



ISSN 1830-6292

# CCEQ

## EU Candidate & Potential Candidate Countries' Economic Quarterly

3|2014



*Economic and  
Financial Affairs*

**This document** is written by the staff of the Directorate-General for Economic and Financial Affairs, Directorate D – International Economic and Financial Relations and Global Governance, Unit D1 – Candidate and Pre-Candidate Countries.

Comments and enquiries should be addressed to:

European Commission  
Directorate-General for Economic and Financial Affairs  
Unit D1  
B-1049 Brussels  
Belgium  
E-mail: [ecfin-info@ec.europa.eu](mailto:ecfin-info@ec.europa.eu)

## **LEGAL NOTICE**

Neither the European Commission nor any person acting on its behalf may be held responsible for the use which may be made of the information contained in this publication, or for any errors which, despite careful preparation and checking, may appear.

This document exists in English only and can be downloaded free of charge from [http://ec.europa.eu/economy\\_finance/db\\_indicators/cpaceq/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/cpaceq/index_en.htm) four times a year (early January, April, July and October), or from [http://ec.europa.eu/economy\\_finance/publications/](http://ec.europa.eu/economy_finance/publications/).

More information on the European Union is available on <http://europa.eu>.

KC-AO-14-003-EN-N

© European Union, 2014

Reproduction is authorised provided the source is acknowledged. Data, whose source is not the European Union as identified in tables and charts of this publication, is property of the named third party and therefore authorisation for its reproduction must be sought directly with the source.

European Commission

Directorate-General for Economic and Financial Affairs

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



## Contents

<b>OVERVIEW</b> .....	<b>6</b>
<b>ALBANIA</b> .....	<b>10</b>
<b>THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA</b> .....	<b>14</b>
<b>ICELAND</b> .....	<b>18</b>
<b>MONTENEGRO</b> .....	<b>22</b>
<b>SERBIA</b> .....	<b>26</b>
<b>TURKEY</b> .....	<b>30</b>
<b>BOSNIA AND HERZEGOVINA</b> .....	<b>34</b>
<b>KOSOVO*</b> .....	<b>38</b>

\* 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

Growth performance in the *Western Balkans* generally deteriorated during the second quarter. *Albania, Bosnia and Herzegovina, Montenegro* and *Serbia* experienced a significant slowdown in economic activity, or even negative growth (in the case of *Serbia* and *Albania*), confirming once again the fragility of the recovery that started in 2013. The slowdown was primarily due to sharp falls in industrial production, in particular energy and electricity production (*Montenegro, Albania*) and, in the case of *Serbia*, a continued decline in investment, which was aggravated by pre-election uncertainties. The severe spring floods in May, which hit both *Serbia* and *Bosnia and Herzegovina*, had a devastating effect on infrastructure and caused significant output losses, particularly in the mining and energy sectors. In contrast, the economy of the *former Yugoslav Republic of Macedonia* gained further pace. Real GDP growth accelerated to 4.3% in the second quarter, up from 3.5% in the first three months, backed by stronger private consumption while investment growth relented. Construction stagnated, but industrial output recorded gains thanks to a continued strength of manufacturing in low value added sectors such as food and clothing. In *Kosovo*, available indicators as well as anecdotal evidence point to a similar growth rate compared to 2013 (3.4%) although the sources of growth seem to have shifted from investment (due to delays in public capital spending) and net exports to higher private consumption, supported by huge public sector wage and pension increases in April 2014. Economic activity in *Iceland* strengthened significantly in the second quarter, supported by private consumption growth, which benefits from a household debt relief programme, and a particularly strong tourism season. Annual GDP rose by 2.4% following a 1.3% fall in the first three months. Economic growth in *Turkey* slowed sharply to 2.1% year-on-year from an upwardly revised 4.7% in the first quarter. The slowdown was broad-based since both private consumption and public spending weakened and exports mildly contracted compared to the first

quarter. High frequency indicators point to a continuation of subdued economic activity in the third quarter.

Labour market conditions in the *Western Balkan* region remained very difficult with high unemployment rates, especially among the young and long-term unemployed, calling for determined and credible structural reforms in labour and product markets. The second quarter saw a slight reduction of the unemployment rates (by around 0.5-1 percentage point compared to the first quarter) in *Serbia* (to 20.3%), the *former Yugoslav Republic of Macedonia* (to 28.2%) and *Albania* (to 17.7%), while it stayed at stubbornly high levels in *Kosovo* (around 30%) and *Bosnia and Herzegovina* (27.5%). Noteworthy, *Albania* recorded an increase in the level of employment (by 1.4% y-o-y) following five consecutive quarters of year-on-year reductions. Job creation was strongest in the *former Yugoslav Republic of Macedonia*, which registered a 7% increase in the number of jobs in industry, reflecting the strong recovery of the manufacturing sector. The benign labour market conditions continued to improve in *Iceland*, where the unemployment rate continued its downward trend to 5.9% in the second quarter. Employment increased by 1.8%, not least thanks to job creation in the tourism industry. In *Turkey*, the number of employed persons was 5.3% higher year-on-year, up from 4.9% in the preceding quarter. The unemployment rate continued to rise, by 0.5 percentage points, to 8.9% due to a rapidly rising labour force.

Significant external imbalances remain a key challenge in most *Western Balkan* countries. In *Albania, Bosnia and Herzegovina* and *Montenegro* current account deficits widened in the second quarter, on account of falling exports and due to lower energy production (*Montenegro*), stronger import growth (*Albania*) and the severe Spring floods (*Bosnia and Herzegovina*). In the case of *Albania*, the rising external deficit was mitigated by remarkably strong revenues from tourism which turned the services balance into a surplus. In the four quarters to June, the current account deficits rose to 11.6% of GDP in *Albania*, to 6.9% of GDP in *Bosnia and Herzegovina* and to 15.2% of GDP in *Montenegro*. In *Serbia*, mainly due to the disruptions caused by the spring floods, export

growth decelerated sharply in the second quarter and turned negative in July and August, leading to a marked slowdown in the adjustment towards a lower current account deficit. The *former Yugoslav Republic of Macedonia* disposes of the lowest current account deficit in the Western Balkan region, which further narrowed to 1.5% of GDP in the four quarters to June, on the back of stronger private and public transfers from abroad. Contrary to the Western Balkan region, *Iceland's* current account balance still is in surplus. The surplus however is on a declining trend as merchandise exports started to weaken amid stronger imports. Moreover, a changing structure of imports with a lower share of industrial supplies, fuels and capital goods may indicate weaker investment and de-stocking going forward. In *Turkey*, thanks to stronger exports and declining imports, the 12-month cumulative current account deficit has gradually declined from 7.9% of GDP in December 2013 to 6.0% of GDP in July, however, almost half of this improvement is a result of lower imports of non-monetary gold.

Downward pressure on prices persisted in most *Western Balkan* countries. In *Bosnia and Herzegovina* and *Montenegro*, the deflationary trend which had started already in August 2013 and January 2014, respectively, continued through August. The *former Yugoslav Republic of Macedonia* saw the consumer price index switching from positive to negative growth in the second quarter. The deflationary trend in these countries was mainly driven by falling prices for items such as food, clothing, communication and transport. In *Serbia* and *Albania*, annual consumer price inflation remained positive, but below the lower end of the central bank's tolerance band of 4%+/- 1.5ppts and 2-4%, respectively. Nonetheless, both central banks kept the key policy rate unchanged since the most recent rate cuts in May (*Albania*) and June (*Serbia*). *Kosovo* recorded a slight increase of the CPI to 1% y-o-y in August, mainly resulting from a 5% increase in electricity prices in July. In *Iceland*, as a result of moderate wage agreements and lower import prices, annual inflation dropped to 1.8% in September and stayed below the Central Bank's target of 2.5%. In contrast to this, *Turkey's* headline inflation remained above 9% in the third quarter not least as a result of double-digit

food price inflation. Although this is significantly above the 5% inflation target, the central bank continued to ease monetary policy in the third quarter.

The financial sector in the *Western Balkans* remained broadly stable. Credit growth started to pick up in some countries amid some easing of lending standards, but corporate lending remains generally weak. *Bosnia and Herzegovina*, the *former Yugoslav Republic of Macedonia* and *Kosovo* continued to record positive credit growth in the second quarter and in July and August. In *Albania*, following two quarters of credit contraction, the transmission of the monetary stimulus gained some traction in July and August when credit growth turned mildly positive. In contrast to this, outstanding credit continued to decline in *Montenegro* and *Serbia*; reflecting a deteriorating economic situation. NPL ratios have further increased in most Western Balkan economies. *Albania* and *Serbia* register by far the highest NPL levels, at 24.1% and 23% of total loans, respectively, but the level of NPLs are also of concern in the other countries. Even though these loans appear to be well provisioned and banks remain capitalised above the regulatory minimum, there certainly is a need to advance the clean-up of bank balance sheets in a sustainable manner. In *Iceland*, thanks to earlier successes in financial sector restructuring, the share of non-performing loans has significantly declined since its peak in 2010 (at 18%), to some 5% of total loans as latest available data for end-2013 reveal. In *Turkey*, the share of NPLs remained relatively low at 3% of total loans.

Fiscal developments in 2014 so far have been rather uneven across the *Western Balkans*. Budget performance seem to have improved in *Albania* and *Montenegro*, where revenues over-performed thanks to tax hikes (*Albania*) and as a result of continued efforts at improving tax collection. In both countries, total spending remained below plans, despite an ambitious arrears clearance programme (in *Albania*) and the execution of state guarantees (in *Montenegro*). *Albania* recorded a budget deficit of 2.2% of GDP (January – August), far below the revised annual target of 6.3% while *Montenegro's* deficit stood at 1% of GDP in January – July. In contrast to this, *Serbia* and *Bosnia and Herzegovina* suffered from under-performing revenues also reflecting the marked deterioration of the economic situation following the spring floods. In order to contain the fiscal deficit, the Serbian government

announced consolidation measures to reign in current spending, but a budget revision has been postponed so far. In *Bosnia and Herzegovina*, revisions of the budgets of the two entities and the central government were carried out in July 2014. Fiscal developments in the *former Yugoslav Republic of Macedonia* were marked by heavily frontloaded pre-election spending in the first quarter, followed by some moderation afterwards. However, like in previous years, fiscal adjustments came at the cost of an under-execution of badly needed, growth-enhancing capital spending. Nonetheless, the deficit reached already 3.2% of GDP in the first eight months, compared to an annual target of 3.9%. Similar developments could be observed in *Kosovo*,

where significant ad-hoc increases of public sector wages and pensions prior to general elections were partly compensated for, among others, by lower capital outlays. In *Iceland*, a seemingly benign fiscal performance has continued with buoyant revenues from direct taxes and improved expenditure control, supporting the 2014 target of a balanced budget. The first six months registered a budget surplus of 1.2% of GDP, which was however mainly due to one-off factors, such as a substantial dividend payment by the largely state-owned bank *Landsbankinn*. *Turkey's* central government budget deficit increased slightly to 1.3% of GDP in the first eight months from 1.2% in 2013. The deficit is, however, well below the 2014 budgetary target of 1.9% of GDP.



## Candidate and potential candidate countries: Summary table

	2009 2010 2011 2012 2013					ECFIN May Forecast		2014 2015			Q1 14 Q2 14 Q3 14			Jul 14 Aug 14 Sep 14		
	<b>Gross domestic product (in real terms, annual % change)</b>															
Albania	3.4	3.7	2.5	1.6	1.4	:	:	1.7	-0.6	:	N.A.	N.A.	N.A.			
The former Yugoslav Republic of Macedonia	-1.0	2.8	3.0	-0.4	2.2	3.0	3.2	3.5	4.3	:	N.A.	N.A.	N.A.			
Iceland	-5.1	-2.9	2.1	1.1	3.5	2.8	3.2	-1.3	2.4	:	N.A.	N.A.	N.A.			
Montenegro	-5.7	2.5	3.2	-2.5	3.3	2.9	3.6	1.5	0.3	:	N.A.	N.A.	N.A.			
Serbia	-3.1	0.6	1.4	-1.0	2.6	1.1	1.9	0.1	-1.1	:	N.A.	N.A.	N.A.			
Turkey	-4.8	9.2	8.8	2.1	4.1	2.6	3.3	4.7	2.1	:	N.A.	N.A.	N.A.			
Bosnia and Herzegovina	-2.7	0.8	1.0	-1.2	2.1	:	:	2.7	:	:	N.A.	N.A.	N.A.			
Kosovo*	3.6	3.3	4.4	2.8	3.4	:	:	:	:	:	:	:	:			
<b>Unemployment</b>																
Albania	13.6	13.7	13.4	13.3	16.2	:	:	18.3	17.7	:	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	28.4	28.2	:	N.A.	N.A.	N.A.			
Iceland	7.2	7.5	7.1	6.0	5.4	5.0	4.5	5.8	5.9	:	N.A.	N.A.	N.A.			
Montenegro	19.1	19.7	19.7	19.7	19.5	19.1	18.2	19.1	:	:	N.A.	N.A.	N.A.			
Serbia	16.1	19.2	23.0	23.9	22.1	22.6	22.5	20.8	20.3	:	N.A.	N.A.	N.A.			
Turkey	13.0	11.2	9.2	8.4	9.1	10.5	10.4	10.1	8.9	:	:	:	:			
Bosnia and Herzegovina	42.7	42.7	43.8	45.9	44.5	:	:	44.1	43.8	:	43.9	:	:			
Kosovo*	45.4	:	44.8	30.9	30.0	:	:	:	:	:	:	:	:			
<b>Current account balance (% of GDP)**</b>																
Albania	-15.4	-11.3	-13.2	-10.2	-10.7	:	:	-11.1	-11.6	:	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	-1.8	-1.5	:	N.A.	N.A.	N.A.			
Iceland	-9.9	-6.4	-5.2	-4.2	5.6	0.2	-1.3	4.2	4.4	:	N.A.	N.A.	N.A.			
Montenegro	-27.9	-23.0	-17.7	-18.7	-14.6	-14.4	-14.5	-14.3	-15.2	:	N.A.	N.A.	N.A.			
Serbia	-6.2	-6.5	-8.6	-11.5	-6.1	-4.6	-4.3	-5.9	:	:	N.A.	N.A.	N.A.			
Turkey	-2.0	-6.2	-9.7	-6.1	-7.9	-6.0	-3.9	-7.5	-6.5	:	N.A.	N.A.	N.A.			
Bosnia and Herzegovina	-6.5	-6.1	-9.7	-9.3	-5.5	:	:	-5.8	:	:	N.A.	N.A.	N.A.			
Kosovo*	-9.2	-11.7	-13.7	-7.5	-6.4	:	:	-6.5	:	:	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	:	:	1.9	1.6	:	1.8	2.0	:			
The former Yugoslav Republic of Macedonia	-0.8	1.6	3.9	3.3	2.8	2.5	2.3	0.6	-0.9	:	0.3	-0.5	:			
Iceland	12.0	5.4	4.0	5.2	3.9	2.7	3.2	2.5	2.3	2.1	2.4	2.3	1.8			
Montenegro	3.4	0.5	3.1	4.1	2.2	1.8	2.7	-0.6	-0.9	:	-1.2	-1.1	:			
Serbia***	6.6	10.2	7.0	12.2	2.2	3.8	4.5	2.3	1.3	:	2.1	1.5	:			
Turkey	6.3	8.6	6.5	8.9	7.5	8.6	7.4	8.0	9.4	9.2	9.3	9.5	8.9			
Bosnia and Herzegovina	-0.4	2.1	3.7	2.0	-0.1	:	:	-1.7	-1.4	:	-1.0	-0.6	:			
Kosovo*	-2.4	3.5	7.3	2.5	1.8	:	:	0.2	0.4	:	0.8	1.0	:			
<b>General government balance (% of GDP)</b>																
Albania	-7.0	-3.1	-3.5	-3.4	-4.9	:	:	-0.4	-1.6	:	-2.1	-2.2	:			
The former Yugoslav Republic of Macedonia	-2.6	-2.4	-2.5	-4.2	-3.9	-4.2	-3.9	-9.2	-2.7	:	N.A.	N.A.	N.A.			
Iceland	-9.7	-9.7	-5.6	-3.7	-1.7	-0.3	-0.7	2.9	-0.4	:	N.A.	N.A.	N.A.			
Montenegro	-5.7	-4.9	-5.4	-6.1	-5.3	-0.6	1.0	-1.4	-1.7	:	:	:	:			
Serbia	-4.2	-4.4	-4.6	-6.1	-4.7	-6.3	-5.9	-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	:	:	1.3	:	:	N.A.	N.A.	N.A.			
Kosovo*	-0.7	-2.6	-1.7	-2.6	:	:	:	:	:	:	N.A.	N.A.	N.A.			

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

Forecast: ECFIN forecast Winter 2014

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

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

## ALBANIA



### Key developments

The theft of ALL 713 million (EUR 5 million) from the vault of Bank of Albania has led to the prosecution and dismissal of a number of officials, including the governor, Adrian Fullani, in September. He is charged with abuse of office. The first deputy governor has taken over the management of the institution until a permanent replacement is found.

In June, the World Bank and the Government of Albania successfully completed negotiations for a \$150 million Power Reform and Recovery Project. The proposed World Bank-assisted programme will support Albania's power sector reforms, particularly efforts to improve the reliability of the electricity supply and the financial viability of the sector.

With basic legislation amended in July, progress has been made on reforming the pension system with a view to improving its sustainability in the long run. In particular, the parameters of the current pension scheme have been improved (for instance by gradually raising the retirement age and phasing out the heavily subsidised rural pension scheme) and incentives to contribute to the system have been strengthened.

### Real sector

Growth in the second quarter surprised on the downside as the economy, pulled down also by a high base effect, recorded a 0.6 % contraction from the same period last year. Agriculture maintained its good performance seen in the previous quarter and expanded by 3.2 % year-on-year, but industry contracted by 1.3 % as the growth of extraction industry slowed sharply (+7.6 % year-on-year) whereas manufacturing, driven by falling electricity production, recorded a decline for the fourth consecutive quarter (-6.6 %). Construction could not overcome the high base effect from the pre-election period last year and fell by 22.4 %, subtracting as much as 2.8 points from overall growth. Services grew by 3.1 % year-on-year on the back of a 7.1 % expansion of trade, hotels and restaurants, suggesting that private consumption was strengthening.

### Labour market

The LFS-estimated unemployment rate dropped to 17.7 % in the second quarter from 18.6 % recorded in the previous three months. It was still up by 1.3 percentage points in annual terms.

Total employment edged up by 1.4 % year-on-year in the second quarter following five quarters of annual decline. The growth in employment, however, did not keep pace with a 3 % annual increase in the labour force, which was even more pronounced in the youngest age bracket (15-29 years). Agriculture continued to account for the bulk of employment (43.3 %).

Following falling real wages in all main sectors in the first three months of the year, the latest confidence survey data suggest that subdued wage dynamics continued in the second quarter.

### External sector

In April to June, the current account deficit widened in annual terms for the third consecutive quarter, by 20.7 %. The merchandise trade deficit worsened (-17.6 % year-on-year) on account of falling exports (-5.8 %) and a continuing pickup in imports of goods (+8.2 %). On the other hand, the services account balance turned positive as weak transport services were offset by a rebound in tourism inflows (+37.9 %) and a strong increase (+87.5 %) in the balance of manufacturing services, i.e. processed and re-exported goods that have recently been reclassified among services. Remittances inflows recorded modest growth (+3.1 % y-o-y). In the four quarters to June, the current account deficit rose to 11.6 % of GDP from 10.2 % in the corresponding period a year earlier.

In the second quarter, net FDI inflows decreased by 48 % year-on-year and covered about 40 % of the current account shortfall in the same period, substantially less than in the preceding four quarters. Following an annual decrease of 1.4 %, international reserves stood at €1.94 billion, covering 4.3 months of imports.

The stock of gross external debt increased by 8.8 % year-on-year and stood at €6.37 billion in

the second quarter, or 63 % of projected full-year GDP. Government long-term borrowing made up around 37 % of the total, while a further 24 % was accounted for by intercompany lending.

### Monetary developments

Weak aggregate demand, low imported inflation and subdued inflation expectations continued to dampen price rises. The rate of annual consumer price inflation decelerated to 1.6 % in the second quarter from 1.9 % recorded in previous three months, remaining below the lower bound of the central bank target range of 2 %-4 %. Unprocessed food continued to account for more than 80 % of inflation. Inflation picked up slightly in July (1.8 %) and August (2 %).

In the context of low inflation and weak aggregate demand, the Bank of Albania (BoA) maintained its policy rate at an historic low of 2.5 %, unchanged since its last rate cut in May.

The Albanian lek (ALL) remained broadly stable in the third quarter, marking a slight annual appreciation of 0.4% against the euro.

### Financial sector

The transmission of monetary policy stimulus to the economy, long constrained by high risk premia applied by banks and low levels of crediting, has gained some traction and contributed to an across-the-board improvement in lending.

For the first time in more than three years, banks reported an easing of lending standards for all business loans in the second quarter. The three-quarter long trend for less stringent household loan standards also continued.

Improved credit terms were reflected in lower interest rates. The average interest rate on new ALL loans fell to 8.5 % in July-August, down by 0.6 percentage points from the second quarter's average.

As a further sign of improvement, the stock of outstanding loans started to increase in annual terms in July (+0.5 %) and in August (+2.2 %), reversing the downtrend started in July 2013.

The turnaround came despite the continuing high level of non-performing loans (NPLs) in the banking sector. In the second quarter, NPLs made up 24.1 % of total loans, unchanged from the previous quarter. This suggests that the ongoing clearance of government arrears has not yet had a noticeable impact and that further

efforts are necessary to clean bank balance sheets in a sustainable manner.

The capital adequacy ratio of the banking sector as a whole decreased slightly in the second quarter, but at 17.5 % it remains comfortably above the regulatory minimum of 12 %. Profitability indicators stayed positive.

### Fiscal developments

Budgetary performance remained on track in the first eight months. Reflecting rate hikes at the beginning of the year as well as efforts to improve tax collection, revenues increased by 12.5 % year-on-year (+1 % compared to plan), driven by a 16.3 % year-on-year surge in VAT, the largest item on the revenue side. Profit tax revenue rose by 35.4 % following a 50 % hike in the corporate income tax rate. On the other hand, personal income tax receipts declined by 6 % year-on-year, reflecting the introduction of progressive rates with generous thresholds. Excise tax revenues have improved since the beginning of the year and exceeded in January-August last year's comparable figure by 8 %.

On the expenditure side, spending restraints affecting operation and maintenance (-19.8 % year-on-year) and especially investments (-44.2 % year-on-year and falling short of the budgeted amount by nearly a third) helped keep overall expenditure at roughly the same level as in the same period last year and 10 % less than planned, despite the start of arrears clearance. Until August, arrears worth 1.8 % of GDP were paid, with half of this sum settling outstanding tax refund claims.

Overall, the budget deficit in the first eight months was down by 43.7 % from the same period last year and amounted to 2.2 % of estimated full-year GDP, compared to the initial target of 6.5 % for the year as a whole. Based on this performance, the Parliament adopted a revised budget in September. It slightly increased forecast revenues (+0.9 %) and left expected total expenditure unchanged, resulting in a somewhat lower new deficit target of 6.3 % of GDP. A reallocation of expenditure increases social assistance and disability outlays (+10.5 %) and local government spending (+12.3 %) compared to initial plans, at the expense of capital expenditure (-1.9 %) and interest payment (-8 %).

Public debt stood at 64.7 % of GDP in the second quarter (without the accumulated arrears).

TABLE



European Commission, ECFIN-D-1

ALBANIA

		2009	2010	2011	2012	2013	Q1 14	Q2 14	Q3 14	Jul 14	Aug 14	Sep 14
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Percent	-12.1	-5.4	-3.0	-10.6	-9.5	-2.5	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	:	:	:	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann.%ch	3.4	3.7	2.5	1.6	1.4	1.7	-0.6	:	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	0.2	0.3	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	-2.2	2.5	6.5	4.8	6.3	5.7	4.1	:	:	:	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	13.6	13.7	13.4	13.3	16.2	18.3	17.7	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	-5.9	-0.1	2.3	3.3	-3.1	-7.4	1.4	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	11.9	6.7	7.0	7.3	4.1	1.9	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	-29.7	-2.2	-5.8	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-1.8	10.9	14.2	-4.3	-15.4	5.2	8.2	:	:	:	:
Trade balance* <sup>3.3</sup>	%of GDP	-26.6	-23.1	-24.2	-20.8	-20.0	-20.3	-20.6	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	29.2	32.4	34.0	33.3	35.3	35.6	36.3	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	53.8	53.0	56.7	51.9	53.2	53.7	54.6	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-15.4	-11.3	-13.2	-10.2	-10.7	-11.1	-11.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	7.7	9.3	6.6	6.7	-9.5	-10.2	-8.8	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1563.5	1821.4	1848.6	1907.7	1955.7	1923.0	1937.3	:	1903.5	2088.6	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.1	6.7	6.1	6.5	6.8	:	:	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann.%ch	2.3	3.6	3.5	2.0	1.9	1.9	1.6	:	1.8	2.0	:
Producer prices <sup>4.2</sup>	Ann.%ch	-1.7	0.3	2.6	:	:	:	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann.%ch	4.9	4.8	4.8	2.4	4.2	2.8	2.0	:	2.6	3.2	:
M2 <sup>4.4</sup>	Ann.%ch	8.0	5.5	6.7	4.7	5.7	5.6	2.3	:	3.4	3.0	:
Exchange rate LEK/EUR <sup>4.5</sup>	Value	132.06	137.79	140.33	139.04	140.26	140.39	140.04	139.73	139.91	139.31	139.97
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	3.25	3.00	:	2.95	3.05	:
Bond yield <sup>5.2</sup>	%p.a.	7.82	7.25	6.53	6.77	6.03	4.30	3.52	:	2.98	3.06	:
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	-1.8	-1.8	:	0.5	2.2	:
Deposit growth <sup>5.5</sup>	Ann.%ch	-0.1	15.5	14.5	9.4	3.7	1.8	1.0	:	2.3	1.6	:
Non performing loans <sup>5.6</sup>	%total	9.1	12.6	17.0	21.7	24.0	24.1	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	-3.4	-4.9	-0.4	-1.6	:	-2.1	-2.2	:
General government debt* <sup>6.2</sup>	%of GDP	59.7	57.7	59.4	62.0	65.2	63.3	64.7	:	N.A.	N.A.	N.A.

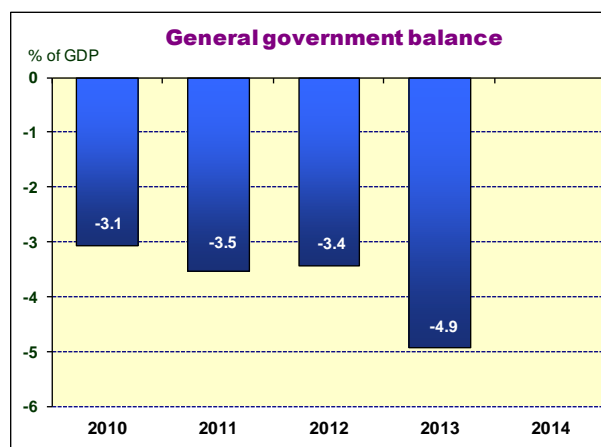
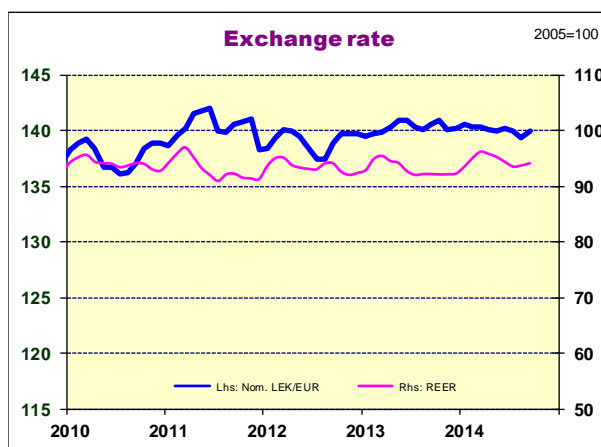
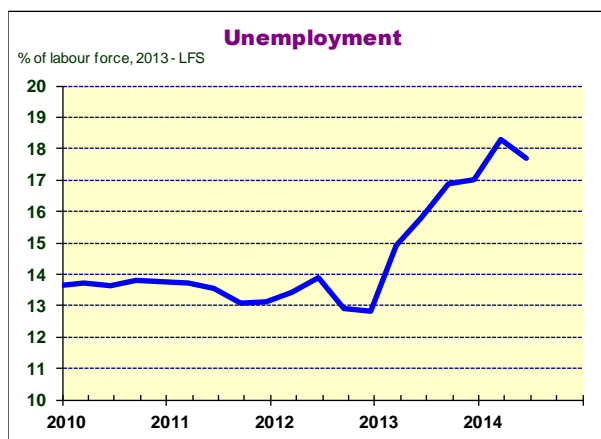
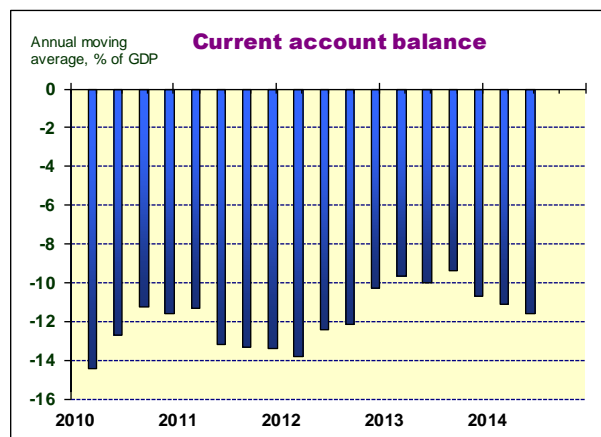
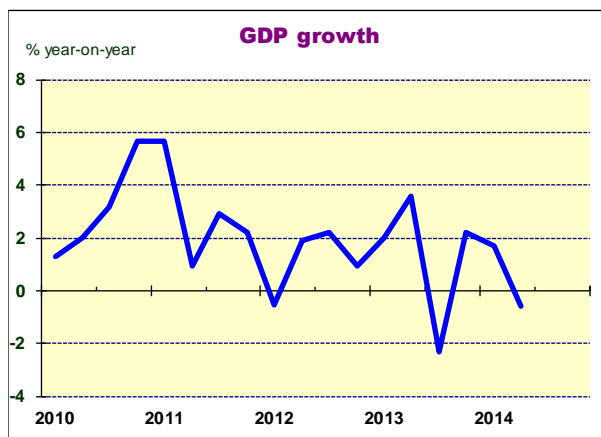
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## ALBANIA



# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



## Key developments

In September, the parliament approved a supplementary budget for 2014 and a rise in the targeted central government budget deficit from 3.5% to 3.9% of GDP. The government adopted the 2015 draft budget, which foresees a deficit of 3.5%, assuming output growth of 4%.

In a set of proposed amendments to the constitution, the government envisages a fiscal rule, providing for a deficit limit of 3% of GDP, and a debt ceiling of 60%. The constitutional changes are subject to parliamentary approval.

The government successfully launched a 7-year, 500 mn Eurobond in July. The proceeds are intended to finance the 2015 fiscal deficit, and the repayment of a Eurobond due in December 2015, and of IMF loans.

## Real sector

The economy gained further pace in the second quarter, with GDP growth accelerating to an estimated 4.3% y-o-y, from a revised 3.5% in the first quarter. Gross capital formation disappointed, with only 1.3% annual increase, and was revised downwards for the first quarter, to 13.9% from 26.5%. Household consumption expenditure growth accelerated to 4.6% y-o-y, after 1.5% in the first quarter. The revision led to a second downward adjustment for real GDP growth in 2013, to 2.2%, from an original estimate of 3.1%. Figures as of 2013 have been prepared according to ESA 2010.

Construction output growth remained flat in the second quarter. The sector's annual output growth in the first half of the year amounted to only 5.5%, compared to an average of 32.2% in 2013. Industrial production proved resilient in the second quarter and beyond. It rose by 3.6% on average in July and August, bringing the total increase for the first eight months to 4.3%, compared to 3.2% on average in 2013. Growth was driven, also in the second quarter, by the continued strength of the manufacturing sector. Manufacturing output which accounts for about

three quarters of the industry structure increased by 4pp compared to the first quarter, to 12% y-o-y. Growth remained robust at 10.8% on average in July and August. The expansion is driven by the food and the clothing industry, which account for the largest shares of the manufacturing structure. Retail sales continued to disappoint. At 3.2% y-o-y, the decline was, however, less marked in the second than in the first quarter, by 7pp. There was a further loss on the year in July, by 5.9%.

## Labour market

While the labour force increased only marginally in the second quarter, compared to the same period a year earlier, the number of unemployed declined by 1.3%, according to the Labour Force Survey. This resulted in a further decrease in the unemployment rate by 0.6pp to 28.2%. On the downside, the rate for young workers rose by 3.5pp, to 55.2% in this period.

Reflecting the strong recovery of manufacturing output since autumn 2013, job creation in industry remained robust also in the second quarter, at some 7% y-o-y, roughly unchanged from the previous quarter. Employment in manufacturing, which makes up about one fifth of the total, remained robust at 8.3%. In July and August, industrial employment grew by 7.7% on average, still carried by the manufacturing sector, where employment increased by 9.5%. Job creation in agriculture, which also accounts for about one fifth of total employment, was particularly strong in the second quarter, at some 5% y-o-y in total, while actual employment increases in the sector – as opposed to self-employment - amounted to 13% in the same period, spurred by agricultural subsidies.

Further increases in nominal wages, and a benign inflationary environment supported a rise in monthly real net wages in the second quarter and beyond, bringing the total increase in the first seven months to 0.6% y-o-y.

## External sector

External imbalances diminished in the second quarter. The current account deficit declined by 7% y-o-y, driven by an improvement in the merchandise trade balance by 7.2% y-o-y, as well as by a 3.5% increase in private transfers and higher official transfers, and in spite of a marked decline in the services surplus. In the four quarters to June, it stood at 1.5% of GDP, compared to 1.8% in the four quarters to March. The current account swung into surplus in June, and remained there in July, even though the merchandise trade deficit deteriorated.

After a significant 22% y-o-y jump in the first quarter, net FDI inflows lost traction in the second quarter (+6.5% y-o-y). In July, inflows reached only about half their level of a year earlier, leading to an annual decrease in the first seven months of 1.3% yoy. Total FDI in that period corresponds to 1.9% of projected full-year GDP, unchanged from the same period a year earlier. The bulk went to trade, motor vehicle and transport equipment. After declining throughout the second quarter, largely as a result of valuation effects, the international reserve position strengthened again over the summer, on the back of the government's Eurobond launch in July. At end-August, reserves were 17.5% above their level of a year earlier, accounting for some 31% of projected GDP, covering about 4 months of imports of goods and services. Gross external debt, excluding debt of the monetary authorities, increased by 3.5% y-o-y in the second quarter. It stood at 67% of full-year GDP, slightly below its level at the end of the first quarter. However, this figure does not include the Eurobond issue.

## Monetary developments

Driven by declining costs for food, housing and utilities, consumer prices continued to decrease, on annual basis, throughout the second quarter. This brought the total quarterly consumer price deflation to 0.9% yoy, following on a rise in the index of 0.6% in the first quarter. After a small increase in July, prompted by higher regulated electricity prices and by a slower decline in food prices, consumer prices decreased again in August, by 0.5% y-o-y, bringing average deflation for the first eight months to 0.2%. The expansion of M4 money accelerated by 2.7pp to 8.5% in the second quarter, relenting somewhat in July and August, to 8.1% on average.

## Financial sector

Credit growth to the private sector accelerated further in the second quarter. Loans increased by 7.7% y-o-y, compared to 7% in the first quarter. Growth picked up further over the summer, bringing the total annual increase for the first seven months to 7.5%. Loans to private companies increased to 4.8% from 4.3% in the first quarter, and to 5.9% in July. Loans to the public sector continued to increase sharply. In total, credit to the private and public sector rose by 7.7%, on average, in the second quarter. Yet, interest rates are still stagnating – at the end of July, average weighted nominal lending rates for loans in national currency stood at 7.4%, lower by 0.2pp from end-April, and down by only 0.3pp since end-2013. Deposit rates decreased by 0.1pp to 3.8%, compared to end-April, leading to a marginal narrowing of spreads. After consecutive, small improvements over the last three quarters, the quality of banks' portfolios deteriorated again in the second quarter. The share of non-performing to total loans increased between April and end-June to 11.3%, from 10.6% in the first quarter. NPLs remain fully covered by banks' provisions, even though the coverage ratio declined somewhat.

## Fiscal developments

After heavily front-loaded, pre-election transfer payments in the first quarter, both, current and capital expenditure were somewhat reigned in during the second quarter. Revenue from taxes and contributions picked up, but was some 18% below pre-year level. In July and August, it was, on average, some 10% below pre-year level. Capital expenditure was implemented at about half of the planned total for the year, in contrast to a 64% implementation rate for current expenditure. Overall, 62% of planned expenditure for 2014 were spent by end-August, while revenue income met 59% of plan, bringing the central government budget deficit to 3.2% of projected GDP. This amounted to 86% of the revised 2014 deficit target (3.9% of GDP). General government debt increased in the second quarter to 33% of projected full-year GDP and, mainly on the back of the Eurobond issue, further to 39.5% at end-August. Overall public debt increased from 40% at the end of the second quarter to 47% of GDP.

## TABLE



European Commission, ECFIN-D-1

### The former Yugoslav Republic of Macedonia

		2009	2010	2011	2012	2013	ECFIN Forecast		Q1 14	Q2 14	Q3 14	Jul 14	Aug 14	Sep 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	:	:	11.1	11.0	:	11.9	12.1	:
Industrial production <sup>1.2</sup>	Ann.%ch	-8.4	-4.6	4.0	-6.6	3.2	:	:	3.7	5.6	:	5.9	1.3	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-1.0	2.8	3.0	-0.4	2.2	3.0	3.2	3.5	4.3	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-4.9	1.5	2.9	-3.0	3.2	3.0	2.7	1.5	4.6	:	N.A.	N.A.	N.A.
Gross capital formation <sup>1.5</sup>	Ann.%ch	-0.9	-4.3	15.7	21.2	-9.9	10.6	9.0	13.9	1.3	:	N.A.	N.A.	N.A.
Construction <sup>1.6</sup>	Ann.%ch	5.3	11.7	25.3	4.2	32.2	:	:	10.4	0.6	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	-3.8	4.2	N.A.	N.A.	N.A.	:	:	-10.2	-3.2	:	-0.6	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	32.2	32.1	31.4	31.0	29.0	28.5	27.5	28.4	28.2	:	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	2.6	1.3	:	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	-0.3	0.6	:	1.3	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	-33.2	46.7	21.0	-3.9	3.4	:	:	15.4	16.3	:	5.3	:	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-21.8	13.6	22.4	0.2	-1.6	:	:	10.0	5.8	:	7.0	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-26.0	-21.7	-25.5	-26.9	-18.0	-20.3	-20.5	-22.2	-21.4	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	31.7	38.4	45.6	44.5	42.3	:	:	43.3	44.1	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	54.4	58.1	66.1	66.9	60.4	:	:	60.7	61.3	:	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	-1.8	-1.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	2.0	2.2	4.6	1.5	3.5	:	:	3.6	3.5	:	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	:	:	1 941.2	1 873.0	:	2 377.2	2 449.1	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.2	5.9	5.8	6.1	5.6	:	:	5.4	5.1	:	6.4	:	:
<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	0.6	-0.9	:	0.3	-0.5	:
Producer prices <sup>4.2</sup>	Ann.%ch	-6.4	8.3	11.1	4.5	0.4	:	:	-2.2	-0.9	:	-0.7	0.1	:
Food prices <sup>4.3</sup>	Ann.%ch	-1.4	0.3	6.2	2.3	3.4	:	:	0.6	-2.5	:	-1.5	-2.0	:
Monetary aggregate M4 <sup>4.4</sup>	Ann.%ch	3.5	12.1	10.5	7.5	4.0	:	:	5.8	8.5	:	8.1	8.1	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.28	61.51	61.53	61.53	61.58	:	:	61.65	61.65	61.54	61.61	61.50	61.52
Nominal eff. exchange rate <sup>4.6</sup>	Index	101.6	100.0	101.4	100.3	101.6	:	:	103.4	103.3	:	103.0	:	:
<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	:	:	7.63	7.52	:	7.43	:	:
Stock markets <sup>5.3</sup>	Index	2 497	2 472	2 407	1 890	1 726	:	:	1 731	1 709	1 671	1 634	1 673	1 706
Credit Growth <sup>5.4</sup>	Ann.%ch	14.2	5.4	8.1	7.3	4.3	:	:	7.1	7.8	:	8.4	8.7	:
Deposit growth <sup>5.5</sup>	Ann.%ch	4.6	13.0	10.9	7.2	4.8	:	:	6.5	8.7	:	8.1	8.1	:
Non-performing loans <sup>5.6</sup>	% total	8.9	9.0	9.5	10.1	10.9	:	:	10.6	11.3	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
Central government balance <sup>6.1</sup>	% of GDP	-2.6	-2.4	-2.5	-4.2	-3.9	-4.2	-3.9	-9.2	-2.7	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	23.6	22.7	27.6	31.5	34.2	38.7	40.8	33.3	32.6	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2014

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

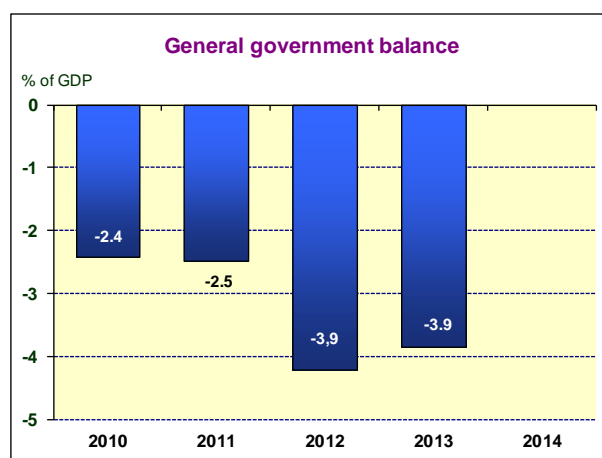
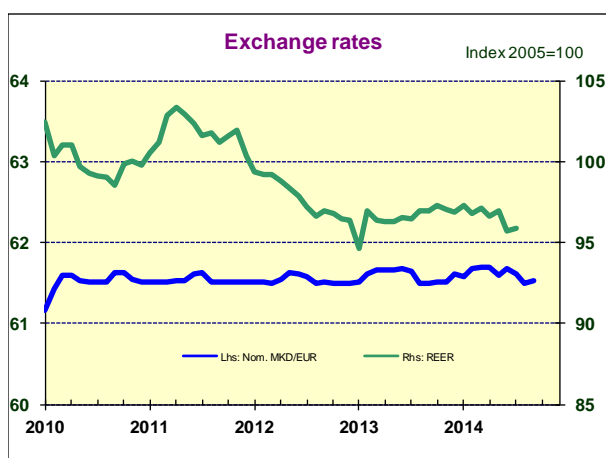
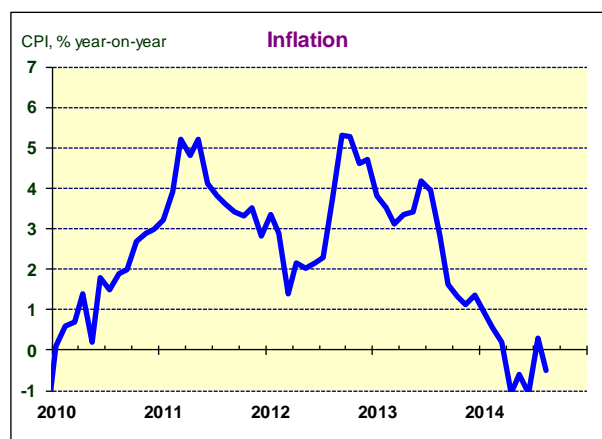
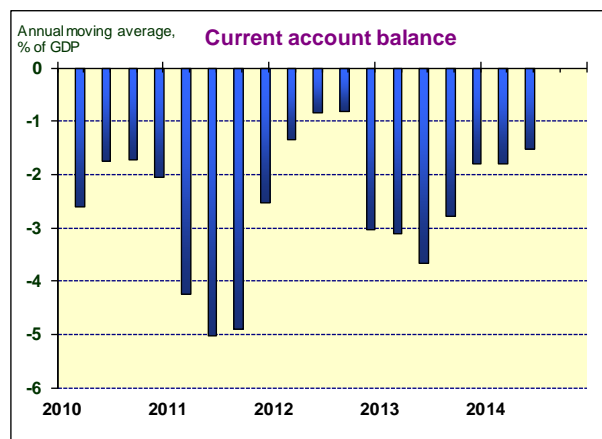


# CHARTS



European Commission, ECFIN-D-1

## The former Yugoslav Republic of Macedonia



## ICELAND



### Key developments

On 8 July, the Treasury issued EUR-denominated bonds amounting to EUR 750 million, with a 6-year maturity and a yield of 2.56%. This is the first time after the crisis that Iceland has placed EUR denominated debt titles. The funds will be primarily used for pre-paying outstanding loans, which Nordic countries provided to Iceland in the wake of the 2008 crisis. This transaction improves Iceland's debt structure and reduces financing costs.

On 14 August, the rating agency Fitch confirmed its sovereign credit rating at BBB and maintained its stable outlook assessment. The agency cited the broad consensus on debt reduction, which is supposed to be reinforced by the envisaged adoption of an organic budget law, as important factor for its assessment.

On 10 September, the first meeting of the newly established Financial Stability Council took place. The Council consists of representatives of the Ministry of Finance and Economy, the Central Bank and the Financial Supervisory Authority. The Council serves as venue for consultation, exchange of information and policy formulation on financial stability and coordinates the preparedness of public authorities for financial crises.

### Real sector

Private consumption and exports continue to be the main sources of growth. In the second quarter, gross domestic output was 2.4% higher than a year before, compared to a drop by 0.4% in the first quarter. The main reason for the weak performance in the first quarter had been high imports, driven by equipment investment and private consumption, but also a reduction in inventory. In the second quarter, private consumption and exports rose year-on-year by 4.2% and 3.4% respectively, while imports rose by 7.2%. When looking at the first half of 2014, output is 0.4% higher than a year before. Private consumption benefits from low inflation, supporting real wage growth and the government's household debt relief programme.

The rather weak growth of commodity exports is more than offset by strong service exports, in particular tourism, registering record high inflows. The latest forecast of the Statistics Iceland from July expects GDP growth to be slightly above 3% in 2014. The EU Commission's spring forecast expects 2.8% for this year.

High frequency indicators for the first eight months of 2014, such as credit card turnover, point to rather strong consumption during that period. Overall, credit card turnover increased by some 6% during that period. In particular, foreign credit card turnover was some 20% higher than a year before. The turnover of foreign cards accounts for some 13% of the total turnover, compared to some 11% a year before.

### Labour market

Unemployment maintained its downward trend, declining from 6.8% in the second quarter of 2013 to 5.9% in the second quarter this year. This decline is driven by both, increasing employment, but also a lower number of unemployed. According to LFS, employment rose in the second quarter by 1.8% y-o-y, compared to 2% a year before, while the number of unemployed declined by some 12%, from (estimated) 12 900 persons to 11 300. Monthly, seasonally adjusted data points to a further decline in unemployment, with unemployment dropping to 4.7% in August, compared to 5.1% the year before. The share of long-term unemployed in total unemployed remained at close to 16%, representing slightly 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 12.7% in the second quarter, compared to 16.2% the year before. Average weekly hours of full-time work declined slightly, from 45.2 hours in the second quarter of 2013 to 44.1 hours in the second quarter of 2014.

Nominal wages in the second quarter continued to be some 5.2% higher than a year before. This is currently nearly 3 percentage points above inflation.

## External sector

After a current account surplus of 5.6% in 2013, Iceland's external surplus is shrinking, reflecting declining export earnings and strong import growth. However, significantly higher earnings from tourism and lower (hypothetical) interest payments for external debt are largely compensating the deterioration in the trade balance. As a result, the current account surplus in the last 4 quarters to June dropped to 4.4%.

Trade data for the first eight months points to a further deterioration in the trade balance: Revenues from exports of goods were some 9% lower than in the same period a year before, while spending for imports of goods was only 0.2% 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.

Gross official foreign exchange reserves improved markedly during the last months, largely reflecting Central Bank FX purchases in order to slow down the krona's appreciation. As a result, at the end of August, reserves were some 12% higher than a year before. As a share of GDP, reserves rose from 26% in August 2013 to 28% in August this year.

Iceland's international investment position was at the end of the second quarter at a gross deficit of some 390% of the estimated end-year 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 eight months of 2014, 12-month inflation dropped to 2.4%, compared to 3.9% the year before. This is 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 year, trading at 153.6 ISK against the EUR in

September 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 on the low side. Credit provision accelerated slightly, increasing by 2% in the second quarter, compared to 1% the quarter before. Deposit growth was rather strong the first quarter, increasing by 7%, but decelerated again to some 5% in the second quarter. Monthly data points to a further slowdown.

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 they 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 second quarter, the general government registered a deficit of -0.4 of the quarter's GDP, after a surplus of 2.9% in the first quarter of 2013. The surplus in the first quarter mainly reflects a substantial dividend payment by the largely state-owned *Landsbankinn*. In the first half of 2014, the general government balance thus shows a surplus of 1.2% of the first semester's GDP, compared to a deficit of -2.9% the year before. Revenues were 11.3% higher than a year before, benefitting from the dividend payment, but also from a strong performance of income and profit taxes. Expenditure was 3.8% higher than a year before, mainly as a result of higher investment, which was 17.4% higher than in the previous year. According to latest data, the General Government deficit was 1.7% in 2013, compared to a deficit of 3.7% in 2012. The budget proposal for 2015 envisages largely balanced public sector accounts. Further important features of this budget proposal are the sale of state assets to lower the debt burden and a reduction of the tax burden.

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		Q1 14	Q2 14	Q3 14	Jul 14	Aug 14	Sep 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	:	:	-1.7	2.7	:	2.7	:	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-5.1	-2.9	2.1	1.1	3.5	2.8	3.2	-1.3	2.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-9.9	-0.2	2.5	2.0	0.8	4.3	4.0	3.8	4.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-47.7	-8.6	11.6	4.3	-2.2	5.0	10.0	12.5	3.7	:	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	-22.9	-14.0	14.9	4.2	1.6	:	:	:	:	:	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	5.8	5.9	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	-6.2	-0.3	0.0	1.0	3.4	2.1	2.0	2.1	1.8	:	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	5.2	5.2	:	5.9	6.3	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	14.1	5.1	16.5	2.4	-2.7	:	:	-10.2	0.2	:	-7.9	-0.4	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-13.8	11.8	19.6	6.8	-4.1	:	:	-1.0	1.7	:	3.6	4.0	:
Trade balance* <sup>3.3</sup>	% of GDP	3.5	1.9	1.3	0.0	0.4	2.3	1.1	-0.3	-0.4	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	49.7	53.5	56.1	56.7	55.7	:	:	54.9	54.4	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	40.8	43.1	47.9	50.4	47.4	:	:	47.6	47.5	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-9.9	-6.4	-5.2	-4.2	5.6	0.2	-1.3	4.2	4.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	-17.2	19.7	7.4	29.8	2.3	:	:	2.6	1.1	:	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	:	:	2 999.6	3 109.0	:	3 245.5	3 454.6	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	13.4	19.1	24.4	11.3	10.3	:	:	10.1	10.5	:	10.8	11.5	:
<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	2.5	2.3	2.1	2.4	2.3	1.8
Producer prices <sup>4.2</sup>	Ann.%ch	11.3	11.7	9.2	1.1	-4.4	:	:	-10.6	-2.4	:	-0.8	5.6	:
Food prices <sup>4.3</sup>	Ann.%ch	17.5	4.2	3.8	6.1	5.1	:	:	2.4	0.5	0.0	0.1	-0.2	0.0
M3 <sup>4.4</sup>	Ann.%ch	15.7	-6.6	-2.1	2.8	2.0	:	:	6.9	4.9	:	5.4	2.8	:
Exchange rate ISK/EUR <sup>4.5</sup>	Value	172.51	162.16	161.45	160.93	162.30	:	:	156.55	154.86	154.26	154.75	154.42	153.61
Nominal eff. exchange rate <sup>4.6</sup>	Index	98.1	100.0	100.0	97.6	98.9	:	:	104.4	:	:	:	:	:
<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	:	:	6.19	6.06	6.10	6.10	6.10	6.10
Bond yield <sup>5.2</sup>	% p.a.	8.26	6.09	5.98	6.19	5.79	:	:	6.40	6.48	:	6.74	6.59	:
Stock markets <sup>5.3</sup>	Index	465	562	602	649	774	:	:	865	835	849	830	859	858
Credit growth <sup>5.4</sup>	Ann.%ch	-8.5	-3.2	-1.7	6.3	0.1	:	:	1.0	2.1	:	3.3	1.9	:
Deposit growth <sup>5.5</sup>	Ann.%ch	-1.3	-7.0	-2.6	4.8	-0.2	:	:	7.0	4.9	:	5.4	2.8	:
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	-9.7	-9.7	-5.6	-3.7	-1.7	-0.3	-0.7	2.9	-0.4	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	82.8	79.8	88.0	85.1	77.5	91.7	87.7	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2014

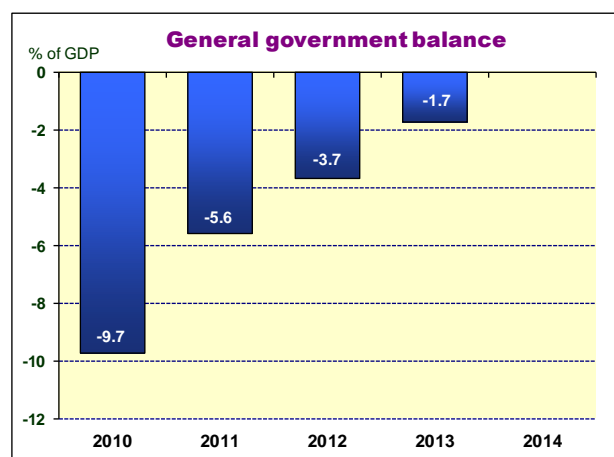
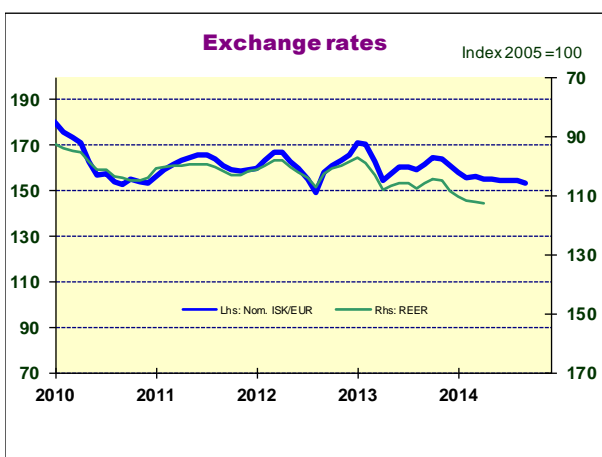
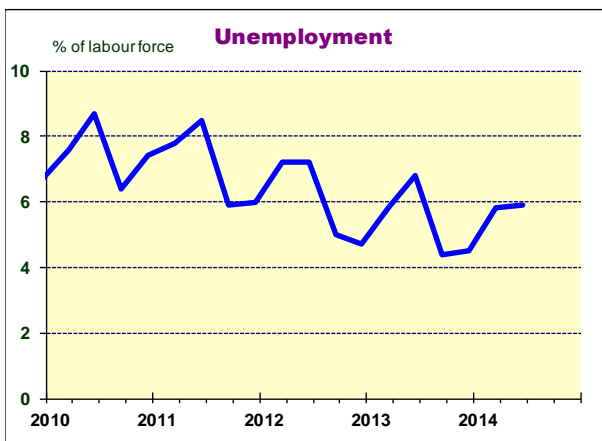
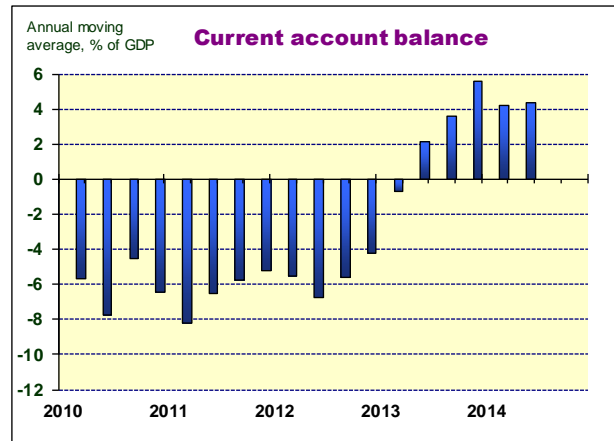
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## ICELAND





## Key developments

During the second quarter of 2014, the government launched several privatisation initiatives. In September, it announced tenders for the sale of 100% of the arms trading firm Montenegro Defence Industry (MDI) as well as of 51% of the plastic explosives producer Poliex. Furthermore, negotiations started with an US-UK consortium on the potential sale of 56% of the healthcare and spa centre Simo Milosevic. The first tender for the sale of the bankrupt bauxite mines failed due to lack of investors' interest.

In September, the World Bank approved an EUR 50 million loan for an industrial waste management and clean-up project for Montenegro.

Also in September, China's Exim bank approved a EUR 687 million loan (around 20% of GDP) for the construction of the priority section of the Bar-Boljare highway. Works are expected to start by the end of 2014.

## Real sector

On 24 September, the statistical office of Montenegro (MONSTAT) revised GDP growth for 2013 to 3.3%, down from its preliminary estimate of 3.5% in June. The data release also provided information on the expenditure side, confirming that the main engines of growth were gross fixed capital formation and net exports, while private and public consumption recorded some positive growth of around 1% each.

MONSTAT also released a preliminary estimate of GDP growth for the second quarter of 2014, confirming a marked deceleration to a mere 0.3% year-on-year, compared to a revised 1.5% annual growth rate in the previous quarter. Details on the expenditure and the sector breakdown are not available yet. However, early indicators confirmed a deceleration in construction, as output growth slowed down to 3.3% y-o-y, from 30.4% in the previous quarter. Industrial production contracted sharply in the second quarter (by 26% y-o-y), although the contraction softened in July and August to 16.5% and 12.7% y-o-y. The poor performance during the first eight months largely reflects the

drop in energy production (which represents 44% of total industrial production) by almost 30% y-o-y. In the same period, manufacturing also declined, although more moderately (by 4% y-o-y), while mining output grew by 21% y-o-y. The Ministry of Finance reviewed its GDP growth forecast for 2014 to 2.5%, down from its earlier 3.5% estimate.

## Labour market

Pending Labour Force Survey (LFS) data for the second quarter of 2014, the registered unemployment rate slightly declined during the summer months. In spite of a favourable tourism season and the registration of 10,170 new jobs in the first eight months of the year, the registered unemployment rate only improved marginally to 13.46% in August compared to a 13.61% at the end of June. This suggests that a large part of the new jobs was filled by an increased labour supply.

## External sector

The current account deficit started broadening again in 2014 after having recorded a continuous decline over 2013. Thus, in the four quarters to June 2014, the current account gap reached 15.2% of GDP, compared to 14.3% up to the previous quarter and 14.6% up to the end of 2013. Against a good performance of merchandise exports in the first two quarters of the previous year, exports deteriorated sharply in the first half of 2014 as energy production came down to more regular levels. In addition, the decline of imports registered in the first quarter of 2014 turned into a modest but positive expansion in the second quarter. Although the balances of services, income and transfers remain positive, the latter two narrowed in annual terms in the first two quarters of 2014.

In the four quarters to June, net FDI remained at around 10% of GDP, covering some two thirds of the current account deficit. Income recorded under net errors and omissions accounted for an additional 10% of GDP too, while other investments (i.e. mostly bank loans) registered an outflow of 4% of GDP.

## Monetary developments

During the first eight months of 2014, the overall price level continued to be lower than a year before. After being close to pre-year levels in June, the consumer price index declined again y-o-y in July and August (by -1.2% and -1.1% respectively). The main driving factors were lower prices of food, communications, clothing and furnishing; while health, restaurant and hotels prices were higher than a year before. Transport prices also declined or remained unchanged in July and August, reflecting weakening global oil price trends.

## Financial sector

Domestic companies still face difficulties in obtaining bank loans. The pace of contraction of banks' lending declined in August to 3.4% y-o-y; a similar decline as in the second quarter, although slightly below the 4.1% y-o-y decline recorded in July. Only in two sectors, households and foreign companies, lending recorded positive growth in August, increasing by 1.4% and 2.4% y-o-y respectively. Total credit to the economy grew over the period January - August by a meagre 1.6%, driven by credit to financial institutions, households and foreign companies, while loans to private domestic corporates and general government declined markedly, by 4% and 13% respectively.

Meanwhile, the expansion of bank deposits continued at a moderate pace during 2014, albeit slowing down in August to 5.1% y-o-y after posting 6.8% y-o-y growth in the second quarter. Corporate savings grew slightly faster (by 6.2% y-o-y) compared to households' (5.8%). At the end of August, banks' cash and deposits held at the Central Bank increased by 20% y-o-y as a result of the subdued lending and growing customers' deposits.

Credit supply remains constrained by the high level of non-performing loans (NPLs). After some easing in the first quarter of 2014, the ratio of NPLs rose to 17.5% in the second quarter to further increase to 18.1% in August. Meantime, banks' capital continued strengthening, growing by 2.8% in August compared to the second quarter of 2014, and by 10.7% compared to December 2013. In the second quarter of 2014, the weighted average lending interest rate of banks loans marginally increased to 9.50% up from 9.41% on average in the previous quarter, to further rise to 10.4% in August.

On 25 August a new domestic bank (Lovcen Banka) started operations. In September, The European Central Bank (ECB) launched a cooperation programme with the Central Bank of Montenegro (CBCG) to assist with the preparations for joining the European System of Central Banks (ESCB) once the country has qualified for EU membership.

In August, the stock exchange turnover dropped by 22% y-o-y after a 32% growth the month before. The MONEX20 index reached 10,852 points after increasing by 17% y-o-y. Market capitalisation represents some 87% of GDP.

## Fiscal developments

In the first seven months of 2014, the central government budget deficit further declined to 1% of the estimated full-year GDP, compared to a target of 3.2% of GDP. The improved performance of the budget reflects a combination of reduced expenditures and higher tax collection; notably social security contributions, VAT revenues, and corporate and personal income taxes. Total revenue was 4% higher than planned and rose by 8.5% compared to the same period of the previous year. At the same time, public expenditure remained some 6% below the initial budget plan, but 23% higher than a year ago, reflecting a combination of rising spending with an overestimation of some expenditure items in the 2014 budget. Thus, compared to the first seven months of 2013, social security transfers, capital spending, transfers to public institutions, funds for redundant labour and interest spending were by two-digit rates higher than a year before.

State guarantees continue to weigh on fiscal performance. In September, following the activation of the state guarantees extended to several firms (the bauxite mines, the company Melgonia – Primorka, and the publishing firm Pobjeda), totalling EUR 15 million, the Ministry of Finance has slightly revised its estimate for the budget deficit for 2014 to -1.9% of GDP, up from the original -1.8% target.

In the second quarter of 2014, the public debt increased marginally to 57.5% of GDP, or half a percentage point higher than in the first quarter. The increase was driven by the rise of external liabilities –which account for 78% of the total public debt–by 10.5% during the first half of 2014. During the same period, domestic debt declined by 12.5%.

## TABLE

European Commission, ECFIN-D-1



## MONTENEGRO

		2009	2010	2011	2012	2013	ECFIN Forecast							
							2014	2015	Q1 14	Q2 14	Q3 14	Jul 14	Aug 14	Sep 14
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	8.7	:	:	9.2	17.6	15.9	15.2	18.9	13.7
Industrial production <sup>1.2</sup>	Ann.%ch	-32.2	17.5	-10.3	-7.1	10.7	:	:	-2.5	-25.9	:	-16.5	-12.7	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-5.7	2.5	3.2	-2.5	3.3	2.9	3.6	1.5	0.3	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-12.9	2.0	4.2	-3.2	1.1	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	8.8	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	:	:	30.4	3.3	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	-9.0	1.6	12.6	6.7	11.3	:	:	1.8	3.2	:	2.8	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	19.1	19.7	19.7	19.7	19.5	19.1	18.2	19.1	:	:	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	6.4	:	:	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	-0.6	-0.5	:	0.1	-0.4	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	-34.2	20.3	33.6	-17.8	1.0	:	:	-17.2	-22.5	:	-0.2	-2.5	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-34.6	0.9	9.2	-0.1	-3.2	:	:	-5.9	0.3	:	6.8	-0.4	:
Trade balance* <sup>3.3</sup>	% of GDP	-44.3	-41.1	-40.4	-44.1	-39.9	-40.2	-40.5	-39.6	-40.2	:	:	:	:
Exports goods and services <sup>3.4</sup>	% of GDP	32.1	34.7	42.8	44.1	41.8	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	65.4	63.1	64.9	68.8	62.1	:	:	:	:	:	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	-14.3	-15.2	:	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	:	:	10.1	9.9	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	397.5	416.4	303.5	347.9	423.7	:	:	415.5	530.1	:	510.4	535.6	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	2.9	3.0	2.0	2.3	2.9	:	:	2.8	3.6	:	3.5	3.6	:
<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	-0.6	-0.9	:	-1.2	-1.1	:
Producer prices <sup>4.2</sup>	Ann.%ch	-3.8	-0.7	3.2	1.9	1.7	:	:	-0.9	-0.1	:	0.1	1.0	:
Food prices <sup>4.3</sup>	Ann.%ch	3.3	0.3	2.8	4.2	4.0	:	:	-1.0	-2.9	:	-3.2	-2.3	:
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	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	3.63	3.37	2.45	4.75	3.19	:	:	1.72	2.20	1.03	1.29	1.08	0.73
Stock markets <sup>5.3</sup>	Index	13 303	13 993	11 896	9 091	9 532	:	:	10 295	9 995	10 763	10 057	10 852	11 379
Credit growth <sup>5.4</sup>	Ann.%ch	-5.5	-4.8	-6.3	-0.7	3.1	:	:	-3.4	-3.3	:	-4.1	-3.4	:
Deposit growth <sup>5.5</sup>	Ann.%ch	-8.3	-1.9	1.5	9.0	5.9	:	:	5.3	6.8	:	5.5	5.1	:
Non-performing loans <sup>5.6</sup>	% of total	13.5	21.0	15.5	17.6	18.4	:	:	17.2	17.5	:	17.4	18.2	:
<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	-1.4	-1.7	:	:	:	:
General government debt <sup>6.2</sup>	% of GDP	38.2	40.9	45.9	54.0	58.1	58.5	59.4	57.0	57.5	:	:	:	:

f: ECFIN forecast Spring 2014

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

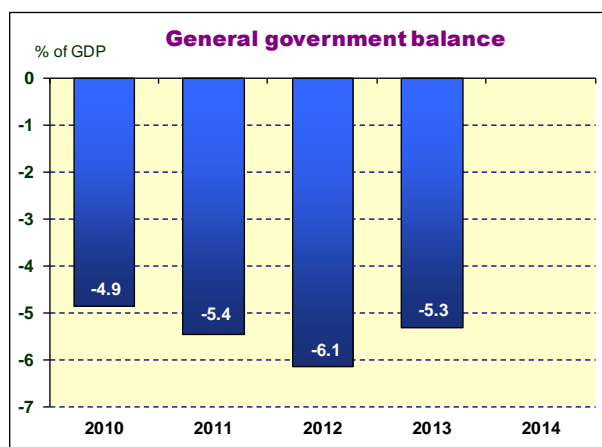
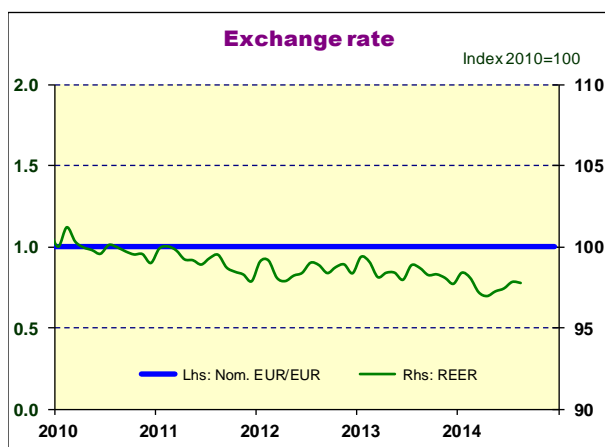
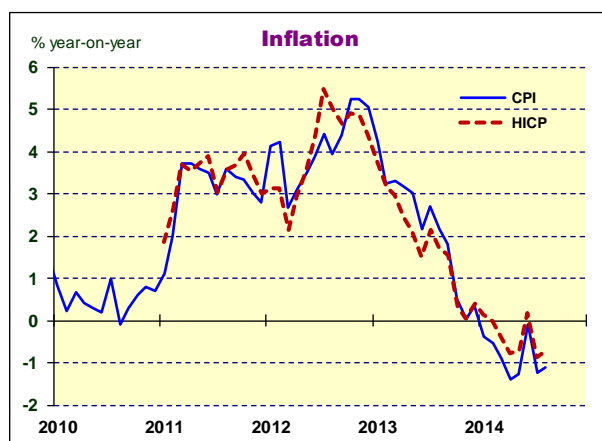
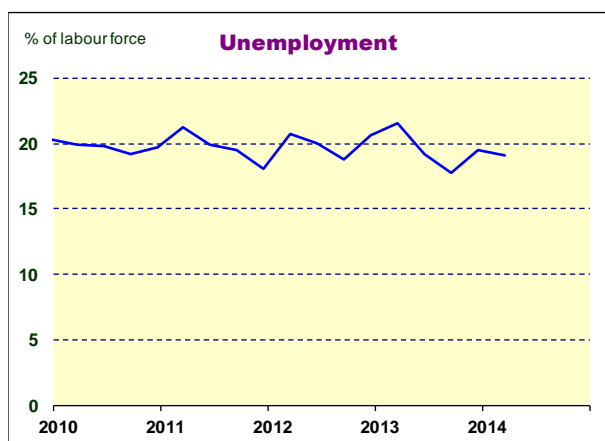
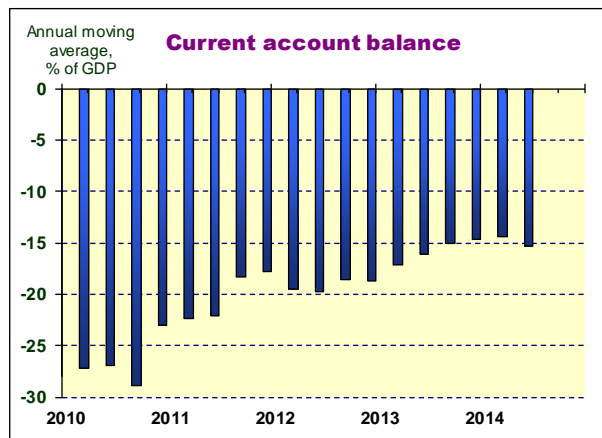


# CHARTS

European Commission, ECFIN-D-1



## MONTENEGRO





## Key developments

In July, the finance minister resigned over disagreements on the pace and depth of economic reforms needed to reduce the very high budget deficit.

The economy contracted in the second quarter, impacted by the heavy spring floods. In July, with a view to providing emergency financial assistance following the floods, a Donors' Conference mobilised pledges for Serbia in the amount of close to EUR 1 billion. Recovery and reconstruction needs and underperforming revenue prompted the announcement of a budget revision. Although by early October its details were still unclear, it is expected to include limited wage and pension cuts.

A number of important laws have been adopted in the summer. Amendments to the Labour law addressed some of the labour market rigidities and steps were taken to resolve shortcomings in bankruptcy legislation. A new privatisation law was enacted in August, setting the end of 2015 as a deadline for completing the privatisation process. Amendments to the pension and disability insurance law introduced penalties for early retirement and the retirement age for women is set to gradually increase to 65 years, equalising with that for men by 2032.

## Real sector

After stagnating in the first three months, the economy contracted by 1.1% y-o-y (flash estimate) in the second quarter. On 3 October, the statistical office released revised national accounts for 1997-2013, in accordance with the ESA 2010. In comparison to the previous estimate, the nominal GDP level for 2013 increased by 7.2% and real growth was revised upwards from 2.5% to 2.6%. Methodological changes, based on the implementation of ESA 2010, explain only part of the revision, while a bigger part of it comes from enlarging the GDP coverage and the use of new statistical sources and procedures. By the time of writing this report, detailed GDP breakdown by expenditure components for the revised series and second quarter data were not yet available.

The spring floods had a clear negative impact on the economy, as evidenced by high-frequency indicators. Industrial activity, especially in sectors heavily damaged by the floods, as mining and energy, strongly deteriorated. Industrial production fell by an average of 11.8% y-o-y over the months of June-August. Manufacturing dropped as well, led by a steep decline in the production of motor vehicles. Surprisingly, retail trade turnover grew in real terms in the summer months.

## Labour market

According to the Labour Force Survey, unemployment fell from 20.8% in the first, to 20.3% in the second quarter. Despite the contracting economy, activity and employment rates increased. Almost 51 thousand new jobs were added by the private sector and another 20 thousand by the state, irrespective of measures limiting employment in the government sector. However, informal employment, i.e. the share of employed people working without a formal contract, continued to rise to 21.2% of all employed, mostly driven by the segment of unpaid family workers in agriculture, which remained the biggest sector in terms of employment.

Over the second quarter, registered unemployment fell, albeit marginally, as well. Still, by the end of July the registered unemployment rate stood very high at 31.3% and registered employment continued its decline, falling by 1.5% y-o-y in July and by an average of 1.8% since the beginning of the year. The growth in real wages, which has been volatile since January, stabilised at around zero in the last three months until August, as strong increases in air transport and IT sectors were largely offset by declines in other sectors.

## External sector

The weakening external environment and disruptions caused by the May floods have taken their toll on the exports of goods. Their growth decelerated to 1.6% y-o-y in euro terms in June and turned negative at 10.1% in July. The decline deepened to 13% y-o-y in August and was broad-based, with the exception of

consumer goods, possibly signalling the end of the vigorous exports growth, which had been supported mainly by car exports, of the last two years. Nevertheless, in the period January-July exports increased by 7.7% y-o-y, still outpacing imports, which grew by 2.5%. Weak domestic demand has continued to hold imports back, including in the segment of capital goods. As a result of deteriorating exports performance, the monthly trade deficit expanded y-o-y in June and July, after a long period of steady fall of external trade imbalances. However, in the period January-July the trade in goods deficit still declined by 9.6% y-o-y to EUR 2.2 billion.

On the back of weakened exports performance, the narrowing of the current account deficit slowed down to 12.6% y-o-y by the end of July. Despite a higher surplus in the trade in services (30% y-o-y), the expanding primary income deficit and lower secondary income surplus, due to lower worker's remittances, also contributed to the slowdown in the pace of current account adjustment. Net capital outflows continued on a small scale. However, net FDI inflows gained some ground and increased by 7.8% to EUR 657 million, covering two-thirds of the current account deficit.

### Monetary developments

Since October last year, annual inflation has remained remarkably stable, in the range 1.3% to 3.1%. It reached historically low levels this summer and since March stayed below the central bank tolerance band ( $4\pm 1.5\%$ ). Price stability was underpinned by low food prices (also internationally), weak domestic demand, delayed adjustments of administered prices, and the relative stability of the exchange rate.

Despite the benign inflationary environment, the central bank has kept its key policy rate unchanged at 8.5%, since its last cut in June. The relatively tight monetary policy stance must be seen in the context of delays in announcing additional fiscal consolidation measures, elevated uncertainty on international markets, and increased geopolitical risks. The bank has consistently voiced its expectations that additional fiscal consolidation and structural reform measures would alleviate the country's risks. Following an extended period of stability, from mid-July the dinar came under depreciation pressures. The central bank interventions to ease short-term exchange rate volatility were much more limited than in the first months of the year and by the end of September the dinar lost 2.1%

of its value against the euro. The central bank foreign exchange reserves were boosted by a USD 1 billion government loan from the United Arab Emirates (UAE), to about EUR 11 billion in August, covering more than seven months' worth of imports of goods and services.

### Financial sector

Following the introduction of a government subsidised lending programme, the decline in credit to the non-government sector decelerated to 2.0% y-o-y in August. The fall in company loans decelerated to 4.7%, while loans to households increased by 5.1%, although the pick-up in lending activity has also been influenced by valuation changes due to the dinar depreciation. Commercial banks' net claims on the government continued to expand at around 50% y-o-y, financing the bulging government deficit. The loan from the UAE boosted government deposits at the central bank, which increased to RSD 313 billion (8.4% of GDP) in August. Non-government deposits with commercial banks increased by 5.1% y-o-y, covering 87% of banks' credit to the non-government sector. Deteriorating economic activity pushed non-performing loans up, mainly in the corporate segment, to a new high of 23.0% in the second quarter.

### Fiscal developments

By the end of August, the overall deficit reached RSD 122.1 billion or 55.8% of the annual target of 5.5% of GDP. It expanded by 6% y-o-y, mainly as a result of underperforming revenue due to lower than expected growth and inflation. Nevertheless, the primary deficit fell by almost 18% y-o-y, as non-interest current expenditure remained restrained. Capital expenditure grew by 8.1%, slowly recovering from a slump in 2013.

The budget revision, announced already for June has not materialised yet. However, the Prime Minister announced a number of additional consolidation measures, including limited progressive wage and pension cuts, additional revenue from state-owned enterprises, and reduction in some subsidies, the details of which are still not available.

By end-August, government debt reached EUR 21.9 billion (about 69% of the estimated GDP), increasing by EUR 1.7 billion since the beginning of the year.

## TABLE

European Commission, ECFIN-D-1



## SERBIA

		2009	2010	2011	2012	2013	ECFIN Forecast		Q1 14	Q2 14	Q3 14	Jul 14	Aug 14	Sep 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	-12.4	3.1	2.0	-3.4	5.6	:	:	2.9	-4.8	:	-13.0	-13.1	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	-3.1	0.6	1.4	-1.0	2.6	1.1	1.9	0.1	-1.1	:	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	-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	-6.3	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	:	13.6	28.6	-14.6	-23.8	:	:	20.2	74.8	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	-11.4	-0.7	-14.6	-3.9	-5.3	:	:	1.2	1.4	:	5.3	3.0	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	16.1	19.2	23.0	23.9	22.1	22.6	22.5	20.8	20.3	:	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	-1.8	-1.7	:	-1.5	:	:
Wages <sup>2.3</sup>	Ann. % ch	1.0	7.4	11.1	9.0	5.7	:	:	0.4	1.5	:	1.8	1.9	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	-19.4	24.0	14.0	-0.7	25.5	:	:	16.3	7.4	:	-9.9	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	-31.4	9.8	14.8	1.8	4.7	:	:	1.0	3.6	:	3.6	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-16.2	-15.4	-16.0	-17.8	-12.1	-11.9	-11.4	-12.0	:	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	27.7	34.0	34.4	36.3	40.8	:	:	45.1	:	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	43.7	49.3	49.8	-53.6	-51.9	:	:	-56.0	:	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-6.2	-6.5	-8.6	-11.5	-6.1	-4.6	-4.3	-5.9	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	4.5	2.9	5.5	-2.2	-3.7	:	:	-4.3	:	:	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	:	:	10 428.3	10 125.4	:	10 123.4	10 949.0	:
Int. reserves / months imp <sup>3.9</sup>	Ratio	11.6	10.0	10.5	9.3	9.1	:	:	8.5	8.2	:	8.2	:	:
<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	2.3	1.3	:	2.1	1.5	:
Producer prices <sup>4.2</sup>	Ann. % ch	7.4	16.2	9.7	6.4	0.8	:	:	0.2	1.0	:	1.7	0.5	:
Food prices <sup>4.3</sup>	Ann. % ch	0.8	10.6	6.4	15.4	-2.5	:	:	-2.2	-4.4	:	-1.7	-0.5	:
M3 <sup>4.4</sup>	Ann. % ch	21.5	12.9	10.3	9.4	4.6	:	:	4.2	4.8	:	6.8	6.1	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	93.94	102.90	101.96	113.01	113.09	:	:	115.75	115.58	117.38	116.22	117.31	118.62
Nominal eff. exchange rate <sup>4.6</sup>	Index	89.6	79.3	81.8	74.1	74.0	:	:	73.4	73.4	:	72.9	72.0	:
<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	:	:	:	:	:	7.00	6.90	:
Bond yield (12 months) <sup>5.2</sup>	% p.a.	11.86	10.60	12.90	13.04	10.67	:	:	9.40	9.15	:	:	:	:
Stock markets <sup>5.3</sup>	Index	1 197	1 283	1 371	932	1 035	:	:	1 124	1 151	1 217	1 154	1 220	1 277
Credit growth <sup>5.4</sup>	Ann. % ch	21.4	32.3	5.5	12.9	-6.5	:	:	:	:	:	1.2	-2.8	:
Deposit growth <sup>5.5</sup>	Ann. % ch	23.6	14.4	9.2	10.4	3.3	:	:	2.9	3.3	:	5.2	5.1	:
Non-performing loans <sup>5.6</sup>	% total	15.7	16.9	19.0	18.6	21.4	:	:	22.3	23.0	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance* <sup>6.1</sup>	% of GDP	-4.2	-4.4	-4.6	-6.1	-4.7	-6.3	-5.9	-7.6	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	32.1	40.8	44.2	55.9	58.8	70.7	74.4	64.2	:	:	57.1	68.4	N.A.

f: ECFIN forecast Spring 2014

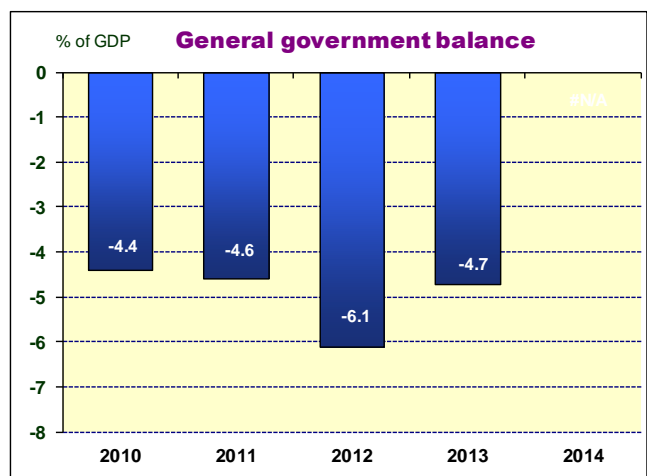
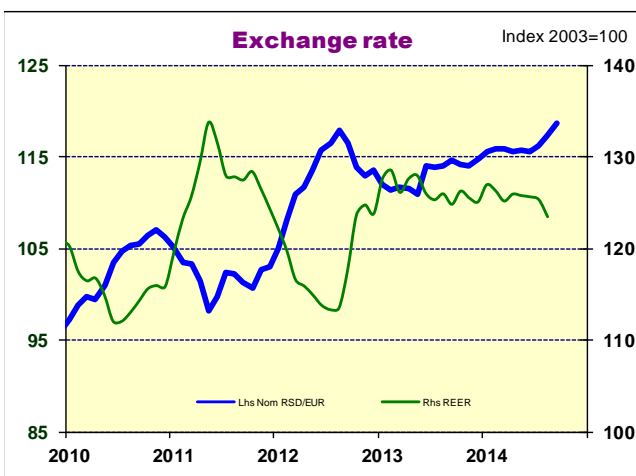
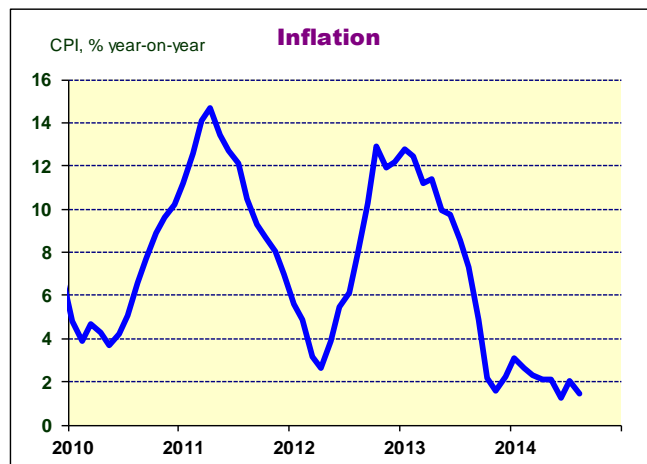
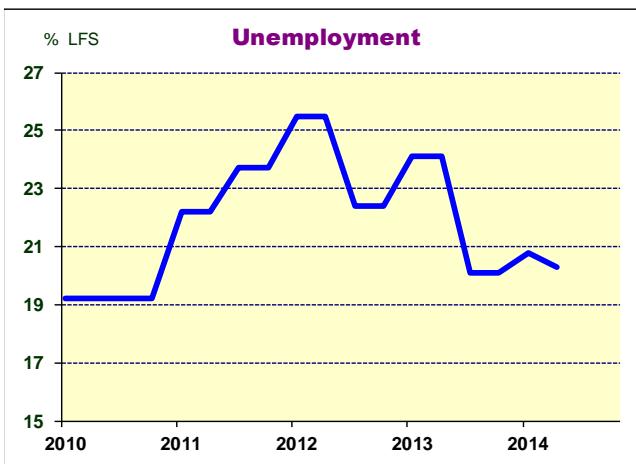
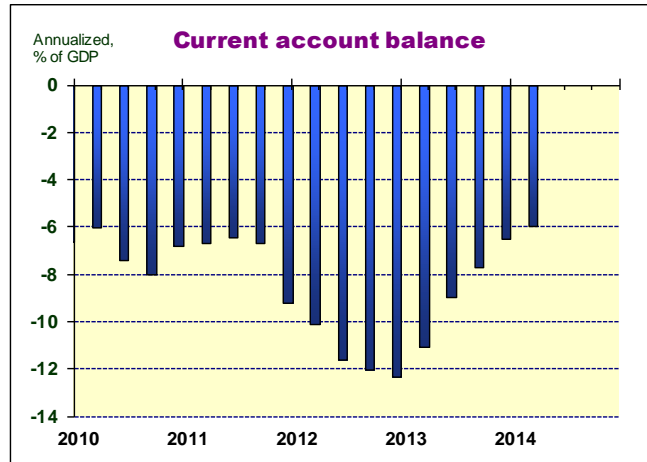
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA



## TURKEY



### Key developments

After a surprisingly strong start to the year, economic activity weakened significantly in the second quarter. The available data indicate a continuation of subdued domestic and foreign demand in the third quarter.

The central bank extended its most recent cycle of interest rate cuts into the third quarter although inflation was running far above target. The monetary easing took place amidst receding global interest in emerging market assets, rising yields for Turkish government debt, and a depreciation of the Turkish lira against the US dollar.

The armed conflict in neighbouring Iraq and Syria seems to have contributed to rising food prices and constitutes a major downside risk for the Turkish economy. Turkey's export to Iraq has fallen sharply over the summer.

### Real Sector

The Turkish economy slowed sharply to 2.1% year-on-year growth in the second quarter of 2014 from an upwardly revised growth rate of 4.7% in the first quarter. In seasonally adjusted quarter-on-quarter terms, GDP growth dropped from +1.8% in the first to -0.5% in the second quarter.

The slowdown was broad-based. Private domestic demand continued to decline on a quarter-on-quarter basis following the tightening of financial conditions and macro-prudential measures in the two preceding quarters. The weakness in private demand was now compounded by lower public spending after a sharp expansion in the first quarter. Similarly, exports turned from strong growth to mild contraction on a quarter-on-quarter basis reflecting, at least partly, some weakening of demand in major export markets and the civil war in Iraq. Finally, a shift from declining imports in the first quarter to rising imports in the second quarter contributed to the sharp drop in quarterly GDP growth.

Regarding the third quarter, the available data are relatively soft and do not indicate a recovery in private domestic demand. Certainly, industrial production increased by 1.8% month-on-month in July (seasonally and calendar adjusted) and was 3.6% higher year-on-year taking account of calendar effects (although down by 4.7% in unadjusted terms). But the capacity utilisation rate in the manufacturing industry was 0.8 percentage point lower year-on-year and 0.5 pp lower quarter-on-quarter (seasonally adjusted). The business (real sector) confidence index declined by 4.4 points quarter-on-quarter. The manufacturing PMI edged upwards from 48.8 in June to 50.4 in September, i.e. just above the threshold value of 50 which separates contraction from expansion. The level of consumer confidence fell by 2.4 points between the second and the third quarter.

The foreign trade data for July and August also reflect subdued economic activity in the third quarter. Seasonally and calendar adjusted, the levels of exports and imports were 2.6%, respectively 2.7%, lower in July and August than in the second quarter. Furthermore, GDP growth seems only to have received limited support from public demand judging from data on government spending in July and August.

### Labour market

Employment continued to increase in the second quarter as a whole, but declined on a seasonally adjusted monthly basis. The number of employed persons was 5.3% higher year-on-year, up from 4.9% in the preceding quarter. The unemployment rate continued to rise by 0.5 percentage points year-on-year to 8.9% (national definition) due to a rapidly rising labour force (6.0%). The labour force participation rate rose by 1 percentage point year-on-year to 51.1%. Wages continued to rise at a double-digit rate with the hourly labour cost index being 11.9% higher year-on-year in the second quarter.

## External sector

The current account deficit has narrowed in the first seven months of 2014, particularly as a result of rising goods exports (+6.4% year-on-year) while goods imports have declined (-6.0%). The 12-month cumulative current account deficit has gradually declined from USD 65.1 billion last December (7.9% of GDP) to USD 48.5 billion in July (6.0% of GDP). Turkey's foreign trade continues to be distorted by strong fluctuations in exports and imports of non-monetary gold. Almost half of the improvement of the current account in the current year is a result of lower imports of non-monetary gold. Net foreign direct investments (FDI) have been practically unchanged year-on-year in the first seven months. On a rolling 12-month basis, net FDI inflows amounted to 1.2% of GDP, financing one fifth of the current account deficit.

The central bank's gross foreign exchange reserves increased marginally during July and August to USD 111.3 billion (14.5% of GDP). Gross external debt increased by USD 14 billion to USD 402 billion in the course of the second quarter which corresponds to 50.5% of GDP. Turkey's negative net international investment position increased by USD 44 in the first seven months of 2014 to USD 438 at the end of July.

## Monetary developments

Headline inflation remained above 9% in July and August before receding to 8.9% in September. Strongly rising domestic food prices have contributed significantly to this year's rise in inflation as they decoupled from the international trend in the context of adverse weather conditions and the armed conflict in neighbouring Syria and Iraq. The pass-through from last year's lira depreciation has been fading in the third quarter and declining international energy prices have had a disinflationary effect. Inflation expectations, which had stabilised somewhat in the preceding quarter, resumed their upward trend. Expectations for end-of-year inflation registered 8.9% in September. This compares to the central bank's forecast of 7.6% as confirmed in its August inflation report.

In spite of the significant deviation between actual inflation and the official target rate of 5%, the central bank continued to ease monetary policy in the third quarter. In July, the main policy rate (the one-week repo rate) was lowered

from 8.75% to 8.25% and the overnight borrowing rate from 8% to 7.5%. In August, the overnight lending rate was cut from 12% to 11.25%. Although the economy minister continued to call for further interest rate cuts, the central bank did not cut interest rates in September and pledged to maintain its "tight monetary policy stance" until there is a significant improvement in the inflation outlook.

Global investor preferences shifted from emerging markets towards dollar-based assets in the third quarter, resulting in rising risk premia for Turkish assets, amongst others. This was reflected in the foreign exchange market where the Turkish lira depreciated by 6.8% against the US dollar over the quarter while it appreciated slightly against the euro (+0.7%). In real effective terms (CPI-based), the lira has depreciated by 2.3% between August 2013 and August 2014.

Year-on-year credit growth (unadjusted for the exchange rate effect) slowed from 21.5% at the end of June to 19.3% at the end of September.

## Financial sector

Against the background of the changes in global investor sentiment and rising geo-political risks, the yield on the benchmark 2-year government note increased from 8.25% to 9.87% over the quarter. Over the same period, the main stock index of the Borsa Istanbul Stock lost 4.5%, but was still up by 10.5% since the start of the year.

Following growth of 5.1% in 2013, the banking sector's net profits were 7.1% lower year-on-year in the first eight months of 2014. The share of non-performing loans in total loans has remained stable at close to 3% in the third quarter. The capital adequacy ratio of banks has increased from 15.3% at the end of December to 16.3% at the end of August.

## Fiscal developments

The central government's budget deficit has edged higher in the first eight months of 2014. Expenditures increased 10.1% year-on-year while revenues were up by 8.9%. The 12-month rolling budget deficit amounted to TL 21.4 billion in August which corresponds to 1.3% of GDP in the four quarters to mid-2014. This compares to a budget deficit of 1.2% of GDP in 2013 and a 2014 deficit target of 1.9% of GDP.

## TABLE



European Commission, ECFIN-D-1

## TURKEY

		2009	2010	2011	2012	2013	ECFIN Forecast		Q1 14	Q2 14	Q3 14	Jul 14	Aug 14	Sep 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	:	:	104.9	112.2	107.8	109.0	106.8	107.6
Industrial production <sup>1.2</sup>	Ann.%ch	-9.9	12.8	10.1	2.5	3.0	:	:	5.3	2.6	:	-4.7	:	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-4.8	9.2	8.8	2.1	4.1	2.6	3.3	4.7	2.1	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-2.3	6.7	7.7	-0.5	5.1	0.2	1.2	3.2	0.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-19.0	30.5	18.0	-2.7	4.2	1.3	3.0	-0.2	-3.5	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	-7.9	77.4	-16.2	29.0	16.4	:	:	119.4	13.9	:	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	10.1	8.9	:	:	:	:
Employment <sup>2.2</sup>	Ann.%ch	0.1	6.0	6.3	3.1	2.8	2.0	2.7	4.9	5.3	:	:	:	:
Wages <sup>2.3</sup>	Ann.%ch	9.9	11.8	9.7	11.5	12.4	7.8	8.1	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	:	:	8.5	4.8	:	2.4	2.9	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-30.2	31.7	29.8	-1.8	6.4	:	:	-2.2	-7.1	:	-13.5	7.0	:
Trade balance* <sup>3.3</sup>	% of GDP	-4.0	-7.7	-11.5	-8.3	-9.7	-8.3	-6.3	-9.3	-8.6	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	23.3	21.2	24.0	26.3	25.6	:	:	26.7	27.3	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	24.4	26.8	32.6	31.5	32.2	:	:	32.6	32.6	:	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	-7.5	-6.5	:	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	:	:	1.3	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	:	:	102.5	109.8	:	111.0	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	9.1	7.1	5.8	6.8	6.8	:	:	6.6	7.3	:	7.5	:	:
<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	8.0	9.4	9.2	9.3	9.5	8.9
Producer prices <sup>4.2</sup>	Ann.%ch	1.2	8.5	11.1	6.1	4.5	:	:	11.8	11.3	9.7	9.5	9.9	9.8
Food prices <sup>4.3</sup>	Ann.%ch	8.0	10.6	6.2	8.4	9.1	:	:	10.3	13.2	13.6	12.6	14.4	13.9
M4 <sup>4.4</sup>	Ann.%ch	17.6	15.2	19.6	8.6	19.1	:	:	21.4	17.4	:	16.4	12.6	:
Exchange rate TRY/EUR <sup>4.5</sup>	Value	2.16	1.99	2.33	2.31	2.53	:	:	3.04	2.90	2.87	2.88	2.88	2.85
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	:	:	10.66	10.06	8.89	8.62	8.86	9.18
Interest rate, long term <sup>5.2</sup>	%p.a.	17.20	14.99	14.19	16.03	15.31	:	:	16.00	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	37 518	59 484	60 751	63 731	77 977	:	:	64 722	76 054	79 371	80 535	79 242	78 334
Credit growth <sup>5.4</sup>	Ann.%ch	9.7	40.8	35.2	18.6	33.4	:	:	33.1	23.0	:	21.2	20.9	:
Deposit growth <sup>5.5</sup>	Ann.%ch	18.3	16.6	20.3	10.8	20.4	:	:	24.2	18.9	15.6	16.8	16.1	14.0
Non-performing loans <sup>5.6</sup>	%total	6.0	5.4	3.4	3.0	3.0	:	:	2.9	3.0	3.0	2.9	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.

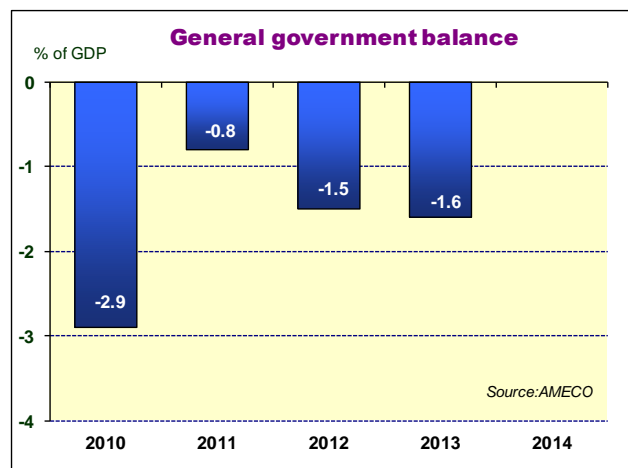
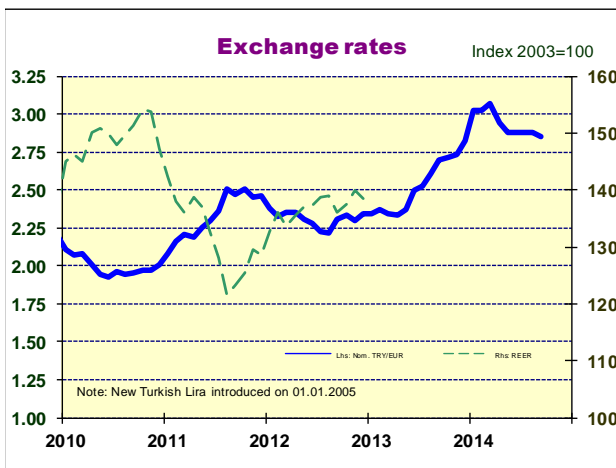
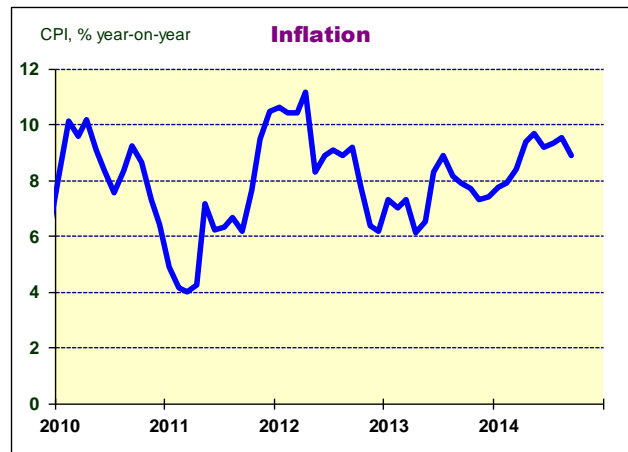
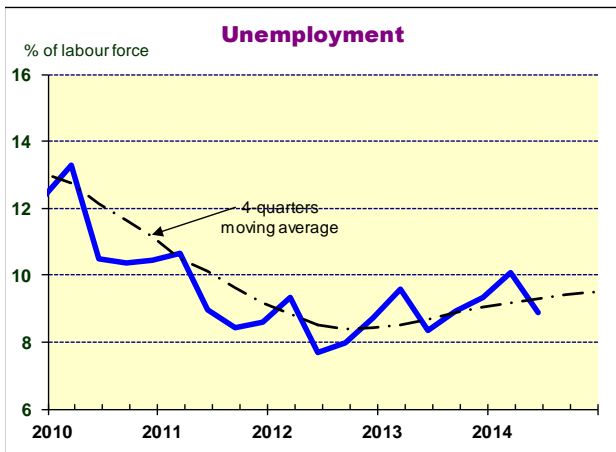
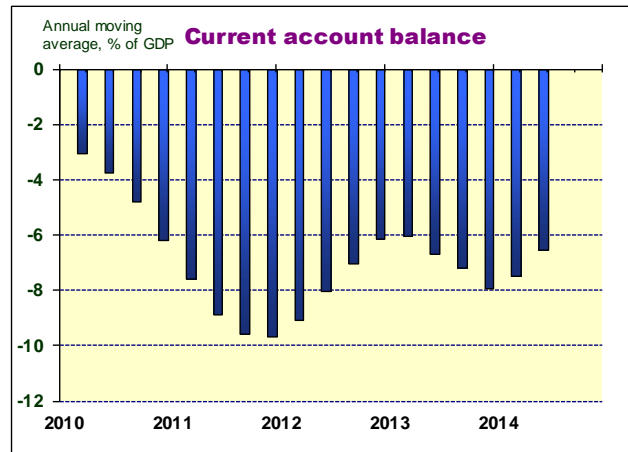


## CHARTS



European Commission, ECFIN-D-1

### TURKEY





## Key developments

On 16 July, with a view to providing emergency financial assistance to Bosnia and Herzegovina and Serbia following the heavy spring floods, a Donors' Conference in Brussels mobilised pledges for Bosnia and Herzegovina in the amount of EUR 809.2 million.

On 17 July, the Fiscal Council of Bosnia and Herzegovina adopted the Global framework of fiscal balance and policies 2015-2017, which foresees that the revenues from indirect taxes for the Institutions of Bosnia and Herzegovina in 2015 remain at KM 750 million, unchanged from the approved 2014 budget.

The heavy spring floods caused revisions of the budgets of the two entities and the Institutions of Bosnia and Herzegovina in July 2014 with a view to providing emergency financing for the flooded areas.

In September, the disbursement of a tranche following the eighth review under the IMF Stand-By Arrangement with Bosnia and Herzegovina adopted in September 2012, has been postponed as agreed measures to rein in public spending not related to the floods and to strengthen financial sector stability and banking supervision were not timely adopted.

## Real sector

The economic recovery, which started in 2013 continued in the first quarter of 2014 with a GDP growth to 2.7% y-o-y. However, the trend of a positive growth reversed in April/May 2014 partly as a result of the heavy spring floods. High-frequency indicators for April-June 2014 pointed towards a decline of economic activity with country-wide industrial production down by 3.2% y-o-y. It fell further by 5% y-o-y in August after a temporary pick-up in July (+4.1% y-o-y). In particular, the mining and quarrying sector as well as the utility sector registered the largest output contraction y-o-y, 8.6% and 4.2%, respectively, while the manufacturing sector posted the largest output increase (5.2%).

The slump of domestic demand in the second quarter of 2014 seems to have started to reverse in July-August with the growth of retail sales

speeding up to 2% y-o-y on average, however still well below the expansion by 4.8% in 2013.

## Labour market

Despite the overall deterioration of the economy in the second quarter, the situation on the labour market remained broadly unchanged with the unemployment rate staying at 43.9% in July. In line with this, according to preliminary results of the annual Labour Force Survey conducted in April, unemployment stood at 27.5% in 2014 unchanged from last year. On a negative note, unemployment among young population, aged between 15 and 24, remains the highest, increasing to 62.7%, up from 59.1% a year earlier. The level of total employment increased on average by 2.5% y-o-y in the second quarter and through July. This was mainly due to stronger employment in the agriculture and manufacturing sectors, while employment in the public sector posted a small decrease.

The difficult labour market situation is also reflected in low wage dynamics. Nominal gross wage temporarily slipped into negative territory in the second quarter of 2014 and stagnated afterwards, while a slight increase of net wages by 0.9% y-o-y in the period April-July took place.

## External sector

The trend toward a widening of the current account deficit started in the first quarter of 2014 and continued in April-June, when the deficit increased by 40.5% y-o-y to EUR 246 million. In terms of GDP, the current account deficit deteriorated somewhat to 6.9% in the four quarters to June, up from 5.5% of GDP in 2013.

In particular, merchandise exports stagnated in April-August, mainly on the back of lower exports of mineral products and base metals industries. At the same time, the growth of imports accelerated to 4.8% y-o-y. Accordingly, the trade deficit widened further by 13% y-o-y in the second quarter (compared to a 6.4% y-o-y increase in the first quarter of 2014) and the corresponding effect of the surplus of the balance of services decreased by 8.1% y-o-y.

Net FDI inflows recorded a 10.2% y-o-y increase in the second quarter, however, they were still lower by 7.4% y-o-y in January to June. As a result, over the four quarters to June 2014, net FDI came down to 1.7% of GDP from 1.9% in 2013 and only covered nearly one fourth of the current account deficit. On a positive note, foreign exchange reserves increased by 10.5% y-o-y in the second quarter and by some 13.5% in July, thus covering almost 6 months of imports.

### Monetary developments

The deflationary trend that started in August 2013 continued in 2014, although decelerating its pace in April- August 2014. Thus, annual CPI in August stood at -0.6% bringing the 12-month moving average inflation rate to -1.2% partly due to the continuously falling prices in the food and clothing industries and despite the increase in prices of alcoholic beverages and tobacco.

In the context of an enduring deflationary period and on the back of the steady growth of deposits, liquidity conditions have remained rather accommodative. Following a slight deceleration to 7.1% y-o-y in the second quarter, the pace of expansion of the monetary aggregate M2, sped up again in July 2014 to 7.9% y-o-y.

### Financial sector

Annual loan growth accelerated in the first seven months of 2014, picking up to 3.7% y-o-y in April-July, mainly due to credit to the household sector which accounts for roughly 44% of total outstanding loans.

Accordingly, commercial banks claims to the household sector edged up by 6.2% y-o-y, while lending to non-financial companies remained subdued increasing only by 1.4% y-o-y. At the same time, banks have somewhat increased their exposure to the public sector with the growth of these claims being above average at 8.2% y-o-y in July.

Total deposit growth accelerated to 8.3% y-o-y in April-July 2014, up from 7.9% in the first quarter and banks have used the extra liquidity to reduce their foreign liabilities. Private households increased their savings by 8.3%, while the rise in deposits from the non-financial corporate sector rose by 13.8%. As a consequence, the downward adjustment of the

loans-to-deposits ratio further continued to 111.8% in July from 115% in the first quarter.

The impact of the heavy May floods started to impact on the quality of the loan portfolio, albeit still marginally, as the share of non-performing loans to total loans increased to 15.5% in the second quarter from 14.9% in the previous quarter.

The banking sector profitability improved on quarterly basis with the return on average equity edging up markedly from 2.3% in the first to 3.5% in the second quarter. In the meantime, liquidity indicators improved slightly with the rate of liquid to total assets increasing to 24.7%. The banking system remains well-capitalised with the capital adequacy ratio staying at a comfortable level of 17.3% in the second quarter of 2014.

The downward correction of the stock market indices in Bosnia and Herzegovina continued in July-September 2014. The main index on the Banja Luka Stock exchange lost 6% while the main index of the Sarajevo Stock Exchange plummeted by 8.6%. The combined stock market capitalization decreased marginally to 33.5% of GDP and the government bonds and bills accounted for around 75 % of the total market capitalization.

### Fiscal developments

Although the rebound of economic activity was still felt in public finances in the first quarter of 2014, the heavy floods in May triggered an increase of fiscal imbalances in the second quarter. The revenues remained broadly unchanged as a slight increase of social contributions on annual basis was balanced off by a decline of taxes. This was, however, coupled with a slight rise of current spending (e.g. on social contributions and wages) so as the consolidated expenditures edged up by 4.2% on annual basis. Nonetheless, the consolidated budget in the second quarter still remained in surplus amounting to 0.3% of the full-year GDP.

In the second quarter of 2014, the official foreign debt declined by 1.2% on quarterly basis after an increase by 2.7% y-o-y in January-March. Thus, it remained broadly unchanged at 28.7% of GDP, from 28.2% of GDP as of end-2013.

## TABLE

European Commission, ECFIN-D-1



## BOSNIA AND HERZEGOVINA

		2009	2010	2011	2012	2013	Q1 14	Q2 14	Q3 14	Jul 14	Aug 14	Sep 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	1.9	-3.2	:	4.1	-5.0	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-2.7	0.8	1.0	-1.2	2.1	2.7	:	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	1.8	0.9	1.6	2.2	2.9	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	-16.8	-12.2	7.9	5.2	-2.6	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	12.5	29.4	-24.4	1.3	-25.8	-8.0	-9.8	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	N.A.	8.2	11.2	1.6	4.6	1.6	-1.1	:	3.2	0.8	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	42.7	42.7	43.8	45.9	44.5	44.1	43.8	:	43.9	:	:
Employment <sup>2.2</sup>	Ann. %ch	-2.8	1.9	-1.6	-0.4	0.6	2.3	2.1	:	2.3	:	:
Wages <sup>2.3</sup>	Ann. %ch	8.2	1.1	4.4	1.5	0.1	0.6	-0.2	:	0.3	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. %ch	-5.1	33.5	20.2	-1.8	8.8	24.3	-1.9	:	5.9	0.8	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-21.8	8.3	13.2	0.0	-1.5	18.5	6.7	:	7.1	7.0	:
Trade balance* <sup>3.3</sup>	%of GDP	-32.6	-31.4	-33.2	-33.6	-30.5	-31.3	:	:	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	32.1	:	:	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	54.8	:	:	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	-5.8	:	:	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	1.7	:	:	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	3 555.4	3 652.6	:	3 819.4	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.0	5.7	5.0	5.1	5.6	6.2	6.0	:	5.7	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. %ch	-0.4	2.1	3.7	2.0	-0.1	-1.7	-1.4	:	-1.0	-0.6	:
Producer prices <sup>4.2</sup>	Ann. %ch	-3.2	0.9	3.8	1.3	-2.2	-1.3	-0.6	:	-0.2	0.1	:
Food prices <sup>4.3</sup>	Ann. %ch	-0.9	-0.7	6.0	1.8	0.0	-4.3	-3.9	:	-2.5	-1.8	:
M2 <sup>4.4</sup>	Ann. %ch	-1.6	7.8	5.6	4.6	5.7	7.9	7.1	:	7.9	:	:
Exchange rate BAMEUR <sup>4.5</sup>	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate <sup>4.6</sup>	Index	104.2	103.73	104.60	:	106.60	:	:	:	:	:	:
<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	719	709	701	705	705	692
Credit growth <sup>5.4</sup>	Ann. %ch	5.4	-0.9	5.6	5.2	2.5	3.6	3.7	:	3.9	:	:
Deposit growth <sup>5.5</sup>	Ann. %ch	-4.0	4.7	2.6	2.6	5.1	7.9	7.7	:	10.1	:	:
Non performing loans <sup>5.6</sup>	%total	4.5	9.1	12.0	12.7	14.5	14.9	15.5	:	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	1.3	:	:	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**	28.7**	:	:	N.A.	N.A.	N.A.

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

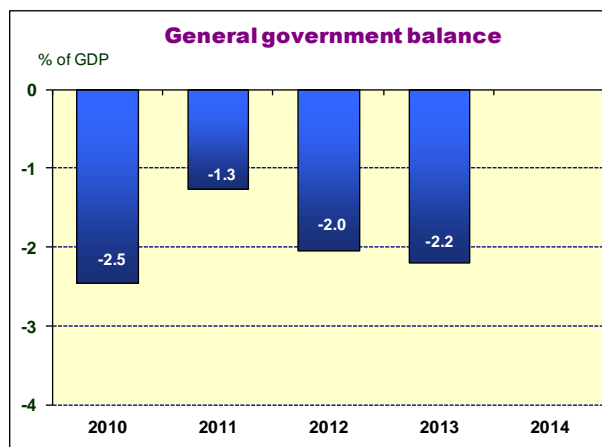
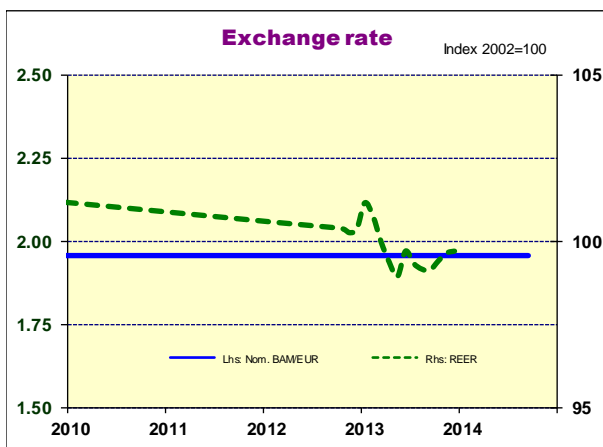
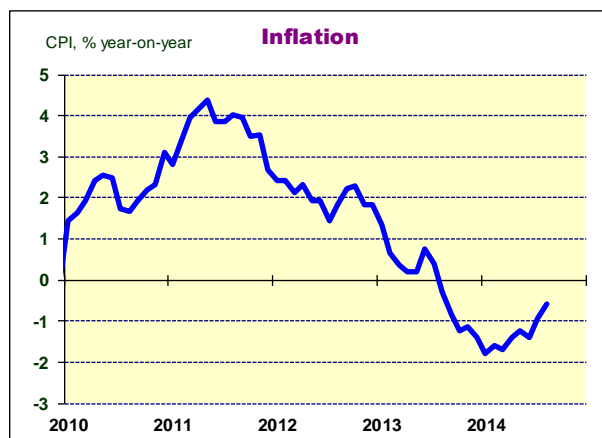
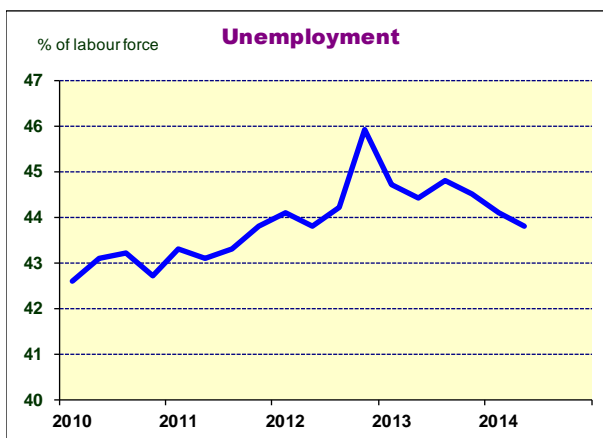
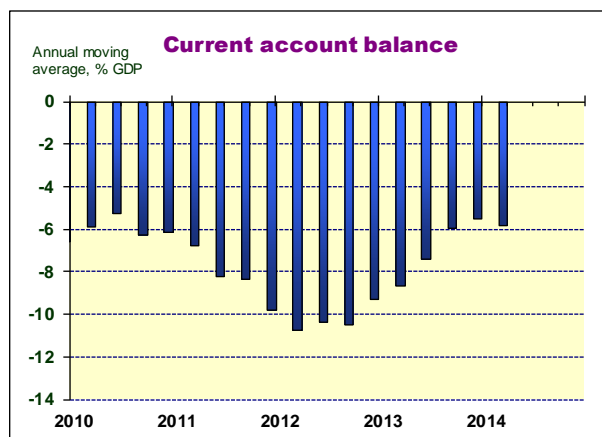
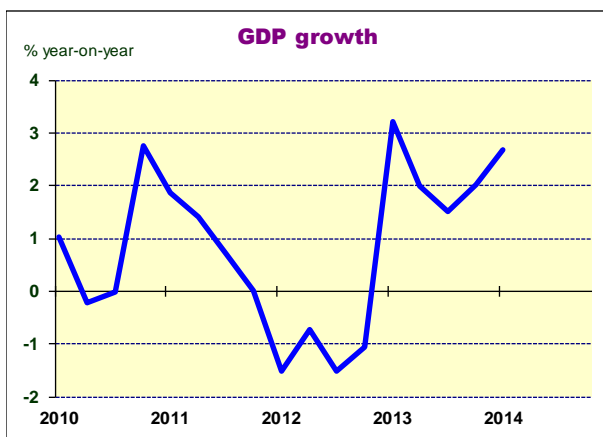
\*\* Refers only to foreign public debt.

# 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

The Stabilisation and Association Agreement between the EU and Kosovo was initialled on July 25<sup>th</sup>. The exact date of signing has not yet been announced

Following June elections, Kosovo remains in a political deadlock. An opposition coalition consisting of Democratic League of Kosovo, Alliance for the Future of Kosovo, Civic Initiative for Kosovo, and Vetëvendosje, was not able to form a new government. The election of their candidate for the new assembly speaker was overturned by the constitutional court. Following two attempts to elect the assembly speaker failed despite attempts of the president Jahjaga to mediate between opposed parties.

On September 16<sup>th</sup> one of the international judges of the Constitutional Court resigned out of personal reasons leaving the Court without a quorum, adding to the political uncertainty.

In June, an explosion at the highly polluting Kosovo A thermo power plant led to a temporary shutdown of its operations causing damages estimated at EUR 60 million, and additional uncertainty in electricity supply. On September 25<sup>th</sup> Kosovo Electricity Corporation filed for state subsidies for repairs of the damaged block and threatened blackouts if funds were not provided.

## Real sector

According to the official data, economic growth accelerated in 2013 to 3.4% driven by private consumption and marginal improvements in net exports. Net exports were driven primarily by reduction in imports owing to the import substitution and a still subdued domestic demand.

Growth in 2014 will be driven by increased private consumption owing to public wage and pension increases. Public investments are delayed amid the political deadlock and new credit loans to private enterprises show a rising share of overdrafts, liquidity bridging and other short term loans which usually are not used for capital investments. Hence, private investments contribution to growth is likely to be subdued.

Net exports contribution will be marginal at best given that both exports and imports are expanding but with negative overall contribution to the trade balance. Both EBRD and Central Bank of Kosovo predict growth of 3.5%.

At the beginning of July, preparatory works on the new highway connecting Pristina to Skopje were started. The 60 km highway, costing around 12% of country's GDP, is expected to contribute to improved trade and boost economic growth.

The deadline of the tender for the construction of the new 600MW Kosova e Re Thermal Power Plant, which is supposed to replace the outdated Kosovo A, was extended in July until mid-September. However, even if the tender nominates a winner, the lack of political unity in the country might stall the project

## Labour market

Labour market conditions remain precarious. According to the Labour Force Survey for 2013 the slightly decreasing unemployment rate stood at 30%, still among the highest in Europe. Labour force participation rate increased by 3.6 percentage points to 40.5%, still lowest in Europe. The labour market remains characterized by a high share of employment in the general government sector and in state owned enterprises (45.1%). The employment rate among women (12.9%) is especially worrisome.

The number of registered unemployed increased by 1.5% by June 2014, compared to the end of 2013, and stood at 272,096.

## External sector

In the first eight months of 2014 exports rose by 4.5%, compared to the same period a year ago, owing to the 5.9% rise in exports of manufactured goods. Imports edged up 1.8% driven by the increase in imports of miscellaneous manufactured articles (8.2%), and food and live animals respectively (7.3%). Crude materials, mineral fuels and manufactured goods all recorded declines in imports indicating the lack of government investments and possibly hinting of some import substitution by domestic production. In the first eight months of 2014, the

trade deficit increased by 1.5%

### Monetary developments

Rapid growth in broad money, induced by one off increases in deposits of the pension funds at the central bank in 2013, slowed down to 10.6% (y-o-y) by the end of August. The growth of net foreign assets slowed to 3.3% (y-o-y), while net domestic assets continued growing strongly at 36.7%, due to government's increased domestic borrowing.

Consumer price inflation picked up in August, reaching 1% (y-o-y), compared to 0.5% in May 2014. The increase in inflation was partially influenced by one-off increase in electricity prices of 5% in July. Food prices continue to stagnate, rising only 0.1% y-o-y. Inflation is likely to accelerate given that the second 5% increase in electricity prices was approved in September. Given across the board falling import commodity prices in Q2, it comes as no surprise that core inflation remained at its lowest level (0.3%) since 2012.

### Financial sector

In the first eight months of 2014, new loans extended by the commercial banks rose by 36.4% (y-o-y) and stood at EUR 646.4 million. The remarkable increase in new investment loans to nonfinancial corporations (76%) was the main driver of this expansion. In the same period, mortgage loans and non-investment loans to non-financial corporations increased by 18% and 25%, respectively. Newly approved overdraft loans for non-financial corporations rose by EUR 110 million.

The growth of total loans and lease financing stood at 3.2% (y-o-y) in August, 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%) were provided to the wholesale and retail trade sectors. The share of loans extended to the manufacturing sector increased by 1.2 percentage points (to 12%), while the share of construction decreased by 0.9 percentage points (to 8.9%) in comparison to the end of 2013.

Total deposits in commercial banks continued to grow steadily (6% y-o-y) and the share of households' deposits in total deposits stood at 72.9% in August. Thus loans to deposit ration remained stable at 73.5 indicating stable liquidity position and substantial room for stronger financial intermediation.

Since the beginning of the year, the effective

interest rate on loans decreased by 32bp to 10.75% in August while the effective interest rate on deposits decreased by 150bp to 0.89%. Thus, the interest rate spread widened to 9.86%.

The risk profile of the banking sector remained satisfactory in August. The ratio of liquid assets and short-term liabilities stood at 46.8%, while capital adequacy ratio was 18.1, far above the regulatory requirement of 12%. NPLs were on a downward trend in the first eight months of 2014 and reached 8.3%, fully covered by loan loss provisions (116.8%).

In January-August, net profits of the commercial banks increased by 87% (y-o-y) and reached EUR 150 million, driven by declining interest rates paid on deposits and lower provisioning for NPLs. Returns on equity thus rose to 21.1%.

### Fiscal developments

Budget execution in the first eight months of 2014 was characterized by underperformance of both revenue and expenditure. Total revenue execution was 58.3% of the planned amount. Border revenue alone underperformed by EUR 112.7 million owing to weaker-than-planned import growth. On the expenditure side, only 35.9% of the planned capital expenditures were executed owing to delays in large government investments. By the end of August, the government deficit amounted to EUR 32 million (0.6% of GDP).

To fund the deficit the government issued domestic treasury bills in the amount of EUR 68 million, part of which was used to increase government deposits by EUR 41 million.

The fiscal rule adopted in 2013, which limits the total government deficit at 2% of GDP, is likely to be met, despite significant ad-hoc increases of public wages and pensions by 25% in April. These increases were partly compensated with appropriated wage contingencies (EUR 40 million), one-off cuts in goods and services spending and repayment of arrears by the publicly owned enterprises (EUR 18 million). However, the ad-hoc increase in current spending came also at the cost of a significant under-execution of capital spending. Moreover, wage and pension increases will entail risks for the 2015, when appropriations for the full year effect will have to be made.

Total government debt increased to 9.8 of GDP by August, from 8.9% at the end of 2013. The increase was driven by domestic treasury bills issuance, the stock of which reached 41% of total debt, compared to 32% at the end of 2013.

## TABLE

European Commission, ECFIN-D-1

### KOSOVO\*

		2009	2010	2011	2012	2013	Q1 14	Q2 14	Q3 14	Jul 14	Aug 14	Sep 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	3.6	3.3	4.4	2.8	3.4	:	:	:	:	:	:
Private consumption <sup>1.4</sup>	Ann. % ch	2.3	3.5	3.5	2.9	2.0	:	:	:	:	:	:
Investment <sup>1.5</sup>	Ann. % ch	10.9	10.9	7.8	-12.9	-0.3	:	:	:	:	:	:
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	45.4	:	44.8	30.9	30.0	:	:	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	8.7	:	:	:	3.8	:	:	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	-13.6	-13.1	-1.3	-3.0	-5.5	:	:	:	:	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	-18.2	72.1	6.5	-11.7	6.3	-5.2	:	:	25.5	42.3	:
Imports of goods <sup>3.2</sup>	Ann. % ch	2.0	12.5	15.9	-1.0	-2.7	-0.3	:	:	3.6	-89.4	:
Trade balance** <sup>3.3</sup>	% of GDP	-40.6	-39.8	-42.8	-41.0	-37.4	-35.8	:	:	N.A.	N.A.	N.A.
Exports goods and services** <sup>3.4</sup>	% of GDP	17.1	19.9	19.6	18.2	17.4	16.9	:	:	N.A.	N.A.	N.A.
Imports goods and services** <sup>3.5</sup>	% of GDP	-52.0	-55.5	-56.8	-52.4	-49.0	-47.1	:	:	N.A.	N.A.	N.A.
Current account balance** <sup>3.6</sup>	% of GDP	-9.2	-11.7	-13.7	-7.5	-6.4	-6.5	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)** <sup>3.7</sup>	% of GDP	6.9	7.5	7.9	4.2	4.5	4.1	:	:	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	1 614.2	1 549.5	:	1 438.0	1 501.7	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	7.4	6.9	6.2	7.0	7.9	7.9	7.6	:	7.0	8.0	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	-2.4	3.5	7.3	2.5	1.8	0.2	0.4	:	0.8	1.0	:
Producer prices <sup>4.2</sup>	Ann. % ch	3.8	4.7	5.7	1.7	2.5	-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	-1.5	-0.9	:	-0.2	0.2	:
Broad money liabilities <sup>4.4</sup>	Ann. % ch	11.2	12.9	8.8	7.1	17.3	17.6	19.7	:	14.5	11.3	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) <sup>4.6</sup>	Index	101.6	102.2	106.4	106.1	106.5	107.8	106.30	N.A.	106.50	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	:	:	:	10.90	10.26	:
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	8.9	13.2	16.4	3.8	2.4	2.4	3.5	:	3.2	3.2	:
Deposit growth <sup>5.5</sup>	Ann. % ch	20.8	11.0	8.6	8.3	7.5	7.1	10.0	:	9.0	6.0	:
Non-performing loans <sup>5.6</sup>	% total	N.A.	5.9	5.7	7.5	8.7	8.6	8.20	N.A.	8.20	8.30	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	N.A.	5.9	5.3	8.1	8.9	9.1	10.0	:	N.A.	9.7	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.

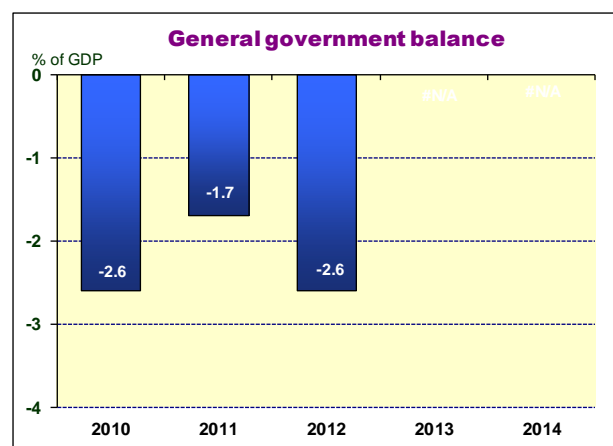
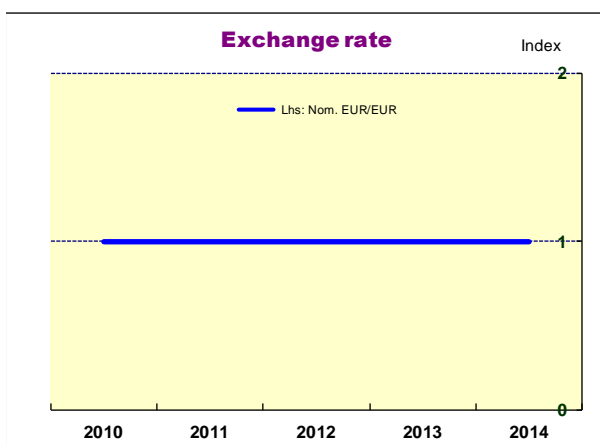
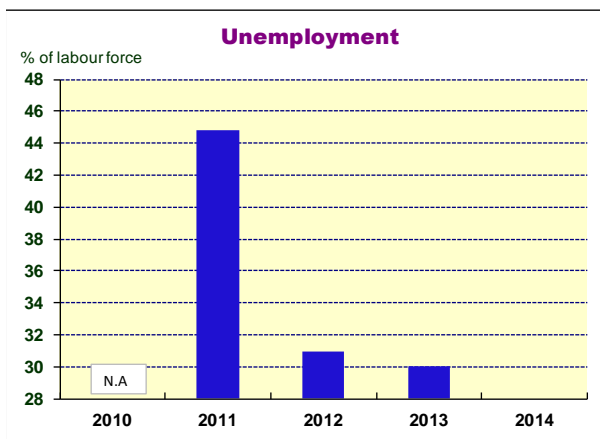
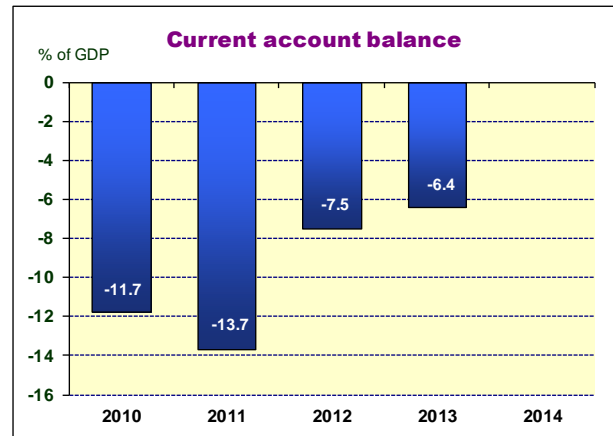
\*\* Q figures refer to a 4 quarters moving average.



# 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

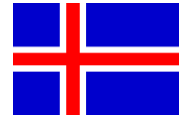


No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	IHS/DataInsight
1.2.	Industrial production	Annual percentage change, total, constant prices	IHS/DataInsight
1.3.	Gross domestic product	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.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force. 2013 onwards LFS.	IHS/DataInsight
2.2.	Employment	Annual percentage change. 2013 onwards LFS.	IHS/DataInsight
2.3.	Wages	Average monthly wages in State sector	IHS/DataInsight
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio. EUR. Break in series in 2013 due to switch to BPM6 classification.	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR. . Break in series in 2013 due to switch to BPM6 classification.	IHS/DataInsight
3.3.	Trade balance	In percent of GDP. 2013 onwards new Trade methodology.	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP. Annual data. 2013 onwards new Trade methodology.	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP. Annual data. 2013 onwards new Trade methodology.	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, including official transfers. 2013 onwards new Trade methodology.	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.</b>	<b>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.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	IHS/DataInsight
5.2.	Bond yield	Government Benchmarks, 2 Year Bond, Yield	IHS/DataInsight
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, total	IHS/DataInsight
5.6.	Non-performing loans	Credit Portfolio Quality, NPLs %	IHS/DataInsight
<b>6.</b>	<b>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.</b>	<b>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. 2013 onwards = ESA 2010.	IHS/DataInsight
1.4.	Private consumption	Real Final Consumption, Households including NPISH's, Growth Rate (2005), NSA. 2013 onwards = ESA 2010.	IHS/DataInsight
1.5.	Gross fixed capital formation	Real Gross Capital Formation, Growth Rate (2005), NSA. 2013 onwards = ESA 2010.	IHS/DataInsight
1.6.	Construction	Value Added, Economic Activity, Current Prices, MKD. 2013 onwards = ESA 2010.	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.</b>	<b>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.</b>	<b>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.</b>	<b>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.</b>	<b>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.</b>	<b>Fiscal developments</b>		

6.1.	Central government balance	In percent of GDP	MoF
6.2.	General government debt	In percent of GDP	MoF



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial outlook	Not available	
1.2.	Industrial production	Annual percentage change, aluminium, total, ton	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. 2013 onwards = ESA 2010.	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. 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. ESA 2010.	IHS/DataInsight
1.4.	Private consumption	Not available	National data
1.5.	Gross fixed capital formation	Not available	National data
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. 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. 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. 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. 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. Fiscal developments</b>			
6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	Min. of Finance
6.2.	General government debt	Public sector debt. In percent of GDP	Min. of Finance



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





No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, CPPY=100	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change	IHS/DataInsight
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	IHS/DataInsight
1.7.	Retail sales	Total sale, index CPPY=100, weighted average Federation of Bosnia and Herzegovina 65% Serb Republic 35%	IHS/DataInsight
<b>2. Labour market</b>			
2.1.	Unemployment	Registered, in percent of total labour force	IHS/DataInsight, NSO
2.2.	Employment	Registered, annual percentage change. New methodology as per Dec 2012 – data not fully comparable.	IHS/DataInsight
2.3.	Wages	Annual percentage change, average gross wages, BAM	IHS/DataInsight
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised data	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4. Monetary developments</b>			
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	IHS/DataInsight
4.2.	Producer prices	Domestic, total, index CPPY=100	IHS/DataInsight
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100,	IHS/DataInsight
4.4.	M2	Annual percentage change, M2 (broadest money)	IHS/DataInsight
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Index (2002 Apr=100); 9 Trade partners selected in order to set up the index (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	IHS/DataInsight
<b>5. Financial indicators</b>			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, loans, total, BAM, End of period	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM, End of period	IHS/DataInsight
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	IHS/DataInsight
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP, consolidated budget, net lending	IHS/DataInsight
6.2.	General government debt	In percent of GDP, external public debt	IHS/DataInsight

No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Not available.	
1.2.	Industrial production	Not available.	
1.3.	Gross domestic product	Annual percentage change.	Statistical Office of Kosovo (SOK)
1.4.	Private consumption	Annual percentage change.	SOK
1.5.	Gross capital formation	Annual percentage change.	SOK
1.6.	Construction index	Not available.	
1.7.	Retail sales	Not available.	
<b>2</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force.	SOK
2.2.	Employment	Annual pc change of number of employees (Tax Register).	SOK
2.3.	Wages	Annual pc change, average monthly wages (Tax Register).	SOK
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change. Y and Q BoP-data, M Trade data.	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change. Y and Q BoP-data, M Trade data.	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.

## HOW TO OBTAIN EU PUBLICATIONS

### Free publications:

- one copy:  
via EU Bookshop (<http://bookshop.europa.eu>);
- more than one copy or posters/maps:  
from the European Union's representations ([http://ec.europa.eu/represent\\_en.htm](http://ec.europa.eu/represent_en.htm));  
from the delegations in non-EU countries ([http://eeas.europa.eu/delegations/index\\_en.htm](http://eeas.europa.eu/delegations/index_en.htm));  
by contacting the Europe Direct service ([http://europa.eu/europedirect/index\\_en.htm](http://europa.eu/europedirect/index_en.htm)) or  
calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (\*).

(\*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

### Priced publications:

- via EU Bookshop (<http://bookshop.europa.eu>).

### Priced subscriptions:

- via one of the sales agents of the Publications Office of the European Union ([http://publications.europa.eu/others/agents/index\\_en.htm](http://publications.europa.eu/others/agents/index_en.htm)).



■ Publications Office