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1st Quarter 2020

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European Commission
Directorate-General for Economic and Financial Affairs

EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ)

1st Quarter 2020

This document is written by the staff of the Directorate-General for Economic and Financial Affairs, Directorate D for International Economic and Financial Relations and Global Governance, Unit D1 – Candidate and Pre-Candidate Countries.

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* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

OVERVIEW

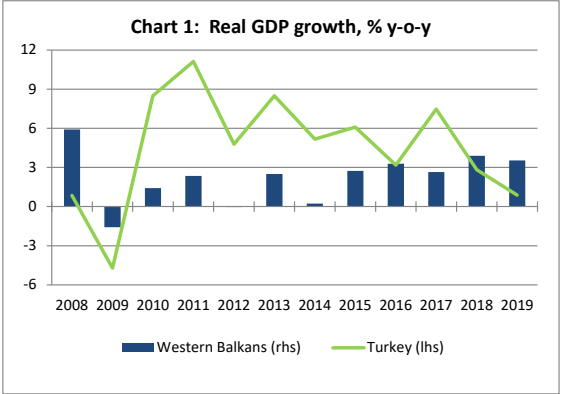
*Before the **Western Balkans** were hit by the Covid-19 crisis, the region enjoyed several years of relatively robust GDP growth. It peaked at 3.9% in 2018 and decelerated slightly to 3.5% in 2019 due to a less favourable external environment and country-specific factors, such as a large earthquake in Albania and the termination of large infrastructure projects in some countries. Private consumption and in some countries investment remained the key growth drivers. The region's current account deficit stood at 6% of GDP, the highest level in the last 5 years, suggesting that external positions in many economies remain vulnerable. Economic growth led to further job creation and unemployment rates declined in all countries to historically low levels, while still remaining sizeable in comparison with EU peers. Solid domestic demand boosted tax revenues across the Western Balkans, while investment spending often underperformed, leading to fiscal balances in line with or even overachieving the targets in 2019. The public debt-to-GDP ratio came down in several countries compared to end-2018. The outbreak of the Covid-19 pandemic in early March 2020 interrupted abruptly the growth momentum in the **Western Balkans**. Governments across the region implemented containment measures to stem the spread of the virus including border closures, social distancing and lockdowns of parts of the economy. Authorities also announced fiscal stimulus packages to mitigate the crisis' substantial disruptive effects on growth and employment. As the Covid-19 crisis is having a large negative impact on revenues from exports and remittances, while also worsening access to foreign capital, balance-of-payment pressures have emerged and all Western Balkan countries except Serbia have turned to the IMF to request emergency financial support. In **Turkey**, the economy grew by 0.9% in 2019, mainly on the back of a strong acceleration of GDP growth in the fourth quarter of the year. For the first time since 2001, the current account balance turned to a surplus of 1.2% of GDP due to a steep fall in imports amid weak domestic demand and favourable export performance. Since the report of the first Covid-19 case on 11 March 2020, social distancing measures to contain the spread of the virus have become increasingly stricter. High frequency indicators in March and April show that economic activity started to be affected by the pandemic. The Turkish authorities took a number of measures to cushion the impact of the crisis on the local economy, mostly focused on boosting liquidity and providing favourable credit conditions.*

In 2019, GDP growth in the **Western Balkans** softened to 3.5% from 3.9% in 2018, mainly due to a notable slowdown in *Albania* and *Bosnia and Herzegovina*. In *Albania*, annual output growth eased to an estimated 2.2% from 4.1% in 2018, due to November's strong earthquake, unfavourable conditions for hydro-electricity production, as well as a decline in investment partly reflecting the completion of some large construction works. Solid private consumption continued supporting growth. In *Bosnia and Herzegovina*, annual economic growth slowed to 2.6% in 2019 from 3.3% one year earlier mainly due to a negative contribution of net exports. In *Serbia*, the largest economy of the region, GDP decelerated marginally but still grew by 4.2% on the back of robust domestic demand, in

particular investment (supported by the building of the Serbian section of the Turkstream gas pipeline). *Montenegro's* output growth decelerated to 3.6% from 5.1% a year earlier, largely due to a contraction in investment. Household consumption was the main growth driver coupled with a positive contribution of net exports. Conversely, in *North Macedonia*, annual GDP growth accelerated to 3.6% up from 2.7% in 2018, driven by solid domestic demand, including a strong recovery of investment. *Kosovo's* economy expanded by 4.2% in 2019, on the back of rising investment and private consumption, the latter supported by large remittances from abroad and easier access to credit.

In **Turkey**, the economy grew by 0.9% in 2019 following a 6% y-o-y expansion of real GDP in

the fourth quarter of the year. Economic growth was supported by base effects, a strong rebound in private consumption, and a significant positive contribution of stock building. High-frequency indicators in March 2020 provided early signs of the Covid-19 pandemic's economic impact. Real sector confidence plunged by 7.2 points to 99.7 compared to the previous month while the manufacturing PMI fell below the neutral threshold of 50.0 points for the first time in three months. Economic confidence declined sharply across all sectors in April.

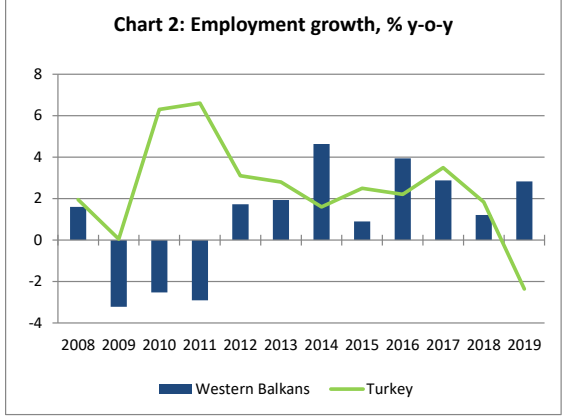


Source: Macrobond, Commission calculations

Economic growth has led to further increases in employment levels in the **Western Balkans**. The pace of job creation accelerated in most countries of the region in 2019. Employment growth picked up in *North Macedonia, Serbia, Albania* and *Bosnia and Herzegovina* while *Kosovo* recorded a strong increase in employment levels compared to a decline a year earlier. Conversely, job creation decelerated in *Montenegro*. Overall, the average rate of employment growth increased to 2.8% across the region in 2019 from 1.2% in 2018 (Chart 2). Gains in employment contributed to record low unemployment rates in all countries in the region. The decline was particularly significant in *North Macedonia* and *Kosovo* (3.5 pps and around 4 pps y-o-y, respectively). Still, with jobless rates ranging from 10.4% in *Serbia* to 25.7% in *Kosovo*,

there remains a need to further improve labour market outcomes.

In **Turkey**, as a result of a prolonged period of weak economic activity employment declined by 2.4% in 2019 while the unemployment rate rose significantly to 14.0% from 11.2% one year before. The labour market situation remained challenging in early 2020. In January, employment marginally increased by 0.4% y-o-y while the unemployment rate remained elevated at 13.8% y-o-y. Since the implementation of containment measures in mid-March, around 10% of the labour force has applied for a short-term working allowance.

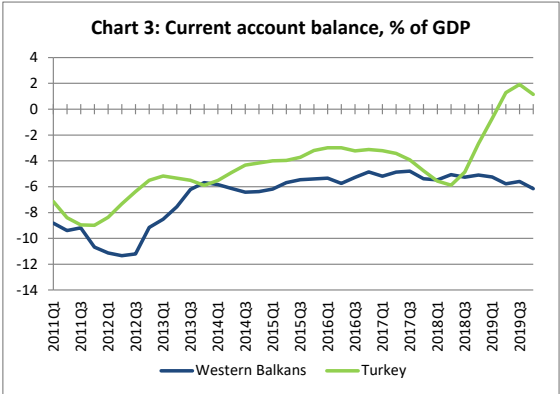


Source: Macrobond, Commission calculations

External imbalances remain a key challenge in most **Western Balkan** countries, reflected in very high merchandise trade deficits ranging from 14%-17% of GDP in *Serbia* and *North Macedonia*, to around 21%-22% in *Albania* and *Bosnia and Herzegovina*, and to 42% or above in *Montenegro* and *Kosovo*. These large merchandise trade deficits are only partially offset by surpluses in the services and secondary income accounts, resulting in large foreign financing needs. External developments in the region during 2019 point to a rather diverse picture. Compared to the year before, the current account deficit widened in *North Macedonia, Albania* and *Serbia* whereas it narrowed in *Montenegro, Bosnia and Herzegovina* and *Kosovo*. Overall, the current account deficit in the **Western Balkans** stood at 6% of GDP in 2019, compared to 5% a year

before (Chart 3). On a positive note, the current account deficits in the region continued to be financed mostly by net FDI inflows.

In **Turkey**, for the first time since 2001, the current account balance turned to a surplus of 1.2% of GDP in 2019 compared to a deficit of 2.7% in 2018. This was mainly due to a sharp drop in imports amid weak domestic demand as well as favourable export performance underpinned by the depreciation of lira and improved price competitiveness. In 2019, net financial inflows were significantly lower than historic averages. Preliminary data for March 2020 show that due to disruptions in global trade as well as the closure of borders with Iran and later on with Iraq, goods exports plunged by 18% y-o-y whereas goods imports grew by 3.1% y-o-y on the back of still robust domestic demand.



Source: Macrobond, Commission calculations

Weakening inflation dynamics in the **Western Balkans** in early 2020, combined with renewed monetary easing by major central banks due to the Covid-19 pandemic, triggered further monetary accommodation in countries with an independent monetary policy. In **Serbia**, consumer price inflation slowed to 1.3% y-o-y in March, slightly below the lower end of the target tolerance band of 3%±1.5pps, driven in particular by energy and unprocessed food prices. To soften the economic impact of the Covid-19 crisis, the central bank of **Serbia** decided to lower the key policy rate from

2.25% to a new record-low of 1.5% with two successive cuts of 50 and 25 basis points in March and April, respectively. It also continued its interventions on the foreign exchange market by selling a net EUR 185 million in the first quarter of 2020, of which a net EUR 135 million in March. In **Albania**, CPI inflation was low in 2019 (1.4%) but it picked up to 2.1% in March (still below the 3% target) driven by the depreciation of the lek against the euro in the wake of the Covid-19 pandemic as well as a strong increase in food prices. Given the worsening outlook for domestic demand-led inflationary pressures, the **Bank of Albania** cut its already low key policy rate further by 50bps to 0.5% on 25 March, while also releasing liquidity. In **North Macedonia**, average annual consumer price inflation decelerated to 0.8% in 2019 and remained low in the beginning of 2020. After reducing in January its benchmark interest rate to 2.0%, the central bank of **North Macedonia** decided in March to cut the key policy rate further by 25bps to the new historic low of 1.75%. In **Montenegro**, consumer price inflation softened to 0.5% y-o-y in the first quarter of 2020, down from 1.1% in the previous three months, mainly due to the disinflationary effect of transport prices. For the same period, in **Kosovo** and **Bosnia and Herzegovina**, annual CPI inflation eased to 1.1% and 0.4%, respectively.

In **Turkey**, annual CPI inflation increased in the first quarter of 2020, to 12.1% from 10.3% in the previous three months. The central bank continued its accommodative monetary policy stance by cutting its key policy rate further by 100bps to 8.75% in April, which followed recent rounds of easing, by 100bps in March and 50bps in February. In spite of the new limits on banks' foreign exchange swaps, the lira depreciated against the dollar by 17.2% y-o-y since end-December 2019. Gross foreign exchange reserves declined markedly since early March to \$56.0 billion on 10 April.

In 2019, bank lending continued to be supportive of growth in the **Western Balkans** although at a slower pace in some countries as credit growth decelerated in *Serbia*, *Montenegro*, *Bosnia and Herzegovina* and *Kosovo*. On the other hand, credit activity accelerated in *North Macedonia* and *Albania* (when adjusted for exchange rate changes and loan write offs). In most countries of the region, credit growth expanded at a faster pace in February 2020 compared to the previous month. For the same period, in some countries such as *Montenegro* and *Bosnia and Herzegovina* credit to households grew faster than corporate loans. Bank balance sheets improved further as all **Western Balkan** countries continued to reduce the share of non-performing loans (NPLs) in total loans. The NPL ratio in *Albania* fell to 8.3% in January 2020, 3pps lower than 12 months earlier. In *Bosnia and Herzegovina* the NPL ratio stood at 7.9% at the end of 2019, followed by *Montenegro* (4.7%), *North Macedonia* (4.6%) and *Serbia*, where it reached its lowest level on record (4.1%).

In *Turkey*, despite improved financing conditions, annual credit growth further decelerated to 10.8% in 2019 down from 13.1% in 2018 as weak business and household confidence took their toll on loan demand. However, in the first quarter of 2020, total loan growth significantly accelerated, to 16.1% y-o-y. The NPL ratio rose to 5.2% in February 2020 from 4.1% a year before. The central bank and the Banking Regulation and Supervision Agency took a broad range of measures in March and April to stimulate lending and cushion the disruptive effects of the Covid-19 crisis.

In 2019, increased tax revenues generated by the sustained economic expansion continued to support the reduction of fiscal deficits in most countries in the **Western Balkan** region. However, with the exception of *Serbia*,

improved budget balances were also partly due to underperforming capital expenditure, reflecting persistent weaknesses in the planning, selection and management of public investment. In *Montenegro*, the general government deficit fell significantly to 2% of GDP on the back of a strong growth in value added tax revenue and increased income from direct taxes and social security contributions. Capital spending lagged behind plan. In *North Macedonia*, notwithstanding that expenditure growth outpaced the increase in revenue, the budget deficit was lower than expected at 2.1% of GDP, mainly due to under-executing capital expenditure. In *Albania*, the budget shortfall also turned out better than expected at 1.8% of GDP, mainly due to savings on social insurance outlays and underspending on investment. In *Serbia*, strong revenue performance allowed for high increases in current and capital spending while keeping the general government budget close to balance. In *Kosovo*, preliminary data show that the budget deficit amounted to 0.6% of GDP according to the fiscal rule's definition (2.9% of GDP overall), significantly lower than planned due to underperforming investment spending. In *Bosnia and Herzegovina* increased revenue from indirect taxes and contained spending on public wages resulted in an estimated budget surplus of around 1% of GDP. Although they declined in several countries, public debt levels remained very high in 2019 in *Montenegro* (77.2% of GDP) and *Albania* (66.3%), and still elevated in *Serbia* (49.1% of GDP in February 2020).

In *Turkey*, in the first quarter of 2020, the central government budget deficit declined by 18% y-o-y to TL 29.6 bn (0.6% of full-year GDP), before increasing significantly in March amid plunging revenue and accelerating expenditure growth. Among other measures to mitigate the economic fallout from the Covid-19 crisis, the government deferred the collection of social security contributions, withholding tax, and value added tax due in April-June by six months across various sectors. Public debt rose to 33.1% of GDP in 2019, compared to 30.4% at end-2018.

Candidate and potential candidate countries: Summary table

	2015	2016	2017	2018	2019	Q3 19	Q4 19	Q1 20	Jan 20	Feb 20	Mar 20
Gross domestic product (in real terms, annual % change)											
Albania	2.2	3.3	3.8	4.1	2.2	4.2	-0.2	:	N.A.	N.A.	N.A.
North Macedonia	3.8	2.8	1.1	2.7	3.6	3.6	3.4	:	N.A.	N.A.	N.A.
Montenegro	3.4	2.9	4.7	5.1	3.6	4.7	3.1	:	N.A.	N.A.	N.A.
Serbia	1.8	3.3	2.0	4.3	4.2	4.8	6.2	:	N.A.	N.A.	N.A.
Turkey	6.1	3.2	7.5	2.8	0.9	1.0	6.0	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	4.1	3.4	3.2	3.3	2.6	3.1	1.6	:	N.A.	N.A.	N.A.
Kosovo	4.1	4.1	4.2	3.8	4.2	4.4	3.9	:	N.A.	N.A.	N.A.
Unemployment											
Albania	17.5	15.6	14.1	12.8	12.0	11.8	11.6	:	N.A.	N.A.	N.A.
North Macedonia	26.1	23.8	22.4	20.7	17.3	17.1	16.6	:	N.A.	N.A.	N.A.
Montenegro	17.8	18.0	16.4	15.5	15.4	15.6	16.1	:	N.A.	N.A.	N.A.
Serbia	17.7	15.3	13.5	12.7	10.4	9.5	9.7	:	N.A.	N.A.	N.A.
Turkey	10.5	11.1	11.1	11.2	14.0	14.2	13.8	:	14.1	:	:
Bosnia and Herzegovina	27.7	25.4	20.5	18.4	15.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	32.9	27.5	30.5	29.6	25.7	24.5	25.9	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)*											
Albania	-8.6	-7.6	-7.5	-6.8	-7.6	-7.9	-7.8	:	N.A.	N.A.	N.A.
North Macedonia	-2.0	-2.9	-1.1	-0.1	-2.8	-1.2	-2.8	:	N.A.	N.A.	N.A.
Montenegro	-11.0	-16.2	-16.1	-17.0	-15.2	-16.1	-15.2	:	N.A.	N.A.	N.A.
Serbia	-4.4	-2.9	-5.2	-4.8	-6.9	-5.9	-6.9	:	N.A.	N.A.	N.A.
Turkey	-3.2	-3.1	-4.8	-2.7	1.1	1.8	1.1	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.9	-4.5	-4.2	-3.6	-3.5	-3.6	-3.5	:	N.A.	N.A.	N.A.
Kosovo	-8.6	-7.9	-5.4	-7.6	-5.8	-5.3	-5.8	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)											
Albania	1.9	1.3	2.0	2.0	1.4	1.4	1.3	1.6	1.5	1.2	2.1
North Macedonia	-0.3	-0.2	1.4	1.4	0.7	1.8	1.1	:	0.6	0.7	:
Montenegro (HICP)	1.4	0.1	2.8	2.9	0.5	-0.1	1.1	0.5	1.1	0.6	-0.2
Serbia	1.4	1.1	3.1	2.0	1.7	1.3	1.4	:	2.0	1.9	1.3
Turkey	7.7	7.8	11.1	16.3	15.2	13.5	10.3	12.1	12.2	12.4	11.9
Bosnia and Herzegovina	-1.0	-1.1	1.3	1.4	0.6	0.4	0.2	:	0.7	0.3	0.1
Kosovo	-0.5	0.3	1.5	1.1	2.7	2.6	1.7	:	1.5	0.9	:
General government balance (% of GDP)											
Albania**	-4.1	-1.8	-2.0	-1.6	-1.9	-0.2	-1.9	:	:	:	:
North Macedonia***	-3.5	-2.7	-2.7	-1.8	-2.0	-0.6	-2.9	:	N.A.	N.A.	N.A.
Montenegro**	-8.3	-3.6	-5.3	-3.9	-2.0	0.8	0.1	:	:	:	:
Serbia***	-3.5	-1.2	1.1	1.5	-0.2	1.2	-3.1	:	N.A.	N.A.	N.A.
Turkey***	-1.0	-1.1	-1.5	-2.0	-2.9	-0.6	-3.2	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina***	0.6	1.2	2.5	2.2	:	:	:	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-2.0	-1.2	-1.3	-2.8	:	:	:	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

** Q figures refer to the quarterly balance divided by the estimated annual GDP.

*** Q figures refer to the quarterly balance divided by the quarterly GDP.

ALBANIA



Key developments

The Covid-19 pandemic hit Albania in early March and the Government imposed mobility restrictions on 11 March, amid concerns about the limited capacity of its health sector. Albania is particularly exposed to the economic fall-out of the pandemic because of its strong reliance of tourism and its intensive economic relations with some severely affected EU economies. The government lined up financial support measures for the health sector, affected businesses and households, so far amounting to some 300 million EUR or about 2.2% of GDP, while expecting hefty revenue losses of about 540 million EUR in the first half of 2020. The Albanian government, which also has to refinance sizeable maturing foreign debt this year, has requested emergency liquidity support from the IMF's Rapid Financing Facility in the amount of EUR 172 million, which was approved by the IMF Board on 14 April. The EU and several international partners active in Albania are preparing to re-orient and increase their financial assistance to support Albania in this crisis. The Minister of Finance requested EU support in the form of Macro-Financial Assistance on 15 April.

Real sector

Already before the outbreak of the Covid-19 crisis, Albania registered slowing economic activity. Hit by a strong earthquake in November, real GDP contracted by 0.2% y-o-y in the fourth quarter of 2019, following a 4.2% y-o-y growth in the previous three months. The fall in investment by 12% y-o-y (-7.6% q-o-q) was the key driver of the decrease in economic output, in addition to the sharp deceleration of private consumption growth from 4.6 % to 1.6% y-o-y (-1.9% q-o-q). Government consumption on the other hand continued to grow 2.6%, the same pace as in the previous three months. The growth of total exports remained strong at 9.9% y-o-y in the fourth quarter, as the increase in services exports (+16.1% y-o-y) more than offset the fall in goods exports (-7.6%). Imports decreased by 0.8% in the fourth quarter, driven by a 3.2 % contraction in goods imports, especially of electricity.

Based on quarterly data, GDP growth in 2019 as whole is estimated at 2.2%, compared to 4.1% a year before. In the year as a whole, investment

contracted by 4.1%, partly as a result of the completion of exceptionally large construction works, whereas private consumption continued its solid performance, growing by 3.3%. Government consumption increased by 3.1 %. For the year as a whole, the growth of total exports accelerated to 6.1%, as the drop in goods exports (-8.3%, was more than compensated by strong services exports (+10.7%). Imports grew overall 2.7 % in 2019, slightly more than in 2018.

On the supply side, the contraction in the fourth quarter reflected falling output of the construction industry (-14.8 %) and recreational services (-12.5 %), both sectors also contracted in 2019 as a whole. Hydro-electric production recovered in the second half of 2019 due to favourable weather conditions and services in finance and real estate recovered strongly from their low performance in 2018.

The economic sentiment indicator recovered 8.5 points in the first quarter following its fall in the previous three months, and returned above its long-term average by 3.3 points. The survey does not yet reflect the impact of the covid-pandemic as it is based on information collected before 10 March.

Labour market

The labour market was not affected by the slowdown in GDP growth. Employment growth accelerated from 2.1% in 2018 to 2.4% in 2019. The unemployment rate (15-64 years) declined to 11.6% in Q4 2019 compared with 12.7% in Q4 2018, and resulted in an average annual unemployment rate of 12% in 2019, down 0.8 pps y-o-y. Youth employment (15-29) decreased by 2.3% y-o-y in the fourth quarter, but in the full year 2019 it grew 4.8%. The youth unemployment rate was 21.5% in 2019, down 1.7 pps from a year earlier. The labour force participation rate slightly decreased in the fourth quarter but its annual average increased from 68.3% in 2018 to 69.6% in 2019. The female participation rate also continued to increase, to 61.6%, which narrowed the gap with the rate for men. Nominal wage growth softened from 3.7% y-o-y in Q3 to 2.2% in the fourth quarter, reflecting a drop of wage growth in agriculture, industry and construction.

External sector

The current account recorded a 7.6% of GDP deficit in 2019, compared with 6.8% in 2018. The large surpluses on the services and secondary income accounts could not offset the increased deficits of the goods trade balance and the primary account, with the latter recording a strong increase in investment income outflows. The secondary income balance increased to 7.3% of GDP in 2019 mainly because of strongly growing inflows for the government. Net foreign direct investment grew moderately by 2.7% in 2019, down from 7.5% in 2018, but kept its share in GDP stable at 7.9% and continued to cover fully the current account deficit. Gross external debt decreased again in the fourth quarter, to EUR 8.2 billion, corresponding to about 60% of GDP, down from 62% a year before. Foreign reserves decreased in the fourth quarter by 1.2 % y-o-y to EUR 3.36 billion, but were still able to cover more than 6 months of imports of goods and services and 40% of external debt.

Monetary developments

The appreciation of the lek against the euro slowed to 3.5% in annual terms in 2019. Despite lower disinflationary effects from the exchange rate, as well as increasing wages and food prices, the inflation rate dropped to 1.4% in 2019 and remained well below the central bank's target of 3%. In 2020, the lek continued to appreciate slightly against the euro in the first two months, but in March, with the onset of the covid pandemic in Albania, the currency lost 1.8 % of its value compared with February. A strong rise in food prices in combination with the depreciation pushed the inflation rate in March to 2.1% (y-o-y). Monetary growth of M2 and M3 accelerated to 3.5% and 4.3% y-o-y respectively over the fourth quarter 2019. In February 2020, M2 growth picked up to 4% y-o-y, while M3 softened to 4.1%.

In reaction to the economic impact of the pandemic, the central bank lowered its already low policy rate further to 0.5% and released liquidity. It also raised 150 million euro on the domestic market.

Financial sector

Credit growth to the private sector (in annual terms, adjusted for the impact of exchange rate

movements and loan write-offs) continued its recovery, accelerating from 7.5% in the third quarter to 7.8% in Q4 2019. Both lending to businesses and to households accelerated, to 8% and 7.5% y-o-y respectively, contributing to an increase in the credit to GDP ratio by 1.2 pps y-o-y to 36.5% at end-2019. Interest rates for new loans remained stable at an average of 6.3% for loans in lek and 4.2% for those in euro. Lending in lek accounted for 48.7% of credit to the private sector at the end of 2019 and contributed most to the credit growth in Q4, offsetting a slowdown of lending in euro. In contrast, foreign currency deposits grew at a higher pace (6.5%) than deposits in lek (4.9%). Overall deposits grew 5.7 % in Q4 2019 to an estimated at 70.4% of GDP. Overall, the stability of the banking sector continued to improve in the fourth quarter and profitability stabilised. The ratio of non-performing loans to total loans declined to 8.3 % in January 2020, 3 pps. lower than 12 months earlier. The capital adequacy ratio in the banking sector softened from 18.8 % at the end of the third quarter to 18.3 % at the end of the year. Liquidity ratios also decreased, both with respect to total assets (by 1.2 pps. q-o-q to 15.1 %) and to total short-term liabilities (1.7 pps. q-o-q to 20.9 %), but they were still above their level one year earlier.

Fiscal developments

In 2019, total revenue amounted to 27.3% of GDP compared with 26.7% in 2018. It increased by 2.3 % compared with 2018 but remained 5.4 % below the budgeted amount. All revenue components except non-tax revenue grew less than budgeted. Mainly because of contracting net VAT revenue, tax revenue of the central government remained at 2018 level, despite a solid increase in income tax. In the same period, expenditure grew 3.3% compared with 2018. The actual expenditure remained 5.3% below the budget plan, partly because of lower than interest expenses, but mainly because 14.3 % of the investment budget remained unspent. As a result, the government spent 4.4% less on investments than in 2018. Overall, the fiscal deficit stood at 1.8 % of GDP and the primary balance recorded a surplus of 0.3 % of GDP. Although the government reduced nominal growth of public debt from 1.8 % in 2018 to 0.5% in 2019, the public debt ratio declined only by 1pp to 66.3 % of GDP, because of the lower than expected level of nominal GDP.

TABLE



European Commission, ECFIN-D-1

ALBANIA

		2015	2016	2017	2018	2019	Q3 19	Q4 19	Q1 20	Jan 20	Feb 20	Mar 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	-5.4	-3.7	1.6	-0.5	-0.5	4.0	-1.1	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-9.1	-19.6	8.4	9.7	5.6	4.8	5.4	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	2.2	3.3	3.8	4.1	2.2	4.2	-0.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	0.9	2.0	2.6	3.2	3.3	4.6	1.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	3.5	2.4	6.0	2.4	-4.1	-2.1	-12.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	19.4	5.1	19.6	5.6	:	-2.1	:	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	10.4	7.9	2.4	1.8	:	:	:	:	:	:	:
2 Labour market												
Unemployment ^{2.1}	%	17.5	15.6	14.1	12.8	12.0	11.8	11.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	4.9	6.1	2.7	2.1	2.4	2.6	2.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.2	-0.8	3.0	3.1	3.8	3.7	2.2	:	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	-6.0	2.5	14.4	20.0	-0.2	2.8	-5.5	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	-0.8	7.4	11.5	8.1	4.8	8.0	-2.7	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-21.0	-22.4	-22.7	-20.3	-20.8	-21.5	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	27.3	29.0	31.6	31.5	31.5	31.3	32.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	44.5	45.8	46.6	45.3	45.2	45.5	46.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-8.6	-7.6	-7.5	-6.8	-7.6	-7.9	-7.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.0	8.7	8.6	8.0	7.6	7.6	7.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,880.0	2,945.0	2,995.9	3,399.0	3,359.6	3,449.2	3,359.6	:	3,327.6	3,341.1	:
Int. reserves / months imp ^{3.9}	Ratio	7.4	6.8	7.0	6.8	6.5	6.6	6.5	:	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	1.9	1.3	2.0	2.0	1.4	1.4	1.3	1.6	1.5	1.2	2.1
Producer prices ^{4.2}	Ann. % ch	:	-1.5	2.8	1.6	-0.8	-1.6	-1.1	:	:	:	:
Food prices ^{4.3}	Ann. % ch	4.3	3.3	3.9	2.7	2.9	2.6	2.9	:	2.4	1.9	:
M3 ^{4.4}	Ann. % ch	1.8	3.9	0.3	-0.2	4.3	3.3	4.3	:	3.9	4.1	:
Exchange rate LEK/EUR ^{4.5}	Value	139.74	137.36	134.14	127.57	123.01	121.61	122.69	122.84	122.08	122.13	124.31
Real effective exchange rate ^{4.6}	Index	101.6	104.5	107.2	113.0	117.1	117.6	117.3	:	:	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	2.87	1.13	1.22	1.35	0.58	0.04	0.02	0.08	-0.15	0.05	0.34
Bond yield ^{5.2}	% p.a.	2.77	2.05	2.07	2.20	1.76	1.58	1.66	:	1.62	1.71	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	0.3	-0.7	-0.1	-1.7	3.0	5.2	6.7	:	6.0	7.0	:
Deposit growth ^{5.5}	Ann. % ch	1.9	1.1	1.0	-1.2	2.5	2.7	3.7	:	3.4	3.7	:
Non performing loans ^{5.6}	% total	18.2	18.3	13.2	11.1	8.4	10.6	8.4	:	8.3	8.2	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-4.1	-1.8	-2.0	-1.6	-1.9	-0.2	-1.9	:	:	:	:
General government debt* ^{6.2}	% of GDP	72.7	72.4	70.2	67.7	66.3	66.2	66.3	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

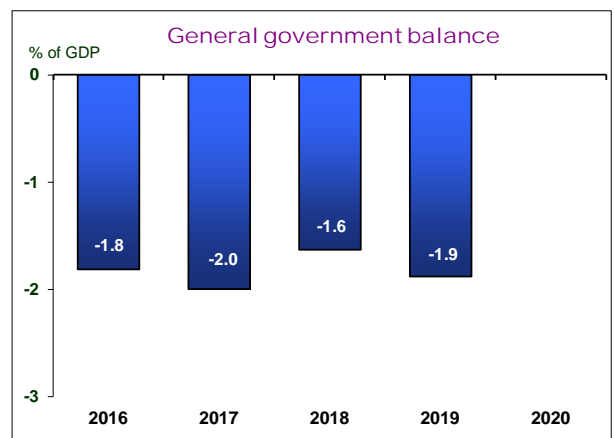
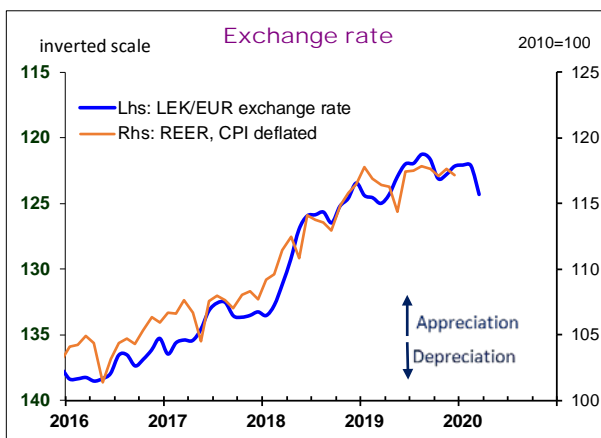
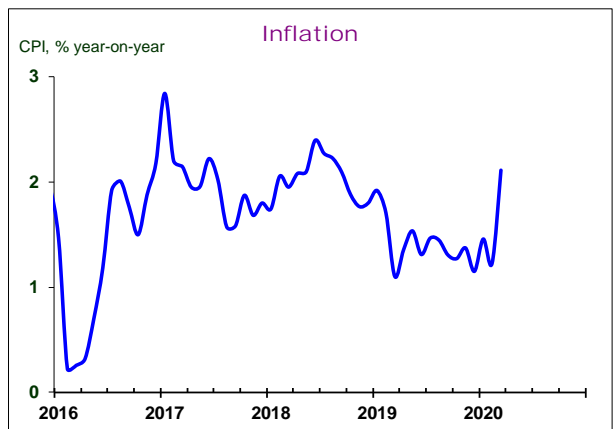
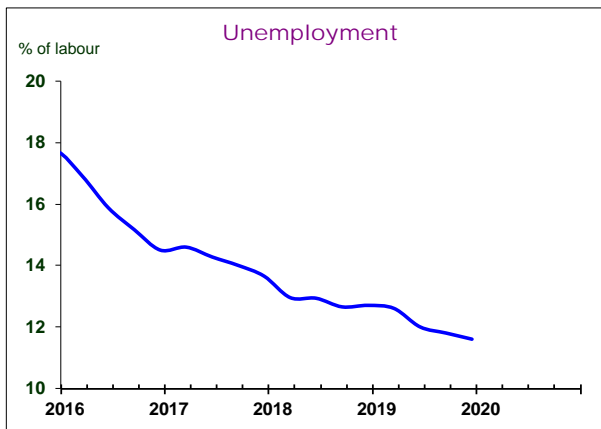
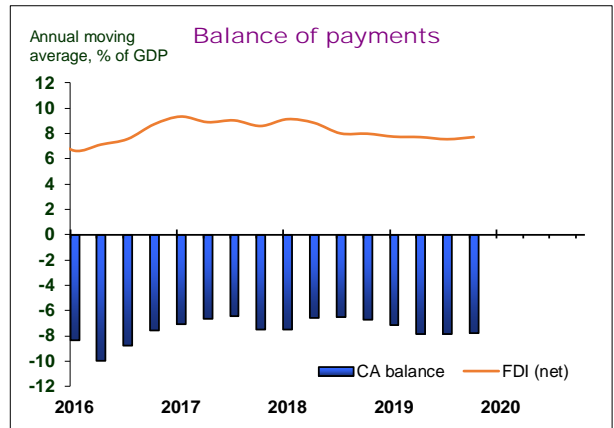
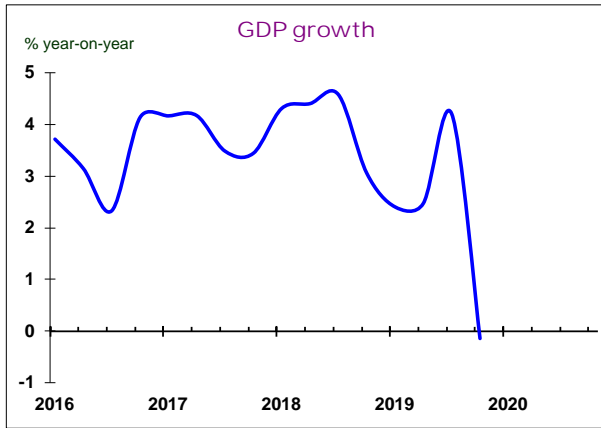
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





Key developments

Montenegro confirmed its first two cases of Covid-19 on March 17. Yet, on March 13, the government already adopted a set of measures to delay the peak in infections, including the closing of schools, public facilities, borders and ports (except for merchandise trade). Public gatherings are banned and people are requested to work from home whenever possible. Montenegro Airlines suspended all of its flights.

On March 19, the government adopted a set of measures to help the economy to deal with the consequences of the Covid-19 crisis. Measures concern in particular the deferral of tax and social security payment obligations, delayed payments for the lease of state-owned property and a moratorium on loan repayments of up to 90 days. The Investment Development Fund will provide a credit line to help companies improve their liquidity. The government will cut daily budget spending to secure funds for medical equipment and healthcare system spending. On 9 April, the government presented an additional package of measures, including subsidies for the suspended business activities and for employees on paid leave, quarantine or isolation, as well as for the employment of new workers.

On 6 March, Standard & Poor's affirmed Montenegro's B+/B long-and short-term sovereign credit ratings and their stable outlook. According to the agency, the ratings remain constrained by the high public debt burden, limited fiscal room and large net external liability position. Moody's also affirmed its B1 long-term rating for Montenegro, but downgraded the outlook, from positive to stable, due to fiscal risks related to the funding of the remaining sections of the Bar-Boljare highway.

Real sector

GDP growth decelerated to a preliminary 3.1% y-o-y in the fourth quarter of 2019, down from the 4.7% expansion recorded in the previous quarter. Falling inventories and fixed investment were the main contributors to this deceleration. By contrast, consumption, in particular of households, rose moderately, while net exports became a positive contributor to growth as the sales of both goods and services increased while

imports contracted by 3.2% y-o-y.

On the supply side, after recording 6.2% annual contraction in 2019, industrial production recovered in the first two months of 2020 with marked volatility. After surging by 19% y-o-y in January, industrial output eased to 2.1% y-o-y in February. In March, the coronavirus outbreak led to a drop in electricity production. Construction activity has been also affected as Montenegro's power utility EPCG have deferred the planned overhauls to ensure continuity of supply during the Covid-19 crisis.

Private consumption was set for a strong annual performance before the outbreak of the pandemic. Montenegro's retail sales measured at constant prices increased by 8.1% y-o-y in February, after expanding by 3.9% y-o-y a month earlier, and by average 5.5% y-o-y in 2019. Private consumption was also supported by rising tourism activity. The number of overnight stays increased by 6.4% y-o-y in January and by 14.9% y-o-y in February.

Labour market

In spite of sustained economic growth in the last quarter of 2019, Montenegro's labour market performance weakened, reflecting the marked seasonal character of employment. According to the labour force survey (LFS), the unemployment rate of the age group 15-64 rose to 16.1% in Q4, up by half a percentage point compared to the previous quarter. The increase was driven by a 0.9 pps rise in the unemployment rate for men, compared to a more modest 0.2 pps rise in the rate for women. Overall, employment was characteristically weak in Q4, growing by modest 0.4% y-o-y compared to the 2.1% y-o-y expansion in Q3. The employment rate recorded a significant contraction to 54.8% in Q4, down from 57.8% in the previous quarter. The Employment Agency registered an unemployment rate of 15.31% at the end of March 2020, down from 16.53% a year earlier.

Gross wage growth accelerated in February by 0.7% y-o-y in real terms, slightly up from 0.6% y-o-y in January. The increase was driven by the retail and manufacturing sectors.

External sector

Strong export performance, in particular of tourism services, helped reduce the external gap. The current account deficit narrowed to 15.2% of GDP in 2019, down from 17.0% in 2018. The improvement was supported by a faster growth of goods exports (6.7% y-o-y) than imports (1.8% y-o-y), reducing the merchandise trade deficit by 0.9 pps of GDP for the year as a whole. Yet, the highest contribution came from the services balance, as exports of services surged by 8.6% y-o-y thanks to another record-breaking tourism season. The primary income balance remained positive in 2019, contracting by 69% y-o-y due to a 16.9% y-o-y surge in expenditure of interest on other investment. Meanwhile, the secondary balance surplus registered 7.3% y-o-y growth, supported by transfers from foreign governments as well as personal remittances. Net FDI inflows amounted to 7.0% of GDP in 2019, a marginal increase from 6.9% of GDP a year before, and covering less than half of the annual current account deficit.

Foreign exchange reserves grew by 30% y-o-y in 2019. In February, their level was equivalent to 5.1 months of goods and services imports, or 27.8% of GDP.

Monetary developments

The consumer price index contracted in March ending six consecutive months of growth. The HICP index eased to 0.5% y-o-y in the first quarter of 2020, down from 1.1% in the previous quarter. Transport prices were the main disinflationary factor in the first quarter, adding downward pressures on electricity prices too, given the correlation between these two commodities. Conversely, food prices (and to some extent tobacco due to the increase of excises as of January), saw some modest increase during this period.

Financial sector

Credit activity continued to decelerate in the first two months of 2020. The expansion of bank loans slowed to 1.9% y-o-y in February compared to 4.3% in January. The moderation was driven by the sharp (30% y-o-y) fall in non-resident credit in February. By contrast, loans to domestic households and non-financial

institutions grew by 7.4% and 4.5% y-o-y, respectively. The NPL ratio remained flat in February at 5.1%, albeit 1 pp lower than a year earlier. By the end of March, 61,434 borrowers, or 48.2% of all credit users, applied under the scheme allowing for a moratorium on loan repayments. The value of the affected loans was EUR 1.23 bn, or 44% of total loans, mostly in the household segment (94% of all requests). According to the central bank, the loans concerned will not be considered as non-performing.

Bank deposits contracted by 0.9% y-o-y in February, after a weak 1% y-o-y expansion the previous month. The contraction was led by the corporate sector which reduced its bank deposits for three consecutive months, while households' deposits increased by modest 1.5% y-o-y.

On 31 March, the Central Bank introduced a temporary ban prohibiting banks from paying dividends to shareholders except in the form of bank shares, in order to reinforce the capital position of the banking sector.

Fiscal developments

The general government budget deficit narrowed to 2% of GDP in 2019, down from 3.9% a year earlier thanks to improved tax revenue collection. Sustained economic activity boosted VAT proceeds by 12.8% y-o-y, while efforts of the tax administration to reschedule tax arrears contributed to a rise in revenues from direct taxes and social security contributions. The new financing framework of local governments boosted municipalities' revenue by 18.9% y-o-y, resulting in a 1% of GDP surplus in their aggregated budget. On the expenditure side, capital spending accelerated in Q4, missing the annual target by 2.5% or EUR 8.7 mn. By contrast, current expenditure grew by 5.5% above the plan, driven by other (current) capital expenditure and repayment of state guarantees.

Public debt surged by 15.9% y-o-y to 77.2% of GDP in 2019, driven by fast (47.6% y-o-y) growing domestic debt and the accumulation of government reserves. Foreign debt rose by 1.9% y-o-y, while local governments' debt recorded a noticeable 30.4% y-o-y contraction. In March 2020, the government paid EUR 343 mn (or 6.8% of GDP) from its reserves to reimburse maturing bonds.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2015	2016	2017	2018	2019	Q3 19	Q4 19	Q1 20	Jan 20	Feb 20	Mar 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	9.8	3.0	4.5	5.5	3.5	2.9	-3.2	2.4	-2.4	2.8	6.7
Industrial production ^{1.2}	Ann. % ch	7.9	-2.1	-4.3	23.6	-6.1	0.2	-1.8	:	19.0	2.1	:
Gross domestic product ^{1.3}	Ann. % ch	3.4	2.9	4.7	5.1	3.6	4.7	3.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.2	5.4	3.9	4.6	2.9	0.9	1.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	11.9	38.4	18.7	14.7	-1.5	1.4	-2.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.8	31.5	51.5	24.9	10.7	31.4	-7.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	4.2	4.0	5.2	4.8	6.0	5.9	5.6	:	5.9	9.4	:
2 Labour market												
Unemployment ^{2.1}	%	17.8	18.0	16.4	15.5	15.4	15.6	16.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.9	1.1	2.1	3.2	2.6	2.1	0.4	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.2	3.5	2.0	0.1	0.8	1.0	1.3	:	2.1	1.7	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	-7.6	6.2	8.3	14.7	6.7	15.3	7.4	:	10.8	-6.6	:
Imports of goods ^{3.2}	Ann. % ch	3.5	12.0	11.6	10.9	1.8	3.5	-1.8	:	7.8	6.6	:
Trade balance* ^{3.3}	% of GDP	-40.1	-41.9	-43.3	-43.9	-42.1	-43.1	-42.1	:	-43.6	-43.9	:
Exports goods and services ^{3.4}	% of GDP	42.1	40.6	41.1	42.9	44.1	64.3	29.5	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	60.6	63.1	64.5	66.7	65.4	53.3	65.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-11.0	-16.2	-16.1	-17.0	-15.2	-16.1	-15.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	16.9	9.4	11.3	6.9	7.0	7.7	7.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	624.0	752.9	847.2	1049.8	1366.8	897.0	1366.8	:	1359.8	1344.4	:
Int. reserves / months Imp ^{3.9}	Ratio	3.4	3.7	3.7	4.1	5.1	3.3	5.1	:	N.A.	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	1.4	0.1	2.8	2.9	0.5	-0.1	1.1	0.5	1.1	0.6	-0.2
Producer prices ^{4.2}	Ann. % ch	0.3	-0.1	0.4	1.7	2.4	2.9	2.4	:	1.8	1.0	:
Food prices ^{4.3}	Ann. % ch	3.0	-0.9	1.9	0.6	3.4	2.9	3.2	:	2.3	1.6	:
M3 ^{4.4}	Ann. % ch	11.3	9.5	13.6	5.0	-3.5	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real effective exchange rate ^{4.6}	Index	102.7	102.2	102.8	103.6	102.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	:	:	2.35	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	0.50	1.58	1.71	0.47	0.52	0.50	:	0.75	0.57	0.92	:
Stock markets ^{5.3}	Index	11,956	11,115	10,952	10,390	10,980	11,072	11,529	11,158	11,408	11,304	10,764
Credit growth ^{5.4}	Ann. % ch	0.8	1.3	11.8	8.5	4.5	1.6	4.5	:	4.3	1.9	:
Deposit growth ^{5.5}	Ann. % ch	13.7	9.4	13.8	5.9	0.5	1.6	0.5	:	1.0	-0.9	:
Non-performing loans ^{5.6}	% of total	13.4	10.3	7.3	6.9	4.7	4.7	4.7	:	5.1	5.1	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-8.3	-3.6	-5.3	-3.9	-2.0	0.8	0.1	:	:	:	:
General government debt*** ^{6.2}	% of GDP	65.2	63.4	63.3	70.1	77.2	63.7	77.2	:	:	:	:

* Q figures refer to a 4 quarters moving average.

** Q figures refer to the quarterly balance divided by the estimated annual GDP.

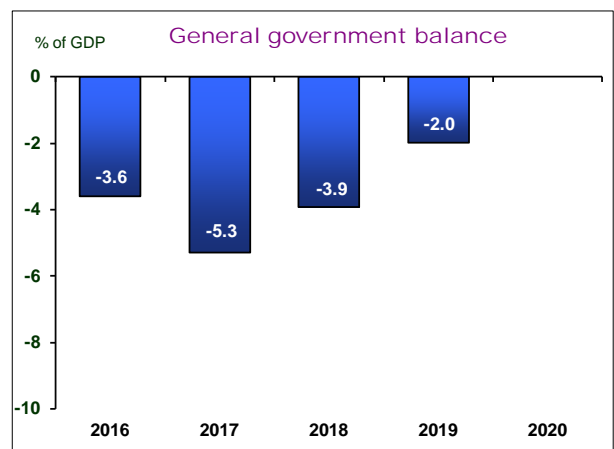
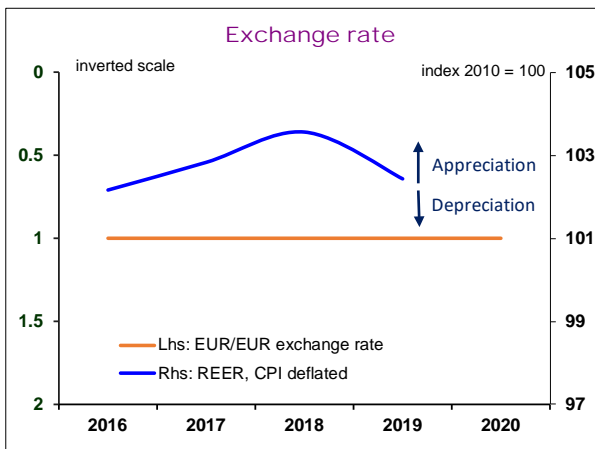
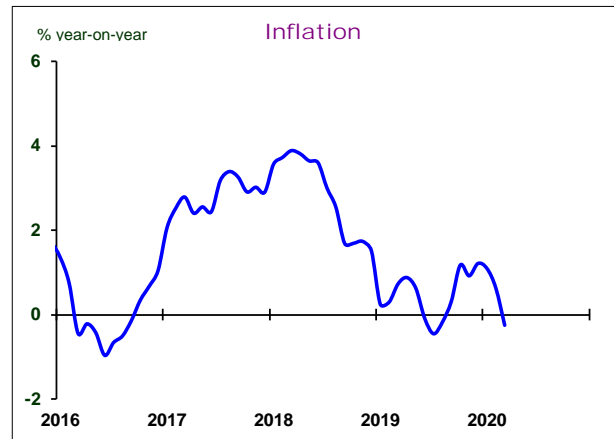
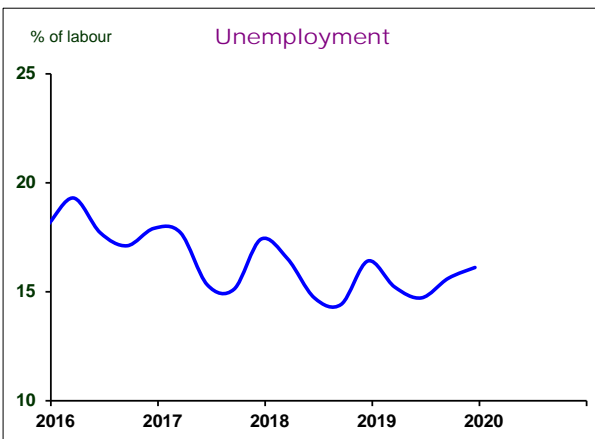
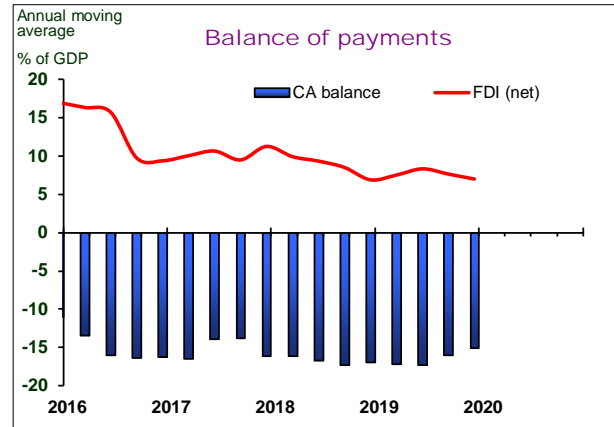
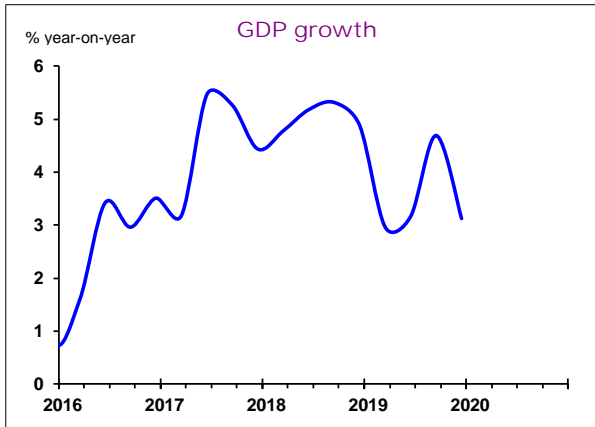
*** Q figures refer to central government debt only.

CHARTS



European Commission, ECFIN-D-1

MONTENEGRO



NORTH MACEDONIA



Key developments

In mid-March, the government decreed an expansive lockdown of the economy in response to the COVID-19 crisis, including the closure of schools, restaurants and shops. To mitigate the economic impact of the crisis, it adopted two sets of fiscal measures, totalling EUR 200 million and including tax deferrals, interest-free loans, and wage subsidies.

On 14 April, the IMF Board decided to provide to the country EUR 176 million assistance under the Rapid Financing Instrument, to help the authorities cope with larger than projected financing needs.

On 26 March, the EU formally gave the green light to start accession negotiations with North Macedonia.

The government postponed the general elections that were planned for 12 April. The new date is likely to be decided in mid-May.

Real sector

Boosted by strengthening domestic demand, the economy continued its robust recovery in the fourth quarter and beyond, when the COVID-19 crisis brought the upswing to a sudden halt in March. Economic growth remained strong in the last three months of the year, at 3.4% y-o-y. Investment increased markedly (+11.4%), as did government consumption (+7.1%), which was boosted by a further increase in public wages and spending on goods and services. Household consumption decelerated somewhat in this period, to 2.4%. The increase in both exports and imports slowed markedly, and, in sum, net exports did not add to GDP growth.

In the full year 2019, economic growth accelerated (+0.9 pps to 3.6% y-o-y), on the back of firming domestic demand. Investment strengthened markedly (6.6%), due to a strong pick-up in the second half of the year, overcoming its protracted sluggishness of the preceding two and a half years. Government consumption, too, increased at a faster rate than in 2018 (+2.5 pps to 4.5%). Household spending

slowed down in the second half of 2019, and rose by slightly less than one year earlier (-0.2 pps to 3.5%). Annual export growth decelerated gradually each quarter, while import growth, driven by the rise in investment, picked up. Overall, for the full year, net exports detracted 3.8 pps from growth.

High frequency indicators for the first two months of the year signal further growth in the first quarter, but first readings for March show that the COVID-19 containment measures were leaving a mark on economic performance. The industrial production index increased by 1.9% y-o-y in the first two months, but plunged heavily in March (-13.4% y-o-y), leading to a decline of 3.7% in the first quarter. Manufacturing output dropped by 2% in this period. Retail trade turnover, too, tumbled in March (-9.4% y-o-y), but, on average in the first three months, trade turnover amounted to 2.7%, on account of strong increases in January and February.

Labour market

The labour market improved further in the fourth quarter, according to the Labour Force Survey. The labour force expanded by 1.1% y-o-y, on account of a further rise in the female workforce overcompensating a drop in the male workforce. A further increase in employment growth, to 4.6% y-o-y, contributed to a 2 pps annual increase in the employment rate, to 45.9%. The unemployment rate of young workers (15-24 years) improved markedly compared to one year earlier (-8.9 pps to 35.1%).

The strong improvement in labour market conditions in the fourth quarter helped to bring down the average unemployment rate in 2019 by 3.4 pps y-o-y to 17.3%. The average net nominal wage increased by 5% y-o-y in 2019, which is 0.9 pps less than in 2018. The growth of nominal net wages accelerated strongly in the first two months of the year (+12.4%), driven by government measures to increase minimum wages and subsidise employers' labour costs.

External sector

The current account deficit more than doubled in the fourth quarter, compared to the same period one year earlier. This came about mainly on account of a widening deficit in merchandise trade (+30%) and lower inflows from current transfers, including remittances (-9%). For the year as whole, the current account deficit increased to 2.8% of GDP, compared to 0.1% in 2018. The merchandise trade deficit widened by 1.1 pps y-o-y to -17.3% of GDP, while the surplus in current transfers declined by 1.3 pps to 15.6%.

Net FDI inflows amounted to 2.9% of GDP in 2019, well below their level of one year earlier (5.8%), yet still covering fully the current account deficit. Gross external debt decreased in 2019, as a share of GDP, compared to one year earlier, reflecting a drop in general government foreign debt, which more than offset the increase in private sector borrowing and foreign lending to state-owned companies. At year-end, external debt stood at 72.2% of GDP (-1.1 pps y-o-y).

The central bank's foreign currency reserves increased by 14% in 2019, bolstered by purchases in favourable market circumstances and by a loan from the World Bank. At year-end, they covered 4.1 months of imports.

Monetary developments

Consumer prices rose more slowly in the fourth quarter than in the same period one year earlier. This was mainly due to lower imported prices, in particular fuel. The average inflation rate in 2019 was also lower than in the preceding year (-0.7 pps to 0.8%). Health costs, as well as increased excise duties on tobacco and alcohol contributed to the rise in consumer prices, while food, utilities and liquid fuel prices dropped.

Annual growth of broad money (M4) slowed down in the fourth quarter (-2.5 pps y-o-y, to 9.3%), and further in the first three months of 2020 (8.8% on average). The central bank has lowered the key policy rate already twice in 2020, by 25bps each in January and in March, to the new historical low of 1.75%.

Financial sector

Credit growth to the private non-financial sector picked up further in the fourth quarter (6.1% y-o-y) and the first three months in 2020 (6.5% y-o-y). Solid growth in household loans (+9.7% y-o-y) continued to account for the bulk of the 7.3% overall increase in lending in 2019, while private corporate credit growth slowed down in the second half of the year.

The spread between denar loans (-10bps to 5.3%) and deposits (-10bps to 1.6%) remained unchanged between November and February. Rates on foreign currency loans remained unchanged at 3.9%, while rates on foreign currency deposits dropped by 10 bps to 0.7%, hence widening banks' spreads.

The share of foreign-currency denominated loans in total loans dropped further in the fourth quarter, by 0.6 pps compared to one year earlier, to 43.8%. The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients decreasing to 83.8% (-2.4 pps y-o-y). The banking sector posted a capital adequacy ratio (regulatory capital to risk-weighted assets) of 16.3%, only slightly below its level one year earlier (16.5%). The ratio of non-performing to total loans (financial and non-financial sector) declined further, to 2.4% (-2.8 pps y-o-y), supported by the continuation of the central bank's policy to require mandatory write-offs for NPLs that have been provisioned for at least one year.

Fiscal developments

In spite of a rise in social transfers and subsidies, the government managed to keep the fiscal deficit well below projections in 2019, mainly as capital expenditure was, again, under-implemented compared to target. Total revenues increased by 8.2% y-o-y, while total expenditure was up by 11.5% y-o-y. Capital expenditure increased as a share of GDP compared to one year earlier, but its execution rate amounted to only 78%, a slight improvement compared to 2018 (66%). Current expenditure increased by 9% y-o-y, faster than in 2018. The general government deficit amounted to 2.1% of GDP in 2019, compared with the targeted 3%. In the first three months of 2020, revenues went up by 1.1% y-o-y, while expenditure rose by 9.5%, taking the budget deficit to some 42% of the government's target of 2.3%. In March alone, revenues declined by 5% y-o-y. Revenues from both VAT and personal income tax fell y-o-y. Expenditure rose by 11% y-o-y, as spending on transfers rose markedly above their levels from one year earlier.

By end-year, the general government debt level had decreased slightly, in terms of GDP, compared to one year earlier (-0.4 pps to 40.2%). The level of government-guaranteed debt of state-owned enterprises rose by 0.3 pps y-o-y in 2019, leading to an increase in public debt of 0.3 pps to 48.9% of GDP.

TABLE



European Commission, ECFIN-D-1

North Macedonia

		2015	2016	2017	2018	2019	Q3 19	Q4 19	Q1 20	Jan 20	Feb 20	Mar 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	17.5	24.0	25.6	28.8	32.2	32.3	33.3	:	34.4	35.2	:
Industrial production ^{1.2}	Ann. % ch	4.9	3.9	0.2	5.4	4.1	7.3	-1.3	:	0.3	3.5	-13.4
Gross domestic product ^{1.3}	Ann. % ch	3.8	2.8	1.1	2.7	3.6	3.6	3.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.4	3.9	2.1	5.1	3.5	2.9	2.4	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	8.3	12.5	-2.2	-7.3	11.6	43.5	23.3	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	8.6	3.6	-2.5	-12.2	7.5	8.6	7.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	9.8	18.8	-11.3	9.8	13.3	17.1	22.2	:	7.6	10.0	-9.4
2 Labour market												
Unemployment ^{2.1}	%	26.1	23.8	22.4	20.7	17.3	17.1	16.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.3	2.5	2.4	2.5	5.1	5.3	4.6	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.7	2.0	2.6	5.8	5.1	5.3	5.7	:	12.9	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	9.4	15.8	15.4	19.8	9.1	10.5	-0.8	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	5.0	9.7	9.7	12.9	10.2	10.4	6.9	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-20.1	-18.8	-17.8	-16.2	-17.3	-16.3	-17.3	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	48.7	50.7	55.3	60.6	61.7	62.7	61.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	65.0	65.5	69.2	73.2	75.6	75.6	75.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.0	-2.9	-1.1	-0.1	-2.8	-1.2	-2.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.2	3.3	1.8	5.6	2.6	3.7	2.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,262	2,613	2,336	2,867	3,263	3,128	3,263	:	3,101	3,085	3,017
Int. reserves / months Imp ^{3.9}	Ratio	4.2	4.5	3.6	4.0	4.1	4.0	4.1	:	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-0.3	-0.2	1.4	1.4	0.7	1.8	1.1	:	0.6	0.7	:
Producer prices ^{4.2}	Ann. % ch	-4.1	-0.1	0.4	-0.3	0.0	0.0	0.2	:	1.5	0.0	:
Food prices ^{4.3}	Ann. % ch	0.1	-1.3	0.3	0.8	1.6	1.3	1.0	:	0.3	0.4	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	6.9	6.2	5.1	11.8	9.3	10.8	9.3	:	8.9	8.2	:
Exchange rate MKD/EUR ^{4.5}	Value	61.61	61.60	61.57	61.51	61.51	61.49	61.50	61.61	61.54	61.60	61.70
Nominal effective exchange rate ^{4.6}	Index	99.2	100.5	101.4	103.3	103.0	103.1	102.9	:	102.7	102.4	:
5 Financial indicators												
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.92	1.96	1.78	1.54	1.46	1.45	1.46	1.37	1.43	1.34	1.33
Bond yield ^{5.2}	% p.a.	7.46	7.02	6.61	6.11	5.61	5.58	5.44	:	5.35	:	:
Stock markets ^{5.3}	Index	1,731	1,887	2,406	3,154	3,939	3,983	4,384	4,632	4,866	4,920	4,108
Credit Growth ^{5.4}	Ann. % ch	9.1	4.0	2.5	6.7	7.3	6.3	6.1	6.5	6.8	6.9	5.9
Deposit growth ^{5.5}	Ann. % ch	7.6	4.4	5.3	8.9	9.1	8.8	8.3	:	8.1	7.2	:
Non-performing loans ^{5.6}	% total	10.3	6.3	6.1	5.0	4.6	4.8	4.6	:	N.A.	N.A.	N.A.
6 Fiscal developments												
Central government balance** ^{6.1}	% of GDP	-3.5	-2.7	-2.7	-1.8	-2.0	-0.6	-2.9	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	38.1	39.9	39.5	40.5	:	39.2	40.2	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

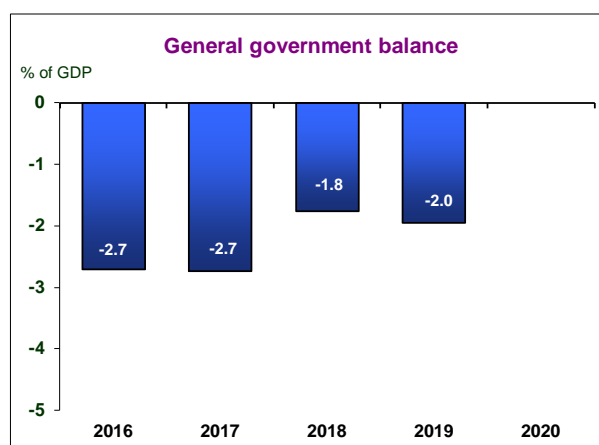
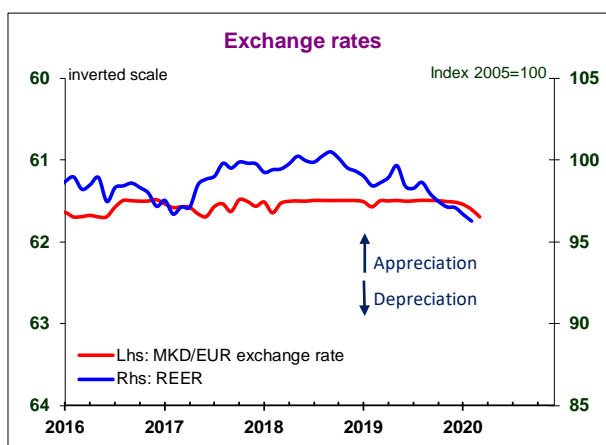
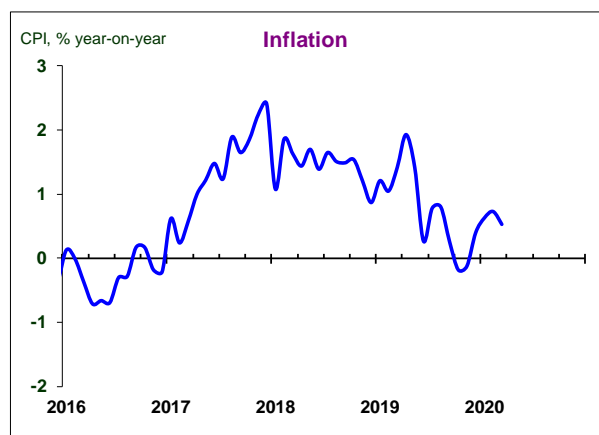
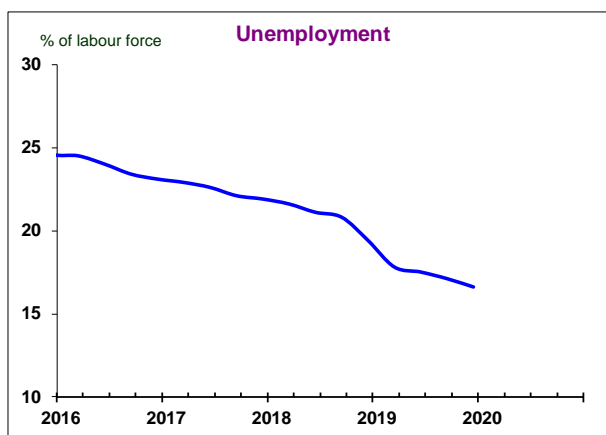
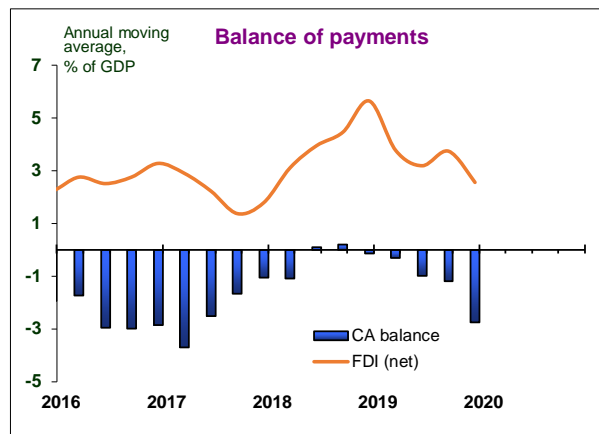
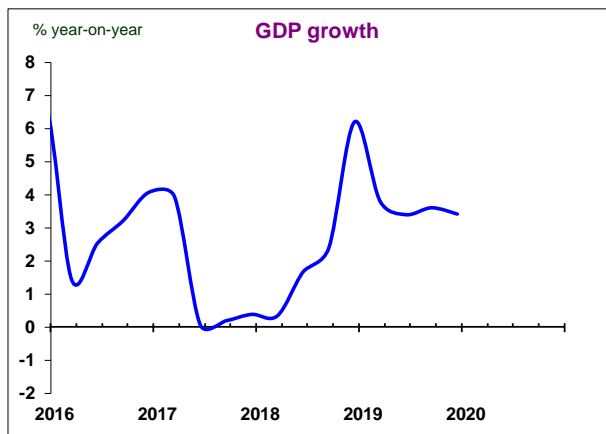
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

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North Macedonia



SERBIA



Key developments

On 26 February 2020, Serbia signed an agreement with the largest Slovene bank *Nova Ljubljanska Banka (NBL)* for the privatisation of *Komercijalna Banka*, Serbia's second-largest bank. Pending approval by national and foreign central banks and competition authorities, the transaction is expected to be completed within five to nine months from the date of signature.

On 15 March 2020, the government declared a state of emergency due to the outbreak of the Covid-19 pandemic. A series of confinement measures, including a daily twelve-hour curfew, closure of shops, restaurants and transport facilities, ban of public gatherings etc. were imposed. In order to mitigate the economic fallout of the crisis, the National Bank of Serbia lowered its key policy rate by 0.5 pps and 0.25 pps, on 12 March and 9 April respectively, to 1.5%. Following the announcement on 12 March of a 10% pay rise for healthcare workers and a one-off payment to pensioners, the government adopted on 30 March a comprehensive package of fiscal measures, including deferred tax payments, direct income support to employees in SMEs and to temporarily suspended workers in large companies, one-off payments to all adult citizens and liquidity-enhancing loan guarantees. The package has a direct budgetary impact of around 6% of GDP and another 5% in liquidity-enhancing measures. On 24 April 2020, the government adopted a corresponding amending budget for 2020, projecting the 2020 deficit to reach 6.9% of GDP and the debt-to-GDP ratio to increase substantially but remain below 60%, assuming a 1.8% contraction in GDP in 2020.

Real sector

Economic growth accelerated further in the fourth quarter of 2019. Real GDP expanded 6.2 % y-o-y, up from 4.8% in the third quarter, mainly driven by a strong acceleration of gross fixed capital formation growth to 29.6% y-o-y. Household consumption growth accelerated slightly to 3.1% y-o-y while government consumption growth slowed to 2.5% y-o-y. The growth in exports of goods and services decelerated to 8.7% y-o-y. Growth of imports accelerated strongly to 11.4% y-o-y, thereby

increasing the negative contribution of net exports to quarterly GDP growth to -3 pps y-o-y.

On the supply side, the strong investment drive corresponded to a very strong rise in construction activity (48.3 % y-o-y), largely resulting from the building of the Serbian section of the Turk Stream gas pipeline. The growth rate of industry also accelerated further, to 3.0 % y-o-y in the fourth quarter after 2.0 % in the third. Benefiting from strong domestic demand, the trade and service-oriented sectors of the economy maintained a robust growth. Following a very good year 2018, the agricultural sector broadly stagnated throughout the four quarters of 2019.

Some short-term indicators reflecting the pre-pandemic situation suggest that growth remained robust in the first two months of 2020. Industrial production increased 7.0 % y-o-y in January-February 2020 supported in particular by mining and quarrying and the production of capital goods and durable and non-durable consumer goods. Supported by higher earnings, strong consumer confidence and rising employment, the growth in real retail trade remained at double-digit levels, accelerating from 10.9% y-o-y in January to 13.3% y-o-y in February.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and over slightly increased q-o-q to 9.7 % in the fourth quarter of 2019. This was down 3.2 pps y-o-y and about half the level of five years ago. Despite a decreasing population, the labour force increased by 0.6 % y-o-y due to a fall in inactivity. Employment growth accelerated to 4.3 % y-o-y in the fourth quarter of 2019, while remaining unchanged q-o-q. While employment gains were mostly in the formal sector (4.8 % y-o-y), informal employment also increased by 1.8 % y-o-y. The rate of informal employment accordingly remained elevated at around 18 %.

Reflecting the continued positive momentum on the labour market, registered employment increased as well, by 2.0 % y-o-y in the fourth quarter. Employment went up in most sectors but growth was particularly strong in construction (9.5 % y-o-y), mining and quarrying (8.4 % y-o-y), information and

communication (7.2% y-o-y) and professional, scientific and technical activities (6.1%). Manufacturing employment grew 3.0 % y-o-y, with strong growth in the manufacture of electrical equipment more than offsetting substantial decreases of employment in the manufacture of coke and refinery products and motor vehicles. Employment declined in agriculture, energy and social work activities. In conjunction with the strong employment data over the last year, registered jobseekers fell by 9.6 % y-o-y in March. The growth in nominal net wages stood at 9.9 % y-o-y in January 2020 while real net wages grew by 7.7 % y-o-y.

External sector

In 2019, the current account deficit increased by 52% y-o-y in euro terms, resulting in an increase as a share of GDP from 4.8 % in 2018 to 6.9 % in 2019. About half of the increase was due to a higher merchandise trade deficit (+10.4% y-o-y) while a higher primary income deficit (+13.5% y-o-y) and a lower secondary income surplus (-7.4%) accounted each for around a quarter of the overall increase of the current account deficit in 2019, that was only marginally moderated by a higher services trade surplus (+5% y-o-y). Net FDI reached a record level of EUR 3.6 billion in 2019, covering 113% of the current account deficit. Strong domestic demand pulled the merchandise trade deficit further up (13.4 % y-o-y) in January-February 2020 while the services trade surplus improved by 27.7% y-o-y over the same period.

Monetary developments

After a small increase to 2.0 % in January, consumer price inflation decelerated in February to 1.9 % before dropping to 1.3 % y-o-y in March, slightly below the lower bound of the central bank's target tolerance band of 3 % +/- 1.5 %. The deceleration in the inflation rate was particularly driven by unprocessed food and energy prices. Core inflation (excluding energy, food, alcohol and tobacco) rose from 1.0% in January to 1.5% in February and 1.6% in March. The central bank (NBS) cut its key policy rate to 1.5 % (see above). It remained an active participant on the foreign exchange market by selling a net EUR 185 million in the first quarter of 2020, of which a net EUR 135 million in March. NBS foreign exchange reserves decreased by EUR 0.3 billion in the first quarter to EUR 13.1 billion, continuing to cover around six months' worth of imports of goods and services.

Financial sector

In February, domestic claims of the banking sector increased by 10.3 % y-o-y. The growth of credit to the non-government sector remained robust, expanding 10.0 % y-o-y. From November to February, credit growth accelerated slightly to 9.4 % y-o-y to households and more strongly to 23.8% y-o-y to public enterprises, while, after some slowdown around the year-end, growth of loans to companies also picked up to 8.9 % y-o-y in February. The loan-to-deposit ratio remained broadly stable at 92.2% at the end of February. The ratio of non-performing loans declined further in the fourth quarter of 2019 to 4.1%, down from 5.7 % at the end of 2018. The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) decreased slightly to 23.4 % in the fourth quarter. Liquidity ratios remained broadly stable in the fourth quarter of 2019, as regards both the share of liquid assets to total assets (36.0 %, +0.1pp q-o-q) and to total short-term liabilities (50.5 %, +0.1pp).

Fiscal developments

The general government budget ended 2019 with a deficit of 0.2% of GDP, 0.3 pps better than planned in the 2019 budget. Strong revenue performance, supported by robust economic growth and rising employment and income levels, allowed for high increases in current and capital spending while maintaining a budget close to balance.

Fiscal performance was less favourable in early 2020 as the increase in total revenue fell short of the rise in total expenditure. Total revenue increased by 3.1 % y-o-y in the first two months, negatively impacted by VAT (-6.9 % partly due to a strong base effect) and non-tax revenue (-8.1%) while revenue from social contributions and personal income tax on wages continued to grow at double-digit rates. Total expenditure growth (12 % y-o-y) largely exceeded revenue growth, with high increases in spending on capital projects (54.5%), goods and services (19.5 %), employees (10.1 %) and subsidies (65.8 %). As a result, in January-February, the budget recorded a deficit of RSD 11.1 billion (0.2 % of the annual GDP expected prior to the crisis), as compared with a 0.4% of GDP surplus in the same period of 2019. In February, government debt stood at 49.1 % of the estimated full-year GDP, down from 52.0 % at end-2019.

TABLE

European Commission, ECFIN-D-1



SERBIA

		2015	2016	2017	2018	2019	Q3 19	Q4 19	Q1 20	Jan 20	Feb 20	Mar 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	8.4	4.8	3.4	1.5	0.2	2.0	3.0	:	6.3	7.6	:
Gross domestic product ^{1.3}	Ann. % ch	1.8	3.3	2.0	4.3	4.2	4.8	6.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	-0.5	1.3	2.0	3.0	3.2	3.0	3.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	4.9	5.4	7.3	17.8	16.4	17.5	29.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	13.1	5.1	9.3	9.6	32.3	37.5	48.3	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.0	8.0	3.8	4.1	9.5	8.8	11.2	:	10.9	13.3	:
2 Labour market												
Unemployment ^{2.1}	%	17.7	15.3	13.5	12.7	10.4	9.5	9.7	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	0.6	5.6	2.8	1.4	2.4	0.3	4.3	:	2.6	2.6	:
Wages ^{2.3}	Ann. % ch	-0.4	3.8	4.0	4.3	10.5	10.8	11.9	:	9.9	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	7.9	11.6	12.1	8.2	7.7	7.7	9.5	:	12.4	10.4	:
Imports of goods ^{3.2}	Ann. % ch	5.9	6.1	13.6	13.0	8.9	7.8	9.5	:	7.9	12.4	:
Trade balance* ^{3.3}	% of GDP	-11.3	-9.9	-11.1	-13.2	-14.4	-13.8	-13.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	45.3	48.6	50.5	50.8	52.1	52.1	52.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	52.3	53.4	57.1	59.2	60.9	60.9	60.9	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.4	-2.9	-5.2	-4.8	-6.9	-5.9	-6.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.1	5.2	6.2	7.4	7.8	8.7	7.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	10,378	10,205	9,962	11,262	13,378	13,295	13,378	13,100	13,694	13,459	13,100
Int. reserves / months Imp ^{3.9}	Ratio	6.7	6.2	5.3	5.3	5.7	5.8	5.7	:	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	1.4	1.1	3.1	2.0	1.7	1.3	1.4	:	2.0	1.9	1.3
Producer prices ^{4.2}	Ann. % ch	0.2	-0.4	3.4	2.2	0.7	-0.1	0.1	:	1.6	0.6	:
Food prices ^{4.3}	Ann. % ch	1.9	-0.3	3.3	1.9	2.6	1.5	1.6	:	2.3	1.5	:
M3 ^{4.4}	Ann. % ch	6.6	11.6	3.6	14.5	8.4	13.1	8.4	:	8.2	9.0	:
Exchange rate RSD/EUR ^{4.5}	Value	120.74	123.09	121.41	118.27	117.86	117.72	117.53	117.57	117.57	117.57	117.56
Nominal effective exchange rate ^{4.6}	Index	67.4	66.1	67.3	69.7	69.2	69.2	69.2	69.1	69.2	69.0	69.2
5 Financial indicators												
Interest rate (BEONIA) ^{5.1}	% p.a.	4.75	2.70	2.68	2.24	1.63	1.41	1.13	0.99	1.00	1.03	0.94
Bond yield (7 year) ^{5.2}	% p.a.	10.99	8.28	5.45	5.00	3.86	3.50	2.93	:	2.69	2.69	:
Stock markets ^{5.3}	Index	1,359	1,383	1,584	1,562	1,583	1,581	1,650	1,678	1,730	1,753	1,551
Credit growth ^{5.4}	Ann. % ch	7.0	9.0	2.2	7.7	3.3	4.8	3.3	:	5.0	7.0	:
Deposit growth ^{5.5}	Ann. % ch	6.5	11.4	3.3	15.3	8.5	14.0	8.5	:	8.0	8.8	:
Non-performing loans ^{5.6}	% total	21.6	17.0	9.8	5.7	4.1	4.7	4.1	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-3.5	-1.2	1.1	1.5	-0.2	1.2	-3.1	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	70.0	67.8	57.9	53.7	52.0	52.0	52.0	:	:	49.1	:

* Q figures refer to a 4 quarters moving average.

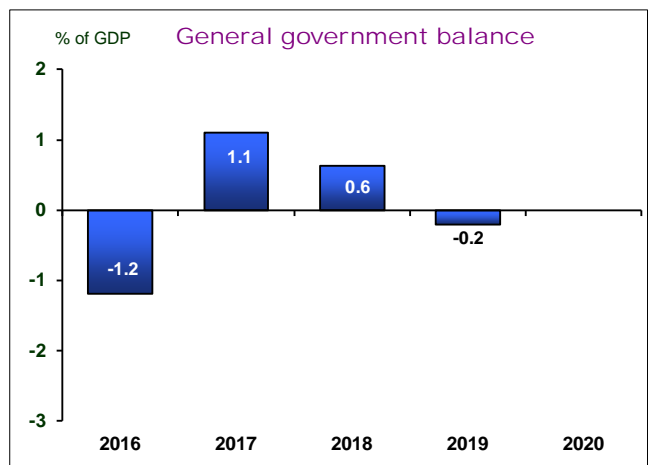
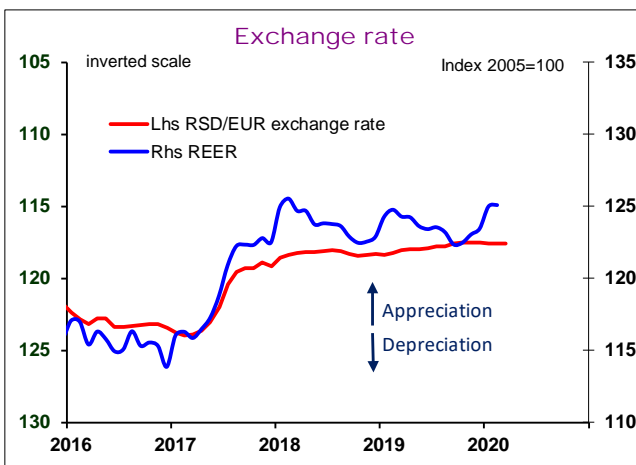
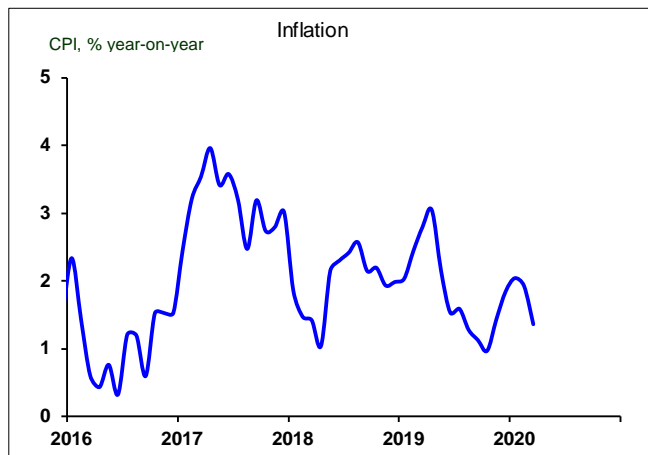
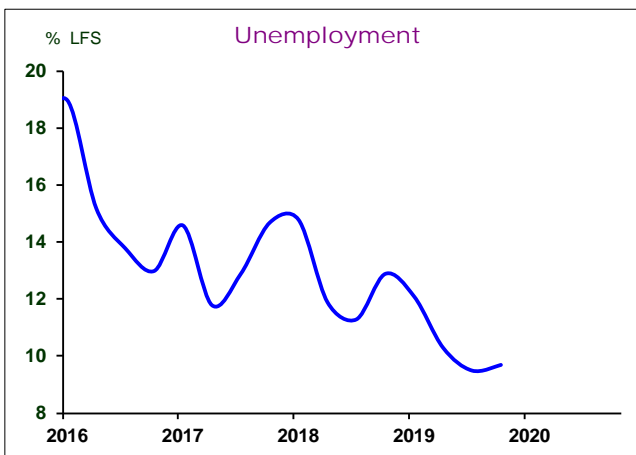
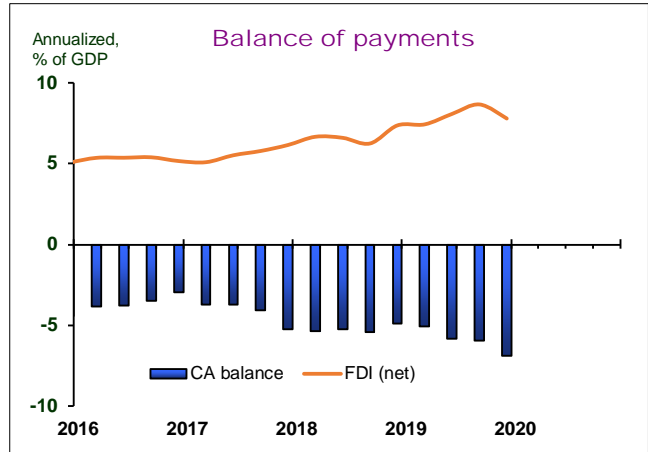
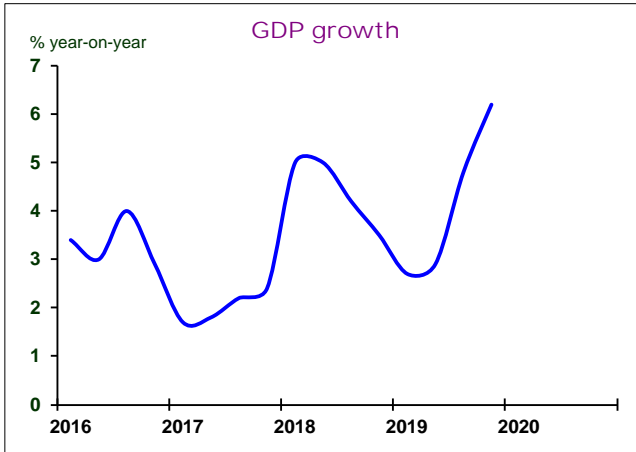
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA





Key developments

Turkey was one of the last countries in the region to report a Covid-19 case – the first one was announced on 11 March. Since then, the social distancing measures implemented by the authorities have become increasingly stricter. The Turkish economy is particularly exposed to the effects of the pandemic due to its high integration in global value chains and its dependence on tourism and transport – two of the most heavily affected sectors.

The authorities took a number of measures to cushion the economic and social impact of the pandemic. The central bank reduced its key policy rate in several steps from 11.25% in January to 8.75% in April. It also took a number of measures to provide commercial banks with liquidity support, including in foreign currency, with a special focus on sustaining the flow of credit to the corporate sector and supporting exporters. It also boosted liquidity on the government securities market and expanded the accepted collateral pool by including asset- and mortgage-backed securities. In addition, the Banking Regulation and Supervision Agency extended the time allowed for loans to remain unpaid before they are classified as non-performing from 90 to 180 days and introduced a bank asset ratio, designed to support bank lending, buying more government debt, and keeping assets onshore.

The President announced a TL 100 billion (€3.2 billion; 2.2% of GDP) package (Economic Stability Shield) to help overcome the Covid-19 crisis. A quarter of this support is used to increase the size of the credit guarantee fund. A number of measures target credit support, while tax and expenditure measures are limited in size and focus on postponing payments to the budget.

Real sector

The Turkish economy finished 2019 with a strong growth momentum. Economic growth accelerated in the fourth quarter, supported by base effects, to 6.0% y-o-y, up from 1.0% in the preceding quarter. Household consumption,

boosted by consumer lending and pent-up demand, increased by 6.8% y-o-y. The growth of government consumption softened to 2.7% y-o-y, while investment activity showed some early signs of revival, although remaining in negative territory (-0.6% y-o-y). In tune with the recovery, build-up in stocks contributed 8.9 pps to GDP growth in the fourth quarter. The rise in domestic demand and base effects triggered a steep increase in imports (29.3% y-o-y) which, in view of subdued exports growth (4.4% y-o-y), also led to a strongly negative net exports contribution (-7.1 pps).

On the production side, the good growth momentum in the last quarter was reflected in robust manufacturing (6.3% y-o-y) and industry performance (5.9% y-o-y). The service sector grew vigorously, above 7% y-o-y, with a notable expansion of financial and insurance activities (24.2% y-o-y). Construction remained the only sector still subtracting from growth (-3.8% y-o-y).

Despite robust growth around the turn of the year, the economy had not yet recovered from the dislocations caused by the 2018 recession when the Covid-19 pandemic hit the global economy. The first, more tangible signs of its effects on the Turkish economy became visible in March. While the capacity utilisation rate in manufacturing inched down to 75.3, real sector confidence plummeted to 99.7 in March, down 7.2 points from the previous month. Its decline was mostly driven by deteriorating export orders and output expectations for the next 3 months. In parallel, the manufacturing PMI fell steeply from 52.4 in February to 48.1 in March. Economic confidence declined steeply across all sectors in April. It fell in retail trade from 101.7 in March to 75.2 in April (seasonally adjusted), in services from 92.5 to 46.1, and in construction from 77.2 to 44.7, while consumer confidence declined from 58.2 to 54.9. Other indicators, like industrial production or retail trade sales, were only available up until February when their reading was still strong.

Labour market

Turkey's labour market did not fully recover from the 2018 recession and remained weak in early 2020. In January, total labour force declined 0.6% y-o-y, while the inactive population increased 4.1% y-o-y. Despite lower labour force participation, the unemployment rate (15 years and above) went up for two months in a row and remained elevated at 13.8% in January. Total employment increased only marginally (0.4% y-o-y) as continuing drops in agricultural and construction employment were compensated by increased manufacturing employment. Nearly 26% of the young people aged 15 to 24 remained neither in employment nor in education or training in January. Since mid-March, when Turkey started implementing containment measures, the number of people who requested a short-term working allowance (a scheme providing temporary income support to workers in workplaces that suspended their activities) has reached more than 3 million or around 10% of the labour force. In mid-April, a 3-month ban on terminating workers' contracts was introduced.

External sector

The 12-month moving current account surplus (based on revised data) declined further in February to \$6.1 billion (0.8% of GDP). In the first two months of the year, export and import of goods increased by 4% and 14% y-o-y, respectively. According to preliminary data for March, with the closure of the border with Iran and later on with Iraq, and disruptions in global trade, goods exports plummeted by 18% y-o-y. Exports of motor vehicles, in particular, fell by more than 30% y-o-y as a number of carmakers stopped production temporarily. Imports of goods, however, continued growing (3.1% y-o-y), boosted by still strong domestic demand. The cumulative net financial inflows in the first two months of the year covered the current account deficit in the same period. The reserve assets' coverage of imports of goods and services remained broadly unchanged at more than five months.

Monetary developments

Inflation remained elevated in the first quarter, averaging 12.1% y-o-y. It declined slightly to 11.9% y-o-y in March, as energy prices fell 3.1% over the previous month thanks to the steep fall in international oil prices. Core inflation, however, increased since the beginning

of the year from 9.8% to 10.5% y-o-y in March. Inflation expectations for the next 12 months remained broadly stable at around 9.7% in the first four months.

The central bank continued its accommodative policy, further reducing its key policy rate in February (50 bps), March (100 bps), and in April (100 bps) to 8.75%. The weighted average cost of central bank funding remained consistently below the one-week repo rate and stood at around 9.0% in mid-April. As market pressures increased, the central bank net funding went up significantly – from an average of TRY 13.6 billion in December to above a TRY 100 billion in the first three weeks of April. Despite new limits on banks' foreign-exchange swaps, the lira approached 7.0 TRY/\$, depreciating 17.2% since end-December. Since early March, the central bank's gross foreign exchange reserves fell by more than \$ 20 billion and stood at \$ 56.0 billion on 10 April. Increased financial market stress was also evident in rising credit default swaps, which nearly tripled since the beginning of the year to levels above 600 in April.

Financial sector

Bank lending continued to expand rapidly in the beginning of the year, both in the consumer and business segments. Stronger lending activity helped to slightly lower the NPL ratio to 5.20% in February. Commercial banks entered the Covid-19 crisis with overall sound capital (with a CAR of 17.7%) and liquidity positions in February. In March and April, to soften the expected fallout from the crisis, the central bank and the Banking regulation and supervision agency took wide-ranging measures to support better lending conditions and stimulate credit growth.

Fiscal developments

In the first quarter, the central government budget deficit fell 18% y-o-y to TRY 29.6 billion (0.6% of the projected annual GDP). However, in March the monthly deficit increased significantly as revenue plunged by 12.7% y-o-y and expenditure growth accelerated to 15.6% y-o-y. As part of the measures to soften the economic impact of the crisis, the government postponed the collection of social security premiums, withholding tax, and value added tax due in April-June by six months across various sectors. Government debt increased to 33.1% of GDP in 2019 (up from 30.4 % at end-2018).

TABLE



TURKEY

European Commission, ECFIN-D-1

		2015	2016	2017	2018	2019	Q3 19	Q4 19	Q1 20	Jan 20	Feb 20	Mar 20
1 Real sector												
Industrial confidence ^{1.1}	Index	103.5	105.2	108.0	101.4	100.4	99.9	102.2	103.6	104.1	106.9	99.7
Industrial production ^{1.2}	Ann. % ch	6.1	3.4	9.1	1.1	-0.6	0.7	5.6	:	7.5	10.5	:
Gross domestic product ^{1.3}	Ann. % ch	6.1	3.2	7.5	2.8	0.9	1.0	6.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.4	3.6	6.2	0.1	0.6	1.7	6.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	9.3	2.2	8.2	-0.6	-12.4	-12.8	-0.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-8.8	17.4	65.5	-35.0	-43.8	-47.3	-31.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	6.7	2.2	5.7	2.1	-0.1	-0.9	10.3	:	9.4	10.6	:
2 Labour market												
Unemployment ^{2.1}	%	10.5	11.1	11.1	11.2	14.0	14.2	13.8	:	14.1	:	:
Employment ^{2.2}	Ann. % ch	2.5	2.2	3.5	1.8	-2.4	-2.5	-0.9	:	0.3	:	:
Wages ^{2.3}	Ann. % ch	16.7	21.3	10.2	20.6	24.0	21.7	19.8	:	:	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	-9.7	-0.5	9.8	7.8	2.1	0.5	1.1	:	6.0	1.4	:
Imports of goods ^{3.2}	Ann. % ch	-15.3	-4.8	17.7	-3.2	-8.7	-5.1	14.4	:	18.9	9.2	:
Trade balance* ^{3.3}	% of GDP	-5.7	-4.6	-6.9	-5.3	-2.2	-1.4	-2.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.3	22.0	24.8	29.5	31.6	32.2	31.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	26.0	24.9	29.3	30.6	29.8	29.8	29.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-3.2	-3.1	-4.8	-2.7	1.1	1.8	1.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.3	1.6	1.3	1.7	1.1	1.5	1.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	110.5	106.1	107.7	93.2	105.4	105.8	105.4	89.6	102.4	107.8	89.6
Int. reserves / months Imp ^{3.9}	Ratio	5.6	5.8	5.1	4.4	5.6	5.5	5.6	:	5.4	5.7	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	7.7	7.8	11.1	16.3	15.2	13.5	10.3	12.1	12.2	12.4	11.9
Producer prices ^{4.2}	Ann. % ch	5.3	4.3	15.8	27.0	17.6	12.0	4.4	8.9	8.8	9.3	8.5
Food prices ^{4.3}	Ann. % ch	11.1	5.8	12.7	18.0	19.5	14.9	9.2	9.9	9.0	10.6	10.1
M4 ^{4.4}	Ann. % ch	17.1	17.2	15.5	19.3	28.5	14.9	28.5	31.5	29.8	30.3	31.5
Exchange rate TRY/EUR ^{4.5}	Value	3.0	3.34	4.15	5.68	6.35	6.27	6.46	6.84	6.58	6.73	7.22
Nominal effective exchange rate ^{4.6}	Index	63.7	58.63	47.90	36.12	31.34	31.61	30.94	29.50	30.02	29.76	28.71
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	10.48	9.88	12.20	18.92	19.68	17.63	12.86	9.80	10.18	9.79	9.43
Interest rate, long term ^{5.2}	% p.a.	9.30	10.19	11.11	15.88	15.76	15.78	13.06	11.72	11.13	11.48	12.56
Stock markets ^{5.3}	Index	80,641	77,177	98,993	101,927	99,278	99,792	104,833	110,715	118,909	117,932	95,305
Credit growth ^{5.4}	Ann. % ch	20.4	16.2	21.2	13.1	10.8	-1.6	10.8	16.1	13.8	14.8	16.1
Deposit growth ^{5.5}	Ann. % ch	18.6	17.7	17.7	22.1	24.0	11.2	24.0	29.3	26.2	29.2	29.3
Non-performing loans ^{5.6}	% total	3.1	3.2	3.0	3.9	5.4	5.0	5.4	:	5.3	5.2	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-1.0	-1.1	-1.5	-2.0	-2.9	-0.6	-3.2	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	27.5	28.2	28.2	30.4	33.1	32.1	33.1	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

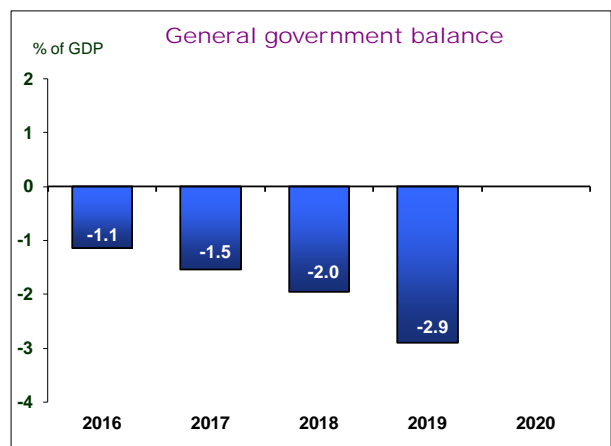
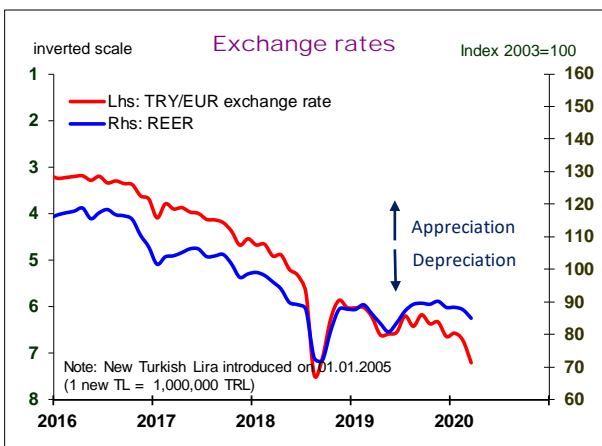
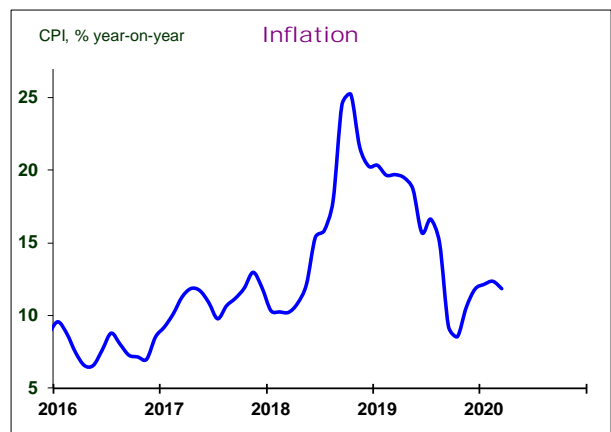
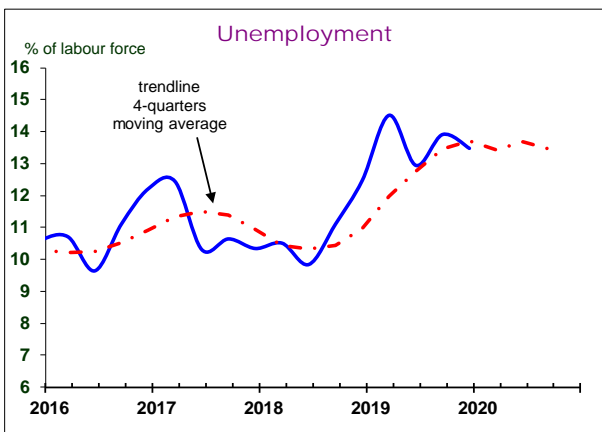
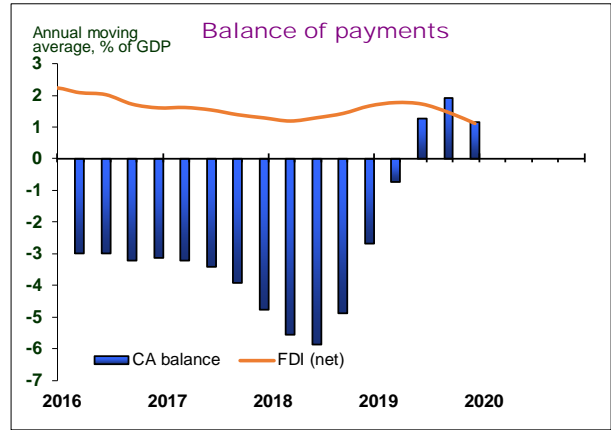
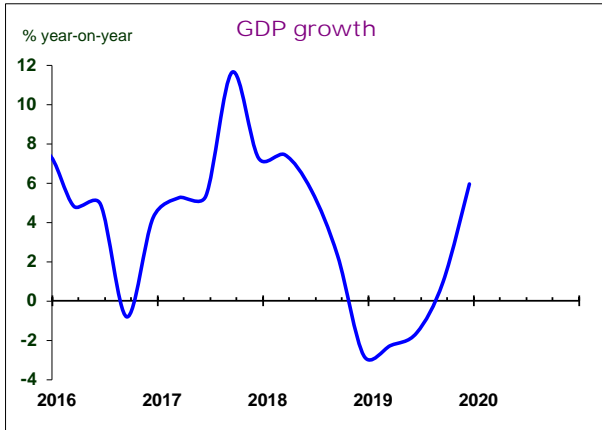
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

In mid-March, increasing numbers of COVID-19 infections forced the authorities to declare a state of emergency, which among others included the introduction of border controls and strong restrictions on internal mobility.

Concerning economic countermeasures, the Central Bank, the financial sector stability committee as well as the entity governments presented first measures, such as a 3-month moratorium on loan repayments for all citizens and for eligible loans for households and businesses, and a solidarity fund at the level of the Federation entity amounting to nearly 3% of GDP.

In order to address the additional financing needs, the authorities have requested emergency assistance from the IMF, the World Bank and the European Union. On 21 April, the IMF Board approved an EUR 330 million loan under the Rapid Financing Instrument (RFI) to help the country meet its financing needs.

The country is vulnerable to a drop in workers' remittances and the breakdown of EU production chains. The economy is strongly reliant on trade, manufacture and remittances, with the latter accounting for more than 10% of GDP. The main trading partners are Germany, Italy, Croatia and Austria, with a strong focus on textiles and basic metals and close links with the car industry. The significance of tourism has been increasing, but overall its economic relevance is still limited compared to some of the regional peers.

Real sector

Before the outbreak of the pandemic, economic activity was decelerating, largely reflecting a deterioration in the international environment. Output growth slowed to 1.6% year-on-year in the fourth quarter of 2019, after around 3% during the first three quarters. This brought annual growth down to 2.6% in 2019, compared to 3.3% in 2018. The main reasons for the slowdown in the fourth quarter were weaker export growth, but also weaker private consumption. For the year as a whole, the main factor for lower growth was a decline in net-exports, with a growth contribution of -0.8 pps in 2019, compared to +0.3 pps in 2018. When looking at the sectoral composition, the main

growth drivers continued to be trade, transport and accommodation, increasing by 6.2% y-o-y and contributing about 1.2 pps to GDP growth. However, also the financial sector and public administration, including health and education, were important growth contributors, while output growth in agriculture and manufacturing remained low.

Higher-frequency data such as industrial production point to a continued weakening of growth dynamics in the first two months of 2020, with declines of 6.9% and 0.7%, respectively. During the full year of 2019, the level of industrial production was 5.3% lower than a year before. However, in January and February retail sales were on average 10.3% higher year-on-year.

Labour market

Growth of registered employment was 1.3% and 1.6% year-on-year in January and February, respectively, compared to 4.1% and 3.5% a year before. In absolute numbers, some 13 thousand more employees were registered in February than a year before. The main contributors to this increase were the trade sector, including tourism, as well as construction and manufacturing. At the same time, registered unemployment was some 27 thousand persons lower than a year before. However, this decrease was still much larger than the increase in the number of newly registered employees, implying a continuous decline in the registered labour force, likely reflecting discouraged labour, emigration or to a certain extent a stricter application of unemployment eligibility criteria. Measured according to the annual survey-based LFS method, the unemployment rate fell from 18.4% in (April) 2018 to 15.7% in (April) 2019. Youth unemployment remains about twice as high as the overall rate, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is still at around three quarters of total unemployed.

The growth of nominal gross wages remained relatively high in the fourth quarter, at 4.3%, compared to 4.5% in the third quarter. In January and February, annual wage growth was 3.7% and 5.4%, respectively. The increases might rather reflect labour shortages, due to substantial brain drain, than productivity gains. Adjusted for inflation, average gross earnings were 4% higher y-o-y.

External sector

The current account deficit remained largely unchanged in 2019 at 3½% of GDP. Balance-of-payment statistics points to a marked drop in commodity exports in the fourth quarter, by 5% year-on-year. The main factors were lower exports to, Germany, Croatia, Italy and Kosovo. Trade with the EU accounted for some 73% of total exports. The decline in exports was however partly compensated by a drop in commodity imports by 0.6% year-on-year. The primary and secondary income balances remained largely unchanged in 2019, registering a slight deficit of 0.2% of GDP and a surplus of about 12% of GDP, respectively. Trade data from the first three months of 2020 point to a sharp drop in import growth, from 4.4% y-o-y in January to -16.5% in March.

Net FDI inflows accounted for 2.7% of GDP in 2019, largely reflecting reinvested earnings but also new investment from Russia, Croatia and the Netherlands. Official foreign reserves continued to increase in the fourth quarter, reaching an import coverage of some 8 months, which however dropped to some 7½ months in February.

Monetary developments

Inflationary dynamics continued to remain subdued at the end of 2019 and in early 2020. Headline consumer price inflation decelerated to 0.2% in the fourth quarter, compared to 0.4% in the third quarter. In January, inflation picked up to 0.7%, largely due to a stronger increase in food prices, but returned to 0.3% and 0.1% in February and March. Key factors for the continued low price dynamics are lower prices for clothing and footwear, which remained nearly 10% lower y-o-y, and of transport, while prices for alcoholic beverages and restaurants were some 5% and 2% higher than a year before. Average annual consumer price inflation in 2019 was 0.6%, largely due to higher inflation rates at the beginning of the year. During the first quarter in 2020, average inflation was 0.4%.

The annual growth of the monetary aggregate M2 remained high in the fourth quarter, at 8.9%, compared to 8.1% in the previous three months.

Financial sector

Annual domestic credit growth accelerated to 6.1% in the fourth quarter, before moderating to around 4.6% in January and February. The main reason for this deceleration was a marked slowdown in growth of corporate loans, which

account for some 43% of total loans. At the same time, the growth in loans to the government accelerated to 6.7% in February. However, public sector loans account for only about 4% of total loans. Household loans, which account for nearly half of total loans, increased by some 6% y-o-y in early 2020.

Growth of total deposits remained strong. In the fourth quarter, deposits increased by some 9.8% and by 8.7% and 9.7% in January and February, respectively. As a result, the loan-to-deposit ratio dropped to 85.3% in February, compared to 89.4% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 7.4% in the fourth quarter, compared to 8.8% a year before. Loan-loss provisioning deteriorated slightly with 78.5% of non-performing loans covered by provisions, compared to 79.6% in the third quarter of 2019. Banking sector profitability deteriorated in the fourth quarter as the return-on-equity (ROE) ratio dropped to 10.4%, compared to 11.1% in the third quarter. The return on assets (ROA) remained largely unchanged at 1.4% in the fourth quarter. The banking system's overall capital adequacy ratio remained largely unchanged at 18.0% in the fourth quarter, which is well above the country's regulatory minimum of 12%. However, there are big differences among the countries' 23 banks, with some pockets of vulnerability remaining, in particular in the case of some smaller local banks.

Fiscal developments

Public-sector revenue growth slowed down in the second half of 2019, reflecting weaker domestic growth, lower imports but also lower import tariffs. Overall, the collection of indirect taxes, accounting for about 40% of total revenues, was some 5.3% higher than a year before. Spending on public wages remained contained. Latest estimates for 2019 point to a country-wide fiscal surplus of about 1% of GDP. The two entities have revised their 2020 budgets to take into account the fiscal impact of the COVID-19 crisis. However, the state-level budget for 2020 is not adopted yet.

The value of general government debt in the fourth quarter was largely unchanged from a year before (+0.8% year-on-year). However, there was an increase in long term debt, primarily securities (+1.4 pps), which was partly compensated by a drop in short-term debt (-0.6 pps). As a share in GDP, the public debt ratio dropped compared to a year before by 1.3 pps to 32.8%.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

		2015	2016	2017	2018	2019	Q3 19	Q4 19	Q1 20	Jan 20	Feb 20	Mar 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	3.1	4.4	3.1	1.6	-5.3	-5.7	-6.9	:	2.3	-3.5	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	3.4	3.2	3.3	2.6	3.1	1.6	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.8	2.3	1.1	2.3	2.4	2.0	0.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-3.5	2.5	5.8	9.2	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-15.2	49.8	-18.9	2.2	5.0	63.6	5.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.8	7.0	5.1	8.2	5.2	3.9	5.2	:	10.4	10.3	:
2 Labour market												
Unemployment ^{2.1}	%	27.7	25.4	20.5	18.4	15.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.2	-2.6	1.9	0.7	1.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.0	0.9	1.6	3.1	4.3	4.5	4.3	:	3.7	5.4	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	5.1	7.0	21.3	11.5	-2.3	-4.0	-5.0	:	0.9	-3.1	-7.6
Imports of goods ^{3.2}	Ann. % ch	-2.4	2.9	13.3	6.9	1.3	-2.3	-0.6	:	4.4	-1.2	-16.5
Trade balance* ^{3.3}	% of GDP	-24.1	-22.8	-22.9	-22.0	-22.3	-22.2	-22.3	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	34.2	35.0	39.6	41.4	39.5	40.2	39.5	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	51.7	51.0	55.4	56.1	54.4	54.9	54.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.9	-4.5	-4.2	-3.6	-3.5	-3.6	-3.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.7	1.8	2.0	2.5	2.6	2.8	2.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	4,438.9	4,884.1	5,392.9	5,962.3	6,453.2	6,381.9	6,453.2	:	6,392.1	6,345.8	:
Int. reserves / months Imp ^{3.9}	Ratio	6.6	7.1	7.0	7.2	7.7	7.9	8.1	:	7.7	7.6	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-1.0	-1.1	1.3	1.4	0.6	0.4	0.2	:	0.7	0.3	0.1
Producer prices ^{4.2}	Ann. % ch	-0.6	-0.9	1.8	3.2	0.4	-0.3	-0.4	:	0.7	:	:
Food prices ^{4.3}	Ann. % ch	-4.8	-1.3	1.3	0.6	1.1	0.8	1.3	:	1.6	0.8	:
M2 ^{4.4}	Ann. % ch	8.0	8.3	9.5	9.4	8.9	8.1	8.9	:	8.9	9.4	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Real effective exchange rate ^{4.6}	Index	98.0	97.0	96.4	97.1	95.8	94.8	95.2	:	95.93	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.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.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	701	692	627	621	772	773	861	778	795	781	757
Credit growth ^{5.4}	Ann. % ch	1.8	2.1	5.3	6.6	5.7	5.3	6.1	:	4.6	4.6	:
Deposit growth ^{5.5}	Ann. % ch	6.2	7.7	10.4	11.3	9.3	9.1	9.8	:	8.7	9.7	:
Non performing loans ^{5.6}	% total	13.9	12.3	10.9	9.3	7.9	7.7	7.4	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	0.6	1.2	2.5	2.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.3	39.0	35.0	33.6	32.2	31.8	32.2	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

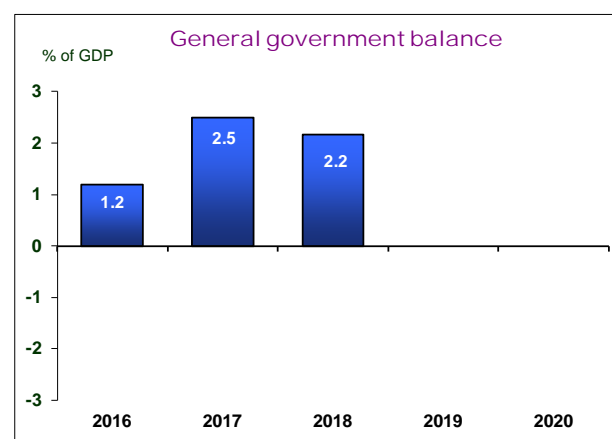
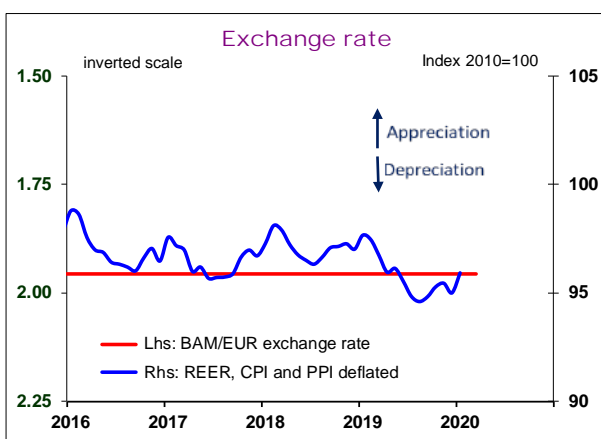
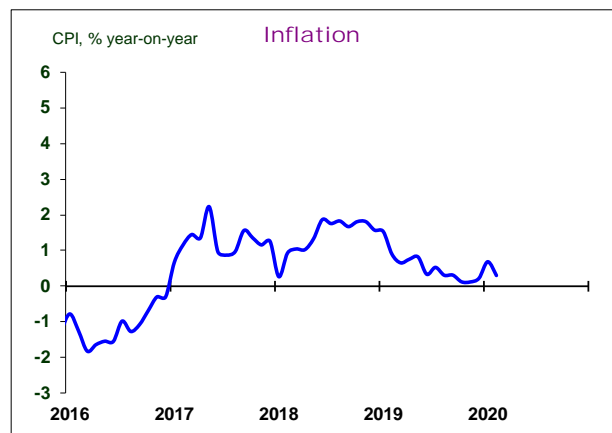
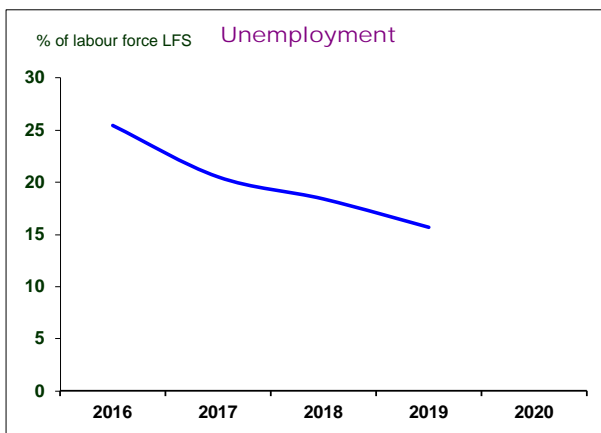
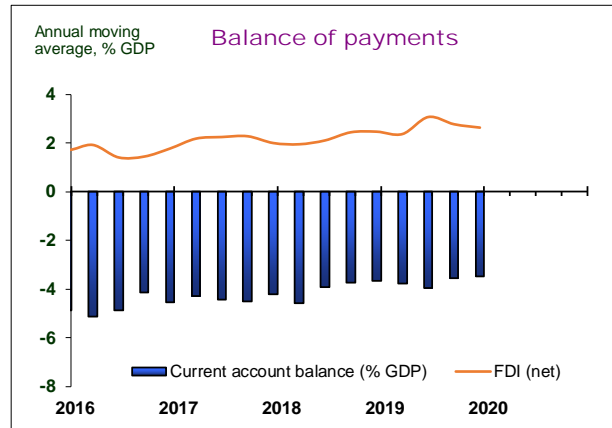
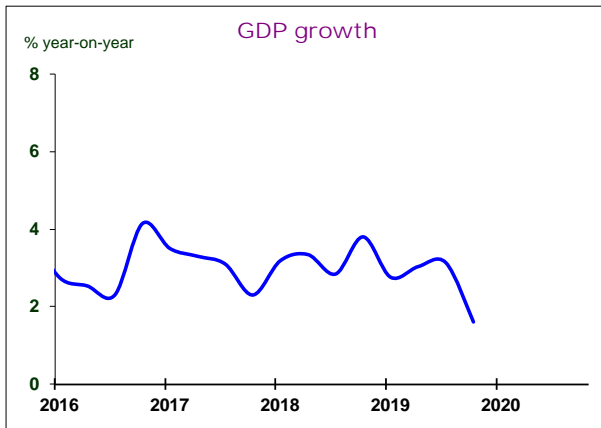
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

In end-March, the recently formed coalition government between Vetevendosje and the Democratic League of Kosovo (LDK) has been overthrown by a no-confidence vote in the Assembly after LDK, the junior party in the governing coalition, supported the motion.

In order to mitigate the social and economic effects of the Covid-19 crisis, the caretaker government has adopted an emergency package of EUR 180 million or 2.5% of 2019 GDP. The package includes (1) transfers to SMEs and sectors affected by the lockdown; (2) advancing social assistance payments by one month to support poor families; (3) additional allocations to the ministry of health; (4) deferrals of VAT, personal and corporate income taxes; (5) temporary suspension of VAT on imports of wheat and flour; (6) deferral of public utility payments until end-April. In agreement with the association of banks, the Central Bank of Kosovo decided to postpone credit reimbursements by all borrowers until end of April, which can be extended further if needed.

Kosovo has applied for Macro-Financial Assistance from the EU, which would complement the IMF emergency liquidity loan (Rapid Finance Instrument) of EUR 51.6 million, approved by the IMF Board on 10 April.

The outgoing government has completely removed the 100% tariffs on imports originating from Serbia and Bosnia and Herzegovina, starting from April. The government has put in place reciprocity measures with Serbia, but not with Bosnia and Herzegovina.

Real sector

Before the outbreak of the Covid-19 crisis, economic growth was solid, even though it slightly decelerated in the fourth quarter to 3.9% y-o-y from 4.4% in the previous three months. Based on quarterly data for 2019, the provisional estimate of annual GDP growth is 4.2%. Mainly driven by private investment in the construction sector, gross fixed capital formation increased by 4.6% y-o-y, while government and household consumption rose by 6.6% y-o-y and 2.6% y-o-y

respectively; the latter was supported by healthy remittances inflows and easier access to credit. Net exports of goods and services provided a slightly negative contribution to GDP growth (-0.6 pps.), despite a moderate growth of imports (5.7% y-o-y) and strong expansion of exports (12.9% y-o-y), supported by services exports and the production of the Feronickeli plant.

In 2019, gross value added grew by 4.7% y-o-y and was driven by higher output in the construction, trade (wholesale and retail) and industry (mining and manufacturing) sectors by 8.3%, 7.4% and 5% y-o-y, respectively. Agriculture subtracted from growth, for a second year in a row.

Labour market

Following the improvement in the third quarter, the labour market slipped towards the end of the year. According to the labour force survey, the labour force participation rate fell slightly to 41.4% in the fourth quarter from 41.9% the third quarter of 2019. Over the same period, the overall employment rate also dropped, to 30.7% from 31.6%. The participation rate of women stood at 22.4% with more than one third of economically active women (36.6%) being unemployed. The wide gap between male and female employment rates (at 47% and 14.2% respectively) persisted. In the last quarter of 2019, the unemployment rate increased to 25.9% from a record low of 24.5% in the third quarter, but it was still significantly lower than the rate of 31.4% in the same quarter a year earlier. Persistently high youth unemployment (15-24 years) increased slightly as compared to the previous quarter, to 49.1%, but it was much lower than in the same quarter of 2018 (57.3%).

External sector

Due to strong growth in service exports and moderate expansion of imports in 2019, the current account deficit narrowed to 5.8% of GDP from 7.6% in 2018. The merchandise trade deficit remained stubbornly high at 44% of GDP. The inflow of workers' remittances increased by 7.9% and they accounted for 12.2% of GDP. On the financing side, total net FDI inflows stood at 3.8% of GDP in 2019, covering more than half of the current account deficit.

Official reserve assets in months of imports slightly improved to 2.3 at end-2019 from 2.2 months of imports of goods and services a year before.

Before the outbreak of Covid-19 and the related shutdown, merchandise exports and imports expanded by robust 36.4% and 14.5% y-o-y in the first two months of 2020.

Monetary developments

In 2019, average annual inflation stood at 2.7%. Following the introduction of a 100% import tariff on goods imported from Serbia and Bosnia and Herzegovina in late 2018, annual inflation peaked at 3.4% in May and continued to ease towards the end of 2019. The key drivers were food, tobacco and fuel prices. Monthly inflation rates observed in January-March 2020 were on a declining trend, at 1.1% y-o-y on average.

After the first quarter of 2019, Kosovo Agency of Statistics has stopped providing data on the quarterly indices for construction cost, producer and import prices.

Financial sector

In 2019, annual average credit growth showed some sign of deceleration, to 10% from nearly 11% a year before. The annual growth rate of deposits accelerated to 16.2%, leading to a declining loan-to-deposit ratio, to some 77.6% from 81.9% in 2018. Kosovo's depth of financial intermediation remained relatively low at 41.3% of GDP. The average weighted interest rate for loans stood at 6.4%; the average interest rate on deposits was 1.6%.

Before the outbreak of Covid-19, the financial sector was considered to be liquid and well-capitalised. The central bank's stress tests¹ showed that liquidity problems for the entire banking sector would arise in case of an extreme scenario consisting of the withdrawal of 22.2% of deposits within one day.

Financial soundness indicators in the banking sector remained satisfactory throughout 2019. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 37.2% in January 2020. The capital adequacy ratio was at 15.9% in January, comfortably above the regulatory minimum of 12%. The NPL ratio was at 2.7% and the existing NPLs were fully covered by loan loss provisions

(164.4%).

Fiscal developments

With a delay of three months, the Assembly adopted the 2020 budget in mid-March. The 2020 budgetary expenditure was projected at EUR 2.3 billion, which is slightly above the public spending of 2019, assuming real GDP growth of 4.2%. The outbreak of Covid-19 and the related crisis made these projections obsolete. The first evidence shows that a 60% loss in customs revenues in March. The IMF forecasts that real GDP will contract by 5% and public revenue will decrease by EUR 200 million (2.8% of 2019 GDP) in 2020.

In end March, the caretaker government approved the emergency package which contains 16 measures, mainly to support the affected businesses, social protection of the most vulnerable households, formal and informal employment and support to the public organisations working in the front-line of pandemic areas. With limited cash flow and limited liquidity, the government is able to cover the essential payments only up to three months.

Preliminary figures on the 2019 budget outcome, as presented in the Economic Reform Programme, indicate a budget deficit of 0.6% of GDP according to the fiscal rule definition. The overall headline deficit stood at 2.9% of GDP. Total government revenues increased by 7.2% y-o-y, supported by higher growth of non-tax revenue, while VAT revenues, which account for half of tax revenues, expanded by 5.3%. Total expenditure rose by a 6.9%. Current expenditure grew by 9.4% due to increasing subsidies and transfers while capital spending stagnated, with only around two-thirds of the planned investment expenditure actually realised. Spending on subsidies and transfers overshot the planned budget by EUR 27 million (0.3% of GDP) mainly due to higher spending on war veteran pensions in the absence of a reclassification of beneficiaries. Government cash holdings at end-2019 stood at about 5% of GDP.

At the end of 2019 total public debt including guarantees increased to 17.5% of GDP. In 2019, the share of domestically held debt increased to nearly 66% of the total, from 62% a year before. Domestic debt is held by a narrow investor base, with the Kosovo Pension Security Trust and the Central Bank accounting for around 38% and 23% respectively of the total. A further 35% of domestic debt is held by commercial banks.

¹ CBK Financial Stability Report 2019.

TABLE

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KOSOVO*

		2015	2016	2017	2018	2019	Q3 19	Q4 19	Q1 20	Jan 20	Feb 20	Mar 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	1.3	-1.3	-1.3	-1.2	:	N.A.	N.A.	N.A.	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.1	4.2	3.8	4.2	4.4	3.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	6.7	6.6	1.8	4.8	:	2.4	2.6	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	11.3	7.5	5.6	8.1	:	3.5	4.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.1	6.5	12.0	17.4	:	0.9	:	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	32.9	27.5	30.5	29.6	25.7	24.5	25.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-8.2	11.8	7.6	-3.4	5.2	9.9	6.7	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.8	1.8	1.7	5.7	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	0.2	-4.8	22.1	-2.8	4.4	15.4	-7.6	:	23.2	49.4	:
Imports of goods ^{3.2}	Ann. % ch	3.8	5.9	9.2	9.8	4.5	3.7	6.9	:	16.2	13.2	:
Trade balance*** ^{3.3}	% of GDP	-39.8	-40.9	-41.6	-44.3	-44.0	-43.5	-44.0	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	21.9	22.2	26.5	26.4	27.8	47.7	19.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	50.4	50.6	52.7	55.6	56.1	58.3	55.8	:	N.A.	N.A.	N.A.
Current account balance*** ^{3.6}	% of GDP	-8.6	-7.9	-5.4	-7.6	-5.8	-5.3	-5.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** ^{3.7}	% of GDP	5.3	3.6	4.0	4.0	3.8	4.3	3.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	1302.6	1,161.7	1,242.6	1,239.6	1,219.1	1408.4	1,219.1	:	1316.3	1,303.8	:
Int. reserves / months Imp ^{3.9}	Ratio	2.6	2.0	2.1	2.2	2.3	2.4	2.3	:	N.A.	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	-0.5	0.3	1.5	1.1	2.7	2.6	1.7	:	1.5	0.9	:
Producer prices ^{4.2}	Ann. % ch	2.7	-0.1	0.6	1.4	0.9	0.6	-0.1	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	0.0	-0.4	1.2	2.8	8.3	5.2	3.3	:	1.8	1.3	:
Broad money liabilities ^{4.4}	Ann. % ch	5.6	9.2	6.4	7.9	12.0	11.6	12.0	:	11.9	13.0	:
Exchange rate EUR/EUR ^{4.5}	Value	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real eff. exchange rate (CPI) ^{4.6}	Index	103.5	103.5	103.3	102.5	103.7	:	:	:	:	:	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	1.45	0.35	0.21	0.43	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth ^{5.4}	Ann. % ch	6.9	9.1	10.5	11.1	10.7	10.4	10.1	:	10.2	10.7	:
Deposit growth ^{5.5}	Ann. % ch	5.6	4.7	8.6	6.5	12.6	13.7	16.0	:	16.6	16.3	:
Non-performing loans ^{5.6}	% total	6.2	4.9	3.1	2.5	1.9	2.1	1.9	:	1.9	2.3	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-2.0	-1.2	-1.3	-2.8	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	13.1	14.4	16.6	17.1	:	:	:	:	N.A.	N.A.	N.A.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

** Source: IMF.

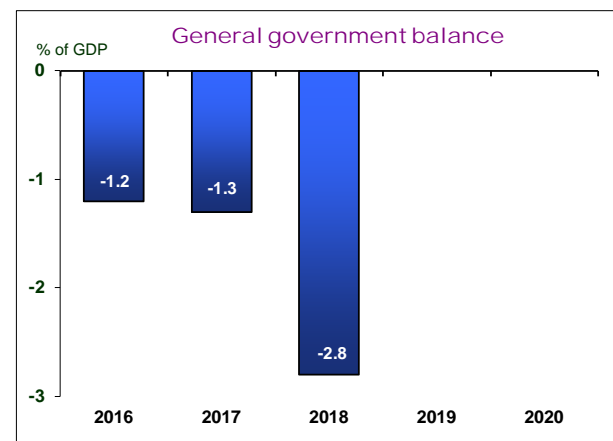
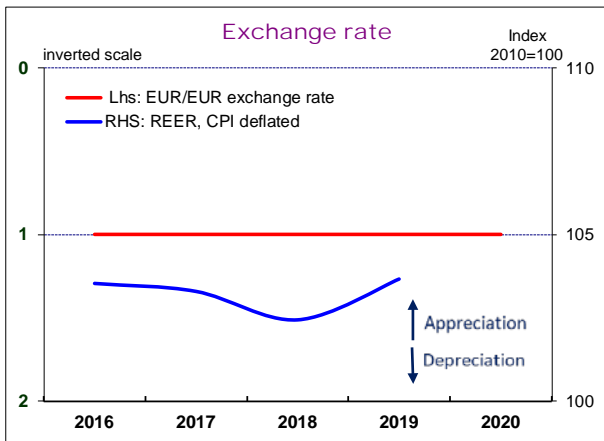
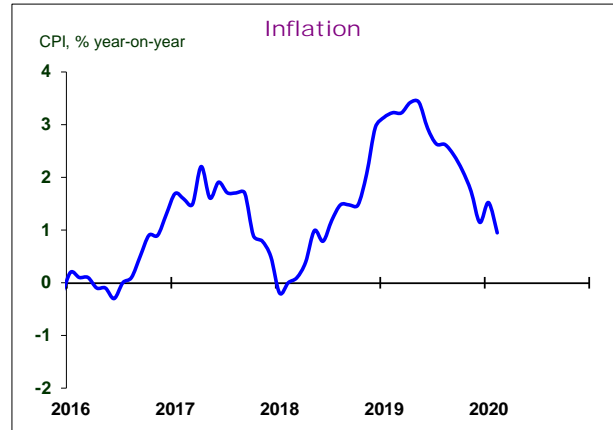
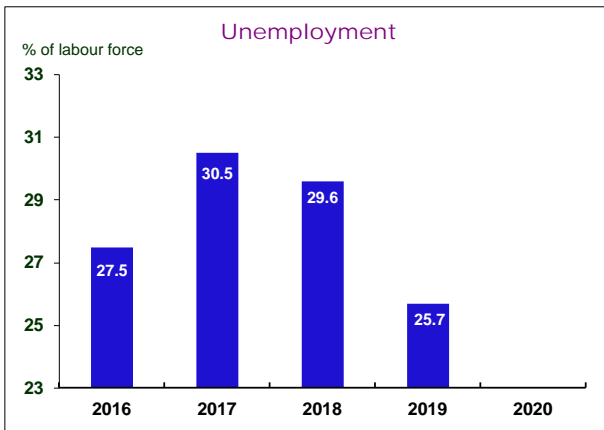
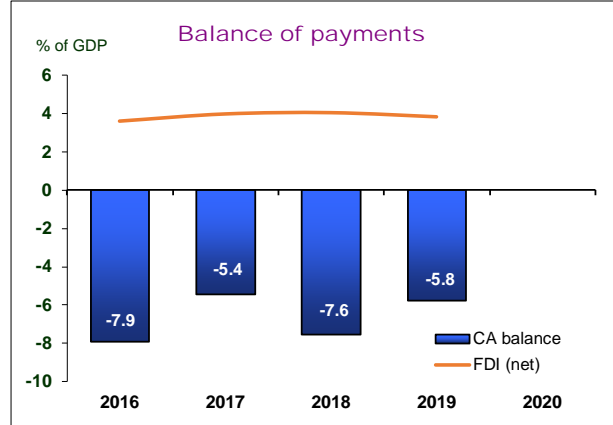
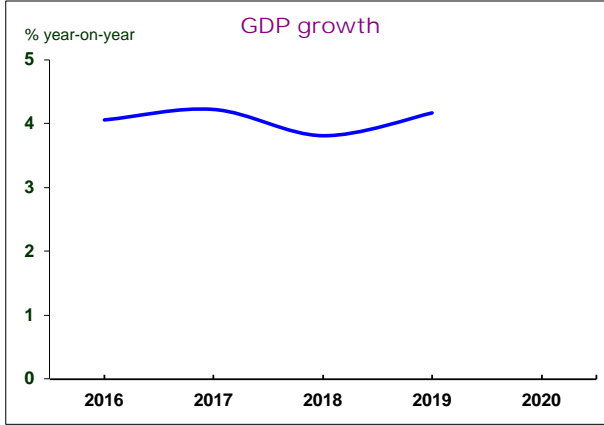
*** Q figures refer to a 4 quarters moving average.

CHARTS

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KOSOVO*



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Source of data: IMF, national sources



No.	Indicator	Note	Source
1. Real sector			
1.1.	Economic sentiment indicator	Economic Survey Index, SA	Bank of Albania
1.2.	Industrial production	Industrial production volume index	INSTAT
1.3.	Gross domestic product	Annual percentage change, volume	INSTAT
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.6.	Construction index	Annual percentage change, volume index of construction	Eurostat
1.7.	Retail sales	Annual percentage change of index	Eurostat
2. Labour market			
2.1.	Unemployment	Unemployment rate of the age group between 15-64	INSTAT, LFS
2.2.	Employment	Annual percentage change of employed persons age 15-64	INSTAT, LFS
2.3.	Wages	Average monthly wages	INSTAT
3. External sector			
3.1.	Exports of goods	Annual percentage change of global exports, trade in mio. EUR	Eurostat
3.2.	Imports of goods	Annual percentage change of global imports, trade in mio. EUR	Eurostat
3.3.	Trade balance	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.4.	Exports goods and services	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.5.	Imports goods and services	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.6.	Current account balance	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.7.	Direct investment (FDI, net)	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.8.	Reserves, International reserves of the Bank of Albania	Net foreign assets, total, mio EUR.	Bank of Albania
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	IMF
4. Monetary developments			
4.1.	CPI	Consumer Prices, all items, year-on year percentage change	INSTAT
4.2.	Producer prices	Year on Year percentage change of index	INSTAT
4.3.	Food prices	Year on Year percentage change of index "Food and Non-alcoholic Beverages"	INSTAT
4.4.	M3	Year on Year percentage change	Bank of Albania
4.5.	Exchange rate LEK/EUR	Period average	Bank of Albania
4.6.	Real effective exchange rate	LEK, CPI deflated	Bruegel Inst.
5. Financial indicators			
5.1.	Interest rate	1 Year Bond, Yield	Bloomberg
5.2.	Bond yield	Government Benchmarks, 3 Year Bond, Yield	Bank of Albania
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change of stock, total	Bank of Albania
5.5.	Deposit growth	Annual percentage change of stock, total	Bank of Albania
5.6.	Non-performing loans	Of total loans in %	Bank of Albania
6. Fiscal developments			
6.1.	General government balance	Net lending annual /cash balance quarterly in percent of estimated annual /quarterly GDP.	Albanian Min. of Finance
6.2.	General government debt	Gross public debt in percent of estimated annual GDP	Albanian Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	MacroBond
1.2.	Industrial production	Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	MacroBond
1.4.	Private consumption	Annual percentage change, annual data, chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MacroBond
1.6.	Construction index	Annual percentage change, value of performed work, current prices	MacroBond
1.7.	Retail sales	Annual percentage change, turnover, total	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of active population, e.o.p.	MacroBond
2.2.	Employment	Annual percentage change of registered employment, avrg.	MacroBond
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	Annual data	MacroBond
3.5.	Imports goods and services	Annual data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MacroBond
4.2.	Producer prices	Annual percentage change	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (Intermediate money)	wiiw
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Real effective exchange rate	CPI deflated, Index 2010=100	wiiw
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	MacroBond
5.3.	Stock markets	MOSTE Index, Close	MacroBond
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	MacroBond
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	MacroBond
5.6.	Non-performing loans	% of total	Central Bank ME
6. Fiscal developments			
6.1.	General government balance	Quarterly balance in percent of estimated annual GDP.	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Current Situation, Assessment, Enterprises, total, MKD	MacroBond
1.2.	Industrial production	Annual percentage change, volume, excluding construction	MacroBond
1.3.	Gross domestic product	Real Gross Domestic Product, Total, Growth Rate (2005), NSA.	MacroBond
1.4.	Private consumption	Real Final Consumption, Households including NPISH's, Growth Rate (2005), NSA.	MacroBond
1.5.	Gross fixed capital formation	Real Gross Capital Formation, Growth Rate (2005), NSA.	MacroBond
1.6.	Construction	Value Added, Economic Activity, Current Prices, MKD	MacroBond
1.7.	Retail sales	Annual percentage change, Retail trade, turnover, total. Starting 2012 Retail Sale of Non-Food Products except Fuel (2010), NSA.	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey	MacroBond
2.2.	Employment	Annual percentage change, Labour Force Survey	MacroBond
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, cif	MacroBond
3.3.	Trade balance	In percent of GDP, fob-cif	MacroBond
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	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Annual average percentage change, HICP not yet available for FYRoM	MacroBond
4.2.	Producer prices	Annual percentage change, industrial products	MacroBond
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	MacroBond
4.4.	M4	Annual percentage change, M4 (Broadest money)	MacroBond
4.5.	Exchange rate MKD/EUR	Averages, spot close	MacroBond
4.6.	Nominal effective exchange rate	MKD, Index 2005=100	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interest rate Denar deposits	MacroBond
5.2.	Bond yield	Not available	
5.3.	Stock markets	MSE Index (MBI-10)	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, DMB, total, overall, with Saving houses, MKD	MacroBond
5.5.	Deposit growth	Annual percentage change, with Saving houses, total, MKD	MacroBond
5.6.	Non-performing loans	In percent of total	MacroBond
6. Fiscal developments			
6.1.	Central government balance	In percent of GDP, Q/Q GDP	MoF
6.2.	Central government debt	In percent of GDP	MoF



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	MacroBond
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	MacroBond
1.4.	Private consumption	Annual percent change, Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	MacroBond
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	MacroBond
1.6.	Construction index	Annual pc change, Value Index of Performed Works, Total CPPY=100, NSA	MacroBond
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Semi-annual data.	MacroBond
2.2.	Employment	Annual percentage change, as from 2014 based on LFS. Data before 2014 are based on official data on registered employment.	MacroBond
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	International reserves NBS	Total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer Prices, Total, CPPY, average.	MacroBond
4.2.	Producer prices	Annual average percentage change, domestic market	MacroBond
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M3	Annual percentage change, M3 (broad money), RSD	MacroBond
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	MacroBond
4.6.	Nominal effective exchange rate	Period average, moving base year, RSD	MacroBond
5. Financial indicators			
5.1.	Interest rate	Belgrade Overnight Index Average (BEONIA)	MacroBond
5.2.	Bond yield	Weighted average interest rate on 7Y RSD government bonds	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	MacroBond
5.4.	Credit growth	Annual percentage change, monetary survey, domestic credit, total, RSD	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	MacroBond
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	MacroBond
6. Fiscal developments			
6.1.	General government balance	Consolidated GG, Overall balance. In percent of quarterly GDP, Q/Q GDP	Min. of Finance
6.2.	General government debt	Central government debt. In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	MacroBond
1.2.	Industrial production	Annual percentage change, volume (index 2015)	Macrobond
1.3.	Gross domestic product	Annual percentage change,	MacroBond
1.4.	Private consumption	Annual percentage change, index (2009 prices)	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change,	MacroBond
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, 2015=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	MacroBond
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	MacroBond
2.3.	Wages	Annual percentage, Hourly earnings manufacturing / Index publication base -	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, annualised moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised moving average	MacroBond
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	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR, eop.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average	MacroBond
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	MacroBond
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	MacroBond
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	MacroBond
4.4.	M3	Money supply M3, total, TRY	MacroBond
4.5.	Exchange rate YTL/EUR	Period averages	MacroBond
4.6.	Nominal effective exchange rate	Index 2010 = 100, period averages	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, TRLIBID, 3 Month, fixing	MacroBond
5.2.	Bond yield	Government Benchmarks, 10 Year Bond, Yield	MacroBond
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	MacroBond
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	MacroBond
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	MacroBond
5.6.	Non-performing loans	In percent of total loans	MacroBond
6. Fiscal developments			
6.1.	General government balance	Central government, in percent of GDP; Q/Q GDP for quarterly data	Macrobond
6.2.	General government debt	In percent of GDP (EU standards; defined by the Ministry of Treasury and Finance)	Macrobond



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, Index 2010=100, Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change	MacroBond
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change	MacroBond
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	MacroBond
1.7.	Retail sales	Total sale, index CPPY=100, weighted average Federation of Bosnia and Herzegovina 65% Serb Republic 35%	MacroBond
2. Labour market			
2.1.	Unemployment	Labour Force Survey, in percent of total labour force	MacroBond,
2.2.	Employment	Labour Force Survey, annual percentage change	MacroBond
2.3.	Wages	Annual percentage change, average gross wages, BAM	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	MacroBond
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	MacroBond
4.2.	Producer prices	Domestic, total, index CPPY=100	MacroBond
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100,	MacroBond
4.4.	M2	Annual percentage change, M2 (broadest money)	MacroBond
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	MacroBond
4.6.	Nominal effective exchange rate	Index (2002 Apr=100); 9 Trade partners selected in order to set up the index (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	MacroBond
5. Financial indicators			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	MacroBond
5.4.	Credit growth	Annual percentage change, loans, total, BAM, End of period	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM, End of period	MacroBond
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	MacroBond
6. Fiscal developments			
6.1.	General government balance	In percent of GDP, consolidated budget, net lending, Q/Q GDP	MacroBond
6.2.	General government debt	In percent of GDP, external public debt	MacroBond



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available.	
1.2.	Industrial production	Annual % ch	SOK, EC calculation
1.3.	Gross domestic product	Annual percentage change.	Statistical Office of Kosovo (SOK)
1.4.	Private consumption	Annual percentage change.	SOK
1.5.	Gross capital formation	Annual percentage change.	SOK
1.6.	Construction index	Not available.	
1.7.	Retail sales	Wholesale Trade and Retail Sales, Retail Trade Turnover Value Index, Retail Sale in Non-Specialized Stores, 2013=100, NSA.	MacroBond
2.	Labour market		
2.1.	Unemployment	In percent of total labour force.	SOK
2.2.	Employment	Annual pc change of number of employees, LFS 2012 onwards	MacroBond
2.3.	Wages	Annual pc change, average monthly wages (Tax Register).	SOK
3.	External sector		
3.1.	Exports of goods	Annual percentage change.	MacroBond
3.2.	Imports of goods	Annual percentage change.	MacroBond
3.3.	Trade balance	In percent of GDP.	SOK
3.4.	Exports goods and services	In percent of GDP.	Central Bank of Kosovo
3.5.	Imports goods and services	In percent of GDP.	CB Kosovo
3.6.	Current account balance	In percent of GDP, Annual data.	IMF, CB Kosovo
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Annual data.	CB Kosovo
3.8.	Reserves, International reserves of the National Bank	CBAK Survey, claims on nonresidents, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	The World Bank
4.	Monetary developments		
4.1.	Interim CPI	Annual average percentage change, index (May 2002 = 100)	MacroBond
4.2.	Producer prices	Annual percentage change, total, 2007=100	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	MacroBond
4.5.	Exchange rate EUR/EUR	Not applicable.	
4.6.	Real effective exchange rate	CPI deflated, Index 2010=100	wiiw
5.	Financial indicators		
5.1.	Interest rate	Short-Term Treasury Bills yield.	MacroBond
5.2.	Bond yield	Government bonds, 1 year, auction, yield.	Central Bank of Kosovo
5.3.	Stock markets	Not available.	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing.	MacroBond
5.5.	Deposit growth	Annual percentage change, ODC deposits.	MacroBond
5.6.	Non-performing loans	In % of total.	CB Kosovo
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP, Q/Q GDP	IMF, Ministry of Finance
6.2.	General government debt	In percent of GDP.	MacroBond

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

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