



European  
Commission

ISSN 2443-8049 (online)

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

## 3<sup>rd</sup> Quarter 2019

TECHNICAL PAPER 036 | OCTOBER 2019

EUROPEAN ECONOMY



Economic and  
Financial Affairs

**European Economy Technical Papers** are reports and data compiled by the staff of the European Commission's Directorate-General for Economic and Financial Affairs.

Authorised for publication by Uwe Stamm, Head of Unit D1, Candidate and Pre-Candidate Countries.

The Report is released every quarter of the year.

## LEGAL NOTICE

Neither the European Commission nor any person acting on behalf of the European Commission is responsible for the use that might be made of the information contained in this publication.

This paper exists in English only and can be downloaded from  
[https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications\\_en](https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en).

Luxembourg: Publications Office of the European Union, 2019

PDF ISBN 978-92-79-98841-7 ISSN 2443-8049 doi:10.2765/809355 KC-BF-19-008-EN-N

---

© European Union, 2019

Non-commercial reproduction is authorised provided the source is acknowledged. Data, whose source is not the European Union as identified in tables and charts of this publication, is property of the named third party and therefore authorisation for its reproduction must be sought directly with the source.

European Commission  
Directorate-General for Economic and Financial Affairs

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

3<sup>rd</sup> Quarter 2019

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.

Contact: [Uwe.Stamm@ec.europa.eu](mailto:Uwe.Stamm@ec.europa.eu).

## **Contents**

|                                     |           |
|-------------------------------------|-----------|
| <b>OVERVIEW</b> .....               | <b>5</b>  |
| <b>ALBANIA</b> .....                | <b>9</b>  |
| <b>MONTENEGRO</b> .....             | <b>13</b> |
| <b>NORTH MACEDONIA</b> .....        | <b>17</b> |
| <b>SERBIA</b> .....                 | <b>21</b> |
| <b>TURKEY</b> .....                 | <b>25</b> |
| <b>BOSNIA AND HERZEGOVINA</b> ..... | <b>29</b> |
| <b>KOSOVO*</b> .....                | <b>33</b> |

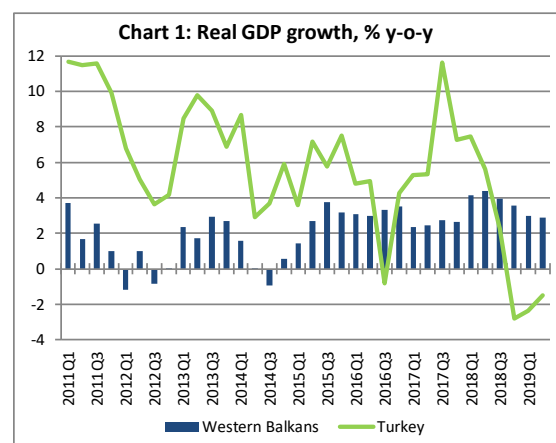
\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

## OVERVIEW

Economic activity continued to slow down in the **Western Balkans** during the second quarter of 2019, with annual real GDP growth averaging 2.9% for the region. At the peak of the cycle one year earlier, the corresponding figure was 4.4%. Private consumption remained a key driver of growth across the region, but investment showed a mixed performance, with year-on-year declines registered in some of the countries. Despite the slowdown in the region's key trading partners in the EU, exports in general held up well in the second quarter. However, as import growth also tended to remain robust, the 12-month rolling average current account deficit of the region increased and exceeded 6% of GDP, the highest level in more than 4 years. Economic expansion led to further job creation, but at a somewhat slower pace than in the first three months of the year, while unemployment rates continued to decline to historically low levels (which are still elevated in comparison with EU peers). Solid domestic demand boosted tax revenues across the Western Balkans, and the public debt-to-GDP ratio came down in most countries compared to end-2018. In **Turkey**, the contraction of the economy moderated to 1.5% y-o-y in the second quarter of 2019 as household consumption showed signs of recovery. The ongoing economic rebalancing turned the 4-quarter rolling average current account balance to a surplus for the first time since 2007 in the second quarter.

Growth dynamics slowed somewhat in most countries of the **Western Balkans** in the second quarter of 2019 compared to the first three months. In **Albania**, economic growth decelerated marginally to 2.3% y-o-y down from an upwardly revised 2.4%, due to weak hydroelectricity production amid low rainfall. Government and private consumption became the main growth drivers, while investment declined due to the gradual completion of works related to the Trans-Adriatic pipeline. **North Macedonia's** annual output growth eased to 3.1%, down from 4.1% in the first quarter, with growth supported by an accelerated pick-up in domestic demand. In **Kosovo**, real GDP expanded at a relatively robust rate of 4.1% y-o-y in the second quarter (compared to 4.2% in the first three months), mainly on the back of a strong increase in investment and a positive contribution of net exports, as well as a solid increase in consumption. In **Bosnia and Herzegovina**, economic growth slightly decelerated, to 2.6% y-o-y, and was driven by investment and household consumption. Conversely, in **Serbia**, real GDP growth picked up from 2.7% y-o-y in the first quarter to 2.9% in the second, on the back of robust domestic demand. In **Montenegro**, despite a contraction in investment, annual economic growth also accelerated slightly, to 3.2%, largely driven by steady household consumption and a modest positive contribution from net exports. Overall, the **Western Balkan** region's real GDP increased by 2.9% y-o-y in the second quarter of 2019, which is only marginally down from the 3.0% rate recorded in the first three months

of the year. However, after four consecutive quarters of slowing economic activity, the pace of growth was much lower than the more than 4% rate achieved in the first half of 2018 (Chart 1).



Source: Macrobond, Commission calculations

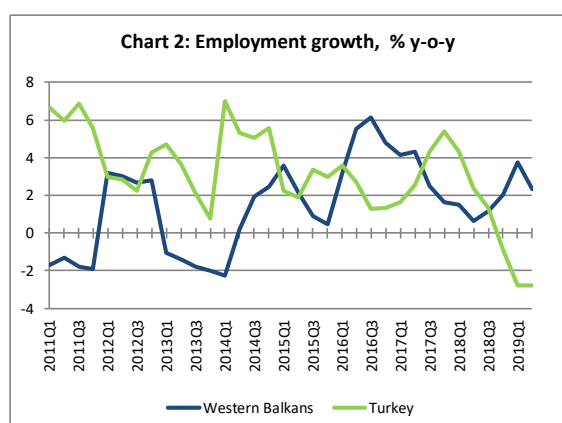
\*\*\*

In **Turkey**, the decrease in real GDP eased to 1.5% y-o-y in the second quarter of 2019 from 2.4% in the first three months, as private consumption declined at a lower rate of 1.1% y-o-y during the quarter while net trade continued to have a strong positive contribution to growth.

Economic growth has led to further increases in employment levels in the **Western Balkans**, although the pace of job creation slowed down. In the second quarter, annual employment growth decelerated, compared to the first three months, in **Serbia** and **Montenegro**. Conversely, the job growth rate picked up in **Albania** and **North Macedonia** while in **Kosovo** it turned strongly

positive after five consecutive quarters of decline. Overall, the pace of employment growth in the **Western Balkans** decreased to 2.3% y-o-y in April-June from 3.7% in the first quarter (Chart 2). Gains in employment contributed to lower unemployment rates in all countries in the region. The decline was particularly significant (more than 3.0 pps y-o-y) in *North Macedonia* and *Kosovo*, but in all countries of the region, the rate of unemployment was at a record low. Still, with jobless rates ranging from 10.3% in *Serbia* to 25.3% in *Kosovo*, there remains a need to further improve labour market outcomes.

In *Turkey*, the labour market still faces challenges as a result of a prolonged period of weak economic activity. In the second quarter of 2019, the level of employment fell by close to 3% y-o-y, a similar decline as in the first three months. *Turkey's* unemployment rate remains elevated at 13.0%.



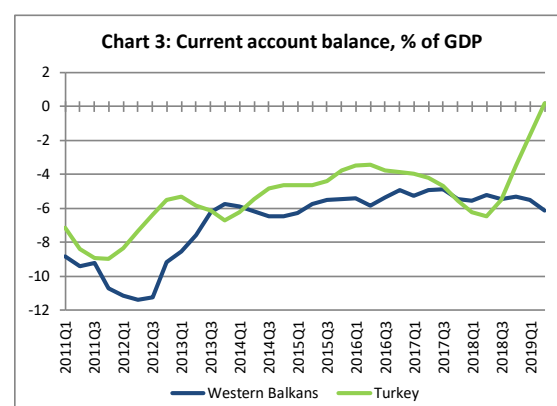
Source: Macrobond, Commission calculations

\*\*\*

External imbalances remain a key challenge in most **Western Balkan** countries, reflected in very high merchandise trade deficits ranging from around 14% of GDP for *Serbia* to 16% or above for *North Macedonia*, *Albania* and *Bosnia and Herzegovina* and to around 44% for *Montenegro* and *Kosovo*. Surpluses in the services and secondary income accounts only partially offset merchandise trade deficits, resulting in large foreign financing needs. In the second quarter of 2019, annualised current account deficits widened in most countries in the region. Overall, in the four quarters to June, the current account deficit in the **Western Balkans** as a whole increased to 6.1% of GDP (Chart 3), the highest level since the first quarter of 2015. On the positive side, the

deficits continued to be financed predominantly by net inflows of FDI.

In *Turkey*, for the first time since 2007, the 12-month moving average current account balance turned to a surplus of 0.2% of GDP in June, compared to a deficit of 3.5% in 2018. The improvement was driven by a continued decline in imports amid weak domestic demand as well as a favourable performance of tourism. On the financing side, net financial inflows were significantly lower in the first seven months of 2019 compared to the same period one year earlier.



Source: Macrobond, Commission calculations

\*\*\*

Softening inflation dynamics in the **Western Balkans** during the summer months, coupled with renewed monetary easing by leading central banks in the world, allowed for continued monetary accommodation in countries with monetary policy autonomy. In *Serbia*, annual CPI inflation decelerated as from June and fell to 1.3% in August, below the lower bound of the target tolerance band of  $3\% \pm 1.5$  pps. The central bank of *Serbia* reacted with two successive cuts of its key policy rate (by 25 bps points each) in July and August, to 2.5%. It also increased its interventions on the foreign exchange market over June and July to halt the dinar's appreciation against the euro. In *Albania*, annual CPI inflation remained far below the 3% target (at 1.4% in August) and the *Bank of Albania* maintained its accommodative monetary policy stance and its key policy rate of 1.0%. In *North Macedonia*, consumer price inflation softened over the summer, to 0.6% y-o-y on average between July and September, and the central bank has kept the coupon on its bills, which serves as its benchmark interest rate, unchanged since March 2019 at the

historic low of 2.25%. In *Bosnia and Herzegovina* inflation dynamics also softened in the second quarter and beyond, with annual CPI inflation decelerating to 0.3% in August, while in *Montenegro* annual inflation turned negative as from June. In *Kosovo*, following the introduction of 100% tariffs on goods imported from *Serbia* and *Bosnia and Herzegovina* in late 2018, consumer price inflation peaked at 3.4% y-o-y in May and eased to 2.6% in August.

In *Turkey*, annual CPI inflation fell significantly in the third quarter of 2019, to 13.5%, down from 18.0% in the previous three months. The Monetary Policy Committee of the central bank reacted to the disinflationary trend by cutting its key policy rate by 325bps to 16.5% in September, following a 425bps reduction in July. The lira's volatility declined over the third quarter and it appreciated by 4.5% y-o-y against the euro.

\*\*\*

Bank lending accelerated in the second quarter of 2019, compared to the previous three months in *North Macedonia*, *Bosnia and Herzegovina*, and *Albania* (when adjusted for exchange rate changes and loan write-offs). On the other hand, credit growth decelerated slightly in *Kosovo* and *Serbia* while it virtually stagnated in *Montenegro*. In some countries across the region, such as *Albania*, *Kosovo* and *Serbia*, credit to companies grew faster than household loans. Bank balance sheets improved further as in most **Western Balkan** countries the share of non-performing loans (NPLs) in total loans continued to fall. In the second quarter of 2019, the NPL ratio decreased by 2 pps y-o-y in *Albania*, to 11.2%, which is the highest in the region. In *Bosnia and Herzegovina*, the NPL ratio stood at 8.0%, followed by *North Macedonia* (5.5%) and *Serbia* (5.2%).

In *Turkey*, in an effort to stimulate lending, the central bank decided in August to relax the reserve requirement ratio and to adjust the interest paid on required reserves held in lira for banks with a loan portfolio growth of between 10% and 20%. In the third quarter of 2019, lending activity in national currency inched up by 1.4% q-o-q. However, total loans

still declined 0.6% y-o-y and 1.3% over the previous quarter. The NPL ratio rose to 4.7% in August from 2.9% a year before.

\*\*\*

In the first seven months of 2019, the economic dynamics supported the reduction of fiscal deficits in most countries in the **Western Balkan** region. However, with the exception of *Serbia*, this was also partly due to under-executing capital expenditure, which points to persistent weaknesses in the planning, selection and management of public investment across the region. In *Montenegro*, the central government deficit amounted to 1.5% of full-year GDP in the first seven months of 2019, lower than in the same period one year earlier, due to a surge in tax revenue and higher social security contributions as well as an underspending on investment. In *North Macedonia*, the rise in expenditure outpaced revenue growth, resulting in a budget deficit of 1.6% of GDP. Again, capital expenditure lagged behind plan. In *Albania*, in the second quarter of 2019, the budget posted a negative cash balance of 1.4% of GDP as the increase in social contributions and tax revenue was offset by the higher growth of public expenditure mainly due to better execution of domestically financed investments. In *Kosovo*, in the first seven months of 2019, the budget recorded a surplus of 3% of GDP supported by a one-off transfer of privatization proceeds while regular budget revenues grew faster than expenditures largely because of a drop in capital expenditure. For the same period, in *Serbia*, the budget surplus accounted for 0.7% of GDP, mainly on the back of strong revenue performance in income and value added tax. Although they declined in the second quarter of 2019, public debt levels remained high in *Albania* (65.9% of GDP) and *Montenegro* (65.4% of GDP) and still elevated in *Serbia* (51.9% of GDP in July).

In *Turkey*, an exceptional one-off dividend from the central bank boosted revenues in the first eight months, but this was offset by the growth of expenditure, resulting in an increase in the central government budget deficit to TL 68.1 bn (1.7% of full-year GDP) compared to TL 50.8 bn in the same period one year before. Public debt increased to 31.3% of GDP in the second quarter of 2019, compared to 28.7% at end-2018.



## Candidate and potential candidate countries: Summary table

|  |       |       |       |       |       | ECFIN 2019<br>Spring forecast |       |       |       |       |        |        |        |
|--|-------|-------|-------|-------|-------|-------------------------------|-------|-------|-------|-------|--------|--------|--------|
|  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019                          | 2020  | Q1 19 | Q2 19 | Q3 19 | Jul 19 | Aug 19 | Sep 19 |
| <b>Gross domestic product</b> (in real terms, annual % change) |       |       |       |       |       |                               |       |       |       |       |        |        |        |
| Albania  | 1.8   | 2.2   | 3.3   | 3.8   | 4.1   | 3.8                           | 3.7   | 2.4   | 2.3   | :     | N.A.   | N.A.   | N.A.   |
| North Macedonia  | 3.6   | 3.9   | 2.8   | 1.1   | 2.7   | 3.0                           | 3.2   | 4.1   | 3.1   | :     | N.A.   | N.A.   | N.A.   |
| Montenegro   | 1.8   | 3.4   | 2.9   | 4.7   | 5.1   | 2.9                           | 3.1   | 3.0   | 3.2   | :     | N.A.   | N.A.   | N.A.   |
| Serbia   | -1.6  | 1.8   | 3.3   | 2.0   | 4.4   | 3.1                           | 3.8   | 2.7   | 2.9   | :     | N.A.   | N.A.   | N.A.   |
| Turkey   | 5.2   | 6.1   | 3.2   | 7.5   | 2.8   | -2.3                          | 3.9   | -2.4  | -1.5  | :     | N.A.   | N.A.   | N.A.   |
| Bosnia and Herzegovina   | 0.7   | 4.1   | 3.4   | 3.0   | 3.6   | :                             | :     | 2.8   | 2.6   | :     | N.A.   | N.A.   | N.A.   |
| Kosovo   | 1.2   | 4.1   | 4.1   | 4.2   | 3.8   | :                             | :     | 4.2   | 4.1   | :     | N.A.   | N.A.   | N.A.   |
| <b>Unemployment</b>  |       |       |       |       |       |                               |       |       |       |       |        |        |        |
| Albania  | 17.9  | 17.5  | 15.6  | 14.1  | 12.8  | 11.9                          | 11.1  | 12.6  | 12.0  | :     | N.A.   | N.A.   | N.A.   |
| North Macedonia  | 28.0  | 26.1  | 23.8  | 22.4  | 20.7  | 20.2                          | 19.6  | 17.8  | 17.5  | :     | N.A.   | N.A.   | N.A.   |
| Montenegro   | 18.2  | 17.8  | 18.0  | 16.4  | 15.5  | 14.8                          | 15.0  | 15.2  | 14.7  | :     | N.A.   | N.A.   | N.A.   |
| Serbia   | 19.2  | 17.7  | 15.3  | 13.5  | 12.7  | 11.0                          | 9.0   | 12.1  | 10.3  | :     | N.A.   | N.A.   | N.A.   |
| Turkey   | 10.1  | 10.5  | 11.1  | 11.1  | 11.2  | 13.7                          | 13.3  | 14.8  | 13.2  | :     | :      | :      | :      |
| Bosnia and Herzegovina   | 27.5  | 27.7  | 25.4  | 20.5  | 18.4  | :                             | :     | N.A.  | N.A.  | N.A.  | N.A.   | N.A.   | N.A.   |
| Kosovo   | 35.3  | 32.9  | 27.5  | 30.5  | 29.6  | :                             | :     | 26.9  | 25.3  | :     | N.A.   | N.A.   | N.A.   |
| <b>Current account balance</b> (% of GDP)*                     |       |       |       |       |       |                               |       |       |       |       |        |        |        |
| Albania  | -10.8 | -8.6  | -7.6  | -7.5  | -6.7  | -6.7                          | -6.8  | -7.1  | -7.7  | :     | N.A.   | N.A.   | N.A.   |
| North Macedonia  | -0.5  | -2.0  | -3.1  | -1.3  | -0.3  | -1.3                          | -2.0  | -0.4  | -1.3  | :     | N.A.   | N.A.   | N.A.   |
| Montenegro   | -12.4 | -11.0 | -16.2 | -16.1 | -17.0 | -16.5                         | -14.6 | -17.3 | -17.4 | :     | N.A.   | N.A.   | N.A.   |
| Serbia   | -5.6  | -4.4  | -2.9  | -5.2  | -5.2  | -6.3                          | -6.0  | -5.5  | -6.3  | :     | N.A.   | N.A.   | N.A.   |
| Turkey   | -4.7  | -3.8  | -3.8  | -5.6  | -3.5  | 1.2                           | -0.5  | -1.7  | 0.2   | :     | N.A.   | N.A.   | N.A.   |
| Bosnia and Herzegovina   | -7.1  | -4.9  | -4.5  | -4.2  | -3.7  | :                             | :     | -3.9  | -4.6  | :     | N.A.   | N.A.   | N.A.   |
| Kosovo   | -6.9  | -8.6  | -7.9  | -5.4  | -7.6  | :                             | :     | -7.2  | -6.5  | :     | N.A.   | N.A.   | N.A.   |
| <b>Inflation</b> (Consumer price index, annual % change)       |       |       |       |       |       |                               |       |       |       |       |        |        |        |
| Albania  | 1.6   | 1.9   | 1.3   | 2.0   | 2.0   | 2.5                           | 2.6   | 1.6   | 1.4   | :     | 1.5    | 1.4    | :      |
| North Macedonia  | -0.3  | -0.3  | -0.2  | 1.4   | 1.4   | 1.7                           | 2.0   | 1.3   | 1.4   | :     | 0.8    | 0.8    | 0.3    |
| Montenegro (HICP)  | -0.5  | 1.4   | 0.1   | 2.8   | 2.9   | 1.3                           | 1.9   | 0.4   | 0.5   | :     | -0.4   | -0.2   | :      |
| Serbia   | 2.1   | 1.4   | 1.1   | 3.1   | 2.0   | 2.5                           | 2.7   | 2.4   | 2.2   | :     | 1.6    | 1.3    | :      |
| Turkey   | 8.9   | 7.7   | 7.8   | 11.1  | 16.3  | 13.1                          | 9.7   | 19.9  | 18.0  | 13.5  | 16.6   | 15.0   | 9.3    |
| Bosnia and Herzegovina   | -0.9  | -1.0  | -1.1  | 1.3   | 1.4   | :                             | :     | 1.0   | 0.6   | :     | 0.5    | 0.3    | :      |
| Kosovo   | 0.4   | -0.5  | 0.3   | 1.5   | 1.1   | :                             | :     | 3.2   | 3.3   | :     | 2.6    | 2.6    | N.A.   |
| <b>General government balance</b> (% of GDP)                   |       |       |       |       |       |                               |       |       |       |       |        |        |        |
| Albania**  | -5.2  | -4.1  | -1.8  | -2.0  | -1.6  | -1.5                          | -1.4  | 0.9   | -1.4  | :     | :      | :      | :      |
| North Macedonia***   | -4.2  | -3.5  | -2.7  | -2.7  | -1.8  | -3.0                          | -2.5  | -2.0  | -2.3  | :     | N.A.   | N.A.   | N.A.   |
| Montenegro**   | -2.9  | -8.3  | -3.6  | -5.3  | -3.7  | -2.6                          | 1.8   | -1.5  | -1.3e | :     | :      | :      | :      |
| Serbia***  | -6.2  | -3.5  | -1.2  | 1.1   | 0.6   | -0.5                          | -0.5  | 0.9   | 0.5   | :     | N.A.   | N.A.   | N.A.   |
| Turkey***  | 0.2   | 0.6   | -1.1  | -2.8  | -2.6  | -3.0                          | -2.5  | -1.4  | -1.2  | :     | N.A.   | N.A.   | N.A.   |
| Bosnia and Herzegovina***                                      | -2.0  | 0.6   | 1.2   | 2.5   | 2.3   | :                             | :     | 3.8   | :     | :     | N.A.   | N.A.   | N.A.   |
| Kosovo (Source: IMF)   | -2.2  | -2.0  | -1.2  | -1.3  | -2.8  | :                             | :     | :     | :     | :     | N.A.   | N.A.   | N.A.   |

Forecast: ECFIN forecast Spring 2019 published May 2019.

\* 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.





## Key developments

Albania experienced one of its strongest earthquakes in September but fortunately, injuries and damages remained limited. The EU is providing assistance and the Albanian government has prepared a deficit-neutral reallocation of funds to support the reconstruction.

The EU and Albania discussed Albania's progress on economic and financial issues under the country's Stabilisation and Association Agreement with the EU on 3 October in Brussels. Albania confirmed its commitment to macro-economic stability, fiscal consolidation and to progressing towards a functioning and competitive market economy. Both sides concluded that Albania would continuously lower its public debt ratio, strengthen its fiscal management, and catch-up on delays in liberalising its energy market.

## Real sector

Albania's real GDP growth softened somewhat from 2.4 % y-o-y (upwardly revised by 0.2 pp with the October release) in the first three months of 2019 to 2.3% in the second quarter. The slowdown in growth, which continued for three quarters in a row, was again due to supply-side shocks from low electricity production amid low rainfall. On the demand side, government consumption became the strongest growing component, with the pace of its growth increasing from 0.5% y-o-y in the first quarter to 4.6% in the second. Private consumption also exceeded its performance of the first quarter (2.25%) and grew 2.85% in annual terms. Growth of gross fixed capital formation turned negative (-0.9% y-o-y), mainly due to the conclusion of works related to the Trans-Adriatic Pipeline, an exceptionally large construction project. Exports of goods and services recovered from their stagnation of the first quarter to 3.2% despite the continuing drop in electricity exports, as manufacturing, food and in particular services exports picked up strongly. The growth of imports accelerated to 6% y-o-y, driven in particular by electricity imports as well as imports of services, which accelerated from 3.4% to 9% y-o-y. Because of the strong import growth, net exports reduced the growth rate by 0.5pp.

On the supply side, industry including energy, mining and in particular electricity continued their negative contribution to growth in annual terms but compared to the first quarter this category picked up strongly by 12%. This indicates that the energy production stopped its decline and manufacturing continued its strong growth of the first quarter. Services continued to drive growth in the second quarter, complemented by agriculture, which recovered from its (seasonal) decline of the first three months.

## Labour market

The labour market accelerated its already positive development further over the second quarter of 2019. Employment growth for the 15-64 age group increased from 1.5% y-o-y in the first three months to 3.3% in the second quarter. The overall unemployment rate (15-64 years) declined strongly by 0.9 pp to 12% in the second quarter 2019 compared the second quarter of 2018. Job creation continued to be strongest in services (5.7%) followed by industry (4.4%). The growth of youth employment (15-29) continued to slow down, from 12.2% in the first quarter to 8.4% in the second quarter (both y-o-y). The youth unemployment rate thus declined also at a slower pace than in 2018 by 1.3 pps (compared to 1.8 pps from first to second quarter 2018) to a still rather high 20.9% at the end of June 2019. The labour force participation rate continued on its upward trend and rose to 69.9 % compared to 68.0 % a year earlier. The gap between male and female labour force participation narrowed slightly from 16.4 pps in the first quarter of 2019 to 15.9 pps in the second quarter of 2019; one year earlier the gap narrowed by 0.7 pp. Public wages increased in the second quarter by 4.3%, while nominal growth of average total wages slightly decelerated to 4.5% in April to June in annual terms, (4.9% in Jan-June).

## External sector

The current account deficit (as a four-quarter moving average) widened further from 7.1% of GDP in the first quarter to 7.7% in the second, mainly reflecting a larger trade deficit in goods and a slightly smaller services balance surplus. Both primary and secondary account had a narrowing effect on the current account: the

primary account deficit almost vanished, narrowing from -1.0% of GDP to -0.08% of GDP. The surplus of the secondary balance widened again from 6.4% of GDP to 7.1% of GDP, as remittances inflows picked up strongly in quarterly terms. Net inflows of foreign direct investment grew strongly in the second quarter, by 16% y-o-y, after muted growth in the first quarter. Overall, net FDI inflows remained at 8% of GDP in average over the four quarters to June 2019, thus fully covering the average current account deficit (at about 104% end of June 2019) during this period. Gross external debt slightly decreased in the second quarter, to EUR 8.3 billion, still corresponding to about 63% of GDP. Foreign exchange reserves continued to increase in the second quarter in annual terms (by 15.5%), but remained at about EUR 3.3 billion and still corresponded to more than 7 months of imports of goods and services.

### Monetary developments

The exchange rate of the lek continued its appreciative trend against the euro in the third quarter, strengthening by 2.4% since the beginning of 2019 but the pace of appreciation slowed down compared to 2018. Considering this slow-down despite the tourist season, and the fading of the lagged inflationary effects from last year's appreciation, the Bank of Albania did not intervene in the forex market. However, inflationary pressures from wage increases and food prices were not sufficient to push the inflation rate beyond 1.4% in the third quarter, which thus remained well below the central bank's target of 3% as for the last 8 years. The central bank did not change its accommodative monetary policy stance and its policy rate of 1% but announced that it will postpone normalisation of its stance to mid-2020 at the earliest. In addition the Bank of Albania indicated in September that it would consider an even more accommodative stance if the inflation rate moves further away from the target in the context of a weakening external and domestic environment. Monetary growth of M2 and M3 accelerated further to 2.8% and 3.7% (y-o-y) respectively in September.

### Financial sector

Overall credit growth to the private sector continued its recovery, picking up to 6.8% in the second quarter from 5.9% in the first three months (both in annual terms, adjusted for the impact of exchange rate movements and loan write-offs). In the second quarter, credit to SMEs, which was continuously lagging behind

the overall credit growth to enterprises, was driving the expansion with 9% growth. The increased domestic lending to small business, but also to industry and tourism enterprises, might reflect the effects of the consolidation in the banking sector, which strengthened the share of domestic capital in the sector. The recently strong growth of credit to the construction sector decelerated to 6.5%, while lending for real estate and housing purchases remained stable. Overall lending to households continued to decelerate, to 4.3% in annual terms, mainly reflecting lower demand for consumer loans, while growth rates for housing loans remained largely stable. The debt situation both of households and of enterprises remains affordable: debt servicing is mostly appropriate (74% of households paying less than 30% of income and enterprises on average about 20% of their income) and debt values for 80% of enterprises amount to about 50% of their capital.

The capital adequacy ratio in the banking sector increased to 18.5% at the end of the first quarter. Liquidity ratios increased both with respect to total assets (by 0.5 pp to 35%) and to total short-term liabilities (up 1.2 pps to 47.4 %). Even though the pace of reduction slowed down, the ratio of non-performing loans to total loans fell to 11.2% in the second quarter, 2 pps below its corresponding value one year earlier. The stock of deposits in the banking system increased on average by 4.4% in the second quarter of 2019, up from 3.3 in the first quarter (both in annual terms), mainly driven by households' deposits. Foreign currency deposits grew stronger than domestic currency deposits (with 5.5% and 3.4% respectively).

### Fiscal developments

The budget implementation improved over the second quarter of 2019 resulting in a negative cash balance of 1.4% of full-year GDP, with both expenditure and revenue overall implemented as planned. The budget plan foresees a deficit of 1.9% of GDP for 2019. Revenue from taxes and social contributions grew solidly (3.1%) compared to the same period in 2018, on account of increasing revenue from profit and personal income taxes and local governments' tax collection. Net VAT revenue declined as the tax authorities tried to catch up on outstanding VAT refunds. Overall, public expenditure grew by 3.7% compared to the same period in 2018. In particular, domestically financed investments were better executed, whereas foreign financed public investment projects lag behind plan. Public debt declined to 65.9% of GDP in the second quarter of 2019.

# TABLE

European Commission, ECFIN-D-1



## ALBANIA

|  |           | 2014    | 2015    | 2016    | 2017    | 2018    | ECFIN 2019<br>Spring forecast |       | Q1 19   | Q2 19   | Q3 19  | Jul 19  | Aug 19  | Sep 19 |
|--|-----------|---------|---------|---------|---------|---------|-------------------------------|-------|---------|---------|--------|---------|---------|--------|
|  |           |         |         |         |         |         | 2019                          | 2020  |         |         |        |         |         |        |
| <b>1 Real sector</b>                         |           |         |         |         |         |         |                               |       |         |         |        |         |         |        |
| Economic Sentiment <sup>1.1</sup>            | Index     | 99.3    | 97.1    | 112.1   | 112.0   | 101.8   | :                             | :     | 106.5   | 105.8   | 109.0  | N.A.    | N.A.    | N.A.   |
| Industrial production <sup>1.2</sup>         | Ann. % ch | 3.0     | -9.1    | -19.6   | 8.4     | 9.7     | :                             | :     | 5.8     | 6.1     | :      | N.A.    | N.A.    | N.A.   |
| Gross domestic product <sup>1.3</sup>        | Ann. % ch | 1.8     | 2.2     | 3.3     | 3.8     | 4.1     | 3.8                           | 3.7   | 2.4     | 2.3     | :      | N.A.    | N.A.    | N.A.   |
| Private consumption <sup>1.4</sup>           | Ann. % ch | 2.8     | 0.9     | 2.0     | 2.3     | 3.2     | 2.9                           | 2.8   | 2.5     | 2.9     | :      | N.A.    | N.A.    | N.A.   |
| Gross fixed capital formation <sup>1.5</sup> | Ann. % ch | -4.5    | 3.5     | 2.4     | 5.5     | 2.9     | 3.2                           | 3.8   | 1.9     | -0.9    | :      | N.A.    | N.A.    | N.A.   |
| Construction index <sup>1.6</sup>            | Ann. % ch | 4.9     | 19.4    | 5.1     | 19.6    | 5.6     | :                             | :     | 2.9     | :       | :      | N.A.    | N.A.    | N.A.   |
| Retail sales <sup>1.7</sup>                  | Ann. % ch | 7.0     | 10.4    | 7.9     | -7.2    | 4.8     | :                             | :     | :       | :       | :      | :       | :       | :      |
| <b>2 Labour market</b>                       |           |         |         |         |         |         |                               |       |         |         |        |         |         |        |
| Unemployment <sup>2.1</sup>                  | %         | 17.9    | 17.5    | 15.6    | 14.1    | 12.8    | 11.9                          | 11.1  | 12.6    | 12.0    | :      | N.A.    | N.A.    | N.A.   |
| Employment <sup>2.2</sup>                    | Ann. % ch | 1.6     | 4.9     | 6.1     | 2.7     | 2.1     | 1.8                           | 1.6   | 1.5     | 3.3     | :      | N.A.    | N.A.    | N.A.   |
| Wages <sup>2.3</sup>                         | Ann. % ch | :       | 5.2     | -0.8    | 3.0     | 3.1     | :                             | :     | 4.9     | 4.5     | :      | N.A.    | N.A.    | N.A.   |
| <b>3 External sector</b>                     |           |         |         |         |         |         |                               |       |         |         |        |         |         |        |
| Exports of goods <sup>3.1</sup>              | Ann. % ch | 4.3     | -6.0    | 2.5     | 14.4    | 20.0    | :                             | :     | 3.3     | -0.5    | :      | 7.3     | :       | :      |
| Imports of goods <sup>3.2</sup>              | Ann. % ch | 5.8     | -0.8    | 7.4     | 11.5    | 8.1     | :                             | :     | 7.6     | 7.7     | :      | 6.2     | :       | :      |
| Trade balance* <sup>3.3</sup>                | % of GDP  | -20.8   | -21.0   | -22.4   | -22.7   | -22.5   | -22.4                         | -22.8 | 22.6    | 23.9    | :      | N.A.    | N.A.    | N.A.   |
| Exports goods and services* <sup>3.4</sup>   | % of GDP  | 28.2    | 27.3    | 29.0    | 31.6    | 31.7    | :                             | :     | 31.5    | 32.5    | :      | N.A.    | N.A.    | N.A.   |
| Imports goods and services* <sup>3.5</sup>   | % of GDP  | 47.2    | 44.5    | 45.8    | 46.6    | 45.4    | :                             | :     | 45.3    | 47.4    | :      | N.A.    | N.A.    | N.A.   |
| Current account balance* <sup>3.6</sup>      | % of GDP  | -10.8   | -8.6    | -7.6    | -7.5    | -6.7    | -6.7                          | -6.8  | -7.1    | -7.7    | :      | N.A.    | N.A.    | N.A.   |
| Direct investment (FDI, net)* <sup>3.7</sup> | % of GDP  | 8.2     | 8.0     | 8.7     | 8.6     | 8.0     | :                             | :     | 8.4     | 8.7     | :      | N.A.    | N.A.    | N.A.   |
| International reserves <sup>3.8</sup>        | mn EUR    | 2,191.7 | 2,880.0 | 2,945.0 | 2,995.9 | 3,399.0 | :                             | :     | 3,352.5 | 3,297.1 | :      | 3,224.8 | 3,373.2 | :      |
| Int. reserves / months Imp <sup>3.9</sup>    | Ratio     | 6.7     | 8.9     | 8.5     | 7.7     | 8.1     | :                             | :     | 7.9     | 7.6     | :      | 7.4     | :       | :      |
| <b>4 Monetary developments</b>               |           |         |         |         |         |         |                               |       |         |         |        |         |         |        |
| CPI <sup>4.1</sup>                           | Ann. % ch | 1.6     | 1.9     | 1.3     | 2.0     | 2.0     | 2.5                           | 2.6   | 1.6     | 1.4     | :      | 1.5     | 1.4     | :      |
| Producer prices <sup>4.2</sup>               | Ann. % ch | :       | :       | -1.5    | 2.8     | 1.6     | :                             | :     | -0.2    | -0.3    | :      | :       | :       | :      |
| Food prices <sup>4.3</sup>                   | Ann. % ch | 2.2     | 4.3     | 3.3     | 3.9     | 2.7     | :                             | :     | 3.4     | 2.8     | :      | 2.8     | 2.4     | :      |
| M3 <sup>4.4</sup>                            | Ann. % ch | 4.0     | 1.8     | 3.9     | 0.3     | -0.2    | :                             | :     | 3.2     | 3.5     | :      | 3.6     | 3.8     | :      |
| Exchange rate LEK/EUR <sup>4.5</sup>         | Value     | 140.14  | 139.74  | 137.36  | 134.14  | 127.57  | :                             | :     | 124.65  | 123.11  | 121.61 | 121.95  | 121.26  | 121.61 |
| Real effective exchange rate <sup>4.6</sup>  | Index     | 89.9    | 92.2    | 96.1    | 99.4    | 108.4   | :                             | :     | 106.1   | 109.4   | :      | :       | :       | :      |
| <b>5 Financial indicators</b>                |           |         |         |         |         |         |                               |       |         |         |        |         |         |        |
| Interest rate (3 months) <sup>5.1</sup>      | % p.a.    | 3.10    | 2.87    | 1.13    | 1.22    | 1.35    | :                             | :     | 1.40    | 0.84    | :      | 0.34    | :       | :      |
| Bond yield <sup>5.2</sup>                    | % p.a.    | 3.45    | 2.77    | 2.05    | 2.07    | 2.20    | :                             | :     | 2.02    | 1.77    | :      | 1.80    | 1.49    | :      |
| Stock markets <sup>5.3</sup>                 | Index     | :       | :       | :       | :       | :       | :                             | :     | :       | :       | :      | :       | :       | :      |
| Credit growth <sup>5.4</sup>                 | Ann. % ch | 0.2     | 0.3     | -0.7    | -0.1    | -1.7    | :                             | :     | -1.5    | 2.0     | :      | 4.6     | 5.2     | :      |
| Deposit growth <sup>5.5</sup>                | Ann. % ch | 1.5     | 1.9     | 1.1     | 1.0     | -1.2    | :                             | :     | 1.2     | 2.3     | :      | 2.5     | 2.9     | :      |
| Non performing loans <sup>5.6</sup>          | % total   | 22.8    | 18.2    | 18.3    | 13.2    | 11.1    | :                             | :     | 11.4    | 11.2    | :      | 11.2    | :       | :      |
| <b>6 Fiscal developments</b>                 |           |         |         |         |         |         |                               |       |         |         |        |         |         |        |
| General government balance** <sup>6.1</sup>  | % of GDP  | -5.2    | -4.1    | -1.8    | -2.0    | -1.6    | -1.5                          | -1.4  | 0.9     | -1.4    | :      | :       | :       | :      |
| General government debt** <sup>6.2</sup>     | % of GDP  | 70.1    | 72.7    | 72.4    | 70.1    | 67.9    | 65.2                          | 63.3  | 66.50   | 65.87   | :      | N.A.    | N.A.    | N.A.   |

f: ECFIN forecast Spring 2019 published May 2019

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

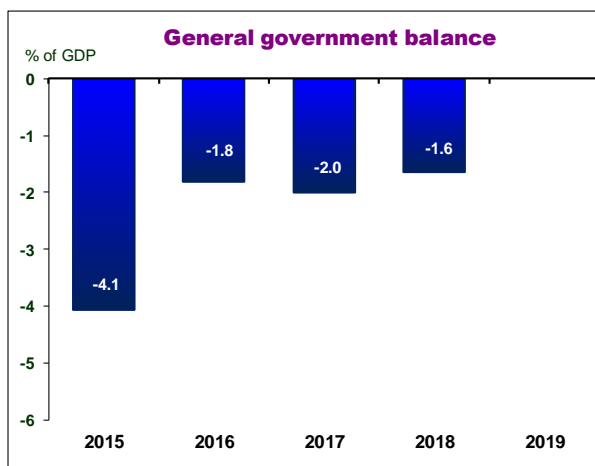
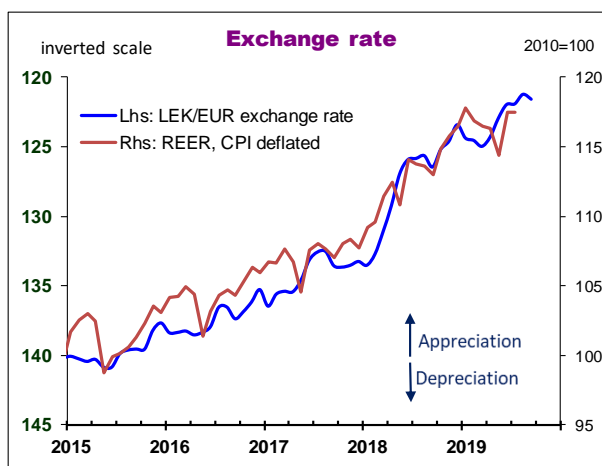
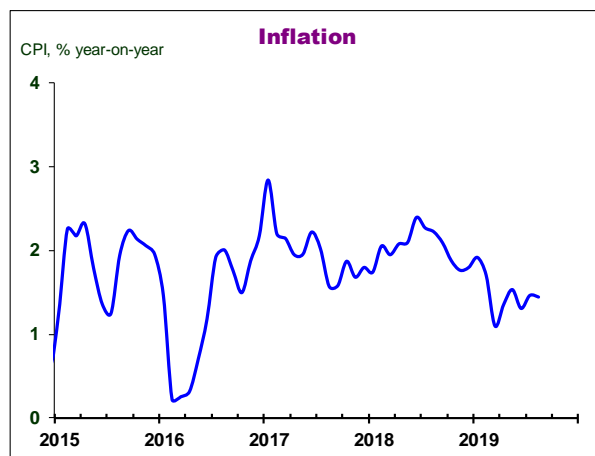
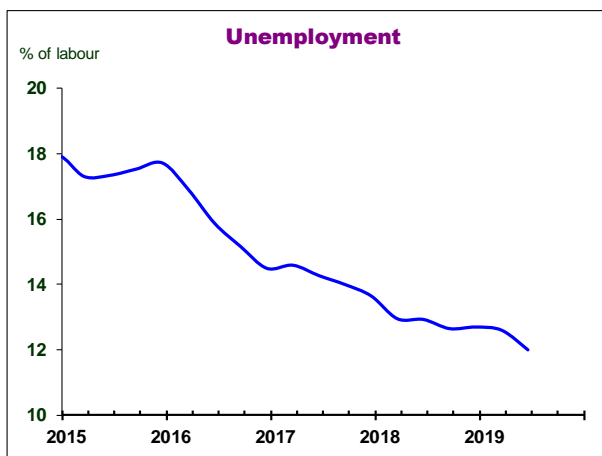
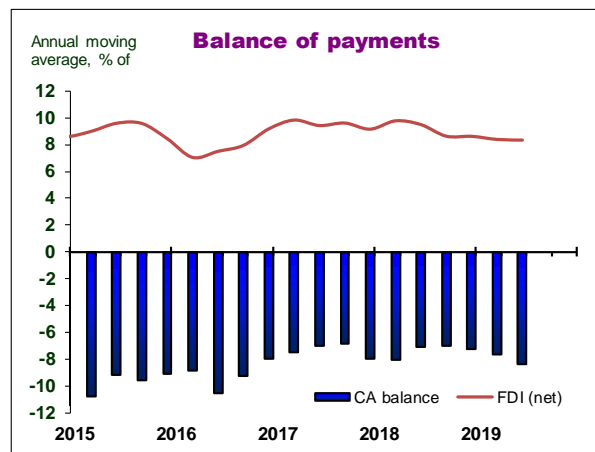
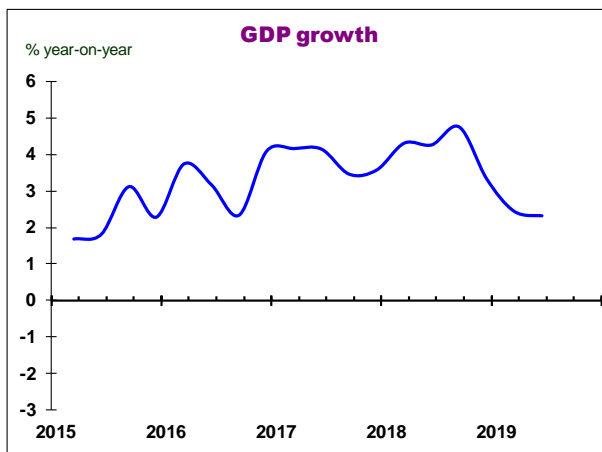
\*\* Q figures refer to the quarterly balance divided by the estimated annual GDP.

# CHARTS

European Commission, ECFIN-D-1



## ALBANIA



# MONTENEGRO



## Key developments

On 13 September, 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 and external debt burden and persistent current account deficits.

## Real sector

On 27 September, the Statistical Office of Montenegro (MONSTAT) released final GDP data for 2018, revising the growth rate upwards to 5.1% y-o-y, from the previous estimate of 4.9%.

In the first half of 2019, economic growth slowed down markedly compared to a year before, due to a fall in investment spending. In the second quarter, GDP growth stood at 3.2% y-o-y, slightly up from the 3% recorded in the first three months, but down from 4.9% in the same quarter a year before. Gross fixed capital formation in the second quarter shrank by 3.8% y-o-y due to a large base effect (investment surged by 25.4% y-o-y a year before). In spite of stagnating wages, private consumption remains a key driver of growth, even though its growth slowed to 3.1% y-o-y, from a strong 5.1% y-o-y in the first quarter. However, it still contributed with 2.5 pps to GDP growth, reflecting improving labour market conditions and sustained credit growth. Government consumption growth eased to 1.5% y-o-y in the second quarter, down from 1.8% y-o-y expansion in the first three months. The second quarter saw a marked deceleration of both exports and imports. However, as exports expanded faster than imports, net exports provided a modest but positive 0.3 pps contribution to growth.

Construction activity has remained robust in the second quarter, recording a nominal expansion of 12.3% y-o-y in terms of completed construction value. However, this represents a significant slowdown when compared to the 35.8% growth rate registered a year before.

Industrial production remains characterised by poor performance and high volatility. The fall in industrial output eased to 9.0% y-o-y in the three months to June, compared to a 14% y-o-y

contraction in the first quarter. After a respite in July, when industrial output recorded positive annual growth of 5.1%, its performance deteriorated again in August, contracting by 2.8% y-o-y. The overall decline reflects negative trends in two key industrial sectors: energy and basic metals. The energy sector has suffered from unfavourable weather conditions and stoppages due to an overhaul of its facilities, while the metal industry is facing lower demand from European markets.

Strong private consumption and tourism kept supporting retail trade. After expanding by nominal 6.3% y-o-y in the second quarter, retail sales accelerated further in July and August, to 6.6% and 6.4% y-o-y respectively.

## Labour market

The labour market kept improving in the second quarter. The good performance of construction as well as sectors related to tourism drove a 2.9% y-o-y increase in employment, according to the Labour Force Survey (LFS). The activity rate reached 66.7% in the second quarter, up from 62.2% a year before. At the same time, the activity rate of men (at 74.4%) remained significantly higher than that of women (58.9%). The unemployment rate remained flat at 14.7% in the second quarter, the same level as a year before. Long-term unemployment remains particularly high, with 15.7% of the unemployed being out of work for a period between 1 and 2 years, and 63.6% for more than 2 years. In the third quarter of the year, according to the Employment Office register, the unemployment rate remained stable on average, at 14.7%.

On 23 May, the government adopted a decision to raise the minimum wage by 15% to EUR 222, which represents 43% of the average net salary. After a period of stagnation since January 2018, wage growth recorded a first noticeable increase in June, rising by 1% y-o-y, followed by further increases in July and August, by 0.8% and 1.3% y-o-y respectively. Yet, while some sectors like retail sales recorded a faster increase of wages (5% y-o-y), public sector salaries fell by 0.4% y-o-y in August.



## External sector

In the four quarters to June 2019, the current account deficit stood at 17.4% of GDP, a similar level to the previous quarter (17.3% of GDP). The deceleration of merchandise imports, driven by a moderation of investment activity, along with an increase in exports in the second quarter of 2019, helped contain the trade deficit at the level of 44.2% of GDP in the four quarters to June. Surpluses in the balances of services and secondary income increased in the second quarter compared to one year ago. However, the surplus of the primary income balance halved during the same period. Net FDI inflows accounted for 8.4% of GDP in the four quarters to June, up from 6.9% of GDP in 2018. Still, net FDI covered less than half (48.4%) of the external deficit.

Foreign exchange reserves shrank by 16.7% y-o-y in August. Their level was equivalent to 4.1 months of merchandise imports.

## Monetary developments

In spite of rising employment and wages, the decline in global oil prices and the fading effect of the 2018 VAT rate hike pulled down headline inflation. fell for a third consecutive month in August Consumer prices, by 0.2% y-o-y, albeit easing from the 0.4% y-o-y contraction in the previous month. The summer season coincided with a sharp decline in garment prices, which had a negative contribution of 0.6 pps to the overall index, offset by the increase of food prices.

## Financial sector

Annual credit growth was relatively strong at 10.2% in the first quarter of 2019, but practically stagnated (at 0.6% y-o-y) in the second quarter. The bankruptcy of two small commercial banks had a negative one-off impact on commercial banks' aggregated level of loans and deposits as the central bank took the figures of these two banks out of the data. Outstanding loans from Montenegrin banks to general government and non-residents accelerated in August, resulting in an overall contraction of banks loan portfolio of 0.7% y-o-y, compared to a growth rate of 2% y-o-y a month before.

Meanwhile, credit to households has remained robust, expanding by 8.1% y-o-y in August, while loans to non-financial corporations grew by 3.1% y-o-y. Despite the slowdown in credit activity (and thus a lower denominator effect), the ratio of non-performing loans to total loans improved further, declining to 4.75% in August compared to 6.75% a year earlier.

The overall level of deposits in the second quarter of 2019 contracted 2.7% y-o-y. However, in monthly terms, deposits grew in July and August by 4.9% and 3.4% m-o-m, respectively. In those two months, corporate deposits recorded a cumulated monthly increase of 15.2%, while households grew by 2%.

## Fiscal developments

Capital budget underspending and improved revenue collection contributed to a mild improvement of the fiscal position in the first seven months of 2019. The central government budget recorded a deficit of 1.5% of GDP, compared to a deficit of 1.9% of GDP in the same period a year before. On the revenue side, taxes surged by 8.5% y-o-y, boosted by VAT, excises and corporate income tax proceeds. Moreover, rising employment supported the 5.5% y-o-y increase of social security contributions. On the other hand, current expenditure also rose markedly, by 5.3% y-o-y, reflecting, among others, a 3.7% y-o-y increase in gross salaries and a 6.6% y-o-y growth in interest payments. Further expenditure increases were also recorded in transfers to institutions (notably to education and health sectors), rising in total by 15% y-o-y, and to a lesser extent, in social security allowances (2.8% y-o-y growth). The capital budget recorded a decline of 2.0% y-o-y in the first seven months of 2019 as public investment underperformed by 43.9% against the plan, suggesting absorption capacity issues.

In the second quarter, central government debt declined to 65.4% of GDP, down from 66.4% in the previous quarter. The reduction was largely driven by the use of deposits to reimburse maturing debt. In September, the government placed a EUR 500 million ten-year Eurobond at an interest rate of 2.55% (the longest maturity and the lowest yield so far), raising government deposits by additional 10.4% of GDP.

## TABLE



European Commission, ECFIN-D-1

### MONTENEGRO

|  |            | 2014   | 2015   | 2016   | 2017   | 2018   | ECFIN 2019<br>Spring forecast |       | Q1 19  | Q2 19  | Q3 19  | Jul 19 | Aug 19 | Sep 19 |
|--|------------|--------|--------|--------|--------|--------|-------------------------------|-------|--------|--------|--------|--------|--------|--------|
|  |            |        |        |        |        |        | 2019                          | 2020  |        |        |        |        |        |        |
| <b>1 Real sector</b>                         |            |        |        |        |        |        |                               |       |        |        |        |        |        |        |
| Industrial confidence <sup>1.1</sup>         | Balance    | 11.1   | 9.8    | 3.0    | 4.5    | 5.5    | :                             | :     | :      | :      | :      | :      | :      | :      |
| Industrial production <sup>1.2</sup>         | Ann. % ch  | -10.5  | 7.9    | -2.1   | -4.3   | 23.6   | :                             | :     | -14.0  | -9.0   | :      | 5.1    | -2.8   | :      |
| Gross domestic product <sup>1.3</sup>        | Ann. % ch  | 1.8    | 3.4    | 2.9    | 4.7    | 5.1    | 2.9                           | 3.1   | 3.0    | 3.2    | :      | N.A.   | N.A.   | N.A.   |
| Private consumption <sup>1.4</sup>           | Ann. % ch  | 2.9    | 2.2    | 5.4    | 3.9    | 4.6    | 2.3                           | 2.1   | 5.1    | 3.1    | :      | N.A.   | N.A.   | N.A.   |
| Gross fixed capital formation <sup>1.5</sup> | Ann. % ch  | -2.5   | 11.9   | 38.4   | 18.7   | 14.7   | 1.3                           | 2.4   | 0.6    | -3.8   | :      | N.A.   | N.A.   | N.A.   |
| Construction index <sup>1.6</sup>            | Ann. % ch  | 2.0    | 5.8    | 31.5   | 51.5   | 24.9   | :                             | :     | 12.3   | 12.3   | :      | N.A.   | N.A.   | N.A.   |
| Retail sales <sup>1.7</sup>                  | Ann. % ch  | 2.4    | 4.2    | 4.0    | 5.2    | 4.8    | :                             | :     | 6.1    | 6.3    | :      | 6.6    | 6.4    | :      |
| <b>2 Labour market</b>                       |            |        |        |        |        |        |                               |       |        |        |        |        |        |        |
| Unemployment <sup>2.1</sup>                  | %          | 18.2   | 17.8   | 18.0   | 16.4   | 15.5   | 14.8                          | 15.0  | 15.2   | 14.7   | :      | N.A.   | N.A.   | N.A.   |
| Employment <sup>2.2</sup>                    | Ann. % ch  | 6.6    | 1.9    | 1.1    | 2.1    | 3.2    | 1.4                           | 1.2   | 5.3    | 2.9    | :      | N.A.   | N.A.   | N.A.   |
| Wages <sup>2.3</sup>                         | Ann. % ch  | -0.3   | 0.2    | 3.5    | 2.0    | 0.1    | 0.9                           | 2.4   | 0.6    | 0.5    | :      | 0.8    | 1.3    | :      |
| <b>3 External sector</b>                     |            |        |        |        |        |        |                               |       |        |        |        |        |        |        |
| Exports of goods <sup>3.1</sup>              | Ann. % ch  | -9.7   | -7.6   | 6.2    | 8.3    | 14.7   | :                             | :     | 1.7    | 2.7    | :      | 20.7   | 3.8    | :      |
| Imports of goods <sup>3.2</sup>              | Ann. % ch  | 0.6    | 3.5    | 12.0   | 11.6   | 10.9   | :                             | :     | 4.4    | 1.8    | :      | 3.5    | -0.9   | :      |
| Trade balance* <sup>3.3</sup>                | % of GDP   | -39.8  | -40.1  | -41.9  | -43.3  | -43.9  | -44.5                         | -43.2 | -44.4  | -44.2  | :      | -45.9  | -45.8  | :      |
| Exports goods and services <sup>3.4</sup>    | % of GDP   | 40.1   | 42.1   | 40.6   | 41.1   | 42.9   | :                             | :     | 31.5   | 41.6   | :      | N.A.   | N.A.   | N.A.   |
| Imports goods and services <sup>3.5</sup>    | % of GDP   | 60.0   | 60.6   | 63.1   | 64.5   | 66.7   | :                             | :     | 75.2   | 76.5   | :      | N.A.   | N.A.   | N.A.   |
| Current account balance* <sup>3.6</sup>      | % of GDP   | -12.4  | -11.0  | -16.2  | -16.1  | -17.0  | -16.5                         | -14.6 | -17.3  | -17.4  | :      | N.A.   | N.A.   | N.A.   |
| Direct investment (FDI, net)* <sup>3.7</sup> | % of GDP   | 10.2   | 16.9   | 9.4    | 11.3   | 6.9    | :                             | :     | 7.6    | 8.4    | :      | N.A.   | N.A.   | N.A.   |
| International reserves <sup>3.8</sup>        | mn EUR     | 544.7  | 624.0  | 752.9  | 847.2  | 1050.0 | :                             | :     | 968.1  | 837.5  | :      | 816.9  | 880.8  | :      |
| Int. reserves / months Imp <sup>3.9</sup>    | Ratio      | 3.7    | 4.1    | 4.4    | 4.4    | 4.9    | :                             | :     | 4.5    | 3.9    | :      | 3.8    | 4.1    | :      |
| <b>4 Monetary developments</b>               |            |        |        |        |        |        |                               |       |        |        |        |        |        |        |
| HICP <sup>4.1</sup>                          | Ann. % ch  | -0.5   | 1.4    | 0.1    | 2.8    | 2.9    | 1.3                           | 1.9   | 0.4    | 0.5    | :      | -0.4   | -0.2   | :      |
| Producer prices <sup>4.2</sup>               | Ann. % ch  | 0.2    | 0.3    | -0.1   | 0.4    | 1.7    | :                             | :     | 1.5    | 2.7    | :      | 2.9    | 2.9    | :      |
| Food prices <sup>4.3</sup>                   | Ann. % ch  | -1.4   | 3.0    | -0.9   | 1.9    | 0.6    | :                             | :     | 3.4    | 4.2    | :      | 2.7    | 2.7    | :      |
| M3 <sup>4.4</sup>                            | Ann. % ch  | 9.0    | 11.3   | 9.5    | 13.7   | 2.6    | :                             | :     | :      | :      | :      | :      | :      | :      |
| Exchange rate EUR/EUR <sup>4.5</sup>         | 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 <sup>4.6</sup>  | Index      | 101.2  | 102.7  | 102.2  | 102.8  | 103.6  | :                             | :     | N.A.   | N.A.   | N.A.   | N.A.   | N.A.   | N.A.   |
| <b>5 Financial indicators</b>                |            |        |        |        |        |        |                               |       |        |        |        |        |        |        |
| Interest rate (3 months) <sup>5.1</sup>      | % p.a.     | 1.60   | :      | :      | 2.35   | :      | :                             | :     | :      | :      | :      | :      | :      | :      |
| Bond yield <sup>5.2</sup>                    | % p.a.     | 1.26   | 0.50   | 1.58   | 1.71   | 0.47   | :                             | :     | 0.54   | :      | 0.50   | 0.54   | 0.45   | :      |
| Stock markets <sup>5.3</sup>                 | Index      | 10,695 | 11,956 | 11,115 | 10,952 | 10,390 | :                             | :     | 10,604 | 10,717 | 11,072 | 11,041 | 11,043 | 11,131 |
| Credit growth <sup>5.4</sup>                 | Ann. % ch  | -1.9   | 0.8    | 1.3    | 11.8   | 8.5    | :                             | :     | 10.2   | 0.6    | :      | 2.0    | -0.7   | :      |
| Deposit growth <sup>5.5</sup>                | Ann. % ch  | 10.0   | 13.7   | 9.4    | 13.8   | 5.9    | :                             | :     | 6.0    | -2.7   | :      | 0.1    | 0.1    | :      |
| Non-performing loans <sup>5.6</sup>          | % of total | 16.8   | 13.4   | 10.3   | 7.3    | 6.9    | :                             | :     | 5.9    | 4.8    | :      | 5.0    | 4.8    | :      |
| <b>6 Fiscal developments</b>                 |            |        |        |        |        |        |                               |       |        |        |        |        |        |        |
| General government balance** <sup>6.1</sup>  | % of GDP   | -2.9   | -8.3   | -3.6   | -5.3   | -3.7   | -2.6                          | 1.8   | -1.5   | -1.3e  | :      | :      | :      | :      |
| General government debt*** <sup>6.2</sup>    | % of GDP   | 58.7   | 65.2   | 63.4   | 63.3   | 70.1   | 68.4                          | 64.5  | 66.4   | 65.4   | :      | :      | :      | :      |

f: ECFIN forecast Spring 2019 published May 2019

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

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

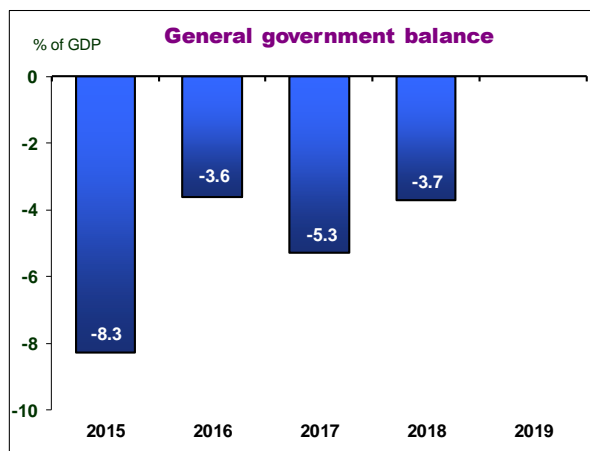
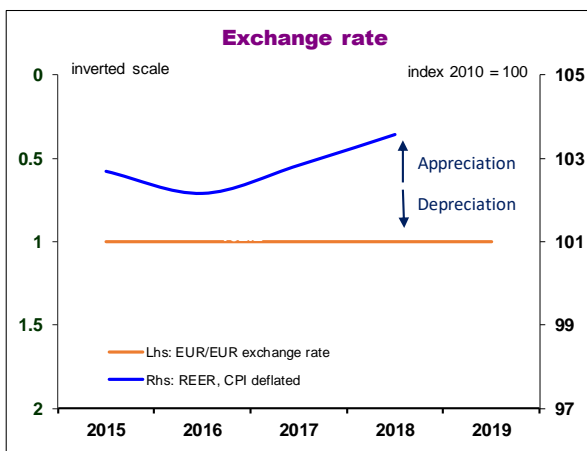
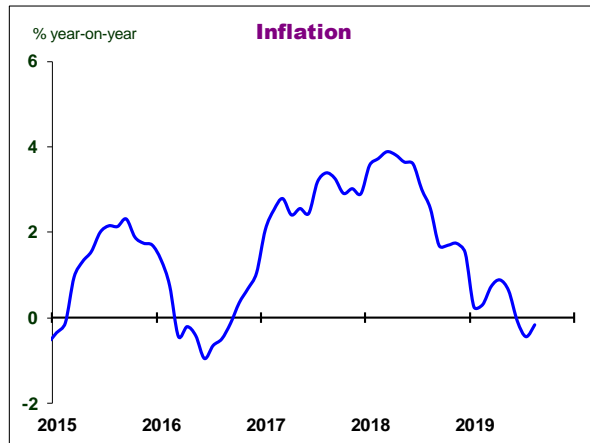
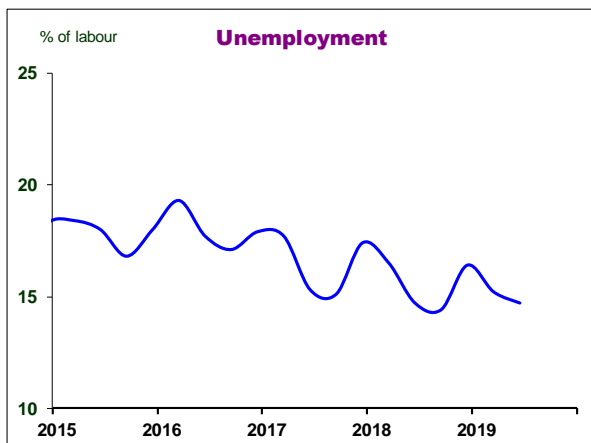
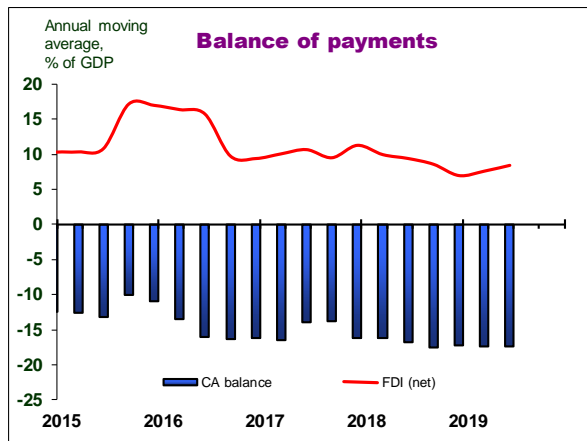
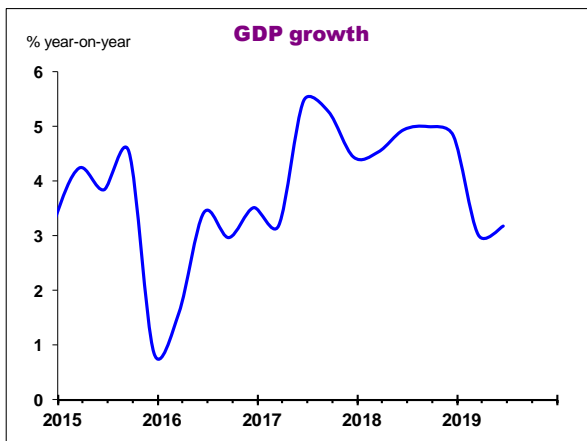
\*\*\* Q figures refer to central government debt only.



# CHARTS



## MONTENEGRO



## NORTH MACEDONIA



### Key developments

On 2 October, the EU and North Macedonia discussed the country's progress on economic and financial issues under the Stabilisation and Association Agreement. The Commission stressed the need to stabilise growing public debt and to change government spending towards a more growth-enhancing pattern. North Macedonia reconfirmed its commitment to continued fiscal consolidation to achieve a primary fiscal balance in the mid-term and to adopt a new organic budget law that contains fiscal rules and an independent fiscal oversight.

On 6 September, rating agency Standard and Poor's confirmed its rating BB- with stable outlook for North Macedonia. According to the assessment, the country's public and external debt levels are moderate, yet rising; institutions are weak; and recent fiscal consolidation measures have yielded only modest impact. Analysts expect debt to stabilise after 2020, while risks about the financial capacities of the Public Enterprise for State Roads are mounting.

### Real sector

Economic activity remained solid in the second quarter, although slowing down somewhat compared to the first three months. GDP growth (-1pp to 3.1% y-o-y) was driven by the accelerated pick-up in gross capital formation (+1.2pps to 11.1%), and in household (+0.5pps to 3.1%) and government consumption (+1.1pps to 1.2%). Annual growth in both exports (-5pps to 10.6%) and imports (-3.5pps to 10.9%) slowed down, compared to the preceding quarter. As in the first quarter, the foreign balance provided a negative contribution to economic growth. The manufacturing sector, which accounts for 15% of value added in the economy, weakened in the second quarter (-2.1% y-o-y). Construction posted annual gains (+2.8% y-o-y), albeit less buoyant than in the first three months of the year (+7%).

High-frequency indicators for the third quarter point to ongoing dynamism in the economy over the summer, albeit diminished in certain segments. Industrial production increased by an

average of 3.5% y-o-y between May and August, compared to 5.9% in the same period one year earlier. The slowdown in annual growth came mainly from weaker manufacturing output. Yet, capital goods production recovered over the summer, posting an average annual increase of 13.5% in July and August, after declining by 5% y-o-y on average in May and June. The construction sector posted an annual increase in issued building permits of 2.9% y-o-y in July, after a decrease of 1.5% in June. Retail sales (non-food except fuel) posted strong gains on average in July and August (+15.7% y-o-y), recovering from the growth slowdown in the first quarter. Retail sales have been rising, in real terms, for 20 consecutive months.

### Labour market

The long-standing upswing in the labour market continued also in the second quarter. According to the Labour Force Survey, annual employment growth accelerated further, to 5.6% (compared to 5.3% in the first quarter). The employment rate increased by 2.2pps compared to one year earlier, to 47.1%. The unemployment rate (total over 15 years age group) dropped by 3.6pps y-o-y to 17.5%. There was also a marked drop in youth unemployment (-12.7pps y-o-y to 34.9%). The labour force (age group 15-64) expanded by 0.8% y-o-y, only slightly faster than in the preceding quarter (+0.6% y-o-y). Again, this came on account of an increase in the female workforce (+5% y-o-y, compared to +1.6% y-o-y in the first quarter), which more than offset the decline in the male labour force. Overall labour market participation amounted to 57.1%, unchanged from the preceding quarter and higher by 0.2pps compared to one year earlier.

Wages continued to rise in the second quarter and beyond. Average monthly net wages increased by 3.7% between April and July, supported by higher minimum wages, and rising public sector wages, notwithstanding the introduction of a second, higher personal income tax rate at the beginning of this year. This translated into 2.8% real wage growth. In 2018, real net wages increased by an average of 4.4%.

## External sector

The current account deficit (4-quarter moving average) widened in the second quarter, to 1.3% of GDP, compared to the same period one year earlier, when the current account was balanced. The deterioration came as a result of a larger deficit in the merchandise trade balance (by 3.2pps to 21.5% of GDP), as well as in the primary balance (by 1.2pps to 5.4%), and in spite of a marked increase in private transfers (+3.6pps to 21.5% of GDP). The surplus in secondary income hence fully covered the merchandise trade deficit. Net FDI inflows, at 3.2% of GDP in the second quarter (4Q moving average), were lower than in the first three months (3.8%). Overall, in the first half of the year, net FDI inflows dropped by over 80% y-o-y, mainly due to intercompany debt transactions.

Gross external debt stood at 73.7% of projected full-year GDP at the end of June, lower by 4.3pps compared to one year earlier, but somewhat above its level in the first quarter, mainly on account of higher public external debt. At the end of August, the central bank's foreign currency reserves were some 5.8% higher than at the end of the first quarter, equivalent to some 4 months of prospective imports.

## Monetary developments

Consumer price inflation softened over the summer, to 0.6% y-o-y on average between July and September. Prices for tobacco (excises), food, and health services were driving inflation, while fuel and transport prices declined. Core inflation declined during this period. Total average CPI rose 1% y-o-y in the first nine months, lower by 0.5pps compared to the same period one year earlier. Annual growth of broad money (M4) abated somewhat in the third quarter and beyond, slowing to 10.3% between April and August (-1.4pps compared to the first quarter average).

## Financial sector

Credit growth to the private sector picked up further in the second quarter and beyond, bringing the total average rise in the first eight months to 8% y-o-y. While the bulk of the increase is still accounted for by households (+9.6% y-o-y), lending to the corporate sector makes an increasing contribution to the overall increase. Bank deposits were up by 9.8% y-o-y at the end of September, with the biggest share in the increase accounted for by local currency

accounts. The share of deposits with a foreign currency component remains elevated, though, and almost unchanged from one year earlier, at 40% of total. The ratio of non-performing to total loans to the non-financial private sector edged up in the second quarter. It stood at 5.5% at end-June, up from 5.1% one year earlier (and compared to end-March 2019). The spread between Denar loans (-10bps to 5.6%) and deposits (unchanged at 1.9%) shrank slightly between May and September, the same as for rates on foreign currency loans (4.6% in September) and deposits (0.8%). The share of foreign-currency denominated loans in total loans, at 41.7%, was lower by 1pps y-o-y.

The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients at 86.5% (-0.8pps y-o-y). Banks' capital adequacy rose to 17.4% (ratio of regulatory capital to risk-weighted assets), which is 0.9pps above pre-year level. However, the profitability of banks dropped further in the second quarter, with the ROA and the ROE at only half their levels of one year earlier, as the drought on net interest income continued.

## Fiscal developments

In the first seven months of the year, public revenue increased by 7.5% y-o-y, supported in particular by personal income tax (+16% y-o-y) and social contributions (+10% y-o-y). Total expenditure rose by 8.4%, mainly on account of higher transfer payments. The general government budget deficit in this period amounted to 1.6% of projected full-year GDP. In January to July, both revenue and expenditure implementation amounted to 54% of the revised budget, with rates almost unchanged compared to the same period one year earlier. Current expenditure was executed at 58% of full-year budget. Capital expenditure was again subject to severe under-implementation (24%). This figure does, however, not include the investment expenditure by the Public Enterprise for State Roads (PESR) during this period.

At the end of the second quarter, general government debt stood at 38.4% of projected full-year GDP, lower than at end-2018 (40.5% of 2018 GDP). Public debt dropped by 1.9pps during this period, to 46.6%. The level of government-guaranteed debt of state-owned enterprises increased by 0.2pps, to 8.2% of projected GDP, on account of the increasing debt burden of the PESR. The PESR accounts for over 65% of government-guaranteed debt, or some 5.4% of 2018 GDP.

## TABLE



European Commission, ECFIN-D-1

### North Macedonia

|  |           | 2014    | 2015    | 2016    | 2017    | 2018    | ECFIN 2019<br>Spring forecast |       | Q1 19   | Q2 19   | Q3 19 | Jul 19  | Aug 19  | Sep 19 |
|--|-----------|---------|---------|---------|---------|---------|-------------------------------|-------|---------|---------|-------|---------|---------|--------|
|  |           |         |         |         |         |         | 2019                          | 2020  |         |         |       |         |         |        |
| <b>1 Real sector</b>                           |           |         |         |         |         |         |                               |       |         |         |       |         |         |        |
| Industrial confidence <sup>1.1</sup>           | Balance   | 11.4    | 17.5    | 24.0    | 25.6    | 28.8    | :                             | :     | 30.7    | 32.2    | :     | 32.1    | 32.6    | :      |
| Industrial production <sup>1.2</sup>           | Ann. % ch | 4.8     | 4.9     | 3.9     | 0.2     | 5.4     | :                             | :     | 8.9     | 1.3     | :     | 5.8     | 9.8     | :      |
| Gross domestic product <sup>1.3</sup>          | Ann. % ch | 3.6     | 3.9     | 2.8     | 1.1     | 2.7     | 3.0                           | 3.2   | 4.1     | 3.1     | :     | N.A.    | N.A.    | N.A.   |
| Private consumption <sup>1.4</sup>             | Ann. % ch | 2.2     | 4.4     | 3.9     | 0.7     | 2.9     | 2.9                           | 3.0   | 2.6     | 3.1     | :     | N.A.    | N.A.    | N.A.   |
| Gross capital formation <sup>1.5</sup>         | Ann. % ch | 10.7    | 8.3     | 12.5    | 0.8     | -7.2    | 7.5                           | 9.0   | 26.9    | 28.2    | :     | N.A.    | N.A.    | N.A.   |
| Construction <sup>1.6</sup>                    | Ann. % ch | 2.3     | 8.6     | 3.6     | -6.0    | 2.7     | :                             | :     | 10.6    | 6.2     | :     | N.A.    | N.A.    | N.A.   |
| Retail sales <sup>1.7</sup>                    | Ann. % ch | 4.2     | 9.8     | 18.8    | -11.3   | 9.8     | :                             | :     | 3.8     | 7.3     | :     | 13.4    | 18.0    | :      |
| <b>2 Labour market</b>                         |           |         |         |         |         |         |                               |       |         |         |       |         |         |        |
| Unemployment <sup>2.1</sup>                    | %         | 28.0    | 26.1    | 23.8    | 22.4    | 20.7    | 20.2                          | 19.6  | 17.8    | 17.5    | :     | N.A.    | N.A.    | N.A.   |
| Employment <sup>2.2</sup>                      | Ann. % ch | 1.7     | 2.3     | 2.5     | 2.4     | 2.5     | 2.4                           | 2.3   | 5.3     | 5.2     | :     | N.A.    | N.A.    | N.A.   |
| Wages <sup>2.3</sup>                           | Ann. % ch | 1.0     | 2.7     | 2.0     | 2.6     | 5.8     | 2.2                           | 2.5   | 4.6     | 4.8     | :     | 5.5     | :       | :      |
| <b>3 External sector</b>                       |           |         |         |         |         |         |                               |       |         |         |       |         |         |        |
| Exports of goods <sup>3.1</sup>                | Ann. % ch | 17.0    | 9.4     | 11.5    | 19.8    | 20.1    | :                             | :     | 17.7    | 12.4    | :     | :       | :       | :      |
| Imports of goods <sup>3.2</sup>                | Ann. % ch | 9.4     | 5.0     | 7.8     | 11.8    | 12.9    | :                             | :     | 13.0    | 10.9    | :     | :       | :       | :      |
| Trade balance* <sup>3.3</sup>                  | % of GDP  | -21.7   | -20.1   | -19.2   | -18.0   | -16.2   | -17.6                         | -19.3 | -16.0   | -16.2   | :     | N.A.    | N.A.    | N.A.   |
| Exports goods and services <sup>3.4</sup>      | % of GDP  | 47.7    | 48.7    | 50.7    | 55.4    | 60.3    | :                             | :     | 61.5    | 62.5    | :     | N.A.    | N.A.    | N.A.   |
| Imports goods and services <sup>3.5</sup>      | % of GDP  | 64.9    | 65.0    | 65.5    | 69.2    | 72.9    | :                             | :     | 74.0    | 75.2    | :     | N.A.    | N.A.    | N.A.   |
| Current account balance* <sup>3.6</sup>        | % of GDP  | -0.5    | -2.0    | -3.1    | -1.3    | -0.3    | -1.3                          | -2.0  | -0.4    | -1.3    | :     | N.A.    | N.A.    | N.A.   |
| Direct investment (FDI, net)* <sup>3.7</sup>   | % of GDP  | 2.3     | 2.2     | 3.7     | 2.3     | 5.8     | :                             | :     | 3.8     | 3.2     | :     | N.A.    | N.A.    | N.A.   |
| International reserves <sup>3.8</sup>          | mn EUR    | 2,436.5 | 2,261.8 | 2,613.4 | 2,336.3 | 2,867.1 | :                             | :     | 2,866.4 | 2,928.2 | :     | 2,927.0 | 3,031.5 | :      |
| Int. reserves / months Imp <sup>3.9</sup>      | Ratio     | 6.3     | 5.6     | 6.0     | 4.8     | 5.2     | :                             | :     | 5.0     | 5.0     | :     | :       | :       | :      |
| <b>4 Monetary developments</b>                 |           |         |         |         |         |         |                               |       |         |         |       |         |         |        |
| CPI <sup>4.1</sup>                             | Ann. % ch | -0.3    | -0.3    | -0.2    | 1.4     | 1.4     | 1.7                           | 2.0   | 1.3     | 1.4     | :     | 0.8     | 0.8     | 0.3    |
| Producer prices <sup>4.2</sup>                 | Ann. % ch | -1.2    | -4.1    | -0.1    | 0.4     | -0.3    | :                             | :     | -0.2    | -0.1    | :     | 1.2     | 1.3     | :      |
| Food prices <sup>4.3</sup>                     | Ann. % ch | -1.0    | 0.1     | -1.3    | 0.3     | 0.8     | :                             | :     | 2.4     | 1.8     | :     | 1.0     | 1.8     | :      |
| Monetary aggregate M4 <sup>4.4</sup>           | Ann. % ch | 10.6    | 6.9     | 6.2     | 5.1     | 11.8    | :                             | :     | 11.7    | 10.5    | :     | 10.1    | 10.1    | :      |
| Exchange rate MKD/EUR <sup>4.5</sup>           | Value     | 61.62   | 61.61   | 61.60   | 61.57   | 61.51   | :                             | :     | 61.53   | 61.50   | 61.49 | 61.50   | 61.49   | 61.49  |
| Nominal effective exchange rate <sup>4.6</sup> | Index     | 101.8   | 99.2    | 100.5   | 101.4   | 103.3   | :                             | :     | 103.0   | 103.1   | :     | 103.0   | 103.1   | :      |
| <b>5 Financial indicators</b>                  |           |         |         |         |         |         |                               |       |         |         |       |         |         |        |
| Interest rate (3 months-SKIBOR) <sup>5.1</sup> | % p.a.    | 3.08    | 1.92    | 1.96    | 1.78    | 1.54    | :                             | :     | 1.46    | 1.46    | 1.45  | 1.45    | 1.45    | 1.45   |
| Bond yield <sup>5.2</sup>                      | % p.a.    | 7.77    | 7.46    | 7.02    | 6.61    | 6.11    | :                             | :     | 5.75    | 5.67    | :     | 5.61    | :       | :      |
| Stock markets <sup>5.3</sup>                   | Index     | 1,736   | 1,731   | 1,887   | 2,406   | 3,154   | :                             | :     | 3,637   | 3,752   | :     | 3,838   | 3,959   | :      |
| Credit Growth <sup>5.4</sup>                   | Ann. % ch | 8.6     | 9.1     | 4.0     | 2.5     | 6.7     | :                             | :     | 8.3     | 8.4     | :     | 6.8     | 6.4     | :      |
| Deposit growth <sup>5.5</sup>                  | Ann. % ch | 5.8     | 7.6     | 4.4     | 5.3     | 8.9     | :                             | :     | 9.3     | 9.8     | :     | 8.6     | 8.7     | :      |
| Non-performing loans <sup>5.6</sup>            | % total   | 11.6    | 10.3    | 6.3     | 6.1     | 5.0     | :                             | :     | 5.1     | 5.4     | :     | N.A.    | N.A.    | N.A.   |
| <b>6 Fiscal developments</b>                   |           |         |         |         |         |         |                               |       |         |         |       |         |         |        |
| Central government balance** <sup>6.1</sup>    | % of GDP  | -4.2    | -3.5    | -2.7    | -2.7    | -1.8    | -3.0                          | -2.5  | -2.0    | -2.3    | :     | N.A.    | N.A.    | N.A.   |
| General government debt <sup>6.2</sup>         | % of GDP  | 38.1    | 38.1    | 39.9    | 39.5    | 40.5    | 43.2                          | 44.0  | 38.2    | 38.4    | :     | N.A.    | N.A.    | N.A.   |

f: ECFIN forecast Spring 2019 published May 2019

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

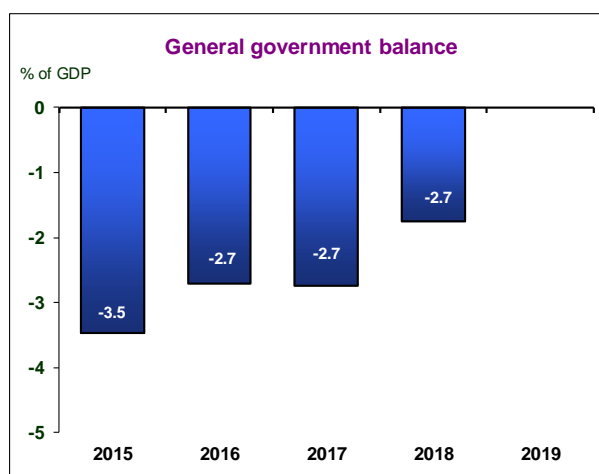
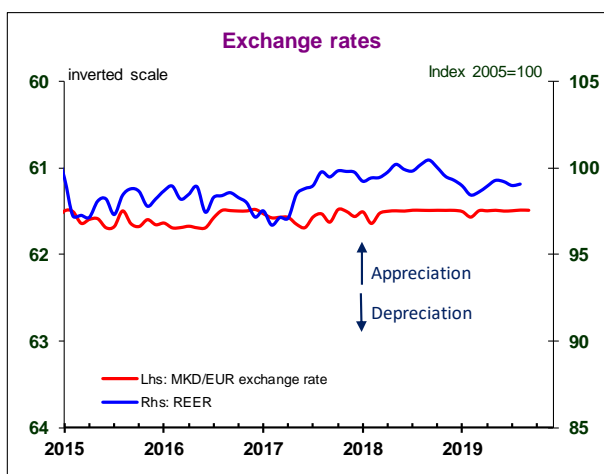
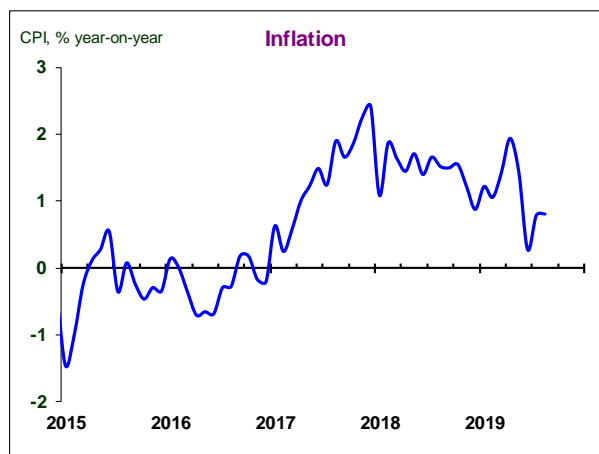
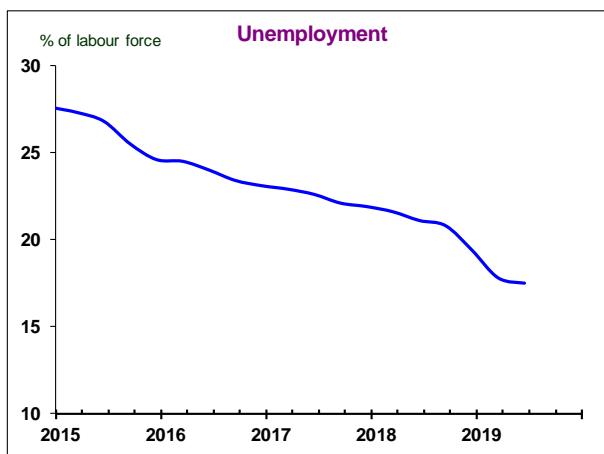
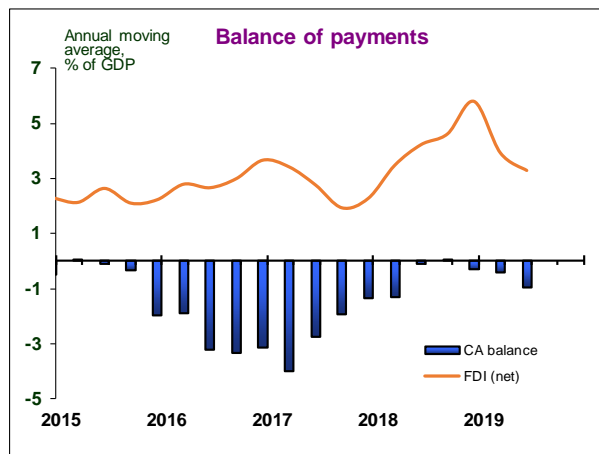
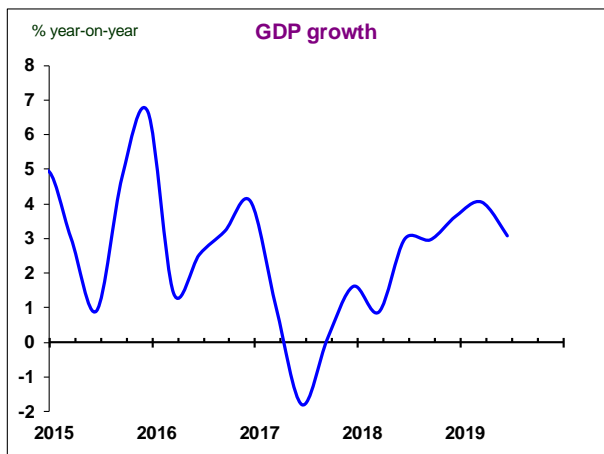
\*\* Q figures refer to the quarterly balance divided by the quarterly GDP.

# CHARTS

European Commission, ECFIN-D-1



## North Macedonia



## SERBIA



### Key developments

In October, motivated by stronger than expected budget revenue, the government adopted a rebalance of the 2019 budget, keeping the deficit target of 0.5% of GDP unchanged. The revision provided additional funding for roads, wage increases, one-off payment to pensioners, interest payments (linked to prepayment of debt), the resolution of Swiss Franc loans, and purchase of military equipment.

In September, Fitch Ratings upgraded Serbia's Long-Term Foreign- and Local-Currency Issuer Default Ratings from 'BB' to 'BB+' with a stable outlook. The main reasons for the upgrade were the improved macroeconomic performance over recent years with low inflation, anchored inflation expectations and maintenance of fiscal discipline. Earlier in September, Moody's rating agency upgraded the outlook on Serbia's rating from stable to positive, affirming its Ba3 rating.

The government stakes in Komercijalna banka, Serbia's second largest bank, have increased to 83.23%, after the acquisition in June of the shares owned by Swedfund and DEG (6.89% for €43.7 million) and reaching an agreement in early September to buy the shares of the EBRD and the IFC's Capitalisation Fund (34.58%). The privatisation of Komercijalna banka advanced in September when Raiffeisenbank, Nova Ljubljanska Banka, AIK Banka, and an US-European consortium submitted non-binding offers for acquiring the government stake.

In July, the IMF completed the second review under the Policy Coordination Instrument and concluded its 2019 Article IV Consultation with Serbia. The Fund noted the stable economy and the strong fiscal performance. However, it also marked that Serbia is vulnerable to spillovers from the external environment, in particular from weaker growth in key trading partners.

### Real sector

The economic growth profile has remained largely unchanged in the second quarter. Real GDP expanded 2.9% y-o-y, up from 2.7% in the first quarter, driven by robust domestic demand. With the exception of a slight acceleration in gross fixed capital formation growth to 8.6% y-o-y and in imports growth to 10.9% y-o-y, all other GDP components have broadly kept their

annual growth rates from the previous quarter. Household consumption in particular has been very stable and expanded 3.2% y-o-y, a pace maintained over the last six quarters. Importantly, the growth in goods exports remained robust (9.1% y-o-y), despite weaker economic sentiment in some of Serbia's major trade partners in the EU.

On the supply side, the strong investment drive was also visible in the rising construction activity (16.8% y-o-y). On the other hand, following a very good year (15.2% growth in 2018), the agricultural sector remained in stagnation in the first two quarters. Industry underperformed as well, declining 2.1% y-o-y in the second quarter. One-off interruptions in production because of capital overhauls affected some important sectors like oil and petrochemicals in the first half of the year. However, the soft patch in industrial activity has extended for a fourth quarter in a row, mostly due to subpar performance in the energy and mining sectors. Nevertheless, benefiting from strong domestic demand, the trade and service-oriented sectors of the economy maintained a robust growth, pushing real gross value added up 2.9% y-o-y in the second quarter.

Some short-term indicators suggest that growth may have accelerated slightly in the third quarter. Industrial production increased 3.7% y-o-y in July and 0.5% y-o-y in August. However, despite strong results in July, manufacturing performance remained uneven, with half of the sectors still in negative territory. The production of motor vehicles in particular has declined, affected by the global slump in the sector. Boosted by higher earnings and increased consumer confidence and employment, the growth in real retail trade turnover picked up to an average of 9.3% y-o-y in the period June-August.

### Labour market

According to LFS data, the unemployment rate of the population aged 15 years and over declined to 10.3% in the second quarter. It was down 1.6pps y-o-y and half its level five years ago. The labour force declined 1.1% y-o-y mainly because of aging population and a slight increase in inactivity. Although employment growth decelerated to 0.7% y-o-y in the second



quarter, it continued unabated in the last four years. As in previous quarters, employment gains were entirely in the formal sector (2.7% y-o-y), while informal employment dropped 7.1% y-o-y. Nevertheless, the rate of informal employment remained elevated at around 19%.

Capturing the continued positive momentum on the labour market, registered employment increased as well, by 1.6% y-o-y in the second quarter. Employment went up in most of the sectors but was very strong in construction (9.0% y-o-y), extraction of crude petroleum and natural gas (118.7% y-o-y) and mining of metal ores (45.6% y-o-y). Manufacturing employment grew 2.6% y-o-y, although half of the sectors actually shed labour in the second quarter. Employment declined in agriculture, energy, and the public sector at large. In conjunction with the strong employment data, registered jobseekers declined by 9.7% y-o-y in August. The growth in real net wages stood at 10.1% y-o-y in July and 7.7% y-o-y on average since the beginning of the year.

### External sector

In the period January-July, the current account deficit in euro terms expanded 52.9% y-o-y. Over the four quarters to June, it stood at 6.3% of GDP, compared to 5.2% of GDP in 2018. Strong domestic demand pulled the cumulative merchandise trade deficit further up (20.4% y-o-y) in January-July. While the balances on services and primary income remained broadly unchanged over the corresponding period last year, the secondary income surplus declined 5.2% y-o-y, mainly because of a fall in other current transfers. In June and July, there was a particularly strong inflow of FDIs, bringing the total since the beginning of the year to above €2 billion, up by 41.6% y-o-y, and financing 112% of the current account deficit.

According to statistical office data, the growth in external trade slowed down over the summer months. In the period January-August, exports of goods grew 6.9% y-o-y in euro terms, while imports rose by 8.7% y-o-y. The merchandise trade deficit reached €3.9 billion, up 14.5% y-o-y.

### Monetary developments

Price pressures subsided further in the summer months and inflation went down to 1.3% y-o-y in August. This development was driven mainly by decelerating food (in particular unprocessed

food) and energy prices. After staying for some months at close to 1.5% y-o-y, core inflation (excluding energy, food, alcohol and tobacco) also went down to 1.2% in August. The central bank (NBS) reacted to the lower inflation environment by cutting its key policy rate twice, by 25 bps each in July and August, to 2.5%. The cut was also justified by the slowdown in global economic activity and trade, which triggered renewed monetary easing by major central banks.

The central bank remained an active participant on the foreign exchange market. In reaction to high capital inflows, it bought a net €1.4 billion in June and July (marking the two months with the highest monthly intervention on record). In August, interventions declined significantly, although they were on both sides – NBS bought €165 million and sold €60 million. Overall, the central bank has curbed dinar appreciation against the euro to below 1% y-o-y. NBS foreign exchange reserves increased by €1.8 billion since the end of 2018, reaching a new high of €13.1 billion in August, covering around six months' worth of imports of goods and services.

### Financial sector

In August, domestic claims of the banking sector increased by 5.6% y-o-y. The growth of credit to the non-government sector remained robust, expanding 10.3% y-o-y. Over the summer months, credit to households decelerated to 8.4% y-o-y, while claims to companies increased 9.5% y-o-y. The loan to deposit ratio of the non-monetary sector remained broadly stable at around 97%. Non-performing loans declined further in the second quarter to 5.2%, down from 5.7% at the end of 2018. In September, the Deposit Insurance Agency called a tender for the sale of €1.8 billion worth of NPLs from its portfolio.

### Fiscal developments

Stable economic growth and rising employment and income levels helped sustain the good budgetary performance. By end-August, the general government budget was in surplus of RSD 37.2 billion (0.7% of the estimated annual GDP). Total revenue increased by 7.3% y-o-y, on the back of strong growth in income and value added tax revenues. In January-July, total expenditure went up 7.9% y-o-y with strong rises in capital spending (15.4% y-o-y). In August, government debt stood at 51.9% of estimated full-year GDP, down from 53.7% at end-2018.



## TABLE

European Commission, ECFIN-D-1



## SERBIA

|  |           | 2014    | 2015     | 2016     | 2017    | 2018     | ECFIN 2019<br>Spring forecast |       | Q1 19    | Q2 19    | Q3 19  | Jul 19   | Aug 19   | Sep 19 |
|--|-----------|---------|----------|----------|---------|----------|-------------------------------|-------|----------|----------|--------|----------|----------|--------|
|  |           |         |          |          |         |          | 2019                          | 2020  |          |          |        |          |          |        |
| <b>1 Real sector</b>                           |           |         |          |          |         |          |                               |       |          |          |        |          |          |        |
| Industrial confidence <sup>1.1</sup>           | 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 <sup>1.2</sup>           | Ann. % ch | -6.1    | 8.4      | 4.8      | 3.4     | 1.5      | :                             | :     | -2.0     | -2.5     | :      | 3.7      | 0.5      | :      |
| Gross domestic product <sup>1.3</sup>          | Ann. % ch | -1.6    | 1.8      | 3.3      | 2.0     | 4.4      | 3.1                           | 3.8   | 2.7      | 2.9      | :      | N.A.     | N.A.     | N.A.   |
| Private consumption <sup>1.4</sup>             | Ann. % ch | -0.1    | -0.5     | 1.3      | 2.0     | 3.3      | 3.9                           | 3.4   | 3.3      | 3.2      | :      | N.A.     | N.A.     | N.A.   |
| Gross fixed capital formation <sup>1.5</sup>   | Ann. % ch | -3.4    | 4.9      | 5.4      | 7.3     | 17.8     | 7.8                           | 7.5   | 7.8      | 8.6      | :      | N.A.     | N.A.     | N.A.   |
| Construction index <sup>1.6</sup>              | Ann. % ch | -3.8    | 13.1     | 5.1      | 9.3     | 9.6      | :                             | :     | 15.5     | 22.5     | :      | N.A.     | N.A.     | N.A.   |
| Retail sales <sup>1.7</sup>                    | Ann. % ch | 2.8     | 2.0      | 8.0      | 3.8     | 4.1      | :                             | :     | 9.7      | 8.3      | :      | 9.3      | 7.6      | :      |
| <b>2 Labour market</b>                         |           |         |          |          |         |          |                               |       |          |          |        |          |          |        |
| Unemployment <sup>2.1</sup>                    | %         | 19.2    | 17.7     | 15.3     | 13.5    | 12.7     | 11.0                          | 9.0   | 12.1     | 10.3     | :      | N.A.     | N.A.     | N.A.   |
| Employment <sup>2.2</sup>                      | Ann. % ch | 10.1    | 0.6      | 5.6      | 2.8     | 1.4      | 0.8                           | 1.2   | 4.5      | 0.7      | :      | 2.2      | 2.4      | :      |
| Wages <sup>2.3</sup>                           | Ann. % ch | 1.2     | -0.4     | 3.8      | 4.0     | 4.3      | :                             | :     | 9.3      | 9.9      | :      | 11.8     | :        | :      |
| <b>3 External sector</b>                       |           |         |          |          |         |          |                               |       |          |          |        |          |          |        |
| Exports of goods <sup>3.1</sup>                | Ann. % ch | 1.5     | 7.9      | 11.6     | 12.1    | 8.2      | :                             | :     | 6.9      | 6.6      | :      | 10.2     | 4.1      | :      |
| Imports of goods <sup>3.2</sup>                | Ann. % ch | -1.8    | 5.9      | 6.1      | 13.6    | 13.0     | :                             | :     | 9.5      | 8.8      | :      | 17.4     | -3.0     | :      |
| Trade balance* <sup>3.3</sup>                  | % of GDP  | -11.4   | -11.3    | -9.9     | -11.1   | -13.2    | -11.9                         | -12.1 | -13.5    | -13.8    | :      | N.A.     | N.A.     | N.A.   |
| Exports goods and services <sup>3.4</sup>      | % of GDP  | 42.1    | 45.3     | 48.6     | 50.5    | 50.8     | :                             | :     | 51.5     | 52.1     | :      | N.A.     | N.A.     | N.A.   |
| Imports goods and services <sup>3.5</sup>      | % of GDP  | 50.2    | 52.3     | 53.4     | 57.1    | 59.2     | :                             | :     | 60.3     | 61.1     | :      | N.A.     | N.A.     | N.A.   |
| Current account balance* <sup>3.6</sup>        | % of GDP  | -5.6    | -4.4     | -2.9     | -5.2    | -5.2     | -6.3                          | -6.0  | -5.5     | -6.3     | :      | N.A.     | N.A.     | N.A.   |
| Direct investment (FDI, net)* <sup>3.7</sup>   | % of GDP  | 3.5     | 5.1      | 5.2      | 6.2     | 7.4      | :                             | :     | 7.5      | 8.1      | :      | N.A.     | N.A.     | N.A.   |
| International reserves <sup>3.8</sup>          | mn EUR    | 9,907.2 | 10,378.0 | 10,204.6 | 9,961.7 | 11,261.8 | :                             | :     | 11,440.5 | 12,146.0 | :      | 12,758.4 | 13,099.9 | :      |
| Int. reserves / months Imp <sup>3.9</sup>      | Ratio     | 7.8     | 7.7      | 7.2      | 6.2     | 6.2      | :                             | :     | 6.1      | 6.4      | :      | 6.6      | 6.8      | :      |
| <b>4 Monetary developments</b>                 |           |         |          |          |         |          |                               |       |          |          |        |          |          |        |
| CPI <sup>4.1</sup>                             | Ann. % ch | 2.1     | 1.4      | 1.1      | 3.1     | 2.0      | 2.5                           | 2.7   | 2.4      | 2.2      | :      | 1.6      | 1.3      | :      |
| Producer prices <sup>4.2</sup>                 | Ann. % ch | 0.7     | 0.2      | -0.4     | 3.4     | 2.2      | :                             | :     | 1.3      | 1.4      | :      | 0.1      | -0.1     | :      |
| Food prices <sup>4.3</sup>                     | Ann. % ch | -0.9    | 1.9      | -0.3     | 3.3     | 1.9      | :                             | :     | 4.1      | 3.2      | :      | 2.1      | 1.3      | :      |
| M3 <sup>4.4</sup>                              | Ann. % ch | 7.6     | 6.6      | 11.6     | 3.6     | 14.5     | :                             | :     | 14.8     | 11.2     | :      | 12.2     | 12.3     | :      |
| Exchange rate RSD/EUR <sup>4.5</sup>           | Value     | 117.23  | 120.74   | 123.09   | 121.41  | 118.27   | :                             | :     | 118.22   | 117.96   | 117.72 | 117.78   | 117.78   | 117.60 |
| Nominal effective exchange rate <sup>4.6</sup> | Index     | 72.0    | 67.4     | 66.1     | 67.3    | 69.7     | :                             | :     | 69.2     | 69.2     | :      | 69.3     | 69.1     | :      |
| <b>5 Financial indicators</b>                  |           |         |          |          |         |          |                               |       |          |          |        |          |          |        |
| Interest rate (BEONIA) <sup>5.1</sup>          | % p.a.    | 6.76    | 4.75     | 2.70     | 2.68    | 2.24     | :                             | :     | 2.10     | 1.89     | 1.41   | 1.69     | 1.26     | 1.28   |
| Bond yield (7 year) <sup>5.2</sup>             | % p.a.    | 12.21   | 10.99    | 8.28     | 5.45    | 5.00     | :                             | :     | 4.56     | 4.46     | :      | 3.59     | 3.50     | :      |
| Stock markets <sup>5.3</sup>                   | Index     | 1,215   | 1,359    | 1,383    | 1,584   | 1,562    | :                             | :     | 1,534    | 1,566    | 1,581  | 1,564    | 1,574    | 1,606  |
| Credit growth <sup>5.4</sup>                   | Ann. % ch | 5.8     | 7.0      | 9.0      | 2.2     | 7.7      | :                             | :     | 8.9      | 4.9      | :      | 5.3      | 5.6      | :      |
| Deposit growth <sup>5.5</sup>                  | Ann. % ch | 7.6     | 6.5      | 11.4     | 3.3     | 15.3     | :                             | :     | 15.3     | 11.3     | :      | 12.7     | 12.7     | :      |
| Non-performing loans <sup>5.6</sup>            | % total   | 21.5    | 21.6     | 17.0     | 9.8     | 5.7      | :                             | :     | 5.5      | 5.2      | :      | N.A.     | N.A.     | N.A.   |
| <b>6 Fiscal developments</b>                   |           |         |          |          |         |          |                               |       |          |          |        |          |          |        |
| General government balance** <sup>6.1</sup>    | % of GDP  | -6.2    | -3.5     | -1.2     | 1.1     | 0.6      | -0.5                          | -0.5  | 0.9      | 0.5      | :      | N.A.     | N.A.     | N.A.   |
| General government debt <sup>6.2</sup>         | % of GDP  | 66.2    | 70.0     | 67.8     | 57.9    | 53.7     | 50.9                          | 48.0  | 50.9     | 51.4     | :      | 51.9     | :        | :      |

f. ECFIN forecast Spring 2019 published May 2019

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

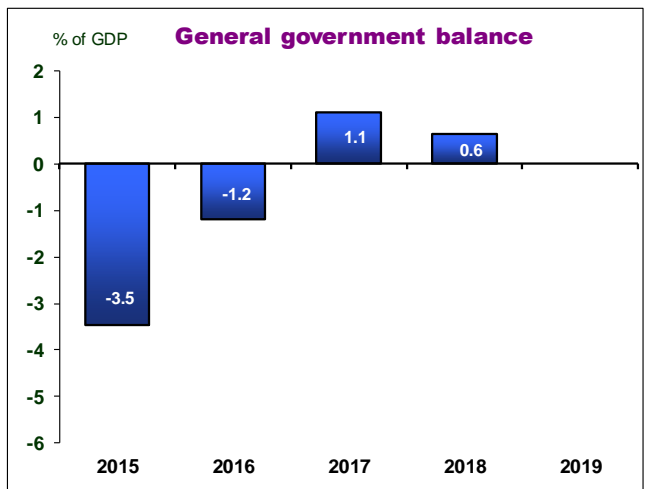
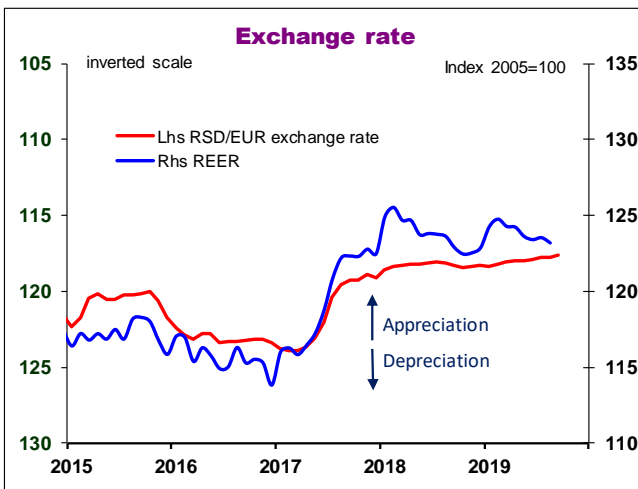
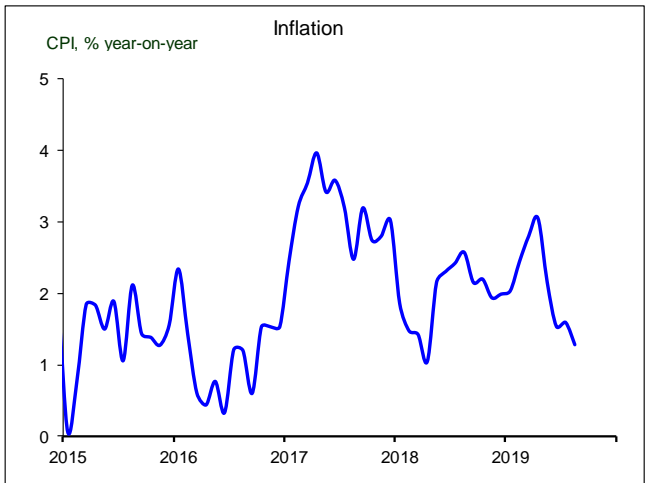
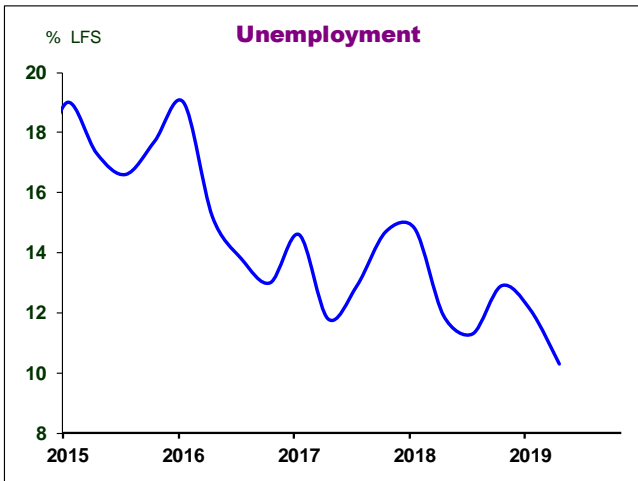
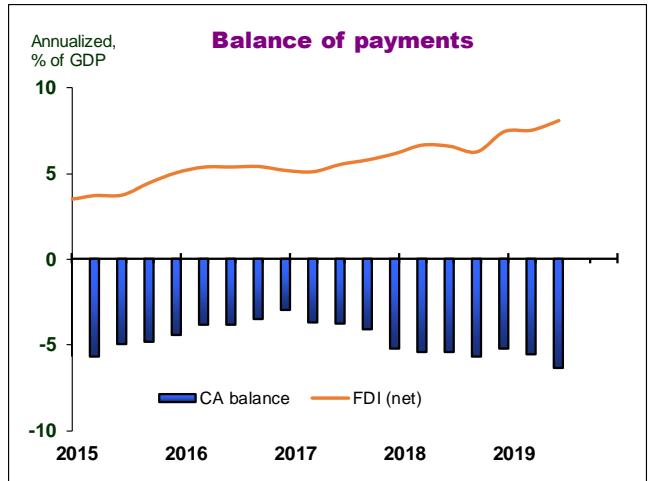
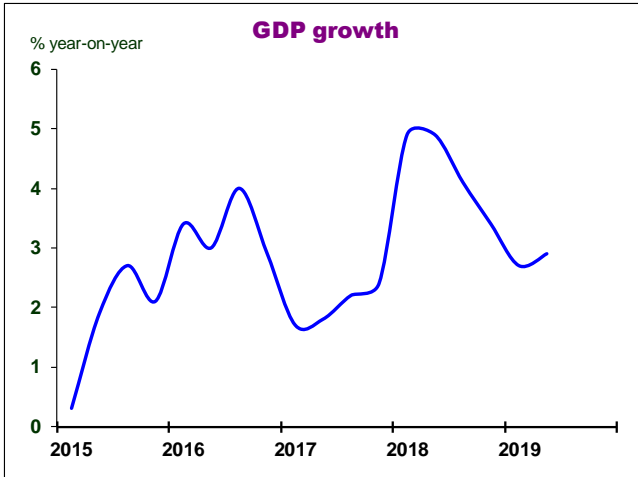
\*\* Q figures refer to the quarterly balance divided by the quarterly GDP.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA





## Key developments

In September, the EU and Turkey discussed Turkey's progress on economic and monetary issues under the country's Association Agreement with the EU. The Commission noted the resilience of the Turkish economy, which recovered faster than expected from last year's currency crisis. It also underlined the importance of pursuing an appropriate policy mix and of improving governance in order to avoid the re-emergence of imbalances.

In July, the Parliament ratified the 11th Development Plan, covering the period 2019-2023. Under the plan, the government aims at a 4.3% average real GDP growth, to be driven mainly by net exports and investment. By 2023, it also targets a single-digit unemployment rate, a current account close to balance, and inflation converging to the 5% target. Building upon the Development Plan, the government adopted its New Economy Programme in September. In 2020, it targets 5.0% GDP growth, 8.5% end-of-year inflation, a 1.2% of GDP current account deficit, 2.9% of GDP general government deficit, and 11.8% unemployment rate.

In September, the IMF concluded an Article IV staff mission. It noted that, aided by policy stimulus and favourable market conditions, growth had rebounded and was now expected to be positive at ¼% in 2019. Following the currency crisis of last year, the lira had recovered, supporting the steep decline in inflation. However, the mission also noted that the current calm appeared fragile as reserves remained low and external financing needs high, while risks were on the downside.

## Real sector

In the second quarter, the economy contracted 1.5% y-o-y, following a 2.4% y-o-y drop in the first three months. However, as a sign of the ongoing recovery, it continued to grow on a q-o-q basis, by 1.2%. Government consumption remained supportive of growth. It grew 3.3% y-o-y, contributing 0.5 pps to overall growth. The lira depreciation boosted exports, which maintained a robust growth of 8.1% y-o-y.

Along with a steep decline in domestic demand, it also had a significant impact on imports. They fell 16.9% y-o-y in the second quarter, leading to another quarter of a large and positive contribution (7.6 pps) from net exports to growth. Following sharp drops in the previous two quarters, household consumption showed signs of recovery – it grew 3.0% q-o-q, despite still falling 1.1% y-o-y. Of all demand components, investment (in particular construction investment) had the worst performance in the second quarter. The decline in gross fixed capital formation did not show any signs of moderation and reached a stunning 22.8% y-o-y and 7.4% q-o-q. Taking into account the change in stocks, the contribution of gross capital formation to growth remained highly negative at -9.0 pps.

On the production side, the service sector held its ground and, largely due to financial and insurance activities (9.3% y-o-y) and public administration (2.5% y-o-y), contributed positively to growth (0.5 pps). Agriculture (3.4% y-o-y) and some other services like information and telecommunication (2.4% y-o-y) also kept their positive momentum. However, the decline in construction (-12.7% y-o-y) and to a lesser extent industry (-2.7% y-o-y) continued to be a significant drag on growth.

High frequency indicators point to a likely bottoming out of some sectors in the third quarter. Although still down 0.4% y-o-y in July, industrial production increased strongly by 4.3% m-o-m. Capacity utilisation increased further in the third quarter and stood at 76.0% (seasonally adjusted), while in the manufacture of motor vehicles it went up to 80.8%. The PMI reached 50.0 in September, also signalling a revival in industrial activity. Economic confidence averaged 84.6, 2.7 pps above the second quarter, improving across the real, retail trade, services, and construction sectors. However, reflecting the poor labour market situation, consumer confidence remained gloomy, falling even further to a historic low of 55.8 in the third quarter. The July retail sales were in tune with this mood and fell 3.7% y-o-y.

## Labour market

The labour market remained in distress in the second quarter. Labour force growth decelerated further to 0.6% y-o-y while the inactive population increased 2.0% y-o-y. Employment (15 years and above) continued to decline at the same pace of -2.8% y-o-y as in the first quarter. The fall was stronger among those with lower education and in particular among those with less than high school education (-6.7% y-o-y), representing half of total employment. People with higher education, however, fared better and their employment even increased (6.0% y-o-y). The unemployment rate decreased from its peak in the beginning of the year but remained elevated at 13.0% in June. Despite significant labour oversupply, hourly earnings adjusted for seasonal and calendar effects increased by 29.7% y-o-y, implying sizeable real labour cost growth in the second quarter. Survey results indicate expectations of some improvements in employment prospects in the real sector and construction until the end of the year.

## External sector

The 12-month moving current account balance turned to surplus in June for the first time since the start of the time series in 2007. In July it grew further to \$4.4 billion (0.1% of GDP), underpinned by continuing strong improvements in the goods and services balance. The decline in imports, however, which was one of the main drivers of the current account adjustment, moderated to just 0.2% y-o-y in August. Over the first eight months, imports contracted 15.1% y-o-y, contributing significantly to the 55.8% reduction in the merchandise trade deficit. The good tourism season was visible in the high growth of service exports, which stood at 14.7% y-o-y in July and 10.4% in the period since the beginning of the year.

Net financial inflows amounted to \$2.6 billion in the first seven months of the year, significantly lower compared to \$14.5 billion in the same period of 2018. Net foreign direct investment inflows remained positive since the beginning of the year. Since May, net inflows from other sectors turned positive as well, sustained by net incurrence of liabilities.

## Monetary developments

Driven by base effects, inflation decelerated strongly over the summer and reached a single-digit level (9.3% y-o-y) in September. These effects were particularly pronounced in

energy and unprocessed food prices. Core inflation fell as well, to 7.5% y-o-y as durable goods prices turned deflationary in September. However, consumers' inflation expectations for the next twelve months remained elevated and broadly unchanged in the third quarter, while businesses inflation expectations declined below 20% for the first time in a year. The central bank reacted to the falling inflation by lowering its key policy rate by 425 bps in July and by another 325 bps in September, to 16.5%. The effective policy rate declined in parallel to 16.2% in early October. The lira's volatility declined in the third quarter and it managed to recover some of the losses it recorded against the euro earlier this year (+4.5% q-o-q).

## Financial sector

In the third quarter, Turkish equities recovered their losses from the previous quarter. The BIST100 closed 8.9% higher and gained 11.1% in USD terms during the quarter, amidst lower volatility. In August, the central bank took additional macro-prudential measures to stimulate lending. It changed the ratio of and the remuneration applied to required reserves in cases when loan portfolio growth is between 10% and 20%. Although in the third quarter total loans declined 0.6% y-o-y and 1.3% over the previous quarter, lending activity in national currency received a boost from central bank decisions and inched up 1.4% q-o-q. In September, the Banking Regulation and Supervision Agency announced that 46 billion TL loans, mostly in the construction and energy sectors, should be reclassified as NPLs. As a result, it estimated that the capital adequacy ratio of the banking system would decrease by 50 basis points, from 18.2% to 17.7%, and the level of NPL increases from 4.6% to 6.3%.

## Fiscal developments

In the first eight months of the year, the central government posted a deficit of TL 68.1 bn or 1.7% of GDP. The underlying deficit was 1pp higher, if an exceptional one-off dividend of some TL 40 bn from the central bank is excluded. The dividend raised total revenue growth to 21.6% y-o-y, although tax revenue growth remained subdued. Significant increases in current transfers, personnel and interest payments kept total spending growth high at 22.8% y-o-y. Public debt reached 31.3% of GDP in the second quarter (up from 28.7% at end-2018).

## TABLE



### TURKEY

European Commission, ECFIN-D-1

|  |           | 2014   | 2015   | 2016   | 2017   | 2018    | ECFIN 2019<br>Spring forecast |      | Q1 19  | Q2 19  | Q3 19  | Jul 19  | Aug 19 | Sep 19  |
|--|-----------|--------|--------|--------|--------|---------|-------------------------------|------|--------|--------|--------|---------|--------|---------|
|  |           |        |        |        |        |         | 2019                          | 2020 |        |        |        |         |        |         |
| <b>1 Real sector</b>                           |           |        |        |        |        |         |                               |      |        |        |        |         |        |         |
| Industrial confidence <sup>1.1</sup>           | Index     | 104.6  | 103.5  | 105.2  | 108.0  | 101.4   | :                             | :    | 97.4   | 102.3  | 99.9   | 98.3    | 102.5  | 98.8    |
| Industrial production <sup>1.2</sup>           | Ann. % ch | 5.7    | 5.8    | 3.4    | 9.0    | 1.3     | :                             | :    | -4.7   | -2.9   | :      | -1.3    | :      | :       |
| Gross domestic product <sup>1.3</sup>          | Ann. % ch | 5.2    | 6.1    | 3.2    | 7.5    | 2.8     | -2.3                          | 3.9  | -2.4   | -1.5   | :      | N.A.    | N.A.   | N.A.    |
| Private consumption <sup>1.4</sup>             | Ann. % ch | 2.9    | 5.4    | 3.6    | 6.2    | 0.1     | -3.6                          | 4.0  | -5.0   | -1.2   | :      | N.A.    | N.A.   | N.A.    |
| Gross fixed capital formation <sup>1.5</sup>   | Ann. % ch | 5.1    | 9.3    | 2.2    | 8.2    | -0.6    | -12.9                         | 9.2  | -12.4  | -22.8  | :      | N.A.    | N.A.   | N.A.    |
| Construction index <sup>1.6</sup>              | Ann. % ch | 38.7   | -8.8   | 17.4   | 63.3   | -34.8   | :                             | :    | -20.5  | -69.6  | :      | N.A.    | N.A.   | N.A.    |
| Retail sales <sup>1.7</sup>                    | Ann. % ch | 3.8    | 6.7    | 2.2    | 5.7    | 2.0     | :                             | :    | -4.9   | -3.5   | :      | -3.7    | N.A.   | N.A.    |
| <b>2 Labour market</b>                         |           |        |        |        |        |         |                               |      |        |        |        |         |        |         |
| Unemployment <sup>2.1</sup>                    | %         | 10.1   | 10.5   | 11.1   | 11.1   | 11.2    | 13.7                          | 13.3 | 14.8   | 13.2   | :      | :       | :      | :       |
| Employment <sup>2.2</sup>                      | Ann. % ch | N.A.   | 2.5    | 2.2    | 3.5    | 1.8     | -0.2                          | 3.0  | -2.7   | -2.9   | :      | :       | :      | :       |
| Wages <sup>2.3</sup>                           | Ann. % ch | 11.0   | 16.7   | 21.3   | 10.2   | 20.6    | 11.0                          | 10.5 | 25.2   | 29.4   | :      | :       | :      | :       |
| <b>3 External sector</b>                       |           |        |        |        |        |         |                               |      |        |        |        |         |        |         |
| Exports of goods <sup>3.1</sup>                | Ann. % ch | 3.5    | -9.0   | -0.7   | 10.2   | 6.9     | :                             | :    | 3.8    | 1.6    | :      | 4.7     | -0.8   | :       |
| Imports of goods <sup>3.2</sup>                | Ann. % ch | -4.0   | -14.8  | -3.8   | 17.1   | -4.4    | :                             | :    | -19.7  | -17.5  | :      | -9.1    | -0.2   | :       |
| Trade balance* <sup>3.3</sup>                  | % of GDP  | -6.8   | -5.6   | -4.8   | -6.9   | -5.4    | -1.8                          | -2.9 | -3.7   | -2.3   | :      | N.A.    | N.A.   | N.A.    |
| Exports goods and services <sup>3.4</sup>      | % of GDP  | 23.8   | 23.3   | 22.0   | 24.8   | 29.5    | :                             | :    | 30.9   | 32.4   | :      | N.A.    | N.A.   | N.A.    |
| Imports goods and services <sup>3.5</sup>      | % of GDP  | 27.6   | 26.0   | 24.9   | 29.3   | 30.6    | :                             | :    | 30.6   | 30.5   | :      | N.A.    | N.A.   | N.A.    |
| Current account balance* <sup>3.6</sup>        | % of GDP  | -4.7   | -3.8   | -3.8   | -5.6   | -3.5    | 1.2                           | -0.5 | -1.7   | 0.2    | :      | N.A.    | N.A.   | N.A.    |
| Direct investment (FDI, net)* <sup>3.7</sup>   | % of GDP  | 1.4    | 2.3    | 1.6    | 1.4    | 1.7     | :                             | :    | 1.8    | 1.7    | :      | N.A.    | N.A.   | N.A.    |
| International reserves <sup>3.8</sup>          | bn EUR    | 128.3  | 110.5  | 106.1  | 107.7  | 93.2    | :                             | :    | 96.2   | 96.4   | 101.5  | 98.6    | 101.5  | 101.5   |
| Int. reserves / months Imp <sup>3.9</sup>      | Ratio     | 6.4    | 6.4    | 6.4    | 5.5    | 5.0     | :                             | :    | 5.5    | 5.8    | 6.2    | 6.0     | 6.2    | 6.2     |
| <b>4 Monetary developments</b>                 |           |        |        |        |        |         |                               |      |        |        |        |         |        |         |
| CPI <sup>4.1</sup>                             | Ann. % ch | 8.9    | 7.7    | 7.8    | 11.1   | 16.3    | 13.1                          | 9.7  | 19.9   | 18.0   | 13.5   | 16.6    | 15.0   | 9.3     |
| Producer prices <sup>4.2</sup>                 | Ann. % ch | 10.2   | 5.3    | 4.3    | 15.8   | 27.0    | :                             | :    | 30.7   | 27.9   | 12.0   | 21.7    | 13.4   | 2.4     |
| Food prices <sup>4.3</sup>                     | Ann. % ch | 12.6   | 11.1   | 5.8    | 12.7   | 18.0    | :                             | :    | 30.0   | 26.3   | 14.9   | 18.2    | 17.2   | 9.5     |
| M4 <sup>4.4</sup>                              | Ann. % ch | 11.1   | 17.1   | 17.2   | 15.5   | 19.3    | :                             | :    | 24.1   | 21.3   | :      | 16.2    | 10.6   | :       |
| Exchange rate TRY/EUR <sup>4.5</sup>           | Value     | 2.9    | 3.03   | 3.34   | 4.15   | 5.68    | :                             | :    | 6.10   | 6.59   | 6.27   | 6.21    | 6.43   | 6.18    |
| Nominal effective exchange rate <sup>4.6</sup> | Index     | 69.3   | 63.65  | 58.61  | 47.89  | 36.11   | :                             | :    | 32.64  | 30.15  | :      | 31.30   | 31.82  | :       |
| <b>5 Financial indicators</b>                  |           |        |        |        |        |         |                               |      |        |        |        |         |        |         |
| Interest rate (3 months) <sup>5.1</sup>        | % p.a.    | 9.84   | 10.48  | 9.88   | 12.20  | 18.92   | :                             | :    | 23.21  | 25.03  | 17.63  | 20.93   | 16.65  | 15.30   |
| Interest rate, long term <sup>5.2</sup>        | % p.a.    | 9.18   | 9.30   | 10.19  | 11.11  | 15.88   | :                             | :    | 15.76  | 18.44  | :      | 16.31   | 16.00  | :       |
| Stock markets <sup>5.3</sup>                   | Index     | 75,190 | 80,641 | 77,177 | 98,993 | 101,927 | :                             | :    | 99,877 | 92,612 | 99,792 | 100,321 | 97,677 | 101,377 |
| Credit growth <sup>5.4</sup>                   | Ann. % ch | 18.4   | 20.4   | 16.2   | 21.2   | 13.1    | :                             | :    | 13.3   | 7.2    | -1.6   | 2.0     | -5.4   | -1.6    |
| Deposit growth <sup>5.5</sup>                  | Ann. % ch | 11.6   | 18.6   | 17.7   | 17.7   | 22.1    | :                             | :    | 23.7   | 19.1   | 10.1   | 14.4    | 7.8    | 10.1    |
| Non-performing loans <sup>5.6</sup>            | % total   | 2.8    | 2.9    | 3.2    | 3.1    | 3.9     | :                             | :    | 4.1    | 4.4    | :      | :       | :      | :       |
| <b>6 Fiscal developments</b>                   |           |        |        |        |        |         |                               |      |        |        |        |         |        |         |
| General government balance** <sup>6.1</sup>    | % of GDP  | 0.2    | 0.6    | -1.1   | -2.8   | -2.6    | -3.0                          | -2.5 | -1.4   | -1.2   | :      | N.A.    | N.A.   | N.A.    |
| General government debt <sup>6.2</sup>         | % of GDP  | 28.8   | 27.6   | 28.3   | 28.3   | 31.1    | 30.9                          | 29.3 | :      | :      | :      | N.A.    | N.A.   | N.A.    |

f: ECFIN forecast Spring 2019 published May 2019

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

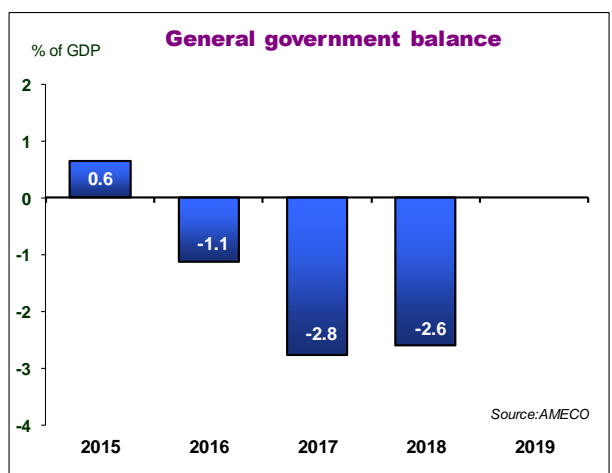
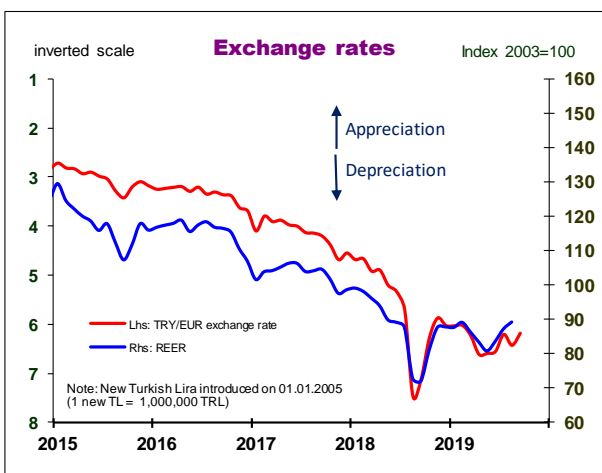
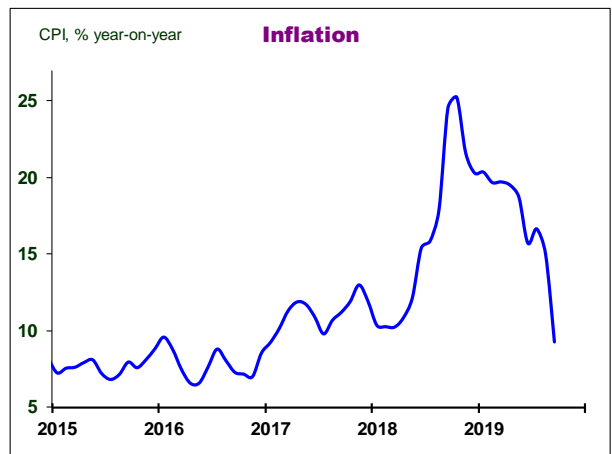
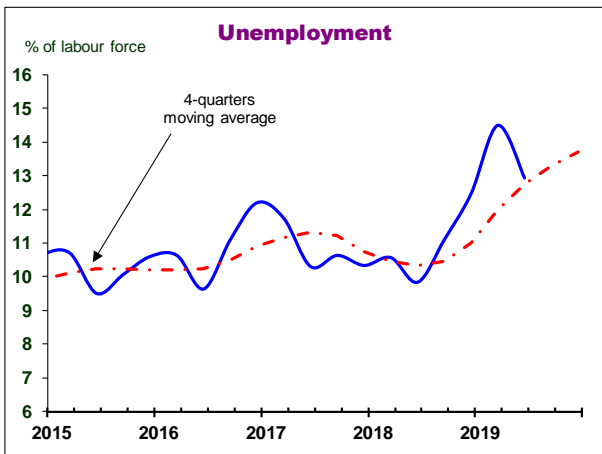
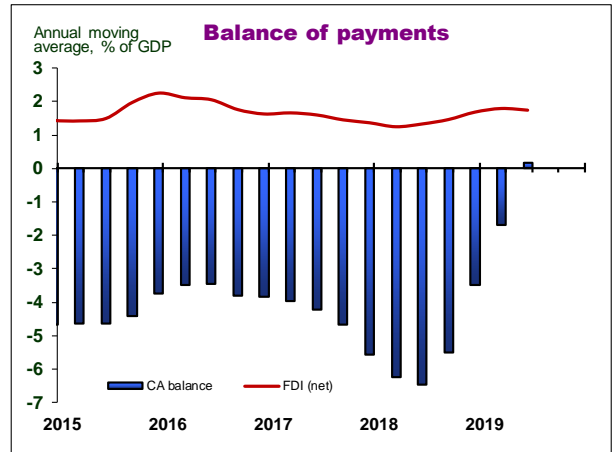
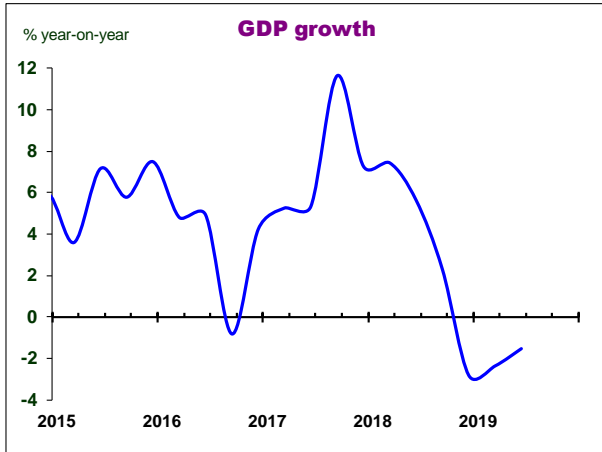
\*\* Q figures refer to the quarterly balance divided by the quarterly GDP.

# CHARTS

European Commission, ECFIN-D-1



## TURKEY





# BOSNIA AND HERZEGOVINA



## Key developments

On September 6, the rating agency Standard & Poor's affirmed its sovereign credit rating of Bosnia and Herzegovina as „B with positive outlook". Key factors underpinning this assessment are the country's stable, albeit low, growth dynamics, the relatively low public debt level, and the expectation that, once the government formation process has been completed, the country would proceed with structural reforms and unlock IFI financing for important infrastructure projects.

## Real sector

In the second quarter, real GDP growth decelerated slightly to 2.6%, from 2.8% y-o-y in the first quarter. Growth was mainly driven by private consumption, which increased by 3.2% y-o-y, (after 2.8% in Q1) as well as a strong rise in gross capital formation, including stocks (+9.6% after 4.3% in the Q1). Furthermore, export growth accelerated to 5.7% y-o-y (3.8% in Q1), largely due to stronger service exports, such as tourism. However, due to a sharp acceleration of imports (from 3.8% in Q1 to +8.4% in Q2), net exports contributed negatively to overall GDP growth by 2.4 pps. This data release is only a preliminary one, which is often subject to substantial revisions, in particular in the area of capital formation. When looking at the sectoral composition of output growth, the main driver was trade and tourism, increasing by 5% y-o-y and contributing nearly 1 pp to GDP growth.

High-frequency indicators point to a weakening of economic activity. In August, industrial production was 3.9% lower than a year before. Seasonally-adjusted data point to an even sharper decline of 5.9% year-on-year. During the first eight months, the index of industrial production was 4.7% lower than a year before, mainly as a result of lower output in the energy and textiles sector. However, domestic consumption appears to remain solid: retail sales increased by 3.5% year-on-year in August, and by 5.5% during the first eight months of the year.

## Labour market

Annual growth of registered employment decelerated during the second quarter to 2.6%, compared to 3.7% in the previous three months. In July employment rose by 2.0%, bringing average growth during the first 7 months of the year to 3.0%, compared to 2.6% the year before. In absolute numbers, some 16 thousand more employees were registered in July than a year before. The increase in registered employment was broadly based, with the trade sector registering the strongest increase. At the same time, registered unemployment dropped by some 44 thousand persons y-o-y, leading to a decline in the administrative unemployment rate to 33.1%, down from 35.9% in July 2018. 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 internationally-used survey-based LFS method, the unemployment rate fell from 18.4% in April 2018 to 15.7% in April this year. Youth unemployment remains high, 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 accelerated to 4.4% y-o-y in the second quarter, compared to 4.0% in the first three months. In July, this upward trend continued, with an overall increase in wages by 5.3%. The highest y-o-y wage increases were registered in the sectors of real estate, art and entertainment and the financial sector. Adjusted for inflation, average gross earnings were about 3¼% higher than a year before.

## External sector

The current account deficit in the four quarters to June deteriorated compared to March, increasing by 0.6 pps y-o-y to 4.5% of GDP, largely as a result of weaker export performance, while goods imports declined less sharply. Exports increased by 0.5% y-o-y in the second quarter, but declined in July and August, dropping by 6.6% and 11.6%, respectively.



Imports started to decelerate in the second quarter, increasing by 4.6%, compared to 4.9% in the first quarter. From July and August, import volumes remained 0.5% and 6.9% below the pre-year levels. . The surpluses in the primary income balances remained largely unchanged in the four quarters to June, while the balance of secondary incomes, including workers' remittances, declined by about ½ pps, compared to the four quarters to March, registering surpluses of 3.2% of GDP and 12.5%, respectively.

Goods exports remained subdued after a weak start of the year and were 2.3% lower during the first eight months than in the same period one year earlier. The main factors behind this decline were lower exports to Germany, Turkey and Kosovo, which however was partly compensated by stronger exports to Serbia and Austria. Trade with the EU contributed some 74% of the country's total exports.

Net FDI inflows rose to 3.0% of GDP on average during the four quarters to June, largely due to investment from Russia, Croatia and the Netherlands. Official foreign reserves continued to increase in the second quarter, reaching an import coverage of some 7½ months.

### Monetary developments

Inflationary dynamics softened further in the second quarter, as consumer price inflation decelerated to 0.6%, compared to 1.0% in the first quarter. In July and August, this trend continued, with consumer price inflation declining to 0.5% and 0.3%, respectively. A key factor for the weaker price dynamics were lower prices for clothing and footwear, while prices for housing and electricity, alcoholic beverages and transport rose significantly faster than the average. Average annual consumer price inflation in the period January to August was 0.7%, compared to 1.4% in full-year 2018.

The annual growth of the monetary aggregate M2 remained high in the second quarter, at 8.1%, compared to 9.0% in the first quarter.

### Financial sector

Annual domestic credit growth remained strong at 5.8% in the second quarter, but decelerated slightly in July and August, to 5.3% and 5.0% respectively. Loans to households continued to increase steadily at around 7½% y-o-y, while loans to corporation also kept growing at around 4¼% on average during recent months. Bank

loans to the public sector, accounting for some 4% of total loans, continued to decline during most of the first eight months.

Growth of total deposits remained strong. In the second quarter, deposits increased by some 8.6% and continued to rise by about 9% in July and August. Due to the robust increase in deposits, the loan-to-deposit ratio continued to decline, to 87.2% in August, compared to 90.6% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 8.0% in the second quarter, compared to 9.3% a year before. Loan-loss provisioning has improved only marginally, with 80.1% of non-performing loans covered by provisions, compared to 80.0% in the first quarter of 2019. Banking sector profitability remained largely unchanged in the second quarter as the return-on-equity ratio dropped to 11.9%, compared to 12.0%, in the previous three months and 12.1% in the same period one year earlier. The return on average assets remained largely unchanged at 1.6% in the first and second quarter. However, the banking system's overall capital adequacy ratio improved, increasing to 17.9% in the second 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 revenues continued to perform well. During the first eight months of 2019 indirect taxes, accounting for about 40% of total revenues, continued to be some 5.5% higher than a year before. Spending on public wages remained contained. The central government and entities' budget proposals for 2019 envisage a country-wide deficit of about 1% of GDP. However, due to delays in the government formation process, the adoption of the budgets for 2019 is not yet completed.

The value of general government debt in the second quarter was some 3% lower than a year before, reflecting mainly a reduction in long-term debt, both, with a slightly stronger reduction in domestic debt than in foreign currency debt. As a result, the share of domestic currency debt dropped by 1 percentage point to 13% of total debt, while the share of foreign-currency denominated debt rose accordingly, reaching 87% in the second quarter.

## TABLE

European Commission, ECFIN-D-1



### BOSNIA AND HERZEGOVINA

|  |           | 2014   | 2015   | 2016   | 2017   | 2018   | ECFIN Forecast |      | Q1 19  | Q2 19  | Q3 19 | Jul 19 | Aug 19 | Sep 19 |
|--|-----------|--------|--------|--------|--------|--------|----------------|------|--------|--------|-------|--------|--------|--------|
|  |           |        |        |        |        |        | 2008           | 2009 |        |        |       |        |        |        |
| <b>1 Real sector</b>                         |           |        |        |        |        |        |                |      |        |        |       |        |        |        |
| Industrial confidence <sup>1.1</sup>         | 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 <sup>1.2</sup>         | Ann. % ch | 0.2    | 3.1    | 4.4    | 3.1    | 1.6    | :              | :    | -5.0   | -3.6   | :     | -4.1   | -6.2   | :      |
| Gross domestic product <sup>1.3</sup>        | Ann. % ch | 0.7    | 4.1    | 3.4    | 3.4    | 3.0    | :              | :    | 2.8    | 2.6    | :     | N.A.   | N.A.   | N.A.   |
| Private consumption <sup>1.4</sup>           | Ann. % ch | 1.9    | 1.8    | 2.3    | 1.6    | 1.4    | :              | :    | 2.8    | 3.2    | :     | N.A.   | N.A.   | N.A.   |
| Gross fixed capital formation <sup>1.5</sup> | Ann. % ch | 11.5   | -3.5   | 2.5    | 5.8    | 9.2    | :              | :    | :      | :      | :     | N.A.   | N.A.   | N.A.   |
| Construction index <sup>1.6</sup>            | Ann. % ch | -53.8  | -15.2  | 49.8   | -18.9  | 2.2    | :              | :    | -10.4  | 52.5   | :     | N.A.   | N.A.   | N.A.   |
| Retail sales <sup>1.7</sup>                  | Ann. % ch | 1.8    | 7.8    | 7.0    | 5.1    | 8.2    | :              | :    | 8.2    | 3.4    | :     | 5.4    | 3.5    | :      |
| <b>2 Labour market</b>                       |           |        |        |        |        |        |                |      |        |        |       |        |        |        |
| Unemployment <sup>2.1</sup>                  | %         | 27.5   | 27.7   | 25.4   | 20.5   | 18.4   | :              | :    | N.A.   | N.A.   | N.A.  | N.A.   | N.A.   | N.A.   |
| Employment <sup>2.2</sup>                    | Ann. % ch | -1.2   | 1.2    | -2.6   | 1.9    | 0.7    | :              | :    | N.A.   | N.A.   | N.A.  | N.A.   | N.A.   | N.A.   |
| Wages <sup>2.3</sup>                         | Ann. % ch | -0.1   | 0.0    | 0.9    | 1.6    | 3.1    | :              | :    | 4.0    | 4.4    | :     | 5.3    | :      | :      |
| <b>3 External sector</b>                     |           |        |        |        |        |        |                |      |        |        |       |        |        |        |
| Exports of goods <sup>3.1</sup>              | Ann. % ch | 3.0    | 5.1    | 7.0    | 21.3   | 11.5   | :              | :    | -0.6   | 0.5    | :     | -6.6   | -11.6  | :      |
| Imports of goods <sup>3.2</sup>              | Ann. % ch | 7.1    | -2.4   | 2.9    | 13.3   | 6.9    | :              | :    | 4.9    | 4.6    | :     | -0.5   | -6.9   | :      |
| Trade balance* <sup>3.3</sup>                | % of GDP  | -27.8  | -24.1  | -22.8  | -22.8  | -22.1  | :              | :    | -22.6  | -24.0  | :     | N.A.   | N.A.   | N.A.   |
| Exports goods and services <sup>3.4</sup>    | % of GDP  | 32.8   | 34.2   | 35.0   | 39.4   | 41.6   | :              | :    | 41.2   | 41.2   | :     | N.A.   | N.A.   | N.A.   |
| Imports goods and services <sup>3.5</sup>    | % of GDP  | 54.7   | 51.7   | 51.0   | 55.1   | 56.3   | :              | :    | 56.4   | 56.8   | :     | N.A.   | N.A.   | N.A.   |
| Current account balance* <sup>3.6</sup>      | % of GDP  | -7.1   | -4.9   | -4.5   | -4.2   | -3.7   | :              | :    | -3.9   | -4.6   | :     | N.A.   | N.A.   | N.A.   |
| Direct investment (FDI, net)* <sup>3.7</sup> | % of GDP  | 2.8    | 1.7    | 1.8    | 2.0    | 2.5    | :              | :    | 2.3    | 3.1    | :     | N.A.   | N.A.   | N.A.   |
| International reserves <sup>3.8</sup>        | mn EUR    | 4016.3 | 4438.9 | 4884.1 | 5392.9 | 5962.3 | :              | :    | 5890.1 | 6139.1 | :     | 6281.2 | 6480.6 | :      |
| Int. reserves / months Imp <sup>3.9</sup>    | Ratio     | 5.8    | 6.6    | 7.1    | 7.0    | 7.2    | :              | :    | 6.5    | 7.5    | :     | 7.3    | 7.7    | :      |
| <b>4 Monetary developments</b>               |           |        |        |        |        |        |                |      |        |        |       |        |        |        |
| CPI <sup>4.1</sup>                           | Ann. % ch | -0.9   | -1.0   | -1.1   | 1.3    | 1.4    | :              | :    | 1.0    | 0.6    | :     | 0.5    | 0.3    | :      |
| Producer prices <sup>4.2</sup>               | Ann. % ch | -0.2   | -0.6   | -0.9   | 1.8    | 3.2    | :              | :    | 1.4    | 0.7    | :     | -0.1   | -0.2   | :      |
| Food prices <sup>4.3</sup>                   | Ann. % ch | -2.7   | -4.8   | -1.3   | 1.3    | 0.6    | :              | :    | 1.0    | 1.3    | :     | 1.2    | 0.5    | :      |
| M2 <sup>4.4</sup>                            | Ann. % ch | 7.3    | 8.0    | 8.3    | 9.5    | 9.4    | :              | :    | 9.0    | 8.1    | :     | 8.7    | 8.6    | :      |
| Exchange rate BAM/EUR <sup>4.5</sup>         | 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 <sup>4.6</sup>  | Index     | 101.0  | 98.0   | 97.0   | 96.4   | 97.1   | :              | :    | 97.6   | 95.9   | :     | 94.85  | :      | :      |
| <b>5 Financial indicators</b>                |           |        |        |        |        |        |                |      |        |        |       |        |        |        |
| Interest rate (3 months) <sup>5.1</sup>      | % 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 <sup>5.2</sup>                    | % 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 <sup>5.3</sup>                 | Index     | 707    | 701    | 692    | 627    | 621    | :              | :    | 690    | 764    | 773   | 721    | 777    | 820    |
| Credit growth <sup>5.4</sup>                 | Ann. % ch | 3.7    | 1.8    | 2.1    | 5.3    | 6.6    | :              | :    | 5.7    | 5.8    | :     | 5.3    | 5.0    | :      |
| Deposit growth <sup>5.5</sup>                | Ann. % ch | 8.4    | 6.2    | 7.7    | 10.4   | 11.3   | :              | :    | 9.5    | 8.6    | :     | 8.9    | 9.0    | :      |
| Non performing loans <sup>5.6</sup>          | % total   | 15.2   | 13.9   | 12.3   | 10.9   | 9.3    | :              | :    | 8.5    | 8.0    | :     | N.A.   | N.A.   | N.A.   |
| <b>6 Fiscal developments</b>                 |           |        |        |        |        |        |                |      |        |        |       |        |        |        |
| General government balance** <sup>6.1</sup>  | % of GDP  | -2.0   | 0.6    | 1.2    | 2.5    | 2.3    | :              | :    | 3.8    | :      | :     | N.A.   | N.A.   | N.A.   |
| General government debt <sup>6.2</sup>       | % of GDP  | 40.2   | 40.3   | 39.0   | 34.8   | 33.7   | :              | :    | 33.9   | :      | :     | N.A.   | N.A.   | N.A.   |

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

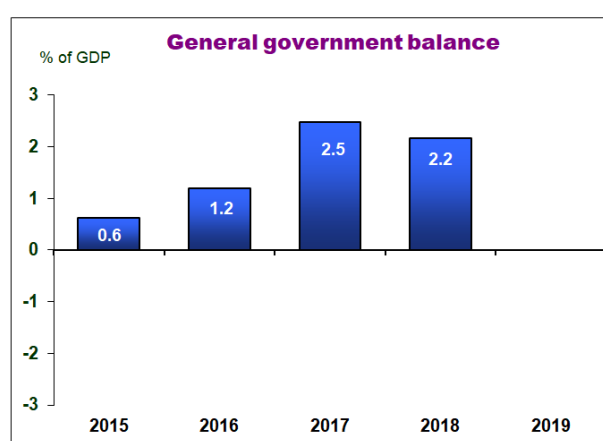
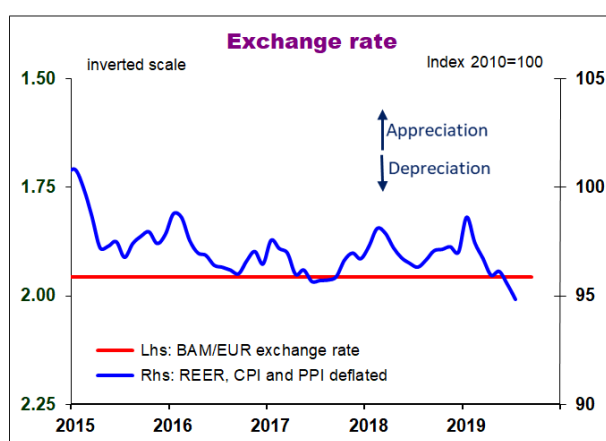
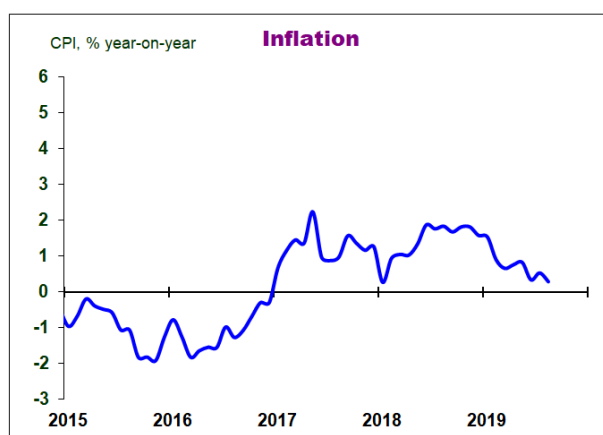
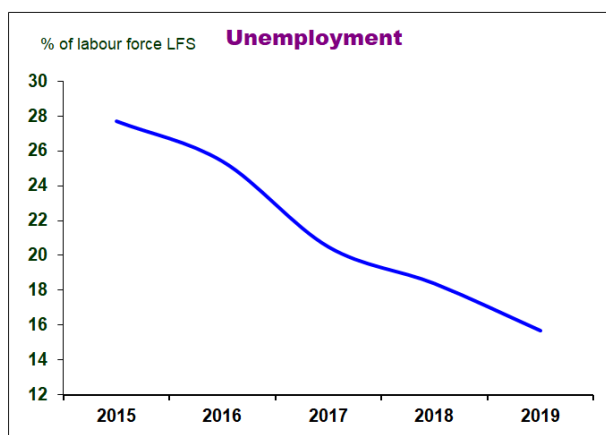
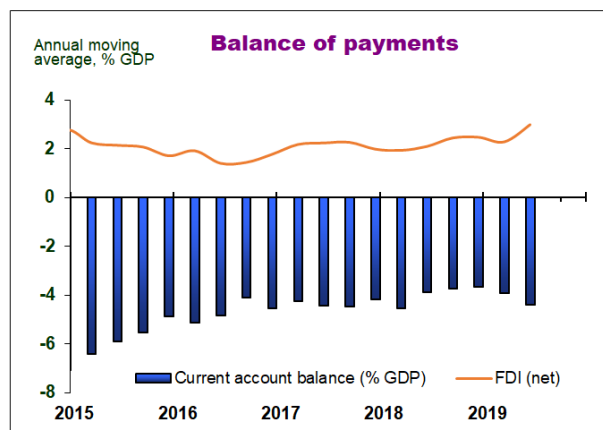
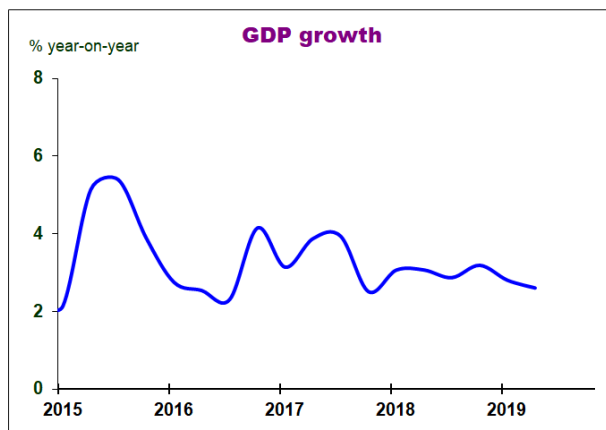
\*\* Q figures refer to the quarterly balance divided by the quarterly GDP.

# CHARTS



European Commission, ECFIN-D-1

## BOSNIA AND HERZEGOVINA





## Key developments

The 3rd EU-Kosovo Sub-Committee meeting on Economy, Financial Issues and Statistics took place on 19 September in Brussels. The agenda focused on the latest macroeconomic and fiscal developments as well as the progress with structural reforms. The EU side expressed concerns over the fiscal implications of several initiatives on social benefits and public-sector salaries, which together could lead to substantial increases in current spending in 2020 and risk breaching Kosovo's fiscal rules.

After the resignation of Prime Minister Ramush Haradinaj in end-July, early parliamentary elections took place on October 6. According to preliminary results, opposition parties Vetevendosje and the Democratic League of Kosovo (LDK) together got the majority of votes, i.e. 26% and 25%, respectively.

## Real sector

The statistics office published a revised real GDP growth for 2018 slightly down to 3.8%, from the previous estimate of 3.9%, which was based on quarterly figures. In terms of demand components, the strongest growth took place in private and public consumption (4.8% and 8.9%, respectively) and investment (8.1%) while the contribution of net exports was negative due to a temporary fall in base metal exports and robust import expansion (9.0%).

In the first half of 2019, economic activity continued at a relatively steady pace with real GDP growth expanding at 4.2% in the first and 4.1% in the second quarter. The main drivers of GDP growth were a strong increase in fixed capital formation (+7.5% y-o-y) and in exports (+10.9% y-o-y). In particular, exports of services jumped 17.8% y-o-y in the second quarter. Further positive impetus to economic growth came from private consumption, which increased by 1.5% y-o-y in the first six months, while government consumption declined by 1.5% mainly driven by a drop (3.2% y-o-y) in the second quarter. Total imports expanded only by 2.6% y-o-y over the same period as imports of goods contracted in the second quarter (-2.9%). The contribution of net exports to growth

turned positive in the second quarter (2 pps), compared to -4 pps in the first three months.

On the production side, manufacturing and construction output grew on average by 6.3% and +9.8% y-o-y in the first two quarters of 2019. Growth in the service sector was led by financial and insurance activities, which increased at double-digit rates of 16.2%, reflecting persistently strong credit growth, while the output of trade expanded by 4.5% y-o-y.

## Labour market

According to the labour force survey, the labour market situation remained difficult in the second quarter. The participation rate stood at 39.9% in Q2, slightly up from the record low in Q1 (38.7%) due to seasonal factors, but still below the same quarter of 2018. At the same time, the employment rate rose to 29.8%, up from 28.2% in the first three months, while the unemployment rate decreased to 25.3% from 26.9% in the previous quarter. Most new jobs were created in the sectors of trade, construction, manufacturing and education. The gap between male and female employment rates remained relatively stable at more than 30 pps (46% and 14% respectively in Q2). The youth unemployment rate (15-24 years) remained very high at 49.1%.

## External sector

The current account deficit improved in the second quarter, with its 4-quarter moving average decreasing to 6.5 % of GDP from 7.2% in the first quarter. The traditionally high merchandise trade deficit improved somewhat to 43.8% of GDP. At the same time, workers' remittances shrank to 12.5% of GDP from 13% in the previous quarter. On the financing side, net FDI inflows equalled 3.7% of GDP in the four quarters to June. Reserve assets stood relatively stable at 4.8 months of imports of goods and services in the second quarter.

In the first eight months of 2018, total goods exports increased by 8.8% y-o-y, partially driven by low base effect of the previous year. Export growth was supported by higher foreign sales of base metals, rubber and plastic products. Imports

of goods rose by 5.5% y-o-y with mineral fuels, prepared foodstuffs, base metals and machinery equipment being the main drivers of growth. During January-August the nominal merchandise trade deficit increased by 3.3% y-o-y.

### Monetary developments

Following the introduction of 100% tariffs on goods imported from Serbia and Bosnia and Herzegovina in late 2018, consumer price inflation peaked at 3.4% y-o-y in May and eased to 2.6% in August. Average annual inflation in the first eight months stood at 3.1%. The key driver was food prices which increased by 6.2% on average in this period.

The construction cost index increased by 1.7% and the producer price index rose by 1.4% y-o-y in the first half of 2019, driven by price rises of transport and non-metallic mineral products. Import prices increased by 3.7% y-o-y in the first six months supported by price increases for leather, mineral, and agricultural products.

### Financial sector

Strong credit growth has continued throughout 2019 (11% y-o-y in January-August) with loans to enterprises and to households expanding at 11.3% and 10.6% y-o-y, respectively. Growth of total deposits stood at 10.9%, y-o-y in the first eight months, causing the loan-to-deposit ratio in August to decline to 81.4% from 85.3% a year earlier. This development suggests increasing stability in banks' liquidity position and further room for lending activity.

The interest rate spread remains on a downward trajectory. The 12-month moving average spread declined by 100 basis points to 5.0 pps in July as compared to January. This reduction was driven by declining rates on both sides with average lending rates falling faster than deposit interest rates.

Financial soundness indicators in the banking sector remained satisfactory and continued to improve throughout the first eight months of 2019 as compared to the same period of 2018.

For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 37% in August, while the capital adequacy ratio was 17%, well above the regulatory minimum of 12%. The already low NPL ratio decreased further, to 2.2% in August. Existing NPLs are fully covered by loan loss provisions (163.9%).

### Fiscal developments

In the first seven months of 2019 total public revenue increased by 18.8% on the back of one-off transfer of privatisation funds. The regular budget revenues rose by 8.3% y-o-y, which is lower than the annual growth of 10.9% projected in the budget. Tax revenue increased by 7.6% y-o-y mainly supported by strong growth in direct income taxes (10.2% y-o-y), while the increase in VAT collection, which accounts for 82% of tax income, stood at 6% y-o-y. Budget expenditure grew by a moderate 3.3% y-o-y, with diverging performances of some major categories. While social transfers and spending on goods and services at the central and local government level rose by 14% and 12% respectively, total capital spending contracted by 16.7% y-o-y, with the investment amount spent so far representing only 24% of the annual allocation. At the same time, the execution rate of the social transfer budget reached nearly 59% by July. The main driver of growth in social spending relates to the war veteran pension scheme. Overall, supported by receipts from one-off privatisation revenue, the budget recorded a surplus of 3% of full-year GDP in the first seven months. As per the fiscal rule, the deficit target for 2019 is 2% of GDP.

In July total public debt (including guarantees) stood at 16.93% of GDP compared to 16.42% a year earlier, with the composition shifting towards domestic debt (65 % of the total as compared to 60% in 2018). The average weighted interest rate increased to 2.18% from 1.94% a year earlier, owing to a declining share of concessional loans from IFIs. Average maturity of domestic debt has increased from 24.9 months in 2018 to 30.4 months in July 2019 following the issuance of bonds with 7 and 10 years of maturity.



## TABLE

European Commission, ECFIN-D-1



### KOSOVO\*

|   |           | 2014   | 2015    | 2016    | 2017    | 2018    | Q1 19  | Q2 19   | Q3 19 | Jul 19 | Aug 19  | Sep 19 |
|---|-----------|--------|---------|---------|---------|---------|--------|---------|-------|--------|---------|--------|
| <b>1 Real sector</b>                              |           |        |         |         |         |         |        |         |       |        |         |        |
| Industrial confidence <sup>1.1</sup>              | 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 <sup>1.2</sup>              | Ann. % ch | 0.0    | 1.3     | -1.3    | -1.3    | :       | N.A.   | N.A.    | N.A.  | :      | :       | :      |
| Gross domestic product <sup>1.3</sup>             | Ann. % ch | 1.2    | 4.1     | 4.1     | 4.2     | 3.8     | 4.2    | 4.1     | :     | N.A.   | N.A.    | N.A.   |
| Private consumption <sup>1.4</sup>                | Ann. % ch | 9.6    | 6.7     | 6.6     | 1.8     | 4.8     | 3.3    | 0.1     | :     | N.A.   | N.A.    | N.A.   |
| Investment <sup>1.5</sup>                         | Ann. % ch | -5.0   | 11.3    | 7.5     | 5.6     | 8.1     | 13.7   | 4.1     | :     | N.A.   | N.A.    | N.A.   |
| Construction index <sup>1.6</sup>                 | 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 <sup>1.7</sup>                       | Ann. % ch | 11.6   | 7.1     | 6.5     | 12.0    | 17.4    | 8.5    | 0.5     | :     | N.A.   | N.A.    | N.A.   |
| <b>2 Labour market</b>                            |           |        |         |         |         |         |        |         |       |        |         |        |
| Unemployment <sup>2.1</sup>                       | %         | 35.3   | 32.9    | 27.5    | 30.5    | 29.6    | 26.9   | 25.3    | :     | N.A.   | N.A.    | N.A.   |
| Employment <sup>2.2</sup>                         | Ann. % ch | -4.4   | -8.2    | 11.8    | 7.6     | -3.4    | -0.4   | 4.6     | :     | N.A.   | N.A.    | N.A.   |
| Wages <sup>2.3</sup>                              | Ann. % ch | N.A.   | 5.8     | N.A.    | N.A.    | N.A.    | N.A.   | N.A.    | N.A.  | N.A.   | N.A.    | N.A.   |
| <b>3 External sector</b>                          |           |        |         |         |         |         |        |         |       |        |         |        |
| Exports of goods <sup>3.1</sup>                   | Ann. % ch | 10.4   | 0.2     | -4.8    | 22.1    | -2.8    | 5.1    | 5.5     | :     | 40.5   | 4.7     | :      |
| Imports of goods <sup>3.2</sup>                   | Ann. % ch | 3.6    | 3.8     | 5.9     | 9.2     | 9.8     | 8.2    | 0.2     | :     | 8.6    | 1.6     | :      |
| Trade balance*** <sup>3.3</sup>                   | % of GDP  | -39.8  | -39.8   | -40.9   | -41.6   | -44.3   | -44.6  | -43.8   | :     | N.A.   | N.A.    | N.A.   |
| Exports goods and services <sup>3.4</sup>         | % of GDP  | 22.5   | 21.9    | 22.2    | 26.5    | 26.4    | 20.1   | 20.9    | :     | N.A.   | N.A.    | N.A.   |
| Imports goods and services <sup>3.5</sup>         | % of GDP  | 51.2   | 50.4    | 50.6    | 52.7    | 55.6    | 55.6   | 54.2    | :     | N.A.   | N.A.    | N.A.   |
| Current account balance*** <sup>3.6</sup>         | % of GDP  | -6.9   | -8.6    | -7.9    | -5.4    | -7.6    | -7.2   | -6.5    | :     | N.A.   | N.A.    | N.A.   |
| Direct investment (FDI, inflow)*** <sup>3.7</sup> | % of GDP  | 2.7    | 5.3     | 3.6     | 4.0     | 4.0     | 3.9    | 3.7     | :     | N.A.   | N.A.    | N.A.   |
| International reserves <sup>3.8</sup>             | mn EUR    | 1266.4 | 1,302.6 | 1,161.7 | 1,242.6 | 1,239.6 | 1325.3 | 1,358.2 | :     | 1345.4 | 1,458.7 | :      |
| Int. reserves / months Imp <sup>3.9</sup>         | Ratio     | 6.0    | 5.9     | 5.0     | 4.9     | 4.4     | 4.7    | 4.8     | :     | 4.7    | 5.1     | :      |
| <b>4 Monetary developments</b>                    |           |        |         |         |         |         |        |         |       |        |         |        |
| HICP <sup>4.1</sup>                               | Ann. % ch | 0.4    | -0.5    | 0.3     | 1.5     | 1.1     | 3.2    | 3.3     | :     | 2.6    | 2.6     | N.A.   |
| Producer prices <sup>4.2</sup>                    | Ann. % ch | 1.6    | 2.7     | -0.1    | 0.6     | 1.4     | 2.1    | 1.1     | :     | N.A.   | N.A.    | N.A.   |
| Food prices <sup>4.3</sup>                        | Ann. % ch | -0.4   | 0.0     | -0.4    | 1.2     | 2.7     | 6.4    | 6.5     | :     | 5.2    | 5.7     | :      |
| Broad money liabilities <sup>4.4</sup>            | Ann. % ch | -4.3   | 5.6     | 9.2     | 6.4     | 7.9     | 7.9    | 8.7     | :     | 11.1   | 9.4     | :      |
| Exchange rate EUR/EUR <sup>4.5</sup>              | 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) <sup>4.6</sup>      | Index     | 104.1  | 103.5   | 103.5   | 103.3   | 102.5   | :      | :       | :     | :      | :       | :      |
| <b>5 Financial indicators</b>                     |           |        |         |         |         |         |        |         |       |        |         |        |
| Short-Term interest rate <sup>5.1</sup>           | % p.a.    | 1.42   | 1.45    | 0.35    | 0.21    | 0.43    | 0.69   | 0.56    | :     | :      | :       | :      |
| Bond yield <sup>5.2</sup>                         | % 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 <sup>5.3</sup>                      | 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 <sup>5.4</sup>                      | Ann. % ch | 3.4    | 6.9     | 9.1     | 10.5    | 11.1    | 11.4   | 10.9    | :     | 10.8   | 10.4    | :      |
| Deposit growth <sup>5.5</sup>                     | Ann. % ch | 7.2    | 5.6     | 4.7     | 8.6     | 6.5     | 8.9    | 11.5    | :     | 12.2   | 11.9    | :      |
| Non-performing loans <sup>5.6</sup>               | % total   | 8.3    | 6.2     | 4.9     | 3.1     | 2.5     | 2.6    | 2.4     | :     | 2.3    | 2.1     | :      |
| <b>6 Fiscal developments</b>                      |           |        |         |         |         |         |        |         |       |        |         |        |
| General government balance** <sup>6.1</sup>       | % of GDP  | -2.2   | -2.0    | -1.2    | -1.3    | -2.8    | :      | :       | :     | N.A.   | N.A.    | N.A.   |
| General government debt <sup>6.2</sup>            | % of GDP  | 10.7   | 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.

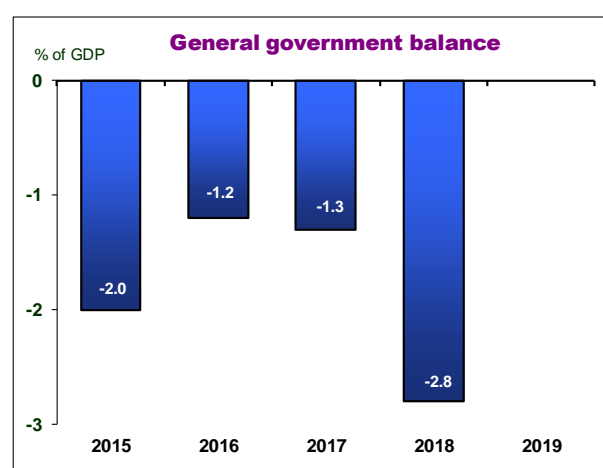
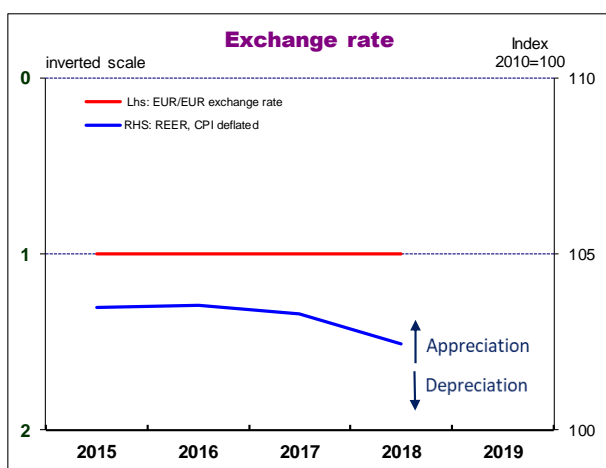
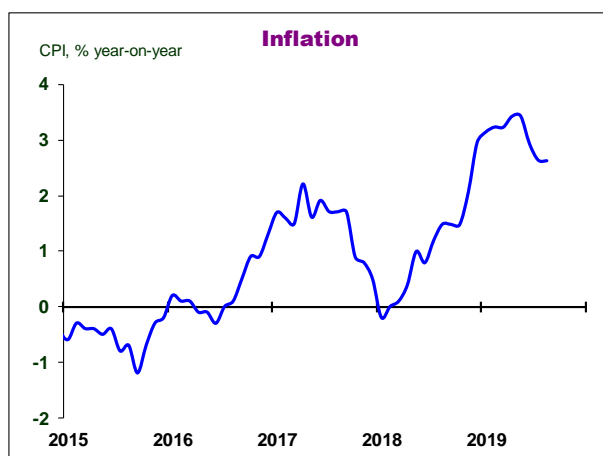
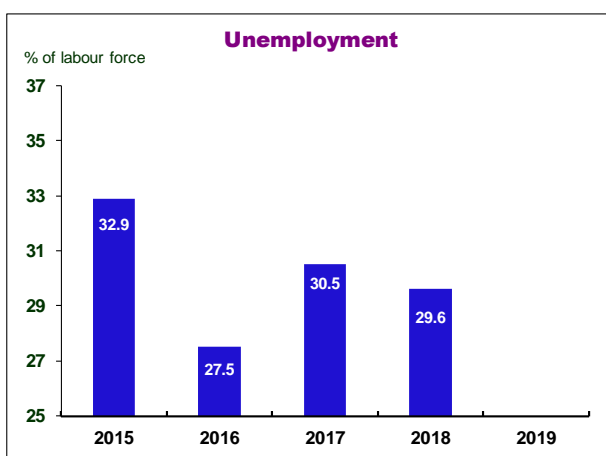
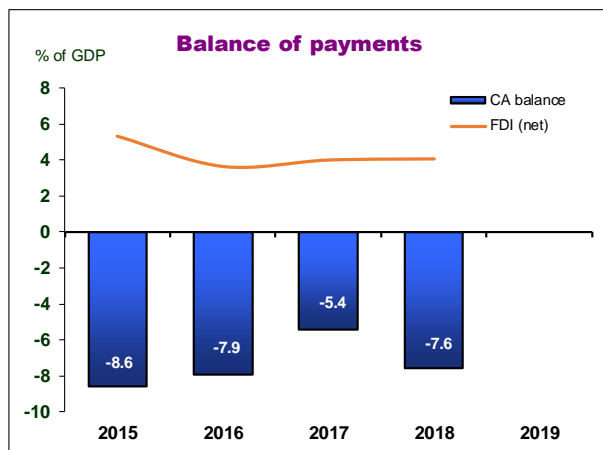
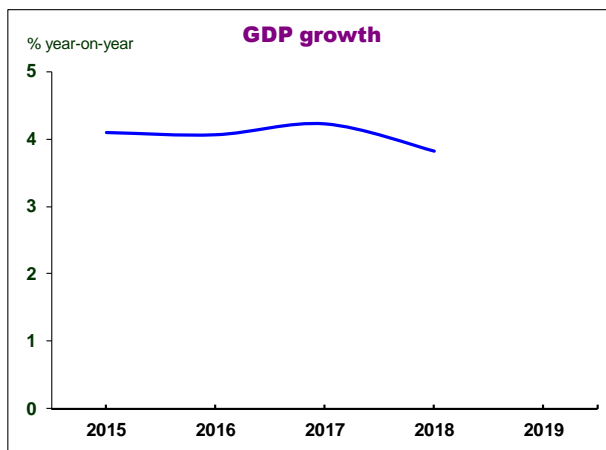
\*\*\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## KOSOVO\*



\* 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 of data: IMF, national sources





| No.                             | Indicator   | Note  | Source                   |
|---------------------------------|---|---|--------------------------|
| <b>1. Real sector</b>           |   |   |                          |
| 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                 |
| <b>2. Labour market</b>         |   |   |                          |
| 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                   |
| <b>3. External sector</b>       |   |   |                          |
| 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.                                      | Bank of Albania          |
| <b>4. Monetary developments</b> |   |   |                          |
| 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.            |
| <b>5. Financial indicators</b>  |   |   |                          |
| 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          |
| <b>6. Fiscal developments</b>   |   |   |                          |
| 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          |
|---------------------------------|---|--|-----------------|
| <b>1. Real sector</b>           |   |  |                 |
| 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       |
| <b>2. Labour market</b>         |   |  |                 |
| 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       |
| <b>3. External sector</b>       |   |  |                 |
| 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       |
| <b>4. Monetary developments</b> |   |  |                 |
| 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.                            | M3  | Annual percentage change, M3 (Broad money)   | IMF             |
| 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            |
| <b>5. Financial indicators</b>  |   |  |                 |
| 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 |
| <b>6. Fiscal developments</b>   |   |  |                 |
| 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 |

# NORTH MACEDONIA Explanatory notes



| No.                             | Indicator   | Note   | Source    |
|---------------------------------|---|--|-----------|
| <b>1. Real sector</b>           |   |  |           |
| 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 |
| <b>2. Labour market</b>         |   |  |           |
| 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 |
| <b>3. External sector</b>       |   |  |           |
| 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 |
| <b>4. Monetary developments</b> |   |  |           |
| 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 |
| <b>5. Financial indicators</b>  |   |  |           |
| 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 |
| <b>6. Fiscal developments</b>   |   |  |           |
| 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          |
|---------------------------------|---------------------------------------|--|-----------------|
| <b>1. Real sector</b>           |                                       |  |                 |
| 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       |
| <b>2. Labour market</b>         |                                       |  |                 |
| 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       |
| <b>3. External sector</b>       |                                       |  |                 |
| 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       |
| <b>4. Monetary developments</b> |                                       |  |                 |
| 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       |
| <b>5. Financial indicators</b>  |                                       |  |                 |
| 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       |
| <b>6. Fiscal developments</b>   |                                       |  |                 |
| 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    |
|---------------------------------|---|---|-----------|
| <b>1. Real sector</b>           |   |   |           |
| 1.1.                            | Industrial confidence indicator                       | Industry survey, confidence index real sector   | MacroBond |
| 1.2.                            | Industrial production                                 | Annual percentage change, volume (index 2010), excluding construction, calendar adjusted                              | 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 |
| <b>2. Labour market</b>         |   |   |           |
| 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 |
| <b>3. External sector</b>       |   |   |           |
| 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 |
| <b>4. Monetary developments</b> |   |   |           |
| 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 |
| <b>5. Financial indicators</b>  |   |   |           |
| 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 |
| <b>6. Fiscal developments</b>   |   |   |           |
| 6.1.                            | General government balance                            | In percent of GDP, Q/Q GDP  | Eurostat  |
| 6.2.                            | General government debt                               | In percent of GDP, ESA 95 methodology   | Eurostat  |



| No.       | Indicator   | Note   | Source     |
|-----------|---|--|------------|
| <b>1.</b> | <b>Real sector</b>                                    |  |            |
| 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  |
| <b>2.</b> | <b>Labour market</b>                                  |  |            |
| 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  |
| <b>3.</b> | <b>External sector</b>                                |  |            |
| 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  |
| <b>4.</b> | <b>Monetary developments</b>                          |  |            |
| 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  |
| <b>5.</b> | <b>Financial indicators</b>                           |  |            |
| 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  |
| <b>6.</b> | <b>Fiscal developments</b>                            |  |            |
| 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                             |
|-----------|---|--|------------------------------------|
| <b>1.</b> | <b>Real sector</b>                                    |  |                                    |
| 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                          |
| <b>2.</b> | <b>Labour market</b>                                  |  |                                    |
| 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                                |
| <b>3.</b> | <b>External sector</b>                                |  |                                    |
| 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.  | MacroBond                          |
| <b>4.</b> | <b>Monetary developments</b>                          |  |                                    |
| 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                               |
| <b>5.</b> | <b>Financial indicators</b>                           |  |                                    |
| 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                          |
| <b>6.</b> | <b>Fiscal developments</b>                            |  |                                    |
| 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.



## **EUROPEAN ECONOMY TECHNICAL PAPERS**

European Economy Technical Papers can be accessed and downloaded free of charge from the following address:

[https://ec.europa.eu/info/publications-0/economy-finance-and-euro-publications\\_en?field\\_eurovoc\\_taxonomy\\_target\\_id\\_selective=All&field\\_core\\_nal\\_countries\\_tid\\_selective=All&field\\_core\\_flex\\_publication\\_date\[value\]\[year\]=All&field\\_core\\_tags\\_tid\\_i18n=22620](https://ec.europa.eu/info/publications-0/economy-finance-and-euro-publications_en?field_eurovoc_taxonomy_target_id_selective=All&field_core_nal_countries_tid_selective=All&field_core_flex_publication_date[value][year]=All&field_core_tags_tid_i18n=22620).

Titles published before July 2015 can be accessed and downloaded free of charge from:

- [http://ec.europa.eu/economy\\_finance/db\\_indicators/cpaceq/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/cpaceq/index_en.htm)  
(EU Candidate & Potential Candidate Countries' Economic Quarterly)
- [http://ec.europa.eu/economy\\_finance/publications/cycle\\_indicators/index\\_en.htm](http://ec.europa.eu/economy_finance/publications/cycle_indicators/index_en.htm)  
(European Business Cycle Indicators)



## **GETTING IN TOUCH WITH THE EU**

### **In person**

All over the European Union there are hundreds of Europe Direct Information Centres. You can find the address of the centre nearest you at: <http://europa.eu/contact>.

### **On the phone or by e-mail**

Europe Direct is a service that answers your questions about the European Union. You can contact this service:

- by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
- at the following standard number: +32 22999696 or
- by electronic mail via: <http://europa.eu/contact>.

## **FINDING INFORMATION ABOUT THE EU**

### **Online**

Information about the European Union in all the official languages of the EU is available on the Europa website at: <http://europa.eu>.

### **EU Publications**

You can download or order free and priced EU publications from EU Bookshop at: <http://publications.europa.eu/bookshop>. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see <http://europa.eu/contact>).

### **EU law and related documents**

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: <http://eur-lex.europa.eu>.

### **Open data from the EU**

The EU Open Data Portal (<http://data.europa.eu/euodp/en/data>) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

