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3rd Quarter 2021

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European Commission
Directorate-General for Economic and Financial Affairs

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

3rd Quarter 2021

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

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

OVERVIEW

*The recovery of most **Western Balkan** economies gained strength in the second quarter of 2021, when the region's GDP growth accelerated to 14.2% y-o-y, up from 1.8% in the preceding quarter. The annual expansion in economic activity benefited from a low base one year earlier, compared to which household consumption, investment and exports all registered strong growth. In line with the economic rebound, the year-on-year fall in employment virtually stalled in the second quarter of 2021 and unemployment rates declined in some countries while labour force participation increased. The region's current account deficit marginally increased to 4.8% of GDP in the four quarters to June, as higher remittances inflows in most countries and the revival of services exports were offset by higher merchandise trade deficits. Still, the external deficit recorded the second lowest level in the last ten years. The economic recovery supported the growth of budget revenues and fiscal deficits narrowed across the Western Balkans in the first eight months of 2021, while the public debt-to-GDP ratio came down in most countries compared to end-2020.*

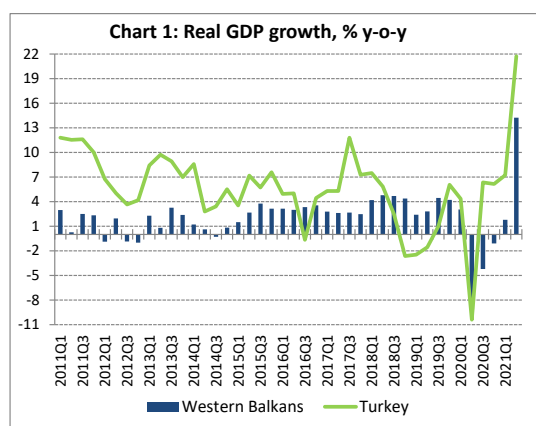
*In **Turkey**, economic growth further accelerated to 21.7% y-o-y sustained by base effects, strong domestic demand and a positive contribution of net exports to growth. The 4-quarter rolling average current account deficit decreased to 3.0% of GDP in August, compared to 4.9% in 2020, driven by a strong increase in the exports of goods and services in the summer months. Despite high inflation and rising inflation expectations, the central bank surprisingly reduced its key policy rate by 100 bps. in September and another 200 bps. to 16.0% on 21 October. The lira weakened as a result, losing 29% of its value against the US dollar since the start of the year.*

The gradual lifting of COVID-19 related containment measures, stronger domestic and external demand and base effects supported a significant economic rebound of most **Western Balkan** economies in the second quarter of 2021. The growth of the Serbian economy accelerated to 13.7% y-o-y as significant increases in household consumption, inventories and gross fixed capital formation were only partially outweighed by the negative contribution of net exports to growth and lower public consumption. In *Albania*, economic activity recorded a further strong year-on-year expansion of 17.9% following a 5.5% growth in the previous three months. Growth was mainly on the back of external demand and investment, increased public consumption as well as the recovery in household consumption growth. In *Bosnia and Herzegovina*, GDP growth accelerated to 11.6% y-o-y largely driven by significant increases in exports, household consumption and investment. In *North Macedonia*, economic activity recovered and real GDP rose by 13.1% y-o-y compared to a contraction of 1.9% in the preceding

quarter on the back of pent-up domestic demand and the continued implementation of government's anti-crisis support packages. In *Montenegro*, supported by the withdrawal of travel restrictions, the economy rebounded strongly and real GDP soared by 19.0% y-o-y, almost compensating for the 20.5% decline recorded the year before, mainly driven by a surge in private consumption, a remarkable positive contribution of net exports to growth as well as the recovery in investment. In *Kosovo*, annual economic growth accelerated to 16.3% mainly due to an extraordinary expansion of exports of services and strong increases in investment as well as in public and private consumption. Overall, the **Western Balkan** region's GDP surged by 14.2% y-o-y in the second quarter of 2021, more than offsetting the 9.2% output drop registered a year earlier (Chart 1).

In **Turkey**, real GDP expanded by 21.7% y-o-y in the second quarter of 2021 up from 7.2% in the previous three months, underpinned by strong base effects, robust domestic demand as well as a notable positive contribution of the external sector to growth. High frequency indicators suggest a

softening but still solid growth momentum in the third quarter of 2021. Industrial production fell in July on a month-on-month basis before recovering in August.

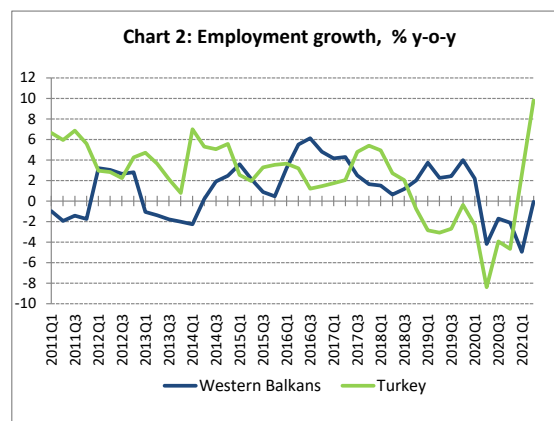


Source: Macrobond, Commission calculations

In line with the strong rebound of economic activity, labour markets showed signs of recovery in the *Western Balkans* in the second quarter of 2021. The decline in employment in the region virtually stalled (0.1%¹ y-o-y on average), after a drop of around 5% in the previous three months (Chart 2). This led to a decrease in unemployment rates in some countries (*Albania*, *North Macedonia*) while labour force participation increased. Still, jobless rates are very high, ranging from 12.1% in *Albania* to 25.8% in *Kosovo* (the latter in the first quarter of 2021).

In *Turkey*, the relaxation of COVID-19 related restrictions and the economic rebound have started to improve the labour market situation. The labour force participation rate increased to 52.5% in August, its highest level in 20 months while the employment rate rose to 46.2%. However, two of the measures that the authorities had enacted in 2020 to protect the labour market from the crisis expired at end-June and the unemployment rate increased from 10.4% in June to 12.0% in August.

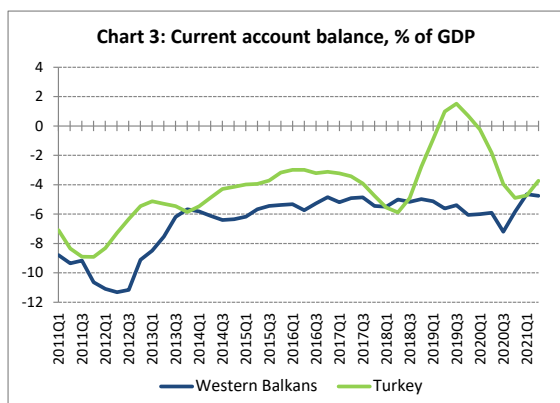
¹ This figure does not include *Montenegro* and *Kosovo* for which second-quarter data were not available by the cut-off date for this report.



Source: Macrobond, Commission calculations

External developments in the *Western Balkans* during the second quarter of 2021 were driven by a continued rebound of exports of goods, the revival of services exports as well as the strong growth of remittances in most countries. At the same time, imports of goods also increased at a fast pace, which in most countries led to higher merchandise trade deficits as a percentage of GDP. On balance, annualised current account deficits widened, compared to the previous quarter, in *Serbia* and *Kosovo* whereas they narrowed or remained largely unchanged in other *Western Balkan* countries. Overall, in the four quarters to June the current account deficit in the region increased only marginally, to 4.8% of GDP, which is the second lowest level in the last ten years (Chart 3). The deficits continued to be financed mostly by net FDI inflows, which in relation to GDP increased compared to the year before in *Montenegro*, *Kosovo* and *Bosnia and Herzegovina* whereas they declined moderately in the other countries of the region.

In *Turkey*, the 12-month cumulative current account deficit decreased to 3.0% of GDP in August from 4.9% in 2020. The improvement was mainly driven by a remarkable increase in exports of goods and services during the summer. Official reserve assets strongly increased by USD 28.8 billion in the third quarter of 2021, bolstered by large and positive net errors and omissions combined with portfolio and other investment inflows, including an allocation of SDR 4.5 billion by the IMF.



Source: Macrobond, Commission calculations

Sustained increases in energy, food and transport prices fuelled an acceleration in annual inflation across the **Western Balkan** region in July and August. In *Serbia*, annual consumer price inflation averaged 3.2% in the second quarter of 2021 and after stabilising in July (3.3%), it accelerated strongly to 4.3% in August, thus approaching the upper bound of the central bank's target tolerance band of $3\% \pm 1.5$ pps. In *North Macedonia*, average CPI inflation accelerated to 2.8% y-o-y in the April to June period, and further to 3.5% in July and August, also due to bottlenecks in global supply chains. The central bank has kept the key policy rate unchanged since March 2021, when it had reduced it by 25 bps. to the historic low of 1.25%, after three successive rate cuts in 2020. In *Albania*, consumer price inflation accelerated to 2.4% y-o-y (still below the 3% target) in the third quarter of 2021, from 1.8% in the previous three months. In October, the *Bank of Albania* did not change its key policy rate, which it had last lowered to the record low of 0.5% in March 2020. It also continued to intervene on the money market with slightly increased average liquidity injections.

In *Montenegro* and *Bosnia and Herzegovina* annual inflation turned positive in the second quarter of 2021, and accelerated to 3.8% and 2.3%, respectively in August. In both countries, upward price pressures came from food prices combined with fuel and

accommodation services in the case of *Montenegro*, and transport and non-alcoholic beverages in the case of *Bosnia and Herzegovina*. Consumer price inflation has also been on an upward trend in *Kosovo*, where it stood at 1.3% y-o-y on average in the first eight months of 2021, due to higher fuel, communication and food prices.

In **Turkey**, annual CPI inflation further accelerated to 19.3% in the third quarter from 17.1% in the previous three months as price pressures intensified due to higher food and energy prices as well as rising inflation expectations. The central bank surprisingly reduced its key policy rate by 100 bps. in September and another 200 bps to 16.0% on 21 October. As a result, the lira lost 29% of its value against the US dollar since the start of the year, while the 5-year CDS spread increased by 85 bps. since mid-September to 444.

In the second quarter of 2021, annual credit growth accelerated, compared to the previous three months, in most **Western Balkan** countries while it turned positive in *Bosnia and Herzegovina*. The continuation of regulatory measures to support the flow of credit helped annual loan growth to pick up further in almost all countries of the region in July and August. The share of non-performing loans (NPLs) in total loans fell further or remained broadly stable in most **Western Balkan** countries. The NPL ratio in Albania fell to 7.0% in July, 1.1 pps. lower than 12 months earlier. In *Bosnia and Herzegovina*, the NPL ratio declined to 5.7% in the second quarter of 2021, followed by *Montenegro* (5.5% in August) and *Serbia* (3.6%). However, since most central banks have allowed some regulatory relaxation in order to bolster bank lending, the NPL and credit figures do not yet reflect the full impact of the pandemic-induced crisis on the financial sector.

In **Turkey**, annual credit growth decelerated significantly to 13.6% in the third quarter from 21.8% in the previous three months. In August,

inflation-adjusted bank lending to corporates fell at a faster pace than loans to households on a year-on-year basis. The NPL ratio declined to 3.7% in August from 4.1% a year earlier.

In the first eight months of 2021, the rebound in tax revenues due to higher economic activity supported the narrowing of fiscal deficits in the *Western Balkan* region. In *Serbia*, the budget shortfall decreased to 0.6% of expected annual GDP in January to August as year-on-year revenue growth significantly outpaced the increase in expenditure, impacted by strong base effects from the lockdown and tax deferrals in spring 2020. In *Montenegro*, the budget deficit significantly narrowed to 1.2% of GDP as all revenue items except corporate income tax grew markedly, whereas most current spending categories registered contraction and capital expenditure underperformed. In *Albania*, the fiscal deficit decreased to 2.1% of GDP in the first nine months of 2021, on the back of the continued strong recovery of revenue largely due to base effects. In *North Macedonia*, despite the significant increase in capital expenditure, the

strong recovery in tax income kept the budget shortfall in the first eight months of 2021, at 3.4% of GDP, limited to around half of the full-year target. In *Kosovo*, large increases in direct and indirect tax proceeds offset the rise of government expenditure on goods and services due to the COVID-19 crisis and the budget surplus amounted to a hefty 3.5% of GDP.

The general government debt ratio decreased in most countries in the region in the second quarter of 2021, partly reflecting recovering nominal GDP. At the end of June, the debt ratio was the highest in *Montenegro* (89.0% of GDP) but significantly lower compared to end-2020 also due to the use of government deposits to repay maturing debt, followed by *Albania* (72.9%) and *Serbia* (54.3% at end-August).

In *Turkey*, notwithstanding the strong increase in interest payments and higher capital spending, a substantial increase in tax revenue resulted in a narrowing of the central government budget deficit to 0.6% of GDP, in the first eight months of 2021. Government debt fell to 38.4% of GDP at end-June, compared to 39.7% at end-2020.

Candidate and potential candidate countries: Summary table

	2016	2017	2018	2019	2020	ECFIN 2021 Spring forecast		Q1 21	Q2 21	Q3 21	Jul 21	Aug 21	Sep 21
						2021	2022						
Gross domestic product (in real terms, annual % change)													
Albania	3.3	3.8	4.0	2.1	-4.0	4.0	4.3	5.5	17.9	:	N.A.	N.A.	N.A.
North Macedonia	2.8	1.1	2.8	3.1	-4.5	3.7	3.8	-1.9	13.1	:	N.A.	N.A.	N.A.
Montenegro	2.9	4.7	5.1	4.1	-15.3	7.1	6.5	-6.5	19.0	:	N.A.	N.A.	N.A.
Serbia	3.3	2.1	4.5	4.2	-1.0	5.3	4.0	1.8	13.7	:	N.A.	N.A.	N.A.
Turkey	3.3	7.5	3.0	0.9	1.8	5.2	4.2	7.2	21.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	3.4	3.0	5.1	2.8	-3.2	:	:	2.5	11.8	:	N.A.	N.A.	N.A.
Kosovo	5.6	4.8	3.4	4.8	-5.3	:	:	4.2	16.3	:	N.A.	N.A.	N.A.
Unemployment													
Albania	15.6	14.1	12.8	12.0	12.2	11.7	10.9	12.6	12.1	:	N.A.	N.A.	N.A.
North Macedonia	23.8	22.4	20.7	17.3	16.4	15.8	15.2	16.0	15.9	:	N.A.	N.A.	N.A.
Montenegro	18.0	16.4	15.5	15.4	18.4	16.5	15.2	19.6	:	:	N.A.	N.A.	N.A.
Serbia	15.3	13.5	12.7	10.4	9.0	9.3	8.5	12.8	11.1	:	N.A.	N.A.	N.A.
Turkey	10.9	10.9	10.9	13.7	13.1	13.5	14.1	13.5	11.9	:	12.1	12.0	:
Bosnia and Herzegovina	25.4	20.5	18.4	15.7	15.9	:	:	16.6	18.1	N.A.	N.A.	N.A.	N.A.
Kosovo	27.5	30.5	29.6	25.7	25.9	:	:	25.8	:	:	N.A.	N.A.	N.A.
Current account balance* (% of GDP)													
Albania	-7.6	-7.5	-6.8	-7.9	-8.9	-8.5	-7.6	-9.3	-7.8	:	N.A.	N.A.	N.A.
North Macedonia	-2.9	-1.0	-0.1	-3.3	-3.5	-2.2	-1.6	-2.5	-2.6	:	N.A.	N.A.	N.A.
Montenegro	-16.2	-16.1	-17.0	-14.3	-26.1	-22.7	-16.9	-22.4	-19.6	:	N.A.	N.A.	N.A.
Serbia	-2.9	-5.2	-4.8	-6.9	-4.2	-6.1	-5.9	-1.9	-2.5	:	N.A.	N.A.	N.A.
Turkey	-3.1	-4.8	-2.8	0.7	-4.9	-3.9	-3.1	-4.7	-3.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.8	-4.8	-3.3	-2.8	-3.8	:	:	-3.4	-3.5	:	N.A.	N.A.	N.A.
Kosovo	-8.0	-5.5	-7.6	-5.7	-6.9	:	:	-8.0	-9.8	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.3	2.0	2.0	1.4	1.6	1.9	2.3	0.9	1.8	2.4	2.2	2.4	2.5
North Macedonia	-0.2	1.4	1.5	0.8	1.2	1.7	1.7	2.0	2.8	:	3.4	3.6	3.7
Montenegro (HICP)	0.1	2.8	2.9	0.5	-0.8	1.3	1.8	-0.1	2.3	:	3.6	3.8	:
Serbia	1.1	3.1	2.0	1.8	1.6	2.4	2.1	1.4	3.2	:	3.3	4.3	:
Turkey	7.8	11.1	16.3	15.2	12.3	15.7	12.5	15.6	17.1	19.3	19.0	19.3	19.6
Bosnia and Herzegovina	-1.1	1.3	1.4	0.6	-1.1	:	:	-1.2	1.4	:	1.9	2.3	:
Kosovo	0.3	1.5	1.1	2.7	0.2	:	:	0.6	2.0	:	3.5	4.7	:
General government balance** (% of GDP)													
Albania	-1.8	-2.0	-1.6	-1.9	-6.9	-5.5	-3.0	-0.5	-1.2	-0.4	N.A.	N.A.	N.A.
North Macedonia	-2.7	-2.7	-1.1	-2.2	-8.2	-4.1	-3.4	-1.0	-1.3	:	N.A.	N.A.	N.A.
Montenegro	-3.6	-5.3	-3.9	-2.0	-11.1	-3.8	-1.4	-2.4	:	:	N.A.	N.A.	N.A.
Serbia	-1.2	1.1	0.6	-0.2	-8.1	-6.7	-3.4	-0.2	-0.4	:	N.A.	N.A.	N.A.
Turkey	-1.7	-2.0	-2.8	-3.2	-2.8	-4.0	-3.6	0.5	-1.1	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	1.2	2.5	2.1	1.9	-5.1	:	:	0.6	:	:	N.A.	N.A.	N.A.
Kosovo	-1.1	-1.3	-2.9	-2.9	-7.0	:	:	-0.1	2.0	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2021 published May 2021.

* Q figures refer to a 4 quarters moving average.

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



Key developments

The newly constituted parliament gave its vote of confidence to the new government and its political programme on 17 September 2021. In the new cabinet, 12 of 15 Ministers are female. The former director of the General Directorate of Taxation, Delina Ibrahimaj, replaced Anila Denaj as new Minister of Finance and Economy.

The European Commission's President Ursula von der Leyen visited Tirana on 28 Sep 2021 and attended the inauguration of a school, which was damaged by the 2019 earthquake and rebuilt with EU funds.

On 19 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Albania has made some progress and is moderately prepared for developing a functioning market economy. The Albanian economy has also made some progress and has some level of preparation regarding its capacity to cope with competitive pressures and market forces within the EU.

Real sector

Following 5.5% growth in Q1, the rebound of the Albanian economy accelerated with real GDP surging 17.9% y-o-y in Q2. Almost all expenditure categories exceeded their level of Q2-2019, thus growth was not only driven by base effects due to the sharp downturn in Q2-2020. Key drivers were investment (+35.7% y-o-y) and external demand, but household consumption growth also recovered (9.9% y-o-y) and was almost as high as the increase in government consumption (11% y-o-y). The first growth of services exports (153% y-o-y) after 5 quarters of contraction came on top of the strong performance of goods exports (88%), both exceeding Q2-2019 volumes. Electricity and construction materials drove goods exports, while textiles and footwear exports contributed positively but have not yet recovered to their pre-crisis level. Imports also grew strongly at 55.6% y-o-y but did not fully match 2019 levels.

On the production side all sectors, except agriculture (-0.6% y-o-y), recorded positive real growth rates in Q2, led by construction and industry, but also services, in particular entertainment (34%) and trade and hospitality

services (31.8%), rebounded strongly and in many categories exceeded 2019 levels.

The economic sentiment indicator fell in August and September after increasing for 9 consecutive months, but remained 7.6 points above its historical average. The fall was caused by decreasing values for construction and services confidence, whereas confidence of industry and trade increased. Consumer confidence improved, driven by the perception of an improving financial situation and reached its historical average for the first time since the start of the crisis.

Labour market

After a deterioration in Q1, the labour market recovered in Q2 and the unemployment rate (age group 15-64) fell from 12.6% in Q1 to 12.1% in Q2. The youth unemployment rate (15-29) fell by 3.4 pps. from Q1 and for the first time below 20%. Employment (age group 15-64), which had decreased in Q1, recorded 1% y-o-y and 2.9% q-o-q growth. Growing public sector employment (7.1% y-o-y) continued to support the labour market recovery but the falling economic inactivity rate (-3.6% y-o-y) signalled the recovery of private sector employment. Main driver of y-o-y employment growth in Q2 was industry (10.8%) and at a much lower rate services (3.1%).

As a result, the participation rate recovered to 69% (from 67.7% in Q1), but was still almost 1 pp. lower than in 2019. Men's participation rate recovered almost to pre-crisis levels while women's participation rate remained 1 pp. below those earlier levels, resulting in a gender gap of 16.4 pps., up 1.4 pps. y-o-y but decreasing 2.2 pps. in q-o-q terms.

Wage growth continued to accelerate to 4.9% y-o-y in Q2, pushed up by a 7.6% increase in public sector wages, resulting from higher wages for health workers and teachers. Within the private sector, wage indices grew y-o-y for all sectors except for travel agencies, but services and elementary occupations recorded the highest y-o-y wage growth because of the 15.4% increase of the minimum wage as of January 2021.

External sector

In the four quarters to June, the current account deficit narrowed to 7.8% of GDP (down from 9.3% in Q1-2021) as the widening of the merchandise trade deficit was outweighed by the surplus in services increasing to 9.7% of GDP and by the strong growth of remittances. Driven by the strong recovery of services exports, ending their one-year-long contraction, and by the continuing rebound of merchandise exports, total export growth jumped in Q2 to 141% y-o-y. Surging services imports (122% y-o-y) coupled with strong growth of goods imports (44% y-o-y), pushed overall import growth to 58% y-o-y in Q2. The share of total exports in GDP almost doubled in Q2-2021 to 30.1% from Q2-2020, while total imports increased from 32.2% to 40.5% of GDP. Remittances grew by 15.7% y-o-y and increased their share in GDP from 4.9% to 5.3% in the four quarters to June.

In the four quarters to June, net FDI accounted for 6.5% of GDP, down from 7.2% one year earlier. Net FDI covered 81% of the current account deficit, still below the 84% coverage in Q2-2020, but improved from 72.1% in Q1-2021. Foreign reserves increased slightly to EUR 3.93 billion from EUR 3.92 billion in Q1. Due to the import recovery, foreign reserves' coverage of total imports decreased from 9 to 8 months.

Monetary developments

In October, the Bank of Albania (BoA) reaffirmed its accommodative policy stance for the medium-term and kept its record low policy rate at 0.5%, as well as the overnight deposit and lending rates at 0.1% and 0.9%, respectively. The pick-up of inflation to 2.4% in Q3 was mainly caused by strongly fluctuating prices for food and transport.

Growth of monetary aggregate M3 continued to accelerate in August, to 10%. The lek's exchange rate continued to appreciate in Q3 (by 1.7% y-o-y and 1% q-o-q) to 121.8 lek/euro. The BoA continued to intervene on the money market with slightly increased average liquidity injections.

Financial sector

The growth of overall credit to the economy picked up in August to 6.6% y-o-y, from 4.6% in Q1. Lending growth to the private sector² continued its recovery to 7.7% y-o-y in Q2 from 7.5% in Q1, driven by lending to households

(8.7%), including mortgage lending (11.1%) and loans to enterprises, which slightly decelerated to 7.1%, despite strong growth for investment-related lending (11.6%). Lending in lek continued to grow at a higher rate than lending in foreign currency, and the share of foreign currency loans in total bank loans continued to decrease slightly to 48.7% in Q2 compared with 50.3% a year ago.

Average interest rates for new loans in lek to enterprises continued to slightly decrease to 5.4% in Q2 (from 5.6% and 5.8% in the two previous quarters), but as in previous quarters, only because of decreasing rates for households' mortgage loans and for small loans to SMEs, whereas interest rates for large business loans remained stable. Interest rates for euro denominated loans remained broadly stable compared with Q1. Banks began to ease credit standards as they perceived credit risk lower than in Q1 but kept terms and conditions tight for enterprises. At the same time, loan demand improved from enterprises for investments and liquidity as well as from households for house purchases.

The growth of deposits accelerated to 9.8% in August from 8.6% y-o-y in June, dominated by foreign currency deposits (12.2% y-o-y), which increased their share in total deposits from 53.9% to 55.2% in the same period.

The banking sector's capital adequacy ratio slightly decreased in Q2 by 0.2 pps q-o-q to 17.9% whereas the liquidity ratio increased by 0.8 pps q-o-q to 12.8%. The ratio of non-performing loans to total loans continued to improve to 7% in July 2021 compared with 8.1% in July 2020. Bank profitability indicators improved strongly in the last three quarters (RoA: 1.4%, RoE: 12.8%) but are not yet back to 2019 levels.

Fiscal developments

By September 2021, the fiscal deficit amounted to ALL 35.8 billion (2.1% of estimated GDP), about ALL 25 billion less than in the same period of last year. The deficit reduction was on account of the continuing strong recovery of revenue (19% y-o-y) mainly due to base effects but also exceeding 2019 levels by about 3.5% due to strong performance of all revenue categories except profit and income taxes. Expenditure grew 9.6% y-o-y, mainly for investment and post-earthquake reconstruction, but also for health and social insurance. The public debt-to-GDP ratio stood at 73.2% of estimated GDP, down 2.5 pps. compared with end-2020.

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

TABLE



ALBANIA

European Commission, ECFIN-D-1

							ECFIN 2021 Spring forecast							
		2016	2017	2018	2019	2020	2021	2022	Q1 21	Q2 21	Q3 21	Jul 21	Aug 21	Sep 21
1 Real sector														
Industrial confidence ^{1.1}	Balance	-3.7	1.5	-0.6	-0.6	-16.2	:	:	-1.5	:	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-19.6	8.4	9.7	5.6	-10.1	:	:	19.9	46.9	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	3.3	3.8	4.0	2.1	-4.0	4.0	4.3	5.5	17.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.0	2.6	3.1	3.2	-2.3	2.9	3.3	1.4	9.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.4	6.0	2.3	-3.7	-2.0	6.4	1.5	21.6	35.7	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.1	19.6	5.6	-2.5	9.5	:	:	16.0	32.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.8	2.4	1.8	4.2	1.0	:	:	3.5	10.8	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	15.6	14.1	12.8	12.0	12.2	11.7	10.9	12.6	12.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	6.1	2.7	2.1	2.4	-1.9	1.3	1.3	-4.7	1.0	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	-0.8	3.0	3.1	3.8	2.7	:	:	5.2	4.7	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	2.5	14.4	20.0	-0.2	-9.7	:	:	22.6	64.1	:	32.6	:	:
Imports of goods ^{3.2}	Ann. % ch	7.4	11.5	8.1	4.8	-7.8	:	:	19.2	46.2	:	28.6	:	:
Trade in goods balance* ^{3.3}	% of GDP	-24.3	-24.4	-22.4	-22.9	-23.0	-23.2	-23.3	-23.2	-23.3	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	29.0	31.6	31.6	31.3	23.2	:	:	22.8	26.4	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	45.9	46.7	45.4	45.0	38.1	:	:	38.1	40.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.6	-7.5	-6.8	-7.9	-8.9	-8.5	-7.6	-9.3	-7.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.7	8.6	8.0	7.5	6.9	:	:	6.7	6.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,945	2,996	3,399	3,360	3,942	:	:	4,054	3,925	:	3,938	4,145	:
Int. reserves / months Imp ^{3.9}	Ratio	7.2	6.7	7.0	6.5	9.6	:	:	9.6	8.4	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.3	2.0	2.0	1.4	1.6	1.9	2.3	0.9	1.8	2.4	2.2	2.4	2.5
Producer prices ^{4.2}	Ann. % ch	-1.5	2.8	1.6	-0.8	-3.4	:	:	0.1	2.5	:	:	:	:
Food prices ^{4.3}	Ann. % ch	3.2	3.9	2.7	2.9	3.6	:	:	2.5	3.7	:	4.1	4.6	:
M3 ^{4.4}	Ann. % ch	3.9	0.3	-0.2	4.3	10.5	:	:	7.6	9.4	:	9.9	10.0	:
Exchange rate ALL/EUR ^{4.5}	Value	137.36	134.14	127.57	123.01	123.77	:	:	123.49	122.98	121.82	122.32	121.55	121.59
Real effective exchange rate ^{4.6}	Index	86.8	90.3	97.0	100.3	102.2	:	:	102.8	104.1	:	104.2	104.6	:
5 Financial indicators														
Interest rate (3 months-TRIBOR) ^{5.1}	% p.a.	1.99	2.15	1.83	1.45	1.46	:	:	1.46	1.44	1.29	1.27	1.28	1.30
Bond yield ^{5.2}	% p.a.	2.05	2.07	2.20	1.76	1.63	:	:	1.58	1.62	:	1.61	1.62	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	-0.7	-0.1	-1.7	3.0	6.1	:	:	4.6	6.2	:	6.5	6.6	:
Deposit growth ^{5.5}	Ann. % ch	1.1	1.0	-1.2	2.5	5.8	:	:	6.3	8.3	:	9.3	9.8	:
Non performing loans ^{5.6}	% total	18.3	13.2	11.1	8.4	8.1	:	:	8.0	7.1	:	7.1	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.8	-2.0	-1.6	-1.9	-6.9	-5.5	-3.0	-0.5	-1.2	-0.4	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	72.4	70.2	67.7	65.8	76.1	74.9	73.2	72.7	72.9	73.2	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

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

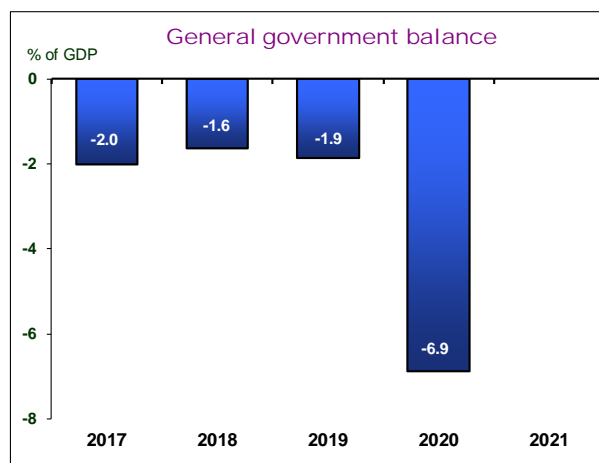
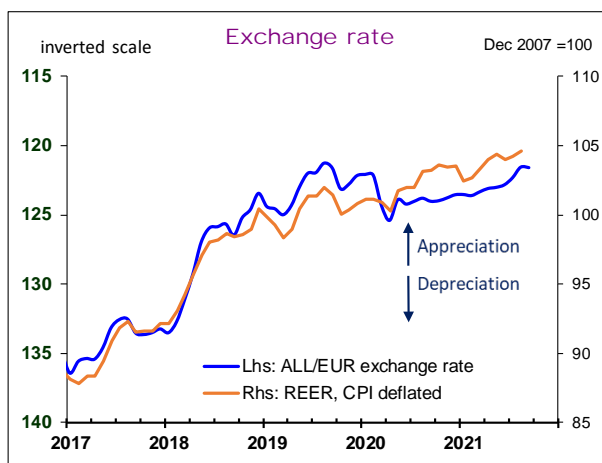
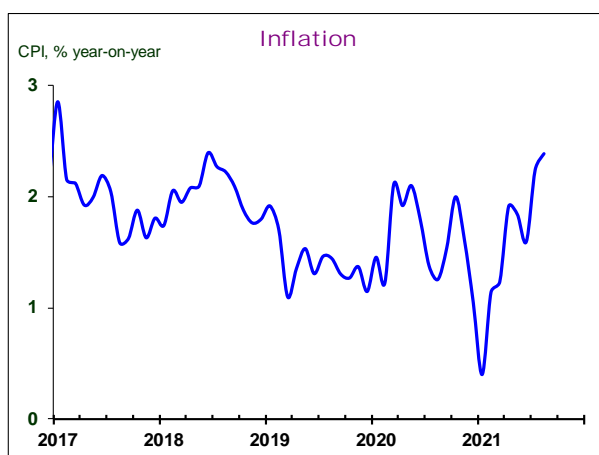
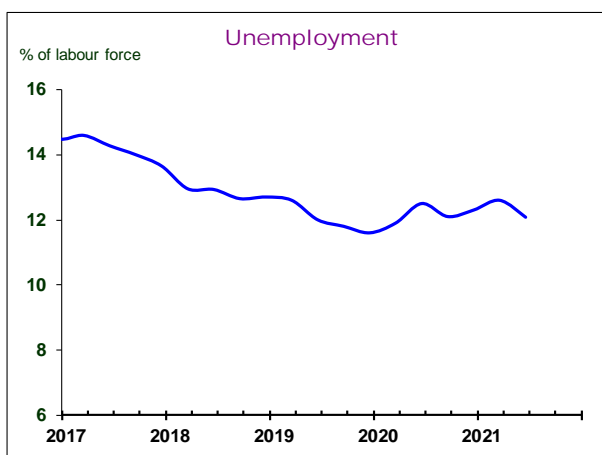
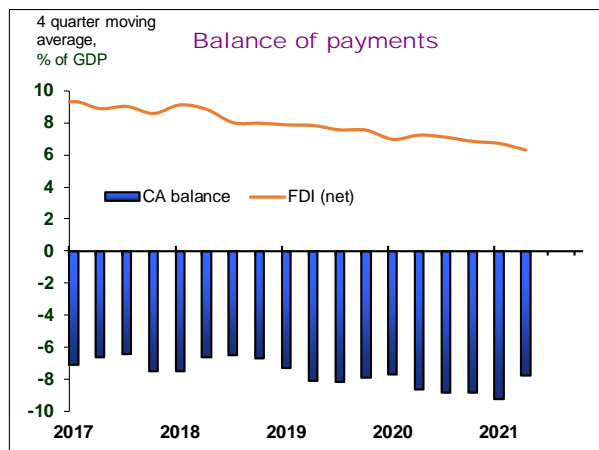
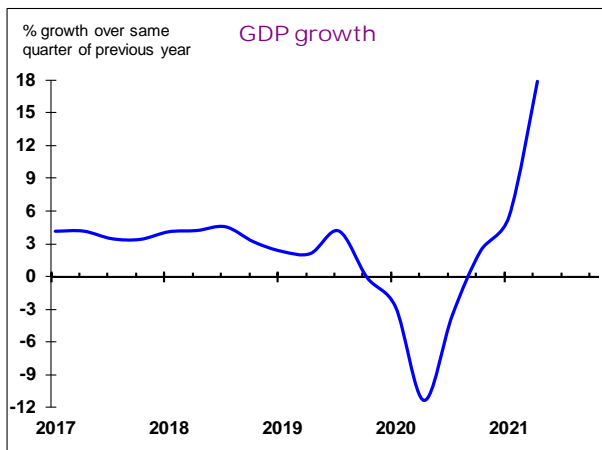
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





Key developments

On 7 July, Montenegro concluded a hedging arrangement with four banks to shelter public finances from currency risk on an USD 944 million loan from the Chinese Exim Bank to build a section of the Bar-Boljare highway. Overall, the swap deal reduces the interest rate on the highway's debt from 2% in dollars to 0.88% in euros.

On 22 September, Montenegrin Prime Minister Zdravko Krivokapic called on members of the ruling coalition to launch talks to restructure the government while excluding the possibility for general elections before the regular vote in 2024.

On 19 October, the European Commission presented its annual enlargement package stating that Montenegro made some progress and is moderately prepared as regards the economic criteria for EU membership requiring developing a functioning market economy and its capacity to cope with competitive pressure and market forces within the EU.

Real sector

The collapse of last year's tourist season and the drastic drop in tourism revenue led to a sharp contraction of the economy. These strong base effects and the withdrawal of travel restrictions contributed to a strong rebound of the economy in Q2-2021, when GDP surged by 19.0% y-o-y, almost compensating for the 20.5% y-o-y contraction registered a year before. Private consumption surged by 15.4% y-o-y after an 8.2% drop in Q1 and were, together with net exports, the main driver of the recovery. Both exports and imports of goods and services recovered with the gradual reopening of the economy. Exports surged by 89.4% y-o-y in Q2, after declining by 4.8% y-o-y in Q1, while imports increased by 23.4% y-o-y in Q2, after declining on an annual basis in the previous four quarters. As a result, net exports contributed 4.6 pps. to GDP growth in Q2. Meanwhile, government consumption growth eased to 0.8% y-o-y in Q2, down from 1.8% y-o-y in Q1 and 2.3% a year before. After six consecutive quarters of annual contraction, investment reached positive territory in Q2, growing by 3.5% y-o-y.

The recovery of private consumption boosted retail sales, which surged by 50.7% and 52.1% y-o-y in July and August respectively, after contracting by some 35% y-o-y a year earlier. The strong growth reflects the fast but still partial recovery of tourism activity, with the number of tourist arrivals in the first eight months of 2021 reaching 77% of the pre-pandemic record level of 2019. After growing at double-digit pace in the first two quarters of 2021, industrial production growth stalled in July, but picked up to 4.9% y-o-y in August, driven by manufacturing, while mining and electricity production contracted over the year.

Labour market

Despite the rebound of the economy and government measures to retain jobs, the unemployment rate registered a further increase in Q2-2021, to 24.2%, compared to 22.3% in Q1 and 17.9% a year earlier. The labour market saw little improvement in July and August, with the unemployment rate declining only marginally to 23.6% and 23.3%, respectively. Women represent 60.1% of total unemployment. Yet, one key reason for the poor performance of the labour market is the increase in the number of persons looking for a job for the first time, recording an overall increase of 31.4% y-o-y at the end of August.

The average monthly net wage increased by 1.7% y-o-y in August after rising by the same margin a month earlier. The average gross and net salary totalled EUR 795 and 532, respectively. The government announced for 2022 a plan to increase the minimal wage to EUR 450 (from EUR 250 currently), as well as to eliminate the mandatory health insurance contribution on wages. Lower health insurance revenue would be compensated by an increase in personal and corporate income tax rates, excise duties, tax on dividends and a new tax on cash withdrawals for companies.

External sector

The current account deficit eased somewhat to 19.6% of GDP in the four quarters to June 2021, driven by a revival of services exports and remittances, also reflecting statistical base

effects. However, the recovery in domestic demand also boosted imports, widening the merchandise trade deficit.

Net FDI inflows eased to 9.5% of GDP in the four quarters to June 2021. The reimbursement of maturing sovereign debt using government deposits reduced the stock of international foreign exchange reserves from the equivalent of 8.2 months of imports at the end of 2020, to 6.8 in June 2021.

The strong import dependence resulted in a fast widening of the trade deficit along with the recovery of economic activity. Thus, in the first eight months of 2021, the merchandise trade deficit expanded by 15.2% y-o-y to 29.0% of estimated annual GDP, compared to 27.6% of GDP a year earlier but similar (29.6% of GDP) to the same period in 2019. Overall, the deficit expanded after imports surged 15.2% y-o-y in the eight-month period. Exports also grew fast (by 15.4% y-o-y), but from a much lower level as the coverage of imports by exports remains very low at 16.7%.

Monetary developments

As the economy showed signs of recovery and global commodity prices started increasing in early 2021, inflation turned positive and kept accelerating. Thus, after averaging 2.3% y-o-y in Q2-2021, consumer price inflation further accelerated in July and August to 3.6% and 3.8% y-o-y, respectively. Fuel, food and accommodation services were the items with the largest impact on annual inflation.

Financial sector

From March 2020 to September 2021, the Central Bank of Montenegro carried out an Asset Quality Review (AQR) of all domestic banks according to ECB methodology, with the support of major international auditing firms. Results confirmed the stability of the domestic banking system, with satisfactory levels for asset quality and capital adequacy. The aggregated solvency ratio (AQR-adjusted) was 16.2% (2019 reference data), above the statutory minimum of 10%. Only one bank was required to strengthen its position, after which its solvency ratio increased to 12%.

Increased credit activity has supported the

rebound of the economy. Bank lending growth accelerated to 9% y-o-y in August 2021 from 7.3% y-o-y in July, with the total loan stock reaching EUR 3.53 billion (or 77% of GDP). The increase was supported by a surge in lending to non-residents (which account for 12.9% of total loans); expanding by 80.5% y-o-y at end of August, while loans to households and resident private companies increased at a slower pace of 2.1% and 1.1% y-o-y, respectively.

The moratorium on loan repayments, which applied to people who lost their jobs or whose revenues halved during the pandemic, ended in August. So far, the NPL ratio has increased only slightly, to 5.5% of total loans at the end of August compared to 5.0% a year before.

After declining by 2.6% in 2020, commercial bank deposits recorded double-digit growth in 2021, in parallel with the recuperation of tourism. Overall, bank deposits surged by 20.4% y-o-y in August, after recording 11.4% and 16.0% y-o-y expansion in June and July, respectively. The increase was equally spread across households, private corporations and non-resident deposits, expanding each of these categories by some EUR 257 million year-on-year in August.

Fiscal developments

The economic recovery significantly improved Montenegro's fiscal performance. Thus, in the first eight months of 2021, budget revenues increased by 14.5% y-o-y, while lower needs for public support to the economy contributed to a 7.9% y-o-y decline in public spending. As a result, the central government budget reduced its deficit to 1.2% of GDP until August, compared to 7.4% of GDP in the same period a year before. All revenue items, except corporate income tax, recorded significant growth. By contrast, most current expenditure categories recorded contraction, with the exception of salaries and to a lesser extent subsidies and funds for the unemployed. Underperforming capital expenditure (40% lower than budgeted), accounted for 44% of the overall reduction in budget spending.

The public debt stock declined to 89.0% of GDP in Q2-2021, down significantly from 105.3% at the end of 2020, but slightly higher than a year before (87.6% of GDP).

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

		2016	2017	2018	2019	2020	ECFIN 2021 Spring forecast		Q1 21	Q2 21	Q3 21	Jul 21	Aug 21	Sep 21
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Balance	3.0	4.5	5.5	3.5	-18.4	:	:	-20.6	2.6	4.4	7.6	1.1	4.4
Industrial production ^{1.2}	Ann. % ch	-2.1	-4.3	23.6	-6.1	-0.9	:	:	12.0	10.6	:	0.0	4.9	:
Gross domestic product ^{1.3}	Ann. % ch	2.9	4.7	5.1	4.1	-15.3	7.1	6.5	-6.5	19.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.4	3.9	4.6	3.1	-4.6	3.3	2.3	-8.2	15.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	38.4	18.7	14.7	-1.7	-12.0	7.8	3.4	-19.1	3.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	31.5	51.5	24.9	10.7	-5.6	:	:	-0.8	-1.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.3	3.3	3.5	5.2	-12.0	:	:	-7.2	19.9	:	50.7	52.1	:
2 Labour market														
Unemployment ^{2.1}	%	18.0	16.4	15.5	15.4	18.4	16.5	15.2	19.6	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.1	2.1	3.2	2.6	-10.1	7.1	2.3	-18.3	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	3.5	2.0	0.1	0.8	1.3	:	:	0.3	1.5	:	1.7	1.7	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	6.2	8.3	14.7	6.8	-12.2	:	:	13.1	53.4	:	1.6	1.1	:
Imports of goods ^{3.2}	Ann. % ch	12.0	11.6	10.9	1.8	-19.0	:	:	-17.4	28.6	:	48.5	45.8	:
Trade in goods balance* ^{3.3}	% of GDP	-41.9	-43.3	-43.9	-41.7	-39.2	-40.3	-39.6	-37.1	-37.3	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	40.6	41.1	42.9	43.8	26.0	:	:	26.1	29.2	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	63.1	64.5	66.7	65.0	61.0	:	:	58.5	59.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-16.2	-16.1	-17.0	-14.3	-26.1	-22.7	-16.9	-22.4	-19.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	9.4	11.3	6.9	6.2	11.2	:	:	10.1	9.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	753	847	1,050	1,367	1,739	:	:	1,404	1,372	:	1,433	1,604	:
Int. reserves / months Imp ^{3.9}	Ratio	3.6	3.7	4.0	5.1	8.2	:	:	6.9	6.3	:	6.6	7.4	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	0.1	2.8	2.9	0.5	-0.8	1.3	1.8	-0.1	2.3	:	3.6	3.8	:
Producer prices ^{4.2}	Ann. % ch	-0.1	0.4	1.7	2.4	0.0	:	:	0.8	1.8	:	0.2	-0.5	:
Food prices ^{4.3}	Ann. % ch	-0.9	1.9	0.6	3.4	1.3	:	:	1.4	2.5	:	2.9	3.8	:
M2 ^{4.4}	Ann. % ch	9.5	13.6	5.0	-3.8	-3.5	:	:	0.4	8.0	:	12.2	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Real effective exchange rate ^{4.6}	Ann. % ch	0.6	0.5	2.7	-1.2	:	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (6 months) ^{5.1}	% p.a.	1.58	1.71	0.47	0.52	0.87	:	:	:	:	:	:	:	:
Bond yield (10 yrs) ^{5.2}	% p.a.	N.A.	N.A.	N.A.	2.61	3.53	:	:	3.46	3.96	:	3.77	3.61	:
Stock markets ^{5.3}	Index	11,115	10,952	10,390	10,980	10,336	:	:	10,659	11,192	11,016	10,944	11,039	11,063
Credit growth ^{5.4}	Ann. % ch	-0.1	7.8	10.6	4.0	5.0	:	:	3.8	7.0	:	7.3	9.0	:
Deposit growth ^{5.5}	Ann. % ch	10.0	10.7	12.0	1.8	-2.6	:	:	-0.2	8.5	:	16.0	20.4	:
Non-performing loans ^{5.6}	% of total	10.3	7.3	6.9	4.7	5.5	:	:	5.5	5.7	:	5.5	5.5	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-3.6	-5.3	-3.9	-2.0	-11.1	-3.8	-1.4	-2.4	:	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	63.4	63.3	70.1	76.5	105.3	92.2	84.2	89.4	89.0	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

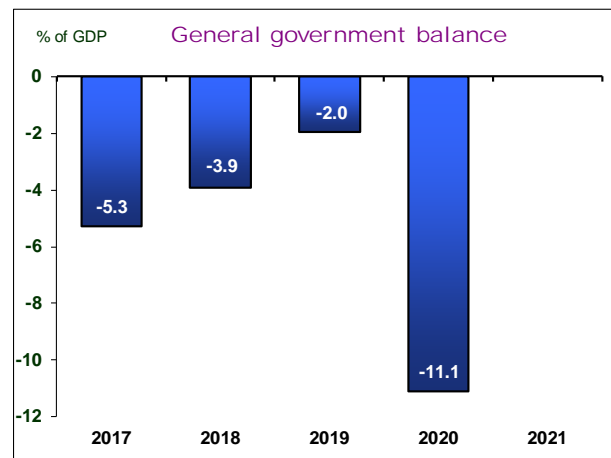
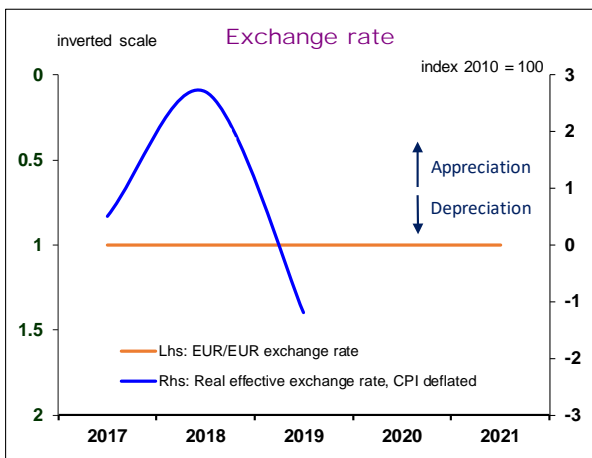
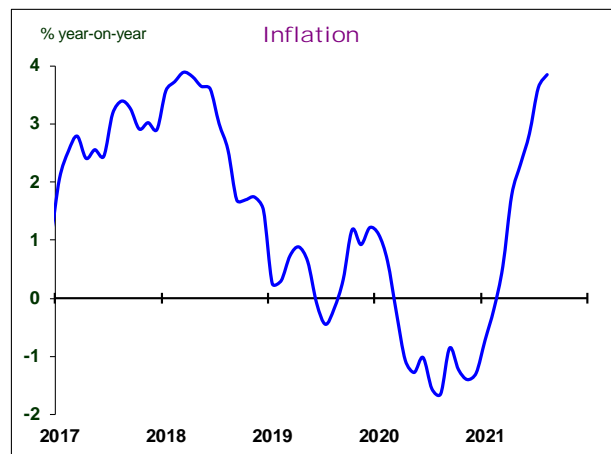
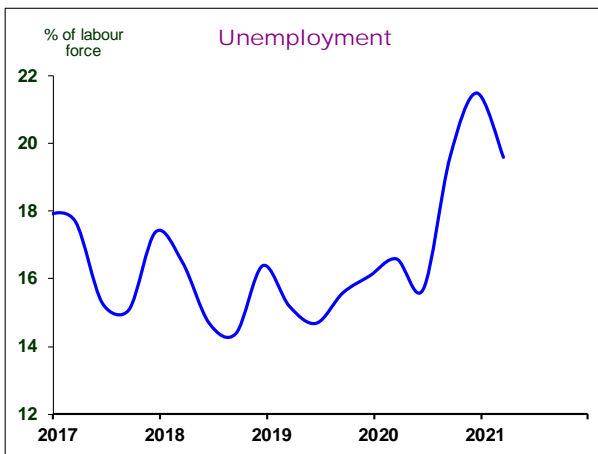
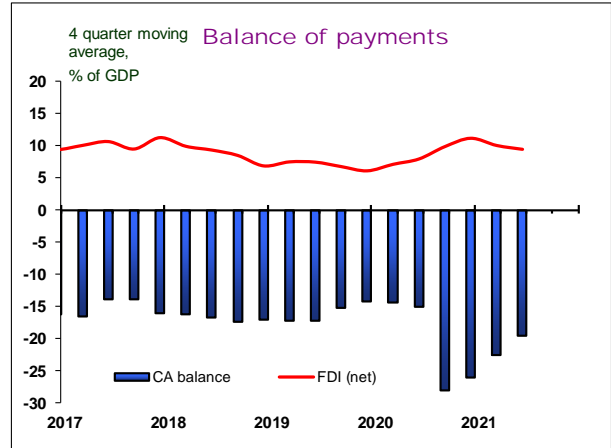
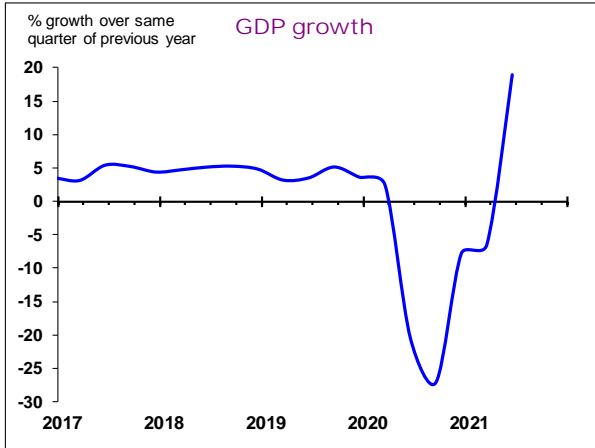
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

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

CHARTS



MONTENEGRO



NORTH MACEDONIA



Key developments

On 5 October, the EU and North Macedonia discussed the country's progress on economic and financial issues under the Stabilisation and Association Agreement. North Macedonia confirmed its commitment to fiscal consolidation once the economic recovery is firmly entrenched. Both sides stressed the importance of strengthening the consistency of medium-term fiscal plans and annual budget implementation, and the need for swift adoption of the draft Organic Budget Law.

On 23 August, rating agency Standard and Poor's confirmed its rating BB- with stable outlook. Analysts underpin their rating by the country's strong growth prospects, bolstered in particular by support to disposable incomes from government measures and from a recovery in remittances, as well as by the robust export-oriented manufacturing sector, flanked by the strengthening fiscal framework and accommodative monetary policy.

Also on 23 August, North Macedonia received about 133 million (about EUR 161million) in special drawing rights (SDRs) from the International Monetary Fund (IMF), as part of a 455 billion SDRs giveaway to all member countries to deal with the COVID-19 crisis.

On 19 October, the European Commission presented its annual enlargement package. Regarding the economic criteria for EU membership, North Macedonia is at a good level of compliance in developing a functioning market economy, and has made some progress. The economy is at a moderate level of compliance in coping with competitive pressures and market forces within the EU and has made some progress.

Real sector

North Macedonia's economy bounced back into positive growth territory in Q2. After dropping by 1.9% y-o-y in Q1, real GDP increased by 13.1%, carried by domestic demand. In April to June, household consumption increased by 12.9%, and investment was higher by 38.4%. Both export and import volumes rose strongly

by some 45% y-o-y. Government consumption increased by 2.9%. Economic performance was bolstered by base effects and the implementation of measures from six government anti-crisis support packages.

High frequency data for Q3, when base effects were less significant, point to a possible deceleration in annual growth. Industrial production declined by an average of 1% in July and August, after a 24% growth in Q2, possibly reflecting to some extent global supply chain disruptions. Manufacturing output growth slowed to 0.7% y-o-y on average in July and August, after +6.8% in Q2. Annual gains in capital goods production (+32% y-o-y in Q2) slackened in the 2 months thereafter (average 15%). The growth of retail sales slowed to 9.9% in July and August, from 13.8% y-o-y in Q2.

Labour market

The labour market exhibited almost no dynamics in Q2, compared to the same period one year earlier. According to the Labour Force Survey, annual employment growth was almost flat (0.2% y-o-y). The employment rate remained almost unchanged, at 47.3% (+0.2 pps.). The unemployment rate (15.9% for the total over 15 years age group) was, however, markedly below its level of one year earlier (16.7%), reflecting a stark drop in the number of unemployed. Yet, compared to the preceding three months, there was almost no change (-0.1 pps.). The youth unemployment rate increased, compared to one year earlier, by 4 pps. to 37.8%, reflecting almost exclusively a stark drop in the labour force in that age group (-11.3% y-o-y). The activity rate of young people dropped to 26.9% (-2.7 pps. y-o-y). Overall labour market participation amounted to 56.2% (-0.3 pps.). Employment continued to be supported by the government's anti-crisis measures.

Wages continued to increase, on annual basis, also in the first seven months of the year (+6.1% for average monthly gross wages), albeit at a slower rate than one year earlier (8.6%). Supported by reinforced implementation of the government's wage subsidies plan, wage growth picked up in Q2 from Q1 (+4.7 pps. to 8.7%

y-o-y), before slowing to 4.9% in July. Real gross wages increased by 3.5% on average in the year to July, compared to 7.9% growth in the same period one year earlier.

External sector

The current account deficit (4Q moving average) narrowed in Q2, by 0.9 pps. y-o-y, to -2.6% of GDP. This was largely the result of a lower merchandise trade deficit (-0.3 pps. to -17.6% of GDP), and an increase in the services surplus by 0.4 pps. to 4.3% of GDP. The primary income deficit remained unchanged at -4.2% of GDP, as did the surplus in the secondary income balance (14.8% of GDP). Private transfers, although picking up from the trough of the preceding three quarters, likely reflecting the gradual easing of travel restrictions in Q2, remained below their level of one year earlier in the four quarters to June (-0.6 pps. to 13.6% of GDP). Foreign direct investment recovered in Q2, amounting to 2% of GDP (4Q moving average), which is still below its level of one year earlier (3.7%). There was an annual increase in all components - intercompany lending, equity investments and reinvested earnings. Gross external debt, excluding central bank transactions, stood at 87.6% of projected full-year GDP at end-June, over 6 pps. higher y-o-y and +3.6 pps. q-o-q. At end-September, foreign currency reserves were lower by 8.4% than at end-Q2, which reflects the repayment of a EUR 500 million Eurobond from 2014 in July, mitigated by the August inflow of SDRs. Reserves covered over 5 months of prospective imports of goods and services.

Monetary developments

Consumer price inflation accelerated in Q2, to 2.8% y-o-y, compared to an average of 1.6% in the same period one year earlier, and further to 3.5% in July and August. It was driven by rising global prices for energy and food, as well as domestic price pressures from services sectors, in particular transport. Inflation also picked up as a result of global supply chain disruptions. Annual growth of broad money (M4) decelerated in Q2, to 6.7%, compared to the preceding three months (7.9%), but picked up again in July and August to an average of 8.4% y-o-y. The central bank has kept the CB bills rate unchanged since March 2021, when it had lowered it to the historic low of 1.25%, following on three preceding rate cuts of 25 bps. each since January 2020.

Financial sector

Credit growth to the non-government, non-financial sector picked up somewhat in Q2, compared to the first three months of the year (+0.7 pps. to 5.4% y-o-y). It accelerated further over the summer, to 5.7% y-o-y on average in July and August. The bulk of the increase is still accounted for by households (+8% y-o-y in the first eight months of the year), compared to corporate loan growth of 2.2% in this period. The non-performing loan (NPL) ratio remained low in the second quarter, even though central bank measures allowing banks to temporarily ease credit standards and defer loan repayments ran out. But while NPL volumes rose, credit growth was even stronger. At 3.4%, the ratio was unchanged from Q1 and 1.1 pps. above its level of one year earlier. The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients at 83%, about the same as at end-March. Banks' capital adequacy ratio increased by 0.3 pps. y-o-y to 17.2% in Q2.

Fiscal developments

Tax revenue has recovered since the last quarter of 2020, as containment measures were gradually lifted and companies paid deferred income tax liabilities. In the first 8 months of 2021, total revenue was some 15.8% above its level in the same period one year earlier, amounting to 62% of the revised full-year target. Total expenditure was higher by 5.3% with current expenditure having increased by 2.8%. Capital expenditure execution rose by 52% y-o-y and amounted to 39.5% of the revised budget. The budget deficit reached 52% of the full-year target, or 3.4% of projected GDP. On 28 July, the parliament endorsed a budget revision for 2021. It foresees an increase in the central government fiscal deficit from previously 4.9% to 6.5% of GDP. Revenue is projected to be higher by 4.7%, compared to the original budget, and expenditure by 8.6%, mainly reflecting the government's anti-crisis support. Debt levels surged further in Q2, as the government needed to meet crisis related financing requirements. General government debt rose to 55.9% of projected full-year GDP by end-June 2021 (+4.7 pps. compared to end-2020). Government borrowing accounted almost exclusively for the rise in the public debt ratio to 64.4% by end-June 2021 (+4.2 pps. compared to end-2020).

TABLE



European Commission, ECFIN-D-1

NORTH MACEDONIA

							ECFIN 2021 Spring forecast							
		2016	2017	2018	2019	2020	2021	2022	Q1 21	Q2 21	Q3 21	Jul 21	Aug 21	Sep 21
1 Real sector														
Industrial confidence ^{1.1}	Balance	24.0	25.6	28.8	32.2	26.4	:	:	27.5	28.9	:	28.4	28.6	:
Industrial production ^{1.2}	Ann. % ch	3.9	0.2	5.4	4.1	-9.5	:	:	-6.0	24.0	:	-0.6	-1.4	:
Gross domestic product ^{1.3}	Ann. % ch	2.8	1.1	2.8	3.1	-4.5	3.7	3.8	-1.9	13.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.9	2.1	3.7	3.5	-5.6	3.6	3.7	0.4	12.9	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	12.5	-2.2	1.7	9.5	-10.2	7.4	8.9	-23.2	27.4	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	3.6	-2.5	-10.8	6.7	0.0	:	:	5.4	3.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	15.3	-4.2	8.1	11.3	-8.5	:	:	2.6	13.8	:	7.6	12.1	:
2 Labour market														
Unemployment ^{2.1}	%	23.8	22.4	20.7	17.3	16.4	15.8	15.2	16.0	15.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.5	2.4	2.5	5.1	-0.3	1.0	2.5	-2.2	0.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.0	2.6	5.8	5.1	8.3	4.0	2.6	4.0	8.7	:	4.9	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	15.8	15.4	19.8	9.0	-9.6	:	:	23.7	73.1	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	9.7	9.7	12.9	10.2	-9.2	:	:	13.6	69.3	:	:	:	:
Trade in goods balance* ^{3.3}	% of GDP	-18.8	-17.8	-16.2	-17.6	-16.8	-17.3	-17.3	-16.4	-17.6	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	50.9	54.9	60.2	62.1	58.1	:	:	60.6	64.5	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	66.2	69.0	72.9	76.5	70.9	:	:	72.7	77.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-1.0	-0.1	-3.3	-3.5	-2.2	-1.6	-2.5	-2.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	3.3	1.8	5.6	3.2	1.9	:	:	0.2	2.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,613	2,336	2,867	3,263	3,360	:	:	3,939	4,031	:	3,548	3,692	3,690.7
Int. reserves / months Imp ^{3.9}	Ratio	4.9	4.1	4.4	4.6	5.3	:	:	6.0	5.5	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	-0.2	1.4	1.5	0.8	1.2	1.7	1.7	2.0	2.8	:	3.4	3.6	3.7
Producer prices ^{4.2}	Ann. % ch	-0.1	0.4	-0.3	2.5	1.5	:	:	-1.1	-0.6	:	9.9	9.8	:
Food prices ^{4.3}	Ann. % ch	-1.3	0.3	0.8	1.6	2.4	:	:	2.0	1.4	:	2.2	4.1	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	6.2	5.1	11.8	9.3	6.9	:	:	7.9	6.7	:	7.1	9.6	:
Exchange rate MKD/EUR ^{4.5}	Value	61.60	61.57	61.51	61.51	61.67	:	:	61.66	61.61	61.55	61.56	61.49	61.61
Nominal effective exchange rate ^{4.6}	Index	100.5	101.4	103.3	103.0	104.3	:	:	105.2	105.3	:	105.1	105.1	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.96	1.78	1.54	1.46	1.38	:	:	1.36	1.33	1.33	1.34	1.33	1.31
Bond yield ^{5.2}	% p.a.	7.02	6.61	6.11	5.61	5.19	:	:	4.99	4.92	:	4.83	:	:
Stock markets ^{5.3}	Index	1,887	2,406	3,154	3,939	4,378	:	:	4,918	5,151	5,578	5,361	5,609	5,763
Credit Growth ^{5.4}	Ann. % ch	4.0	2.4	6.6	7.2	6.4	:	:	4.7	5.4	:	5.1	6.3	:
Deposit growth ^{5.5}	Ann. % ch	4.0	5.7	8.6	9.6	7.8	:	:	7.2	7.7	:	7.9	11.1	:
Non-performing loans ^{5.6}	% total	6.3	6.1	5.0	4.6	3.3	:	:	3.4	3.4	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-2.7	-2.7	-1.1	-2.2	-8.2	-4.1	-3.4	-1.0	-1.3	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.9	39.4	40.4	40.7	51.2	53.5	54.2	54.1	55.9	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

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

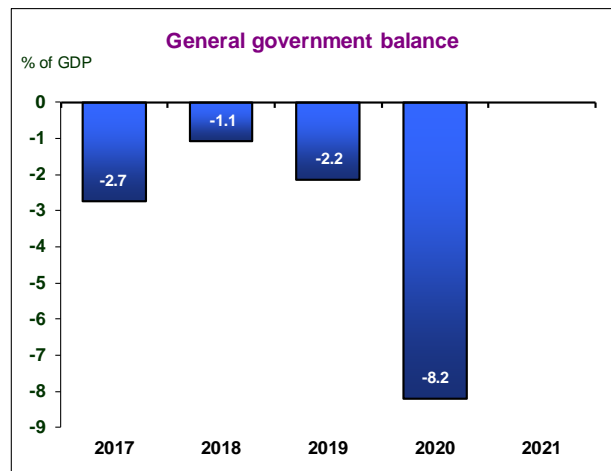
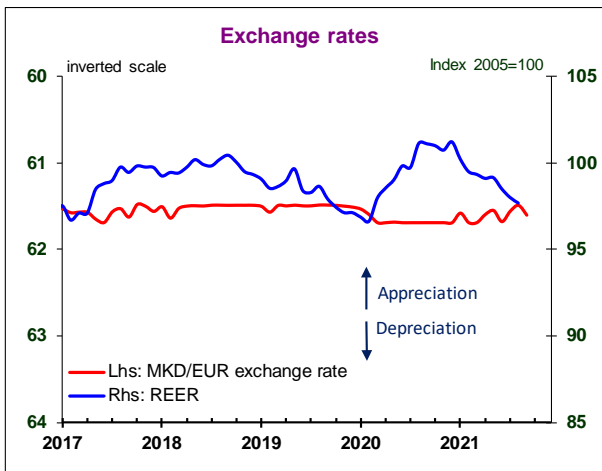
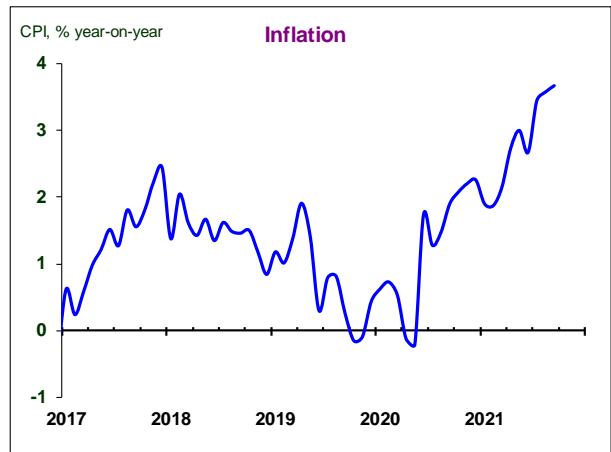
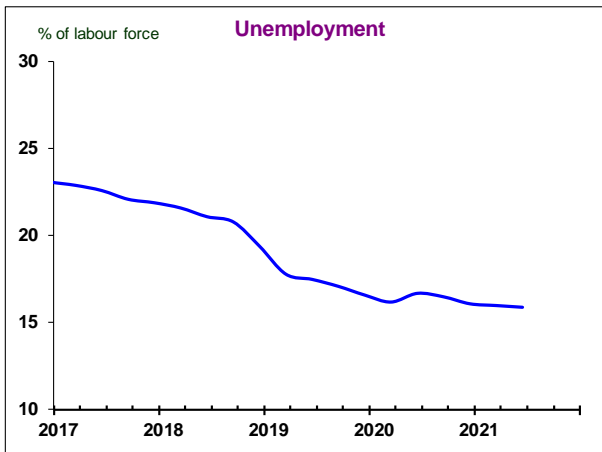
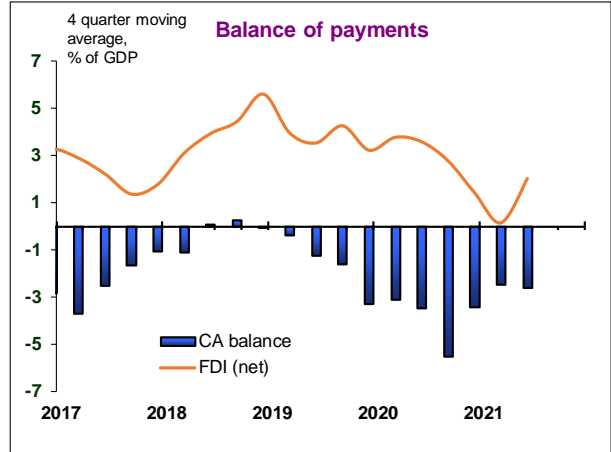
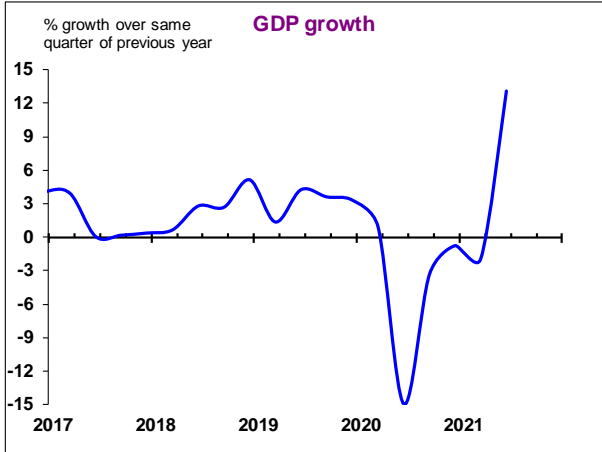
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



North Macedonia



SERBIA



Key developments

In August, Serbia was allocated SDR 672.6 million (EUR 760 million) by the IMF in the framework of the general allocation of special drawing rights to boost global liquidity in the context of the COVID-19 crisis.

In September, Serbia issued a EUR 1 billion 7-year green Eurobond at a yield of 1.26%. At the same time, Serbia also issued a conventional EUR 750 million 15-year Eurobond at a yield of 2.3%.

On 19 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Serbia has made some progress and is moderately prepared/at a good level of preparation in developing a functioning market economy. Serbia has also made some progress and is moderately prepared to cope with competitive pressure and market forces within the EU.

Real sector

Economic activity recorded a further strong quarter-on-quarter expansion in Q2-2021, reflecting the continued rebound from the crisis-induced contraction in spring 2020. Thus, strongly supported by the very low base from Q2-2020, year-on-year real GDP growth reached 13.7% in Q2-2021. The expansion was driven by private consumption (+17.6% y-o-y), gross fixed capital formation (+22.5% y-o-y) and significantly higher inventories. These positive contributions were partially offset by lower government consumption (-3.8% y-o-y) and a negative contribution of net exports to GDP growth as the annual growth of exports (+36.5%) was surpassed by an even stronger growth in imports (+42.9%).

On the supply side, supported by the very low base in Q2-2020, most activities recorded high double-digit annual increases. In particular wholesale and retail trade, transportation and storage, accommodation and food service activities (+33.3%), manufacturing and mining activities (+13.5%), professional, scientific, technical, administrative and support activities (+30.9%), construction (+17.7%), and arts, recreation and other services (+35.0%)

accounted for the bulk of the overall annual increase in output in Q2. Information and communication (+7.0%) and financial services (+4.0%) recorded single-digit increases, while real estate reached broadly the same activity volumes as in Q2-2020 (+0.3%). Agriculture (-1.6%) and administration, education, health and social work activities (-2.2%) were the only activities with year-on-year declines.

Some short-term indicators suggest that the growth of economic activity, after a strong momentum in spring, has somewhat decelerated in summer. Industrial production expanded by 4.4% y-o-y in June, 1.7% in July and 0.1% in August. The year-on-year growth of real retail trade accelerated from 5.8% in June to 11.1% in July before decelerating to 7.7% in August.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and above decreased by 1.7 pps. q-o-q to 11.7% in Q2-2021. This was the result of substantial growth in employment accompanied by a strong increase in the active population as people that had previously refrained from looking for employment returned to the labour market. Thus, while the population 15+ decreased by 0.2% q-o-q, the labour force increased by 2.0% q-o-q and the inactive population decreased by 2.7%. Employment increased by 4.0% q-o-q. Around three quarters of this increase were due to a strong rise in employment in the informal sector (+26.1% q-o-q), mostly in agriculture. Formal employment recorded a more moderate growth of 1.3% q-o-q.

Registered employment increased by 1.0% q-o-q and 3.3% y-o-y. Annual employment growth remained positive in most sectors and was particularly strong in information and communication (+11.8%), real estate (+8.4%), professional, scientific and technical activities (+7.2%) and construction (+6.0%). In the manufacturing sector (+4.6%), growth was mostly driven by motor vehicles (+14.8%) and electrical equipment (+19.7%). Employment in trade activities confirmed its recovery, growing by 4.9% y-o-y, while employment in mining and quarrying decreased by 6.2%. The number of registered unemployed decreased by 1.3% y-o-y

in September 2021. Nominal net wages rose by 7.8% y-o-y in July 2021 while real net wages grew by 4.4% y-o-y.

External sector

In the first seven months of 2020, the current account deficit narrowed by 43.7% y-o-y in euro terms. Over the four quarters to June 2021, it stood at 2.5% of GDP, compared to 4.2% of GDP in 2020. The lower current account deficit over January-July was the result of a higher services trade surplus (+48.5% y-o-y) and a higher secondary income surplus (+24.9% y-o-y, reflecting mainly a rebound in remittances) that were only partially offset by a higher merchandise trade deficit (+4.1% y-o-y) and a slightly higher primary income deficit (+3.0% y-o-y). Net FDI inflows increased by 25.1% y-o-y in January-July, covering 2.5 times the current account deficit.

External trade of goods was marked by continued strong year-on-year exports growth of 29.0% in June, 24.8% in July and 31.9% in August and accelerating year-on-year imports growth by 21.0%, 24.2% and 33.1%, respectively. Over the first eight months of 2021, exports of goods grew 28.5% y-o-y, while imports increased by 23.7%.

Monetary developments

After stabilising at 3.3% in both June and July, annual consumer price inflation accelerated strongly to 4.3% in August, thus approaching the upper bound of the central bank's target tolerance band of 3% +/-1.5 pps. The acceleration of inflation was particularly driven by food prices (+1.3% in June, +1.8% in July and +5.8% in August). Price increases for further major inflation-driving items tended to decelerate or broadly stabilise in the same period, in particular as regards fuel prices (+21.8%, +18.6% and +16.6%), electricity (+8.2% in all three months) and tobacco (+6.8%, 6.6% and 6.6% respectively). Core inflation (excluding energy, food, alcohol and tobacco) decelerated slightly from 2.0% in June to 1.9% in July and 1.8% in August. The central bank (NBS) remained an active participant on the foreign exchange market by buying EUR 325 million in June, EUR 380 million in July and a net EUR 265 million in August, resulting in net purchases of EUR 965 million in the first eight

months of 2021. NBS foreign exchange reserves were boosted in summer by around EUR 760 million from NBS activity in the local FX market in July and August and the inflow of around EUR 760 million from the new general SDR allocation by the IMF in August, resulting in an increase by 16.6% y-o-y to EUR 15.6 billion in August, covering around 6.5 months of imports of goods and services.

Financial sector

In August, domestic claims of the banking sector increased by 7.1% y-o-y. The annual growth of credit to households decelerated steadily from 12.2% in May to 9.9% in August whereas the growth of credit to companies picked up from 3.2% in May (and a broadly stable 3.1% in June) to 4.6% in July before decelerating to 4.0% in August. The loan-to-deposit ratio stood at 85.7% at the end of April. The ratio of non-performing loans decreased slightly to 3.6% in Q2 (-0.3 pps. q-o-q). The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) recorded a slight decrease to 22.2% in Q2 (-0.1 pps. q-o-q). As regards liquidity ratios, the share of liquid assets to total assets increased to 37.9% (+0.5 pps. q-o-q), while the share of liquid assets to total short-term liabilities decreased slightly to 50.7% (-0.2 pps. q-o-q) in Q2.

Fiscal developments

Fiscal performance was favourable in January to August. Strongly impacted by the base effect from the lockdown and tax deferrals in spring 2020, total revenue increased by 24.2% y-o-y in the first eight months, supported by surging revenue from social contributions (+34.6%), VAT (+19.8%), personal income tax (+30.4%), corporate income tax (+35.4%) and non-tax revenue (+17.1%). Total expenditure growth (1.8%) remained significantly below revenue growth, as increases in capital expenditure (+40.1%), spending on employees (+8.4%) and social transfers (+4.9%) were largely offset by lower other current expenditure (-37.5%) and subsidies (-26.5%). As a result, in January-August, the budget recorded a deficit of RSD 29.3 billion (0.6% of expected annual GDP), as compared with a 6.2% deficit in the same period of 2020. In August, central government debt stood at 54.3% of the projected full-year GDP, down from 57.0% at end-2020.

TABLE

European Commission, ECFIN-D-1



SERBIA

		2016	2017	2018	2019	2020	ECFIN 2021 Spring forecast		Q1 21	Q2 21	Q3 21	Jul 21	Aug 21	Sep 21
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	4.8	3.4	1.5	0.2	0.4	:	:	3.7	15.9	:	1.7	0.1	:
Gross domestic product ^{1.3}	Ann. % ch	3.3	2.1	4.5	4.2	-1.0	5.3	4.0	1.8	13.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.9	2.2	3.1	3.5	-2.5	4.5	3.0	-1.7	17.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.1	6.6	17.5	17.2	-2.8	14.8	7.1	9.0	22.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.1	9.3	9.6	32.3	-1.5	:	:	-37.5	25.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	8.0	3.8	4.1	9.7	4.9	:	:	4.7	20.8	:	11.1	7.7	:
2 Labour market														
Unemployment ^{2.1}	%	15.3	13.5	12.7	10.4	9.0	9.3	8.5	12.8	11.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	5.6	2.8	1.4	2.4	-0.2	1.6	1.0	-5.4	-0.5	:	3.5	2.9	:
Wages ^{2.3}	Ann. % ch	3.8	4.0	4.3	10.5	9.5	:	:	7.1	9.6	:	7.6	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	11.6	12.1	8.2	7.7	-2.7	:	:	14.0	45.5	:	24.8	31.9	:
Imports of goods ^{3.2}	Ann. % ch	6.1	13.6	13.0	8.9	-3.8	:	:	-0.2	47.5	:	24.2	33.1	:
Trade in goods balance* ^{3.3}	% of GDP	-8.5	-10.2	-11.9	-12.2	-11.2	-11.8	-11.5	-9.8	-10.6	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	47.3	49.3	49.3	50.8	47.9	:	:	48.7	51.0	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	53.3	57.0	58.9	60.8	56.7	:	:	55.8	58.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-5.2	-4.8	-6.9	-4.2	-6.1	-5.9	-1.9	-2.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.2	6.2	7.4	7.7	6.3	:	:	6.3	6.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	10,205	9,962	11,262	13,378	13,492	:	:	14,276	14,092	:	14,580	15,585	:
Int. reserves / months imp ^{3.9}	Ratio	6.2	5.4	5.4	5.7	6.1	:	:	6.5	5.9	:	5.9	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.1	3.1	2.0	1.8	1.6	2.4	2.1	1.4	3.2	:	3.3	4.3	:
Producer prices ^{4.2}	Ann. % ch	-0.4	3.4	2.2	0.7	-1.8	:	:	0.8	8.8	:	9.9	11.0	:
Food prices ^{4.3}	Ann. % ch	-0.3	3.3	1.9	2.6	2.6	:	:	0.1	1.8	:	1.7	5.2	:
M3 ^{4.4}	Ann. % ch	11.6	3.6	14.5	8.4	18.1	:	:	18.7	12.4	:	13.0	14.0	:
Exchange rate RSD/EUR ^{4.5}	Value	123.09	121.41	118.27	117.86	117.58	:	:	117.58	117.57	117.57	117.56	117.57	117.57
Nominal effective exchange rate ^{4.6}	Index	66.1	67.3	69.7	69.2	69.6	:	:	70.4	70.4	:	70.1	70.0	:
5 Financial indicators														
Interest rate (BELIBOR) ^{5.1}	% p.a.	3.44	3.41	2.96	2.52	1.19	:	:	0.88	0.88	0.88	0.88	0.88	0.88
Bond yield (7 year) ^{5.2}	% p.a.	8.28	5.45	5.00	4.00	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,383	1,584	1,562	1,583	1,543	:	:	1,556	1,634	1,680	1,646	1,690	1,704
Credit growth ^{5.4}	Ann. % ch	3.8	2.4	4.3	9.7	12.3	:	:	10.8	9.0	:	9.1	8.4	:
Deposit growth ^{5.5}	Ann. % ch	9.1	7.9	7.4	12.9	15.0	:	:	18.2	14.0	:	12.3	13.5	:
Non-performing loans ^{5.6}	% total	17.0	9.8	5.7	4.1	3.7	:	:	3.9	3.6	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.2	1.1	0.6	-0.2	-8.1	-6.7	-3.4	-0.2	-0.4	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	67.5	59.2	53.7	52.1	57.4	60.7	60.4	54.8	55.0	:	54.1	54.3	:

f: ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

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

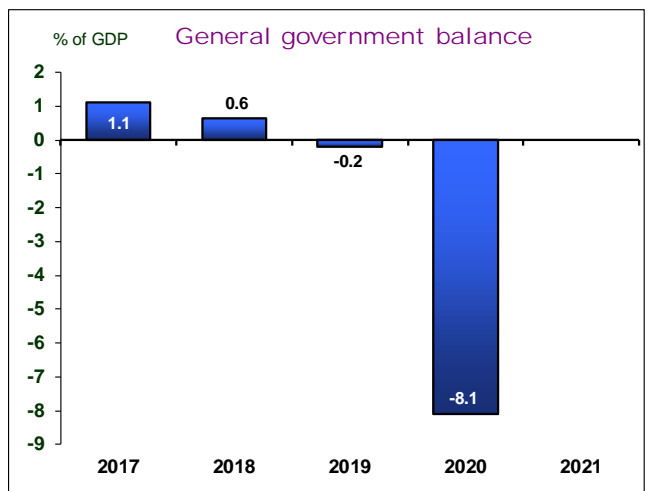
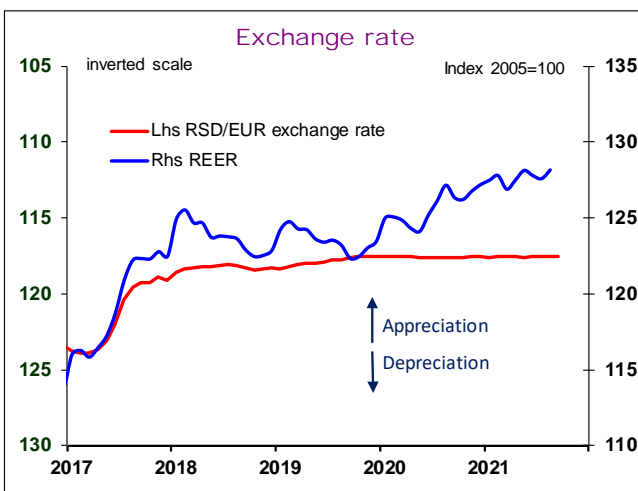
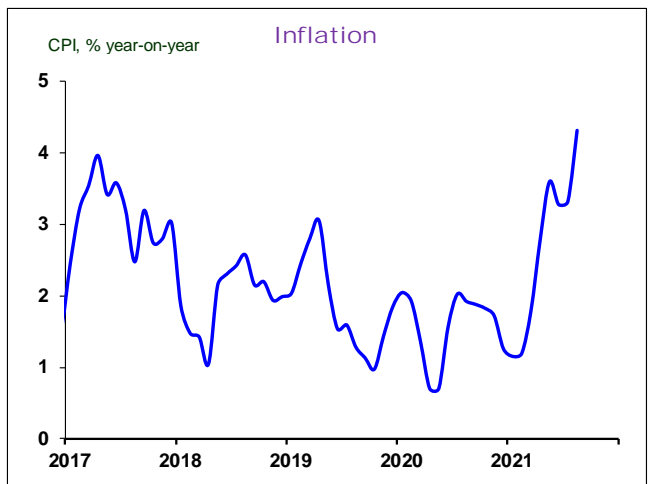
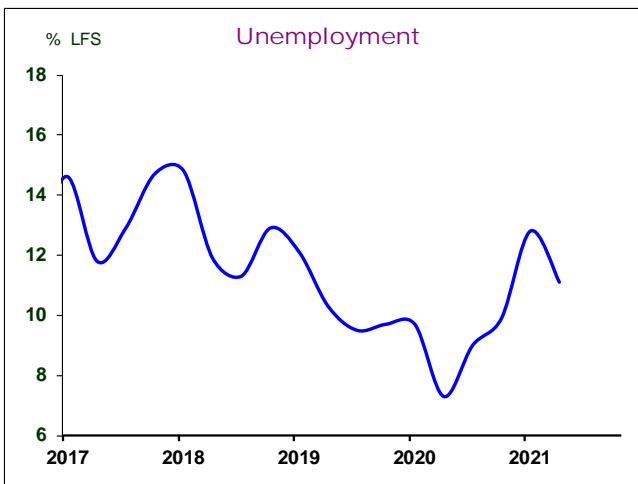
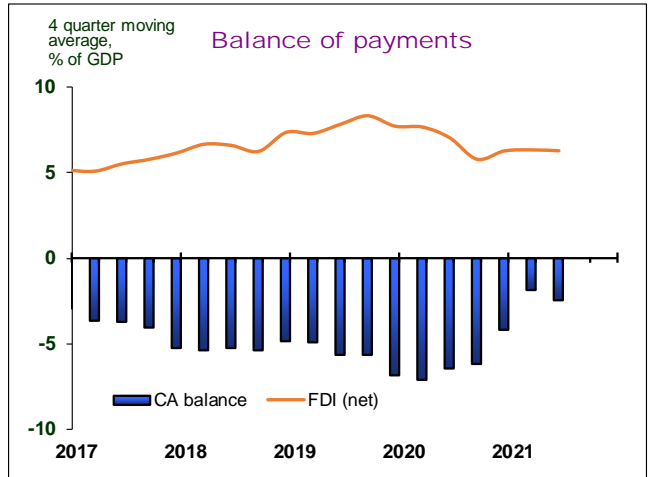
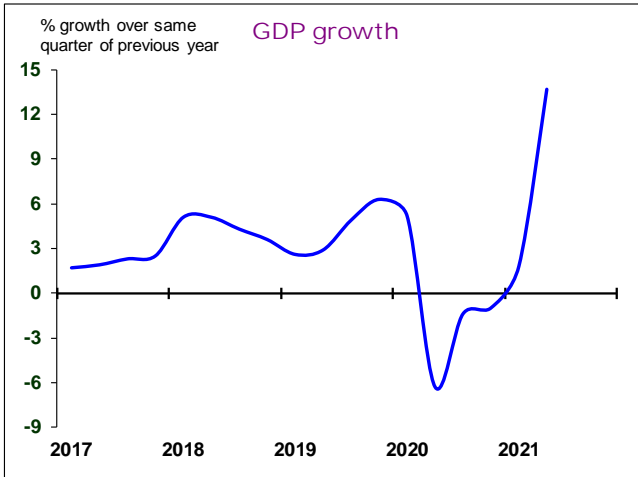
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

In September, the authorities published their Medium-Term Economic Programme (2022-2024) with the main economic policy and development priorities and updated macroeconomic projections. Real GDP is expected to increase by 9.0% in 2021, 5.0% in 2021 and by 5.5% in 2023 and 2024. The headline budget deficit is planned to remain unchanged at 3.5% of GDP in 2021 and 2022, before declining below 3% in 2024.

In October, Turkey ratified the Paris climate change agreement.

On 19 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Turkey has made no progress in developing a functioning market economy and, although serious concerns persist, it is well advanced in this area. It has also made limited progress and is at a good level of compliance regarding its capacity to cope with competitive pressures and market forces within the EU

Real sector

Although quarter-on-quarter economic growth slowed down from 2.2% in Q1 to 0.9% in Q2, strong base effects propelled the year-on-year growth to 21.7% in Q2. Economic expansion was sustained by strong domestic and external demand, contributing 13.1 pps. and 8.6 pps. to year-on-year GDP growth, respectively. Tightened restrictions in the wake of another surge in COVID-19 infections in April and May did not affect households as much as during previous waves and their consumption went up by 1.6% q-o-q (22.9% y-o-y) in Q2. The fiscal reaction against the pandemic continued to be dominated by transfers and revenue measures while government consumption remained rather subdued, growing 0.7% q-o-q (4.2% y-o-y). The sustained strong growth of machinery and equipment investment (35.2% y-o-y) drove up gross fixed capital formation (20.3% y-o-y). Inventories were the only demand component that subtracted from growth (-6.5 pps.), as they adjusted further down from the elevated levels reached last year. Exports of goods and services jumped by 59.9% y-o-y (2.2% q-o-q) due to

exceptionally high base effects. A strong recovery of the main trading partners supported external demand, while a weaker lira further improved external price competitiveness. It also suppressed imports of goods and services which, following a slump in Q1 contracted again by 3.3% q-o-q in the second.

On the supply side, industrial growth continued apace (1.2% q-o-q; 40.5% y-o-y), although manufacturing took a step back (-0.8% q-o-q; 43.4% y-o-y) in Q2. Construction activity (-1.5% q-o-q; 3.1% y-o-y), still suffering from pre-pandemic excesses, lagged behind most other sectors. Agriculture (-1.8% q-o-q; 2.3% y-o-y) underperformed as well, as drought has taken a toll on some crops. Services, however, saw a pronounced rebound, benefitting from the relative relaxation of COVID-19 restrictions.

Following an extremely strong performance in the first half of the year, high frequency indicators point to a subsiding but still robust growth momentum in Q3. Industrial production declined 3.4% m-o-m in July but rebounded 5.4% in August (13.8% y-o-y). The fading base effects and supply chain bottlenecks have started to bite and production growth decelerated rapidly across some sectors, while production of motor vehicles shrank. Overall manufacturing activity, however, remained upbeat and the manufacturing PMI averaged 53.5 in Q3 (52.5 in September). Furthermore, real sector confidence improved across most of its sub-components (output, employment and export expectations, current and past orders, investment) in Q3. Economic confidence improved as well, with strong rises in retail trade, other services, and construction confidence indicators. Only consumer confidence tanked due to the worsening financial situation of households, likely linked to rising inflation.

Labour market

The rebound in economic activity and relaxed COVID-19 restrictions have started to lift up the labour market. Labour force participation (15 years and over) increased to 52.5% in August, its highest level in 20 months. The employment rate went up markedly in June and stood at 46.2% in August, despite the expiration at end-June of crisis-related support measures.

However, lacking this protection, the number of unemployed increased and the unemployment rate rose from 10.4% in June to 12.1% in July (12.0% in August). Overall, the labour market remained in distress and below its pre-crisis level, testified by the still very high rate of labour underutilisation (at 22.0% in August). The seasonally and calendar adjusted hourly labour cost index increased by 4.6% q-o-q in Q2 and was up 4.4% y-o-y, 12.7 pps. below the rate of inflation.

External sector

The 12-month moving current account deficit fell to USD 23.0 billion or 3.0% of GDP at the end of August from 4.9% at the end of 2020. The deficit contracted in the summer months because of the robust performance of goods and services exports. In January-August, exports of goods increased 37% y-o-y and service exports by 55%. Imports growth lagged behind and the trade deficit fell by 66% y-o-y. Portfolio and other investment inflows, including an allocation of SDR 4.5 billion (USD 6.3 billion) by the IMF, and coupled with large and positive net errors and omissions, boosted reserve assets by USD 28.8 billion in Q3. Indicative of further positive balance-of-payment developments, in September central bank gross foreign exchange reserves increased to USD 82.8 billion (up by more than USD 30 billion since the beginning of the year). In August, the central bank signed a currency swap agreement with the Bank of Korea of up to TRY 17.5 billion or KRW 2.3 trillion (around USD 2 billion).

Monetary developments

Inflation continued to increase in the summer, reaching 19.6% y-o-y in September and 19.3% y-o-y in Q3. Food inflation accelerated from 18.0% y-o-y in Q2 to 27.6% in Q3, driven mainly by a rise in fruit and vegetable prices. Energy inflation went up as well, and at 22.8% y-o-y it also exceeded the headline inflation in September. However, the increase of service inflation was more moderate and it continued to contain core inflation, which stood at 17.0% y-o-y. Inflation expectations rose further – end-of-year expected annual inflation went up from 14.4% in June to 16.8% in September. Producer price inflation also increased to 44.8% in Q3, widening the gap between them and consumer prices. Despite growing price pressures, the central bank surprisingly cut its key policy rate by 100 bps. in September (but also tightened its policy by increasing required

reserves) and another 200 bps. to 16% on 21 October. The lira weakened as a result, losing 29% since the beginning of the year, and Turkey's 5 year CDS spread rose by 85 bps. since mid-September to 444.

Financial sector

Credit growth at deposit money banks decelerated further in the summer months, turning negative in real terms. The inflation-adjusted decline was more pronounced in the corporate sector – lending to them fell 7.5% y-o-y in August, although household lending also shrank 3.1% y-o-y. Consumer loans fell 7.5% y-o-y in real terms, housing loans were down 14.1% y-o-y, while the segment of individual credit cards remained buoyant, still expanding in August (18.4% y-o-y).

The Banking Regulation and Supervision Agency (BDDK) did not extend beyond end-September its decision to allow a longer grace period of 180 days (instead of 90 days) for the classification of non-performing loans (NPLs). It also lowered the maturity limit of consumer loans over TRY 50 thousand from 3 to 2 years. The NPL ratio was 3.67% in August, down from 4.08% in the beginning of the year. It continued to be lower in state-owned banks (2.47%), despite an uptick from its low (2.36%) in May. The central bank announced that as of October it will terminate the facility of holding part of the Turkish lira reserve requirements in foreign exchange. It also increased by 200 bps the reserve requirement ratios for foreign exchange deposits and participation funds. This decision is expected to increase the lira and FX denominated required reserves by TRY 13.9 billion and USD 3.4 billion.

Fiscal developments

Expenditure restraint curbed the cumulative central government budget deficit to TRY 37.5 billion (0.6% of GDP, down 66% y-o-y) by the end of August. In January-August the central government's total revenue increased 34.1% y-o-y, underpinned by strong direct and indirect tax revenue growth (40.1% and 39.4%). Primary expenditure rose 16.7% y-o-y over the same period, as spending on compensation of employees (17.6%), goods and services (16.0%), and current transfers (15.0%) remained below the inflation rate. Capital expenditure increased 22.9% y-o-y, but from a low base, while interest payments went up 39.9%. Government debt declined from 39.7% of GDP at end-2020 to 38.4% at the end of June.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2016	2017	2018	2019	2020	ECFIN 2021 Spring forecast		Q1 21	Q2 21	Q3 21	Jul 21	Aug 21	Sep 21
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Index	105.2	108.0	101.4	100.4	98.2	:	:	109.0	111.4	114.0	114.8	113.9	113.4
Industrial production ^{1.2}	Ann. % ch	3.4	9.1	1.1	-0.6	2.2	:	:	11.3	40.4	:	-1.4	19.9	:
Gross domestic product ^{1.3}	Ann. % ch	3.3	7.5	3.0	0.9	1.8	5.2	4.2	7.2	21.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.7	5.9	0.5	1.5	3.2	3.1	3.0	7.0	22.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.2	8.3	-0.2	-12.4	7.2	6.3	5.8	12.4	20.3	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	21.6	25.9	22.8	-7.1	5.4	:	:	18.1	44.5	:	28.6	36.8	:
Retail sales ^{1.7}	Ann. % ch	2.2	5.7	1.5	-0.1	3.5	:	:	9.3	28.0	:	13.3	15.1	:
2 Labour market														
Unemployment ^{2.1}	%	10.9	10.9	10.9	13.7	13.1	13.5	14.1	13.5	11.9	:	12.1	12.0	:
Employment ^{2.2}	Ann. % ch	1.9	3.5	2.2	-2.3	-4.8	4.2	4.7	2.6	9.8	:	8.4	7.2	:
Wages ^{2.3}	Ann. % ch	21.5	9.3	18.3	26.2	17.9	14.6	17.0	15.7	4.9	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-0.5	9.8	7.9	2.2	-7.0	:	:	18.6	70.2	:	26.4	40.2	:
Imports of goods ^{3.2}	Ann. % ch	-4.8	17.7	-3.1	-8.8	3.6	:	:	10.7	50.4	:	31.9	16.3	:
Trade in goods balance* ^{3.3}	% of GDP	-4.6	-6.8	-5.2	-2.2	-5.3	-5.6	-6.0	-4.9	-4.3	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	23.0	25.9	30.4	32.4	28.4	:	:	28.6	31.0	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	25.2	29.7	31.7	29.9	32.4	:	:	32.4	33.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-3.1	-4.8	-2.8	0.7	-4.9	-3.9	-3.1	-4.7	-3.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.2	1.0	1.2	0.8	0.7	:	:	0.5	0.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	106.1	107.7	93.0	105.7	93.3	:	:	86.7	97.7	:	105.8	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.8	5.1	4.5	5.6	4.8	:	:	4.4	4.6	:	4.9	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	7.8	11.1	16.3	15.2	12.3	15.7	12.5	15.6	17.1	19.3	19.0	19.3	19.6
Producer prices ^{4.2}	Ann. % ch	4.3	15.8	27.0	17.6	12.2	:	:	28.2	38.8	44.8	44.9	45.5	44.0
Food prices ^{4.3}	Ann. % ch	5.8	12.7	18.0	19.5	13.8	:	:	18.0	18.0	27.6	24.9	29.0	28.8
M3 ^{4.4}	Ann. % ch	17.2	15.5	19.3	28.5	33.0	:	:	27.3	23.6	22.2	20.6	18.7	22.2
Exchange rate TRY/EUR ^{4.5}	Value	3.3	4.15	5.68	6.35	8.10	:	:	9.16	10.23	10.08	10.09	9.85	10.31
Nominal effective exchange rate ^{4.6}	Index	58.6	47.90	36.12	31.34	25.56	:	:	22.99	20.23	:	20.01	20.33	:
5 Financial indicators														
Interest rate (3 months-TRLIBOR) ⁵	% p.a.	10.37	12.81	19.85	20.66	11.25	:	:	18.21	19.95	19.86	19.95	19.95	19.67
Interest rate, long term ^{5.2}	% p.a.	10.19	11.11	15.88	15.76	12.75	:	:	13.95	18.23	17.52	17.56	17.47	17.53
Stock markets ^{5.3}	Index	772	990	1,019	993	1,134	:	:	1,516	1,416	1,412	1,367	1,442	1,425
Credit growth ^{5.4}	Ann. % ch	13.3	21.9	21.3	6.5	29.6	:	:	30.8	21.8	13.6	14.9	12.1	13.7
Deposit growth ^{5.5}	Ann. % ch	13.5	20.3	22.9	18.8	37.0	:	:	30.2	26.4	19.8	22.7	17.5	19.4
Non-performing loans ^{5.6}	% total	3.2	3.0	3.9	5.4	4.1	:	:	3.8	3.7	:	3.7	3.7	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.7	-2.0	-2.8	-3.2	-2.8	-4.0	-3.6	0.5	-1.1	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	27.9	27.9	30.1	32.6	39.7	41.3	42.0	40.3	38.4	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2021 published May 2021

* Q figures refer to a 4 quarters moving average.

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

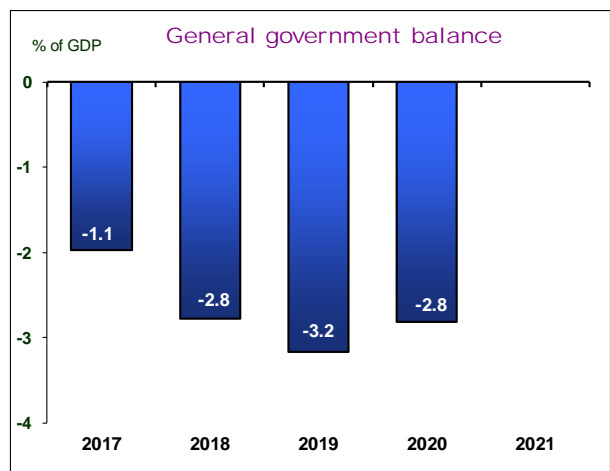
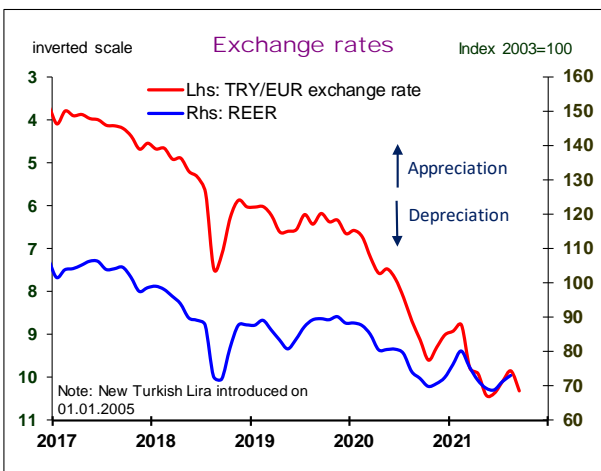
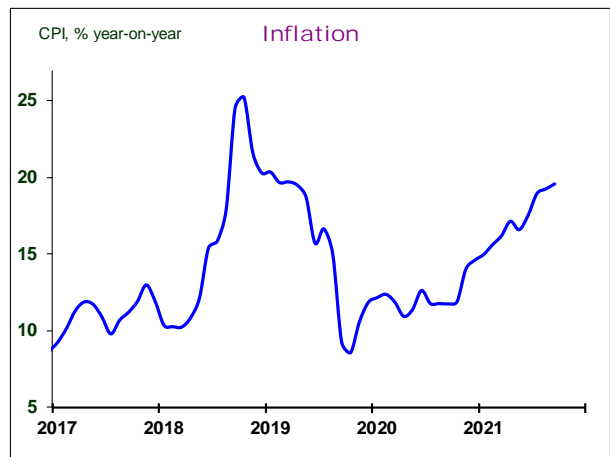
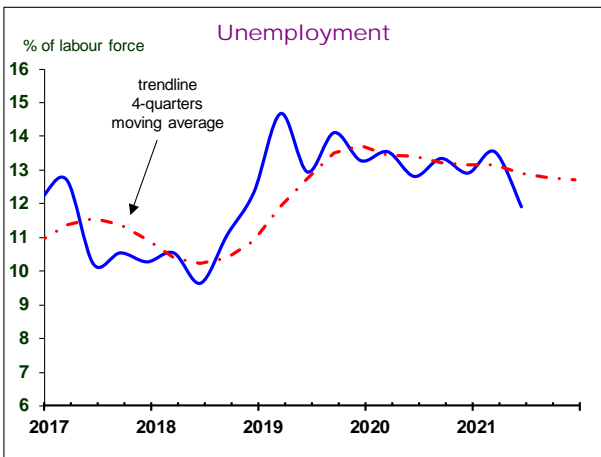
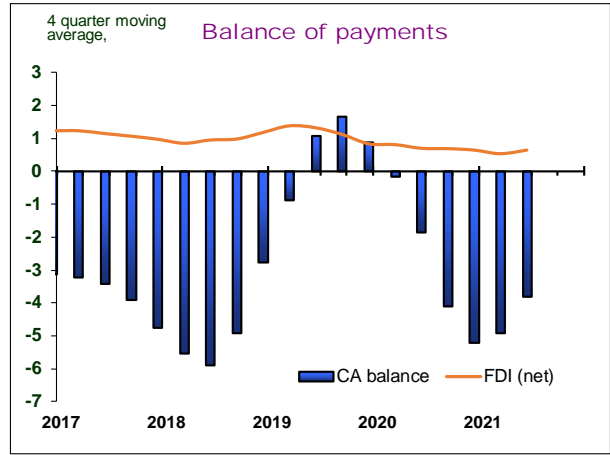
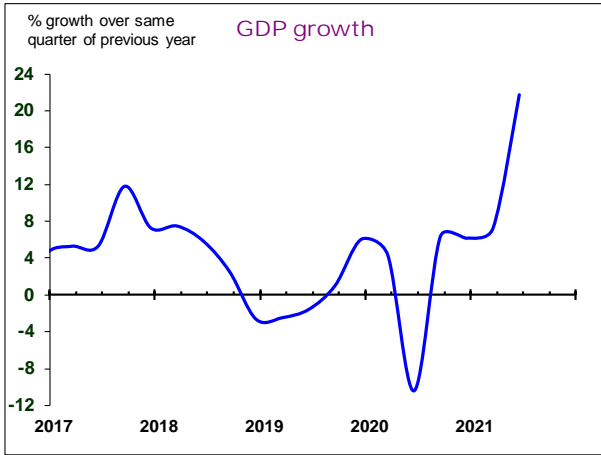
*** Q figures in percent of GDP on a four quarter moving basis.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

On 27 August, Standard&Poor's (S&P) confirmed the country's rating at B and maintained its stable outlook. The agency pointed to risks stemming from the country's complex and confrontational political dynamics, as well as potential risks to the economy and public finances due to new COVID-19 waves amid a low vaccination rate. However, S&P considers these risks to be balanced against the manageable macroeconomic impact of the pandemic so far and the still-contained government debt burden.

On 22 August, Bosnia and Herzegovina received about EUR 305 million (1.6% of GDP) in special drawing rights (SDRs) from the International Monetary Fund (IMF), as part of a 455 billion SDRs giveaway to all member countries to deal with the COVID-19 crisis.

The epidemiological situation continues to be serious. The rate of new infections rose again in Q2, but seems to have stabilised in early October at around 140 cases per 100 000 inhabitants. The mortality rose again recently, reaching 330 deaths in total per 100 000 inhabitants in mid-October, which is one of the highest mortality rates in the region.

On 19 October, the European Commission published its annual enlargement package. It stated that as regards the economic criteria for EU membership, Bosnia and Herzegovina has made limited progress and is at an early stage in developing a functioning market economy. The economy has also made limited progress and is at an early stage regarding its capacity to cope with competitive pressures and market forces within the EU.

Real sector

In Q2, the economy continued to recover, registering a seasonally-adjusted increase of 1.2%, compared to Q1. Compared to a year earlier, output was 11.6% higher, more than offsetting the lockdown-driven output drop by 8.6% a year before. Like in Q1, a key growth driver were exports, which rose by 51.3%, y-o-y, compared to a decline by 32.8% in the same quarter a year before. Imports increased by 38.8% y-o-y, which resulted in a negative growth contribution of net exports of 1.7 pps. Important factors for high imports were the

strong increase in private consumption (+13.2% y-o-y), and in gross capital formation (by 14.9% y-o-y), compared to a sharp drop a year before (by 7.1% and 21.4%, respectively). On the production side, the recovery in Q2 was mainly due to higher value added in trade (+30.2% y-o-y), after a drop by 21.2% the year before, and manufacturing (+14.5% y-o-y, after a 12.5% decline in Q2-2020).

High-frequency data confirms the continuation of the recovery during the recent months. In Q2, industrial output was 19.6% higher than a year before, based on strong increases of production of capital goods and electricity. In July and August, industrial production was still 12.3% higher than a year ago, albeit following a COVID-related output drop by 9.0% in the same period a year before. Retail sales continued strong growth in recent months, increasing by 28.7% in Q2 and 28.5% and 32.4% in July and August, respectively.

Tourism is recovering too, with total overnight stays in August reaching a similar level as in August 2017. Compared to a year before, the number of overnight stays is 80% higher, although, compared to August 2019, registered overnight stays were still 16.7% lower. Domestic tourism accounts for about 48% of the total. Among the foreign tourists, guests from Serbia are the largest group, accounting for 17.4% of the total.

Labour market

In Q2, registered employment was nearly 9 000 persons (1.1% y-o-y) higher than a year before. Important sectors with an improving employment situation were manufacturing, trade but also tourism. In July, employment growth continued, with about 6 800 additional registrations when compared to June, while a year before, registered employment still had declined month-on-month by about 700 persons.

In Q2, the number of the registered unemployed was some 23 500 (-5.6%) lower than a year before. This brought the administrative unemployment rate down to 32.8%, compared to 34.3% the year before. According to the survey-based Labour Force Statistics (LFS), the unemployment rate was 18.1% in Q2, compared to 16% a year before. In July, the number of unemployed persons was 0.4% higher than a month before (+1 600), but significantly lower

than a year earlier (-30 900, or -7.2% y-o-y). The share of long-term unemployment, i.e. jobless persons without employment for more than 12 months, stands at some 77%, compared to 73% a year before.

The annual growth of nominal gross wages remained quite robust, at 4.8% in Q2, and 3.6% y-o-y in July. In view of still relatively low inflation in Q2, official real average gross earnings were still some 3½% higher than a year before. To some extent, the high nominal wage increases reflect labour market shortages due to a substantial brain drain, but also higher public sector wages, such as in the health and security sectors. On the other hand, the official wage statistics do not include micro enterprises, which represent a significant share of employment.

External sector

The current account deficit remained largely unchanged on average during the four quarters to June, at 3.5% of GDP, compared to 3.4% in the four quarters to March.

Trade continued its rebound in the Q2, with the value of goods exports being 47.3% higher than a year earlier, while imports rose by 38.2%, reflecting the recovery of private consumption and investment in Q2. The strong trade performance continued in July and August. The value of merchandise exports rose by 34.4% y-o-y in July and by 39.4% in August, mainly due to a strong recovery of demand from Croatia, Italy, Germany, Slovenia and Serbia.

Net FDI inflows increased to 2.4% of GDP on average during the four quarters to June, still largely consisting of reinvested earnings. Official foreign exchange reserves remained high in Q2, covering nearly 10 months of imports of goods and services.

Monetary developments

In Q2, the overall level of consumer prices was 1.4% higher than a year before, following a 1.2% drop in Q1-2021. Annual inflation turned positive in April (0.9%) and has been increasing since then, reaching 2.3% y-o-y in August. Upward price pressures came mainly from transport and food and non-alcoholic beverages. Prices for food and non-alcoholic beverages, accounting for 32% of the basket, rose by 2.3% and 3.6% y-o-y in July and August, respectively, while prices for transport, accounting for nearly 13% of the basket, were 9.7% and 9.5% higher than a year before.

The annual growth of the monetary aggregate M2 continued to accelerate, from 8.6% in Q1 to 11.1% in Q2. The main driver was the monetary aggregate M1, in particular the increase in transferable deposits in domestic currency. In July and August, the strong year-on-year increase in M2 continued, reaching 11.5% and 12.2%, respectively.

Financial sector

Overall, the financial sector has weathered the COVID-19 crisis relatively well so far. Annual loan growth became positive in Q1, reaching 1.7% in Q2 and 1.9% and 2.4% in July and August respectively. This increase was mainly driven by rising lending to households.

Bank deposit growth remained high in Q2, (+11.5%), as well as in July and August (11.4% and 12.1%, respectively). Households and in particular non-financial private enterprises continued to be the main drivers of deposit growth. As a result, the loan-to-deposit ratio maintained its declining trend, falling to 76.8% in August, compared to 84.1% a year before.

The share of non-performing loans in total loans declined to 5.7% at the end of Q2, compared to 6.7% one year earlier. The loan-loss provisions ratio rose to 80.3%, compared to at 79.1% in Q1, reaching a similar level as a year before. Banking sector profitability remained largely unchanged in Q2, after a marked improvement in Q1, following methodological changes, but also benefitting from introducing additional fees. The return-on-equity (ROE) ratio stood at 10.5% in Q2, compared to 10.9% in Q1-2021. The return on assets (ROA) was at 1.3%, compared to 1.4% in Q1. The banking system's overall capital-adequacy ratio rose again to 19.1% in Q2, after having slightly dropped to 18.9% in Q1. This continues to be well above the country's regulatory minimum of 12%. However, there are sizeable differences among the countries' 23 banks, with some pockets of vulnerability remaining.

Fiscal developments

Public finances registered a strong recovery of tax revenues. During January-August the collection of indirect taxes was 14.1% higher than a year before, mainly thanks to strong VAT revenues. Public debt rose slightly in Q1-2021, bringing the debt ratio to 35.6% of GDP, compared to 31.5% a year before and 35.2% at end-2020. The share of domestic currency debt rose from 15.8% in Q4-2020 to 16.3% in Q1-2021.

TABLE



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2016	2017	2018	2019	2020	Q1 21	Q2 21	Q3 21	Jul 21	Aug 21	Sep 21
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	4.4	3.1	1.6	-5.3	-6.4	7.2	19.6	:	9.7	9.3	:
Gross domestic product ^{1.3}	Ann. % ch	3.4	3.0	5.1	2.8	-3.2	2.5	11.8	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.3	1.6	1.4	2.3	-4.1	1.6	13.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	22.3	7.9	8.1	5.8	-6.6	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	34.0	-6.9	5.2	15.4	-18.6	-3.5	6.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.0	5.1	8.2	5.2	-7.5	1.9	28.7	:	28.5	32.4	:
2 Labour market												
Unemployment ^{2.1}	%	25.4	20.5	18.4	15.7	15.9	16.6	18.1	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.1	7.7	2.5	2.5	-1.3	-2.7	1.1	N.A.	1.2	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.9	1.6	3.1	4.3	3.8	3.5	4.8	:	3.6	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	7.0	21.3	11.5	-2.3	-7.4	13.8	47.3	:	34.4	39.4	:
Imports of goods ^{3.2}	Ann. % ch	2.9	13.3	7.1	1.1	-13.4	2.2	38.2	:	27.1	34.4	:
Trade in goods balance* ^{3.3}	% of GDP	-22.8	-22.8	-21.6	-21.8	-18.4	-17.6	-18.1	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	35.0	39.3	40.8	39.2	34.5	34.9	37.4	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	51.0	54.9	54.9	53.4	48.5	48.3	50.9	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.8	-4.8	-3.3	-2.8	-3.8	-3.4	-3.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.8	2.2	2.8	1.5	1.7	1.9	2.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	4,884	5,393	5,962	6,453	7,105	6,969	7,269	:	7,477	7,910	:
Int. reserves / months Imp ^{3.9}	Ratio	7.2	7.1	7.3	7.8	10.0	9.8	9.4	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-1.1	1.3	1.4	0.6	-1.1	-1.2	1.4	:	1.9	2.3	:
Producer prices ^{4.2}	Ann. % ch	-0.9	79.2	3.2	0.4	-0.4	1.3	3.1	:	4.9	5.4	:
Food prices ^{4.3}	Ann. % ch	-1.3	1.3	0.6	1.1	1.0	0.6	1.5	:	2.3	3.6	:
M2 ^{4.4}	Ann. % ch	8.3	9.5	9.4	8.9	7.3	8.6	11.1	:	11.5	12.2	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Real effective exchange rate ^{4.6}	Index	96.9	96.4	97.0	95.7	95.1	95.3	94.5	:	93.8	93.49	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	692	627	621	772	769	763	781	910	874	896	959
Credit growth ^{5.4}	Ann. % ch	2.1	5.3	6.6	5.7	1.1	-0.4	1.7	:	1.9	2.4	:
Deposit growth ^{5.5}	Ann. % ch	7.7	10.4	11.3	9.3	5.6	5.9	11.5	:	11.4	12.1	:
Non performing loans ^{5.6}	% total	11.8	10.0	8.8	7.4	6.1	6.0	5.7	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	1.2	2.5	2.1	1.9	-5.1	0.6	:	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.0	34.7	32.7	31.7	35.2	34.8	:	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

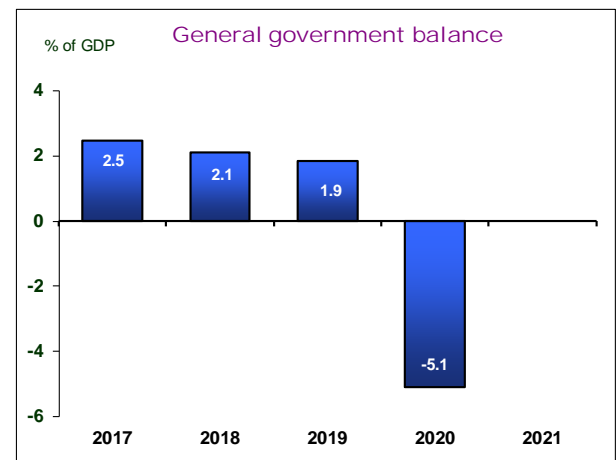
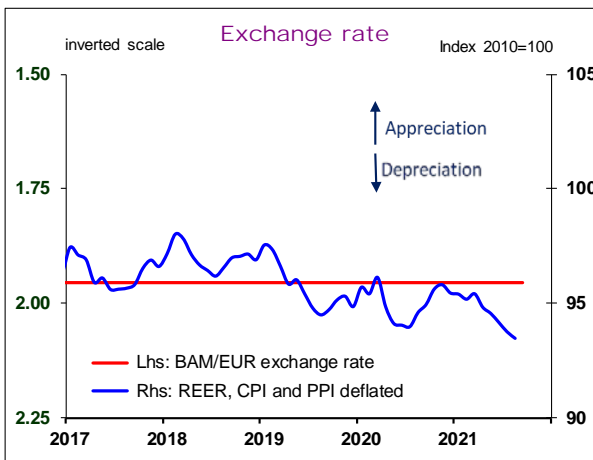
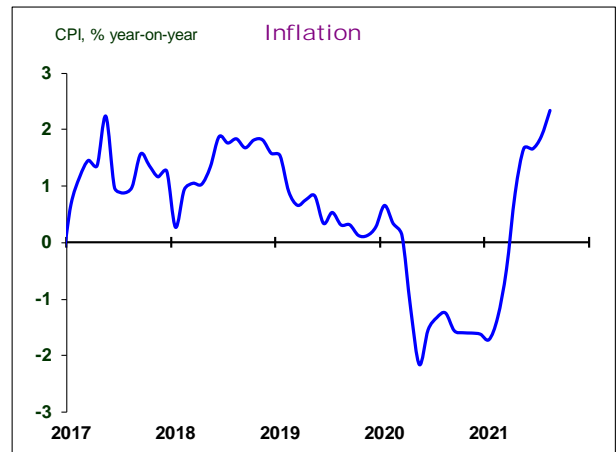
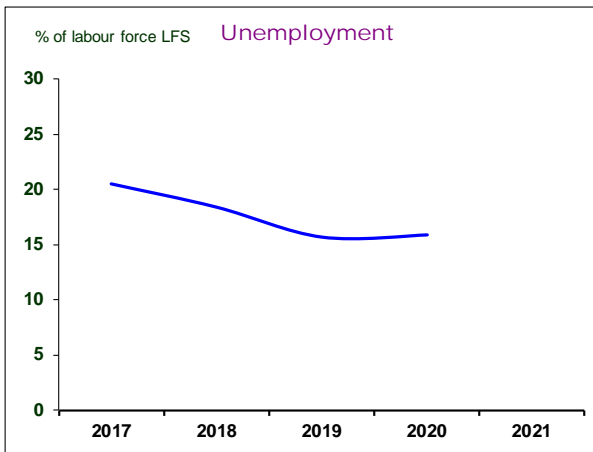
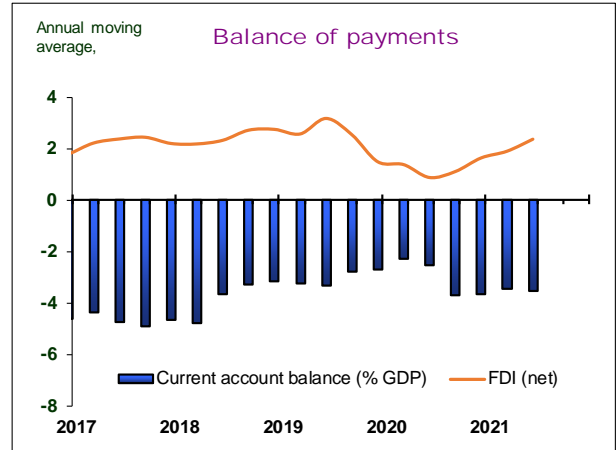
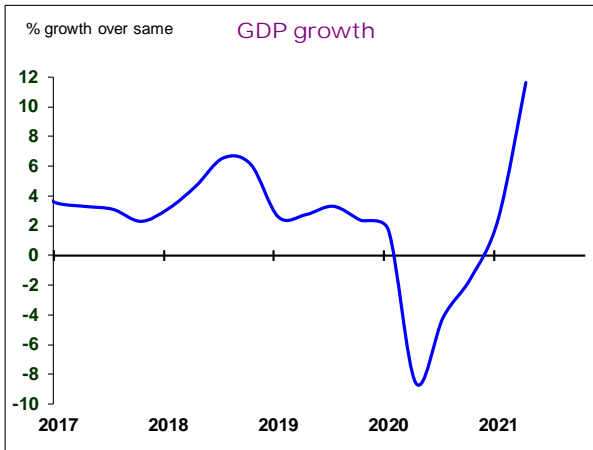
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

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

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BOSNIA AND HERZEGOVINA





Key developments

At the 5th EU-Kosovo Sub-Committee meeting on Economy, Financial Issues and Statistics, held in virtual format on 16 September, the European Commission discussed with the Kosovo authorities economic policy priorities and their budgetary implications. The meeting agreed on the need to ensure medium term fiscal sustainability and to properly assess and review the crisis response and its impact on the recovery.

Within the economic revival package (EUR 420 million) adopted in June, the Ministry of Finance, Labour and Transfers launched the implementation of several initiatives to support social welfare and alleviate poverty, including a 6-month grant equalling the level of the minimum wage for women after childbirth; a child benefit scheme for all new-borns in 2021; and a scheme subsidising new consumption loans, with fiscal support capped at EUR 300 per loan.

In early October, Kosovo Assembly approved the National Programme for the implementation of the Stabilisation and Association Agreement 2021-2025.

On 19 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Kosovo has made limited progress and is at an early stage in developing a functioning market economy. The economy has also made limited progress and is at an early stage regarding its capacity to cope with competitive pressures and market forces within the EU.

Real sector

Kosovo Agency of Statistics revised real GDP growth in 2020 down to -5.3%, from the previous estimate of -3.9%. In terms of demand components, the strongest fall took place in exports of services (41%) and investment (7%), which were somewhat offset by expanding exports of goods (21.7%) as well as somewhat stronger private and public consumption (2.5% and 2.1%, respectively).

Helped by base effects, the rebound of GDP growth accelerated to 16.3% y-o-y in Q2 from 4.2% y-o-y in Q1. The key growth driver was a staggering increase in service exports (191.6% y-o-y) while exports of goods expanded by healthy 62.7% y-o-y, bringing the overall export growth to 127% y-o-y. Further strong positive contributions came from investment and private consumption, expanding by 31% and 15% y-o-y, respectively. Government consumption increased by 9.2% y-o-y. Imports of goods and services rose by 53.7% y-o-y, making the contribution of net exports negative (6.8 pps.).

On the production side, the strongest growth in output in Q2 took place in wholesale and retail trade (31.9% y-o-y), construction (27.3%) and financial services (16.2%). Growth in manufacturing was modest at 5.4%.

According to the latest forecast of the World Bank, Kosovo's economy is set to expand by 7.1% in 2021, on the back of strong exports and private consumption.

Labour market

Due to the pandemic-related disruptions, the results of the labour force survey (LFS) continue to be published with large delays. According to annual 2020 data, the unemployment rate (15-64) rose only slightly to 25.9% from 25.7% in 2019, while employment and labour force participation rates declined to 28.4% and 38.3% from 30.1% and 40.5%, respectively. The wide gap between male and female employment rates (42.8% and 14.1% respectively) persists. The share of young people (aged 15-24) not in employment, education or training (NEET) increased somewhat to 33.6% in 2020.

According to the Q1 LFS data, the unemployment rate stood at 25.8%, which is 0.8 pps. higher than in the same quarter of 2020. The labour force participation rate increased to 39.5% (from 38.8% in Q1-2020) and the employment rate was also slightly higher at 29.3% (29.1% in Q1-2020).

External sector

The current account deficit deteriorated in Q2, with its 4-quarter moving average widening to

9.8% of GDP from 8% in Q1. The traditionally high merchandise trade deficit expanded even further, to 45.7% of GDP from 42.8% in Q1. In January-August workers' remittances rose by 23% y-o-y. On the financing side, net FDI inflows equalled 4.3% of GDP in the four quarters to June. Reserve assets stood at stable but low 2.8 months of imports of goods and services in Q2.

In the first eight months of 2021, total goods exports increased by 63% y-o-y, due to increase in exports of base metals and various manufactured articles, including machinery and textiles. Imports of goods expanded by 43% y-o-y on the back of strongly increasing imports of mineral fuels, food, base metals and machinery equipment. During January-August the merchandise trade deficit widened by 40% y-o-y.

Monetary developments

Annual inflation averaged 1.3% in January-August with an accelerating trend in the monthly readings. In particular, August marked a surge in inflation to 4.7% y-o-y. Positive contributions to inflation came from fuel, communication and food prices.

The producer price and construction cost indices increased by 2.8% and 8.7% y-o-y in the first half of 2021, respectively, driven by rising prices for metals, construction material and energy. Import prices rose by 5.1% y-o-y in the first six months due to higher prices for mineral products and metals.

Financial sector

Supported by regulatory measures, the financial sector continued to expand in 2021. Bank lending growth picked up to 12% y-o-y in August from 7% in Q1. Growth of deposits in commercial banks accelerated to 15.8% from 12.5% over the same period. The loan-to-deposit ratio stood practically unchanged at 75.7% in August as compared to 75% at the beginning of the year. Regulatory forbearance helped to keep the NPL ratio stable at 2.5%. NPLs might increase as the loan moratorium expired at end-September. In August existing NPLs were fully

covered by loan loss provisions (142%).

The interest rate spread stood at 4.6 pps. in August, slightly above its January level of 4.4 pps. Financial soundness indicators in the banking sector remained satisfactory. For the banking system as a whole, the ratio of liquid assets to short-term liabilities increased to 41.1% in August from 38.7% in January, while the capital adequacy ratio increased to 17.5% from 17% over the same period, standing well above the regulatory minimum of 12%.

Fiscal developments

In line with rebounding economic activity, budgetary revenues rose by 31.6% y-o-y in January-August. Income from direct and indirect taxes rose by 32.6% and 34.3%, respectively. This outcome overshoots by a wide margin the revised budget assumption of 18.6% annual revenue growth. Budget spending increased by 5.7% y-o-y over the same period. The largest increase took place in the category of goods and services (15.2% y-o-y) due to COVID-19 related spending. The increase in social transfers was rather moderate (7% y-o-y) so far. Partially due to very low base, there was a recovery in capital spending which rose by 6.5% y-o-y. The investment amount spent so far represents around 30% of the revised 2021 budget allocation for the year as a whole, while the execution rate of current spending stood at 58%. The revised 2021 budget assumes 5.5% and 45.7% annual increases in current and capital spending, respectively.

The eight-month general government surplus was sizeable (EUR 255 thousand or 3.5% of projected 2021 GDP), as compared to the outcome of the same period in 2020 (EUR 14.7 thousand or 0.2% of GDP).

Public debt increased to 23.2% of GDP in Q2, from 21.8% at end-2020. A large share of domestic debt (45%) is held by the Kosovo Pension Saving Trust (KPST), while the Central Bank of Kosovo (20%) and commercial banks (31%) are also important domestic debt-holders. The revised 2021 budget projects the debt ratio to reach 27.6% of GDP by the end of 2021.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2016	2017	2018	2019	2020	Q1 21	Q2 21	Q3 21	Jul 21	Aug 21	Sep 21
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-1.3	-1.3	-0.7	2.6	-1.2	N.A.	N.A.	N.A.	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.6	4.8	3.4	4.8	-5.3	4.2	16.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.2	2.5	3.8	5.1	1.9	4.1	15.0	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	25.5	23.4	29.7	20.2	-7.1	14.6	31.2	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	6.5	12.0	17.4	25.6	-0.4	3.7	9.1	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	27.5	30.5	29.6	25.7	25.9	25.8	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	11.8	7.6	-3.4	5.2	-4.4	1.2	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	1.7	2.1	5.1	5.3	-2.3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	-4.8	22.1	-2.8	4.4	23.8	57.5	65.3	:	46.2	89.4	:
Imports of goods ^{3.2}	Ann. % ch	5.9	9.2	9.8	4.5	-5.7	24.9	58.0	:	40.4	58.6	:
Trade in goods balance** ^{3.3}	% of GDP	-41.1	-42.0	-44.7	-44.1	-41.4	-42.8	-45.7	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	% of GDP	23.8	27.3	29.1	29.3	21.6	22.1	25.3	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	% of GDP	51.2	53.1	57.3	56.4	53.6	55.4	59.7	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	% of GDP	-8.0	-5.5	-7.6	-5.7	-6.9	-8.0	-9.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** ^{3.7}	% of GDP	2.9	3.3	3.4	2.7	4.2	4.1	4.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	895.2	939.4	933.9	937.1	969.1	849.3	991.1	:	990.5	1,140.3	:
Int. reserves / months imp ^{3.9}	Ratio	3.5	3.3	2.9	2.8	3.2	2.7	2.8	:	2.7	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	0.3	1.5	1.1	2.7	0.2	0.6	2.0	:	3.5	4.7	:
Producer prices ^{4.2}	Ann. % ch	-0.1	0.6	1.4	0.9	-0.6	2.0	3.6	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	-0.4	1.2	2.8	8.3	10.1	0.2	0.0	:	1.7	3.6	:
Broad money liabilities ^{4.4}	Ann. % ch	9.2	6.4	7.9	12.0	15.3	15.2	16.2	:	16.2	17.9	:
Exchange rate EUR/EUR ^{4.5}	Value	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real effective exchange rate (CPI) ^{4.6}	Index	104.2	105.0	104.7	107.1	107.3	108.9	108.9	:	109.2	110.1	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	0.35	0.21	0.43	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	4.0	3.53	3.31	3.69	3.58	:	3.85	3.21	:
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth ^{5.4}	Ann. % ch	9.1	10.5	11.1	10.7	7.7	6.9	11.1	:	12.0	12.0	:
Deposit growth ^{5.5}	Ann. % ch	4.7	8.6	6.5	12.6	12.2	12.5	14.7	:	14.5	15.8	:
Non-performing loans ^{5.6}	% total	4.9	3.1	2.5	1.9	2.5	2.5	2.3	:	2.4	:	:
6 Fiscal developments												
General government balance*** ^{6.1}	% of GDP	-1.1	-1.3	-2.9	-2.9	-7.0	-0.1	2.0	:	N.A.	N.A.	N.A.
General government debt**** ^{6.2}	% of GDP	14.4	16.2	16.9	17.5	21.8	21.8	23.2	:	N.A.	N.A.	N.A.

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

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

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

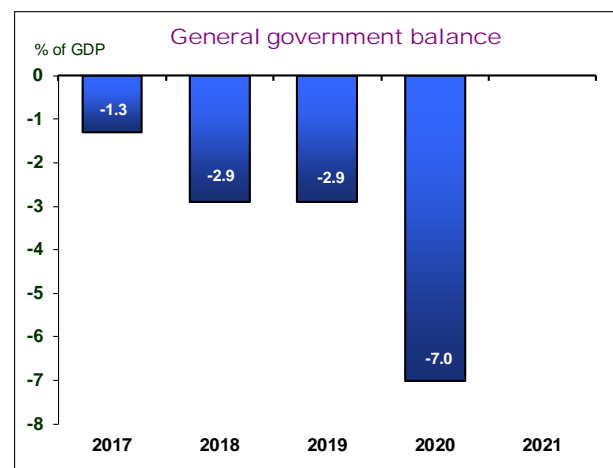
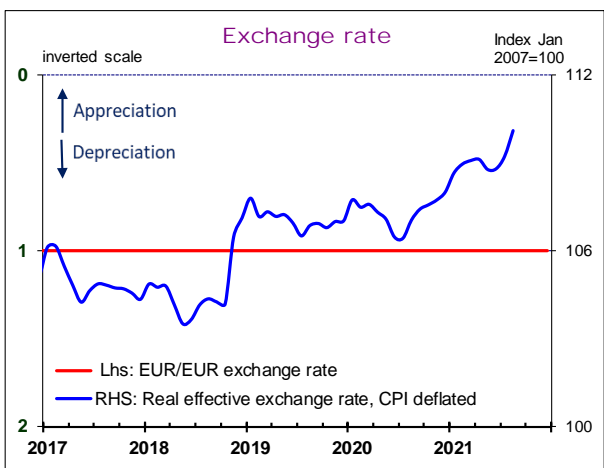
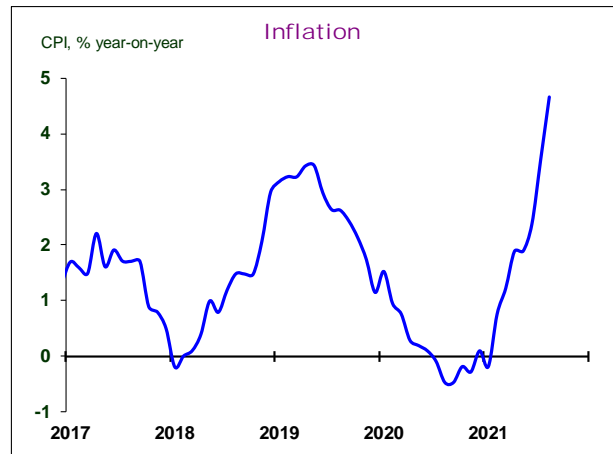
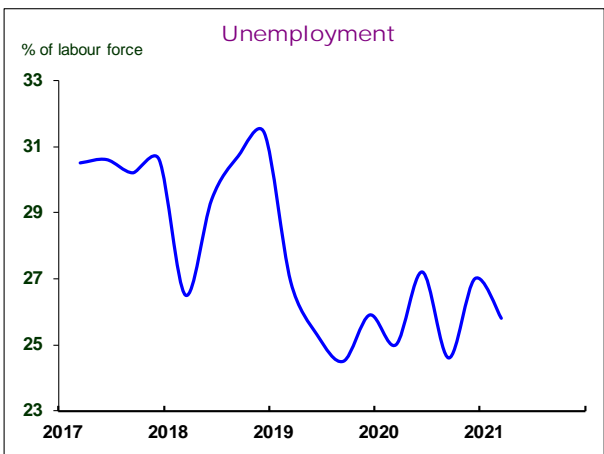
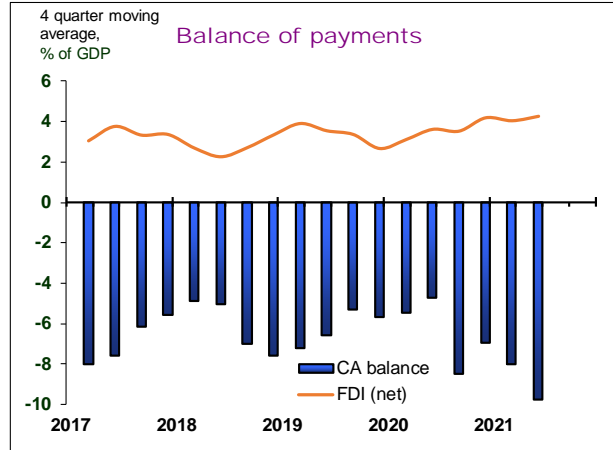
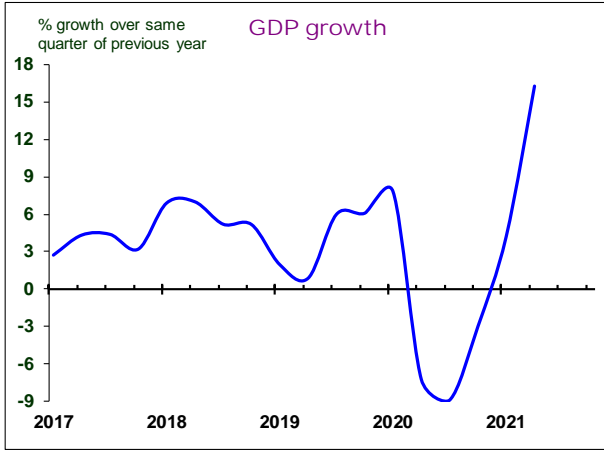
**** Q figures in percent of estimated annual GDP from the Budget Law.

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KOSOVO*



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Economic sentiment indicator	Economic Survey Index, SA	Bank of Albania
1.2.	Industrial production	Industrial production volume index	INSTAT
1.3.	Gross domestic product	Annual percentage change, volume	INSTAT
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.6.	Construction index	Annual percentage change, volume index of construction	Eurostat
1.7.	Retail sales	Annual percentage change of index	Eurostat
2. Labour market			
2.1.	Unemployment	Unemployment rate of the age group between 15-64	INSTAT, LFS
2.2.	Employment	Annual percentage change of employed persons age 15-64	INSTAT, LFS
2.3.	Wages	Average monthly wages	INSTAT
3. External sector			
3.1.	Exports of goods	Annual percentage change of global exports, trade in mio. EUR	Eurostat
3.2.	Imports of goods	Annual percentage change of global imports, trade in mio. EUR	Eurostat
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.7.	Direct investment (FDI, net)	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.8.	Reserves, International reserves of the Bank of Albania	Net foreign assets, total, mio EUR.	Bank of Albania
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	Bank of Albania
4. Monetary developments			
4.1.	CPI	Consumer Prices, all items, year-on year percentage change	INSTAT
4.2.	Producer prices	Year on Year percentage change of index	INSTAT
4.3.	Food prices	Year on Year percentage change of index "Food and Non-alcoholic Beverages"	INSTAT
4.4.	M3	Year on Year percentage change	Bank of Albania
4.5.	Exchange rate ALL/EUR	Period average	Bank of Albania
4.6.	Real effective exchange rate	ALL, CPI deflated	Bruegel Inst.
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, TRIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Interest rate, 36 months deposits in ALL	Bank of Albania
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change of stock, loans, total	Bank of Albania
5.5.	Deposit growth	Annual percentage change of stock, total	Bank of Albania
5.6.	Non-performing loans	Of total loans in %	Bank of Albania
6. Fiscal developments			
6.1.	General government balance	Net lending annual /cash balance, in percent of GDP	Albanian Min. of Finance
6.2.	General government debt	Gross public debt in percent of annual GDP	Albanian Min. of Finance



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



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	MacroBond
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	MacroBond
1.4.	Private consumption	Annual percent change, Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	MacroBond
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	MacroBond
1.6.	Construction index	Annual pc change, Value Index of Performed Works, Total CPPY=100, NSA	MacroBond
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Semi-annual data. Data as of 2021 according to new LFS methodology	MacroBond
2.2.	Employment	Annual percentage change, as from 2014 based on LFS. Data before 2014 are based on official data on registered employment. Data as of 2021 according to new LFS methodology.	MacroBond
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.8.	International reserves NBS	Total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer Prices, Total, CPPY, average	MacroBond
4.2.	Producer prices	Annual average percentage change, domestic market	MacroBond
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M3	Annual percentage change, M3 (broad money), RSD	MacroBond
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	MacroBond
4.6.	Nominal effective exchange rate	Period average, moving base year, RSD	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, BELIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Weighted average interest rate on 7Y RSD government bonds	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, private, RSD	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	MacroBond
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	MacroBond
6. Fiscal developments			
6.1.	General government balance	Consolidated GG, Overall balance. In percent GDP	Min. of Finance
6.2.	General government debt	Central government debt. In percent of GDP	Min. of Finance



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, Index 2010=100, Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change	MacroBond
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change	MacroBond
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, 2015=100	MacroBond
2.	Labour market		
2.1.	Unemployment	Labour Force Survey, in percent of total labour force	MacroBond,
2.2.	Employment	Labour Force Survey, annual percentage change	MacroBond
2.3.	Wages	Annual percentage change, average gross wages, BAM	MacroBond
3.	External sector		
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	MacroBond
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4.	Monetary developments		
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	MacroBond
4.2.	Producer prices	Domestic, total, index CPPY=100	MacroBond
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100	MacroBond
4.4.	M2	Annual percentage change, M2 (broadest money)	MacroBond
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	MacroBond
4.6.	Real effective exchange rate	Index (2010=100): 9 Trade partners selected in order to set up the index (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	MacroBond
5.	Financial indicators		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	MacroBond
5.4.	Credit growth	Annual percentage change, loans, total, BAM	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM	MacroBond
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	MacroBond
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP, consolidated budget, net lending	MacroBond
6.2.	General government debt	In percent of GDP, external public debt	MacroBond



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change	CB Kosovo
1.3.	Gross domestic product	Annual percentage change	Statistical Office of Kosovo (SOK)
1.4.	Private consumption	Annual percentage change	SOK
1.5.	Gross capital formation	Annual percentage change	SOK
1.6.	Construction index	Not available	
1.7.	Retail sales	Wholesale Trade and Retail Sales, Retail Trade Turnover Value Index, Retail Sale in Non-Specialised Stores, 2013=100, NSA	MacroBond
2	Labour market		
2.1.	Unemployment	In percent of total labour force	SOK
2.2.	Employment	Annual pc change of number of employees, LFS 2012 onwards	MacroBond
2.3.	Wages	Annual pc change, average monthly wages (Tax Register)	SOK
3.	External sector		
3.1.	Exports of goods	Annual percentage change, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	SOK
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank of Kosovo
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.8.	Reserves, International reserves of the National Bank	CBAK Survey, claims on non-residents, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4.	Monetary developments		
4.1.	CPI	Annual average percentage change, index (May 2002 = 100)	MacroBond
4.2.	Producer prices	Annual percentage change, total, 2007=100	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	MacroBond
4.5.	Exchange rate EUR/EUR	Not applicable	
4.6.	Real effective exchange rate	CPI deflated, Index 2007=100	SOK
5.	Financial indicators		
5.1.	Interest rate	Short-Term Treasury Bills yield	MacroBond
5.2.	Bond yield	Long-Term Bonds, over 5 Years up to 10 Years, Yield	Central Bank of Kosovo
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing	MacroBond
5.5.	Deposit growth	Annual percentage change, ODC deposits	MacroBond
5.6.	Non-performing loans	In percent of total	CB Kosovo
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance

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

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