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4th Quarter 2020

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European Commission
Directorate-General for Economic and Financial Affairs

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

4th Quarter 2020

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

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

OVERVIEW

*The disruptive effects of the COVID-19 crisis on the **Western Balkan** economies subsided somewhat in the third quarter of 2020, when the region's GDP fell by 4.5% y-o-y, after a slump of 9.3% in the preceding quarter. Investment recovered and recorded y-o-y growth in some countries, while the fall in household consumption and exports was less pronounced than in the previous three months. The region's current account deficit further increased to 7.2% of GDP in the four quarters to September, the highest level since the second quarter of 2013, as a result of continued strong losses in services exports, such as tourism, as well as, in some cases, decreasing remittances inflows. The fall in employment continued in the third quarter, albeit at a slower pace than in the previous three months. Unemployment rates in general did not deteriorate strongly thanks to job support measures but also due to decreased labour market participation. Large-scale fiscal support to households and companies to combat the adverse impact of the crisis, combined with a sizeable drop in revenues, resulted in a sharp rise in budget deficits in the first eleven months. Along with a fall in GDP, this led to substantial increases in the public debt-to-GDP ratio in all countries compared to end-2019.*

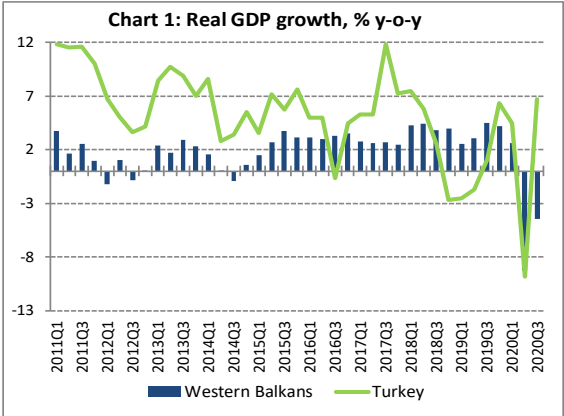
*In **Turkey**, real GDP expanded by 6.7% y-o-y due to a strong rebound of domestic demand in the summer months. The 4-quarter rolling average current account deficit increased to 5.6% of GDP in November driven by a sizeable imports growth and the collapse in exports of tourism services. In the context of significantly tightening its stance, the central bank returned to the provision of funding to the banks through the one-week repo operations. It also reacted to exchange rate and inflationary pressures by significantly raising its key policy rate.*

In the third quarter of 2020, the annual contraction of GDP softened in almost all **Western Balkan** countries compared to the previous quarter. In **Serbia**, real GDP fell at a notably slower pace of 1.4% y-o-y, compared to the sharp drop of 6.3% in the second quarter, on the back of a more moderate fall in domestic demand, while net exports continued to add a strong negative contribution to growth. In **Albania**, the fall in GDP moderated to 3.5% y-o-y from 10.2%, mainly driven by a recovery of investment growth due to the recent catching-up on earthquake reconstruction. The fall in exports remained sharp largely due to the continued travel restrictions. Also in **North Macedonia**, economic contraction softened to 3.3% y-o-y, following a plunge of 14.9% in the preceding quarter, driven by a strong rebound in investment, a less steep fall in household consumption as well as a positive contribution of public consumption to growth. In **Bosnia and Herzegovina**, annual output losses decelerated to 6.3%, in the third quarter of 2020 as the decline in household consumption,

investment and exports was less pronounced than in the preceding quarter. In **Kosovo**, the recession eased somewhat to a real GDP contraction of 7.5% y-o-y as the fall in imports of goods and services as well as increased public and private consumption (supported by higher remittances and social transfers), partially mitigated the continued slump of tourism services and the ongoing decline in investment. As an outlier, **Montenegro** registered an acceleration of annual output losses. Real GDP plummeted by 26.9% y-o-y following an already strong contraction by 20.3% in the previous quarter largely due to a further collapse of exports (namely tourism) and a continued, albeit softer decline in investment. Overall, in the third quarter of 2020, the **Western Balkan** region's real GDP contracted by 4.5% y-o-y, after a 9.3% plunge in the previous three months (Chart 1).

In **Turkey**, real GDP expanded by 6.7% y-o-y in the third quarter of 2020, compared to a steep fall of 9.9% in the previous quarter when the crisis' impact had fully materialised. Growth was a result of a surge in investment and private consumption, which benefited from favourable

lending conditions and base effects, as well as a significant positive contribution to growth of changes in inventories for a third consecutive quarter. Net exports remained a large drag on growth as imports grew sizeably in line with the strong rebound in domestic economic activity, whereas exports collapsed, largely due to the depressed demand for tourism services.

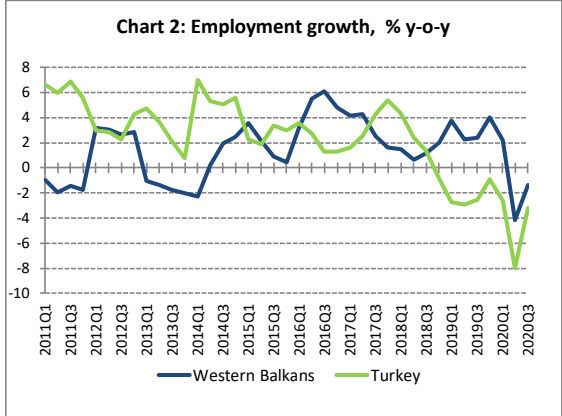


Source: Macrobond, Commission calculations

In line with declining economic activity, job growth was negative in the **Western Balkans** in the third quarter of 2020, although the drop in the level of employment decelerated. The average annual decline in employment in the region stood at 1.4% compared to 4.2% in the second quarter (Chart 2*). Employment losses contributed to rising unemployment rates y-o-y in some countries (*Montenegro, Bosnia and Herzegovina, Albania*), whereas in others (*North Macedonia*) the simultaneous decline in labour force participation led to lower rates of unemployment. With jobless rates ranging from 9.0% in *Serbia* to 27.2% in *Kosovo* (in the second quarter of 2020), the labour market situation is becoming a more pressing challenge in the context of the pandemic-induced crisis.

In **Turkey**, the labour market remained weak despite a slight improvement over the summer. The unemployment rate stood at 13% in October, the lowest rate in about two years. However, labour force participation decreased to 55.7% while employment fell by 2.8% y-o-

y. The authorities extended again some employment protection measures that continue to heavily affect the labour market data, and the share of people with inadequate employment or time-related underemployment reached 6.7% of the labour force in October.



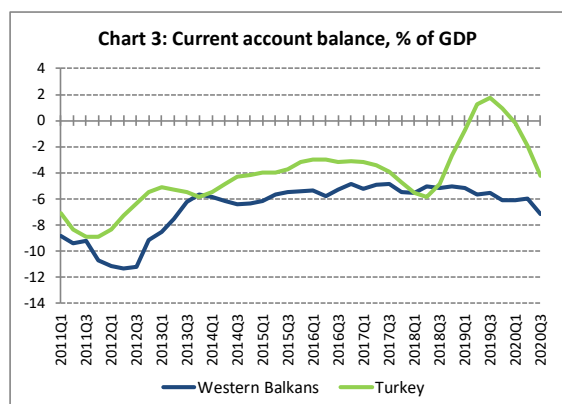
Source: Macrobond, Commission calculations

*Except Kosovo

External developments in the **Western Balkans** during the third quarter of 2020 were driven by continued huge losses of service exports, in particular tourism, and falling exports of goods (with the exception of *Kosovo*) as well as, in some countries, remittances. At the same time, the decline in imports slowed in most countries in the region. On balance, with the exception of *Serbia*, annualised current account deficits widened in all **Western Balkan** countries compared to the previous quarter. Overall, in the four quarters to September, the current account deficit in the region continued to increase to 7.2% of GDP, the highest level since the second quarter of 2013 (Chart 3). On a positive note, the current account deficits continued to be financed mostly by net FDI inflows, which in relation to GDP largely held up in *Albania* and in *Bosnia and Herzegovina* or even increased, such as in *Montenegro*, whereas they moderately declined in all other countries in the region.

In **Turkey**, the 12-month cumulative current account deficit increased to 5.6% of GDP in November, compared to a surplus of 0.9% in 2019. The deterioration was driven by

significantly lower service exports and a strong increase in imports of goods, in particular of non-monetary gold. On the financing side, official reserve assets continued declining.



Source: Macrobond, Commission calculations

Inflation dynamics diverged among countries in the **Western Balkans** during the last months of 2020. In *Albania*, the effects of low imported inflation and low energy prices counterbalanced the hike in food prices bringing the average annual inflation rate to 1.6% in 2020 (slightly up from 1.4% in 2019), albeit below the 3% target. The *Bank of Albania* increased its liquidity injections into the market during the third quarter while it did not change its key policy rate, which it had last lowered to the record low of 0.5% in March. In *North Macedonia*, average annual CPI inflation accelerated to 1.2% in 2020, up from 0.8% in 2019, mainly driven by food prices. The central bank of *North Macedonia* kept its key policy rate unchanged at the historic low of 1.5%, after three successive cuts by 25 basis points each between January and May. In *Serbia*, consumer price inflation decelerated from 1.7% y-o-y in November to 1.3% in December mainly due to a base effect from a strong increase in December 2019. Average annual CPI inflation stood at 1.6% in 2020, close to the lower bound of the target tolerance band of 3%±1.5 pps. The central bank of *Serbia* reacted by cutting its key policy rate by another 25bps on 10 December, to a record-

low of 1.0%, bringing total rate cuts in 2020 to 125 basis points. It also remained an active participant on the foreign exchange market, with total net sales in 2020 reaching EUR 1450 million.

On the other hand, deflationary pressures persisted in October and November in *Montenegro*, *Bosnia and Herzegovina* and *Kosovo*. In November, consumer prices fell by 1.4%, 1.6% and 0.3% y-o-y, respectively as the increase in food prices was more than offset by a sharp drop in prices for transport, clothing and footwear in the first two countries, and in the case of *Kosovo* for household equipment too.

In **Turkey**, the end-of-the-year inflation picked up to 14.6% y-o-y, mainly driven by higher food prices. In the context of significantly tightening its stance and simplifying its monetary policy framework, the central bank announced the return to the provision of funding to the banks through the one-week repo operations. The central bank also reacted to the increasing exchange rate and inflationary pressures by raising its key policy rate from 10.25% in October, to 15% in November and further to 17% in December. The lira gained around 12% of its value against the US dollar since its large depreciation in early November.

Impacted by the various policy measures to support liquidity flows to the private sector bank lending growth accelerated in the third quarter of 2020 compared to the previous three months in *Montenegro*, *North Macedonia*, *Serbia* and *Kosovo*. On the other hand, credit growth decelerated in *Albania* (when adjusted for exchange rate changes and loan write-offs) and *Bosnia and Herzegovina*. In most countries in the region, credit growth expanded at a slower pace in November compared to the previous month while in *Bosnia and Herzegovina* the decline in bank lending growth deepened. For the same period, in some countries such as *Serbia* and *Bosnia and Herzegovina* corporate lending growth declined whereas the growth of credit to households

decelerated or largely stagnated. Bank balance sheets improved further in some of the **Western Balkan** countries as they continued to reduce the share of non-performing loans (NPLs) in total loans. In the third quarter of 2020, the NPL ratio in *Albania* slightly increased to 8.3% q-o-q, still 2.3 pps. lower than 12 months earlier. In *Bosnia and Herzegovina* the NPL ratio stood at 6.6%, followed by *Montenegro* (5.9% in November), and was significantly lower than a year before in *Serbia* and *North Macedonia* (3.4% in both countries). However, these figures do not yet reflect the full impact of the pandemic-induced crisis on the financial sector.

In *Turkey*, the authorities continued taking steps in November to reverse some of the measures introduced at the peak of the COVID-19 crisis to incentivise domestic lending. As a result, annual credit growth decelerated from 43% in October to 35% in December. The NPL ratio fell to 4.0% in November from 5.2% a year before.

The adverse impact of the COVID-19 crisis on fiscal balances intensified in the third quarter and over the autumn. In all countries in the **Western Balkan** region, the government deficit widened sharply, as crisis-related spending increased and tax revenues dropped further. In *Serbia*, in January-November, the budget posted a deficit of 6.4% of projected annual GDP compared to a surplus of 0.8% in the same period one year earlier, mainly on account of a hike in expenditure (+18.1% y-o-y), in particular subsidies and other current expenditure. The drop in revenue remained comparatively mild (-1.8% y-o-y). In

Montenegro, in the same period the budget deficit deepened to 8.5% of GDP (1.2% higher than the revised target for the whole year) as revenues declined in almost all categories and expenditure increased, driven by higher spending in the health sector as well as expenditure on wage subsidies. In *Kosovo*, a 10.3% y-o-y drop in revenue, driven by a contraction of direct and indirect taxes, as well as a 9.6% y-o-y rise in expenditure, mainly due to higher social transfers, resulted in a budget shortfall of 4.9% of estimated GDP. In *Albania*, the budget deficit amounted to around 4.2% of GDP (only half of the revised budget target), in the first ten months of 2020, as revenue fell by 9.5% y-o-y due to a large drop in tax proceeds, whereas expenditure rose by 5.8% y-o-y on the back of strong capital spending growth, mainly reflecting the recent upscaling of earthquake reconstruction works. In *North Macedonia*, lower revenues combined with higher current expenditure during the last two quarters of the year resulted in an expansion of the budget deficit to 8.1% of GDP in 2020, slightly lower than planned. General government debt increased in the third quarter in all countries in the region, reflecting increased financing needs to combat the COVID-19 crisis. At end-September, the debt ratio was the highest in *Albania* (79.9% of GDP) and in *Montenegro* (78.1%), followed by *Serbia* (57.1%).

In *Turkey*, notwithstanding sizable interest payments and increased current transfers and capital expenditure, strong tax revenue kept the cumulative central government budget deficit in check at TRY 132 bn (2.7% of full-year GDP), in January-November. Government debt rose to 41.3% of GDP in September, compared to 32.6% at end-2019.

Candidate and potential candidate countries: Summary table

	2016	2017	2018	2019	2020	ECFIN 2020 Autumn forecast		Q2 20	Q3 20	Q4 20	Oct 20	Nov 20	Dec 20
						2021	2022						
Gross domestic product (in real terms, annual % change)													
Albania	3.3	3.8	4.1	2.2	-6.8f	3.7	4.6	-10.2	-3.5	:	N.A.	N.A.	N.A.
North Macedonia	2.8	1.1	2.7	3.2	-4.9f	3.8	3.5	-14.9	-3.3	:	N.A.	N.A.	N.A.
Montenegro	2.9	4.7	5.1	4.1	-14.3f	6.8	3.7	-20.3	-26.9	:	N.A.	N.A.	N.A.
Serbia	3.3	2.1	4.5	4.2	-1.8f	4.8	3.8	-6.3	-1.4	:	N.A.	N.A.	N.A.
Turkey	3.3	7.5	3.0	0.9	-2.5f	3.9	4.5	-9.9	6.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	3.4	3.0	3.1	2.9	:	:	:	-9.3	-6.3	:	N.A.	N.A.	N.A.
Kosovo	4.1	4.2	3.8	4.9	:	:	:	-9.3	-7.3	:	N.A.	N.A.	N.A.
Unemployment													
Albania	15.6	14.1	12.8	12.0	14.5f	13.9	12.8	12.5	12.1	:	N.A.	N.A.	N.A.
North Macedonia	23.8	22.4	20.7	17.3	17.3f	17.1	16.6	16.7	16.5	:	N.A.	N.A.	N.A.
Montenegro	18.0	16.4	15.5	15.4	18.1f	16.6	15.9	15.7	19.6	:	N.A.	N.A.	N.A.
Serbia	15.3	13.5	12.7	10.4	9.3f	9.6	9.0	7.3	9.0	:	N.A.	N.A.	N.A.
Turkey	11.1	11.1	11.2	14.0	13.7f	14.1	14.1	13.3	13.4	:	13.0	:	:
Bosnia and Herzegovina	25.4	20.5	18.4	15.7	:	:	:	16.0	:	:	N.A.	N.A.	N.A.
Kosovo	27.5	30.5	29.6	25.7	:	:	:	27.2	24.6	:	N.A.	N.A.	N.A.
Current account balance* (% of GDP)													
Albania	-7.6	-7.5	-6.8	-8.0	-10.9f	-9.0	-7.3	-8.7	-8.9	:	N.A.	N.A.	N.A.
North Macedonia	-2.9	-1.1	-0.1	-3.3	-4.2f	-3.9	-3.8	-3.4	-5.3	:	N.A.	N.A.	N.A.
Montenegro	-16.2	-16.1	-17.0	-15.0	-15.8f	-14.3	13.9	-15.7	-27.9	:	N.A.	N.A.	N.A.
Serbia	-2.9	-5.2	-4.8	-6.9	-5.8f	-6.0	-5.2	-6.4	-6.1	:	N.A.	N.A.	N.A.
Turkey	-3.1	-4.7	-2.8	0.9	-4.0f	-2.0	-2.1	-1.9	-4.2	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.6	-4.7	-3.3	-3.0	:	:	:	-2.9	-3.8	:	N.A.	N.A.	N.A.
Kosovo	-7.9	-5.4	-7.6	-5.6	:	:	:	-4.8	-8.6	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.3	2.0	2.0	1.4	1.6	2.1	2.3	1.9	1.4	1.5	2.0	1.6	1.0
North Macedonia	-0.2	1.4	1.5	0.8	1.2	1.2	1.5	0.5	1.5	2.2	2.1	2.2	2.3
Montenegro (HICP)	0.1	2.8	2.9	0.5	-0.5f	1.0	1.4	-1.1	-1.4	:	-1.2	-1.4	:
Serbia	1.1	3.1	2.0	1.8	1.6	1.8	1.8	1.0	1.9	1.6	1.8	1.7	1.3
Turkey	7.8	11.1	16.3	15.2	12.3	11.7	9.2	11.7	11.8	13.5	11.9	14.0	14.6
Bosnia and Herzegovina	-1.1	1.3	1.4	0.6	:	:	:	-1.6	-1.4	:	-1.6	-1.6	:
Kosovo	0.3	1.5	1.1	2.7	:	:	:	0.2	-0.3	:	-0.2	-0.3	N.A.
General government balance** (% of GDP)													
Albania	-1.8	-2.0	-1.6	-1.9	-6.3f	-5.3	-3.2	-2.3	-1.3	:	N.A.	N.A.	N.A.
North Macedonia	-2.7	-2.7	-1.1	-2.2	-8.1p	-4.5	-3.2	-2.8	-1.5	:	N.A.	N.A.	N.A.
Montenegro	-3.6	-5.3	-3.9	-2.0	-8.8f	-4.7	-3.6	-3.1	-2.0	:	:	:	:
Serbia	-1.2	1.1	0.6	-0.2	-8.9f	-2.9	-2.5	-4.7	-0.9	:	N.A.	N.A.	N.A.
Turkey	-1.1	-2.8	-2.8	-3.0	-6.2f	-6.0	-5.3	-1.4	-0.2	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	1.2	2.5	2.2	1.9	:	:	:	-1.4	-0.3	:	N.A.	N.A.	N.A.
Kosovo	-1.1	-1.3	-2.9	-2.9	:	:	:	0.8	-1.0	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Autumn 2020 published November 2020.

* Q figures refer to a 4 quarters moving average.

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

ALBANIA



Key developments

Albania tightened some mobility restrictions again since November following a surge in COVID-19 infection rates, which have stabilised at a relatively high level since. In January, schools reopened, but a night curfew continues. The Albanian government bought half a million doses of COVID-19 vaccine from Pfizer on 1 January, with agreed gradual delivery starting in the third week of January.

On 5 January, Mrs Olta Xhaçka, formerly Albania's Defence Minister, took over the post as Minister of European and Foreign Affairs; Mr. Niko Peleshi succeeded her as new Minister of Defence.

Real sector

The recession of the Albanian economy continued in Q3 at a less dramatic rate than in Q2 with GDP contracting 3.5% y-o-y, after a 10.2% y-o-y fall in Q2. Private consumption, which dropped sharply by 8% y-o-y in Q2 fell 3.9% in Q3 while government consumption growth dropped from 0.1% in Q2 to -1.4% y-o-y in Q3 on account of falling individual consumption expenditure. In contrast, investment growth recovered after three subsequent quarters of contraction to 4.1% y-o-y in Q3, reflecting the recent upscaling of earthquake reconstruction works. Exports fell 31.7% in Q3, and imports continued to fall strongly 23.9%, still driven by a 52.5% drop in services imports mainly due to the continuing travel restrictions. The q-o-q growth rates for Q3-2020 are positive for all expenditure categories, indicating that economic activity recovered slightly in Q3 from the downturn of Q2.

In terms of production, economic output showed positive annual growth compared with Q3 2019 in agriculture, electricity, manufacturing, as well as in construction, real estate and public services, while the mining sector still contracted. Retail trade stabilised and the downturn of financial, information and entertainment services softened, but services output related to transport and hospitality still shrank considerably in Q3. Overall, services, which account for about 50% of GDP, continued to contract, whereas most industries and construction recorded positive

growth rates, the latter partly driven by the high public expenditure on earthquake reconstruction.

The economic sentiment indicator, which had already reflected expectations for a recovery in Q3, continued to improve by 6 points in Q4, mainly supported by improving confidence of industry, trade and services. Although all sub-indicators for these sectors have improved, they remain far below their long-term averages, in particular regarding the financial situation. Consumer confidence on the other hand fell 2 points from Q3 and remained far below its long term average, reflecting the ongoing recession.

Labour market

Due to the government's mitigation measures, the effect of the recession on the labour market remained limited in Q2. In Q3, the slight improvement in economic activity also reflected positively on the labour market indicators. The unemployment rate (15-64 years) fell from 12.5% in Q2 to 12.1% in Q3, still 0.3 pps above the level in Q3 2019; the male unemployment rate returned to its level of Q3 2019, but for women and in particular young women the rate remained elevated. Labour market participation recovered to its Q3-2019 level, but again more pronouncedly for men than for young women. The fall in the level of employment decelerated to 1.2% y-o-y from -3.9% y-o-y in Q2, but expanded 2.9% in quarterly terms. However, the number of economically inactive persons, which had been on a decreasing trend over the last 5 years, increased again 1.2% in Q3 y-o-y, albeit again at a much lower rate than in Q2. The growth rate of monthly average wages continued to decline from 2.8% in Q2 to 1.8% in Q3 y-o-y, mainly reflecting growth of public wages, while wage indices of all private sector industries except construction continued to drop, most sharply in the tourism-related segment.

External sector

The 4-quarter moving average current account deficit widened slightly from 8.7% of GDP in Q2 to 8.9% in Q3. The deficit of the goods balance remained stable at 22.9% of GDP (22.8% in Q2), while the surplus of the services balance decreased from 8.6% to 8% of GDP (all as 4-quarter moving averages). Continuing large losses in the tourism segment caused the drop in

services exports despite the 7.4% y-o-y growth in manufacturing services exports. The rebound of remittances (+6% y-o-y) in Q3 from their 35% annual drop in Q2 supported the relative stability of the current account deficit. The deficit of the primary income account narrowed slightly from 1.7% to 1.5% of GDP. Net foreign direct investment was 6.4% lower than in Q3-2019 but stabilised at 7.5% of GDP and still covered about 84% of the current account deficit in Q3 (all as 4-quarter moving averages). Foreign reserves, which exceeded EUR 4 billion since June 2020, decreased to EUR 3.8 billion in November, still remaining 17.2% above their corresponding 2019 level.

Monetary developments

After slightly depreciating 1.9% in Q3, the lek strengthened to 123.7 to the euro in the last quarter of 2020, which also corresponded to its average annual rate, overall just 1.6% above its 2019 average. Inflation weakened in the last month of 2020 to 1.1%, on average the annual price level increased by 1.6% in 2020, despite a hike in food prices averaging 3.6%, which was counterweighed by the effects of low imported inflation and low energy prices. The growth rate of M3 increased from 7.6% in August to 8.9% in November and the acceleration of M2 growth rate continued in and beyond Q3 from 10.1% in August to 11.8% in November y-o-y, both driven by the continuing shift to demand deposits and currency outside banks and the strong influx of money into the economy. In Q3, the Bank of Albania (BoA) has increased its liquidity injections into the market. Since March 2020, the BoA has kept its record low 0.5% policy rate unchanged.

Financial sector

Credit to the economy expanded and the credit-to-GDP ratio increased by 1 pp. to 37.5% in Q3. The credit growth rate¹ however slowed from 6.2% y-o-y in Q2 to 5.6% y-o-y in Q3, reflecting a lesser impact of the sovereign credit guarantee schemes and a resumption of some repayments. Lending growth to enterprises remained stable in Q3 (6.9% y-o-y), whereas lending to households decelerated in Q3 from 6% to 5.5% y-o-y, mainly because of consumer loans. Interest rates for new loans in lek averaged 5.7% in Q3, increasing both for enterprises (to 5.3%) and for households' consumer loans (to 6.4%) compared with Q2. In addition, banks continued to tighten

lending standards for enterprises because of higher perceived risks but eased lending standards for households. Banks reported increasing loan demand from SMEs and for liquidity. In contrast, households showed lower loan demand due to financial uncertainty. The total stock of deposits grew by 6.8% y-o-y in Q3, mainly driven by increasing lek deposits (8.2%) while interest rates on deposits recorded only minimal changes.

Compared with Q2-2020, some key financial soundness indicators slightly improved in Q3: The share of foreign currency loans in total bank loans decreased to 48.9%; the capital adequacy ratio of the banking sector and the liquidity ratio increased to 18.6% and 18.0% respectively; bank profitability in terms of ROE and ROA stabilised at 9.1% and 0.97% respectively. The ratio of non-performing loans to total loans slightly increased to 8.3% in Q3 q-o-q but was still 2.3 pps. below its Q3 2019 level.

Fiscal developments

In the first 10 months of 2020, the consolidated fiscal deficit reached ALL 66.2 billion (approximately 4.2% of GDP and only half of what the government planned for the year as a whole in its last budget amendment) as revenue dropped 9.5% and expenditure increased 5.8% compared with the same period of 2019. However, historically up to 30% of the total expenditure is recorded in the last two months of the year, and the deficit usually increases during this time. Tax revenue from tax offices and customs dropped 12.2%, in particular revenue from profit and income taxes fell strongly, as the taxation office allowed a delayed payment or waived payments (for small and micro enterprises). Social insurance contributions only recorded 1.7% lower inflows y-o-y, while grants doubled and buffered some of the revenue losses. Capital expenditure growth of 16.8% y-o-y drove the overall increase of expenditure, mainly reflecting the catching-up on earthquake reconstruction, which also serves as fiscal stimulus for the economic recovery. Current expenditure on the other hand remained relatively stable despite the 16% growth of social assistance expenditures due to savings in interest and personnel expenditure. In addition to current expenditure, about 2.9% of total expenditure (0.8% of GDP) were spent on direct crisis support to households and business. Public debt slightly decreased q-o-q in Q3 but remained at a high level of estimated 79.9% of GDP compared with 66.2% in Q3-2019.

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

TABLE



ALBANIA

European Commission, ECFIN-D-1

							ECFIN 2020 Autumn forecast							
		2016	2017	2018	2019	2020	2021	2022	Q2 20	Q3 20	Q4 20	Oct 20	Nov 20	Dec 20
1 Real sector														
Industrial confidence ^{1.1}	Balance	-3.7	1.5	-0.6	-0.6	-16.3	:	:	-29.4	-19.4	-11.7	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-19.6	8.4	9.7	5.6	:	:	:	-23.7	-1.8	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	3.3	3.8	4.1	2.2	-6.8f	3.7	4.6	-10.2	-3.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.0	2.6	3.2	3.3	-4.4f	2.8	3.3	-8.0	-3.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.4	6.0	2.4	-3.3	-7.9f	4.8	4.7	-11.1	4.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.1	19.6	5.6	-2.5	:	:	:	1.9	14.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.8	2.4	1.8	4.2	:	:	:	-8.3	0.7	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	15.6	14.1	12.8	12.0	14.5f	13.9	12.8	12.5	12.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	6.1	2.7	2.1	2.4	-2.7f	1.0	2.0	-3.9	-1.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	-0.8	3.0	3.1	3.8	:	:	:	2.9	1.8	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	2.5	14.4	20.0	-0.2	:	:	:	-26.5	-6.5	:	-1.5	:	:
Imports of goods ^{3.2}	Ann. % ch	7.4	11.5	8.1	4.8	:	:	:	-22.5	-5.7	:	-0.4	:	:
Trade balance* ^{3.3}	% of GDP	-24.3	-24.4	-22.4	-23.0	-22.3f	-22.3	-21.6	-22.8	-22.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	29.0	31.6	31.6	31.5	:	:	:	28.2	24.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	45.8	46.6	45.3	45.3	:	:	:	42.4	39.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.6	-7.5	-6.8	-8.0	-10.9f	-9.0	-7.3	-8.7	-8.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.7	8.6	8.0	7.6	:	:	:	7.2	7.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,945.0	2,995.9	3,399.0	3,359.6	:	:	:	4,165.4	4,128.4	:	4,131.5	3,865.5	:
Int. reserves / months Imp ^{3.9}	Ratio	7.2	6.7	7.0	6.5	:	:	:	9.0	9.7	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.3	2.0	2.0	1.4	1.6	2.1	2.3	1.9	1.4	1.5	2.0	1.6	1.0
Producer prices ^{4.2}	Ann. % ch	-1.5	2.8	1.6	-0.8	:	:	:	-4.2	-4.1	:	:	:	:
Food prices ^{4.3}	Ann. % ch	3.3	3.9	2.7	2.9	3.6	:	:	4.4	3.3	3.8	4.9	3.9	2.5
M3 ^{4.4}	Ann. % ch	3.9	0.3	-0.2	4.3	:	:	:	7.9	8.6	:	8.6	8.9	:
Exchange rate ALL/EUR ^{4.5}	Value	137.36	134.14	127.57	123.01	123.77	:	:	124.51	123.95	123.77	123.98	123.78	123.55
Real effective exchange rate ^{4.6}	Index	94.0	97.8	104.9	108.6	:	:	:	109.8	111.3	:	111.8	111.8	:
5 Financial indicators														
Interest rate (3 months-TRIBOR) ^{5.1}	% p.a.	1.99	2.15	1.83	1.45	1.46	:	:	1.51	1.45	1.38	1.40	1.38	1.36
Bond yield ^{5.2}	% p.a.	2.05	2.07	2.20	1.76	:	:	:	1.62	1.65	:	1.62	1.55	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	-0.7	-0.1	-1.7	3.0	:	:	:	6.2	5.6	:	4.2	4.9	:
Deposit growth ^{5.5}	Ann. % ch	1.1	1.0	-1.2	2.5	:	:	:	5.4	6.0	:	6.3	6.8	:
Non performing loans ^{5.6}	% total	18.3	13.2	11.1	8.4	:	:	:	8.1	8.3	:	8.3	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.8	-2.0	-1.6	-1.9	-6.3f	-5.3	-3.2	-2.3	-1.3	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	72.4	70.2	67.7	66.3	78.8f	77.4	75.4	80.2	79.9	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

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

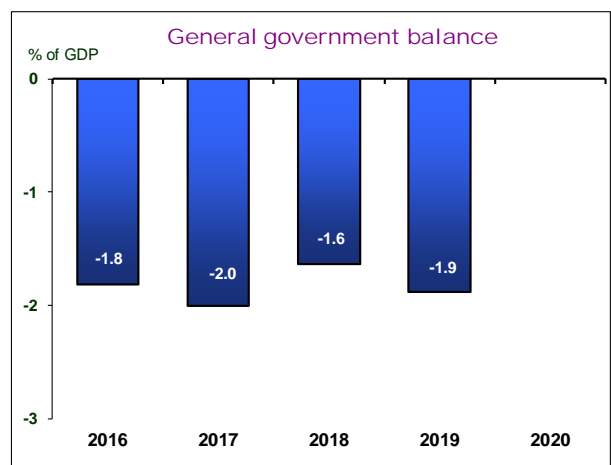
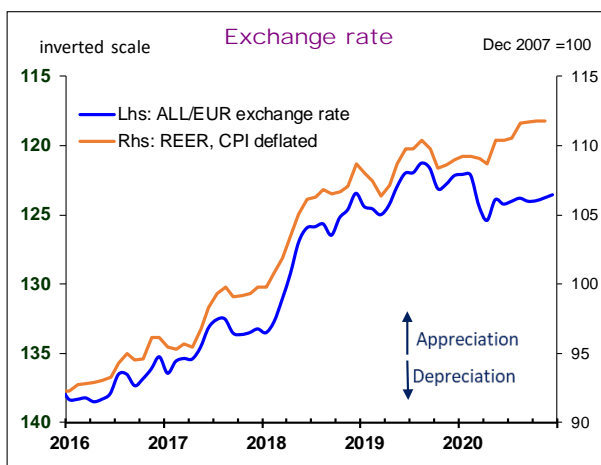
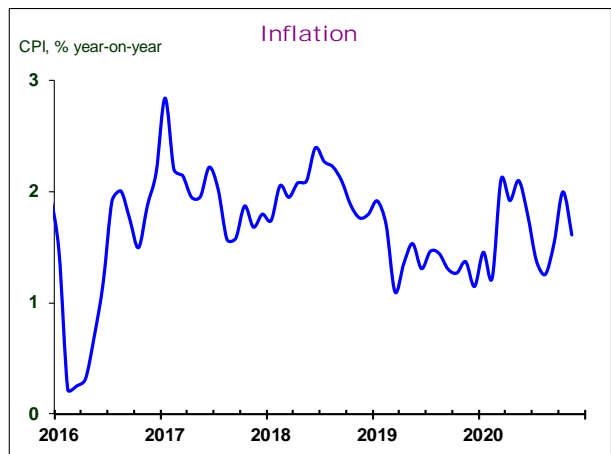
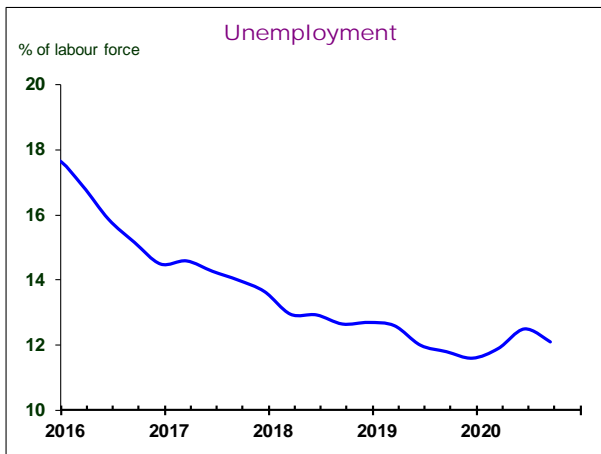
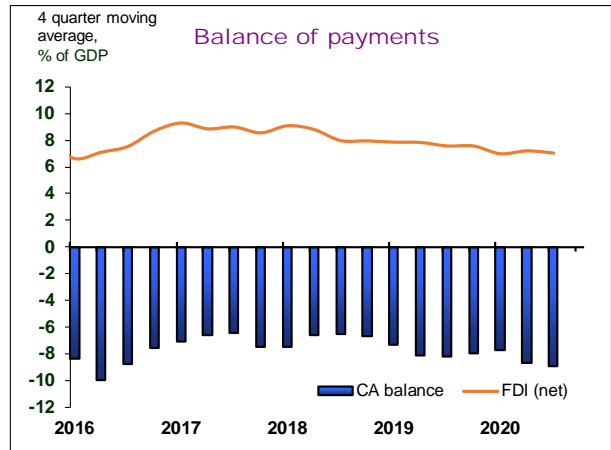
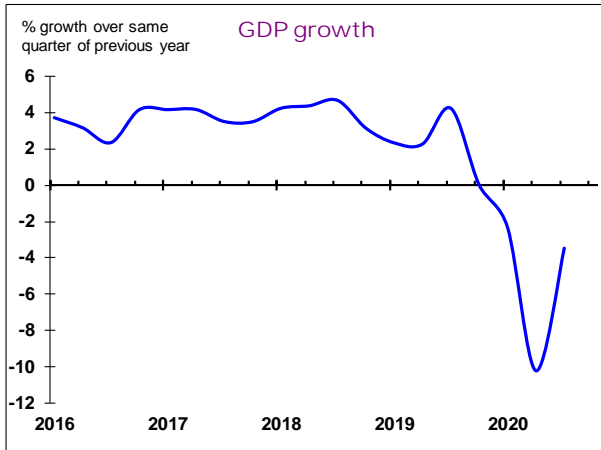
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





Key developments

On 4 December, the parliament voted in a new government, the first in three decades without the Democratic Party of Socialists (DPS). The new government, led by the prime minister Zdravko Krivokapic, of the For the Future of Montenegro (ZBCG) coalition, will focus on economic development, reforms and the rule of law.

On 24 December, the government decided to close Montenegro Airlines as the company was heavily indebted and could not receive further state aid without challenging competition rules. On 31 December, the government formally registered a new company named '2Montenegro', depositing EUR 4 million in founding capital. The new company is expected to become operational by the end of 2021.

Real sector

The strong rebound of the COVID-19 pandemic and the ensuing travel restrictions impacted heavily on Montenegro's tourism-dependent economy. In Q3-2020, the fall in GDP accelerated to 26.9% y-o-y, following an already strong 20.3% y-o-y drop in Q2. The shock was largely driven by the external sector, with exports of goods and services plummeting by 70.5% y-o-y, compared to a 55.9% y-o-y decline in Q2. The concurrent drop in imports (27.1% y-o-y) could only partially offset the negative effects on the external side. Domestic demand developments provided some compensation. The fall of investments eased to 7.7% y-o-y in Q3, from the 26.1% y-o-y contraction recorded in Q2. Moreover, other GDP components managed to recover in Q3. Thus, final consumption swung into 1.8% y-o-y growth in Q3 after falling by 11.9% y-o-y in Q2, driven by a switch in household consumption, growing by 2.1% y-o-y in Q3, after a drop of 14.8% y-o-y in Q2. Government consumption remained in positive territory throughout the first three quarters of 2020 due to the economic support measures aimed at mitigating the negative impact of the pandemic. Yet, inventories became the major contributor to GDP growth in Q3 (adding 4 pps.) as demand for manufactured products remained weak and stocks piled up.

On the supply side, industrial output started recovering with the resumption of economic activity in Q3 after the closure of production capacities in April and May. As a result, the decline of industrial production eased to 2.8% y-o-y in Q3, compared to sharper 15.9% y-o-y contraction in Q2. Yet, on a monthly basis the situation remains volatile. After growing by 13.3% y-o-y in October, industrial production returned into negative territory, contracting by 0.7% y-o-y in November.

Through November, tourist arrivals shrank 79.1% y-o-y, while overnight stays collapsed by 79.9% y-o-y, negatively affecting retail sales too, which fell by 11.9% y-o-y in real terms in November alone, and by 15.1% y-o-y in the first eleven months of the year.

Labour market

The collapse of the summer tourist season resulted in a sharp deterioration of Montenegro's labour market situation. Moreover, layoffs are taking place despite the government's measures to mitigate the negative impact of the pandemic on the economy. Therefore, according to the labour force survey, the unemployment rate (15-64 years old population) climbed 3.9 pps. q-o-q and 4 pps. y-o-y to 19.6% in Q3, its highest level since Q4 2013. Moreover, the number of employed declined by 15.0% y-o-y and 4.8% q-o-q in Q3. Overall, the activity rate contracted to 61.2% in Q3 (7.2 pps. lower over the year), a sign that the number of discouraged jobseekers has increased substantially. According to the Employment Agency, the unemployment rate reached 20.5% at the end of December.

Falling consumer prices had some positive effects on real wage dynamics. The average real gross wage grew by 2.2% y-o-y in November, marginally down from 2.3% y-o-y in the month before. By sectors, healthcare, manufacturing and utilities recorded the fastest wage growth in November, while wages in agriculture and hospitality contracted.

External sector

The current account usually posts surpluses in

Q3 due the tourism receipts generated during the peak of the summer tourist season. However, travellers' confidence was sapped by the COVID-19 pandemic. As a result, in Q3-2020, revenues from tourism fell sharply which meant that the usual inflows to partly offset the chronically large trade deficit did not materialise. Consequently, Montenegro's current account deficit jumped to 27.9% of GDP in the four quarters to September 2020, compared to 16.0% of GDP in the same period one year earlier. The increase in the deficit was mainly due to the much lower surplus in the services account (-80.1% y-o-y). Moreover, the surplus in the secondary account also contracted (by 10.3% y-o-y in annualised terms) as the coronavirus crisis negatively affected remittances. On the other hand, the primary account surplus grew to 2.1% of GDP, compared to 0.4% in the same period one year earlier. The merchandise trade deficit contracted by 2 pps. y-o-y to 40.8% of GDP in the four quarters to September, due to the sharp (26.0% y-o-y) import decline in the period.

The continuous contraction of goods imports since March 2020, and the recovery of exports in November (rising by 12.7% y-o-y), helped reduce the merchandise trade deficit in the first eleven months of the year to 37.9% of GDP, compared to a 44.3% of GDP gap in the same period a year before.

Monetary developments

The deflationary trend which commenced in March persisted. In November, the decline in consumer prices (HICP) deepened to -1.4% y-o-y from -1.2% y-o-y in the month before. The trend was driven by developments in food, clothing, and transport (i.e. fuel) prices. Food price inflation eased to 1.2% y-o-y in November compared to 1.7% y-o-y in the previous two months. Clothing and footwear prices declined by sharper 3.4% y-o-y in November, compared to 1.7% y-o-y decline in the previous month. The fall in transport prices deepened to 8.5% y-o-y in November, from 8.3% y-o-y in the previous month and was the sharpest since May.

Financial sector

Credit growth kept decelerating due to increased COVID-19 related uncertainties and growing unemployment. Although the central bank cut the reserve requirement ratio by 2 pps. to help banks increase their potential liquidity and boost

their lending potential, bank lending growth eased to 5.0% y-o-y in November from 7.3% y-o-y in the previous month. The growth rate was the slowest since the outbreak of the pandemic in March. The fastest deceleration were recorded in loans for non-residents and financial institutions, contracting by 14.8% and 11.0% y-o-y, respectively. In contrast, lending to non-financial corporate sectors and households recorded growth of 6.0% and 4.5%, respectively, albeit decelerating both by 0.5 pps. over the quarter. Loans to the public sector showed a mixed picture, with strong credit to the central government but deleveraging in local governments and public companies. In spite of credit growth, the quality of banks' loan portfolio suffered some deterioration. In November, the ratio of non-performing loans rose to 5.9% of total loans, compared to 5.7% in October and 4.6% in November 2019. Although commercial banks' deposits increased by 1.9% in November in monthly terms, they decreased by 5.2% y-o-y, after falling 5.3% y-o-y the month before. Overall, the decline was led by corporate sector deposits (-6.5% y-o-y), as well as household deposits (-5.6% y-o-y).

Fiscal developments

The combination of declining tax revenues negatively affected by the tourist season collapse and higher COVID-19-related spending, further deepened the budget deficit. Thus, in the first eleven months of 2020, the central government registered a cash deficit of 8.5% of GDP, compared to the revised budget plan's deficit of 7.3% of GDP for the whole year. The deficit expansion came after budget revenues fell by 11.3% y-o-y, while expenditures rose by 5.8% y-o-y. Revenues in nearly all categories, except for corporate tax income, were lower compared to the same period of 2019. The spending increase was driven by higher expenditure in the health sector, as well as spending on wage subsidies. In contrast, capital expenditure fell by 30.6% y-o-y, but was 9.8% above the plan.

The stock of public debt surged to 78.1% of GDP in Q3-2020, up from 62.3% of GDP a year before. On 9 December, the government issued a EUR 750 million (or 16% of GDP) seven-year Eurobond with an interest rate of 2.875%. The bond issue aims to help the government cover most of its financing needs for 2021 (estimated at EUR 520 million) and to provide funds for investments.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2016	2017	2018	2019	2020	ECFIN 2020 Autumn forecast		Q2 20	Q3 20	Q4 20	Oct 20	Nov 20	Dec 20
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Balance	3.0	4.5	5.5	3.5	-18.4	:	:	-19.2	-24.4	-32.5	-28.6	-29.4	-39.6
Industrial production ^{1.2}	Ann. % ch	-2.1	-4.3	23.6	-6.1	:	:	:	-15.4	-2.8	:	13.3	-0.7	:
Gross domestic product ^{1.3}	Ann. % ch	2.9	4.7	5.1	4.1	-14.3f	6.8	3.7	-20.3	-26.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.4	3.9	4.6	3.1	-12.9f	5.1	2.4	-14.8	2.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	38.4	18.7	14.7	-1.7	-16.7f	5.3	4.4	-26.1	-7.7	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	31.5	51.5	24.9	10.7	:	:	:	-16.0	-9.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.3	3.3	3.5	5.2	:	:	:	-22.3	-30.6	:	-13.9	-11.9	:
2 Labour market														
Unemployment ^{2.1}	%	18.0	16.4	15.5	15.4	18.1f	16.6	15.9	15.7	19.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.1	2.1	3.2	2.6	-2.6f	2.3	1.9	-9.5	-15.0	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	3.5	2.0	0.1	0.8	0.3f	1.8	2.2	1.2	1.1	:	1.0	0.8	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	6.2	8.3	14.7	6.8	:	:	:	-23.8	-19.4	:	-19.4	12.7	:
Imports of goods ^{3.2}	Ann. % ch	12.0	11.6	10.9	1.8	:	:	:	-29.5	-26.0	:	-18.4	-16.5	:
Trade balance* ^{3.3}	% of GDP	-41.9	-43.3	-43.9	-41.7	-39f	-38.5	-38.4	-40.3	-40.8	:	-38.7	-37.9	:
Exports goods and services ^{3.4}	% of GDP	40.6	41.1	42.9	43.7	:	:	:	22.3	24.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	63.1	64.5	66.7	64.8	:	:	:	66.2	51.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-16.2	-16.1	-17.0	-15.0	-15.8f	-14.3	13.9	-15.7	-27.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	9.4	11.3	6.9	6.2	:	:	:	8.0	9.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	752.9	847.2	1049.8	1366.8	:	:	:	1212.4	1063.8	:	1077.7	1042.1	:
Int. reserves / months Imp ^{3.9}	Ratio	3.6	3.7	4.0	5.1	:	:	:	5.0	4.7	:	4.8	4.7	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	0.1	2.8	2.9	0.5	-0.5f	1.0	1.4	-1.1	-1.4	:	-1.2	-1.4	:
Producer prices ^{4.2}	Ann. % ch	-0.1	0.4	1.7	2.4	:	:	:	-0.4	-0.5	:	-0.4	-0.6	:
Food prices ^{4.3}	Ann. % ch	-0.9	1.9	0.6	3.4	:	:	:	1.1	1.3	:	1.7	1.0	:
M2 ^{4.4}	Ann. % ch	9.5	13.6	5.0	-3.5	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Real effective exchange rate ^{4.6}	Ann. % ch	0.6	0.5	2.7	-1.2	:	:	:	87.34	76.2	N.A.	75.3	81.1	N.A.
5 Financial indicators														
Interest rate (6 months) ^{5.1}	% p.a.	1.58	1.71	0.47	0.52	0.87	:	:	0.90	0.98	0.90	0.90	:	:
Bond yield (10 yrs) ^{5.2}	% p.a.	N.A.	N.A.	N.A.	2.61	3.53	:	:	4.16	3.95	3.42	3.77	3.35	3.15
Stock markets ^{5.3}	Index	11,115	10,952	10,390	10,980	10,336	:	:	10,271	10,075	9,841	9,802	9,851	9,870
Credit growth ^{5.4}	Ann. % ch	1.3	11.8	8.5	4.5	:	:	:	5.1	5.7	:	7.3	5.0	:
Deposit growth ^{5.5}	Ann. % ch	9.4	13.8	5.9	0.5	:	:	:	1.2	-6.1	:	-5.3	-5.2	:
Non-performing loans ^{5.6}	% of total	10.3	7.3	6.9	4.7	:	:	:	5.1	5.6	:	5.7	5.9	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-3.6	-5.3	-3.9	-2.0	-8.8f	-4.7	-3.6	-3.1	-2.0	:	:	:	:
General government debt*** ^{6.2}	% of GDP	63.4	63.3	70.1	76.5	87.3f	85.6	83.0	78.2	78.1	:	:	:	:

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

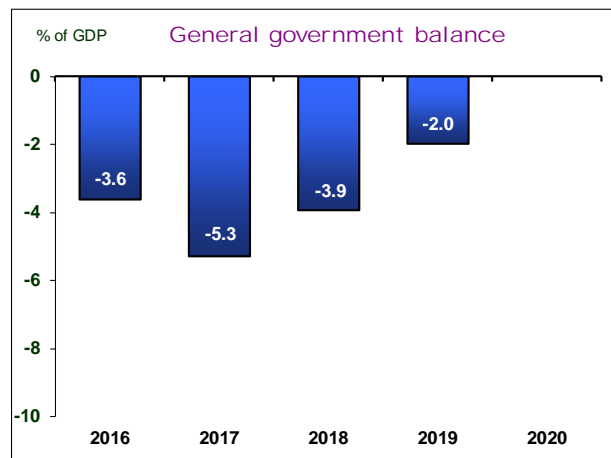
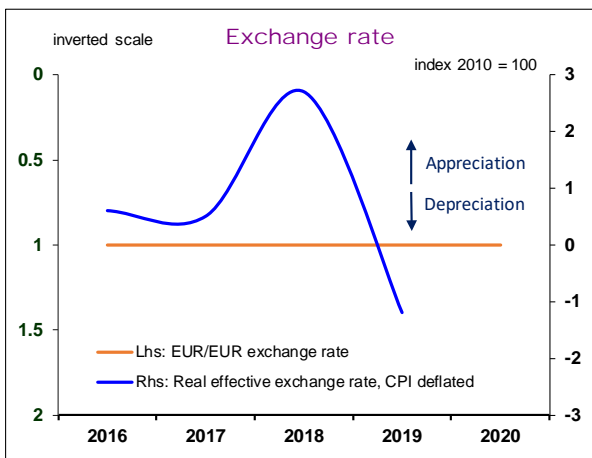
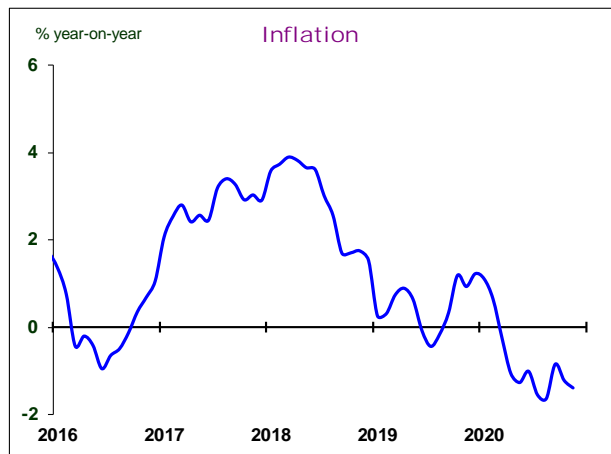
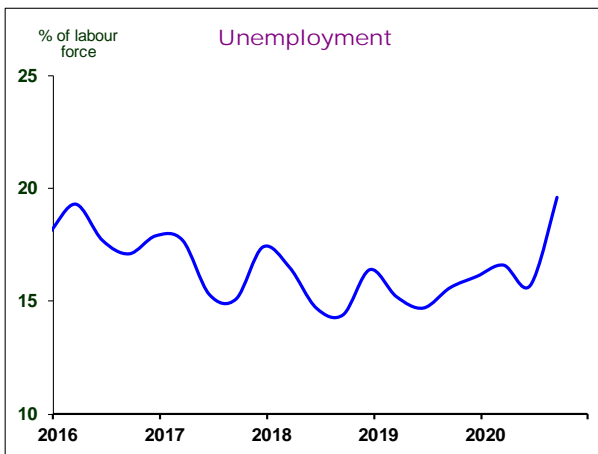
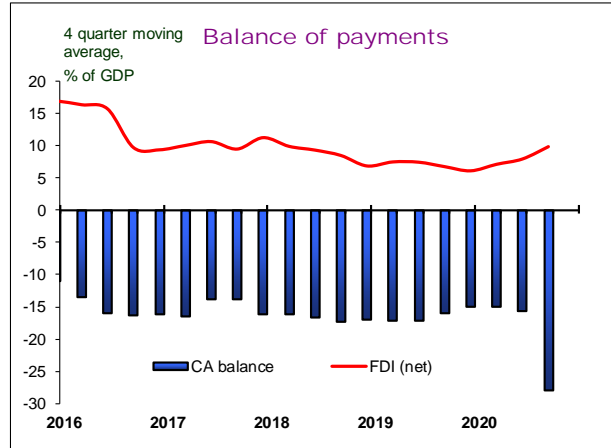
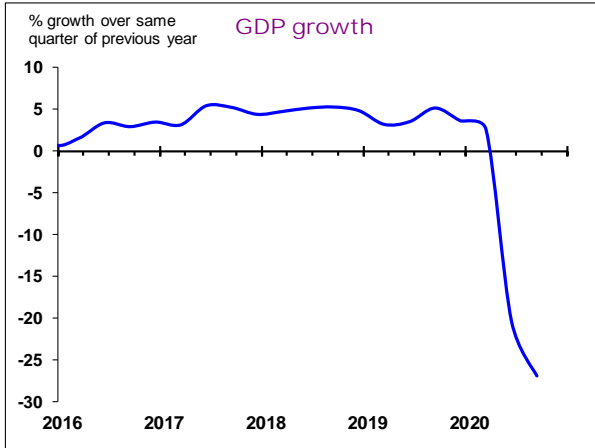
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

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

CHARTS



MONTENEGRO





Key developments

On 20 December, the Parliament approved the 2021 budget. It is based on projected 4.1% real GDP growth and foresees a deficit of 4.9% of GDP. Revenue is expected to increase by 8.3% over the 2020 budget, and expenditure by 2.1%.

On 18 November, the IMF completed its regular Article IV mission. The Fund commended the government on its swift policy actions to combat the COVID-19 crisis, which helped maintain macroeconomic and fiscal stability. It urged the government to monitor fiscal risks arising from budget revenue shortfalls, state-owned enterprises, and public-private partnerships.

On 13 November, Fitch Ratings affirmed the country's debt rating at BB+, with negative outlook. Coherent macro and fiscal policies and good governance are among the strengths positively supporting the rating, while downside risks stem from worsening public debt dynamics, due to COVID-19, skills mismatches, and weak productivity growth.

Real sector

Economic activity remained depressed also in Q3. Yet, bolstered by large-scale government support to households and companies, the blow from the COVID-19 crisis was less sharp than in the preceding quarter. Real GDP declined by 3.3% y-o-y (Q2: -14.9% y-o-y). Investment picked up strongly (+4.2%), after declining by almost 35% in Q2. Household spending dropped by less than in Q2 (-4.1% compared to -13%). Government consumption contributed positively to growth (+13.5% y-o-y), as in Q2. The decline in exports (-8.4%) was less pronounced than in Q2, as was the drop in imports (-2.4%). Construction output recovered (+3.4% y-o-y) from its sharp drop in Q2 (-12%), while the fall in manufacturing softened to -9.1% y-o-y, compared to -30.5% in Q2. Overall, in the first three quarters of the year, GDP dropped by 5.8% y-o-y on average.

High frequency indicators for October and November point to cautious dynamism in some sectors of the economy. The annual decline in

industrial output diminished gradually further in October and November (-4.6% on average, compared to -7.6% in Q3). This implies an average decrease of -10.6% y-o-y in the first eleven months. Growth in domestic production of capital goods has been decreasing each month since September, when it moved back into positive territory after 6 consecutive months of steep annual decline (+1.5% on average in the period September to November). The annual decline in retail sales (excluding fuel) was slightly smaller in Q3 (-10.4%) than in Q2 (-11.8%), but deepened again in October and November, on average (-12%).

Labour market

After having proved fairly resilient to the COVID-19 crisis in Q2, the labour market deteriorated somewhat in Q3. The drop in employment (-1.8% y-o-y) remained moderate, cushioned by government support to retain jobs through the crisis. The labour force shrank by more (-2.4%), reflecting many discouraged workers and transition to the informal economy. The female workforce dropped by 3.3%, compared to -1.8% for men. The total unemployment rate declined by 0.6 pps. y-o-y, to 16.5%. The activity rate among the working age population (15-64 years) decreased by 1.2 pps. y-o-y, to 65%.

The gradual improvement over recent years in the situation of young workers, benefitting from the government's youth guarantee scheme, was muted in Q3. The unemployment rate in the age group 15-24 years dropped by 0.5 pps. y-o-y, to 34.8%. Yet, this came on the back of a stark decrease in the labour force (-6.1%), which overcompensated the drop in employment. The employment rate decreased by 0.7 pps. to 20.3%.

Gross nominal wages, propelled since April by government wage subsidies, and by rises in public sector pay and minimum wages earlier in 2020, rose at a markedly faster rate in Q3 and beyond (9% y-o-y on average in the period July to October) than in the same period one year earlier (5.1%). This brought total increase in the first ten months to 8.7% (+3.8 pps. y-o-y),

translating into real wage growth of 8.5% in this period.

External sector

There were no marked imbalances in external sector developments in Q3, in spite of the deterioration in some key indicators. The current account deficit widened by 2.9 pps. y-o-y, to 5.3% of GDP in the four quarters to September. This was the result of a drop in the surplus in secondary income (mainly remittances) and in services, while the deficit in the merchandise trade balance remained largely unchanged. Net FDI inflows amounted to 2.7 % of GDP in the four quarters to September, lower than one year earlier (3.8%). Gross external debt, excluding central bank transactions, was up by 7% y-o-y at end-September, reflecting increased government borrowing abroad to meet higher financing needs in the COVID-19 crisis. It amounted to 83% of projected GDP (+10 pps. y-o-y).

International reserves were some 3% higher y-o-y at end-December, and about the same level as at end-Q3. Reserves covered some 5 months of prospective imports. Government borrowing abroad and central bank interventions in forex markets were the biggest contributors to changes in 2020.

Monetary developments

Consumer price growth picked up in the second half of the year, to 1.7% y-o-y, from 0.5% in the first half, bringing average annual growth of the headline CPI for 2020 to 1.2% (2019: 0.8%). Food prices made the biggest contribution to the CPI increase in 2020, rising by 3.3% on average in the second half of the year, accelerating from 1.6% annual growth in the first half. The August increase in regulated electricity prices also contributed to the acceleration of CPI growth in the second half. Overall, prices for fuels, utilities, and transport dropped further in 2020.

Annual growth of broad money (M4) slowed down in Q3, to 6.9%, from 9.8% in the preceding quarter. It accelerated slightly, to 7.2% on average, in October and November. As market participants reacted to the economic crisis, long-term deposits declined sharply, which was not offset by increased demand for currency in circulation, demand and short-term deposits. The central bank has kept the CB bills rate unchanged since May, when it had lowered it for a third time this year, to 1.5%.

Financial sector

Lending to the non-financial sector slowed down in the autumn from a dynamic summer. After increasing to 7.5% y-o-y in Q3, from 6.1% in the preceding quarter, annual credit growth decelerated to 6.2% on average in October and November. Households accounted for most of the increase in this period (9.3% y-o-y in Q3, compared to 8.9% in Q2). Lending growth to private non-financial companies (NFC) accelerated to 5.3% in Q3, compared to 3.3% in Q2. Credit growth eased for both households and NFC in October and November. In contrast to developments in Q2, foreign-currency denominated loans to the private sector grew faster in Q3 than loans in national currency.

Bolstered by loan reclassification measures authorised by the central bank to help mitigate the negative impact from the COVID-19 crisis on the economy, the ratio of non-performing to total loans (financial and non-financial sector) was considerably lower at the end of Q3 than one year earlier (-1.6 pps. to 3.4%). Commercial banks' interest rates have remained broadly stable since the summer.

Fiscal developments

The lockdown of the economy and the government's four sets of anti-crisis measures left their mark, progressively, on public finances in the second half of the year. Revenues were lower by 4.8% y-o-y in Q3, and by 5.2% in Q4, bringing the drop for the full year to 6.9%, and amounting to 97% of the budget plan as revised in October. Current expenditure was higher by 11.2% y-o-y in Q3, and by 21.3% in Q4. Capital expenditure, which had been reallocated in May to bolster funds for the anti-crisis measures, was lower by 9.5% y-o-y in 2020, reflecting only 82% of the revised plan. The general government deficit amounted to 8.1% of projected GDP in 2020, which is lower by 0.3 pps. than planned. Debt developments, too, reflect the increased financing needs to combat the crisis. At the end of September, general government debt amounted to 51.5% of projected full-year GDP (+12.3 pps. compared to the same period one year earlier). The rise in government debt was largely accountable for the increase in the public debt level (+13 pps. y-o-y to 60.7% of projected full-year GDP), which also reflects an increase in the debt of public enterprises (+0.7 pps. y-o-y) during this period.

TABLE



European Commission, ECFIN-D-1

NORTH MACEDONIA

							ECFIN 2020 Autumn forecast							
		2016	2017	2018	2019	2020	2021	2022	Q2 20	Q3 20	Q4 20	Oct 20	Nov 20	Dec 20
1 Real sector														
Industrial confidence ^{1.1}	Balance	24.0	25.6	28.8	32.2	:	:	:	24.4	22.7	:	25.8	25.9	:
Industrial production ^{1.2}	Ann. % ch	3.9	0.2	5.4	3.7	:	:	:	-25.2	-7.6	:	-5.2	-4.0	:
Gross domestic product ^{1.3}	Ann. % ch	2.8	1.1	2.7	3.2	-4.9f	3.8	3.5	-14.9	-3.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.9	2.1	3.7	3.5	-4.3f	4.5	4.7	-13.0	-4.1	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	12.5	-2.2	0.9	9.5	-12f	12.7	13.2	-33.3	6.1	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	3.6	-2.5	-11.9	3.0	:	:	:	-10.2	5.2	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	15.3	-4.2	8.1	11.3	:	:	:	-11.5	-9.8	:	-9.9	-14.1	:
2 Labour market														
Unemployment ^{2.1}	%	23.8	22.4	20.7	17.3	17.3f	17.1	16.6	16.7	16.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.5	2.4	2.5	5.1	-0.3f	0.5	2.4	-0.1	-1.7	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.0	2.6	5.8	5.1	6.7f	4.0	2.2	5.7	9.1	:	9.0	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	15.8	15.4	19.8	9.0	:	:	:	-34.6	-0.9	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	9.7	9.7	12.9	10.2	:	:	:	-31.1	-2.6	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-18.8	-17.8	-16.2	-17.6	-16.7f	-17.4	-17.6	-18.0	-17.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	50.7	55.3	60.3	62.3	:	:	:	58.3	57.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	65.5	69.2	72.8	76.5	:	:	:	72.5	72.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-1.1	-0.1	-3.3	-4.2f	-3.9	-3.8	-3.4	-5.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	3.3	1.8	5.6	3.2	:	:	:	3.6	2.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,613	2,336	2,867	3,263	3,359.83	:	:	3,640	3,480	3,360	3,541	3,369	3,359.8
Int. reserves / months Imp ^{3.9}	Ratio	4.9	4.1	4.4	4.6	:	:	:	5.6	5.4	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	-0.2	1.4	1.5	0.8	1.2	1.2	1.5	0.5	1.5	2.2	2.1	2.2	2.3
Producer prices ^{4.2}	Ann. % ch	-0.1	0.4	-0.3	0.1	:	:	:	1.1	2.6	:	1.2	1.4	:
Food prices ^{4.3}	Ann. % ch	-1.3	0.3	0.8	1.6	2.4	:	:	2.8	3.1	3.4	3.5	3.6	3.2
Monetary aggregate M4 ^{4.4}	Ann. % ch	6.2	5.1	11.8	9.3	:	:	:	9.8	6.9	:	6.6	7.7	:
Exchange rate MKD/EUR ^{4.5}	Value	61.60	61.57	61.51	61.51	61.67	:	:	61.69	61.70	61.69	61.70	61.69	61.69
Nominal effective exchange rate ^{4.6}	Index	100.5	101.4	103.3	103.0	:	:	:	103.9	105.0	:	105.4	105.1	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.96	1.78	1.54	1.46	1.38	:	:	1.39	1.39	1.39	1.41	1.38	1.39
Bond yield ^{5.2}	% p.a.	7.02	6.61	6.11	5.61	:	:	:	5.25	5.12	:	5.09	:	:
Stock markets ^{5.3}	Index	1,887	2,406	3,154	3,939	4,378	:	:	4,152	4,277	4,452	4,427	4,424	4,504
Credit Growth ^{5.4}	Ann. % ch	4.0	2.4	6.6	7.2	:	:	:	6.1	7.5	:	6.8	5.5	:
Deposit growth ^{5.5}	Ann. % ch	4.0	5.7	8.6	9.6	:	:	:	8.5	7.0	:	6.0	6.8	:
Non-performing loans ^{5.6}	% total	6.3	6.1	5.0	4.6	:	:	:	4.6	3.3	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-2.7	-2.7	-1.1	-2.2	-8.1p	-4.5	-3.2	-2.8	-1.5	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.9	39.4	40.6	40.2	51.1f	53.2	53.6	51.4	51.5	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

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

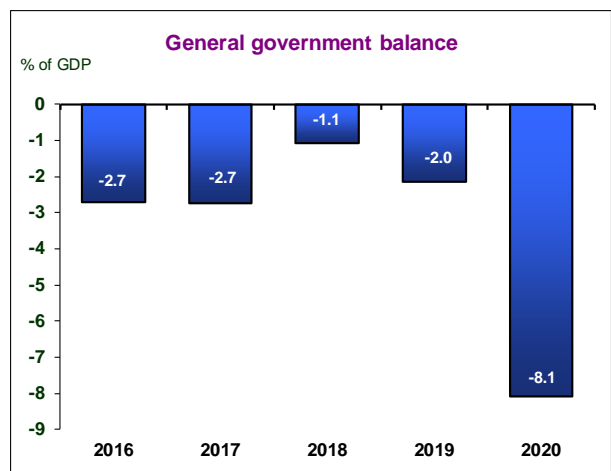
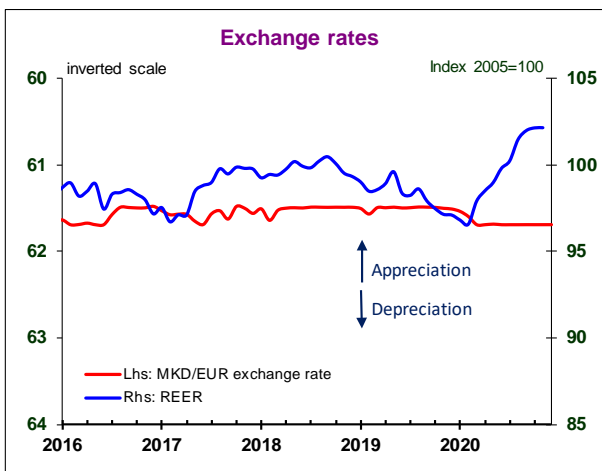
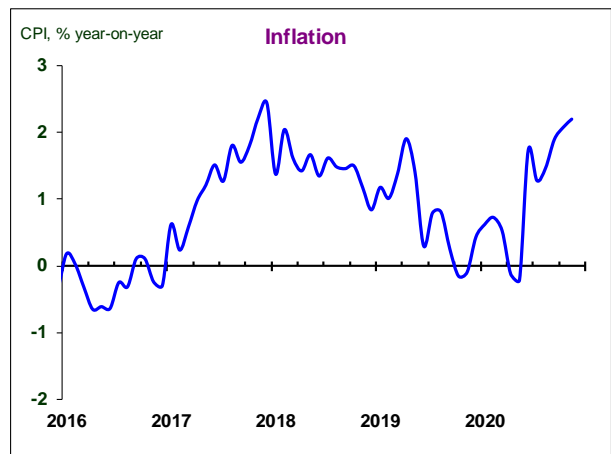
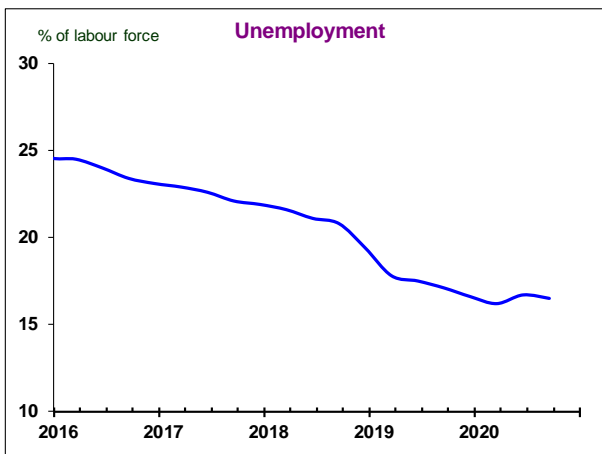
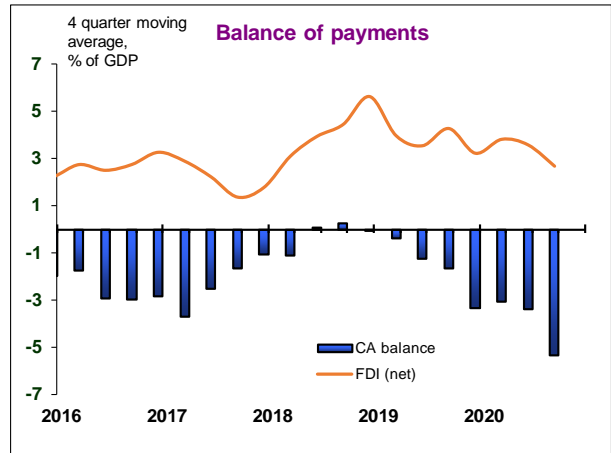
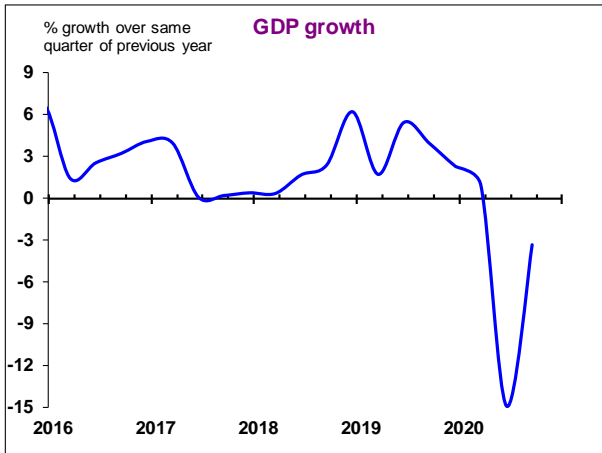
*** Q figures in percent of estimated annual GDP.

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European Commission, ECFIN-D-1



North Macedonia



SERBIA



Key developments

In October, the IMF completed the final review mission under the Policy Coordination Instrument before its expiry at the end of January. The Fund acknowledged the key role of monetary, financial and fiscal support in 2020 and invited Serbia to sustain the economic recovery while maintaining fiscal responsibility in 2021 and to accelerate structural reforms.

In November, Parliament adopted the second 2020 amending budget, projecting a deficit of 8.8% of GDP. On 10 December, Parliament adopted the 2021 budget targeting a deficit of 3% of GDP. Assuming real GDP growth of 6%, the budget projects revenue to grow by 3.5% and expenditure to decrease by 14.6%.

On 10 December, the central bank trimmed its key policy rate by 25 basis points to 1.0% bringing total rate cuts in 2020 to 125 bps.

On 30 December, the sale of formerly state-owned Komercijalna Banka to NLB was finalised.

Real sector

Economic activity recorded a strong q-o-q rebound in Q3 2020, reflecting the recovery from the spring 2020 lockdown period. Thus, the year-on-year decrease of real GDP was limited to 1.4% after having contracted by 6.3% in Q2. Private consumption, government consumption and gross fixed capital formation fell by relatively moderate 0.9%, 1.0% and 5.5% y-o-y. The contraction of exports by 8.5% y-o-y largely exceeded the 2.7% contraction of imports, resulting in a strongly negative contribution of net exports to GDP growth, which was however broadly offset by a strong positive contribution from changes in inventories. On the supply side, an 18% y-o-y reduction of construction activity (mainly due to a strong base effect from the Balkan Stream gas pipeline in Q3-2019) contributed substantially to the overall annual fall in output in Q3-2020. Professional, scientific, technical, administrative and support activities (-7.9%), arts, recreation and other services (-11.1%), as well as wholesale and retail trade, transportation and storage, accommodation and food service activities (-3.0%) also still recorded significant y-o-y

declines in Q3-2020. These were however largely offset by substantial year-on-year increases in manufacturing and mining activities (+3.2%), agriculture (+4.5%) as well as information and communication (+6.0%).

Some short-term indicators suggest that economic activity, following further recovery in September, has slowed down considerably in the autumn, in particular in November, in line with increasing epidemiological restrictions. Industrial production grew by 4.6% y-o-y in September and 1.9% y-o-y in October before declining by 1.4% y-o-y in November. The year-on-year growth of real retail trade decelerated from 7.7% in September, to 6.3% in October and to 1.1% in November.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and above increased by 1.9 pps. q-o-q to 9.0% in Q3 2020. This was mainly the result of a strong increase in the active population as many people that had refrained from looking for employment during the spring lockdown returned to the labour market in Q3. Thus, while the population 15+ decreased by 0.1% q-o-q, the labour force increased by 5.3% q-o-q and the inactive population decreased by 6.0%. Employment increased by 3.2% q-o-q, thereby broadly recovering its level of Q3-2019 (-0.1% y-o-y). After a strong contraction in Q2, the q-o-q employment increase was particularly strong in the informal sector (+17.9%), while still recording a 7.8% decrease y-o-y. Formal employment, that had remained broadly stable in Q2, grew more moderately by 0.6% q-o-q in Q3-2020 (1.7% y-o-y).

The growth of registered employment accelerated to 2.0% y-o-y and 1.4% q-o-q in Q3 2020. Annual employment growth remained positive in most sectors and was particularly strong in mining and quarrying (11.1%), information and communication (9.8%) and construction (9.0%). Manufacturing employment grew 3.1%, particularly driven by motor vehicles, while employment in trade activities recorded a rebound by 2.6% y-o-y after stagnation in Q2. Employment in the energy sector and administrative and support services decreased by 4.7% and 5.2%, respectively. The

number of registered unemployed decreased by 3.1% y-o-y in December 2020. The growth in nominal net wages stood at 9.2% y-o-y in October 2020 while real net wages grew by 7.3% y-o-y.

External sector

In the period January to October 2020, the current account deficit decreased substantially by 29.0% y-o-y in euro terms. Over the four quarters to September 2020, it stood at 6.1% of GDP, compared to 6.9% of GDP in 2019. The narrowing of the current account in January to October 2020 was the net result of a lower primary income deficit (-42.2% y-o-y, mainly due to lower reinvested earnings), a higher services trade surplus (+13.8% y-o-y) and a lower merchandise trade deficit (-2.4% y-o-y), that were partially offset by a lower secondary income surplus (-12.6% y-o-y, mainly due to lower remittances).

External trade of goods recovered further in September, October and November, reaching mainly positive y-o-y growth rates of 4.7%, 2.3% and 2.1% for exports and 8.5%, -2.7% and 5.6% for imports. Cumulative exports and imports of goods over the first eleven months remained however 4.4% and 3.5% below the same period of 2019, respectively.

Net FDI inflows decreased by 34.5% y-o-y in January to October 2020, still covering 116% of the same period's current account deficit.

Monetary developments

After peaking at around 2% in July, annual consumer price inflation gradually decelerated in Q3 and Q4 to 1.7% in November, before declining to 1.3% in December, slightly below the lower bound of the central bank's target tolerance band of 3% +/-1.5 pps. The fall in annual inflation in December 2020 was mainly due to a base effect from a strong increase in December 2019. Average annual inflation in 2020 turned out at 1.6%. Core inflation (excluding energy, food, alcohol and tobacco) picked up gradually from a trough at 1.7% y-o-y in September to 2.1% in December. On 10 December, the central bank (NBS) cut its key policy rate by 25 bps to 1.0%. It remained an active participant on the foreign exchange market by selling a net EUR 100 million in October and thereafter buying a net EUR 115 million in November and a net EUR 170 million in December, reducing total net sales in 2020 to EUR 1450 million. After a slight EUR 20

million increase in October to 13.1 billion, NBS foreign exchange reserves decreased to EUR 12.8 billion in November before rising substantially to 13.5 billion in December, largely due to the EUR 395 million inflow from the Komercijalna Banka sale. NBS foreign exchange reserves continue to cover more than 6 months of imports of goods and services.

Financial sector

In November, domestic claims of the banking sector increased by 11.5% y-o-y. The growth of claims on the NBS declined further from 16% in September to 10% in November. The annual growth of credit to households decelerated from 14.3% in September to 12.7% in November whereas the growth of credit to companies recorded a steady decline from 11.9% to 9.8% during the same period. The loan-to-deposit ratio stood at 88.1% at the end of October. The ratio of non-performing loans decreased slightly further in Q3 2020 to 3.4%, from 3.7% in Q2. The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) decreased by 0.3 pps. to 22.4% in Q3 2020. As regards the evolution of liquidity ratios in Q3, the share of liquid assets to total assets broadly stabilised (36.8%, -0.1 pp. q-o-q) while the share of liquid assets to total short-term liabilities decreased slightly (50.4%, -0.3 pps. q-o-q).

Fiscal developments

The crisis has taken a heavy toll on public finances, deteriorating strongly the fiscal balance as a result of revenue shortfalls and expenditure increases. Thus, while partially recovering the lost ground in the second half of the year, total revenue was still lower by 1.8% y-o-y in January to November 2020, particularly negatively impacted by lower receipts from non-tax revenue (-6.8%) social contributions (-2.2%), and corporate income tax (-4.0%). Notwithstanding some deceleration, total expenditure growth still reached 18.1% y-o-y in the same period, with particularly significant increases for subsidies (+127.5%), other current expenditure (+100.6 %), goods and services (17.5%), expenditure for employees (11.2%) and capital expenditure (16.2%). As a result, in January-November 2020, the budget recorded a deficit of RSD 353.2 billion (6.4% of the annual GDP projected by the Ministry of Finance), as compared with a 0.8% of GDP surplus in the same period of 2019. In November, government debt stood at 56.8% of the estimated full-year GDP, up from 52.0% at end-2019

TABLE

European Commission, ECFIN-D-1



SERBIA

		2016	2017	2018	2019	2020	ECFIN 2020 Autumn forecast		Q2 20	Q3 20	Q4 20	Oct 20	Nov 20	Dec 20
							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	:	:	:	-7.8	3.1	:	1.9	-1.4	:
Gross domestic product ^{1.3}	Ann. % ch	3.3	2.1	4.5	4.2	-1.8f	4.8	3.8	-6.3	-1.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.9	2.2	3.1	3.5	-2f	4.2	2.6	-8.2	-0.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.1	6.6	17.5	17.2	-8.5f	13.5	6.6	-12.9	-5.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.1	9.3	9.6	32.3	:	:	:	0.0	-17.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	8.0	3.8	4.1	9.7	:	:	:	-0.1	6.1	:	6.3	1.1	:
2 Labour market														
Unemployment ^{2.1}	%	15.3	13.5	12.7	10.4	9.3f	9.6	9.0	7.3	9.0	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	5.6	2.8	1.4	2.4	-0.6f	1.4	0.8	-2.5	-0.1	:	3.4	2.5	:
Wages ^{2.3}	Ann. % ch	3.8	4.0	4.3	10.5	:	:	:	8.7	9.5	:	9.2	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	11.6	12.1	8.2	7.7	:	:	:	-20.0	-1.2	:	2.3	2.1	:
Imports of goods ^{3.2}	Ann. % ch	6.1	13.6	13.0	8.9	:	:	:	-20.3	-1.1	:	-2.7	5.6	:
Trade balance* ^{3.3}	% of GDP	-9.9	-11.1	-13.1	-14.4	-10.5f	-11.0	-10.7	-13.7	-13.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	48.5	50.5	50.8	52.0	:	:	:	49.2	48.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	53.3	57.1	59.1	60.9	:	:	:	58.3	57.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-5.2	-4.8	-6.9	-5.8f	-6.0	-5.2	-6.4	-6.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.2	6.2	7.4	7.6	:	:	:	6.9	5.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	10,204.6	9,961.7	11,261.8	13,378.5	:	:	:	13,956.2	13,030.3	:	13,050.1	12,843.6	:
Int. reserves / months Imp ^{3.9}	Ratio	6.2	5.4	5.4	5.7	:	:	:	6.2	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	1.8	1.8	1.0	1.9	1.6	1.8	1.7	1.3
Producer prices ^{4.2}	Ann. % ch	-0.4	3.4	2.2	0.7	-1.8	:	:	-3.3	-2.0	-2.1	-2.2	-2.4	-1.8
Food prices ^{4.3}	Ann. % ch	-0.3	3.3	1.9	2.6	:	:	:	2.3	3.8	:	3.4	3.1	:
M3 ^{4.4}	Ann. % ch	11.6	3.6	14.5	8.4	:	:	:	19.0	18.8	:	18.4	17.6	:
Exchange rate RSD/EUR ^{4.5}	Value	123.09	121.41	118.27	117.86	117.58	:	:	117.58	117.59	117.58	117.58	117.57	117.58
Nominal effective exchange rate ^{4.6}	Index	66.1	67.3	69.7	69.2	69.6	:	:	69.1	69.9	70.2	70.0	70.1	70.5
5 Financial indicators														
Interest rate (BELIBOR) ^{5.1}	% p.a.	3.44	3.41	2.96	2.52	1.19	:	:	1.17	1.02	0.99	1.02	1.02	0.94
Bond yield (7 year) ^{5.2}	% p.a.	8.28	5.45	5.00	3.86	:	:	:	2.69	2.69	:	2.69	:	:
Stock markets ^{5.3}	Index	1,383	1,584	1,562	1,583	1,543	:	:	1,489	1,489	1,516	1,496	1,518	1,534
Credit growth ^{5.4}	Ann. % ch	2.5	1.9	9.4	9.1	:	:	:	13.4	15.1	:	13.8	13.4	:
Deposit growth ^{5.5}	Ann. % ch	11.4	3.3	15.3	8.5	:	:	:	18.6	18.3	:	17.9	17.1	:
Non-performing loans ^{5.6}	% total	17.0	9.8	5.7	4.1	:	:	:	3.7	3.4	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.2	1.1	0.6	-0.2	-8.9f	-2.9	-2.5	-4.7	-0.9	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	67.5	59.2	53.7	52.1	61.5f	60.7	59.6	57.6	57.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

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

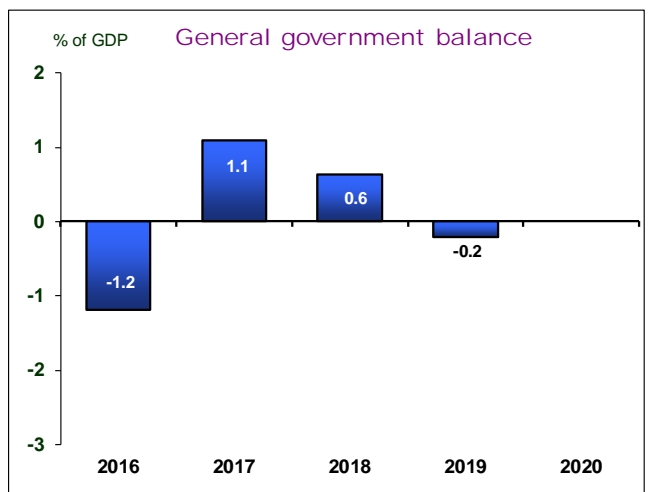
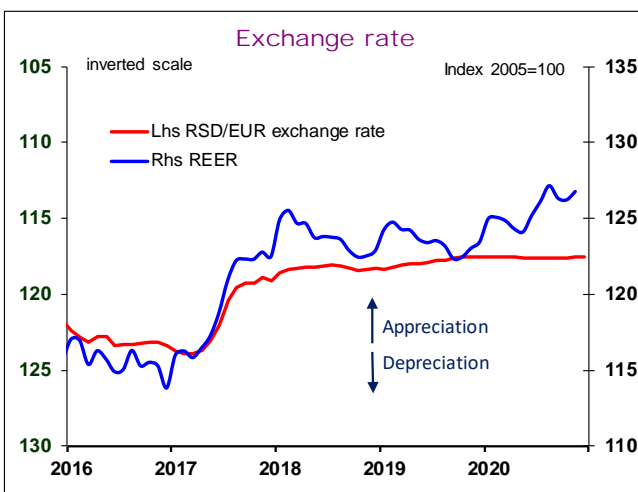
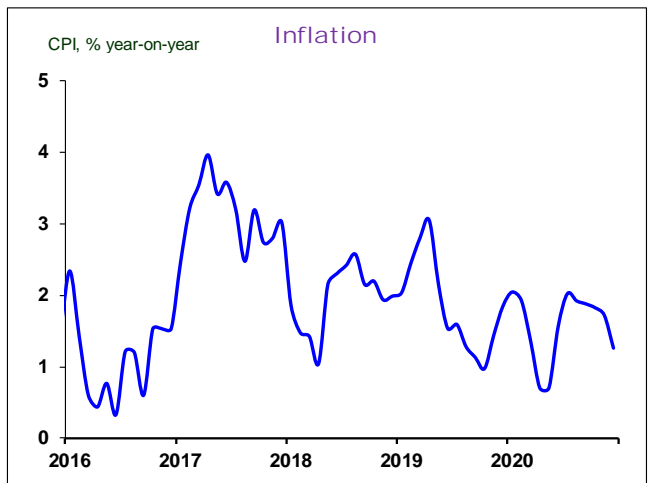
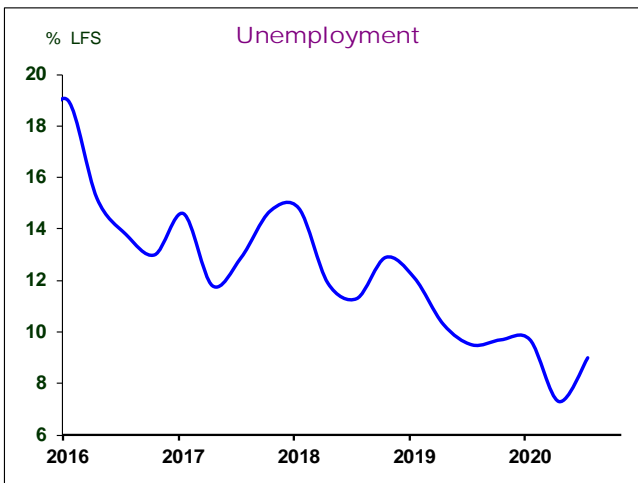
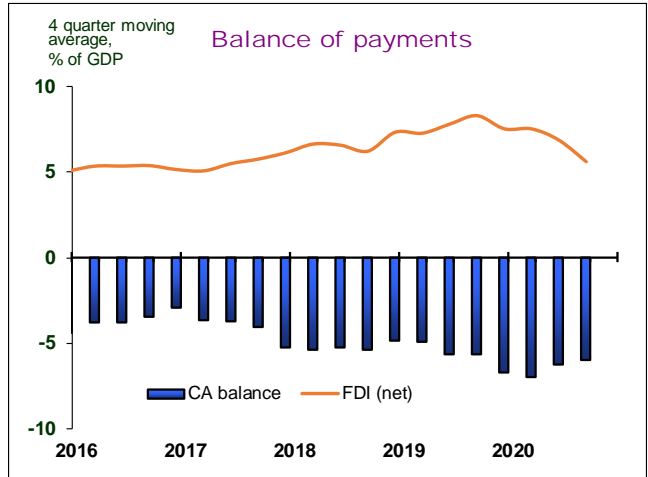
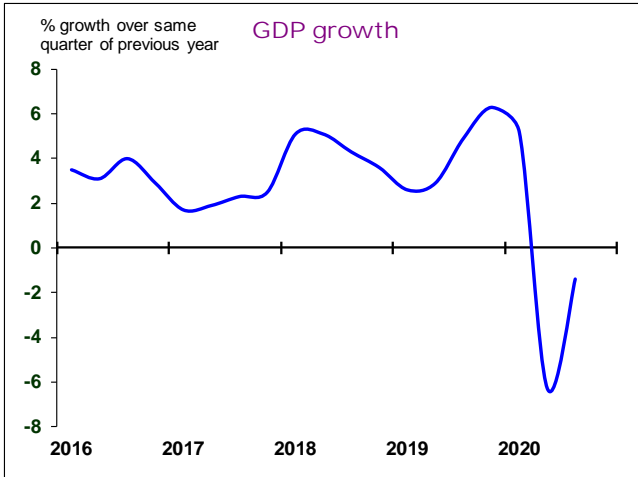
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA





Key developments

In November, the President dismissed the central bank governor and appointed Mr Naci Ağbal, the former head of the Presidency of Strategy and Budget, as the new governor. This triggered the resignation of the finance minister and the appointment of Mr Lütfi Elvan as a new finance minister.

In December, the European Council reconfirmed its offer of a positive EU-Turkey agenda. However, it also invited the Council to adopt additional measures in view of Turkey's unauthorised drilling activities in the Eastern Mediterranean. The High Representative and the Commission were invited to submit a report by March 2021 on the EU-Turkey political, economic and trade relations and on instruments and options on how to proceed.

In mid-December, in view of Turkey's purchase of the Russian S-400 surface-to-air missile system, and pursuant to the Countering America's Adversaries Through Sanctions Act, the United States imposed sanctions on Turkey's Presidency of Defence Industries.

At the end of December, Turkey and the United Kingdom (Turkey's second biggest export market) signed a free trade agreement, covering agricultural and industrial goods.

Real sector

After a sharp drop in Q2 (-9.9% y-o-y), economic activity rebounded strongly in Q3 to above its pre-crisis levels. Real GDP increased 6.7% y-o-y, as forceful measures, mainly on the monetary policy side, have supported a broad-based expansion of domestic demand. Resident households' consumption grew by 9.2% y-o-y, while gross fixed capital formation surged 22.5%, both benefiting from concessional lending and base effects. The contribution of change in stocks to growth remained sizeable for a third quarter in a row (7.8 pps. in Q3). Government consumption increased by 1.1% y-o-y, providing only a marginal support to growth. Despite some softening of lockdown measures during the summer, external demand remained subdued, in particular for international travel and tourism services. As a result, the

quarterly recovery of exports of goods and services was limited and although improving from the 36.3% y-o-y fall in Q2, exports declined 22.4% y-o-y in Q3. The outsized domestic demand, contributing 18.5 pps. to the Q3 y-o-y GDP growth, triggered a large import growth (15.8% y-o-y in Q3) and net exports' contribution to growth remained strongly negative at -11.8 pps. On the production side, economic activity rebounded markedly in industry (8.0% y-o-y), manufacturing (9.3% y-o-y), and construction (6.4% y-o-y), the last one also influenced by strong base effects. The sectors benefitting the most from the lockdown measures and the authorities' policy response were again information and communication (15.0% y-o-y) and financial and insurance activities (41.1% y-o-y), which even accelerated their growth performance compared to Q2.

The budding economic recovery in the summer months has firmed up in early autumn, although it remained patchy, with important sectors still below their pre-crisis level, and some signs of weakening activity in December. Since its trough in April (78.8), the seasonally and calendar adjusted industrial production index increased steadily until November (128.2). Retail sales grew strongly in Q3 and extended their growth into October and November (10.7% y-o-y). Capacity utilisation in manufacturing increased further and stayed above 75 in the last quarter of the year. However, it inched down in December to 75.6, as new lockdown measures entered into force to counter the second COVID-19 wave. Manufacturing PMI declined as well to 50.8 in December. The overall economic confidence has declined since October as consumers reassessed their financial situation and propensity to spend on durable goods, and as construction, retail trade and other service sectors' confidence indexes declined.

Labour market

Some of the measures to soften the pandemic impact on the labour market were extended again – the prohibition of employment cancellation until mid-March and the provision of short-time work allowances to employees until end-February.

The labour market remained weak despite a slight improvement over the summer. In October, the unemployment rate (15-64 years) was 13%, or at its lowest in about two years. However, both employment and labour force participation remained far below their pre-crisis levels. The labour force participation rate was down 2.9 pps. y-o-y to 55.7% in October, while employment decreased 3.2% y-o-y in Q3 and 2.8% y-o-y in October. In spite of employment increases in most of the sectors in Q3, supported by the softening of lockdown measures and rising economic activity, there were notable annual employment gains only in construction (9.1% y-o-y), information and communication (5.1%), financial and insurance activities (6.6%), and utilities (8.5%). Employment declined in most other sectors, but particularly strongly in accommodation and food service (-18.0% y-o-y) and entertainment (-28.0% y-o-y). Government employment protection measures continued to heavily influence labour market data, and the number of people with inadequate employment or time-related underemployed increased above 2 million, to 6.7% of the labour force in October.

External sector

Driven mainly by a larger trade deficit and lower exports of services, the 12-month moving current account deficit increased to USD 38.0 billion (5.6% of GDP) at the end of November, compared to a surplus of 0.9% of GDP in 2019 as a whole. Exports of goods have recovered from the slump earlier in the year and continued expanding in Q4 – after a particularly strong performance in December, preliminary Q4 data show a record high quarterly level of exports. Notwithstanding the pandemic, record levels of exports of goods were registered in the trade with 44 countries in 2020. Imports of goods remained strong as well, growing at double-digits in the last quarter of 2020. Despite a relative stabilisation of the lira since early November, net gold imports remained high, more than doubling in the period January-November, and contributed to around 60% of the current account deficit in this period. The decline in service exports slightly decelerated since the spring but remained significant at 48.7% y-o-y in January-November.

Monetary developments

Inflation picked up in the last quarter of 2020, ending the year at 14.6% y-o-y. Food prices remained the main inflationary force and, driven by unprocessed food prices, stood above 20% y-o-y in November and December. Past

depreciation of the lira seeped into core inflation, which increased as well to 14.3% y-o-y by the end of the year. Although going up as well, energy (5.6% y-o-y) and service (11.7% y-o-y) inflation remained noticeably lower. Inflation expectations (12-month ahead annual inflation) crawled up to 10.91% in December. Under its new governor, the central bank significantly tightened its stance and simplified its monetary policy framework, returning to the use of the one-week repo operations as the main conduit for providing funding to the banks. Responding to the rising inflationary and exchange rate pressures, the central bank increased its policy rate from 10.25% in October, to 15% in November and to 17% in December. These steps, along with the reduction of external risks linked to EU and USA sanctions, have helped arrest exchange rate tensions – the lira even gained some 12% against the USD since its trough in early November – while Turkey's 5-year CDS spread declined by 250 bps to 305.

Financial sector

The authorities continued taking steps to lift or soften some of the measures introduced during the pandemic. In November, the restrictions on commercial banks' derivative operations and the limits on lira transactions with non-resident financial institutions were eased, while the asset ratio requirement was repealed completely (effective as of end-2020). In view of the still weak economy, the authorities have also prolonged a number of supervisory decisions, including the extension of the non-performing loans classification period from 90 to 180 days until mid-2021. Because of the gradual withdrawal of the monetary stimulus, real bank lending growth started to slow down – in the households segment already since September and corporate lending since November. The still strong credit growth, however, suppressed the NPL ratio down to 4.0% in November.

Fiscal developments

Tax revenue remained strong in the autumn, keeping the cumulative central budget deficit broadly unchanged – in January-November it reached TRY 132 billion (2.7% of the estimated annual GDP). Higher current transfers and capital spending in the last few months lifted primary spending growth to 16.9% y-o-y in the same period, while interest payments remained sizeable, increasing 34.8% y-o-y. In September, government debt stood at 41.3% of GDP (up from 32.6% of GDP at the end of 2019).

TABLE



TURKEY

European Commission, ECFIN-D-1

		2016	2017	2018	2019	2020	ECFIN 2020 Autumn forecast		Q2 20	Q3 20	Q4 20	Oct 20	Nov 20	Dec 20
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Index	105.2	108.0	101.4	100.4	98.2	:	:	78.8	104.1	106.3	108.1	103.9	106.8
Industrial production ^{1.2}	Ann. % ch	3.4	9.1	1.1	-0.6	:	:	:	-16.7	8.5	:	9.6	8.7	:
Gross domestic product ^{1.3}	Ann. % ch	3.3	7.5	3.0	0.9	-2.5f	3.9	4.5	-9.9	6.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.7	5.9	0.5	1.5	-0.7f	2.5	2.8	-8.8	9.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.2	8.3	-0.3	-12.4	-6.4f	2.0	7.8	-6.2	22.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	17.4	65.5	-34.6	-40.8	:	:	:	159.5	116.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.2	5.7	2.1	-0.2	:	:	:	-12.3	9.1	:	12.4	11.9	:
2 Labour market														
Unemployment ^{2.1}	%	11.1	11.1	11.2	14.0	13.7f	14.1	14.1	13.3	13.4	:	13.0	:	:
Employment ^{2.2}	Ann. % ch	2.2	3.5	1.8	-2.4	-4.3f	3.6	4.3	-8.0	-3.2	:	-2.8	:	:
Wages ^{2.3}	Ann. % ch	21.5	9.3	18.3	26.2	7.7f	10.0	14.4	29.0	10.0	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-0.5	9.8	7.8	2.1	:	:	:	-26.8	-3.1	:	8.5	0.0	:
Imports of goods ^{3.2}	Ann. % ch	-4.8	17.7	-3.2	-8.8	:	:	:	-17.0	10.2	:	11.4	15.9	:
Trade balance ^{3.3}	% of GDP	-4.6	-6.8	-5.2	-2.2	-3.1f	-2.2	-3.8	-3.8	-4.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.1	26.0	31.2	32.7	:	:	:	30.0	28.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	25.2	29.7	31.3	29.9	:	:	:	30.1	30.8	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-3.1	-4.7	-2.8	0.9	-4.0f	-2.0	-2.1	-1.9	-4.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	1.2	1.0	1.2	0.8	:	:	:	0.7	0.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	106.1	107.7	93.0	105.7	:	:	:	86.3	79.7	:	84.5	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.8	5.1	4.5	5.6	:	:	:	4.6	4.2	:	4.5	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	7.8	11.1	16.3	15.2	12.3	11.7	9.2	11.7	11.8	13.5	11.9	14.0	14.6
Producer prices ^{4.2}	Ann. % ch	4.3	15.8	27.0	17.6	12.2	:	:	6.1	11.4	22.2	18.2	23.1	25.1
Food prices ^{4.3}	Ann. % ch	5.8	12.7	18.0	19.5	13.8	:	:	12.4	13.7	19.4	16.5	21.1	20.6
M4 ^{4.4}	Ann. % ch	17.2	15.5	19.3	28.5	33.0	:	:	39.1	41.4	33.0	42.9	40.2	33.0
Exchange rate TRY/EUR ^{4.5}	Value	3.3	4.15	5.68	6.35	8.10	:	:	7.59	8.66	9.30	9.60	9.30	9.01
Nominal effective exchange rate ^{4.6}	Index	58.6	47.90	36.12	31.34	:	:	:	26.63	24.30	:	21.91	21.61	:
5 Financial indicators														
Interest rate (3 months-TRLIBOR) ⁵	% p.a.	10.37	12.81	19.85	20.66	11.25	:	:	8.45	10.60	15.67	14.14	16.25	16.64
Interest rate, long term ^{5.2}	% p.a.	10.19	11.11	15.88	15.76	12.75	:	:	12.66	13.47	13.15	13.69	12.79	12.97
Stock markets ^{5.3}	Index	772	990	1,019	993	1,134	:	:	1,030	1,124	1,273	1,167	1,264	1,389
Credit growth ^{5.4}	Ann. % ch	16.2	21.2	13.1	10.8	35.4	:	:	28.7	40.0	35.4	43.2	40.4	35.4
Deposit growth ^{5.5}	Ann. % ch	17.7	17.7	22.1	24.0	35.4	:	:	35.7	45.0	35.4	47.2	44.4	35.4
Non-performing loans ^{5.6}	% total	3.2	3.0	3.9	5.4	:	:	:	4.4	4.1	:	4.0	4.0	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.1	-2.8	-2.8	-3.0	-6.2f	-6.0	-5.3	-1.4	-0.2	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	28.0	28.0	30.2	32.6	41.4f	44.5	47.5	36.2	41.3	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

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

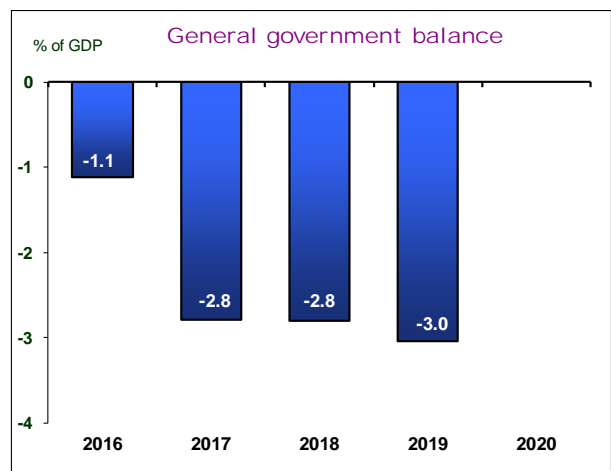
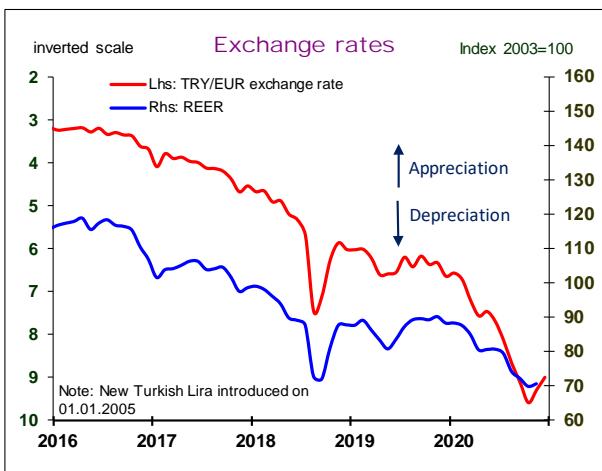
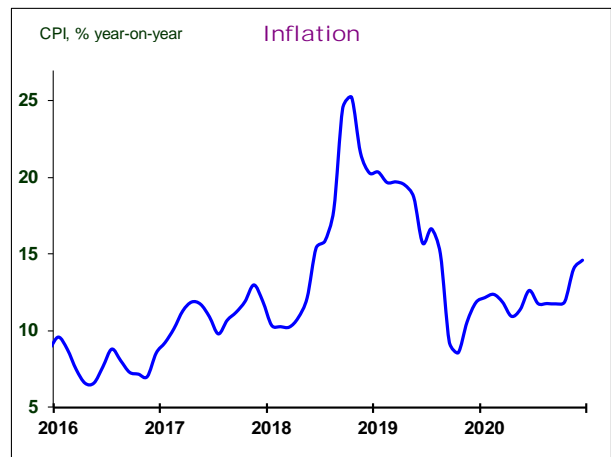
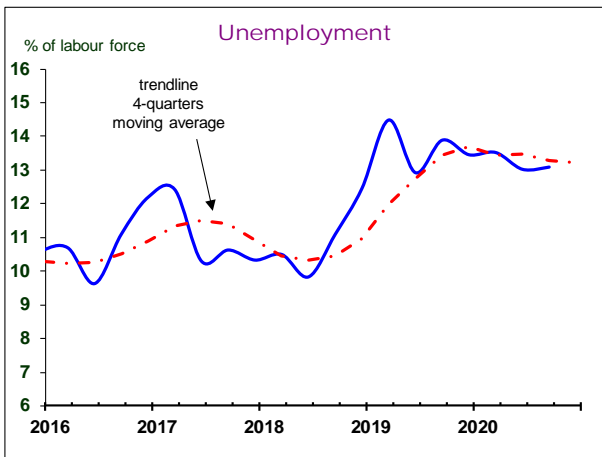
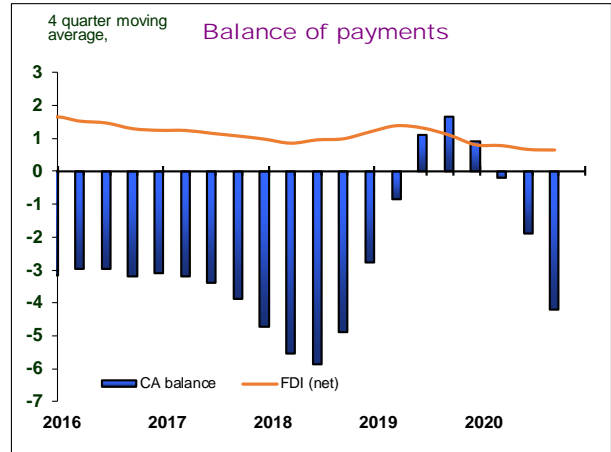
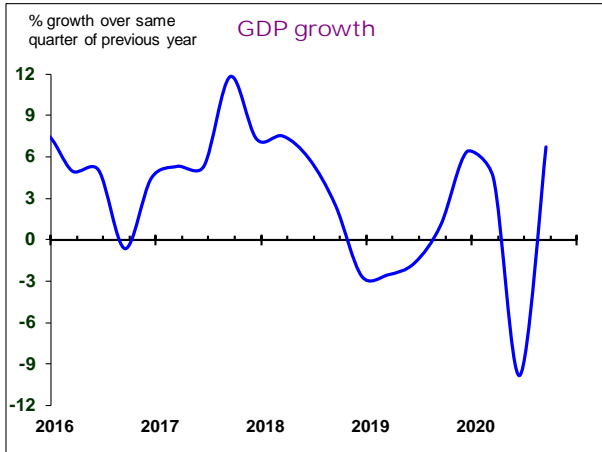
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

After a first, relatively benign wave of COVID-19 infections in spring, the number of new infections started to increase in October and reached a peak in early November. Since then, the rate on newly infected persons has been declining again to 100 new daily infections per million inhabitants in early January, while increasing again to around 140 cases in mid-January. This level is still slightly higher than during the summer months. Mortality rates are among the highest in the region.

The Minister of Finance and Treasury of Bosnia and Herzegovina, Mr. Bevanda, and EU Commissioner Mr. Gentiloni, signed the Memorandum of Understanding for the EU's Macrofinancial Assistance, which in the context of the EU's COVID-related balance-of-payment support could provide a loan of up to EUR 250 million, subject to the fulfilment of some policy conditions.

Real sector

In Q3, economic activity bounced back to some extent, with seasonally adjusted economic output being 3.9% higher than in the previous quarter. The main factors for the quarter-on-quarter growth were increases in private consumption and exports, recovering part of the losses of the first half of 2020, while the rebound of investment was less pronounced. Compared to the same quarter a year before, economic output was still 6.3% lower in Q3, although the year-on-year drop in economic activity moderated compared to the 9.3% fall in Q2. In the first three quarters of 2020, economic output was 4.7% lower than a year before, mainly due to weaker exports and lower investment and private consumption. When looking at the production side, the drop in economic activity was mainly a result of lower output in the trading and service sector, such as tourism, but also due to weaker manufacturing, reflecting the drop in exports.

High-frequency data, such as industrial production, show a similar picture, with a less pronounced decline in recent months, in particular when compared to the sharp output drops in April and May. In October and November, industrial output was less than 2% lower than a year before. However, when

looking at the first 11 months of 2020, industrial output was 7% lower than in 2019. Retail sales show a similar pattern, with a sharp drop in April by nearly one third and a partial recovery since then, with monthly sales being 7.3% lower in November than a year before.

Labour market

The level of registered employment fell by 2.1% y-o-y in Q3, after a similar decline by 2.2% y-o-y in Q2. In October, the drop in employment was a bit stronger, at 2.7%, compared to 1.9% the month before. In absolute numbers, employment was about 22 500 persons lower in October, compared to a year before. The main contributors to this drop were retail trade, accommodation and food services and manufacturing. By contrast, in several sectors, in particular in health, but also construction, registered employment was slightly higher than a year before.

In October, the number of registered unemployed was some 13 000 persons higher than a year before. This brought the administrative unemployment rate to 33.9% in October, following a peak of 34.7% in August, and compared to 32.6% a year before. According to Labour Force Survey data, the unemployment rate was at 16.0% in Q2, compared to 15.7% a year before. Youth unemployment remained about twice as high as the overall rate, at 38.6% in Q2. The share of long-term unemployed in the total labour force, i.e. of persons without employment for more than 12 months, is still at around three quarters of the total.

The annual growth of nominal gross wages remained quite robust, at 3.9% in Q3, and still 3.1% in October. In view of a continued decline in the price level, real average gross earnings remained to be 4-5% higher than a year before.

External sector

The current account deficit increased to 3.8% of GDP in the four quarters to September, up by 1 pp. compared to the previous quarter. The main factors were lower revenues from services exports, such as tourism, which outweighed a lower merchandise trade deficit, resulting from lower commodity imports. The balances of primary and secondary income remained largely unchanged.

Trade data points to a sharp slowdown in merchandise imports, dropping by 12.2% y-o-y in Q3, a trend that continued in October and November, when imports of goods declined by 6.3% and 10.8% respectively. At the same time, the drop in exports of goods decelerated to 7.9% y-o-y in Q3. In October and November, the consolidation of external commodity demand continued. The main reason for the recovery of export demand in October and November were stronger exports to Hungary and Kosovo, while exports to Germany and Italy remained weak.

Net FDI inflows remained stable at around 1.2% of GDP in the year to Q3-2020, largely consisting of reinvested earnings. Official foreign reserves continued to increase in Q3, while partly due to lower import levels, the import coverage ratio rose markedly to some 9.4 months.

Monetary developments

In Q3, the overall level of consumer prices was 1.4% lower than a year before, compared to a 1.6% drop in Q2. This trend continued in October and November, with consumer prices decreasing by 1.6% in both months. During the first 11 months of 2020, overall consumer prices were on average 1% lower than a year before. The main factors continued to be a strong drop in prices for transport, which accounts for about 13% of the consumer basket, as well as falling prices for clothing and footwear, accounting for 5% of the consumer basket. However, prices for food and non-alcoholic beverages, accounting for nearly one third of the consumer basket still rose by about 1% y-o-y during September - November, adding 0.3 pps. to the change in the overall price level.

The annual growth of the monetary aggregate M2 accelerated again, from 6.3% in Q2 to 6.9% in November.

Financial sector

Overall, the financial sector weathered the COVID-19 crisis well so far. However, annual domestic credit growth decelerated further, dropping to 0.4% in Q3 and declining by 0.6% and 1.2% in October and November, respectively. The main factor behind this slowdown in those two months was a continued decline in corporate lending (by 3.7% and 4.2% y-o-y, respectively), while household lending largely stagnated. However, public sector credits accounting for some 4.6% of total loans rose by nearly 5% y-o-y in October-November.

Bank deposit growth remained relatively strong, increasing by 4.4% y-o-y in Q3, after a 5.2% rise in Q2. In October and November, deposits rose by 4.0% and 5.0%, respectively. Private enterprises and households were the main drivers for deposit growth. Thanks to the solid deposit growth, the loan-to-deposit ratio continued to decline, to 82% in November, compared to 87.2% a year before.

The share of non-performing loans in total loans, at 6.6%, remained largely unchanged in Q3 when compared to the previous quarter (6.7%), but was significantly lower than a year before, when it stood at 7.7%. The loan-loss provisions ratio remained largely stable at 80.5% of non-performing loans, compared to 80.8% in Q2. Banking sector profitability continued to deteriorate in Q3 as the return-on-equity (ROE) ratio declined to 7.0% in Q3, compared to 7.3% in Q1. The return on assets (ROA) remained stable at 0.9% in Q3. The banking system's overall capital adequacy ratio remained stable at 18.3% in Q3, compared to 18.4% in Q2, which is well above the country's regulatory minimum of 12%. However, there are sizeable differences among the countries' 23 banks, with some pockets of vulnerability remaining.

Fiscal developments

Public finances were hit markedly by the COVID-19 crisis. According to preliminary data, overall revenues dropped by about 4% y-o-y in the first nine months of 2020, mainly driven a drop in tax revenues by nearly 10%. This, however was partly compensated by other revenues, such as grants. Tax revenues were particularly weak in April and May, when they were some 25-30% lower than a year before. But also in August and September, tax receipts were 15-20% lower y-o-y. At the same time, expenditure rose by 10.3% y-o-y in January-September, mainly due to anti-crisis measures, but also because of higher spending on public sector wages, which rose by nearly 5.4% y-o-y in the first nine months. Overall, the general government's fiscal position turned from a surplus of 1.9% of GDP in 2019, to a deficit of 1.3% during the first three quarters of 2020. The measures which the authorities announced to mitigate the crisis impact on household and firms amount to some 4% of GDP. Public debt registered a marked increase in Q2 and Q3, which together with a lower nominal GDP lead to a rise in the debt ratio, from 32.2% at the end of 2019 to 37.7% at the end of Q3. The increase in Q3 was largely due to a rise in long-term debt (+1 pp.). About half of the new debt was denominated in domestic currency.

TABLE



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2016	2017	2018	2019	2020	Q2 20	Q3 20	Q4 20	Oct 20	Nov 20	Dec 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	4.4	3.1	1.6	-5.3	:	-14.0	-6.5	:	-1.8	-1.9	:
Gross domestic product ^{1.3}	Ann. % ch	3.4	3.0	3.1	2.9	:	-9.3	-6.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.3	1.6	1.4	2.4	:	-8.6	-3.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.3	7.8	8.1	3.8	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	49.8	-18.9	2.2	5.0	:	14.7	-19.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.0	5.1	8.2	5.2	:	-16.8	-10.8	:	-7.0	-7.3	:
2 Labour market												
Unemployment ^{2.1}	%	25.4	20.5	18.4	15.7	:	16.0	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.1	7.7	2.5	2.5	:	-2.2	-2.1	:	-2.7	:	:
Wages ^{2.3}	Ann. % ch	0.9	1.6	3.1	4.3	:	3.1	3.9	:	3.1	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	7.0	21.3	11.5	-2.3	:	-24.2	-7.9	:	0.6	-1.8	:
Imports of goods ^{3.2}	Ann. % ch	2.9	13.3	7.1	1.1	:	-27.2	-12.2	:	-6.3	-10.8	:
Trade balance* ^{3.3}	% of GDP	-22.8	-22.8	-22.0	-22.2	:	-19.9	-19.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	35.0	39.3	41.5	39.8	:	35.9	33.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	51.0	54.9	55.9	54.3	:	49.8	48.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.6	-4.7	-3.3	-3.0	:	-2.9	-3.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.8	2.2	2.9	1.9	:	1.1	1.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	m n EUR	4,884.1	5,392.9	5,962.3	6,453.2	:	6,662.9	6,812.6	:	6,873.7	6,890.1	:
Int. reserves / months Imp ^{3.9}	Ratio	7.2	7.1	7.3	7.8	:	8.8	9.4	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-1.1	1.3	1.4	0.6	:	-1.6	-1.4	:	-1.6	-1.6	:
Producer prices ^{4.2}	Ann. % ch	-0.9	79.2	3.2	0.4	:	-0.7	-0.7	:	-0.6	-1.8	:
Food prices ^{4.3}	Ann. % ch	-1.3	1.3	0.6	1.1	:	0.9	1.3	:	0.8	1.0	:
M2 ^{4.4}	Ann. % ch	8.3	9.5	9.4	8.9	:	6.9	6.3	:	6.6	6.9	:
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	97.0	96.4	97.1	95.8	:	94.5	94.7	:	95.8	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	692	627	621	772	769	716	788	794	799	800	782
Credit growth ^{5.4}	Ann. % ch	2.1	5.3	6.6	5.7	:	1.2	0.4	:	-0.6	-1.2	:
Deposit growth ^{5.5}	Ann. % ch	7.7	10.4	11.3	9.3	:	5.2	4.4	:	4.0	5.0	:
Non performing loans ^{5.6}	% total	12.3	10.9	9.3	7.9	:	6.7	6.6	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	1.2	2.5	2.2	1.9	:	-1.4	-0.3	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.0	34.7	33.4	32.2	:	37.4	37.7	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

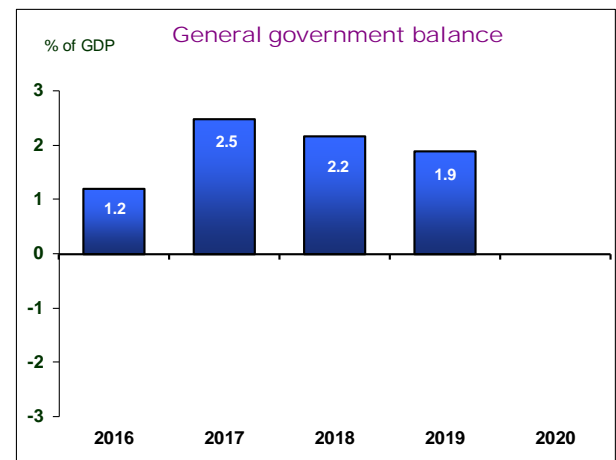
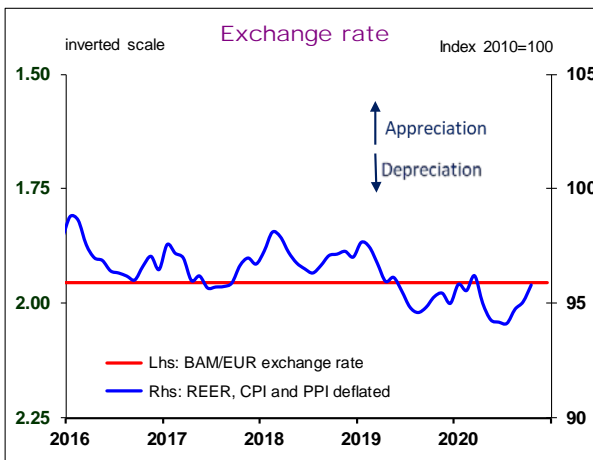
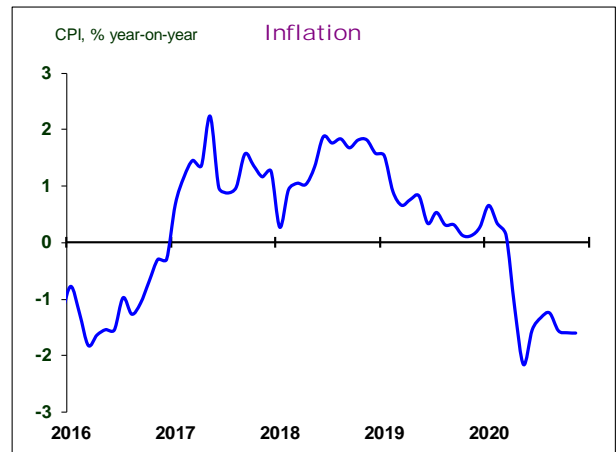
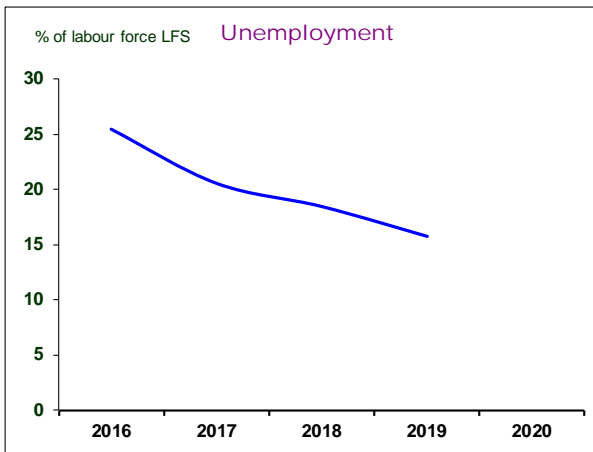
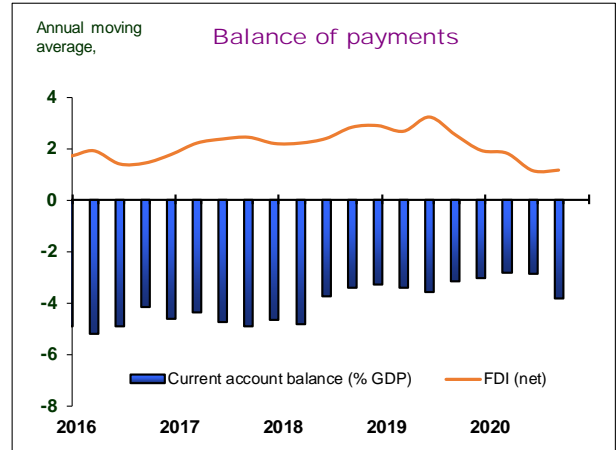
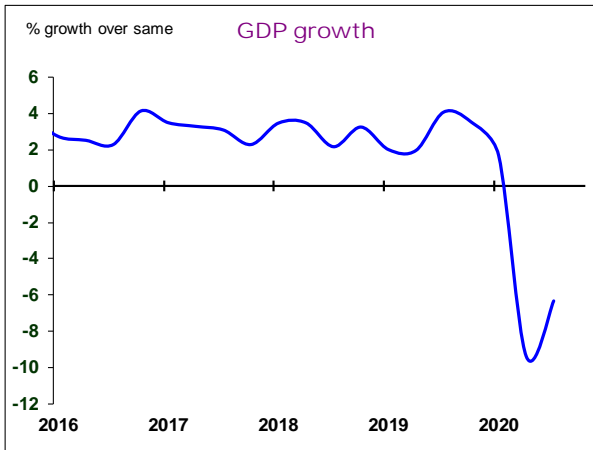
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

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

CHARTS



BOSNIA AND HERZEGOVINA





Key developments

On December 21, the constitutional court ruled that the election in early June of the current government led by the Democratic League of Kosovo was not in line with the constitution. This decision led to the dissolution of the Assembly and announcement of early elections, scheduled for February 14.

In late December, the Assembly of Kosovo approved in the second reading the Law on 2021 Budget. The budget expenditure is foreseen to be EUR 2.4 billion; however this projection does not take into account the additional fiscal stimulus (EUR 200 million) resulting from the Law on Economic Recovery – COVID-19 adopted in early December. The reason for adopting the 2021 budget, without aligning it with the Law on Economic Recovery – COVID-19, was to avoid disruptions to the financing of public institutions due to the stop of legislative work after the forthcoming dissolution of the Assembly.

Real sector

In Q3-2020, real GDP contracted by 7.5% y-o-y, which is somewhat less severe than the drop of 9.3% y-o-y in the previous quarter. This brings the average decline in the first nine months to 5.6% y-o-y. The main factor behind the contraction in Q3 was a sharp fall in exports (-51.9% y-o-y) which was driven by the ongoing collapse of export of services (-59.6% y-o-y), mainly tourism services to the diaspora. Investment continued to decline (10.2% y-o-y) while private and government consumption increased by 16.7% and 7% y-o-y, respectively. Notwithstanding the support to household income stemming from higher remittances and social transfers, the increase in private consumption seems very high and might point to data quality issues. The drop in GDP was mitigated by a fall in imports of goods and services (13.5% y-o-y).

On the production side, the largest losses in output took place in construction (16.8% y-o-y) and wholesale and retail trade, transport and accommodation and catering (16.9% y-o-y). The latter stands in sheer contradiction with an unexpected hike in private consumption.

Positive growth was recorded in industry (6.7% y-o-y), information and communication (3.6% y-o-y) and real estate activities (2.8% y-o-y).

Labour market

Due to the COVID-19 pandemic related disruptions, the results of the labour force survey (LFS) were published with large delays. The Q2 data show a heavy toll of crisis-related restrictions on labour market developments. The labour force participation rate fell to 33.2% from 41.9% in the same quarter of the previous year, and from 38.8% in Q1. The unemployment rate rose to 27.2% (up from 25% in Q1), and the employment rate fell to 24.1% (down from 29.1% in Q1). The wide gap between male and female employment rates (36.2% and 12.1% respectively) has slightly narrowed due to a more pronounced decline in male employment. The very high rate of youth unemployment (15-24 years) increased further to 54.1% from 46.4% in the previous quarter.

External sector

The current account deficit widened in Q3, with its 4-quarter moving average increasing to 8.6% of GDP from 4.8% in the previous quarter. The main driver was a severe contraction of service exports, which considerably outweighed an improvement in exports of goods and led to overall exports contracting to 21.1% of GDP from 26.8% in the four quarters to June. Workers' remittances increased by 18% y-o-y and stood at 13.6% of GDP in the four quarters to September. On the financing side, net inflows of FDI accounted for 3.5% of GDP (4-quarter moving average) from 3.7% in the previous quarter. Official reserve assets increased slightly and covered 3.1 months of imports of goods and services in Q3, even though the value of reserves dropped by 6% in November compared to October.

In January-November, total merchandise exports expanded by 20% y-o-y, due to strong performance of basic metals. In the same period, COVID-19 related disruptions led to a fall of good imports by 7% y-o-y. During January-November the overall merchandise trade deficit narrowed by 10.4% y-o-y.

Monetary developments

Annual inflation averaged 0.2% in January–November with negative monthly readings since July. Positive contribution to inflation came from food prices while the most significant negative contributions came from prices of transport services and consumption goods (clothing, household equipment) since August.

Import prices fell by 2.2% y-o-y in the first nine months due to lower prices for mineral products and textiles. Indices of construction and producer costs registered small declines of 0.6% and 0.8% y-o-y, respectively.

Financial sector

Despite the pandemic-induced slowdown, bank-lending growth continued to expand at some 7% y-o-y in January – October of 2020, which is lower than the average growth of 10.8% recorded in the past two years. In the same period, deposit growth averaged some 10.9%, but it slowed down during the year, to 8% y-o-y in September – October from more than 10% in April – August, mainly due to less dynamic performance of deposits by other financial corporations and households. The loan-to-deposit ratio in October stood unchanged from August at 78.3%.

The interest rate spread increased slightly to 4.9 pps. in October from 4.7 pps. in August. Financial soundness indicators in the banking sector remained stable and satisfactory. For the banking system as a whole, the ratio of liquid assets to short-term liabilities decreased to 36.1% in October from 37.3% in August, while the capital adequacy ratio improved somewhat to 16.9% from 16.5% over the same period, standing well above the regulatory minimum of 12%.

Due to the loan-reprogramming measures introduced by the Central Bank of Kosovo in June, the non-performing loan (NPL) ratio stood practically unchanged at 2.7% in October (slightly above the 2.5% rate in February), but there is no estimate of NPLs net of the impact of reprogramming measures. Existing NPLs were fully covered by loan loss provisions (138.7%) in October.

Fiscal developments

In early December with a delay of more than four months, the Assembly approved the Law on Economic Recovery – COVID-19, which was necessary to implement the economic recovery

programme foreseen in the revised budget of 2020. In addition to the recovery measures included in the 2020 revised budget (EUR 365 million), the adopted law brought a new ad hoc amendment to add further EUR 200 million (or around 3% of GDP) in support to the private sector. The additional package foresees support for businesses affected by the crisis, proposals to subsidise wages to employees that lost their jobs and the removal of VAT on all raw materials. The draft 2021 budget was prepared before the adoption of the additional package and does not fully take account of its fiscal implications. The full implementation of the package is thus likely to lead to a budget revision during 2021. The adopted 2021 budget foresees a deficit of 4.7% of GDP (according to the fiscal rule definition). Tax revenues are projected to increase by 7.2% y-o-y while total spending is set to decline by 6.3% y-o-y.

In January–November 2020, budgetary revenue fell by 10.3% y-o-y with income from direct and indirect taxes contracting by 9.5% and 10.8% y-o-y, respectively. This outcome is considerably worse than the revised budget assumption of 5.2% annual revenue contraction. Budget expenditure increased by 9.6% y-o-y, with diverging performances of some major categories. While social transfers at the general government level rose by 36%, total capital spending contracted by nearly 20% over the same period in 2019. The revised 2020 budget assumed a 37% annual increase in capital spending while the growth in transfers and subsidies was set at 8.2%. Total public investment amount spent by end-November represents only 39.5% of the revised budget allocation for the year as a whole. At the same time, the execution rate of the social transfer budget was exceeding its annual allocation by 11%.

The eleven-month general government deficit reached EUR 83 million (4.9% of projected annual GDP) while in 2019 over the same period it had a surplus of EUR 243 million.

In September, total public debt (including guarantees) stood at 19.9% of GDP compared to 18.2% in Q2. The MTEF projects the debt to GDP ratio to have reached 25.7% by the end of 2020. The main holders of domestic debt are Kosovo's pension fund, whose share increased to 46% from 33% a year ago, commercial banks (28%) and the Central Bank (22%). The government prepared a draft Law on public debt, which would allow debt to increase up to 50% of GDP (instead of the current ceiling of 40%) under exceptional circumstances.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2016	2017	2018	2019	2020	Q2 20	Q3 20	Q4 20	Oct 20	Nov 20	Dec 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-1.3	-1.3	-1.2	N.A.	:	N.A.	N.A.	N.A.	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.2	3.8	4.9	:	-9.3	-7.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	6.1	1.4	4.4	-0.1	:	3.5	16.7	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	7.5	5.6	8.1	5.7	:	-41.1	-10.2	:	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	:	0.6	-21.2	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	27.5	30.5	29.6	25.7	:	27.2	24.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	11.8	7.6	-3.4	5.2	:	-17.5	-3.6	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	1.8	1.7	5.7	7.9	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	-4.8	22.1	-2.8	4.4	:	15.0	7.1	:	56.6	29.4	:
Imports of goods ^{3.2}	Ann. % ch	5.9	9.2	9.8	4.5	:	-18.9	-9.3	:	0.8	2.7	:
Trade balance** ^{3.3}	% of GDP	-40.9	-41.6	-44.3	-43.8	:	-42.4	-41.9	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	% of GDP	22.2	26.5	26.4	29.1	:	26.8	21.1	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	% of GDP	50.6	52.7	55.6	56.1	:	54.8	53.5	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	% of GDP	-7.9	-5.4	-7.6	-5.6	:	-4.8	-8.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** ^{3.7}	% of GDP	2.9	3.3	3.4	2.7	:	3.7	3.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mnn EUR	895.2	939.4	933.9	937.1	:	921.3	936.9	:	931.3	878.3	:
Int. reserves / months Imp ^{3.9}	Ratio	3.5	3.3	2.9	2.8	:	2.9	3.1	:	3.1	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	0.3	1.5	1.1	2.7	:	0.2	-0.3	:	-0.2	-0.3	N.A.
Producer prices ^{4.2}	Ann. % ch	-0.1	0.6	1.4	0.9	:	-1.5	-0.8	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	-0.4	1.2	2.8	8.3	:	2.5	1.1	:	1.9	1.9	:
Broad money liabilities ^{4.4}	Ann. % ch	9.2	6.4	7.9	12.0	:	11.1	9.6	:	9.9	10.7	:
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	:	106.9	106.96	:	107.6	107.7	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	0.35	0.21	0.43	N.A.	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	4.0	3.53	N.A.	3.41	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	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	:	6.9	7.1	:	7.0	6.9	:
Deposit growth ^{5.5}	Ann. % ch	4.7	8.6	6.5	12.6	:	12.8	10.5	:	8.7	10.2	:
Non-performing loans ^{5.6}	% total	4.9	3.1	2.5	1.9	:	2.4	2.5	:	2.5	2.5	:
6 Fiscal developments												
General government balance*** ^{6.1}	% of GDP	-1.1	-1.3	-2.9	-2.9	:	0.8	-1.0	:	N.A.	N.A.	N.A.
General government debt**** ^{6.2}	% of GDP	14.4	16.6	16.9	17.5	:	18.2	19.9	:	N.A.	N.A.	N.A.

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

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

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

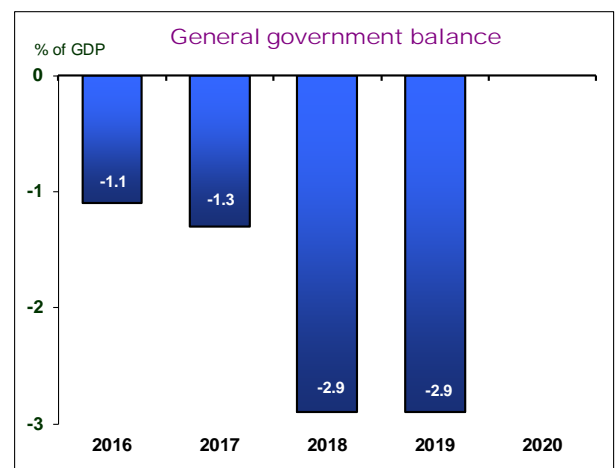
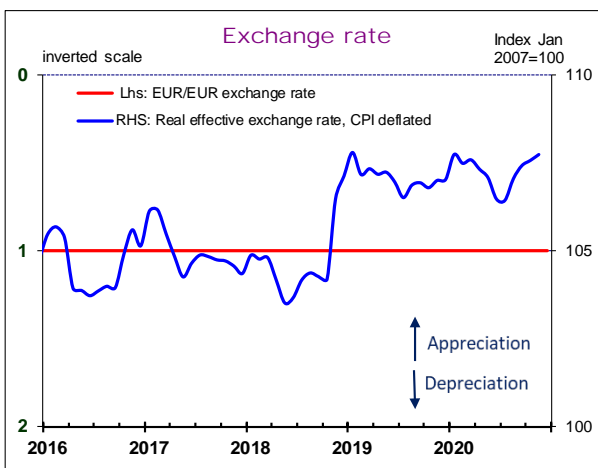
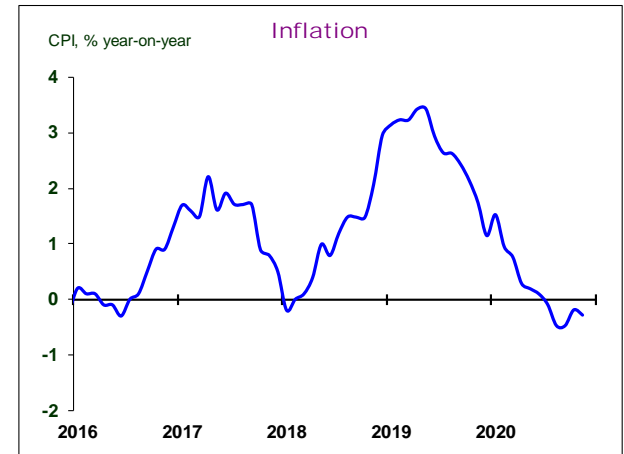
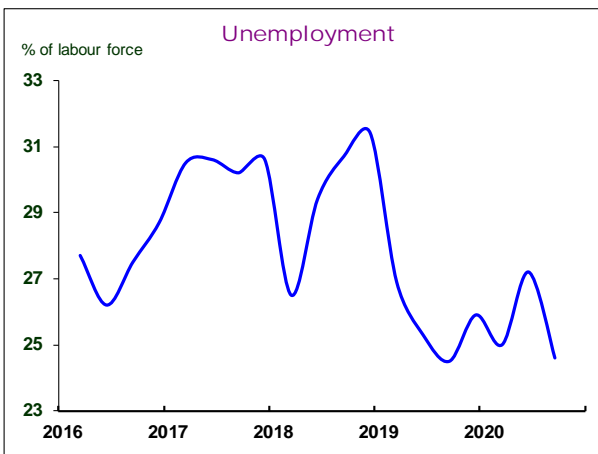
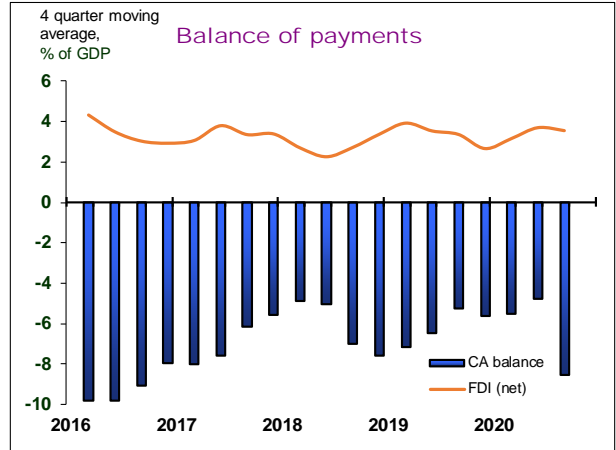
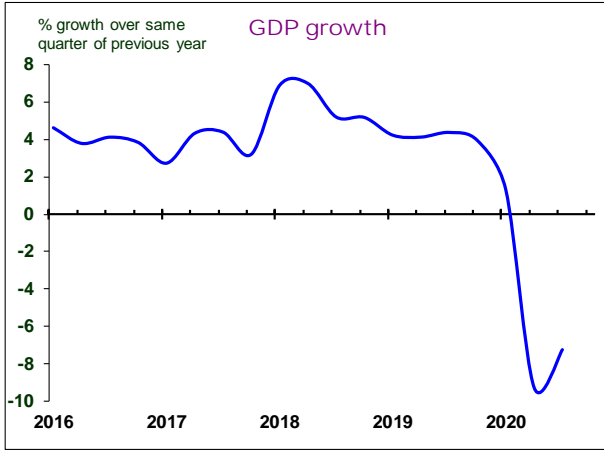
**** Q figures in percent of estimated annual GDP from the Budget Law.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Economic sentiment indicator	Economic Survey Index, SA	Bank of Albania
1.2.	Industrial production	Industrial production volume index	INSTAT
1.3.	Gross domestic product	Annual percentage change, volume	INSTAT
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.6.	Construction index	Annual percentage change, volume index of construction	Eurostat
1.7.	Retail sales	Annual percentage change of index	Eurostat
2. Labour market			
2.1.	Unemployment	Unemployment rate of the age group between 15-64	INSTAT, LFS
2.2.	Employment	Annual percentage change of employed persons age 15-64	INSTAT, LFS
2.3.	Wages	Average monthly wages	INSTAT
3. External sector			
3.1.	Exports of goods	Annual percentage change of global exports, trade in mio. EUR	Eurostat
3.2.	Imports of goods	Annual percentage change of global imports, trade in mio. EUR	Eurostat
3.3.	Trade balance	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.4.	Exports goods and services	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.5.	Imports goods and services	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.6.	Current account balance	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.7.	Direct investment (FDI, net)	In percent of GDP, BoP in mio. EUR	Bank of Albania
3.8.	Reserves, International reserves of the Bank of Albania	Net foreign assets, total, mio EUR.	Bank of Albania
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	Bank of Albania
4. Monetary developments			
4.1.	CPI	Consumer Prices, all items, year-on year percentage change	INSTAT
4.2.	Producer prices	Year on Year percentage change of index	INSTAT
4.3.	Food prices	Year on Year percentage change of index "Food and Non-alcoholic Beverages"	INSTAT
4.4.	M3	Year on Year percentage change	Bank of Albania
4.5.	Exchange rate 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	Government Benchmarks, 3 Year Bond, Yield	Bank of Albania
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change of stock, loans, total	Bank of Albania
5.5.	Deposit growth	Annual percentage change of stock, total	Bank of Albania
5.6.	Non-performing loans	Of total loans in %	Bank of Albania
6. Fiscal developments			
6.1.	General government balance	Net lending annual /cash balance, in percent of GDP	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 balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	Annual data	MacroBond
3.5.	Imports goods and services	Annual data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MacroBond
4.2.	Producer prices	Annual percentage change	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (Intermediate money)	wiiw
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Real effective exchange rate	CPI deflated, annual percentage change,	IMF
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 6 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Long-Term Bond, 10 Year, Yield	Bloomberg
5.3.	Stock markets	MOSTE Index, Close	MacroBond
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	MacroBond
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	MacroBond
5.6.	Non-performing loans	% of total	Macrobond
6. Fiscal developments			
6.1.	General government balance	In percent of GDP	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 balance	In percent of GDP, fob-cif	MacroBond
3.4.	Exports goods and services	In percent of GDP, volume	SSO
3.5.	Imports goods and services	In percent of GDP, volume	SSO
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Annual average percentage change, HICP not yet available for MK	MacroBond
4.2.	Producer prices	Annual percentage change, industrial products	MacroBond
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	MacroBond
4.4.	M4	Annual percentage change, M4 (Broadest money)	MacroBond
4.5.	Exchange rate MKD/EUR	Averages, spot close	MacroBond
4.6.	Nominal effective exchange rate	MKD, Index 2005=100	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, SKIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Not available	
5.3.	Stock markets	MSE Index (MBI-10)	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, 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.	MacroBond
2.2.	Employment	Annual percentage change, as from 2014 based on LFS. Data before 2014 are based on official data on registered employment.	MacroBond
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	International reserves NBS	Total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer Prices, Total, CPPY, average.	MacroBond
4.2.	Producer prices	Annual average percentage change, domestic market	MacroBond
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M3	Annual percentage change, M3 (broad money), RSD	MacroBond
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	MacroBond
4.6.	Nominal effective exchange rate	Period average, moving base year, RSD	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, BELIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Weighted average interest rate on 7Y RSD government bonds	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, private, RSD	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	MacroBond
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	MacroBond
6. Fiscal developments			
6.1.	General government balance	Consolidated GG, Overall balance. In percent GDP	Min. of Finance
6.2.	General government debt	Central government debt. In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	MacroBond
1.2.	Industrial production	Annual percentage change, volume (index 2015)	Macrobond
1.3.	Gross domestic product	Annual percentage change,	MacroBond
1.4.	Private consumption	Annual percentage change, index (2009 prices)	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change,	MacroBond
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, calendar adjusted, 2015=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	MacroBond
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	MacroBond
2.3.	Wages	Annual percentage change, Total hourly earnings, Index 2015 = 100	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, annualised moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR, eop.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	MacroBond
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	MacroBond
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	MacroBond
4.4.	M3	Money supply M3, total, TRY	MacroBond
4.5.	Exchange rate YTL/EUR	Period averages	MacroBond
4.6.	Nominal effective exchange rate	Index 2010 = 100, period averages	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, TRLIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Government Benchmarks, 10 Year Bond, Yield	MacroBond
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	MacroBond
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	MacroBond
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	MacroBond
5.6.	Non-performing loans	In percent of total loans	MacroBond
6. Fiscal developments			
6.1.	General government balance	Central government, in percent of GDP	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 balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	MacroBond
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	MacroBond
4.2.	Producer prices	Domestic, total, index CPPY=100	MacroBond
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100,	MacroBond
4.4.	M2	Annual percentage change, M2 (broadest money)	MacroBond
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	MacroBond
4.6.	Real effective exchange rate	Index (2010=100): 9 Trade partners selected in order to set up the index (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	MacroBond
5. Financial indicators			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	MacroBond
5.4.	Credit growth	Annual percentage change, loans, total, BAM, End of period	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM, End of period	MacroBond
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	MacroBond
6. Fiscal developments			
6.1.	General government balance	In percent of GDP, consolidated budget, net lending	MacroBond
6.2.	General government debt	In percent of GDP, external public debt	MacroBond



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