



European
Commission

ISSN 2443-8049 (online)

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

1st Quarter 2016

TECHNICAL PAPER 008 | APRIL 2016

EUROPEAN ECONOMY

Economic and
Financial Affairs

European Economy Technical Papers are reports and data compiled by the staff of the European Commission's Directorate-General for Economic and Financial Affairs.

Authorised for publication by Uwe Stamm, acting Head of Unit D1 - Candidate and Pre-candidate countries.

LEGAL NOTICE

Neither the European Commission nor any person acting on its behalf may be held responsible for the use which may be made of the information contained in this publication, or for any errors which, despite careful preparation and checking, may appear.

This document exists in English only and can be downloaded from http://ec.europa.eu/economy_finance/publications/eetp/index_en.htm four times a year (early January, April, July and September) or from http://ec.europa.eu/economy_finance/publications/.

***Europe Direct is a service to help you find answers
to your questions about the European Union.***

**Freephone number (*):
00 800 6 7 8 9 10 11**

(*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

More information on the European Union is available on <http://europa.eu>.

Luxembourg: Publications Office of the European Union, 2016

KC-BF-16-008-EN-N (online)
ISBN 978-92-79-54527-6 (online)
doi:10.2765/687250 (online)

KC-BF-16-008-EN-C (print)
ISBN 978-92-79-54526-9 (print)
doi:10.2765/153313 (print)

© European Union, 2016

Reproduction is authorised provided the source is acknowledged. Data, whose source is not the European Union as identified in tables and charts of this publication, is property of the named third party and therefore authorisation for its reproduction must be sought directly with the source.

European Commission
Directorate-General for Economic and Financial Affairs

EU Candidate & Potential Candidate Countries' Economic Quarterly (CCEQ) 1st Quarter 2016

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
THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA	13
MONTENEGRO	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 and the ICJ Opinion on the Kosovo Declaration of Independence.

OVERVIEW

The economic recovery in the Western Balkans strengthened during 2015, with annual GDP growth accelerating in most countries of the region. The good growth performance rests on the emergence of a new investment cycle and, in some cases, a broadening of the recovery across more economic sectors. At the same time, private consumption remained somewhat subdued, reflecting, among others, stagnating wages and pensions and still weak consumer confidence, largely due to a weak domestic political climate in parts of the region. Benign external factors, such as lower oil prices and stronger foreign demand, continued to support the recovery. The region's export performance has gained some pace, but remained generally modest, despite the recovery in main EU trading partners. The recovery led to some job creation in the private sector, but unemployment rates remain stubbornly high. Despite some progress in fiscal consolidation, high and still growing public debt levels in most countries of the region remain a cause of concern.

Growth performance in the **Western Balkans** improved further in 2015. In Serbia, following the recession in 2014, the economy experienced a turnaround. Real GDP grew by 0.7%, faster than initially expected, supported by low oil prices and increased confidence as a result of implemented reforms. In *Albania*, annual GDP growth accelerated to 2.6%, compared to 2% in the previous year, and supported by strong private investment as well as net exports while private and public consumption decreased. In *Montenegro*, real output expanded by 3.2%, up from 1.8% in 2014, largely supported by higher investment, especially a highway project, and healthy growth in exports of services, particularly tourism. In the *former Yugoslav Republic of Macedonia*, GDP growth remained robust at 3.7%. Contrary to other countries in the region, the main drivers of growth were higher household spending and government consumption.

In **Turkey**, GDP growth increased to 4.0% in 2015 up from 3.0% in the previous year. Growth was primarily driven by consumption, but investments contributed as well. Net exports subtracted from growth as a result of declining exports and slightly increasing imports.

Labour market conditions in the **Western Balkan** region remained generally challenging in 2015, but a pick-up in output growth and labour market reforms have led to further gains in employment in all countries of the region though at a different pace. The rate of job growth was marginal in *Serbia* at 0.6%. In *Montenegro* and in *Bosnia and Herzegovina*, employment growth slowed to 2.5% and 1.5%, respectively. Contrary to this, the growth of jobs accelerated in *Albania* (from 1.6% to 4.9% y-o-y) and the *former Yugoslav Republic of Macedonia* (from 1.7% to 2.3% y-o-y). Growing employment levels contributed to a lowering of unemployment rates, which was particularly significant in *Serbia* and the *former Yugoslav Republic of Macedonia*. However, high unemployment rates, ranging from 17.5% in *Albania* and 17.6% in *Montenegro* to 26.1% in the *former Yugoslav Republic of Macedonia* and 42.9% in *Bosnia and Herzegovina*, remain a key challenge for policy makers in the region.

In **Turkey**, the number of employed persons (15-64 years) increased by 2.5% y-o-y but the unemployment rate continued to rise to 10.5% due to strong labour force growth.

Very high external imbalances remain a concern in most **Western Balkan** countries, reflected in large merchandise trade deficits

ranging from around 13% of GDP for *Serbia* to equal or above 20% for the *former Yugoslav Republic of Macedonia*, *Albania* and *Bosnia and Herzegovina* and around 41% of GDP for *Montenegro* and *Kosovo*. External developments in the region during 2015 point to a rather diverse picture. In 2015, current account deficit narrowed in *Bosnia and Herzegovina* to 5.6% of GDP mainly driven by the lower oil and commodity prices which brought down imports and by stronger exports. In *Montenegro*, the external deficit fell to 13.4% of GDP, down from 15.2%, largely due to a record tourism season. Also *Albania* registered a reduction in the current account deficit to 11.2% of GDP compared to 12.9% a year earlier, as the rise of merchandise trade deficit was compensated by a soaring services surplus. In *Serbia*, the current account deficit fell to 4.8% of GDP, mainly due to an improved services balance and higher net transfers. Contrary to this, in the *former Yugoslav Republic of Macedonia* the current account shortfall, which is much smaller compared to other countries of the region, widened to 1.4% of GDP (from 0.8% in 2014) as a slight improvement to the merchandise trade deficit was not sufficient to overcompensate the widening primary income deficit. *Kosovo* recorded a significant widening of the current account deficit to 9.6% of GDP, compared to 7.9% in 2014, reflecting a drop in transfers to the government and lower net income flows.

In *Turkey*, current account deficit decreased further in 2015 to 4.5% of GDP to a large extent because of the oil price decline.

Persistently weak inflation in **Western Balkan** economies reflects negative output gaps, low inflation in trading partners, weak domestic demand and a stable exchange rate against the euro. In 2015, deflationary pressures characterized the *former Yugoslav Republic of Macedonia*, *Bosnia and Herzegovina* and

Kosovo whereas annual consumer price inflation remained positive for *Montenegro* (1.4%), *Albania* (1.9%) and *Serbia* (1.4%). In the latter two countries, the cycle of monetary policy easing continued as in the first quarter of 2016 average inflation decelerated further to 0.6% and 1.5% respectively, undershooting their central banks' targets of 3% and 4±1.5%. The Central Bank of *Serbia* reduced further the key policy rate by 25 basis points to 4.25% in February 2016 while Bank of *Albania* by 25 basis points to a new historic low of 1.5% in early April 2016.

In *Turkey*, the annual CPI inflation decreased from 8.9% in 2014 to 7.7% in 2015, still significantly above the official 5% target. In the first quarter of 2016, headline inflation receded as food prices eased.

Annual credit growth in the **Western Balkan** region in 2015 remained generally positive due to lower lending rates. The latter caused a strong increase in lending to private households but credit to businesses, especially to small and medium-sized firms, remains generally muted. The *former Yugoslav Republic of Macedonia* and *Serbia* registered strong average credit growth rates of 9.1% and 7.7%, respectively, although in the case of *Serbia* it was largely driven by rising claims on government. In *Montenegro*, after several years of contraction, bank lending increased by marginal 0.8% y-o-y. Nevertheless, bank loans stagnated again in February 2016. Credit growth acceleration was remarkable in the case of *Kosovo* (7.3% y-o-y). In 2015, all **Western Balkan** countries slightly improved their bank asset's portfolio quality by reducing NPL ratios although they remain significantly higher compared to pre-crisis levels. *Albania* and *Serbia* are still recording the highest NPL ratios in the region at 17.7% (data the fourth quarter of 2015) and 22.0 % (data the third quarter of 2015), respectively followed by *Bosnia and Herzegovina* (13.9%) and *Montenegro* (13.4%).

In *Turkey*, credit growth continued to decelerate in the first quarter. The capital adequacy ratio of the banking sector remained relatively stable while the ratio of non-performing loans to total loans edged higher.

Economic recovery and the implementation of fiscal consolidation measures supported a reduction of fiscal deficits in almost all *Western Balkan* economies in 2015, but high and rising debt levels remain a cause of concern in many countries. In *Serbia*, strong consolidation measures reduced the budget deficit markedly to 3.8% of GDP (from 6.6% in 2014). Despite a shortfall in revenues *Albania* contained its fiscal deficit to the annual target of 4% of GDP (from 5.2% in 2014) due to spending under-execution. The *former Yugoslav Republic of Macedonia* reduced the shortfall to 3.5% of GDP (from 4.2% in 2014), even though the government had originally planned a lower deficit, and revised the target in the summer in the context of a supplementary budget. General government deficit in *Kosovo* improved slightly to 2% of GDP (from 2.2% in 2014) whereas in *Bosnia and Herzegovina* it remained at the same level as in 2014 at 2% of GDP. On the other hand, spending pressures are still high in *Montenegro* which recorded a

significant increase in its deficit to 8.5% of GDP in 2015 (from 3.1% in 2014), exceeding the full year target of 6.6%. As a common characteristic in the region, fiscal consolidation often happens at the cost of reducing or delaying much needed capital investment, thus undermining the shift of public spending towards more growth-enhancing patterns. Most countries experienced underperforming capital expenditure, pointing to persistent problems with the planning, selection and management of public investment. Public debt continued to rise in all countries despite containment of expenditure and revenue increase. The debt to GDP ratio exceeds 70% in the case of *Albania* and *Serbia*. *Montenegro's* debt ratio is somewhat lower, but is expected to significantly rise due to huge public investment in the transport sector. In the case of the *former Yugoslav Republic of Macedonia* and *Bosnia and Herzegovina*, public debt increased to around 40% of GDP, significantly higher compared to pre-crisis levels.

In *Turkey*, the central government's budget deficit declined slightly to 1.2% of GDP in 2015, but is planned to edge back up to 1.3% in 2016. General government debt as a share of GDP declined to 32.9% at the end of 2015.

Candidate and potential candidate countries: Summary table

	2011	2012	2013	2014	2015	ECFIN 2016 Winter forecast		Q3 15	Q4 15	Q1 16	Jan 16	Feb 16	Mar 16
						2016	2017						
Gross domestic product (in real terms, annual % change)													
Albania	2.5	1.4	1.1	2.0	2.6	3.2	3.5	3.0	2.2	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	2.3	-0.5	2.9	3.5	3.7	3.3	3.5	3.6	3.9	:	N.A.	N.A.	N.A.
Montenegro	3.2	-2.7	3.5	1.8	3.2	4.0	4.1	4.2	1.4	:	N.A.	N.A.	N.A.
Serbia	1.4	-1.0	2.6	-1.8	0.7	1.6	2.5	2.3	1.2	:	N.A.	N.A.	N.A.
Turkey	8.8	2.1	4.2	3.0	4.0	3.4	3.6	3.9	5.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	0.9	-0.9	2.4	1.4	3.2	:	:	3.7	2.1	:	N.A.	N.A.	N.A.
Kosovo*	4.4	2.8	3.4	0.9	:	:	:	4.0	:	:	:	:	:

Unemployment													
Albania	13.4	13.8	16.4	17.9	17.5	16.9	16.0	17.5	17.7	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	31.4	31.0	29.0	28.0	26.1	25.8	24.6	25.5	24.6	:	N.A.	N.A.	N.A.
Montenegro	19.7	19.7	19.5	18.0	17.6	17.2	16.8	16.5	17.9	:	N.A.	N.A.	N.A.
Serbia	23.0	23.9	22.1	19.4	17.9	16.8	16.1	16.7	17.9	:	N.A.	N.A.	N.A.
Turkey	9.0	8.3	8.9	10.1	10.4	10.7	10.8	10.1	10.6	:	:	:	:
Bosnia and Herzegovina	43.8	45.9	44.5	43.6	42.9	:	:	43.0	42.9	:	42.9	:	:
Kosovo*	44.8	30.9	30.0	35.3	:	:	:	:	:	:	:	:	:

Current account balance (% of GDP)**													
Albania	-13.2	-10.2	-10.9	-12.9	-11.2	-11.9	-12.3	-11.0	-11.2	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-2.9	-3.2	-1.6	-0.8	-1.4	0.2	0.1	0.1	-1.4	:	N.A.	N.A.	N.A.
Montenegro	-17.6	-18.5	-14.5	-15.2	-13.4	-13.4	-13.9	-12.5	-13.4	:	N.A.	N.A.	N.A.
Serbia	-10.9	-11.6	-6.1	-6.0	-4.8	-4.9	-4.9	-5.2	-4.8	:	N.A.	N.A.	N.A.
Turkey	-9.6	-6.1	-7.7	-5.5	-4.5	-4.4	-4.7	-5.3	-4.5	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-9.5	-8.7	-5.3	-7.5	-5.6	:	:	-5.8	-5.6	:	N.A.	N.A.	N.A.
Kosovo*	-13.7	-7.5	-6.4	-7.8	-9.6	:	:	-8.1	-9.6	:	N.A.	N.A.	N.A.

Inflation (Consumer price index, annual % change)													
Albania	3.5	2.0	1.9	1.6	1.9	2.3	2.6	1.8	2.0	0.6	1.5	0.2	0.3
The former Yugoslav Republic of Macedonia	3.9	3.3	2.8	-0.3	-0.3	0.7	1.5	-0.2	-0.4	-0.1	0.1	0.0	-0.4
Montenegro (HICP)	3.3	4.0	1.8	-0.5	1.4	1.9	2.2	2.2	1.8	0.3	1.0	0.5	-0.5
Serbia	11.2	7.3	7.9	2.1	1.4	2.4	3.6	1.5	1.4	1.5	2.4	1.5	0.6
Turkey	6.5	8.9	7.5	8.9	7.7	9.0	8.5	7.3	8.2	8.6	9.6	8.8	7.5
Bosnia and Herzegovina	3.7	2.0	-0.1	-0.9	-1.0	:	:	-1.3	-1.7	:	-0.8	-1.2	:
Kosovo*	7.3	2.5	1.8	0.4	-0.5	:	:	-0.9	-0.4	0.1	0.2	0.1	0.1

General government balance (% of GDP)													
Albania	-3.5	-3.4	-5.0	-5.2	-4.0	-2.3	-1.8	-1.4	-3.9	:	:	:	:
The former Yugoslav Republic of Macedonia	-2.5	-3.8	-3.8	-4.2	-3.5	-3.5	-3.1	-3.0	-3.9	:	N.A.	N.A.	N.A.
Montenegro	-5.4	-6.1	-5.2	-3.1	-8.5	-6.6	-6.1	-5.3	-8.5	:	:	:	:
Serbia	-4.7	-6.8	-5.5	-6.6	-3.8	-3.7	-3.5	-1.5	-9.2	:	N.A.	N.A.	N.A.
Turkey	-0.8	-0.3	-1.6	-1.5	-1.4	-1.7	-1.6	:	:	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-1.2	-2.0	-2.1	-2.0	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo*	-1.7	-2.6	-3.1	-2.2	-2.0	:	:	:	:	:	N.A.	N.A.	N.A.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

Forecast: ECFIN forecast Winter 2016

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



Key developments

Albania submitted its Economic Reform Programme (ERP) for 2016-2018 to the Commission at the end of January. It assumes a gradual acceleration of GDP growth, to 3.4% in 2016, 3.9% in 2017 and 4.2% in 2018. The ERP also outlines plans for continued fiscal consolidation, with a headline budget deficit target of 2.2% of GDP in 2016, 1.4% in 2017 and 0.5% in 2018. It forecasts public debt to decline by 8.6 pps. over three years, to 63.6% of GDP in 2018.

In March, staff from the IMF held discussions in Tirana on the seventh review of Albania's ongoing programme with the Fund. The IMF mission concluded that the programme remained on track. This paves the way for the approval, expected in May 2016, of disbursing the next tranche of around €36 million under the arrangement.

Real sector

GDP growth decelerated in the fourth quarter of 2015 to 2.2% y-o-y from 3.0% recorded in each of the previous two quarters. Private consumption increased for the second consecutive quarter, by 2.1% y-o-y. Investment slowed down from the double-digit growth recorded in the first three quarters, but still rose by 6.9% y-o-y. The fall in government consumption intensified (-3.7% y-o-y), marking the fourth consecutive quarter of decrease. Foreign trade continued to be sluggish but provided a positive growth contribution as exports grew slightly (+0.8% y-o-y) while the decline in imports, which now extends to five successive quarters, continued (-2.2% y-o-y).

On the production side, the construction sector provided the single biggest growth contribution in the fourth quarter of 2015 (+1.5 pps.), offsetting the drag on growth from agriculture (-0.37 pps.) and industry, electricity and water (-0.38 pps.). The performance of the latter was strongly influenced by production cuts in the extractive industry amid continuing low oil prices.

On the basis of quarterly data, GDP growth in 2015 as a whole was 2.6%, driven by strong investment as well as net exports. At the same time, private and public consumption decreased.

Labour market

The LFS-estimated unemployment rate (15-64 years) was 17.7% in the fourth quarter of 2015, up 0.2 pps. from the previous three months. However, it decreased by 0.3 pps. compared with the same quarter a year earlier as employment growth picked up (+3.1% y-o-y) and outweighed the 2.8% y-o-y increase in the labour force. Industry saw the highest increase in employment in the fourth quarter (+11.8% y-o-y) despite the fact that the sector's gross value added fell in the same period.

The rate of youth unemployment (15-29 years) declined somewhat in both y-o-y and q-o-q terms, but it remained very high at 32.2% in the fourth quarter of 2015.

External sector

The current account deficit rose by 8.1% y-o-y in October to December. Low oil prices continued to weigh on merchandise exports (-22.6% y-o-y). Imports of goods decreased by only 0.6%; as a result, the deficit in the trade in goods widened by 6.7% y-o-y in the fourth quarter. The surplus of the services account increased by 17.5% y-o-y in the same period thanks to higher earnings from manufacturing services. At the same time, the tourism surplus shrank as a slight increase in revenues from inbound tourists (+1.8% y-o-y) was outweighed by a 7.7% y-o-y surge in outbound travellers' spending. The primary income deficit grew by 6.4% y-o-y due to higher net outflow of investment income. The secondary income surplus edged down by 2% y-o-y as remittances earnings decreased by 10.5% y-o-y in the fourth quarter. On the financing side, FDI inflows fell by 31.3% y-o-y whereas the issuance of a new Eurobond by Albania boosted portfolio investment in the fourth quarter.

In 2015 as a whole, the current account deficit shrank by 10.3% y-o-y. The merchandise trade deficit rose by 3.7% as the sharp fall in the value of goods exports (-17.2%) outweighed the drop in merchandise imports (-2.4%). The services surplus soared (+62.5%) thanks to strong receipts from tourism (+5.4%) and manufacturing processing services (+20.9%), whereas spending by outbound tourists decreased by 6.5%. The primary income deficit

grew by 24.4% due to increased profit repatriation by foreign investors, while the secondary income surplus increased by 6.1%, although remittances earnings were virtually flat (+0.8%).

In relation to GDP, the current account deficit decreased from 12.9% in 2014 to 11.2% in 2015. Even though FDI inflows grew by only 1.4% in 2015, the shrinking current account shortfall meant that the extent to which it was financed by FDI increased from slightly more than two thirds in 2014 to more than three quarters in 2015.

Overall, favourable balance-of-payment flows resulted in a 27.4% increase in foreign-exchange reserves in 2015. They stood at €2.66 billion at year-end, covering seven months of imports of goods and services.

At the end of 2015, the stock of gross external debt was 10.1% higher than a year earlier, mostly due to increased government borrowing. External indebtedness stood at 74% of GDP. Long-term debt, mostly owed by the government, makes up 80% of the total.

Monetary developments

Annual consumer price inflation decelerated sharply in the first quarter, to 0.6% from 2% in the previous three months. This reflected base effects, low imported inflation, and weak domestic price pressures due to still below-potential output. With its 3% inflation target in danger of being missed for an extended period, the Bank of Albania's (BoA) reacted in early April by cutting its policy rate by 25 bps. to a new historic low of 1.5%.

The loose monetary policy stance was not reflected in the exchange rate. The Albanian lek appreciated against the euro by 1.4% y-o-y and 0.1% q-o-q in the first quarter. The lek also strengthened vis-à-vis the USD in the same period, by 6.4% y-o-y and 2.8% q-o-q.

Financial sector

Lending standards continued to ease in the first quarter for both businesses and households, driven by monetary easing as well as banks' comfortable liquidity and capital adequacy

positions. The capital adequacy ratio of the banking sector as a whole decreased slightly to 15.7% in the fourth quarter of 2015 from 15.8% recorded in the previous three months, but it remained well above the regulatory minimum of 12%.

The expansionary monetary policy, coupled with low domestic borrowing by the government, has led to a marked drop in government security yields in the fourth quarter of 2015 and the first quarter of 2016. However, the average interest rate on new bank loans in lek increased to 8% in January-February from 7.7% in the fourth quarter of 2015.

High non-performing loans (NPLs) continued to weigh on lending, even if the NPL ratio declined to 17.7% in the fourth quarter of 2015 from 20.2% in the previous three months as a result of mandatory write-offs of impaired loans. The stock of private sector credit was 2.6% lower in February than a year earlier (not adjusted for the effect of the loan write-offs).

Fiscal developments

The budget deficit in 2015 was in line with the target of 4% of GDP. Revenue underperformed by 8.2% against the initial target and 4.5% against the revised plan adopted in July 2015. However, expenditure remained 7.5% below the initial plan mainly due to savings in interest costs and the underspending of capital budgets.

In the first two months of 2016 the budget posted a large surplus. Although the budget contains only modest tax policy measures, revenues increased by 20% y-o-y in the period January-February and were 3.3% higher than the target as receipts from most taxes exceeded expectations. At the same time, expenditure was 12.1% lower than budgeted due to an across-the-board underperformance. Overall, the budget surplus in the first two months was more than nine times higher than planned and amounted to 0.7% of GDP. The target for 2016 as a whole is a deficit of 2.2% of GDP.

Following a 6.7% y-o-y increase, public debt (including guarantees) stood at 72.3% of GDP at the end of 2015.

TABLE



European Commission, ECFIN-D-1

ALBANIA

							ECFIN 2016 Winter forecast							
		2011	2012	2013	2014	2015	2016	2017	Q3 15	Q4 15	Q1 16	Jan 16	Feb 16	Mar 16
1 Real sector														
Industrial confidence ^{1.1}	Percent	-3.0	-10.6	-9.5	1.2	2.4	:	:	1.5	5.7	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-10.2	16.6	13.9	3.4	2.3	:	:	-2.3	1.2	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	2.5	1.4	1.1	2.0	2.6	3.2	3.5	3.0	2.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.8	0.1	1.4	2.7	-0.2	2.4	2.9	1.7	2.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.9	-7.9	-2.1	-3.9	11.3	9.7	7.6	12.7	6.9	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	0.5	0.6	1.0	0.2	0.3	:	:	0.4	0.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	6.5	4.8	6.3	5.1	5.4	:	:	7.8	6.8	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	13.4	13.8	16.4	17.9	17.5	16.9	16.0	17.5	17.7	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.3	18.5	-9.7	1.6	4.9	2.2	2.5	2.0	3.1	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	7.0	7.3	4.1	1.7	1.8	:	:	2.0	0.9	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	22.2	7.6	-30.5	-11.6	-17.3	:	:	-23.1	-23.1	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	14.2	-4.3	-13.2	3.6	-2.7	:	:	-2.1	-1.5	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-24.2	-20.9	-20.6	-22.1	-22.2	-23.4	-23.9	-22.0	-22.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	34.0	33.3	28.7	28.1	27.1	:	:	27.2	27.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	56.7	52.0	46.9	47.0	44.3	:	:	44.3	44.1	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-13.2	-10.2	-10.9	-12.9	-11.2	-11.9	-12.3	-11.0	-11.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	6.6	6.8	9.6	8.1	8.4	:	:	9.0	8.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1848.6	1907.7	1955.7	2084.8	2655.8	:	:	2480.7	2655.8	:	2653.7	2588.8	:
Int. reserves / months Imp ^{3.9}	Ratio	6.1	6.5	6.8	:	:	:	:	:	:	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	3.5	2.0	1.9	1.6	1.9	2.3	2.6	1.8	2.0	0.6	1.5	0.2	0.3
Producer prices ^{4.2}	Ann. % ch	2.6	:	:	:	:	:	:	-3.1	-2.3	:	:	:	:
Food prices ^{4.3}	Ann. % ch	4.8	2.4	4.2	2.2	4.3	:	:	3.8	5.5	2.9	4.3	2.2	2.2
M2 ^{4.4}	Ann. % ch	6.7	4.7	5.7	4.0	7.2	:	:	6.8	6.3	:	5.3	4.1	:
Exchange rate LEK/EUR ^{4.5}	Value	140.33	139.04	140.26	140.14	139.74	:	:	139.66	138.45	138.30	138.35	138.33	138.22
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	5.46	5.16	4.23	3.10	:	:	:	2.66	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	6.53	6.77	6.03	3.45	2.77	:	:	2.38	2.66	:	2.79	2.69	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	11.7	7.4	-0.2	0.2	0.3	:	:	-1.0	-2.1	:	-2.7	:	:
Deposit growth ^{5.5}	Ann. % ch	14.5	9.4	3.7	1.5	1.9	:	:	1.3	1.2	:	1.2	0.8	:
Non performing loans ^{5.6}	% total	17.0	21.7	24.0	23.9	20.2	:	:	20.2	17.7	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance* ^{6.1}	% of GDP	-3.5	-3.4	-5.0	-5.2	-4.0	-2.3	-1.8	-1.4	-3.9	:	:	:	:
General government debt* ^{6.2}	% of GDP	59.4	62.1	65.5	69.8	72.3	71.6	69.9	73.4	72.0	:	N.A.	N.A.	N.A.

f: ECFIN forecast Winter 2016

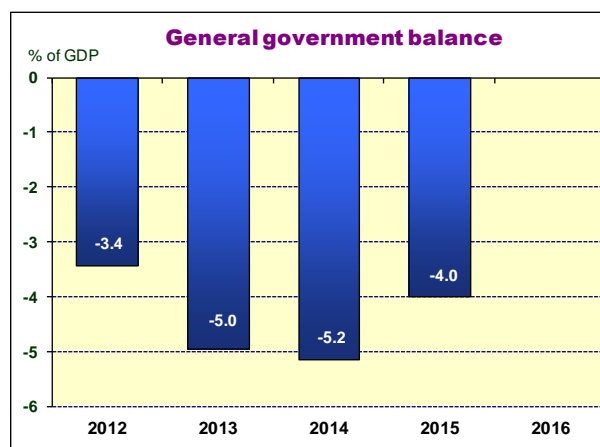
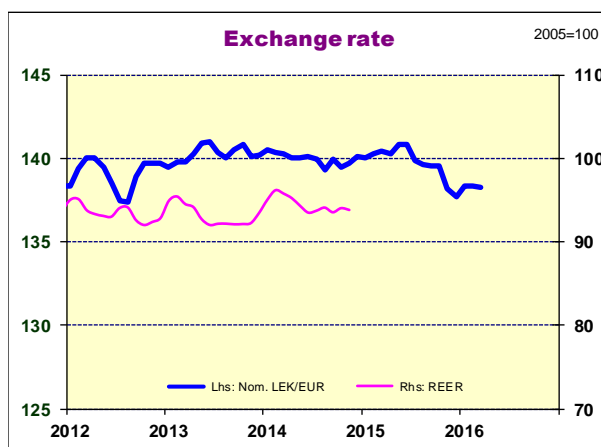
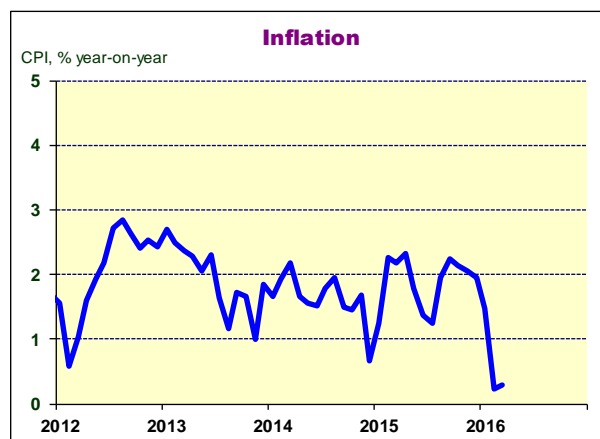
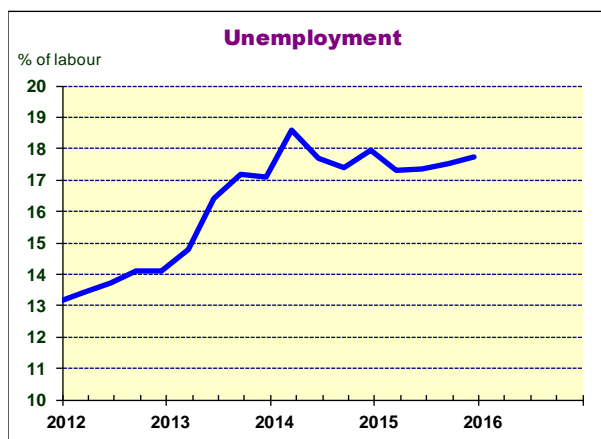
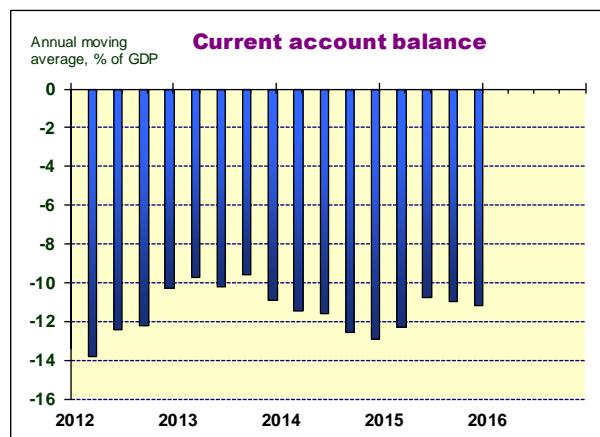
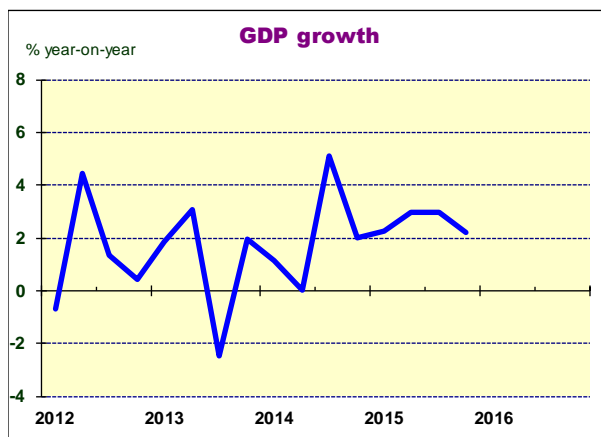
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

ALBANIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



Key developments

On 31 January 2016, the government submitted its Economic Reform Programme for the period 2016-2018. It expects a gradual acceleration of annual GDP growth until 2018, averaging 4.3%. The general government budget deficit is projected to decline to 2.6% of GDP in 2018.

Fitch Ratings affirmed the country's long-term issuer rating at BB+, with a negative outlook on account of risks from political instability, potential fiscal slippages, and external imbalances. Standard&Poor's Ratings also affirmed its BB-/B rating, with a stable outlook.

Real sector

The economic expansion accelerated in the fourth quarter, to 3.9% y-o-y (+0.3pp compared to the third quarter), bringing annual GDP growth for 2015 to 3.7%, according to a first estimate by the State Statistical Office (+0.2pp compared to 2014). Output growth was supported by a surge in household spending, with the external sector making a small positive contribution as well. Government consumption increased by 4.6%, with rising expenditure on goods and services as well as wages providing an important stimulus to the economy, particularly in the second half of the year. Gross capital formation picked up in the fourth quarter (+5.5%) after having declined in the two preceding quarters. On average, in 2015, it remained flat. Among sectors, the expansion in the fourth quarter was underpinned by a 33.7% surge in construction output, after having risen by 29.4% in the third quarter. Manufacturing output increased slightly, as in the third quarter, but marked losses in the first half of the year were not compensated for, and overall, in 2015, the sector contracted (-2% y-o-y).

- In the first two months of 2016, the industrial production index increased by 11.7% y-o-y, mainly due to the rebound in manufacturing (+13%). Strong increases were posted in particular in the FDI-related capital goods industries (machinery and equipment;

motor vehicles components) and in some traditional sectors such as food and clothing.

Labour market

Labour market conditions improved somewhat further in the fourth quarter. Employment growth decelerated slightly to 2.8% y-o-y, after 3% in the third quarter, according to the Labour Force Survey. Taking into account a slight reduction in the labour force, this led to a further rise in the total employment rate, to 42.7% (+0.3pp y-o-y). The unemployment rate declined further in this period, by 0.9pp, to 24.6%, reflecting a drop in the number of unemployed by 12% y-o-y. Yet, while young workers continue to face important challenges - the unemployment rate in the age group 15-24 amounted to 47.3% - incentives provided by the government to employers for recruitment of young workers contributed to a 3.8pp drop in this rate compared to the same period a year earlier. Participation declined further, by 0.8pp, to 56.6% of the working age population.

Annual increases in real net wages slowed down sharply in the fourth quarter (+2.2% y-o-y compared to 3.2% in the third quarter), on account of slower growth of average monthly net wages, in spite of the disinflationary effect.. On average in 2015, they increased by 2.7% y-o-y. Real wages have been growing for 21 months in a row, with above-average gains in FDI-related export sectors, such as manufacturing of motor vehicle components and chemical products, and in some traditional industries such as metal ore mining and textiles.

External sector

Import demand, which had been flat in the first three quarters of 2015, surged towards the end of the year, fuelled by foreign direct investors' demand for raw materials and investment goods. This overcompensated the rise in exports, which was carried by the enhanced production capacities of foreign investors. Traditional exports, in particular in metal manufacturing, largely contracted. This led to a sharp widening

of the merchandise trade deficit in the fourth quarter. The current account slipped back into deficit, wiping out the surplus posted in the third quarter. On average, in 2015, the merchandise trade deficit amounted to 20% of GDP, a slight improvement compared to 2014, but not sufficient to overcompensate the widening primary income deficit. As a result, the current account deficit widened by 0.6pp to 1.4% of GDP. It was covered by FDI inflows (1.7% of GDP), although these were some 23% below their 2014 level. In the fourth quarter alone, they declined by 24% y-o-y. FDI is increasingly made up of intercompany loans, rather than equity, hence driving up gross external debt levels (69.9% of GDP at end-2015, slightly below its level of end-2014). Increased public sector borrowing abroad also accounts for the rise in external debt. Foreign exchange reserves, which had declined in the first eight months (largely due to a repayment of outstanding IMF loans), picked up again thereafter, as the government issued a 270m Eurobond. At the end of the first quarter 2016, reserves were some 3.8% lower than a year earlier, still covering more than 5 months of imports.

Monetary developments

Consumer prices remained almost unchanged in the first quarter of 2016. The CPI decreased by 0.1% in annual terms, after a plunge of 0.4% in the preceding quarter, both mainly on account of declining prices for food accounting for over 40% of the index structure - electricity, liquid fuels and transport. For the full year 2015, the CPI decreased by 0.3%, the same as in 2014. The index had only temporarily gained positive territory over the summer, as fuel prices rose during the seasonal purchasing period. The slowdown in the growth of money supply, which began in early 2015, continued in the fourth quarter. M4 money expanded by 6.8% y-o-y, down from 7% growth in the third quarter. M4 growth continued to loose pace in January and February, on account of slower increases in both, deposits and currency in circulation. The share of the local currency component of the aggregate continued to rise. The central bank continued its neutral policy stance and kept the key policy rate unchanged.

Financial sector

Credit to the private sector slowed down further in the fourth quarter and beyond, as increases in loans to private non-financial companies

decelerated from their peak in April (+8.6% y-o-y) to 5.6% on average between October and February. Increases in household loans remained robust at 12.6% y-o-y in this period, almost unchanged from the third quarter. In a move to curb the expansion of household credit, the central bank increased capital requirements on long-term consumer loans. The quality of banks' asset portfolios improved markedly. By end-December, the share of non-performing to total loans had decreased by 0.9pp compared to end-September, to 10.8%, and also in annual terms (-0.5pp). In December, the central bank obliged banks to write-off fully-provisioned loans that have been on their books for more than 2 years, with effect in June 2016. Interest rates changed marginally in the fourth quarter and beyond. At end-February, nominal lending rates on outstanding loans in national currency stood at 6.7%, slightly below their end-November level (-0.2pp). Deposit rates, at 2.5%, had decreased by 0.1pp. The spread narrowed slightly.

Fiscal developments

Government revenues in the fourth quarter remained in line with the revised projections of the 2015 supplementary budget. Overall revenue in 2015 was 10.5% above pre-year levels, mainly on account of a surge in profit tax intake earlier in the year, after the government had removed exemptions for reinvested profits. Total expenditure was some 7% higher, and the general government deficit was reduced to 3.5% of estimated GDP, lower by 0.7pps compared to the 2014 outturn. Yet, as in previous years, there was marked under-execution of capital expenditure, at only 84% of revised budgeted amounts. Spending on goods and services (+17%, in nominal terms), as well as on public wages (+7%) and on social transfers (+6%) surged, providing a sizeable stimulus to the economy. The government plans to bring the deficit down to 3.2% of GDP in 2016, mainly by a reduction in the expenditure ratio. The deficit in the first two months of the year amounted to some 23% of the total projected balance, or 0.75% of projected GDP. Debt levels rose in the fourth quarter, in response to the government's Eurobond issue in November, overcompensating the repayment of a 2005 Eurobond in December. The level of government debt remained almost unchanged in 2015, at 38% of estimated GDP. The level of public debt, including guaranteed liabilities of state-owned enterprises, stood at 46.5%, up by 3.2pp since the end of the third quarter.

TABLE



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia

		2011	2012	2013	2014	2015	ECFIN 2016 Winter forecast		Q3 15	Q4 15	Q1 16	Jan 16	Feb 16	Mar 16
							2016	2017						
1 Real sector														
Industrial confidence ^{1.1}	Balance	18.4	14.7	12.3	11.4	17.5	:	:	19.5	20.8	:	21.9	22.4	:
Industrial production ^{1.2}	Ann. %ch	4.0	-6.6	3.2	4.8	4.9	:	:	6.2	11.7	:	8.0	15.2	:
Gross domestic product ^{1.3}	Ann. %ch	2.3	-0.5	2.9	3.5	3.7	3.3	3.5	3.6	3.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	-5.4	1.2	1.9	2.1	3.2	2.4	2.5	4.3	3.6	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. %ch	17.9	10.2	0.5	13.1	0.1	4.9	6.5	-1.1	5.5	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. %ch	25.3	4.2	-7.3	1.8	16.8	:	:	29.4	33.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	:	N.A.	-0.8	4.2	9.8	:	:	7.1	14.5	:	22.8	32.4	:
2 Labour market														
Unemployment ^{2.1}	%	31.4	31.0	29.0	28.0	26.1	25.8	24.6	25.5	24.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	1.1	0.8	4.3	1.7	2.3	2.1	2.3	3.0	2.8	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	1.3	0.2	1.2	1.2	2.4	1.3	2.2	3.0	1.8	:	2.0	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	21.0	-3.7	2.9	17.0	9.4	:	:	5.6	7.9	:	6.5	:	:
Imports of goods ^{3.2}	Ann. %ch	22.4	0.3	-1.8	9.4	5.0	:	:	0.6	9.4	:	-4.1	:	:
Trade balance* ^{3.3}	% of GDP	-25.2	-26.5	-22.9	-21.8	-20.1	-18.8	-18.9	-19.6	-20.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	45.6	44.5	42.3	47.8	48.5	:	:	48.6	50.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	66.1	66.9	60.4	65.1	64.8	:	:	60.2	71.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-3.2	-1.6	-0.8	-1.4	0.2	0.1	0.1	-1.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	4.6	1.7	3.3	2.3	1.9	:	:	0.4	1.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	2 068.9	2 193.3	1 993.0	2 436.5	2 261.8	:	:	2 187.4	2 261.8	2 266.3	2 246.9	2 253.4	2 266.3
Int. reserves / months Imp ^{3.9}	Ratio	5.8	6.1	5.6	6.3	5.6	:	:	5.5	5.6	5.5	5.6	5.4	5.4
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	3.9	3.3	2.8	-0.3	-0.3	0.7	1.5	-0.2	-0.4	-0.1	0.1	0.0	-0.4
Producer prices ^{4.2}	Ann. %ch	11.1	4.5	0.4	-1.2	-4.1	:	:	-4.6	-3.1	:	-0.4	-0.7	:
Food prices ^{4.3}	Ann. %ch	6.2	2.3	3.4	-0.9	0.1	:	:	0.3	-0.6	-0.9	-0.7	-0.7	-1.2
Monetary aggregate M4 ^{4.4}	Ann. %ch	10.5	7.5	4.0	8.0	8.2	:	:	7.0	6.9	:	4.5	5.4	:
Exchange rate MKD/EUR ^{4.5}	Value	61.53	61.53	61.58	61.62	61.61	:	:	61.61	61.65	61.68	61.64	61.70	61.69
Nominal eff. exchange rate ^{4.6}	Index	101.3	100.3	101.8	103.0	101.6	:	:	101.9	102.0	:	102.5	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	8.87	8.50	8.04	7.46	7.08	:	:	7.00	6.86	:	6.78	:	:
Stock markets ^{5.3}	Index	2 407	1 890	1 726	1 735	1 731	:	:	1 667	1 743	1 806	1 815	1 807	1 797
Credit Growth ^{5.4}	Ann. %ch	8.1	7.3	4.3	8.4	9.1	:	:	8.9	8.6	:	8.6	8.7	:
Deposit growth ^{5.5}	Ann. %ch	4.6	7.2	4.8	8.2	7.9	:	:	6.6	6.6	:	4.1	5.1	:
Non-performing loans ^{5.6}	% total	9.6	10.4	11.9	11.6	11.4	:	:	11.7	10.8	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance ^{6.1}	% of GDP	-2.5	-3.8	-3.8	-4.2	-3.5	-3.5	-3.1	-3.0	-3.9	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	27.7	33.7	34.2	38.2	38.0	40.8	41.6	35.6	38.0	:	N.A.	N.A.	N.A.

f: ECFIN forecast Winter 2016

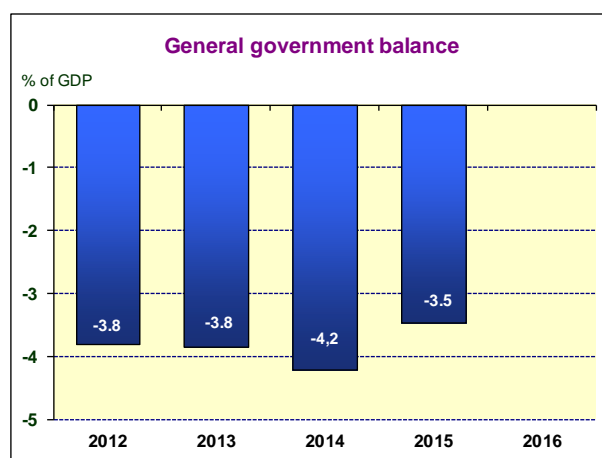
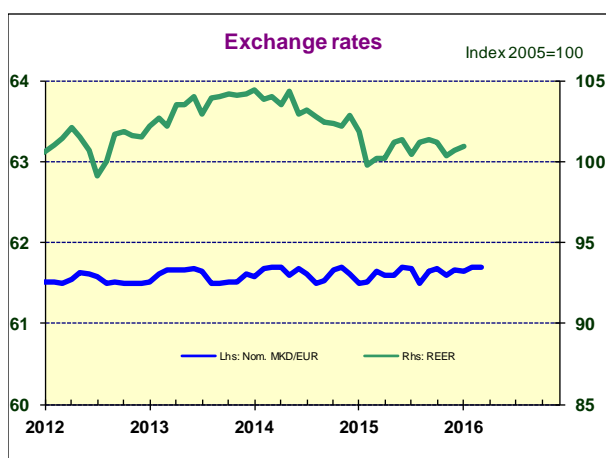
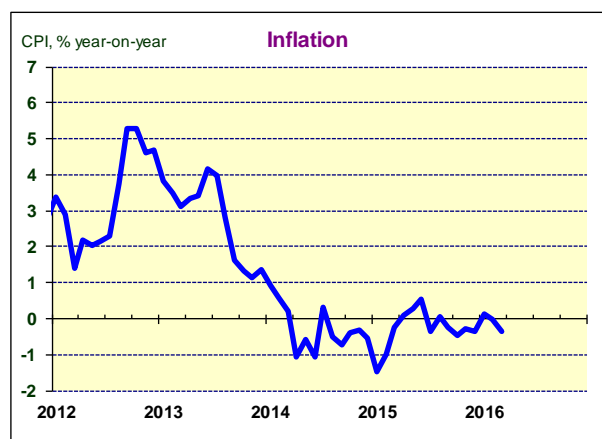
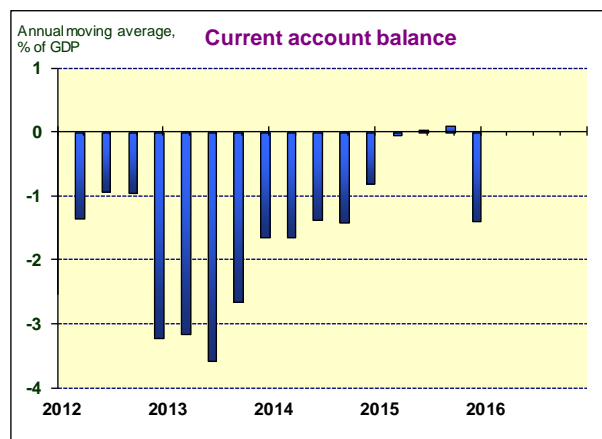
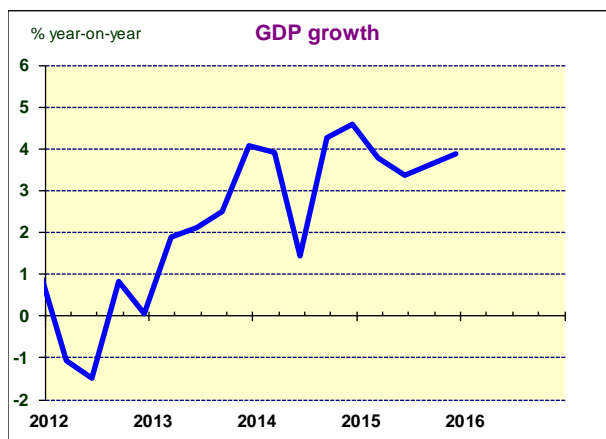
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia





Key developments

On 30 January 2016, Montenegro submitted to the European Commission its Economic and Reform Programme (ERP 2016-2018). The ERP projects real GDP growth to average at around 4% in 2016 and 2017 based on surging private and public investments. The fiscal deficit is set at around 6% of GDP in these two years, largely driven by capital investments.

On 4 February, Montenegro's government decided to award a 30-years concession for oil and gas exploration to a consortium between Italy's Eni and Russia's Novatek.

On 1 April 2016, Montenegrin aluminium smelter KAP, by far the major consumer of electricity in the country, terminated its contract for electricity supply with local power company EPCG, and would instead import electricity. Meanwhile, domestic electricity transmission operator CGES plans to invest EUR 50 million in 2016 in the upgrade of its network to support the power interconnection link to Italy to be completed in 2017.

Real sector

In the last quarter of 2015, GDP growth decelerated to 1.4% y-o-y, compared to 4.2% in the previous quarter. Main works on the priority section of the highway to Serbia were expected to start by mid-October 2015. However, the process has been stalled as negotiations with national authorities took longer than expected. As a result, in the fourth quarter of 2015, the growth of gross fixed capital formation moderated to 7.5%, down from 21% in the previous quarter. Meanwhile, other constructions related to tourism and energy also encouraged imports, which expanded by 13% y-o-y in the last quarter of 2016. This was partially offset by the also strong (14.5%) performance of services exports. Private and government consumption recorded some moderate expansion (by 1.4% and 1.7% y-o-y, respectively), albeit decelerating markedly compared to the previous quarter.

Overall, GDP expanded by real 3.2% y-o-y in 2015, improving from the 1.5% growth recorded a year earlier, but still significantly below earlier

expectations of around 4% growth.

The recovery of private consumption seems to continue in early 2016. In February, retail sales increased by 1.3% y-o-y in real terms, up from 0.8% a month before, supported by food, drinks and tobacco as well as by pharmaceutical and cosmetic sales.

Labour market

Employment growth remains modest despite stronger investment activity. In the last quarter of 2015, the employment rate marginally increased to 43.9% (up from 43.1% a year before), while the unemployment rate declined -also marginally- to 17.9%, compared to 18.1% a year before, while the share of long-term unemployed declined to 71.6%, down from 73.4% a year earlier. Following an annual seasonal pattern, the unemployment rate increased in the first months of 2016. Thus, at the beginning of March, the registered unemployment rate was 18.52%, up from 17.31% in January.

The increase of public sector salaries in 2016 reversed the negative trend recorded in recent years. In the first two months of 2016, gross wages increased by 1% y-o-y in nominal terms, which implies a de facto stagnation when taking into account inflation. In February 2016, the average net wage amounted to EUR 491. Mining, agriculture, real estate and public sector net wages recorded the fastest expansion.

External sector

The strong performance of tourism in 2015 led to a reduction of the current account deficit to 13.4% of GDP, compared to 15.2% a year earlier. The service surplus surged by 14.3% y-o-y and was particularly strong in the third quarter, reflecting a strong tourism season. In addition, the primary income surplus doubled in annual terms, helping to partially offset the 6.3% y-o-y expansion of the trade deficit, the latter driven by strong (8% y-o-y) growth of imports and further (3.2% y-o-y) decline in exports.

The trade deficit further broadened in the first two months of 2016, as exports plunged by 21.6% y-o-y on average and imports increased

(by 3.6%) driven by construction materials and equipment. In the first quarter of 2016, the Port of Adria recorded 22% y-o-y increase in container traffic, reflecting further import activity.

In 2015, the external deficit was largely financed by a surge in net FDI, totalling 17.2% of GDP, while Central Bank reserves increased by additional 3.5% of GDP. However, in the first two months of 2016 FDI recorded a net outflow of EUR 18 million, as total inflows of EUR 188 million were overrun by outflows of EUR 207 million. The latter was driven by dividend payment of one foreign company recorded as capital withdrawal.

Monetary developments

Weak inflation reflects low commodity prices and subdued private consumption. In the first quarter of 2015, the harmonised index of consumer prices slowed down to 0.3% y-o-y, down from 1.8% the previous quarter. The deceleration was driven by oil prices, but also food and non-alcoholic beverages. In contrast, prices of alcoholic beverages and tobacco, restaurant and hotels as well as clothing supported some modest increase in the price index. In March alone, the HICP index contracted by 0.5% y-o-y, ending a 12 months period of continuous growth.

Financial sector

Credit supply remains constrained by poor asset quality. In 2015, after several years of contraction, bank lending increased by marginal 0.8% y-o-y. Yet, the banking system posted a net aggregated loss of one million euros (although largely driven by EUR 20.6 million loss from one bank required to convert pre-crisis Swiss-franc loans). In February 2016, credit growth stagnated again, after recording a 1.1% y-o-y increase the previous month. The stock of non-performing loans recorded some improvement. At the end of February 2016, NPL totalled 12.7% of total loans, down from 13.4% in December 2015.

Robust growth of bank deposits continued. In the first two months of 2016. Deposits grew by 13.4% y-o-y on average, supported by corporate

savings surging by 26% y-o-y. Households saving increased more moderately (8% y-o-y), accounting for 55% of total bank deposits.

In March 2016, the IMF noted in a financial system stability assessment that, although the financial system has been assessed as largely stable, with bank capitalisation and liquidity being adequate, the still high level of NPL, low provisioning and bank profitability are sources of vulnerability. The Fund advised authorities to develop the macroprudential framework and systemic liquidity management.

In April, the Central Bank of Montenegro issued a license to Azerbaijan's Azmont Bank, raising to 15 the number of banks in the country.

Fiscal developments

In 2015, the general government deficit surged to 8.5% of GDP, significantly exceeding the full year target of 6.6%. Part of the expenditure increase was expected due to the planned growth in public investments (by 4.5% of GDP). However, at the end of the year, overall capital spending turned out to be 6.6% below the plan as some projects were delayed. Moreover, the unplanned repayment of arrears totalled some 3.5% of GDP. Budget revenue remained broadly in line with the annual plan, but still 1.5% below previous year level.

The slowdown on public construction at the beginning of 2016 brought some relief to public finances. In the first two months of 2016, the central government budget deficit was 76% lower than planned (or 0.8% of annual GDP), due to an 85% y-o-y contraction in capital expenditure. Budget revenues increased by 3.3% y-o-y, but remained 0.7% below the plan.

In April, the Minister of Finance announced a budget revision in the second half of 2016 in order to cover EUR 40 million budget shortfall relating –to a large extent– to the new benefit for mothers of three children or more as well as public sector wage increases.

Budget deficits continued to feed into a growing public debt. However 2015 data was not yet available at the time of release of this report. The Commission winter forecast projected public debt to have surpassed the fiscal rules limit of 60% of GDP at the end of 2015.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

							ECFIN 2016 Winter forecast							
		2011	2012	2013	2014	2015	2016	2017	Q3 15	Q4 15	Q1 16	Jan 16	Feb 16	Mar 16
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	8.7	11.1	9.8	:	:	15.7	8.0	4.9	6.7	4.5	3.4
Industrial production ^{1.2}	Ann.%ch	-10.3	-7.1	10.7	-10.4	7.9	:	:	9.4	6.1	:	-12.3	-15.8	:
Gross domestic product ^{1.3}	Ann.%ch	3.2	-2.7	3.5	1.8	3.2	4.0	4.1	4.2	1.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	0.5	-3.9	1.6	2.9	0.7	1.5	3.3	-1.6	1.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	-7.2	-2.4	10.7	-2.5	10.5	11.5	4.5	21.4	7.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	10.2	-13.2	9.7	2.0	5.8	:	:	2.3	3.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	12.6	6.7	11.3	2.5	4.5	:	:	6.4	6.1	:	3.4	3.9	:
2 Labour market														
Unemployment ^{2.1}	%	19.7	19.7	19.5	18.0	17.6	17.2	16.8	16.5	17.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	-6.1	2.2	1.1	7.1	2.5	1.5	1.9	3.0	1.9	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	1.0	0.8	-0.2	-0.3	0.3	3.5	2.6	0.3	0.2	:	1.1	1.0	:
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	33.6	-17.8	1.0	-9.7	-9.0	:	:	-22.9	-1.4	:	-38.0	-3.2	:
Imports of goods ^{3.2}	Ann.%ch	9.2	-0.1	-3.2	0.6	3.1	:	:	3.7	1.4	:	-2.5	8.0	:
Trade balance* ^{3.3}	% of GDP	-40.0	-43.7	-39.5	-39.8	-40.7	-39.5	-38.8	-40.8	-40.7	:	-42.6	-42.9	:
Exports goods and services ^{3.4}	% of GDP	42.3	43.7	41.3	40.1	42.8	:	:	71.4	28.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	64.3	68.1	61.4	60.0	61.5	:	:	52.3	65.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-17.6	-18.5	-14.5	-15.2	-13.4	-13.4	-13.9	-12.5	-13.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	11.9	14.5	9.6	10.2	17.2	:	:	17.3	17.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	303.5	347.9	423.7	544.7	673.7	:	:	703.0	673.7	:	640.9	630.0	:
Int. reserves / months imp ^{3.9}	Ratio	2.0	2.3	2.9	3.7	4.4	:	:	4.6	4.4	:	4.2	4.1	:
4 Monetary developments														
HICP ^{4.1}	Ann.%ch	3.3	4.0	1.8	-0.5	1.4	1.9	2.2	2.2	1.8	0.3	1.0	0.5	-0.5
Producer prices ^{4.2}	Ann.%ch	3.2	1.9	1.7	0.2	0.3	:	:	0.2	0.0	0.1	0.1	0.2	0.0
Food prices ^{4.3}	Ann.%ch	2.8	4.2	4.0	-1.4	2.9	:	:	3.3	2.5	-0.7	0.9	-0.5	-2.5
M21 ^{4.4}	Ann.%ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate ^{4.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	2.27	5.32	3.39	1.60	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	2.45	4.75	3.19	1.26	0.50	:	:	0.38	:	1.11	0.53	1.02	1.78
Stock markets ^{5.3}	Index	11,896	9,091	9,532	10,696	11,949	:	:	12,042	11,555	11,770	12,054	11,732	11,524
Credit growth ^{5.4}	Ann.%ch	-6.3	-0.7	3.1	-1.9	0.8	:	:	4.1	0.8	:	1.1	0.0	:
Deposit growth ^{5.5}	Ann.%ch	1.5	9.0	5.9	10.0	13.7	:	:	15.7	13.7	:	12.8	14.0	:
Non-performing loans ^{5.6}	% of total	15.5	17.6	18.4	16.8	13.4	:	:	14.7	13.4	:	12.8	12.7	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-5.4	-6.1	-5.2	-3.1	-8.5	-6.6	-6.1	-5.3	-8.5	:	:	:	:
General government debt ^{6.2}	% of GDP	45.6	53.4	57.6	54.8	61.4f	65.8	68.9	59.8	61.4f	:	:	:	:

f: ECFIN forecast Winter 2016

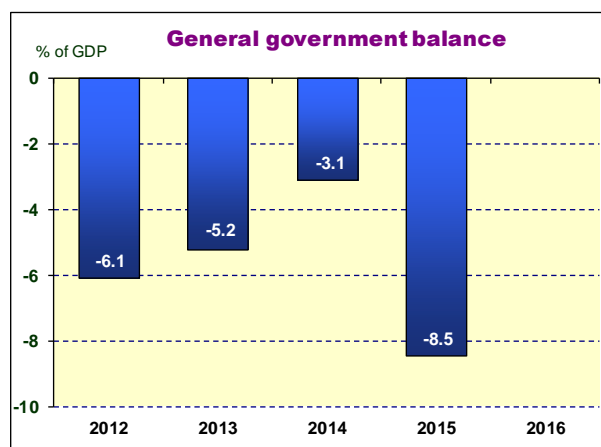
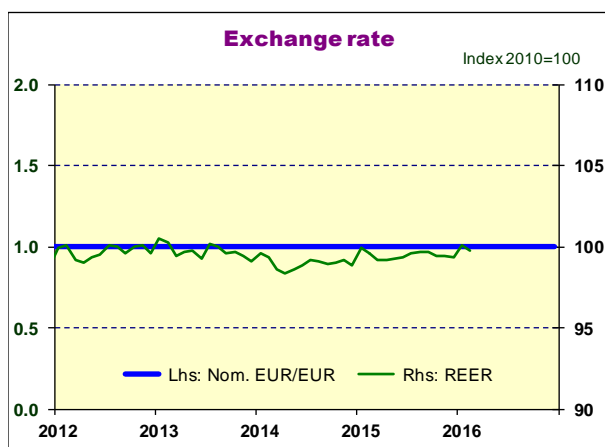
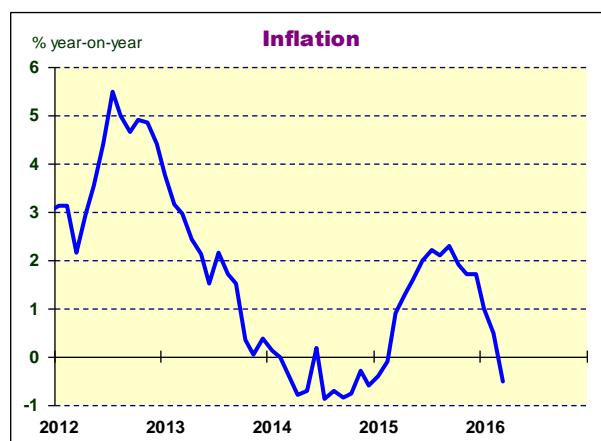
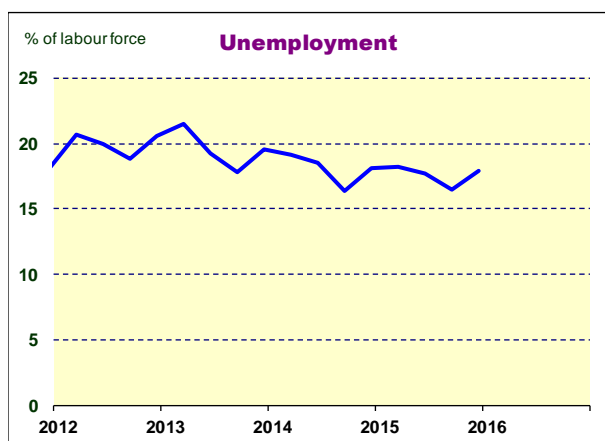
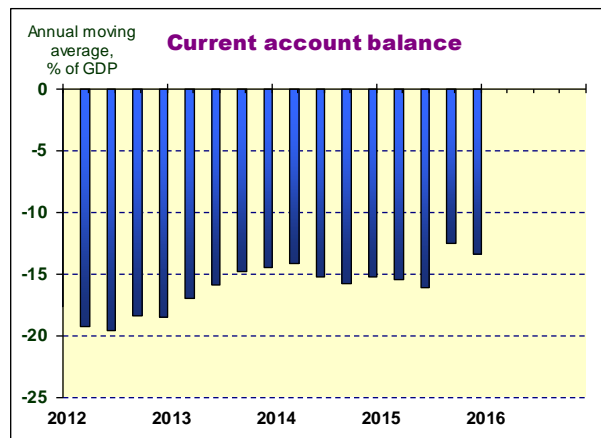
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO





Key developments

Serbia submitted its 2016 Economic Reform Programme to the Commission, covering the period 2016-2018, on 11 March 2016. Following a recession in 2014, economic growth is expected to pick up, driven mainly by investment and exports, and to average 2.5 % over the programme horizon. The growth outlook is supported by a number of planned structural reforms, such as restructuring state-owned enterprises and reforming the public administration. The programme confirms Serbia's commitment to fiscal consolidation. The budget deficit is planned to be reduced from 3.8% of GDP in 2015 to 1.8 % in 2018. However, government debt is forecast to remain high at around 76% of GDP at the end of the programme period.

In late February, the IMF and the authorities initiated discussions on the fourth review of the precautionary Stand-By Arrangement. Due to the early general elections, held on 22 April, discussions are expected to continue once a new government had been formed.

In early April, the Chinese He Steel Group Co., Ltd. (HBIS) bought all property of Smederevo steelwork – the only steel mill in Serbia – for EUR 46 million. The mill was once privatised in 2003 and bought back by the state in 2012. Since April 2015, the Smederevo steel mill has been managed by private consultants.

Real sector

Despite a significant fiscal consolidation, increased confidence as a result of implemented reforms and low oil prices helped the economy recover faster than initially expected and to increase by an estimated 0.7 % in 2015. GDP growth stood at 1.2 % y-o-y in the fourth quarter as investment and export growth remained robust, growing by 7.8 % and 6.1 % y-o-y, respectively. Investments, in particular, benefitted from significant monetary easing and from recent measures to reduce the budget deficit and improve the business environment. Exports growth was sustained by rebounding economic activity in major trading partners and gains in competitiveness. The decline in household consumption decelerated further in

the fourth quarter, increasingly underpinned by growing private sector wages and a general recovery of confidence. Remittances and lower commodity prices have continued to support consumption as well. Public consumption maintained its growth momentum by the end of the year, despite lower government spending on wages and goods and services. On the supply side, industry, construction and financial activities remained the main contributors to growth, while agriculture continued its decline (-6.7 % y-o-y).

High frequency indicators suggest that economic recovery has accelerated in early 2016. Industrial production, still largely driven by energy and mining, picked up in the first two months of the year. Manufacturing performed well, growing across most of the sectors. Retail trade and wage data also signal an ongoing revival in private consumption.

Labour market

According to LFS data, total employment fell by 1.0 % y-o-y in the fourth quarter. The continuous decline in state employment (-4.1 % y-o-y) was the main factor for the poor labour market performance. The growth in private sector employment decelerated from 3.0 % in the third to 0.5 % in the fourth quarter and was not sufficiently strong to compensate, as in previous quarters, job losses in the public sector. As a result, the unemployment rate, which has been declining since the beginning of 2015, went up to 17.9 % from 17.3 % a year ago. However, registered private employment increased further (7.5 % y-o-y) mainly as a result of strong drops in informal employment – the rate of informal employment fell by 3.8 percentage points y-o-y to 19.4 %.

The National Employment Service data diverge from the LFS, showing a continuing decline (-2.4 % y-o-y) in the number of unemployed in the fourth quarter of 2015. In the first quarter of 2016, registered unemployed fell as well, although at decelerating pace (-1.8 % y-o-y). Since December 2015, gross real wages turned to growth (3.0 % y-o-y in the first quarter of 2016), supported by base effects.

External sector

In the first two months of 2016, the growth in exports of goods has been high, accelerating to 12.8 % y-o-y in euro terms. The robust exports performance was visible in trade with most of Serbia's key trading partners, including with the EU (12.5 % y-o-y). Building on their good outturn in 2015, manufacturing exports turned strong (14.5 % y-o-y). In comparison, imports growth (4.3 % y-o-y in euro terms) remained rather subdued, reflecting weak domestic demand and low energy prices. As a result, in the first two months until end of February, the cumulative merchandise trade balance fell by 18 % y-o-y.

Following a strong reduction of the current account deficit in 2015 (-20.5 % y-o-y in euro terms; down to 4.8 % of GDP), preliminary data show that the current account turned into a small surplus in January 2016 – the first monthly surplus in many years. A steep reduction of the merchandise trade deficit contributed most to this development. In parallel with improving external imbalances, net FDI grew markedly, by 46 % in 2015, fully covering the current account deficit and channelled mainly into tradable sectors.

Monetary developments

Annual inflation remained below the central bank target tolerance band of $4\pm 1.5\%$ and fell to 0.6 % y-o-y in March. It averaged 1.5 % y-o-y in the first quarter of 2016, as low fuel prices still have a disinflationary impact and most other prices, with the exception of some excise goods like tobacco, increased only slightly or remained broadly stable.

The cycle of monetary policy easing continued with a 25 basis points cut of the key policy rate to 4.25 % in February. Price stability and strong fiscal consolidation have facilitated this move while uncertainties from the international environment and the early elections have prevented more aggressive easing. In the first quarter, the dinar depreciated against the euro by 1.1 % y-o-y. Depreciating pressures and seasonal factors also prompted interventions by the central bank, selling, on a net basis, EUR 565 million in the first three months to ease excessive daily volatility of the exchange rate. These interventions contributed to a decrease in the level of central bank foreign exchange reserves, which fell to EUR 9.5 billion

in March, covering about six months' worth of imports of goods and services.

Financial sector

The growth in domestic claims stood at 9.5 % y-o-y in February. It was largely due to a continued increase in claims on government (28.8 % y-o-y). Credit to non-government sector expanded at a much slower pace (2.2 % y-o-y) and was still mainly driven by lending to households. Commercial banks' non-monetary sector deposits grew by 7.2 %, underpinned by a rise in the long-term deposits' segment. Over the last year, in an environment of low inflation and broadly stable exchange rate, dinar and dinar indexed deposits more than doubled, although from a very low basis. The level of non-performing loans for the banking system was 22.0 % in the third quarter of 2015. The central bank has not published an updated set of macro-prudential indicators, following the special diagnostic study, implemented last year. However, it has indicated that the study would lead to a 4.7 percentage points increase in the total non-performing loan ratio for the 14 banks participating in it.

Fiscal developments

Strong consolidation measures have reduced the budget deficit to 3.8 % of GDP in 2015. Public wage and pension cuts, implemented at the end of 2014, and better collection of tax revenue have contributed the most to a significant structural adjustment. The better than expected budget performance led to a marked downward revision of the initial 5.8 % of GDP deficit target and allowed for accommodation of a partial reversal of the wage and pension cuts and unplanned one-off payments by the end of the year.

The good budget performance continued in early 2016. The consolidated budget was in small surplus by the end of February, supported by strong revenue performance (8.6 % y-o-y). Total expenditure increased as well (7.0 % y-o-y), but key spending categories like wages, subsidies, and pensions remained at or below their levels in the corresponding period previous year, while capital expenditure more than doubled. By the end of February, government debt stood at RSD 3,070 billion (76.8 % of the estimated GDP), increasing by around 52 RSD billion since the beginning of the year.

TABLE



European Commission, ECFIN-D-1

SERBIA

							ECFIN 2016 Winter forecast							
		2011	2012	2013	2014	2015	2016	2017	Q3 15	Q4 15	Q1 16	Jan 16	Feb 16	Mar 16
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	2.0	-3.4	5.6	-6.1	8.4	:	:	13.2	10.2	:	8.3	14.0	:
Gross domestic product ^{1.3}	Ann. %ch	1.4	-1.0	2.6	-1.8	0.7	1.6	2.5	2.3	1.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	0.9	-2.1	-0.4	-1.3	-0.6	0.5	1.5	-0.6	-0.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	4.6	13.2	-12.0	-3.6	8.3	7.9	8.0	11.5	7.8	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	28.6	-14.6	-23.8	26.6	17.2	:	:	54.3	5.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	-14.6	-3.9	-5.3	2.0	1.4	:	:	2.2	3.4	:	6.1	11.8	:
2 Labour market														
Unemployment ^{2.1}	%	23.0	23.9	22.1	19.4	17.9	16.8	16.1	16.7	17.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	-6.0	-1.1	3.7	10.1	0.6	0.7	1.2	0.2	-1.0	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	11.1	9.0	5.7	1.1	-0.4	:	:	-0.6	0.4	4.5	2.9	3.9	6.6
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	14.1	4.5	24.7	1.5	7.7	:	:	8.8	6.0	:	9.1	15.8	:
Imports of goods ^{3.2}	Ann. %ch	13.4	3.2	4.7	0.2	5.6	:	:	2.2	6.7	:	2.0	6.7	:
Trade balance* ^{3.3}	% of GDP	-17.6	-18.8	-13.0	-13.0	-13.2	-11.5	-11.6	-12.9	-13.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	34.4	36.3	40.7	43.4	47.6	:	:	46.9	47.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	-49.8	-53.6	-51.9	-54.4	-57.5	:	:	-57.0	-57.5	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-10.9	-11.6	-6.1	-6.0	-4.8	-4.9	-4.9	-5.2	-4.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	-5.5	2.2	3.9	3.7	5.5	:	:	4.8	5.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	12 058.2	10 914.7	11 188.8	9 907.2	10 378.0	:	:	10 511.4	10 378.0	:	10 104.5	9 850.8	9 500.9
Int. reserves / months Imp ^{3.9}	Ratio	10.5	9.3	9.2	8.0	8.1	:	:	8.3	8.1	:	7.9	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	11.2	7.3	7.9	2.1	1.4	2.4	3.6	1.5	1.4	1.5	2.4	1.5	0.6
Producer prices ^{4.2}	Ann. %ch	9.7	6.4	0.8	0.2	0.7	:	:	-1.2	0.7	-1.5	0.3	-1.4	-1.5
Food prices ^{4.3}	Ann. %ch	6.4	15.4	-2.5	2.2	-0.1	:	:	0.9	-0.1	-1.8	1.7	0.1	-1.8
M3 ^{4.4}	Ann. %ch	10.3	9.4	4.6	8.7	7.2	:	:	4.1	7.2	:	4.9	7.9	:
Exchange rate RSD/EUR ^{4.5}	Value	101.96	113.01	113.09	117.25	120.76	:	:	120.21	120.83	122.85	122.55	122.87	123.13
Nominal eff. exchange rate ^{4.6}	Index	81.8	74.1	74.0	68.4	66.6	:	:	67.9	66.6	66.1	66.1	66.2	66.1
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	12.56	12.50	9.49	7.24	5.18	:	:	4.60	2.95	:	2.79	2.75	:
Bond yield (12 months) ^{5.2}	% p.a.	12.90	13.04	10.67	9.18	7.27	:	:	6.80	4.95	:	4.95	:	4.95
Stock markets ^{5.3}	Index	1 270	932	1 035	1 215	1 359	:	:	1 330	1 323	1 303	1 315	1 289	1 306
Credit growth ^{5.4}	Ann. %ch	5.5	12.9	-6.5	6.7	7.7	:	:	5.9	7.7	:	4.9	9.5	:
Deposit growth ^{5.5}	Ann. %ch	9.2	10.4	3.3	8.1	6.5	:	:	3.7	6.5	:	3.9	7.2	:
Non-performing loans ^{5.6}	% total	19.0	18.6	21.4	21.5	:	:	:	22.0	:	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance* ^{6.1}	% of GDP	-4.7	-6.8	-5.5	-6.6	-3.8	-3.7	-3.5	-1.5	-9.2	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	44.2	55.9	58.8	71.0	75.4	79.9	81.8	73.3	75.4	:	N.A.	N.A.	N.A.

f: ECFIN forecast Winter 2016

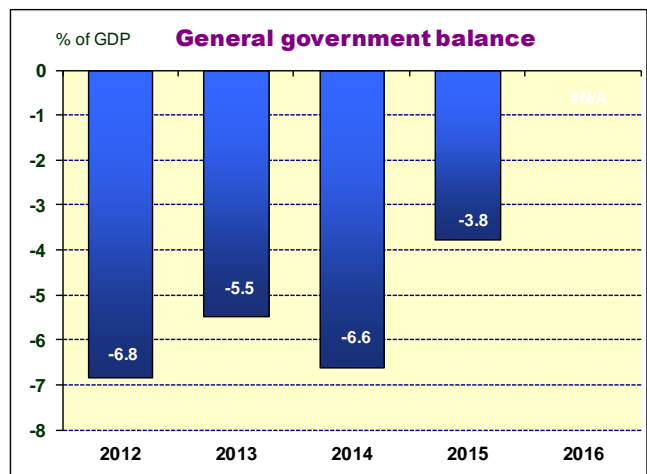
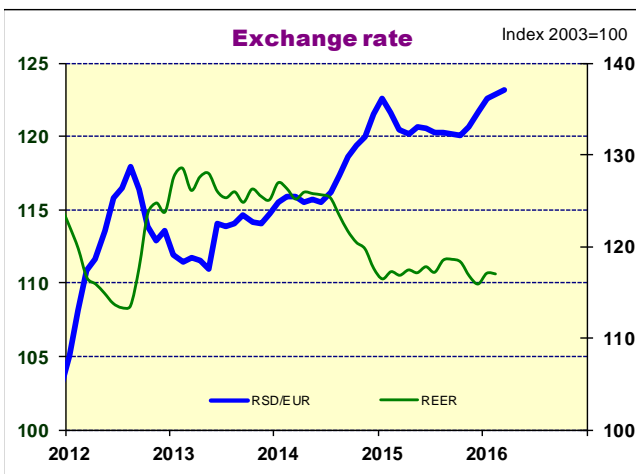
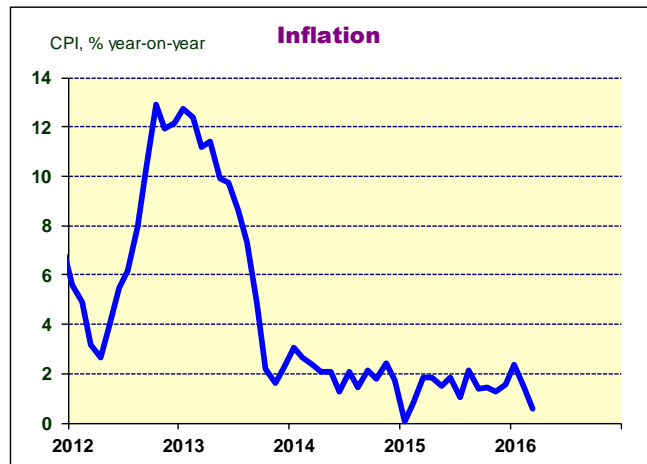
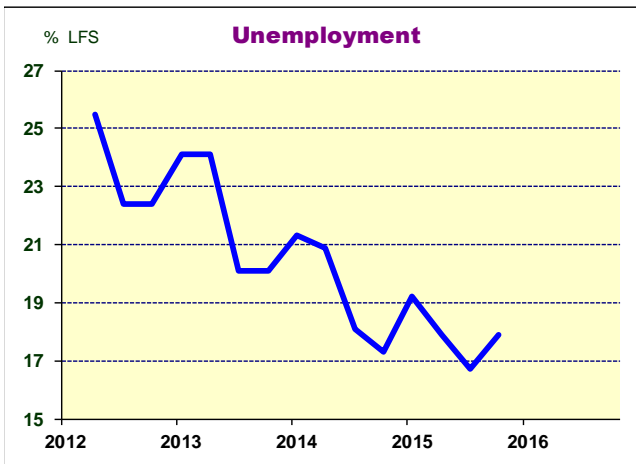
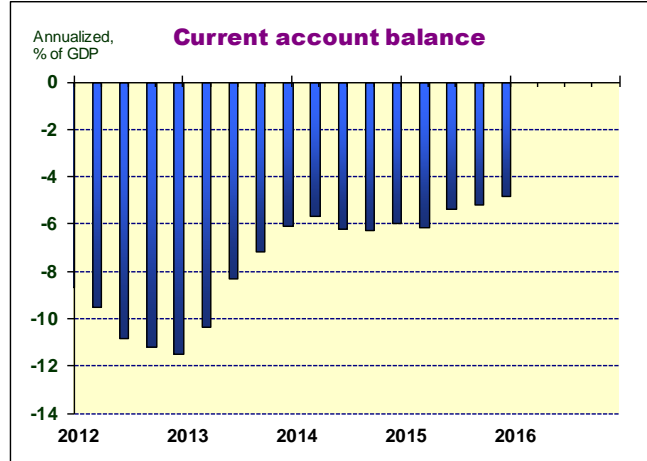
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

The Turkish government submitted the Economic Reform Programme (ERP) for 2016-2018 to the European Commission on 13 April. It projects an increase of GDP growth to 4.5% in 2016 and to 5% in the following two years. According to the programme, annual average inflation will decline to 5.8%, the unemployment rate to 9.6%, and the current account deficit to 3.5% of GDP by 2018. The fiscal deficit of general government is projected to remain relatively low. The ERP includes an expanded focus on structural reforms compared to previous years.

Due to a delay caused by the general elections last November, the 2016-budget for central government was only approved by parliament on 9 March. A temporary budget law was in force in the first quarter.

Real Sector

Real GDP growth increased at a surprisingly strong rate of 5.7% year-on-year in the fourth quarter of 2015, up from 3.9% in the third quarter. As a result, annual GDP growth reached 4.0% in 2015 as projected in the government's revised Medium Term Programme from January. In 2014, annual GDP had increased by an upwardly revised 3.0%.

The strong GDP growth rate for the fourth quarter was primarily based on buoyant consumption. Private and public consumption increased by year-on-year rates of 4.7% and 8.1% respectively. Together, this contributed 4.2 percentage points to GDP growth. Public investment was also strong (+9.9%), whereas private investment remained relatively subdued (+1.7%). Overall, gross fixed capital formation contributed 0.9 pps to GDP growth. In contrast to the three previous quarters, exports of goods and services increased in the fourth quarter (+2.1%). Imports, on the other hand, declined for the second consecutive quarter (-2.6%). As a result, net exports added 1.3 pps to growth.

Stock adjustments subtracted 0.7 pps from growth.

The most recent monthly data are somewhat mixed. On balance, however, they suggest continued growth in the first quarter of 2016. Industrial production was strong in the first two months of the year with the calendar-adjusted index up by 5.8% year-on-year in February. The capacity utilisation rate in the manufacturing industry increased to 74.3% in March which is 1.9 pps higher year-on-year. Retail sales were subdued in January, but picked up sharply in February when they were 7.9% higher year-on-year in calendar-adjusted terms. According to recent surveys, consumer confidence was left unaffected by the terrorist attacks which hit Ankara and Istanbul in mid-March. The softest data are from the PMI survey which weakened from 52.2 last December to 49.2 in March, the first sub-50 reading since last October.

Labour market

In 2015, annual average employment increased 2.5% for the 15-64 age group. However, since the labour force increased by 3.0%, annual average unemployment was up by 0.4 percentage points to 10.5%. The rise in the labour force was the combined result of a 0.6 percentage-point rise in the participation rate to 56.1% and a 1.2% increase of the working-age population.

In January 2016, year-on-year employment growth had risen to 3.1%, lowering the unemployment rate by 0.3 percentage points compared to January 2015.

Hourly labour costs increased 13.3% in 2015, the fastest rise of the annual average since the beginning of the data series in 2007.

External sector

The current account deficit narrowed from USD 43.6 billion in 2014 (5.5% of GDP) to USD 32.1 billion in 2015 (4.5% of GDP). This improvement was mainly the result of the lower

oil price which reduced net energy imports by USD 15.5 billion year-on-year. A second important factor was a swing from deficit to surplus in Turkey's notoriously volatile trade in non-monetary gold which improved the current account balance by USD 7.9 billion. The balance for non-energy and non-gold items deteriorated by USD 11.9 billion from a surplus of 1.1% of GDP in 2014 to a deficit of 0.4% of GDP in 2015.

Net foreign direct investment inflows (USD 11.7 billion) financed 36.5% of the current account deficit in 2015 helped by a number of large foreign investments in the financial sector. Portfolio investments saw a sharp swing to net outflows (USD 15.5 billion) as investor sentiment turned against emerging markets. This was compensated by other foreign borrowing (USD 14.7 billion) and a large drawdown in international reserve assets (USD 11.8 billion). An (unexplained) surge in "errors & omissions" (USD 9.4 billion) covered the remainder of the current account deficit.

Gross external debt fell by USD 4.7 billion in the course of 2015 to USD 398.0 billion. However, gross external debt as a share of GDP increased from 53.4% at the end of 2014 to 59.6% at the end of 2015 as a result of the lira's depreciation against the US dollar.

Monetary developments

Headline inflation fell from 8.8% last December to 7.5% in March 2016 as food price inflation retreated to 4.6% year-on-year. The annual rate for core inflation stood at 9.5% in March, unchanged compared to last December. Expectations for CPI inflation 12-months ahead edged higher from 7.6% in December to 7.9% in March.

In the first change of policy rates since February 2015, the central bank cut its overnight lending rate by 25 basis points to 10.5% on 24 March and by a further 50 basis points to 10% on 20 April. The overnight borrowing rate and the one-week repo rate have been kept at 7.25% and 7.5%, respectively. The overnight lending constitutes the upper boundary of the corridor for overnight rates which now has been narrowed to 275 basis points. The central bank portrayed the recent interest rate cuts more as a simplification of its monetary policy framework than as an easing of its monetary policy stance. The cuts had been made possible by declining

global financial volatility and improving global financial conditions. The central bank continues to describe its monetary policy stance as tight.

The lira was relatively stable in the foreign exchange market in the first quarter. It depreciated 1.1% against the euro and appreciated 2.6% against the US dollar over the quarter. In real effective terms, the lira depreciated by 2.3% between March 2015 and March 2016.

Bank lending to the non-financial sector has decelerated sharply from 21.1% year-on-year in early January to 13.2% in mid-April. The year-on-year growth rate for consumer loans has receded to 5.7%.

Financial sector

Following a sharp decline in November-December 2015, stock prices rallied strongly in the first quarter of 2016. The main stock index of the Borsa Istanbul was up by 16.1% over the quarter. The yield on 2-year benchmark government debt has receded to 9.2% by mid-April.

The banking sector's net profit had increased by 5.9% in 2015 and it has reported net profit growth of 31.7% year-on-year in the first two months of 2016. The sector's capital adequacy ratio declined by 0.3 percentage points year-on-year to 15.4% at the end of February.

Fiscal developments

In 2015, the central government's budget deficit declined slightly as a ratio of GDP. The deficit fell from 1.3% in 2014 to 1.2% of GDP which is slightly higher than originally planned (1.1%). Revenues and expenditures increased by 13.6% and 12.8%, respectively.

The 2016-budget which was approved by parliament on 9 March. It operates with a slightly increased deficit (1.3% of GDP).

General government debt as a share of GDP fell from 33.5% at the end of 2014 to 32.9% at the end of 2015.

TABLE



TURKEY

European Commission, ECFIN-D-1

							ECFIN 2016 Winter forecast							
		2011	2012	2013	2014	2015	2016	2017	Q3 15	Q4 15	Q1 16	Jan 16	Feb 16	Mar 16
1 Real sector														
Industrial confidence ^{1.1}	Balance	110.5	106.3	108.1	107.1	104.0	:	:	102.7	102.6	104.6	103.3	104.5	106.0
Industrial production ^{1.2}	Ann. %ch	10.1	2.5	3.0	3.6	3.2	:	:	0.2	7.5	:	3.6	8.5	:
Gross domestic product ^{1.3}	Ann. %ch	8.8	2.1	4.2	3.0	4.0	3.4	3.6	3.9	5.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	7.7	-0.5	5.1	1.4	4.5	3.4	3.5	3.6	4.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	18.0	-2.7	4.4	-1.3	3.6	3.5	4.0	0.0	3.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	-16.2	34.9	16.4	38.4	-11.4	:	:	-12.1	18.3	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	8.9	5.2	4.2	3.8	3.6	:	:	3.3	3.7	:	0.1	7.9	:
2 Labour market														
Unemployment ^{2.1}	%	9.0	8.3	8.9	10.1	10.4	10.7	10.8	10.1	10.6	:	:	:	:
Employment ^{2.2}	Ann. %ch	6.6	3.1	2.8	1.6	2.8	2.8	2.9	3.5	3.0	:	:	:	:
Wages ^{2.3}	Ann. %ch	9.7	11.5	12.4	14.2	14.8	14.5	11.5	18.1	12.0	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	18.5	13.0	-0.4	3.8	-8.7	:	:	-12.0	-6.5	:	-22.3	1.4	:
Imports of goods ^{3.2}	Ann. %ch	29.8	-1.8	6.4	-3.8	-14.4	:	:	-17.4	-18.4	:	-19.2	-8.1	:
Trade balance* ^{3.3}	% of GDP	-11.5	-8.3	-9.7	-8.0	-6.7	-6.1	-6.0	-7.5	-6.7	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	24.0	26.3	25.6	27.9	28.0	:	:	27.7	28.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	32.6	31.5	32.2	32.1	30.8	:	:	31.3	30.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-9.6	-6.1	-7.7	-5.5	-4.5	-4.4	-4.7	-5.3	-4.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.1	1.7	1.5	1.6	2.3	:	:	2.2	2.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bio EUR	83.9	104.8	107.9	115.0	117.7	:	:	126.8	117.7	:	117.0	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.8	6.8	6.8	7.6	7.6	:	:	8.0	7.6	:	7.6	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	6.5	8.9	7.5	8.9	7.7	9.0	8.5	7.3	8.2	8.6	9.6	8.8	7.5
Producer prices ^{4.2}	Ann. %ch	11.1	6.1	4.5	10.2	5.3	:	:	6.3	5.6	4.7	5.9	4.5	3.8
Food prices ^{4.3}	Ann. %ch	6.2	8.4	9.1	12.6	11.1	:	:	9.9	9.7	8.3	11.7	8.8	4.6
M4 ^{4.4}	Ann. %ch	19.7	9.0	18.5	16.4	17.5	:	:	20.5	19.0	15.6	17.4	15.5	14.0
Exchange rate TRY/EUR ^{4.5}	Value	2.33	2.31	2.53	2.91	3.02	:	:	3.17	3.19	3.25	3.27	3.27	3.21
Nominal eff. exchange rate ^{4.6}	Index	86.15	84.14	78.86	69.39	64.20	:	:	61.26	61.05	:	60.34	60.89	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	%p.a.	8.34	8.44	6.60	9.84	10.48	:	:	11.11	11.02	:	11.21	11.38	11.23
Interest rate, long term ^{5.2}	%p.a.	14.19	16.03	15.31	:	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	60 751	63 731	77 977	75 190	80 662	:	:	76 859	77 462	74 788	71 183	73 141	80 042
Credit growth ^{5.4}	Ann. %ch	35.2	18.6	33.4	19.4	20.7	:	:	27.1	20.7	14.9	20.8	18.0	14.9
Deposit growth ^{5.5}	Ann. %ch	20.3	10.8	20.4	18.1	18.4	:	:	21.9	19.9	17.7	20.1	17.5	15.5
Non-performing loans ^{5.6}	%total	3.4	3.0	3.0	3.0	3.1	:	:	3.0	3.2	3.4	3.3	3.4	3.5
6 Fiscal developments														
General government balance ^{f 6.1}	% of GDP	-0.8	-0.3	-1.6	-1.5	-1.4	-1.7	-1.6	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	39.9	36.2	36.2	33.5	32.9	32.1	31.4	34.6	32.9	:	N.A.	N.A.	N.A.

f: ECFIN forecast Winter 2016

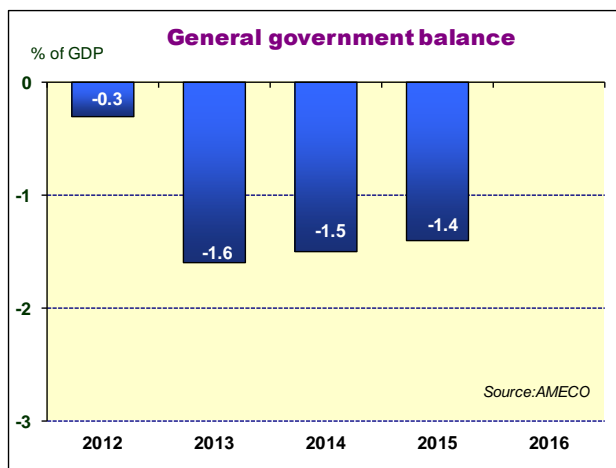
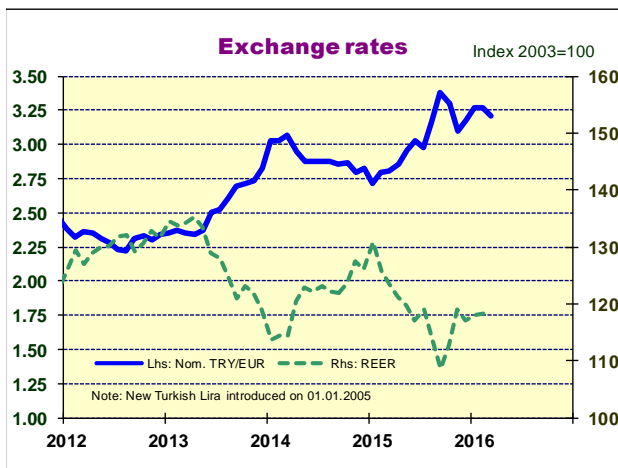
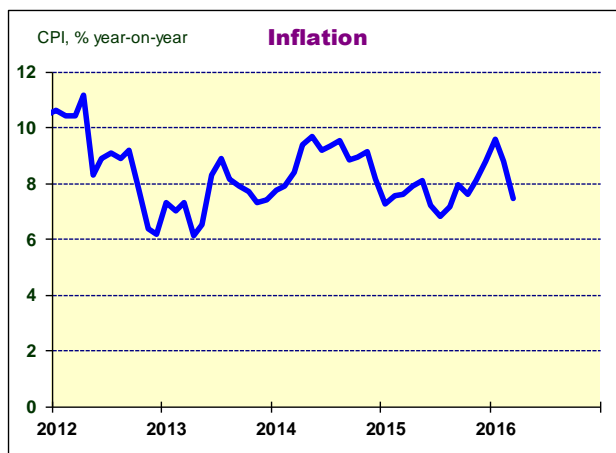
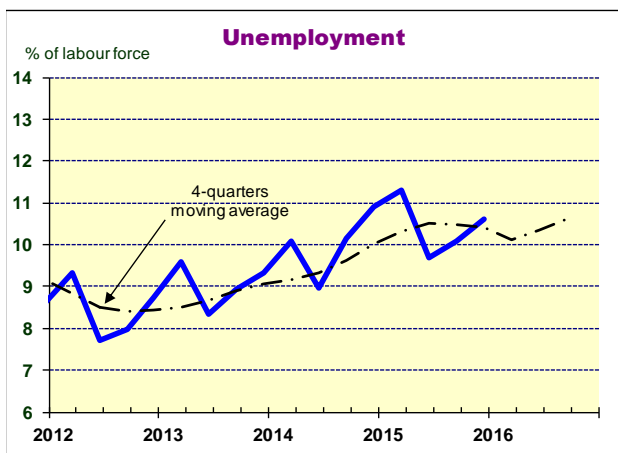
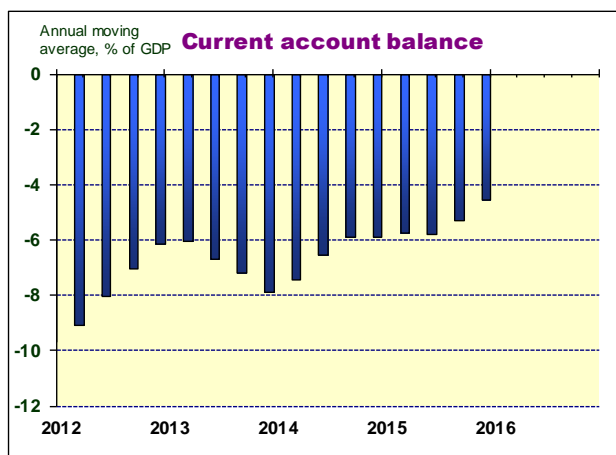
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

TURKEY



BOSNIA AND HERZEGOVINA



Key developments

On 1st February, Bosnia and Herzegovina submitted its 2016 Economic Reform Programme to the Commission, covering the period 2016-2018. The programme expects output growth to accelerate to 4% by 2018 and presents an ambitious, back-loaded fiscal consolidation path, substantially lowering both revenue and expenditure and achieving a fiscal surplus of 1.1% of GDP in 2018. Government debt is planned to drop in this period to 33% of GDP.

On 22 February and 11 March, Moody's and Standard&Poor's, respectively, have confirmed their credit ratings, maintaining their stable outlook.

In its Spring 2016 World Economic Outlook, the IMF revised the country's growth outlook slightly up, expecting output growth of 3.1% in 2016, instead of 3.0%, as expected in the autumn 2015 WEO. The latest World Bank forecast from January expects output growth of 2.3% in 2016.

On 31 March, the Federation's parliament re-adopted the entity's new Labour Law. The re-adoption had become necessary, as the entity's constitutional court had rejected this law on procedural grounds.

Real sector

In the fourth quarter of 2015, real output increased by 1.7% year-on-year, compared to a 3% year-on-year increase in the third quarter. To some extent, the lower year-on-year growth is due to a base effect. Nearly half of output growth in the fourth quarter resulted from stronger activity in manufacturing, which during the year has gained momentum. Furthermore, retail trade and repair continued to be a key source of growth. Output growth in agriculture remained subdued. For the whole year, output growth was 3.2%, compared to 1.4% in 2014. On the expenditure side, main drivers for growth were consumption, investment and exports.

High-frequency indicators point to solid growth in the industrial sector, which accounts for about one quarter of the country's output. In 2015 industrial output was 3.1% higher than a year before. However, in January and February, year-

on-year output fluctuated strongly: In January, industrial output recorded a fall of 3.3% compared to a year before, while in February, output increased again by 6.1% y-o-y. These fluctuations at the beginning of the year are not unusual. For the first two months industrial output was 1.4% higher compared to the corresponding period in 2015.

Labour market

Unemployment remains very high, although stronger economic activity led to a rise in registered employment by 1.5% on average during 2015. Main contributors to employment growth were the sector of wholesale, retail and repair (+2.3% year-on-year) and manufacturing, with employment growth of 1.9% year-on-year. Employment in the public sector rose by 0.6% year-on-year. In the first two months of 2016, employment continued to increase by around 1%. The registered unemployment rate was at 42.9% in 2015, compared 43.6% the year before. Youth unemployment remained above 60%

The difficult labour market situation is also reflected in low wage dynamics. Gross nominal wages remained largely unchanged in 2015, and rose by only 0.2% in January 2016.

External sector

Export growth decelerated in the fourth quarter of 2015 to a year-on-year increase of 2.7%, compared to 4.3% in the third quarter. An important factor was lower exports to CEFTA countries, in particular Serbia. Like in the previous quarter, the export performance was negatively affected by weaker exports of mineral products and base metals. Spending for imports was some 6% lower than a year before, which however to some extent reflects lower energy and commodity prices. As a result, the trade deficit in 2015 improved to -26.4% of GDP, compared to -29.7% in 2014. However, in 2014, the trade deficit had been boosted by additional imports due to flood repair. The current account balance registered a similar trend, improving to a deficit of 5.6% of GDP in 2015, compared to a deficit of 7.5% in 2014. The improvement in the current account was less pronounced than in the trade balance, partly as current transfers were lower than a year before.

On the financing side, net FDI inflows remained at 1.4% of GDP in the fourth quarter, resulting in average net FDI inflows of 1.4% of GDP in 2015. In 2014, FDI inflows had been at 2.6% of GDP.

Foreign reserves continued to improve in the second half of the year. In the fourth quarter, a slight increase in foreign exchange inflows and lower import spending resulted in an increase in reserves to 7.2 months of imports. In January and February, reserves dropped slightly, resulting in a reduction in the import-ratio to 6.5 months of imports. This is still significantly higher than in previous years.

Monetary developments

The overall price level continued to decline in 2015. After a drop in the overall consumer price level by 0.9% in 2014, the annual headline CPI registered another decline by 1%. Like in the past, the main drivers were commodity groups with a high import content, such as clothing and footwear, and transport, while, for example, prices for education continued to increase by some 2%. In the first two months of 2016, this pattern appears to continue. However, the trend of lower inflation seems to spread more widely among commodity groups.

On the back of the steady growth of deposits, liquidity conditions have remained rather accommodative. The annual growth of the monetary aggregate M2 continued to increase by 8.2% in the fourth quarter, compared to 8.1% in the third quarter. In the first two months of 2016, the increase in M2 slowed down a bit, but still remained strong at slightly below 8%.

Financial sector

Despite a slightly less dynamic output growth in the fourth quarter of 2015, credit growth continued at 2.4% y-o-y, up from 1.8% in the third quarter. In January and February, credit growth accelerated further, reaching 2.9% and 3.1% y-o-y, respectively. Interestingly, credit growth has been increasingly driven by credit to private companies, which until end of 2015 had been declining. Credit growth to private households has decelerated to 4.3-4.4% in the first two months. However, this category still accounts for nearly two thirds of the increase in credit. Both categories now account for some 45% of total credits, each. The share of loans to the public sector has dropped slightly, reaching 5.8% of total loans in February. The level of

short-term interest rates on consumer and corporate loans remained on a similar level during the last quarter of 2015 and the first two months of 2016.

Growth of total deposits accelerated towards the end of the year, reaching 7.7% in the fourth quarter of 2015 and accelerating further in January and February, reaching 8.5% and 8.8% respectively. On the back of the parallel low dynamics of credit growth, the downward adjustment of the loans-to-deposit ratio continued falling to 102% as of end-January.

The share of non-performing loans in total loans remained largely unchanged in the fourth quarter, at 13.7%, compared to 13.8% in the third quarter. At the same time, the credit risks have been increasingly mitigated through an increase of loan-loss provisioning to 73% by February. Banking sector profitability dropped markedly in the fourth quarter of 2015, with a decline in the return on average equity to 2.4% only, compared 7.6% and 5.7% in the third and second quarter, respectively. The return on average assets also declined to 0.3%, compared to 1% in the third quarter and 0.7% in the second, respectively. The system's overall capital adequacy ratio deteriorated slightly too, dropping to 15.0%, compared to 16.2% in the third quarter of 2015. However, there are significant differences among the various institutions.

Fiscal developments

The fiscal performance in the first three quarters of 2015 has been marked by higher than budgeted revenues, increasing by some 3% y-o-y. In particular, tax revenues rose by 5.7%, compared to the same period a year before, reflecting higher rates for excises and better tax collection. According to provisional data, levels of current spending have remained largely unchanged during this period. However, capital spending was rather low in the first half of 2015, but increased markedly in the third quarter. According to the Global Fiscal Framework from June 2015, the general government deficit target for 2015 was 1.6% of GDP. However, there is a significant risk of fiscal slippage towards the end of the year. The 2016 budget foresees a general government deficit target of 2.8% of GDP.

Central Bank estimates point to a stable public foreign debt ratio of some 31% of GDP in the fourth quarter of 2015. Total public debt remained at some 42.3% of GDP at the end of 2015.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

		2011	2012	2013	2014	2015	Q3 15	Q4 15	Q1 16	Jan 16	Feb 16	Mar 16
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	2.4	-3.9	5.2	0.2	3.1	3.7	3.3	N.A.	-3.3	6.1	:
Gross domestic product ^{1.3}	Ann. %ch	0.9	-0.9	2.4	1.4	3.2	3.7	2.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	1.6	2.2	2.6	3.0	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	6.8	6.3	-2.4	9.5	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	-24.4	1.3	-25.8	22.2	-22.7	-27.2	-22.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	11.2	1.6	4.6	1.8	7.8	8.0	5.0	:	8.1	9.3	:
2 Labour market												
Unemployment ^{2.1}	%	43.8	45.9	44.5	43.6	42.9	43.0	42.9	:	42.9	:	:
Employment ^{2.2}	Ann. %ch	-1.6	-0.4	0.6	2.7	1.5	1.5	1.1	:	1.5	:	:
Wages ^{2.3}	Ann. %ch	4.4	1.5	0.1	-0.1	0.0	0.2	-0.2	:	0.2	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. %ch	21.0	1.2	10.0	3.0	5.3	4.3	2.7	:	-2.8	0.4	:
Imports of goods ^{3.2}	Ann. %ch	13.6	-0.1	-0.7	7.1	-2.1	-2.8	-5.9	:	-7.0	1.5	:
Trade balance* ^{3.3}	%of GDP	-30.8	-30.5	-27.4	-29.7	-26.4	-27.6	-26.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	32.1	32.4	33.8	34.1	35.0	35.1	35.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	55.8	55.9	54.2	56.8	54.2	55.4	54.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-9.5	-8.7	-5.3	-7.5	-5.6	-5.8	-5.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	2.6	1.9	1.4	2.6	1.4	1.4	1.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	3 284.3	3 327.8	3 614.0	4 001.2	4 400.3	4 231.5	4 400.3	:	4 416.4	4 384.1	:
Int. reserves / months Imp ^{3.9}	Ratio	5.0	5.1	5.6	5.8	6.5	6.8	7.2	:	6.6	6.5	:
4 Monetary developments												
CPI ^{4.1}	Ann. %ch	3.7	2.0	-0.1	-0.9	-1.0	-1.3	-1.7	:	-0.8	-1.2	:
Producer prices ^{4.2}	Ann. %ch	3.8	1.3	-2.2	-0.2	-0.6	-0.2	-1.3	:	-1.1	-1.6	:
Food prices ^{4.3}	Ann. %ch	6.0	1.8	0.0	-2.7	-0.9	-1.8	-1.8	:	-1.0	-1.3	N.A.
M2 ^{4.4}	Ann. %ch	5.6	4.6	5.7	7.5	8.0	8.1	8.2	:	7.9	7.7	:
Exchange rate BAMEUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate ^{4.6}	Index	104.6	105.50	102.76	105.43	106.91	107.26	107.73	:	109.45	109.90	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield ^{5.2}	%p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	979	737	770	707	701	697	691	681	688	672	682
Credit growth ^{5.4}	Ann. %ch	5.8	5.1	2.7	3.7	1.8	1.8	2.4	N.A.	2.9	3.1	N.A.
Deposit growth ^{5.5}	Ann. %ch	2.6	2.6	5.1	8.4	6.2	5.1	7.7	N.A.	8.5	8.8	N.A.
Non performing loans ^{5.6}	%total	12.0	12.7	14.5	15.2	13.9	13.8	13.7	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	%of GDP	-1.2	-2.0	-2.1	-2.0	:	:	:	:	N.A.	N.A.	N.A.
General government debt* ^{6.2}	%of GDP	40.5	45.1	42.5	40.8	42.3	:	:	:	N.A.	N.A.	N.A.

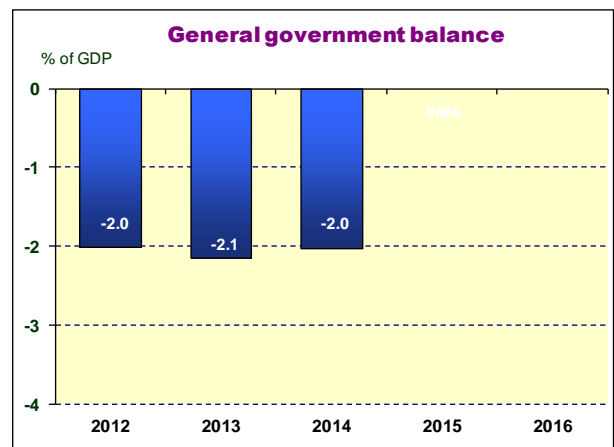
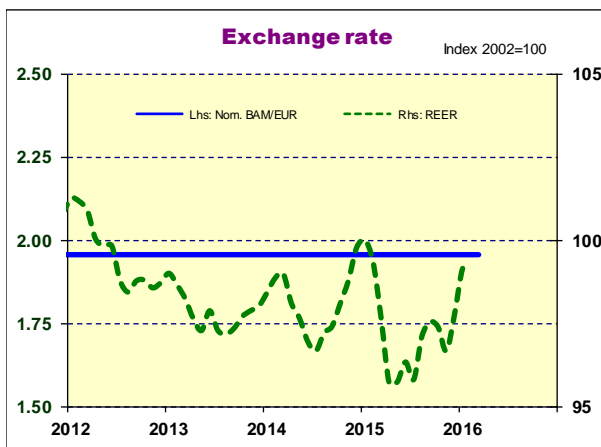
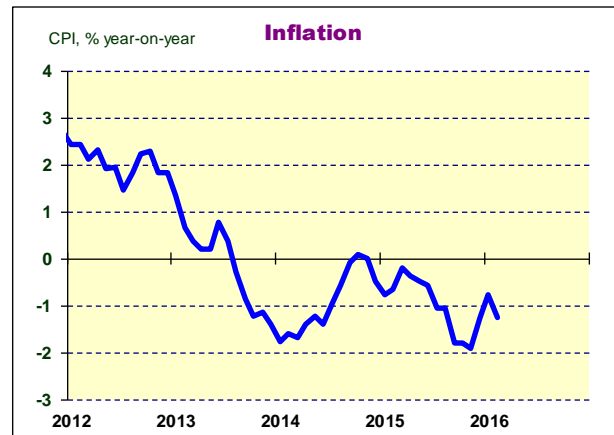
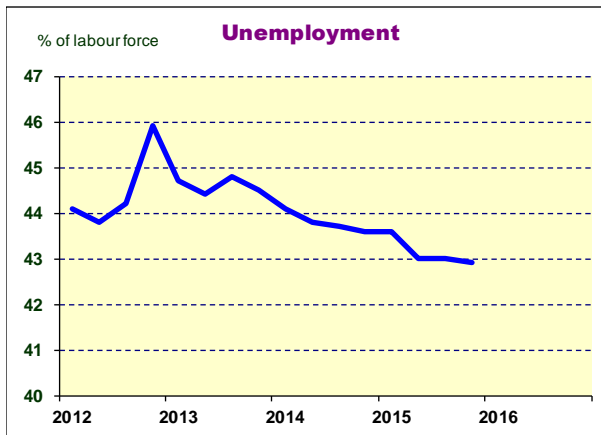
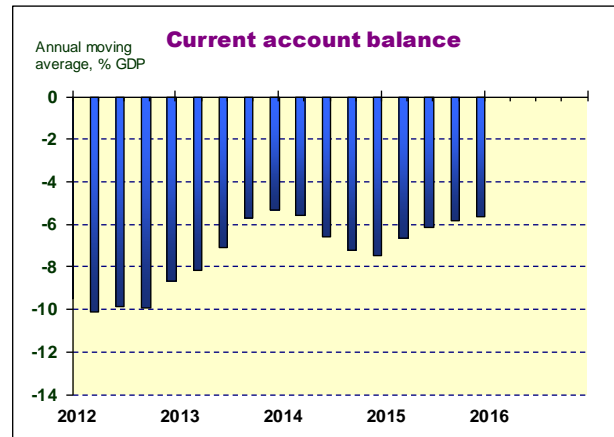
* Q figures refer to a 4 quarters moving average and refers only to foreign public debt.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA



KOSOVO*

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

Key developments

Kosovo submitted its 2016 Economic Reform Programme to the Commission, covering the period 2016-2018 in January 2016. Following weaker growth in 2014, economic activity picked up in 2015, driven mainly by private consumption and investments, and is projected to continue growing around 4% of GDP throughout the forecasting period. The programme strengthens Kosovo's commitment to stable public finance under the ongoing IMF SBA. The budget deficit is planned to stay below the 2% of GDP prescribed by the fiscal rule. Government debt is forecast to increase moderately to 22% of GDP in 2018 from 13.5% at the end of 2015.

The Stabilisation and Association agreement between Kosovo and the European Union entered into force on 1 April 2016. The SAA provides for a permanent free-trade arrangement between Kosovo and the EU, consisting of an almost full immediate liberalisation for Kosovo products entering the EU, and a gradual phasing out of tariff duties for products, exported by the EU.

Real sector

In the first nine months of 2015, Kosovo's real GDP growth accelerated to 3.5% y/y, owing to a particularly strong rebound in the second and third quarter of the year (4.7% and 4% respectively y/y). On the expenditure side, the largest contribution to growth came from investments (2.4 p.p.) and private consumption (2.3p.p.). Government consumption and net exports contributions were -0.7% and -0.4% respectively, as the government sought savings in the current expenditure and exports slowed down towards the end of the year. On the production side, gross value added grew by 2.6% y/y driven by construction (0.8 p.p.) with substantial positive contributions from agriculture, real estate and electricity production. The largest negative contributions came from public administration (-0.7 p.p.).

In 2015, industrial turnover in Kosovo decreased by an estimated 0.5% compared to the same period in 2014. Turnover of the manufacturing

sector grew by 2.6% while mining sector contracted sharply by 16.7%

Labour market

Due to the change in methodology, the official unemployment data is no longer comparable to the previous years' data series. In the course of 2015, registered unemployment increased from 89,210 in January to 117,046 in December. The 31.2% increase follows after many registered unemployed were deleted from the registry due to inactivity. Their new enlisting could partially explain the rise. Public sector wage bill increased by 7.9% in 2015, on the account of 7.4% rise in nominal wages, while the overall number of employees stagnated (+0.5%)

External sector

Balance of payments data for 2015 show a widening of the current account deficit to 9.6% of GDP, compared to 7.9% in 2014, mainly as a result of lower transfers to the government and lower net income flows. Growing net remittances (12.3% of GDP) helped partially offset a stubbornly high goods and services trade deficit (31.3% of GDP). On the financing side, net FDI rebounded (5.4% of GDP compared to 2.2% a year ago).

Cumulative goods exports by February 2016 contracted by 6.7% y/y, mainly due to a continuation of the poor crude metals exports performance which started in July 2015. It is likely that Kosovo is struggling to find new export markets for crude metals after exports to China and India contracted sharply in the second half of 2015. In the first two months of 2016 imports rose by 8.4% y/y driven by double digit rises in manufactured goods, machinery and transport equipment, and chemicals, possibly reflecting the import component of higher investment. By February the overall trade deficit increased by 11.4%, y/y.

Monetary developments

Being heavily dependent on price developments in the main trading partners, namely the EU Kosovo's economy stayed in a deflationary period throughout 2015. Underpinned by

declining import prices (-1.2% y/y in 2015), due to falling oil prices, consumer prices fell by 0.5% in 2015. However, prices seemed to have bottomed up in the first two months of 2016 which both recorded small but positive inflation (0.1% y/y on average). The rise seems to be solely the effect of increasing prices of alcoholic beverages and tobacco reflecting newly increased excise. Food and housing prices continued decreasing in the first two months of 2016 but are expected to stabilise in 2016 as effect of the new lower 8% VAT rate dissipates. Producer prices increased by 2.7% on average in 2015; however this development was namely due to a double digit rise in the cost of electricity after the explosion in Kosovo B power plant in June 2014.

Financial sector

Credit activity recovered in 2015 as total loans and lease financing rose by 7.3% y/y. Total deposits in commercial banks grew steadily (6.5% y/y). Thus, the loans to deposit ratio stayed roughly unchanged at 74.8, indicating a stable liquidity position and substantial room for stronger banking activity. Similar trends continued in the first two months of 2016.

Interest rate spread seems to have levelled, hovering around 7.1% since June, compared to 8.13 in December 2014. In February 2016 the effective interest rate on deposits and loans stood at 0.93%, and 8.05%, respectively.

The risk profile of the banking sector remained satisfactory in February. The ratio of liquid assets and short-term liabilities stood at 44.9%, while capital adequacy ratio was 19.7%, far above the regulatory requirement of 12%. Already low level of NPLs further decreased to 6.1. Existing NPLs are fully covered by loan loss provisions (116.8%).

Banking profitability rose sharply in 2015, 57.7% y/y despite contracting income (-2.5% y/y). Decreases in interest income were offset by larger reductions in loan loss provisioning reflecting better performance of the credit portfolio. Preserving such high rates of profitability (26.4% ROAE) might be difficult in 2016 as banks' income is still under pressure from declining interest differential.

Fiscal developments

Budget revenue in 2015 grew by 8.9%, driven by strong growth in tax revenues. Both VAT and corporate income taxes increased significantly (10.3% and 23.1%, respectively) as a result of the increased turnover, reforms to the VAT system, and profitability in Kosovo's ten largest companies (banks, telecoms and energy production companies). Kosovo customs raised its revenue by 9.1%, through increases in import excise duties, strengthened controls, the introduction of new valuation practices, and improved information sharing.

Expenditure was 6.1% higher than in 2014. The share of current expenditures increased to 74% (71.8 in 2014) due to a full year's effect of public wage and pension increases enacted in April 2014, the implementation of the provisions from the collective agreement which regulates experience premiums for public employees, and increases in agriculture subsidies.

The total budget deficit amounted to EUR 117.1 million or 2.0% of GDP. The deficit calculated according to the fiscal rule stood at 1.5% of GDP. Government bank balances, an additional insurance against fiscal shocks, were increased to EUR 208 million or 3.7% of GDP, through the issuance of domestic treasury bills, financing from the IMF programme and withdrawal of available funding from the privatisation fund.

TABLE

European Commission, ECFIN-D-1

KOSOVO*

		2011	2012	2013	2014	2015	Q3 15	Q4 15	Q1 16	Jan 16	Feb 16	Mar 16
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	N.A.	N.A.	3.2	0.2	-0.5	3.4	-9.3	N.A.	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	4.4	2.8	3.4	0.9	:	4.0	:	:	:	:	:
Private consumption ^{1.4}	Ann. % ch	3.5	2.9	2.0	4.9	:	-1.0	:	:	:	:	:
Investment ^{1.5}	Ann. % ch	7.8	-12.9	-0.3	-5.0	:	23.4	:	:	:	:	:
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	44.8	30.9	30.0	35.3	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	:	:	1.4	-4.4	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	-1.3	-3.0	-5.5	-9.0	:	:	:	:	:	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	7.8	-13.5	6.4	10.5	0.2	-7.5	-14.4	:	-15.5	3.2	:
Imports of goods ^{3.2}	Ann. % ch	10.4	5.3	-2.3	3.7	3.8	-0.6	6.4	:	-3.3	18.2	:
Trade balance** ^{3.3}	% of GDP	-42.8	-44.1	-40.5	-39.8	-40.8	-40.0	-40.8	:	-40.8	-41.2	N.A.
Exports goods and services** ^{3.4}	% of GDP	19.6	18.2	17.4	19.7	:	6.7	4.3	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	% of GDP	56.8	52.4	49.0	50.8	:	14.5	13.5	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	% of GDP	-13.7	-7.5	-6.4	-7.8	-9.6	-8.1	-9.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)** ^{3.7}	% of GDP	7.9	4.2	4.7	2.2	5.4	1.7	1.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 234.6	1 469.1	1 610.0	1 368.1	1 457.1	1 516.6	1 457.1	:	1 538.2	1 587.5	:
Int. reserves / months Imp ^{3.9}	Ratio	6.2	7.0	7.9	6.5	6.6	7.0	6.6	:	7.0	7.2	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	7.3	2.5	1.8	0.4	-0.5	-0.9	-0.4	0.1	0.2	0.1	0.1
Producer prices ^{4.2}	Ann. % ch	4.5	1.9	2.4	1.6	2.7	2.7	0.3	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	12.4	1.0	2.1	-0.2	0.4	-0.3	-0.4	:	-0.4	-0.3	:
Broad money liabilities ^{4.4}	Ann. % ch	8.8	7.1	17.3	-4.2	6.4	4.4	6.4	:	3.2	6.1	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) ^{4.6}	Index	105.8	106.6	107.2	106.0	N.A.	N.A.	N.A.	:	:	:	:
5 Financial indicators												
Interest rate (3-12 months) ^{5.1}	% p.a.	13.78	12.67	11.82	10.62	8.03	7.97	8.03	:	7.68	8.05	:
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	16.4	3.8	2.2	4.2	7.3	7.5	7.3	:	7.7	8.1	:
Deposit growth ^{5.5}	Ann. % ch	8.6	8.3	7.5	3.6	6.5	5.5	6.5	:	4.8	4.3	:
Non-performing loans ^{5.6}	% total	5.7	7.5	8.7	8.3	6.2	6.8	6.2	:	6.2	6.1	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-1.7	-2.6	-3.1	-2.2	-2.0	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	5.3	8.1	8.9	10.6	13.2	12.7	13.2	:	N.A.	N.A.	N.A.

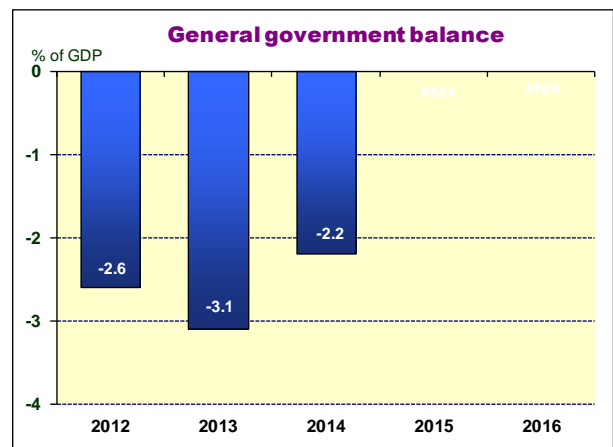
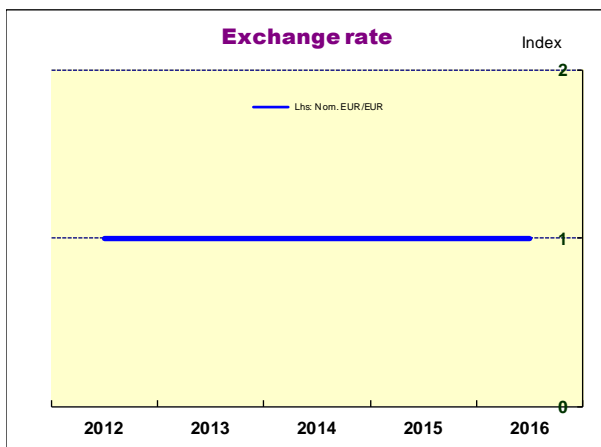
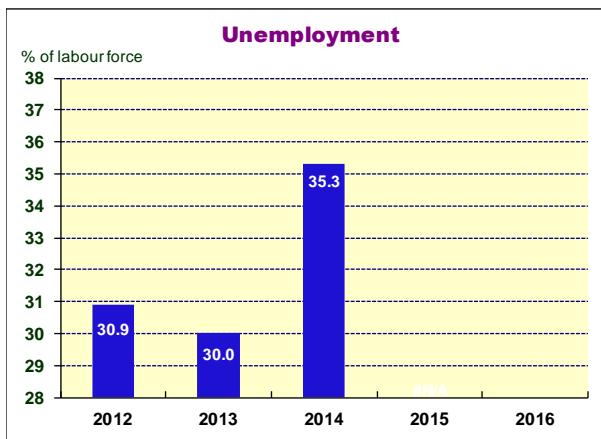
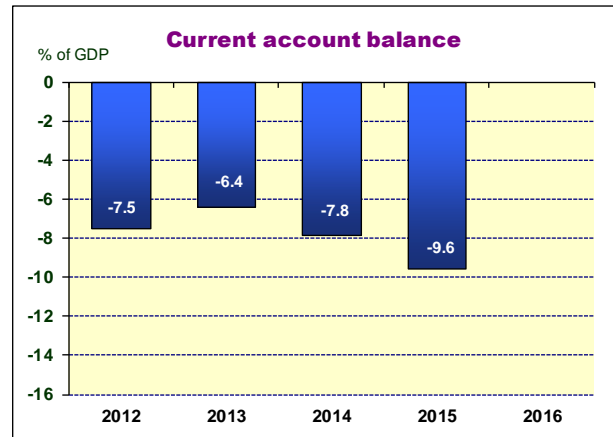
* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

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

CHARTS

European Commission, ECFIN-D-1

KOSOVO*



* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 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	IHS/DataInsight
1.2.	Industrial production	Annual percentage change, total, constant prices	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	IHS/DataInsight
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, total, 2005=100	IHS/DataInsight
2.	Labour market		
2.1.	Unemployment	In percent of total labour force	IHS/DataInsight
2.2.	Employment	Annual percentage change	IHS/DataInsight
2.3.	Wages	Average monthly wages in State sector	IHS/DataInsight
3.	External sector		
3.1.	Exports of goods	Annual percentage change, mio. EUR. Break in series 2013.	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR. Break in series 2013.	IHS/DataInsight
3.3.	Trade balance	In percent of GDP	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP. Annual data. Break in series 2013.	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP. Annual data. Break in series 2013.	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, including official transfers	IHS/DataInsight
3.7.	Direct investment (FDI, net)	In percent of GDP	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Net foreign assets, total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
4.	Monetary developments		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, Total, index (1998)	IHS/DataInsight
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	IHS/DataInsight
4.4.	M2	Annual percentage change	IHS/DataInsight
4.5.	Exchange rate LEK/EUR	Period averages	IHS/DataInsight
4.6.	Change real eff. exchange rate	Not available	
5.	Financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	IHS/DataInsight
5.2.	Bond yield	Government Benchmarks, 2 Year Bond, Yield	IHS/DataInsight
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, total	IHS/DataInsight
5.6.	Non-performing loans	Credit Portofolio Quality, NPLs %	IHS/DataInsight
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt	In percent of GDP	IMF



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	IHS/DataInsight
1.2.	Industrial production	Annual percentage change	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, annual data, chain index	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	IHS/DataInsight
1.6.	Construction index	Annual percentage change, value of performed work, current prices	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, turnover, total	IHS/DataInsight
2.	Labour market		
2.1.	Unemployment	In percent of active population, e.o.p.	IHS/DataInsight
2.2.	Employment	Annual percentage change of registered employment, avrg.	IHS/DataInsight
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	IHS/DataInsight
3.	External sector		
3.1.	Exports of goods	Annual percentage change, thou. EUR	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, thou. EUR	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised data	IHS/DataInsight
3.4.	Exports goods and services	Annual data	IHS/DataInsight
3.5.	Imports goods and services	Annual data	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
4.	Monetary developments		
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	IHS/DataInsight
4.2.	Producer prices	Annual percentage change	IHS/DataInsight
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	IHS/DataInsight
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	IHS/DataInsight
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	IHS/DataInsight
5.3.	Stock markets	MOSTE Index, Close	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	IHS/DataInsight
5.6.	Non-performing loans	% of total	Central Bank ME
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	IHS/DataInsight
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	IHS/DataInsight
1.4.	Private consumption	Annual percent change , Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	IHS/DataInsight
1.6.	Construction index	Annual pc change, value of construction work done, total, 2008=100	IHS/DataInsight
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	IHS/DataInsight
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Semi-annual data.	IHS/DataInsight
2.2.	Employment	Annual percentage change, as from 2014 based on LFS. Data before 2014 are based on official data on registered employment.	IHS/DataInsight
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	IHS/DataInsight
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	IHS/DataInsight
3.8.	International reserves NBS	Total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
4. Monetary developments			
4.1.	CPI	Consumer Prices, Total, CPPY, average.	IHS/DataInsight
4.2.	Producer prices	Annual average percentage change, domestic market	IHS/DataInsight
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	IHS/DataInsight
4.4.	M3	Annual percentage change, M3 (broad money), RSD	IHS/DataInsight
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Period average, moving base year, RSD	IHS/DataInsight
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 3 month, yield, average, RSD	IHS/DataInsight
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	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, monetary survey, domestic credit, total, RSD	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	IHS/DataInsight
5.6.	Non-performing loans	Provisioning against losses	IHS/DataInsight
6. Fiscal developments			
6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	Min. of Finance
6.2.	General government debt	Public sector 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	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change, volume (1987 prices)	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, volume (1998 prices)	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change,	IHS/DataInsight
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, volume, 2010=100	
2. Labour market			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	IHS/DataInsight
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	IHS/DataInsight
2.3.	Wages	Annual percentage change; index of real earning per production worker in manufacturing industry	Nat. sources
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised moving average	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised moving average	IHS/DataInsight
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	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	IHS/DataInsight
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	IHS/DataInsight
4.4.	M3	Money supply M3, total, TRY	IHS/DataInsight
4.5.	Exchange rate YTL/EUR	Period averages	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Index 1999, period averages	IHS/DataInsight
5. Financial indicators			
5.1.	Interest rate	Deposit rates, 3 month, close	IHS/DataInsight
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	IHS/DataInsight
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	IHS/DataInsight
5.6.	Non-performing loans	In percent of total lons	IHS/DataInsight
6. Fiscal developments			
6.1.	General government balance	In percent of 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	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change	IHS/DataInsight
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	IHS/DataInsight
1.7.	Retail sales	Total sale, index CPPY=100, weighted average Federation of Bosnia and Herzegovina 65% Serb Republic 35%	IHS/DataInsight
2. Labour market			
2.1.	Unemployment	Registered, in percent of total labour force, end of period.	IHS/DataInsight, NSO
2.2.	Employment	Registered, annual percentage change. New methodology as per Dec 2012 – data not fully comparable. End of period.	IHS/DataInsight
2.3.	Wages	Annual percentage change, average gross wages, BAM	IHS/DataInsight
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised data	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
4. Monetary developments			
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	IHS/DataInsight
4.2.	Producer prices	Domestic, total, index CPPY=100	IHS/DataInsight
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100,	IHS/DataInsight
4.4.	M2	Annual percentage change, M2 (broadest money)	IHS/DataInsight
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	IHS/DataInsight
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)	IHS/DataInsight
5. Financial indicators			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, loans, total, BAM, End of period	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM, End of period	IHS/DataInsight
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	IHS/DataInsight
6. Fiscal developments			
6.1.	General government balance	In percent of GDP, consolidated budget, net lending	IHS/DataInsight
6.2.	General government debt	In percent of GDP, external public debt	IHS/DataInsight

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	Not available.	
2	Labour market		
2.1.	Unemployment	In percent of total labour force.	SOK
2.2.	Employment	Annual pc change of number of employees, LFS	SOK
2.3.	Wages	Annual pc change, average monthly wages (Tax Register).	SOK
3.	External sector		
3.1.	Exports of goods	Annual percentage change.	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change.	IHS/DataInsight
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.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
4.	Monetary developments		
4.1.	Interim CPI	Annual average percentage change, index (May 2002 = 100)	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, total, 2007=100	IHS/DataInsight
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	IHS/DataInsight
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	IHS/DataInsight
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.	CBK
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.	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, ODC deposits.	IHS/DataInsight
5.6.	Non-performing loans	Not available.	CB Kosovo
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP.	IMF, Ministry of Finance
6.2.	General government debt	In percent of GDP.	Ministry of Finance

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

EUROPEAN ECONOMY TECHNICAL PAPERS

European Economy Technical Papers can be accessed and downloaded free of charge from the following address:

http://ec.europa.eu/economy_finance/publications/eetp/index_en.htm

Titles published before July 2015 can be accessed and downloaded free of charge from:

http://ec.europa.eu/economy_finance/db_indicators/cpaceq/index_en.htm

(EU Candidate & Potential Candidate Countries' Economic Quarterly).

Alternatively, hard copies may be ordered via the "Print-on-demand" service offered by the EU Bookshop: <http://bookshop.europa.eu>.

HOW TO OBTAIN EU PUBLICATIONS

Free publications:

- one copy:
via EU Bookshop (<http://bookshop.europa.eu>);
- more than one copy or posters/maps:
 - from the European Union's representations (http://ec.europa.eu/represent_en.htm);
 - from the delegations in non-EU countries (http://eeas.europa.eu/delegations/index_en.htm);
 - by contacting the Europe Direct service (http://europa.eu/europedirect/index_en.htm) or calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (*).

(*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

Priced publications:

- via EU Bookshop (<http://bookshop.europa.eu>).

