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2nd Quarter 2019

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European Commission
Directorate-General for Economic and Financial Affairs

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

2nd Quarter 2019

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.

Contact: Uwe.Stamm@ec.europa.eu.

Contents

OVERVIEW	5
ALBANIA	9
MONTENEGRO	13
NORTH MACEDONIA	17
SERBIA	21
TURKEY	25
BOSNIA AND HERZEGOVINA	29
KOSOVO*	33

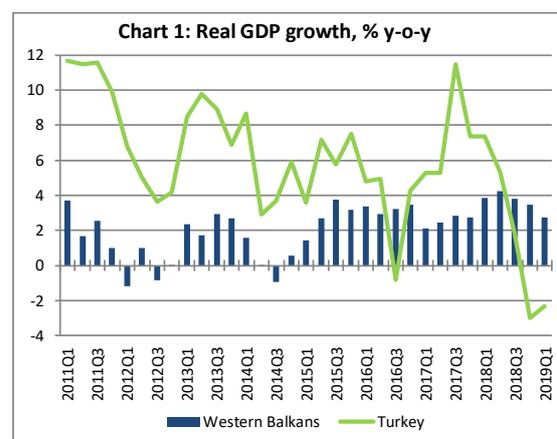
* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

OVERVIEW

Economic expansion continued in the **Western Balkans** during the first quarter of 2019, although at a slower pace, with annual GDP growth decelerating to 2.7%. Growth slowed in most countries of the region, but it continued to be supported by robust domestic demand, in particular household consumption. This has led to a widening of the moving average current account deficit in all countries. In spite of the slowdown in GDP growth, jobs were created at a faster pace than in the previous three months and unemployment rates declined in all countries. However, labour markets weaknesses persisted, in particular for women and the youth. Strong domestic demand boosted tax revenues across the region, and the ratio of public debt to GDP came down in most countries compared to end-2018, but still high public debt levels remain a source of concern in general. In **Turkey**, the economy shrank by 2.3% y-o-y in the first quarter of 2019, as domestic demand did not recover from the August currency crisis, the ensuing tighter financial conditions, and the significant drop in economic confidence. The pass-through of the lira depreciation and entrenched inflation expectations keep annual inflation high. However, the ongoing economic rebalancing has led to a decrease in the inflation rate in the second quarter, while the 4-quarter rolling average current account deficit declined to a more than 15-year low in the first quarter.

Growth dynamics decelerated in most countries of the **Western Balkans** in the first quarter of 2019 compared to the previous three months. *Serbia's* output growth, still driven by strong domestic demand, eased to 2.5% y-o-y (from 3.4% in the previous quarter) mainly due to shrinking inventories. In *Albania*, economic growth decelerated as a result of a slowdown in investment and household consumption growth while in *Bosnia and Herzegovina* a softening of economic growth was mainly due to a further weakening of exports. *Montenegro*, recorded the strongest slowdown; annual GDP growth fell significantly to 3.0% down from 4.8% in the preceding quarter due to sluggish investment growth. Conversely, annual output growth accelerated slightly in both *North Macedonia* and *Kosovo* to 4.1% of GDP. In both cases, strong investment had a significant contribution to growth, as did buoyant public and private consumption in the case of *Kosovo*. Overall, in the first quarter of 2019, the **Western Balkan** region's real GDP increased by 2.7% y-o-y, down from an average growth rate of 3.4% in the preceding quarter (Chart 1). In **Turkey**, the economy remained in recession in the first quarter of 2019 as

GDP fell by 2.3% y-o-y due to shrinking domestic demand following the August 2018 currency crisis, while net trade contributed strongly to GDP growth.

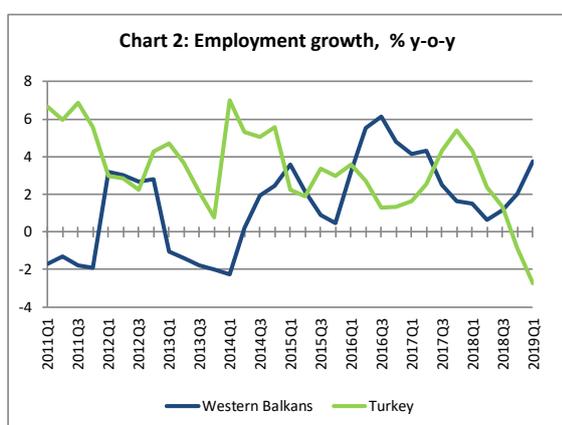


Source: Macrobond, Commission calculations

Economic growth has led to further increases in employment levels in most countries of the **Western Balkans**. In the first quarter of 2019, annual employment growth accelerated compared to the previous quarter in *Serbia* (where the rate of job growth more than doubled), *North Macedonia* and *Albania*. Conversely, the job growth rate slowed in *Montenegro* while *Kosovo* recorded a decline in the level of employment. Overall, the average job growth rate in the **Western Balkans** rose to 3.7% y-o-y from 2.0% in the

preceding quarter (Chart 2). Growing employment levels contributed to lower unemployment rates in all countries in the region. The decline was particularly significant in *North Macedonia* and *Serbia*.

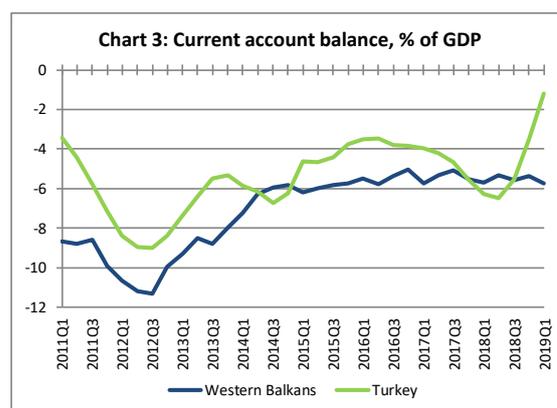
In *Turkey*, the labour market softened further in the first quarter of 2019 in line with a prolonged period of weak economic activity. A further contraction in employment by 2.7% y-o-y and the continued expansion of the labour force contributed to an increase in the unemployment rate to 14.8%.



Source: Macrobond, Commission calculations

Narrow production bases and competitiveness challenges result in very high merchandise trade deficits across the *Western Balkans*, ranging from around 14% of GDP for *Serbia* to 16% or above for *North Macedonia*, *Albania* and *Bosnia and Herzegovina* and to 44% or above for *Montenegro* and *Kosovo*. Merchandise trade deficits are only partially offset by surpluses in the services account and in current transfers, resulting in large foreign financing needs. In the first quarter of 2019, annualised current account deficits widened in all countries in the region. Overall, in the four quarters to March, the current account deficit in the *Western Balkans* stood at around 6% of GDP (Chart 3), still one of the lowest in many years. The deficits continued to be financed predominantly by net inflows of FDI.

In *Turkey*, the 12-month cumulative current account deficit declined further to 1.2% of GDP in April (down from 3.5% in 2018), the lowest level since January 2003. This was driven by both a continued fall in imports amid weak domestic demand and a favourable services export performance. On the financing side, direct investment and portfolio inflows strengthened, whereas other investment saw outflows. Official reserves decreased by USD 17 bn y-o-y in the first four months.



Source: Macrobond, Commission calculations

Despite stronger domestic demand and higher food prices, consumer price inflation remained moderate in the *Western Balkans*, allowing for continued monetary policy accommodation in countries with an independent monetary policy. In *North Macedonia* and *Montenegro*, annual CPI inflation decelerated in May to 1.4% and 0.6%, respectively compared to the previous month while in *Bosnia and Herzegovina* and *Kosovo* the headline price level remained unchanged. Regarding the inflation targets, annual CPI inflation in *Albania* remained far below the 3% target (at 1.5% in May) as the lek's appreciation moderated the recovery of the inflation rate. In *Serbia*, inflation was at 2.2%, within the target tolerance band of $3\% \pm 1.5\text{pps}$. The central bank of *Serbia* has maintained its key policy rate at 3.0% since its last reduction in April 2018 and increased its interventions on the foreign exchange market over May and June to halt the dinar's seasonal appreciation. The *Bank of Albania*

also continued its accommodative monetary policy stance by keeping the key policy rate at the historic low of 1.0% and adjusted its expectations for reaching the inflation target to 2021 instead of 2020. The central bank of *North Macedonia* has kept the coupon on its bills, which serves as its benchmark interest rate, unchanged since March at the historic low of 2.25%.

In *Turkey*, following significant volatility, the lira depreciated by 6% against the euro over the second quarter of 2019. The Monetary Policy Committee of the central bank decided to raise the effective policy rate to 24.5% in April and May before reducing it to just below 24% in June and July. Annual CPI inflation decreased in the second quarter of 2019 to 18.0%, down from 19.9% in the previous three months.

Bank lending accelerated in the first quarter of 2019, compared to the previous three months, in *Montenegro*, *North Macedonia*, *Kosovo* and *Serbia* as well as in *Albania* (when adjusted for exchange rate changes and loan write-offs). On the other hand, credit growth decelerated slightly in *Bosnia and Herzegovina*. In most countries across the region, household lending has been growing faster than corporate lending. Bank balance sheets improved further as in most *Western Balkan* countries the share of non-performing loans (NPLs) to total loans continued to fall. In the first quarter of 2019, the NPL ratio increased slightly in *Albania* at 11.4% albeit it was lower by 2.2 pps than a year before. In *Bosnia and Herzegovina* the NPL ratio stood at 8.5%, followed by *Serbia* (5.5%) and *Montenegro* (4.8% in May).

In *Turkey*, in the first four months of 2019, annual nominal credit growth decelerated substantially to 11.7% down from 19.7% in the previous year due to tight financing conditions and weak business and household confidence in the economy. For

the same period, the NPL ratio averaged 4.1% compared to 2.9% a year before.

In the first quarter of 2019, the economic dynamics supported the reduction of fiscal deficits in most countries in the *Western Balkan* region. However, with the exception of *Serbia*, this was also partly due to under-executing capital expenditure, which points to persistent weaknesses in the planning, selection and management of public investment across the region. In *Montenegro*, the general government deficit amounted to 1.5% of full-year GDP in the first quarter of 2019, higher than in the same period one year earlier, as the increase in revenues was offset by the growth of expenditure. In *North Macedonia*, higher social contributions and non-tax revenue combined with underspending on investment resulted in a budget shortfall of 0.7% of GDP in January-May. In the first quarter of 2019, *Kosovo* recorded a budget surplus of 0.4% of quarterly GDP due to a large drop in capital expenditure as well as increased tax and liquidation revenues. For the same period, in *Albania*, the budget posted a positive cash balance of 1.0% of GDP as capital expenditure lagged behind plan. In *Serbia*, the budget surplus accounted for 0.1% of GDP in the first four months, mainly due to strong revenue performance. Public debt levels remained very high in *Montenegro* (69.2% of GDP) and *Albania* (68.1% of GDP) and still elevated in *Serbia* (51.1% of GDP in April). In *Turkey*, in the first five months of 2019, weaker domestic demand together with the extension of tax exemptions on housing sales, cars and other durable goods resulted in an increase of the central government budget deficit to TL 63.5 bn compared to TL 10.3 bn in the same period one year before. General government debt reached 31.8% of GDP in the first quarter of 2019, compared to 31.1% at end-2018.

Candidate and potential candidate countries: Summary table

						ECFIN 2019 Spring forecast							
	2014	2015	2016	2017	2018	2019	2020	Q4 18	Q1 19	Q2 19	Apr 19	May 19	Jun 19
Gross domestic product (in real terms, annual % change)													
Albania	1.8	2.2	3.4	3.8	4.1	3.8	3.7	3.1	2.2	:	N.A.	N.A.	N.A.
North Macedonia	3.6	3.8	2.9	0.1	2.6	3.0	3.2	3.7	4.1	:	N.A.	N.A.	N.A.
Montenegro	1.8	3.4	2.9	4.7	4.9	2.9	3.1	4.8	3.0	:	N.A.	N.A.	N.A.
Serbia	-1.6	1.8	3.3	2.0	4.3	3.1	3.8	3.4	2.5	:	N.A.	N.A.	N.A.
Turkey	5.2	6.1	3.2	7.4	2.6	-2.3	3.9	-3.0	-2.6	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	0.7	4.1	3.4	3.4	3.0	:	:	3.2	2.3	:	N.A.	N.A.	N.A.
Kosovo	1.2	4.1	4.1	4.2	3.9	:	:	3.8	4.1	:	N.A.	N.A.	N.A.
Unemployment													
Albania	17.9	17.5	15.6	14.1	12.8	11.9	11.1	12.7	12.6	:	N.A.	N.A.	N.A.
North Macedonia	28.0	26.1	23.8	22.4	20.7	20.2	19.6	19.4	17.8	:	N.A.	N.A.	N.A.
Montenegro	18.2	17.8	18.0	16.4	15.5	14.8	15.0	16.4	15.2	:	N.A.	N.A.	N.A.
Serbia	19.2	17.7	15.3	13.5	12.7	11.0	9.0	12.9	12.1	:	N.A.	N.A.	N.A.
Turkey	10.1	10.5	11.1	11.1	11.2	13.7	13.3	12.7	14.8	:	:	:	:
Bosnia and Herzegovina	27.5	27.7	25.4	20.5	18.4	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	35.3	32.9	27.5	30.5	29.6	:	:	31.4	26.9	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)*													
Albania	-10.8	-8.6	-7.6	-7.5	-6.6	-6.7	-6.8	-6.6	-7.1	:	N.A.	N.A.	N.A.
North Macedonia	-0.5	-2.0	-3.1	-1.3	-0.3	-1.3	-2.0	-0.3	-0.5	:	N.A.	N.A.	N.A.
Montenegro	-12.4	-11.0	-16.2	-16.1	-17.2	-16.5	-14.6	-17.2	-17.3	:	N.A.	N.A.	N.A.
Serbia	-5.6	-4.4	-2.9	-5.2	-5.2	-6.3	-6.0	-5.2	-5.6	:	N.A.	N.A.	N.A.
Turkey	-4.7	-3.8	-3.8	-5.6	-3.5	1.2	-0.5	-3.5	-1.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-7.1	-5.1	-4.5	-4.5	-4.0	:	:	-4.0	-4.2	:	N.A.	N.A.	N.A.
Kosovo	-6.9	-8.6	-7.9	-6.1	-8.3	:	:	-8.3	-8.8	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.6	1.9	1.3	2.0	2.1	2.5	2.6	1.9	1.7	:	1.4	1.5	:
North Macedonia	-0.3	-0.3	-0.3	1.4	1.5	1.7	2.0	1.2	1.3	:	1.9	1.4	:
Montenegro (HICP)	-0.5	1.4	0.1	2.8	2.9	1.3	1.9	1.7	0.4	:	0.9	0.6	:
Serbia	2.1	1.4	1.1	3.1	2.0	2.5	2.7	2.0	2.4	:	3.0	2.2	:
Turkey	8.9	7.7	7.8	11.1	16.3	13.1	9.7	22.4	19.9	:	19.5	18.7	:
Bosnia and Herzegovina	-0.9	-1.0	-1.1	1.3	1.4	:	:	1.7	1.0	:	0.8	0.8	:
Kosovo	0.4	-0.5	0.3	1.5	1.1	:	:	2.2	3.2	:	3.4	3.4	N.A.
General government balance (% of GDP)													
Albania**	-5.2	-4.1	-1.8	-2.0	-1.6	-1.5	-1.4	7.1	-0.1	:	N.A.	N.A.	N.A.
North Macedonia***	-4.2	-3.5	-2.7	-2.7	-1.8	-3.0	-2.5	-2.6	-2.0	:	N.A.	N.A.	N.A.
Montenegro**	-2.9	-8.3	-3.6	-5.3	-3.8	-2.6	1.8	-3.1	-1.5	:	:	:	:
Serbia***	-6.2	-3.5	-1.2	1.1	0.6	-0.5	-0.5	-1.7	1.0	:	N.A.	N.A.	N.A.
Turkey***	0.2	0.6	-1.1	-2.8	-2.6	-3.0	-2.5	-0.8	-1.4	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina***	-2.0	0.6	1.2	2.5	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-2.2	-2.0	-1.2	-1.3	-2.8	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2019 published May 2019.

* 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 quarterly GDP.



Key developments

The annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place on 17 May. The jointly agreed country-specific recommendations call, among others, for an improved revenue mobilisation, sustainable tourism development and active labour market policies.

In June, the European Council postponed its decision on opening accession negotiations with Albania to October 2019.

On 30 June, local elections took place in a continuously tense political climate.

The Central Bank approved a regulatory package, which will improve risk management standards and strengthen licensing requirements for financial institutions in the context of Anti-Money Laundering and against Financing of Terrorism, following recent recommendations of MONEYVAL, the regional standard setting body.

Real sector

Albania's real GDP growth continued to decelerate from 3.1 % y-o-y in the last three months of 2018 to 2.2% in the first quarter of 2019. On the demand side, private consumption softened again but remained the strongest growing component in the first quarter (+2.25% y-o-y) while government consumption picked up slightly to 0.5 % y-o-y. Gross fixed capital formation grew at a slower pace than in the fourth quarter of 2018, by 1.8% y-o-y, dampening its growth contribution to 0.4 pp. Exports of goods and services almost stalled in real terms at 0.5% of growth. Services exports ended their short downward path as they picked up to 3% real growth and contributed 0.8 pps to GDP growth, pushed mainly by manufacturing and other services. In quarterly terms, exports slightly increased their share in GDP to 28.5%, but remained 1.5 pps below the level in the corresponding quarter of 2018. Import growth, in particular of services, decelerated slightly, from 2.6% to 2.5% y-o-y, bringing imports' share in GDP down by 1 pp to 41.6%, compared to the first quarter 2018. As in the last quarter of 2018, net exports subtracted from GDP growth, by 0.9 pps.

On the supply side, electricity and water production continued to drop as a result of the low rainfall. Electricity generation only reached a third of its high level of the previous year and, combined with weak mineral production, contributed to the shrinking industrial value added which declined by 5.8% in real terms despite moderate growth of 4.4% of the manufacturing industry. In contrast, services growth accelerated and diversified with information, communication, financial and real estate services becoming the main growth drivers in the first quarter.

The low electricity and mineral production also dampened exports of goods which only grew 3% despite growing exports of manufactured goods.

Labour market

The labour market showed positive results over the first quarter of 2019. Employment growth for the 15-64 age group picked up again, to 1.5% y-o-y from 1.4% in previous quarter. Job creation was strongest in industry and services while employment in agriculture continued to decline. The growth of youth employment growth (15-29) halved, from exceptionally high rates of 25% in the two preceding quarters to still solid 12.2% y-o-y. The youth unemployment rate thus continued to decline, by 2.3 pps y-o-y to a still rather high 22.2%. The overall unemployment rate for the 15-64 years old slightly declined to 12.6% in the first quarter of 2019 from 12.7% in the previous three months. The labour force participation rate continued on its upward trend and rose to 69.0 % compared to 68.0 % a year earlier. The gap between male and female labour force participation widened slightly from 16.3 pps in the last quarter of 2018 to 16.4 in the first three months of 2019 but compared to one year earlier the gap narrowed by 0.7 pps.

Nominal growth of average wages accelerated to 4.9% in January to March 2019 compared to 4.3% in the same period a year ago. In contrast to 2017 and early 2018, private sector wages were driving this increase by growing 4.9%, while public sector wages increased 2.7%. Services recorded the strongest wage increase (16.9%), while wages in the construction sector were the only ones to decrease (by 1.8%). The

lowest wages, about a quarter below the national average, were earned in agriculture.

External sector

The four-quarter moving average current account deficit widened from 6.6% of GDP in 2018-Q4 to 7.1% in the 2019-Q1, which mainly reflects a smaller secondary income surplus and a slightly negative primary income balance, which the small gains in the surplus of the services balance could not offset. The primary account balance turned slightly negative from a surplus of 0.25% of GDP to -1.0% of GDP due to a fall in government related investment income. The surplus of the secondary account continued to narrow, by 0.8 pps to 6.4% of GDP, as remittances inflows continued to decline. Net inflows of foreign direct investment fell 2.9% y-o-y, but picked up strongly from last quarter of 2018. In the year to the first quarter, FDI inflows kept their share of GDP at close to 8% and remained a major financing source of the current account deficit (covering about 110% of it). Gross external debt slightly increased in the first quarter, to EUR 8.4 billion, corresponding to some 66% of GDP. Although foreign exchange reserves were with EUR 3.35 billion slightly lower in the first quarter 2019 than at end-2018, in annual terms they increased strongly by 18.3% y-o-y and corresponded to close to 7 months of imports of goods and services.

Monetary developments

The exchange rate of the lek returned to its appreciative trend against the euro in the second quarter, strengthening by 2.1% compared to previous three months. The appreciation dampened the recovery of the inflation rate which picked up only slightly to 1.5% in May, in spite of the 3.1% increase in food prices. Producer prices in the first quarter did not reflect the strong increase in private sector wages and remained stable. The inflation rate thus remained well below the Central Bank's target of 3%, which adjusted its expectations for reaching the inflation target to 2021 instead of 2020. The central bank continued its accommodative monetary policy stance and kept the policy rate at the historic low of 1%. Monetary growth of M2 and M3 returned to positive rates in the first

quarter of 2019 and accelerated further to 2.8% and 3.7% (y-o-y) respectively in May.

Financial sector

The capital adequacy ratio in the banking sector remained stable at 18.1% in the first quarter. The ratio of non-performing loans to total loans increased slightly to 11.4% in the first quarter, but it was still 2.2 pps below its corresponding 2018 value.

Overall credit growth to the private sector continued its recovery, and adjusted for the impact of exchange rate movements and loan write-offs, it grew by almost 6% in annual terms in the first quarter. In particular, credit in lek, which grew 8.1% y-o-y, and lending to the private non-financial business sector, growing with 6.3%, continued to support credit growth. Lending to households continued to decelerate, to 4.3% in annual terms, mainly reflecting lower demand for consumer loans, while growth rates for housing loans remained largely stable. Credit standards for enterprises tightened slightly compared to the previous quarter, whereas standards for households continued to ease, in both cases related to changes in collateral requirements. Foreign currency deposits grew stronger than domestic currency deposits with 3.8% and 2.8% respectively.

Fiscal developments

The budget implementation over the first quarter of 2019 has resulted in a positive cash balance of 1% of GDP, mostly due to lower than planned capital spending. The budget plan foresees a deficit of 1.9% of GDP for 2019. Revenue from taxes and social contributions grew solidly (3.1%) compared to the same period in 2018, on account of increasing revenue from profit and personal income taxes and local governments' tax collection, whereas VAT revenue declined. Public expenditure grew by 3.7% compared to the same period in 2018, overall remaining slightly below the budget plan, but capital expenditure in particular remained almost 20% below its corresponding level of 2018. Public debt remained stable at 68.1% of GDP in the first quarter of 2019.

TABLE



European Commission, ECFIN-D-1

ALBANIA

							ECFIN 2019 Spring forecast							
		2014	2015	2016	2017	2018	2019	2020	Q4 18	Q1 19	Q2 19	Apr 19	May 19	Jun 19
1 Real sector														
Industrial confidence ^{1.1}	Percent	-6.9	-5.4	-3.7	1.5	-2.0	:	:	-1.3	-2.0	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann.%ch	3.0	-9.1	-19.6	8.4	9.7	:	:	12.9	5.8	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann.%ch	1.8	2.2	3.4	3.8	4.1	3.8	3.7	3.1	2.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	2.8	0.9	2.6	2.7	3.7	2.9	2.8	2.8	2.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	-4.5	3.5	2.4	5.5	2.9	3.2	3.8	2.2	1.8	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	5.0	19.4	5.1	19.6	5.6	:	:	8.1	2.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	11.8	12.6	3.3	-7.2	4.8	:	:	4.8	3.2	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	17.9	17.5	15.6	14.1	12.8	11.9	11.1	12.7	12.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	1.6	4.9	6.1	2.7	2.1	1.8	1.6	1.4	1.5	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	:	5.2	-0.8	3.0	3.3	:	:	3.4	4.9	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	4.3	-5.5	3.2	14.7	20.0	:	:	17.1	3.0	:	3.8	:	:
Imports of goods ^{3.2}	Ann.%ch	7.3	-1.5	7.7	11.3	8.8	:	:	8.7	7.6	:	13.0	:	:
Trade balance* ^{3.3}	%of GDP	-22.1	-22.3	-24.3	-24.3	-22.3	-22.4	-22.8	-22.3	-22.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	28.2	27.3	29.0	31.6	31.3	:	:	28.0	28.5	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	47.2	44.5	45.8	46.6	44.9	:	:	46.2	41.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-10.8	-8.6	-7.6	-7.5	-6.6	-6.7	-6.8	-6.6	-7.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	8.2	8.0	8.7	8.6	7.9	:	:	8.0	7.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,192.0	2,880.0	2,945.0	2,996.0	3,399.0	:	:	3,399.0	3,352.5	:	3,256.4	:	:
Int. reserves / months Imp ^{3.9}	Ratio	4.9	7.0	6.5	6.6	6.4	:	:	6.5	6.8	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann.%ch	1.6	1.9	1.3	2.0	2.1	2.5	2.6	1.9	1.7	:	1.4	1.5	:
Producer prices ^{4.2}	Ann.%ch	:	:	-1.5	2.8	1.6	:	:	0.5	-0.2	:	:	:	:
Food prices ^{4.3}	Ann.%ch	2.1	4.1	3.3	4.03	2.9	:	:	2.4	3.8	:	2.7	3.1	:
M2 ^{4.4}	Ann.%ch	4.2	0.1	1.9	0.3	-1.0	:	:	-0.6	1.6	:	2.4	2.8	:
Exchange rate LEK/EUR ^{4.5}	Value	140.1	137.3	135.2	133.0	123.4	:	:	123.4	125.3	122.7	124.3	123.0	122.0
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	%p.a.	3.10	2.87	1.13	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	%p.a.	3.45	2.77	2.05	2.07	2.20	:	:	2.05	:	:	1.82	1.76	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann.%ch	0.2	0.3	-0.7	-0.1	-1.7	:	:	-3.4	:	:	-0.1	1.7	:
Deposit growth ^{5.5}	Ann.%ch	1.5	1.9	1.1	1.0	-1.2	:	:	-1.1	:	:	2.1	2.7	:
Non performing loans ^{5.6}	%total	22.8	18.2	18.3	13.2	11.1	:	:	11.1	11.4	:	11.5	:	:
6 Fiscal developments														
General government balance** ^{6.1}	%of GDP	-5.2	-4.1	-1.8	-2.0	-1.6	-1.5	-1.4	7.1	-0.1	:	N.A.	N.A.	N.A.
General government debt* ^{6.2}	%of GDP	70.1	72.7	72.4	70.1	67.1	65.2	63.3	68.1	68.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2019 published May 2019

* Q figures refer to a 4 quarters moving average.

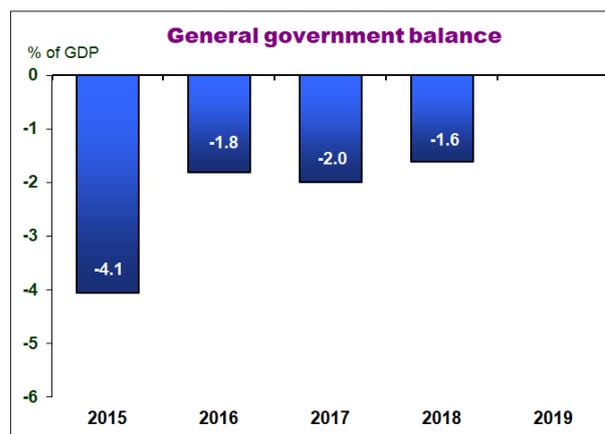
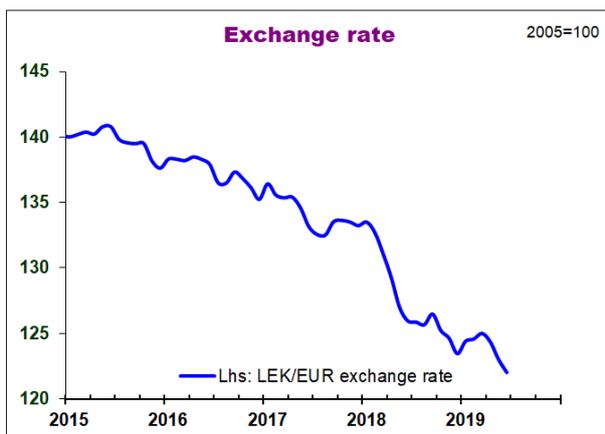
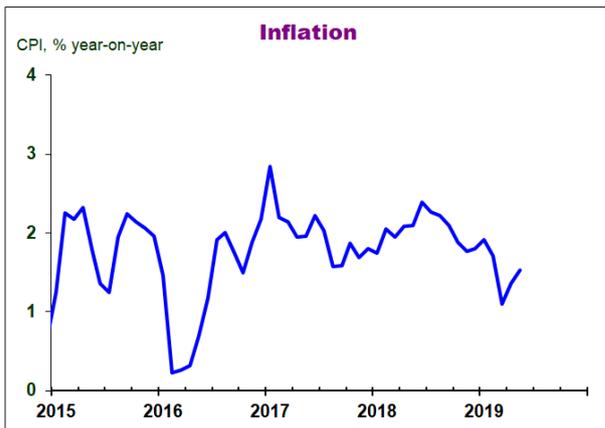
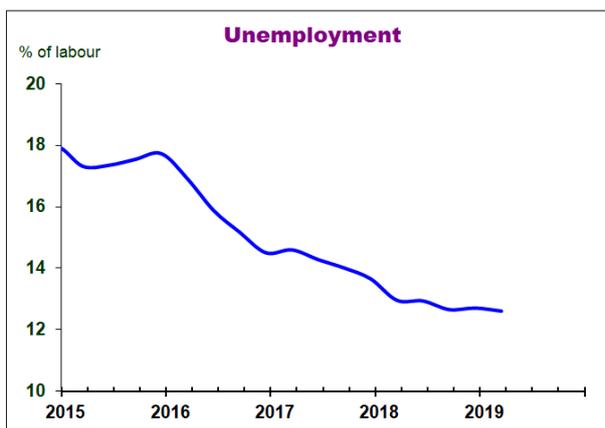
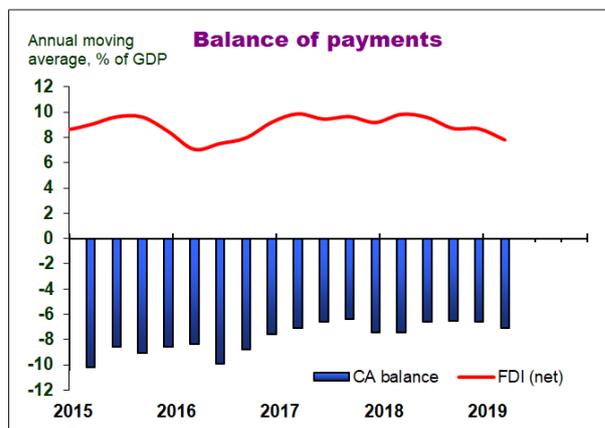
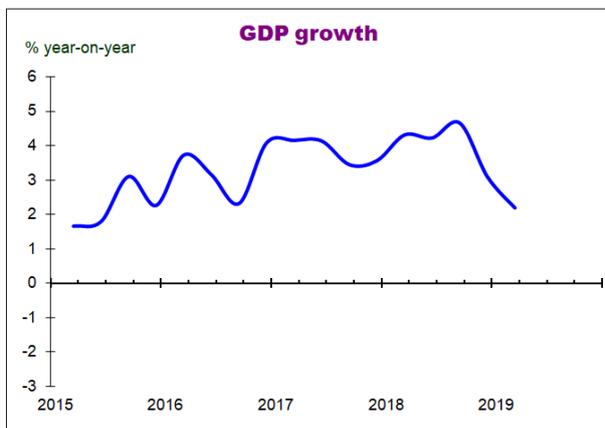
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





Key developments

On 17 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 reduce the general government debt ratio, broaden the tax base, decrease the public sector wage bill as a share of GDP, reinforce fiscal governance and reduce local governments' arrears.

On 16 May, following the approval by the Agency for Protection of Competition, the Central Bank of Montenegro approved the purchase of 90.6% capital share of the local unit of Societe Generale bank by Crnogorska Komercijalna Banka (CKB).

On 28 June, following the 2019 Article IV consultation, the IMF called on the Montenegrin government to reduce public debt, to eliminate tax exemptions and to focus public spending on education and healthcare, to reform the labour market, pension system and public administration, as well as to improve bank supervision.

Real sector

In the first quarter of 2019, GDP growth decelerated to 3.0% y-o-y, down from 4.5% a year before. The slowdown came largely on the back of sluggish investment growth (0.6% y-o-y, compared to a much faster 23.7% y-o-y expansion a year before). In spite of stagnating wages, private consumption has taken over as the main driver of economic growth, with a contribution of 4.5 pps, supported by growing employment and bank lending to households. Despite announcements of fiscal consolidation, government consumption grew by 1.8% y-o-y in the first quarter of the year, twice as fast as a year before. On the external side, both exports and imports decelerated during the first quarter of 2019, but the external deficit remained broadly unchanged, resulting in a negative contribution of net exports to growth.

Construction activity has remained robust in the first quarter with a nominal expansion of 12.3% y-o-y in terms of completed construction value. However, this represents a significant slowdown compared to growth rates of 46.8% registered a year before.

High frequency indicators for the second quarter present a mixed picture. Industrial production, which fell by 30% in the first quarter, continued declining through April (-40.9% y-o-y) and May (-13.4% y-o-y). The high volatility of industrial output is largely due to the uneven performance of two key industries: electricity and aluminium. The lower output of the former reflects a strong base effect following the commissioning of a new power plant one year ago, as well as unfavourable weather conditions for hydropower production.

On the other hand, the performance of retail trade remained buoyant in April and May, suggesting a continuation of strong private consumption.

Labour market

The Montenegrin labour market's performance improved in the first quarter of 2019 more than usual. The good performance of construction as well as sectors related to tourism, drove a 5.3% y-o-y increase of employment, adding 11,700 jobs overall. The activity rate reached 64.3% in the first quarter, up from 62.2% a year before. However, the activity rate of men remains (at 70.8%) significantly higher than that of women (57.8%). The unemployment rate declined to 15.2% from 16.5% a year before and 1,800 less unemployed were recorded. Long-term unemployment remains a major structural challenge, with 16.4% of workers unemployed for a period between 1 and 2 years, and 60.5% for more than 2 years.

Employment growth has not led to wage increases. In the first five months of 2019, gross wages declined by 0.1% y-o-y in real terms. Only a few sectors recorded growth, namely those related to tourism like retail trade, accommodation and food services, and transport. Real estate activities recorded the strongest growth in salaries, while contraction was registered in construction, mining and manufacturing wages.

External sector

In the four quarters to March 2019, the current account deficit totalled 17.3% of GDP, a similar level to the previous quarter (17.2% of GDP).

The deceleration of merchandise imports, driven by a moderation of investment activity, helped maintain the trade deficit at the level of 44.4% of GDP, despite a sharp slowdown in exports in the first quarter of 2019. Surpluses in the balances of services and secondary income increased in the first quarter of 2019 compared to one year ago. However, the surplus of the primary income balance declined noticeably (by 20% y-o-y) during the same period. Net FDI inflows accounted for 7.6% of GDP in the four quarters to March 2019, up from 7.0% of GDP in 2018. However, net FDI covered less than half (43.9%) of the external deficit.

Foreign exchange reserves were 0.5% lower y-o-y in May. Their level was equivalent to 4.1 months of merchandise imports.

Monetary developments

Stagnating nominal wages, slower growth in oil prices and a high base effect from last year are keeping a lid on inflation. Inflation slowed down to 0.6% y-o-y in May from 0.9% y-o-y in the previous month. Meanwhile, transport prices growth eased in May, with a minimal (0.05 pps) impact on overall inflation. Moreover, the decline of alcohol and tobacco prices had a marked disinflationary effect too, combined with the expiration of the 2018 VAT rate hike effect.

Financial sector

Aggregate commercial bank data was affected by the bankruptcy of Atlas banka. On 5 April, the Central Bank of Montenegro launched the bankruptcy proceedings for this small locally owned bank. Consequently, the deposits as well as the loan portfolio of Atlas banka (accounting for 5.5% of the banking systems' deposits and 4.6% of loans) were excluded from the aggregate count. This contributed to a deceleration of total bank lending to 1.5% y-o-y in May, in sharp contrast to strong 10.2% y-o-y expansion in the first quarter of 2019. The deceleration has been particularly noticeable for interbank lending, contracting by 29% y-o-y in May, and to a lesser extent for corporate lending, easing to 1.4% y-o-y in May (compared to 6.3% expansion in the first quarter). On the other hand, lending to households has proved more resilient, increasing by 9.2% y-o-y in May,

albeit decelerating from the 12.4% y-o-y expansion in the first quarter.

For the first time since February 2012, bank deposits contracted, declining by 1.8% y-o-y in May. The largest decrease was recorded in corporate sector's deposits, and in particular state-owned companies, as the electric power company finances large overhaul works with its own funds. Households reduced its savings by 1.6% y-o-y in May, easing from 2.8% y-o-y reduction in April. In contrast, non-residents (which account for 25% of total bank deposits) increased their savings 13.4% y-o-y.

In spite of the temporary impact on loans and deposits, the removal of two small troubled banks helped reinforce the overall strength of the financial system. At present, the sector is adequately capitalised and liquid, with the ratio of non-performing loans at 4.8% in May, compared to 7.1% a year before.

Fiscal developments

The first quarter of 2019 witnessed a strong increase of the budget, with both revenue and expenditure rising by 14.2% over the year. As a result, the general government deficit in the first three months widened to 1.5% of full-year GDP, up from 1.3% a year ago. Growing employment and private consumption boosted VAT revenue by 16.4% y-o-y, as well as personal income tax and social security proceeds, each one rising by almost 5% y-o-y. However, budget expenditure also kept growing fast, driven by rising capital expenditure (although still performing 40% below the plan), as well as transfers to institutions, repayment of past years' liabilities, and a 4.9% y-o-y increase of the wage bill. Local governments' budget recorded a broadly balanced budget, with a marginal surplus of 0.02% of GDP.

In the first quarter of 2019, general government gross debt declined by one percentage point to 69.2% of GDP, reflecting the decrease in domestic debt to 7.9% of GDP, down from 8.5% in the previous quarter. In addition, government deposits also declined, totalling 5.3% of GDP at the end of March, compared to 6.0% three months earlier. Local governments' debt is estimated at additional 2.8% of GDP.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

							ECFIN 2019 Spring forecast							
		2014	2015	2016	2017	2018	2019	2020	Q4 18	Q1 19	Q2 19	Apr 19	May 19	Jun 19
1 Real sector														
Industrial confidence ^{1.1}	Balance	11.1	9.8	3.0	4.5	5.5	:	:	-0.8	1.1	:	:	:	:
Industrial production ^{1.2}	Ann. %ch	-10.5	7.9	-2.1	-4.3	23.6	:	:	17.6	-29.7	:	-40.9	-13.4	:
Gross domestic product ^{1.3}	Ann. %ch	1.8	3.4	2.9	4.7	4.9	2.9	3.1	4.8	3.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	2.9	2.2	5.4	3.9	4.5	2.3	2.1	4.7	5.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-2.5	11.9	38.4	18.7	14.8	1.3	2.4	0.0	0.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	2.0	5.8	31.5	51.5	24.9	:	:	12.4	12.3	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	2.4	4.2	4.0	5.2	4.8	:	:	5.5	6.1	:	6.8	5.8	:
2 Labour market														
Unemployment ^{2.1}	%	18.2	17.8	18.0	16.4	15.5	14.8	15.0	16.4	15.2	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	6.6	1.9	1.1	2.1	3.2	1.4	1.2	7.2	5.3	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	-0.3	0.2	3.5	2.0	0.1	0.9	2.4	0.1	0.6	:	0.3	0.3	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	-9.7	-7.6	6.2	8.3	14.7	:	:	18.5	1.7	:	-10.7	-0.7	:
Imports of goods ^{3.2}	Ann. %ch	0.6	3.5	12.0	11.6	10.9	:	:	6.5	4.4	:	9.4	-0.5	:
Trade balance* ^{3.3}	%of GDP	-39.8	-40.1	-41.9	-43.3	-44.4	-44.5	-43.2	-44.4	-44.4	:	-46.0	-45.9	:
Exports goods and services ^{3.4}	%of GDP	40.1	42.1	40.6	41.1	43.2	:	:	30.4	31.5	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	60.0	60.6	63.1	64.5	67.4	:	:	72.3	75.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-12.4	-11.0	-16.2	-16.1	-17.2	-16.5	-14.6	-17.2	-17.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	10.2	16.9	9.4	11.3	7.0	:	:	7.0	7.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	544.7	673.7	803.0	897.7	1100.9	:	:	1100.9	1017.7	:	1008.0	891.8	:
Int. reserves / months Imp ^{3.9}	Ratio	3.7	4.4	4.7	4.7	5.2	:	:	5.2	4.7	:	4.7	4.1	:
4 Monetary developments														
HICP ^{4.1}	Ann. %ch	-0.5	1.4	0.1	2.8	2.9	1.3	1.9	1.7	0.4	:	0.9	0.6	:
Producer prices ^{4.2}	Ann. %ch	0.2	0.3	-0.1	0.4	1.7	:	:	2.7	1.5	:	3.3	1.9	:
Food prices ^{4.3}	Ann. %ch	-1.4	3.0	-0.9	1.9	0.6	:	:	1.3	3.4	:	4.7	4.6	:
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	:	:	:	:
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.	1.60	:	:	2.35	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	%p.a.	1.26	0.50	1.58	1.71	0.47	:	:	:	0.54	:	:	:	:
Stock markets ^{5.3}	Index	10,695	11,956	11,115	10,952	10,390	:	:	10,745	10,604	:	10,692	10,724	:
Credit growth ^{5.4}	Ann. %ch	-1.9	0.8	1.3	11.8	8.5	:	:	8.5	10.2	:	4.3	1.5	:
Deposit growth ^{5.5}	Ann. %ch	10.0	13.7	9.4	13.8	5.9	:	:	5.9	6.0	:	1.0	-1.8	:
Non-performing loans ^{5.6}	%of total	16.8	13.4	10.3	7.3	6.9	:	:	6.9	5.9	:	4.7	4.8	:
6 Fiscal developments														
General government balance** ^{6.1}	%of GDP	-2.9	-8.3	-3.6	-5.3	-3.8	-2.6	1.8	-3.1	-1.5	:	:	:	:
General government debt*** ^{6.2}	%of GDP	58.7	65.2	63.4	63.3	70.8	68.4	64.5	62.2	61.1	:	:	:	:

f: ECFIN forecast Spring 2019 published May 2019

* Q figures refer to a 4 quarters moving average.

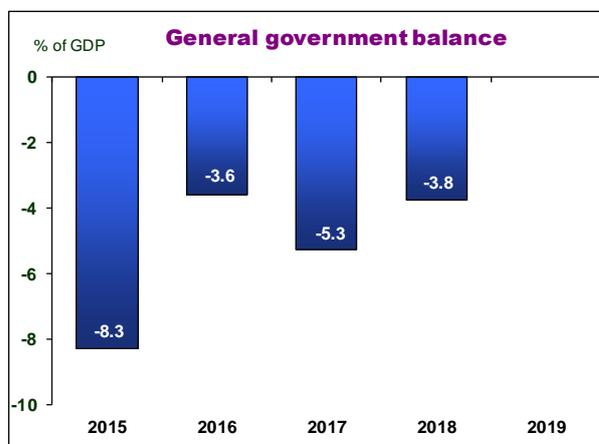
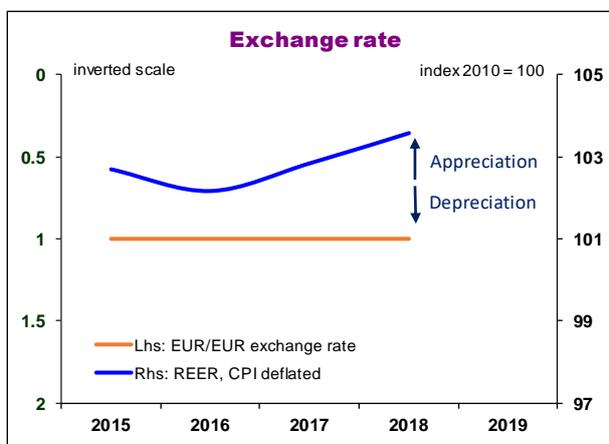
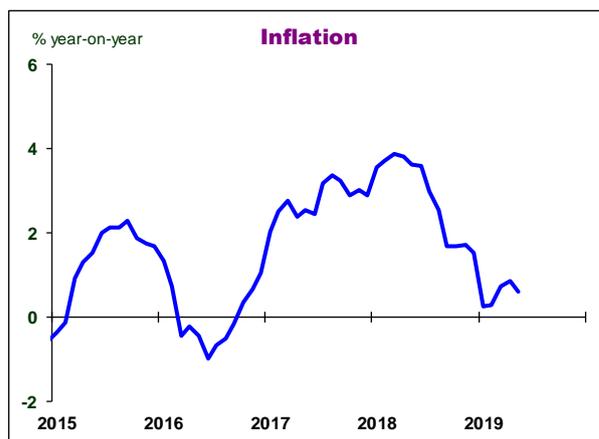
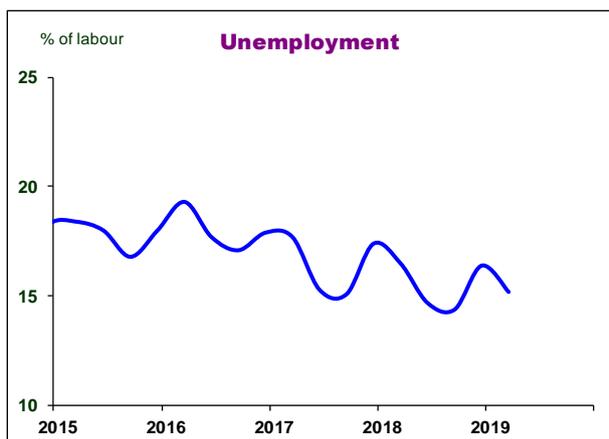
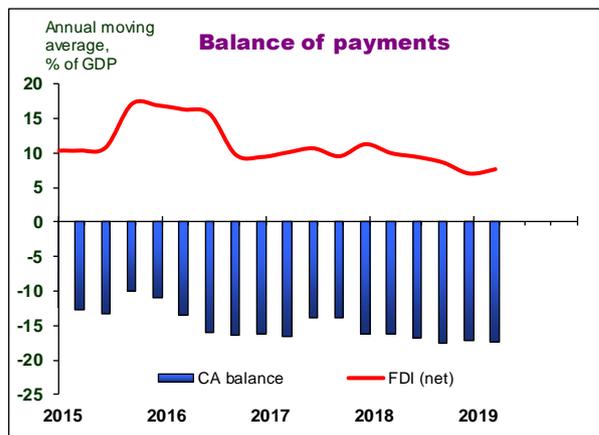
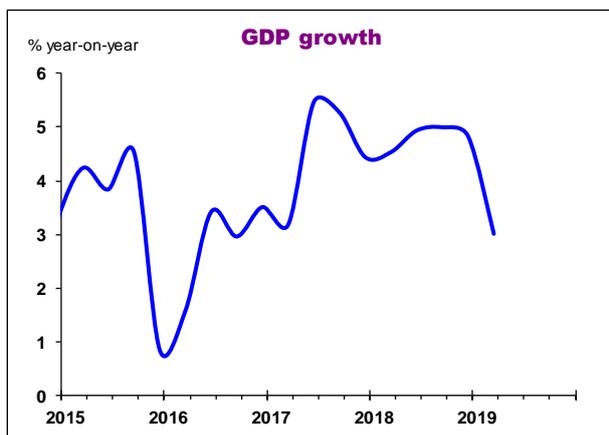
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

*** Q figures refer to central government debt only.

CHARTS



MONTENEGRO



NORTH MACEDONIA



Key developments

On 17 May, the annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place. In the jointly agreed conclusions, the country is invited, inter alia, to aim for a balanced primary budget to underpin debt stabilisation; to improve the transparency of public enterprises' finances; to operationalise denarisation and non-performing loan resolution strategies; to improve business inspections procedures; and to implement measures for formalising the informal economy.

On 14 June, Fitch Ratings upgraded the country's debt rating – for the first time in 13 years – to BB+, from “BB with stable outlook”, on account of improved governance standards and structural reform implementation. The rating agency projects an acceleration of GDP growth to 3.4% in 2019, and further to 3.6% in 2020.

Real sector

The recovery of the economy continued in the first quarter, at an even stronger pace than in the three preceding months. Real GDP increased by 4.1% y-o-y, from 3.7% in the previous quarter. Investment growth firmed up to 9.9% y-o-y, compared to 1.6% in the preceding quarter, incorporating a base effect due to the steep drop in early 2018. On the other hand, private consumption growth slowed to 2.6% y-o-y (-2pps compared to the previous quarter), and public consumption remained stagnant. The deceleration in export growth, by 6.1pps compared to the fourth quarter, to 15.6% y-o-y, was much stronger than the decline in the growth of imports (-3.1pps to 14.4% y-o-y). Overall, the external side did not make a contribution to GDP growth. Both manufacturing and construction posted annual gains in the first three months, though weaker than in the preceding quarter.

High-frequency indicators for the second quarter convey a mixed picture, in particular for investment activity. The industrial production index increased by an average of 3.4%, however, with a marked deceleration in May

(+1.2%) compared to April (+5.5%). This came mainly on account of a decline, in annual terms, in the manufacturing subindex in May. Capital goods production, too, declined in May, compared to one year earlier, according to the index. The construction sector flagged in April, with issued building permits dropping by 3.6% y-o-y, wiping out some of the recovery of the past 3 quarters.

The slowdown in retail sales growth (except of motor vehicles and motorcycles) continued in April and May (+4.8% y-o-y on average, down from 6.5% in the first quarter and 8% in the last three months of 2018). Retail sales have been rising, in real terms, for 17 consecutive months.

Labour market

Labour market conditions improved further, with positive developments also in some of the vulnerable cohorts of the working age population and in participation rates. According to the Labour Force Survey, the labour force expanded only slightly compared to one year earlier, by 0.6%, on account of a further rise in the female workforce (+1.6% y-o-y), overcompensating for the decline in the male labour force. Overall labour market participation amounted to 57.1%, marginally higher than one year earlier (+0.2pps). Annual employment growth accelerated further, to 5.3%, compared to 3.6% y-o-y in the preceding quarter. The employment rate increased by 2.3pps to 46.9%. The unemployment rate (total over 15 years age group) dropped by 3.8pps to 17.8%. There was also a considerable drop in the youth unemployment rate (-7.3pps y-o-y to 37%).

Net wages continued to rise in the first four months, yet at a lesser pace than in the same period one year earlier. In gross terms, the increase slowed down to 3.4% y-o-y (-1.7pps). This translated into 2% real growth. In 2018, real net wages increased by an average of 4.4%.

External sector

The 4-quarter moving average of the current account deficit narrowed in the first quarter,

compared to the same period one year earlier, by 0.8pps to 0.5% of GDP. This came as a result of an improvement in the merchandise trade balance by 1.7pps to 16.1% of GDP, as well as in the primary balance, and in spite of a decrease in the services surplus. Private transfer income also dropped somewhat, in terms of GDP, and covered only some 70% of the merchandise trade deficit.

Net FDI inflows, at 3.7% of GDP, remained far below their level of the preceding quarter, yet they more than covered the current account deficit in the four quarters to March. Gross external debt, excluding central bank transactions, stood at 71% of projected full-year GDP at the end of March. This was lower by 3pps compared to one year earlier, but above the level of three months earlier. The quarterly rise came on the back of increased public enterprise borrowing abroad, with some contribution from a rise in foreign liabilities of the private sector. At the end of May, the central bank's foreign currency reserves were marginally higher compared to the end of the year, and some 10.8% above the level of one year earlier. They covered some 5 months of prospective imports.

Monetary developments

Consumer price inflation remained moderate throughout the first five months of the year (1.4% on average), and even slightly below its level in the same period one year earlier. Some price pressures arose from food prices, accounting for 35.5% of the index, and, in May, from car fuel. Electricity and transport prices remained flat on average in the year to May, in annual comparison.

Annual growth of broad money (M4) increased to 11.7% in the first quarter and accelerated further to 12% on average in April and May. The rise was accounted for by all components (currency in circulation, demand deposits and short-term deposits). The central bank has kept the key interest rate, the CB bills rate, at the historic low of 2.25% since March.

Financial sector

Credit growth to the private sector picked up further in the first five months, to 8.5% y-o-y on average. Corporate loan growth, in particular, increased markedly, to an average of 7.3% y-o-y (compared to 2.7% in the same period one year earlier), while household loans continued to account for the largest share of the total increase (+9.6% rise y-o-y).

The spread between Denar loans (-10bps to 5.8%) and deposits (-10bps to 1.9%) remained unchanged between February and May. Rates on foreign currency loans dropped by 10 bps to 4.1%, and remained unchanged for deposits, at 0.8%, hence narrowing banks' spreads. Underpinned by the central bank's measures to decrease the "euroisation" of banks' balance sheets, the share of foreign-currency denominated loans in total loans dropped by 1.3pps y-o-y in the fourth quarter to 41.5% at end-March.

The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients rising only slightly, by 0.4pps, compared to one year earlier, to 86.8%. Capital adequacy of the banking sector remained robust, with the ratio of regulatory capital to risk-weighted assets at 17%, above its level of the preceding quarter (16.5%) and of one year earlier (16.4%). However, the profitability of banks dropped by almost 50% in the first quarter, in annual comparison, mainly as a result of lower net interest income of the five biggest banks. The ratio of non-performing to total loans (financial and non-financial sector) rose by 0.2pps y-o-y, to 5.1%.

Fiscal developments

In January to May, public revenue increased by 6.5% y-o-y, mainly on account of higher social contributions and non-tax revenue. Expenditure rose by 6.9%. This brought the general government deficit to 0.7% of projected full-year GDP, which is less than a third of the full-year target (2.5%). Current expenditure was higher by 7% y-o-y in the first five months, mainly on account of a rise in social spending (+9%). Capital expenditure remained starkly behind target (13.8% of full-year budget). It was only marginally above the level of the same period one year earlier, when implementation was exceptionally low. However, these figures do not include the significant capital expenditure and financing of the Public Enterprise for State Roads, which remains off-budget.

At the end of the first quarter, general government debt stood at 38.2% of projected full-year GDP, lower than at end-2018 (40.5% of estimated 2018 GDP). This drove the decrease in public debt levels, by 2.4pps to 46.1%, with the level of government-guaranteed debt of state-owned enterprises largely stagnant at around 8% of GDP.

TABLE



European Commission, ECFIN-D-1

North Macedonia

		2014	2015	2016	2017	2018	ECFIN 2019 Spring forecast		Q4 18	Q1 19	Q2 19	Apr 19	May 19	Jun 19
							2019	2020						
1 Real sector														
Industrial confidence ^{1.1}	Balance	11.4	17.5	24.0	25.6	28.8	:	:	30.2	30.7	:	31.8	:	:
Industrial production ^{1.2}	Ann. % ch	4.8	4.9	3.9	0.2	5.4	:	:	6.4	8.9	:	5.5	1.2	:
Gross domestic product ^{1.3}	Ann. % ch	3.6	3.8	2.9	0.1	2.6	3.0	3.2	3.7	4.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.2	4.4	3.1	0.7	2.9	2.9	3.0	4.6	2.6	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	10.7	8.3	13.3	-0.2	-7.2	7.5	9.0	6.0	26.9	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	2.3	8.6	12.3	-13.3	2.7	:	:	21.6	10.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	4.2	4.5	9.3	-1.9	7.4	:	:	8.0	6.5	:	4.1	5.4	:
2 Labour market														
Unemployment ^{2.1}	%	28.0	26.1	23.8	22.4	20.7	20.2	19.6	19.4	17.8	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.7	2.3	2.5	2.4	2.5	2.4	2.3	3.6	5.3	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	1.0	2.7	2.0	2.6	5.8	2.2	2.5	6.6	:	:	4.8	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	17.0	9.4	11.5	19.8	20.1	:	:	27.6	17.6	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	9.4	5.0	7.8	11.8	12.9	:	:	16.7	12.9	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-21.7	-20.1	-19.2	-18.0	-16.2	-17.6	-19.3	-16.2	-16.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	47.7	48.7	50.3	55.4	60.3	:	:	60.3	61.5	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	64.9	65.0	65.2	69.2	72.9	:	:	72.9	74.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-0.5	-2.0	-3.1	-1.3	-0.3	-1.3	-2.0	-0.3	-0.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.3	2.2	3.7	2.3	5.8	:	:	5.8	3.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,436.5	2,261.8	2,613.4	2,335.3	2,867.1	:	:	2,867.1	2,866.4	:	2,874.4	2,901.4	:
Int. reserves / months Imp ^{3.9}	Ratio	6.3	5.6	6.0	4.8	5.2	:	:	5.2	5.0	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	-0.3	-0.3	-0.3	1.4	1.5	1.7	2.0	1.2	1.3	:	1.9	1.4	:
Producer prices ^{4.2}	Ann. % ch	-1.2	-4.1	-0.1	0.4	-0.3	:	:	-0.8	-0.2	:	1.2	0.6	:
Food prices ^{4.3}	Ann. % ch	-1.0	0.1	-1.3	0.2	0.8	:	:	0.5	2.4	:	3.2	2.3	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	10.6	6.9	6.2	5.1	11.8	:	:	11.8	11.7	:	13.3	10.6	:
Exchange rate MKD/EUR ^{4.5}	Value	61.62	61.61	61.60	61.57	61.51	:	:	61.49	61.53	61.50	61.50	61.49	61.50
Nominal eff. exchange rate ^{4.6}	Index	101.8	99.2	100.5	101.4	103.3	:	:	103.6	103.0	:	102.9	103.2	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	3.08	1.92	1.96	1.78	1.54	:	:	1.48	1.46	:	1.46	1.46	:
Bond yield ^{5.2}	% p.a.	7.77	7.46	7.02	6.61	6.11	:	:	5.90	5.75	:	5.69	:	:
Stock markets ^{5.3}	Index	1,736	1,731	1,887	2,406	3,154	:	:	3,484	3,637	3,752	3,653	3,793	3,810
Credit Growth ^{5.4}	Ann. % ch	8.6	9.1	4.0	2.5	6.7	:	:	7.8	8.3	:	8.9	8.3	:
Deposit growth ^{5.5}	Ann. % ch	5.8	7.6	4.4	5.3	8.9	:	:	9.9	9.3	:	11.8	8.8	:
Non-performing loans ^{5.6}	% total	11.6	10.3	6.3	6.1	5.0	:	:	5.1	5.1	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-4.2	-3.5	-2.7	-2.7	-1.8	-3.0	-2.5	-2.6	-2.0	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	38.1	38.1	39.6	39.3	:	43.2	44.0	40.5	38.2	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2019 published May 2019

* Q figures refer to a 4 quarters moving average.

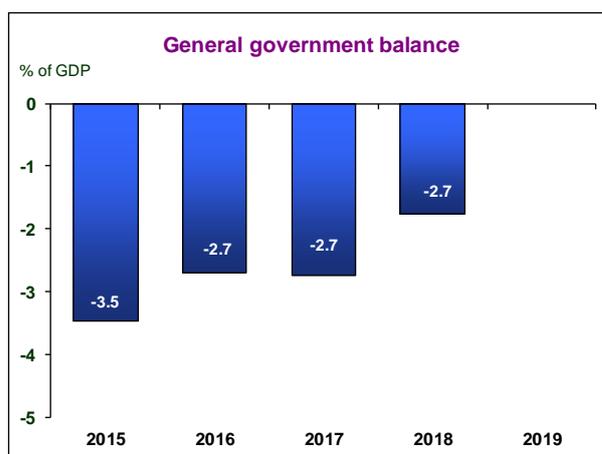
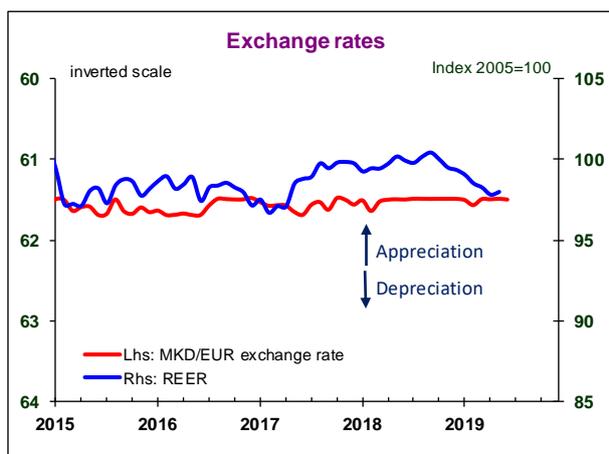
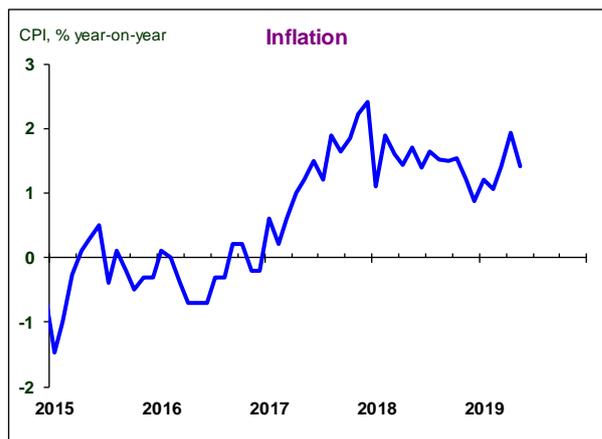
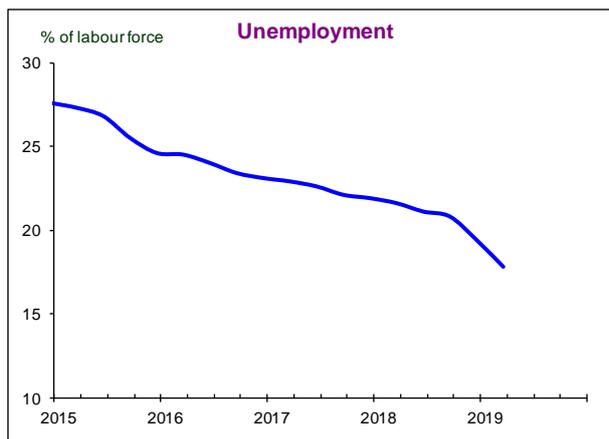
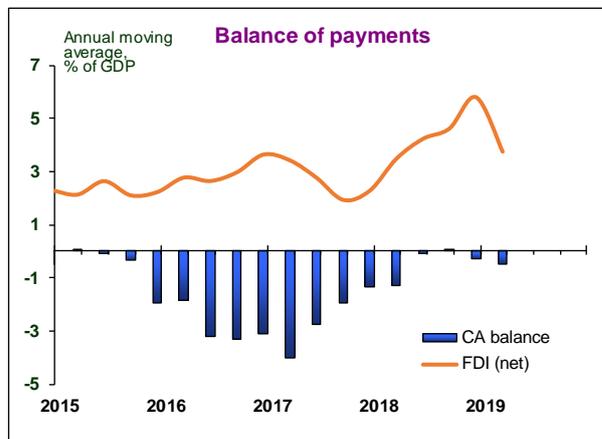
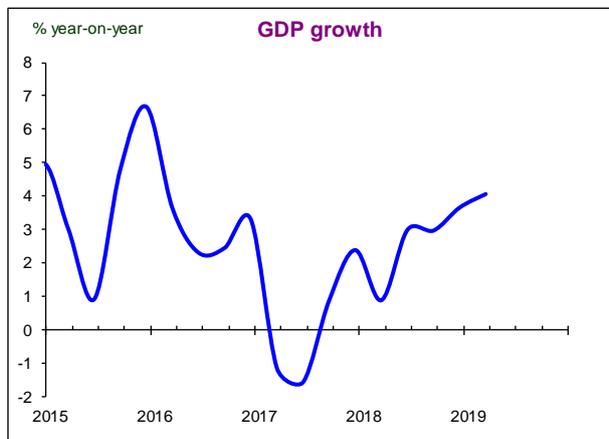
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



North Macedonia



SERBIA



Key developments

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, took place on 17 May and invited Serbia, inter alia, to maintain the identified medium-term budgetary objective close to balance, strengthen the fiscal responsibility framework by improving the system of fiscal rules, increase government capital spending as a share of GDP, and finalise unbundling of state-owned energy enterprises as well as the privatisation and restructuring process of the remaining state-owned banks.

In June, Serbia opened one more EU accession negotiation chapter – chapter 9 on financial services. With that, 17 out of 35 negotiation chapters have been opened so far since the start of negotiations, of which two have been provisionally closed.

In May, an IMF staff mission visited Belgrade to conduct Article IV consultations. It also reached staff-level agreement on policies needed to complete the second review under the Policy Coordination Instrument. The mission concluded that the programme remains broadly on-track and advocated to use the available fiscal space for capital spending.

In June, the Financial Action Task Force (FATF) welcomed Serbia's significant progress in improving its regime for anti-money laundering and countering financing of terrorism (AML/CFT) and noted that Serbia has addressed the strategic deficiencies that the FATF had identified in February 2018. As a result, FATF removed Serbia from the list of countries monitored under its global AML/CFT compliance process.

Real sector

In the first quarter of 2019, economic growth decelerated to 2.5 % y-o-y from 3.4 % in Q4 2018. This slowdown was largely driven by contracting inventories, which trimmed 0.8pps from growth. However, household consumption remained robust, growing for six quarters in a row at a steady rate of around 3 % y-o-y. Government consumption also had a positive contribution to growth, uninterrupted for the last three years. After a dip in Q4 2018, the growth of gross fixed capital formation picked up again in Q1 2019 (+8.4 %). Past investments in

tradable sectors supported further growth in exports (9.3 % y-o-y), despite subdued external demand from major trade partners in the EU. Strong domestic demand kept imports growth elevated at 9.4 % y-o-y and net exports' contribution to growth remained negative. On the supply side, agriculture contracted in the first quarter (-3.1 % y-o-y), mainly due to base effects. Industry performance also disappointed (-1.6 % y-o-y), remaining in decline since the second half of 2018. The other sectors of the economy, with the exception of real estate activities, which stagnated, expanded at a robust pace. This was visible in particular in the sectors of construction (12.3 % y-o-y), information and communication (4.9 % y-o-y) and wholesale and retail trade, transportation and storage, and accommodation and food service activities (5.8 % y-o-y).

Short-term indicators confirm a continuation of the same pattern of growth in the second quarter. Retail trade remained strong, growing by a real 6.7% in April and 5.9 % y-o-y in May. Industrial production fell in April and May (-0.8 % and -0.6 % y-o-y) as manufacturing performance remained subpar. Around half of the manufacturing sectors were still in negative territory, although manufacturing exports accelerated in April-May. In this period, mining and quarrying managed to recover some of the losses from the beginning of the year, largely due to expanding coal and lignite mining.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and over stood at 12.1 % in the first quarter of 2019 and was down 2.7 pps y-o-y. Despite a shrinking and aging population, the labour force increased by 1.3 % y-o-y over the same period. Notably, inactive population declined by 2.6 % y-o-y and more people joined the labour market as investment and wages increased. Total employment growth accelerated to 4.5 % y-o-y in the first quarter, more than double the rate in the previous quarter. Employment gains were entirely in the formal sector, which expanded 6.4 % y-o-y, while informal employment declined 3.6 % y-o-y. Although informality fell both in agriculture and in the other sectors, the rate of informal employment remained elevated at 17.1 %.

Registered employment continued to increase as well. In the first quarter, it was up 2.7 % y-o-y, an increase mostly driven by the manufacturing and construction sectors. In April, the National Employment Service data on registered unemployment reported a decline in the number of registered jobseekers by 9.4 % y-o-y. Real net wages continued growing steadily, by 8 % y-o-y in April and 7.1 % y-o-y in the period January-April.

External sector

In the first quarter of 2019, the current account deficit increased 29.3 % y-o-y in euro terms. It stood at 5.6 % of GDP in the four quarters to March, compared to 5.2% of GDP in full-year 2018. The merchandise trade deficit expanded 16.3 % y-o-y, while primary income deficit was up 4.9 y-o-y. The surplus on the secondary income account remained unchanged over the corresponding period last year, with workers' remittances consistently making up more than half of it. Although the balance on trade in services was also broadly unchanged, the export of telecommunications, computer, and information services increased by close to 30 % y-o-y, surpassing exports of transport and travel services. The current account deficit was largely financed by net FDI inflows, which increased 11.4 % y-o-y in the first quarter.

According to statistical office data, external trade remained vibrant in April and May. Monthly exports of goods grew 8.0 % and 11.6 % y-o-y in euro terms, bringing cumulative exports growth by end-May to 8.3 % y-o-y. Over the same period, imports growth stood at 10.8 % y-o-y and the merchandise deficit reached €2.5 billion, up 18.8 % y-o-y.

Monetary developments

In May, inflation stood at 2.2% y-o-y, remaining below the mid-point of the central bank target of 3%±1.5pps. After peaking in April at 15.2% y-o-y, unprocessed food inflation decelerated to 7.1% in May, driving the overall inflation slowdown. Nevertheless, on the back of robust domestic demand, which supported higher prices of industrial goods and services, core inflation (excluding energy, food, alcohol and tobacco) crawled slightly up, reaching 1.5% y-o-y in May. In view of the low inflationary pressures and stable expectations, the central bank has kept its key policy rate unchanged at 3.0%, since its last change more than a year ago.

Countering seasonally intensified appreciation pressures in late May and in particular in June, the central bank increased its interventions buying euros on the foreign exchange market. However, since the beginning of the year until May these interventions were less than half of their level during the corresponding period a year earlier. Nevertheless, they have been instrumental in keeping the dinar exchange rate at around RSD/EUR 118. The NBS foreign exchange reserves increased by €394 million since the end of 2018 and stood at €11.7 billion in May, covering more than five months' worth of imports of goods and services.

Financial sector

In May, domestic claims of the banking sector increased by 4.8 % y-o-y. The expansion of credit to the non-government sector continued unabated, with total loans up by 9.3 % y-o-y. Banks have kept their focus on households lending, which grew at a steady pace of 10.9 % y-o-y. Its stock approached that of the outstanding company lending, which also increased but at a slower pace (6.3 % y-o-y). Net claims on government fell 28.3 % y-o-y, mostly due to rising government deposits (18.0 % y-o-y). At the end of the first quarter, the gross non-performing loan ratio fell to 5.5 %, down from 5.7 % at the end of 2018. Capital adequacy and return on equity of the banking sector remained high at 23.7 % and 9.7 %, respectively.

Fiscal developments

Stable domestic demand helped sustain the good budget performance in the first four months of the year. By end-April, the general government budget was in surplus of RSD 7.7 billion (0.1 % of the estimated annual GDP). Revenue collection remained strong (+10.5 % y-o-y), with double-digit growth in income and value added tax revenues. In January-April, total expenditure increased 10.5 % y-o-y, buoyed by higher spending on goods and services (10 % y-o-y), pensions (8.8 %), and capital expenditures (43.6 %). In April, government debt stood at 51.1 % of the estimated full-year GDP, down from 53.8 % at end-2018.

In June, taking advantage of its improved economic and fiscal performance, Serbia returned on the international capital markets, issuing a €1 billion 10-year Eurobond at a yield of 1.6 %. The proceeds were used to repurchase USD-denominated bonds maturing in 2020 and 2021.

TABLE

European Commission, ECFIN-D-1



SERBIA

							ECFIN 2019 Spring forecast							
		2014	2015	2016	2017	2018	2019	2020	Q4 18	Q1 19	Q2 19	Apr 19	May 19	Jun 19
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	-6.1	8.4	4.8	3.4	1.5	:	:	-1.4	-2.0	:	-0.8	-0.6	:
Gross domestic product ^{1.3}	Ann. % ch	-1.6	1.8	3.3	2.0	4.3	3.1	3.8	3.4	2.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	-0.1	-0.5	1.3	2.0	3.3	3.9	3.4	3.2	3.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-3.4	4.9	5.4	7.3	9.2	7.8	7.5	3.2	8.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-3.8	13.1	5.1	9.3	9.6	:	:	0.2	15.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.8	2.0	8.0	3.8	4.1	:	:	4.8	8.5	:	6.7	5.9	:
2 Labour market														
Unemployment ^{2.1}	%	19.2	17.7	15.3	13.5	12.7	11.0	9.0	12.9	12.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	10.1	0.6	5.6	2.8	1.4	0.8	1.2	1.9	4.5	:	2.0	1.9	N.A.
Wages ^{2.3}	Ann. % ch	1.2	-0.4	3.8	4.0	6.0	:	:	6.7	9.3	:	11.1	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	1.5	7.9	11.6	12.1	8.1	:	:	9.0	7.0	:	8.0	11.6	:
Imports of goods ^{3.2}	Ann. % ch	-1.8	5.9	6.1	13.6	13.0	:	:	13.4	9.1	:	8.8	14.5	:
Trade balance* ^{3.3}	% of GDP	-11.4	-11.3	-9.9	-11.1	-13.2	-11.9	-12.1	-13.2	-13.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	42.1	45.3	48.6	50.5	50.8	:	:	50.9	51.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	50.2	52.3	53.4	57.1	59.1	:	:	59.3	60.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-5.6	-4.4	-2.9	-5.2	-5.2	-6.3	-6.0	-5.2	-5.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	3.5	5.1	5.2	6.2	7.4	:	:	7.5	7.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	9,907.2	10,378.0	10,204.6	9,961.7	11,261.8	:	:	11,261.8	11,440.5	:	11,336.0	11,655.6	:
Int. reserves / months Imp ^{3.9}	Ratio	7.8	7.7	7.2	6.2	6.2	:	:	6.2	6.1	:	6.0	6.1	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	2.1	1.4	1.1	3.1	2.0	2.5	2.7	2.0	2.4	:	3.0	2.2	:
Producer prices ^{4.2}	Ann. % ch	0.7	0.2	-0.4	3.4	2.2	:	:	2.5	1.3	:	2.2	1.4	:
Food prices ^{4.3}	Ann. % ch	-0.9	1.9	-0.3	3.3	1.9	:	:	1.9	4.1	:	5.5	2.7	:
M3 ^{4.4}	Ann. % ch	7.6	6.6	11.6	3.6	14.5	:	:	14.5	14.8	:	12.5	11.2	:
Exchange rate RSD/EUR ^{4.5}	Value	117.23	120.74	123.09	121.41	118.27	:	:	118.35	118.22	117.96	117.99	117.96	117.94
Nominal eff. exchange rate ^{4.6}	Index	72.0	67.4	66.1	67.3	69.7	:	:	69.2	69.2	:	69.2	69.1	:
5 Financial indicators														
Interest rate (BEONIA) ^{5.1}	% p.a.	6.76	4.75	2.70	2.68	2.24	:	:	2.26	2.10	1.89	1.92	1.89	1.85
Bond yield (12 months) ^{5.2}	% p.a.	9.18	7.27	4.63	4.58	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,215	1,359	1,383	1,584	1,562	:	:	1,555	1,534	1,566	1,591	1,570	1,539
Credit growth ^{5.4}	Ann. % ch	5.8	7.0	9.0	2.2	7.7	:	:	7.7	8.9	:	6.5	4.8	:
Deposit growth ^{5.5}	Ann. % ch	7.6	6.5	11.4	3.3	15.3	:	:	15.3	15.3	:	12.8	11.4	:
Non-performing loans ^{5.6}	% total	21.5	21.6	17.0	9.8	5.7	:	:	5.7	5.5	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-6.2	-3.5	-1.2	1.1	0.6	-0.5	-0.5	-1.7	1.0	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	70.4	70.0	67.8	57.9	54.6	50.9	48.0	53.8	50.9	:	51.1	:	:

f: ECFIN forecast Spring 2019 published May 2019

* Q figures refer to a 4 quarters moving average.

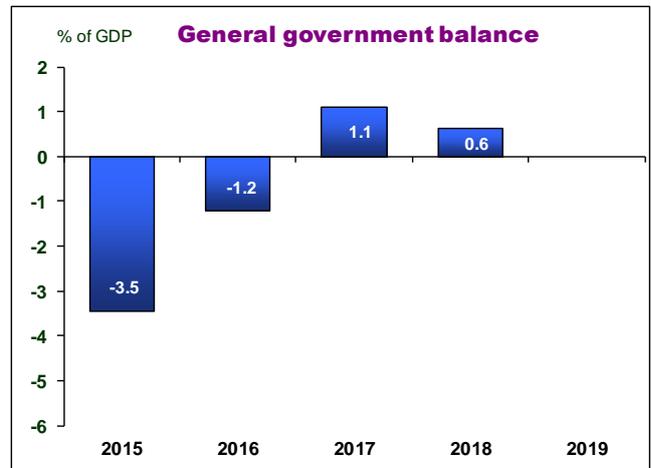
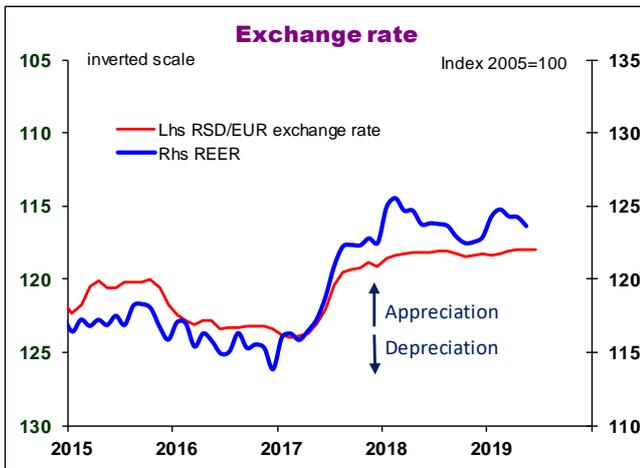
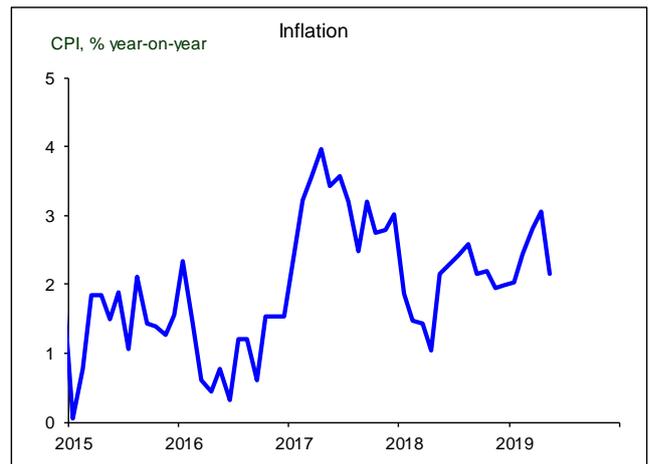
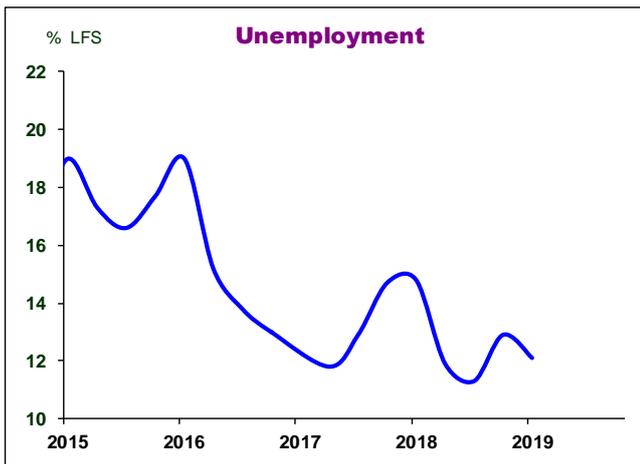
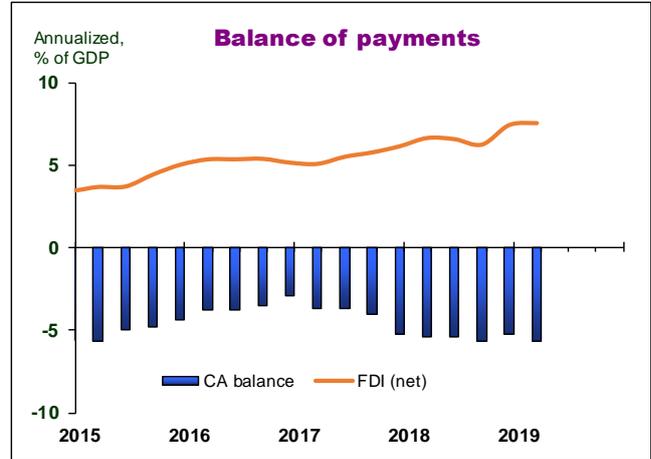
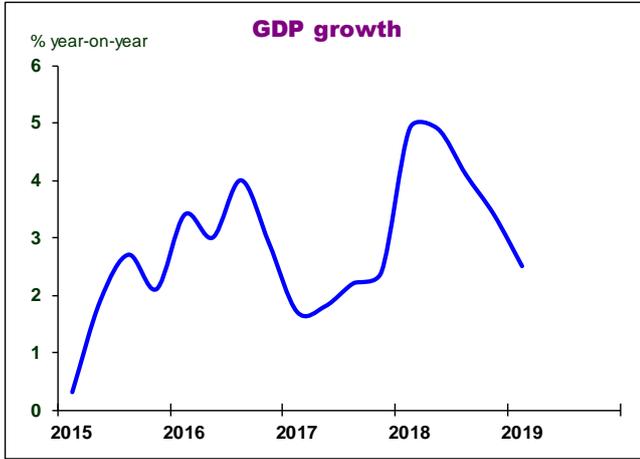
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA





Key developments

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 17 May issued joint conclusions which, *inter alia*, invited Turkey to lower external imbalances by following a sufficiently tight fiscal stance, promoting household savings and reducing government incentives for corporate leverage; increase the prudence and transparency of fiscal policy and research the options for introducing numerical fiscal rules and an independent fiscal body; intensify efforts to sustainably achieve price stability and simplify the monetary policy framework; strengthen the rule of law; unwind crisis measures that hamper the free functioning of markets; reform the labour market and reduce informality.

The re-run of the municipal elections in Istanbul resulted in the opposition's candidate winning the vote again but with a wider margin on 23 June. Following the victory and conciliatory remarks by the ruling party, the lira appreciated.

President Erdogan dismissed the central bank governor on 6 July by emergency decree. Under the new presidential system, the president has promoted the deputy governor to governor. The Commission's country report of May stressed the need to ensure and strengthen the independence of the central bank.

Real Sector

In the first quarter of 2019, GDP contracted by 2.3% y-o-y and rose by 1.3% q-o-q according to the first estimate of Turkstat published on 31 May 2019. The GDP deflator rose by 19.1 % y-o-y (+16.0% y-o-y in 2018 Q4). The compensation of employees increased by 20.9% y-o-y in 2019 Q1.

In the first quarter, domestic demand excluding stocks subtracted 5.7 pps from annual GDP growth with only government consumption providing a positive contribution to GDP growth (+1.1 pps). Private consumption (-2.8 pps), gross fixed capital formation (-3.9 pps) and stocks (-8.5 pps) subtracted from GDP growth.

Construction investment declined further (subtracting -2.9 pps) whereas machinery investment's contraction moderated (-1.1 pps) from 2018 Q4 (when it was -2.9 pps).

Net trade (+11.6 pps) contributed very sizably to GDP growth as had been the case in the fourth quarter (+9.7 pps). The import volume shrinkage (-28.8% y-o-y change, + 9.2 pps contribution) was an even more important driver of this net effect than in 2018 Q4 (- 24.4 % y-o-y change, 7.2 pps contribution) despite the less negative growth of private consumption and of investments in machinery. Export volume growth was slightly lower (9.5% y-o-y change, 2.4 pps contribution) than in the fourth quarter (10.6% y-o-y change, 2.5 pps contribution).

On the production side a contraction by 2.1% y-o-y was recorded. Construction activity saw the largest decrease (-10.9% y-o-y), followed by manufacturing (-3.9% y-o-y) and services (-3.6% y-o-y). Public administration (+8.8% y-o-y) and agriculture (+2.5% y-o-y) recorded growth. Financial services activities saw an improvement (+1.5% y-o-y) following the large hit in value added in 2018 Q4 (-16.2% y-o-y).

High frequency indicators still point to a recessionary environment in the second quarter of 2019. Following a recovery in March and April, consumer confidence fell to its lowest levels on record in May. Business confidence has improved although continuing to point to a contraction. The PMI averaged 46.7 in the second quarter, 0.7 pps above the first quarter. DG ECFIN's confidence indicator improved from -6.9 in the first to -5.0 in the second quarter. Retail sales fell by 6.5% y-o-y and 1.7% m-o-m in April. Industrial production decreased by 4.0% y-o-y and 1.1% m-o-m in April.

Labour market

Labour force growth accelerated to 2.0% y-o-y in the first quarter from 1.4% in the preceding quarter. Employment shrank for a second quarter in a row (-2.5% y-o-y in 2019 Q1, -2.3% in 2018 Q4). Employment of the higher educated rose in the first quarter while that of those having received vocational training or less than high

school, forming a much larger share of the labour market, contracted. The seasonally-adjusted unemployment rate increased to 13.7% in March which is the highest level since June 2009. Hours worked in industry decreased at an even faster pace than overall employment. Employers appear to prefer reducing hours worked over shedding jobs. Hourly earnings increased by 26.4% y-o-y in the first quarter, implying a sizable increase in real labour costs per hour worked. Surveys do not project a strong recovery of employment demand in the second quarter but suggest no further contraction either except for construction.

External sector

The current account balance swung deeper into deficit in April but was still well above levels reached one year earlier. The 12 month moving average deficit reached its lowest point (1.2% of GDP) since January 2003. The growth of services exports and contraction of imports have been the dominant drivers of the current account balance improvement. Over the first four months, total imports contracted by 19.3 % y-o-y while exports expanded by 3.2 % y-o-y. The trade in goods balance recorded a deficit of USD 4.9 bn over the first four months of the year, a decrease by 78% y-o-y. At the same time, the primary income balance has become increasingly negative.

Net financial inflows into Turkey amounted to USD 4.2 bn in the first four months of the year, significantly lower compared to USD 17.4 bn in the same period of 2018. Direct investment inflows and portfolio inflows strengthened whereas other investment, mostly corporate loans and bank deposits, saw outflows. Foreign debt of non-financial corporations declined by 13.2% y-o-y in the first four months. Foreign currency reserves at the central bank decreased in the first four months from USD 113 bn in 2018 to USD 96 bn in 2019. Due to the even larger drop in imports the size of the reserves rose relative to imports to 6 months of imports.

Monetary developments

The inflation rate decreased to 18 % in the second quarter of 2019 (Q1: 19.9%) whereas core inflation increased to 20.0% (Q1: 18.2%). Consumers' inflation expectations for the next twelve months have again increased following a decline in the first quarter. Businesses continue to expect an inflation rate of around 24% for the

year ahead. M2 (+57.2% y-o-y) grew in April at the fastest rate since October 2001 while currency in circulation contracted marginally (-0.1% y-o-y). The large increase in M2 can be explained by the surge in FX deposits. The effective policy rate increased to 24.5% in April and May before falling to just below 24% in June and July. The lira exchange rate continue to be volatile in the second quarter. The lira depreciated by 6% against the EUR over the quarter following significant volatility.

Financial sector

Turkish equities continued to display volatility with the high and low of the BIST100 18% apart during the second quarter. The BIST100 closed the quarter 2.5% above the beginning but equities lost 15% in USD terms during the quarter. Banks' net profits decreased by 19.2 % over the first four months of 2019. Profits of state banks decreased by 39.1% y-o-y and of private domestic banks by 13.6% y-o-y in the first four months. The capital adequacy ratio of state banks decreased from 16.3 to 16.2 and that of private banks increased from 15.8 to 16.6 over the same period regardless of the drop in profitability and high inflation. The NPL ratio averaged 4.1 in the first four months compared to 2.9 one year earlier. The loan-to-deposit ratio declined to 119.8 from 127.1 one year earlier. Credit growth decelerated during the first four months and reached 11.7% y-o-y.

Fiscal developments

The general (central) government realized a deficit of TL 63.5 bn or 4.2% of GDP (TL 66.5 bn) in the first five months of the year, increasing from TL 10.3 bn (TL 20.5 bn) in the first five months of 2018. Tax revenues rose by a modest 4.4% y-o-y over this period with indirect taxes recording a decline (-0.6% y-o-y) and direct taxes collapsing in May (-7.5% y-o-y) following high growth in April (+32.6% y-o-y). The decrease in tax revenues is driven both by the extension of tax exemptions (on housing sales, furniture, domestic appliances and automobiles) ahead of the elections and by the weakening of domestic demand. Expenditures rose by 29.6% y-o-y January to May. Public debt reached 31.8% of GDP in the first quarter (was 30.4% in 2018). The Turkish Treasury issued EUR 3.7 bn in domestic bonds to strengthen the capital of state-owned banks, with the TWF swapping government debt for subordinated debt issued by these banks.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2014	2015	2016	2017	2018	ECFIN 2019 Spring forecast		Q4 18	Q1 19	Q2 19	Apr 19	May 19	Jun 19
							2019	2020						
1 Real sector														
Industrial confidence ^{1.1}	Balance	104.6	103.5	105.2	108.0	101.4	:	:	90.6	97.4	102.3	105.5	98.9	102.5
Industrial production ^{1.2}	Ann. %ch	5.7	5.8	3.4	9.0	1.3	:	:	-7.8	-4.7	:	-4.0	:	:
Gross domestic product ^{1.3}	Ann. %ch	5.2	6.1	3.2	7.4	2.6	-2.3	3.9	-3.0	-2.6	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	2.9	5.4	3.6	6.1	1.2	-3.6	4.0	-8.9	-4.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	5.1	9.3	2.2	7.8	-1.7	-12.9	9.2	-12.9	-13.0	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	38.7	-8.8	17.4	62.2	-35.8	:	:	7.4	:	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	3.8	6.7	2.2	5.7	2.0	:	:	-7.4	-4.9	:	-6.9	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	10.1	10.5	11.1	11.1	11.2	13.7	13.3	12.7	14.8	:	:	:	:
Employment ^{2.2}	Ann. %ch	N.A.	2.5	2.2	3.5	1.8	-0.2	3.0	-0.9	-2.7	:	:	:	:
Wages ^{2.3}	Ann. %ch	11.0	16.7	21.3	10.2	20.6	11.0	10.5	23.4	25.1	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	3.5	-9.0	-0.7	10.2	6.9	:	:	6.1	3.8	:	1.4	12.0	:
Imports of goods ^{3.2}	Ann. %ch	-4.0	-14.8	-3.8	17.2	-4.4	:	:	-24.8	-19.7	:	-17.9	-19.7	:
Trade balance* ^{3.3}	% of GDP	-6.8	-5.6	-4.8	-6.9	-5.4	-1.8	-2.9	-5.4	-3.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.8	23.3	22.0	24.8	29.6	:	:	31.9	31.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	27.6	26.0	24.9	29.3	30.8	:	:	29.2	30.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.7	-3.8	-3.8	-5.6	-3.5	1.2	-0.5	-3.5	-1.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.4	2.3	1.6	1.4	1.7	:	:	1.7	1.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	128.3	110.5	106.1	107.7	93.2	:	:	93.2	96.2	:	93.1	95.6	:
Int. reserves / months Imp ^{3.9}	Ratio	6.4	6.4	6.4	5.5	5.0	:	:	5.0	5.5	:	5.4	5.7	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	8.9	7.7	7.8	11.1	16.3	13.1	9.7	22.4	19.9	:	19.5	18.7	:
Producer prices ^{4.2}	Ann. %ch	10.2	5.3	4.3	15.8	27.0	:	:	39.0	30.7	:	30.1	28.7	:
Food prices ^{4.3}	Ann. %ch	12.6	11.1	5.8	12.7	18.0	:	:	26.7	30.0	:	31.9	28.4	:
M4 ^{4.4}	Ann. %ch	11.1	17.1	17.2	15.5	19.3	:	:	19.3	24.1	:	25.4	23.7	:
Exchange rate TRY/EUR ^{4.5}	Value	2.9	3.03	3.34	4.15	5.68	:	:	6.06	6.10	6.59	6.62	6.60	6.56
Nominal eff. exchange rate ^{4.6}	Index	69.3	63.65	58.61	47.89	36.11	:	:	32.08	32.64	:	30.59	29.41	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	9.84	10.48	9.88	12.20	18.92	:	:	24.96	23.21	25.03	24.93	25.39	24.76
Interest rate, long term ^{5.2}	% p.a.	9.18	9.30	10.19	11.11	15.88	:	:	17.73	:	:	:	:	:
Stock markets ^{5.3}	Index	75,190	80,641	77,177	98,993	#####	:	:	93,604	99,877	:	96,118	88,596	:
Credit growth ^{5.4}	Ann. %ch	18.4	20.4	16.2	21.2	13.1	:	:	13.1	13.3	:	10.9	8.0	:
Deposit growth ^{5.5}	Ann. %ch	11.6	18.6	17.7	17.7	22.1	:	:	22.1	23.7	:	26.0	21.3	:
Non-performing loans ^{5.6}	% total	2.8	2.9	3.2	3.1	:	:	:	:	:	:	:	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	0.2	0.6	-1.1	-2.8	-2.6	-3.0	-2.5	-0.8	-1.4	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	28.8	27.6	28.3	28.3	31.1	30.9	29.3	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2019 published May 2019

* Q figures refer to a 4 quarters moving average.

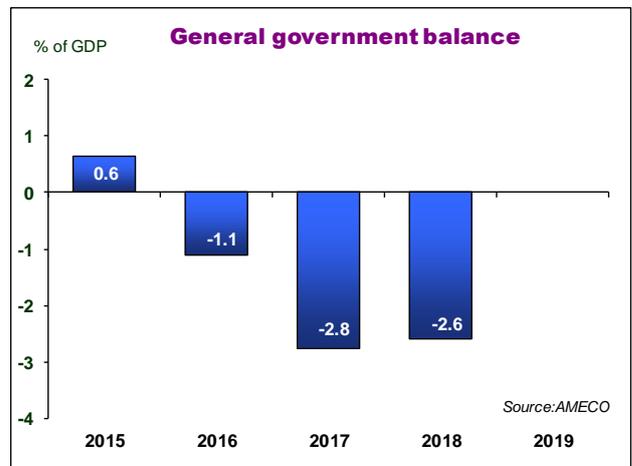
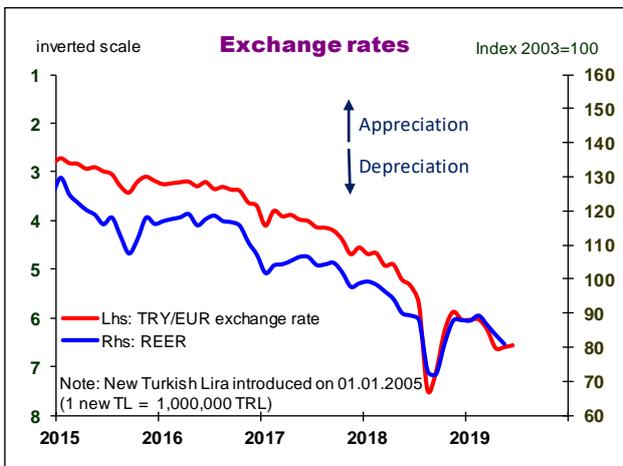
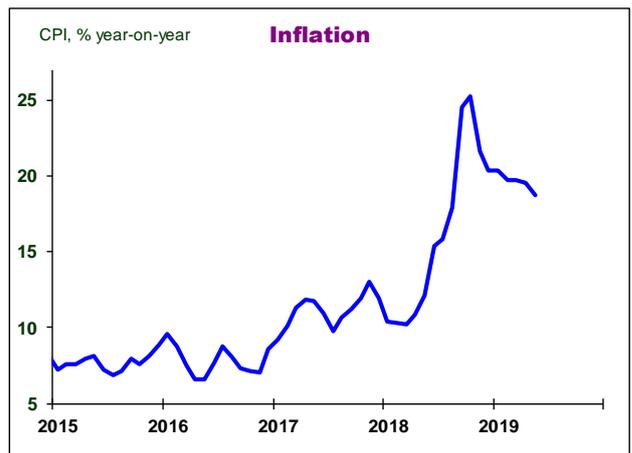
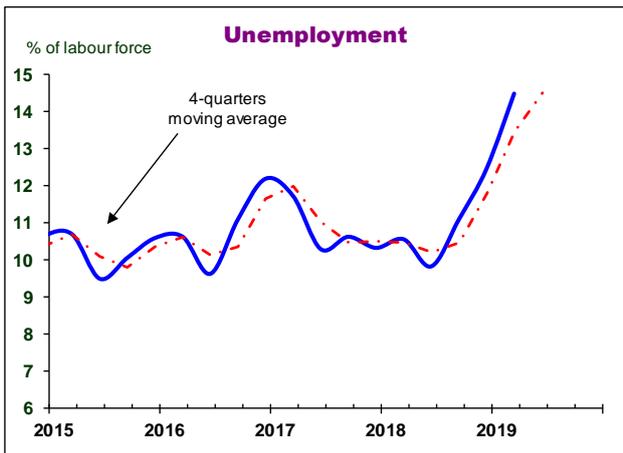
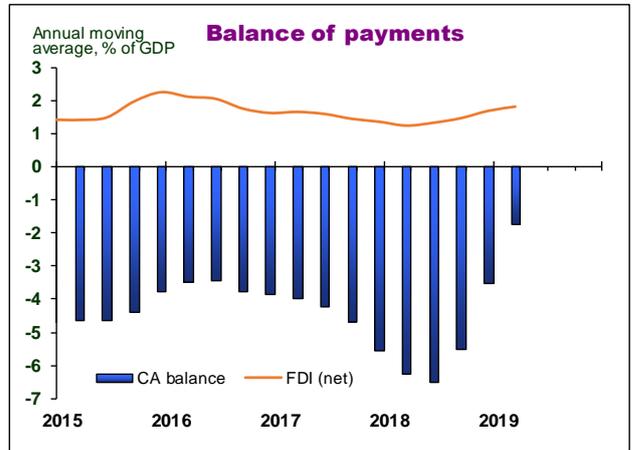
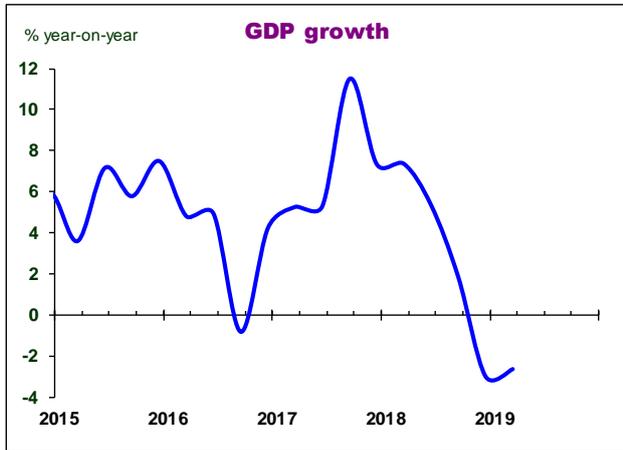
** Q figures refer to the quarterly balance divided by the quarterly GDP.

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 17 May and invited Bosnia and Herzegovina, inter alia, to strengthen medium-term macro-fiscal planning, increase investment, and improve the governance of public enterprises. The meeting's conclusions also stressed the importance of safeguarding Central Bank independence, strengthening the single economic space, improving education, and modernising labour market institutions.

On 29 May the Commission adopted its Opinion on Bosnia and Herzegovina's EU membership application. The Opinion identifies 14 key priorities for the country to fulfil in order to be recommended for opening of EU accession negotiations; it provides a comprehensive roadmap for incremental reforms. The key priorities cover the areas of democracy/functionality; rule of law; fundamental rights; and public administration reform – the fundamentals of the EU accession process.

Real sector

Real GDP growth lost momentum in the first quarter, decelerating to 2.3% y-o-y, compared to a 3.2% in the fourth quarter of 2018. A key factor for this slowdown was a further weakening of exports (0.3% y-o-y compared to 2.0% in the fourth quarter), while imports rose by 3.2%, compared to 0.5% in the previous quarter. Net exports thus reduced overall GDP growth by 1.4 pps. The continued growth of imports probably reflects strong growth of capital formation, which increased by 10.3% in the first quarter, contributing 2.2 pps to growth. When looking at the sectoral composition of output growth, the main driver was trade and tourism, increasing by 5% y-o-y and contributing nearly 1 pp to GDP growth. The second largest contribution came from mining, manufacturing and electricity production, increasing by 2.6% y-o-y and contributing about 0.5 pps to GDP growth. However, this data is still preliminary, and in particular, in the case of gross capital formation, substantial revisions are not unusual.

High-frequency indicators point to a weakening of foreign demand. In May, industrial

production was 3.7% lower than a year before, which was a bit less in the negative territory than in the five preceding months. In the first five months, the index of industrial production was on average 4.7% lower than a year before. The main factors were lower production of energy, but also textiles. Decelerating external demand might be one of the key factors, while a strong performance of retail trade suggests still solid domestic demand.

Labour market

Registered employment growth accelerated, reaching 3.7% y-o-y in the first quarter, compared to 2.6% in the previous three months. This trend continued in April, when employment rose by 3.7% y-o-y with 31 thousand more employees registered than a year before. The largest contributors were the wholesale trade sector, education, and tourism. At the same time, registered unemployment continued to decline y-o-y, by some 9% in the first quarter and by 9.7% in April, which represents 43 thousand less unemployed than a year before. However, this decrease was still much larger than the increase in the number of newly registered employees, implying a continuous decline in registered labour force, probably reflecting discouraged jobseekers, emigration or to a certain extent a stricter application of unemployment eligibility criteria. The administrative unemployment rate dropped by 3¼ pps y-o-y to a still worrying 33.3% in April. This compares to the latest (survey based) LFS unemployment rate of 18.4% (from April 2018). Youth unemployment remains high, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, was still at around 80% of the total.

Nominal gross wages rose by 4.0% y-o-y in the fourth quarter and 5.4% in April. The highest wage increases were registered in health, financial services and construction. Adjusted for inflation, average gross earnings were about 3½% higher than a year before.

External sector

The current account deficit in the four quarters to March deteriorated slightly, increasing to 4.2% of GDP, largely as a result of weaker export growth. In the first quarter, export growth came to a near stand-still (+0.2% y-o-y), while

imports increased by 5.3%, compared to an increase by 1.7% in the fourth quarter of 2018. The surpluses in the primary and secondary income balances, including workers' remittances, remained largely unchanged as a percentage of GDP, at -0.3% and 11.8% respectively.

Commodity exports recovered slightly after a weak start of the year and rose overall by 1.1% higher during the first five months. The main factor behind the lower export growth were weaker exports to Kosovo, Turkey, but also Spain, which however were increasingly compensated by stronger exports to Croatia and Serbia. Trade with the EU contributed some 75% of the country's total exports.

Net FDI inflows rose to 2.9% of the first quarter's GDP, largely compensating a somewhat weaker fourth quarter. In the four quarters to March, FDI inflows have remained largely unchanged at slightly above 2% of GDP thus financing nearly half of the current account deficit. Official foreign reserves recovered again in April and May after a slight decrease in the first quarter of 2019. As a result, the coverage of imports by foreign reserves has again increased, to slightly above 7 months of imports.

Monetary developments

Inflationary dynamics softened further in the first quarter, as consumer price inflation decelerated to 1.0%, compared to 1.7% in the fourth quarter of 2018. In April and May, this trend continued, with consumer price inflation declining to 0.8%. A key factor for the weaker price dynamics was lower prices for clothing and footwear, while prices for housing and electricity, alcoholic beverages and transport rose significantly faster than the average.

The annual growth of the monetary aggregate M2 remained high in the first quarter, at 9.0%, compared to 9.4% in the fourth quarter.

Financial sector

Annual domestic credit growth remained strong at 5.7% in the first quarter, and at 6.1% and 5.8% in April and May, respectively. While loans to households and businesses were increasing at a similar rate at the beginning of the year, growth of household credits started to decelerate by March, falling to 2.7% y-o-y in May, while credit to corporations accelerated to

4.8%. Bank loans to the public sector, accounting for some 4% of total loans, continued to decline slightly during most of the first five months.

Growth of total deposits remained strong. In the first quarter and in April, deposits increased by 9.5% y-o-y. However, in May, deposit growth decelerated slightly, to 8.5%. Due to the robust increase in deposits, the loan-to-deposit ratio continued to decline, to 90.1% in May, compared to 92.4% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 8.5% in the first quarter, compared to 9.7% a year before. Loan-loss provisioning has improved slightly, with 80.1% of non-performing loans covered by them, compared to 78.9% in the third quarter. Banking sector profitability recovered in the first quarter as the return-on-equity ratio returned to 12%, compared to 9.6%, in the previous three months and 12.2% in the same period one year earlier. The return on average assets also rose, to 1.6% from 1.3% in the fourth quarter. The banking system's overall capital adequacy ratio remained stable, at 17.2% in the first quarter, which is well above the country's regulatory minimum of 12%. However, there are large differences among the countries' 23 banks, with some pockets of vulnerability remaining, in particular in the case of some smaller local banks.

Fiscal developments

Public-sector revenues continued to perform well. During the first quarter of 2019 indirect taxes, accounting for about 40% of total revenues, continued to be some 7% higher than a year before. Spending on public wages remained contained. Budget proposals for 2019 envisage a country-wide deficit of about 1% of GDP.

The general government debt-to-GDP ratio remained largely unchanged q-o-q at 33.8% at the end of March. The share of foreign-currency denominated debt was 2 pps higher than a year before, at 87.2. The main debt instrument are loans, which increased slightly, from 78.9% of total general government debt in the first quarter of 2018 to 79.4% in 2019Q1. The three largest holders of foreign debt are still 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

		2014	2015	2016	2017	2018	Q4 18	Q1 19	Q2 19	Apr 19	May 19	Jun 19
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.						
Industrial production ^{1.2}	Ann. % ch	0.2	3.1	4.4	3.1	1.6	-0.4	-5.0	:	-4.5	-3.7	:
Gross domestic product ^{1.3}	Ann. % ch	0.7	4.1	3.4	3.4	3.0	3.2	2.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.8	1.3	1.9	1.5	3.1	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	11.5	-3.5	2.5	5.1	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-53.8	-15.2	49.8	-18.9	2.2	2.2	-10.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	1.8	7.8	7.0	5.1	8.2	9.3	8.2	:	4.9	-0.7	:
2 Labour market												
Unemployment ^{2.1}	%	27.5	27.7	25.4	20.5	18.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-1.2	1.2	-2.6	1.9	0.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	-0.1	0.0	0.9	1.6	3.1	4.2	4.0	:	5.4	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	3.0	5.1	7.0	21.3	8.0	3.0	0.2	:	5.9	1.3	:
Imports of goods ^{3.2}	Ann. % ch	7.1	-2.3	2.6	13.3	5.3	1.7	5.3	:	12.8	4.3	:
Trade balance* ^{3.3}	% of GDP	-27.8	-24.2	-22.7	-22.7	-22.2	-22.2	-22.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	32.8	33.5	34.3	38.7	40.0	38.9	39.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	54.7	51.3	50.4	54.4	55.0	54.8	55.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.1	-5.1	-4.5	-4.5	-4.0	-4.0	-4.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.8	1.7	1.6	2.0	2.2	2.2	2.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	4,016.3	4,438.9	4,884.1	5,392.9	5,962.3	5,962.3	5,890.1	:	6,027.2	6,086.0	:
Int. reserves / months Imp ^{3.9}	Ratio	5.8	6.6	7.1	7.0	7.2	7.6	6.5	:	7.2	7.2	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-0.9	-1.0	-1.1	1.3	1.4	1.7	1.0	:	0.8	0.8	:
Producer prices ^{4.2}	Ann. % ch	-0.2	-0.6	-0.9	1.8	3.2	2.8	1.4	:	1.4	0.9	:
Food prices ^{4.3}	Ann. % ch	-2.7	-0.9	-1.1	1.0	:	:	:	:	:	:	:
M2 ^{4.4}	Ann. % ch	7.3	8.0	8.3	9.5	9.4	9.4	9.0	:	9.2	8.4	:
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	103.08	102.03	103.31	104.11	105.75	106.32	105.89	:	105.99	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.						
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.						
Stock markets ^{5.3}	Index	707	701	692	627	621	634	690	764	769	770	752
Credit growth ^{5.4}	Ann. % ch	3.7	1.8	2.1	5.3	6.6	6.4	5.7	:	6.1	5.8	:
Deposit growth ^{5.5}	Ann. % ch	8.4	6.2	7.7	10.4	11.3	9.9	9.5	:	9.6	8.5	:
Non performing loans ^{5.6}	% total	15.2	13.9	12.3	10.9	9.3	8.8	8.5	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-2.0	0.6	1.2	2.5	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.2	40.3	39.0	34.8	33.6	33.6	33.8	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

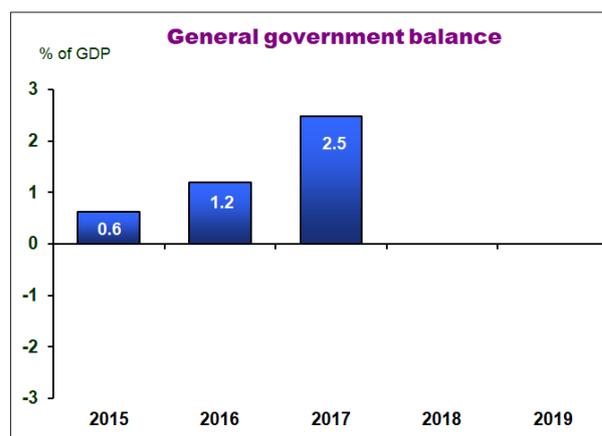
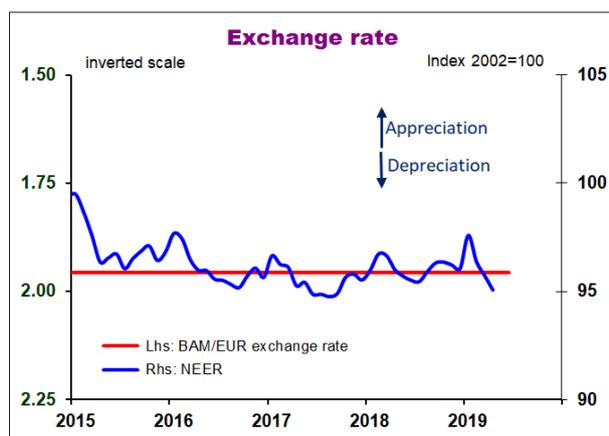
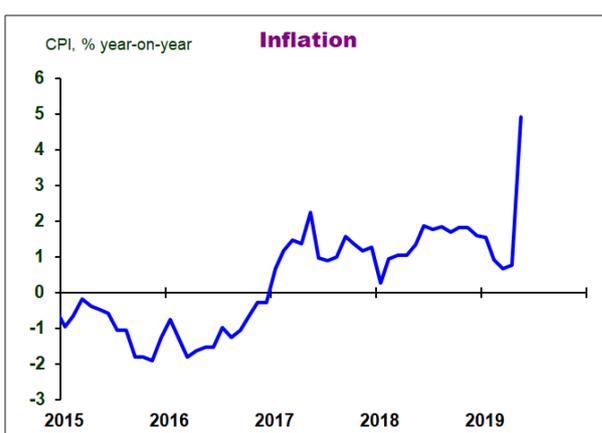
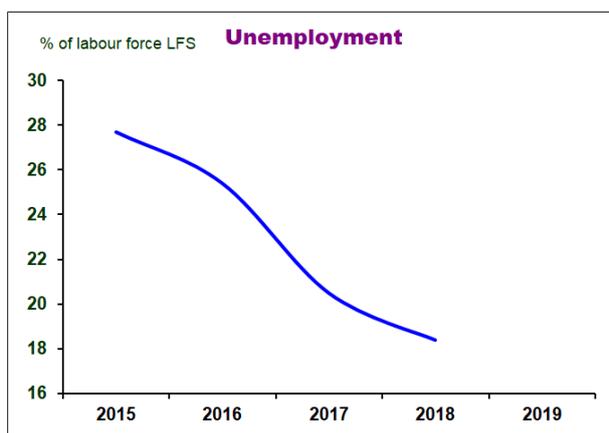
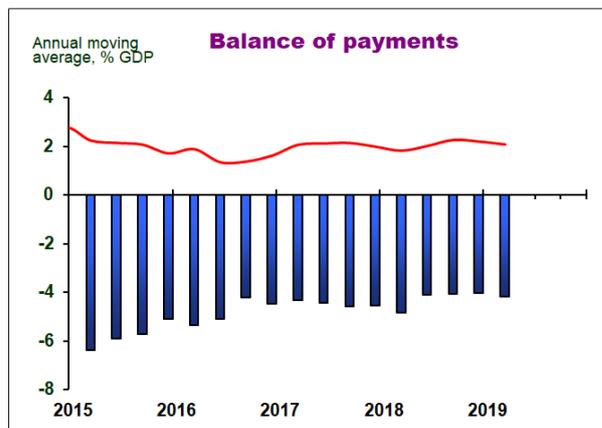
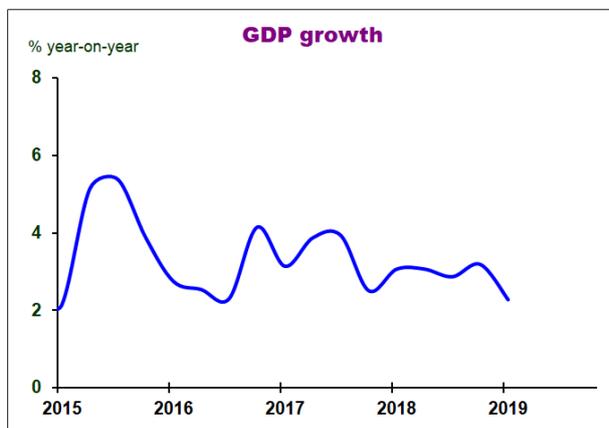
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

The annual economic and financial dialogue between the EU and the Western Balkans and Turkey took place on 17 May. The jointly agreed country-specific recommendations call on Kosovo to adhere to the existing fiscal framework in the 2020 budget, strengthen institutional capacities for multi-annual investment planning, improve the financial oversight of publicly owned enterprises, and tackle challenges related to the large informal economy, high youth unemployment and an unreliable energy supply.

In end-May, the Kosovo Assembly adopted a resolution encouraging the government to consider the increase of the minimum wage from the current level of EUR 170 to EUR 250 per month. Such a significant increase would have spill-over effects, as some transfers, such as war veteran pensions, are indexed to the minimum wage.

In late June, the IMF in a press release raised concerns about the fiscal implications of some government initiatives under consideration related to the Law on salaries for public employees and social transfers which could put at risk compliance with the fiscal rule and undermine competitiveness.

In mid-June Kosovo has ratified long-standing free trade agreement with Turkey.

Real sector

In the first quarter, GDP growth accelerated to 4.1% y-o-y, from 3.8% in the last three months of 2018. Stable expansion of private consumption (2.5% y-o-y) and strong increases in government consumption and investment (3.4% y-o-y and 7.4% y-o-y respectively) provided positive contributions (together 7.2 pps) to growth. Net exports of goods and services provided a negative contribution to growth (-3.1 pps) as robust growth rate of imports (8.1% y-o-y) outweighed export expansion (6.7% y-o-y). In the same period, gross value added increased by 1.4% y-o-y. The substantial difference between GDP and GVA y-o-y growth rate relates to a large increase in the category taxes less subsidies, which rose by 15.3% in Q1. Following a continuous

contraction in the second half of 2018, mining output stopped falling and rose by 2% y-o-y. Further positive contributions came from the electricity, wholesale, financial and insurance sectors while there was a contraction in other services.

Labour market

Labour force survey data for the first quarter do not show any significant improvement in Kosovo's labour market. A decline in the unemployment rate from 30.7% in Q4 2018 to 26.9% in Q1 2019 is largely of seasonal nature and was mainly driven by contracting labour force participation rate from 42% to 38.7% over the same period. The inactivity rate reached 61.3% in Q1 as compared to 58% in the last quarter of 2018. The employment rate has remained practically unchanged at 28.2%, compared to 28.5% in Q4, with around 70% of employed workers having short-term contracts.

Labour market outcomes are especially poor for women and youth. The female inactivity rate stood at 80.5% as compared to 42.4% for men in Q1. Despite some decline from 55% in Q4 2018, the youth unemployment rate (15-24 years) was still very high at 50.6% in Q1 2019.

External sector

The current account deficit deteriorated due to strong growth of imports, with its 4-quarter moving average declining to 8.8 % of GDP in Q1 as compared to 8.3% in full-year 2018. The traditionally negative trade balance widened to 45.8% of GDP while workers' remittances stood at 13.4% of GDP. On the financing side, net inflows of FDI equalled to 3.7% GDP over the same period. Reserve assets covered 4.7 months of imports in Q1.

In the first five months of 2019, total goods exports expanded by 17.7% y-o-y due to a recovery of base metal exports in April and May. The continuation of a significant growth in exports has been observed in plastic and rubber articles. In the same period, imports of goods rose by 5.8% y-o-y with mineral fuels, base metals, machinery and foodstuff being the main import drivers, mainly reflecting ongoing investments. In January-May, the merchandise trade deficit widened by 3.9% y-o-y.

Monetary developments

Following the introduction of 100% tariffs on goods imported from Serbia and Bosnia and Herzegovina in late 2018, annual inflation rose to above 3% in each month of 2019. Annual average inflation in the first five months stood at 3.3%. The key driver is food prices which on average increased by 6.6% in this period.

In the first quarter of 2019, the producer price index increased by 1.8% y-o-y and the construction cost index by 2% y-o-y, mainly on the back of price rises of mineral products and transport. In the same period, import prices rose by 3.5% y-o-y, supported by prices for mineral, leather and animal products, and only marginally offset by falling prices of textiles.

Financial sector

Robust credit growth continued at a stable rate of around 11% y-o-y in the first five months of 2019. Lending to private households and firms expanded by 10.6% and 11.8% y-o-y, respectively. Growth of deposits in commercial banks accelerated to 11.8% in April-May on the back of rapid increase of firms' deposits, rising by more than 20% in these months. The loan-to-deposit ratio increased by 1 pp compared to the first quarter to 84.5% in May, still indicating a stable liquidity position for banks and further room for extending banking activity.

The interest rate spread remained on a downward trajectory. The 12-month moving average spread declined to 4.9 percentage points from 5.1 pps at the beginning of the year. This reduction was mainly driven by a declining average rate on new loans, from 6.7% in January to 6.3% in May. Interest rate on deposits declined by 20 basis points to 1.4% in May, due to a substantial lowering of rates for firms' deposits to 1.9%, from 2.5% in January.

Financial soundness indicators in the banking sector remained satisfactory throughout the first five months of 2019. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 35% in May 2019, while the capital adequacy ratio was 16.4%, well above the regulatory minimum of 12%. The already low NPL ratio remained stable during the first five months at 2.6%. Existing NPLs were fully covered by loan loss provisions (156.2%).

Fiscal developments

In the first quarter, the budget surplus amounted to EUR 63.8 million or 0.4 percentage of quarterly GDP. As compared to the same period in 2018, budget revenue increased by 14% y-o-y due to higher tax and liquidation revenue, while total expenditure fell by 3%. The largest fall was recorded in capital expenditure, which contracted by 47% y-o-y, while spending on social benefits and intermediate consumption increased by 8% and 11%, respectively.

In April, the Kosovo Government adopted the Medium Term Expenditure Framework (MTEF) for 2020-2022. The MTEF assumes 4.7% annual GDP growth for 2019 and 2020, a slight deceleration to 4.5% in 2021 and rebound to 4.6% in 2022. Compared to the ERP assumptions of 4.2%, GDP growth is revised upwards for 2020 due to higher spending for goods, subsidies and capital investment. The budget revenue ratio is projected to increase by 1 pp from its 2018 level and remain stable at 27% of GDP in 2019-2022, due to an expected increase in tax revenues. The MTEF projects annual public spending to increase to 33% in 2019 from 29% of GDP in 2018 and then decline gradually to 31% of GDP in 2022. The MTEF sets the budget deficit at 2% of GDP in 2019-2021, in line with the upper ceiling allowed by the fiscal rule, and a sharp decline to 1.4% of GDP in 2022. Massive frontloading of capital spending in the coming years is set to result in the headline deficit peaking at 6% of GDP in 2019 and gradually declining to 3.9% in 2022.

At end-2018 total public debt including guarantees reached 17.1% of GDP. Over 2018, the debt ratio increased by less than 1 pp, driven by domestic debt, which accounts for 62% of the total debt stock. Kosovo Central Bank and Pension Trust Fund hold 58% of the domestic debt. Debt interest payment stood unchanged at 0.3% of GDP. The share of short-term debt, maturing in one year, decreased from 32.9% of the total in 2017 to 26.7% in 2018.

The government's recently adopted State Debt Program for 2020-2022 projects a substantial increase of public debt, to 19.9 % of GDP in 2019 and 27.4% by 2022. The strategy envisages that in 2019 domestic short-term debt would increase to 39.7% of the total from 36% in 2018 and then decline gradually in the subsequent years.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2014	2015	2016	2017	2018	Q4 18	Q1 19	Q2 19	Apr 19	May 19	Jun 19
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	0.0	1.3	-1.3	-1.3	:	N.A.	N.A.	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	1.2	4.1	4.1	4.2	3.9	3.8	4.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	9.6	6.7	6.6	1.8	:	2.3	2.5	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	-5.0	11.3	7.5	5.6	14.4	9.2	7.4	:	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	11.6	7.1	6.5	12.0	17.4	18.9	8.5	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	35.3	32.9	27.5	30.5	29.6	31.4	26.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-4.4	-8.2	11.8	7.6	-3.4	-2.2	-0.4	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	N.A.	5.8	N.A.	N.A.	N.A.	N.A.	N.A.	:	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	10.4	0.2	-4.8	22.1	-2.8	9.4	5.1	:	44.2	-3.0	:
Imports of goods ^{3.2}	Ann. % ch	3.6	3.8	5.9	9.2	9.8	6.8	8.2	:	8.8	3.1	:
Trade balance*** ^{3.3}	% of GDP	-39.8	-39.8	-40.9	-42.5	-45.6	-45.6	-45.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	22.5	21.9	22.2	27.0	27.2	18.7	20.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	51.2	50.4	50.6	53.8	57.0	56.0	57.3	:	N.A.	N.A.	N.A.
Current account balance*** ^{3.6}	% of GDP	-6.9	-8.6	-7.9	-6.1	-8.3	-8.3	-8.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** ^{3.7}	% of GDP	2.7	5.3	3.6	4.1	3.3	2.8	3.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	1266.4	1,302.6	1,161.7	1,242.6	1,239.6	1239.6	1,325.3	:	1349.7	1,360.3	:
Int. reserves / months Imp ^{3.9}	Ratio	6.0	5.9	5.0	4.9	4.4	4.4	4.7	:	4.7	4.8	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	0.4	-0.5	0.3	1.5	1.1	2.2	3.2	:	3.4	3.4	N.A.
Producer prices ^{4.2}	Ann. % ch	1.6	2.7	-0.1	0.6	1.4	1.3	1.8	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	0.1	0.3	-0.2	:	:	:	:	:	:	:	:
Broad money liabilities ^{4.4}	Ann. % ch	-4.3	5.6	9.2	6.4	8.0	8.0	7.9	:	9.5	10.1	:
Exchange rate EUR/EUR ^{4.5}	Value	1.0	1.0	1.0	1.0	1.0	1.0	1.0	N.A.	:	:	:
Real eff. exchange rate (CPI) ^{4.6}	Index	104.1	103.5	103.5	103.3	102.5	:	:	:	:	:	:
5 Financial indicators												
Interest rate ^{5.1}	% p.a.	10.62	8.32	7.47	6.83	6.65	6.31	6.74	:	6.65	6.35	:
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	3.4	6.9	9.1	10.5	11.1	11.2	11.4	:	10.9	11.3	:
Deposit growth ^{5.5}	Ann. % ch	7.2	5.6	4.8	8.6	6.5	7.7	8.9	:	11.8	11.8	:
Non-performing loans ^{5.6}	% total	8.3	6.2	4.9	3.1	:	:	:	:	:	:	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-2.2	-2.0	-1.2	-1.3	-2.8	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	10.7	13.1	14.4	15.5	16.2	:	:	:	N.A.	N.A.	N.A.

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

** Source: IMF.

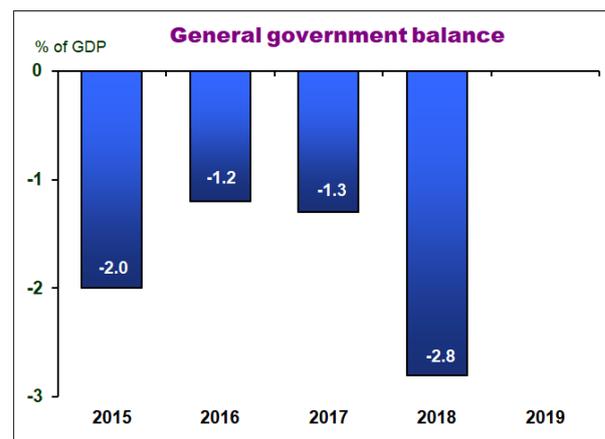
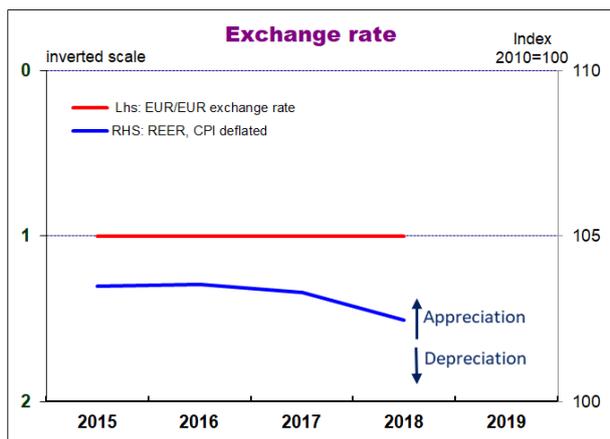
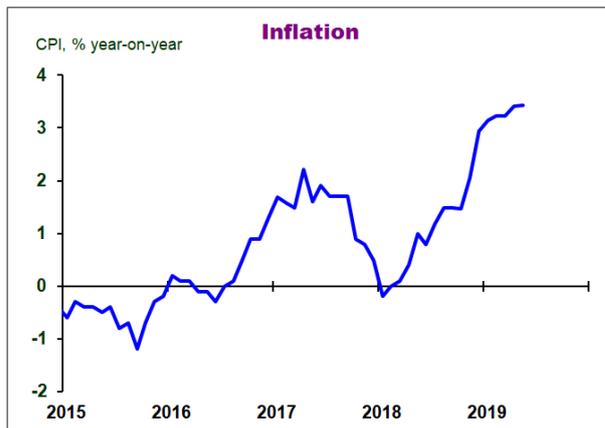
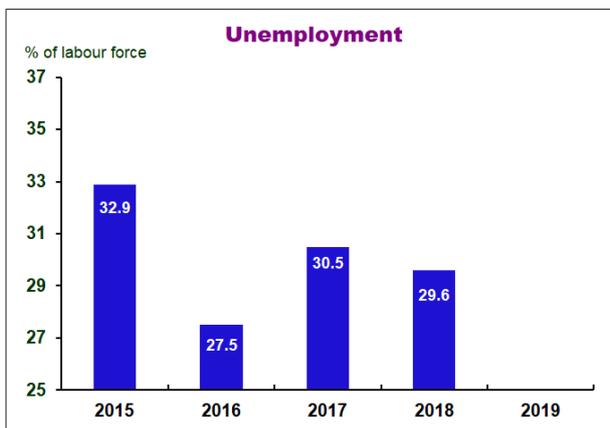
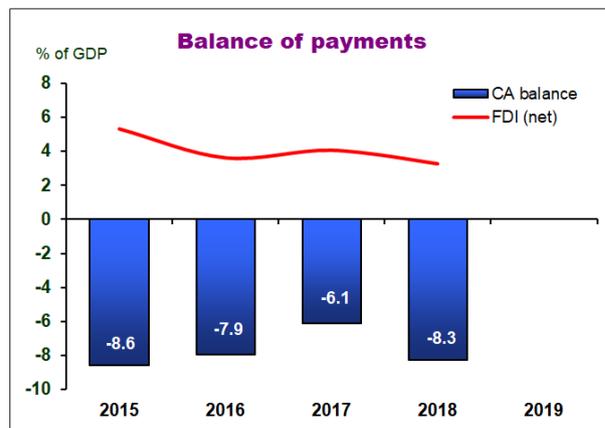
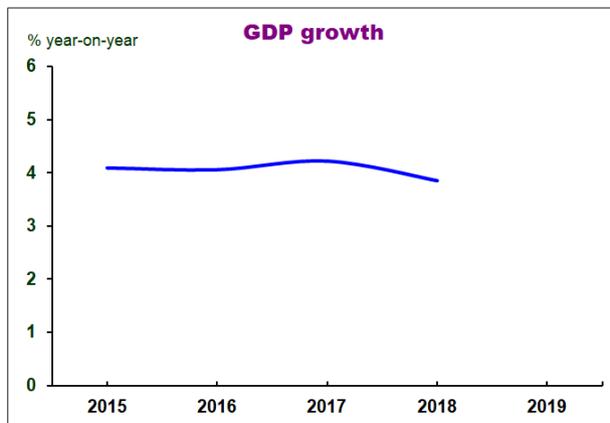
*** Q figures refer to a 4 quarters moving average.

CHARTS

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KOSOVO*



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	MacroBond
1.2.	Industrial production	Industrial production volume index, 2010=100	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. LEK. Break in series 2013.	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. Lek. Break in series 2013.	MacroBond
3.3.	Trade balance	In percent of GDP	MacroBond
3.4.	Exports goods and services	In percent of GDP. Annual data. Break in series 2013.	MacroBond
3.5.	Imports goods and services	In percent of GDP. Annual data. Break in series 2013.	MacroBond
3.6.	Current account balance	In percent of GDP, including official transfers	MacroBond
3.7.	Direct investment (FDI, net)	In percent of GDP	MacroBond
3.8.	Reserves, International reserves of the National Bank	Net foreign assets, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	ECFIN
4.	Monetary developments		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	MacroBond
4.2.	Producer prices	Annual percentage change, Total, index (1998)	MacroBond
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	MacroBond
4.4.	M2	Annual percentage change	MacroBond
4.5.	Exchange rate LEK/EUR	Period averages	MacroBond
4.6.	Change real eff. exchange rate	Not available	
5.	Financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	MacroBond
5.2.	Bond yield	Government Benchmarks, 3 Year Bond, Yield	MacroBond
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	MacroBond
5.5.	Deposit growth	Annual percentage change, total	MacroBond
5.6.	Non-performing loans	Credit Portfolio 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



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

NORTH 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 (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Annual average percentage change, HICP not yet available for FYRoM	MacroBond
4.2.	Producer prices	Annual percentage change, industrial products	MacroBond
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	MacroBond
4.4.	M4	Annual percentage change, M4 (Broadest money)	MacroBond
4.5.	Exchange rate MKD/EUR	Averages, spot close	MacroBond
4.6.	Nominal eff. exchange rate	Nominal Effective Exchange Rate, MKD, Index 2005=100	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interest rate Denar deposits	MacroBond
5.2.	Bond yield	Not available	
5.3.	Stock markets	MSE Index (MBI-10)	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, DMB, total, overall, with Saving houses, MKD	MacroBond
5.5.	Deposit growth	Annual percentage change, with Saving houses, total, MKD	MacroBond
5.6.	Non-performing loans	In percent of total	MacroBond
6. Fiscal developments			
6.1.	Central government balance	In percent of GDP, Q/Q GDP	MoF
6.2.	Central government debt	In percent of GDP	MoF



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



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



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



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

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

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