



ECFIN Unit D-1

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***CANDIDATE AND
PRE-ACCESSION
COUNTRIES'
ECONOMIES QUARTERLY
CCEQ***

CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIES QUARTERLY

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*as defined by UNSCR 1244

OVERVIEW

Recent political developments: In Serbia, the incumbent president and leader of the Democratic Party (DS) Boris Tadic won the second round of presidential elections on 3 February. On 17 February 2008, the Kosovo parliament adopted the Declaration of Independence. A constitution is currently being drafted and scheduled for a parliamentary vote in June. The Serbian government under Prime Minister Kostunica collapsed under insurmountable differences within the government coalition over Kosovo's independence and EU membership. On 13 March, President Tadic dissolved the 10-month-old parliament and scheduled early elections for 11 May.

Output and demand: In 2007, economic performance remained robust, with only Kosovo displaying a real growth rate of below 3%. In Croatia, the former Yugoslav Republic of Macedonia and Serbia, real GDP growth accelerated to 5.6%, 5% and 7.5% respectively. Real growth in Bosnia and Herzegovina and Montenegro moderated somewhat but remained robust at 6% and 7% respectively.

In Turkey, real GDP growth decelerated sharply from close to 7% in 2006 to 4.5% in 2007, driven by a tighter monetary policy stance, higher interest rates and a drop in lending which lowered domestic demand.

Labour markets: Unemployment remained relatively high and major differences across countries persisted, ranging from around 10-11% in Turkey and Croatia to close to or even above 40% in the former Yugoslav Republic of Macedonia and in Kosovo. However, available data need to be taken with a great deal of caution as they are not always guaranteed to be fully reliable.

International transactions: Current account balances in 2007 continued to show fairly high deficits in all countries, except the former Yugoslav Republic of Macedonia. The current account deficit widened significantly in Serbia (to 16%), in Bosnia and Herzegovina (to 13.1%) and in Kosovo (to 21.9%). Croatia also recorded a slight deterioration of the current account deficit, as an improved performance in tourism did not fully compensate for a higher gap in merchandise trade.

In Turkey, the growth in exports outperformed the growth in imports in 2007, which led to a

slight reduction of the current account deficit to 5.8% of GDP.

Prices: Inflation picked up sharply across the Western Balkans, fed by increases in food and energy prices. In the first quarter of 2008, inflation accelerated to 11.3% year-on-year in Serbia and to 4.9% in the former Yugoslav Republic of Macedonia. In Albania, consumer prices were also affected by price increases in international commodity markets, but surprisingly inflation remained significantly lower than in other countries of the region, reaching 3.6% year-on-year in February.

Turkey's inflation shot up to 9.1% year-on-year in February, the largest increase since May 2007.

Monetary and financial indicators: So far, it appears that global financial market turbulences have had a limited effect on the economies of the Western Balkans. Exchange rates vis-à-vis the euro remained stable in most of the countries, except Serbia, where the monetary regime of inflation targeting implies larger exchange rate fluctuations. During the first three months of 2008, the Serbian dinar depreciated by 3.9%.

The Turkish lira (TLR) depreciated against the EUR by 12.8% and against the USD by 6.6% compared to end-2007.

General government balance: Fiscal performance in the Western Balkans in 2007 benefited from a strong revenue performance. In Croatia, the fiscal deficit was further reduced to 1.6% of GDP and the former Yugoslav Republic of Macedonia recorded a somewhat higher deficit of 1% of GDP. In Montenegro, the fiscal surplus rose significantly to 8.5% of GDP, while Serbia's fiscal surplus recorded a slight decline to 0.4% of GDP.

In Turkey, the government missed its fiscal targets for 2007, affected partly by weak tax collection and election-related spending and mainly by the social security deficit (about 3% of GDP).

Candidate and potential candidate countries: Summary table

	2003	2004	2005	2006	2007	ECFIN Forecast		Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08
						2008	2009						
Gross domestic product (in real terms, annual % change)													
Croatia	5.3	4.3	4.3	4.8	5.6	5.0	5.5	5.1	3.7	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	2.9	4.1	4.1	4.0	5.1	5.5	5.3	4.2	5.2	:	n.a.	n.a.	n.a.
Turkey	5.3	9.4	8.4	6.9	4.5	:	:	3.4	3.4	:	n.a.	n.a.	n.a.
Albania	5.8	5.7	5.8	5.5	:	:	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	3.0	6.3	3.9	6.7	6.0	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	2.5	4.4	4.2	8.6	7.0	:	:	7.1	7.4	:	n.a.	n.a.	n.a.
Serbia	2.5	8.4	6.2	5.7	7.5	:	:	7.5	6.9	:	n.a.	n.a.	n.a.
Kosovo*	-0.1	3.2	-1.0	2.6	2.8	:	:	:	:	:	n.a.	n.a.	n.a.
Unemployment (LFS, in % of workforce)													
Croatia	14.3	13.8	12.7	11.2	11.0f	10.8	10.2	14.0	14.5	:	14.8	14.7	:
The former Yugoslav Republic of Macedonia	36.7	37.2	37.3	36.0	34.9	33.2	32.7	34.2	34.7	:	:	:	:
Turkey	10.5	10.3	10.2	9.9	9.9	:	:	9.2	10.1	:	:	:	:
Albania	15.2	14.7	14.3	13.9	:	:	:	13.2	:	:	:	:	:
Bosnia and Herzegovina	42.0	43.1	44.7	44.2	42.9	:	:	43.5	42.9	:	40.8	:	:
Montenegro	26.0	22.3	18.5	14.7	11.9	:	:	11.8	11.9	11.9	11.9	11.9	11.8
Serbia	16.0	19.5	21.8	21.6	18.8	:	:	19.6	18.9	:	19.0	19.1	:
Kosovo*	49.7	39.7	41.4	44.9	:	:	:	:	:	:	:	:	:
Current account balance (% of GDP)													
Croatia	-7.4	-5.3	-6.4	-7.8	-8.6	-8.1	-8.0	-8.0	-8.6	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-4.1	-8.4	-2.6	-0.9	-3.0	-4.1	-3.9	1.1	-3.0	:	n.a.	n.a.	n.a.
Turkey	-2.6	-3.9	-4.7	-6.1	-5.8	:	:	-5.6	-5.8	:	n.a.	n.a.	n.a.
Albania	-6.5	-4.8	-7.4	-7.3	:	:	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-19.4	-16.3	-18.0	-8.4	-13.1	:	:	-12.5	-13.4	:	n.a.	n.a.	n.a.
Montenegro	-6.8	-7.2	-8.5	-23.5	:	:	:	-31.1	:	:	n.a.	n.a.	n.a.
Serbia	-7.5	-11.7	-8.4	-11.5	-16.0	:	:	-16.5	-18.9	:	n.a.	n.a.	n.a.
Kosovo*	-10.1	-16.2	-16.5	-18.4	-21.9	:	:	:	:	:	n.a.	n.a.	n.a.
Inflation (Consumer price index, annual % change)													
Croatia	1.8	2.0	3.3	3.2	2.9	3.0	3.0	2.9	4.9	:	6.2	5.8	:
The former Yugoslav Republic of Macedonia	1.1	-0.4	0.5	3.2	2.3	2.3	2.7	2.4	4.9	9.5	8.7	9.6	10.2
Turkey	21.6	8.6	8.2	9.6	8.8	:	:	7.1	8.2	:	8.2	9.1	:
Albania	3.3	2.2	2.0	2.5	3.1	:	:	n.a.	n.a.	n.a.	3.0	3.6	:
Bosnia and Herzegovina	0.6	0.5	4.3	6.1	1.5	:	:	1.0	4.0	:	6.1	6.2	:
Montenegro	6.8	2.2	2.4	3.0	4.3	:	:	5.1	7.4	:	7.9	8.0	:
Serbia (RPI)	11.7	9.8	17.3	12.7	6.8	:	:	6.5	9.1	11.3	10.7	11.3	11.8
Kosovo*	1.2	-1.1	-1.4	0.6	4.5	:	:	4.9	10.7	:	10.7	11.2	:
General government balance (% of GDP)													
Croatia	-5.5	-4.3	-4.0	-2.5	-1.6	-2.1	-2.0	:	:	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-1.1	0.0	0.2	-0.5	0.6	-1.5	-1.3	:	:	:	n.a.	n.a.	n.a.
Turkey	-11.3	-4.5	-0.6	-0.1	-1.2	:	:	:	:	:	n.a.	n.a.	n.a.
Albania	-4.5	-5.1	-3.6	-3.2	-3.4p	:	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	0.7	1.6	2.4	2.9	:	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	-2.4	-2.6	-2.3	2.7	8.5	:	:	8.2	8.5	:	n.a.	n.a.	n.a.
Serbia	-1.1	0.9	1.9	1.6	0.4	:	:	-0.2	-1.6	:	n.a.	n.a.	n.a.
Kosovo*	2.5	-5.7	-3.0	3.3	9.5	:	:	4.0	0.0	:	n.a.	n.a.	n.a.

f: ECFIN forecast Autumn 2007

*as defined by UNSCR 1244

CROATIA



COMMENTS

Recent political and other developments

In March, the European Commission announced that in autumn 2008 it would present an indicative timetable for the technical conclusions of accession negotiations in 2009, provided that Croatia meets a number of conditions. These conditions relate inter alia to Croatia meeting all opening benchmarks for negotiating chapters by June 2008, complying with the obligations from the Stabilisation and Association Agreement and improving its financial management of EU pre-accession funds.

The 2008 budget was adopted in early March. It foresees a general government deficit of 2.3% of GDP (GFS), unchanged from the planned deficit in the 2007 budget.

The IMF issued preliminary conclusions on its 2008 Art IV consultations which emphasised the need for further fiscal consolidation to address external and financial vulnerabilities. In particular, the IMF recommends achieving a balanced budget by 2011 through expenditure reductions.

Output and demand

In the fourth quarter of 2007, real GDP growth decelerated to 3.7% year-on-year, from 5.1% in the previous quarter, largely due to weaker growth of exports of goods and services, which rose 2.1% year-on-year, compared to 7.3% in the third quarter. Also, domestic demand showed some moderation in the fourth quarter. For 2007 as a whole, GDP growth accelerated markedly to 5.6%, up from 4.8% in 2006. The economic expansion was driven by strong private and public consumption, which grew by 6.2% and 3.4%, respectively, up from 3.5% and 2.2% a year before. At the same time, the growth of investment decelerated somewhat to 6.5%, down from 10.9% in 2006. Exports of goods and services rose by 5.7%, while imports grew by 5.8%. As in 2007, net exports posted a small negative contribution to growth (-0.8 percentage points), compared to -1.1 percentage points in 2006.

On the supply side, a strong growth of some services, in particular financial intermediation, tourism and transport and communication, contributed significantly to the robust economic performance.

Recently published high frequency indicators suggest a continuation of relatively robust economic activity in the beginning of 2008. In February, the growth of industrial production accelerated to 8.2% year-on-year, up from 6.7% in January, and compared to an annual average growth of 5.6% in 2007. Construction output posted a strong rise of 10.5% in January, up from an annual average growth of 2.5% in 2007.

Labour market

The officially registered unemployment rate dropped to 14.7% in February, slightly down from 14.8% a month before. For comparison, the unemployment rate stood at 17% in February 2007. The total number of employed increased by 3.3% year-on-year in February. It should be noted that official employment data may underestimate labour market dynamics and are often due to later revisions. According to latest data available from the labour force survey, the unemployment rate declined to 8.2% in the third quarter of 2007, down from 9.1% in the second quarter. This reduction is largely due to seasonal factors (e.g. tourism).

In 2007, gross wages increased by 6.2% on average in nominal terms, which is the same growth as in 2006. Deflated by consumer price inflation, this translates into a real increase of 3.3%, slightly higher than in 2006 (2.9%). The acceleration of real wage growth was broadly matched by rises in productivity, so that unit labour costs remained rather stable. In January 2008, the growth of gross wages accelerated to 7.4% year-on-year, which translates into a real wage increase of 1.2%.

International transactions

According to most recent data published by the Croatian National Bank, the current account

deficit widened to around 8.6% of GDP in 2007, up from 7.8% in 2006. The trade deficit rose to 25.2% of GDP (up from 24.4%), as merchandise import grew stronger than exports. The surplus in services increased to 16.8% of GDP (from 16.6%) partly on the back of a favourable performance of tourism. The deficit of the income balance dropped to 3% of GDP (3.4%). However, transfer payments recorded a lower surplus of 2.8% of GDP (3.2%) and thus contributed to the widening of the current account deficit.

According to customs statistics, merchandise exports in 2007 increased by 6.4% year-on-year in February, while imports rose by 11.5%. The trade deficit widened significantly by 16.3%.

The net inflow of FDI, largely driven by recapitalisation of banks, increased significantly to around 9.1% of GDP in 2007 (2006: 7.6%) and more than offset the current account deficit.

At end January, official reserves of the Croatian National Bank stood at a comfortable level of EUR 9,3 billion, reflecting an annual increase of around 1.6%. They were equivalent to around five months of imports of goods and services. Gross external debt continued to grow to EUR 32.9 billion, or by 12.5% year-on-year, by end-2007. The stock of gross foreign debt reached around 87.5% 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's external debt has slightly declined while domestic banks have markedly reduced their outstanding external obligations. This was largely a reaction to administrative measures by the central bank to discourage banks' foreign borrowing.

Prices

Annual inflation continued to increase markedly through 2007 and reached 5.8% year-on-year at end-2007, mainly due to price increases for agricultural and food products. In January, inflation increased further to 6.2%, before it bounced back to 5.8% in February. In annual average terms, inflation was 2.9% in 2007, and increased to 3.6% in February. Core inflation remained at around 2.6% in January 2008. Producer price inflation accelerated markedly to 7.5% in February, up from 1.7% in the same month of the previous year.

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 14.7% year-on-year in February, down from 18.1% in December and compared to an average growth of 17.9% in 2007. Domestic credit growth further slowed to around 13.5% year-on-year in February, compared to a 22.2% in the same month a year ago. As in previous months, lending to households expanded more strongly (17.4% year-on-year) than credits to the enterprise sector (9.9% year-on-year).

Average three-month money market interest rates fell further to 6.6% in March, from 7.4% a month before. The exchange rate of the Kuna vis-à-vis the euro remained broadly stable. It slightly appreciated by 0.9% in the first three months of 2008. In 2007, the Kuna had appreciated by 0.2% in nominal effective and by 3.2% in real effective terms.

General government finance

Fiscal developments in 2007 have been broadly in line with the revised budget. The 2007 budget year was marked by strong revenue growth, which allowed additional spending without jeopardising the fiscal deficit target, set at 2.6% of GDP. In the first eleven months, total revenues rose by 13% year on year, driven by particularly strong increase in direct tax revenues (around 30%). Current spending recorded an increase of 10.8%, fuelled by a strong rise in spending on goods and services (18%) and on subsidies (16%). By end-2007, the stock of general government debt stood at 38% of GDP, down from 40.8% a year before. This does not include the stock of issued state guarantees and the debt of the State Development Bank (HBOR). The budget 2008, adopted in March, foresees a general government fiscal deficit of 2.3% of GDP, measured on a modified accrual basis in GFS terms. This appears to be in line with the fiscal framework presented in the 2007 Pre-Accession Economic Programme, which foresees a fiscal deficit of 1.6% of GDP in ESA95 methodology. However, a number of items are not yet fully covered by budget accounts, such as arrears payments to pensioners and expenditures of local governments, so that the "real" fiscal deficit is likely to be significantly larger.

TABLE



European Commission, ECFIN-D-1

CROATIA

		2003	2004	2005	2006	2007	ECFIN Forecast							
							2008	2009	Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08
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	4.0	3.6	5.1	4.5	5.6	:	:	4.5	3.1	:	6.7	8.2	:
Gross domestic product ^{1.3}	Ann. % ch	5.3	4.3	4.3	4.8	5.6	5.0	5.5	5.1	3.7	:	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	4.6	4.8	3.4	3.5	6.2	3.0	3.9	6.2	5.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	24.7	5.0	4.9	10.9	6.5	9.5	10.0	5.7	4.0	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	2.5	2.5	2.9	2.9	2.8	:	:	2.5	2.8	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	14.3	13.8	12.7	11.2	11.0f	10.8	10.2	14.0	14.5	:	14.8	14.7	:
Employment ^{2.2}	Ann. % ch	0.1	1.6	0.4	0.9	2.6f	0.5	1.0	0.9	1.0	:	3.4	3.3	:
Wages ^{2.3}	Ann. % ch	4.8	6.4	4.4	6.2	6.2	6.4	6.5	6.6	6.4	:	7.4	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	7.6	17.3	7.9	16.1	8.8	:	:	12.4	3.6	:	18.9	6.4	:
Imports of goods ^{3.2}	Ann. % ch	13.9	5.1	9.1	12.9	11.0	:	:	10.3	11.4	:	26.7	11.5	:
Trade balance ^{3.3}	% of GDP	-26.6	-23.4	-24.0	-24.4	25.2	-24.5	-24.6	-24.6	25.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	47.1	47.5	47.1	47.9	47.7	:	:	48.0	47.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	57.9	56.4	55.5	56.8	56.3	:	:	56.0	56.3	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-7.4	-5.3	-6.4	-7.8	-8.6	-8.1	-8.0	-8.0	-8.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	6.4	2.1	3.9	7.6	9.1	:	:	9.8	9.1	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	1.8	2.0	3.3	3.2	2.9	3.0	3.0	2.9	4.9	:	6.2	5.8	:
GDP Deflator ^{4.2}	Ann. % ch	3.9	3.9	3.2	3.4	4.0	3.7	3.3	4.2	5.4	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	1.9	3.5	3.0	2.9	3.4	:	:	3.7	5.4	:	7.4	7.5	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
5 Monetary and financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	5.42	7.32	6.21	4.46	5.66	:	:	6.26	7.05	7.20	7.56	7.44	6.61
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,129	1,284	1,920	2,771	4,673	:	:	4,946	5,007	4,192	4,497	4,232	3,845
M4 ^{5.4}	Ann. % ch	11.4	8.2	9.6	14.3	17.9	:	:	16.3	15.6	:	13.9	14.7	:
Exchange rate HRK/EUR ^{5.5}	Value	7.57	7.50	7.39	7.30	7.33	:	:	7.31	7.33	7.29	7.32	7.27	7.27
Nominal eff. exchange rate ^{5.6}	Index	94.95	91.67	90.45	89.29	87.35	:	:	86.90	85.84	:	85.50	:	:
6 Government balance and debt														
General government balance* ^{6.1}	% of GDP	-5.5	-4.3	-4.0	-2.5	-1.6	-2.1	-2.0	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	41.0	43.2	43.7	40.8	37.7	38.5	37.3	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2007

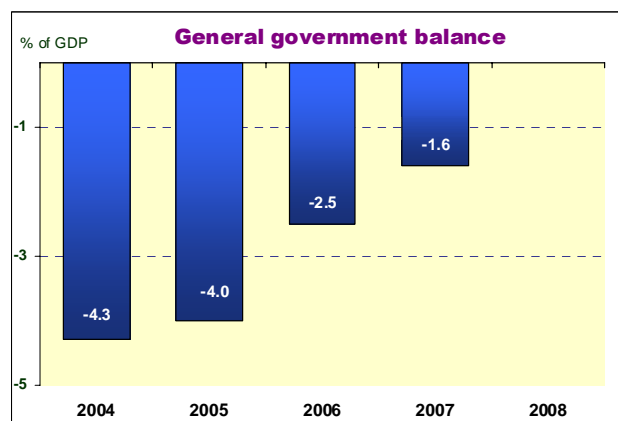
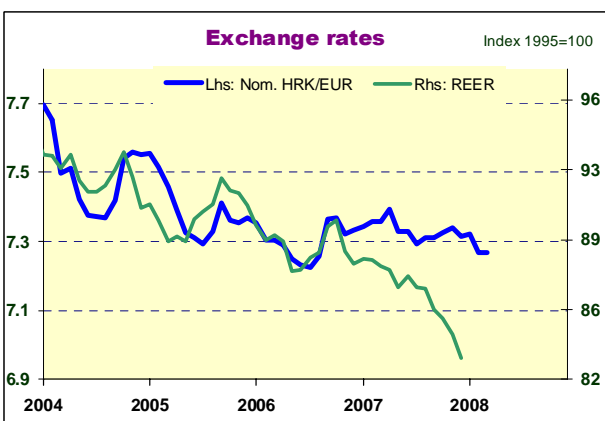
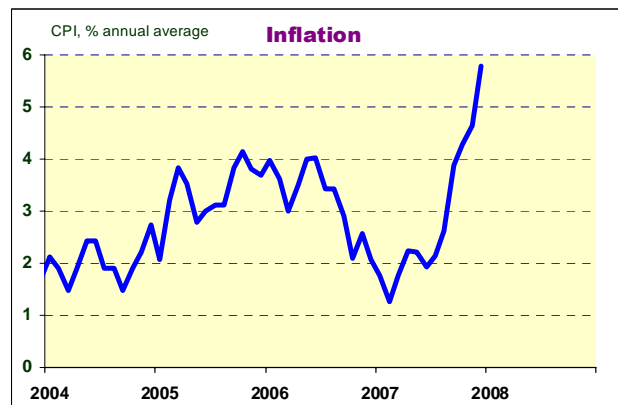
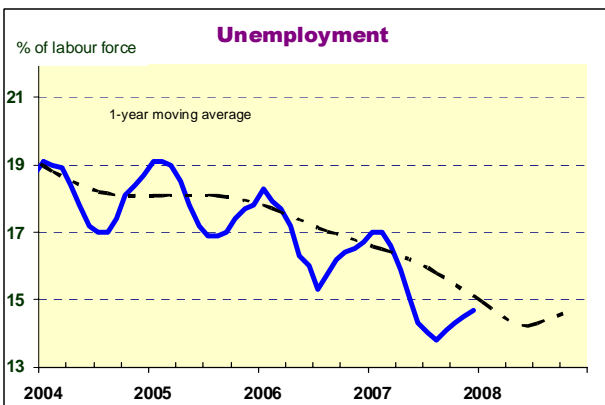
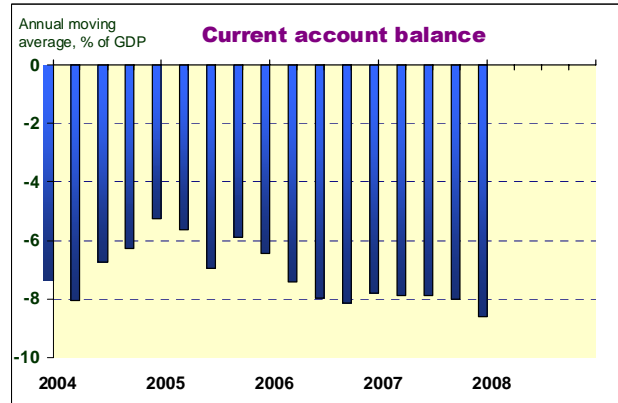
* Without pension debt repayments

CHARTS



European Commission, ECFIN-D-1

CROATIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



COMMENTS

Recent political and other developments

On 11 February, the IMF approved the 3rd review under the current stand-by arrangement. The IMF commended the authorities for maintaining fiscal discipline while proceeding with structural reforms. However, the authorities were encouraged to remain vigilant with respect to inflation and fiscal stability and continue with addressing remaining impediments to job creation. The 3-year programme was signed in August 2005 and will expire in autumn 2008. The arrangement amounts to SDR 51.7 million (some EUR 50 million). After the first tranche payment in 2006, the arrangement has been treated as pre-cautionary (implying that available amounts are not disbursed).

Output and demand

Economic growth accelerated in the 4th quarter, bringing annual GDP growth to 5.1% in 2007, compared to 4% the year before. Like in previous quarters, the main contribution to growth came from trade and transport, while agricultural output continued to decline. In terms of expenditure categories, the acceleration in economic activity was based on stronger domestic demand. In particular, private investment seems to have improved significantly.

Industrial production, which accounts for some 20% of total value added, increased by 3.7% in 2007. By mid-2007 output levels were even significantly 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. During the first two months of 2008, growth of industrial output accelerated to 10% compared to the same period a year before, reflecting strong growth in machinery production.

Labour market

The labour market situation continued to improve. In 2007, employment increased by 5.8% compared to the year before, while the number of unemployed dropped by 1.8%. In absolute terms, the number of unemployed declined, from 323 thousand on average in 2006 to 316 thousand in 2007. As a result, the annual unemployment rate declined from 36% in 2006 to 34.9% in 2007. About 22% of the unemployed are between 15-24 years old. According to the labour force survey, the unemployment rate in this age group dropped to 61.3% in the fourth quarter, compared to 64% a year before. An important share 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 continued to accelerate to 9.1% in the fourth quarter, compared to 2.6%, 3.2% and 4.2% in the first three quarters of the year. Thus, during 2007, the increase in nominal wages remained some 2½ percentage points above consumer price inflation.

International transactions

After a rather favourable performance during the first three quarters of 2007, a marked increase in imports and less buoyant private transfers brought the until mid-2007 largely balanced current account to a year-end deficit of nearly 3% of GDP. Inflows of net private transfers continue to amount to nearly 18% of GDP, and are thus of a similar size as the trade deficit, which amounted to 21% of GDP in 2007. Inflows of FDI came down to about 4.3% of GDP, compared to 6.8% of GDP in 2006. However, a large part of this inflow in 2006 had been related to the privatisation of the electricity distribution company ESM to a foreign investor. When correcting for this one-off effect, FDI inflows were significantly higher than in the past.

Exports of goods increased by 28% in EUR terms compared to an increase of 16% the year before. Nominal imports of goods rose by 24%, compared to 17% in 2006. The main factor for this strong increase in exports was stronger trade in iron and steel, construction materials and textiles.

At the end of 2007, official reserve assets of the National Bank stood at a level of EUR 1.5 billion, equivalent to more than 5 months of imports of goods and services.

Prices

Consumer price inflation started to rise markedly at the end of 2007, reflecting stronger increases in food prices, but also of energy and housing costs. While consumer price inflation was at around 1% during the first half of the year, it accelerated to 2.4% in the third quarter and to nearly 5% in the fourth quarter. As a result, annual average inflation was 2.3% in 2007, compared to 3.2% in 2006.

During the first three months of 2007 inflation continued to accelerate, reaching 10.2% in March. On average, inflation was 8.6% in the first quarter of 2007, compared to 1.6% a year before.

Monetary and financial indicators

Monetary conditions continued to ease. Average weighted nominal lending rates declined from 10.7% end of 2006 to 9.9% end of 2007. During the first two months of 2008, lending rates continued to fall to 9.7%. Interest rates on deposits came down from 5.6% in December 2005 to 4.4% in December 2006, but rose again to 5.3% by December 2007 and 5.5 % by February 2008. Credit growth to the private sector was around 25% in 2006 and continued to accelerate to some 33% by end-2007. In the first two months of 2008, the strong increase of credit continued, although the overall credit-to-GDP level is still relatively low. Year-on-year growth of M4 accelerated from 26% in the first quarter of 2007 to some 30% in the second and third quarter. However, in the fourth quarter, monetary expansion decelerated to some 28%.

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 2007, 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 2007, gross external debt amounted to 50% of GDP, reflecting a new methodology of measuring this aggregate.

General government finance

In 2007, the general government accounts registered a surplus of 0.6% of GDP, compared to a deficit of 0.5% the year before. The original budget for 2007 had envisaged a deficit of 1% of GDP. The main reason for the better than expected performance was higher tax revenues, reflecting strong economic growth but also improvements in the efficiency of tax collection. Towards the end of the year, the government has increased spending for social and labour market related purposes and construction and renovation activities (amounting to about ¼% of GDP). The budget proposal for 2008 envisages a deficit of 1.5% of GDP.

The general government debt ratio declined from 42% of GDP at the end of 2006 to some 26% at the end 2007. This sharp decline is largely a result of 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

		2003 2004 2005 2006 2007					ECFIN Forecast							
		2008	2009	Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08					
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.	-12.0	7.2	2.3	4.1	:	:	1.1	6.2	:	13.6	6.9	:
Gross domestic product ^{1.3}	Ann. % ch	2.9	4.1	4.1	4.0	5.1	5.5	5.3	4.2	5.2	:	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	-1.5	8.0	5.7	6.0	5.0f	6.0	5.0	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	1.1	10.9	-5.4	11.6	11.6f	12.5	14.0	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	3.2	3.6	3.7	3.5	:	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	36.7	37.2	37.3	36.0	34.9	33.2	32.7	34.2	34.7	:	:	:	:
Employment ^{2.2}	Ann. % ch	-2.9	-4.1	4.3	4.6	3.5	4.1	3.5	3.7	2.6	:	:	:	:
Wages ^{2.3}	Ann. % ch	4.8	4.0	2.7	8.0	4.8	:	:	4.2	9.1	:	:	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	22.5	11.8	22.2	15.8	28.3	:	:	10.1	24.0	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	15.6	15.5	10.7	16.9	23.6	:	:	19.8	34.2	:	:	:	:
Trade balance ^{3.3}	% of GDP	-18.3	-21.1	-18.4	-20.1	-21.2	-23.3	-23.9	-19.0	-21.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	36.3	38.7	43.2	47.2	:	:	:	53.6	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	54.7	60.3	62.1	67.0	:	:	:	70.6	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-4.1	-8.4	-2.6	-0.9	-3.0	-4.1	-3.9	1.1	-3.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.4	6.0	1.6	6.8	4.3	:	:	:	:	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	1.1	-0.4	0.5	3.2	2.3	2.3	2.7	2.4	4.9	9.5	8.7	9.6	10.2
GDP Deflator ^{4.2}	Ann. % ch	0.3	1.3	3.8	3.8	2.1f	2.8	2.9	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	-0.2	1.2	3.2	4.5	1.6	:	:	1.1	4.1	:	9.7	10.2	:
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	5.60	:	:	4.85	5.12	:	5.10	5.05	:
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	6,971	:	:	8,621	8,068	6,996	7,376	7,039	6,572
M4 ^{5.4}	Ann. % ch	16.0	16.3	15.1	10.9	28.4	:	:	30.5	28.0	:	29.7	27.9	:
Exchange rate MKD/EUR ^{5.5}	Value	61.26	61.32	61.30	61.19	61.18	:	:	61.17	61.21	:	61.34	:	:
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	-1.1	0.0	0.2	-0.5	0.6	-1.5	-1.3	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	45.0	43.8	48.5	41.5	27.0f	25.0	23.0	:	:	:	N.A.	N.A.	N.A.

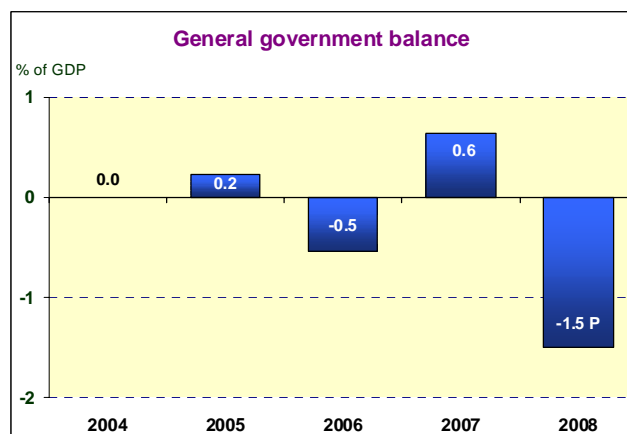
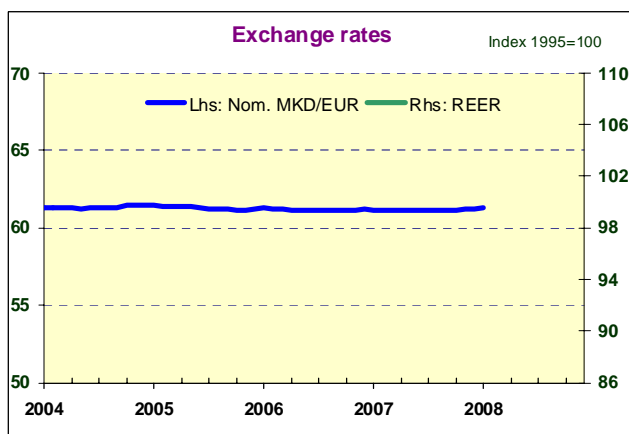
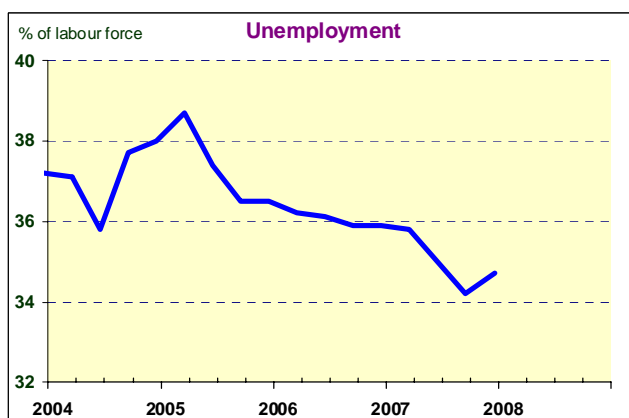
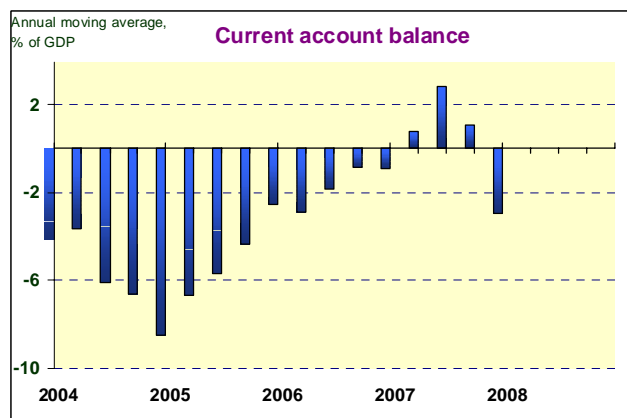
f: ECFIN forecast Autumn 2007

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia



TURKEY



COMMENTS

Recent political and other developments

The IMF has postponed the completion of the seventh review under the stand-by arrangement (2005-2008), originally planned in February. The delay was mainly caused by lack of progress in the social security reform.

Domestic political uncertainties added to the global financial turbulence and led to increased exchange rate and stock market volatility in Turkey after the constitutional court was requested to ban the ruling AK party because it is allegedly anti-secular.

In March, Turkey revised national accounts statistics in order to better align them with the European System of Accounts (ESA95). GDP is revised up by about one third in nominal terms. Real GDP growth rates for the last ten years have been altered. New data suggest that economic activity in 2007 was not as weak as previously disclosed. The current deficit shrank from about 8% to roughly 6.1% of GDP. Accordingly, public debt dropped by about ten percentage points. However, the revision does not prompt major changes in experts' views on the challenges of the Turkish economic policy.

Output and demand

Real GDP growth slowed down dramatically, from 6.9% in 2006 to 4.5% in 2007. Private consumption real growth remained weak in 2007, as it grew by merely 3.8%, in despite of a strong surge (up 6.3%) in the third quarter. The public sector purchased significantly less goods and services and markedly reduced construction after sizeable spending hikes in these areas in the run-up to the July 2007 elections. The contribution of the external sector to growth fell substantially, as imports grew by 14.4% and 15.7% year-on-year in the third and fourth quarters, respectively, up from 8.6% in the first quarter, while export growth amounted to 2.5% in the fourth quarter, down from 12.5% 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, the agricultural sector suffered from a severe drought in the summer months in 2007. Agricultural output fell by 7.3% in 2007. The growth rates of manufacturing and trade slowed to around 5.5% year-on-year. Construction output growth decelerated remarkably, to 5.0% in 2007, from 18.5% in 2006, while the growth in real estate and business activities accelerated to 13.7% in 2007. The transport and communication sectors maintained relatively strong growth rates, of 6.9% in 2007. Business and consumer confidence indicators weakened markedly since August 2007, while capacity utilisation went down too.

Labour market

The labour market followed traditional seasonal patterns in the fourth quarter of 2007. The number of employed decreased by 6.6% (in the fourth quarter of 2006 10.2%, quarter-on-quarter), mainly in the agricultural sector. In the manufacturing sector the number of employed increased by 1.7%. The labour force participation rate decreased to 46.2% by end-2007 (70.2% for male and 22.6% for female).

The unemployment rate dynamics followed an end-year pattern of previous years, reaching 10.6% in the end-2007. In December 2007, the unemployment rate among young people aged between 15 to 24 stood at 20.6%, an increase by 0.3 percentage points year-on-year, thereby maintaining its upward trend since March 2007. The share of the population without social security declined to 43.4%, down from 45.1% a year earlier.

According to a new census, Turkey's population stands at 70.5 million. The results came as a surprise to most experts, who believed that 3 to 4 million more people lived in Turkey. The census found that 70.5% of the population lives in urban centres while 29.6% lives in rural

Turkey. The average age of the population was calculated as 28.3 years.

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.

International transactions

In 2007, the growth in exports (13.3%, year-on-year, in EUR terms) outperformed the growth in imports (10.7%), despite of somewhat weaker results in end-2007. In January 2008, a relatively strong growth continued. The exports of main product groups (vehicles, machinery, iron and steel) increased by more than 30% year-on-year. The trade deficit was 7.4% of GDP in 2007, slightly down from 2006. The current account deficit amounted to 5.9% of GDP, also somewhat lower than in 2006. The recent revision of GDP statistics has considerably lowered both ratios.

Strong capital inflows continued in 2007, the foreign direct investment inflow reached 3.4% of GDP, somewhat less than in 2006. The main sector receiving FDI was the banking sector (60% of total), where the foreign ownership reached more than 25% by the end of 2007.

Prices

Turkey's inflation shot up by 9.1% year-on-year in February, the largest increase since May of last year, as the cost of food and non-alcoholic beverages jumped by 12.9%, following a 9.2% increase in January. With a weight of 28% in the CPI basket, food prices added 3.6 percentage points to total inflation in February. The cost of housing and utilities continued to expand rapidly, by 14.8%, triggered by the 20% increase in electricity tariffs. Transport price inflation also remained high at 6.6%, close to January's 6.7% level, as transport operation costs jumped by 15.4% – the sharpest increase in 19 months. Recently the price pressures arising from aggregated demand remained small. Excluding unprocessed food and energy, core inflation held at 7.2% in February for a second consecutive month. This remains below the 7.9% average rate of core inflation seen over 2007 as a whole. In total, inflation has remained significantly above the central bank target (4%). In March,

market consensus revised the inflation projections to 7% for 2008.

Monetary and financial indicators

The global financial market developments and the depreciation of the USD against the main currencies also affected the exchange rate of the Turkish lira. By the second half of March, the TRL depreciated against the EUR by 12.8% and against the USD by 6.6% compared to end-2007. Bond markets faced similar volatility, benchmark government bond yield increasing from 16% in January 2008 to close to 18% in March. In the second half of March, the Treasury cancelled two swap auctions due to uncertainty in the global financial markets. The main stock exchange index (ISE-100) fell significantly from the high end-2007 levels. In the second half of March the closing values were 28.5% lower in TRL terms and 36.2% in EUR terms. The volatility was also reflected in the inter-bank money market: lending rates increased by 1.2 percentage points for 12-month maturities in March. Deposit rates peaked in mid-March, decreasing somewhat afterwards. The central bank paused cutting the policy interest rates in March, pointing at higher inflation risks. In the beginning of 2008, the central bank lowered the overnight borrowing rate by 50 basis points to 15.25%.

The non-financial sector credit growth picked up in the beginning of 2008, after some slowdown in end-2007. The increase in housing loans reached 44.6%, total household borrowing 47.6% and corporate borrowing 37.8% y-o-y in February.

General government finance

The government missed fiscal targets for 2007, affected by weak tax collection and election related spending, and mainly by the social security deficit (about 3% of GDP). Therefore, the general government primary budget surplus was expected to remain below 4.3% of GDP and the deficit to exceed 1% of GDP in 2007. In early 2008, cash-based fiscal balances improved compared to 2007. The general government gross debt is expected to have fallen below 40% of GDP in 2007, strongly affected by the recent revision of the GDP statistics. In 2008, a primary budget surplus of 5.5% will be targeted.

TABLE



TURKEY

European Commission, ECFIN-D-1

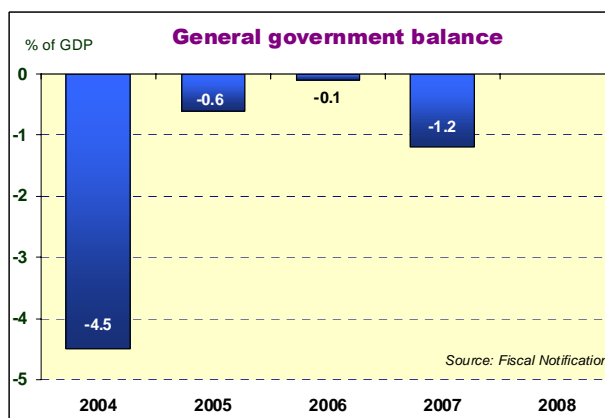
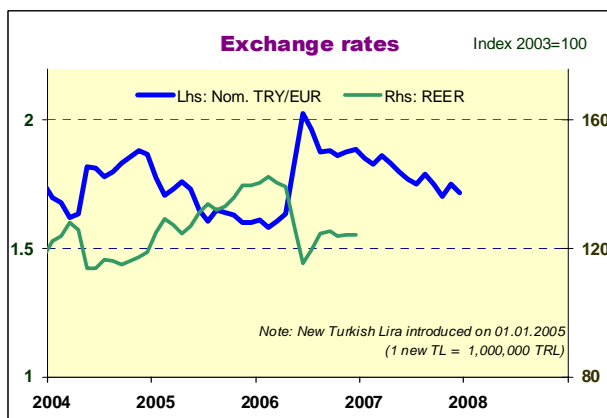
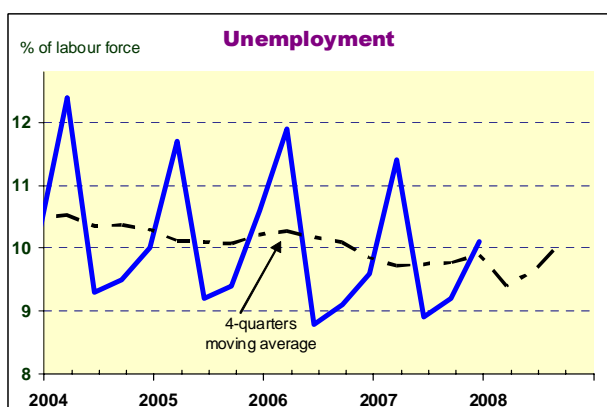
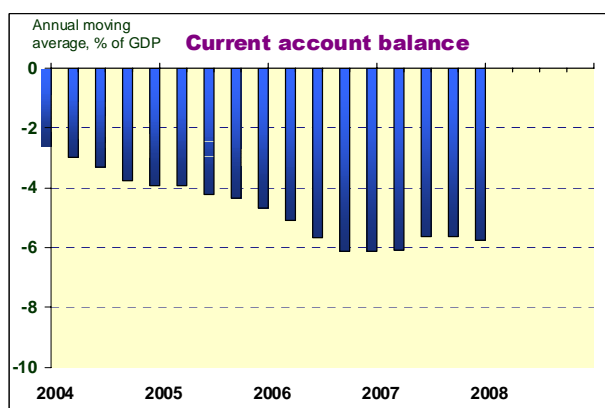
		2003 2004 2005 2006 2007					ECFIN Forecast		Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08
		2008	2009											
1 Output and demand														
Industrial confidence ^{1.1}	Balance	104.1	106.8	102.8	102.4	110.8	:	:	111.9	102.7	104.6	104.2	104.1	105.4
Industrial production ^{1.2}	Ann. % ch	8.7	9.8	5.4	5.8	5.4	:	:	4.4	5.1	:	11.7	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.3	9.4	8.4	6.9	4.5	:	:	3.4	3.4	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	106.7	100.1	95.6	94.4	:	:	96.9	94.2	:	92.1	87.6	:
Private consumption ^{1.5}	Ann. % ch	9.2	10.2	7.5	4.6	3.8	:	:	6.3	1.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	14.2	28.4	17.4	13.3	3.3	:	:	2.1	7.2	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	0.6	-1.0	-1.0	-0.2	0.7	:	:	0.5	0.7	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	10.5	10.3	10.2	9.9	9.9	:	:	9.2	10.1	:	:	:	:
Employment ^{2.2}	Ann. % ch	-0.8	2.0	1.7	-0.4	-3.6	:	:	-5.2	-1.7	:	:	:	:
Wages ^{2.3}	Ann. % ch	23.0	13.4	12.2	11.5	9.5	:	:	10.9	9.9	:	:	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	6.6	19.3	15.1	17.7	12.8	:	:	10.2	11.2	:	40.2	21.0	:
Imports of goods ^{3.2}	Ann. % ch	12.4	28.5	20.1	17.7	11.5	:	:	13.8	16.0	:	36.2	24.2	:
Trade balance ^{3.3}	% of GDP	-4.5	-6.1	-7.0	-7.8	-7.2	:	:	-7.1	-7.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.0	23.6	21.9	22.7	21.9	:	:	22.3	21.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	24.0	26.2	25.4	27.6	27.0	:	:	27.1	27.0	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-2.6	-3.9	-4.7	-6.1	-5.8	:	:	-5.6	-5.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.4	0.5	1.9	3.6	3.0	:	:	3.5	3.0	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	21.6	8.6	8.2	9.6	8.8	:	:	7.1	8.2	:	8.2	9.1	:
GDP Deflator ^{4.2}	Ann. % ch	23.3	12.4	7.1	9.3	8.1	:	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	22.7	14.6	5.9	9.3	6.3	:	:	3.6	5.3	:	6.4	8.1	:
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	37.68	24.26	20.40	21.65	22.56	:	:	22.65	21.55	:	21.19	21.22	:
Bond yield ^{5.2}	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	12,312	19,899	29,353	39,867	48,270	:	:	50,585	55,256	:	48,662	44,680	41,450
M4 ^{5.4}	Ann. % ch	31.9	40.9	30.9	32.5	17.7	:	:	18.9	20.2	:	20.6	25.8	:
Exchange rate TRY/EUR ^{5.5}	Value	1.69	1.77	1.67	1.80	1.78	:	:	1.76	1.72	:	1.73	1.76	1.94
Nominal eff. exchange rate ^{5.6}	Index	27.54	26.81	28.11	26.18	26.74	:	:	26.98	28.00	:	:	:	:
6 Government balance and debt														
General government balance ^{6.1}	% of GDP	-11.3	-4.5	-0.6	-0.1	-1.2	:	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	85.1	59.2	52.3	46.1	38.8	:	:	:	:	:	N.A.	N.A.	N.A.

CHARTS



European Commission, ECFIN-D-1

TURKEY



ALBANIA



COMMENTS

Recent political and other developments

The IMF completed the fourth review under the current three-year PRGF/EFF arrangement with Albania in the end of March 2008 and released a 2.52mn EUR loan tranche.

The government approved the National Development and Integration Strategy 2007–2013 in March. The strategy outlines the reform priorities and the vision of the government, focusing on the EU and NATO integration.

On March 15, an explosion of munitions at an army depot close to Tirana killed close to 20 people and damaged thousands of houses in the area. The government decided to allocate 12.8 million EUR to compensate the material damages.

Output and demand

The government estimates real economic growth to have reached 6% in 2007, up from 5.5% in 2006 (the GDP of 2006 was recently revised upwards). According to the Economic and Fiscal Programme 2007, the government expects the real economic growth to be driven by the services sector, followed by construction. The contribution of manufacturing is estimated to have declined in 2007 compared to 2006 while the contribution of agriculture was expected to increase.

Domestic demand is estimated to have remained strong with investments growth accelerating. Private consumption growth projections have been revised somewhat downwards, with private consumption still supported by a strong credit growth and high inflows of remittances. The contribution of net exports to real economic growth is estimated negative in 2007. The current relatively strong economic activity is expected to continue in 2008, supported by recent and ongoing structural reforms.

Labour market

In the third quarter of 2007 the number of employed people increased slightly (0.1% year-on-year), also contributing to a decrease in the

unemployment rate to 13.2% (down by 0.6 percentage points compared to the third quarter in 2006). Average wages in the public sector increased by 23.1% (year-on-year) in the third quarter of 2007, compared to the increase of 15.4% in the second quarter. Private sector salaries increased 13.3% year-on-year in the third quarter of 2007.

International transactions

In the third quarter of 2007, the current account deficit worsened to 9.3% of the projected GDP, against 7% in 2006. The trade deficit increased in the light of almost equally high growth rates of exports and imports, but a higher volume of imports. In the fourth quarter of 2007, the trade deficit widened further, imports growth exceeding exports growth. In the first two months of 2008, the merchandise trade deficit increased by 25% year-on-year.

The positive balance of current transfers decreased in the third quarter of 2007 compared to the third quarter of 2006. Current transfers, mainly in the form of remittances, covered 50% of trade deficit in the first three quarters compared to 60% in 2006. The services balance remained negative over the first three quarters, despite of a positive balance in the second and the third quarter.

Net FDI increased significantly in the third quarter of 2007 (2.8% of the projected GDP) dominated by the proceeds of privatisation of the landline telecommunications company Albtelecom. By September 2007, net FDI inflows reached 5.3% of the projected GDP (compared to 3.3% in 2006).

Prices

Consumer prices remained mostly affected by price increases in international commodity markets. Inflation accelerated in February to 3.6% (year-on-year), significantly up from 3.0% January. The surge resulted mainly from the growth of food prices that increased by 6.5% year-on-year, 1.5 percentage points more than in January. Transportation prices also accelerated reaching a year-on-year growth of 4.8% in

February, up from 4.3% in January or 2.8% in December 2007. Prices in hotels and restaurants were also affected by the increase of food prices, showing year-on-year growth rates of around 5% for the fifth consecutive month in February. Price increases of other product groups remained rather limited. In March, an increase in electricity tariffs is expected to add to overall inflation.

The Statistical Institute of Albania changed the base of the consumer price index to “December 2007=100” in end-2007. Currently the updates of consumer prices time-series with the new base are published starting only from January 2007. Therefore the most recent re-based inflation data and formerly published time-series with another base are not directly comparable.

Monetary and financial indicators

The central bank stopped increasing the key interest rate in the first quarter of 2008, after raising the repo rate to 6.25% in November 2007. Domestic demand driven risks have remained contained but require continuous monitoring. Consumer price inflation remained in the target range of 3 +/-1 percentage point.

The interest rates' increase contributed somewhat to limiting the acceleration of private sector borrowing. However, the household and corporate borrowing remained strong, with year-on-year growth rates reaching 58% and 41%, respectively in January 2008. The share of household loans in total private sector loans remained at 36%.

The growth in monetary aggregates has decelerated to 12.6% and 5.1% year-on-year for M3 and M2, respectively, in January 2008.

Global financial market turbulences have not adversely affected Albanian economy. The lek, the national currency, remained rather stable vis-à-vis the euro, only depreciating by 1,1% during the first quarter of 2008.

General government finance

According to preliminary data, the general government deficit turnout was 3.4% of GDP in 2007, 0.3 percentage points up compared to 2006. The deficit is substantially below the level projected in the Economic and Fiscal Programme 2007 (4.6% of GDP). The lower than projected level is due to underspending in expenditures (6.5% short of the target for 2007). The revenues were below target as well but to a lower extent (4.2%). Nevertheless, the budget revenues and expenditure increased by 11% and 12%, respectively, compared to 2007.

For 2008, the government projects the budget deficit to expand due to large infrastructure projects. The adopted budget for 2008 will also be amended by compensation measures in favour of victims from the damage caused by the explosion close to Tirana on March 15. This will trigger an increase in expenditures by some 0.2% of GDP.

The government has also announced a supplemental budget in July 2008, after receiving proceeds of privatisation of some large-scale state enterprises. Starting from 2009, the government targets the budget deficit to remain within the limit of 4% of GDP, also recommended by the IMF in the context of the recent PRGF/EFF arrangement review in March 2008.

TABLE

European Commission, ECFIN-D-1



ALBANIA

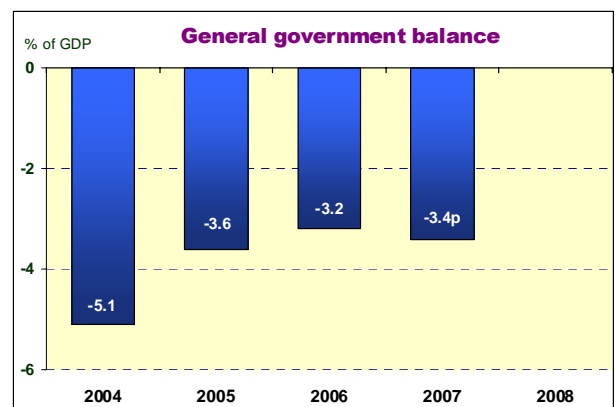
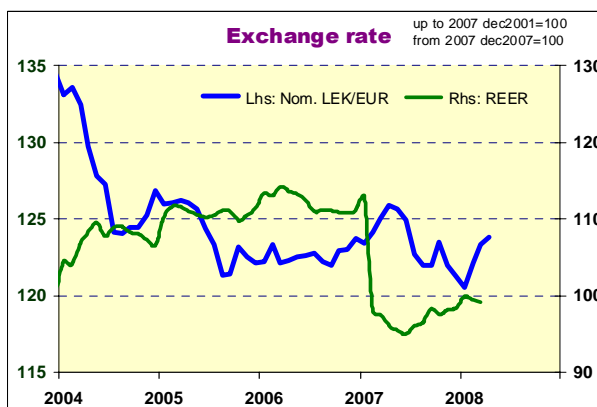
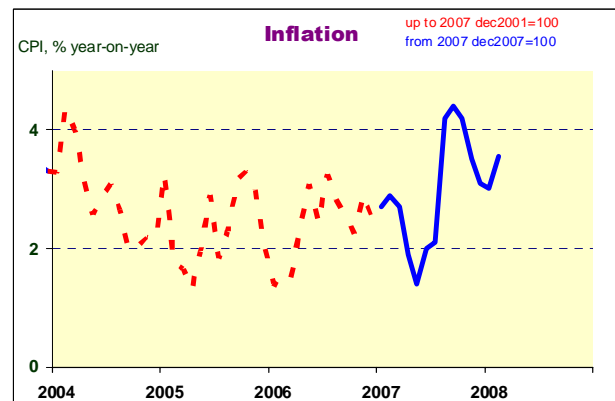
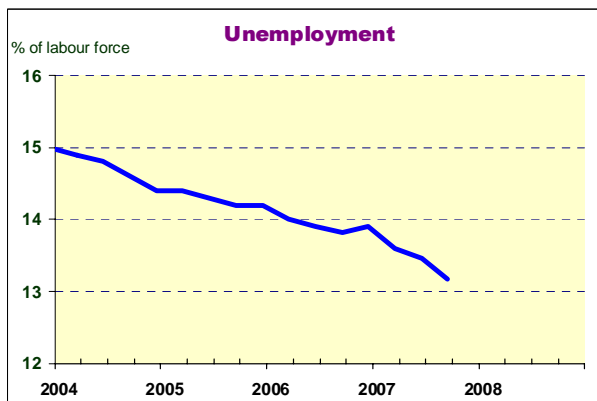
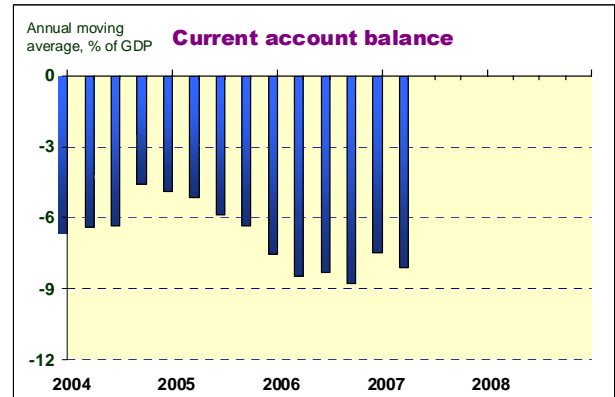
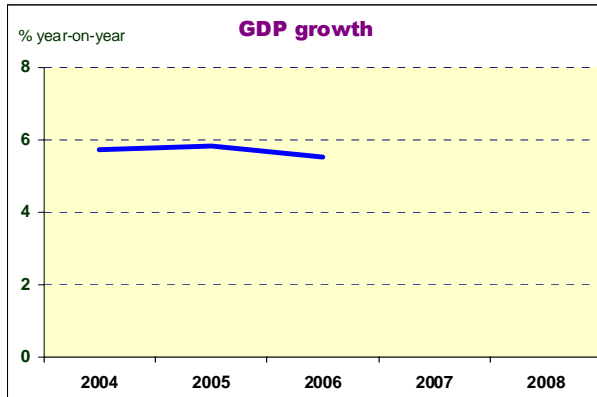
		2003	2004	2005	2006	2007	Q2 07	Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.8	5.7	5.8	5.5	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	-1.8	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	15.2	14.7	14.3	13.9	N.A.	13.5	13.2	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	0.9	-0.4	0.9	0.2	N.A.	0.2	0.1	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	14.7	14.4	9.9	-7.0	N.A.	15.4	23.1	:	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	13.4	22.9	8.9	19.3	:	26.3	28.7	:	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	0.3	12.1	13.6	15.7	:	24.9	28.8	:	:	:	:	:
Trade balance ^{3.3}	% of GDP	-38.8	-38.1	-38.3	-40.5	:	:	:	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	20.4	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	45.1	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-6.5	-4.8	-7.4	-7.3	:	:	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.1	4.6	3.3	3.4	:	:	:	:	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	3.3	2.2	2.0	2.5	3.1	N.A.	N.A.	N.A.	:	3.0	3.6	:
GDP Deflator ^{4.2}	Ann. % ch	5.7	2.5	3.0	3.8	:	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	N.A.	0.8	3.5	2.7	3.8	5.2	:	:	:	:
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.	8.87	6.78	5.55	5.49	5.92	5.72	5.78	6.15	:	6.20	6.26	:
Bond yield ^{5.2}	% p.a.	11.40	9.92	8.22	7.31	N.A.	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:
M2 ^{5.4}	Ann. % ch	7.6	8.2	11.7	7.6	N.A.	11.4	8.1	:	:	5.1	:	:
Exchange rate LEK/EUR ^{5.5}	Value	136.8	127.2	123.7	122.8	123.3	124.5	122.5	121.2	123.1	122.2	123.4	123.9
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	-4.5	-5.1	-3.6	-3.2	-3.4p	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	61.7	56.6	56.7	55.7	N.A.	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

On 4 December 2007 a Stabilisation and Association Agreement (SAA) between Bosnia and Herzegovina (BiH) and the EU was initialled. The signing of the SAA is conditional upon the adoption of the police reform package which is still tied up in the BiH Parliament.

The Steering Board of the Peace Implementation Council (PIC) met in Brussels on 26 and 27 February. It decided that the Office of the High Representative (OHR) will remain in place and continue to carry out its mandate under the Dayton Peace Agreement (DPA). The PIC Steering Board considered that the authorities of Bosnia and Herzegovina need to address specific objectives prior to the transition and that the signature of the SAA and a stable political and security situation, including the full compliance with the Dayton Peace Agreement, would be necessary before the OHR can close. Achieving fiscal sustainability is among the objectives that should be met by the authorities.

Output and demand

According to preliminary data released by the central bank, real GDP growth slowed to 6% in 2007 from a revised 6.7% level in 2006. Economic growth was driven by a strong increase in domestic demand, witnessed inter alia by a widening of the current account deficit. On the other hand, the deceleration of economic activity in 2007 is signalled by the slowdown in industrial output, agricultural production and exports.

In 2007, the growth of industrial production accelerated to 9.1% in the Federation of Bosnia and Herzegovina (FBiH) from 7.5% in 2006 and declined significantly to 1.4% in the Republika Srpska (RS) after a record 19.1% in 2006. For the whole country, the average growth of industrial output decelerated from around 11.6% in 2006 to 6.4% in 2007. The slowdown in the RS was primarily determined by the decline in output of the utilities sector, while the manufacturing sector advanced by 4.1% in 2007. Also in the FBiH, utilities underperformed in 2007, but were compensated by the output in the

mining and manufacturing sectors which grew strongly by 10.2% and 13.8% respectively.

In the first two months of 2008, the year-on-year growth of industrial production accelerated in both entities to 11.2% in the FBiH and 5.6% in the RS. The mining and utilities sectors were in the lead in January-February 2008, whereas output in the manufacturing remained almost flat in the RS against the same period of 2007.

Labour market

The official unemployment rate declined slightly from 44.2% in December 2006 to 42.9% in December 2007. It was mainly the result of a labour market improvement in the FBiH, where the unemployment rate declined by 1.5 percentage points to 46.5% in December 2007 over the same period. However, the levels of registered employment and unemployment differ significantly from the results of the labour force survey. The Labour Force Survey (LFS) of April 2007 shows a reduction of the unemployment rate to 29% of the labour force from 31.1% a year earlier. The LFS also found that labour force participation remained very low at about 44% of the total working age population. The differences in labour market performance between the two entities widened from April 2006 to April 2007. The economic activity rate increased to 47% in the RS (against 42.3% in the FBiH), while unemployment declined to around 25% (against 31% in the FBiH).

Real wage growth continued to decelerate in the fourth quarter of 2007 and in January 2008 mainly due to increasing inflation rates, while the annual growth of nominal wages was still at around 11%. In January, net wages increased in real terms by 3.8% year-on-year, compared to 6.8% a year before, even though nominal growth accelerated from 7.8% to 10.3% over the same period. At the same time, nominal wages continued to grow faster in the RS than in the FBiH in the fourth quarter of 2007. In December, nominal net wages rose by annual 14.2% in the RS and 10.2% in the FBiH. As a result, the average net wage in the RS reached about 90% of the FBiH one in December, up from 87% a year before.

The substantial hike of wages in the public sector operated in the RS in February translated into a 29.3% year-on-year increase of the average net salary in the entity. It represents an almost threefold acceleration against January and brings the average net wage in the RS close to the one in the FBiH, raising concerns about external competitiveness and fiscal prudence.

International transactions

In 2007 the trade deficit widened to around 39% of GDP from 35% of GDP in 2006 as imports rose by 18.7% year-on-year outperforming the 15% growth of exports. The development also reflects the introduction of VAT in January 2006 which led to a frontloading of imports in the second half of 2005, thereby depressing the volume of imports in 2006. As the balances of services, income and current transfers did not improve as a percentage of GDP from 2006 to 2007, the current account deficit also widened from 8.4% of GDP in 2006 to 13.1% of GDP in 2007. The current account deficit was fully financed by net FDI as the large privatisations of Telekom Srpska and the RS refineries together with a relatively better performance of green-field investments led to a surge in FDI to 13.8% of GDP.

In the first two months of 2008, the trade deficit widened by around 48%, year-on-year. Despite the acceleration of exports to an annual growth rate of around 20%, imports grew by almost 34% year-on-year.

Due to strong capital inflows official foreign exchange reserves were higher by around 22% at the end of January 2008 from a year before. External public debt continued to decline in 2007 and reached around 18.5% of GDP at the end of the year, down from 21.3% of GDP in 2006. Total external debt is estimated at below 50% of GDP in 2007, but no official data is available for this indicator.

Prices

In 2007 inflation dropped as the effects of the VAT introduction dissipated and average CPI inflation reached 1.5% in December. At the same time, end of period inflation started to pick up in the second half of 2007, driven by an increase in food and transport prices and reached 4.9% in December. It further accelerated to 6.2% in February 2008, bringing also the annual average inflation to 2.4%.

In the two entities, end of period CPI inflation also increased to 6.6% in the FBiH and 5.8% in the RS in February 2008. The annual average inflation rates for 2007 stood at 1.9% in the FBiH and 1.1% in the RS. In 2007, producer prices in the FBiH increased by 4.5% on average, accelerating from 3.4% in 2006.

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 accelerated from 23.4% at the end of 2006 to 28.5% at the end of December 2007 and 29.3% in February 2008. In an attempt to slowdown the growth of credit the CBBH raised the reserve requirements rate to 18% as of January 2008, from 15% previously. At the end of February, the stock of credit to households had expanded by 30% year-on-year, more rapidly than the 26.8% growth rate booked by the corporate sector. The share of credit to households in total domestic credit was about 47% at the end of February.

The annual growth of reserve money decelerated to around 19% at the end of February 2008 from 26.5% a year before. During the same period, the growth of broad money declined from 29.5% to 18.4%. The coverage by foreign exchange reserves was ample and stood at around 109% for reserve money and 88% for the domestic currency component of broad money at the end of February.

General government balance

Preliminary data shows that the consolidated budget surplus increased by around 18% year-on-year in the first three quarters of 2007, the main contributor being the additional savings recorded by the RS budget. The consolidated fiscal balance for 2007 is estimated between 0 and 1% of GDP (final data not yet available). Expenditures continued to grow strongly, in particular in the FBiH where social benefits rose by almost 24% year-on-year. Overall the public sector wage bill increased by more than 20% year-on-year, mainly driven by the increase of around 24% which took place in the RS. In February 2008, salaries in the RS public sector rose by around 31% in administration and defence, 42% in education and 83% in health and social work against the previous month.

TABLE

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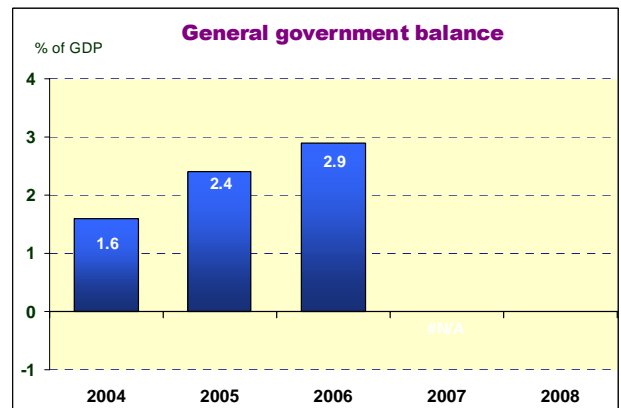
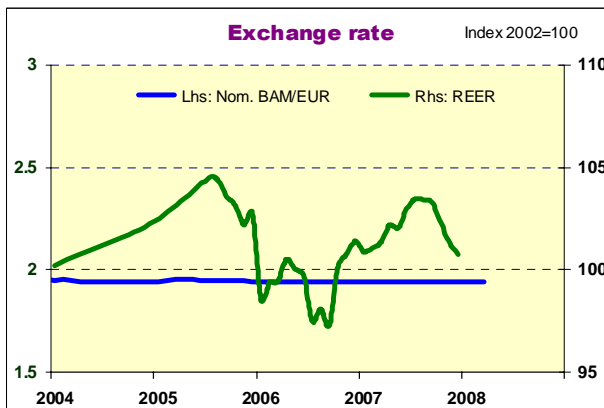
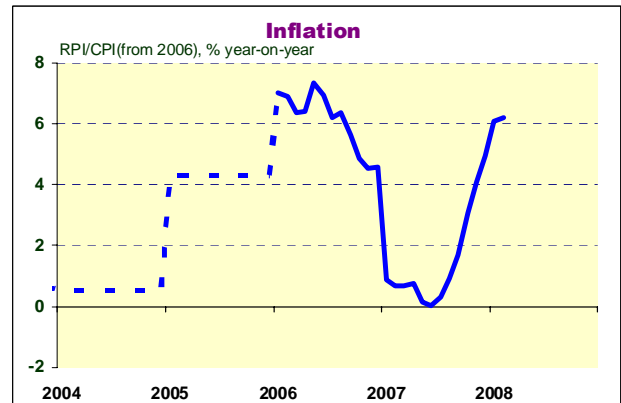
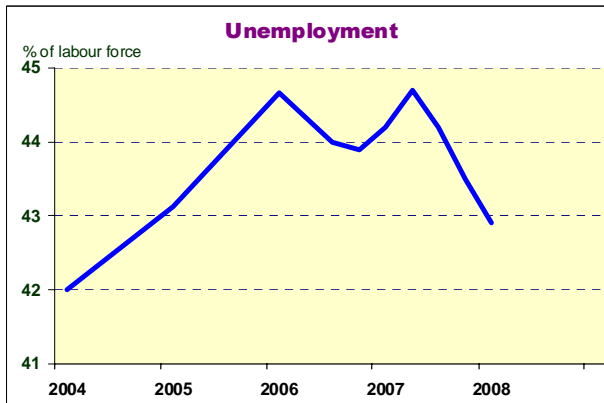
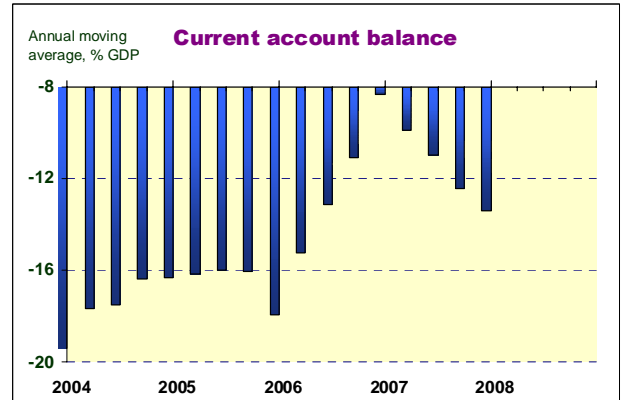
		2003	2004	2005	2006	2007	Q2 07	Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	10.5	11.6	6.4	7.3	5.4	3.5	:	6.8	11.1	:
Gross domestic product ^{1.3}	Ann. % ch	3.0	6.3	3.9	6.7	6.0	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	N.A.	6.2	8.3	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	18.5	-7.6	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	3.0	0.1	-1.0	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	42.0	43.1	44.7	44.2	42.9	44.2	43.5	42.9	:	40.8	:	:
Employment ^{2.2}	Ann. % ch	-0.6	0.8	0.8	2.3	4.4	2.7	3.6	4.4	:	:	:	:
Wages ^{2.3}	Ann. % ch	8.4	4.3	6.1	9.6	9.8	9.9	9.6	10.9	:	10.0	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	11.5	28.7	22.8	30.5	15.0	11.4	12.8	12.6	:	12.0	27.9	:
Imports of goods ^{3.2}	Ann. % ch	6.0	7.6	12.5	1.2	18.7	18.1	14.8	15.0	:	28.2	37.3	:
Trade balance ^{3.3}	% of GDP	-49.5	-45.6	-45.8	-34.8	-38.7	-37.3	-38.8	-39.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	26.1	29.4	32.7	36.7	37.9	37.6	37.9	37.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	-71.6	-70.7	-73.9	-66.4	-71.5	-69.7	-70.6	-71.5	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-19.4	-16.3	-18.0	-8.4	-13.1	-11.0	-12.5	-13.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	4.6	7.0	5.5	5.8	13.7	11.8	12.7	14.0	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	0.6	0.5	4.3	6.1	1.5	0.3	1.0	4.0	:	6.1	6.2	:
GDP Deflator ^{4.2}	Ann. % ch	10.1	2.5	3.3	6.3	4.4	:	:	:	:	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.	4175	7293	7,932	7,898	5,564	:	5,569	5,336	:
M2 ^{5.4}	Ann. % ch	4.8	21.0	17.6	21.6	25.0	27.0	23.8	22.2	:	20.4	18.4	:
Exchange rate BAM/EUR ^{5.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	:	1.96	1.96	1.96
Nominal eff. exchange rate ^{5.6}	Index	97.4	96.4	95.21	95.00	95.47	95.28	95.53	95.66	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	0.7	1.6	2.4	2.9	:	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	27.7	25.5	25.6	21.3	18.5	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA





COMMENTS

Recent political and other developments

On 29 February the parliament elected a new government headed by PM Milo Djukanovic. The new cabinet maintains the structure and members of former PM Zeljko Sturanovic, who resigned on health reasons. The main objective of the new government remains the establishment of an environment favouring economic development and improving the living standards of the country.

The privatisation process continued though with mixed results. The government has launched a series of non-binding bids to grant several seaside locations under long-term lease for high-level tourism facilities. However, the tender for the sale of the Igalo Villa, an accommodation facility on the coast, was cancelled due to restitution claims, and the tender for publisher Pobjeda failed as bidders showed no interest.

On 31 March, the incumbent power utility EPCG launched the restructuration of the company into five separate business units to be integrated vertically into one single energy operator. Later on, these units will be transformed into shareholder companies. Yet, the government is expected to preserve a 55% stake.

Output and demand

The statistical office released GDP figures for 2006, revising upwards previous estimates of real growth to 8.6%. By sectors, services contributed by 58%, industry by 13.8%, and agriculture by 8.4%. The Secretariat for Development has estimated GDP annual growth for 2007 at 7%, supported by the record-high tourist season and the rise in disposable income of households, boosted by the rapid lending expansion, and reflected by turnover of the retail sector increasing by 35% and goods imports by 43% year-on-year.

Industrial output accelerated in February 2008 to 18.9% year-on-year, boosted by the expansion of the utility industry which benefitted from favourable weather conditions for higher hydropower production as well as capital repairs on the thermal power plant. This in addition

stimulated mining output. By contrast, the manufacturing sector recorded a weak increase of 0.2% on the year, reflecting the negative performance of the food industry and deceleration of metal deliveries. Yet, the manufacturing industry recorded a cumulative growth of 4.3% since beginning of the year.

Labour market

In January employment expanded by 5.9% year-on-year, registering 160,450 employed persons. The services sector, with a share of 72% of total employment, recorded the fastest growth, while utility industries witnessed a slight acceleration. The mining and manufacturing sectors reported annual drops in employment. Meanwhile, the unemployment rate slightly fell to 11.8% by the end of March. Yet, the increase by 50% in the number of non-residents employed since beginning of year points to some rigidities in the labour market.

The average real net wage grew in February by an annual 15.1%. Given the accelerating inflation and moderation of nominal salary expansion, the gross average wage increase by 23.5% over the year, amounting to EUR 584. The services sector recorded the highest rise, while some industry workers registered decline in net earnings.

International transactions

In 2007 the trade deficit surged by 79.5% year-on-year to 67% of GDP. Exports of goods decreased by more than 7% on the year reflecting the deterioration of competitiveness of local products but also, the sharp decline by 17% during the year, of the price of aluminium which represents half of total exports. Additionally, imports continued expanding fast by 43% during 2007, fuelled by surging investments and rising incomes boosted by soaring credit. Despite the good outcome of the tourism season, a massive deterioration of the current account balance is therefore expected.

FDI inflows reached EUR 1 billion in 2007, surging by 56% on the year. Yet, concurrent huge outflows, mostly due to real estate sales by foreigners, brought net FDI to 23% of GDP.

Prices

Average annual inflation accelerated to 4.3% in 2007, notably fuelled by a significant increase of food and electricity prices. Moreover, year end inflation increased to 7.7%, pushed upwards mostly by services' prices, and notably, transport and telecommunications. Consumer prices further increased in February to 8% year-on-year. Overall, prices of goods rose by 7.6% while those of services expanded 11.6% year-on-year.

Average industrial production prices reached 8.5% in 2007. By the end of the year they recorded a 14.5% annual rise, moderating later in January 2008 to 11.6% year-on-year, as deceleration was recorded in practically all processing industries with the exception of the food and wood sectors. However, regulated prices in the utility industries increased by 27.7% year-on-year.

Monetary and financial indicators

Total assets of commercial banks in 2007 reached EUR 3 billion, boosted by the impressive expansion of the credit portfolio by 165% year-on-year to 98.6% of GDP. Beginning of 2008 has witnessed a moderation of the lending activity as consequence of administrative measures adopted by the Central Bank to dampen the soaring credit growth.

On 14 February the parliament adopted a new law on banks, providing for a more detailed regulation of the sector. The amendments introduced by the ruling party were strongly criticised by the opposition parties as limiting the supervision authority of the central bank and adopting more lenient requirements concerning corporate governance, interim administration, and transparency regarding banks shareholders and related parties.

On 31 March the Montenegroberza stock market approved the launching of a takeover bid for the acquisition of the other bourse, NEX Montenegro, offering a price 155% above the par value. The establishment of a single and

more efficient single capital market is expected to reduce operational costs and increase the local financial market's attractiveness for foreign investors.

The Securities Commission (KHoV) licensed in March the first voluntary pension fund (Atlas Penzje). According to relevant regulation, it should start operating within a year after receiving the licence. It is expected that the entry of voluntary pension funds will support a more sustainable development of the capital market.

General government balance

The solid economic performance was reflected in the surge of tax collection by 40% in 2007 year-on-year, resulting in a consolidated budget surplus of 8.5% of GDP by year's end. Moreover, the highest increases in fiscal revenues were recorded in corporate income tax (208%) and property tax (102% year-on-year). Yet the major contributor remained VAT, representing 31% of total current revenues. Consolidated expenditures grew more moderately by 16.7% over the year, representing 47% of GDP. The largest expenditure item (gross salaries) rose by 31%. The expenditure structure continued shifting: in particular capital spending increased by 66% over the year, to 7% of GDP.

Fiscal revenues continued in an upward trend in February 2008, growing by 50% year-on-year. Within tax revenues, the twofold expansion of revenues from real estate trade signals the persistent activity of the market. Furthermore, solid economic activity was also confirmed by the twofold expansion of health and unemployment contributions in 2007.

The public debt increased by a nominal 5.1% during 2007 to 32.4% of GDP due to the surge in domestic indebtedness, in particular recognised restitution claims. By contrast, the external public debt was down by 8.3%, following several early repayments to multilateral creditors facilitated by the good fiscal outcome. In March 2008 the government acknowledged unpaid liabilities to pensioners in the amount of EUR 130 million (some 5% of GDP) and dating back from the period July 2002 – December 2003. Yet, reimbursement will not start in the current year as funds have not been appropriated in the 2008 budget.

TABLE

European Commission, ECFIN-D-1



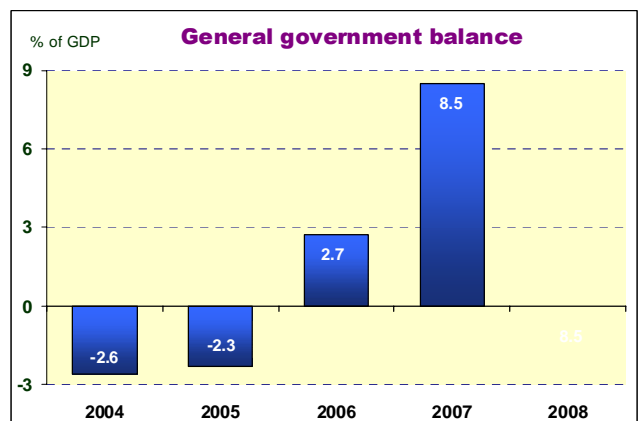
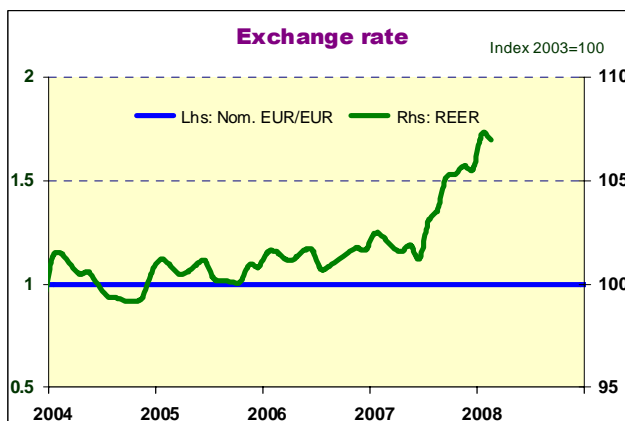
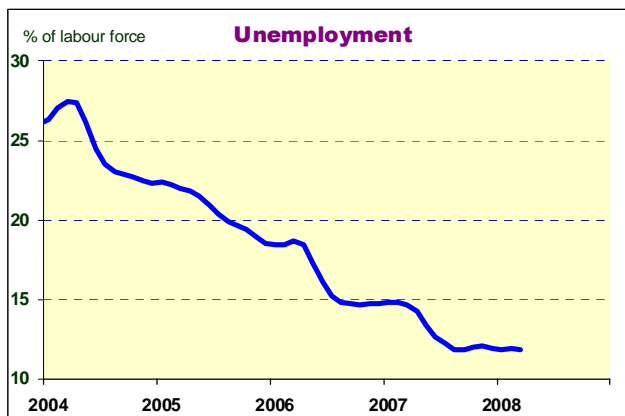
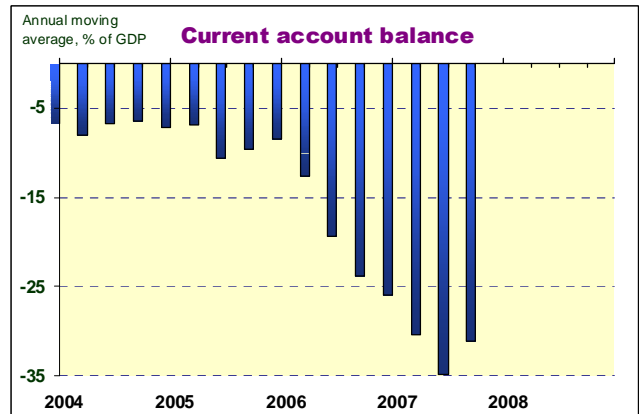
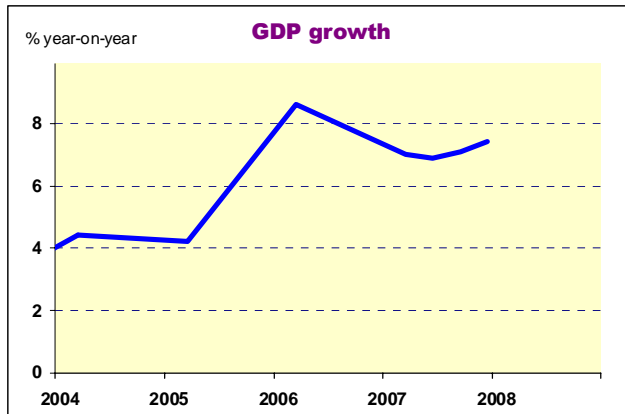
MONTENEGRO

		2003	2004	2005	2006	2007	Q2 07	Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08
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	2.4	13.8	-1.9	1.0	0.1	-4.3	-3.1	13.8	:	13.1	18.9	:
Gross domestic product ^{1.3}	Ann. % ch	2.5	4.4	4.2	8.6	7.0	6.9	7.1	7.4	:	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.
Gross fixed capital formation ^{1.6}	Ann. % ch	:	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	2.1	-0.5	-0.3	3.6	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	26.0	22.3	18.5	14.7	11.9	12.7	11.8	11.9	11.8	11.9	11.9	11.8
Employment ^{2.2}	Ann. % ch	-3.3	29.9	2.0	3.8	5.6	4.3	2.5	5.6	:	5.9	:	:
Wages ^{2.3}	Ann. % ch	N.A.	11.7	8.0	15.6	14.2	10.9	14.7	20.3	:	26.2	23.5	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	-16.1	67.1	1.9	40.7	-7.6	-7.7	-3.4	-37.1	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	-15.7	37.9	12.2	53.7	42.5	37.6	25.3	56.6	:	:	:	:
Trade balance ^{3.3}	% of GDP	-23.8	-24.9	-28.3	-39.5	-67.4	-52.6	-54.5	-67.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	30.6	42.0	43.5	49.4	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	47.0	58.1	61.1	79.1	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-6.8	-7.2	-8.5	-23.8	:	-34.9	-31.1	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.6	3.0	21.0	21.7	23.0	28.0	24.7	23.0	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	6.8	2.2	2.4	3.0	4.3	2.1	5.1	7.4	:	7.9	8.0	:
GDP Deflator ^{4.2}	Ann. % ch	8.5	6.2	4.5	9.8	-1.0	20.3	19.2	-6.3	:	N.A.	N.A.	N.A.
Producer prices ^{4.3}	Ann. % ch	4.6	5.8	2.1	3.1	8.5	6.8	10.6	13.0	:	11.6	:	:
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.	N.A.	10.58	1.20	1.21	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	9.98	3.09	1.17	0.90	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,000	1758	5670	14406	36159	42973	41550	35017	29490	31795	29573	27101
M21 ^{5.4}	Ann. % ch	-0.3	10.6	58.7	82.9	71.8	116.7	98.4	71.8	:	:	:	:
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	-2.4	-2.6	-2.3	2.7	8.5	4.0	8.2	8.5	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	47.1	44.5	38.6	32.6	32.4	33.7	33.9	32.4	:	N.A.	N.A.	N.A.

CHARTS



MONTENEGRO



SERBIA



COMMENTS

Recent political and other developments

On 3 February, the incumbent president and leader of the Democratic Party (DS), Boris Tadic won the second round of presidential elections with 50.6% of votes against the deputy leader of the Serbian Radical Party (SRS), Tomislav Nikolic, who received 47.7% of votes.

On 17 February, the Kosovo Parliament approved at an extraordinary session with overwhelming majority the declaration of independence, triggering strong reactions in Serbia, including violent protests in Belgrade and Serb dominated parts of Kosovo.

On 8 March, the government under Prime Minister Kostunica collapsed on insurmountable differences within the government coalition over Serbia's policy towards Kosovo and EU integration. On 13 March, President Tadic dissolved the 10-month-old parliament and scheduled early elections for 11 May.

On 11 March, Standard & Poor's Ratings Services revised its outlook on the Republic of Serbia to negative from stable, due to heightened political risk following the collapse of the Serbian government. At the same time, the long-term 'BB-' and short-term 'B' sovereign credit ratings were affirmed.

On privatisation, a majority stake of oil and gas conglomerate NIS was sold for EUR 400 million to Gazprom of Russia. The financially controversial deal also includes the construction of parts of the South Stream gas pipeline through Serbia and the construction of an underground gas storage facility. The launch of several planned tenders (for Zastava and Lasta) were postponed to due to political uncertainty.

Output and demand

During the fourth quarter of 2007, GDP growth slightly moderated to 6.9% year-on-year, from 7.5% year-on-year in the third quarter of 2007. For the whole year, the economy expanded by 7.5% compared to 5.7% a year earlier. Following a strong performance during the first 6 months of 2007, the Serbian economy slowed somewhat during the second half of the year.

The demand effect of strongly rising real salaries across the economy and consequently higher private consumption appears to have slowed in the course of the year. In addition, export growth continued to slow during the fourth quarter to 24% year-on-year. At the same time, imports grew at 25%, stronger than exports for the first time in almost three years.

Economic growth remained driven by the service sector, in particular wholesale and retail trade, transportation and telecommunication, as well as financial intermediation. Growth of industrial production slowed to 0.7% year-on-year during the fourth quarter of 2007 compared to 3.9% in the third quarter. Industrial output however, recovered during the first two months of 2008, expanding at 4.0% and 12.2% year-on-year in January and February, respectively.

Labour market

Labour market conditions remained difficult and employment continued to decline during the fourth quarter by 1% year-on-year, a trend which continued during the first two months of 2008. However the number of unemployed persons also declined during the same period to a rate of 18.9% of the total number of work force. The implementation of the new Law on Health Insurance and Health Protection in January 2007 which resulted in a transfer of about 90,000 unemployed persons from the registry of the National Employment Service to the registry of the Republican Health Insurance may be to blame for some recent inconsistency in labour market data.

Wage growth continued to slow down during the fourth quarter, but remained strong nevertheless. Gross wages grew by 19.8% year-on-year, compared to 21.7% in the second quarter. Due to an acceleration of inflation, real wage growth slowed more pronounced during the same period. In January 2008, real wage growth slowed to 3.7% year-on-year but accelerated again in February 2008 to 8.3% year-on-year.

International transactions

During the fourth quarter of 2007, exports of goods and services declined to 26.4% of GDP while imports grew to 49.1% of GDP, contributing to a widening of the current account deficit to an annualized 18.9% of GDP. For the whole year of 2007, the current account deficit reached 16% of GDP deficit compared to 11.5% of GDP a year earlier, driven by a growing deficit in the traded balance and a decline in current transfers.

Capital inflows slowed during 2007 to 21% of GDP, compared to 30% of GDP in 2006. FDI declined strongly to 5.1% of GDP compared to 13.8% of GDP a year earlier. Financing from medium- and long-term loans grew to 10% of GDP, from 9% of GDP in 2006. As a result of the slowdown in capital inflows, foreign exchange accumulation of the National Bank of Serbia fell to 3% of GDP from 17% a year earlier.

External debt stood at EUR 17.5 billion, accounting for 62% of GDP at end-January 2008. For 2007, private and public sector external debt accounted for 41% and 21% of GDP, respectively.

Prices

Retail price inflation accelerated to 9.1% year-on-year during the fourth quarter, from 6.5% during the third quarter. This trend continued during the first three months of 2008 when inflation accelerated to 11.3% year-on-year. The recent acceleration of inflation, which had started during the second half of 2007, was mostly driven by strong gains in prices for food stuff, related to the local drought as well as growing prices for crude oil derivatives in world markets. However, strong domestic demand, related to robust credit expansion and strong wage growth may have contributed to the recent pickup in price trends as well.

Core inflation also re-accelerated during the second half of 2007 and the first few months of 2008, and reached 6.5% year-on-year in February 2008, above the 3-6% target band for core inflation of the National Bank of Serbia (NBS).

Monetary and financial indicators

Monetary tightening which had started end-December 2007 continued during the first quarter of 2008. The National Bank of Serbia (NBS) increased the main policy rate by 75 basis points twice in February, followed by a somewhat surprisingly strong 300 basis points hike on 13 March. Since the beginning of the current tightening cycle the main policy rate has been increased by 500 basis points to 14.5%, to stem rising inflationary pressures, and also to counter a somewhat looser fiscal policy stance and to help support the local currency in the foreign exchange market, which had come under pressure in February.

The euro-dinar rate rose by 5.8% from 79.24 at end-December to 83.83 at end-February prompting the NBS to intervene in the market to support the dinar, however with only limited amounts. The exchange rate recovered to 82.31 by end-March.

During the first quarter of 2008, the stock market continued its decline, with the broader market index BELEXline losing 20% in value by end-March.

Monetary aggregates continued to grow robustly during the fourth quarter of 2007 and the first few months of 2008. The 12-month moving average of M2 and dinar reserve money grew in February 2008 by 43.6% and 25.4% year-on-year, respectively.

Credit growth continued to re-accelerate during the fourth quarter of 2007 with the 12-month moving average reaching 26% year-on-year in December 2007.

General government balance

For the whole year of 2007, the consolidated general government budget recorded a surplus of EUR 136 million on the back of a strong revenue performance (plus 16% year-on-year) driven by the robust economic developments as well as the one-off revenue from the sale of the third mobile license in early 2007. However, expenditures grew even faster at 20.4% year-on-year resulting in a declining surplus by some EUR 300 million, compared to a year earlier. For January 2008, the consolidated government budget recorded a surplus of EUR 225 million.

TABLE

European Commission, ECFIN-D-1



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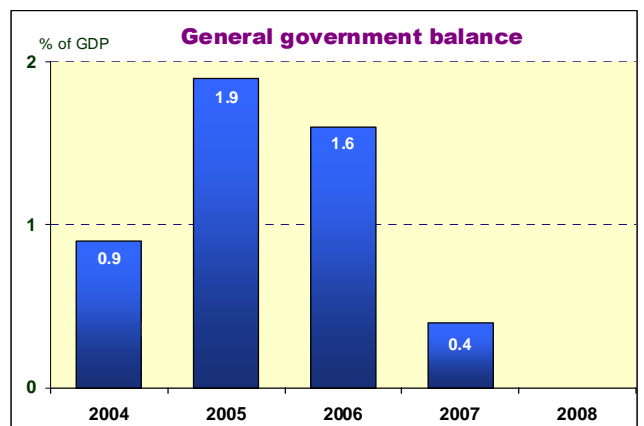
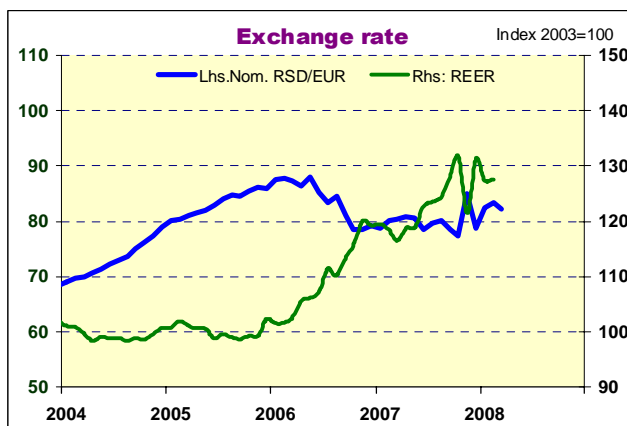
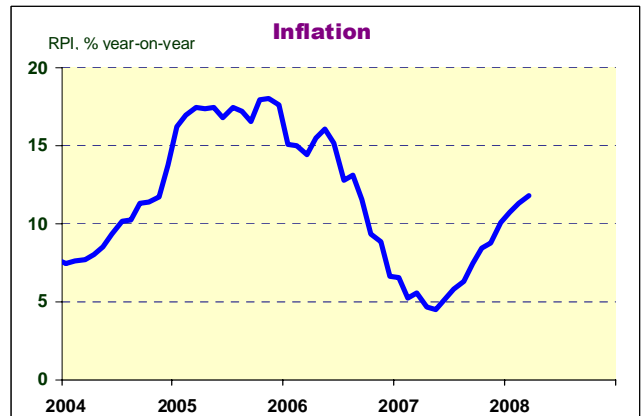
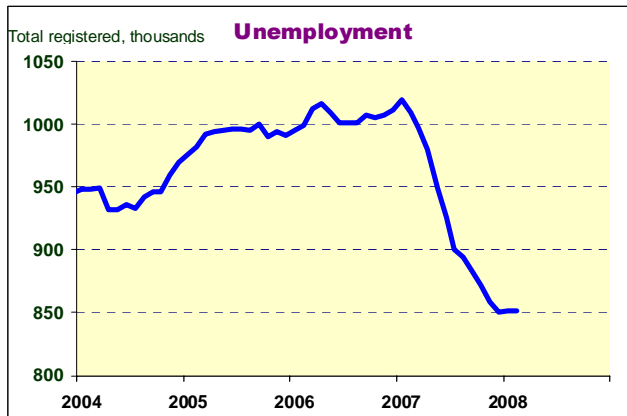
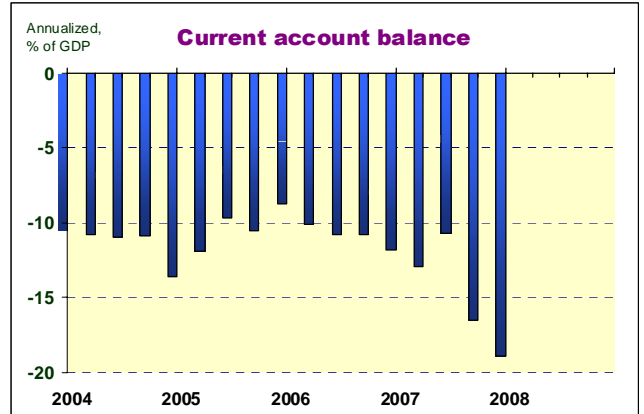
		2003	2004	2005	2006	2007	Q2 07	Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	-3.0	7.0	0.8	4.7	3.7	5,6	3.9	0.7	:	4.0	12.2	N.A.
Gross domestic product ^{1.3}	Ann. % ch	2.5	8.4	6.2	5.7	7.5	7.6	7.5	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	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	6.6	14.3	9.2	7.4	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	16.0	19.5	21.8	21.6	18.8	20.6	19.6	18.9	:	19.0	19.1	:
Employment ^{2.2}	Ann. % ch	-2.7	0.4	-6.7	-3.8	1.0	-0.9	-0.8	-1.0	:	-0.8	-0.6	:
Wages ^{2.3}	Ann. % ch	25.3	23.7	24.1	24.4	22.1	22.6	21.7	19.8	:	16.5	22.7	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	32.8	27.8	27.2	43.4	37.3	39.1	35.7	30.0	:	28.3	:	:
Imports of goods ^{3.2}	Ann. % ch	33.2	43.8	-2.7	25.9	40.9	32.7	36.5	43.8	:	34.1	:	:
Trade balance ^{3.3}	% of GDP	-29.3	-29.5	-22.8	-22.2	-21.2	-22.3	-18.8	-22.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.0	22.7	25.1	27.1	27.4	27.7	28.3	26.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	43.2	48.4	45.2	46.9	48.1	47.7	46.7	49.1	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-7.5	-11.7	-8.4	-11.5	-16.0	-10.7	-16.5	-18.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	7.2	3.9	5.9	13.8	5.1	-2.5	5.2	7.9	:	N.A.	N.A.	N.A.
4 Prices													
RPI ^{4.1}	Ann. % ch	11.7	9.8	17.3	12.7	6.8	4.7	6.5	9.1	11.3	10.7	11.3	11.8
GDP Deflator ^{4.2}	Ann. % ch	12.1	12.7	15.1	14.9	:	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	4.6	9.1	14.2	13.3	5.9	4.4	5.1	8.5	:	11.0	11.5	:
Import prices ^{4.4}	Ann. % ch	15.3	21.4	5.7	4.0	:	6.0	8.6	16.4	:	16.9	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	21.16	17.54	13.48	6.44	6.41	5.65	4.74	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:
Stock markets ^{5.3}	Index	N.A.	N.A.	1,954	2,658	:	4,456	4,431	:	:	:	:	:
M3 ^{5.4}	Ann. % ch	27.8	31.9	42.1	38.9	41.2	38.4	40.1	44.1	:	:	:	:
Exchange rate RSD/EUR ^{5.5}	Value	65.29	73.10	83.25	83.91	79.90	80.01	79.51	80.35	82.77	82.50	83.48	82.34
Nominal eff. exchange rate ^{5.6}	Index	98.2	92.4	87.6	88.8	108.1	106.0	108.1	111.7	:	108.1	106.8	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-1.1	0.9	1.9	1.6	0.4	0.7	-0.2	-1.6	:	0.7	:	:
General government debt ^{6.2}	% of GDP	70.9	56.7	52.9	38.8	28.7	31.3	29.6	28.7	:	29.9	:	:

CHARTS



European Commission, ECFIN-D-1

SERBIA



KOSOVO*

*as defined by UNSCR 1244

COMMENTS

Recent political and other developments

On 17 February 2008, the parliament adopted the Declaration of Independence in which Kosovo commits to fully implement the Comprehensive Proposal of Mr. Ahtisaari of 26 March 2006. A Constitution is currently being drafted and scheduled for a parliamentary vote in June. So far, more than 30 countries have recognized the Republic of Kosovo, among them the majority of EU Member States, the U.S. and Japan. On 28 February, the International Steering Group has installed along the lines of the Ahtisaari Plan the International Civilian Representative (ICR), Mr. Pieter Feith, together with his office (ICO). However, the exact phasing out of UNMIK is still under discussion. Also, Northern Mitrovica is de-facto administrated by Serbia and security of internationals can only be provided by the NATO troops of KFOR. The EU continued the preparations for its rule of law mission EULEX and the international donor community proceeded with technical preparations for a donor conference expected to be held in June.

The Serbian government coalition has broken up over differences on how to react to Kosovo's declaration of independence. General elections are scheduled for 11 May.

Output and demand

Almost nine years after the end of the conflict of 1999, IMF estimates remain the main source of information on macroeconomic developments as the local production of national accounts and other statistical data is still suffering from a lack of availability and quality of primary statistics. The IMF is currently revising the Kosovo GNI and GDP estimates. Revised figures are expected to be around 30% higher, mainly reflecting higher households' own production (and consumption of this own production) which has been underestimated on the basis of data from the household budget survey. For 2006 and 2007, the latest macro-estimates of the IMF point to GDP growth of 2.6% and 2.8%, respectively.

Overall, growth seems to have become more robust compared to previous years, but it remains low compared to other countries in the region and considering the very low starting point. Whether Kosovo will be able to close the gap with growth rates of other countries in the region will strongly depend on favourable political developments, both domestically and regionally, and on a successful increase in administrative capacity in the public sector which in the recent past repeatedly did not manage to spend available resources.

Labour market

The number of registered job seekers continued to increase in 2007 to 335,000 persons at year-end, up 2.6% compared to 2006. With growth rates just below 3%, the economy cannot absorb the additional labour supply of a young and growing labour force. While in the private sector new jobs were created, the restructuring efforts in the public sector led to less job creation in 2007 than in previous years. The ongoing downsizing of the international presence (contrary to UNMIK, the future international presence in the form of EULEX and ICO will create limited demand for local labour) will add to the difficult labour market situation especially in the capital Pristina. However, it could also have positive effects in the sense of a much needed downward adjustment of local prices, wages and rents.

The informal economy remains sizable and seems to employ a significant share of the officially unemployed as well. Roughly 60% of the officially unemployed are unskilled. Young people and ethnic minorities are also more likely to be unemployed than other groups. Long-term unemployment remains particularly high, indicating the limited dynamism and wage flexibility of Kosovo's economy and labour market.

The unemployment rate is estimated at around 45%.

International transactions

Despite a sharp increase of exports, the trade deficit (goods only) widened to 57.8% of GDP in 2007, due to the very weak export base. The 12-month moving average of the coverage ratio (exports in percent of imports) improved somewhat to 9.8% in January 2008.

The most recent IMF estimates see the current account deficit for 2007 at 35.6% before accounting for foreign assistance and at 21.9% of GDP including foreign assistance. This corresponds to a further increase in the external imbalance by more than 3% of GDP in both views. However, this increase is almost exactly matched by increases in both FDI and remittances.

In 2007, FDI increased to 12.8% of GDP, after 10.5% in 2006. However, in the first two months of 2008, the pace of privatisation activity slowed dramatically and it is uncertain how fast it can resume against the background of the ongoing transfer of authority from UNMIK to local authorities. At 13.8% of GDP, remittances continued to be the main source of financing the current account deficit in 2007, after 12.7% in 2006.

Kosovo currently does not assume any sovereign debt servicing obligations as Serbia continues to service Kosovo's share of public external debt. However, Kosovo has started preparing for taking over its share of sovereign debts currently serviced by Serbia, e.g. by earmarking funds for notional debt servicing in its medium-term budget planning.

Prices

Inflation remained high as prices for bread and other food items continued to accelerate through the first two months of 2008 and contributed close to 10 percentage points to the annual growth rate of 11.2% in February. However, the upward level shift in consumer prices which had started in August 2007 seems to near its completion as monthly rates are back to normal (0.4% in February compared to January).

As expected, average annual inflation reached 4.5% in 2007, after 0.6% in 2006.

Monetary and financial indicators

With Kosovo's monetary framework anchored on the use of the euro as legal tender, the Central Banking Authority of Kosovo cannot pursue an independent monetary policy. However, it carries out some central banking tasks such as the supervision of the financial sector. It closely monitors credit growth and liquidity in the banking sector, with liquidity ratios and reserve requirements being its main tools of intervention.

Despite conservative prudential requirements, annual credit growth remained high at 41% in December 2007 (loans to non-financial corporations), and 37% (loans to private households), respectively. The interest rate spread continues to be high as well (10.5 percentage points in the last quarter 2007), partly reflecting political uncertainty and weak rule of law.

General government finance

The execution of the 2007 budget was characterised by a one-off exceptional revenue of EUR 75 million for the licence of a second mobile phone operator, higher revenue collection (43% higher than planned) and a chronically weak spending record, especially on capital items, which lead to expenditures 13% lower than planned. This unbalanced budgetary development has led to a government surplus of 9.5% of GDP in the fiscal year 2007.

Accordingly, the cash balance of the government rose from around EUR 200 million at the beginning of 2007 to EUR 434 million by the end of the year 2007. However, the high budget surplus may turn out to be of a quite temporary nature. The underlying structural budgetary position is considered to be substantially weaker and is subject to substantial budgetary risks.

The 2008 budget foresees expenditures of EUR 1,111 million and revenues of EUR 859 million with capital spending more than doubling compared to the 2007 budget. However, the structure of the budget was mostly inherited from the previous government and may not correctly reflect spending priorities and capital spending capacities. This mismatch shall be addressed in a substantial mid-term budget revision foreseen for July on the basis of government priorities as reflected in the revised Medium Term Expenditure Framework 2009-2011 which the government intends to adopt by the end of April.

TABLE

European Commission, ECFIN-D-1

KOSOVO*

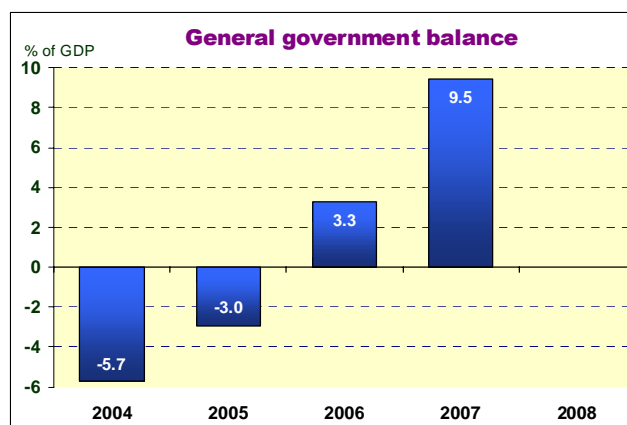
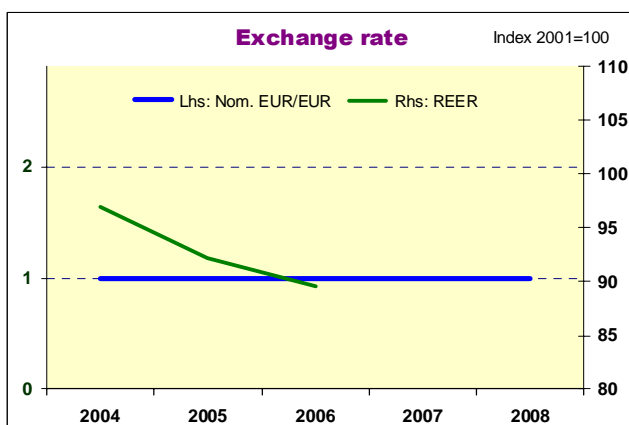
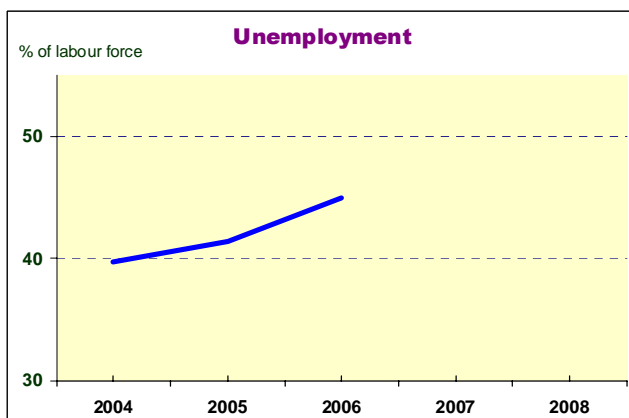
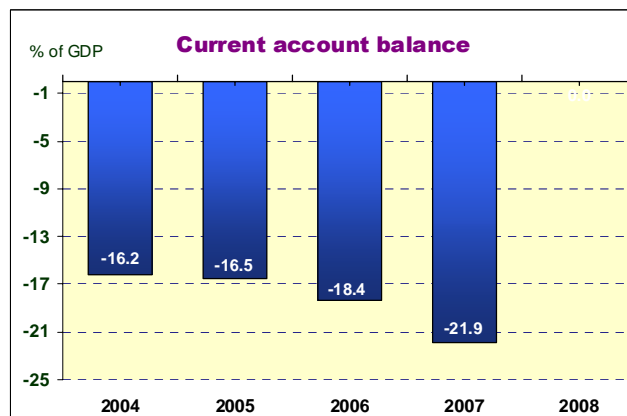
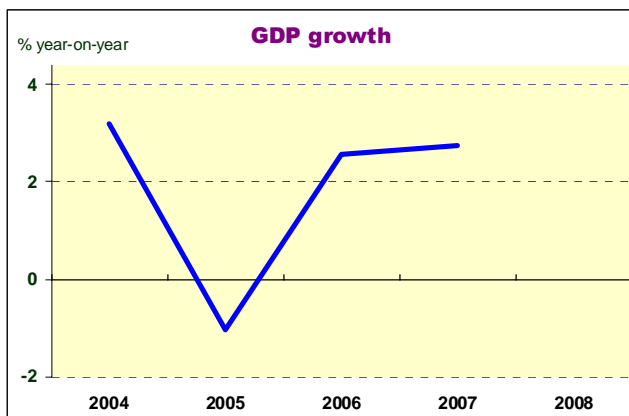
		2003	2004	2005	2006	2007	Q2 07	Q3 07	Q4 07	Q1 08	Jan 08	Feb 08	Mar 08
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	-0.1	3.2	-1.0	2.6	2.8	:	:	:	:	:	:	:
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	1.9	3.4	5.7	3.9	5.2	:	:	:	:	:	:	:
Investment (Gross fixed cap form) ^{1.6}	Ann. % ch	-7.4	12.3	-6.2	10.6	14.9	:	:	:	:	:	:	:
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
2 Labour market													
Unemployment ^{2.1}	%	49.7	39.7	41.4	44.9	:	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	-24.8	4.7	-4.6	:	:	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	2.0	9.3	8.5	N.A.	:	:	:	:	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	29.1	58.8	-0.5	96.8	33.0	9.0	48.5	55.9	:	442.6	:	:
Imports of goods ^{3.2}	Ann. % ch	13.9	9.3	8.9	12.8	20.7	9.9	24.9	14.9	:	31.2	:	:
Trade balance ^{3.3}	% of GDP	-37.6	-42.9	-48.2	-51.0	-57.8	-55.3	-57.6	-58.5	:	-41.8	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	12.0	10.2	10.0	12.4	13.9	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	56.1	51.3	56.0	61.8	67.4	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-10.1	-16.2	-16.5	-18.4	-21.9	:	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.8	0.9	3.6	10.5	12.8	:	:	:	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	1.2	-1.1	-1.4	0.6	4.5	0.8	4.9	10.7	:	10.7	11.2	:
GDP Deflator ^{4.2}	Ann. % ch	1.2	-2.4	-1.7	-0.1	2.8	:	:	:	:	:	:	:
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.	14.60	15.70	15.60	15.47	:	:	16.15	:	:	:	:	:
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	20.7	43.6	21.0	5.5	:	18.0	18.4	:	:	:	:	:
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	-3.0	-5.0	-2.8	:	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	2.5	-5.7	-3.0	3.3	9.5	2.4	4.0	0.0	:	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.

* as defined by UNSCR 1244

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. EUR	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP. Annual data	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, including official transfers	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	Ecwin/Reuters
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	
4.3.	Producer prices	Annual percentage change, Total, index (1998)	Ecwin/Reuters
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	Ecwin/Reuters
5.2.	Bond yield	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	External public debt only	CBBH



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	In percent of GDP	SORS
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 annual LFS and adjusted on the basis of monthly/quarterly changes of data on registered unemployment.	SORS
2.2.	Employment	Annual percentage changes are based on LFS. Monthly and quarterly percentage changes (period of year in relation to the same period of previous year) data are based on official data on registered employment.	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, Ecwin
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, Ecwin
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	NBS, Ecwin
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, RSD	NBS
5.2.	Bond yield	Not available	
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	Ecwin/Reuters
5.4.	M3	Annual percentage change, M3 (broad money), RSD	NBS
5.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Period average, moving base year, RSD	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

KOSOVO*

*as defined by UNSCR 1244

Explanatory notes

No.	Indicator	Note	Source
1.	Output and demand		
1.1.	Industrial confidence indicator	Not available.	
1.2.	Industrial production	Not available.	
1.3.	Gross domestic product	Annual percentage change.	IMF
1.4.	Consumer confidence indicator	Not available.	
1.5.	Private consumption	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.	