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European Commission
Directorate-General for Economic and Financial Affairs

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

1st Quarter 2018

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

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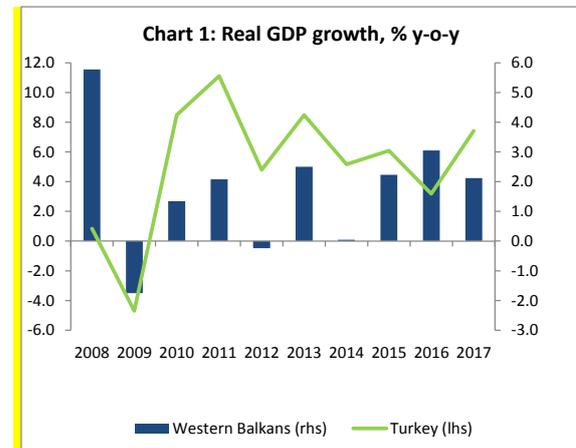
* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

OVERVIEW

The economic recovery in the Western Balkans continued in 2017 but real growth slowed from 3.1% in 2016 to 2.1% in 2017, mainly owing to weather-related supply-side shocks in Serbia, the largest economy in the region, as well as a prolonged political crisis in the former Yugoslav Republic of Macedonia. Private consumption and investment continued to support growth while exports seem to have gained some momentum. Current account deficits narrowed in some countries, but overall external positions in many economies remain vulnerable. Economic expansion led to further job creation and unemployment rates dropped, but remain high across the Western Balkans. With the exception of Montenegro, fiscal balances in the region remained in line with targets or even over-performed. However, high public debt levels and/or lack of fiscal buffers remain a source of vulnerability in most countries. In Turkey, annual GDP expanded by 7.4% following various government stimulus measures, but macroeconomic imbalances such as high inflation and a rapidly widening current account persist.

In 2017, GDP growth in the **Western Balkans** slowed to 2.1%, down from 3.1% in 2016 (Chart 1), largely due to bad weather conditions in Serbia, the largest economy, where growth fell from 2.8% to 1.9%, and a prolonged political crisis in the *former Yugoslav Republic of Macedonia* where economic activity stagnated. Also *Kosovo* as well as *Bosnia and Herzegovina* recorded somewhat lower GDP growth. In the case of *Kosovo*, the slowdown was largely due to weaker domestic consumption, affected by prolonged political uncertainty, while investment and net exports remained strong. *Bosnia's* economic performance continued to suffer from weak investments. Conversely, annual GDP growth accelerated in *Albania* to 3.8% (the highest annual growth rate since 2008) up from 3.4% in 2016, boosted mainly by private consumption as well as in *Montenegro* (to 4.4% from 2.9%) due to a surge in fixed capital formation.

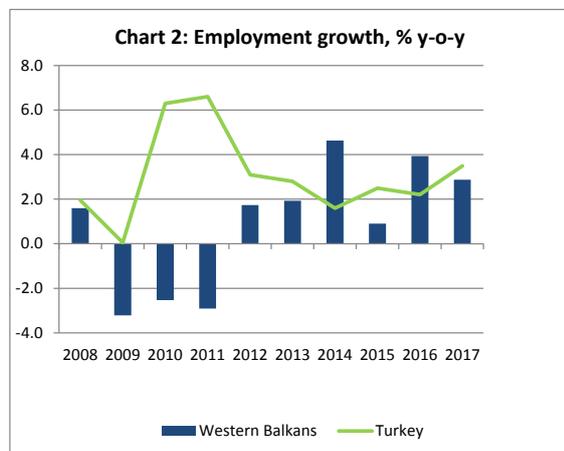
In **Turkey**, GDP growth accelerated sharply during 2017, to 7.4% compared to 3.2% in 2016, mainly driven by a strong rebound of private consumption as well as strong investment supported by the state-guaranteed corporate loan scheme.



Source: Macrobond, Commission calculations

The labour market situation in the **Western Balkans** remains challenging. Despite the ongoing economic recovery the pace of job creation slowed down in most countries of the region in 2017 compared to last year. Employment growth decelerated in *Serbia*, *Albania*, the *former Yugoslav Republic of Macedonia* and *Kosovo* while it accelerated in *Montenegro* contributing to an average job growth rate in the Western Balkans of 2.9% in 2017 down from 3.9% in 2016 (Chart 2). Growing employment levels contributed to a drop in unemployment rates in most countries in the region in 2017. The decline was particularly significant (at least 2 pps) in *Bosnia and Herzegovina*.

In **Turkey**, in 2017, the labour market improved in line with a growing economy with employment growth accelerating to 3.5% up from 2.2% in 2016, while the unemployment rate remained unchanged at 11.1%.

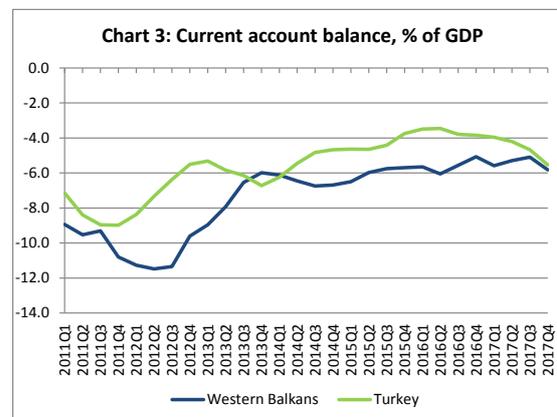


Source: Macrobond, Commission calculations

As a result of narrow production bases and competitiveness challenges, merchandise trade deficits remain very high across the **Western Balkans**, ranging from 12% of GDP for *Serbia* to 18% or above for *Albania* and *Bosnia and Herzegovina* and equal to 42% or above for *Kosovo* and *Montenegro*. Trade deficits are only partially offset by surpluses in the services account and in current transfers, resulting in large foreign financing needs. External account developments in the region during 2017 point to a rather diverse picture. Compared to the year before, annual current account deficits widened in *Serbia* and *Montenegro* whereas they narrowed in the *former Yugoslav Republic of Macedonia*, *Albania* and *Kosovo*. In *Bosnia and Herzegovina* the current account deficit stood at the same level as in 2016. Overall, the regional current account deficit stood at around 6% of GDP in 2017 (Chart 3), compared to 5% a year before.

In **Turkey**, the 12-month cumulative current account deficit expanded to 5.5% of GDP in 2017 from 3.8% in 2016, largely due to a strong increase in the trade deficit in goods. As opposed to the Western Balkan countries, the

financing of the current account deficit in Turkey continues to rely mainly on more volatile forms of capital flows.



Source: Macrobond, Commission calculations

In 2017, consumer price inflation in the **Western Balkan** countries accelerated, though modestly, as stronger domestic demand and higher energy and food prices generated upward pressures. In *Montenegro* and the *former Yugoslav Republic of Macedonia* annual CPI inflation further accelerated to 3.7% and 1.9%, respectively, in February whereas in *Kosovo* the headline price level remained unchanged. In *Albania*, annual CPI inflation stood at 2% in March (still below the central bank's 3% target) while in *Serbia*, it slowed to 1.4% falling below the target tolerance band of $3\% \pm 1.5\text{pps}$. The central bank of *Serbia* reacted by lowering its key policy rate with two successive cuts of 25 bps each in March and April from 3.50% to 3.00%. It also narrowed in April the interest rate corridor from ± 1.5 to $\pm 1.25\text{pps}$. The *Bank of Albania* has kept its key policy rate at the historic low of 1.25% since May 2016 while the central bank of the *former Yugoslav Republic of Macedonia* has kept the coupon on its bills, which serves as its benchmark interest rate, unchanged since February 2017, at 3.25%.

In **Turkey**, annual CPI inflation increased markedly to 11.1% in 2017 up from 7.8% in 2016 as lira-denominated import prices jumped, moving further away from the central bank's official 5% target ($\pm 2\text{pps}$ band width).

Bank lending continued to be supportive of growth in the **Western Balkan** region, as credit growth accelerated in 2017 in *Bosnia and Herzegovina*, *Kosovo* and *Montenegro* as well as in *Serbia* and *Albania* (when adjusted for exchange rate changes and loan write offs in both countries). On the other hand, credit growth decelerated in the *former Yugoslav Republic of Macedonia*. As a common feature, household lending has been growing faster than corporate lending. Credit extension is gradually becoming less constrained by the level of non-performing loans, as most **Western Balkan** countries managed to further reduce NPL ratios in 2017 partly as a result of improved resolution frameworks and mandatory write-offs. At the end of the year, *Albania* records the highest NPL ratio in the region (13.2 % of total loans), which is significantly lower than the 18.3% recorded in 2016 and the lowest level in the last seven years. In *Bosnia and Herzegovina* the NPL ratio stood at 10.9%, followed by *Serbia* (which reached its lowest level in a decade - 9.9%) and *Montenegro* (7.3%).

Annual credit growth in **Turkey** significantly accelerated to 21.2% in 2017 up from 16.2% in 2016, supported by public loan guarantees and macro-prudential loosening. The NPL ratio decreased marginally to 3.1% down from 3.2% in the previous year as new loans were added faster than non-performing loans to the banks' balance sheets.

In 2017, fiscal balances in most of the **Western Balkan** countries remained within or over-performed budget targets. *Serbia* recorded a surplus of 1.2% of GDP for the first time in more than a decade mainly due to strong revenue performance, largely outperforming its deficit target. Also fiscal deficits in *Albania*, *Kosovo* and the *former Yugoslav Republic of Macedonia* remained within the limits set by their respective budgets. In *Albania*,

expenditures increased more than revenues and the fiscal deficit rose slightly to 2.0%.of GDP. In the *former Yugoslav Republic of Macedonia*, the general government fiscal deficit remained at 2.7% of GDP, due to an equal moderate increase in both revenues and expenditure. In *Kosovo*, preliminary data show that the budget deficit accounted for 0.7% of GDP. These countries continued to experience under-execution of capital spending, pointing to persistent problems in the planning, selection and management of public investment. In *Montenegro*, the rise in expenditure outpaced the growth of revenues due to contingent liabilities and a surge in capital spending. As a result, the central government deficit increased to 5.4% of GDP (from 3.6% in 2016), 1.2 pps higher than the revised budget target. Continued fiscal consolidation (without, however, undermining much-needed capital spending) is necessary in a number of countries to rebuild fiscal buffers and reduce public debt levels which are especially high in *Albania* (70.1% of GDP), *Montenegro* (65.1% of GDP) and *Serbia* (61.5% of GDP).

In **Turkey**, the central government deficit increased to 1.5% of GDP in 2017 from 1.1% in 2016 as the government implemented fiscal stimulus in the aftermath of the attempted coup and the run-up to the presidential referendum. General government debt stood at 28.5% of GDP in 2017 compared to 28.3% of GDP in 2016.

Candidate and potential candidate countries: Summary table

	2013	2014	2015	2016	2017	ECFIN 2017 Autumn forecast		Q3 17	Q4 17	Q1 18	Jan 18	Feb 18	Mar 18
						2018	2019						
Gross domestic product (in real terms, annual % change)													
Albania	1.0	1.8	2.2	3.4	3.8	3.8	4.2	3.6	3.4	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	2.9	3.6	3.8	2.9	0.0	2.7	3.2	0.2	1.2	:	N.A.	N.A.	N.A.
Montenegro	3.5	1.8	3.4	2.9	4.4	3.0	3.3	4.7	4.0	:	N.A.	N.A.	N.A.
Serbia	2.6	-1.8	0.8	2.8	1.9	3.3	3.5	2.2	2.5	:	N.A.	N.A.	N.A.
Turkey	8.5	5.2	6.1	3.2	7.4	4.0	4.1	11.3	7.3	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	2.6	0.2	3.8	3.3	1.6	:	:	1.8	3.0	:	N.A.	N.A.	N.A.
Kosovo	3.4	1.2	4.1	4.1	3.7	:	:	4.4	3.2	:	N.A.	N.A.	N.A.
Unemployment													
Albania	16.4	17.9	17.5	15.6	14.1	13.7	13.0	14.0	13.6	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	29.0	28.2	26.3	24.0	22.4	21.4	21.0	22.3	22.1	:	N.A.	N.A.	N.A.
Montenegro	19.5	18.2	17.8	18.0	16.4	16.7	16.0	15.1	17.4	:	N.A.	N.A.	N.A.
Serbia	22.1	19.2	17.7	13.5	15.3	11.6	9.5	12.9	14.7	:	N.A.	N.A.	N.A.
Turkey	N.A.	10.1	10.5	11.1	11.1	11.0	10.7	10.8	10.5	:	:	:	:
Bosnia and Herzegovina	27.5	27.5	27.7	25.4	20.5	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	30.0	35.3	32.9	27.5	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)**													
Albania	-9.3	-10.8	-8.6	-7.6	-6.9	-7.8	-8.2	-4.2	-9.7	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-1.6	-0.5	-2.0	-2.7	-1.3	-2.4	-2.3	-1.9	-1.3	:	N.A.	N.A.	N.A.
Montenegro	-14.5	-15.2	-13.2	-18.1	-18.9	-16.7	-16.0	-16.2	-18.9	:	N.A.	N.A.	N.A.
Serbia	-6.1	-6.0	-4.7	-3.1	-5.7	-5.7	-5.8	-4.6	-5.7	:	N.A.	N.A.	N.A.
Turkey	-7.8	-4.7	-3.8	-3.8	-5.5	-4.2	-4.4	-4.7	-5.5	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-5.0	-7.1	-5.2	-4.7	-4.7	:	:	-4.3	-4.7	:	N.A.	N.A.	N.A.
Kosovo	-3.4	-6.9	-8.6	-8.3	-5.9	:	:	-6.7	-6.8	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.9	1.6	1.9	1.3	2.0	2.4	2.7	1.7	1.8	1.9	1.7	2.1	2.0
The former Yugoslav Republic of Macedonia	2.8	-0.3	-0.3	-0.3	1.4	2.0	2.4	1.6	2.2	:	1.1	1.9	1.6
Montenegro (HICP)	1.8	-0.5	1.4	0.1	2.8	2.2	2.0	3.3	2.9	0.5	3.6	3.7	:
Serbia	7.9	2.1	1.4	1.1	3.1	3.3	3.0	3.0	2.9	1.6	1.9	1.5	1.4
Turkey	7.5	8.9	7.7	7.8	11.1	8.5	7.4	10.6	12.3	10.3	10.3	10.3	10.2
Bosnia and Herzegovina	-0.1	-0.9	-1.0	-1.1	1.2	:	:	1.1	1.3	:	0.3	0.9	:
Kosovo	1.8	0.4	-0.5	0.3	1.5	:	:	1.7	0.7	:	-0.2	0.0	:
General government balance (% of GDP)													
Albania	-5.2	-5.2	-4.1	-1.8	-1.9	-2.0	-1.8	-0.2	0.9	:	:	:	:
The former Yugoslav Republic of Macedonia	-3.8	-4.2	-3.5	-2.7	-2.7	-3.0	-3.0	-1.7	-3.5	:	N.A.	N.A.	N.A.
Montenegro	-4.6	-2.9	-8.3	-3.6	-5.4	-5.6	-2.7	0.2	-3.2	:	:	:	:
Serbia	-5.5	-6.6	-3.7	-1.3	1.2	0.0	0.0	3.3	-2.4	:	N.A.	N.A.	N.A.
Turkey	0.1	0.1	1.3	-0.9	-2.4f	-1.8	-2.6	-0.3	-0.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-2.0	-2.0	0.6	1.2	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo	-3.1	-2.2	-2.0	-1.2	:	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Autumn 2017 published November 2017

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



Key developments

The Albanian government submitted its Economic Reform Programme (ERP) for 2018-2020 to the European Commission at the end of January. It projects a gradual increase of annual GDP growth to 4.4 % over the three years. On the fiscal side, the ERP foresees that spending restraint will lower the deficit of general government to 1.2 % of GDP by 2020. Public debt is expected to decline to 63.5 % of GDP by 2020. In addition to the macroeconomic and fiscal projections, the ERP provides an overview of current plans for structural reforms.

In mid-April, the European Commission presented its annual enlargement package which included a country report on Albania. Regarding the economic criteria for EU membership, it stated that Albania has made some progress and is moderately prepared in developing a functioning market economy. Albania has also made some progress and has some level of preparation in terms of capacity to cope with competitive pressure and market forces within the EU.

Real sector

Real GDP expanded by 3.4 % y-o-y in the fourth quarter of 2017 compared to 3.6 % in the third quarter. Annual GDP growth reached 3.8 % in 2017, up from 3.4 % in the preceding year and the highest annual growth rate since 2008.

Household spending increased at a solid rate in y-o-y terms (3.1 %) albeit somewhat slower than in the previous quarter (3.6 %). This is consistent with employment growth and the double-digit jump in public wages in the spring. Government consumption had expanded strongly in the first half of 2017, but has subsequently been reined in. It registered an outright decline (-1.8 %) in the fourth quarter, allowing the government to meet its target for the fiscal deficit. Gross fixed capital formation increased moderately (4.1 %), similar to the increase in the third quarter but substantially below the double-digit growth in the first half of the year. The slowdown in capital spending is explained by two large energy projects nearing completion.

External trade showed a disappointing performance in the fourth quarter. The volume

of goods exports fell by 9.0 % y-o-y, the second consecutive quarterly decline. Exports of services were also relatively weak (-1.8 %), following 4 years of very strong growth. At the same time, imports of goods accelerated to double-digit growth (12.3 % compared to 8.6 % in the previous quarter) reflecting the continuation of solid household spending. Imports of services increased at a somewhat slower rate (8.1 %, down from 11.1 % in the previous quarter). Since imports exceed exports by a large margin, net exports subtracted from GDP growth for a second consecutive quarter.

In the first quarter of 2018, the overall economic confidence indicator increased by 3.7 pps to 117 points. This reflected rising confidence in trade, services and industry which was partly offset by decreasing confidence in the construction sector and amongst consumers.

Labour market

The labour market reflected the on-going economic expansion. In the fourth quarter of 2017, employment was up by a solid 3.4 % y-o-y for the 15-64 age group. The unemployment rate fell by 0.9 pps y-o-y to 13.6 %. It has trended down for almost 4 years and is now the lowest since the first quarter of 2012. Youth unemployment remains very high although it has also been declining from its peak in 2015. In the fourth quarter of 2017, the unemployment rate for the 15-29 age group registered 24.6 %, down by 3.5 pps y-o-y. The labour force increased by 2.4 % y-o-y and the labour force participation rate continued to trend upwards, reaching 67.4 % compared to 65.7 % in the fourth quarter of 2016. The gap between male and female labour force participation widened to 18 pps (male: 76.4 %; female: 58.4 %).

According to administrative data, employment growth in the non-agricultural private sector increased 18.6 % y-o-y in the fourth quarter while employment in the public sector and in agriculture declined 0.4 % and 1.5 %, respectively.

External sector

Albania's current account deficit narrowed for the third consecutive year in 2017 to 6.9 % of GDP (EUR 803 million) from 7.6 % in 2016.

This was the result of a sharply rising surplus in the services account (transport, travel, manufacturing services, and other services) which more than offset a higher deficit in goods trade and a growing outflow of income from foreign investments in Albania. Net inflows of workers' remittances contributed with 5.5 % of GDP to the current account, offsetting a significant part of the large trade deficit for goods.

Last year's improvement in the balance of payments was concentrated in the first 3 quarters. The fourth quarter showed a 65.8 % y-o-y increase of the current account deficit as imports surged by 11.7 % y-o-y while exports stagnated (in nominal terms).

Net foreign direct investments (FDI) corresponded to 8.4 % of GDP in 2017, financing the current account deficit by a comfortable margin. Their high level is to a large extent explained by FDI inflows related to two large-scale projects in the energy sector.

At the end of 2017, gross external debt amounted to 67.9 % of GDP (EUR 7,928 million), down by 3.9 pps over the year. Foreign exchange reserves declined slightly in the first two months of 2018 from EUR 2,996 million (25.6 % of GDP) at the end of 2017. They correspond to 6 ½ months of imports of goods and services.

Monetary developments

Inflation remained low and stable in the first quarter of 2018 helped by an appreciating currency. Consumer prices were up by 2.0 % y-o-y in March 2018 compared to 2.1 % one year earlier. The average monthly inflation rate was marginally higher in the first quarter than in the previous quarter. Food prices rose by 6.1 % over the quarter, but were only up by 3.1 % y-o-y in March. Water and rent prices also rose above average. The other CPI items continued to show very low or no price increases in y-o-y terms.

The Bank of Albania maintained its accommodative monetary policy stance by keeping the key policy rate (the repo rate) at the record low of 1.25 % and the interest rates for the overnight deposit facility and the overnight lending facility at 0.25 % and 2.25 %, respectively. The central bank expects to maintain the current monetary policy stance until at least the fourth quarter of 2018. It expects inflation to hover around 2.2 % in 2018 and to return to the 3 % target in 2019.

The Albanian lek appreciated by 1.9 % against the euro over the first quarter, continuing the trend from 2017.

Financial sector

Lending to the private sector increased 3.2 % y-o-y in the fourth quarter of 2017 when adjusted for loan write-offs. This was slightly below the moderate growth pace in the rest of the year. Lending growth to households (6.9 %) continued to exceed lending growth to businesses (1.5 %) by a wide margin. Subdued lending to businesses continued to reflect limited demand and relatively tight credit standards. Due to the high share of loans denominated in foreign currency, the lek's appreciation depresses credit growth data somewhat.

The ratio of non-performing loans (NPLs) to total loans trended downward in 2017. It stood at 13.2 % at the end of the year, down from 18.3 % one year earlier and the lowest level in the last 7 years. In early 2018, however, the NPL ratio started rising again, registering 13.7 % in February. The banking sector as a whole is well capitalised with a capital adequacy ratio of 16.6 % at the end of 2017, up by 0.2 pps over the quarter and by 0.9 pps y-o-y.

Fiscal developments

In 2017, the overall deficit of general government deficit corresponded to 2.0 % of GDP, up from 1.8 % in 2016 but in line with the targeted deficit in the original and the two revised budgets. Total revenues remained 2.8 % below target while the ratio of revenue to GDP increased by 0.1 pp. to 27.7 %. Total expenditures remained 2.7 % below target while increasing by 0.3 pps to 29.7 % of GDP. Capital spending was under-executed following significant overspending the previous year. Interest expenditures were also lower than expected, declining by 0.4 pps y-o-y to 2.1 % of GDP. As a consequence, the primary fiscal surplus declined by 0.6 pps to 0.1 % of GDP in 2017. Public debt declined by 2.2 pps in 2017 to 70.1 % of GDP.

In January-February 2018, total revenues increased by 5.5 % y-o-y which was slightly below budget. Total expenditures increased by 14.5 % y-o-y which was slightly above budget. The budget deficit in 2018 is targeted to remain at 2.0 % of GDP.

TABLE



European Commission, ECFIN-D-1

ALBANIA

							ECFIN 2017 Autumn forecast							
		2013	2014	2015	2016	2017	2018	2019	Q3 17	Q4 17	Q1 18	Jan 18	Feb 18	Mar 18
1 Real sector														
Industrial confidence ^{1.1}	Percent	-16.6	-6.9	-5.5	-3.7	1.5	:	:	2.0	-0.5	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	20.5	3.4	-8.9	-19.4	8.9	:	:	5.9	3.0	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. %ch	1.0	1.8	2.2	3.4	3.8	3.8	4.2	3.6	3.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	1.8	2.8	1.2	2.7	2.8	2.7	3.1	3.6	3.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-2.0	-4.5	3.5	3.3	7.7	4.4	6.2	4.7	4.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	1.0	0.2	0.3	0.0	0.7	:	:	0.5	0.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	5.4	4.7	5.9	6.6	1.3	:	:	1.1	0.2	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	16.4	17.9	17.5	15.6	14.1	13.7	13.0	14.0	13.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	-9.7	1.6	4.9	6.1	2.7	3.6	3.8	1.3	3.4	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	4.1	1.7	1.8	0.9	9.8	2.8	3.1	11.2	12.8	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	15.7	4.5	-5.6	0.1	12.1	:	:	13.0	8.8	:	24.4	18.7	:
Imports of goods ^{3.2}	Ann. %ch	-2.1	6.0	-0.7	6.4	8.1	:	:	9.0	11.5	:	27.4	4.1	:
Trade balance* ^{3.3}	% of GDP	-20.1	-20.8	-21.0	-22.8	-22.1	-25.3	-25.8	-21.8	-22.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	28.9	28.2	27.3	28.9	31.5	:	:	31.2	30.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	47.0	47.2	44.5	45.7	46.6	:	:	45.1	45.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-9.3	-10.8	-8.6	-7.6	-6.9	-7.8	-8.2	-4.2	-9.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	9.6	8.2	8.0	8.7	8.4	:	:	11.5	7.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 955.7	2 084.8	2 637.7	2 880.3	2 996.0	:	:	:	:	:	:	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.2	5.3	6.9	7.0	6.7	:	:	:	:	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	1.9	1.6	1.9	1.3	2.0	2.4	2.7	1.7	1.8	1.9	1.7	2.1	2.0
Producer prices ^{4.2}	Ann. %ch	:	:	:	-1.5	2.8	:	:	2.1	2.3	:	:	:	:
Food prices ^{4.3}	Ann. %ch	4.2	2.2	4.3	3.3	3.9	:	:	3.8	3.5	:	2.2	2.7	3.1
M2 ^{4.4}	Ann. %ch	5.1	1.1	3.6	-0.7	1.5	:	:	1.0	1.0	:	-0.5	0.4	:
Exchange rate LEK/EUR ^{4.5}	Value	140.26	140.14	139.74	137.36	134.14	:	:	132.88	133.47	132.45	133.52	132.72	131.10
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	2.87	1.13	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	6.03	3.45	2.77	2.05	2.07	:	:	2.26	2.08	:	2.37	2.16	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. %ch	-0.2	0.2	0.3	-0.7	-0.1	:	:	-0.1	0.3	:	1.0	0.8	:
Deposit growth ^{5.5}	Ann. %ch	3.7	1.5	1.9	1.1	1.0	:	:	0.5	-0.3	:	-1.1	-0.6	:
Non performing loans ^{5.6}	% total	23.2	22.8	18.2	18.3	13.2	:	:	14.8	13.2	:	13.5	13.7	:
6 Fiscal developments														
General government balance* ^{6.1}	% of GDP	-5.2	-5.2	-4.1	-1.8	-1.9	-2.0	-1.8	-0.2	-1.9	:	:	:	:
General government debt* ^{6.2}	% of GDP	65.6	70.1	72.7	72.3	68.2	68.5	66.0	67.4	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2017 published November 2017

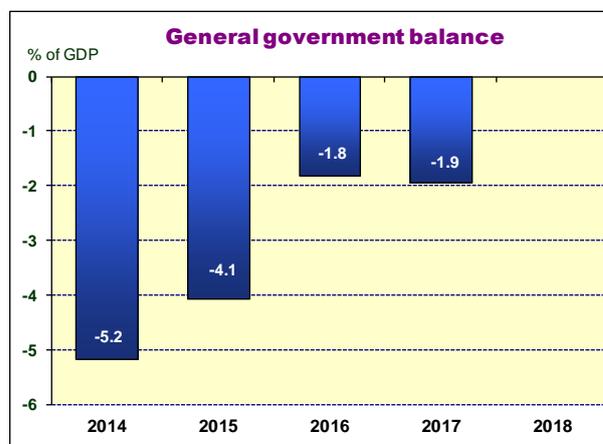
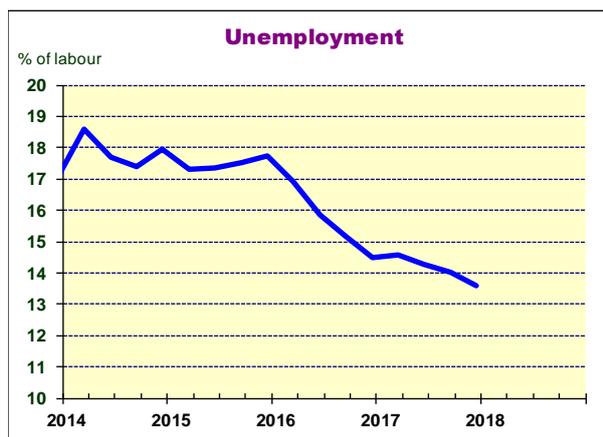
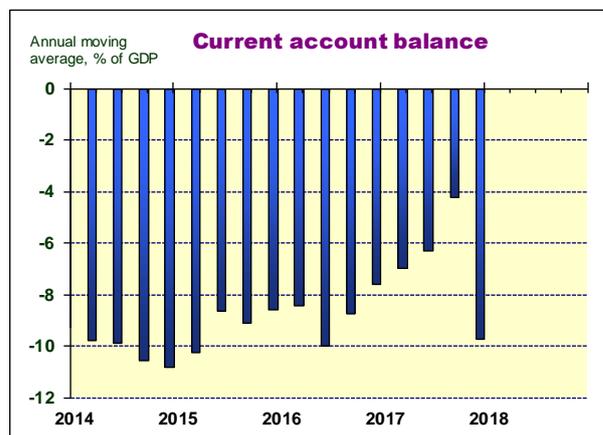
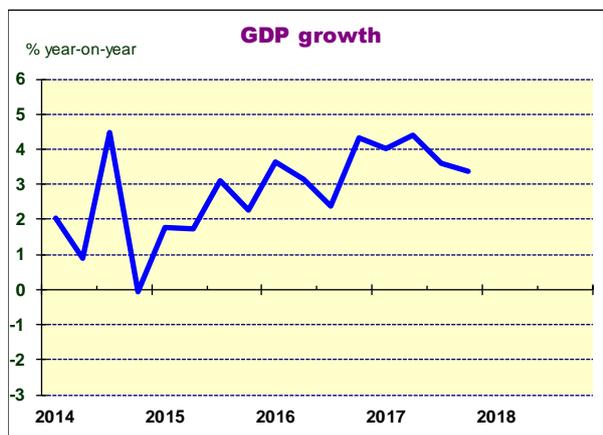
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

ALBANIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



Key developments

On 30 January, the government submitted its Economic Reform Programme for the period 2018-2020. It expects a gradual acceleration of annual GDP growth until 2020, averaging 3.6%. The general government budget deficit is projected to decline to 2.3% of GDP by 2020.

On 11 January, the government issued its sixth Eurobond in the amount of 500 mio. Euro, at an interest rate of 2.75% and repayable after 7 years. The proceeds are intended to cover the 2018 fiscal deficit as well as contribute to 2018 and 2019 debt repayment.

On 16 March, Standard and Poor's Global Ratings affirmed its BB-/B sovereign credit rating for the country. Analysts kept a stable outlook as they anticipate a pick-up in economic growth, in spite of lingering political risks and unfavourable public debt developments.

In mid-April, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, the former Yugoslav Republic of Macedonia has made some progress and is at a good level of preparation in developing a functioning market economy. The economy has also made some progress and is at a moderate level of preparation to cope with competitive pressures and market forces within the EU.

Real sector

After three quarters of virtual stagnation, the economy returned to modest growth of 1.2% y-o-y in the fourth quarter of 2017. Still, on average for the full year 2017, economic output remained largely at the same level as one year earlier, as fourth-quarter gains were not sufficient to compensate for the accumulated output losses in the first three quarters. In 2017, robust growth in household spending (+2.9% y-o-y) was more than offset by weak investment (-4.5%) and public consumption (-1.5%). Export growth accelerated compared to one year earlier (+1.1pp to 9.2%), while import growth was

weaker (-4.3pp to 7.3%). Still, net exports did not contribute to GDP growth. The recession in the construction sector sharpened in the fourth quarter (-19.5% y-o-y compared to an average 11.7% in the first three quarters) bringing average losses for the year to 13.7%. Manufacturing recovered somewhat, limiting the output decline for the full year to 4%.

At the beginning of 2018, earlier signs of an economic recovery were bolstered by high frequency indicators. The industrial production index continued to recover in January and February (+5.6% y-o-y). This was driven by improved performance in manufacturing (+10.6%). The increase in the production of capital goods (+22.5%) bodes well for an imminent pick-up in investment. Retail sales also increased, by 5.2% y-o-y on average, in January and February. Investor confidence seems to be returning and export-oriented production capacities of foreign companies in the country are expanding.

Labour market

The labour market improved further between October and December. The unemployment rate dropped by 1.2pps y-o-y to 21.9%, according to the Labour Force Survey. The youth unemployment rate (15-24 years) improved slightly in this period (45.7% compared to 47.3%), but remained very high. Annual employment growth slowed down for the second quarter in a row, but remained robust (1.9% y-o-y). The labour force increased slightly compared to one year earlier, on account of a rise in the number of older workers (+1.8% y-o-y for the age group above 50 years old). In this period, fewer women were active in the labour market (-1.6%), which largely accounts for the drop in the female participation ratio (51.4% compared to 52% one year earlier). Overall labour market participation (15-64 years) rose from 64.8% in the last quarter of 2016 to 65.2%.

Net wages increased by 3.1% y-o-y in the last quarter, in nominal terms. Given the slightly tighter price environment in that period, this

translated into real net wage growth of 0.9%, which accelerated markedly in January, to 4.5%, benefitting from strong nominal wage growth (+5.6%) and relenting price pressures.

External sector

The current account deficit narrowed further in the fourth quarter and stood at 1.3% of full-year GDP at year-end (-1.4pps compared to one year earlier). The merchandise trade balance declined during this period (-1.2pps to 17.9%), while the primary income deficit widened by 0.3pps to -4.2%, driven by a further increase in the repatriation of profits by foreign investors. Current transfers from abroad increased by 0.4pps to 16.8%. Net private transfers covered some 94% of the merchandise trade deficit in 2017. Net FDI inflows amounted to 2.3% of GDP in 2017, and thus more than covered the current account deficit. Gross external debt, excluding central bank transactions, stood at 73.6% of GDP at the end of the year, or 0.7pps lower than one year earlier. An increase in private sector debt, notably in intercompany loans of foreign investors in the country, was more than offset by lower public sector debt. At end-2017, the central bank's foreign currency reserves were some 1.7% higher than one year earlier and covered some 3 months of prospective imports. They continued to increase in the beginning of the new year, largely as a result of the government's sixth Eurobond issue.

Monetary developments

Consumer price inflation relented in the first quarter of the year. The CPI climbed by 1.5% y-o-y on average, following on a rise of 2.2% in the last three months of 2017. This was mainly the result of more subdued price rises in utilities and transport cost, in line with lower fuel, gas and electricity prices. Food prices increased at about the same rate as in the preceding quarter. Annual growth of broad money (M4) slowed down to 5.4% on average in the first quarter (-1.4pps), with currency in circulation, demand deposits and short-term deposits all registering more subdued increases. The central bank reduced the key interest rate, the CB bills rate, by a further 25bp in March, to 3%.

Financial sector

Credit growth to the private sector picked up further in the fourth quarter to 5.4% y-o-y (+0.6pps compared to the third quarter). The bulk of the increase came from household loans

(+9.6%), with robust, double-digit increases in both consumer loans and mortgages. Corporate credit growth accelerated further, compared to the preceding three months, to 1.8% on average (+1.4pps), and picked up further in the first two months of 2018, to 3.2%y-o-y.

The spread between Denar loans (-10bps to 5.9%) and deposits (-10bps to 2.1%) remained unchanged between November and February. Rates on foreign currency loans dropped by 20 bps to 4.6%, and remained unchanged for deposits, at 0.8%, hence narrowing banks' spreads. The share of foreign-currency denominated in total loans dropped further in the fourth quarter, by 1pp, to 42.5%. The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients decreasing to 87.7% (-1.7pps q-o-q). Capital adequacy of the banking sector remained robust, with the ratio of regulatory capital to risk-weighted assets at 15.7%, marginally below its level at the end of the third quarter (-0.5pps), and still almost double the regulatory minimum. The ratio of non-performing to total loans (financial and non-financial sector) declined further, by 0.2pps q-o-q, to 6.1%.

Fiscal developments

In 2017, the general government deficit amounted to 2.7% of GDP, which is below the revised target of 2.9%. Both revenue and expenditure were higher by 6% y-o-y. Net VAT receipts made up 27% of total revenue, accounting for some 19% of the annual revenue increase. This takes into account repayments of VAT owed by the government. Capital spending was some 16% lower than planned, at some 3.3% of GDP. In the first two months of 2018, revenue had increased by 5.8% y-o-y, and expenditure by 3.8%. However, capital expenditure was some 64% below its pre-year level, while transfer payments were up by 17%, largely as a result of government subsidies to help employers fund an increase in minimum wages. The government set the annual deficit target for 2018 at 2.7%, the same as the deficit realised in 2017. The accumulated budget balance during the first two months of 2018 was lower by 10% y-o-y. Government debt, which had risen significantly between 2008 and 2016, amounted to 39.3% of estimated GDP, slightly below its level of end-2016 (39.5%). Public debt amounted to 47.5% of GDP, a decline by 0.9pps compared to one year earlier. The level of government-guaranteed debt of state enterprises dropped in 2017 to 8.2% of GDP (-0.6pps compared to end-2016)).

TABLE



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia

		2013	2014	2015	2016	2017	ECFIN 2017 Autumn forecast		Q3 17	Q4 17	Q1 18	Jan 18	Feb 18	Mar 18
							2018	2019						
1 Real sector														
Industrial confidence ^{1.1}	Balance	12.3	11.4	17.5	24.0	25.6	:	:	25.7	26.6	:	27.1	27.3	:
Industrial production ^{1.2}	Ann. % ch	103.2	104.8	104.9	103.9	100.2	:	:	97.6	100.9	:	108.4	103.1	:
Gross domestic product ^{1.3}	Ann. % ch	2.9	3.6	3.8	2.9	0.0	2.7	3.2	0.2	1.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.9	2.2	4.4	3.1	2.9	3.5	3.4	2.9	2.7	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	0.5	10.7	8.3	13.3	-4.5	2.2	3.2	-9.4	-1.0	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	33.8	2.3	8.6	12.3	-13.7	:	:	-11.6	-19.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	-0.9	4.2	9.8	18.8	-10.2	:	:	-8.4	-8.0	:	9.5	6.7	:
2 Labour market														
Unemployment ^{2.1}	%	29.0	28.2	26.3	24.0	22.4	21.4	21.0	22.3	22.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	4.3	1.0	1.7	2.4	2.7	2.2	2.1	2.1	1.9	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	1.2	1.0	2.7	2.0	2.6	0.4	1.5	2.9	3.1	:	5.3	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	2.9	17.0	9.4	11.5	19.8	:	:	14.1	19.0	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	-1.8	9.4	5.0	7.8	11.8	:	:	8.2	12.4	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-22.9	-21.7	-20.1	-19.1	-17.9	-18.3	-18.7	-17.9	-17.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	42.3	47.7	48.7	50.0	54.8	:	:	53.8	55.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	60.4	64.9	65.0	64.7	68.8	:	:	67.7	68.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-1.6	-0.5	-2.0	-2.7	-1.3	-2.4	-2.3	-1.9	-1.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	-7.9	-2.8	-2.2	-3.3	-2.3	:	:	-2.5	-1.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 993.0	2 436.5	2 261.8	2 613.4	2 335.3	:	:	2 271.4	2 335.3	2 577.2	2 577.4	2 566.4	2 577.2
Int. reserves / months Imp ^{3.9}	Ratio	5.6	6.3	5.6	6.0	4.8	:	:	4.8	4.8	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	2.8	-0.3	-0.3	-0.3	1.4	2.0	2.4	1.6	2.2	:	1.1	1.9	1.6
Producer prices ^{4.2}	Ann. % ch	0.4	-1.2	-4.1	-0.1	0.4	:	:	0.5	1.0	:	1.9	0.9	:
Food prices ^{4.3}	Ann. % ch	3.4	-1.0	0.1	-1.3	0.2	:	:	0.9	1.6	:	0.6	2.2	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	4.0	8.0	8.2	4.4	6.1	:	:	6.8	5.8	:	5.3	7.4	:
Exchange rate MKD/EUR ^{4.5}	Value	61.58	61.62	61.61	61.60	61.57	:	:	61.58	61.52	61.56	61.51	61.64	61.53
Nominal eff. exchange rate ^{4.6}	Index	101.8	102.9	101.6	102.6	104.0	:	:	104.4	105.1	:	105.3	104.2	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	3.69	3.08	1.92	1.96	1.78	:	:	1.75	1.73	1.70	1.73	1.72	1.66
Bond yield ^{5.2}	% p.a.	8.04	7.46	7.08	6.61	6.21	:	:	6.16	6.03	:	5.95	:	:
Stock markets ^{5.3}	Index	1 726	1 736	1 731	1 887	2 406	:	:	2 554	2 570	2 756	2 672	2 774	2 821
Credit Growth ^{5.4}	Ann. % ch	4.3	8.4	9.1	4.6	3.1	:	:	4.8	5.4	:	6.1	6.8	:
Deposit growth ^{5.5}	Ann. % ch	4.8	8.2	7.9	4.3	6.0	:	:	6.4	5.7	:	5.2	7.0	:
Non-performing loans ^{5.6}	% total	11.9	11.6	10.3	6.3	6.4	:	:	6.6	6.3	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance ^{6.1}	% of GDP	-3.8	-4.2	-3.5	-2.7	-2.7	-3.0	-3.0	-1.7	-3.5	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	34.0	38.1	38.1	39.5	39.3	40.4	40.9	37.8	38.7	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2017 published November 2017

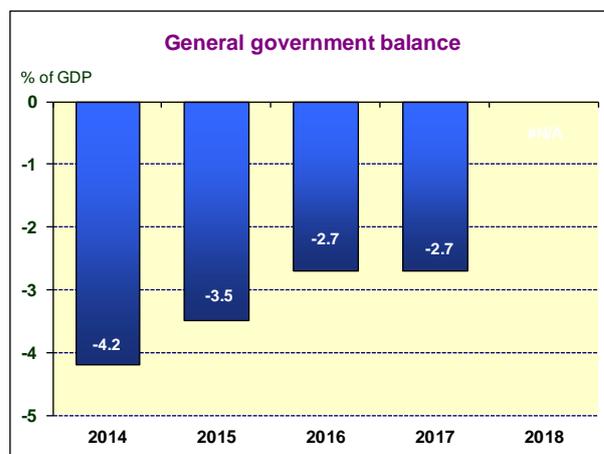
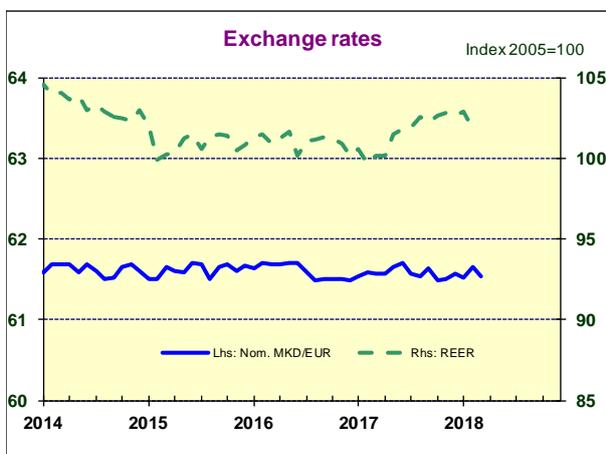
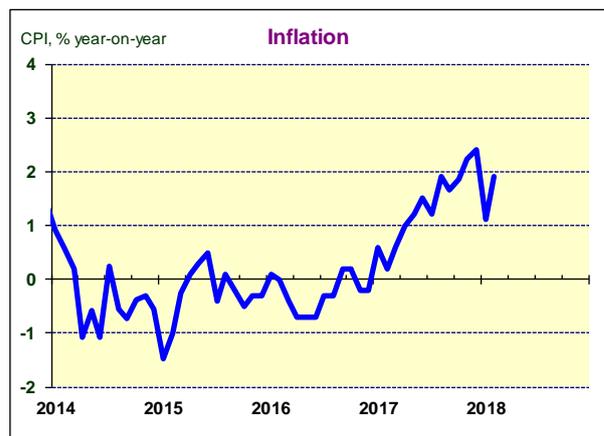
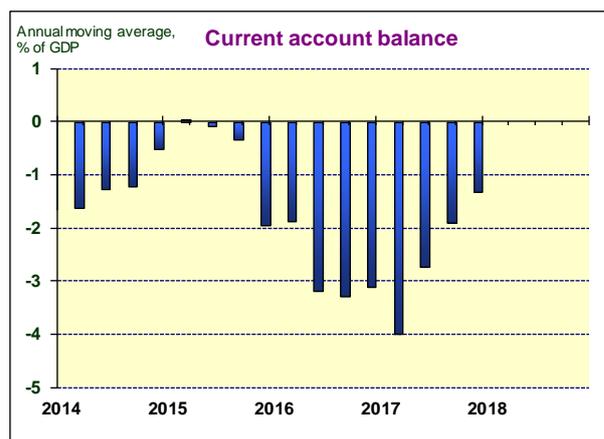
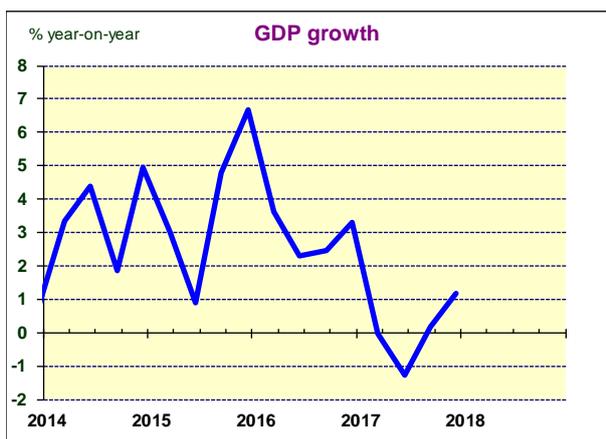
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia





Key developments

On 31 January 2018, Montenegro submitted to the European Commission its Economic and Reform Programme (ERP 2018-2020). The ERP projects economic growth to decelerate as a result of fiscal consolidation and the fading contribution of investment. The government's ambitious fiscal adjustment plan relies on achieving strong primary surpluses as of 2020 to set the public debt on a clear downward path.

On 17 April, the Commission presented its regular Enlargement Package, stressing Montenegro's macroeconomic and fiscal stability were strengthened but further efforts are required to address persistent challenges, especially the high public debt burden.

On 16 March 2018, the credit ratings agency Standard and Poor's affirmed Montenegro's B+/B' long- and short-term sovereign credit marks. The stable outlook reflects the balance between the implementation risks of Montenegro's fiscal adjustment programme and economic growth risks. On 4 April, Moody's also affirmed Montenegro's credit rating (B1) with a stable outlook, underlining the country's reliance on foreign sources of finance and the fiscal impact of the highway project as main challenges.

Real sector

Strong infrastructure investment (both public and private) keeps fuelling economic growth. In the fourth quarter of 2017, GDP grew by 4.0% y-o-y, slowing from a 4.7% y-o-y growth in the third quarter. Fixed capital formation surged by 47.1% y-o-y, while private consumption growth decelerated to 3.8% y-o-y, down from 6.4% in the previous quarter. Fiscal consolidation dented government consumption which contracted by 1.8% y-o-y. The contribution of net exports to growth declined as a result of the poor performance of exports (-4% y-o-y), combined with a 16.6% y-o-y surge in imports owing to investment needs and retailers restocking in anticipation of the VAT increase announced for 2018. Overall, thanks to the second and third quarters' strong performance, the economy grew by 4.4% in 2017, up from 2.9% a year earlier.

After recording annual contraction of 4.3% in 2017, industrial production seems set for recovery in 2018. Industrial output surged in the first two months of 2018 by 39.3% y-o-y on average, driven by a surge in electricity production after the commissioning of a wind farm and favourable weather conditions, also for hydropower production. Manufacturing recorded a moderate expansion of 15% y-o-y in the first two months of the year, driven by metal, wood and mineral products. However, mining output, in particular metal ores, contracted sharply.

The strong performance of tourism keeps supporting retail sales. After realising the strongest tourist season on record in 2017, foreign tourist arrivals surged by 36.2% y-o-y in the first two months of 2018. The higher number of visitors helped boost sales of local retailers, in particular food, which recorded a 12.4% y-o-y growth (in constant prices) in the first two months of the year.

Labour market

Unemployment remains high outside the core tourism season. In the last quarter of 2017, the unemployment rate (15-64 years old) bounced back to 17.4%, up from the historical low of 15.1% reached in the third quarter heavily influenced by the strong summer tourism season. Still, there was some minor improvement when compared with the fourth quarter of 2016, when the unemployment rate stood at 17.9%. However, employment growth in the last quarter of 2017 remained unchanged from a year earlier. Overall, the average unemployment rate declined to 16.4% in 2017, compared to 18.0% in 2016; while employment increased by 2.1% over the year.

Recent amendment to the Law on Health Insurance provides adult citizens without a job the right to health care without a need to register as unemployed. As a result, 4,946 people, previously registered as unemployed, were removed from the Employment Agency records as of January 2018. This helped reduce the registered unemployment rate to 19.1% in March 2018, compared to 22.8% a year earlier.

Fiscal consolidation and inflation are having a negative impact on real wage growth. The continuation of last year's public sector salary

freeze and the increase of VAT and excise rates as of January 2018 resulted in a 2.8% y-o-y real decline of gross wages and their stagnation in nominal terms in February.

External sector

Surging investment has kept broadening the trade deficit. In 2017, the current account deficit surged by 12.0% y-o-y to reach 18.9% of GDP, up from 18.1% recorded a year earlier. Although goods exports grew by 8.8% y-o-y, imports increased by an even faster 12% y-o-y, broadening the merchandise trade deficit to 43.9% of GDP compared to a 41.9% gap a year before. The other balances recorded positive and improving results. The services surplus increased by 8.8% y-o-y, totalling 19.7% of GDP, while the surpluses on the primary and secondary income balances amounted to 2.1% and 3.2% of GDP respectively. The current account deficit was largely covered by net FDI, totalling 11.2% of GDP, and other positive flows recorded under net errors and omissions worth an additional 3.4% of GDP.

Monetary developments

The increases in January 2018 of VAT, excise duties and regulated electricity prices are keeping inflationary pressures up. As a result, consumer prices rose by 3.6% and 3.7% y-o-y in the first two months of 2018, compared to an average of 2.8% in 2017. In February alone, the increase of excises on tobacco boosted overall inflation by 1.64 pps. By contrast, electricity price increases had a much more modest impact on annual inflation in February (0.1 pps).

Financial sector

In 2018, Montenegrin banks started reporting applying International Financial Reporting Standards (IFRS9). Preliminary data for the first two months of 2018 indicate a deceleration in credit growth, to 5.5% y-o-y in February from 11.8% at the end of 2017. In February, lending to households slowed down to 5.5% y-o-y, while corporates' credit recorded marginal contraction of 0.2% y-o-y.

By contrast, bank deposits kept growing fast at the beginning of 2018, recording a robust annual expansion of 14.5% y-o-y in February. They continued to be driven by households' deposits which expanded by 11.1% y-o-y, while

corporate deposits increased by only 2.7% y-o-y.

Despite the increase in credit activity, the ratio of non-performing loans remained stable in February: NPLs accounted for 7.3% of total loans, a similar level as at the end of 2017.

In February, the average effective interest rate on new loans rose 0.19 pps. y-o-y to 7.07% after dropping 0.8 pps. y-o-y the month before. Effective interest rates on business loans used to acquire fixed capital increased 0.57 pps. y-o-y to 6.58%, while the interest rate on consumer and mortgage loans fell by 0.48 and 0.3 pps. y-o-y to 4.14% and 5.61%, respectively.

Fiscal developments

Fiscal consolidation struggled to contain budget deficits due to contingent liabilities and a surge in capital spending. The consolidated budget deficit totalled 5.4 % of GDP in 2017, 1.2 pps higher than the revised budget target. The overrun was driven by unexpected repayment of liabilities from past years and the intensification of the highway works, which was only partly offset by higher tax collection induced by strong economic growth. In January 2018, the central government budget deficit totalled 0.6% of the projected annual GDP, substantially below the planned deficit of 1.5% of GDP, as a result of slightly better than planned revenue collection combined with substantial (-19.4%) underspending of capital budget compared to the plan.

On 19 March, the parliament approved the revision of the 2018 budget, increasing the central government deficit to 3.2% of GDP, up from 2.6% of GDP in the original plan. The revision was necessary to fund the acquisition of a 41% private stake in the state utility EPCG, and to repay debts of public companies.

The resumption of the highway works in 2017 brought new debt, increasing the debt stock by 2 pps to 65.1% of GDP by the end of the year. External liabilities account for 81.2% of the total. On 29 March, the government adopted a public debt management strategy for the period 2018-2020. One of the first measures under the strategy was the launch on 4 April of a tender to repurchase up to EUR 400 mn (or 9% of GDP) worth of Eurobonds with a view to managing upcoming debt redemption and to extending the debt maturity profile.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2013	2014	2015	2016	2017	ECFIN 2017 Autumn forecast		Q3 17	Q4 17	Q1 18	Jan 18	Feb 18	Mar 18
							2018	2019						
1 Real sector														
Industrial confidence ^{1.1}	Balance	8.7	11.1	9.8	3.0	4.5	:	:	6.0	-0.3	4.4	1.4	6.3	5.5
Industrial production ^{1.2}	Ann. %ch	10.7	-10.5	7.9	-2.1	-4.3	:	:	-1.3	2.6	:	52.4	29.6	:
Gross domestic product ^{1.3}	Ann. %ch	3.5	1.8	3.4	2.9	4.4	3.0	3.3	4.7	4.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	1.6	2.9	2.2	5.4	4.2	2.5	2.8	6.4	3.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	10.7	-2.5	11.9	27.5	15.8	3.5	1.5	8.9	47.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	9.7	2.0	5.8	31.5	51.5	:	:	40.4	69.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	11.2	2.4	4.2	4.0	5.2	:	:	5.0	6.0	:	5.7	4.8	:
2 Labour market														
Unemployment ^{2.1}	%	19.5	18.2	17.8	18.0	16.4	16.7	16.0	15.1	17.4	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	1.4	6.6	1.9	1.1	2.1	2.3	2.0	3.1	0.0	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	-0.2	-0.3	0.2	3.5	2.0	2.0	2.4	1.1	1.3	:	0.0	-0.1	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	2.1	-9.7	-9.0	6.2	8.8	:	:	28.7	-5.3	:	5.8	13.3	:
Imports of goods ^{3.2}	Ann. %ch	-2.7	0.6	3.2	12.0	11.6	:	:	6.8	22.4	:	18.6	4.3	:
Trade balance* ^{3.3}	% of GDP	-39.5	-39.8	-40.0	-41.9	-43.9	-44.0	-42.4	-41.8	-43.9	:	-44.3	-44.4	:
Exports goods and services ^{3.4}	% of GDP	41.3	40.1	42.1	40.5	41.0	:	:	66.5	25.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	61.4	60.0	60.6	62.9	65.2	:	:	53.0	70.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-14.5	-15.2	-13.2	-18.1	-18.9	-16.7	-16.0	-16.2	-18.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	9.6	10.2	16.9	9.4	11.2	:	:	9.6	11.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	423.7	544.7	673.7	803.0	897.7	:	:	787.8	897.7	:	:	:	:
Int. reserves / months imp ^{3.9}	Ratio	2.9	3.7	4.4	4.7	4.7	:	:	4.3	4.7	:	:	:	:
4 Monetary developments														
HICP ^{4.1}	Ann. %ch	1.8	-0.5	1.4	0.1	2.8	2.2	2.0	3.3	2.9	:	3.6	3.7	:
Producer prices ^{4.2}	Ann. %ch	1.7	0.2	0.3	-0.1	0.4	:	:	0.0	-0.2	:	-0.4	0.9	:
Food prices ^{4.3}	Ann. %ch	4.0	-1.4	3.0	-0.9	1.9	:	:	1.5	0.7	:	-0.5	-0.8	:
M21 ^{4.4}	Ann. %ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate ^{4.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	3.39	1.60	:	:	2.35	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	3.19	1.26	0.50	1.58	1.71	:	:	1.55	0.20	0.49	0.41	0.57	:
Stock markets ^{5.3}	Index	9 528	10 695	11 956	11 115	10 952	:	:	10 854	10 384	10 314	10 287	10 328	10 328
Credit growth ^{5.4}	Ann. %ch	3.1	-1.9	0.8	1.3	11.8	:	:	7.7	11.8	:	5.3	5.5	:
Deposit growth ^{5.5}	Ann. %ch	5.9	10.0	13.7	9.4	13.8	:	:	9.9	13.8	:	13.9	14.5	:
Non-performing loans ^{5.6}	% of total	18.4	16.8	13.4	10.3	7.3	:	:	7.4	7.3	:	7.4	7.3	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-4.6	-2.9	-8.3	-3.6	-5.4	-5.6	-2.7	0.2	-3.2	:	:	:	:
General government debt ^{6.2}	% of GDP	56.9	58.7	65.2	63.4	65.1	73.2	74.9	56.6	60.4	:	:	:	:

f: ECFIN forecast Autumn 2017 published November 2017

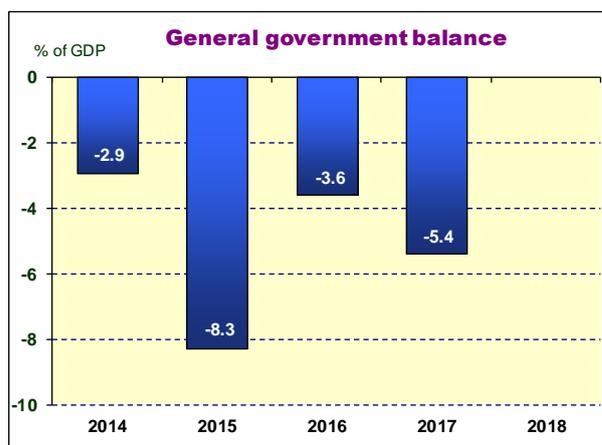
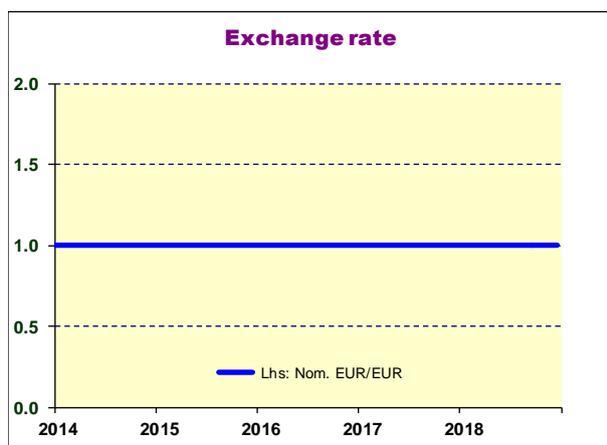
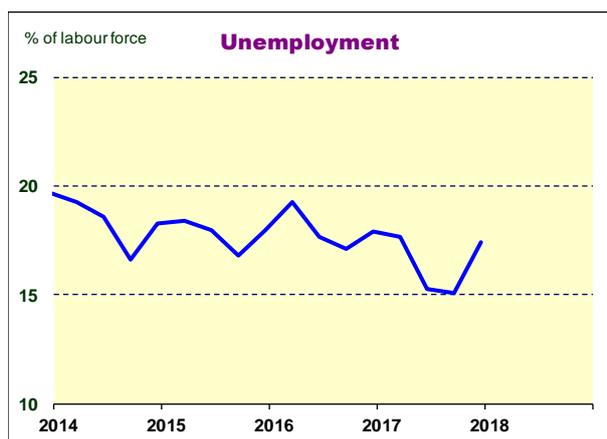
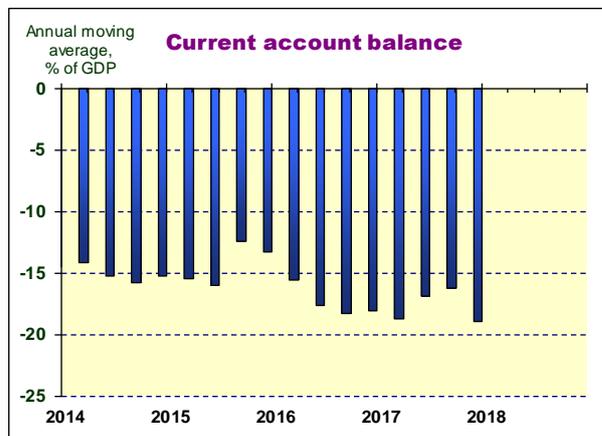
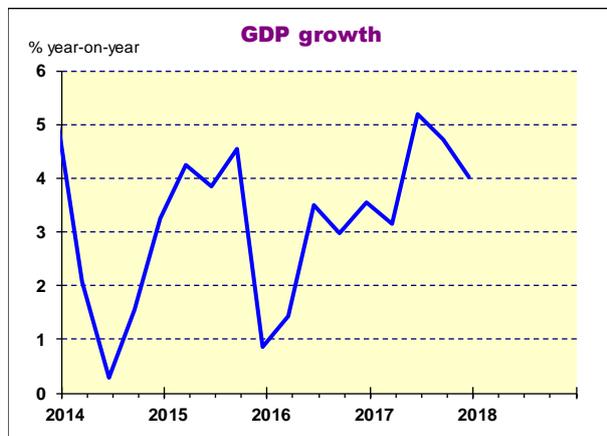
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO





Key developments

In February, Serbia successfully completed its 3-year precautionary Stand-By Arrangement with the IMF. In March, the authorities and the IMF engaged in discussions on a possible new programme, to be supported by a Policy Coordination Instrument – a recently introduced non-financing arrangement for countries which do not need IMF financial support.

The Serbian government submitted its 2018-2020 Economic Reform Programme to the Commission on 31 January 2018. It forecasts economic growth to pick up markedly to 3.5 % in 2018 and 2019 and to reach 4.0 % in 2020 on the back of recovering private consumption and robust export and investment growth. Inflation is expected to stay close to the central bank target, while net foreign direct investments are projected to fully cover the current account deficit. The programme targets a medium-term budget deficit of 0.5 % of GDP, which is sufficient to ensure fiscal sustainability and further reduce government debt.

In mid-April, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Serbia has made good progress and is moderately prepared in developing a functioning market economy. Serbia has also made some progress and is moderately prepared to cope with competitive pressure and market forces within the EU.

Real sector

Weather-related supply shocks trimmed growth to just below 2 % in 2017, well below initial expectations. However, economic expansion gathered pace in the fourth quarter with real GDP growing by 2.5 % y-o-y, sustained by a 12.4 % increase in gross fixed capital formation and a 2 pps contribution of changes in inventories. Household final consumption expanded steadily at 1.9 % y-o-y as gains in employment firmed up. Government consumption also increased, albeit only by 1.1 % y-o-y. Exports growth decelerated to 7.5 % y-o-y, while strong domestic demand drove imports growth up to 12.0 % y-o-y, resulting in a

3.1 pps negative contribution of net exports to growth in the fourth quarter.

With the notable exception of agriculture (-9.5 % y-o-y), which continued to suffer the consequences from the drought in the summer, all other sectors increased in the fourth quarter. Linked to the strong investment performance, construction grew by a staggering 17.8 % y-o-y. Sectors like wholesale and retail trade, transportation and storage, and accommodation and food service activities also expanded (4.9 % y-o-y). The recovery of industrial activity (3.7 % y-o-y) continued apace as well.

Short-term indicators point at an acceleration of growth in the beginning of 2018. In the first two months, industrial production increased by 6.9 % y-o-y. Manufacturing activity also grew strongly (8.0 %), with 21 out of 24 sub-sectors on a rising trajectory. While mining and quarrying production remained broadly unchanged, the sector of electricity, gas, steam and air conditioning supply expanded by 6.2 % y-o-y. Retail trade has also picked up in the period January-February, 4.5 % y-o-y, indicating rising domestic consumption.

Labour market

According to LFS data, the unemployment rate of population aged 15 and above stood at 14.7 % in the last quarter of 2017. It went up in comparison to the third quarter, driven by seasonal factors, and was also up by 1.7 pps y-o-y. The number of unemployed increased by 65.7 thousand or 16.0 % y-o-y as the number of those entering the labour market (97.9 thousand) surpassed gains in employment (32.2 thousand). Employment increased in the formal segment (56.5 thousand y-o-y), while informal employment, in particular in agriculture, declined by 24.3 thousand.

Registered employment increased by 2.8 % y-o-y in the fourth quarter, close to the 2017 average of 2.6 % y-o-y. The National Employment Service data on registered unemployment confirm the generally positive labour market dynamics – the number of registered jobseekers fell by 8.8 % y-o-y in 2017 and by 10.1 % y-o-y in the first quarter of 2018. Despite a steady decline in registered unemployment, wage growth was moderate last

year with gross real wages increasing by 0.9 % y-o-y. In the beginning of 2018, however, wages went up (4.8 % y-o-y in January), impacted by wage indexations in the government sector.

External sector

In 2017, the current account deficit nearly doubled in euro terms, reaching EUR 2.1 billion or 5.7 % of GDP, compared to 3.1 % a year before. Its worsening was driven by a larger trade deficit and investment income outflows. In January 2018 the merchandise deficit expanded further by 16.1 % y-o-y. However, higher surpluses in trade of services and lower primary income deficit helped containing the current account deficit and it fell by close to 50 % y-o-y.

After growing by double-digits last year, merchandise trade continued expanding in the first two months of 2018. Exports in euro terms grew by 13.8 % and imports by 16.8 % y-o-y. As a result, the trade deficit widened by 27.7 % y-o-y to EUR 749 million in the period January-February. Manufacturing exports, which represent 94 % of all goods exports, increased across the board. The only exception was exports of food products, which were negatively impacted by the lower cereals production due to the drought last year. Reflecting growing domestic demand, merchandise imports of non-durable consumer and capital goods increased by 13.8 % and 13.7 % y-o-y respectively in the first two months.

Monetary developments

After ending 2017 exactly at the midpoint of the target tolerance band of the central bank (3.0 %), inflation fell in the first quarter of the year to 1.4 % y-o-y in March. Core inflation, excluding food, energy, alcohol and tobacco, declined as well to its lowest level (0.8 % y-o-y) since the introduction of the consumer price index. The central bank reacted by lowering its key policy rate in two steps of 25 bps each in March and in April from 3.50 % to 3.00 %. In April, the central bank has also narrowed the interest rate corridor from ± 1.5 to ± 1.25 pps.

Contrary to previous seasonal patterns, since the beginning of the year the dinar exchange rate against the euro remained stable. However, given strong base effects, the dinar appreciated by 4.5 % y-o-y against the euro and by 17.4 % y-o-y against the US dollar in the first quarter, despite central bank interventions on the forex market, buying a net EUR 400 million. The real effective appreciation of the dinar accelerated to

8.0 % y-o-y in February. The NBS foreign exchange reserves increased by EUR 273 million since the end of 2017 and stood at EUR 10.2 billion in March, covering more than five months' worth of imports of goods and services.

Financial sector

In February, domestic claims were down 1.9 % since the beginning of the year. The decline was largely a result of a strong budget performance, which supported an 18.0 % increase in government deposits in the first two months. Loans to non-government sectors remained unchanged over the same period as a small increase in lending on households was largely neutralised by a fall in loans to companies. On an annual basis, the growth in lending to households decelerated to 7.5 % y-o-y in February, while corporate loans increased by 0.5 % y-o-y. The underlying credit growth, however, is much stronger as the appreciating dinar and sizeable NPL write-offs had a strong impact on the headline figures. The gross non-performing loan ratio declined further and stood at 9.9 % by the end of 2017.

Fiscal developments

In 2017, for the first time in more than a decade, the consolidated government budget was in surplus. The outcome, at 1.2 % of GDP, outperformed by far both the initial and the revised budget deficit targets. As in the previous 2 years, the better-than-expected result was mainly driven by strong revenue performance.

The robust revenue growth continued in the beginning of 2018. In the first two months, total revenue rose by 7.6 % y-o-y, driven by strong increases in income tax receipts. Revenues from taxes on imports and consumption also grew strongly, despite a steep fall in domestic VAT due to large credit refunds. Total expenditure increased by 6.7 % y-o-y, while the overall budget surplus was 22.7 % higher than in the corresponding period last year. Following wage and pension increases, expenditure on employees went up 11.8 % y-o-y and on pensions by 4.0 % y-o-y. Given base effects and markedly better execution, capital expenditure tripled in the first 2 months of the year. The strong dinar and good budget performance helped lower interest payments by 13.2 % y-o-y. In February, government debt stood at EUR 23.3 billion or 57.9 % of the estimated full-year GDP.

TABLE

European Commission, ECFIN-D-1



SERBIA

							ECFIN 2017 Autumn forecast							
		2013	2014	2015	2016	2017	2018	2019	Q3 17	Q4 17	Q1 18	Jan 18	Feb 18	Mar 18
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	5.6	-6.1	8.4	4.8	3.4	:	:	6.3	3.5	:	10.6	3.3	:
Gross domestic product ^{1.3}	Ann. %ch	2.6	-1.8	0.8	2.8	1.9	3.3	3.5	2.2	2.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	-0.4	-1.3	0.4	0.8	1.8	2.8	3.2	1.8	1.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-12.0	-3.6	5.6	5.1	6.2	5.1	5.6	6.2	12.4	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	-24.0	-3.8	13.1	5.1	9.3	:	:	12.9	25.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	-5.3	2.0	1.4	7.7	3.3	:	:	3.7	2.3	:	7.1	2.0	:
2 Labour market														
Unemployment ^{2.1}	%	22.1	19.2	17.7	13.5	15.3	11.6	9.5	12.9	14.7	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	3.7	10.1	0.6	5.6	2.8	2.0	2.1	2.4	1.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	5.7	1.2	-0.4	3.8	3.9	:	:	3.9	3.0	:	6.8	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	25.8	1.5	7.9	11.6	11.7	:	:	12.7	7.8	:	21.6	6.7	:
Imports of goods ^{3.2}	Ann. %ch	5.1	0.1	5.8	4.2	14.5	:	:	14.0	15.5	:	21.6	12.5	:
Trade balance* ^{3.3}	%of GDP	-13.0	-13.0	-13.0	-10.5	-12.3	-10.7	-10.5	-11.4	-12.3	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	41.2	43.4	46.7	50.0	52.4	:	:	52.5	52.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	51.9	54.2	56.4	57.5	61.3	:	:	60.6	61.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-6.1	-6.0	-4.7	-3.1	-5.7	-5.7	-5.8	-4.6	-5.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	3.8	3.7	5.4	5.5	6.6	:	:	6.4	6.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	11 188.8	9 907.2	10 378.0	10 204.6	9 961.7	:	:	10 635.6	9 961.7	:	9 647.6	10 234.9	:
Int. reserves / months Imp ^{3.9}	Ratio	8.7	7.7	7.6	7.2	6.1	:	:	6.8	6.1	:	5.8	6.1	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	7.9	2.1	1.4	1.1	3.1	3.3	3.0	3.0	2.9	1.6	1.9	1.5	1.4
Producer prices ^{4.2}	Ann. %ch	0.8	0.2	0.7	2.2	2.6	:	:	3.3	2.6	0.8	1.4	0.5	0.8
Food prices ^{4.3}	Ann. %ch	8.0	-0.9	1.9	-0.3	3.3	:	:	3.5	3.7	:	2.1	1.1	:
M3 ^{4.4}	Ann. %ch	4.6	7.6	6.6	11.6	3.6	:	:	5.6	3.6	:	3.9	3.5	:
Exchange rate RSD/EUR ^{4.5}	Value	113.10	117.23	120.74	123.09	121.41	:	:	119.76	119.11	118.42	118.61	118.38	118.27
Nominal eff. exchange rate ^{4.6}	Index	74.0	68.4	66.6	65.3	69.2	:	:	69.2	69.2	:	69.9	70.2	:
5 Financial indicators														
Interest rate (BEONIA) ^{5.1}	%p.a.	8.82	6.76	4.75	2.70	2.68	:	:	2.73	2.39	2.38	2.37	2.51	2.27
Bond yield (12 months) ^{5.2}	%p.a.	10.67	9.18	7.27	4.63	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1 035	1 215	1 359	1 383	1 584	:	:	1 575	1 619	1 607	1 646	1 605	1 568
Credit growth ^{5.4}	Ann. %ch	-6.5	5.8	7.0	9.0	2.2	:	:	-2.1	2.2	:	2.0	0.3	:
Deposit growth ^{5.5}	Ann. %ch	3.3	7.6	6.5	11.4	3.3	:	:	5.0	3.3	:	4.0	3.7	:
Non-performing loans ^{5.6}	%total	21.4	21.5	21.6	17.0	9.9	:	:	12.2	:	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance* ^{6.1}	%of GDP	-5.5	-6.6	-3.7	-1.3	1.2	0.0	0.0	3.3	-2.4	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	59.6	70.4	74.7	71.9	61.5	63.9	61.5	64.6	61.5	:	57.2	57.9	N.A.

f: ECFIN forecast Autumn 2017 published November 2017

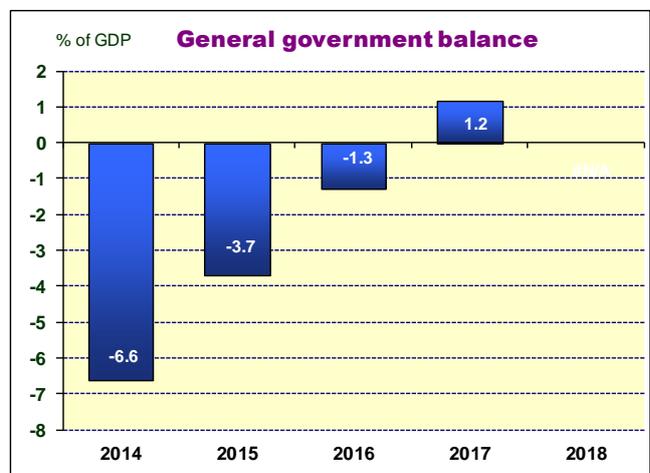
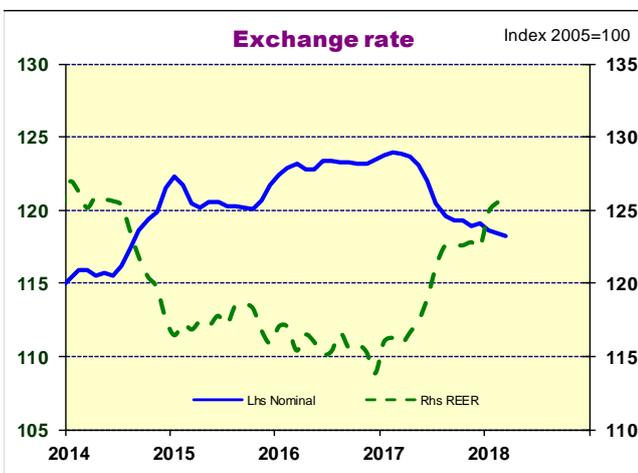
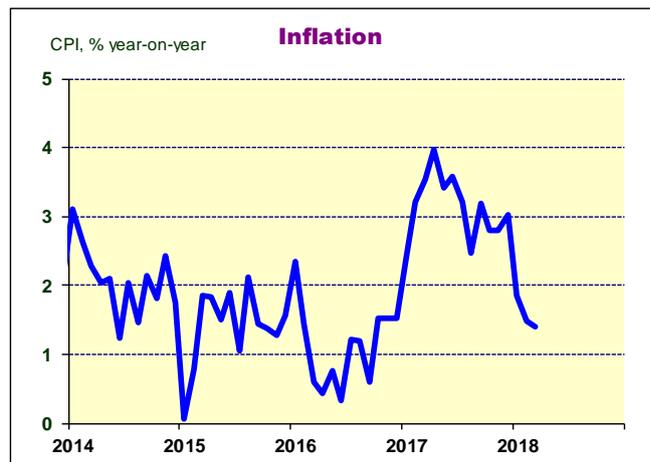
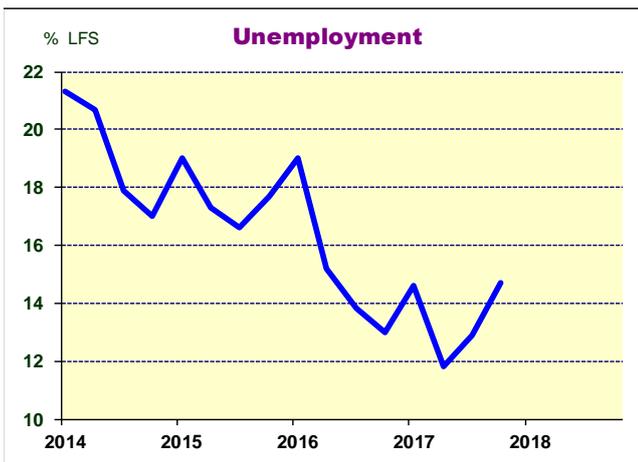
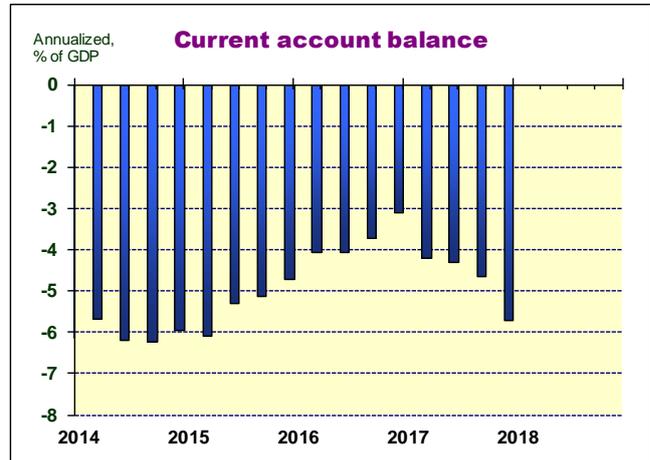
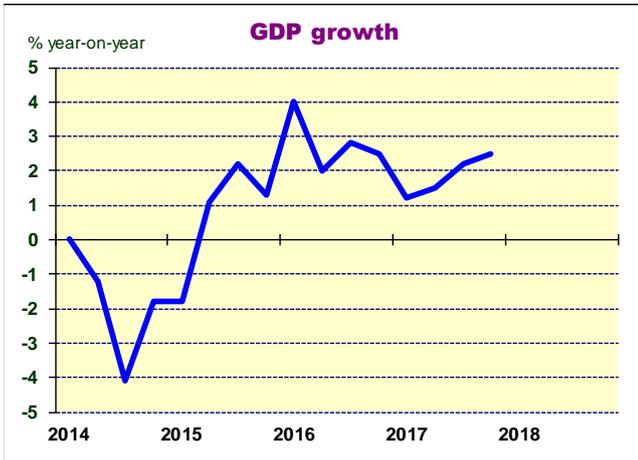
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

The Turkish government submitted its 2018-2020 Economic Reform Programme which forecasts economic growth of 5.5 % in every single year between 2018 and 2020 on the back of strong private consumption and investment growth and supported by net trade. Inflation is expected to come down to the central bank target at the end of the programme horizon. The programme targets a decline in the general government budget deficit from 1.9 % of GDP in 2018 to 1.5% of GDP in 2020.

The European Commission's annual enlargement package adopted on 17 April, confirmed that Turkey can be considered a functioning market economy but noted there was backsliding. Turkey has also made some progress and has a good level of preparation in coping with competitive pressure and market forces within the EU.

Real Sector

According to Turkstat's estimates published on 29 March 2018, real GDP decelerated to 7.3% year-on-year in the fourth quarter, down from 11.3% in the previous quarter. However, the quarterly growth rate suggests a slight acceleration of economic activity; it increased from 1.3% in the third quarter to 1.8% in the fourth quarter. An annual growth rate of 7.4% was registered over full 2017, taking into account an upward revision of the annual growth rate for the first three quarters totalling 0.3%-pt.

On the expenditure side, gross fixed capital formation saw a strong loss in momentum in the fourth quarter, dropping from an upwardly revised 13.2% for the third quarter to 6.0% y-o-y with both investments in productive capital and construction declining sharply. Household consumption growth took a hit as well, but remained relatively solid at 6.7% y-o-y, following an exceptionally high growth in the previous quarter. Government consumption accelerated to 7.4% y-o-y. The annual growth of total exports decelerated from 17.9% in the third to 9.3% in the fourth quarter, whereas the

growth of total imports accelerated from 15.0% to 22.7%.

The services sector (+9.6% y-o-y) witnessed the largest increase in real value added in the fourth quarter. After very strong growth in the third quarter, construction (+5.8% y-o-y) grew less than its average since 2010 (+11.2%). Manufacturing growth slowed down to its average since 2010 (8.2%). Industrial production increased by 8.5% y-o-y, a slowdown from the 10.4% registered in the third quarter but still faster than on average since 2010 (+5.3%). The production of passenger cars, accounting for two thirds of vehicle production, fell by 9.0% which was the main reason for vehicles production being essentially flat (+0.1% y-o-y).

High frequency indicators for the first quarter of 2018 hint at continued expansion albeit with some suggestion of easing towards the end of the quarter. The Markit PMI index stayed in optimistic territory even if it fell to 51.8 in March after reaching its highest point in three years in January. ECFIN's own sentiment indicators for construction and industrial confidence were just above historical average in the first quarter; a strong improvement for construction from 2017 Q4 and a confirmation of positive sentiment for industry. Services confidence continued to hover around break-even. Retail confidence reflected strong developments in retail sales at the beginning of the quarter but some softening towards the end.

Labour market

In the fourth quarter, annual employment growth increased to 5.4%, up from an already strong 4.5% growth in the third quarter, with the strongest growth rate again registered in jobs requiring vocational training. Employment growth well above labour force growth (3.6%) pushed down the unemployment rate (9.9% seasonally adjusted) to below 10% for the first time since 2016 Q1. The unemployment rate for higher educated (11.5%) and for those with vocational training (10.9%) improved the most best while the unemployment rate for the illiterate (6.0%) was still the lowest despite an

increase from 2017 Q3. Hourly labor costs growth accelerated further to 14.0% y.o.y in the fourth quarter, with the strongest increase in services (14.4%). Labour productivity grew at a substantial rate (+5.3% y.o.y.) as producers are still reluctant to increase the number of employees regardless of high increases in output. According to the latest surveys, the largest optimism on employment was found in the industrial sector in the first quarter. In the construction sector initial optimism waned during the quarter. In the retail sector employment perspectives saw less of an improvement than usual over the first quarter that ended positive but relatively weak in comparison with earlier years.

External sector

The current account deficit increased to 5.5% of GDP on a twelve month rolling basis at the end of 2017 driven by a strong deterioration in the merchandise trade balance (-6.9% of GDP) which was only partially off-set by an improvement in the services balance (+2.2% of GDP). The deterioration continued in the first two months of 2018 with the 12-month rolling current account deficit rising by 55.2% y.o.y. to close to 6% of GDP. Gross financial flows into Turkey increased by 60% y-o-y in the twelve months up to February again driven by a surge in portfolio inflows (+189% y.o.y), in particular debt securities (+221%), while net FDI inflows continued to decrease (-17%). Portfolio inflows accounted for 50% of gross inflows over that period, FDI for 20% and other investment for 30%. Official reserves decreased by USD 4.8 billion or 4.2% y.o.y in the twelve months till February bringing their level to USD 110 billion, corresponding to 5.7 months of imports. The foreign exchange liabilities of non-financial companies decreased by USD 3 bn to USD 212 billion (around 24% of GDP) in the twelve months till January, bringing their total to USD 222 bn.

Monetary developments

At its meeting on 7 March, the Turkish central bank decided to keep its monetary policy unchanged at its "tight stance". The effective weighted interest rate on central bank funding remained at 12.75% or 1.24%-pt higher than a year earlier. In its letter explaining the overshooting of the inflation target, the central bank pointed to lira depreciation as the main

factor, followed by commodity and food price developments, services inflation, aggregate demand conditions as well as changes in inflation expectations and pricing behaviour. In its January inflation report, the central bank revised again upwards the end-of-year inflation projection for end-2018 by 0.9%-pt to 7.9%. Inflation in the first quarter of 2018 averaged 10.3%, down from 12.3% in 2017 Q4 on the back of easing food price rises.

Financial sector

The Borsa Istanbul Index reached a historic high on 29 January 2018 but decreased thereafter to close the first quarter 1.2% lower than at its start. Interest rates along the benchmark yield curve have increased by 180 bps (10 yrs, now 12.5%) to 252 bps (2 years maturity, now 12.8%). Bank loans continued to grow strongly in the first quarter (+19.7% y.o.y.) although at a slightly reduced pace from 2017 (+21.2%). Banks' net profits increased by an average of 10.9% y-o-y in the first two months of 2018, following an increase by 30.8% y-o-y in 2017. The capital adequacy ratio of banks (16.7) was slightly higher in the first two months of 2018 than on average in 2017 (16.5). The NPL ratio stood at 2.9% in the first quarter, slightly lower than in 2017. The loan-to-deposit ratio set yet another all-time high in January 2018 (127.1).

Fiscal developments

The central government registered a budget deficit of 1.5% of GDP in 2017, overperforming the deficit target that was upwardly revised to 1.9% of GDP in October largely on the back of positive developments in revenue collection. The central government budget deficit increased to TRY 20.4 bn in 2018 Q1 from 14.9 bn in 2017 Q1 as expenditures (+17.7% y.o.y) increased faster than revenues (+15.7%).

The government submitted early March a VAT reform that aims to deal faster with VAT returns. The VAT reform is expected to lead to retrospective VAT repayments of maximum TRY 140 bn of which TRY 70 – 80 bn to the private sector. The government also announced an investment package worth TRY 135 bn that will focus more on large investment projects than its predecessor incentives programme.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2013	2014	2015	2016	2017	ECFIN 2017 Autumn forecast		Q3 17	Q4 17	Q1 18	Jan 18	Feb 18	Mar 18
							2018	2019						
1 Real sector														
Industrial confidence ^{1.1}	Balance	106.6	104.6	103.5	105.2	108.0	:	:	110.6	106.4	110.3	108.3	110.8	111.9
Industrial production ^{1.2}	Ann. % ch	3.5	3.5	2.9	1.8	6.3	:	:	10.2	7.8	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	8.5	5.2	6.1	3.2	7.4	4.0	4.1	11.3	7.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	8.0	2.9	5.4	3.6	6.2	4.5	4.0	11.1	6.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	13.8	5.1	9.3	2.2	7.3	4.0	4.2	13.2	6.0	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	16.4	38.7	-9.0	16.5	57.4	:	:	222.1	-17.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	6.2	3.8	6.7	2.2	5.7	:	:	10.1	5.6	:	10.7	:	:
2 Labour market														
Unemployment ^{2.1}	%	N.A.	10.1	10.5	11.1	11.1	11.0	10.7	10.8	10.5	:	:	:	:
Employment ^{2.2}	Ann. % ch	N.A.	N.A.	2.5	2.2	3.5	3.1	3.1	4.3	5.4	:	:	:	:
Wages ^{2.3}	Ann. % ch	12.4	14.2	14.9	18.4	12.4	9.4	8.3	9.4	12.7	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	0.0	3.5	-9.0	-0.7	10.2	:	:	11.4	10.1	:	7.5	8.9	:
Imports of goods ^{3.2}	Ann. % ch	7.3	-4.0	-14.8	-3.8	17.2	:	:	23.2	23.5	:	37.1	19.6	:
Trade balance* ^{3.3}	% of GDP	-8.4	-6.8	-5.6	-4.8	-6.9	-8.2	-8.4	-6.0	-6.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	22.3	23.8	23.3	22.0	24.8	:	:	24.4	24.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	28.1	27.6	26.0	24.9	29.3	:	:	28.1	29.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.8	-4.7	-3.8	-3.8	-5.5	-4.2	-4.4	-4.7	-5.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.4	1.4	2.1	1.6	1.3	:	:	1.4	1.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bio EUR	130.3	128.3	110.5	106.1	107.7	:	:	111.9	107.7	110.0	116.1	114.4	110.0
Int. reserves / months Imp ^{3.9}	Ratio	6.2	6.4	6.4	6.4	5.5	:	:	6.1	5.5	:	5.8	5.7	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	7.5	8.9	7.7	7.8	11.1	8.5	7.4	10.6	12.3	10.3	10.3	10.3	10.2
Producer prices ^{4.2}	Ann. % ch	4.5	10.2	5.3	4.3	15.8	:	:	16.0	16.7	13.4	12.1	13.7	14.3
Food prices ^{4.3}	Ann. % ch	9.1	12.6	11.1	5.8	12.7	:	:	11.5	14.1	9.8	8.8	10.3	10.4
M4 ^{4.4}	Ann. % ch	19.0	16.0	17.8	12.7	17.7	:	:	18.2	17.9	15.7	14.3	15.8	17.0
Exchange rate TRY/EUR ^{4.5}	Value	2.57	2.90	3.03	3.34	4.15	:	:	4.16	4.54	4.76	4.68	4.66	4.92
Nominal eff. exchange rate ^{4.6}	Index	78.87	69.40	64.20	59.10	48.22	:	:	48.74	44.94	:	43.97	43.59	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	6.60	9.84	10.48	9.88	12.20	:	:	12.48	13.24	13.50	13.92	13.29	13.30
Interest rate, long term ^{5.2}	% p.a.	7.77	9.18	9.30	10.19	11.11	:	:	10.72	11.97	:	11.90	11.92	:
Stock markets ^{5.3}	Index	77 977	75 190	80 641	77 177	98 993	:	:	106 411	107 829	116 573	116 792	116 249	116 679
Credit growth ^{5.4}	Ann. % ch	34.7	18.4	20.4	16.2	21.2	:	:	23.5	21.2	19.7	18.2	19.4	19.7
Deposit growth ^{5.5}	Ann. % ch	24.1	11.6	18.6	17.7	17.7	:	:	21.5	17.7	18.1	15.1	16.7	18.1
Non-performing loans ^{5.6}	% total	2.8	2.8	2.9	3.2	3.1	:	:	3.1	2.9	2.9	2.9	2.9	2.9
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	0.1	0.1	1.3	-0.9	-2.4f	-1.8	-2.6	-0.3	-0.8	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	31.3	28.6	27.5	26.4	28.2f	27.9	28.0	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2017 published November 2017

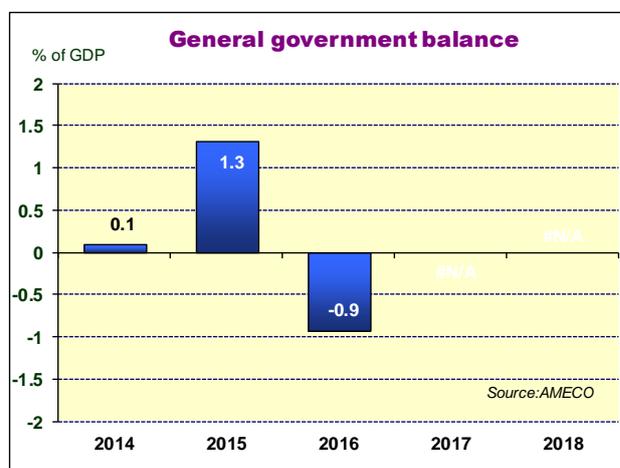
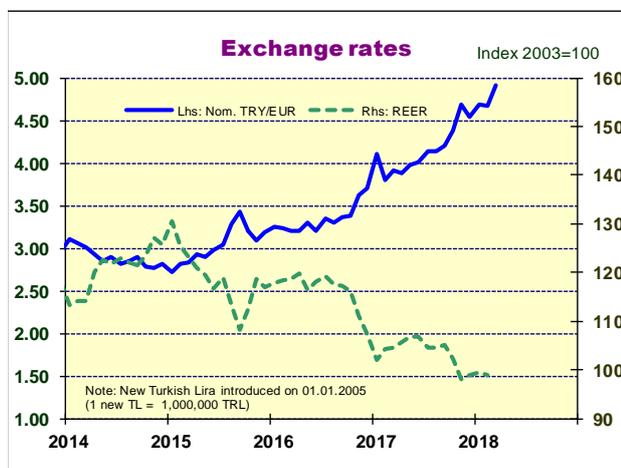
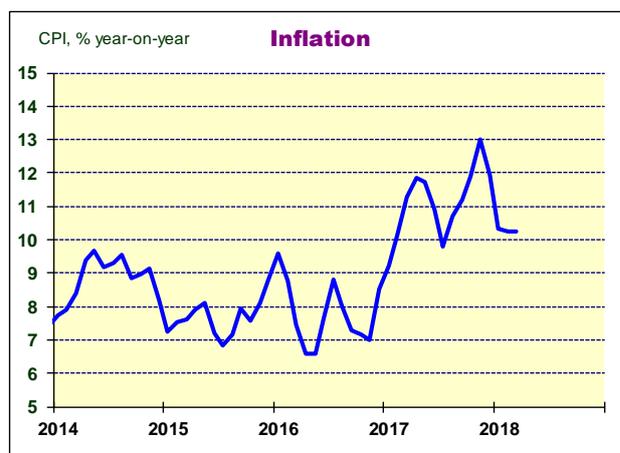
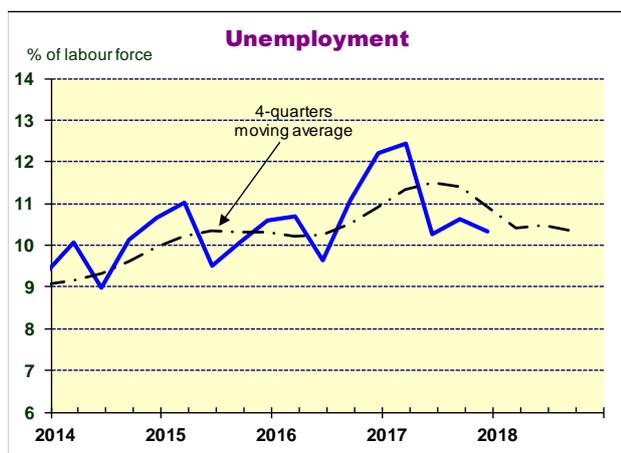
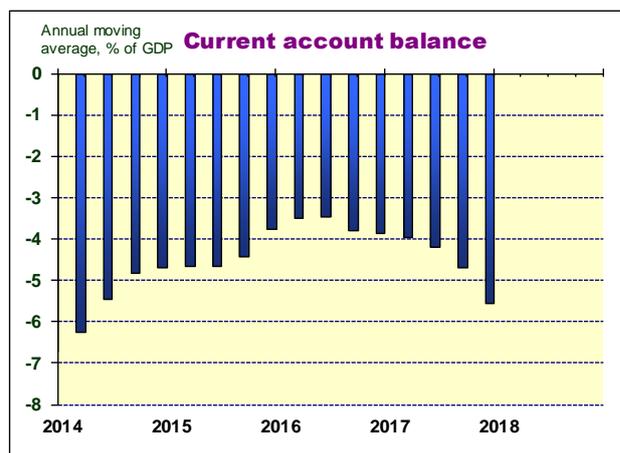
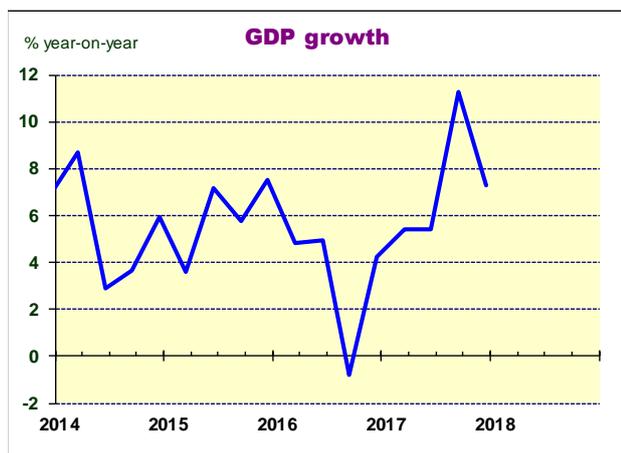
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

TURKEY



BOSNIA AND HERZEGOVINA



Key developments

On 9 February, the IMF completed the first review of the Extended Fund Facility and approved the disbursement of another tranche (€75 million, 0.5% of GDP). Overall, the IMF noted progress in achieving program objectives and targets. While the implementation of some key policies has been slower than envisaged at the time of program request, the authorities have made notable progress in maintaining fiscal discipline, safeguarding financial stability, and improving the business environment.

On 2 March, the BiH authorities submitted their 2018-2020 Economic Reform Programme to the Commission. It envisages economic growth to pick up moderately, from expected 3.4% in 2018 to 3.9% in 2020, mainly driven by investment and private consumption, which is benefitting from rising employment and low inflation. The general government surplus is expected to increase further, reaching 1.8% of GDP in 2020, mainly due to a strong decline in public spending. The realisation of this scenario depends on a clear improvement in the country's investment climate, improved governance and policy commitment.

On 17 April, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Bosnia and Herzegovina has made some progress, but is still at an early stage in establishing a functioning market economy. Furthermore, with respect to coping with competitive pressure and market forces within the Union, the country has made some progress but has also remained at an early stage.

Real sector

According to preliminary expenditure data, output expanded by 1.6% in 2017, after 3.3% and 3.8% in 2016 and 2015. The main drivers were exports and private consumption, while investment was 2.8% lower than in 2016. However, production side data points to a significantly stronger growth of 3% in 2017, a similar increase as in the two previous years. Wholesale trade and manufacturing were the main sources of growth, accounting for two thirds of the country's annual growth, while agriculture and forestry reduced overall growth by 0.3 percentage points.

High-frequency indicators, such as industrial production or retail sales, point so solid growth in January, increasing by 8.4% and 15.6%, respectively, but to a slowdown in February, declining to 3.6% and 4.2%, respectively.

Labour market

The increase in registered employment accelerated in the fourth quarter, to 3.9% year-on-year, compared to 2.7% in the third quarter. This brought the annual increase in registered employment to 3.5%, compared to 2.1% during 2016. The main sectors with employment growth were manufacturing, construction, but also tourism. The number of registered unemployed has continued to decline. In January, it was lower by 7% y-o-y, which reflects 36 thousand registered unemployed less than a year before. The administrative unemployment rate dropped by three percentage points during the last year (from 40.6% in January 2016 to a still worrying 37.5% in January 2017). Youth unemployment remains above 60%.

Nominal wages rose by 1.5% year-on-year in the fourth quarter, largely unchanged when compared to the third quarter. In January, nominal wages were 3% higher than a year before. When taking into account consumer price inflation, real wages in the fourth quarter of 2017 were about 1.7% higher than a year before.

External sector

The current account deficit deteriorated in the fourth quarter, with its 4-quarter moving average increasing to around 4.7% of GDP, compared to 4.3% in the four quarters to September 2017. Commodity exports increased by 9% year-on-year in the fourth quarter, but growth of commodity imports was even stronger, at 9.9%.

In the whole year of 2017, the value of goods exports rose by 16.8% in 2017, compared to 7% the year before. This strong acceleration was largely due to higher exports to neighbouring countries, in particular Serbia and Croatia, contributing nearly one third to overall export growth. Trade to the EU, including Croatia and Slovenia, contributed nearly 9 percentage points to the nominal increase, while trade to the

Western Balkan countries contributed about 3 percentage points to the overall growth rate. Merchandise imports increased by +11.9% in 2017.

FDI inflows accounted for about 2.1% of GDP (4-quarter moving average) by end-2017, compared to 1.5% of GDP the year before. In the first three quarters of 2017, the main countries of origin for FDI were Switzerland, Slovenia and Saudi Arabia. Foreign reserves remained largely unchanged in terms of import coverage, at slightly above 7 months.

Monetary developments

Inflation remained largely unchanged during the fourth quarter, accounting for 1.3% year-on-year, compared to 1.2% in the third quarter, to a large extent driven by higher prices for food, alcoholic beverages and housing. However, inflationary pressures subsided again in January and February, partly due to lower prices for clothing. For the whole year of 2017, the annual average increase in the consumer price index was 1.2%, compared to a year-on-year decline in the price level by 1.1% in 2016.

The annual growth of the monetary aggregate M2 remained high in the fourth quarter, at 9.9% compared to 9.8% in the second quarter. This largely reflects strong growth in deposits.

Financial sector

Annual domestic credit growth remained strong at 6.7% in the fourth quarter, with similar increases in January and February. Household and corporate credits, accounting in nearly equal shares for about 90% of total loans, continued to be the main driving force behind this trend. Household loans rose by 6.6% y/y and accelerated to 7% in January and February, compared to 6.7% in July-September. Corporate credits increased slightly faster, by 8.2% in the fourth and by 8.0% and 8.2% in January and February, respectively, compared to 7.9% in the third quarter. Loans to entities, cantons and municipalities, which account for around 5% of total credits, were largely unchanged in the fourth quarter, as slight reductions in October and November (by some 1%) were largely compensated by an increase by 2.4% in December. In January and February, overall lending to the public sector remained largely at the same level as a year before.

Growth of total deposits continued to strengthen in the fourth quarter, reaching 11.4% year-on-year, compared to 10.6% in July-September. In

January and February, deposit growth remained strong, at 11.2%. As a result of the robust increase in deposits, the loan-to-deposit ratio continued to be below the 100% mark (at 92.5% in February), compared to 96.4% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 10% in the fourth quarter, compared to 11.8% a year before. At the same time, loan-loss provisioning has further improved, with the coverage ratio climbing to 77.8 in the fourth quarter, from 75.8% in the fourth quarter of 2016. Banking sector profitability has continued to drop slightly as the return on equity fell to 10.3% in the fourth quarter from 11.7% in the third quarter. The return on average assets dropped to 1.5%. The banking system's overall capital adequacy ratio remained largely unchanged, at 15.7% in the fourth quarter, compared to 15.8% a year before. This overall level is clearly above the country's regulatory minimum of 12%. However, there are big differences among the various banks.

Fiscal developments

According to preliminary data, public sector revenues performed well in the first three quarters of 2017, increasing by 8% year-on-year. The main driver of this growth was tax revenue, accounting for about two thirds of the overall increase. Public spending during the first nine months was only 2% higher than a year before. However, there seems to have been a significant acceleration in spending in the third quarter, in particular in the areas of grants, subsidies and spending for public goods and services, while spending on public wages has remained contained. There is no reliable data on public investment available yet. However, anecdotal evidence suggests lower than planned spending on investment, partly due to political stalemates and the resulting delays in securing financing and implementation. This would suggest that the general government accounts might have again registered a slight surplus in 2017, as in the previous two years.

The latest available public debt data points to a drop in the debt-to-GDP ratio, to some 36% at the end of 2017 compared to 40% a year earlier. The currency composition remained largely unchanged: about 15% of the debt was denominated in domestic currency, the remaining 85% in foreign currency. The three largest holders of foreign debt are the World Bank, the European Investment Bank (EIB) and the EBRD, accounting for about 23%, 22% and 10% of the country's total foreign public debt, respectively.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

		2013	2014	2015	2016	2017	Q3 17	Q4 17	Q1 18	Jan 18	Feb 18	Mar 18
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.						
Industrial production ^{1.2}	Ann. %ch	5.2	0.2	3.1	4.4	3.1	5.5	2.7	:	8.4	3.6	:
Gross domestic product ^{1.3}	Ann. %ch	2.6	0.2	3.8	3.3	1.6	1.8	3.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	2.7	2.7	1.3	1.3	:	2.0	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-1.2	11.5	-3.5	2.5	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	-25.8	22.2	-22.7	34.0	-6.9	3.5	-6.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	4.6	1.8	7.8	7.0	5.1	4.4	4.7	:	15.6	4.2	:
2 Labour market												
Unemployment ^{2.1}	%	27.5	27.5	27.7	25.4	20.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	1.0	-1.2	1.2	-2.6	1.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	0.1	-0.1	0.0	0.9	1.6	1.6	1.5	:	3.0	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. %ch	9.5	3.0	5.1	7.0	16.8	23.1	9.0	:	25.5	10.9	:
Imports of goods ^{3.2}	Ann. %ch	-0.7	7.1	-2.3	2.4	11.9	14.0	9.9	:	24.2	1.3	:
Trade balance* ^{3.3}	%of GDP	-25.0	-27.8	-24.2	-22.7	-23.5	-23.1	-23.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	31.8	32.8	33.5	34.3	38.2	37.8	38.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	51.1	54.7	51.4	50.4	54.7	53.9	54.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-5.0	-7.1	-5.2	-4.7	-4.7	-4.3	-4.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	1.2	2.8	1.6	1.5	2.1	2.2	2.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	3 574.1	4 118.4	4 290.6	4 928.3	5 376.5	5 302.6	5 376.5	:	5 259.9	5 551.0	:
Int. reserves / months Imp ^{3.9}	Ratio	5.5	5.9	6.3	7.2	7.0	-19.6	-20.0	:	6.8	7.1	:
4 Monetary developments												
CPI ^{4.1}	Ann. %ch	-0.1	-0.9	-1.0	-1.1	1.2	1.1	1.3	:	0.3	0.9	:
Producer prices ^{4.2}	Ann. %ch	-2.2	-0.2	-0.6	-0.9	1.8	0.7	2.9	:	2.4	2.0	:
Food prices ^{4.3}	Ann. %ch	0.0	-2.7	-0.9	-1.1	0.9	1.2	1.8	:	:	:	:
M2 ^{4.4}	Ann. %ch	5.7	7.5	8.0	7.8	9.8	9.8	9.9	:	9.4	9.0	:
Exchange rate BAMEUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate ^{4.6}	Index	103.6	104.99	103.92	105.22	106.04	106.25	106.71	:	:	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.						
Bond yield ^{5.2}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.						
Stock markets ^{5.3}	Index	770	707	701	692	627	625	613	610	583	607	639
Credit growth ^{5.4}	Ann. %ch	2.7	3.7	1.8	2.1	5.3	6.4	6.7	:	6.9	6.8	:
Deposit growth ^{5.5}	Ann. %ch	5.1	8.4	6.2	7.7	10.4	10.6	11.4	:	11.2	11.2	:
Non performing loans ^{5.6}	%total	14.5	15.2	13.9	12.3	10.9	10.8	10.0	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	%of GDP	-2.0	-2.0	0.6	1.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt* ^{6.2}	%of GDP	35.5	40.1	40.4	39.1	:	:	:	:	N.A.	N.A.	N.A.

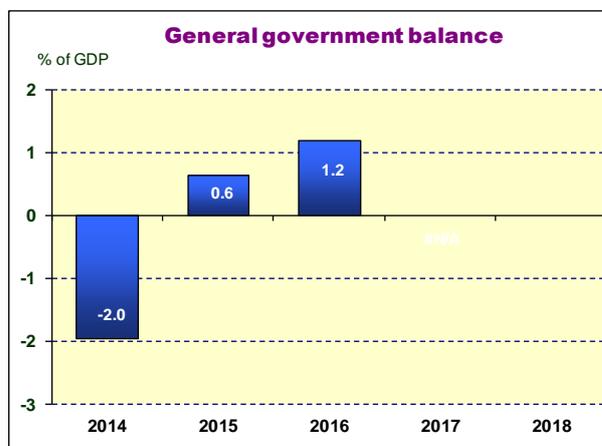
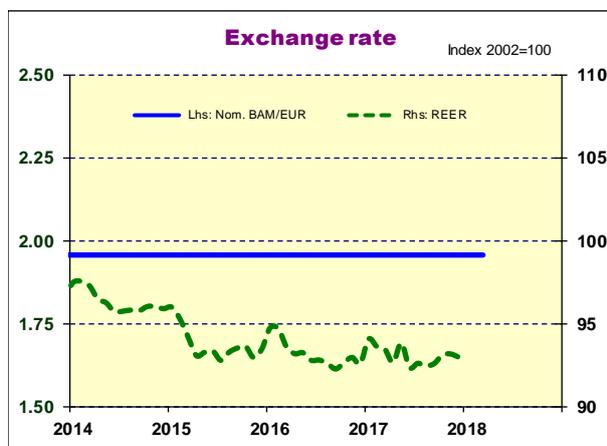
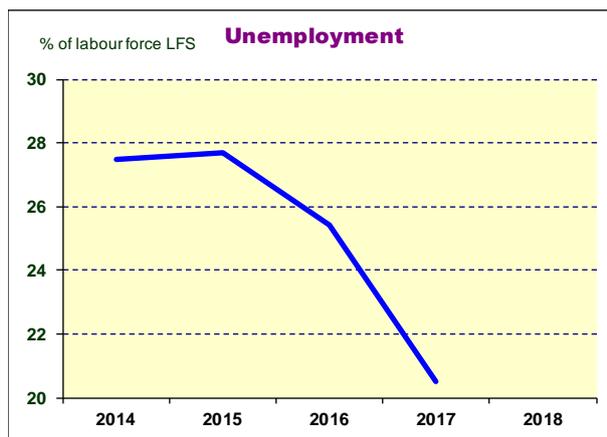
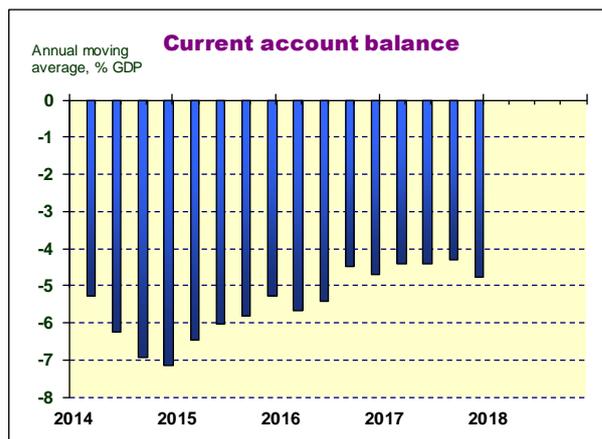
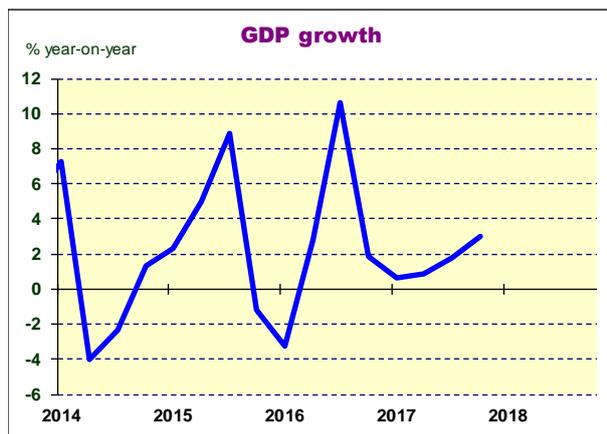
* Q figures refer to a 4 quarters moving average and refers only to foreign public debt.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

In January, Kosovo submitted its 2018 Economic Reform Programme (ERP) to the Commission, covering 2018-2020. It projects a more optimistic growth outlook than in the previous year with GDP growth strengthening from 4.1% in 2016 to 5.1% in 2020. Private consumption is set to be the key driver of growth. Further impetus is expected from large infrastructure investment which will be financed by the IFIs and privatisation proceedings. The ERP underlines Kosovo's commitment to sustainable public finance. The budget deficit, as calculated according to the fiscal rule is planned to stay below the 2% of GDP threshold. Government debt is forecast to increase to a still moderate level of 17.6% of GDP in 2018.

In March, Kosovo's Parliament ratified a 2015 border agreement with Montenegro, fulfilling a key condition for the country to gain visa-free travel to the European Union.

In mid-April, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Kosovo is still an early stage of preparedness, but has made a good progress towards developing a functioning market economy. Kosovo has made some progress and is at an early stage in terms of capacity to cope with competitive pressure and market forces within the EU.

Real sector

In the last quarter of 2017 economic growth decelerated to 3.2% y-o-y from 4.4% in the third quarter. Based on quarterly data for 2017, annual GDP growth was recorded at 3.74%. Mainly driven by public works, gross fixed capital formation increased by 10.7% y-o-y in 2017, providing the largest contribution to growth. Government and household consumption decreased by 0.7% y-o-y and 1.3% y-o-y, respectively, on the back of the prolonged formation of a new government and related political uncertainty, which impacted on consumer confidence. Net exports of goods and services provided a positive contribution to GDP growth (2.5p.p.) owing to an increase in

exports (5.3% y-o-y) which has outpaced import growth (2.8% y-o-y). Kosovo's exports are dominated by minerals and base metals which benefited from the global recovery of commodity prices. In 2017 gross value added grew by 3.6% y-o-y and was driven by the mining, and accommodation sectors (increases of 26.5% and 19.7% y-o-y, respectively) with small positive contributions from the transportation, construction and trade sectors. Financial activities and other services recorded small negative growth contributions.

In the fourth quarter of 2017, industrial turnover increased by an estimated 6.5% y-o-y. Turnover in the mining sector rose by 31.3% y-o-y and in the manufacturing sector by 3.2% y-o-y. Productivity per employee increased in both sectors as higher turnover was achieved with smaller number of employees as compared to the previous quarter.

Labour market

According to the labour force survey, the labour market exhibited a mixed performance in 2017. In the last quarter of 2017 the labour force participation rate stood at 42.9%, growing by 4.2 percentage points y-o-y. The unemployment rate in the fourth quarter increased to 30.6% from the 28.7% in the same quarter in 2016. The employment rate grew to 29.8% from 29.5% over the same period, which represents a very marginal improvement. The youth jobless rate (15-24 years) increased to a staggering 55.9% in Q4 from 53.3% in Q3. Labour market outcomes are especially poor for women, as only one in five women of working age are active in the labour market and only one in six is employed.

External sector

In 2017, the current account deficit narrowed substantially to 5.9% of GDP from 8.3% in 2016. The goods and services deficit declined to 26.3% of GDP from 28.6% in the previous year, due to recovering prices of base metals and strong service exports. In line with stronger growth in the EU, worker remittances increased, accounting for 11.2% of GDP. On the financing side, net inflows of FDI edged up to 3.9% of GDP from 2.9% in the previous year. Portfolio investments recorded a net outflow of 0.2% of

GDP. The traditionally high net errors and omissions decreased substantially from 6% to 1% of GDP, still indicating non-recorded capital inflows.

Following strong performance in January (14.3% y/y) goods export growth turned negative in February (-5.5% y/y) as compared to the corresponding month in 2017. This development was driven by lower exports of foodstuffs and mineral products while exports of base metals, plastic and rubber articles have increased. In the first two months of 2018 total goods exports expanded on average by 3.9% y-o-y while total imports of goods rose by 16.1% y-o-y, with base metals, machinery and electric materials being the main import drivers. During January-February the overall merchandise trade deficit increased by 17.9% y-o-y.

Monetary developments

Kosovo's inflation rate is heavily influenced by price developments in the main trading partners, namely the EU. In 2017, the annual average CPI inflation was 1.5% y-o-y with the largest positive contribution coming from rising food prices. In the first three months of 2018 consumer prices were on average stable. Core inflation accelerated from 0% y-o-y in January to 0.4% y-o-y in March while negative contribution came from declining energy prices, which subtracted 0.4pps in each month.

The annual average producer price index increased by 3.4% y-o-y, and the construction cost index grew by 1.8% y-o-y in 2017. Their increases result from energy, construction and electrical materials price rises. Average annual increase of import prices stood at 4% in 2017 due to increases in food as well as mineral and metal products prices.

Financial sector

Strong credit growth (10.5% on average in 2017) has continued in the first two months of 2018 (11.3% y-o-y). Loans to households have increased by nearly 13% y-o-y in the first two months while loans to firms were slightly behind with a growth rate of 10.8% y-o-y. The credit expansion was supported by lower interest rate, better project preparation by enterprises and collateral insurance for SME loans by Kosovo's Credit Guaranteeing fund.

Total deposits growth in commercial banks slowed down to 6.9% y-o-y on average in January-February as compared to 8.5% over the

same months in 2017. The loans to deposit ratio rose to nearly 80% in February, from 77% a year ago, suggesting a continuous increase, but still substantial room for stronger banking activity.

After a small spike to 7.1% in January, the average lending rate for new loans stood at 6.9% in February. This is slightly above the annual average of 6.83% for 2017, suggesting a possible reverse of a downward trajectory in the previous year when the lending rate declined from 7.7% in January to 6.8% in December.

Financial soundness indicators in the banking sector remained satisfactory throughout the first two months of 2018. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 38% in February 2018, compared to 37% at the end of 2017. The capital adequacy ratio was 17.9%, well above the regulatory minimum of 12%. The already low NPL ratio decreased further to 3.1% as the Central Bank continued to implement stricter write-off standards. Existing NPLs are fully covered by loan loss provisions (154.3%).

Fiscal developments

According to preliminary 2017 budget outcome figures, as presented in the country's Economic Reform Programme, the budget deficit was 0.7% of GDP in 2017, well below the limit of 2% defined by the fiscal rule. Total government revenues grew by staggering 5.3%, on the back of improved collection of VAT revenues following stronger imports and higher income from custom duties than in 2016. Total expenditure rose by 4.9% year-on-year. Current expenditure grew by 4.8%, mainly due to limited growth of the wage bill. On the other hand, capital spending increased by 5.4% y-o-y, thus maintaining its share in total spending largely unchanged at 26.9%. Overall execution of the capital budget was around 90%.

At the end of 2017 total public debt with guarantees reached 16.6% of GDP, not including Kosovo's share of the London and Paris club debt of the former Yugoslavia, which is currently estimated at around 5% of GDP. The government has continued issuing domestic debt, which now amounts to 55.9% of overall public debt, with a continuously falling yield. Weighted average interest rate declined from 2.09% in 2016 to 1.86% in late 2017. In contrast average maturity of domestic debt has been gradually increasing from 4.8 to 5.4 years over the same period.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2013	2014	2015	2016	2017	Q3 17	Q4 17	Q1 18	Jan 18	Feb 18	Mar 18
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.						
Industrial production ^{1.2}	Ann.%ch	3.2	0.0	1.3	-1.3	:	10.5	:	:	:	:	:
Gross domestic product ^{1.3}	Ann.%ch	3.4	1.2	4.1	4.1	3.7	4.4	3.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	2.0	4.9	3.8	4.8	-1.5	-7.6	0.1	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann.%ch	-0.3	-5.0	11.3	7.5	10.9	8.8	4.0	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	N.A.	N.A.	N.A.	N.A.	N.A.						
Retail sales ^{1.7}	Ann.%ch	N.A.	11.6	7.1	6.5	12.0	11.8	6.8	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	30.0	35.3	32.9	27.5	:	:	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	11.8	-4.4	-8.2	11.8	:	:	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	N.A.	N.A.	5.8	:	:	:	:	:	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann.%ch	6.4	10.4	0.2	-4.8	22.1	42.9	11.8	:	14.3	-5.5	:
Imports of goods ^{3.2}	Ann.%ch	-2.3	3.6	3.8	5.9	9.2	10.3	11.0	:	32.8	3.7	:
Trade balance** ^{3.3}	%of GDP	-40.5	-39.8	-39.8	-40.9	-41.8	-42.9	-44.2	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	%of GDP	21.9	22.5	21.9	22.2	26.5	26.8	28.1	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	%of GDP	49.6	51.2	50.4	50.8	52.9	54.1	56.0	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	%of GDP	-3.4	-6.9	-8.6	-8.3	-5.9	-6.7	-6.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** ^{3.7}	%of GDP	5.3	2.7	5.3	3.6	4.4	4.1	4.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 504.3	1 266.4	1 302.6	1 161.7	1 242.7	1 345.6	1 242.7	:	1 313.7	1 292.5	:
Int. reserves / months Imp ^{3.9}	Ratio	7.4	6.0	5.9	5.0	4.9	5.4	4.9	:	5.1	5.0	:
4 Monetary developments												
HICP ^{4.1}	Ann.%ch	1.8	0.4	-0.5	0.3	1.5	1.7	0.7	:	-0.2	0.0	:
Producer prices ^{4.2}	Ann.%ch	2.4	1.6	2.7	-0.1	0.6	0.4	1.6	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann.%ch	1.5	0.1	0.3	-0.2	:	:	:	:	:	:	:
Broad money liabilities ^{4.4}	Ann.%ch	17.3	-4.2	6.4	8.4	6.3	9.8	6.3	:	7.7	7.8	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) ^{4.6}	Index	106.5	106.7	104.7	N.A.	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate ^{5.1}	%p.a.	11.82	10.62	8.32	7.47	6.83	6.58	6.79	:	7.10	6.90	:
Bond yield ^{5.2}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.						
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.						
Credit growth ^{5.4}	Ann.%ch	3.6	3.4	6.9	9.1	10.5	9.9	11.1	:	11.4	11.1	:
Deposit growth ^{5.5}	Ann.%ch	6.6	7.2	5.6	4.8	8.6	8.9	8.0	:	6.6	7.3	:
Non-performing loans ^{5.6}	%total	8.7	8.3	6.2	4.9	:	:	:	:	:	:	:
6 Fiscal developments												
General government balance** ^{6.1}	%of GDP	-3.1	-2.2	-2.0	-1.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	8.9	10.7	13.1	14.6	16.6	:	:	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

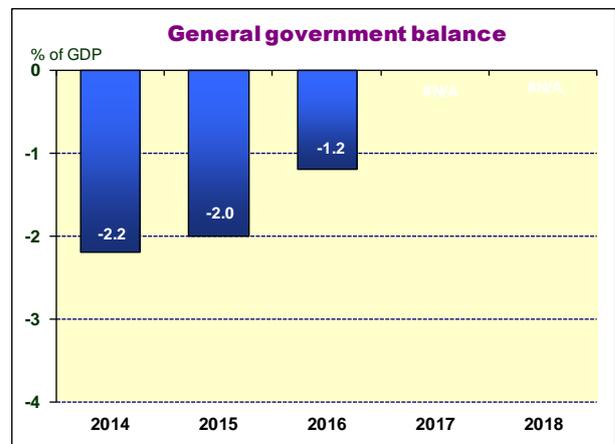
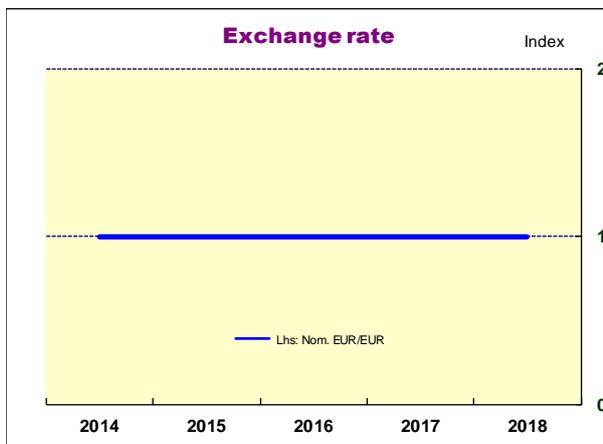
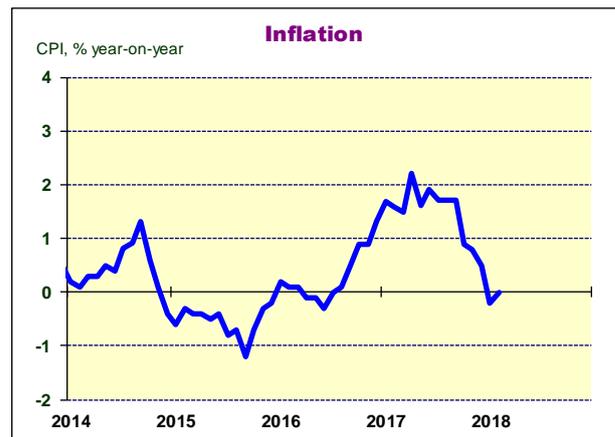
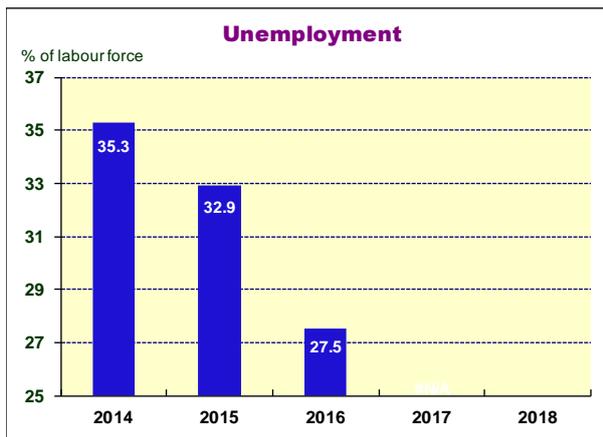
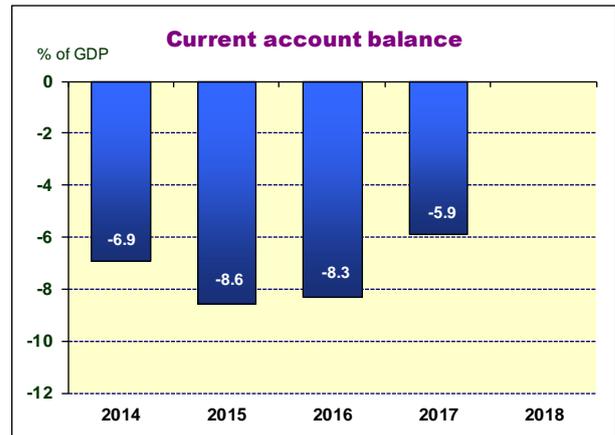
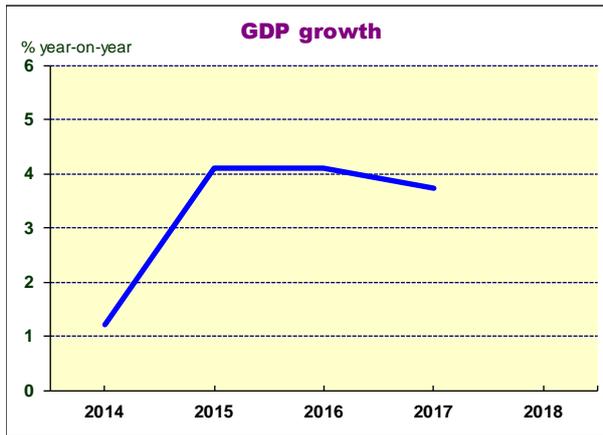
** Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*





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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Current Situation, Assessment, Enterprises, total, MKD	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, turnover, total. Starting 2012 Retail Sale of Non-Food Products except Fuel (2010), NSA.	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 moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Annual average percentage change, HICP not yet available for FYRoM	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 eff. exchange rate	Nominal Effective Exchange Rate, MKD, Index 2005=100	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interest rate Denar deposits	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, DMB, total, overall, with Saving houses, MKD	MacroBond
5.5.	Deposit growth	Annual percentage change, with Saving houses, total, MKD	MacroBond
5.6.	Non-performing loans	In percent of total	MacroBond
6. Fiscal developments			
6.1.	Central government balance	In percent of GDP, Q/Q GDP	MoF
6.2.	Central government debt	In percent of GDP	MoF



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	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, 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 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.	M21	Annual percentage change, M21 (Broadest money)	Discontinued
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Nominal exchange rate	Not available	
5.	Financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	MacroBond
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	Central Bank ME
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP, Q/Q GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	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 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 eff. exchange rate	Period average, moving base year, RSD	MacroBond
5. Financial indicators			
5.1.	Interest rate	Belgrade Overnight Index Average (BEONIA)	MacroBond
5.2.	Bond yield	Weighted average interest rate on RS government bills.	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	MacroBond
5.4.	Credit growth	Annual percentage change, monetary survey, domestic credit, total, 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 of quarterly GDP, Q/Q 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 2010), excluding construction, calendar adjusted	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, 2015=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	NSI
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	NSI
2.3.	Wages	Annual percentage, Hourly earnings manufacturing / Index publication base -	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 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 eff. exchange rate	Index 1999, period averages	MacroBond
5. Financial indicators			
5.1.	Interest rate	Deposit rates, 3 month, close	MacroBond
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	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 lons	MacroBond
6. Fiscal developments			
6.1.	General government balance	In percent of GDP, Q/Q GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, Index 2010=100, Annual percentage change	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	Total sale, index CPPY=100, weighted average Federation of Bosnia and Herzegovina 65% Serb Republic 35%	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 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.	Nominal eff. exchange rate	Index (2002 Apr=100); 9 Trade partners selected in order to set up the index (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	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, Q/Q GDP	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	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 moving average.	MacroBond
4.	Monetary developments		
4.1.	Interim 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 eff. exchange rate	Price change % CPI.	CB Kosovo
5.	Financial indicators		
5.1.	Interest rate	Average loan interest rate.	MacroBond
5.2.	Bond yield	Government bonds, 1 year, auction, yield.	Central Bank of Kosovo
5.3.	Stock markets	Not available.	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing.	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, Q/Q GDP	IMF, Ministry of Finance
6.2.	General government debt	In percent of GDP.	MacroBond

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