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

2nd Quarter 2021

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European Commission
Directorate-General for Economic and Financial Affairs

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

2nd Quarter 2021

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 subsided and economic activity rebounded in most of the **Western Balkan** economies in the first quarter of 2021, when the region's GDP grew by 1.7% y-o-y, compared to a 0.9% contraction in the preceding quarter. The recovery was largely due to a pick-up in year-on-year terms of economic activity in Albania and the rebound of the Serbian economy. Increased investment and an expansion of exports of goods were the main growth drivers while the rise in household consumption was subdued. The year-on-year fall in employment accelerated in the first quarter of 2021 compared to the previous three months, leading to a rise in unemployment rates that has only been partially contained by a decrease in labour force participation. The region's current account deficit stood at 4.5% of GDP in the four quarters to March, the lowest level in the last ten years, as lower merchandise trade deficits and increased remittances inflows in most countries more than offset the continued losses in services exports. The economic recovery supported the growth of budget revenues and fiscal deficits narrowed across the Western Balkans in the first five months of 2021, while the public debt-to-GDP ratio came down in most countries compared to end-2020.*

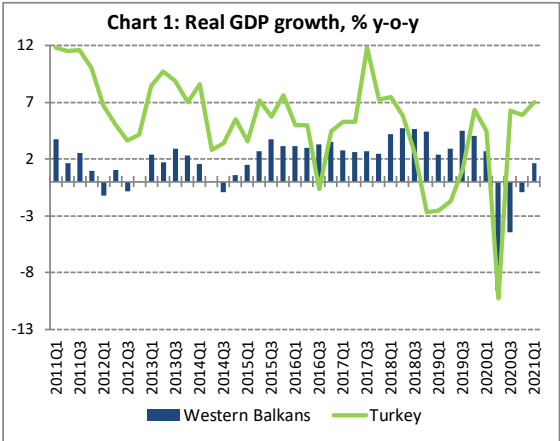
*In **Turkey**, real GDP grew by 7.0% y-o-y sustained by base effects, robust domestic demand, the tail effects of last year's credit stimulus and a positive contribution of net exports to growth. The 4-quarter rolling average current account deficit decreased to 4.5% of GDP in April, compared to 5.2% in 2020, driven by a strong year-on-year contraction of the deficit in March and April as exports rebounded. Despite high inflation and rising inflation expectations, the central bank of Turkey kept its key policy rate unchanged at 19.0% in June. Amidst lower exchange rate volatility, the lira lost another 4.6% of its value against the US dollar in the second quarter of 2021.*

Most of the **Western Balkan** economies showed signs of recovery in the first quarter of 2021 as COVID-19-related restrictions were relaxed and economic activity rebounded. In *Serbia*, despite a high base from the first quarter of 2020, year-on-year real GDP growth turned positive (1.7%) as increased gross fixed capital formation and a positive contribution of net exports to growth outweighed the significant fall in inventories as well as lower household and public consumption. In *Albania*, annual economic growth accelerated to 5.5% from a downwardly revised growth rate of 2.4% in the previous three months, supported by base effects, strong growth of exports of goods and investment as well as increased public consumption while household consumption growth remained subdued. In *Bosnia and Herzegovina*, economic activity recovered and real GDP grew by 1.5% y-o-y compared to a decline of 2.3% in the preceding quarter largely driven by household consumption and exports. In *Kosovo*, real GDP expanded by 5.6% y-o-y on the back of a surge

in public consumption, a recovery in investment as well as an extraordinary increase in exports of goods. On the other hand, in *North Macedonia*, despite the recovery in private consumption after four consecutive quarters of contraction, annual output losses accelerated to 1.9% in the first quarter of 2021 mainly due to a sharp drop in investment. In *Montenegro*, the decline in economic activity continued and real GDP fell by 6.4% y-o-y due to the contraction in household and public consumption as well as investment. Economic growth was helped by a positive contribution of net exports to growth. Overall, the **Western Balkan** region's GDP grew by 1.7% y-o-y in the first quarter of 2021, compared to a contraction of 0.9% in the previous three months (Chart 1). This is the first annual increase in the region's output after three quarters of decline.

In **Turkey**, real GDP growth accelerated to 7.0% y-o-y in the first quarter of 2021 from 5.9% in the previous quarter, underpinned by base effects and buoyant domestic demand, which benefited from last year's sizeable credit-focused policy stimulus as well as a positive contribution of net exports to

growth. Very strong base effects and new COVID-19 related restrictions in April and May influenced high frequency indicators in the second quarter of 2021. The manufacturing PMI dropped in both months before recovering in June. After a plunge in April and May, economic confidence improved notably in June, although it remained below pre-crisis levels.



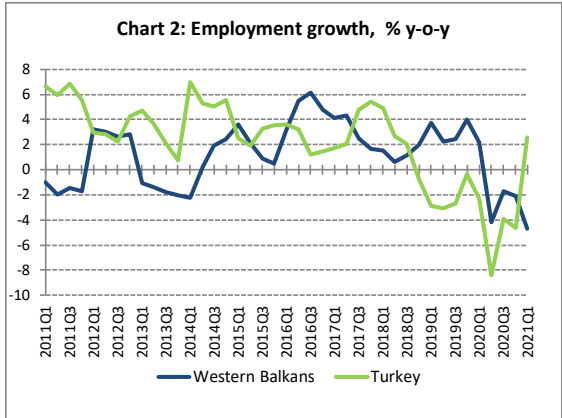
Source: Macrobond, Commission calculations

Despite the recovery in economic activity, the labour market situation deteriorated in the *Western Balkans* in the first quarter of 2021. The average decline in employment in the region accelerated to 4.7%¹ y-o-y, from 2.1% in the previous three months (Chart 2). This led to an increase in unemployment rates that was only partially contained by a simultaneous decline in labour force participation. Jobless rates are very high, ranging from 12.6% in *Albania* to 27.0% in *Kosovo* (the latter in the fourth quarter of 2020).

In *Turkey*, two of the measures that the authorities had enacted in 2020 to protect the labour market from the COVID-19 crisis expired at end-June, while the labour market situation remained challenging. Although job growth continued recovering in the first four months of the year, increasing by 6.7% y-o-y,

¹ This figure does not include *Montenegro* and *Kosovo* for which first-quarter data were not available by the cut-off date for this report.

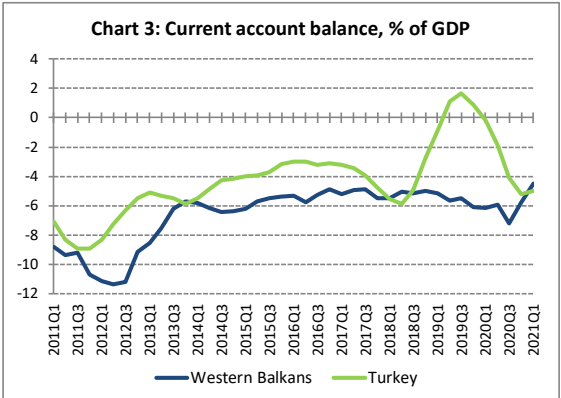
employment remained far below its peak in 2018. The labour force participation and employment rates remained below their pre-crisis levels at 50.8% and 44.2%, respectively in April. For the same period, the unemployment rate stood at 12.9%, broadly unchanged compared to a year before while the combined share of people in unemployment and time-related underemployment was 19.0%.



External developments in the *Western Balkans* during the first quarter of 2021 were driven by a strong recovery in exports of goods, continued losses in services exports as well as a rebound in remittances in most countries. At the same time, imports of goods also increased but at a slower pace, which in most countries led to lower merchandise trade deficits as a percentage of GDP. On balance, with the exception of *Albania* and *Kosovo*, annualised current account deficits narrowed in *Western Balkan* countries compared to the previous quarter. Overall, in the four quarters to March the current account deficit in the region stood at 4.5% of GDP, the lowest level in the last ten years (Chart 3). The deficits continued to be financed mostly by net FDI inflows, which in relation to GDP increased or remained the same in *Montenegro*, *Kosovo* and *Bosnia and Herzegovina* whereas they declined moderately in the other countries of the region.

In *Turkey*, the 12-month cumulative current account deficit decreased to 4.5% of GDP in April from 5.2% in 2020. The improvement was mainly driven by a remarkable increase in exports of

goods in the first four months of 2021 compared to the same period a year earlier. Following the dismissal of the central bank governor, portfolio outflows were large in March but they subsided in April. Still, despite a lower current account deficit and an uptick in other investment inflows, official reserve assets fell by USD 7.4 billion over March and April.



Source: Macrobond, Commission calculations

While in the first quarter inflation dynamics diverged between **Western Balkan** countries, increases in global energy and food prices fuelled an acceleration in annual inflation across the region in April and May. In *Serbia*, annual consumer price inflation averaged 1.4% in the first quarter of 2021 while it accelerated to 2.8% and 3.6% in April and May, respectively, thus returning above the midpoint of the target tolerance band of 3%±1.5 pps. The central bank of *Serbia* decided in June to keep its key policy rate unchanged at the record-low of 1.0%, after four successive cuts of 125 bps. in total in 2020. It also remained an active participant on the foreign exchange market, with total net sales of EUR 5 million in the first five months of 2021. In *North Macedonia*, average CPI inflation accelerated to 2.8% y-o-y in the April to June period on average. The central bank decided in June to keep the key policy rate at the historic low of 1.25%, after reducing it by 25 bps. in March. In *Albania*, consumer price inflation

accelerated to 1.8% y-o-y (still below the 3% target) in the second quarter of 2021, from 0.9% in the first three months. In July, the *Bank of Albania* did not change its key policy rate, which it had last lowered to the record low of 0.5% in March 2020. It also continued to intervene on the money market with liquidity injections while reducing the volume of these interventions.

On the other hand, negative inflation persisted in *Montenegro* and *Bosnia and Herzegovina* during the first quarter of 2021, but rising upward price pressures, mainly in the transport sector, turned annual inflation positive in both countries in April and lifted it further to 2.3% and 1.7% respectively in May. Consumer price inflation has also been on an upward trend in *Kosovo*, where it stood at 1.2% y-o-y on average in the first five months of 2021, largely due to higher communication prices.

In **Turkey**, annual CPI inflation accelerated to 17.1% in the second quarter from 15.6% in the previous three months, as price pressures intensified due to higher international commodity prices, the lagged effect of lira depreciation and rising inflation expectations. Still, the central bank kept its key policy rate unchanged at 19.0% in June after raising it by 200 basis points in March. Amidst lower exchange rate volatility, the lira lost another 4.6% of its value against the US dollar in the second quarter of 2021, after depreciating by 13.4% in the preceding quarter.

In the first quarter of 2021, annual credit growth decelerated, compared to the previous three months, in most **Western Balkan** countries while it remained negative in *Bosnia and Herzegovina*. However, various policy measures to support the flow of credit helped annual loan growth to pick up in almost all countries of the region in April and May. The share of non-performing loans (NPLs) in total loans fell further or remained roughly stable in most **Western Balkan** countries. The NPL ratio in *Albania* stood at 7.9% in April compared to 8.1% at the end of 2020. In *Bosnia and Herzegovina* the NPL ratio declined to 6.0%, in the first quarter of 2021, 0.6 pps. lower than 12

months earlier, followed by *Montenegro* (5.5% in May) and *Serbia* (3.9%). However, since most central banks have allowed some regulatory relaxation in order to bolster bank lending, the NPL and credit figures do not yet reflect the full impact of the pandemic-induced crisis on the financial sector.

In *Turkey*, annual credit growth decelerated significantly, to 21.5% in the second quarter from 30.8% in the first three months. Bank lending to non-financial corporates fell in real terms due to base effects and monetary policy tightening at the end of 2020 and early 2021 while consumer lending remained robust. The NPL ratio fell to 3.7% in May from 4.5% a year earlier.

In the first five months of 2021, the recovery in tax revenues due to higher economic activity supported the narrowing of fiscal deficits in the **Western Balkan** region, notwithstanding efforts by most countries to increase capital spending. In *Serbia*, year-on-year revenue growth significantly outpaced the increase in expenditure and the budget shortfall decreased to 1.1% of expected GDP in January to May. In *Montenegro*, the budget deficit narrowed to 3.5% of GDP supported by increased revenue as well as the significantly lower capital expenditure, transfers to institutions and

government expenditure on goods and services. In *North Macedonia*, despite a steep rise in income from VAT and social contributions, a significant increase in capital expenditure resulted in a budget shortfall of just over one quarter of the upwardly revised target of 6.5% of GDP. In *Kosovo*, large increases in direct and indirect tax proceeds offset the strong rebound in capital spending and the five-month budget gap was close to balance. In *Albania*, despite the over-performance in public investment expenditure, the recovery of tax revenue from almost all tax categories to 2019 levels resulted in a budget deficit of only 0.5% of GDP in the first quarter of 2021, half of the planned amount. The general government debt ratio decreased in most countries in the region in the first quarter, partly reflecting recovering nominal GDP. At the end of March, the debt ratio was the highest in *Montenegro* (89.4% of GDP), followed by *Albania* (73.8%) and *Serbia* (55.6% at end-May).

In *Turkey*, notwithstanding the strong increase in interest payments due to higher debt levels and the exchange rate depreciation, a substantial increase in tax revenue resulted in a minimal central government budget deficit of 0.1% of GDP, in the first five months of 2021. Government debt rose to 40.4% of GDP at end-March, compared to 39.8% at end-2020.

Candidate and potential candidate countries: Summary table

	2016	2017	2018	2019	2020	ECFIN 2021 Spring forecast		Q4 20	Q1 21	Q2 21	Apr 21	May 21	Jun 21
						2021	2022						
Gross domestic product (in real terms, annual % change)													
Albania	3.3	3.8	4.0	2.1	-4.0	4.0	4.3	2.4	5.5	:	N.A.	N.A.	N.A.
North Macedonia	2.8	1.1	2.7	3.2	-4.5	3.7	3.8	-0.7	-1.9	:	N.A.	N.A.	N.A.
Montenegro	2.9	4.7	5.1	4.1	-15.2	7.1	6.5	-7.5	-6.4	:	N.A.	N.A.	N.A.
Serbia	3.3	2.1	4.5	4.2	-1.0	5.3	4.0	-1.0	1.7	:	N.A.	N.A.	N.A.
Turkey	3.3	7.5	3.0	0.9	1.8	5.2	4.2	5.9	7.0	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	3.4	3.0	5.1	2.8	-4.6	:	:	-2.3	1.5	:	N.A.	N.A.	N.A.
Kosovo	4.1	4.2	3.8	4.9	-3.7	:	:	0.8	5.6	:	N.A.	N.A.	N.A.
Unemployment													
Albania	15.6	14.1	12.8	12.0	12.2	11.7	10.9	12.3	12.6	:	N.A.	N.A.	N.A.
North Macedonia	23.8	22.4	20.7	17.3	16.4	15.8	15.2	16.1	16.0	:	N.A.	N.A.	N.A.
Montenegro	18.0	16.4	15.5	15.4	18.4	16.5	15.2	21.5	:	:	N.A.	N.A.	N.A.
Serbia	15.3	13.5	12.7	10.4	9.0	9.3	8.5	9.9	12.8	:	N.A.	N.A.	N.A.
Turkey	10.9	10.9	10.9	13.7	13.1	13.5	14.1	12.9	13.5	:	12.9	:	:
Bosnia and Herzegovina	25.4	20.5	18.4	15.7	15.9	:	:	16.6	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	27.5	30.5	29.6	25.7	26.0	:	:	27.0	:	:	N.A.	N.A.	N.A.
Current account balance* (% of GDP)													
Albania	-7.6	-7.5	-6.8	-7.9	-8.9	-8.5	-7.6	-8.8	-9.3	:	N.A.	N.A.	N.A.
North Macedonia	-2.9	-1.0	-0.1	-3.3	-3.5	-2.2	-1.6	-3.5	-2.6	:	N.A.	N.A.	N.A.
Montenegro	-16.2	-16.1	-17.0	-14.3	-26.0	-22.7	-16.9	-26.0	-22.4	:	N.A.	N.A.	N.A.
Serbia	-2.9	-5.2	-4.8	-6.9	-4.3	-6.1	-5.9	-4.3	-1.8	:	N.A.	N.A.	N.A.
Turkey	-3.1	-4.8	-2.8	0.9	-5.2	-3.9	-3.1	-5.2	-5.0	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.6	-4.7	-3.2	-3.0	-3.1	:	:	-3.1	-2.5	:	N.A.	N.A.	N.A.
Kosovo	-7.9	-5.4	-7.6	-5.6	-7.0	:	:	-7.0	-8.1	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.3	2.0	2.0	1.4	1.6	1.9	2.3	1.6	0.9	:	1.9	1.8	:
North Macedonia	-0.2	1.4	1.5	0.8	1.2	1.7	1.7	2.2	2.0	:	2.7	3.0	2.7
Montenegro (HICP)	0.1	2.8	2.9	0.5	-0.8	1.3	1.8	-1.3	-0.1	:	1.8	2.3	:
Serbia	1.1	3.1	2.0	1.8	1.6	2.4	2.1	1.6	1.4	:	2.8	3.6	:
Turkey	7.8	11.1	16.3	15.2	12.3	15.7	12.5	13.5	15.6	17.1	17.1	16.6	17.5
Bosnia and Herzegovina	-1.1	1.3	1.4	0.6	-1.1	:	:	-1.6	-1.2	:	0.9	1.7	:
Kosovo	0.3	1.5	1.1	2.7	0.2	:	:	-0.1	0.6	:	1.9	1.9	N.A.
General government balance** (% of GDP)													
Albania	-1.8	-2.0	-1.6	-1.9	-6.9	-5.5	-3.0	-3.2	-0.5	:	N.A.	N.A.	N.A.
North Macedonia	-2.7	-2.7	-1.1	-2.2	-8.2	-4.1	-3.4	-2.7	-1.0	:	N.A.	N.A.	N.A.
Montenegro	-3.6	-5.3	-3.9	-2.0	-11.0	-3.8	-1.4	-3.5	-2.4	:	:	:	:
Serbia	-1.2	1.1	0.6	-0.2	-8.1	-6.7	-3.4	-1.5	-0.2	:	N.A.	N.A.	N.A.
Turkey	-1.7	-2.0	-2.8	-3.2	-2.8	-4.0	-3.6	-0.9	0.5	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	1.2	2.5	2.1	1.9	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo	-1.1	-1.3	-2.9	-2.9	-7.0	:	:	-1.7	-0.1	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2021 published May 2021.

* Q figures refer to a 4 quarters moving average.

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

ALBANIA



Key developments

The ruling Socialist Party won the parliamentary elections of 25 April and gained Prime Minister Rama a third term. On 11 June, Albania was elected as non-permanent member of the United Nations (UN) Security Council for the first time since it joined the UN in 1955.

On 12 July, the annual Economic and Financial Dialogue between the EU and the Western Balkans and Turkey jointly agreed country-specific conclusions, which called on Albania, inter alia, to strengthen management and efficiency of public expenditure, to invest in health and education and to reduce public debt, once the recovery takes hold.

Real sector

The preliminary estimate of the annual growth rate of 2020 was corrected from -3.3% to -4% because of downward revisions of all four quarterly growth rates of 2020. The rebound of the Albanian economy, which had begun with 3% real GDP growth year-on-year in Q4-2020, accelerated in Q1-2021 to 5.5%, supported by base effects. Increasing government consumption (5.2% y-o-y) and a particularly strong growth of investments and exports of goods of 21.1% and 33% respectively, supported the rebound while private consumption growth remained subdued (1.5%). For the first time since the onset of the crisis, both total exports and imports recorded positive growth rates of 0.7% and 7% respectively, but this also resulted in a 2.9 pps. negative contribution of net exports to growth -.

On the production side, in Q1-2021, professional and administrative support services and the group of retail, accommodation and food services continued to contract on an annual basis, though at a slower pace than in previous quarters, whereas other categories of services continued their recovery. Industrial production and construction recorded the strongest growth rates of 23.8% y-o-y and 16.9% y-o-y, respectively.

The economic sentiment indicator climbed above its historical average in April for the first time since the onset of the crisis. The May survey confirmed improved confidence of industry and trade, while consumer confidence firmed up to a smaller extent and remained

below the historical average.

Labour market

The government's mitigation measures in 2020 started to lose impact on the labour market in Q1-2021, when most labour market indicators deteriorated compared with 2020. For the 15-64 year old, employment dropped by 4.7% y-o-y (-2.9 q-o-q) despite a 5.6% growth of public sector employment. The unemployment rate increased to 12.6% compared with 11.9% in Q1-2020. A 6% y-o-y increase of economically inactive persons (not counted as unemployed) was instrumental in limiting the increase of the unemployment rate. As a result, the participation rate continued to decrease to 67.7% compared with 69.6% a year earlier. Women's participation rate dropped by 3.6 pps. y-o-y to 58.6%, considerably more than that of men (-0.7 pps.), widening the gender gap by 3 pps. to 18.6 pps. compared with Q1-2020.

The growth of the goods producing sectors was not reflected in the year-on-year changes of their respective employment indices, which all remained negative, albeit to a lesser extent than in 2020, except for construction (+5.4% y-o-y). Employment indices of services showed a similar picture, except for IT and transportation services.

Wages increased by 5.2% y-o-y in Q1, pushed up by the increase of the minimum wage and a 7.4% increase in public sector wages, resulting from higher wages for health workers and teachers. Wage indices in production and services increased strongly in manufacturing, construction and IT services, but stagnated or remained negative in the all other sectors.

External sector

In the four quarters to March, the current account deficit widened to 9.3% of GDP, up from 8.9% in 2020, mainly due to a widening of the trade deficit on account of increasing imports and a still slightly negative export growth (in BoP/EUR terms). The contraction of total exports slowed to 0.1% y-o-y in Q1 from -28.5% in 2020, supported by the strong rebound of merchandise exports (32% y-o-y), which partly benefitted from base effects. Increasing goods imports drove the recovery of import growth to 7.8% y-o-y. Both imports and exports of services continued to contract and the surplus

of the services balance declined by 0.1 pps. to 8% of GDP. The share of exports fell by 0.4 pps. to 22.9% of GDP, while imports increased slightly to 38.2% of GDP in Q1 (all in 4-quarter moving averages). Benefiting from base effects, remittances grew by 10.6% y-o-y in Q1 and kept their share in GDP stable at 5.2% in the four quarters to March.

The contraction of FDI inflows slowed to 3.2% y-o-y in Q1. In the four quarters to March, net FDI accounted for 6.7% of GDP compared with 7.1% one year earlier, and covered 72.1% of the current account deficit compared with 90.8% in Q1-2020. Foreign reserves remained unchanged quarter-on-quarter at EUR 3.9 billion but grew by EUR 0.6 billion year-on-year, and continued to cover about 9 months of imports.

Monetary developments

In July, the Bank of Albania (BoA) reaffirmed its accommodative policy stance by keeping its record low policy rate at 0.5%, as well as the overnight deposit and lending rates at 0.1% and 0.9%, respectively, which have been in place since March 2020. The BoA continued to intervene on the money market with liquidity injections while reducing the volume of the average daily injections. Inflation picked up in Q2 to about 1.8% after 0.9% y-o-y in Q1, because of strong price increases of food and beverages (4% up from 2.5% y-o-y). Growth of monetary aggregate M3 picked up in May to 9.1% following a deceleration in Q1 to 7.7%.

The lek's exchange rate appreciated in Q2 to 122.98 lek/euro compared with 123.49 lek/euro in Q1.

Financial sector

The growth of overall credit to the economy picked up in April and May to 6.3% y-o-y, following some deceleration to 4.6% in Q1. Lending growth to the private sector² recovered to 7.5% y-o-y in Q1 from 6.7% in Q4, driven by lending to enterprises (7.2%), in particular for investment purposes (8.2%). Lending in lek contributed most to this recovery and the share of foreign currency loans in total bank loans continued to decrease slightly to 48.8% in April 2021 compared with 50.7% a year ago. Lending to households, mainly for mortgage loans, continued to accelerate to 6.1% y-o-y. Interest rates for lending in lek continued to increase slightly in Q1 compared with Q4, but only for small loans to SMEs (from 5.6% to 5.8%) and

for households' mortgage loans (from 4.2% to 4.7%). Euro rates decreased by 1.3 pps. to 4.4% for enterprises and for households to 3.3%, down 1.1 pps compared with Q4. Banks continued to tighten credit standards as well as lending terms and conditions for enterprises and to ease them for households, stimulated by increasing competition among banks and the perceived improving creditworthiness of households. At the same time, loan demand by enterprises was overall weak, because of subdued demand of SMEs while demand by large enterprises strengthened.

The growth of deposits accelerated from 6.3% y-o-y in Q1 to 8.1% in May, mainly driven by growth of deposits in lek (8.3%), while the growth of foreign currency deposits remained stable at 5.2% and the share of forex deposits in total deposits remained just below 50%.

The banking sector's capital adequacy and liquidity ratios decreased in Q1 by 0.2 pps. q-o-q to 18.1% and by 1.6 pps. q-o-q to 12%, respectively. In particular, the liquidity indicators continued to weaken in April. The ratio of non-performing loans to total loans continued to decrease slightly from 8.1% at the end of 2020 to 7.9% in April.

Fiscal developments

In July, the parliament approved a budget amendment providing for an additional 12 billion lek for investment and for the reserve fund, which increases the deficit to an estimated 6.9% of GDP. In addition, the government announced that it would continue applying the escape clause of the fiscal rules in 2021 due to the persisting COVID-19 impact.

In Q1, income from all tax categories recovered fully to 2019 levels, except for VAT. Tax revenue exceeded the planned amount by 2.1% and the corresponding outturn one year earlier by 7.2%. Expenditure increased by 8.2% y-o-y, although it remained 4% below the ambitious plan for 2021 mainly because reconstruction expenditure lagged 28% behind plan. However, overall capital expenditure exceeded the budgeted amount because the performance of foreign financed investments improved. Current expenditure increased most strongly in the categories personnel, operation and maintenance and health insurance compared with one year earlier, although not as much as planned, as local government expenditure fell 28% behind plan. The deficit turned out half of the planned amount and the public debt ratio decreased from 76.1% of GDP at the end of 2020 to 73.8% of estimated GDP in Q1.

²Annual average growth adjusted for written-off loans and exchange rate impacts

TABLE

							ECFIN 2021 Spring forecast		European Commission, ECFIN-D-1					
		2016	2017	2018	2019	2020	2021	2022	Q4 20	Q1 21	Q2 21	Apr 21	May 21	Jun 21
1 Real sector														
Industrial confidence ^{1.1}	Balance	-3.7	1.5	-0.6	-0.6	-16.2	:	:	-11.0	-1.5	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-19.6	8.4	9.7	5.6	-10.1	:	:	-1.8	19.9	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	3.3	3.8	4.0	2.1	-4.0	4.0	4.3	2.4	5.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.0	2.6	3.1	3.2	-2.3	2.9	3.3	1.9	1.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.4	6.0	2.3	-3.7	-2.0	6.4	1.5	10.5	21.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.1	19.6	5.6	-2.5	9.5	:	:	25.9	16.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.8	2.4	1.8	4.2	1.0	:	:	6.4	3.5	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	15.6	14.1	12.8	12.0	12.2	11.7	10.9	12.3	12.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	6.1	2.7	2.1	2.4	-1.9	1.3	1.3	-3.1	-4.7	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	-0.8	3.0	3.1	3.8	2.7	:	:	2.8	5.2	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	2.5	14.4	20.0	-0.2	-9.7	:	:	4.0	22.6	:	96.4	:	:
Imports of goods ^{3.2}	Ann. % ch	7.4	11.5	8.1	4.8	-7.8	:	:	4.3	19.2	:	76.8	:	:
Trade in goods balance* ^{3.3}	% of GDP	-24.3	-24.4	-22.4	-22.9	-23.0	-23.2	-23.3	-23.0	-23.3	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	29.0	31.6	31.6	31.3	23.3	:	:	23.3	22.9	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	45.9	46.7	45.4	45.0	38.1	:	:	38.1	38.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.6	-7.5	-6.8	-7.9	-8.9	-8.5	-7.6	-8.8	-9.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.7	8.6	8.0	7.5	6.9	:	:	6.8	6.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,945	2,996	3,399	3,360	3,942	:	:	3,942	4,054	:	3,959	3,903	:
Int. reserves / months Imp ^{3.9}	Ratio	7.2	6.7	7.0	6.5	9.6	:	:	9.6	9.6	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.3	2.0	2.0	1.4	1.6	1.9	2.3	1.6	0.9	:	1.9	1.8	:
Producer prices ^{4.2}	Ann. % ch	-1.5	2.8	1.6	-0.8	-3.4	:	:	-3.4	0.1	:	:	:	:
Food prices ^{4.3}	Ann. % ch	3.2	3.9	2.7	2.9	3.6	:	:	3.8	2.5	:	4.5	3.7	:
M3 ^{4.4}	Ann. % ch	3.9	0.3	-0.2	4.3	10.5	:	:	10.5	7.6	:	9.9	9.1	:
Exchange rate ALL/EUR ^{4.5}	Value	137.36	134.14	127.57	123.01	123.77	:	:	123.77	123.49	122.98	123.10	123.01	122.83
Real effective exchange rate ^{4.6}	Index	86.8	90.3	97.0	100.3	102.2	:	:	103.4	102.8	:	104.1	104.8	:
5 Financial indicators														
Interest rate (3 months-TRIBOR) ^{5.1}	% p.a.	1.99	2.15	1.83	1.45	1.46	:	:	1.38	1.46	1.44	1.56	1.44	1.32
Bond yield ^{5.2}	% p.a.	2.05	2.07	2.20	1.76	1.63	:	:	1.59	1.58	:	1.50	1.66	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	-0.7	-0.1	-1.7	3.0	6.1	:	:	5.3	4.6	:	6.4	6.3	:
Deposit growth ^{5.5}	Ann. % ch	1.1	1.0	-1.2	2.5	5.8	:	:	7.1	6.3	:	8.2	8.1	:
Non performing loans ^{5.6}	% total	18.3	13.2	11.1	8.4	8.1	:	:	8.1	8.0	:	7.9	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.8	-2.0	-1.6	-1.9	-6.9	-5.5	-3.0	-3.2	-0.5	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	72.4	70.2	67.7	65.8	76.1	74.9	73.2	76.1	74.9	:	N.A.	N.A.	N.A.

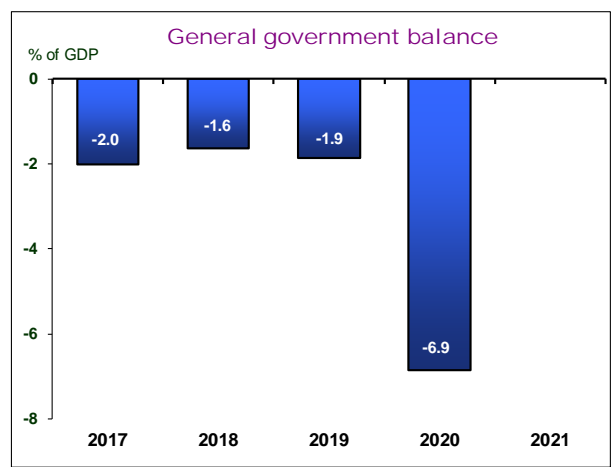
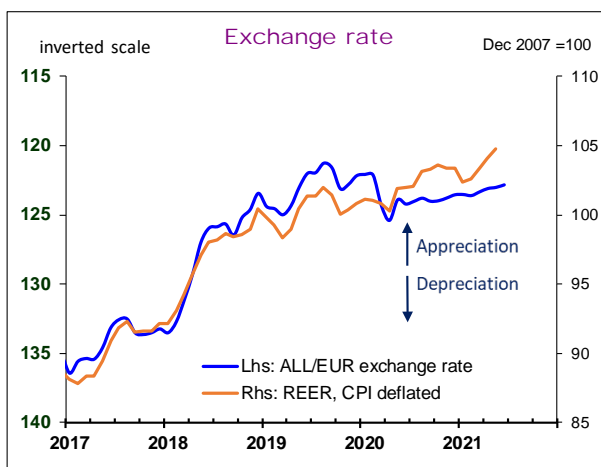
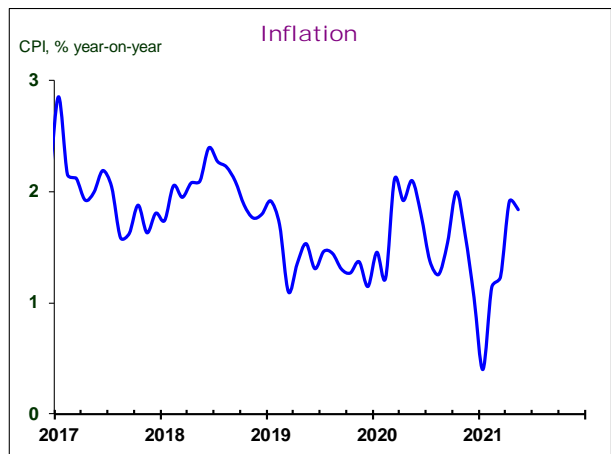
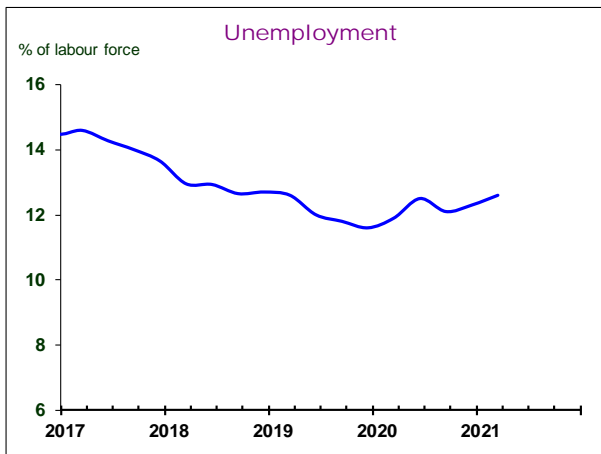
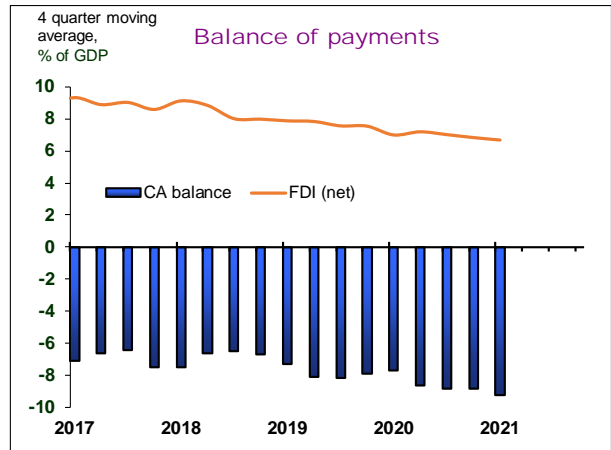
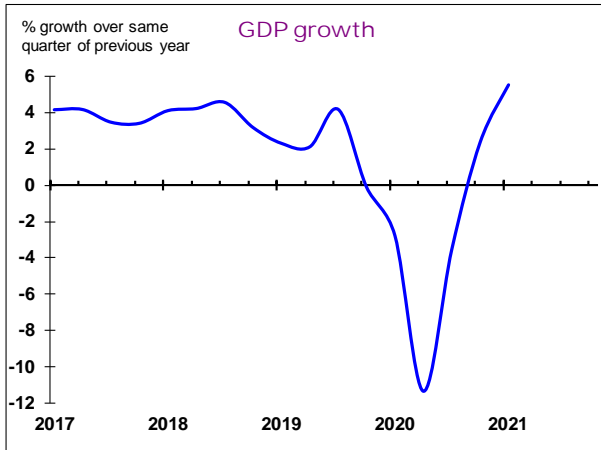
f: ECFIN forecast Spring 2021 published May 2021
* Q figures refer to a 4 quarters moving average.
** Q figures refer to the quarterly balance divided by the estimated annual GDP.
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





Key developments

On 1 June 2021, the Commission disbursed the second and final tranche of EUR 30 million from its macro-financial assistance programme for Montenegro, after the government fulfilled policy conditions concerning public finance management, financial stability, fight against corruption, business environment, and social protection.

On 12 July, the annual Economic and Financial Dialogue between the EU and the Western Balkans and Turkey jointly agreed country-specific conclusions with targeted policy guidance, which called on Montenegro, inter alia, to use fiscal policy to mitigate the economic and social impact of COVID-19 and – once the recovery takes hold – to reinforce the medium-term sustainability of public finances.

Real sector

The negative impact of the epidemiological situation and associated containment measures persisted in Q1-2021. As a result, real GDP contracted by 6.4% y-o-y, with all its components remaining in negative territory. Household consumption recorded a 7.6% y-o-y fall, while base effects resulted in a sharp 10.6% y-o-y decline in government consumption too, in spite of growing spending on healthcare. Moreover, persistent uncertainty sapped investor's confidence, resulting in a 19.0% y-o-y reduction in gross fixed capital formation. The deterioration in domestic demand was also reflected in a steep (19.7% y-o-y) contraction of imports, much larger than the 4.4% y-o-y decline in exports of goods and services, resulting in a 12.8 pps. positive contribution of net exports to overall growth.

Recent increases in domestic energy consumption signals a revival of the economy after a morose performance in Q1. Total power consumption rose by 17% y-o-y in April and further 10% y-o-y in May. Retail sales also grew strongly in April and May, expanding by 28.4% and 9.8% y-o-y, respectively, after having contracted by 7.2% y-o-y in Q1. Tourism activity also started to recover in April and May, albeit from a very low base a year earlier. Compared to the same period in 2019, however,

the number of visitors still remained much lower (by 80% in April and by 60% in May). Industrial production stayed in positive territory, but remained volatile, with a flat profile in May after recording double-digit growth rates in Q1 and in April.

Labour market

At the end of May 2021, there were 56 385 unemployed persons in Montenegro, or almost 21 000 more than on March 2020, when the coronavirus epidemic hit the country. According to Montenegro's employment office, this translates into an unemployment rate of 24.3% in May 2021, a substantial increase compared to the rate of 18.2% a year before, and 15.3% in March 2020, at the start of the pandemic. The rate of increase in the number of unemployed persons was double the pace of contraction in employment. Moreover, the number of persons looking for a job for the first time surged by 36.6% y-o-y in May 2021.

The average monthly net wage increased by 2.5% y-o-y in May after rising by 1.4% y-o-y a month earlier. By sectors, the fastest growth was recorded in real estate and agriculture, while contraction was recorded in manufacturing (3.9% y-o-y), financial and insurance activities (1.4% y-o-y), and accommodation and food services (1.3% y-o-y).

External sector

The strong recovery (by 13.1% y-o-y) of merchandise exports in Q1, combined with a continued contraction of imports (-17.5% y-o-y), contributed to a reduction of the current account deficit to 22.4% of GDP in the four quarters to March 2021, compared to 26.0% in the previous quarter. The shortfall was still much higher than the deficit of 14.3% of GDP in the four quarters to March 2020. In spite of the poor performance of tourism in Q1, the balance of services remained positive at 4.8% of GDP in annualised terms, but significantly lower compared to the 20.8% of GDP surplus in the same period a year earlier. The balances of primary and secondary income were also positive and rose by 0.9 pps. and 2.3 pps. y-o-y respectively, the latter supported by a 12.5% y-o-y increase in remittances.

Net FDI inflows amounted to 10.1% of GDP in the four quarters to March, compared to 7.2% a year before. They covered around 45% of the current account deficit, the rest being financed by net inflows from portfolio investment and loans.

In the first five months of 2021, the merchandise trade deficit contracted by 5.1% y-o-y to 14.8% of GDP, compared to 17.0% a year earlier and 17.2% of GDP in 2019. The deficit reduction was driven by a 25% y-o-y surge in merchandise exports, led by a sharp growth in electricity and medical products exports, but also the revival of the domestic aluminium industry (up by 7% y-o-y), while imports contracted by 0.3% over the year.

Monetary developments

After averaging a marginal 0.1% y-o-y contraction in Q1, inflation turned positive in March (0.8% y-o-y), accelerating to 1.8% y-o-y in April, and further to 2.3% y-o-y in May. The trend change was largely driven by transport (fuel) prices, which surged by 9.2% y-o-y in April and 10.2% y-o-y in May. Some upward pressure also came from hospitality prices, which rose by 2.0% y-o-y in May supported by better prospects for the tourism sector. Another inflationary factor was the increase of alcohol and tobacco prices due to the hike in excise duties at the beginning of 2021.

Financial sector

Montenegro's banks remained stable despite the deep recession of the country's economy. However, bank profits decreased significantly due to the moratorium on debt repayment. Overall, bank lending accelerated markedly after Q1-2021. Thus, in May, total loans rose by 8% y-o-y, up from 6.2% y-o-y growth in April. The increase was driven by lending to resident private companies, which grew by 4.2% y-o-y, in anticipation of the summer tourism season. Household loans grew at a slower pace of 2.2% y-o-y in May. Non-residents borrowing (which accounts for 13.2% of total bank loans), surged by 66.9% y-o-y in May, following strong growth of 35.1% in April. The rapid growth in lending activity contributed to the stability of the NPL ratio, which was at 5.53% in May 2021, compared to 5.30% a year before.

Bank deposits also increased rapidly, growing

9.0% y-o-y in May, after rising 5.2% y-o-y the month before. By sectors, resident corporate deposits surged by 17.9% y-o-y in May, while household deposits increased by 2.3% over the year. Again, non-residents (making 24.8% of total deposits), recorded the fastest growth in May, at 21.8% y-o-y.

On 25 May 2021, the Central Bank of Montenegro extended the moratorium on loan repayments until end-August 2021 for people who lost their jobs after March 2020, including loan beneficiaries whose total revenues in 2020 were at least 50% lower than in 2019.

Fiscal developments

The gradual recovery of economic activity in Q2 supported the growth of budget revenue in April and May. In the first five months of 2021, central government budget revenue increased by 2.1% y-o-y. However, budget expenditure also increased (by 1.2% y-o-y) in the same period, in spite of significant reduction in capital spending as well as in transfers to institutions and government expenditure on goods and services. As a result, the budget recorded a deficit of 3.5% of GDP in January-May, compared to 4.0% in the same period a year before.

Tensions within the ruling coalition delayed the adoption of the 2021 budget. The government adopted the draft budget on 30 March, but it was only approved by the parliament on 17 June. Public institutions have relied on temporary financing in the meantime. Overall, the 2021 budget plans a deficit of 3.8% of GDP, assuming an inflation rate of 1.2%, and real GDP growth of 10.5%. Due to strong base effects from the previous year, budget revenues are planned to rebound by 14.7% y-o-y to EUR 1.88 billion in 2021, and expenditures to decline marginally by 0.3% y-o-y to EUR 2.05 billion.

The use of government reserves to repay maturing debt (instead of rolling it over with new borrowing), contributed to a rapid reduction of the public debt stock. Thus, after reaching more than 100% of GDP at the end of 2020, central government debt declined by 5.4% q-o-q to 89.4% of projected GDP in Q1. The decline was largely driven by the repayment of Eurobonds (totalling some 5.3% of GDP) in March, while domestic debt fell by additional 8.2% q-o-q to 9.9% of GDP. After reimbursing the Eurobonds, remaining reserves are estimated at 11.5% of GDP.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2016	2017	2018	2019	2020	ECFIN 2021 Spring forecast		Q4 20	Q1 21	Q2 21	Apr 21	May 21	Jun 21
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Balance	3.0	4.5	5.5	3.5	-18.4	:	:	-32.5	-20.6	2.6	-10.5	10.1	8.3
Industrial production ^{1.2}	Ann. % ch	-2.1	-4.3	23.6	-6.1	0.0	:	:	2.5	12.0	:	36.8	0.0	:
Gross domestic product ^{1.3}	Ann. % ch	2.9	4.7	5.1	4.1	-15.2	7.1	6.5	-7.5	-6.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.4	3.9	4.6	3.1	-5.4	3.3	2.3	-10.4	-7.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	38.4	18.7	14.7	-1.7	-12.3	7.8	3.4	-11.5	-19.0	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	31.5	51.5	24.9	10.7	-5.6	:	:	1.1	-0.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.3	3.3	3.5	5.2	-12.0	:	:	-6.3	-7.2	:	28.4	9.8	:
2 Labour market														
Unemployment ^{2.1}	%	18.0	16.4	15.5	15.4	18.4	16.5	15.2	21.5	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.1	2.1	3.2	2.6	-10.1	7.1	2.3	-15.9	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	3.5	2.0	0.1	0.8	1.3	:	:	0.8	0.3	:	1.4	2.5	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	6.2	8.3	14.7	6.8	-12.2	:	:	-0.2	13.1	:	60.3	63.4	:
Imports of goods ^{3.2}	Ann. % ch	12.0	11.6	10.9	1.8	-19.0	:	:	-16.7	-17.5	:	32.6	27.8	:
Trade in goods balance* ^{3.3}	% of GDP	-41.9	-43.3	-43.9	-41.7	-39.2	-40.3	-39.6	-39.2	-37.1	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	40.6	41.1	42.9	43.7	25.8	:	:	25.8	26.0	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	63.1	64.5	66.7	64.8	60.6	:	:	60.6	58.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-16.2	-16.1	-17.0	-14.3	-26.0	-22.7	-16.9	-26.0	-22.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	9.4	11.3	6.9	6.2	11.2	:	:	11.2	10.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	753	847	1,050	1,367	1,739	:	:	1,739	1,404	:	1,335	1,311	:
Int. reserves / months Imp ^{3.9}	Ratio	3.6	3.7	4.0	5.1	8.2	:	:	8.2	7.0	:	6.6	6.5	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	0.1	2.8	2.9	0.5	-0.8	1.3	1.8	-1.3	-0.1	:	1.8	2.3	:
Producer prices ^{4.2}	Ann. % ch	-0.1	0.4	1.7	2.4	0.0	:	:	-0.6	0.8	:	2.2	2.2	:
Food prices ^{4.3}	Ann. % ch	-0.9	1.9	0.6	3.4	1.3	:	:	1.2	1.4	:	2.7	2.4	:
M2 ^{4.4}	Ann. % ch	9.5	13.6	5.0	-3.8	-3.5	:	:	-3.5	0.4	:	2.8	:	:
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	0.6	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.	1.58	1.71	0.47	0.52	0.87	:	:	0.90	:	:	:	:	:
Bond yield (10 yrs) ^{5.2}	% p.a.	N.A.	N.A.	N.A.	2.61	3.53	:	:	3.42	3.46	:	3.98	3.97	3.94
Stock markets ^{5.3}	Index	11,115	10,952	10,390	10,980	10,336	:	:	9,841	10,659	11,192	10,984	11,325	11,267
Credit growth ^{5.4}	Ann. % ch	-0.1	7.8	10.6	4.0	5.0	:	:	5.2	3.8	:	6.2	8.0	:
Deposit growth ^{5.5}	Ann. % ch	10.0	10.7	12.0	1.8	-2.6	:	:	-4.5	-0.2	:	5.2	9.0	:
Non-performing loans ^{5.6}	% of total	10.3	7.3	6.9	4.7	5.5	:	:	5.5	5.5	:	5.5	5.5	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-3.6	-5.3	-3.9	-2.0	-11.0	-3.8	-1.4	-3.5	-2.4	:	:	:	:
General government debt*** ^{6.2}	% of GDP	63.4	63.3	70.1	76.5	105.1	92.2	84.2	103.3	89.4	:	:	:	:

f: ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

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

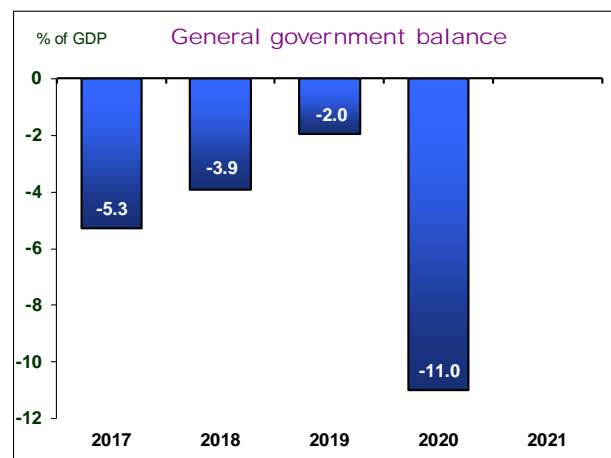
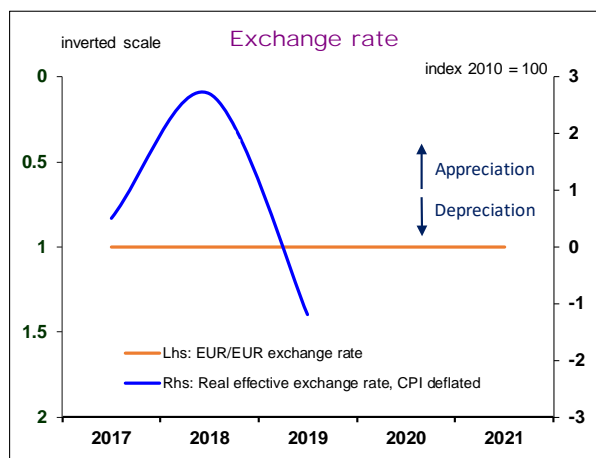
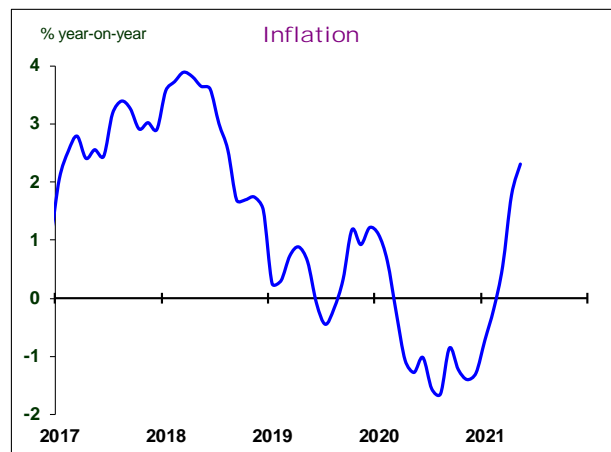
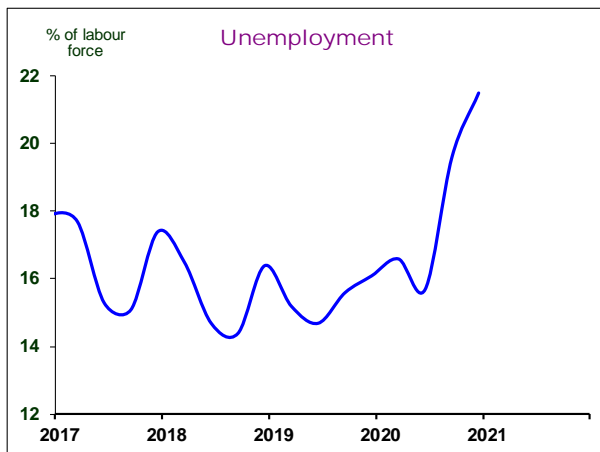
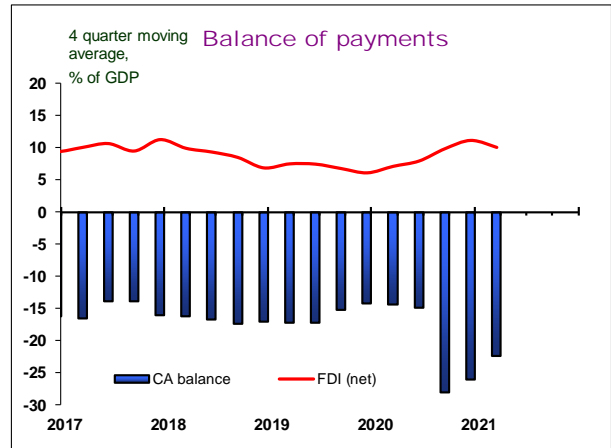
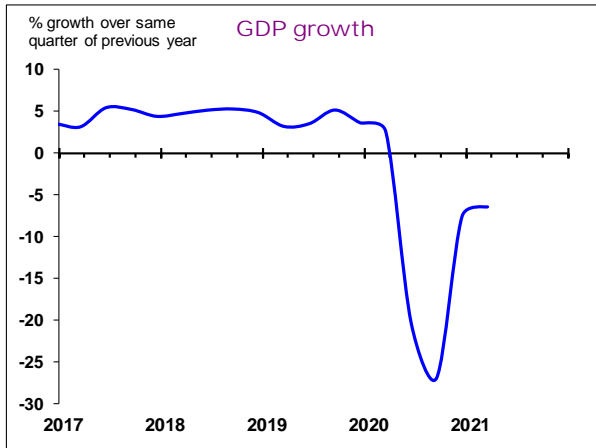
*** Q figures refer to central government debt only, in percent of estimated annual GDP.

CHARTS



European Commission, ECFIN-D-1

MONTENEGRO



NORTH MACEDONIA



Key developments

A third wave of the COVID-19 pandemic led to a renewed rise in the number of cases and perturbed economic activity in Q1. Reinforcing the vaccination campaign contributed to a marked improvement in the health situation as of late April, and the government further eased pandemic-related restrictions.

On May 7, Fitch rating agency affirmed its 'BB+' long-term issuer default rating with negative outlook, mainly on account of stable macroeconomic and fiscal policies, and ease of doing business, while citing risks to growth and public finances from pandemic-related uncertainties. Analysts project a strong rise in FDI this year, as labour costs remain competitive in spite of rising real wages.

On 19 May, the IMF concluded a virtual mission to the country, commending the government on its policies to mitigate the crisis, and recommending continued fiscal policy to support growth and jobs as well as vulnerable citizens. It calls for a comprehensive medium-term fiscal strategy to safeguard debt sustainability. The IMF expects real GDP to grow by 3.8% in 2021.

On 1 June, the European Commission disbursed the second EUR 80 million tranche of EUR 160 million macro-financial assistance to North Macedonia, upon completion of policy conditions related to public finances, the fight against corruption, financial stability, the business environment, and social protection.

On 12 July, the annual Economic and Financial Dialogue between the EU and the Western Balkans and Turkey took place. The jointly agreed conclusions invite North Macedonia, inter alia, to continue with fiscal support measures until the ongoing recovery is firmly underway; to improve the management of public investment and to enhance revenue; to set up a proper state aid registry; to adopt a new PPP law; to streamline para-fiscal charges; and to better implement measures to reduce the informal economy.

Real sector

In Q1, the economy contracted, in annual

comparison, more sharply than in the last three months of 2020. GDP dropped by 1.9% y-o-y, largely on account of a steep fall in investment (-16.6%). Government consumption was lower by 2.2%, after pronounced increases throughout 2020 (+10.1% y-o-y on average in 2020). Household spending rose somewhat (+0.4%), after declining for four quarters in a row. Annual export growth accelerated to 8.6%, from 1.3% in the last quarter of 2020, while imports increased by 2%, after a steep drop in the preceding quarter. Manufacturing output dropped by 6.2% y-o-y in Q1, while the construction sector posted a small gain.

High-frequency indicators for Q2 point to a strengthening economic recovery. The industrial production index increased by 31.3% y-o-y, on average, in April and May, mainly on account of a hike in manufacturing output (+45.8% y-o-y, on average, following on a decline of 4.9% in Q1). Annual growth of retail sales (total, except automotive fuel) accelerated sharply in April and May (+22.9% y-o-y, on average), compared to Q1 (+2.6%).

Labour market

The labour market, propped up by large government support, has held up well to the pandemic so far, yet showing some signs of deterioration in Q1. According to the Labour Force Survey, total employment decreased by 2.2%, compared to the same period one year earlier, when it had posted an annual increase of 2.7%. Partly reflecting the dropout of discouraged workers during the pandemic, the labour force (age 15-64) decreased by 2.5%, whereby the decline in the female workforce (2.8% y-o-y) was stronger than in the male labour force (-2%). Overall labour market participation dropped to 56% (-1.4 pps. y-o-y). The employment rate decreased by 1 pp. y-o-y, to 47.1%. The unemployment rate (over 15 years age group) dropped to 16% (-0.2 pps. y-o-y). After continuous improvement in their situation in the past two years, young workers were hit hard by the deteriorating labour market in Q1. The unemployment rate for 15-24 year olds rose to 37.1% (+2.2 pps. y-o-y). Government wage subsidies continued to drive wage developments.

Average monthly gross wages rose by 10% in April, bringing total annual gains in the first five months to 5.5%. Real net wages rose by 3.3% during this period.

External sector

The current account deficit narrowed somewhat in the four quarters to March, to -2.6% of GDP, compared to -3.1% in the same period one year earlier. This came on account of an improvement in the merchandise trade balance, with the deficit narrowing by 1.6pps. y-o-y to -16.4%, and in the primary balance (+0.2pps. to -4.1%), and an increase in the services surplus (+0.6 pps. to 4.2%). Private transfers dropped by 1.8 pps. y-o-y, to 13.7% of GDP, and hence did not cover the merchandise trade deficit. Net FDI inflows stood at 0.4% of GDP in the four quarters to March, falling markedly short of the current account deficit in the same period. Gross external debt, excluding central bank transactions, was higher by 18.3% y-o-y at end-Q1, amounting to 87.5% of government-projected annual GDP (end-2020: 80.2%). The rise came mainly on account of a surge in public external debt (+36.3%), reflecting two Eurobond issues in May 2020 and in March 2021, and a small increase in private intercompany loans. The Eurobonds also accounted for most of the increase in foreign currency reserves, which at end-May, stood 19.6% above their end-year level, covering 5 months of prospective imports of goods and services.

Monetary developments

Consumer prices rose by 2.3% y-o-y in the first five months of the year, accelerating from 0.3% in the same period one year earlier, and mainly driven by global energy and food prices. In the three months from April to June, the CPI increased by 2.8% on average. The steepest rise in core inflation was posted by transport, hotels and restaurants, and housing and utilities costs. Annual growth of broad money (M4) accelerated in Q1, compared to the previous quarter, to 7.9% y-o-y (+1 pp.), relenting again somewhat in April and May, to 7.1% on average. The rise came mainly as a result of higher demand deposits. At its June meeting, the central bank's monetary policy committee left the key interest rate, the CB bills rate, unchanged at 1.25%.

Financial sector

With domestic demand in the grip of the pandemic situation, annual loan growth

decelerated in Q1, compared to the previous three months (-0.9 pps. to 4.7% y-o-y), and accelerated thereafter (5.6% on average in April and May). Both, lending to corporates (-0.8 pps. to 1.7% y-o-y) and to households (-1.2 pps. to 7.3% y-o-y) eased in the first quarter and picked up thereafter. Between January and May, the spread between rates on denar loans (4.9%) and deposits (1.2%) remained unchanged, with both rates dropping by 10 bps. The spread between loans (-10 bps. to 4.1%) and deposits (unchanged at 0.5%) in foreign currency narrowed. The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients lower by 2.1 pps. at end-March, compared to one year earlier. The ratio of non-performing to total loans (financial and non-financial sector) dropped by 1.3 pps. y-o-y, to 3.4%. The share of foreign-currency denominated loans in total loans remained almost unchanged in this period, at 42.3%. Banks remained resilient in terms of solvency and liquidity throughout the crisis. The capital adequacy ratio improved, to 16.8% at the end of Q1, compared to 16.3% at the end of 2019, before the pandemic struck.

Fiscal developments

Public finances recovered somewhat in Q1 and beyond, compared to the same period one year earlier, when the COVID-19 pandemic had started to leave its mark. In the first five months of the year, revenue was higher by 13.9% y-o-y, propelled by a sharp increase in income from VAT and social contributions. While current expenditure rose only mildly (+1.7% y-o-y), capital expenditure was increased by 48% y-o-y. In June, the government revised the budget, increasing capital expenditure allocations by 27%, compared to the original budget, so as to accommodate a range of new investment projects. It raised the target for the general government fiscal deficit to 6.5% of GDP, compared with originally 4.9%. The budget gap in the first five months amounted to just over one quarter of the revised target. On account of further borrowing, mainly to finance crisis-mitigating measures, general government debt rose to 54.1% of government-projected GDP at the end of Q1 (+3.1 pps. compared to end-2020). This caused an increase in public debt to 62.5% (+2.6 pps.) in this period, which was mitigated by a decline in government-guaranteed borrowing of public enterprises.

TABLE



European Commission, ECFIN-D-1

NORTH MACEDONIA

							ECFIN 2021 Spring forecast							
		2016	2017	2018	2019	2020	2021	2022	Q4 20	Q1 21	Q2 21	Apr 21	May 21	Jun 21
1 Real sector														
Industrial confidence ^{1.1}	Balance	24.0	25.6	28.8	32.2	26.4	:	:	26.0	27.5	:	29.1	28.9	:
Industrial production ^{1.2}	Ann. % ch	3.9	0.2	5.4	4.1	-9.5	:	:	-2.2	-6.0	:	46.1	16.5	:
Gross domestic product ^{1.3}	Ann. % ch	2.8	1.1	2.7	3.2	-4.5	3.7	3.8	-0.7	-1.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.9	2.1	3.7	3.5	-5.6	3.6	3.7	-4.3	0.4	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	12.5	-2.2	1.7	9.5	-10.2	7.4	8.9	-11.5	-23.2	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	3.6	-2.5	-10.8	6.7	0.0	:	:	0.6	5.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	15.3	-4.2	8.1	11.3	-8.5	:	:	-12.5	2.6	:	26.0	19.7	:
2 Labour market														
Unemployment ^{2.1}	%	23.8	22.4	20.7	17.3	16.4	15.8	15.2	16.1	16.0	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.5	2.4	2.5	5.1	-0.3	1.0	2.5	-2.2	-2.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.0	2.6	5.8	5.1	8.3	4.0	2.6	7.3	4.0	:	10.0	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	15.8	15.4	19.8	9.0	-9.6	:	:	5.5	23.7	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	9.7	9.7	12.9	10.2	-9.2	:	:	-1.6	13.5	:	:	:	:
Trade in goods balance* ^{3.3}	% of GDP	-18.8	-17.8	-16.2	-17.6	-16.8	-17.3	-17.3	-16.8	-16.4	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	50.9	54.9	60.2	62.1	58.1	:	:	58.1	60.5	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	66.2	69.0	72.9	76.5	70.9	:	:	70.9	72.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-1.0	-0.1	-3.3	-3.5	-2.2	-1.6	-3.5	-2.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	3.3	1.8	5.6	3.2	1.9	:	:	1.9	0.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,613	2,336	2,867	3,263	3,360	:	:	3,360	3,939	:	4,004	4,020	:
Int. reserves / months Imp ^{3.9}	Ratio	4.9	4.1	4.4	4.6	5.3	:	:	5.3	6.0	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	-0.2	1.4	1.5	0.8	1.2	1.7	1.7	2.2	2.0	:	2.7	3.0	2.7
Producer prices ^{4.2}	Ann. % ch	-0.1	0.4	-0.3	2.5	1.5	:	:	1.2	-1.1	:	5.1	6.1	:
Food prices ^{4.3}	Ann. % ch	-1.3	0.3	0.8	1.6	2.4	:	:	3.4	2.0	:	1.4	1.9	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	6.2	5.1	11.8	9.3	6.9	:	:	6.9	7.9	:	7.1	7.0	:
Exchange rate MKD/EUR ^{4.5}	Value	61.60	61.57	61.51	61.51	61.67	:	:	61.69	61.66	61.61	61.60	61.55	61.68
Nominal effective exchange rate ^{4.6}	Index	100.5	101.4	103.3	103.0	104.3	:	:	105.3	105.2	:	105.2	105.5	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.96	1.78	1.54	1.46	1.38	:	:	1.39	1.36	1.33	1.34	1.33	1.33
Bond yield ^{5.2}	% p.a.	7.02	6.61	6.11	5.61	5.19	:	:	5.06	4.99	:	4.96	:	:
Stock markets ^{5.3}	Index	1,887	2,406	3,154	3,939	4,378	:	:	4,452	4,918	5,151	4,970	5,170	5,314
Credit Growth ^{5.4}	Ann. % ch	4.0	2.4	6.6	7.2	6.4	:	:	5.6	4.7	:	5.6	5.5	:
Deposit growth ^{5.5}	Ann. % ch	4.0	5.7	8.6	9.6	7.8	:	:	6.3	7.2	:	7.4	7.9	:
Non-performing loans ^{5.6}	% total	6.3	6.1	5.0	4.6	3.3	:	:	3.3	3.4	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-2.7	-2.7	-1.1	-2.2	-8.2	-4.1	-3.4	-2.7	-1.0	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.9	39.4	40.4	40.7	51.0	53.5	54.2	51.0	54.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

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

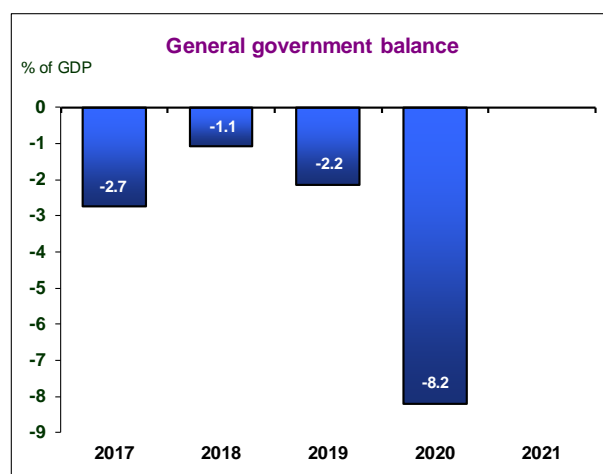
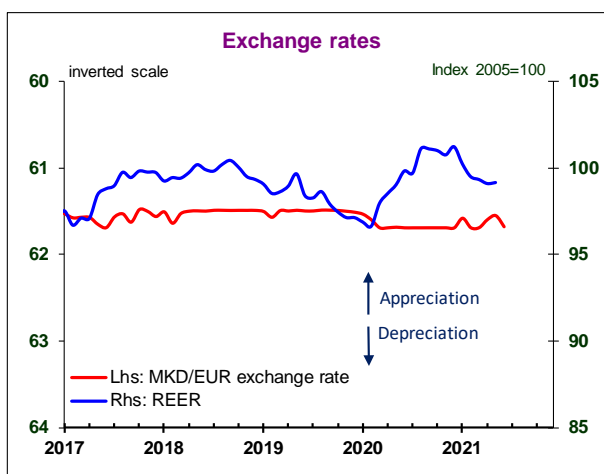
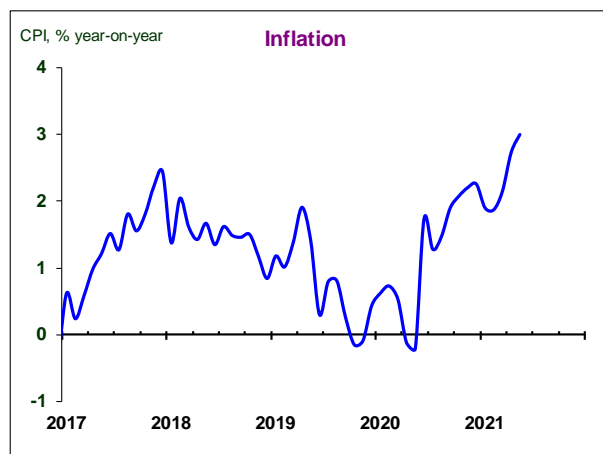
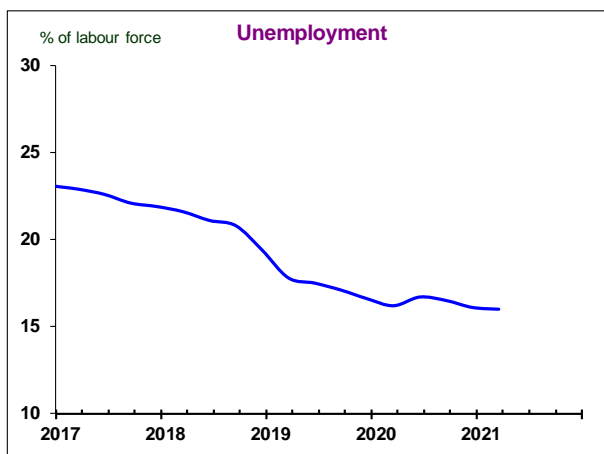
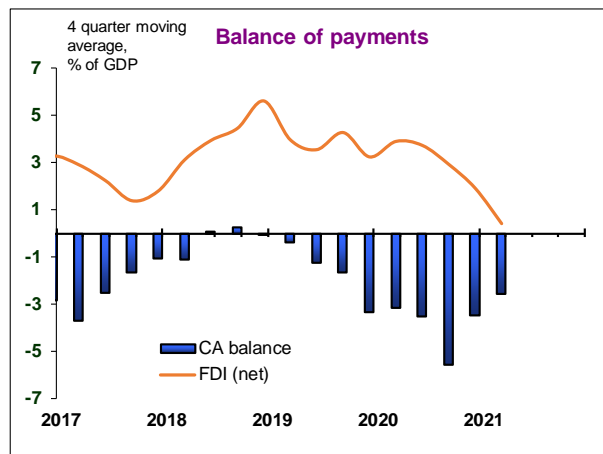
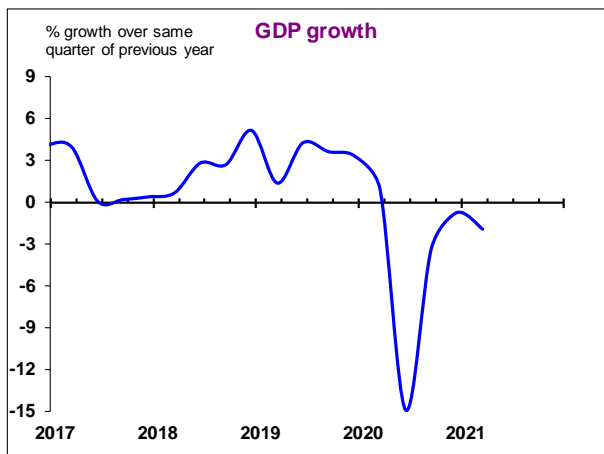
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



North Macedonia





Key developments

In May, the government presented the draft Fiscal Strategy for 2022-2024, projecting gradually decreasing budget deficits of 3% in 2022, 1.6% in 2023 and 1% in 2024. Debt to GDP is expected to gradually decline to 59.3% in 2022, 57.6% in 2023 and 55.5% in 2024.

In June, the IMF Executive Board approved a 30-Month Policy Coordination Instrument with Serbia aiming at supporting the recovery, maintaining macroeconomic stability and anchoring the medium-term fiscal policy framework, while fostering structural reforms to achieve more inclusive and sustainable growth.

On 1 July, dinar bonds were included in JP Morgan's GBI-EM index, a benchmark index for local currency bonds of emerging economies.

On 12 July, the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey adopted joint conclusions that invited Serbia, inter alia, to provide well-targeted crisis support as long as appropriate and to plan gradual fiscal consolidation thereafter, and to reinforce medium-term fiscal sustainability via contained spending on wages, strengthened fiscal rules, reforms in revenue administration and better SOE governance.

Real sector

Economic activity recorded a further strong quarter-on-quarter expansion in Q1-2021, reflecting the continued rebound from the crisis-induced contraction in spring 2020. Thus, despite a high base from Q1-2020, year-on-year real GDP growth turned positive in Q1-2021 (1.7%). The expansion was driven by gross fixed capital formation (+10.0% y-o-y) and a positive contribution of net exports to GDP growth as the annual growth of exports (7.9%) was accompanied by a decline in imports (-1.4%). These positive contributions were partially offset by significantly lower inventories, as well as lower private (-1.9% y-o-y) and government consumption (-0.6% y-o-y). On the supply side, increases of construction activity (+19.5%), wholesale and retail trade, transportation and storage, accommodation and food service activities (+5.3%) manufacturing and mining activities (+3.5%) and information and

communication (+5.1%) accounted for the bulk of the overall annual increase in output in Q1. These were partially offset by still significant year-on-year declines in professional, scientific, technical, administrative and support activities (-6.6%) and arts, recreation and other services (-11.7%) while agriculture, real estate as well as public administration, education, health and social work activities (-0.2%) recorded broadly the same activity volumes as in Q1-2020.

Some short-term indicators suggest that economic activity, after gaining momentum in winter, remained strong in early spring. Industrial production expanded by 6.1% y-o-y in March, 33.9% in April and 9.4% in May, heavily influenced by the base effect from the spring 2020 lockdown. Strongly impacted by the base effect, the year-on-year growth of real retail trade accelerated from 5.5% in March to 42% in April before decelerating to 12% in May.

Labour market

According to LFS data that were, for the first time, compiled according to the new EU methodology, the unemployment rate of the population aged 15 years and above increased to 12.8% in Q1-2021, up by 2.1 pps. compared with the revised figure of 10.7% for Q4-2020 based on the new method (the upward revision by 0.8 pps. for Q4-2020 was mostly related to a methodological change excluding persons producing agricultural goods and services for personal consumption (i.e. not for market sale) from employment). The strong rise in unemployment in Q1-2021 (+19.2% q-o-q) was mostly the result of a strong decrease in employment by 2.8% q-o-q, only moderately mitigated by a 0.5% q-o-q decrease in the active population. The employment decrease occurred to a large extent in agriculture (-8.0% q-o-q, 41.1% of the total employment decrease), in line with reduced activity in winter months, and concerned mainly the informal sector (-18.6% q-o-q, 85.5% of the total employment decrease). Formal employment decreased more moderately by 0.5% q-o-q in Q1. Registered employment also recorded a slight decrease of 0.2% q-o-q while it continued to grow at 2.8% y-o-y. Annual employment growth remained positive in most sectors and was particularly strong in information and communication (+13.3%), real

estate (+6.4%), professional, scientific and technical activities (+5.7%) and construction (+5.3%). In the manufacturing sector (+4.2%), growth remained mostly driven by motor vehicles (+4.8%). Employment in trade activities confirmed its recovery, growing at 4.8% y-o-y, up from 3.5% y-o-y in Q4-2020, while employment in mining and quarrying decreased by 5.1%. The number of registered unemployed increased by 2.8% y-o-y in June 2021. Nominal net wages rose by 10.2% y-o-y in April 2021 while real net wages grew by 7.2% y-o-y.

External sector

In the first four months of 2020, the current account turned out almost balanced as the deficit narrowed by 96.8% y-o-y in euro terms. Over the four quarters to March 2021, it stood at 1.8% of GDP, compared to 4.3% of GDP in 2020. The narrowing in the current account deficit over January-April was the result of an improvement in all components: a lower merchandise trade deficit (-26.3% y-o-y), a higher services trade surplus (+63.7% y-o-y), a higher secondary income surplus (+18.9% y-o-y, reflecting mainly a rebound in remittances), and a lower primary income deficit (-20.7% y-o-y, mainly due to lower reinvested earnings). Net FDI inflows reached a similar level as in early 2020 (-1.7% y-o-y) in January-April covering multiple times the low current account deficit.

External trade of goods was marked by very strong y-o-y exports growth of 34.9% in March, 73.2% in April and 40.7% in May, heavily supported by the 2020 lockdown base effect. The base effect also contributed to a strong but overall slightly more moderate expansion of imports by 11.6%, 63.6% and 48.2%, respectively. Cumulative exports of goods over the first five months of 2021 grew 28.3% y-o-y, while imports increased by 18.3%.

Monetary developments

After 1.8% in March, annual consumer price inflation accelerated strongly to 2.8% in April and 3.6% in May, thus returning above the midpoint of the central bank's target tolerance band of 3% +/-1.5 pps. The acceleration of inflation in April and May was particularly driven by fuel (+11.3% and +20.1%), electricity (+8.2% in both months), tobacco (+6.8% in both months) and food (+1.9% and +2.7%) prices. Core inflation (excluding energy, food, alcohol and tobacco) remained stable at 1.8% in April and accelerated only slightly to 2.0% in May. The central bank (NBS) remained an active

participant on the foreign exchange market by buying and selling the same amount (EUR 45 million each) in April and buying a net EUR 45 million in May, resulting in net sales of EUR 5 million in the first five months of 2021. NBS foreign exchange reserves remained broadly stable, decreasing by 1.1% y-o-y to EUR 14.2 billion in May, covering more than 6 months of imports of goods and services.

Financial sector

In May, domestic claims of the banking sector increased by 7.0% y-o-y. The annual growth of credit to households accelerated from 11.4% in February to 12.8% in April before slowing down to 12.2% in May whereas the growth of credit to companies recorded a steady decline from 7.2% to 3.2% during the same period. The loan-to-deposit ratio stood at 85.4% at the end of April. The ratio of non-performing loans increased slightly further to 3.9% in Q1 (+0.2 pps. q-o-q). The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) recorded a slight decrease to 22.3% in Q1 (-0.1 pps. q-o-q). As regards liquidity ratios, the share of liquid assets to total assets remained unchanged q-o-q at 37.4%, while the share of liquid assets to total short-term liabilities decreased slightly (50.7%, -0.2 pps. q-o-q) in Q1.

Fiscal developments

Fiscal performance was favourable in January to May as the year-on-year increase in total revenue significantly exceeded the year-on-year rise in total expenditure. Total revenue increased by 23.4% y-o-y in the first five months, strongly supported by revenue from social contributions (+31.7%), non-tax revenue (+29.4%), personal income tax (+28.7%), corporate income tax (+42.7%) and VAT (+15.0%), strongly impacted by the base effect from the lockdown and tax deferrals in spring 2020. Total expenditure growth (2.4%) remained significantly below revenue growth, as increases in spending on employees (+7.9%), capital expenditure (+14.4%) and social transfers (+3.3%) were largely offset by lower other current expenditure (-31.0%) and purchases of goods and services (-0.9%). As a result, in January-May, the budget recorded a deficit of RSD 66.1 billion (1.1% of expected annual GDP), as compared with a 4.3% deficit in the same period of 2020. In May, central government debt stood at 55.6% of the estimated full-year GDP, down from 57.4% at end-2020.

TABLE

European Commission, ECFIN-D-1



SERBIA

		2016	2017	2018	2019	2020	ECFIN 2021 Spring forecast		Q4 20	Q1 21	Q2 21	Apr 21	May 21	Jun 21
							2021	2022						
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	4.8	3.4	1.5	0.2	0.4	:	:	1.5	3.7	:	33.9	9.4	:
Gross domestic product ^{1.3}	Ann. % ch	3.3	2.1	4.5	4.2	-1.0	5.3	4.0	-1.0	1.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.9	2.2	3.1	3.5	-2.5	4.5	3.0	-2.7	-1.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.1	6.6	17.5	17.2	-2.8	14.8	7.1	-4.1	10.0	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.1	9.3	9.6	32.3	-1.5	:	:	-9.4	-37.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	8.0	3.8	4.1	9.7	4.9	:	:	3.2	4.7	:	42.0	12.0	:
2 Labour market														
Unemployment ^{2.1}	%	15.3	13.5	12.7	10.4	9.0	9.3	8.5	9.9	12.8	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	5.6	2.8	1.4	2.4	-0.2	1.6	1.0	-0.6	-5.4	:	4.4	3.4	:
Wages ^{2.3}	Ann. % ch	3.8	4.0	4.3	10.5	9.5	:	:	9.3	7.1	:	9.9	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	11.6	12.1	8.2	7.7	-2.9	:	:	6.5	13.6	:	73.2	40.7	:
Imports of goods ^{3.2}	Ann. % ch	6.1	13.6	13.0	8.9	-3.9	:	:	-1.5	-0.4	:	63.6	48.2	:
Trade in goods balance* ^{3.3}	% of GDP	-8.5	-10.2	-11.9	-12.2	-11.2	-11.8	-11.5	-11.2	-9.8	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	47.3	49.3	49.3	50.8	47.8	:	:	47.8	48.6	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	53.3	57.0	58.9	60.8	56.7	:	:	56.7	55.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-5.2	-4.8	-6.9	-4.3	-6.1	-5.9	-4.3	-1.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.2	6.2	7.4	7.7	6.2	:	:	6.2	6.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	10,205	9,962	11,262	13,378	13,492	:	:	13,492	14,276	:	13,997	14,182	:
Int. reserves / months imp ^{3.9}	Ratio	6.2	5.4	5.4	5.7	6.1	:	:	6.1	6.5	:	6.2	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.1	3.1	2.0	1.8	1.6	2.4	2.1	1.6	1.4	:	2.8	3.6	:
Producer prices ^{4.2}	Ann. % ch	-0.4	3.4	2.2	0.7	-1.8	:	:	-2.1	0.8	:	7.2	9.9	:
Food prices ^{4.3}	Ann. % ch	-0.3	3.3	1.9	2.6	2.6	:	:	2.8	0.1	:	1.7	2.4	:
M3 ^{4.4}	Ann. % ch	11.6	3.6	14.5	8.4	18.1	:	:	18.1	18.7	:	16.7	13.7	:
Exchange rate RSD/EUR ^{4.5}	Value	123.09	121.41	118.27	117.86	117.58	:	:	117.58	117.58	117.57	117.57	117.58	117.57
Nominal effective exchange rate ^{4.6}	Index	66.1	67.3	69.7	69.2	69.6	:	:	70.2	70.4	70.4	70.2	70.5	70.4
5 Financial indicators														
Interest rate (BELIBOR) ^{5.1}	% p.a.	3.44	3.41	2.96	2.52	1.19	:	:	0.99	0.88	0.88	0.88	0.88	0.87
Bond yield (7 year) ^{5.2}	% p.a.	8.28	5.45	5.00	4.00	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,383	1,584	1,562	1,583	1,543	:	:	1,516	1,556	1,634	1,612	1,637	1,654
Credit growth ^{5.4}	Ann. % ch	3.8	2.4	4.3	9.7	12.3	:	:	13.0	10.8	:	10.0	9.1	:
Deposit growth ^{5.5}	Ann. % ch	9.1	7.9	7.4	12.9	15.0	:	:	17.5	18.2	:	16.3	13.7	:
Non-performing loans ^{5.6}	% total	17.0	9.8	5.7	4.1	3.7	:	:	3.7	3.9	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.2	1.1	0.6	-0.2	-8.1	-6.7	-3.4	-1.5	-0.2	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	67.5	59.2	53.7	52.1	57.4	60.7	60.4	57.4	55.7	55.0	55.0	N.A.	N.A.

f. ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

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

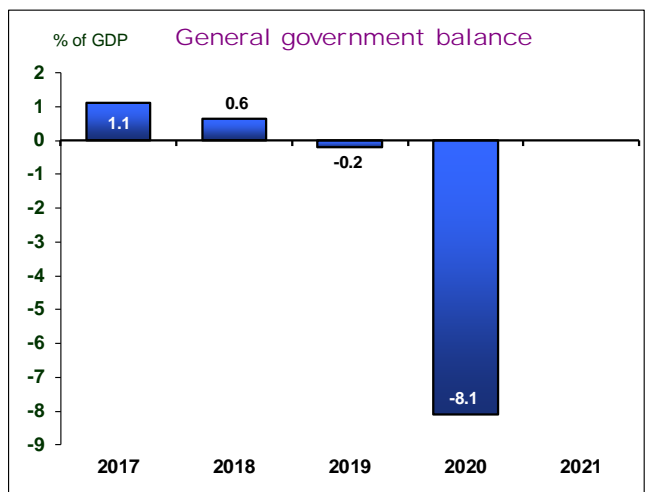
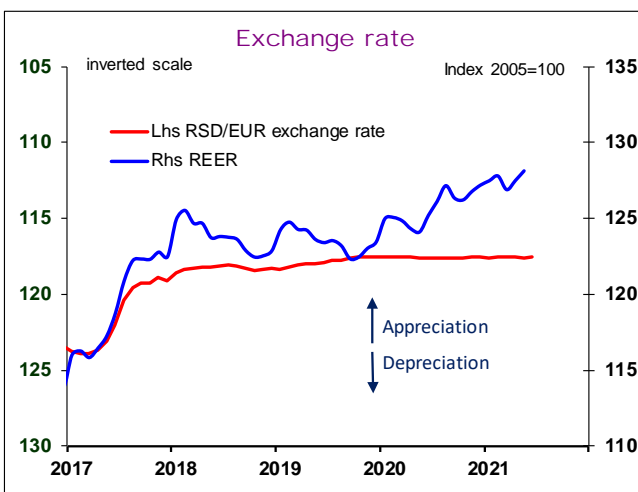
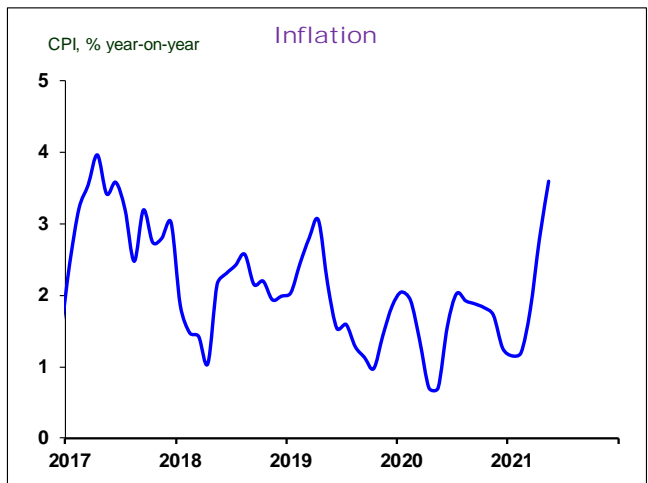
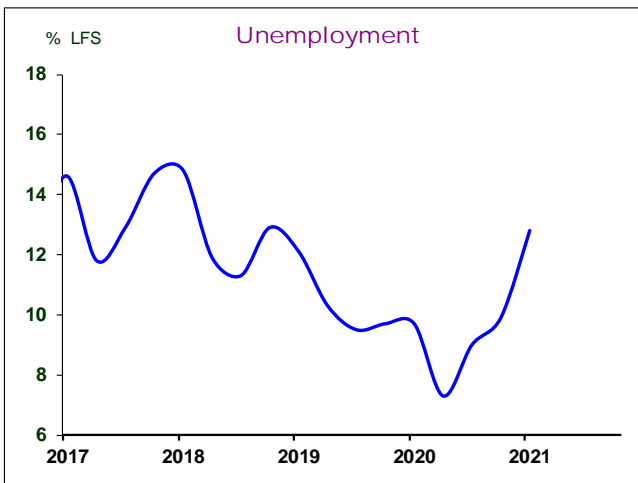
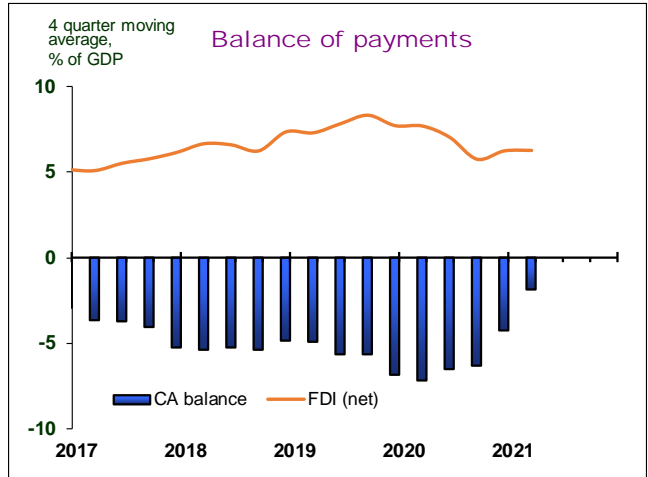
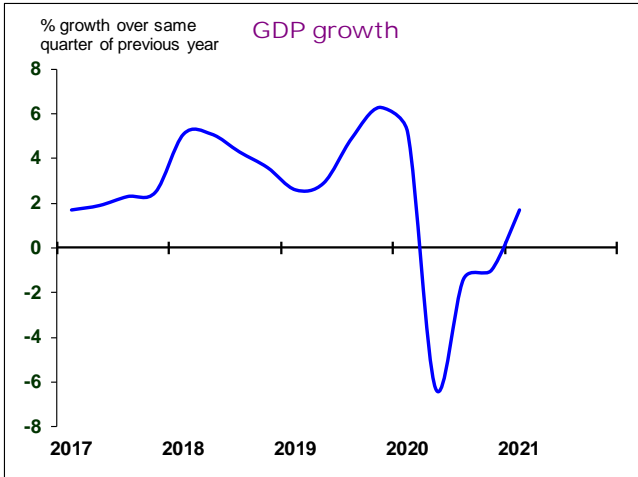
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 12 July issued joint conclusions with targeted policy guidance, which invited Turkey to maintain a fiscal policy stance supporting disinflation and lowering vulnerabilities while increasing support to the most vulnerable households, and to adopt a plan for gradual medium-term fiscal consolidation with the 2022 budget. Turkey was also invited to maintain a sufficiently tight monetary policy stance to reduce inflation, enhance transparency of state aid, improve the management and monitoring of public private partnerships and to increase the provision of targeted active labour market policies.

In June, the European Council took note of the start of work at technical level towards a mandate for the modernisation of the EU-Turkey Customs Union and of the preparatory work for high level dialogues with Turkey on issues of mutual interest, such as migration, public health, climate, counterterrorism and regional issues. It called on the European Commission to put forward formal proposals for the continuation of financing for Syrian refugees and host communities in Turkey, Jordan, Lebanon and other parts of the region.

As the number of COVID-19 cases decreased, the authorities started to lift restrictions in June, eliminating most of them by early July. The number of administered vaccines surpassed 50 million, with 44% of the population having received at least one dose and close to 20% the second one.

Real sector

Economic growth continued unabated in Q1 (1.7% q-o-q seasonally and calendar adjusted and 7.0% y-o-y). The growth momentum was sustained by tail effects of last year's stimulus measures as well as base effects, amidst improving expectations. Although somewhat weaker compared to previous quarters, domestic demand remained robust, contributing 7.3 pps. to the y-o-y growth. Stocks have chipped off 1.7 pps. from growth, still unwinding from the record high levels accumulated during the crisis.

Household consumption decreased by 1.7% q-o-q but grew by 7.4% y-o-y. Government consumption lost steam, but was still up 1.6% y-o-y in Q1. Investment growth, however, remained double-digit (11.4% y-o-y; 1.6% q-o-q), riding the wave of strong machinery and equipment investment (up 30.5% y-o-y). Exports of goods and services increased 3.3% y-o-y, supported by recovering external demand and price competitiveness gains. A sizeable contraction of imports and base effects helped turn net exports contribution to growth positive (1.4 pps. y-o-y). On the supply side, the year started well for industry. Manufacturing had a robust first quarter growth (4.7% q-o-q and 12.2% y-o-y). Agriculture also performed well, up 7.5% y-o-y, despite low precipitation levels since mid-2020. Construction activity rebounded from the previous quarter contraction, growing 13.4% q-o-q and 2.8% y-o-y. Nevertheless, it remained below its 2018 highs, while construction investment fell by 4.7% y-o-y. Services continued their robust growth in Q1 (5.6% y-o-y), benefitting from less strict pandemic-related restrictions.

High frequency indicators in Q2 have been affected by very strong base effects and the renewal of restrictive measures in the wake of another wave of the pandemic in April and May. The manufacturing PMI fell in these two months (49.3 in May) before recovering to 51.3 in June. Industrial production (seasonally and calendar adjusted) increased 65.2% y-o-y in April but was down 0.9% m-o-m. Manufacturing grew 71.6% y-o-y, mining and quarrying by 25.6%, and the sector of electricity, gas and steam supply by 26.6%. Notably, the production of certain manufacturing sectors, durable consumer goods and capital goods more than doubled in comparison to April last year. Retail sales shot up as well, growing 41.7% y-o-y in April. After a dip in April and May, economic confidence improved strongly in June, although it still remained below pre-crisis levels. Confidence was relatively upbeat in the real sector, boosted by fixed investment expenditure, strong export orders and output expectations.

Labour market

Two of the key measures introduced in 2020 to shield the labour market from the crisis – the ban

on dismissals and the wage support system – expired at the end of June. Despite these measures, the labour market remained in distress. Although employment (15 years and over) continued recovering, increasing by 1.8 million people or by 6.7% y-o-y in January to April, it was still far below its 2018 peak. In seasonally adjusted terms, in the first four months of the year employment was up 7.6% y-o-y in agriculture, 8.0% in industry, 22.1% in construction, but only 0.5% in the service sector, which provides the bulk of jobs. At 50.8% and 44.2% in April, the labour force participation and employment rates were also below their pre-crisis levels. In the same month, the headline unemployment rate stood at 12.9%, broadly unchanged from a year earlier, while the combined rate of time-related underemployment and unemployment was 19.0%, and the composite measure of labour underutilisation remained very high at 26.7%. The seasonally and calendar adjusted hourly labour cost index increased by 6.9% q-o-q in Q1 and was up 13.7% y-o-y, 2 pps. below inflation.

External sector

The 12-month moving current account deficit fell to USD 32.7 billion or 4.5% of GDP at the end of April from 5.2% at the end of 2020. The deficit contracted strongly in March and April due to rebounding exports. Exports of goods increased sharply, more than doubling y-o-y in April, and rising 31% y-o-y in the first four months of the year. There was also a notable increase in the export of services, although they remained far below pre-crisis levels. Despite an increase in imports, the deficit of goods and services fell by 43% y-o-y. There were large portfolio outflows in March (USD 5.7 billion), as market sentiment deteriorated following the dismissal of the central bank governor. The outflows abated in April (USD 1.5 billion), but despite a lower current account deficit and an uptick in other investment inflows, official reserves declined by USD 7.4 billion over March and April. In June, the currency swap agreement with China was increased by TRY 35.1 billion and CNY 23 billion (USD 3.5 billion), reaching a total of TRY 46 billion and CNY 35 billion (USD 5.4 billion).

Monetary developments

Inflation surprised on the upside in June (17.5% y-o-y), lifting second-quarter inflation up to 17.1%. Price pressures intensified across the board and core inflation accelerated to 17.4%

y-o-y in April-June. Higher international commodity prices and past depreciation of the lira also pushed up certain prices. Although service inflation remained below average, it inched up as well. In early July the regulated consumer electricity and natural gas prices were increased by 15% and 12%, respectively. Despite elevated inflation and rising inflation expectations (end-of-year expected annual inflation went up from 11.2% in January to 14.4% in June), the central bank kept its key policy rate unchanged at 19.0%. After depreciating 13.4% in Q1, the lira lost another 4.6% against the dollar in Q2, amidst lower exchange rate volatility. Turkey's 5-year CDS spread declined marginally in the second quarter and stood at around 380 in early July.

Financial sector

Nominal lending growth decelerated from above 30% y-o-y in the beginning of the year to 20% in May. Real loan growth was down to 3.1% y-o-y, sustained by still robust household consumer lending. Due to base effects and monetary policy tightening at the end of 2020 and early 2021, loans to non-financial companies declined in real terms in April and May. The prolongation of the decision to extend the NPL classification period from 90 to 180 days and the still rapid growth in lending have lowered the non-performing loan ratio from 4.1% at the end-2020 to 3.7% in May. The central bank changed the reserve requirement ratios in July, increasing lira and FX denominated required reserves by TRY 13.2 billion and USD 2.7 billion.

Fiscal developments

In line with the economic recovery, budget performance in the beginning of the year was better than expected, leading the government to revise its 2021 budget deficit target from 4.3% to 3.5% of GDP. In January-May, the central government total revenue increased 39.4% y-o-y, driven mainly by strong tax revenue (up 51.0%). Total expenditure increased by only 14.8% y-o-y, as growth in spending on goods and services, treasury aid and capital projects remained below the rate of inflation. Interest payments were up 25.4%, affected by higher debt levels and the exchange rate depreciation. Overall, the central budget ran a large primary surplus in the period January to May and had a negligible overall deficit (TRY 7.5 billion or 0.1% of GDP). Nevertheless, the weaker lira drove government debt up from 39.8% of GDP at the end of 2020 to 40.4% in end-March.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2016	2017	2018	2019	2020	ECFIN 2021 Spring forecast		Q4 20	Q1 21	Q2 21	Apr 21	May 21	Jun 21
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Index	105.2	108.0	101.4	100.4	98.2	:	:	106.3	109.0	111.4	111.0	110.3	113.0
Industrial production ^{1.2}	Ann. % ch	3.4	9.1	1.1	-0.6	2.2	:	:	10.2	11.2	:	65.2	:	:
Gross domestic product ^{1.3}	Ann. % ch	3.3	7.5	3.0	0.9	1.8	5.2	4.2	5.9	7.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.7	5.9	0.5	1.5	3.2	3.1	3.0	8.2	7.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.2	8.3	-0.3	-12.4	6.5	6.3	5.8	10.3	11.4	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	21.6	25.9	22.8	-7.1	5.4	:	:	13.0	18.0	:	55.9	N.A.	:
Retail sales ^{1.7}	Ann. % ch	2.2	5.7	1.5	-0.1	3.4	:	:	8.5	9.3	:	41.7	:	:
2 Labour market														
Unemployment ^{2.1}	%	10.9	10.9	10.9	13.7	13.1	13.5	14.1	12.9	13.5	:	12.9	:	:
Employment ^{2.2}	Ann. % ch	1.9	3.5	2.2	-2.3	-4.8	4.2	4.7	-4.7	2.6	:	11.9	:	:
Wages ^{2.3}	Ann. % ch	21.5	9.3	18.3	26.2	17.9	14.6	17.0	13.8	15.5	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-0.5	9.8	7.9	2.2	-7.0	:	:	6.7	18.6	:	113.6	63.7	:
Imports of goods ^{3.2}	Ann. % ch	-4.8	17.7	-3.1	-8.8	3.6	:	:	12.1	10.7	:	62.5	51.6	:
Trade in goods balance* ^{3.3}	% of GDP	-4.6	-6.8	-5.2	-2.2	-5.3	-5.6	-6.0	-5.3	-4.8	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	23.0	25.9	30.4	32.4	28.4	:	:	28.4	28.6	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	25.2	29.7	31.7	29.9	32.4	:	:	32.4	32.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-3.1	-4.8	-2.8	0.9	-5.2	-3.9	-3.1	-5.2	-5.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.2	1.0	1.2	0.8	0.6	:	:	0.6	0.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	106.1	107.7	93.0	105.7	93.3	:	:	93.3	86.7	:	88.0	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.8	5.1	4.5	5.6	4.8	:	:	4.8	4.4	:	4.3	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	7.8	11.1	16.3	15.2	12.3	15.7	12.5	13.5	15.6	17.1	17.1	16.6	17.5
Producer prices ^{4.2}	Ann. % ch	4.3	15.8	27.0	17.6	12.2	:	:	22.2	28.2	38.8	35.2	38.3	42.9
Food prices ^{4.3}	Ann. % ch	5.8	12.7	18.0	19.5	13.8	:	:	19.4	18.0	18.0	17.0	17.0	20.0
M4 ^{4.4}	Ann. % ch	17.2	15.5	19.3	28.5	33.0	:	:	33.0	27.3	:	20.5	25.6	:
Exchange rate TRY/EUR ^{4.5}	Value	3.3	4.15	5.68	6.35	8.10	:	:	9.30	9.16	10.23	9.91	10.41	10.36
Nominal effective exchange rate ^{4.6}	Index	58.6	47.90	36.12	31.34	25.56	:	:	21.82	22.99	:	20.93	20.12	:
5 Financial indicators														
Interest rate (3 months-TRLIBOR) ⁵	% p.a.	10.37	12.81	19.85	20.66	11.25	:	:	15.67	18.21	19.95	19.95	19.95	19.95
Interest rate, long term ^{5.2}	% p.a.	10.19	11.11	15.88	15.76	12.75	:	:	13.15	13.95	:	18.30	18.27	:
Stock markets ^{5.3}	Index	772	990	1,019	993	1,134	:	:	1,273	1,516	1,416	1,393	1,437	1,420
Credit growth ^{5.4}	Ann. % ch	13.3	21.9	21.3	6.5	29.6	:	:	39.6	30.8	21.5	23.0	22.7	18.9
Deposit growth ^{5.5}	Ann. % ch	13.5	20.3	22.9	18.8	37.0	:	:	42.2	30.2	25.9	23.2	29.2	25.4
Non-performing loans ^{5.6}	% total	3.2	3.0	3.9	5.4	4.1	:	:	4.1	3.8	:	3.7	3.7	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.7	-2.0	-2.8	-3.2	-2.8	-4.0	-3.6	-0.9	0.5	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	28.0	28.0	30.2	32.6	39.8	41.3	42.0	39.8	40.4	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

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

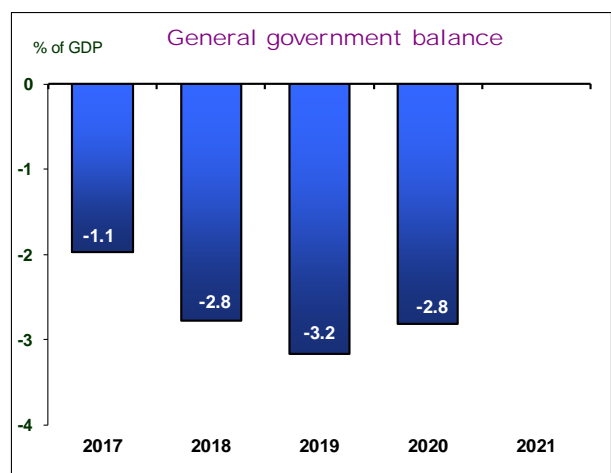
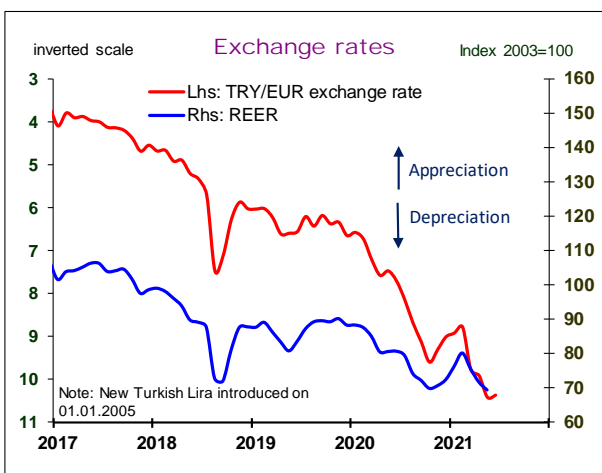
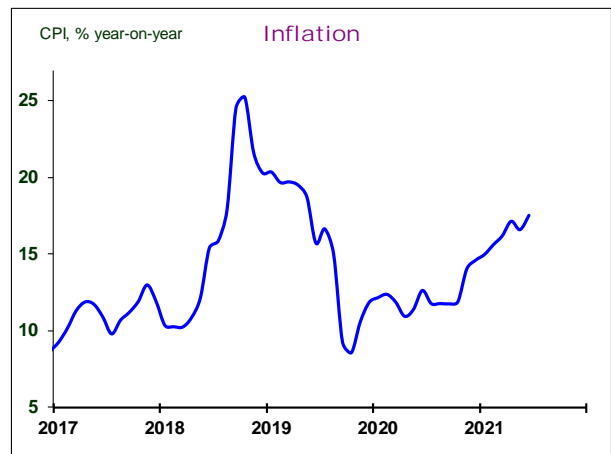
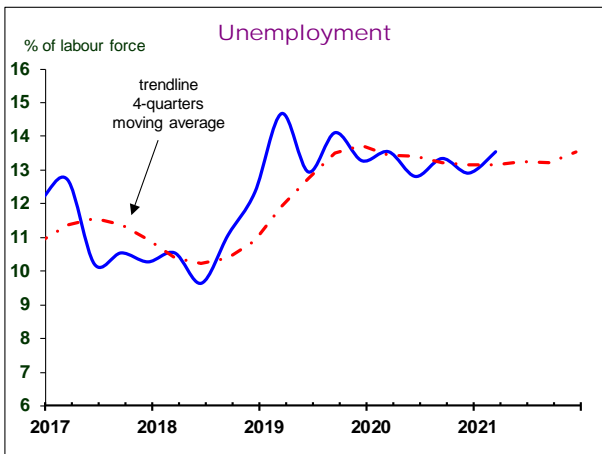
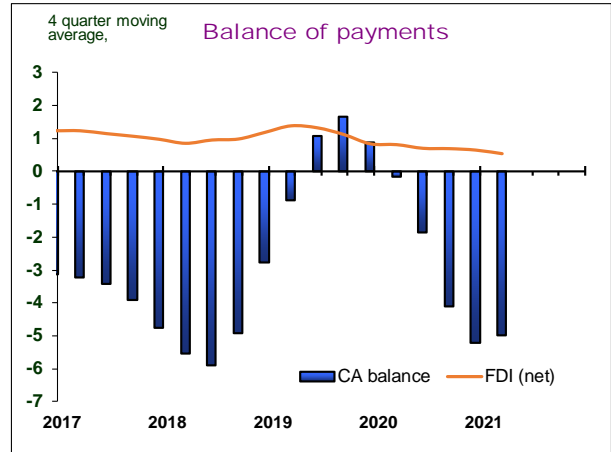
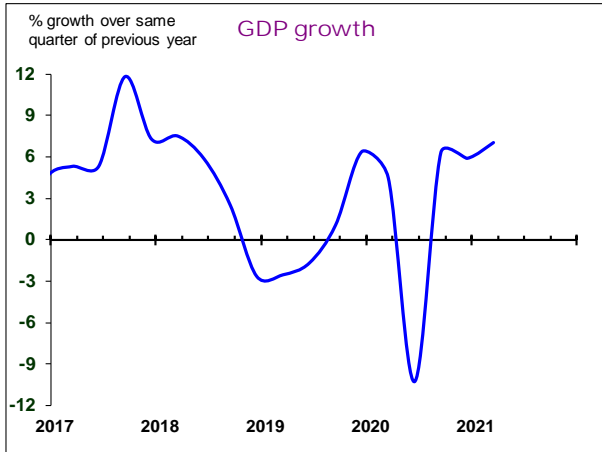
*** Q figures in percent of GDP on a four quarter moving basis.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 12 July adopted joint conclusions with targeted policy guidance, which among others invites Bosnia and Herzegovina to provide well-targeted and temporary pandemic-related fiscal support, increase government capital spending, improve the efficiency of tax collection, enhance the financial sector regulatory framework and strengthen the country-wide single economic space.

The epidemiological situation continued to improve. New infections per 100 000 population dropped to 13.2 for the period 7-21 June. Overall, there have been 204 936 cases, of which 14 084 are active, as well as 9 653 deaths and 181 199 reported recoveries.

Real sector

In Q1, economic activity recovered further with a seasonally-adjusted increase by 0.5% compared to the previous three months. Compared to a year earlier, output was 1.5% higher. The main growth drivers were exports (+11%, y-o-y) and private consumption (+1.4%). Investment was 12% lower than a year before, which however also helped to contain import growth at +0.9% y-o-y. On the production side, the recovery in Q1 was mainly due to higher output of manufacturing, financial activities as well as of information and communication activities.

High-frequency data confirms the recovery during the first five months of the year, driven by manufacturing and electricity production. In May, industrial output was 15.2% higher than a year before, based on strong increases of production of capital goods and consumer durables. In the first five months of the year, industrial output was 12.2% higher y-o-y. The main factors for this increase were the (mainly export-oriented) production of fabricated and basic metal products and chemicals. Retail sales also gained significant momentum in April and May, with increases by 46.7% and 25.6% y-o-y respectively. In the first five months, the volume of retail sales was 14% higher than a year before, partly thanks to higher sales of IT and sport equipment.

Tourism also registered an encouraging rise in May, with overnight stays reaching the highest level since September 2020. A year ago, in May 2020, all accommodations had to close due to the COVID-19 pandemic. Compared to April 2021, the number of overnight stays increased by 59.6. However, in May 2019, i.e., before the pandemic, tourist overnight stays had been twice as high. 43.8% of the tourists arrived from abroad, with guests from Serbia, the United Arab Emirates and Croatia being the biggest groups, accounting for 28.6% and 16.3% and 8.5% of all overnight stays, respectively.

Labour market

In Q1-2021, registered employment continued to be some 22 000 persons (2.7% y-o-y) lower than a year before. However, supported by base effects, registered employment in April was about 4 600 persons (0.6% y-o-y) higher than a year earlier. Like during most of 2020, employment losses took place mainly in the trade and accommodation sectors, while additional employment was registered in the health and IT sectors. In April, for the first time since the start of the pandemic, higher employment was recorded in manufacturing than a year earlier (+2 000 persons).

The number of the registered unemployed was some 8 000 higher in Q1 than a year before. This brought the administrative unemployment rate to 33.7% in the first quarter, compared to 32.6% the year before. According to the survey-based Labour Force Statistics (LFS), the unemployment rate was 16.6% in Q1, compared to 16.7% a year before. In April, the number of unemployed people was slightly lower than a month before (-4 600), and significantly lower than a year earlier (-17 400). The share of long-term unemployed, i.e. of persons without employment for more than 12 months, has still been at around three quarters of the total unemployed in 2020.

The annual growth of nominal gross wages remained quite robust, at 3.5% in Q1, and even increased further in April, to 5% y-o-y. In view of low inflationary pressures, official real average gross earnings were some 4% higher than a year before. To some extent, the high nominal wage increases reflect labour market shortages due to a substantial brain drain, but also due to increases in public sector wages, such as in the health sector and in other areas

such as security. On the other hand, the official wage statistics do not include micro enterprises, which represent a significant share in the country's labour market.

External sector

The current account deficit decreased from 3.1% of GDP in 2020 to 2.5% of GDP in the 4 quarters to March, largely as a result of a 1 pp. improvement in the trade balance over the same period.

Trade registered a sharp increase in the first quarter of 2021, with the value of goods exports being 17.9% higher than a year earlier, while imports rose by 2.1% only, reflecting weak investment and still subdued private consumption. The upward trend continued beyond Q1 as the value of merchandise exports surged by nearly 60% y-o-y in April and by 43% in May, mainly due to a strong recovery of demand from Croatia, Italy, Germany, Slovenia and Serbia.

Net FDI inflows remained stable, at 1.8% of GDP in the four quarters to March, still largely consisting of reinvested earnings. Official foreign exchange reserves remained high in Q1, covering nearly 10 months of imports.

Monetary developments

In Q1, the overall level of consumer prices was still 1.2% lower than a year before, following a 1.6% drop in Q4-2020. However, annual inflation turned positive in April (0.9%) and increased further in May (1.7%). Upward price pressures came mainly from transport, while prices for textile continued to be lower (by some 10%) than a year before. Prices for food and non-alcoholic beverages, accounting for 32% of the basket, rose by 1% and 1.5% y-o-y in April and May respectively, while prices for alcoholic beverages and tobacco continued to be about 2% higher than a year before.

The annual growth of the monetary aggregate M2 continued to accelerate, from 8.6% in Q1 to 10.6% in May. The main driver was the monetary aggregate M1, in particular the increase in transferable deposits in domestic currency.

Financial sector

Overall, the financial sector has weathered the COVID-19 crisis relatively well so far. Annual loan growth remained negative in Q1, at 0.4% y-o-y, but it started to recover in April and May, increasing by 1.3% and 1.9% respectively. This increase was mainly driven by rising lending to households, while the y-o-y fall in corporate

loans decelerated recently. Lending to public enterprises continued to be some 9% higher y-o-y during the first five months of the year.

Bank deposit growth accelerated, to 5.9% in Q1 and further to 11.5% and 11.8% in April and May respectively. Households and non-financial private enterprises continued to be the main drivers of deposit growth. As a result, the loan-to-deposit ratio declined substantially, to 79% in May, compared to 86.7% a year before.

The share of non-performing loans in total loans stood at 6.0% in Q1, compared to 6.6% one year earlier. The loan-loss provisions ratio also remained stable at 79.1% in Q1, compared to 80.1% a year before. Banking sector profitability improved in Q1, partly due to methodological changes, but also benefitting from introducing additional fees. As a result, the return-on-equity (ROE) ratio increased to 10.9% in Q1, compared to 6.0% in Q4-2020. The return on assets (ROA) also improved, from 0.8% in Q4 to 1.4% in Q1. The banking system's overall capital adequacy ratio remained at 18.9%, compared to 19.2% in Q4, which is well above the country's regulatory minimum of 12%. However, there are sizeable differences among the countries' 23 banks, with some pockets of vulnerability remaining.

Fiscal developments

Public finances benefitted from the incipient recovery, leading to a 12% y-o-y increase in indirect tax revenues in the first half of 2021. In Q1, the net collection of indirect taxes had still been 4.5% lower than a year before. In 2020, governmental measures to mitigate the crisis impact on households and firms amounted to some 2½% of GDP. According to IMF estimates, the general government's fiscal position is expected to have turned from a surplus of 1.9% of GDP in 2019, to a deficit of up to 5.6% of GDP in 2020.

The BiH lower house of parliament, the House of Representatives, backed in the first reading the draft budget of the BiH institutions for 2021, approving an increase in spending by 3%, largely due to higher COVID-19 related expenditure, while spending for wages have been kept unchanged. For the time being, the country's state-level institutions are financed through an interim budget, which has been extended until end-September.

Public debt declined slightly in Q4-2020, bringing the debt ratio to 35.2% of GDP, compared to 35.5% in Q3. Compared to a year before, the public debt ratio was 3.5 pps. higher. The share of domestic debt rose from 13.2% in Q4-2019 to 15.8% in Q4-2020.

TABLE



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2016	2017	2018	2019	2020	Q4 20	Q1 21	Q2 21	Apr 21	May 21	Jun 21
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	4.4	3.1	1.6	-5.3	-6.4	-0.5	7.2	:	25.5	15.6	:
Gross domestic product ^{1.3}	Ann. % ch	3.4	3.0	5.1	2.8	-4.6	-2.3	1.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.3	1.6	1.4	2.4	-4.1	-4.5	1.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.3	7.8	8.1	5.8	-12.9	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	34.0	-6.9	5.2	15.4	-18.6	-35.2	-3.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.0	5.1	8.2	5.2	-7.5	-6.9	2.0	:	46.7	25.6	:
2 Labour market												
Unemployment ^{2.1}	%	25.4	20.5	18.4	15.7	15.9	16.6	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.1	7.7	2.5	2.5	-1.3	-2.2	-2.7	N.A.	0.6	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.9	1.6	3.1	4.3	3.8	3.7	3.5	:	5.0	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	7.0	21.3	11.5	-2.3	-7.6	4.2	17.9	:	59.8	43.1	:
Imports of goods ^{3.2}	Ann. % ch	2.9	13.3	7.1	1.1	-13.3	-6.9	2.1	:	49.9	42.5	:
Trade in goods balance* ^{3.3}	% of GDP	-22.8	-22.8	-21.6	-21.8	-17.8	-17.8	-16.7	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	35.0	39.3	40.7	39.1	32.7	32.7	33.3	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	51.0	54.9	54.9	53.4	46.6	46.6	46.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.6	-4.7	-3.2	-3.0	-3.1	-3.1	-2.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.8	2.2	2.8	1.9	1.8	1.8	1.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	4,884	5,393	5,962	6,453	7,105	7,105	6,969	:	7,218	7,142	:
Int. reserves / months Imp ^{3.9}	Ratio	7.2	7.1	7.3	7.8	10.0	10.0	9.8	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-1.1	1.3	1.4	0.6	-1.1	-1.6	-1.2	:	0.9	1.7	:
Producer prices ^{4.2}	Ann. % ch	-0.9	79.2	3.2	0.4	-0.4	-0.9	1.3	:	2.6	2.8	:
Food prices ^{4.3}	Ann. % ch	-1.3	1.3	0.6	1.1	1.0	0.8	0.6	:	1.0	1.5	:
M2 ^{4.4}	Ann. % ch	8.3	9.5	9.4	8.9	7.3	7.3	8.6	:	9.9	10.6	:
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	96.9	96.4	97.0	95.7	95.1	95.6	95.3	:	94.8	:	:
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	692	627	621	772	769	794	763	781	747	765	830
Credit growth ^{5.4}	Ann. % ch	2.1	5.3	6.6	5.7	1.1	-1.3	-0.4	:	1.3	1.9	:
Deposit growth ^{5.5}	Ann. % ch	7.7	10.4	11.3	9.3	5.6	4.6	5.9	:	11.5	11.8	:
Non performing loans ^{5.6}	% total	11.8	10.0	8.8	7.4	6.1	6.1	6.0	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	1.2	2.5	2.1	1.9	:	:	:	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.0	34.7	32.7	31.7	35.2	35.2	:	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

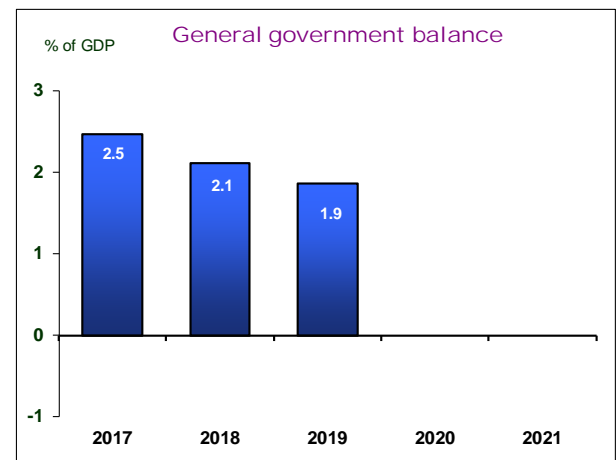
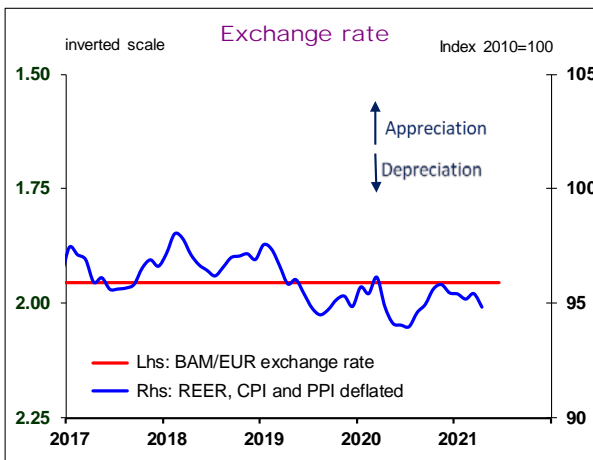
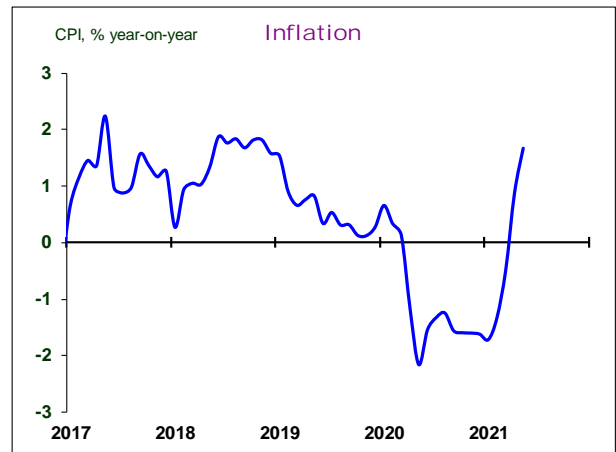
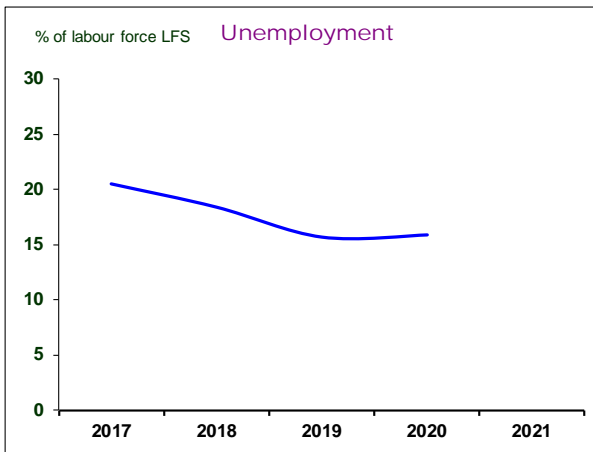
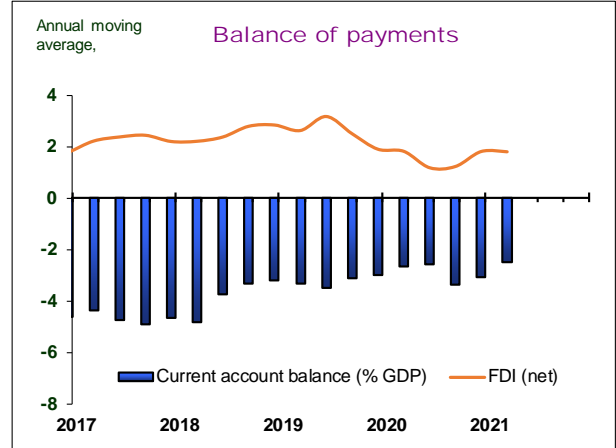
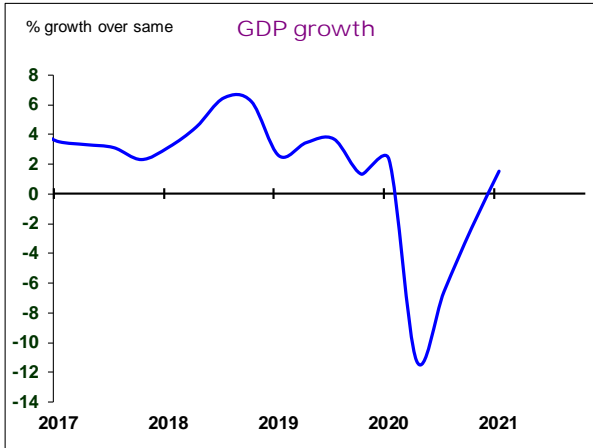
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

*** Q figures in percent of estimated annual GDP.

CHARTS



BOSNIA AND HERZEGOVINA





Key developments

On 12 July, the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey issued joint conclusions with targeted policy guidance, which invited Kosovo to continue the pandemic-related fiscal support to vulnerable households and businesses, while planning in the 2022 budget and medium-term expenditure framework (MTEF) a gradual return to the 2% deficit ceiling. Kosovo was also invited, inter alia, to review the social security system and tax exemptions, and to improve the financial oversight of publicly owned enterprises as well as the management and execution of capital spending.

In early May, the government presented its programme for 2021-2025, which focuses on addressing the health, social and economic consequences of the pandemic. Economic policies represent a mixture of social welfare initiatives and pro-market policies aiming to support economic growth and redistribution.

In May, the government adopted a revised MTEF and the State debt programme for 2022-2024, assuming GDP growth of 5% and a budget deficit as per fiscal rule definition of 4.7% of GDP in 2021. The MTEF foresees a return to compliance with the deficit rule by 2023.

In early June, Kosovo received the second and final tranche (EUR 50 million) of the EU's Macro Financial Assistance after it fulfilled the related policy conditionality concerning improving the sustainability of public finance, enhancing financial stability, strengthening good governance and fight against corruption, and supporting employment.

In late June the government has adopted a revised 2021 budget and the economic revival package (EUR 420 million) supporting employment, infrastructure and manufacturing.

Real sector

In Q1, GDP growth increased to 5.6% y-o-y from 0.8% in the last three months of 2020. The rebound was primarily caused by a large surge in government consumption (22.7% y-o-y) and

recovering investment (14.9% y-o-y). Private consumption increased by 4.9% y-o-y, while exports of goods and services expanded by 13.6% y-o-y on the back of an extraordinary performance of goods exports (52% y-o-y), while exports of services remained flat as compared to Q1-2020. Still, as import growth was also robust (17.5% y-o-y, mainly driven by a 21.9% y-o-y increase in goods imports), net exports' contribution to GDP growth was negative (5.3 pps.).

Gross value added increased by 4.2% y-o-y in Q1. The output increase was especially large in public services, health and education (12.7%). Growth also surged in the sectors of construction (11.5%) and financial services (8.9%). Manufacturing and the wholesale and retail trade expanded by 5.1% and 1.8% y-o-y, respectively.

Labour market

Due to the pandemic-related disruptions, the results of the labour force survey (LFS) continue to be published with large delays. In Q4 the labour force participation increased to 41.3%, from 40.3% in Q3 on the back of higher registered unemployment. The unemployment rate rose to 27% from 24.6% in Q3. The employment rate stood practically unchanged at 30.2%, with a wide gap remaining between male and female employment rates (44.8% and 15.8% respectively). Very high rates of inactivity (58.7%), in particular female inactivity (76.2%), and of youth unemployment (15-24 years, 49.9%) persisted in Q4.

External sector

The current account deficit deteriorated, with its 4-quarter moving average rising to 8.1% of GDP in Q1 as compared to 7% in full-year 2020. This is mainly due to the traditionally negative goods trade balance widening further to 42.5% of GDP on the back of strong growth of goods imports. Due to travelling restrictions, workers' remittances were increasingly sent via official channels, resulting in an increase by nearly 30% y-o-y and standing at 17% of GDP in the four quarters to March. On the financing side, the 4-quarter moving average of net FDI inflows remained stable at 4% GDP in Q1. Reserve assets slightly declined and covered 2.7 months

of imports in Q1.

Supported by large base effects, in January-May merchandise exports expanded by 61% y-o-y, while imports grew by 43% as compared to the same period in 2020. Nevertheless, the volume of imports outpaced exports by more than six times. The overall goods trade deficit widened by 30% y-o-y during January-May.

Monetary developments

Annual consumer price inflation averaged 1.2% in the first five months with an increasing trend in the monthly readings since January. The key inflation driver was communication prices, increasing over 16% y-o-y in January-May.

In Q1, the construction price index rose by 5.3% y-o-y on the back of increasing prices for building materials and energy. The producer price index increased by an average of 2% y-o-y, too due to higher prices for metal ore extraction, electricity, manufacture of machinery and equipment. Import prices grew by 2.5% y-o-y driven by higher prices of base metals and leather products.

Financial sector

In early 2021, the Central Bank of Kosovo (CBK) issued a third guide on loan restructuring valid for nine months and applied regulatory forbearance on loan loss provisions and capital requirements on reprogrammed loans. These measures helped contain the impact of the crisis on the banking sector and supported credit growth. Bank lending growth picked up to 11% y-o-y in May from 7% in Q1. Growth of deposits in commercial banks accelerated to 15% from 12.5% over the same period. The loan-to-deposit ratio increased slightly to 77.4% in May from 75% at the beginning of the year.

The interest rate spread widened slightly. The 12-months moving average spread increased to 4.6 pps. in May from 4.4 pps. at the beginning of the year. This change was mainly driven by a declining interest rate on deposits, which fell by 40 basis points to 1.3% in May, due to a substantial lowering of rates on firms' deposits to 1.6%, from 2.3% in January. The average rate on new loans declined from 6.1% in January to 5.9% in May.

Despite the pandemic-related slowdown, financial soundness indicators in the banking

sector remained relatively sound throughout the first five months of 2021. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 36.7% in May 2020, while the capital adequacy ratio was at 17.4%, well above the regulatory minimum of 12%. Supported by the regulatory flexibility of the CBK, the NPL ratio remained stable during the first five months at 2.6%. The existing NPLs are fully covered by loan loss provisions (142.8%).

Fiscal developments

In June, the government approved the mid-year revision of the budget for 2021, aiming to support economic recovery and defeat the pandemic. The main adjustment is on the public revenue side, which is set to increase by 8% to EUR 2 043 million, instead of the MTEF projection of EUR 1 888 million due to higher tax and non-tax revenues. Public spending is set at EUR 2 516 million, above the MTEF projection of EUR 2 454 million, due to higher allocation for social transfers. The budget deficit as per the fiscal rule remains roughly the same at 4.6% of GDP, while the government cash reserve is expected to be higher at 3.9% of GDP instead of 3.2% as planned in the MTEF. The economic revival package amounts to EUR 420 million, out of which EUR 190 million was part of the original budget.

In January-May, budget revenue increased by 29% y-o-y, supported by large increases of direct and indirect tax revenue (by 38% and 27.8% y-o-y, respectively). VAT collection rose by 35% as compared to the same period in 2020. Budget expenditures increased by 13.4% y-o-y. After severe contraction in 2020, public investment recorded a rise of 43% y-o-y. Current spending increased most on goods and services (15.3%), utilities (15%) and social transfers (11.7%). Overall, the five-month budget execution resulted in a negligible deficit of EUR 9.8 thousand as compared to a deficit of EUR 94.8 thousand in the same period in 2020.

In Q1, the public debt-to-GDP ratio remained roughly unchanged from the previous quarter at 21.8%. Domestic debt continued to increase with new issuances mainly absorbed by commercial banks. The government is planning the issuance of diaspora bonds to finance the economic revival package.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2016	2017	2018	2019	2020	Q4 20	Q1 21	Q2 21	Apr 21	May 21	Jun 21
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	-0.7	2.6	-1.2	N.A.	N.A.	N.A.	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.2	3.8	4.9	-3.7	0.8	5.6	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	9.1	7.2	11.7	8.1	5.8	1.8	4.9	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	25.5	23.4	29.7	20.2	-29.4	-0.8	14.9	:	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	6.5	12.0	17.4	25.6	-0.4	4.7	3.7	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	27.5	30.5	29.6	25.7	26.0	27.0	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	11.8	7.6	-3.4	5.2	-4.0	:	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	1.7	2.1	5.1	5.3	-2.3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	-4.8	22.1	-2.8	4.4	23.8	51.2	57.5	:	87.0	49.2	:
Imports of goods ^{3.2}	Ann. % ch	5.9	9.2	9.8	4.5	-5.7	3.3	24.9	:	98.2	53.1	:
Trade in goods balance** ^{3.3}	% of GDP	-40.9	-41.6	-44.3	-43.8	-41.2	-41.2	-42.5	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	% of GDP	23.7	27.1	28.8	29.1	21.4	21.4	22.0	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	% of GDP	50.9	52.6	56.8	56.1	53.3	53.3	55.1	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	% of GDP	-7.9	-5.4	-7.6	-5.6	-7.0	-7.0	-8.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** ^{3.7}	% of GDP	2.9	3.3	3.4	2.7	4.1	4.1	4.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	895.2	939.4	933.9	937.1	969.1	969.1	849.3	:	899.2	929.7	:
Int. reserves / months imp ^{3.9}	Ratio	3.5	3.3	2.9	2.8	3.2	3.2	2.7	:	2.7	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	0.3	1.5	1.1	2.7	0.2	-0.1	0.6	:	1.9	1.9	N.A.
Producer prices ^{4.2}	Ann. % ch	-0.1	0.6	1.4	0.9	-0.6	0.2	2.0	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	-0.4	1.2	2.8	8.3	10.1	1.6	0.2	:	-0.1	-0.3	:
Broad money liabilities ^{4.4}	Ann. % ch	9.2	6.4	7.9	12.0	15.3	15.3	15.2	:	17.5	17.9	:
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	104.2	105.0	104.7	107.1	107.3	107.8	108.86	:	109.1	108.8	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	0.35	0.21	0.43	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	4.0	3.53	3.31	3.69	3.69	:	2.97	3.88	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	9.1	10.5	11.1	10.7	7.7	7.0	6.9	:	9.8	11.1	:
Deposit growth ^{5.5}	Ann. % ch	4.7	8.6	6.5	12.6	12.2	10.2	12.5	:	14.2	15.1	:
Non-performing loans ^{5.6}	% total	4.9	3.1	2.5	1.9	2.5	2.5	2.5	:	2.3	2.4	:
6 Fiscal developments												
General government balance*** ^{6.1}	% of GDP	-1.1	-1.3	-2.9	-2.9	-7.0	-1.7	-0.1	:	N.A.	N.A.	N.A.
General government debt**** ^{6.2}	% of GDP	14.4	16.2	16.9	17.5	21.8	21.8	21.8	:	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

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

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

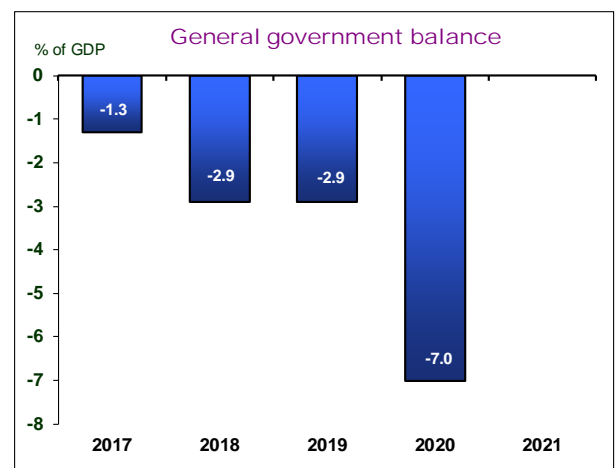
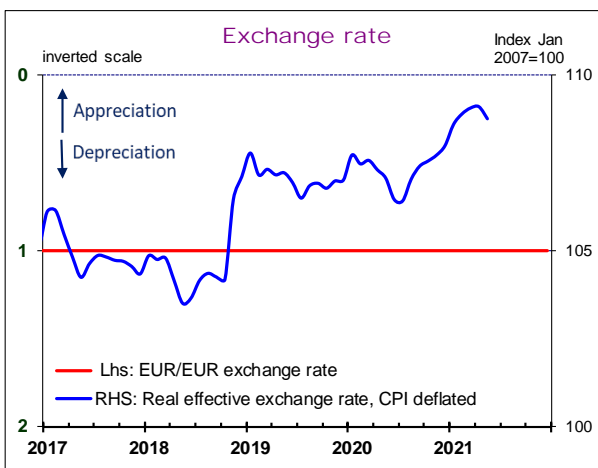
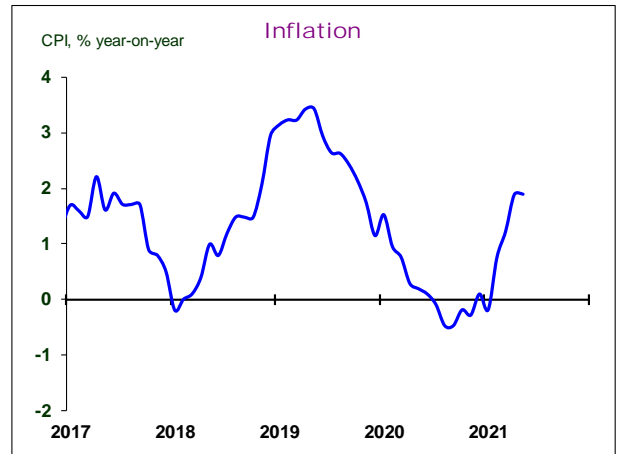
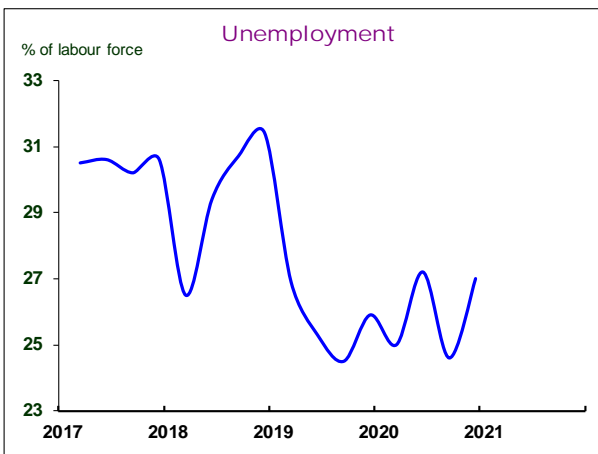
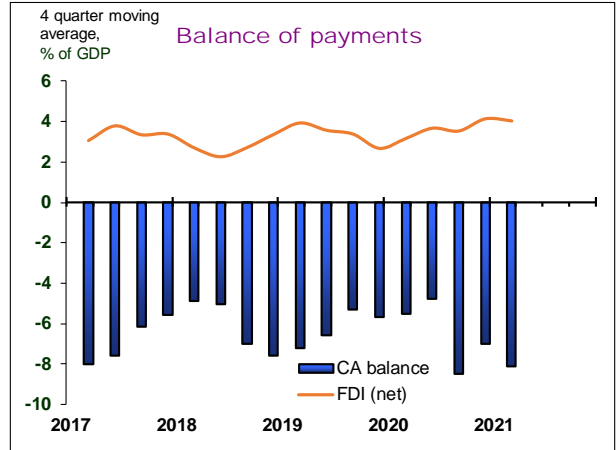
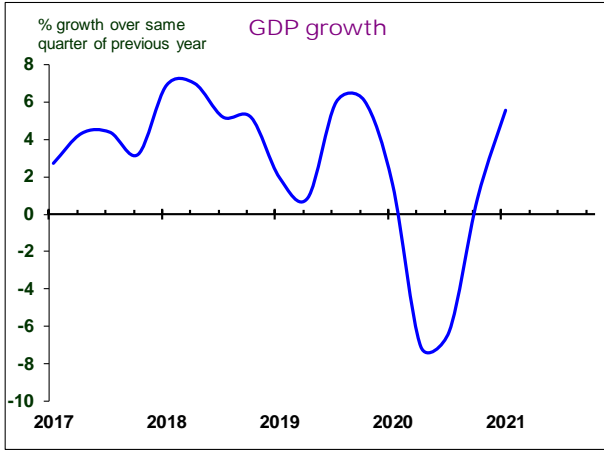
**** Q figures in percent of estimated annual GDP from the Budget Law.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*



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



No.	Indicator	Note	Source
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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.7.	Direct investment (FDI, net)	In percent of GDP, Q figures refer to a 4 quarters moving average	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 ALL/EUR	Period average	Bank of Albania
4.6.	Real effective exchange rate	ALL, CPI deflated	Bruegel Inst.
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, TRIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Interest rate, 36 months deposits in ALL	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	Albanian Min. of Finance
6.2.	General government debt	Gross public debt in percent of 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, constant prices, 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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	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	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, volume, total except fuel.	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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	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, private, Banks and Saving houses, MKD	MacroBond
5.5.	Deposit growth	Annual percentage change, private, Banks and Saving houses, MKD	MacroBond
5.6.	Non-performing loans	In percent of total	MacroBond
6. Fiscal developments			
6.1.	Central government balance	In percent of 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. Data as of 2021 according to new LFS methodology	MacroBond
2.2.	Employment	Annual percentage change, as from 2014 based on LFS. Data before 2014 are based on official data on registered employment. Data as of 2021 according to new LFS methodology.	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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	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 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 turnover index, calendar adjusted	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, calendar adjusted, 2015=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, total, Labour Force Survey data	MacroBond
2.2.	Employment	Annual percentage change, total, Labour Force Survey data	MacroBond
2.3.	Wages	Annual percentage change, total hourly earnings, Index 2015 = 100	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	MacroBond
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average, 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	General government, in percent of GDP	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	Retail trade, annual percentage change, volume, 2015=100	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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	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	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM	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	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 percentage change	CB Kosovo
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-Specialised 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, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	SOK
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank of Kosovo
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.8.	Reserves, International reserves of the National Bank	CBAK Survey, claims on non-residents, 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 percent of total	CB Kosovo
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance

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