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3rd Quarter 2020

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European Commission
Directorate-General for Economic and Financial Affairs

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

3rd Quarter 2020

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

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

OVERVIEW

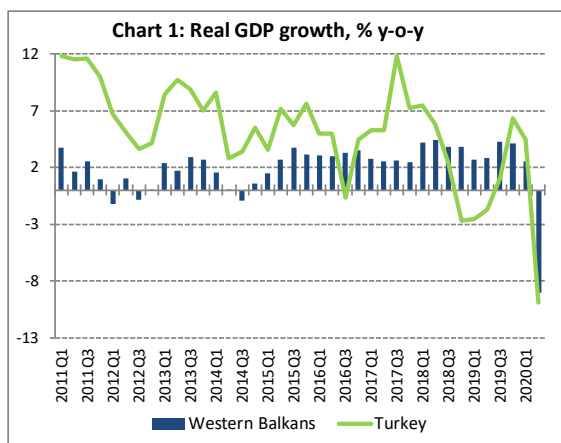
*The disruptive effects of the COVID-19 crisis led to strong output losses in the **Western Balkan** economies in the second quarter of 2020, with the region's GDP contracting by 9.1% year-on-year following a lacklustre 2.5% growth in the preceding quarter. All economies suffered from the collapse of exports and investment. Public consumption remained the key mitigating factor but it was not sufficient to offset negative dynamics of other demand components. The region's current account deficit stood at 6.1% of GDP in the four quarters to June, suggesting that external positions, combined with decelerating FDI inflows, remain vulnerable. The crisis led to job losses in the second quarter, resulting in higher unemployment rates as well as falling labour force participation. Large-scale fiscal support to households and companies to combat the adverse impact of the crisis, combined with a sizeable drop in revenues, resulted in a sharp rise in budget deficits in the first eight months, while the public debt-to-GDP ratio increased in all countries compared to the end of the first quarter.*

*In **Turkey**, the crisis impact fully materialised in the second quarter, when real GDP fell by close to 10% y-o-y, despite a very strong growth contribution from inventories. Economic activity rebounded strongly in the summer months, as indicated by high-frequency indicators. Following two months of a practically stable exchange rate, in end-July the lira resumed its depreciation trend. The central bank reacted to exchange rate pressures and the rising inflation expectations by tightening its stance.*

The outbreak of COVID-19 and related containment measures took a heavy toll on economic performance in the second quarter of 2020 in all **Western Balkan** countries. *Montenegro* registered the strongest drop in output. GDP plunged by 20.2% y-o-y driven by a collapse of exports (namely tourism), as well as falling household consumption and gross fixed capital formation. Also, *North Macedonia* recorded a steep double-digit fall in real GDP by 12.7% y-o-y, following near-stagnation in January-March, due to a contraction in private consumption, investment and exports. In *Albania*, the recession deepened to an economic contraction of 10.2% following an annual output drop of 2.3% y-o-y in the first quarter, mainly driven by a large fall in exports as well as a contraction in investment, private and public consumption. In *Bosnia and Herzegovina*, GDP fell by 9.3% y-o-y largely due to contracting private consumption, investment and exports. Similarly, in *Kosovo* economic output contracted by 9.3% y-o-y on the back of very large drops in service exports and investment while private and public consumption recorded positive annual growth. In *Serbia*, the annual output loss in the second quarter was milder

compared to its peers in the region. Real GDP fell by 6.4% y-o-y from still robust growth of 5.1% in the first quarter. The main drivers of this contraction were private consumption and gross fixed capital formation, which were partially mitigated by expanding government consumption and a slightly positive contribution of foreign trade. Overall, in the second quarter of 2020, the **Western Balkan** region's real GDP contracted steeply by 9.1% y-o-y, down from an average growth rate of 2.5% in the previous three months (Chart 1). This has brought the 22-quarter-long expansion in the region's output to an end.

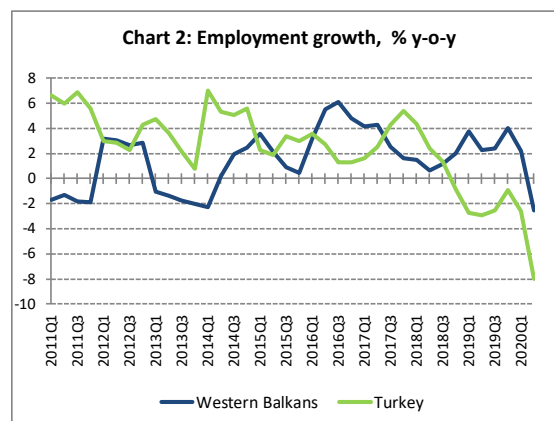
In **Turkey**, the crisis impact fully materialised in the second quarter, when real GDP fell 9.9% y-o-y. Confinement measures and uncertainty hit household consumption particularly badly (-8.6% y-o-y), while disruptions in international travel and external demand damaged exports of goods and services (-35.3% y-o-y). Change in inventories, however, saw another quarter of very high positive contribution to GDP growth (+6.9 pps) and helped keep total domestic demand still in positive territory. Following a dismal second quarter, economic activity rebounded strongly in the summer months.



Source: Macrobond, Commission calculations

In line with declining economic activity, job growth turned negative in the **Western Balkans** in the second quarter of 2020. The average annual decline in employment in the region stood at 2.5% (Chart 2, except Kosovo). Employment losses contributed to rising unemployment rates in some countries (*Albania, Bosnia and Herzegovina*) whereas in others (*Serbia, Montenegro*) the simultaneous decline in labour force participation led to lower rates of unemployment. With jobless rates ranging from 7.3% in *Serbia* to 25.7% in *Kosovo* (in the first quarter of 2020), the labour market situation is becoming a more pressing challenge in the context of the pandemic-induced crisis.

In **Turkey**, the labour market softened further in the second quarter of 2020. The unemployment rate (15-64 years) inched up to 13.7% in June, above its April low of 13.1%. Although labour force participation and the employment rate increased as well, these data do not fully reveal the extent of the crisis' impact on the labour market, as employment data include a significant number of underemployed people who are under temporary employment protection. This is visible in data on time-related underemployment, which more than doubled since the beginning of the year to reach an average of 1.4 million in the second quarter or nearly 5% of the labour force.

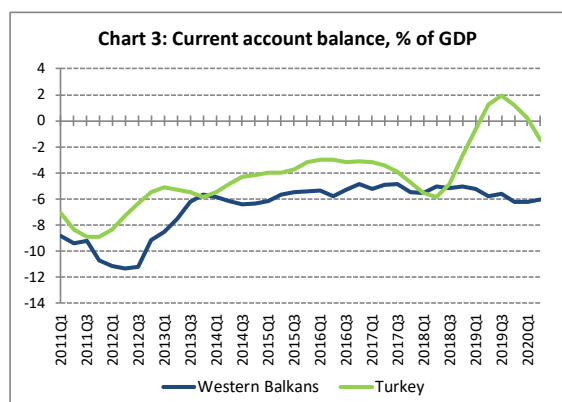


Source: Macrobond, Commission calculations

External imbalances present a key challenge and vulnerability in most **Western Balkan** countries. Very high merchandise trade deficits range from around 14%-18% of GDP in *Serbia* and *North Macedonia*, to around 20%-23% in *Albania* and *Bosnia and Herzegovina*, and to 40% or above in *Montenegro* and *Kosovo*. External developments in the region during the second quarter of 2020 were driven by huge losses of service exports, in particular tourism, and falling exports of goods (with the exception of Kosovo) as well as remittances. At the same time, the steep fall in domestic demand depressed imports. On balance, annualised current account deficits widened in *Albania, North Macedonia and Montenegro* whereas they slightly narrowed in *Serbia, Bosnia and Herzegovina* and *Kosovo*. Overall, in the four quarters to June, the current account deficit in the **Western Balkans** stood at 6.1% of GDP, following 5.8% in the same period one year earlier (Chart 3). On the positive side, the current account deficits continued to be financed mostly by net FDI inflows, which held up or even slightly increased in Montenegro, Kosovo and Albania. Other countries (*Serbia, North Macedonia, Bosnia and Herzegovina*) recorded moderate declines.

In **Turkey**, the 12-month cumulative current account deficit stood at 2.1% of GDP in July, compared to a surplus of 1.2% in 2019. The deterioration was largely driven by an expansion of the trade deficit, mainly due to larger imports of non-monetary gold. A historically bad tourism

season and steady financial outflows have added pressure on the balance of payments and official reserve assets (excluding gold) continued declining.



Source: Macrobond, Commission calculations

Inflation dynamics diverged among countries in the *Western Balkans* during the second quarter and beyond. Central banks of countries with monetary autonomy, after having eased monetary policy at several occasions earlier in the year, left key interest rates unchanged in this period. In August, the central banks of *Albania*, *Montenegro*, *North Macedonia* and *Serbia* entered into bilateral repurchase agreements (repo lines) with the ECB, lasting until June 2021 and providing them with euro liquidity to address possible euro liquidity needs in the presence of market dysfunctions due to the COVID-19 shock.

In *Serbia*, consumer price inflation increased from 1% y-o-y in the second quarter, to 2.0% in July and roughly stabilised at 1.9% in August, above the lower end of the central bank's target tolerance band of 3%±1.5pps. The central bank of *Serbia* decided on 8 October to keep the key policy rate at the record-low of 1.25%, following three successive cuts by 50, 25 and a further 25 basis points in March, April and June respectively. In *North Macedonia*, the overall level of consumer prices increased by 1.3% y-o-y and 1.5% in July and August, respectively. The central bank of *North Macedonia* left its key policy rate unchanged at the historic low of 1.50%, after three successive cuts by 25 basis

points each between January and May. In *Albania*, upward pressure on the CPI resulting from a hike in food prices continued also in the second quarter, leading to an increase in consumer price inflation to 1.9% (still below the 3% target), compared to 1.6% in the first three months. The *Bank of Albania* has not changed its key policy rate, which it had last lowered to 0.5% in March.

On the other hand, consumer prices dropped sharply in *Bosnia and Herzegovina* (-1.6%) and in *Montenegro* (-1.1%) in the second quarter and beyond, after a moderate rise in the first quarter. In *Bosnia and Herzegovina*, the decline in the CPI eased somewhat in July (-1.3%) and August (-1.2%), while it deepened in *Montenegro* (-1.6% both months). In both countries, deflation was driven mainly by a drop in prices for transport and energy, offset somewhat by an increase in food prices. In *Kosovo*, too, consumer prices declined in the second quarter (0.2%), dropping into negative territory in July (-0.1%) and August (-0.5%).

In *Turkey*, inflation was flat at around 11.8% y-o-y in July-September. Food inflation went up over the summer, driven mainly by higher unprocessed food prices (17.5% y-o-y in September). Service inflation remained in double-digits and, since May, core inflation has inched up, moving firmly in double-digit territory as well. In parallel, end-of-year inflation expectations have also moved up to 11.5% in September and the expectations of the 12-month ahead annual inflation surpassed 10% for the first time this year. Following two months of a practically stable exchange rate, in end-July the lira resumed its depreciation trend – by early October it lost some 30% of its value against the US dollar since the start of the year. The central bank reacted to exchange rate pressures and rising inflation expectations by raising its one-week repo rate by 200 bps to 10.25% in September and increasing the average cost of funding from a low of 7.34% in mid-July to 11.38% in early October.

Bank lending growth decelerated in the second quarter of 2020, compared to the previous three months, and beyond, in *Albania* (when adjusted for exchange rate changes and loan write-offs), *North Macedonia* (increasing again in July and August, and including the positive impact of measures to defer loan collection), *Bosnia and Herzegovina* and *Kosovo* (strengthening again in August). On the other hand, credit growth accelerated in *Montenegro* and *Serbia* (decelerating somewhat in July and August). For the same period, in some countries such as *Bosnia and Herzegovina* and *North Macedonia* credit to households grew faster than corporate loans. Bank balance sheets improved further in some of the **Western Balkan** countries as they continued to reduce the share of non-performing loans (NPLs) in total loans. In the second quarter of 2020, the NPL ratio in *Albania* fell to a record low of 8.1%, 3.1pps lower than 12 months earlier. In *Bosnia and Herzegovina* the NPL ratio stood at 6.7%, followed by *Montenegro* (5.0% in August), *North Macedonia* (4.6%) and *Serbia*, where it reached its lowest level on record (3.7%). However, these figures do not yet reflect the full impact of the pandemic-induced crisis on the financial sector.

In *Turkey*, the authorities took steps in August and September to reverse measures introduced at the peak of the COVID-19 crisis to incentivise domestic lending. Annual credit growth, however, still accelerated in July and August. Due to the buoyant credit growth, the NPL ratio slightly fell to 4.1% in August from 4.6% a year before.

The adverse impact of the COVID-19 crisis on fiscal balances intensified in the second quarter and over the summer. In all countries in the **Western Balkan** region, the government deficit widened sharply, as crisis-related spending increased and revenues, in particular from profit tax and VAT, dropped further.

In *Serbia*, in January-August, the budget posted a deficit of 6.2% of projected annual

GDP, compared to a surplus of 0.7% in the same period one year earlier, mainly on account of a hike in expenditure (+22.9%). The drop in revenue remained comparatively mild (-3.5%). In *Albania*, the budget deficit stood at some 5% of GDP in the first eight months, with revenues having tumbled by 11.4% y-o-y, but expenditure up by a relatively modest 4.7%, in spite of almost complete disbursements of the budgeted fiscal support measures. In *North Macedonia*, revenue declined by 8% y-o-y, with a decrease in all components except for social contributions, which rose by 7.1% on account of higher rates and government subsidies. Expenditure rose by 14.3%, and the deficit amounted to 4.3% of GDP. In *Montenegro*, fiscal performance fell short of the June budget revision, as revenue dropped by 12.7% and expenditure rose by 8.8%, bringing the budget deficit in the first eight months to 6.7% of GDP. In *Kosovo*, a drop in revenue of 11.5%, far above the government plan, and a 7% rise in expenditure, mainly due to higher social transfers, led to a decline in the fiscal surplus by 95% y-o-y.

General government debt increased in the second quarter in all countries in the region, in some cases reflecting emergency assistance from international financial institutions. At end-June, the debt ratio was the highest in *Albania* (81.5% of GDP) and in *Montenegro* (78.2%), followed by *Serbia* (58.1%).

In *Turkey*, the central government budget deficit expanded further until July, before posting a surprisingly high monthly surplus in August (TRY 28 billion) on the back of strong tax revenues and lower Treasury transfers. In January-August, the deficit stood at TRY 111 billion (2.3% of projected annual GDP), up 63% y-o-y. In June, government debt stood at 39.4% of GDP (up from 34.8% at the end of the first quarter).

Candidate and potential candidate countries: Summary table

	2015	2016	2017	2018	2019	ECFIN 2020 Spring forecast		Q1 20	Q2 20	Q3 20	Jul 20	Aug 20	Sep 20
						2020	2021						
Gross domestic product (in real terms, annual % change)													
Albania	2.2	3.3	3.8	4.1	2.2	-4.8	4.2	-2.3	-10.2	:	N.A.	N.A.	N.A.
North Macedonia	3.8	2.8	1.1	2.7	3.6	-3.9	4.0	0.2	-12.7	:	N.A.	N.A.	N.A.
Montenegro	3.4	2.9	4.7	5.1	4.1	-5.9	4.4	2.7	-20.2	:	N.A.	N.A.	N.A.
Serbia	1.8	3.3	2.1	4.5	4.2	-4.1	6.1	5.1	-6.4	:	N.A.	N.A.	N.A.
Turkey	6.1	3.3	7.5	3.0	0.9	-5.4	4.4	4.4	-9.9	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	4.1	3.4	3.0	3.3	2.9	:	:	2.0	-9.3	:	N.A.	N.A.	N.A.
Kosovo	4.1	4.1	4.2	3.8	4.9	:	:	1.3	-9.3	:	N.A.	N.A.	N.A.
Unemployment													
Albania	17.5	15.6	14.1	12.8	12.0	14.9	13.5	11.9	12.5	:	N.A.	N.A.	N.A.
North Macedonia	26.1	23.8	22.4	20.7	17.3	18.1	17.6	16.2	16.7	:	N.A.	N.A.	N.A.
Montenegro	17.8	18.0	16.4	15.5	15.4	17.0	16.2	16.6	15.7	:	N.A.	N.A.	N.A.
Serbia	17.7	15.3	13.5	12.7	10.4	12.7	10.0	9.7	7.3	:	N.A.	N.A.	N.A.
Turkey	10.5	11.1	11.1	11.2	14.0	16.9	16.9	13.8	13.3	:	:	:	:
Bosnia and Herzegovina	27.7	25.4	20.5	18.4	15.7	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	32.9	27.5	30.5	29.6	25.7	:	:	25.0	:	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)*													
Albania	-8.6	-7.6	-7.5	-6.8	-8.0	-9.1	-8.4	-8.0	-9.1	:	N.A.	N.A.	N.A.
North Macedonia	-2.0	-2.9	-1.1	-0.1	-3.3	-3.0	-3.9	-3.0	-3.3	:	N.A.	N.A.	N.A.
Montenegro	-11.0	-16.2	-16.1	-17.0	-15.0	-13.8	-12.9	-15.2	-15.8	:	N.A.	N.A.	N.A.
Serbia	-4.4	-2.9	-5.2	-4.8	-6.9	-4.3	-5.5	-7.1	-6.5	:	N.A.	N.A.	N.A.
Turkey	-3.2	-3.1	-4.7	-2.7	1.2	-0.5	1.5	0.2	-1.5	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.9	-4.6	-4.7	-3.3	-3.0	:	:	-2.9	-2.8	:	N.A.	N.A.	N.A.
Kosovo	-8.6	-7.9	-5.4	-7.6	-5.8	:	:	-5.7	-5.1	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.9	1.3	2.0	2.0	1.4	2.5	2.8	1.6	1.9	:	1.4	1.3	:
North Macedonia	-0.3	-0.2	1.4	1.5	0.8	-0.7	2.0	0.6	0.5	:	1.3	1.5	:
Montenegro (HICP)	1.4	0.1	2.8	2.9	0.5	0.8	1.3	0.5	-1.1	:	-1.6	-1.6	:
Serbia	1.4	1.1	3.1	2.0	1.8	0.9	1.9	1.8	1.0	:	2.0	1.9	:
Turkey	7.7	7.8	11.1	16.3	15.2	11.4	11.7	12.1	11.7	11.8	11.8	11.8	11.7
Bosnia and Herzegovina	-1.0	-1.1	1.3	1.4	0.6	:	:	0.4	-1.6	:	-1.3	-1.2	:
Kosovo	-0.5	0.3	1.5	1.1	2.7	:	:	1.1	0.2	:	-0.1	-0.5	N.A.
General government balance (% of GDP)													
Albania**	-4.1	-1.8	-2.0	-1.6	-1.9	-5.2	-3.3	:	:	:	:	:	:
North Macedonia**	-3.5	-2.7	-2.7	-1.8	-2.0	-6.8	-3.4	-4.5	-12.4	:	N.A.	N.A.	N.A.
Montenegro**	-8.3	-3.6	-5.3	-3.9	-2.0	-7.7	-1.5	-7.7	-16.3	:	:	:	:
Serbia**	-3.5	-1.2	1.1	0.6	-0.2	-7.7	-2.1	-4.1	-20.5	:	N.A.	N.A.	N.A.
Turkey**	-1.0	-1.1	-1.5	-1.9	-2.9	-7.8	-9.0	-2.8	-7.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina**	0.6	1.2	2.5	2.2	1.9	:	:	3.4	-7.4	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-2.0	-1.2	-1.3	-2.8	-2.9	:	:	0.2	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2020 published May 2020.

* Q figures refer to a 4 quarters moving average.

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

ALBANIA



Key developments

Albania opened schools in September, and neighbouring countries lifted travel restrictions with Albania. In October, the government approved the loan agreement for the requested macro-financial assistance from the EU, paving the way for the first disbursement once the document is signed.

On 6 October, the European Commission presented its annual enlargement package. Regarding the economic criteria for EU membership, it stated that Albania has made some progress and is moderately prepared in developing a functioning market economy. The economy has also made some progress and gained some level of preparation in its capacity to cope with competitive pressures and market forces within the EU.

Real sector

The recession of the Albanian economy deepened in Q2 to -10.2% y-o-y after GDP contracted 2.3% y-o-y in Q1. Private consumption, which still grew 1.4% y-o-y in Q1, dropped sharply by 7.6% y-o-y while government consumption growth dropped from 0.6% in Q1 to -0.6% y-o-y in Q2 on account of falling collective consumption expenditure. Investment fell by 11.1% y-o-y in Q2, which follows contractions of similar extent in the preceding two quarters, reflecting the completion of major investments in the energy sector, aggravated by the impact of the COVID-19 pandemic. In addition, exports fell 49.9% in Q2, with services (-57.7%) being hit double as hard as goods exports (-23.3%). Imports fell 36%, mainly driven by a 67.9% drop in services imports, while goods imports decreased 18.7% (all y-o-y).

As in Q1, economic output shrank in all sectors in Q2, except for real estate activities and agriculture, the latter recorded in the first two quarters of 2020 the highest growth rates of the last three years. Services, which account for about 50% of GDP, suffered by far the most, led by a 27% output drop in the categories of trade, transport and hospitality services. Industrial output fell too, by 13.1%, led by falling manufacturing production (-19.1% y-o-y).

The economic sentiment indicator recovered

somewhat in Q3 from its historic low in Q2, reflecting improving business confidence in particular in construction, but remained far below its long term average; especially consumer confidence showed little improvement.

Labour market

The recession led to deteriorating labour market indicators in Q2, as employment contracted 3.9% y-o-y, reflecting a loss of 34 000 jobs. The unemployment rate (15-64 years) increased by 0.6 pps y-o-y to 12.5%, the same level as in early 2019. The worst hit was the group of the 15 to 29 year old for whom the unemployment rate increased 1.4 pps to 21.4%. Despite muted 0.4% growth in public wages and a sharp drop of all wage indices except construction, average nominal wages recorded 1.7% quarterly growth in Q2 and 2.9% y-o-y growth.

External sector

The 4-quarter moving average current account deficit widened from 7.7% in Q1 to 8.7% of GDP in Q2. The large surplus of the services balance dropped 46.1% y-o-y from 9.2% to 8.6% of GDP, whereas the goods trade deficit narrowed 16% y-o-y but kept its 22.8% share (as a 4-quarter moving average) in GDP stable. Remittances dropped 35%, while the primary income account deficit widened from -1.3% to -1.7% of GDP. Net foreign direct investment fell again sharply by 10.6% y-o-y but with its share in GDP (4-quarter moving average) unchanged from Q1 at 7.5%, it still covered about 86% of the current account deficit in Q2. Gross external debt grew sharply by 6.8% y-o-y in Q2, from EUR 8.2 billion to EUR 8.9 billion, and corresponded to about 70.6% of GDP, up from 61% one year earlier. Foreign reserves jumped from EUR 3.2 billion to EUR 4.1 billion in Q2 and their coverage of imports and of external debt increased to 9 months and to 46%, respectively.

Monetary developments

The lek remained at the average rate of 124 lek per euro in Q3, close to last year's average of 123 lek per euro. A hike in food prices pushed the average annual inflation rate to 1.9% in Q2

2020, but as food prices decreased, inflation dropped to 1.3% in July and August. The y-o-y growth of the monetary aggregate M2 accelerated strongly from 4.4% in March to 10.1% in August, driven by strong growth of M1 and of currency outside banks. In contrast, growth of M3 stabilised at 7.6% y-o-y in August, slightly up from 6.9% in March. Since March 2020, the Bank of Albania (BoA) has kept its record low 0.5% policy rate unchanged. On July 17, the BoA arranged a repo-line with the ECB until June 2021.

Financial sector

Growth of credit to the economy slowed from 7.4% y-o-y in Q1 to 6.2% y-o-y in Q2, while the credit-to-GDP ratio remained at 36.8%, more than 4 pps above its corresponding 2019 level. Lending to enterprises, in particular to SMEs, grew 7.3%¹ in Q2 2020, stimulated by lower interest rates, but also by the sovereign lending guarantees for enterprises from the COVID-19-support package. About ALL 12.4 billion or 48% of the two sovereign guarantee funds had been used by September. Lending to households across all segments decelerated compared with Q1 by 1.4 pps to an annual average growth of 6.1%; in particular lending in euro decelerated. The growth rate of deposits accelerated to 5.4% y-o-y in Q2 and to 5.9% in August.

Banks tightened lending standards and reported declining demand from both enterprises and households in Q2, despite decreasing average interest rates for loans in domestic currency for both households (down to 5.9%) and enterprises (down to 5.1%). Rates for loans in euro on the other hand, remained unchanged and the share of foreign currency loans in total bank loans decreased for the first time below 50% in July 2020, 1.5 pps lower than in July 2019.

The Bank of Albania temporarily facilitated the deferral of loan instalments to help borrowers hit by the crisis, which so far led to about EUR 3.9 billion of deferred credit payments. In addition, the BoA allowed banks to restructure loans without additional provisioning and prolonged the restriction on bank's dividend payments until end-2020. These measures have most likely supported the stability of key financial indicators. The ratio of non-performing loans to total loans continued to decline over Q2 to a multi-year low of 8.1% in August 2020. The

capital adequacy ratio of the banking sector fell to 18.1%, but remained well above the required level, whereas the liquidity ratio dropped to 16.7% from 21.7% in Q1. Bank profitability in terms of ROE and ROA recovered during this period from 3.5% to 9.1% and from 0.4% to 1% respectively, but remained below 2019 levels.

Fiscal developments

In the first eight months of 2020, the consolidated fiscal deficit reached ALL 53 billion (approximately 5% of GDP), as revenue dropped 11.4% and expenditure increased 4.7% compared with the same period of 2019. In particular profit and income tax revenue dropped, as the taxation office allowed a delayed payment. Capital expenditure and disbursement of unemployment benefits recorded the highest increases. By September about 94% of the ALL 13.5 billion foreseen in the two fiscal packages had been disbursed in direct support to businesses and households.

In August, the parliament approved the new fiscal rule to keep the primary balance at balanced or positive from 2023 onwards. Public debt growth jumped from 4.2% y-o-y in Q1 2020 to 14.5% in Q2, and pushed the public debt to GDP ratio from 66.3% at end-2019 to an estimated 81.5% in Q2.

¹ Annual average growth adjusted for written-off loans and exchange rate impacts

TABLE



ALBANIA

European Commission, ECFIN-D-1

		2015	2016	2017	2018	2019	ECFIN 2020 Spring forecast		Q1 20	Q2 20	Q3 20	Jul 20	Aug 20	Sep 20
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Balance	-5.5	-3.7	1.5	-0.5	-0.6	:	:	-5.7	-29.7	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-9.1	-19.6	8.4	9.7	5.6	:	:	-11.2	-22.8	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	2.2	3.3	3.8	4.1	2.2	-4.8	4.2	-2.3	-10.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	0.9	2.0	2.6	3.2	3.3	-4.3	3.3	1.4	-7.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	3.5	2.4	6.0	2.4	-3.3	-7.0	-0.5	-15.7	-11.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	19.4	5.1	19.6	5.6	-2.5	:	:	-9.7	1.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	10.8	7.8	2.4	1.8	4.2	:	:	-0.2	-8.7	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	17.5	15.6	14.1	12.8	12.0	14.9	13.5	11.9	12.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	4.9	6.1	2.7	2.1	2.4	-3.0	2.8	0.7	-3.9	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.2	-0.8	3.0	3.1	3.8	:	:	3.3	2.9	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-6.0	2.5	14.4	20.0	-0.2	:	:	-8.5	-26.5	:	-13.0	:	:
Imports of goods ^{3.2}	Ann. % ch	-0.8	7.4	11.5	8.1	4.8	:	:	-6.9	-22.5	:	-6.8	:	:
Trade balance ^{3.3}	% of GDP	-22.4	-24.3	-24.4	-22.4	-23.0	-21.2	-21.6	-22.8	-22.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	27.3	29.0	31.6	31.6	31.6	:	:	32.6	29.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	44.5	45.8	46.6	45.3	45.3	:	:	46.8	44.6	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-8.6	-7.6	-7.5	-6.8	-8.0	-9.1	-8.4	-8.0	-9.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	8.0	8.7	8.6	8.0	7.6	:	:	7.3	7.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,880.0	2,945.0	2,995.9	3,399.0	3,359.6	:	:	3,324.2	4,165.4	:	4,115.5	4,074.9	:
Int. reserves / months Imp ^{3.9}	Ratio	7.6	7.2	6.7	7.0	6.5	:	:	6.5	9.0	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.9	1.3	2.0	2.0	1.4	2.5	2.8	1.6	1.9	:	1.4	1.3	:
Producer prices ^{4.2}	Ann. % ch	:	-1.5	2.8	1.6	-0.8	:	:	-2.1	-4.2	:	:	:	:
Food prices ^{4.3}	Ann. % ch	4.3	3.3	3.9	2.7	2.9	:	:	2.9	4.4	:	3.1	3.1	:
M3 ^{4.4}	Ann. % ch	1.8	3.9	0.3	-0.2	4.3	:	:	6.9	7.9	:	7.5	7.6	:
Exchange rate LEK/EUR ^{4.5}	Value	139.74	137.36	134.14	127.57	123.01	:	:	122.84	124.51	123.95	124.02	123.80	124.02
Real effective exchange rate ^{4.6}	Index	90.5	93.9	97.7	104.8	108.5	:	:	109.0	109.8	:	110.9	:	:
5 Financial indicators														
Interest rate (3 months-TRIBOR) ^{5.1}	% p.a.	3.23	1.99	2.15	1.83	1.45	:	:	1.49	1.51	1.45	1.48	1.45	1.42
Bond yield ^{5.2}	% p.a.	2.77	2.05	2.07	2.20	1.76	:	:	1.66	1.62	:	1.62	1.65	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	0.3	-0.7	-0.1	-1.7	3.0	:	:	7.4	6.2	:	6.0	5.7	:
Deposit growth ^{5.5}	Ann. % ch	1.9	1.1	1.0	-1.2	2.5	:	:	4.7	5.4	:	5.5	5.9	:
Non performing loans ^{5.6}	% total	18.2	18.3	13.2	11.1	8.4	:	:	8.2	8.1	:	8.1	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-4.1	-1.8	-2.0	-1.6	-1.9	-5.2	-3.3	:	:	:	:	:	:
General government debt* ^{6.2}	% of GDP	72.7	72.4	70.2	67.7	66.3	74.6	73.6	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2020 published May 2020

* Q figures refer to a 4 quarters moving average.

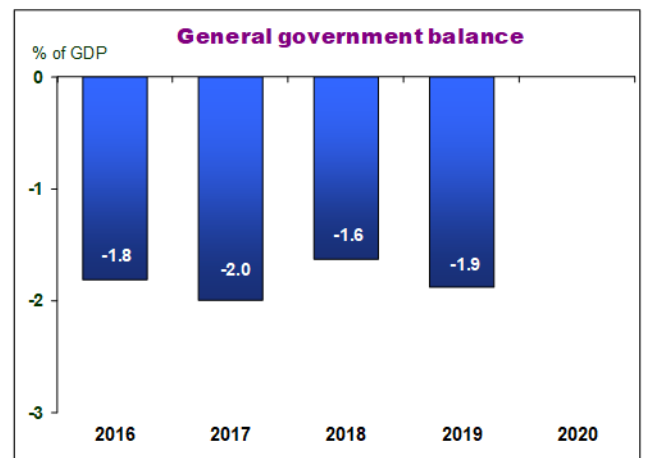
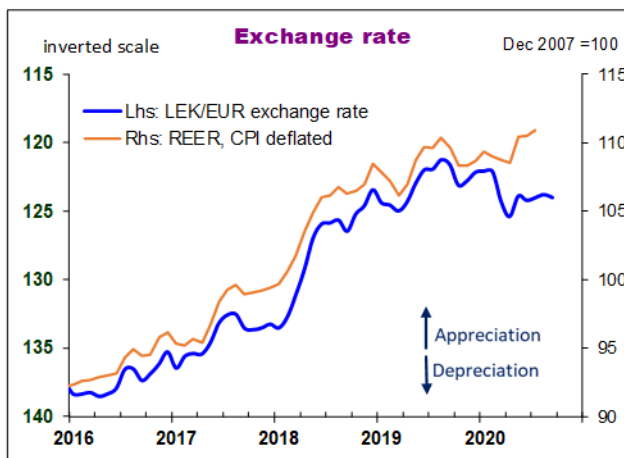
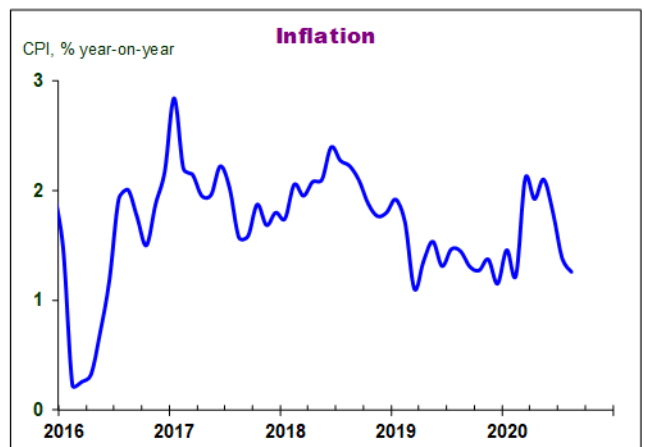
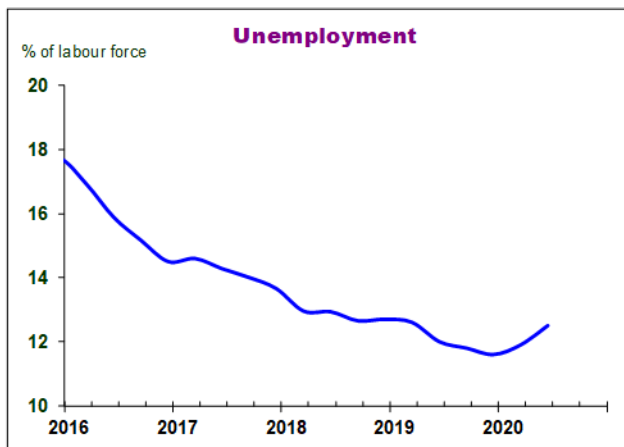
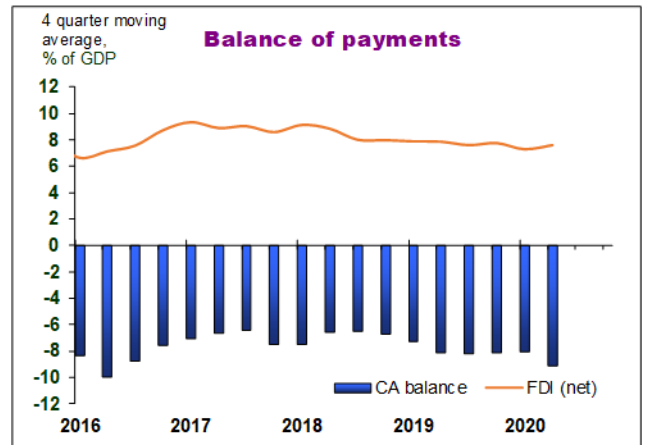
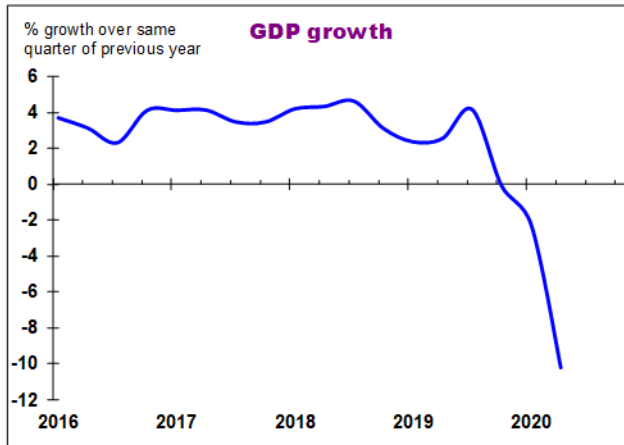
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA



MONTENEGRO



Key developments

The incumbent and long-governing Democratic Party of Socialists (DPS) secured 35% of votes in the parliamentary elections held on 30 August, winning most votes but losing its parliamentary majority. An alliance of parties named 'For the Future of Montenegro', won 32%, and two other opposition groups came next with 12% and 5%, respectively. On 23 September, the leader of the opposition coalition, Prof. Zdravko Krivokapić, received the support of parliament to form the country's next government.

On 4 September, Standard & Poor's affirmed Montenegro's B+/B ratings and negative outlook. The agency sees Montenegro's economy contracting by 8.2% in 2020 and recovering only partially (by 4.5%) in 2021, as the tourism-dependent economy has been hit hard by the COVID-19 pandemic, and the fiscal fallout from the pandemic is further eroding the country's already weak fiscal position.

On 6 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Montenegro made some progress and is moderately prepared in developing a functioning market economy. The economy also made some progress and remains moderately prepared to cope with competitive pressures and market forces within the EU.

Also on 6 October, the European Commission disbursed the first (50%) instalment of a EUR 60 million macro-financial assistance programme to Montenegro.

Real sector

The COVID-19 pandemic and the subsequent introduction of travel restrictions between 15 March and 18 May devastated Montenegro's tourism sector, causing one of Europe's steepest declines in Q2 GDP. Economic activity plunged by a preliminary 20.2% y-o-y, affected by a weakening of both external and domestic demand. The latter was pulled downwards by strong declines in fixed investment (-26.3% y-o-y) and private consumption (-15.0% y-o-y). On the external side, real exports of goods and services plummeted by nearly 55.9% y-o-y, while imports fell at a much slower pace (31.2%

y-o-y). In contrast, government consumption rose by 0.5% y-o-y. Overall, Montenegro's GDP fell by a preliminary 8.8% y-o-y in the first half of 2020.

On the supply side, industrial output and trade data indicate that Q2 growth was pulled downwards by industry, retail sales, and hotel and restaurant services. Industrial output fell by 15.4% y-o-y in Q2 owing to a steep (-38.8% y-o-y) decline in utilities production due to a combination of unfavourable weather conditions, power plants overhaul and lower demand. The decline in industrial output eased in July and August to 1.1% and 2.6% y-o-y, respectively. However, other early indicators point to further deepening of the economic recession in Q3. Despite a loosening of border restrictions, foreign tourism arrivals plummeted by 93% y-o-y in July and 80.7% y-o-y in August, negatively impacting on retail sales which fell by further 32.4% and 37.1% y-o-y in July and August, respectively.

Labour market

The COVID-19 pandemic and the resulting contraction of economic activity is having a deep impact on the labour market. The employment rate dropped to 51.2% in Q2, down from 56.9% a year earlier. The largest drops in employment were recorded in construction (-29.3% y-o-y) and accommodation and food services (-24.0% y-o-y). Due to the increase of economically inactive people, mostly discouraged seasonal and temporary workers, the unemployment rate recorded some relative improvement in Q2 of 2020, easing to 15.7% compared to 16.6% in the previous three months. However, it remained higher compared to the level of 14.3% a year before.

Wages recorded modest but positive growth in a dire economic context and contraction in employment. Thus, after rising by nominal 1.2% y-o-y in Q2 of 2020, gross wages increased by further 1.4% y-o-y in July and 0.8% y-o-y in August, with negative inflation rates provided additional support in real terms. The gross salary totalled €782 in August.

External sector

The deep economic contraction depressed imports, outweighing the fall in exports. As a result, the current account deficit contracted by 1.5 pps y-o-y to 15.8% of GDP in the four quarters to June 2020 while the trade deficit fell by 3.2 pps to 40.6% of GDP in the same period. Moreover, plummeting travel services drove an overall 10.3% y-o-y contraction in the services surplus, while the primary income balance recorded a marginal 0.2% y-o-y decline, the secondary income registered (for the first time since September 2016), a deeper 1.4% y-o-y decline, likely driven by a fast drop in expatriate remittances. The financial account recorded a 7.7% y-o-y expansion, mainly driven by lower portfolio investment outflows. On the other hand, net FDI inflows contracted by 4.9% y-o-y in the four quarters to June, accounting for 8% of GDP, covering half of the external deficit.

Similar trade dynamics continued in July and August, with merchandise imports declining in the first eight months at a faster pace (-19.8% y-o-y) than exports (-12.3% y-o-y). Consequently, the trade deficit recorded a contraction of 21.2% over the year, totalling 40% of GDP compared to 44% of GDP a year earlier.

Monetary developments

Transport prices, and in particular, oil prices, continued to act as a disinflationary factor due to the lower demand related to the coronavirus. As a result, inflation (HICP) was negative at 1.6% y-o-y in August, or the same rate as in the previous month. The decline in transport prices was partly offset by modest growth in food prices (which eased slightly to 1.4% y-o-y in August from 1.5% y-o-y in the month before), as well as clothing and footwear prices (easing to 0.4% y-o-y in August from 1.2% y-o-y in July). Alcohol and tobacco prices kept exerting upward pressure on the price level due to the government's raise of excise tax from 1 January.

Financial sector

The banking sector proved resilient so far in spite of the COVID-19 crisis, with banks' capital adequacy ratio (19.6%) comfortably above the regulatory minimum, and positive profitability indicators (ROA and ROE of 0.7% and 5.3% in June 2020), supported by the central bank's decision to prohibit banks paying out dividends. High liquidity, reinforced by

international institutions' credit lines to local lenders, facilitated credit growth, which accelerated to 6.7% y-o-y in August from 6.0% in July. Lending to non-financial corporates and households recorded 8.1% and 6.8% annual expansion in August. Yet, the fastest growth was recorded by the central government borrowing, surging by 69% in August. Lending to non-residents recorded 17 months of continuous contraction, falling by 19.3% y-o-y in August. Despite sustained lending growth, the NPL ratio recorded a marginal increase, to 4.95% of total loans in August, compared to 4.70% a year before. Bank deposits declined in August by 6.3% y-o-y after a 3.4% y-o-y decline in July. The three main categories of depositors (corporates, households and non-residents) reduced their deposits in August by 10.0%, 5.4% and 3.7% y-o-y, respectively.

Also in August, the Central Bank of Montenegro obtained a bilateral repurchase agreement (repo line) with the ECB, after concluding a similar facility with the BIS in May.

Fiscal developments

The evolution of the crisis made June's budget rebalance plan rapidly obsolete. In the first eight months, the central government posted a budget deficit equal to 6.7% of GDP, or one percent of GDP higher than planned for the period. Budget revenue decreased by 12.7% y-o-y mainly due to the falling economic activity and deferred tax payments to support local companies. Thus, all taxes and contributions (excepting corporate income tax and contributions from pensions and unemployment), declined over the year. Conversely, budget spending grew by 8.8% y-o-y through August. Cash reserves were used to cover 67% of the increase in current expenditures, mostly generated by transfers to individuals for workers on furlough and the retroactive increase of minimum pensions since January, and to public (health) institutions. In spite of government's efforts to maintain public works activity (even during the lockdown), capital spending shrank 22% y-o-y.

In Q2 of 2020, the central government's public debt stock surged by 9.6% q-o-q and by 16.9% y-o-y to 78.2% of GDP, driven by the large increase in the deficit, the resulting financing needs and further increase in deposits. External debt is largely predominant, accounts for 85% of the total, while domestic debt represents some 15%.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

		2015 2016 2017 2018 2019					ECFIN 2020 Spring forecast							
							2020	2021	Q1 20	Q2 20	Q3 20	Jul 20	Aug 20	Sep 20
1 Real sector														
Industrial confidence ^{1.1}	Balance	9.8	3.0	4.5	5.5	3.5	:	:	2.4	-19.2	-24.4	-25.1	-25.0	-23.1
Industrial production ^{1.2}	Ann. % ch	7.9	-2.1	-4.3	23.6	-6.1	:	:	13.0	-15.4	:	-1.1	-2.6	:
Gross domestic product ^{1.3}	Ann. % ch	3.4	2.9	4.7	5.1	4.1	-5.9	4.4	2.7	-20.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.2	5.4	3.9	4.6	3.1	-9.1	10.9	3.8	-15.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	11.9	38.4	18.7	14.7	-1.7	-7.5	-8.4	2.2	-26.3	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.8	31.5	51.5	24.9	10.7	:	:	4.6	-16.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	4.2	4.0	5.2	4.8	6.0	:	:	7.4	-22.8	:	-32.4	-37.1	:
2 Labour market														
Unemployment ^{2.1}	%	17.8	18.0	16.4	15.5	15.4	17.0	16.2	16.6	15.7	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.9	1.1	2.1	3.2	2.6	-1.4	2.6	0.3	-9.5	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.2	3.5	2.0	0.1	0.8	-1.8	2.1	2.2	1.2	:	1.4	0.8	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-7.6	6.2	8.3	14.7	6.8	:	:	-5.6	-23.9	:	-12.0	-10.8	:
Imports of goods ^{3.2}	Ann. % ch	3.5	12.0	11.6	10.9	1.8	:	:	2.1	-29.8	:	-30.5	-27.7	:
Trade balance* ^{3.3}	% of GDP	-40.1	-41.9	-43.3	-43.9	-41.7	-29.0	-33.5	-42.2	-40.6	:	-41.3	-40.0	:
Exports goods and services ^{3.4}	% of GDP	42.1	40.6	41.1	42.9	43.7	:	:	29.9	22.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	60.6	63.1	64.5	66.7	64.8	:	:	72.3	66.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-11.0	-16.2	-16.1	-17.0	-15.0	-13.8	-12.9	-15.2	-15.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	16.9	9.4	11.3	6.9	7.0	:	:	8.0	8.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	624.0	752.9	847.2	1049.8	1366.8	:	:	947.0	1212.4	:	1138.2	1110.9	:
Int. reserves / months Imp ^{3.9}	Ratio	3.4	3.6	3.7	4.0	5.1	:	:	3.5	5.0	:	4.7	4.5	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	1.4	0.1	2.8	2.9	0.5	0.8	1.3	0.5	-1.1	:	-1.6	-1.6	:
Producer prices ^{4.2}	Ann. % ch	0.3	-0.1	0.4	1.7	2.4	:	:	1.3	-0.4	:	-0.6	-0.1	:
Food prices ^{4.3}	Ann. % ch	3.0	-0.9	1.9	0.6	3.4	:	:	1.6	1.1	:	1.2	1.2	:
M2 ^{4.4}	Ann. % ch	11.3	9.5	13.6	5.0	-3.5	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Real effective exchange rate ^{4.6}	Ann. % ch	0.4	0.6	0.5	2.7	-1.2	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (6 months) ^{5.1}	% p.a.	0.50	1.58	1.71	0.47	0.52	:	:	0.75	0.90	0.98	0.85	1.10	:
Bond yield (10 yrs) ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	2.61	:	:	2.56	4.16	:	4.19	3.88	3.79
Stock markets ^{5.3}	Index	11,956	11,115	10,952	10,390	10,980	:	:	11,158	10,271	10,075	10,313	10,046	9,865
Credit growth ^{5.4}	Ann. % ch	0.8	1.3	11.8	8.5	4.5	:	:	4.3	5.1	:	6.0	6.7	:
Deposit growth ^{5.5}	Ann. % ch	13.7	9.4	13.8	5.9	0.5	:	:	-2.0	1.2	:	-3.4	-6.3	:
Non-performing loans ^{5.6}	% of total	12.6	10.3	7.3	6.9	4.7	:	:	5.1	5.3	:	5.1	5.0	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-8.3	-3.6	-5.3	-3.9	-2.0	-7.7	-1.5	-7.7	-16.3	:	:	:	:
General government debt*** ^{6.2}	% of GDP	65.2	63.4	63.3	70.1	76.5	82.7	79.6	71.4	78.2	:	:	:	:

f: ECFIN forecast Spring 2020 published May 2020

* Q figures refer to a 4 quarters moving average.

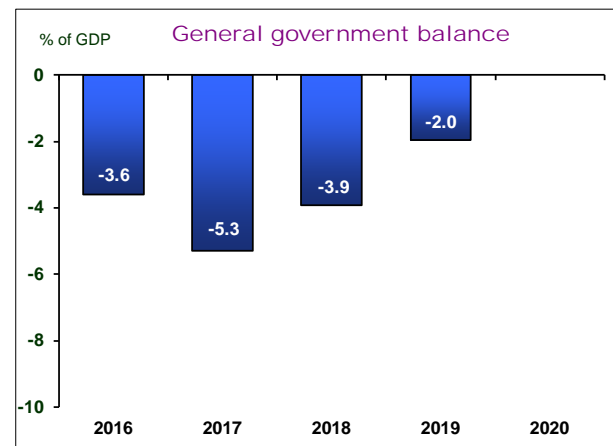
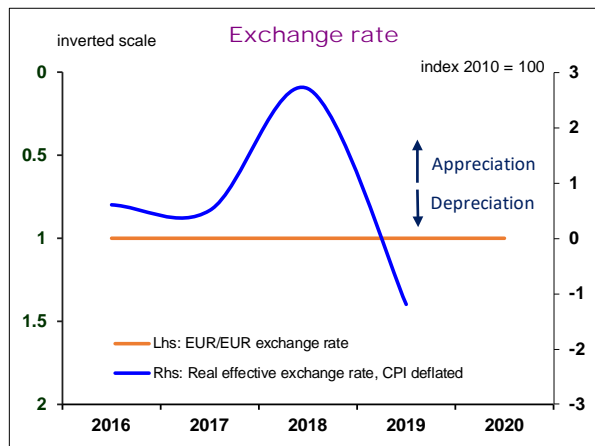
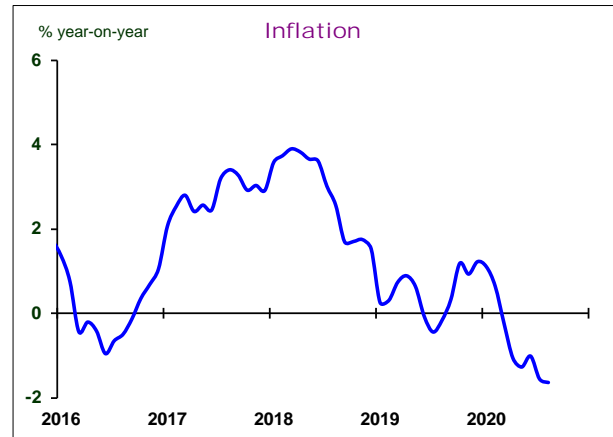
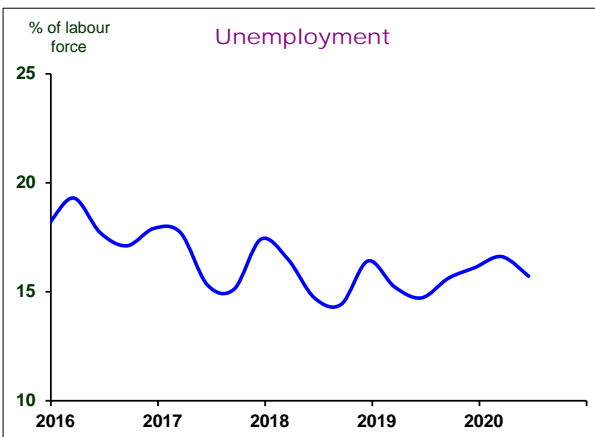
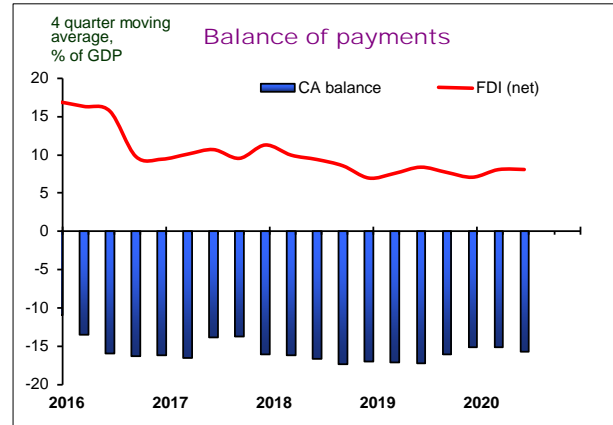
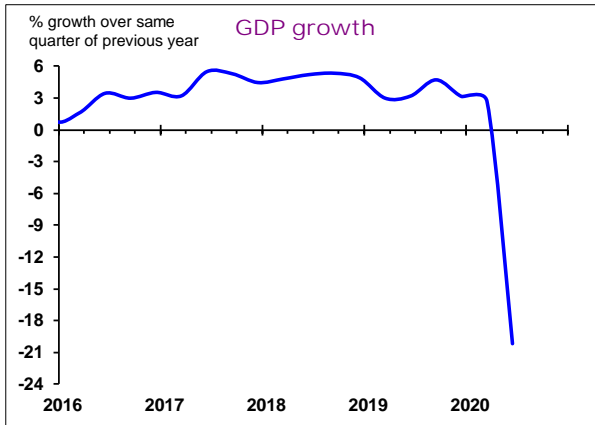
** Q figures refer to the quarterly balance divided by the quarterly GDP.

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

CHARTS



MONTENEGRO



NORTH MACEDONIA



Key developments

On 15 July, general elections led to a victory for the incumbent ruling SDSM party under Prime Minister Zoran Zaev, who formed a coalition government with two ethnic Albanian parties.

On 6 October, the European Commission presented its annual enlargement package. Regarding the economic criteria for EU membership, North Macedonia is at a good level of compliance in developing a functioning market economy, but has made limited progress. The economy is at a moderate level of compliance in coping with competitive pressures and market forces within the EU and has made some progress.

On 6 October, the EU and North Macedonia discussed the country's progress on economic and financial issues under the Stabilisation and Association Agreement. Also on 6 October, the European Commission disbursed the first EUR 80 million tranche of EUR 160 million macro-financial assistance to North Macedonia.

On 27 September, the government adopted a fourth package of anti-crisis measures, worth Euro 470 mn. It is focussed on income support and on support to the most vulnerable industries.

On 4 September, rating agency Standard and Poor's confirmed its rating BB- with stable outlook for the country. Analysts point to strong prospects for growth and for structural reforms implementation, given the expected start of EU accession talks, which would offset economic disruptions from the COVID-19 crisis.

Real sector

Economic activity in Q2 was severely hit by the extended containment measures in response to the COVID-19 crisis. After increasing by 3.6% in 2019, real GDP growth amounted to only 0.2% y-o-y in Q1, and dropped by 12.7% in the Q2. In April-June, household consumption declined by 11.6% y-o-y, and investment was lower by 25.6%. Both export and import volumes dropped by some 30% y-o-y. Only government consumption, driven by emergency measures to combat the crisis, made a small positive contribution to growth. The crisis exacerbated the ongoing slump in manufacturing output, which dropped by 29.4% y-o-y in Q2.

Retail sales data (except food and fuel) reflect the lockdown of shops in Q2 and the negative impact of the crisis on household spending (-11.8% y-o-y).

High frequency data indicate that the economy had a slow restart after the lockdown. Annual losses in industrial production, including manufacturing, decreased over the summer (average -9.3% y-o-y in July and August, compared to -25.2% in Q2). Losses in the year to August amounted to 13.2% y-o-y. The decline in capital goods production, which was severely hit in Q2, also eased somewhat (average -15% y-o-y in July and August compared to -47.1% in Q2). Retail sales declined further in July and August (-10.8% y-o-y on average).

Labour market

The labour market showed some resilience in Q2, supported by the government's measures to mitigate the negative impact of the COVID-19 crisis on employment. According to the Labour Force Survey, annual employment growth was flat (-0.1% y-o-y). The employment rate remained unchanged, at 47.1%. The unemployment rate (16.7%, total over 15 years age group) was slightly higher than in Q1 (16.2%), but still below its level of one year earlier (17.5%). There was a further drop in youth unemployment, in both, annual and quarterly comparison (-1.1pps to 33.8% for both). The labour force (age group 15-64) dropped by 1.2% y-o-y, accounted for mainly by a decline in the male workforce (1.4%). Overall labour market participation amounted to 56.5%, somewhat lower than one year earlier (57.1%).

Wages continued to rise markedly in the first 7 months of the year, supported by government subsidies to wages and social contributions, another increase in minimal wages, and public sector pay rises. After annual growth of gross nominal wages slowed in Q2 (-5.7pps compared to Q1, to 5.7%), the pace picked up again in July (9%). Real gross wages increased by 7.9% on average in the year to July, above their 2019 average (4.3%).

External sector

The current account deficit (4Q moving average) widened in Q2, by 2 pps y-o-y, to -3.3% of

GDP. The merchandise trade deficit increased (-1.7pps to -18% of GDP), while the services surplus widened (+0.8pps to 4% of GDP). The primary income deficit narrowed by 0.3pps to 4% of GDP, while the surplus in the secondary income balance dropped by 1.5pps to 14.8% of GDP. Private transfers declined heavily in Q2 (-40% y-o-y), as fewer remittances flowed in from the diaspora, with cash transfers impacted by travel restrictions. There was a net outflow of FDI in Q2, due to lower intercompany lending, amidst higher equity investments and reinvested earnings. Overall, in the first half of the year, direct investment doubled y-o-y, with FDI averaging 3.7% of GDP (4Q MA).

Gross external debt, excluding central bank transactions, stood at 80.7% of projected full-year GDP at end-June, higher by 7pps y-o-y, and by 4.6pps q-o-q. At end-September, foreign currency reserves were higher by 15.3% than at end-Q1 and covered 5 months of prospective imports. External debt and reserve developments mainly reflect the May Eurobond issuance (Euro 700 mn with a maturity of six years).

Monetary developments

Consumer price inflation accelerated in Q3, to 1.6% y-o-y, compared to an average of 0.6% in the first half of the year, driven by an increase in food and electricity prices, along with a rise in excises on oil products partially offsetting the lower oil prices. This compensated for a decline in commodities and transport prices in the year to September. Annual growth of broad money (M4) accelerated in Q2, compared to the preceding three months, to 9.8% y-o-y. This came on the back of higher short-term and demand deposits and currency in circulation, while long-term deposits declined. M4 growth slowed down over the summer (7.8% on average in July and August). The central bank has kept the CB bills rate unchanged since May, when it had lowered it for a third time this year, to the historic low of 1.5%. In August, the central bank and the ECB agreed on a repo line worth EUR 400 million lasting through June 2021.

Financial sector

Credit growth to the non-financial sector slowed down somewhat in Q2, compared to the first three months of the year (-0.5pps to 6% y-o-y). It picked up over the summer, accelerating to 7.6% y-o-y on average in July and August, bringing the total average rise in the first eight months to 8% y-o-y. The bulk of the increase is

still accounted for by households (+9.6%). Corporate loan growth (non-financial corporations) picked up in Q2 to 5% y-o-y, supported by government-subsidised loans as part of its anti-crisis measures. The high amount of outstanding loans on banks' books also reflects central bank measures allowing banks to defer repayments. Bank deposits of corporates and households increased further, in annual terms, in Q2 and beyond, with stronger growth of foreign-currency denominated deposits, reflecting economic uncertainty of depositors. The share of non-performing to total loans in the non-financial private sector stood at 4.7% of total at end-June (-0.3pps compared to end-March), with a stark difference between corporate (7.3%) and household loans (1.8%). The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients at 85% (-1.5pps y-o-y). Banks' capital adequacy shrank 0.4pps y-o-y and stood at 17%.

Fiscal developments

The COVID-19 crisis has also had a marked impact on public finances since March. In the first seven months of the year, public revenue dropped by 7.4% y-o-y. Tax revenues decreased by 12.1%, while social contributions, supported by an increase in contribution rates in January 2020, and by government subsidies to employers, increased by 7.1%. VAT, excises, and direct taxes recorded lower performance. Budget expenditures grew by 10.8% y-o-y in this period, mostly reflecting higher current spending (+11%), while capital expenditure increased by 5.9% y-o-y, albeit from low 2019 levels. The budget balance amounted to 62% of the full-year plan. In January to July, expenditure implementation amounted to 61% of the revised budget. On 4 October, the government adopted a second supplementary budget. In view of higher expenditure than previously projected, the government raised its target for the the general government deficit from 6.8% to 8.4% of GDP.

At the end of Q2, general government debt stood at 50.7% of projected GDP for 2020, compared to 41.8% of GDP at the end of Q1. Public debt amounted to 59.5% of GDP, higher by 8.8pps compared to its level at the end of Q1, with the increase in the debt ratio reflecting the downward revision of GDP as well as the May 2020 Eurobond issuance and the IMF loan, needed to provide liquidity to the government during the COVID-19 crisis.

TABLE



European Commission, ECFIN-D-1

North Macedonia

		2015	2016	2017	2018	2019	ECFIN 2020 Spring forecast		Q1 20	Q2 20	Q3 20	Jul 20	Aug 20	Sep 20
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Balance	17.5	24.0	25.6	28.8	32.2	:	:	32.5	24.4	:	22.0	22.8	:
Industrial production ^{1.2}	Ann. % ch	4.9	3.9	0.2	5.4	4.1	:	:	-3.2	-25.2	:	-9.5	-9.1	:
Gross domestic product ^{1.3}	Ann. % ch	3.8	2.8	1.1	2.7	3.6	-3.9	4.0	0.2	-12.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.4	3.9	2.1	5.1	3.5	-2.5	3.0	1.2	-11.6	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	8.3	12.5	-2.2	-7.3	6.6	-10.0	13.0	5.8	-20.9	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	8.6	3.6	-2.5	-12.2	7.5	:	:	3.1	1.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	9.8	18.8	-11.3	9.6	13.4	:	:	1.0	-11.8	:	-6.9	-14.7	:
2 Labour market														
Unemployment ^{2.1}	%	26.1	23.8	22.4	20.7	17.3	18.1	17.6	16.2	16.7	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.3	2.5	2.4	2.5	5.1	-1.7	1.1	2.7	-0.1	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.7	2.0	2.6	5.8	5.1	-4.9	4.4	11.4	5.7	:	9.0	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	9.4	15.8	15.4	19.8	9.0	:	:	-9.2	-34.8	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	5.0	9.7	9.7	12.9	10.2	:	:	-2.4	-31.1	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-20.1	-18.8	-17.8	-16.2	-17.4	-16.9	-18.7	-18.0	-17.7	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	48.7	50.7	55.3	60.6	61.7	:	:	60.4	57.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	65.0	65.5	69.2	73.2	75.6	:	:	74.5	71.1	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.0	-2.9	-1.1	-0.1	-3.3	-3.0	-3.9	-3.0	-3.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.2	3.3	1.8	5.6	3.2	:	:	3.8	3.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,262	2,613	2,336	2,867	3,263	:	:	3,017	3,640	3,480	3,512	3,406	3,480.2
Int. reserves / months Imp ^{3.9}	Ratio	4.6	4.9	4.1	4.4	4.6	:	:	4.3	5.6	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	-0.3	-0.2	1.4	1.5	0.8	-0.7	2.0	0.6	0.5	:	1.3	1.5	:
Producer prices ^{4.2}	Ann. % ch	-4.1	-0.1	0.4	-0.3	0.0	:	:	1.3	1.2	:	0.3	0.8	:
Food prices ^{4.3}	Ann. % ch	0.1	-1.3	0.3	0.8	1.6	:	:	0.5	2.8	:	3.6	2.5	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	6.9	6.2	5.1	11.8	9.3	:	:	8.9	9.8	:	9.1	6.6	:
Exchange rate MKD/EUR ^{4.5}	Value	61.61	61.60	61.57	61.51	61.51	:	:	61.61	61.69	61.70	61.70	61.70	61.69
Nominal effective exchange rate ^{4.6}	Index	99.2	100.5	101.4	103.3	103.0	:	:	102.9	103.9	:	104.2	105.4	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.92	1.96	1.78	1.54	1.46	:	:	1.37	1.39	1.39	1.39	1.39	1.39
Bond yield ^{5.2}	% p.a.	7.46	7.02	6.61	6.11	5.61	:	:	5.33	5.25	:	5.13	:	:
Stock markets ^{5.3}	Index	1,731	1,887	2,406	3,154	3,939	:	:	4,632	4,152	4,277	4,205	4,238	4,388
Credit Growth ^{5.4}	Ann. % ch	9.1	4.0	2.5	6.7	7.3	:	:	6.5	6.0	:	8.2	6.9	:
Deposit growth ^{5.5}	Ann. % ch	7.6	4.4	5.3	8.9	9.1	:	:	7.6	6.9	:	7.8	5.4	:
Non-performing loans ^{5.6}	% total	10.3	6.3	6.1	5.0	4.6	:	:	4.8	4.6	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-3.5	-2.7	-2.7	-1.8	-2.0	-6.8	-3.4	-4.5	-12.4	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	38.1	39.9	39.5	40.5	:	47.2	48.7	41.8	50.7	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2020 published May 2020

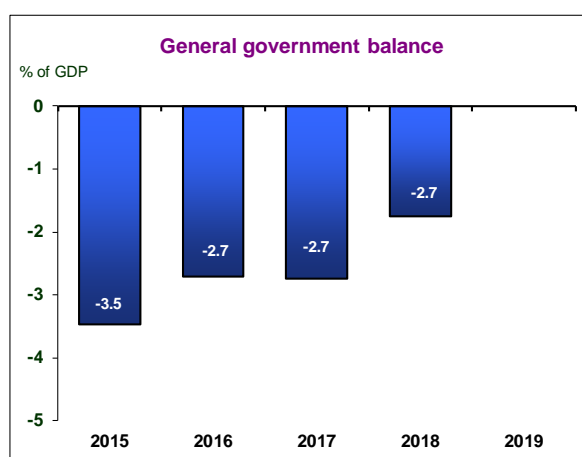
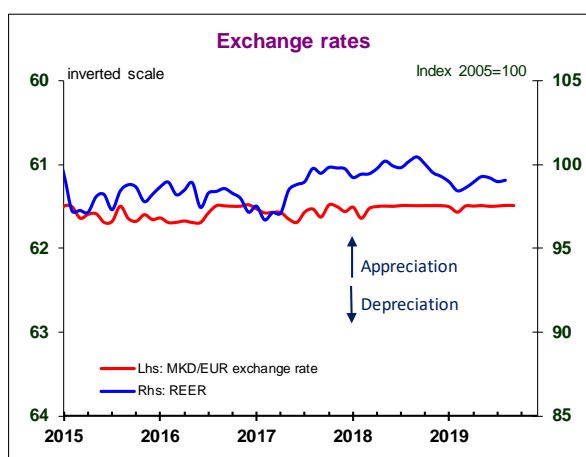
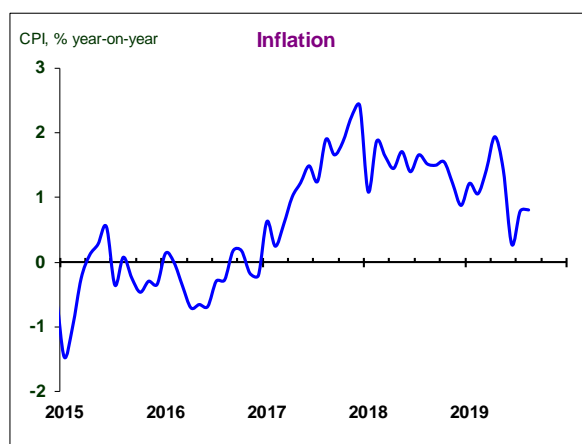
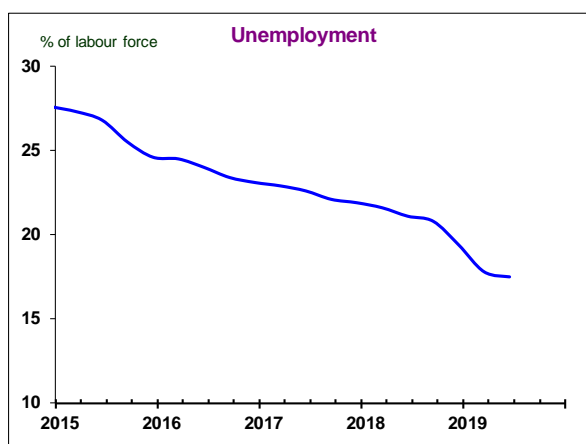
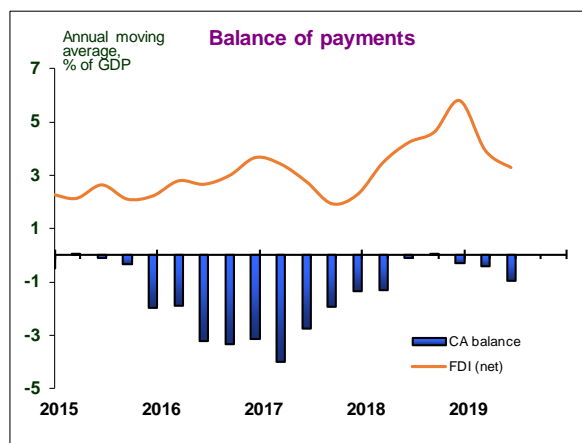
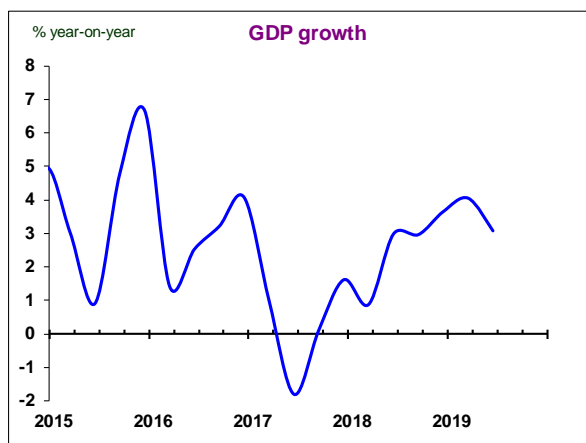
* Q figures refer to a 4 quarters moving average.

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

CHARTS



North Macedonia



SERBIA



Key developments

On 6 October 2020, the European Commission presented its annual enlargement package. It stated that, as regards the economic criteria for EU membership, Serbia has made some progress and is at the intermediate level of the assessment scale between ‘moderately prepared’ and ‘at a good level of preparation’ in developing a functioning market economy. The economy has also made some progress and is moderately prepared to cope with competitive pressure and market forces within the EU.

Following the signature of a US-brokered economic normalisation agreement between Serbia and Kosovo on 4 September 2020, the US International Development Finance Corporation (DFC) has set up a permanent regional office in Belgrade.

At the end of July, the government adopted a second fiscal support package worth 1.2% of GDP to continue crisis mitigation, mostly by prolonging earlier support measures to companies until September.

In early July, the IMF completed a virtual 4th review mission under the Policy Coordination Instrument. The Fund welcomed the sizeable and well-designed fiscal and monetary policy crisis response and invited Serbia to continue supporting the recovery while preserving macroeconomic stability.

Real sector

Economic activity contracted strongly in Q2 2020, reflecting the impact of the lockdown period, mitigated by a rebound in May and June. Real GDP contracted by 6.4% y-o-y, following a 5.1% expansion in Q1. The contraction was mostly driven by private consumption and gross fixed capital formation, which fell by 8.0% and 11.9% y-o-y, respectively, while government consumption grew by 8.9% y-o-y. Exports and imports contracted strongly by 20.7% and 19.3% y-o-y respectively, resulting in a slightly positive contribution of net exports to quarterly GDP growth.

On the supply side, the strong contraction of consumption corresponded to double-digit reductions in the activity of trade and service-oriented sectors of the economy. Thus, the decreases by 16.7% y-o-y in wholesale and retail

trade, automobile, transport, accommodation and food services, -20.6% for professional, scientific, technical, administrative and support activities and -32% for arts, recreation and other services reflect in particular the confinement period up to early May. Mining and industrial activity also recorded a strong decline by 7.7% y-o-y while the surge in government consumption was reflected in a 7.1% y-o-y increase for public administration and defence, social security, education, health and social activities. Information and communication also expanded by 5.4% y-o-y while construction activity remained broadly stable y-o-y. After broad stagnation over the previous four quarters, the agricultural sector grew by 2.2%.

Some short-term indicators suggest that economic activity, following a strong rebound after the lockdown, has continued to recover over the summer, albeit at a more moderate pace. Industrial production grew by 0.4% y-o-y in July, followed by an acceleration to 4.2% y-o-y in August. Real retail trade increased by 4.7% y-o-y in July followed by a 4.5% y-o-y growth in August.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and over decreased to 7.3% in Q2. This decrease by 3.0 pps y-o-y and 2.5 pps q-o-q is mainly the result of a decrease of the active population as many unemployed or previously employed people refrained from looking for employment due to the crisis. Thus, while population 15+ decreased by 0.5% y-o-y, the labour force decreased by 5.6% and inactivity increased by 5.7%. Employment decreased by 2.5% y-o-y in Q2. Annual employment losses were concentrated in the informal sector (-23.5%), while formal employment grew by 2.6% and remained stable q-o-q (+0.1%).

The y-o-y growth of registered employment decelerated to 1.6% y-o-y in Q2, while, following contraction in Q1, q-o-q growth turned positive to 0.5% in Q2. Annual employment growth remained positive in most sectors and was particularly strong in mining and quarrying (11.9%), information and communication (10.4%) and construction (10.1%). Manufacturing employment still grew

3.4% while employment in trade activities stagnated and employment in the energy sector and administrative and support services decreased by 4.2% and 4.3% respectively. Compared to the previous quarter, the overall increase was subdued by decreases in administrative and support services and education. The number of registered unemployed decreased by 0.2% y-o-y in August. The growth in nominal net wages stood at 9.1% y-o-y in July 2020 while real net wages grew by 7.0% y-o-y.

External sector

In the period January to July 2020, the current account deficit decreased substantially by 18.3% y-o-y in euro terms. Over the four quarters to June 2020, it stood at 6.7% of GDP, compared to 6.9% of GDP in 2019. The narrowing of the current account in the period January to July 2020 was the net result of a lower primary income deficit (-36.3% y-o-y, mainly due to lower reinvested earnings), and a higher services trade surplus (+36.9% y-o-y), that were partially offset by a lower secondary income surplus (-15.1% y-o-y, mainly due to lower remittances), while the merchandise trade deficit remained unchanged (+0.4% y-o-y).

External trade of goods gradually picked up in June, July and August, with exports contracting by 6.8%, 4.3% and 4.0% y-o-y, and imports by 5.2%, 8.8% and 2.0% respectively (in euro terms) after contractions by more than 25% in April and May.

Net FDI inflows decreased by 29.4% y-o-y in the period January to July 2020 covering 107% of the same period's current account deficit.

Monetary developments

After dropping to below 1% during the lockdown period in April and May, annual consumer price inflation has gradually returned to its pre-crisis level, reaching 2% in July before slightly decelerating to 1.9% in August, within the lower bound of the central bank's target tolerance band of 3% +/-1.5%. The acceleration in June was particularly driven by food prices and recreation while decreasing food prices have broadly offset further increases for recreation and for transport in July and August. Core inflation (excluding energy, food, alcohol and tobacco) accelerated gradually from a trough at 1.3% in May to 1.7% in July and 1.9% in August. The central bank (NBS) has kept its key policy rate stable at 1.25% throughout the summer. It remained an active participant on the

foreign exchange market by selling a net EUR 160 million in August and a net EUR 120 million in September, bringing cumulative total net sales in the first nine months of 2020 to EUR 1635 million. After a peak of 14.3 billion in May due to the inflows from the EUR 2 billion Eurobond issuance, NBS foreign exchange reserves have gradually decreased to EUR 13.0 billion in September, covering around 6 months of imports of goods and services. On 17 July, the ECB and the NBS set up a repo line that is to remain in place until June 2021.

Financial sector

In May, domestic claims of the banking sector increased by 13.5% y-o-y. While the growth of claims on the NBS decreased from 42% y-o-y in May to 16% in August, the growth of credit to households accelerated from 9.1% y-o-y to 13.3% y-o-y and the growth of credit to companies decelerated slightly from 13.1% y-o-y to 12.1% y-o-y. The loan-to-deposit ratio stood at 89.6% at the end of July. The ratio of non-performing loans decreased slightly further in Q2 2020 to 3.7%, after 4.1% in Q1. The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) remained unchanged at 22.7% in Q2 2020. Liquidity ratios increased in Q2, as regards both the share of liquid assets to total assets (36.9%, +1.0pp q-o-q) and to total short-term liabilities (50.7%, +0.7pps q-o-q).

Fiscal developments

The crisis has taken a heavy toll on public finances, deteriorating strongly the fiscal balance as a result of substantial revenue shortfalls and expenditure increases. Thus, total revenue decreased by 3.5% y-o-y in January to August 2020, particularly negatively impacted by lower social contributions (-5.3%), non-tax revenue (-10.4%) and corporate income tax (-10.4%). Total expenditure growth reached 22.9% y-o-y in the same period, with particularly significant increases for subsidies (+186.8%), other current expenditure (+139.0%), goods and services (22.0%), expenditure for employees (11.2%) and capital expenditure (17.9%). As a result, in January-August, the budget recorded a deficit of RSD 339.9 billion (6.2% of the annual GDP projected by the Ministry of Finance), as compared with a 0.7% of GDP surplus in the same period of 2019. In August, government debt was at 56.7% of the estimated full-year GDP, up from 52.0% at end-2019.

TABLE



European Commission, ECFIN-D-1

SERBIA

		2015	2016	2017	2018	2019	ECFIN 2020 Spring forecast		Q1 20	Q2 20	Q3 20	Jul 20	Aug 20	Sep 20
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	8.4	4.8	3.4	1.5	0.2	:	:	4.6	-7.8	:	0.4	4.2	:
Gross domestic product ^{1.3}	Ann. % ch	1.8	3.3	2.1	4.5	4.2	-4.1	6.1	5.1	-6.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	-0.6	1.9	2.2	3.1	3.6	-4.2	6.8	3.2	-8.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	6.2	5.1	6.6	17.5	17.2	-13.5	19.4	10.5	-11.9	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	13.1	5.1	9.3	9.6	32.3	:	:	21.1	0.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.0	8.0	3.8	4.1	9.7	:	:	10.3	-0.1	:	4.7	4.5	:
2 Labour market														
Unemployment ^{2.1}	%	17.7	15.3	13.5	12.7	10.4	12.7	10.0	9.7	7.3	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	0.6	5.6	2.8	1.4	2.4	-3.2	2.7	2.4	-2.5	:	2.2	2.1	:
Wages ^{2.3}	Ann. % ch	-0.4	3.8	4.0	4.3	10.5	:	:	10.4	8.7	:	9.2	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	7.9	11.6	12.1	8.2	7.7	:	:	3.3	-20.0	:	-4.3	-4.0	:
Imports of goods ^{3.2}	Ann. % ch	5.9	6.1	13.6	13.0	8.9	:	:	7.7	-20.3	:	-8.8	-2.0	:
Trade balance* ^{3.3}	% of GDP	-11.3	-9.9	-11.1	-13.2	-14.4	-10.1	-11.9	-14.2	-13.7	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	45.3	48.6	50.5	50.8	52.1	:	:	51.6	49.5	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	52.3	53.4	57.1	59.2	61.0	:	:	60.7	58.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.4	-2.9	-5.2	-4.8	-6.9	-4.3	-5.5	-7.1	-6.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.1	5.2	6.2	7.4	7.8	:	:	7.7	7.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	10,378	10,205	9,962	11,262	13,378	:	:	13,115	13,956	:	13,521	13,369	:
Int. reserves / months Imp ^{3.9}	Ratio	6.6	6.2	5.4	5.4	5.7	:	:	5.5	6.2	:	6.1	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.4	1.1	3.1	2.0	1.8	0.9	1.9	1.8	1.0	:	2.0	1.9	:
Producer prices ^{4.2}	Ann. % ch	0.2	-0.4	3.4	2.2	0.7	:	:	0.4	-3.3	:	-1.9	-1.8	:
Food prices ^{4.3}	Ann. % ch	1.9	-0.3	3.3	1.9	2.6	:	:	1.4	2.3	:	4.3	3.5	:
M3 ^{4.4}	Ann. % ch	6.6	11.6	3.6	14.5	8.4	:	:	10.1	19.0	:	17.6	17.0	:
Exchange rate RSD/EUR ^{4.5}	Value	120.74	123.09	121.41	118.27	117.86	:	:	117.57	117.58	117.59	117.59	117.59	117.58
Nominal effective exchange rate	Index	67.4	66.1	67.3	69.7	69.2	:	:	69.1	69.1	:	69.6	70.1	:
5 Financial indicators														
Interest rate (BELIBOR) ^{5.1}	% p.a.	6.17	3.44	3.41	2.96	2.52	:	:	1.57	1.17	1.02	1.03	1.02	1.02
Bond yield (7 year) ^{5.2}	% p.a.	10.99	8.28	5.45	5.00	3.86	:	:	2.69	2.69	:	2.69	2.69	:
Stock markets ^{5.3}	Index	1,359	1,383	1,584	1,562	1,583	:	:	1,678	1,489	1,489	1,482	1,483	1,501
Credit growth ^{5.4}	Ann. % ch	2.8	2.5	1.9	9.4	9.1	:	:	11.1	13.4	:	13.0	13.0	:
Deposit growth ^{5.5}	Ann. % ch	6.5	11.4	3.3	15.3	8.5	:	:	9.8	18.6	:	16.9	16.6	:
Non-performing loans ^{5.6}	% total	21.6	17.0	9.8	5.7	4.1	:	:	4.0	:	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-3.5	-1.2	1.1	0.6	-0.2	-7.7	-2.1	-4.1	-20.5	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	70.0	67.8	57.9	53.7	52.2	62.2	59.5	52.0	58.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2020 published May 2020

* Q figures refer to a 4 quarters moving average.

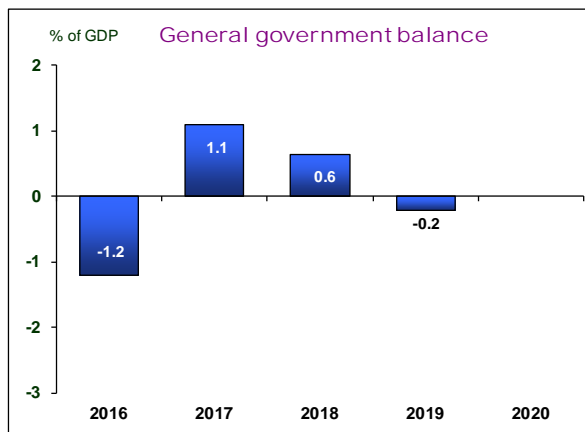
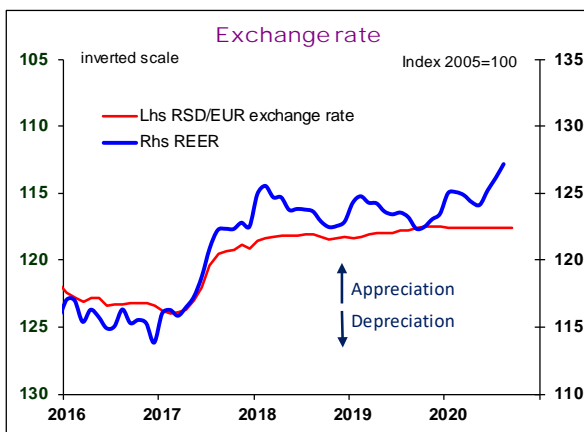
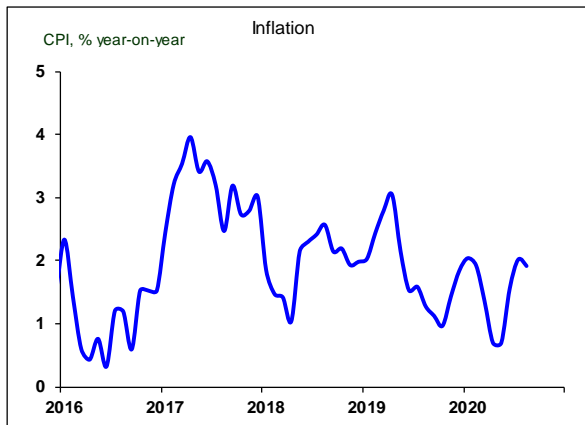
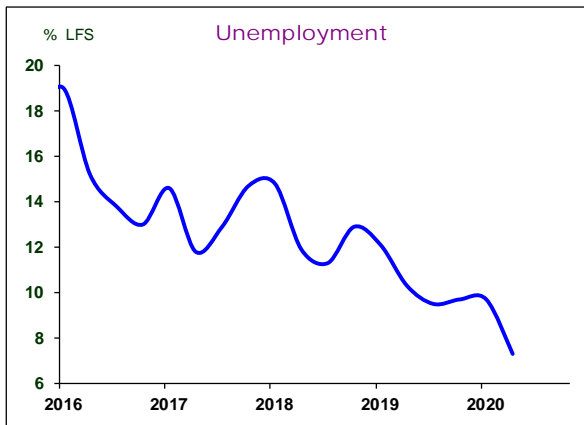
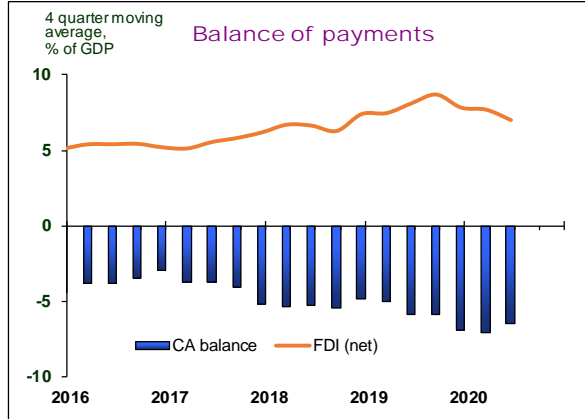
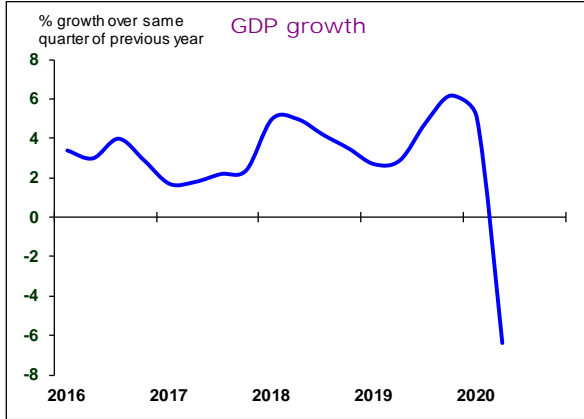
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA





Key developments

In early October, provided constructive efforts to stop illegal activities vis-à-vis Greece and Cyprus are sustained, the European Council agreed to launch a positive political EU-Turkey agenda with a specific emphasis on the modernisation of the Customs Union and trade facilitation, people to people contacts, High level dialogues, and continued cooperation on migration issues.

On 6 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Turkey has made no progress in developing a functioning market economy and, although serious concerns persist, it is well advanced in this area. As regards the economy's capacity to cope with competitive pressures and market forces within the EU, Turkey has made limited progress and is at a good level of compliance.

In September, the government adopted its New Economy Programme 2021-2023 with the main economic policy and development priorities of the government and an updated macroeconomic scenario. Real GDP is expected to increase by 0.3% in 2020, 5.8% in 2021 and by 5% in 2022-2023. Under an alternative scenario, in case the pandemic situation worsens again, the economy is forecast contracting by 1.5% in 2020 and growing by only 3.7% in 2021.

In September, citing external vulnerabilities, institutional weaknesses, and eroding fiscal buffers, Moody's downgraded Turkey's sovereign rating to B2 from B1, maintaining the negative outlook.

Real sector

The crisis impact fully materialised in Q2, when real GDP fell 9.9% y-o-y. Confinement measures and uncertainty hit household consumption particularly badly (-8.6% y-o-y), while disruptions in international travel and external demand damaged exports of goods and services (-35.3% y-o-y). Despite higher demand for certain government services related to the pandemic control, overall public consumption

declined as well (-0.8% y-o-y). Investment activity continued its poor performance, falling by 6.1% y-o-y. Change in inventories (+6.9 pps), however, saw another quarter of very high positive contribution to GDP growth and helped keep total domestic demand still in positive territory. The strongly expansionary economic policy, while instrumental in softening the immediate social repercussions of the crisis, has also limited the decline in imports of goods and services to a rather moderate -6.3% y-o-y in Q2 and, as a result, net exports' contribution to growth dived further down to -10.2 pps. On the production side, economic activity declined strongly in Q2 in industry and manufacturing (-16.5% and -18.4% y-o-y, respectively) and in trade, transportation, and hospitality services (-25% y-o-y), while agriculture (4.0% y-o-y), information and telecommunication (11.0% y-o-y), real estate (1.7% y-o-y), and financial services (27.8% y-o-y) recorded positive growth.

Following a dismal second quarter, economic activity rebounded strongly in the summer months. Capacity utilisation in manufacturing went up to 74.60 in September from a low of 61.6 in April, although it was still below its pre-crisis levels. Manufacturing PMI has been above 50 since June, attaining 52.8 in September. Real sector confidence, at 105.3 in September, confirmed the strong growth momentum in Q3. However, despite a positive assessment of near-term volume expectations and of domestic and export orders, the assessment of the level of fixed investment expenditure was still subdued in September. Although overall economic confidence (revised series) improved steadily in Q3, in particular in its consumer and real sector confidence segments, the recovery remained uneven, with particular weak results for retail trade and services. As the lira depreciated markedly in August and September and financial conditions tightened, short-term sales expectations tanked again in these two months. Hard data, available until July, captured the strong rebound in industrial production (seasonally and calendar adjusted), increasing month-on-month in May, June and July, while retail sales also increased steeply in June and July.

Labour market

By Presidential decrees, some of the measures to soften the pandemic impact on the labour market have been extended – the prohibition of employment cancellation until mid-November and the provision of short-time work allowances to employees until end-October. The unemployment rate (15-64 years) inched up to 13.7% in June, above its April low of 13.1%. By June, both labour force participation and the employment rate increased as well. These data, however, do not fully reveal the extent of the crisis' impact on the labour market, as employment data actually include a significant number of underemployed people who are under some kind of temporary employment protection. This is visible in data on time-related underemployment, which more than doubled since the beginning of the year to reach on average of 1.4 million in Q2 or nearly 5% of the labour force. In addition, although the number of people not in the labour force declined between April and June, they were up 14.1% y-o-y in Q2. By sector, employment decreased the most in accommodation and food service (-29.9% y-o-y) and arts, entertainment and recreation (-37.9% y-o-y), while it increased in finance (9.8% y-o-y) and mining (6.9% y-o-y) in Q2.

External sector

The 12-month moving current account was in a deficit of USD 14.9 billion (2.1% of GDP) at end-July. Exports of goods have partially rebounded in the summer and preliminary data show a further pickup in September (4.8% y-o-y). Imports of goods have in general remained stronger, keeping the trade deficit high in January-September (up 80% y-o-y). However, nearly 70% of the trade deficit expansion was due to larger imports of non-monetary gold, traditionally used as a store of value in times of pressure on the lira. A historically bad tourism season and steady financial outflows have added pressure on the balance of payments and official reserve assets (excluding gold) continued declining.

Monetary developments

Inflation was flat at around 11.8% y-o-y in July-September. Food inflation went up over the summer, driven mainly by higher unprocessed food prices (17.5% y-o-y in September). Service inflation remained in double-digits and, since May, core inflation inched up, moving firmly in double-digit territory as well. In parallel, end-of-year inflation expectations have also moved up to 11.5% in September and the expectations of a

12-month ahead annual inflation surpassed 10% for the first time this year. Following two months of a practically stable exchange rate, in end-July the lira resumed its depreciation against the US dollar – by early October it lost some 30% of its value since the beginning of the year. The central bank reacted to exchange rate pressures and the rising inflation expectations by increasing the average cost of its funding from a low of 7.34% in mid-July to 11.38% in early October. Since early August, this cost has stood above the key policy rate, even after the bank hiked its one-week repo rate by 200 bps in September. Nevertheless, net funding provided by the central bank increased further, reaching a new high of TRY 340 billion in early September. The foreign exchange reserves of the central bank declined further to around USD 42 billion in the last week of September. Turkey's credit default swap went up again, nearly touching the level of 600 in early August and remained elevated since then.

Financial sector

In August and September, the authorities took steps to reverse some of the measures introduced at the height of the pandemic. The asset ratio requirement, incentivising bank lending, has been scaled down in two steps, from 100% to 90% for deposit banks and from 80% to 70% for participation banks; restrictions on derivative transactions have been softened; and the tax on foreign currency transactions was lowered from 1.0% to 0.2%. Bank lending, however, remained strong until August, with both corporate (20% y-o-y) and households (33% y-o-y) loans up in real terms. The buoyant credit mechanically suppressed NPL ratio down to 4.1% in August.

Fiscal developments

The central government budget deficit expanded further until July, before posting a surprisingly high monthly surplus in August (TRY 28 billion) on the back of strong tax revenues and lower Treasury transfers. In January-August, the deficit stood at TRY 111 billion (2.3% of the projected annual GDP), up 63% y-o-y. Total revenue growth (10.1% y-o-y) was sustained mainly because of indirect tax receipts (22.7% y-o-y), boosted by hikes in import tariffs. Expenditure increased 15.6% y-o-y (January-August) driven by current transfers (20.1% y-o-y), compensation of employees (16.4% y-o-y), and interest payments (32.1% y-o-y), while capital spending declined 5.1% y-o-y.

In June, government debt stood at 39.4% of GDP (up from 34.8% at the end of Q1).

TABLE



TURKEY

European Commission, ECFIN-D-1

		2015	2016	2017	2018	2019	ECFIN 2020 Spring forecast		Q1 20	Q2 20	Q3 20	Jul 20	Aug 20	Sep 20
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Index	103.5	105.2	108.0	101.4	100.4	:	:	103.6	78.8	104.1	100.7	106.2	105.3
Industrial production ^{1.2}	Ann. % ch	6.1	3.4	9.1	1.1	-0.6	:	:	5.7	-16.7	:	-0.9	:	:
Gross domestic product ^{1.3}	Ann. % ch	6.1	3.3	7.5	3.0	0.9	-5.4	4.4	4.4	-9.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.4	3.6	6.2	0.1	0.6	-2.1	1.9	5.1	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	9.3	2.2	8.3	-0.3	-12.4	-14.3	-3.3	-0.3	-6.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-8.8	17.4	65.5	-34.8	-41.1	:	:	-2.9	151.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	6.7	2.2	5.7	2.1	-0.2	:	:	7.2	-12.3	:	11.9	:	:
2 Labour market														
Unemployment ^{2.1}	%	10.5	11.1	11.1	11.2	14.0	16.9	16.9	13.8	13.3	:	:	:	:
Employment ^{2.2}	Ann. % ch	2.5	2.2	3.5	1.8	-2.4	-4.3	2.5	-2.6	-8.0	:	:	:	:
Wages ^{2.3}	Ann. % ch	16.7	21.3	10.2	20.6	24.0	5.3	8.6	19.2	28.4	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-9.7	-0.5	9.8	7.8	2.1	:	:	-5.8	-26.8	:	-0.8	-9.1	:
Imports of goods ^{3.2}	Ann. % ch	-15.3	-4.8	17.7	-3.2	-8.8	:	:	8.9	-17.0	:	-3.3	15.3	:
Trade balance ^{3.3}	% of GDP	-5.7	-4.6	-6.8	-5.2	-2.2	0.6	3.0	-3.1	-3.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	24.5	23.1	26.0	31.2	32.7	:	:	32.4	30.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	26.6	25.2	29.7	31.3	29.9	:	:	30.6	30.2	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-3.2	-3.1	-4.7	-2.7	1.2	-0.5	1.5	0.2	-1.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	1.6	1.2	1.0	1.2	0.8	:	:	0.7	0.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	110.5	106.1	107.7	93.0	105.7	:	:	92.1	86.3	:	90.3	:	:
Int. reserves / months imp ^{3.9}	Ratio	5.8	5.8	5.1	4.5	5.6	:	:	4.8	4.7	:	4.9	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	7.7	7.8	11.1	16.3	15.2	11.4	11.7	12.1	11.7	11.8	11.8	11.8	11.7
Producer prices ^{4.2}	Ann. % ch	5.3	4.3	15.8	27.0	17.6	:	:	8.9	6.1	11.4	8.3	11.5	14.3
Food prices ^{4.3}	Ann. % ch	11.1	5.8	12.7	18.0	19.5	:	:	9.9	12.4	13.7	12.7	13.5	14.9
M4 ^{4.4}	Ann. % ch	17.1	17.2	15.5	19.3	28.5	:	:	31.5	39.1	:	44.3	40.6	:
Exchange rate TRY/EUR ^{4.5}	Value	3.0	3.34	4.15	5.68	6.35	:	:	6.84	7.59	8.66	8.15	8.69	9.13
Nominal effective exchange rate	Index	63.7	58.63	47.90	36.12	31.34	:	:	29.50	26.63	:	25.87	23.93	:
5 Financial indicators														
Interest rate (3 months-TRLIBOR)	% p.a.	11.00	10.37	12.81	19.85	20.66	:	:	10.28	8.45	10.60	8.20	10.93	12.68
Interest rate, long term ^{5.2}	% p.a.	9.30	10.19	11.11	15.88	15.76	:	:	11.72	12.66	:	12.50	14.25	:
Stock markets ^{5.3}	Index	806	772	990	1,019	993	:	:	1,107	1,030	1,124	1,172	1,096	1,104
Credit growth ^{5.4}	Ann. % ch	20.4	16.2	21.2	13.1	10.8	:	:	16.1	28.7	37.8	35.6	37.9	37.8
Deposit growth ^{5.5}	Ann. % ch	18.6	17.7	17.7	22.1	24.0	:	:	29.3	35.7	40.5	42.3	41.8	40.5
Non-performing loans ^{5.6}	% total	3.1	3.2	3.0	3.9	5.4	:	:	5.0	4.4	:	4.2	4.1	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-1.0	-1.1	-1.5	-1.9	-2.9	-7.8	-9.0	-2.8	-7.7	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	27.4	28.0	28.0	30.2	32.5	43.1	47.7	34.8	39.4	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2020 published May 2020

* Q figures refer to a 4 quarters moving average.

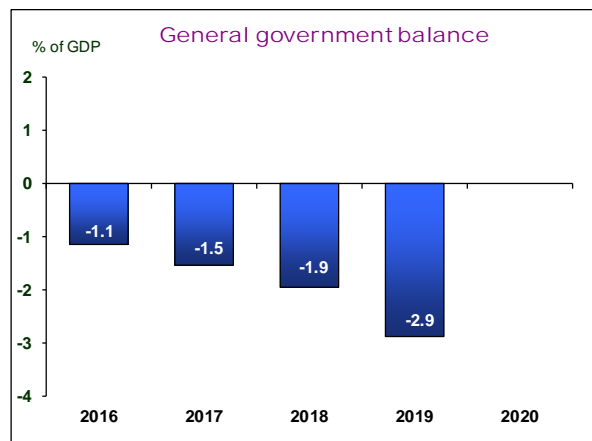
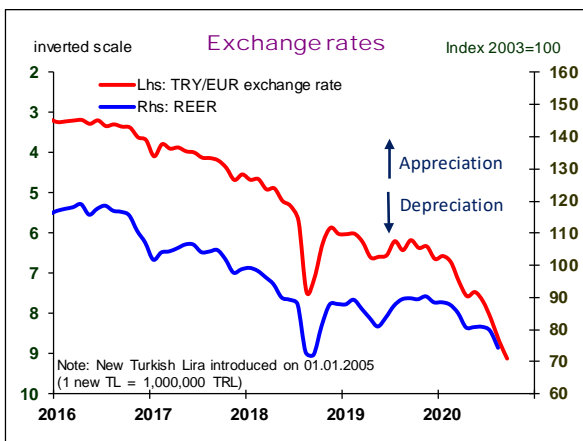
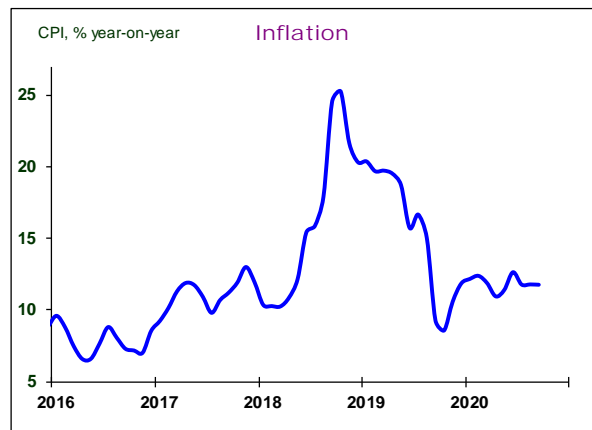
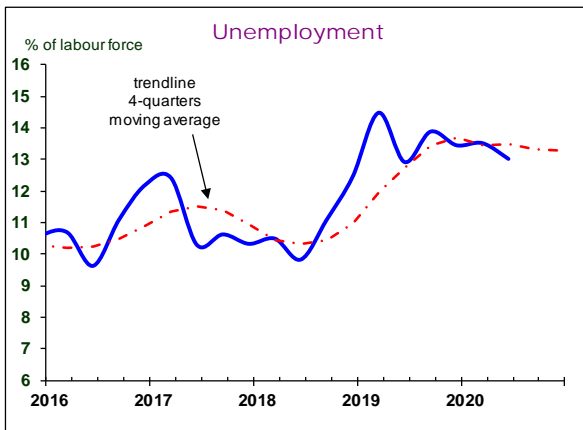
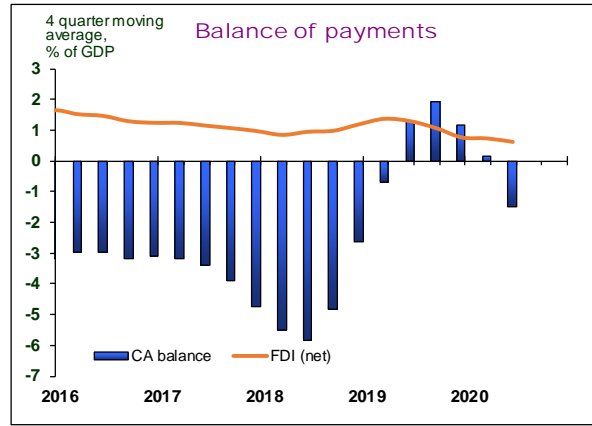
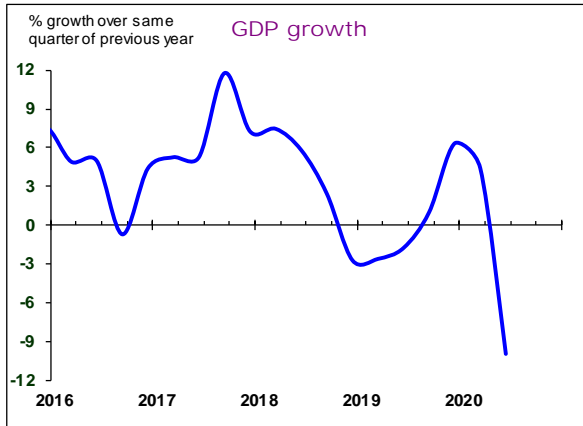
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

On 6 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Bosnia and Herzegovina has made some progress, but is still at an early level of compliance in developing a functioning market economy. With respect to its capacity to cope with competitive pressures and market forces within the EU, the economy has made limited progress and is still at an early level of compliance.

After a first, relatively benign wave of COVID-19 infections in early May, the number of cases started to increase again in early June and has reached a new all-time high in mid-October, with a total of 485 infected persons and 28 deaths per 100 000 inhabitants. This is one of the highest rates in the Western Balkans.

In late August 2020, the international rating agencies Standard and Poor's (S&P) and Moody's left their rating unchanged, at "B" and "B3" respectively. S&P revised its country outlook from positive to stable, arguing that it expects the country to adopt the necessary anti-crisis measures. Moody's maintained its "stable" outlook and pointed to the numerous challenges for structural reform, the solid fiscal situation but also the rigidity of the country's political decision taking process.

Real sector

After weaker external demand and domestic supply bottlenecks had led to a slowdown in output growth in early 2020 (to 2% y-o-y in Q1), the outbreak of COVID-19 resulted in a sharp contraction in Q2, with the output level some 9.3% lower than a year before. This means that in the first half of 2020 economic output was 3.8% lower y-o-y. The sharp drop in Q2 was the result of a strong decline in exports of goods and services (-31.7% y-o-y), together with significant drop in domestic demand, in particular private consumption (-9.4% y-o-y) as well as gross capital formation (-25.4% y-o-y). As a result of weak domestic demand, imports dropped by 29% y-o-y.

High-frequency data, such as industrial production, indicate that already in February, output levels in the industrial sector were lower

than a year before. This decline accelerated until April, but the production level has caught up to some extent since then. However, in August, the level of industrial production was still some 10% lower than in December 2019. Retail sales show a similar pattern, with a sharp drop in April and May, and only a partial recovery since then.

Labour market

The level of registered employment fell by 2.2% y-o-y in Q2, after a growth of 1.3% y-o-y in Q1. The main contributors to this drop was lower employment in retail trade, manufacturing and accommodation and food services. Overall, registered employment was about 18 500 persons lower in July than a year before, although in some sectors, such as health, but also construction, employment numbers were slightly higher than a year before.

After a continued drop in the number of registered unemployed (by 6% y-o-y) in Q1, in April the number of unemployed started to increase, reaching a level which by July was some 4.7% higher than a year before. In absolute terms, the number of unemployed was some 19 000 persons higher in July than a year before.

This brought the administrative unemployment rate to 34.7% in July, compared to 32.4% at the end of Q1. This unemployment rate is the highest since December 2018. Youth unemployment remains about twice as high as the overall rate, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is still at around three quarters of the total.

The annual growth of nominal gross wages remained quite robust, at 3.1% in Q2, and even accelerating to 3.7% in July. In view of a continued decline in the overall price level, real average gross earnings were still 4-5% higher than a year before.

External sector

The second quarter's current account deficit continued to decline y-o-y (by 0.4 pps to 2.9% of the quarter's GDP), largely on the back of weaker import spending, compensating lower revenues from service exports, such as tourism, as well as lower inflows of primary and

secondary income. When looking at 4-quarter moving averages, the current account deficit in Q2 remained largely unchanged compared to the previous quarter, at slightly below 3% of GDP, while the trade deficit improved from 21.5% of GDP in Q1 to 19.8% in Q2. Trade data points to a sharp slowdown in import demand, dropping by 27.2% in Q2, a trend which continued in July and August, when imports of goods declined by 13.4% and 14.3% respectively. At the same time, exports of goods dropped by 21.4% in Q2, and 13% and 8.2% in July and August. The main reason for the slowdown in exports were significantly lower exports to Italy, followed by Serbia and Germany.

Net FDI inflows dropped to 1.1% of GDP in the year to Q2 2020. Official foreign reserves continued to increase in Q2, while partly due to lower import levels, the import coverage ratio rose markedly to some 8.8 months.

Monetary developments

After only a moderate increase in consumer prices in Q1 (+0.4% y-o-y), Q2 registered a drop in the overall level of consumer prices, which were some 1.6% lower than a year before. This trend continued in July and August, with consumer prices being 1.3% and 1.2% lower than a year before. The main factors continued to be a strong drop in prices for transport, which accounts for about 13% of the consumer basket, as well as of prices for clothing and footwear, accounting for 5% of the consumer basket. However, in July and August, higher prices for food and non-alcoholic beverages (+1.5%) prevented a sharper drop in the overall price level (by about ½ percentage point).

The annual growth of the monetary aggregate M2 decelerated in Q2, dropping to 6.9%, compared to 8.8% in Q1. In July and August, this trend continued, reaching 6.1% in August.

Financial sector

Overall, the financial sector weathered the COVID-19 crisis well so far. Annual domestic credit growth decelerated further, from an increase by 4.3% in Q1 down to 1.2% in Q2, and continued to slow down in July and August to 0.9% and 0.6%, respectively. The main factors behind this significant slowdown were declines in corporate lending (by nearly 3% y-o-y in July and August) as well as a slowdown of household lending (to some 1¼% y-o-y in July and August). However, public sector credits accounting for some 4% of total credits rose by

9% in July-August, as well as public enterprise credits, which, albeit starting from a low level of some 2¼% of GDP, were nearly 1/3 higher in July-August than a year before.

Bank deposit growth also decelerated, but remained relatively strong, with increases of 5.2% in Q2, and 4.8% and 4.4% in July and August. Here, households and corporations were the main drivers for deposit growth. Thanks to the solid deposit growth, the loan-to-deposit ratio continued to decline to 84.1% by August, compared to 87.2% a year before.

The share of non-performing loans in total loans remained largely unchanged when compared to the previous quarter (6.7% in Q2), but was significantly lower than a year before, when it stood at 8.0%. Loan-loss provisions increased slightly, with 80.8% of non-performing loans covered by provisions, compared to 80.1% in Q1 2020. Banking sector profitability continued to deteriorate in Q2 as the return-on-equity (ROE) ratio declined to 7.3% in Q2, compared to 9.6% in Q1. The return on assets (ROA) dropped slightly from 1.2% in Q1 to 0.9% in Q2. The banking system's overall capital adequacy ratio rose slightly from 17.9% in Q1 to 18.4% in Q2, which is well above the country's regulatory minimum of 12%. However, there are big differences among the countries' 23 banks, with some pockets of vulnerability remaining, in particular in the case of some smaller local banks.

Fiscal developments

Public-sector revenue was hit markedly by the COVID-19 crisis, with overall revenues dropping by 11.7% y-o-y in Q2. The main factor was a sharp decline in tax revenues by 20% y-o-y, while the inflow of social security contributions declined by more than 8%. Data from July and August point to a further revenue drop. At the same time, expenditure rose by 12.7% y-o-y, mainly due to anti-crisis measures, but also for public sector wage payments, which rose by nearly 7% in Q2. Overall, the general government registered a deficit of more than 7% of the quarter's GDP. The measures which the authorities announced to mitigate the crisis impact on household and firms, amount some 4% of GDP. Public debt registered a marked increase in Q2 of 2020, from 32.3% in Q1 to 35.6% in Q2, largely due to an increase in long-term debt (+2.9 pps), with 2/3 consisting of loans and 1/3 of debt securities. Some 44% of the new debt were denominated in domestic currency.

TABLE

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BOSNIA AND HERZEGOVINA

		2015	2016	2017	2018	2019	Q1 20	Q2 20	Q3 20	Jul 20	Aug 20	Sep 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	3.1	4.4	3.1	1.6	-5.3	-3.6	-14.0	:	-9.1	-7.4	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	3.4	3.0	3.3	2.9	2.0	-9.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.8	2.3	1.6	1.4	2.4	2.0	-9.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-2.5	5.3	7.8	8.1	5.8	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-15.2	49.8	-18.9	2.2	5.0	-21.0	14.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.8	7.0	5.1	8.2	5.2	4.6	-16.8	:	-12.3	-15.7	:
2 Labour market												
Unemployment ^{2.1}	%	27.7	25.4	20.5	18.4	15.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.5	2.1	7.7	2.5	2.5	1.3	-2.2	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.0	0.9	1.6	3.1	4.3	4.7	3.1	:	3.7	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	5.1	7.0	21.3	11.5	-2.3	-2.0	-21.4	:	-13.0	-8.2	:
Imports of goods ^{3.2}	Ann. % ch	-2.4	2.9	13.3	7.1	1.1	-5.7	-27.2	:	-13.4	-14.3	:
Trade balance* ^{3.3}	% of GDP	-24.1	-22.8	-22.9	-22.1	-22.3	-21.5	-19.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	34.2	35.0	39.7	41.8	40.0	39.1	36.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	51.7	51.0	55.4	56.3	54.5	53.3	49.9	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.9	-4.6	-4.7	-3.3	-3.0	-2.9	-2.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.7	1.8	2.2	2.9	1.9	1.8	1.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	4438.9	4884.1	5392.9	5962.3	6453.2	6435.0	6662.9	:	6760.0	6766.7	:
Int. reserves / months Imp ^{3.9}	Ratio	6.8	7.2	7.1	7.3	7.8	7.9	8.8	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-1.0	-1.1	1.3	1.4	0.6	0.4	-1.6	:	-1.3	-1.2	:
Producer prices ^{4.2}	Ann. % ch	-0.6	-0.9	1.8	3.2	0.4	0.5	-0.7	:	-0.7	-0.8	:
Food prices ^{4.3}	Ann. % ch	-4.8	-1.3	1.3	0.6	1.1	1.1	0.9	:	1.5	1.5	:
M2 ^{4.4}	Ann. % ch	8.0	8.3	9.5	9.4	8.9	8.8	6.9	:	6.2	6.1	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Real effective exchange rate ^{4.6}	Index	98.0	97.0	96.4	97.1	95.8	95.9	94.5	:	94.1	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	701	692	627	621	772	778	716	788	772	791	803
Credit growth ^{5.4}	Ann. % ch	1.8	2.1	5.3	6.6	5.7	4.3	1.2	:	0.9	0.6	:
Deposit growth ^{5.5}	Ann. % ch	6.2	7.7	10.4	11.3	9.3	8.5	5.2	:	4.8	4.4	:
Non performing loans ^{5.6}	% total	13.9	12.3	10.9	9.3	7.9	6.6	6.7	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	0.6	1.2	2.5	2.2	1.9	3.4	-7.4	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.3	39.0	35.0	33.6	32.4	32.3	35.6	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

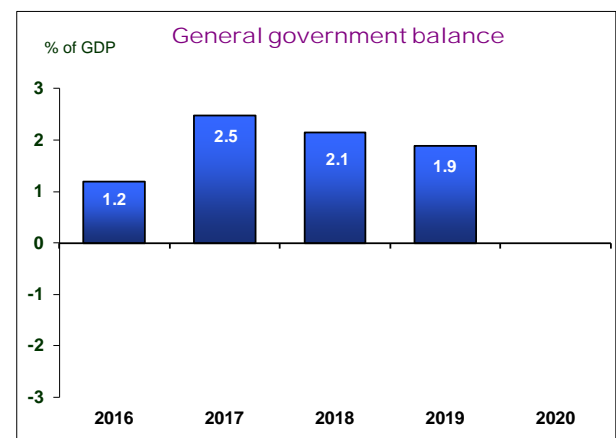
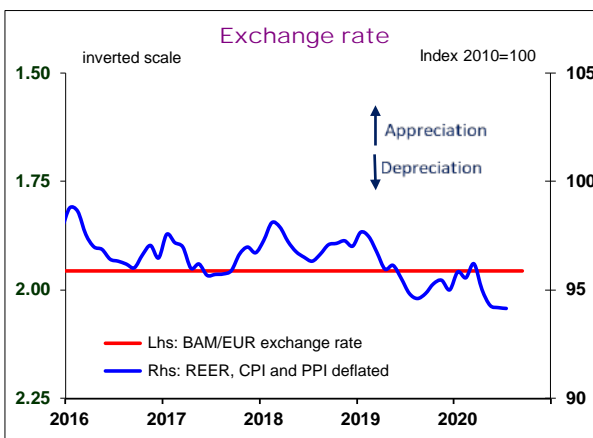
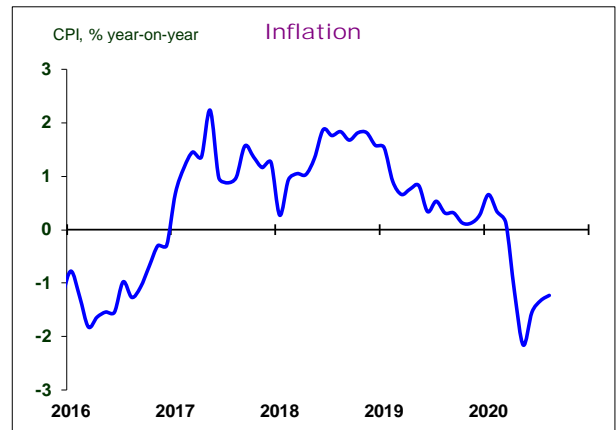
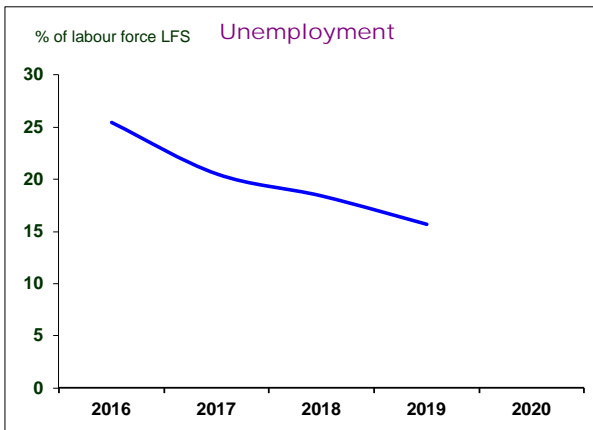
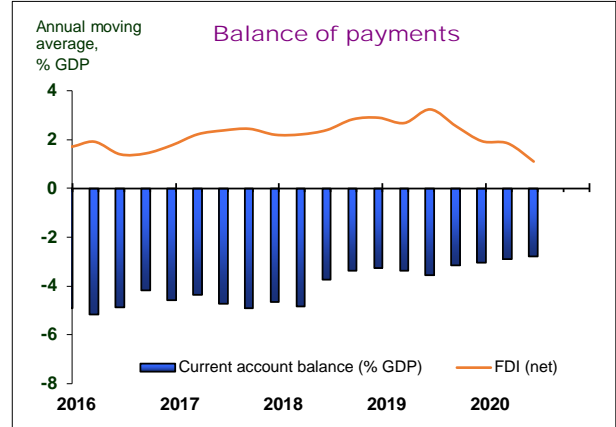
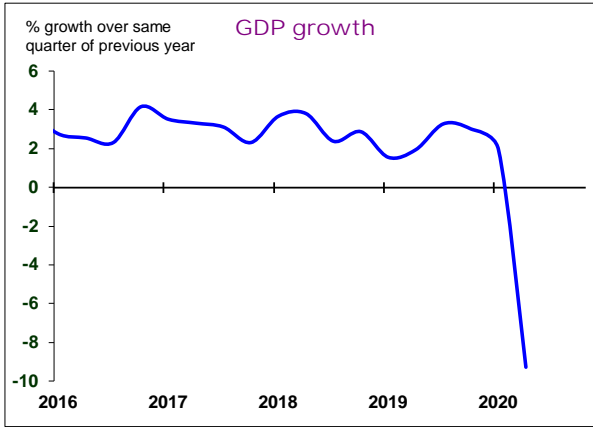
** Q figures refer to the quarterly balance divided by the quarterly GDP.

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European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

At the 4th EU-Kosovo Sub-Committee meeting on Economy, Financial Issues and Statistics, held in virtual format in September, the European Commission invited the authorities to properly assess the crisis response and its adequacy, and ensure well-targeted, effective and transparent policy measures.

In mid-September, the government adopted a revised Medium Term Expenditure Framework (MTEF) for 2021-2023, which revised the GDP growth projection downwards to -6.4% in 2020 while fiscal projections for 2020 remain unchanged from the revised budget. The MTEF does not foresee to comply with the fiscal rule until 2022.

In early October, Kosovo received the first tranche payment (EUR 50 million) of the EU Macro-Financial Assistance (MFA). The annual interest rate on the 15-year loan, achieved by EU borrowing and passed on to Kosovo, is 0.125%.

On 6 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Kosovo has made limited progress and is at an early stage in developing a functioning market economy. The economy has also made limited progress and is at an early stage regarding its capacity to cope with competitive pressures and market forces within the EU.

Real sector

The statistics office revised real GDP growth for 2019 substantially up to 4.9%, from the previous estimate of 4.2%, which was based on quarterly figures. In terms of demand components, the strongest growth took place in public consumption (9.6%) and investment (6.8%) while private consumption practically stagnated. Despite an impressive expansion of service exports (28%) the contribution of net exports remained negative.

The slowdown of GDP growth in Q1 2020 (1.3% y-o-y) was severely amplified by the COVID-19 related disruptions, leading to a 9.3% y-o-y fall in real GDP in Q2. The main

drivers of GDP contraction in Q2 were collapses in exports of services (-63% y-o-y) and fixed capital formation (-41% y-o-y). In contrast, exports of goods and private consumption held up quite well with growth rates of 12% and 3.5% y-o-y, respectively. Economic contraction was mitigated by increasing government consumption (8.6% y-o-y) and falling imports of goods and services (20% y-o-y).

On the production side, the strongest losses in output in Q2 took place in construction (-47% y-o-y) and trade, accommodation and food services (-24%). The sectors of industry and information and communication increased by 20% and 30% y-o-y, respectively, thus mitigating the fall in production.

According to the latest forecast of the World Bank, Kosovo's economy is set to contract by 8.8% in 2020.

Labour market

Due to the COVID-19 pandemic related disruptions, the results of the labour force survey (LFS) are published with large delays. The impact of pandemics cannot be assessed, as Q2 data is not available yet. Q1 LFS data confirms broadly the continuation of longer terms trends. The participation rate stood at 38.8% in Q1, practically unchanged from the same quarter of 2019 (38.7%). At the same time, the employment rate rose to 29.1%, up from 28.2% in Q1 in the previous year, while the unemployment rate decreased to 25% from 26.9% over the same period. Most new jobs were created in the sectors of trade, construction, manufacturing and education. The gap between male and female employment rates remained relatively stable at 30 pps (44% and 14% respectively in Q1). The youth unemployment rate (15-24 years) remained very high at 46.4%.

External sector

Due to the pandemic-led contraction of import, the current account deficit marginally improved in Q2, with its 4-quarter moving average decreasing to 5.1% of GDP from 5.7% in Q1. For the same reason, the traditionally high merchandise trade deficit narrowed somewhat to 42.4% of GDP from 43.9% in Q1. In January -

August workers' remittances rose by 10% y-o-y. On the financing side, net FDI inflows equalled 3.8% of GDP in the four quarters to June. Reserve assets stood relatively stable at 2.9 months of imports of goods and services in Q2.

In the first eight months of 2020, total goods exports increased by 15.8% y-o-y, due to a large increase in exports of base metals by a major producer Ferronikeli. Imports of goods fell by 10% y-o-y on the back of declining imports of mineral fuels, base metals and machinery equipment. During January-August the merchandise trade deficit narrowed by 13% y-o-y.

Monetary developments

Annual inflation averaged 0.4% in January-August with a decelerating trend in the monthly readings. In particular, July and August marked deepening deflation. Positive contribution to inflation came from food prices while the most significant negative contribution came from prices of transport services due to low oil prices.

The producer price and construction cost indices fell by 0.1% y-o-y in the first half of 2020, driven by declining prices for metals, construction materials and wages. Import prices declined by 0.2% y-o-y in the first six months due to lower prices for mineral products and textiles.

Financial sector

Despite the negative impact of the pandemic, the financial sector continued to expand its activities. While bank-lending growth has decelerated to 7.1% y-o-y in the first eight months of 2020 from an average growth of 11% in the past two years, deposit growth increased to 10.6% from 9% due to cautious behaviour of households and firms. The loan-to-deposit ratio in August declined to 78.3% from 81.4% a year earlier.

The interest rate spread stood unchanged from May at 4.7 pps in August. Financial soundness indicators in the banking sector remained stable and satisfactory. For the banking system as a whole, the ratio of liquid assets to short-term liabilities remained unchanged at 37.3% in August, while the capital adequacy ratio declined somewhat to 16.5% from 17% a year

earlier, standing still well above the regulatory minimum of 12%.

In June, the Central Bank of Kosovo adopted guidelines to facilitate loan restructurings while phasing out the moratorium on debt repayments. This resulted in a request to restructure 38% of existing loan portfolio. The non-performing loan (NPL) ratio stood at 2.6% in August (slightly above the 2.2% rate in 2019), but there is no estimate of NPLs net of the impact of reprogramming measures. Existing NPLs are fully covered by loan loss provisions (138%), but this ratio has declined from 163.9% in August a year earlier.

Fiscal developments

In the first eight months, total public revenue fell by 11.5% y-o-y with income from direct and indirect taxes contracting by 12% and 13% y-o-y, respectively. This outcome is considerably below the revised budget assumption of 5.2% annual revenue contraction. Budget expenditure grew by 7% y-o-y, with diverging performances of some major categories. While social transfers at the general government level rose by 23.8%, there was nearly a mirror contraction in total capital spending (-23.6% y-o-y), with the investment amount spent so far representing only 22.5% of the revised budget allocation for the year as a whole. At the same time, the execution rate of the social transfer budget reached over 72% by August. The revised 2020 budget assumes 37% annual increase in capital spending while the growth in transfers and subsidies is set at 8.2%.

The eight-month general government surplus was tiny (EUR 14.7 thousand), which is 95% lower than the outcome of the same period in 2019.

In July, total public debt (including guarantees) stood at 18.4% of GDP compared to 16.5% in Q1. This figure does not yet include loans from several IFIs, and the EU MFA, which have been agreed to cover emergency needs. The MTEF projects the debt to GDP ratio to reach 25.7% by the end of 2020. The government has prepared a draft Law on public debt, which would allow debt to increase up to 50% of GDP (instead of the current ceiling of 40%) under exceptional circumstances.

TABLE

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KOSOVO*

		2015	2016	2017	2018	2019	Q1 20	Q2 20	Q3 20	Jul 20	Aug 20	Sep 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	1.3	-1.3	-1.3	-1.2	:	N.A.	N.A.	N.A.	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.1	4.2	3.8	4.9	1.3	-9.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	6.1	6.1	1.4	4.4	-0.1	5.2	3.5	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	11.3	7.5	5.6	8.1	5.7	-5.8	-41.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.1	6.5	12.0	17.4	25.6	20.9	0.6	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	32.9	27.5	30.5	29.6	25.7	25.0	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-8.2	11.8	7.6	-3.4	5.2	4.0	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.8	1.8	1.7	5.7	7.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	0.2	-4.8	22.1	-2.8	4.4	25.9	15.0	:	5.4	7.6	:
Imports of goods ^{3.2}	Ann. % ch	3.8	5.9	9.2	9.8	4.5	3.4	-18.9	:	-9.1	-15.6	:
Trade balance*** ^{3.3}	% of GDP	-39.8	-40.9	-41.6	-44.3	-43.8	-43.9	-42.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	21.9	22.2	26.5	26.4	29.1	26.4	14.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	50.4	50.6	52.7	55.6	56.1	56.9	47.7	:	N.A.	N.A.	N.A.
Current account balance*** ^{3.6}	% of GDP	-8.6	-7.9	-5.4	-7.6	-5.8	-5.7	-5.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** ^{3.7}	% of GDP	4.7	2.9	3.3	3.4	2.9	3.4	3.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	1046.4	895.2	939.4	933.9	937.1	983.0	921.2	:	944.5	924.1	:
Int. reserves / months Imp ^{3.9}	Ratio	4.3	3.5	3.3	2.9	2.8	2.9	2.9	:	N.A.	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	-0.5	0.3	1.5	1.1	2.7	1.1	0.2	:	-0.1	-0.5	N.A.
Producer prices ^{4.2}	Ann. % ch	2.7	-0.1	0.6	1.4	0.9	-0.2	-1.5	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	0.0	-0.4	1.2	2.8	8.3	1.6	2.5	:	1.7	0.8	:
Broad money liabilities ^{4.4}	Ann. % ch	5.6	9.2	6.4	7.9	12.0	11.3	11.1	:	9.5	9.2	:
Exchange rate EUR/EUR ^{4.5}	Value	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real effective exchange rate (CPI) ^{4.6}	Index	104.6	104.2	105.0	104.7	107.1	107.6	106.95	:	106.4	107.0	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	1.45	0.35	0.21	0.43	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	4.02	3.53	2.43	3.41	N.A.	3.69	N.A.	N.A.
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth ^{5.4}	Ann. % ch	6.9	9.1	10.5	11.1	10.7	10.0	6.9	:	6.7	7.1	:
Deposit growth ^{5.5}	Ann. % ch	5.6	4.7	8.6	6.5	12.6	15.5	12.8	:	12.7	10.6	:
Non-performing loans ^{5.6}	% total	6.2	4.9	3.1	2.5	1.9	2.3	2.4	:	2.3	2.4	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-2.0	-1.2	-1.3	-2.8	-2.9	0.2	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	13.1	14.4	16.6	16.9	17.5	16.5	:	:	N.A.	N.A.	N.A.

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

** Source: IMF.

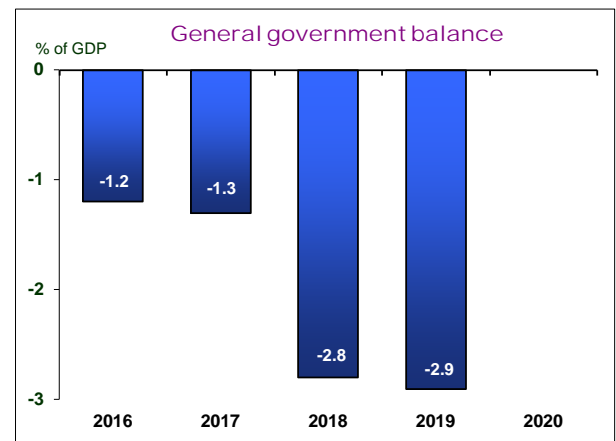
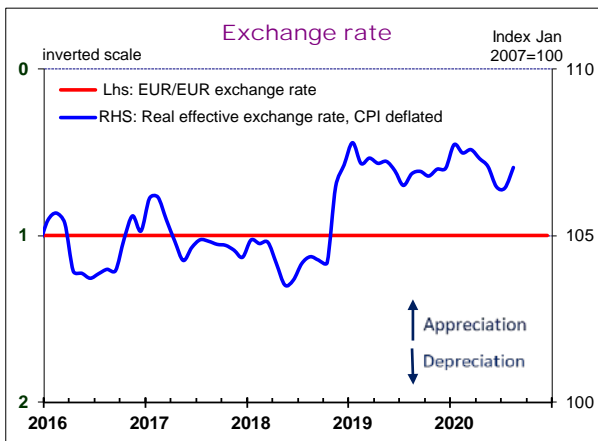
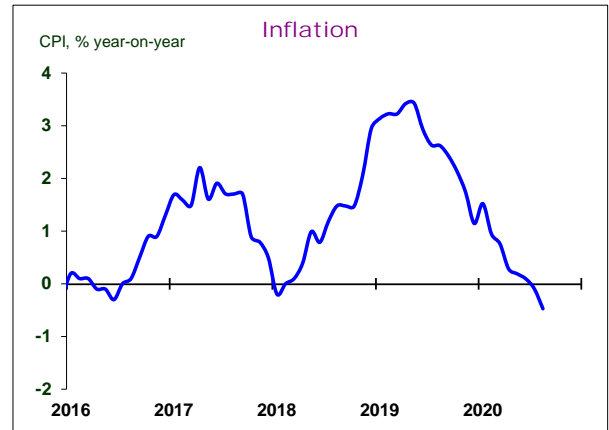
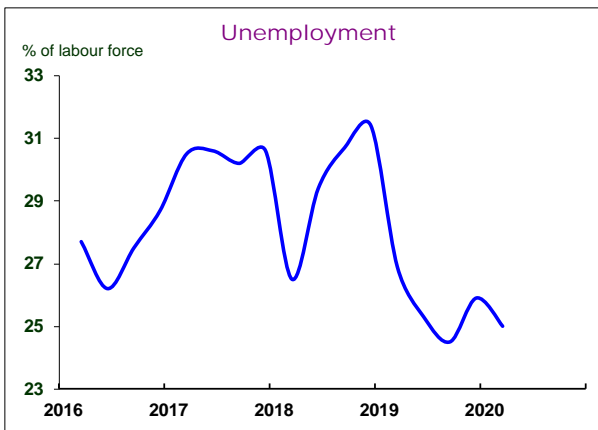
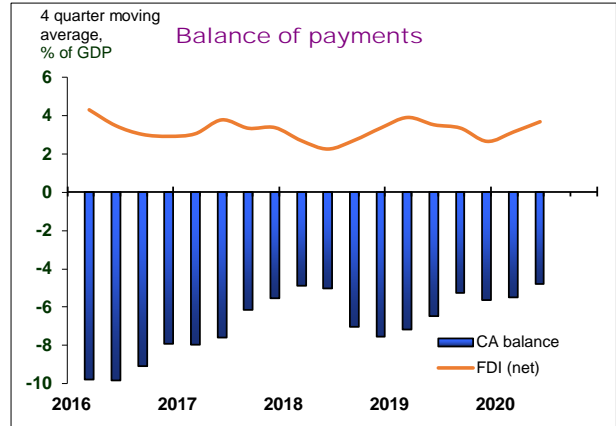
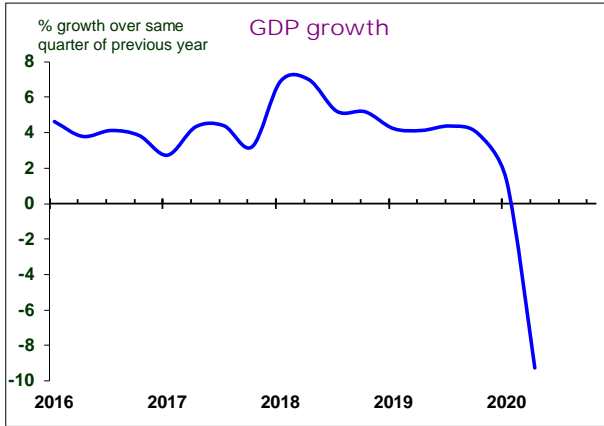
*** Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*



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Source of data: IMF, national sources



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	MacroBond
1.2.	Industrial production	Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	MacroBond
1.4.	Private consumption	Annual percentage change, annual data, chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MacroBond
1.6.	Construction index	Annual percentage change, value of performed work, current prices	MacroBond
1.7.	Retail sales	Annual percentage change, turnover, total	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of active population, e.o.p.	MacroBond
2.2.	Employment	Annual percentage change of registered employment, avrg.	MacroBond
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	Annual data	MacroBond
3.5.	Imports goods and services	Annual data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MacroBond
4.2.	Producer prices	Annual percentage change	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (Intermediate money)	wiiw
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Real effective exchange rate	CPI deflated, annual percentage change,	IMF
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 6 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Long-Term Bond, 10 Year, Yield	Bloomberg
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	Macrobond
6. Fiscal developments			
6.1.	General government balance	In percent of GDP; Q/Q GDP for quarterly data	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



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



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



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, Index 2010=100, Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change	MacroBond
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change	MacroBond
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	MacroBond
1.7.	Retail sales	Total sale, index CPPY=100, weighted average Federation of Bosnia and Herzegovina 65% Serb Republic 35%	MacroBond
2.	Labour market		
2.1.	Unemployment	Labour Force Survey, in percent of total labour force	MacroBond,
2.2.	Employment	Labour Force Survey, annual percentage change	MacroBond
2.3.	Wages	Annual percentage change, average gross wages, BAM	MacroBond
3.	External sector		
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	MacroBond
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services 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.	Real effective exchange rate	Index (2010=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 and services moving average.	MacroBond
4.	Monetary developments		
4.1.	CPI	Annual average percentage change, index (May 2002 = 100)	MacroBond
4.2.	Producer prices	Annual percentage change, total, 2007=100	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	MacroBond
4.5.	Exchange rate EUR/EUR	Not applicable.	
4.6.	Real effective exchange rate	CPI deflated, Index 2007=100	SOK
5.	Financial indicators		
5.1.	Interest rate	Short-Term Treasury Bills yield.	MacroBond
5.2.	Bond yield	Long-Term Bonds, over 5 Years up to 10 Years, Yield.	Central Bank of Kosovo
5.3.	Stock markets	Not available.	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing.	MacroBond
5.5.	Deposit growth	Annual percentage change, ODC deposits.	MacroBond
5.6.	Non-performing loans	In % of total.	CB Kosovo
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP, Q/Q GDP	IMF, Ministry of Finance
6.2.	General government debt	In percent of GDP.	MacroBond

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

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