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***EU CANDIDATE AND
PRE-ACCESSION COUNTRIES
ECONOMIC QUARTERLY***

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EU CANDIDATE AND PRE-ACCESSION COUNTRIES ECONOMIC QUARTERLY

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*as defined by UNSCR 1244

OVERVIEW

The first shock waves from the **international economic and financial crisis** reached EU candidate and potential candidate countries during the third and fourth quarters of 2008.

GDP growth continued to slow markedly in the third quarter due to weaker external and domestic demand. In Croatia, growth slowed to 1.6% from 3.4% in Q2 and 5.6% in 2007, mainly due to lower consumption. In Turkey, one of the most affected countries, GDP growth was a mere 0.5% in Q3 compared to 2.3% in Q2 and 4.6% in 2007. The slowdown in the world economy, particularly in the EU, their main export market, is hurting demand in some sectors important for exports, such as the steel and car manufacturing industry (the latter being particularly important for Turkey). Indicators of economic activity suggest a further considerable deterioration of economic performance in the fourth quarter of 2008. Turkey, in particular, may have experienced negative GDP growth.

The slowdown in activity combined with lower energy and food prices is leading to a decline in the current account deficits. Until the end of the third quarter, current account deficits remained high, ranging from 6% of GDP in Turkey to 35.4% of GDP in Montenegro. However, high frequency indicators suggest that in the fourth quarter current account developments may have started to reverse.

In November, the trade balance in BiH improved for the first time in two years. In Turkey, imports are slowing dramatically and the current account deficit is expected to narrow considerably in the coming year. As regards the financing side, the structure of capital inflows has deteriorated, particularly in Croatia, Turkey, and Serbia, due to a decline in FDI inflows and an increase in external debt, particularly by the non-banking corporate sector.

Despite the ongoing adjustment in current account deficits, external financing needs remain high in most countries. This is particularly true for the non-banking corporate sector, which has accumulated large liabilities in recent years, particularly in Turkey, Croatia and Serbia, and needs now to roll over a considerable amount of debt. This is a source of concern in the current context of scarce credit and constrained liquidity in global financial markets.

On the positive side, prices for energy and agricultural products continued their downward adjustment since July. As a result, **inflation has come down** from double-digit figures in some countries to much more moderate levels, in most cases also helped by stable monetary and exchange rate frameworks. In November, inflation as measured by the change in the CPI ranged from 2.6% in Albania and Kosovo to 10.8% in Turkey, but it is expected to decelerate further in the near term.

Unemployment rates continued their downward trend in most candidate and potential candidate countries in the third quarter 2008 and into the fourth quarter (Croatia, BiH, fYRoM, Montenegro, Albania), with the important exception of Turkey, where the unemployment rate was significantly higher in September compared to 2007, and where this can be reasonably related already to the economic slowdown.

Against this background, the countries in the region were faced with **considerable policy challenges in the second half of 2008**. In October, several countries had to face a confidence crisis in the banking system with depositors withdrawing substantial amounts of funds (BiH, Serbia, Montenegro), but this crisis was managed successfully. An important confidence building measure consisted in raising the level of guaranteed savings deposits. Central banks provided commercial banks with additional liquidity, e.g. by lowering reserve requirements and/or lowering costs of refinancing (with the exception of Serbia where the benchmark rate had to be raised drastically in an effort to stabilize the exchange rate). The banking sector, which is largely foreign owned, benefitted from state guarantees granted in parent banks' home countries, which had a clear stabilizing effect on affiliated institutions in the countries of the region. Serbia agreed on a precautionary Stand-By arrangement with the IMF and Turkey is currently negotiating a regular Stand-By arrangement.

On the fiscal side, the economic crisis makes fiscal reform even more urgent, but in some cases the response has not always been the most appropriate. The former Yugoslav Republic of Macedonia and Kosovo have adopted expansionary 2009 budgets that do not seem appropriate in view of the high current account deficits. In Turkey and Montenegro, the 2009 budgets are based on overly optimistic

growth assumptions and may need to be revisited. The significant external imbalances and the limited fiscal space faced by most countries call for a prudent fiscal response and a restructuring of public expenditures through a reduction in the share of current outlays (e.g. subsidies to loss making public enterprises) and an acceleration of public investment projects, notably in health, education and infrastructure, as well as better targeted income support schemes.

Summing up, the spill over of the current global economic crisis has started to affect the

economies of the EU candidate and potential candidate countries. While the financial sector has remained relatively stable, it is now clear that most countries will experience a sharp slowdown in growth in the near term as a result of weaker demand and lower sources of finance, particularly FDI and credit. This is leading to a decline of the current account deficits and further adjustments should be expected. However, the external financing needs remain high, particularly for the non-banking corporate sector. This adds to the economies' vulnerability in the current context of scarce credit and constrained liquidity in global financial markets.

Candidate and potential candidate countries: Summary table

	2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
Gross domestic product (in real terms, annual % change)											
Croatia	4.3	4.3	4.8	5.6	:	3.4	1.6	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	4.1	4.1	3.9	5.0	:	6.2	5.5	:	n.a.	n.a.	n.a.
Turkey	9.4	8.4	6.9	4.6	:	2.3	0.5	:	n.a.	n.a.	n.a.
Albania	5.7	5.7	5.5	6.0	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	6.3	3.9	6.7	6.8	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	4.4	4.2	8.6	10.7	:	8.0	8.0	:	n.a.	n.a.	n.a.
Serbia	8.2	6.0	5.6	7.1	:	6.3	4.9	:	n.a.	n.a.	n.a.
Kosovo*	3.4	3.9	4.0	4.1	:	:	:	:	n.a.	n.a.	n.a.

Unemployment (LFS, in % of workforce)											
Croatia	:	:	:	9.6	:	13.2	12.4	:	12.9	13.2	:
The former Yugoslav Republic of Macedonia	37.2	37.3	36.0	34.9	:	33.8	33.0	:	:	:	:
Turkey	10.3	10.2	9.9	9.9	:	8.9	9.8	:	:	:	:
Albania	14.7	14.3	13.9	13.4	:	13.0	12.6	:	:	:	:
Bosnia and Herzegovina 2.1	43.1	44.7	44.2	42.9	:	41.0	40.5	:	40.3	:	:
Montenegro	22.3	18.5	14.7	11.9	10.7	11.0	10.7	10.7	10.7	10.8	10.7
Serbia	19.5	21.8	21.6	18.8	:	13.0	12.5	:	12.2	12.6	:
Kosovo* 2.1	39.7	41.4	44.9	43.0	:	:	:	:	:	:	:

Current account balance (% of GDP)											
Croatia	-5.2	-6.4	-7.9	-8.7	:	-10.6	-12.3	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-8.4	-2.6	-0.9	-3.0	:	-11.1	-12.9	:	n.a.	n.a.	n.a.
Turkey	-3.6	-4.6	-6.1	-5.8	:	-6.2	-6.0	:	n.a.	n.a.	n.a.
Albania	-5.8	-8.9	-6.5	-10.5	:	-12.6	-13.2	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-16.3	-17.3	-7.8	-12.6	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	-7.2	-8.5	-24.7	-29.4	:	-33.9	-35.4	:	n.a.	n.a.	n.a.
Serbia	-13.4	-8.3	-9.4	-14.9	:	-20.7	:	:	n.a.	n.a.	n.a.
Kosovo*	-13.0	-13.0	-13.6	-17.0	:	:	:	:	n.a.	n.a.	n.a.

Inflation (Consumer price index, annual % change)											
Croatia	2.0	3.3	3.2	2.9	:	6.5	7.4	:	6.0	4.7	:
The former Yugoslav Republic of Macedonia	-0.4	0.5	3.2	2.3	8.3	9.9	8.4	5.5	7.1	5.2	4.1
Turkey	8.6	8.2	9.6	8.8	10.4	10.3	11.7	10.9	12.0	10.8	10.1
Albania	2.9	2.4	2.4	2.9	:	4.2	3.0	:	2.8	2.6	:
Bosnia and Herzegovina	0.5	4.3	6.1	1.5	:	8.4	9.4	:	7.3	5.5	:
Montenegro	2.2	2.4	3.0	4.3	:	10.0	9.2	:	7.8	6.5	:
Serbia (RPI)	9.8	17.3	12.7	6.8	10.7	11.9	10.7	8.9	10.5	9.2	6.8
Kosovo*	-1.1	-1.4	0.6	4.4	:	13.9	9.8	:	4.5	2.6	:

General government balance (% of GDP)											
Croatia	-4.1	-3.8	-2.2	-1.8	:	:	:	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	0.0	0.2	-0.5	0.6	:	0.2	3.0	:	n.a.	n.a.	n.a.
Turkey	-4.5	-0.6	-0.1	-1.2	:	:	:	:	n.a.	n.a.	n.a.
Albania	-5.1	-3.5	-3.3	-3.5	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	1.6	2.4	2.9	1.3	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	-2.6	-2.3	2.7	6.4	:	2.8	4.3	:	n.a.	n.a.	n.a.
Serbia	0.9	0.9	-1.6	-2.0	:	-0.8	-0.3	:	n.a.	n.a.	n.a.
Kosovo*	-4.5	-3.0	2.4	7.1	:	1.2	:	:	n.a.	n.a.	n.a.

*as defined by UNSCR 1244

CROATIA



COMMENTS

Recent economic and political developments

The global financial crisis and economic slowdown in Croatia's main trading partners has started to affect the Croatian economy. Growth decelerated markedly, external imbalances widened and economic prospects have become much bleaker. The large stock of external debt and important short-term financing needs of the government and corporate sector are key challenges against the background of much tighter financing conditions and a possible slowdown in capital inflows. Meanwhile, the financial sector remained stable with the mostly foreign-owned banking sector still benefiting from earlier recapitalisations.

The EU enlargement package of 5 November included a conditional roadmap for the finalisation of accession negotiations by end-2009, which requires substantial reforms by the Croatian authorities.

The intergovernmental conference on 19 December agreed to open one negotiation chapter (public procurement) and to provisionally close three (Intellectual Property Rights, Information Society and Media and Economic and Monetary Policy). The opening and provisional closing of a further 11 chapters had been prepared, but was blocked by a Slovene veto, motivated by open border issues.

The draft budget 2009 was adopted by Parliament in mid-December. It foresees a reduction of the general government deficit to 0.9% of GDP, contrary to earlier intentions expressed by the Prime Minister and the Minister of Finance to balance the budget with a view to reducing significant financing requirements in 2009.

Output and demand

In the third quarter of 2008, real GDP growth slowed considerably to 1.6% year-on-year, down from 3.4% in the previous quarter. This brought average real growth in the first three quarters of 2008 to 3%, down from 6.2% in the same period

of 2007. The growth slowdown in the third quarter came on the back of markedly slower household consumption. Investment growth came down, too, but remained the main contributor to GDP growth. From the supply side, growth remained mainly driven by construction activity, financial services and tourism.

Recently published high frequency indicators suggest a further considerable deterioration of economic performance in the fourth quarter of 2008. In October, real retail trade contracted by 2.5% year-on-year. Industrial production fell by 0.7% in October and by 3.5% in November.

Labour market

The officially registered unemployment rate increased to 13.2% in November, from 12.9% in October, partly due to seasonal effects. In November 2007, the unemployment rate stood at 14.2%. Total employment growth slightly decelerated to 0.3% year-on-year in November, bringing the average employment growth in the first eleven months to 1%. However, official employment data often underestimate labour market dynamics and are often subject to revisions. Data from the labour force survey confirm relatively favourable trends for the first half of 2008. It reported a decline in the unemployment rate to around 9%, against 10.1% in the first half of 2007, and an employment growth of 1.6% over the same period.

The growth of average gross wages slowed to 7.4% year-on-year in October. Deflated by consumer price inflation, this translates into a real wage growth of 0.6% year-on-year. During the first ten months, gross wages increased on average by 6.7% in nominal terms.

International transactions

In the eleven month to November 2008, merchandise imports grew more strongly than exports. Imports were up by 9.9% year on year, while exports increased by 5.5%, and the merchandise trade deficit continued to widen, to

25.5% of GDP. In the same period of 2007, the trade gap stood at 24.4%. Recently released balance of payments data confirm a further deterioration of external imbalances. The current account deficit increased to 10.9% of GDP in the four quarters to September, up from 8.7% in 2007. The deficit was more than financed by net capital inflows, despite lower net foreign direct investments. As a result, official reserves of the Croatian National Bank continued to increase to EUR 9.8 billion, compared to EUR 8.8 billion a year before. This represents a comfortable level, equivalent to slightly above 5 months of imports of goods and services. The stock of external debt continued to increase, though at a slower pace. It grew by 13% in the twelve months to September, and stood at around 85% of projected GDP. The further increase in external debt was particularly driven by strong foreign borrowing by the corporate sector. The banking sector managed to reduce its outstanding foreign liabilities during recent months, while the external indebtedness of the general government sector remained virtually unchanged. However, the corporate sectors continued to tap foreign funds through direct borrowing, mostly from parents of Croatian domestic banks.

Prices

In the context of a stability-oriented monetary framework and slowing domestic demand, inflation continued to decelerate to 4.7% year-on-year in November, from its peak of 8.6% in July. This reduction was mostly due to lower price increase for food and agricultural products. The easing of price pressures is also confirmed by a marked deceleration of producer price inflation, which came down to 6.5% in November, from its 12% peak in July. Annual average inflation stood at 6.3% in November, but is expected to start declining as base effects will gradually become weaker.

Monetary and financial indicators

The central bank took a number of measures to provide additional liquidity to the domestic banking sector. Marginal reserve requirements for foreign borrowing were abolished and obligatory minimal reserve rate were reduced. The marked increase in short term interest rates to close to 9% in November indicates that liquidity conditions have become tighter. Annual domestic credit growth has been coming down in the first ten months, from 15 to 11.3% year-on-year. Recent trends indicate a weakening of

lending to private households and a relatively stronger lending to the corporate sector.

During the last quarter of 2008, the kuna depreciated by 2.9% vis-à-vis the euro. The central bank reacted to depreciation pressures in October by selling EUR 270 million in the market, thereby confirming its strategy of trying to keep the exchange rate within a relatively narrow band and to be ready to promptly react to any kind of foreign exchange speculations. In a further step to ease depreciation pressures in early 2009, the central bank relaxed reserve requirements in foreign exchange. As elsewhere asset price adjustments continued, and the Zagreb stock exchange index lost 42% during the last quarter of 2008.

General government finance

Budget performance in 2008 was marked by a still robust performance of revenues, as suggested by available data for the first eight months. Consolidated central government revenues rose 8.9% year-on-year, with particularly strong increases in VAT, income and property taxes. Spending rose by 8.5% and subsidies to the corporate sector, mainly provided to loss-making companies, increased by almost 20%. Although budget execution in the first eight months have been in line with budget plans, the recent economic slowdown as well as the fact that a number of operations are still kept outside the budget, may actually lead to a higher than the targeted 1.3% of GDP deficit for the consolidated general government in 2008.

The budget framework for 2009 was voted by Parliament on 15 December and foresees a reduction of the general government deficit to 0.9% of GDP. The deficit is slightly higher than originally envisaged in the medium-term budget framework of the Pre-Accession Economic Programme. It also contrasts with earlier intentions expressed by the Prime Minister and the Minister of Finance to balance the budget to reduce financing requirements in 2009.

The stock of general government debt stood at 34.5% of GDP in September 2008, down from 38% in the same month in 2007. However, adjustments for the stock of issued state guarantees and the debt of the State Development Bank (HBOR) would raise the stock of debt by around 10 percentage points of GDP.

TABLE



European Commission, ECFIN-D-1

CROATIA

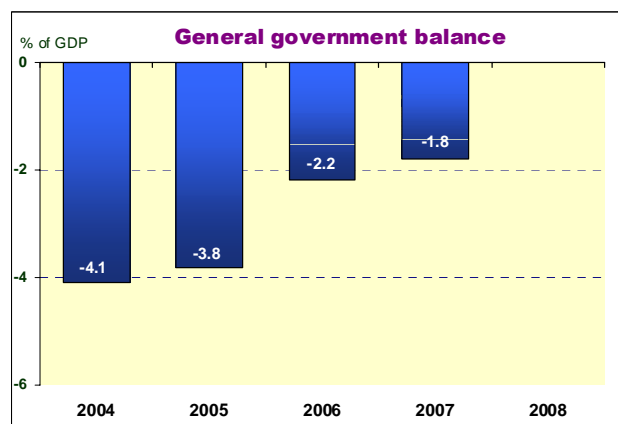
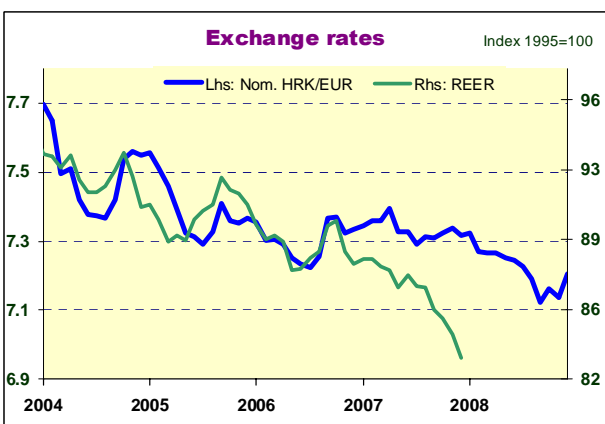
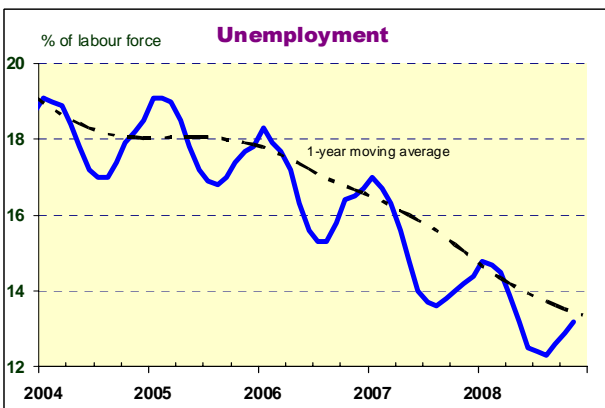
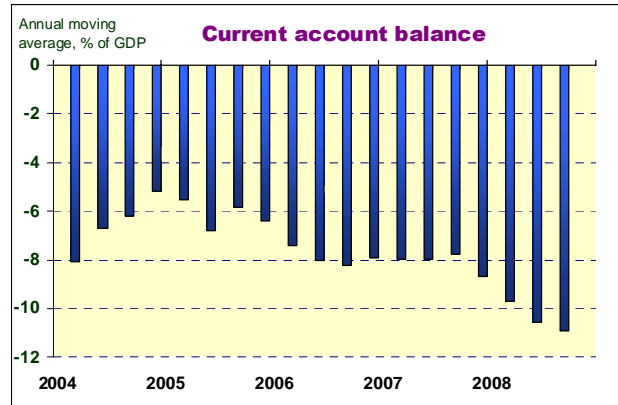
		2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
1 Output and demand												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	3.6	5.1	4.5	5.6	:	3.8	0.2	:	-0.7	-3.5	:
Gross domestic product ^{1.3}	Ann. % ch	4.3	4.3	4.8	5.6	:	3.4	1.6	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	4.8	3.4	3.5	6.2	:	2.2	0.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	5.0	4.9	10.9	6.5	:	12.6	6.6	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	2.5	2.9	2.9	2.8	:	3.3	3.6	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	:	:	:	9.6	:	13.2	12.4	:	12.9	13.2	:
Employment ^{2.2}	Ann. % ch	:	:	:	:	:	1.0	0.7	:	0.5	0.3	:
Wages ^{2.3}	Ann. % ch	6.4	4.4	6.2	6.2	:	6.8	7.4	:	7.4	:	:
3 International transactions												
Exports of goods ^{3.1}	Ann. % ch	17.3	7.9	16.1	8.8	:	6.5	11.6	:	-14.1	-1.9	:
Imports of goods ^{3.2}	Ann. % ch	5.1	9.1	12.9	11.0	:	14.2	13.9	:	-2.7	-7.4	:
Trade balance ^{3.3}	% of GDP	-23.4	-24.0	-24.4	-25.2	:	-26.3	-26.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	47.5	47.1	47.9	47.7	:	47.1	47.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	56.4	55.5	56.8	56.3	:	56.9	57.4	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-5.2	-6.4	-7.9	-8.7	:	-10.6	-10.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.1	3.9	7.5	9.3	:	8.1	7.0	:	N.A.	N.A.	N.A.
4 Prices												
CPI ^{4.1}	Ann. % ch	2.0	3.3	3.2	2.9	:	6.5	7.4	:	6.0	4.7	:
GDP Deflator ^{4.2}	Ann. % ch	3.9	3.2	3.4	4.0	:	6.6	7.7	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	3.5	3.0	2.9	3.4	:	8.7	11.1	:	8.8	6.5	:
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.	7.32	6.21	4.46	5.66	7.19	6.41	6.43	8.69	8.55	8.93	8.60
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,284	1,920	2,771	4,673	3,299	3,789	3,375	1,840	2,192	1,607	1,722
M4 ^{5.4}	Ann. % ch	8.2	9.6	14.3	17.9	:	12.4	11.2	:	9.3	5.0	:
Exchange rate HRK/EUR ^{5.5}	Value	7.50	7.39	7.30	7.33	7.22	7.26	7.18	7.17	7.16	7.14	7.21
Nominal eff. exchange rate ^{5.6}	Index	91.7	90.4	89.3	87.3	:	83.22	83.24	:	85.71	:	:
6 Government balance and debt												
General government balance ^{6.1}	% of GDP	-4.1	-3.8	-2.2	-1.8	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	43.3	43.7	40.8	38.7	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



CROATIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



COMMENTS

Recent economic and political developments

So far, the financial sector has remained relatively immune from first-wave effects of the global financial crisis. Standard profitability indicators point to a rather solid profit performance during the first three quarters of 2008. However, conditions for credit provision have deteriorated, which contributed to a slowdown in credit growth. Furthermore, data from October on the real economy, such as industrial production, export growth, tax revenues indicate to a rather sharp slowdown of activity during the last 3 months of the year.

On 27 November, the authorities presented 10 measures to alleviate the impact of the global crisis, claiming an effect of 5-6% of GDP. However, the majority of those measures (some 3-4% of GDP) consist of rebates and write-offs of unpaid social security contributions. The remaining part (about 2% of GDP) consists of a further lowering of taxes on profits and agricultural incomes. The authorities intend to finance this package through international loans and an Eurobond issue.

Standard&Poor's downgraded the country's sovereign credit rating outlook from stable to negative, reflecting worsening external liquidity indicators and falling levels of international reserves .

Output and demand

Output growth remained strong in the first three quarters of 2008. In the third quarter of 2008 real GDP increased by 5.5%, compared to 5.0% the year before. This brought output growth for the first three quarters of 2008 to 5.7%, compared to 5.0% the year before. The main contributions to growth came from manufacturing, construction and trade, while growth of agricultural output remained lower than overall growth. In terms of expenditure categories, the acceleration in economic activity was based on stronger domestic demand.

However, compared to the first half of the year, investment growth slowed down markedly.

Industrial production, which accounts for some 20% of total value added, contracted sharply in October and November, shrinking by 9.9% year-on-year and by 2.9% respectively. This compares to a rather strong increase in the third quarter, by some 13%. Overall, industrial production expanded by 7% during the first 11 months of the year, compared to 3.8% the year before. While in the first three quarters, metal production was one of the main drivers of growth, it has been one of the main factors for the strong decline in October and November.

Labour market

The labour market situation continued to improve in the third quarter of 2008, with an employment increase by 3.6% compared to the year before. At the same time, the number of unemployed dropped by 2%. In absolute terms, the number of unemployed slightly declined, from 311 thousand on average in the third quarter of 2007 to 305 thousand in the third quarter of 2008. As a result, the quarterly unemployment rate declined from 34.2% in the third quarter of 2007 to 33.0% in the third quarter of 2008. About 20% of the unemployed are between 15-24 years old. In this age group, unemployment remained rather stable on a particularly high level of some 54%.

Nominal wage growth slowed down to 6.1% in the third quarter, compared to 8.1% in the second quarter. Overall, the increase in nominal wages remained below consumer price inflation during that period.

International transactions

The current account deficit improved from an annualised 13% of GDP in mid 2008 to 12% of GDP in the third quarter. However, in terms of a moving average during the last 4 quarters, the deterioration continued, reflecting the higher

weight of previously higher deficits. The main contribution for the improvement in the third quarter came from the seasonally strong increase in private transfers (workers remittances) during the third quarter. The trade deficit remained largely constant at 26% of GDP. The situation in 2008 thus is in strong contrast to 2007, when the current account was balanced during most of the year, while deteriorating only in the last quarter of 2007. This brought the annual current account deficit to 3% for 2007.

Inflows of net private transfers rose to some 15% of GDP by September. At the same time, the trade deficit was significantly higher than a year ago, at 26% of GDP. Thus, in contrast to the past, private transfers no longer cover a substantial part of the trade deficit. On the other hand, inflows of FDI increased markedly in the first three quarters of 2008, reaching nearly 9% of GDP, compared to 3% a year before. A large part of these capital inflows was related to investment in the banking sector.

Exports of goods increased by 14% in euro terms in the first three quarters of 2008 compared to an increase of 30% the year before. Nominal imports of goods rose by 32%, compared to 20% the year before. In October, imports were about 10% lower year-on-year, while exports reached a similar level. In November, the both, imports and exports reached only about 80% of their pre-year value. The main reason on the export side is linked to declining demand for ferro-nickel products, while lower imports probably reflect declining domestic demand and lower energy prices.

Prices

Consumer price inflation decelerated sharply towards the end of 2008, after reaching year-on-year rates of some 10% at the beginning of 2008. In December, the year-on-year inflation rate had dropped to 4.1%. However, on average, inflation was 8.2% in 2008, compared to 2.3% in 2007. The main driving factors for this strong rise were rapidly increasing prices for food reflecting unfavourable weather conditions and demand from abroad, but also rapidly increasing costs for energy and housing.

Monetary and financial indicators

Monetary conditions remained relatively favourable. Average weighted nominal lending

rates continued to decline marginally during the first half of 2008, from 9.9% end 2007 to 9.7%. Interest rates on deposits maintained a slight upward trend, reaching 6.5% by November 2008. In the second half of 2008, credit growth started to slow down, but reaccelerated towards the end of the year, reaching 30% in October and November. However, the overall credit-to-GDP level is still relatively low. Year-on-year growth of M4 continued to decelerate to 14% in November 2008, against 28% a year before.

The exchange rate of the Denar has remained largely unchanged against the euro on a level of 61.4 MKD/EUR. The National Bank intends to maintain its current informal peg to the euro.

Foreign exchange reserves slightly increased to EUR 1.7 billion by November 2008. However, in view of the strong increase in imports, the import coverage through foreign exchange reserves has declined sharply.

By end September 2008, gross external debt amounted to about 52% of the estimated GDP, compared to some 46% of GDP a year before. However, the use of a new methodology impedes a direct comparison.

General government finance

The central government accounts registered a significant surplus of some 3% of GDP during the first ten months of 2008, mainly as a result of a better than expected revenue collection and lower than planned spending. However, in October, tax revenues declined by nearly 15%, while non-tax revenues rose by a similar amount. The main reason for the decline in tax revenues is lower VAT revenue. Most likely, this shortfall reflects lower economic activity related to the global financial crisis.

On 10 November, the government presented its draft 2009 budget to parliament, envisaging a deficit of 2.8% of GDP, compared to a planned deficit of 1.5% in 2008.

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

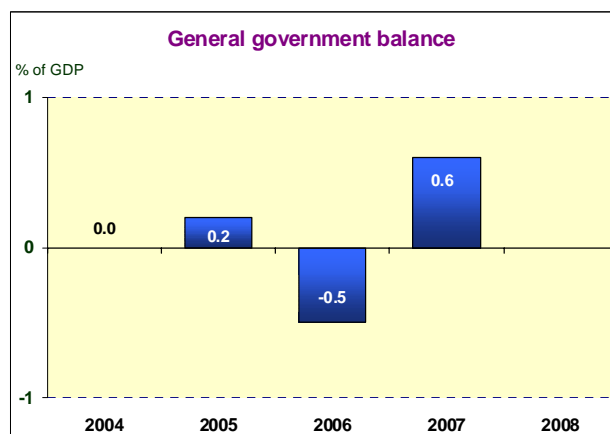
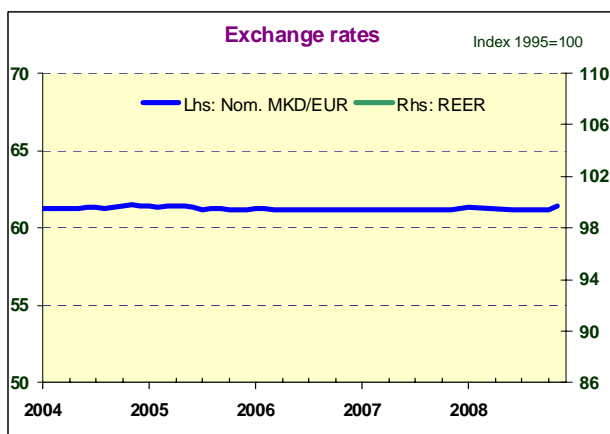
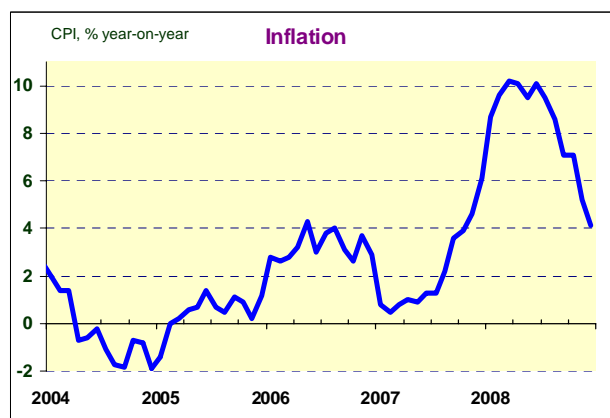
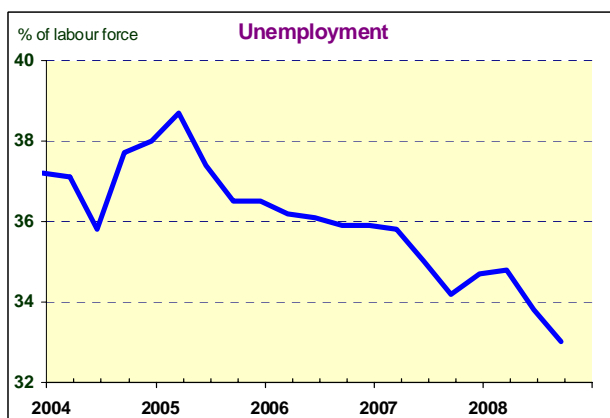
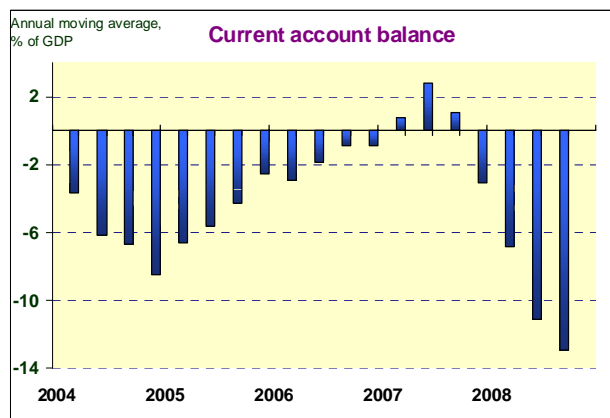
		2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
1 Output and demand												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	-12.0	7.2	2.3	4.1	:	12.0	13.0	:	-9.9	-2.9	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.1	3.9	5.0	:	6.2	5.5	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	6.2	1.9f	3.0f	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	10.9	3.0f	4.0f	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	3.6	3.7	3.5	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	37.2	37.3	36.0	34.9	:	33.8	33.0	:	:	:	:
Employment ^{2.2}	Ann. % ch	-4.1	4.3	4.6	3.5	:	3.0	3.6	:	:	:	:
Wages ^{2.3}	Ann. % ch	4.0	2.7	8.0	4.8	:	8.1	6.1	:	:	:	:
3 International transactions												
Exports of goods ^{3.1}	Ann. % ch	11.8	22.2	15.8	28.3	:	14.7	16.8	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	15.5	10.7	16.9	23.6	:	40.9	28.6	:	:	:	:
Trade balance ^{3.3}	% of GDP	-21.1	-18.4	-20.2	-20.9	:	:	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	38.7	43.2	47.2	53.5	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	60.3	62.1	67.0	72.4	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-8.4	-2.6	-0.9	-3.0	:	-11.1	-12.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	6.0	1.6	6.8	4.3	:	7.2	8.2	:	N.A.	N.A.	N.A.
4 Prices												
CPI ^{4.1}	Ann. % ch	-0.4	0.5	3.2	2.3	8.3	9.9	8.4	5.5	7.1	5.2	4.1
GDP Deflator ^{4.2}	Ann. % ch	1.3	3.8	3.8	4.0	:	10.0	8.7	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	1.2	3.2	4.5	1.6	10.8	13.6	15.2	3.7	9.2	-0.8	2.8
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	:	:	7.41	:	7.57	7.59	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Stock markets ^{5.3}	Index	911	1,930	3,219	6,971	5,149	5,651	5,101	2,848	3,593	2,682	2,269
M4 ^{5.4}	Ann. % ch	16.3	15.1	10.9	28.4	:	22.6	21.7	:	19.3	13.7	:
Exchange rate MKD/EUR ^{5.5}	Value	61.32	61.30	61.19	61.18	61.25	:	61.18	61.34	61.20	61.41	61.40
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	0.0	0.2	-0.5	0.6	:	0.2	3.0	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	43.8	48.5	41.5	29.0	:	:	:	:	N.A.	N.A.	N.A.

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia



TURKEY



COMMENTS

Recent economic and political developments

The global financial and economic crisis led to a further and sharp deceleration of economic activity in Turkey in the second half of 2008. So far the growth slump is broad-based and is expected to continue due to the sharp contraction in external demand, weak consumer and business confidence and tighter credit.

Turkey's IMF Stand-By Arrangement has expired in May 2008 and a decision on a follow-up programme has not yet been taken. However, an IMF mission is visiting Turkey in the second week of January 2009 and it is widely perceived that a new IMF agreement would bolster investor confidence in the government's economic policies during the crisis and facilitate external financing. The recent significant decline of external imbalances accompanied by roll-over ratios of debt above 100% by Turkish companies are reassuring signs regarding the external financing needs, but there is a high degree of uncertainty going forward. On fiscal policy, the 2009 budget is based on rather optimistic growth and revenue projections and may need to be revisited.

Output and demand

The economic slowdown continued in the third quarter of 2008, as Turkey's GDP growth fell to 0.5% year-on-year, the weakest performance since the 2001 crisis. Cumulative growth in the first nine months of 2008 declined to 3% year-on-year. Private consumption grew by only 0.3% year-on-year, down from 3.4% in the second quarter. Gross fixed capital formation shrunk by 5.4% as the significant increase in public sector's investment expenditures by 22.2% could not fully offset the drop in private sector investment expenditures by 10%. The growth of exports decelerated significantly from 12.2% in the first quarter to 2.5% and 1.5% in the second and third quarters, respectively while imports turned negative and contracted by 4.2%. On the production side, output dropped by 1.1% in manufacturing, 4.3% in construction and 1.8% in the trade sectors.

Indicators of economic activity in the fourth quarter of 2008 show a further decline in output, thus suggesting that the country may enter into recession. Industrial production dropped by 13.9% year-on-year in November, the capacity utilisation rate in manufacturing further fell to only 73% in November from rates around 80% in the beginning of the year. Consumer confidence went down by 6 percentage points in November while business confidence fell by almost 17 percentage points during the fourth quarter of 2008, to a level lower than during the 2001 crisis.

Labour market

Labour market conditions deteriorated in tandem with the slowdown in economic activity. The labour force participation rate declined from 49.9% in July to 49.4% in September. Urban participation rates increased slower than rural rates and the gap between the two widened marginally on an annual basis: 46.6% compared with 54.4%.

The employment rate receded from a peak of 45.2% in July to 44.3% in September while unemployment increased from a relatively low 8.9% rate in May to 10.3% in September. This was also higher than the 9.3% rate recorded a year before. The youth unemployment rate also increased to 20.1%.

Wages in the manufacturing sector (per production hour worked) increased in the third quarter of 2008 by 9.7% year-on-year, a decline of almost 2% in real terms.

International transactions

After having widened in the first part of 2008, external deficits started to decline significantly as of September. The current account deficit gradually narrowed from a peak of USD 5.5 billion in June to USD 0.9 billion in September and USD 2.6 billion in October, representing an annual decline of 60% and 18.4% respectively. In September, the narrowing of the current account deficit was mainly driven by a reduction of the trade deficit. In October, the trade deficit was only marginally lower from a year before,

whereas it narrowed by almost 49% year-on-year in November. Exports fell by 17.5% year-on-year to USD 9.33 bn but the decline in imports was a sharper 27.5% year-on-year to USD 12.06 bn. Exports to the EU were down significantly; 31.9% year-on-year and the EU's share in total exports declined to 46.6%. In the first ten months of 2008, the current account deficit was still 29% higher than last year.

The structure of capital inflows deteriorated in the first ten months of 2008. Net foreign direct investment inflows fell by about 21%, covering only around one third of the current account deficit while net portfolio investment turned negative after an outflow of USD 4.1 billion in October. Other net investment inflows, mainly long-term loans to the private sector, covered the rest of the current account deficit and an increase in reserve assets of about USD 2.7 bn.

Prices

Consumer price inflation surprised on the downside and the minus 0.4% December CPI inflation translated in a 10.1% annual inflation figure for 2008. The main items behind the negative figure were the clothing and shoes and housing and rent categories both of which displayed reductions in their price indices. There were virtually no signs of exchange rate pass-through and weak demand conditions seemed to be the dominating factor. The core CPI, which excludes energy, food, tobacco and gold, fell in December to an annual 7% after having risen since March 2008.

Producer price inflation dropped significantly in December to 8.1% from 12.2% in November, but was still above the 6% recorded at the end of 2007. The sectors of basic metals and refining of petroleum products supported disinflation, triggering negative inflation in manufacturing.

Monetary and financial indicators

The central bank announced in its monetary policy framework for 2009 that inflation targets will be kept at 7.5% and 6.5% for 2009 and 2010, respectively, and 5.5% for 2011. Against the background of declining inflation and a sharp slowdown in economic activity, the central bank cut the short-term policy rate by a total of 175bps to 15%. It also took several measures to increase liquidity and smooth the volatility of the domestic FX market.

After having reached a peak in October/November, money market interest rates

gradually declined in December. Government bond yields followed a similar evolution.

Strongly affected by the global financial crisis together with uncertainties regarding the political environment and the relation with the IMF the lira depreciated by around 29% against a EUR/USD basket from the beginning of the year. The main stock exchange index (ISE-100) fell by about 51% in 2008.

Credit growth decelerated to around 31% year-on-year in November from more than 35% in October, but was still higher than the 26% rate recorded a year earlier. Weekly data shows that in mid-December, credit to the non-financial sector was still growing on an annual basis, but slowly declining on a monthly basis, in particular in its FX component.

General government finance

In 2008 cash-based central government fiscal balances improved. More efficient tax collection led to higher tax revenues while the increase of expenditures remained limited. Conversely, VAT receipts were only up by about 5% year-on-year, which illustrates falling demand. In spite of a very weak December performance, the primary budget surplus of 2008 was very close to the end-year target, while the overall budget deficit amounted to just 75% of the annual target. The government targets a consolidated primary surplus of 3.5% of GDP and a budget deficit of about 1% of GDP for 2008.

Although the general government gross debt rose by about 7% in value terms in the first three quarters of 2009, it remained broadly stable as a percentage of GDP at about 37%. The Turkish Treasury announced its 2009 financing programme in late December 2008. Although the non-debt creating financing projections appear to be based on a very optimistic growth scenario, it appears that the financing of the 2009 budget deficit will not be a major issue despite an expected deterioration in fiscal performance and the lack of foreign appetite for emerging market assets.

The parliament approved the 2009 budget, which foresees a deficit of about 1% of GDP (EUR 4.9bn). Although the government's spending and revenue targets in the initial draft budget have been cut slightly in a last minute move, most experts believe that some key assumptions (in particular growth and revenues) are overly optimistic in a crisis context.

TABLE



TURKEY

European Commission, ECFIN-D-1

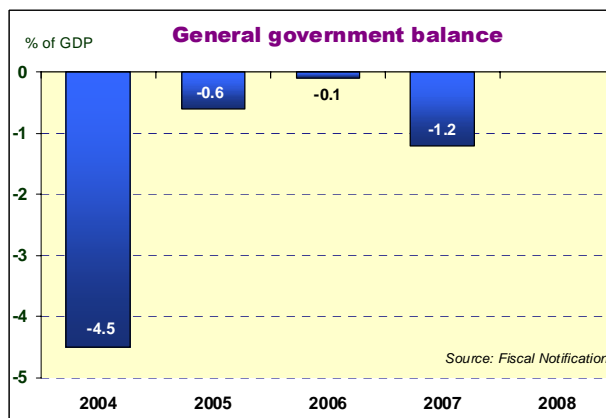
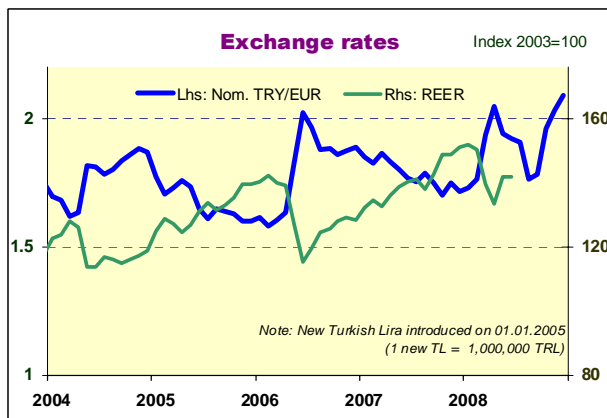
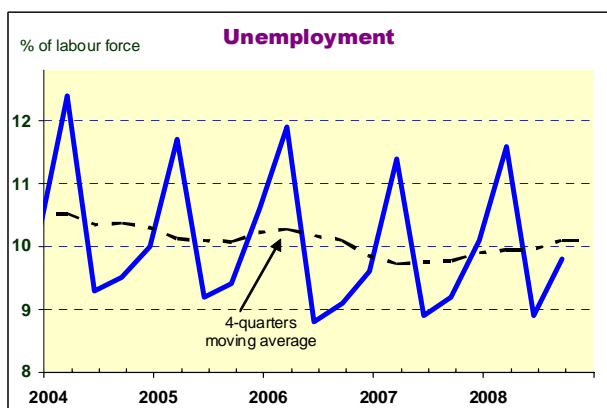
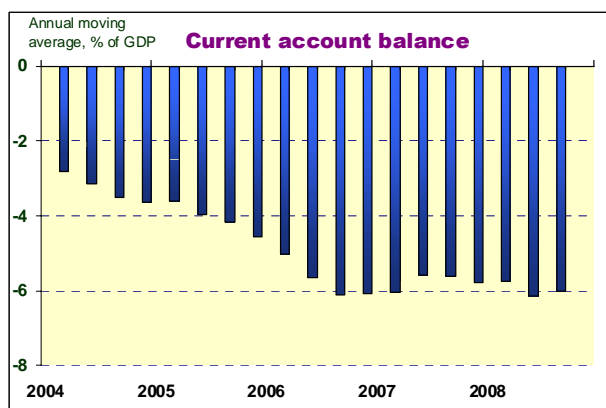
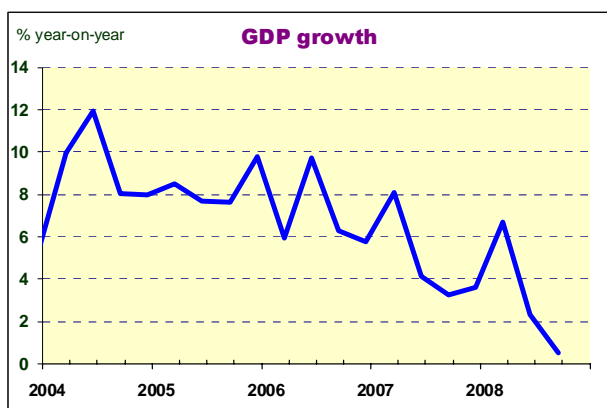
		2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
1 Output and demand												
Industrial confidence ^{1.1}	Balance	106.8	102.8	102.4	110.3	89.0	100.7	91.9	58.7	69.2	54.6	52.3
Industrial production ^{1.2}	Ann. % ch	9.8	5.4	5.8	5.4	:	4.1	-1.4	:	-7.2	-13.9	:
Gross domestic product ^{1.3}	Ann. % ch	9.4	8.4	6.9	4.6	:	2.3	0.5	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	106.7	100.1	95.6	94.4	:	75.5	79.2	:	74.2	68.9	:
Private consumption ^{1.5}	Ann. % ch	11.0	7.9	4.6	4.1	:	3.4	0.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	28.4	17.4	13.3	5.5	:	-0.8	-5.4	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	-1.0	-1.0	-0.2	0.1	:	1.3	2.2	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	10.3	10.2	9.9	9.9	:	8.9	9.8	:	:	:	:
Employment ^{2.2}	Ann. % ch	2.0	1.7	-0.4	-3.6	:	2.0	2.0	:	:	:	:
Wages ^{2.3}	Ann. % ch	13.4	12.2	11.5	9.5	:	10.5	9.7	:	:	:	:
3 International transactions												
Exports of goods ^{3.1}	Ann. % ch	21.8	16.6	14.8	14.9	:	16.2	25.1	:	5.4	-4.8	:
Imports of goods ^{3.2}	Ann. % ch	28.5	20.1	17.7	11.6	:	16.1	18.9	:	2.5	-16.3	:
Trade balance ^{3.3}	% of GDP	-5.8	-6.9	-7.8	-7.1	:	-7.4	-7.3	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.6	21.9	22.7	22.0	:	22.3	22.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	26.2	25.4	27.6	27.1	:	27.7	28.0	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-3.6	-4.6	-6.1	-5.8	:	-6.2	-6.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.5	1.9	3.6	3.1	:	2.3	2.1	:	N.A.	N.A.	N.A.
4 Prices												
CPI ^{4.1}	Ann. % ch	8.6	8.2	9.6	8.8	10.4	10.3	11.7	10.9	12.0	10.8	10.1
GDP Deflator ^{4.2}	Ann. % ch	12.4	7.1	9.3	7.6	:	4.6	-0.4	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	14.6	5.9	9.3	6.3	12.7	16.0	15.2	11.2	13.3	12.2	8.1
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	24.29	16.74	18.07	18.85	18.04	17.12	18.28	20.01	19.90	21.20	18.94
Bond yield ^{5.2}	% p.a.	:	:	:	18.13	19.30	19.94	19.69	20.53	21.72	21.90	17.95
Stock markets ^{5.3}	Index	19,899	29,353	39,867	48,270	37,582	40,688	38,357	26,351	28,119	25,225	25,711
M4 ^{5.4}	Ann. % ch	40.9	30.9	32.5	17.7	:	23.3	22.3	:	25.8	28.3	:
Exchange rate TRY/EUR ^{5.5}	Value	1.77	1.67	1.80	1.78	1.91	1.97	1.82	2.03	1.96	2.03	2.09
Nominal eff. exchange rate ^{5.6}	Index	26.81	28.11	26.18	26.73	:	:	:	:	:	:	:
6 Government balance and debt												
General government balance ^{6.1}	% of GDP	-4.5	-0.6	-0.1	-1.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	59.2	52.3	46.1	38.8	:	:	:	:	N.A.	N.A.	N.A.

CHARTS



European Commission, ECFIN-D-1

TURKEY



ALBANIA



COMMENTS

Recent economic and political developments

The impact of the global financial crisis on the Albanian economy remained limited, as domestic and external demand as well as net capital inflows remained strong. However, remittances continued to decline, increasing the current account deficit.

In the light of high global uncertainties the Bank of Albania (BoA) adopted regulations limiting the banks' exposure towards their foreign parent companies to the level of 10% of regulatory capital. The BoA also tightened capital requirements for crediting in foreign currency or indexed crediting by banks.

In November the IMF completed the sixth and final review under the three-year PRGF/EFF arrangement that will expire in January 2009. The government has not taken any decision as regards further arrangements with the IMF. In the context of the overall revision of global projections the IMF revised the growth projection for the Albanian economy to 3.5-4% (down from 5-6%) for 2009.

Eurostat published 2007 data on GDP per inhabitant in purchasing power standards (PPS), indicating an increase in income level of Albania to 24% (up from 23 in 2006) of the level of EU27, still the lowest of all 37 countries covered.

The privatisation of large-scale enterprises advanced further. The winners of the tenders of the sales of a 76% stake of the distribution branch of the power utility KESH and the remaining stake of 61% of the insurance company INSIG were announced. In December the contract for transferring an 85% stake of the oil refinery ARMO was signed. Additionally, the tender for the sale of the remaining 12.7% stake in the wireless operator Albanian Mobile Communications (AMC) was launched.

Output and demand

Economic growth remained strong in the third quarter of 2008 (possibly around 10% year-on-year in real terms according to preliminary estimates). The newly published quarterly

growth estimates are significantly higher than annual projections of national authorities or international institutions for 2008 (around 6%) and may be subject to major revisions. Growth was led by the continuation of large-scale construction of roads. The growth of industrial production also remained strong (37.3% year-on-year in the third quarter), with the acceleration of growth of the manufacturing sector while the growth of production of the mining sector decelerated strongly after a sharp increase (39.1% year-on-year) in the second quarter. Additionally, retail trade growth remained strong also in the third quarter (22% year-on-year), somewhat lower than in the first half of 2008, partly due to a base effect.

Labour market

Labour market conditions improved in the first three quarters of 2008. Employment continued to increase and unemployment rate decreased to 12.6%. Wage growth dropped significantly in the third quarter of 2008 after the ceased impact of the base effect of the regulation on reference wages, which became effective in June 2007. Public sector wages remained broadly at the level of the third quarter of 2007 (increasing by 1.2% year-on-year in the third quarter of 2008).

International transactions

External imbalances remained high in the third quarter of 2008. The current account deficit continued to stay close to 13% of GDP, up from close to 11% in 2007, mainly due to a decline in remittances.

Merchandise trade deficit continued to increase slightly but remained close to 27% of GDP as in 2007. Exports capacity improved somewhat with exports growth accelerating (to 22% year-on-year in the third quarter) and exceeding imports growth for the second consecutive quarter. The ratio of exports to GDP has increased gradually close to 11%, still far behind the ratio of imports to GDP (38%).

The coverage of merchandise trade deficit from other current net inflows dropped close to 50%, down from 60% in 2007. Net inflows from

services (consisting to a large extent of expenditures of visiting emigrants) contributed by less than 1% of GDP, despite resuming net outflows in the first half of 2008. Net income inflows (mainly from investments of banks) remained close to 3% of GDP, while net current transfers, dominated by remittances' inflows, continued to decline (to 11% of GDP, down from 13% in 2007).

On the financing side, net capital inflows remained relatively strong, fully covering the current account deficit and slightly increasing reserve assets. Net foreign direct investment (FDI) inflows stood above 5% of GDP in the third quarter of 2008, while traditionally volatile small-scale portfolio investments resulted in net outflows. Net inflows of other capital remained strong, above 4% of GDP compared to 3% in 2007, partly related to various types of capital inflows.

Prices

Consumer price inflation accelerated somewhat after a drop in August, but returned to 2.6% (year-on-year) in November 2008. Inflation accelerated mainly due to an increase in prices of textbooks in the beginning of the school year (more than 30% in September) and a base effect of food prices in October.

Food price inflation continues to constitute the main share of total inflation (60%, after some reduction in August-September), followed by the contribution of the price increase in housing costs (30% in November). Decreasing fuel prices reduced the year-on-year impact of transportation costs on total inflation (to 0.3 percentage points in November).

Regulations on the telecommunication market resulted in a drop of prices that reduced total inflation (by 0.5 pp year-on-year in October-November). Additionally, prices of clothing and footwear continued to reduce total inflation on an annual basis despite an increase in prices since September 2008.

Monetary and financial indicators

The central bank maintained the key monetary policy rate at 6.25%. Risks to price stability remained contained, with the average consumer price inflation (12-months moving average) dropping to 3.4% in November (down from a peak of 3.9% in July 2008), fully within the

range of inflation target of 3+/-1 percentage point.

The financial sector remained sound, with profitability increasing after a drop in the first quarter of 2008, and with capital adequacy well above the minimum ratio. Loan quality deteriorated somewhat.

Private sector credit growth remained strong at 41% (year-on-year) in November 2008, after a temporary acceleration to 45% in June-July. The growth of credit to the corporate sector accelerated somewhat since June 2008 after a gradual decline since 2006. The growth of credit to households continued to decline since end-2007, dropping to 36% (year-on-year) in November 2008, compared to 44% in the case of the corporate sector.

Money supply also remained strong despite some small-scale volatility in deposits. M3 growth decelerated below 12% (year-on-year) in November after some acceleration in the third quarter of 2008. Foreign currency deposits continued to account for more than 30% of the broad money supply (M3) despite a slight reduction of the deposits in October and November compared to preceding months.

On the foreign exchange market the lek remained broadly stable vis-à-vis the euro standing at 122.8 ALL/EUR on average in the fourth quarter of 2008. In the beginning of January 2009 the exchange rate depreciated somewhat (0.8% compared to end-December), reaching the lowest level since March 2008.

General government finance

The 2008 budget implementation followed broadly the plan, reaching 98% of 10-months planned tax revenue collection. The 10-months expenditure plan was met by 94%, with capital expenditures lagging behind projections. In the first 10-months the budget deficit remained below 2% of GDP, far below projected 5.2%.

The 2009 budget is still expansionary despite projecting a reduction of the deficit to 4.2% of GDP. The budget relies on highly optimistic revenue projections in the context of the global economic slowdown and may therefore result in a higher deficit. The projected structure of expenditures is growth supportive, maintaining current expenditures below 24% of GDP and reserving 7.6% of GDP on capital expenditures.

TABLE

European Commission, ECFIN-D-1



ALBANIA

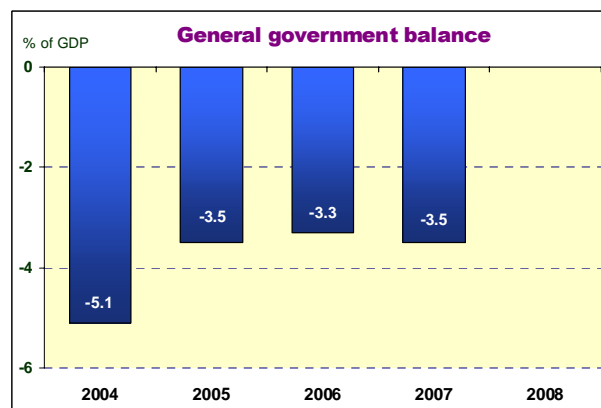
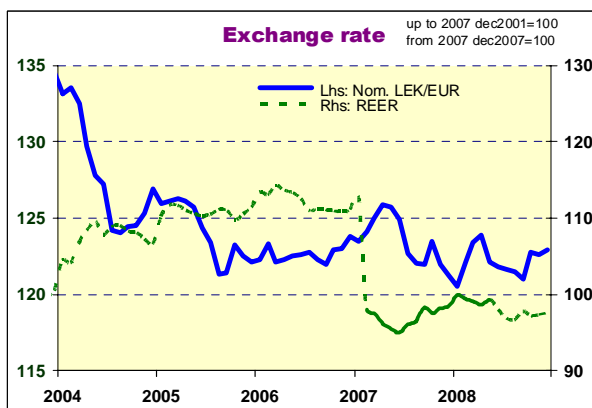
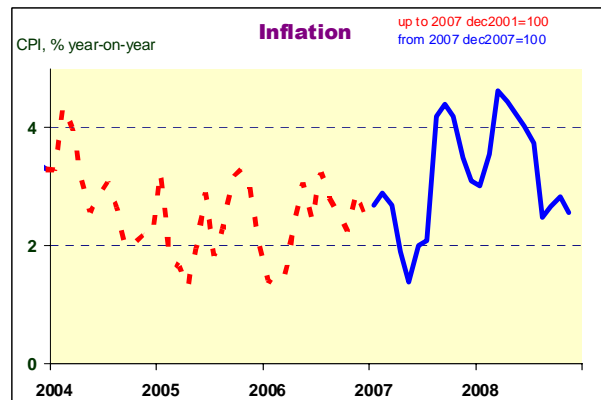
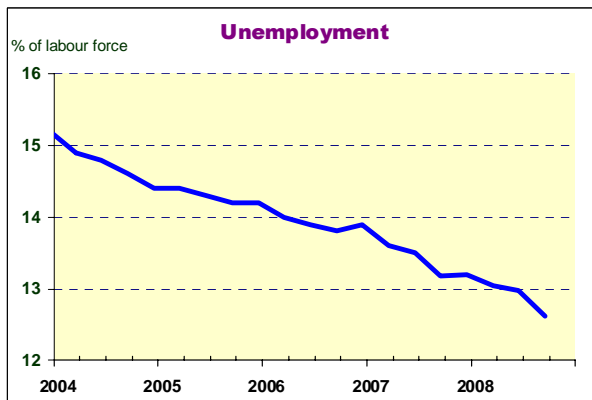
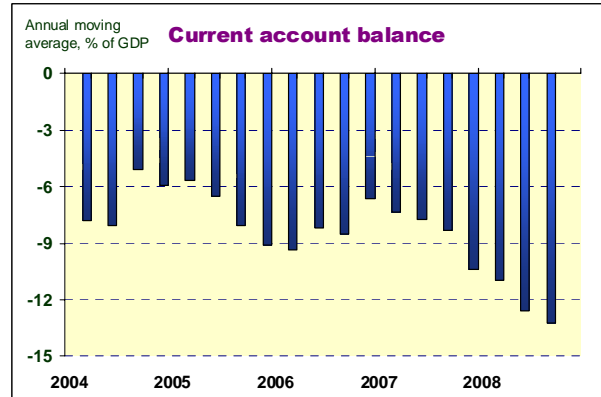
		2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
1 Output and demand												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.7	5.7	5.5	6.0	:	:	:	:	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.	N.A.	N.A.	N.A.	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	14.7	14.3	13.9	13.4	:	13.0	12.6	:	:	:	:
Employment ^{2.2}	Ann. % ch	-0.4	0.9	0.2	0.2	:	0.7	3.6	:	:	:	:
Wages ^{2.3}	Ann. % ch	15.3	9.9	7.5	17.1	:	12.9	1.2	:	:	:	:
3 International transactions												
Exports of goods ^{3.1}	Ann. % ch	22.4	9.3	19.3	24.7	:	24.1	22.6	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	11.5	14.2	14.4	26.2	:	18.6	13.8	:	:	:	:
Trade balance ^{3.3}	% of GDP	-21.5	-22.4	-22.9	-26.5	:	-27.1	-27.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-5.8	-8.9	-6.5	-10.5	:	-12.6	-13.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	4.5	3.2	3.4	5.8	:	7.1	5.7	:	N.A.	N.A.	N.A.
4 Prices												
CPI ^{4.1}	Ann. % ch	2.9	2.4	2.4	2.9	:	4.2	3.0	:	2.8	2.6	:
GDP Deflator ^{4.2}	Ann. % ch	2.5	2.8	3.8	3.9	:	9.2	9.2	9.2	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	0.8	3.5	:	7.4	7.1	:	:	:	:
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.	6.78	5.55	5.49	5.92	:	6.28	6.26	:	6.22	6.05	:
Bond yield ^{5.2}	% p.a.	9.92	8.22	7.31	N.A.	N.A.	:	:	:	:	:	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:
M2 ^{5.4}	Ann. % ch	8.2	11.7	7.6	9.2	:	5.0	8.3	:	9.8	10.4	:
Exchange rate LEK/EUR ^{5.5}	Value	127.2	123.7	122.8	123.3	122.4	121.9	121.8	122.8	122.6	122.9	122.8
Nominal eff. exchange rate ^{5.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
6 Government balance and debt												
General government balance ^{6.1}	% of GDP	-5.1	-3.5	-3.3	-3.5	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	56.6	57.4	55.5	53.8	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





COMMENTS

Recent economic and political developments

On 5 November the European Commission published its 2008 progress report for Bosnia and Herzegovina. Main findings in the economic chapter included that the country had made some, albeit uneven, progress towards becoming a functioning market economy and that the macroeconomic stability had weakened as a result of worsening trade balance, higher inflation and expansionary fiscal policy.

In mid-November, a joint report of the EU High Representative for the Common Foreign and Security Policy Solana and the Commissioner for Enlargement Rehn on the EU's policy in BiH was made public. The report calls on BiH to show more political responsibility and greater ownership of the reform process to advance to the next stages of European integration.

The heads of the major Bosnian, Croat and Serb parties agreed in December to restart the constitutional reform process, proposing inter alia a more functional division of powers between the different levels of government. It has to be noted that these three parties do not have the necessary majority in Parliament.

In December, Standard and Poor's assigned a sovereign credit rating for the first time to BiH: B+ long-term and B- short-term in both foreign and local currency, with a stable outlook.

Output and demand

The global economic slowdown has started to reveal an impact on BiH. The metal and automobile industries, the country's most important export sectors, have recently announced output cuts and lay-offs. Also the wood processing industry and the service sector report a worsening of performance.

However, growth rates of industrial production are still quite buoyant in the Federation of BiH (FBiH), 16% year-on-year in October and 10.5% in November. In the Republika Srpska (RS) they have been quite volatile in recent months: In October only a marginal increase of 0.5% year-on-year was registered, while it surged by 22.9% in November. For the whole country, this adds

up to an annual growth rate of 10.6% in October and 14.8% in November.

In the FBiH, energy, capital goods and non-durable consumer goods contributed positively to the annual growth rate of industrial production from January to November 2008, while a decline was observed for intermediate goods and durable consumer goods. In the RS the production of both durable and non-durable consumer goods, energy and intermediate goods increased, while it decreased in capital goods.

Labour market

The consolidated national official rate of registered unemployment further decreased from 42.9% in December 2007 to 40.3% in October 2008. Employment increased by 4.1% in the first ten months of 2008 as compared to the same period 2007. Unemployment continues to be higher in the FBiH than in the RS.

Wages have grown rapidly in 2008. In November, nominal net wages in the RS were 30.1% higher than in the same month of the previous year. In the FBiH they increased by 14.9% (October data). Gross wages increased by roughly the same percentages in both entities. Due to the more rapid wage growth in the RS, average wages are now slightly higher in this entity than in the FBiH (by 2.4% in gross and by 0.3% in net terms, October data).

International transactions

During the first three quarters of 2008 the current account deficit increased by 48.3% year-on-year. This deterioration was caused by an increasing trade deficit during that period when import growth was persistently above export growth, so it widened by 21.7% to an estimated 41% of GDP. Improving income and current transfer accounts partially offset the effect of the worsening trade balance.

However, the trade balance showed an interesting development in November when its first annual improvement in two years was registered: The monthly trade deficit declined by 10.6% year-on-year and by even 27.6%

compared to October. This is due to a decline in imports by 5.2% year-on-year and 20.3% m/m, while exports increased by 2.0% year-on-year and decreased by 8.8% m/m. The decline in imports is mainly the result of falling crude oil prices, while the restarting of production in one of the major oil refineries in BiH also contributed to this development. It remains to be seen whether this development will continue and have a dampening effect on the current account deficit.

Net FDI declined sharply by 76.8% year-on-year during the first three quarters of 2008. However, this is the result of the high basis and may not be interpreted as a withdrawal of investors from BiH. 2007 was an exceptional year when FDI was roughly three times higher than in the three preceding years, triggered by a number of big privatisation deals. Figures for 2008 suggest that the volume of FDI will be in line again with the years 2004-2006. In the meantime, the opposite scenario was observed in other investments which grew from a negative base to EUR 818 million during the first three quarters of 2008.

Prices

Since August 2008, annual end-of-period inflation rates have been declining from 9.5% to 5.5% in November, after a year of increasing rates. Reflecting global tendencies, this moderation was caused by the slowdown in transport and food prices. The annual growth rate of transport prices came down from 11.7% in October to 3% in November, while the increase in food prices fell from 8.4% to 6.2%. Moreover, most remaining commodity groups also reported slowing price increases. The overall trend is similar in both entities: Annual consumer price inflation in November stood at 6.0% in the Federation and 5.1% in the RS.

Monetary and financial indicators

In October, tensions in the financial market led to a withdrawal of deposits by the population and liquidity shortages in the banking system. Since then, the Central Bank of Bosnia and Herzegovina (CBBH) and the government have introduced a number of measures in order to strengthen and restore confidence in the Bosnian currency board arrangement and national financial markets. With the aim of safeguarding the liquidity of the banking system and stimulating credit activities, the CBBH provided cash to the banking system and lowered the

minimum reserve requirement rate from 18% to 14% in October. Furthermore, as of November all new credit lines withdrawn from abroad by commercial banks do not enter into the basis for required reserves calculation and, as of January 2009, the required reserve rate on term deposits with a remaining maturity of more than one year is lowered to 10% while it remains at 14% for deposits with a maturity of below one year. In the meantime, the government initiated an increase of the deposit guarantee from around EUR 3,500 to more than EUR 10,000.

Credit growth slowed down to 24.8% year-on-year at end-November, after 26.9% in October and 27.9% in September. The growth of money supply measured both in M1 and M2 significantly declined in October and November. Latest available data from the Banking Agency of FBiH covering the first half of 2008 show that the main profitability indicators (such as return on average assets, capital and equity) strongly deteriorated compared to the first half 2007. Liquidity indicators deteriorated slightly, though still revealing a favourable position.

The narrow index of the Sarajevo Stock Exchange, the SASX-10, dropped by 19% during the last quarter of 2008, leading to an annual decrease of 67% in 2008.

General government balance

Government Finance Statistics revealed a drop in the surplus of the consolidated budget by 76.6% year-on-year in the first three quarters of 2008 to EUR 94 million. Collected revenues increased by 15% year-on-year but were outpaced by the growth in expenditures by 28%.

Since the State Parliament budget committee proposed certain amendments to the draft 2009 budget in order to harmonise it with a decision of the National Fiscal Council limiting its annual increase to 12%, it was not adopted before year-end. Therefore, the Council of Ministers had to define provisional financing for the first quarter 2009, amounting to a quarter of the 2008 budget.

The RS draft 2009 budget was discussed in the entity's assembly on 22 and 23 December. It foresees a reduction of public expenditures to below 40% of GDP. The FBiH parliament adopted the draft 2009 budget at the end of December which is to be revised in April based on revenue and expenditure figures for the first quarter of 2009. Both entity budgets are in line with the provisions of the Fiscal Council of a maximum increase of 6% as compared to 2008.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

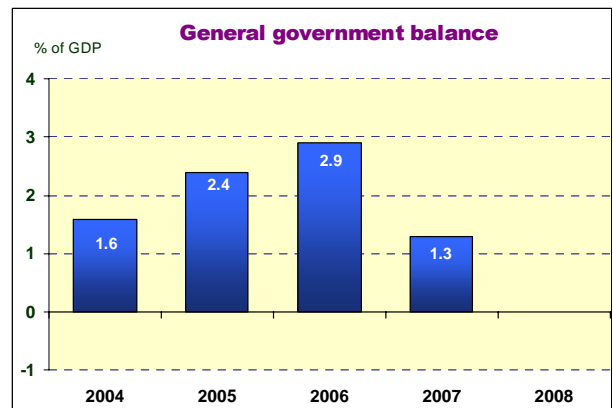
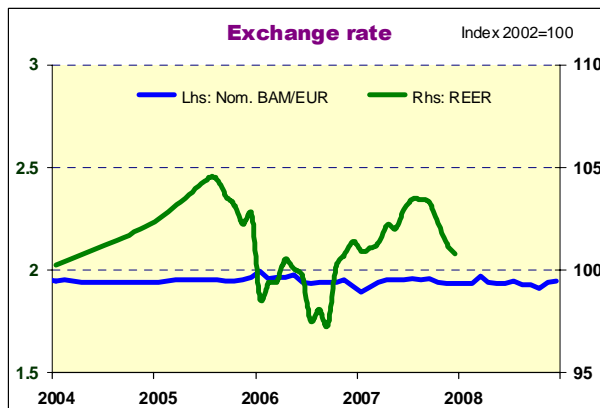
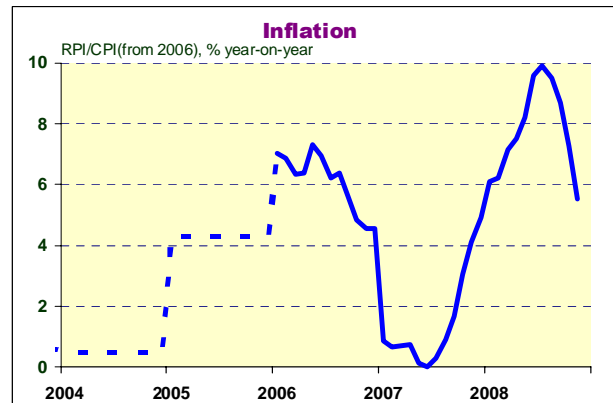
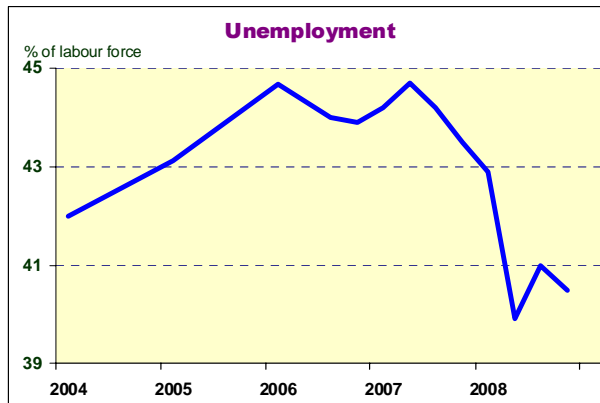
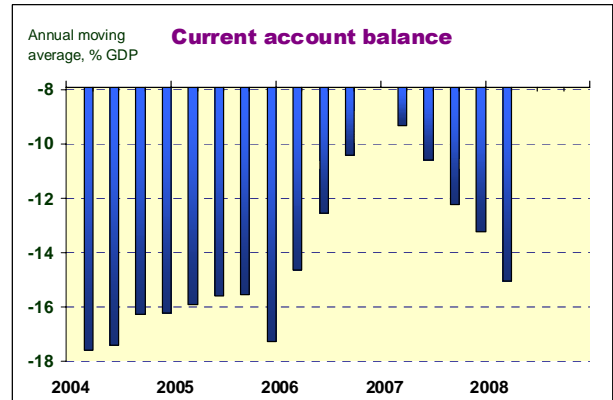
		2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
1 Output and demand												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	10.5	11.6	6.7	N.A.	6.7	9.0	:	10.6	14.8	:
Gross domestic product ^{1.3}	Ann. % ch	6.3	3.9	6.7	6.8	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	6.2	8.3	13.4	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	18.5	-7.6	37.0	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	3.0	0.1	-1.0	1.6	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	43.1	44.7	44.2	42.9	:	41.0	40.5	:	40.3	:	:
Employment ^{2.2}	Ann. % ch	0.8	0.8	2.3	4.4	:	5.4	4.4	:	4.1	:	:
Wages ^{2.3}	Ann. % ch	4.3	6.1	9.6	9.8	:	16.8	18.5	:	18.1	:	:
3 International transactions												
Exports of goods ^{3.1}	Ann. % ch	28.7	22.8	30.5	15.0	:	11.6	16.6	:	7.0	2.0	:
Imports of goods ^{3.2}	Ann. % ch	7.6	12.5	1.2	18.7	:	14.0	17.1	:	15.3	-5.2	:
Trade balance ^{3.3}	% of GDP	-45.6	-45.8	-34.8	-37.4	:	:	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	29.4	33.0	36.9	36.9	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	-70.7	-73.6	-66.3	-69.1	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-16.3	-17.3	-7.8	-12.6	:	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	7.0	5.7	5.8	13.8	:	:	:	:	N.A.	N.A.	N.A.
4 Prices												
CPI ^{4.1}	Ann. % ch	0.5	4.3	6.1	1.5	:	8.4	9.4	:	7.3	5.5	:
GDP Deflator ^{4.2}	Ann. % ch	2.5	3.3	6.3	6.4	:	:	:	:	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.	4175	7,532	N.A.	4,442	3,427	:	2,666	2,404	:
M2 ^{5.4}	Ann. % ch	21.0	17.6	21.6	25.0	:	15.8	14.8	:	7.5	6.0	:
Exchange rate BAM/EUR ^{5.5}	Value	1.94	1.95	1.95	1.94	1.94	1.94	1.94	1.93	1.91	1.94	1.95
Nominal eff. exchange rate ^{5.6}	Index	96.4	95.2	95.00	95.47	:	:	:	:	:	:	:
6 Government balance and debt												
General government balance ^{6.1}	% of GDP	1.6	2.4	2.9	1.3	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	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 economic and political developments

On 15 December Prime Minister Milo Djukanović submitted Montenegro's formal application for EU membership to French President Nicolas Sarkozy. The Montenegrin government has also proposed to shorten the mandate of the Montenegrin Assembly, thus calling for early elections. It was argued that the European integration process would be better completed if the state bodies and institutions were in their full mandate of four years.

Recent economic news showed that the country may not be spared by the global economic crisis. The first effects are observed in the processing industry, and especially in the metallurgy which has cut production as prices of imported electricity remain high while international prices for metals decline sharply. Exports have also been declining by around 16% year-on-year in the first nine months of 2008. In addition, the real estate sector has been adversely affected as some investments are already being postponed.

So far, the government has planned a significant increase in capital expenditures in response to the slowdown. It will also try to alleviate the negative repercussions of the global crisis over the local economy by earlier debt redemptions, and a decrease of social contributions and taxes. In addition, the authorities will continue providing support for the liquidity of banks, by using credits, backing guarantees and potential recapitalization. The authorities also adopted a programme of subsidies for electricity after the Regulatory Agency for Energy increased prices in December. Overall, the entire government stimulus package is estimated at some 10% of the projected GDP for next year.

Output and demand

Real GDP grew in 2007 by 10.7%, totalling EUR 2.8 billion in nominal terms, or 10.5% higher than the government initial estimates. By sectors, services contributed with 56.2% of total value added, manufacturing 11%, agriculture 6.9% and construction 3.4%. The fastest expansion was recorded on trade, transport and communications, constructions, hotels and restaurants, and real estate. On the expenditure

side, private consumption accounted for 76.9% of GDP, government consumption for 27.6% and fixed capital formation for 24.3%. Yet, the strong domestic demand was counter-balanced by the negative contribution of net exports (32.5% of GDP).

Industrial production contracted by 7.2% year-on-year in November after a decline of 21.1% in October. Yet, the utility industry increased production by 5.2% in November. However, the mining sector witnessed a 25% annual contraction as the basic metals industry recorded an output decline of 15.6% year-on-year. Overall, the manufacturing sector remained stagnant during the first eleven months of the year, while mining and utilities expanded by 19% and 36% on the year.

Labour market

The unemployment rate slightly declined in mid-December to 10.7%, against 12.2% a year before. In 2008, some 39,220 new workers were registered, and some 118,190 non-resident workers participated in the labour market during the year.

In November, gross wages were higher by 16.7% year-on-year, reaching EUR 629 on average. Yet, the growth of net wages grew by 9.8% year-on-year in real terms, down to single digit levels.

International transactions

The trade balance widened further, as the trade deficit reached EUR 1.2 billion (or 41.3% of GDP) in the first ten months of 2008. Strong investments and raising incomes fuelled the expansion of imports. Also, higher electricity and oil prices contributed to the trade deficit. In addition, exports declined on falling prices of the metal industry products. Nonetheless, the central bank expects that the unfolding of the global economic crisis will result in a lowering of the CA deficit and FDI inflows in the course of 2009.

In the first nine months of the year, total tourism revenues reached EUR 500 million (or 17% of GDP). The number of tourists visiting the

country rose by 4.8% year-on-year, and overnight stays grew by 5.4%. Moreover, the number of workers in the tourism industry further expanded by 8%, representing almost 10% of the workforce of the country.

Until September 2008, net FDI expanded by 15.4% year-on-year to 15% of annual GDP. Investment inflows accelerated markedly during the third quarter after the slowdown recorded in the first half of the year. The share of real estate in FDI continued contracting, and represented 39% of total investments.

Prices

Inflation further contracted to 6.5% year-on-year in November. The major contributor was the moderation of transport and communication prices, followed by the absorption of the base effect of the previous year's electricity hike. Household furnishing and tobacco and beverages prices increased only marginally month-on-month. Overall, prices recorded a cumulated growth of 8.6% in the first eleven months of 2008.

Industrial producer prices grew by 14.4% year-on-year in November. The food industry was the sole contributor to higher inflation, which remained unchanged in almost all remaining sectors.

Monetary and financial indicators

The government decided on 11 December to lend EUR 44 million to the ailing Prva Banka. The resources will be granted for period from three months up to one year at a 2.5% interest rate. The Central Bank further decided to abolish in January 2009 the restrictions on lending expansion applied during 2008.

Deposit growth moderated to 13.1% year-on-year in October as households withdrew 11.8% of their deposits in the banking system. The authorities replied swiftly by adopting in October a package of support to the financial system, announcing full guarantee of all deposits. These measures succeeded in regaining the public confidence and reversing the process of deposit withdrawal by end-October.

Total loans disbursed at end-October declined marginally by 1.4% from end-September. Their

annual growth rates remained high at 44.4% year-on-year.

The Montenegrin Commercial Bank (CKB) became the sixth domestic bank allowed to perform custody operations of stocks and securities on behalf of its clients.

NEX Montenegro stock exchange revised the weights of the companies forming its main indices (NEX20 and NEX PIF), updating the market capitalisation and turnover weights of companies listed.

General government finance

In the first nine months of 2008 the consolidated budget recorded a surplus of 4.3% of GDP. Tax proceeds expanded by 23% year-on-year, as employment kept raising and resulted in higher revenues from personal income tax by 40% year-on-year. Moreover, revenues from corporate income tax surged by 57% year-on-year, from VAT by 17%; and contributions (unemployment, health and retirement) increased above 30% year-on-year. Consolidated expenditures also increased significantly, recording 34% year-on-year. The rise in gross salaries spending (37% year-on-year) still reflects the strong wage hike in the public administration at the beginning of the year.

The tax administration continued registering strong budget revenues in November, with tax receipts further increasing by 27.5% year-to-date. In mid-December, the government elaborated some amendments to the draft budget for 2009. The main purpose was to increase the financing of the budget and thus providing EUR 215 million guarantees and funds to lenders and producers. Although the reviewed 2009 budget foresees a marginal surplus of 0.1% of GDP, instead of the original 1.8%, the growth assumptions still appear optimistic. The budget may therefore require further rebalancing in the first half of the year.

The public debt reached EUR 928 million (or 32% of GDP) by end-September, expanding by 26% since the beginning of the year. The main factor behind this increase was the surge of domestic indebtedness by 65% on the year (i.e. recognition of unpaid liabilities to pensioners, and restitution claims). The external debt also increased moderately, by 2.6%.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

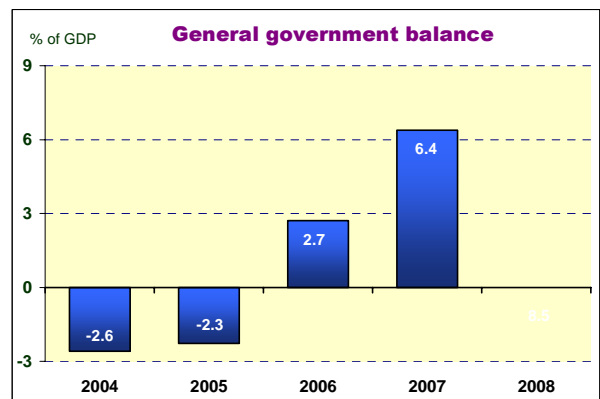
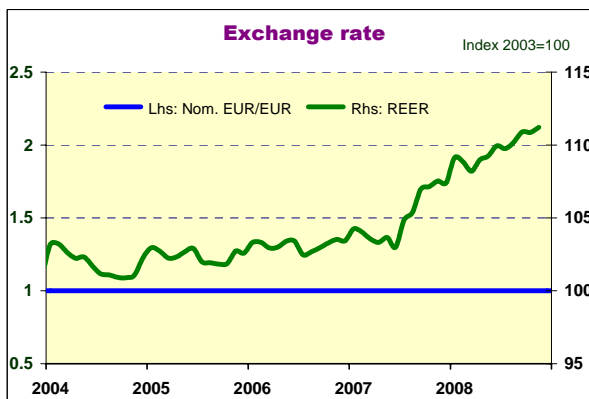
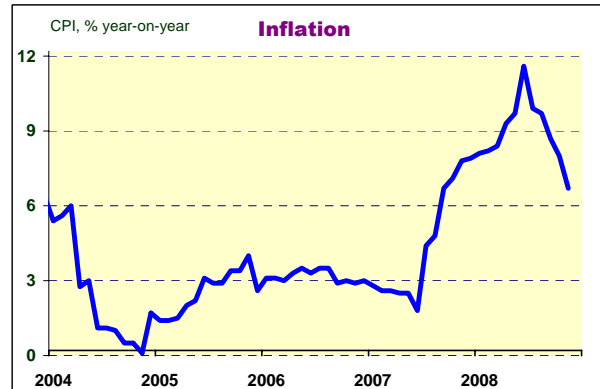
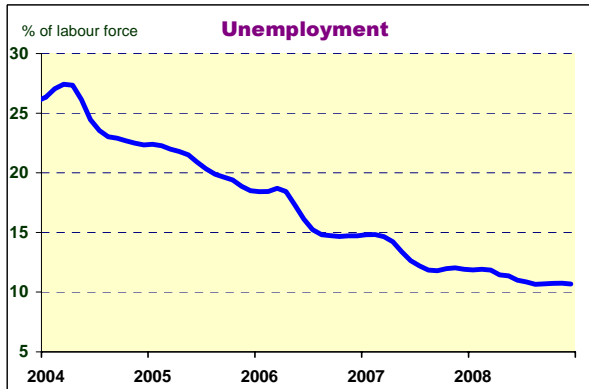
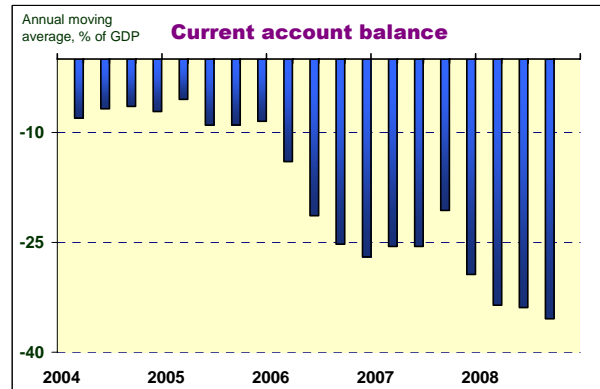
		2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
1 Output and demand												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	13.8	-1.9	1.0	0.1	:	-3.2	3.6	:	-21.1	-7.2	:
Gross domestic product ^{1.3}	Ann. % ch	4.4	4.2	8.6	10.7	:	8.0	8.0	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	-0.5	-0.3	3.6	3.7	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	22.3	18.5	14.7	11.9	10.7	11.0	10.7	10.7	10.7	10.8	10.7
Employment ^{2.2}	Ann. % ch	29.9	2.0	3.8	5.6	:	7.6	6.0	:	7.1	7.2	:
Wages ^{2.3}	Ann. % ch	11.7	8.0	15.6	14.2	:	24.5	25.0	:	19.0	16.7	:
3 International transactions												
Exports of goods ^{3.1}	Ann. % ch	67.1	1.9	40.7	1.8	:	-6.2	-15.2	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	37.9	12.2	53.7	33.6	:	16.0	10.9	:	:	:	:
Trade balance ^{3.3}	% of GDP	-24.9	-28.3	-39.5	-47.8	:	-48.7	-49.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	42.0	43.5	49.4	46.5	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	58.1	61.1	79.1	79.0	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-7.2	-8.5	-24.7	-29.4	:	-33.9	-35.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.0	21.0	21.7	18.7	:	15.6	17.3	:	N.A.	N.A.	N.A.
4 Prices												
CPI ^{4.1}	Ann. % ch	2.2	2.4	3.0	4.3	:	10.0	9.2	:	7.8	6.5	:
GDP Deflator ^{4.2}	Ann. % ch	6.2	4.5	9.8	20.0	:	51.7	11.7	:	N.A.	N.A.	N.A.
Producer prices ^{4.3}	Ann. % ch	5.8	2.1	3.1	8.5	:	14.6	17.5	:	14.2	:	:
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.	10.58	1.20	1.21	N.A.	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	9.98	3.09	1.17	0.90	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,758	5,670	14,406	36,159	19,947	21,839	17,952	10,508	12,961	10,299	8,265
M21 ^{5.4}	Ann. % ch	10.6	58.7	82.9	71.9	:	33.1	18.7	:	2.7	:	:
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
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	-2.6	-2.3	2.7	6.4	:	2.8	4.3	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	44.5	38.6	32.6	26.3	:	31.5	32.0	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO



SERBIA



COMMENTS

Recent economic and political developments

The Serbian economy is increasingly being affected by the continuing global economic and financial crisis. While Serbian banks are not directly affected by the decline in asset values of mortgage backed securities, the adverse effects of the financial crisis on global asset and credit markets are increasingly affecting the economy.

Refinancing lines from foreign parent banks have become more expensive as parent banks are passing on their increased cost of financing to Serbian subsidiaries. The availability of cross-border borrowing from foreign banks directly to the domestic corporate sector has declined and trade financing has become more difficult. The maturity of foreign loans has been shortened with the maximum duration now being up to one year. Domestic interest rates have been increased and several banks have tightened their lending standards. As a result, credit growth to the private and corporate sector has slowed and is expected to continue to do so in 2009.

An agreement with the IMF has been reached on a precautionary Stand-by Arrangement (SBA) in November as the Government finally decided on expenditure cuts in order to keep the deficit at 1.5% of GDP in 2009. The decision envisages that the 10% increase in pensions (applied as of 1 November) will remain in place, but that pensions will stay frozen for the next 12 months. On the other hand, salaries in the public sector will rise by no more than 8% (in two steps) to compensate for projected inflation. Subsidies to agriculture, tourism, those extended to socially-owned enterprises and for social aid will be reduced by one fourth. Capital expenditures will rise by 19% over the previous year. The SBA has a duration of 15-months and will allow Serbia to draw up to EUR 400 million, if needed.

Output and demand

During the third quarter of 2008, GDP growth slowed to 4.9% year-on-year, from 6.3% year-on-year for the second quarter. Growth of industrial production slowed to 1% year-on-year in the third quarter from 2.3% in the second

quarter, on weaker domestic and global demand. The declining trend continued with industrial output falling by 2.6% year-on-year in November. In response to the decline in world demand for steel, US Steel, one of Serbia's leading exporters, closed one plant in Serbia. However, the agricultural and food processing sectors performed well due to the good 2008 harvest.

Labour market

Labour market conditions remained stable and employment grew by 0.2% year-on-year during the third quarter, a trend which continued in October and November. The unemployment rate declined to 12.5% during the third quarter but increased to 12.6% in October. Wage growth slowed to 17.9% year-on-year during the third quarter, declining further to 14.5% in November, after an upward surge in October. As the cost of living slowed even faster, real wage growth pick-up to 5.3% year-on-year during the third quarter.

International transactions

During the third quarter of 2008, exports and imports of goods grew respectively by 29.8% and 33.6% year-on-year, contributing to a further widening of the current account deficit to 17% of GDP. The financial account recorded net inflows in the order of 18.9% of GDP, more than offsetting the current account deficit. FDI and portfolio investment declined to 1.5% and 0.3% of GDP, respectively. Credit to the corporate sector recorded a net outflow of -1.9% of GDP while net inflows of credit to financial institutions increased to 15.1% of GDP. Servicing of foreign debt increased to 8% of GDP.

Prices

Inflation has peaked in mid-2008 (at 12.3%) and slowed thereafter. The decline in the price of petroleum and its derivatives in world markets as well as a better harvest contributed to the decline in inflation during the second half of the

year. However, the depreciation of the local currency since October has reduced this disinflationary effect somewhat and retail price inflation stood at 6.8% year-on-year in December. In contrast, core inflation stood at 10.1% year-on-year, significantly exceeding the upper bound of the target range of 3-6% for the whole year of 2008, due to high inflation expectations.

Monetary and financial indicators

In October, the National Bank of Serbia (NBS) increased its key policy rate by 200 basis points to 17.75% to support the local currency which had come under depreciation pressures, losing close to 17% vis-à-vis the euro during the fourth quarter. Nevertheless, the dinar depreciated further by 3.9% in the beginning of January 2009. In addition, the NBS has increased the amount of guaranteed deposits, lifted reserve requirement for banks' foreign borrowing and eliminated the tax on savings income to help boost foreign exchange liquidity of the local market.

In addition, the NBS repeatedly intervened in the interbank foreign exchange market to smooth the depreciation of the dinar and to boost foreign currency liquidity. In this context, foreign exchange reserves at the NBS declined by some EUR 800 million since the beginning of October to EUR 8.8 billion at end-2008.

The Belgrade Stock Exchange continued to tumble during the fourth quarter and the BELEX index lost 75% since the beginning of 2008.

Growth of broad monetary aggregates continued to slow during the third quarter of and thereafter. In November, the 12-month moving average of M2 and dinar reserve money grew by 27% and 32% year-on-year, respectively. Credit growth accelerated during the third quarter but decelerated in EUR-terms (as the dinar depreciated strongly vis-à-vis the euro since October 2008) thereafter. The 12-month moving average of credit to the non-monetary sector expanded at a rate of 34% year-on-year in EUR-terms in November.

The Serbian banking system was adversely affected by a substantial withdrawal of foreign currency deposits in the order of EUR 1 billion or 20% of all foreign currency deposits.

However, Serbian banks do not face solvency problems, so far. Due to the restrictive standards of the National Bank of Serbia, the degree of leveraging of the banking system stands at a relatively low factor of 4. Ratios of capital adequacy, profitability and non-performing loans are at favourable levels when compared to neighbouring countries. Looking forward, a deterioration of asset quality and an increase in non-performing loans is likely as the economy slows down, in particular lending to the corporate sector, which has previously been less restricted than lending to households. However, so far, the Serbian banking system seems well prepared to sustain such a downturn.

General government balance

The first 11-months execution of the consolidated general government budget of 2008 resulted in a deficit of 1.4% of GDP, significantly below the annual target of 2%. Revenue collection lagged somewhat behind the projections, meeting less than 90% of the annual target. However, total expenditures were even lower (88.7%) compared to the annual projections, mainly due to the poor execution of the public investment plan.

Following the agreement with the IMF, the parliament adopted the 2009 budget in end-December. In early January national authorities indicated that there might be a need for revisions of the budget in the first quarter of 2009 due to the deterioration of the global economic environment. The main objectives of the 2009 draft budget are (i) to reduce the general government deficit to 1.5% of GDP from 2.1% in 2008; (ii) to reduce current spending by -1.5% of GDP, in particular by cutting subsidies, limiting public sector wage increases to projected inflation, and freezing of pensions for 12 months; (iii) to increase capital spending by 0.3% of GDP; and (iv) to increase revenues by 0.6% of GDP through higher excise taxes on diesel and gasoline as well as a transfer of 50% of net profits of public enterprises to the budget. The deficit is foreseen to be financed through privatisation proceeds of 1.7% of GDP and external borrowing from IFIs in the order of 0.7% of GDP. An increase of the VAT rate is considered a last resort measure to achieve the deficit target.

TABLE

European Commission, ECFIN-D-1



SERBIA

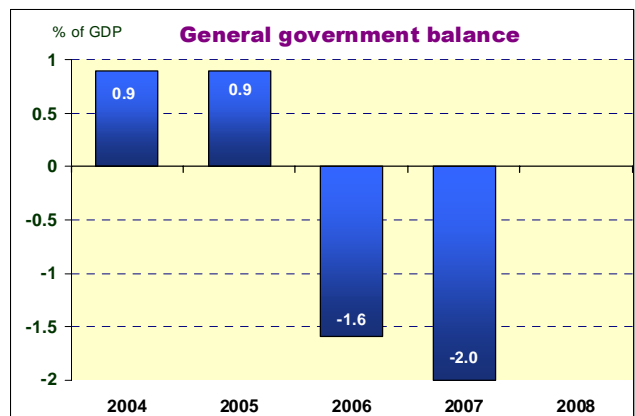
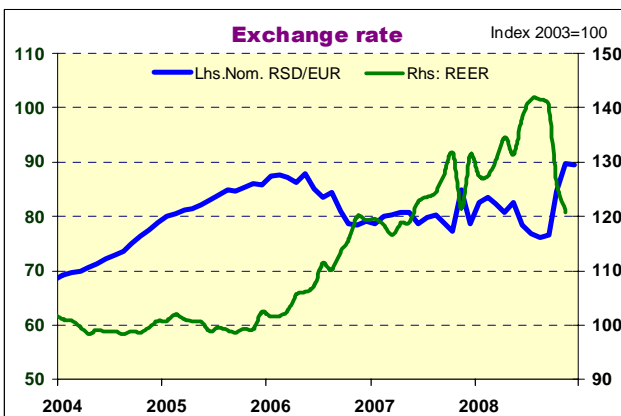
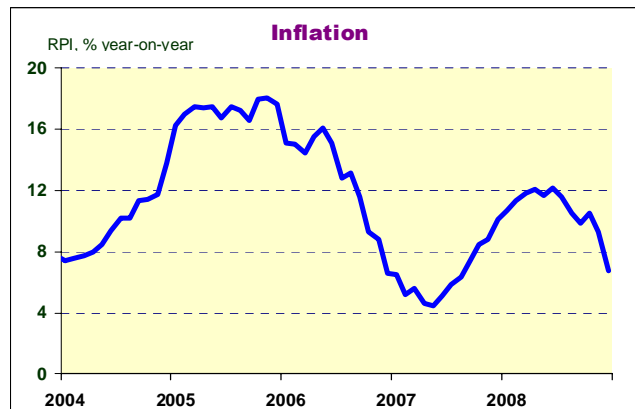
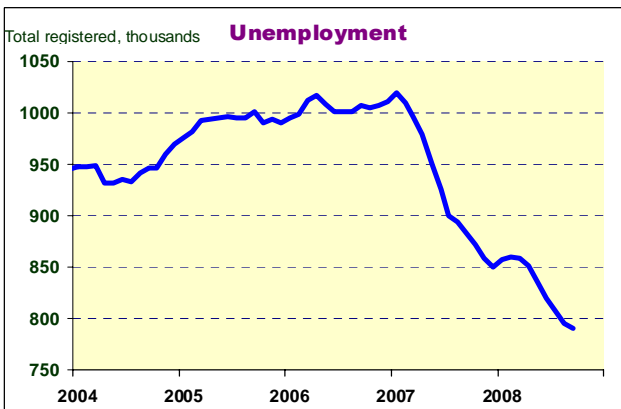
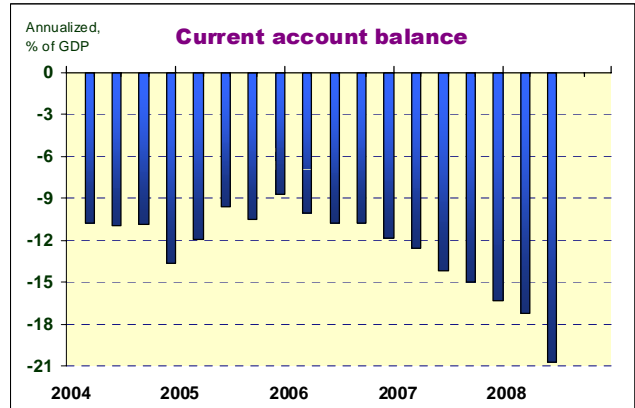
		2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
1 Output and demand												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	7.0	0.8	4.7	3.7	:	2.3	1.0	:	-3.4	-2.6	:
Gross domestic product ^{1.3}	Ann. % ch	8.2	6.0	5.6	7.1	:	6.3	4.9	:	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	14.3	9.2	7.4	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	19.5	21.8	21.6	18.8	:	13.0	12.5	:	12.2	12.6	:
Employment ^{2.2}	Ann. % ch	0.4	-6.7	-3.8	1.0	:	0.2	0.2	:	0.2	0.2	:
Wages ^{2.3}	Ann. % ch	23.7	24.1	24.4	22.1	:	19.4	17.9	:	19.0	14.5	:
3 International transactions												
Exports of goods ^{3.1}	Ann. % ch	27.8	27.2	43.4	37.3	:	42.8	29.8	:	7.2	:	:
Imports of goods ^{3.2}	Ann. % ch	43.8	-2.7	25.9	40.9	:	46.8	33.6	:	0.9	:	:
Trade balance ^{3.3}	% of GDP	-29.5	-22.8	-22.2	-21.4	:	-23.2	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	22.7	25.1	27.7	28.0	:	29.9	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	48.4	45.2	47.6	50.2	:	53.9	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-13.4	-8.3	-9.4	-14.9	:	-20.7	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.9	5.9	13.5	5.9	:	7.4	:	:	N.A.	N.A.	N.A.
4 Prices												
RPI ^{4.1}	Ann. % ch	9.8	17.3	12.7	6.8	10.7	11.9	10.7	8.9	10.5	9.2	6.8
GDP Deflator ^{4.2}	Ann. % ch	12.8	15.0	11.3	:	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	9.1	14.2	13.3	5.9	:	13.0	14.0	:	12.5	:	:
Import prices ^{4.4}	Ann. % ch	21.4	5.7	4.0	12.0	:	26.3	23.2	:	:	:	:
5 Monetary and financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	21.16	17.54	13.48	6.44	:	4.40	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	N.A.	1,954	2,658	3,831	2,604	3,016	2,546	1,366	1,618	1,330	1,151
M3 ^{5.4}	Ann. % ch	31.2	39.1	37.4	41.1	:	37.4	24.6	:	23.0	13.9	:
Exchange rate RSD/EUR ^{5.5}	Value	73.10	83.25	83.91	79.90	81.94	80.54	76.54	87.88	84.55	89.63	89.48
Nominal eff. exchange rate ^{5.6}	Index	93.5	92.7	103.9	100.1	:	99.6	103.6	:	90.8	86.6	:
6 Government balance and debt												
General government balance ^{6.1}	% of GDP	0.9	0.9	-1.6	-2.0	:	-0.8	-0.3	:	-0.3	:	:
General government debt ^{6.2}	% of GDP	53.3	50.3	36.2	29.4	:	24.3	25.2	:	25.7	:	:

CHARTS

European Commission, ECFIN-D-1



SERBIA



KOSOVO*

*as defined by UNSCR 1244

COMMENTS

Recent economic and political developments

The international crisis had a limited impact on the economy in Kosovo so far. The spread for business loans has increased in September to 13.2%, whereas it had previously fluctuated around its long-run average of 11.5% within a narrow band. Banking and insurance industry indicators remained robust. Banks' reporting requirements were tightened and local institutions were asked to gradually decrease their exposure to foreign parent banks to 20% of Tier I capital. There has been an increase in exchange of information with central banks and other supervisory authorities as well as with the boards of key players in the banking sector (RZB, ProCredit and NLB).

The EU Enlargement Package published on 5 November pointed to a lack of progress with structural reforms in Kosovo such as the privatization of the remaining socially owned and state enterprises as well as the strengthening of the rule of law.

Following the declaration of independence on 17 February 2008, so far 53 countries have recognised Kosovo, among them seven of the G8 countries and 21 EU Member States.

While the IMF membership process continued and is on track, the Kosovan authorities could not find an agreement with the IMF on a macro-fiscal framework for 2009 and beyond. Such an agreement is a necessary condition for outstanding budget support from the European Community.

In its 63rd session in late September the General Assembly of the UN discussed a request by Serbia to seek an advisory opinion of the International Court of Justice on whether the declaration of independence of Kosovo was in accordance with international law. The request was approved on the 8th of October. An advisory opinion of the ICJ is expected for 2010.

Output and demand

The availability of statistical data on output and demand remains scarce. In October, the Statistical Office published GDP data for the

period 2004-2006, broadly confirming that real growth rates stood at around 4% in 2005 and 2006 given the deflationary environment in 2005 and a broadly stable price level in 2006. There are indications that annual real GDP growth in 2007 and 2008 was more robust at somewhat above 5%.

Labour market

In October, the number of registered unemployed persons stood at 335,697, up 0.6% compared to October 2007. While the overall figure has been stabilizing over recent months, unemployment among the 15-24 year old is rising, signalling the continued lack of job opportunities. Unemployment remains very high in Kosovo with significant differences between genders.

The results of the Labour Force Survey 2007 were published in August 2008. According to the survey, the unemployment rate stood at 43.6% (male 38.5%, female 55.2%), the activity rate at 46.5% (male 65.2%, female 28.3%) and the employment rate at 26.2% (male 40.1%, female 12.7%). Aggravating the alarming situation on the labour market is the fact that most of the unemployed are long-term unemployed, pointing to very low dynamics in the labour market, even though the significant size of the informal sector may somehow distort the actual picture.

International transactions

The coverage ratio of exported to imported goods (12-month moving average) has gradually increased from 8.5% in 2006 to 9.4% in 2007 and 11.2% in September 2008. However, the level is still very low, reflecting the weak export capacity and low competitiveness.

During the first nine months of 2008, exports of goods increased by 56% and imports by 22% compared to the same period of the previous year. The European Union and the countries of CEFTA remain the main trading partners of Kosovo during the first nine months of 2008. The EU accounts for 35% of Kosovo's imports and 47% of Kosovo's exports. The respective

trade shares for the CEFTA countries are 39% (imports) and 30% (exports).

After the responsibility for Customs has been passed from UNMIK to the local authorities, troubles with the transition have led to some wild rhetoric on a possible "trade war" between Kosovo on the one side and Bosnia-Herzegovina and Serbia on the other side.

Kosovo currently does not assume any sovereign debt servicing obligations as Serbia continues to service Kosovo's potential share of public external debt. However, Kosovo has started preparing for taking over its share by building debt management capacity at the Treasury and by earmarking funds for notional debt servicing in its medium-term budget planning.

Prices

Annual inflation rates continued their decline as expected given the important base effects in the second half of 2008. The price of the CPI basket fell 1.0% in November compared to October and increased by just 2.6% with respect to November 2007. However, the shocks to the price level in the second half of 2007 prove to be quite persistent with detrimental consequences for Kosovo's competitiveness. The overall price level is still some 13 percentage points above its level in July 2007, i.e. the level before the price hikes for food and, somewhat later, energy.

A twelve month moving average of the change in the CPI price index stood at 10.3% at the end of November, after 4.4% in 2007 and 0.6% in 2006. The annual figure for 2008 can be expected to come in just below 10%.

Monetary and financial indicators

Kosovo continues to rely on the euro as currency in use. Therefore, the Central Bank of Kosovo cannot pursue an independent monetary policy.

Broad money widened by 21.3% in the first three quarters of 2008 compared to December 2007 after an annual increase of 23.8% in 2007. The stock of outstanding loans to the private sector increased by 26.7% during the same period, after an annual increase of 40.1% in

2007. At a loan-to-deposit ratio of 87.2%, any further credit growth is constrained by growth in deposits.

General government finance

The estimated budget outcome for 2008 displays revenues just slightly below the level of 2007. Looking at tax revenues alone, 2008 revenues increased by 8.6% compared to 2007. However, compared with 2007 and 2006, the tax system appears to be less efficient with the overall growth elasticity of tax revenues being substantially lower in 2008 than in the preceding two years. This raises some concern, as 2009 will be the first year where the entire revenue side, including customs, will be under the responsibility of the local authorities. Several changes in statutory tax rates add to the uncertainty about 2009 fiscal outcomes. On the spending side, capital investment spending rose by more than 70% in 2008, but also subsidies and transfers increased more than 40% compared to their level in 2007.

On 19 December, the Assembly adopted the 2009 budget law. The 2009 budget foresees revenues of EUR 956 million (25.5% of GDP) and expenditures of EUR 1094 million (29.2% of GDP) which would amount to a deficit of 3.7% of GDP after an expected surplus of 1% of GDP in 2008. The budget contains some highly optimistic assumptions on government receipts, which depend on a successful conclusion of the privatisation of the electricity production and distribution already in 2009. Also, tax revenues may prove less buoyant. Consequently, the fiscal reserve (accumulated cash surpluses in previous years) may be reduced to a much lower level than what is envisaged in the budget, a fact that has triggered criticism by both the European Commission and the IMF. This issue will figure prominently in discussions that will take place in the context of the Fiscal Surveillance Mechanism between the Kosovan authorities and the European Commission. On 15 December 2008, the Kosovan Minister of Finance officially requested the European Commission to set up this mechanism which has been foreseen in the Comprehensive Proposal for status settlement which has been adopted by Kosovo together with its Constitution on 15 June.

TABLE

European Commission, ECFIN-D-1

KOSOVO*

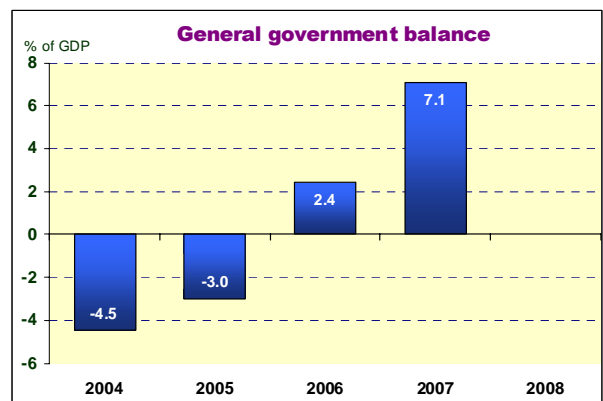
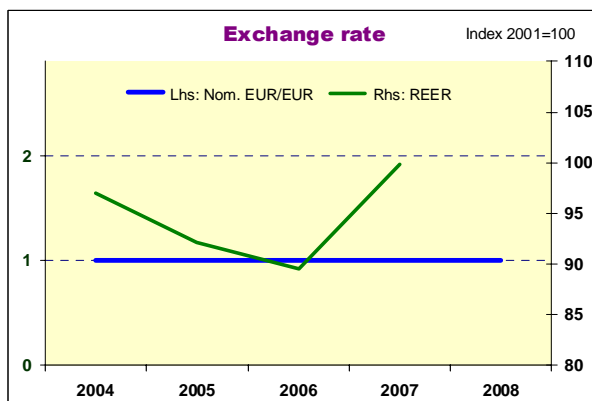
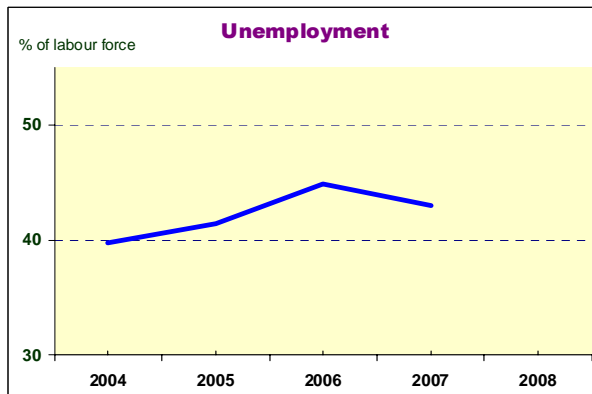
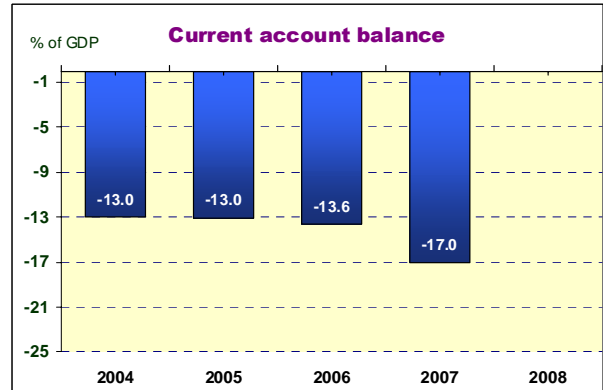
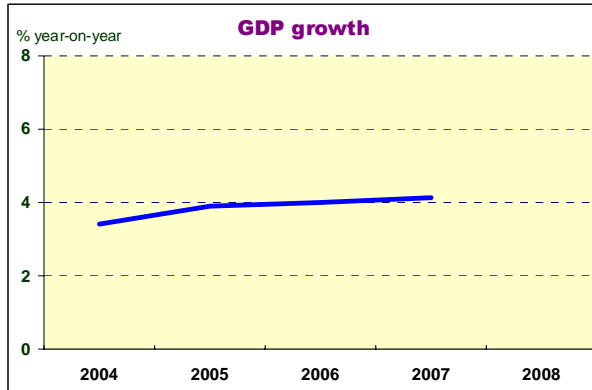
		2004	2005	2006	2007	2008	Q2 08	Q3 08	Q4 08	Oct 08	Nov 08	Dec 08
1 Output and demand												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	3.4	3.9	4.0	4.1	:	:	:	:	:	:	:
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	3.6	8.0	4.2	7.6	:	:	:	:	:	:	:
Investment ^{1.6}	Ann. % ch	-3.1	4.7	10.3	12.4	:	:	:	:	:	:	:
Change in stocks ^{1.7}	% of GDP	3.9	4.2	4.4	N.A.	N.A.	:	:	:	:	:	:
2 Labour market												
Unemployment ^{2.1}	%	39.7	41.4	44.9	43.0	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	61.2	-1.0	-10.2	10.8	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	9.3	8.5	N.A.	N.A.	:	:	:	:	:	:	:
3 International transactions												
Exports of goods ^{3.1}	Ann. % ch	-7.6	-0.5	96.8	33.0	:	76.0	11.7	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	2.8	8.9	12.8	20.7	:	32.8	14.8	:	:	:	:
Trade balance ^{3.3}	% of GDP	-33.5	-35.9	-37.4	-41.6	:	-44.1	-44.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	7.1	7.0	8.9	10.0	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	40.1	42.5	45.5	48.6	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-13.0	-13.0	-13.6	-17.0	:	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.7	2.7	7.7	9.2	:	:	:	:	N.A.	N.A.	N.A.
4 Prices												
CPI ^{4.1}	Ann. % ch	-1.1	-1.4	0.6	4.4	:	13.9	9.8	:	4.5	2.6	:
GDP Deflator ^{4.2}	Ann. % ch	-2.4	-1.7	0.2	3.4	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:
5 Monetary and financial indicators												
Interest rate (3-12 months) ^{5.1}	% p.a.	15.70	15.60	15.47	15.49	:	16.85	:	:	:	:	:
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	43.6	21.0	5.5	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{5.5}	Value	1.00	1.00	1.00	1.00	1.0	1.0	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) ^{5.6}	Index	-3.0	-5.0	-2.8	-0.1	:	:	:	:	:	:	:
6 Government balance and debt												
General government balance ^{6.1}	% of GDP	-4.5	-3.0	2.4	7.1	:	1.2	:	:	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 (1998 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. EUR, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. EUR, 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	Deposit rates, 3 month, close	Ecwin/Reuters
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	Ecwin/Reuters
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.	