



European
Commission

ISSN 2443-8049 (online)

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

4th Quarter 2017

TECHNICAL PAPER 022 | JANUARY 2018

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.

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Luxembourg: Publications Office of the European Union, 2018

PDF ISBN 978-92-79-77407-2 ISSN 2443-8049 doi:10.2765/915049 KC-BF-18-002-EN-N

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European Commission
Directorate-General for Economic and Financial Affairs

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

4th Quarter 2017

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

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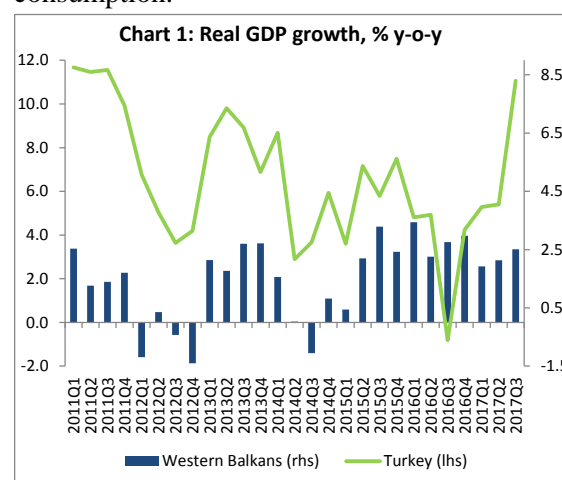
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OVERVIEW

The economic recovery in the Western Balkans continued during the third quarter of 2017 with annual GDP growth at around 2.5% across the region. Private consumption and investment continued to support growth and exports seem to have regained momentum. Annualised current account deficits narrowed further in almost all countries, but overall external positions in many cases remain vulnerable. Economic expansion led to further job creation but at a slowing pace and with marginal or no quarter-on-quarter improvement in the unemployment rate in most countries. The jobless rate still remains high across the Western Balkans. Progress in fiscal consolidation seems to be slowing down in some countries, despite the fact that high public debt levels remain a source of vulnerability in several of them, especially given no or limited monetary policy autonomy. In Turkey, annual GDP expansion reached almost double-digit level in the third quarter due to a low base and the impact of various government stimulus measures, but macroeconomic imbalances such as high inflation and a sizeable current account deficit persist.

Economic growth accelerated in some countries of the **Western Balkans** in the third quarter of 2017 whereas it remained unchanged or decelerated in others. In *Serbia*, GDP growth accelerated to 2.1% y-o-y largely driven by investment and household consumption. The economy of the *former Yugoslav Republic of Macedonia* returned to a sluggish growth of 0.2% y-o-y after contracting in the preceding quarter. Economic activity was mainly supported by household spending and exports, but investments declined further, still severely affected by the recent political turmoil. In *Kosovo*, annual output growth remained at 4.4%, on the back of strong investments and a positive contribution of net exports. In *Bosnia and Herzegovina* the pace of growth was also unchanged at 2.9% y-o-y in the third quarter, mainly driven by private consumption and exports. Conversely, compared to the previous quarter, annual GDP growth decelerated in *Albania* to 3.5% due to a sharp slowdown of gross fixed capital formation growth and a decline in goods exports and in *Montenegro* to still robust 4.7%, with growth driven by domestic demand components. Overall, in the third quarter of 2017, the **Western Balkan** region's real GDP growth reached 2.5%, up from 2.1% in the preceding quarter, and compared to 2.8% in the same quarter of the previous year (Chart 1).

In **Turkey**, annual GDP grew markedly by 9.6% (calendar day adjusted) compared to 6.4% in the previous three months, mainly driven by strong investment supported by the state-guaranteed corporate loan scheme as well as a strong recovery of household consumption.

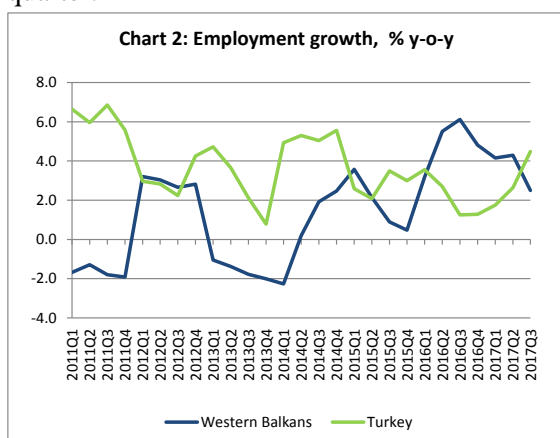


Source: Macrobond, Commission calculations

The labour market situation in the **Western Balkans** remains challenging. Despite the ongoing economic recovery the pace of job creation slowed down in most countries of the region in the third quarter of 2017. Annual employment growth decelerated, compared to the preceding quarter, in *Albania* (to 1.3% down from 3.5%), in *Montenegro* (to 3.1%

from 3.2%), in *Serbia* (to 2.4% from 4.3%) and the *former Yugoslav Republic of Macedonia* (to 2.1% from 2.7%). Overall, the average annual job growth rate in the **Western Balkans** fell to 2.5% from 4.3% in the second quarter (Chart 2). Growing employment levels contributed to marginally lower unemployment rates in most countries whereas in *Serbia* the jobless rate increased to 12.9% from 11.8% in the preceding quarter due to an increase in the participation rate and lower informal employment in agriculture.

In *Turkey*, annual employment growth accelerated further to 4.5%, resulting in a drop of the unemployment rate to 10.7% in the third quarter.

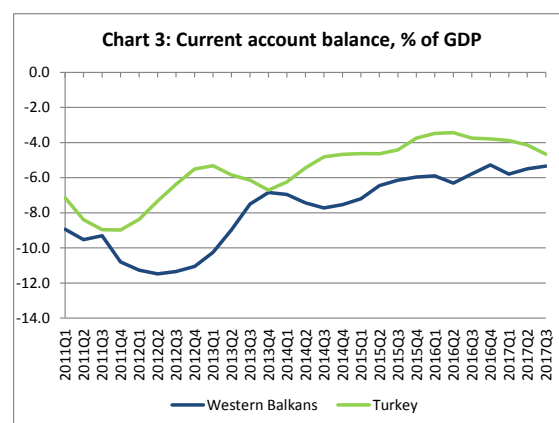


Source: Macrobond, Commission calculations

As a result of narrow production bases and competitiveness challenges, merchandise trade deficits remain very high across the **Western Balkans**, ranging from almost 12% of GDP for *Serbia* to 18% or above for the *former Yugoslav Republic of Macedonia*, *Albania* and *Bosnia and Herzegovina* and equal to 42% or above for *Montenegro* and *Kosovo*. Trade deficits are only partially offset by surpluses in the services account and in current transfers, resulting in large foreign financing needs. At the same time, higher external demand, generated by the cyclical upturn in the EU, contributed to the further narrowing of annualised current account deficits in all countries except *Serbia*. In the four quarters to September, the regional current account deficit

was around 5% of GDP, the lowest level in many years (Chart 3).

In *Turkey*, the 12-month cumulative current account deficit increased from 3.8% of GDP in 2016 to 4.8% in October 2017, largely due to a further increase in the trade deficit in goods. As opposed to the Western Balkan countries, the financing of the current account deficit in Turkey continues to rely mainly on debt-creating flows.



Source: Macrobond, Commission calculations

Low inflation remains a key characteristic of the **Western Balkan** economies, reflecting low commodity prices and exchange rate stability. At the same time, economic growth is generating some upward pressure on prices, and consumer price inflation gained pace in some countries in the region. In *Montenegro*, and the *former Yugoslav Republic of Macedonia* annual CPI inflation accelerated to 3% and 2.2% respectively, in November whereas in *Bosnia and Herzegovina* and *Kosovo* it decelerated to 1.2% and 0.8%, respectively. In *Albania*, annual CPI inflation stood at 1.8% in December (still below the central bank's 3% target) while in *Serbia* it was at 3%, the mid-point of the target tolerance band of $3\% \pm 1.5\text{pps}$. This target will be retained until 2020, following a recent decision by the central bank of *Serbia*. The latter continued its accommodative monetary policy stance by keeping its key policy rate at 3.5% after two successive cuts of 25 bps each

in September and October, while the *Bank of Albania* has kept it at the historic low of 1.25% since May 2016. The central bank of the *former Yugoslav Republic of Macedonia* has kept the coupon on its bills, which serves as its benchmark interest rate, unchanged since February, at 3.25%.

In *Turkey*, the annual CPI inflation decelerated to 11.9% in December down from 13% (the highest rate in the current inflation series that began in 2003) in the preceding month. Nevertheless, it remained significantly above the central bank's official 5% target (+/- 2pps band width).

In the third quarter of 2017, bank lending continued to be supportive of growth in the *Western Balkan* region. Credit growth accelerated, compared to the previous quarter, in *Bosnia and Herzegovina* and the *former Yugoslav Republic of Macedonia* as well as in *Serbia* and *Albania* (when adjusted for exchange rate changes and loan write-offs in both countries). On the other hand, credit growth decelerated in *Montenegro* and *Kosovo*. As a common feature, household lending has been growing faster than corporate lending. Credit extension is gradually becoming less constrained by the level of non-performing loans, as most *Western Balkan* countries managed to further reduce NPL ratios partly as a result of improved resolution frameworks and mandatory write-offs. *Albania* records the highest NPL ratio in the region (14.3 % of total loans in November), but this is down from 20.4% one year earlier. In *Serbia* the NPL ratio reached its lowest value since January 2009 (12.2%), followed by *Bosnia and Herzegovina* (10.8%) and *Montenegro* (7.4%).

Annual credit growth in *Turkey* further accelerated to 23.5% in the third quarter up from 22.1% in the preceding three months,

supported by public loan guarantees and macro-prudential loosening. The NPL ratio decreased marginally in November to 2.9% down from 3% in the previous month as new loans were added faster than non-performing loans to the banks' balance sheets.

In the first eleven months of 2017, fiscal consolidation efforts seem to have lost pace in some *Western Balkan* countries, resulting in increases of fiscal deficits compared to the same period last year. In *Montenegro*, expenditure rise outpaced revenues growth as capital spending surged as a result of strong base effects, albeit it remained below plan. The central government deficit amounted to 3.6% of full-year GDP in January to November. During the same period, in *Albania*, the rise of budget revenues was more than offset from the expenditure growth and the budget recorded a shortfall of 0.7% of GDP. Conversely, in the *former Yugoslav Republic of Macedonia* the central government fiscal deficit contracted by 3% y-o-y standing at 2.2% of full-year GDP, with both revenues and current expenditure going up moderately. In *Serbia*, the fiscal situation continued to improve with the budget surplus standing at 2.1% of GDP as revenue growth outperformed expenditure increases. Continued fiscal consolidation (without, however, undermining much-needed capital spending) is necessary in a number of countries to rebuild fiscal buffers and reduce public debt levels which are especially high in *Albania* (69.7% of GDP), *Serbia* (62.6% of GDP), and *Montenegro* (61.7% of GDP).

In *Turkey*, in the first eleven months of 2017, central government total revenues increased by 13.4% y-o-y and total spending by 18.2% y-o-y. General government debt declined from 28.7% of GDP in the second quarter to 28.2% in the third quarter of 2017.

Candidate and potential candidate countries: Summary table

	2013	2014	2015	2016	2017	ECFIN 2017 Autumn forecast		Q2 17	Q3 17	Q4 17	Oct 17	Nov 17	Dec 17
						2018	2019						
Gross domestic product (in real terms, annual % change)													
Albania	1.0	1.8	2.2	3.4	4.0f	3.8	4.2	4.1	3.5	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	2.9	3.6	3.8	2.9	1.7f	2.7	3.2	-1.3	0.2	:	N.A.	N.A.	N.A.
Montenegro	3.5	1.8	3.4	2.9	3.9f	3.0	3.3	5.2	4.7	:	N.A.	N.A.	N.A.
Serbia	2.6	-1.8	0.8	2.8	2.0f	3.3	3.5	1.4	2.1	:	N.A.	N.A.	N.A.
Turkey	8.5	5.2	6.1	3.2	5.3f	4.0	4.1	5.4	11.1	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	2.3	1.1	3.1	3.1	:	:	:	2.9	2.9	:	N.A.	N.A.	N.A.
Kosovo	3.4	1.2	4.1	4.1	:	:	:	4.4	4.4	:	N.A.	N.A.	N.A.
Unemployment													
Albania	16.4	17.9	17.5	15.6	14.2f	13.7	13.0	14.3	14.0	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	29.0	28.0	26.1	23.8	22.2f	21.4	21.0	22.6	22.1	:	N.A.	N.A.	N.A.
Montenegro	19.5	18.2	17.8	18.0	17.2f	16.7	16.0	15.3	15.1	:	N.A.	N.A.	N.A.
Serbia	22.1	19.2	17.7	15.3	13.5f	11.6	9.5	11.8	12.9	:	N.A.	N.A.	N.A.
Turkey	N.A.	10.1	10.5	11.1	11.3f	11.0	10.7	10.5	10.8	:	:	:	:
Bosnia and Herzegovina	27.5	27.5	27.7	25.4	20.5	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	30.0	35.3	32.9	27.5	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)**													
Albania	-9.3	-10.8	-8.6	-7.6	-7.9f	-7.8	-8.2	-6.3	-6.0	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-1.6	-0.5	-2.0	-3.1	-2.5f	-2.4	-2.3	-2.6	-1.9	:	N.A.	N.A.	N.A.
Montenegro	-14.5	-15.2	-13.2	-18.1	18.0f	-16.7	-16.0	-16.9	-16.2	:	N.A.	N.A.	N.A.
Serbia	-6.1	-6.0	-4.7	-3.1	-5.4f	-5.7	-5.8	-4.3	-4.6	:	N.A.	N.A.	N.A.
Turkey	-7.8	-4.7	-3.8	-3.8	-3.9f	-4.2	-4.4	-4.1	-4.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-5.3	-7.4	-5.7	-5.1	:	:	:	-4.8	-4.7	:	N.A.	N.A.	N.A.
Kosovo	-3.4	-6.9	-8.6	-9.0	:	:	:	-8.6	-6.5	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.9	1.6	1.9	1.3	2.0	2.4	2.7	2.0	1.7	0.7	1.9	1.7	1.8
The former Yugoslav Republic of Macedonia	2.8	-0.3	-0.3	-0.2	1.4	2.0	2.4	1.2	1.6	:	1.8	2.2	2.4
Montenegro (HICP)	1.8	-0.5	1.4	0.1	2.5f	2.2	2.0	2.5	3.3	0.5	2.9	3.0	:
Serbia	7.9	2.1	1.4	1.1	3.2f	3.3	3.0	3.7	3.0	:	2.8	2.8	:
Turkey	7.5	8.9	7.7	7.8	11.1	8.5	7.4	11.5	10.6	12.3	11.9	13.0	11.9
Bosnia and Herzegovina	-0.1	-0.9	-1.0	-1.1	:	:	:	1.2	1.1	:	1.4	1.2	:
Kosovo	1.8	0.4	-0.5	0.3	:	:	:	1.9	1.7	:	0.9	0.8	:
General government balance (% of GDP)													
Albania	-5.2	-5.2	-4.1	-1.8	-2.1f	-2.0	-1.8	0.2	0.9	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-3.8	-4.2	-3.5	-2.7	-2.9f	-3.0	-3.0	-3.1	-1.7	:	N.A.	N.A.	N.A.
Montenegro	-4.6	-2.9	-8.3	-3.6	-6.2f	-5.6	-2.7	-0.7	0.2	:	:	:	:
Serbia	-5.5	-6.6	-3.7	-1.3	0.8f	0.0	0.0	3.0	3.3	:	N.A.	N.A.	N.A.
Turkey	0.1	0.1	1.3	-0.9	-2.4f	-1.8	-2.6	-0.1	-0.3	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-2.2	-2.0	0.7	1.2	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo	-3.1	-2.2	-2.0	-1.2	:	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Autumn 2017 published November 2017

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



Key developments

Parliament approved a second revision of the 2017 state budget in December which raised revenues and expenditures slightly, but kept the deficit target at 2.0 % of GDP. The 2018 state budget was approved by parliament on 30 November. It is based on projected real GDP growth of 4.2 % and aims to keep the overall fiscal deficit at the same level as in 2017.

The IMF Executive Board concluded the 2017 Article IV consultations with Albania on 4 December. The Executive Directors emphasized that the growing economy and the new government's clear electoral mandate provide a good opportunity to continue reform efforts to increase Albania's growth potential, enhance the resilience and competitiveness of the economy, and strengthen the financial system while maintaining fiscal discipline.

The World Bank's *Doing Business 2018 Report*, released on 31 October, ranked Albania in 65th position out of 190 countries, a decline from rank 58 in the previous report.

Real sector

Economic growth slowed in the third quarter as investment activity and goods exports subsided. Real GDP growth eased to 3.5 % y-o-y, down from 4.0 % in the first quarter and 4.1 % in the second quarter.

Household spending continued to gain momentum and rose by 3.3 % y-o-y, up from 2.4 % in the second quarter. This is consistent with increasing consumer confidence in the quarter and the double-digit jump in public wages in the spring. Government consumption remained relatively robust with a growth rate of 4.4 % which, however, is a deceleration from 5.9 % in the previous quarter. Growth of gross fixed capital formation slowed sharply from 14.9 % in the second quarter to 3.8 % as investments in the two large energy projects declined in their final phase of construction.

Exports decelerated to 11.4 % y-o-y growth from 17.8 % in the previous quarter. Service exports increased 14.3 % on the back of steadily rising tourism. Exports of goods, however, disappointed with a 1.1 % decline following a strong performance in the preceding three

quarters. Import growth increased from 6.5 % to 9.6 % as a corollary of stronger consumption. Since imports exceed exports by a large margin, net exports subtracted from GDP growth for the first time since the second quarter of 2016.

On the production side, manufacturing recorded the highest growth rate in the third quarter with 10.0 % y-o-y. Construction activity decelerated from 22.9 % in the second quarter to 7.6 % as investment activity in the energy sector abated. Financial and insurance activities continued to perform strongly with a growth rate of 6.7 %. Electricity generation declined by 36.1 % as a result of a drought which had seriously curbed production in hydropower plants.

In the fourth quarter, the economic sentiment indicator was down by 3.9 points to 110.7 which is still comfortably above the long term average (= 100).

Labour market

Labour market data for the third quarter are consistent with a slowdown in economic growth. Employment in the 15-64 age group increased by only 1.3 % y-o-y compared to 3.5 % in the previous quarter. The labour force decreased 0.1 % y-o-y and the labour force participation rate fell by 0.2 pp. to 67.1 %. The gap between male and female labour force participation widened to 18 pps (male: 76 %; female: 58 %). The unemployment rate declined 1.2 pps. y-o-y to 14.0 %. The youth unemployment rate (15-29 age group) declined 1.4 pps to 26.0 %.

According to administrative data, employment growth in the non-agricultural private sector increased 15.5 % y-o-y in the third quarter while employment in the public sector and in agriculture declined 0.2 % and 3.8 %, respectively.

External sector

The current account deficit narrowed 10.4 % y-o-y in the third quarter, continuing a trend which started in late 2015. As a percentage of GDP, the deficit amounted to 6.3 % in the twelve months to the end of September, down from 7.6 % in calendar year 2016.

As in the first half of 2017, the lower current account deficit in the third quarter was the result

of sharp improvements on the balances for transport, travel, and other services. However, two thirds of the higher surplus on the overall services balance was offset by a higher trade deficit for goods as imports expanded strongly. The primary income balance continued to deteriorate due to rising negative net income from foreign direct investment accounts, a result of previous FDI inflows. The large surplus on the balance for secondary income (mainly workers' remittances) remained stable.

Net foreign direct investments (FDI) were virtually unchanged in y-o-y terms in the third quarter and amounted to more than double the current account deficit. In the twelve months to the end of September, net FDI covered 141 % of the current account deficit.

Gross external debt decreased by 0.6 % y-o-y to EUR 7.83 billion at the end of the third quarter. This corresponds to 68.4 % of GDP in the preceding twelve months, down from 73.5 % at the end of 2016. International reserve assets remained relatively stable through the first eleven months of 2017, standing at EUR 2.85 billion at the end of November which covers 6 ½ months of imports of goods and services.

Monetary developments

Inflation has remained stable in the fourth quarter of 2017 helped by an appreciating currency. Headline inflation stood at 1.8 % y-o-y in December, the same as the quarterly average, but down from 2.2 % in December 2016. As in previous months, food prices (+ 2.8 % y-o-y) made the dominant contribution (1.1 pps) to the rise in the consumer price index in December. Annual average CPI inflation increased to 2.0 % in 2017 from 1.3 % in the previous year due to the weather-related spike in food prices in the winter of 2016/17.

The Bank of Albania maintained its accommodative monetary policy stance by keeping the key policy rate (the repo rate) at the record low of 1.25 % and the interest rates for the overnight deposit facility and the overnight lending facility at 0.25 % and 2.25 %, respectively. The central bank judges that it will not have to reduce the intensity of the monetary stimulus before the fourth quarter of 2018. It expects inflation to return to the 3 % target within the first half of 2019.

The Albanian lek appreciated by 0.6 % against the euro over the fourth quarter and by 1.7 % over the whole of 2017.

Financial sector

Total credit to the economy returned to positive y-o-y growth in September, but remained very subdued in unadjusted domestic currency terms (0.1 % in November). When adjusted for exchange rate effects and loan write-offs, growth of credit to the private sector improved from 2.6 % y-o-y in the second quarter to 3.1 % in the third. Lending growth to households (6.8 %) continued to exceed lending growth to enterprises (1.4 %) by a wide margin in the third quarter. The gradual rebalancing towards lek-denominated loans continued with the share of foreign-currency loans in total credit declining to 50.7 % in November, down by 2.6 pps y-o-y.

The ratio of non-performing loans (NPLs) to total loans has trended downward for more than a year. It stood at 14.3 % at the end of November, down from 20.4 % in November 2016. The banking sector as a whole is well capitalised with a capital adequacy ratio of 16.4 % at the end of the third quarter of 2017, up by 0.1 pps over the quarter and by 0.8 pps y-o-y.

Fiscal developments

Compared to the original 2017 state budget, the budget revision in December raised planned revenues and expenditures by 1.5 % and 1.4 %, respectively. The deficit target was kept at 2.0 % of GDP. Budget execution data show that total revenues in January-November amounted to 88 % of planned revenues for the full year, while the corresponding figure on the expenditure side was 85 %. Specifically, capital expenditures only reached 70 % of planned full year spending. Consequently, the budget deficit for January-November amounted to only one third of the planned full year deficit, suggesting a possible undershooting of the annual deficit target.

Public debt (including guarantees) increased by 0.9 % over the first three quarters of 2017. Due to higher nominal GDP, the ratio of public debt to GDP declined from 72.4 % to 69.7 %. However, the revised 2017 budget projects a debt ratio of 71.5 % of GDP at the end of 2017.

The 2018 budget raises both planned revenues and expenditures by 4.9 % y-o-y to 28 % and 30 % of GDP, respectively. Hence, the budget deficit is again targeted at 2 % of GDP. The ratio of public debt to GDP is projected to fall to 69 % by the end of 2018.

TABLE



European Commission, ECFIN-D-1

ALBANIA

							ECFIN 2017 Autumn forecast							
		2013	2014	2015	2016	2017	2018	2019	Q2 17	Q3 17	Q4 17	Oct 17	Nov 17	Dec 17
1 Real sector														
Industrial confidence ^{1.1}	Percent	-16.6	-6.9	-5.5	-3.7	1.5	:	:	4.2	2.0	-0.5	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	20.5	3.4	-8.9	-19.0	:	:	:	15.2	6.0	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. %ch	1.0	1.8	2.2	3.4	4.0f	3.8	4.2	4.1	3.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	1.8	2.8	1.0	2.9	2.1f	2.7	3.1	2.4	3.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-2.0	-4.5	4.0	6.0	10.0f	4.4	6.2	14.9	3.8	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	1.0	0.2	0.3	0.0	:	:	:	0.8	0.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	5.4	4.7	5.9	6.6	:	:	:	1.6	1.1	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	16.4	17.9	17.5	15.6	14.2f	13.7	13.0	14.3	14.0	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	-9.7	1.6	4.9	6.1	3.5f	3.6	3.8	3.5	1.3	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	4.1	1.7	1.8	0.9	5.8f	2.8	3.1	11.0	11.2	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	15.7	4.5	-5.6	0.1	:	:	:	10.3	13.0	:	14.4	11.0	:
Imports of goods ^{3.2}	Ann. %ch	-2.1	6.0	-0.7	6.4	:	:	:	4.2	9.0	:	15.5	10.1	:
Trade balance* ^{3.3}	% of GDP	-20.1	-20.8	-21.1	-22.8	-24.9f	-25.3	-25.8	-21.9	-21.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	28.7	28.2	27.4	29.0	:	:	:	30.5	31.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	47.0	47.2	44.7	45.8	:	:	:	45.1	45.1	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-9.3	-10.8	-8.6	-7.6	-7.9f	-7.8	-8.2	-6.3	-6.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	9.6	8.2	8.0	8.7	:	:	:	8.7	8.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 955.7	2 084.8	2 637.7	2 880.3	:	:	:	:	:	:	:	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.2	5.3	6.9	7.0	:	:	:	:	:	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	1.9	1.6	1.9	1.3	2.0	2.4	2.7	2.0	1.7	1.8	1.9	1.7	1.8
Producer prices ^{4.2}	Ann. %ch	:	:	:	-1.5	:	:	:	1.8	2.1	:	:	:	:
Food prices ^{4.3}	Ann. %ch	4.2	2.2	4.3	3.3	:	:	:	3.9	3.8	:	4.0	3.7	:
M2 ^{4.4}	Ann. %ch	5.1	1.1	3.6	-0.7	:	:	:	1.8	1.0	:	1.2	1.5	:
Exchange rate LEK/EUR ^{4.5}	Value	140.26	140.14	139.74	137.36	134.14	:	:	134.40	132.88	133.47	133.65	133.52	133.24
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	2.87	1.13	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	6.03	3.45	2.77	2.05	:	:	:	2.02	2.26	:	2.13	2.10	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. %ch	-0.2	0.2	0.3	-0.7	:	:	:	-1.1	-0.1	:	0.3	0.1	:
Deposit growth ^{5.5}	Ann. %ch	3.7	1.5	1.9	1.1	:	:	:	1.7	0.5	:	0.3	0.0	:
Non performing loans ^{5.6}	% total	23.2	22.8	18.2	18.3	:	:	:	15.6	14.8	:	14.5	14.3	:
6 Fiscal developments														
General government balance* ^{6.1}	% of GDP	-5.2	-5.2	-4.1	-1.8	-2.1f	-2.0	-1.8	0.2	-0.2	:	N.A.	N.A.	N.A.
General government debt* ^{6.2}	% of GDP	65.6	70.1	73.1	72.4	70.5f	68.5	66.0	66.9	67.4	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2017 published November 2017

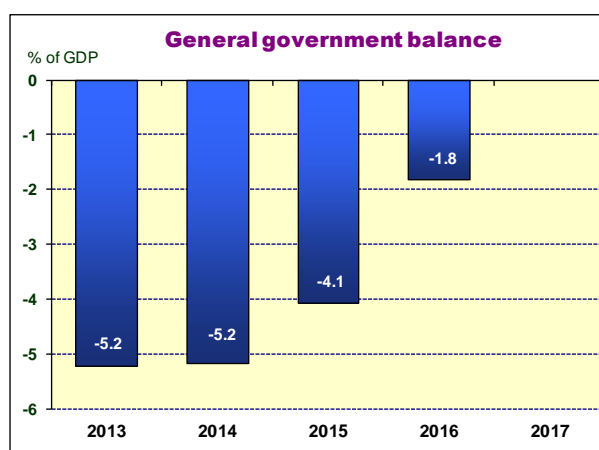
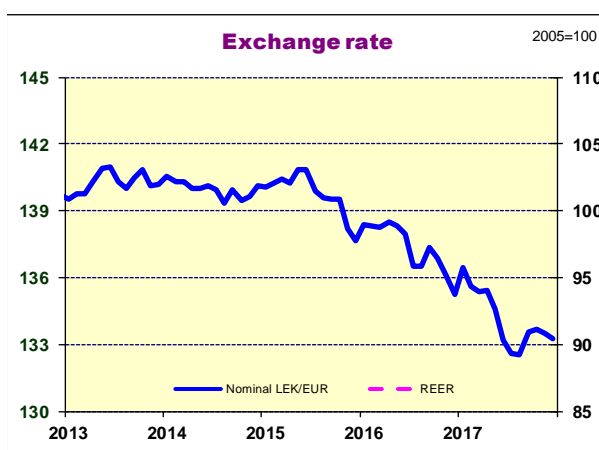
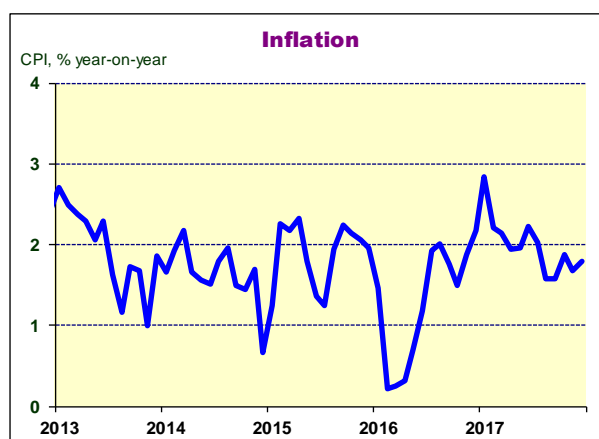
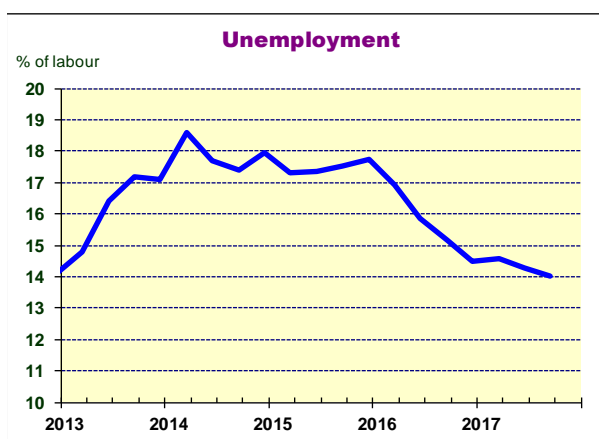
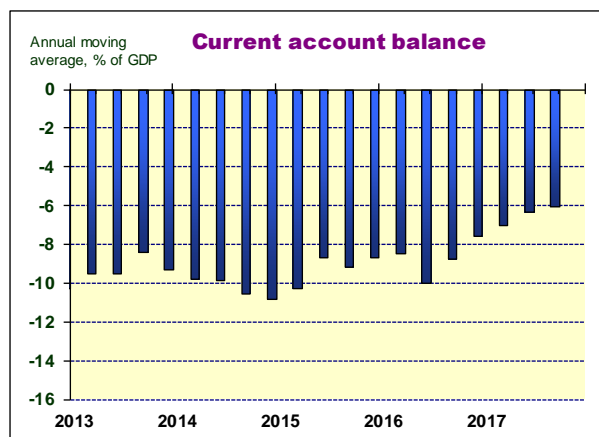
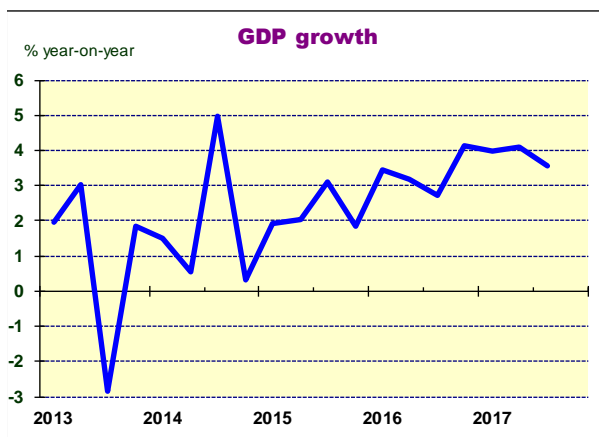
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



ALBANIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



Key developments

On 22 December, the parliament approved the government budget for 2018. Based on real GDP growth of 3.2% and annual inflation of 1.7%, the government expects a 4.7% revenue increase, and a fiscal deficit of 2.9% of GDP. Spending would increase by 4.1% over the 2017 budget.

On 22 November, the IMF Executive Board concluded the 2017 Art.IV mission to the country. Directors urged the new government to increase the pace of structural reforms and to base fiscal consolidation on durable measures, in particular in view of the authorities' plan to stimulate growth and employment through enhanced transfer and subsidy payments.

The World Bank's *Doing Business 2018 Report*, released on 31 October, ranked the country in 11th position out of 190 countries, one place down from its 2017 ranking.

Real sector

The economy returned to (very modest) growth in the third quarter (+0.2% y-o-y), after contracting in the second quarter, and stagnating in the first, according to a first estimate and revised figures from the national statistical office. Household spending (+2.9%) and exports (+5.5%) contributed positively to the economic performance. Gross capital formation, however, declined for the second quarter in a row (-9.4%, after a revised 18.6% drop between April and June). Government consumption slumped, too (-3.6%). Import growth decelerated to 2.1% from (revised) 5.6% in the preceding three months. Industry remained in its trough: the manufacturing (-5.8% y-o-y) and construction industry (-11.6) contracted, in real terms, for the fourth, respectively third consecutive quarter. Looking ahead to the fourth quarter, high frequency indicators point mainly to economic recovery, as investor confidence returns and the export potential expands further. The industrial production index, which dipped by 1.3% y-o-y on average in the third quarter, picked up in October and November, driven by improved performance in manufacturing, which is also

supported by a strong increase in capital goods production. Retail sales, except of motor vehicles and motorcycles, however, remained subdued, in the third quarter and beyond.

Labour market

There was further improvement in the labour market between July and September. The unemployment rate dropped by 0.5pps q-o-q to 22.1%, according to the Labour Force Survey. Employment growth remained robust (2.1% y-o-y), though slightly less dynamic than in the second quarter (2.7%). The labour force remained practically unchanged, reflecting a drop in the younger workforce that was compensated for by rising employment of, in particular female, workers aged 50-64 years. Labour market participation among the working age population (15-64) remained low (65.3%) and only slightly higher than one year earlier (64.6%). The labour market situation for younger workers deteriorated, however, compared to one year earlier. The unemployment rate for the age group 15-24 years rose by 3.4pps to 49.8%, as the increase in joblessness was significantly larger than the exit from the labour force. Wages continued to rise in the third quarter and beyond. Gross wages increased by more than in the second quarter and, with still benign price pressures, contributed to the solid increase in real net wages in the year to October (1.4% y-o-y).

External sector

The current account deficit narrowed further in the third quarter, driven by a steadily improving merchandise trade balance. In the four quarters to September, it amounted to 1.8% of GDP, compared to 3% in the same period one year earlier. The shortfall in trade in goods dropped in this period to 17.8% of GDP (-1.8pps y-o-y). Net private transfer inflows remained almost unchanged, at some 16.5% of GDP. They covered some 92% of the merchandise trade deficit. The deficit in the primary income balance widened further to 4.1% of GDP (+0.3pps y-o-y), as foreign investors kept

repatriating profits amidst the political turmoil. FDI inflows amounted to 1.9% of GDP in the four quarters to September, which was considerably less than in this period one year earlier (-1.3pps), but sufficient to cover the current account deficit. Gross external debt, excluding central bank transactions, dropped slightly between July and September, in quarterly and annual comparison, as the government repayed foreign loans, and liabilities from private intercompany lending declined. Overall, the foreign debt stock amounted to 75.5% of projected full-year GDP. The central bank's foreign currency reserves dropped further in the third quarter, mainly on account of foreign debt repayment and service by the government. They picked up again in the last three months of the year, as the central bank intervened in foreign exchange markets and private transfer inflows from abroad strengthened, but at the end of December, they were still some 10.6% below their pre-year level. Reserves remained adequate and covered about five months of prospective imports.

Monetary developments

Consumer price inflation accelerated further in the second half of the year (1.9% y-o-y, compared to 0.9% in the first half), bringing the average annual price increase for the full year to 1.4%. Core inflation, rather than food and energy prices, exerted pressure, in particular the cost of transport, communication, and hotels and restaurants. Fuel prices stagnated in the second half, while food prices rose only marginally (1.1%). Broad money supply (M4) increased by 6.8% y-o-y on average in the third quarter. The largest contribution came from demand deposits and long-term deposits. Currency in circulation increased at a faster rate (9.7%) than in the preceding quarter (6%). The central bank has kept the key interest rate, the CB bills rate, unchanged since February (3.25%).

Financial sector

Credit growth to the private sector picked up between July and September, to 4.8% y-o-y, accounted for entirely by household loans (+10%). Credit to non-financial enterprises seems to have bottomed out after having declined steadily since summer 2016, and posted slight gains (0.4%). In October, the pickup in private corporate loans accelerated further. Total loan growth, including credit to the public sector, amounted to 4.8% y-o-y in the third quarter.

The spread between Denar-denominated loans (-20bps to 6%) and deposits (+10bps to 2.2%) narrowed between August and November. Rates on foreign currency loans dropped by 10 bps to 4.8%, and remained unchanged for deposits, at 0.8%. The share of foreign-currency denominated loans in total (43.5%) dropped only slightly compared to the preceding quarter (44.7%). The funding of loans by deposits remained unchanged in this period, with the loan-to-deposit ratio for non-financial clients (excluding interbank loans and deposits) at 89.4%. The banking sector's capital adequacy strengthened, with the ratio of regulatory capital to risk-weighted assets increasing by 0.4pps to 16.2%. The ratio of non-performing to total loans declined slightly, by 0.2pps compared to the end of the second quarter, to 6.3%.

Fiscal developments

Public revenue growth slowed down in the third quarter to 2% y-o-y, but picked up in October and November (+6.8% on average), bringing the overall revenue increase in the first eleven months of the year to 4.6% y-o-y. Net VAT receipts, accounting for some 27% of total tax revenue in this period, increased by 1.3 % y-o-y, taking also into account payment of previously blocked refunds to companies in November. Overall, central government revenues amounted to 87% of full year projection. Government spending was 3.9% higher in the first eleven months, with pensions rising by 6.9%, while the spending on goods and services was lower by 9%. Capital expenditure remained almost constant (-0.3% y-o-y), and amounted to only 59.3% of plan in the year to November. The central government budget deficit attained 71% of the revised target in this period, or 2.2% of projected 2017 GDP. The government expects a full-year deficit of 2.9%.

At the end of September, public debt stood at some 47.9% of projected full-year GDP, compared to 48.4% at the end of 2016. Government debt, which had risen significantly between 2008 and 2016, amounted to 38% of GDP, somewhat below its level of end-2016 (39.6%), as the government repaid sizeable foreign loans in July. The level of government-guaranteed debt of state enterprises dropped, for the first time since recording started in 2002, and stood at 8% of GDP at end-September (-0.8pps compared to end-2016).

TABLE



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia

		2013	2014	2015	2016	2017	ECFIN 2017 Autumn forecast		Q2 17	Q3 17	Q4 17	Oct 17	Nov 17	Dec 17
							2018	2019						
1 Real sector														
Industrial confidence ^{1.1}	Balance	12.3	11.4	17.5	24.0	:	:	:	24.7	25.7	:	26.3	26.6	:
Industrial production ^{1.2}	Ann. % ch	103.2	104.8	104.9	103.9	:	:	:	103.8	97.6	:	101.3	104.1	:
Gross domestic product ^{1.3}	Ann. % ch	2.9	3.6	3.8	2.9	1.7f	2.7	3.2	-1.3	0.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.9	2.2	4.4	3.1	3.7f	3.5	3.4	4.4	2.9	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	0.5	10.7	8.3	13.3	-2.2f	2.2	3.2	-18.6	-9.4	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	33.8	2.3	8.6	11.9	:	:	:	-17.1	-11.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	-0.9	4.2	9.8	18.7	:	:	:	-2.4	-1.7	:	-2.4	-0.7	:
2 Labour market														
Unemployment ^{2.1}	%	29.0	28.0	26.1	23.8	22.2f	21.4	21.0	22.6	22.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	4.3	1.7	2.3	2.5	2.2f	2.2	2.1	2.7	2.1	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	1.2	1.0	2.7	2.0	0.1f	0.4	1.5	2.3	2.9	:	3.8	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	2.9	17.0	9.4	11.5	:	:	:	22.4	10.7	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	-1.8	9.4	5.0	7.8	:	:	:	7.4	7.2	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-22.9	-21.7	-20.1	-19.1	-18.2f	-18.3	-18.7	-18.4	-17.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	42.3	47.7	48.7	50.0	:	:	:	53.0	53.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	60.4	64.9	65.0	64.7	:	:	:	67.6	67.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-1.6	-0.5	-2.0	-3.1	-2.5f	-2.4	-2.3	-2.6	-1.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.8	2.3	2.2	3.3	:	:	:	2.7	1.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 993.0	2 436.5	2 261.8	2 613.4	2 335.3	:	:	2 399.9	2 271.4	2 335.3	2 301.0	2 273.6	2 335.3
Int. reserves / months Imp ^{3.9}	Ratio	5.6	6.3	5.6	6.0	:	:	:	5.2	4.8	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	2.8	-0.3	-0.3	-0.2	1.4	2.0	2.4	1.2	1.6	:	1.8	2.2	2.4
Producer prices ^{4.2}	Ann. % ch	0.4	-1.2	-4.1	-0.1	:	:	:	0.0	0.5	:	1.1	1.6	:
Food prices ^{4.3}	Ann. % ch	3.4	-1.0	0.1	-1.3	:	:	:	0.3	0.9	:	1.0	1.6	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	7.5	4.0	8.0	8.2	4.4	:	:	6.7	6.8	:	6.2	5.9	:
Exchange rate MKD/EUR ^{4.5}	Value	61.58	61.62	61.61	61.60	61.57	:	:	61.64	61.58	61.52	61.48	61.51	61.56
Nominal eff. exchange rate ^{4.6}	Index	101.8	102.9	101.6	102.6	:	:	:	103.2	104.4	:	104.9	105.1	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	3.69	3.08	1.92	1.96	1.78	:	:	1.75	1.75	1.73	1.73	1.73	1.73
Bond yield ^{5.2}	% p.a.	8.04	7.46	7.08	6.61	:	:	:	6.26	6.16	:	6.09	:	:
Stock markets ^{5.3}	Index	1 726	1 736	1 731	1 887	2 406	:	:	2 247	2 554	2 570	2 637	2 567	2 506
Credit Growth ^{5.4}	Ann. % ch	4.3	8.4	9.1	4.6	:	:	:	2.1	4.8	:	4.8	5.6	:
Deposit growth ^{5.5}	Ann. % ch	4.8	8.2	7.9	4.3	:	:	:	6.8	6.4	:	6.1	5.7	:
Non-performing loans ^{5.6}	% total	11.9	11.6	10.3	6.3	:	:	:	6.7	6.5	0.0	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance ^{6.1}	% of GDP	-3.8	-4.2	-3.5	-2.7	-2.9f	-3.0	-3.0	-3.1	-1.7	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	34.0	38.1	38.1	39.1	39.7f	40.4	40.9	37.9	37.8	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2017 published November 2017

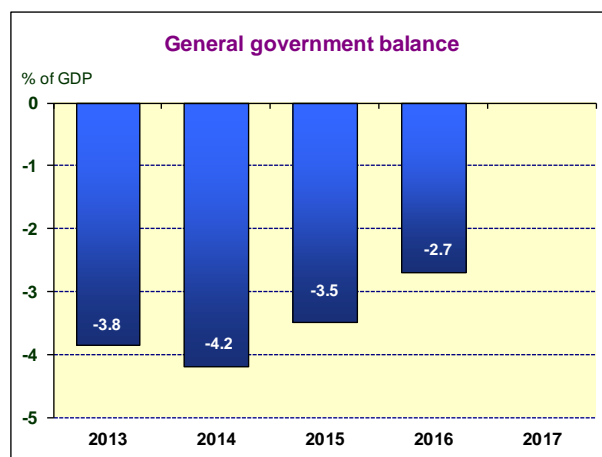
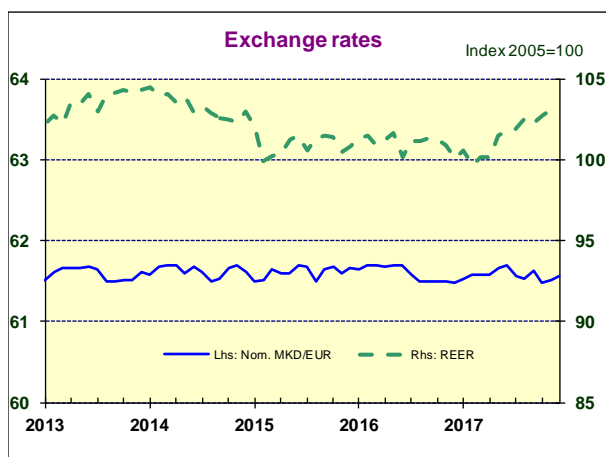
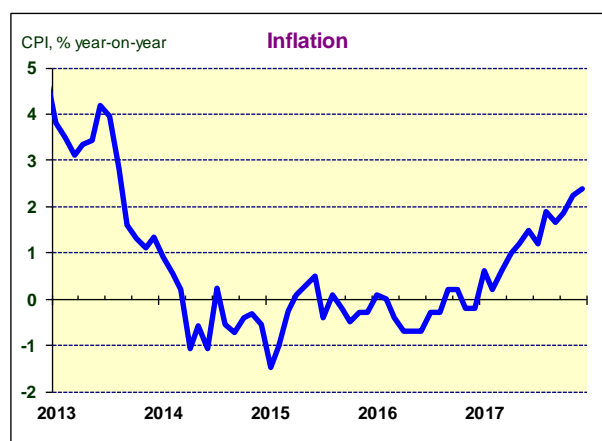
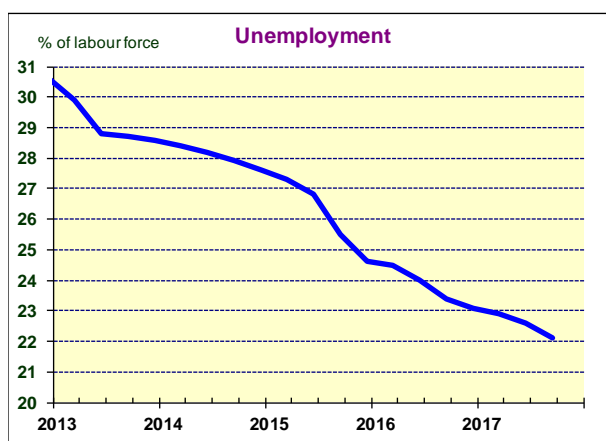
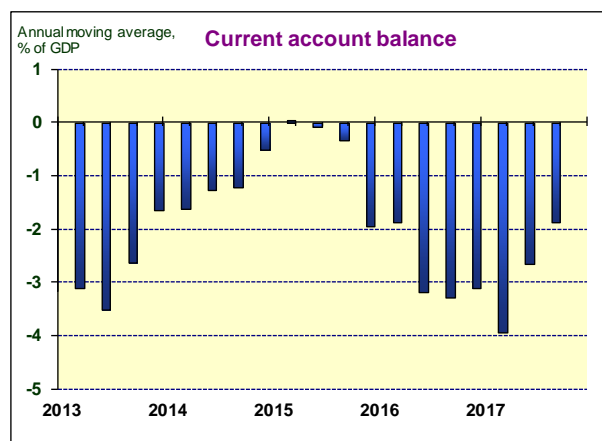
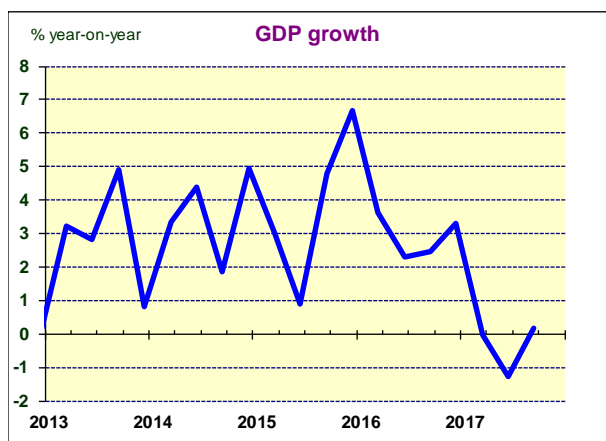
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia





Key developments

On 11 December 2017, two additional accession negotiation chapters with the EU were opened: Chapter 2 (Freedom of movement for workers) and 3 (Right of establishment and freedom to provide services). So far, 30 negotiation chapters out of 35 have been opened and 3 provisionally closed.

The plan for building a second 254 MW unit worth EUR 324 million at the Pljevlja thermal power plant was abandoned in December after the selected bidder failed to provide a financing model for its construction.

Real sector

The strong performance of the economy continued, driven by private consumption and investment. In the third quarter of 2017, GDP grew by robust 4.7% over the year, following a 5.4% y-o-y expansion in the previous quarter. Household consumption increased by 6.4% y-o-y, partly due to the record-breaking tourist season boosting domestic demand and employment. After several years reducing public maintenance costs, government consumption has been growing since beginning of the year, marking 2.8% y-o-y growth in the third quarter. Investment recorded strong 8.9% y-o-y growth, driven by construction; in particular of the highway, power transmission lines and hotels. The growth in capital formation presented a turnaround from the 9.6% y-o-y contraction of the previous quarter due to high base effects. As usual in the third quarter, net exports was supported by the good tourism season, driving a 3.2% y-o-y expansion in exports of goods and services. However, imports kept growing faster than exports, partly due to purchase of electricity to compensate for the reduced production induced by the summer drought, but also rising oil product prices. Overall, in the first three quarters of 2017, annual GDP growth accelerated to 4.3%, compared to 2.6% in the same period a year earlier.

In October and November 2017, industrial production recovered after recording four consecutive quarters of negative growth since October 2016. Thus, in October and November 2017, industrial production increased by 2.6%

and 4.0% y-o-y, respectively. The expansion was supported by the very strong growth in mining production and the robust recovery of manufacturing, the latter supported by the production of basic metals and mineral products. However, industrial output remains restrained by the poor performance of the utilities sector, presenting four consecutive months of contraction.

Labour market

According to the Labour Force Survey (LFS), labour market conditions continued to improve supported by the strong seasonal effect of the summer tourism season. The unemployment rate declined to 15.1% in the third quarter, down from 17.1% on the same period a year before. In addition, total employment increased by 3.1%, lifting the overall employment rate by 1.7pps y-o-y, to 55.6%. By gender, the employment rate of men increased by 2.1pps to 62.1%, compared to a rate of 49.1% for women, which recorded a marginal 0.6 pps improvement over the year. Youth unemployment remained high at 27.5%, although improving from 33.5% a year before. Administrative data present a more negative picture. According to them, the unemployment rate reached 22.2% at the end of 2017, compared to 21.1% a year before, while employment dropped by 7.6% over the year.

Since May, wages have swung (in real terms) into decline due to the acceleration of inflation and the waning of the positive effects from the previous year's hike of public sector salaries. In consequence, the average gross wage rose by nominal 1.6% y-o-y in November, but contracted by 0.8% y-o-y in real terms.

External sector

The trade deficit remains substantial despite growing exports. In the four quarters to September, the current account deficit totalled 16.2% of GDP, down from 16.9% in the previous quarter and 18.2% in the same period a year earlier. The improvement was driven by the services account, benefitting from the strongest tourism season on record, and to a lesser extent, by growing surpluses on the primary and secondary income accounts. However, the merchandise trade deficit has remained broadly

unchanged since the second quarter of 2016, at around 42% of GDP. Improvements in merchandise exports were largely related to crude (and low value added) material, while project-related purchases of construction material, machinery and equipment, together with rising prices of oil products and higher procurement of electricity, maintained upward pressure on imports. In the four quarters to September, net FDI inflows totalled 9.6% of GDP, down from 10.7% of GDP in the previous quarter, covering almost two thirds of the current account deficit.

Monetary developments

Inflation remains moderate and has been fundamentally driven by international commodity prices. Import prices were growing faster than inflation, expanding by 3.9% y-o-y in October as the cost of petroleum products increased by 12.5% over the year. At the same time, domestic price pressures remain modest as average wage growth has lingered markedly below inflation all along 2017. As a result, the harmonised index of consumer prices grew by 3.0% y-o-y in November, up from 2.9% in the previous month, but slightly below the 3.3% y-o-y expansion in the third quarter of the year.

Higher value added taxes and an increase in regulated electricity prices are set to generate more inflationary pressures in 2018. On 1st January, the government raised by 2 pps the normal VAT rate to 21% and the excise tax on tobacco by EUR 0.40 per pack. Also in January, the revision of electricity prices increased households' average electricity bill by 2.7%.

Financial sector

Credit growth remained strong thanks to household and general government borrowing, while lending to the corporate sector has been picking up since September. After expanding by 7.7% y-o-y in the third quarter, total credit growth picked up in October and November to 9.2% and 11.1% y-o-y, respectively. Lending to households, which accounts for 41.4% of total credit, expanded by 11% y-o-y in November. In contrast, lending to private non-financial companies grew by only 2.9% y-o-y in November, while loans to public companies contracted significantly by 16.2% y-o-y. General government borrowing maintained the fastest pace of growth (174.9% y-o-y), but this category

represents less than 4% of total credit.

The growth in bank deposits remained robust, recording an annual expansion of some 12% in October and in November, above the growth rate of 9.9% in the third quarter. All sectors recorded increases in their bank deposits, led by financial institutions savings (50.1% y-o-y growth in November), government sector (+24.7% y-o-y) and non-financial institutions (+12.2% y-o-y), with households - which account for 51.6% of total deposits - recording the slowest pace of growth with a still robust 9.3% y-o-y expansion. The ratio of non-performing loans decreased further in November, to 7.0% of total loans compared to 10.6% a year before.

Fiscal developments

Budget performance reflects strong base effects stemming from previous year underspending on capital investment as well as strong tax revenue from robust domestic demand. After recording a small seasonal surplus of 0.2% of GDP in the third quarter of 2017, the budget reverted into a deficit in October and November. Therefore, in the first eleven months of 2017, the central government accumulated a deficit of EUR 152.5 mn or 3.6% of full-year GDP. However, this shortfall remained 41.5% below the plan due to persistent capital underspending (32% less than planned) and the very strong performance in budget revenue, in particular from VAT, excises and social security contributions. Compared to the plan, the largest deviation in current spending were recorded in social security transfers (lower by EUR 30.6 mn), and interests and gross salaries (higher than planned by EUR 3.2 and 2.2 mn, respectively).

On 26 December, the parliament passed the 2018 budget, setting the central government deficit at 2.6% of GDP, or down by a half compared to the original plan for the 2017 budget, thanks to the increase of VAT and excise tax rates and the assumption of a 3% expansion of the economy in 2018.

In the third quarter of 2017, the stock of public debt totalled 61.7% of GDP, of which the state debt accounted for 56.9% of GDP, municipalities 3.4% and deposits 2.2%. The external debt represents 79.4% of the total. Preliminary estimates indicate public debt increased further in the last quarter, totalling 66% of GDP at the end of 2017.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

		2013	2014	2015	2016	2017	ECFIN 2017 Autumn forecast		Q2 17	Q3 17	Q4 17	Oct 17	Nov 17	Dec 17
							2018	2019						
1 Real sector														
Industrial confidence ^{1.1}	Balance	8.7	11.1	9.8	3.0	:	:	:	7.4	6.0	:	6.1	-1.3	:
Industrial production ^{1.2}	Ann. %ch	10.7	-10.5	7.9	-2.5	:	:	:	-8.4	-1.4	:	2.1	4.0	:
Gross domestic product ^{1.3}	Ann. %ch	3.5	1.8	3.4	2.9	3.9f	3.0	3.3	5.2	4.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	1.6	2.9	2.2	5.4	4.5f	2.5	2.8	1.9	6.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	10.7	-2.5	11.9	27.5	7.5f	3.5	1.5	-9.6	8.9	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	9.7	2.0	5.8	31.5	:	:	:	51.5	40.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	11.2	2.4	4.2	4.0	:	:	:	5.0	5.0	:	5.4	:	:
2 Labour market														
Unemployment ^{2.1}	%	19.5	18.2	17.8	18.0	17.2f	16.7	16.0	15.3	15.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	1.4	6.6	1.9	1.1	2.6f	2.3	2.0	3.2	3.1	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	-0.2	-0.3	0.2	3.5	1.7f	2.0	2.4	1.8	1.1	:	1.7	1.6	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	2.1	-9.7	-9.0	6.2	:	:	:	-11.6	28.7	:	7.8	-10.6	:
Imports of goods ^{3.2}	Ann. %ch	-2.7	0.6	3.2	12.0	:	:	:	1.4	6.8	:	20.1	13.6	:
Trade balance* ^{3.3}	% of GDP	-39.5	-39.8	-40.0	-41.9	-45.6f	-44.0	-42.4	-42.5	-41.9	:	-44.0	-44.7	:
Exports goods and services ^{3.4}	% of GDP	41.3	40.1	42.1	40.5	:	:	:	35.0	66.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	61.4	60.0	60.6	62.9	:	:	:	72.1	53.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-14.5	-15.2	-13.2	-18.1	18.0f	-16.7	-16.0	-16.9	-16.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	9.6	10.2	16.9	9.4	:	:	:	10.7	9.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	423.7	544.7	673.7	803.0	:	:	:	701.6	787.8	:	803.4	796.4	:
Int. reserves / months imp ^{3.9}	Ratio	2.9	3.7	4.4	4.7	:	:	:	3.9	4.3	:	4.3	4.3	:
4 Monetary developments														
HICP ^{4.1}	Ann. %ch	1.8	-0.5	1.4	0.1	2.5f	2.2	2.0	2.5	3.3	:	2.9	3.0	:
Producer prices ^{4.2}	Ann. %ch	1.7	0.2	0.3	-0.1	:	:	:	0.5	0.0	:	-0.2	-0.5	:
Food prices ^{4.3}	Ann. %ch	4.0	-1.4	3.0	-0.9	:	:	:	2.3	1.5	:	1.1	1.0	:
M21 ^{4.4}	Ann. %ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate ^{4.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	3.39	1.60	:	:	2.35	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	3.19	1.26	0.50	1.58	1.71	:	:	1.88	1.55	0.20	:	:	0.20
Stock markets ^{5.3}	Index	9 528	10 695	11 956	11 115	10 952	:	:	11 171	10 854	10 384	10 788	10 381	9 983
Credit growth ^{5.4}	Ann. %ch	3.1	-1.9	0.8	1.3	:	:	:	9.3	7.7	:	9.2	11.1	:
Deposit growth ^{5.5}	Ann. %ch	5.9	10.0	13.7	9.4	:	:	:	10.9	9.9	:	12.2	11.8	:
Non-performing loans ^{5.6}	% of total	18.4	16.8	13.4	10.3	:	:	:	8.8	7.4	:	7.1	7.0	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-4.6	-2.9	-8.3	-3.6	-6.2f	-5.6	-2.7	-0.7	0.2	:	:	:	:
General government debt ^{6.2}	% of GDP	57.5	58.6	62.3	64.4	69.5f	73.2	74.9	57.7	56.9	:	:	:	:

f: ECFIN forecast Autumn 2017 published November 2017

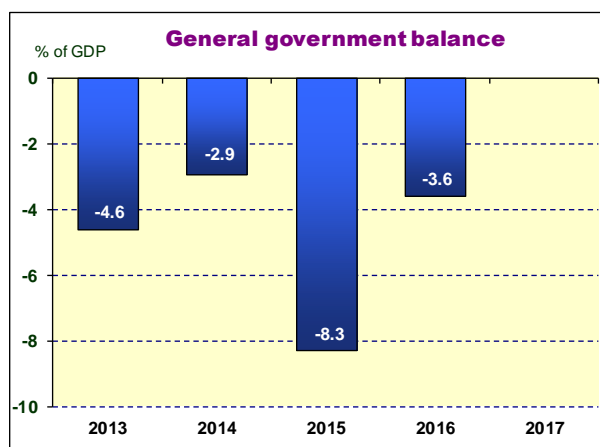
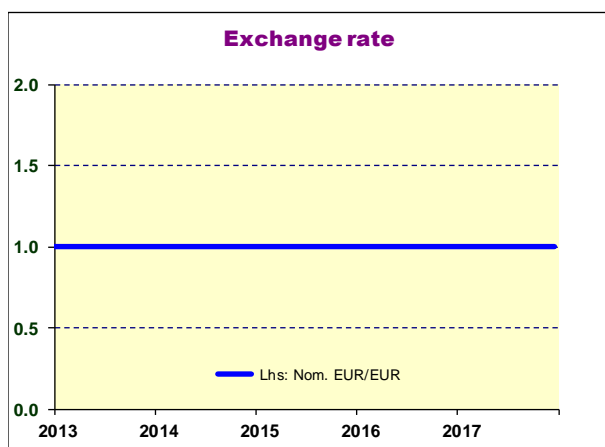
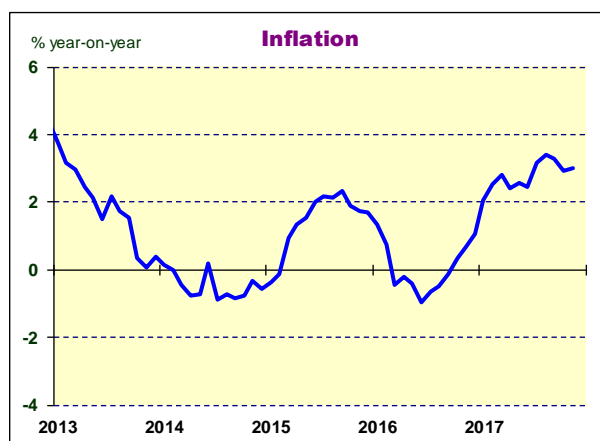
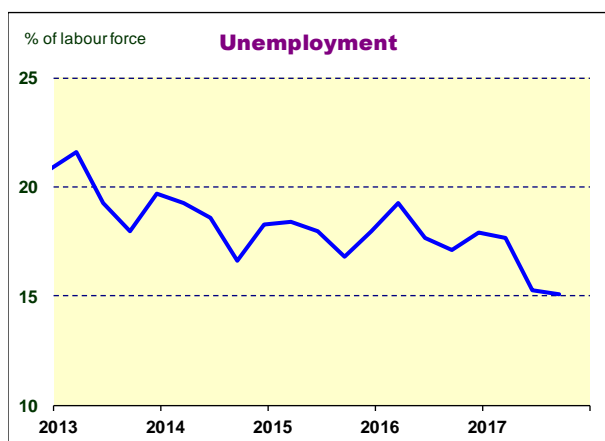
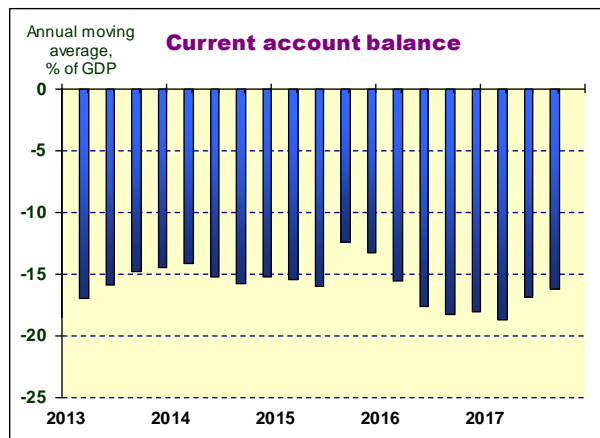
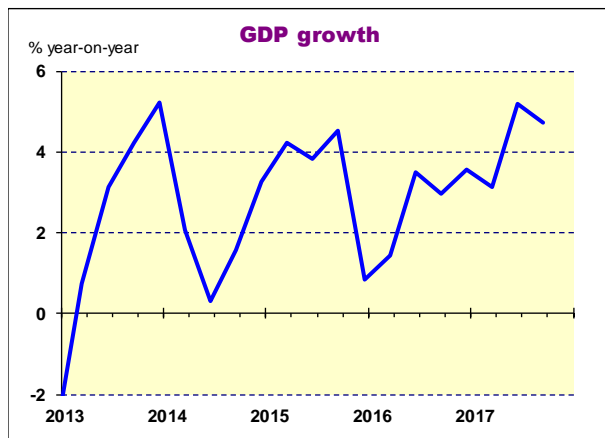
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO





Key developments

In December, two more EU accession negotiation chapters were opened – chapter 6 on company law and chapter 30 on external relations. With that, 12 out of 35 negotiation chapters have been opened so far since the start of negotiations.

The 2018 budget was adopted by the parliament in December and targets a general government deficit of 0.7% of GDP.

The 8th review of Serbia's Stand-By Arrangement with the IMF was completed in December. The authorities indicated that they would continue treating the SBA as precautionary. The IMF noted the successful macroeconomic adjustment and underlined that further progress with implementing the structural reform agenda is critical to secure sustainable growth and faster convergence.

In December, both Fitch Ratings and Standard & Poor's upgraded Serbia's long-term foreign and local currency sovereign credit rating to 'BB' from 'BB-'. Their decisions were largely driven by the significant improvements of Serbia's fiscal performance, reduced external imbalances and preserved price stability.

France-based Vinci Airports was selected as the preferred bidder for a 25-year concession to run Belgrade's airport. It offered EUR 501 million and pledged EUR 732 million in investments.

Real sector

Driven by stronger investment, real GDP growth picked up to 2.1% y-o-y in the third quarter from 1.4% in the previous three months. Economic activity gathered pace across most of the sectors, notably in construction and mining, manufacturing, electricity, gas and steam supply. Construction rebounded particularly strongly, expanding by 6.1% y-o-y after three consecutive quarters of decline. The service sector also improved its performance with robust increases in wholesale and retail sales. Impacted heavily by a drought in the summer, agriculture (-11.1% y-o-y) remained the only sector contributing negatively to growth in the third quarter. Growth composition was broad-based on the demand side as well. Household final consumption

expanded steadily at 1.7% y-o-y, outpacing government consumption growth (1.0% y-o-y), while investment growth accelerated to 6.2% y-o-y. Foreign direct investments in tradable sectors made over the last several years and vigorous external demand from the EU supported a double-digit increase of exports of goods and services (11.4% y-o-y). Imports accelerated from an already strong growth of 9.0% y-o-y in the second quarter to 10.7% y-o-y in the third quarter.

Economic expansion continued unabated in the last months of the year and according to preliminary estimates real GDP growth stood at 1.9% for the year as whole. Industrial production remained strong, growing at 5.7% y-o-y in September-November. It was underpinned by a steady rise in manufacturing activity which was up 7.8% y-o-y over the same period. By November, three-quarters of all manufacturing sectors were in a positive territory. With mining and quarrying also growing firmly, only the sector of electricity, gas and steam supply sapped industrial performance. Consumption demand stayed robust, confirmed by data on retail trade which grew by a real 2.7% y-o-y in the period September-November.

Labour market

According to LFS data, the unemployment rate of population aged 15 and over stood at 12.9% in the third quarter. Contrary to its cyclical pattern, it increased over the second quarter by 1.2 pps, pushed up by higher activity rate and lower informal employment in agriculture. Unemployment went down, however, on a yearly basis. The number of unemployed fell by 21.9 thousand or 4.9% y-o-y as gains in employment surpassed the number of those entering the labour market. In the third quarter the employment rate reached its highest level (48.2%) since the start of the labour force survey in 2014. The employment structure improved slightly as informal and agricultural employment declined, although both remained significant at around one fifth of total employment.

Registered employment increased by 2.7% y-o-y in the third quarter, maintaining a steady pace since the beginning of the year. The National Employment Service data on registered

unemployment were also in tune with the generally positive labour market trends: the number of registered jobseekers fell by 10.8% y-o-y in November and 8.5% y-o-y on average since the beginning of the year. Nevertheless, there was no pressure on the labour market and wage moderation continued in September-November when gross real wages grew by 0.8% y-o-y, bringing the average real wage growth to just 1.0% y-o-y since the beginning of the year.

External sector

Exports in euro terms grew by 12.0% y-o-y in the period September-November – a slightly lower rate in comparison to the previous months. The steady exports performance was mainly due to a robust increase in manufacturing exports, growing by 14.4% y-o-y. However, agricultural exports declined strongly since August as bad weather impacted heavily some crops. A pick up in domestic demand boosted imports growth in October and November to above 20% y-o-y, averaging 14.6% y-o-y in the period January-November. Imports of capital goods, in particular, accelerated strongly, indicating a noticeable growth in investment activity in the last quarter of the year. As a result of trade dynamics, the merchandise deficit widened further to EUR 3.8 billion in January-November, up by 20% over the same period last year.

The higher trade deficit was the main factor for the worsening current account deficit which increased by 70% y-o-y to EUR 1.5 billion in January-October. In the four quarters to September it stood at 4.6% of GDP. The current account deficit was more than covered (133%) by net FDIs. In the first ten months, net FDIs increased by 26.4% y-o-y, nearly topping EUR 2 billion.

Monetary developments

Inflation remained stable at 2.8% y-o-y in October and November. Core inflation, excluding two of the most volatile groups – energy and unprocessed food – also stayed broadly unchanged at close to 2.0% y-o-y in November. Despite the weak agricultural season, unprocessed food inflation fell to 5.8% y-o-y, offsetting effects from higher energy prices which were on the rise since the summer months. Taking into account the low inflationary environment, contained inflation expectations, better than expected fiscal performance, and reduced risk premium, the central bank (NBS)

kept its key policy rate unchanged at 3.50%. In its December meeting it also retained its inflation target of 3.0%±1.5pps until 2020.

In the period October-December the dinar appreciated in nominal terms by 3.4% y-o-y vis-à-vis the euro and by 11.4% y-o-y vis-à-vis the U.S. dollar. It also continued its real effective appreciation which by November was 6.5% y-o-y. The dinar strengthened despite central bank interventions on the forex market – the bank bought a little over EUR 1 billion in net terms in the period June-November. Despite repayment of maturing Eurobonds (EUR 655.9 million) in November, the NBS foreign exchange reserves remained above EUR 10 billion, covering around six months' worth of imports of goods and services.

Financial sector

Domestic claims increased by 1.4% y-o-y in November, following a steep deceleration in the decline of net claims on government. This was mainly a result of the reduction in government foreign currency deposits with the central bank by close to RSD 50 billion due to repayment of a maturing Eurobond in November. The underlying credit growth was much stronger. Excluding effects from the exchange rate and NPL write-offs, total lending was up by 9.8% y-o-y in September. Corporate loans grew by 6.5%, while household loans which were driven mainly by cash loans increased by 13.8%. The share of NPLs went down to 12.2% in September – its lowest value since January 2009. In the 12 months until September, banks wrote off NPLs worth RSD 102.9 billion, RSD 53.6 billion of it due to a NBS decision requiring the write-off of fully provisioned NPLs.

Fiscal developments

By the end of November budget execution outperformed deficit and revenue targets by a large margin. The general government surplus increased to RSD 95.1 billion or 2.1% of the estimated annual GDP against a revised annual deficit target of a 1.1% of GDP. Total revenue growth stood at 7.5% y-o-y, underpinned by strong tax and social security revenues. Total expenditure increased by only 1.5% as current spending remained under control and capital expenditure underperformed, declining by 9.5% y-o-y. By end-November government debt stood at EUR 23.4 billion or 62.6% of the estimated full-year GDP, down from 71.9% at end-2016.

TABLE

European Commission, ECFIN-D-1



SERBIA

							ECFIN 2017 Autumn forecast							
		2013	2014	2015	2016	2017	2018	2019	Q2 17	Q3 17	Q4 17	Oct 17	Nov 17	Dec 17
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	5.6	-6.1	8.4	4.8	:	:	:	3.1	6.3	:	4.4	5.5	:
Gross domestic product ^{1.3}	Ann. %ch	2.6	-1.8	0.8	2.8	2.0f	3.3	3.5	1.4	2.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	-0.4	-1.3	0.4	0.8	2.2f	2.8	3.2	1.6	1.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-12.0	-3.6	5.6	5.1	3.9f	5.1	5.6	2.6	6.2	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	-24.0	-3.8	13.1	5.1	:	:	:	0.8	12.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	-5.3	2.0	1.4	7.7	:	:	:	3.5	3.7	:	2.5	2.9	:
2 Labour market														
Unemployment ^{2.1}	%	22.1	19.2	17.7	15.3	13.5f	11.6	9.5	11.8	12.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	3.7	10.1	0.6	5.6	3.2f	2.0	2.1	4.3	2.4	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	5.7	1.2	-0.4	3.8	:	:	:	4.7	3.9	:	3.5	4.0	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	25.8	1.5	7.9	11.6	:	:	:	13.2	12.7	:	14.0	9.0	:
Imports of goods ^{3.2}	Ann. %ch	5.1	0.1	5.8	4.2	:	:	:	12.2	14.0	:	20.2	21.2	:
Trade balance* ^{3.3}	%of GDP	-13.0	-13.0	-13.0	-10.5	-10.6f	-10.7	-10.5	-11.4	-11.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	41.2	43.4	46.7	50.0	:	:	:	51.9	52.5	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	51.9	54.2	56.4	57.5	:	:	:	60.0	60.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-6.1	-6.0	-4.7	-3.1	-5.4f	-5.7	-5.8	-4.3	-4.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	3.8	3.7	5.4	5.5	:	:	:	6.1	6.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	11 188.8	9 907.2	10 378.0	10 204.6	:	:	:	9 670.2	10 635.6	:	10 760.4	10 105.0	:
Int. reserves / months Imp ^{3.9}	Ratio	8.7	7.7	7.6	7.2	:	:	:	6.3	6.8	:	6.7	6.2	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	7.9	2.1	1.4	1.1	3.2f	3.3	3.0	3.7	3.0	:	2.8	2.8	:
Producer prices ^{4.2}	Ann. %ch	0.8	0.2	0.7	2.2	2.6	:	:	3.0	3.3	2.6	3.0	4.3	2.6
Food prices ^{4.3}	Ann. %ch	6.8	8.0	-0.9	1.9	-0.3	:	:	4.0	3.5	:	3.4	3.4	:
M3 ^{4.4}	Ann. %ch	4.6	7.6	6.6	11.6	:	:	:	7.4	5.6	:	5.7	6.0	:
Exchange rate RSD/EUR ^{4.5}	Value	113.10	117.23	120.74	123.09	121.41	:	:	122.91	119.76	119.11	119.28	118.90	119.14
Nominal eff. exchange rate ^{4.6}	Index	74.0	68.4	66.6	65.3	69.2	:	:	66.9	69.2	69.2	69.0	69.2	69.2
5 Financial indicators														
Interest rate (BEONIA) ^{5.1}	%p.a.	8.82	6.76	4.75	2.70	2.68	:	:	2.84	2.73	2.39	2.44	2.38	2.36
Bond yield (12 months) ^{5.2}	%p.a.	10.67	9.18	7.27	4.63	:	:	:	:	:	:	4.05	:	:
Stock markets ^{5.3}	Index	1 035	1 215	1 359	1 383	1 584	:	:	1 571	1 575	1 619	1 609	1 613	1 634
Credit growth ^{5.4}	Ann. %ch	-6.5	5.8	7.0	9.0	:	:	:	2.9	-2.1	:	-1.9	1.4	:
Deposit growth ^{5.5}	Ann. %ch	3.3	7.6	6.5	11.4	:	:	:	7.2	5.0	:	5.4	5.6	:
Non-performing loans ^{5.6}	%total	21.4	21.5	21.6	17.0	:	:	:	15.6	12.2	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance* ^{6.1}	%of GDP	-5.5	-6.6	-3.7	-1.3	0.8f	0.0	0.0	3.0	3.3	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	59.6	70.4	74.7	71.9	64.9f	63.9	61.5	65.7	64.6	:	64.9	62.6	N.A.

f: ECFIN forecast Autumn 2017 published November 2017

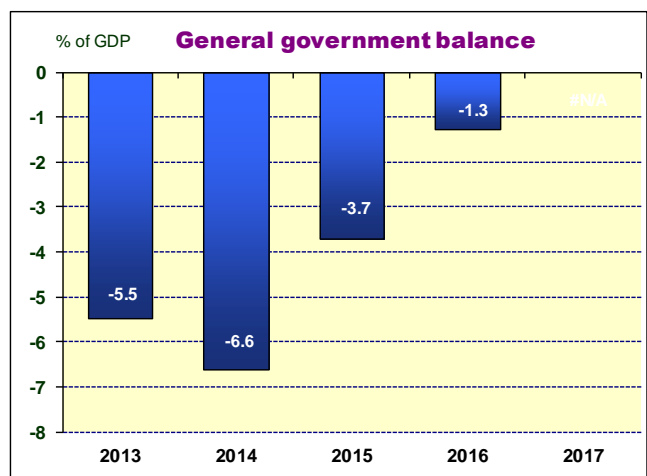
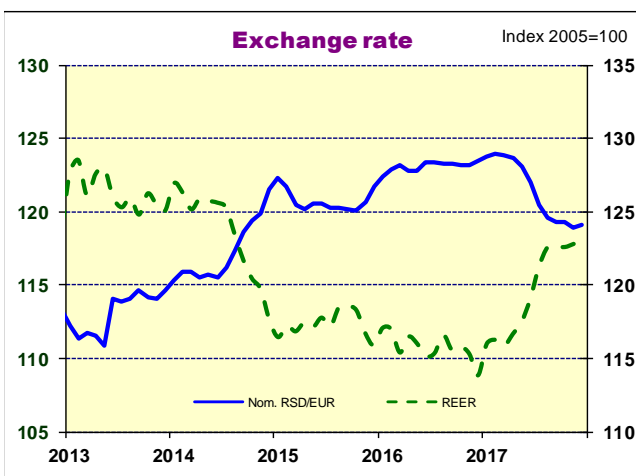
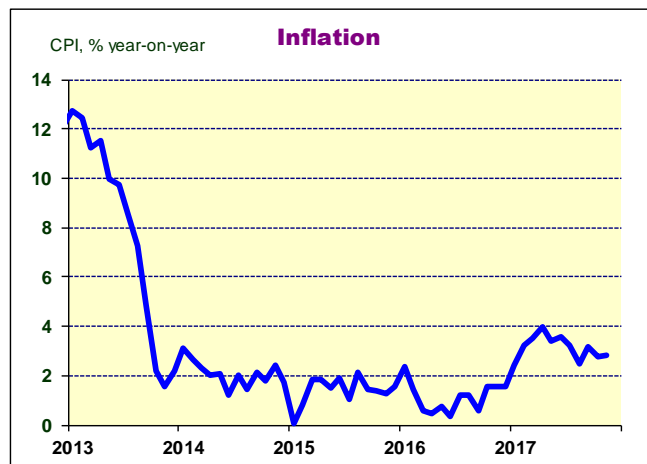
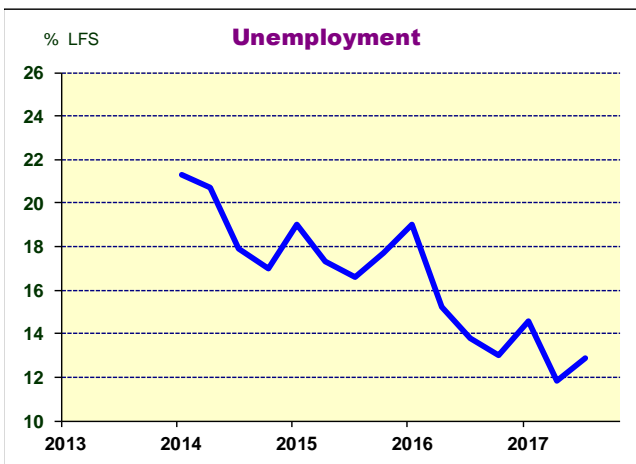
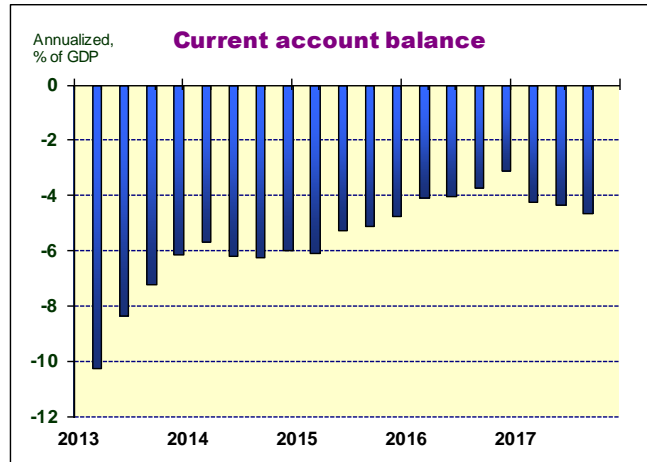
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

The Turkish lira went through a period of large volatility in the third quarter, depreciating by 12% against the euro before recovering to end the quarter 8% lower than at the beginning. Adding to financial analysts' concerns about the monetary policy reaction function were remarks by Turkish president Erdogan that seemed to imply political interference with monetary policy making.

Deputy general manager of majority state-owned Halkbank, Mehmet Hakan Attilla, was found guilty on five out of six charges related to evading sanctions against Iran by a jury in New York City. As analysts started to anticipate a fine will follow for the bank this caused volatility in financial markets.

The head of the state credit guarantee fund announced that he expected to provide TRY 130-140 bn of new guarantees next year, in part as a consequence of repayments and in part because not all of the extended room under the new government guarantees had been used.

Real Sector

According to Turkstat's estimates, real GDP increased by 9.6% year-on-year in the third quarter (calendar day adjusted), a strong increase from the already solid second quarter reading (+6.4% year-on-year).

On the expenditure side, gross fixed capital formation saw a further increase in momentum in the third quarter (+12.4% y-o-y). Household consumption growth accelerated sharply to 11.7%, up from 3.1% y-o-y in the second quarter. Government consumption increased by 2.8% y-o-y, following a decline by 2.1% y-o-y growth in the previous quarter. Exports surged by 11.5% in tandem. Imports grew at an even brisker rate of 23.2% y-o-y.

The construction (+18.7% y-o-y) and the services sector (+18.1%) witnessed the largest increase in valued added. Manufacturing grew by 11.3% y-o-y. Industrial production increased by 10.0% y-o-y, whereby the automotive sector

saw yet another large increase (+24.8% y-o-y) albeit below the very large increases in the first half of the year (+34.4%).

The largest increase from an income perspective was in the net operating surplus of companies which expanded at 33.3% y-o-y in nominal terms, its fastest expansion since the first quarter of 2003, while compensation of employees grew at 14.4% y-o-y. As a consequence of the difference, the compensation of employees as a share of GDP has fallen back to 29.1%, breaking a trend of increasing labor's share in GDP seen in the period 2005-16. In the EU, compensation of employees made up 47.4% of GDP in 2016.

High frequency indicators for the fourth quarter of 2017 suggest continued strong growth of value added in the manufacturing sector while the outlook for services and construction has become less positive. The confidence in manufacturing seems to have stabilized at a level significantly above break-even (PMI at 53.5) in the fourth quarter. Confidence indicators in the construction and the retail sector declined to below both break-even and historical average, though. Confidence in the services sector at large also declined and is now close to its historic average, just above break-even. After a dip at the end of the third quarter (September: -1.2% y-o-y) retail sales grew at a solid 2.4% y-o-y in October.

Labour market

In the third quarter, employment growth accelerated further to 4.5% y-o-y well above labour force growth (3.6%). The unemployment rate decreased to 10.7% for the full labour force and 12.7% for the non-agricultural labour force. The decrease in unemployment was largely due to the drop in unemployment among those with less than high school education. This group represents two thirds of the labour force and together with illiterates has the lowest unemployment rate. Employers in the industrial sector continued to be optimistic about employment prospects whereas those in construction and retail trade turned negative at the end of the third quarter.

Hourly labor costs rose by 12.6% y-o-y in the third quarter with the strongest increase, as in the second quarter, in construction (15.6%). At the same time, labour productivity was boosted by 12.4% y-o-y in the broad economy. After having decreased by 15% in the preceding ten quarters, the number of hours worked in industry grew by 3.5% y-o-y in the third quarter.

External sector

In the twelve months till October, the current account deficit recorded a deficit of USD 35.3 billion, increasing by 24.5% y-o-y or from 3.9% of GDP to 4.8% of GDP. The main driver was the further widening of the deficit in merchandise trade to 6.1% of GDP whereas the services surplus improved to 2.3% of GDP. The number of tourist arrival increased by 22.7% y-o-y in the twelve months up to October and stood 12.0% lower than in the same period in 2015.

Net financial flows into Turkey increased by 42% y-o-y in the twelve months up to October driven by a surge in portfolio inflows (+200% y-o-y). Portfolio inflows accounted for 67% of net inflows, FDI for 28% and other investment for 5%. Official reserves decreased by USD 6.4 billion in the twelve months till October bringing their level to USD 115 billion, corresponding to 6 months of imports. The foreign exchange liabilities of non-financial companies increased by USD 3 bn to USD 212 billion (around 24% of GDP) over the year in October. Banks had net foreign liabilities amounting to 70% of GDP in the third quarter of which 8% in the form of short-term loans.

Monetary developments

At its meeting on 14 December, the Turkish central bank increased interest rates by 50 bps on its Late Liquidity Window which had become its only funding channel as of 22 November. The central bank's interest rate increased by 3.6%-pt over full 2017. In explaining its policy action, the central bank noted it will maintain a tight policy stance until the medium-term inflation outlook displays a significant improvement.

In November, the central bank revised upwards the end-of-year inflation projection for end-2018 by 0.6 pt to 7.0%. Inflation in December 2017 was 11.9%, 4.9%-pt above the upper bound of the central bank's target range for the end-of-

year inflation rate. Inflation averaged 12.3% y-o-y in the fourth quarter, accelerating from 10.6% in the third quarter. Core inflation also exceeded 12% in the fourth quarter, a rate not seen since the early 2000's.

Financial sector

The boom of the Borsa Istanbul Index continued in the fourth quarter, amidst high volatility, standing on average 41% higher than a year ago and ending the quarter 12% higher than at the end of the third quarter. The benchmark yield curve has become more inversed in the fourth quarter with the short end (3months, 2 years) 370 – 380 bps above the long end (10 years). The 10 years interest rate on government bond averaged 11.44% in the fourth quarter, up from 10.70% in the third quarter.

Bank loans continued their high growth in the fourth quarter which led loan growth over full 2017 (+22% y-o-y) to be almost double that of 2016 (13%). The 2017 growth rate is, however, a bit under the average growth rate registered since 2005 (+25%). Banks' net profits increased by 28.9% y-o-y in the first eleven months of 2017. The capital adequacy ratio of banks decreased and stood at 16.4 percent at end-November and the NPL ratio was 2.9%. The loan-to-deposit ratio set a new all-time high at the end of November (126.7).

Fiscal developments

The budget for 2018 was approved by Parliament on 22 December. The budget deficit is projected to record TRY 66 bn or 1.9% of GDP in 2018. At the same, the budgetary deficit for 2017 is projected to be TRY 2 bn higher than the TRY 60 bn upwardly revised target which was approved in autumn (original budget law foresaw a budget deficit of TRY 47 bn).

The general government recorded an annualized deficit of 1.0% of full year expected GDP in the third quarter. Gross general government debt was 28.2% of GDP in the third quarter, down from 28.7% in the second quarter. Revenues of the central government increased by 13.4% y-o-y and expenditures by 18.2% in the first eleven months of 2017. The central government ran an annualized deficit of 0.8% of full-year forecast GDP.

TABLE



European Commission, ECFIN-D-1

TURKEY

		2013	2014	2015	2016	2017	ECFIN 2017		Q2 17	Q3 17	Q4 17	Oct 17	Nov 17	Dec 17
							Autumn forecast							
							2018	2019						
1 Real sector														
Industrial confidence ^{1.1}	Balance	106.6	104.6	103.5	105.2	108.0	:	:	110.9	110.6	106.4	109.5	106.3	103.3
Industrial production ^{1.2}	Ann. %ch	3.5	3.5	2.9	1.8	:	:	:	4.6	10.0	:	7.3	:	:
Gross domestic product ^{1.3}	Ann. %ch	8.5	5.2	6.1	3.2	5.3f	4.0	4.1	5.4	11.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	8.0	2.9	5.4	3.6	3.9f	4.5	4.0	3.2	11.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	13.8	5.1	9.3	2.2	2.8f	4.0	4.2	8.0	12.4	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	16.4	38.7	-9.0	16.5	:	:	:	81.8	199.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	4.1	3.9	3.6	0.8	:	:	:	0.7	1.3	:	2.4	:	:
2 Labour market														
Unemployment ^{2.1}	%	N.A.	10.1	10.5	11.1	11.3f	11.0	10.7	10.5	10.8	:	:	:	:
Employment ^{2.2}	Ann. %ch	N.A.	N.A.	2.5	2.2	2.8f	3.1	3.1	2.5	4.3	:	:	:	:
Wages ^{2.3}	Ann. %ch	12.4	14.2	14.9	18.4	13.5f	9.4	8.3	15.5	9.4	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	0.0	3.5	-9.0	-0.7	:	:	:	9.7	11.5	:	7.8	11.1	:
Imports of goods ^{3.2}	Ann. %ch	7.3	-4.0	-14.8	-3.8	:	:	:	13.8	23.2	:	19.0	21.4	:
Trade balance* ^{3.3}	% of GDP	-8.4	-6.8	-5.6	-4.7	-8.4f	-8.2	-8.4	-5.2	-6.0	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	22.3	23.8	23.3	22.0	:	:	:	23.7	24.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	28.1	27.6	26.0	24.9	:	:	:	26.9	28.1	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.8	-4.7	-3.8	-3.8	-3.9f	-4.2	-4.4	-4.1	-4.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.4	1.4	2.0	1.5	:	:	:	1.5	1.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bio EUR	130.3	128.3	110.5	106.1	107.7	:	:	108.7	111.9	107.7	118.5	112.4	107.7
Int. reserves / months Imp ^{3.9}	Ratio	6.2	6.4	6.4	6.4	:	:	:	6.3	6.1	:	6.3	5.9	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	7.5	8.9	7.7	7.8	11.1	8.5	7.4	11.5	10.6	12.3	11.9	13.0	11.9
Producer prices ^{4.2}	Ann. %ch	4.5	10.2	5.3	4.3	15.8	:	:	15.5	16.0	16.7	17.3	17.3	15.5
Food prices ^{4.3}	Ann. %ch	9.1	12.6	11.1	5.8	12.7	:	:	15.6	11.5	14.1	12.7	15.8	13.8
M4 ^{4.4}	Ann. %ch	19.0	16.0	17.8	12.7	17.7	:	:	18.0	18.2	17.9	20.0	18.4	15.5
Exchange rate TRY/EUR ^{4.5}	Value	2.57	2.90	3.03	3.34	4.15	:	:	3.95	4.16	4.54	4.38	4.69	4.55
Nominal eff. exchange rate ^{4.6}	Index	78.87	69.40	64.20	59.10	:	:	:	49.80	48.74	:	46.53	44.00	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	6.60	9.84	10.48	9.88	12.20	:	:	12.18	12.48	13.24	12.59	13.14	14.00
Interest rate, long term ^{5.2}	% p.a.	7.77	9.18	9.30	10.19	:	:	:	10.63	10.72	:	11.42	:	:
Stock markets ^{5.3}	Index	77 977	75 190	80 641	77 177	98 993	:	:	95 416	106 411	107 829	106 160	107 847	109 478
Credit growth ^{5.4}	Ann. %ch	34.7	18.4	20.4	16.2	21.2	:	:	22.1	23.5	21.2	24.7	22.4	21.2
Deposit growth ^{5.5}	Ann. %ch	24.1	11.6	18.6	17.7	17.7	:	:	21.7	21.5	17.7	22.1	20.5	17.7
Non-performing loans ^{5.6}	% total	2.8	2.8	2.8	2.9	3.2	:	:	3.1	3.1	2.9	3.0	2.9	2.9
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	0.1	0.1	1.3	-0.9	-2.4f	-1.8	-2.6	-0.1	-0.3	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	31.3	28.6	27.5	26.4	28.2f	27.9	28.0	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2017 published November 2017

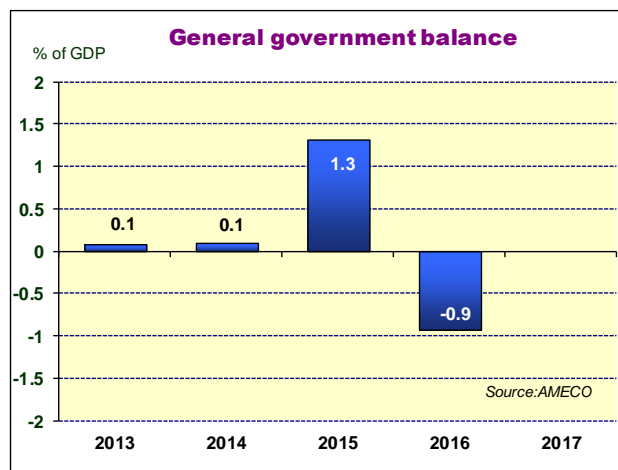
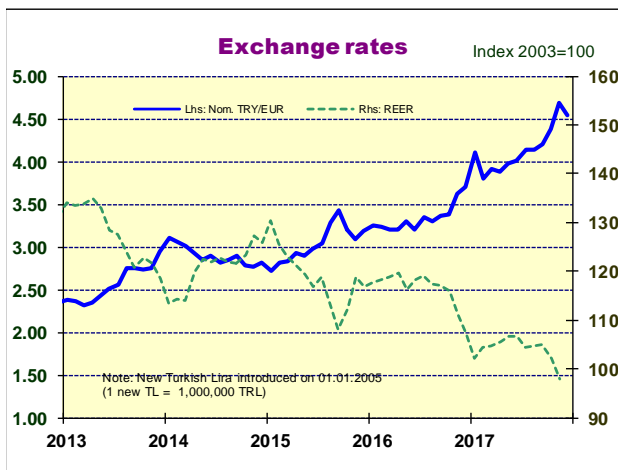
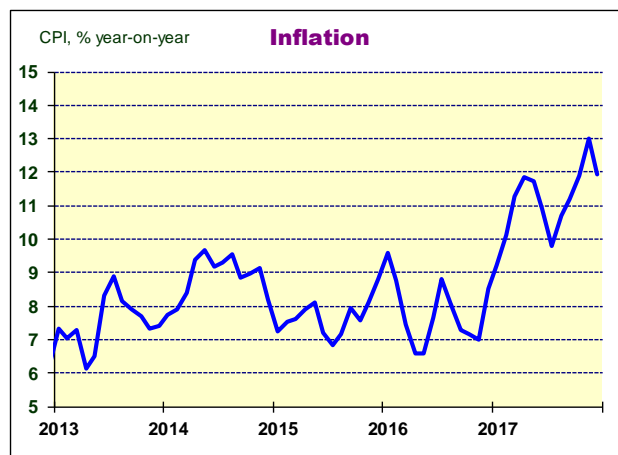
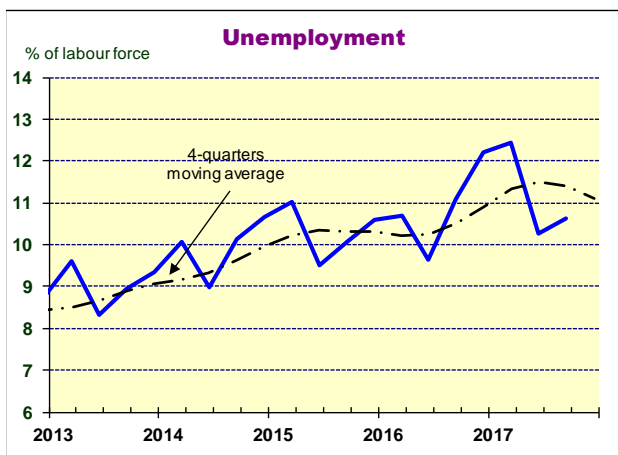
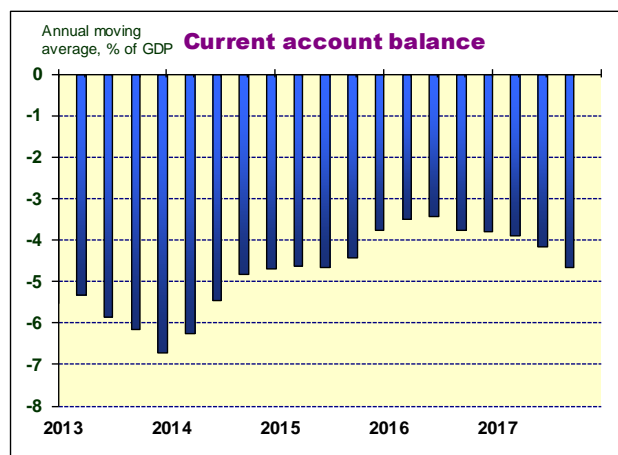
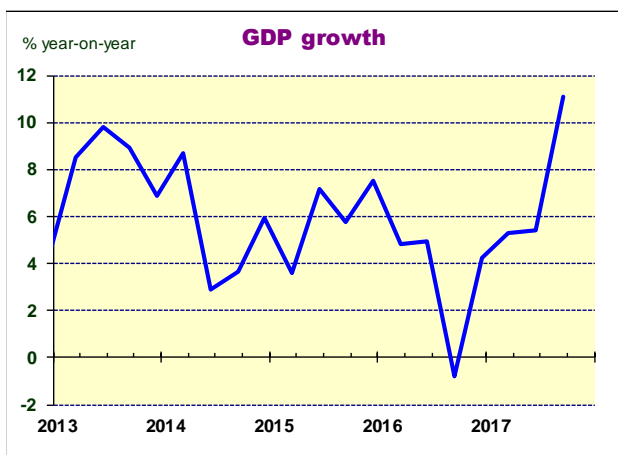
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

TURKEY



BOSNIA AND HERZEGOVINA



Key developments

On 22 December, the IMF reached a staff-level agreement on the first review under the Extended Fund Facility supported programme. Currently still open issues for meeting the conditions for the disbursement of the next tranche (of about EUR 75 million) are the adoption of the Federation's budget for 2018 and the initiation of due diligence procedures for two state-owned telecom companies.

On 8 January, the World Bank approved a EUR 50 million loan for supporting the employment of vulnerable groups, such as young first-time job seekers. Another loan for about EUR 50 million has been approved to support railway restructuring.

Real sector

Production data points to sustained growth in the third quarter. Year-on-year output growth was at 2.9% in the third quarter, largely the same increase as in the two preceding quarters. This brought growth in the first three quarters to around 3% y-o-y. Wholesale trade, transport and tourism contributed 1.3 percentage points to the third quarter's growth, while manufacturing contributed 0.8 percentage points. However, preliminary expenditure data point to a more volatile and overall weaker growth dynamics, with annual growth of +0.3% in Q1, -0.6% in Q2 and +2.3% in Q3, resulting in an average growth of only 0.8% during the whole period. The significant difference in the results of production side and expenditure side accounting, illustrates the weakness of the country's statistic system. On the expenditure side, the main sources of growth were exports and private consumption.

High-frequency indicators, such as industrial production or retail sales, point to a continued growth momentum. In October and November, industrial production rose by 3.9% and 4.6%, respectively. An important contribution came from export- but also consumption-oriented sectors. Retail sales rose by 5.4% in November, pointing to solid consumer demand.

Labour market

Registered employment has increased further in the third quarter, albeit at a decelerating pace, at 2.7% year-on-year, compared to 3.2% and 4.2%

in the previous two quarters. In October, registered employment was 2.1% (15 thousand persons) higher than a year before. The main sectors with employment growth were manufacturing, accounting for nearly half of new employment, while the service sector created another third of new jobs. The number of registered unemployed has continued to decline throughout the year. In October, it was lower by 6.7% y-o-y, which reflects 34 thousand registered unemployed less than a year before. The fact, that the drop in the number of unemployed is significantly higher than the increase in the number of newly registered employed, implies a decline in the country's labour force, by 1.2% year-on-year. The unemployment rate dropped by more than two percentage points (from 41% in October 2016 to a still worrying 38.8% in October 2017). Youth unemployment remains above 60%.

Nominal wages rose by 1.6% year-on-year in the third quarter, after a 1.8% increase in April-June. In October, nominal wages were 2.0% higher than a year before. When taking into account consumer price inflation, real wages in the third quarter of 2017 were still about 0.5% higher than a year before.

External sector

The current account deficit remained largely unchanged in the third quarter, with its 4-quarter moving average at around 4.7% of GDP, compared to 4.6% in the four quarters to September 2016. Commodity exports increased by 21.2% year-on-year in the third quarter, but growth of commodity imports growth was also strong, at 13.6%.

When looking at the first eleven months, the value of goods exports rose by 18%, compared to 4% the year before. This strong acceleration was largely due to higher exports to neighbouring countries, in particular Croatia and Slovenia, contributing 5.2 percentage points to overall export growth. Trade to the EU, including Croatia and Slovenia, contributed about 12 percentage points to the nominal increase, while trade to the Western Balkan countries accounted for another 4.2 percentage points. Merchandise imports increased at a lower rate than exports (+13.5% in the first eleven months).

FDI inflows accounted for about 2.2% of GDP (4-quarter moving average) by end-September 2017, compared to 1.3% of GDP in the corresponding period the year before. The main source of FDI was retained earnings, with Croatia, Austria and Saudi-Arabia being the main countries of origin. Foreign reserves remained largely unchanged in terms of import coverage, at slightly above 7 months.

Monetary developments

Inflation accelerated slightly at the end of the third quarter, reaching 1.6% year-on-year, to a large extent driven by higher prices for food and non-alcoholic beverages. However, inflationary pressures subsided again in the following two months, with an annual inflation rate of 1.2% in November. During the first eleven months of the year, the annual average increase in the consumer price index was 1.2%, compared to a decline by 1.2% during the same period the year before.

The annual growth of the monetary aggregate M2 remained high in the third quarter, at 9.8% compared to 9.9% in the second quarter. This largely reflects strong growth in deposits.

Financial sector

Annual domestic credit growth was recorded at around 6.5% in November, similar to the third quarter (6.4%), and stronger than the 5.1% growth rate in April-June. Household and corporate credits, accounting in nearly equal shares for about 90% of total loans, continued to be the main driving force behind this trend. Household loans rose by 6.7% y/y in the third quarter and also in October and November, compared to 5.5% in April-June. Corporate credits increased slightly faster, by 7.9% in the third quarter and by 8.2% and 8.3% in October and November, respectively, compared to 6.3% in the second quarter. Loans to entities, cantons and municipalities, which account for around 5% of total credits, were 3.2% lower in the third quarter than a year before. In October and November, those loans dropped by 0.7% and 1.1%. In the first and second quarter, public sector loans had been 13% and 7% lower year-on-year. In October and November, the drop in public loans has moderated further, declining by 0.7% and 1.1%, respectively.

Growth of total deposits strengthened further in the third quarter, reaching 10.6% year-on-year, compared to 10.2% in April-June. In October and November, deposit growth remained strong, at 12.1% and 11.2% respectively. As a result of

the robust increase in deposits, the loan-to-deposit ratio continued to be below the 100% mark (at 92.9% in November), compared to 97% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 10.8% in the third quarter, compared to 11.1% in April-June. At the same time, loan-loss provisioning has further improved, with the coverage ratio climbing to 77.1% in the third quarter, from 76.5% in the previous three months. Banking sector profitability has continued to drop slightly as the return on equity fell to 11.7% in the third quarter from 12.1% in the second quarter. The return on average assets remained at 1.7%. The banking system's overall capital adequacy ratio decreased slightly to 15.6% in the third quarter, from 15.9% and 15.7% in the second and first quarter. This overall level is clearly above the country's regulatory minimum of 12%. However, there are big differences among the various banks.

Fiscal developments

According to preliminary Central Bank data, public sector revenues performed well in the first three quarters of 2017, increasing by 8% year-on-year. The main driver of this growth was tax revenue, accounting for about two thirds of the overall increase. Public spending during the first nine months was only 2% higher than a year before. However, there seems to have been a significant acceleration in spending in the third quarter, in particular in the areas of grants, subsidies and spending for public goods and services, while spending on public wages has remained contained. There is no reliable data on public investment available yet. However, anecdotal evidence suggests lower than planned spending on investment, partly due to political stalemates and the resulting delays in securing financing and implementation. This would suggest that the general government accounts might again register a slight surplus in 2017, as in the previous two years.

The latest available data on public debt is still from end-June, pointing to a slight drop in the debt-to-GDP ratio, to some 38% compared to 40% a year earlier. The currency composition remained largely unchanged: about 16% of the debt was denominated in domestic currency, the remaining 84% in foreign currency. The three largest holders of foreign debt are the World Bank, the European Investment Bank (EIB) and the International Monetary Funds (IMF), accounting for 22%, 19% and 12% of the country's total foreign public debt, respectively.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

		2013	2014	2015	2016	2017	Q2 17	Q3 17	Q4 17	Oct 17	Nov 17	Dec 17
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	5.2	0.2	3.1	4.4	:	1.8	5.5	:	3.9	4.6	:
Gross domestic product ^{1.3}	Ann. %ch	2.6	0.2	3.8	3.3	:	-0.6	2.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	0.8	1.4	1.4	2.3	:	1.5	2.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-1.2	11.5	-3.5	2.5	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	-25.8	22.2	-22.7	-38.0	:	-4.4	3.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	4.6	1.8	7.8	7.0	:	5.6	4.3	:	4.3	5.4	:
2 Labour market												
Unemployment ^{2.1}	%	27.5	27.5	27.7	25.4	20.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	1.0	-1.2	1.2	-2.6	1.8	3.2	2.7	N.A.	2.1	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	0.1	-0.1	0.0	0.9	:	1.8	1.6	:	2.0	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. %ch	9.5	3.0	5.1	7.0	:	14.4	21.2	:	20.5	15.8	:
Imports of goods ^{3.2}	Ann. %ch	-0.7	7.1	-2.3	2.4	:	10.6	13.6	:	15.0	16.7	:
Trade balance* ^{3.3}	%of GDP	-26.5	-28.8	-25.2	-23.5	:	-23.6	-23.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	33.8	34.1	34.6	35.1	:	36.6	37.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	54.3	56.8	53.4	52.3	:	53.7	54.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-5.3	-7.4	-5.7	-5.1	:	-4.8	-4.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	1.3	2.9	1.7	1.6	:	2.1	2.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	3 574.1	4 118.4	4 290.6	4 928.3	:	4 783.0	5 302.6	:	5 385.2	5 174.1	:
Int. reserves / months Imp ^{3.9}	Ratio	5.5	5.9	6.3	7.2	:	7.3	7.2	:	7.1	6.7	:
4 Monetary developments												
CPI ^{4.1}	Ann. %ch	-0.1	-0.9	-1.0	-1.1	:	1.2	1.1	:	1.4	1.2	:
Producer prices ^{4.2}	Ann. %ch	-2.2	-0.2	-0.6	-0.9	:	1.0	0.7	:	2.1	3.5	:
Food prices ^{4.3}	Ann. %ch	0.0	-2.7	-0.9	-1.1	:	0.7	1.2	:	2.1	1.7	:
M2 ^{4.4}	Ann. %ch	5.7	7.5	8.0	7.8	:	9.9	9.8	:	10.7	9.4	:
Exchange rate BAMEUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate ^{4.6}	Index	103.6	104.99	103.92	105.22	:	105.63	106.25	:	106.53	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield ^{5.2}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	770	707	701	692	627	618	625	613	624	620	594
Credit growth ^{5.4}	Ann. %ch	2.7	3.7	1.8	2.1	:	5.1	6.4	:	6.6	6.5	:
Deposit growth ^{5.5}	Ann. %ch	5.1	8.4	6.2	7.7	:	10.2	10.6	:	12.1	11.2	:
Non performing loans ^{5.6}	%total	14.5	15.2	13.9	12.3	:	11.1	10.8	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	%of GDP	-2.2	-2.0	0.7	1.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt* ^{6.2}	%of GDP	37.7	41.7	41.9	40.5	:	37.8	:	:	N.A.	N.A.	N.A.

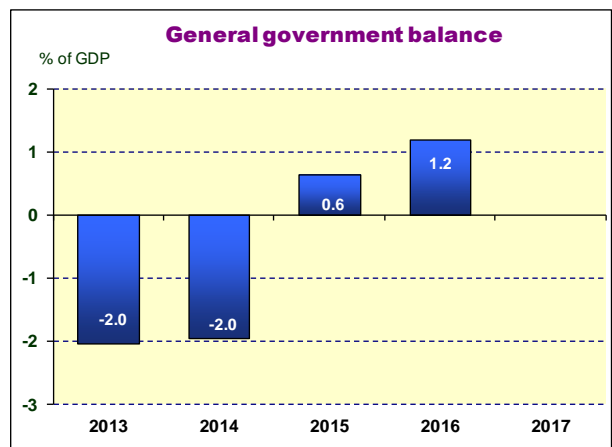
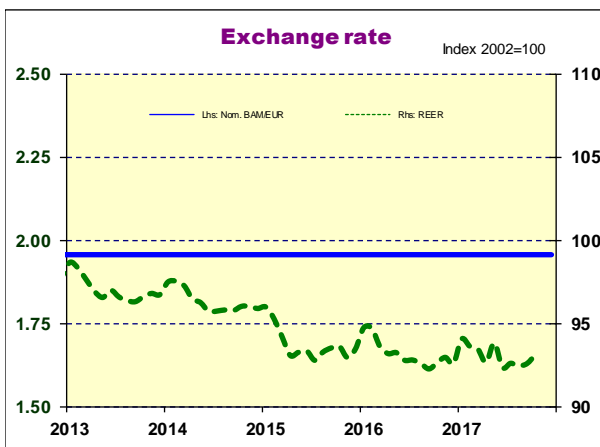
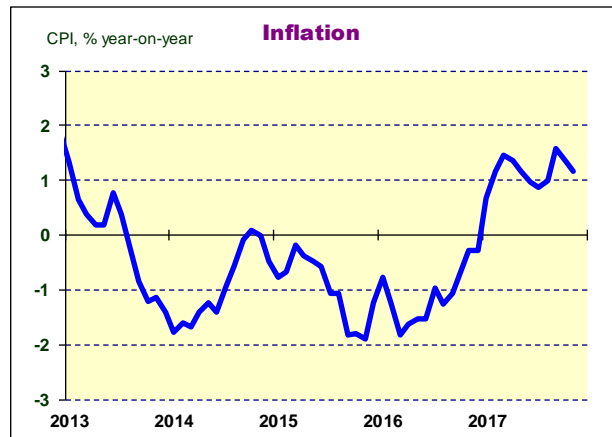
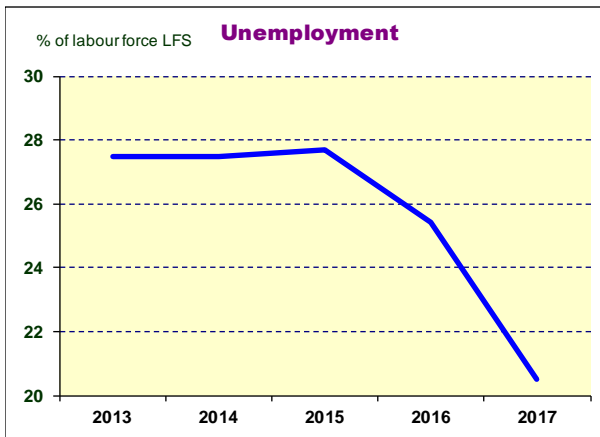
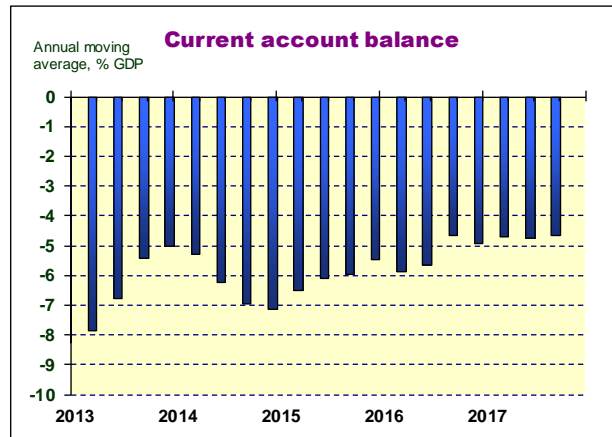
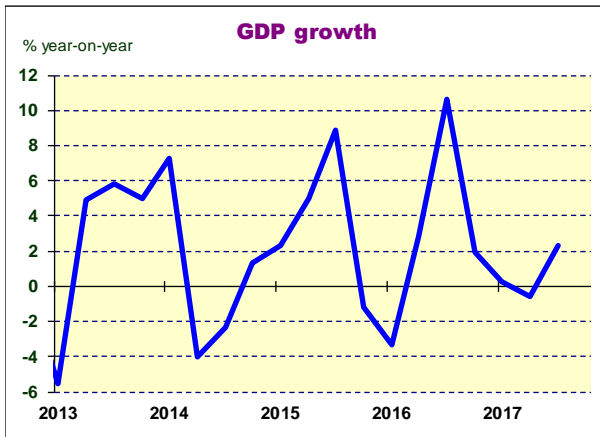
* Q figures based on a 4-quarter moving-average GDP.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

The Office of Prime Minister of Kosovo announced in December that the agreement on the new lignite fired power plant 'Kosova e re' had been reached. The construction is set to begin in 2018 and the plant is expected to become operational by 2023. The chosen partner for the construction and operation of the power plant is the US company Countour Global. The largest individual investment in the history of Kosovo, estimated at over EUR 1 billion, will be fully financed by the investor and there are no budget allocations for the project in the 2018 budget. The power plant is planned to be built with a gross electrical capacity of 500 MW. A co-generation component for central heating will also provide capacities for expansion of the district heating network.

Real sector

In the third quarter of 2017, economic growth remained unchanged from the previous quarter, at 4.4% y-o-y, bringing the average growth in the first nine months to 3.8% y-o-y. With the exception of public administration (-1.7% y-o-y) and other services (-12.5% y-o-y), representing a combined share of around one fifth of total gross value added, all sectors contributed positively to growth. Key sectors of the economy, like manufacturing and trade, expanded rapidly, by 6.3% y-o-y and 7.6% y-o-y, respectively. Growth was particularly strong in financial and insurance activities which continued their stellar performance, increasing by more than 25% y-o-y. Growth in construction also remained high at 9.6% y-o-y in July-September, although it decelerated from double-digit levels in the first half of the year.

On the demand side, third-quarter economic growth was driven by investment and net exports. Spurred by public works, gross capital formation increased by 8.8% y-o-y, while export growth accelerated to 29.4% y-o-y due to a recovery in mineral and base metal exports. The prolonged formation of a new government, following parliamentary elections in June, has likely taken a toll on public consumption which declined by 1.3% y-o-y in the third quarter. Political uncertainty may have also impacted

household final consumption as it fell strongly by 7.6% y-o-y in July to September. This decline, however, was not reflected in the short-term statistics and retail turnover continued to perform strongly.

In the third quarter of 2017, industrial turnover increased by an estimated 10.5% y-o-y. Turnover in the mining sector rose by 28% y-o-y and in the manufacturing sector by 8.6% y-o-y. Productivity per employee increased substantially in both sectors for the third straight quarter due to the recovery of metals exports.

Labour market

According to the labour force survey, the labour market exhibited a mixed performance in the first nine months of 2017. The unemployment rate recorded for this period increased to 30.4% up from 27.1% the year before. On the other hand the employment rate rose to 29.7% (compared to 27.5% a year before), after it had been falling since 2013. The labour force participation rate stood at 42.7%, growing by 4.1 percentage points over the same period last year. The youth jobless rate (15-24 years) decreased to 51.6% in the first nine months, from 52.5% in the same period in 2016. Labour market outcomes are especially poor for women, as only one in five women of working age are active in the labour market and only one in six are employed.

External sector

In the first nine months of 2017, the current account deficit continued to narrow substantially and stood at 6.1% of GDP in the 12 months to September 2017 compared to 10.2% in the corresponding period one year earlier. The goods and services balance improved, recording a deficit of 26.6% of GDP compared to 28.9% in the same period in 2016. Worker remittances increased, accounting for 11% of GDP. On the financing side, net inflows of FDI edged up slightly in the twelve months to September to 3.1% of GDP, compared to 3% a year ago. Portfolio investments recorded a net outflow of 0.4% of GDP. The traditionally high net errors and omissions decreased to 2.2% of GDP, although still representing a large share of capital inflows.

In the first ten months of 2017 total goods exports expanded by 25.8% y-o-y due to a strong growth of mineral and base metal exports following a period of sharp decline that started in 2015. Exports of agricultural products and processed food continued to record significant increases. In the same period, imports of goods rose by 9.7% y-o-y, with mineral fuels and crude materials being the main import drivers reflecting rising oil prices and a stronger construction sector. During January-October the overall merchandise trade deficit increased by 7.7% y-o-y.

Monetary developments

Kosovo's inflation rate is heavily influenced by price developments in the main trading partners, namely the EU. In the first eleven months of 2017 the CPI inflation was 1.6% y-o-y. Food, energy and fuel prices were the main drivers of price growth as core inflation's contribution declined from 1.1 pps in January 2017 to 0.2pp in November 2017. The producer price index increased by 0.3% y-o-y, and the construction cost index by 1.5% in the first nine months of 2017. Their increases result from energy, construction and electrical materials price rises. Import prices rose by 4.4% y-o-y in the first nine months due to increases in food as well as mineral and metal products.

Financial sector

Credit growth remained strong throughout 2017, at around 10% y-o-y in the second and third quarter, edging up to 11.2% in November. Loans to enterprises grew by 10.6% y-o-y, reflecting looser credit requirements, and improvements in project preparation by enterprises, while lending to households increased by 12.2% y-o-y in November. In comparison, total deposits in commercial banks grew at a slower pace, (8.2% y-o-y), causing the loan-to-deposit ratio to rise to 81.6% in November from 77.0% in December 2016, still indicating banks' stable liquidity position and substantial room for stronger lending activity.

The interest rate spread remains on a downward trajectory. The 12-month moving average spread declined by 69 basis points in October 2017 compared to a year before. This reduction was driven by a 67 basis points decrease in the average lending interest rates, standing at 6.91%.

Financial soundness indicators in the banking sector remained satisfactory throughout the first ten months of 2017. For the banking system as a whole, the ratio of liquid assets to short-term

liabilities stood at 37.2% in October 2017, compared to 41.5% at the end of 2016. The capital adequacy ratio was 18.3%, well above the regulatory minimum of 12%. The already low NPL ratio decreased further to 3.6%. Existing NPLs are fully covered by loan loss provisions (140.3%).

Fiscal developments

The Kosovo assembly adopted the 2018 budget based on a 4.6% real growth estimate. The budget revenue is projected to grow 6% compared to the 2017 revised budget on account of strong VAT growth (9.5%). However, there are no new revenue measures foreseen in 2018. Spending on wages will be increased by 4.1 %, in line with the wage rule, on account of new hiring and an announced 3 % increase in public sector wages. The amount allocated for various war veteran benefit programs is smaller than in 2017, which points to overrun risks. Total expenditure is expected to grow by 15% y-o-y on account of strong capital spending increase (37.1% y-o-y growth). Capital spending financed by donors and privatisation proceeds is estimated, somewhat ambitiously, at 2.2% of GDP. Deficit according to the fiscal rule is expected at 1.8% of GDP, while the headline deficit is projected at 4.3% of GDP.

In the first nine months of 2017 budget revenues rose by 3.7% y-o-y which is lower than the projected annual growth of 7.2% for 2017. Revenue from VAT (7.2% y-o-y) and personal income tax (11.1% y-o-y), and non-tax revenue (8.8% y-o-y) were the main drivers of revenue growth. On the other hand, revenue from corporate income shrunk by 10.8% despite stable economic growth. Budget expenditure grew by 7% y-o-y due to the 18.6% rise in capital spending. Higher investment spending reflects mainly payments for the Route 6 highway construction. Current expenditure grew by 4% y-o-y due to rise in goods and services spending (6% y-o-y) and social transfers (8.9% y-o-y). Despite high overall expenditure growth, all expenditure categories except transfers under-performed compared to the budget plan. Overall, the budget recorded a surplus of 0.8% of the full-year GDP in the first 9 months.

In September 2017 total public debt (including guarantees) stood at 15.9% of GDP, not including Kosovo's share of the London and Paris club debt of the former Yugoslavia, which is currently estimated at around 6% of GDP. The average weighted interest rate continued declining to 1.86% owing to the large share of concessional loans from IFIs.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2013	2014	2015	2016	2017	Q2 17	Q3 17	Q4 17	Oct 17	Nov 17	Dec 17
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann.%ch	3.2	0.0	1.3	-1.3	:	11.9	10.5	:	:	:	:
Gross domestic product ^{1.3}	Ann.%ch	3.4	1.2	4.1	4.1	:	4.4	4.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	2.0	4.8	4.0	4.5	:	-2.3	-7.6	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann.%ch	-0.3	-5.0	11.3	7.5	:	17.2	8.8	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	N.A.	11.6	7.1	6.5	:	16.6	11.8	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	30.0	35.3	32.9	27.5	:	:	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	11.8	-4.4	-8.2	11.8	:	:	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	N.A.	N.A.	5.8	N.A.	:	:	:	:	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann.%ch	6.4	10.4	0.2	-4.8	:	27.9	42.9	:	25.7	-6.3	:
Imports of goods ^{3.2}	Ann.%ch	-2.3	3.6	3.8	5.9	:	6.9	10.3	:	12.8	11.0	:
Trade balance** ^{3.3}	%of GDP	-40.5	-39.8	-39.8	-40.9	:	-41.4	-42.8	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	%of GDP	21.9	22.5	21.9	22.2	:	22.7	26.7	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	%of GDP	49.6	51.2	50.4	50.8	:	51.5	54.0	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	%of GDP	-3.4	-6.9	-8.6	-9.0	:	-8.6	-6.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** ^{3.7}	%of GDP	5.3	2.7	5.3	3.6	:	4.5	4.1	4.4	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 504.3	1 266.4	1 302.6	1 161.7	:	1 352.7	1 345.6	:	1 360.0	1 342.3	:
Int. reserves / months Imp ^{3.9}	Ratio	7.4	6.0	5.9	5.0	:	5.6	5.4	:	5.4	5.3	:
4 Monetary developments												
HICP ^{4.1}	Ann.%ch	1.8	0.4	-0.5	0.3	:	1.9	1.7	:	0.9	0.8	:
Producer prices ^{4.2}	Ann.%ch	2.4	1.6	2.7	-0.1	:	-0.5	0.4	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann.%ch	1.5	0.1	0.3	-0.2	:	1.8	:	:	:	:	:
Broad money liabilities ^{4.4}	Ann.%ch	17.3	-4.2	6.4	8.4	:	8.9	9.8	:	9.6	8.4	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) ^{4.6}	Index	106.5	106.7	104.7	N.A.	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate ^{5.1}	%p.a.	11.82	10.62	8.32	7.47	:	6.71	6.58	:	6.82	6.72	:
Bond yield ^{5.2}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth ^{5.4}	Ann.%ch	3.6	3.4	6.9	9.1	:	10.3	9.9	:	10.6	11.2	:
Deposit growth ^{5.5}	Ann.%ch	6.6	7.2	5.6	4.8	:	8.8	8.9	:	9.0	8.2	:
Non-performing loans ^{5.6}	%total	8.7	8.3	6.2	4.9	:	:	:	:	:	:	:
6 Fiscal developments												
General government balance** ^{6.1}	%of GDP	-3.1	-2.2	-2.0	-1.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	8.9	10.7	13.1	14.6	:	:	:	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

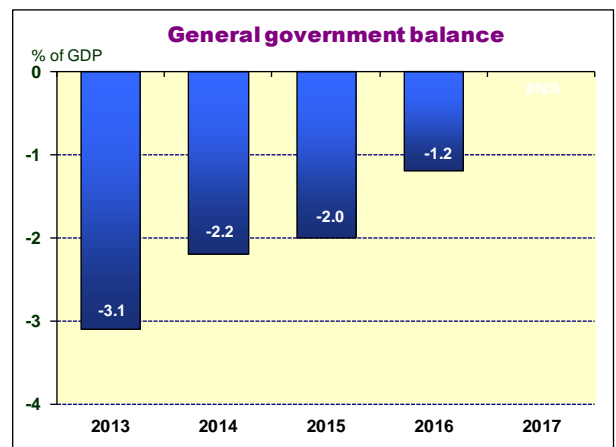
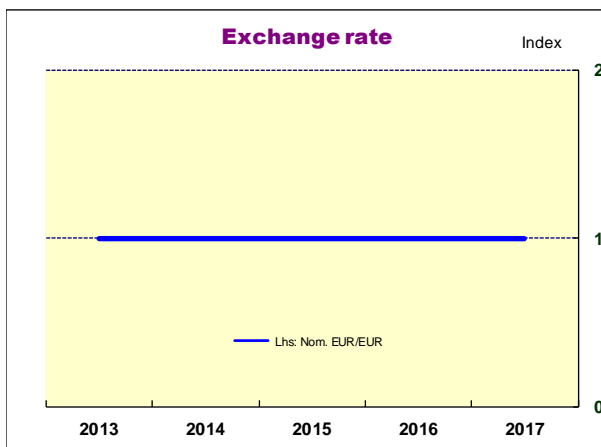
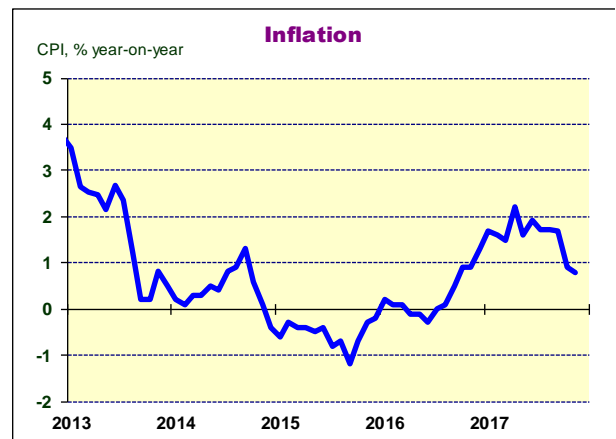
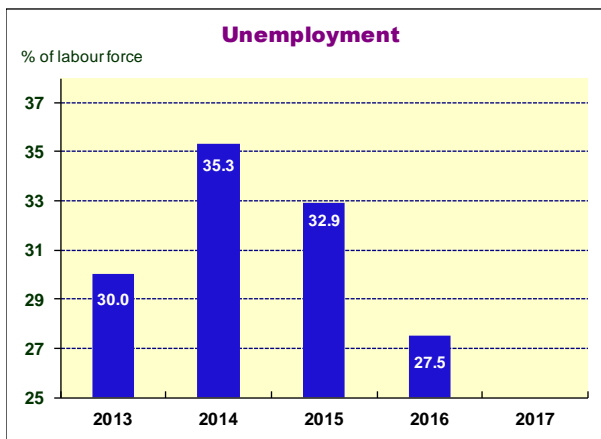
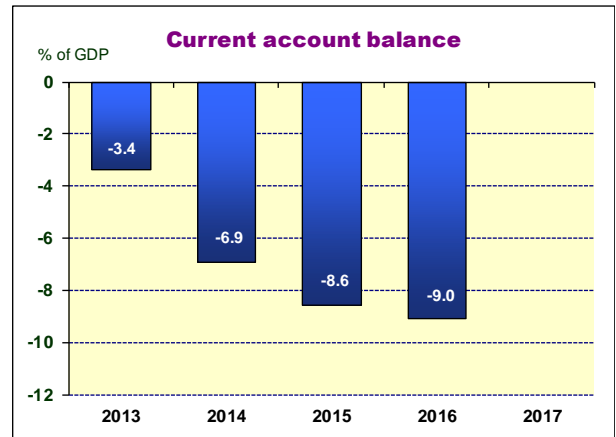
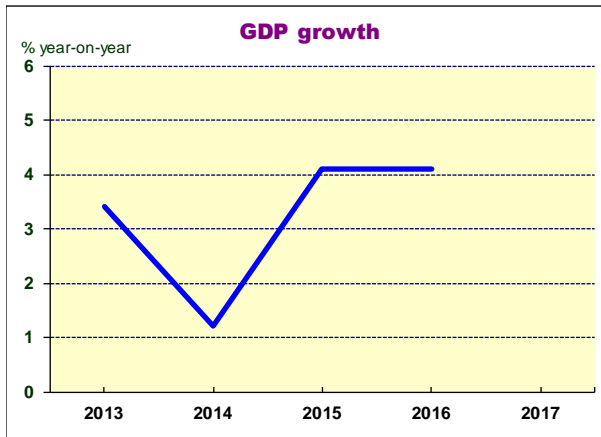
** Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*



Source of data: IMF, national sources



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	MacroBond
1.2.	Industrial production	Annual percentage change, total, constant prices	MacroBond
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	MacroBond
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	MacroBond
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	MacroBond
1.7.	Retail sales	Annual percentage change, total, 2005=100	MacroBond
2.	Labour market		
2.1.	Unemployment	In percent of total labour force	MacroBond
2.2.	Employment	Annual percentage change	MacroBond
2.3.	Wages	Average monthly wages in State sector	MacroBond
3.	External sector		
3.1.	Exports of goods	Annual percentage change, mio. EUR. Break in series 2013.	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR. Break in series 2013.	MacroBond
3.3.	Trade balance	In percent of GDP	MacroBond
3.4.	Exports goods and services	In percent of GDP. Annual data. Break in series 2013.	MacroBond
3.5.	Imports goods and services	In percent of GDP. Annual data. Break in series 2013.	MacroBond
3.6.	Current account balance	In percent of GDP, including official transfers	MacroBond
3.7.	Direct investment (FDI, net)	In percent of GDP	MacroBond
3.8.	Reserves, International reserves of the National Bank	Net foreign assets, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	ECFIN
4.	Monetary developments		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	MacroBond
4.2.	Producer prices	Annual percentage change, Total, index (1998)	MacroBond
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	MacroBond
4.4.	M2	Annual percentage change	MacroBond
4.5.	Exchange rate LEK/EUR	Period averages	MacroBond
4.6.	Change real eff. exchange rate	Not available	
5.	Financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	MacroBond
5.2.	Bond yield	Government Benchmarks, 3 Year Bond, Yield	MacroBond
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	MacroBond
5.5.	Deposit growth	Annual percentage change, total	MacroBond
5.6.	Non-performing loans	Credit Portofolio Quality, NPLs %	MacroBond
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP, Q/Q GDP	ECFIN
6.2.	General government debt	In percent of GDP	ECFIN



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	MacroBond
1.2.	Industrial production	Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	MacroBond
1.4.	Private consumption	Annual percentage change, annual data, chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MacroBond
1.6.	Construction index	Annual percentage change, value of performed work, current prices	MacroBond
1.7.	Retail sales	Annual percentage change, turnover, total	MacroBond
2.	Labour market		
2.1.	Unemployment	In percent of active population, e.o.p.	MacroBond
2.2.	Employment	Annual percentage change of registered employment, avrg.	MacroBond
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	MacroBond
3.	External sector		
3.1.	Exports of goods	Annual percentage change, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	Annual data	MacroBond
3.5.	Imports goods and services	Annual data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4.	Monetary developments		
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MacroBond
4.2.	Producer prices	Annual percentage change	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	MacroBond
4.4.	M21	Annual percentage change, M21 (Broadest money)	Discontinued
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Nominal exchange rate	Not available	
5.	Financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	MacroBond
5.3.	Stock markets	MOSTE Index, Close	MacroBond
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	MacroBond
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	MacroBond
5.6.	Non-performing loans	% of total	Central Bank ME
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP, Q/Q GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	MacroBond
1.2.	Industrial production	Annual percentage change, volume (index 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	Annual percentage change, volume, 2010=100	
2. Labour market			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	NSI
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	NSI
2.3.	Wages	Annual percentage, Hourly earnings manufacturing / Index publication base -	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, annualised moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR, eop.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average	MacroBond
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	MacroBond
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	MacroBond
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	MacroBond
4.4.	M3	Money supply M3, total, TRY	MacroBond
4.5.	Exchange rate YTL/EUR	Period averages	MacroBond
4.6.	Nominal eff. exchange rate	Index 1999, period averages	MacroBond
5. Financial indicators			
5.1.	Interest rate	Deposit rates, 3 month, close	MacroBond
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	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 lons	MacroBond
6. Fiscal developments			
6.1.	General government balance	In percent of GDP, Q/Q GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



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



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

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