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European Commission
Directorate-General for Economic and Financial Affairs

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

2nd Quarter 2017

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

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

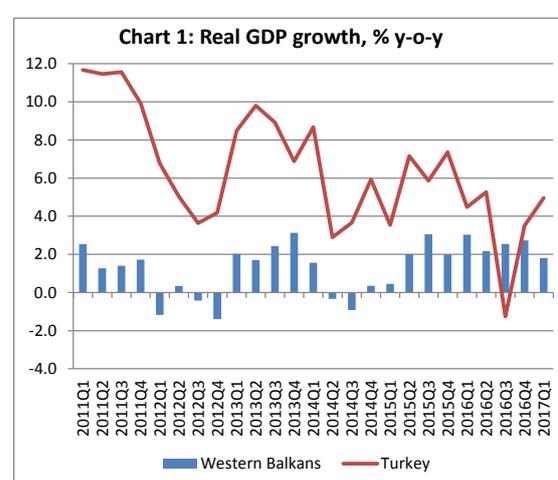
OVERVIEW

The economic recovery in the Western Balkans continued during the first quarter of 2017, although at a more moderate pace as annual growth decelerated in almost all countries, but notably in Serbia which is the largest economy in the region. However, investment and private consumption continued to support growth in the region. External positions remained weak as annualised current account deficits widened in most countries. Economic expansion led to further job creation, and unemployment rates continued to fall in most countries, but they remain high across the Western Balkans. Despite further progress in fiscal consolidation, still high public debt levels in most countries of the region remain a cause for concern. In Turkey, the economy accelerated markedly in the first quarter of 2017 with government consumption spending and net exports as the main drivers of growth.

Growth dynamics decelerated in almost all countries of the **Western Balkans** in the first quarter of 2017 compared to the previous three months. The *former Yugoslav Republic of Macedonia* is the only country where real GDP stagnated on a year-on-year basis as investment activity remained sluggish and net exports contributed negatively to growth. In *Serbia*, annual GDP growth eased markedly to 1.2% (from 2.5% in the previous quarter) as the energy sector and investment activity were heavily affected by the unusually cold weather. Growth was mainly driven by household consumption and exports. Annual GDP growth decelerated slightly in *Albania*, which retained a strong export and investment performance, and *Montenegro*, where the growth of private consumption accelerated strongly. Contrary to its peers, *Kosovo's* output growth accelerated to 3.8% of GDP from 3% in the preceding quarter largely driven by private consumption and investments. Overall, in the first quarter of 2017, the **Western Balkan** region's GDP stood at 1.8%¹, down from an average growth rate of 2.7% in the preceding quarter (Chart 1).

In **Turkey**, GDP growth accelerated to 5% year-on-year from 3.5% in the previous quarter, mainly driven by public consumption as a result of the government's efforts to

support the economy, and a positive contribution from net foreign trade.



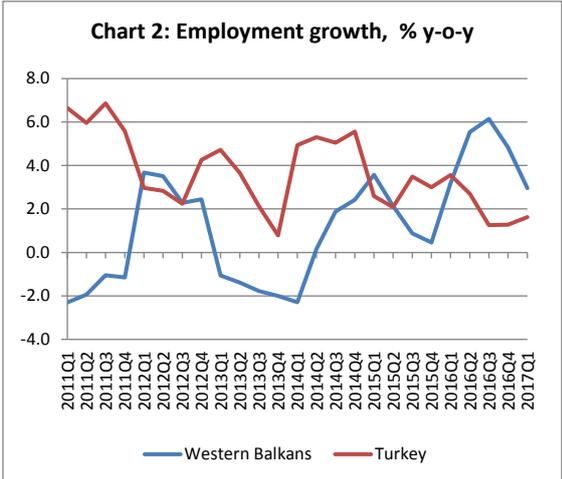
Source: IHS DataInsight, Commission calculations

Amid a still challenging labour market situation in the **Western Balkans**, the ongoing economic recovery has led to further increases in employment levels, although the pace of job creation slowed in some countries. In the first quarter of 2017, annual employment growth significantly decelerated compared to the previous quarter in *Albania* (from 5.5% to 2.8%) and *Serbia* (from 5.8% to 3.2%). Conversely, the growth of jobs accelerated in *Montenegro* and the *former Yugoslav Republic of Macedonia*, contributing to an average job growth rate in the **Western Balkans** of 3% y-o-y in the first quarter of 2017 (Chart 2). For the same period, growing employment levels contributed to lower unemployment rates in

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

most countries in the region than a year before. The decline was particularly significant (more than 2 pps) in *Serbia* and *Albania*.

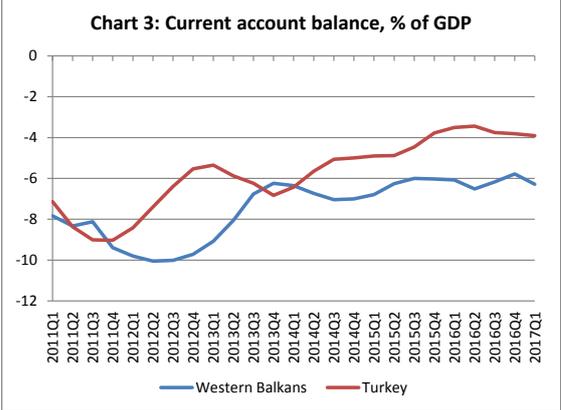
In *Turkey*, in the first quarter of 2017, average employment increased by 1.6% y-o-y compared to 1.3% in the previous quarter allowing the unemployment rate to decline to 11.7%.



Source: IHS DataInsight, Commission calculations

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 19% or above for the *former Yugoslav Republic of Macedonia*, *Albania*, *Bosnia and Herzegovina* and equal to 38% or above for *Kosovo* and *Montenegro*. External developments in the region during the first quarter of 2017 point to a widening of annualised current account deficits in all countries except in *Albania* and *Bosnia and Herzegovina*. This contributed to a regional current account deficit, in the four quarters to March, of around 6% of GDP, still one of the lowest in many years (Chart 3).

In *Turkey*, the 12-month cumulative current account deficit increased from 3.8% of GDP in 2016 to 4.8% in March 2017 due to an increasing trade deficit in goods.



Source: IHS DataInsight, Commission calculations

Persistently low inflation remains a key characteristic of the *Western Balkan* economies, reflecting low commodity prices and exchange rate stability. In the first quarter of 2017, consumer price inflation was positive in all countries in the region. In *Montenegro*, *Bosnia and Herzegovina* and the *former Yugoslav Republic of Macedonia* annual CPI inflation accelerated to 2.6%, 2.2% and 1.2% respectively, in May (from 2.4%, 1.4% and 1% respectively, in April). In *Albania*, annual CPI inflation stood at 2% in May (still below the central bank’s 3% target) while in *Serbia* it was at 3.5%, within the new target tolerance band of 3±1.5%. 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. The central bank of the *former Yugoslav Republic of Macedonia* maintained the coupon on its bills, which serves as its benchmark interest rate at 3.25% in the second quarter of 2017 after it had lowered it to this level in three successive steps of 25bp between December and February.

In *Turkey*, the annual CPI inflation continued to be in the double digits although it retreated to 10.9% in June due to disinflation in the food, energy and core goods segments. Inflation remains significantly above the central bank’s official 5% target (+/- 2%-pt band width).

Bank lending has generally become more supportive of growth in the **Western Balkan** region, as credit growth accelerated in the first quarter of 2017, compared to the preceding quarter, in *Bosnia and Herzegovina*, *Kosovo* and *Montenegro*. On the other hand, credit growth decelerated in *Serbia*, the *former Yugoslav Republic of Macedonia* and *Albania*. As a common feature, household lending has been growing faster than corporate lending. Stronger credit growth is still hindered by the generally high level of non-performing loans. In the first quarter of 2017, all **Western Balkan** countries managed to further reduce NPL ratios partly as a result of improved resolution frameworks. However, for most countries NPL ratios remain significantly higher compared to pre-crisis levels. Specifically, *Albania* and *Serbia* are still recording the highest NPL ratios in the region at 17.4% and 16.8% respectively, followed by *Bosnia and Herzegovina* (11.5%) and *Montenegro* (9.9%).

In *Turkey*, in the first quarter of 2017, annual credit growth accelerated markedly to 19.9% from 16.1% in the previous quarter. On the back of fast loan growth the NPL ratio decreased marginally to 3.4% down from 3.5% in the last quarter of 2016.

In the first five months of 2017, implementation of fiscal consolidation measures and the economic recovery continued to support the reduction of fiscal deficits in almost all countries in the **Western Balkan**

region. A few countries continued to experience underperforming capital expenditure, pointing to persistent problems in the planning, selection and management of public investment. In *Montenegro*, revenues increased markedly in the first quarter of 2017 while capital expenditure remained below the plan. The central government shortfall amounted to 1.5% of GDP in January to May. In the *former Yugoslav Republic of Macedonia* the cumulative central government fiscal deficit amounted to 0.9% of GDP. In *Albania*, increased budget revenues mitigated the strong growth of total expenditures, resulting in a budget surplus of 0.4% of GDP. In *Serbia*, in the first five months of 2017, revenue over-performance and contained execution of expenditure contributed to a budget surplus of 0.5% of GDP. Continued fiscal consolidation (without, however, undermining much-needed capital spending) is necessary in a number of countries to rebuild fiscal buffers and reduce public debt levels which are especially high in *Serbia* (71.5% of GDP), in *Albania* (68.4% of GDP), and *Montenegro* (63.2% of GDP), and lower in the *former Yugoslav Republic of Macedonia* (48% of GDP).

In *Turkey*, in the first five months of 2017, central government total revenues increased by 10.5% y-o-y and total spending by 20.2% y-o-y. General government debt in the first quarter of 2017 stood at 28.9% of GDP, the third consecutive quarter that government debt as a percentage of GDP increased.

Candidate and potential candidate countries: Summary table

| | | | | | | ECFIN 2017 Spring forecast | | | | | | | |
|--|-------|-------|-------|-------|-------|-------------------------------|-------|-------|-------|-------|--------|--------|--------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Q4 16 | Q1 17 | Q2 17 | Apr 17 | May 17 | Jun 17 |
| Gross domestic product (in real terms, annual % change) | | | | | | | | | | | | | |
| Albania | 1.4 | 1.0 | 1.8 | 2.2 | 3.4 | 3.7 | 3.9 | 4.1 | 3.9 | : | N.A. | N.A. | N.A. |
| The former Yugoslav Republic of Macedonia | -0.5 | 2.7 | 3.5 | 3.9 | 2.4 | 2.9 | 3.2 | 2.4 | 0.0 | : | N.A. | N.A. | N.A. |
| Montenegro | -2.7 | 3.5 | 1.8 | 3.4 | 2.5 | 3.3 | 3.5 | 3.4 | 3.2 | : | N.A. | N.A. | N.A. |
| Serbia | -1.0 | 2.6 | -1.8 | 0.8 | 2.8 | 3.2 | 3.6 | 2.5 | 1.2 | : | N.A. | N.A. | N.A. |
| Turkey | 4.8 | 8.5 | 5.2 | 6.1 | 2.9 | 3.0 | 3.3 | 3.5 | 5.0 | : | N.A. | N.A. | N.A. |
| Bosnia and Herzegovina | -0.8 | 2.4 | 1.4 | 3.1 | 2.0 | : | : | 2.6 | : | : | N.A. | N.A. | N.A. |
| Kosovo | 2.8 | 3.4 | 1.2 | 4.1 | 3.4 | : | : | 3.0 | 3.8 | : | N.A. | N.A. | N.A. |
| Unemployment | | | | | | | | | | | | | |
| Albania | 13.8 | 16.4 | 17.9 | 17.5 | 15.6 | 14.7 | 13.8 | 14.5 | 14.6 | : | N.A. | N.A. | N.A. |
| The former Yugoslav Republic of Macedonia | 31.0 | 29.0 | 28.0 | 26.1 | 23.7 | 22.4 | 20.9 | 23.1 | 22.9 | : | N.A. | N.A. | N.A. |
| Montenegro | 19.7 | 19.5 | 18.2 | 17.8 | 18.0 | 17.5 | 17.3 | 17.9 | 17.7 | : | N.A. | N.A. | N.A. |
| Serbia | 23.9 | 22.1 | 19.2 | 17.7 | 15.3 | 13.1 | 11.0 | 13.0 | 14.6 | : | N.A. | N.A. | N.A. |
| Turkey | N.A. | N.A. | 10.1 | 10.5 | 11.1 | 13.6 | 14.1 | 12.4 | 12.7 | : | : | : | : |
| 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 | 27.5 | : | : | : | : | : | N.A. | N.A. | N.A. |
| Current account balance (% of GDP)** | | | | | | | | | | | | | |
| Albania | -10.2 | -10.9 | -12.9 | -10.8 | -9.6 | -10.9 | -10.5 | -9.6 | -8.9 | : | N.A. | N.A. | N.A. |
| The former Yugoslav Republic of Macedonia | -3.2 | -1.6 | -0.5 | -2.1 | -3.1 | -2.2 | -1.9 | -3.1 | -3.7 | : | N.A. | N.A. | N.A. |
| Montenegro | -18.5 | -14.5 | -15.2 | -13.3 | -19.0 | -22.6 | -22.5 | -19.0 | -19.5 | : | N.A. | N.A. | N.A. |
| Serbia | -11.6 | -6.1 | -6.0 | -4.7 | -4.0 | -4.3 | -4.7 | -4.0 | -5.1 | : | N.A. | N.A. | N.A. |
| Turkey | -5.5 | -7.8 | -5.0 | -3.8 | -3.8 | -4.4 | -4.3 | -3.8 | -3.9 | : | N.A. | N.A. | N.A. |
| Bosnia and Herzegovina | -8.7 | -5.3 | -7.3 | -5.5 | -4.5 | : | : | -4.5 | -4.4 | : | N.A. | N.A. | N.A. |
| Kosovo | -5.8 | -3.4 | -6.9 | -8.6 | -9.1 | : | : | -9.1 | : | : | N.A. | N.A. | N.A. |
| Inflation (Consumer price index, annual % change) | | | | | | | | | | | | | |
| Albania | 2.0 | 1.9 | 1.6 | 1.9 | 1.3 | 2.2 | 2.6 | 1.9 | 2.4 | 0.7 | 1.9 | 2.0 | 1.2 |
| The former Yugoslav Republic of Macedonia | 3.3 | 2.8 | -0.3 | -0.2 | -0.2 | 0.8 | 2.3 | -0.1 | 0.5 | : | 1.0 | 0.1 | : |
| Montenegro (HICP) | 4.0 | 1.8 | -0.5 | 1.4 | 0.1 | 2.6 | 2.1 | 0.7 | 2.5 | 0.5 | 2.4 | 2.6 | 0.3 |
| Serbia | 7.3 | 7.9 | 2.1 | 1.4 | 1.1 | 3.4 | 3.5 | 1.5 | 3.1 | : | 4.0 | 3.5 | : |
| Turkey | 8.9 | 7.5 | 8.9 | 7.7 | 7.8 | 11.1 | 8.6 | 7.6 | 10.2 | 11.5 | 11.9 | 11.7 | 10.9 |
| Bosnia and Herzegovina | 2.0 | -0.1 | -0.9 | -1.0 | -1.1 | : | : | -0.4 | 1.1 | : | 1.4 | 2.2 | : |
| Kosovo | 2.5 | 1.8 | 0.4 | -0.5 | 0.3 | : | : | 1.1 | 1.6 | : | 2.2 | 1.6 | : |
| General government balance (% of GDP) | | | | | | | | | | | | | |
| Albania | -3.4 | -5.0 | -5.2 | -4.0 | -1.8 | -2.0 | -1.9 | : | 0.9 | : | N.A. | N.A. | N.A. |
| The former Yugoslav Republic of Macedonia | -3.8 | -3.8 | -4.2 | -3.5 | -2.6 | -3.2 | -3.0 | -4.4 | -2.4 | : | N.A. | N.A. | N.A. |
| Montenegro | -5.7 | -5.2 | -2.9 | -8.4 | -3.6 | -5.8 | -5.1 | -3.6 | -1.9 | : | : | : | : |
| Serbia | -6.8 | -5.5 | -6.6 | -3.7 | -1.3 | -0.5 | 0.3 | -4.4 | 1.2 | : | N.A. | N.A. | N.A. |
| Turkey | -0.4 | 0.1 | 0.1 | 1.3 | -0.9 | -1.6 | -1.4 | -1.0 | -1.0 | : | N.A. | N.A. | N.A. |
| Bosnia and Herzegovina | -2.0 | -2.2 | -2.0 | 0.7 | : | : | : | : | : | : | N.A. | N.A. | N.A. |
| Kosovo | -2.6 | -3.1 | -2.2 | -2.0 | -1.2 | : | : | : | : | : | N.A. | N.A. | N.A. |

Forecast: ECFIN forecast Spring 2017 published 11/05/2017

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

ALBANIA



Key developments

The annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place in Brussels on 23 May. The joint conclusions include recommendations to Albania to continue pursuing fiscal adjustment, to persist with recent efforts to mobilise public revenues, to complete the action plan for resolving bad loans, and to encourage the use of the national currency.

Parliamentary elections were held on 25 June after an inter-party agreement had ended a lengthy conflict in which the opposition had threatened to boycott the elections. Prime Minister Edi Rama's Socialist Party, which has been the main party in a government coalition over the past four years, gained an absolute majority with 74 out of 140 parliamentary seats.

Real sector

Output increased by 3.9 % y-o-y in real terms in the first quarter of 2017, extending the expansion which had raised annual growth to 3.4 % in 2016.

GDP growth was relatively broad-based in the first quarter, but benefitted in particular from a strong export performance. Goods exports continued the recovery which had begun in the preceding quarter by surging 27.8 % y-o-y while services exports increased more moderately at 8.3 %. Overall, exports of goods and services increased by 12.4 % compared to 5.0 % growth for imports of goods and services. As a result, the external sector's positive contribution to GDP growth was reinforced in the first quarter.

Household consumption decelerated to a relatively modest growth rate of 1.9 % y-o-y. Government consumption growth, on the other hand, picked up to 7.8 % which partly reflects the 10 % wage hike in large parts of the public sector in March. Gross fixed capital formation strengthened to 10.9 % y-o-y growth which to a large extent reflects the ongoing foreign direct investments in the energy sector, namely the Trans Adriatic Pipeline (TAP) and the Statkraft/Devoll hydropower project.

Available data suggest some slowing of economic growth in the second quarter, possibly reflecting the unsettled political situation in the

run-up to the parliamentary elections and adverse weather conditions.

Labour market

Employment in the 15-64 age group increased by 2.8 % y-o-y in the first quarter of 2017, down from 5.5 % in the fourth quarter of 2016. With an unchanged labour force, the unemployment rate declined by 2.3 pps. y-o-y to 14.6 %. The labour force participation rate remained at 65.9 %. Youth unemployment is still very high although it has been declining from the peak in 2015. In the first quarter of 2017, the unemployment rate for the 15-29 age group registered 26.6 %, down by 3.8 pps. y-o-y.

According to administrative data, employment in the non-agricultural private sector surged by 11.7 % y-o-y in the first quarter whereas employment in the public sector and in agriculture declined by 0.4 % and 0.9 %, respectively.

External sector

Continuing last year's improvement, the current account deficit narrowed 19.8 % y-o-y in the first quarter of 2017. This was the result of sharply rising surpluses for transport, travel, and other services on the services balance. The very high structural trade deficit for goods remained almost unchanged. Increased repatriation of investment income pushed the primary income balance back into deficit from an exceptional surplus one year earlier. The large surplus on secondary income (mainly workers' remittances) remained stable. In the twelve months to March 2017, the current account deficit corresponded to 8.9 % of GDP, down from 9.6 % in calendar year 2016.

The positive performance in external trade seems to have continued in the second quarter. The monthly data on foreign trade in goods from the national statistical institute show that the trade deficit declined by 16.5 % y-o-y in April and by 2.2 % in May.

Net foreign direct investments (FDI) rose by 17.6 % y-o-y in the first quarter when they covered 97 % of the current account deficit in the same period.

Gross external debt increased by 1.2 % over the first quarter to EUR 8.0 billion which corresponds to 71.5 % of GDP. Long-term debt constitutes about 80 % of Albania's gross external debt. Foreign exchange reserves declined by 6.2 % during the first five months of the year to EUR 2.7 billion which corresponds to 6 ½ months of imports.

Monetary developments

Prices for most consumer goods and services declined in April and May, including for food and energy. This seems to be the result of higher domestic agricultural production, an appreciating currency, and a fall in the international oil price. The year-on-year rise of the consumer price index fell from an average of 2.4 % in the first quarter to 2.0 % in May. Although this is 1.3 pps higher than in May 2016, there is little evidence that rising economic activity has generated upward pressures on prices.

The Bank of Albania maintained its accommodative monetary policy stance at the meetings of its Supervisory Council on 3 May and 5 July. The key policy rate (the repo rate) was left at the record low of 1.25 % and the interest rates for the overnight deposit facility and for the overnight lending facility at 0.25 % and 2.25 %, respectively. In May, the expected duration of the current monetary policy stance was lengthened by one quarter. The central bank now judges that it will not have to reduce the intensity of the monetary stimulus before the first quarter of 2018. It still expects inflation to average 2.3 % in 2017 and to rise toward its 3 % target in the course of 2018.

The Albanian lek appreciated by 2.7 % against the euro over the second quarter of 2017. In year-on-year terms, the lek was up by 3.6 % against the euro at the end of June. The appreciation is consistent with rising capital inflows in the form of direct investments, portfolio investments, and inflows recorded as errors and omissions in the balance of payments.

Financial sector

Including the effect from loan write-offs, total credit growth turned negative in the second quarter (-1.2 % y-o-y in May) after very sluggish growth in the first quarter. Lending growth to households and business diverged strongly. While loans to households accelerated to a

growth rate of 3.8 %, loans to the non-financial corporate sector decelerated to -4.1 %. Apart from write-offs, this is also reflecting a tightening of credit standards on loans to large enterprises. The average interest rate across all maturities for households and businesses for new lek-denominated loans was little changed at 7.3 % in May (-0.1 pps y-o-y).

The gradual rebalancing towards lek-denominated loans continued across sectors. The share of foreign-currency loans in total credit to the economy declined to 51.5 % in May, down from 55.3 % one year earlier. The share of deposits denominated in foreign currencies declined from 50.6 % to 49.2 % over the same 12-month period.

The ratio of non-performing loans (NPLs) to total loans continued to trend downward in recent months. It stood at 15.9 % in May, down from 21.4 % last October.

The banking sector as a whole is well capitalised with a capital adequacy ratio of 15.8 % at the end of the first quarter of 2017, up by 0.1 pps over the quarter, and comfortably above the regulatory minimum of 12%.

Fiscal developments

Total revenues increased by 7.3 % y-o-y in the first five months of 2017. This is significantly above the budgeted revenue growth for the period (0.8 %), but roughly in line with the budgeted revenue growth for the full year (7.7 %). Following the wage hike in large parts of the public sector, total expenditures increased by a hefty 16.4 % y-o-y in the first five months, but this is in line with budgeted expenditure growth for the period. The budgeted expenditure growth for the full year 2017 is 8.4 %. Overall budget execution in January-May resulted in a surplus in the government's cash balance corresponding to 0.4 % of estimated full-year GDP which compares to the targeted deficit of 2.0 % of GDP for the full year.

The VAT rate on accommodation facilities in the tourism sector was lowered from 20 % to 6 % with effect from 1 May. The Ministry of Finance expects a net revenue loss of less than 0.1 % of GDP from this measure.

Public debt (including guarantees) increased by 2.4 % over the first quarter and amounted to 68.4 % of expected 2017 GDP at the end of March, down from 72.0 % at the end of 2016.

TABLE



European Commission, ECFIN-D-1

ALBANIA

| | | | | | | | ECFIN 2017 Spring forecast | | | | | | | |
|--|----------|---------|---------|---------|---------|---------|-------------------------------|-------|---------|---------|--------|---------|---------|--------|
| | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Q4 16 | Q1 17 | Q2 17 | Apr 17 | May 17 | Jun 17 |
| 1 Real sector | | | | | | | | | | | | | | |
| Industrial confidence ^{1.1} | Percent | -17.3 | -16.6 | -6.9 | -5.5 | -3.7 | : | : | -4.4 | -0.1 | : | N.A. | N.A. | N.A. |
| Industrial production ^{1.2} | Ann. %ch | 16.6 | 13.9 | 3.4 | 2.5 | -19.1 | : | : | -10.6 | 13.4 | : | N.A. | N.A. | N.A. |
| Gross domestic product ^{1.3} | Ann. %ch | 1.4 | 1.0 | 1.8 | 2.2 | 3.4 | 3.7 | 3.9 | 4.1 | 3.9 | : | N.A. | N.A. | N.A. |
| Private consumption ^{1.4} | Ann. %ch | 0.1 | 1.8 | 2.8 | 1.2 | 2.5 | 2.8 | 3.2 | 2.2 | 1.9 | : | N.A. | N.A. | N.A. |
| Gross fixed capital formation ^{1.5} | Ann. %ch | -7.9 | -2.0 | -4.5 | 4.0 | 14.9 | 9.0 | 4.7 | 4.1 | 10.9 | : | N.A. | N.A. | N.A. |
| Construction index ^{1.6} | Ann. %ch | 0.6 | 1.0 | 0.2 | 0.3 | 0.0 | : | : | 0.4 | 0.9 | : | N.A. | N.A. | N.A. |
| Retail sales ^{1.7} | Ann. %ch | 3.8 | 5.4 | 4.7 | 5.9 | 6.6 | : | : | 8.2 | 2.5 | : | : | : | : |
| 2 Labour market | | | | | | | | | | | | | | |
| Unemployment ^{2.1} | % | 13.8 | 16.4 | 17.9 | 17.5 | 15.6 | 14.7 | 13.8 | 14.5 | 14.6 | : | N.A. | N.A. | N.A. |
| Employment ^{2.2} | Ann. %ch | 18.5 | -9.7 | 1.6 | 4.9 | 6.1 | 4.5 | 4.5 | 5.5 | 2.8 | : | N.A. | N.A. | N.A. |
| Wages ^{2.3} | Ann. %ch | 7.3 | 4.1 | 1.7 | 1.8 | 0.9 | 5.3 | 3.3 | 0.6 | 4.1 | : | N.A. | N.A. | N.A. |
| 3 External sector | | | | | | | | | | | | | | |
| Exports of goods ^{3.1} | Ann. %ch | 7.6 | -30.5 | -11.6 | -17.3 | -9.1 | : | : | 26.9 | 42.1 | : | : | : | : |
| Imports of goods ^{3.2} | Ann. %ch | -4.3 | -13.2 | 3.6 | -2.7 | 6.2 | : | : | -0.5 | 7.1 | : | : | : | : |
| Trade balance* ^{3.3} | % of GDP | -20.9 | -20.6 | -22.2 | -22.5 | -24.1 | -25.2 | -25.1 | -24.1 | -23.6 | : | N.A. | N.A. | N.A. |
| Exports goods and services ^{3.4} | % of GDP | 33.3 | 28.7 | 28.2 | 27.4 | 28.8 | : | : | 28.8 | 29.6 | : | N.A. | N.A. | N.A. |
| Imports goods and services ^{3.5} | % of GDP | 52.0 | 47.0 | 47.2 | 44.7 | 45.6 | : | : | 45.6 | 45.2 | : | N.A. | N.A. | N.A. |
| Current account balance* ^{3.6} | % of GDP | -10.2 | -10.9 | -12.9 | -10.8 | -9.6 | -10.9 | -10.5 | -9.6 | -8.9 | : | N.A. | N.A. | N.A. |
| Direct investment (FDI, net)* ^{3.7} | % of GDP | 6.8 | 9.6 | 8.2 | 8.0 | 8.9 | : | : | 8.9 | 8.9 | : | N.A. | N.A. | N.A. |
| International reserves ^{3.8} | mio EUR | 1 907.7 | 1 955.7 | 2 084.8 | 2 637.7 | 2 880.3 | : | : | 2 880.3 | 2 906.4 | : | 2 708.4 | 2 702.5 | : |
| Int. reserves / months Imp ^{3.9} | Ratio | 5.0 | 5.2 | 5.3 | 6.9 | 7.0 | : | : | : | : | : | : | : | : |
| 4 Monetary developments | | | | | | | | | | | | | | |
| CPI ^{4.1} | Ann. %ch | 2.0 | 1.9 | 1.6 | 1.9 | 1.3 | 2.2 | 2.6 | 1.9 | 2.4 | : | 1.9 | 2.0 | : |
| Producer prices ^{4.2} | Ann. %ch | : | : | : | : | -1.5 | : | : | 0.9 | 5.1 | : | : | : | : |
| Food prices ^{4.3} | Ann. %ch | 2.4 | 4.2 | 2.2 | 4.3 | 3.3 | : | : | 3.6 | 4.3 | : | 3.0 | 3.8 | : |
| M2 ^{4.4} | Ann. %ch | 4.7 | 5.7 | 4.0 | 7.2 | 4.6 | : | : | 5.6 | 6.0 | : | 6.1 | 5.7 | : |
| Exchange rate LEK/EUR ^{4.5} | Value | 139.04 | 140.26 | 140.14 | 139.74 | 137.37 | : | : | 136.10 | 135.85 | 134.41 | 135.42 | 134.58 | 133.21 |
| Nominal eff. exchange rate ^{4.6} | Index | : | : | : | : | : | : | : | : | : | : | : | : | : |
| 5 Financial indicators | | | | | | | | | | | | | | |
| Interest rate (3 months) ^{5.1} | % p.a. | 5.16 | 4.23 | 3.10 | 2.87 | 1.13 | : | : | 1.22 | : | : | : | : | : |
| Bond yield ^{5.2} | % p.a. | 6.77 | 6.03 | 3.45 | 2.77 | 2.05 | : | : | 1.69 | 1.94 | : | 2.00 | 1.95 | : |
| Stock markets ^{5.3} | Index | : | : | : | : | : | : | : | : | : | : | : | : | : |
| Credit growth ^{5.4} | Ann. %ch | 7.4 | -0.2 | 0.2 | 0.3 | -0.7 | : | : | 0.5 | 0.2 | : | -0.4 | -1.2 | : |
| Deposit growth ^{5.5} | Ann. %ch | 9.4 | 3.7 | 1.5 | 1.9 | 1.1 | : | : | 2.2 | 2.2 | : | 2.0 | 1.8 | : |
| Non performing loans ^{5.6} | % total | 22.8 | 23.2 | 22.8 | 17.7 | 18.3 | : | : | 18.3 | 17.4 | : | 16.6 | : | : |
| 6 Fiscal developments | | | | | | | | | | | | | | |
| General government balance* ^{6.1} | % of GDP | -3.4 | -5.0 | -5.2 | -4.0 | -1.8 | -2.0 | -1.9 | : | : | : | N.A. | N.A. | N.A. |
| General government debt* ^{6.2} | % of GDP | 62.1 | 65.6 | 70.1 | 73.1 | 72.0 | 69.5 | 67.0 | 72.0 | 68.4 | : | N.A. | N.A. | N.A. |

f: ECFIN forecast Spring 2017 published 11/05/2017

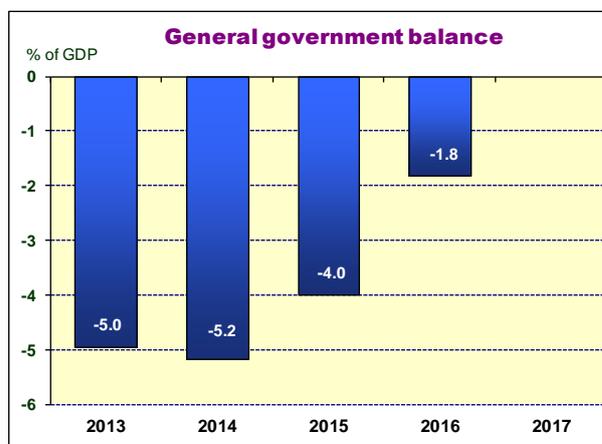
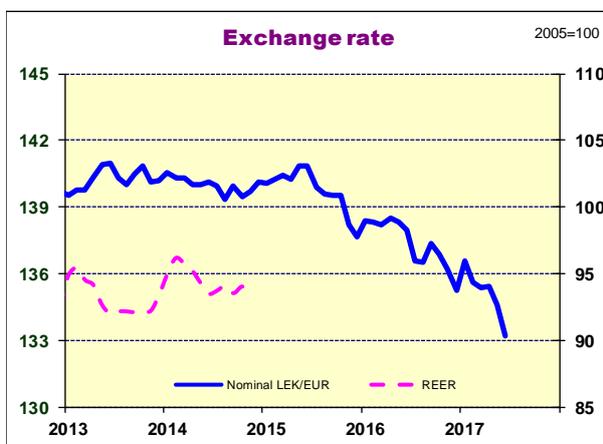
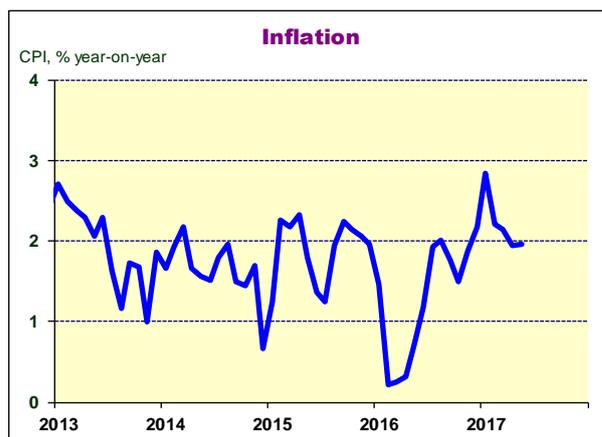
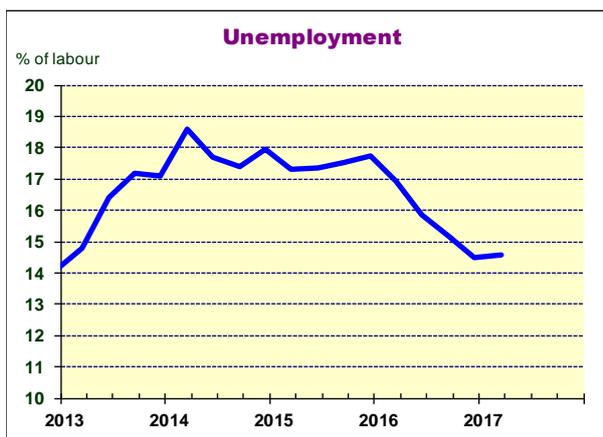
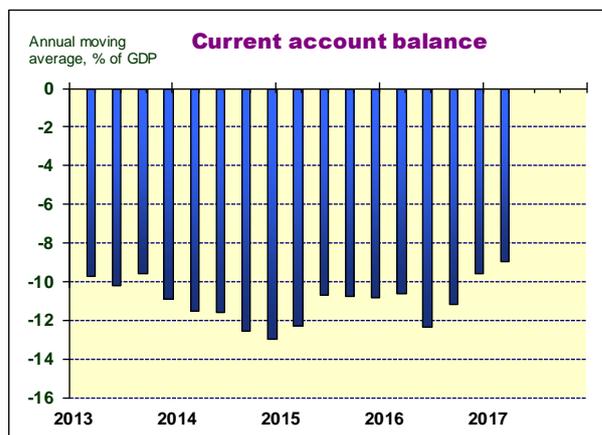
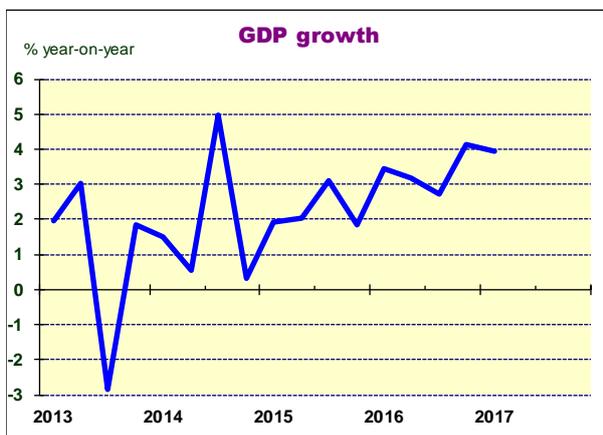
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

ALBANIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



Key developments

The annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place on 23 May. In the jointly agreed country-specific recommendations the country is invited to develop a proper strategy for fiscal consolidation, improve budget planning capacity, enhance fiscal transparency including information on payment arrears, and further foster resolution of non-performing loans, among other policy recommendations.

On 31 May 2017, the new government was elected by the Assembly of the former Yugoslav Republic of Macedonia. Its economic policy program comprises enhanced measures to lower unemployment and to develop the domestic SME sector, as well as a commitment to fiscal consolidation and fiscal transparency.

Real sector

The economy stagnated in the first quarter, compared to the same period one year earlier. Household spending increased further (+2.7% y-o-y), but at a more moderate pace than in the preceding two quarters. Investment spending, including inventories, increased only marginally (+0.6% y-o-y), on account of strong public infrastructure spending. Private investor sentiment remained weak. Government consumption was almost unchanged (+0.7% y-o-y). Export growth slowed down, but remained robust (+9% y-o-y). Despite weak investment spending, import growth accelerated to 10.7% y-o-y, driven mainly by demand for intermediate industrial goods from the export-oriented production of foreign firms. The value of fuels imports rose, too. Overall, net exports contributed negatively to economic growth. The manufacturing industry expanded slightly in the first quarter, by 2.3% y-o-y, after its output had declined, on average, by 2.2% in 2016.

Looking ahead to the second quarter, high frequency indicators send mixed signals. The industrial production index declined by 1.9% y-o-y in April, but May data points to a significant

pick-up in industrial activity (+9.2%). Retail sales declined sharply in the first five months (-12% y-o-y on average), in spite of robust private consumption data for the first quarter.

Labour market

Job creation remained dynamic also in the first quarter. Annual employment growth accelerated to 2.7% y-o-y, compared to 2.1% in the preceding three months, according to the Labour Force Survey. The bulk of new employment took place in the manufacturing, trade and transport sectors. However, there were job losses in the construction industry (-2% y-o-y). Labour market participation remained low, at 56.7%, and only slightly higher than in the same period one year earlier (56.4%).

The unemployment rate stood at 22.9% in the first quarter, significantly lower than one year earlier (24.5%). The labour force increased slightly (+0.7%), reflecting a rise in the female labour force which overcompensated the decline in the male labour force. In the age group 15-24 years, the unemployment rate dropped significantly compared to the first quarter 2016, by 5.8pp to 44.4%, on account of a drop in the number of young unemployed which was higher than the decline in the corresponding age group of the labour force. The growth in average monthly real net wages decelerated to 1.3% y-o-y in the first four months, from 3% in the same period one year earlier. The slowdown comes on the back of a lower increase in gross wages, as well as the renewed rise in consumer prices.

External sector

The current account deficit widened sharply in the first quarter (by 111% y-o-y). As a result, in the four quarters to March, it increased to 3.7% of GDP, compared to 3.1% for the year as a whole in 2016. This came on account of a larger merchandise trade deficit and sluggish private transfer inflows, which remained below their pre-year level. In April, an improvement in the trade of goods and stronger transfer inflows brought some relief. Altogether, in the first four

months, goods exports were some 15% higher than in the same period one year earlier, with established foreign companies accounting for the bulk of this increase. Net foreign direct investment inflows in the first quarter declined by 18.4% y-o-y. In the four quarters to March, they amounted to 3.3% of GDP, compared to 3.6% in 2016. In the first quarter, net FDI inflows covered about 87% of the current account deficit.

At the end of March 2017, the gross foreign debt stock, excluding central bank transactions, amounted to 75.1% of projected full-year GDP, slightly higher than at end-2016 (73.7% of estimated GDP). The increase came on the back of rising intercompany loans related to foreign direct investment, as well as private sector loans abroad. The external debt of the government increased only marginally in the first quarter. The central bank's foreign currency reserves declined throughout the first quarter and beyond, by 6.3% between end-2016 and May, mainly as a result of maturing commercial banks' deposits and seasonally rising private sector demand for foreign currency. Reserves remained adequate and covered five months of prospective imports.

Monetary developments

Consumer prices have been rising since the beginning of the year, albeit moderately so. In the first five months, the increase amounted to 0.7% y-o-y on average. This reflects rising core inflation, in particular cost for transport, clothing, restaurants and hotels, and communications. Energy and food prices – the two heavyweights in the index - declined somewhat compared to the same period one year earlier. Broad money supply M4 increased by 5.4% on average, in annual terms, in the first quarter. Its growth accelerated in April and May, as a result of both, higher deposits and currency in circulation. The central bank kept the key interest rate, the CB bills rate, unchanged at 3.25% in the second quarter. It had lowered the benchmark rate to this level in three successive steps between December and February.

Financial sector

Total credit growth to the non-government sector was almost flat in the first quarter, compared to one year earlier, but picked up in April and May. In the first five months of the year, total lending expanded by 0.5% on average. The expansion was entirely accounted for by lending to households (+6.7% y-o-y on average), which overcompensated for the

decline in lending to non-financial private companies (-4.5% y-o-y). Figures reflect banks' recent write-offs of non-performing loans, to which they were required by a central bank decision. Without this effect, total lending expanded by 6.7% y-o-y in the first five months.

Interest rates on outstanding loans and deposits declined further between end-February and end-May. Rates for loans and deposits in Denar dropped by 10bps each, to 6.3% and 2.2%, respectively, and on foreign currency loans by 10bp, to 5.0%. Rates on foreign currency deposits remained unchanged, at 0.9%. The funding of loans by deposits improved in April and May – the loans to deposits ratio (non-financial entities) declined compared to the first three months. At end-May, deposits were some 6.4% higher than one year earlier, when a bank run had led to high withdrawals. Foreign currency deposits posted a particularly sharp rise (+19%). On average, total deposits increased by 5.7% in the first five months, accounted for mainly by an increase in corporate deposits, and also reflecting solid growth in household deposits. The quality of banks' assets improved only marginally in the second quarter. The ratio of non-performing to total loans dropped by 0.2pps to 6.1% at end-March, compared to three months earlier.

Fiscal developments

In spite of the disappointing economic performance at the beginning of the year, government revenues were some 6.4% above pre-year level in the first five months, amounting to 39% of the full year projection. Tax revenues rose by 5.9% y-o-y. VAT receipts, accounting for some 48% of total tax revenue, were higher by 5.6%. Government spending was some 45% higher than in the same period one year earlier. The increase was due to a steep rise in capital expenditure (+48%). The central government fiscal deficit in the year to May amounted to 0.9% of projected full-year GDP. On 7 July, the new government adopted a budget revision for 2017, based on lower GDP growth expectations (2.2%, down from 3% previously). It foresees a reduction in capital spending by 10% of the original plan, higher contributions to cover the Pensions Fund deficit, and increased spending on social benefits. Debt levels increased only marginally in the first quarter. General government debt remained at some 39% of projected full-year GDP, and public debt, including the debt of public sector companies, amounted to some 48%.

TABLE



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia

| | | | | | | | ECFIN 2017 Spring forecast | | | | | | | |
|--|----------|---------|---------|---------|---------|---------|-------------------------------|-------|---------|---------|-------|---------|---------|--------|
| | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Q4 16 | Q1 17 | Q2 17 | Apr 17 | May 17 | Jun 17 |
| 1 Real sector | | | | | | | | | | | | | | |
| Industrial confidence ^{1.1} | Balance | 14.7 | 12.3 | 11.4 | 17.5 | 24.0 | : | : | 25.9 | 25.5 | : | 24.9 | 24.4 | : |
| Industrial production ^{1.2} | Ann. %ch | -6.6 | 3.2 | 4.8 | 4.9 | 3.9 | : | : | -1.7 | -1.6 | : | -1.9 | 9.2 | : |
| Gross domestic product ^{1.3} | Ann. %ch | -0.5 | 2.7 | 3.5 | 3.9 | 2.4 | 2.9 | 3.2 | 2.4 | 0.0 | : | N.A. | N.A. | N.A. |
| Private consumption ^{1.4} | Ann. %ch | -0.7 | 4.8 | 2.4 | 3.9 | 4.2 | 2.7 | 2.6 | 5.1 | 2.7 | : | N.A. | N.A. | N.A. |
| Gross capital formation ^{1.5} | Ann. %ch | 21.2 | -16.8 | 15.2 | 3.6 | -4.3 | 3.5 | 4.3 | -10.4 | 0.6 | : | N.A. | N.A. | N.A. |
| Construction ^{1.6} | Ann. %ch | 4.2 | -7.3 | 16.5 | 14.8 | 18.5 | : | : | 28.5 | -6.3 | : | N.A. | N.A. | N.A. |
| Retail sales ^{1.7} | Ann. %ch | : | -0.8 | 4.2 | 9.8 | 18.8 | : | : | 11.7 | -13.8 | : | -13.6 | -8.8 | : |
| 2 Labour market | | | | | | | | | | | | | | |
| Unemployment ^{2.1} | % | 31.0 | 29.0 | 28.0 | 26.1 | 23.7 | 22.4 | 20.9 | 23.1 | 22.9 | : | N.A. | N.A. | N.A. |
| Employment ^{2.2} | Ann. %ch | 0.8 | 4.3 | 1.7 | 2.3 | 2.5 | 1.8 | 1.9 | 2.1 | 2.7 | : | N.A. | N.A. | N.A. |
| Wages ^{2.3} | Ann. %ch | 0.2 | 1.2 | 1.0 | 2.7 | 2.0 | 1.1 | 1.6 | 2.1 | 2.3 | : | 1.5 | : | : |
| 3 External sector | | | | | | | | | | | | | | |
| Exports of goods ^{3.1} | Ann. %ch | -3.7 | 2.9 | 17.2 | 9.2 | 11.5 | : | : | 11.2 | 17.9 | : | 8.4 | : | : |
| Imports of goods ^{3.2} | Ann. %ch | 0.3 | -1.8 | 9.5 | 4.9 | 7.8 | : | : | 4.0 | 16.8 | : | 0.7 | : | : |
| Trade balance* ^{3.3} | % of GDP | -26.5 | -22.9 | -21.7 | -20.2 | -18.8 | -17.5 | -16.7 | -18.8 | -19.3 | : | N.A. | N.A. | N.A. |
| Exports goods and services ^{3.4} | % of GDP | 44.5 | 42.3 | 47.7 | 48.8 | 49.2 | : | : | 49.2 | 50.2 | : | N.A. | N.A. | N.A. |
| Imports goods and services ^{3.5} | % of GDP | 66.9 | 60.4 | 64.9 | 65.0 | 63.8 | : | : | 63.8 | 65.2 | : | N.A. | N.A. | N.A. |
| Current account balance* ^{3.6} | % of GDP | -3.2 | -1.6 | -0.5 | -2.1 | -3.1 | -2.2 | -1.9 | -3.1 | -3.7 | : | N.A. | N.A. | N.A. |
| Direct investment (FDI, net)* ^{3.7} | % of GDP | 1.7 | 3.3 | 2.3 | 2.2 | 3.6 | : | : | 3.6 | 3.3 | : | N.A. | N.A. | N.A. |
| International reserves ^{3.8} | mio EUR | 2 193.3 | 1 993.0 | 2 436.5 | 2 261.8 | 2 613.4 | : | : | 2 613.4 | 2 534.4 | : | 2 496.0 | 2 448.5 | : |
| Int. reserves / months Imp ^{3.9} | Ratio | 6.1 | 5.6 | 6.3 | 5.6 | 6.0 | : | : | 6.0 | 5.6 | : | 5.5 | : | : |
| 4 Monetary developments | | | | | | | | | | | | | | |
| CPI ^{4.1} | Ann. %ch | 3.3 | 2.8 | -0.3 | -0.2 | -0.2 | 0.8 | 2.3 | -0.1 | 0.5 | : | 1.0 | 0.1 | : |
| Producer prices ^{4.2} | Ann. %ch | 4.5 | 0.4 | -1.2 | -4.1 | -0.1 | : | : | -0.3 | 0.1 | : | 0.3 | -0.7 | : |
| Food prices ^{4.3} | Ann. %ch | 2.3 | 3.4 | -1.0 | 0.0 | -1.3 | : | : | -1.3 | -1.8 | : | -0.4 | 0.7 | : |
| Monetary aggregate M4 ^{4.4} | Ann. %ch | 7.5 | 4.0 | 8.0 | 8.2 | 4.4 | : | : | 5.9 | 5.4 | : | 5.9 | 6.4 | : |
| Exchange rate MKD/EUR ^{4.5} | Value | 61.53 | 61.58 | 61.62 | 61.61 | 61.60 | : | : | 61.49 | 61.56 | 61.65 | 61.58 | 61.66 | 61.69 |
| Nominal eff. exchange rate ^{4.6} | Index | 100.3 | 101.8 | 102.9 | 101.6 | 102.6 | : | : | 103.0 | 103.2 | : | 102.9 | 102.4 | : |
| 5 Financial indicators | | | | | | | | | | | | | | |
| Interest rate (3 months) ^{5.1} | % p.a. | : | : | : | : | : | : | : | : | : | : | : | : | : |
| Bond yield ^{5.2} | % p.a. | 8.50 | 8.04 | 7.46 | 7.08 | 6.61 | : | : | 6.47 | 6.38 | : | 6.30 | : | : |
| Stock markets ^{5.3} | Index | 1 890 | 1 726 | 1 735 | 1 731 | 1 887 | : | : | 2 113 | 2 251 | 2 247 | 2 233 | 2 226 | 2 283 |
| Credit growth ^{5.4} | Ann. %ch | 7.3 | 4.3 | 8.4 | 9.1 | 4.6 | : | : | 1.4 | 0.1 | : | 0.6 | 1.5 | : |
| Deposit growth ^{5.5} | Ann. %ch | 7.2 | 4.8 | 8.2 | 7.9 | 4.3 | : | : | 4.7 | 5.3 | : | 6.3 | 6.4 | : |
| Non-performing loans ^{5.6} | % total | 10.4 | 11.9 | 11.6 | 10.3 | 6.3 | : | : | 6.3 | 6.1 | : | N.A. | N.A. | N.A. |
| 6 Fiscal developments | | | | | | | | | | | | | | |
| Central government balance ^{6.1} | % of GDP | -3.8 | -3.8 | -4.2 | -3.5 | -2.6 | -3.2 | -3.0 | -4.4 | -2.4 | : | N.A. | N.A. | N.A. |
| General government debt ^{6.2} | % of GDP | 33.7 | 34.0 | 38.2 | 38.0 | 39.1 | 41.0 | 40.8 | 40.9 | 37.8 | : | N.A. | N.A. | N.A. |

f: ECFIN forecast Spring 2017 published 11/05/2017

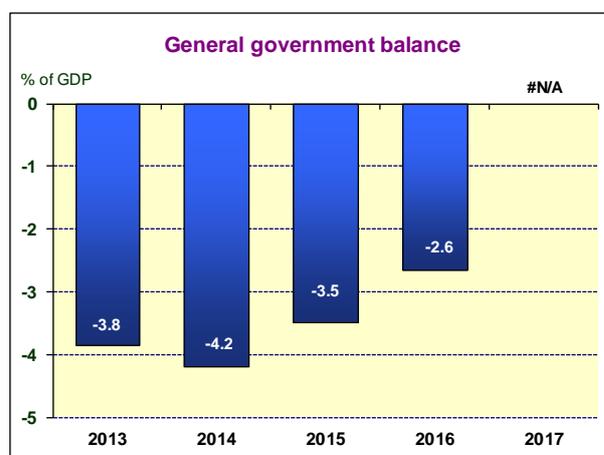
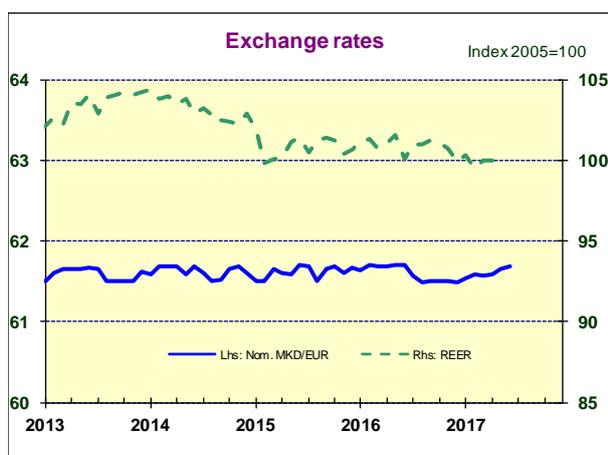
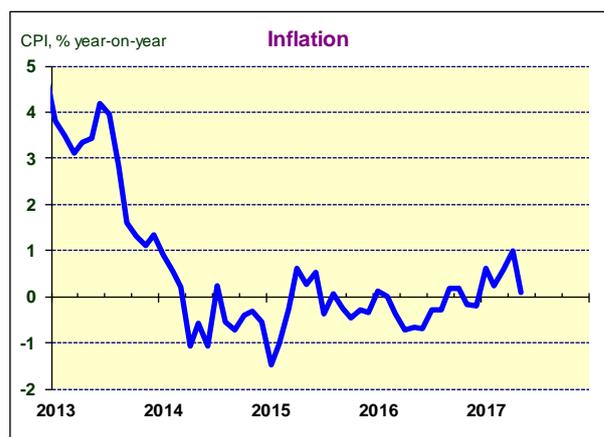
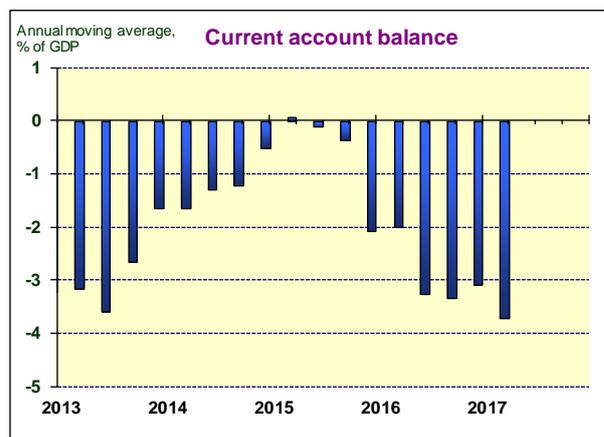
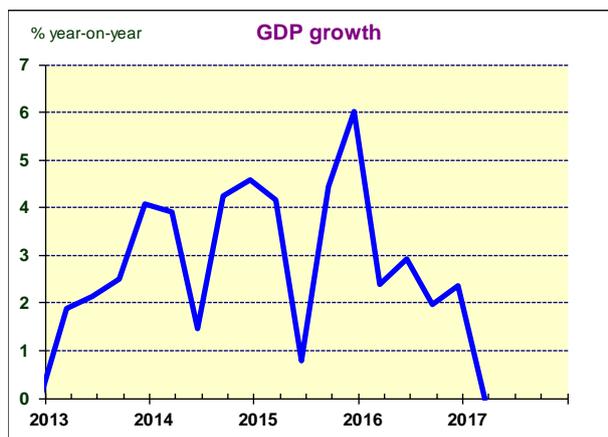
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia



MONTENEGRO



Key developments

On 5 June, Montenegro officially became the 29th NATO member.

On 20 June, two additional accession negotiation chapters with the EU were opened: Chapter 1 (Free movement of goods) and 22 (Regional Policy and coordination of structural instruments), while Chapter 30 (External relations) was provisionally closed. So far, 28 negotiation chapters out of 35 have been opened and 3 provisionally closed.

On 25 May the annual economic and financial dialogue between the EU and the Western Balkans and Turkey jointly agreed country-specific conclusions and called on Montenegro to take, inter alia, additional fiscal measures in order to stabilise public debt and reduce public spending as well as to consider establishing an independent fiscal council.

The privatisation process stalled in April after the government decided to stop negotiations on the sale of a 30% stake in the Port of Bar and a 51% stake in the rail company Montecargo, arguing low price, insufficient planned investments and unclear plans from the same bidder. In early July, Italian utility A2A officially started the process of divesting its 41.7% stake in Montenegro's electric power company EPCG.

Real sector

In 2016, Montenegro's GDP per capita expressed in purchasing power standard remained –for the second consecutive year– at 42% of the EU average.

In the first quarter of 2017, the revival of bank lending and government consumption added momentum to domestic demand; until then, mostly driven by investment. Overall, the economy expanded by robust 3.2% y-o-y, largely driven by a rapid (30.3% y-o-y) growth in gross fixed capital formation, reflecting strong construction activity in infrastructure. Private consumption recorded a 6.9% y-o-y increase, boosted by the fast growth of household loans and a 2% y-o-y increase in wages, pensions and employment. Despite the adoption of some fiscal

consolidation measures in December last year, government consumption increased by 3.5% y-o-y in the first quarter of 2017, compared to marginal 0.1% growth a year ago. A significant reduction of stocks (-47.8% y-o-y) marked the only negative contribution to domestic demand. Net exports also contributed negatively to growth as the strong import dependence of investment boosted imports (up by 14% y-o-y), which reached 74% of GDP. By contrast, despite increasing by 19% y-o-y (partly due to base effects), exports covered only one third of imports.

In the first five months of 2017, industrial output declined by 8.7% y-o-y, largely driven by the sharp contraction in electricity production due to a two-month overhaul of the thermal power plant, and a 14% decline in basic metals production. Metal ores (i.e. bauxite) led the surge in mining production, largely outpacing the 15% y-o-y increase in coal production. At the same time, the output of other manufacturing products increased, like food (5% y-o-y), beverages (19%), chemicals (26%) and non-metallic mineral products (i.e. marble) (23%).

Labour market

Overall economic growth supported the improvement of the labour market in the first quarter of 2017. According to the latest Labour Force Survey (LFS), the unemployment rate declined to 17.7%, down from 19.3% a year before. During the same period, total employment increased by 2%. As a result, the overall employment rate reached 51.6%, one percentage point higher than a year earlier. By gender, the employment rate of men further increased, reaching 57.3% significantly higher than the 45.8% rate for women, the latter recording some slight decline over the year. Youth unemployment remains high, accounting for 35% of the labour force aged 15-24.

In May 2017, the average gross wage increased by 1.9% y-o-y, and the net wage by 2.2% y-o-y, reaching EUR 766 and 511, respectively. The fastest wage increases were recorded in accommodation and food services, administrative services, and water supply. By contrast, some contraction was recorded in processing industry wages.

External sector

Investment related imports caused the current account deficit to widen further, to 19.5% of GDP in the four quarters to March, compared to 19.0% at the end of 2016 and 15.8% in the same period a year earlier. The increase in goods imports keeps outweighing the growth of goods exports, driving the merchandise trade deficit up to 44.8% of GDP in March, from 41.2% a year before. The surplus from the balance of services accounted for 20.3% of GDP, while the balances of primary and secondary income offered far lower surpluses of 1.5% and 3.4% of GDP, respectively.

In the four quarters to March, net FDI inflows surged by 45.4% y-o-y, totalling 10.6% of GDP and covering half the current account deficit in the same period.

Monetary developments

The strong number of tourist arrivals supported the increase in food, accommodation and restauration prices. In addition, transport prices (i.e. fuels) have been growing uninterruptedly since December 2016. Consequently, the annual inflation as measured by the harmonised index of consumer prices further accelerated to 2.6% in May, up from 2.5% in Q1 and 2.4% in April.

Financial sector

On 2 June, the Parliament adopted amendments to the Law on Voluntary Financial Restructuring of Debts to Financial Institutions (also known as 'Podgorica approach'). The amended law extends the range of loans eligible for restructuring, and introduces new incentives for both banks and debtors to restructure impaired loans.

Overall bank lending accelerated, from 5.5% y-o-y in the first quarter to 10.7% in May. After the rapid increase in government borrowing in March, credit to households and private companies led the expansion of credit in May, growing by 12% and 4% y-o-y, respectively.

Bank deposits recorded 10.9% y-o-y growth in May, slightly accelerating from 9.5% annual growth in the first quarter. The increase in deposits continues to be largely driven by domestic private companies and households.

The increase in lending activity also supported the reduction in the non-performing loans ratio, which declined to 9.3% in May, compared to

12.2% a year before.

Fiscal developments

Economic growth and new fiscal measures adopted in late 2016 had a marked impact on revenues in the first quarter of 2017. Income from excises increased by 21.9% y-o-y, VAT receipts rose by 5% y-o-y, and corporate income taxes soared by 17.5% y-o-y. The latter was supported by the government restructuring scheme of companies' tax arrears. Nonetheless, the first-quarter general government deficit amounted to EUR 75 million, or 1.9% of expected full-year GDP. Apart from the decline in personal income tax and social security contributions, the main reasons for the fiscal gap were substantial increases in wages, interest payments, and social protection expenditure, as well as the repayment of past contingent liabilities. So far, capital expenditure has remained largely below the plan, as there was no new withdrawal of funds to finance the highway. In the first five months of 2017, the central government deficit slightly narrowed to 1.5% of GDP.

On 8 June 2017, the government adopted a fiscal strategy for the period 2017-2020. Proposed measures include additional increases in excise duties and in the general VAT rate, lower spending on wages, replacement of every three retired civil servants by one, benefit curbs for mothers of three children or more, as well as additional cuts to budget discretionary spending. The strategy aims to bring the budget into balance in 2019 and to lower the public debt ratio as of 2020.

On 29 June, the parliament adopted amendments to the 2017 budget, necessary for a technical harmonisation of the budget law with new amendments in public administration organisation resulting in the merger of some administrations. The rebalance of the budget also adjusted for EUR 8 million of higher revenue.

In the first quarter of 2017, net public debt (excluding municipalities) further increased to 61.6% of GDP, up from 59.5% a year before, mostly driven by a EUR 180 million increase in government borrowing from local banks and issuance of treasury bills. The stock of external public debt –which accounts for 80.6% of the total– remained practically flat in the first quarter of 2017.

TABLE

European Commission, ECFIN-D-1



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| | | 2012 2013 2014 2015 2016 | | | | | ECFIN 2017 Spring forecast | | Q4 16 Q1 17 Q2 17 Apr 17 May 17 Jun 17 | | | | | |
|--|-----------|--------------------------|-------|--------|--------|--------|-------------------------------|-------|--|--------|--------|--------|--------|--------|
| | | | | | | | 2017 | 2018 | | | | | | |
| 1 Real sector | | | | | | | | | | | | | | |
| Industrial confidence ^{1.1} | Balance | N.A. | 8.7 | 11.1 | 9.8 | 3.0 | : | : | -0.1 | 5.0 | 7.4 | 9.5 | 8.3 | 4.5 |
| Industrial production ^{1.2} | Ann.%ch | -7.1 | 10.7 | -10.5 | 7.9 | -3.3 | : | : | -4.4 | -9.8 | : | -10.2 | -1.2 | : |
| Gross domestic product ^{1.3} | Ann.%ch | -2.7 | 3.5 | 1.8 | 3.4 | 2.5 | 3.3 | 3.5 | 3.4 | 3.2 | : | N.A. | N.A. | N.A. |
| Private consumption ^{1.4} | Ann.%ch | -3.9 | 1.6 | 2.9 | 2.2 | 2.6 | 1.6 | 2.1 | 3.9 | 6.9 | : | N.A. | N.A. | N.A. |
| Gross fixed capital formation ^{1.5} | Ann.%ch | -2.4 | 10.7 | -2.5 | 11.9 | 29.6 | 19.9 | 8.9 | 28.6 | 30.3 | : | N.A. | N.A. | N.A. |
| Construction index ^{1.6} | Ann.%ch | -13.2 | 9.7 | 2.0 | 5.8 | 31.5 | : | : | 40.6 | 37.5 | : | N.A. | N.A. | N.A. |
| Retail sales ^{1.7} | Ann.%ch | 6.7 | 11.3 | 2.5 | 4.5 | 4.1 | : | : | 4.5 | 4.8 | : | 4.9 | 5.2 | : |
| 2 Labour market | | | | | | | | | | | | | | |
| Unemployment ^{2.1} | % | 19.7 | 19.5 | 18.2 | 17.8 | 18.0 | 17.5 | 17.3 | 17.9 | 17.7 | : | N.A. | N.A. | N.A. |
| Employment ^{2.2} | Ann.%ch | 1.9 | 1.4 | 6.6 | 1.9 | 1.1 | 2.2 | 2.7 | 0.1 | 2.0 | : | N.A. | N.A. | N.A. |
| Wages ^{2.3} | Ann.%ch | 0.8 | -0.2 | -0.3 | 0.3 | 3.5 | 1.5 | 1.9 | 4.1 | 3.8 | : | 2.4 | 1.9 | : |
| 3 External sector | | | | | | | | | | | | | | |
| Exports of goods ^{3.1} | Ann.%ch | -17.6 | 2.1 | -9.7 | -9.0 | 6.2 | : | : | 5.3 | 35.8 | : | 6.1 | 4.8 | : |
| Imports of goods ^{3.2} | Ann.%ch | -0.1 | -2.7 | 0.6 | 3.2 | 12.0 | : | : | 10.9 | 19.6 | : | -2.1 | -2.3 | : |
| Trade balance* ^{3.3} | %of GDP | -43.5 | -39.5 | -39.8 | -40.4 | -43.9 | -47.0 | -47.1 | -43.9 | -44.8 | : | -49.2 | -49.0 | : |
| Exports goods and services ^{3.4} | %of GDP | 43.7 | 41.3 | 40.1 | 42.5 | 42.2 | : | : | 27.6 | 25.1 | : | N.A. | N.A. | N.A. |
| Imports goods and services ^{3.5} | %of GDP | 68.1 | 61.4 | 60.0 | 61.1 | 65.7 | : | : | 66.3 | 73.8 | : | N.A. | N.A. | N.A. |
| Current account balance* ^{3.6} | %of GDP | -18.5 | -14.5 | -15.2 | -13.3 | -19.0 | -22.6 | -22.5 | -19.0 | -19.5 | : | N.A. | N.A. | N.A. |
| Direct investment (FDI, net)* ^{3.7} | %of GDP | 14.5 | 9.6 | 10.2 | 17.1 | 9.8 | : | : | 9.8 | 10.6 | : | N.A. | N.A. | N.A. |
| International reserves ^{3.8} | mio EUR | 347.9 | 423.7 | 544.7 | 673.7 | 803.0 | : | : | 803.0 | 757.8 | : | 750.0 | 719.8 | : |
| Int. reserves / months Imp ^{3.9} | Ratio | 2.3 | 2.9 | 3.7 | 4.4 | 4.7 | : | : | 4.7 | 4.3 | : | 4.2 | 4.1 | : |
| 4 Monetary developments | | | | | | | | | | | | | | |
| HICP ^{4.1} | Ann.%ch | 4.0 | 1.8 | -0.5 | 1.4 | 0.1 | 2.6 | 2.1 | 0.7 | 2.5 | : | 2.4 | 2.6 | : |
| Producer prices ^{4.2} | Ann.%ch | 1.9 | 1.7 | 0.2 | 0.3 | -0.1 | : | : | -0.2 | 1.1 | : | 0.6 | 0.8 | : |
| Food prices ^{4.3} | Ann.%ch | 4.2 | 4.0 | -1.4 | 2.9 | -0.8 | : | : | 0.0 | 2.6 | : | 3.0 | 2.3 | : |
| M21 ^{4.4} | Ann.%ch | : | : | : | : | : | : | : | : | : | : | : | : | : |
| Exchange rate EUR/EUR ^{4.5} | Value | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | : | : | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Nominal eff. exchange rate ^{4.6} | Index | N.A. | N.A. | N.A. | N.A. | N.A. | : | : | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| 5 Financial indicators | | | | | | | | | | | | | | |
| Interest rate (3 months) ^{5.1} | %p.a. | 5.32 | 3.39 | 1.60 | : | : | : | : | : | 2.35 | : | : | : | : |
| Bond yield ^{5.2} | %p.a. | 4.75 | 3.19 | 1.26 | 0.50 | 1.58 | : | : | : | 2.53 | 1.88 | : | : | 1.88 |
| Stock markets ^{5.3} | Index | 9 091 | 9 532 | 10 696 | 11 949 | 11 113 | : | : | 10 977 | 11 394 | 11 162 | 11 639 | 10 892 | 10 957 |
| Credit growth ^{5.4} | Ann.%ch | -0.7 | 3.1 | -1.9 | 0.8 | 1.3 | : | : | 1.3 | 5.5 | : | 8.8 | 10.7 | : |
| Deposit growth ^{5.5} | Ann.%ch | 9.0 | 5.9 | 10.0 | 13.7 | 9.4 | : | : | 9.4 | 9.5 | : | 9.8 | 10.9 | : |
| Non-performing loans ^{5.6} | %of total | 17.6 | 18.4 | 16.8 | 13.4 | 10.3 | : | : | 10.3 | 9.9 | : | 9.5 | 9.3 | : |
| 6 Fiscal developments | | | | | | | | | | | | | | |
| General government balance ^{6.1} | %of GDP | -5.7 | -5.2 | -2.9 | -8.4 | -3.6 | -5.8 | -5.1 | -3.6 | -1.9 | : | : | : | : |
| General government debt ^{6.2} | %of GDP | 53.4 | 57.5 | 58.6 | 62.8 | 67.5 | 71.1 | 75.8 | 62.4 | 61.6 | : | : | : | : |

f: ECFIN forecast Spring 2017 published 11/05/2017

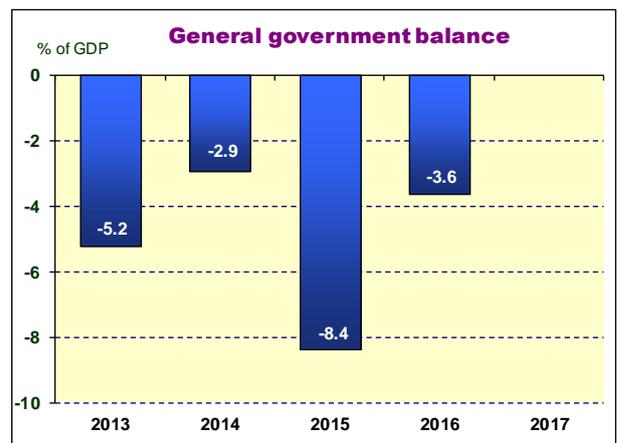
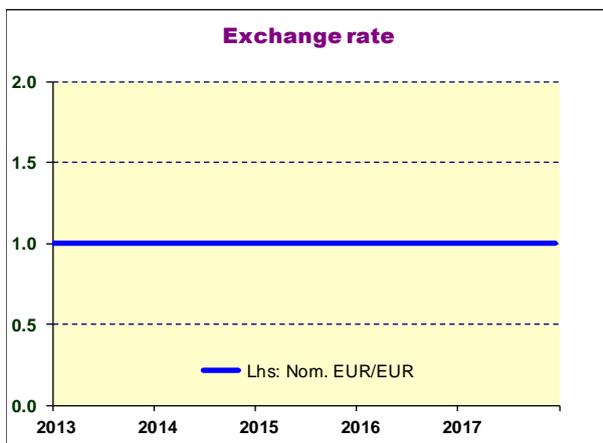
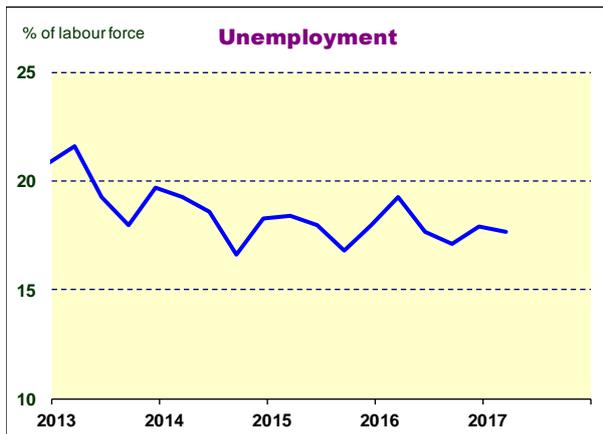
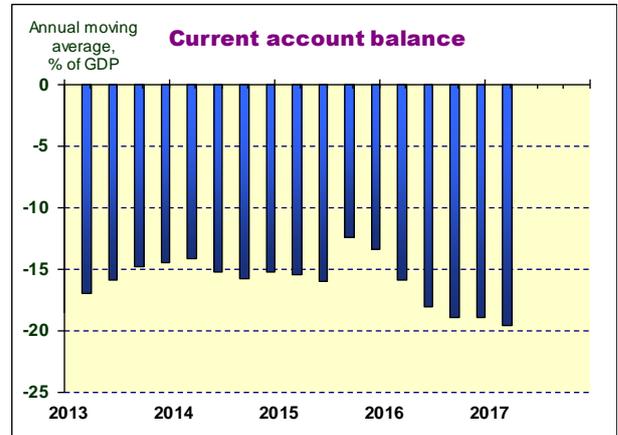
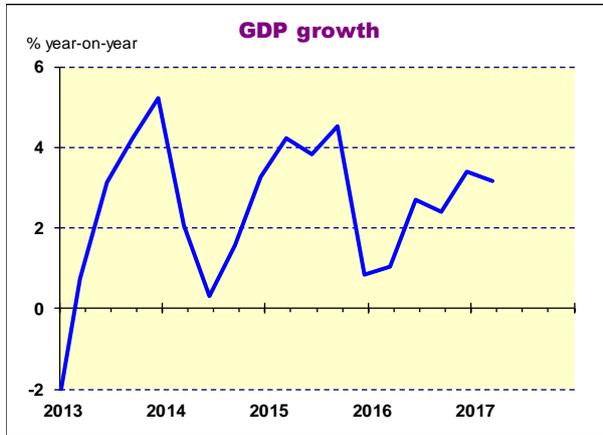
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



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SERBIA



Key developments

Following the elections held in April, former Prime Minister Aleksandar Vučić became President on 1 June. A new government led by Ana Brnabić, previously in charge of public administration and local self-government, was elected on 29 June. Most of the ministers, including the finance minister, were reappointed and a new ministry for European integration was established.

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, took place on 23 May and invited Serbia *inter alia* to further strengthen fiscal consolidation, continue the restructuring of state-owned enterprises and increase the efficiency of the energy sector, implement measures to reduce non-performing loans, and promote the use of the local currency.

In June, two more EU accession negotiation chapters were opened – chapter 7 on intellectual property law and chapter 29 on customs union. With that, 10 out of 35 negotiation chapters have been opened so far since the start of negotiations, two of which have been provisionally closed.

In June, the IMF undertook its 7th mission to review the implementation of Serbia's Stand-By Arrangement. In its press release the Fund highlighted improved macroeconomic and fiscal results and the need to strengthen institutions and continue reforms to address remaining vulnerabilities and structural weaknesses.

Real sector

In the first quarter of 2017 the economy expanded by 1.2% y-o-y, mainly driven by household consumption and exports. Growth decelerated from the previous quarter largely due to effects from a spell of an exceptionally cold weather which impacted heavily in particular the energy sector and investment activity. Government consumption growth was subdued at 0.5% y-o-y, reflecting tight expenditure control and elevated inflation in the beginning of the year. The ongoing labour market recovery and vibrant consumer lending

activity supported household consumption, whose growth increased to 1.9% y-o-y.

On the supply side, economic growth remained broad-based, although agriculture and construction activity declined by 2.2% and 5.1% y-o-y respectively in the first quarter. Industry performance remained positive but growth in the first quarter was driven mainly by the sector of services.

High frequency indicators signal a continuation of the economic expansion. After some months of weak data in the beginning of the year due to adverse weather conditions and calendar effects, industrial production fell by 0.1% y-o-y by the end of April. However, in May industrial production recovered strongly when it grew by 6.2% y-o-y, bringing growth in the first five months to 1.2% y-o-y. Mining and quarrying – which had contracted in the first four months – as well as manufacturing were the sectors driving the revival of industrial production in May, picking up by 10% and 9.2% y-o-y respectively. Manufacturing growth remained broad-based with the majority of the industries expanding their production.

Following a slowdown in April, retail trade confirmed its previous increasing tendency by a real 6.1 % y-o-y growth in May (3.2% y-o-y in the period January-May).

Labour market

According to LFS data, unemployment steadily pursued its downward path, dropping by 4.4 pps. y-o-y to 14.6% in the first quarter. The employment rate improved as well, going up to 44.2%, while the activity rate slightly declined to 51.8%. Employment increased by 81.5 thousand or 3.2% y-o-y as formal employment grew by close to 100 thousand people. As a result, the share of informal employment declined by 1.3pps to 19%. Most of the employment gains were in services and manufacturing.

Data on registered employment and unemployment also confirm the strengthening of the labour market. Accordingly, the number of registered jobseekers, published by the National Employment Service, fell by 8.5 % y-o-y in May and on average by 7.6% y-o-y in the first five

months. Growth in gross real wages accelerated to 3.6% y-o-y in May, bringing the average wage growth to 0.8% y-o-y in January-May.

External sector

In the period January-May, exports of goods saw a strong growth of 13.4 % y-o-y in euro terms. Export demand continued to be driven mainly by the EU countries – Serbia's main trading partners. The growth in merchandise exports remained broad-based and all sectors, with the exception of energy, contributed to it. Imports of goods growth accelerated markedly to 14.4% y-o-y over the same period. It was underpinned by a robust rise in domestic demand, higher energy imports due to adverse weather conditions, and soaring oil and coal prices. As a result, in January-May the trade deficit increased by 18 % y-o-y to EUR 1,790.4 million or 5% of the estimated full-year GDP.

Driven by a growing trade deficit the current account deficit widened in the first quarter. In the four quarters to March, the current account deficit increased to 5.1 % of GDP – 1.1 pps. more than its 2016 level. It deteriorated further in April to EUR 825.2 million, almost twice as high in euro terms as in the same period in 2016. In the first four months of the year, primary income outflows increased by 27% y-o-y, driven by higher dividends and reinvested earnings from direct investment, while the surplus on the secondary income account grew by 4.4% y-o-y, supported mainly by an 8.5% y-o-y growth of workers' remittances. Net FDI inflows stood largely unchanged as a share of GDP in the first quarter (at 5.5%). However, in a marked change from the previous year, by the end of April net FDI covered only three-quarters of the current account deficit in the same period.

Monetary developments

Since the beginning of the year, inflation moved within the new central bank's tolerance band of $3\pm 1.5\%$. It went up in early 2017, on the back of rising prices for unprocessed food and energy, peaking at 4.0% in April. Price pressures eased somewhat in May when inflation fell to 3.5% y-o-y. Core inflation inched up to 2.3 % y-o-y in March and remained unchanged since then. Inflation expectations of the financial and corporate sectors remained stable and anchored within the target band. The central bank kept its key policy rate unchanged at 4 %. The Executive Board reiterated that it remains vigilant with

regard to movements in international financial markets and global oil prices.

The dinar's exchange rate remained broadly stable against the euro in the first five months but appreciated in nominal terms by 1.1% y-o-y in June. Since April, the central bank intervened on the foreign exchange market by buying EUR 160 million. The foreign exchange reserves rose to EUR 9.5 billion in May, covering more than six months' worth of imports of goods and services.

Financial sector

The growth in domestic credit declined further to 5.4% in May, as the expansion of net claims on government moderated strongly, influenced by a good budget performance. Growth of lending to households continued unabated at double-digit rates (11.5% y-o-y in May). Lending to companies, however, remained weak, expanding by only 1.4% y-o-y. Non-monetary sector deposits grew by 9.1% y-o-y, covering 98% of lending to non-government sectors. In the first quarter, the dinarisation of corporate and household loans increased slightly, by 0.5 pps. At the end of March, dinar-denominated loans stood at 31.7% of total.

The NPL ratio fell to 16.5% in May, i.e. 0.5 pps. lower compared to the beginning of the year.

Fiscal developments

The good budget performance of 2016 continued at the beginning of 2017. In the period January-May, the general government budget was in surplus of RSD 23 billion or 0.5% of the estimated annual GDP. Strong revenue growth continued to be the main driving force behind the better-than-expected budget results. In the same period, total revenue increased by 7.2% y-o-y, underpinned by robust collection of nearly all taxes. Total expenditure growth was contained to just 0.5% y-o-y. Spending on goods and services went up by 7.8% y-o-y, while other major categories of outlays, like pensions and expenditure for employees, increased only marginally, by 0.6% and 1.5% respectively. Importantly, largely as a result of fiscal consolidation efforts, spending on interest payments fell by 2% y-o-y. However, growth-friendly capital expenditure also declined – by 22.4% y-o-y. By the end of May, government debt stood at EUR 24,059 billion (67.1 % of the estimated full-year GDP).

TABLE

European Commission, ECFIN-D-1



SERBIA

| | | | | | | | ECFIN 2017 Spring forecast | | | | | | | |
|--|----------|----------|----------|---------|----------|----------|-------------------------------|-------|----------|---------|--------|---------|---------|--------|
| | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Q4 16 | Q1 17 | Q2 17 | Apr 17 | May 17 | Jun 17 |
| 1 Real sector | | | | | | | | | | | | | | |
| Industrial confidence ^{1.1} | Balance | N.A. | N.A. | N.A. | N.A. | N.A. | : | : | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Industrial production ^{1.2} | Ann. %ch | -3.4 | 5.6 | -6.1 | 8.4 | 4.8 | : | : | 2.8 | 0.7 | : | -2.6 | 6.2 | : |
| Gross domestic product ^{1.3} | Ann. %ch | -1.0 | 2.6 | -1.8 | 0.8 | 2.8 | 3.2 | 3.6 | 2.5 | 1.2 | : | N.A. | N.A. | N.A. |
| Private consumption ^{1.4} | Ann. %ch | -2.1 | -0.4 | -1.3 | 0.4 | 0.8 | 2.6 | 3.3 | 1.0 | 1.9 | : | N.A. | N.A. | N.A. |
| Gross fixed capital formation ^{1.5} | Ann. %ch | 13.2 | -12.0 | -3.6 | 5.6 | 4.9 | 5.8 | 6.0 | 2.6 | 1.3 | : | N.A. | N.A. | N.A. |
| Construction index ^{1.6} | Ann. %ch | -0.2 | -24.0 | -3.8 | 12.8 | 5.1 | : | : | -2.4 | -1.6 | : | N.A. | N.A. | N.A. |
| Retail sales ^{1.7} | Ann. %ch | -3.9 | -5.3 | 2.0 | 1.4 | 7.7 | : | : | 6.5 | 3.6 | : | -0.9 | 6.1 | : |
| 2 Labour market | | | | | | | | | | | | | | |
| Unemployment ^{2.1} | % | 23.9 | 22.1 | 19.2 | 17.7 | 15.3 | 13.1 | 11.0 | 13.0 | 14.6 | : | N.A. | N.A. | N.A. |
| Employment ^{2.2} | Ann. %ch | -1.1 | 3.7 | 10.1 | 0.6 | 5.6 | 1.5 | 1.7 | 5.8 | 3.2 | : | N.A. | N.A. | N.A. |
| Wages ^{2.3} | Ann. %ch | 9.0 | 5.7 | 1.1 | -0.4 | 3.8 | : | : | 3.5 | 104.3 | : | 1.2 | 7.2 | : |
| 3 External sector | | | | | | | | | | | | | | |
| Exports of goods ^{3.1} | Ann. %ch | 4.5 | 24.7 | 1.5 | 7.9 | 11.4 | : | : | 15.7 | 13.4 | : | 6.7 | 18.7 | : |
| Imports of goods ^{3.2} | Ann. %ch | 3.2 | 4.7 | 0.2 | 5.8 | 5.9 | : | : | 7.2 | 15.4 | : | 5.9 | 19.2 | : |
| Trade balance* ^{3.3} | %of GDP | -18.8 | -13.0 | -13.0 | -13.0 | -11.6 | -10.6 | -11.1 | -11.6 | -12.1 | : | N.A. | N.A. | N.A. |
| Exports goods and services ^{3.4} | %of GDP | 36.3 | 40.7 | 43.4 | 46.7 | 50.8 | : | : | 50.8 | 51.6 | : | N.A. | N.A. | N.A. |
| Imports goods and services ^{3.5} | %of GDP | 53.6 | 51.9 | 54.4 | 56.5 | 58.3 | : | : | 58.3 | 59.8 | : | N.A. | N.A. | N.A. |
| Current account balance* ^{3.6} | %of GDP | -11.6 | -6.1 | -6.0 | -4.7 | -4.0 | -4.3 | -4.7 | -4.0 | -5.1 | : | N.A. | N.A. | N.A. |
| Direct investment (FDI, net)* ^{3.7} | %of GDP | 2.2 | 3.9 | 3.7 | 5.4 | 5.5 | : | : | 5.5 | 5.5 | : | N.A. | N.A. | N.A. |
| International reserves ^{3.8} | mio EUR | 10 914.7 | 11 188.8 | 9 907.2 | 10 378.0 | 10 204.6 | : | : | 10 204.6 | 9 730.4 | : | 9 409.4 | 9 492.1 | : |
| Int. reserves / months Imp ^{3.9} | Ratio | 9.3 | 9.2 | 8.0 | 8.1 | 7.5 | : | : | 7.5 | 7.0 | : | 6.7 | : | : |
| 4 Monetary developments | | | | | | | | | | | | | | |
| CPI ^{4.1} | Ann. %ch | 7.3 | 7.9 | 2.1 | 1.4 | 1.1 | 3.4 | 3.5 | 1.5 | 3.1 | : | 4.0 | 3.5 | : |
| Producer prices ^{4.2} | Ann. %ch | 6.4 | 0.8 | 0.2 | 0.7 | 2.2 | : | : | 2.2 | 3.1 | : | 4.5 | 3.2 | : |
| Food prices ^{4.3} | Ann. %ch | 15.4 | -2.5 | 2.2 | -0.1 | 0.4 | : | : | 0.4 | 2.8 | : | 4.6 | 3.0 | : |
| M3 ^{4.4} | Ann. %ch | 9.4 | 4.6 | 7.6 | 6.6 | 11.6 | : | : | 11.6 | 12.1 | : | 10.7 | 9.0 | : |
| Exchange rate RSD/EUR ^{4.5} | Value | 113.01 | 113.09 | 117.25 | 120.76 | 123.10 | : | : | 123.26 | 123.88 | 122.91 | 123.66 | 123.05 | 122.02 |
| Nominal eff. exchange rate ^{4.6} | Index | 74.1 | 74.0 | 68.4 | 66.6 | 65.3 | : | : | 65.3 | 65.2 | : | 65.4 | 66.1 | : |
| 5 Financial indicators | | | | | | | | | | | | | | |
| Interest rate (BEONIA) ^{5.1} | %p.a. | 9.51 | 8.82 | 6.76 | 4.75 | 2.70 | : | : | 2.82 | 2.77 | 2.84 | 2.86 | 2.84 | 2.81 |
| Bond yield (12 months) ^{5.2} | %p.a. | 13.04 | 10.67 | 9.18 | 7.27 | 4.63 | : | : | : | 4.71 | : | : | 4.65 | : |
| Stock markets ^{5.3} | Index | 932 | 1 035 | 1 215 | 1 359 | 1 383 | : | : | 1 512 | 1 570 | 1 571 | 1 588 | 1 576 | 1 548 |
| Credit growth ^{5.4} | Ann. %ch | 12.9 | -6.5 | 5.8 | 7.0 | 9.0 | : | : | 9.0 | 7.6 | : | 7.6 | 5.4 | : |
| Deposit growth ^{5.5} | Ann. %ch | 10.4 | 3.3 | 7.6 | 6.5 | 11.4 | : | : | 11.4 | 11.8 | : | 10.6 | 9.1 | : |
| Non-performing loans ^{5.6} | %total | 18.6 | 21.4 | 21.5 | 21.6 | 17.0 | : | : | 17.0 | 16.8 | : | N.A. | N.A. | N.A. |
| 6 Fiscal developments | | | | | | | | | | | | | | |
| General government balance* ^{6.1} | %of GDP | -6.8 | -5.5 | -6.6 | -3.7 | -1.3 | -0.5 | 0.3 | -4.4 | 1.2 | : | N.A. | N.A. | N.A. |
| General government debt ^{6.2} | %of GDP | 55.9 | 58.8 | 68.3 | 74.1 | 72.7 | 71.1 | 67.3 | 72.8 | 71.5 | : | N.A. | N.A. | N.A. |

f: ECFIN forecast Spring 2017 published 11/05/2017

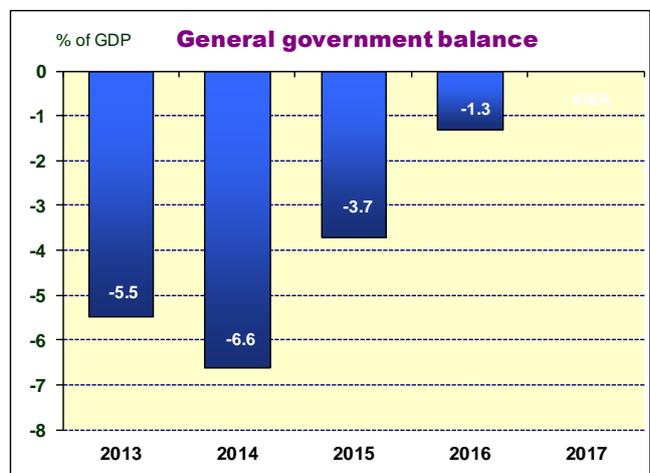
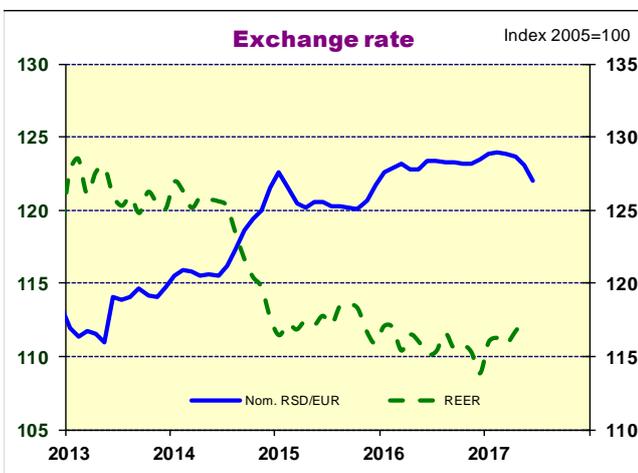
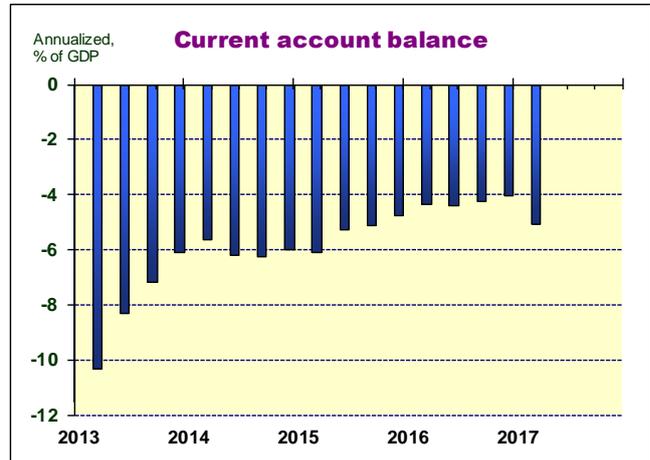
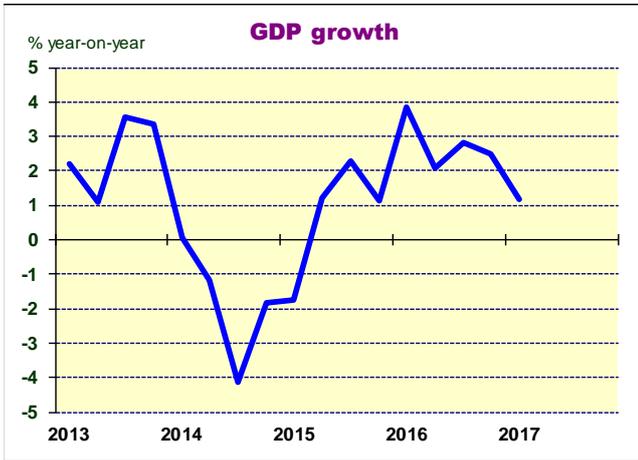
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 23 May issued joint conclusions which, *inter alia*, invited Turkey to lower external imbalances by promoting domestic saving, to intensify efforts to sustainably achieve price stability, strengthen the rule of law and the judiciary with a view to improving the business environment and investors' confidence, to promote R&D, and to focus skills development on sectors with growth potential and skills needs as well as expand the provision of relevant vocational training.

On 16 April the proposal on the presidential system was accepted in a referendum. The new constitution will become effective as from the next presidential election in 2019.

Real Sector

In the first quarter, real GDP increased by 4.7% year-on-year and by 1.4% quarter-on-quarter (seasonally and calendar adjusted). In the first quarter, output in industry reported the strongest growth (+5.3% y-o-y), followed by the services industry (+5.2%). The agricultural sector continued to record the weakest growth (+3.2%) albeit expanding notably faster than in 2016 Q4. Growth in the construction sector (+3.7%) weakened compared to the fourth quarter.

In the first quarter, household consumption increased by 5.1% on the year, slightly lower than the 5.7% increase in the fourth quarter. According to the national accounts, it was driven by spending on non-durable goods and services whereas the consumption of (semi-) durable goods showed a marginal decrease regardless of the government VAT reductions for white goods and furniture. Government consumption showed the strongest increase of the domestic demand components with a jump of 9.4% y-o-y from 0.8% in the fourth quarter and compared to +7.3% in 2016. Gross fixed capital formation growth was more lacklustre at 2.2%. Net trade also saw a strong increase with exports

increasing by 10.6% y-o-y while the growth in imports was almost flat at +0.8% year-on-year.

At the same time as reporting the large contribution of household consumption, and in particular of non-durable goods, to relatively high GDP growth in the first quarter, Turkstat reported separately that retail sales declined by 2.4% in the first quarter with the subcategory for food, drinks and tobacco registering a higher decline than non-food excluding automotive fuels. In April, retail sales declined by a further 0.1% y-o-y. Consumer sentiment was at a low level in the first quarter but recovered strongly in the second quarter. Consumer sentiment indices have only marginally passed into positive territory or are still in negative territory at the end of the second quarter, though.

Industrial confidence, as measured by the PMI, more clearly displays optimism which is probably driven by the solid export performance in the face of the depreciation of the Lira. Business confidence increased from below the balance threshold in the fourth quarter of last year (48.8) to just above in first quarter (50.2) and improved to well above the threshold in the second quarter (53.3). Although industrial confidence continued its upward trend in June, the declines in retail and services confidence indexes and more than erased their gains made in May.

Labour market

The labour force expanded by 3.1% y-o-y in the first quarter. Labour demand has had difficulty to keep up and seasonally and calendar day adjusted unemployment reached nearly 12% at the end of last year. In the first quarter, the unemployment rate eased to 11.7%. Particularly worrying is the high unemployment rate among youth that continues to be around double the overall unemployment rate.

Hourly labour costs rose relatively strongly at a rate of 11.2% y-o-y and 3.8% q-o-q in the first quarter of 2017. The increase in hourly labour costs was again strongest in the construction

sector where labour costs have risen by a quarter more than services and industry since 2010.

External sector

In the first four months, the current account deficit recorded a deficit of USD 11.6 billion, 5.8% higher year-on-year. In the twelve months to April the current account deficit increased to 4.8% of GDP, up from 3.8% in 2016. The main driver of the deficit was the further deteriorating balance on goods that declined by 6.5% y-o-y.

At the same time, the surplus in services continued to contribute positively to the current account. In the first four months, it increased by 28% y-o-y, standing at 1.4% of GDP, compared to 1.7% in 2016. After the large drop in tourist arrivals in the second half of 2016, the number of tourist arrivals was only 0.4% lower year-on-year in the first four months of this year. An increasing number of tourists from CIS and the Middle East compensated for the loss in tourists from Europe and North America. Contributing to the positive service balance development is the fact that the value of travel from Turkey declined far more than to Turkey.

Net financial inflows into Turkey decreased by 21% y-o-y in the first four months of 2017 due predominantly to a 37% y-o-y decline in banks and other sectors. Net foreign direct investment inflows declined by 5%. Portfolio investment grew by 6%, with a strong decrease in equity investments being off-set by a strong increase in foreign purchases of debt securities. Official reserves decreased from USD 106 bn in January to USD 105 bn in May.

At the end of the second quarter, the Turkish lira stood at the same level against the USD as at the start of the year, having depreciated by 8% against the EUR. The real effective exchange rate based on consumer prices appreciated by 4.4% between January and June of this year.

Monetary developments

Consumer prices increased on average by 11.5% year-on-year in the second quarter, marking the highest inflation rate in almost a decade. The last time consumer prices increased at a similar rate was in the third quarter of 2008. Inflation decelerated towards the end of the second quarter on account of lower inflation in the food, energy and core goods segments. In its second quarter inflation report, the central bank projected inflation to end this year at 8.5%

which is still above the 7% upper band of its target and up from 8% forecast in January.

The Turkish central bank increased the interest rate on its late liquidity window a further 50 bps on 26 April citing the deteriorating inflation outlook and improving foreign and domestic demand. In its press release the central bank also noted the importance of structural reforms to foster economic growth while containing price pressures.

Financial sector

Borsa Istanbul Index surpassed the 100,000 mark for the first time at the end of June, having risen by one third in a year. The rally was mostly confined to the first half year with the stock index still at 78,139 at the end of 2016. Bonds also saw a strong performance over the first half years with USD denominated 10 yr yields falling by 70bps.

Banks' net profits increased by 50% y-o-y in the first five months of 2017. The capital adequacy ratio of banks was 16.7 percent over the first five months of the year and the NPL ratio was 3.3%. Macro prudential loosening and new credit guarantees from the government have supported banks' balance sheets. Credit grew by 20.9% y-o-y and deposits by 20.5% y-o-y in May.

Fiscal developments

In the first five months of 2017, the central government realized a budget deficit of TRY 11.5bn (3.3% of 4QMA GDP). Government revenues were 10.5% higher compared to last year. Overall expenditures increased by 20% y-o-y and capital expenditures by 48%. The government expects to keep the government deficit below 2% of GDP this year.

The reduced VAT rate and excise duty for furniture and white goods (respectively from 18% to 8% and 6.7% to 0%) will be prolonged till 30 September 2017. The government also decided to forego the automatic tax increase on tobacco in July.

Government debt stood at 28.9% of GDP in the first quarter, the third quarter in a row that it increased as a percentage of GDP. The largest increase was registered in foreign currency denominated debt which now makes up 39% of all debt. This is a 4%-pt increase from the first quarter of last year.

TABLE



TURKEY

European Commission, ECFIN-D-1

| | | 2012 | 2013 | 2014 | 2015 | 2016 | ECFIN 2017 Spring forecast | | Q4 16 | Q1 17 | Q2 17 | Apr 17 | May 17 | Jun 17 |
|--|-----------|--------|--------|--------|--------|--------|-------------------------------|------|--------|--------|-------|--------|--------|--------|
| | | | | | | | 2017 | 2018 | | | | | | |
| 1 Real sector | | | | | | | | | | | | | | |
| Industrial confidence ^{1.1} | Balance | 106.3 | 108.1 | 107.1 | 104.0 | 105.0 | : | : | 100.7 | 104.0 | 110.9 | 111.2 | 109.2 | 112.4 |
| Industrial production ^{1.2} | Ann. % ch | 2.4 | 3.5 | 3.5 | 2.9 | 1.8 | : | : | 2.1 | 2.1 | : | 6.7 | : | : |
| Gross domestic product ^{1.3} | Ann. % ch | 4.8 | 8.5 | 5.2 | 6.1 | 2.9 | 3.0 | 3.3 | 3.5 | 5.0 | : | N.A. | N.A. | N.A. |
| Private consumption ^{1.4} | Ann. % ch | 3.2 | 8.0 | 2.9 | 5.4 | 2.3 | 1.9 | 3.0 | 5.7 | 5.1 | : | N.A. | N.A. | N.A. |
| Gross fixed capital formation ^{1.5} | Ann. % ch | 2.7 | 13.8 | 5.1 | 9.2 | 3.0 | 1.6 | 3.1 | 2.0 | 2.2 | : | N.A. | N.A. | N.A. |
| Construction index ^{1.6} | Ann. % ch | 34.9 | 16.4 | 38.7 | -9.2 | 16.1 | : | : | 23.9 | -3.6 | : | N.A. | N.A. | N.A. |
| Retail sales ^{1.7} | Ann. % ch | 5.2 | 4.1 | 3.9 | 3.6 | 0.7 | : | : | -1.7 | -2.3 | : | -0.1 | : | : |
| 2 Labour market | | | | | | | | | | | | | | |
| Unemployment ^{2.1} | % | N.A. | N.A. | 10.1 | 10.5 | 11.1 | 13.6 | 14.1 | 12.4 | 12.7 | : | : | : | : |
| Employment ^{2.2} | Ann. % ch | N.A. | N.A. | N.A. | 2.5 | 2.2 | 1.1 | 2.7 | 1.3 | 1.6 | : | : | : | : |
| Wages ^{2.3} | Ann. % ch | 11.5 | 12.4 | 14.2 | 14.9 | 18.4 | 13.0 | 9.2 | 16.9 | 12.2 | : | : | : | : |
| 3 External sector | | | | | | | | | | | | | | |
| Exports of goods ^{3.1} | Ann. % ch | 13.0 | -0.4 | 3.8 | -8.7 | -0.9 | : | : | 4.6 | 9.1 | : | 7.7 | 12.5 | : |
| Imports of goods ^{3.2} | Ann. % ch | -1.8 | 6.4 | -3.8 | -14.4 | -4.2 | : | : | 2.9 | 7.8 | : | 9.9 | 21.7 | : |
| Trade balance* ^{3.3} | % of GDP | -7.5 | -8.4 | -6.8 | -5.6 | -4.8 | -8.5 | -8.2 | -4.8 | -4.9 | : | N.A. | N.A. | N.A. |
| Exports goods and services ^{3.4} | % of GDP | 23.7 | 22.3 | 23.8 | 23.3 | 22.1 | : | : | 22.1 | 23.0 | : | N.A. | N.A. | N.A. |
| Imports goods and services ^{3.5} | % of GDP | 28.6 | 28.1 | 27.6 | 26.0 | 25.0 | : | : | 25.0 | 26.1 | : | N.A. | N.A. | N.A. |
| Current account balance* ^{3.6} | % of GDP | -5.5 | -7.8 | -5.0 | -3.8 | -3.8 | -4.4 | -4.3 | -3.8 | -3.9 | : | N.A. | N.A. | N.A. |
| Direct investment (FDI, net)* ^{3.7} | % of GDP | 1.5 | 1.3 | 1.4 | 2.0 | 1.4 | : | : | 1.4 | 1.5 | : | N.A. | N.A. | N.A. |
| International reserves ^{3.8} | bio EUR | 91.7 | 97.0 | 102.5 | 104.1 | 100.6 | : | : | 100.6 | 98.9 | 96.8 | 95.8 | 94.9 | 96.8 |
| Int. reserves / months Imp ^{3.9} | Ratio | 6.8 | 6.8 | 7.6 | 7.6 | 8.2 | : | : | 8.2 | 7.8 | : | 7.6 | : | : |
| 4 Monetary developments | | | | | | | | | | | | | | |
| CPI ^{4.1} | Ann. % ch | 8.9 | 7.5 | 8.9 | 7.7 | 7.8 | 11.1 | 8.6 | 7.6 | 10.2 | 11.5 | 11.9 | 11.7 | 10.9 |
| Producer prices ^{4.2} | Ann. % ch | 6.1 | 4.5 | 10.2 | 5.3 | 4.3 | : | : | 6.4 | 15.0 | 15.5 | 16.4 | 15.3 | 14.9 |
| Food prices ^{4.3} | Ann. % ch | 8.4 | 9.1 | 12.6 | 11.1 | 5.8 | : | : | 4.8 | 9.7 | 15.6 | 15.6 | 16.9 | 14.3 |
| M4 ^{4.4} | Ann. % ch | 9.0 | 18.5 | 16.4 | 17.5 | 12.5 | : | : | 14.0 | 16.4 | : | 18.5 | 17.8 | : |
| Exchange rate TRY/EUR ^{4.5} | Value | 2.31 | 2.53 | 2.91 | 3.02 | 3.34 | : | : | 3.54 | 3.93 | 3.93 | 3.91 | 3.94 | 3.95 |
| Nominal eff. exchange rate ^{4.6} | Index | 84.14 | 78.86 | 69.40 | 64.20 | 59.10 | : | : | 55.40 | 49.39 | : | 49.54 | 49.85 | : |
| 5 Financial indicators | | | | | | | | | | | | | | |
| Interest rate (3 months) ^{5.1} | % p.a. | 8.44 | 6.60 | 9.84 | 10.48 | 9.88 | : | : | 9.11 | 10.92 | 12.18 | 11.95 | 12.21 | 12.39 |
| Interest rate, long term ^{5.2} | % p.a. | 8.47 | 7.77 | 9.18 | 9.30 | 10.19 | : | : | 10.67 | 11.11 | : | 10.83 | : | : |
| Stock markets ^{5.3} | Index | 63 731 | 77 977 | 75 190 | 80 662 | 77 222 | : | : | 76 726 | 86 285 | : | 91 455 | 95 997 | : |
| Credit growth ^{5.4} | Ann. % ch | 18.6 | 33.4 | 19.4 | 20.7 | 16.1 | : | : | 16.1 | 19.9 | : | 22.0 | 20.9 | : |
| Deposit growth ^{5.5} | Ann. % ch | 10.8 | 20.4 | 18.1 | 18.4 | 13.8 | : | : | 13.8 | 19.1 | 20.9 | 21.3 | 20.5 | 20.7 |
| Non-performing loans ^{5.6} | % total | 3.0 | 3.0 | 3.0 | 3.1 | 3.4 | : | : | 3.5 | 3.4 | 3.3 | 3.4 | 3.3 | 3.3 |
| 6 Fiscal developments | | | | | | | | | | | | | | |
| General government balance ^{6.1} | % of GDP | -0.4 | 0.1 | 0.1 | 1.3 | -0.9 | -1.6 | -1.4 | -1.0 | -1.0 | : | N.A. | N.A. | N.A. |
| General government debt ^{6.2} | % of GDP | 32.6 | 31.3 | 28.6 | 27.5 | 26.4 | 26.5 | 24.9 | : | : | : | N.A. | N.A. | N.A. |

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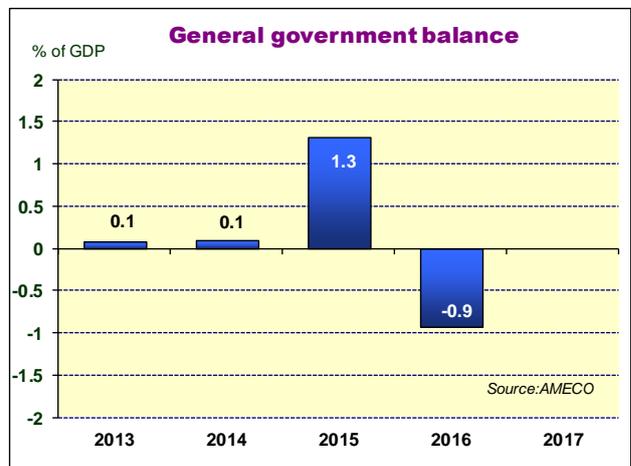
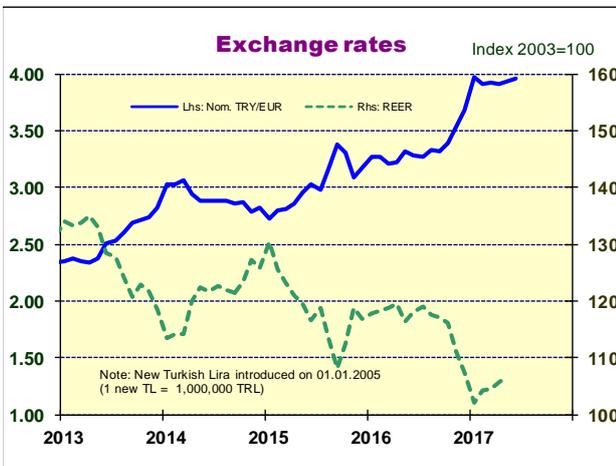
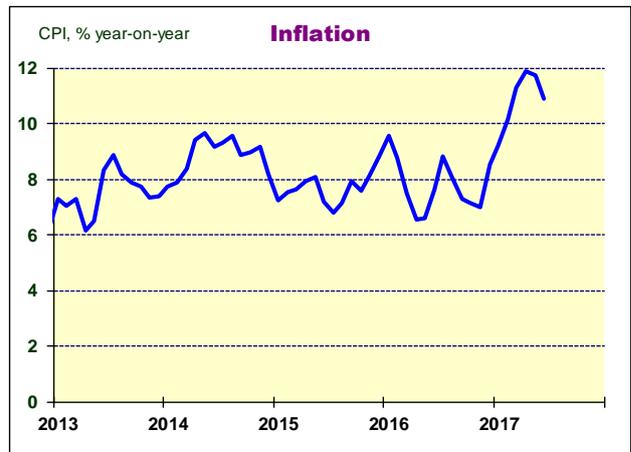
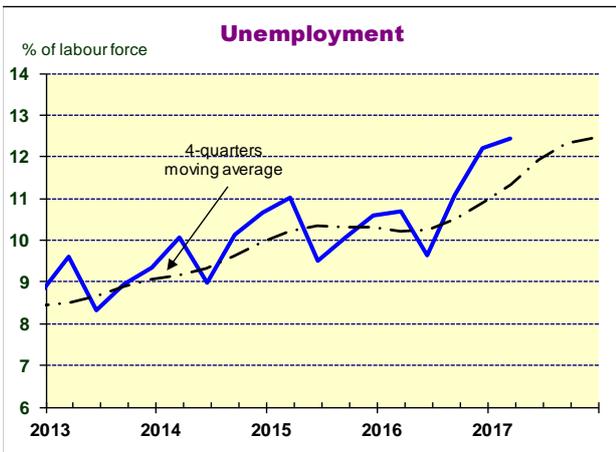
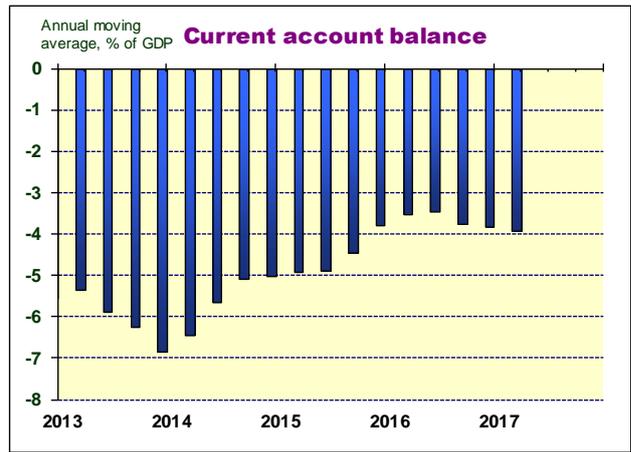
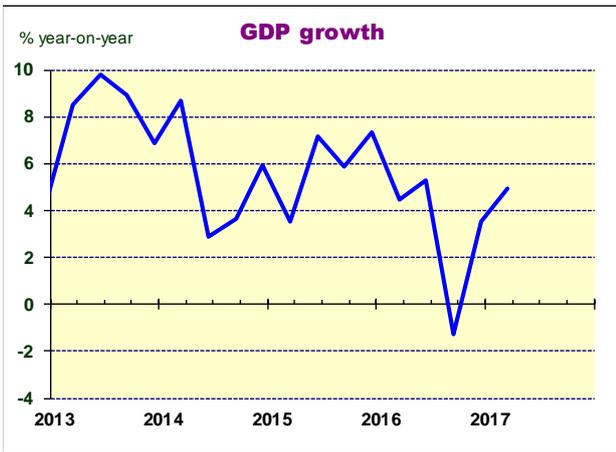
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

TURKEY



BOSNIA AND HERZEGOVINA



Key developments

The international ratings agency Moody's attributed a note of B3 to the country's credit worthiness, and considered the outlook to be stable. However, the agency pointed to challenges related to government effectiveness, wide external deficits and a high unemployment rate and indicated that a failure in complying with the country's IMF agreement could elevate downward risks.

The annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place on 25 May. The jointly agreed country-specific recommendations call on Bosnia-Herzegovina, inter alia, to enhance the growth-friendliness of public finances, to contain public consumption, to improve the targeting of social spending, to enhance the quality of statistics and of medium-term planning, to raise the resilience and supervision in the banking sector and to strengthen labour market institutions.

Real sector

National account data for the first quarter were not available by the cut-off date for this report. However, high-frequency indicators, such as industrial production, point to weakening growth in the first 5 months of the year (2% year-on-year compared to 4.2% in the same period last year and 4.4% in 2016 as a whole), mainly due to slower growth in electricity production. On the other hand retail sales in real terms rose by 5.4% y/y on average in the first five months of 2017 compared to the same period in 2016, possibly pointing to a gradual recovery of household consumption.

Labour market

Registered employment continued to increase during the last months with average year-on-year growth of around 4%. In April, 754 thousand persons were registered as employed, 30 thousand (4.1%) more than a year before. The services sector accounted for about one third of new employment whereas 20% of new jobs were created in manufacturing. At the same time, the number of registered unemployed has continued to decline, to 495 thousand, or 5.5% less than a year before. This translated into a drop in the registered unemployment rate by more than two percentage points (from 42.0% in

April 2016 to a still worrying 39.7% in April 2017). Registered youth unemployment remains above 60%. These unemployment rates are among the highest in the region.

Nominal wages rose by 1.5% year-on-year in the first quarter, after a 1.7% increase in the previous quarter. In April, nominal wages were only 1% higher than a year before. However, in view of accelerating increases in consumer prices, real wages are actually slightly lower than a year before (-0.4% in April). In 2016, annual average nominal wage growth was 0.9%, which translated into an increase by nearly 2% in real terms.

External sector

The current account deficit improved slightly in Q1 2017 as its 4-quarter moving average stood at 4.4% of GDP compared to 4.5% at the end of 2016. Despite the higher growth in the value of exports than the increase in the value of imports, the 4-quarters moving average trade balance deteriorated slightly to 24.7% of GDP. The surplus in the service balance and higher inflows of current transfers helped reduce the current account deficit in Q1 2017, to some 5% of the estimated quarterly GDP, compared to 5.3% the year before. On the financing side, net FDI inflows strengthened, reaching slightly about 3% of GDP in the first quarter, compared to 2.5% of GDP a year before. The main destinations of FDI inflows seem to be the tourism sector as well as energy production. Foreign reserves dropped slightly, bringing the import coverage of reserves to less than 7 months.

The acceleration of commodity exports continued in the first five months of the year. In May, their value was 20.5% higher than a year before, mainly thanks to stronger exports to Croatia, Serbia, Austria and Slovenia. During the first five months, the value of commodity exports was 17.3% higher than a year before. Germany, Italy and Croatia are the most significant export markets, accounting for nearly 40% of total exports. Merchandise imports increased at a lower rate than exports (+16.1% in May, and 11.7% in the first five months) probably benefitting - to some extent - from lower energy and commodity prices.

Monetary developments

Inflation has started to accelerate, with consumer prices rising by 1.1% in the first quarter of 2017 and by 1.4% and 2.2% year-on-year in April and May. Important drivers for the price dynamics have been prices for transport and housing, increasing in May by 8.0% and 5.8% respectively, while prices for footwear and furniture have been declining. Overall, the headline consumer price index rose by 1.4% in the first five months of 2017, compared to a drop by 1.4% the year before.

The annual growth of the monetary aggregate M2 continued to accelerate, reaching 9.4% in the first quarter and 9.4% and 10.2% in April and May, respectively.

Financial sector

Domestic credit growth accelerated, reaching 3% year on year in the first quarter, compared to 1.8% in the fourth quarter of 2016. The rate of credit growth increased further to 4.3% year-on-year in April and to 5.4% in May. Household and corporate credits, accounting in nearly equal shares for about 92% of total loans, continued to be the main driving force behind this trend. Household loans rose by 5.7% in May, compared to 4.3% in the first quarter of 2017. Corporate credits increased by 6.9% in May, compared to 4.3% on average in the first quarter of 2017. Loans to the public sector (entities, cantons and municipalities), which account for slightly less than 5% of total credits, shrank by 8.7% in May, compared to a decline by more than 13% in the first quarter.

Growth of total deposits accelerated further, reaching 10.5% year-on-year in May, compared to average growth for 9.2% in the first quarter. An important factor behind the increase may be a continuously strong inflow of workers' remittances. As a result of the robust increase in deposits, the loan to deposit ratio continued to be below the 100% mark (at 96.2% in May), compared to 100.9% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 11.5% in the first quarter of 2017, compared to 11.8% the quarter before. At the same time, credit risks have been increasingly mitigated by an increase of loan-loss provisioning to 76.1% in the first quarter compared 75.8% by end-2016. Banking sector profitability (ROE) improved in the first quarter to 13.6% compared to 11.1% a year before. The return on average assets (ROAA) increased to 2%, compared to 1.1% the year before. The banking system's overall capital adequacy ratio was 15.7% in the first quarter, compared to 15.8% in the previous three months. In year-on-year terms, the capital adequacy has improved by nearly 1 percentage point. The current overall level is clearly above the regulatory minimum. However, there are big differences among the various banks.

Fiscal developments

The medium-term fiscal programme for 2017, predicts a consolidated budget deficit of 0.3 % of GDP. This deficit is mainly caused by local governments and social security funds, (-0.5 % and -0.1 % of GDP respectively), while the central governments are targeting a consolidated surplus of 0.3 % of GDP. On the revenue side, the programme is expected to see a marked increase in income and wealth tax revenues, largely due to better revenue collection. On the expenditure side, there are plans to reduce public consumption by 1.1 %, while investment spending is expected to be nearly 15 % lower than in 2016.

Public debt stood at 41.4% of GDP at end-2016, slightly lower than at end-2015 (42%). Foreign denominated debt rose by 2%, which however was more than compensated by a 1.6% decrease in the domestically denominated component. 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 | Q4 16 | Q1 17 | Q2 17 | Apr 17 | May 17 | Jun 17 |
|--|----------|---------|---------|---------|---------|---------|---------|---------|-------|---------|---------|--------|
| 1 Real sector | | | | | | | | | | | | |
| Industrial confidence ^{1.1} | Balance | N.A. | N.A. | N.A. | N.A. | N.A. |
| Industrial production ^{1.2} | Ann. %ch | -3.9 | 5.2 | 0.2 | 3.1 | 4.4 | 5.7 | 2.5 | : | 3.3 | -0.5 | : |
| Gross domestic product ^{1.3} | Ann. %ch | -0.8 | 2.4 | 1.4 | 3.1 | 2.0 | 2.6 | : | : | N.A. | N.A. | N.A. |
| Private consumption ^{1.4} | Ann. %ch | 2.3 | 2.7 | 2.7 | 1.3 | : | : | : | : | N.A. | N.A. | N.A. |
| Gross fixed capital formation ^{1.5} | Ann. %ch | 6.3 | -2.4 | 11.1 | -4.2 | : | : | : | : | N.A. | N.A. | N.A. |
| Construction index ^{1.6} | Ann. %ch | 1.3 | -25.8 | 22.2 | -22.7 | -38.0 | -38.0 | -37.1 | : | N.A. | N.A. | N.A. |
| Retail sales ^{1.7} | Ann. %ch | 1.6 | 4.6 | 1.8 | 7.8 | 7.0 | 8.1 | 5.9 | : | 5.1 | 4.3 | : |
| 2 Labour market | | | | | | | | | | | | |
| Unemployment ^{2.1} | % | 28.0 | 27.5 | 27.5 | 27.7 | 25.4 | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Employment ^{2.2} | 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 ^{2.3} | Ann. %ch | 1.5 | 0.1 | -0.1 | 0.0 | 0.9 | 1.7 | 1.5 | : | 1.0 | : | : |
| 3 External sector | | | | | | | | | | | | |
| Exports of goods ^{3.1} | Ann. %ch | 1.2 | 10.0 | 3.0 | 5.3 | 8.8 | 14.7 | 19.7 | : | 14.1 | 20.5 | : |
| Imports of goods ^{3.2} | Ann. %ch | -0.1 | -0.7 | 7.1 | -2.3 | 2.7 | 8.4 | 12.8 | : | 5.0 | 16.1 | : |
| Trade balance* ^{3.3} | %of GDP | -30.5 | -27.3 | -29.6 | -25.9 | -24.5 | -24.6 | -24.7 | : | N.A. | N.A. | N.A. |
| Exports goods and services ^{3.4} | %of GDP | 32.4 | 33.7 | 34.0 | 34.6 | 36.1 | 36.2 | 37.0 | : | N.A. | N.A. | N.A. |
| Imports goods and services ^{3.5} | %of GDP | 55.8 | 54.1 | 56.6 | 53.2 | 53.3 | 53.4 | 54.4 | : | N.A. | N.A. | N.A. |
| Current account balance* ^{3.6} | %of GDP | -8.7 | -5.3 | -7.3 | -5.5 | -4.5 | -4.5 | -4.4 | : | N.A. | N.A. | N.A. |
| Direct investment (FDI, net)* ^{3.7} | %of GDP | 1.9 | 1.3 | 2.8 | 1.5 | 1.6 | 1.6 | 1.8 | : | N.A. | N.A. | N.A. |
| International reserves ^{3.8} | mio EUR | 3 327.8 | 3 614.0 | 4 001.2 | 4 400.3 | 4 873.2 | 4 873.2 | 4 724.9 | : | 4 815.9 | 4 810.9 | : |
| Int. reserves / months Imp ^{3.9} | Ratio | 5.1 | 5.6 | 5.8 | 6.5 | 7.1 | 7.7 | 7.3 | : | 6.8 | 6.7 | : |
| 4 Monetary developments | | | | | | | | | | | | |
| CPI ^{4.1} | Ann. %ch | 2.0 | -0.1 | -0.9 | -1.0 | -1.1 | -0.4 | 1.1 | : | 1.4 | 2.2 | : |
| Producer prices ^{4.2} | Ann. %ch | 1.3 | -2.2 | -0.2 | -0.6 | -0.9 | -0.2 | 2.7 | : | 2.5 | 0.7 | : |
| Food prices ^{4.3} | Ann. %ch | 1.8 | 0.0 | -2.7 | -0.9 | -1.1 | -0.7 | 0.1 | : | 0.7 | 1.4 | : |
| M2 ^{4.4} | Ann. %ch | 4.6 | 5.7 | 7.5 | 8.0 | 7.8 | 8.0 | 9.4 | : | 9.4 | 10.2 | : |
| Exchange rate BAMEUR ^{4.5} | Value | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 |
| Nominal eff. exchange rate ^{4.6} | Index | 105.5 | 102.76 | 104.97 | 105.38 | 107.02 | 106.84 | 106.78 | : | 106.51 | 106.94 | : |
| 5 Financial indicators | | | | | | | | | | | | |
| Interest rate (3 months) ^{5.1} | %p.a. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Bond yield ^{5.2} | %p.a. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Stock markets ^{5.3} | Index | 737 | 770 | 707 | 701 | 691 | 694 | 652 | 618 | 617 | 622 | 615 |
| Credit growth ^{5.4} | Ann. %ch | 5.1 | 2.7 | 3.7 | 1.8 | 2.1 | 1.8 | 3.0 | : | 4.3 | 5.4 | : |
| Deposit growth ^{5.5} | Ann. %ch | 2.6 | 5.1 | 8.4 | 6.2 | 7.7 | 7.2 | 9.2 | : | 9.3 | 10.5 | : |
| Non performing loans ^{5.6} | %total | 12.7 | 14.5 | 15.2 | 13.9 | 12.3 | 11.8 | 11.5 | : | N.A. | N.A. | N.A. |
| 6 Fiscal developments | | | | | | | | | | | | |
| General government balance ^{6.1} | %of GDP | -2.0 | -2.2 | -2.0 | 0.7 | : | : | : | : | N.A. | N.A. | N.A. |
| General government debt* ^{6.2} | %of GDP | 36.5 | 37.6 | 41.6 | 41.9 | 41.3 | 41.4 | : | : | N.A. | N.A. | N.A. |

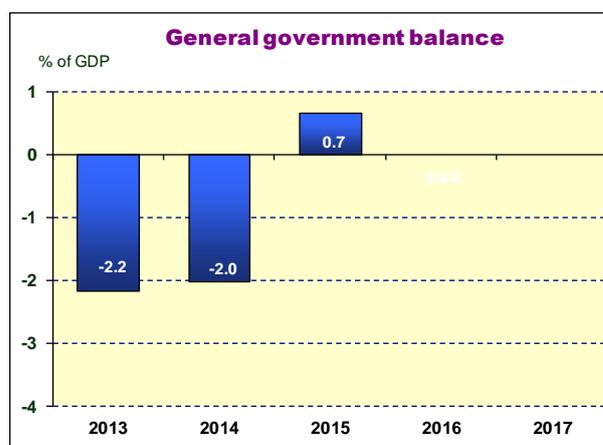
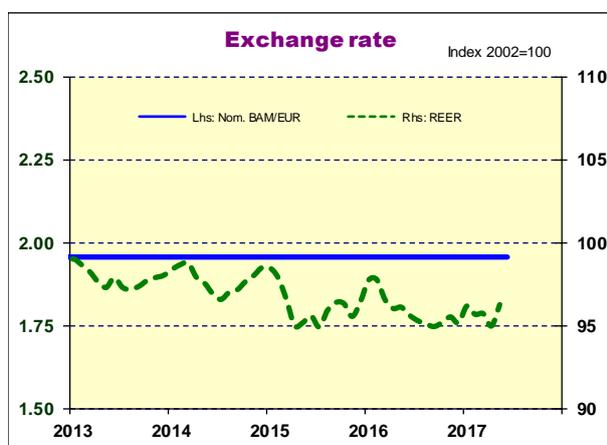
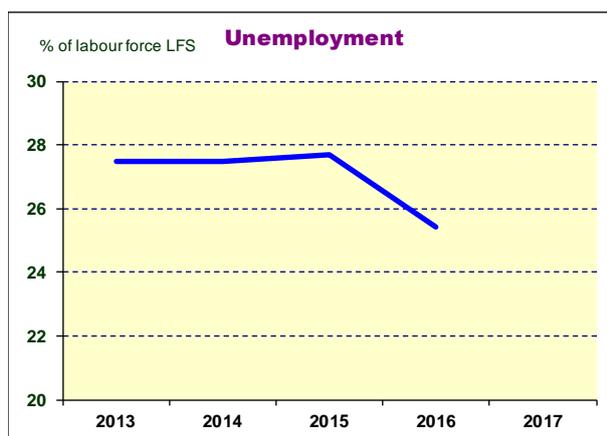
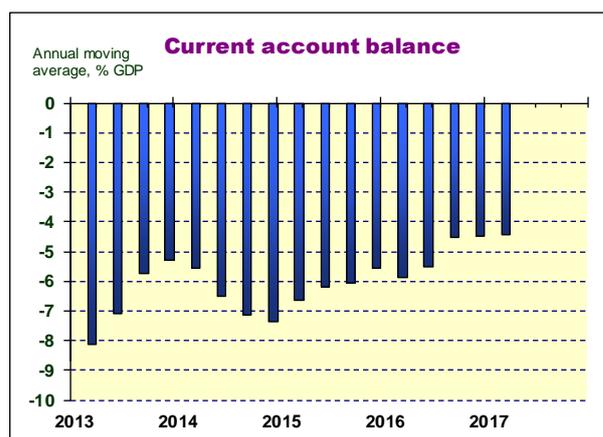
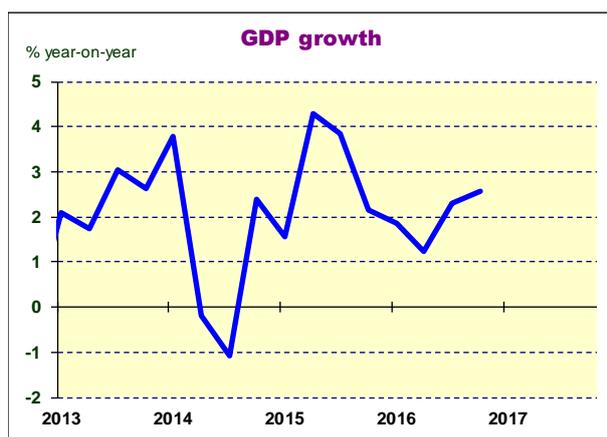
* Q figures refer to a 4 quarters moving average and refers only to foreign public debt.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

The annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place on 25 May. The jointly agreed country-specific recommendations call on Kosovo to strengthen its budgetary oversight, improve the government's capacities for macro-fiscal projections, preserve growth supporting composition of spending and improve the execution of capital spending, among others.

Early parliamentary elections were held in Kosovo on 11 June 2017 following the successful no confidence vote against the PDK-LDK coalition government. The results showed no absolute winner. The coalition led by the long-ruling PDK received 39 seats in the 120 seat assembly, followed by the Self-Determination movement (VV) with 32 and the coalition gathered around the LDK with 29 seats. A coalition between at least two blocks will be necessary to form a government.

Real sector

Data for the first quarter of 2017 show GDP growth of 3.9% y/y. Strong increases in household consumption and investments (3.9% y/y and 13.7% y/y, respectively) provided the largest contributions to growth, whereas government consumption decreased by 10.7% y/y. Net exports of goods and services provided a negative contribution to growth (-1.1 p.p.) despite a larger increase in exports (4.5% y/y) than imports (3.7% y/y). In the same period gross value added grew by 4.4% y/y and was driven by construction, mining and trade (which grew by 16.5%, 21.9% and 7.1% y/y respectively). Other positive contributions came from the financial, manufacturing and real estate sectors. Public administration and agriculture recorded negative growth contributions.

In the first quarter of 2017, industrial turnover in Kosovo increased by an estimated 11.7% compared to Q1 in 2016. Turnover in the mining sector rose by 54.1% y/y and in the manufacturing sector by 3.2% y/y. Productivity per employee increased substantially in both sectors mainly due to increased output although a slight reduction in the number of employees was also recorded.

Retail sales rose quite substantially across most categories in Q1 2017 reflecting strong private consumption. Most notably, sales of food, beverages and tobacco rose 24.2% y/y.

Labour market

The labour market situation in Kosovo improved but remains challenging. According to the Labour Force Survey Kosovo's unemployment rate decreased further to 27.5% in 2016 from 32.9% in 2015. The employment rate seems to have bottomed out after falling since 2013; in 2016 it climbed to 28% from 25.2% in 2015. The labour force participation rate still remains extremely low at 38.7% in 2016. The youth jobless rate (15-24 years) decreased to 52.4% in 2016, from 57.7% in 2015. Labour market outcomes are especially poor for women, as less than one in five women of working age are active in the labour market and only 12.7% are employed.

It should be noted that labour market figures for 2016 might not be entirely comparable to the previous years' figures. With the 2016 LFS, the Kosovo Statistics Agency started applying methodologies and standards harmonized with Eurostat recommendations.

External sector

In the first two months of 2017, the current account deficit continued to widen and stood at 9.3% of GDP in the 12 months to February compared to 9.1% of GDP in the corresponding period of the previous year. The goods and services balance stayed largely unchanged, recording a deficit of 28.5% of GDP while worker remittances increased slightly, accounting for 10.6% of GDP in the same period. On the financing side, net inflow of FDI decreased in the twelve months to February to 3.1% of GDP, compared to 4.3% a year ago. Portfolio investments recorded a net outflow of 4.6% of GDP. As usual, relatively high net errors and omissions (6.5% of GDP) capture the larger share of total capital inflows. Reserve assets declined by 1.5% of GDP, but covered 5.8 months of imports, up from a ratio of 5.6 in 2016.

In the first five months of 2017 total goods exports expanded by 15.6% y/y due to the strong growth of mineral and base metal products following a period of sharp decline due to the loss of far east markets in fall 2015. The continuation of a significant growth in exports is observed in agricultural products and food processing. In the same period, imports of goods rose by 8.6% y/y with mineral fuels and machinery being the main import drivers reflecting rising oil prices and stronger investments. During January-May the overall merchandise trade deficit increased by 7.6% y/y.

Monetary developments

Kosovo's inflation rate remains heavily influenced by price developments in the main trading partners, namely the EU. Inflation was stable in the first five months of 2017 as headline as well as core inflation stood at 1.7% y/y. Food and energy prices contributed 43% of total HICP inflation. The producer price index increased by 0.9% y/y, and the construction cost index by 0.5% in the first quarter namely due to price rises of construction and electrical materials. Import prices increased by 5.1% y/y driven by increases in mineral and metal products.

Financial sector

Strong credit growth (10.4% in 2016) continued in the first three months of 2017 (10.9% y/y). Total deposits in commercial banks grew 9.3% y/y in 2016 and 8.8% on average in January-March 2017. Thus, the loans to deposit ratio slightly rose to 78.8% in March 2017, compared to 76.9% in December 2016, still indicating a stable liquidity position and substantial room for stronger banking activity.

The interest rate spread remains on a downward trajectory. The 12 month moving average spread declined by 68 basis points in March 2017 compared to a year before. This reduction was driven by a 61 basis points decrease in the average lending interest rates from a year earlier, to 7.04%.

Financial soundness indicators in the banking sector remained satisfactory throughout the first five months of 2017. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 36.4% in May 2017, while the

capital adequacy ratio was 18.4%, well above the regulatory minimum of 12%. The already low NPL ratio decreased further to 4.3%. Existing NPLs are fully covered by loan loss provisions (137.7%).

Fiscal developments

On 28th of April, the Kosovo Government adopted the Medium Term Expenditure Framework (MTEF) for 2018-2020 and the Public Debt Strategy 2018-2020. The economic reform priorities for the medium term stem from the National Development Strategy and Economic Reform Programme (ERP) 2017-2019 as well as the Stabilisation and Association Agreement and sectorial strategies. The growth and revenue projections in the MTEF have been revised upwards, compared to the IMF, WB and Kosovo's ERP projections, on the account of further improvements in tax collection. Capital spending execution has also been significantly revised upwards compared to the last years' execution and the IMF projections.

The 2017 budget assumes strong nominal and real GDP growth in 2017 (6.3% and 4.4% respectively). Budget revenues are expected to rise by 5.5% y/y on the account of 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. 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 however when adjusted by exemptions in the fiscal rule the deficit stands at 1.5% of GDP, in line with the prescribed ceiling.

Data on budget execution in 2017 were not available at the cut-off date for this report.

In March 2017 total public debt (including guarantees) stood at 15.2% of GDP, not including Kosovo's share of the London and Paris club debt of the former Yugoslavia, which is currently estimated at around 6% of GDP. The average weighted interest rate continued declining to 1.94% owing to the large share of favourable loans from IFIs. Average maturity of domestic debt is gradually increasing. It stood at 19.4 months at the beginning of July 2017.

TABLE

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KOSOVO

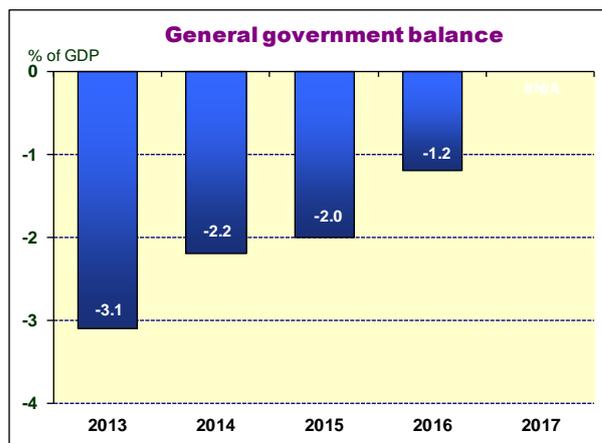
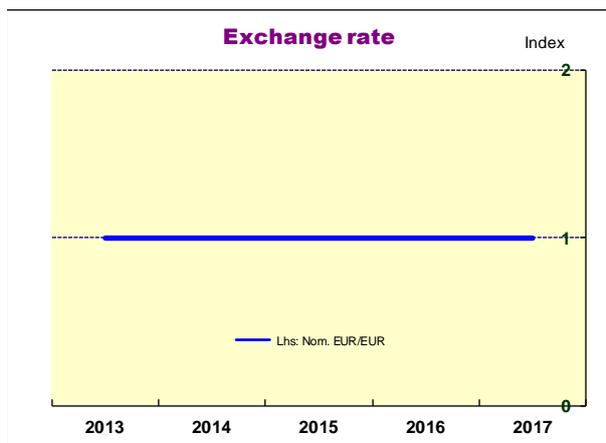
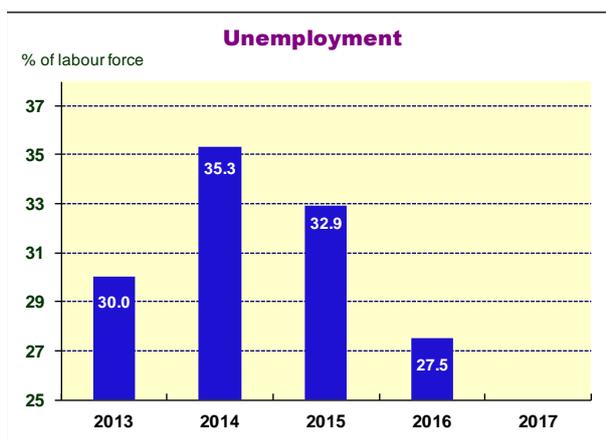
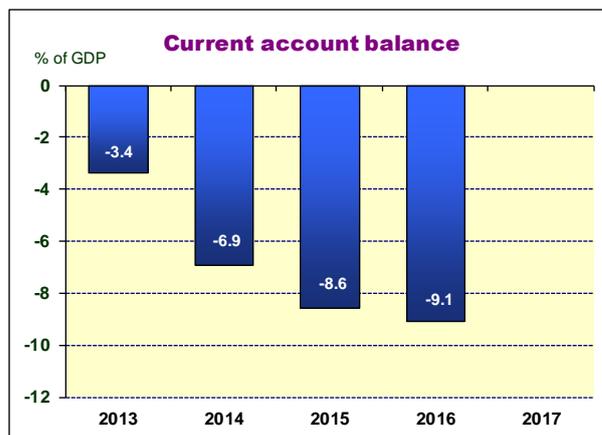
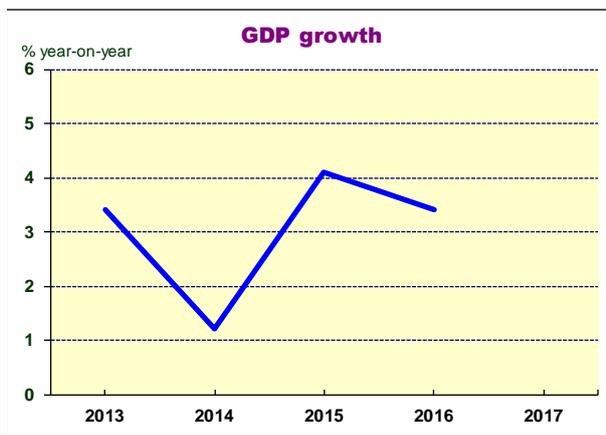
| | | 2012 | 2013 | 2014 | 2015 | 2016 | Q4 16 | Q1 17 | Q2 17 | Apr 17 | May 17 | Jun 17 |
|--|----------|---------|---------|---------|---------|---------|---------|---------|-------|--------|--------|--------|
| 1 Real sector | | | | | | | | | | | | |
| Industrial confidence ^{1.1} | Balance | N.A. | N.A. | N.A. | N.A. | N.A. |
| Industrial production ^{1.2} | Ann. %ch | N.A. | 3.2 | 0.0 | 1.3 | -1.3 | 3.1 | : | : | : | : | : |
| Gross domestic product ^{1.3} | Ann. %ch | 2.8 | 3.4 | 1.2 | 4.1 | 3.4 | 3.0 | 3.8 | : | N.A. | N.A. | N.A. |
| Private consumption ^{1.4} | Ann. %ch | 2.9 | 2.0 | 4.9 | 3.8 | 4.8 | 1.4 | 3.9 | : | N.A. | N.A. | N.A. |
| Investment ^{1.5} | Ann. %ch | -12.9 | -0.3 | -5.0 | 11.3 | 10.4 | 8.3 | 13.7 | : | N.A. | N.A. | N.A. |
| Construction index ^{1.6} | Ann. %ch | N.A. | N.A. | N.A. | N.A. | N.A. |
| Retail sales ^{1.7} | Ann. %ch | N.A. | N.A. | 11.6 | 7.1 | 6.5 | 6.9 | 13.3 | : | N.A. | N.A. | N.A. |
| 2 Labour market | | | | | | | | | | | | |
| Unemployment ^{2.1} | % | 30.9 | 30.0 | 35.3 | 32.9 | 27.5 | : | : | : | N.A. | N.A. | N.A. |
| Employment ^{2.2} | Ann. %ch | : | 11.7 | -4.4 | -8.2 | 11.7 | : | : | : | N.A. | N.A. | N.A. |
| Wages ^{2.3} | Ann. %ch | N.A. | N.A. | N.A. | 5.8 | : | : | : | : | N.A. | N.A. | N.A. |
| 3 External sector | | | | | | | | | | | | |
| Exports of goods ^{3.1} | Ann. %ch | -13.5 | 6.4 | 10.5 | 0.2 | -4.8 | 12.5 | 6.2 | : | 35.5 | 23.6 | : |
| Imports of goods ^{3.2} | Ann. %ch | 5.3 | -2.3 | 3.7 | 3.8 | 5.9 | 4.8 | 8.5 | : | 0.5 | 17.3 | : |
| Trade balance** ^{3.3} | % of GDP | -40.5 | -37.5 | -37.0 | -36.3 | -37.9 | -37.9 | : | : | N.A. | N.A. | N.A. |
| Exports goods and services** ^{3.4} | % of GDP | 23.3 | 21.9 | 22.5 | 21.9 | 22.2 | 22.2 | : | : | N.A. | N.A. | N.A. |
| Imports goods and services** ^{3.5} | % of GDP | 53.9 | 49.6 | 51.2 | 50.4 | 50.8 | 50.8 | : | : | N.A. | N.A. | N.A. |
| Current account balance** ^{3.6} | % of GDP | -5.8 | -3.4 | -6.9 | -8.6 | -9.1 | -9.1 | : | : | N.A. | N.A. | N.A. |
| Direct investment (FDI, inflow)** ^{3.7} | % of GDP | 4.2 | 4.7 | 2.2 | 4.7 | 2.9 | 2.9 | : | : | N.A. | N.A. | N.A. |
| International reserves ^{3.8} | mio EUR | 1 356.0 | 1 504.3 | 1 266.4 | 1 329.4 | 1 291.4 | 1 291.4 | 1 381.3 | : | : | : | : |
| Int. reserves / months Imp ^{3.9} | Ratio | 6.5 | 7.4 | 6.0 | 6.1 | 5.6 | 5.6 | 5.8 | : | : | : | : |
| 4 Monetary developments | | | | | | | | | | | | |
| CPI ^{4.1} | Ann. %ch | 2.5 | 1.8 | 0.4 | -0.5 | 0.3 | 1.1 | 1.6 | : | 2.2 | 1.6 | : |
| Producer prices ^{4.2} | Ann. %ch | 1.9 | 2.4 | 1.6 | 2.7 | -0.1 | -0.1 | 0.9 | : | N.A. | N.A. | N.A. |
| Food prices ^{4.3} | Ann. %ch | 1.0 | 2.1 | -0.2 | 0.4 | -0.3 | 0.5 | 1.0 | : | 1.7 | 1.9 | : |
| Broad money liabilities ^{4.4} | Ann. %ch | 7.1 | 17.3 | -4.2 | 6.5 | 8.4 | 8.4 | 7.0 | : | : | : | : |
| Exchange rate EUR/EUR ^{4.5} | Value | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Real eff. exchange rate (CPI) ^{4.6} | Index | 106.1 | 106.5 | 106.7 | 104.7 | : | : | : | : | : | : | : |
| 5 Financial indicators | | | | | | | | | | | | |
| Interest rate ^{5.1} | % p.a. | 12.67 | 11.82 | 10.61 | 8.32 | 7.47 | 7.27 | 7.25 | : | 6.57 | 6.78 | : |
| Bond yield ^{5.2} | % p.a. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Stock markets ^{5.3} | Index | N.A. | N.A. | N.A. | N.A. | N.A. |
| Credit growth ^{5.4} | Ann. %ch | 8.9 | 3.0 | 2.9 | 6.2 | 9.1 | 9.9 | 10.6 | : | 10.8 | 10.0 | : |
| Deposit growth ^{5.5} | Ann. %ch | 8.0 | 6.6 | 7.2 | 5.6 | 4.8 | 6.2 | 8.7 | : | 9.8 | 9.4 | : |
| Non-performing loans ^{5.6} | % total | 7.5 | 8.7 | 8.3 | 6.2 | 4.9 | 4.9 | : | : | : | : | : |
| 6 Fiscal developments | | | | | | | | | | | | |
| General government balance** ^{6.1} | % of GDP | -2.6 | -3.1 | -2.2 | -2.0 | -1.2 | : | : | : | N.A. | N.A. | N.A. |
| General government debt ^{6.2} | % of GDP | 8.4 | 9.1 | 10.6 | 13.0 | 14.5 | : | : | : | N.A. | N.A. | N.A. |

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

CHARTS

European Commission, ECFIN-D-1

KOSOVO



Source of data: IMF, national sources



| No. | Indicator | Note | Source |
|---------------------------------|---|--|-----------------|
| 1. Real sector | | | |
| 1.1. | Industrial confidence indicator | Business Surveys, industry sector, industrial confidence Indicator, SA | 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 |
| 2. Labour market | | | |
| 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 |
| 3. External sector | | | |
| 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 based on annual imports of goods and services. | ECFIN |
| 4. Monetary developments | | | |
| 4.1. | Interim CPI | Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100. | 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 | |
| 5. Financial indicators | | | |
| 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 |
| 6. Fiscal developments | | | |
| 6.1. | General government balance | In percent of GDP | ECFIN |
| 6.2. | General government debt | In percent of GDP | ECFIN |



| No. | Indicator | Note | Source |
|---------------------------------|---|--|-----------------|
| 1. Real sector | | | |
| 1.1. | Industrial confidence indicator | Current Situation, Assessment, Enterprises, total, MKD | 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 |
| 2. Labour market | | | |
| 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 |
| 3. External sector | | | |
| 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 |
| 4. Monetary developments | | | |
| 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 |
| 5. Financial indicators | | | |
| 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 |
| 6. Fiscal developments | | | |
| 6.1. | Central government balance | In percent of GDP | MoF |
| 6.2. | Central government debt | In percent of GDP | MoF |



| No. | Indicator | Note | Source |
|-----------|---|--|-----------------|
| 1. | Real sector | | |
| 1.1. | Industrial confidence indicator | 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 |
| 2. | Labour market | | |
| 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 |
| 3. | External sector | | |
| 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 |
| 4. | Monetary developments | | |
| 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 | |
| 5. | Financial indicators | | |
| 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 |
| 6. | Fiscal developments | | |
| 6.1. | General government balance | In percent of GDP | Min. of Finance |
| 6.2. | General government debt | In percent of GDP | Min. of Finance |



| No. | Indicator | Note | Source |
|---------------------------------|---------------------------------------|--|-----------------|
| 1. Real sector | | | |
| 1.1. | Industrial confidence indicator | 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 |
| 2. Labour market | | | |
| 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 |
| 3. External sector | | | |
| 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 |
| 4. Monetary developments | | | |
| 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 |
| 5. Financial indicators | | | |
| 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 | Gross Non-Performing Loan Ratio | IHS/DataInsight |
| 6. Fiscal developments | | | |
| 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 |
|---------------------------------|---|---|-----------------|
| 1. Real sector | | | |
| 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 | |
| 2. Labour market | | | |
| 2.1. | Unemployment | In percent of total labour force, 15-64 age group, Labour Force Survey data | NSI |
| 2.2. | Employment | Annual percentage change, 15-64 age group, Labour Force Survey data | NSI |
| 2.3. | Wages | Annual percentage, Hourly earnings manufacturing / Index publication base - | IHS/DataInsight |
| 3. External sector | | | |
| 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, eop. | IHS/DataInsight |
| 3.9. | Reserves / months Imp | Ratio of 12 months imports of goods moving average | IHS/DataInsight |
| 4. Monetary developments | | | |
| 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 |
| 5. Financial indicators | | | |
| 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 |
| 6. Fiscal developments | | | |
| 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 |
|---------------------------------|---|--|------------------|
| 1. Real sector | | | |
| 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 |
| 2. Labour market | | | |
| 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 |
| 3. External sector | | | |
| 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 |
| 4. Monetary developments | | | |
| 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 |
| 5. Financial indicators | | | |
| 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 |
| 6. Fiscal developments | | | |
| 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 |
|-----------|---|--|------------------------------------|
| 1. | Real sector | | |
| 1.1. | Industrial confidence indicator | Not available. | |
| 1.2. | Industrial production | Annual % ch | SOK, EC calculation |
| 1.3. | Gross domestic product | Annual percentage change. | Statistical Office of Kosovo (SOK) |
| 1.4. | Private consumption | Annual percentage change. | SOK |
| 1.5. | Gross capital formation | Annual percentage change. | SOK |
| 1.6. | Construction index | Not available. | |
| 1.7. | Retail sales | Wholesale Trade and Retail Sales, Retail Trade Turnover Value Index, Retail Sale in Non-Specialized Stores, 2013=100, NSA. | IHS/DataInsight |
| 2 | Labour market | | |
| 2.1. | Unemployment | In percent of total labour force. | SOK |
| 2.2. | Employment | Annual pc change of number of employees, LFS 2012 onwards | IHS/DataInsight |
| 2.3. | Wages | Annual pc change, average monthly wages (Tax Register). | SOK |
| 3. | External sector | | |
| 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 |
| 4. | Monetary developments | | |
| 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 |
| 5. | Financial indicators | | |
| 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 |
| 6. | Fiscal developments | | |
| 6.1. | General government balance | In percent of GDP. | IMF, Ministry of Finance |
| 6.2. | General government debt | In percent of GDP. | IHS/DataInsight |

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