak economic performance was confirmed by the continued decline in investments (-6.3% y-o-y), aggravated by pre-election uncertainties and shrinking credit activity. Exports remained the only bright spot, growing strongly by 14.2% y-o-y on the back of robust manufacture performance.

The deceleration in economy activity was also visible on the supply side as growth in key sectors slowed down or even turned negative. Although some pockets of growth remained, like in manufacturing, transportation and information and communication, more than half of the

economy has been in a decline in the first quarter. High-frequency indicators point to a further deterioration of economic activity in April and May when retail trade turnover stagnated. Due to the heavy floods, industrial production plummeted, falling by 7% y-o-y in May. The floods have hit in particular the mining and electricity supply sectors as the Kolubara mine pits, which are the biggest in Serbia, were badly damaged. In addition, despite the good performance of the automotive industry, manufacturing has also lost pace.

## Labour market

According to the Labour Force Survey, employment indicators have slightly worsened in the first quarter in comparison to October 2013. Unemployment increased from 20.1% to 20.8%, while the employment rate fell to 38.4%. The informal employment, i.e. the share of employed people working without a formal contract, remained significant at around 20%.

The difficult labour market situation is also revealed by data on registered employment, which continued its steady decline, falling by an average of 1.5% y-o-y in the first four months of the year. After having grown for about two years, the number of registered unemployed decreased slightly in March and April. Since the beginning of the year, the growth of wages was unstable. Nevertheless, in tune with the weak labour market, real gross wages have dropped by 1.5% y-o-y in the period January-May. By sectors, the fall was pronounced in financial services, trade, transportation and real estate, while in information and communication wages rose by close to 20% y-o-y.

## External sector

Exports of goods continued to increase unabated, by 14% y-o-y in euro terms in the period January-May. Broad-based agriculture and manufacture exports, including of the automotive industry, underpinned the robust exports performance. Exports to the EU increased faster than the average, while exports to the Commonwealth of independent states fell by close to 13% y-o-y, most likely on the back of increased geopolitical tensions in this region. Due to sluggish domestic demand total imports

grew only by 1.6%. Imports of intermediate and consumer goods, in particular, remained below their corresponding levels of the previous year. Consequently, in the period January-May the trade in goods deficit fell by 22% y-o-y to EUR 1.6 billion.

The continued strong exports performance, including of services, and suppressed imports, have led to further narrowing of the current account deficit. In the first four months of the year, it fell by 48% y-o-y to EUR 401 million or below 4% of GDP from 4.9% of GDP in 2013, despite higher outflows related to portfolio and direct investment income and lower private remittances. Half of the deficit was covered by net foreign direct investments, which stood broadly unchanged on the previous year. Portfolio investments remained marginal and continued to trickle out of the country. In addition, capital outflows were also registered due to the continued reduction of foreign liabilities of commercial banks, the national bank and the government. However, these outflows remained on a small scale, allowing the central bank to reverse the fall in its reserve assets in April.

### Monetary developments

Since March, inflation has been remarkably stable and remained below the central bank tolerance band ( $4\pm 1.5\%$ ). Monthly inflation rates averaged 0.1% and the year-on-year inflation rate stood at 2.1% in May. Food prices, due to a very good agricultural season last year, a broadly stable exchange rate and weak domestic demand remained the main factors behind the reduced inflationary pressure.

After having kept its key policy rate unchanged for about five months, the central bank has cut it in two steps of each 50 bps in May and June to 8.5%. In support of these moves, the bank quoted the low inflationary pressure, stable inflation expectations, favourable balance of payments developments, and increased monetary policy accommodation by the ECB. It also voiced its expectation that the government will remain committed to implementing fiscal consolidation, structural reforms and measures aimed at further improving the business environment. Since March, the dinar has been broadly stable against the euro and the central bank intervened only marginally on the market, buying EUR 130 million in April and May. After having fallen in the first months of the year, by end-May the central bank's international

reserves have stabilised at a still comfortable level of EUR 10.4 billion, covering about seven months' worth of imports of goods and services.

### Financial sector

By the end of May, lending to the non-government sector contracted by a nominal 4.7% y-o-y, continuing a year-long trend. No significant changes were reported also in the dynamic of company loans, which fell by 9.1%, while lending to households expanded further by a moderate 4.6% y-o-y. Net claims to the government have doubled between February and May to nearly RSD 150 billion, as credit to the government has steadily increased (43% y-o-y) and its foreign currency deposits in the central bank fell. Total government deposits have nevertheless remained significant and at RSD 253.5 billion (19.4% y-o-y) provided an important liquidity buffer to the government. Non-monetary sector deposits continued growing, covering about 80% of domestic credit by the end of May. The gross non-performing loans ratio increased further to 22.3% in March.

### Fiscal developments

By the end of May, the budget deficit reached RSD 103 billion or almost half of the annual target of 5.5% of GDP. As a result mainly of underperforming revenue, growing by just 1.7% y-o-y, the deficit increased by almost a third over the same period last year. The fall in a major tax base like households consumption has taken its toll on indirect tax revenues, which continued their decline despite a hike of the reduced VAT rate from 8 % to 10 % from the beginning of the year. Although current non-interest expenditures increased only marginally, interest and capital spending boosted total expenditure growth to 5.3% y-o-y.

The widening budget deficit and recovery needs following the heavy floods, prompted the finance minister to announce a budget revision, expected to include additional consolidation measures. The timing of the revision has been moved from June to August-September. The minister also announced his expectation that a three-year precautionary Stand-By Arrangement with the IMF could be reached in the autumn.

Since the beginning of the year, government debt increased by EUR 486 million and reached EUR 21.1 billion or about 65% of the estimated 2014 GDP.

## TABLE

European Commission, ECFIN-D-1



## SERBIA

		2009	2010	2011	2012	2013	ECFIN Forecast		Q4 13	Q1 14	Q2 14	Apr 14	May 14	Jun 14
							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	5.6	:	:	3.3	2.9	:	1.9	-7.0	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	-3.5	1.0	1.6	-1.5	2.5	1.1	1.9	3.0	0.1	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	-2.7	-1.0	-1.2	-1.9	-1.5	-1.1	-0.5	0.6	-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	-7.7	5.5	9.8	-4.0	-6.3	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	:	13.6	28.6	-14.6	-23.8	:	:	20.3	20.2	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	-11.4	-0.7	-14.6	-3.9	-5.3	:	:	1.3	1.2	:	0.0	-0.3	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	16.1	19.2	23.0	23.9	22.1	22.6	22.5	20.1	20.8	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	-6.1	-3.6	-3.1	-1.1	-1.0	-0.6	-0.3	-1.2	-1.5	:	-1.5	:	:
Wages <sup>2.3</sup>	Ann. % ch	1.0	7.4	11.1	9.0	5.7	:	:	5.0	0.4	:	-1.7	5.3	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	-19.4	24.0	14.0	3.2	25.7	:	:	21.9	16.7	:	6.5	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	-31.4	9.8	14.8	3.0	5.1	:	:	6.3	0.4	:	-2.3	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-17.1	-16.4	-16.9	-18.5	-12.4	-11.9	-11.4	-12.4	-11.3	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	29.3	36.2	36.5	40.0	45.0	:	:	45.0	46.5	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	46.3	52.5	52.9	57.9	56.4	:	:	56.4	56.6	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-6.6	-6.9	-9.2	-10.8	-4.9	-4.6	-4.3	-4.9	-3.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	4.7	3.1	5.8	0.8	2.4	:	:	2.4	2.4	:	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	11 188.8	:	:	11 188.8	10 428.3	:	10 447.6	10 370.3	:
Int. reserves / months imp <sup>3.9</sup>	Ratio	11.6	10.0	10.5	9.2	9.0	:	:	9.0	8.4	:	8.4	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	6.6	10.2	7.0	12.2	2.2	3.8	4.5	2.2	2.3	:	2.1	2.1	:
Producer prices <sup>4.2</sup>	Ann. % ch	7.4	16.2	9.7	6.4	0.8	:	:	0.8	0.2	:	0.5	0.9	:
Food prices <sup>4.3</sup>	Ann. % ch	0.8	10.6	6.4	15.4	-2.5	:	:	-2.5	-2.2	:	-2.9	-2.9	:
M3 <sup>4.4</sup>	Ann. % ch	21.5	12.9	10.3	9.4	4.6	:	:	4.6	4.2	:	5.8	4.4	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	93.94	102.90	101.96	113.01	113.09	:	:	114.32	115.75	115.58	115.54	115.66	115.53
Nominal eff. exchange rate <sup>4.6</sup>	Index	89.6	79.3	81.8	74.1	74.0	:	:	74.0	73.4	73.4	73.6	73.4	73.4
<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	:	:	:	:	:	7.70	7.59	:
Bond yield (12 months) <sup>5.2</sup>	% p.a.	11.86	10.60	12.90	13.04	10.67	:	:	:	:	:	:	9.30	:
Stock markets <sup>5.3</sup>	Index	1 197	1 283	1 371	932	1 035	:	:	1 059	1 124	1 151	1 148	1 158	1 147
Credit growth <sup>5.4</sup>	Ann. % ch	21.4	32.3	5.5	12.9	-6.5	:	:	:	:	:	0.7	-0.5	:
Deposit growth <sup>5.5</sup>	Ann. % ch	23.6	14.4	9.2	10.4	3.3	:	:	3.3	2.9	:	4.7	3.0	:
Non-performing loans <sup>5.6</sup>	% total	15.7	16.9	19.0	18.6	21.4	:	:	21.4	22.3	:	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	-5.0	-6.3	-5.9	-4.2	-7.6	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	34.0	43.4	47.0	59.8	63.0	70.7	74.4	63.0	64.2	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2014

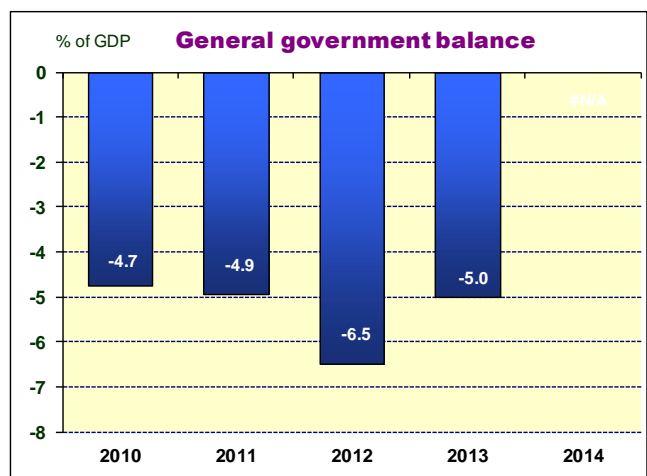
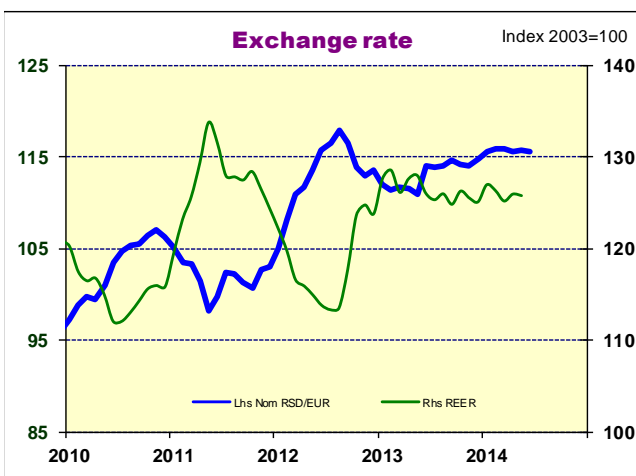
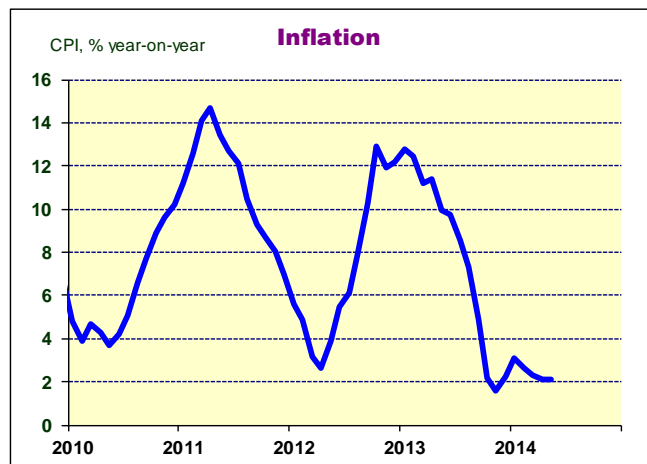
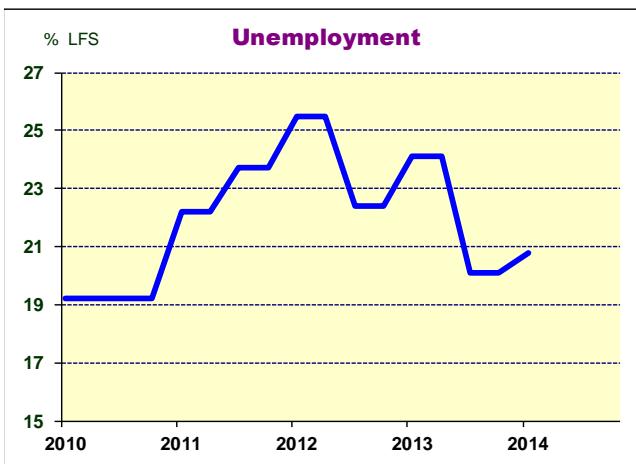
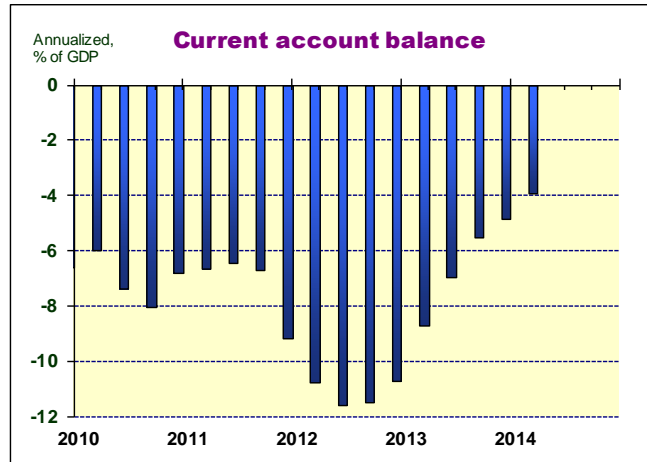
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA



## TURKEY



### Key developments

In its conclusions of 6 May on the 2014 Turkish Pre-Accession Economic Programme, the Joint Council of Economic and Finance Ministers of the EU and of the candidate countries invited Turkey to take steps to reduce the macroeconomic imbalances through a sufficiently restrictive fiscal policy stance and to realise the country's long-term growth potential through structural reforms and improvements of the business environment.

The central bank cut its main policy rate in two steps in May and June despite rising inflation. The switch to monetary policy easing took place in the context of an improving global investor sentiment towards emerging markets, accompanied by a narrowing of Turkey's risk premium and some strengthening of its currency.

The violent conflict in neighbouring Iraq escalated in June and became a major downward risk for the Turkish economy due to Iraq's importance as export market and transit route for exports to Gulf states and Saudi Arabia, and the latent impact on oil prices.

### Real Sector

In the first quarter of 2014, real GDP continued to grow and was 4.3% higher year-on-year. The growth rate has remained remarkably stable in the 4.3% - 4.5% range since the second quarter of 2013.

The components of first quarter GDP indicate a significant shift in the composition of growth towards the external sector. Private domestic demand decelerated in the context of tighter financial conditions, macro-prudential measures to rein in household borrowing, some indirect tax hikes, and increasing political uncertainty. The growth in private consumption fell back to 2.9% year-on-year and private fixed investments returned to negative growth (-1.3%) after only two quarters of expansion. This was offset by rebounding exports (11.4%) which benefitted from a more competitive exchange rate and

some recovery of export markets while imports hardly increased at all (0.8%). Public spending growth remained high (7.3%), more so for consumption than for investment.

In terms of contributions to year-on-year GDP growth, net exports was the strongest factor in the first quarter (2.7 percentage points), followed by private consumption expenditure (2.1 pp) and public spending (1.0 pp). Private investment (-0.3 pp) and stock adjustments (-1.2 pp) subtracted from GDP growth.

Available data releases for the second quarter suggest, on balance, a slowdown in economic growth. Industrial production still increased by 1.0% month-on-month in April (seasonally and calendar adjusted) and the capacity utilisation rate in the manufacturing industry has hardly changed since the beginning of the year. However, the manufacturing PMI continued its gradual decline in the second quarter, falling from 51.7 in March to 48.8 in June, the lowest level in nearly three years and clearly below the threshold value of 50 which separates contraction from expansion. The retail trade volume index declined each month between January and April in seasonally and calendar adjusted terms. Although the level of consumer confidence gained 4.6 points between the first and the second quarter which was probably related to decreasing political uncertainty, declining credit growth to households in the second quarter suggests a further softening of consumer spending growth.

The foreign trade data for April and May suggest that external trade may not add to GDP growth in the second quarter on a quarter-on-quarter basis. Seasonally and calendar adjusted, the average level of exports was 3.8% lower in April and May than the level in the first quarter whereas the level of imports was 1.4% higher.

### Labour market

While employment growth had still been relatively subdued in the fourth quarter, it picked up strongly in the first quarter of 2014. The



number of employed persons was 4.9% higher year-on-year, up from a 0.8% growth rate in the preceding quarter. Nevertheless, the unemployment rate (national definition) was 0.5 percentage points higher year-on-year at 10.1% due to a rapid increase in the labour force (5.5%), primarily based on a 1.7 percentage points rise in the participation rate to 49.1%.

### External sector

The current account deficit has narrowed in the first four months of 2014 as exports of goods and services have picked up (+9.0% year-on-year) while imports have declined (-3.4%). The 12-month cumulative current account deficit has gradually declined from USD 65.1 billion last December (7.9% of GDP) to USD 56.8 billion in April. Turkey's foreign trade continues to be distorted by strong fluctuations in exports and imports of non-monetary gold and the current account deficit excluding gold was more stable, declining only by USD 3.3 billion.

In the context of relative calm conditions in the foreign exchange market, the central bank's gross foreign exchange reserves increased by USD 4.4 billion to USD 108.7 billion (14.7% of GDP) in the course of April and May. Gross external debt fell slightly to USD 387 billion in the course of the first quarter which corresponds to 52.5% of GDP.

### Monetary developments

Headline inflation increased from 8.4% in March to 9.7% in May before falling back to 9.2% in June on base effects. Food prices have pushed headline inflation higher, but energy prices have pulled in the other direction. The various measures of core inflation centered around 10% in June. Inflation expectations, which had deteriorated in the previous three quarters, stabilised in the second quarter. Regarding the end-of-year inflation rate, expectations stood at 8.3% in June, i.e. clearly above the central bank's forecast of 7.6%.

Although inflation diverged further from its 5%-target, the central bank eased monetary policy by cutting the one-week repo rate by 50 basis point in May and a further 75 basis point in June to 8.75%. These measures reversed a substantial part of the monetary policy tightening from late January. The cuts were decided in the context of strong political criticism of allegedly overly high interest rates, a slightly appreciating currency, and falling risk premia for Turkish assets in conjunction with global investors' rising appetite

for higher yielding emerging market assets. The central bank maintains that the monetary policy stance remains tight, pointing to the presence of a flat yield curve.

The downward pressures on the Turkish lira in the foreign exchange market ceased in the second quarter. The lira appreciated by 2.5% against the euro over the course of the quarter, but was still 13% lower year-on-year at 2.90 lira to the euro on 30 June. In real effective terms (CPI-based), the lira has depreciated by 5.0% between June 2013 and June 2014.

Year-on-year credit growth (unadjusted for the exchange rate effect) has slowed from 30% in late March to 22% in mid-June in response to the earlier tightening of financial conditions and the macro-prudential measures to rein in lending. Loans to the household sector have decelerated more than loans to the corporate sector. The year-on-year growth rates for consumer, housing and auto loans are, respectively, 17.1%, 15.4% and -8.5% according to the latest data release.

### Financial sector

Against the background of financial stabilisation and increasing investor confidence, the yield on the benchmark 2-year government note fell from 10.8% to 8.25% over the quarter while the main stock index of the Borsa Istanbul Stock gained 12.6% and was up by 15.8% since the start of the year.

Following growth of 5.1% in 2013, the banking sector's net profits declined by 16% year-on-year in the first four months of 2014. The share of non-performing loans in total loans has edged up slightly and stood at close to 3% in the second quarter. The capital adequacy ratio of banks has increased from 15.3% at the end of December to 16.1% at the end of April, but is 1.1 percentage point lower year-on-year. The rating agencies Moody's and Fitch downgraded the ratings of 11, respectively 4, Turkish banks in June.

### Fiscal developments

The central government's budget deficit has increased in the first five months of 2014. Expenditures were 15.1% higher year-on-year while revenues only increased by 10.3%. The 12-month rolling budget deficit increased from TL 18.4 billion last December to TL 25.5 billion in May which corresponds to 1.6% of last year's GDP. The 2014 budget targets a deficit of 1.9% of GDP.

## TABLE



European Commission, ECFIN-D-1

## TURKEY

		2009	2010	2011	2012	2013	ECFIN Forecast		Q4 13	Q1 14	Q2 14	Apr 14	May 14	Jun 14
							2014	2015						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	87.3	110.3	110.5	106.3	108.1	:	:	104.7	104.9	112.2	112.7	113.3	110.7
Industrial production <sup>1.2</sup>	Ann.%ch	-9.9	12.8	10.1	2.5	3.0	:	:	3.8	5.3	:	4.6	:	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-4.8	9.2	8.8	2.1	4.0	2.6	3.3	4.4	4.3	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-2.3	6.7	7.7	-0.5	4.6	0.2	1.2	5.3	2.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-19.0	30.5	18.0	-2.7	4.3	1.3	3.0	6.4	-0.5	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	-7.9	77.4	-16.2	29.0	16.4	:	:	19.4	115.4	:	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>	%	13.0	11.2	9.2	8.4	9.1	10.5	10.4	9.3	10.1	:	:	:	:
Employment <sup>2.2</sup>	Ann.%ch	0.1	6.0	6.3	3.1	2.8	2.0	2.7	0.8	4.9	:	:	:	:
Wages <sup>2.3</sup>	Ann.%ch	9.9	11.8	9.7	11.5	12.4	7.8	8.1	14.6	15.3	:	:	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	-22.6	11.5	18.5	13.0	-0.4	:	:	-0.3	8.7	:	7.6	3.6	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-30.2	31.7	29.8	-1.8	6.4	:	:	7.5	-2.2	:	-9.5	-10.3	:
Trade balance* <sup>3.3</sup>	% of GDP	-4.0	-7.7	-11.5	-8.3	-9.8	-8.3	-6.3	-9.8	-9.3	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	23.3	21.2	24.0	26.3	25.7	:	:	25.7	26.8	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	24.4	26.8	32.6	31.5	32.3	:	:	32.3	32.7	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-2.0	-6.2	-9.7	-6.1	-7.9	-6.0	-3.9	-7.9	-7.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	1.2	1.0	1.8	1.2	1.2	:	:	1.2	1.3	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	bio EUR	76.8	83.2	83.9	104.8	107.9	:	:	107.9	102.5	:	104.5	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	9.1	7.1	5.8	6.8	6.8	:	:	6.8	6.6	:	6.8	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann.%ch	6.3	8.6	6.5	8.9	7.5	8.6	7.4	7.5	8.0	9.4	9.4	9.7	9.2
Producer prices <sup>4.2</sup>	Ann.%ch	1.2	8.5	11.1	6.1	4.5	:	:	6.5	11.8	11.3	13.0	11.3	9.7
Food prices <sup>4.3</sup>	Ann.%ch	8.0	10.6	6.2	8.4	9.1	:	:	10.2	10.3	13.2	13.2	14.1	12.5
M4 <sup>4.4</sup>	Ann.%ch	17.6	15.2	19.6	8.6	19.1	:	:	22.1	21.4	:	19.1	15.5	:
Exchange rate TRY/EUR <sup>4.5</sup>	Value	2.16	1.99	2.33	2.31	2.53	:	:	2.76	3.04	2.90	2.94	2.88	2.88
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	:	:	7.65	10.66	10.06	10.74	10.12	9.31
Interest rate, long term <sup>5.2</sup>	%p.a.	17.20	14.99	14.19	16.03	15.31	:	:	14.54	16.00	:	16.18	16.06	:
Stock markets <sup>5.3</sup>	Index	37 518	59 484	60 751	63 731	77 977	:	:	74 272	64 722	76 054	72 620	76 498	79 044
Credit growth <sup>5.4</sup>	Ann.%ch	9.7	40.8	35.2	18.6	33.4	:	:	33.4	33.1	:	29.9	26.4	:
Deposit growth <sup>5.5</sup>	Ann.%ch	18.3	16.6	20.3	10.8	20.4	:	:	24.2	24.2	18.7	20.8	18.6	16.7
Non-performing loans <sup>5.6</sup>	%total	6.0	5.4	3.4	3.0	3.0	:	:	2.9	2.9	3.0	3.0	3.0	3.0
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-6.5	-2.9	-0.8	-1.5	-1.6	-2.9	-2.5	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	46.0	42.3	39.1	36.2	36.3	36.4	35.7	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2014

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

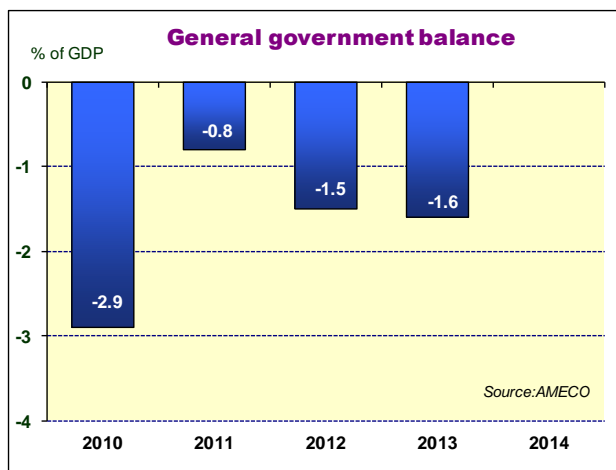
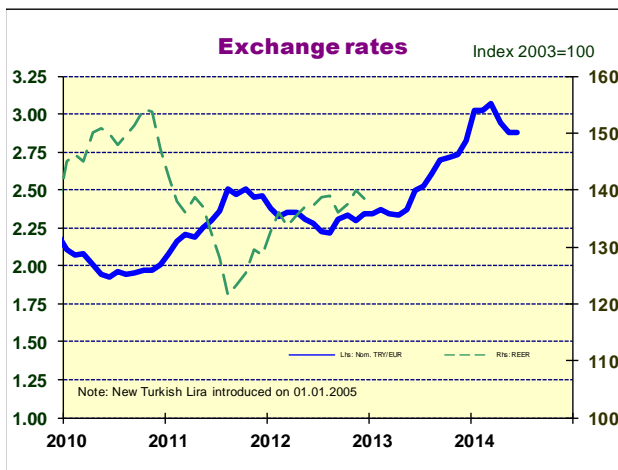
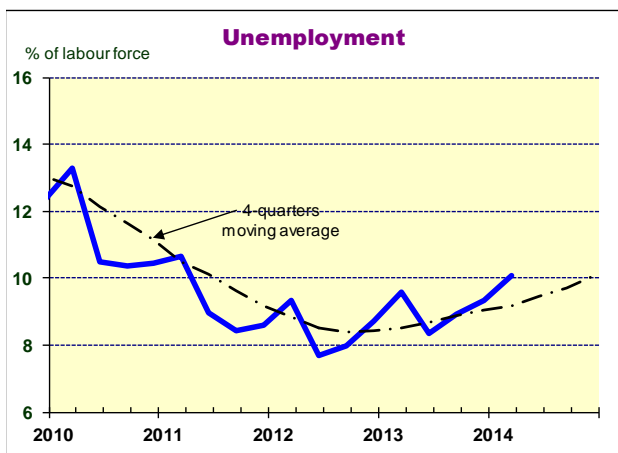
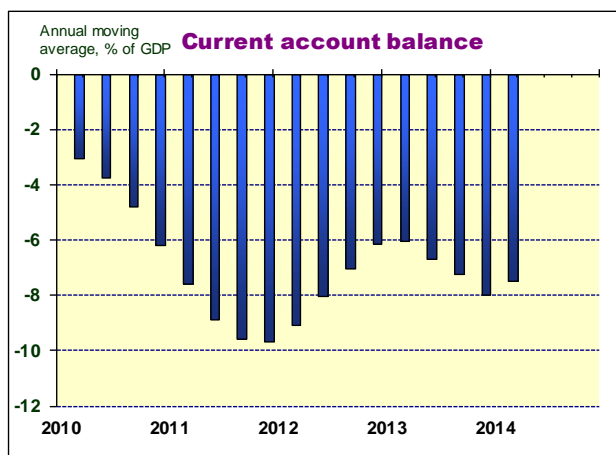


## CHARTS



European Commission, ECFIN-D-1

### TURKEY





## Key developments

On 18 June, the preliminary findings of a Recovery Needs Assessment (RNA) study performed by international institutions and national authorities to evaluate the damages of the severe flooding in May were presented to the public. According to the study, 81 municipalities have been affected and the damages are estimated at approximately EUR 2.0 billion (i.e. around 15% of GDP).

On 30 June, following a delay since February, the combined sixth and seventh reviews under the IMF Stand-By Arrangement (SBA) with Bosnia and Herzegovina adopted in September 2012 were successfully completed. An augmentation of the IMF SBA by EUR 95.7 was also approved by the IMF Executive Board to meet the country's urgent balance of payments need caused by severe floods in May 2014. Thus, the completion of the reviews and the augmentation enables a total disbursement of approximately EUR 191.4 million and brings the total disbursements under the arrangement to some EUR 478.5 million.

## Real sector

According to preliminary data, the economic recovery of Bosnia and Herzegovina proceeded in the fourth quarter of 2013 bringing full year GDP growth in 2013 to 2.1%. The main drivers were a strong manufacturing production and export activity, while private consumption stagnated.

High-frequency indicators for the first quarter of 2014 pointed towards a modest deceleration of economic activity with country-wide industrial production expanding only slightly by 1.9% y-o-y following an expansion by 6.6% in 2013. However, the trend of a positive growth reversed in April/May when industrial production declined substantially by 5.3% y-o-y, partly due to the severe spring flooding.

Judging from high-frequency indicators released for the whole economy, the slight recovery of domestic demand decelerated, somewhat in the first four months of 2014. In particular, the growth of retail sales nearly halved to 2.1% y-o-y following a strong growth of 5% in 2013.

## Labour market

The economic recovery started to show a minor positive effect on the overall situation on the labour market in the first quarter. The level of registered unemployed declined by 0.5 percentage points both as compared to the previous quarter and y-o-y and stood at 44.1%. Furthermore, the level of total employment increased by 0.7% year on year in the first four months of the year. This was mainly due to stronger employment in the tourism industry and manufacturing, but employment in the public sector posted a minor growth as well.

A difficult labour market situation is also reflected in low wage dynamics. Nominal wage growth increased only slightly in the first four months of 2014, by 0.5% y-o-y against 0.2% in the fourth quarter of 2013.

## External sector

The trend of a narrowing trade deficit reversed in the first four months of 2014 when merchandise exports, driven by the wood and textile industries, expanded at a slower pace (2.2% y-o-y), while the growth of imports of goods turned positive (4.8% y-o-y). Accordingly, the trade deficit widened by 6.6% y-o-y in the first quarter (compared to a 10.9% reduction in 2013) partly balanced off by a somewhat higher surplus of the balance of services (5.6%).

Thus, according to preliminary figures from the Central Bank, the current account deficit increased by around one fifth in the first quarter, compared to the same period of the previous year. In terms of GDP, the current account deficit deteriorated slightly to 6% in the four quarters to March, up from 5.5% in 2013.

Net FDI inflows reversed their 2013 downward trend and inched up somewhat in the first quarter of 2014. However, they were still lower by 19.2% y-o-y, compared to the first quarter of 2013. As a result, net FDI decreased further to 1.7% of GDP in the four quarters to March, from 1.9% in 2013. However, the coverage of the current account deficit by net FDI increased to 47% from 35.3% in 2013.

On the back of the widening current account deficit and weak FDI inflows, the combined current and capital account recorded a deficit, leading to a mild drop in reserve assets. However, international reserves still remained at a rather comfortable level, representing 5.5 months of imports at end-March, down from 6.4 at end-2013.

### Monetary developments

In the context of an enduring deflationary period, liquidity conditions have remained rather accommodative. On the back of the steady growth of deposits, the annual growth of the monetary aggregate M2 accelerated slightly to 7.9% in the first quarter but slowed down slightly to 6.7% in April. The deflationary trend which started in August 2013 continued due to continuously falling prices of food and clothing, but this was partly balanced off by higher prices of alcohol and tobacco. Accordingly, deflation came down to 1.2% in May compared to 1.7% in the first quarter.

### Financial sector

Since the start of the year, credit growth has been slightly accelerating on the back of an increased household lending and amounted to 3.5% y-o-y in the first four months up from 2.8% y-o-y in 2013. Accordingly, commercial banks claims to the household sector edged up by 4.8% y-o-y, while lending to non-financial companies remained subdued increasing only by 1.5%. At the same time, banks have started to decrease their exposure to the public sector with the growth of these claims remaining below average and slowing down to 3% y-o-y in April. On a negative note, the level of short-term interest rates on consumer and corporate loans has broadly remained unchanged (at some 7.5%) in the first four months to April.

Despite a slight decline of interest rates on deposits, the growth of total deposits accelerated to around 7.4% y-o-y in the first four months of the year, driven by a robust 9-10% y-o-y increase in both the household and the corporate sectors. However, due to the parallel acceleration of credit activity, the downward adjustment of the loans-to-deposit ratio came to a halt and it remained broadly unchanged staying at some 115% as of end- April.

The deterioration of the quality of the loan portfolio slowed down its pace in the first quarter, as the share of non-performing loans to

total loans decreased – albeit only marginally – to 14.9%. At the same time, after turning temporarily negative at the end-2013 and for the first time since 2010, banking sector profitability indicators recovered somewhat. Accordingly, the return on average equity edged up to 2.3% from 2% a year earlier, while the return on average assets stood at 0.3%, remaining broadly unchanged on annual basis. The capital adequacy ratio of the whole banking system remained at the comfortable level of 17.3%, decreasing slightly from 17.8% as of end-December. On a negative note, the liquidity of the system deteriorated modestly as of end March 2014 with the ratio of liquidity assets to total assets falling to 24.7% along with a decline of liquid assets to short-term financial liabilities from 46.2% to 43.6%.

The downward correction of the stock market indices in Bosnia and Herzegovina continued in the first half of 2014. The main index on the Banja Luka Stock exchange lost 5.2% while the main index of the Sarajevo Stock Exchange plummeted by 9.6%. The combined stock market capitalization increased marginally to 34% of GDP largely due to government bonds and bills that accounted for around 75 % of the total market capitalization.

### Fiscal developments

Despite some consolidation measures (e.g. the freeze of public sector wages), which kept public spending broadly flat, fiscal imbalances in 2013 have widened. In particular, the modest revival of economic activity positively impacting social security contributions could not compensate for a decline of revenues from indirect taxes partly due to the elevated VAT refunds. Thus, the fiscal deficit of the general government increased to 2.2% of GDP which is well above the full-year target from December 2012 (-0.8% of GDP).

The fiscal performance in the first quarter of 2014 has been marked by higher than budgeted revenues, increasing by some 9.8% on annual basis, largely due to measures taken to improve the collection of indirect taxes. This was, however, coupled with a slight increase of current spending (e.g. on wages). Capital spending soared by some 6%, but from a very low basis. Thus, the budget turned into a surplus amounting to 0.3% of the full-year GDP. Further deterioration of fiscal imbalances can be expected as a result of the spring floods and elevated refinancing needs in 2014.

## TABLE

European Commission, ECFIN-D-1



## BOSNIA AND HERZEGOVINA

		2009	2010	2011	2012	2013	Q4 13	Q1 14	Q2 14	Apr 14	May 14	Jun 14
<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	6.6	7.9	1.9	:	-3.2	-7.4	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-2.7	0.8	1.0	-1.2	2.1	2.0	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	1.8	0.9	1.6	2.2	0.4e	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	-16.8	-12.2	7.9	5.2	2.3e	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	12.5	29.4	-24.4	1.3	-25.8	-25.8	-8.0	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	N.A.	8.2	11.2	1.6	5.0	5.6	2.3	:	2.9	:	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	42.7	42.7	43.8	45.9	44.5	44.5	44.1	:	43.7	:	:
Employment <sup>2.2</sup>	Ann. %ch	-2.8	1.9	-1.6	-0.4	0.6	0.6	2.3	:	2.9	:	:
Wages <sup>2.3</sup>	Ann. %ch	8.2	1.1	4.4	1.5	0.1	0.2	0.6	:	0.2	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. %ch	-5.1	33.5	20.2	-1.8	8.8	7.9	10.5	:	-7.4	-9.4	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-21.8	8.3	13.2	0.0	-1.5	4.6	8.0	:	3.1	3.9	:
Trade balance* <sup>3.3</sup>	%of GDP	-32.6	-31.4	-33.2	-33.6	-30.5	-30.5	:	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	24.1	28.3	30.3	30.1	31.2	31.2	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	48.9	51.1	55.3	55.2	53.1	53.1	:	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-6.5	-6.1	-9.7	-9.3	-5.5	-5.5	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	1.4	2.1	2.6	2.1	1.9	1.9	:	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	3 176.2	3 301.8	3 284.3	3 327.8	3 614.0	3 614.0	3 555.4	:	3 619.1	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.0	5.7	5.0	5.1	5.6	6.4	:	:	5.5	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. %ch	-0.4	2.1	3.7	2.0	-0.1	-1.3	-1.7	:	-1.4	-1.2	:
Producer prices <sup>4.2</sup>	Ann. %ch	-3.2	0.9	3.8	1.3	-2.2	-3.1	-1.3	:	-0.9	:	:
Food prices <sup>4.3</sup>	Ann. %ch	-0.9	-0.7	6.0	1.8	0.0	-3.3	-4.3	:	-3.7	-3.9	:
M2 <sup>4.4</sup>	Ann. %ch	-1.6	7.8	5.6	4.6	5.7	7.2	7.9	:	6.7	:	:
Exchange rate BAMEUR <sup>4.5</sup>	Value	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	106.60	107.72	:	:	:	:	:
<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	719	709	707	713	708
Credit growth <sup>5.4</sup>	Ann. %ch	5.4	-0.9	5.6	5.2	2.5	2.3	3.6	:	3.2	:	:
Deposit growth <sup>5.5</sup>	Ann. %ch	-4.0	4.7	2.6	2.6	5.1	6.7	7.9	:	7.4	:	:
Non performing loans <sup>5.6</sup>	%total	4.5	9.1	12.0	12.7	14.5	15.1	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	-2.0	-2.2	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	N.A.	39.3	40.5	45.1	28.2**	28.2**	:	:	N.A.	N.A.	N.A.

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

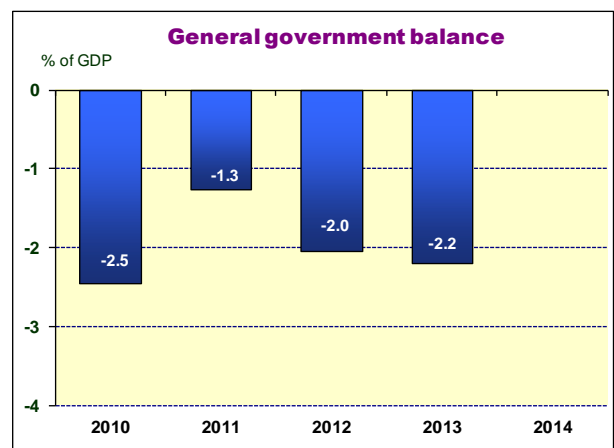
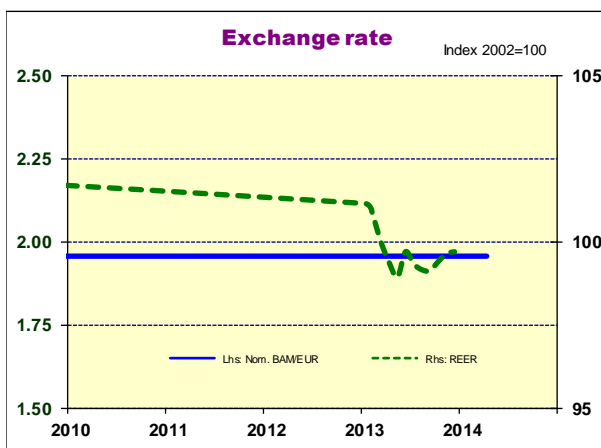
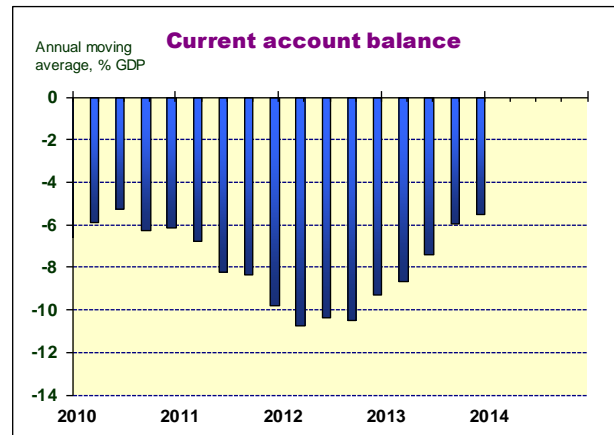
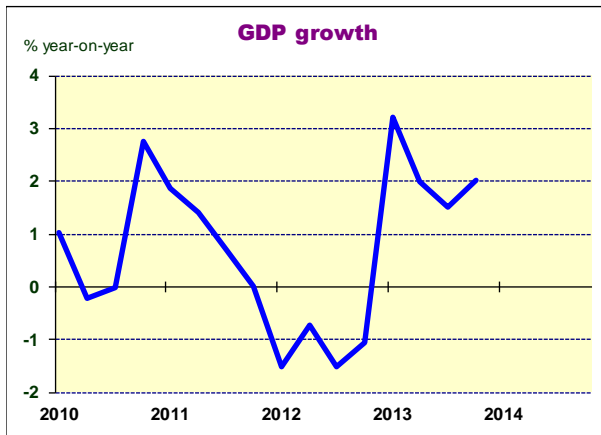
\*\* Refers only to foreign public debt.

# 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

Formal negotiations on the Stabilisation and Association Agreement between the EU and Kosovo were concluded in May and the draft agreement is expected to be initialled in summer.

In June, the early parliamentary elections took place throughout the territory of Kosovo in an orderly manner. According to the results announced by the Central Election Commission at the end of the month, the coalition gathered around the Democratic Party of Kosovo has won the highest number of seats with 37 deputies, followed by the Democratic League of Kosovo with 30 deputies and Vetëvendosje with 16 deputies.

Kosovo signed a cooperation agreement with Albania, in order to establish a common energy market between the two countries at the end of March.

### Real sector

Higher border tax revenues, good performance of domestic tax collection, slightly higher workers' remittances and accelerating credit growth signal stronger economic activity in the first quarter of 2014. The number of newly registered and closed businesses in the first quarter of 2014 also indicates a more favourable economic environment in comparison to previous quarters.

Latest growth estimates for 2014 are in the range of 3-3.5% (IMF, World Bank).

At the end of the March, the government has shortlisted the bidders for the development project of the Brezovica mountain resort which is expected to contribute to growth and employment by creating several hundreds of jobs.

### Labour market

Data from the official registers suggest that the total number of job seekers increased by 3.1% and stood at 268,104 by the end of 2013. People with education less than secondary school

represent the highest share of job seekers (69.1%), followed by the segment of people with secondary school education (28.1%). There are no publicly available data on registered unemployment for 2014.

The number of registered job vacancies contracted by 23% in 2013 (y-o-y). Almost half of vacancies were for unskilled and low-skilled workers (49%) while the vacancies eligible for university degree holders were 11%.

### External sector

The latest data released by the Central Bank show that the current account deficit in the first quarter of 2014 more than doubled, compared to a year before, to EUR 37 million (or 0.7 % of GDP, bringing the four-quarter deficit to 7.0%, up from 6.6% of GDP by the end of 2013. While the trade deficit remained broadly unchanged in the first quarter (EUR 329 million), lower income for non-resident employees in Kosovo as well as lower current transfers to non-government sector were the main reasons for the widening of the current account deficit. Workers' remittances increased by 2.9% (y-o-y) and stood at EUR 114 million at the end of the first quarter.

The surplus on the capital and financial account in the last quarter of 2013, turned into a deficit (EUR -25 million) in the first quarter of 2014, mainly due to significantly lower net foreign direct investments compared to the same period of the previous year.

At the end of March 2014, gross external debt stock of Kosovo stood at EUR 1,582 million which was 15.8 million lower compared to end of 2013. The composition of debt remained unchanged as private sector external debt accounted for 76% (EUR 380 million) while total public external debt stood at 24% (EUR 1,202 million).

### Monetary developments

The growth in broad money continued to accelerate and stood at 19.8% (y-o-y) by the end of May. Net foreign assets continued to increase 15.2% (y-o-y), while net domestic assets soared



by 33.8%, mainly due to higher net claims on the central government.

Consumer inflation moderated further, reaching 0.5% (y-o-y) in May, down from 0.6% in December 2013. Lower food prices (bread, cereals, oils, sugar) continued to be the main drivers (-0.3% y-o-y) of the disinflation. However, the deflationary trend of the energy goods since the beginning of 2013 reversed in May and increased by 0.2% (y-o-y) mainly as a result of base effects. Core inflation declined to its lowest level (0.3%) since 2012.

## Financial sector

In the first five months of 2014, new loans extended by the commercial banks rose by 35% (y-o-y) and stood at EUR 410.3 million. The expansion covered all types of loans to non-financial corporations and households. The remarkable increase in new investment loans to nonfinancial corporations (85%) was the main driver of the expansion. In the same period, mortgage loans and non-investment loans to non-financial corporations increased by 27% and 19% respectively.

The growth of total loans and lease financing stood at 2.6% (y-o-y) in May, as the reimbursements offset the expansion in new loans. The composition of the outstanding loans remained broadly unchanged and more than half of total loans (52.4%) were provided to the wholesale and retail trade sectors. The share of loans extended to the manufacturing sector increased by 1.4 percentage points (12.1%), while the share of construction decreased by 1.2 percentage points (10.2%) in comparison to the end of 2013.

The ratio of cash balances to total assets declined by 4.0 percentage points and stood at 11.1% in May, compared to the end of 2013. Commercial banks decreased their holdings in the central bank by EUR 103 million while they increased the amount held in other banks by EUR 21 million in 2014. The loans to deposits ratio stood at 76.9%.

Total deposits in commercial banks continued to grow steadily (7.5% y-o-y) and the share of households' demand deposits in total deposits stood at 74% in May.

Since the beginning of the year, the effective interest rate on loans decreased by 62bp to 10.45% while the effective interest rate on deposits decreased by 178bp to 0.60%. Thus, interest rate spread between the loans widened and stood at 9.85% at the end of May.

In January-April, the net profit of the commercial banks increased by 63% (y-o-y). As the deposits remained strong and the interest rate on loans continued to decrease, lower interest expenditures and reduced loan provisions emerged as the main factors leading to higher profits.

## Fiscal developments

By the end of May, the budget posted a EUR 20.7 million (-0.4% of GDP) deficit according to preliminary data. Total expenditures fell by 3.9% (y-o-y) as capital investments declined markedly by 26%, more than offsetting the 10% increase in current spending.

On the revenue side, at the end of the first five months, border tax revenues and domestic tax revenues increased by 5% and 1% respectively in comparison to the previous year. Even though these two main items increased by EUR 15.1 million, total revenues declined by 1.4% (y-o-y) as there were no dividends in the first five months of 2014.

Budget execution for the January-May period indicates that the budget performance was on track and in line with the fiscal rule which limits the total deficit at 2% of GDP. However, downside risks persist as the recent decision to increase public salaries and pensions is expected to raise total net spending by EUR 99 million (or 1.8% of GDP) in 2014.

The domestic debt stock increased from 3.0% of GDP (EUR 152.5 million) to 3.4% of GDP (EUR 189.5 million) in the first quarter of 2014. The issuance of 2-year coupon bonds in March and June helped Kosovo to lengthen the average maturity of borrowing from 6 months in 2013 to 9.3 months in the first half of 2014. As the reliance on domestic borrowing increased, the composition of the total debt stock evolved accordingly bringing the share of domestic debt stock to 37% in March from 18% at the end of 2012.

## TABLE

European Commission, ECFIN-D-1

### KOSOVO\*

		2009	2010	2011	2012	2013	Q4 13	Q1 14	Q2 14	Apr 14	May 14	Jun 14
<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	6.4	-1.8	-2.1	:	-12.1	-12.9	:
Imports of goods <sup>3.2</sup>	Ann. % ch	0.4	11.5	10.4	5.3	-2.3	-0.2	-0.1	:	0.0	7.0	:
Trade balance** <sup>3.3</sup>	% of GDP	-41.2	-40.8	-43.1	-42.2	:	:	:	:	N.A.	N.A.	N.A.
Exports goods and services** <sup>3.4</sup>	% of GDP	16.4	19.5	20.1	18.8	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services** <sup>3.5</sup>	% of GDP	52.8	56.9	57.3	53.9	:	:	:	:	N.A.	N.A.	N.A.
Current account balance** <sup>3.6</sup>	% of GDP	-9.3	-12.0	-13.8	-7.7	:	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)** <sup>3.7</sup>	% of GDP	7.3	8.5	8.3	4.7	:	:	:	:	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	1 610.0	1 610.0	1 614.2	:	1 603.7	1 584.9	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	7.4	6.9	6.2	7.0	7.9	7.9	7.9	:	7.9	7.7	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	-2.4	3.5	7.3	2.5	1.8	0.5	0.2	:	0.2	0.5	:
Producer prices <sup>4.2</sup>	Ann. % ch	3.8	4.7	5.7	1.7	2.5	0.2	-1.0	:	N.A.	N.A.	N.A.
Food prices <sup>4.3</sup>	Ann. % ch	-4.4	4.8	12.4	1.0	2.1	-1.3	-1.5	:	-0.9	-0.8	:
Broad money liabilities <sup>4.4</sup>	Ann. % ch	11.2	12.9	8.8	7.1	17.3	17.3	17.6	:	21.8	21.2	:
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	14.52	12.86	:	:	10.29	11.11	:
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth <sup>5.4</sup>	Ann. % ch	17.4	10.1	15.4	8.9	3.0	2.6	2.1	:	2.1	2.6	:
Deposit growth <sup>5.5</sup>	Ann. % ch	20.3	14.8	12.2	8.0	6.6	6.4	7.3	:	8.7	7.5	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance** <sup>6.1</sup>	% of GDP	-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	:	:	:	:	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.

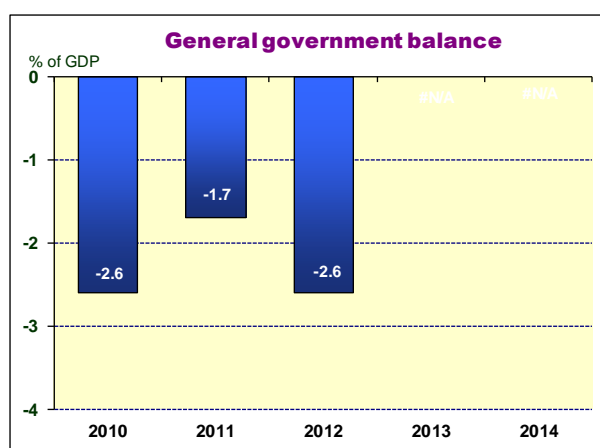
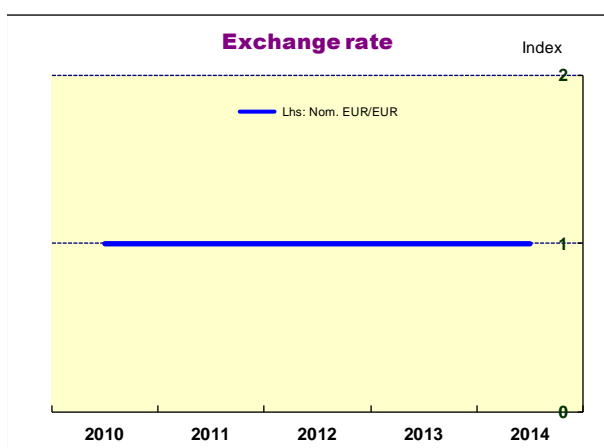
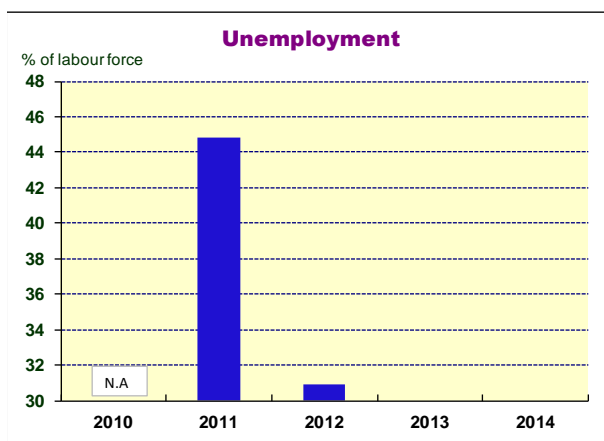
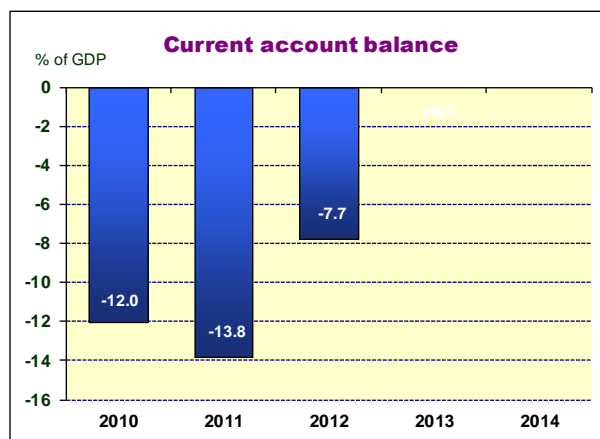
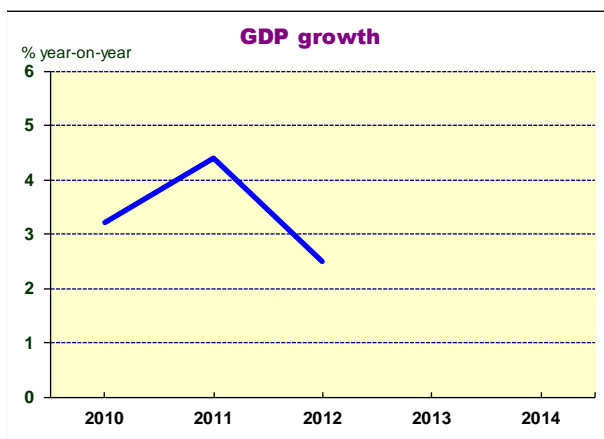
\*\* Q figures refer to a 4 quarters moving average.



# CHARTS

European Commission, ECFIN-D-1

## KOSOVO\*



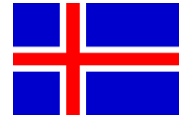
\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.  
Source of data: IMF, national sources



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	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 Portofolio 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	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	Real Gross Domestic Product, Total, Growth Rate (2005), NSA.	IHS/DataInsight
1.4.	Private consumption	Real Final Consumption, Households including NPISH's, Growth Rate (2005), NSA.	IHS/DataInsight
1.5.	Gross fixed capital formation	Real Gross Capital Formation, Growth Rate (2005), NSA.	IHS/DataInsight
1.6.	Construction	Value Added, Economic Activity, Current Prices, MKD	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, Retail trade, turnover, total. Starting 2012 Retail Sale of Non-Food Products except Fuel (2010), NSA.	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	IHS/DataInsight
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data, registered otherwise	IHS/DataInsight
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	IHS/DataInsight
<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.</b>	<b>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.</b>	<b>Labour market</b>		
2.1.	Unemployment	LFS, In percent of active population, e.o.p.	IHS/DataInsight
2.2.	Employment	LFS, 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.</b>	<b>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.</b>	<b>Monetary developments</b>		
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	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.</b>	<b>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.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	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.</b>	<b>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.</b>	<b>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.</b>	<b>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.</b>	<b>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.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	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.</b>	<b>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.

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