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2nd Quarter 2018

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European Commission
Directorate-General for Economic and Financial Affairs

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

2nd Quarter 2018

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

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EUROPEAN ECONOMY Technical Paper 026

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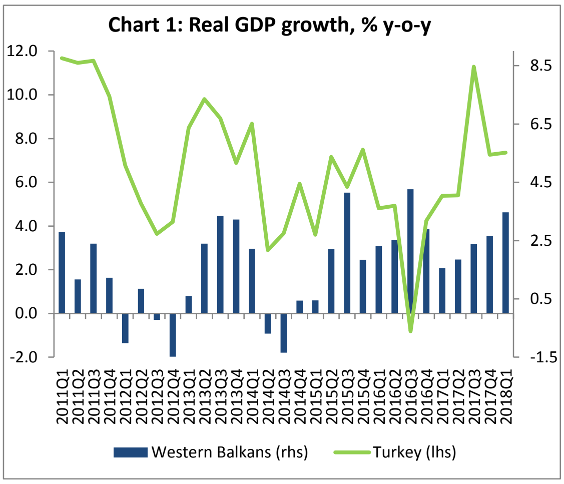
* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

OVERVIEW

*The economic upswing continued in the **Western Balkans** with annual GDP growth accelerating to 3.5% in the first quarter of 2018. The growth pick-up was driven by Serbia, the largest economy in the region. Investment and private consumption continued to support growth in the region. The increase in domestic demand led to a deteriorating external position in some countries, but the overall current account deficit of the region, at 6% of GDP in the year to end-March, was still among the lowest in the last few years. Economic expansion led to further job creation, and unemployment rates continued to fall in most countries, but they still remain high across the Western Balkans. Despite further progress in fiscal consolidation, high public debt levels remain a source of vulnerability in most countries. In **Turkey**, annual GDP expanded by 7.4% following various government stimulus measures, but macroeconomic imbalances such as high inflation and a further widening current account persist.*

Growth dynamics improved in almost all countries of the ***Western Balkans*** in the first quarter of 2018. *Serbia* recorded the strongest acceleration of annual GDP growth, to 4.6% from 2.4% in the previous quarter mainly due to robust domestic demand. In *Montenegro* and *Albania* output growth strengthened to 4.5% and 4.4%, respectively. In *Montenegro*, economic expansion was driven by a surge in investment while in *Albania* all domestic demand components had a positive contribution to growth. In *Kosovo*, annual GDP growth accelerated slightly to 3.5% up from 3.2% in the preceding quarter largely on the back of stronger investment and government consumption while in *Bosnia and Herzegovina* the economy expanded by 2.0% with exports and private consumption driving growth. Conversely, in the *former Yugoslav Republic of Macedonia* output growth slowed to sluggish 0.1% y-o-y compared to 1.2% in the previous quarter largely due to a sharp decline in gross fixed capital formation. Overall, in the first quarter of 2018, the ***Western Balkan*** region's GDP growth stood at 3.5%, up from an average growth rate of 2.7% in the preceding quarter (Chart 1).

In ***Turkey***, GDP growth edged up to 7.4% y-o-y from an unrevised 7.3% in the previous quarter mainly driven by private consumption as well as strong investment in particular in construction. Amid robust domestic demand net trade had a strong negative contribution to growth.



Source: Macrobond, Commission calculations

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The ongoing economic recovery has led to an acceleration of job creation in *Montenegro*, *Albania* and *Serbia*, whereas in *Kosovo* the employment rate declined. Overall, in the first quarter of 2018, the average annual job growth in the ***Western Balkans*** was 1.5%, similar to the previous quarter (Chart 2). Growing employment levels contributed to lower unemployment rates in most countries in the region. The decline was particularly substantial (4 pps) in *Kosovo*, but this was mainly due to falling labour force participation. Overall, the labour market situation in the ***Western Balkans*** remains challenging with unemployment rates ranging from 13.0% in *Albania* to 26.5 % in *Kosovo*.

In ***Turkey***, in the first quarter of 2018, average employment growth decelerated to 4.3% y-o-y down from 5.4% in the previous quarter while the unemployment rate marginally increased to 10.7% up from 10.6%.

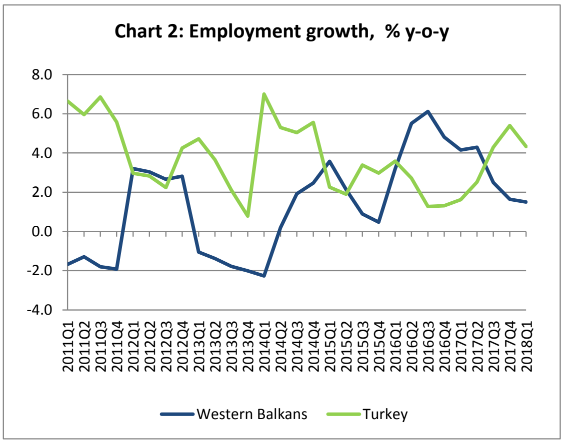

Chart 2: Employment growth, % y-o-y

Source: Macrobond, Commission calculations

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As a result of narrow production bases and competitiveness challenges, merchandise trade deficits remain very high across the ***Western Balkans***, ranging from 12% of GDP for *Serbia* to 18% or above for the *former Yugoslav Republic of Macedonia*, *Albania* and *Bosnia and Herzegovina* and equal to 43% or above for *Kosovo* and *Montenegro*. Trade deficits are only partially offset by surpluses in the services account and in current transfers, resulting in large foreign financing needs. External developments in the region during the first quarter of 2018 point to a rather diverse picture. Annualised current account deficits widened in the *former Yugoslav Republic of Macedonia*, *Bosnia and Herzegovina* and *Montenegro*, whereas they narrowed in *Serbia* and *Kosovo*. In *Albania*, the current account deficit stood at the same level as in 2017. Overall, in the four quarters to March, the regional current account deficit stood at around 6% of GDP (Chart 3), one of the lowest in many years.

In ***Turkey***, the 12-month cumulative current account deficit reached a four-year high of 6.4% of GDP in May (up from 5.6% in 2017), largely driven by a widening of the merchandise trade gap. As opposed to the Western Balkan countries, the financing of the current account deficit in Turkey continues to rely mainly on more volatile forms of capital flows, which has rendered Turkey vulnerable to shifts in investor sentiment.

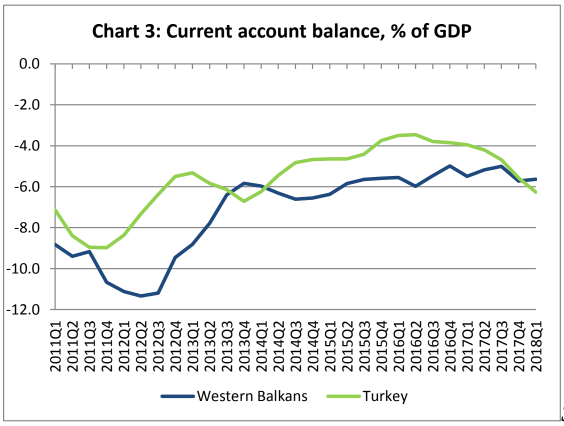

Chart 3: Current account balance, % of GDP

Source: Macrobond, Commission calculations

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In the first five months of 2018, consumer price inflation in the ***Western Balkan*** countries accelerated, though only modestly, as stronger domestic demand and higher energy and food prices generated upward pressures on prices. In *Kosovo*, *Bosnia and Herzegovina*, the *former Yugoslav Republic of Macedonia and Montenegro* annual CPI inflation went up on average by 0.3%, 0.9%, 1.5% and 3.7%, respectively. Regarding the inflation targets, annual CPI inflation in *Albania* continued to undershoot the 3% target (at 2.1% in May), while in *Serbia*, inflation was also at 2.1%, but within the target tolerance band of 3%±1.5pps. The central bank of *Serbia* has maintained its key policy rate at 3.00% after two successive cuts of 25bps each in March and April. The *Bank of Albania* reduced in June its monetary policy rate by 25bps to the new historic low of 1.00% and also initiated direct interventions in the foreign exchange market to counter the disinflationary impact of a strengthening lek. The central bank of the *former Yugoslav Republic of Macedonia* has kept the coupon on its bills, which serves as its benchmark interest rate, unchanged since March, at 3.00%.

In ***Turkey***, in the context of risks to inflation from significant Lira depreciation in May, the central bank decided on 1 June to return to providing funding through the one-week repo rate instead of the emergency facility. It also decided at its Monetary Policy Committee meeting on 7 June to raise the one-week repo-rate by 125bps to 17.75%. Annual CPI inflation increased markedly to 15.4% in June up from 12.1% in May, the highest level since 2004 moving further away from the central bank's official 5% target (+/- 2pps band width).

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Bank lending continued to be more supportive of growth in the ***Western Balkan*** region, as credit growth accelerated in the first quarter of 2018 compared to the previous quarter in the *former Yugoslav Republic of Macedonia* as well as in *Serbia* and *Albania* (when adjusted for exchange rate changes and loan write offs in both countries). On the other hand, credit growth decelerated in *Montenegro* and *Kosovo* while it remained at the same level in *Bosnia and Herzegovina.* As a common feature, household lending has been growing faster than corporate lending. Credit extension is gradually becoming less constrained by the level of non-performing loans, as most ***Western Balkan*** countries managed to further reduce NPL ratios partly as a result of improved resolution frameworks and mandatory write-offs. In the first quarter of 2018, the NPL ratio remained relatively stable in *Albania* at 13.4 % of total loans, following a downward trend in 2017. In *Bosnia and Herzegovina* the NPL ratio stood at 9.7%, followed by *Serbia* where it reached its lowest level in a decade (9.2%) and *Montenegro* (7.3%).

In ***Turkey,*** in the second quarter of 2018, annual credit growth significantly accelerated to 22.5% up from 19.7% in the previous quarter largely due to the upward impact on the loan value from the significant depreciation of the lira exchange rate on forex-denominated loans. The NPL ratio stood at 2.9% in May compared to 3.1% in 2017, as new loans were added faster than non-performing loans to the banks' balance sheets.

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In the first four months of 2018, an overall prudent fiscal policy and the economic recovery continued to support the reduction of fiscal deficits in most countries in the ***Western Balkan*** region. Some countries also continued to experience underperforming capital expenditure, pointing to persistent problems in the planning, selection and management of public investment. In *Montenegro*, significant capital underspending helped contain the central government deficit at 1.4% of GDP in January-April, which is significantly lower than in the same period a year earlier. In the *former Yugoslav Republic of Macedonia,* the general government's budget deficit amounted to 0.7% of GDP in the first five months as capital expenditure dropped sharply on the back of large delays in public infrastructure works. In *Serbia*, the budget posted a small surplus of 0.1% of GDP in January-April mainly due to a significant increase in corporate income tax revenue. In *Albania*, the general government budget recorded a surplus of 0.2% of GDP driven by rising revenue from tax and social security contributions. Continued fiscal consolidation (without, however, undermining much-needed capital spending) is necessary in a number of countries to rebuild fiscal buffers and reduce public debt levels which are very high in *Albania* (69.0% of GDP) as well as in *Montenegro* and *Serbia* (59% of GDP).

In ***Turkey***, in the first five months of 2018, the government continued implementing fiscal stimulus in the run-up to the presidential elections. Central government total revenues increased by 18.3% y-o-y while total spending by 20.9% y-o-y resulting in a budget deficit of 1.6% of GDP. General government debt stood at 28.4% of GDP in the first quarter of 2018, compared to 28.5% of GDP in 2017.

Candidate and potential candidate countries: Summary table

	2013	2014	2015	2016	2017	*ECFIN 2018 Spring forecast* 2018	2019	Q4 17	Q1 18	Q2 18	Apr 18	May 18	Jun 18
Gross domestic product (in real terms, annual % change)													
Albania	1.0	1.8	2.2	3.4	3.8	3.6	3.9	3.6	4.4	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	2.9	3.6	3.8	2.9	0.0	3.1	3.3	1.2	0.1	:	N.A.	N.A.	N.A.
Montenegro	3.5	1.8	3.4	2.9	4.3	3.0	2.9	3.9	4.5	:	N.A.	N.A.	N.A.
Serbia	2.6	-1.8	0.8	2.8	1.9	3.3	3.5	2.4	4.6	:	N.A.	N.A.	N.A.
Turkey	8.5	5.2	6.1	3.2	7.4	4.7	4.2	7.3	7.4	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	2.6	0.2	3.8	3.3	1.6	:	:	0.5	2.0	:	N.A.	N.A.	N.A.
Kosovo	3.4	1.2	4.1	3.4	3.7	:	:	3.2	3.5	:	N.A.	N.A.	N.A.
Unemployment													
Albania	16.4	17.9	17.5	15.6	14.1	13.4	12.6	13.6	13.0	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	29.0	28.0	26.1	23.8	22.4	21.9	21.6	21.9	21.6	:	N.A.	N.A.	N.A.
Montenegro	19.5	18.2	17.8	18.0	16.4	15.6	14.8	17.4	16.5	:	N.A.	N.A.	N.A.
Serbia	22.1	19.2	17.7	15.3	13.5	12.1	10.0	14.7	14.8	:	N.A.	N.A.	N.A.
Turkey	N.A.	10.1	10.5	11.1	11.1	9.8	9.4	10.6	10.7	:	:	:	:
Bosnia and Herzegovina	27.5	27.5	27.7	25.4	20.5	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	30.0	35.3	32.9	27.5	30.5	:	:	30.6	26.5	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)*													
Albania	-9.3	-10.8	-8.6	-7.6	-6.9	-7.3	-8.0	-6.9	-6.9	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-1.6	-0.5	-2.0	-3.1	-1.3	-1.2	-1.3	-1.3	-1.4	:	N.A.	N.A.	N.A.
Montenegro	-11.4	-12.4	-11.0	-16.2	-16.3	-17.5	-16.7	-16.3	-16.4	:	N.A.	N.A.	N.A.
Serbia	-6.1	-6.0	-4.7	-3.1	-5.7	-6.9	-6.9	-5.7	-5.4	:	N.A.	N.A.	N.A.
Turkey	-7.8	-4.7	-3.8	-3.8	-5.6	-6.0	-5.6	-5.6	-6.3	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-5.0	-7.1	-5.2	-4.7	-4.7	:	:	-4.7	-5.0	:	N.A.	N.A.	N.A.
Kosovo	-3.4	-6.9	-8.6	-8.3	-6.0	:	:	-6.6	-6.3	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.9	1.6	1.9	1.3	2.0	2.1	2.4	1.8	1.9	:	2.1	2.1	:
The former Yugoslav Republic of Macedonia	2.8	-0.3	-0.3	-0.3	1.4	1.9	2.0	2.2	1.5	:	1.4	1.7	:
Montenegro (HICP)	1.8	-0.5	1.4	0.1	2.8	3.0	2.2	2.9	3.7	0.5	3.8	3.6	:
Serbia	7.9	2.1	1.4	1.1	3.1	1.7	2.7	2.9	1.6	1.8	1.0	2.1	2.3
Turkey	7.5	8.9	7.7	7.8	11.1	10.9	9.0	12.3	10.3	12.8	10.8	12.1	15.4
Bosnia and Herzegovina	-0.1	-0.9	-1.0	-1.1	1.2	:	:	1.3	0.8	:	1.0	1.3	:
Kosovo	1.8	0.4	-0.5	0.3	1.5	:	:	0.7	0.0	:	0.4	1.0	:
General government balance (% of GDP)													
Albania**	-5.2	-5.2	-4.1	-1.8	-2.0	-2.0	-1.8	-2.0	0.9	:	:	:	:
The former Yugoslav Republic of Macedonia***	-3.8	-4.2	-3.5	-2.7	-2.7	-2.5	-2.3	-3.5	-2.1	:	N.A.	N.A.	N.A.
Montenegro**	-4.6	-2.9	-8.3	-3.6	-5.4	-3.5	-0.3	-3.2	-1.7	:	:	:	:
Serbia***	-5.5	-6.6	-3.7	-1.3	1.2	0.6	0.5	-2.4	0.4	:	N.A.	N.A.	N.A.
Turkey***	0.1	0.1	1.3	-1.3	-2.0	-2.1	-1.4	-0.8	-1.0	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina***	-2.0	-2.0	0.6	1.2	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-3.1	-2.2	-2.0	-1.2	-0.8	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2018 published May 2018

***** 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 the quarterly balance divided by the quarterlyl GDP.

ALBANIA

Key developments

The annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place in Brussels on 25 May. The joint conclusions include recommendations to Albania on fiscal policy (especially further fiscal consolidation), monetary policy (including the resolution of non-performing loans and de-euroisation), the energy market, land and property registration, the labour market, and education.

On 26 June, the Council of the EU adopted conclusions on enlargement policy. Regarding Albania, the Council set out the path towards opening the accession negotiations in June 2019. This includes, in particular, further steps in the field of judicial reform and in the fight against corruption and organised crime.

Real sector

Albania's real GDP increased by 4.4 % y-o-y in the first quarter of 2018 compared to an upwardly revised growth rate of 3.6 % in the fourth quarter of 2017. This was the highest quarterly growth rate in 3½ years.

All components of domestic demand provided a positive contribution to output expansion. Gross fixed capital formation still benefitted from foreign direct investments in the energy sector and expanded 5.4 % y-o-y, up from 3.7 % in the previous quarter. Household consumption maintained solid growth of 3.0 % supported by employment growth and higher wages, particularly in the public sector. Government consumption expanded 2.6 % which is close to its annual growth rate in 2017.

Following a contraction in the second half of 2017, goods export recovered strongly in the first quarter with a growth rate of 16.4 % y-o-y. Exports of services expanded only mildly (1.5 %), but this follows upon 4 years of very strong growth. Overall exports increased by 5.0 %. This was exceeded by the growth rate for overall imports which registered 8.2 % - identical to the annual growth rate in 2017. Since imports exceed exports by a large margin, net exports subtracted from GDP growth for a third consecutive quarter.

Available data suggest that the Albanian economy continued to expand in the second quarter.

Labour market

The labour market reflected the on-going economic expansion. In the first quarter, employment was up by a solid 3.5 % y-o-y for the 15-64 age group. The downward trend in unemployment strengthened with the unemployment rate falling by 1.6 pps y-o-y to 13.0 %. Youth unemployment remains very high although it has also been declining from its peak in 2015. In the first quarter, the unemployment rate for the 15-29 age group registered 24.5 %, down by 1.1 pps y-o-y. The labour force increased by 1.5 % y-o-y and the labour force participation rate continued to trend upwards, reaching 68.0 % compared to 65.9 % in the first quarter of 2017. The gap between male and female labour force participation narrowed to 17.1 pps (male: 76.6 %; female: 59.5 %).

Administrative data show that employment in the non-agricultural private sector increased 12.2 % y-o-y in the first quarter while employment in the public sector and in agriculture increased by only 0.5 % and 1.2 %, respectively.

According to the Bank of Albania, the average nominal wage increased by 2.3 % in annual terms in the first quarter.

External sector

The current account deficit widened 11.0 % y-o-y in the first quarter of 2018. This was the second consecutive quarter with a current account deterioration following a two-year period in which the deficit had narrowed significantly.

The rising current account deficit was fully explained by the deteriorating trade balance for goods and services. The trade deficit for goods increased 4.6 % y-o-y while the surplus on the services balance decreased 5.7 % in spite of a further increase in net exports of travel services (tourism). The deficit on the primary income balance doubled as a result of higher negative net income from foreign direct investment accounts, a result of previous FDI inflows. In absolute terms, this was, however, more than offset by a rising surplus on the secondary income balance which includes workers' remittances.

As a ratio of GDP, the current account deficit remained at 6.9 % in the 12 months to the end of March, the same as in calendar year 2017.

Foreign direct investment inflows were very strong in the first quarter. They were concentrated in the energy sector, particularly the construction of the Trans Adriatic Pipeline. Net FDI was up by 47.0 % y-o-y in the first quarter and exceeded the current account deficit by 76.6 %. Gross external debt decreased by 0.3 % to EUR 7.9 billion over the first quarter which corresponds to 65.5 % of GDP. Foreign exchange reserves declined slightly in April and May to EUR 2,756 million (22.0 % of GDP) and correspond to 6 months of imports of goods and services.

Monetary developments

The appreciation of the Albanian lek against the euro accelerated in April and particularly in May. Between the end of April and 5 June, the value of the lek increased by 3.7 % against the euro to 124 lek/euro. This prompted the Bank of Albania on 6 June to ease its already accommodative monetary policy stance further and to initiate direct interventions in the foreign exchange market. The central bank was especially concerned that the downside pressures on inflation from the appreciation would slow down the return of inflation to the 3 % target.

The key policy rate (the repo rate) was lowered by 25 basis points to a new record low of 1.00 % and the interest rates for the overnight deposit and lending facilities were reduced to 0.10 % and 1.90 %, respectively. The Bank of Albania now expects that the repo rate will not be raised before the second quarter of 2019.

The direct interventions, i.e. foreign-currency purchases, were intended to reinforce the monetary stimulus and decelerate any further appreciation of the lek. The central bank has emphasized the temporary nature of the intervention programme and that Albania's floating exchange rate regime will remain intact.

In the four-week period after these monetary policy decisions, the lek has depreciated 1.4 % against the euro and more calm and normal activity has returned to the foreign exchange market, according to the Bank of Albania.

Consumer prices declined in month-on-month terms in April and May although headline inflation edged up to 2.1 % on base effects from an average rate of 1.9 % in the previous quarter. The Bank of Albania expects overall consumer price inflation to return to target within 2020.

Financial sector

Interest rates in financial markets remain low in the context of the accommodative monetary policy. The average interest rate on lek loans fell to 6.3 % in May, supporting the reduction of borrowing costs and stimulating credit in lek (+ 6.6 % y-o-y). Total lending to the private sector recorded 4.9 % growth y-o-y in April and May when corrected for exchange rate effects and loan write-offs. Credit performance is still affected by both low credit demand and the banking sector's tight lending policies.

Following a downward trend in 2017, the ratio of non-performing loans (NPLs) to total loans has remained relatively stable this year. It stood at 13.3 % in May, compared to an average of 13.5 % in the first quarter. The banking sector as a whole is well capitalised with a capital adequacy ratio of 16.9 % at the end of March, up by 0.3 pps over the quarter and by 1.1 pps y-o-y.

Fiscal developments

Total revenues increased by 2.0 % y-o-y in the first four months of 2018. This is significantly below the budgeted revenue growth for the period (6.4 %). The only revenue category which performed better than budgeted was social insurance contributions.

Total expenditures also increased less than planned, but the shortfall was smaller than for revenues (+7.7 % compared to a target of 9.6 %). The only major category which exceeded the budgetary target was local expenditures. Capital spending increased 20.4 % y-o-y compared to a target of 28.7 %.

Overall budget execution in January-April resulted in a surplus in the government's cash balance corresponding to 0.2 % of estimated full-year GDP. This compares to a targeted surplus of 0.4 % and a surplus of 0.7 % in the same period in 2017.

Public debt (including guarantees) decreased by 0.2 % over the first quarter and amounted to 69.0 % of GDP at the end of March, down from 70.1 % at the end of 2017.

TABLE

European Commission, ECFIN-D-1

ALBANIA

		2013	2014	2015	2016	2017	ECFIN 2018 Spring forecast 2018	2019	Q4 17	Q1 18	Q2 18	Apr 18	May 18	Jun 18
1 Real sector														
Industrial confidence [1.1]	Percent	-16.6	-6.9	-5.5	-3.7	1.5	:	:	0.0	2.4	:	N.A.	N.A.	N.A.
Industrial production [1.2]	Ann. %ch	20.5	3.4	-8.9	-19.4	8.9	:	:	3.0	2.4	:	N.A.	N.A.	N.A.
Gross domestic product [1.3]	Ann. %ch	1.0	1.8	2.2	3.4	3.8	3.6	3.9	3.6	4.4	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. %ch	1.8	2.8	1.0	3.2	2.8	3.1	3.4	3.0	3.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. %ch	-2.0	-4.5	3.5	3.3	7.7	3.8	6.0	3.7	5.4	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. %ch	1.0	0.2	0.3	0.0	0.7	:	:	0.4	0.5	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. %ch	5.4	4.7	5.9	6.6	1.3	:	:	0.2	6.0	:	:	:	:
2 Labour market														
Unemployment [2.1]	%	16.4	17.9	17.5	15.6	14.1	13.4	12.6	13.6	13.0	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. %ch	-9.7	1.6	4.9	6.1	2.7	3.0	3.2	3.4	3.5	:	N.A.	N.A.	N.A.
Wages [2.3]	Ann. %ch	4.1	1.7	1.8	0.9	9.8	3.4	3.7	12.8	5.7	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods [3.1]	Ann. %ch	15.7	4.5	-5.6	0.1	12.1	:	:	8.8	18.9	:	11.3	24.2	:
Imports of goods [3.2]	Ann. %ch	-2.1	6.0	-0.7	6.4	8.1	:	:	11.5	9.7	:	5.2	1.9	:
Trade balance* [3.3]	% of GDP	-20.1	-20.8	-21.0	-22.8	-22.7	-25.2	-26.3	-22.7	-22.5	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	28.9	28.2	27.3	28.9	31.5	:	:	31.5	31.4	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	47.0	47.2	44.5	45.7	46.6	:	:	46.6	46.5	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-9.3	-10.8	-8.6	-7.6	-6.9	-7.3	-8.0	-6.9	-6.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	9.6	8.2	8.0	8.7	8.4	:	:	8.4	9.0	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	2 015.0	2 192.0	2 880.0	2 945.0	2 996.0	:	:	2 996.0	2 833.0	:	2 801.0	2 756.0	:
Int. reserves / months Imp [3.9]	Ratio	5.2	5.3	6.9	7.0	6.7	:	:	6.7	6.2	:	6.1	6.0	:
4 Monetary developments														
CPI [4.1]	Ann. %ch	1.9	1.6	1.9	1.3	2.0	2.1	2.4	1.8	1.9	:	2.1	2.1	:
Producer prices [4.2]	Ann. %ch	:	:	:	-1.5	2.8	:	:	2.3	1.0	:	:	:	:
Food prices [4.3]	Ann. %ch	4.2	2.2	4.3	3.3	3.9	:	:	3.5	2.7	:	3.1	2.8	:
M2 [4.4]	Ann. %ch	5.1	1.1	3.6	-0.7	1.5	:	:	1.0	-0.2	:	-1.2	-1.3	:
Exchange rate LEK/EUR [4.5]	Value	140.26	140.14	139.74	137.36	134.14	:	:	133.47	132.45	127.39	129.25	126.98	125.95
Nominal eff. exchange rate [4.6]	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) [5.1]	% p.a.	4.23	3.10	2.87	1.13	:	:	:	:	:	:	:	:	:
Bond yield [5.2]	% p.a.	6.03	3.45	2.77	2.05	2.07	:	:	2.08	2.18	:	1.96	2.04	:
Stock markets [5.3]	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth [5.4]	Ann. %ch	-0.2	0.2	0.3	-0.7	-0.1	:	:	0.3	0.6	:	0.1	-0.9	:
Deposit growth [5.5]	Ann. %ch	3.7	1.5	1.9	1.1	1.0	:	:	-0.3	-1.0	:	-1.7	-2.3	:
Non performing loans [5.6]	% total	23.2	22.8	18.2	18.3	13.2	:	:	13.2	13.4	:	13.5	13.3	:
6 Fiscal developments														
General government balance** [6.1]	% of GDP	-5.2	-5.2	-4.1	-1.8	-2.0	-2.0	-1.8	-2.0	0.2	:	:	:	:
General government debt* [6.2]	% of GDP	65.6	70.1	72.7	72.3	70.1	68.5	66.3	70.1	69.0	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2018 published May 2018

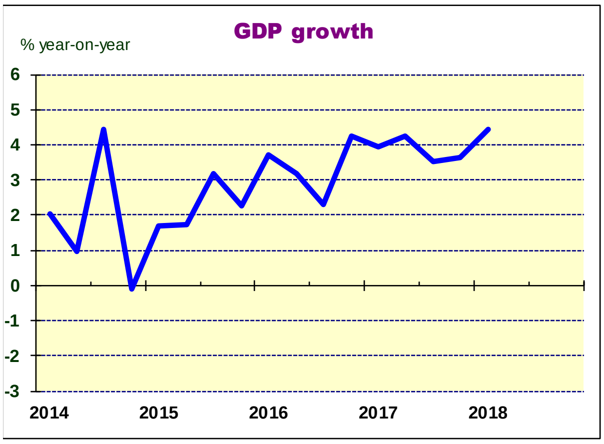
***** Q figures refer to a 4 quarters moving average.

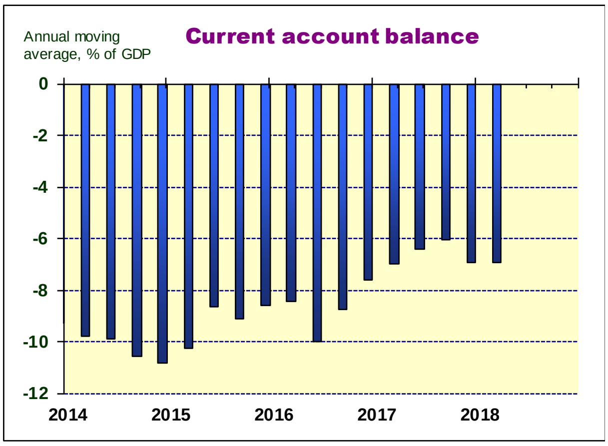
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

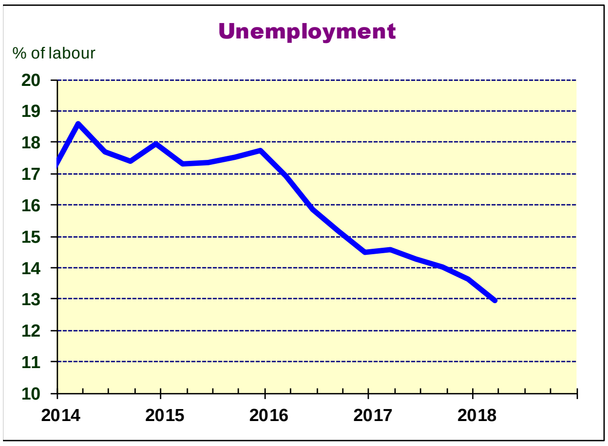
CHARTS

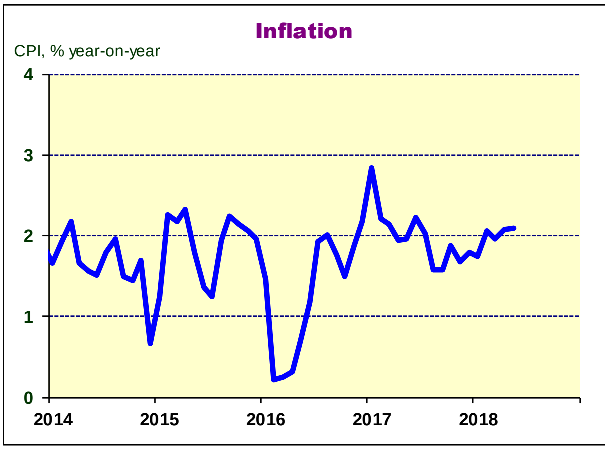
European Commission, ECFIN-D-1

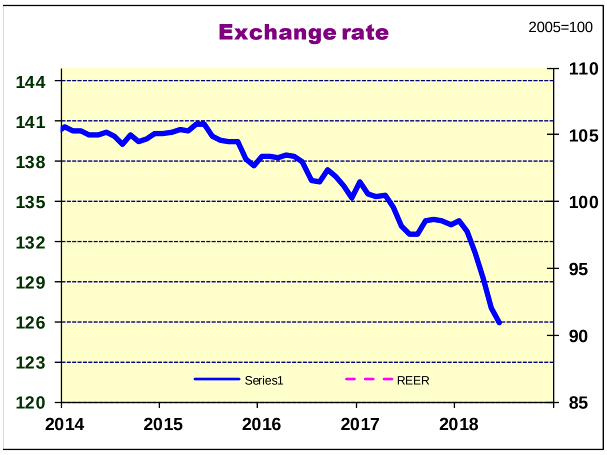
ALBANIA

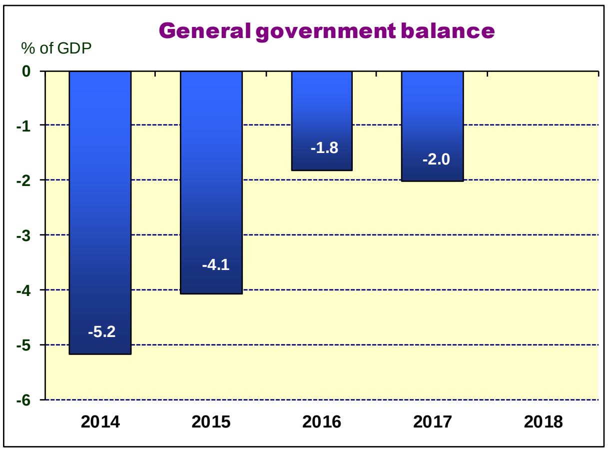












THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Key developments

On 25 May, the annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place. In the jointly agreed country-specific recommendations the country is invited to, inter alia, develop a proper fiscal consolidation strategy, improve budget planning capacity and enhance fiscal transparency, strengthen the use of the local currency, and adopt a public finance management reform programme.

On 17 June, the government signed an agreement with Greece on the 27-year-old name dispute. According to the agreement, the country will be renamed into the Republic of North Macedonia once all necessary steps (including a referendum and constitutional changes and ratification by Greece) are completed.

On 26 June, the Council adopted its Conclusions on Enlargement and Stabilisation and Association process, which set out the path towards opening accession negotiations with the country in June 2019.

Real sector

After a brief return to, albeit modest, growth in the last three months of 2017, economic performance disappointed yet again in the first quarter. Output growth almost stagnated (+0.1% y-o-y), as gross capital formation fell by 9%, largely as a result of delays in public infrastructure spending. Positive contributions to growth came from private consumption (+2.3%) and exports (+10.6%). Annual import growth decelerated to 5.1%, down from 9% in the preceding three months. Public consumption dropped by 1.4%, as the government further reigned in spending on goods and services. The construction industry faced a deepening contraction (-37.7% y-o-y, after -19.5% in the fourth quarter of 2017), while the upswing in the manufacturing sector gained momentum, with annual output growth accelerating by 3.2pps to 5.5% in the first quarter.

At the beginning of the second quarter, high-frequency indicators continued to point to an economic turnaround, even though slightly more subdued on some counts than three months earlier. The rise in the industrial production index decelerated in April and May to 1.3% on average, after 5.3% in the first three months. The upturn in manufacturing, which accounts for over 80% of the index, slowed down to 3% in April and May, from 8.3% in the first quarter. Still, the industry outperformed the overall index in the first five months of the year, posting a rise of 5.5% compared to 3.5%. Capital goods production increased by 19.4% y-o-y on average during this period. Retail sales increased in May for the fifth month in a row, in real terms, compared to the same period one year earlier. On average, they rose by 6% between January and May.

Labour market

The labour market improved further in the first quarter, according to the Labour Force Survey. Annual employment growth accelerated (+2.2% y-o-y), after two consecutive quarters of slowdown. The labour force expanded only slightly compared to one year earlier, by 0.4%, on account of a rise in the female workforce (+1.3% y-o-y). The employment rate increased by 0.9pps to 44.6%. The unemployment rate dropped by 1.3pps y-o-y to 21.6%. The youth unemployment rate (15-24 years), however, was almost unchanged compared to one year earlier (44.3%). Overall labour market participation (15-64 years) amounted to 65.1%, also remaining at about the same level as one year earlier.

The increase in net wages accelerated in the first quarter to 4.7% y-o-y on average, in nominal terms, and to 5.5% in April, picking up from an average growth of 2.6% in 2017. This translated into real net wage growth of 3.5% in the first four months.

External sector

The current account deficit widened by 9% y-o-y, as a result of a deteriotation in the goods and services trade balance (-4%), and in the primary balance (-5%). Net private transfers increased by 7% y-o-y and covered some 89% of the merchandise trade deficit. In terms of GDP (4Q moving average), the current account deficit, at 1.4%, was lower by 2.3pps compared to the same period in 2017. The merchandise trade deficit narrowed by 1.1pps to 17.8% of GDP, the services surplus increased by 0.5pps to 3.9%, the secondary income balance improved by 0.8pps to 16.7%, while the deficit in the primary income balance widened by 0.2pps to 4.2%.

Net FDI inflows, at 3.5% of GDP more than covered the current account deficit) in the four quarters to March. Gross external debt, excluding central bank transactions, was up by 7.5% y-o-y and stood at 76% of GDP at the end of March, or 2.9pps higher than one year earlier. This came mainly on account of an increase in public sector debt (500 mio Eurobond issued in January), with private sector borrowing abroad, mostly intercompany lending, also rising markedly. At the end of the first quarter, the central bank's foreign currency reserves were some 1.7% higher than one year earlier and covered some 5 months of prospective imports. They continued to increase in April and May, supported by central bank interventions in the foreign exchange market.

Monetary developments

Consumer price inflation remained moderate throughout the first five months of the year (1.5% on average). Price pressures arose in particular from the transport sector (+7.5% y-o-y), which accounts for 8.3% of the index, as well as from alcohol and tobacco (+6.4%). The cost of housing and utilities dropped, except for liquid fuels which rose by 17.4% on the year in this period. Food prices, which account for over one third of the index, increased by 1.5% y-o-y on average in the first five months, almost unchanged from the 2017 average.

Annual growth of broad money (M4) increased to 6.8% in the first quarter and accelerated to 9% on average in April and May. The rise was accounted for by all components (currency in circulation, demand deposits and short-term deposits). Since March, the central bank has kept the key interest rate, the CB bills rate, at 3%.

Financial sector

Lending to the private sector picked up further in early 2018. In the first quarter, credit to the non-government sector, which includes public companies, accelerated to 6.2% y-o-y (+0.8pps compared to the preceding quarter). Lending to private households continued to be stronger (+9.7%) than lending to private non-financial companies (2.9%). In April and May, lending to the non-government sector continued to increase by around 6% on average.

Interest rates on loans and deposits continued to decline. Since the beginning of the year, the spread between Denar loans (-20bps to 5.8%) and deposits (-10bps to 2.1%) has narrowed. Rates on foreign currency loans dropped by 10 bps to 4.5%, and remained unchanged for deposits, at 0.8%. The share of foreign-currency denominated in total loans increased slightly compared to the preceding three months (+0.3pps to 42.8%). The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients decreasing to 87.2% (-0.5pps q-o-q). Capital adequacy of the banking sector improved, with the ratio of regulatory capital to risk-weighted assets increasing by 0.7pps to 16.4%. The ratio of non-performing to total loans (non-financial sector) declined further, by 1.2pps q-o-q to 5.1%.

Fiscal developments

Between January and May, central government revenue was some 3.5% higher than in the same period one year earlier. This came on the back of an annual increase in income from taxes and contributions by 6%. Net VAT revenue, taking account of the government's ongoing repayments of arrears, dropped by 3% y-o-y (with gross VAT revenue up by 6%). Current expenditures rose by 8.6% during this period, mainly reflecting higher transfer payments (+13%). Capital expenditure dropped by 57%, as the government faced major delays in public infrastructure works. The budget deficit was lower by 17% y-o-y. It amounted to 0.7% of projected full-year GDP, or one quarter of the full-year target (2.7% of GDP). General government debt stood at 39.7% of projected full-year GDP at the end of March, slightly above its level of end-2017 (39.3%), with the government's Eurobond issue, offset by partial repayment of an earlier Eurobond accounting for the biggest movements. Public debt, including the debt of state-owned enterprises, amounted to 47.2% of GDP, a decline by 0.4pps compared to end-2017. The amount of state enterprise debt guaranteed by the government dropped somewhat in the first quarter, compared to end-2017. It amounted to 7.6% of GDP (-0.6pps).

TABLE

European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia

		2013	2014	2015	2016	2017	*ECFIN 2018 Spring forecast* 2018	2019	Q4 17	Q1 18	Q2 18	Apr 18	May 18	Jun 18
1 Real sector														
Industrial confidence [1.1]	Balance	12.3	11.4	17.5	24.0	25.6	:	:	26.6	27.3	:	28.2	28.4	:
Industrial production [1.2]	Ann. %ch	3.2	4.8	4.9	3.9	0.2	:	:	0.9	5.4	:	1.5	1.1	:
Gross domestic product [1.3]	Ann. %ch	2.9	3.6	3.8	2.9	0.0	3.1	3.3	1.2	0.1	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. %ch	1.9	2.2	4.4	3.1	2.9	3.0	3.3	2.7	2.3	:	N.A.	N.A.	N.A.
Gross capital formation [1.5]	Ann. %ch	0.5	10.7	8.3	13.3	-4.5	6.2	6.3	-1.0	-9.0	:	N.A.	N.A.	N.A.
Construction [1.6]	Ann. %ch	33.8	2.3	8.6	12.3	-13.7	:	:	-19.5	-37.2	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. %ch	-0.9	4.2	4.5	9.3	-1.9	:	:	-1.0	4.5	:	8.0	7.1	:
2 Labour market														
Unemployment [2.1]	%	29.0	28.0	26.1	23.8	22.4	21.9	21.6	21.9	21.6	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. %ch	4.3	1.7	2.3	2.5	2.4	2.4	2.2	1.9	2.2	:	N.A.	N.A.	N.A.
Wages [2.3]	Ann. %ch	1.2	1.0	2.7	2.0	2.6	1.5	2.0	3.1	4.7	:	5.5	:	:
3 External sector														
Exports of goods [3.1]	Ann. %ch	2.9	17.0	9.4	11.5	19.8	:	:	19.0	13.4	:	:	:	:
Imports of goods [3.2]	Ann. %ch	-1.8	9.4	5.0	7.8	11.8	:	:	12.4	9.7	:	:	:	:
Trade balance* [3.3]	% of GDP	-22.9	-21.7	-20.1	-19.1	-17.9	-17.9	-17.9	-17.9	-17.8	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	42.3	47.7	48.7	50.0	55.1	:	:	55.1	55.8	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	60.4	64.9	65.0	64.7	68.8	:	:	68.8	69.6	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-1.6	-0.5	-2.0	-3.1	-1.3	-1.2	-1.3	-1.3	-1.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	2.8	2.3	2.2	3.6	2.3	:	:	2.3	3.5	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	1 993.0	2 436.5	2 261.8	2 613.4	2 335.3	:	:	2 335.3	2 577.1	:	2 588.4	2 610.7	:
Int. reserves / months Imp [3.9]	Ratio	5.6	6.3	5.6	6.0	4.8	:	:	4.8	5.2	:	:	:	:
4 Monetary developments														
CPI [4.1]	Ann. %ch	2.8	-0.3	-0.3	-0.3	1.4	1.9	2.0	2.2	1.5	:	1.4	1.7	:
Producer prices [4.2]	Ann. %ch	0.4	-1.2	-4.1	-0.1	0.4	:	:	1.0	0.8	:	-0.2	0.5	:
Food prices [4.3]	Ann. %ch	3.4	-1.0	0.1	-1.3	0.2	:	:	1.6	1.7	:	1.4	1.0	:
Monetary aggregate M4 [4.4]	Ann. %ch	4.0	8.0	8.2	4.4	6.1	:	:	5.8	6.8	:	7.9	10.2	:
Exchange rate MKD/EUR [4.5]	Value	61.58	61.62	61.61	61.60	61.57	:	:	61.52	61.56	61.50	61.50	61.50	61.50
Nominal eff. exchange rate [4.6]	Index	101.8	102.9	101.6	102.6	104.0	:	:	105.1	105.4	:	105.6	105.3	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) [5.1]	% p.a.	3.69	3.08	1.92	1.96	1.78	:	:	1.73	1.70	1.50	1.53	1.48	1.51
Bond yield [5.2]	% p.a.	8.04	7.46	7.08	6.61	6.21	:	:	6.03	5.93	:	5.88	:	:
Stock markets [5.3]	Index	1 726	1 736	1 731	1 887	2 406	:	:	2 570	2 756	2 989	2 800	2 941	3 225
Credit Growth [5.4]	Ann. %ch	4.3	8.4	9.1	4.6	3.1	:	:	5.4	6.2	:	5.8	6.3	:
Deposit growth [5.5]	Ann. %ch	4.8	8.2	7.9	4.3	6.0	:	:	5.7	6.4	:	7.5	9.8	:
Non-performing loans [5.6]	% total	11.9	11.6	10.3	8.1	6.5	:	:	6.3	5.1	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** [6.1]	% of GDP	-3.8	-4.2	-3.5	-2.7	-2.7	-2.5	-2.3	-3.5	-2.1	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	34.0	38.1	38.1	39.6	39.3	41.9	43.9	38.7	39.7	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2018 published May 2018

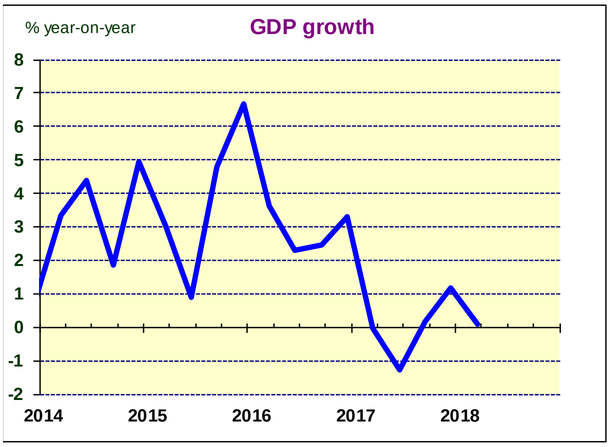
***** Q figures refer to a 4 quarters moving average.

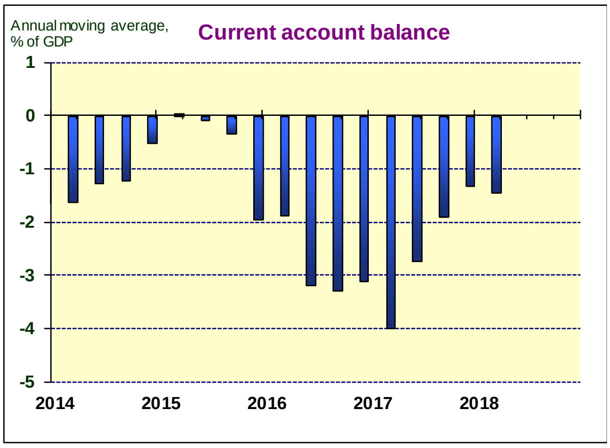
** Q figures refer to the quarterly balance divided by the quarterlyl GDP.

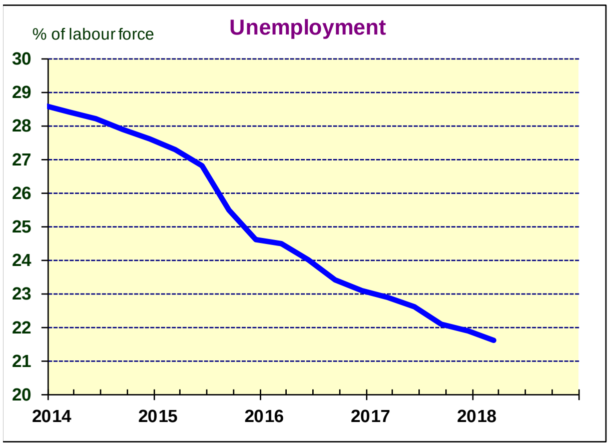
Charts

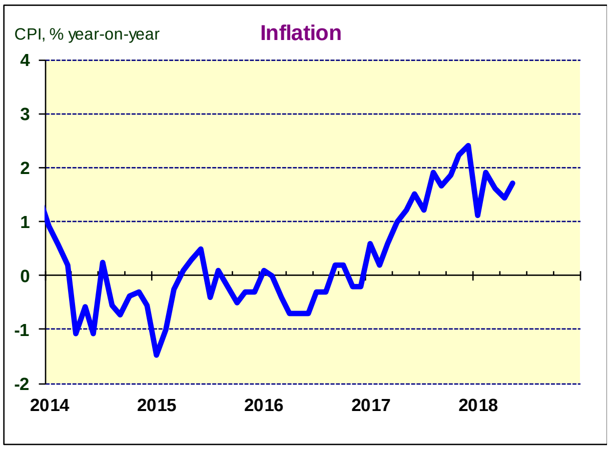
European Commission, ECFIN-D-1

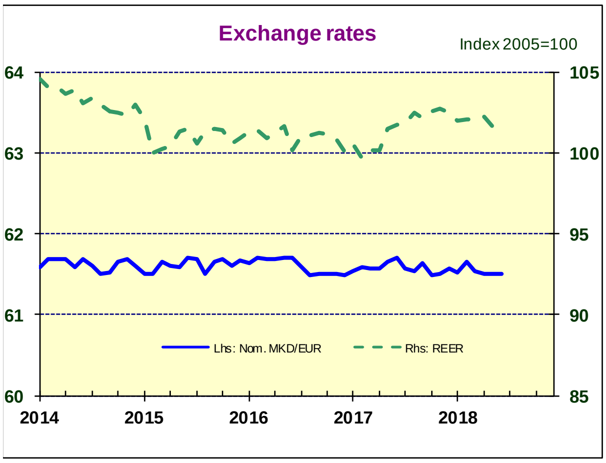
The former Yugoslav Republic of Macedonia

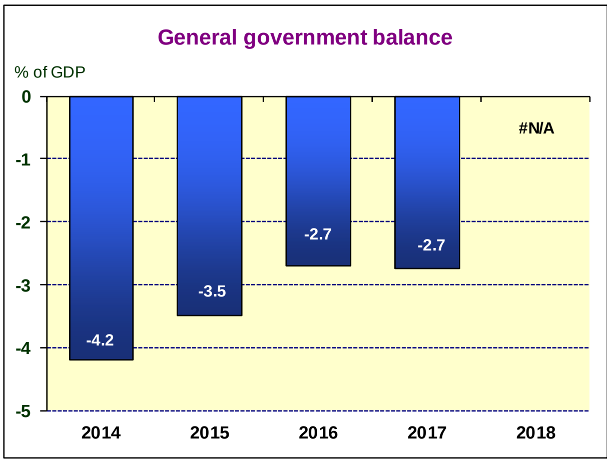












MONTENEGRO

Key developments

On 25 May, the annual economic and financial dialogue between the EU and the Western Balkans and Turkey jointly agreed country-specific conclusions and called on Montenegro, inter alia, to take additional measures if necessary to achieve its debt and deficit targets, establish adequate budget allocation to accommodate contingent liabilities and implement the optimisation plan of the public administration reform.

On 25 June, one additional accession negotiation chapter with the EU was opened: Chapter 17 on economic and monetary policy. So far, 31 negotiation chapters have been opened and 3 provisionally closed.

Real sector

Montenegro recorded strong economic growth of 4.5% y-o-y in the first quarter of 2018, driven by surging investment growth of 32% y-o-y. On the other hand, private consumption growth decelerated markedly (to 0.2% y-o-y compared to 3.6% a year earlier), as the VAT rate hike at the beginning of the year and public-sector wage restraint dampened household spending. Fiscal consolidation measures also limited government consumption, which increased by 0.7% y-o-y compared to 3.5% a year before. Exports of goods and services grew significantly faster (by 16.7% y-o-y) than the pace of imports (9.3% y-o-y) in the first quarter. As a result, the contribution of net exports to GDP growth, although still negative (-2.3 pps), presents some improvement compared to a year before (-3.3 pps).

Industrial production has seen a marked recovery in early 2018. After contracting by 4.3% in 2017, industrial output surged by 40.2% y-o-y in the first quarter. Despite a slowdown in April and May, the increase of industrial output in the first 5 months was still above 30% y-o-y, which compares to an average decrease (by 8.2%) in the same period last year. Favourable meteorological conditions for hydropower generation and a new wind farm boosted energy production by 201% y-o-y until May. Manufacturing recorded a more modest 5.5% y-o-y expansion, driven by mineral and chemical products as well as basic metals. By contrast, mining contracted by 22.2% y-o-y, dragged down by metal ores.

Buoyant construction activity continued in the first quarter of 2018, resulting in eight consecutive quarters of strong growth at above 30% y-o-y. In the first quarter, the value of construction works increased by 46.8% y-o-y after surging by 69.6% in the previous quarter.

The growing number of tourists recorded in the first five months of 2018 (+21.4% y-o-y) supported retail sales, which registered a 3.8% y-o-y increase in real terms during the same period.

Labour market

After the usual seasonal peak at the end of the year, the unemployment rate declined in the first quarter. According to Labour Force Survey figures, the jobless rate declined to 16.5% from 17.7% in the first quarter a year earlier. Although overall employment gains were relatively modest (0.8% y-o-y in the first quarter), the employment growth for women was noticeably higher (1.5% y-o-y) than for men (0.2% y-o-y). However, there is still a significant gap between the activity rate for women (55.5%) and men (68.9%). Administrative data also reflect the trend of falling unemployment, with the jobless rate declining to 18.8% in May, down from 22.1% a year earlier.

Net wages stagnated in the first five months of 2018. The average net monthly wage was EUR 511, only 0.1% higher in real terms than in the same period the year before. Still, a few sectors recorded real growth at above 3% y-o-y, namely accommodation and food services, mining and agriculture. In contrast, public sector real net wages contracted by 0.5% y-o-y.

External sector

Strong construction and tourism activity gave rise to imports, in particular of construction equipment, machinery and vehicles, as well as food products for the hotel industry. Therefore, in the first quarter of 2018, merchandise imports[1] expanded by 9.9% y-o-y. Despite a faster growth of exports (20.3% y-o-y), they covered only 20% of imports, and the trade deficit widened further to 46.8% of GDP in the first quarter of 2018 from 46.6% a year earlier. Yet, in the four quarters to March, the improving performance of the services and income balances contributed to some marginal reduction of the current account deficit to 16.4% of GDP, compared to 16.6% a year before. Net FDI totalled 10.1% of GDP in the four quarters to March, partly financing the external deficit.

Foreign exchange reserves declined slightly in May to EUR 240 million (or 5.5% of GDP), equivalent to 4 months of merchandise imports.

Monetary developments

Tax increases, rising import prices of energy, and stronger demand for tourism-related services maintain upward pressure on prices. Thus, in May, the harmonised index of consumer prices (HICP) went up by 3.6% y-o-y. The largest impact came from tobacco prices (+1.40 pps), followed by fuels (+0.49 pps), restaurant and accommodation costs (+0.35 pps) as well as garments and footwear (+0.26 pps).

Financial sector

Following the introduction of International Financial Reporting Standards (IFRS9) at the beginning of 2018, banking sector provisions increased by more than 21.2% or EUR 26 million more between January and May. As a result, banks' capital declined by 2.1% y-o-y at the end of May, and three banks (out of fifteen) may need to increase capital to comply with the new standards. The asset quality of domestic banks continues to improve at aggregate level. The share of non-performing loans declined further to 7.1% in May, down from 9.3% a year earlier.

Preliminary data confirm a sustained pace in credit growth, averaging 10.4% annual expansion in the period between January and May. Lending to households and the corporate sector was driving this growth, expanding by 10.5% and 7.6% y-o-y respectively.

In May, the average effective interest rate on new loans fell 2.8 pps. y-o-y to 4.82%. Effective interest rates on business loans used to acquire long-term assets declined 1.38 pps. y-o-y to 5.11%, while the interest rate on mortgage loans fell by 0.18 pps. y-o-y to 5.62%.

Bank deposits are growing fast, registering a robust annual expansion of 15.8% in May. Corporate and household deposits were the main drivers, increasing by 21.6% and 9.8% y-o-y respectively.

Fiscal developments

The central government deficit contracted by 30.5% y-o-y in the first four months of 2018, totalling 1.4% of the projected annual GDP compared to a deficit of 2.0% of GDP recorded in the same period a year earlier. The deficit was 45.9% lower than planned mainly because of the significant underspending of the capital budget (41.3% below the plan). Overall, most expenditure items fell short of the plan, except for interests, repayment of arrears, and gross salaries; the latter as a result of new recruitment in the public sector. On the revenue side, tax proceeds were 0.9% below the plan. The increase of VAT and excises rates at the beginning of the year failed to raise receipts as planned, as they underperformed by 3.1% and 7.1% respectively compared to the target. This was however offset by higher-than-expected revenue from social security contributions.

In the first quarter of 2018, the net[2] stock of central government debt increased further to 59.0% of GDP from 57.2% a year earlier. External debt accounts –by far– for the largest part of the public debt stock, representing 49.9% of GDP.

In April, the government placed a EUR 500 million Eurobond with a maturity of seven years and an annual interest rate of 3.375%. The proceeds will be used to finance the budget deficit and refinance EUR 362 million worth of Eurobonds maturing until 2021.

[1] Note: in 2018 Q1, the Central Bank of Montenegro revised the Balance of Payment data since 2010, according to IMF methodology.

[2] Net public debt excludes municipalities, deposits, state guarantees and commercial public companies like the railways.

TABLE

European Commission, ECFIN-D-1

MONTENEGRO

							ECFIN 2018 Spring forecast							
		2013	2014	2015	2016	2017	2018	2019	Q4 17	Q1 18	Q2 18	Apr 18	May 18	Jun 18
1 Real sector														
Industrial confidence [1.1]	Balance	8.7	11.1	9.8	3.0	4.5	:	:	-0.3	4.4	11.1	10.2	12.2	10.9
Industrial production [1.2]	Ann. %ch	10.7	-10.5	7.9	-2.1	-4.3	:	:	2.6	40.2	:	35.8	6.5	:
Gross domestic product [1.3]	Ann. %ch	3.5	1.8	3.4	2.9	4.3	3.0	2.9	3.9	4.5	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. %ch	1.6	2.9	2.2	5.4	3.5	2.2	2.5	2.7	0.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. %ch	10.7	-2.5	11.9	27.5	15.8	6.8	2.9	47.1	32.1	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. %ch	9.7	2.0	5.8	31.5	51.5	:	:	69.7	46.8	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. %ch	11.2	2.4	4.2	4.0	5.2	:	:	6.0	5.0	:	6.4	5.8	:
2 Labour market														
Unemployment [2.1]	%	19.5	18.2	17.8	18.0	16.4	15.6	14.8	17.4	16.5	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. %ch	1.4	6.6	1.9	1.1	2.1	2.3	2.0	0.0	0.8	:	N.A.	N.A.	N.A.
Wages [2.3]	Ann. %ch	-0.2	-0.3	0.2	3.5	2.0	1.7	1.9	1.3	-0.1	:	-0.5	0.3	:
3 External sector														
Exports of goods [3.1]	Ann. %ch	2.1	-9.7	-9.0	7.9	7.1	:	:	-6.5	20.3	:	14.5	5.0	:
Imports of goods [3.2]	Ann. %ch	-2.7	0.6	3.2	12.3	11.3	:	:	22.0	9.9	:	19.5	14.2	:
Trade balance* [3.3]	% of GDP	-39.5	-39.8	-40.0	-41.9	-43.9	-38.8	-38.5	-43.9	-44.0	:	-45.4	-46.1	:
Exports goods and services [3.4]	% of GDP	41.3	40.1	42.1	40.5	41.5	:	:	27.7	29.2	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	61.4	60.0	60.6	62.9	65.3	:	:	70.4	73.8	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-11.4	-12.4	-11.0	-16.2	-16.3	-17.5	-16.7	-16.3	-16.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	9.6	10.2	16.9	9.4	11.4	:	:	11.4	10.1	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	423.7	544.7	673.7	803.0	897.7	:	:	897.7	784.4	:	860.4	780.0	:
Int. reserves / months Imp [3.9]	Ratio	2.9	3.7	4.4	4.7	4.7	:	:	4.7	4.0	:	4.3	3.9	:
4 Monetary developments														
HICP [4.1]	Ann. %ch	1.8	-0.5	1.4	0.1	2.8	3.0	2.2	2.9	3.7	:	3.8	3.6	:
Producer prices [4.2]	Ann. %ch	1.7	0.2	0.3	-0.1	0.4	:	:	-0.2	0.6	:	1.2	1.5	:
Food prices [4.3]	Ann. %ch	4.0	-1.4	3.0	-0.9	1.9	:	:	0.7	-0.6	:	-0.1	-0.1	:
M21 [4.4]	Ann. %ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR [4.5]	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate [4.6]	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) [5.1]	% p.a.	3.39	1.60	:	:	2.35	:	:	:	:	:	:	:	:
Bond yield [5.2]	% p.a.	3.19	1.26	0.50	1.58	1.71	:	:	0.20	0.49	:	:	:	:
Stock markets [5.3]	Index	9 528	10 695	11 956	11 115	10 952	:	:	10 384	10 314	10 116	10 297	10 226	9 825
Credit growth [5.4]	Ann. %ch	3.1	-1.9	0.8	1.3	11.8	:	:	11.8	9.9	:	10.2	10.5	:
Deposit growth [5.5]	Ann. %ch	5.9	10.0	13.7	9.4	13.8	:	:	13.8	13.4	:	14.9	15.8	:
Non-performing loans [5.6]	% of total	18.4	16.8	13.4	10.3	7.3	:	:	7.3	7.3	:	7.1	7.1	:
6 Fiscal developments														
General government balance** [6.1]	% of GDP	-4.6	-2.9	-8.3	-3.6	-5.4	-3.5	-0.3	-3.2	-1.7	:	:	:	:
General government debt [6.2]	% of GDP	56.9	58.7	65.2	63.4	65.1	69.9	66.4	60.4	59.0	:	:	:	:

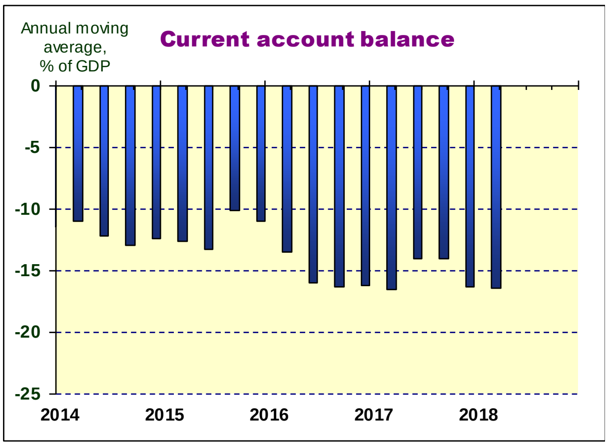
f: ECFIN forecast Spring 2018 published May 2018

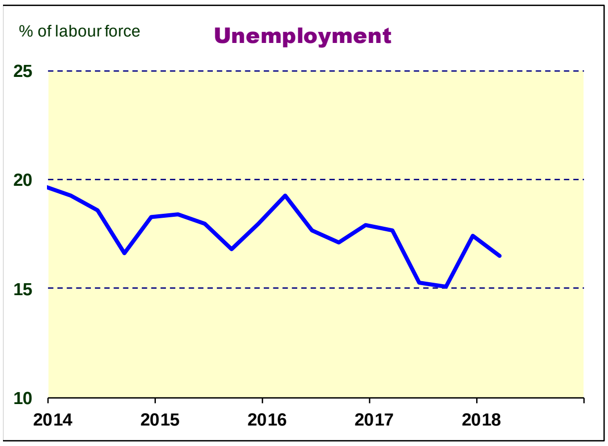
* Q figures refer to a 4 quarters moving average.

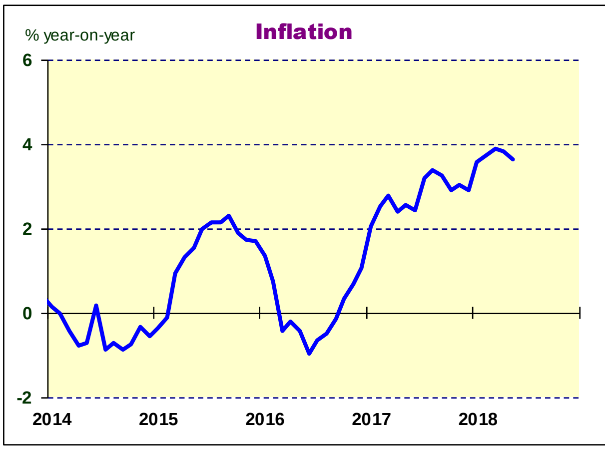
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

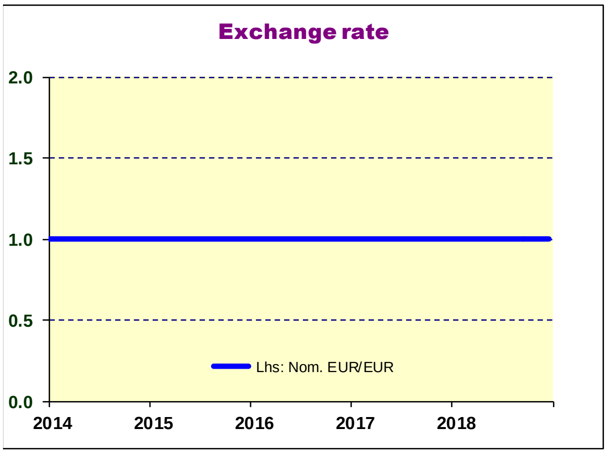
European Commission, ECFIN-D-1

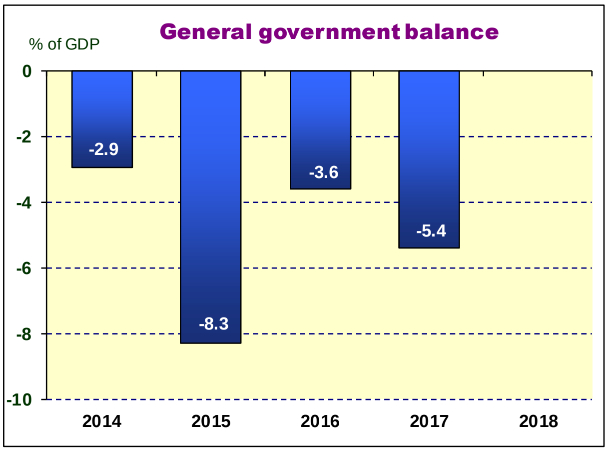
MONTENEGRO











SERBIA

Key developments

In June, Serbia reached a staff-level agreement with the IMF on a 30-month policy coordination instrument (PCI). The PCI is a new non-financing instrument, introduced in 2017, for countries that do not need IMF financial support. The focus of the programme is to sustain the macroeconomic and financial stability results achieved during the previous IMF programme that expired in February and to further advance structural and institutional reforms.

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, took place on 25 May and invited Serbia *inter alia* to use revenue over-performance in 2018 for debt reduction, improve the composition of budget spending, adopt a credible and binding system of fiscal rules, continue to promote the use of the local currency, gradually adapt electricity tariffs to reflect costs, accelerate the restructuring of Srbijagas and EPS, and reduce non-wage labour costs.

In June, Serbia opened two more EU accession negotiation chapters – chapter 13 on fisheries and chapter 33 on financial and budgetary provisions. With that, 14 out of 35 negotiation chapters have been opened so far since the start of negotiations, of which 2 have been provisionally closed.

Real sector

In the first quarter economic growth accelerated to 4.6 % y-o-y. Vibrant domestic demand pulled the economy ahead as household consumption expanded by 3.0 % y-o-y, general government final consumption expenditure grew by 2.3 % y-o-y and gross fixed capital formation surged by 14.9 y-o-y, sustaining its high growth from the previous quarter. The pick-up in economic activity was also supported by base effects, due to bad weather conditions in early 2017. Exports grew as well, by 9.3 % y-o-y, helped by past FDI in tradable sectors and economic expansion in the EU. However, strong demand also triggered a robust growth in imports, which rose by 12.5 % y-o-y, bringing net exports contribution to GDP growth to -3.0 pps in the first quarter.

On the supply side, the first-quarter growth was broad-based, with a particularly strong increase in construction activity (26.4 % y-o-y). Industry went up by 5.3 % y-o-y and the sector of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food service activities expanded by 4.6 % y-o-y. Agriculture recovered from a slump last year, growing 6.1 % y-o-y in the first quarter.

Following the very strong first-quarter performance, short-term indicators point at a slight deceleration of economic activity. Industrial production increased by 3.1 % y-o-y in April and 0.5 % y-o-y in May. A steep decline in mining and quarrying in May (-10.3 % y-o-y) has wiped out production gains since the beginning of the year, bringing the sector to a marginal drop of 0.1 % y-o-y in the period January-May. Manufacturing growth was also lacklustre, at 1.0 % y-o-y in April and 1.6 % y-o-y in May. Still, three-quarters of all manufacturing sectors saw an increase in production in the first five months. Over the same period, and despite a slump in May (-0.3 % y-o-y), electricity, gas, steam and air conditioning supply maintained a robust growth of 9.1 % y-o-y. Retail trade turnover remained robust, growing at 5.1 % y-o-y in April and 3.5 % in May, indicating a continuously buoyant domestic consumption.

Labour market

According to LFS data, the unemployment rate of population aged 15 and above inched up to 14.8 % in the first quarter, as the labour force grew more strongly (1.7% y-o-y) than the number of employed (1.4% y-o-y). The number of unemployed, although down in comparison to the previous quarter, increased by 3.5 % y-o-y. Employment gains were entirely in the formal segment (40.1 thousand y-o-y), while informal employment fell by 4.1 thousand, bringing the rate of informal employment down to 18.6 %.

In tune with LFS data, registered employment increased by 3.3 % y-o-y in the first quarter. Employment grew in the private sector, in particular in information and communication (7.3 % y-o-y), manufacturing (6.4 % y-o-y), construction (5.7 % y-o-y), and some services.

The National Employment Service data on registered unemployment confirm the positive labour market trend, capturing a further decline in the number of registered jobseekers by some 10 % y-o-y in April and May. Since 2018 the statistics on wages has been based on a new methodology and data source. According to it, real net wages increased by 4.2 % y-o-y in the period January-April.

External sector

In the period January-May, the merchandise trade deficit widened by more than a quarter in euro terms y-o-y and stood at EUR 2.1 billion. Exports increased by 7.1 % y-o-y, while imports rose by 11.1 % y-o-y spurred by imports of intermediate goods (14.1 %), capital goods (10.4 %), and non-durable consumer goods (12.1 %).

As a result of the merchandise trade deficit, in the period January-April the current account deficit widened by 10.8 % y-o-y, despite larger surpluses in trade of services and secondary income and a lower primary income deficit. As a ratio to GDP, the current account deficit remained broadly unchanged compared to the same period a year earlier (at 5.4 % in the four quarters to March). Net foreign direct investment increased by 12.9 % y-o-y in the first four months to EUR 871 million. There was a particularly strong inflow of equity other than reinvestment of earnings, which more than doubled over the corresponding period last year.

Monetary developments

Consumer inflation bounced up to 2.3 % y-o-y in June, after having reached a low of 1.1 % y-o-y in April. The pick-up in inflation was driven by rising food and energy prices, while core inflation (excluding food, energy, alcohol and tobacco) remained broadly unchanged. In view of stable inflation expectations, since April the central bank has kept its key policy rate on hold at 3.0 %.

In the second quarter, the dinar exchange rate against the euro moved in a narrow corridor between 118.0-118.3 RSD/EUR. However, in the same quarter the dinar was stronger by 3.3 % y-o-y against the euro and 8.6 % y-o-y against the U.S. dollar. The real effective appreciation of the dinar decelerated to 5.6 % y-o-y in May. The National Bank of Serbia continued its interventions on the forex market and by end June passed the mark of EUR 1 billion in net purchases. As a result, the foreign exchange reserves of the central bank increased further and stood at EUR 11,1 billion in June, covering more than five months' worth of imports of goods and services.

Financial sector

In May, domestic claims were down 1.0 % since the beginning of the year and stood broadly unchanged over a year ago. This stability, however, masks diverse movements of major credit components. Due to a strong rise in government deposits, net claims on government declined by close to 20 % y-o-y in May. Lending to households increased steadily by 8.2 % y-o-y, while loans to companies expanded 2.5 % y-o-y. The underlying credit growth, however, is much stronger as the appreciating dinar and sizeable NPL write-offs had a strong negative impact on the headline figures. The growth of non-monetary sector deposits in commercial banks accelerated to 6.3 % y-o-y in May. The gross non-performing loan ratio declined further and stood at 9.2 % by the end of the first quarter. Capital adequacy and return on equity remained high at 22.7 % and 10.5 %, respectively.

Fiscal developments

The good budget performance of 2017 continued in the beginning of 2018. In the period January-April, the general government budget recorded a small surplus of RSD 6.8 billion or 0.1% of the estimated annual GDP. Total revenue growth decelerated somewhat to 5.5 % y-o-y, due to significant VAT refunds and lower non-tax revenue. However, revenues from other major taxes increased markedly – corporate income tax by 24.4 % y-o-y, excises by 12.4 %, social contributions by 9.6 %, and personal income tax by 6.9 %. In the same period, the growth of total spending accelerated to 8.2 % y-o-y. As a result of wage and pension indexations applied at the end of last year, expenditure on employees and pensions went up by 11.1 % and 4.7 % y-o-y, respectively. Spending on goods and services increased markedly by 16.5 % y-o-y. Supported by base effects, capital expenditures nearly doubled, growing by 82.6 % y-o-y in the first four months. Interest payments were down 6.9 % y-o-y, reflecting prudent fiscal policy of the last several years.In April, government debt stood at EUR 23.6 billion or 58.6 % of the estimated full-year GDP.

TABLE

European Commission, ECFIN-D-1

SERBIA

							ECFIN 2018 Spring forecast							
		2013	**2014**	**2015**	**2016**	**2017**	2018	2019	Q4 17	Q1 18	Q2 18	Apr 18	May 18	Jun 18
1 Real sector														
Industrial confidence [1.1]	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production [1.2]	Ann.%ch	5.6	-6.1	8.4	4.8	3.4	:	:	3.5	6.0	:	3.1	0.5	:
Gross domestic product [1.3]	Ann.%ch	2.6	-1.8	0.8	2.8	1.9	3.3	3.5	2.4	4.6	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann.%ch	-0.4	-1.3	0.4	0.8	1.8	3.1	2.9	1.9	3.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann.%ch	-12.0	-3.6	5.6	5.1	6.2	6.8	6.4	12.4	14.9	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann.%ch	-24.0	-3.8	13.1	5.1	9.3	:	:	25.1	19.7	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann.%ch	-4.9	2.8	2.0	8.0	3.8	:	:	3.0	3.4	:	5.1	3.5	:
2 Labour market														
Unemployment [2.1]	%	22.1	19.2	17.7	15.3	13.5	12.1	10.0	14.7	14.8	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann.%ch	3.7	10.1	0.6	5.6	2.8	2.0	2.1	1.2	1.4	:	3.2	3.7	N.A.
Wages [2.3]	Ann.%ch	5.7	1.2	-0.4	3.8	3.9	:	:	3.0	8.4	:	-0.5	:	:
3 External sector														
Exports of goods [3.1]	Ann.%ch	25.8	1.5	7.9	11.6	12.0	:	:	8.1	8.7	:	4.6	5.1	:
Imports of goods [3.2]	Ann.%ch	5.1	0.1	3.8	6.1	13.8	:	:	15.6	12.5	:	16.7	2.8	:
Trade balance* [3.3]	%of GDP	-13.0	-13.0	-12.1	-10.5	-11.9	-11.5	-11.4	-11.9	-12.2	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	%of GDP	41.2	43.4	46.7	50.0	52.4	:	:	52.4	52.5	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	%of GDP	51.9	54.2	56.4	57.5	61.3	:	:	61.3	61.5	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	%of GDP	-6.1	-6.0	-4.7	-3.1	-5.7	-6.9	-6.9	-5.7	-5.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	%of GDP	3.8	3.7	5.4	5.5	6.6	:	:	6.6	6.5	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	11 188.8	9 907.2	10 378.0	10 204.6	9 961.7	:	:	9 961.7	10 235.3	11 104.3	10 429.6	10 883.2	11 104.3
Int. reserves / months Imp [3.9]	Ratio	8.7	7.7	7.7	7.2	6.2	:	:	6.2	6.1	:	6.2	6.4	:
4 Monetary developments														
CPI [4.1]	Ann.%ch	7.9	2.1	1.4	1.1	3.1	1.7	2.7	2.9	1.6	1.8	1.0	2.1	2.3
Producer prices [4.2]	Ann.%ch	0.8	0.2	0.7	2.2	2.6	:	:	2.6	0.8	1.9	0.4	2.2	3.0
Food prices [4.3]	Ann.%ch	8.0	-0.9	1.9	-0.3	3.3	:	:	3.7	1.6	1.8	0.1	2.8	2.5
M3 [4.4]	Ann.%ch	4.6	7.6	6.6	11.6	3.6	:	:	3.6	3.3	:	4.7	6.2	:
Exchange rate RSD/EUR [4.5]	Value	113.10	117.23	120.74	123.09	121.41	:	:	119.11	118.42	118.17	118.19	118.19	118.13
Nominal eff. exchange rate [4.6]	Index	74.6	72.0	67.4	66.1	67.3	:	:	69.1	70.1	:	70.3	69.7	:
5 Financial indicators														
Interest rate (BEONIA) [5.1]	%p.a.	8.82	6.76	4.75	2.70	2.68	:	:	2.39	2.38	2.24	2.37	2.16	2.18
Bond yield (12 months) [5.2]	%p.a.	10.67	9.18	7.27	4.63	:	:	:	:	:	:	:	:	:
Stock markets [5.3]	Index	1 035	1 215	1 359	1 383	1 584	:	:	1 619	1 607	1 556	1 564	1 551	1 552
Credit growth [5.4]	Ann.%ch	-6.5	5.8	7.0	9.0	2.2	:	:	2.2	-1.2	:	-1.2	0.0	:
Deposit growth [5.5]	Ann.%ch	3.3	7.6	6.5	11.4	3.3	:	:	3.3	3.3	:	4.8	6.3	:
Non-performing loans [5.6]	%total	21.4	21.5	21.6	17.0	9.9	:	:	9.9	9.2	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** [6.1]	%of GDP	-5.5	-6.6	-3.7	-1.3	1.2	0.6	0.5	-2.4	0.4	:	N.A.	N.A.	N.A.
General government debt [6.2]	%of GDP	59.6	70.4	74.7	71.9	61.6	58.9	55.9	61.6	59.0	:	58.6	:	:

f: ECFIN forecast Spring 2018 published May 2018

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

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

CHARTS

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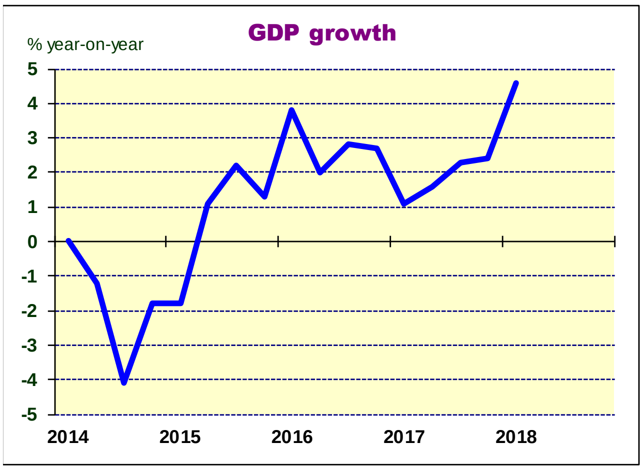
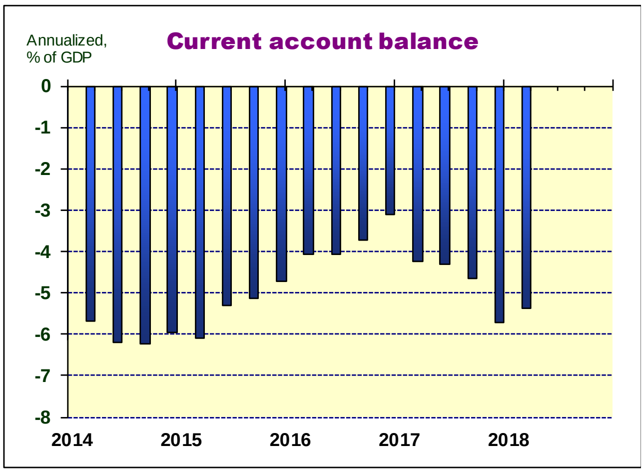
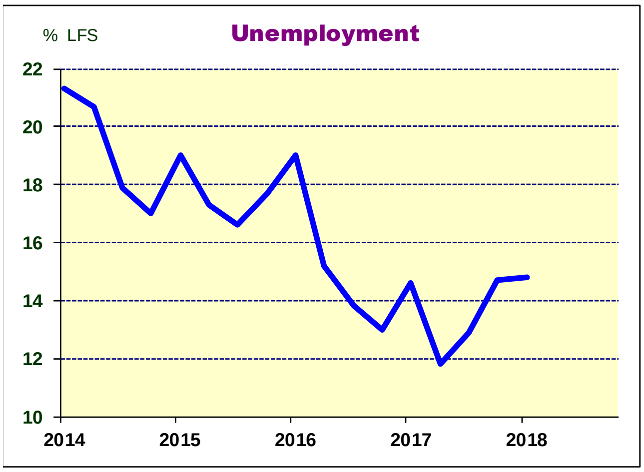
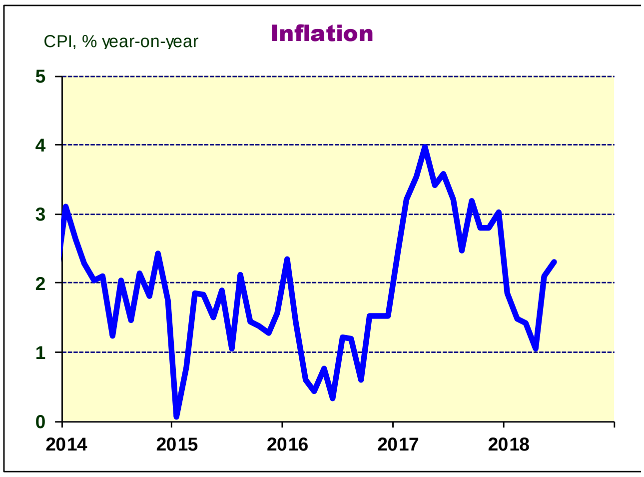
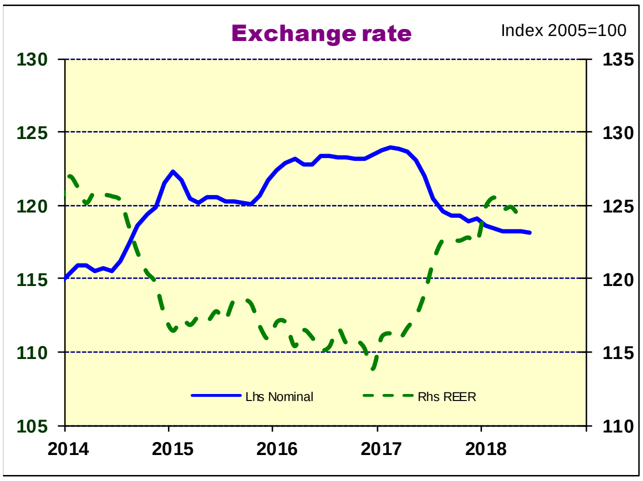
SERBIA

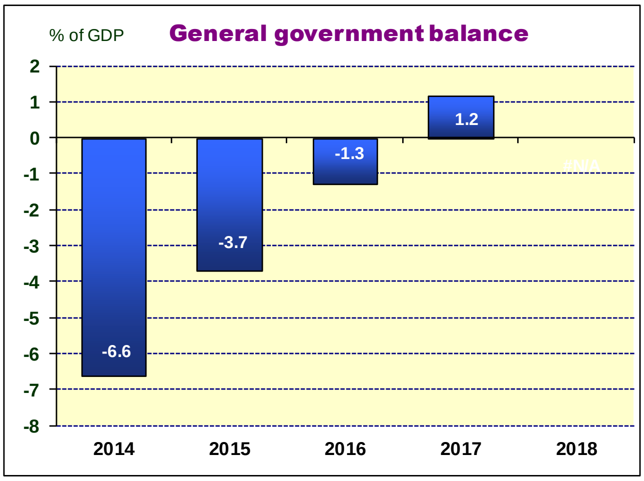












TURKEY

Key developments

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 25 May issued joint conclusions which, *inter alia*, invited Turkey to lower external imbalances by promoting domestic saving, increase the prudence and transparency of fiscal policy, intensify efforts to sustainably achieve price stability and simplify the monetary policy framework, strengthen the rule of law and the judiciary, reduce the administrative burden, reform the labour market and reduce informality.

The first elections under the new presidential system have been held on 24 June. The People's Alliance of AK party and the MHP won 53.7% of the vote and will have a majority in parliament (344 out of 600 seats). The candidate of this alliance, incumbent president Erdogan, won the first round with 52.6% of the votes.

Real Sector

According to Turkstat's estimates published on 11 June 2018, real GDP grew by to 7.4% year-on-year in the first quarter from an unrevised 7.3% in the final quarter of 2017. However, the quarterly growth rate suggests a further acceleration of economic activity; it increased from 1.7% in the fourth quarter to 2.0% in the first quarter.

On the expenditure side, private consumption was the most important driver of domestic demand with an increase by 11.1% y-o-y. Gross fixed capital formation was up by 9.7% y-o-y, supported by reinvigorated investments in construction (+12.3%) and, albeit at a continued decelerated pace, investments in machinery and equipment (+7.0%). Government consumption decelerated to 3.4% y-o-y. Domestic demand including stocks is estimated to have contributed 12%-ppt to GDP growth; the third consecutive quarter it contributes 10% or more to economic growth. A strongly negative growth contribution came from net trade with exports growing at a mere 0.5% and imports increasing at a continued strong pace of 15.6%. As a consequence, net trade subtracted almost 5%-pt from GDP growth.

Both the services sector (+9.4% y-o-y) and the manufacturing sector (+9.3% y-o-y) saw large increases in real value added in the first quarter. Industrial production increased by 8.0% y-o-y in the first quarter, but lost momentum , in particular in durable goods. In the first five monthts of the year, total vehicle production declined by 2% y/y while passenger car production alone fell 7% y/y.

High frequency indicators for the second quarter of 2018 hint at of further loss in momentum. The Markit PMI index fell to an average of 47.4 ECFIN's own sentiment indicator for industrial confidence in Turkey mimicked the decline but was still marginally above break-even. Services confidence as well as retail sector confidence were sharply lower and well below their break-even and historical average. Finally, construction confidence worsened sharply during the second quarter but on average equalled its historical average albeit well below its break-even point.

Labour market

The labour force expanded by 1.9% y-o-y in the first quarter. Average employment growth decelerated to 4.3% y-o-y down from 5.4% in the previous quarter while the unemployment rate marginally increased to 10.7% up from 10.6%. Growth was relatively strong in those segments of the labour force with high school and vocational training.

Hourly labour costs increased strongly again, rising by 14.6% in the first quarter (from 10.0% in the last quarter of 2017). The increase in hourly labour costs was strongest in the manufacturing sector (+17.5%) which has now recorded the highest growth rate in the last four quarters.

External sector

In the first four months, the current account deficit recorded a deficit of USD 27.7 billion, 58.6% higher year-on-year. In the twelve months to May the current account deficit increased to 6.4% of GDP, up from 5.6% over full 2017. The main driver of the deficit was the further deteriorating balance on goods that widened to -7.8% of GDP in the first five months. In times of high inflation and exchange rate volatility, gold has become an increasingly important part of goods imports; its share in total imports of 7.4% in the first five months is more than double the historical average of 3.5%. Trade in services compensated to an even larger extent for the merchandise trade gap, confirming the recovery trend that started last year. In the first five months, the services balances improved by 59.4% y-o-y, standing at 2.5% of GDP. The number of tourists arriving in the first five months has superseded the level of 2014, after elections in 2015 and the coup attempt in 2016 had impacted tourism negatively. Expenditures per tourist continued to shrink, though.

Net financial inflows into Turkey decreased by 11.7% y-o-y in the first fourth months of 2018. Sizable declines in portfolio inflows (-76% y-o-y) and direct investments (-35%) were only partly off-set by inflows in other investments (+666%). Official reserves increased from USD 106 bn in January – May of 2017 to USD 110 bn in January – May 2018. At the end of the second quarter, the Turkish lira had depreciated by 17.4% against the euro and 20.9% against the US dollar since the start of the year. The real effective exchange rate based on consumer prices depreciated by 9% between January and May of this year.

Monetary developments

The TCMB has changed its monetary policy framework on 1 June 2018, moving away from providing liquidity through the emergency facility "Late Liquidity Window", which had become its only funding channel towards the end of 2017, to one week repo rates. This followed significant depreciation of the Lira in May at the midst of which president Erdogan announced his intention to take more control of monetary policy after the presidential elections and restated his preference for lower interest rates.

The effective weighted interest rate of central bank funding increased from 12.75% at the start of the quarter to 17.75% at the end. The central bank has pointed to strong aggregate demand developments and the exchange rate depreciation as major reasons for tightening its monetary stance In its April inflation report, the central bank increased its end-of-year estimate to 8.4% for 2018 (was 7.9% in January) and to 6.5% for 2019. The inflation rate reached 15.4% in June and core inflation 14.6%.

Financial sector

Borsa Istanbul Index decreased by 3.9% y-o-y in the second quarter, falling below the 100,000 threshold for the first time in a year. Following downgrades by the three major credit rating agencies of sovereigns and banks and the rise in the monetary policy interest rates, bond yields jumped by 320 bps for the ten year maturity to 468 bps for the two year maturity. Banks' net profits increased by 12.6% y-o-y in the first five months of 2018. The capital adequacy ratio of banks was 16.5 percent over the first five months of the year (same as 2017 average) and the NPL ratio was 2.9% (3.1% in 2017). Credit grew by 22.5% y-o-y in the second quarter, boosted by an increase in the value of FX loans as the TL depreciated, and deposits rose by 20.7% y-o-y. With deposits again growing slower than loans, the loan-to-deposit ratio reached another record high of 127.1 in the second quarter.

Fiscal developments

In the first five months of 2018, the central government realized a budget deficit of TRY 5.6bn (1.6% of forecasted GDP). Total revenues increased by 18.3% y-o-y while total expenditures were up by 20.9% y-o-y. The projected central government budget deficit for 2018 amounts to 2.1% of GDP; it does however not include a fiscal package of 0.7% of GDP adopted in the run-up to the elections.

Government debt stood at 28.4% of GDP in the first quarter, close to the 28.5% of GDP debt level forecasted by the government. Foreign currency denominated debt makes up 39% of all debt. This is the same as in the first quarter of last year.

TABLE

European Commission, ECFIN-D-1

TURKEY

							ECFIN 2018 Spring forecast							
		2013	**2014**	**2015**	**2016**	**2017**	2018	2019	Q4 17	Q1 18	Q2 18	Apr 18	May 18	Jun 18
1 Real sector														
Industrial confidence [1.1]	Balance	106.6	104.6	103.5	105.2	108.0	:	:	106.4	110.3	108.6	111.2	109.9	104.6
Industrial production [1.2]	Ann. %ch	3.5	3.5	2.9	1.8	6.3	:	:	7.8	:	:	:	:	:
Gross domestic product [1.3]	Ann. %ch	8.5	5.2	6.1	3.2	7.4	4.7	4.2	7.3	7.4	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. %ch	8.0	2.9	5.4	3.6	6.2	5.8	4.8	6.7	11.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. %ch	13.8	5.1	9.3	2.2	7.3	4.6	4.9	6.0	9.7	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. %ch	16.4	38.7	-9.0	16.9	56.8	:	:	-9.8	-19.8	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. %ch	6.2	3.8	6.7	2.2	5.7	:	:	5.7	8.9	:	8.0	:	:
2 Labour market														
Unemployment [2.1]	%	N.A.	10.1	10.5	11.1	11.1	9.8	9.4	10.6	10.7	:	:	:	:
Employment [2.2]	Ann. %ch	N.A.	N.A.	2.5	2.2	3.5	3.4	3.2	5.4	4.3	:	:	:	:
Wages [2.3]	Ann. %ch	12.4	14.2	14.9	18.4	12.4	12.1	10.1	12.7	:	:	:	:	:
3 External sector														
Exports of goods [3.1]	Ann. %ch	0.0	3.5	-9.0	-0.7	10.2	:	:	10.1	8.2	:	7.0	5.2	:
Imports of goods [3.2]	Ann. %ch	7.3	-4.0	-14.8	-3.8	17.2	:	:	23.5	23.7	:	15.4	3.1	:
Trade balance* [3.3]	% of GDP	-8.4	-6.8	-5.6	-4.8	-6.9	-9.9	-9.8	-6.9	-7.7	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	22.3	23.8	23.3	22.0	24.8	:	:	24.8	24.5	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	28.1	27.6	26.0	24.9	29.3	:	:	29.3	29.7	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-7.8	-4.7	-3.8	-3.8	-5.6	-6.0	-5.6	-5.6	-6.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	1.4	1.4	2.1	1.6	1.3	:	:	1.3	1.1	:	N.A.	N.A.	N.A.
International reserves [3.8]	bio EUR	130.3	128.3	110.5	106.1	107.7	:	:	107.7	110.0	98.4	111.0	106.6	98.4
Int. reserves / months Imp [3.9]	Ratio	6.2	6.4	6.4	6.4	5.5	:	:	5.5	5.4	4.8	5.4	5.1	4.8
4 Monetary developments														
CPI [4.1]	Ann. %ch	7.5	8.9	7.7	7.8	11.1	10.9	9.0	12.3	10.3	12.8	10.8	12.1	15.4
Producer prices [4.2]	Ann. %ch	4.5	10.2	5.3	4.3	15.8	:	:	16.7	13.4	20.1	16.4	20.2	23.7
Food prices [4.3]	Ann. %ch	9.1	12.6	11.1	5.8	12.7	:	:	14.1	9.8	12.9	8.8	11.0	18.9
M4 [4.4]	Ann. %ch	19.0	16.0	17.8	12.7	17.7	:	:	17.9	15.7	19.6	18.5	19.9	20.3
Exchange rate TRY/EUR [4.5]	Value	2.57	2.90	3.03	3.34	4.15	:	:	4.54	4.76	5.14	4.90	5.21	5.33
Nominal eff. exchange rate [4.6]	Index	78.87	69.40	64.20	59.10	48.22	:	:	44.94	43.33	:	40.84	38.60	:
5 Financial indicators														
Interest rate (3 months) [5.1]	% p.a.	6.60	9.84	10.48	9.88	12.20	:	:	13.24	13.50	15.81	13.78	15.59	18.05
Interest rate, long term [5.2]	% p.a.	7.77	9.18	9.30	10.19	11.11	:	:	11.97	12.11	:	12.88	14.22	:
Stock markets [5.3]	Index	77 977	75 190	80 641	77 177	98 993	:	:	107 829	116 573	103 044	110 831	102 491	95 810
Credit growth [5.4]	Ann. %ch	34.7	18.4	20.4	16.2	21.2	:	:	21.2	19.7	22.1	21.7	23.8	22.1
Deposit growth [5.5]	Ann. %ch	24.1	11.6	18.6	17.7	17.7	:	:	17.7	18.1	21.5	19.3	21.4	21.5
Non-performing loans [5.6]	% total	2.8	2.8	2.9	3.2	3.1	:	:	2.9	2.9	2.9	2.9	2.8	2.9
6 Fiscal developments														
General government balance** [6.1]	% of GDP	0.1	0.1	1.3	-1.3	-2.0	-2.1	-1.4	-0.8	-1.0	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	31.3	28.6	27.5	28.5	28.5	27.8	27.2	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2018 published May 2018

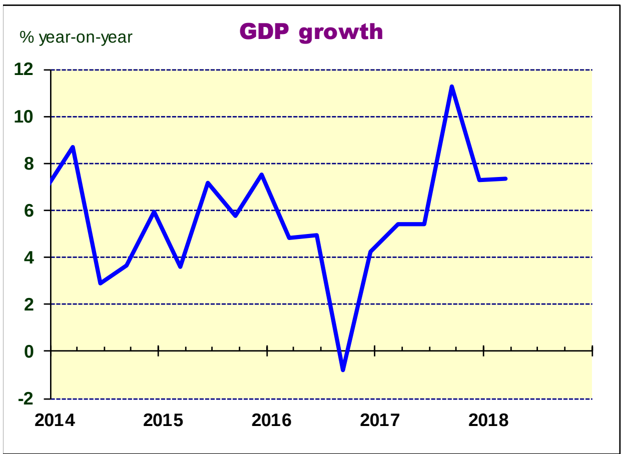
* Q figures refer to a 4 quarters moving average.

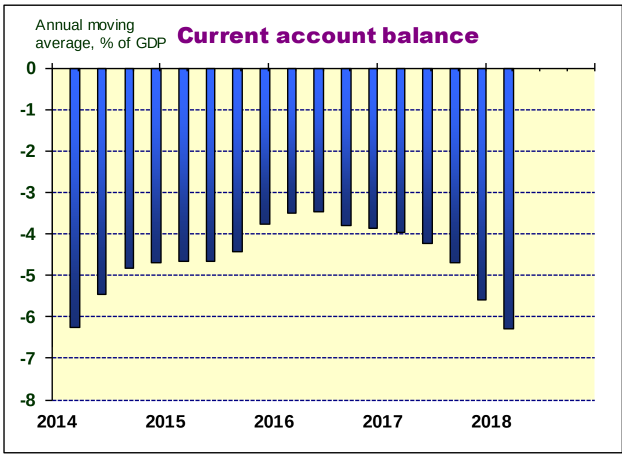
** Q figures refer to the quarterly balance divided by the quarterlyl GDP.

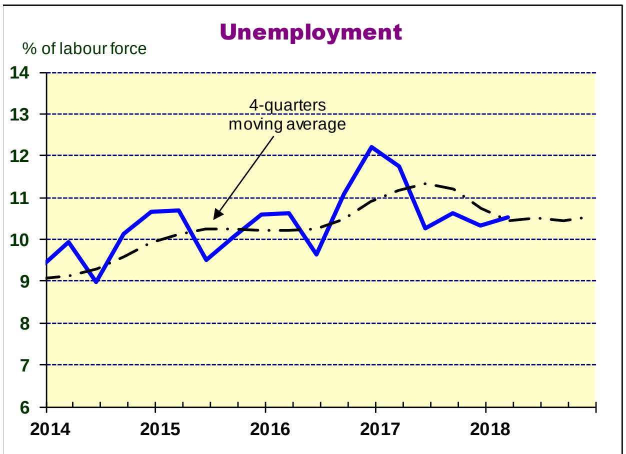
CHARTS

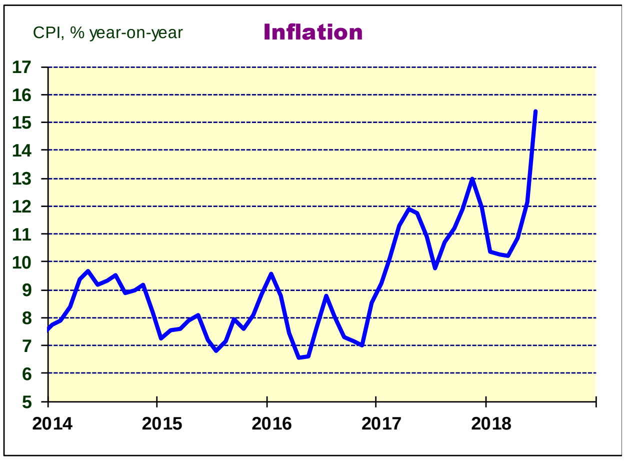
European Commission, ECFIN-D-1

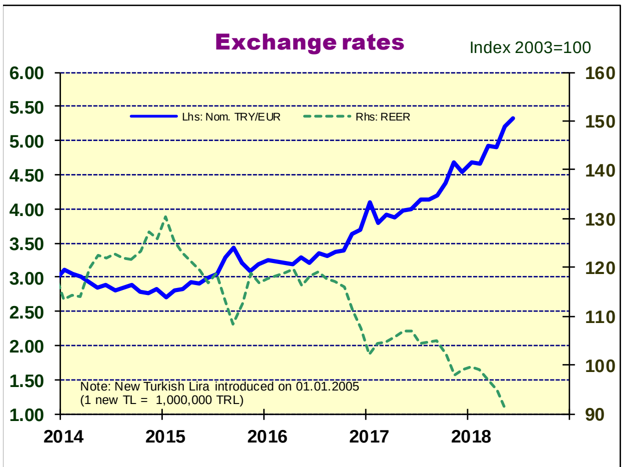
TURKEY

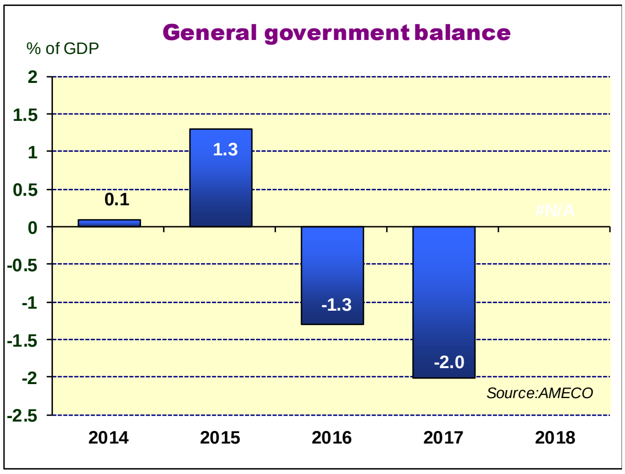












BOSNIA AND HERZEGOVINA

Key developments

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey took place on 25 May, and invited Bosnia and Herzegovina *inter alia* to improve the medium-term fiscal planning framework, to create fiscal space for public investment, to simplify and harmonise business registration procedures and to reduce the tax wedge on labour.

On 21 May, IMF staff concluded the second review mission under the Extended Fund Facility Support Programme. The IMF team pointed to the strengthened recovery, supported by private consumption and exports, which helped to further reduce unemployment. However, the IMF staff also highlighted slow progress with structural reforms.

On 3 July, the IMF postponed the discussion on the planned disbursement of the programme's next tranche (some EUR 38 million), referring to the need to re-assess the country's fiscal position after the authorities' announcement of new spending measures, proposing increases in public sector wages and social transfers.

Real sector

Real GDP rose by 2.0% year-on-year in the first quarter of 2018, up from an increase of GDP expenditure by 0.5% in the last quarter of 2017, when slow growth of gross capital formation kept overall output growth at a low level. The main sources of growth were private consumption and exports of goods and services, which grew by 2.5% and 13%, respectively. Gross capital formation was 7% higher than a year before. However, imports also rose markedly, at 13% in the first quarter, more than off-setting the growth contribution of exports. On the production side, wholesale trade and manufacturing accounted for three quarters of the country's year-on-year growth, while agriculture, administrative services and public administration registered small declines in output.

High-frequency indicators paint a slightly different picture, suggesting a slight deceleration of economic activity in early 2018, however, followed by a renewed strengthening towards mid-year. Industrial output growth slowed down to 1.7% during the first quarter of 2018, but strengthened in April and May, increasing by 2.6% and 5.7%, respectively. Also retail sales slowed down in February and March, but strengthened in April and May, increasing by 8.7% and 9.1%, respectively. The completion of residential construction nearly tripled year-on-year in the first quarter, both in the number of completed dwellings, but also in terms of surface area, albeit from a relatively low value a year before.

Labour market

Registered employment increased by 3% year-on-year in the first quarter. However, employment growth decelerated to 2.1% y-o-y in April from 3.1% at the beginning of the year. The main sectors with employment growth were manufacturing, wholesale trade, but also tourism, where employment rose by about 10% in the first quarter. The number of registered unemployed continued to decline (-7.1% y-o-y in the first quarter and -7.2% in April). As the decrease in unemployment outweighed in absolute terms the rise in employment, the country's (registered) labour force actually declined, by some 1% y-o-y in the first quarter and 1.6% in April. The administrative unemployment rate dropped by 2½ percentage points year-on-year, from 38.9% in April 2017 to a still worrying 36.5% in April 2018. Youth unemployment remains above 60%.

Nominal wages rose by 2.1% year-on-year on average in the first quarter and accelerated further to 3% in April, up from 1.5% in the previous quarter. Adjusted for inflation, real wages in the first quarter of 2018 were about 2% higher than a year before.

External sector

The current account deficit widened slightly in the four quarters to end-March, accounting for 5% of GDP, compared to 4.7% in the four quarters to December 2017. The trade deficit of goods and services remained largely unchanged in the four months to March, at 23.5% of GDP as strong increases in export revenues were to a large extent compensated by higher imports. The surplus in the primary income balance dropped by nearly 0.5 percentage points of GDP, while the surplus in the secondary income balance, including workers remittances, narrowed by 0.4 percentage points of GDP.

The value of goods exports rose by 12% y-o-y in the first quarter and by 10.9% y-o-y in the first five months of the year, compared to 15.7% in the fourth quarter of 2017. The continuously strong export performance is largely driven by exports to Germany and Italy. However, trade with neighbouring countries, in particular Serbia, Croatia and Slovenia, contributed nearly one half to overall export growth. Trade to the EU, including Croatia and Slovenia, contributed nearly 6 percentage points to the nominal increase, while trade to the Western Balkan countries accounted for 1.8 percentage points. Merchandise imports increased by 10.3% y-o-y in the first quarter and by 9.6% in the first five months of 2018.

Net foreign direct investment amounted to 1.8% of the GDP during the four months to March, which is slightly lower than the average in 2017. The main countries of origin for FDI were Switzerland, Slovenia and Saudi Arabia. Foreign reserves remained largely unchanged in terms of import coverage, at slightly above 7 months.

Monetary developments

Inflationary dynamics in the first five months of 2018 showed a slight upward trend, increasing from 0.3% year-on-year in January to 1.3% in May. The main drivers for this acceleration were higher prices for housing, health and transport. Average inflation in the 12-months to May was 0.9%, compared to 1.2% for the whole year of 2017.

The annual growth of the monetary aggregate M2 remained high in the first quarter, at 9.1% compared to 9.8% and 9.9% in the third and fourth quarters of 2017, respectively. This still largely reflects strong growth in deposits.

Financial sector

Annual domestic credit growth remained strong at 6.7% in the first quarter, and at 6.4% and 6.9% in April and May, respectively. Household and corporate credits, accounting in nearly equal shares for about 90% of total loans, continued to be the main driving force behind this trend. Household loans rose by 7.0% y-o-y in the first five months of 2018. Corporate credits increased slightly faster, by 8% at the beginning of the year, which however slowed down to 6.3% in May. Loans to entities, cantons and municipalities, which account for nearly 5% of total credits, accelerated slightly in April and May, increasing by 1.7% and 3.1% respectively.

Growth of total deposits remained strong throughout the first five months of the year, increasing by 11.2% in the first quarter and by 11.7% and 11.3% in April and May, respectively. As a result of the robust increase in deposits, the loan-to-deposit ratio continued to be below the 100% mark (at 92.4% in May), compared to 96.2% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 9.7% in the first quarter, compared to 11.5% a year before. At the same time, loan-loss provisioning has further improved, with the coverage ratio climbing to 78.9% in the first quarter of 2018, from 76.1% a year before. Banking sector profitability recovered slightly in the first quarter as the return on equity improved to 11.9%, from 10.2% in the fourth quarter. The return on average assets also increased slightly to 1.7%, after having dropped to 1.5% in the fourth quarter. Banking profitability thus reached a similar level as in the third quarter of 2017. The banking system's overall capital adequacy ratio deteriorated slightly in the first quarter, declining to 15.4%, compared to 15.7% in the fourth quarter of 2017. This is still clearly above the country's regulatory minimum of 12%. However, there are big differences among the various banks.

Fiscal developments

Public sector revenues continued to perform well during 2017 and in the first half year of 2018, increasing by some 8% in 2017 and about 6% year-on-year in the period January-June. The main driver of this growth was tax revenue, accounting for about two thirds of the overall increase. Public spending on public wages has remained contained, while spending on public investment has been impeded by delays in expected international funds. Preliminary estimates by international institutions suggest that the country as a whole registered a fiscal surplus of about 2% of GDP in 2017, after a surplus of about 1.2% of GDP in 2016.

The debt-to-GDP ratio increased slightly in the first quarter, reaching some 35.9% of GDP at the end of March compared to 35.5% at the end of December 2017. The currency composition remained largely unchanged: about 15% of the debt was denominated in domestic currency, the remaining 85% in foreign currency. The three largest holders of foreign debt are the World Bank, the European Investment Bank (EIB) and the EBRD, accounting for about 23%, 22% and 10% of the country's total foreign public debt, respectively.

TABLE

European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2013	2014	2015	2016	2017	Q4 17	Q1 18	Q2 18	Apr 18	May 18	Jun 18
1 Real sector												
Industrial confidence [1.1]	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production [1.2]	Ann. %ch	5.2	0.2	3.1	4.4	3.1	2.7	5.0	:	2.6	5.7	:
Gross domestic product [1.3]	Ann. %ch	2.6	0.2	3.8	3.3	1.6	0.5	2.0	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. %ch	0.8	1.4	1.8	2.3	2.5	2.3	2.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. %ch	-1.2	11.5	-3.5	2.5	:	:	:	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. %ch	-25.8	22.2	-22.7	34.0	-6.9	-6.9	200.1	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. %ch	4.6	1.8	7.8	7.0	5.1	4.4	5.7	:	8.7	9.1	:
2 Labour market												
Unemployment [2.1]	%	27.5	27.5	27.7	25.4	20.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment [2.2]	Ann. %ch	1.0	-1.2	1.2	-2.6	1.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages [2.3]	Ann. %ch	0.1	-0.1	0.0	0.9	1.6	1.5	2.1	:	3.0	:	:
3 External sector												
Exports of goods [3.1]	Ann. %ch	9.5	3.0	5.1	7.0	16.8	15.7	12.0	:	6.9	12.1	:
Imports of goods [3.2]	Ann. %ch	-0.7	7.1	-2.3	2.4	11.9	10.2	10.3	:	3.1	14.3	:
Trade balance* [3.3]	% of GDP	-25.0	-27.8	-24.2	-22.7	-23.5	-23.5	-23.5	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	31.8	32.8	33.5	34.3	38.2	38.2	38.7	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	51.1	54.7	51.4	50.4	54.7	54.7	55.2	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-5.0	-7.1	-5.2	-4.7	-4.7	-4.7	-5.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	1.2	2.8	1.6	1.5	2.1	2.1	1.8	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	3 574.1	4 118.4	4 290.6	4 928.3	5 376.5	5 376.5	5 511.3	:	5 734.1	5 784.9	:
Int. reserves / months Imp [3.9]	Ratio	5.5	5.9	6.3	7.2	7.0	7.1	6.3	:	7.3	7.2	:
4 Monetary developments												
CPI [4.1]	Ann. %ch	-0.1	-0.9	-1.0	-1.1	1.2	1.3	0.8	:	1.0	1.3	:
Producer prices [4.2]	Ann. %ch	-2.2	-0.2	-0.6	-0.9	1.8	2.9	1.9	:	2.7	3.8	:
Food prices [4.3]	Ann. %ch	0.0	-2.7	-0.9	-1.1	0.9	1.8	:	:	:	:	:
M2 [4.4]	Ann. %ch	5.7	7.5	8.0	7.8	9.8	9.9	9.1	:	9.2	9.5	:
Exchange rate BAM/EUR [4.5]	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate [4.6]	Index	103.6	104.99	103.92	105.22	106.04	106.71	106.83	:	107.12	:	:
5 Financial indicators												
Interest rate (3 months) [5.1]	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield [5.2]	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets [5.3]	Index	770	707	701	692	627	613	610	611	618	603	613
Credit growth [5.4]	Ann. %ch	2.7	3.7	1.8	2.1	5.3	6.7	6.7	:	6.4	6.9	:
Deposit growth [5.5]	Ann. %ch	5.1	8.4	6.2	7.7	10.4	11.4	11.2	:	11.7	11.3	:
Non performing loans [5.6]	% total	14.5	15.2	13.9	12.3	10.9	10.0	9.7	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** [6.1]	% of GDP	-2.0	-2.0	0.6	1.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	35.5	40.1	40.4	39.0	35.5	35.5	35.8	:	N.A.	N.A.	N.A.

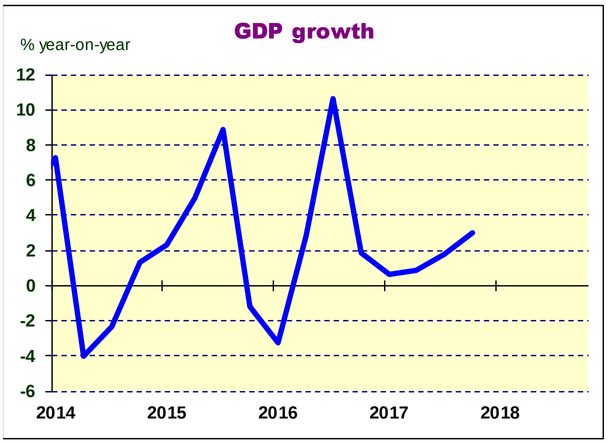
* Q figures refer to a 4 quarters moving average.

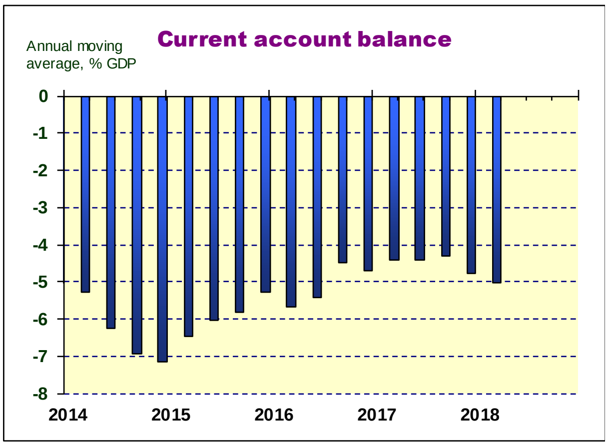
** Q figures refer to the quarterly balance divided by the quarterlyl GDP.

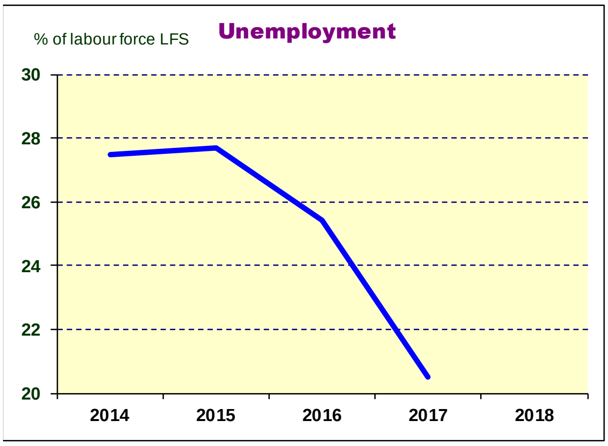
CHARTS

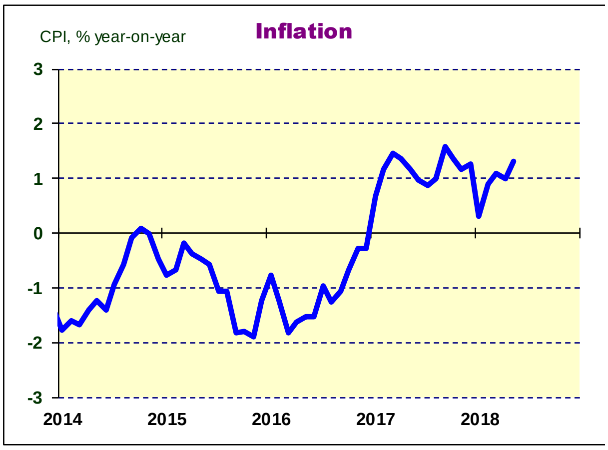
European Commission, ECFIN-D-1

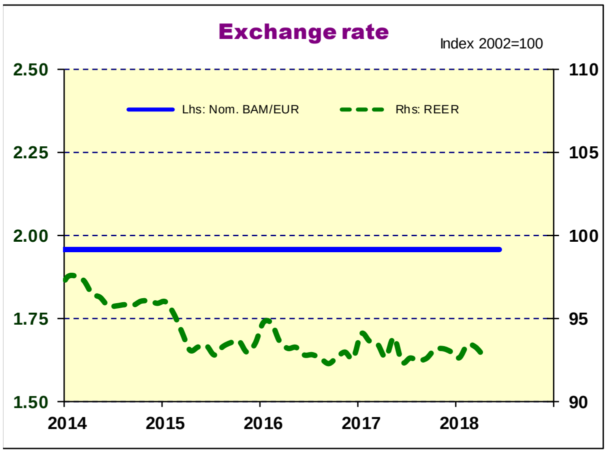
BOSNIA AND HERZEGOVINA

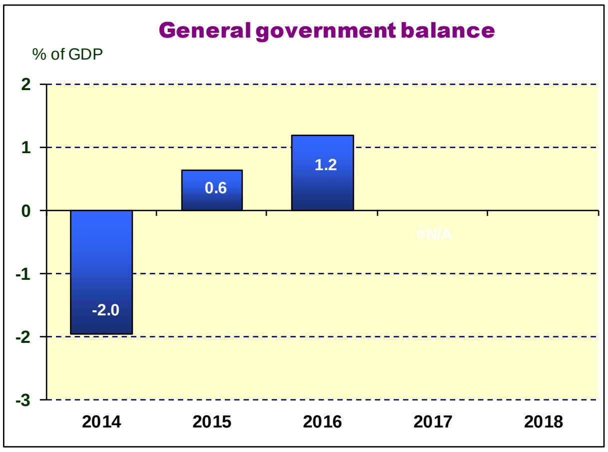












KOSOVO

Key developments

The annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place on 25 May. The jointly agreed country-specific recommendations call on Kosovo to strengthen institutional capacities for macroeconomic and fiscal policymaking and multi-annual investment planning, address the fiscal risks of the war veterans' benefit scheme, and tackle challenges related to the large informal economy, an unreliable energy supply and high youth unemployment.

In early June the IMF warned Kosovo of increasing fiscal risks and advised not to move ahead with the current draft law on compensation of teachers, which is currently discussed in the Assembly.

Real sector

GDP grew by 3.5% y-o-y in the first quarter. Strong increases in government consumption and investment (5.2% y-o-y and 10% y-o-y, respectively) provided the largest contributions to growth, whereas private consumption expanded only moderately by 1.4% y-o-y. Net exports of goods and services provided a negative contribution to growth (-1.1 p.p.) despite faster growth rate of exports (16.2% y-o-y) than imports (7.8% y-o-y). Strong exports performance in Q1 was mainly driven service exports which grew by 30% y-o-y. In the same period gross value added increased by 3.3% y-o-y. Strong contraction in mining and quarrying (-12.1% y-o-y) has been offset by robust growth in construction as well as financial and insurance activities which expanded by 9.9% and 10.8% y-o-y respectively. Other positive contributions came from the wholesale, transportation and manufacturing sectors.

In Q1 2018 industrial turnover in Kosovo increased by 10.8% y-o-y. Turnover rose by 50% y-o-y in water supply and 4.7% in manufacturing.

Following a slowdown to 6.8% y-o-y in Q4 2017, retail sales expanded substantially by 13.6% in Q1 2018. Most notably, sales of food, beverages and tobacco increased by 44% y-o-y which was followed by 20% y-o-y growth of fuel sales.

Labour market

The Q1 2018 Labour Force Survey shows a deteriorating situation in Kosovo's labour market. A significant decline in unemployment rate from 30.6% in Q4 2017[3] to 26.5% in Q1 2018 was mainly driven by contracting labour force participation rate from 42.9% to 39.2% over the same period. Inactivity rate reached 60.8% in Q1. The employment rate also declined (from 29.8% to 28.8%), while within the group of employed there was a sharp decline of long-term contracts from 29.3% to 18.9%.

Labour market outcomes are especially poor for women and youth. Female labour force participation dropped from nearly 20% in Q4 2017 to 16.6% in Q1 2018, while women employment stood at 11.8% in Q1. The youth employment rate (15-24 years) has been on a declining trend since mid-2017 and fell to 10% in Q1 whereas young female employment was 4.4%. NEET (not engaged in employment, education or training) share of youth population was 31.1%.

External sector

The current account deficit remained largely unchanged in the first quarter, with its 4-quarter moving average declining slightly to 6.3 % of GDP compared to 6.6% in Q4 2017. In Q1 the trade balance was traditionally negative at 42.9% of GDP while workers remittances stood at 10.5%. On the financing side, net inflow of FDI equalled to 4% GDP over the same period. Reserve assets covered 5 months of imports in Q1.

In the first five months of 2018 total goods exports contracted by 6.7% y-o-y due to a sharp contraction of base metal exports in March-May. The continuation of a significant growth in exports has been observed in mineral products and food processing. In the same period, imports of goods rose by 8.4% y-o-y with mineral fuels and machinery being the main import drivers reflecting rising oil prices and stronger investments. During January-May the overall merchandise trade deficit increased by 10.5% y-o-y.

[3] Throughout all quarters of 2017 the rate of unemployment was above 30%.

Monetary developments

Kosovo's inflation rate remains heavily dependent on price developments in the EU. After a subdued start into the year inflation accelerated in April and May bringing the average change in the first five months to 0.3% as compared to the same period of 2017. Core inflation accelerated from 0.4% y-o-y in March to 0.7% y-o-y in May while headline inflation increased from 0.1% to 1% y-o-y in the same period. Food and energy prices contributed 46% of total HICP inflation.

The producer price index increased by 0.2% and the construction cost index by 0.6% y-o-y in the first quarter of 2018 mainly on the back of price rises of electrical equipment. The Q1 import prices increased by 1.4% y-o-y supported by price increases in base metal products which were partially offset by falling prices of leather products and footwear.

Financial sector

Strong credit expansion (10.5% in 2017) seems to continue in 2018, albeit the growth rate has slightly moderated from 11.4% y-o-y in January to 10.6% y-o-y in May. Total deposits in commercial banks grew 8.6% y-o-y in 2017 and 5.9% on average in January-May 2018. Thus, the loans to deposit ratio rose to 84.9% in May 2018, compared to 80.4% in December 2017, still indicating a stable liquidity position and further room for extending banking activity.

The interest rate spread remains on a downward trajectory. The 12-month moving average spread declined by 51 basis points in May 2018 compared to a year before. This reduction was driven by a combination of increasing rate on deposits (10 basis points) and 42 basis points decrease in the average lending interest rates from a year earlier, to 6.7%.

Financial soundness indicators in the banking sector remained satisfactory throughout the first five months of 2018. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 38% in May 2018, while the capital adequacy ratio was 17.9%, well above the regulatory minimum of 12%. The already low NPL ratio decreased further to 2.9% in May. Existing NPLs are fully covered by loan loss provisions (154.9%).

Fiscal developments

In the first quarter the budget deficit amounted to EUR 4.95 million or 0.3% of GDP. As compared to Q1 2017 budget revenue increased by 4% due to better collection of tax revenues while total expenditure grew by 17%. Increases in capital investment and current spending were 44% and 12%, respectively.

In April, the Kosovo Government adopted the Medium Term Expenditure Framework (MTEF) for 2019-2021. In the MTEF GDP growth is expected to accelerate from the historic trend of 4% to 5% on the back of higher public and private investment and higher exports. The average budget revenue ratio is projected at 27% of GDP in 2019-21 as compared with 26.7% in 2017, which is largely in line with the projection of the Economic Reform Programme (ERP). The revenue fall related to SAA implementation, tax incentives for production, and conservative planning of non-tax revenues, should be compensated by better revenue collection due to measures tackling the informal economy. The MTEF projects annual public spending of 31.6% of GDP on average. This is higher than envisaged in the ERP which projected public expenditure to decline from 31.1 % of GDP in 2018 to 30.1% in 2020. The MTEF expects the budget deficit to increase from 1.8% of GDP in 2018 to 2% in 2021, not exceeding the fiscal rule ceiling of 2% of GDP. Additional capital investment in excess of 2% of GDP is envisaged to be financed by long-term concessional borrowing and privatisation receipts and is excluded from the deficit under the fiscal rule.

At the end of 2017 total public debt with guarantees reached 16.6% of GDP, not including Kosovo's share of debt of the former Yugoslavia, which is around 5% of GDP. Over 2017 the debt ratio increased by some 2 percentage points, mainly driven by domestic debt, which accounts for 58% of the total debt stock. Interest payment stood unchanged at 0.3% of GDP. The share of short-term debt, i.e. maturing in one year, declined significantly from 39% of GDP in 2016 to 32.9% in 2017. Average time to maturity for domestic debt increased from 1.3 in 2016 to 1.8 in 2017 and is expected to reach 2.3 years until the end of 2018.

Going forward, the government's recently adopted State Debt Program for 2019-2021 expects public debt to increase from 18.3% of GDP in 2018 to 22.96% in 2021. The strategy envisages the extension of maturity for domestic debt which would provide longer-term stable financing. The government plans to issue Eurobonds as well as retail bonds aimed at the Kosovo diaspora. For the former a credit rating and related technical assistance will be needed.

TABLE

European Commission, ECFIN-D-1

KOSOVO*

		2013	2014	2015	2016	2017	Q4 17	Q1 18	Q2 18	Apr 18	May 18	Jun 18
1 Real sector												
Industrial confidence [1.1]	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production [1.2]	Ann. %ch	3.2	0.0	1.3	-1.3	:	:	:	:	:	:	:
Gross domestic product [1.3]	Ann. %ch	3.4	1.2	4.1	3.4	3.7	3.2	3.5	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. %ch	2.0	4.9	3.8	4.8	-1.5	0.1	1.4	:	N.A.	N.A.	N.A.
Investment [1.5]	Ann. %ch	-0.3	-5.0	11.3	7.5	10.9	4.0	10.0	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. %ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. %ch	N.A.	11.6	7.1	6.5	12.0	6.8	13.6	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment [2.1]	%	30.0	35.3	32.9	27.5	30.5	30.6	26.5	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. %ch	11.8	-4.4	-8.2	11.8	7.6	1.9	-1.7	:	N.A.	N.A.	N.A.
Wages [2.3]	Ann. %ch	N.A.	N.A.	5.8	:	:	:	:	:	N.A.	N.A.	N.A.
3 External sector												
Exports of goods [3.1]	Ann. %ch	6.4	10.4	0.2	-4.8	22.1	11.8	-4.0	:	-18.2	-2.0	:
Imports of goods [3.2]	Ann. %ch	-2.3	3.6	3.8	5.9	9.2	11.0	7.6	:	7.3	11.2	:
Trade balance*** [3.3]	% of GDP	-40.5	-39.8	-39.8	-40.9	-42.5	-42.5	-42.9	:	N.A.	N.A.	N.A.
Exports goods and services*** [3.4]	% of GDP	21.9	22.5	21.9	22.2	27.0	27.0	27.4	:	N.A.	N.A.	N.A.
Imports goods and services*** [3.5]	% of GDP	49.6	51.2	50.4	50.8	53.8	53.8	54.3	:	N.A.	N.A.	N.A.
Current account balance*** [3.6]	% of GDP	-3.4	-6.9	-8.6	-8.3	-6.0	-6.6	-6.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** [3.]	% of GDP	5.3	2.7	5.3	3.6	4.5	4.6	4.0	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	1 504.3	1 266.4	1 302.6	1 161.7	1 242.7	1 242.7	1 276.7	:	1 294.7	1 298.5	:
Int. reserves / months Imp [3.9]	Ratio	7.4	6.0	5.9	5.0	4.9	4.9	5.0	:	5.0	5.0	:
4 Monetary developments												
HICP [4.1]	Ann. %ch	1.8	0.4	-0.5	0.3	1.5	0.7	0.0	:	0.4	1.0	:
Producer prices [4.2]	Ann. %ch	2.4	1.6	2.7	-0.1	0.6	1.6	0.2	:	N.A.	N.A.	N.A.
Food prices [4.3]	Ann. %ch	1.5	0.1	0.3	-0.2	:	:	:	:	:	:	:
Broad money liabilities [4.4]	Ann. %ch	17.3	-4.2	6.4	8.4	6.3	6.3	7.9	:	7.1	5.9	:
Exchange rate EUR/EUR [4.5]	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) [4.6]	Index	106.5	106.7	104.7	:	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate [5.1]	% p.a.	11.82	10.62	8.32	7.47	6.83	6.79	6.94	:	6.62	6.84	:
Bond yield [5.2]	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets [5.3]	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth [5.4]	Ann. %ch	3.6	3.4	6.9	9.1	10.5	11.1	11.0	:	10.3	10.6	:
Deposit growth [5.5]	Ann. %ch	6.6	7.2	5.6	4.8	8.6	8.0	6.5	:	5.1	5.0	:
Non-performing loans [5.6]	% total	8.7	8.3	6.2	4.9	3.1	:	:	:	:	:	:
6 Fiscal developments												
General government balance** [6.1]	% of GDP	-3.1	-2.2	-2.0	-1.2	-0.8	:	:	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	8.9	10.7	13.1	14.6	16.6	:	:	:	N.A.	N.A.	N.A.

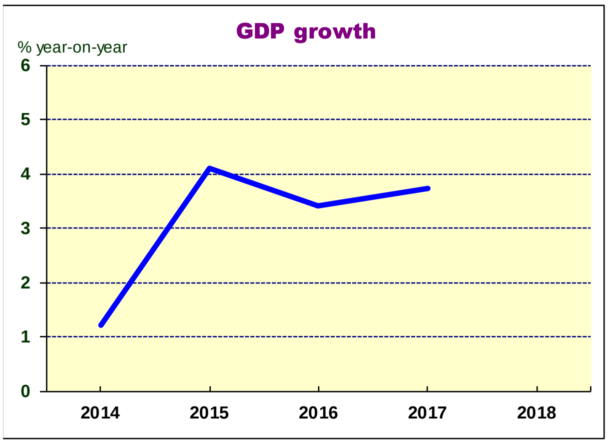
** Source: IMF.

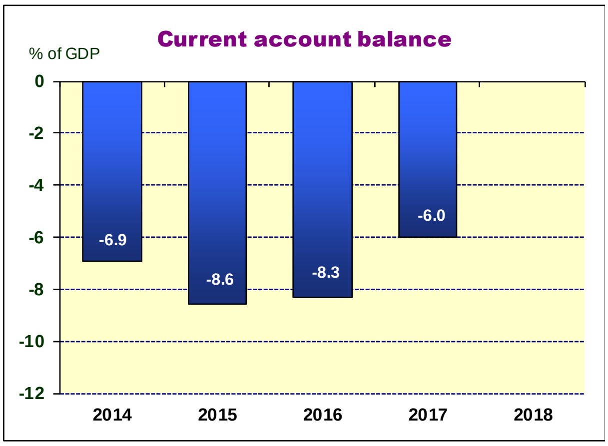
*** Q figures refer to a 4 quarters moving average.

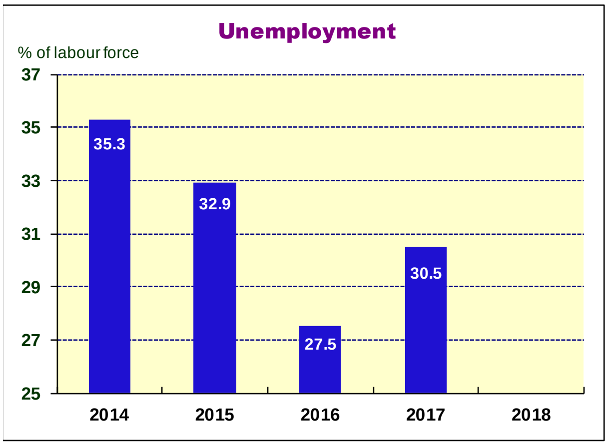
CHARTS

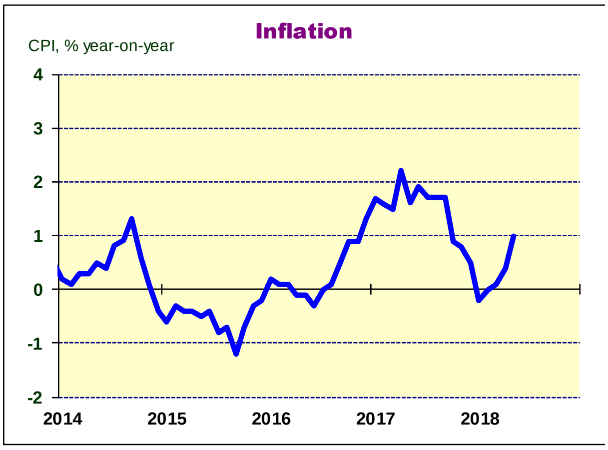
European Commission, ECFIN-D-1

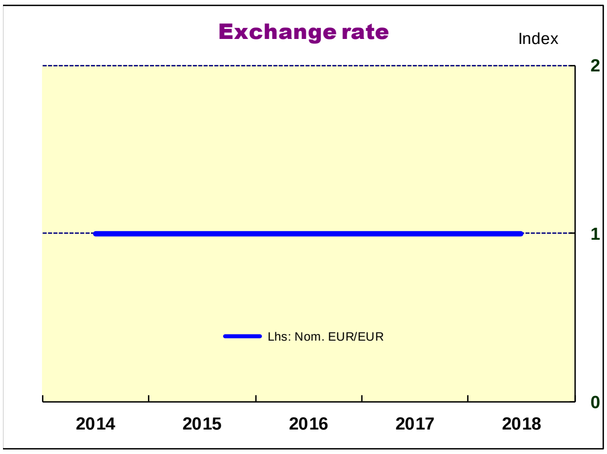
KOSOVO*

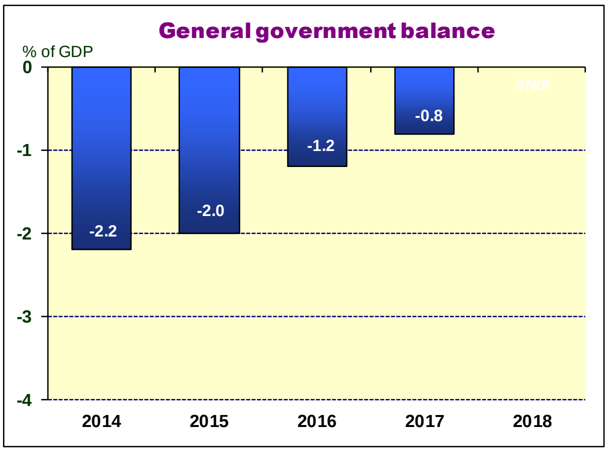












ALBANIA Explanatory notes

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

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Explanatory notes

No.	Indicator	Note	Source
1.	**Real sector**		
1.1.	Industrial confidence indicator	Current Situation, Assessment, Enterprises, total, MKD	MacroBond
1.2.	Industrial production	Annual percentage change, volume, excluding construction	MacroBond
1.3.	Gross domestic product	Real Gross Domestic Product, Total, Growth Rate (2005), NSA.	MacroBond
1.4.	Private consumption	Real Final Consumption, Households including NPISH's, Growth Rate (2005), NSA.	MacroBond
1.5.	Gross fixed capital formation	Real Gross Capital Formation, Growth Rate (2005), NSA.	MacroBond
1.6.	Construction	Value Added, Economic Activity, Current Prices, MKD	MacroBond
1.7.	Retail sales	Annual percentage change, Retail trade, turnover, total. Starting 2012 Retail Sale of Non-Food Products except Fuel (2010), NSA.	MacroBond
2.	**Labour market**		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey	MacroBond
2.2.	Employment	Annual percentage change, Labour Force Survey	MacroBond
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	MacroBond
3.	**External sector**		
3.1.	Exports of goods	Annual percentage change, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, cif	MacroBond
3.3.	Trade balance	In percent of GDP, fob-cif	MacroBond
3.4.	Exports goods and services	In percent of GDP, volume	SSO
3.5.	Imports goods and services	In percent of GDP, volume	SSO
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	MacroBond
3.7.	Direct investment *(FDI, net)*	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4.	**Monetary developments**		
4.1.	CPI	Annual average percentage change, HICP not yet available for the former Yugoslav Republic of Macedonia	MacroBond
4.2.	Producer prices	Annual percentage change, industrial products	MacroBond
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	MacroBond
4.4.	M4	Annual percentage change, M4 (Broadest money)	MacroBond
4.5.	Exchange rate MKD/EUR	Averages, spot close	MacroBond
4.6.	Nominal eff. exchange rate	Nominal Effective Exchange Rate, MKD, Index 2005=100	MacroBond
5.	**Financial indicators**		
5.1.	Interest rate	Interest rate Denar deposits	MacroBond
5.2.	Bond yield	Not available	
5.3.	Stock markets	MSE Index (MBI-10)	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, DMB, total, overall, with Saving houses, MKD	MacroBond
5.5.	Deposit growth	Annual percentage change, with Saving houses, total, MKD	MacroBond
5.6.	Non-performing loans	In percent of total	MacroBond
6.	**Fiscal developments**		
6.1.	Central government balance	In percent of GDP, Q/Q GDP	MoF
6.2.	Central government debt	In percent of GDP	MoF

MONTENEGRO

Explanatory notes

No.	Indicator	Note	Source
1.	**Real sector**		
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	MacroBond
1.2.	Industrial production	Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	MacroBond
1.4.	Private consumption	Annual percentage change, annual data, chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MacroBond
1.6.	Construction index	Annual percentage change, value of performed work, current prices	MacroBond
1.7.	Retail sales	Annual percentage change, turnover, total	MacroBond
2.	**Labour market**		
2.1.	Unemployment	In percent of active population, e.o.p.	MacroBond
2.2.	Employment	Annual percentage change of registered employment, avrg.	MacroBond
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	MacroBond
3.	**External sector**		
3.1.	Exports of goods	Annual percentage change, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	Annual data	MacroBond
3.5.	Imports goods and services	Annual data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment *(FDI, net)*	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4.	**Monetary developments**		
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MacroBond
4.2.	Producer prices	Annual percentage change	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	MacroBond
4.4.	M21	Annual percentage change, M21 (Broadest money)	Discontinued
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Nominal exchange rate	Not available	
5.	**Financial indicators**		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	MacroBond
5.3.	Stock markets	MOSTE Index, Close	MacroBond
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	MacroBond
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	MacroBond
5.6.	Non-performing loans	% of total	Central Bank ME
6.	**Fiscal developments**		
6.1.	General government balance	Quarterly balance in percent of estimated annual GDP.	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance

SERBIA Explanatory notes

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

TURKEY   Explanatory notes

No.	Indicator	Note	Source
1.	**Real sector**		
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	MacroBond
1.2.	Industrial production	Annual percentage change, volume (index 2010), excluding construction, calendar adjusted	MacroBond
1.3.	Gross domestic product	Annual percentage change,	MacroBond
1.4.	Private consumption	Annual percentage change, index (2009 prices)	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change,	MacroBond
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, 2015=100	MacroBond
2.	**Labour market**		
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	MacroBond
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	MacroBond
2.3.	Wages	Annual percentage, Hourly earnings manufacturing / Index publication base -	MacroBond
3.	**External sector**		
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, annualised moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised moving average	MacroBond
3.7.	Direct investment *(FDI, net)*	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR, eop.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average	MacroBond
4.	**Monetary developments**		
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	MacroBond
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	MacroBond
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	MacroBond
4.4.	M3	Money supply M3, total, TRY	MacroBond
4.5.	Exchange rate YTL/EUR	Period averages	MacroBond
4.6.	Nominal eff. exchange rate	Index 1999, period averages	MacroBond
5.	**Financial indicators**		
5.1.	Interest rate	Deposit rates, 3 month, close	MacroBond
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	MacroBond
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	MacroBond
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	MacroBond
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	MacroBond
5.6.	Non-performing loans	In percent of total lons	MacroBond
6.	**Fiscal developments**		
6.1.	General government balance	In percent of GDP, Q/Q GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources

Bosnia and Herzegovina

Explanatory notes

No.	Indicator	Note	Source
1.	**Real sector**		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, Index 2010=100, Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change	MacroBond
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change	MacroBond
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	MacroBond
1.7.	Retail sales	Total sale, index CPPY=100, weighted average Federation of Bosnia and Herzegovina 65% Serb Republic 35%	MacroBond
2.	**Labour market**		
2.1.	Unemployment	Labour Force Survey, in percent of total labour force	MacroBond,
2.2.	Employment	Labour Force Survey, annual percentage change	MacroBond
2.3.	Wages	Annual percentage change, average gross wages, BAM	MacroBond
3.	**External sector**		
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	MacroBond
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment *(FDI, net)*	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4.	**Monetary developments**		
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	MacroBond
4.2.	Producer prices	Domestic, total, index CPPY=100	MacroBond
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100,	MacroBond
4.4.	M2	Annual percentage change, M2 (broadest money)	MacroBond
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	MacroBond
4.6.	Nominal eff. exchange rate	Index (2002 Apr=100); 9 Trade partners selected in order to set up the index (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	MacroBond
5.	**Financial indicators**		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	MacroBond
5.4.	Credit growth	Annual percentage change, loans, total, BAM, End of period	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM, End of period	MacroBond
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	MacroBond
6.	**Fiscal developments**		
6.1.	General government balance	In percent of GDP, consolidated budget, net lending, Q/Q GDP	MacroBond
6.2.	General government debt	In percent of GDP, external public debt	MacroBond

KOSOVO

Explanatory notes

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

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