



European
Commission

ISSN 2443-8049 (online)

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

2nd Quarter 2020

TECHNICAL PAPER 042 | JULY 2020

EUROPEAN ECONOMY

A photograph of a financial chart with a pen and a tablet. The chart shows a line graph with a peak and a trough, and a bar chart below it. A silver pen lies across the chart, and a silver tablet is visible in the upper right corner.

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, Head of Unit D1, Candidate and Pre-Candidate Countries.

The Report is released every quarter of the year.

LEGAL NOTICE

Neither the European Commission nor any person acting on behalf of the European Commission is responsible for the use that might be made of the information contained in this publication.

This paper exists in English only and can be downloaded from https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en.

Luxembourg: Publications Office of the European Union, 2020

PDF ISBN 978-92-76-14646-9 ISSN 2443-8049 doi:10.2765/331335 KC-BF-20-006-EN-N

© European Union, 2020

Non-commercial 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.

CREDIT

Cover photography: © iStock.com/Vladimir Dmitriev

European Commission
Directorate-General for Economic and Financial Affairs

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

2nd Quarter 2020

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.....	10
MONTENEGRO.....	14
NORTH MACEDONIA	18
SERBIA	22
TURKEY	26
BOSNIA AND HERZEGOVINA	30
KOSOVO*	34

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

OVERVIEW

*The disruptive effects of the COVID-19 crisis on the **Western Balkan** economies became visible already in the first quarter of 2020, with annual GDP growth decelerating notably to 2.5% from 4.3% in the preceding quarter. The slowdown was largely driven by a deepening recession in Albania and a deceleration in Serbia and in North Macedonia. Private consumption remained the key growth driver but investment showed a mixed performance, with year-on-year declines registered in some of the countries. The region's current account deficit stood at 6% of GDP, the highest level in the last 5 years, suggesting that external positions in many economies remain vulnerable. Balance-of-payment pressures have emerged and all Western Balkan countries except Serbia have turned to the IMF and the EU to request emergency financial support. Job creation continued in the first quarter albeit at a slower pace than previously, and unemployment rates, while still relatively high, declined in most countries. Fiscal stimulus coupled with a large drop in revenues resulted in a widening of budget deficits in the Western Balkan region in the first five months, while the public debt-to-GDP ratio increased in some countries compared to end-2019.*

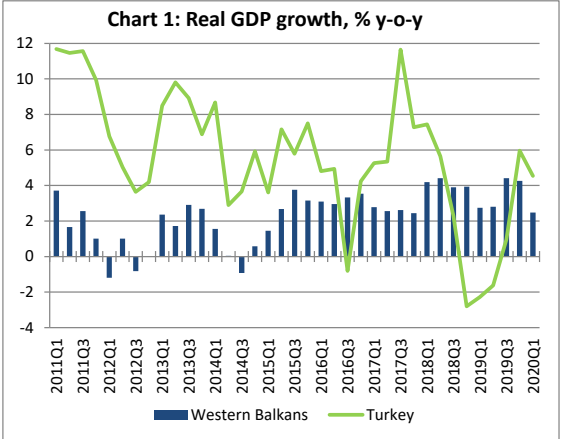
*In **Turkey**, annual GDP growth slowed to 4.5% in the first quarter of 2020, as the economy started to be affected by lower external demand as well as strict containment measures implemented in the second half of March. The 4-quarter rolling average current account balance turned to a deficit of 0.4% of GDP in April due to a steep fall in exports of goods and services, while the decrease in goods imports, supported by domestic demand, was less significant. High frequency indicators point to an intensifying crisis in the second quarter of the year.*

Economic performance deteriorated in all **Western Balkan** countries in the first quarter of 2020 compared to the previous three months. In *Albania*, the economy shrank by 2.5% y-o-y following a contraction of 0.1% in the fourth quarter of 2019, mainly driven by a continued drop in investment as well as sluggish private and public consumption growth. In *Serbia*, annual output growth decelerated to a still robust 5.0%, down from 6.2% in the previous quarter, due to a slowdown in gross fixed capital formation growth and a higher negative contribution of net exports to GDP growth. Government and household consumption, changes in inventories and gross fixed capital formation contributed broadly equally to the economic expansion. *North Macedonia* recorded the strongest slowdown; annual GDP growth fell significantly to 0.2% from 3.4% in the fourth quarter of 2019 due to a deceleration in private and public consumption growth as well as a decline in investment. In *Montenegro*, real GDP growth slightly decelerated to 2.7% y-o-y in the first quarter of 2020 from 3.1% in the

preceding three months. Economic growth was mainly driven by household consumption combined with a recovery of investment. Nevertheless, the latter's role in boosting economic activity has markedly declined in recent years. In *Bosnia and Herzegovina*, annual economic growth slowed to 2.0% largely due to a decrease in investment and exports while private consumption was the main growth driver. In *Kosovo*, economic growth decelerated to 1.3% y-o-y mainly due to a large drop in investment as well as a decline in public consumption resulting from delayed government formation. Growth was supported by household consumption and a positive contribution of net exports. Overall, in the first quarter of 2020, the **Western Balkan** region's real GDP increased by 2.5% y-o-y, the lowest growth rate since the fourth quarter of 2017, down from an average growth rate of 4.3% in the previous three months (Chart 1).

In **Turkey**, annual output growth decelerated to 4.5% in the first quarter of 2020 from 6.0% in the preceding quarter. Economic growth was on the back of base effects, robust private consumption, a pick-up in public consumption as well as a

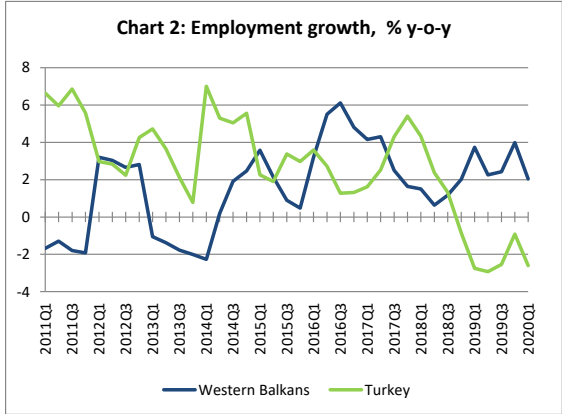
significant positive contribution of stock building. High-frequency indicators in April suggest a significant impact of the COVID-19 pandemic on economic activity during the second quarter. The capacity utilisation rate in manufacturing fell steeply to 61.6 in April from 77.0 at end-2019 and only slightly rebounded to 66.0 in June. The manufacturing PMI collapsed to 33.4, albeit it recovered to 53.9 in June, above its pre-COVID-19 levels. According to hard data, in April, industrial output and retail trade fell by 31.4% y-o-y and around 20%, respectively.



Source: Macrobond, Commission calculations

In line with decelerating economic activity, the pace of job creation slowed down in the **Western Balkans** in the first quarter of 2020. Annual employment growth decelerated, compared to the previous three months, in *North Macedonia*, *Serbia* and *Albania* whereas it accelerated in *Montenegro*. Overall, the pace of employment growth in the **Western Balkans** fell to 2.0% from 4.0% in the preceding quarter (Chart 2). Employment gains contributed to further decreasing unemployment rates in most countries in the region. The decline was significant in *Serbia* (around 2.5 pps y-o-y). Still, with jobless rates ranging from 9.7% in *Serbia* to 25.7% in *Kosovo* (in 2019), the labour market situation was challenging even before the pandemic-induced crisis.

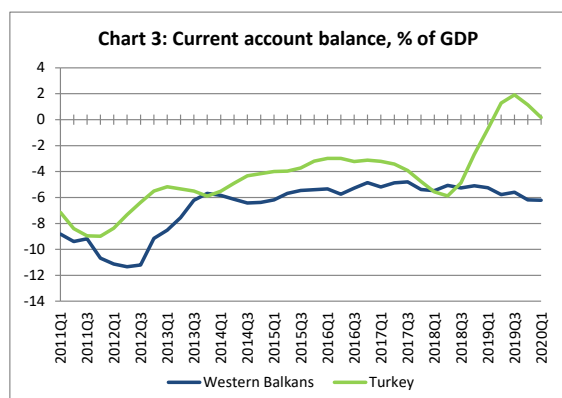
In **Turkey**, the labour market softened further in the first quarter of 2020 in line with a prolonged period of weak economic activity and the hit by the COVID-19 crisis in March. Employment continued to decline at a much faster pace (2.6% y-o-y) compared to the previous three months. The unemployment rate slightly decreased but remained high at 13.5%.



Source: Macrobond, Commission calculations

External imbalances remain a key challenge in most **Western Balkan** countries, reflected in very high merchandise trade deficits ranging from 14 %-18 % of GDP in *Serbia* and *North Macedonia*, to around 19%-22% in *Albania* and *Bosnia and Herzegovina*, and to 42% or above in *Montenegro* and *Kosovo*. Surpluses in the services and secondary income accounts only partially offset these large merchandise trade deficits, resulting in large foreign financing needs. External developments in the region during the first quarter of 2020 point to a rather diverse picture as annualised current account deficits narrowed in *North Macedonia*, *Bosnia and Herzegovina* and *Kosovo* whereas they widened in *Serbia* and remained at the same level in *Montenegro* and *Albania*. Overall, in the four quarters to March, the current account deficit in the **Western Balkans** stood at 6% of GDP, the highest level since the first quarter of 2015 (Chart 3). On the positive side, the current account deficits continued to be financed mostly by net FDI inflows.

In *Turkey*, the 12-month cumulative current account balance turned to a deficit of 0.4% of GDP in April, compared to a surplus of 1.2% in 2019. The deterioration was driven by a plunge in exports of goods and services as well as a less notable fall in imports of goods, underpinned by domestic demand. On the financing side, net FDI outflows reached \$133 million in April. Strong outflows of portfolio and other investment, and net errors and omissions, in particular in March, were financed by a sizable decrease in official reserves. The latter's coverage of imports of goods and services declined to 4.5 months in April.



Source: Macrobond, Commission calculations

Inflation dynamics weakened further in the *Western Balkans* during the spring months due to the COVID-19 crisis' impact on commodity prices. Combined with continued monetary easing by major central banks, this triggered further monetary accommodation in some countries with an independent monetary policy. In *Serbia*, after dropping to 1.3% y-o-y in March, consumer price inflation declined further to 0.6% y-o-y in April and roughly stabilised at 0.7% in May, well below the lower end of the central bank's target tolerance band of 3%±1.5pps. The fall in the annual inflation rate was driven in particular by energy prices and unprocessed food. To counter the adverse economic effects of the COVID-19 crisis, the central bank of *Serbia*

lowered the key policy rate by another 25 basis points on 11 June to a new record-low of 1.25 %, following two successive cuts by 50 and 25 basis points in March and April, respectively. It also continued its interventions on the foreign exchange market by selling a net EUR 825 million in the first five months of 2020, of which a net EUR 690 million in April and May. In *North Macedonia*, the overall level of consumer prices declined by 0.1% y-o-y and 0.2% in April and May, respectively. To stimulate lending, the central bank of *North Macedonia* decided in May to lower the coupon on its bills, which serves as its benchmark interest rate, further by 25 basis points to the new historic low of 1.50% after reducing it in March to 1.75%. It also eased conditions for banks' loan restructuring operations as well as reserve requirements. In *Albania*, supported by a strong increase in food prices, annual average CPI inflation accelerated to 1.9% (still below the 3% target) in the second quarter of 2020 compared to 1.6% in the first three months. The *Bank of Albania* has maintained its key policy rate at 0.5% since its last cut in March by 50 basis points, noting the immediate transmission of the lower rate in the money market. In the first five months of 2020, the level of consumer prices in *Montenegro* and *Bosnia and Herzegovina* fell by 0.2% and 0.5% y-o-y, respectively. In the same period, average CPI inflation eased to 0.7 % y-o-y in *Kosovo*.

In *Turkey*, in the second quarter of 2020, annual CPI inflation remained in double-digits, accelerating to 12.6% in June mainly due to higher transportation and HORECA prices. Following recent rounds of easing by 100bps each in March and April, the central bank cut its key policy rate further by 50 basis points to 8.25% in May but kept it unchanged in June. The lira's value reached its lowest level in May at 7.22 TRY/\$, weakening 21.6% since the end of 2019, but it strengthened thereafter. Despite the increase of a swap facility with Qatar, gross foreign exchange reserves declined further to \$51.4 billion in the last week of June.

Bank lending decelerated in the first quarter of 2020, compared to the previous three months, in *Albania* (when adjusted for exchange rate changes and loan write-offs), *Montenegro*, *Bosnia and Herzegovina* and *Kosovo*. On the other hand, credit growth accelerated in *North Macedonia* and *Serbia*. In some countries of the region, credit growth expanded at a slower pace in May compared to the previous month. For the same period, in some countries such as *Montenegro*, *Bosnia and Herzegovina* and *North Macedonia* credit to households grew faster than corporate loans. Bank balance sheets improved further in some of the **Western Balkan** countries as they continued to reduce the share of non-performing loans (NPLs) in total loans. In the first quarter of 2020, the NPL ratio in *Albania* fell to a record low of 8.2%, 3pps lower than 12 months earlier before marginally increasing to 8.3% in April. In *Bosnia and Herzegovina* the NPL ratio stood at 6.6%, followed by *Montenegro* (5.3% in May), *North Macedonia* (4.7%) and *Serbia*, where it reached its lowest level on record (4.0%).

In *Turkey*, the central bank and the Banking Regulation and Supervision Agency took additional measures in April and May to stimulate lending and cushion the disruptive effects of the COVID-19 crisis. As a result, annual credit growth significantly accelerated to 22.8% and 24.1% in April and May, respectively. The NPL ratio slightly rose to 4.5% in May from 4.2% a year before.

Increased crisis-related spending combined with a large drop in revenues resulted in the deterioration of fiscal balances in all countries in the **Western Balkan** region in the first five months of 2020. Most countries also continued to experience underperforming capital expenditure, pointing to persistent problems in the planning, selection and management of

public investment. In *Serbia*, the budget posted a deficit of 4.3% of GDP, compared to a surplus of 0.1% one year earlier mainly due to a steep fall in corporate income tax and non-tax revenues as well as a substantial increase in other current expenditure and subsidies. Similarly, in *Albania*, the budget recorded a deficit compared to a surplus one year before, largely due to a decline in tax income. In *Montenegro*, notwithstanding the large drop in capital expenditure and the improved collection of VAT, excise taxes, personal income tax and social security contributions, the increase in revenue was more than offset by the growth of expenditure and the general government deficit expanded to 1.5% of full-year GDP in January-May. In *North Macedonia*, a sharp decline in tax revenue combined with a rise in social transfers and subsidies resulted in a budget shortfall of 3.4% of GDP in the same period (almost half of the revised target). Again, capital expenditure underperformed. In *Kosovo*, available data show a large drop in public revenue in the first five months of 2020 as well as large increases in social spending and wages, rendering the revised 2020 budget deficit target of 6.5% of GDP (according to the fiscal rule's definition) rather optimistic. In *Bosnia and Herzegovina*, in the first half of 2020, the revenue shortfall amounted to around 1% of GDP mainly due to a sharp drop in indirect income collection. Public debt levels increased in several countries in the region in the first quarter of 2020. The debt ratio was the highest in *Albania* (73.5% of GDP) and in *Montenegro* (71.4%), followed by *Serbia* (57.2% of GDP in May).

In *Turkey*, in the first five months of 2020, the central government budget deficit increased by 35% y-o-y to TL 90.1 bn (2.0% of full-year GDP), amid a continued poor revenue performance and accelerating expenditure growth. General government debt rose to 35.1% of GDP in the first quarter of 2020, compared to 32.8% at end-2019.

Candidate and potential candidate countries: Summary table

	2015	2016	2017	2018	2019	ECFIN 2020 Spring forecast		Q4 19	Q1 20	Q2 20	Apr 20	May 20	Jun 20
						2020	2021						
Gross domestic product (in real terms, annual % change)													
Albania	2.2	3.3	3.8	4.1	2.2	-4.8	4.2	-0.1	-2.5	:	N.A.	N.A.	N.A.
North Macedonia	3.8	2.8	1.1	2.7	3.6	-3.9	4.0	3.4	0.2	:	N.A.	N.A.	N.A.
Montenegro	3.4	2.9	4.7	5.1	3.6	-5.9	4.4	3.1	2.7	:	N.A.	N.A.	N.A.
Serbia	1.8	3.3	2.0	4.3	4.3	-4.1	6.1	6.2	5.0	:	N.A.	N.A.	N.A.
Turkey	6.1	3.2	7.5	2.8	0.9	-5.4	4.4	6.0	4.5	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	4.1	3.4	3.0	3.3	2.9	:	:	3.8	2.0	:	N.A.	N.A.	N.A.
Kosovo	4.1	4.1	4.2	3.8	4.2	:	:	3.9	1.3	:	N.A.	N.A.	N.A.
Unemployment													
Albania	17.5	15.6	14.1	12.8	12.0	14.9	13.5	11.6	11.9	:	N.A.	N.A.	N.A.
North Macedonia	26.1	23.8	22.4	20.7	17.3	18.1	17.6	16.6	16.2	:	N.A.	N.A.	N.A.
Montenegro	17.8	18.0	16.4	15.5	15.4	17.0	16.2	16.1	(16.3)	:	N.A.	N.A.	N.A.
Serbia	17.7	15.3	13.5	12.7	10.4	12.7	10.0	9.7	9.7	:	N.A.	N.A.	N.A.
Turkey	10.5	11.1	11.1	11.2	14.0	16.9	16.9	13.8	13.8	:	:	:	:
Bosnia and Herzegovina	27.7	25.4	20.5	18.4	15.7	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	32.9	27.5	30.5	29.6	25.7	:	:	25.9	:	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)*													
Albania	-8.6	-7.6	-7.5	-6.8	-7.6	-9.1	-8.4	-7.8	-7.8	:	N.A.	N.A.	N.A.
North Macedonia	-2.0	-2.9	-1.1	-0.1	-2.8	-3.0	-3.9	-2.8	-2.7	:	N.A.	N.A.	N.A.
Montenegro	-11.0	-16.2	-16.1	-17.0	-15.2	-13.8	-12.9	-15.2	-15.2	:	N.A.	N.A.	N.A.
Serbia	-4.4	-2.9	-5.2	-4.8	-6.9	-4.3	-5.5	-6.9	-7.1	:	N.A.	N.A.	N.A.
Turkey	-3.2	-3.1	-4.8	-2.7	1.2	-0.5	1.5	1.2	0.2	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.9	-4.5	-4.2	-3.6	-3.5	:	:	-3.5	-3.3	:	N.A.	N.A.	N.A.
Kosovo	-8.6	-7.9	-5.4	-7.6	-5.8	:	:	-5.8	-5.7	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.9	1.3	2.0	2.0	1.4	2.5	2.8	1.3	1.6	1.9	1.9	2.1	1.8
North Macedonia	-0.3	-0.2	1.4	1.5	0.8	-0.7	2.0	0.1	0.6	:	-0.1	-0.2	:
Montenegro (HICP)	1.4	0.1	2.8	2.9	0.5	0.8	1.3	1.1	0.5	:	-1.1	-1.3	:
Serbia	1.4	1.1	3.1	2.0	1.8	0.9	1.9	1.4	1.8	:	0.6	0.7	:
Turkey	7.7	7.8	11.1	16.3	15.2	11.4	11.7	10.3	12.1	11.7	10.9	11.4	12.6
Bosnia and Herzegovina	-1.0	-1.1	1.3	1.4	0.6	:	:	0.2	0.4	:	-1.1	-2.2	:
Kosovo	-0.5	0.3	1.5	1.1	2.7	:	:	1.7	1.1	:	0.3	0.2	N.A.
General government balance (% of GDP)													
Albania**	-4.1	-1.8	-2.0	-1.6	-1.9	-5.2	-3.3	-1.9	:	:	:	:	:
North Macedonia***	-3.5	-2.7	-2.7	-1.8	-2.0	-6.8	-3.4	-2.9	-4.5	:	N.A.	N.A.	N.A.
Montenegro**	-8.3	-3.6	-5.3	-3.9	-2.0	-7.7	-1.5	-0.2	-1.5	:	:	:	:
Serbia***	-3.5	-1.2	1.1	0.6	-0.2	-7.7	-2.1	-3.1	-4.1	:	N.A.	N.A.	N.A.
Turkey***	-1.0	-1.1	-1.5	-2.0	-2.9	-7.8	-9.0	-3.2	-2.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina***	0.6	1.2	3.0	2.1	2.3	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-2.0	-1.2	-1.3	-2.8	-2.9	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2020 published May 2020.

* Q figures refer to a 4 quarters moving average.

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

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

ALBANIA



Key developments

Albania extended the state of national emergency, in place since 24 March due to the COVID-19 pandemic, to 23 June 2020, but lifted most mobility restrictions in early June.

On 9 June, the Albanian government successfully placed a EUR 650 million 7-year Eurobond on the international market, which met with vivid investor's interest and gained a coupon of 3.5%, just slightly above the 3.4% of 2018's issuance.

In May, the EU approved Macro-Financial Assistance in form of a loan of EUR 180 million for Albania in addition to its cooperation and humanitarian funds. In the joint conclusions of the annual Economic and Financial Dialogue between the EU and the Western Balkans and Turkey Dialogue on 19 May, Albania agreed to address the impact of the pandemic in a transparent and cost-effective manner. The conclusions also invite Albania to keep the increase of fiscal deficit and public debt and the tax-relief measures in the context of the crisis temporary.

Real sector

The slow-down of the economic performance of 2019 developed into a deepening recession as the economy contracted 2.5% y-o-y in Q1 2020, for Q2 in a row after a 0.1% contraction in Q4 2019. Investment fell by 16.7% y-o-y in Q1 following the 12% drop in Q4 2019 and was the driving factor of the downturn. In addition, exports - both goods and services about equally - contracted 2.1% y-o-y, in contrast with their strong growth in the preceding two quarters. Private consumption remained subdued, growing 1.1% y-o-y in Q1 2020, while government consumption growth dropped from 3.2% y-o-y in Q4 to 0.6% in Q1. The fall in imports accelerated in Q1 2020 to 6.2%, driven by a 7% drop in goods imports, while services imports decreased by 3% (all y-o-y).

On the supply side, the contraction of the construction industry deepened to -16.7% y-o-y in Q1 2020 from -14.8% in Q4 2019 and accounted for half of the GDP contraction of Q1. Except for agriculture and real estate activities, economic output shrank in all sectors, reflecting the early impact of the pandemic in March. Monthly volumes of retail trade dropped in

March 2020 by 22% compared with February 2020 and by 23% compared with March 2019.

The economic sentiment indicator dropped in Q2 2020 by 50.2 points to about half of its long-term average and its lowest level ever recorded, reflecting confidence indicators falling to historic lows across all sectors, including for consumer confidence. In June, the monthly confidence indicators in manufacturing indicated some recovery of production expectations mainly of metal, wearing apparel and food producers.

Labour market

Labour market indicators in Q1 2020 improved in annual terms, but slightly deteriorated in comparison with the previous quarter, thus showing first signs of the negative economic impact from the pandemic. In Q1 2020, the unemployment rate (15-64 years) picked up to 11.9% from 11.6% in Q4 2019, which still compared positively with 12.6% in Q1 2019. While employment grew in Q1 2020 by 0.7% in annual terms, it contracted by 1.3% q-o-q, reflecting an estimated loss of 17,000 jobs. According to the number of employees index of the quarterly surveys in services and industry in Q1, employment losses were strongest in bars and restaurants, for which the index dropped by 22% y-o-y while for industrial producers the same index fell 4%, driven by the export-oriented manufacturing and mining industries. Youth employment growth (15-29) in contrast recovered from its contraction of -2.3% at the end of 2019 both in annual and quarterly comparison to 1% in Q1 2020 and 2% respectively. The youth unemployment rate improved in the same period from 21.5% to 20%. Nominal wage growth picked up from 2.2% in Q4 to 3.3% y-o-y in Q1, mainly reflecting the growth of public wages, as the industrial wage index dropped 3.8% y-o-y.

External sector

The 4-quarter moving average current account deficit slightly narrowed from 7.8% of GDP in Q4 2019 to 7.7% in Q1 2020. The large surplus of the services balance decreased by 4.3% y-o-y; in contrast, the goods trade deficit narrowed by 3.9% y-o-y and even more markedly by 18.6% q-o-q. However, both the services and goods

trade balances kept their share in GDP unchanged from Q4 2019 at +9.3% and -23% respectively (as a 4-quarter moving average). Remittances, growing 3.6% y-o-y in Q1 2020, and the primary income account remained broadly stable at 5.3% and -1.1% of GDP respectively. Net foreign direct investment on the other hand fell sharply by 18.4% y-o-y in Q1 and its 4-quarter moving average decreased by 0.4 pp to 7.5% of GDP in Q1 2020, just covering the current account deficit. Gross external debt decreased again slightly in Q1 2020 to EUR 8.2 billion, corresponding to about 59.5% of GDP, down from 64.6% a year before. Foreign reserves also continued to decrease in Q1 2020 by 0.8% y-o-y to EUR 3.2 billion, but still covered about than 6.5 months of imports of goods and services and 40% of external debt.

Monetary developments

After a brief episode of rapid depreciation by about 7% in mid-March 2020, the lek has returned to a rate of 124 leks per euro in Q2 2020, close to last year's average. Overall the lek depreciated slightly by 1% over the first two quarters. The average inflation rate climbed from 1.6% in Q1 2020 to 1.9% in Q2 2020, supported by a strong rise in food prices. The growth of monetary aggregates M2 and M3 accelerated strongly to 8.7% and 7.4% (y-o-y) respectively in May 2020, mainly driven by strong growth of currency outside banks since March. In Q2 2020, the Bank of Albania (BoA) made no changes to its policy rate, which it had lowered to 0.5% in March, but noted that the lower rate was immediately transmitted to the money market. The lower policy rate also curbed the upward trend of government securities yields in March and April, which reflected the increased financing demand of the government. To ensure sufficient liquidity supply to meet increased demand by banks, BoA increased its operational capacity for liquidity operations.

Financial sector

Credit growth to the private sector (adjusted for the impact of exchange rate movements and loan write-offs), decelerated in quarterly terms to 7% in Q1 2020 compared with 7.8% in Q4 2019, mainly because of the lower demand by households in March. In annual terms, credit growth slowed to 6.4%. The credit-to-GDP ratio continued to climb from 36.7% in Q4 2019 to 38.1% in Q1 2020, due to the expected weak economic performance and the effect of the exchange rate depreciation in March. Average interest rates for new loans continued their

downward trend, but rates for lending in lek (6.2% in Q1 2020) fell more than rates for euro-loans (4.1% in Q1 2020) and thus the spread between them continued to narrow. The growth in foreign currency loans decelerated more strongly than in ALL and their share of total loans decreased to 50.3% in April. Deposits in lek increased steadily over the first 5 months of 2020, growing 7.3% y-o-y in May 2020, while foreign currency deposits shrank in annual terms (adjusted for exchange rate effects), mainly because businesses withdrew part of their euro deposits in March.

The ratio of non-performing loans to total loans declined to a record low of 8.2% in Q1 2020, down 3 pps y-o-y, followed by a slight uptick to 8.3% in April. Since April, loan repayments can be postponed by up to 6 months to help borrowers hit by the crisis. The capital adequacy ratio in the banking sector increased from 18.3% in Q4 2019 to 19.1% in Q1 2020. The liquidity ratio also increased by 0.3 pps in Q1, but dropped in April by 1 pp to 14.4%. Bank profitability also dropped sharply with the onset of the crisis, with ROE falling from 9.5% in February to 3.5% in March and ROA decreasing from 1.1% to 0.4% in the same period, both slightly recovering in April.

Fiscal developments

Following the budget amendment in April, the government presented to the parliament an additional budget revision in June 2020, also to allow increasing the support to households and enterprises struggling with the crisis by ALL 22 billion to ALL 45 billion or 2.8% of GDP. Compared with the April amendment, the revised fiscal framework of June expects the fiscal deficit to more than double from 4% to 8.4% of GDP, based on a 3.8% increase of expenditure, mainly for reconstruction purposes, and an 8% reduction of the forecasted tax revenue. In the first five months of 2020, tax revenue dropped 17% y-o-y. Overall expenditure until May 2020 turned out 0.5% lower than in the same period in 2019, because savings on interest payments, operations and maintenance, and transfers to local government compensated for the increase in social expenditure. Public debt grew 4.2% y-o-y in Q1 2020, and increased from 66.3% of GDP in 2019 to estimated 73.5% of GDP in Q1 2020. In its June budget revision, the government assumes a 4% GDP contraction and estimates that the public debt ratio will increase to about 80% of GDP by the end of 2020 up from 75% estimated in April.

TABLE



ALBANIA

							ECFIN 2020 Spring forecast							
		2015	2016	2017	2018	2019	2020	2021	Q4 19	Q1 20	Q2 20	Apr 20	May 20	Jun 20
1 Real sector														
Industrial confidence ^{1.1}	Balance	-5.5	-3.7	1.5	-0.5	-0.6	:	:	-1.6	-4.8	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-9.1	-19.6	8.4	9.7	5.6	:	:	5.4	-11.2	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	2.2	3.3	3.8	4.1	2.2	-4.8	4.2	-0.1	-2.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	0.9	2.0	2.6	3.2	3.3	-4.3	3.3	1.5	1.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	3.5	2.4	6.0	2.4	-3.3	-7.0	-0.5	-10.7	-16.7	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	19.4	5.1	19.6	5.6	-2.5	:	:	-7.9	-9.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	10.8	7.8	2.4	1.8	4.2	:	:	4.4	-0.2	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	17.5	15.6	14.1	12.8	12.0	14.9	13.5	11.6	11.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	4.9	6.1	2.7	2.1	2.4	-3.0	2.8	2.2	0.7	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.2	-0.8	3.0	3.1	3.8	:	:	2.2	3.3	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-6.0	2.5	14.4	20.0	-0.2	:	:	-5.5	-8.5	:	-44.7	:	:
Imports of goods ^{3.2}	Ann. % ch	-0.8	7.4	11.5	8.1	4.8	:	:	-2.7	-6.9	:	-36.9	:	:
Trade balance* ^{3.3}	% of GDP	-21.0	-22.4	-22.7	-20.2	-20.8	-21.2	-21.6	-22.3	-18.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	27.3	29.0	31.6	31.6	31.5	:	:	32.2	32.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	44.5	45.8	46.6	45.3	45.2	:	:	46.2	46.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-8.6	-7.6	-7.5	-6.8	-7.6	-9.1	-8.4	-7.8	-7.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.0	8.7	8.6	8.0	7.6	:	:	7.7	7.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,880.0	2,945.0	2,995.9	3,399.0	3,359.6	:	:	3,359.6	3,324.2	:	3,570.3	3,471.6	:
Int. reserves / months Imp ^{3.9}	Ratio	7.6	7.2	6.7	7.0	6.5	:	:	6.5	6.5	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.9	1.3	2.0	2.0	1.4	2.5	2.8	1.3	1.6	1.9	1.9	2.1	1.8
Producer prices ^{4.2}	Ann. % ch	:	-1.5	2.8	1.6	-0.8	:	:	-1.1	-2.1	:	:	:	:
Food prices ^{4.3}	Ann. % ch	4.3	3.3	3.9	2.7	2.9	:	:	2.9	2.9	4.4	4.3	4.9	4.1
M3 ^{4.4}	Ann. % ch	1.8	3.9	0.3	-0.2	4.3	:	:	4.3	6.9	:	5.8	7.4	:
Exchange rate LEK/EUR ^{4.5}	Value	139.74	137.36	134.14	127.57	123.01	:	:	122.69	122.84	124.51	125.40	123.91	124.22
Real effective exchange rate ^{4.6}	Index	90.5	93.9	97.7	104.8	108.5	:	:	108.4	109.0	:	108.5	110.3	:
5 Financial indicators														
Interest rate (3 months-TRIBOR) ^{5.1}	% p.a.	3.23	1.99	2.15	1.83	1.45	:	:	1.50	1.49	1.51	1.47	1.52	1.55
Bond yield ^{5.2}	% p.a.	2.77	2.05	2.07	2.20	1.76	:	:	1.66	1.66	:	1.68	1.62	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	0.3	-0.7	-0.1	-1.7	3.0	:	:	6.7	7.4	:	5.9	6.1	:
Deposit growth ^{5.5}	Ann. % ch	1.9	1.1	1.0	-1.2	2.5	:	:	3.7	4.7	:	4.4	5.6	:
Non performing loans ^{5.6}	% total	18.2	18.3	13.2	11.1	8.4	:	:	8.4	8.2	:	8.3	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-4.1	-1.8	-2.0	-1.6	-1.9	-5.2	-3.3	-1.9	:	:	:	:	:
General government debt* ^{6.2}	% of GDP	72.7	72.4	70.2	67.7	66.3	74.6	73.6	66.3	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2020 published May 2020

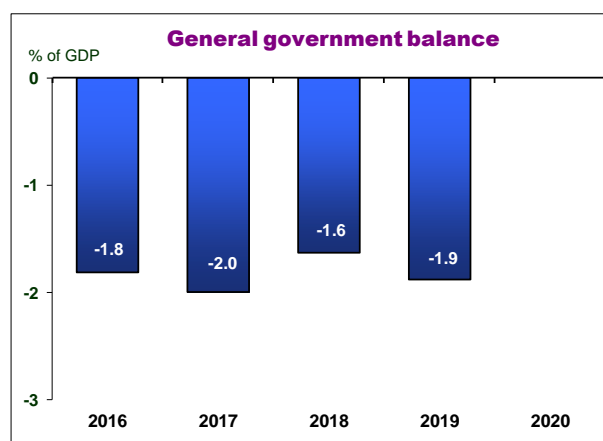
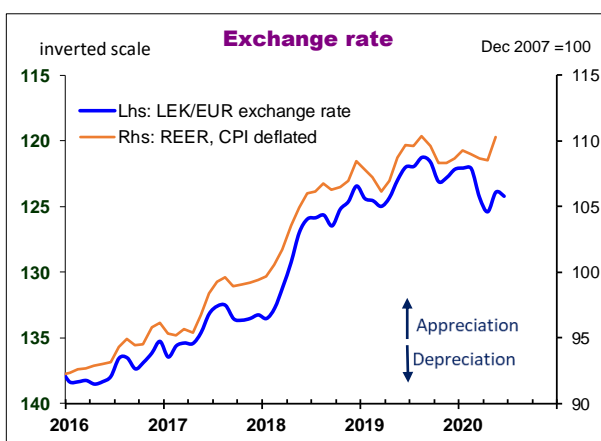
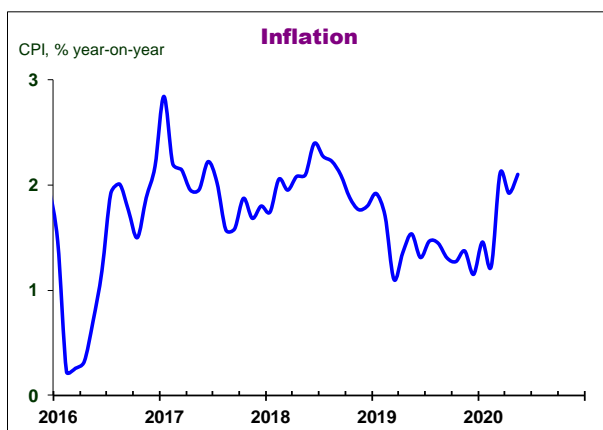
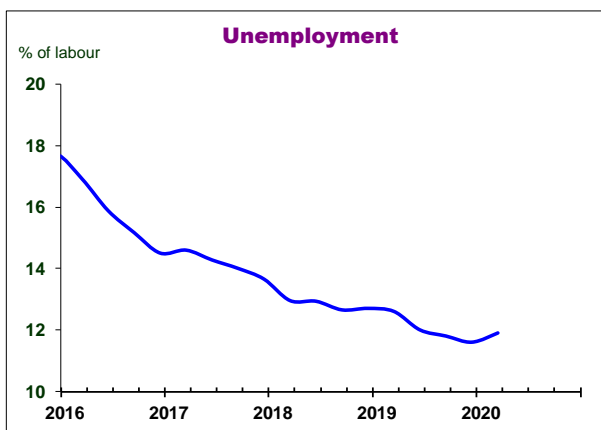
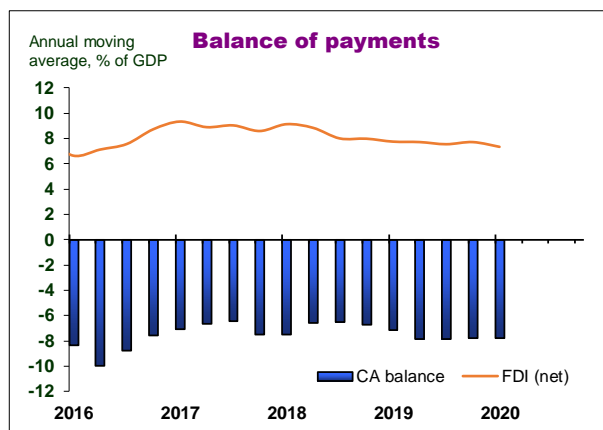
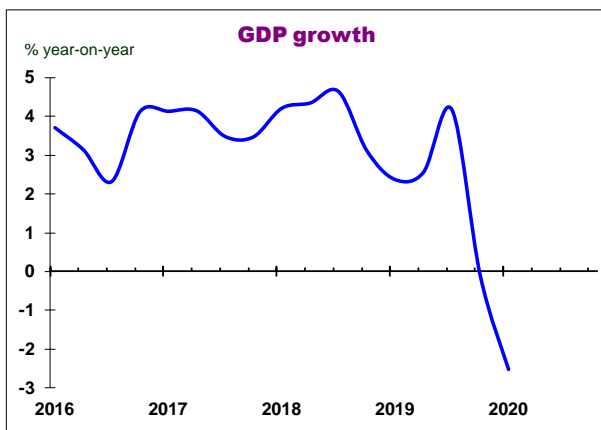
* Q figures refer to a 4 quarters moving average.

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

CHARTS



ALBANIA





Key developments

On 18 June 2020, following an extended period without new COVID-19 cases, the government ordered again the mandatory wearing of face masks in indoor public areas, and imposed restrictions on entry from Bosnia and Herzegovina, as the number of infected people increased again. Also on 18 June, the government adopted additional measures to support the economy, including a 50% subsidization of the gross minimum wage in the tourism and transport sectors, as well as relaxing conditions for employment subsidies.

Montenegro is also benefitting from international support to cope with the negative consequences of the COVID-19 pandemic on the economy. On 25 May 2020, the European Parliament and the Council adopted a Decision providing macrofinancial assistance to Montenegro of up to EUR 60 million. This support is provided in conjunction with the resources provided by international financial institutions and bilateral donors, including IMF emergency support under a Rapid Financing Instrument of EUR 75 million.

On 19 May, the annual economic and financial dialogue between the EU and the Western Balkans and Turkey jointly agreed country-specific conclusions and called on Montenegro, inter alia, to use fiscal policy to mitigate the crisis-induced impact on growth and employment, support economic recovery and reinforce the medium-term sustainability of public finances.

On 30 June 2020, eight years after the launch of accession negotiations with Montenegro, the European Commission opened the last negotiating chapter (competition policy). All 33 chapters are now opened for negotiation, 3 of which have already been provisionally closed.

Montenegro's President called parliamentary and local elections for Aug. 30, the latter will be held in the municipalities of Budva, Kotor, Andrijevica and Gusinje.

Real sector

According to preliminary estimates, GDP growth decelerated to 2.7% y-o-y in Q1 2020, down from the 3.1% expansion recorded in the

last quarter of 2019. Private consumption growth accelerated to 3.8% y-o-y in Q1 (up from 1.8% y-o-y in the previous quarter), reflecting the strong 6.7% y-o-y real increase in retail sales, reinforced by stockpiling behaviour ahead of the domestic lockdown in March and moderate wage increases (by real 1.7% y-o-y). Government consumption remained practically flat (0.1% y-o-y). Investments swung into a 2.2% y-o-y rise after declining by 2.5% y-o-y in the previous quarter. However, its role in boosting economic activity has diminished in recent years. The negative but marginal contribution of net exports to GDP (-0.2 pps) resulted from a 0.6% y-o-y decline in exports of goods of services while imports stagnated in the same period.

On the supply side, industrial output recorded strong growth, rising by 13% y-o-y in Q1 2020, thanks to strong results in all three sectors (manufacturing, mining, and utilities). Positive results were also recorded in construction and agriculture. After the positive Q1 results, industrial production and retail sales fell in April by 16% and 26.2% y-o-y, respectively. In May, the reopening of most commercial establishments brought no relief to retail sales, which plunged by 20.1% y-o-y due to the absence of tourists and weak local demand. Also in May, the contraction of industrial production totalled 8.5% y-o-y.

Labour market

In Q1 2020, labour market performance deteriorated compared to the year before. According to MONSTAT preliminary data, the number of unemployed rose in Q1 by 11.3% y-o-y, but the unemployment rate increased to 16.3%, due to the negative effects from the coronavirus outbreak, which prompted the government to close businesses and commercial establishments to contain the virus. Although employment declined by 0.5% q-o-q, it increased by 0.8% on annual basis due to gains recorded in the previous few quarters. As a result, the activity rate remained unchanged at 56.6% compared to Q4 last year, and up by 1.4 pps compared to Q1 2019.

Montenegro's nominal gross average wage rose by 0.4% y-o-y in May, and by 1.7% in real terms due to negative inflation. In monthly terms, real

wages dropped by 1%. The monthly gross salary totalled EUR 773 in May.

External sector

The current account deficit declined to 15.2% of GDP in the four quarters to March, down from 17.1% of GDP in the same period a year earlier. The narrowing of the external deficit was a result of a lower merchandise trade deficit (42.2% of GDP compared to 44% of GDP a year before) and a higher surplus in the services account. The primary and secondary balances remained positive, totalling 0.3% and 5.7% of GDP, respectively. Net FDI inflows rose marginally to 8% of GDP in the four quarters to March, up from 7.5% a year before, while overall, financial account inflows contracted by 17.2% y-o-y, due to the repayment of maturing government bonds. As a result, foreign reserves fell to the equivalent of 3.5 months of goods and services imports (or 20.2% of GDP) in March.

The effects of the pandemic on trade were noticeable in the first five months of 2020, with exports and imports of goods declining by 14.3% and 15.7% y-o-y, respectively. As a result, the annualised trade deficit fell to 43.7% of GDP in May, compared to 44.8% of GDP a year earlier. Moreover, travel restrictions decimated Montenegro's tourism sector in Q2 2020, as tourist services were banned between 15 March and 18 May. The number of foreign tourists plunged by 75% y-o-y in the first five months of 2020.

Monetary developments

The sharp contraction in international oil prices had a strong disinflationary effect beyond March. As a result, the consumer price index contraction deepened from -0.2% y-o-y in March to -1.1% y-o-y in April and -1.3% y-o-y in May. Meanwhile, food price inflation remained at 1.3% y-o-y in May, the same as in the previous month.

Financial sector

Credit growth accelerated to 5.3% y-o-y in April, boosted by the expiration of the base effect due to the exclusion of Atlas Banka's from statistics after its bankruptcy one year earlier. Yet, credit growth eased to 4.6% y-o-y in May, on the back of a slower increase in household

and corporate lending, as well as a sharper decline in interbank loans. Corporate lending growth eased to 3.9% y-o-y in May, down from 4.7% y-o-y growth in the previous month. Household lending growth decelerated marginally to 7.0% y-o-y in May, down from 7.3% y-o-y expansion in April. By contrast, general government lending recorded strong increase in May (by 37.6% y-o-y), accelerating from 25.2% y-o-y in April. In May, the NPLs ratio reached 5.27%, increasing by ½ pp over the year. Meanwhile, deposits declined for a fourth month in a row, but their contraction eased to marginal 0.1% y-o-y in May, compared to 0.3% y-o-y in the previous month.

The Central Bank of Montenegro imposed a moratorium on the repayment of loans in March, April and May, as part of the measures to mitigate the economic impact of the coronavirus pandemic. As of 1 June, commercial banks have the possibility of extending by additional 90 days the moratorium on the repayment of loans.

Fiscal developments

In Q1 2020, Montenegro's general government deficit expanded to 1.5% of annual GDP, up from 1.2% of GDP a year before, after the growth in expenditures (4.0% y-o-y) outpaced the increase in revenues (1.3% y-o-y). Yet, budget revenues remained 2.8% above the plan, driven by improving collection of VAT, excise taxes, personal income tax and social security contributions. Expenditures remained 18.9% below the plan in Q1, despite their annual increase. The spending increase was driven mainly by higher transfers to other government institutions, social transfers and wages. Capital expenditures remained 50.8% below the plan, and fell sharply (-34.1%) on annual basis in Q1.

On June 24, Montenegro's parliament adopted a budget revision to reflect the expected lower income and higher spending due to the COVID-19 pandemic, as well as to increase the annual debt ceiling to accommodate the new financing needs. The rebalanced budget sets the deficit for 2020 at 7.3% of GDP.

The use of government deposits to redeem maturing debt reduced the stock of government's debt to 71.4% of GDP in Q1 2020, down from 75.6% of GDP in the previous quarter. Remaining government deposits amounted to 3.5% of GDP.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2015 2016 2017 2018 2019					ECFIN 2020 Spring forecast							
							2020	2021	Q4 19	Q1 20	Q2 20	Apr 20	May 20	Jun 20
1 Real sector														
Industrial confidence ^{1.1}	Balance	9.8	3.0	4.5	5.5	3.5	:	:	-3.2	2.4	-19.2	-21.0	-20.0	-16.6
Industrial production ^{1.2}	Ann. % ch	7.9	-2.1	-4.3	23.6	-6.1	:	:	-1.8	13.0	:	-16.0	-8.5	:
Gross domestic product ^{1.3}	Ann. % ch	3.4	2.9	4.7	5.1	3.6	-5.9	4.4	3.1	2.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.2	5.4	3.9	4.6	2.9	-9.1	10.9	1.8	3.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	11.9	38.4	18.7	14.7	-1.5	-7.5	-8.4	-2.5	2.2	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.8	31.5	51.5	24.9	10.7	:	:	-7.0	4.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	4.2	4.0	5.2	4.8	6.0	:	:	5.6	7.4	:	-26.2	-20.1	:
2 Labour market														
Unemployment ^{2.1}	%	17.8	18.0	16.4	15.5	15.4	17.0	16.2	16.1	(16.3)	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.9	1.1	2.1	3.2	2.6	-1.4	2.6	0.4	(0.8)	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.2	3.5	2.0	0.1	0.8	-1.8	2.1	1.3	2.2	:	1.6	0.4	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-7.6	6.2	8.3	14.7	6.8	:	:	7.4	-5.7	:	-18.2	-37.6	:
Imports of goods ^{3.2}	Ann. % ch	3.5	12.0	11.6	10.9	1.8	:	:	-1.8	2.2	:	-37.4	-33.0	:
Trade balance* ^{3.3}	% of GDP	-40.1	-41.9	-43.3	-43.9	-42.1	-29.0	-33.5	-42.1	-42.2	:	-45.2	-43.7	:
Exports goods and services ^{3.4}	% of GDP	42.1	40.6	41.1	42.9	44.1	:	:	29.5	29.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	60.6	63.1	64.5	66.7	65.4	:	:	65.3	72.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-11.0	-16.2	-16.1	-17.0	-15.2	-13.8	-12.9	-15.2	-15.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	16.9	9.4	11.3	6.9	7.0	:	:	7.0	8.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	624.0	752.9	847.2	1049.8	1366.8	:	:	1366.8	947.0	:	884.6	1105.2	:
Int. reserves / months imp ^{3.9}	Ratio	3.4	3.6	3.7	4.0	5.1	:	:	5.1	3.5	:	3.3	4.1	N.A.
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	1.4	0.1	2.8	2.9	0.5	0.8	1.3	1.1	0.5	:	-1.1	-1.3	:
Producer prices ^{4.2}	Ann. % ch	0.3	-0.1	0.4	1.7	2.4	:	:	2.4	1.3	:	-1.0	0.3	:
Food prices ^{4.3}	Ann. % ch	3.0	-0.9	1.9	0.6	3.4	:	:	3.2	1.6	:	0.7	0.9	:
M2 ^{4.4}	Ann. % ch	11.3	9.5	13.6	5.0	-3.5	:	:	:	:	:	:	:	:
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 effective exchange rate ^{4.6}	Ann. % ch	0.4	0.6	0.5	2.7	-1.2	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	2.35	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	0.50	1.58	1.71	0.47	0.52	:	:	:	0.75	0.90	0.90	:	:
Stock markets ^{5.3}	Index	11,956	11,115	10,952	10,390	10,980	:	:	11,529	11,158	10,271	10,099	10,423	10,291
Credit growth ^{5.4}	Ann. % ch	0.8	1.3	11.8	8.5	4.5	:	:	4.5	4.3	:	5.3	4.6	:
Deposit growth ^{5.5}	Ann. % ch	13.7	9.4	13.8	5.9	0.5	:	:	0.5	-2.0	:	-0.3	-0.1	:
Non-performing loans ^{5.6}	% of total	12.6	10.3	7.3	6.9	4.7	:	:	4.7	5.1	:	5.3	5.3	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-8.3	-3.6	-5.3	-3.9	-2.0	-7.7	-1.5	-0.2	-1.5	:	:	:	:
General government debt*** ^{6.2}	% of GDP	65.2	63.4	63.3	70.1	77.2	82.7	79.6	75.6	71.4	:	:	:	:

f: ECFIN forecast Spring 2020 published May 2020

* Q figures refer to a 4 quarters moving average.

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

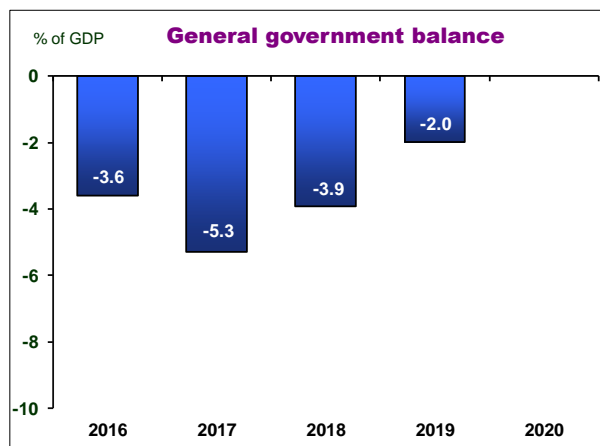
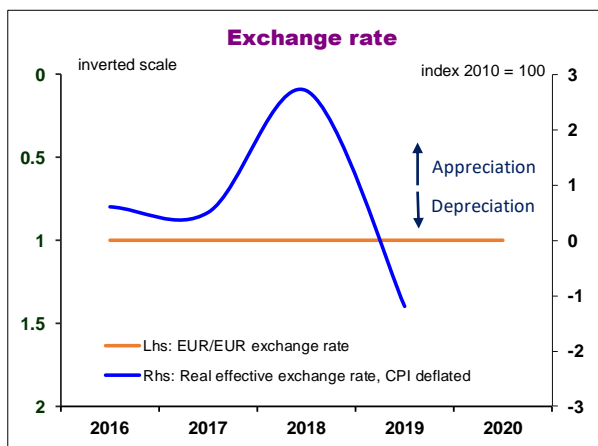
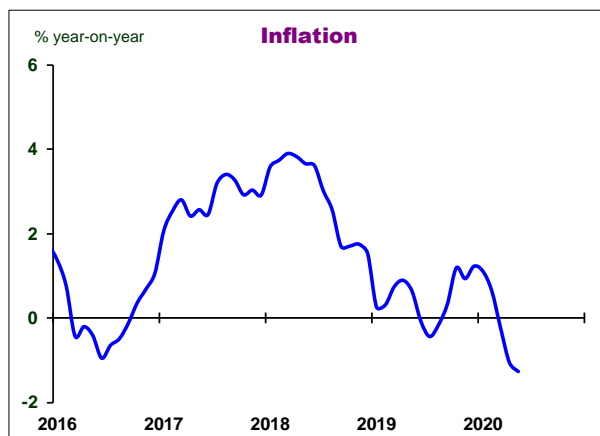
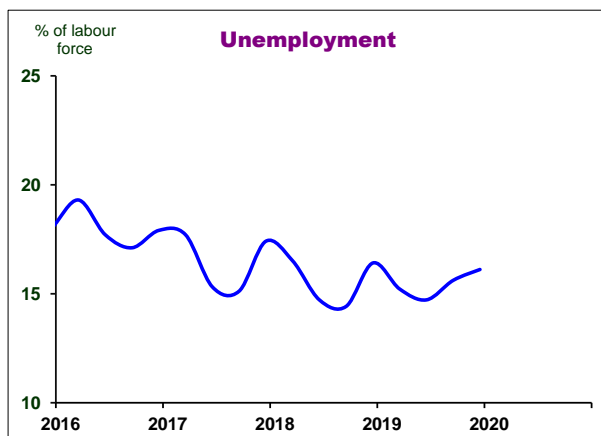
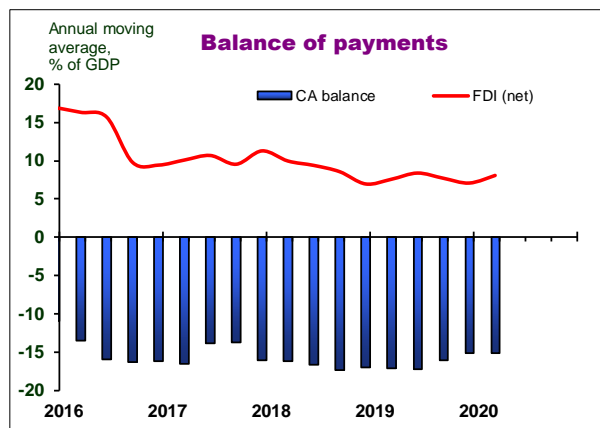
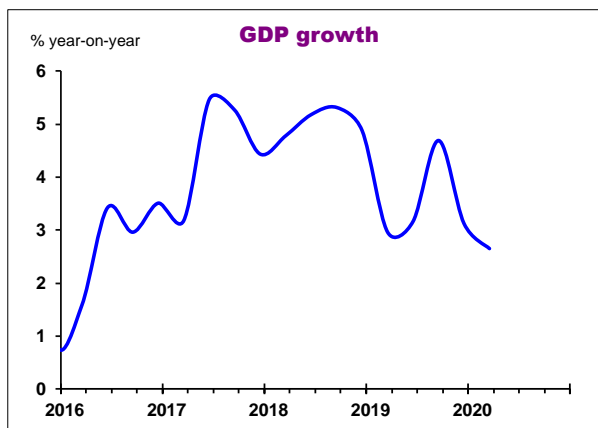
*** Q figures refer to central government debt only.

() data from the Labour Force Survey is preliminary, and only concerns the age group above 15 years old. The statistical office experienced difficulties to access households due to the coronavirus containment measures. More detailed data will be released at a later date.

CHARTS



MONTENEGRO



NORTH MACEDONIA



Key developments

The COVID-19 pandemic continues to unsettle the country, with the number of cases rising again in June. The lockdown of the economy has been eased since end-May. On 15 June, the President extended the state of emergency, while political parties set 15 July as election date.

On May 17, the government adopted a third package of support measures worth EUR 355 million. On 27 May, the government issued a EUR 700 million Eurobond.

On 19 May, the annual Economic and Financial Dialogue between the EU and the Western Balkans and Turkey took place. The jointly agreed conclusions invite North Macedonia to use fiscal policy to mitigate the crisis impact on growth and employment. The conclusions also call on the country to improve fiscal transparency, revenue collection and the management of public investment, and to take steps towards the establishment of fiscal rules and a fiscal council.

On 13 May, rating agency Standard and Poor's affirmed its 'BB-/B' long- and short-term foreign and local currency sovereign credit ratings with stable outlook, on account of fair resilience of the economy to the crisis, an expected quick recovery, and faster structural reforms implementation in the course of EU accession negotiations. On 15 May, Fitch Ratings revised the outlook to negative from stable due to the expected GDP contraction and affirmed issuer default rating at BB+.

Real sector

The slowdown in major trading partner economies, and the onset of the COVID-19 crisis in March dampened the ongoing economic upswing in North Macedonia. Real GDP growth declined to 0.2% y-o-y in Q1, down from 3.4% in the previous three months. Annual growth in household consumption slowed to 1.2% (-1.2 pps compared to the previous quarter). After a recovery in the second half of 2019, gross capital formation dropped by 0.5% y-o-y. Government consumption increased by 2.4%,

slowing down from exceptionally high growth in the previous quarter (7.1%). The decline in exports deepened further (-5.4% y-o-y), compared to Q4 (-1.6%). Imports, which posted slim growth in the preceding three months, also dropped (-3.2%). Overall, the external side did not contribute to GDP growth. Manufacturing output declined in Q1 (-1.3% y-o-y, after 0.7% in the previous quarter). The construction sector posted slim, though decelerating gains (1.5% y-o-y compared to 6.7%). Internal trade, transport and tourism contracted by 1.3% (Q4: +8.1%).

High-frequency indicators for Q2 point to a further sharp drop in economic activity. The industrial production index declined by 30% y-o-y, on average, in April and May, mainly on account of a plunge in manufacturing. In the first five months of the year, industrial production declined by 14.4% y-o-y, with a particularly acute drop in capital goods production (-26.4%), anticipating a further slowdown in investment activity. Reflecting the lockdown of the economy, retail sales of non-food products declined by 16% y-o-y, on average, in April and May. The uninterrupted rise in retail sales since autumn 2017 had come to a sudden halt in March.

Labour market

Despite the slowdown in economic activity, the COVID-19 did not yet leave a marked dent in labour market conditions in Q1. According to the Labour Force Survey, employment increased by 2.7% y-o-y, declining from exceptionally high growth in the same period one year earlier (5.3%). The labour force (age 15-64) expanded somewhat further, by 0.7% y-o-y, again on account of a rise in the female workforce (+1.9%), while the male labour force continued to decline (-0.1%). The unemployment rate (total over 15 years age group) dropped to 16.2% (-0.4 pps q-o-q, and -1.6 pps y-o-y). The employment rate increased, compared to the previous quarter (+0.2 pps) and compared to the same period one year earlier (+1.2 pps), to 48.1%. Overall labour market participation amounted to 57.4% (+0.3 pps y-o-y). The situation of young workers improved somewhat

further, but, at 34.9% (-2.1 pps y-o-y), the unemployment rate remained elevated.

Fuelled by higher public and statutory minimum pay, as well as government support to mitigate the impact of the crisis on employment, average monthly gross wages rose markedly in the first four months (+9.7% y-o-y). Real net wages increased by 8.6% (2019: 3.1%).

External sector

The current account deficit widened markedly in the four quarters to March, to 2.7% of GDP, compared to 0.4% in the same period one year earlier. This came on account of a higher deficit in merchandise trade (-1.8 pps to -17.9%), and in the primary balance, and in spite of an increase in the services surplus. Private transfer income dropped, in terms of GDP, and covered only 60% of the merchandise trade deficit. Net FDI inflows in Q1 were more than three times the level of the same period one year earlier. They amounted to 3.4% of GDP and more than covered the current account deficit in the four quarters to March. All FDI components – debt, equity, and reinvested earnings - registered an increase. Gross external debt, excluding central bank transactions, was higher by 2.2% y-o-y at the end of Q1. The rise in private external debt (+8.9% y-o-y), mainly intercompany debt, far exceeded the drop in public external debt. At end-May, foreign currency reserves were some 5.6% below their end-year level, but still higher than one year earlier. They covered some 4.4 months of prospective imports of goods and services.

Monetary developments

Consumer prices rose only marginally in the first five months of the year, and more slowly than in the same period one year earlier (-1.1 pps to 0.3% y-o-y). In April and May, they even dipped into deflation (-0.2% on average). Prices for food (except for agricultural products), some utilities and health rose (marginally), while transport prices declined. Prices for liquid fuels declined sharply in April and May, following the drop in oil prices. Annual growth of broad money (M4) slowed down in Q1, compared to the previous quarter, to 8.9% y-o-y (-0.4 pps), and further to 8.4% on average in April and May. All components (currency in circulation, demand deposits and short-term deposits) registered an increase. To encourage lending, the central bank lowered the key interest rate, the

CB bills rate, further, in March and in May, by 25 bp each, to 1.5%, and eased conditions for banks' loan restructuring operations as well as reserve requirements.

Financial sector

Credit to the private sector held up well in the year to May. Loan growth picked up further in Q1, compared to the previous three months (+0.4 pps to 6.5% y-o-y), and slowed down only somewhat thereafter (5.7% on average in April and May). Corporate credit growth accelerated slightly in Q1, compared to the previous three months (+0.2 pps to 2.6% y-o-y), and remained at that level in April and May. Yet, it was much lower than one year earlier (7.3%). Lending to households remained strong in Q1 (+0.6 pps to 10.6% y-o-y), and eased only slightly thereafter. Interest rates on loans and deposits in both, denar and foreign currency, decreased by 10 bps each between January and May, with spreads hence remaining unchanged. The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients lower by 2.4 pps at 84.4% at end-March, compared to one year earlier. The ratio of non-performing to total loans (financial and non-financial sector) dropped by 0.4 pps y-o-y, to 4.7%. The share of foreign-currency denominated loans in total loans rose slightly, to 42.2% (+0.7 pps y-o-y).

Fiscal developments

Public finances were impacted markedly in Q1 and beyond by the crisis. In January to May, public revenue declined by 8.3% y-o-y, with a particularly sharp drop in tax revenues (-12%). Total expenditure rose by 7.9%. Current expenditure was higher by 8.3% y-o-y, mainly on account of a rise in social transfers (+6.3%) and in subsidies (+22.9%). Including a stark drop in May (-51% y-o-y), capital expenditure was only marginally above the level in the same period one year earlier (+0.5%). On 15 May, the government had revised the budget to secure more financing for crisis mitigation measures, which included a cut in budgeted capital expenditure. It raised the projected full-year fiscal deficit to 6.8% of GDP. The budget gap in the first five months accounts for almost half of the revised target. General government debt was only marginally higher at the end of Q1 compared to end-2019 (+0.5%). Public debt rose by less in this period (+0.3%), on account of a decline in the debt levels of public enterprises.

TABLE



European Commission, ECFIN-D-1

North Macedonia

		2015	2016	2017	2018	2019	ECFIN 2020 Spring forecast		Q4 19	Q1 20	Q2 20	Apr 20	May 20	Jun 20
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Balance	17.5	24.0	25.6	28.8	32.2	:	:	33.3	32.5	:	27.8	23.8	:
Industrial production ^{1.2}	Ann. % ch	4.9	3.9	0.2	5.4	4.1	:	:	-1.3	-3.2	:	-33.5	-27.0	:
Gross domestic product ^{1.3}	Ann. % ch	3.8	2.8	1.1	2.7	3.6	-3.9	4.0	3.4	0.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.4	3.9	2.1	5.1	3.5	-2.5	3.0	2.4	1.2	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	8.3	12.5	-2.2	-7.3	6.6	-10.0	13.0	23.3	5.8	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	8.6	3.6	-2.5	-12.2	7.5	:	:	7.7	3.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	9.8	18.8	-11.3	9.6	13.4	:	:	22.5	1.0	:	-18.7	-13.1	:
2 Labour market														
Unemployment ^{2.1}	%	26.1	23.8	22.4	20.7	17.3	18.1	17.6	16.6	16.2	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.3	2.5	2.4	2.5	5.1	-1.7	1.1	4.6	2.7	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.7	2.0	2.6	5.8	5.1	-4.9	4.4	5.7	11.4	:	4.8	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	9.4	15.8	15.4	19.8	9.1	:	:	-0.8	-9.1	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	5.0	9.7	9.7	12.9	10.2	:	:	6.9	-2.3	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-20.1	-18.8	-17.8	-16.2	-17.3	-16.9	-18.7	-17.3	-17.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	48.7	50.7	55.3	60.6	61.7	:	:	61.7	60.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	65.0	65.5	69.2	73.2	75.6	:	:	75.6	74.5	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.0	-2.9	-1.1	-0.1	-2.8	-3.0	-3.9	-2.8	-2.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.2	3.3	1.8	5.6	2.6	:	:	2.6	3.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,262	2,613	2,336	2,867	3,263	:	:	3,263	3,017	:	3,160	3,079	:
Int. reserves / months Imp ^{3.9}	Ratio	4.6	4.9	4.1	4.4	4.6	:	:	4.6	4.3	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	-0.3	-0.2	1.4	1.5	0.8	-0.7	2.0	0.1	0.6	:	-0.1	-0.2	:
Producer prices ^{4.2}	Ann. % ch	-4.1	-0.1	0.4	-0.3	0.0	:	:	0.2	1.3	:	0.7	0.2	:
Food prices ^{4.3}	Ann. % ch	0.1	-1.3	0.3	0.8	1.6	:	:	1.0	0.5	:	1.3	1.5	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	6.9	6.2	5.1	11.8	9.3	:	:	9.3	8.9	:	7.5	9.4	:
Exchange rate MKD/EUR ^{4.5}	Value	61.61	61.60	61.57	61.51	61.51	:	:	61.50	61.61	61.69	61.70	61.69	61.70
Nominal effective exchange rate ^{4.6}	Index	99.2	100.5	101.4	103.3	103.0	:	:	102.9	102.9	:	103.8	103.8	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.92	1.96	1.78	1.54	1.46	:	:	1.46	1.37	1.39	1.38	1.39	1.39
Bond yield ^{5.2}	% p.a.	7.46	7.02	6.61	6.11	5.61	:	:	5.44	5.33	:	5.29	:	:
Stock markets ^{5.3}	Index	1,731	1,887	2,406	3,154	3,939	:	:	4,384	4,632	4,152	4,018	4,315	4,124
Credit Growth ^{5.4}	Ann. % ch	9.1	4.0	2.5	6.7	7.3	:	:	6.1	6.5	:	5.5	5.9	:
Deposit growth ^{5.5}	Ann. % ch	7.6	4.4	5.3	8.9	9.1	:	:	8.3	7.6	:	5.4	7.3	:
Non-performing loans ^{5.6}	% total	10.3	6.3	6.1	5.0	4.6	:	:	4.6	4.8	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-3.5	-2.7	-2.7	-1.8	-2.0	-6.8	-3.4	-2.9	-4.5	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	38.1	39.9	39.5	40.5	:	47.2	48.7	40.2	41.8	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2020 published May 2020

* Q figures refer to a 4 quarters moving average.

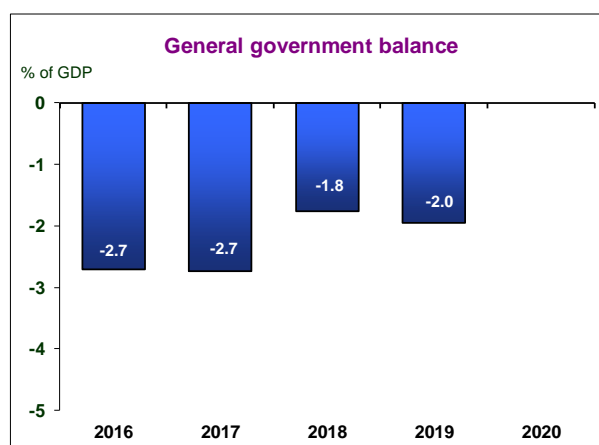
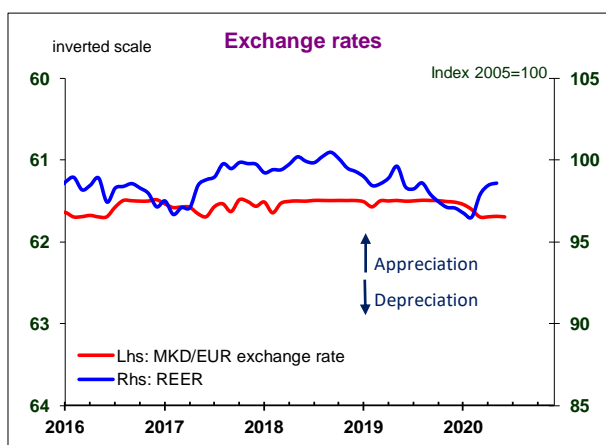
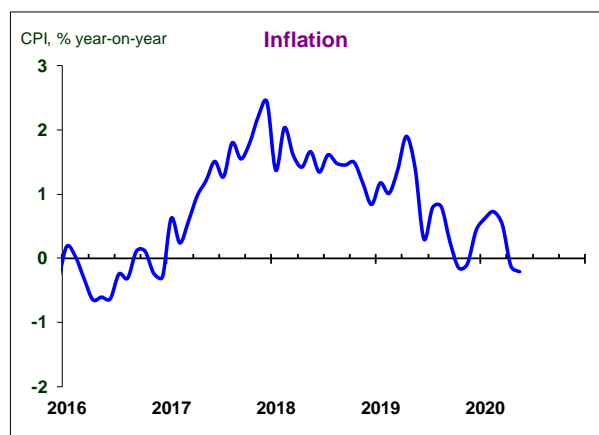
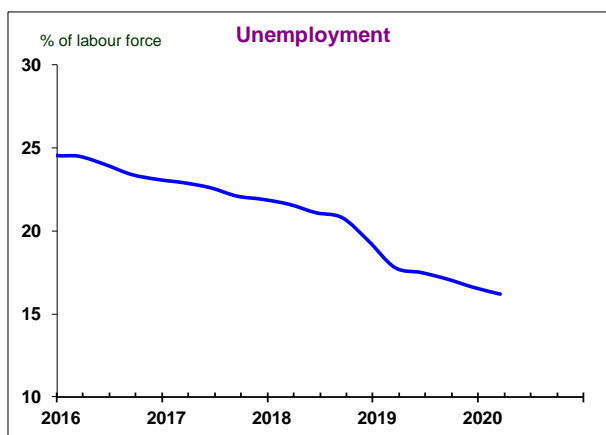
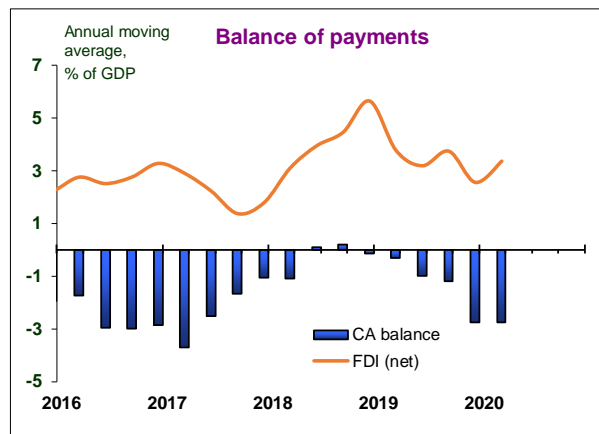
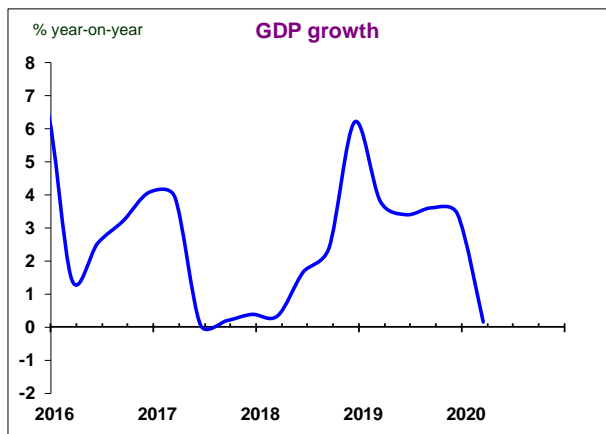
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



North Macedonia





Key developments

On 6 May 2020, the Serbian Parliament lifted the COVID-19-related state of emergency, declared by the Government on 15 March, thereby revoking most of the remaining confinement measures. After further easing of measures in May and June, the authorities considered reintroducing some restrictions in early July in view of rising infection numbers.

On 11 May 2020, Serbia issued a EUR 2 billion 7-year Eurobond at a yield of 3.375%.

On 19 May, the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey adopted joint conclusions that invited Serbia, inter alia, to take crisis-mitigating fiscal measures, while reinforcing medium-term fiscal sustainability via overall containment of spending on wages, strengthening of fiscal rules, higher capital spending and a more transparent and improved governance of state-owned enterprises.

Following two earlier cuts by 0.5pps and 0.25 pps in March and April respectively, on 11 June, the National Bank of Serbia lowered its key policy rate by another 0.25 pps to 1.25% to further mitigate the crisis.

According to the final results of the Serbian general elections of 21 June, 3 parties passed the 3% quorum, the ruling Serbian Progressive Party (60.7%), the Socialist Party of Serbia (10.4%) and the ASPS list (3.8%), with turnout at 48.9%.

Real sector

Economic growth decelerated but remained robust in Q1 2020. Real GDP expanded 5.0% y-o-y, down from 6.2% in Q4 2019. Gross fixed capital formation, government consumption, private consumption and changes in inventories contributed broadly equally to annual output growth. Government consumption growth accelerated strongly to 12% y-o-y while gross fixed capital formation growth decelerated to 10.7% y-o-y and household consumption growth remained broadly stable at 3.2% y-o-y. The annual growth in exports of goods and services decelerated strongly to 3.1%, while the growth of imports slowed more moderately to 8.3%, thereby increasing the negative contribution of net exports to quarterly GDP growth to 3.7pps.

On the supply side, despite a substantial deceleration, the still strong investment drive corresponded to a strong rise in construction activity (19.6% y-o-y) while the surge in government consumption was reflected in an 11.8% y-o-y increase for public administration and defence, social security, education, health and social activities. Information and communication recorded a similar growth rate of 11.8% y-o-y. The growth rate of industry also accelerated further, to 4.5% y-o-y in Q1 2020 after 3.1% in Q4 2019. The trade and service-oriented sectors of the economy recorded a substantial deceleration of annual growth rates, reflecting the confinement measures applied as of 15 March. The agricultural sector continued its broad stagnation since Q1 2019.

Some short-term indicators suggest that economic activity was very heavily impacted during the lockdown period but started to recover in May. Industrial production contracted by 16.6% y-o-y in April, followed by a more moderate contraction of 9.3% in May. Real retail trade turnover contracted by 18.6% y-o-y in April followed by a 4.7% y-o-y growth in May.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and over remained stable q-o-q at 9.7% in Q1 2020. This was down 2.4 pps y-o-y and about half the level of five years ago. The labour force decreased by 0.3% y-o-y, which was slightly less than the decrease in population (0.5% y-o-y) due to a fall in inactivity. Employment growth decelerated strongly to 2.4% y-o-y in Q1, mainly reflecting a decrease by 2.1% compared to the previous quarter. Annual employment gains were concentrated in the formal sector (3.5%), while informal employment fell by 3.1%. Compared to the last quarter of 2019, formal employment remained relatively stable (-0.4%) whereas informal employment dropped significantly by 9.9%.

The growth of registered employment decelerated to 1.8% y-o-y in Q1 2020, reflecting a 0.7% decrease compared to previous three months. Annual employment growth remained positive in most sectors and was particularly strong in mining and quarrying (12.3%), construction (10.2%) and information and

communication (7.6%). Manufacturing employment still grew 3.6% while employment in trade activities stagnated and employment in the energy sector decreased by 6.1%. The fall in employment compared to the previous quarter was in particular the result of decreases in administrative and support services, social work, professional and trade activities. Due to strong 2019 employment data, registered jobseekers still decreased by 2.5% y-o-y in May while recording an increase by 3.2% as compared to the end of last year. The growth in nominal net wages stood at 7.8% y-o-y in April 2020 while real net wages grew by 7.2% y-o-y.

External sector

In the period January to April 2020, the current account deficit decreased slightly by 1.4% y-o-y in euro terms. Over the four quarters to March 2020, it stood at 7.1% of GDP, compared to 6.9% of GDP in 2019. While the overall current account deficit remained broadly unchanged y-o-y in the period January to April, this was the net result of a higher merchandise trade deficit (+12.8% y-o-y) and a lower secondary income surplus (-16% y-o-y) that were broadly offset by a lower primary income deficit (-36.7% y-o-y) and a higher services trade surplus (+55.5% y-o-y). Net FDI inflows decreased by 8% y-o-y in the period January to April 2020 but still covered 99% of the same period's current account deficit. External trade of goods dropped strongly in April and May, with exports contracting by 28.9% and 25.6% y-o-y, and imports by 28.1% and 27.1% respectively (in euro terms). Cumulative contraction for January to May reached 9.5% y-o-y for exports and 7.1% for imports.

Monetary developments

After dropping from around 2% at the beginning of the year to 1.3% y-o-y in March, annual consumer price inflation fell further to 0.6% in April and broadly stabilised at 0.7% in May, markedly below the lower bound of the central bank's target tolerance band of 3% +/-1.5%. The fall in the annual inflation rate was particularly driven by energy prices and unprocessed food. Core inflation (excluding energy, food, alcohol and tobacco) decelerated only moderately from a peak of 1.6% in March to 1.4% in April and 1.3% in May. The central bank (NBS) cut its key policy rate to 1.25% (see above). It remained an active participant on the foreign exchange market by selling a net EUR 440 million in April

and a net EUR 250 million in May, bringing cumulative total net sales in the first five months of 2020 to EUR 825 million. Mainly due to the inflows from the issuance of the Eurobond of EUR 2 billion in May, NBS foreign exchange reserves nonetheless rose by EUR 1.2 billion compared to March to EUR 14.3 billion in May, continuing to cover around 6 months of imports of goods and services.

Financial sector

In May, domestic claims of the banking sector increased by 15.5% y-o-y, mainly driven by higher dinar deposits at the NBS. The growth of credit to the non-government sector also accelerated to 12.0% y-o-y. From February to May, credit growth remained broadly stable at around 9% y-o-y to households but accelerated from 9% to 13% for companies and increased strongly for public enterprises from 24% y-o-y to 46% y-o-y in April before a slight deceleration to a 38% increase y-o-y in May. The loan-to-deposit ratio stood at 92.0% at the end of April. The ratio of non-performing loans roughly stabilised in Q1 2020 at 4.0%, after 4.1% at end-2019. The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) decreased slightly to 22.7% in Q1 2020. Liquidity ratios remained broadly stable in Q1, as regards both the share of liquid assets to total assets (35.9%, -0.1pp q-o-q) and to total short-term liabilities (50.0%, -0.5pps q-o-q).

Fiscal developments

The crisis took a heavy toll on public finances. The fiscal balance deteriorated strongly as a result of substantial revenue shortfalls and expenditure increases. Total revenue decreased by 6.9% y-o-y in January to May 2020, particularly negatively impacted by corporate income tax (-32.7%), non-tax revenue (-22.4%) and social contributions (-3.6%). Total expenditure growth reached 20.6% y-o-y in the same period, with particularly significant increases for other current expenditure (+134.5%), goods and services (31.1%), subsidies (+83.3%), expenditure for employees (10.1%) and capital expenditure (29.2%). As a result, in January-May, the budget recorded a deficit of RSD 235.4 billion (4.3% of the annual GDP projected by the Ministry of Finance), as compared with a 0.1% of GDP surplus in the same period of 2019. In May, government debt was at 57.2% of the estimated full-year GDP, up from 52.0% at end-2019.

TABLE

European Commission, ECFIN-D-1



SERBIA

							ECFIN 2020 Spring forecast							
		2015	2016	2017	2018	2019	2020	2021	Q4 19	Q1 20	Q2 20	Apr 20	May 20	Jun 20
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	8.4	4.8	3.4	1.5	0.2	:	:	3.3	4.6	:	-16.6	-9.3	:
Gross domestic product ^{1.3}	Ann. % ch	1.8	3.3	2.0	4.3	4.3	-4.1	6.1	6.2	5.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	-0.5	1.3	2.0	3.0	3.2	-4.2	6.8	3.1	3.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	4.9	5.4	7.3	17.8	16.4	-13.5	19.4	29.6	10.7	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	13.1	5.1	9.3	9.6	32.3	:	:	53.8	21.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.0	8.0	3.8	4.1	9.7	:	:	11.9	10.3	:	-18.6	4.7	:
2 Labour market														
Unemployment ^{2.1}	%	17.7	15.3	13.5	12.7	10.4	12.7	10.0	9.7	9.7	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	0.6	5.6	2.8	1.4	2.4	-3.2	2.7	4.3	2.4	:	1.8	2.4	:
Wages ^{2.3}	Ann. % ch	-0.4	3.8	4.0	4.3	10.5	:	:	11.9	10.4	:	8.0	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	7.9	11.6	12.1	8.2	7.7	:	:	9.5	3.3	:	-28.5	-25.6	:
Imports of goods ^{3.2}	Ann. % ch	5.9	6.1	13.6	13.0	8.9	:	:	9.5	7.7	:	-28.0	-27.1	:
Trade balance* ^{3.3}	% of GDP	-11.3	-9.9	-11.1	-13.2	-14.4	-10.1	-11.9	-13.8	-14.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	45.3	48.6	50.5	50.8	52.1	:	:	52.1	51.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	52.3	53.4	57.1	59.2	61.0	:	:	61.0	60.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.4	-2.9	-5.2	-4.8	-6.9	-4.3	-5.5	-6.9	-7.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.1	5.2	6.2	7.4	7.8	:	:	7.8	7.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	10,378	10,205	9,962	11,262	13,378	:	:	13,378	13,115	:	12,793	14,344	:
Int. reserves / months Imp ^{3.9}	Ratio	6.6	6.2	5.4	5.4	5.7	:	:	5.7	5.5	:	5.5	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.4	1.1	3.1	2.0	1.8	0.9	1.9	1.4	1.8	:	0.6	0.7	:
Producer prices ^{4.2}	Ann. % ch	0.2	-0.4	3.4	2.2	0.7	:	:	0.1	0.4	:	-3.1	-4.1	:
Food prices ^{4.3}	Ann. % ch	1.9	-0.3	3.3	1.9	2.6	:	:	1.6	1.4	:	0.3	2.1	:
M3 ^{4.4}	Ann. % ch	6.6	11.6	3.6	14.5	8.4	:	:	8.4	10.1	:	13.8	17.6	:
Exchange rate RSD/EUR ^{4.5}	Value	120.74	123.09	121.41	118.27	117.86	:	:	117.53	117.57	117.58	117.57	117.59	117.59
Nominal effective exchange rate ^{4.6}	Index	67.4	66.1	67.3	69.7	69.2	:	:	69.2	69.1	69.1	68.9	69.0	69.4
5 Financial indicators														
Interest rate (BELIBOR) ^{5.1}	% p.a.	6.17	3.44	3.41	2.96	2.52	:	:	1.81	1.57	1.17	1.24	1.18	1.10
Bond yield (7 year) ^{5.2}	% p.a.	10.99	8.28	5.45	5.00	3.86	:	:	2.93	2.69	:	2.69	:	:
Stock markets ^{5.3}	Index	1,359	1,383	1,584	1,562	1,583	:	:	1,650	1,678	1,489	1,484	1,480	1,505
Credit growth ^{5.4}	Ann. % ch	2.8	2.5	1.9	9.4	9.1	:	:	9.1	11.1	:	11.5	12.0	:
Deposit growth ^{5.5}	Ann. % ch	6.5	11.4	3.3	15.3	8.5	:	:	8.5	9.8	:	13.5	16.7	:
Non-performing loans ^{5.6}	% total	21.6	17.0	9.8	5.7	4.1	:	:	4.1	4.0	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-3.5	-1.2	1.1	0.6	-0.2	-7.7	-2.1	-3.1	-4.1	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	70.0	67.8	57.9	53.7	52.0	62.2	59.5	:	:	:	N.A.	:	:

f: ECFIN forecast Spring 2020 published May 2020

* Q figures refer to a 4 quarters moving average.

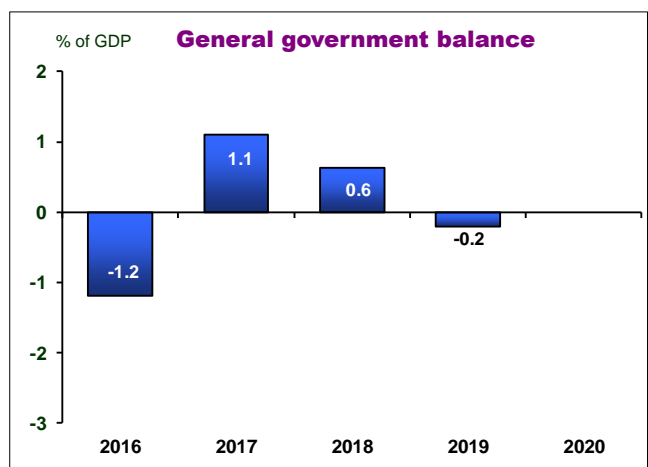
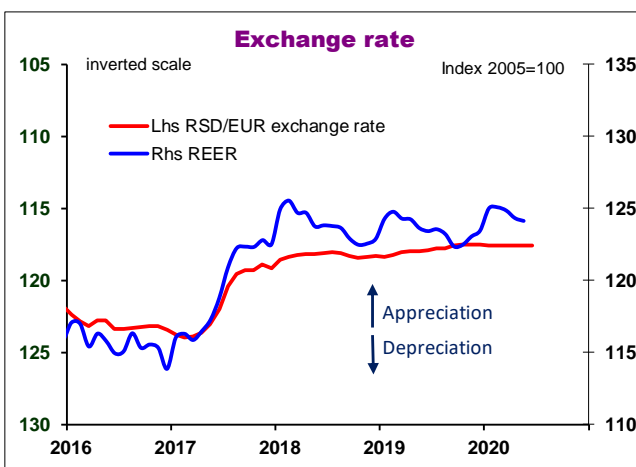
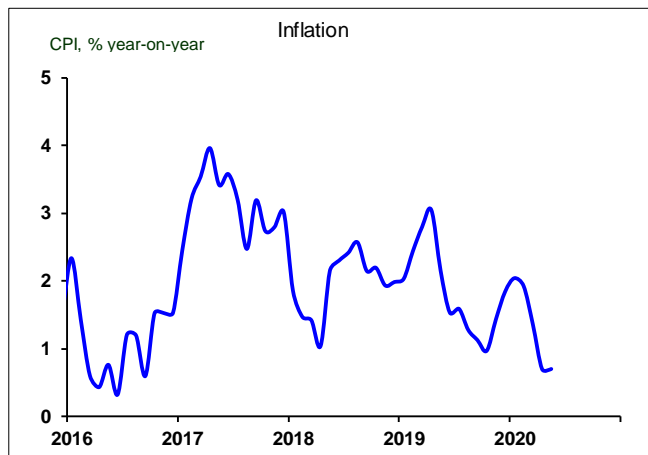
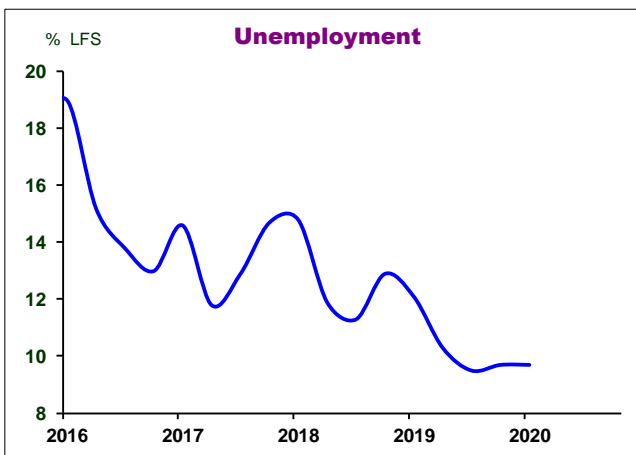
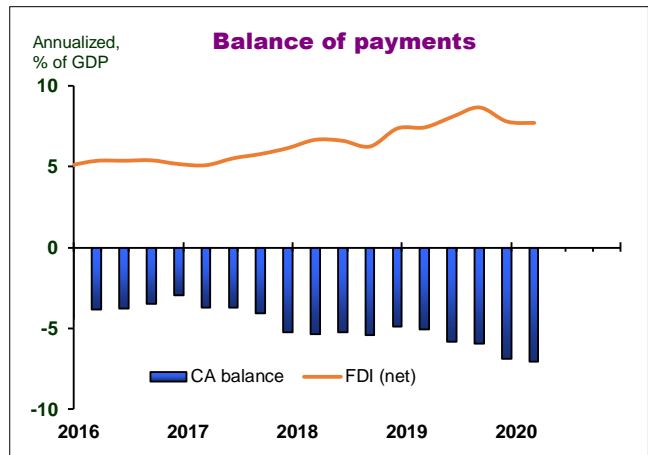
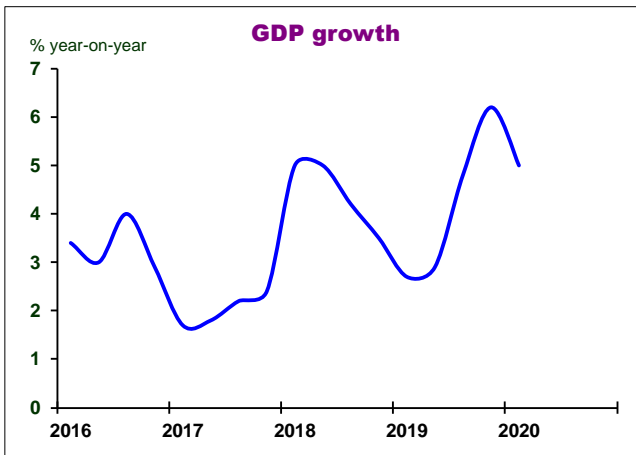
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA





Key developments

After peaking in April, the officially reported COVID-19 cases declined strongly in May, before increasing again in June. The authorities have progressively lifted social distancing measures. However, key sectors like international travel and tourism, still remained largely closed for business. In addition, the epidemiological situation did not allow the Council to include Turkey in the list of countries for which it recommended Member States to lift travel restrictions on entry into the EU.

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 19 May issued joint conclusions, which, invited Turkey to increase fiscal transfers in a transparent manner to mitigate the crisis impact and at the same time to increase growth-enhancing capital expenditure and to prepare an exit strategy to lower the use of one-off and temporary measures over the medium term. Turkey was also invited to, inter alia, implement an appropriate monetary policy stance to contain inflation; to further strengthen the rule of law and the regulatory environment; publish audited reports of the Sovereign Wealth Fund; to better target support to small and medium-sized enterprises; and to ensure adequate income support and social assistance for the unemployed and those at risk of poverty and social exclusion.

Real sector

The first effects of the COVID-19 pandemic on the Turkish economy became visible already in Q1 2020. Lower external demand and strict domestic social distancing and confinement measures, implemented in the second half of March, have led to a deceleration of economic growth to 4.5% y-o-y in Q1 2020 from 6.0% in Q4 2019. Pent-up demand, consumer lending, and base effects continued driving robust households consumption growth (5.1% y-o-y), although it decelerated from 6.8% in the preceding quarter. Domestic demand was boosted further by a pickup in government consumption (6.2% y-o-y) and by an outsized contribution from changes in stocks (8.3 pps). However, in a sign that the economy had not yet

fully recovered from the 2018 recession, gross fixed capital formation extended its decline into Q1 2020 (-1.4% y-o-y). Base effects and buoyant domestic demand propped up strong growth of imports (22.1% y-o-y), while the pandemic suppressed external demand, leading to a contraction in exports (-1.0% y-o-y) and keeping net exports' contribution to growth strongly negative at -7.2 pps. On the production side, Q1 GDP growth was broad-based – agriculture increased 3.0% y-o-y, industry 6.7%, and services 3.9%. However, construction sector activity continued declining (-1.5% y-o-y), and its share fell below 6% of GDP for the first time in a decade.

The full scale of the crisis became apparent in Q2. Capacity utilisation in manufacturing plummeted to 61.6 in April, from 77.0 at the end of 2019, and only slightly rebounded to 66.0 in June. Real sector confidence dropped in a similar pattern, from above 100 in the beginning of the year to 66.8 in April, but partially recovered in a 'V-shape' to 92.6 in June. In the period April-June, the overall economic confidence improved as well, although it remained weak mainly because of its backward-looking components. Equally, the manufacturing PMI collapsed to 33.4 in April but recovered to 53.9 in June, above its pre-COVID-19 levels. Hard data, available until April, have captured for now only the strong decline in economic activity – industrial production fell 31.4% y-o-y, while retail trade dropped by close to 20% in April.

Labour market

The authorities took a number of measures to soften the impact of the pandemic on the labour market, including a 3-month prohibition of cancelling employment contracts and providing short-time work allowances to employees.

Although the unemployment rate declined from 14.0% (15-64 years) at the end of 2019 to 13.5% in March, other indicators suggest that the labour market weakened further. As the COVID-19 crisis hit the economy, the labour force fell steeply in March (-6.8% y-o-y) and the participation rate dropped to a level (53.7%) not

seen since early 2014. Equally, the number of employed tumbled by 5.9% y-o-y, while the number of those in short-term underemployment doubled since the beginning of the year, representing 4% of all employed in March. By sectors, employment decreased strongly in agriculture (-11.2% y-o-y), construction (-16.1% y-o-y), accommodation and food service activities (-14.1% y-o-y), and some other administrative, social, and personal services, while there were marginal increases in employment in health (1.5% y-o-y), education (2.1% y-o-y), and public administration (0.2% y-o-y).

External sector

The 12-month moving current account turned again to deficit by the end of April (\$3.3 billion or 0.4% of GDP). Exports of goods dived steeply in March (-18% y-o-y) and April (-42% y-o-y), while the fall in imports (-25% y-o-y in April) was less pronounced, buttressed by domestic demand. The fall in trade in services was equally spectacular, with the April balance moving to a deficit for the first time on record. There were also strong outflows of portfolio and other investment, and from net errors and omissions, in particular in March, financed by a sizable drawdown of reserve assets. In addition, Turkey recorded net FDI outflows in April (\$133 million). The reserve assets' coverage of imports of goods and services fell to 4.5 months in April.

With the aim of reducing balance of payments pressures, the authorities increased, in several steps, both the size and scope of import duties on goods of non-EU origin and introduced a number of other protectionist measures.

Monetary developments

Inflation remained elevated at double-digit levels in Q2. It accelerated to 12.6% y-o-y in June, boosted largely by higher energy and service prices, like transportation and HORECA. The seasonal decline in unprocessed food prices turned out weaker than last year, also contributing to the higher annual inflation. Core inflation moved up to 11.6% y-o-y. Inflation expectations broke their downward trend and expectations for the end-of-the-year annual inflation inched up in June to 9.5%. Price developments most likely have been affected by the significant monetary policy easing since the beginning of the year and supply constraints triggered by the COVID-19 crisis.

The central bank lowered its key policy rate by 50 bps to 8.25% in May but kept it unchanged in

June. The weighted average cost of central bank funding, however, continued falling, remaining consistently below the one-week repo rate and averaging 7.6% in June. Net central bank funding increased further since April, peaking at close to TRY 200 billion in end-May, before decreasing somewhat to around TRY 170 billion in the beginning of July. The lira's value reached its lowest level in May at 7.22 TRY/USD, weakening 21.6% since the end of 2019, but it strengthened thereafter. In an exceptional pattern, the lira's exchange rate remained flat at around 6.84 TRY/\$ since mid-June. Although the increase of a swap facility with Qatar from \$5 to \$15 billion boosted central bank foreign exchange reserves, they continued falling and stood at \$51.4 billion in the last week of June. Turkey's credit default swap decreased from its peak in April, but stabilised at around 470, some 200 bps above its level in the beginning of the year.

Financial sector

The central bank and the banking regulation and supervision agency took additional measures to mitigate the adverse economic effects of the pandemic. An asset ratio requirement, introduced in April and revised in May, aims to incentivise bank lending to the economy and the government, and bank swaps with the central bank, while penalising open on-balance foreign exchange positions. Responding to the strong policy stimulus, bank lending increased further in April and May, with both corporate and household loans recording double-digit annual real growth. As a result of buoyant credit growth, the NPL ratio declined to 4.5% in May.

Fiscal developments

The central government deficit expanded further in April and May. In January-May, the deficit stood at TRY 90.1 billion (2.0% of the projected annual GDP), up 35% y-o-y. The poor revenue performance continued, although it was masked by an uptick in interest income and indirect tax receipts in April. Total revenue growth decelerated to 12.0% y-o-y in the first five months. Expenditure expanded strongly in April (42.7% y-o-y) but was tamed in May (2.2% y-o-y), bringing its cumulative growth to 15.7% y-o-y during January-May. Treasury transfers (23.3% y-o-y) and interest payments (40.0% y-o-y) were the main drivers of expenditure growth.

In Q1, government debt increased to 35.1% of GDP (up from 32.8% at the end-2019).

TABLE



TURKEY

European Commission, ECFIN-D-1

		2015	2016	2017	2018	2019	ECFIN 2020 Spring forecast		Q4 19	Q1 20	Q2 20	Apr 20	May 20	Jun 20
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Index	103.5	105.2	108.0	101.4	100.4	:	:	102.2	103.6	78.8	66.8	76.9	92.6
Industrial production ^{1.2}	Ann. % ch	6.1	3.4	9.1	1.1	-0.6	:	:	5.6	5.7	:	-31.3	:	:
Gross domestic product ^{1.3}	Ann. % ch	6.1	3.2	7.5	2.8	0.9	-5.4	4.4	6.0	4.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.4	3.6	6.2	0.1	0.6	-2.1	1.9	6.7	5.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	9.3	2.2	8.2	-0.6	-12.4	-14.3	-3.3	-0.6	-1.4	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-8.8	17.4	65.5	-34.9	-42.8	:	:	-28.0	-4.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	6.7	2.2	5.7	2.1	-0.1	:	:	10.3	7.3	:	-19.3	:	:
2 Labour market														
Unemployment ^{2.1}	%	10.5	11.1	11.1	11.2	14.0	16.9	16.9	13.8	13.8	:	:	:	:
Employment ^{2.2}	Ann. % ch	2.5	2.2	3.5	1.8	-2.4	-4.3	2.5	-0.9	-2.6	:	:	:	:
Wages ^{2.3}	Ann. % ch	16.7	21.3	10.2	20.6	24.0	5.3	8.6	19.9	18.8	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-9.7	-0.5	9.8	7.8	2.1	:	:	1.1	-5.7	:	-41.4	-31.2	:
Imports of goods ^{3.2}	Ann. % ch	-15.3	-4.8	17.7	-3.2	-8.7	:	:	14.4	8.9	:	-25.1	-16.7	:
Trade balance* ^{3.3}	% of GDP	-5.7	-4.6	-6.9	-5.3	-2.2	0.6	3.0	-2.2	-3.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.3	22.0	24.8	29.5	31.6	:	:	31.6	31.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	26.0	24.9	29.3	30.6	29.8	:	:	29.8	30.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-3.2	-3.1	-4.8	-2.7	1.2	-0.5	1.5	1.2	0.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.7	1.3	1.0	1.2	0.8	:	:	0.8	0.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	110.5	106.1	107.7	93.0	105.7	:	:	105.7	92.1	:	86.3	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.8	5.8	5.1	4.5	5.6	:	:	5.6	4.8	:	4.5	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	7.7	7.8	11.1	16.3	15.2	11.4	11.7	10.3	12.1	11.7	10.9	11.4	12.6
Producer prices ^{4.2}	Ann. % ch	5.3	4.3	15.8	27.0	17.6	:	:	4.4	8.9	6.1	6.7	5.5	6.2
Food prices ^{4.3}	Ann. % ch	11.1	5.8	12.7	18.0	19.5	:	:	9.2	9.9	12.4	11.3	12.9	12.9
M4 ^{4.4}	Ann. % ch	17.1	17.2	15.5	19.3	28.5	:	:	28.5	31.5	:	35.3	34.5	:
Exchange rate TRY/EUR ^{4.5}	Value	3.0	3.34	4.15	5.68	6.35	:	:	6.46	6.84	7.59	7.58	7.47	7.71
Nominal effective exchange rate ^{4.6}	Index	63.7	58.63	47.90	36.12	31.34	:	:	30.94	29.50	:	26.94	26.57	:
5 Financial indicators														
Interest rate (3 months-TRLIBOR) ^{5.1}	% p.a.	11.00	10.37	12.81	19.85	20.66	:	:	13.50	10.28	8.45	9.23	8.25	7.87
Interest rate, long term ^{5.2}	% p.a.	9.30	10.19	11.11	15.88	15.76	:	:	13.06	11.72	12.66	13.32	12.71	11.94
Stock markets ^{5.3}	Index	80,641	77,177	98,993	101,927	99,278	:	:	104,833	110,715	103,029	96,350	101,129	111,608
Credit growth ^{5.4}	Ann. % ch	20.4	16.2	21.2	13.1	10.8	:	:	10.8	16.1	24.7	22.8	24.1	24.7
Deposit growth ^{5.5}	Ann. % ch	18.6	17.7	17.7	22.1	24.0	:	:	24.0	29.3	31.7	32.4	31.2	31.7
Non-performing loans ^{5.6}	% total	3.1	3.2	3.0	3.9	5.4	:	:	5.4	5.0	:	4.6	4.5	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.0	-1.1	-1.5	-2.0	-2.9	-7.8	-9.0	-3.2	-2.8	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	27.5	28.2	28.2	30.4	32.8	43.1	47.7	32.8	35.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2020 published May 2020

* Q figures refer to a 4 quarters moving average.

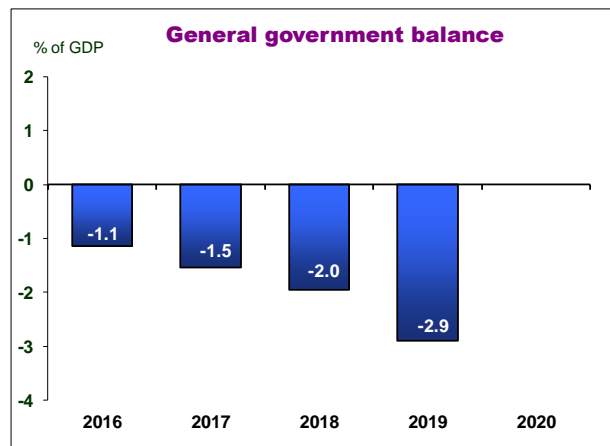
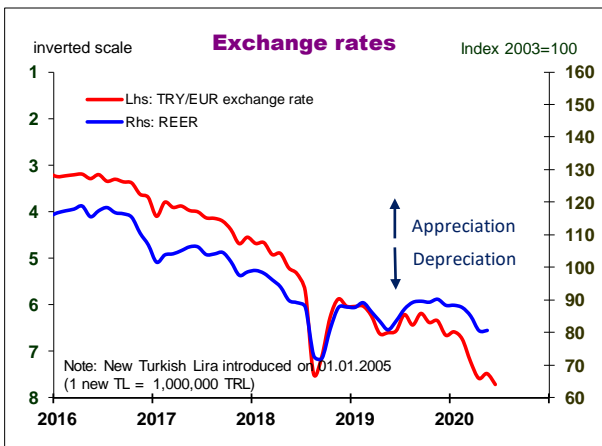
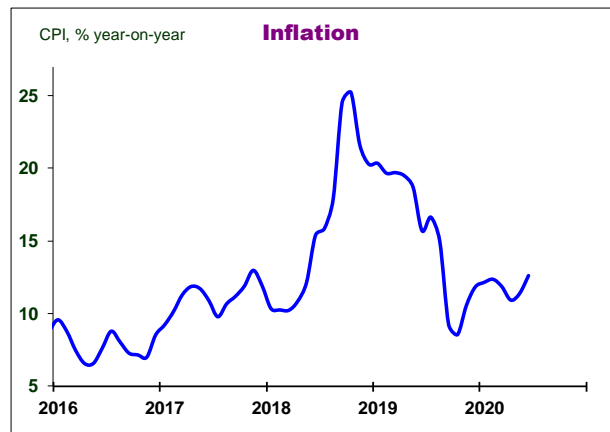
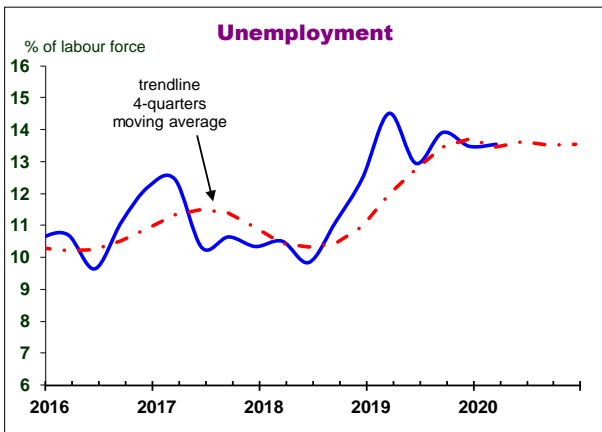
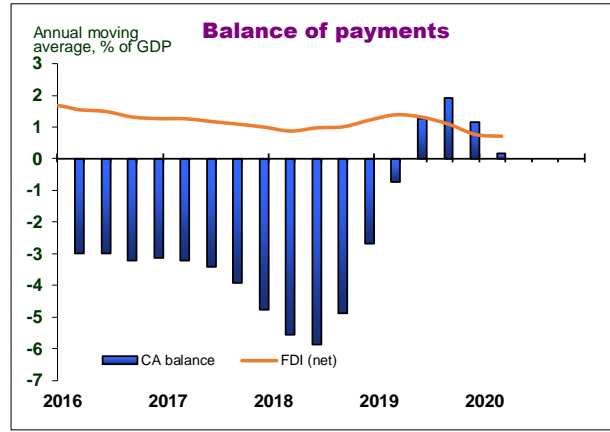
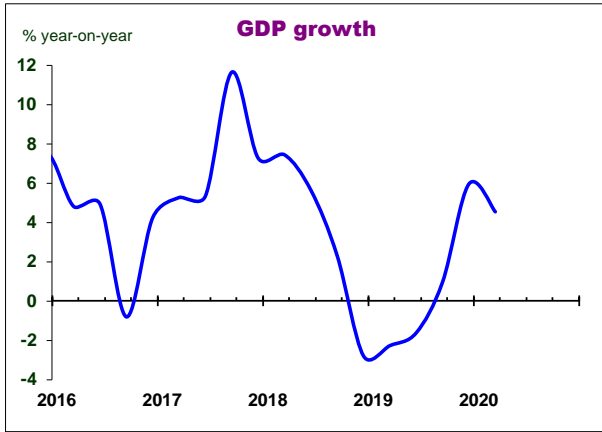
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

After a first, relatively benign wave of COVID-19 infections in early May, the number of cases started to increase again in early June and has reached a new all-time high in early July, with a total of 142 infected persons and 5.5 deaths per 100 thousand inhabitants. This is one of the highest rates in the Western Balkans.

On April 30, 2020, the international rating agency Standard and Poor's (S&P) left the rating "B" unchanged, but revised the outlook downward from positive to stable. S&P expects real GDP in 2020 to drop by 5% and the fiscal and external prospects to deteriorate. Economic recovery is expected in 2021.

On 19 May, the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey adopted joint conclusions. Taking into account the economic effects of the pandemic, they invited the country, inter alia, to take the necessary fiscal measures to alleviate the economic shock of the COVID-19 crisis, to accelerate the economic recovery and to closely monitor financial stability challenges arising as a result of the coronavirus pandemic.

Real sector

Economic activity in Q1 was largely reflecting weaker international demand, but also domestic supply constraints, such as the closure of the country's main aluminium factory due to internal financial problems. Real output growth slowed down to 2% y-o-y, compared to 2.9% in Q4. Private consumption growth remained solid at 2% y-o-y, while gross capital formation and total exports declined by 2.7% and 1.8%, respectively. Interestingly, total imports recorded a fall of 2.9%, probably reflecting weaker exports but also lower investment. Overall, private consumption was the main driver of growth, contributing about three quarters to the overall output expansion. When looking at the sectoral composition, the main growth drivers continued to be trade, transport and accommodation, but also communication and IT, while construction, manufacturing and mining continued to perform worse than the overall economy.

Higher-frequency data such as industrial production, retail sales and trade data point to a

sharp drop in economic activity in April as a result of the crisis, with however some indications for a weaker negative impact in May. April and May industrial production was some 16% below pre-year output levels. However, when compared to the previous month, May output was 2% higher than in April.

Labour market

Growth of registered employment slowed down to 1.3% y-o-y in Q1, compared to 1.8% in Q4 2019. The main contributors to this employment growth continued to be the trade sector, including tourism, as well as construction, while the contribution of manufacturing to job growth became neglectable. At the same time, registered unemployment was some 25,000 persons lower than a year before. However, in April, the number of registered employees dropped by 2.2% y-o-y, equivalent to 18,300 persons. At the same time, the number of registered unemployed increased by 5,760 persons. This brought the administrative unemployment rate to 34.2% in April, compared to 32.4% in March. This unemployment rate is the highest since February 2019. Youth unemployment remains about twice as high as the overall rate, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is still at around three quarters of total unemployed.

The annual growth of nominal gross wages continued to accelerate in Q1 to 4.7%, up from 4.3% in Q4. In April, wage growth decelerated to 2.9%. However, in view of a declining overall price level in April, real average gross earnings were still 4% higher than a year before.

External sector

The current account improved slightly y-o-y in Q1, largely on the back of weaker imports, while the drop in exports was less pronounced. The surpluses in the primary and secondary accounts decreased slightly. Overall, the current account deficit in Q1 was about 1 pp. of GDP lower than a year before. When looking at its 4-quarter moving average, the current account improved from -3.5% of GDP in 2019 to -3.3% in the year to Q1. This is largely due to an improvement in the trade balance, from -22.3% of GDP to -21.4%. Trade data points to a sharp slowdown in export demand starting in March (-14.2% y-o-y), which deteriorated further in April (-32.7% y-o-

y) and remained weak in May (-28.3% y-o-y). The main reason was a strong decline in exports to Italy, followed by Germany and Serbia.

Net FDI inflows remained largely unchanged at 2.6% of GDP in the year to Q1 2020. Official foreign reserves continued to increase slightly in Q1, while partly due to lower import levels, the import coverage ratio rose to some 7.9 months in Q1 2020.

Monetary developments

After the usual seasonal pick-up in inflation in January (to 0.7% y-o-y), the increase in the price level decelerated, dropping to 0.1% in March and turning negative in May (-2.2%). As a result, during the first five months, the overall level of consumer prices was 0.5% lower than a year before. Key factors for the low inflation were lower prices for clothing and footwear, accounting for 5% of the consumer basket, and as from March onwards also a strong drop in prices for transport, which account for about 13% of the consumer basket.

The annual growth of the monetary aggregate M2 remained high in Q1, at 8.8% y-o-y. In April and May, the increase in M2 was slightly lower, but still at some 7.2%.

Financial sector

Despite the worsening of some metrics, overall the financial sector weathered the COVID-19 crisis well so far. Annual domestic credit growth decelerated from 6.1% in Q4 2019 to 4.3% in Q1, and continued to slow down in April and May to 1.8% and 0.9%, respectively. The main reason for this deceleration was a marked slowdown in growth of corporate loans, which account for some 43% of total loans, from +1.7% in January to -1.5% in May. At the same time, the growth in loans to households, which account for about 48% of total loans, decelerated from 6.3% in January to 2.2% in May. Loan growth to the government, which accounted for only about 4% of total loans, also slowed down, from 4.1% in January to 0% in May.

Deposit growth also decelerated markedly, but remained in positive territory. While in the first

two months deposit growth had remained strong, the slowdown gained momentum in March, bringing deposit growth down to 4.9% in May. The main factor was lower growth of household deposits, accounting for some 56% of total deposits. As a result, the loan-to-deposit ratio dropped to 86.7% in May, compared to 90.1% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 6.6% in Q1, compared to 8.5% a year before. Loan-loss provisions increased slightly to 80.1% of non-performing loans covered by provisions, compared to with 78.5% in Q4 2019. Banking sector profitability continued to deteriorate in Q1 as the return-on-equity (ROE) ratio declined to 9.6% in Q1, compared to 10.4% in Q4. The return on assets (ROA) dropped slightly from 1.4% in Q4 to 1.2%. The banking system's overall capital adequacy ratio remained largely unchanged at 17.9%, which is well above the country's regulatory minimum of 12%. However, there are big differences among the countries' 23 banks, with some pockets of vulnerability remaining, in particular in the case of some smaller local banks.

Fiscal developments

Public-sector revenue growth was hit markedly by the COVID-19 crisis, with gross revenue collection in April-June being some 20% lower than a year before. Overall, in the first half of 2020, gross indirect revenue collection was some 10% lower than a year before, resulting in a revenue shortfall of about 1% of GDP. In response to the COVID-19 crisis, the authorities announced measures amounting to some 4% of GDP. In combination with a strong decline in revenues, this additional expenditure could lead to deterioration in the country's fiscal balance from a surplus of 2.3% in 2019 to a deficit of some 4% of GDP. The value of general government debt in Q1 was largely unchanged from a year before. However, as a share in GDP, the public debt ratio dropped compared to a year before by 1.3 pps to 32.3%. There was a reduction in the share of foreign debt (by some 1.2 pps), primarily loans, which were largely replaced by domestic bonds.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

		2015	2016	2017	2018	2019	Q4 19	Q1 20	Q2 20	Apr 20	May 20	Jun 20
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	3.1	4.4	3.1	1.6	-5.3	-6.9	-3.6	:	-16.1	-16.4	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	3.4	3.0	3.3	2.9	3.8	2.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.8	2.3	1.6	1.4	2.4	2.9	2.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-3.5	2.5	5.8	9.2	5.8	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-15.2	49.8	-18.9	2.2	5.0	5.0	-21.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.8	7.0	5.1	8.2	5.2	5.2	4.6	:	-34.6	-10.7	:
2 Labour market												
Unemployment ^{2.1}	%	27.7	25.4	20.5	18.4	15.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.2	-2.6	1.9	0.7	-2.3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.0	0.9	1.6	3.1	4.3	4.3	4.7	:	2.9	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	5.1	7.0	21.3	11.5	-2.3	-5.0	-1.9	:	-32.7	-28.3	:
Imports of goods ^{3.2}	Ann. % ch	-2.4	2.9	13.3	6.9	1.3	-0.6	-5.8	:	-35.2	-34.6	:
Trade balance* ^{3.3}	% of GDP	-24.1	-22.8	-22.9	-22.0	-22.3	-22.3	-21.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	34.2	35.0	39.6	41.4	39.5	39.5	38.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	51.7	51.0	55.4	56.1	54.4	54.4	53.5	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.9	-4.5	-4.2	-3.6	-3.5	-3.5	-3.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.7	1.8	2.0	2.5	2.6	2.6	2.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	4,439	4,884	5,393	5,962	6,453	6,453	6,435	:	6,665.2	6,669.7	:
Int. reserves / months Imp ^{3.9}	Ratio	6.8	7.2	7.1	7.3	7.8	7.8	7.9	:	N.A.	N.A.	N.A.
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-1.0	-1.1	1.3	1.4	0.6	0.2	0.4	:	-1.1	-2.2	:
Producer prices ^{4.2}	Ann. % ch	-0.6	-0.9	1.8	3.2	0.4	-0.4	0.5	:	-0.4	-1.1	:
Food prices ^{4.3}	Ann. % ch	-4.8	-1.3	1.3	0.6	1.1	1.3	1.1	:	1.2	0.3	:
M2 ^{4.4}	Ann. % ch	8.0	8.3	9.5	9.4	8.9	8.9	8.8	:	7.2	7.2	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Real effective exchange rate ^{4.6}	Index	98.0	97.0	96.5	97.1	95.8	95.3	95.9	:	95.0	:	:
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	701	692	627	621	772	861	778	716	701	711	736
Credit growth ^{5.4}	Ann. % ch	1.8	2.1	5.3	6.6	5.7	6.1	4.3	:	1.8	0.9	:
Deposit growth ^{5.5}	Ann. % ch	6.2	7.7	10.4	11.3	9.3	9.8	8.5	:	5.0	4.9	:
Non performing loans ^{5.6}	% total	13.9	12.3	10.9	9.3	7.9	7.4	6.6	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	0.6	1.2	3.0	2.1	2.3	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.3	42.5	38.2	36.2	34.9	32.2	32.3	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

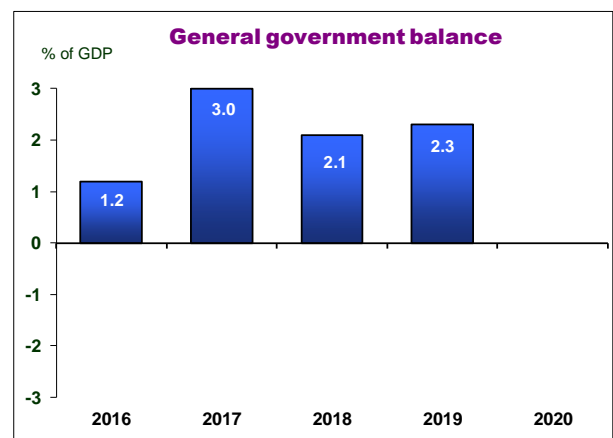
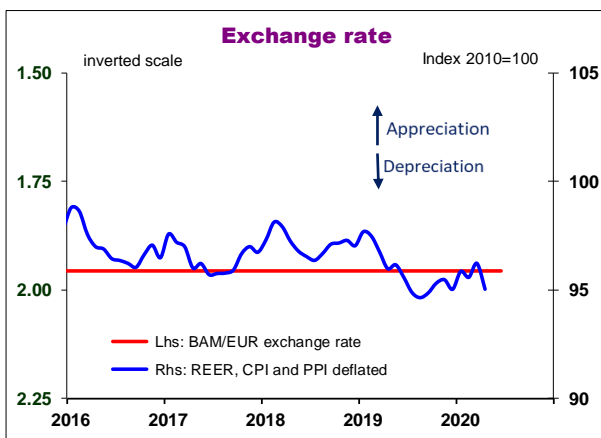
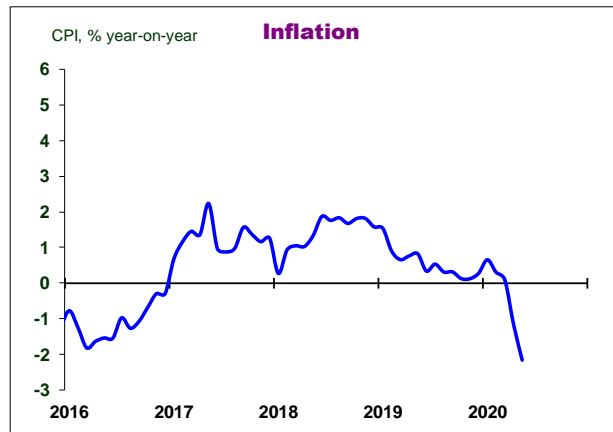
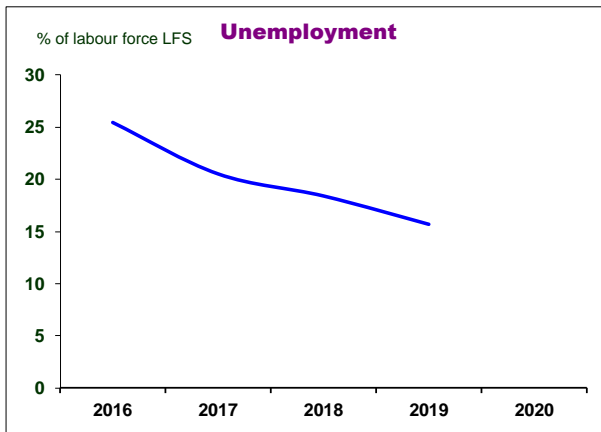
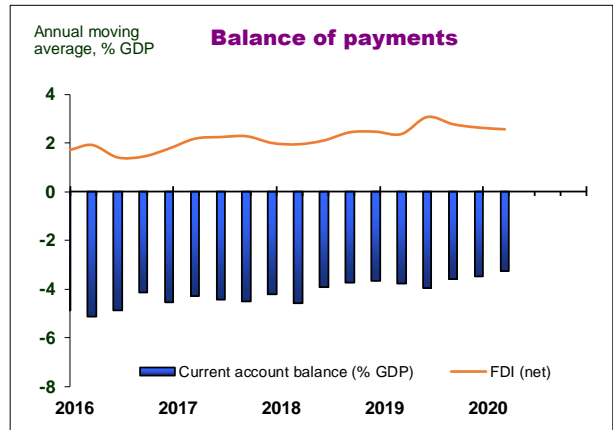
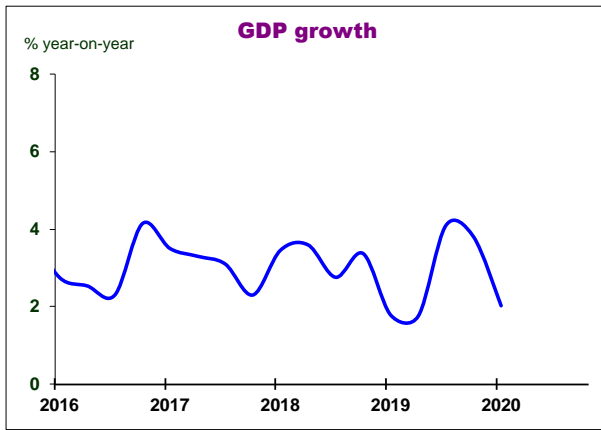
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

The annual Economic and Financial Dialogue between the EU and the Western Balkans and Turkey took place on 19 May. The jointly agreed conclusions call on Kosovo to create fiscal space to undertake well-targeted measures to address the socio-economic consequences of the COVID-19 crisis. The joint conclusions also invite Kosovo to, inter alia, improve tax collection and public investment management and to strengthen fiscal oversight.

In late March, the government led by Vetevendosje was ousted after having lost a no-confidence vote triggered by the junior coalition partner, the Democratic League of Kosovo (LDK). Following the ruling of the Constitutional Court, which allowed forming a new government without the need for new elections, the new coalition government, headed by LDK, was voted by the Assembly in early June.

In June, the new government temporarily suspended the fiscal rule which limits budget deficit to 2% of GDP and requires the government bank balance to stay at 4.5% of GDP, as long as the government is financing capital investment with the funds from Kosovo Privatisation Agency. In mid-June the government approved a revised budget which targets a deficit of 6.5% of GDP and assumes real GDP to contract by 3% in 2020. The budget contains an Economic Recovery Programme of EUR 385 million.

In early July, the Constitutional Court ruled that the Law on salaries for public employees was unconstitutional and sent it back to the Assembly for amendments.

Real sector

In Q1, annual GDP growth slowed to 1.3% y-o-y from 3.9% in the last three months of 2019. The deceleration was primarily caused by a large contraction of investment (-9.4% y-o-y) and declining government consumption (-1% y-o-y) due to the delayed government formation. Private consumption was practically stable (0.2% y-o-y), while net exports of goods and services contributed by 2.9 pps to GDP growth

as a result of a remarkable expansion of goods and services exports (25.5% and 31.1% y-o-y respectively) before the introduction of COVID-19 related shutdown. Imports expanded by modest 4.1% y-o-y in the same period.

Gross value added stagnated in Q1 (+0.2% y-o-y). There was large output contraction in construction (12.4%) suggesting a turning point after several years of expanding activity. Growth in wholesale and retail trade was also flat (+0.3% y-o-y), while it was relatively strong in industry (4.1% y-o-y) and financial activities (5.7% y-o-y).

Labour market

In 2019 the labour force participation stood at 40.5%, which is in line with Kosovo long-term trend. The unemployment rate fell to 25.7% from 29.6% one year earlier, while the employment rate increased to 30.1% from 28.8% during the same period. These positive developments in the labour market were partially driven by temporary jobs due to elections. The wide gap between male and female employment rates (49% and 14% respectively) persisted. Very high rates of inactivity (59.5%), in particular female inactivity (78.9%), and the share of young population, which is not in education, employment or training, (32.7%) didn't show any improvement.

External sector

The current account deficit showed slight improvement due to strong growth of exports, with its 4-quarter moving average reaching 5.7% of GDP in Q1 as compared to 5.8% in full-year 2019. The traditionally negative goods trade balance remained practically unchanged at 43.9% of GDP, while workers' remittances stood at 13% of GDP in the same period. The COVID-19 related shutdown led to an immediate fall of remittances inflows by 12.4% y-o-y in April. On the financing side, 4-quarter moving average of net FDI inflows equalled to 3.4% GDP in Q1. Reserve assets slightly increased and covered 2.9 months of imports in Q1.

Due to the shutdown related disruptions, in March-May merchandise imports underwent a

severe contraction of 24% y-o-y as compared to the same period in 2019. In contrast, merchandise exports expanded by 5% y-o-y over the same period. Due to these extraordinary developments, the overall goods trade deficit narrowed by 15.4% y-o-y during January-May.

Monetary developments

Annual inflation averaged 0.7% in the first five months with a decelerating trend in the monthly readings. The key inflation drivers were food and health prices, the latter increasing over 5% y-o-y in April and May.

In Q1 the construction price index decreased by 0.2% y-o-y on the back of declining prices for wages and materials. The producer price index fell by an average of 0.2% y-o-y, too due to decreasing prices in extraction of metal ore, manufacture of machinery and equipment. Import prices dropped by 0.6% y-o-y driven by falling prices of optical instruments, textiles, and mineral products.

Financial sector

Bank credit growth has gradually decelerated in the spring months from 9.2% y-o-y in March to 6.4% in May. Bank lending to other financial institutions became negative during this period. Growth of deposits in commercial banks decelerated slightly from 13.6% y-o-y in March to 12.1% in May on the back of less dynamic increase of firms' deposits while there was very large increase (around 50% y-o-y) in deposits of other financial corporations in each month over the same period. The loan-to-deposit ratio increased slightly to 80.2% in May from 77.7% at the beginning of the year.

The interest rate spread remained on a downward trajectory. The 12-month moving average spread declined to 4.7 percentage points in May from 4.9 pps at the beginning of the year. This reduction was mainly driven by a declining average rate on new loans, from 6.5% in January to 6.1% in May. Interest rate on deposits declined by 20 basis points to 1.4% in May, due to a substantial lowering of rates on firms' deposits to 1.6%, from 2.0% in January.

Despite the pandemics-related shutdown, financial soundness indicators in the banking sector remained satisfactory throughout the first five months of 2020. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 36% in May 2019, while the capital adequacy ratio was 16.4%, well above the regulatory minimum of 12%. The NPL ratio

remained stable during the first five months at 2.6%. While existing NPLs are fully covered by loan loss provisions (132.6%), the coverage has declined from 164.4% in January.

Fiscal developments

In June, the government approved the mid-year revision of the budget for 2020, which targets a deficit of 6.5% of GDP as per the fiscal rule definition, which excludes some capital spending. The headline deficit is projected at 11.9 % of GDP. The revised budget assumes a GDP contraction of 3%, which is more optimistic than other institutions' forecasts.¹ By the same token, the projected y-o-y contraction of public revenue by 5.3% looks very benign in the context of the COVID-19 crisis. The available data show a drop in public revenue by 15.3% y-o-y in January-May.

Current spending is projected to increase by 20.5% as compared to the outturn of 2019. The increase is to a large extent driven by the Economic Recovery Programme. Capital expenditure is projected to increase by 38.4% y-o-y, which looks very optimistic given the track record of delayed public investment and the absence of stable government in the first half of the year. In the first five months, capital spending contracted by 36% y-o-y while social spending and wages grew by 14.8% and 12.5%, respectively. A substantial increase in capital spending is projected to be financed by privatisation proceeds (additional EUR 100 million as compared to the initial budget from March). The budget projects the government bank balance to decline to EUR 214 million or 3.1% of GDP.

Public debt is projected to expand rapidly from 17.5% of GDP at the end of 2019 to 24.8% in 2020 and 32.2% of GDP in 2022.

¹ The IMF and WB project GDP to contract by 5% and 4.5%, respectively in 2020.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2015	2016	2017	2018	2019	Q4 19	Q1 20	Q2 20	Apr 20	May 20	Jun 20
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	1.3	-1.3	-1.3	-1.2	:	N.A.	N.A.	N.A.	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.1	4.2	3.8	4.2	3.9	1.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	6.7	6.6	1.8	4.8	2.1	2.6	0.2	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	11.3	7.5	5.6	8.1	5.7	4.6	-9.4	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.1	6.5	12.0	17.4	:	N.A.	:	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	32.9	27.5	30.5	29.6	25.7	25.9	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-8.2	11.8	7.6	-3.4	5.2	6.7	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.8	1.8	1.7	5.7	7.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	0.2	-4.8	22.1	-2.8	4.4	-7.6	25.9	:	-11.5	21.6	:
Imports of goods ^{3.2}	Ann. % ch	3.8	5.9	9.2	9.8	4.5	6.9	3.4	:	-34.4	-25.7	:
Trade balance*** ^{3.3}	% of GDP	-39.8	-40.9	-41.6	-44.3	-44.0	-44.0	-43.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	21.9	22.2	26.5	26.4	27.8	19.3	25.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	50.4	50.6	52.7	55.6	56.1	55.8	56.6	:	N.A.	N.A.	N.A.
Current account balance*** ^{3.6}	% of GDP	-8.6	-7.9	-5.4	-7.6	-5.8	-5.8	-5.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** ^{3.7}	% of GDP	4.7	2.9	3.3	3.4	2.9	2.9	3.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	1046.4	895.2	939.4	933.9	938.2	938.2	983.0	:	993.7	976.8	:
Int. reserves / months Imp ^{3.9}	Ratio	4.3	3.5	3.3	2.9	2.8	2.8	2.9	:	3.1	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	-0.5	0.3	1.5	1.1	2.7	1.7	1.1	:	0.3	0.2	N.A.
Producer prices ^{4.2}	Ann. % ch	2.7	-0.1	0.6	1.4	0.9	-0.1	-0.2	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	0.0	-0.4	1.2	2.8	8.3	3.3	1.6	:	2.3	2.7	:
Broad money liabilities ^{4.4}	Ann. % ch	5.6	9.2	6.4	7.9	12.0	12.0	11.3	:	9.2	9.3	:
Exchange rate EUR/EUR ^{4.5}	Value	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real effective exchange rate (CPI) ^{4.6}	Index	104.6	104.2	105.0	104.7	107.1	106.9	107.60	:	107.3	:	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	1.45	0.35	0.21	0.43	:	:	:	:	:	:	:
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	6.9	9.1	10.5	11.1	10.7	10.1	10.0	:	8.0	6.4	:
Deposit growth ^{5.5}	Ann. % ch	5.6	4.7	8.6	6.5	12.6	16.0	15.5	:	12.4	12.1	:
Non-performing loans ^{5.6}	% total	6.2	4.9	3.1	2.5	1.9	1.9	2.3	:	2.3	2.4	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-2.0	-1.2	-1.3	-2.8	-2.9	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	13.1	14.4	16.6	16.9	17.5	:	:	:	N.A.	N.A.	N.A.

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

** Source: IMF.

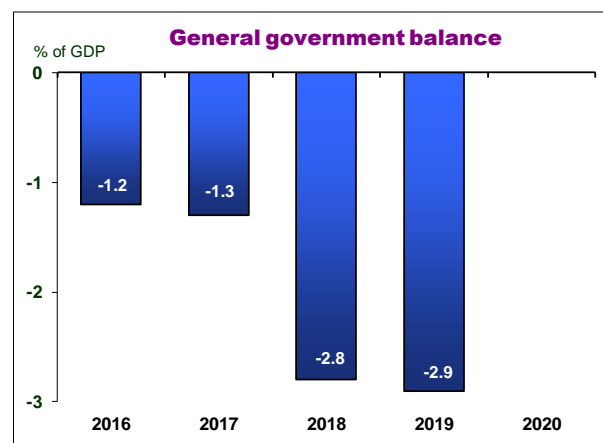
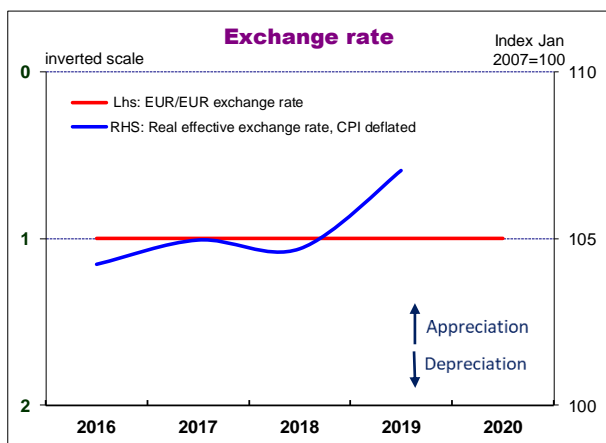
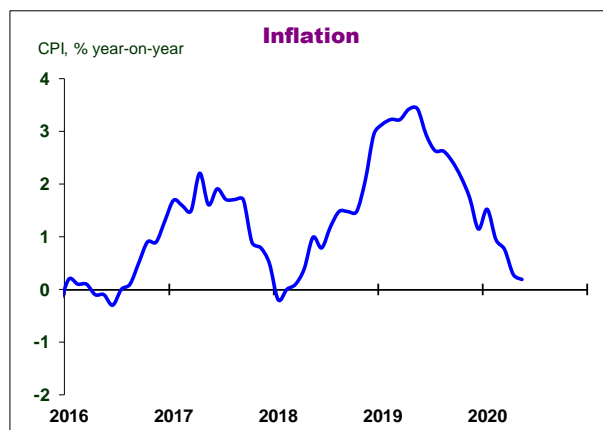
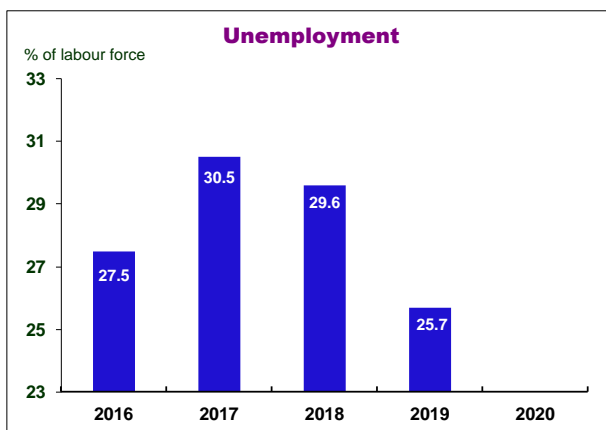
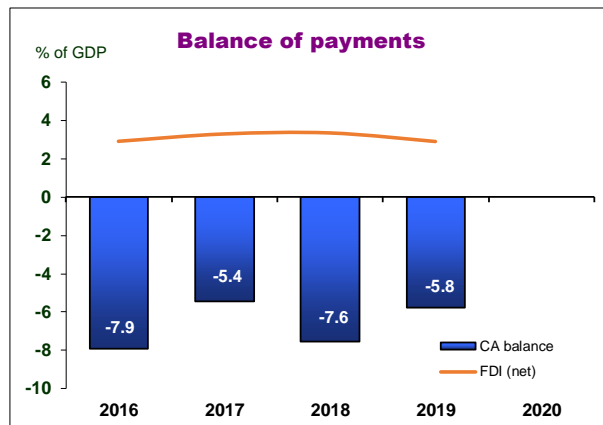
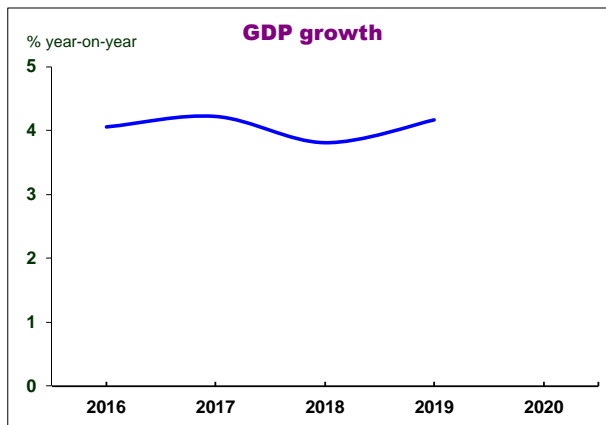
*** Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*



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



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



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



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	MacroBond
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	MacroBond
1.4.	Private consumption	Annual percent change , Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	MacroBond
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	MacroBond
1.6.	Construction index	Annual pc change, Value Index of Performed Works, Total CPPY=100, NSA	MacroBond
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Semi-annual data.	MacroBond
2.2.	Employment	Annual percentage change, as from 2014 based on LFS. Data before 2014 are based on official data on registered employment.	MacroBond
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	International reserves NBS	Total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer Prices, Total, CPPY, average.	MacroBond
4.2.	Producer prices	Annual average percentage change, domestic market	MacroBond
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M3	Annual percentage change, M3 (broad money), RSD	MacroBond
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	MacroBond
4.6.	Nominal effective exchange rate	Period average, moving base year, RSD	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, BELIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Weighted average interest rate on 7Y RSD government bonds	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, private, RSD	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	MacroBond
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	MacroBond
6. Fiscal developments			
6.1.	General government balance	Consolidated GG, Overall balance. In percent of quarterly GDP, Q/Q GDP	Min. of Finance
6.2.	General government debt	Central government debt. In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	MacroBond
1.2.	Industrial production	Annual percentage change, volume (index 2015)	MacroBond
1.3.	Gross domestic product	Annual percentage change,	MacroBond
1.4.	Private consumption	Annual percentage change, index (2009 prices)	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change,	MacroBond
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, 2015=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	MacroBond
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	MacroBond
2.3.	Wages	Annual percentage, Hourly earnings manufacturing / Index publication base -	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, annualised moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR, eop.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	MacroBond
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	MacroBond
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	MacroBond
4.4.	M3	Money supply M3, total, TRY	MacroBond
4.5.	Exchange rate YTL/EUR	Period averages	MacroBond
4.6.	Nominal effective exchange rate	Index 2010 = 100, period averages	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, TRLIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Government Benchmarks, 10 Year Bond, Yield	MacroBond
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	MacroBond
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	MacroBond
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	MacroBond
5.6.	Non-performing loans	In percent of total loans	MacroBond
6. Fiscal developments			
6.1.	General government balance	Central government, in percent of GDP; Q/Q GDP for quarterly data	MacroBond
6.2.	General government debt	In percent of GDP (EU standards; defined by the Ministry of Treasury and Finance)	MacroBond



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



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

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

EUROPEAN ECONOMY TECHNICAL PAPERS

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

[https://ec.europa.eu/info/publications-0/economy-finance-and-euro-publications_en?field_eurovoc_taxonomy_target_id_selective=All&field_core_nal_countries_tid_selective=All&field_core_flex_publication_date\[value\]\[year\]=All&field_core_tags_tid_i18n=22620](https://ec.europa.eu/info/publications-0/economy-finance-and-euro-publications_en?field_eurovoc_taxonomy_target_id_selective=All&field_core_nal_countries_tid_selective=All&field_core_flex_publication_date[value][year]=All&field_core_tags_tid_i18n=22620).

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)
- http://ec.europa.eu/economy_finance/publications/cycle_indicators/index_en.htm
(European Business Cycle Indicators)

GETTING IN TOUCH WITH THE EU

In person

All over the European Union there are hundreds of Europe Direct Information Centres. You can find the address of the centre nearest you at: <http://europa.eu/contact>.

On the phone or by e-mail

Europe Direct is a service that answers your questions about the European Union. You can contact this service:

- by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
- at the following standard number: +32 22999696 or
- by electronic mail via: <http://europa.eu/contact>.

FINDING INFORMATION ABOUT THE EU

Online

Information about the European Union in all the official languages of the EU is available on the Europa website at: <http://europa.eu>.

EU Publications

You can download or order free and priced EU publications from EU Bookshop at: <http://publications.europa.eu/bookshop>. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see <http://europa.eu/contact>).

EU law and related documents

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: <http://eur-lex.europa.eu>.

Open data from the EU

The EU Open Data Portal (<http://data.europa.eu/euodp/en/data>) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

