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

Western Balkans & Türkiye

3<sup>rd</sup> Quarter 2022

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European Commission  
Directorate-General for Economic and Financial Affairs

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3<sup>rd</sup> Quarter 2022

Western Balkans and Türkiye

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 rebound in the **Western Balkans** continued to moderate in the second quarter of 2022, albeit the slowdown was milder than in the first quarter and growth remained overall buoyant with the region's GDP expanding by 4.2% y-o-y, compared to 4.8% in the previous three months. The deceleration was largely driven by a slowdown in Albania and in Serbia. Private consumption and exports remained the key drivers of growth across the region while investment showed a mixed performance, with year-on-year declines registered in some of the countries. Public consumption contracted in most countries partly reflecting the gradual withdrawal of pandemic-related support measures. Job creation continued albeit at a slower pace than in the previous three months, and unemployment rates fell while labour force participation increased in most countries. The region's current account deficit rose to 7.0% of GDP in the four quarters to June, the highest level since the third quarter of 2020, as the energy-balance-driven increase in merchandise trade deficits outweighed the strong rebound of services exports and higher remittances inflows. Russia's invasion of Ukraine is having a negative impact on the Western Balkan economies indirectly through various transmission channels. In particular, strong increases in energy, food and transport prices are fuelling a further acceleration in inflation, which prompted the region's central banks with monetary autonomy to raise further their key policy rate. The continued economic recovery and high inflation supported the growth of budget revenues and fiscal balances improved across the Western Balkans in the second quarter of 2022, while the public debt-to-GDP ratio decreased in all countries compared to end-2021.*

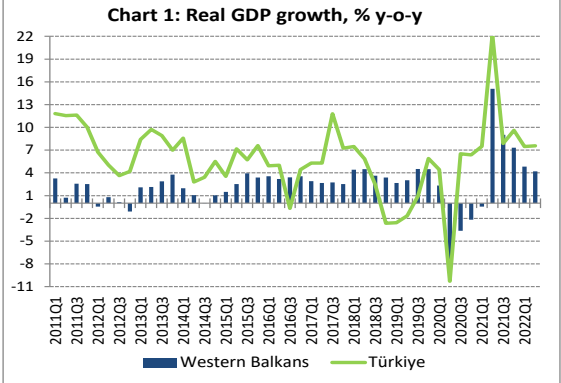
*In **Türkiye**, the economic rebound gained speed with real GDP expanding by 7.6% y-o-y, driven by robust domestic and external demand. However, strong growth was accompanied by widening imbalances. The 4-quarter rolling average current account deficit increased to 4.9% of GDP in August compared to 1.7% in 2021. Despite very high inflation of around 84%, as well as elevated inflation expectations, the central bank reduced its key policy rate to 12% with two successive cuts of 100 bps. each in August and September. As a result, the lira weakened further in the third quarter of 2022, losing 11% of its value against the US dollar.*

The rebound of the **Western Balkan** economies moderated further in the second quarter of 2022, but it remained solid, underpinned by buoyant private consumption and exports. In *Albania*, real GDP growth decelerated to 2.2% y-o-y down from 6.5% in the previous quarter, due to contracting investment and public consumption, partly explained by the high base from the same period a year earlier. Nonetheless, private consumption and exports remained strong and acted as the main growth drivers. In *Serbia*, annual output growth eased to a still robust 3.9%, from 4.3% in the previous three months, as sustained increases in household and public consumption, as well as more moderate investment and inventories contributions, were only slightly offset by the negative contribution of net exports to growth. In *Kosovo*, real GDP growth softened to 2.1% y-

o-y in the second quarter of 2022, mainly due to lower government consumption and a decline in gross fixed capital formation, reflecting shrinking public investment. Growth was on the back of continued, albeit slowing increases in household consumption and goods exports, combined with strong growth in services exports. In contrast, economic growth in *Montenegro* accelerated significantly in the second quarter of 2022 to 12.7% y-o-y, up from 7.1% in the preceding quarter. It was largely driven by private consumption on the back of a surge in real net wages following the abolition of health contributions and an increase in the minimum wage as well as further employment gains, the latter bolstered by rebounding tourism. Also in *North Macedonia*, output growth picked up slightly to 2.8% y-o-y, up from 2.4% in the previous three months. A surge in investment, partly due to base effects, and a more moderate

increase in private consumption were the main growth drivers. In *Bosnia and Herzegovina*, real GDP growth accelerated only marginally from the previous three months to 5.9% y-o-y, mainly driven by household consumption and investment. Overall, the **Western Balkan** region's GDP increased by 4.2% y-o-y in the second quarter of 2022, down from an average growth rate of 4.8% in the previous three months (Chart 1).

In *Türkiye*, notwithstanding the very low economic sentiment and the high degree of uncertainty following Russia's invasion of Ukraine, the growth momentum remained buoyant in the second quarter of 2022 with real GDP expanding by 7.6% y-o-y. Economic expansion was on the back of robust external and domestic demand, the latter mainly driven by significant year-on-year private consumption growth. However, most high-frequency indicators deteriorated in the third quarter. The manufacturing PMI plunged to 47.1 while the seasonally adjusted capacity utilisation rate in manufacturing dropped to 77.3.



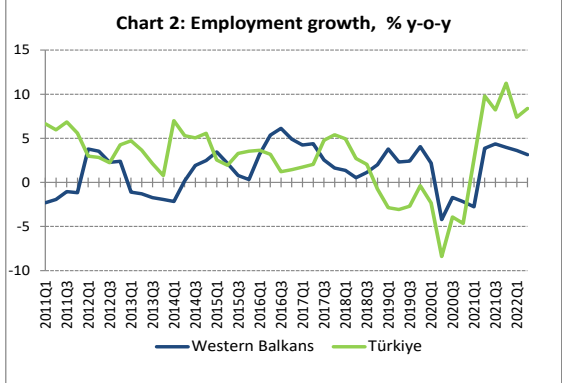
Source: IHS DataInsight, Commission calculations

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In line with decelerating economic activity, the pace of job creation slowed down further in the **Western Balkans** in the second quarter of 2022. The average rate of employment growth

fell to 3.1%<sup>1</sup>, from 3.6% in the preceding quarter (Chart 2). Employment gains led to a decrease in unemployment rates even as labour force participation also increased in most countries. Still, jobless rates remained high, ranging from 8.9% in *Serbia* to 17.7% in *Kosovo* (the latter reflects the latest available data from the third quarter of 2021).

In *Türkiye*, the economic rebound supported the return of the labour market indicators to above pre-pandemic levels in summer. The seasonally adjusted labour force participation rate reached its highest reading in May before easing somewhat to 53.0% in August. For the same period, the employment rate further increased to 47.9% while the seasonally adjusted unemployment rate reached its lowest level since 2014 (9.6%).



Source: IHS DataInsight, Commission calculations

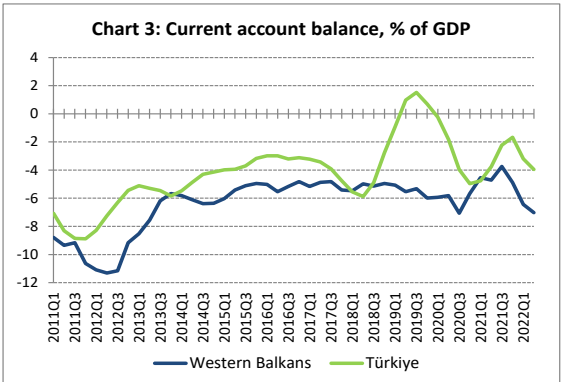
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External developments in the **Western Balkans** during the second quarter of 2022 were driven by the strong recovery of services exports (namely tourism), the solid growth of remittances as well as the continued growth of exports of goods in most countries. At the same time, imports of goods also increased at a fast pace mainly due to higher energy imports, resulting in larger merchandise trade deficits as a percentage of GDP in most countries of the region. On balance, with the exception of *Albania*, annualised current

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

account deficits widened or remained broadly unchanged in the *Western Balkan* countries, compared to the previous quarter. Overall, in the four quarters to June, the current account deficit in the region stood at 7.0% of GDP, the highest level since the third quarter of 2020, compared to 4.9% in 2021 (Chart 3). The deficits continued to be financed mostly by net FDI inflows, which increased as a percentage of GDP in *North Macedonia*, *Montenegro*, *Albania*, and *Kosovo* whereas they declined in *Serbia*, and *Bosnia and Herzegovina*.

In *Türkiye*, the 12-month cumulative current account deficit widened to 4.9% of GDP in August from 1.7% in 2021 as the strong growth in imports, mainly due to high energy and other commodity prices and increasing imports of monetary gold in June-August, outpaced the growth of exports of goods and services. Official reserve assets exceeded USD 100 billion in July, bolstered by large and positive net errors and omissions.



Source: IHS DataInsight, Commission calculations

\*\*\*

The recovery in aggregate demand as well as strong increases in energy, food and transport prices fuelled further acceleration in inflation across the *Western Balkan* region in the second quarter of 2022 and beyond. Strengthening inflation dynamics triggered further monetary tightening in countries with an independent monetary policy. In *Serbia*,

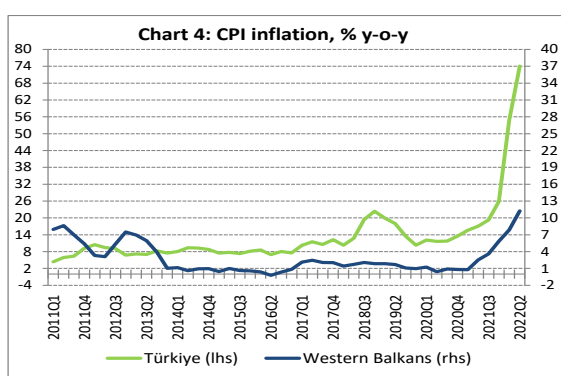
average annual consumer price inflation accelerated to 10.6% in the second quarter of 2022 and rose further to 12.8% and 13.2% y-o-y in July and August respectively, thus significantly exceeding the upper bound of the central bank’s target tolerance band of 3%±1.5 pps. for the twelfth month in a row. In reaction to rising inflation, the central bank of *Serbia* increased its key policy rate by 50 bps. to 4.0% in October, after lifting it by 250 bps. in total, between April and September. In *Albania*, consumer price inflation picked-up to 6.7% y-o-y in the second quarter of 2022, up from 4.4% in the previous three months and increased further to 7.5% and 8.0% y-o-y in July and August, respectively, thus well above the 3% inflation target. The *Bank of Albania* decided on 5 October to increase the key policy rate by 50 bps. to 2.25%, after raising it by a cumulative 125 bps. in March-August. In *North Macedonia*, annual CPI inflation accelerated to 17.2% in the third quarter of 2022, up from 12.3% in the preceding quarter, bringing average inflation in the first nine months of the year to 12.4%. In October, the central bank raised the key policy rate by 50 bps. to 3.5%, after five successive increases of 175 bps. in total, between April and September.

In *Montenegro* and *Bosnia and Herzegovina*, annual consumer price inflation accelerated to 10.9% and 14.4%, respectively, in the second quarter of 2022 and further to 13.9% and 16.8% y-o-y, respectively in August. In both countries, upward price pressures came from food, non-alcoholic beverages and transport prices while in the case of *Montenegro* from housing and utilities prices too. In *Kosovo*, average consumer price inflation increased to 11% y-o-y, in the first eight months of 2022, compared to 2.0% in the same period a year earlier due to higher oil, wheat and electricity import prices. Overall, annual CPI inflation in the *Western Balkan* region averaged 11.3% in the second quarter of 2022 up from 2.5% a year earlier (Chart 4).

In *Türkiye*, inflation surged to 83.45% y-o-y in September, the highest level in decades as food



and energy inflation reached new highs, driven by rising global commodity prices and the weak lira. Despite soaring inflation and still elevated inflation expectations, the central bank lowered its key policy rate in August and September in two steps of 100 bps. each to 12%, after reducing it by a cumulative 500 bps. between September and December 2021. As a result, the lira weakened further in the third quarter, losing 11% of its value against the US dollar. The 5-year CDS spread reached its highest level in decades at 908.4 bps. in July and remained elevated since then.



Source: IHS DataInsight, Commission calculations

\*\*\*

In the second quarter of 2022, annual credit growth accelerated, compared to the previous three months, in all *Western Balkan* countries, followed by a slight slowdown in some countries in July and August. In most countries household loans grew faster than corporate lending. The share of non-performing loans (NPLs) in total loans fell further or broadly stabilised in most *Western Balkan* countries. The NPL ratio in *Montenegro* fell to 5.9% in August. In *Albania*, the NPL ratio stood at 5.3% in July (1.4 pps. lower than a year earlier), followed by *Bosnia and Herzegovina* and *Serbia* (5.2% and 3.3%, respectively in the second quarter of 2022). Nevertheless, the NPL figures might not yet reflect the full impact of the consecutive shocks on the financial sector.

In *Türkiye*, the central bank adopted additional macro-prudential measures in August to contain lending and reduce loan interest rates. It capped the interest rates on commercial loans and linked this limit to its policy rate, effectively making the reduction of the policy rate loan contractionary as banks are less willing to extend lending at such low rates. The NPL ratio further decreased to 2.4% in August from 3.7% a year earlier.

\*\*\*

In the first eight months of 2022, increased economic activity and high inflation boosted tax revenues. This in turn supported the improvement of fiscal balances and over-performance against budget plans across the *Western Balkan* region. In *Serbia*, the revenue increase in January-August was higher than expenditure growth and the budget registered a surplus of 0.4% of expected GDP, compared to a deficit target of 3.0% for 2022 as a whole and a shortfall of 0.5% of GDP in the same period one year earlier. In *North Macedonia*, the eight-month budget deficit amounted to 26% of the revised full-year target as the solid growth in revenue from social contributions and taxes more than offset the slight increase in current spending, while capital expenditure underperformed. In *Montenegro*, strong increases in revenue from VAT, excises and corporate income tax more than offset the significant growth in capital spending, and the budget shortfall in the first seven months narrowed to 1.1% of GDP, around 70% below the plan. In *Albania*, in January-August, soaring VAT and corporate income tax receipts significantly outpaced the slight increase in current spending, resulting in a cash surplus of 1.1%, compared to a shortfall of 2.5% of GDP in the same period a year earlier and a revised full-year deficit target of 4.5% of GDP. Public investment underperformed and dropped by 4% compared to the year before. In *Kosovo*, the strong growth in transfers and subsidies was more than offset by large increases in direct and indirect tax proceeds which, coupled with the significant fall in capital expenditure, resulted in a hefty surplus of 2.9% of GDP in



January-August, compared to a revised 2022 deficit target of 5% of GDP. The general government debt ratio decreased in all countries in the region in the second quarter of 2022 compared to end-2021, partly reflecting recovering nominal GDP. At the end of June, the debt ratio was the highest in *Montenegro* (75.7% of GDP), albeit significantly lower compared to end-2021, followed by *Albania* (69.2%), and *Serbia* (53.4% of GDP at end-August).

In *Türkiye*, notwithstanding the sixfold increase in net lending, mostly to the state-owned energy companies, as well as markedly higher spending on employees and current transfers, the more than 100% y-o-y tax income growth resulted in a budget surplus of 0.3% of GDP in the first eight months of 2022. Government debt decreased to 39.3% of GDP in the second quarter of 2022, compared to 41.8% at end-2021.

## Candidate and potential candidate countries: Summary table

	2017	2018	2019	2020	2021	ECFIN 2022 Spring forecast		Q1 22	Q2 22	Q3 22	Jul 22	Aug 22	Sep 22
						2022	2023						
<b>Gross domestic product</b> (in real terms, annual % change)													
Albania	3.8	4.0	2.1	-3.5	8.3	2.7	3.1	6.5	2.2	:	N.A.	N.A.	N.A.
North Macedonia	1.2	2.8	3.9	-6.1	4.2	3.0	3.1	2.4	2.8	:	N.A.	N.A.	N.A.
Montenegro	4.7	5.1	4.1	-15.3	13.0	3.8	3.4	7.1	12.7	:	N.A.	N.A.	N.A.
Serbia	2.1	4.5	4.3	-0.9	7.4	3.4	3.8	4.3	3.9	:	N.A.	N.A.	N.A.
Türkiye	7.5	3.0	0.8	1.9	11.4	2.0	3.0	7.5	7.6	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	3.0	3.3	2.8	-3.2	7.6	:	:	5.8	5.9	:	N.A.	N.A.	N.A.
Kosovo	4.8	3.4	4.8	-5.3	10.7	:	:	4.5	2.1	:	N.A.	N.A.	N.A.
<b>Unemployment</b>													
Albania	14.1	12.8	12.0	12.2	12.1	11.5	10.8	11.7	11.5	:	N.A.	N.A.	N.A.
North Macedonia	22.6	21.0	17.5	16.6	15.8	15.3	15.2	14.9	14.7	:	N.A.	N.A.	N.A.
Montenegro	16.4	15.5	15.4	18.4	16.9	15.2	14.7	17.0	14.9	:	N.A.	N.A.	N.A.
Serbia	14.5	13.7	11.2	9.7	11.0	10.0	9.3	10.6	8.9	:	N.A.	N.A.	N.A.
Türkiye	10.9	10.9	13.7	13.1	12.0	12.8	12.6	11.6	10.1	:	10.6	9.8	:
Bosnia and Herzegovina	20.5	18.4	15.7	15.9	17.4	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	30.5	29.6	25.7	25.9	:	:	:	:	:	:	N.A.	N.A.	N.A.
<b>Current account balance*</b> (% of GDP)													
Albania	-7.5	-6.8	-7.9	-8.7	-7.6	-8.3	-7.9	-7.0	-6.7	:	N.A.	N.A.	N.A.
North Macedonia	-0.8	0.2	-3.0	-2.9	-3.1	-4.1	-3.9	-6.0	-6.8	:	N.A.	N.A.	N.A.
Montenegro	-16.1	-17.0	-14.3	-26.1	-9.3	-12.1	-12.5	-9.3	-10.9	:	N.A.	N.A.	N.A.
Serbia	-5.2	-4.8	-6.9	-4.1	-4.5	-6.5	-6.4	-6.9	-7.7	:	N.A.	N.A.	N.A.
Türkiye	-4.8	-2.8	0.7	-5.0	-1.7	-3.8	-3.5	-3.2	-4.0	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.8	-3.3	-2.6	-3.3	-2.4	:	:	-2.9	-3.4	:	N.A.	N.A.	N.A.
Kosovo	-5.5	-7.6	-5.7	-7.0	-8.7	:	:	-10.4	-10.3	:	N.A.	N.A.	N.A.
<b>Inflation</b> (Consumer price index, annual % change)													
Albania	2.0	2.0	1.4	1.6	2.0	4.9	3.5	4.4	6.7	7.7	7.5	8.0	:
North Macedonia	1.4	1.5	0.8	1.2	3.2	6.7	3.9	7.7	12.3	17.2	16.0	16.8	18.7
Montenegro (HICP)	2.8	2.9	0.5	-0.8	2.5	6.5	2.9	6.8	10.9	:	13.7	13.9	:
Serbia	3.1	2.0	1.8	1.6	4.1	8.5	4.6	8.7	10.6	:	12.8	13.2	:
Türkiye	11.1	16.3	15.2	12.3	19.6	63.1	54.1	54.8	74.1	81.1	79.6	80.2	83.5
Bosnia and Herzegovina	1.3	1.4	0.6	-1.1	2.0	:	:	8.4	14.4	:	16.7	16.8	:
Kosovo	1.5	1.1	2.7	0.2	3.3	:	:	8.2	12.6	:	14.2	13.1	:
<b>General government balance**</b> (% of GDP)													
Albania	-2.0	-1.6	-1.9	-6.7	-4.5	-4.2	-2.7	1.1	-0.3	:	N.A.	N.A.	N.A.
North Macedonia	-2.7	-1.8	-2.0	-8.0	-5.4	-6.1	-4.4	-0.9	-0.5	:	N.A.	N.A.	N.A.
Montenegro	-5.3	-3.9	-2.0	-11.1	-1.9	-4.4	-2.2	-0.5	-0.2	:	N.A.	N.A.	N.A.
Serbia	1.1	0.6	-0.2	-8.0	-4.1	-3.1	-1.8	-1.0	0.8	:	N.A.	N.A.	N.A.
Türkiye	-2.0	-2.8	-3.2	-2.9	-2.3	-4.5	-4.5	0.3	:	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	2.6	2.2	1.9	-5.3	-0.3	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo	-1.3	-2.9	-2.9	-7.6	-1.3	:	:	1.2	0.7	:	N.A.	N.A.	N.A.
<b>General government debt***</b> (% of GDP)													
Albania	70.2	67.7	65.8	74.5	73.2	72.4	70.9	69.6	69.2	:	N.A.	N.A.	N.A.
North Macedonia	39.4	40.4	40.5	51.9	51.8	54.6	56.4	46.8	46.7	:	N.A.	N.A.	N.A.
Montenegro	63.3	70.1	76.5	105.3	83.3	76.7	72.7	76.6	75.7	:	N.A.	N.A.	N.A.
Serbia	59.2	53.7	52.0	57.0	56.5	54.5	52.5	51.9	53.2	:	53.5	:	:
Türkiye	27.9	30.1	32.6	39.7	41.8	41.4	39.3	42.3	39.3	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	36.1	34.1	32.7	36.6	34.4	:	:	31.8	32.0	:	N.A.	N.A.	N.A.
Kosovo	16.4	17.0	17.6	22.4	21.9	:	:	20.3	20.8	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2022 published May 2022.

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

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

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



## Key developments

On 12 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Albania's economy made good progress and is moderately prepared in developing a functioning market economy. Regarding its capacity to cope with competitive pressures and market forces within the EU, Albania made some progress and has some level of preparation.

On 19 July, the EU and Albania held the first inter-governmental conference marking the start of accession negotiations. As part of a series of meetings, Albanian authorities attended an explanatory meeting on the economic accession criteria in Brussels on 20 September.

On 29<sup>th</sup> September, the 14<sup>th</sup> Subcommittee Meeting on Economic and Financial Issues and Statistics took place in Tirana. The meeting is one of the key fora for the economic dialogue between the EU and Albania. Both sides agreed that the Albanian economy so far proved resilient in the face of multiple shocks due to the 2019 earthquake, the COVID-19 pandemic and the commodity price increases in the wake of Russia's invasion of Ukraine. The key challenges were seen in the rising fiscal cost of electricity subsidies and the deteriorating growth outlook.

## Real sector

Following a 6.5% y-o-y expansion in Q1-2022, the rebound of the Albanian economy slowed in Q2-2022 to 2.2% y-o-y real GDP growth, reflecting base effects from the very strong recovery in Q2-2021. Private consumption (+9% y-o-y) and exports remained the strongest growth drivers. While exports growth decelerated from 25.6% in Q1-2022 to 9.1% y-o-y, import growth remained stable at 17.6% y-o-y supported by increasing growth of services imports. In contrast, investment contracted by 6.7% y-o-y following a 16.6% expansion in Q1-2022, and government consumption continued to contract by 8% y-o-y (following a 5% contraction in Q1-2022).

On the production side, transport, trade and hospitality services made the largest contribution (1.7 pps.) to GDP growth, followed by real

estate activities (0.65 pps.). Manufacturing and financial and professional services performed well, albeit at a decelerated pace (except for financial services) while construction contracted by 5%, strongly influenced by base effects.

In August 2022, the economic sentiment indicator decreased again due to loss of confidence across industry, trade and services but remained above its historical average supported by improving expectations of consumers and the construction sector.

## Labour market

The labour market remained unaffected by the slowdown of economic growth in Q2. Employment continued to grow by 1.4% q-o-q (4.3% y-o-y) for the age group 15-64 and by 0.9% q-o-q (1.6% y-o-y) for the youth aged 15-29. The employment growth mainly reflected the mobilisation of the inactive population (15-64), which decreased by 2.9% q-o-q (-13.6% y-o-y). Industry recorded the highest employment growth (7.1% y-o-y) followed by agriculture (4.9% y-o-y) and services (2% y-o-y).

Rising activity meant that the job growth only had a limited impact on the reduction of the unemployment rate, which fell by 0.2 pps. q-o-q (age group 15-64), to 11.5% in Q2-2022, while the youth unemployment rate (age group 15-29) fell by 0.5 pps. to 20.2%. The labour force participation rate reached an all-time high of 72.8% (+0.8 pps.), exclusively on account of a 1.6 pps. increase in female participation from Q1-2022 to 66.1%, which narrowed the gender gap to 13.7 pps.

The average monthly nominal wage increased by 7% y-o-y in Q2-2022 or 2.4% q-o-q supported by a 6.7% increase of the minimum wage to about EUR 260. The wage index of the hotel industry continued to grow the most (18% q-o-q) followed by manufacturing (6% q-o-q).

## External sector

The four-quarter moving current account deficit narrowed to 6.7% of GDP in Q2, down from 7% in Q1. The trend of increasing surpluses of the services balance, observed since 2021, continued and the goods trade deficit slightly decreased to 24% of GDP. The primary balance deficit remained unchanged and the secondary balance surplus decreased slightly on account of lower government transfers, while remittances

remained stable at 4.8% of GDP. Travel and transport service exports continued their strong recovery as did exports of manufacturing services. Coupled with strongly rebounding merchandise exports (54.2% y-o-y, benefitting from increasing demand and prices for primary commodities), total exports grew 46.3% y-o-y to a share of 34.2% of GDP, 2 pps. above the level in Q1-2022. The easing of travel restrictions also led to surging services imports (+53.8% y-o-y), whereas growth in goods imports slightly decelerated, with total imports growing 33.2% y-o-y, 1 pp. more than in Q1-2022. The share of total imports in GDP increased by 1.3 pps. from Q1-2022 to 46.2%.

Net FDI inflows grew 31.3% y-o-y in Q2-2022 and amounted to 6.7% of GDP in the 4 quarters to Q2-2022, up from 6.2% one year earlier. Net FDI financing of the current account deficit (both 4 quarters average) continued to increase to 100% coverage in Q2-2022 (84.3% in Q2-2021), exceeding the 2019 level for the first time in 3 years. Foreign reserves climbed to above EUR 5 billion in August, from EUR 4.9 billion in Q2-2022, while their coverage of imports decreased to 7.6 months on account of the strongly increased import value.

### Monetary developments

The inflation rate climbed to 8% in August, up 0.5 pps. from the July value, mainly driven by an accelerating increase in food prices (1.1 pps. from July to 15%) while growth in transport and energy prices slightly decelerated over the last two months. However, energy commodity prices recorded by far the highest increases in annual comparison, reflecting largely the impact of Russia's invasion of Ukraine. Since the beginning of the normalisation of its monetary policy in March, the Bank of Albania (BoA) raised its key policy interest rate in 3 steps by 1.25 pps. to 1.75% in August to counter the above-target inflation.

Growth of monetary aggregate M3 decelerated further from 7.5% in May to 6.7% in August. The lek's exchange rate continued to appreciate against the euro and reached 116.9 in September, equalling a 3.2% appreciation since December 2021. The BoA rose in October its key policy interest rate by 50 bps. to 2.25%, and continued conducting regular open market operations by injecting liquidity.

### Financial sector

Bank lending to the private sector continued its strong growth trend and increased by 13.8% y-o-y in Q2-2022, driven by lending in foreign currency and to households. The growth of

credit to enterprises accelerated to 12% in Q2-2022 (up from 10.8% y-o-y in Q1-2021), reflecting more demand for investment loans. The growth in household loans slightly accelerated to 17% y-o-y in Q2-2022, mainly driven by demand for mortgage loans and banks' easing standards and conditions. Lending in foreign currency kept its high pace of 17.6% but lending growth in lek increased in Q2 by 1 pp. to 10.3%. Deposit growth remained strong at 10.2% y-o-y in Q2-2022, still driven by foreign currency deposits (+16%) albeit slightly decelerating from Q1-2022, whereas growth of lek deposit decelerated by 1 pp. to 3.8%.

Average interest rates for new lek loans to enterprises slightly softened to 5.5% but increased for households from 6.3% to 6.8%. Interest rates for loans in euro decreased to 4.3% from 4.9% for businesses, and remained close to their 2021 average at about 3.7% for households.

The banking sector's capital adequacy ratio recovered from 17.9% in Q1-2022 to 19% in Q2-2022 whereas the liquidity ratio slightly improved from 28% to 29% over the same period. The ratio of non-performing loans to total loans fell 1.4 pps. y-o-y to 5.3% in July 2022. Following a strong drop at the beginning of the year, the deterioration of bank profitability indicators decelerated: return on assets decreased from 0.85% in March 2022 (1.4% in December 2021) to 0.77% in July and return on equity from 12.9% in December 2021 to 7.36% and 7.1% in the same period.

### Fiscal developments

A second budget amendment in July included a revenue increase of 8% and an expenditure increase of 3.6% compared to the original 2022 budget, mainly for budget support to the state-owned electricity provider (part of the 1<sup>st</sup> amendment), for higher capital expenditure and for doubling social support to households and SMEs to 0.6% of GDP to cope with strong food and energy price increases. The fiscal deficit target for 2022 was reduced from 5.4% to 4.5% of GDP. Public finance recorded a surge in revenue (up by 24.3% y-o-y) in January-August (mainly from VAT and profit tax), while current expenditure rose by 2.7% y-o-y, both in line with the revised plan. However, capital expenditure only saw an implementation rate of 38% and remained 4% lower than a year earlier. This resulted in a 1.1% of GDP cash surplus until August 2022 compared to a 2.5% of GDP deficit in the same period of 2021. In Q2-2022, the public debt stock decreased to 69.2% of GDP, from 69.6% in the previous quarter and 73.2% of GDP at end-2021.

## TABLE



European Commission, ECFIN-D-1

### ALBANIA

							ECFIN 2022 Spring forecast							
		2017	2018	2019	2020	2021	2022	2023	Q1 22	Q2 22	Q3 22	Jul 22	Aug 22	Sep 22
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	8.3	8.3	6.1	-0.8	6.4	:	:	4.9	5.8	10.1	9.4	12.2	8.8
Industrial production <sup>1.2</sup>	Ann. % ch	8.4	9.7	5.6	-10.1	23.6	:	:	19.5	5.0	:	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann. % ch	3.8	4.0	2.1	-3.5	8.3	2.7	3.1	6.5	2.2	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.6	3.1	3.3	-3.5	4.4	3.0	3.3	9.2	9.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	6.0	2.3	-3.6	-1.1	20.3	3.1	3.4	16.6	-6.7	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	19.6	5.6	-2.5	9.5	18.0	:	:	26.0	-5.1	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	2.4	1.8	4.2	1.0	5.3	:	:	6.0	7.5	:	:	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	14.1	12.8	12.0	12.2	12.1	11.5	10.8	11.7	11.5	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	2.7	2.1	2.4	-1.9	-0.4	1.8	1.6	5.9	4.3	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	3.0	3.1	3.8	2.7	6.3	:	:	5.8	7.0	:	N.A.	N.A.	N.A.
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	12.1	13.7	-3.8	-9.0	35.6	:	:	49.6	38.0	:	23.0	9.8	:
Imports of goods <sup>3.2</sup>	Ann. % ch	8.1	2.4	1.2	-6.8	32.3	:	:	27.9	24.3	:	14.1	17.1	:
Trade in goods balance* <sup>3.3</sup>	% of GDP	-24.4	-22.4	-22.9	-22.5	-24.8	-26.1	-26.4	-24.2	:	:	N.A.	N.A.	N.A.
Exports goods and services* <sup>3.4</sup>	% of GDP	31.6	31.6	31.3	22.7	30.8	:	:	32.7	:	:	N.A.	N.A.	N.A.
Imports goods and services* <sup>3.5</sup>	% of GDP	46.7	45.4	45.0	37.3	43.9	:	:	44.9	:	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-7.5	-6.8	-7.9	-8.7	-7.6	-8.3	-7.9	-7.0	-6.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	8.6	8.0	7.5	6.7	6.4	:	:	6.5	6.7	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	m n EUR	2,996	3,399	3,360	3,942	4,972	:	:	4,912	4,910	:	5,009	5,077	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.7	7.0	6.5	9.6	8.8	:	:	8.2	7.6	:	N.A.	N.A.	N.A.
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	2.0	2.0	1.4	1.6	2.0	4.9	3.5	4.4	6.7	:	7.5	8.0	:
Producer prices <sup>4.2</sup>	Ann. % ch	2.8	1.6	-0.8	-3.4	2.7	:	:	17.0	20.4	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	3.9	2.7	2.9	3.6	3.9	:	:	7.6	11.3	:	13.2	14.0	:
M3 <sup>4.4</sup>	Ann. % ch	0.3	-0.2	4.3	10.5	8.6	:	:	8.4	7.3	:	6.4	6.7	:
Exchange rate ALL/EUR <sup>4.5</sup>	Value	134.14	127.58	123.00	123.74	122.45	:	:	121.90	120.42	117.17	117.50	116.97	117.03
Real effective exchange rate <sup>4.6</sup>	Index	97.8	104.9	108.6	110.6	112.4	:	:	110.6	111.8	:	114.0	113.7	:
<b>5 Financial indicators</b>														
Interest rate (3 months-TRIBOR) <sup>5.1</sup>	% p.a.	2.15	1.83	1.45	1.46	1.39	:	:	1.35	1.67	2.30	1.91	2.40	2.58
Bond yield <sup>5.2</sup>	% p.a.	2.07	2.20	1.76	1.63	1.63	:	:	1.67	1.72	:	1.88	1.94	:
Stock markets <sup>5.3</sup>	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth <sup>5.4</sup>	Ann. % ch	-0.1	-1.7	3.0	6.1	6.9	:	:	10.8	12.3	:	12.0	12.6	:
Deposit growth <sup>5.5</sup>	Ann. % ch	1.0	-1.2	2.5	5.8	8.5	:	:	10.1	8.4	:	7.4	7.5	:
Non performing loans <sup>5.6</sup>	% total	13.2	11.1	8.4	8.1	5.7	:	:	5.2	5.3	:	5.3	:	:
<b>6 Fiscal developments</b>														
General government revenue** <sup>6.1</sup>	% of GDP	27.8	27.5	27.2	25.9	27.0	:	:	:	:	:	N.A.	N.A.	N.A.
General government expenditure** <sup>6.1</sup>	% of GDP	29.8	29.1	29.1	32.6	31.5	:	:	:	:	:	N.A.	N.A.	N.A.
General government balance** <sup>6.1</sup>	% of GDP	-2.0	-1.6	-1.9	-6.7	-4.5	-4.2	-2.7	1.1	-0.3	:	N.A.	N.A.	N.A.
General government debt*** <sup>6.2</sup>	% of GDP	70.2	67.7	65.8	74.5	73.2	72.4	70.9	69.6	69.2	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2022 published May 2022

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

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

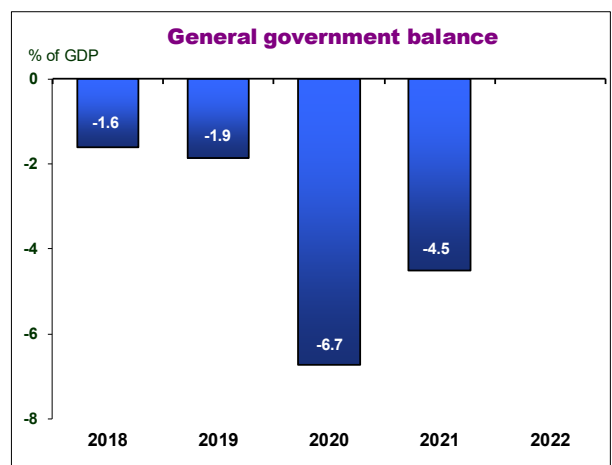
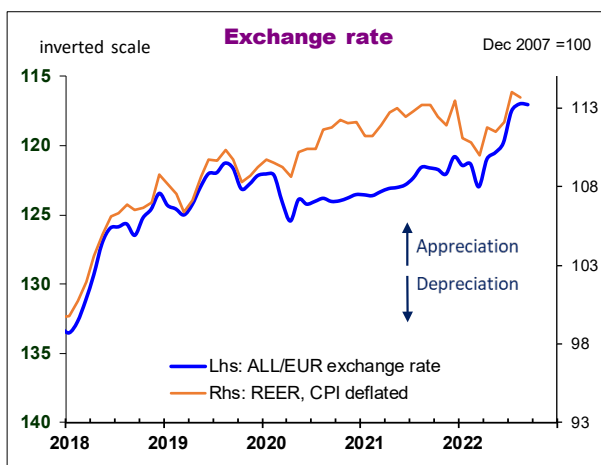
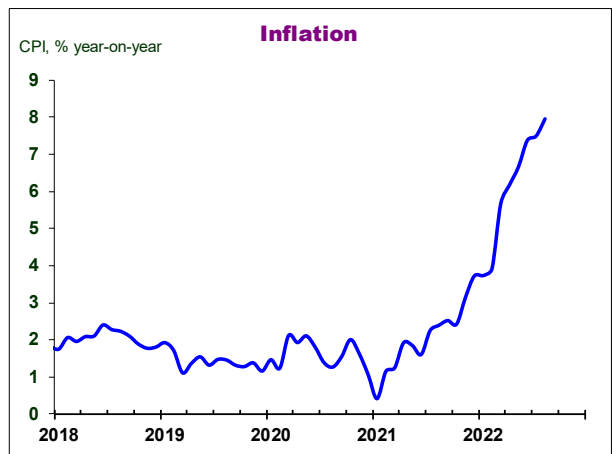
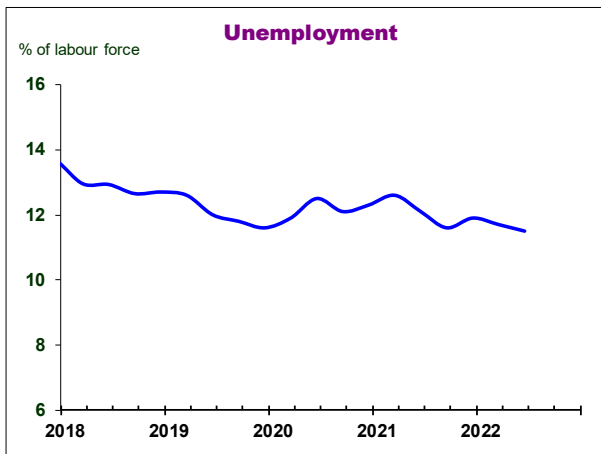
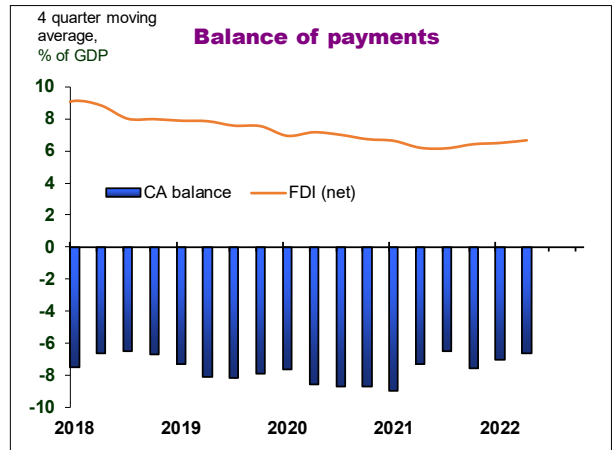
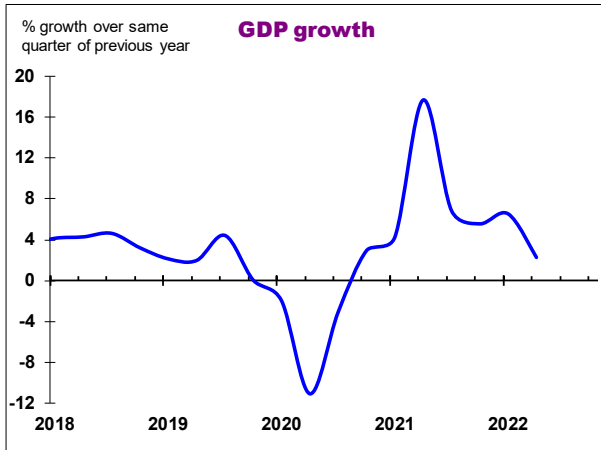
\*\*\* Q figures in percent of estimated annual GDP.

# CHARTS

European Commission, ECFIN-D-1



## ALBANIA







## Key developments

On 12 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Montenegro's economy made good progress over the reporting period and is moderately prepared in developing a functioning market economy. Regarding its capacity to cope with competitive pressures and market forces within the EU, Montenegro has made some progress and is moderately prepared.

On 20 August, the Parliament of Montenegro approved a no-confidence motion against the government of PM Abazović. The government was overthrown in a 50 to one vote in the 81-seat parliament. This was the second no-confidence motion this year, after the collapse of the previous cabinet of PM Krivokapić in February, in which Mr Abazović was deputy prime minister.

On 2 September, Standard & Poor's affirmed Montenegro's 'B/B' sovereign credit ratings, maintaining the stable outlook. The agency expects Montenegro's economic growth to continue, being supported by tourism exports and accessible external financing. However, downside risks could emerge in case the government could not control public spending.

On 9 September, Moody's affirmed its B1 rating with a stable outlook for Montenegro. The agency underlined that downside risks have increased due to the deteriorating external environment. Moreover, Montenegro's fiscal space is limited due to elevated public debt levels and increasing political volatility, which has constrained policymaking.

## Real sector

On 21 September, the Statistical Office of Montenegro released final GDP data for 2021, revising the real growth rate to 13.0% y-o-y, up from the previous estimate of 12.4%.

Economic growth accelerated in Q2-2022 driven by private consumption and exports of services, the former supported by a minimum wage hike and further employment growth boosted by the good performance of tourism. As a result, real GDP increased by 12.7% y-o-y in Q2, after

7.1% y-o-y in the previous quarter, and by 19.6% y-o-y in the same period a year earlier. The good performance of tourism in Q2 resulted in a sharp increase in exports, surging by real 43.1% y-o-y. It also fuelled private consumption, which expanded by 12.3% y-o-y, as well as imports, which climbed by 28.0% y-o-y, resulting in an overall negative contribution of net exports to GDP of 3.9 pps. The preparation for the tourist season also led to a sharp increase in stocks, which doubled over the year. In contrast, government consumption and gross fixed capital formation recorded mild contractions of 1.3% and 1.5% y-o-y, respectively.

Montenegro's industrial production remains highly volatile. After falling 13.4% y-o-y in Q1-2022, output grew 1.2% y-o-y in Q2, to fall again in July (by 3.6% y-o-y) and bounce back in August (3.9% y-o-y). On average, industrial production contracted 6.4% y-o-y in the first eight months of 2022, led by the fall in electricity production (-16.6% y-o-y), while mining output grew 4.3% y-o-y and manufacturing, hampered by basic metals production, recorded a marginal contraction of 0.7% y-o-y.

## Labour market

In addition to the reopening of the economy and the ensuing recovery of tourism, the sharp increase in the net minimum wage (up by 80%), along with the abolition of mandatory health insurance fees, contributed to a noticeable revitalisation of the labour force. Thus, helped by base effects due to steep decreases in the first half of 2021, employment surged by 28.6% y-o-y in Q2-2022, after rising by 21.7% y-o-y in the previous quarter. The activity rate also increased markedly, to 68.5% in Q2-2022, up from 54.7% a year before. However, the reduction in the overall unemployment rate was more moderate as it declined to 14.9% in Q2-2022, compared to a 17.3% rate a year earlier. Still, the rate of youth unemployment (15-24) improved noticeably, falling to 26.7% in Q2, compared to a 37.2% a year before.

In January 2022, the government increased the minimum wage to EUR 450 (from EUR 250), while abolishing health contributions. As a result, the average net wage surged by nominal

35% y-o-y in August, or 21.1% y-o-y in real terms after discounting for inflation. The average net wage amounted to EUR 718 in August, up from EUR 532 a year earlier, while the gross average wage totalled EUR 886 in August, compared to EUR 795 a year earlier.

### External sector

The current account deficit widened to 11.0% of GDP in the four quarters to June 2022, up from 9.3% of GDP in the previous quarter but it was substantially lower compared to the 19.6% gap recorded in the same period a year earlier. The deficit improvement was driven by surging tourist receipts boosting the services surplus, which rose to 20.3% of GDP compared to 7.2% a year earlier. However, the 5.2 pps. expansion in the trade deficit reached 42.4% of GDP in the four quarters to June, on the back of a strong increase in merchandise imports (47.7% y-o-y) fuelled by rising food and energy prices. The primary account surplus almost doubled on annual basis (up by 92.6% y-o-y), while the secondary account surplus expanded by 11.7% y-o-y, due to higher expatriate remittances. Net FDI inflows accelerated in the four quarters to June 2022, totalling 13.8% of GDP compared to 9.5% a year before. The stock of international foreign exchange reserves stood at the equivalent of 6 months of imports in August.

### Monetary developments

Consumer prices kept rising fast in July and August, driven by food and electricity prices, while oil prices showed some signs of moderation. After averaging 10.9% in Q2, inflation (HICP index) increased to 13.7% y-o-y in July and further to 13.9% y-o-y in August. Prices increased notably for food and non-alcoholic beverages (by 25.5% y-o-y in August) as well as for housing and utilities (comprising electricity) up by 14.1% y-o-y, while clothing and footwear costs rose 3.0% y-o-y. Meanwhile, the rise in transport prices decelerated to 14.6% y-o-y in August from 21.2% y-o-y a month earlier.

### Financial sector

The pace of credit growth has been easing since May 2022, partially reflecting strong base-effects from last year, in particular from public borrowing. Thus, after recording 7.2% y-o-y growth in Q2-2022, credit activity eased to 4.4% y-o-y in July and 3.4% y-o-y in August. The total lending stock amounted to EUR 3.6 billion

(or 68.7% of GDP) at the end of August. The increase reflected a higher rise in lending to companies, up by 12.8% y-o-y in August, while household loans grew 7.6% y-o-y. By contrast, lending to public and financial institutions recorded significant annual decline of 22.9% and 11.0% y-o-y, respectively in August. Overall, the average effective interest rate on new loans moved down 0.4 pps y-o-y in August to 5.49%. Yet, despite the slowing pace of lending activity, the rate of non-performing loans also declined, from 6.3% in Q2 to 6.1% in July and 5.9% in August. Meanwhile, commercial banks' deposits kept growing at a fast pace, increasing by 21.4% y-o-y in August, after rising 20.4% y-o-y the month before. The increase was led by corporate and household deposits, which surged by 26.9% and 19.1% y-o-y, respectively in August.

### Fiscal developments

Strong domestic demand kept supporting budget revenue and, therefore, the improvement in the budget balance. The central government deficit totalled 1.1% of GDP in the first seven months of 2022, down from 2.4% of GDP in the same period of 2021 and 69.9% below the plan. The lower deficit reflected the stronger (10.8% y-o-y) increase in revenue compared to spending growth, up by 4% y-o-y. VAT revenues surged 40.4% y-o-y, mainly due to the accelerating CPI inflation combined with rising domestic demand. Corporate tax proceeds rose by 22.2% y-o-y due to the improving financial results of local companies, while excise tax revenues grew 12.0% y-o-y, due to growing imports. In contrast, budget spending in nearly all major categories was below the plan, excepting for capital expenditures, which increased by 69.6% y-o-y in the period.

On 29 September, the parliament adopted amendments to the 2022 Budget Law increasing this year's budget expenditure by 7.7% to cope with additional mandatory spending, and revising revenue expectations upwards by 1.6%. Amendments to the borrowing threshold were also adopted after increasing the financing needs for this year to 8.2% of GDP after rising the deficit target up from the original plan of 5.1% of GDP, owing to the introduction of a series of new social expenditure from September.

The stock of gross central government debt decreased marginally to 75.7% of GDP in Q2 compared to 76.6% in Q1 and 83.1% of GDP a year earlier.

## TABLE



European Commission, ECFIN-D-1

### MONTENEGRO

							ECFIN 2022 Spring forecast							
		2017	2018	2019	2020	2021	2022	2023	Q1 22	Q2 22	Q3 22	Jul 22	Aug 22	Sep 22
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	4.6	5.6	3.6	-18.4	-4.0	:	:	9.9	4.6	5.6	22.4	-3.3	-2.2
Industrial production <sup>1.2</sup>	Ann. % ch	-4.3	23.6	-6.1	-0.9	5.8	:	:	-13.4	1.2	:	-3.6	3.9	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	4.7	5.1	4.1	-15.3	13.0	3.8	3.4	7.1	12.7	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	3.9	4.6	3.1	-4.6	4.0	2.9	3.3	12.9	12.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	18.7	14.7	-1.7	-12.0	-12.3	2.2	4.2	2.3	-1.5	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	51.5	24.9	10.7	-5.6	-4.8	:	:	-5.2	1.5	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	3.4	3.5	5.2	-12.0	16.6	:	:	18.9	18.8	:	5.2	7.8	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	16.4	15.5	15.4	18.4	16.9	15.2	14.7	17.0	14.9	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	2.1	3.2	2.6	-10.1	-2.4	2.1	2.3	21.7	28.6	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	2.0	0.1	0.8	1.3	1.4	:	:	11.3	10.4	:	11.4	11.4	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	8.3	14.7	6.8	-12.2	28.6	:	:	99.9	47.4	:	35.8	38.8	:
Imports of goods <sup>3.2</sup>	Ann. % ch	11.6	10.9	1.8	-19.0	19.0	:	:	46.4	47.7	:	18.0	51.6	:
Trade in goods balance* <sup>3.3</sup>	% of GDP	-43.3	-43.9	-41.7	-39.2	-39.0	-38.8	-40.6	-39.3	-41.8	:	N.A.	N.A.	N.A.
Exports goods and services* <sup>3.4</sup>	% of GDP	41.1	42.9	43.8	26.0	43.2	:	:	45.9	48.5	:	N.A.	N.A.	N.A.
Imports goods and services* <sup>3.5</sup>	% of GDP	64.5	66.7	65.0	61.0	62.7	:	:	66.0	70.1	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-16.1	-17.0	-14.3	-26.1	-9.3	-12.1	-12.5	-9.3	-10.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	11.3	6.9	6.2	11.2	11.8	:	:	12.9	13.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mn EUR	847	1,050	1,367	1,739	1,749	:	:	1,686	1,657	:	1,747	1,880	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	3.7	4.0	5.1	8.2	6.8	:	:	6.0	5.3	:	5.6	6.0	:
<b>4 Monetary developments</b>														
HICP <sup>4.1</sup>	Ann. % ch	2.8	2.9	0.5	-0.8	2.5	6.5	2.9	6.8	10.9	:	13.7	13.9	:
Producer prices <sup>4.2</sup>	Ann. % ch	0.4	1.7	2.4	0.0	1.3	:	:	6.0	:	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	1.9	0.6	3.4	1.3	3.4	:	:	13.8	20.6	:	24.4	25.2	:
M2 <sup>4.4</sup>	Ann. % ch	13.6	5.0	-3.8	-3.5	16.5	:	:	16.8	23.8	:	24.3	:	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Real effective exchange rate <sup>4.6</sup>	Ann. % ch	0.5	2.7	-1.5	-0.6	:	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (6 months) <sup>5.1</sup>	% p.a.	1.71	0.47	0.52	0.87	:	:	:	:	:	:	:	:	:
Bond yield (10 yrs) <sup>5.2</sup>	% p.a.	N.A.	N.A.	2.61	3.53	3.85	:	:	5.05	7.05	:	8.46	8.49	:
Stock markets <sup>5.3</sup>	Index	10,951	10,374	10,980	10,225	10,910	:	:	9,915	10,452	11,249	11,187	11,198	11,362
Credit growth <sup>5.4</sup>	Ann. % ch	7.8	10.6	4.0	5.0	6.6	:	:	6.0	7.2	:	4.4	3.4	:
Deposit growth <sup>5.5</sup>	Ann. % ch	10.7	12.0	1.8	-2.6	12.8	:	:	24.9	23.0	:	20.4	21.4	:
Non-performing loans <sup>5.6</sup>	% of total	7.3	6.7	4.7	5.5	6.2	:	:	6.5	6.3	:	6.1	5.9	:
<b>6 Fiscal developments</b>														
General government revenue** <sup>6.1</sup>	% of GDP	41.5	42.2	43.4	44.6	44.7	:	:	7.9	9.5	:	N.A.	N.A.	N.A.
General government expenditure** <sup>6.1</sup>	% of GDP	46.8	46.0	45.4	55.7	46.6	:	:	8.3	9.7	:	N.A.	N.A.	N.A.
General government balance** <sup>6.1</sup>	% of GDP	-5.3	-3.9	-2.0	-11.1	-1.9	-4.4	-2.2	-0.5	-0.2	:	N.A.	N.A.	N.A.
General government debt*** <sup>6.4</sup>	% of GDP	63.3	70.1	76.5	105.3	83.3	76.7	72.7	76.6	75.7	:	N.A.	N.A.	N.A.

f. ECFIN forecast Spring 2022 published May 2022

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

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

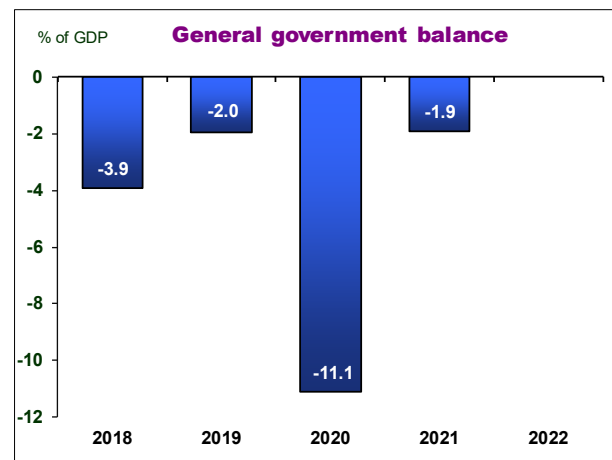
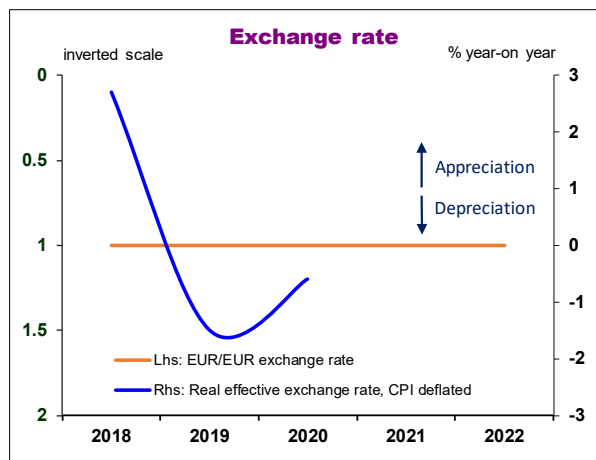
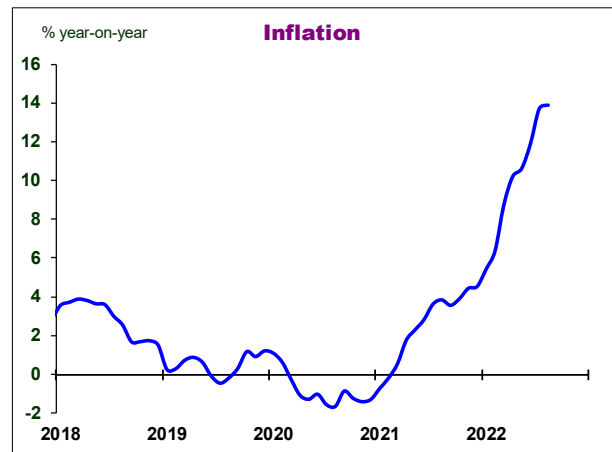
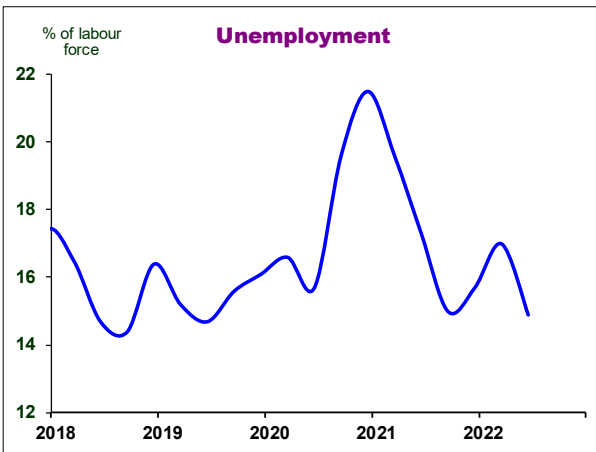
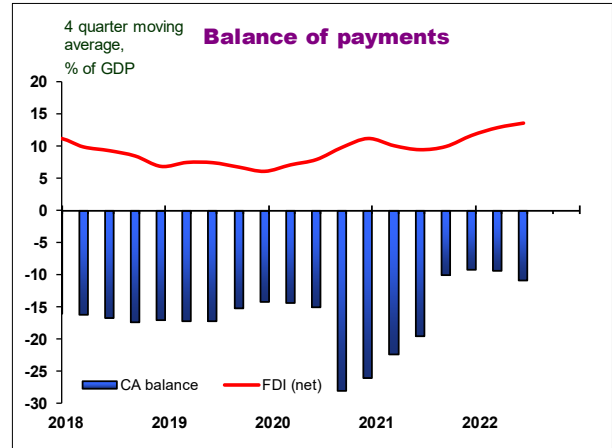
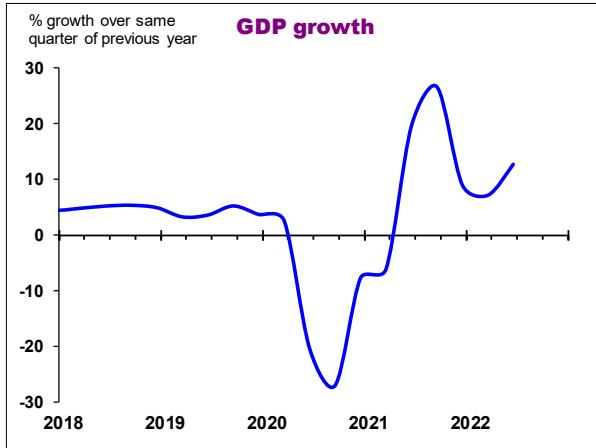
\*\*\* Q figures refer to central government debt only, in percent of estimated annual GDP.

# CHARTS

European Commission, ECFIN-D-1



## MONTENEGRO



## NORTH MACEDONIA



### Key developments

On 12 October, the European Commission presented its annual enlargement package. Regarding the economic criteria for EU membership, North Macedonia is at a good level of preparation in developing a functioning market economy, and has made some progress during the past year. In its capacity to cope with competitive pressures and market forces within the EU, the country is moderately prepared and also made some progress.

On 6 October, the EU and North Macedonia discussed the country's progress on economic and financial issues under the Stabilisation and Association Agreement. North Macedonia confirmed its commitment to better targeting of anti-crisis measures; to swift implementation of the provisions for fiscal rules and a fiscal council in the new Organic Budget Law; and to amending tax laws to streamline tax expenditure.

On 21 August, rating agency Standard and Poor's confirmed the country's rating at BB- with stable outlook. Analysts underline the government's stable and consistent policy decisions, strong investment flows, as well as moderate government debt and debt servicing cost. On the other hand, the current account deficit is highly sensitive to the rise in energy prices, and the foreign currency share in government debt is increasing.

On 19 July, North Macedonia started negotiations on EU accession. As part of a series of meetings, the authorities attended an explanatory meeting on the economic accession criteria in Brussels on 20 September.

### Real sector

The pace of economic recovery accelerated in the second quarter. Entirely driven by domestic demand, real GDP increased by 2.8% y-o-y, after 2.4% in the preceding three months. In April to June, household consumption rose by 4% y-o-y, and investment was higher by 46.5% - the third consecutive quarter of accelerating double-digit investment growth, partly due to base effects. With most pandemic-related fiscal support measures expiring in the first half of the year, government consumption declined by 7.2% y-o-y in Q2. With real import growth

considerably higher than the increase in exports, the contribution to growth from the external side was negative (-13.2 pps.), like in the preceding 2 quarters.

High frequency data for Q3 point to a slowing economy. In July and August, industrial production declined by 2.4% y-o-y on average, after a meagre increase of 1.9% in Q2, reflecting continued supply shortages. Manufacturing output declined by 1.6% in the same period. Energy production was lower by 7.4%. The annual decline in retail sales (except automotive fuels, in real terms) deepened in July and August (6% on average), compared to Q2 (3.6%).

### Labour market

Supported by government subsidies to wages and employer contributions, the labour market proved resilient also in the second quarter. According to the Labour Force Survey, the employment rate for the 15-64 old stood at 56.6%, slightly higher than in Q1.<sup>2</sup> Employment increased by 0.4% in this period. The unemployment rate (14.7%) was 0.2 pps. lower than in the first quarter. The decrease in the male labour force, compared to the preceding three months, was overcompensated for by the number of women entering the labour market. Overall labour market participation remained almost unchanged in this age group, at 66.4%. The unemployment rate for young workers (age 15-24) declined to 30.9% (-3.9 pps. q-o-q), masking a strong outflow from the labour force in this cohort (-7.9% q-o-q). Wages continued to increase, on annual basis, in the first seven months of the year (+9.4% for average monthly gross wages), faster than one year earlier (6.1%). However, in real terms, wages declined by 1.3% y-o-y on average during this period. A strong hike in minimum wages entered into force in March 2022 and drove the acceleration in annual wage growth as of Q2.

### External sector

The current account deficit (4Q moving average) widened in Q2, by 4.6 pps. y-o-y, to 7.2% of GDP, largely as the result of the higher

<sup>2</sup> Beginning in Q1 2022, the Labour Force Survey is based on the results of the 2021 population census, restricting comparability with pre-year data.



merchandise trade deficit (-6.7 pps. to -24.3% of GDP), resulting from the deterioration in the energy balance. The services surplus decreased by 0.3 pps. to 4% of GDP. The primary income deficit remained unchanged at -4.4% of GDP, while the surplus in the secondary income balance increased markedly (+2.6pps. to 17.4%), driven by a large increase in private transfers, reflecting the end of COVID-related travel restrictions. Foreign direct investment amounted to 3.7% of GDP in the four quarters to Q2, largely above its level of one year earlier (2.3%). There was a particularly strong increase in reinvested earnings, but new equity investments and debt instruments rose, too. Gross external debt, excluding central bank transactions, increased by 4.5% in the first half of 2022. At end-June, it stood at 75% of projected full-year GDP (-5.5 pps. compared to end-21). While external government debt decreased in this period, intercompany lending increased by more. Reserves had dropped by almost 14% in the first half of 2022, mainly due to higher energy imports and external debt repayments, but they increased m-o-m over the summer as cash inflows from abroad increased. At end-August, they were covering about 3.7 months of prospective imports of goods and services.

### Monetary developments

Annual consumer price inflation accelerated further in Q3, to 17.2%, following a 12.3% y-o-y rise in Q2. In the first nine months of the year, the CPI rose by 12.4% on average, driven by higher prices for food (+18.5% y-o-y) and electricity and fuels (+13.2%). The annual rise in food prices abated in September, compared to the preceding 3 months. Second-round effects on other sectors, in particular transport, have led to an accelerated rise in core inflation in Q3. Annual growth of broad money (M3) decelerated in Q2, to 2.3%, compared to the preceding three months (4%), but picked up somewhat in July and August to an average of 2.5% y-o-y. Growth in M3 over the summer was mainly due to an increase in short-term deposits, supported by higher currency in circulation. The central bank raised the key policy rate further in Q3 and again in October, in three steps of 50 bps. each, to 3.5%. The rate had been unchanged between March 2021 and April 2022, at the historic low of 1.25%. Since April, it has been raised in 5 consecutive steps.

### Financial sector

Credit growth to the non-government sector picked up somewhat in Q2, compared to the first three months of the year (+0.9 pps. to 9.9% y-o-y). It decelerated slightly in July and August, to 9.7% y-o-y on average, with a particularly strong increase in foreign currency loans. Corporate loan growth accelerated in Q3 and beyond, accounting for the largest part of the overall increase in the first eight months of the year. The non-performing loan (NPL) ratio for the non-financial sector stood at 3.2% at end-June (-0.3 pps. y-o-y), on account of a strong decline in corporate NPL, overcompensating for an increase in household NPL. Annual growth of deposits decelerated in the second quarter by 3.4 pps, compared to the preceding three months, to 2.3% y-o-y, and further in July and August (2%), when the overall increase came entirely from deposits in foreign currency. The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients at 88.8% at end-June, higher by 6.2 pps. compared to one year earlier. Banks' capital adequacy ratio stood at 17.3%, the same as one year earlier.

### Fiscal developments

Tax revenue recovered further in Q3, supporting the annual decline in the general government fiscal deficit. In the first 8 months of 2022, revenue from taxes and contributions was some 13% higher y-o-y, while current expenditure rose by 4%. The budget deficit in January-August narrowed by 57% y-o-y, amounting to 26% of the revised full-year target. On 19 July, the parliament endorsed a budget revision for 2022. It foresees an increase in the central government fiscal deficit from previously 4.3% to 5.3% of GDP. Revenue is projected to be higher by 2.9%, compared to the original budget, and expenditure by 5.9%, mainly reflecting the government's new anti-crisis measures, adopted in April. Capital expenditure was lowered by 15.7%, compared to the original plan. Still, only 34% of the revised amount was implemented in the year through August. General government debt amounted to 46.7% of projected full-year GDP at end-June 2022 (-5.1 pps. compared to end-2021), with public debt at 55.4% (-5.4 pps.). In October, the government successfully issued EUR 250 million in securities in a private placement on the German bond market to help finance the 2022 budget deficit.



## TABLE



European Commission, ECFIN-D-1

### NORTH MACEDONIA

		2017	2018	2019	2020	2021	ECFIN 2022 Spring forecast		Q1 22	Q2 22	Q3 22	Jul 22	Aug 22	Sep 22
							2022	2023						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	-0.4	0.6	-0.1	-16.6	-7.1	:	:	-5.9	-3.5	-3.3	-6.2	-1.4	-2.3
Industrial production <sup>1.2</sup>	Ann. % ch	0.2	5.4	4.1	-9.5	3.1	:	:	2.3	1.9	:	-5.0	0.2	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	1.2	2.8	3.9	-6.1	4.2	3.0	3.1	2.4	2.8	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.1	3.7	3.7	-4.6	6.2	2.9	3.1	4.9	4.0	:	N.A.	N.A.	N.A.
Gross capital formation <sup>1.5</sup>	Ann. % ch	-2.2	1.7	9.5	-16.1	9.2	4.7	6.4	63.0	72.3	:	N.A.	N.A.	N.A.
Construction <sup>1.6</sup>	Ann. % ch	-2.5	-10.8	9.1	-8.0	0.1	:	:	-5.1	17.9	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	-4.2	8.1	11.3	-8.5	8.7	:	:	-0.6	-3.6	:	-9.0	-3.0	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	22.6	21.0	17.5	16.6	15.8	15.3	15.2	14.9	14.7	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	2.7	2.0	5.4	-0.5	0.2	0.8	2.3	-12.9	-12.7	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	2.6	5.8	5.1	8.3	5.7	8.6	4.4	7.7	10.4	:	11.6	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	15.4	19.8	9.5	-9.9	24.5	:	:	18.8	23.9	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	9.7	12.9	10.2	-9.2	26.4	:	:	31.9	33.4	:	:	:	:
Trade in goods balance <sup>3.3</sup>	% of GDP	-17.8	-16.2	-17.3	-16.6	-20.3	-21.4	-21.2	-22.5	-24.3	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	54.9	60.2	61.9	57.7	66.2	:	:	67.0	68.4	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	69.0	72.9	76.2	70.4	82.3	:	:	85.6	88.7	:	N.A.	N.A.	N.A.
Current account balance <sup>3.6</sup>	% of GDP	-0.8	0.2	-3.0	-2.9	-3.1	-4.1	-3.9	-6.0	-6.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) <sup>3.7</sup>	% of GDP	1.8	5.6	3.2	1.4	3.3	:	:	4.3	3.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	m n EUR	2,336	2,867	3,263	3,360	3,643	:	:	3,273	3,116	:	3,197	3,286	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	4.1	4.4	4.6	5.3	4.5	:	:	3.8	3.4	:	:	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	1.4	1.5	0.8	1.2	3.2	6.7	3.9	7.7	12.3	17.2	16.0	16.8	18.7
Producer prices <sup>4.2</sup>	Ann. % ch	0.6	-0.4	-0.6	5.9	-2.3	:	:	3.8	5.7	:	24.8	25.8	:
Food prices <sup>4.3</sup>	Ann. % ch	0.2	0.8	1.6	2.4	3.1	:	:	10.1	17.6	:	23.6	25.1	:
Monetary aggregate M3 <sup>4.4</sup>	Ann. % ch	4.6	10.8	8.2	8.0	8.8	:	:	4.0	2.3	:	2.9	2.1	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.57	61.51	61.51	61.67	61.63	:	:	61.69	61.66	61.51	61.55	61.49	61.49
Real effective exchange rate <sup>4.6</sup>	Index	98.6	99.8	98.3	99.5	100.3	:	:	100.4	102.7	:	105.3	106.4	:
<b>5 Financial indicators</b>														
Interest rate (3 months-SKIBOR) <sup>5.1</sup>	% p.a.	1.78	1.54	1.46	1.38	1.33	:	:	1.32	1.39	1.85	1.68	1.88	1.98
Bond yield <sup>5.2</sup>	% p.a.	6.61	6.11	5.61	5.19	4.86	:	:	4.60	4.58	:	4.65	:	:
Stock markets <sup>5.3</sup>	Index	2,405	3,154	3,939	4,377	5,382	:	:	6,126	6,061	5,782	5,811	5,845	5,689
Credit Growth <sup>5.4</sup>	Ann. % ch	2.4	6.6	7.2	6.4	5.8	:	:	9.0	9.9	:	9.7	9.7	:
Deposit growth <sup>5.5</sup>	Ann. % ch	5.7	8.6	9.6	7.8	8.3	:	:	6.2	2.8	:	2.8	2.0	:
Non-performing loans <sup>5.6</sup>	% total	6.1	5.0	4.6	3.3	3.1	:	:	3.0	3.1	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government revenue** <sup>6.1</sup>	% of GDP	29.1	28.5	29.4	28.4	30.3	:	:	7.4	7.7	:	N.A.	N.A.	N.A.
General government expenditure** <sup>6.1</sup>	% of GDP	31.8	30.3	31.4	36.4	35.7	:	:	8.3	8.1	:	N.A.	N.A.	N.A.
Central government balance** <sup>6.1</sup>	% of GDP	-2.7	-1.8	-2.0	-8.0	-5.4	-6.1	-4.4	-0.9	-0.5	:	N.A.	N.A.	N.A.
General government debt*** <sup>6.2</sup>	% of GDP	39.4	40.4	40.5	51.9	51.8	54.6	56.4	46.8	46.7	:	N.A.	N.A.	N.A.

f. ECFIN forecast Spring 2022 published May 2022

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

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

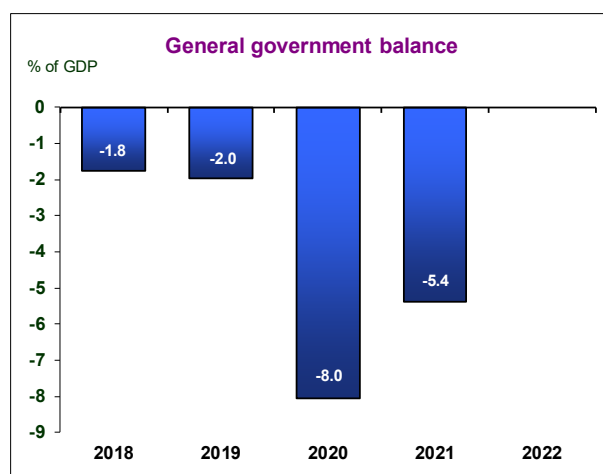
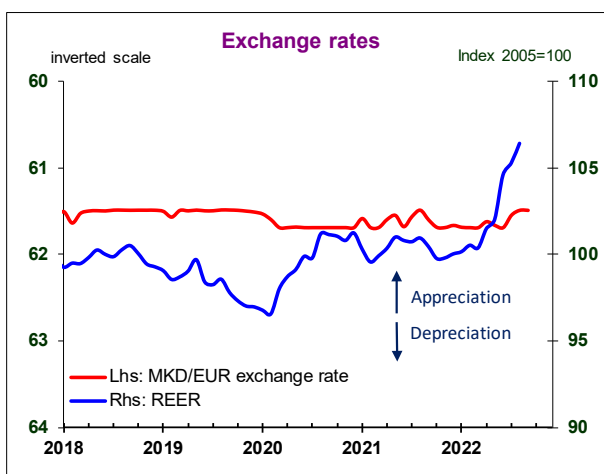
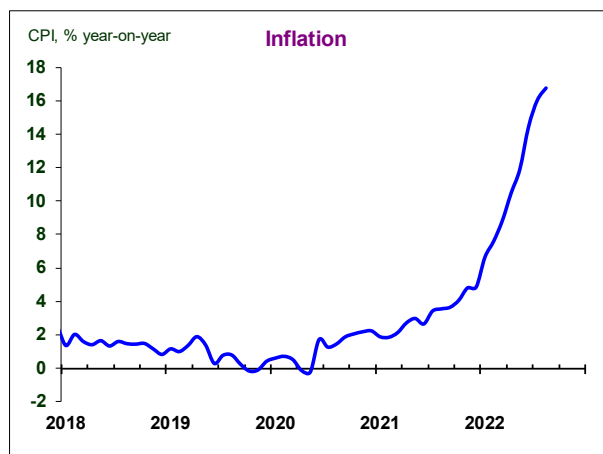
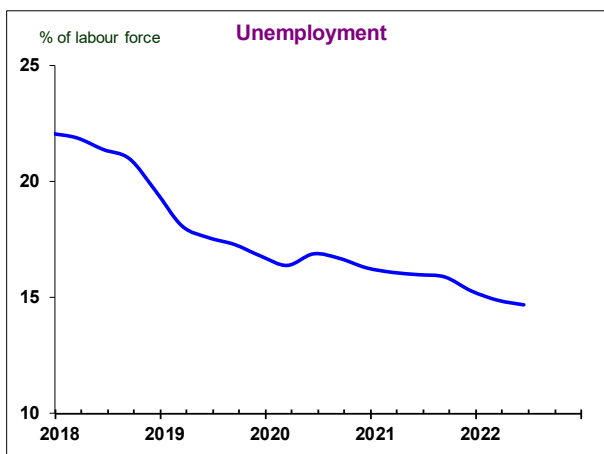
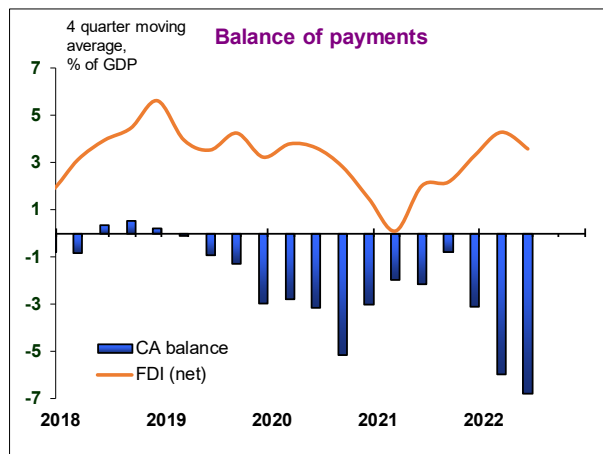
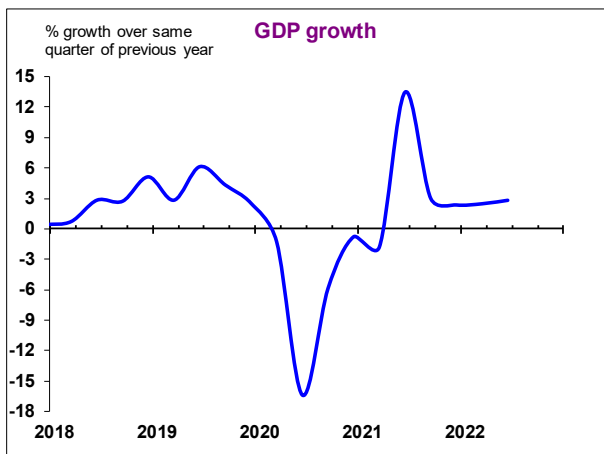
\*\*\* Q figures in percent of estimated annual GDP.

# CHARTS

European Commission, ECFIN-D-1



## North Macedonia



# SERBIA



## Key developments

On 27 August, President Aleksandar Vučić nominated Ana Brnabić to serve another term as prime minister in an upcoming new government to be formed by the end of October.

On 11 September, Serbia announced the signature of a USD 1 billion loan agreement at a 3% interest rate with the United Arab Emirates. On the same day, Serbia also announced that it was going to negotiate with the IMF a new Stand-By-Arrangement that would replace the ongoing non-disbursing Policy Coordination Instrument.

On 12 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Serbia is between a moderate and a good level of preparation and has made some progress in developing a functioning market economy. Serbia is moderately prepared and has also made some progress in coping with competitive pressure and market forces within the EU.

## Real sector

In the second quarter, economic growth slightly decelerated to 3.9% y-o-y, down from 4.3% y-o-y in Q1. Growth in Q2 was mostly driven by private consumption (+4.0% y-o-y) and government consumption (+4.5%) while gross fixed capital formation (+1.7%) and higher inventories contributed more moderately. The still robust performance of domestic demand was only slightly offset by a negative contribution of net exports to GDP growth as a result of structurally higher imports, although the annual growth of exports exceeded the rise in imports in Q2 (+20.1% and +16.9% respectively).

On the supply side, despite a slight overall deceleration, many sectors still recorded robust growth rates. Thus, wholesale and retail trade, transportation and storage, accommodation and food service activities (+8.4%), mining and manufacturing (+4.6%), public administration, education and health (+4.5%), professional, scientific, technical, administrative and support activities (+7.4%), arts, recreation and other services (+12.8%) and information and

communication (+4.9%) accounted for the bulk of the overall annual increase in output in Q2-2022. Construction (-7.6%) and agriculture (-5.4%) were the only activities recording year-on-year declines.

Some short-term indicators suggest that economic activity was broadly resilient in summer. Industrial production expanded by 3.7% y-o-y in June, decreased by 1.6% in July and returned to 0.3% y-o-y expansion in August. The year-on-year growth of real retail trade decelerated slightly from 5.1% in May to 4.8% in June and 4.0% in July before picking up to 4.6% in August.

## Labour market

According to LFS data, the unemployment rate of the population aged 15 years and above decreased by 1.8 pps. q-o-q to 8.9% in Q2-2022. This was mainly the result of an increase in employment by 2.9% q-o-q, that was mitigated by a 0.9% q-o-q increase in the active population. Employment increased by 1.8% q-o-q in the formal sector (accounting for half of the total employment gain) while informal employment grew by 10.3% q-o-q. Two thirds of the informal employment increase occurred outside agriculture.

According to administrative data, in Q2-2022 employment increased by 1.0% q-o-q and 1.8% y-o-y. Annual employment growth remained positive in most sectors and was particularly strong in information and communication (+12.3%), professional, scientific and technical activities (+6.0%) and administrative and support service activities (+5.8%), while the manufacturing sector recorded low employment gains (+0.8%). The number of registered unemployed decreased by 13.1% y-o-y in September 2022. Nominal net wages rose by 13.0% y-o-y in July 2022 while real net wages grew by 0.2% y-o-y.

## External sector

In the first seven months of 2022, the current account deficit widened very substantially to EUR 2.6 billion compared to EUR 0.9 billion in the same period of 2021. Over the four quarters to June 2022, the deficit stood at 7.7% of GDP as compared to 4.4% in 2021 as a whole. The

higher current account deficit over January to July was due to a significantly larger merchandise trade deficit (+70.7% y-o-y, driven by higher energy imports) and a higher primary income deficit (+46.1% y-o-y, reflecting mainly a rebound in dividend payments and reinvested earnings). They were partially offset by a higher services trade surplus (+25.3%) as well as a stronger secondary income surplus (+30.3% y-o-y), reflecting chiefly a rebound in remittances. Net FDI inflows decreased by 9.5% y-o-y in January-July, covering 72% of the current account deficit.

Merchandise trade dynamics continued to be strong, with still high y-o-y rises in the EUR value of exports (30.8% in June, 19.7% in July and 23.4% in August) and imports (28.6%, 16.1% and 29.1%, respectively), particularly driven by energy. Over the first eight months of 2022, exports of goods grew 28.2% y-o-y, while imports increased by 38.8%.

### Monetary developments

Annual consumer price inflation continued to increase by 1.5 pps., 0.9 pps. and 0.4 pps. in June, July and August respectively, reaching 13.2% in August, thus largely exceeding the upper bound of the central bank's target tolerance band of 3% +/-1.5 pps. in twelve consecutive months. Inflation continued to be particularly driven by food (+20.9% in August) and fuel prices (+43.4% in August). However, core inflation (excluding energy, food, alcohol and tobacco) also picked up further from 6.3% in May to 7.9% in August. The National Bank of Serbia (NBS) continued to gradually raise its key policy rate by 25 bps. in both July and August and by 50bps. in both September and October, thereby bringing it to 4.0%. The NBS remained an active participant on the foreign exchange market by buying a net EUR 405 million in June, a net EUR 435 million in July and a net EUR 450 million in August. Still, in the first eight months of the year the NBS sold a net EUR 0.9 billion to stabilise the dinar exchange rate. NBS foreign exchange reserves increased slightly by 1.8% y-o-y to EUR 15.9 billion in August 2022, covering close to 5

months of imports of goods and services, driven by large FX inflows in Q3-2021, in particular from Eurobond issuances worth EUR 1.8 billion.

### Financial sector

In August, domestic claims of the banking sector increased by 6.6% y-o-y (up from 5.9% y-o-y in May due to a strong increase in claims on the NBS against repo transactions). The annual growth of credit to households recorded some slowdown to 8.7% in August, from 10.2% in May. Annual credit growth to companies also decelerated slightly from 9.0% in May to 8.2% in August. The loan-to-deposit ratio stood at 89.8% at the end of July 2022. The ratio of non-performing loans decreased slightly to 3.3% in Q2-2022. The capital adequacy ratio of the banking sector (regulatory capital to risk-weighted assets) decreased to 19.4% in Q2 (-0.5 pps. q-o-q). As regards liquidity ratios, both the share of liquid assets to total assets (33.0%, -2.6 pps. q-o-q) and the share of liquid assets to total short-term liabilities (43.3%, -3.4 pps. q-o-q) continued to decrease in Q2.

### Fiscal developments

In the period January-August 2022, total revenue growth remained strong, reaching 13.9% y-o-y. It was particularly supported by buoyant VAT receipts (+22.3%), corporate income tax (+32.1%) and personal income tax (+16.7%) while social contributions (+9.6%) and excise duties (+2.7%) increased more moderately. Total expenditure growth (+10.4%) remained below the revenue increase and was driven by social transfers (+11.7%), purchases of goods and services (+15.6%), capital expenditure (+19.6%) and other current expenditure (+25.2%) while subsidies decreased by 29.8%. As a result, in January-August, the budget recorded a surplus of 0.4% of expected annual GDP, as compared to a deficit of 0.5% of GDP in the same period of 2021 and a 2022 deficit target of 3.0%. In August, central government debt stood at 53.4% of the projected full-year GDP, down from 56.5% at end-2021, mainly as a result of high expected nominal GDP growth in 2022.

# TABLE

European Commission, ECFIN-D-1



## SERBIA

		2017	2018	2019	2020	2021	ECFIN 2022 Spring forecast		Q1 22	Q2 22	Q3 22	Jul 22	Aug 22	Sep 22
							2022	2023						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	5.8	6.7	5.9	-1.0	3.2	:	:	0.2	-0.7	1.0	2.6	1.0	-0.6
Industrial production <sup>1.2</sup>	Ann. % ch	3.4	1.5	0.2	0.4	6.1	:	:	1.5	4.8	:	-1.6	0.3	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	2.1	4.5	4.3	-0.9	7.4	3.4	3.8	4.3	3.9	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.2	3.1	3.7	-1.9	7.8	3.7	3.8	7.0	4.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	6.6	17.5	17.2	-1.9	15.9	4.4	4.8	1.1	1.7	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	9.3	9.6	32.3	-1.5	25	:	:	9.3	6.8	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	3.3	4.1	8.9	4.2	10	:	:	10.2	5.6	:	4.0	4.6	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	14.5	13.7	11.2	9.7	11.0	10.0	9.3	10.6	8.9	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	2.8	1.4	2.4	-0.2	2.6	0.8	0.7	5.4	4.3	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	4.0	4.3	10.5	9.4	9.4	:	:	13.4	13.6	:	13.0	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	13.8	6.5	8.8	-3.7	26.7	:	:	28.6	32.0	:	19.7	23.8	:
Imports of goods <sup>3.2</sup>	Ann. % ch	14.0	11.2	9.9	-4.7	24.5	:	:	47.9	40.0	:	16.1	29.1	:
Trade in goods balance* <sup>3.3</sup>	% of GDP	-10.2	-11.9	-12.2	-11.1	-11.1	-12.9	-13.0	-13.2	-14.4	:	N.A.	N.A.	N.A.
Exports goods and services* <sup>3.4</sup>	% of GDP	49.3	49.3	50.8	47.6	53.6	:	:	55.8	58.3	:	N.A.	N.A.	N.A.
Imports goods and services* <sup>3.5</sup>	% of GDP	57.0	58.9	60.8	56.3	62.0	:	:	66.4	70.0	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-5.2	-4.8	-6.9	-4.1	-4.5	-6.5	-6.4	-6.9	-7.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	6.2	7.4	7.7	6.3	7.0	:	:	6.2	6.2	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mn EUR	9,962	11,262	13,378	13,492	16,455	:	:	14,296	14,776	:	15,023	15,876	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.4	5.4	5.7	6.1	6.0	:	:	4.7	4.5	:	4.5	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	3.1	2.0	1.8	1.6	4.1	8.5	4.6	8.7	10.6	:	12.8	13.2	:
Producer prices <sup>4.2</sup>	Ann. % ch	3.4	2.1	0.7	-1.8	9.1	:	:	14.3	18.6	:	19.8	17.0	:
Food prices <sup>4.3</sup>	Ann. % ch	3.3	1.9	2.6	2.6	4.5	:	:	14.8	16.9	:	19.7	20.4	:
M3 <sup>4.4</sup>	Ann. % ch	3.6	14.5	8.4	18.1	13.3	:	:	8.3	6.0	:	7.0	6.8	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	121.41	118.27	117.86	117.58	117.57	:	:	117.62	117.57	117.36	117.39	117.35	117.32
Real effective exchange rate <sup>4.6</sup>	Index	119.5	123.8	123.6	125.7	128.0	:	:	128.2	127.6	:	128.6	129.4	:
<b>5 Financial indicators</b>														
Interest rate (BELIBOR) <sup>5.1</sup>	% p.a.	3.41	2.96	2.52	1.19	0.89	:	:	1.04	1.77	2.85	2.52	2.77	3.25
Bond yield (10 year) <sup>5.2</sup>	% p.a.	:	5.17	:	:	2.50	:	:	:	6.70	:	:	:	:
Stock markets <sup>5.3</sup>	Index	1,584	1,562	1,584	1,544	1,639	:	:	1,748	1,682	1,703	1,689	1,698	1,723
Credit growth <sup>5.4</sup>	Ann. % ch	2.4	4.3	9.7	12.3	9.1	:	:	10.6	12.6	:	12.1	11.7	:
Deposit growth <sup>5.5</sup>	Ann. % ch	7.9	7.4	12.9	15.0	14.4	:	:	11.8	7.3	:	7.2	7.2	:
Non-performing loans <sup>5.6</sup>	% total	9.8	5.7	4.1	3.7	3.6	:	:	3.4	3.3	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government revenue** <sup>6.1</sup>	% of GDP	41.5	41.5	42.0	41.0	43.3	:	:	10.2	12.1	:	N.A.	N.A.	N.A.
General government expenditure** <sup>6.1</sup>	% of GDP	40.4	40.9	42.2	49.0	47.4	:	:	11.2	11.3	:	N.A.	N.A.	N.A.
General government balance** <sup>6.1</sup>	% of GDP	1.1	0.6	-0.2	-8.0	-4.1	-3.1	-1.8	-1.0	0.8	:	N.A.	N.A.	N.A.
General government debt*** <sup>6.2</sup>	% of GDP	59.2	53.7	52.0	57.0	56.5	54.5	52.5	51.9	53.2	:	53.5	:	:

f. ECFIN forecast Spring 2022 published May 2022

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

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

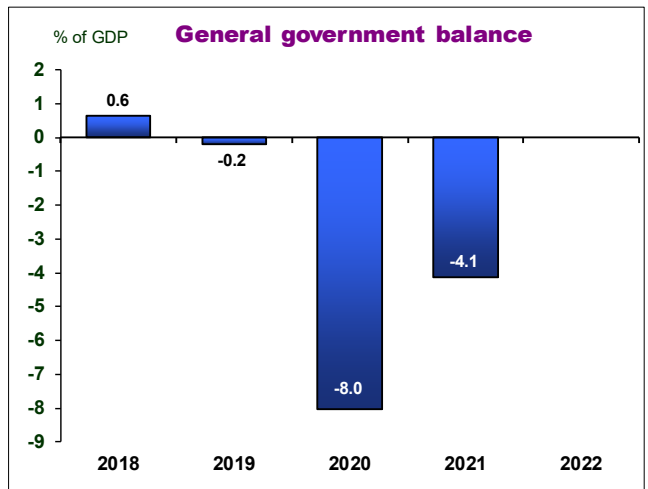
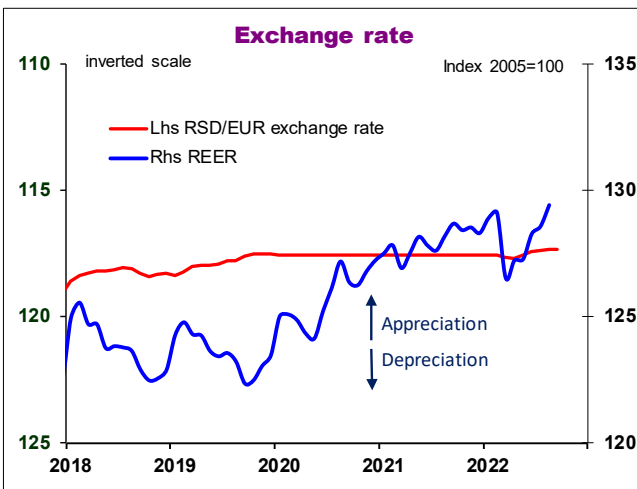
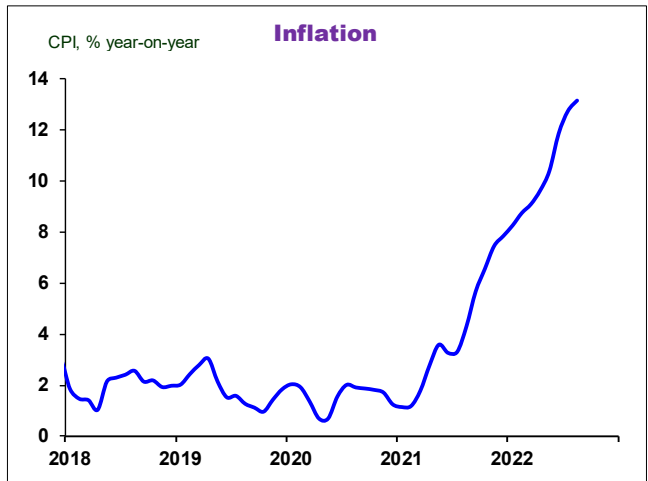
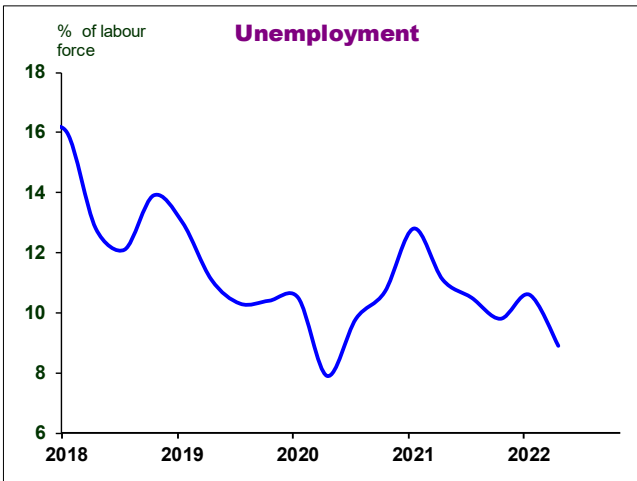
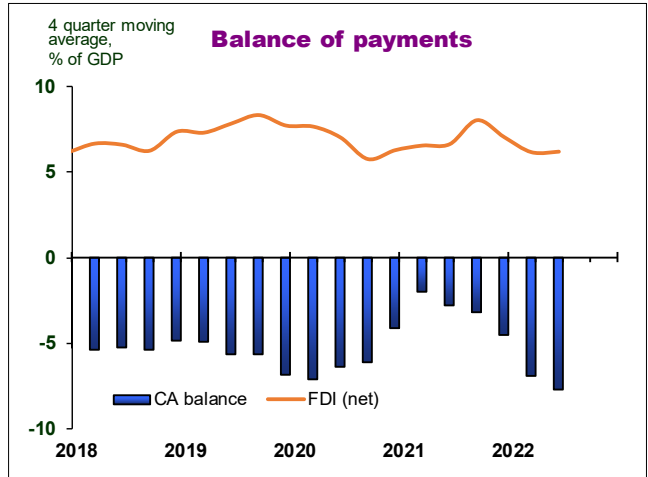
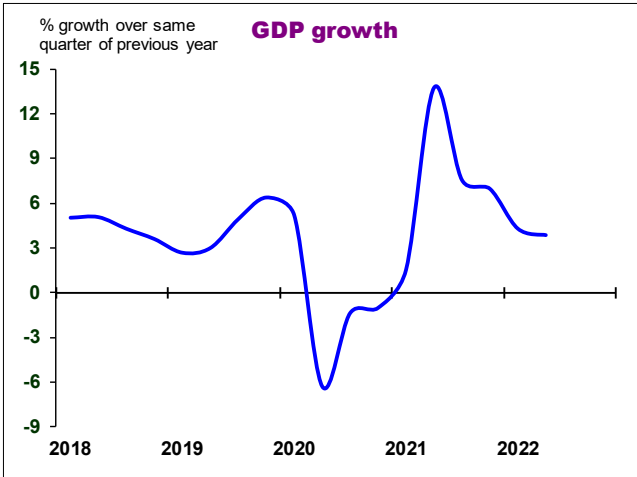
\*\*\* Q figures in percent of estimated annual GDP.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA





# TÜRKIYE



## Key developments

On 12 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, the Turkish economy is well advanced but made no progress over the reporting period. Serious concerns persist over the continued proper functioning of Türkiye's market economy as there has been backsliding on important elements, such as the conduct of monetary policy and the institutional and regulatory environment. It is at a good level of compliance but has made limited progress regarding its capacity to cope with competitive pressures and market forces within the EU.

In September, the authorities adopted their Medium-Term Economic Programme (2023-2025) with the main economic policy and development priorities and updated macroeconomic projections. Real GDP is expected to increase by 5.0% in 2022, 5.0% in 2023 and by 5.5% in 2024 and 2025 while inflation is projected to fall sharply from 65% in 2022 to 9.9% in 2025. The headline budget deficit is planned at 3.2% of GDP in 2022 and 3.5% in 2023, before declining below 3% in 2024.

The Borsa Istanbul went through a period of very high volatility in the summer. Driven mainly by bank valuations, the main index (BIST-100) increased by nearly 50% between the beginning of July and 12 September, before losing 12% of its value in the span of a week. The high volatility triggered prosecutors' investigation into possible irregular transactions.

In August, Moody's downgraded Türkiye's sovereign rating by one notch to B3 with a stable outlook, quoting the rising balance-of-payment pressures, the authorities' increasingly complex unorthodox measures to stabilise the lira, and the central bank unwillingness to increase its policy rate. In end-September, S&P also cut Türkiye's rating to B from B+.

## Real sector

Despite very poor economic sentiment indicators and high uncertainty triggered by Russia's war of aggression against Ukraine, the economic performance was surprisingly strong in the

second quarter. Real GDP increased 2.1% q-o-q and 7.6% y-o-y. Growth was largely driven by household consumption (22.5% y-o-y) and exports (16.4% y-o-y). As a result, both domestic demand and net exports contributed to real GDP growth by 4.0 pps. and 3.6 pps., respectively. Other domestic demand components were more subdued: government consumption increased 2.3% y-o-y and gross fixed capital formation 4.7% y-o-y, channelled mainly into machinery and equipment. In addition, inventories declined significantly, subtracting 10.0 pps. from GDP growth. With the pick-up in domestic demand and the relative stabilisation of the real effective exchange rate since the beginning of the year, imports rebounded in Q2 (5.8% y-o-y).

On the supply side, the second quarter performance was upbeat in the services sector, led by financial and insurance activities (26.6% y-o-y) and retail trade, transportation, and accommodation (18.1% y-o-y). Industrial activity was also buoyant (7.8% y-o-y) as manufacturing remained strong (9.1% y-o-y). However, construction remained weak (-10.9% y-o-y) and agriculture fell further by 0.5% over the previous quarter and 2.9% y-o-y.

Most high frequency indicators worsened in Q3. Industrial production fell steeply in July (-6.1% m-o-m), registering across-the-board declines in activity, before rebounding partially in August (2.4% m-o-m). The manufacturing PMI dived deeper to 47.1 and the seasonally adjusted capacity utilisation rate in manufacturing fell to 77.3 in Q3. Retail sales growth decelerated strongly since May to 2.0% y-o-y in July but registered a strong uptick to 9.0% y-o-y in August. Having fallen markedly already in the first half of the year, economic sentiment stayed low in Q3. The index of real sector confidence continued its uninterrupted decline since the beginning of the year, scoring its lowest in September (100.2) as current orders and stocks declined. However, after an all-time low of 63.4 in June, consumer confidence rebounded to 72.4 in September, while services (118.2) and retail trade (115.9) indexes remained rather upbeat.

## Labour market

The labour market has largely recovered above pre-COVID-19 levels this summer. The labour

force participation (seasonally adjusted, 15 years and over) peaked in May before subsiding somewhat to 53.0%, while the employment rate increased further to 47.9% in August. The unemployment rate (seasonally adjusted) continued falling to 9.6% in August - its lowest level since 2014. The seasonally adjusted employment growth remained strong in Q2 (8.4% y-o-y), driven by continued gains in industry (11.2% y-o-y) and services (10.3% y-o-y). There were also small employment gains in construction (2.5% y-o-y) and agriculture (0.8% y-o-y). Employment increased further, surpassing 31 million in August. Nevertheless, the broader measure of labour market slack (including unemployment, time-related underemployment, and the potential labour force) remained significant at 19.8% in August. The seasonally and calendar-adjusted hourly labour cost index increased by 55.0% y-o-y in Q2 (9.9% q-o-q), 19.0 pps. below the rate of inflation.

### External sector

The 12-month cumulative deficit reached USD 40.9 billion (4.9% of GDP) in August, compared to USD 13.6 billion (1.7% of GDP) in 2021. The high energy and other commodity prices remained the main drivers of the growing trade imbalance, which stood at USD 70 billion, while the June-August trade deficit more than tripled year on year, also boosted by rising imports of non-monetary gold. Monthly nominal goods exports growth decelerated since June to 12% y-o-y in August, while imports increased steadily by around 40%. The large trade imbalance was only partly offset by the strong recovery of tourism and other service exports in the summer, which were a third above their pre-crisis level in May-August. After two months of net outflows, the financial account registered USD 3 billion in inflows in July and USD 10 billion in August, mainly because of a large incurrence of other liabilities, likely stemming from a loan provided by Rosatom for the construction of the Akkuyu nuclear power plant. Net errors and omissions remained very high (USD 28 billion since the beginning of the year), representing a major source of BoP financing. These unexplained inflows helped boost the central bank foreign exchange reserves to above USD 100 billion in July.

### Monetary developments

Although decelerating in monthly terms – m-o-m inflation averaged 2.3% in Q3 – consumer price inflation reached a new high at

83.45% y-o-y in September. Producer prices increased further as well, to 151.5% y-o-y. In September, inflation expectations (12-month ahead inflation) fell for the first time in almost two years, but remained elevated at 37.7%. Despite the very high inflation and inflation expectations, the central bank lowered its key policy rate by 100bps both in August and in September to 12%. The lira depreciated further in Q3, losing 11% of its value against the US dollar. Türkiye's 5-year sovereign risk premium peaked in July at 908.4 and remained very high since then.

### Financial sector

In September, Türkiye's banks suspended their transactions through the Russian payment system Mir. In August, the central bank introduced additional macro-prudential measures to limit credit growth and reduce loan interest rates. It capped the interest rates on commercial loans and linked this cap to its policy rate, effectively making the reduction of the policy rate loan contractionary as commercial banks are less willing to extend commercial lending at lower rates. The measures also boosted the demand for government securities and further suppressed their yields. In September, to further reduce borrowing costs, the central bank indicated that it is planning to lower the lending fees charged by commercial banks. The banking sector's capital adequacy ratio stood at 18.7% in August, well above the regulatory minimum. The NPL ratio declined further to 2.4% in (1.6% in state-owned banks). By 22 September, the FX-protected deposits increased to TRY 1.3 trillion, representing around 17% of all deposits.

### Fiscal developments

After a sizeable increase in government expenditure since June, the cumulative budget surplus in January-August amounted to TRY 33.1 billion (0.3% of the estimated annual GDP). There were notable increases in spending on employees and on current transfers, following the decision to increase the net minimum wage by 29.3% in July. The high energy prices continued to exert pressure on the budget and net lending (mostly to the state-owned energy companies) increased sixfold in the first eight months. In the same period, total spending went up by 90.7% y-o-y, but still lagged total revenue (102.6% y-o-y) which continued to be driven by the good tax revenue performance (107% y-o-y). Government debt fell to 39.3% in Q2, down from 41.8% of GDP at end-2021.

## TABLE



## TÜRKİYE

European Commission, ECFIN-D-1

		2017	2018	2019	2020	2021	ECFIN 2022 Spring forecast		Q1 22	Q2 22	Q3 22	Jul 22	Aug 22	Sep 22
							2022	2023						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Index	3.6	-1.4	-3.8	-4.1	5.6	:	:	5.0	0.2	-3.5	-3.4	-1.8	-5.3
Industrial production <sup>1.2</sup>	Ann. % ch	9.1	1.1	-0.6	2.2	16.5	:	:	10.3	10.7	:	3.2	4.1	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	7.5	3.0	0.8	1.9	11.4	2.0	3.0	7.5	7.6	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	5.9	0.5	1.5	3.2	15.3	0.5	2.0	21.5	22.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	8.3	-0.2	-12.5	7.4	7.4	-1.5	3.0	4.2	4.7	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	25.9	22.8	-7.1	5.9	38.7	:	:	68.6	105.9	:	90.6	111.5	:
Retail sales <sup>1.7</sup>	Ann. % ch	5.6	1.9	-0.5	3.2	16.4	:	:	7.3	12.8	:	3.6	8.4	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	10.9	10.9	13.7	13.1	12.0	12.8	12.6	11.6	10.1	:	10.6	9.8	:
Employment <sup>2.2</sup>	Ann. % ch	3.5	2.2	-2.3	-4.8	7.9	1.6	2.6	7.4	8.4	:	5.2	6.3	:
Wages <sup>2.3</sup>	Ann. % ch	9.3	18.3	26.2	18.0	19.3	61.6	63.5	50.3	55.6	:	:	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	10.2	7.7	2.1	-6.2	32.8	:	:	20.4	19.5	:	13.1	13.1	:
Imports of goods <sup>3.2</sup>	Ann. % ch	18.1	-3.2	-9.0	4.4	23.6	:	:	42.0	39.3	:	41.4	40.4	:
Trade in goods balance* <sup>3.3</sup>	% of GDP	-6.8	-5.2	-2.2	-5.3	-3.6	-4.9	-4.0	-5.4	-6.8	:	N.A.	N.A.	N.A.
Exports goods and services* <sup>3.4</sup>	% of GDP	25.9	30.2	32.3	28.5	34.4	:	:	36.8	38.1	:	N.A.	N.A.	N.A.
Imports goods and services* <sup>3.5</sup>	% of GDP	29.7	31.6	30.0	32.1	34.8	:	:	38.6	40.7	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-4.8	-2.8	0.7	-5.0	-1.7	-3.8	-3.5	-3.2	-4.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	1.0	1.1	0.9	0.6	0.9	:	:	0.8	0.9	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	bn EUR	107.7	93.0	105.7	93.6	111.2	:	:	105.9	98.3	:	101.3	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.1	4.5	5.6	4.9	4.7	:	:	4.1	3.5	:	3.5	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	11.1	16.3	15.2	12.3	19.6	63.1	54.1	54.8	74.1	81.1	79.6	80.2	83.5
Producer prices <sup>4.2</sup>	Ann. % ch	15.8	27.0	17.6	12.2	43.9	:	:	104.7	131.0	146.7	144.6	143.7	151.5
Food prices <sup>4.3</sup>	Ann. % ch	12.7	18.0	19.5	13.8	24.3	:	:	63.6	91.6	92.6	94.6	90.3	93.0
M3 <sup>4.4</sup>	Ann. % ch	15.5	18.6	29.5	32.8	51.1	:	:	64.3	74.2	84.3	79.6	86.9	84.3
Exchange rate TRY/EUR <sup>4.5</sup>	Value	4.12	5.68	6.35	8.03	10.45	:	:	15.63	16.83	18.06	17.80	18.25	18.14
Real effective exchange rate <sup>4.6</sup>	Index	103.2	88.0	87.1	78.6	70.6	:	:	63.0	65.6	:	64.5	63.4	:
<b>5 Financial indicators</b>														
Interest rate (3 months-TRLIBOR) <sup>5.1</sup>	% p.a.	12.81	19.85	20.66	11.25	18.70	:	:	16.01	16.01	:	:	:	:
Interest rate, long term <sup>5.2</sup>	% p.a.	11.15	16.39	16.01	12.81	17.69	:	:	24.16	22.25	15.01	18.32	15.47	11.24
Stock markets <sup>5.3</sup>	Index	990	1,019	993	1,133	1,510	:	:	2,037	2,469	2,907	2,467	2,931	3,322
Credit growth <sup>5.4</sup>	Ann. % ch	21.8	21.8	6.4	28.4	22.7	:	:	42.6	53.8	66.4	62.7	67.5	68.9
Deposit growth <sup>5.5</sup>	Ann. % ch	20.4	23.0	18.3	36.4	28.0	:	:	63.6	72.3	93.7	84.0	97.2	99.7
Non-performing loans <sup>5.6</sup>	% total	3.0	3.9	5.4	4.1	3.1	:	:	2.9	2.5	:	2.4	2.4	:
<b>6 Fiscal developments</b>														
General government revenue** <sup>6.1</sup>	% of GDP	29.9	29.8	29.8	29.6	28.0	:	:	6.4	:	:	N.A.	N.A.	N.A.
General government expenditure** <sup>6.2</sup>	% of GDP	31.9	32.5	33.0	32.5	30.3	:	:	6.1	:	:	N.A.	N.A.	N.A.
General government balance** <sup>6.1</sup>	% of GDP	-2.0	-2.8	-3.2	-2.9	-2.3	-4.5	-4.5	0.3	:	:	N.A.	N.A.	N.A.
General government debt*** <sup>6.2</sup>	% of GDP	27.9	30.1	32.6	39.7	41.8	41.4	39.3	42.3	39.3	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2022 published May 2022

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

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

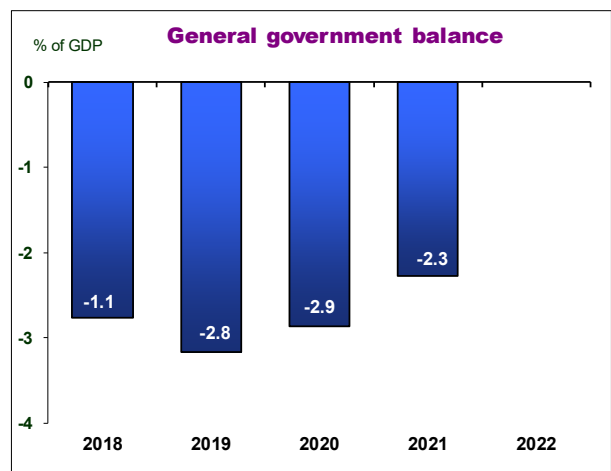
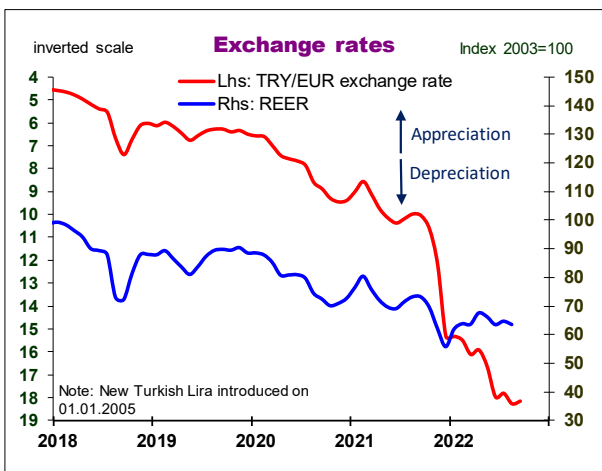
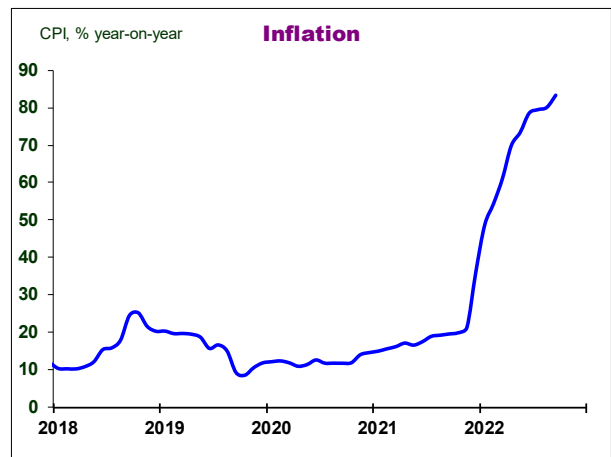
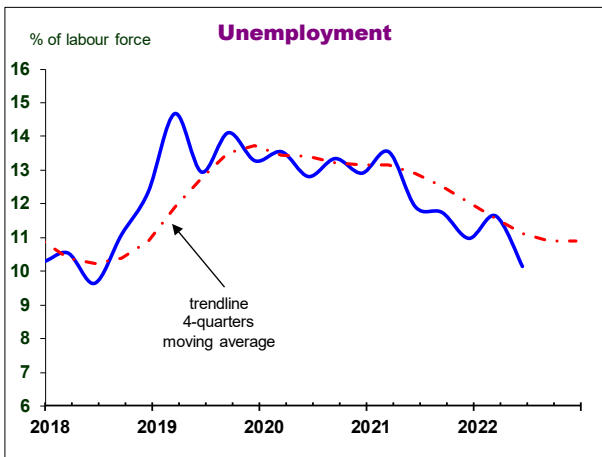
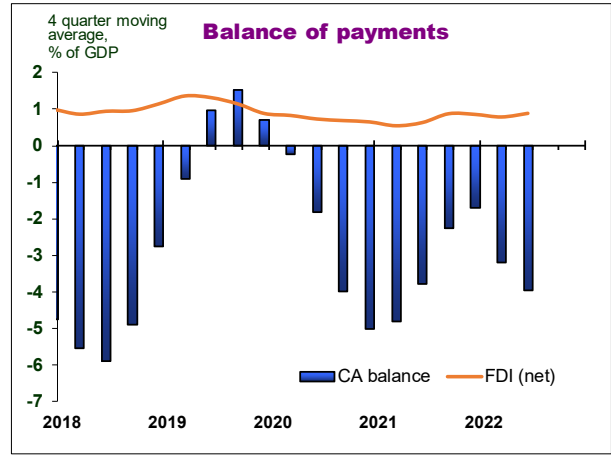
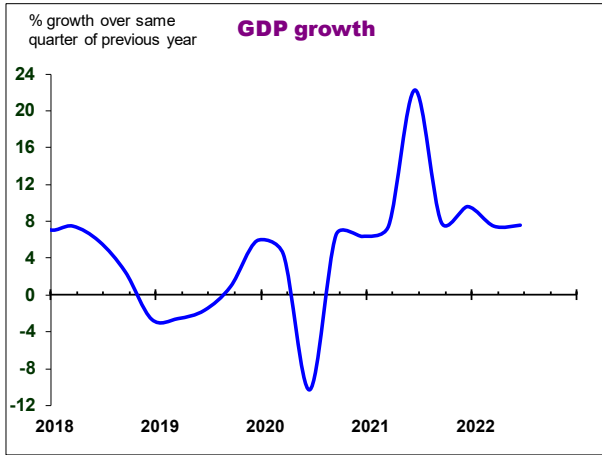
\*\*\* Q figures in percent of GDP on a four quarter moving basis.

# CHARTS

European Commission, ECFIN-D-1



## TÜRKİYE



# BOSNIA AND HERZEGOVINA



## Key developments

On 22 July, the rating agency Moody's has affirmed its sovereign credit rating on Bosnia and Herzegovina at „B3 with stable outlook“.

On 2 October, general elections took place, electing the representatives at the level of the State and the two entities, as well as Cantons in the FBiH. International representatives urged the country to swiftly form functioning governments and to avoid the political deadlock of recent years.

On 12 October, the European Commission presented its annual enlargement package. It recommended to the Council to grant Bosnia and Herzegovina candidate country status, provided it takes a number of steps to reinforce democracy, the functionality of state institutions, and the rule of law, among others. With respect to compliance with the economic criteria for EU membership, Bosnia and Herzegovina has backslided and is at an early stage of establishing a functioning market economy. This assessment reflects the country's political stalemates during the last year, leading to a blockage of country-level institutions and a lack of reforms. With respect to the country's capacity to cope with competitive pressure and market forces in the EU, Bosnia and Herzegovina has made no progress and remains at an early stage of compliance.

## Real sector

In Q2-2022, the economy continued to recover, registering a seasonally adjusted, q-o-q GDP increase of 1.2%, compared to 0.9% in Q1 according to the expenditure approach, and by 1.6% and 1.5%, according to the production approach. In terms of value added, output growth was mainly driven by strong value-added growth in trade, transport and tourism, as well as manufacturing. Expenditure side year-on-year, output growth was 5.9% in Q2, compared to 5.8% in Q1. The main growth drivers were gross fixed investment (probably inventory build-up), increasing by 23.8% y-o-y, and private consumption, increasing by 3.4% y-o-y. Due to strong imports and decelerating exports, the growth contribution of net exports was negative. For the whole year of 2021, output was 7.6% higher than a year before, following a drop by 3.2% in 2020. Official data suggests that the

build-up of inventories contributed about 5 pps to overall output growth in 2021.

High-frequency data points to a marked deceleration of economic activity from June onwards. While in Q2, industrial output was still 4.4% higher than a year before, this indicator dropped by 1.2% in July and rose by only 1.6% in August. Retail sales turnover remained strong in Q2, increasing by 14.6%, but lost some momentum in July and August, growing by 10.2% and 10.9%, respectively.

Tourism continued to rebound. During the first eight months of 2022, the number of overnight stays and arrivals at accommodations were 79.3% and 57.7% higher than a year before, respectively. The overall levels were similar to those achieved in the same period in 2018. The increase in foreign tourist arrivals was significantly stronger, leading to a decline in the share of domestic tourists to 38% of the totals, compared to 50% a year before. Tourists from Serbia were the largest group, accounting for 15.1% of total foreign tourists, while tourists from Croatia accounted for 13.1%.

## Labour market

Registered employment was 2.8% higher y-o-y in Q2. The main job-creating sectors continued to be trade as well as manufacturing. In July, the number of employees was 2.1% higher than a year before, i.e. nearly 17,400 more employees were registered.

The number of the registered unemployed in Q2 was some 34,700 (5.8%) lower than a year before. This brought the administrative unemployment rate down to 30%, compared to 32.4% the year before. In July, the number of registered unemployed persons was some 33,600 persons (8.5%) lower than a year before. According to the Labour Force Survey (LFS), the unemployment rate was 15.7% in Q2, markedly lower than a year earlier, when it was 18.1%. The LFS youth unemployment rate (age group 15-24) rose slightly to 36.3% in Q2, compared to 35.7% in Q1, but was still significantly lower than the 39.9%, registered a year before. The current level is comparable to youth-unemployment rates before the COVID-19 pandemic.

The growth in nominal gross wages accelerated further, to 10.7% y-o-y in Q2, and to 12.5% y-o-y in July. However, adjusted for inflation,



the increase in real wages has come to a halt. The official wage statistics do not include micro enterprises, which represent a large share of employment.

### External sector

The 4-quarter moving average current account deficit increased from 2.9% of GDP in Q1 to 3.4% in Q2, largely reflecting a sharp increase in imports driven by strong consumption and accelerating prices for energy imports.

Trade continued to rebound in nominal terms in Q2, with the value of goods exports being 41.8% higher than a year earlier, while imports had increased by 40.1%. However, export growth slowed down to 24% y-o-y in July and August. The main export destinations were Croatia, Germany and Serbia.

Net FDI inflows dropped in the year to Q2 to 1.4% GDP, compared to 1.9% of GDP in Q1. Official foreign exchange reserves stayed high in Q2, but dropped to 7.7 months of imports of goods and services.

### Monetary developments

The increase in the overall level of consumer prices continued, with year-on-year inflation rising from 8.4% in Q1, to 14.4% in Q2 and further to 16.7% and 16.8% in July and August, respectively. The main drivers were higher prices for food and non-alcoholic beverages, contributing about half to headline inflation. Prices for this group account for 32% of the basket and rose on average by 22.3% in Q1 and by 24.7% and 25.6% y-o-y in July and August, respectively. Prices for transport, accounting for nearly 13% of the basket, increased by 31.2% y-o-y in Q2, and by 34.3% and 28.4% in July and August, respectively. Transport prices contributed about one quarter to the CPI increase. At the same time, prices for clothes and footwear continued to decline by 5.3% in Q2 and 4.5% and 4.1% in July and August. Core inflation data is not published, but when excluding food, energy, alcohol and tobacco from headline inflation, the adjusted inflation rate was at 7.9% in Q2 and 9.1% in July and August.

The annual growth of the monetary aggregate M2 decelerated to 6.4% in Q2, compared to 7.3% in Q1. In July, M2 continued to increase by 6.5%.

### Financial sector

The financial sector has remained stable. Annual credit growth continued to accelerate in Q2, reaching 4.3% y-o-y, compared to 3.7% in Q1. This trend continued in July and August, with lending increasing by 4.5% and 4.7% y-o-y, respectively, again mainly driven by bank loans to households.

Bank deposit growth decelerated from 8.9% in Q1 to 4.4% in Q2, but recovered again to 5.3% in July and August. Households and in particular non-financial private enterprises continued to be the main drivers of deposit growth. As a result of the solid deposit growth and accelerating loan growth, the loan-to-deposit ratio returned to a similar level as the year before, at some 79%, compared to its low of 75% reached in January 2021.

The share of non-performing loans in total loans declined to 5.2% at the end of Q2, compared to 5.7% one year earlier. The ratio of non-performing loans covered by loan-loss provisions stood at 77.7% in Q2, compared to 77.1% in Q1 and 79.9% a year before. Banking sector profitability improved slightly in Q2. The return-on-equity (ROE) ratio improved to 11.8% in Q2, compared to 10.4% in Q1. The return on assets (ROA) also improved marginally to 1.5%, compared to 1.3% in Q1. The banking system's overall capital-adequacy ratio remained high at 19.3% in Q2, compared to 19.4% in Q1. This continues to be well above the regulatory minimum of 12%. However, there are sizeable differences among the country's 22 banks, with some pockets of vulnerability remaining.

### Fiscal developments

Tax revenue growth was high in the first eight months, reflecting the economic recovery and high inflation. However, it decelerated in July and August, in line with softening underlying growth dynamics. In the first half of 2022, indirect tax revenue was some 18% higher than a year before, which however slowed down to about 15% for the first eight months of the year. Anecdotal evidence points to a significant increase in public spending for raising public sector wages, pensions and social transfers. However, so far there is no official data covering the country as a whole. The public debt ratio stood at 32% of GDP in June, compared to 34.4% at end-2021.



## TABLE



European Commission, ECFIN-D-1

### BOSNIA AND HERZEGOVINA

		2017	2018	2019	2020	2021	Q1 22	Q2 22	Q3 22	Jul 22	Aug 22	Sep 22
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	3.1	1.6	-5.3	-6.3	9.7	3.5	4.4	:	-1.2	1.6	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	3.0	3.3	2.8	-3.2	7.6	5.8	5.9	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	0.8	3.4	4.2	-1.6	4.5	3.6	3.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	7.9	8.1	5.8	-4.2	4.8	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	-6.9	5.2	15.4	-18.6	12.0	14.4	-17.0	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	5.0	8.2	5.2	-6.8	18.5	18.2	14.6	:	10.2	10.9	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	20.5	18.4	15.7	15.9	17.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	4.0	6.2	2.5	-1.2	0.9	3.7	2.8	:	2.1	:	:
Wages <sup>2.3</sup>	Ann. % ch	1.6	3.1	4.3	4.0	4.4	8.2	10.7	:	12.5	:	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	21.3	11.5	-2.3	-7.4	34.9	39.8	41.8	:	24.1	23.9	:
Imports of goods <sup>3.2</sup>	Ann. % ch	13.3	7.1	1.1	-13.5	26.7	40.8	40.1	:	28.8	33.7	:
Trade in goods balance* <sup>3.3</sup>	% of GDP	-23.6	-22.5	-22.6	-18.3	-18.6	-19.0	-19.9	:	N.A.	N.A.	N.A.
Exports goods and services* <sup>3.4</sup>	% of GDP	40.9	42.6	40.6	34.7	42.7	43.9	46.0	:	N.A.	N.A.	N.A.
Imports goods and services* <sup>3.5</sup>	% of GDP	57.1	57.3	55.2	48.6	54.6	56.0	58.9	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-4.8	-3.3	-2.6	-3.3	-2.4	-2.9	-3.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	2.3	2.9	2.1	1.8	2.3	1.8	1.4	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mn EUR	5,398	5,943	6,441	7,091	8,359	8,158	8,128	:	8,317	8,447	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	7.1	7.3	7.8	10.0	9.3	8.4	7.7	:	:	:	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	1.3	1.4	0.6	-1.1	2.0	8.4	14.4	:	16.7	16.8	:
Producer prices <sup>4.2</sup>	Ann. % ch	1.8	3.2	0.4	-0.4	4.5	12.8	22.3	:	22.6	22.2	:
Food prices <sup>4.3</sup>	Ann. % ch	1.3	0.6	1.1	1.0	3.5	13.3	22.3	:	24.7	25.6	:
M2 <sup>4.4</sup>	Ann. % ch	9.5	9.4	8.9	7.3	11.6	7.3	6.4	:	6.5	:	:
Exchange rate BAM/EUR <sup>4.5</sup>	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	:	1.96	:	:
Real effective exchange rate <sup>4.6</sup>	Index	95.9	96.4	95.2	94.7	94.4	96.5	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield <sup>5.2</sup>	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets <sup>5.3</sup>	Index	627	621	772	769	870	952	973	1,032	1,019	1,032	1,046
Credit growth <sup>5.4</sup>	Ann. % ch	5.3	6.6	5.7	1.1	1.7	3.7	4.3	:	4.5	4.7	:
Deposit growth <sup>5.5</sup>	Ann. % ch	10.4	11.3	9.3	5.6	10.1	8.9	4.4	:	5.3	5.3	:
Non performing loans <sup>5.6</sup>	% total	10.0	8.8	7.4	6.1	5.8	5.4	5.2	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government revenue** <sup>6.1</sup>	% of GDP	43.0	43.0	42.5	42.1	41.6	:	:	:	N.A.	N.A.	N.A.
General government expenditure** <sup>6.2</sup>	% of GDP	40.4	40.8	40.6	47.4	41.8	:	:	:	N.A.	N.A.	N.A.
General government balance** <sup>6.1</sup>	% of GDP	2.6	2.2	1.9	-5.3	-0.3	:	:	:	N.A.	N.A.	N.A.
General government debt*** <sup>6.2</sup>	% of GDP	36.1	34.1	32.7	36.6	34.4	31.8	32.0	:	N.A.	N.A.	N.A.

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

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

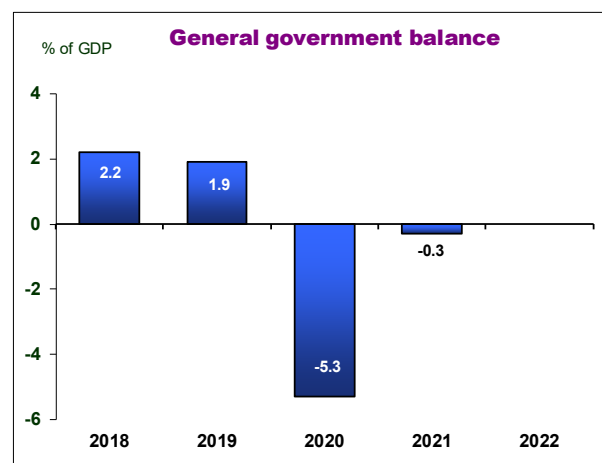
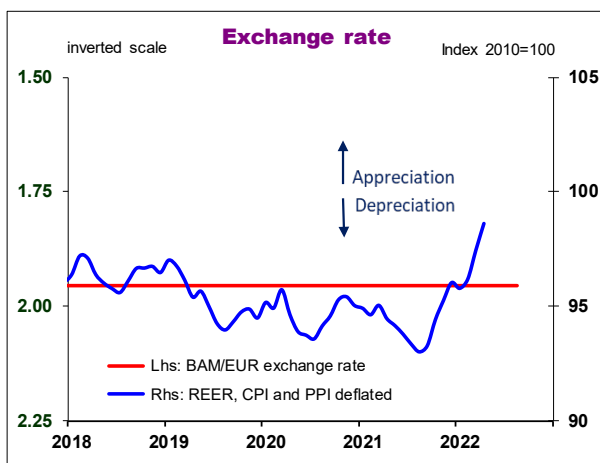
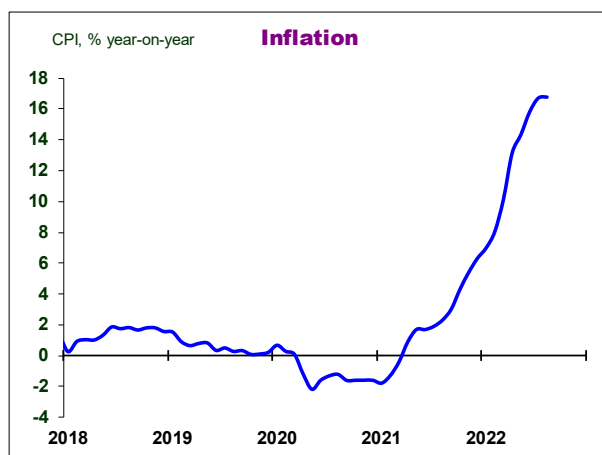
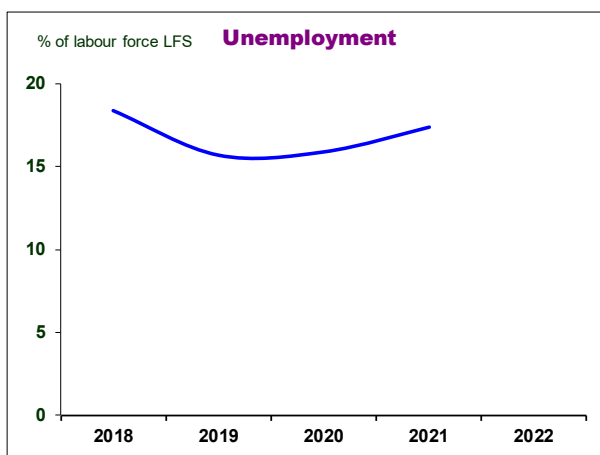
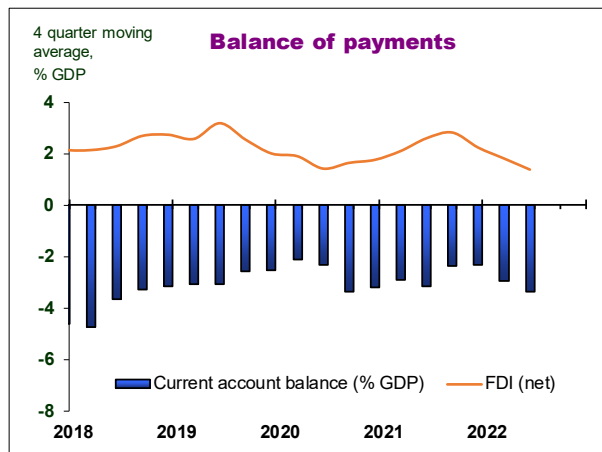
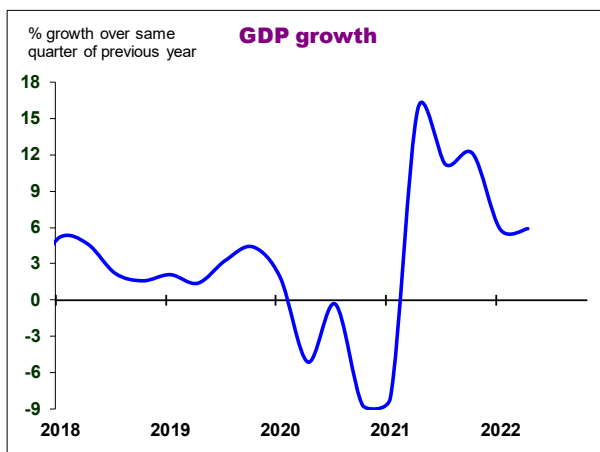
\*\*\* Q figures in percent of estimated annual GDP.

# CHARTS



European Commission, ECFIN-D-1

## BOSNIA AND HERZEGOVINA





## Key developments

At the 6th EU-Kosovo Sub-Committee meeting on Economy, Financial Issues and Statistics, on 21 September, the European Commission and the Kosovo authorities discussed economic developments, the policy response to the energy crisis and their budgetary implications. Participants agreed on the need to support the most vulnerable while ensuring medium-term fiscal sustainability and improving public investment management.

In August, Kosovo announced controlled power cuts. The delay of transferring EUR 90 million in energy subsidy to the public electricity supplier KESCO, together with soaring import prices, insufficient domestic production capacities and growing debts of public energy enterprises, resulted in an energy crisis. The government adopted several energy saving measures such as an export ban on fuels, a ban to use electricity for cryptocurrency mining, support for the transmission system operator KOSTT for ensuring the security of energy supply and measures to cut electricity consumption by all state institutions. In September the government announced a new financial support package for vulnerable households and firms worth a total of EUR 150 million.

From end-August until early October, teachers and municipal service employees were on strike, asking for a EUR 100 monthly assistance.

On 13 October, the European Commission presented its annual enlargement package. It stated that as regards the economic criteria for EU membership, Kosovo has improved on the scale of measuring progress towards a functioning market economy (from “limited” to “some” progress), but is still at an early stage of meeting the criterion. The economy has made limited progress and is at an early stage regarding its capacity to cope with competitive pressures and market forces within the EU.

## Real sector

The Kosovo Agency of Statistics slightly revised its real GDP growth estimate for 2021 to 10.75%, up from 10.5%. In terms of demand

components, the strongest surge took place in exports of services (89%) and goods (51%), while investment (11%) and public and private consumption also grew strongly (9% and 7.5%, respectively). This expansion was somewhat offset by rapidly growing imports of goods and services (+29% and 44%, respectively).

Real GDP slowed to 2.1% y-o-y in Q2 from 4.5% y-o-y in Q1. The key factor was a fall in capital investment (-16.8% y-o-y) which was mainly driven by contracting public investment. Public consumption declined by 2.8% y-o-y, partially due to the high base in 2021. On the back of high inflation and the resulting fall in real disposable incomes, private consumption growth slowed markedly to 3.2% y-o-y, from 10.4% in the previous quarter. The growth in goods exports also moderated to 13.6% y-o-y, while the increase in service exports remained strong at 49.8% y-o-y. Imports of goods practically stagnated (1% y-o-y) while imports of services rose by 23.8% y-o-y, making the contribution of net exports of goods and services negative (-0.3 pps.).

On the production side, the strongest growth in output in Q2 took place in wholesale and retail trade (12.6% y-o-y) and manufacturing (7.8%). Construction output contracted by 18% y-o-y, due to the rapidly rising cost of production inputs.

According to the latest forecast of the World Bank, the outlook for Kosovo’s GDP growth has been revised downwards to 3% in 2022, as compared to 3.9% in spring. The main reason for this is high inflation, which erodes disposable income and weighs on private consumption.

## Labour market

The results of the labour force survey (LFS) continue to be published with large delays. According to the Q3-2021 LFS data, the labour force participation rate increased somewhat to 40.6% (from 39.5% in Q1-2021). The unemployment rate stood at a record low of 17.7%, reflecting the GDP rebound in the summer of 2021. The improvement was strongly pronounced in the youth unemployment rate (aged 15-24), which fell to 29% in Q3-2021 from 48.6% in Q1. The economic upswing was

also reflected in the increase of the employment rate to 33.4%, as compared to 29.3% in Q1 2021.

### External sector

The current account deficit was stable in Q2, with its 4-quarter moving average standing practically unchanged from Q1 at 10.3% of GDP. The traditionally high merchandise trade deficit expanded even further, to 53% of GDP from 51% in Q1. Workers' remittances and the surplus of primary income, with their 4-quarter moving averages, stood at 13.6% and 2.3% of GDP in Q2, respectively. On the financing side, net FDI inflows equalled 4.6% of GDP in the four quarters to June, covering less than half of the current account deficit. Reserve assets stood at stable but low 2.6 months of imports of goods and services at the end of Q2.

In the first eight months of 2022, total goods exports increased by 29% y-o-y, due to good performance of mineral products, furniture, plastic and rubber articles, which offset declining exports of base metals. Imports of goods expanded by 26% y-o-y on the back of higher imports of mineral fuels, food, base metals and machinery equipment. During January-August the merchandise trade deficit widened by 25% y-o-y.

### Monetary developments

The average inflation rate in January-August increased to 11% y-o-y, with the July reading reaching the record high of 14.2%. Key drivers were higher oil, wheat and electricity-import prices. In August, the inflation rate eased slightly to 13% y-o-y.

The construction cost index increased 22% y-o-y in the first half of 2021, driven by rising prices for transport, construction material and energy. Producer prices grew by 9.8% on the back of higher prices for food processing and electricity. Import prices rose by 22.5% y-o-y in the first six months due to higher prices for mineral products and metals.

### Financial sector

Bank lending growth accelerated to an average of 17.5% in January-August from 15.5% in 2021. New loans for non-financial corporations were mostly used for investment purposes, while households were financing their consumption expenditures. Deposits at commercial banks grew by some 9.4% over the same period. The loan-to-deposit ratio increased to 80% in August

as compared to 77.6% at the beginning of the year. The NPL ratio declined slightly to 2.1% in August, partly driven by the strong lending growth. In August, existing NPLs were fully covered by loan-loss provisions (147.5%).

The interest rate spread stood at 4.2 pps. in August, slightly below its January level of 4.4 pps. Financial soundness indicators in the banking sector remained satisfactory. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood unchanged at 35.7% in January-August, while the capital adequacy ratio increased to 16.1% from 15.2% over the same period, standing well above the regulatory minimum of 12%.

### Fiscal developments

On the back of high inflation, budget revenues rose by 15% y-o-y in January-August. Income from direct and indirect taxes rose by 23% and 13% respectively. While this outcome overshoots the 10% annual revenue growth assumed by the revised budget from April, the growth in indirect tax revenue has been moderating since March, in line with decelerating private consumption. Budget spending increased by 4.6% y-o-y in the first eight months. The largest increase took place in the category of transfers and subsidies (27% y-o-y), driven by energy subsidies. Capital spending contracted by 30% y-o-y due to insufficient technical capacities and rapidly increasing prices, which led to a surge in project costs. The investment amount spent in January-August represents around 18.6% of the revised 2022 budget allocation for the year as a whole, while the execution rate of current spending stood at 57%. The revised 2022 budget assumes 16% and 68% annual increases in current and capital spending, respectively.

Overall, the eight-month general government surplus was sizeable (2.9% of projected 2022 GDP), which compares to a planned deficit of 5% of GDP in the revised budget.

Public debt declined to 20.8% of GDP in Q2, from 21.9% at end-2021. The share of domestic debt held by the Kosovo Pension Saving Trust (KPST) increased to 50% as compared to 45% in mid-2021, while the share of commercial banks declined to 24%. The part held by Central Bank of Kosovo was stable at 20%. The revised 2022 budget projects the debt ratio to reach 24.9% of GDP by the end of 2022.

# TABLE

European Commission, ECFIN-D-1



## KOSOVO

		2017	2018	2019	2020	2021	Q1 22	Q2 22	Q3 22	Jul 22	Aug 22	Sep 22
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	-1.3	-0.7	2.6	-1.2	19.3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann. % ch	4.8	3.4	4.8	-5.3	10.7	4.5	2.1	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.5	3.8	5.1	1.9	6.7	10.4	3.2	:	N.A.	N.A.	N.A.
Investment <sup>1.5</sup>	Ann. % ch	0.6	7.0	-1.6	-7.1	10.7	1.6	-16.8	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	12.0	17.4	25.6	-0.4	11.0	:	:	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	30.5	29.6	25.7	25.9	:	:	:	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	7.6	-3.4	5.2	-4.4	:	:	:	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	2.1	5.1	5.3	-2.3	3.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	22.1	-2.8	4.4	23.8	59.1	42.8	20.8	:	22.5	30.6	:
Imports of goods <sup>3.2</sup>	Ann. % ch	9.2	9.7	4.6	-5.7	42.1	35.5	22.3	:	16.8	26.2	:
Trade in goods balance* <sup>3.3</sup>	% of GDP	-42.0	-44.6	-44.1	-41.7	-49.4	-51.5	-53.0	:	N.A.	N.A.	N.A.
Exports goods and services* <sup>3.4</sup>	% of GDP	27.3	29.1	29.3	21.7	33.4	34.9	36.9	:	N.A.	N.A.	N.A.
Imports goods and services* <sup>3.5</sup>	% of GDP	53.1	57.3	56.4	53.9	65.2	68.4	70.1	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-5.5	-7.6	-5.7	-7.0	-8.7	-10.4	-10.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)* <sup>3.7</sup>	% of GDP	3.3	3.4	2.7	4.2	4.0	3.9	4.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mn EUR	939.4	933.9	937.1	969.1	1,060.9	1,104.9	1,268.1	:	1,304.0	1,415.3	:
Int. reserves / months imp <sup>3.9</sup>	Ratio	3.3	2.9	2.8	3.2	2.5	2.4	2.6	:	2.6	N.A.	N.A.
<b>4 Monetary developments</b>												
HICP <sup>4.1</sup>	Ann. % ch	1.5	1.1	2.7	0.2	3.3	8.2	12.6	:	14.2	13.1	:
Producer prices <sup>4.2</sup>	Ann. % ch	0.6	1.4	0.9	-0.6	4.9	9.7	10.0	:	N.A.	N.A.	N.A.
Food prices <sup>4.3</sup>	Ann. % ch	1.2	2.8	8.3	10.1	12.7	10.5	16.6	:	20.0	19.2	:
Broad money liabilities <sup>4.4</sup>	Ann. % ch	6.4	7.9	12.0	15.3	12.1	8.3	9.2	:	12.5	12.1	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real effective exchange rate (CPI) <sup>4.6</sup>	Index	105.0	104.7	107.1	107.3	109.8	113.4	115.8	:	117.0	117.0	:
<b>5 Financial indicators</b>												
Short-Term interest rate <sup>5.1</sup>	% p.a.	0.20	0.47	0.54	N.A.	1.58	2.50	2.67	N.A.	3.18	:	:
Bond yield <sup>5.2</sup>	% p.a.	3.25	4.28	3.39	3.59	3.48	3.84	3.00	N.A.	:	:	:
Stock markets <sup>5.3</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth <sup>5.4</sup>	Ann. % ch	10.5	11.1	10.7	7.7	11.2	16.9	17.6	:	18.0	18.6	:
Deposit growth <sup>5.5</sup>	Ann. % ch	8.6	6.5	12.6	12.2	13.8	9.3	8.2	:	10.6	11.8	:
Non-performing loans <sup>5.6</sup>	% total	2.9	2.6	1.9	2.5	2.1	2.0	2.0	:	2.0	2.0	:
<b>6 Fiscal developments</b>												
General government revenue** <sup>6.1</sup>	% of GDP	26.5	26.3	26.8	25.4	27.7	6.6	7.6	:	N.A.	N.A.	N.A.
General government expenditure** <sup>6.1</sup>	% of GDP	27.8	29.2	29.7	33.0	28.9	5.5	6.9	:	N.A.	N.A.	N.A.
General government balance** <sup>6.1</sup>	% of GDP	-1.3	-2.9	-2.9	-7.6	-1.3	1.2	0.7	:	N.A.	N.A.	N.A.
General government debt*** <sup>6.2</sup>	% of GDP	16.4	17.0	17.6	22.4	21.9	20.3	20.8	:	N.A.	N.A.	N.A.

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

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

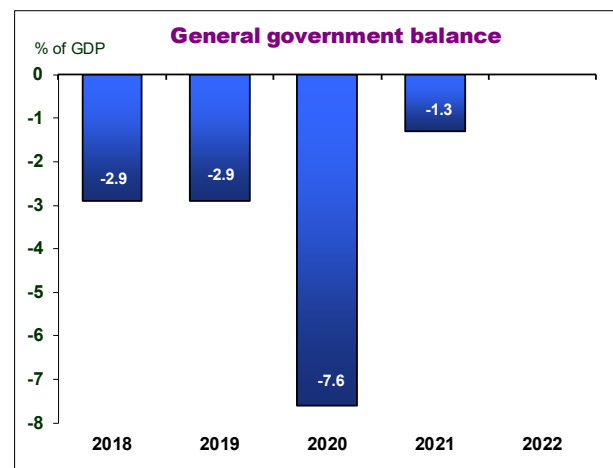
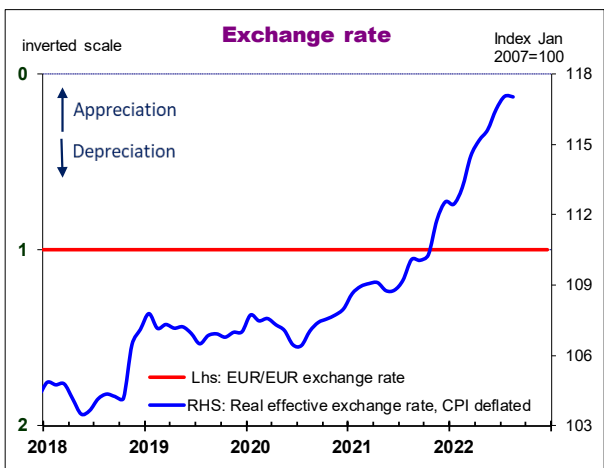
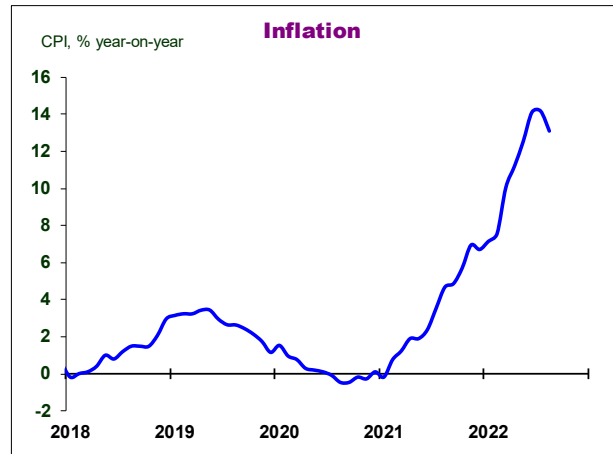
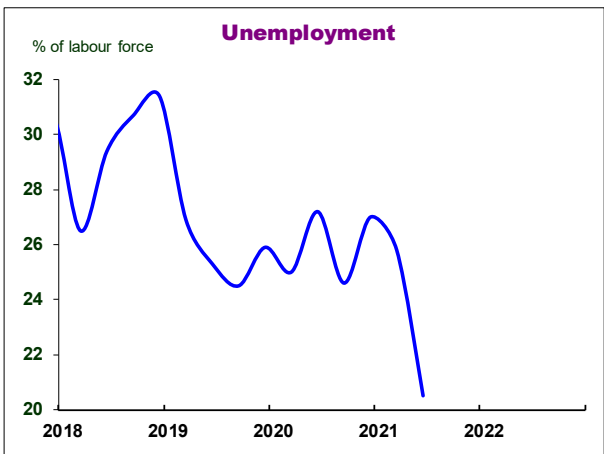
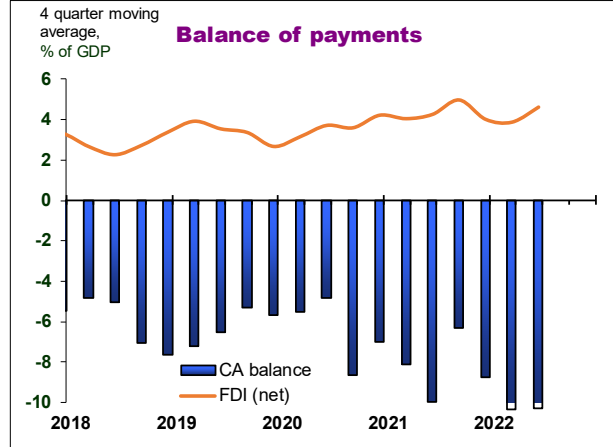
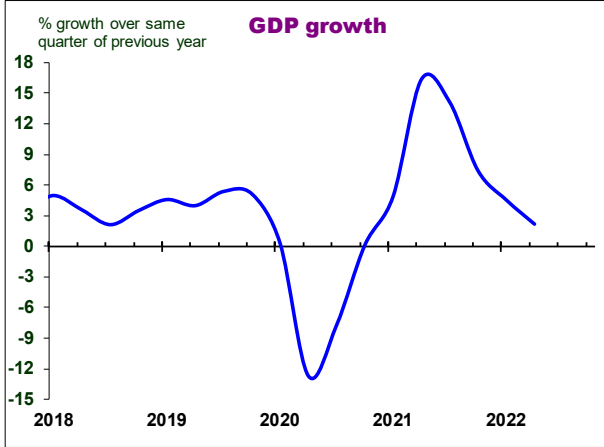
\*\*\* Q figures in percent of estimated annual GDP from the Budget Law.

# CHARTS

European Commission, ECFIN-D-1



## KOSOVO







No.	Indicator	Note	Source <sup>3</sup>
<b>1. Real sector</b>			
1.1.	Economic sentiment indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, SA	Eur.Commission
1.2.	Industrial production	Industrial production volume index	INSTAT
1.3.	Gross domestic product	Annual percentage change, volume	INSTAT
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.6.	Construction index	Annual percentage change, volume index of construction	Eurostat
1.7.	Retail sales	Annual percentage change of index	Eurostat
<b>2. Labour market</b>			
2.1.	Unemployment	Unemployment rate of the age group between 15-64	INSTAT, LFS
2.2.	Employment	Annual percentage change of employed persons age 15-64	INSTAT, LFS
2.3.	Wages	Average monthly wages	INSTAT
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change of global exports, trade in mio. ALL	INSTAT
3.2.	Imports of goods	Annual percentage change of global imports, trade in mio. ALL	INSTAT
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.7.	Direct investment (FDI, net)	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.8.	Reserves, International reserves of the Bank of Albania	Net foreign assets, total, mio EUR	Bank of Albania
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services	Bank of Albania
<b>4. Monetary developments</b>			
4.1.	CPI	Consumer Prices, all items, year-on year percentage change	INSTAT
4.2.	Producer prices	Year on Year percentage change of index	INSTAT
4.3.	Food prices	Year on Year percentage change of index "Food and Non-alcoholic Beverages"	INSTAT
4.4.	M3	Year on Year percentage change	Bank of Albania
4.5.	Exchange rate ALL/EUR	Period average	Bank of Albania
4.6.	Real effective exchange rate	Index 2007 = 100, CPI deflated, ALL	Bruegel Inst.
<b>5. Financial indicators</b>			
5.1.	Interest rate	Interbank Rates, TRIBOR, 3 Month, fixing	Bank of Albania
5.2.	Bond yield	Interest rate, 36 months deposits in ALL	Bank of Albania
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change of stock, loans, total	Bank of Albania
5.5.	Deposit growth	Annual percentage change of stock, total	Bank of Albania
5.6.	Non-performing loans	Of total loans in %	Bank of Albania
<b>6. Fiscal developments</b>			
6.1.	General gov. rev./exp./balance	Total revenue/expenditure/net lending; cash balance, in percent of GDP	Min. of Finance
6.2.	General government debt	Gross public debt in percent of annual GDP	Min. of Finance

<sup>3</sup> Data extracted via IHS Markit.



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

# NORTH MACEDONIA Explanatory notes



No.	Indicator	Note	Source <sup>3</sup>
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, SA	Eur. Commission
1.2.	Industrial production	Annual percentage change, volume, excluding construction	State Stat. Office
1.3.	Gross domestic product	Real Gross Domestic Product, Total, Growth Rate (2005), NSA	State Stat. Office
1.4.	Private consumption	Real Final Consumption, Households including NPISH's, Growth Rate (2005), NSA	State Stat. Office
1.5.	Gross fixed capital formation	Real Gross Capital Formation, Growth Rate (2005), NSA	State Stat. Office
1.6.	Construction	Value Added, Economic Activity, Current Prices, MKD	State Stat. Office
1.7.	Retail sales	Annual percentage change, Retail trade, volume, total except fuel	State Stat. Office
<b>2. Labour market</b>			
2.1.	Unemployment	Unemployment rate of the age group between 15-64	State Stat. Office
2.2.	Employment	Annual percentage change of employed persons age 15-64	State Stat. Office
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	State Stat. Office
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, fob	National Bank
3.2.	Imports of goods	Annual percentage change, cif	National Bank
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR	National Bank
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	National Bank
<b>4. Monetary developments</b>			
4.1.	CPI	Annual average percentage change, HICP not yet available for MK	State Stat. Office
4.2.	Producer prices	Annual percentage change, industrial products	State Stat. Office
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	State Stat. Office
4.4.	M3	Annual percentage change, M3 (Money supply)	National Bank
4.5.	Exchange rate MKD/EUR	Averages, spot close	National Bank
4.6.	Real effective exchange rate	Index 2005=100, CPI deflated, MKD	IMF
<b>5. Financial indicators</b>			
5.1.	Interest rate	Interbank Rates, SKIBOR, 3 Month, fixing	Macedonian Banking Assoc.
5.2.	Bond yield	Lending rate	IMF
5.3.	Stock markets	MSE Index (MBI-10)	Mac. Stock Exch.
5.4.	Credit growth	Annual percentage change, domestic credit, private, Banks and Saving houses, MKD	National Bank
5.5.	Deposit growth	Annual percentage change, private, Banks and Saving houses, MKD	National Bank
5.6.	Non-performing loans	In percent of total	National Bank
<b>6. Fiscal developments</b>			
6.1.	Central gov. rev./exp./balance	In percent of GDP	Min. of Finance
6.2.	Central government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source <sup>3</sup>
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, SA	Eur. Commission
1.2.	Industrial production	Total, Index, CPPY=100	Statistical Office
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	Statistical Office
1.4.	Private consumption	Annual percent change, Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	Statistical Office
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	Statistical Office
1.6.	Construction index	Annual pc change, Value Index of Performed Works, Total CPPY=100, NSA	Statistical Office
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	Statistical Office
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition. Data as of 2021 according to new LFS methodology, data prior to 2021 revised according to new methodology	National Bank
2.2.	Employment	Annual percentage change, based on LFS. Data as of 2021 according to new LFS methodology, data prior to 2021 revised according to new methodology	National Bank
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	Statistical Office
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	Statistical Office
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	Statistical Office
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.7.	Direct investment ( <i>FDI, net</i> )	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.8.	International reserves NBS	Total, mio EUR	National Bank
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	National Bank
<b>4. Monetary developments</b>			
4.1.	CPI	Consumer Prices, Total, CPPY, average	Statistical Office
4.2.	Producer prices	Annual average percentage change, domestic market	Statistical Office
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	Statistical Office
4.4.	M3	Annual percentage change, M3 (broad money), RSD	National Bank
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	National Bank
4.6.	Real effective exchange rate	Index 2005 = 100, period average, RSD	National Bank
<b>5. Financial indicators</b>			
5.1.	Interest rate	Interbank Rates, BELIBOR, 3 Month, fixing	National Bank
5.2.	Bond yield	Weighted average interest rate on 10Y RSD government bonds	National Bank
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	Belgrade Stock Exchange
5.4.	Credit growth	Annual percentage change, domestic credit, private, RSD	National Bank
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	National Bank
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	National Bank
<b>6. Fiscal developments</b>			
6.1.	General gov. rev./exp./balance	Consolidated GG, total revenue/expenditure/net lending; overall balance, in percent GDP	Min. of Finance
6.2.	General government debt	Central government debt. In percent of GDP	Min. of Finance



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



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





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



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