



Current update: 7 July 2006

Next update: October 2006



CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIES QUARTERLY

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BULGARIA *



COMMENTS

Recent political and other developments

The Commission adopted its Monitoring Reports on Bulgaria's and Romania's preparedness for accession on 16 May. Regarding economic criteria, the report concluded that Bulgaria had broadly maintained macroeconomic stability and advanced structural reforms. However, the widening current account deficit called for a continuation of prudent fiscal and wage policies, while both the regulatory burden on businesses and labour market rigidities needed to be reduced. The report also identified a number of areas where serious concerns remained. These include agriculture, financial control, and the fight against organised crime, money laundering and fraud and corruption.

In May, Bulgaria extended its current Stand-By Arrangement with the IMF for six months until March 2007.

In June, the Privatisation Agency launched the tender process for the privatisation of Bulgaria Air. The bidding process is expected to end in September. The privatisations of the thermal power plant in Varna and the River Shipping Company were finalised in May and June respectively.

Output and demand

Real GDP growth remained robust into the first quarter of 2006. Following 5.5% growth in both the fourth quarter of 2005 and the full year 2005, real GDP growth accelerated slightly to 5.6% in the first quarter y/y.

Gross fixed capital formation remained particularly strong and expanded by 21.4%. This has been the third quarter in a row with investment growth above 20%, reflecting both efforts to upgrade the capital stock in view of accession-related requirements and an expansion of capacity.

The highest contribution to growth still came from consumption, although private consumption growth decelerated noticeably in the first quarter, to 5.4%. This is the result of

higher inflation and hence lower real disposable incomes as well as additional measures taken by the central bank specifically to contain household credit growth. Public consumption remained almost unchanged in real terms compared to the first quarter of 2005, reflecting efforts to achieve an even higher general government surplus in 2006 than in 2005. Despite a rebound in export growth, net exports continued to contribute negatively to real GDP growth.

Industrial production was relatively volatile in the first four months. At the beginning of the year, it recovered from a drop in growth rates in 2005. Growth of industrial production thus reached well above 7% in January and February. In March, growth started to decelerate again, coming down to 3.3% in April. Apart from a flood-related drop in September 2005, this is the lowest value in more than four years. Industrial confidence rebounded somewhat in the second quarter but also remained rather volatile. Consumer confidence continues to be relatively subdued, driven apparently by high energy prices and higher inflation.

Labour market

Employment growth accelerated further to 3.6% in the first quarter, mainly because of strong private sector job creation. This may also reflect to some extent a shift from informal employment to the formal sector following a significant reduction of payroll taxes at the beginning of the year. In line with this strong employment growth, the unemployment rate (ILO methodology) fell further to 9.7%. This is 1.6 percentage points lower than in the first quarter of 2005.

Nominal monthly average wage increases accelerated to close to 10% in the first quarter y/y. This was triggered by the pick-up in inflation which has at least partly been passed on to wage increases. Real wage growth thus remained at more moderate levels of around 3% (measured by the GDP deflator).

* Bulgaria enjoys acceding country status.

International transactions

Merchandise exports increased strongly in the first quarter, with y/y growth of close to 30%. This follows a particularly weak performance in the second half of 2005 which was largely due to flood-related disruptions. In April, exports of goods grew by 32.4% – significantly more rapidly than imports. This good performance was driven mainly by very strong exports of mineral fuels, metals and certain investment goods. Despite the narrowing of the gap between import and export growth in the first quarter, the trade deficit further increased slightly to 21.4% of GDP.

The rolling twelve-month average current account deficit increased further to 14.0% of GDP. This was mainly driven by the increase in the trade deficit but also by a considerably lower surplus in the services balance and lower surpluses in the income balance and on current transfers. At the same time, "errors and omissions" reported in the balance of payments increased substantially, reaching almost 5% of GDP, probably reflecting difficulties in accurately recording incomes from tourism and income and transfer flows. The current account deficit continues to be covered to a large extent by FDI inflows, which have also again increased to 10% of GDP.

Prices

Consumer price inflation (interim HICP) increased considerably at the beginning of the year as significant increases in excise duties on tobacco and alcohol came on top of high energy prices and relatively high food prices in the wake of the 2005 floods. The inflation rate has remained at above 8% since February with only minor fluctuations.

Monetary and financial indicators

After the introduction of even tighter regulations on credit growth as from January, loans to the private non-financial sector expanded by 19.3% y/y until the end of April 2006, down from growth of over 35% at the end of 2005. Lending to households slowed down considerably from a growth rate of close to 60% at the end of 2005 to

37.5% in April. At the same time, the growth in loans to the corporate sector slowed down from 23.8% at the end of 2005 to just 9.8% in April. In June, the Bulgarian National Bank started to gradually lift the current restrictions on credit growth. As a first step, the amount of minimum reserve requirements to be held by banks which exceed credit growth thresholds will be lowered in August. The restrictions are to be phased out completely by the end of the year.

Following similar interest rate hikes in the euro area, both bond yields and – albeit to a lesser extent – short-term interest rates increased markedly in the first half of the year. Nevertheless rates, in particular short-term ones, remain at historically very low levels.

The Bulgarian stock market remained stable and was hardly affected by the weaknesses observed in other emerging markets. Consequently, with the exception of a decline in May, the index of the Sofia stock exchange (SOFIX) thus continued rising in the first half of the year.

In view of the currency board which pegs the lev to the euro, the Bulgarian currency followed the development of the euro vis-à-vis the US dollar. As a consequence, the decline in the nominal effective exchange rate came to a halt in the first quarter and a slight appreciation could be observed from the second quarter.

General government balance

The general government balance (ESA 95) showed an increased surplus of 3.1% in 2005, reflecting revenue over-performance as a result of strong growth and improved revenue collection, as well as efforts to contain the current account deficit by restraining public expenditure growth. Following a series of early redemptions of debt to the IMF and the World Bank between December 2005 and February 2006, the Fiscal Reserve Account temporarily fell slightly, but had again reached 12.1% of the forecast GDP by the end of May.

In line with the budget surplus and strong GDP growth, the ratio of general government debt to GDP (ESA 95 methodology) decreased further and dropped below 30% in 2005, down from 38.6% in 2004 and more than 66% as late as 2001.

TABLE

European Commission, ECFIN-D-1



BULGARIA

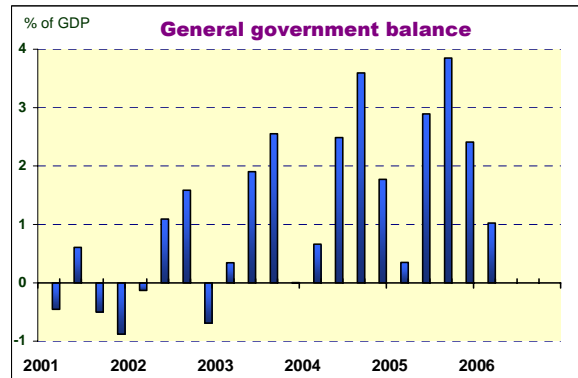
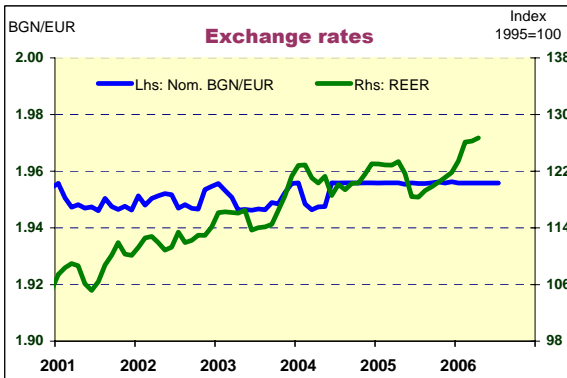
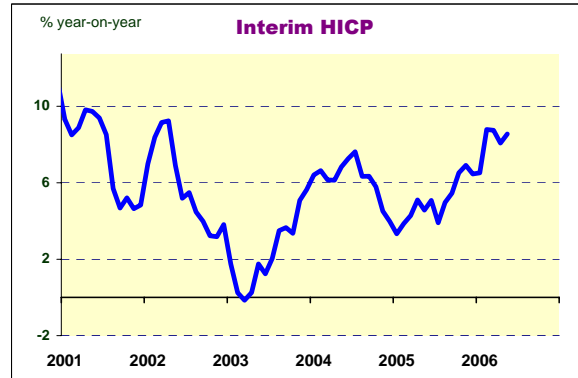
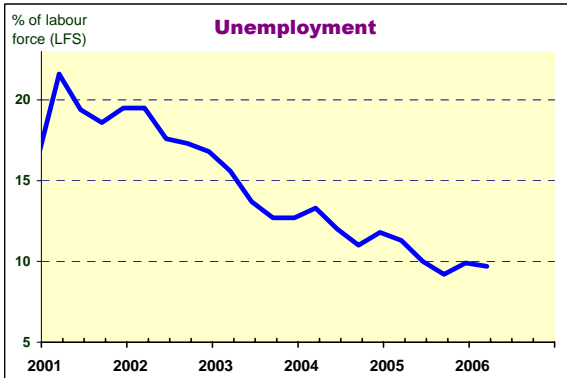
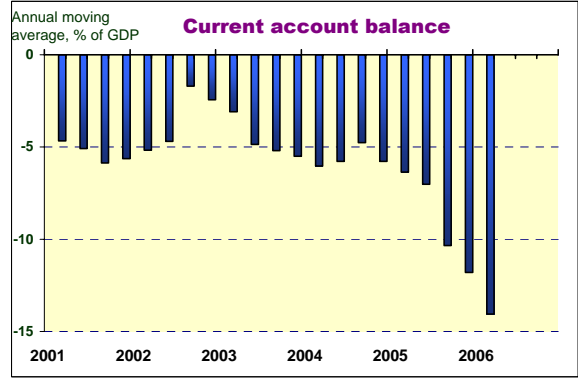
		2001	2002	2003	2004	2005	2005Q3	2005Q4	2006Q1	2006Q2	2006Q4	2006Q5	2006Q6
							Q3	Q4	Q1	Q2	Apr	May	Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	-6.2	-5.2	-2.1	0.1	1.5	1.6	1.1	-1.3	1.6	2.5	0.9	1.5
Industrial production ^{1.2}	Ann. % ch	2.2	4.6	14.0	17.1	6.7	5.0	7.7	7.3	:	3.3	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.9	4.5	5.7	5.5	4.6	5.5	5.6	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	-31.2	-31.7	-27.7	-25.7	-25.8	-29.4	-31.5	-34.4	-34.6	-34.5	-34.1
Private consumption ^{1.5}	Ann. % ch	4.6	3.4	7.1	4.9	7.4	9.4	7.1	5.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	23.3	8.5	13.9	13.5	19.0	24.0	21.5	21.4	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	2.4	1.5	2.4	2.6	4.2	4.3	4.2	5.2	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	19.8	17.8	13.7	12.0	10.1	9.2	9.9	9.7	:	:	:	:
Employment ^{2.2}	Ann. % ch	-3.4	1.5	3.5	3.1	2.0	2.4	2.4	3.6	:	:	:	:
Wages ^{2.3}	Ann. % ch	8.3	6.6	6.2	6.0	8.0	8.2	7.4	9.9	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	8.8	6.1	10.0	19.7	18.4	10.6	21.4	28.2	:	32.4	:	:
Imports of goods ^{3.2}	Ann. % ch	14.7	6.0	14.5	20.3	26.4	32.6	25.6	33.0	:	26.1	:	:
Trade balance ^{3.3}	% of GDP	-11.7	-11.4	-13.7	-15.1	-20.4	-19.2	-20.4	-21.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	55.6	53.1	53.6	58.0	60.8	59.9	60.8	61.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	63.1	59.8	63.0	68.2	77.4	75.0	77.4	80.4	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-5.6	-2.4	-5.5	-5.8	-11.8	-10.3	-11.8	-14.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	5.9	5.8	10.3	11.5	8.7	13.5	8.7	10.0	:	N.A.	N.A.	N.A.
4 Prices													
Interim HICP ^{4.1}	Ann. % ch	7.4	5.8	2.3	6.1	5.0	4.8	6.6	8.0	:	8.1	8.5	:
GDP Deflator ^{4.2}	Ann. % ch	7.0	3.9	2.3	5.1	4.1	4.7	4.3	6.5	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	3.6	1.3	4.9	6.0	6.9	6.7	7.8	8.2	:	7.4	11.4	:
Import prices ^{4.4}	Ann. % ch	-1.7	-3.9	-4.4	5.7	9.0	11.4	12.8	1.4	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	5.05	4.91	3.59	3.32	2.70	2.71	2.70	2.78	2.92	2.86	2.90	3.01
Bond yield ^{5.2}	% p.a.	7.08	6.73	5.39	4.83	3.45	3.18	3.44	3.61	4.22	4.13	4.24	4.28
Stock markets ^{5.3}	Index	95	143	325	534	813	834	829	871	881	887	867	888
M3 ^{5.4}	Ann. % ch	27.6	17.7	16.6	22.5	27.3	27.3	26.0	16.8	:	17.1	18.4	:
Exchange rate BGN/EUR ^{5.5}	Value	1.95	1.95	1.95	1.95	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate ^{5.6}	Index	106.44	110.88	117.05	118.79	117.03	116.26	115.52	115.45	:	116.12	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	1.9	0.1	0.3	1.9	3.1	3.8	2.4	1.0	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	66.2	54.0	46.1	38.6	29.9	33.9	32.7	30.2	:	27.5	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



BULGARIA



ROMANIA *



COMMENTS

Recent political and other developments

The Monitoring Report released by the European Commission on 16 May confirmed the progress made by Romania towards accession, notably in the key areas of justice and combating corruption. The number of "red flags" on problem areas declined from fourteen areas identified in the October 2005 report to only four areas. 1 January 2007 was maintained as the accession date on the condition that all outstanding issues are properly addressed by the time the next report is issued in September 2006.

Tensions within the ruling coalition have grown stronger recently. On one hand the Democrats favour a thorough, immediate government reshuffle – and have taken a first step by replacing the Minister for Transport and withdrawing their Deputy Prime Minister without appointing a replacement. The Liberals, however, do not favour a substantial reshuffle before the September Monitoring Report is released. In addition, the resignation of Deputy Prime Minister Copos after being charged with tax evasion led to another dispute: Dan Voiculescu, the chairman of the Conservative Party, claimed the vacant position in the cabinet but later had to withdraw due to his alleged cooperation with communist secret services. He denied the allegations and threatened to leave the governing coalition. Differences also emerged between the ruling political parties during the vote on the Fiscal Code in the Senate with the draft submitted by the government undergoing serious amendments. Despite these aggravated tensions the government easily survived the no-confidence vote called by the socialist opposition party PSD at the end of June with 235 votes against 145. There was another dispute between Prime Minister Tariceanu and President Basescu when the former tried to initiate the withdrawal of the Romanian troops from Iraq but was blocked in an ad hoc meeting of the country's council of security (CSAT).

Output and demand

GDP growth recovered in the first quarter of 2006 to real 6.9% y/y after last year's slowdown

to 4.1% caused by the negative impact of floods and deceleration of industrial activity. Value added in industry increased by an unexpected 4.8% against the more modest increase of 2.5% in 2005, despite the continuous shrinkage of output in traditional sectors such as textiles, clothing, leather and coal mining. The restructuring of industrial activity based on redirecting output towards higher value added sectors, notably the automotive, furniture, oil processing or electric equipment industries seems to be on a sustainable trend and reinforced by the increasing amount of net FDI. The growth of value added in construction was exceptionally high at 20.4%, led by an increase of 29.3% in civil engineering construction related to flood damage. Value added in agriculture declined by 5.3% but its overall impact on the 2006 GDP figure will be mainly determined by the crop output in the last two quarters of the year.

Gross fixed capital formation increased most strongly by 11.4%, outpacing final consumption which grew by 10.2%. The deceleration of private consumption growth from 12.5% in the first quarter to 6.4% in the last quarter of 2005 was reversed, rising to 10.9% in the first quarter of 2006, underpinned by strong growth of credit and retail sales. Imports still expanded more than exports but the latter gathered speed, increasing by 13% compared with last year's average growth of 7.6%.

Labour market

Registered unemployment stood at 5.5% in May 2006, 0.4% points lower than in December 2005 and 0.1% point lower than one year earlier. Based on seasonally adjusted Labour Force Survey data, the unemployment rate decreased from 7.8% to 7.7% from the fourth quarter of 2005 to the first quarter of 2006. Total working-age employment increased by 0.1% in the fourth quarter of 2005 compared to one year earlier. National data show that employment was 0.9% higher in April 2006 than one year earlier, while average net nominal wages in May 2006 were 15.6% higher than one year before. Deflated by

* Romania enjoys acceding country status.

consumer price inflation, average net real wages in May grew by 6.7% y/y.

International transactions

The trade deficit increased to 9.9% of GDP in 2005 from 8.8% in 2004, as the 17.5% growth in exports was outpaced by import growth of 23.9%. During the first quarter of 2006, the trade deficit widened to around 10.6% of GDP while exports and imports increased by 22% and 28.6% respectively. Export growth in January-May remained bullish at 19.8%, led by the automotive, oil processing, and machinery and equipment sectors. The current account deficit widened to about 9.2% of GDP in the first quarter of 2006 from 8.7% in 2005 and was entirely covered by net FDI. Net FDI grew strongly by 130% in January-April and reached EUR 2.3 billion compared with EUR 1 billion in the same period of 2005. The central bank's foreign reserves inched down a mere EUR 36 million in June for a second month in a row, but they remain robust covering around 6.3 months of imports. At the end of April, medium- and long-term external debt was 0.2% lower than in December 2005, representing around 26% of projected GDP.

Prices

The 2005 end-year inflation stood at 8.6%, missing the target of 7.5% within a +/- 1% band. The relatively restrictive monetary stance adopted in the first half of 2006 led to a decline in CPI growth, which dipped as low as 6.9% in April before recovering slightly to 7.3% y/y in May. Headline inflation edged up in May due to the introduction of the tax on vice for tobacco and alcoholic beverages but moved more or less in line with the central bank's expectations. Despite the official year-end inflation target of 5% within a +/-1% band for 2006, the central bank issued a more realistic projection of 6.5% which was subsequently adjusted to 6.8%. The rise in producer prices decelerated to 10.3% y/y in April from 11.3% in March but remained relatively strong due to higher prices in the fuel processing and mining sectors.

Monetary and financial indicators

After easing the interest rate policy and sterilisation operations in the second part of 2005 in an attempt to stem growing capital

inflows and reallocate lending from foreign into domestic currency, the central bank adopted a tighter monetary stance in the first half of 2006. In February the monetary policy rate was raised from 7.5% to 8.5% p.a. and started to be effectively used as a sterilisation rate. In addition, FOREX market interventions have been almost entirely eliminated since September 2005. The minimum reserve requirements on foreign currency-denominated liabilities were increased from 30% to 40% in two stages. The gradual tightening of prudential and administrative measures in the banking system could not prevent a reacceleration of private sector credit growth to a real 43% in May 2006 compared to 26% one year before. The rapid credit growth is driven by the domestic currency component that grew by a real 86.4% in May. In its June meeting, the board of the central bank further raised the monetary policy rate to 8.75% and minimum reserve requirements on RON liabilities from 16% to 20%. This is meant to slow down the fast credit growth and counteract inflationary pressures from the expected increase in government spending.

After an increase of 51% in 2005, the index of the Bucharest stock exchange rose by less than 10% in the first half of 2006.

General government balance

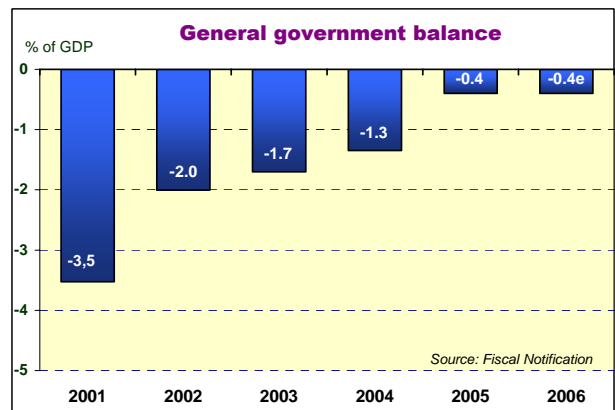
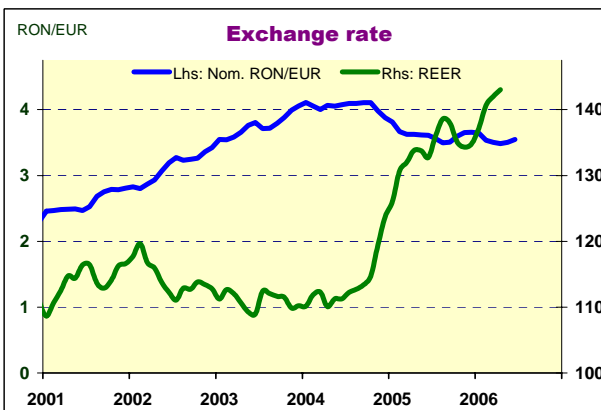
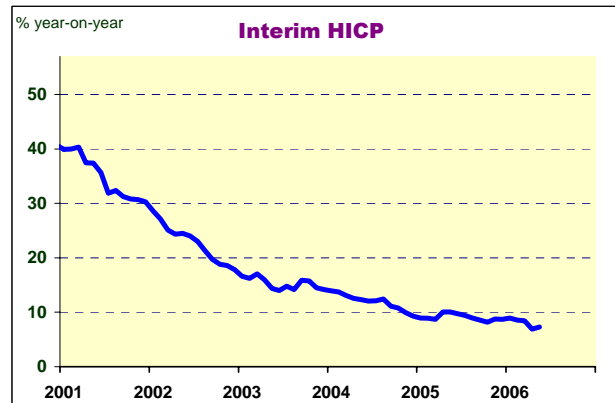
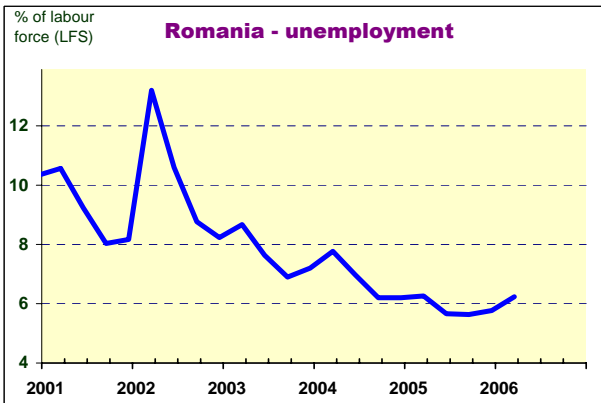
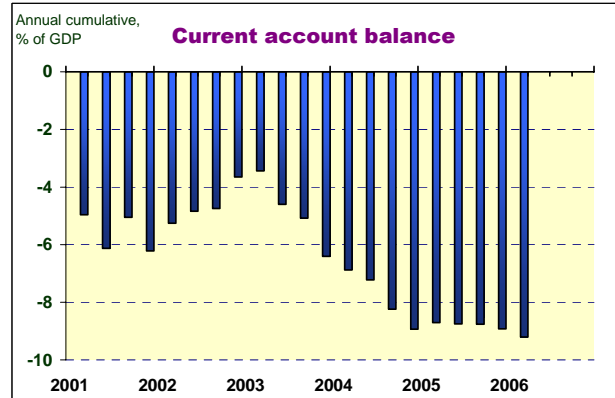
The ESA 95 general government balance declined from 1.3% of GDP in 2004 to 0.4% of GDP in 2005 while the stock of public debt continued to diminish by almost 3% points to around 15.2% of GDP. Budget execution for the first five months of 2006 shows a surplus of 1.3% of GDP underpinned by the robust performance of revenues, which grew by more than 20% y/y in nominal terms (12.5% CPI deflated). Notwithstanding the favourable budget execution, the 0.5% deficit target for 2006 was revised upwards to 0.9% of GDP in April and 2.5% of GDP in June. Total expenditures are thus increased by more than 10% as originally budgeted. Less than half of the planned additional spending is earmarked for investment projects in transport, education and health and there is a risk that even this target may not be met fully.

CHARTS

European Commission, ECFIN-D-1



ROMANIA



CROATIA



COMMENTS

Recent political and other developments

In May, the government launched a draft "Strategic Development Framework (2006-2013)" for public consultation. It emphasises the importance of a competitive market economy for development and growth.

In early July, a revised 2006 budget with a lower deficit (3% of GDP instead of 3.3%) was discussed in Parliament.

The EU–Croatia subcommittee on economic and financial affairs met in Zagreb on 6 July 2006.

On 7 July, the Croatian Parliament reappointed Zeljko Rohatinski as Governor of the Croatian National Bank for a six-year term.

Output and demand

In the first quarter of 2006, GDP grew by 6% y/y, partly due to base effects. Growth continued to be driven by strong domestic demand. Investment increased strongly by 18% y/y and private consumption picked up by 4%, fuelled by strong credit growth to households. Net external demand posted a significant negative contribution to growth (4.1 percentage points), as imports grew more rapidly (16.1%) than exports (14%). Recent high-frequency indicators suggest a mixed economic performance. Growth of industrial production declined to 3.2% y/y in April, but recovered to 4.1% in May, resulting in a cumulative growth rate of 3.8% in the first five months. In April, real retail trade increased by 2.3% y/y and construction output slowed to 3.8% y/y.

Labour market

The officially registered unemployment rate continued to decline to 16.7% in May compared to 18.5% in the same month a year ago. According to official data from the Employment Office, employment increased by a mild 0.7% y/y in May. However, data from the Pension Insurance Fund suggested stronger y/y employment growth of around 3% over the past

few months. Most recent data from the Labour Force Survey reported a decline in the unemployment rate to 12.7% in 2005, down from 13.8% in 2004.

Average gross wage growth accelerated somewhat in the first quarter of 2006 to 6% y/y, as compared to annual average growth of 4.4% in 2005. Deflated by consumer price inflation, this translates into a real wage increase of 2.4% y/y in the first quarter. In April, average gross wages were 5.7% higher than a year ago, or 2.1% in real terms.

International transactions

According to data released by the Statistical Office, the cumulative merchandise trade deficit from January to May 2006 increased by around 15.7% y/y to 11.4% of expected 2006 GDP. In May, merchandise exports increased by a strong 26.4% y/y and imports by 13.7% y/y. In the first five months, cumulative merchandise exports rose by 19.3%, and imports by 17.4%.

According to most recent data published by the Croatian National Bank, the current account deficit increased to 7.4% of GDP in the first quarter of 2006 (on a four-quarter rolling basis), up from 6.3% in 2005. The trade deficit rose to 24.4% of GDP (up from 24.1% in 2005) and the surplus in services slightly declined to 16.5% (from 17.1% of GDP in 2005). Moreover, a higher income balance deficit of 3.4% (3.1% in 2005) and a lower surplus in transfers of 3.8% (against 4.0% in 2005) added to the increase of the current account deficit.

On a four-quarter moving average, net FDI inflows increased to 4% of GDP, up from 3.9% in 2005, providing for coverage of 54% of the current account deficit.

At end-May 2006, the official reserve assets of the Croatian National Bank stood at a comfortable level of EUR 8.5 billion, reflecting a nominal increase of around 22% as compared to May 2005, and equivalent to around 5.5 months of 2005 imports of goods and services. At end-2005, the external debt-to-GDP ratio stood at 82.6%, up from 80.2% at end-2004. In

the first quarter, gross external debt continued to increase, to EUR 26.4 billion by end-March or by 13.7% compared to the same month a year ago. The growth of external debt was mainly driven by an acceleration of external borrowing of both commercial banks and domestic enterprises.

Prices

Average annual consumer price inflation increased significantly from 2.1% in 2004 to 3.3% in 2005, resulting from higher prices for energy (oil), transport and food. On a twelve-month moving average, consumer prices increased further, to 3.5%, in May 2006 (4% y/y), largely on the back of higher food prices. Industrial producer price inflation accelerated to 2.8% in June 2006, mainly resulting from higher oil prices and administrative price adjustments.

Monetary and financial indicators

Despite a continuation of tight monetary policies including the implementation of administrative measures to curb foreign borrowing by commercial banks, growth of credit and money aggregates have again accelerated since mid-2005. Year-on-year growth of M4 accelerated from 8.2% in 2004 to 9.6% in 2005, and stood at 12.5% in April 2006. Annual domestic credit growth accelerated from 14% in 2004 to 17.2% in 2005, and to 22.6% in April 2006. In 2005, commercial banks' lending to households expanded more strongly (20.3%) than lending to enterprises (14.3%), but the growth of lending to both sectors accelerated to around 23% y/y in April 2006.

Average lending rates for credit that is not indexed to a foreign currency continued to decline in the first quarter, reaching 9.8% in March. Average lending rates with a foreign exchange clause slightly increased to 6.4% in the first three months, while the average euro lending rate increased from 4.8% to 5.4%. Average three-month interest rates fell in April to 3.8%, but rose again to 4.2% in May.

The exchange rate of the Kuna vis-à-vis the euro appreciated (in nominal terms) by 1.4% in 2005 and by a further 1.5% in the first five months of this year. In nominal effective terms, the Kuna remained broadly stable in the twelve months to April 2006, as a slight depreciation in the second half of 2005 was counterbalanced by an appreciation in early 2006. Preliminary data suggest that the real effective exchange rate (deflated by consumer prices) appreciated by 1.7% in the first quarter of 2006.

General government balance

Fiscal developments in the first quarter of 2006 were marked by strong revenue and low spending growth. According to officially released data, revenues of the general government increased by 11.2% in the first quarter compared to the same period a year ago, largely owing to base effects. Revenues from value added tax increased by 21.8%, from income tax by 9%, and from excises by 8.2%. Total spending, without capital spending, declined by 1.3% y/y. Spending on wages and goods and services continued to grow by 5.9% and 3.9% respectively, but interest payments fell by 2% and subsidies by 8.7% y/y. The net acquisition of non-financial assets (capital spending) declined by 24.1%. In the first quarter, the fiscal deficit on a cash basis stood at HRK 2 461 million or 1% of expected full-year GDP. However, this figure may underestimate the "true" deficit, as arrears continued to accumulate during this period. The original budget adopted for 2006 foresees a reduction of the deficit to 3.3% of GDP in 2006. The authorities have recently adopted a supplementary budget which revises the deficit downwards, to 3% of GDP, on the back of stronger than expected revenue performance. The stock of general government debt stood at 41.2% of GDP at end-February. This does not include the stock of issued state guarantees of 4.9% of GDP and the debt of the State Development Bank (HBOR) of 2.8% of GDP. Moreover, the settlement of pensioners' debt is likely to increase public debt in 2006, in particular if the privatisation revenues earmarked for this transaction do not materialise.



TABLE

CROATIA

European Commission, ECFIN-D-1

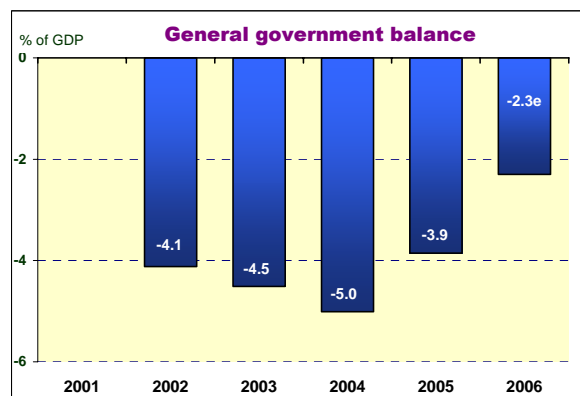
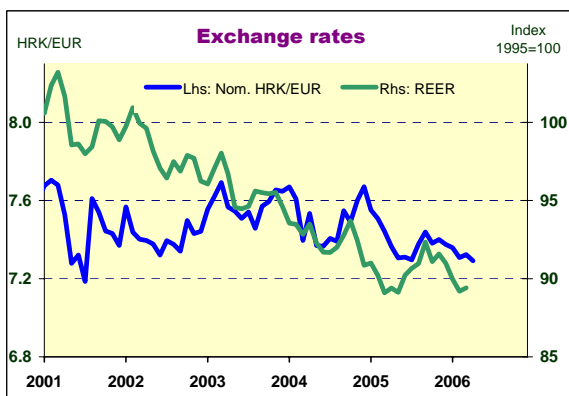
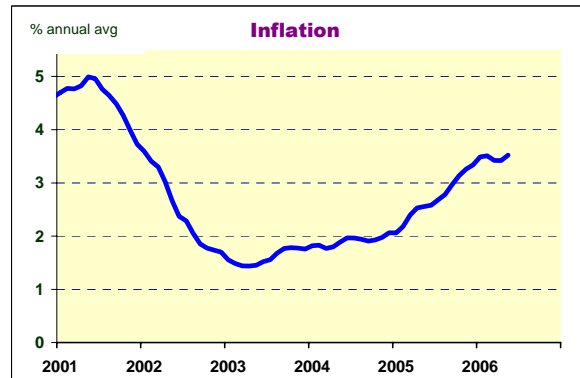
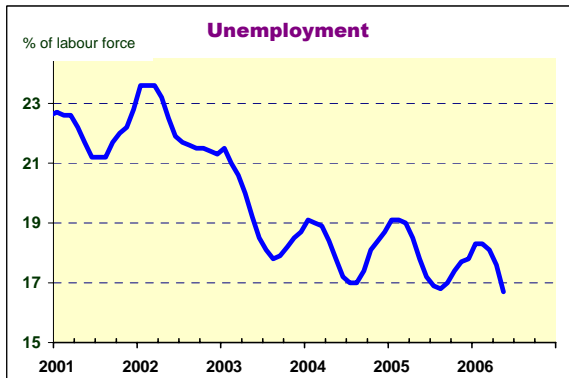
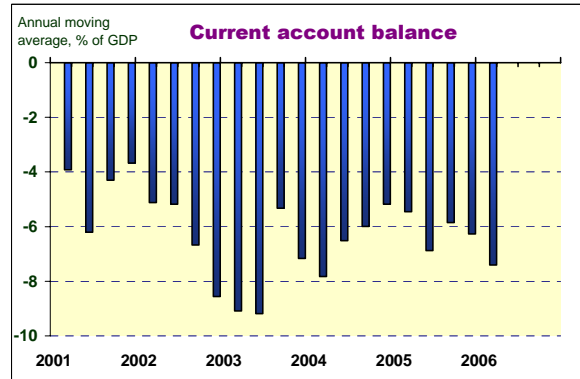
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							Q3	Q4	Q1	Q2	Apr	May	Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	6.0	5.5	4.0	3.6	5.1	5.4	5.5	6.4	:	-3.2	4.1	:
Gross domestic product ^{1.3}	Ann. % ch	4.4	5.6	5.3	3.8	4.3	5.2	4.8	6.0	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	4.5	7.7	4.6	3.9	3.4	3.8	3.2	4.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	7.1	13.9	24.7	4.4	4.8	5.8	9.9	18.1	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	1.6	4.8	2.5	2.3	2.7	2.8	2.7	3.3	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	16.3	15.2	14.7	14.2	13.1	16.9	17.6	18.2	:	17.6	16.7	:
Employment ^{2.2}	Ann. % ch	-5.4	4.4	0.1	1.6	0.4	0.9	1.3	0.8	:	0.6	0.7	:
Wages ^{2.3}	Ann. % ch	1.3	8.7	5.1	6.1	4.4	4.1	4.6	6.0	:	5.7	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	5.8	-1.3	7.6	16.9	8.5	8.4	9.3	28.8	:	-9.4	26.4	:
Imports of goods ^{3.2}	Ann. % ch	14.9	11.4	13.1	5.4	10.4	11.7	12.5	25.0	:	3.0	13.7	:
Trade balance ^{3.3}	% of GDP	-22.0	-25.1	-27.0	-24.3	-25.3	-24.9	-25.3	-25.8	:	-8.9	-11.4	:
Exports goods and services ^{3.4}	% of GDP	48.4	45.3	47.1	47.4	47.1	47.3	47.1	47.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	54.5	56.4	57.9	56.7	55.8	55.9	55.8	56.8	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-3.7	-8.6	-7.2	-5.2	-6.3	-5.8	-6.3	-7.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	5.9	2.7	6.7	2.6	3.7	4.1	3.9	4.0	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	3.7	1.7	1.8	2.1	3.3	3.4	3.8	3.5	:	3.4	3.5	:
GDP Deflator ^{4.2}	Ann. % ch	4.0	3.6	3.9	3.3	3.2	3.2	3.5	4.0	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	3.7	-0.5	1.9	3.5	3.0	2.0	2.3	3.5	3.6	2.6	2.7	2.8
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	4.63	5.42	7.31	6.21	6.78	5.82	4.87	4.10	3.79	4.16	4.35
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	971	1,167	1,129	1,284	1,920	1,938	2,016	2,224	2,574	2,514	2,494	2,714
M4 ^{5.4}	Ann. % ch	31.6	30.8	11.4	8.2	9.6	9.7	10.5	10.0	:	12.5	12.4	:
Exchange rate HRK/EUR ^{5.5}	Value	7.48	7.42	7.58	7.50	7.40	7.37	7.39	7.33	:	7.29	:	:
Nominal eff. exchange rate ^{5.6}	Index	99.99	97.80	94.94	91.66	90.49	90.43	91.57	90.60	:	89.75	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	N.A.	-4.1	-4.5	-5.0	-3.9	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	N.A.	40.0	40.9	43.7	44.2	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



CROATIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



COMMENTS

Recent political and other developments

On 1 April, the new Law on Tax Administration Procedures entered into force, strengthening the authorities' capacities for tax collection.

On 20 April, the IMF Board completed the first review under the 2005 Stand-By Arrangement, commending the country on its economic performance with stable growth, low inflation, falling unemployment and a significant improvement in the external position. On 5 June, the IMF published the concluding statement on its Article IV consultation, urging the authorities to proceed with structural reforms, "enhancing financial intermediation with sound banking supervision, improving the business climate and, underlying all these reforms, improving institutional quality".

On 12 June, the privatisation of remaining state shares in the incumbent telecom company started. In a first auction, 10.3% of the companies' shares were sold for EUR 63 million (1.5% of GDP). The remaining 34% are planned to be sold after the formation of the new government.

On 5 July, general elections showed clear support for the centre-right opposition party, chaired by former Finance Minister Gruevski. The party's economic programme envisages fighting corruption, reducing the informal sector and the notoriously high unemployment, improving the business climate, modernising the country's outdated infrastructure, reforming and simplifying the tax system and increasing the efficiency of public administration.

Output and demand

In 2005, real GDP growth was 4.0%, similar to the 4.1% increase in 2004. Exports and gross investments appear to have been the most dynamic elements of the economy, increasing by 7.4% and 1.5% respectively. Final consumption remained subdued, with an increase of only 0.8%, compared to a 6.0% rise the year before. In the first quarter of 2006, output increased by only 2.6% y/y, as growth in industry was only

0.5%. International forecasts see economic growth between 3½% and 4¼% in 2006 and a similar increase in 2007, based on improvements in the investment environment and strengthened consumer confidence.

Industrial production, which accounts for some 26% of total value added, rose by 7.2% in 2005, after a decline of 2.2% the year before. This strong fluctuation reflects the temporary closure of a few significant production sites due to changes in ownership in 2004 and the reopening of production in those plants in mid-2005. During the first five months of 2006, industrial production rose by 0.5% only, as a result of a weak industrial performance during the first 4 months. However, in May, the y/y increase was 5.4%, compared to a decline of 4.4% in April.

Labour market

Unemployment is declining, but is still at a high level. According to Labour Force Survey data, unemployment declined to 36.2% in the first quarter of 2006, which is 2.4 percentage points lower than a year before. The number of employed rose by 10.3% y/y, while the labour force reportedly rose by 6.1%. As a result, the participation ratio increased by some 2.7 percentage points, to 54.3%. This favourable development is probably the result of the impact of the recent liberalisation of labour legislation and government measures to support job creation, as well as seasonal effects.

Nominal wage growth appears to be accelerating. After strong rises of nominal gross wages in the post-crisis period of 2002-2004, wage growth moderated to 2.7% in 2005. However, towards the end of the year, nominal wages started to increase again, recording 3.8% growth in the fourth quarter of 2005. In the first quarter of 2006, wages rose by 7.6%. This trend continued in April with a nominal increase of 8.5%.

International transactions

Current account data registered a significant improvement in the external balance during

2005, with a decline in the current account deficit from nearly 8% of GDP in 2004 to 1.4% in 2005. About half of the improvement was due to higher exports, the share of which increased from 31% of GDP in 2004 to 36% of GDP in 2005. Net private transfers increased from 13.3% of GDP in 2004 to 17.6%, adding another 4¼ percentage points to the improvement in the current account. Foreign direct investment declined slightly, from 2.8% of GDP in 2004 to 1.7% in 2005. Balance of payments data for the first 3 months of 2006 point to a broadly stable trend. The current account registered a deficit of some EUR 15 million, (about 1¼% of projected GDP), compared to EUR 18 million the year before. The trade deficit stood at roughly EUR 200 million (17% of GDP), compared to EUR 160 million (14% of GDP) the year before.

Total trade increased by 2.2% (in USD terms) during the first five months of 2006. Exports are slightly below the pre-year level (-0.5%), while nominal imports rose during this period by 4%. The most important export products were iron, textiles and tobacco. On the import side, oil products, motor vehicles and electricity were the most important items.

At the end of May 2005, the official reserve assets of the national bank stood at a level of EUR 1.2 billion, equivalent to more than 4 months of 2006 imports of goods and services. End-May 2006 gross external debt stood at some 38% of GDP.

Prices

Consumer prices increased by 3.1% during the first half of 2006, compared to 0.2% on average during the first half of 2005. One of the main contributory factors to low inflation in the past few years was that food prices declined as a result of import liberalisation due to the country's accession to the WTO. However, during 2006, higher energy prices and increases in excise taxes led to an acceleration of consumer price rises. The authorities expect an annual average inflation of about 2% for 2006.

Monetary and financial indicators

Monetary conditions eased markedly during the first half of 2006, reflecting improved

confidence in the stability of the exchange rate regime. Average weighted lending rates declined from 12.1% at the end of 2005 to about 11.5% in May 2006. Interest rates on deposits came down from 5.6% in December 2005 to 4.2% in May 2006. Credit growth to the private sector continued to be high, at some 23% during the first half of 2005. Year-on-year growth of M4 was 14.5% during the first quarter of 2006.

The exchange rate of the denar has remained largely unchanged against the euro on a level of 61.2 MKD/EUR. The national bank intends to maintain its current peg vis-à-vis the euro.

Foreign exchange reserves amounted to EUR 1.2 billion by end-May, which corresponds to more than 4 months of imports. Important reasons for the rapid increase in reserves were the inflow from the ESM privatisation proceeds (about 5% of GDP) and other foreign exchange inflows through the cash exchange offices.

End-February 2006, the gross external debt increased to 36.6% of the projected full-year GDP. This reflects the sale of a 10-year government Eurobond worth EUR 150 million, which was used to buy back London Club debt. The Eurobond issue was rated BB/Positive by Fitch and BB+ by S&P.

General government balance

Central government revenues increased by about 8% in 2005, while expenditures rose by 6%. As a result, the general government balance registered a surplus of about 0.3% of GDP in 2005, compared to a balanced budget in 2004. The original fiscal target had envisaged a deficit of some 0.4% of GDP in 2005. The main reason for the better than expected fiscal performance was better than expected revenues while planned public investment remained below expectations. For 2006, the fiscal target is a deficit of 0.6% of GDP. So far, budgetary revenues and expenditure seem to be in line with this scenario.

The general government debt ratio increased to 41% of GDP at the end of 2005, as a result of the sale of the EUR 150 million Eurobond. However, following the buyback of London Club debt at the beginning of 2006, the ratio has declined to some 37.3% of the projected full-year GDP.

TABLE

European Commission, ECFIN-D-1



The former Yugoslav Republic of Macedonia

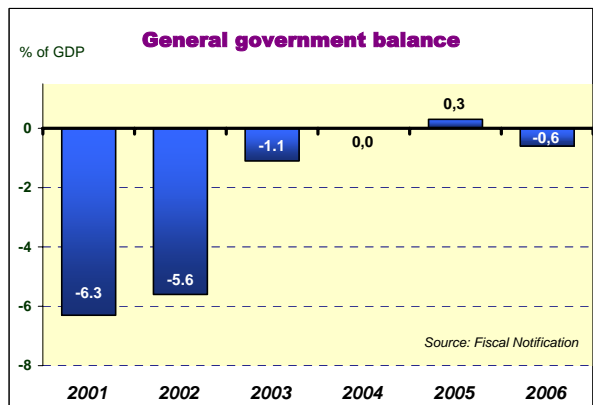
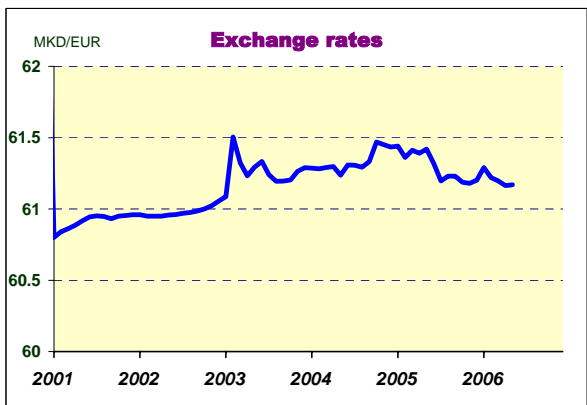
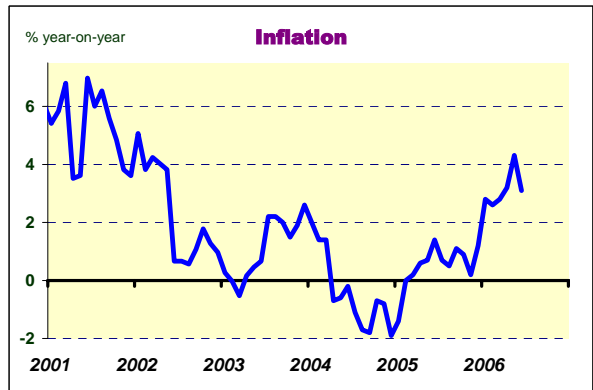
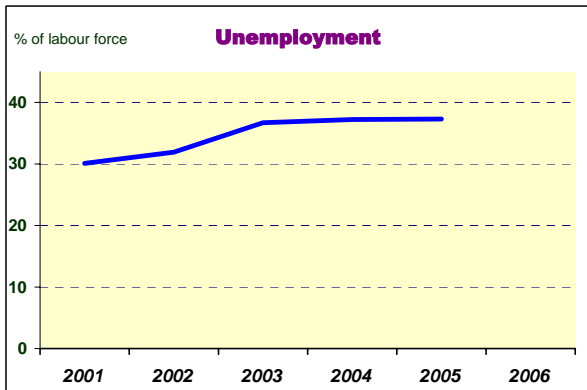
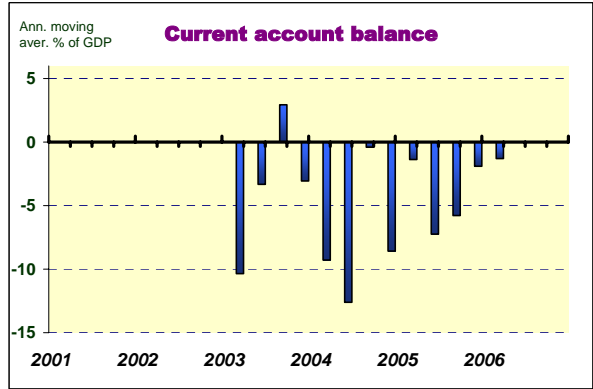
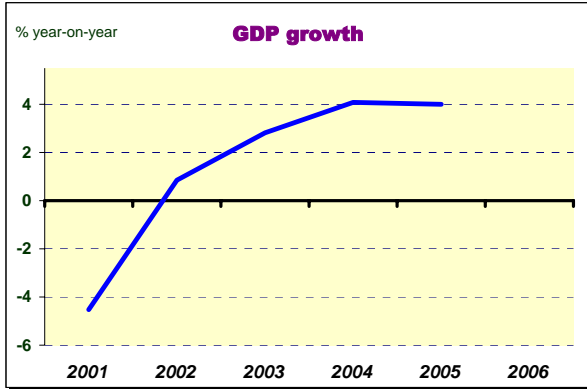
		2001	2002	2003	2004	2005	200503	200504	200601	200602	200604	200605	200606
							Q3	Q4	Q1	Q2	Apr	May	Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	:	:	:	:	:	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	-3.0	5.3	4.7	-2.2	7.2	6.0	4.2	0.5	:	-4.4	5.4	:
Gross domestic product ^{1.3}	Ann. % ch	-4.5	0.9	2.8	4.1	4.0	4.1	3.8	2.6	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	:	:	:	:	:	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	-11.6	12.5	-1.5	6.2	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	-8.6	17.6	1.1	10.9	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	4.2	4.0	3.2	3.7	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	30.1	31.9	36.7	37.2	37.3	36.5	36.5	36.2	:	:	:	:
Employment ^{2.2}	Ann. % ch	9.0	-6.3	-2.9	-4.1	4.4	6.1	11.4	10.3	:	:	:	:
Wages ^{2.3}	Ann. % ch	3.5	6.9	4.8	4.0	2.7	2.2	3.8	7.6	:	8.5	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	-12.5	-3.6	22.5	22.4	22.0	15.0	17.9	1.7	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	-19.1	17.8	15.6	25.9	11.3	9.0	9.4	11.7	:	:	:	:
Trade balance ^{3.3}	% of GDP	-14.1	-21.4	-18.4	-20.9	-18.6	-16.9	-20.1	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	42.7	38.0	37.9	40.2	44.4	47.8	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	56.6	58.2	54.8	60.5	63.8	64.0	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-6.5	-9.5	-3.5	-7.9	-1.4	-5.8	-1.9	-1.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	11.8	2.1	2.0	2.8	0.5	1.3	0.7	1.0	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	5.5	1.8	1.2	-0.4	0.5	0.8	0.7	2.7	:	3.2	4.3	3.1
GDP Deflator ^{4.2}	Ann. % ch	3.6	3.4	0.3	1.3	:	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	-0.2	1.2	2.0	4.5	3.7	5.6	:	4.4	7.3	:
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (deposit) ^{5.1}	% p.a.	10.00	9.20	6.70	6.50	5.70	:	5.60	5.20	:	4.60	4.20	:
Bond yield/T- Bills 3 M, Average ⁵	% p.a.	:	:	:	8.49	10.00	10.39	8.02	6.97	6.36	6.44	6.11	6.54
Stock markets MBI-10 ^{5.3}	Index	1 000	1 095	1 179	1 352	1 941	2 029	2 380	2 506	2 672	2 572	2 628	2 816
M4 ^{5.4}	Ann. % ch	61.7	-9.8	16.0	16.3	15.1	13.7	15.1	:	:	:	:	:
Exchange rate MKD/EUR ^{5.5}	Value	60.91	60.98	61.26	61.34	61.30	61.22	61.19	61.24	:	61.16	61.17	:
Nominal eff. exchange rate ^{5.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-6.3	-5.6	-1.1	0.0	0.3	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	48.8	43.0	39.0	36.6	40.9	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



The former Yugoslav Republic of Macedonia



TURKEY



COMMENTS

Recent political and other developments

Turkey's EU accession negotiations, which started on 3 October, have continued over recent months. Negotiations in the fairly uncontroversial science and research chapter were opened and successfully closed in mid-June 2006.

The IMF Board concluded in December 2005 the first and second review of the Stand-By Arrangement (2005-2007). Talks on the third and fourth review were held in late May 2006. Provided that the authorities implement the agreed actions in good time, the IMF Board may decide to disburse EUR 1.5 billion in early August.

Output and demand

Annual real GDP growth fell from 8.9% in 2004 to 7.4% in 2005 and 6.4% in the first quarter of 2006.

Private investment rose by 30.2% y/y in the first quarter of 2006. This contributed by a very high 7% to overall growth, chiefly via machinery and equipment purchases. Private consumption growth slowed down significantly from 16.7% in the final quarter of 2005 to 8.4% in the first quarter of 2006, but still outpaced overall growth. Export growth slowed down significantly, from over 10.9% in the fourth quarter of 2005 to 3.5% in the first quarter of this year. Imports grew at 8.2% during the first quarter of 2006, and hence, as in most of 2005, the foreign contribution to growth fell.

On the supply side, construction growth almost doubled to 25.9% y/y. The slowdown in GDP growth was accompanied by slowing growth of industrial production, from 10.4% in 2005Q4 to 4.5% in 2006Q1. Business and consumer survey indicators suggest a slight fall in confidence since May 2005, but levels are still comfortably high.

Labour market

The official unemployment rate stood at 10.9% in March 2006, exactly the same as one year earlier. The small decline in the jobless rate observed in the first half of 2005, which stemmed mainly from growth in shorter-term seasonal employment in the agricultural sector, thus appears to have been reversed.

The economic recovery has, since early 2004, caused acceleration in wage growth throughout the economy. The trend continued in 2005 and the first months of 2006. Real wages per worked hour in the manufacturing sector increased in 2005 and the first months of 2006 at rates above 10% y/y. Public sector real wage growth amounted to 2.7% in 2005, and the authorities are committed to similar increases in the public sector wage bill in 2006.

International transactions

Robust economic growth, low inflation, a strong lira and falling interest rates caused imports to grow very strongly in 2004 and 2005. Recently, however, merchandise import growth fell from rates of over 30% in the first quarter of 2005 to 18% y/y in May 2006. This slowdown in the pace of growth has been observed solely in imports of investment and intermediary goods, while imports of consumption goods continued to rise more strongly.

In tandem, export growth slowed from roughly 20% at the beginning of 2005 to a mere 2.2% in February 2006, which is partly due to the earlier strength of the TRY. In recent months, however, export growth picked up significantly, to 8% y/y in May 2006. Exports of textile products and apparel, which represent about 20% of total exports, appeared to have suffered from WTO liberalisation and decreased by 3.0% in the year to May 2006.

External deficits continued to widen. The trade deficit increased by 36.6% in the first five months of 2006 compared with the same period in 2005. According to provisional figures, the

current account deficit increased largely in tandem with the trade deficit at rates of around 40%. The recent depreciation of the TRY is expected to strengthen exports over the remainder of this year.

A large part of the deficit continued to be financed by portfolio investment and trade credits. Inflows of foreign direct investment (FDI) had in previous years been relatively small. However, privatisation receipts picked up significantly in 2005. This contributed to a quadrupling of net FDI (2.5% of GDP), in part due to the successful privatisation of Turkish Telekom. First indicators for 2006 suggest a further strong rise in FDI.

Prices

After rapid decreases in inflation during the past three years, the disinflation process lost momentum in 2005, mainly due to the appreciation of the lira and rising energy prices. The trend even reversed in early 2006. After falling throughout 2005 to 7.7% in December, inflation picked up to 10.1% in June 2006. Producer prices rose by 11.7% in the year to June 2006, compared to 4.3% in the year to June 2005.

The recent depreciation of the TRY will significantly contribute to upward pressures.

Monetary and financial indicators

Turkish financial markets have been highly volatile in recent weeks. Since early May 2006, the TRY has depreciated by over 25% vis-à-vis the EUR and slightly less vis-à-vis the USD. These developments were induced by the increase in US yields, which was aggravated by a perceived increase in political risks with Turkish parliamentary and presidential elections due before the end of 2007.

The central bank reacted by tightening monetary policies and increasing overnight borrowing and lending rates by respectively 400 and 600 basis points, thus cancelling out almost the entire cumulative 650 basis points cuts made since the beginning of 2005. Overnight borrowing and lending rates on 3 July 2006 stood at respectively 17.25% and 22.25%. Government

bond yields (benchmark) fell gradually from levels of 30-50% in 2003 to 14% in May 2006, before rising to 18% by 3 July. Similar trends are expected to affect interest rates on deposits, which amounted to 17-18% by April 2006 with very little difference for one- to twelve-month maturities, down from about 23% one year earlier.

Measures taken to slow down consumer credit seem to have had some effect as growth fell back to less than 20% y/y in nominal terms in the first quarter of 2006 from rates of around 40% in early 2005. Mortgages, however, continued to rise particularly strongly in 2005-2006, by one third in flow terms and by almost 50% in stock terms on an annual basis. Maturity mismatches are rapidly increasing, since the bulk of these loans carry fixed interest rates and are almost fully matched by three-month deposits.

The Istanbul Stock Exchange Index rose strongly by an annual 60% in the previous two years. Since early May, however, the upward trend has been reversed strongly and the index fell by 22% by 3 July.

General government balance

In 2005, the budget deficit narrowed to 1.2% of GDP (2006 fiscal notification and ESA 95 definition, equal to 2% using the national methodology). General government gross fixed capital formation amounted to a relatively high 4.3% of GDP. The cash budget balance narrowed by 68.1% y/y in real terms, on the back of a 38.5% real decrease in the interest expenditures. Other expenditures increased by 10.5%, mainly due to significantly higher than budgeted shortages in the social security system.

For 2006 and 2007, the government plans to keep its primary budgetary surplus stable at 6½% of GNP. The reduction of corporate income tax in early 2006 from 30% to 20% seems so far to have barely affected cash-based indicators for 2006 (January-May), which again point to an overall satisfactory budgetary performance. General government gross debt came down to below 70% of GDP by the end of 2005, from 77% of GDP at the end of 2004 (in ESA 95 terms).

TABLE

European Commission, ECFIN-D-1



TURKEY

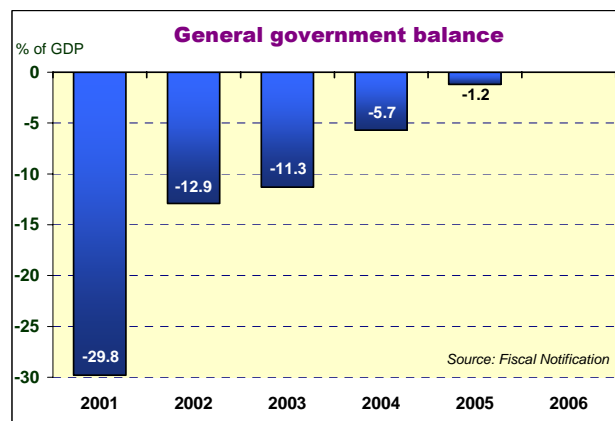
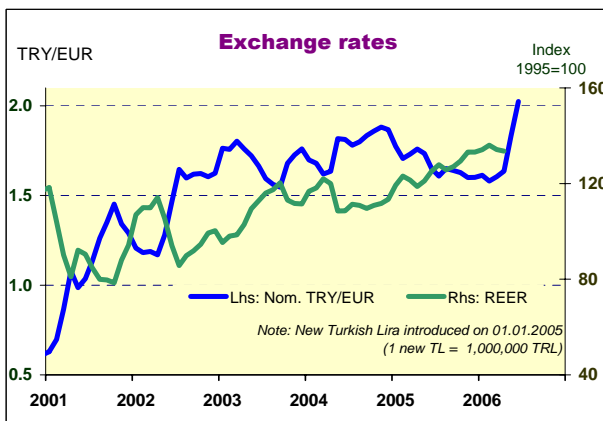
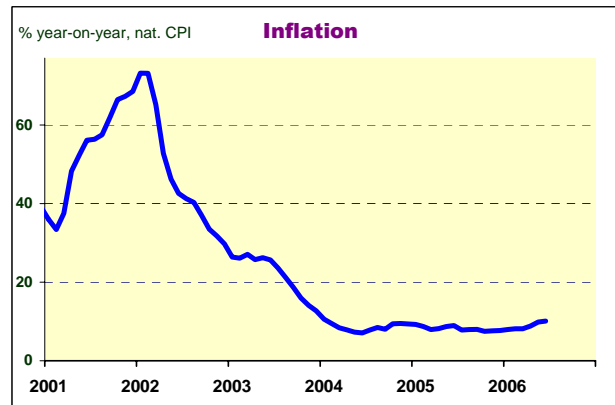
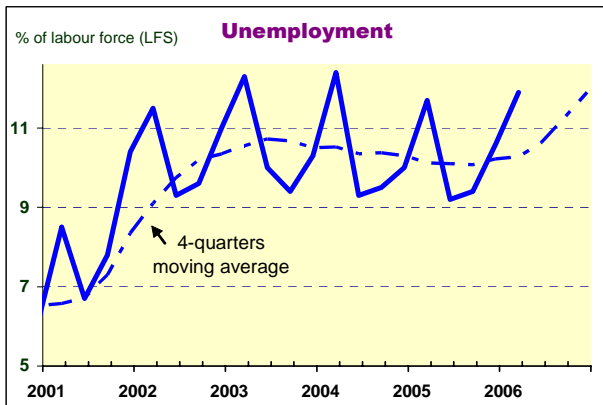
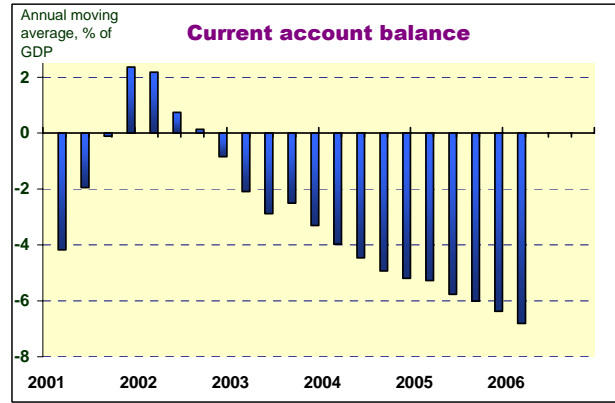
		2001	2002	2003	2004	2005	200503 Q3	200504 Q4	200601 Q1	200602 Q2	200604 Apr	200605 May	200606 Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	76.8	102.0	104.1	106.8	102.8	102.0	102.7	101.6	:	104.7	103.5	:
Industrial production ^{1.2}	Ann. % ch	-8.7	9.4	8.7	9.8	5.4	4.5	8.1	3.4	:	7.1	:	:
Gross domestic product ^{1.3}	Ann. % ch	-7.5	7.9	5.8	9.0	7.4	7.7	9.5	6.4	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	106.7	100.1	97.4	99.0	101.5	:	102.3	100.1	:
Private consumption ^{1.5}	Ann. % ch	-9.2	2.1	6.6	10.1	8.8	10.4	16.7	8.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	-31.5	-1.1	10.0	32.4	24.0	30.6	33.0	30.5	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	-1.4	4.7	7.3	7.9	5.2	6.8	5.2	4.3	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	8.4	10.4	10.5	10.3	10.2	9.4	10.6	10.9	:	:	:	:
Employment ^{2.2}	Ann. % ch	0.0	-0.3	-0.8	2.0	1.7	-0.2	0.3	-1.1	:	:	:	:
Wages ^{2.3}	Ann. % ch	31.8	37.2	23.0	13.4	12.2	12.5	11.4	10.4	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	11.9	16.7	27.6	30.9	14.6	11.6	9.2	7.9	:	-5.3	14.4	:
Imports of goods ^{3.2}	Ann. % ch	-24.0	24.5	34.5	40.7	19.7	20.5	15.9	14.7	:	20.5	24.4	:
Trade balance ^{3.3}	% of GDP	-2.6	-4.0	-5.8	-7.9	-9.1	-8.8	-9.1	-9.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	33.7	29.2	27.4	28.9	27.4	28.0	27.4	27.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	31.3	30.7	30.7	34.7	34.0	34.3	34.0	34.2	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	2.4	-0.8	-3.3	-5.2	-6.4	-6.0	-6.4	-6.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.0	0.5	0.5	0.7	2.4	1.0	2.4	2.5	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	54.4	45.0	21.6	8.6	8.2	7.9	7.6	8.1	9.6	8.8	9.9	10.1
GDP Deflator ^{4.2}	Ann. % ch	54.7	44.3	22.5	9.8	5.4	12.8	1.8	-10.9	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	61.6	50.1	22.7	14.6	5.9	4.3	2.3	4.9	8.4	5.0	7.7	12.5
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	74.70	50.49	37.68	24.26	20.40	20.48	20.42	19.59	:	18.31	18.20	:
Bond yield ^{5.2}	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	10,127	11,013	12,312	19,899	29,353	30,158	35,317	44,283	39,805	43,661	40,985	34,768
M4 ^{5.4}	Ann. % ch	56.0	36.5	31.9	40.9	31.5	35.3	39.5	46.0	:	47.3	:	:
Exchange rate TRY/EUR ^{5.5}	Value	1.09	1.43	1.69	1.77	1.67	1.63	1.61	1.60	1.83	1.64	1.83	2.02
Nominal eff. exchange rate ^{5.6}	Index	41.47	31.05	27.47	26.72	28.04	28.57	28.79	29.03	:	28.56	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-29.8	-12.9	-11.3	-5.7	-1.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	105.2	93.0	85.2	76.9	69.6	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



TURKEY



ALBANIA



COMMENTS

Recent political and other developments

The Stabilisation and Association Agreement between the European Community and its Member States on the one hand, and the Republic of Albania on the other, was signed in Luxembourg on 12 June 2006. On the same occasion, an Interim Agreement on trade and trade-related matters was also signed. The Stabilisation and Association Agreement establishes a comprehensive contractual framework between the EU and Albania and represents an important step on Albania's path towards the EU.

In mid-May 2006 the IMF carried out the first review under the PRGF/EFF program and the Article IV Consultation, focusing on medium-term strategic issues. The mission concluded that all but one quantitative and structural performance criteria had been met (except one) and identified key goals to be pursued³. In light of a favourable budget performance in the first half 2006, discussions with the IMF are currently under way on a supplementary budget for the second half of 2006. A final decision on the size and structure of this supplementary budget is expected as of July 2006.

Output and demand

Albania's stable macroeconomic environment, characterised by strong GDP growth and subdued inflation, has been maintained throughout 2005 and there are indications that this was also the case in the first half of 2006.

The repercussions of the energy crisis at the end of 2005 on this year's economic growth are estimated at 1% of GDP and the estimate of real GDP growth has thus been revised down to 5.0% in 2006.

³ Maintaining macroeconomic stability, furthering fiscal reform with a view to enhancing revenue collection, strengthening debt management and simplifying the tax system, containing credit growth, broadening the export base, improving conditions in the electricity sector and undertaking a wide range of institutional reforms.

Labour market

The labour market situation slightly improved throughout 2005. The unemployment rate (based on registered data) fell somewhat from 14.4% at the end of 2004 to 14.2% in 2005. Data for the first two months of 2006 indicate a further reduction in the number of unemployed.

International transactions

After a significant improvement in 2004, indicators for 2005 and the first months of 2006 point to a marked deterioration in external accounts. The trade deficit widened over the first quarter of 2006 by nearly 30% on an annual basis. The current account deficit (including official transfers) in 2005 is estimated at 6.9% of GDP, compared to 4.3% of GDP in 2004. Due to the lek appreciation and stronger competition in the textile industry, the exports growth rate slowed down in 2005 to 9%, significantly lower than the growth rate in imports, which stands at 16% in the same period. As a result, the coverage of imports by exports decreased to 26% in 2005 compared to 28% in 2004. Export competitiveness thus remains one of the key concerns and challenges for external sustainability. Financing of the trade deficit continues to largely depend on significant remittances and other current transfers, estimated at around 14% of GDP in 2005. Roughly 15% of the trade deficit is covered by foreign direct investment, estimated at 3.2% of GDP in 2005.

Gross usable reserves also continued to rise throughout 2005 and in the first quarter of 2006. This was due to inflows of private transfers and FDI and to the Bank of Albania's interventions aimed at cushioning the lek appreciation pressures against the euro until mid-August 2005. Reserves reached EUR 1.2 billion at the end of 2005, representing a 17% increase compared to the end of 2004, and a cover of around 4.7 months of the country's imports.

The external debt situation has continued to improve over the recent period with external debt declining to 17.1% of GDP in 2005, and total public debt to 55%.

Prices

Inflation, while remaining moderate, has continued to follow an upward trend since July 2005, when CPI inflation reached a low of 1.8% y/y. It peaked in October 2005 (3.3% y/y) due to persistent pressure from rising oil prices on certain domestic prices. The latter were somewhat moderated by the continuing appreciation of the Albanian lek vis-à-vis the euro, apparent in particular in the first semester of 2005. Average annual inflation stood at 2.4% in 2005, remaining at the lower end of the Bank of Albania's informal 2-4% inflation target range. After a temporary drop in the first quarter of 2006, CPI inflation increased back to 3.1% y/y in May 2006, and the average annual inflation reached 2.3% in the same period.

Monetary and financial indicators

Since the last cut in March 2005 of the main policy rate by 25 basis points to its current level of 5.0%, the central bank has continued to follow a neutral monetary policy course. In July 2005, the Bank of Albania changed the direction of its operational instruments by starting to perform reverse repurchase agreements, thus injecting additional liquidity into the banking system. This had positive effects on the stabilisation of the temporarily volatile money market interest rates and treasury bill yields. The Bank of Albania is currently examining prerequisites for a gradual move to a formal inflation targeting regime with the aim of enhancing transparency and credibility of its monetary policies.

Annual growth of the monetary aggregate M3 dropped from previously higher levels (19% in mid-2005) to 14% in the last quarter of 2005, and further down to 11% in March 2006. The narrowing interest rate spread between the lek and the euro, together with growth in private transfers from abroad, resulted in a massive increase in the growth rates of foreign deposits. In annual terms it had risen to 35% in March 2006, a record high over the last three years. The interest rate spread between the lek and other currencies continued to narrow due to the decline of ALL interest rates and to rises in interest rates on international financial markets. The growth in bank credits also accelerated –

credit to the private sector grew by 74% during 2005, twice as much as in 2004. In the first quarter of 2006 the growth of new bank credits nevertheless slowed down somewhat, to below 70%. Appreciation pressures of the Albanian lek against the euro eased towards the end of the 2005 and the first half of 2006. The lek appreciated against the euro in nominal terms by approximately 3% over the year 2005 and by 1% over the first six months of 2006.

The Albanian banking sector remains highly liquid, with a ratio of liquid assets to total assets of 75%, and profitable, with average ROA at 1.4% and average ROE at 22.2% (indicators for 2005). The share of non-performing loans to total credit recorded its lowest levels in years and stood at 1.0% at end-2005 compared to 1.4% at the end of 2004. The capital adequacy ratio decreased by 3% to 18.6% in 2005, still substantially above the minimum level of 12% established by the Bank of Albania.

General government balance

The 2005 budget execution was better than planned. At the end of 2005, the general deficit reached 3.4% of GDP compared with the originally projected 3.9% for 2005 and 4.9% in 2004, mainly due to higher dynamics in revenues growth and only moderate increases in expenditure. In October 2005, the IMF reached an agreement with the authorities on the remainder of the 2005 budget and key parameters of the 2006 budget, envisaging a set of measures to reform the tax administration and public finance management. These measures relate to improving fiscal discipline, tax administration efficiency, tax collection as well as public expenditure and debt management. Given a favourable budget performance over the first quarter of 2006 (surplus of ALL 10.3 billion compared to the projected ALL 1.1 billion) and still subject to performance results for the second quarter, discussions on a supplementary budget for the second half of 2006 are under way. The significant improvement was accounted for by the 11.7% y/y rise in revenues, as well as considerable reduction in spending. In terms of tax collection, the largest annual increase has been observed in profit tax (+24%) and excise tax collection (+23%).

TABLE

European Commission, ECFIN-D-1



ALBANIA

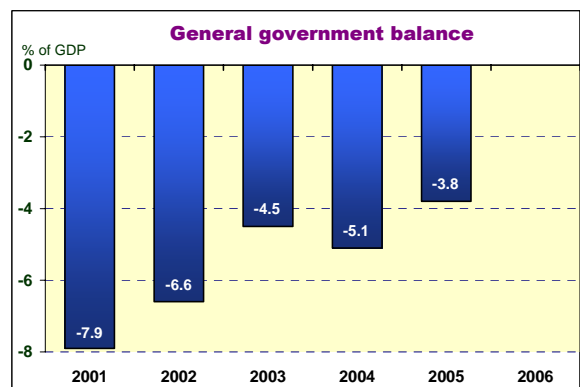
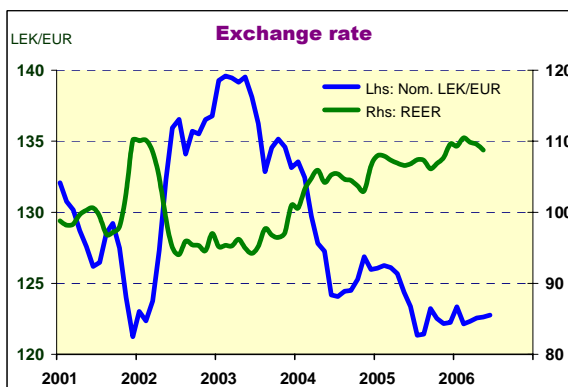
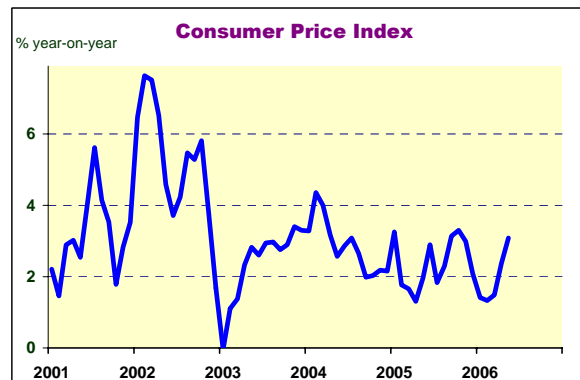
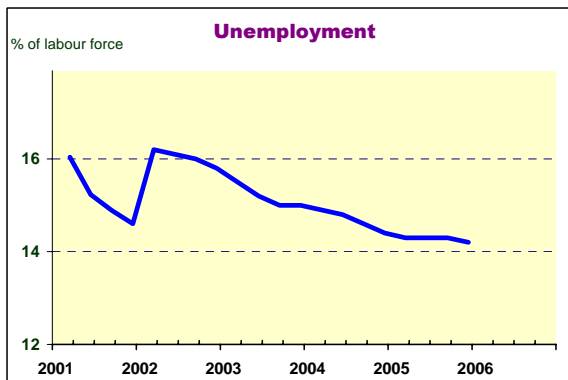
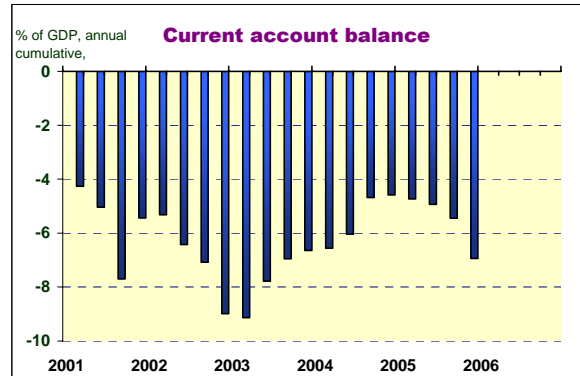
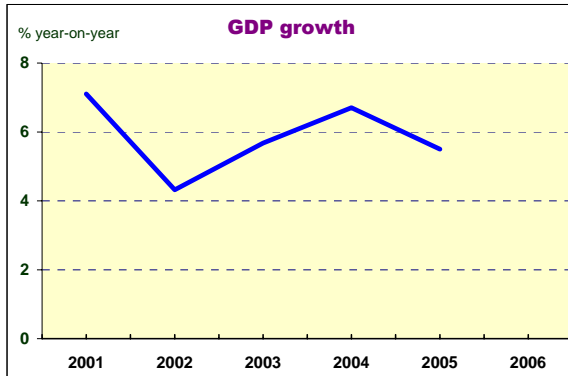
		2001	2002	2003	2004	2005	200503 Q3	200504 Q4	200601 Q1	200602 Q2	200604 Apr	200605 May	200606 Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	7.1	4.3	5.7	6.7	5.5	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	1.3	0.8	-1.8	:	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	15.2	16.0	15.2	14.7	14.3	14.3	14.2	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	0.4	-14.1	0.9	-0.8	1.3	1.0	1.6	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	15.9	22.7	8.5	16.5	7.9	9.0	7.9	:	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	19.3	8.4	35.4	34.9	9.2	9.6	-3.1	:	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	23.7	11.6	20.1	23.1	9.1	13.5	3.7	:	:	:	:	:
Trade balance ^{3.3}	% of GDP	37.8	38.5	33.1	33.2	:	37.0	37.7	29.2	27.0	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	18.2	19.3	19.8	:	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	38.5	43.7	43.8	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-5.0	-8.6	-6.0	-4.3	-6.9	-5.4	-6.9	-6.0	-5.8	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	4.8	3.0	2.6	3.9	3.2	3.0	3.2	2.5	2.3	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	3.1	5.2	2.4	2.9	2.4	2.4	2.8	1.4	:	2.4	3.1	:
GDP Deflator ^{4.2}	Ann. % ch	3.7	2.6	7.4	2.0	2.4	7.9	7.9	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	-5.4	6.5	6.2	10.8	5.1	2.4	1.9	0.9	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	7.74	9.62	8.73	6.75	5.56	5.87	5.76	5.17	:	4.87	:	:
Bond yield ^{5.2}	% p.a.	10.49	11.69	10.70	8.85	7.55	8.17	7.57	6.57	:	5.83	:	:
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
M2 ^{5.4}	Ann. % ch	13.1	12.2	7.6	8.2	11.7	11.6	9.7	7.5	:	6.5	:	:
Exchange rate LEK/EUR ^{5.5}	Value	127.70	131.66	136.80	127.17	123.73	121.99	122.31	122.60	122.65	122.55	122.62	122.77
Nominal eff. exchange rate ^{5.6}	Index	100.00	102.05	100.95	92.84	92.50	:	:	:	91.44	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-7.9	-6.6	-4.5	-5.1	-3.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	67.6	65.0	61.8	56.5	54.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





COMMENTS

Recent political and other developments

The second official round of SAA negotiations between the BiH Authorities and the European Commission took place on 15-16 June 2006 in Sarajevo. Negotiations covered the areas of movement of workers, justice, freedom and security, and the institutional, general and final provisions. A Reform Process Monitoring (RPM) meeting was also held, reviewing progress in the implementation of selected European Partnership priorities. Further necessary efforts were identified, in particular in the fields of police reform, public broadcasting, public administration, and in achieving a single economic space.

The IMF visited BiH in June for an Article IV Consultation. The IMF stated that subject to political willingness, negotiations on a new programme could resume after the October 2006 elections. The main stumbling blocks to reaching an agreement on a new programme have previously been the budget stance and improvements in the fiscal architecture and governance.

Output and demand

The central bank estimates GDP growth to have slowed down from 6% in 2004 to 5.5% in 2005. The strong reliance of growth on the raw materials and related manufacturing sectors remained. Increased production in these sectors, as well as price increases for commodities, contributed positively to growth. Privatisations in the RS also helped to support increased manufacturing in some other sectors, though from a low base. In the RS, total industrial production rose by nearly 20% in 2005. In 2006, production first slowed down and picked up in April, averaging 10% in the first five months compared to a year earlier. The Federation on the other hand experienced a more moderate growth rate of 5% both during 2005 and in May 2006 y/y.⁴ Growth appears to have been supported by continued strong private consumption, fuelled by high credit growth. Any detailed analysis of economic developments is,

⁴ Average growth rates compared to the previous year. No consolidated data for BiH available.

however, impeded by the poor quality and availability of statistics.

Labour market

Official unemployment data indicate that unemployment rose from 43% in 2004 to 44% in 2005. However, to obtain access to social security one must register as being unemployed (or be employed in the formal economy) which results in an overestimation of unemployment. A more accurate figure is assumed to be around 20% of the population, although no official estimation is available for 2005. Unemployment is to a large extent of a structural nature and does not seem to have decreased over recent years despite rather high economic growth rates. On the contrary, informal employment seems to have been increasing.

Average net real wages increased by 2.9% in December 2005 compared to a year before, with wage increases being higher in the RS than in the Federation and thus contributing to reducing the gap in wage levels. During the first four months of 2006 nominal wage growth accelerated as inflation picked up, but apparently did not so far apparently lead to larger real wage increases.

International transactions

The trade deficit (goods) remained large at 53.3% of GDP in 2005. The current account deficit also expanded, from 20.8% to 22.5% of GDP, a large part of the increase occurring in the fourth quarter owing to increased imports in the run-up to the VAT introduction. However, both the trade and current account deficits decreased in the first quarter of 2006. Exports grew by 30% in the first quarter compared to the same period in the previous year, while imports weakened. Adjusting for VAT effects, the current account deficit seems to have remained fairly stable at a high level.

The current account deficit is mainly financed by non-debt creating inflows. In 2005, however, FDI inflows decreased drastically, from 7% of GDP in 2004 to around 3.2% of GDP, and remained in that range for the first quarter of

2006 y/y. The reduction was mainly the effect of a few very large transactions in 2004 which were not replicated thereafter. Other types of investment inflows (mainly through the banking sector), by contrast, grew very strongly and doubled as a share of GDP, to 13% of GDP, in 2005 and covered almost half of the current account deficit. These inflows were to some extent a result of the increase in capital requirements for banks at end 2005 and indeed decreased markedly in the first quarter of 2006. "Errors and omissions" reported in balance of payments data remained large in 2005, at around 30% of the CA deficit, illustrating weaknesses in the balance of payments statistics.

Prices

Inflation (retail price index) rose during 2005 and in December 2005 had reached 4.3% y/y, compared to rates below 1% during previous years. The increase was mainly driven by price increases in anticipation of the VAT introduction, but also by some administrative price increases and higher energy prices. The rise in inflation continued in 2006, with the VAT introduction still being one of the main driving forces. Inflation rose to around 4.5% in the first five months and most strongly for agricultural and processed food products. In May inflation reached 7.8% y/y in the Federation and 9.8% in Republika Srpska.

Monetary and financial indicators

In December 2005 the central bank raised reserve requirements for banks from 10% to

15%. This measure was taken partly against the background of high credit growth of 27% during 2005. The measure seems to have had some effect as credit growth stabilised to 26.2% in May 2006 y/y. Credit growth to households continued to increase strongly and expanded by 30.2% in May y/y, a slight slowdown compared to the growth rate of 31.5% in December 2005. Long term loans grew more rapidly than credit growth overall and increased by 27.4% in May y/y.

General government balance

The consolidated budget balance improved from a deficit of 0.6% of GDP in 2004 to a surplus of 0.9% of GDP in 2005. The improved overall balance stemmed from stronger sales and excise tax revenues and a reduction in expenditures of 1% of GDP. On the expenditure side, investments and the overall wage bill were reduced, while transfers to households increased by 1.3% of GDP. However, budgets for 2006 were expansionary, reflecting the pre-election climate as well as an anticipation of higher indirect tax revenues upon VAT introduction. The share of expenditure to GDP is thereby set to increase from an already high level of around 54% of GDP (the grey economy excluded). Revenues increased strongly in 2006, reflecting the successful VAT implementation. Some of the increase was however due to delayed sales tax from 2005 and refunds which had not yet been made. The size of the permanent revenue increase is therefore still unclear.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

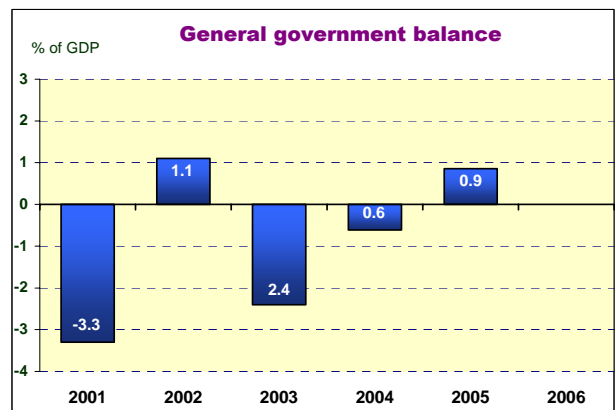
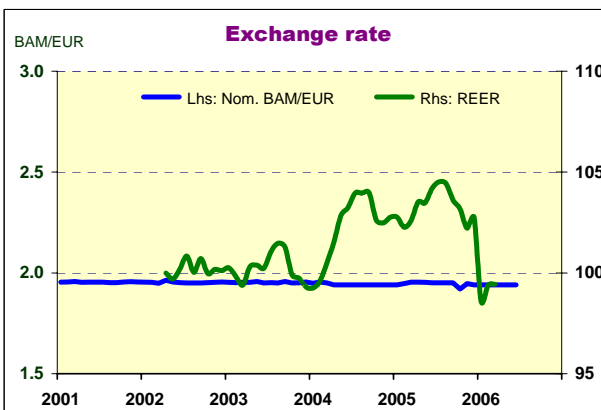
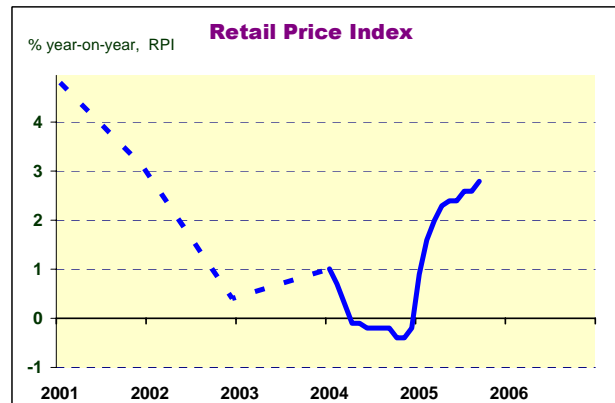
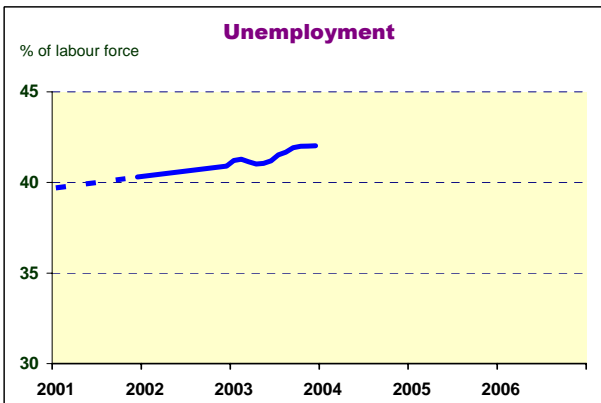
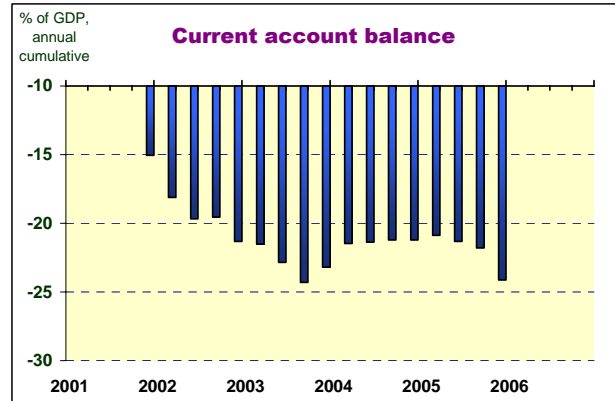
		2001	2002	2003	2004	2005	200503	200504	200601	200602	200604	200605	200606
							Q3	Q4	Q1	Q2	Apr	May	Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.5	5.5	3.0	6.0	5.8	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	40.3	40.9	42.0	43.1	44.1	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	-2.3	1.9	-0.6	0.8	0.8	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	20.5	1.4	8.4	4.3	6.1	6.2	7.8	8.5	:	10.5	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	3.4	-7.9	11.5	28.7	24.0	22.3	20.2	:	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	8.3	2.5	6.0	7.6	13.6	11.0	19.9	:	:	:	:	:
Trade balance ^{3.3}	% of GDP	-59.0	-59.2	-58.4	-53.3	-53.1	-52.7	-54.3	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	32.6	28.9	30.8	34.8	41.0	39.4	41.0	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	-87.0	-84.1	-84.5	-82.7	-91.3	-87.4	-91.3	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-14.7	-21.0	-22.9	-20.8	-22.5	-21.8	-24.1	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.4	4.7	5.4	7.1	3.4	5.6	3.4	:	:	N.A.	N.A.	N.A.
4 Prices													
RPI ^{4.1}	Ann. % ch	-1.6	-2.6	0.2	-0.2	:	2.8	:	:	:	:	:	:
GDP Deflator ^{4.2}	Ann. % ch	4.6	0.8	2.6	3.7	-3.3	:	:	:	:	N.A.	N.A.	N.A.
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and 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	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
M2 ^{5.4}	Ann. % ch	31.4	66.7	4.8	19.9	18.7	17.5	18.1	18.0	:	20.2	:	:
Exchange rate BAM/EUR ^{5.5}	Value	1.95	1.95	1.95	1.94	1.95	1.95	1.94	1.94	1.94	1.94	1.94	1.94
Nominal eff. exchange rate ^{5.6}	Index	N.A.	100.00	97.41	96.32	95.03	95.01	94.53	94.39	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-3.3	1.1	-2.4	-0.6	0.9	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.3	36.8	32.6	29.9	31.0	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA



MONTENEGRO



COMMENTS

Recent political and other developments

On 3 June 2006 the Parliament formally declared the Republic's independence following the referendum held on 21 May on the dissolution of the union with Serbia. On 12 June, The EU Council of Ministers accepted the outcome of the referendum and reaffirmed the European perspective of the Western Balkans on the basis of the Stabilisation and Association Process. The EU will adopt a new mandate to continue negotiations with Montenegro on a separate Stabilisation and Association Agreement. According to the terms of the 2002 Belgrade Agreement, Serbia, as successor state to the former union of Serbia-Montenegro, is expected to inherit the latter's membership in International Institutions, while Montenegro will need to apply as a new member. The new country has already become a member of the OSCE (21 June) and of the United Nations (28 June).

IMF staff visited Montenegro at the end of June. The Fund expects GDP to expand by 5.5% in 2006. Inflation should remain moderate at 2.6% on average. It also suggested focusing on maintaining the strong fiscal performance, consistent with a deficit outturn of 0.2% of GDP and a public debt stock of 37% of GDP. However, some reforms should be further implemented to ease the country's growth potential. These include increasing labour market flexibility, reforming labour institutions, streamlining automatic stabilisers, improving the quality of statistics, removing energy subsidies and improving companies' exit procedures.

Output and demand

Economic growth in the first quarter amounted to 6.8% y/y. In nominal terms GDP amounted to EUR 371.6 million. Growth was driven by a nearly 26% y/y increase in the tourist sector and the considerable expansion in trade (10.6% y/y) and the transport industry (12.1% y/y).

Industrial production expanded by 2.6% y/y in May after a 0.8% y/y decline in April. Two sectors contributed to the positive performance. Utilities, with a share of 23% of total industry, recovered in May and reported a 6.8% y/y

increase, following the 5.8% y/y drop in April, while the mining and quarrying sector recorded a 27.9% y/y expansion in May, twice as much as in the previous month. On the other hand, the manufacturing industry (70% share of total industry) registered a 0.4% y/y decline in May, similar to the 0.3% y/y drop in April. The chemical industry continued its poor performance, declining by 72.9% y/y in May, against a 45% decrease in April. However, the main industrial sector -manufacturing of basic metals - registered a 6.5% y/y output growth in May, though reflecting a 10.4 percentage point deceleration over the previous month.

Labour market

Registered unemployment fell to 45,300 persons at the end of May, which represents a 19.4% y/y drop. The corresponding unemployment rate reached 17.2%. From the beginning of 2006, the agency registered 9,993 newly employed, a 16.5% increase on the same period last year. Of that number, some 1,722 (or 17.2%) were seasonally employed workers. Only some 77% of the vacancies offered from the beginning of the year were occupied, signalling a mismatch between worker skills and employer demand.

International transactions

The 2005 current account deficit widened to 8.6% of GDP or EUR 141 million, mainly due to an increase in the trade deficit, which rose by 21.5% to EUR 506 million or 30.8% of GDP, compared to a year earlier. This was driven by robust domestic demand and a still limited export capacity. In contrast, the balances of services, income and transfers were all in surplus and reached a combined net surplus of EUR 365 million, due to growing tourism activity and workers remittances. The successful privatisation of Telekom Montenegro, Podgorica Aluminium Plant and Podgorica Banka in 2005, contributed to a record FDI inflow of EUR 375 million (or 22.8% of GDP), more than offsetting the current account deficit.

Although first balance of payments data for 2006 have not yet been released, available

information on the important sector of tourism points to an increase, with a total of 62,538 tourists having visited the country by end-April, up by 31.4% y/y.

FDI amounted to EUR 72 million from January to April, a considerable decline when compared with the FDI in same period in 2005, when the largest companies in the country were sold.

Prices

Inflation as measured by the retail price index remained moderate, and in May increased to 2.2% y/y. The major factor for the higher inflation was the rise of industrial prices by 2.1% y/y compared with 1.7% y/y increase in April. Both food and non-food product prices contributed to the observed acceleration as they were higher by 1.8% y/y and 2.5% y/y than in April, respectively. On the contrary, inflation of agricultural products recorded a deceleration, growing by 9% y/y in May, after 13.6% y/y in April. In monthly terms, RPI inflation was 0.3% in May (down from 0.6% m/m in April) driven by a 0.4% m/m increase in prices of goods. At the same time, prices of services in the country remained unchanged m/m. According to the figures released by the statistical office, cumulative inflation since the start of the year reached 1.4%.

Monetary and financial indicators

Montenegro introduced the euro as legal tender in January 2002, replacing the Deutsche Mark, which had been introduced as the only legal

tender in late 2000. The Central Bank of Montenegro (CBMN) does not own securities, which leaves it with the issuing of treasury bills as the only indirect possibility to influence interest rates.

In June 2006, the central bank adopted a new decision on reserve requirements for banks, which will be 19% for demand and term deposits with less than 90 days maturity and 5% for term deposits with maturity of more than 90 days, but less than one year. Money supply (broadest money) rose at the end of April by 5.5% vis-à-vis the end of end 2005, and by 34.9% vis-à-vis the previous year's level.

General government balance

The general government deficit rose slightly in 2005 to 2.9% of GDP (or 0.3 percentage point higher than in 2004). Fiscal reforms, including the adoption of a centralised Treasury and a new tax system, have been accelerated. The share of VAT tax revenues remains substantial at 29.3% of total revenues. In the first quarter of 2006, the consolidated public deficit amounted to EUR 1.99 million, financed from the privatisation receipts and by a reduction of deposits (the target for the entire year is EUR 38.8 million or 2.2% of GDP).

By the end of 2005, public debt further decreased to 42.7% of GDP while debt service rose to 6.4% of GDP, twice the amount of the previous year. Government debt is composed of 27% domestic and 73% foreign liabilities, mainly towards the World Bank agencies.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

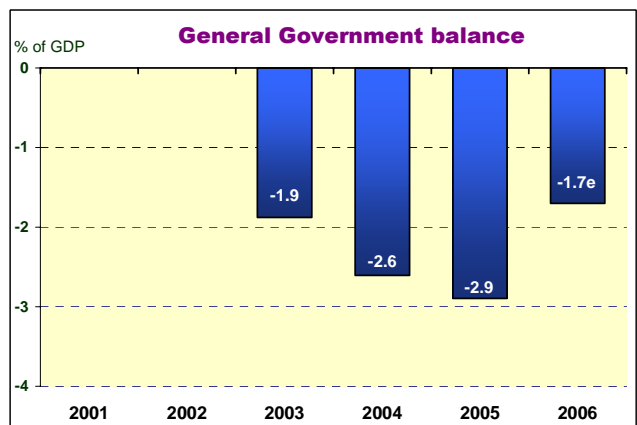
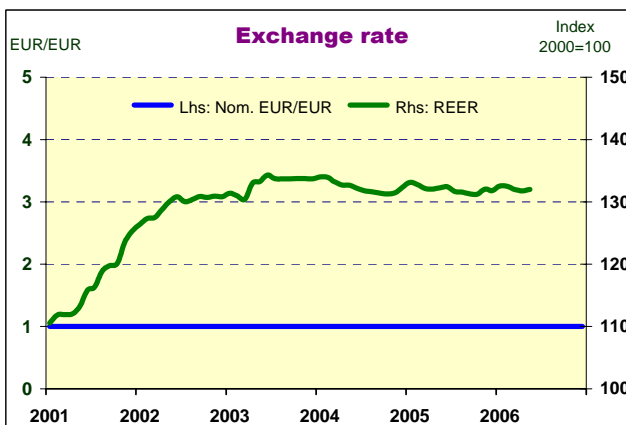
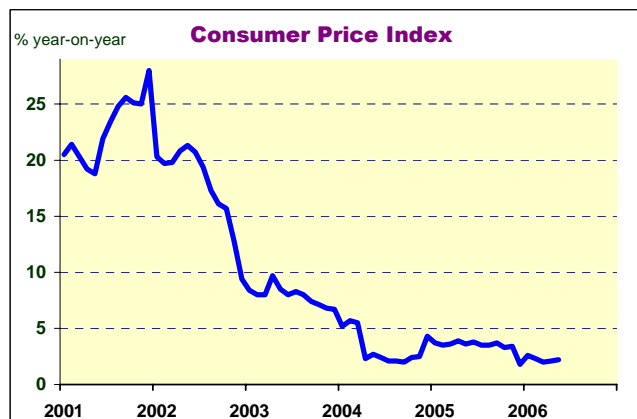
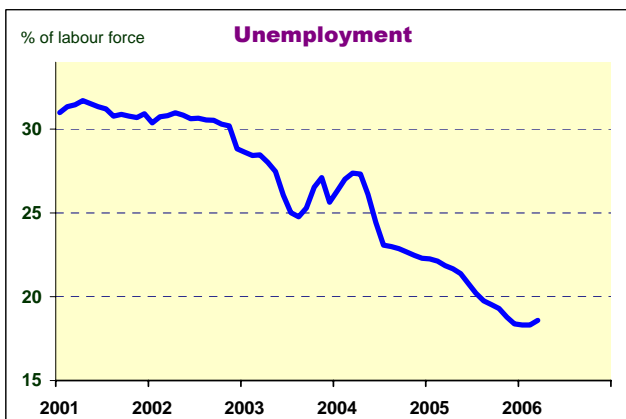
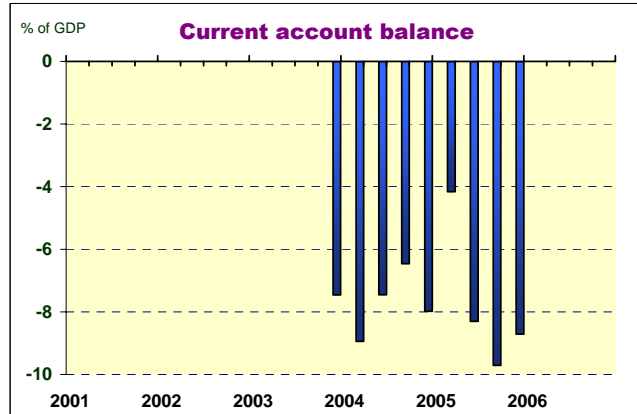
		2001	2002	2003	2004	2005	200503 Q3	200504 Q4	200601 Q1	200602 Q2	200604 Apr	200605 May	200606 Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	-0.7	0.6	2.4	13.8	-1.9	11.4	-8.7	4.4	:	-0.8	2.6	:
Gross domestic product ^{1.3}	Ann. % ch	-0.2	1.7	2.4	3.7	4.1	:	:	6.8	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	4.7	6.4	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	16.7	-16.1	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	4.7	2.4	0.7	:	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	30.9	28.8	25.7	22.3	18.4	19.5	18.4	18.6	:	18.4	17.2	:
Employment ^{2.2}	Ann. % ch	-19.4	-0.3	-3.3	29.9	2.0	1.6	2.0	4.0	:	:	:	:
Wages ^{2.3}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	7.8	8.1	12.4	15.5	:	15.9	30.2	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	N.A.	37.1	-16.1	67.1	-3.9	1.9	6.7	:	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	N.A.	3.4	-15.7	37.9	8.3	32.7	2.6	:	:	:	:	:
Trade balance ^{3.3}	% of GDP	-39.2	-32.6	-25.8	-27.1	-30.8	-31.9	-31.3	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	40.0	37.0	33.2	:	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	64.5	62.6	51.0	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-15.7	-12.6	-7.3	-7.8	-8.6	-9.7	-8.7	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.9	6.9	2.8	3.3	22.8	17.2	23.2	:	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	22.8	17.8	7.9	3.4	3.4	3.6	2.8	2.3	:	2.1	2.2	:
GDP Deflator ^{4.2}	Ann. % ch	22.0	2.9	4.6	6.6	2.9	:	:	:	:	N.A.	N.A.	N.A.
Producer prices ^{4.3}	Ann. % ch	15.1	0.7	8.2	3.6	3.5	2.1	3.5	2.3	:	3.8	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	N.A.	10.72	1.20	:	1.20	0.73	2.52	2.52	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	8.29	3.09	4.06	2.13	0.58	:	0.91	:	:
Stock markets ^{5.3}	Index	N.A.	N.A.	1,000	1,758	5,670	5,880	9,764	10,339	11,579	10,303	11,566	12,868
M21 ^{5.4}	Ann. % ch	N.A.	N.A.	N.A.	-99.9	40.5	42.3	52.1	45.8	:	34.9	:	:
Exchange rate EUR/EUR ^{5.5}	Value	1.00	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 ^{5.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	N.A.	N.A.	-1.9	-2.6	-2.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	N.A.	88.3	51.1	48.3	42.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO



SERBIA



COMMENTS

Recent political and other developments

On 3 May 2006, the European Commission called off negotiations of a Stabilisation and Association Agreement (SAA), following a negative report from the ICTY Chief Prosecutor, Mrs Carla Del Ponte, on the degree of cooperation of Serbia and Montenegro with the ICTY. Negotiations on an SAA had been formally opened on 10 October 2005. So far, two official rounds had been held. Nevertheless, the EU Commission has signalled its preparedness to resume negotiations as soon as Serbia achieves full cooperation.

Following the referendum on independence on 23 May, Montenegro declared its independence on 3 June. Subsequently, Serbia has confirmed itself as the successor state of Serbia and Montenegro, in line with the Belgrade Agreement of 2002. Regarding membership in the International Financial Institutions (IFIs), the Ministers of Finance of Serbia and Montenegro have reached a preliminary agreement on 28 June, concluding that Serbia will retain the existing membership that the unified state previously held, together with the existing quota, in the IMF, WB, EBRD and Council of Europe Development Bank. Nevertheless, a certain amount of the quota will be refunded to Montenegro.

Output and demand

Real GDP grew by 6.3% in 2005, driven by strong gains in commerce, transportation and financial services and more than offsetting the drop in agriculture and construction. Trend growth remained strong in the first quarter of 2006, as GDP expanded by 6.3% y/y, compared to 5.9% in Q4 2005.

Following strong momentum in 2004, industrial production declined sharply in the first half of 2005 but recovered somewhat in the second half, yielding a modest 0.6% annual growth rate for the whole year. Growth of industrial production in 2005 was based on the good performance of the electric power, gas and water sector (up 6.9%) which accounts for about 20% of industrial output. On the other hand, the

manufacturing sector, which accounts for about 75% of total industry, recorded a decline of 0.8%. It is however worth noting that the highest growth rates were achieved in those sectors which had undergone substantial privatisation or restructuring in recent years, such as food and beverages, tobacco, chemicals and chemical products, rubber and plastic products, base metals, as well as motor vehicles and trailers. During the first five months of 2006, total industrial production continued to expand at a rate of 5.9% y/y.

Labour market

Amid an environment of continued enterprise restructuring and related staff reductions, according to the 2005 Labour Force Survey employment declined by 197 000 to 2.7 million in 2005. The number of unemployed rose by 54.000 to 720.000 and the unemployment rate rose to 20.8%. However, partly due to sizeable informal employment, the official unemployment rate is reported at 27%.

Net average earnings grew by 23.6% and 6.4% y/y in 2005 in nominal and real terms respectively. During the first five months of 2006, net average earnings recorded an increase of 25.4% and 9.5% y/y in nominal and real terms respectively.

International transactions

In 2005, the current account deficit narrowed to 8.6% from 13.1% in 2004, on the back of strong growth of exports of goods, and also partly as a result of the introduction of VAT in January 2005 and the related acceleration of imports in December 2004. Exports rose by 29.5% and imports declined by 6.7%. As a result, the trade deficit fell to EUR 4.9 billion or 23.1% of GDP compared to EUR 5.8 billion or 29.8% of GDP. However, imports still accounted for about 2½ times the level of exports. For the first five months of 2006, exports continued to grow by 29.5% while imports grew by 20.1%.

On the financing side, capital inflows increased in 2005 and reached EUR 3.6 billion compared to EUR 2.4 billion in 2004. Foreign direct

investment (FDI) rose to EUR 1.2 billion or 6.1% of GDP in 2005 from EUR 773 million or 4.3% of GDP in 2004, mostly related to privatisation. Greenfield investment remained small. In addition, medium- and long-term borrowing increased to EUR 1.5 billion from EUR 1.2 billion in 2004, with the largest increase in borrowing coming from the private non-bank sector.

Prices

Inflation (retail price index) remained at double-digits throughout 2005 and stood at 17.3% y/y in December, mainly driven by strong domestic demand, increases in administered prices as a result of rising cost of fuel imports and the one-off effect of the introduction of VAT in January 2005. Inflation was also driven by the widespread exchange rate indexation of prices, against the backdrop of a crawling band exchange rate regime. In 2006, inflation eased somewhat and reached an average of 15.1% y/y for the first six months.

Monetary and financial indicators

Dinar appreciation pressures caused by strong capital inflows during 2005 have jeopardised the adjustment of external imbalances. In response, the NBS has intervened substantially in the foreign exchange market to prevent a real appreciation of the dinar exchange rate, but also to further boost foreign exchange reserves, which have reached a comfortable level of

5.9 months' worth of imports in early 2006. As a result of only insufficiently sterilised NBS interventions in the foreign exchange market, domestic money market liquidity has been boosted. The NBS attempted to reduce excess liquidity by selling government and issuing NBS bills and raising reserve requirements for banks' foreign currency borrowing several times during 2005 and early 2006, to 60% by May 2006.

General government balance

Fiscal policy has been further tightened in 2005 and the consolidated general government budget is projected to have reached a surplus of 1.6% of GDP, compared to a deficit of -0.1% of GDP. The revenue performance has been improving throughout the year, helped by the introduction of VAT in January 2005. While government revenue rose by 2% y/y in real terms, the build-up of government VAT liabilities might be distorting the picture on fiscal balances somewhat. Apart from VAT, personal and corporate income tax grew in real terms (7.1%) as well as non-tax and capital revenue (8.4% and 12.4%, respectively). Other revenue categories saw a real drop, predominantly due to cuts in tax rates.

In early 2006, the government announced plans for an EUR 1 billion (or about 4% of GDP) investment programme for 2006 and 2007, to be completely financed by expected privatisation proceeds in 2006.

TABLE

European Commission, ECFIN-D-1



SERBIA

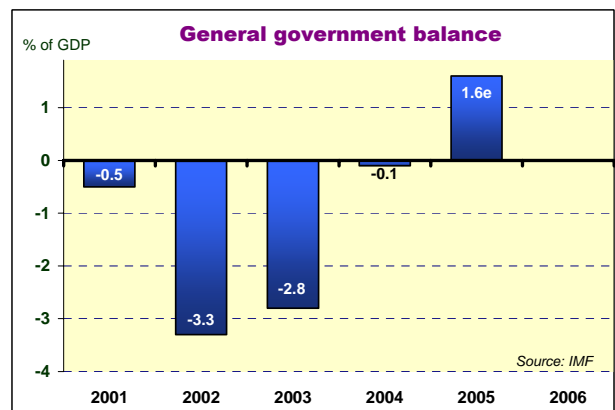
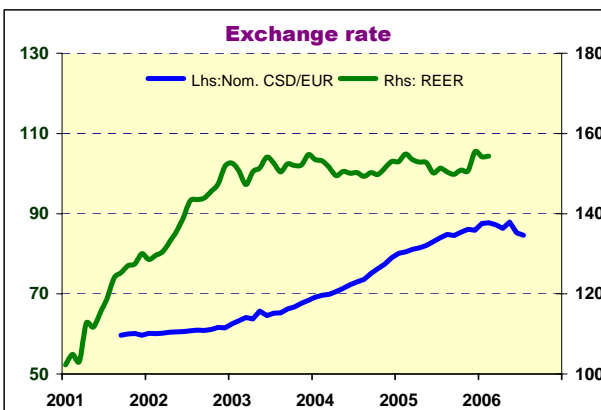
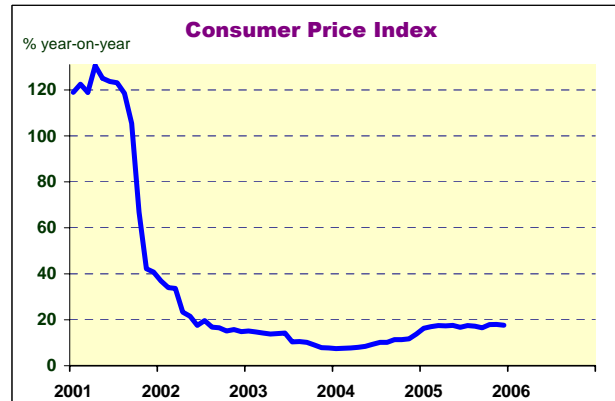
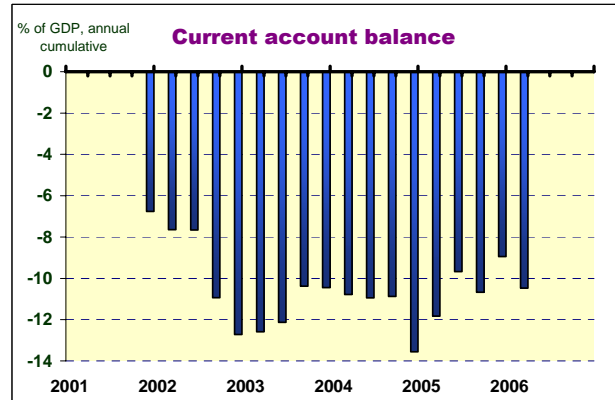
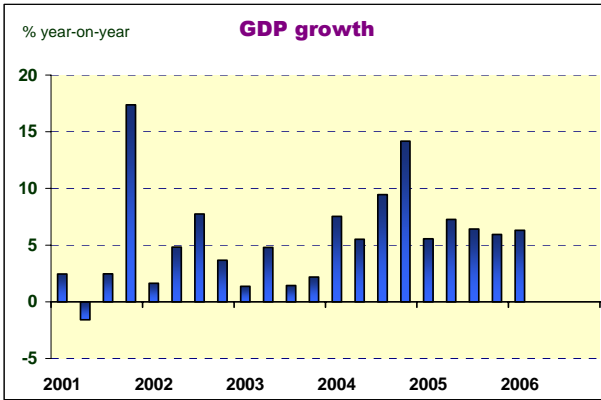
		2001	2002	2003	2004	2005	200503	200504	200601	200602	200604	200605	200606
							Q3	Q4	Q1	Q2	Apr	May	Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	-10.1	1.7	-4.7	10.4	0.3	3.8	3.4	5.2	:	1.3	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.1	4.5	2.4	9.3	6.3	6.4	5.9	6.3	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	12.2	13.3	14.6	18.5	20.8	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	0.4	-3.4	-2.7	0.4	-6.7	-0.1	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	16.4	46.9	13.6	10.1	6.4	7.9	7.6	11.1	:	6.2	8.2	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	N.A.	20.4	2.7	57.3	29.5	11.9	4.6	13.1	:	3.6	:	:
Imports of goods ^{3.2}	Ann. % ch	N.A.	30.7	15.9	49.4	-6.7	10.0	-18.0	30.8	:	0.4	:	:
Trade balance ^{3.3}	% of GDP	-26.6	-27.1	-25.3	-29.8	-23.1	-26.5	-23.7	-24.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-5.9	-12.0	-9.0	-13.1	-8.6	-10.7	-8.9	-10.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	1.6	3.3	6.9	4.3	6.1	6.9	6.2	5.6	:	N.A.	N.A.	N.A.
4 Prices													
RPI ^{4.1}	Ann. % ch	94.3	21.4	11.7	9.8	17.3	17.1	17.8	14.7	15.4	15.4	15.9	15.0
GDP Deflator ^{4.2}	Ann. % ch	94.4	25.2	16.7	10.3	23.4	23.3	23.8	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	10.7	5.9	9.5	13.0	13.0	15.5	:	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	N.A.	21.31	17.22	14.79	14.64	14.55	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	1,494	1,546	1,596	1,636	1,681	1,674	1,699	1,670
M3 ^{5.4}	Ann. % ch	N.A.	N.A.	29.1	31.5	39.1	42.0	41.8	43.8	:	41.6	40.9	:
Exchange rate CSD/EUR ^{5.5}	Value	N.A.	60.74	65.29	73.10	83.25	84.45	85.80	87.48	86.48	86.31	87.91	85.23
Nominal eff. exchange rate ^{5.6}	Index	96.81	101.53	97.28	93.53	92.41	90.53	88.57	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-0.5	-3.3	-2.8	-0.1	1.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	N.A.	85.4	79.2	67.3	52.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



SERBIA



KOSOVO

(AS DEFINED BY UNSCR 1244)

COMMENTS

Recent political and other developments

In March 2006, following major domestic and international criticism on the implementation of the Standards for Kosovo, Mr Bajram Kosumi resigned from his post of Prime Minister. He was replaced by Mr Agim Ceku, the former leader of the Kosovo Protection Corps.

On 5 April 2006 a donor meeting co-chaired by the European Commission and the World Bank was held in Pristina. The meeting was organised with the support of the *Joint Office of the European Commission and the World Bank for South Eastern Europe* and was attended by the representatives of UNMIK, PISG, IMF and the main International Community stakeholders. The authorities of Kosovo presented the first Medium-Term Expenditure Framework, which provides all key stakeholders with an indication of government spending priorities for the years 2006-2008. At the event, the European Commission, World Bank and US representatives pledged to provide policy-based budget support for 2007, subject to the necessary legislative and organisational approvals.

Status discussions led by UN Special Envoy Mr Ahtisaari are ongoing. On 31 May 2006 the first bilateral negotiation round on economic issues took place. The meeting was also attended by representatives from the US, UNMIK, IMF, World Bank and the European Commission.

Output and demand

Economic developments in Kosovo in 2005 were shaped by a decline in donor support and a lack of dynamism in the economy. After a 4% growth in 2004, on the back of a substantial rise in public expenditure, according to IMF estimates GDP is estimated to have declined by 0.2% in 2005. There are some signs of recovery over the first months of 2006, mainly due to the gradual expansion of the private sector. GDP growth for the whole year 2006 is estimated at 3%.

The overall economic situation in Kosovo nevertheless remains bleak: Kosovo has a per capita GDP of around EUR 1 100, one of the lowest in Europe. According to World Bank

estimates, around 37% of the population live in poverty, with around 15% living in extreme poverty. Growth has been weak in recent years and insufficient in view of the territory's considerable development needs.

Labour market

The level of registered unemployment remains high, officially around 42%, even though the real unemployment rate is probably lower due to the existence of a sizeable informal economy.

International transactions

The external situation of Kosovo also remains precarious. Owing to a considerable trade deficit of around 41% of GDP in 2004 and 2005, the current account balance after foreign assistance has continued to post high deficits, close to 15% of GDP in 2004 and 2005 (source: IMF). The coverage ratio of regular imports by exports is extremely low at 7%, mainly due to lacking export capacity and competitiveness. Given the absence of sizeable foreign direct investment inflows, the financing of the current account deficit continued to rely on foreign assistance in the form of project support (steadily decreasing from 24% of GDP in 2004 to 21% of GDP in 2005) and, to a lesser extent, on private capital transfers (17% of GDP in 2005). Nevertheless, a modest gradual increase in foreign direct investment inflows has been recorded. FDI reached 3.0% of GDP in 2005, with a continuing increasing trend also in the first half of 2006.

Prices

Inflation has been very moderate, to some extent owing to the weakness in economic activity. CPI inflation (y/y) had been negative since the second half of 2004, and the CPI fell by 1.9% on average in 2005. According to data from the Statistical Office of Kosovo, in the first months of 2006 CPI inflation nevertheless recorded a gradual increase, back to positive figures, and reached 2.5% y/y in April 2006.

Monetary and financial indicators

The monetary framework in Kosovo is anchored on the use of the euro as sole legal tender. The Banking and Payments Authority of Kosovo (BPK) is in charge of regulating foreign exchange operations, providing payments services and supervising banks and other financial institutions. The BPK closely monitors liquidity in the banking sector and credit expansion, with liquidity ratios and reserve requirements respectively as main tools of intervention.

Notwithstanding the conservative lending policies and prudential requirements, the annual credit growth has been substantial (38% y/y in 2005 and 32% y/y as of May 2006), in particular as regards loans with maturity over 1 year, reaching an annual growth of around 50%.

The financial/banking sector in Kosovo remains sound and well capitalised. The capital adequacy ratio of commercial banks in Kosovo was equal to 14.7% at the end of 2005, down from 16.7% in 2004. Local banks remain very liquid, with a loan-to-deposit ratio of around 73%, partly as a result of prudential requirements set by the BPK. In order to bring capital standards more in line with the EU directives, the BPK increased minimum capital requirements for banks to EUR 5 million in 2005.

In March 2006, the BPK revoked the licence and ordered the closure of Credit Bank of Pristina (which held around 4% of total deposits in Kosovo), with little detrimental impact on the credibility and liquidity of the overall financial sector.

General government balance

Responsibility for the budget, which initially – after the entry into force of UN Security Council Resolution 1244 – lay with UNMIK, was

transferred in 2002-2003 to the Provisional Institutions of Self Government, with the Head of UNMIK retaining the ultimate power of budget approval.

After a peak in 2004 to 5.4% of GDP the budget deficit was curbed to 3.2% of GDP in 2005 (source: IMF), lower than the initially planned 3.6% level. Budget execution in the last months of 2005, with lower than authorised capital expenditure, resulted in a smaller than planned deficit level. However, the likelihood that the accumulated cash deposits which currently finance the budget deficit will be exhausted in the near future and the fact that the PISG may not, under the current UN mandate, have recourse to public borrowing means that deficits, even of a lower level, will rapidly become unsustainable. Therefore, vigorous fiscal adjustment has become a high priority. In October 2005, IMF staff agreed a fiscal framework for the remainder of 2005 and for 2006 with the Kosovo authorities, according to which the deficit would need to be maintained below 3% of GDP in 2006. Real expenditure growth would be kept below 0.5% and the number of government employees reduced, allowing for a redeployment of public expenditure with a higher share of capital outlays.

Revenue collection over the first five months of 2006 reached 35% of the overall annual budget, representing a decrease by 2% compared to the same period in 2005. Expenditure incurred from January to May 2006 amounted to 28% of overall appropriations, and decreased by almost 14% compared to the same period last year. This resulted in a budget surplus of EUR 60 million by May 2006, which is by 81% higher than in the same period in 2005. Capital outlays registered the lowest decrease and amounted to 40% as compared to the same period last year.

TABLE

European Commission, ECFIN-D-1

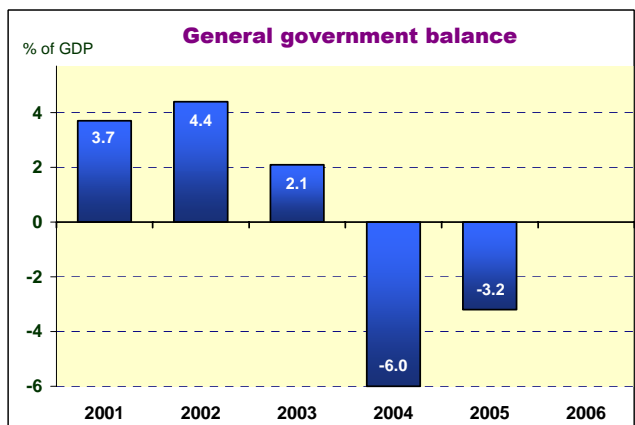
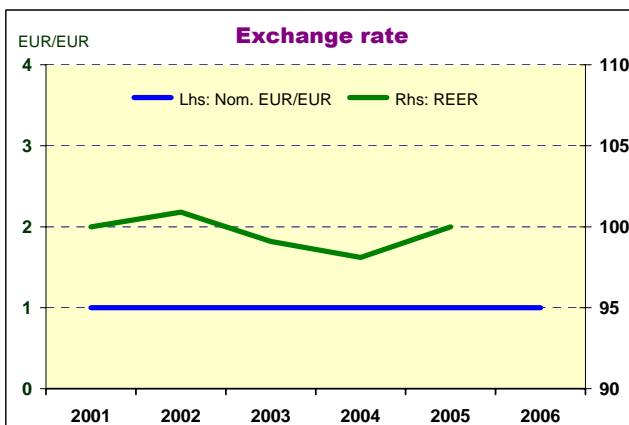
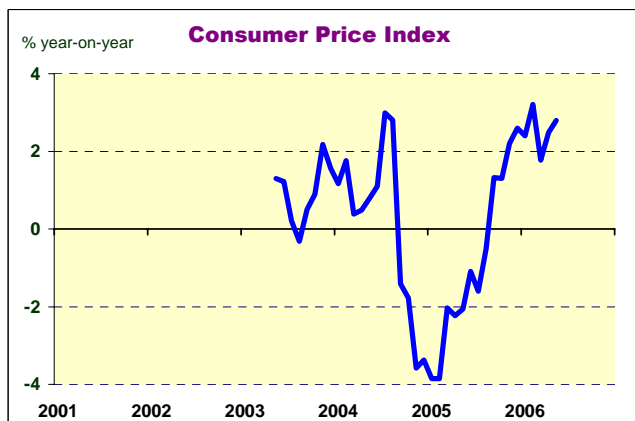
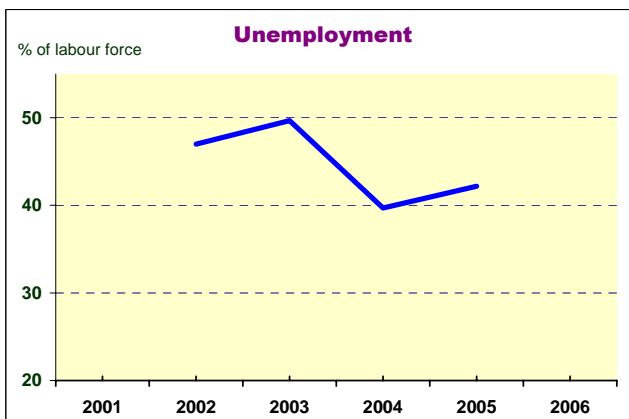
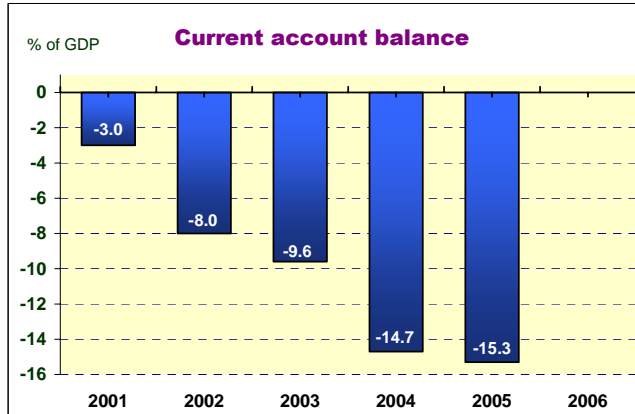
KOSOVO (as defined by UNSCR 1244)

		2001	2002	2003	2004	2005	200503	200504	200601	200602	200604	200605	200606
							Q3	Q4	Q1	Q2	Apr	May	Jun
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	16.6	-0.1	-0.5	4.1	-0.2	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	0.3	1.9	3.6	3.7	:	:	:	:	N.A.	N.A.	N.A.
Investment (Gross fixed cap form) ^{1.6}	Ann. % ch	N.A.	23.7	22.9	28.2	27.1	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	N.A.	47.0	49.7	39.7	42.2	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	17.4	9.7	-24.8	4.7	-17.1	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	N.A.	N.A.	2.0	9.3	5.6	:	:	:	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	N.A.	161.4	31.2	56.2	-13.5	-3.6	-35.0	:	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	N.A.	24.9	13.3	9.8	11.0	18.7	-5.7	:	:	:	:	:
Trade balance ^{3.3}	% of GDP	-27.6	-33.3	-37.3	-39.6	-45.9	-45.6	-45.6	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	15.3	12.9	12.0	11.7	12.2	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	52.2	44.3	41.9	42.2	44.4	:	:	:	:	N.A.	N.A.	N.A.
Current acc bal, after foreign assist ^{3.6}	% of GDP	-3.0	-8.0	-9.6	-14.7	-15.3	:	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	1.4	0.4	0.9	1.2	3.0	:	:	:	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	11.7	3.6	1.8	0.1	-0.8	-0.3	2.0	2.5	:	2.5	2.8	:
GDP Deflator ^{4.2}	Ann. % ch	N.A.	2.5	1.2	-2.2	-2.9	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	15.60	14.60	15.70	15.60	15.22	15.49	15.27	:	15.67	15.56	:
Bond yield ^{5.2}	% p.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.	:	:	:	:	:	:	:
M2 ^{5.4}	Ann. % ch	55.4	-13.2	2.8	12.1	1.0	3.9	1.0	:	:	:	:	:
Exchange rate EUR/EUR ^{5.5}	Value	1.00	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) ^{5.6}	Index	8.60	0.90	-0.90	-1.90	0.00	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	3.7	4.4	2.1	-6.0	-3.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	:	:	:	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1

KOSOVO (as defined by UNSCR 1244)





Recent economic developments in acceding countries – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Industry survey, average of balances to replies on production expectations, order books, and stocks (the latter with inverted sign)	Ecwin/Reuters
1.2.	Industrial production	Annual percentage change, volume (index 2000), excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (compared to previous year)	Ecwin/Reuters
1.4.	Consumer confidence indicator	Consumer survey, average of balances to replies on five questions	Ecwin/Reuters
1.5.	Private consumption	Annual percentage change, volume (compared to previous year)	Ecwin/Reuters
1.6.	Gross fixed capital formation	Annual percentage change, volume (compared to previous year)	Ecwin/Reuters
1.7.	Change in stocks	In percent of GDP, volume (compared to previous year)	Ecwin/Reuters
2	Labour market		
2.1.	Unemployment	In percent of total labour force, ILO definition, seasonally adjusted, Labour Force Survey data	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin/Reuters
2.3.	Wages	Annual percentage change; average wages and salaries by economic activity	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. BGN, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. BGN, fob	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-fob	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume (compared to previous year)	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, volume (compared to previous year)	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Moving average of direct investment in reporting economy minus direct investment abroad	Ecwin/Reuters
4.	Prices		
4.1.	Interim HICP	Annual percentage change, interim harmonised index of consumer prices	Ecwin/Reuters
4.2.	GDP deflator	Annual percentage change, implicit GDP price deflator	Ecwin/Reuters
4.3.	Producer prices	Annual percentage change, index 2000	Ecwin/Reuters
4.4.	Import prices	Annual percentage change, index (compared to previous year)	Ecwin/Reuters
5.	Monetary and financial indicators		
5.1.	Interest rate	Percent p.a., 3-month interbank money market rate, period averages	Ecwin/Reuters
5.2.	Bond yield	Percent p.a., lowest level prevailing on the secondary market, gross of tax, with around 10 years' residual maturity	Ecwin/Reuters
5.3.	Stock markets	SOFIX index (last value)	Ecwin/Reuters
5.4.	M3	Annual percentage change	Ecwin/Reuters
5.5.	Exchange rate BGL/EUR	Period averages	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Index 1999, period averages	Ecwin/Reuters
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP, net lending (+) or net borrowing (-) general government, ESA 95 methodology. Quarterly data on a cash basis.	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



Recent economic developments in acceding countries – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Industry survey, average of balances to replies on production expectations, order books, and stocks (the latter with inverted sign)	Ecwin/Reuters
1.2.	Industrial production	Annual percentage change, volume (index 2000), excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (1995 prices). National sources for 2004 data.	Ecwin/Reuters
1.4.	Consumer confidence indicator	Consumer survey, average of balances to replies on five questions	Ecwin/Reuters
1.5.	Private consumption	Annual percentage change, volume (1995 prices)	Ecwin/Reuters
1.6.	Gross fixed capital formation	Annual percentage change, volume (1995 prices)	Ecwin/Reuters
1.7.	Change in stocks	In percent of GDP, volume (1995 prices)	Ecwin/Reuters
2	Labour market		
2.1.	Unemployment	In percent of total labour force, harmonised definition, seasonally adjusted	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin/Reuters
2.3.	Wages	Annual percentage change; net average salary earning	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR, fob	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-fob	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume (1995 prices)	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, volume (1995 prices)	Ecwin/Reuters
3.6.	Current account balance	Cumulative, end of period, in percent of GDP	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, direct investment in reporting economy minus direct investment abroad	Ecwin/Reuters / Nat. sources
4.	Prices		
4.1.	Interim HICP	Annual percentage change, interim harmonised index of consumer prices	Ecwin/Reuters
4.2.	GDP deflator	Annual percentage change, implicit GDP price deflator	Ecwin/Reuters
4.3.	Producer prices	Annual percentage change, index (as compared to the same period of previous year)	Ecwin/Reuters
4.4.	Import prices	Annual percentage change, index (previous year equals 100)	Eurostat
5.	Monetary and financial indicators		
5.1.	Interest rate	3 months, BUBID-BUBOR average	Ecwin/Reuters / Nat. sources
5.2.	Bond yield	Percent p.a., Interest-bearing government bonds, average rate. 2-years government bond yields. As yet there is no substantial Romanian bonds market for 3-year terms or above.	Ecwin/Reuters / Nat. sources
5.3.	Stock markets	BET index (points)	Ecwin/Reuters
5.4.	M2	Annual percentage change, Broad money, end of period	Ecwin/Reuters
5.5.	Exchange rate ROL/EUR	Period averages	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Index 1999, period averages	Ecwin/Reuters
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP, net lending (+) or net borrowing (-) general government, ESA 95 methodology.	Ecwin/Reuters
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Eurostat / Nat. sources



Recent economic developments in candidate countries – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	N.A.
1.2.	Industrial production	Annual percentage change, volume, excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (1997 prices)	Ecwin/Reuters
1.4.	Consumer confidence indicator	Not available	N.A.
1.5.	Private consumption	Annual percentage change, volume (1997 prices)	Ecwin/Reuters
1.6.	Gross fixed capital formation	Annual percentage change, volume (1997 prices)	Ecwin/Reuters
1.7.	Change in stocks	In percent of GDP, volume (1997 prices)	Ecwin/Reuters
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Monthly and quarterly data are based on official data on registered employment and unemployment	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data. Monthly and quarterly data are based on official data on registered employment and unemployment	Ecwin/Reuters
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in kuna)	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume (1997 prices)	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, volume (1997 prices)	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Annual average percentage change, HICP not yet available for Croatia	Ecwin/Reuters
4.2.	GDP deflator	Annual percentage change	Ecwin/Reuters
4.3.	Producer prices	Annual percentage change, without construction, index 2001	Ecwin/Reuters
4.4.	Import prices	Not available	N.A.
5.	Monetary and financial indicators		
5.1.	Interest rate	Zagreb Interbank 3 month - middle rate	Ecwin/Reuters
5.2.	Bond yield	Not available	N.A.
5.3.	Stock markets	CROBEX index	Ecwin/Reuters
5.4.	M4	Annual percentage change, M4 (Broadest money)	Ecwin/Reuters
5.5.	Exchange rate HRK/EUR	Period averages, midpoint exchange rates	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Index 2001, period averages	Ecwin/Reuters
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP	Nat. sources



Recent economic developments in candidate countries – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change, volume, excluding construction	SSO
1.3.	Gross domestic product	Annual percentage change, volume (previous year prices)	SSO
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Annual percentage change, volume (previous year prices)	SSO
1.6.	Gross fixed capital formation	Annual percentage change, volume (previous year prices)	SSO
1.7.	Change in stocks	In percent of GDP, volume (previous year prices)	SSO
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data, registered otherwise	SSO
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data, registered otherwise	SSO
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	SSO
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, fob	NBRM
3.2.	Imports of goods	Annual percentage change, cif	NBRM
3.3.	Trade balance	In percent of GDP, fob-cif	NBRM
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	NBRM
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	NBRM
4.	Prices		
4.1.	CPI	Annual average percentage change, HICP not yet available for fYRoM	SSO/Ecowin/Reuters
4.2.	GDP deflator	Annual percentage change	SSO
4.3.	Producer prices	Annual percentage change, industrial products	SSO
4.4.	Import prices	Not available	SSO
5.	Monetary and financial indicators		
5.1.	Interest rate	Interest rate Denar deposits	NBRM
5.2.	Bond yield	Not available	NBRM
5.3.	Stock markets	MSE Index (MBI-10)	Macedonian SE
5.4.	M4	Annual percentage change, M4 (Broadest money)	NBRM
5.5.	Exchange rate MKD/EUR	Averages, spot close	Ecowin/Reuters
5.6.	Nominal eff. exchange rate		
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	MoF
6.2.	General government debt	In percent of GDP	MoF



Recent economic developments in candidate countries – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (1987 prices)	Ecwin/Reuters
1.4.	Consumer confidence indicator	Consumer tendency survey	Nat. sources
1.5.	Private consumption	Annual percentage change, volume (1987 prices)	Ecwin/Reuters
1.6.	Gross fixed capital formation	Annual percentage change	Ecwin/Reuters
1.7.	Change in stocks	In percent of GDP	Ecwin/Reuters
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey data	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin/Reuters
2.3.	Wages	Annual percentage change; index of real earning per production worker in manufacturing industry	Nat. sources
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	Ecwin/Reuters
4.	Prices		
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	Ecwin/Reuters
4.2.	GDP deflator	Annual percentage change	Ecwin/Reuters
4.3.	Producer prices	Annual percentage change, wholesale prices index (1994)	Ecwin/Reuters
4.4.	Import prices	Annual percentage change, index (1994)	Ecwin/Reuters
5.	Monetary and financial indicators		
5.1.	Interest rate	Percent p.a., Interest rates on deposits, weighted averages of 3-month deposits	Ecwin/Reuters
5.2.	Bond yield	Not available	N.A.
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	Ecwin/Reuters
5.4.	M3	Annual percentage change	Ecwin/Reuters
5.5.	Exchange rate YTL/EUR	Period averages	Eurostat
5.6.	Nominal eff. exchange rate	Index 1999, period averages	Eurostat
6.	Government balance and debt		
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



Recent economic developments – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Not available	
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	Ecwin/Reuters
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Not available	Ecwin/Reuters
1.6.	Gross fixed capital formation	Annual data	Ecwin/Reuters
1.7.	Change in stocks	In percent of GDP. Annual data	Ecwin/Reuters
2	Labour market		
2.1.	Unemployment	In percent of total labour force	Ecwin/Reuters
2.2.	Employment	Annual percentage change	Ecwin/Reuters
2.3.	Wages	Average monthly wages in State sector	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. USD	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of Net Foreign Direct Investment, mio. USD	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change	Ecwin/Reuters
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	
4.3.	Producer prices	Annual percentage change, Total, index (1998)	Ecwin/Reuters
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	Ecwin/Reuters
5.2.	Bond yield	Treasury Bills, 12 Month Auction, Yield	Ecwin/Reuters
5.3.	Stock markets	Not available	
5.4.	M4	Annual percentage change	Ecwin/Reuters
5.5.	Exchange rate LEK/EUR	Period averages	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Not available	
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP	Nat. sources



Recent economic developments – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Not available	
1.3.	Gross domestic product	Annual percentage change	Ecwin/Reuters
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Not available	
1.6.	Gross fixed capital formation	Not available	
1.7.	Change in stocks	Not available	
2	Labour market		
2.1.	Unemployment	Registered, in percent of total labour force	CBBH
2.2.	Employment	Registered, annual percentage change	CBBH
2.3.	Wages	Annual percentage change, average gross wages, BAM	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Retail price index.	CBBH
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	
4.3.	Producer prices	Not available	
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	Not available	
5.4.	M2	Annual percentage change, M2 (broadest money)	Ecwin/Reuters
5.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Index (2002=100)	Ecwin/Reuters
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP. Certain local level data not included	CBBH
6.2.	General government debt	In percent of GDP. As there is no domestic debt, all debt reported is external	CBBH



Recent economic developments – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, annual data, chain index	MONSTAT
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Annual percentage change, annual data, chain index	MONSTAT
1.6.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MONSTAT
1.7.	Change in stocks	Annual percentage change, annual data	MONSTAT
2	Labour market		
2.1.	Unemployment	In percent of active population	Ecwin/Reuters
2.2.	Employment	Annual percentage change of registered employment	Ecwin/Reuters
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, thou. EUR	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, thou. EUR	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	Annual data	MONSTAT
3.5.	Imports goods and services	Annual data	MONSTAT
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Retail Prices index, annual average percentage change, moving base year	Ecwin/Reuters
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	Ecwin/Reuters
4.3.	Producer prices	Annual percentage change	Ecwin/Reuters
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	Ecwin/Reuters
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	Ecwin/Reuters
5.3.	Stock markets	NEX20 Index, Close	Ecwin/Reuters
5.4.	M21	Annual percentage change, M21 (Broadest money)	Ecwin/Reuters
5.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
5.6.	Nominal exchange rate	Not available	
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



Recent economic developments – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change, index (2004)	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change at constant (average) prices 2002 Production approach	Ecwin/Reuters
1.4.	Consumer confidence indicator	Not available.	
1.5.	Private consumption	Not available	
1.6.	Gross fixed capital formation	Not available	
1.7.	Change in stocks	Not available	
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Monthly and quarterly data are based on official data on registered employment and unemployment	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data. Monthly and quarterly data are based on official data on registered employment and unemployment	Ecwin/Reuters
2.3.	Wages	Annual percentage change; average growth rate, real	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	Not available	
3.5.	Imports goods and services	Not available	
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Annual average percentage change, retail prices, total, index (2004)	Ecwin/Reuters
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	
4.3.	Producer prices	Annual percentage change, total, index (2000)	Ecwin/Reuters
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Treasury Bills, 3 month, yield, average, CSD	Ecwin/Reuters
5.2.	Bond yield	Not available	
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, CSD	Ecwin/Reuters
5.4.	M3	Annual percentage change, M3 (broad money), CSD	Ecwin/Reuters
5.5.	Exchange rate CSD/EUR	Spot Rates, close, period average	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Period average, moving base year, CSD	Ecwin/Reuters
6.	Government balance and debt		
6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	IMF
6.2.	General government debt	Public sector debt. In percent of GDP	IMF

KOSOVO

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Explanatory notes

Recent economic developments in – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Not available	
1.3.	Gross domestic product	Annual percentage change	IMF
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Not available	IMF
1.6.	Gross fixed capital formation	Not available	
1.7.	Change in stocks	Not available	
2	Labour market		
2.1.	Unemployment	In percent of total labour force	Statistical Office of Kosovo (SOK)
2.2.	Employment	Annual percentage change of number of employees according to the Tax Register	Statistical Office of Kosovo (SOK)
2.3.	Wages	Annual percentage change, average monthly wages according to the Tax Register	Statistical Office of Kosovo (SOK)
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change	Statistical Office of Kosovo (SOK)
3.2.	Imports of goods	Annual percentage change	Statistical Office of Kosovo (SOK)
3.3.	Trade balance	In percent of GDP	Statistical Office of Kosovo (SOK)
3.4.	Exports goods and services	In percent of GDP	IMF
3.5.	Imports goods and services	In percent of GDP.	IMF
3.6.	Current account balance	In percent of GDP, Annual data	IMF
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Annual data	IMF
4.	Prices		
4.1.	Interim CPI	Annual average percentage change, index (May 2002 = 100)	Statistical Office of Kosovo (SOK)
4.2.	GDP deflator	Annual percentage change	
4.3.	Producer prices	Not available	
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	Not available	
5.4.	M2	Annual percentage change, M2 (Broadest money)	Banking and Payments authority (BPK)
5.5.	Exchange rate EUR/EUR		
5.6.	Nominal eff. exchange rate	Not available	
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt		