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CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIES QUARTERLY

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CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIES QUARTERLY

OVERVIEW

Recent political developments: In Turkey, the Justice and Development Party (AKP), led PM Erdogan, was the outright winner of the July 2007 parliamentary election. This result allowed the PM to form a successor single-party government. Presidential elections were successfully held thereafter. In Croatia, general elections are tentatively scheduled for 25 November 2007, with a very open result. Negotiations are still ongoing on a status settlement for Kosovo, following the settlement proposal submitted on 26 March by Martti Ahtisaari, the UN Special Envoy.

Output and demand: Over the second quarter of 2007, economic growth in the region continued at a brisk pace, albeit slightly down from the previous quarter. In Croatia, growth reached 6.6% year-on-year, hardly less than in the first quarter, and in Serbia even 7.7% year on year. In the former Yugoslav Republic of Macedonia, the economic expansion decelerated more sharply to just 4% year-on-year, down from the 7% still seen in the previous quarter. In Turkey, growth decelerated to 3.9% year-on-year in the second quarter. This is however largely owing to the very strong performance in the second quarter of 2006 (base effect) and masks a fairly strong reacceleration over the past 6 months after the stagnation in the second half of last year imposed by a tight monetary stance.

Labour markets: Unemployment remained relatively high, ranging from around 10% in Turkey in the first half of 2007 and around 11.5% in Croatia to a very high 36% in the former Yugoslav Republic of Macedonia and even 40% in Kosovo. However, the data are not always entirely reliable. In some countries, such as Croatia or Bosnia and Herzegovina, economic growth has recently led a modest rise in employment.

International transactions: Current account balances continued to show deficits in almost all countries. They were particularly high in Montenegro (around 30% of GDP), and reached double digits also in Bosnia and Herzegovina and Serbia. The high deficits in Montenegro are partly driven by strong capital inflows, partly into real estate. The former Yugoslav Republic of Macedonia has recently enjoyed a current account surplus. This different dynamic is

largely explained by special factors. For Kosovo (UN1244) recent current account data do not exist, but continued very high deficits can be assumed. In contrast, the deficit continued to stabilise in Turkey on the back of strong exports and moderate internal demand. Over recent months, Central European Free Trade Agreement (CEFTA) entered into force in an increasing number of countries, as the ratification process proceeded.

Prices: Inflation continued to show different levels and trends. In Turkey, consumer price inflation came down further, to 7.1% year-on-year in September, supported by the slowdown in domestic demand and waning cost-push factors. In some Western Balkan countries, recent months have seen a hike in inflation due to the drought-related sharp rise in food prices. For example, in Serbia, inflation was back up to 7.4% in September.

Monetary and financial indicators: Most countries' currencies have a fixed peg to the euro and Kosovo and Montenegro use the euro. The Croatian, Serbian and Macedonian currencies continue to remain fairly stable against the euro. During the first half of 2007, the Turkish lira appreciated to around 1.77 TRY/EUR.

Government balance: In 2006 Croatia achieved further fiscal consolidation, bringing its general government deficit down to 2.2% of GDP from 3.8% in 2005. Turkey posted a slight surplus of 0.4% of GDP and achieved an accompanying further dramatic decline of government debt. The former Yugoslav Republic of Macedonia recorded a slight rise in its deficit, though it remained moderate at 0.6% of GDP. Most potential candidate countries posted budget surpluses in 2006. Albania remains the weakest performer in this category with a deficit of 3.2% in 2006 which, moreover, is expected to increase to 4.8% in 2007. Indicators for 2007 point to strong revenue performance in most countries, with an accompanying fall in the deficit or rise in the surplus. Turkey, by contrast, is witnessing some fiscal relaxation over the course of 2007.

Candidate and potential candidate countries: Summary table

	2002	2003	2004	2005	2006	ECFIN Forecast		Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
						2007	2008						
Gross domestic product (in real terms, annual % change)													
Croatia	5.6	5.3	4.3	4.3	4.8	4.8	4.5	7.0	6.6	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	0.8	2.9	2.9	3.8	3.0	4.3	5.3	7.0	4.0	:	n.a.	n.a.	n.a.
Turkey	7.9	5.8	9.0	7.4	6.1	4.9	5.9	6.9	3.9	:	n.a.	n.a.	n.a.
Albania	4.2	5.8	5.7	5.8	5.0	:	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	5.5	3.0	6.3	4.3	6.2	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	1.7	2.4	4.2	4.0	6.5	:	:	6.6	6.9	:	n.a.	n.a.	n.a.
Serbia	4.2	2.5	8.4	6.2	5.7	:	:	8.4	7.7	:	n.a.	n.a.	n.a.
Kosovo (UNSCR 1244)	-2.4	-0.1	3.3	0.6	3.8	:	:	:	:	:	n.a.	n.a.	n.a.
Unemployment (LFS, in % of workforce)													
Croatia	14.8	14.3	13.8	12.7	11.2	11.5	11.3	16.9	15.1	:	14.0	13.8	:
The former Yugoslav Republic of Macedonia	31.9	36.7	37.2	37.3	36.0	35.8	34.7	35.8	:	:	:	:	:
Turkey	10.4	10.5	10.3	10.2	9.9	9.9	9.6	11.4	8.9	:	:	:	:
Albania	16.0	15.2	14.7	14.3	13.9	:	:	13.6	13.5	:	:	:	:
Bosnia and Herzegovina	40.9	42.0	43.1	44.7	44.2	:	:	44.7	43.7	:	:	:	:
Montenegro	28.9	26.0	22.3	18.5	14.7	:	:	14.7	12.7	:	12.2	12.0	11.7
Serbia	14.5	16.0	19.5	21.8	21.6	:	:	21.4	20.6	:	19.8	19.7	:
Kosovo (UNSCR 1244)	47.0	49.7	39.7	42.2	40.0	:	:	:	:	:	:	:	:
Current account balance (% of GDP)													
Croatia	-8.7	-7.3	-5.3	-6.4	-7.8	-8.1	-8.0	-7.8	-7.8	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-9.5	-3.4	-7.7	-1.3	-0.4	-2.0	-2.6	0.8	1.2	:	n.a.	n.a.	n.a.
Turkey	-0.8	-3.3	-5.2	-6.2	-8.2	-7.2	-6.6	-8.1	-7.6	:	n.a.	n.a.	n.a.
Albania	-8.5	-5.6	-4.4	-7.5	-7.5	:	:	-8.6	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-19.1	-19.4	-17.9	-19.8	-10.7	:	:	-11.9	-12.6	:	n.a.	n.a.	n.a.
Montenegro	-12.6	-7.3	-7.2	-8.9	-26.0	:	:	-28.8	-31.0	:	n.a.	n.a.	n.a.
Serbia	-8.7	-7.5	-11.7	-8.4	-11.5	:	:	-18.1	-12.4	:	n.a.	n.a.	n.a.
Kosovo (UNSCR 1244)	n.a.	n.a.	-18.3	-18.5	-19.3	:	:	:	:	:	n.a.	n.a.	n.a.
Inflation (Consumer price index, annual % change)													
Croatia	1.7	1.8	2.0	3.3	3.2	2.3	3.0	1.6	2.1	:	2.1	2.6	:
The former Yugoslav Republic of Macedonia	2.3	1.1	-0.4	0.5	3.2	2.0	2.5	0.7	1.1	2.4	1.3	2.2	3.6
Turkey	45.0	21.6	8.6	8.2	9.6	8.2	5.8	10.3	9.5	7.1	6.9	7.4	7.1
Albania	5.2	2.4	2.9	2.4	2.4	:	:	2.8	1.8	:	2.1	4.2	:
Bosnia and Herzegovina	0.2	0.6	0.5	4.3	6.1	:	:	0.9	0.3	:	:	:	:
Montenegro	16.4	6.8	2.2	2.4	3.0	:	:	2.5	2.1	:	4.2	4.6	:
Serbia	21.4	11.7	9.8	17.3	12.7	:	:	5.7	4.7	6.5	5.9	6.3	7.4
Kosovo (UNSCR 1244)	2.0	1.2	-1.1	-1.4	0.6	:	:	1.6	0.8	:	1.5	6.6	:
General government balance (% of GDP)													
Croatia	-4.1	-5.5	-4.1	-3.8	-2.2	-2.4	-2.2	-1.1	0.4	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-5.6	-1.1	0.0	0.3	-0.6	-1.2	-1.5	:	:	:	n.a.	n.a.	n.a.
Turkey	-12.3	-11.3	-5.8	-0.3	0.4	-2.2	-1.8	:	:	:	n.a.	n.a.	n.a.
Albania	-6.6	-4.5	-5.1	-3.6	-3.2	:	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-0.1	0.7	1.6	2.4	2.9	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	N.A.	-1.9	-2.4	-2.7	1.1	:	:	2.7	4.2	:	n.a.	n.a.	n.a.
Serbia	-3.1	-1.1	0.9	1.9	1.6	:	:	1.6	0.7	:	n.a.	n.a.	n.a.
Kosovo (UNSCR 1244)	4.4	2.5	-6.2	-2.6	3.4	:	:	:	:	:	n.a.	n.a.	n.a.

f: ECFIN forecast Spring 2007

CROATIA



COMMENTS

Recent political and other developments

General elections are tentatively scheduled for 25 November 2007. The main opposition social democratic party (SDP) continued to lead in opinion polls over the ruling Croatian Democratic Union (HDZ) by a minor margin. Both parties would need coalition partners to form a stable government.

After several months of negotiations, contracts for the sale of the country's two steel companies were eventually signed in July.

The privatisation of more than half of remaining government shares in the Croatian Telecom (HT) through an initial public offering started in September. Croatian citizens are granted pre-emption rights and will be able to buy shares under favourable conditions.

Croatia was ranked as the second best performer in the World Bank's 2008 Doing Business Report. The country moved from the 124th position to the 97th out of a total of 178 countries surveyed.

Output and demand

In the second quarter of 2007, economic performance remained strong, although growth decelerated somewhat compared to the first quarter. Real GDP grew 6.6% year-on-year, down from 7% in the first quarter, but significantly stronger than the 3.6% in the same quarter of last year. The strongest contributions to growth in the second quarter came from private consumption which grew by 6.5% year-on-year and gross fixed capital formation (5.8%). At the same time, government consumption increased by 2.7%. The growth of exports accelerated markedly to 8.9% year-on-year, and was stronger than the growth of imports (6.4% year-on-year). On the supply side, a strong growth of industrial output as well as of some services, in particular financial intermediation, tourism and transport and communication, contributed significantly to the

robust economic performance. Recent high-frequency indicators suggest a mild moderation of a still solid economic activity in the third quarter of 2007. In July, industrial production growth accelerated to 8.5% year-on-year, but fell to 2.8% in August. Real retail trade grew by 10.7% year-on-year in August, up from 5.9% in July. Construction output increased by 3.5% in July year-on-year.

Labour market

The officially registered unemployment rate further declined to 13.8% in August, down from 14% in July. In August 2006 it stood at 15.7%. Total employment grew 0.8% year-on-year in August, bringing the average employment growth in the first eight months to around 1%. This is lower than the 3.2% growth rate recorded for the same period in 2006. However, official employment data may underestimate labour market dynamics and are often due to later revisions. Recently, data from the labour force survey were for the first time reported on a quarterly basis. According to that, the unemployment rate stood at 11.2% in the first quarter of 2007, the same level as for the average for 2006.

The growth of average gross wages accelerated to 7.9% year-on-year in July, up from 5.7% in June. Deflated by consumer price inflation, this translates into a real increase of 5.6%. In the first seven months of 2007, wages increased by 6.3% in nominal and by 4.3% in real terms. For comparison, in the same period a year ago, nominal wages increased by 5.9% and real wages by 2.2% on average. The acceleration of real wage growth was broadly matched by rises in productivity, so that unit labour costs remained rather stable.

International transactions

According to recent data published by the Croatian National Bank, the current account deficit stood at 7.8% of GDP in the twelve

months to June 2007, unchanged compared to 2006 or the twelve months to March. The merchandise trade deficit remained at 24.7% of GDP while the trade with services posted a slightly higher surplus of 16.9% of GDP.

Merchandise exports increased by 5% year-on-year in August, while imports rose 5.3%. In the first eight months of 2007, merchandise exports grew by 10.9% year-on-year and imports rose by 10.7%. As a result, the merchandise trade deficit increased by 10.5% to around 18% of projected 2007 GDP in January to August. In the same period in 2006, the trade deficit stood at a slightly lower 17.4% of GDP.

The first half of 2007 was marked by a strong inflow of FDI. In the twelve months to June, the net inflow reached 9.1% of GDP, and thus more than offset the current account deficit during this period. In 2006, the net inflow of FDI was equivalent to 7.4% of GDP.

At end August, official reserves of the Croatian National Bank stood at a comfortable level of EUR 9.2 billion, reflecting a nominal increase of around 6.5% compared to August 2006. They were equivalent to close to 6 months of imports of goods and services. External debt continued to grow, although at a much slower pace, to EUR 30.4 billion by end-August. This was equivalent to around 83% of projected 2007 GDP. The growth of external debt was mainly driven by an acceleration of external borrowing of the corporate sector. The government sector and domestic banks have recently reduced their outstanding external obligations.

Prices

Annual inflation increased markedly to 2.6% in August, from 2.1% in July, mainly due to stronger price increases for agricultural and food products following the draught. However, annual average inflation continued its downward trend and stood at 2% in the first eight months of 2007, compared to 3.2% in 2006. Core inflation remained at around 2.5% in the first half of 2007. Annual producer price inflation increased from 3% in July to 3.6% in August. In annual average terms producer prices came down from 2.9% in 2006 to 2.5% in the period January to August.

Monetary and financial indicators

Monetary policy continued to be geared at maintaining price stability. The growth of monetary aggregates slowed somewhat down. M4 increased by 18.2% year-on-year in July, compared to an average growth of 20.2% in the first half of the year. Domestic credit growth continued to be relatively strong at 19.5% year-on-year in July, below the 22% average credit growth recorded in the first six months. Lending to household continued to expand, whereas outstanding credit to the enterprise sector was reduced slightly in August.

Average three months money market interest rates stood at 5.57% in August, lower than in July. The exchange rate of the Kuna vis-à-vis the euro remained stable with the usual seasonal fluctuations during the summer months. In the first eight months, it slightly appreciated by 1% in nominal terms. The same appreciation rate was recorded during the first eight months in 2006.

General government finance

According to the fiscal notification submitted by Croatia to the European Commission in April, the general government deficit as defined under ESA 95 terms stood at 2.2% of GDP in 2006, down from 3.9% in 2005. The first half of 2007 was marked by favourable fiscal developments. Due to a strong economic performance, total revenues of the general government increased by 13.1% year-on-year, with a particular strong contribution of VAT and excises which increased by 11.2% and 7.5%, respectively. General government spending rose by 6.8% year-on-year. Spending on wages and government purchases increased particularly strongly by 9.4% and 11.9%, respectively. The fiscal notification reports the general government debt at 40.8% of GDP at end-2006, down from 43.7% a year before. At end-June 2007, the stock of general government debt stood at 38% of GDP. This does not include the stock of issued state guarantees of 5.4% of GDP and the debt of the State Development Bank (HBOR) of 3.3% of GDP.

TABLE

European Commission, ECFIN-D-1



CROATIA

		2002	2003	2004	2005	2006	ECFIN Forecast							
							2007	2008	Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
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	5.6	4.0	3.6	5.1	4.5	:	:	8.0	7.1	:	8.5	2.8	:
Gross domestic product ^{1.3}	Ann. % ch	5.6	5.3	4.3	4.3	4.8	4.8	4.5	7.0	6.6	:	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	7.7	4.6	4.8	3.4	3.5	4.0	3.3	7.1	6.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	13.9	24.7	5.0	4.9	10.9	8.5	7.5	11.2	5.8	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	4.8	2.5	2.5	2.9	2.9	2.1	2.0	2.9	2.9	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	14.8	14.3	13.8	12.7	11.2	11.5	11.3	16.9	15.1	:	14.0	13.8	:
Employment ^{2.2}	Ann. % ch	4.4	0.1	1.6	0.4	0.9	1.8	1.6	1.9	0.9	:	0.9	0.8	:
Wages ^{2.3}	Ann. % ch	6.0	4.8	6.4	4.4	6.2	6.5	6.6	6.2	5.7	:	7.9	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	-1.3	7.6	17.3	7.9	16.1	:	:	2.2	17.2	:	21.2	5.0	:
Imports of goods ^{3.2}	Ann. % ch	12.6	13.9	5.1	9.1	12.9	:	:	9.1	12.9	:	18.4	5.3	:
Trade balance ^{3.3}	% of GDP	-24.4	-26.6	-23.4	-24.0	-24.4	-25.0	-24.8	-24.7	-24.7	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	45.3	47.1	47.5	47.1	47.9	:	:	47.4	47.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	56.4	57.9	56.4	55.5	56.8	:	:	56.3	56.2	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-8.7	-7.3	-5.3	-6.4	-7.8	-8.1	-8.0	-7.8	-7.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.4	6.4	2.1	3.9	7.5	:	:	9.3	9.2	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	1.7	1.8	2.0	3.3	3.2	2.3	3.0	1.6	2.1	:	2.1	2.6	:
GDP Deflator ^{4.2}	Ann. % ch	3.6	3.9	3.9	3.2	3.4	2.5	3.3	3.3	4.0	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	-0.4	1.9	3.5	3.0	2.9	:	:	2.0	2.5	:	3.0	3.6	:
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.	4.63	5.42	7.31	6.21	4.46	:	:	4.35	5.01	6.26	7.37	5.58	5.84
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,167	1,129	1,284	1,920	2,771	:	:	3,932	4,808	4,946	5,040	4,760	5,037
M4 ^{5.4}	Ann. % ch	30.8	11.4	8.2	9.6	14.3	:	:	20.4	19.9	:	18.2	19.0	:
Exchange rate HRK/EUR ^{5.5}	Value	7.42	7.57	7.50	7.39	7.30	:	:	7.35	7.35	7.31	7.29	7.31	7.31
Nominal eff. exchange rate ^{5.6}	Index	97.81	94.95	91.67	90.45	89.29	:	:	88.73	87.91	:	:	:	:
6 Government balance and debt														
General government balance ^{6.1}	% of GDP	-4.1	-5.5	-4.1	-3.8	-2.2	-2.4	-2.2	-1.1	0.4	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.0	41.0	43.2	44.2	42.1	40.1	39.7	:	:	:	N.A.	N.A.	N.A.

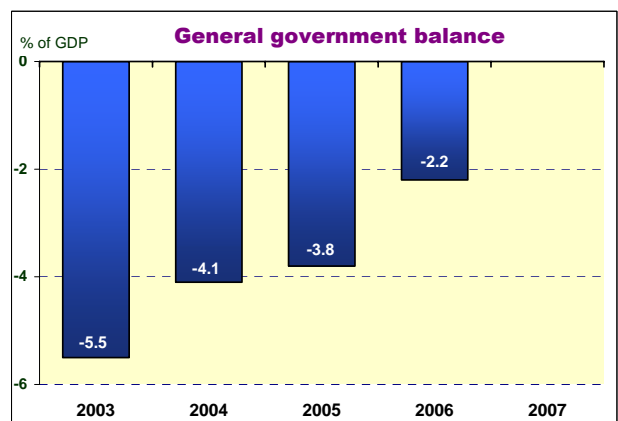
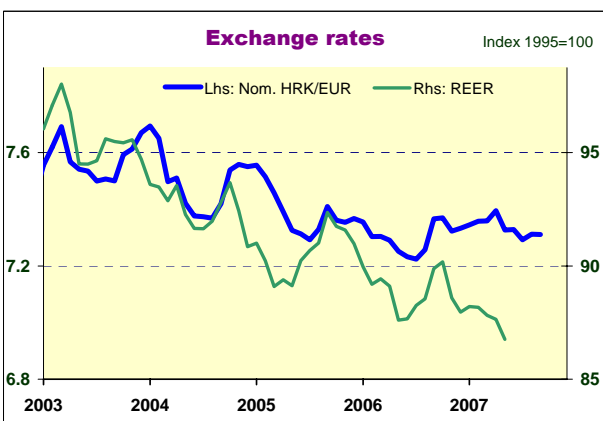
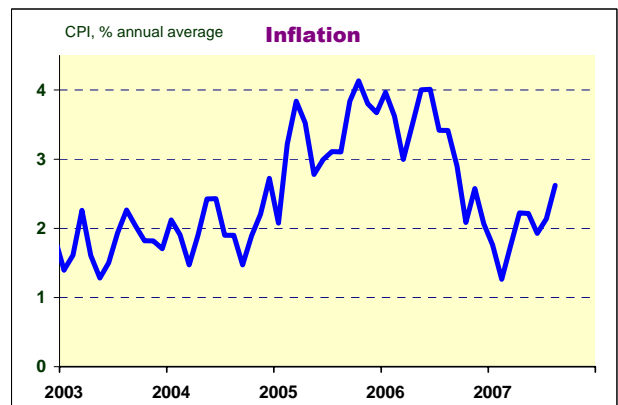
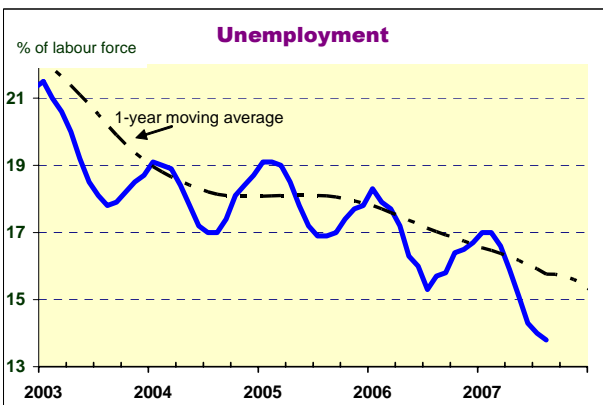
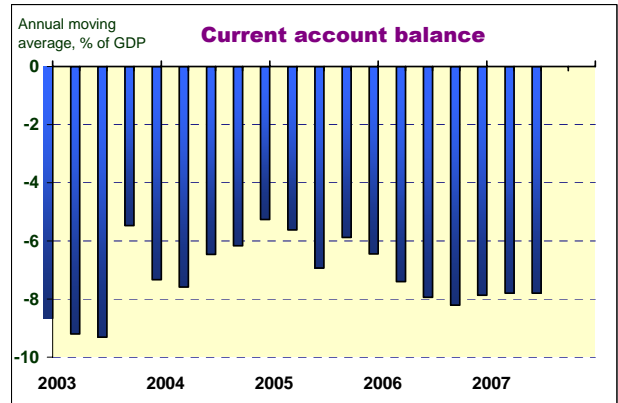
f: ECFIN forecast Spring 2007

CHARTS

European Commission, ECFIN-D-1



CROATIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



COMMENTS

Recent political and other developments

On 17 August, the authorities prepaid two EIB loans, amounting to EUR 6.8 million (0.1% of GDP). Since the beginning of the year, early repayments of external debt reduced the external debt by nearly EUR 160 million (some 3% of GDP)

On 19 September, the World Bank signed three additional loans, amounting to EUR 53 million. The loans are meant to support the country's investment climate and the public sector's management.

The World Bank's 2008 *Doing business* report upgraded the country's ranking from the 96th position last year to the 75th place (among 178 countries). This upgrade is said to reflect improvements in the areas of starting business, handling licences, trade facilitations and paying taxes. *Transparency International* upgraded the country's rank with respect to Corruption Perception from the 105th position last year (among 163 countries) to the 84th this year.

Output and demand

Economic activity accelerated markedly in the first half of 2007, from less than three percent in the first half of 2006 to about to some 5½ in the first half of 2007, mainly due to a very strong growth in the first quarter. The main sources of growth were trade and transport, contributing about half of registered economic growth. In contrast to before, the contribution of the manufacturing sector has remained relatively low (0.8 percentage points out of 5.4%).

Industrial production, which accounts for some 20% of total value added, increased by 2.5% during the first 8 months of the year. During this period, the sector's output decelerated markedly, especially in mid-2007, when output levels were markedly lower than a year before. The biggest contributions to the increase came from the production of basic metals and food,

while the output of the textile industry was markedly below pre-year levels.

Labour market

Unemployment continued to be high despite a solid job creation. In the first quarter of 2007, the number of unemployed was by about 5 000 persons (1.6%) higher than a year before, while the number of employed persons rose by some 20 000 persons (3.5%). This led to an increase in the labour force by 25 000 persons, or by 2.8%. As a result of this strong increase in the labour force, the unemployment rate declined to 35.8%, compared to 36.2% a year before. About 20% of the unemployed are between 15-24 years old. The unemployment rate in this age group rose to 59% according to the labour force survey. About half of the additional employment took place in communal services, which are currently in the process of receiving additional competences from the central authorities.

Nominal wage growth accelerated slightly to 3.2% in the second quarter, compared to 2.6% in the first quarter of the year. Thus, the increase in nominal wages remained some 2 percentage points above consumer price inflation.

International transactions

The current account continued to improve during the first half of 2007, with the current account registering an (annualised) surplus of about 1% of GDP, compared to an (annualised) deficit of 1½% of GDP the year before. The main factors behind this development were strong export growth and a continued high inflow of private transfers in the form of workers remittances and of cash exchanges at the foreign exchange offices. Net private transfers amounted to 17% of the estimated GDP during the first half of 2007, compared to 16% of GDP a year before. Thus, inflows of net private transfers even surpassed the trade deficit,

which amounted to 13% of GDP in the same period. The year before, the trade deficit had been 20% of GDP. Inflows of FDI came down to their historic levels: EUR 62 million (nearly 1% of the annualised GDP), compared to EUR 257 million (5% of GDP) in the first half of 2006. A large part of this inflow in 2006 has been related to the privatisation of the electricity distribution company ESM to a foreign investor.

Commodity exports accelerated markedly during the first half of 2007, increasing by 40% in EUR terms compared to the same period a year before. The main factor for this strong increase was stronger trade in iron and steel, construction materials and textiles. Nominal imports rose in the same period by 14%.

At the end of August 2007, official reserve assets of the National Bank stood at a level of EUR 1.6 billion, equivalent to more than 5 months of imports of goods and services.

Prices

Consumer price inflation dropped markedly at the beginning of 2007 as the impact of increases in excise duties a year ago has phased out. In the first half year of 2007, year-on-year consumer price inflation was 0.9%, compared to 3.1% during the first half of 2006. In the third quarter, a seasonally driven strong increase in food prices rose consumer price inflation above 2%. However, for the first nine months as a whole, consumer prices were 1.4% above the pre-year level. For the remaining of 2007 and for 2008, inflation is expected to remain relatively low, benefiting from a stable exchange rate towards the euro and the price dampening effect of increasing competition from abroad due to the country's membership to WTO, but also due to stronger competition within the country.

Monetary and financial indicators

Monetary conditions continued to ease during the first 5 months of 2007, reflecting improved confidence in the stability of the exchange rate regime. Average weighted nominal lending rates declined from about 10% in 2005 to 6.4% in 2006 and 6.2% in May 2007. In spite of higher inflation, interest rates on deposits came down from 5.6% in December 2005 to 4.4% in December 2006. However, interest rates rose during the first quarter of 2007 and have reached 4.7% by May 2007. Credit growth to the private

sector was some 25% in 2006 and continued to accelerate to some 33% by May 2007. Year-on-year growth of M4 accelerated further at the beginning of 2007, to 25.9% in the first quarter of 2007 and 28.5% in May.

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 informal peg vis-à-vis the EUR.

Foreign exchange reserves amounted to EUR 1.5 billion by end-August, which corresponds to more than 5 months of imports. Important reasons for the rapid increase in reserves were the inflow from the ESM privatisation proceeds (about 5% of GDP) in 2006 and continued foreign exchange inflows through cash exchange offices.

By end-June 2007, gross external debt amounted to 34% of the projected full-year GDP.

General government finance

During the first 8 months of the year, the central government budget registered a surplus of nearly 3% of GDP. Key factors for this performance are: (1) stronger than expected tax revenues, benefiting from strong economic growth, (2) lower than expected public sector capital expenditures and (3) the payment of a dividend for the state share in the telecommunication company, amounting to around 1% of GDP. In September, the government adopted a second budget revision envisaging additional expenditures and a wider application of the reduced VAT rate. For the whole year, the authorities now envisage a deficit of 1.1% of GDP.

The general government debt ratio declined from 41% of GDP in December 2005 to 33.6% of the estimated 2006 GDP in December 2006. By August 2007, the debt ratio has further dropped to 28% of GDP. This sharp decline largely is a result of further early debt repayments, mainly to Paris club creditors, the IMF, the World Bank and the EIB.

TABLE

European Commission, ECFIN-D-1



The former Yugoslav Republic of Macedonia

		2002	2003	2004	2005	2006	ECFIN Forecast							
							2007	2008	Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
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.	-12.0	7.2	0.8	:	:	11.7	-2.5	:	-2.2	1.1	:
Gross domestic product ^{1.3}	Ann. % ch	0.8	2.9	2.9	3.8	3.0	4.3	5.3	7.0	4.0	:	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	12.5	-1.5	6.2	1.9f	3.0f	4.5	4.6	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	17.6	1.1	10.9	3.0f	4.0f	12.0	15.0	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	4.0	3.2	3.6	2.8	:	3.6	3.8	:	:	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	31.9	36.7	37.2	37.3	36.0	35.8	34.7	35.8	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	-6.3	-2.9	-4.1	4.3	4.6	3.4	3.6	3.5	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	6.9	4.8	4.0	2.7	8.0	3.0	3.5	2.6	3.2	:	3.2	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	-3.6	22.5	11.6	22.3	15.9	:	:	42.9	37.5	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	17.8	15.6	14.5	11.6	17.1	:	:	22.6	7.9	:	:	:	:
Trade balance ^{3.3}	% of GDP	-21.4	-18.6	-20.7	-17.9	-20.6	-17.8	-18.1	-13.8	-12.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	36.1	36.3	38.7	43.6	48.1	:	:	45.6	56.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	57.9	54.7	60.3	62.6	68.4	:	:	59.3	69.2	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-9.5	-3.4	-7.7	-1.3	-0.4	-2.0	-2.6	0.8	1.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.1	2.0	2.9	1.6	5.8	:	:	:	:	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	2.3	1.1	-0.4	0.5	3.2	2.0	2.5	0.7	1.1	2.4	1.3	2.2	3.6
GDP Deflator ^{4.2}	Ann. % ch	3.4	0.3	1.3	3.3	:	2.9	2.9	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	-0.2	1.2	3.2	4.5	:	:	1.0	0.3	:	0.0	1.2	:
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	8.49	9.95	6.40	:	:	6.43	6.00	:	5.44	5.41	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	:	774	911	1 930	3 219	:	:	4 408	6 787	8 621	7 398	8 868	9 596
M4 ^{5.4}	Ann. % ch	-9.8	16.0	16.3	15.1	10.9	:	:	25.9	29.0	:	31.8	30.1	:
Exchange rate MKD/EUR ^{5.5}	Value	60.98	61.26	61.33	61.29	61.19	:	:	61.18	61.17	61.21	61.18	61.17	61.28
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	-5.6	-1.1	0.0	0.3	-0.6	-1.2	-1.5	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	48.7	45.0	43.8	48.5	41.5	32.9	31.8	:	:	:	N.A.	N.A.	N.A.

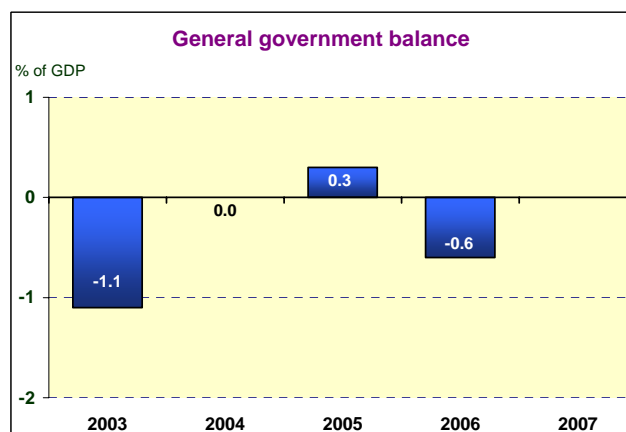
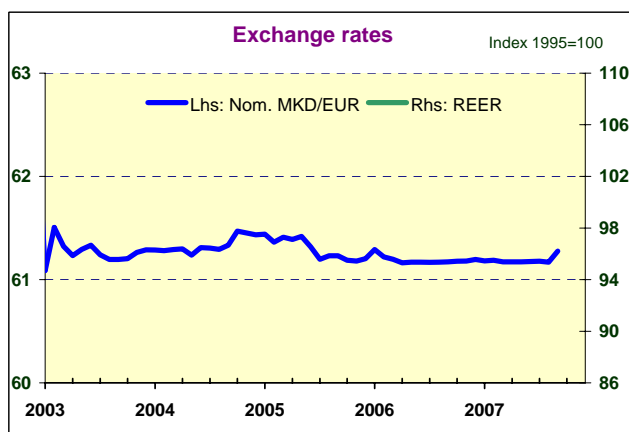
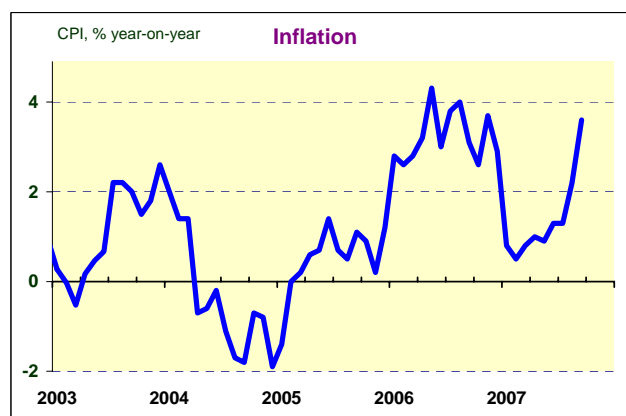
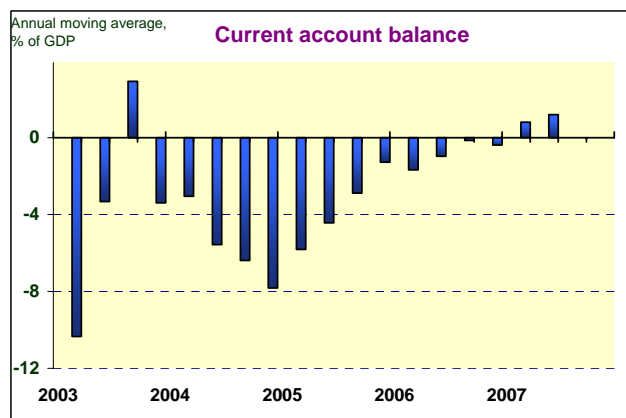
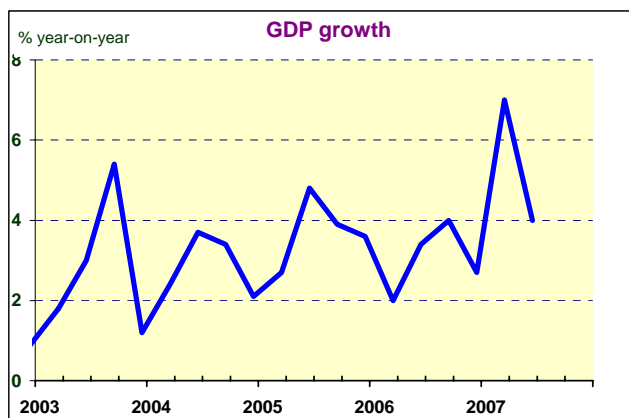
f: ECFIN forecast Spring 2007

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia



TURKEY



COMMENTS

Recent political and other developments

The Justice and Development Party (AKP), led by the PM Erdogan, was the outright winner of the July 2007 parliamentary election. It increased its share of the national vote to 46.6% from about 34% in the 2002 election. This result allowed the PM to form a successor single-party government. Major personnel changes include the replacement of the new President Abdullah Gül by Chief EU-Negotiator Babacan as Foreign Minister. Minister Simsek replaces Babacan as the State Minister of Economy and head of the Turkish Treasury. The new government defined Turkey's EU membership bid and economic reform as its two top priorities.

Output and demand

Real GDP growth slowed down from 6.9% in the first quarter of 2007 to 3.9% in the second quarter. The economy had grown for 22 straight quarters averaging 7% annually since the financial crisis of 2001. The slowdown can be partly explained by the base effect (growth was 9.3% in the second quarter of 2006).

Private consumption contracted by 0.3% y-o-y compared with an increase by 2% y-o-y in the first quarter. In the run-up to the elections, government consumption increased by 7.4% y-o-y, while public investment registered a sharp increase of 33.9% up from a 9.1% rise in the year to the first quarter. The contribution of the external sector to growth remained significant, as imports grew at 8.4%, while export growth amounted to 12.7%, down slightly from 14.7% in the first quarter of 2007. The domestic demand slowdown was mainly driven by the tighter monetary stance, higher interest rates and less lending.

On the supply side, private building and dwelling construction slowed down from 18% in the first quarter to 11.9% in the second quarter. In tandem, industrial production also decelerated from 8% in the first quarter to 3.2% in the

second quarter. Manufacturing output growth was mainly concentrated in export-oriented sectors. Business and consumer confidence indicators, as well as capacity utilisation, strengthened markedly after the elections, thus illustrating strong market confidence in the new government's commitment to economic reform and fiscal consolidation.

Labour market

Unemployment rate remained virtually unchanged in the second quarter of 2007 compared to the same period of last year at 8.9%. A large increase was observed in youth unemployment, which rose to 18.4% from 16.7% last year. Total employment rates in the second quarter of 2007 amounted to 44.2%, with a large discrepancy between men (65.3%) and women (23.6%). Employment in agriculture fell slightly to 26.5% in the first half year. Service sector employment rose by 0.2% to 48.4%. These trends confirmed the gradual sectoral shift towards a services dominated economy.

Wages grew throughout the economy at rates very similar to CPI-inflation. However, in various sectors upwards pressures on wages increase, as recent strikes for pay hikes demonstrate. The government took commitments to substantially increase the public sector wage bill in 2007.

International transactions

In the first half year of 2007, exports have again outperformed imports, as they rose by respectively 24.5% and 17% year-on-year. Automotive exports increased by over one third compared with the same period of 2006. Conversely, exports of textile products and apparel, which represent about 20% of total exports, appeared to have suffered from WTO liberalisation and continue to fall. In value terms, trade with the EU amounts to about respectively 55% and 40% for exports and imports. The trade deficit slightly increased in the first half of 2007 to 9.8% of GDP, compared

with 9.5% in the first half of 2006. of in 2007. The current account deficit increased in tandem with the trade deficit to about 7.5% of GDP. The significant investments made in recent years in the export sector appear to pay off, and to some extent mitigates falling domestic consumption.

Privatisation receipts picked up significantly since 2005. In the half of 2007, FDI rose further to about EUR 15 billion, and covered about 70% of the current account deficit. The interest in Turkish banks bodes well for the privatisation of the largest state owned bank - Ziraat - which should be finalised by 2008. Foreign ownership in the Turkish banking sector increased from less than 5% in 2004 to over 25% in mid-2007.

Prices

The disinflation pace was reversed in 2006 and picked up to 11% in spring 2007. However, in recent months, inflation has decelerated significantly to 7.1% in September. Food prices rose 2.3% in a month, reflecting adverse effects from the drought. Conversely, clothing prices dropped by 7.1% due to discount summer sales. For the first time in four years, services prices rose slower than the CPI. The deceleration of price adjustments in housing rents may indicate the end of the construction boom. The government's CPI target for the end of this year end for 2008 is 4%. Producer prices rose by 5% y-o-y in September 2007, up from 3.7% a month earlier. Agricultural output prices increased by 3.0% compared with the previous month. The central bank indicated that the increase by 22 of non-interest related public expenditure in the first eight months of 2007 may have restrained the disinflation process.

Monetary and financial indicators

Turkish financial markets have been highly volatile in August 2007. The TRY depreciated by over 11% vis-à-vis the euro/dollar currency basket, but then recovered almost all of its losses. The T-bond yields which stood at 17% (simple annual) rose to 18.7% by mid-August. Volatility was much lower than in 2006 when the TRY fell by 25% and bond yields had climbed above 30%. In early September, the central bank unexpectedly lowered borrowing and lending rates by 25 basis points to respectively 17.25% and 22.25%. Interest rates on deposits amounted to 22% by September

2007 with very little differences for one to twelve months maturities.

High real interest rates and measures taken to slow down consumer credit seem to have had effect as the consumer loans' stock credit growth fell by 15% in June 2007 (y-o-y) in nominal terms. Both corporate loans and consumer loans seem to have fallen. According to the Banking Supervision and Regulatory Agency (BRSA), banks have been very cautious in controlling FX-positions, amidst the financial turbulence. Financial turbulence may severely affect banks maturity mismatches, since the bulk of the loans carried fixed interest rates and were almost fully matched by 3-months deposits. Consumer loans which received administrative follow-up have doubled in the year to mid-2007, while legal action had to be taken in 210,000 cases compared with 57,000 one year ago. In spite of the August 2007 financial turbulence, the ISE-100, Turkey's main stock exchange index, rose by 48% in the year to October. Compared with early July 2007, just before the elections, the ISE-100 rose by over 30%. This largely demonstrates confidence in the new government's adherence to sound economic policies.

General government finance

In 2006, the general government budget surplus amounted to 0.4% of GDP (2006 fiscal notification, which uses ESA 95 definition) compared with a (revised) deficit of 0.3% in 2005. General government gross fixed capital formation remained roughly stable at 4.3% of GDP. General government gross debt came down to 60.7% of GDP by end-2006 from 69.6% the year before (all ESA 95, fiscal notification 2007).

For 2007, the government plans to keep the primary budgetary surplus stable at 6½% of GNP. However, cash-based central government data indicate a loosening – by about 1.5-2 percentage points of GDP – of the fiscal stance in the first eight months of 2007, due to an increase in expenditure. Non-interest expenditures rose by 22%, while tax revenues increased by just 9%, well below nominal growth.

A medium-term fiscal framework for 2008-2010 has been agreed by the High Economic Council in June 2007. The primary surplus target has been maintained at 6½% of GNP throughout the period.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2002	2003	2004	2005	2006	ECFIN Forecast		Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
							2007	2008						
1 Output and demand														
Industrial confidence ^{1.1}	Balance	102.0	104.1	106.8	102.8	102.4	:	:	114.8	114.3	111.0	112.4	112.8	107.8
Industrial production ^{1.2}	Ann. % ch	9.4	8.7	9.8	5.4	5.8	:	:	8.0	3.2	:	3.5	:	:
Gross domestic product ^{1.3}	Ann. % ch	7.9	5.8	9.0	7.4	6.1	4.9	5.9	6.9	3.9	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	106.7	100.1	95.6	:	:	92.3	94.3	:	95.5	98.3	:
Private consumption ^{1.5}	Ann. % ch	2.1	6.6	10.1	8.8	5.2	3.8	5.0	2.0	-0.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	-1.1	10.0	32.4	24.0	14.0	11.2	10.9	3.0	10.0	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	4.7	7.3	7.9	5.2	2.9	:	:	2.8	2.8	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	10.4	10.5	10.3	10.2	9.9	9.9	9.6	11.4	8.9	:	:	:	:
Employment ^{2.2}	Ann. % ch	-0.3	-0.8	2.0	1.7	1.2	1.3	1.5	3.9	2.0	:	:	:	:
Wages ^{2.3}	Ann. % ch	37.2	23.0	13.4	12.2	11.5	12.7	11.5	8.1	8.9	:	:	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	16.7	27.6	30.9	14.8	19.5	:	:	24.9	23.6	:	25.5	:	:
Imports of goods ^{3.2}	Ann. % ch	24.5	34.5	40.7	19.7	19.5	:	:	19.0	15.1	:	29.1	22.2	:
Trade balance ^{3.3}	% of GDP	-4.0	-5.8	-7.9	-9.3	-10.3	-9.0	-8.1	-10.1	-9.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	29.2	27.4	28.9	27.4	28.2	:	:	28.7	28.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	30.7	30.7	34.7	34.0	35.9	:	:	36.3	36.2	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-0.8	-3.3	-5.2	-6.2	-8.2	-7.2	-6.6	-8.1	-7.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.5	0.5	0.7	2.4	4.8	:	:	6.3	4.8	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	45.0	21.6	8.6	8.2	9.6	8.2	5.8	10.3	9.5	:	6.9	7.4	7.1
GDP Deflator ^{4.2}	Ann. % ch	44.3	22.5	9.8	5.4	11.4	7.8	5.9	-10.5	3.5	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	50.1	22.7	14.6	5.9	9.3	:	:	10.1	6.5	:	2.1	3.7	5.0
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	50.49	37.68	24.26	20.40	21.65	:	:	23.38	22.66	:	22.67	22.64	:
Bond yield ^{5.2}	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	11,013	12,312	19,899	29,353	39,867	:	:	41,487	45,754	50,585	51,719	48,689	51,346
M4 ^{5.4}	Ann. % ch	36.5	31.9	40.9	30.9	32.5	:	:	17.9	13.5	:	18.1	19.8	:
Exchange rate TRY/EUR ^{5.5}	Value	1.43	1.69	1.77	1.67	1.80	:	:	1.85	1.80	1.76	1.75	1.79	1.75
Nominal eff. exchange rate ^{5.6}	Index	31.10	27.54	26.81	28.11	26.18	:	:	25.62	25.90	:	:	:	:
6 Government balance and debt														
General government balance ^{6.1}	% of GDP	-12.3	-11.3	-5.8	-0.3	0.4	-2.2	-1.8	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	94.3	85.1	76.9	69.6	60.7	56.6	54.3	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2007

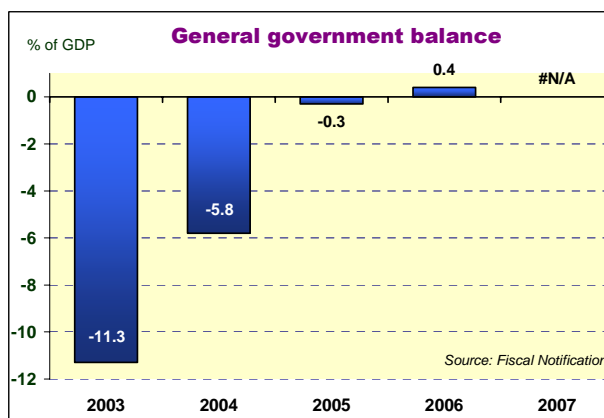
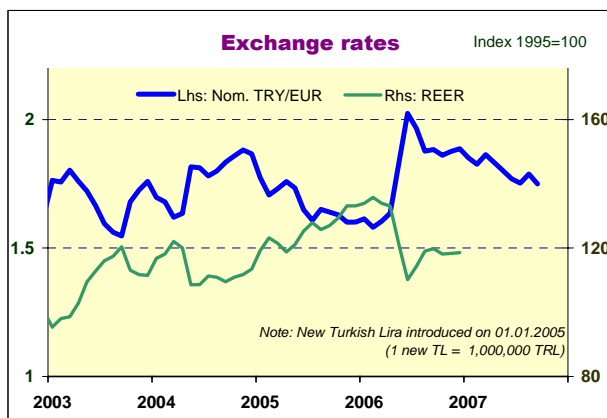
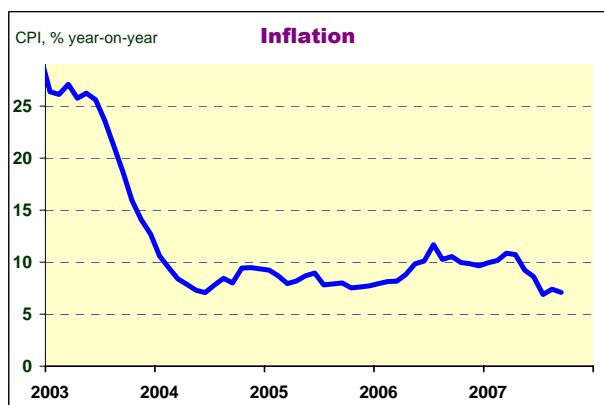
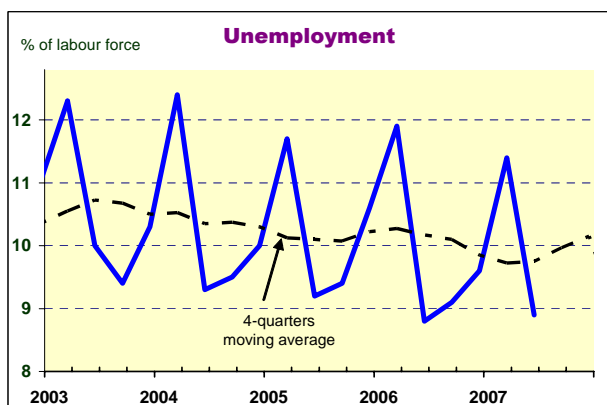
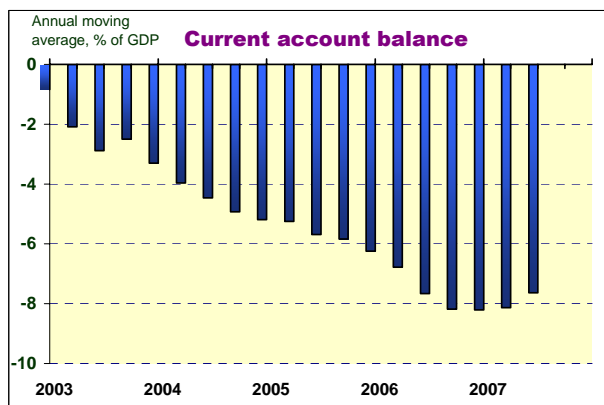
(¹) Interim HICP is not available for Turkey.

CHARTS



European Commission, ECFIN-D-1

TURKEY



ALBANIA



COMMENTS

Recent political and other developments

In 9 July 2007, the IMF approved the third review of Albania's three-year PRGF/EFF programme, as all quantitative targets and structural conditionality were met.

On 26 July, the Central European Free Trade Agreement (CEFTA) entered into force in Albania. CEFTA envisages the gradual liberalisation of trade with industrial and agricultural goods between the countries signatories (Serbia, Montenegro, Bosnia and Herzegovina, Croatia, Macedonia, Moldova and Kosovo) and the establishment of a regional free trade zone should be established by the end of 2010.

In July 2007, the parliament endorsed the sale of the 76% stake in Albtelecom, the public telecommunications operator. This is the most important privatisation operation since 2004. The proceeds amount to EUR 120 million, corresponding to around 1.5% of the projected 2007 GDP.

In July 2007, the parliament approved the supplementary 2007 budget, increasing expenditures for public road infrastructure, subsidies to the electricity company KESH and the reduction of public debt.

Output and demand

In 2007, real GDP growth is projected to reach 6%, compared to 5% a year earlier, despite server disruptions of the energy supply during the first half of the year. Growth is expected to remain driven, mainly by domestic demand fed by booming credit and significant remittances inflows.

Labour market

Employment continued to grow slightly by 0.2% year-on-year during the second quarter of 2007. The unemployment rate (based on registered data) continued to decline slightly to 13.5% in the same period. The highest increase in the number of the new employees continued to be observed in the non-agricultural sector. Long-

term unemployed represented 65% of the total registered unemployed. Average wages in the public sector increased by 15.4% in second quarter of 2007.

International transactions

During the first half of 2007, the current account deficit expanded by 28.5% year-on-year to EUR 366 million, reaching 4.5% of projected full-years GDP, compared to 3.9% of GDP a year earlier. The negative trade balance remained the main driver for the current account deficit. Although, exports grew stronger than imports, the value of imports remained 3.5 time larger than that of exports. However, the service balance improved markedly as the deficit shrunk by 51.5% year-on-year to EUR 22 million, mainly due to growing income from tourism.

Financing of the trade deficit continued to depend largely on significant remittances and other current transfers from abroad, amounting to about EUR 500 million, 11% higher than a year earlier.

Foreign direct investment rose by 12% year-on-year reaching EUR 137 million. This is expected to improve substantially during the second half of the year as proceeds from the privatisation of Albtelecom will materialise.

The Albanian government's external debt stood at around 17% of GDP mid-2007, representing around 31% of total public debt. Gross reserves continued to rise throughout the first half of 2007 and reached the equivalent of EUR 1,300 million, covering about 5 months worth of imports of goods and services.

In June 2007, ratings agency Moody's, awarded Albania a B1 rating, which is the first rating ever for Albania and puts it together with countries like Ukraine, Indonesia and Jamaica.

Prices

In August 2007, inflation increased to 4.2% year-on-year, caused by the insufficient power supply to the Albanian economy, but also higher prices for agricultural products and oil

derivatives in line with trends in international markets.

Monetary and financial indicators

Amid growing inflationary pressures, the National Bank of Albania raised its policy interest rate by 25 basis points to 6% in September. August inflation had exceeded the policy target of 3% with a fluctuation band of 1%. However, the average annual inflation for the first eight months stood at 2.5%, well within the policy target range.

In July, credit growth decelerated somewhat but remained at a still relatively high 52.6% year-on-year, compared to 60.7% a year earlier. Credit to the household sector grew by 67% year-on-year, while corporate loans expanded by 44%. At end-July, the total amount of outstanding loans stood at EUR 1.96 billion, of which 68% and 38% were accounted for by the corporate and household sectors, respectively.

General government finance

The budget for 2007, as adopted by the Assembly in November 2006, foresees a deficit of 4.8% of GDP that excludes proceeds from potential privatisations. Revenues are programmed at 25.8% of GDP, exceeding 2006 budget projections by around 10%. Expenditure is programmed at 30.6% of GDP, growing by about 12.5% over the 2006 budget. The priority sectors remained infrastructure, health care and education, each representing around 3% of GDP. Public sector wages increased on average by 15.4% year-on-year in the second quarter of 2007.

For the first eight months of the year, the general government budget recorded a surplus of EUR 62 million. Revenue collection rose by 9% while expenditures grew by 12% year-on-year, the latter somewhat lower than planned.

In August 2007, a flat personal income tax of 10% with a 0% threshold of 10,000 lek entered into force.

TABLE

European Commission, ECFIN-D-1



ALBANIA

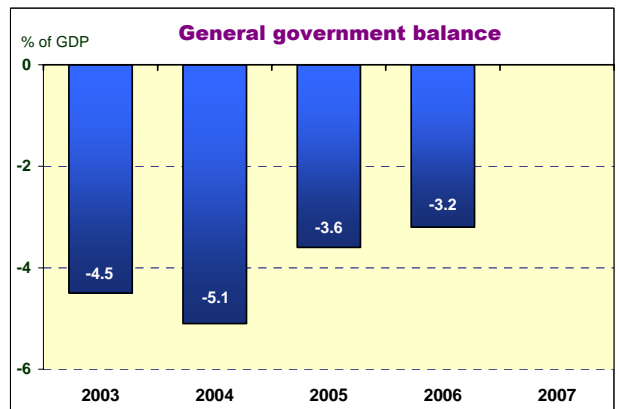
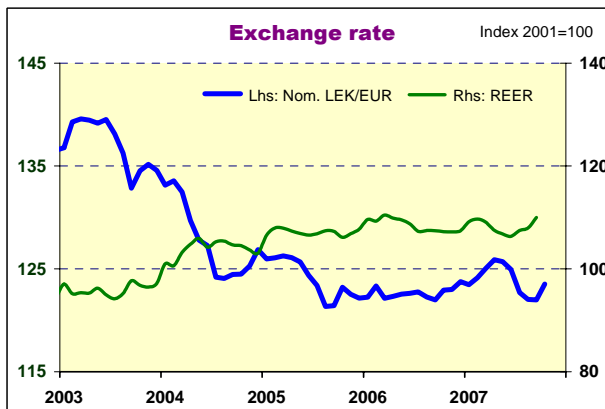
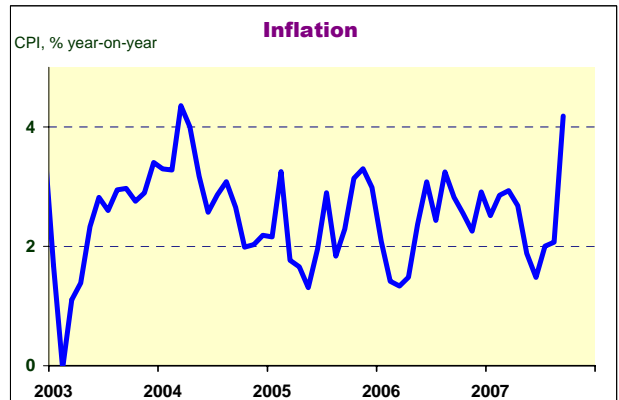
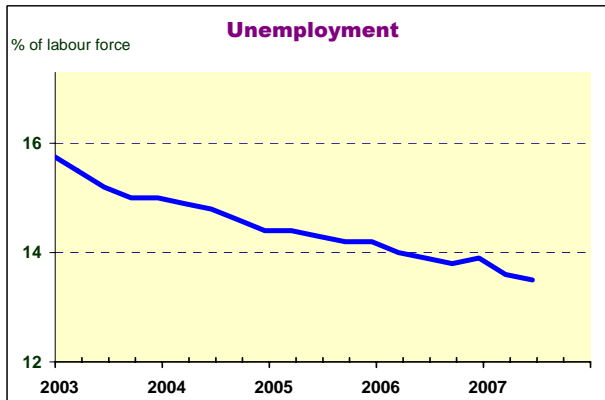
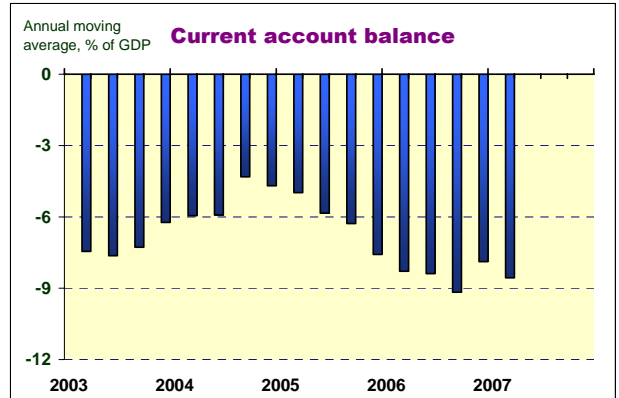
		2002	2003	2004	2005	2006	Q4 06	Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.2	5.8	5.7	5.8	5.0	:	:	:	:	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	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	0.8	-1.8	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	16.0	15.2	14.7	14.3	13.9	13.9	13.6	13.5	:	:	:	:
Employment ^{2.2}	Ann. % ch	-14.1	0.9	-0.4	0.9	4.2	0.3	0.2	0.2	:	:	:	:
Wages ^{2.3}	Ann. % ch	16.0	14.7	14.4	9.9	-7.0	14.9	169.9	15.4	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	8.4	35.4	34.9	8.8	20.8	37.8	37.2	35.4	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	11.6	20.1	23.1	12.9	17.7	21.1	33.1	33.8	:	:	:	:
Trade balance ^{3.3}	% of GDP	-38.5	-33.1	-34.3	-38.8	-38.6	-40.6	-42.2	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	19.3	19.8	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	43.7	43.8	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-8.5	-5.6	-4.4	-7.5	-7.5	-7.9	-8.6	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.0	2.6	4.0	3.4	3.3	3.5	3.8	:	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	5.2	2.4	2.9	2.4	2.4	2.6	2.8	1.8	:	2.1	4.2	:
GDP Deflator ^{4.2}	Ann. % ch	2.7	7.3	-0.3	5.4	2.5	7.5	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	0.8	0.3	2.1	2.7	:	:	:	:
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.	9.49	8.87	6.78	5.55	5.49	6.26	6.04	5.72	:	5.81	5.77	:
Bond yield ^{5.2}	% p.a.	N.A.	11.40	9.92	8.22	7.31	8.43	:	:	:	:	:	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:
M2 ^{5.4}	Ann. % ch	12.2	7.6	8.2	11.7	7.6	9.6	12.2	11.4	:	9.7	:	:
Exchange rate LEK/EUR ^{5.5}	Value	131.7	136.8	127.2	123.7	122.8	123.4	125.0	124.5	122.5	122.0	122.0	123.5
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	-6.6	-4.5	-5.1	-3.6	-3.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	65.3	61.7	56.6	56.7	55.7	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

Miroslav Lajcak, the High Representative for Bosnia and Herzegovina (BiH) announced that the EU deadline for reaching an agreement on police reform, which had expired on 30 September, was extended for a few days. No agreement was reached on the key reform that would unblock the signature of the Stabilisation and Association Agreement. However, the leaders of the two main political parties in the BiH – Milorad Dodik (SNSD) and Haris Silajdzic (SBiH) – signed a protocol on the stalled police reform. However, according to the High Representative, this agreement does, in its current version, not sufficiently address the three EU principles in this matter.

Output and demand

According to estimates of the Central Bank, real GDP growth accelerated to 6.2% in 2006 and is expected to remain in excess of 6% also in 2007. Economic activity grew strongly in sectors such as wholesale and retail trade, real estate, constructions, financial intermediation and manufacturing, reflecting a favourable external environment and a more accurate reporting of real export values after the introduction of VAT.

The authorities revised upwards nominal GDP for 2003-2006 by about 7% on average. The new figures should better capture the informal economic activities based on available estimates.

In 2006, the growth of industrial output varied between 7.5% in the Federation of Bosnia and Herzegovina (FBiH) and 19.1% in the Republika Srpska (RS). In the first eight months of 2007, the industrial dynamics in the two entities reversed. The year-on-year increase in the volume of industrial production was 11.9% in the FBiH, exceeding the modest 0.4% growth in the RS. The manufacturing sector and in particular chemicals, oil, machinery and equipment, furniture, plastic and metal products led the robust performance of industry in the FBiH. The slowdown in the RS was determined to a large extent by the utilities and mining sectors. On the other hand, output in the manufacturing sector advanced by 6.5% over the same period, led by textiles, furniture, metal

products, metal products, but also machinery and equipment.

Labour market

Official unemployment increased slightly to 44.2% in June 2007, compared to 43.8% in June 2006. An important contributor was the increase of the unemployment rate in the FBiH by 0.7 percentage points over the same period, resulting among other from company lay-offs, downsizing of military personnel and the adoption of the law on demobilised soldiers. However, official statistics do not appear to reflect unemployment levels and dynamics correctly. The Labour Force Survey (LFS) conducted in April 2007 shows a reduction of the unemployment rate to 29% of the labour force from 31.1% a year earlier. This suggests that the informal labour market is large and increased further over the reporting period. The LFS also found that labour force participation remained very low at 43.9% of the total working age population. The differences in terms of labour market performance between the two entities have widened. The activity rate increased to 47% in the RS, while unemployment declined to 25.2%.

Real wage growth picked up in the first half of 2007 mainly due to lower inflation rates. In June, net wages increased in real terms by 9.4% year-on-year, compared to only 3.1% at the end of 2006. At the same time, wages continue to grow faster in the RS than in the FBiH. In June, nominal net wages rose by annual 11.5% in the RS and 9.6% in the FBiH. As a result, the average net wage in the RS reached 88.9% of the FBiH one in June, up from 87.4% a year before.

International transactions

The current account deficit almost halved from 19.8% of GDP in 2005 to 10.7% of GDP in 2006, primarily due to a reduction of the trade deficit by around 11 percentage points of GDP. The introduction of VAT in January 2006 led to a more accurate reporting of export values and a frontloading of imports in the second half of 2005. As a result, the value of imports hardly

rose in 2005 and 2006, while exports grew by around 29% in 2006. The substantial trade deficit of around 35% of GDP was financed to a large extent by worker remittances in the form of both private current transfers and employee incomes which totalled almost 19% of GDP on a net basis. In the same period, net FDI declined to around 3.5% of GDP, covering only one third of the current account deficit.

In the first eight months of 2007 the trade deficit widened by around 27% compared to the same period in 2006 as imports rose by 22.4% year-on-year and outperformed the 16.8% growth of exports. In the first half of 2007, the current account deficit widened again as a share of GDP to more than 12%, but the financing with FDI inflows improved considerably. The privatisation of Telekom Srpska and a pick-up in green-field investments led to an increase in net FDI above 10% of GDP.

Due to strong capital inflows, the official foreign exchange reserves increased 25% year-on-year at the end of August 2007. External public debt continued to decline in 2006 and reached around 23% of GDP at the end of the year. Total external debt was estimated at around 55% of GDP during the same period, but no official data is available for this indicator.

Prices

The introduction of VAT in January 2006 and hikes of administered prices impacted negatively average CPI inflation which accelerated to 6.1% in 2006. In 2007 inflation dropped as the effects of the VAT introduction dissipated and average CPI inflation reached 2% in August. At the same time, RPI average inflation declined to 3.4% in the FBiH and 2.4% in the RS in August 2007. The growth of prices was driven in both entities by the increase in the price of agricultural and food products, followed by prices in the sector of services.

Monetary and financial indicators

The monetary policy of the Central Bank of Bosnia and Herzegovina (CBBH) is conducted under the framework of a currency board arrangement with the euro as the anchor currency. The annual growth of credit slowed from 27.3% in 2005 to 23.4% in 2006 and accelerated again to around 28.6% at the end of August 2007. Credit to households expanded by

29.7% year-on-year in August, more rapidly than lending to the corporate sector which grew by 25.5% during the same period. The share of credit to households in total domestic credit increased to 47.8% at the end of August.

The annual growth of reserve money accelerated from around 27% at the end of 2006 to 29.5% at the end of August 2007. During the same period, the growth of broad money remained almost constant at around 25%. The coverage by foreign exchange reserves was ample and stood at around 107% for reserve money and 87.5% for broad money at the end of August 2007.

General government balance

According to the CBBH, the consolidated budget execution resulted in a surplus of 3% of GDP (GFS standards) in 2006. Budget revenues grew strongly and reached almost 45% of GDP in 2006, mainly as a result of higher than anticipated indirect tax revenues after the introduction of VAT in January. The increase in revenues of more than 3% of GDP from 2005 to 2006 resulted in a larger spending envelope and a rise of the budget surplus.

Both entities recorded budget surpluses in 2006, 3.2% of GDP in the FBiH and 2% of GDP in the RS. Higher expenditures were recorded at all government levels. In 2006, the budget of state institutions increased by 1.4% of GDP, after acquiring more competences from the entities. The transfer of functions was not accompanied by an equivalent decline in spending by the entities which also increased their expenditures by around 1.5% of GDP in the FBiH and 3% of GDP in the RS.

Preliminary data show that the budget surplus increased by almost 18% year-on-year in the first half of 2007, decelerating however from the 56.5% growth rate recorded in the first quarter. In addition, the 2006 data is not revised to match the final annual results, affecting the quality of the assessment. Expenditures rose by 14% year-on-year in the FBiH and 15.5% in the RS, driven by the increase of the wage bill at around 24% year-on-year in both entities. The better revenue collection from the RS resulted in a higher growth rate of the entity's surplus – 28.4% against 10.6% in the FBiH. The current trend combined with the large spending commitments made by the FBiH in 2007 may eventually result in a deterioration of the fiscal position relative to 2006.

TABLE

European Commission, ECFIN-D-1



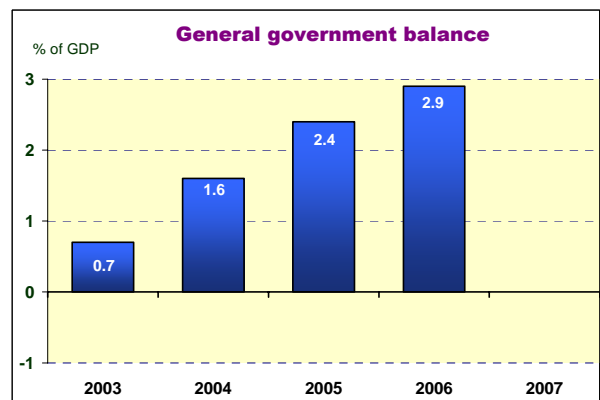
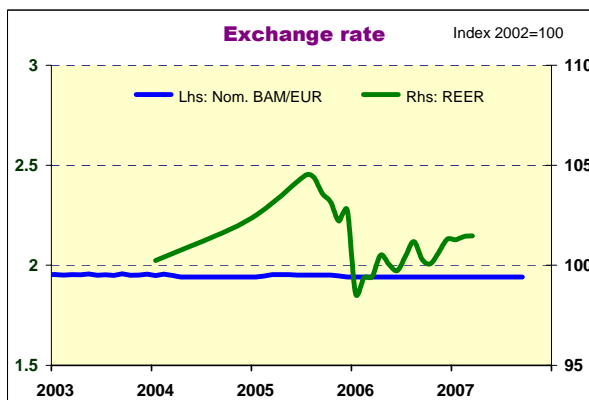
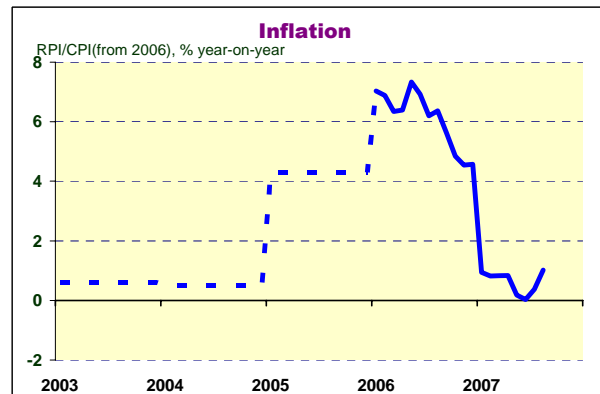
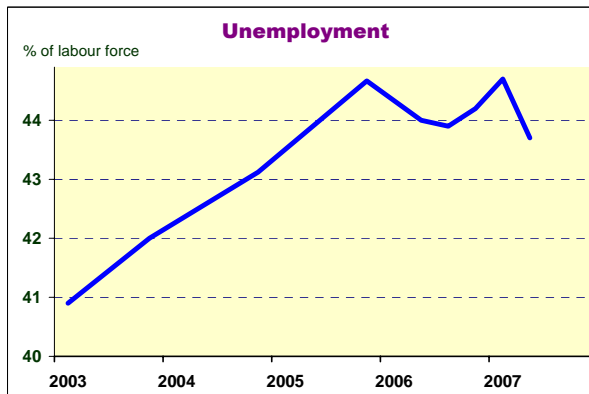
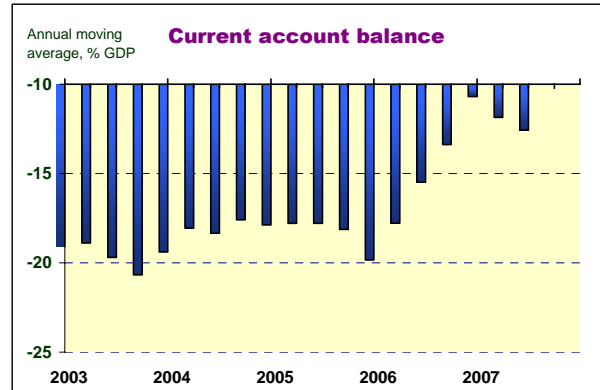
BOSNIA AND HERZEGOVINA

		2002	2003	2004	2005	2006	Q4 06	Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
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.	10.5	11.7	18.7	10.5	7.3	:	5.4	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.5	3.0	6.3	4.3	6.2	:	:	:	:	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.	N.A.	N.A.	6.2	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	18.5	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	3.0	0.1	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	40.9	42.0	43.1	44.7	44.2	44.2	44.7	43.7	:	:	:	:
Employment ^{2.2}	Ann. % ch	1.9	-0.6	0.8	0.8	2.3	2.3	3.5	2.7	:	:	:	:
Wages ^{2.3}	Ann. % ch	1.4	8.4	4.3	6.1	9.6	10.2	:	9.9	:	9.0	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	-7.8	11.5	28.7	24.5	28.8	22.9	24.2	11.5	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	2.5	6.0	7.6	13.8	0.0	-3.8	31.0	18.1	:	:	:	:
Trade balance ^{3.3}	% of GDP	-53.7	-49.5	-45.6	-46.3	-34.9	-34.9	-36.1	-37.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	26.2	26.1	29.4	33.0	36.6	36.6	37.3	37.4	27.0	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	-76.4	-71.6	-70.7	-74.7	-66.5	-66.5	-68.3	-69.5	-50.4	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-19.1	-19.4	-17.9	-19.8	-10.7	-10.7	-11.9	-12.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	4.3	4.6	6.6	4.8	3.5	3.5	3.9	10.3	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	0.2	0.6	0.5	4.3	6.1	4.7	0.9	0.3	:	0.4	1.0	:
GDP Deflator ^{4.2}	Ann. % ch	5.1	10.1	2.5	2.9	6.7	:	:	:	:	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.	4175	5001	7779	7932	:	8232	7962	:
M2 ^{5.4}	Ann. % ch	66.7	4.8	21.0	17.6	21.6	24.7	27.6	27.0	:	24.1	24.6	:
Exchange rate BAM/EUR ^{5.5}	Value	1.95	1.95	1.94	1.95	1.94	1.94	1.94	1.94	1.94	1.94	1.94	1.94
Nominal eff. exchange rate ^{5.6}	Index	N.A.	97.4	96.37	95.21	94.74	95.44	95.41	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-0.1	0.7	1.6	2.4	2.9	:	:	:	:	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.	N.A.

CHARTS



BOSNIA AND HERZEGOVINA





COMMENTS

Recent political and other developments

On 3 July the privatisation council adopted the 2007 plan. It contains a list of 58 companies to be privatised. A few companies initially included in the preliminary list will not be privatised at least in 2007: the power utility EPCG, Montenegrin airports, wine producer Plantaže, and the national post company.

On 26 July, the government proposed important economic legislation: the bill on the prevention of money laundering and terrorism financing, bill on the amendments to the budget law, the bill on compulsory social insurance contributions, the bill on amendments to the value added tax law, and the bill on amendments to the real estate tax law.

Also on 26 July, the Central European Free Trade Agreement (CEFTA) entered into force.

The government adopted on 20 September a strategy for restructuring of the national railways. The programme foresees the transportation unit to be sold after splitting into goods and passengers units. The government will keep the ownership over the infrastructure, while offering the railway stations on concession.

Output and demand

In the second quarter of 2007, real GDP grew by 6.9% year-on-year. The main driver was again the solid expansion of the services sector, in particular tourism, financial intermediation and real estate.

Industrial production recovered in August after three consecutive months recording negative growth. The main factor for this increase was the 18.1% year-on-year raise in the manufacturing industry output, although supported by the low base due to the strike in the aluminium plant the previous year. By contrast, despite the end of the capital repairs in the main power plant, utility production witnessed 51% annual contraction. On average, the industrial production dropped by 4.7% year-on-year during the first eight months of the year.

Labour market

According to the Employment Agency (ZZZ), the unemployment rate fell to 11.7% by end-September. Since the beginning of the year employment has increased, notably in the services sector. However, one quarter of vacancies failed to be covered during the year.

Gross average wages expanded by 15.9% year-on-year in August. However, the average net wages expanded much faster by 20.7% year-on-year. The highest expansions in gross wages over the year were recorded in construction (46.3%), hotels and restaurants (29.2%) and financial intermediation (25.2%). By contrast, the utilities sector witnessed a contraction of 4% year-on-year. The government is using part of the budget surplus to increase wages in the public administration by 30% in an attempt to reduce differences with the private sector. So far, rising income is resulting in expanding imports rather than pushing upwards inflation.

International transactions

The current account deficit further widened during the first half of 2007 to 31% of GDP, driven by the increasing trade deficit. Exports of goods hardly covered one third of imports, which kept growing faster. The balances on services, income and current transfers were all positive, but insufficient to offset the negative impact of the huge trade deficit. In the same period, the rapid increase of net FDI was accompanied by surging portfolio investments. Moreover, net foreign assets of commercial banks practically doubled in the first half of the year. So far, the large external imbalances are being covered by foreign investments and increasing foreign exchange reserves.

Net inflows of foreign direct investment (FDI) continued to grow strongly. Concretely, net FDI reached in annualised terms 28.4% of GDP by the end of June 2007. The real estate sector accounts for half of FDI inflows, reflected by the strong performance of the construction sector.

In the first seven months of the year, the total number of tourist visiting the country expanded by 23.8% compared with the same period of the

previous year. Revenues from tourism, for the same period, are estimated at some 8% of GDP.

Prices

Consumer inflation accelerated in August to 4.6% year-on-year, mainly due to international increases of import prices and administered prices. The drought endured in the region accounts for the significant rise on food prices (4.4% year-on-year). Moreover, the increase of electricity prices in July had a significant impact (26.1% year-on-year). Telecommunications services prices decreased by 1.7% year-on-year as a consequence of the strong competition on the mobile-phone sector. Overall, prices of goods increased by 4.8% year-on-year; while services' added 2.8% year-on-year.

In June, industrial producer prices (PPI) increased by 6.6% year-on-year. The main contributor was the mining and quarrying sector, while manufacturing industry prices remained stable. By contrast, textile, food and chemical industries reported deceleration in price growth.

Monetary and financial indicators

The total assets of commercial banks continued expanding, reaching 106.3% of GDP at the end of July. The main contributor to the robust assets expansion was the growth of the credit portfolio. Total credits extended since the start of the year grew by 88.6%. This represents 74.2% of GDP, compared with 43% of GDP at end-2006. The corporate sector remains the main beneficiary of the extended credits, accounting for 56.5%, while households accounts for 50.8% of overall deposits. On account of the rapid financial developments, the Central Bank decided to intervene by changing the reserve requirement policy for new credits as of 1 October.

The capital markets recovered after a 3-month decline. In the first nine months of the year, the stock indices practically doubled (NEX 20 by 118%, MOSTE by 108%). The NEX bourse registered a turnover of EUR 43 million by the end-of August, growing by 75% since beginning of the year despite a reduction in the same period of the number of securities.

On 18 July, Atlas Group established the first life insurance company in the country, Atlas Life.

General government balance

The robust economic performance led to continued surpluses despite the introduction of a reduced personal income tax flat rate of 15% at the beginning of the year. Subsequently, the government adopted on 13 September a draft bill amending the 2007 budget law, rising targets for both revenues and expenditures, while maintaining the originally planned budget surplus.

In the first half of 2007 fiscal revenues accelerated strongly to 36.7% year-on-year. The strong economy performance and robust import growth accounted for the higher than planned VAT collection. Additionally, the proceeds from corporate income tax expanded strongly above target, reflecting the improved performance of the real sector. By contrast, total government spending grew at a lower pace, by 11.2% year-on-year, despite the considerable increase on spending for gross wages and transfers to state funds and local self-governments. Yet, capital spending was substantially below target (37.7%).

Public debt further decreased to 35.6% of GDP at the end of June, while domestic debt, which represents one third of the total, grew by 17.6% in the same period. In July 2007 the parliament adopted amendments to the Law on restitution limiting the annual payments for this concept to 0.5% of previous year's GDP. However, the law might still be revoked by the Constitutional Court. In September, the fiscal surplus enabled early debt repayment of EUR 19 million to the International Bank for Reconstruction and Development (IBRD).

TABLE

European Commission, ECFIN-D-1



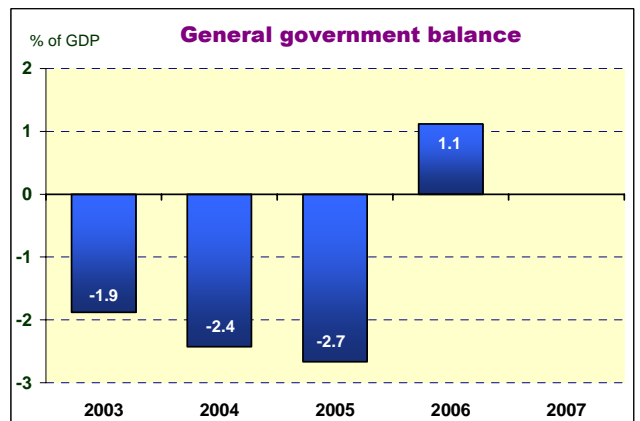
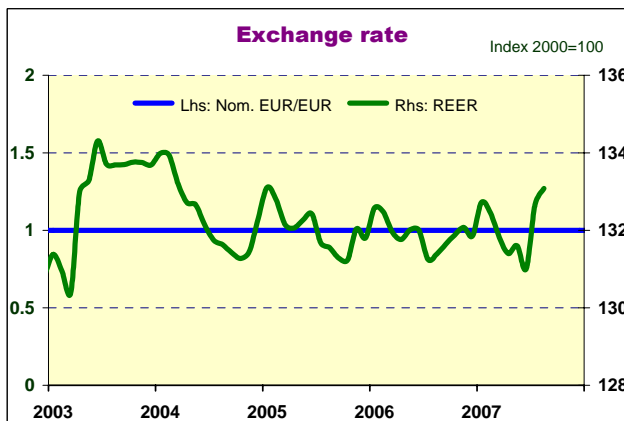
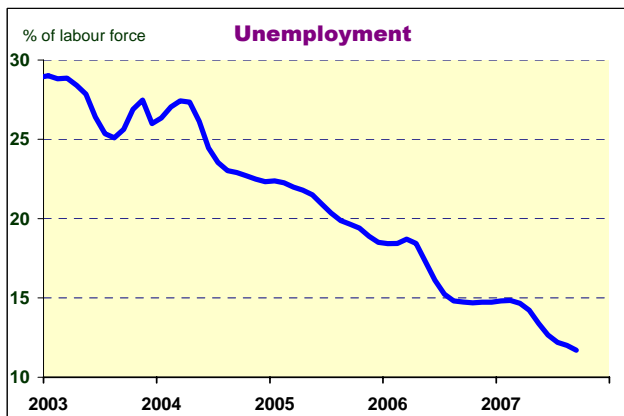
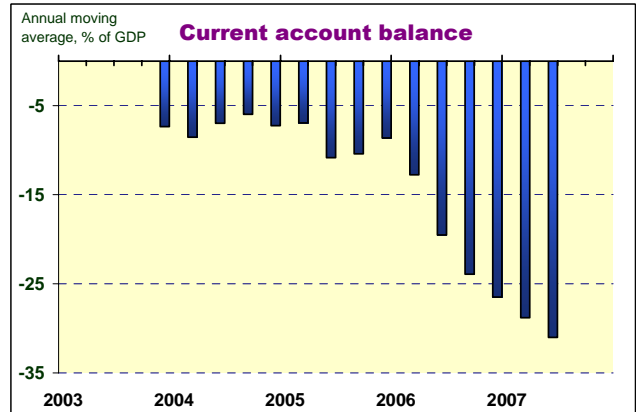
MONTENEGRO

		2002	2003	2004	2005	2006	Q4 06	Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
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	0.6	2.4	13.8	-1.9	1.0	8.6	-9.1	-5.5	:	-12.2	4.8	:
Gross domestic product ^{1.3}	Ann. % ch	1.7	2.4	4.2	4.0	6.5	6.4	6.6	6.9	:	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	6.4	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	-16.1	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	2.4	0.7	-1.1	-2.4	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	28.9	26.0	22.3	18.5	14.7	14.7	14.7	12.7	11.7	12.2	12.0	11.7
Employment ^{2.2}	Ann. % ch	-0.3	-3.3	29.9	2.0	3.8	3.8	4.2	4.3	:	3.4	:	:
Wages ^{2.3}	Ann. % ch	N.A.	N.A.	11.7	8.0	15.6	:	10.7	10.9	:	13.0	15.9	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	37.1	-16.1	67.1	1.9	40.7	65.5	22.7	-10.2	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	3.4	-15.7	37.9	12.2	53.7	72.5	36.3	25.0	:	:	:	:
Trade balance ^{3.3}	% of GDP	-32.6	-25.8	-25.2	-29.6	-43.1	-44.0	-46.2	-49.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	37.0	33.2	42.5	45.6	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	62.6	51.0	58.7	63.9	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-12.6	-7.3	-7.2	-8.9	-26.0	-26.5	-28.8	-31.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	6.9	2.8	3.1	22.0	23.7	24.2	27.0	28.4	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	16.4	6.8	2.2	2.4	3.0	2.8	2.5	2.1	:	4.2	4.6	:
GDP Deflator ^{4.2}	Ann. % ch	2.8	4.6	14.4	1.1	7.0	:	10.2	20.3	:	N.A.	N.A.	N.A.
Producer prices ^{4.3}	Ann. % ch	4.6	4.6	5.8	2.1	3.1	3.7	3.5	6.8	:	:	:	:
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.	10.58	1.20	1.18	0.97	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	9.98	3.09	1.17	0.47	0.70	:	:	:	:	:
Stock markets ^{5.3}	Index	N.A.	1000	1758	5670	14406	18269	25095	42973	41550	39438	43570	41642
M21 ^{5.4}	Ann. % ch	N.A.	-0.3	10.6	58.7	82.9	82.9	109.8	116.7	:	111.4	:	:
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.	-1.9	-2.4	-2.7	1.1	1.1	2.7	4.2	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	88.3	51.1	44.9	40.4	35.6	35.6	36.9	35.6	:	N.A.	N.A.	N.A.

CHARTS



MONTENEGRO



SERBIA



COMMENTS

Recent political and other developments

In July, the new government adopted a Memorandum on the Budget and Economic and Fiscal Policy for the year 2008, announcing a return to a tighter fiscal policy with expenditure cuts and wage controls for the public sector. In contrast to the 2007 budget, which envisages a major rise in wages and public investment until the end of the years.

On 10 September, Serbia and the European Commission finalised technical negotiations on a Stabilisation and Association Agreement (SAA).

On 24 September, the Serbian parliament ratified the Central European Free Trade Agreement (CEFTA). CEFTA envisages the gradual liberalisation of trade with industrial and agricultural goods between the countries signatories in the region. According to it, a regional free trade zone should be established by the end of 2010.

On 26 September, current central bank governor Radovan Jelasic was re-elected for another 5-year mandate.

According to the World Bank's most recent annual survey for the ease of doing business Serbia ranks 86th out of 178 economies, ahead of Croatia, Bosnia and Herzegovina or Albania, but trailing considerably behind Bulgaria and Romania. The former Yugoslav Republic of Macedonia and Montenegro also provide a better business environment at present.

Kosovo status settlement continued to remain a high priority for domestic and foreign politics. Following the failure of the U.N. Security Council to reach a common position on the adoption of a new resolution on Kosovo, the Contact Group, comprising of the United States, the United Kingdom, France, Germany, Italy, and Russia continued trying to booker a deal between the two parties. A report is expected by 10 December 2007.

Output and demand

In the second quarter of 2007, GDP growth moderated slightly to 7.7% year-on-year,

following a growth rate of 8.4% year-on-year in the first quarter of 2007. In the first six months of the year economic growth amounted to 8% year-on-year, despite a substantial drought related drop in agricultural output. Economic growth was mainly driven by strong gains in wholesale and retail trade, transportation and telecommunication, financial intermediation and manufacturing.

Industrial production accelerated by 5.2 % year-on-year during the second quarter of 2007 compared to 4.7% in the first quarter. This trend continued during the thirds quarter and industrial production grew by 3.8% and 6.5% year-on-year in July and August, respectively.

The strong performance of the Serbian economy during the first half of 2007 was partially due to the relaxation of fiscal policy and a laxer wage policy of the previous government, which resulted in substantially higher real salaries across the economy and consequently higher private consumption. Growth was also supported by the reduction of the income tax rate at the beginning of the year and a strong export performance, helped by the robust recovery of the EU economy, the main destination for Serbian exports.

Labour market

Labour market conditions remained difficult and employment declined by 0.9% year-on-year during the second of 2007. This trend continued during July and August, when employment continued to decline by 0.7% year-on-year. The unemployment rate declined somewhat to a still relatively high 19.7% in August 2007.

Wages growth slowed somewhat but remained strong, mainly driven by increases in the public sector. In the second quarter of 2007, gross nominal wages grew by 22.6% year-on-year, compared to 24.2% in the first quarter of 2007. Due to the continuing disinflationary trend over the same period, real wage growth slowed only slightly. This trend eased somewhat in July and August when gross nominal wages grew by 22.1% and 22.6% year-on-year, respectively and annual inflation rose to 5.9% and 6.3%, respectively.

International transactions

In the first half of 2007, exports and imports of goods and services grew by 43.3% and 39.4% year-on-year, respectively and the trade deficit widened consequently to about 22% of GDP. The current account deficit increased to about 16% of GDP as a result of the growing trade deficit, but also due to a marked drop in current transfers.

However, capital inflows remained strong during the same period amounting 18% of GDP. FDI declined to about 4% of GDP. Portfolio investment picked up substantially, reaching about 3% of GDP, attracted by strong gains at the Belgrade stock exchange and relatively high domestic interest rates. During the same period, the amount of medium- and long-term loans accounted for about 11% of GDP. External debt grew to EUR 16.8 billion, accounting for about 60% of GDP at end-July 2007. Private and public sector external debt accounted for 35% and 25% of GDP, respectively.

As a result of these strong capital inflows, foreign exchange reserves of the National Bank of Serbia grew to EUR 9.5 billion or about 10 months worth of imports of goods and services at end-August.

Prices

Inflation continued to decline in the second quarter of 2007 and retail price inflation declined to 4.7% year-on-year. However, prices grew stronger again in the third quarter of 2007 and inflation accelerated to 6.5% year-on-year, in particular driven by strong gains in prices for agricultural products related to the local drought and in line with international price trends, but also fuelled by the adjustment of controlled prices which were delayed ahead of the general election. However, core inflation continued to decline in the second quarter to 3.0% year-on-year and remained unchanged in the third quarter, indicating that inflationary pressures stemming from strong demand remained benign so far.

Monetary and financial indicators

Monetary aggregates continued to expand robustly during the second quarter of 2007. M3 and dinar reserve money grew by about 37% and 32% year-on-year, respectively.

Credit growth re-accelerated to about 25% year-on-year in the second quarter of 2007 after having declined during most of 2006, helped by reductions of the monetary policy rate by 450 basis points to 9.5% during the first half of the year on a drop of core inflation below the 4-8% target band.

However, at its monthly rate setting meeting end-August, the Monetary Council of the National Bank of Serbia (NBS) raised the benchmark interest rate by 25 basis points to 9.75% amid raising inflationary pressures.

Following a depreciation of the Serbian currency vis-à-vis the euro during the first half of 2007, the dinar appreciated during the third quarter and the euro-dinar exchange rate fell below 79 dinar per euro.

General government balance

For the first eight months of 2007, the general government budget recorded a surplus of EUR 538 million on the back of a strong revenues performance (EUR 4.7 billion) driven by the robust economic expansion. During the same period, expenditures amounted to EUR 4.2 billion with capital expenditures accounting for about EUR 300 million. In August, the budget performance deteriorated and a monthly deficit of EUR 60 million was recorded. It is quite possible that the budget performance deteriorates further by the end of the year due to considerable spending plans under the National Investment Plan as well as higher wage expenditures. However, the good revenue performance seen in the first half of 2007 and which is supported by the robust growth of economic activity, as well as a possibly lower-than-projected absorption of funds under the NIP could result in an over performance of the planned EUR 170 million of 0.5% of GDP deficit target, set in the 2007 budget.

TABLE

European Commission, ECFIN-D-1



SERBIA

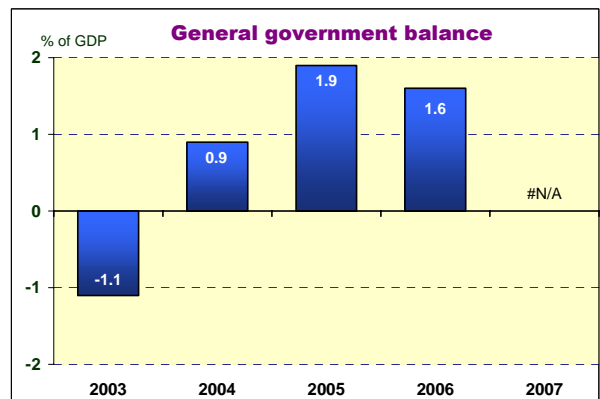
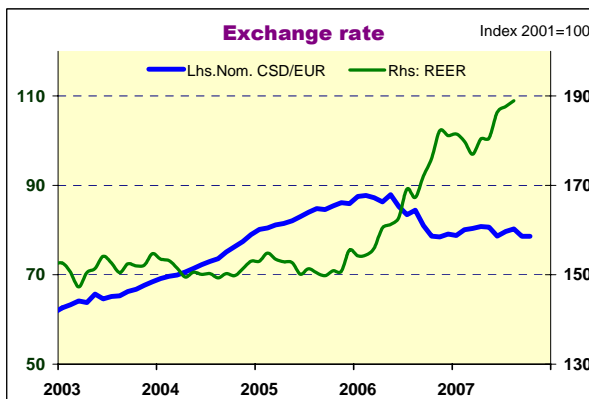
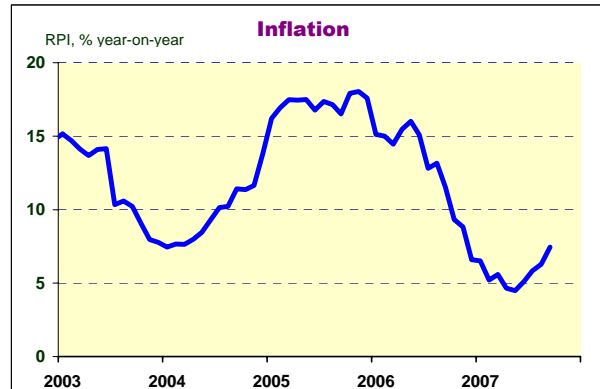
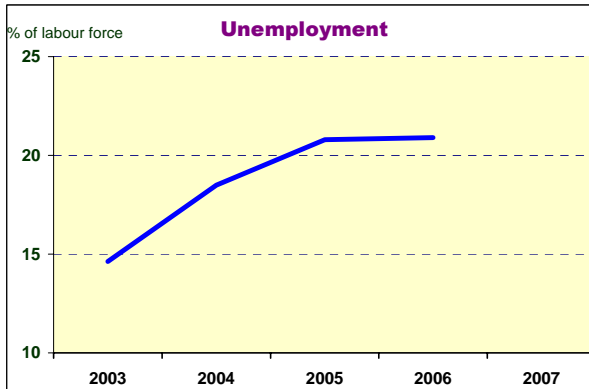
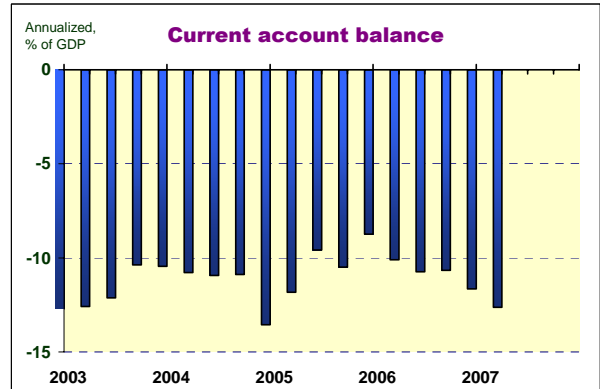
		2002	2003	2004	2005	2006	Q4 06	Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	1.8	-3.0	7.0	0.8	4.7	2.8	4.7	5.2	:	3.8	6.5	:
Gross domestic product ^{1.3}	Ann. % ch	4.2	2.5	8.4	6.2	5.7	4.8	8.4	7.7	:	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}	%	14.5	16.0	19.5	21.8	21.6	20.9	21.4	20.6	:	19.8	19.7	:
Employment ^{2.2}	Ann. % ch	-3.4	-2.7	0.4	-6.7	-3.8	-1.8	-1.6	-0.9	:	-0.7	-0.7	:
Wages ^{2.3}	Ann. % ch	52.6	25.3	23.7	24.1	24.4	24.9	24.2	22.6	:	22.1	22.6	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	20.6	32.8	27.8	27.2	29.7	37.6	46.8	39.1	:	43.1	33.6	:
Imports of goods ^{3.2}	Ann. % ch	31.8	33.2	43.8	-2.7	24.5	28.8	44.2	32.6	:	45.0	27.1	:
Trade balance ^{3.3}	% of GDP	-29.1	-29.3	-34.5	-22.8	-21.3	-22.4	-23.4	-22.2	:	N.A.	:	N.A.
Exports goods and services ^{3.4}	% of GDP	20.7	23.0	22.7	25.1	27.1	26.1	29.3	30.8	:	32.3	:	N.A.
Imports goods and services ^{3.5}	% of GDP	42.4	43.2	48.4	45.2	46.9	45.6	51.5	52.4	:	51.6	:	N.A.
Current account balance ^{3.6}	% of GDP	-8.7	-7.5	-11.7	-8.4	-11.5	-14.9	-18.1	-12.4	:	:	:	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.3	7.2	3.9	5.9	13.8	17.9	10.4	-2.7	:	3.3	:	N.A.
4 Prices													
RPI ^{4.1}	Ann. % ch	21.4	11.7	9.8	17.3	12.7	8.2	5.7	4.7	6.5	5.9	6.3	7.4
GDP Deflator ^{4.2}	Ann. % ch	24.9	12.1	12.7	15.1	14.9	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	8.8	4.6	9.1	14.2	13.3	8.4	5.5	4.4	:	4.2	4.9	:
Import prices ^{4.4}	Ann. % ch	1.5	15.3	21.4	5.7	4.0	6.6	7.7	6.0	:	2.8	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	21.16	17.54	13.48	11.11	9.13	6.41	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	1,954	2,658	2,658	4,220	4,456	:	:	:	:
M3 ^{5.4}	Ann. % ch	N.A.	29.1	31.2	39.1	37.9	34.6	42.5	:	:	:	:	:
Exchange rate CSD/EUR ^{5.5}	Value	60.68	65.04	72.56	82.90	84.18	79.54	80.02	81.09	:	80.6	80.1	:
Nominal eff. exchange rate ^{5.6}	Index	99.8	98.2	92.4	87.6	88.8	110.6	106.6	106.1	:	107.3	107.8	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-3.1	-1.1	0.9	1.9	1.6	-0.8	1.6	0.7	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	80.6	70.9	56.7	52.9	34.9	34.9	32.3	31.3	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

On 26 March 2007, the Comprehensive Proposal for status settlement was submitted to the President of the UN Security Council. However, with Russia insisting that both parties have to agree to a proposed solution and threatening to use its veto power otherwise, the negotiations in the UN Security Council came to a halt on 20 July 2007. Currently, a Troika of United States, Russia, and European Union representatives is mediating a new phase of bilateral negotiations between Belgrade and Pristina with the aim of reaching a political compromise by 10 December 2007. At this date, the Troika will report back to the UN Security Council.

Output and demand

Since the last publication of this survey there have not been any revisions to the macro-estimates provided by the IMF, neither has the Statistical Office of Kosovo published national accounts figures for 2005 or 2006 yet. Hopefully, those will become available in time for the next update. According to the latest IMF estimates, real output grew by 3.8% in 2006 after 0.6% in 2005. The major positive contribution to growth came from private sector non-housing investment which accelerated at brisk pace. Demand by the public sector and local demand by foreign donors were contracting. In 2007, private consumption should benefit from privatisation receipts slowly finding their way back into the economy.¹

Labour market

In the second quarter of 2007, the number of registered job seekers continued to increase to an average of 332,000 persons, up 8,000 in comparison to the second quarter 2006. The increase compared to the previous year has slowed down somewhat during the summer months. However, given the poor data

availability on labour market developments, the relationship of this slowdown to economic activity is difficult to assess. The public sector is not providing many employment opportunities as it is downsizing its stock of employees, i.e. it is not even fully replacing personnel leaving due to retirement or other reasons. At the same time, a number of openings in the public sector demanding highly specialized skills in the areas of information technology and financial accounting cannot be filled as people holding such qualifications can demand significantly higher wages in the private sector. Thus, while labour costs remain a pressing issue for Kosovo's private sector development, there is also evidence for a high degree of mismatch on the labour market. The bulk of job seekers is low-skilled and cannot be absorbed, at least not into formal employment, at going wage levels. But also university graduates are facing severe difficulties to find matching employment opportunities. In this segment, the combination of highly restrictive public sector employment and the weak technology base of the economy may prove more constraining than the overall wage level. The lack of timely data on official employment continues to hamper the analyses of labour market developments in Kosovo.

International transactions

The trade deficit widened further to around 60% of GDP until the end of August. After a very weak start in the first quarter, followed by a moderate development in the second quarter, exports saw a brisk acceleration in the month of July, bringing the 12-month moving average of the coverage ratio (exports as a percentage of imports) to a record 8.7%. Kosovo currently does not assume any sovereign debt servicing obligations.

Prices

August 2007 saw the strongest increase in consumer prices ever recorded in Kosovo since the start of the series in May 2002. The latest price hike is entirely due to international food price developments, with the marked increase in prices for bread and cereals (up 35% in August

¹ The Kosovo Trust Agency (KTA) has so far collected more than €300 million from the privatisation of formerly socially owned enterprises, 20% of these receipts are being paid out to former workers.

2007 compared to August 2006) standing out. The wider category of food items, representing 42.5% of the weighted basket of consumer goods and services, recorded an annual price increase of 14.4%. As a consequence, the CPI rose 6.6% compared to August 2006 and 4.7% compared to July 2007. After the 1.6% growth of the CPI in the first quarter 2007 and a modest 0.8% in the second quarter, the strong acceleration in August brought average consumer price inflation to 1.9% in 2007. It remains to be seen if this price hike only reflects temporary shortages in food supplies or translates into a permanently higher level of prices for bread and cereals and other foodstuff.

Monetary and financial indicators

The monetary framework in Kosovo is anchored on the use of the euro as legal tender. The Central Banking Authority of Kosovo is in charge of regulating foreign exchange operations, providing payments services and supervising banks and other financial institutions. It 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, annual credit growth continued to be substantial at around 27% as of June 2007 (loans to non-financial corporations), and around 25% (loans to private households) respectively. There is an ongoing change in the maturity structure as business sector loans with maturity over 2 years reached an annual growth of 65% by the end of the second quarter 2007, in the case of loans to households this category grew at 36%. The banking sector in Kosovo appeared to remain sound, profitable and well capitalised. At the end of 2006, the capital adequacy ratio of commercial banks in Kosovo stood at 16.7% after 14.7% at the end of 2005. Local banks remained very liquid in 2006 with an average loan-to-deposit ratio of 68.7%.

Interest rates remained fairly stable in 2006 and showed some increase during the first two quarters of 2007 with rates for short-term business loans reaching 14.75%. The corresponding interest rate spread with short-term deposits continues to stand at more than 10%, almost half which, according to recent empirical work carried out at the Central Banking Authority of Kosovo, is related to weak rule of law and the uncertainty about the future political status of Kosovo.

General government finance

Respecting the delay foreseen in the organic budget law, the Law on Public Financial Management and Accountability, a second Interim Budget Report covering the first two quarters of 2007 has been published. Budgetary developments in 2007 are marked by three developments: a one-off exceptional revenue of €75 million of receipts for the licence of a second mobile phone operator, a further strong improvement in revenue collection through the customs services due to improved technology and strengthened co-operation with neighbouring countries, especially Serbia, and actual expenditures trailing budgeted figures, especially on capital spending items. As a result, the cash balance stood at €430 million (18.5% of GDP) in mid-September 2007. Authorities currently foresee an end-of-year cash balance of around €270 million (12% of GDP), as capital spending is expected to accelerate sharply in the remaining weeks and months.

On 17 September 2007, the Kosovan authorities issued a second draft of the Medium-Term Expenditure Framework (MTEF) covering the period 2008 until 2010. This improved version fully takes on board a Memorandum on Economic and Financial Policies (MEFP) that has been agreed ad referendum with the IMF. It further spells out sectoral spending strategies aiming to facilitate the dialogue between the authorities and the donors' community on financing priorities and development needs. A dialogue of this kind took place in Pristina on 1-2 October 2007.

TABLE

European Commission, ECFIN-D-1

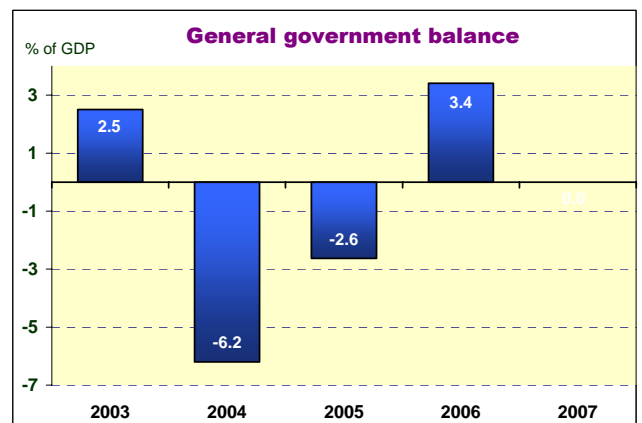
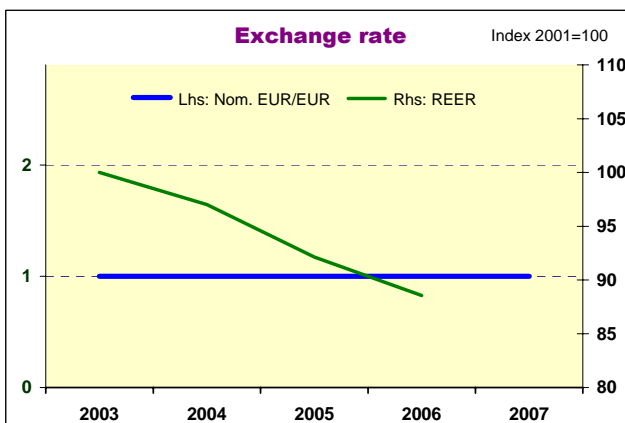
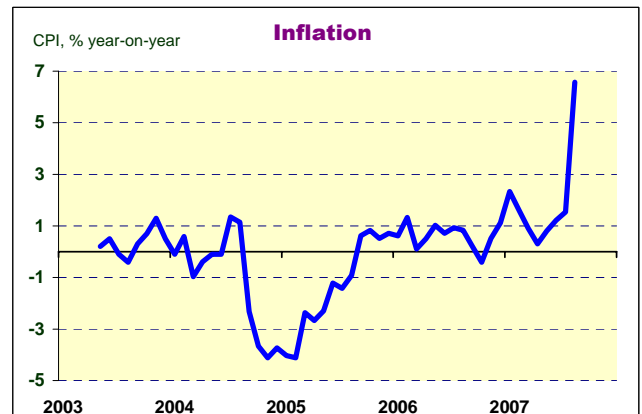
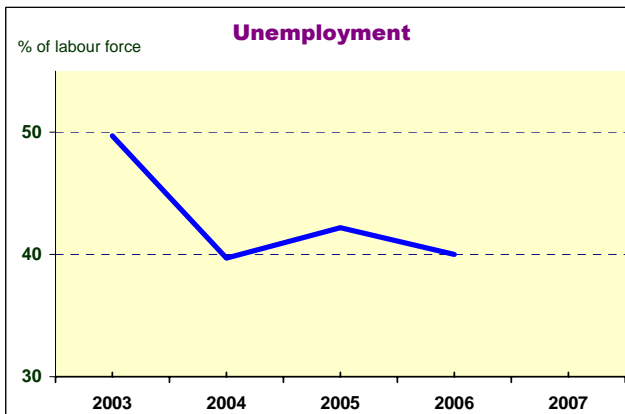
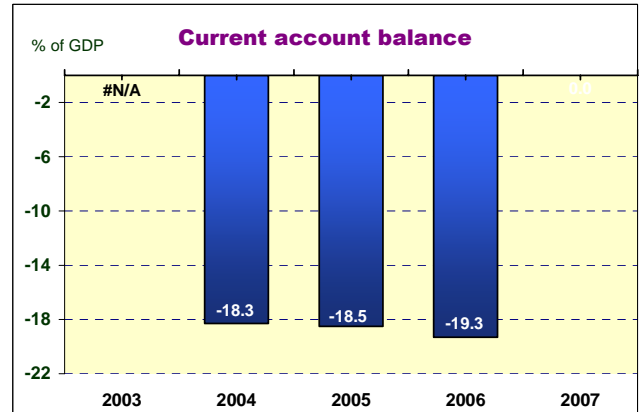
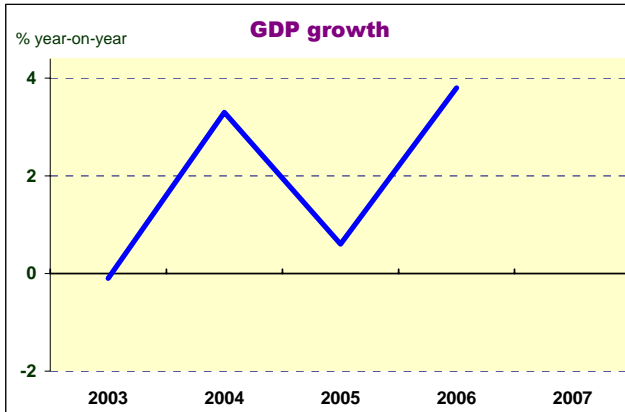
KOSOVO (as defined by UNSCR 1244)

		2002	2003	2004	2005	2006	Q4 06	Q1 07	Q2 07	Q3 07	Jul 07	Aug 07	Sep 07
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	-2.4	-0.1	3.3	0.6	3.8	:	:	:	:	:	:	:
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	0.3	1.9	3.2	5.5	3.9	:	:	:	:	:	:	:
Investment (Gross fixed cap form) ^{1.6}	Ann. % ch	-12.8	-7.4	5.7	0.4	9.2	:	:	:	:	:	:	:
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
2 Labour market													
Unemployment ^{2.1}	%	47.0	49.7	39.7	42.2	40.0	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	9.7	-24.8	4.7	-4.6	:	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	N.A.	2.0	9.3	8.5	:	:	:	:	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	161.4	29.1	58.8	-0.5	96.8	79.1	7.0	9.0	:	99.5	15.9	:
Imports of goods ^{3.2}	Ann. % ch	24.9	13.9	9.3	8.9	12.8	24.3	40.5	9.9	:	22.2	15.3	:
Trade balance ^{3.3}	% of GDP	-43.2	-41.0	-44.0	-48.1	-52.9	-53.5	-57.2	-58.1	:	-58.1	-70.6	N.A.
Exports goods and services ^{3.4}	% of GDP	13.4	12.0	9.5	8.9	10.4	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	58.8	56.1	59.3	62.5	67.6	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	N.A.	N.A.	-18.3	-18.5	-19.3	:	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.4	0.8	0.9	3.5	10.2	:	:	:	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	2.0	1.2	-1.1	-1.4	0.6	0.4	1.6	0.8	:	1.5	6.6	:
GDP Deflator ^{4.2}	Ann. % ch	2.5	1.2	-2.9	-2.3	-1.6	:	:	:	:	:	:	:
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 (3-12 months) ^{5.1}	% p.a.	15.60	14.60	15.70	15.60	15.47	14.45	14.74	:	:	16.88	:	:
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.	:	:	:	:	:	:	:
Broad money liabilities ^{5.4}	Ann. % ch	-15.0	20.7	43.6	21.0	5.5	5.5	15.3	18.0	:	22.4	:	:
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	0.9	-0.9	-3.0	-5.0	-3.9	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	4.4	2.5	-6.2	-2.6	3.4	:	:	:	:	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.	N.A.

CHARTS

European Commission, ECFIN-D-1

KOSOVO (as defined by UNSCR 1244)



Source of data: IMF, national sources



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. HRK, fob. Customs reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. HRK, cif Customs reports used for monthly data. Central Bank's otherwise.	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



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



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



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	
1.6.	Gross fixed capital formation	Not available	
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	IMF
3.4.	Exports goods and services	In percent of GDP. Annual data	IMF
3.5.	Imports goods and services	In percent of GDP. Annual data	IMF
3.6.	Current account balance	In percent of GDP, including official transfers	IMF
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP	IMF
4.	Prices		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change	IMF, Statistical
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	Government Benchmarks, 2 Year Bond, Yield	Ecwin/Reuters
5.3.	Stock markets	Not available	
5.4.	M2	Annual percentage change	Ecwin/Reuters
5.5.	Exchange rate LEK/EUR	Period averages	Ecwin/Reuters
5.6.	Change in real 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	In percent of GDP	IMF

BOSNIA AND HERZEGOVINA Explanatory notes



No.	Indicator	Note	Source
1.	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Entity indices weighted by shares in GDP	NSI
1.3.	Gross domestic product	Annual percentage change	Ecwin/Reuters
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Annual percentage change, Households, Total, 2004=100	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	Registered, in percent of total labour force	Ecwin/Reuters
2.2.	Employment	Registered, annual percentage change	Ecwin/Reuters
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	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	Ecwin/Reuters
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.	CPI	Consumer price index from 2006; Retail price index otherwise.	CBBH/ Ecwin/Reuters
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	Sarajevo SE, Index	Ecwin/Reuters
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 Apr=100); 9 Trade partners selected in order to set up the index (Austria, France, Germany, Hungary, Italy, Slovenia, Croatia, Serbia and Switzerland)	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	Not available	



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	Cost of living 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



No.	Indicator	Note	Source
1.	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change, total, 2005=100, SA, Index	SORS
1.3.	Gross domestic product	Annual percentage change at constant (average) prices 2002 Production approach	SORS
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	SORS
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	SORS
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	SORS
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	SORS
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	SORS
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	SORS, Ecowin
3.4.	Exports goods and services	In percent of GDP	NBS
3.5.	Imports goods and services	In percent of GDP	NBS
3.6.	Current account balance	In percent of GDP, annualised data	NBS, Ecowin
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	NBS, Ecowin
4.	Prices		
4.1.	Interim CPI	Annual average percentage change, retail prices, total, index (2005)	SORS
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	SORS
4.3.	Producer prices	Annual percentage change, total, index (2000)	SORS
4.4.	Import prices	Annual percentage change, total	SORS
5.	Monetary and financial indicators		
5.1.	Interest rate	Treasury Bills, 3 month, yield, average, CSD	NBS
5.2.	Bond yield	Not available	
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, CSD	Ecowin/Reuters
5.4.	M3	Annual percentage change, M3 (broad money), CSD	NBS
5.5.	Exchange rate CSD/EUR	Spot Rates, close, period average	Ecowin/Reuters
5.6.	Nominal eff. exchange rate	Period average, moving base year, CSD	NBS
6.	Government balance and debt		
6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	MoF
6.2.	General government debt	Public sector debt. In percent of GDP	MoF

SORS: Statistical Office of the Republic of Serbia, NBS: National Bank of Serbia, MoF: Serbian Ministry of Finance

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	Annual percentage change.	IMF
1.6.	Gross fixed capital formation	Annual percentage change.	IMF
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.	Central Banking Authority (CBAK)
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Annual data.	CBAK
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.	IMF
4.3.	Producer prices	Not available.	
4.4.	Import prices	Not available.	
5. Monetary and financial indicators			
5.1.	Interest rate	Interest rates, short-term (3-12 months loans to non-financial corporations)	CBAK
5.2.	Bond yield	Not available.	
5.3.	Stock markets	Not available.	
5.4.	M2	Annual percentage change, M2 (Broadest money)	CBAK
5.5.	Exchange rate EUR/EUR	Not applicable.	
5.6.	Nominal eff. exchange rate	Not available.	IMF
6. Government balance and debt			
6.1.	General government balance	In percent of GDP	IMF, Ministry of Finance and Economy
6.2.	General government debt	Not applicable.	