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

## 4<sup>th</sup> Quarter 2016

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EUROPEAN ECONOMY

A photograph of a financial chart with a pen and a tablet. The chart shows various economic indicators, including a line graph with peaks and troughs, and a bar chart below it. A silver pen lies across the chart, and a silver tablet is visible in the upper right corner.

Economic and  
Financial Affairs

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

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European Commission  
Directorate-General for Economic and Financial Affairs

# EU Candidate & Potential Candidate Countries' Economic Quarterly (CCEQ) 4<sup>th</sup> Quarter 2016

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## **Contents**

<b>OVERVIEW</b> .....	<b>5</b>
<b>ALBANIA</b> .....	<b>9</b>
<b>THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA</b> .....	<b>13</b>
<b>MONTENEGRO</b> .....	<b>17</b>
<b>SERBIA</b> .....	<b>21</b>
<b>TURKEY</b> .....	<b>25</b>
<b>BOSNIA AND HERZEGOVINA</b> .....	<b>29</b>
<b>KOSOVO*</b> .....	<b>33</b>

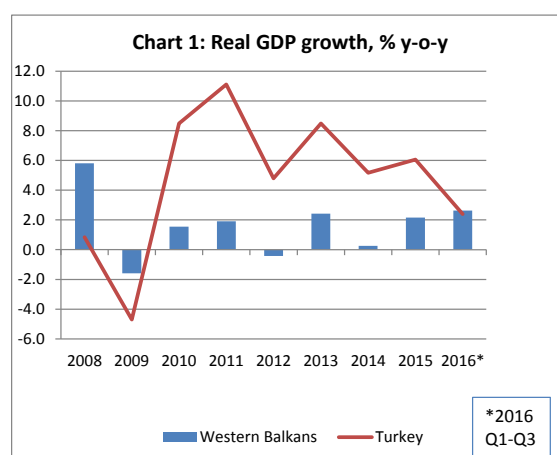
\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

## OVERVIEW

The economic recovery in the *Western Balkans* strengthened further during the third quarter of 2016, largely driven by a further acceleration of annual GDP growth in Serbia, the largest economy in the region. Investment and private consumption continue to support growth in the region, while also exports seem to gain some momentum. Current account deficits narrowed across the *Western Balkans*, but overall, external positions remain vulnerable in most of the countries. The recovery led to further job creation, including in the private sector, but unemployment rates, although lower compared to the second quarter, remain stubbornly high. Despite further progress in fiscal consolidation, still high public debt levels in most countries of the region remain a cause for concern. In Turkey, GDP shrank in the third quarter with government consumption the only contributing factor and in the context of sharply lower revenues from tourism and sharply deteriorating confidence levels.

Growth performance in the *Western Balkans* improved in the third quarter of 2016 when the region's output growth accelerated to around 2.5% year-on-year. This was primarily due to a marked strengthening of output growth in Serbia, the biggest economy in the region. Serbia's GDP growth accelerated to 2.6% up from 1.9% in the preceding quarter, on the back of robust export and investment performance. Also Kosovo and Bosnia and Herzegovina recorded stronger output growth. Conversely, in the former Yugoslav Republic of Macedonia annual economic growth eased to 2.4% (from 3.1%) reflecting significantly weaker investments and a fall in confidence levels, following a prolonged political crisis. Annual output growth decelerated slightly in Albania and Montenegro, but both countries continued to benefit from strong investment and exports. Overall, in the first three quarters of 2016, the *Western Balkan* region's GDP expanded by 2.6%, up from an average growth rate of around 2% in 2015 (Chart 1).

In Turkey, the economy contracted by 1.8% y-o-y in the third quarter of 2016, for the first time in over seven years, with government consumption the only factor providing a positive contribution.

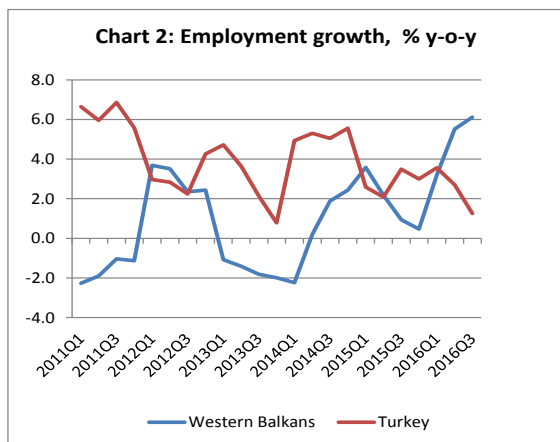


Source: IHS DataInsight, Commission calculations

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Amid a still challenging labour market situation in the *Western Balkans*, the ongoing economic recovery has led to further increases in employment levels. Employment growth accelerated in almost all countries during the third quarter of 2016, which saw the highest job growth rate for many years for the region as a whole (6.1% y-o-y) (Chart 2). Albania and Serbia registered the strongest job growth (7.4% and 7.2%, respectively). Growing employment levels contributed to a drop of unemployment rates; the decline was particularly significant in Serbia (from 15.2% in the second quarter to 13.8% in the third quarter).

In **Turkey**, in the third quarter of 2016, annual employment growth decelerated to 1.3% from 2.7% in the second quarter and the unemployment rate increased to 11.4% from 9.8%.

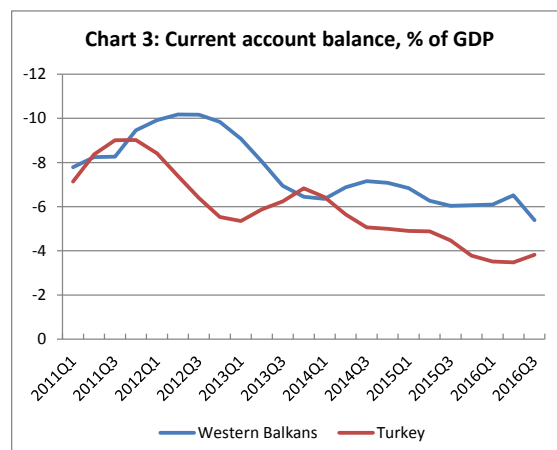


Source: IHS DataInsight, Commission calculations

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External imbalances remain a key challenge in most **Western Balkan** countries, reflected in large merchandise trade deficits ranging from 12% of GDP for *Serbia* to around 19% or above for the *former Yugoslav Republic of Macedonia*, *Albania*, and *Bosnia and Herzegovina* and above 40% for *Kosovo* and *Montenegro*. External developments in the region during the third quarter of 2016 point to a narrowing of annual current account deficits in all countries except in *Montenegro*. This contributed to a regional current account deficit, in the four quarters to September, of around 5% of GDP, the lowest in many years (Chart 3).

In **Turkey**, the 12-month cumulative current account deficit increased from 3.7% of GDP in 2015 to 3.9% in November 2016 mainly driven by a sizeable drop in tourism revenues.



Source: IHS DataInsight, Commission calculations

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Persistently low inflation remains a key characteristic of the **Western Balkan** economies, reflecting low commodity prices and exchange rate stability. *Bosnia and Herzegovina* and the *former Yugoslav Republic of Macedonia* are the two countries which continued to experience deflation in the third quarter of 2016. In *Montenegro*, the annual change in the CPI switched from virtually nil at end-September to 0.6% in November. Annual inflation remained positive in *Serbia*, *Albania* and *Kosovo* (1.5%, 1.9% and 0.9% respectively, in November 2016), but for the first two countries it remained below their central banks' respective targets despite a continued accommodative monetary policy stance. The central bank of *Serbia* has maintained its key policy rate at 4% since July 2016 while the *Bank of Albania* has kept it at the historic low of 1.25% since May 2016.

In **Turkey**, headline inflation increased to 8.5% in December 2016 up from 7.0% in November, ending the year significantly above the official 3 – 7 % target range at year end.

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Bank lending has generally become more supportive of growth in the **Western Balkan** region, as credit growth accelerated, in the third quarter of 2016 in *Serbia*, *Bosnia and Herzegovina* and *Kosovo* and turned positive in *Albania*. On the other hand, credit growth

decelerated significantly in the *former Yugoslav Republic of Macedonia* compared to the preceding quarter, while it continued to be negative in *Montenegro*. As a common feature, household lending has been growing faster than corporate lending. Stronger credit growth is still hindered by the high level of non-performing loans. Most **Western Balkan** countries still have significantly higher NPL ratios compared to the pre-crisis levels, but managed to lower NPLs, compared to the previous quarter, as improved resolution frameworks are gradually been put in place.

In *Turkey*, in the third quarter of 2016, credit growth continued to decelerate (8.3% y-o-y) while the NPL ratio stood at 3.4%.

\*\*\*

Available data indicate that fiscal performance so far this year has improved and in most cases exceeded expectations in the **Western Balkan** region. This is partly due to increased tax revenues generated by the economic recovery, but some countries also continued to experience underperforming capital expenditure, pointing to persistent problems in the planning, selection and management of public investment. In *Serbia*, strong revenue growth and restrained current spending have kept the budget deficit at 0.2% of projected full-year GDP in the first eleven months. In

*Montenegro*, the central government deficit amounted to 0.5% of GDP in January to October due to increased tax revenues related to a successful tourism season and delays in execution of public works. In the *former Yugoslav Republic of Macedonia* the budget deficit was also better than expected in the first eleven months, at 2.4% of GDP, thanks to strong revenue performance and an underspending on capital outlays. Similar factors have contributed to a budget surplus of 1.5% of GDP over the first nine months in *Kosovo*. In *Albania*, a broad-based undershooting of budgeted expenditures resulted in a general government surplus of 0.5% of GDP in the first eleven months. Continued fiscal consolidation (without, however, undermining much-needed capital spending) is necessary in a number of countries to rebuild fiscal buffers and reduce the level of public debt which is especially high in *Serbia* (72.1% of GDP in November), *Albania* (70.8% of GDP in the third quarter) and *Montenegro* (60.8% of GDP in the third quarter), and lower but on an increasing trend in the *former Yugoslav Republic of Macedonia*.

In *Turkey*, a notable recent development has been the release of a major revision to GDP data, raising the level of nominal GDP by 19.7% in 2015. As a consequence, general government debt declines from 32.9% to 27.5% of GDP in 2015.

## Candidate and potential candidate countries: Summary table

						ECFIN 2016 Autumn forecast							
	2012	2013	2014	2015	2016	2017	2018	Q2 16	Q3 16	Q4 16	Oct 16	Nov 16	Dec 16
<b>Gross domestic product</b> (in real terms, annual % change)													
Albania	1.4	1.0	1.8	2.6	3.2f	3.5	3.5	3.4	3.1	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-0.5	2.7	3.5	3.8	2.1f	3.2	3.3	3.1	2.4	:	N.A.	N.A.	N.A.
Montenegro	-2.7	3.5	1.8	3.4	2.7f	3.4	3.1	2.7	2.4	:	N.A.	N.A.	N.A.
Serbia	-1.0	2.6	-1.8	0.8	2.7	3.0	3.3	1.9	2.6	:	N.A.	N.A.	N.A.
Turkey	4.8	8.5	5.2	6.1	2.7f	3.0	3.3	4.5	-1.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-0.9	2.4	1.4	3.2	:	:	:	1.2	2.4	:	N.A.	N.A.	N.A.
Kosovo*	2.8	3.4	1.2	4.1	:	:	:	3.3	3.8	:	N.A.	N.A.	N.A.
<b>Unemployment</b>													
Albania	13.8	16.4	17.9	17.5	16.0f	15.2	14.2	15.9	15.2	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	31.0	29.0	28.0	26.1	24.4f	23.2	22.2	24.0	23.4	:	N.A.	N.A.	N.A.
Montenegro	19.7	19.5	18.0	17.6	17.8f	17.6	17.3	17.5	16.9	:	N.A.	N.A.	N.A.
Serbia	23.9	22.1	19.2	17.7	16.5f	15.6	15.0	15.2	13.8	:	N.A.	N.A.	N.A.
Turkey	N.A.	N.A.	10.1	10.5	10.7f	11.2	11.5	9.8	11.4	:	:	:	:
Bosnia and Herzegovina	28.0	27.5	27.5	27.7	25.4	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo*	30.9	30.0	35.3	32.9	:	:	:	26.2	N.A.	N.A.	N.A.	N.A.	N.A.
<b>Current account balance</b> (% of GDP)**													
Albania	-10.2	-10.9	-12.9	-10.8	-12.2f	-13.1	-13.2	-12.1	-11.0	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-3.2	-1.6	-0.5	-2.1	-2.2f	-1.7	-1.6	-2.9	-2.6	:	N.A.	N.A.	N.A.
Montenegro	-18.5	-14.5	-15.2	-13.3	-15.3f	-17.4	-17.6	-17.9	-18.7	:	N.A.	N.A.	N.A.
Serbia	-11.6	-6.1	-6.0	-4.7	-4.4f	-4.3	-4.7	-4.4	-4.2	:	N.A.	N.A.	N.A.
Turkey	-5.5	-7.8	-5.0	-3.8	-4.9f	-5.4	-5.7	-3.5	-3.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-8.7	-5.3	-7.4	-5.7	:	:	:	-5.6	-4.6	:	N.A.	N.A.	N.A.
Kosovo*	-7.5	-6.4	-7.8	-9.1	:	:	:	-10.9	-11.2	:	N.A.	N.A.	N.A.
<b>Inflation</b> (Consumer price index, annual % change)													
Albania	2.0	1.9	1.6	1.9	1.3	2.3	2.6	0.7	1.9	0.7	1.5	1.9	1.2
The former Yugoslav Republic of Macedonia	3.3	2.8	-0.3	-0.3	0.1f	0.9	2.4	-0.7	-0.1	:	0.2	-0.2	:
Montenegro (HICP)	4.0	1.8	-0.5	1.4	0.5f	1.2	2.0	-0.4	0.0	0.5	0.4	0.6	0.3
Serbia	7.3	7.9	2.1	1.4	1.1	2.4	3.3	0.5	1.0	1.5	1.5	1.5	1.6
Turkey	8.9	7.5	8.9	7.7	7.8	7.8	8.0	6.9	8.0	7.6	7.2	7.0	8.5
Bosnia and Herzegovina	2.0	-0.1	-0.9	-1.0	:	:	:	-1.6	-1.1	:	-0.7	-0.3	:
Kosovo*	2.5	1.8	0.4	-0.5	:	:	:	-0.2	0.2	:	1.0	0.9	:
<b>General government balance</b> (% of GDP)													
Albania	-3.4	-5.0	-5.2	-4.0	-2.3f	-1.7	-1.3	1.1	0.9	:	0.9	:	:
The former Yugoslav Republic of Macedonia	-3.8	-3.8	-4.2	-3.5	-3.8f	-3.4	-3.2	-0.9	-1.4	:	N.A.	N.A.	N.A.
Montenegro	-7.2	-5.2	-3.1	-7.3	-4.7f	-7.6	-7.1	-3.1	-0.7	:	:	:	:
Serbia	-6.8	-5.5	-6.6	-3.7	-2.1f	-1.5	-1.2	-0.2	1.3	:	N.A.	N.A.	N.A.
Turkey	-1.7	-1.3	-1.2	-1.0	-2.5f	-2.0	-1.8	0.2	-0.4	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-2.0	-2.2	-2.0	0.7	:	:	:	2.5	4.2	:	N.A.	N.A.	N.A.
Kosovo*	-2.6	-3.1	-2.2	-2.0	:	:	:	:	:	:	N.A.	N.A.	N.A.

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

Forecast: ECFIN forecast Autumn 2016

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





## Key developments

The Commission's annual Enlargement Package, adopted on 9 November, included a recommendation to Council to open accession negotiations with Albania subject to progress in the implementation of the justice reform. Regarding justice reform, Albania's constitutional court ruled in December that the law on the re-evaluation (vetting) of judges and prosecutors is constitutional, thereby opening up for the law's implementation.

Moody's Investors Service affirmed its B1 credit rating for Albanian government bonds in December. The rating agency referred to the high, albeit declining, public debt ratio as the country's key credit challenge.

The 2017 state budget was adopted by parliament on 15 December. It is based on 3.8% projected GDP growth and targets a deficit of 2.0% of GDP and a decline in the public debt ratio to 69.1% of GDP. The government adopted the Medium Term Budget Program for 2017-2019 on 28 December.

## Real sector

Real GDP growth recorded 3.1% y-o-y in the third quarter compared to upwardly revised growth rates of 3.3% for the first quarter and 3.4% for the second quarter.

While growth in household consumption slowed from 4.1% y-o-y in the second quarter to 1.6% in the third quarter, government consumption accelerated from 0.3% to 2.8% growth. Gross fixed capital formation surged to 11.9% growth from 5.3% in the second quarter. The export performance was even more remarkable with 19.1% growth, up from 4.0% in the second quarter. Export growth came exclusively from services exports and reflected mainly a very strong tourism season. Imports of goods and services, on the other hand, decelerated sharply from 19.7% growth in the second quarter to 5.6% in the third quarter. Overall, the external sector switched from a strongly negative contribution to GDP growth in the second quarter to a strongly positive contribution in the third quarter.

## Labour market

The labour market continued improving in the third quarter, reinforcing the positive trend seen in the preceding quarters. The LFS-estimated unemployment rate (15-64 years) dropped by 0.7 pps. q-o-q and by 2.3 pps. y-o-y, to 15.2%, the lowest level in three and a half years. The number of employed people (15-64 years) accelerated further. Employment growth registered 7.4% y-o-y in the third quarter, exceeding the 4.4% growth of the labour force by a clear margin.

Industry saw the biggest increase in employment (13.6% y-o-y), followed by services (+8.2%) and agriculture (+7.0%).

## External sector

Following a significant deterioration of the current account in the second quarter, the deficit narrowed by 33.5% y-o-y in the third quarter. In the first three quarters of 2016, the current account deficit has increased by 11.2% compared with the corresponding period in 2015. As a percentage of GDP, the current account deficit amounted to 11.2% in the four quarters to the end of September compared to 10.8% in 2015.

The trade deficit (goods and services) decreased by 13.7% y-o-y in the third quarter as exports increased three times more than imports (18.1% vs. 6.1%). The strong export performance was exclusively due to service exports which surged by 24.0%. This was mainly reflecting a sharp increase in revenues from tourism. Merchandise exports declined again (-2.3%), apparently still suffering from the impact of the oil price fall. Imports of both goods and services increased moderately (7.6% and 3.6% y-o-y, respectively).

The balance of primary income benefitted from a 22.2% y-o-y rise in investment income from abroad. More important for the overall current account was the 19.3% rise in the surplus of the secondary income balance which mainly was the result of higher remittances from abroad.

On the financing side, net foreign direct investment (FDI) continued to be boosted by energy-sector investments and rose by 11.3% y-o-y. Net FDI exceeded the current account deficit by 33% in the third quarter.

Foreign exchange reserves stood at EUR 2.7 billion at the end of November having changed little since the end of 2015. They cover 6.6 months of imports of goods and services.

At the end of September, gross external debt amounted to EUR 7.9 billion (about 75% of GDP), up by 6.6% y-o-y. Long-term public debt constitutes 42.6% of Albania's gross external debt. Almost two thirds of the debt increase between September 2015 and September 2016 can be attributed to the public sector.

### Monetary developments

Consumer price inflation averaged 1.9% y-o-y in the fourth quarter, unchanged from the third quarter. In December, headline inflation registered 2.2%, the highest monthly figure in 2016. Food and energy prices were up by, respectively, 4.8% and 3.2% y-o-y in December. Other CPI items showed very low inflation, indicating a continued absence of underlying price pressures as economic activity remained below potential.

The central bank kept monetary policy in an accommodative stance in the fourth quarter by leaving the key policy rate (the repo rate) at the record low of 1.25%. It considers the monetary stimulus to be transmitted effectively to the real economy. This, in combination with declining disinflationary pressures from abroad, is expected to create the conditions for inflation returning progressively towards the 3% target.

The Albanian lek appreciated 1.6% against the euro over the fourth quarter and was up by 1.5% year-on-year against the euro at the end of 2016.

### Financial sector

The accommodative monetary policy stance has seemingly begun to stimulate lending growth. The y-o-y growth rate of private-sector credit (which also reflects the impact of mandatory write-offs of certain categories of non-performing loans), which had still been negative in August, turned positive in the following months and reached 0.8% in November. Excluding the impact of the write-offs and of exchange rate fluctuations, loans to the private sector recorded 2.9% y-o-y growth in October. While household credit expanded at close to 10% y-o-y, lending to the non-financial business sector was still contracting. The gradual rebalancing towards lek-denominated loans continued across sectors, but foreign-currency

loans still made up 55.4% of total private-sector credit in November.

The interest rate level for loans in lek averaged 7.9% in October-November which was unchanged compared to the final quarter of 2015, but slightly higher than in the second and third quarters of 2016. Bank lending survey results for the third quarter show tightening of credit standards on loans to enterprises and eased credit standards on loans to households.

The bank lending channel continued to be impaired by the high level of non-performing loans (NPLs). However, the increasing trend of the ratio of NPLs to total gross loans in the first eight months of 2016 was discontinued as the NPL ratio declined from the year-high of 21.4% in August to 20.4% in November.

The capital adequacy ratio of the banking sector as a whole declined by half a percentage point to 15.6% over the third quarter, but remained comfortably above the regulatory minimum of 12%. Profitability indicators continued to be subdued in the autumn months compared with 2015 mainly on account of higher loan loss provisioning.

### Fiscal developments

In December, the 2016 budget was revised for the second time. Compared to the original budget, total revenues remained at the level of 27.4% of GDP whereas total expenditures were raised by 0.2 pps to 29.8% of GDP. The projected budget deficit is 2.4% of GDP, unchanged from the first budget revision in July, but 0.2 pps higher than in the original budget. The projected public debt ratio for the end of the year was raised by 0.4 pps to 71.3% of GDP.

In the first eleven months of 2016 total revenues were 1.4% lower than planned and total expenditure fell short of budget by 6.9%. The expenditure shortfall was broad-based with the largest contributions coming from social insurance outlays and local budget expenditure.

The 2017 budget was adopted by parliament on 15 December. Compared to the revised 2016 budget, it targets a decline in the headline deficit by 0.4 pps to 2.0% of GDP. This is planned to be achieved through a 0.5 pps reduction of total expenditures as a share of GDP combined with a 0.1 pps reduction of total revenues as a share of GDP. The public debt ratio is projected to be lowered by 2.2 pps to 69.1% of GDP.

## TABLE



European Commission, ECFIN-D-1

## ALBANIA

							ECFIN 2016 Autumn forecast							
		2012	2013	2014	2015	2016	2017	2018	Q2 16	Q3 16	Q4 16	Oct 16	Nov 16	Dec 16
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Percent	-17.3	-16.6	-6.9	-5.5	:	:	:	-5.0	3.6	:	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. %ch	16.6	13.9	3.4	2.5	:	:	:	-9.9	-11.2	:	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann. %ch	1.4	1.0	1.8	2.6	3.2f	3.5	3.5	3.4	3.1	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	0.1	1.8	3.0	0.9	2.8f	2.2	3.1	4.1	1.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	-7.9	-2.0	-4.0	10.3	8.9f	10.7	4.9	5.3	11.9	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	0.6	1.0	0.2	0.3	:	:	:	-0.2	0.1	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	4.8	6.3	5.1	5.4	:	:	:	6.2	6.5	:	:	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	13.8	16.4	17.9	17.5	16.0f	15.2	14.2	15.9	15.2	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. %ch	18.5	-9.7	1.6	4.9	3.4f	2.6	2.7	5.8	7.4	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. %ch	7.3	4.1	1.7	1.8	:	:	:	1.0	1.1	:	N.A.	N.A.	N.A.
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	7.6	-30.5	-11.6	-17.3	:	:	:	-23.7	-4.4	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-4.3	-13.2	3.6	-2.7	:	:	:	16.0	5.4	:	:	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-20.9	-20.6	-22.2	-22.3	-24.8f	-25.8	-26.2	-24.3	-24.5	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	33.3	28.7	28.2	27.2	:	:	:	26.6	27.5	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	52.0	47.0	47.2	44.5	:	:	:	45.5	45.4	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-10.2	-10.9	-12.9	-10.8	-12.2f	-13.1	-13.2	-12.1	-11.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	6.8	9.6	8.2	8.0	:	:	:	7.1	7.2	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1 907.7	1 955.7	2 084.8	2 637.7	:	:	:	2 742.1	2 698.2	:	2 689.9	2 685.3	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.5	6.8	:	:	:	:	:	:	:	:	:	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	2.0	1.9	1.6	1.9	1.3	2.3	2.6	0.7	1.9	1.9	1.5	1.9	2.2
Producer prices <sup>4.2</sup>	Ann. %ch	:	:	:	:	:	:	:	-2.0	-0.8	:	:	:	:
Food prices <sup>4.3</sup>	Ann. %ch	2.4	4.2	2.2	4.3	:	:	:	2.3	4.3	:	3.1	3.2	:
M2 <sup>4.4</sup>	Ann. %ch	4.7	5.7	4.0	7.2	:	:	:	3.3	4.7	:	5.3	5.2	:
Exchange rate LEK/EUR <sup>4.5</sup>	Value	139.04	140.26	140.14	139.74	137.37	:	:	138.25	136.81	136.10	136.85	136.18	135.27
Nominal eff. exchange rate <sup>4.6</sup>	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	5.16	4.23	3.10	2.87	:	:	:	0.90	0.88	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	6.77	6.03	3.45	2.77	:	:	:	2.14	1.69	:	1.65	1.62	:
Stock markets <sup>5.3</sup>	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth <sup>5.4</sup>	Ann. %ch	7.4	-0.2	0.2	0.3	:	:	:	-1.1	0.1	:	0.5	0.8	:
Deposit growth <sup>5.5</sup>	Ann. %ch	9.4	3.7	1.5	1.9	:	:	:	0.1	1.5	:	1.7	2.1	:
Non performing loans <sup>5.6</sup>	% total	22.8	23.2	22.8	17.7	:	:	:	20.0	21.3	:	21.4	20.4	:
<b>6 Fiscal developments</b>														
General government balance* <sup>6.1</sup>	% of GDP	-3.4	-5.0	-5.2	-4.0	-2.3f	-1.7	-1.3	1.1	0.7	:	0.9	:	:
General government debt* <sup>6.2</sup>	% of GDP	62.1	65.6	70.1	72.7	72.2f	70.5	68.1	70.9	70.8	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2016

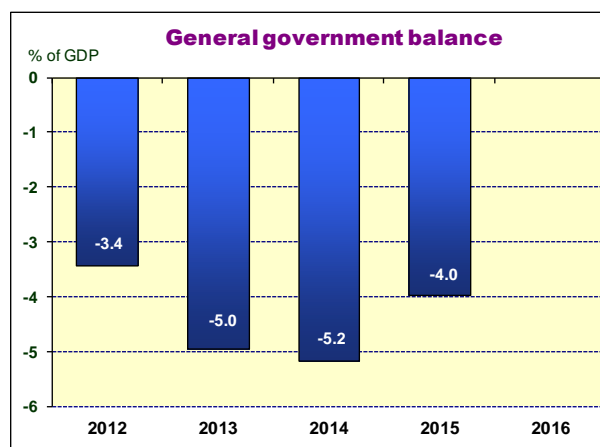
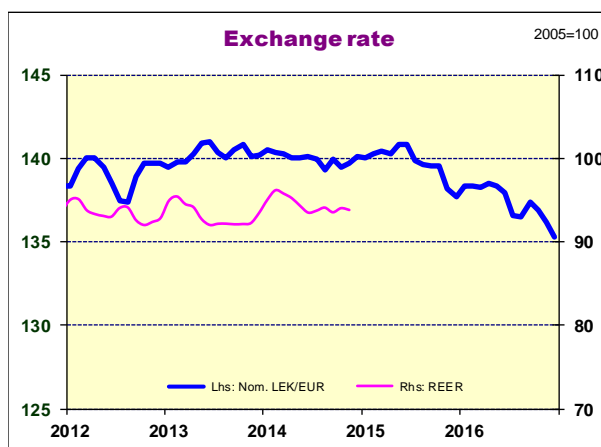
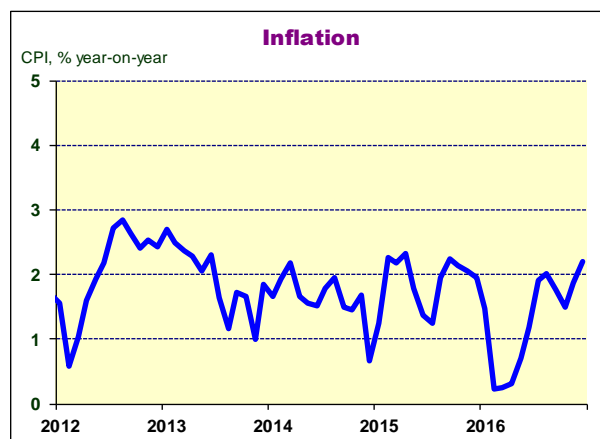
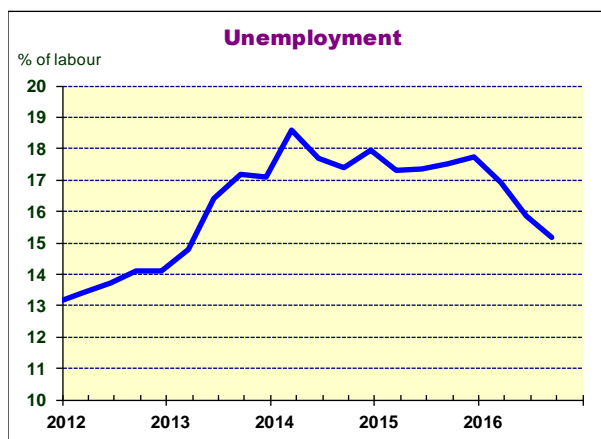
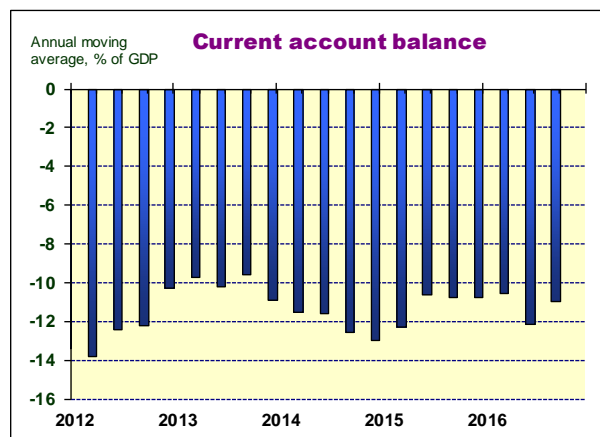
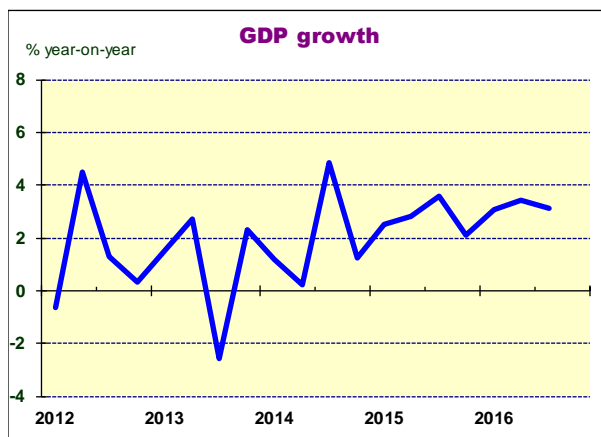
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## ALBANIA



# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



## Key developments

In a move to overcome the lingering political crisis, the country held early parliamentary elections on 11 December. Political uncertainties had weighed on the economy in 2016 as private investment slowed down markedly.

On 9 November, the IMF concluded the 2016 Art. IV consultation. While underlining the appropriateness of the monetary policy stance, it stresses the increasing fiscal risks from higher sovereign financing needs and recalls the need for immediate fiscal consolidation.

On 17 October, the Macedonian parliament adopted the 2017 budget. It foresees a general government deficit of 3% of projected GDP and is based on the assumption of 3% real GDP growth and 1% annual inflation.

## Real sector

In the third quarter, the pace of growth in the economy eased notably. Real GDP increased by 2.4% y-o-y, down from 3.1% (revised from the previous estimate of 2.2%) in the preceding three months. The slowdown came on the back of a decline in investment (-4% y-o-y), and in spite of a pick-up in household consumption growth (+5.6%, compared to 2% in the preceding quarter). Government consumption declined slightly, by 0.4%. Export growth accelerated markedly (+15.6%), yet net exports impacted negatively on the economy's expansion rate, as import growth surged, too. (+13.3%). The manufacturing sector posted a small annual output increase (1.1%), after considerable losses in the first half of the year. The expansion in the construction industry slowed to 10.3% y-o-y, from 31.4% in the second quarter. The industrial production index declined by 4.3% y-o-y on average in October and November, indicating continued restraint on the part of industry and investors.

## Labour market

While job creation remained robust also in the third quarter, and the unemployment rate fell further, the share of the working age population participating in the labour market dropped,

compared to the same period one year earlier. The activity rate declined by 0.3pp to 56.6%, on the back of a 1.1pp drop in the female workforce, which accounts for only 44.2% of the female working age population.

Annual employment growth slowed down to 2.3% yoy in the third quarter, after 3% in the preceding three months. A large part of the new jobs was created through government employment programmes. The unemployment rate declined by 2.1pp, compared to the third quarter in the preceding year, to 23.4%. The improved labour market situation also benefitted young workers. In the age group 15-24 years, the unemployment rate dropped by 1.8pp, masking, however, a stark rise in the rate for young women (+5pp to 51%). The drop in the female labour force was particularly marked in this age group (-11%).

Real net wages continued to increase in the first ten months of 2016, by 2.1% y-o-y on average and hence more slowly than in the same period one year earlier (2.9%). Annual wage growth was particularly strong in the machinery and equipment sector, which is dominated by foreign companies.

## External sector

The current account posted a surplus in the third quarter that was 14% above the same period one year earlier. However, the accumulated deficit in the four quarters to end-September (2.6% of GDP) was significantly higher than in the same period one year earlier (0.4%). This came amidst a widening in the primary income deficit (+0.7pp to 3.5% of GDP), and lower inflows of private transfers from abroad. The latter, including workers' remittances, dropped by 1.4pp to 16.3% of GDP.

The merchandise trade deficit, on the other hand, improved slightly as a share of GDP (-0.3pp), to 19.4% during this period. The positive impact on the current account was reinforced by a higher surplus in the services balance. Overall, the trade deficit was more than covered by private transfer inflows.

FDI inflows amounted to 2.1% of projected GDP in the year to October, overcompensating for the current account deficit. While historically low, this compares to the full-year 2015 outcome (2.3%). At end-September, the foreign debt stock had increased by 5.4pp compared to the end of the previous quarter, largely reflecting the July Eurobond issue. It amounted to 78.1% of projected GDP. The central bank's foreign currency reserves were replenished during 2016 (+15.5% y-o-y) and covered about five months of prospective imports.

### Monetary developments

Domestic price pressures remained subdued also in the second half of the year. In 2016, consumer prices dropped, on average, for the third consecutive year, declining by 0.2% y-o-y. The largest contributions to the drop in the Consumer Price Index (CPI) came from lower food, energy, transport, and housing and utilities costs. The core inflation rate, excluding energy and food prices, continued to post positive annual increases. Money supply growth (M4) accelerated to 4% y-o-y, from 2.5% in the preceding quarter, as deposits at banks were refilled after the speculation-driven outflows that occurred in the spring.

The central bank lowered the benchmark interest rate by 25bp in mid-December, and by a further 25bp in mid-January, to 3.5%. The bank had raised the rate to 4% in April, in order to stem the deposit outflows.

### Financial sector

Private sector annual credit growth slowed down markedly in the second half of the year. While household loans continued to expand at a steady rate (average +7.7%y-o-y in the third quarter), the volume of new loans to private non-financial companies has declined, on annual basis, every month since June, reflecting negative confidence effects from the domestic political crisis, as well as banks' write-offs. The average annual credit growth rate for loans to private non-financial companies amounted to 1.1% in the year to November, compared to 6.5% in the same period one year earlier.

Deposit and lending rates remained sticky in the second half of the year. At the end of November, the rate for Denar deposits (6.5%) had declined by only 0.1pp since end-August, and the rate for Denar loans was unchanged (2.5%) . Both were only marginally lower than at end-2015. There was little change in the rates on foreign currency

loans (from 5.4% 5.3%) and deposits (remained at 1%) either over this period. Hence, all spreads remained almost unchanged over and since the summer. Thus, rate developments do not reflect recent important monetary policy decisions of the central bank aimed at incentivising deposit building and countering the euroisation of financial transactions in the economy.

There was no further improvement in the quality of banks' asset portfolios in the third quarter. The NPL ratio remained almost unchanged at 7.1% (end-June: 7.2%). Over the summer, there was a marked statistical effect in the NPL ratio, as banks wrote off fully-provisioned loans on their books for more than 2 years, in compliance with a central bank decision.

### Fiscal developments

Given particularly strong revenue performance in the third quarter (+ 11.4% y-o-y), total revenues in the year to November amounted to some 88% of annual plan. Income from VAT, which has suffered persistently from collection shortcomings in past years, was 5% above pre-year level in the third quarter. At the end of November, it amounted to some 90% of VAT receipts budgeted for the full-year, an improvement over the same period one year earlier (87%).

Current expenditure was higher by 3.3% y-o-y, mainly on account of increased spending on social transfers. There was a surge in capital expenditure during this quarter (+26% y-o-y). However, overall capital spending is considerably behind plan, as only 62% of the amount budgeted for the full year had been executed by the end of November. The full-year fiscal balance for 2016 is likely to outperform the government's target, which had been raised earlier to 4% from the original 3.2% as a result of two budget revisions. In the first eleven months of 2016 the deficit reached only 2.4% of projected GDP.

The July Eurobond issue was the main driver for the increase in general government debt in the third quarter, to 41.9% of projected GDP, 4.9pp higher than at the end of the second quarter. The share of foreign currency debt rose from 61% to 65%. The impact was partially offset by the government's repayment of a 130mn commercial loan at the end of November. Total public debt, including the debt of public sector companies, rose by 5.2pp to 50.6% of projected GDP during this period.

## TABLE



European Commission, ECFIN-D-1

### The former Yugoslav Republic of Macedonia

							ECFIN 2016 Autumn forecast							
		2012	2013	2014	2015	2016	2017	2018	Q2 16	Q3 16	Q4 16	Oct 16	Nov 16	Dec 16
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	14.7	12.3	11.4	17.5	:	:	:	23.3	24.6	:	25.5	26.0	:
Industrial production <sup>1.2</sup>	Ann. %ch	-6.6	3.2	4.8	4.9	:	:	:	1.5	5.0	:	-3.6	-4.9	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-0.5	2.7	3.5	3.8	2.1f	3.2	3.3	3.1	2.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	1.2	2.1	2.4	3.7	2.4f	2.5	2.5	2.0	5.6	:	N.A.	N.A.	N.A.
Gross capital formation <sup>1.5</sup>	Ann. %ch	21.2	-16.8	15.2	3.6	1.8f	3.5	4.0	11.5	-4.0	:	N.A.	N.A.	N.A.
Construction <sup>1.6</sup>	Ann. %ch	4.2	-7.3	16.5	11.0	:	:	:	32.8	13.7	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	:	-0.8	4.2	9.8	:	:	:	15.9	21.9	:	10.9	15.3	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	31.0	29.0	28.0	26.1	24.4f	23.2	22.2	24.0	23.4	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. %ch	0.8	4.3	1.7	2.3	1.8f	1.6	1.5	3.0	2.3	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. %ch	0.2	1.2	1.0	2.7	0.4f	2.5	3.2	1.6	1.7	:	1.3	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	-3.7	2.9	17.2	9.2	:	:	:	6.0	17.7	:	10.2	:	:
Imports of goods <sup>3.2</sup>	Ann. %ch	0.3	-1.8	9.5	4.9	:	:	:	9.4	11.3	:	-0.5	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-26.5	-22.9	-21.7	-20.2	-20.7f	-20.8	-19.9	-20.0	-19.4	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	44.5	42.3	47.7	48.8	:	:	:	48.8	49.3	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	66.9	60.4	64.9	65.0	:	:	:	64.7	64.8	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-3.2	-1.6	-0.5	-2.1	-2.2f	-1.7	-1.6	-2.9	-2.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	1.7	3.3	2.4	2.3	:	:	:	2.3	2.4	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	2 193.3	1 993.0	2 436.5	2 261.8	:	:	:	2 158.8	2 699.0	:	2 729.0	2 551.4	2 613.4
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.1	5.6	6.3	5.6	:	:	:	5.1	6.2	:	6.3	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	3.3	2.8	-0.3	-0.3	0.1f	0.9	2.4	-0.7	-0.1	:	0.2	-0.2	:
Producer prices <sup>4.2</sup>	Ann. %ch	4.5	0.4	-1.2	-4.1	:	:	:	0.3	0.2	:	0.0	-0.5	:
Food prices <sup>4.3</sup>	Ann. %ch	2.3	3.4	-1.0	0.1	:	:	:	-2.0	-1.0	:	-0.9	-1.5	:
Monetary aggregate M4 <sup>4.4</sup>	Ann. %ch	7.5	4.0	8.0	8.2	:	:	:	2.5	4.0	:	3.9	4.6	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.53	61.58	61.62	61.61	61.60	:	:	61.69	61.52	61.49	61.50	61.50	61.48
Nominal eff. exchange rate <sup>4.6</sup>	Index	100.3	101.8	102.9	101.6	:	:	:	102.1	102.8	:	103.1	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	8.50	8.04	7.46	7.08	:	:	:	6.64	6.59	:	:	:	:
Stock markets <sup>5.3</sup>	Index	1 890	1 726	1 735	1 731	1 887	:	:	1 741	1 888	2 113	2 005	2 162	2 171
Credit growth <sup>5.4</sup>	Ann. %ch	7.3	4.3	8.4	9.1	:	:	:	5.8	2.8	:	1.8	1.3	:
Deposit growth <sup>5.5</sup>	Ann. %ch	7.2	4.8	8.2	7.9	:	:	:	3.0	4.0	:	4.0	4.4	:
Non-performing loans <sup>5.6</sup>	% total	10.4	11.9	11.6	10.3	:	:	:	7.2	7.1	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
Central government balance <sup>6.1</sup>	% of GDP	-3.8	-3.8	-4.2	-3.5	-3.8f	-3.4	-3.2	-0.9	-1.4	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	33.7	34.0	38.1	38.1	40.5f	42.2	43.0	37.0	41.9	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2016

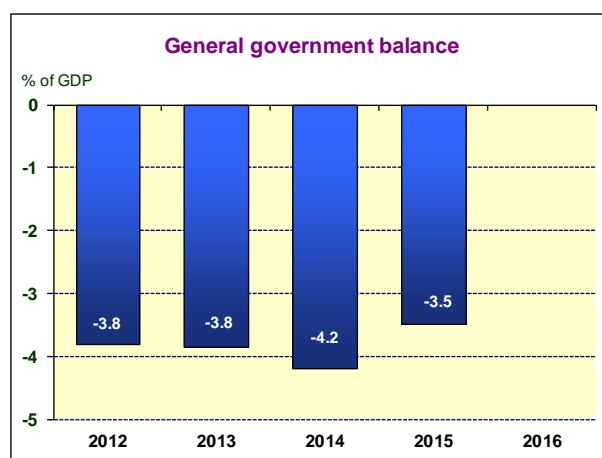
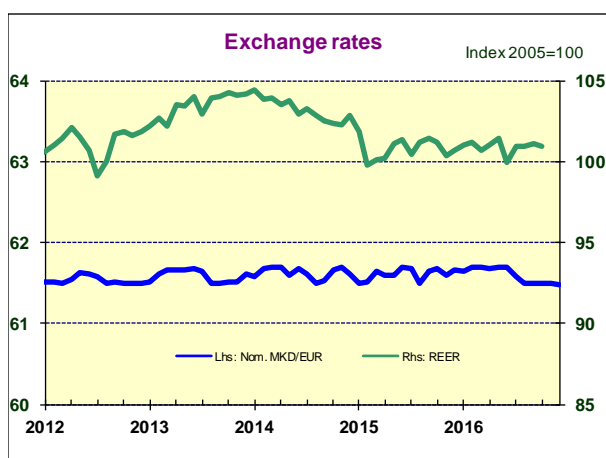
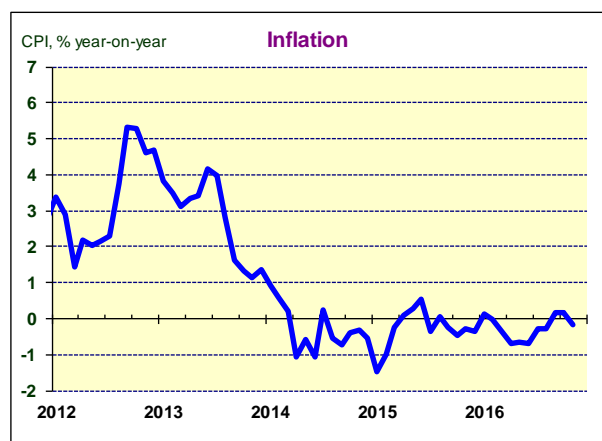
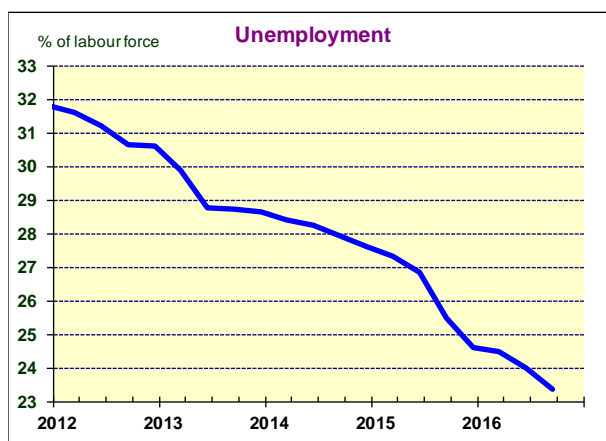
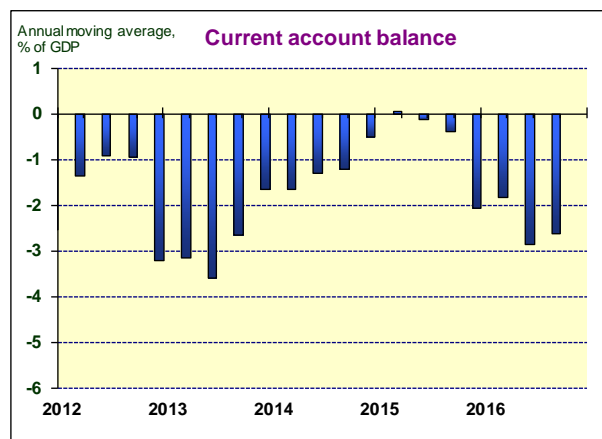
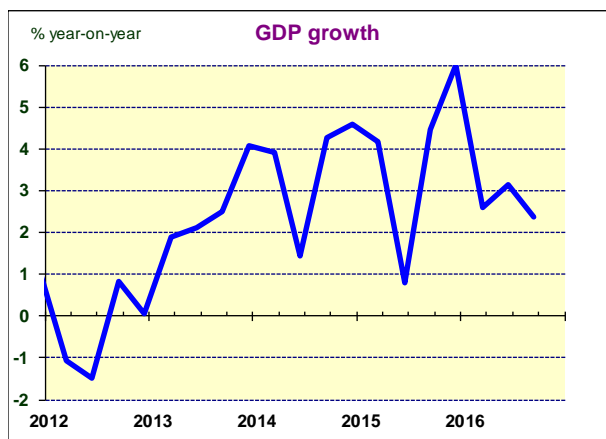
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## The former Yugoslav Republic of Macedonia







## Key developments

On 28 November, the parliament elected a new government headed by PM Dusko Marković, vice-president of the Democratic Party of Socialists (DPS), which won a relative majority of 36 out of 81 seats at the parliamentary elections on 16 October. The top priorities of the new government are to conclude accession into NATO as well as accession negotiations with the EU. The economic policy will focus on attracting investments to boost economic growth, jobs and living standards.

On 13 December, Montenegro opened two additional negotiation chapters with the EU; Chapter 11 (agriculture and rural development) and 19 (social policy and employment). So far, 26 out of 35 negotiation chapters have been opened.

On 28 December, the parliament endorsed a concession contract with a Greek oil and gas group for the exploration of two offshore oil and gas blocks in the Adriatic Sea. In June 2016, the government awarded another contract for four blocks to an Italian-Russian consortium.

## Real sector

Montenegro's GDP per capita expressed in purchasing power standard reached 42% of the EU average in 2015, up from 41% a year before.

In the first three quarters of 2016, GDP growth was supported by the recovery of private consumption and a continued surge in investments. To note that investments on the new highway totalled EUR 170 mn (or 4.7% of GDP) in the whole 2016, out of EUR 700 mn of GFCF invested in the first nine months of 2016. However, the strong import dependence of domestic demand hinders the pace of growth.

In the third quarter of 2016, GDP grew by 2.4% y-o-y, down from 2.7% in the previous quarter. Household demand expanded by solid 3% in Q3, compared to a 2% contraction a year before. The recovery of private consumption was supported by wage increases and low inflation. Government consumption recorded 1% growth, well below the 11.7% rate of a year before. Gross fixed capital formation surged by 32.6% in Q3, easing slightly from 39.8% growth in the

previous quarter. The steep increase in investment spending has fuelled a strong growth of imports. In the third quarter of 2016, imports grew by 13.6% y-o-y, compared to 5% a year before. The strong performance of tourism drove an overall 4% expansion of exports in Q3.

The performance of industrial production remains poor and volatile. Following a 0.9% annual contraction in the third quarter of 2016, output declined significantly in October and November, by 13.3% and 8.9% y-o-y respectively. Retail sales slowed down gradually following the end of the summer tourism season, recording in October and November annual growth of 3.8% and 3.4% respectively.

## Labour market

So far, the surge in investment is having a rather limited impact on job creation. According to labour force statistics, in the third quarter of 2016 the total number of persons employed increased by 1.1% y-o-y, or 2,500 workers. During the same period, the number of unemployed increased by 3.5% y-o-y, or additional 1,600 persons. As a result, the unemployment rate, despite declining to 16.9% in Q3 from 17.5% the previous quarter, remained above the 16.5% mark of a year earlier. While the unemployment rate of women fell by 1.6 percentage points in Q3 compared to a year earlier, the ratio of unemployed men increased by 1.9 pps during the same period.

Public sector wages continued to outpace the overall increase in labour costs. The overall gross wage growth was 4.8% in the third quarter of 2016 and it eased slightly to 4.0% in November, while the growth in public administration wages remained strong at 10.5% y-o-y in November. Salary increases for health and education workers were relatively lower, at 5.6% and 4.2% y-o-y, respectively. By contrast, salaries in manufacturing, hospitality, construction and financial sector declined.

## External sector

In the four quarters to September 2016, the high import content from investments raised the current account deficit to 18.7% of GDP, a substantial increase compared to a deficit of

12.4% in the same period a year before. Despite the increase in merchandise exports, the rise in the volume of goods imports (whose overall level exceeds goods exports by a factor of six) gave rise to a merchandise trade deficit of 43.2% of GDP, up from 40% a year before. The good tourism season in Q3 drove the surplus in the balance of services. However, the sharp (29% y-o-y) increase in services imports resulted in a lower surplus in the balance of services, totalling 20% of GDP in the third quarter of 2016, compared to 22% a year earlier. The primary and secondary balances also remained positive although their surpluses declined.

In the four quarters to September 2016, net FDI inflows covered some 52% of the current account deficit, the rest being largely financed by substantial positive inflows related to unrecorded factors related among others to tourism and remittances. The balance of portfolio investment turned negative as a result of the refinancing of maturing public debt.

### Monetary developments

In the third quarter of 2016, low imported inflation (namely fuels and food) kept prices practically flat despite some monthly price increases for clothing, food and non-alcoholic beverages. In November, fuel prices recorded a 2.4% y-o-y contraction despite the rebound of international oil prices. Overall, the HICP index rose by 0.6% y-o-y in November, after a 0.4% increase a month earlier. In the first eleven months of 2016, the annual consumer price inflation was only 0.1%.

### Financial sector

Dragged down by financial sector deleveraging, credit activity remained weak. In November 2016, borrowing by commercial banks contracted by 37% y-o-y, while public sector borrowing remained stable, except for the rebalancing of the credit stock from public companies and central government towards municipalities. The household sector leads credit growth with loans for this category expanding by 10% y-o-y, while lending to private companies grew by marginal 0.4% y-o-y. Banks' deposits grew by 7.3% y-o-y in November, driven by both public and private companies as well as households; these three groups increased their deposits by some EUR 85 mn each.

The level of non-performing loans in total loans further declined to 10.6% in November,

compared to 14.1% a year before. In December 2016, the Council of the Central Bank of Montenegro prepared draft amendments to the Law on Voluntary Restructuring of Debts to Financial Institutions (aka 'Podgorica approach') in order to support voluntary restructuring of impaired loans by means of new incentives and simplified procedures.

### Fiscal developments

On 25 November, the parliament adopted a revision of the 2016 state budget, reducing capital funds by EUR 219 mn, unspent due to delays in the highway project, and increasing current expenditure by EUR 100 mn for the payment of the health fund debt, social benefits and public wage increases.

Revenues related to a successful tourism season and delays in public works resulted in a net improvement of the budget deficit. Thus, the general government deficit declined to 0.7% of GDP in the third quarter of 2016, compared to a 3.1% deficit in the second quarter. In the first ten months of 2016, the central government deficit amounted to 0.5% of GDP, as revenues increased by 12% y-o-y thanks to the good performance of VAT, personal income tax and excises, while total spending declined by 8.3% y-o-y, driven by the sharp contraction in capital spending. However, the Ministry of Finance expects the general government deficit to rise to 3.8% of GDP by the end of 2016, driven by increases in salaries, material consumption, transfers and capital spending.

On 29 December, the parliament adopted the 2017 budget law, which foresees a deficit of 6% of GDP with a 3.2% economic growth. The budget is accompanied by a fiscal consolidation plan worth 3.2% of GDP to offset previous year increases in public sector wages and mothers' pensions. The main measures include: higher excises on fuel, reintroducing the general VAT rate for computer equipment, retaining the personal income 'crisis' tax, 8% cut in public sector wages as well as the suspension of the years of service bonus, the reduction of the allocation for political parties, and the reduction in mothers of three or more children pensions.

In the third quarter of 2016, the government debt fell to 60.8% of GDP, down from 61.7% in the previous quarter. The decline was largely driven by the repayment of Eurobonds and delays on the construction -and financing- of the highway.

## TABLE

European Commission, ECFIN-D-1



## MONTENEGRO

		2012	2013	2014	2015	2016	ECFIN 2016 Autumn forecast		Q2 16	Q3 16	Q4 16	Oct 16	Nov 16	Dec 16
							2017	2018						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	8.7	11.1	9.8	:	:	:	8.2	-1.1	:	-2.3	3.2	:
Industrial production <sup>1.2</sup>	Ann.%ch	-7.1	10.7	-10.5	7.9	:	:	:	0.4	-0.9	:	-13.3	-8.9	:
Gross domestic product <sup>1.3</sup>	Ann.%ch	-2.7	3.5	1.8	3.4	2.7f	3.4	3.1	2.7	2.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann.%ch	-3.9	1.6	2.9	2.2	3.3f	1.8	2.0	1.5	3.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann.%ch	-2.4	10.7	-2.5	11.9	5.9f	16.0	5.0	39.8	32.6	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann.%ch	-13.2	9.7	2.0	5.8	:	:	:	32.1	37.2	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann.%ch	6.7	11.3	2.5	4.5	:	:	:	4.4	4.0	:	3.4	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	19.7	19.5	18.0	17.6	17.8f	17.6	17.3	17.5	16.9	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann.%ch	2.2	1.1	7.1	2.5	1.6f	2.7	3.0	-0.6	1.1	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann.%ch	0.8	-0.2	-0.3	0.3	4.7f	0.4	1.2	3.8	4.8	:	4.6	4.0	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann.%ch	-17.8	1.0	-9.7	-9.0	:	:	:	28.4	14.6	:	13.6	9.3	:
Imports of goods <sup>3.2</sup>	Ann.%ch	-0.1	-3.2	0.6	3.2	:	:	:	18.8	9.8	:	12.7	17.4	:
Trade balance* <sup>3.3</sup>	% of GDP	-43.7	-39.5	-39.8	-40.4	-41.1f	-41.5	-40.9	-42.8	-43.2	:	-46.8	-47.4	:
Exports goods and services <sup>3.4</sup>	% of GDP	43.7	41.3	40.1	42.5	:	:	:	35.7	70.0	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	68.1	61.4	60.0	61.1	:	:	:	79.8	54.9	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-18.5	-14.5	-15.2	-13.3	-15.3f	-17.4	-17.6	-17.9	-18.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	14.5	9.6	10.2	17.1	:	:	:	16.1	10.1	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	347.9	423.7	544.7	673.7	:	:	:	665.8	746.0	:	758.6	814.9	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	2.3	2.9	3.7	4.4	:	:	:	4.1	4.5	:	4.5	4.8	:
<b>4 Monetary developments</b>														
HICP <sup>4.1</sup>	Ann.%ch	4.0	1.8	-0.5	1.4	0.5f	1.2	2.0	-0.4	0.0	:	0.4	0.6	:
Producer prices <sup>4.2</sup>	Ann.%ch	1.9	1.7	0.2	0.3	:	:	:	0.0	-0.2	:	-0.3	-0.1	:
Food prices <sup>4.3</sup>	Ann.%ch	4.2	4.0	-1.4	2.9	:	:	:	-1.6	-0.7	:	-0.2	-0.3	:
M21 <sup>4.4</sup>	Ann.%ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate <sup>4.6</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	%p.a.	5.32	3.39	1.60	:	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	%p.a.	4.75	3.19	1.26	0.50	1.58	:	:	2.67	1.73	:	:	:	:
Stock markets <sup>5.3</sup>	Index	9 091	9 532	10 696	11 949	11 113	:	:	10 912	10 792	10 977	10 863	10 982	11 087
Credit growth <sup>5.4</sup>	Ann.%ch	-0.7	3.1	-1.9	0.8	:	:	:	-0.2	-1.5	:	-1.5	-2.7	:
Deposit growth <sup>5.5</sup>	Ann.%ch	9.0	5.9	10.0	13.7	:	:	:	9.3	8.8	:	6.9	7.3	:
Non-performing loans <sup>5.6</sup>	% of total	17.6	18.4	16.8	13.4	:	:	:	12.6	11.0	:	10.5	10.6	:
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-7.2	-5.2	-3.1	-7.3	-4.7f	-7.6	-7.1	-3.1	-0.7	:	:	:	:
General government debt <sup>6.2</sup>	% of GDP	53.4	57.6	54.8	61.2	66.1f	71.8	75.8	61.7	60.8	:	:	:	:

f: ECFIN forecast Autumn 2016

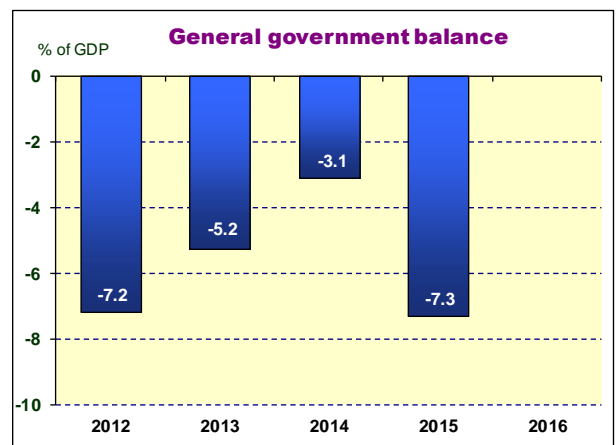
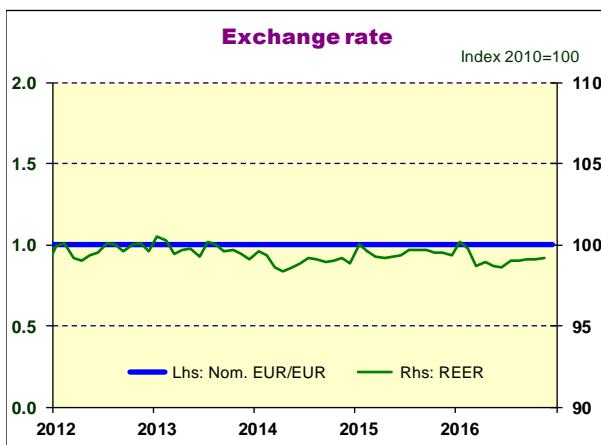
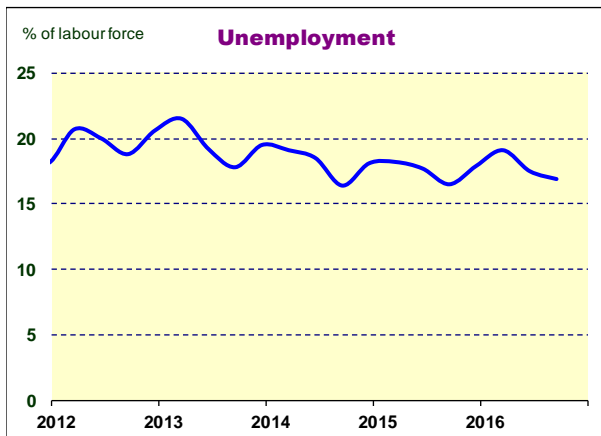
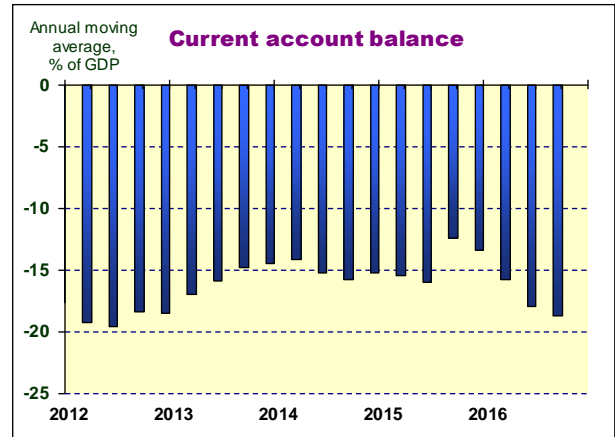
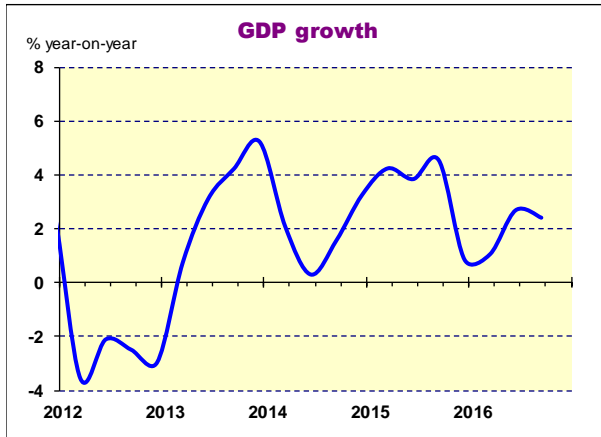
\* Q figures refer to a 4 quarters moving average.

# CHARTS



European Commission, ECFIN-D-1

## MONTENEGRO





## Key developments

In December, the IMF completed the sixth review of Serbia's three-year Stand-By-Arrangement, making available cumulative SDR 663 million (about EUR 850 million). The authorities have indicated that they would not make any purchases and will continue to treat the arrangement as precautionary. The IMF noted that the economy continued strengthening and significant progress has been made with fiscal consolidation in 2016.

In November, taking advantage of improved fundamentals, the Executive Board of the central bank lowered the inflation target from 4% ± 1.5 to 3% ± 1.5 percentage points for the period January 2017 – December 2018.

In December, the National Bank of Serbia adopted a number of regulations introducing Basel III standards. The new regulatory framework will apply as of 30 June 2017 and is expected to increase the resilience of the banking sector and the efficiency of monitoring and controlling banks' exposure to liquidity risk, and to further strengthen market discipline and transparency.

In December, two more negotiating chapters were opened – chapter 5 on public procurement and chapter 25 – on science and research, which was provisionally closed immediately. With that, six out of 35 negotiating chapters have been opened.

## Real sector

GDP growth accelerated from 1.9% y-o-y in the second to 2.6% in the third quarter. Economic recovery continued to be supported by strong exports, which maintained double-digit growth rates since the beginning of the year. Macroeconomic stability, an improved business environment, and rising government capital expenditure have underpinned a robust investment performance and gross fixed capital formation grew by 6.2% y-o-y. Following a spike in the first half of the year, both public and private consumption growth decelerated in the third quarter. Influenced by lower remittances, which fell by 11% y-o-y in the third quarter, household final consumption expenditure

remained subdued, despite increased employment, incomes, and consumer lending. On the supply side, economic growth was broad-based and all sectors but real estate expanded. In particular, in line with upbeat investment activity, construction growth remained elevated at 8.5% y-o-y. The good weather conditions supported a marked increase in agriculture, which grew by 10.9% y-o-y.

High frequency indicators point at a slight deceleration of economic activity in the last quarter of the year. A pronounced fall in energy sector output brought industrial production growth down to 1.3% y-o-y in November, while manufacturing growth stood at 4.9% – below its average from the beginning of the year. Retail trade turnover grew by a real 7.4% y-o-y in November, close to the average of 7.8% recorded in the first eleven months. The Statistical office preliminary estimates put 2016 GDP growth at 2.7%.

## Labour market

According to LFS data, employment indicators continued to improve strongly in the third quarter. The activity and employment rates reached new highs at 54.3% and 46.8%, respectively, and unemployment fell to 13.8%, down from 16.6% a year earlier. Despite a shrinking population, the labour force grew by 3.7% y-o-y to 3,264,100. Total employment increased by more than 190,000 or by 7.2% y-o-y. As in the previous quarter, though, most of the gains were in informal employment, and the rate of informal employment reached 24.1% of total. In the third quarter, employment went up markedly in agriculture (6.2% y-o-y), services (8.2% y-o-y) and industry (7.9% y-o-y) while it declined in the sector of construction despite its strong output performance.

Data on registered employment and unemployment also confirm positive trends on the labour market, although gains were much more limited. Registered employment increased by 1.5% y-o-y in the third quarter, despite continuous job losses in the public sector. According to the National Employment Service, the number of registered jobseekers fell by 3.5% y-o-y in November. Gross real wages were in tune with the overall economic dynamic,

growing by 2.0% y-o-y in November and by 2.7% y-o-y on average since the beginning of the year.

## External sector

The growth of exports of goods continued unabated in October and November, when it amounted in euro terms to 9.2% and 19.8% y-o-y. It averaged 11.0% in the first eleven months of the year and was well diversified both in terms of sectors and destination countries. In the same period, imports of goods grew only by 5.6% y-o-y as the economy continued to benefit from low international energy prices. By the end of November, the cumulative merchandise trade deficit fell by 10% y-o-y or EUR 387 million.

The balance of trade in services improved as well, expanding by 33.5% y-o-y in the period January-October, and partially compensating the worsening primary and secondary income balances. The reduced trade deficit brought a decline of the current account imbalance to 4.2% of GDP in the four quarters until end-September. Although since August net FDI fell below their corresponding levels from the previous year, their cumulative inflow in the period January-October increased by 4.2% y-o-y to EUR 1.5 billion, covering 141% of the current account deficit. Overall, the balance of payments flows were sufficient to allow an increase of reserve assets. The foreign exchange reserves of the central bank went up to EUR 10.2 billion by the end of December, sufficient to cover more than six months' worth of imports of goods and services.

## Monetary developments

Annual inflation remained below the central bank tolerance band of  $4\pm 1.5\%$ . It stood at 1.6% y-o-y in December and averaged 1.1% y-o-y since the beginning of the year. The central bank has kept the key policy rate unchanged at 4%, since its reduction in July. The Executive Board signalled its expectation that inflation will be moving within the new target band of  $3\pm 1.5\%$  from early 2017, driven by effects of past monetary policy easing, rising domestic demand, and the gradual recovery of global oil prices and inflation in the international environment, while relatively low food production costs continue to generate disinflationary pressures.

In the last quarter of 2016, the dinar exchange rate against the euro remained relatively stable,

depreciating by 2% y-o-y. The central bank continued intervening, although on a lower scale, to ease excessive daily volatility on the foreign exchange market by buying EUR 295 million and selling EUR 110 million.

## Financial sector

The growth in domestic credit remained strong, in the double-digits, spurred by monetary easing and recovering demand. Domestic claims expanded by 11.6% y-o-y in November, driven by a doubling of net claims on government, but also due to a robust increase in claims on households (10.5% y-o-y) and companies (6.2% y-o-y). Non-monetary sector deposits grew as well by 11.3% y-o-y, increasing the coverage of lending to non-government sectors to 95.5% or 5.8 percentage points higher than a year ago. Credit expansion and the implementation of the NPL resolution strategy have continued to drive NPLs down – the NPL ratio fell further from 20.2% in June to a still elevated 19.5% in September.

## Fiscal developments

Budget execution continued to outperform revenue and deficit targets. In the year to November the consolidated budget was in a small deficit of RSD 6.8 billion (0.2% of the estimated 2016 GDP), much below its level of RSD 64.9 billion in the same period last year. The low deficit through November compares well also to the already significantly reduced annual target of 2.1% of GDP. Total revenue growth decelerated slightly in the autumn but remained strong at 9.1% y-o-y in the period January-November. All revenue components increased, with particularly strong contributions from indirect and corporate income taxes. Expenditure execution remained prudent. In the period January-November their growth stood at 5.1% y-o-y. Spending on employees and on pensions has been kept around their previous year levels, while expenditure on subsidies was nearly 10% down. The structure of expenditure improved as capital spending went up by more than 30% y-o-y over the same period.

By the end of November, government debt, according to the national methodology, stood at RSD 3,044 billion (72.1% of the estimated 2016 GDP). It increased by RSD 26.5 billion since the beginning of the year, largely influenced by the depreciation of the dinar against the US dollar.

# TABLE

European Commission, ECFIN-D-1



## SERBIA

							ECFIN 2016 Autumn forecast							
		2012	2013	2014	2015	2016	2017	2018	Q2 16	Q3 16	Q4 16	Oct 16	Nov 16	Dec 16
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. %ch	-3.4	5.6	-6.1	8.4	:	:	:	2.4	3.7	:	3.2	1.3	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-1.0	2.6	-1.8	0.8	2.7	3.0	3.3	1.9	2.6	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	-2.1	-0.4	-1.3	0.4	1.2f	2.2	3.1	1.0	0.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	13.2	-12.0	-3.6	5.6	6.7f	7.0	6.3	4.4	6.2	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	-0.2	-24.0	-3.8	12.8	:	:	:	4.6	1.6	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	-3.9	-5.3	2.0	1.4	:	:	:	7.3	6.8	:	5.2	7.4	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	23.9	22.1	19.2	17.7	16.5f	15.6	15.0	15.2	13.8	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. %ch	-1.1	3.7	10.1	0.6	1.6f	0.8	1.0	6.7	7.2	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. %ch	9.0	5.7	1.1	-0.4	:	:	:	4.2	3.0	:	2.7	3.5	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. %ch	4.5	24.7	1.5	7.9	:	:	:	8.9	9.8	:	9.2	19.8	:
Imports of goods <sup>3.2</sup>	Ann. %ch	3.2	4.7	0.2	5.8	:	:	:	8.7	5.0	:	0.7	9.1	:
Trade balance* <sup>3.3</sup>	%of GDP	-18.8	-13.0	-13.0	-13.0	-10.9f	-11.1	-11.5	-12.5	-12.2	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	36.3	40.7	43.4	46.7	:	:	:	48.6	49.5	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	-53.6	-51.9	-54.4	-56.5	:	:	:	-57.2	-57.7	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-11.6	-6.1	-6.0	-4.7	-4.4f	-4.3	-4.7	-4.4	-4.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	2.2	3.9	3.7	5.4	:	:	:	5.6	5.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	10 914.7	11 188.8	9 907.2	10 378.0	:	:	:	9 291.1	9 551.7	:	9 706.7	9 817.9	10 204.7
Int. reserves / months Imp <sup>3.9</sup>	Ratio	9.3	9.2	8.0	8.1	:	:	:	7.1	7.2	:	7.3	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. %ch	7.3	7.9	2.1	1.4	1.1	2.4	3.3	0.5	1.0	1.5	1.5	1.5	1.6
Producer prices <sup>4.2</sup>	Ann. %ch	6.4	0.8	0.2	0.7	:	:	:	-1.6	0.2	:	1.3	0.7	:
Food prices <sup>4.3</sup>	Ann. %ch	15.4	-2.5	2.2	-0.1	:	:	:	-2.3	-0.9	:	0.8	0.7	:
M3 <sup>4.4</sup>	Ann. %ch	9.4	4.6	7.6	6.6	:	:	:	9.0	11.5	:	10.9	11.0	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	113.01	113.09	117.25	120.76	123.10	:	:	123.01	123.30	123.26	123.18	123.19	123.42
Nominal eff. exchange rate <sup>4.6</sup>	Index	74.1	74.0	68.4	66.6	65.3	:	:	66.1	66.2	65.3	66.0	65.7	65.3
<b>5 Financial indicators</b>														
Interest rate (BEONIA) <sup>5.1</sup>	%p.a.	9.51	8.82	6.76	4.75	2.70	:	:	2.61	2.81	2.82	2.86	2.79	2.80
Bond yield (12 months) <sup>5.2</sup>	%p.a.	13.04	10.67	9.18	7.27	:	:	:	4.30	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	932	1 035	1 215	1 359	1 383	:	:	1 341	1 377	1 512	1 462	1 504	1 570
Credit growth <sup>5.4</sup>	Ann. %ch	12.9	-6.5	5.8	7.0	:	:	:	13.3	13.9	:	11.6	11.6	:
Deposit growth <sup>5.5</sup>	Ann. %ch	10.4	3.3	7.6	6.5	:	:	:	9.2	11.7	:	11.2	11.3	:
Non-performing loans <sup>5.6</sup>	%total	18.6	21.4	21.5	21.6	:	:	:	20.2	19.5	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance* <sup>6.1</sup>	%of GDP	-6.8	-5.5	-6.6	-3.7	-2.1f	-1.5	-1.2	-0.2	1.3	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	%of GDP	55.9	58.8	68.3	74.1	74.6f	73.8	71.9	71.5	71.3	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2016

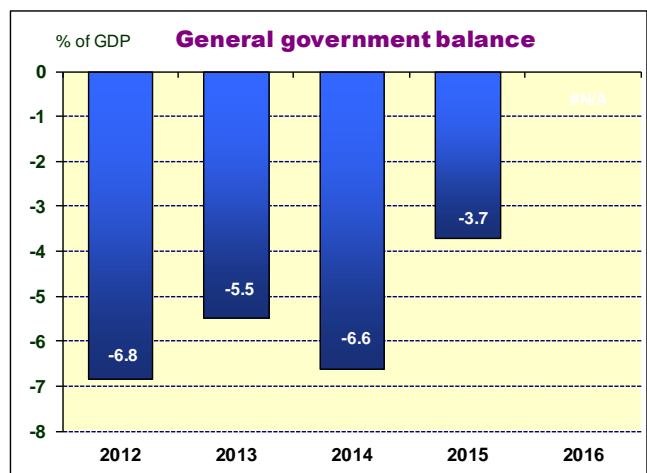
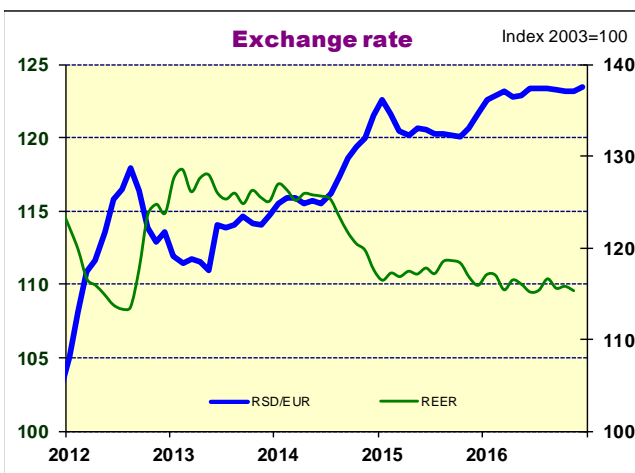
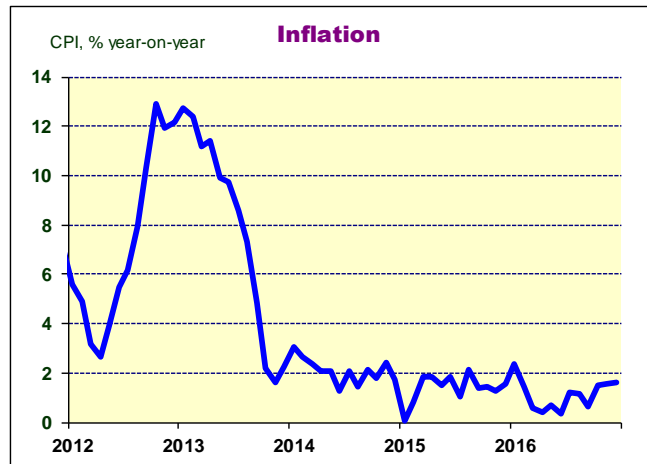
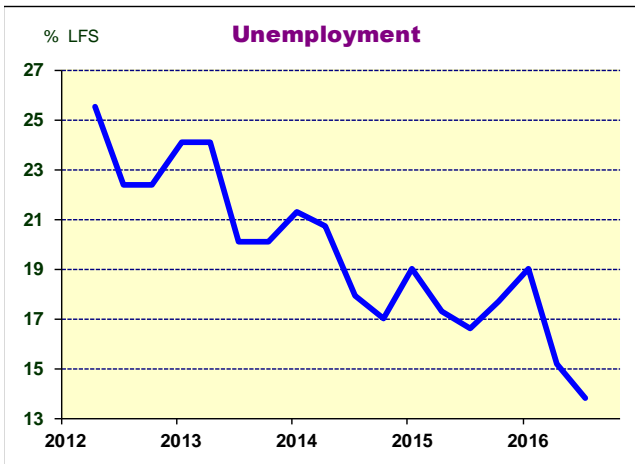
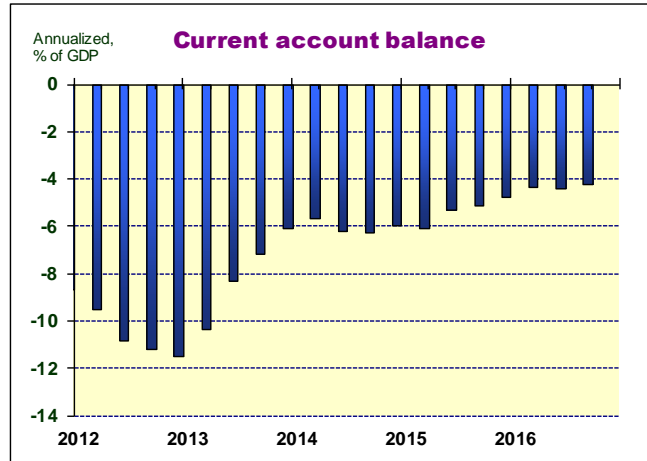
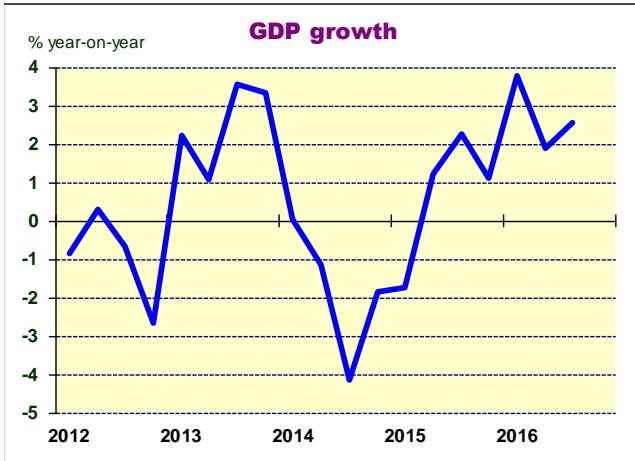
\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA







## Key developments

The government presented the Medium Term Program and the draft budget in October. These plans preceded the revision of the national accounts methodology by Turkstat on 20 December. The medium term program foresees GDP growth of 4.4% in 2017 and 5% in both 2018 and 2019. The general government budget deficit is foreseen to decrease to 1.7% of GDP in 2017.

Gold imports jumped by 688% year-on-year in December following a call by president Erdogan to convert foreign currency into Turkish Lira or gold. The December import of 36.7 tons was equivalent to half of total monthly world retail demand for gold bars and coins (2016 Jan – Sept average).

## Real Sector

In the third quarter, real GDP shrank by 1.8% year-on-year according to Turkstat's revised methodology. Real private consumption decreased 3.2% year-on-year, real government consumption jumped by 23.8%, and gross fixed capital formation declined by 0.6%. Foreign trade contributed negatively to growth with exports of goods and services declining by 9.2% y-o-y while imports increased by 2.4% y-o-y.

On 12 December 2016 Turkey's statistical agency released a major revision of GDP data for the period 1998 – mid-2016 together with new data for 2016 Q3. According to TurkStat (the national statistical agency), the revision was done to implement ESA-2010, to change the base year from 1998 to 2009, and to take into account new source data.

The new data increase the level of nominal GDP by 19.7% in 2015. The relative size of the various GDP components has also changed significantly. Most notably, gross fixed capital formation has increased from 20.3% to 29.7% of GDP in 2015. Exports and imports have been left almost unchanged in absolute terms, implying a decline in their size relative to GDP

(for exports from 28.0% to 23.7% and for imports from 30.8% to 26.0% in 2015). Put differently, the openness of the Turkish economy has declined from 58.8% to 49.3% of GDP in the new figures.

Of interest in the new methodology is also the development of inventories. The change in inventories is a sizable portion of GDP in the new methodology, accounting for as much as 6% of GDP in certain quarters in the last ten years (1 % on average over the past ten years).

Retail sales has reversed gear in the fourth quarter, declining by 0.2% year-on-year in October and by a stronger 2.0% y-o-y in November. Consumer sentiment has been declining since August, reaching 63.4 in December. This level is 17% below the historic average (76.0) but 14% above the all-time low of 55.7 reached in November 2008.

Business confidence also declined with the PMI manufacturing retreating to 47.7 in December from 49.8 at the start of the quarter (October) and 50.9 at the start of the year. Business confidence as reported by Turkstat was also lower in December compared to the beginning of the quarter and the year. Industrial production growth was nil in November with rising energy supply off-setting declines in manufacturing and mining. Compared to one year earlier, industrial production was 2.5% higher.

## Labour market

In parallel to the economic slowdown, the labour market softened in the first three quarters of 2016. In the third quarter, employment growth was 1.3% year-on-year and the unemployment rate had risen to 11.4% which was 1.1 percentage point higher year-on-year.

The year-on-year rise in hourly labour costs increased even further from 19.6% year-on-year in the second quarter to 20.4% in the third quarter. Hourly labour costs rose the most in the construction sector (24.5% y-o-y). To a large

extent, the rise in hourly labour costs is the result of the government-imposed 30% hike in the minimum wage on 1 January.

### External sector

In the revised methodology, the current account deficit declines from 4.5% to 3.7% of GDP in 2015. In November the current account recorded a deficit of USD 32 billion, bringing the 12-month rolling deficit to USD 33.7 billion (about 3.9% of GDP).

Net investment recorded an outflow USD 1.2 bn with a particularly strong reduction in government securities held by foreigners only partly off-set by a net FDI inflow and inflow of other investment including banks' currency and deposits. Gross external debt decreased by USD 5.2 billion to USD 416.7 billion (47.6% of GDP) from the second to the third quarter.

### Monetary developments

Headline inflation was 8.5% year-on-year and 1.6% month-on-month in December, bringing the 2016 average consumer price level 7.8% higher than in 2015. This is slightly higher than the 7.7% inflation over 2015. The year-end inflation is significantly above the official 3 – 7 % target range (5% target with 2 pps band width) at year end. Core inflation has been higher than headline inflation registering an average of 8.5% over 2016. Expectations for CPI inflation on a 1 year (+7.5%) and 2 year (+7.8%) horizon have increased both compared to the the last quarter of 2015 and to the third quarter of 2016 by about a quarter of a percent.

Despite continuously surpassing the upper-band of the inflation target, the central bank started lowering its overnight lending rate in March. In addition, the central bank has released liquidity to financial markets by cutting reserve requirement ratios and other measures. As the lira came under increasing downward pressure in October and November, the central bank reversed course on 24 November 2016 and raised the overnight lending by 25 basis points to 8.50% and the one-week repo rate by 50 basis points to 8.00%.

The Lira depreciated by 8.8% against the euro and by 17.9% against the US dollar during the fourth quarter. It was on average worth less 11.3% against the euro and 12.7% against the US dollar in the fourth quarter in comparison

with the fourth quarter of 2015. In comparison with a broad range of trading partners, the Lira declined by 11.7% year-on-year in nominal effective terms and by 6.7% in real effective terms.

### Financial sector

Equity prices have broadly increased over the course of the year with the Borsa Istanbul 100 Index gaining 8.2%. In the fourth quarter the index won 1.2%. However, at the end of the year the index was close to its average value over the past four years.

Bank lending to the non-financial sector increased by 15.6% during 2016. Domestic bank lending in foreign currency grew by 27% year-on-year, stronger than the 12% growth in domestic lending to the non-financial sector in Lira. The share of foreign currency loans as a consequence increased, from 29% of all loans to the non-financial sector at the end of 2015 to 32% at the end of 2016.

### Fiscal developments

As a result of the new national accounts methodology, general government debt declines from a previous 32.9% to 27.5% of GDP in 2015. In November it stood at TRY 751.8 bn (28.5% of forecasted GDP).

The central government expects to have a slight expansionary stance with a decrease in the primary balance from 0.8% of GDP projected by the government for 2016 to 0.4% of GDP in 2017. Interest outlays are expected to increase by 12.4% y-o-y in 2017. In the fourth quarter, following the adoption of the draft budget, the yield on USD denominated debt increased by about 130 bps and by about 170 bps on domestic government debt to the highest level in at least five years. Foreign debt was 35% of total debt in the third quarter of 2016.

A strong increase in tax revenues in November due to a tax restructuring has helped reduce the government deficit to TRY 2.1 bn (-0.1% of GDP) over the first eleven months of 2016. Revenues increased by 15.1% y-o-y in the first 11 months of 2016 whereas expenditures increased by 14.2% y-o-y.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2012	2013	2014	2015	2016	ECFIN 2016 Autumn forecast		Q2 16	Q3 16	Q4 16	Oct 16	Nov 16	Dec 16
							2017	2018						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	106.3	108.1	107.1	104.0	105.2	:	:	108.9	106.0	101.3	101.7	103.7	98.4
Industrial production <sup>1.2</sup>	Ann. % ch	2.4	3.5	3.5	3.0	:	:	:	2.5	-1.9	:	2.0	2.7	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	4.8	8.5	5.2	6.1	2.7f	3.0	3.3	4.5	-1.8	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	3.2	8.0	2.9	5.4	4.3f	3.8	4.0	5.2	-3.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	2.7	13.8	5.1	9.2	-1.1f	-1.4	0.0	4.7	-0.6	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	34.9	16.4	38.5	-9.5	:	:	:	4.3	-7.4	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	5.2	4.1	3.8	3.6	:	:	:	2.1	-0.6	:	-0.2	-2.0	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	N.A.	N.A.	10.1	10.5	10.7f	11.2	11.5	9.8	11.4	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	N.A.	N.A.	N.A.	2.5	2.3f	2.2	2.7	2.7	1.3	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	11.5	12.4	14.2	14.9	17.2f	7.1	9.3	18.0	19.0	:	:	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	13.0	-0.4	3.8	-8.7	:	:	:	1.5	-3.5	:	-3.2	9.7	:
Imports of goods <sup>3.2</sup>	Ann. % ch	-1.8	6.4	-3.8	-14.4	:	:	:	-2.9	-6.0	:	0.5	6.0	:
Trade balance* <sup>3.3</sup>	% of GDP	-7.5	-8.4	-6.8	-5.6	-5.5f	-6.4	-6.8	-5.1	-4.9	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	23.7	22.3	23.8	23.3	:	:	:	22.8	22.2	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	28.6	28.1	27.6	26.0	:	:	:	25.5	25.2	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-5.5	-7.8	-5.0	-3.8	-4.9f	-5.4	-5.7	-3.5	-3.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	1.5	1.3	1.4	2.0	:	:	:	1.6	1.3	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	bio EUR	104.8	107.9	115.0	117.7	:	:	:	125.4	123.4	:	126.6	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.8	6.8	7.6	7.6	:	:	:	8.3	8.3	:	8.5	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	8.9	7.5	8.9	7.7	7.8	7.8	8.0	6.9	8.0	7.6	7.2	7.0	8.5
Producer prices <sup>4.2</sup>	Ann. % ch	6.1	4.5	10.2	5.3	4.3	:	:	3.2	2.9	6.4	2.8	6.4	9.9
Food prices <sup>4.3</sup>	Ann. % ch	8.4	9.1	12.6	11.1	5.8	:	:	3.4	6.7	4.8	5.2	3.6	5.7
M4 <sup>4.4</sup>	Ann. % ch	9.0	18.5	16.4	17.5	:	:	:	11.9	8.8	:	11.0	14.9	:
Exchange rate TRY/EUR <sup>4.5</sup>	Value	2.31	2.53	2.91	3.02	3.34	:	:	3.27	3.31	3.54	3.39	3.54	3.68
Nominal eff. exchange rate <sup>4.6</sup>	Index	84.14	78.87	69.40	64.20	:	:	:	60.49	59.63	:	58.08	55.33	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	8.44	6.60	9.84	10.48	9.88	:	:	10.02	9.11	9.11	8.64	9.04	9.66
Interest rate, long term <sup>5.2</sup>	% p.a.	8.47	7.77	9.18	9.30	:	:	:	9.71	9.67	:	9.86	10.82	:
Stock markets <sup>5.3</sup>	Index	63 731	77 977	75 190	80 662	77 222	:	:	80 128	77 247	76 726	78 240	75 443	76 495
Credit growth <sup>5.4</sup>	Ann. % ch	18.6	33.4	19.4	20.7	:	:	:	12.0	8.3	:	10.6	14.3	:
Deposit growth <sup>5.5</sup>	Ann. % ch	10.8	20.4	18.1	18.4	13.8	:	:	14.0	10.2	13.7	10.4	14.8	15.9
Non-performing loans <sup>5.6</sup>	% total	3.0	3.0	3.0	3.1	3.4	:	:	3.5	3.4	3.5	3.5	3.5	3.4
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-1.7	-1.3	-1.2	-1.0	-2.5f	-2.0	-1.8	0.2	-0.4	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	36.2	36.1	33.5	32.9	32.9f	32.6	32.2	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2016

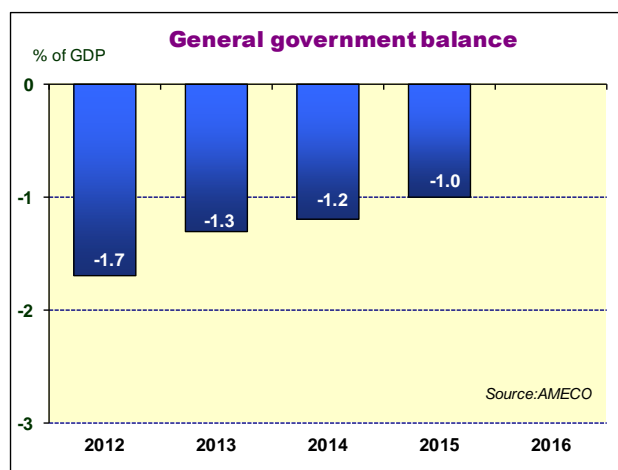
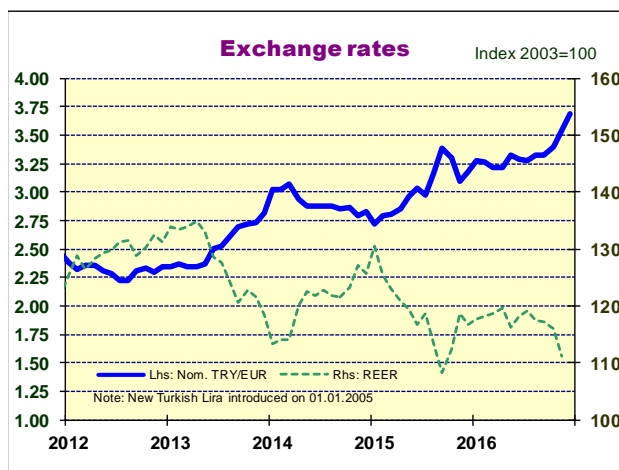
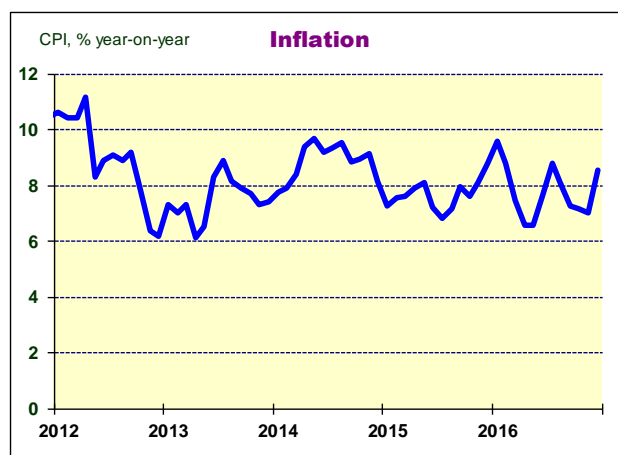
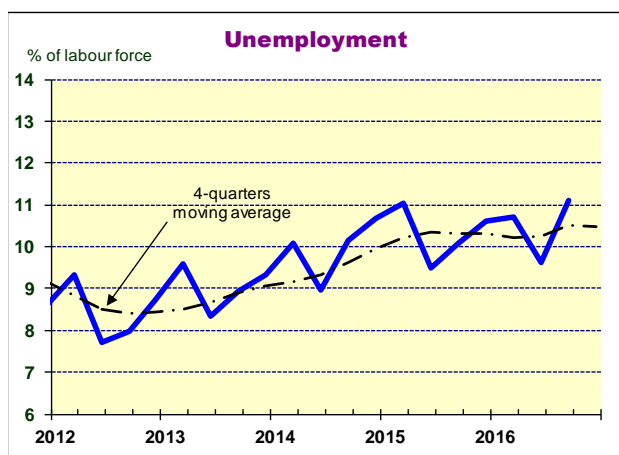
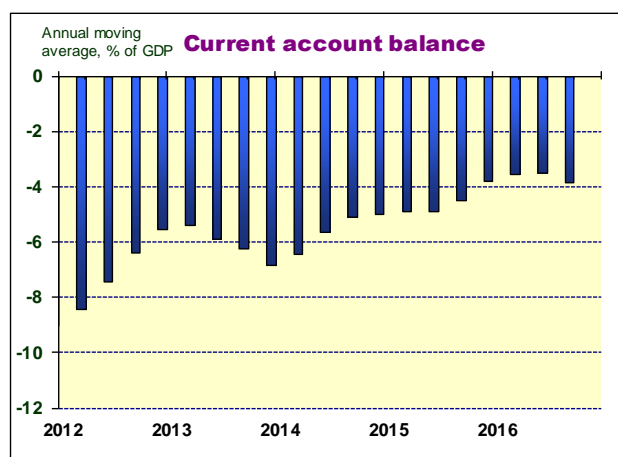
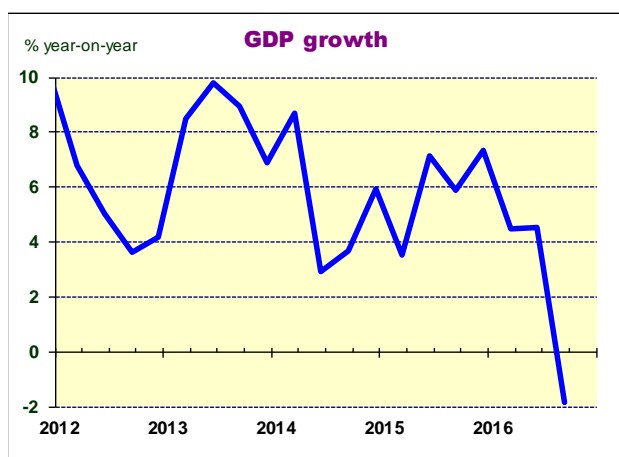
\* Q figures refer to a 4 quarters moving average.

## CHARTS



European Commission, ECFIN-D-1

### TURKEY



# BOSNIA AND HERZEGOVINA



## Key developments

On 22 November, the IMF concluded its first review mission under its 3-year about EUR 550 million Extended Fund Facility programme approved in September 2016. The end-of-mission press release underlined that the programme has remained on track.

As a follow-up to the country's membership application, on 9 December the Commission handed over a list of some 3200 questions to the Bosnian authorities. Once the Bosnian authorities have submitted the replies, the Commission could start assessing the country's readiness for becoming a candidate for EU accession.

On 15 December, the EU and the Bosnian authorities signed the Protocol on Adaptation of the Stabilisation and Association Agreement (SAA). This adjusts EU-BiH trade provisions to take into account Croatia's accession to the EU – a standard practice after every EU enlargement, facilitating trade with EU Member States.

## Real sector

In the third quarter of 2016, real output increased by 2.4% year-on-year, accelerating from 1.8% and 1.2% growth in the first and second quarter respectively. Like often in the third quarter, agriculture was the main contributor to growth, accounting for nearly half of this quarter's output increase. Electricity production was also strong in the third quarter. At the same time, the value added of the public sector (public administration, education and health) remained slightly lower than a year before. In the first three quarters of 2016, real gross value added was 1.8% higher than a year before, mainly driven by manufacturing and agriculture. In 2015, output growth was 3.2%. International institutions expect GDP growth to be at around 2½% in the whole of 2016, and slightly above 3% in 2017.

High-frequency indicators, such as industrial production, point to accelerating activity towards the end of the year. In October and November, industrial output was 4.2% and 5.2% higher than a year before, bringing overall growth during the first 11 months of 2016 to 4.1%. In 2015, industrial output grew by 3.1%.

## Labour market

Survey-based labour force data points to a decline in employment in 2016 by 2.6%. Working age population dropped by 3.5% (or 90 thousand persons) according to this survey, while the number of unemployed fell by 13.3% or 42 thousand persons. One reason for this drop in employment and unemployment could be "discouraged citizens", no longer looking for work or leaving the country. However, labour market data suffer from weaknesses. Administrative data for the first 10 months of 2016 suggests an increase of registered employment, rising by nearly 2% year-on-year, while the number of registered unemployed dropped by about 2.8%. However, independent from measurement issues, unemployment remains very high, at 25.4% in mid-2016 according to the labour survey, and at about 41% in October according to administrative data. Youth unemployment remains above 60%. The significant difference between survey data and administrative data points to a substantial informal economy and weak labour market institutions.

Nominal wages rose despite the difficult labour market situation by 0.8% year-on-year in the third quarter, after a 0.3% increase year-on-year in the previous quarter.

## External sector

Exports of goods increased by 3.8% y-o-y in nominal terms in the first eleven months of 2016. About half of this increase was due to stronger exports to Germany, Slovenia and Croatia. Export performance was especially strong in November (+16.6% year-on-year), while in particular in the first quarter, exports were lower than a year before. During the whole period, the export performance was negatively affected by weaker foreign sales of mineral products and base metals. Spending on commodity imports increased at a slower rate (+7.1% in November, but just +0.3% during the whole first eleven months), probably reflecting subdued domestic demand, but also - to some extent - lower energy and commodity prices. As a result, the merchandise trade deficit of the first three quarters of the year was lower than a year before. In line with the marked drop in the trade deficit, the current account balance improved

too. The balances of the primary and secondary income remained largely unchanged. In particular, inflows of current transfers remained at 8.2% of GDP in the third quarter, largely the same share as a year before. In terms of GDP, the average current account deficit during the 4 quarters to September dropped to 4.6%, compared to 5.6% of GDP the year before.

On the financing side, net FDI inflows continued to remain on the low side. The four quarter average net FDI accounted for 1% of GDP in the third quarter, compared to 2.1% of GDP a year before.

Foreign reserves continued to increase in the first eleven months of the year, bringing the import coverage of reserves to more than 7 months of imports. This is significantly higher than in previous years.

### Monetary developments

The overall price level continued to decline in the first eleven months, standing on average 1.2% lower than a year before. However, after a sharp drop at the beginning of the year, the decline in prices decelerated: in November, prices were only 0.3% lower than a year before. Like in the past, important drivers of price changes in the first eleven months were commodity groups with a high import content, such as clothing and footwear, and transport, while, for example, prices for education continued to increase by some 1%.

On the back of the steady growth of deposits, liquidity conditions have remained rather accommodative. The annual growth of the monetary aggregate M2 continued to accelerate slightly to 7.6% in the third quarter, compared to 7.4% in the second quarter of 2016. In October and November, M2 increased by 6.9% and 7.4%, respectively.

### Financial sector

Year-on-year, credit growth remained slightly below 2% in October and November, compared to growth rates around 3% at the beginning of the year. This deceleration brought average credit growth to 2.1% for the first eleven months of the year. The slowdown in overall credit growth is mainly the result of declining credit provision to the public sector and state-owned enterprises, shrinking by 8% and 9% respectively. As a result, the share of credit to

the public sector dropped from 8.5% of total credits in the first eleven months of 2015 to 7.7% in the same period in 2016.

Growth of total deposits remained high during the first eleven months of the year, resulting in average growth of 7.8% during that period, compared to 6.1% the year before. An important factor for the strong deposit growth is probably a continuously strong inflow of foreign remittances.

The share of non-performing loans in total loans remained largely unchanged in the third quarter at 12.1%. At the same time, credit risks have been increasingly mitigated through an increase of loan-loss provisioning to 74.2% by end-September. Banking sector profitability recovered slightly in the third quarter, with a further increase in the return on average equity to 7.1%, which – however – was 0.5 percentage points lower than a year before. The return on average assets improved slightly to 0.9%, compared to 0.7% the quarter before. The system's overall capital adequacy ratio improved further to 16.1% by end-September 2016, compared to 15.8% in the second quarter. However, there are significant differences among the various institutions.

### Fiscal developments

The performance of fiscal revenues during the first three quarters appears to have remained in line with the overall economic development, increasing by 1.8%, benefitting from solid growth of tax revenues by some 3%. However, due to delays in accessing planned external finances, public spending had to be contained. This led to a markedly lower increase in current spending, of some 0.8% year-on-year, according to preliminary Central Bank data. In particular, spending on public employment was lower than a year before.

Public debt stood at 41.2% of GDP in the third quarter, which in relation to GDP was unchanged compared to the second quarter and slightly lower compared to end-2015, when the debt ratio was 41.9%. Compared to the end-year level, foreign denominated debt rose by 1.3%, which however was largely compensated by a decrease in domestically denominated by 3.1%. The three largest holders of foreign debt are the World Bank, the European Investment Bank (EIB) and the International Monetary Funds (IMF), accounting for 22%, 19% and 12% of the country's total foreign public debt.

## TABLE

European Commission, ECFIN-D-1



## BOSNIA AND HERZEGOVINA

		2012	2013	2014	2015	2016	Q2 16	Q3 16	Q4 16	Oct 16	Nov 16	Dec 16
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. %ch	-3.9	5.2	0.2	3.1	:	4.6	2.5	:	4.2	5.3	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	-0.9	2.4	1.4	3.2	:	1.2	2.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	2.2	2.6	3.0	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. %ch	6.3	-2.4	9.5	:	:	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	1.3	-25.8	22.2	-22.7	:	69.3	22.9	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	1.6	4.6	1.8	7.8	:	4.4	7.1	:	9.7	7.2	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	28.0	27.5	27.5	27.7	25.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. %ch	-0.3	1.0	-1.2	1.2	-2.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. %ch	1.5	0.1	-0.1	0.0	:	0.3	0.8	:	1.3	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. %ch	1.2	10.0	3.0	5.3	:	10.2	8.3	:	2.7	16.6	:
Imports of goods <sup>3.2</sup>	Ann. %ch	-0.1	-0.7	7.1	-2.3	:	3.8	-0.6	:	-1.1	7.1	:
Trade balance* <sup>3.3</sup>	%of GDP	-30.5	-27.4	-29.7	-26.0	:	-25.4	-24.7	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	%of GDP	32.4	33.8	34.0	34.6	:	34.8	35.1	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	%of GDP	55.9	54.2	56.7	53.3	:	53.1	52.8	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	%of GDP	-8.7	-5.3	-7.4	-5.7	:	-5.6	-4.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	%of GDP	1.9	1.3	2.8	1.5	:	1.1	1.0	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	3 327.8	3 614.0	4 001.2	4 400.3	:	4 485.4	4 829.3	:	4 778.6	4 816.5	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.1	5.6	5.8	6.5	:	7.3	7.8	:	7.1	7.1	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. %ch	2.0	-0.1	-0.9	-1.0	:	-1.6	-1.1	:	-0.7	-0.3	:
Producer prices <sup>4.2</sup>	Ann. %ch	1.3	-2.2	-0.2	-0.6	:	-0.5	-0.5	:	0.1	-0.3	:
Food prices <sup>4.3</sup>	Ann. %ch	1.8	0.0	-2.7	-0.9	:	-1.3	-0.8	:	-1.0	-0.4	:
M2 <sup>4.4</sup>	Ann. %ch	4.6	5.7	7.5	8.0	:	7.4	7.6	:	7.4	8.2	:
Exchange rate BAMEUR <sup>4.5</sup>	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate <sup>4.6</sup>	Index	105.5	102.76	105.43	106.91	:	108.49	108.32	:	107.95	108.15	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield <sup>5.2</sup>	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	737	770	707	701	691	698	692	694	701	702	680
Credit growth <sup>5.4</sup>	Ann. %ch	5.1	2.7	3.7	1.8	:	1.6	2.0	:	1.7	1.8	:
Deposit growth <sup>5.5</sup>	Ann. %ch	2.6	5.1	8.4	6.2	:	7.7	7.5	:	6.9	7.4	:
Non performing loans <sup>5.6</sup>	%total	12.7	14.5	15.2	13.9	:	12.1	12.1	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance <sup>6.1</sup>	%of GDP	-2.0	-2.2	-2.0	0.7	:	2.5	4.2	:	N.A.	N.A.	N.A.
General government debt* <sup>6.2</sup>	%of GDP	36.6	37.7	41.7	41.9	:	41.1	41.2	:	N.A.	N.A.	N.A.

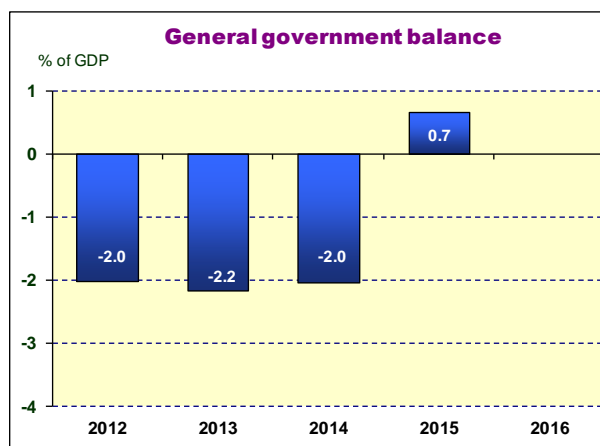
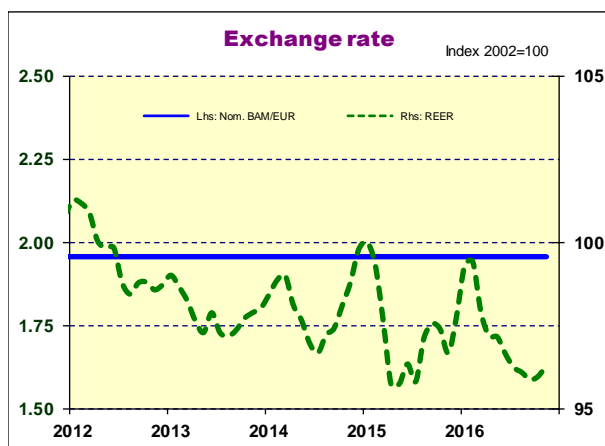
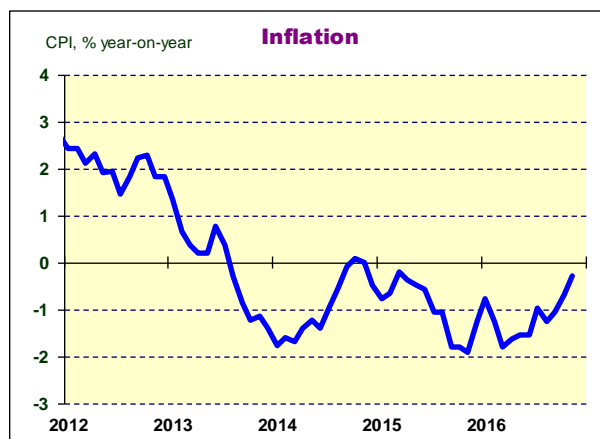
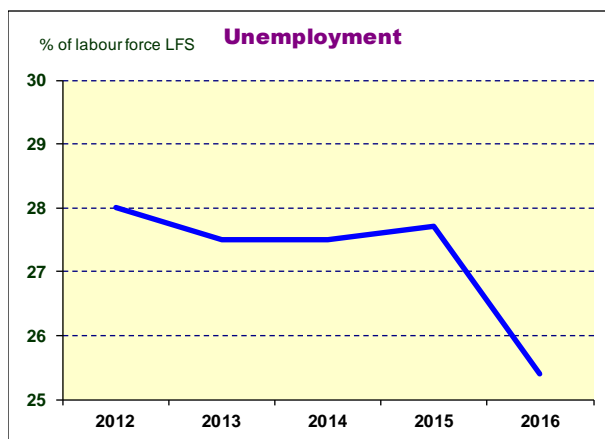
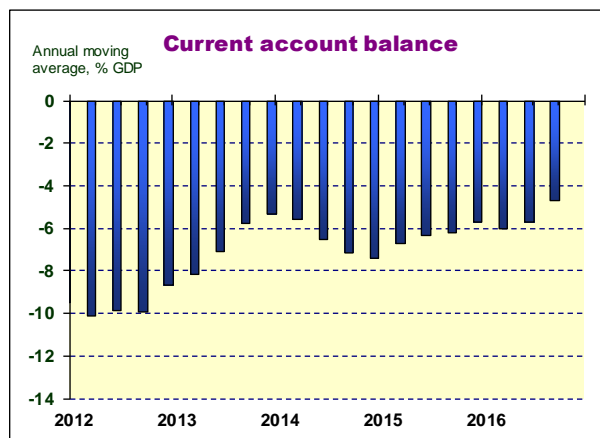
\* Q figures refer to a 4 quarters moving average and refers only to foreign public debt.

# CHARTS



European Commission, ECFIN-D-1

## BOSNIA AND HERZEGOVINA





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

## Key developments

On December 23, Kosovo's parliament adopted the 2017 budget. It assumes nominal GDP growth of 6.3% in 2017 with 4.4% real growth. Budget revenues are expected to rise by 5.5% compared to the revised 2016 budget, and amount to EUR 1.725 billion. Revenue growth is namely due to higher intakes from VAT and excise, resulting from stronger economic activity. Expenditures are expected to rise by 15.5%, almost entirely due to higher capital expenditures. Thus the share of capital spending is planned to increase to 36.1% from 28.9% in 2016. Almost one third of the planned capital spending depends on financing from IFIs and uncertain receipts from the Privatisation Agency of Kosovo (PAK). The foreseen budget deficit stands at 4.6% of GDP. According to the fiscal rule, which excludes some capital spending from the headline deficit, the adjusted deficit stands at 1.5% of GDP and thus complies with the fiscal rule's ceiling.

Kosovo's parliament adopted the amendment to the law on war veterans limiting overall spending on war veteran pensions to 0.7% of GDP per year. However, the amendment is being contested at the constitutional court which could delay official enforcement of the law. Adoption of the amendment to this law and the 2017 budget were among the prior actions for the completion of the second and third review of the IMF SBA.

## Real sector

In the first nine months of 2016 GDP grew by 3.6%. Strong increases in household consumption and investments (6.2% y/y and 9.2% y/y respectively) provided the largest contributions to growth, whereas government consumption decreased by 3.2% y/y. Net exports of goods and services provided a negative contribution to growth (-3.8 p.p.) owing to a large increase in imports (8.2% y/y) and stagnating exports (1.1% y/y). The sharp rise in imports reflects increasing consumer demand and the large import component of investments, mainly in the form of construction material and machinery. In the same period gross value added grew by only 1% y/y and was driven by the

trade sector (0.5p.p) with small positive contributions from the construction, finance and tourism sectors. Real estate, public administration and manufacturing sectors recorded negative growth contributions.

In Q3 of 2016, industrial turnover in Kosovo decreased by an estimated 9.6% compared to the same period in 2015. Turnover of the mining and manufacturing sectors fell sharply by 3.3% and 13.9% respectively while turnover in energy production rose by 7.3% y/y.

## Labour market

According to the Labour Force Survey, in the first half of 2016, Kosovo's unemployment rate further decreased to 27%, from 32.9% in 2015. The employment rate seems to have bottomed out after falling since 2013, climbing to 26.7% in H1 2016 from 25.2% in 2015. The labour force participation rate still remains extremely low at 36.5% in H1 2016. The youth jobless rate (15-24 years) decreased to 52.4% in H1 from 57.7% in 2015. Labour market outcomes are especially poor for women, as less than one in five women are active in the labour market and only 12.4% are employed. Improvements in the labour market indicators seem to be a result of continued growth in 2016 as the number of employed increased by 6% (17,743 jobs) while the number of unemployed persons decreased by 20.5% (almost 30,000 less) in H1 2016.

## External sector

Balance of payments data for the first nine months of 2016 show a widening of the current account deficit to 7.4% of annual GDP compared to 5.4% in 2015, mainly as a result of slightly higher trade deficit, net outflows of investment income as well as lower current transfers (remittances and government transfers). Net remittances declined to 8.6% of GDP compared to 9.1% of GDP a year before. On the financing side, net FDI decreased (2.7% of GDP compared to 4.3% in the same period in 2015) and portfolio investments recorded a significant net outflow of 4.3% of GDP in the first nine months of 2016. Overall the economy recorded net financial inflows at only 0.2% of GDP compared to 2.7% in the first nine months of 2015. Unrecorded financial flows picked up

sharply, as net errors and omission grew to 7.4% of GDP (2.7% of GDP in 2015).

Cumulative goods exports contracted by 5.5% in the year to November 2016, due to continuation of the poor performance of crude metals exports. In the first eleven months of 2016 imports of goods rose by 5.8% y/y despite a sharp contraction of fuel imports due to lower oil price. By November the overall goods trade deficit increased by 7.4% y/y, equivalent to 37.1% of GDP.

### Monetary developments

Kosovo remains heavily dependent on price developments in the main trading partners, namely the EU. The deflationary pressures, started at the end of 2014, seem to have weakened and prices have bottomed up in the second part of 2016 (1.1% y/y inflation in Q4 2016). Food and energy prices are also slowly recovering towards the end of the year (0.5% and 1.3% y/y in Q4) after the effects of the sharp oil price reduction in 2015 dissipated. The core inflation stood at 0.8% y/y in Q4. The producer price index further decreased by 4.9% in Q3 2016. The construction cost index decreased by 1.9% y/y, namely due to adjustments in energy and transport costs. Import prices decreased by 2.8% y/y in Q3 2016 driven by lower prices for mineral products.

### Financial sector

Credit activity continued growing strongly throughout the first eleven months of 2016 when total loans and lease financing rose by 9.8% y/y. Total deposits in commercial banks continued to grow steadily (6.1% y/y). Thus, the loans to deposit ratio slightly rose to 79.4 still indicating a stable liquidity position and substantial room for stronger banking activity.

The interest rate spread is on a downward trajectory, reaching 6.3 pps in November after a fall of 87 basis points compared to the year before. This reduction was driven by an almost 90 basis points decrease in lending interest rates from a year earlier. Lower interest rates spreads and stronger credit activity were supported by the adoption of the new bankruptcy law, the new law on enforcement procedures and the successful introduction of private bailiffs.

The risk profile of the banking sector remained satisfactory in the first eleven months of 2016. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 38.9% in November, while the capital adequacy

ratio was 18.2%, far above the regulatory minimum of 12%. Already low levels of NPLs further decreased to 4.8%. Existing NPLs are fully covered by loan loss provisions (131.1%).

Following exceptionally high profitability in 2015 due to lower provisioning, the banking sector profits returned to normal in 2016. By November ROAE was still high at 20.2%, compared to 24.9% a year ago.

### Fiscal developments

Budget revenues in the first nine months of 2016 grew by 15% y/y, driven by a broad-based increase in tax receipts, partly due to last year's tax reforms. Increases in revenues from VAT by 16% y/y (driven by a hike in the standard tax rate from 16% to 18%) and from corporate income tax (by 28% y/y) contributed most to the exceptional revenue performance. The expenditure side has still been characterised by broad underspending compared to the budget. Only 45% of the planned capital expenditure was executed in the first nine months of 2016. Capital spending will likely go up in the last part of the year as all unused funds will be reallocated for the construction of the R6 highway. Overall, in the first nine months of 2016 the budget recorded a surplus of 1.5% of GDP while the full-year deficit target was set at 2% of GDP<sup>1</sup>. However, the budget balance is likely to worsen during the fourth quarter (for which data is not yet available) as payments for capital investment are usually heavily back loaded towards the end of the year.

At the end of Q3 2016 public debt stood at 14.3% of GDP, not including Kosovo's share of the London and Paris club debt of the former Yugoslavia, which is currently estimated at around 6% of GDP. The government has continued issuing domestic debt, which now amounts to 54.9% of overall public debt, with a continuously falling yield.

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<sup>1</sup> This refers to the headline deficit. However, the deficit target according to the fiscal rule was 1.6% of GDP

## TABLE

European Commission, ECFIN-D-1

### KOSOVO\*

		2012	2013	2014	2015	2016	Q2 16	Q3 16	Q4 16	Oct 16	Nov 16	Dec 16
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. %ch	N.A.	3.2	0.0	1.3	:	-0.6	-9.6	:	:	:	:
Gross domestic product <sup>1.3</sup>	Ann. %ch	2.8	3.4	1.2	4.1	:	3.3	3.8	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. %ch	2.9	2.0	4.9	3.8	:	6.5	6.8	:	N.A.	N.A.	N.A.
Investment <sup>1.5</sup>	Ann. %ch	-12.9	-0.3	-5.0	11.3	:	10.2	1.1	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. %ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. %ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	30.9	30.0	35.3	32.9	:	26.2	N.A.	N.A.	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. %ch	:	11.7	-4.4	-8.2	:	10.7	N.A.	N.A.	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. %ch	N.A.	N.A.	N.A.	5.8	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. %ch	-5.1	6.5	10.4	0.2	:	-5.9	-17.7	:	-0.1	35.4	:
Imports of goods <sup>3.2</sup>	Ann. %ch	8.6	-2.3	3.6	3.8	:	5.2	3.0	:	-0.3	7.6	:
Trade balance** <sup>3.3</sup>	% of GDP	-44.1	-40.5	-39.8	-40.0	:	-41.1	-41.3	:	-41.1	-41.1	N.A.
Exports goods and services** <sup>3.4</sup>	% of GDP	18.2	17.4	19.6	19.4	:	19.0	19.0	:	N.A.	N.A.	N.A.
Imports goods and services** <sup>3.5</sup>	% of GDP	52.4	49.0	50.5	49.8	:	50.2	50.0	:	N.A.	N.A.	N.A.
Current account balance** <sup>3.6</sup>	% of GDP	-7.5	-6.4	-7.8	-9.1	:	-10.9	-11.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** <sup>3.7</sup>	% of GDP	4.5	5.3	2.7	5.6	:	4.2	4.0	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1 356.0	1 504.3	1 266.4	1 329.4	:	1 470.7	1 470.4	:	1 459.1	1 429.1	:
Int. reserves / months imp <sup>3.9</sup>	Ratio	6.5	7.4	6.0	6.1	:	6.5	6.4	:	6.4	6.2	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. %ch	2.5	1.8	0.4	-0.5	:	-0.2	0.2	:	1.0	0.9	:
Producer prices <sup>4.2</sup>	Ann. %ch	1.9	2.4	1.7	2.7	:	-5.4	-4.9	:	N.A.	N.A.	N.A.
Food prices <sup>4.3</sup>	Ann. %ch	1.0	2.1	-0.2	0.4	:	-0.9	-0.7	:	0.3	0.4	:
Broad money liabilities <sup>4.4</sup>	Ann. %ch	7.1	17.3	-4.2	5.6	:	9.5	5.9	:	6.0	6.4	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) <sup>4.6</sup>	Index	106.1	106.5	106.7	104.7	:	103.8	103.90	:	104.90	105.60	:
<b>5 Financial indicators</b>												
Interest rate <sup>5.1</sup>	% p.a.	12.67	11.82	10.61	8.32	:	7.48	7.32	:	7.29	7.31	:
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth <sup>5.4</sup>	Ann. %ch	3.8	2.4	4.2	7.3	:	8.4	9.6	:	9.5	9.8	:
Deposit growth <sup>5.5</sup>	Ann. %ch	8.3	7.5	3.6	6.5	:	4.6	5.0	:	5.4	6.1	:
Non-performing loans <sup>5.6</sup>	% total	7.5	8.7	8.3	6.2	:	5.3	5.1	:	5.0	4.8	:
<b>6 Fiscal developments</b>												
General government balance** <sup>6.1</sup>	% of GDP	-2.6	-3.1	-2.2	-2.0	:	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	8.4	9.1	10.6	13.0	:	13.8	14.3	:	N.A.	N.A.	N.A.

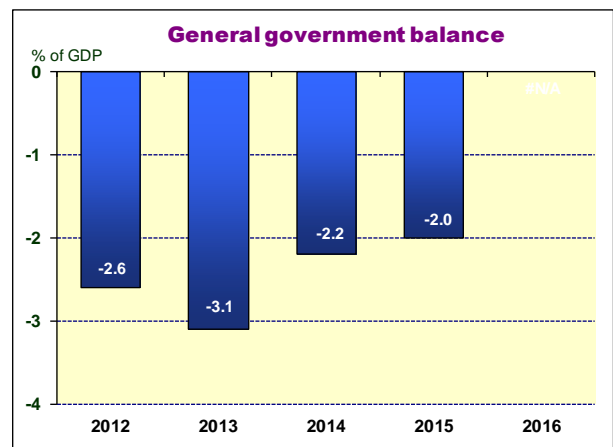
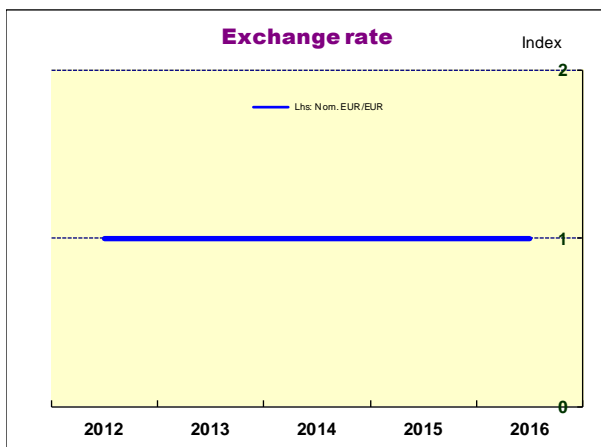
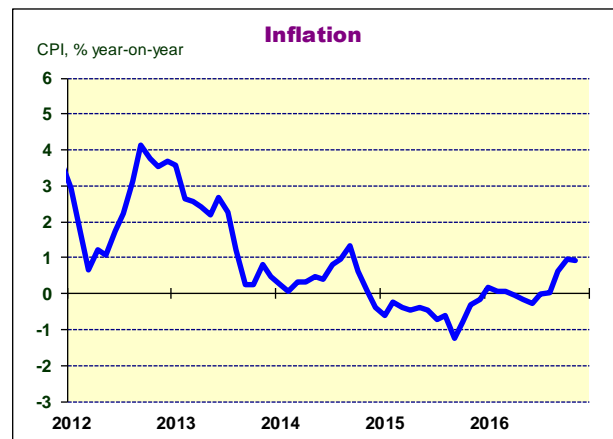
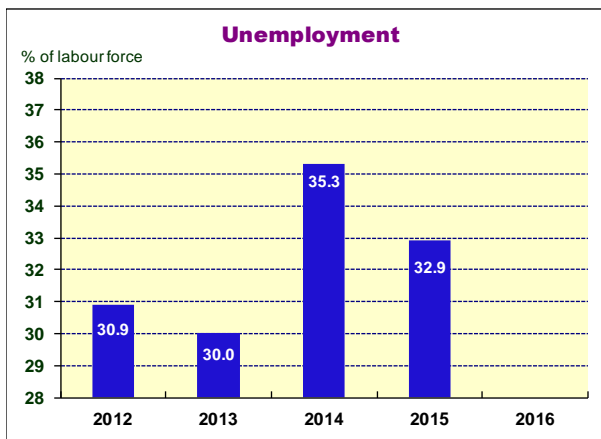
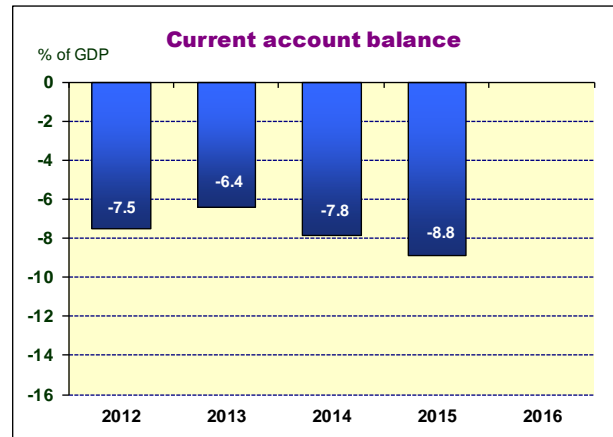
\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

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

# CHARTS

European Commission, ECFIN-D-1

## KOSOVO\*



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



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	IHS/DataInsight
1.2.	Industrial production	Annual percentage change, total, constant prices	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	IHS/DataInsight
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, total, 2005=100	IHS/DataInsight
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of total labour force	IHS/DataInsight
2.2.	Employment	Annual percentage change	IHS/DataInsight
2.3.	Wages	Average monthly wages in State sector	IHS/DataInsight
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, mio. EUR. Break in series 2013.	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR. Break in series 2013.	IHS/DataInsight
3.3.	Trade balance	In percent of GDP	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP. Annual data. Break in series 2013.	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP. Annual data. Break in series 2013.	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, including official transfers	IHS/DataInsight
3.7.	Direct investment (FDI, net)	In percent of GDP	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Net foreign assets, total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4.</b>	<b>Monetary developments</b>		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, Total, index (1998)	IHS/DataInsight
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	IHS/DataInsight
4.4.	M2	Annual percentage change	IHS/DataInsight
4.5.	Exchange rate LEK/EUR	Period averages	IHS/DataInsight
4.6.	Change real eff. exchange rate	Not available	
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	IHS/DataInsight
5.2.	Bond yield	Government Benchmarks, 3 Year Bond, Yield	IHS/DataInsight
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, total	IHS/DataInsight
5.6.	Non-performing loans	Credit Portofolio Quality, NPLs %	IHS/DataInsight
<b>6.</b>	<b>Fiscal developments</b>		
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt	In percent of GDP	IMF



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



No.	Indicator	Note	Source
<b>1.</b>	<b>Real sector</b>		
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	IHS/DataInsight
1.2.	Industrial production	Annual percentage change	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, annual data, chain index	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	IHS/DataInsight
1.6.	Construction index	Annual percentage change, value of performed work, current prices	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, turnover, total	IHS/DataInsight
<b>2.</b>	<b>Labour market</b>		
2.1.	Unemployment	In percent of active population, e.o.p.	IHS/DataInsight
2.2.	Employment	Annual percentage change of registered employment, avrg.	IHS/DataInsight
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	IHS/DataInsight
<b>3.</b>	<b>External sector</b>		
3.1.	Exports of goods	Annual percentage change, thou. EUR	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, thou. EUR	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised data	IHS/DataInsight
3.4.	Exports goods and services	Annual data	IHS/DataInsight
3.5.	Imports goods and services	Annual data	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4.</b>	<b>Monetary developments</b>		
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	IHS/DataInsight
4.2.	Producer prices	Annual percentage change	IHS/DataInsight
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	IHS/DataInsight
4.4.	M21	Annual percentage change, M21 (Broadest money)	Discontinued
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Nominal exchange rate	Not available	
<b>5.</b>	<b>Financial indicators</b>		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	IHS/DataInsight
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	IHS/DataInsight
5.3.	Stock markets	MOSTE Index, Close	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	IHS/DataInsight
5.6.	Non-performing loans	% of total	Central Bank ME
<b>6.</b>	<b>Fiscal developments</b>		
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
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	IHS/DataInsight
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	IHS/DataInsight
1.4.	Private consumption	Annual percent change , Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	IHS/DataInsight
1.6.	Construction index	Annual pc change, Value Index of Performed Works, Total CPPY=100, NSA	IHS/DataInsight
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	IHS/DataInsight
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Semi-annual data.	IHS/DataInsight
2.2.	Employment	Annual percentage change, as from 2014 based on LFS. Data before 2014 are based on official data on registered employment.	IHS/DataInsight
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	IHS/DataInsight
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised data	IHS/DataInsight
3.8.	International reserves NBS	Total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
<b>4. Monetary developments</b>			
4.1.	CPI	Consumer Prices, Total, CPPY, average.	IHS/DataInsight
4.2.	Producer prices	Annual average percentage change, domestic market	IHS/DataInsight
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	IHS/DataInsight
4.4.	M3	Annual percentage change, M3 (broad money), RSD	IHS/DataInsight
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Period average, moving base year, RSD	IHS/DataInsight
<b>5. Financial indicators</b>			
5.1.	Interest rate	Belgrade Overnight Index Average (BEONIA)	IHS/DataInsight
5.2.	Bond yield	Weighted average interest rate on RS government bills.	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, monetary survey, domestic credit, total, RSD	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	IHS/DataInsight
5.6.	Non-performing loans	Provisioning against losses	IHS/DataInsight
<b>6. Fiscal developments</b>			
6.1.	General government balance	Consolidated GG, Overall balance. In percent of quarterly GDP	Min. of Finance
6.2.	General government debt	Central government debt. In percent of GDP	Min. of Finance





No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	IHS/DataInsight
1.2.	Industrial production	Annual percentage change, volume (index 2010), excluding construction, calendar-adjusted	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change,	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, index (2009 prices)	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change,	IHS/DataInsight
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, volume, 2010=100	
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	NSI
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	NSI
2.3.	Wages	Annual percentage, Hourly earnings manufacturing / Index publication base -	IHS/DataInsight
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised moving average	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised moving average	IHS/DataInsight
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average	IHS/DataInsight
<b>4. Monetary developments</b>			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	IHS/DataInsight
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	IHS/DataInsight
4.4.	M3	Money supply M3, total, TRY	IHS/DataInsight
4.5.	Exchange rate YTL/EUR	Period averages	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Index 1999, period averages	IHS/DataInsight
<b>5. Financial indicators</b>			
5.1.	Interest rate	Deposit rates, 3 month, close	IHS/DataInsight
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	IHS/DataInsight
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	IHS/DataInsight
5.6.	Non-performing loans	In percent of total lons	IHS/DataInsight
<b>6. Fiscal developments</b>			
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



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

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

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



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