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European Commission

Directorate-General for Economic and Financial Affairs

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

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

OVERVIEW

Growth performance in the *Western Balkans* continued to be rather heterogeneous during the third and fourth quarter of 2014. The economies of *Albania*, *Bosnia and Herzegovina* and *Montenegro* strengthened somewhat, as retail sales and industrial production picked up, the construction sector gained pace (this was the case in *Albania*) and the tourism sector moderately expanded despite unfavourable weather conditions (in *Montenegro*). However, the recovery remains fragile in all three countries, exemplified by a rather volatile industrial production. Indeed, industrial output recorded again negative growth rates as late as in November in *Bosnia and Herzegovina* and, to a lesser extent, in *Montenegro*. The economic situation is clearly worse in Serbia and still impacted by the fallout of the heavy spring floods. The recession deepened significantly with output losses accelerating to 3.6% year-on-year in the third quarter. In contrast to its peers in the region, the economy of the *former Yugoslav Republic of Macedonia* continued to expand at a rather robust pace, although annual GDP growth slowed somewhat from 4.4% in the second to 4.1% in the third quarter, largely reflecting weaker private consumption growth. The economy benefits from strong and accelerating capital formation, driven by large public infrastructure projects as well as an expanding manufacturing sector in the free technological zones. In *Kosovo*, few available indicators as well as anecdotal evidence point to a mild economic slowdown from the 3.4% growth recorded in 2013 and 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 earlier in the year.

Economic activity in *Iceland* slowed down markedly in the third quarter, as private consumption growth weakened. Output fell by 0.2% year-on-year despite a strong acceleration of investment growth.

Economic growth in *Turkey* slowed to 1.7% year-on-year in the third quarter of 2014 from 2.2% in the second quarter. Annual

growth was driven by strong net exports and government spending, while private consumption remained weak and investment spending unchanged. High frequency indicators point to little, if any, GDP growth in the fourth compared to the third quarter.

Labour market conditions in the *Western Balkan* region remained 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 third quarter saw a reduction of the unemployment rates (LFS) in most economies. Surprisingly, the drop was particularly pronounced in the case of recession-hit Serbia where the unemployment rate declined by 2.7 percentage points compared to the second quarter (and by 2.5 percentage points on an annual basis) to 17.6%. The jobless rate fell only marginally, by less than 0.5 percentage points, in *Albania* (to 17.4%) and in the *former Yugoslav Republic of Macedonia* (to 27.9%). *Bosnia and Herzegovina* and *Kosovo* report among the highest unemployment rates in the region. According to latest available data, they stood at 27.5% and 30%, respectively. Net job creation was positive in all countries of the region. In *Albania*, the non-agricultural private sector recorded the highest increases in employment, but agriculture still accounts for half of all jobs in the economy. Gains in employment in the *former Yugoslav Republic of Macedonia* again benefited from a particularly strong job growth in industry (8.6% year-on-year), reflecting the strong recovery of the manufacturing sector in the technological zones.

The benign labour market conditions continued to improve in *Iceland*, where the unemployment rate further fell to 4% in the third quarter. However, the pace of job creation has somewhat slowed (to 1.4% year-on-year), compared to the previous quarter and the year before.

In *Turkey*, the number of employed persons was 5% higher year-on-year, but the unemployment rate continued to rise, by 1.2 percentage points, to 10.1% due to a rapidly rising labour force.

Significant external imbalances remain a key challenge in most *Western Balkan* countries. In all economies, current account deficits widened in the third quarter, primarily on account of sharply

falling merchandise exports (*Albania, Serbia*), accelerating import growth (*Bosnia and Herzegovina, Kosovo, and the former Yugoslav Republic of Macedonia*), higher primary income outflows (*Albania, former Yugoslav Republic of Macedonia, Serbia*), and lower remittances (*Serbia, Montenegro*). In the four quarters to June, the current account deficits rose to 15.5% of GDP in *Montenegro*, to 12.4% of GDP in *Albania* and to 6.5% in *Serbia*. The *former Yugoslav Republic of Macedonia*, which recorded a 19.2% year-on-year growth in merchandise exports in the third quarter, disposes of the lowest current account deficit in the Western Balkan region, remaining below 2% of GDP.

Contrary to the Western Balkan region, *Iceland's* current account balance still is in surplus, but the surplus is shrinking, reflecting declining export earnings and strong import growth. 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, including from tourism, and declining imports, the 12-month cumulative current account deficit has gradually declined from 7.9% of GDP in December 2013 to 5.8% of GDP in October. However, almost half of this improvement is a result of lower imports of non-monetary gold.

A low inflationary environment persisted in all of the *Western Balkan* countries, but price developments and dynamics were rather heterogeneous across the region. Some countries continued to experience downward pressure on prices, namely *Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia* and *Montenegro*. The deflationary trend in these economies, largely driven by food price dynamics, continued through the third quarter but started easing as evidenced by a move towards zero inflation in November. This was partly due to a one-off increase in the price of tobacco (*Bosnia and Herzegovina*) and higher regulated electricity prices (*former Yugoslav Republic of Macedonia*). In *Serbia* and *Albania*, annual consumer price inflation remained positive, but stayed below the lower end of their central bank's tolerance band (4%+/-1.5ppts in the case of *Serbia*, and 2-4%

in *Albania*). Low inflation and a weak economic performance led the central banks in both countries to cut interest rates in November. The key policy rate in *Albania* was reduced by 25bp to a historic low of 2.25% while the Serbian National Bank cut the rate by 50bp to 8%. In *Kosovo*, consumer price inflation slowed down to 0.1% in November, largely due to stagnating import prices in combination with lower prices for transport, education and other services.

In *Iceland*, end-year consumer price inflation decelerated remarkably from 4.1% in 2013 to 0.8% in 2014, supported by the strength of the exchange rate, lower import prices for oil, as well as moderate wage agreements.

In *Turkey*, inflationary pressures receded in the fourth quarter, helped by falling energy and stabilising food prices. The annual headline inflation fell from 8.9% to 8.2%, still significantly above the 5% inflation target of the central bank.

The financial sectors in the *Western Balkans* showed some signs of revitalisation. Credit growth continued to pick up in most of the region during the second half of 2014 through November, and lending standards were somewhat eased in some countries. In *Albania*, credit growth turned positive in the third quarter and further accelerated thereafter. Furthermore, *Albania* is the only country where corporate lending grew much stronger than lending to households (5.1% vs. 0.9% in November). In most of the region, however, lending to firms remained generally muted, and stronger credit growth largely reflected an expansion of household lending. It is noteworthy, that *Serbia*, for the first time since March 2013, recorded a positive nominal growth of lending to firms in November, while corporate lending in *Bosnia and Herzegovina* switched into negative territory. In contrast to stronger credit activity in many parts of the region, loan growth has remained negative in *Montenegro*, due to ongoing deleveraging in the corporate sector while lending to households recorded some modest growth. NPL ratios have further increased in most Western Balkan economies in the third quarter. *Albania* and *Serbia* register by far the highest NPL levels, at 24.9% and 23% of total loans, respectively, but the level of NPLs is also of concern in the other countries. Only *Montenegro* recorded a reduction of the NPL ratio (compared to the second quarter). 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*, financial intermediation has remained on the low side. The total capital adequacy ratios of the three largest banks are 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 3.2% of total loans by mid-2014.

In *Turkey*, the share of non-performing loans in total loans has remained relatively stable, registering 3.1% at the end of November.

Although fiscal developments in 2014 have been rather uneven across the *Western Balkans* there are some commonalities. In many countries of the region, budget performances generally seem to have improved or even over-performed. In many countries, revenues have started to strengthen towards the end of 2014, based on earlier tax rate hikes or efforts at improving tax collection. The exception is Kosovo, where total revenues under-performed due to lower border taxes and a weaker-than-expected economic activity. At the same time, most Western Balkan countries managed to contain spending, partly supported by fiscal consolidation measures and total expenditure often remained below plans. However, in many instances this occurred at the cost of a significant under-execution of capital spending, in particular in *Albania, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro and Serbia*. Such developments have complicated the badly needed shift towards a more growth-conducive

pattern of expenditure. Budget execution data for January to November suggest that most countries in the region are likely to meet their 2014 fiscal deficit targets. For example, *Albania* recorded a budget deficit of 2.9% of GDP, far below the revised annual target of 6.3%. In the same period, *Serbia* contained the deficit at 3.7% of GDP, thanks to a relatively good revenue performance in the last three months to November and continued expenditure restraint. *Kosovo's* fiscal gap stood at 1.2% of GDP, far below the 2% deficit implied by the fiscal rule. The *former Yugoslav Republic of Macedonia* recorded a deficit of 3.6% of GDP, still below the 3.9% annual target. In contrast to this, in *Bosnia and Herzegovina* flood-related expenditures are projected to have pushed the 2014 budget deficit close to 4% of GDP, despite the continuous increase of indirect taxes. This would be well above the deficit of close to 1% of GDP as foreseen in the 2014-2016 Global framework of fiscal balance and policies.

In *Iceland*, as a result of a continued benign fiscal performance with buoyant revenues, in particular from income and profit taxes and improved expenditure control, the general government budget for the first three quarters of 2014 reported a surplus, amounting to about 1% of GDP, compared to a deficit of 1.2% of GDP a year before. However, the surplus was partly due to one-off factors, such as a substantial dividend payment by the largely state-owned *Landsbankinn* bank, in the first quarter of the year.

In *Turkey*, the central government's budget deficit increased in November to an estimated 1.6% of GDP on a rolling 12-month basis, up from 1.2% in 2013. The revised deficit target for 2014 is 1.4% of GDP.

Candidate and potential candidate countries: Summary table

						ECFIN Forecast							
	2010	2011	2012	2013	2014	2015	2016	Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
Gross domestic product (in real terms, annual % change)													
Albania	3.7	2.5	1.6	1.4	1.8f	2.9	3.5	-0.6	3.3	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	2.8	3.0	-0.4	2.7	3.9f	3.7	3.7	4.4	4.1	:	N.A.	N.A.	N.A.
Iceland	-3.1	2.1	1.1	3.5	2.3f	2.8	2.5	2.2	-0.2	:	N.A.	N.A.	N.A.
Montenegro	2.5	3.2	-2.5	3.3	2.0f	3.0	3.5	0.3	1.3	:	N.A.	N.A.	N.A.
Serbia	0.6	1.4	-1.0	2.6	-2.0e	0.0	1.1	-1.3	-3.6	:	N.A.	N.A.	N.A.
Turkey	9.2	8.8	2.1	4.1	2.8f	3.3	3.7	2.2	1.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	0.8	1.0	-1.2	2.5	:	:	:	-0.5	0.6	:	N.A.	N.A.	N.A.
Kosovo*	3.3	4.4	2.8	3.4	:	:	:	:	:	:	:	:	:
Unemployment													
Albania	13.7	13.4	13.8	16.4	17.5f	16.3	15.5	17.7	17.4	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	32.1	31.4	31.0	29.0	28.5f	27.7	26.6	28.2	27.9	:	N.A.	N.A.	N.A.
Iceland	7.5	7.1	6.0	5.4	5.0f	4.6	4.3	5.9	4.0	:	N.A.	N.A.	N.A.
Montenegro	19.7	19.7	19.7	19.5	19.3f	18.6	17.0	18.5	:	:	N.A.	N.A.	N.A.
Serbia	19.2	23.0	23.9	22.1	20.2f	21.6	22.0	20.3	17.6	:	N.A.	N.A.	N.A.
Turkey	11.2	9.2	8.4	9.1	9.6f	10.1	10.2	9.0	10.1	:	:	:	:
Bosnia and Herzegovina	42.7	43.8	45.9	44.5	:	:	:	43.8	43.7	:	43.6	:	:
Kosovo*	:	44.8	30.9	30.0	:	:	:	:	:	:	:	:	:
Current account balance (% of GDP)**													
Albania	-11.3	-13.2	-10.2	-10.6	-11.1f	-11.8	-12.4	-11.2	-12.4	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-2.0	-2.5	-2.9	-1.8	-3.3f	-4.0	-4.1	-1.7	-1.9	:	N.A.	N.A.	N.A.
Iceland	-6.4	-5.2	-4.2	5.6	2.6f	1.2	0.1	4.6	3.7	:	N.A.	N.A.	N.A.
Montenegro	-23.0	-17.7	-18.7	-14.6	-14.2	-13.8	-14.0	-15.2	-15.5	:	N.A.	N.A.	N.A.
Serbia	-6.5	-8.6	-11.5	-6.1	-5.4f	-4.8	-4.7	-6.1	-6.5	:	N.A.	N.A.	N.A.
Turkey	-6.2	-9.7	-6.1	-7.9	-6.1f	-5.3	-5.1	-6.5	-5.9	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-6.2	-9.6	-9.2	-5.9	:	:	:	-6.9	-7.7	:	N.A.	N.A.	N.A.
Kosovo*	-11.7	-13.7	-7.5	-6.4	:	:	:	-7.5	-7.3	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	3.6	3.5	2.0	1.9	1.9f	2.5	2.6	1.6	1.7	:	1.4	1.7	:
The former Yugoslav Republic of Macedonia	1.6	3.9	3.3	2.8	0.7f	1.2	1.7	-0.9	-0.3	:	-0.4	-0.3	:
Iceland	5.4	4.0	5.2	3.9	2.0	2.3	2.8	2.3	2.1	1.3	1.9	1.0	0.8
Montenegro	0.5	3.1	4.1	2.2	:	0.0	0.0	-0.9	-1.0	:	-0.5	0.0	:
Serbia***	10.2	7.0	12.2	2.2	2.2f	3.5	4.4	1.3	2.1	:	1.8	2.4	:
Turkey	8.6	6.5	8.9	7.5	8.9	7.5	7.1	9.4	9.2	8.8	9.0	9.2	8.2
Bosnia and Herzegovina	2.1	3.7	2.0	-0.1	:	:	:	-1.4	-0.5	:	0.1	0.0	:
Kosovo*	3.5	7.3	2.5	1.8	:	:	:	0.4	1.0	:	0.6	0.1	:
General government balance (% of GDP)													
Albania	-3.1	-3.5	-3.4	-4.9	-5.3f	-3.6	-2.7	-1.6	-2.2	:	-2.7	:	:
The former Yugoslav Republic of Macedonia	-2.4	-2.5	-4.2	-3.9	-4.0f	-3.8	-3.5	-2.8	-3.3	:	N.A.	N.A.	N.A.
Iceland	-9.7	-5.6	-3.7	-1.7	1.5f	0.0	-0.3	0.2	0.1	:	N.A.	N.A.	N.A.
Montenegro	-4.9	-5.4	-5.6	-5.3	-1.4f	0.0	0.3	-1.7	-0.7	:	:	:	:
Serbia	-4.5	-4.7	-6.1	-4.7	-5.8f	-4.9	-4.8	-4.1	-3.2	:	N.A.	N.A.	N.A.
Turkey	-2.9	-0.8	-1.5	-1.6	-2.1f	-2.0	-1.8	:	:	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-2.5	-1.3	-2.0	-2.2	:	:	:	2.0	0.5	:	N.A.	N.A.	N.A.
Kosovo*	-2.5	-1.7	-2.5	-3.1	:	:	:	-0.6	-0.4	:	N.A.	-1.2	N.A.

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

Forecast: ECFIN forecast Autumn 2014

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

*** End of period, Forecast = average

ALBANIA



Key developments

The opposition Democratic Party ended its four-month boycott of Parliament following a deal facilitated by two members of the European Parliament at the end of December. According to the agreement, the ruling majority will strive for consensus on important reforms while new rules will be considered to address the issue of legislators with a criminal record.

Prime Minister Edi Rama paid an historic visit to Belgrade in November, the first by an Albanian leader for almost 70 years. The visit was postponed from October after clashes at a football match between the Serbian and Albanian sides had sparked tensions.

The government launched in November a campaign against widespread electricity theft and non-payment of bills, resulting in the dismissal of hundreds of employees at the power distributor company and the arrest of people accused of making illicit connections to the electricity grid. The electricity sector is in a dire financial situation due to distribution losses amounting to around 42 %.

The 2015 budget was approved by Parliament in November. It expects the economy to grow by 3 % and the budget deficit to decrease to 4 % of GDP. Public debt as a percent of GDP is foreseen to decline slightly to 70.6 % from 70.9 % expected this year.

Real sector

In the third quarter, the economy rebounded vigorously from the (partly base effect-related) slump experienced in the previous quarter and expanded by 3.3 % year-on-year. All main sectors of the economy provided positive contribution, with the biggest one coming, similarly to the previous quarter, from services (1.9 pp) driven mainly by a booming trade, hotels and restaurants sector (+10.4 % year-on-year). Construction expanded by 7.5 % in annual terms, reversing the steep fall seen in the first half of the year and contributing 0.8 pp to growth. The industrial sector also managed to overturn its second-quarter contraction, although

its growth rate, at 2.5 % year-on-year, was much below the average of the past years due to weaker electricity production. The growth of agriculture was also subdued at 1.2 % year-on-year.

These data, supported also by retail trade indicators, confirm that the strengthening of private consumption continues and drives much of the reacceleration of growth.

Labour market

The LFS-estimated unemployment rate (15-64 years) dropped to 17.4 % in the third quarter from 17.7 % recorded in the previous three months. It was still up by 0.2 percentage points in annual terms.

Total employment growth accelerated to 8.2 % year-on-year in the third quarter from 1.6 % in the previous three months. The non-agricultural private sector registered the highest increase in employment (12.1 % year-on-year), but agriculture continued to account for nearly half of all jobs. Overall, the rate of job creation was still below the pace of increase of the labour force, which expanded by 8.5 % year-on-year.

External sector

In July to September, the current account deficit widened for the fourth consecutive quarter, by 66.3 % in annual terms. The deterioration was driven by a higher merchandise trade deficit (up 14.1 % year-on-year) on account of sharply falling exports (-18.6 %) and a continuing pickup in imports of goods (+1.9 %). Another reason was that the primary income balance turned negative due to a more than sixfold increase in investment income repatriation. On the other hand, the secondary income surplus registered a 3.3 % year-on-year increase in the third quarter thanks to a slight uptick in remittances inflows. In the four quarters to September, the current account deficit rose to 12.4 % of GDP from 9.3 % in the corresponding period a year earlier.

In the third quarter, net FDI inflows decreased by 38.4 % year-on-year and covered about 60 %

of the current account shortfall in the same period. Following an annual increase of 2.2 %, foreign reserves stood at €2.1 billion, covering five months of imports of goods and services.

The stock of gross external debt increased by 9.8 % year-on-year and stood at €6.6 billion in the third quarter, or 65 % of projected full-year GDP. Long-term debt increased most and continues to make up more than 80 % of the total, with government long-term borrowing accounting for around 39 % and intercompany lending for a further 23 % of the total stock.

Monetary developments

Underused production capacities, low imported inflation and subdued inflation expectations continued to dampen price rises. The rate of annual consumer price inflation picked up slightly to 1.7 % in the third quarter from 1.6 % recorded in previous three months, but remained below the lower bound of the central bank target range of 2 %-4 %. Unprocessed food continued to account for more than 80 % of price rises. Inflation remained low in October (1.4 %) and November (1.7 %).

Reflecting low inflation and weak growth, the monetary easing continued, with the Bank of Albania (BoA) lowering its policy rate by 25 bp to an historic low of 2.25 % in November. The growth of broad-money aggregate M3 remained subdued at 1.7 % year-on-year in November.

Notwithstanding continuing monetary stimulus, the Albanian lek (ALL) remained broadly stable in the third and fourth quarters vis-à-vis the euro.

Financial sector

Monetary easing continued to support a gradual improvement in financial conditions. In July to September, bank lending standards eased for households for the fourth consecutive quarter, though they remained unchanged for firms. Banks also reported an increase in credit demand.

Improved credit terms were reflected in lower interest rates. The average interest rate on new ALL loans continued its downward trend and fell to 8 % in October-November, down by 0.5 percentage points from the third quarter's average.

The growth of the stock of outstanding loans, which had started in July following twelve consecutive months of decline, picked up in October (+3.3 % year-on-year) and November

(+3.8 %). The growth was higher for business loans (up 5.1 % in November) than for household credit (+0.9 %).

On the other hand, the level of non-performing loans (NPLs) increased further. In the third quarter, NPLs made up 24.9 % of total loans, up from 24.1 % in the previous three months. 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 increased slightly in the third quarter to 17.6 % and remained comfortably above the regulatory minimum of 12 %. Profitability indicators stayed positive.

Fiscal developments

Budget execution continued to overperform in the January-November period. Reflecting rate hikes at the beginning of the year as well as efforts to improve tax collection, revenues increased by 12.6 % year-on-year, though remained 0.7 % below the revised plan. The biggest contribution came from a 14.1 % year-on-year surge in VAT receipt. Profit tax revenue rose by 42.2 % thanks to a 50 % hike in the corporate income tax rate. On the other hand, personal income tax receipts declined by 4.7 % year-on-year, reflecting the introduction of progressive rates with generous thresholds. Excise tax revenues, also benefiting from rate increases, exceeded last year's comparable figure by 15.9 %.

Notwithstanding increased revenue, it was the shortfall of expenditure that kept the deficit below target. In the first eleven months, investment spending decreased by 24.1 % year-on-year and fell short of the budgeted amount by 15.9 %, causing overall expenditure to remain 6.3 % below plan. Arrears repayment slowed down in the second half of the year and was also 19.3 % lower than expected. Until end-November, arrears worth 1.8 % of GDP were paid, with roughly half of this sum settling outstanding tax refund claims.

Overall, the budget deficit in the first eleven months was down by 31.9 % from the same period last year and amounted to 2.9 % of estimated full-year GDP, making it likely that the revised deficit target of 6.3 % of GDP for the year as a whole will be met by a large margin.

Public debt stood at 67.8 % of GDP in the third quarter (without the outstanding government arrears).

TABLE



European Commission, ECFIN-D-1

ALBANIA

		2010	2011	2012	2013	2014	ECFIN Forecast		Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
							2015	2016						
1 Real sector														
Industrial confidence ^{1.1}	Percent	-5.4	-3.0	-10.6	-9.5	:	:	:	3.2	:	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	19.9	-10.2	16.6	13.8	:	:	:	-6.4	13.5	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. %ch	3.7	2.5	1.6	1.4	1.8f	2.9	3.5	-0.6	3.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	1.7	1.8	0.7	1.8	2.0f	2.7	3.1	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	4.0	0.7	0.5	1.2	3.9f	6.6	8.4	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	0.3	0.5	0.6	1.0	:	:	:	0.2	0.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	2.5	6.5	4.8	6.3	:	:	:	4.1	6.4	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	13.7	13.4	13.8	16.4	17.5f	16.3	15.5	17.7	17.4	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	-0.1	2.3	3.3	-3.1	0.3f	1.4	1.9	1.6	8.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	6.7	7.0	7.3	4.1	:	:	:	1.9	0.6	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	62.5	22.2	7.6	-29.7	:	:	:	-6.3	-19.0	:	:	:	:
Imports of goods ^{3.2}	Ann. %ch	10.9	14.2	-4.3	-15.4	:	:	:	7.8	1.5	:	:	:	:
Trade balance ^{3.3}	%of GDP	-23.1	-24.2	-20.8	-19.5	-17.8f	-18.4	-19.0	-20.5	-20.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	32.4	34.0	33.3	35.1	:	:	:	33.4	31.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	53.0	56.7	51.9	52.9	:	:	:	51.4	50.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-11.3	-13.2	-10.2	-10.6	-11.1f	-11.8	-12.4	-11.2	-12.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	9.3	6.6	6.7	9.5	:	:	:	8.8	7.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1821.4	1848.6	1907.7	1955.7	:	:	:	1937.3	2104.2	:	2076.3	2063.4	:
Int. reserves / months Imp ^{3.9}	Ratio	6.7	6.1	6.5	6.8	:	:	:	:	:	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	3.6	3.5	2.0	1.9	1.9f	2.5	2.6	1.6	1.7	:	1.4	1.7	:
Producer prices ^{4.2}	Ann. %ch	0.3	2.6	:	:	:	:	:	:	:	:	:	:	:
Food prices ^{4.3}	Ann. %ch	4.8	4.8	2.4	4.2	:	:	:	2.0	2.6	0.0	1.6	2.1	:
M2 ^{4.4}	Ann. %ch	5.5	6.7	4.7	5.7	:	:	:	2.3	3.1	0.0	3.5	4.0	:
Exchange rate LEK/EUR ^{4.5}	Value	137.79	140.33	139.04	140.26	140.14	:	:	140.04	139.73	140.39	139.46	139.69	140.11
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	%p.a.	5.76	5.46	5.16	4.23	:	:	:	3.00	3.02	:	3.08	3.10	:
Bond yield ^{5.2}	%p.a.	7.25	6.53	6.77	6.03	:	:	:	3.52	2.99	:	2.96	3.03	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. %ch	8.6	11.7	7.4	-0.2	:	:	:	-1.8	1.4	:	3.3	3.8	:
Deposit growth ^{5.5}	Ann. %ch	15.5	14.5	9.4	3.7	:	:	:	1.0	1.5	:	1.1	1.0	:
Non performing loans ^{5.6}	%total	12.6	17.0	21.7	24.0	:	:	:	24.1	24.9	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance* ^{6.1}	%of GDP	-3.1	-3.5	-3.4	-4.9	-5.3f	-3.6	-2.7	-1.6	-2.2	:	-2.7	:	:
General government debt* ^{6.2}	%of GDP	57.7	59.4	62.0	64.9	70.9f	70.6	69.3	64.7	67.8	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2014

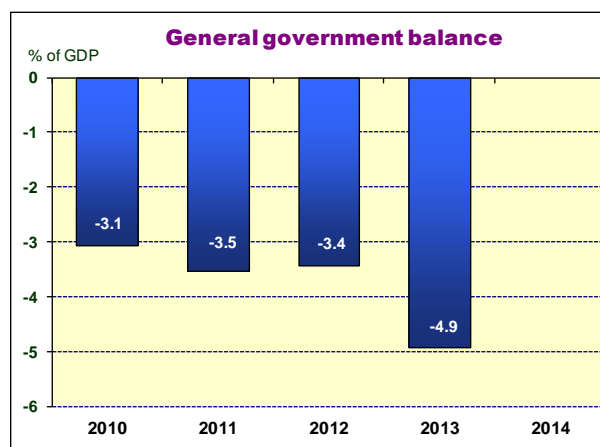
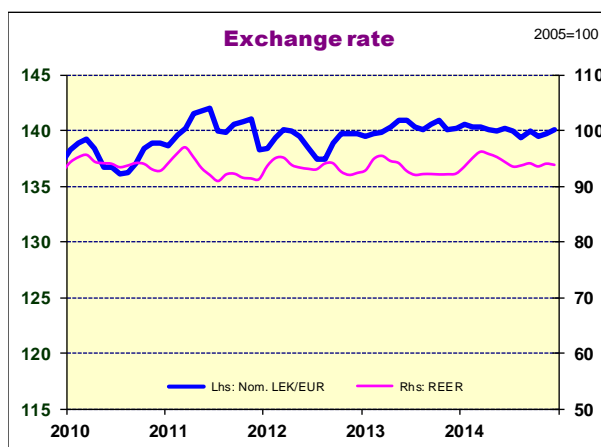
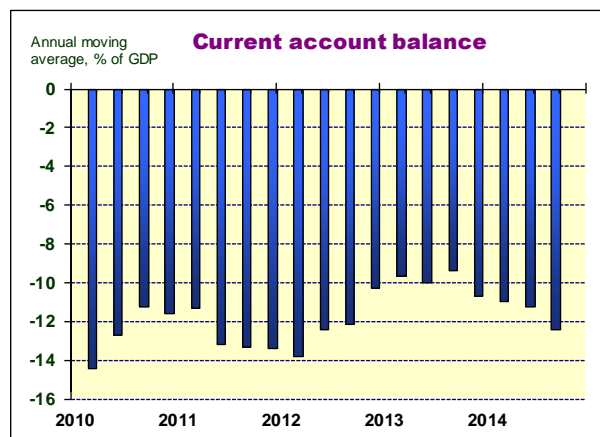
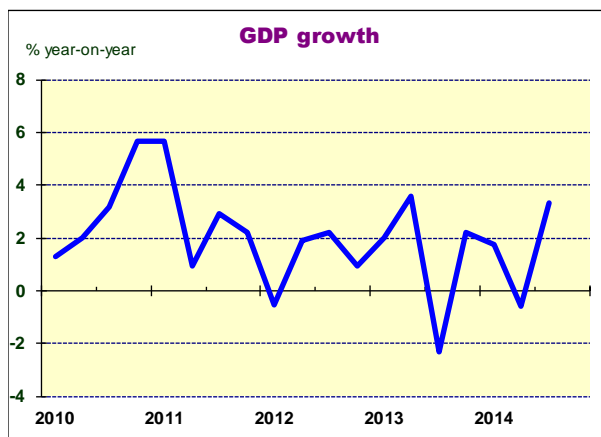
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

ALBANIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



Key developments

In October, the parliament, in the absence of most opposition MPs, adopted the central government budget for 2015. Based on projected 4% growth in real GDP, it targets a deficit of 3.5% of GDP. It foresees significant increases in public salaries, social assistance, and pensions, as well as in capital spending for rail and road networks.

The IMF concluded a further Post-Program Monitoring mission in November. It recommended a frontloaded fiscal consolidation, a careful evaluation of spending priorities, as well as more transparency in the country's public debt management strategy.

Real sector

GDP growth remained resilient in the third quarter. The economy expanded, in real terms, by an estimated 4.1% y-o-y, after 4.4% in the second quarter. Investment activity, spurred by large public infrastructure expenditure, strengthened further – gross capital formation posted a 17% increase y-o-y, after 7.8% in the second quarter. Import growth accelerated by 2.5 pp compared to the second quarter, to 14% y-o-y, while exports increased by 15.4%, only slightly less than in the second quarter. The pace of private consumption growth slowed to 1% y-o-y, compared to 3.1% in the second quarter. The State Statistical Office prepared quarterly data in accordance with ESA 2010, which led to a third adjustment for 2013 real GDP growth, to 2.7%, up from 2.2% estimated in September 2014.

Industrial production relented somewhat in the third quarter, compared to the preceding three months, but growth remained strong, at 5.4% y-o-y. Further increases in October and November brought the total gain for the first eleven months to 5.2% y-o-y. This compares with average annual growth of 3.2% in 2013. The sector's dynamics continued to be driven by the strength of the manufacturing sector, in particular the production of motor vehicle components in the

free technological zones. Manufacturing output in, which accounts for about three quarters of the industry structure, increased by close to 10% y-o-y between January and November.

After virtual stagnation in the second quarter, construction output increased slightly, by 2.6%. The sector's annual output growth in the first nine months of the year amounted to only 4.1%, compared to an average of 6% (revised according to ESA 2010) in 2013. In line with sluggish household expenditure, retail turnover further deteriorated. At 2.5% y-o-y, the decline, in real terms, was, however, less marked than in the preceding two quarters. There was yet another loss on the year in October, by 2.2%.

Labour market

According to the Labour Force Survey, the overall unemployment rate fell to 27.9% in the third quarter, down by 0.8pp y-o-y. The improvement was due to both, a decline in the number of unemployed (-2.7% yoy), and an increase in the labour force (0.1% yoy). The situation for young workers remained tense, with unemployment at over 52%.

The industrial sector posted robust job gains also in the third quarter (+8.6% yoy), and beyond, bringing the average increase in the first eleven months to 7.9% y-o-y. This was driven by a 9.5% gain in the manufacturing sector, which accounts for one fifth of total employment. Employment in agriculture, which also makes up about one fifth of total employment, declined by 3.6% y-o-y, reflecting a drop in self-employed workers, which overcompensated a further increase in employed persons, incentivised by agricultural subsidies.

Average monthly nominal gross wages increased by 0.8% y-o-y, slightly above their growth rate in the preceding quarter. Aided by the benign price environment, real net wages, which returned to positive annual growth in the second quarter after an extended period of decline, continued to increase (+1.3% y-o-y), albeit at a slower rate than in the preceding three months.

External sector

External imbalances widened somewhat in the third quarter. The current account deficit amounted to 1.9% of GDP in the four quarters to September, compared to 1.7% in the four quarters to June. It widened by some 8% during this period, mainly on account of a higher deficit in merchandise trade, while private transfer income increased slightly. FDI inflows decreased by 48% in the third quarter, compared to the same period a year earlier. Overall, in the first ten months of the year, inflows decreased by 6.4% y-o-y, reflecting a sharp drop in equity investments and reinvested earnings. The international reserve position strengthened in the second half of the year, on the back of the government's 500 mio Eurobond launch in July. At end-November, reserves were 19.6% above their level of a year earlier, covering about 6 months of projected imports of goods and services. Gross external debt, meanwhile, excluding debt of the monetary authorities from repo arrangements, had increased by 15% y-o-y at end-September, compared to a 3.5% rise at end-June. It amounted to 71% of projected full-year GDP, about 7pp higher than three months earlier.

Monetary developments

The drop in consumer prices relented somewhat in the third quarter. Driven by continued declines in the cost of food – which accounts for over 40% of the CPI structure – and in spite of renewed price increases for utilities, partly prompted by an increase in regulated electricity prices, the CPI index fell, on annual basis, by 0.3% yoy, down from 0.9% in the preceding quarter. On a monthly basis, the decline in the CPI relented somewhat in October and November, against the background of smaller contractions in food prices, and an acceleration in the cost increase for housing and utilities. Overall, this led the CPI index to decline by 0.3% on average in the first eleven months. The expansion rate of M4 money remained broadly unchanged in the third quarter, at 8.4% y-o-y, accelerating somewhat in the following two months, mainly on account of higher growth of currency in circulation, while deposit growth remained stable.

Financial sector

Credit growth to the private sector accelerated further in the third quarter. Loans to households and private companies increased by 8.8% y-o-y, compared to 7.7% in the second quarter, with further gains in October and November, bringing the total increase for the first eleven months to 8.2%. After sluggish initial response to last year's monetary policy incentives, interest rates moved more dynamically in the third quarter. At end-November, nominal lending rates for loans in national currency stood at 7.3%, lower by 0.1pp from end-July, and down by 0.4pp since end-2013. Deposit rates decreased by 0.4pp to 3.4%, compared to end-July, leading to widening spreads. After consecutive, small improvements over the preceding three quarters, the quality of banks' portfolios has deteriorated again since early spring. The share of non-performing to total loans increased further between July and September by 0.4pp to 11.7%.

Fiscal developments

Tax revenue picked up strongly in the third quarter, increasing by 2.2% y-o-y. In the first eleven months of the year, overall revenue income met 84% of the revised 2014 plan. Current and capital expenditure, in particular, has been reigned in after the pre-election surge in overall spending that was experienced in the first quarter. In the year to November, only 67% of the budgeted capital expenditure had been implemented and remained significantly below pre-year levels. In the same period, current expenditure execution reached 88% of the budget. The central government budget deficit amounted to 3.6% of projected GDP at end-November, or 97% of the revised 2014 target. (3.9%). Mainly on account of the Eurobond issue, general government debt increased in the third quarter to 39.3% of projected full-year GDP. It decreased somewhat since then, in terms of GDP, and stood at 38.1% at end-November. At the same time, overall public debt, which includes the debt of public enterprises, amounted to 45.5% of GDP, some 5pp higher than at the end of 2013, mainly on account of road infrastructure financing of the Public Enterprise for State Roads. The Finance Ministry resumed the publication of public debt data in 2014.

TABLE



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia

		2010	2011	2012	2013	2014	ECFIN Forecast		Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
							2015	2016						
1 Real sector														
Industrial confidence ^{1.1}	Balance	-9.6	18.4	14.7	12.3	:	:	:	11.0	12.0	:	11.9	11.4	:
Industrial production ^{1.2}	Ann.%ch	-4.6	4.0	-6.6	3.2	:	:	:	5.6	5.4	:	7.5	5.8	:
Gross domestic product ^{1.3}	Ann.%ch	2.8	3.0	-0.4	2.7	3.9f	3.7	3.7	4.4	4.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	1.5	2.9	-3.0	2.1	1.5f	2.6	2.4	3.8	2.5	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann.%ch	-4.3	15.7	21.2	-16.6	18.0f	9.6	9.1	7.8	17.0	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann.%ch	11.7	25.3	4.2	6.0	:	:	:	0.5	2.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	4.2	:	N.A.	-0.8	:	:	:	-3.2	-2.5	:	-2.2	:	:
2 Labour market														
Unemployment ^{2.1}	%	32.1	31.4	31.0	29.0	28.5f	27.7	26.6	28.2	27.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	1.3	1.1	0.8	4.3	1.9f	2.1	2.3	1.3	1.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	0.9	1.3	0.2	1.2	2.0f	2.5	3.0	0.6	0.8	:	2.0	:	:
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	46.7	21.0	-3.7	2.7	:	:	:	16.9	19.2	:	26.6	:	:
Imports of goods ^{3.2}	Ann.%ch	13.6	22.4	0.3	-2.0	:	:	:	6.0	12.4	:	17.3	:	:
Trade balance* ^{3.3}	% of GDP	-21.6	-25.2	-26.5	-18.4	-19.1f	-19.6	-19.8	-21.9	-21.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	38.4	45.6	44.5	43.0	:	:	:	45.5	46.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	58.1	66.1	66.9	62.0	:	:	:	63.0	64.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.0	-2.5	-2.9	-1.8	-3.3f	-4.0	-4.1	-1.7	-1.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	-2.2	-4.6	-1.5	-1.0	:	:	:	-3.6	-3.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 714.5	2 068.9	2 193.3	1 993.0	2 432.2	:	:	1 873.0	2 435.0	2 432.2	2 429.1	2 417.1	2 432.2
Int. reserves / months Imp ^{3.9}	Ratio	5.9	5.8	6.1	5.7	:	:	:	5.1	6.5	:	6.4	:	:
4 Monetary developments														
CPI ^{4.1}	Ann.%ch	1.6	3.9	3.3	2.8	0.7f	1.2	1.7	-0.9	-0.3	:	-0.4	-0.3	:
Producer prices ^{4.2}	Ann.%ch	8.3	11.1	4.5	0.4	:	:	:	-0.9	-0.6	:	0.1	0.6	:
Food prices ^{4.3}	Ann.%ch	0.3	6.2	2.3	3.4	:	:	:	-2.5	-1.5	:	-0.7	-0.1	:
Monetary aggregate M4 ^{4.4}	Ann.%ch	12.1	10.5	7.5	4.0	:	:	:	8.5	8.4	:	8.8	8.9	:
Exchange rate MKD/EUR ^{4.5}	Value	61.51	61.53	61.53	61.58	61.62	:	:	61.65	61.54	61.65	61.66	61.69	61.61
Nominal eff. exchange rate ^{4.6}	Index	100.0	101.3	100.3	101.8	:	:	:	103.2	102.8	:	104.2	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	9.48	8.87	8.50	8.04	:	:	:	7.52	7.40	:	7.32	:	:
Stock markets ^{5.3}	Index	2 472	2 407	1 890	1 726	1 735	:	:	1 709	1 671	1 830	1 802	1 853	1 835
Credit Growth ^{5.4}	Ann.%ch	5.4	8.1	7.3	4.3	:	:	:	7.8	8.8	:	9.7	9.8	:
Deposit growth ^{5.5}	Ann.%ch	13.0	10.9	7.2	4.8	:	:	:	8.7	8.3	:	8.5	8.5	:
Non-performing loans ^{5.6}	% total	9.0	9.5	10.1	10.9	:	:	:	11.3	11.7	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance ^{6.1}	% of GDP	-2.4	-2.5	-4.2	-3.9	-4.0f	-3.8	-3.5	-2.8	-3.3	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	24.1	27.7	33.7	34.2	40.2f	41.7	43.5	32.9	39.3	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2014

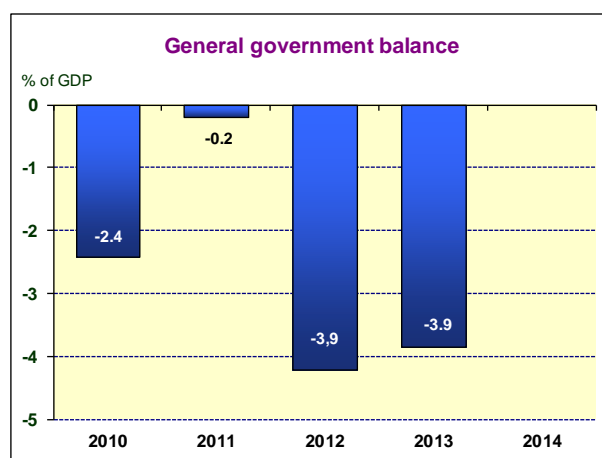
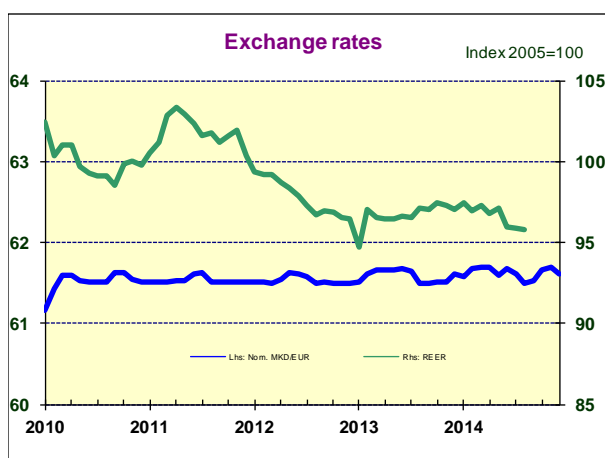
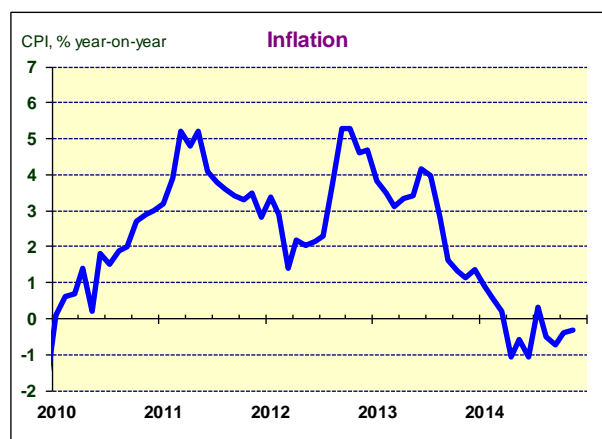
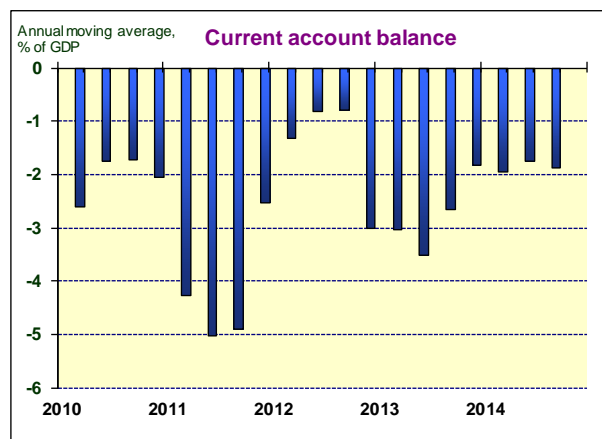
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia



ICELAND



Key developments

On 5th November and 10th December, the Central Bank lowered policy rates by 0.25 and 0.5 basis points, respectively.

On 4 December, the Central Bank approved an exemption from the capital control restrictions, allowing the settlement of priority claims against one of the failed banks, amounting to about ISK 400 billion (nearly 20% of Iceland's GDP). With this disbursement, about 85% of priority claims against this bank are settled.

On 16 December, Parliament approved the government's 2015 budget, envisaging a slight surplus of some ¼% of GDP. This implies a planned primary surplus of 3½% of GDP. Revenues are expected to be 5% higher than planned in 2014, while expenditures are set to increase by some 4½%. The higher revenues are planned to be the result of a broadening of the tax base, while tax rates will be reduced. Furthermore, the government plans to sell state assets in order to accelerate the reduction in the debt burden to 75% by end-2015. On the expenditure side, the 2015 budget envisages higher spending for social welfare, public investment and education.

Real sector

In the third quarter, the output level was 0.2% lower than a year before. The main reason was a strong increase in imports, mainly reflecting a strong rise in equipment investment, but also higher imports of consumer goods. Real private consumption increased by 0.7% year-on-year, which was a lower-than-expected on the basis of the rather solid growth of real wages. In the first two quarters of the year, private consumption had increased by 3.3% and 4.3% respectively. Gross fixed capital formation rose by 2.3%, mainly as a result of one-off factors. Exports rose by 5.7%, while imports were 14.5% higher than a year before. During the first three quarters of the year, GDP was 0.5% higher than a year before. Domestic demand contributed 2.7 percentage points to growth,

however, a large part of this demand was covered by destocking and imports. The latest forecasts of the Statistic Office and of the Central Bank expect annual growth to be close to 3% in 2014, pointing to the preliminary nature of the so far published national account data. The EU Commission's autumn forecast expects 2.3% GDP growth for 2014.

High frequency indicators for the first eleven months of 2014, such as credit card turnover, point to continued strong consumption. Overall, credit card turnover increased by some 5.7% during that period. In particular, foreign credit card turnover was some 24% higher than a year before.

Labour market

Unemployment maintained its downward trend, declining from 4.4% in the third quarter of 2013 to 4.0% in the third 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 third quarter by 1.4% y-o-y, compared to 4.3% a year before, while the number of unemployed declined by some 9.3%, from (estimated) 8 300 persons to 7 700. Monthly, seasonally adjusted data points to a further decline in unemployment, dropping to 3.1% in November, compared to 4.2% the year before. The share of long-term unemployed in total unemployed dropped to close to 12%, representing slightly less than 0.5% of the labour force. However, this level is still higher than prior to the crisis. Unemployment among young (age group 16-24) was 7.4% in the third quarter, compared to 7.7% the year before. Average weekly hours of full-time work declined slightly, from 41.8 hours in the third quarter of 2013 to 41.1 hours in the third quarter of 2014.

Nominal wages in the third quarter were 6.1% higher than a year before. This is currently more than 4 percentage points above annual inflation.

External sector

After a current account surplus of 5.6% of GDP 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 partly compensating for the deterioration in the trade balance. However, the current account surplus in the last 4 quarters to September dropped to 3.7% of GDP from 4.6% of GDP in June.

Trade data for the first nine months points to a further deterioration in the trade balance: Revenues from exports of goods were 9.2% lower than in the same period a year before, while spending for imports of goods was only 2% lower. Imports for industrial supplies, fuels and capital goods were significantly lower than a year before, while imports of transport vehicles increased by 8%. This pattern is largely in line with indications for de-stocking and weak equipment investment.

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 November, reserves were some 12% higher than a year before. As a share of GDP, reserves rose from 26.5% in November 2013 to 29% in November this year.

Iceland recorded a negative international investment position of some 390% of the estimated end-year GDP at the end of the third quarter of 2014. 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 negative position of some 60% of GDP.

Monetary developments

Consumer price inflation remained remarkably low. In December, the 12-month increase in the national consumer price index decelerated to 0.8%, compared to 4.1% the year before. For the whole year, the national consumer price index showed an increase by 2.0%, compared to 3.9% in 2013. This is clearly below the Central Bank's inflation target of 2.5%. Key factors for this are the strength of the exchange rate, lower import prices for oil, but also moderate wage agreements.

The exchange rate of the *króna* vis-à-vis the euro regained some ground during the last year,

trading in December on average at 154.16 ISK against the EUR, compared to 160.9 ISK in December 2013. This represents a strengthening of the ISK against the EUR by some 4.4%.

Financial sector

Financial intermediation has remained on the low side. Credit provision accelerated slightly, increasing by 2.3% year-on-year in the third, compared to 2.1% the quarter before. Deposit growth decelerated in the third quarter to 3.5%, compared to an increase by 7% and 5% in the first two quarters. However, monthly data points to rather strong deposit growth in October and November.

The total capital adequacy ratio of the three largest banks increased to 27.2% by June 2014, while the Tier 1 capital ratio was 25%. These levels are 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 3.2% of total loans by mid-2014 (or 10.8%, when using the stricter cross-default method, compared to 12.5% a year earlier).

Fiscal developments

The general government accounts were largely balanced in the third quarter, after a small surplus of 0.1% of the estimated end-year GDP in the second quarter and a more significant surplus of 0.7% in the first quarter. The surplus in the first quarter mainly reflects a substantial dividend payment by the largely state-owned *Landsbankinn*. In the first three quarters of 2014, the general government balance thus shows a surplus of about 1% of GDP, compared to a deficit of -1.2% the year before. Revenues were 9.7% higher than a year before, benefitting from the dividend payment, but also from a strong performance of income and profit taxes. Expenditure increased by 4.2%, mainly as a result of a 9.3% increase in investment.

Central government debt was at 80.4% of GDP in December 2014, compared to 83.0% the year before.

TABLE



European Commission, ECFIN-D-1

ICELAND

		2010	2011	2012	2013	2014	ECFIN Forecast		Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
							2015	2016						
1 Real sector														
Industrial outlook ^{1.1}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann.%ch	-0.6	0.1	-1.6	4.4	:	:	:	2.7	4.2	:	2.7	:	:
Gross domestic product ^{1.3}	Ann.%ch	-3.1	2.1	1.1	3.5	2.3f	2.8	2.5	2.2	-0.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	-0.2	2.5	2.0	0.8	4.0f	3.9	3.0	4.3	0.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	-8.6	11.6	4.3	-2.2	11.0f	9.5	7.5	-4.4	22.9	:	N.A.	N.A.	N.A.
Construction, completed ^{1.6}	Ann.%ch	28.6	-50.8	90.4	-13.2	:	:	:	:	:	:	:	:	:
Retail sales ^{1.7}	Ann.%ch	-3.0	1.8	4.3	2.0	:	:	:	7.1	:	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	7.5	7.1	6.0	5.4	5.0f	4.6	4.3	5.9	4.0	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	-0.3	0.0	1.0	3.4	1.9f	1.5	1.2	1.8	1.4	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	4.8	6.8	7.8	5.7	4.1f	4.4	4.6	5.2	6.1	:	6.6	6.6	:
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	5.1	16.5	2.4	-2.7	:	:	:	4.1	3.6	:	11.3	-9.2	:
Imports of goods ^{3.2}	Ann.%ch	11.8	19.6	6.8	-4.1	:	:	:	1.6	13.0	:	7.4	-1.8	:
Trade balance* ^{3.3}	% of GDP	1.9	1.3	0.0	0.4	-0.9f	-2.3	-3.3	-0.1	-0.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	53.5	56.1	56.7	55.7	:	:	:	54.7	55.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	43.1	47.9	50.4	47.4	:	:	:	47.5	48.1	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-6.4	-5.2	-4.2	5.6	2.6f	1.2	0.1	4.6	3.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	19.7	7.4	29.8	2.3	:	:	:	-0.4	-4.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	4 356.5	6 581.5	3 257.1	3 028.8	:	:	:	3 109.0	3 545.6	:	3 638.0	3 669.3	:
Int. reserves / months Imp ^{3.9}	Ratio	19.1	24.4	11.3	10.3	:	:	:	10.5	11.4	:	11.6	11.7	:
4 Monetary developments														
CPI ^{4.1}	Ann.%ch	5.4	4.0	5.2	3.9	2.0	2.3	2.8	2.3	2.1	1.3	1.9	1.0	0.8
Producer prices ^{4.2}	Ann.%ch	11.7	9.2	1.1	:	:	:	:	-2.4	3.0	:	6.5	6.1	:
Food prices ^{4.3}	Ann.%ch	4.2	3.8	6.1	5.1	0.5	:	:	0.5	0.0	-0.7	-0.3	-0.9	-1.0
M3 ^{4.4}	Ann.%ch	-6.6	-2.1	2.8	2.0	:	:	:	4.9	3.6	:	10.6	8.5	:
Exchange rate ISK/EUR ^{4.5}	Value	162.16	161.45	160.93	162.30	154.87	:	:	154.86	154.26	153.80	153.08	154.17	154.16
Nominal eff. exchange rate ^{4.6}	Index	100.0	100.0	97.6	98.9	:	:	:	105.5	104.8	:	104.5	104.0	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	6.96	4.26	5.51	6.19	6.05	:	:	6.06	6.10	5.86	6.10	5.91	5.56
Bond yield ^{5.2}	% p.a.	6.09	5.98	6.19	5.79	N.A.	:	:	6.48	6.59	:	6.45	5.90	:
Stock markets ^{5.3}	Index	562	602	649	774	866	:	:	835	849	915	869	916	961
Credit growth ^{5.4}	Ann.%ch	-3.2	-1.7	6.3	0.1	:	:	:	2.1	2.3	:	2.7	3.6	:
Deposit growth ^{5.5}	Ann.%ch	-7.0	-2.6	4.8	-0.2	:	:	:	4.9	3.5	:	10.7	8.6	:
Non-performing loans ^{5.6}	% total	18.0	12.0	8.5	5.0	:	:	:	2.9	:	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-9.7	-5.6	-3.7	-1.7	1.5f	0.0	-0.3	0.2	0.1	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	79.8	88.0	85.1	77.5	84.8f	80.3	76.4	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2014

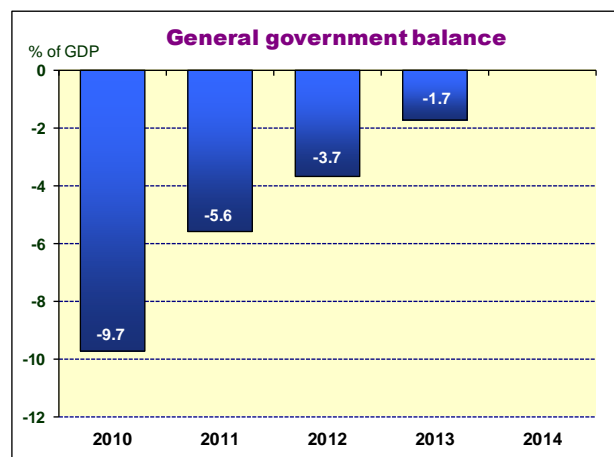
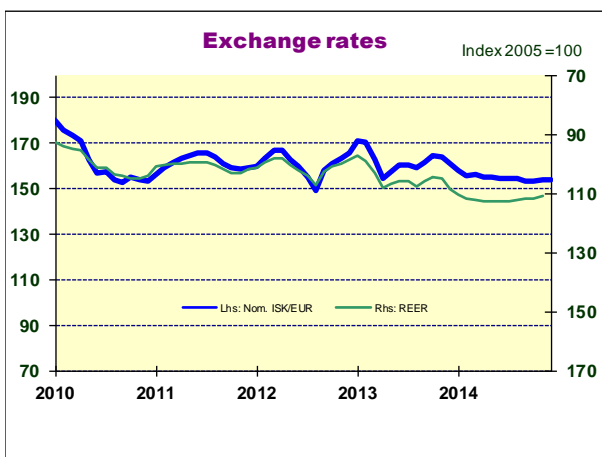
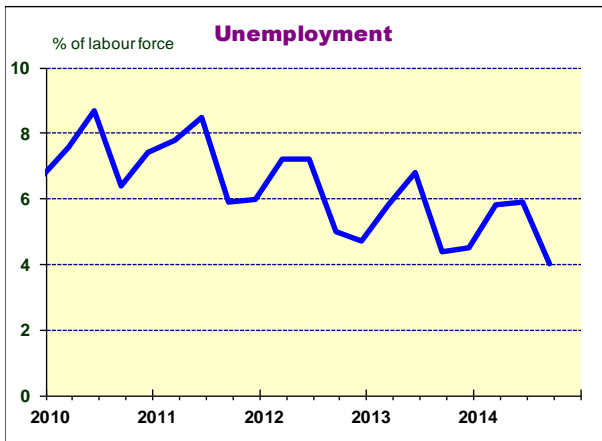
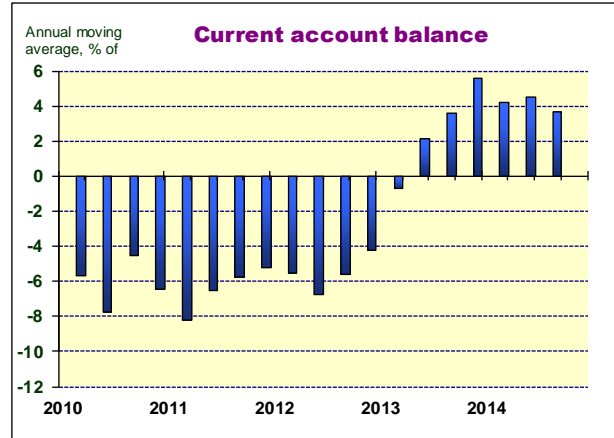
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

ICELAND





Key developments

On 16 December, in the context of EU accession negotiations, the Intergovernmental Conference between Montenegro and the EU opened the negotiations of four additional chapters (18-Statistics, 28-Consumer and Health Protection, 29-Custom Union, and 33-Financial and Budgetary Provisions). So far, 16 out of 35 negotiating chapters have been opened, out of which, two are temporarily closed.

On 14 November, Standard & Poor's cut Montenegro's rating to B+ from BB- while maintaining the outlook stable on deteriorating fiscal metrics resulting from the imminent construction of a highway. On 2nd December, Moody's changed the outlook on government bonds from stable to negative but affirmed the rating at Ba3, reflecting the country's high revenue generation capacity and favourable average funding costs supporting debt affordability.

On 1st January 2015, Montenegro's power market was formally opened for households, while other consumers have the possibility of choosing their electricity provider already since 2009. Apart from the incumbent Montenegro Power Company (EPCG), two other companies (Montenegro Bonus and EFT Group) hold a license for electricity supply.

On 28 December, the parliament adopted the budget for 2015 targeting a deficit of 6.6% of GDP compared to an estimated deficit of 1.9% in 2014. Total revenues are planned at 37.5% of GDP while expenditures are estimated at 44.1% of GDP, including capital investment of 5.8% of GDP on a major highway.

Real sector

The economy reaccelerated in the third quarter of 2014, expanding by 1.3% y-o-y in real terms compared to a 0.3% expansion in the second quarter and a 1.5% growth rate in the first quarter. Neither the sector nor the expenditure breakdowns are available yet. However, trade and industrial production data points to a significant growth in food products and –to a lesser extent– beverages, wood and ores. Another driver of growth in the third quarter was tourism, albeit with a modest expansion (1% y-

o-y) in the number of tourist due to unfavourable weather conditions, but still with a positive impact on retail sales, transportation, accommodation and food services.

However, after a short revival in September and October, industrial production contracted by 20% y-o-y in November, weighed down by utilities production (-29% y-o-y) and manufacturing (-18%), while mining (which accounts for 4.7% of total industrial output) surged 57% year-on-year.

Labour market

In the absence of Labour Force Survey (LFS) data, the employment agency figures signal a marginal increase of the unemployment rate in 2014. Thus, at the end of December, the unemployment rate reached 14.96% compared to 14.86% at the beginning of the year. During these twelve months, the employment agency registered 14,220 new workers and 22,990 work permits were issued to non-residents. At the end of November (latest figure available), there were 172,273 workers registered or 2.8% more than a year before. Yet these numbers could underestimate the real participation rate.

A recent labour market analysis by the Ministry of Labour and Social Welfare estimates that some 14% of employed people work unregistered, while additional 16% receive a part of their salaries undeclared.

The annual report from the statistical office (MONSTAT) points to some improvement in the poverty rate, declining to 8.6% of the population in 2013 compared to 11.3% a year earlier. The report also signals strong regional disparities, with high poverty rates in the North and Central regions (10.3% each), compared to a much lower rate in the South (3.8%).

External sector

In the four quarters to September 2014, the current account deficit further widened to 15.5% of GDP (compared to a deficit of 14.2% of GDP in the first quarter and 15.2% in the second). At the end of September, the trade deficit totalled 40.1% of GDP as merchandise exports declined substantially over the year while imports remained practically flat. In the third quarter, the

usual surplus in the balance of services boosted by the tourism season was partially offset by a substantial contraction of the income and transfer surpluses. Merchandise trade improved markedly in the months of October and November thanks to growing exports of food, chemicals, metals and petroleum products, while imports recorded a marginal decline on average.

In the four quarters to September, net FDI totalled 9% of GDP, while portfolio investment accounted for additional 5.3% of GDP. On the other hand, the decline in other investments (mostly bank loans) totalled 5% of GDP. The central bank reserves increased by 5% of GDP.

Monetary developments

The consumer price index remained flat in November after recording ten consecutive months of contraction. The index was sustained by the rise of food, health and –to a lesser extent– of alcoholic beverages and tobacco prices. However, transport (in particular oil prices), communications, as well as furnishing costs presented a declining trend in November. On average, in the first eleven months, the CPI index contracted by 0.7% y-o-y. The groups with a higher impact on the contraction of prices were fuels and lubricants (weighting -30% on the overall index), oils and fats (-27%), telephone (-20%) and electricity (-17%). By contrast, the groups with higher inflationary impact were bread and cereals (+29%), vegetables (+22%) and fruits (+21%).

Financial sector

Credit growth has remained negative since beginning of 2014. Although the value of new loans in the first eleven months totalled EUR 196 million, the total stock of credit (EUR 2.4 billion) declined on annual terms by 1.5%, dragged by corporate loans decline (-6.8% y-o-y), while households' recorded some modest growth of 0.9% y-o-y, and financial institutions (which account for 18% of total loans) presented a strong expansion of 11.9% y-o-y. Banks' cash and deposits with the Central Bank kept growing also in November, driving banks' assets up by 4.4% y-o-y to EUR 3.1 billion or 91.6% of GDP.

After recording 4.4% annual growth in the third quarter of 2014, banks' deposits expanded in October and November by 7% and 9% y-o-y respectively. The strong acceleration in the last two months was driven by corporates deposits expanding at double-digit rates, while the

growth of households' savings accelerated at a pace of 7% y-o-y.

Banks' capital grew by 3.8% y-o-y to EUR 441mn at the end of September, bringing the aggregate solvency ratio to 15.8%, well above the prescribed minimum of 10%. In September, banks posted positive financial results of EUR 21 million. The level of non-performing loans (NPL) recorded some improvement in October, accounting for 16.5% of total loans compared to 17.3% a month before.

In November, the turnover in Montenegro's stock exchange surged by 139% y-o-y to EUR 8.8 million, albeit significantly lower than the EUR 24.8 million turnover recorded a month earlier. The MONEX20 index reached 12,081 in November from 11,884 a month earlier, but declined to 11,232 at the end of the year. In December, for the first time, a transaction in corporate bonds was completed in the secondary market.

Fiscal developments

In the first eleven months of 2014, the budget deficit totalled 0.7% of GDP, contracting by one percentage point compared to the peak reached in the second quarter. The reduction of the fiscal gap was underpinned by strong revenue growth that offset a mild spending increase. Thus, until November, budget revenue expanded by 9% y-o-y, boosted by VAT proceeds (up by 20% y-o-y), personal and corporate income taxes (up by 11% each), as well as an 8% growth in social security contributions. Meanwhile; total expenditures increased by 0.6% y-o-y despite the absence of large state guarantees payments like those incurred a year before. Capital expenditures rose by 33% y-o-y although they remained substantially below the plan.

In October 2014, the public debt declined marginally to 57.9% of GDP, down from 58.2% a month earlier. Yet, while the stock of domestic debt declined by 17% over the year until October, the external one –which accounts for 80% of total public debt– increased by 15.6% during the same period.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2010	2011	2012	2013	2014	ECFIN Forecast		Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
		2015	2016											
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	8.7	:	:	:	17.6	15.9	:	3.0	0.7	:
Industrial production ^{1.2}	Ann.%ch	17.5	-10.3	-7.1	10.7	:	:	:	-25.9	-7.2	:	8.2	-19.8	:
Gross domestic product ^{1.3}	Ann.%ch	2.5	3.2	-2.5	3.3	2.0f	3.0	3.5	0.3	1.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	2.0	4.2	-3.2	1.1	1.1f	1.6	2.1	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	-18.5	-10.3	-3.3	8.8	5.8f	8.3	11.1	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	13.1	10.7	-13.2	9.7	:	:	:	3.3	-5.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	1.6	12.6	6.7	11.3	:	:	:	3.2	3.6	:	-0.6	:	:
2 Labour market														
Unemployment ^{2.1}	%	19.7	19.7	19.7	19.5	19.3f	18.6	17.0	18.5	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	-2.2	-6.1	2.2	1.1	1.5f	1.8	2.0	6.7	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	11.0	1.0	0.8	-0.2	-1.2f	0.7	3.4	-0.5	0.0	:	0.4	-0.6	:
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	20.3	33.6	-17.8	1.0	:	:	:	-22.4	10.0	:	37.6	10.4	:
Imports of goods ^{3.2}	Ann.%ch	0.9	9.2	-0.1	-3.2	:	:	:	0.7	3.9	:	-1.9	1.2	:
Trade balance* ^{3.3}	% of GDP	-41.1	-40.4	-44.1	-39.9	-41f	-41.3	-43.0	-40.3	-40.1	:	:	:	:
Exports goods and services ^{3.4}	% of GDP	34.7	42.8	44.1	41.8	:	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	63.1	64.9	68.8	62.1	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-23.0	-17.7	-18.7	-14.6	-14.2	-13.8	-14.0	-15.2	-15.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	17.5	12.0	14.7	9.7	:	:	:	9.6	9.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	416.4	303.5	347.9	423.7	:	:	:	530.1	536.2	:	543.5	544.9	:
Int. reserves / months Imp ^{3.9}	Ratio	3.0	2.0	2.3	2.9	:	:	:	3.6	3.6	:	3.7	3.7	:
4 Monetary developments														
CPI ^{4.1}	Ann.%ch	0.5	3.1	4.1	2.2	:	:	:	-0.9	-1.0	:	-0.5	0.0	:
Producer prices ^{4.2}	Ann.%ch	-0.7	3.2	1.9	1.7	:	:	:	-0.1	0.7	:	1.0	1.1	:
Food prices ^{4.3}	Ann.%ch	0.3	2.8	4.2	4.0	:	:	:	-2.9	-2.2	:	-0.2	1.0	:
M21 ^{4.4}	Ann.%ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate ^{4.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	2.27	5.32	3.39	1.60	:	:	1.86	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	3.37	2.45	4.75	3.19	1.26	:	:	2.20	1.03	0.43	0.49	:	0.37
Stock markets ^{5.3}	Index	13 993	11 896	9 091	9 532	10 696	:	:	9 995	10 763	11 732	11 884	12 081	11 232
Credit growth ^{5.4}	Ann.%ch	-4.8	-6.3	-0.7	3.1	:	:	:	-3.3	-3.7	:	-2.0	-1.5	:
Deposit growth ^{5.5}	Ann.%ch	-1.9	1.5	9.0	5.9	:	:	:	6.8	4.4	:	7.0	9.1	:
Non-performing loans ^{5.6}	% of total	21.0	15.5	17.6	18.4	:	:	:	17.5	17.3	:	16.5	:	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-4.9	-5.4	-5.6	-5.3	-1.4f	0.0	0.3	-1.7	-0.7	:	:	:	:
General government debt ^{6.2}	% of GDP	40.9	46.0	54.0	58.1	58.9f	58.6	59.4	59.6	58.2	:	:	:	:

f: ECFIN forecast Autumn 2014

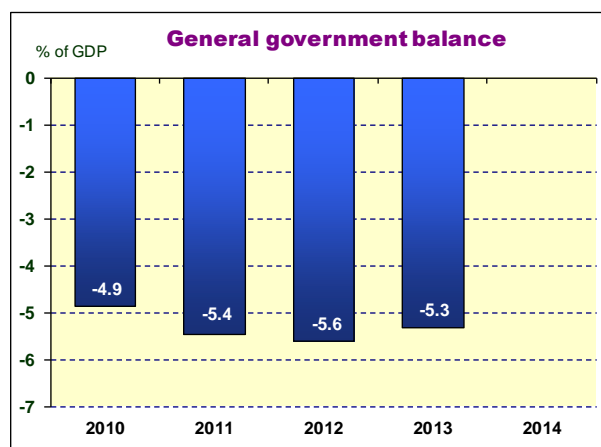
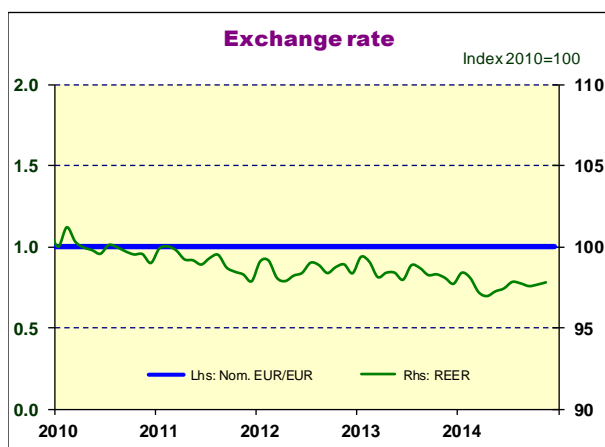
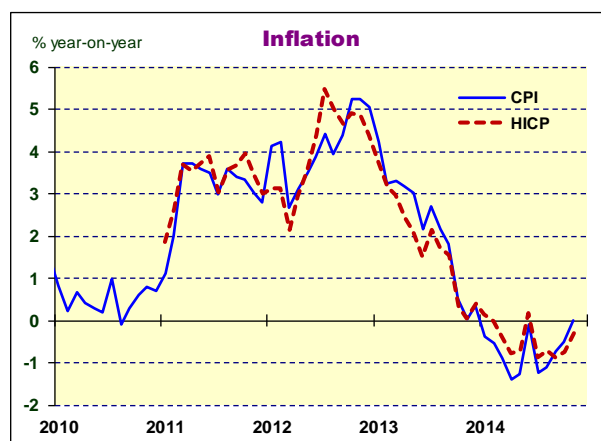
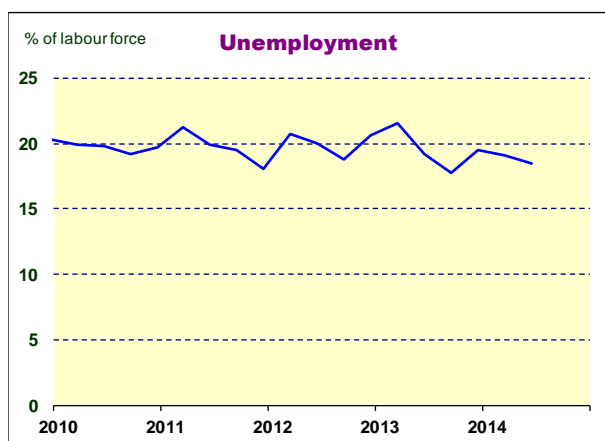
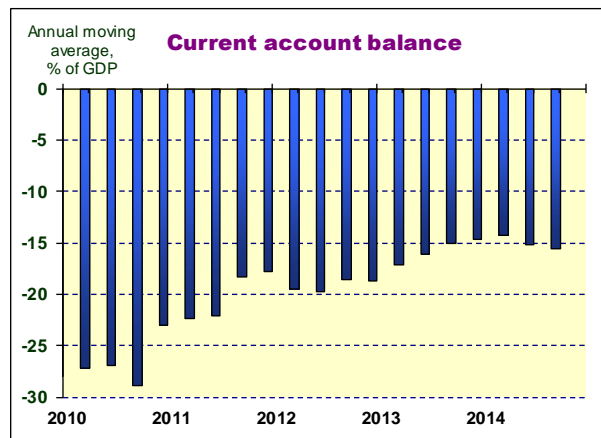
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO





Key developments

In November, the authorities reached a staff-level agreement on an economic program that could be supported by a 36-month precautionary Stand-By Arrangement with the IMF. It could give Serbia access to 200% of its quota or around EUR 1 billion. The agreement is scheduled for approval by the IMF Executive Board in the second half of February.

Fiscal consolidation efforts intensified in the autumn. A 2014 republican budget rebalancing was adopted in October and, as of December, pensions and government sector wages have been reduced. However, the rebalanced budget still included a very high level of expenditure which is unlikely to be executed before the year-end. A second rebalancing, which redirected some of the expenditure was adopted in late December.

In December, the 2015 republican budget was adopted, targeting an overall deficit, including servicing of activated guarantees and acquisitions of financial assets, of RSD 191.3 billion or around 4.9% of the forecasted GDP. The consolidated budget deficit is planned at RSD 231.9 billion or close to 6% of GDP. The budget is based on a macroeconomic scenario of a mild recession of -0.5% in 2015.

Real sector

Impacted by the heavy floods in the spring and weaker external environment, the economy is estimated to have contracted by 2% in 2014. Following a drop of 1.3% y-o-y in the second quarter, the recession deepened in the third quarter when real GDP fell by 3.6%. Domestic demand, which had already been a drag on growth, weakened further with all components registering negative growth rates in the third quarter. Despite some signs of revival of credit activity, spurred by a programme of government subsidised lending, investments entered their eighth consecutive quarter of decline. Disrupted by the floods, they dropped by 7.6% y-o-y to their lowest quarterly share in GDP since 2002. The freeze of government wages and relatively prudent spending on goods and services took its toll on growth as well and general government consumption fell by 1.6% y-o-y. In a marked

reversal of trend, exports performance worsened significantly, turning from a 9.5% y-o-y growth in the second to a decline of 5.7% in the third quarter. Subdued external demand from major trading partners added to the effects caused by the floods, and exports deteriorated across most of the commodity groups.

The weak economic performance was also notable on the supply side where all sectors but agriculture and information and communication registered negative growth rates in the third quarter. High-frequency indicators suggest that the recession has continued in the last quarter of the year. Although the sectors most heavily impacted by the floods have rebounded a bit in October and November, industrial production was still in decline, falling by 8.7% y-o-y in November and by an average of 6.5% in the period January-November.

Labour market

According to the Labour Force Survey and despite the contracting economy, unemployment declined from 20.3% in the second, to 17.6% in the third quarter. The employment rate increased further to 40.6% and the economy added more than 67,000 net new jobs. However, improvements of labour market indicators were driven predominantly by gains in informal employment, as the rate of informally employed increased from 21.2% in the second to 23.4% in the third quarter. Employment increased in the state sector as well, while formal private sector employment declined by more than 20,000 jobs. Agriculture, employing close to 534,000 people or almost 18% of the labour force, remained by far the biggest sector in terms of employment.

Real wages remained volatile and, after a few months of subdued but positive growth, fell by a real 2.2% y-o-y in November.

External sector

The decline in export of goods continued and, although it has decelerated since its trough in August, in October and November it was still significant at 8.0% and 8.9% y-o-y in euro terms, respectively. Nevertheless, due to a very strong exports growth in the beginning of the year, in the period January-October exports were

up by 1.7% y-o-y, outpacing imports growth of 1.5% by a narrow margin. As a result, by the end of October, the cumulative merchandise trade deficit increased slightly by 0.8% y-o-y to EUR 3.3 billion.

The deteriorating trade imbalance also led to a worsening of the current account deficit, which stood at EUR 1.6 billion over the same period. In terms of GDP, the annualised current account deficit increased from 6.1% in the second to 6.5% in the third quarter. Gains in the trade in services were netted out by lower secondary income balance inflows, due to lower remittances, and higher primary income outflows.

Net FDI inflows showed a strong increase by 15.9% y-o-y to almost EUR 1.2 billion in the period January-October, mainly due to higher reinvested earnings, and by the end of October covered about 70% of the current account deficit. Deposit-taking corporations continued decreasing their net foreign liabilities – a steady financial outflow which has accumulated to more than a billion euro since the beginning of the year. These and the rest of the external financing needs were covered by government borrowing, a reduction of reserve assets and net errors and omissions.

Monetary developments

Annual inflation remained below the central bank tolerance band of $4\pm 1.5\%$ and stood at 2.4% y-o-y in November. Since September, and after being a deflationary factor for a year, one of the major determinants of inflation – food prices, has started to increase again. However, a number of factors, ranging from the weak domestic demand, the fall in international oil prices, delayed adjustments in administered prices, and diminished price pressures in the major trading partners have continued to restrain inflation.

In November, the National Bank reacted to the low inflationary environment, to first steps at fiscal consolidation and to the anticipated agreement with the IMF by cutting its key policy rate by half a point to 8%. In its December meeting, the bank kept the rate unchanged, quoting heightened risks from the international environment. Geopolitical risks, in particular, have spilled over to pressure the currencies of the emerging markets, including the dinar. This led the central bank to decrease foreign currency reserve requirement ratios and to increase its

interventions to ease short-term exchange rate volatility by selling EUR 140 million in October and another EUR 250 million in November. The foreign exchange reserves of the central bank fell to EUR 10.3 billion by the end of November, still covering around seven months' worth of imports of goods and services.

Financial sector

Boosted by the government subsidised lending programme, commercial banks' credit to the non-government sector turned to positive nominal growth in October. In November, although not yet growing in real terms, it firmed to 2.2% y-o-y, as company loans also increased by 0.8% y-o-y for the first time since March 2013. Credit to households grew as well, by a robust 7.6% y-o-y and commercial banks' net claims on government expanded at a decelerating but still impressive pace of 32%. By the end of November, government deposits at the central bank stood at close to RSD 300 billion (7.7% of GDP), providing a significant fiscal buffer. Non-monetary deposits with commercial banks grew by 5.9% y-o-y, increasing the coverage of banks' credit to the non-government sector to 89%. Non-performing loans stood unchanged at 23.0% in the third quarter.

Fiscal developments

Fiscal performance surprised on the positive side and, by the end of November, the consolidated deficit reached RSD 143.5 billion or around 3.7% of the estimated GDP. The primary deficit was cut to RSD 37.6 billion or almost by half in comparison to the same period last year. The republican budget deficit, where most of the expenditure and transfers are made, stood at just 75% of the revised deficit target, indicating that the year-end execution is likely to outperform the target substantially.

The reduction in the overall deficit was due to a relatively good revenue performance in the last three months to November and continued expenditure restraint which, however, came at the cost of a significant under-execution of capital expenditure.

By the end of November, government debt reached EUR 22.3 billion (about 69% of the estimated GDP), increasing by EUR 2.1 billion since the beginning of the year.

TABLE

European Commission, ECFIN-D-1



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		2010	2011	2012	2013	2014	ECFIN Forecast		Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
							2015	2016						
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	3.1	2.0	-3.4	5.6	:	:	:	-4.8	-14.0	:	-11.2	-8.7	:
Gross domestic product ^{1.3}	Ann. % ch	0.6	1.4	-1.0	2.6	-2.0e	0.0	1.1	-1.3	-3.6	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	-0.6	0.9	-2.1	-0.4	-1.1f	-1.9	-0.5	-1.1	-1.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-6.5	4.6	13.2	-12.0	0.9f	3.9	5.2	-0.6	-7.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	13.6	28.6	-14.6	-23.8	:	:	:	74.8	14.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	-0.7	-14.6	-3.9	-5.3	:	:	:	1.4	3.3	:	1.5	0.3	:
2 Labour market														
Unemployment ^{2.1}	%	19.2	23.0	23.9	22.1	20.2f	21.6	22.0	20.3	17.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-3.6	-3.1	-1.1	-1.0	:	-1.5	-0.3	N.A.	3.4	:	:	:	:
Wages ^{2.3}	Ann. % ch	7.4	11.1	9.0	5.7	:	:	:	1.5	2.2	:	3.1	0.1	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	24.0	14.0	-0.7	25.6	:	:	:	7.4	-10.8	:	-8.0	:	:
Imports of goods ^{3.2}	Ann. % ch	9.8	14.8	1.8	4.7	:	:	:	3.8	0.8	:	-2.4	:	:
Trade balance* ^{3.3}	% of GDP	-15.4	-16.0	-17.8	-12.1	-11.4f	-10.4	-10.0	-11.2	-12.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	34.0	34.4	36.3	40.8	:	:	:	43.4	43.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	49.3	49.8	-53.6	-51.9	:	:	:	-53.5	-54.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-6.5	-8.6	-11.5	-6.1	-5.4f	-4.8	-4.7	-6.1	-6.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.9	5.5	2.2	3.7	:	:	:	4.5	4.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	10 001.6	12 058.2	10 914.7	11 188.8	:	:	:	10 125.4	10 877.6	:	10 714.2	10 270.5	:
Int. reserves / months imp ^{3.9}	Ratio	10.0	10.5	9.3	9.1	:	:	:	8.2	8.8	:	8.6	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	10.2	7.0	12.2	2.2	2.2f	3.5	4.4	1.3	2.1	:	1.8	2.4	:
Producer prices ^{4.2}	Ann. % ch	16.2	9.7	6.4	0.8	0.2	:	:	1.0	1.0	0.2	1.6	1.5	0.2
Food prices ^{4.3}	Ann. % ch	10.6	6.4	15.4	-2.5	:	:	:	-4.4	1.6	:	0.5	2.9	:
M3 ^{4.4}	Ann. % ch	12.9	10.3	9.4	4.6	:	:	:	4.8	6.6	:	7.1	7.1	:
Exchange rate RSD/EUR ^{4.5}	Value	102.90	101.96	113.01	113.09	117.25	:	:	115.58	117.38	120.29	119.35	119.98	121.53
Nominal eff. exchange rate ^{4.6}	Index	79.3	81.8	74.1	74.0	68.4	:	:	73.4	70.7	68.4	70.0	69.4	68.4
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	10.85	12.56	12.50	9.49	:	:	:	7.65	6.93	:	6.70	7.00	:
Bond yield (12 months) ^{5.2}	% p.a.	10.60	12.90	13.04	10.67	:	:	:	9.15	9.00	:	:	:	:
Stock markets ^{5.3}	Index	1 283	1 371	932	1 035	1 215	:	:	1 151	1 217	1 368	1 375	1 376	1 352
Credit growth ^{5.4}	Ann. % ch	32.3	5.5	12.9	-6.5	:	:	:	:	:	:	-1.6	0.1	:
Deposit growth ^{5.5}	Ann. % ch	14.4	9.2	10.4	3.3	:	:	:	3.3	5.5	:	6.0	5.9	:
Non-performing loans ^{5.6}	% total	16.9	19.0	18.6	21.4	:	:	:	23.0	23.0	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance* ^{6.1}	% of GDP	-4.5	-4.7	-6.1	-4.7	-5.8f	-4.9	-4.8	-4.1	-3.2	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	41.8	45.4	56.2	59.6	68.6f	74.6	78.4	61.2	66.2	:	67.4	67.6	N.A.

f: ECFIN forecast Autumn 2014

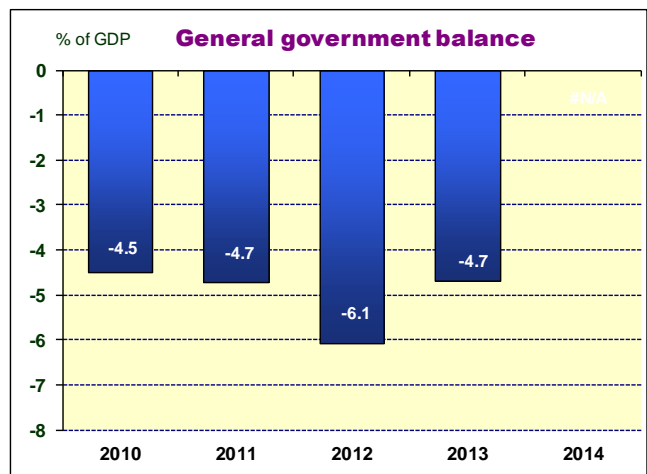
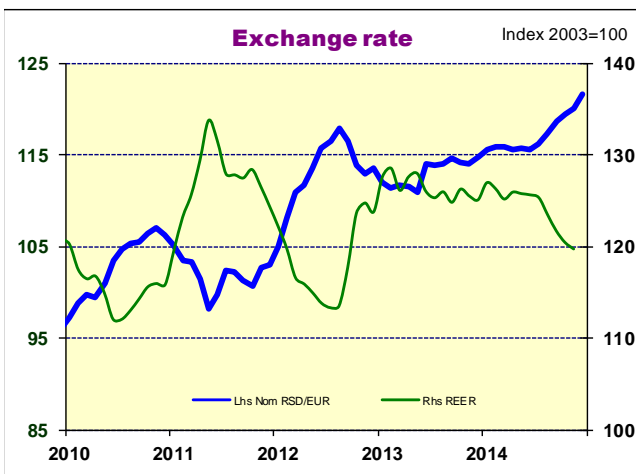
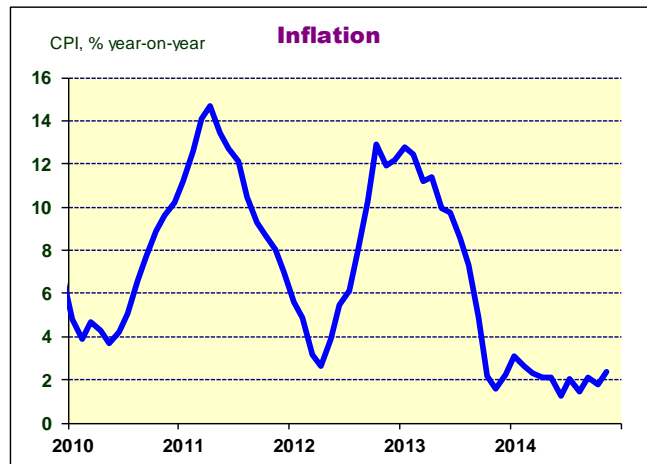
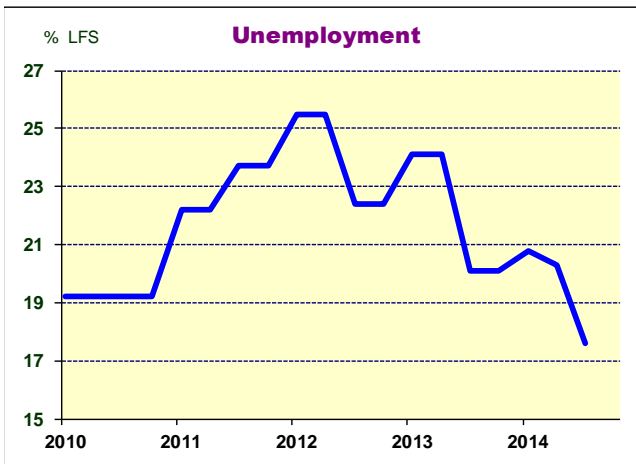
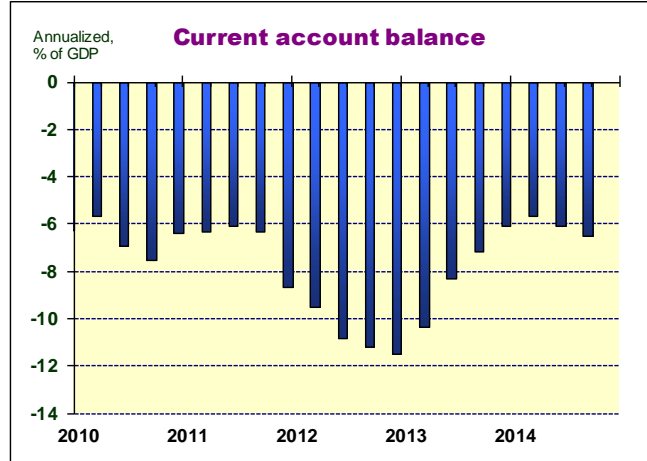
* Q figures refer to a 4 quarters moving average.

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European Commission, ECFIN-D-1



SERBIA





Key developments

The government released its annual Medium Term Programme (2015-2017), including main macroeconomic and fiscal targets, on 8 October. Compared to the previous MTP, projected GDP growth in 2014 was lowered from 4.0% to 3.3% and in 2015 from 5.0% to 4.0%. Inflation is seen to fall gradually and to reach the 5%-target by the end of 2016. The current account deficit is expected to fall to 5.2% of GDP by 2017.

The government announced a new economic reform agenda within the framework of Turkey's 10th Development Plan (2014-2018) on 6 November. The reform agenda consists of transformation plans in 25 areas with around 1300 actions overall. The planned measures have no clear prioritisation and many were already listed in previous policy documents.

On 1 December, Turkey assumed the presidency of the G20 for one year and released a 13-page document with the "Turkish G20 Presidency Priorities for 2015". This year's G20 Summit will be held in Antalya on 15-16 November.

On 22 December, the parliament approved the 2015 budget for the central government which targets a deficit of 1.1% of GDP.

Real Sector

Output growth slowed to 1.7% year-on-year in the third quarter of 2014 from an upwardly revised growth rate of 2.2% in the second quarter. In seasonally adjusted quarter-on-quarter terms, GDP growth increased from -0.5% in the second to +0.4% in the third quarter.

Private domestic demand remained weak and contributed little to year-on-year growth. Consumer spending rose only 0.2% and business investment remained unchanged. Government spending expanded 3.8%, contributing half a percentage points to GDP growth. Exports of goods and services were 8.0% higher while imports contracted 1.8%. This resulted in a 2.5

percentage-point contribution from net exports to GDP growth. Stockbuilding declined sharply, subtracting 1.5 percentage points from growth. Overall, the rebalancing of growth from domestic to foreign sources continued for the third consecutive quarter.

On the whole, the monthly data for the fourth quarter suggest little, if any, GDP growth in quarterly terms. Industrial production decreased by 1.8% month-on-month in October and by 0.1% in November (seasonally and calendar adjusted) although the manufacturing PMI increased by 1 point to 51.4 between September and December. The capacity utilisation rate in the manufacturing industry was practically unchanged in seasonally adjusted terms compared to the third quarter. The retail sales volume index (seasonally and calendar adjusted) continued a slight upward trend, increasing by 0.1% month-on-month in October and by 0.6% in November. Consumer confidence, however, fell steadily from an index value of 74.0 in September to 67.7 in December.

The foreign trade data for October and November were growth-negative with the level of exported goods 3.7% lower and the level of imported goods 3.5% higher compared to the third quarter in seasonally and calendar adjusted terms. Turkey's overall export performance suffers from the armed conflict in Iraq and Syria and the economic woes of Russia and the Ukraine.

Labour market

The labour market softened in the third quarter of 2014 with rising unemployment and a 0.3% decline in employment on a seasonally adjusted quarterly basis. In year-on-year terms, the number of employed persons was still 5.0% higher. But with a 6.4% rise in the labour force, unemployment accelerated to 10.1%, up by 1.2 percentage points year-on-year. The sharp rise in the labour force was mainly the result of a 2.2 percentage point rise in the participation rate to 51.2%. Wages continued to rise at a relatively steady double-digit rate: the hourly labour cost

index was 12.2% higher year-on-year in the third quarter.

External sector

The current account deficit continued to narrow. The 12-month cumulative current account deficit declined from USD 65.1 billion in December 2013 (7.9% of GDP) to USD 45.7 billion in October 2014 (5.8% of GDP). In the first ten months of 2014, the value of goods exports was up by 6.4% year-on-year while goods imports was 4.0% lower. A strong tourism season lifted revenues from services exports by 8.7%. Turkey's foreign trade continues to be distorted by strong fluctuations in exports and imports of non-monetary gold. Since the beginning of 2014, lower net imports of non-monetary gold have contributed 43% to the narrowing of the current account deficit.

Inflows of foreign direct investments (FDI) were practically unchanged year-on-year in the first ten months, whereas outflows doubled from a relatively low level. On a rolling 12-month basis, net FDI inflows declined to 0.9% of GDP, financing only 16% of the current account deficit.

The central bank's gross foreign exchange reserves have been almost stable in recent months, amounting to USD 111.6 billion (14.5% of GDP) at the end of November. Gross external debt decreased by USD 5 billion to USD 397 billion in the course of the third quarter which corresponds to 51.7% of GDP.

Monetary developments

Inflationary pressures receded in the fourth quarter helped by falling energy prices and stabilising food prices. In addition, core inflation showed a surprise 0.4 percentage point month-on-month drop in December. The relatively modest 1.6% rise in the overall CPI between September and December has lowered annual headline inflation from 8.9% to 8.2% over the same period. Although this is still significantly above the central bank's 5%-target, it undershot both market expectations and the central bank's forecast for year-end inflation from last October. The central bank expects headline inflation to fall to 6.1% by the end of 2015.

The central bank kept monetary policy steady throughout the fourth quarter. The one-week repo-rate remained at 8.25% and the other policy

rates were also left unchanged. The Monetary Policy Committee continued to proclaim the following policy stance: *Inflation expectations, pricing behavior and other factors that affect inflation will be closely monitored and the tight monetary policy stance will be maintained, by keeping a flat yield curve, until there is a significant improvement in the inflation outlook.* To gauge the shape of the yield curve, the central bank looks at the difference between the 5-year bond yield and its effective funding rate.

Global investor preferences continued to shift towards dollar-based assets in the fourth quarter, but the Turkish lira held up relatively well in the foreign exchange market. Over the quarter, the lira depreciated by 1.7% against the US dollar while gaining 1.6% against the euro. In real effective terms (CPI-based), the lira has appreciated by 6.1% between December 2013 and December 2014.

Year-on-year credit growth (unadjusted for the exchange rate effect) slowed from 19.3% at the end of September to 18.0% at the end of December.

Financial sector

Investor sentiment towards Turkish financial assets improved in the fourth quarter. The main stock index of the Borsa Istanbul gained 14.4% and the yield on the benchmark 2-year government note receded from 9.9% to 8.5% over the quarter.

Following growth of 5.1% in 2013, the banking sector's net profits fell 2.7% year-on-year in the period from January to November 2014. The share of non-performing loans in total loans has remained relatively stable, registering 3.1% at the end of November. At the same time, the capital adequacy ratio of banks stood at 16.6%, up by 1 percentage point year-on-year.

Fiscal developments

The central government's budget deficit has increased in the first eleven months of 2014. Expenditures rose by 11.2% year-on-year while revenues were up by 8.4%. The 12-month rolling budget deficit amounted to TL 28.5 billion in November corresponding to an estimated 1.6% of GDP, up from a budget deficit of 1.2% in 2013. The 2014 deficit target was revised down from 1.9% of GDP to 1.4% in October's Medium Term Programme.

TABLE



European Commission, ECFIN-D-1

TURKEY

		2010	2011	2012	2013	2014	ECFIN Forecast		Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
							2015	2016						
1 Real sector														
Industrial confidence ^{1.1}	Balance	110.3	110.5	106.3	108.1	107.1	:	:	112.2	107.8	103.6	106.9	102.7	101.2
Industrial production ^{1.2}	Ann.%ch	12.8	10.1	2.5	3.0	:	:	:	2.6	3.6	:	4.4	-1.2	:
Gross domestic product ^{1.3}	Ann.%ch	9.2	8.8	2.1	4.1	2.8f	3.3	3.7	2.2	1.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	6.7	7.7	-0.5	5.1	1.6f	2.3	3.5	0.5	0.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	30.5	18.0	-2.7	4.2	-1.8f	2.5	4.0	-3.5	-0.4	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	77.4	-16.2	29.0	16.4	:	:	:	34.2	36.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	N.A.	8.9	5.3	4.1	:	:	:	4.8	1.7	:	0.7	3.8	:
2 Labour market														
Unemployment ^{2.1}	%	11.2	9.2	8.4	9.1	9.6f	10.1	10.2	9.0	10.1	:	:	:	:
Employment ^{2.2}	Ann.%ch	6.0	6.3	3.1	2.8	4.0f	3.0	3.2	5.3	5.0	:	:	:	:
Wages ^{2.3}	Ann.%ch	11.8	9.7	11.5	12.4	11.1f	10.5	10.0	15.0	:	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	11.5	18.5	13.0	-0.4	:	:	:	4.8	3.0	:	7.1	-7.5	:
Imports of goods ^{3.2}	Ann.%ch	31.7	29.8	-1.8	6.4	:	:	:	-7.1	-2.8	:	-1.5	0.2	:
Trade balance* ^{3.3}	% of GDP	-7.7	-11.5	-8.3	-9.7	-8.2f	-7.4	-7.2	-8.6	-8.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	21.2	24.0	26.3	25.6	:	:	:	27.3	27.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	26.8	32.6	31.5	32.2	:	:	:	32.5	32.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-6.2	-9.7	-6.1	-7.9	-6.1f	-5.3	-5.1	-6.5	-5.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.0	1.8	1.2	1.2	:	:	:	1.3	:	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bio EUR	83.2	83.9	104.8	107.9	:	:	:	109.9	113.7	:	117.0	:	:
Int. reserves / months Imp ^{3.9}	Ratio	7.1	5.8	6.8	6.8	:	:	:	7.3	7.6	:	7.8	:	:
4 Monetary developments														
CPI ^{4.1}	Ann.%ch	8.6	6.5	8.9	7.5	8.9	7.5	7.1	9.4	9.2	8.8	9.0	9.2	8.2
Producer prices ^{4.2}	Ann.%ch	8.5	11.1	6.1	4.5	10.2	:	:	11.3	9.7	8.3	10.1	8.4	6.4
Food prices ^{4.3}	Ann.%ch	10.6	6.2	8.4	9.1	12.6	:	:	13.2	13.6	13.2	12.6	14.4	12.7
M4 ^{4.4}	Ann.%ch	15.2	19.6	8.6	19.1	:	:	:	17.4	14.9	:	13.0	12.0	:
Exchange rate TRY/EUR ^{4.5}	Value	1.99	2.33	2.31	2.53	2.91	:	:	2.90	2.87	2.83	2.87	2.79	2.82
Nominal eff. exchange rate ^{4.6}	Index	100.00	85.99	84.19	78.86	:	:	:	70.07	69.96	:	69.39	71.37	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	%p.a.	7.18	8.34	8.44	6.60	9.84	:	:	10.06	8.89	9.77	10.29	9.62	9.38
Interest rate, long term ^{5.2}	%p.a.	14.99	14.19	16.03	15.31	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	59 484	60 751	63 731	77 977	75 190	:	:	76 054	79 371	80 616	76 454	81 216	84 177
Credit growth ^{5.4}	Ann.%ch	40.8	35.2	18.6	33.4	19.4	:	:	23.0	19.8	19.4	20.5	19.9	19.4
Deposit growth ^{5.5}	Ann.%ch	16.6	20.3	10.8	20.4	18.1	:	:	18.9	15.9	14.2	15.5	14.2	13.0
Non-performing loans ^{5.6}	%total	5.4	3.4	3.0	3.0	3.0	:	:	3.0	3.0	3.1	3.1	3.2	3.1
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-2.9	-0.8	-1.5	-1.6	-2.1f	-2.0	-1.8	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	42.3	39.1	36.2	36.3	:	35.3	34.2	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2014

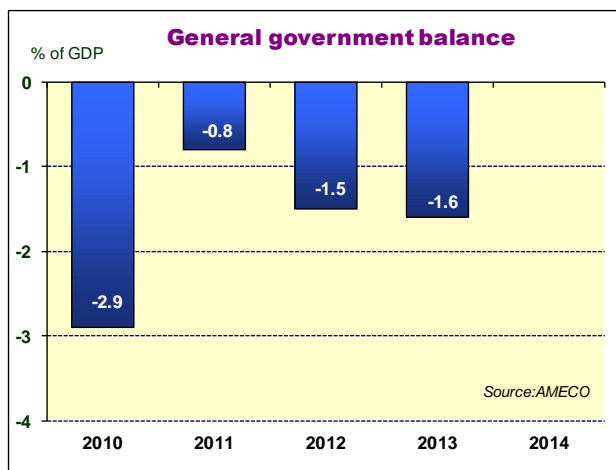
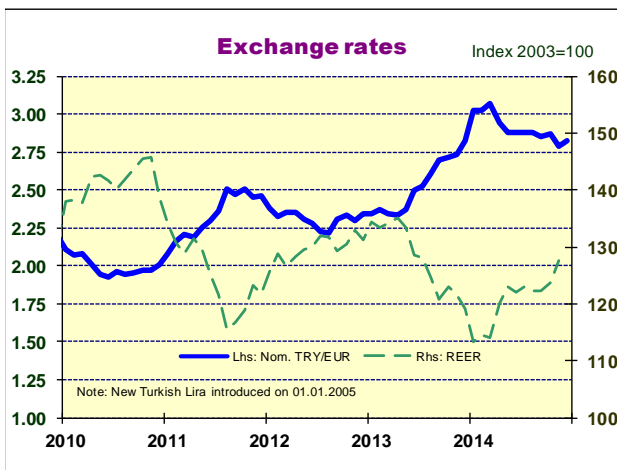
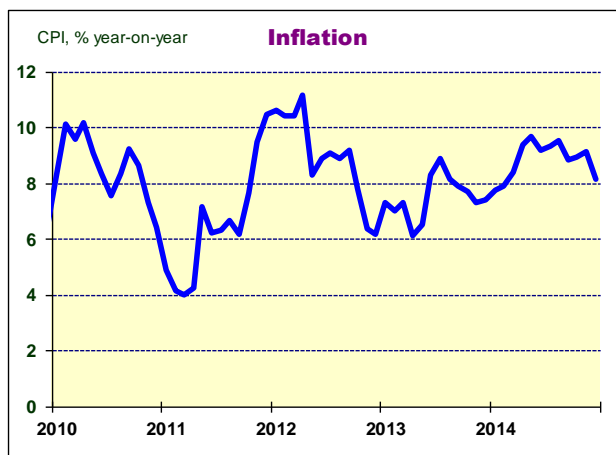
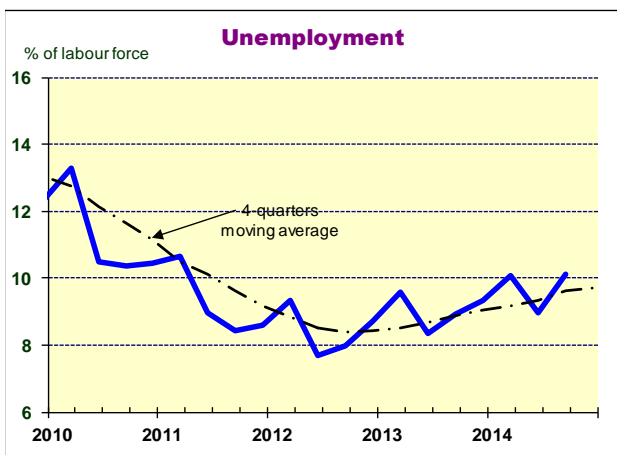
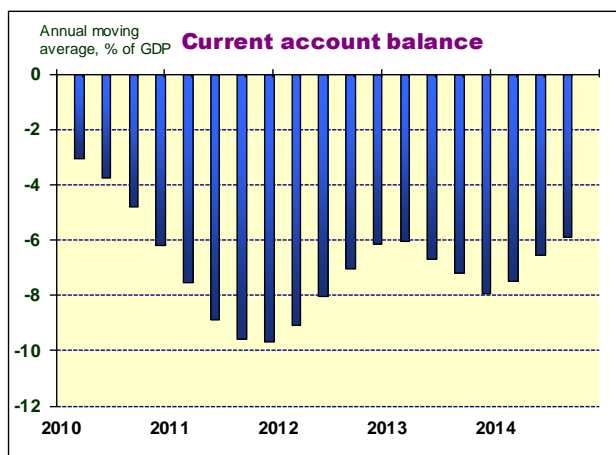
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

TURKEY





Key developments

Due to the enduring government formation following the general elections on 12 October 2014, the 2015 budgets of the Federation of Bosnia and Herzegovina and the Institutions of Bosnia and Herzegovina failed to be adopted on time, prompting decisions on temporary budget financing for the first quarter of 2015. At the same time, the 2015 budget of Republika Srpska was adopted on 30 December keeping 2015 expenditures broadly on the same level as in the 2014 revised budget.

Following the eighth review under the IMF Stand-By Arrangement in December, the disbursement of a tranche in the amount of approximately BAM 130 mio has been postponed again as agreed measures to rein in public spending not related to the floods and to strengthen financial sector stability and banking supervision were not adopted on time.

Real sector

The economic upturn throughout 2013 and the first quarter of 2014 came abruptly to a halt in the second quarter of 2014 mainly as a result of the heavy spring floods. Accordingly, GDP growth slipped into a negative territory by 0.5% y-o-y after expanding by 3.2% in the previous quarter. Going further, preliminary data for the third quarter released by the statistical agency indicate GDP growth to have marginally turned positive (0.6% y-o-y). Similarly, high-frequency indicators for July-October 2014 point towards a modest revival of economic activity with the country-wide industrial production up by 1% y-o-y, before turning negative again in November. In particular, the mining and quarrying sector as well as the utility sector registered the largest output contraction y-o-y, -1% and 10.7%, respectively, while the manufacturing sector posted the largest output increase (4.4%).

The slump of domestic demand in the second quarter of 2014 started to reverse in July-September with the growth of retail sales speeding up by 2.1% y-o-y and even accelerate in October-November to 7.8% y-o-y, well above the expansion of 4.6% in 2013.

Labour market

The situation on the labour market remained broadly unchanged in July-October 2014 with the level of registered unemployed coming slightly down by 0.2 percentage points y-o-y to 43.6%. Similarly, the level of total employment increased on average by 3% y-o-y in the third quarter and throughout October. This was mainly due to stronger employment in the agriculture and manufacturing sectors, while employment in the public sector remained broadly unchanged.

The difficult labour market situation is also reflected in low wage dynamics. The downswing of the nominal gross wages accelerated in July-October to 0.5% y-o-y, while only a minor increase of net wages by 0.4% y-o-y in the period July-October took place

External sector

The trend toward a widening of the current account deficit continued in July- September 2014, when the deficit increased sizably by 82.8% y-o-y to EUR 278 million (7.7% of GDP). In terms of GDP, the current account deficit deteriorated substantially to 6.9% in the four quarters to September on the back of higher imports increasing by 9.4% y-o-y in the first nine months of 2014. At the same time, this upturn could only be partly balanced off by an acceleration of growth of merchandise exports by 11% y-o-y. Accordingly, the trade deficit widened further by some 9% y-o-y to 32.5% of GDP in the third quarter (compared to a 8% y-o-y increase in the second quarter of 2014) well matched also by a decrease of the surplus of the balance of services by 8.1% y-o-y.

On the financing side, although on a declining trend, net FDI inflows in January-September posted a substantial increase (+18% y-o-y), however, remained still at a very low level overall. As a result, over the four quarters to September 2014, net FDI edged up to 2% of GDP up from 1.7% of GDP in 2013. On a negative note, they only covered nearly one fourth of the current account deficit. The foreign exchange reserves increased by 12.5% y-o-y in the third quarter and by some 11% y-o-y in October, thus, covering almost 6 months of imports.

Monetary developments

The deflationary trend that started in August 2013 came eventually to a halt in October-November 2014 partly due to the one-off increase of the excise tax on tobacco as of August and despite the continuously falling prices in the food and clothing industries. Thus, annual CPI in November stood at 0% bringing the 12-month moving average inflation rate slightly up to -1%

In the context of an enduring deflationary period and on the back of the steady growth of deposits, liquidity conditions have remained rather accommodative. Thus, the expansion of M2 money aggregate accelerated to 7.7% in the third quarter and remained broadly unchanged in October and November.

Financial sector

In spite of the slowdown of economic growth, annual loan growth accelerated somewhat throughout 2014, picking up by 3.6% y-o-y in July-November, mirroring somewhat extended lending to the household sector, which was partly balanced off by a stagnating lending to the private non-financial corporate sector with the growth of the latter turning even negative in November. Accordingly, commercial banks claims to the household sector edged up by 6% y-o-y, while lending to non-financial companies remained subdued (0.2% y-o-y). At the same time, banks have somewhat increased their exposure to the public sector to reach close to 12% of total loans in November as compared to 10% a year ago.

In the meantime, deposit growth increased to 8.6% y-o-y in November, slightly down from 9.7% y-o-y in the third quarter and banks have used the extra liquidity to reduce their foreign liabilities. The increase of the liquidity in the system was driven by both the household and corporate sectors, increasing by 9.8% y-o-y and 12.3% y-o-y. As a consequence, the loans-to-deposit ratio decreased slightly to 109%.

On a negative note, the credit risk indicators of the banking system raise some concerns. On the one hand, the quality of loan portfolio as measured by the share of non-performing loans in total loans continued to decline to reach 16.1% in the third quarter from 14.9% a year

ago. On the other hand, provisioning has not increased in conformity with rising credit risks as the ratio of provisions to non-performing assets stayed broadly unchanged at 66%.

The profitability and the liquidity of the system remain on comfortable levels. The banking sector profitability improved on quarterly basis with the return on average equity more than doubled from 2.3% in the second to 5.3% in the third quarter. In the meantime, liquidity indicators improved slightly with the rate of liquid to total assets increasing to 26.8% constituting the highest level of liquidity since 2011. The banking system remains well-capitalised with the capital adequacy ratio declining slightly to 17% in the third quarter but still well-above the regulatory minimum of 12%.

The downward correction of the stock market indices in Bosnia and Herzegovina continued in October- December 2014. The main index on the Banja Luka Stock exchange lost 4.6% while the main index of the Sarajevo Stock Exchange plummeted by 6.8%. The combined stock market capitalization decreased marginally to 33.5% of GDP in October and the government bonds and bills accounted for around 75 % of the total market capitalization.

Fiscal developments

The signs of a tepid rebound of economic activity in the third quarter of 2014 could also be felt in the public revenues. Accordingly, the consolidated revenues increased by 5.4% y-o-y on the back of acceleration of all revenue categories on annual basis, notably social contributions (+4.1%) and tax revenues (+2.1%). 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 7.1% on annual basis. Nonetheless, the consolidated budget in the third quarter still remained in surplus amounting to 0.2% of the full-year GDP. Overall, the budget surplus in the first nine months was up by 28.2% from the same period last year and amounted to 1% of estimated full-year GDP

In the third quarter of 2014, the pace of increase of the official foreign debt accelerated somewhat to 8% q-o-q after a slight decrease by 1% q-o-q in April-June. Thus, foreign public debt reached some 30.2% of GDP, compared to 28.4% in 2013.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

		2010	2011	2012	2013	2014	Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	1.6	5.9	-5.3	6.6	:	-3.2	0.7	:	1.0	-1.2	:
Gross domestic product ^{1.3}	Ann. %ch	0.8	1.0	-1.2	2.5	:	-0.5	0.6	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	0.9	1.6	2.2	2.7	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-12.2	7.9	5.2	-2.6	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	29.4	-24.4	1.3	-25.8	:	-9.8	8.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	8.2	11.2	1.6	4.6	:	-1.2	2.1	:	3.9	9.7	:
2 Labour market												
Unemployment ^{2.1}	%	42.7	43.8	45.9	44.5	:	43.8	43.7	:	43.6	:	:
Employment ^{2.2}	Ann. %ch	1.9	-1.6	-0.4	0.6	:	2.1	3.3	:	3.3	:	:
Wages ^{2.3}	Ann. %ch	1.1	4.4	1.5	0.1	:	-0.2	-0.4	:	-0.5	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. %ch	33.5	20.2	-1.8	8.8	:	-1.9	15.3	:	12.0	4.3	:
Imports of goods ^{3.2}	Ann. %ch	8.3	13.2	0.0	-1.5	:	6.5	12.8	:	7.5	2.7	:
Trade balance* ^{3.3}	%of GDP	-31.4	-33.2	-33.6	-30.5	:	-32.1	-32.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	28.4	30.3	30.1	31.2	:	31.6	31.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	51.1	55.3	55.3	53.2	:	55.7	56.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-6.2	-9.6	-9.2	-5.9	:	-6.9	-7.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	2.1	2.6	2.0	1.7	:	1.7	2.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	3 301.8	3 284.3	3 327.8	3 614.0	:	3 652.6	3 955.7	:	3 908.1	3 941.8	:
Int. reserves / months Imp ^{3.9}	Ratio	5.7	5.0	5.1	5.6	:	6.2	6.5	:	5.7	5.8	:
4 Monetary developments												
CPI ^{4.1}	Ann. %ch	2.1	3.7	2.0	-0.1	:	-1.4	-0.5	:	0.1	0.0	:
Producer prices ^{4.2}	Ann. %ch	0.9	3.8	1.3	-2.2	:	-0.6	0.1	:	0.8	1.0	:
Food prices ^{4.3}	Ann. %ch	-0.7	6.0	1.8	0.0	:	-3.9	-1.7	:	-0.9	-0.7	:
M2 ^{4.4}	Ann. %ch	7.8	5.6	4.6	5.7	:	7.1	7.7	:	7.3	7.9	:
Exchange rate BAM/EUR ^{4.5}	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 ^{4.6}	Index	103.7	104.60	105.50	102.76	:	105.00	104.95	:	105.45	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Bond yield ^{5.2}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Stock markets ^{5.3}	Index	931	979	737	770	707	709	701	698	695	699	701
Credit growth ^{5.4}	Ann. %ch	-0.9	5.6	5.2	2.5	:	3.7	3.8	:	4.2	2.7	:
Deposit growth ^{5.5}	Ann. %ch	4.7	2.6	2.6	5.1	:	7.7	9.7	:	8.0	8.6	:
Non performing loans ^{5.6}	%total	9.1	12.0	12.7	14.5	:	15.5	16.1	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	%of GDP	-2.5	-1.3	-2.0	-2.2	:	2.0	0.5	:	N.A.	N.A.	N.A.
General government debt* ^{6.2}	%of GDP	39.3	40.5	45.1	42.5	:	28.4**	30.2**	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

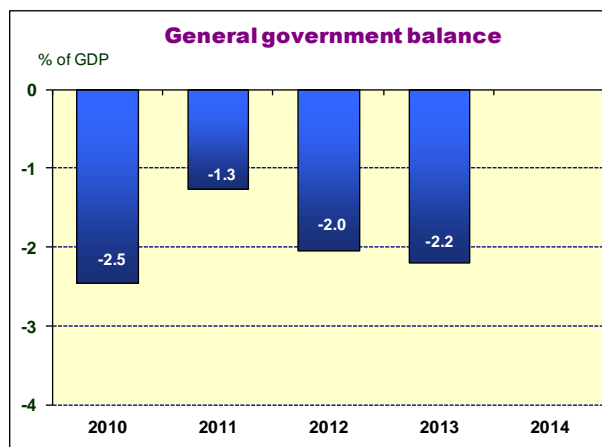
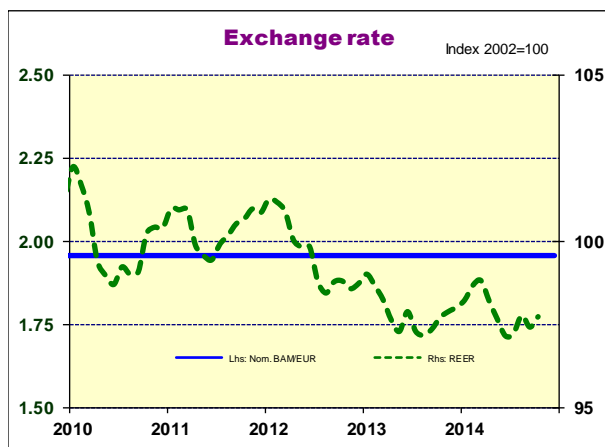
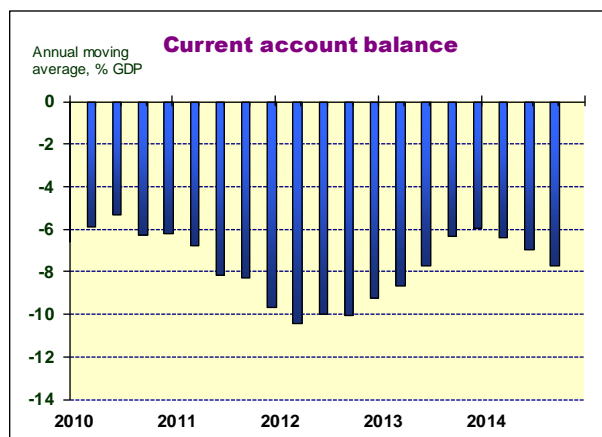
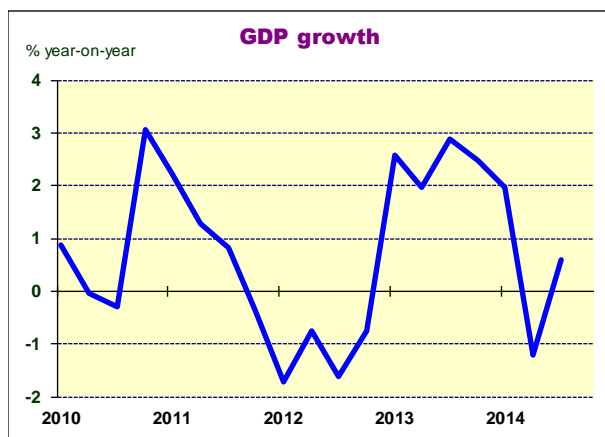
** Refers only to foreign public debt.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA



* 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

On 9 December, after a political impasse of six-months, the Assembly approved Kosovo's new government. LDK leader Isa Mustafa was mandated to lead a new government, whereas PDK leader and outgoing Prime Minister Hashim Thaçi (according to the LDK-PDK agreement the coalition's presidential candidate in 2016) was designated Deputy PM and Minister of Foreign Affairs. The new cabinet comprises a total of 21 ministers and the government coalition controls a strong majority in the Assembly. PDK boasts 35 MPs, LDK 30, Srpska 10 and the traditional non-Serb minority group six MPs, amounting to a total of 81 votes.

In its October World Economic Outlook, the IMF revised substantially downward Kosovo growth prospects to 2.7% in 2014, 3.3% in 2015 and 4% in 2016. The Central Bank of Kosovo followed with its own downgrade to 3% in 2014, from the previous 3.7%. This downward revision is the result of low public investment execution and a sharp drop in FDI.

The new government adopted the 2015 budget, targeting a budget deficit of 2% of GDP, in line with the fiscal rule.

Real sector

For the first time in December the Kosovo Statistics Office published quarterly GDP figures covering the period until Q1/2014 in which the economy rebounded by 1.7% y-o-y, after contracting in the previous quarter by 2.6%. Average growth in 2013 was recorded at 3.4%.

Recently published 2013 production side GDP figures showed broad based growth across all sectors, with largest contributions coming from manufacturing, transport, and retail trade (0.7, 0.6 and 0.5 p.p. of GDP respectively).

After falling by 4.6%, y-o-y, in Q4 2013, overall industrial production failed to rebound in Q1 2014. Manufacturing industry rebounded by 5.2% in Q1 2014 after sliding 15.3% in the previous quarter. However, strong contraction in mining and electricity production completely offset the positive contributions from

manufacturing.

A French consortium led by MDP Consulting has been selected to develop the country's Brezovica ski resort. Under the draft contract the consortium is expected to invest EUR 410 million in the development of more than 100 km of ski slopes and multi-use facilities at Brezovica. Around 3,000 new jobs are expected to result from the project.

In the World Bank's 2015 edition of the Doing Business report Kosovo moved up six places to 75th, ahead of Serbia (91st) but trailing regional peers like Albania (68th), Montenegro (36th) and the former Yugoslav Republic of Macedonia (30th). The report recognized that Kosovo made dealing with construction permits easier by establishing a new phased inspection scheme and substantially reducing the building permit fee. It also made enforcing contracts easier by introducing a private bailiff system. However, the country's ranking was adversely affected by the increased fee for the registration of property transactions.

According to this year's Corruption Perceptions Index, released by Transparency International, Kosovo improved its ranking by one place to 110th out of 175 countries surveyed. Despite the slight improvement Kosovo still ranks among the worst in Europe.

Labour market

Detailed 2013 Labour Force Survey data reveals persistent or worsening structural problems in Kosovo labour market. Youth unemployment remains high at 55.9% but equally worrisome is the 35.3% share of inactive young people not in education, employment or training. Duration of unemployment worsened, with 68.9% of unemployed being without work for more than 12 months (compared to 59.8% in 2012).

External sector

Goods exports rose in the first eleven months of 2014 by 9.6% y-o-y, driven by 16.8% increase in manufacturing exports. Imports increased by 3.9% mainly due to increased imports of food and live animals. Trade deficit in the same period rose by 3.1% y-o-y.

Balance of payments data reveal that Kosovo current account deficit widened by 26.1% in the first nine months of 2014, y-o-y, owing to increased goods trade deficit and lower net transfers. Inflow of remittances grew by 11.2% in the same period. Net financial inflows contracted by 88.4%, due to low performance of FDI (44.5% less compared to 2013). Cumulative deterioration of current and financial account was completely offset by almost doubled net errors and omissions, indicating increased lack of financial flows transparency.

Monetary developments

Consumer price inflation continued slowing down, reaching 0.1% y-o-y in November due to stagnating import prices and deflation in transport, education and other services which brought core inflation down to -0.5%. Modest inflationary pressures arising from food and energy prices are already dissipating and are likely to turn negative in the near future as the pass through effect of lower global oil prices strengthens.

Real effective exchange rate remained largely stable throughout the year both vis-a-vis the EU and CEFTA trading partners.

Financial sector

In the first eleven months of 2014, new loans extended by the commercial banks rose by 31.6% (y-o-y), enough to increase total loans and lease financing by 3.2% (y-o-y). 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 percentage points (to 11.8%), while the share of construction decreased by 1 percentage points (to 8.7%) in comparison to the end of 2013.

Total deposits in commercial banks continued to grow steadily (6.1% y-o-y) and the share of households' deposits in total deposits stood at 73.1% in November. Thus loans to deposit ratio remained stable at 74.3 indicating a stable liquidity position and substantial room for stronger financial intermediation.

Since the beginning of the year, the effective interest rate on loans decreased by 119bp to 9.88% in November while the effective interest rate on deposits decreased by 183bp to 0.56%. Thus, the interest rate spread remained extremely high and even further widened to 9.32%.

The risk profile of the banking sector remained satisfactory in November. The ratio of liquid

assets and short-term liabilities stood at 44.8%, while capital adequacy ratio was 18.2, far above the regulatory requirement of 12%. NPLs were on a downward trend in the first eleven months of 2014 and reached 8.5%, fully covered by loan loss provisions (114.4%).

In January-November, net profits of the commercial banks increased by 128.6% (y-o-y) and reached EUR 54 million, driven by declining interest rates paid on deposits and lower provisioning for NPLs. Returns on equity thus rose to 19.9%.

Fiscal developments

Given the short timeframe due to the political uncertainty, the recently adopted 2015 budget is based on projections outlined in the Medium Term Expenditure Framework 2015-2017, adopted in April 2014. As such it features rather unrealistic projections of revenues (8.1% increase compared to 2014 plan). Expenditures are expected to grow by 5.9% mainly due to the full year effect of 25% public wage and pensions increases and increases in agricultural subsidies. Capital expenditures are expected to decline by 11.2%. Lower public investment spending and increases in public wages and pensions substantially altered the composition of public spending in favour of current expenditures thus narrowing the space for fiscal adjustment in case of unexpected revenue shock. The fiscal deficit has been put at 2% of GDP and is to be financed primarily by EUR 120 million of domestic treasury bills and bonds.

Budget execution in the first eleven months of 2014 remained under plan. Total revenue underperformed by EUR 144.6 million. Lower customs tax receipts can be explained by weak import price inflation and lower than expected growth of imports, while domestic revenues succumbed to weaker than expected economic activity amid political uncertainty. Total expenditures underperformed by EUR 244.3 million namely due to delays in execution of public investments.

The fiscal deficit stood at 1.2% of GDP in January-November, well below 2% of GDP level implied by the fiscal rule. To cover the deficit the government issued EUR 79 million of treasury bills and two year bonds, with a weighted average yield of 1.9%.

Total government debt increased to 10 of GDP by September, from 8.9% at the end of 2013. The increase was driven by domestic treasury bills issuance, the stock of which reached 42.3% of total debt, compared to 32% at the end of 2013.

TABLE

European Commission, ECFIN-D-1

KOSOVO*

		2010	2011	2012	2013	2014	Q2 14	Q3 14	Q4 14	Oct 14	Nov 14	Dec 14
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production*** ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	5.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	3.3	4.4	2.8	3.4	:	:	:	:	:	:	:
Private consumption ^{1.4}	Ann. % ch	3.5	3.5	2.9	2.0	:	:	:	:	:	:	:
Investment ^{1.5}	Ann. % ch	10.9	7.8	-12.9	-0.3	:	:	:	:	:	:	:
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	:	44.8	30.9	30.0	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	:	:	:	3.8	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	-13.1	-1.3	-3.0	-5.5	:	:	:	:	:	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	72.1	6.5	-11.7	6.3	:	-12.3	26.1	:	13.2	41.2	:
Imports of goods ^{3.2}	Ann. % ch	11.5	10.4	5.3	-2.3	:	1.3	8.7	:	7.4	2.5	:
Trade balance** ^{3.3}	% of GDP	-39.8	-42.8	-41.0	-37.4	:	37.2	37.4	:	-40.4	-40.3	N.A.
Exports goods and services** ^{3.4}	% of GDP	19.9	19.6	18.2	17.4	:	17.5	18.6	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	% of GDP	-55.5	-56.8	-52.4	-49.0	:	-49.1	50.1	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	% of GDP	-11.7	-13.7	-7.5	-6.4	:	-7.5	-7.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)** ^{3.7}	% of GDP	7.5	7.9	4.2	4.5	:	2.6	2.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 246.9	1 234.6	1 469.1	1 610.0	:	1 549.5	1 429.6	:	1 462.0	1 474.5	:
Int. reserves / months Imp ^{3.9}	Ratio	6.9	6.2	7.0	7.9	:	7.6	6.8	:	6.9	7.0	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	3.5	7.3	2.5	1.8	:	0.4	1.0	:	0.6	0.1	:
Producer prices ^{4.2}	Ann. % ch	4.1	4.5	1.9	2.4	:	0.2	3.6	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	4.8	12.4	1.0	2.1	:	-0.9	0.5	:	1.4	1.2	:
Broad money liabilities ^{4.4}	Ann. % ch	12.9	8.8	7.1	17.3	:	19.7	8.9	:	2.4	2.5	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) ^{4.6}	Index	102.2	106.4	106.1	106.5	N.A.	106.3	106.30	N.A.	106.10	N.A.	N.A.
5 Financial indicators												
Average loan interest rate ^{5.1}	% p.a.	14.60	14.40	13.40	12.40	:	10.60	10.80	:	10.40	9.90	:
Bond yield ^{5.2}	% 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 ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth ^{5.4}	Ann. % ch	13.2	16.4	3.8	2.4	:	3.5	3.2	:	3.1	3.2	:
Deposit growth ^{5.5}	Ann. % ch	11.0	8.6	8.3	6.3	:	10.0	7.4	:	6.8	6.1	:
Non-performing loans ^{5.6}	% total	5.9	5.7	7.5	8.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance**** ⁶	% of GDP	-2.5	-1.7	-2.5	-3.1	:	-0.6	-0.4	:	N.A.	-1.2	N.A.
General government debt ^{6.2}	% of GDP	5.9	5.3	8.1	8.9	:	10.0	10.0	:	N.A.	N.A.	N.A.

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

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

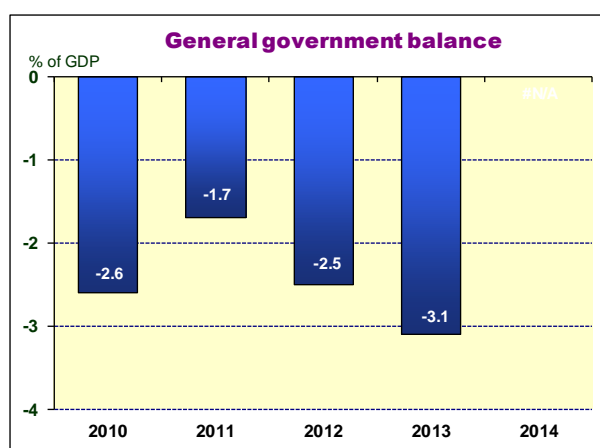
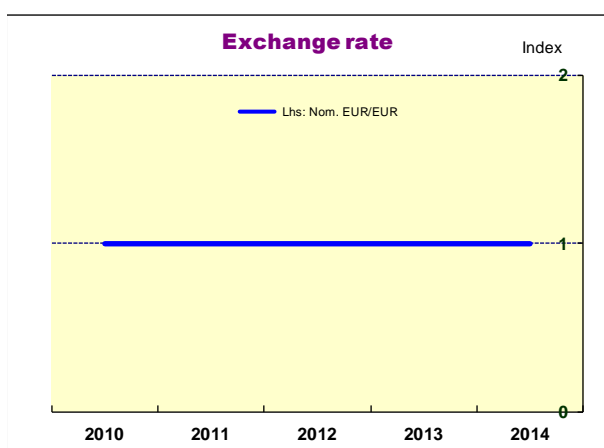
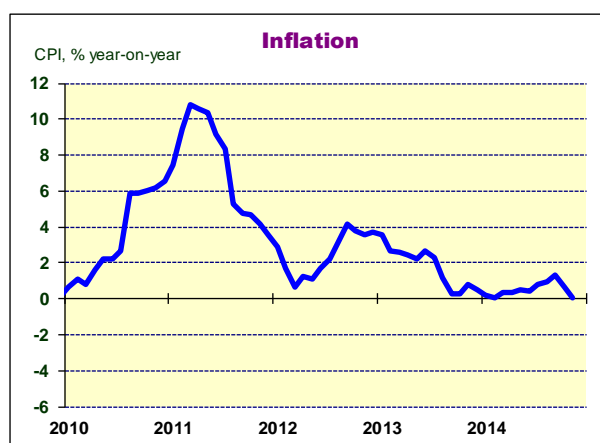
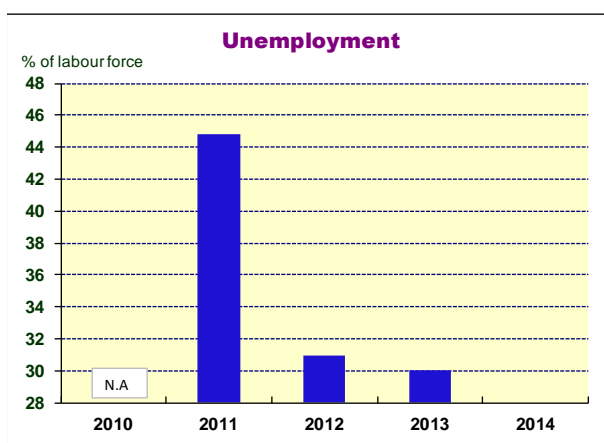
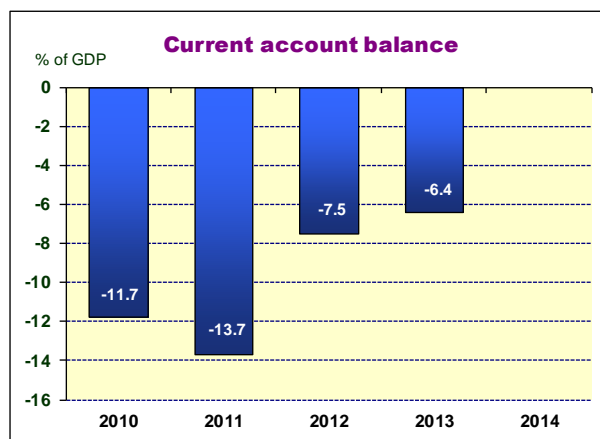
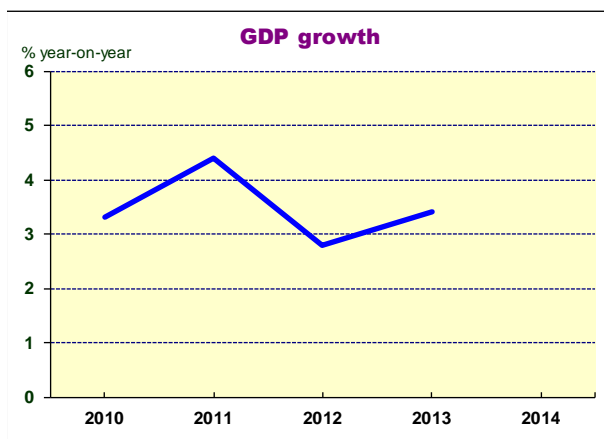
*** Y figure calculated from quarterly industrial turnover data

**** M figure is cumulative

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

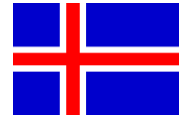


No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	IHS/DataInsight
1.2.	Industrial production	Annual percentage change, total, constant prices	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage 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
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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	
5.	Financial indicators		
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
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt	In percent of GDP	IMF



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	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
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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
5.	Financial indicators		
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
6.	Fiscal developments		

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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial outlook	Not available	
1.2.	Industrial production	Annual percentage change, aluminium, total, ton	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
2.	Labour market		
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
3.	External sector		
3.1.	Exports of goods	Annual percentage change, mio ISK, fob. Statistics Iceland reports used for monthly data. Central Bank's otherwise.	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
4.	Monetary developments		
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
5.	Financial indicators		
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
6.	Fiscal developments		
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
1.	Real sector		
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
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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	
5.	Financial indicators		
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
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	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
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Semi-annual data.	IHS/DataInsight
2.2.	Employment	LFS.	NSO
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	IHS/DataInsight
3. External sector			
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
4. Monetary developments			
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
5. Financial indicators			
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
6. Fiscal developments			
6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	Min. of Finance
6.2.	General government debt	Public sector debt. In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	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	Nat. sources
2. Labour market			
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, Hourly earnings manufacturing	IHS/DataInsight
3. External sector			
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
4. Monetary developments			
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	Broad Indices (61 economies), 2010=100	IHS/DataInsight
5. Financial indicators			
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
6. Fiscal developments			
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	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	Wholesale Trade and Retail Sales, Retail Trade except Retail Trade of Motor Vehicles and Motorcycles (Year on Year), WDA	IHS/DataInsight
2.	Labour market		
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
3.	External sector		
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
4.	Monetary developments		
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
5.	Financial indicators		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close/average	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
6.	Fiscal developments		
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
1.	Real sector		
1.1.	Industrial confidence indicator	Not available.	
1.2.	Industrial production	Not available.	
1.3.	Gross domestic product	Annual percentage change.	Statistical Office of Kosovo (SOK)
1.4.	Private consumption	Annual percentage change.	SOK
1.5.	Gross capital formation	Annual percentage change.	SOK
1.6.	Construction index	Not available.	
1.7.	Retail sales	Not available.	
2	Labour market		
2.1.	Unemployment	In percent of total labour force.	SOK
2.2.	Employment	Annual pc change of number of employees (Tax Register).	SOK
2.3.	Wages	Annual pc change, average monthly wages (Tax Register).	SOK
3.	External sector		
3.1.	Exports of goods	Annual percentage change. 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
4.	Monetary developments		
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
5.	Financial indicators		
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
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP.	IMF, Ministry of Finance
6.2.	General government debt	In percent of GDP.	Ministry of Finance

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

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