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European Commission
Directorate-General for Economic and Financial Affairs

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

1st Quarter 2017

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

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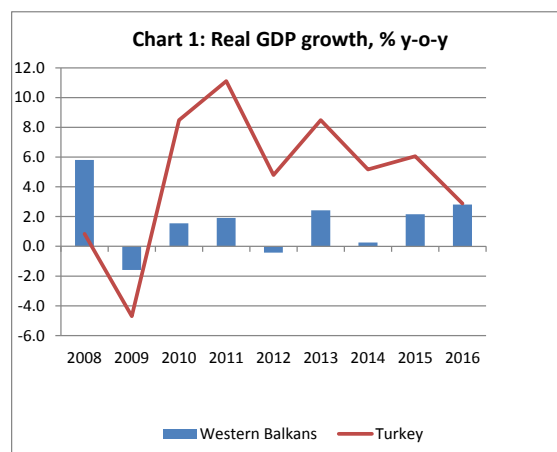
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OVERVIEW

The economic recovery in the Western Balkans strengthened further during 2016 and the region recorded the highest growth rate since 2008. The economic performance was largely driven by a further acceleration of annual GDP growth in Serbia and Albania. Investment and private consumption continued to support growth in the region, while also exports gained some momentum. Regional current account deficits narrowed for the first time in many years but overall, external positions remain vulnerable in most of the countries. The recovery led to further job creation, including in the private sector, but unemployment rates, although lower for almost all countries compared to the previous year, remain stubbornly high. Despite further progress in fiscal consolidation, still high public debt levels in most countries of the region remain a cause for concern. In Turkey, the economy slowed markedly in 2016 with consumption expenditures the main driver of growth and in the context of sharply lower revenues from tourism.

Economic growth in the **Western Balkans** reached 2.8% in 2016, up from 2% in 2015 (Chart 1), largely due to strengthening economic activity in *Serbia* and *Albania*, which account for more than half of the region's GDP. In 2016, *Serbia's* output growth accelerated to 2.8% from 0.8% in 2015, and the economy exceeded its pre-crisis peak for the first time. Growth was driven mainly by strong net exports and investment. *Albania's* economy expanded by 3.5%, up from 2.6% in 2015 largely driven by private consumption and investment. Conversely, in the *former Yugoslav Republic of Macedonia* annual economic growth eased to 2.4% (from 3.8% in 2015) reflecting sluggish investment and a fall in confidence levels, following the protracted political crisis. Annual output growth also decelerated in *Bosnia* and *Herzegovina*, *Montenegro* and *Kosovo* as net exports provided a smaller or negative contribution to growth. However, these countries continued to benefit from stronger consumption and the latter two also from buoyant investment.

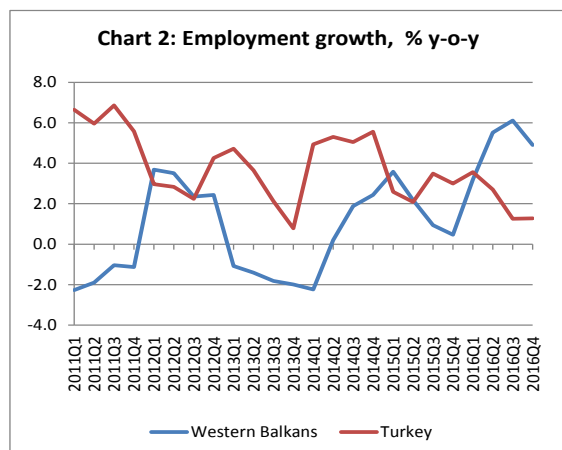
In **Turkey**, GDP growth decelerated sharply during 2016, to 2.9% compared to 6.1% in the previous year, due to a negative contribution from net foreign trade to growth as well as weakening investment and private consumption as confidence continued to be on a downward trend.



Source: IHS DataInsight, Commission calculations

Notwithstanding the still challenging labour market situation in the **Western Balkans**, the ongoing economic recovery has led to further job creation. Employment growth accelerated in *Albania*, *Serbia* and the *former Yugoslav Republic of Macedonia* contributing to an average job growth rate in the Western Balkans of 4.9% y-o-y in the fourth quarter of 2016 (Chart 2). Growing employment levels contributed to a drop in unemployment rates. All countries in the region except *Montenegro* reduced the jobless rate in 2016. The decline was particularly significant (more than 2 pps) in *Serbia*, the *former Yugoslav Republic of Macedonia* and *Bosnia and Herzegovina*.

In **Turkey**, in 2016, the labour market softened in line with a slowing economy with employment growth decelerating to 2.2% from 2.5% in 2015 and the unemployment rate rising to 11.1% from 10.5%. Youth unemployment has been rising to even higher levels than in 2015.

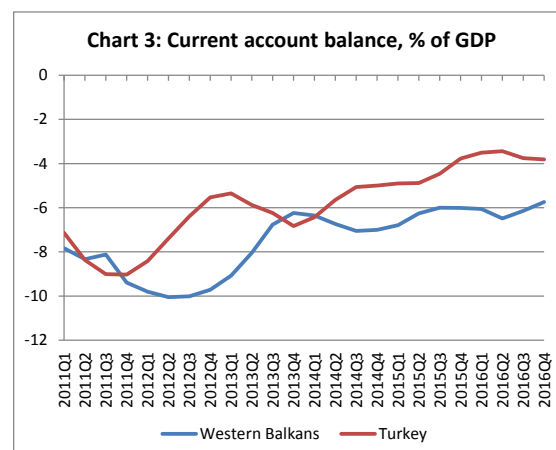


Source: IHS DataInsight, Commission calculations

In 2016, fiscal consolidation efforts, private sector oriented reforms and higher external demand contributed to the narrowing of external deficits in some countries of the region. Nevertheless, high external imbalances remain a concern in most **Western Balkan** countries, reflected in large merchandise trade deficits ranging from 12% of GDP for *Serbia* to around 19% or above for the *former Yugoslav Republic of Macedonia*, *Albania*, and *Bosnia and Herzegovina* and above 40% for *Kosovo* and *Montenegro*. External developments in the region during 2016 point to a rather diverse picture. Compared to the year before, annual current account deficits widened in *Montenegro*, *Kosovo* and the *former Yugoslav Republic of Macedonia*, whereas they narrowed in *Albania*, *Serbia* and *Bosnia and Herzegovina*. Overall, the average current account deficit declined to less than 6% of GDP in 2016, the lowest in many years (Chart 3).

In **Turkey**, the current account deficit remained sizeable at 3.8% of GDP in 2016 largely due to the sharp contraction of tourism income

offsetting the favourable impact of the oil price fall.



Source: IHS DataInsight, Commission calculations

Persistently low inflation remained a key characteristic of the **Western Balkan** economies in 2016, reflecting low commodity prices and exchange rate stability. Average price levels continued to fall in *Bosnia and Herzegovina* and the *former Yugoslav Republic of Macedonia* whereas consumer price inflation was positive in *Albania*, *Serbia*, *Montenegro* and *Kosovo* (at 1.3%, 1.1%, 0.1% and 0.3% respectively, in 2016). Nevertheless, inflation rebounded in all Western Balkan countries in early 2017, mainly due to higher international oil prices. In *Albania*, annual CPI inflation stood at 2.2% in February (still below the central bank's 3% target) while in *Serbia* it was at 3.2%, within the new target tolerance band of $3 \pm 1.5\%$. The central bank of *Serbia* has maintained its key policy rate at 4% since July 2016 while the *Bank of Albania* has kept it at the historic low of 1.25% since May 2016. The central bank of the *former Yugoslav Republic of Macedonia* lowered the benchmark interest rate in three successive steps of 25bp each between December and February, to 3.25%, reversing earlier increases implemented in the wake of deposit outflows.

In **Turkey**, annual CPI inflation marginally increased to 7.8% in 2016 up from 7.7% in 2015 on the back of the depreciation of the lira

and expectations for increasing inflation levels, still significantly above the official 5% target.

Bank lending has generally become more supportive of growth in the **Western Balkan** region, as credit growth accelerated in 2016 in *Serbia, Bosnia and Herzegovina, Kosovo* and *Montenegro*. On the other hand, credit growth decelerated significantly in the *former Yugoslav Republic of Macedonia*, while it remained sluggish in *Albania*. As a common feature, household lending has been growing faster than corporate lending. Stronger credit growth is still hindered by the generally high level of non-performing loans. In 2016, most **Western Balkan** countries improved the quality of their bank assets by reducing NPL ratios as improved resolution frameworks have gradually been put in place. However, most countries' NPL ratios remain significantly higher compared to pre-crisis levels. *Albania* and *Serbia* are still recording the highest NPL ratios in the region at 18.3% and 17% respectively (data at end-December), followed by *Bosnia and Herzegovina* (12.3%) and *Montenegro* (10.3%).

In *Turkey*, annual credit growth decelerated to 16.1% in 2016 from 20.7% in 2015, while the NPL ratio stood at 3.4%, increasing slightly from 3.1% in 2015.

Fiscal performance improved in 2016 and in most cases exceeded expectations in the **Western Balkan** region. This is partly due to increased tax revenues generated by the economic recovery, but some 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 deficit was lower than expected at 1.4% of GDP in 2016, mainly due to revenue over-performance. In *Montenegro*, the general government deficit declined markedly to 3.8% of GDP driven by higher income from taxes and a significant underspending in capital investment due to delays in the construction of a highway section. Strong revenue performance and under-execution of expenditures have contributed to a budget deficit of 1.2% of GDP in *Kosovo*. In the *former Yugoslav Republic of Macedonia* the budget shortfall was also better than expected, at 2.6% of GDP, due to marked underspending on capital outlays in part as a result of the complex political situation. In *Albania*, a broad-based undershooting of budgeted expenditures resulted in a lower than targeted general government deficit, at 1.8% of GDP. Continued fiscal consolidation (without, however, undermining much-needed capital spending) is necessary in a number of countries to rebuild fiscal buffers and reduce the level of public debt which is especially high in *Serbia* (72.8% of GDP in the fourth quarter of 2016), *Albania* (72.0% of GDP) and *Montenegro* (67.5% of GDP), and lower but on an increasing trend in the *former Yugoslav Republic of Macedonia* (39.1% of GDP).

In *Turkey*, the general government balance switched from a surplus of 1.3% of GDP in 2015 to a deficit of 0.9% in 2016 as the government implemented fiscal stimulus to counteract the economic slowdown. Following the recent revision of 2015 GDP data, the general government debt declined from 27.5% in 2015 to 26.4% of GDP in 2016.

Candidate and potential candidate countries: Summary table

	2012 2013 2014 2015 2016					ECFIN 2017 Winter forecast		Q3 16 Q4 16 Q1 17			Jan 17 Feb 17 Mar 17		
	2012	2013	2014	2015	2016	2017	2018	Q3 16	Q4 16	Q1 17	Jan 17	Feb 17	Mar 17
Gross domestic product (in real terms, annual % change)													
Albania	1.4	1.0	1.8	2.6	3.5	3.5	3.6	3.1	4.0	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-0.5	2.7	3.5	3.8	2.4	3.2	3.6	2.0	2.4	:	N.A.	N.A.	N.A.
Montenegro	-2.7	3.5	1.8	3.4	2.5	3.7	3.1	2.4	3.4	:	N.A.	N.A.	N.A.
Serbia	-1.0	2.6	-1.8	0.8	2.8	3.0	3.3	2.8	2.5	:	N.A.	N.A.	N.A.
Turkey	4.8	8.5	5.2	6.1	2.9	2.8	3.2	-1.3	3.5	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-0.9	2.4	1.4	3.2	2.7	:	:	2.4	3.3	:	N.A.	N.A.	N.A.
Kosovo*	2.8	3.4	1.2	4.1	3.4	:	:	3.8	3.0	:	N.A.	N.A.	N.A.
Unemployment													
Albania	13.8	16.4	17.9	17.5	15.6	14.5	13.4	15.2	14.5	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	31.0	29.0	28.0	26.1	23.7	23.2	22.0	23.4	23.1	:	N.A.	N.A.	N.A.
Montenegro	19.7	19.5	18.0	17.6	17.8	17.4	17.1	16.9	17.5	:	N.A.	N.A.	N.A.
Serbia	23.9	22.1	19.2	17.7	15.3	14.3	12.6	13.8	13.0	:	N.A.	N.A.	N.A.
Turkey	N.A.	N.A.	10.1	10.5	11.1	11.2	11.5	11.4	12.4	:	:	:	:
Bosnia and Herzegovina	28.0	27.5	27.5	27.7	25.4	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo*	30.9	30.0	35.3	32.9	:	:	:	27.5	N.A.	N.A.	N.A.	N.A.	N.A.
Current account balance (% of GDP)**													
Albania	-10.2	-10.9	-12.9	-10.8	-9.6	-13.1	-12.8	-11.0	-9.4	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-3.2	-1.6	-0.5	-2.1	-3.2	-1.7	-1.6	-3.3	-3.1	:	N.A.	N.A.	N.A.
Montenegro	-18.5	-14.5	-15.2	-13.3	-18.9	-22.7	-23.4	-18.7	-18.9	:	N.A.	N.A.	N.A.
Serbia	-11.6	-6.1	-6.0	-4.7	-4.0	-4.2	-4.2	-4.2	-4.0	:	N.A.	N.A.	N.A.
Turkey	-5.5	-7.8	-5.0	-3.8	-3.8	-4.3	-4.9	-3.8	-3.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-8.7	-5.3	-7.3	-5.5	:	:	:	-4.5	:	:	N.A.	N.A.	N.A.
Kosovo*	-5.8	-3.4	-6.9	-8.6	-9.4	:	:	-10.0	-9.4	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	2.0	1.9	1.6	1.9	1.3	2.2	2.6	1.9	1.9	0.7	2.8	2.2	1.2
The former Yugoslav Republic of Macedonia	3.3	2.8	-0.3	-0.3	-0.2	0.9	2.4	-0.1	-0.1	:	0.6	0.2	:
Montenegro (HICP)	4.0	1.8	-0.5	1.4	0.1	1.4	2.1	-0.4	0.7	0.5	2.1	2.5	0.3
Serbia	7.3	7.9	2.1	1.4	1.1	2.4	3.3	1.0	1.5	:	2.4	3.2	:
Turkey	8.9	7.5	8.9	7.7	7.8	8.0	7.6	8.0	7.6	10.2	9.2	10.1	11.3
Bosnia and Herzegovina	2.0	-0.1	-0.9	-1.0	-1.1	:	:	-1.1	-0.4	:	0.7	1.2	:
Kosovo*	2.5	1.8	0.4	-0.5	0.3	:	:	0.2	1.1	:	1.7	1.7	:
General government balance (% of GDP)													
Albania	-3.4	-5.0	-5.2	-4.1	-1.8	-2.2	-1.7	:	0.9	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-3.8	-3.8	-4.2	-3.4	-2.6	-3.2	-3.0	-1.4	-4.4	:	N.A.	N.A.	N.A.
Montenegro	-5.7	-5.2	-2.9	-8.4	-3.6	-6.6	-6.0	-0.7	-3.6	:	:	:	:
Serbia	-6.8	-5.5	-6.6	-3.7	-1.4	-1.2	-1.0	1.3	-4.6	:	N.A.	N.A.	N.A.
Turkey	-0.4	0.1	0.1	1.3	-0.9	-2.0	-1.8	-0.4	-1.0	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-2.0	-2.2	-2.0	0.7	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo*	-2.6	-3.1	-2.2	-2.0	-1.2	:	:	:	:	:	N.A.	N.A.	N.A.

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

Forecast: ECFIN forecast Winter 2017

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

ALBANIA



Key developments

The Albanian government submitted its Economic Reform Programme (ERP) for 2017-2019 to the European Commission at the end of January. It projects a gradual increase of annual GDP growth to 4.2 % over the three years. On the fiscal side, the ERP foresees that spending restraint will lower the deficit of general government to less than 1 % of GDP by 2019. Public debt is expected to decline by 8.2 pps. over three years to 62.8 % of GDP which would be in accordance with the fiscal rule adopted last year. In addition to the macroeconomic and fiscal projections, the ERP provides an overview of current plans for structural reforms.

In February, the IMF completed the final review of the Extended Fund Facility arrangement for Albania which had been launched in 2014. According to the IMF, the programme has successfully put Albania on a recovery path, established sound public finances, strengthened the institutional framework, and reduced vulnerabilities of the economy.

Real sector

Real GDP expanded by 4.0 % y-o-y in the fourth quarter of 2016 compared to 3.1 % in the third quarter. Annual GDP growth reached 3.5 % in 2016, up from 2.6 % in the preceding year and the highest annual growth rate since 2010.

GDP growth in the fourth quarter was relatively broad-based, but benefitted in particular from surging exports. After having declined for ten consecutive quarters, goods exports staged a partial recovery by increasing 25.9 % y-o-y. Service exports - more than three times larger than goods exports - continued to expand at a robust rate of 12.9 %. By contrast, imports of both goods and services decreased slightly following expansions in the first three quarters of the year. As a result, the external sector's positive contribution to GDP growth was reinforced in the fourth quarter.

Gross fixed capital formation rose by 5.7 % in the fourth quarter which to a large extent reflected the ongoing foreign direct investments in the energy sector, namely the Trans Adriatic Pipeline and the Statkraft/Devoll hydropower project. Household consumption increased by 2.5 % on the back of strong employment growth

while government consumption increased somewhat less at 1.8 %.

The unsettled political situation in the run-up to the parliamentary elections on 18 June may have had a dampening impact on economic activity in the first quarter of 2017, although this is not yet confirmed by hard data.

Labour market

Employment was up by a strong 5.5 % year-on-year in the fourth quarter of 2016 for the 15-64 age group. The services sector saw the highest increase in employment (7.4% y-o-y), followed by industry (5.1%), and agriculture (4.5%). Strong employment growth allowed the unemployment rate to fall by 3.2 pps. y-o-y to 14.5 % since the labour force increased significantly less than employment (1.5 %). This is the lowest unemployment rate in three years, reflecting the overall economic recovery. Youth unemployment remains extraordinarily high although it has also been declining from the peak in 2015. In the fourth quarter of 2016, the unemployment rate for the 15-29 age group registered 28.1 %, down by 4.1 pps. y-o-y. The labour force participation rate continued to trend upwards, reaching 65.7 % compared to 65.3 % in the fourth quarter of 2015.

External sector

The current account deficit narrowed from EUR 1,105 million in 2015 (10.8 % of GDP) to EUR 1,030 million in 2016 (9.6 % of GDP), the smallest deficit since 2006. Last year's deficit reduction was primarily due to a rising surplus on the balance of primary incomes and current transfers. Although the deficit on the balance of goods and services increased slightly in absolute terms, it also declined as a share of GDP by 0.5 pps. to 16.8 %.

The balance of payments improved particularly strongly in the fourth quarter of 2016 when the current account deficit declined by 40 % y-o-y. In this quarter, the main contribution to the year-on-year improvement came from the service balance (56 %), followed by the goods balance (25 %) while the contribution from the balance of primary incomes and current transfers was relatively small (19 %).

The positive performance in external trade seems to have continued in early 2017. The trade data for the first two months show that the trade deficit (goods and services) decreased by 6.3 % y-o-y, as exports increased approximately five times faster than imports (14.8 % vs. 3.0 %). The strong export performance was mainly due to rising sales of minerals, fuels and metals which were spurred by higher international prices for oil and metals.

Net foreign direct investments (FDI) rose by 17.1 % y-o-y in 2016 which is particularly related to the large-scale projects in the energy sector. The share of the current account deficit covered by net FDI increased from 74 % in 2015 to 93 % in 2016.

At the end of December 2016, gross external debt amounted to 71.8 % of GDP (EUR 7,862 million), down by 1.5 pps. over the year. Long-term debt constitutes about 80 % of Albania's gross external debt. Foreign exchange reserves declined slightly in the first two months of 2017 from EUR 2,880 million (26.3 % of GDP) at the end of 2016.

Monetary developments

Consumer prices were up by 2.2% y-o-y in February 2017 compared to 1.1 % one year earlier. The rise in headline inflation was driven by higher prices for food and transport, increasing by respectively 3.9 % and 3.2 %. Food prices were affected by weather conditions and developments in foreign markets. Most of the other CPI items continued to show very low price increases which suggests little upward pressures on prices from a domestic economy still operating below potential.

The Bank of Albania kept monetary policy in an accommodative stance in the first quarter by leaving the key policy rate (the repo rate) at the record low of 1.25 %. Following its meeting on 29 March, the central bank's Supervisory Council stated that it did not expect to have to reduce the intensity of the monetary stimulus before the fourth quarter of 2017. The central bank sees headline inflation reaching the 3 % target in the course of next year in the context of an ongoing economic recovery.

The Albanian lek depreciated by 0.5 % against the euro over the first quarter of 2017. In year-on-year terms, however, the lek was up by 1.9 % against the euro at the end of March.

Financial sector

Overall credit growth has remained very sluggish in the first two months of 2017. In February, it registered 0.3 % y-o-y. While loans to households expanded by 2.9 %, loans to the non-financial corporate sector declined by 1.0 %. This reflected tight lending standards for businesses, small qualitative demand, and ample liquidity in firms. The average interest rate across all maturities for households and businesses for lek-denominated loans stood at 7.2 % in February compared to 7.9 % one year earlier.

The gradual rebalancing towards lek-denominated loans continued across sectors. The share of foreign-currency loans in total credit to the economy declined to 52.4 % in February, down from 56.2 % one year earlier.

Non-performing loans (NPLs) remain at a high level and continue to hamper a revival in overall lending. The ratio of NPLs to total loans has, however, trended downwards since last August. In the first two months of 2017, it declined by 0.3 pps. to 18.0 %, the lowest ratio since July 2011.

The banking sector as a whole is well capitalised with a capital adequacy ratio of 15.7 % at the end of 2016, up by 0.1 pps over the fourth quarter and comfortably above the regulatory minimum of 12%.

Fiscal developments

In 2016, the fiscal deficit turned out significantly smaller than planned due to a broad-based under-execution of expenditures. Total expenditures remained 4.2 % below the target in the revised budget. Total revenues were also smaller than budgeted, but to a lesser extent (2.3 %). As a result, the overall deficit of general government deficit amounted to 1.8 % of GDP, down from 4.1 % in 2015 and below the target of 2.4 % in the revised budget. Public debt declined by 0.7 pps. in 2016 to 72.0 % of GDP at the end of the year after having risen for six consecutive years.

In January-February 2017, total revenues increased by 3.7 % y-o-y and exceeded the budget by 5.2 % mainly due to a strong performance of tax revenues. Total expenditures increased by 6.0 % y-o-y, but remained 5.9 % below budget. This was mainly a due to under-execution of capital expenditures and social security outlays.

TABLE



European Commission, ECFIN-D-1

ALBANIA

							ECFIN 2017 Winter forecast							
		2012	2013	2014	2015	2016	2017	2018	Q3 16	Q4 16	Q1 17	Jan 17	Feb 17	Mar 17
1 Real sector														
Industrial confidence ^{1.1}	Percent	-17.3	-16.6	-6.9	-5.5	-1.6	:	:	3.3	-0.1	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. %ch	16.6	13.9	3.4	2.5	-6.7	:	:	-11.2	1.2	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. %ch	1.4	1.0	1.8	2.6	3.5	3.5	3.6	3.1	4.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	0.1	1.8	2.2	0.9	2.5	3.0	3.3	1.6	2.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	-7.9	-2.0	-4.0	10.3	7.1	9.3	4.7	11.7	5.7	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	0.6	1.0	0.2	0.3	0.0	:	:	0.1	0.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	4.8	6.3	5.1	5.4	6.6	:	:	6.5	8.6	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	13.8	16.4	17.9	17.5	15.6	14.5	13.4	15.2	14.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	18.5	-9.7	1.6	4.9	6.1	2.6	2.7	7.4	5.5	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	7.3	4.1	1.7	1.8	0.9	:	:	1.1	0.6	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	7.6	-30.5	-11.6	-17.3	-9.1	:	:	-4.5	26.9	:	:	:	:
Imports of goods ^{3.2}	Ann. %ch	-4.3	-13.2	3.6	-2.7	6.2	:	:	5.3	-0.5	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-20.9	-20.6	-22.2	-22.4	-24.1	-25.6	-26.0	-24.5	-23.7	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	33.3	28.7	28.2	27.3	28.7	:	:	27.5	28.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	52.0	47.0	47.2	44.5	45.6	:	:	45.4	44.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-10.2	-10.9	-12.9	-10.8	-9.6	-13.1	-12.8	-11.0	-9.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	6.8	9.6	8.2	8.0	8.9	:	:	7.4	8.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 907.7	1 955.7	2 084.8	2 637.7	2 880.3	:	:	2 698.2	2 880.3	:	2 724.1	2 787.7	:
Int. reserves / months imp ^{3.9}	Ratio	5.0	5.2	5.3	6.9	7.0	:	:	:	:	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	2.0	1.9	1.6	1.9	1.3	2.2	2.6	1.9	1.9	:	2.8	2.2	:
Producer prices ^{4.2}	Ann. %ch	:	:	:	:	-1.5	:	:	-0.8	0.9	:	:	:	:
Food prices ^{4.3}	Ann. %ch	2.4	4.2	2.2	4.3	3.3	:	:	4.3	3.6	:	5.8	3.9	:
M2 ^{4.4}	Ann. %ch	4.7	5.7	4.0	7.2	4.6	:	:	4.7	5.6	:	6.8	6.1	:
Exchange rate LEK/EUR ^{4.5}	Value	139.04	140.26	140.14	139.74	137.37	:	:	136.81	136.10	135.85	136.57	135.59	135.38
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	5.16	4.23	3.10	2.87	1.13	:	:	0.88	1.22	:	:	:	:
Bond yield ^{5.2}	% p.a.	6.77	6.03	3.45	2.77	2.05	:	:	1.69	1.69	:	1.89	1.99	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. %ch	7.4	-0.2	0.2	0.3	-0.7	:	:	0.1	0.5	:	0.4	0.3	:
Deposit growth ^{5.5}	Ann. %ch	9.4	3.7	1.5	1.9	1.1	:	:	1.5	2.2	:	2.8	2.0	:
Non performing loans ^{5.6}	% total	22.8	23.2	22.8	17.7	18.3	:	:	21.3	18.3	:	18.2	:	:
6 Fiscal developments														
General government balance* ^{6.1}	% of GDP	-3.4	-5.0	-5.2	-4.1	-1.8	-2.2	-1.7	:	:	:	N.A.	N.A.	N.A.
General government debt* ^{6.2}	% of GDP	62.2	70.4	72.1	72.7	72.0	70.0	68.7	70.8	72.0	:	N.A.	N.A.	N.A.

f: ECFIN forecast Winter 2017

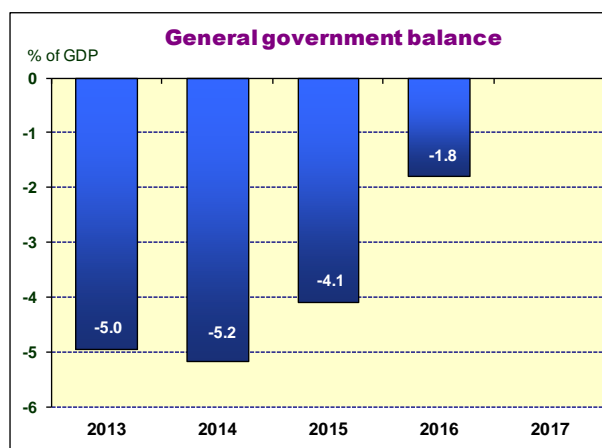
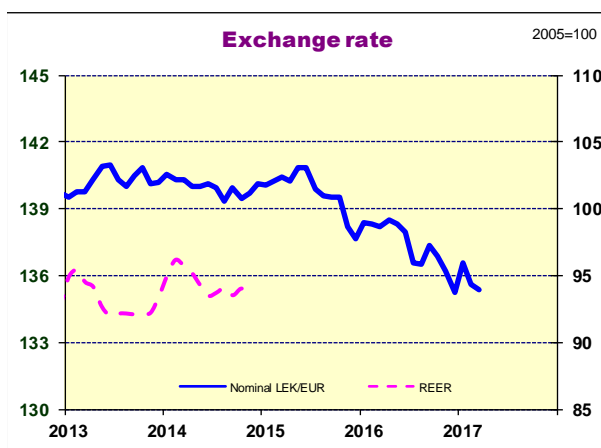
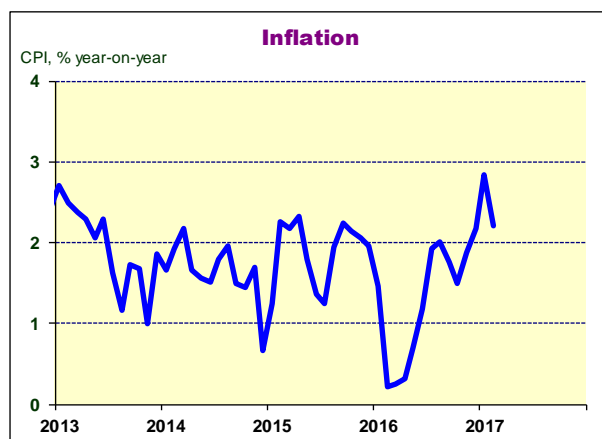
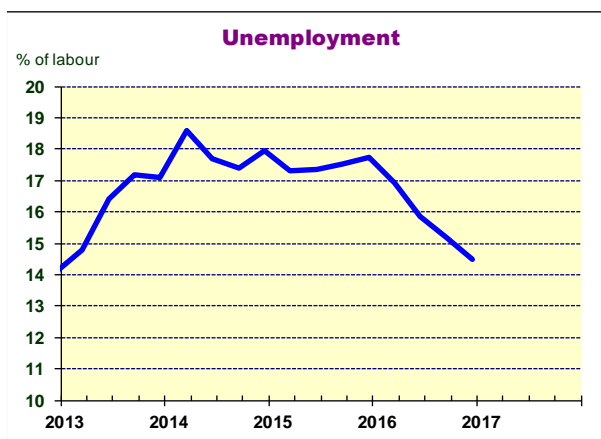
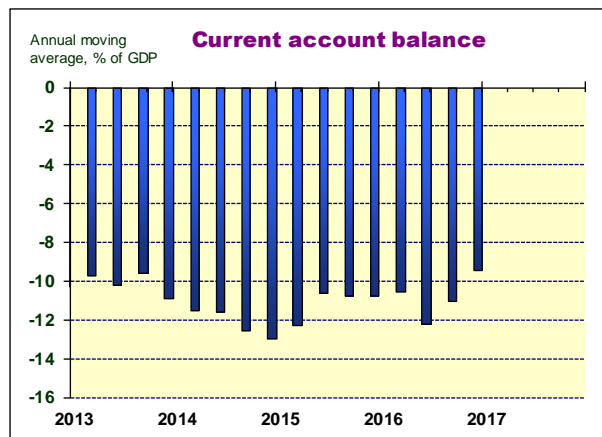
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



ALBANIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



Key developments

On 31 January 2017, the government submitted its Economic Reform Programme for the period 2017-2019. It expects a gradual acceleration of annual GDP growth until 2019, averaging 3.5%. The general government budget deficit is projected to decline to 2.2% of GDP by 2019.

On 17 March, Standard and Poors Global Ratings affirmed its BB-/B sovereign credit rating and stable outlook for the country. The agency anticipates lower ratings if the political crisis impaired growth and FDI inflows, or if fiscal policy put at risk the sustainability of public debt.

Real sector

GDP growth accelerated in the fourth quarter to 2.4% y-o-y, fuelled by buoyant household spending (+5.1%), and exports (+11.2%). However, gross capital formation declined even more markedly (-10.4%) than in the third quarter (-2.1%), reflecting weak investor sentiment, but also a statistical base effect. The drop in investment impacted negatively on import demand, which rose by significantly less (+5.3%) than in the third quarter (+13.7%). Public consumption growth accelerated to 3.4%. Overall, the economy expanded by 2.4% in 2016 according to first estimates, compared to 3.8% in 2015, with private consumption (+4.2%) and exports (+11.5%) as the main growth drivers. Investment declined by 4.3%. Imports rose by 7.6%, allowing for a small positive contribution to GDP growth from the external balance. Public consumption increased by 1.6% in 2016.

Manufacturing output dropped in the fourth quarter in annual terms, bringing the decline for the full year 2016 to 2.2%. The industrial production index points to continued weakness in manufacturing in the first two months of 2017. The construction industry, on the other hand, expanded at an accelerated pace in the fourth quarter (+28.5% y-o-y), driven by a pick-up in public infrastructure works. Overall, construction grew by 18.5% in 2016.

Labour market

Employment growth remained robust in the fourth quarter (+2.1% y-o-y), although less dynamic than in the preceding three months (2.4%). Government-sponsored programs and subsidies stimulated job creation and benefitted in particular the construction and manufacturing sectors. The labour market participation rate, at 56.6%, remained unchanged compared to the same period one year earlier. In 2016 as a whole, employment increased by 2.5%, slightly up from 2.3% a year before.

The unemployment rate stood at 23.7% in 2016, significantly lower than a year before (26.1%). The labour force dropped by 0.7%, reflecting a sizeable decline in the female labour force (-2.4%), which outweighed the rise in the male labour force (+0.5%). In the age group 15-24 years, the unemployment rate rose to 48.2% from 47.3% one year earlier, as a result of a sizeable drop in the labour force, overcompensating the decline in the number of unemployed young workers. Real net wages continued to increase in the fourth quarter (+2.1% y-o-y), which resulted in a similar pace of increase for the full year (2.2%, somewhat lower than the 2.7% recorded in 2015).

External sector

The current account posted a deficit in the fourth quarter which was nevertheless smaller, both in nominal terms and as a share of quarterly GDP, than in the same period one year earlier. The deficit in primary income increased further, while the secondary income surplus declined. As a result of these dynamics, the current account deficit widened in 2016 as a whole to 3.1% of GDP, from 2.1% a year before, even though the trade deficit improved – the shortfall in merchandise trade narrowed and the surplus in the services balance rose. Private transfers from abroad, including workers' remittances, dropped by 1.7pps to 16.1% of GDP. However, they still more than covered the trade deficit. Foreign direct investment inflows (3.6% of GDP) strengthened markedly compared to 2015

(2.2%), and covered more than the entire current account deficit.

At end-2016, the gross foreign debt stock amounted to 73.4% of projected GDP, compared to 69.3% one year earlier. The central bank's foreign currency reserves were higher by 13.7% y-o-y at end-February and covered about five months of prospective imports.

Monetary developments

After having declined by 0.1% y-o-y in the fourth quarter of 2016, consumer prices switched into slightly positive territory and rose by 0.4% y-o-y in the first two months of the year. Some pressure arose mainly from higher prices for transportation and clothing. Food and housing cost, which make up over half of the index, including gas and fuels, registered a further drop. The core inflation rate remained positive. In the first two months of the year, broad money supply (M4) increased by 5.9% (fourth quarter: +4.4%), on average, with demand deposits (current accounts) accounting for the largest contribution.

As the situation in foreign currency markets stabilised, the central bank lowered the benchmark interest rate in three successive steps of 25bp each between December and February, to 3.25%. The bank had increased the rate in April from this level to 4% after speculation had caused large outflows of deposits between April and June 2016.

Financial sector

Amidst solid liquidity in the banking sector, credit growth to the private sector slowed down further in the fourth quarter and beyond. To some part reflecting a statistical effect from banks' mandatory write-offs of non-performing loans (NPL), annual private sector loan growth decelerated gradually each month in the fourth quarter, averaging 1.4% y-o-y. Growth in credit was driven entirely by lending to households (+7.3% y-o-y), while loans to the non-financial corporate sector declined (-3.3%). This resulted in an average growth in private-sector loans of only 4.6% in 2016, half of the 2015 expansion rate. In the first two months of 2017, credit extension virtually stagnated, with the rise in household loans wiped out by a decline in corporate credit (yet, adjusting for the write-offs, total private sector loans increased by 6.1% y-o-y in this period).

Interest rates on loans and deposits in local and foreign currency declined further in the fourth quarter and beyond, with changes not reflecting monetary policy aimed at the de-euroisation of banks' balance sheets. Between October and February, both lending and deposit rates in Denar dropped by 20bps, to 6.4% and 2.3%, respectively. The rates on foreign currency loans declined by 0.3pps, to 5.1%, and on deposits by 0.1pp to 0.9%. At the end of 2016, deposits were some 13.2% higher than one year earlier, with a particularly sharp rise in foreign currency deposits. (+22%). Local currency deposits overcame losses suffered in spring (+6.7% y-o-y at year-end). The quality of banks' loan portfolios has not improved, even though statistics reflecting the mandatory write-offs present a different picture. The NPL ratio dropped to 6.3% at end-December (end-September: 7.1%). Without the write-offs it continues to hover closer to 10.5%.

Fiscal developments

In the fourth quarter, government revenues fell behind their pre-year level (-0.5%), after a marked rise in the third quarter (+ 11.4%). VAT receipts, accounting for some 45% of total tax revenue, were down by 0.7% y-o-y. Total expenditure was some 2.3% higher than in the same period one year earlier, even though capital spending declined by 16%. For the full year 2016, the general government fiscal deficit (2.6%) stayed behind the revised target (4%), as capital expenditure was severely under-executed (76% of revised budget), partly due to constraints resulting from the political crisis. In the first two months of this year, revenues were at the same level as one year earlier, amounting to some 14% of budget. Capital expenditure amounted to some 11% of the 2017 target, while the accumulated fiscal deficit reached about 20% of the planned budget shortfall.

Gross general government debt increased further in 2016, to 39.1% of GDP by the end of the year (+1pp y-o-y). Sustained primary deficits are the main contributor to the increase in the debt ratio, which has risen by 18.6pps since its low in 2008. The share of foreign currency debt rose to 63.5% of the total, from 60.7% one year earlier, largely accounted for by the 450 mio Eurobond issued in July. Total public debt, including the debt of public sector companies, rose by 1.1pp to 47.8% of GDP in this period, reflecting only a minor rise in the guaranteed debt of public enterprises.

TABLE



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia

							ECFIN 2017 Winter forecast							
		2012	2013	2014	2015	2016	2017	2018	Q3 16	Q4 16	Q1 17	Jan 17	Feb 17	Mar 17
1 Real sector														
Industrial confidence ^{1.1}	Balance	14.7	12.3	11.4	17.5	24.0	:	:	24.6	25.9	:	26.2	25.3	:
Industrial production ^{1.2}	Ann. %ch	-6.6	3.2	4.8	4.9	3.4	:	:	5.0	-1.7	:	-2.6	-1.3	:
Gross domestic product ^{1.3}	Ann. %ch	-0.5	2.7	3.5	3.8	2.4	3.2	3.6	2.0	2.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	1.2	2.1	2.4	3.7	4.2	3.2	3.1	5.6	5.1	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. %ch	21.2	-16.8	15.2	3.6	-4.3	3.4	4.4	-2.1	-10.4	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. %ch	4.2	-7.3	16.5	11.0	18.5	:	:	13.7	33.2	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	:	-0.8	4.2	9.8	18.8	:	:	22.0	11.7	:	-8.3	-18.0	:
2 Labour market														
Unemployment ^{2.1}	%	31.0	29.0	28.0	26.1	23.7	23.2	22.0	23.4	23.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	0.8	4.3	1.7	2.3	2.5	1.6	1.6	2.3	2.1	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	0.2	1.2	1.0	2.7	2.0	1.7	2.3	1.7	2.1	:	2.4	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	-3.7	2.9	17.2	6.7	11.5	:	:	14.4	11.2	:	16.2	:	:
Imports of goods ^{3.2}	Ann. %ch	0.3	-1.8	9.5	5.2	7.6	:	:	13.7	5.3	:	27.7	:	:
Trade balance* ^{3.3}	% of GDP	-26.5	-22.9	-21.7	-20.2	-18.8	-19.0	-18.1	-19.7	-18.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	44.5	42.3	47.7	48.8	49.2	:	:	49.4	49.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	66.9	60.4	64.9	65.0	63.8	:	:	64.9	63.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-3.2	-1.6	-0.5	-2.1	-3.2	-1.7	-1.6	-3.3	-3.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.7	3.3	2.3	2.2	3.6	:	:	3.0	3.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	2 193.3	1 993.0	2 436.5	2 261.8	2 613.4	:	:	2 699.0	2 613.4	:	2 557.1	2 563.0	:
Int. reserves / months Imp ^{3.9}	Ratio	6.1	5.6	6.3	5.6	6.0	:	:	6.2	6.0	:	5.8	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	3.3	2.8	-0.3	-0.3	-0.2	0.9	2.4	-0.1	-0.1	:	0.6	0.2	:
Producer prices ^{4.2}	Ann. %ch	4.5	0.4	-1.2	-4.1	-0.1	:	:	0.2	-0.3	:	-0.8	0.7	:
Food prices ^{4.3}	Ann. %ch	2.3	3.4	-1.0	0.0	-1.3	:	:	-1.0	-1.3	:	-1.0	-2.3	:
Monetary aggregate M4 ^{4.4}	Ann. %ch	7.5	4.0	8.0	8.2	4.4	:	:	4.0	4.9	:	6.7	5.1	:
Exchange rate MKD/EUR ^{4.5}	Value	61.53	61.58	61.62	61.61	61.60	:	:	61.52	61.49	61.56	61.53	61.58	61.57
Nominal eff. exchange rate ^{4.6}	Index	100.3	101.8	102.9	101.6	102.6	:	:	102.8	103.1	:	103.3	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	8.50	8.04	7.46	7.08	6.61	:	:	6.59	6.47	:	6.40	:	:
Stock markets ^{5.3}	Index	1 890	1 726	1 735	1 731	1 887	:	:	1 888	2 113	2 251	2 205	2 275	2 275
Credit growth ^{5.4}	Ann. %ch	7.3	4.3	8.4	9.1	4.6	:	:	2.8	1.4	:	0.6	-0.3	:
Deposit growth ^{5.5}	Ann. %ch	7.2	4.8	8.2	7.9	4.3	:	:	4.0	4.7	:	6.7	5.0	:
Non-performing loans ^{5.6}	% total	10.4	11.9	11.6	10.3	6.3	:	:	7.1	6.3	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance ^{6.1}	% of GDP	-3.8	-3.8	-4.2	-3.4	-2.6	-3.2	-3.0	-1.4	-4.4	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	33.7	34.0	38.2	38.0	39.1	41.3	42.2	41.9	40.9	:	N.A.	N.A.	N.A.

f: ECFIN forecast Winter 2017

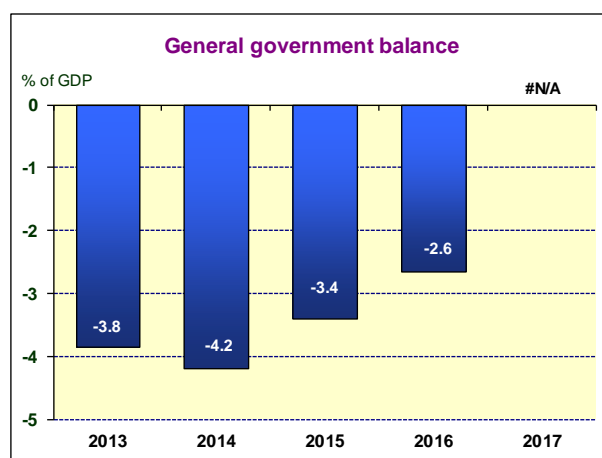
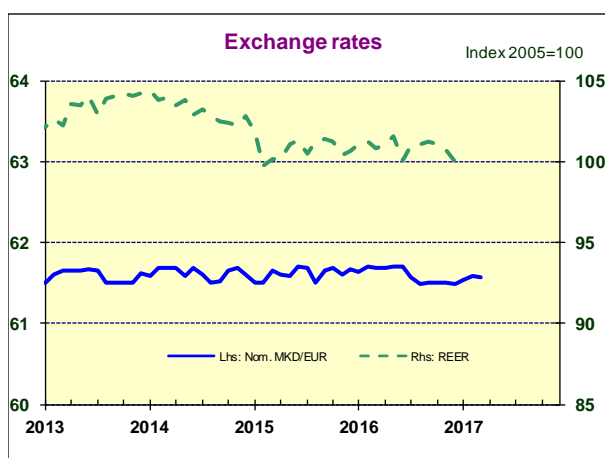
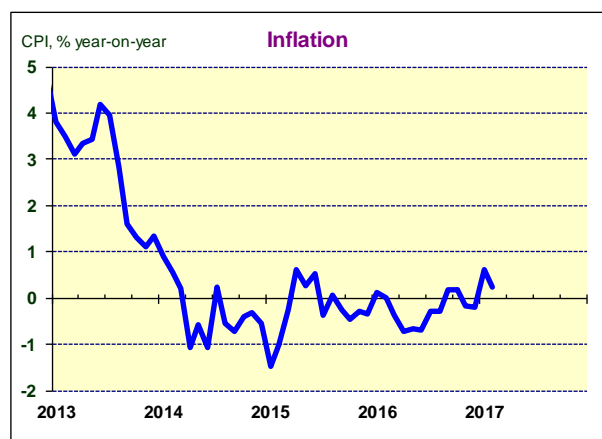
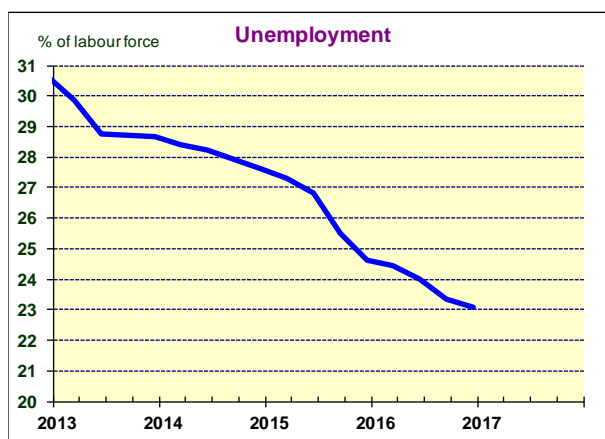
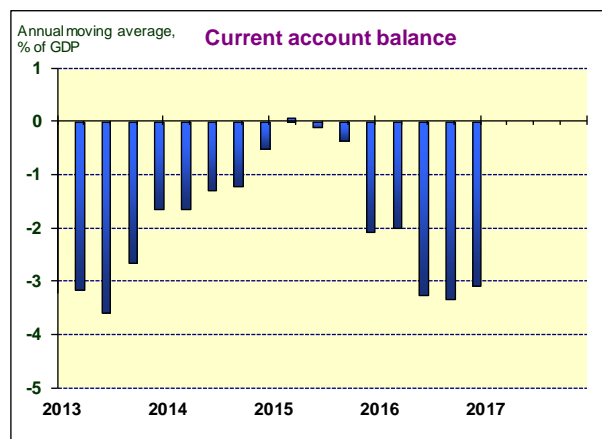
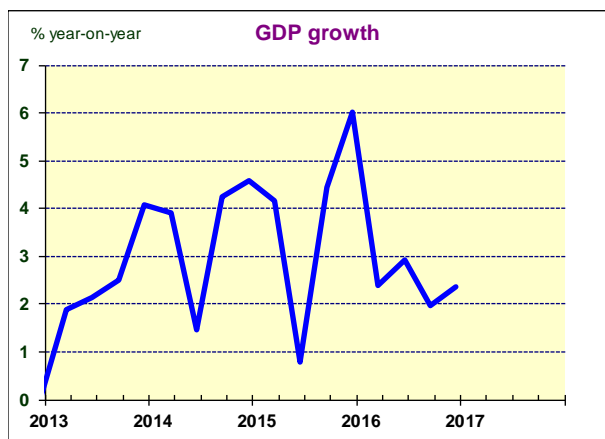
* Q figures refer to a 4 quarters moving average.

CHARTS



European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia





Key developments

On 31 January 2017, Montenegro submitted its Economic and Reform Programme (ERP 2017-2019) to the European Commission. The ERP projects real GDP growth to accelerate to 4.3% in 2018 before moderating to 2.6% in 2019. Growth is expected to be largely driven by investment and construction activity. The fiscal deficit is set to increase to around 6.1% and 5.5% of GDP in 2017 and 2018, respectively, largely driven by capital investments. It is projected to fall to 3.8% in 2019.

On 23 March 2017, the government adopted amendments to the Law on Local Government financing in order to raise the limit for municipal borrowing (from 10% to 25% of the previous year's revenue) only for the purpose of capital investment. In the same session, the government granted Tuzi the status of municipality as of 1st September 2018, raising then the number of local governments to 23.

Real sector

After a weak start into the year, the economy accelerated in the last two quarters of 2016. In the fourth quarter, real GDP growth was 3.4% y-o-y, up from 2.4% in the third and 1.4% in the second quarter. The fourth quarter growth was driven by a robust expansion of private consumption (3.9% y-o-y) supported by hikes in public sector wages and social benefits as well as strong bank lending to households. Government consumption grew by 1.6% y-o-y, compared to a sharp (-5.1% y-o-y) contraction a year before. Gross fixed capital formation witnessed a 28.6% y-o-y surge compared to 8.2% growth a year before. However, the GFCF expansion in the last quarter eased compared to the previous two quarters, when it recorded growth above 30% y-o-y. Net exports' contribution to growth remained largely negative, with imports keeping the same growth pace as a year ago (i.e. 7.5% y-o-y), while exports of goods and services slowed to 2.3%, compared to 14.5% growth a year before. Overall, real GDP expanded by 2.5% in 2016, down from a 3.2% growth in 2015.

Industrial production remained very volatile. In

February 2017, industrial output grew by 6.2% y-o-y after declining by 19.5% y-o-y the month before. The recovery in February was driven by higher production in mining and energy, while manufacturing output declined by 17.2% y-o-y. After recording an exceptionally good season in 2016, tourism continued to perform strongly in the first two months of 2017, with the number of foreign tourist arrivals increasing by 9.8% y-o-y.

Labour market

The slow but gradual decline of unemployment reversed in 2016. Despite the acceleration of economic growth in the last two quarters of the year, the unemployment rate increased to 17.8% in 2016, up from 17.6% a year before. The impact of large infrastructure works on employment remains relatively muted since they rely to a large extent on imported labour. As a result, employment recorded a modest growth of 1.2% y-o-y in 2016 compared to 2.5% a year before. Moreover, a substantial number of women left the labour force in 2016, after qualifying for a new lifetime benefit (analogous to a pension) for mothers of three or more children.

Gross wages recorded further increases in January and February 2017 (by 3.8 y-o-y each). Transport and storage recorded the strongest wage growth (9.4% y-o-y). By contrast, wages in the real estate sector registered strong 8.6% y-o-y nominal contraction. Fiscal consolidation measures introduced by the government at the end of 2016 also contributed to the moderation in public sector wages in early 2017.

External sector

A surge in construction-related imports has kept fuelling the trade deficit. In 2016, the current account deficit widened to 19% of GDP compared to 13% a year earlier. The deficit was driven by a widening gap in merchandise trade as imports surged by 11.8% y-o-y. In addition, growing import of services reduced -for the first time since 2008- the surplus of the services balance. The income surplus narrowed moderately, while the current-transfers balance was the only item to improve in 2016.

Similar trends continued in early 2017. In February, the trade deficit expanded further after

both exports and imports grew by 15.4% y-o-y. Exports were driven by (low-value-added) sales of raw materials and metals, while imports content reflects strong demand for investment-related machinery and equipment.

In 2016, the current account deficit was partially covered by net FDI totalling 10% of GDP, down from 17% of GDP a year earlier owing to a relatively large (considering the size of the country) dividend payment by one company. Moreover, portfolio capital flows were negative in net terms due to the government's repayment of maturing Eurobonds.

Monetary developments

Transport and food prices boosted inflation in the first two months of 2017. After averaging 0.1% y-o-y marginal increase in 2016, consumer prices rose by 2.1% in January and by 2.5% in February 2017. A rebound in international oil prices together with an increase of fuel excises resulted in a sharp acceleration of transport prices in early 2017. In February alone, the contribution of fuel to overall inflation was 1.2 pps., while fruit, vegetables and dairy products accounted for additional 0.7 pps. Inflationary pressures will further rise following increase of excises on cigarettes as of the 1st April.

In order to increase banks' liquidity and stimulate lending, the Council of the Central Bank of Montenegro cut on 6 March 2017 the mandatory reserve requirement ratios by 2 pps (from 9.5% to 7.5% and from 8.5% to 6.5% for deposits with maturity up to or more than one year, respectively).

Financial sector

Bank lending recorded some marginal improvement in early 2017. After registering 1.3% growth in 2016, bank lending grew by 1.5% in January and by 2.4% y-o-y in February 2017. In February alone, households' borrowing (which accounts for 42% of total credit) grew by 11% y-o-y, compared to 2.6% y-o-y growth for corporates. The disparity between the growth rates of household and business loans has persisted since November 2015. Meanwhile,

credit to financial institutions registered 15 months of uninterrupted contraction.

Banks' deposits increased by 8.5% y-o-y in February, down from 9.4% the month before due to the contraction of deposits by financial institutions, local governments and public companies. The loan to deposit ratio further declined to 85.8% in February 2017, down from 90.8% a year earlier, providing further room for stronger financial intermediation. However, the NPL ratio stagnated in February (at 10.3% of total loans) at the same level as in December 2016.

Fiscal developments

In 2016, the general government deficit reached 3.6% of GDP, compared to 8.4% a year before and to 7.3% of GDP planned in the original budget. On the revenue side, higher income from taxes and the receipt of the one-off digital fee on radio frequencies contributed to the lower deficit, while total spending turned out to be lower than planned due to delayed construction of the highway. However, current expenditure (namely on transfers, social spending and public sector salaries, and related to the unplanned repayment of liabilities incurred in the previous year) kept fiscal pressure high.

In the first two months of 2017, the central government deficit accounted for 2% of the projected annual GDP. Despite some improvement in excise and corporate income tax collection, budget revenue underperformed, remaining overall 6.8% below the plan and 0.5% below their level in the same period a year earlier. However, total expenditure also remained substantially (by 22.6%) below the plan, albeit recording some marginal increase of 0.4% y-o-y.

At the end of 2016, the general government debt stood at 67.5% of GDP, up from 62.8% a year before. External debt still accounts for by far the largest part of the total public debt stock (83.3%) even though domestic debt increased strongly (by 24.9%) as a result of the issuance of 4-year domestic bonds in November 2016 (worth 2.1% of GDP).

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

		2012 2013 2014 2015 2016					ECFIN 2017 Winter forecast		Q3 16 Q4 16 Q1 17 Jan 17 Feb 17 Mar 17					
							2017	2018						
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	8.7	11.1	9.8	3.0	:	:	-1.1	-0.1	5.0	-2.0	8.0	8.9
Industrial production ^{1.2}	Ann.%ch	-7.1	10.7	-10.5	7.9	-3.6	:	:	-0.9	-4.4	:	-19.5	6.2	:
Gross domestic product ^{1.3}	Ann.%ch	-2.7	3.5	1.8	3.4	2.5	3.7	3.1	2.4	3.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	-3.9	1.6	2.9	2.2	2.6	1.8	1.3	3.0	3.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann.%ch	-2.4	10.7	-2.5	11.9	29.6	19.0	9.0	32.6	28.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	-13.2	9.7	2.0	5.8	31.5	:	:	37.2	40.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	6.7	11.3	2.5	4.5	4.1	:	:	4.0	4.5	:	5.1	:	:
2 Labour market														
Unemployment ^{2.1}	%	19.7	19.5	18.0	17.6	17.8	17.4	17.1	16.9	17.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	2.2	1.1	7.1	2.5	1.2	2.9	2.9	1.1	1.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	0.8	-0.2	-0.3	0.3	3.5	0.1	1.3	4.8	4.1	:	3.8	3.8	:
3 External sector														
Exports of goods ^{3.1}	Ann.%ch	-17.6	2.1	-9.7	-9.0	4.1	:	:	14.6	-1.3	:	50.6	15.4	:
Imports of goods ^{3.2}	Ann.%ch	-0.1	-2.7	0.6	3.2	11.8	:	:	10.1	10.8	:	19.8	15.4	:
Trade balance* ^{3.3}	%of GDP	-43.5	-39.5	-39.8	-40.4	-44.0	-48.3	-49.0	-43.2	-44.0	:	-48.1	-48.5	:
Exports goods and services ^{3.4}	%of GDP	43.7	41.3	40.1	42.5	42.2	:	:	70.0	27.6	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	68.1	61.4	60.0	61.1	65.7	:	:	54.9	66.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-18.5	-14.5	-15.2	-13.3	-18.9	-22.7	-23.4	-18.7	-18.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	14.5	9.6	10.2	17.1	9.8	:	:	10.1	9.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	347.9	423.7	544.7	673.7	803.0	:	:	746.0	803.0	:	791.6	791.1	:
Int. reserves / months Imp ^{3.9}	Ratio	2.3	2.9	3.7	4.4	4.7	:	:	4.5	4.7	:	4.6	4.5	:
4 Monetary developments														
HICP ^{4.1}	Ann.%ch	4.0	1.8	-0.5	1.4	0.1	1.4	2.1	-0.4	0.7	:	2.1	2.5	:
Producer prices ^{4.2}	Ann.%ch	1.9	1.7	0.2	0.3	-0.1	:	:	-0.2	-0.2	:	1.9	-1.0	:
Food prices ^{4.3}	Ann.%ch	4.2	4.0	-1.4	2.9	-0.8	:	:	-1.1	0.0	:	1.2	2.7	:
M21 ^{4.4}	Ann.%ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate ^{4.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	%p.a.	5.32	3.39	1.60	:	:	:	:	:	:	2.35	:	:	2.35
Bond yield ^{5.2}	%p.a.	4.75	3.19	1.26	0.50	1.58	:	:	1.73	:	2.53	2.46	2.60	:
Stock markets ^{5.3}	Index	9,091	9,532	10,696	11,949	11,113	:	:	10,792	10,977	11,394	11,450	11,375	11,357
Credit growth ^{5.4}	Ann.%ch	-0.7	3.1	-1.9	0.8	1.3	:	:	-1.5	1.3	:	1.5	2.4	:
Deposit growth ^{5.5}	Ann.%ch	9.0	5.9	10.0	13.7	9.4	:	:	8.8	9.4	:	9.4	8.5	:
Non-performing loans ^{5.6}	%of total	17.6	18.4	16.8	13.4	10.3	:	:	11.0	10.3	:	10.4	10.3	:
6 Fiscal developments														
General government balance ^{6.1}	%of GDP	-5.7	-5.2	-2.9	-8.4	-3.6	-6.6	-6.0	-0.7	-3.6	:	:	:	:
General government debt ^{6.2}	%of GDP	53.4	57.5	58.6	62.8	67.5	70.3	73.3	60.2	63.7	:	:	:	:

f: ECFIN forecast Winter 2017

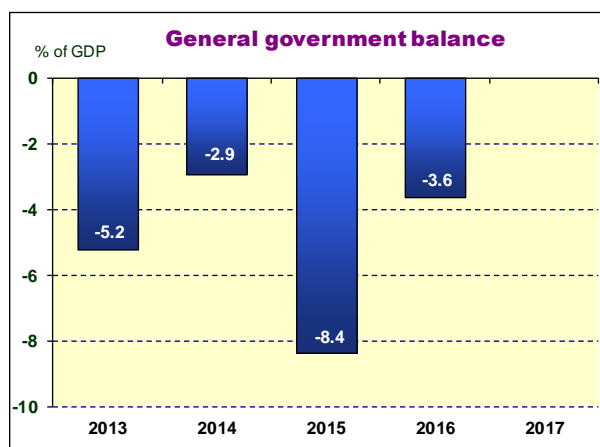
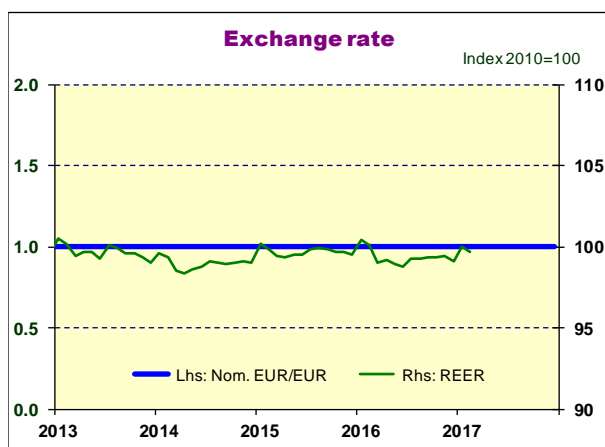
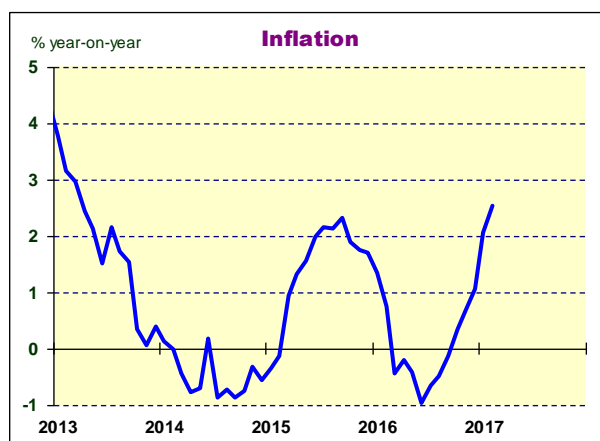
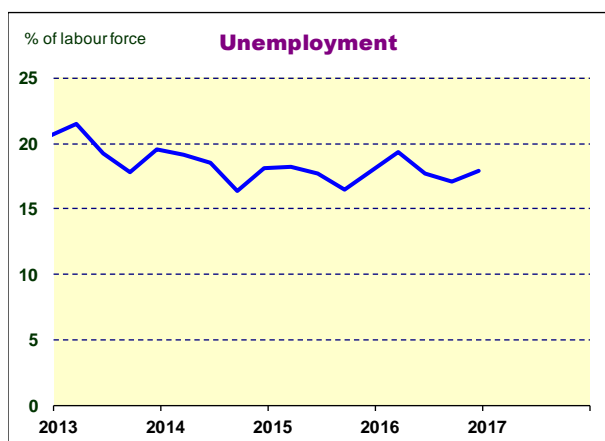
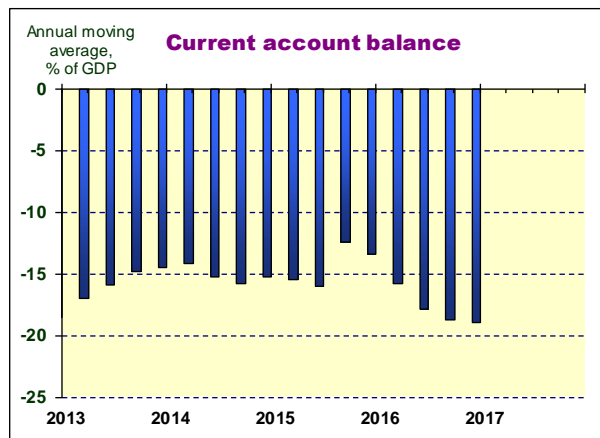
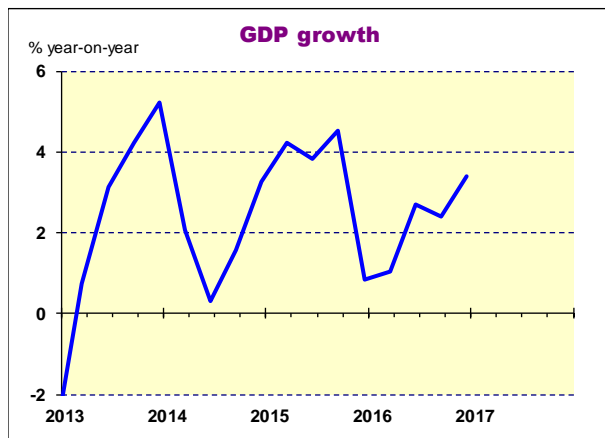
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO





Key developments

The current Prime Minister, Aleksandar Vučić, won the presidential elections that were held on 2 April and is expected to take up his new functions on 1 June the earliest.

Serbia submitted officially its 2017-2019 Economic Reform Programme to the Commission, on 20 March 2017. Real GDP growth is forecast to firm slightly up from 2.8% in 2016 to 3.5% in 2019, increasingly underpinned by private consumption, while investment and export are expected to remain robust. The current account deficit is foreseen to stabilise at around 4 % of GDP and to be fully covered by net FDI. Inflation is forecast to increase moderately and to remain within the central bank tolerance band. The general government deficit is projected to be gradually reduced to 1% of GDP by 2019.

In February, two more EU accession negotiation chapters were opened – chapter 20 on enterprise and industrial policy and chapter 26 on education and culture. With that, 8 out of 35 negotiation chapters have been opened, two of which have been provisionally closed.

Real sector

In 2016, the economy surpassed its pre-crisis peak and expanded by 2.8% – faster than expected – and, driven by net exports and investment. The fourth quarter GDP growth stood at 2.5 % y-o-y, supported mainly by a continuously strong expansion of exports, which grew by 13.8 % y-o-y. Household final consumption trended upwards. Its growth remained moderate at 1%, despite an ongoing labour market recovery and a vibrant consumer lending. Pulled up by higher government spending on goods and services, public consumption growth picked-up as well in the last quarter of the year. Following a robust performance since the beginning of the year, investment growth decelerated to 2.6 % and was accompanied by a sizeable negative contribution of changes in inventories. However, quarterly data on investment are volatile and subject to significant revisions.

On the supply side, economic growth remained broad-based as almost all sectors expanded in the fourth quarter. The good performance of agriculture continued unabated, while growth in most of the service sectors accelerated. Construction activity, on the other hand, decelerated strongly, falling by 0.6 % y-o-y despite a 31 % rise in new construction permits in the fourth quarter.

High frequency indicators signal a continuation of the economic expansion. Industrial activity remained strong in the last quarter of 2016 but slowed down in January-February 2017, averaging a 0.7% growth y-o-y. Manufacturing, in particular, performed well, growing by 5.5 % y-o-y as most of its branches expanded further. Activity in mining, quarrying, and electricity, gas and steam supply fell, influenced by adverse weather conditions and base effects. Following a strong growth in the fourth quarter, in early 2017 retail trade turnover increased by a real 2.6 % y-o-y.

Labour market

According to LFS data, in the fourth quarter unemployment fell further to 13.0 % – its lowest level in years. The activity and employment rates stood at 52.3 % and 45.5 %, respectively. The labour force remained broadly unchanged over a year ago, while employment increased by 150,600 or by 5.8 % y-o-y. Most of the employment gains were in services and informal employment remained elevated at 20.9 % of total. Nevertheless, formal employment grew as well and there was a steady rise in industrial employment – the economy added some 42,000 jobs in industry in the last quarter.

Data on registered employment and unemployment also confirm the strengthening of the labour market. In the fourth quarter, registered employment increased by 1.8 % y-o-y, amidst continuing job losses in the public sector. According to the National Employment Service, the number of registered jobseekers fell by 6.9 % y-o-y in February 2017. After growing on average by 2.6 % in 2016, gross real wages increased further by 1.5 % y-o-y in the first two months of 2017.

External sector

In 2016, exports of goods increased by 11.4 % y-o-y in euro terms and confirmed their strong performance in the first two months of 2017 (8.5%), driven mainly by exports to the EU market. Imports growth, which accelerated markedly in the end of 2016 (15.6%), reached an increase of 11.7% y-o-y in the period January-February 2017, indicating a robust rise in domestic demand. As a result, the trade deficit in the same period increased by 23.7 % y-o-y up to EUR 642 million.

The shrinking trade imbalance led to a fall in the current account deficit by 13.1 % y-o-y, down to 4.0 % of GDP in 2016. The surplus of trade in services also contributed to the falling external deficit, increasing by 23.4 % y-o-y. On the other hand, primary income outflows went up by 17.6 %, mostly due to higher direct investment-related income and lower worker's remittances have reduced the surplus in the secondary income account. Net FDI inflows increased marginally in 2016, but at EUR 1.9 billion (5.5 % of GDP) handsomely covered the current account deficit by 135.8 %. Net errors and omissions grew by half to EUR 590 million or 1.7 % of GDP.

Monetary developments

Inflation went up in early 2017 and entered the central bank's new tolerance band of $3\pm 1.5\%$. In February it stood at 3.2 % y-o-y, pushed by higher energy and unprocessed food prices. Core inflation, excluding these two groups, inched up to 2.0 % y-o-y. Inflation expectations of the financial and corporate sectors remained stable and anchored within the target band. By the end of March, the central bank has kept its key policy rate unchanged at 4 %, guided by the fact that inflation moved within the target band. The Executive Board signalled that it remains vigilant with regard to movements in the international financial market and global oil prices.

In the first quarter of 2017, the dinar exchange rate against the euro remained broadly stable, depreciating by 0.8 % y-o-y. The central bank intervened on the foreign exchange market by selling EUR 225 million in January and another EUR 105 million in February. These interventions contributed to a decrease in the foreign exchange reserves of the central bank, by EUR 445 million in the first two months of the year. They stood at EUR 9.8 billion in

February, still sufficient to cover more than six months' worth of imports of goods and services.

Financial sector

The growth in domestic credit moderated to 8.8 % y-o-y in February. Net claims on government remained broadly unchanged since the beginning of the year, reflecting the good budget performance in the first two months of the year. Credit to the non-government sector expanded by 3.1 % y-o-y, driven mainly by lending to households which continued growing by double-digits (10.6 % y-o-y) in February. Claims on companies went up by 3.4 %, while lending to public enterprises contracted by 30.9 % y-o-y as part of it was refinanced via a cross-border loan. Non-monetary sector deposits grew by 11.6 %, covering 97.3 % of lending to non-government sectors. The implementation of the NPL resolution strategy has helped reduce the NPL ratio to 17.0 % at the end of 2016 or 4.6 pps. lower than a year ago.

Fiscal developments

Following a marked reduction in 2015, the budget deficit was cut significantly again to 1.4 % of GDP in 2016. The outcome outperformed by far initial and revised targets and was mainly due to stronger revenues which increased by 8.7 %. Favourable macroeconomic developments, improved tax collection, and unplanned one-off receipts, all contributed to this development, while expenditures remained largely under control, growing by 3.0 %. Despite limited indexations in 2016, spending on pensions and wages declined as a percentage of GDP, although they were still above the respective ceilings prescribed by the fiscal rule. Importantly, the lower budget deficit created space for increasing capital expenditure and broke the trend of rising interest costs and government debt ratio and both fell for the first time since 2008.

The good budget performance continued in early 2017, as the consolidated budget was in small surplus by the end of February. Revenues grew by 4.2% y-o-y, driven by indirect taxes. Total expenditure increased as well (2.1% y-o-y) as spending on wages, goods and services, pensions and interest payments went up. Nonetheless, key categories like subsidies and capital expenditure remained below their levels in the corresponding period of the previous year. By the end of February, government debt stood at EUR 24,548.9 million (69.2 % of the estimated GDP).

TABLE

European Commission, ECFIN-D-1



SERBIA

		2012	2013	2014	2015	2016	ECFIN 2017 Winter forecast		Q3 16	Q4 16	Q1 17	Jan 17	Feb 17	Mar 17
							2017	2018						
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	-3.4	5.6	-6.1	8.4	4.7	:	:	3.7	2.8	:	2.8	:	:
Gross domestic product ^{1.3}	Ann. %ch	-1.0	2.6	-1.8	0.8	2.8	3.0	3.3	2.8	2.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	-2.1	-0.4	-1.3	0.4	0.8	2.1	3.0	0.5	1.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	13.2	-12.0	-3.6	5.6	4.9	6.4	5.8	6.2	2.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	-0.2	-24.0	-3.8	12.8	5.1	:	:	1.6	-2.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	-3.9	-5.3	2.0	1.4	7.7	:	:	6.8	6.5	:	4.1	:	:
2 Labour market														
Unemployment ^{2.1}	%	23.9	22.1	19.2	17.7	15.3	14.3	12.6	13.8	13.0	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	-1.1	3.7	10.1	0.6	5.6	1.1	1.5	7.2	5.8	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	9.0	5.7	1.1	-0.4	3.8	:	:	3.0	3.5	:	2.6	5.8	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	4.5	24.7	1.5	7.9	11.5	:	:	9.8	15.7	:	10.1	6.9	:
Imports of goods ^{3.2}	Ann. %ch	3.2	4.7	0.2	5.8	6.1	:	:	5.0	7.2	:	15.6	8.5	:
Trade balance* ^{3.3}	%of GDP	-18.8	-13.0	-13.0	-13.0	-11.6	-11.0	-11.0	-12.1	-11.6	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	36.3	40.7	43.4	46.7	:	:	:	49.5	50.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	-53.6	-51.9	-54.4	-56.5	:	:	:	-57.7	-58.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-11.6	-6.1	-6.0	-4.7	-4.0	-4.2	-4.2	-4.2	-4.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	2.2	3.9	3.7	5.4	5.5	:	:	5.6	5.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	10 914.7	11 188.8	9 907.2	10 378.0	10 204.6	:	:	9 551.7	10 204.6	:	9 854.3	9 759.4	:
Int. reserves / months Imp ^{3.9}	Ratio	9.3	9.2	8.0	8.1	7.5	:	:	7.2	7.5	:	7.2	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	7.3	7.9	2.1	1.4	1.1	2.4	3.3	1.0	1.5	:	2.4	3.2	:
Producer prices ^{4.2}	Ann. %ch	6.4	0.8	0.2	0.7	2.2	:	:	0.2	2.2	:	3.2	4.5	:
Food prices ^{4.3}	Ann. %ch	15.4	-2.5	2.2	-0.1	0.4	:	:	-0.9	0.4	:	1.2	2.2	:
M3 ^{4.4}	Ann. %ch	9.4	4.6	7.6	6.6	11.6	:	:	11.5	11.6	:	12.3	11.5	:
Exchange rate RSD/EUR ^{4.5}	Value	113.01	113.09	117.25	120.76	123.10	:	:	123.30	123.26	123.88	123.80	123.94	123.89
Nominal eff. exchange rate ^{4.6}	Index	74.1	74.0	68.4	66.6	65.3	:	:	66.2	65.3	:	65.2	65.1	:
5 Financial indicators														
Interest rate (BEONIA) ^{5.1}	%p.a.	9.51	8.82	6.76	4.75	2.70	:	:	2.81	2.82	2.77	2.74	2.81	2.75
Bond yield (12 months) ^{5.2}	%p.a.	13.04	10.67	9.18	7.27	4.63	:	:	:	:	:	4.74	4.74	:
Stock markets ^{5.3}	Index	932	1 035	1 215	1 359	1 383	:	:	1 377	1 512	1 570	1 553	1 548	1 607
Credit growth ^{5.4}	Ann. %ch	12.9	-6.5	5.8	7.0	9.0	:	:	13.9	9.0	:	10.0	8.8	:
Deposit growth ^{5.5}	Ann. %ch	10.4	3.3	7.6	6.5	11.4	:	:	11.7	11.4	:	12.6	11.6	:
Non-performing loans ^{5.6}	%total	18.6	21.4	21.5	21.6	17.0	:	:	19.5	:	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance* ^{6.1}	%of GDP	-6.8	-5.5	-6.6	-3.7	-1.4	-1.2	-1.0	1.3	-4.6	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	55.9	58.8	68.3	74.1	72.8	72.3	69.8	71.2	72.8	:	N.A.	N.A.	N.A.

f: ECFIN forecast Winter 2017

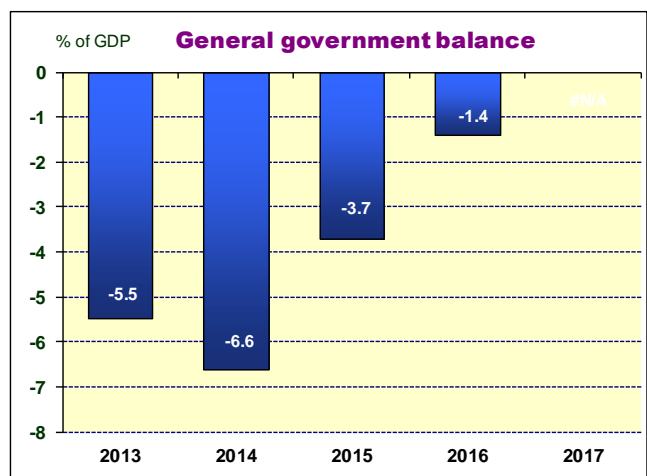
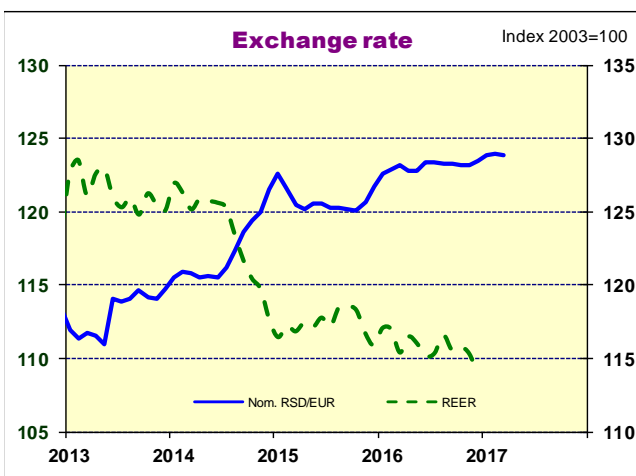
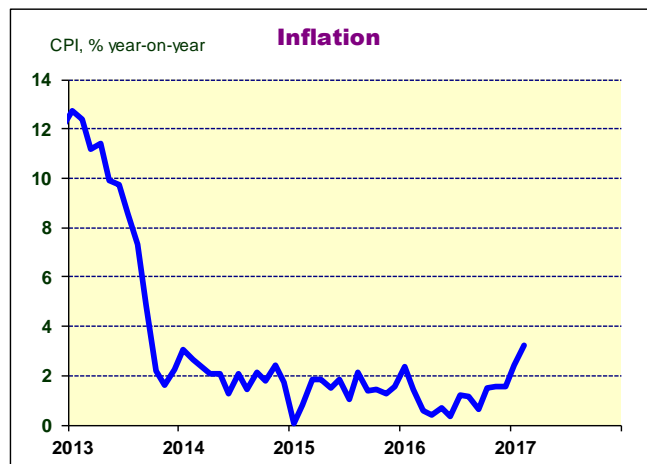
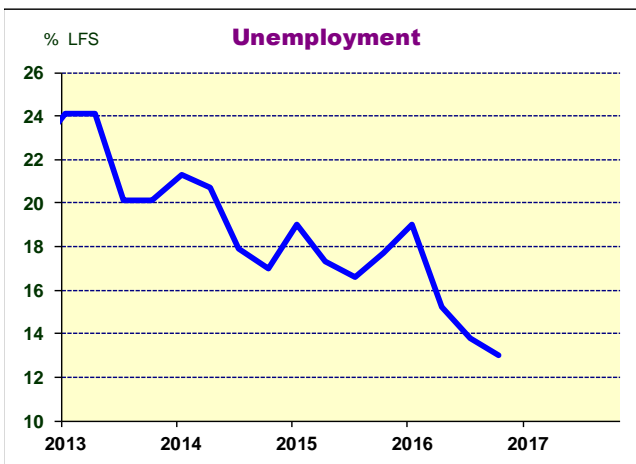
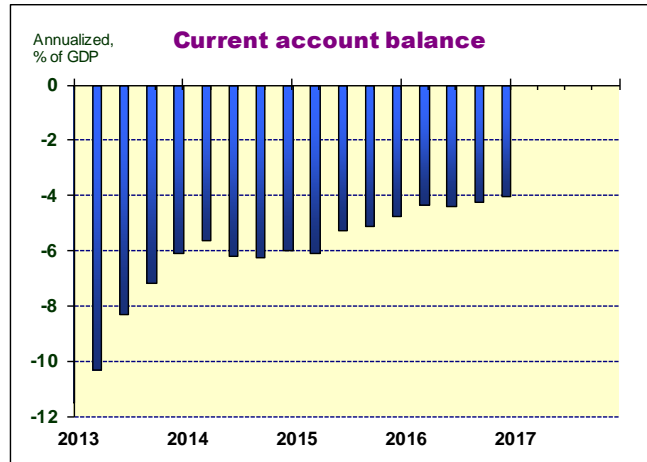
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

The Turkish government submitted the Economic Reform Programme (ERP) for 2017-2019 to the European Commission on 7 February and made it available on line subsequently. It projects an increase of GDP growth to 4.4% in 2017 and to 5% in the following two years. According to the programme, annual average inflation will decline from 7.2% in 2017 to 5.9% in 2019, the unemployment rate from 10.2% to 9.8%, and the current account deficit from 4.2% to 3.5% of GDP by 2019. The general government budget deficit is projected to remain relatively low decreasing from 1.7% of GDP in 2017 to 1.0% in 2019. The ERP's economic figures do not include the revision of the national accounts methodology on 12 December by Turkstat.

Real Sector

In the fourth quarter, real GDP increased by 3.5% year-on-year and by 3.8% quarter-on-quarter (seasonally and calendar adjusted), according to Turkstat's revised methodology. Growth figures have also been revised for the second (5.3% year-on-year instead of 4.5% reported in December 2016) and the third quarter (-1.3% year-on-year instead of -1.8%). The growth of the economy over the full 2016 is estimated to have been 2.9% year-on-year, which is a significantly lower growth rate than the year before (6.1%).

In the fourth quarter, output in industry reported the strongest growth (+7.2% year-on-year) outpacing the construction sector (+3.7%). Relatively weak performance was seen in the agriculture (+1.3% year-on-year) and services sector (+1.8%). The low growth of valued added in the services sector is remarkable given the strong growth in household consumption in the fourth quarter. Over the full year, construction was the best performing sector (+7.2% year-on-year) whereas output declined in the agriculture (-4.1%) and the services sector (-0.8%).

In the fourth quarter, household consumption increased by 5.7% year-on-year. Foreign trade

still contributed negatively to growth although exports of goods and services displayed growth (+2.3% year-on-year in 2016 Q4) after the strong decrease in the third quarter (limited revision). Imports grew at a higher rate (+3.3% year-on-year in 2016 Q4). Gross fixed capital formation was up by 2.0% year-on-year. Notably, reported figures for the second and third quarter were also significantly revised. The most notable revision being government consumption registering +5.6% year-on-year instead of the earlier reported +23.8% year-on-year in the third quarter. Overall, GDP estimates were revised upwards for these two quarters.

Retail sales continued their slide in 2017, decreasing in January by 2.0% year-on-year. Food registered a small surplus and non-food decreased with the only non-food item registering an increase being medical goods and cosmetic. Consumer sentiment was essentially flat during the first quarter of 2017 but 3.4 pps higher than at the end of 2016. The consumer sentiment probably benefited from the VAT rate reductions on durable goods and labour demand stimulus.

Business confidence also stabilized with the PMI manufacturing increasing from 47.8 in December 2016 to 52.3 in March 2017. After dipping at 87.5 in January, service confidence rose throughout the first quarter to stand at 96.9 in March (EC/Turkstat measure). Employment expectations rose particularly strong from 93.7 in January to 104.6 in March; some 4 pps higher than in December and 5 pps higher than in January 2016. Industrial production grew by 1.4% year-on-year in the first two months of 2017.

Labour market

In parallel to the economic slowdown during 2016, the labour market softened. During 2016, the unemployment rate rose to 12.9% at the end of 2016 from 11.0% at the end of 2015. Youth unemployment registered the largest increase from 19.2% in December 2015 to 24.0% in December 2016 with a particularly strong increase in the female youth unemployment rate

from 20.7% to 28.8%. The unemployment rate averaged 11.1% over the full year 2016 for the 15-64 age group and 20.8% for the 15-24 age group. The labour force increased by 3.0% year-on-year in December 2016 and employment grew by 0.3% year-on-year.

Hourly labour costs rose a modest 0.8% quarter-on-quarter in the fourth quarter of 2016. The annual change in labour costs was much higher at 18.5% as a consequence of the strong rise in the first quarter brought about by the rise in the minimum wage. Services and mining-quarrying saw a decrease in labour costs in the fourth quarter after having had the largest increase in the first quarter whereas construction and manufacturing witnessed a further increase after registering a more moderate increase in the first quarter.

External sector

In January, the current account recorded a deficit of USD 2.8 billion, bringing the 12-month rolling deficit to USD 33.2 billion (about 4.6% of GDP). The increase in the current account deficit is mainly attributable to a worsening of the trade deficit in goods, with the rise in imports outpacing the rise in exports, and a significant decline in exports of trade in services related tourism (incl transport).

Net investment in Turkey increased by USD 179 million in January 2017 compared to January 2016 reaching USD 3.5 bn with a notable increase in portfolio investments thanks to a placement of foreign currency bonds by the Turkish government of USD 2 bn. Foreign currency reserve assets of the central bank fell by USD 2.1 bn as a sale of reserve securities was not matched by an increase in foreign currency and deposits.

Monetary developments

Headline inflation registered double digit figures in both February (+10.1% year-on-year) and March (+11.3%). The central bank governor indicated on 9 February 2017 that he expects end-of-year inflation to be 8% year-on-year. This would still be significantly above the 5% target and would also exceed the 7% upper band for a fourth year in a row.

The Turkish central bank increased the interest rate on its late liquidity window on 16 March. In its press release it pointed to "cost-push pressures" and "the volatility in food prices" as a reason for raising what has now become the

most-watched, but previously not-gauged, interest rate by 75 basis points.

Financial sector

Equity prices have generally increased during the first quarter with the Borsa Istanbul 100 Index gaining 14.2% quarter-on-quarter.

Bank lending to the corporate sector increased by 22.5% year-on-year and consumer loans (including credit cards) increased by 10.5% in the first two months of 2017. Although this was significantly higher than loan growth in 2016, it is at the lower end of loan growth over a longer history. Loan growth was in particular strong in the tourism sector (+33 % year-on-year) and construction sector (+30 % year-on-year). Loans to the manufacturing sector grew by 16 % year-on-year in January and February. Growth in non-performing loans was particularly strong in the manufacturing sector during this period with a year-on-year increase of 42% (NPL ratio 3.7%) The non-performing loans in the tourism sector, suffering from the drop in tourist arrivals, grew by 28% year-on-year (NPL ratio 2.3%). Deposits grew by 19% year-on-year in the first three months with foreign currency deposits growing faster than lira deposits. The loan-to-deposit ratio stood at 122 % in February.

Bank profits rose by 86 % y.o.y in the first two months of 2017 supported by an increase of net interest income by 29 % year-on-year, a base effect, changes in macro-prudential regulation, and an acceleration of loan growth.

Fiscal developments

Fitch downgraded Turkey's Long-Term Foreign Currency Rating to 'BB+' from 'BBB-' on 27 January 2017, referring to long standing external vulnerabilities.

The central government posted a budget surplus of TRY 11.4 bn in January 2017 owing to a stronger increase in revenues (+25.8% year-on-year) than in expenditures (+11.3%). The government has hinted it will prolong the cuts on VAT rates on white goods, furniture and housing. The cost of the existing measures is estimated by the ministry of Finance to be TRY 1 bn.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2012	2013	2014	2015	2016	ECFIN 2017		Q3 16	Q4 16	Q1 17	Jan 17	Feb 17	Mar 17
							2017	2018						
1 Real sector														
Industrial confidence ^{1.1}	Balance	106.3	108.1	107.1	104.0	105.2	:	:	106.0	101.3	103.5	97.0	105.3	108.1
Industrial production ^{1.2}	Ann. % ch	2.4	3.5	3.5	2.9	1.8	:	:	-1.7	2.1	:	2.6	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.8	8.5	5.2	6.1	2.9	2.8	3.2	-1.3	3.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.2	8.0	2.9	5.4	2.3	3.5	4.0	-1.7	5.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.7	13.8	5.1	9.2	3.0	-1.4	0.0	0.5	2.0	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	34.9	16.4	38.7	-9.3	15.4	:	:	-5.6	21.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	5.2	4.1	3.9	3.6	0.7	:	:	-0.7	-1.7	:	-2.0	-4.4	:
2 Labour market														
Unemployment ^{2.1}	%	N.A.	N.A.	10.1	10.5	11.1	11.2	11.5	11.4	12.4	:	:	:	:
Employment ^{2.2}	Ann. % ch	N.A.	N.A.	N.A.	2.5	2.2	2.2	2.7	1.3	1.3	:	:	:	:
Wages ^{2.3}	Ann. % ch	11.5	12.4	14.2	14.9	:	7.1	9.3	19.0	:	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	13.0	-0.4	3.8	-8.7	-0.9	:	:	-3.4	4.6	:	18.0	-1.9	:
Imports of goods ^{3.2}	Ann. % ch	-1.8	6.4	-3.8	-14.4	-4.2	:	:	-6.0	2.9	:	15.9	1.6	:
Trade balance* ^{3.3}	% of GDP	-7.5	-8.4	-6.8	-5.6	-4.8	-5.7	-5.9	-4.9	-4.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.7	22.3	23.8	23.3	22.1	:	:	22.1	22.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	28.6	28.1	27.6	26.0	25.0	:	:	25.0	25.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-5.5	-7.8	-5.0	-3.8	-3.8	-4.3	-4.9	-3.8	-3.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.5	1.3	1.4	2.0	1.4	:	:	1.5	1.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bio EUR	104.8	107.9	115.0	117.8	122.9	:	:	123.4	122.9	:	124.4	:	:
Int. reserves / months Imp ^{3.9}	Ratio	6.8	6.8	7.6	7.6	8.2	:	:	8.3	8.2	:	8.2	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	8.9	7.5	8.9	7.7	7.8	8.0	7.6	8.0	7.6	10.2	9.2	10.1	11.3
Producer prices ^{4.2}	Ann. % ch	6.1	4.5	10.2	5.3	4.3	:	:	2.9	6.4	15.0	13.7	15.4	16.1
Food prices ^{4.3}	Ann. % ch	8.4	9.1	12.6	11.1	5.8	:	:	6.7	4.8	9.7	7.8	8.7	12.5
M4 ^{4.4}	Ann. % ch	9.0	18.5	16.4	17.5	12.5	:	:	8.8	14.0	:	18.2	14.6	:
Exchange rate TRY/EUR ^{4.5}	Value	2.31	2.53	2.91	3.02	3.34	:	:	3.31	3.54	3.93	3.97	3.91	3.92
Nominal eff. exchange rate ^{4.6}	Index	84.14	78.87	69.40	64.20	59.10	:	:	59.63	55.40	:	48.89	49.74	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	8.44	6.60	9.84	10.48	9.88	:	:	9.11	9.11	10.92	10.18	11.00	11.57
Interest rate, long term ^{5.2}	% p.a.	8.47	7.77	9.18	9.30	10.19	:	:	9.67	10.67	:	11.36	:	:
Stock markets ^{5.3}	Index	63 731	77 977	75 190	80 662	77 222	:	:	77 247	76 726	:	80 897	88 084	:
Credit growth ^{5.4}	Ann. % ch	18.6	33.4	19.4	20.7	16.1	:	:	8.3	16.1	:	18.9	18.2	:
Deposit growth ^{5.5}	Ann. % ch	10.8	20.4	18.1	18.4	13.8	:	:	10.2	13.8	19.0	20.1	18.4	18.6
Non-performing loans ^{5.6}	% total	3.0	3.0	3.0	3.1	3.4	:	:	3.4	3.5	3.4	3.3	3.4	3.4
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-0.4	0.1	0.1	1.3	-0.9	-2.0	-1.8	-0.4	-1.0	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	32.6	31.3	28.6	27.5	26.4	31.2	30.8	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Winter 2017

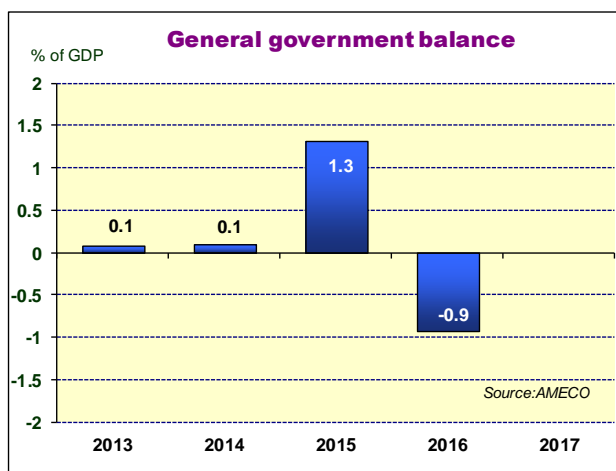
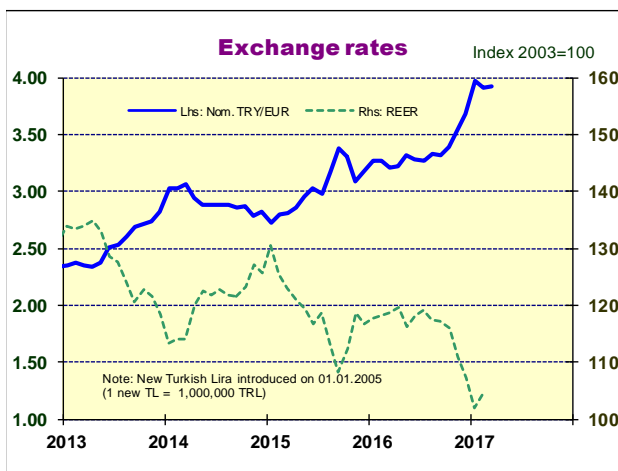
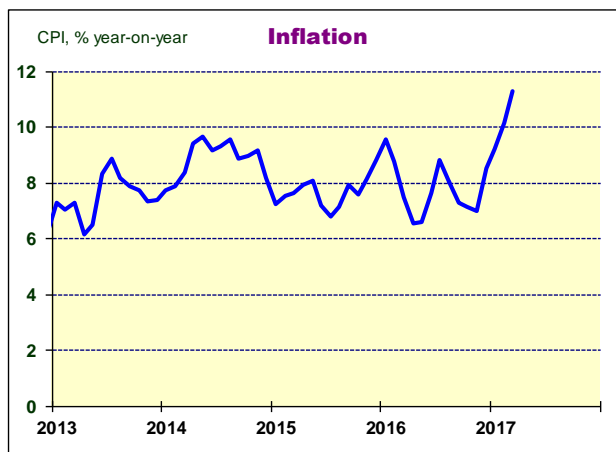
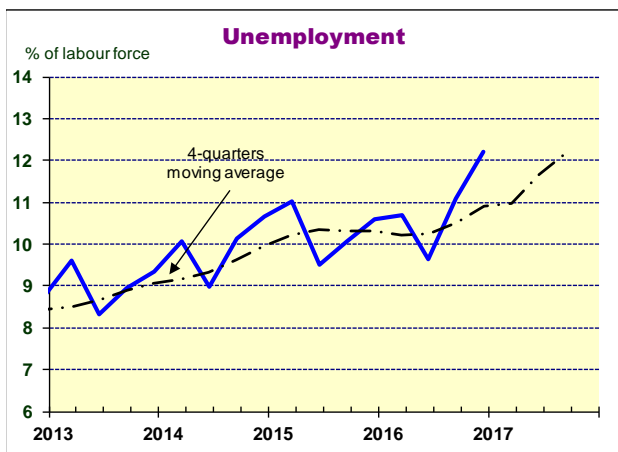
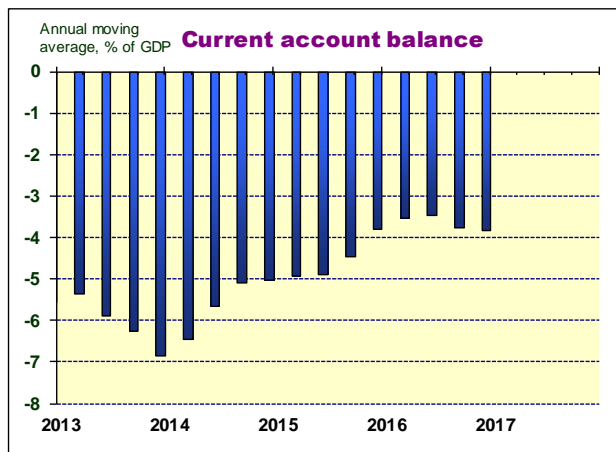
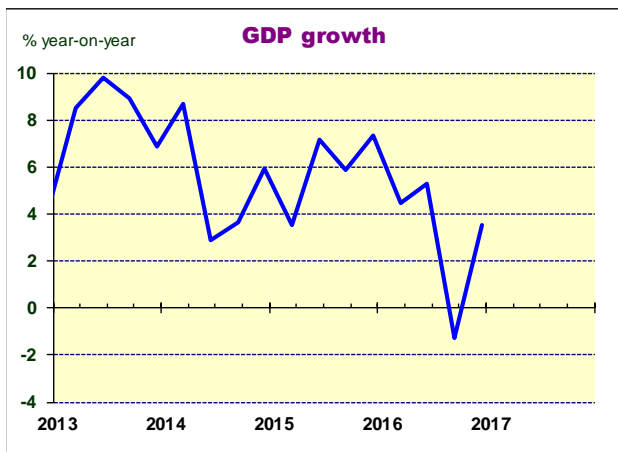
* Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

On 31st January, Bosnia and Herzegovina submitted its 2017 Economic Reform Programme to the Commission, covering the period 2017-2019. The programme expects output growth to accelerate to 4% by 2019 and presents a fiscal consolidation path, substantially lowering both revenue and expenditure as a share of GDP, resulting in a fiscal surplus of 1.2% of GDP in 2019. Government debt is projected to drop to 37.6% of GDP.

On 23 March, the World Bank and Bosnia and Herzegovina agreed on a EUR 75 million Public Finance Development Policy Loan, supporting (i) the strengthening of the medium-term management of public assets and liabilities and (ii) the enhancement of regulatory frameworks to lower medium-term fiscal pressures related to public employment, insolvency, and pharmaceuticals.

On 6 April, the IMF announced that due to delays in adopting agreed reforms, the disbursement of the first tranche (some EUR 80 million, ¼% of GDP) under the EFF will probably be significantly delayed. This will in turn delay the financing of important infrastructure projects and the strengthening of the country's financial sector.

Real sector

In the fourth quarter of 2016, gross value added continued to accelerate, reaching year-on-year growth of 2.6%, compared to 2.3% in the third quarter. The main sources of growth were mining and electricity generation, financial services and recreation, while growth of trade was slightly weaker than in the previous quarter. The value added of the public sector (public administration, education and health) remained largely unchanged compared to a year before. In 2016 as a whole, real gross value added increased by 2% yoy, compared to 3% in 2015. The main sectors supporting growth were agriculture, electricity production and manufacturing, financial services and recreation, while the growth contribution of trade and the public sector (administration, health, education) remained insignificant.

High-frequency indicators, such as industrial production, showed an acceleration of growth in

the fourth quarter (5.7% yoy), followed by a moderation in January and February, mainly due to slower growth in electricity production. In 2016, industrial output grew by 4.4%, compared to 3.8% in 2015, benefitting from strong external demand.

Labour market

Registered employment continued to increase during the last months, reaching year-on-year growth of 4.4% in January, compared to 1.5% a year earlier. This increase represents about 30 thousand additional jobs. About half of those new jobs were registered in the service sector, and one third in manufacturing. At the same time, the number of registered unemployed has continued to decline, by 5.5% year-on-year in January. This translated into a drop in the registered unemployment rate by more than two percentage points (from 42.9% in January 2016 to 40.6% in January 2017). However, survey-based labour force data point to a different picture and suggest a fall in employment by 2.6% in 2016. According to this survey, the working age population dropped by 3.5% (or 90 thousand persons), while the number of unemployed fell by 13.3% or 42 thousand persons. One reason for this drop in employment and unemployment could be "discouraged citizens", no longer looking for work or leaving the country. According to LFS data, unemployment stood at 25.4% in mid-2016, compared to 27.7% the year before. Youth unemployment remains above 60%. The significant difference between survey data and administrative data points to a substantial informal economy and weak labour market institutions.

Despite the difficult labour market situation, nominal wages rose by 1.7% year-on-year in the fourth quarter, after a 0.8% increase year-on-year in the previous quarter. Annual average wage growth in 2016 was 0.9% in nominal terms, which translated into 1.8% in real terms.

External sector

The growth of goods exports accelerated markedly in the fourth quarter of 2016 and in the beginning of 2017 to some 14-15% y-o-y in nominal terms. The main contribution (accounting for some two thirds of the growth) came from increased trade with neighboring

countries, such as Croatia, Serbia and Slovenia. During 2016, the export performance was negatively affected by weaker foreign sales of mineral products and base metals. Merchandise imports increased at a slower rate than exports (+8.4% in the fourth quarter and 13.7% in January) probably reflecting - to some extent - lower energy and commodity prices. As a result, the merchandise trade deficit in 2016 was lower than a year before, at some 24% of the estimated full-year GDP, compared to 25.4% in 2015. In line with the marked drop in the trade deficit, the current account balance narrowed to about 4.4% of GDP, compared to 5.4% the year before. The balances of the primary and secondary income remained largely unchanged. In particular, inflows of current transfers stood at 8% of GDP, largely the same share as a year before.

On the financing side, net FDI inflows remained weak. The fourth quarter FDI inflow was slightly higher than in second and third quarter of 2016. However, in the whole year, FDI inflows accounted for 1.7% of GDP, compared to 1.5% of GDP in 2015.

Foreign reserves continued to increase in the first eleven months of 2016, bringing the import coverage of reserves to more than 7 months. This is significantly higher than in previous years.

Monetary developments

Inflation has started to increase, with consumer prices rising year-on-year in January and February by 0.7% and 1.2%, respectively. In the months before, the country-wide price level had still been declining on a year-on-year basis, by 0.4% in the fourth quarter and by 1.1% in the third. Important drivers for the declining price level were falling import prices, for items such as clothing and footwear, while, for example, prices for education continued to increase.

On the back of the steady growth of deposits, liquidity conditions have remained rather comfortable. The annual growth of the monetary aggregate M2 continued to accelerate, reaching 8% in the fourth quarter and 9.3% in January.

Financial sector

Domestic credit increased by 1.8% in the fourth quarter and by 2.4% in January. Household and corporate credits, accounting in nearly equal shares for about 92% of total credits, were the main driving force behind this stable trend. Corporate credit growth accelerated from 2.8% in the fourth quarter to 3.8% in January, while

household credit growth increased from 3.4% to 4% in the same period. Public-sector lending, accounting for the remaining part, however continued to be some 15% below its level a year earlier.

Growth of total deposits remained high, at 7.2% in the fourth quarter and 8.9% in January 2017, maintaining similar growth rates than a year before. An important factor for the strong growth is a continuously strong inflow of foreign remittances. As a result of the robust increase in deposits, the loan to deposit ratio dropped to 96% in January 2017, compared to 102% a year before.

The share of non-performing loans in total loans declined slightly in the fourth quarter, to 11.8%, compared to 12.1% the quarter before. At the same time, credit risks have been increasingly mitigated through an increase of loan-loss provisioning to 75.8% by end-2016. In the fourth quarter banking sector profitability (ROE) was significantly better than a year before, at 7.3% compared to 2% last year. However, compared to the first three quarters of 2016, profitability has been on a declining trend. The system's overall capital adequacy ratio deteriorated again to 15.8% in the fourth quarter, compared to 16.1% in the previous quarter. This is still far above the regulatory minimum. However, there are big differences among the various banks.

Fiscal developments

During the first three quarters of 2016, fiscal revenues rose by nearly 2%, i.e. in line with overall economic developments. However, due to delays in accessing planned external financing, public spending had to be contained. This has led to a markedly lower increase in current spending (0.8% year-on-year in the first three quarters, according to preliminary Central Bank data). In particular, spending on public employment was contained. As a result, the 2016 fiscal balance will probably show a slight surplus. For 2017, the draft budgets point to a consolidated deficit of about 1% of GDP.

Public debt stood at 41.4% of GDP in the fourth quarter, slightly lower than at end-2015, when the debt ratio was 42%. Foreign denominated debt rose by 2%, which however was more than compensated by a 1.6% decrease in the domestically denominated component. The three largest holders of foreign debt are the World Bank, the European Investment Bank (EIB) and the International Monetary Funds (IMF), accounting for 22%, 19% and 12% of the country's total foreign public debt.

TABLE

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA

		2012	2013	2014	2015	2016	Q3 16	Q4 16	Q1 17	Jan 17	Feb 17	Mar 17
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	-3.9	5.2	0.2	3.1	4.4	2.5	5.7	:	5.9	2.6	:
Gross domestic product ^{1.3}	Ann. %ch	-0.9	2.4	1.4	3.2	2.7	2.4	3.3	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	2.3	2.7	2.7	1.3	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	6.3	-2.4	11.1	-4.2	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	1.3	-25.8	22.2	-22.7	-38.0	22.9	-38.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	1.6	4.6	1.8	7.8	7.0	7.1	8.1	:	3.7	3.4	:
2 Labour market												
Unemployment ^{2.1}	%	28.0	27.5	27.5	27.7	25.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	-0.3	1.0	-1.2	1.2	-2.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	1.5	0.1	-0.1	0.0	0.9	0.8	1.7	:	2.0	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. %ch	1.2	10.0	3.0	5.3	8.8	9.1	14.7	:	14.4	14.3	:
Imports of goods ^{3.2}	Ann. %ch	-0.1	-0.7	7.1	-2.3	2.7	-0.6	8.4	:	10.5	13.7	:
Trade balance* ^{3.3}	%of GDP	-30.5	-27.4	-29.7	-26.0	:	-24.6	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	32.4	33.8	34.1	34.7	:	35.2	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	55.9	54.2	56.7	53.3	:	52.7	:	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-8.7	-5.3	-7.3	-5.5	:	-4.5	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	1.9	1.3	2.8	1.5	:	1.2	:	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	3 327.8	3 614.0	4 001.2	4 400.3	4 873.2	4 829.3	4 873.2	:	4 812.4	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.1	5.6	5.8	6.5	7.1	7.8	7.7	:	7.0	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. %ch	2.0	-0.1	-0.9	-1.0	-1.1	-1.1	-0.4	:	0.7	1.2	:
Producer prices ^{4.2}	Ann. %ch	1.3	-2.2	-0.2	-0.6	-0.9	-1.0	-0.2	:	2.0	2.7	:
Food prices ^{4.3}	Ann. %ch	1.8	0.0	-2.7	-0.9	-1.1	-0.8	-0.7	:	-0.3	0.2	:
M2 ^{4.4}	Ann. %ch	4.6	5.7	7.5	8.0	7.8	7.6	8.0	:	9.3	:	:
Exchange rate BAMEUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate ^{4.6}	Index	105.5	102.76	104.97	105.38	107.02	106.92	106.84	:	:	:	:
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	737	770	707	701	691	692	694	652	675	653	629
Credit growth ^{5.4}	Ann. %ch	5.1	2.7	3.7	1.8	2.1	2.0	1.8	:	2.4	:	:
Deposit growth ^{5.5}	Ann. %ch	2.6	5.1	8.4	6.2	7.7	7.5	7.2	:	8.9	:	:
Non performing loans ^{5.6}	%total	12.7	14.5	15.2	13.9	12.3	12.1	11.8	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	%of GDP	-2.0	-2.2	-2.0	0.7	:	:	:	:	N.A.	N.A.	N.A.
General government debt* ^{6.2}	%of GDP	36.6	37.7	41.7	41.9	:	:	:	:	N.A.	N.A.	N.A.

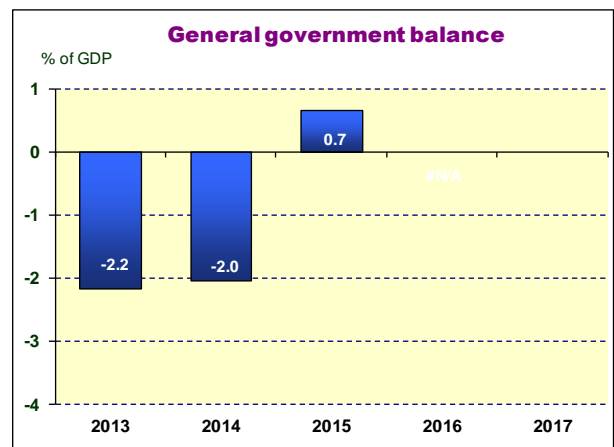
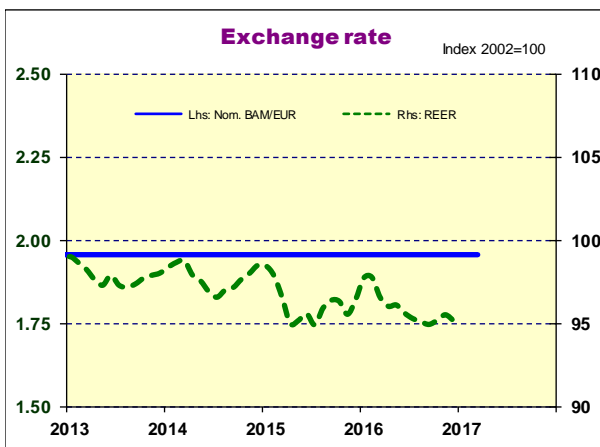
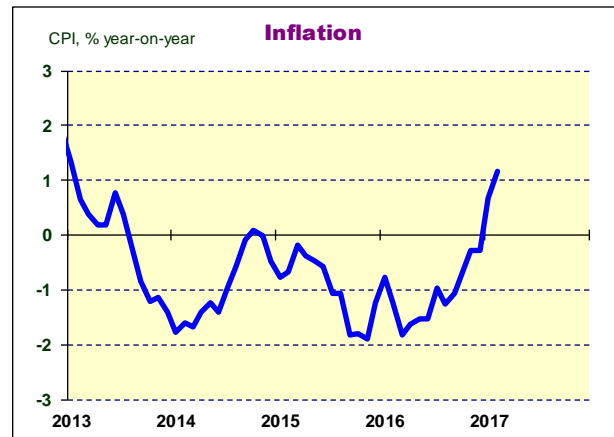
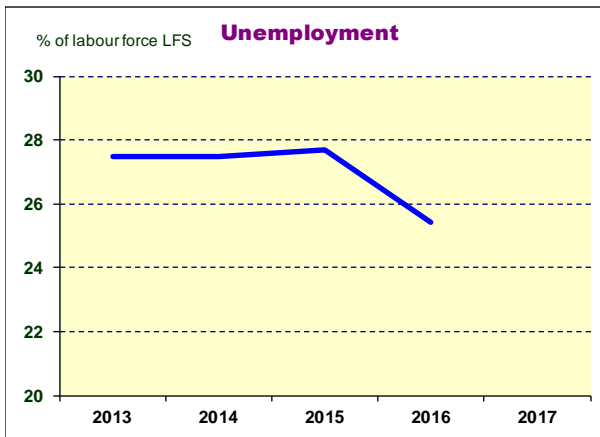
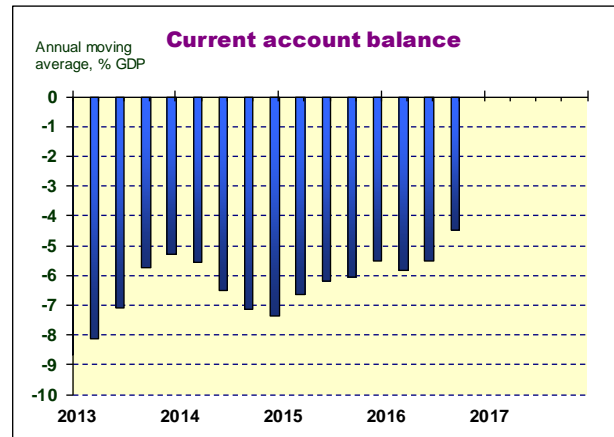
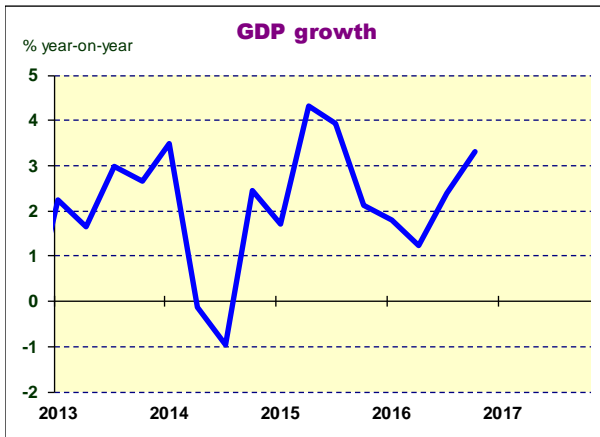
* Q figures refer to a 4 quarters moving average and refers only to foreign public debt.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA



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

Key developments

In January, Kosovo submitted its 2017 Economic Reform Programme (ERP) to the Commission, covering 2017-2019. It projects the economy to continue to grow around Kosovo's long term average of 3.9% over the programme period. The ERP strengthens Kosovo's commitment to stable public finance. The budget deficit, as calculated according to the fiscal rule is planned to stay below the 2% of GDP threshold. The macro-fiscal scenario expects a large increase in public investment spending financed by the IFIs. Government debt is forecast to increase to a still moderate level of 22% of GDP in 2018 from 13.5% at the end of 2015.

On 13 March, the IMF Board completed the second and third review under the current stand-by programme. The completion of the reviews enables the disbursement of around €100 million, which would bring the total disbursements under the SBA to around €172 million. Furthermore the IMF Board approved the extension of the program by around 3 months to August 4, 2017 to facilitate policy continuity and allow sufficient time for ongoing structural reforms to progress.

Real sector

Quarterly data for 2016 show GDP growth of 3.4%. Strong increases in household consumption and investments (4.8% y/y and 10.4% y/y respectively) provided the largest contributions to growth, whereas government consumption decreased by 2.8% y/y. Net exports of goods and services provided a negative contribution to growth (-3.1 p.p.) owing to a large increase in imports (7.2% y/y) and only a slight increase in exports (2.4% y/y). The sharp rise in imports reflects increasing consumer demand and the large import component of investments, mainly in the form of construction material and machinery. In the same period gross value added grew by only 1.6% y/y and was driven by agriculture, finance, and trade sectors (7.6%, 12.4% and 4.8% y/y in 2016 respectively) with small positive contributions from the construction, and tourism sectors. Real estate, public administration and manufacturing

sectors recorded small negative growth contributions.

In 2016, estimated industrial turnover in Kosovo decreased by an estimated 1.3% compared to 2015. Turnover in the mining sector rose overall by 9.9%, despite stronger contraction in H2 2016. Manufacturing sector contracted by 6.5% y/y in 2016. Strong growth in turnover led to pick up in productivity per employee in the mining sector (11.4% y/y).

Retail sales rose across most categories in 2016 reflecting stronger private consumption. Most notably, sales of information and communication equipment rose 34.4% y/y possibly reflecting higher economic activity in the ICT sector.

Labour market

Improvements in the labour market indicators seem to be a result of continued growth in 2016. According to the Labour Force Survey, in the first nine months of 2016, Kosovo's unemployment rate further decreased to, on average, 27.1%, from 32.9% in 2015. The employment rate seems to have bottomed out after falling since 2013, climbing to 27.5% in Q1-Q3 2016 from 25.2% in 2015. The overall number of employed increased by 9.6% (28,577 jobs) while the number of unemployed persons decreased by 16.9% (almost 25,000 less) in Q1-Q3 2016. The labour force participation rate still remains extremely low at 37.8% in Q1-Q3 2016. The youth jobless rate (15-24 years) decreased to 52.5% in the same period from 57.7% in 2015. Labour market outcomes are especially poor for women, as less than one in five women are active in the labour market and only 12.6% are employed.

External sector

In 2016, external imbalances widened, as primary income balance contracted due to larger net outflows of FDI related profits and lower worker income inflow, as well as due to lower government transfers. The current account recorded a deficit of 9.4% of GDP, up from 8.6% of GDP a year before. The merchandise trade deficit expanded to 38.1% of GDP (compared to -36.3% in 2015) due to stronger private consumption, and investments, but was

entirely offset by improvements in the trade of services (9.6% of GDP surplus, compared to 7.9% of GDP in 2015). Net remittances increased slightly to 10.6% of GDP compared to 10.5% a year before. On the financing side, the net inflow of FDI decreased (3.2% of GDP compared to 4.7% in 2015) and portfolio investments recorded a significant net outflow of 6.2% of GDP in 2016. Overall the economy recorded net financial inflows at only 2.4% of GDP compared to 4.7% in 2015. However, unrecorded financial flows picked up sharply, as net errors and omission grew to 7.2% of GDP (3.4% of GDP in 2015).

In the first two months of 2017 cumulative goods exports contracted by 2.6% y/y due to continuation of the poor performance of crude metals exports. However, significant growth in exports is observed in agricultural products, food processing, mineral products and some manufacturing industries. In the same period, imports of goods rose by 5.7% y/y. Recovery of oil prices, following a long term low in January-February 2016, was the main driver of nominal imports growth. By February the overall goods trade deficit increased by 7% y/y.

Monetary developments

Kosovo remains heavily dependent on price developments in the main trading partners, namely the EU. Inflationary pressures seem to have picked up in the second half of 2016 and continued in early 2017. In the first two months of 2017 average inflation stood at 1.7% y/y. Food and energy prices inflation is accelerating, although slowly, in 2017 (1% in the first two months of 2017, compared to -0.5% on average in 2016). The core inflation stood at 2% y/y in January-February 2017. The producer price index decreased slightly in 2016 by 0.1% y/y. The construction cost index decreased by 0.3% in 2016 y/y, namely due to adjustments in transport costs. Import prices decreased by 2.6% y/y in 2016 driven by lower prices for mineral products.

Financial sector

Strong credit growth (10.4% at end 2016) continued in the first two months of 2017 (10.5% y/y). Total deposits in commercial banks grew 7.2% y/y by end 2016 and 8.5% on average in January-February 2017. Thus, the loans to deposit ratio slightly rose to 77.4% in February 2017, compared to 76.1 a year ago, still indicating a stable liquidity position and substantial room for stronger banking activity.

The interest rate spread remains on a downward

trajectory. The 12 month moving average spread declined by 77 basis points in February 2017 compared to a year before. This reduction was driven by a 69 basis points decrease in average lending interest rates from a year earlier. Lower interest rates spreads and stronger credit activity were supported by the adoption of the new bankruptcy law, the new law on enforcement procedures and the successful introduction of private bailiffs.

The risk profile of the banking sector remained satisfactory throughout 2016 and in early 2017. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 40.5% in February 2017, while the capital adequacy ratio was 18.4%, above the regulatory minimum of 12%. Already low levels of NPLs further decreased to 4.7%. Existing NPLs are fully covered by loan loss provisions (131%).

Kosovo's insurance sector was loss making in 2016 (-15.2 ROAA). Poor performance of the sector is the result of a large number of relatively small insurance companies in an undiversified market (mostly non-life motor insurance), higher costs due to the large number of uninsured drivers, and a burdensome taxation system. Four insurance companies remain undercapitalised. Nevertheless, due to its small size, the insurance sector cannot be considered a systemic financial sector risk.

Fiscal developments

According to preliminary 2016 budget figures, total revenues grew by 9.1% of GDP, namely due to strong increases in collected VAT, corporate, and private income tax. Total expenditure rose by 5.9% year-on-year. Current expenditure grew by only 5.6% due to low growth of the wage bill and stagnation in goods and services spending. On the other hand, capital spending grew by 9.8% thus increasing the share of capital spending in total spending to 26.8% in 2016, after declining for several years. Overall execution of the capital budget was around 88%. Overall, in the budget deficit was 1.2% of GDP, well below the deficit limit of 2% defined by the fiscal rule.

At the end of 2016 total public debt with guarantees stood at 14.5% of GDP, not including Kosovo's share of the London and Paris club debt of the former Yugoslavia, which is currently estimated at around 6% of GDP. The government has continued issuing domestic debt, which now amounts to 54.9% of overall public debt, with a continuously falling yield. Average maturity of domestic debt is gradually increasing. It stood at 17.7 months at the end of March 2017.

TABLE

European Commission, ECFIN-D-1

KOSOVO*

		2012	2013	2014	2015	2016	Q3 16	Q4 16	Q1 17	Jan 17	Feb 17	Mar 17
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann.%ch	N.A.	3.2	0.0	1.3	-1.3	-9.6	3.1	:	:	:	:
Gross domestic product ^{1.3}	Ann.%ch	2.8	3.4	1.2	4.1	3.4	3.8	3.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann.%ch	2.9	2.0	4.9	3.8	4.8	10.5	1.4	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann.%ch	-12.9	-0.3	-5.0	11.3	10.4	1.8	8.3	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann.%ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann.%ch	N.A.	N.A.	11.6	7.1	6.5	-1.7	6.9	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	30.9	30.0	35.3	32.9	:	27.5	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann.%ch	:	11.7	-4.4	-8.2	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann.%ch	N.A.	N.A.	N.A.	5.8	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann.%ch	-13.5	6.4	10.5	0.2	-4.8	-17.7	12.5	:	-3.7	-1.6	:
Imports of goods ^{3.2}	Ann.%ch	5.3	-2.3	3.7	3.8	5.9	3.0	4.8	:	10.8	2.2	:
Trade balance** ^{3.3}	%of GDP	-44.1	-40.5	-39.8	-39.8	-40.9	-40.9	-40.9	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	%of GDP	18.2	17.4	19.6	19.4	:	19.0	:	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	%of GDP	52.4	49.0	50.5	49.8	:	50.0	:	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	%of GDP	-5.8	-3.4	-6.9	-8.6	-9.4	-10.0	-9.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** ^{3.7}	%of GDP	4.5	5.3	2.7	5.3	3.9	3.7	3.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1 356.0	1 504.3	1 266.4	1 329.4	1 291.4	1 470.4	1 291.4	:	1 381.3	1 371.0	:
Int. reserves / months Imp ^{3.9}	Ratio	6.5	7.4	6.0	6.1	5.6	6.4	5.6	:	5.9	5.9	:
4 Monetary developments												
CPI ^{4.1}	Ann.%ch	2.5	1.8	0.4	-0.5	0.3	0.2	1.1	:	1.7	1.7	:
Producer prices ^{4.2}	Ann.%ch	1.9	2.4	1.6	2.7	-0.1	0.0	-0.1	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann.%ch	1.0	2.1	-0.2	0.4	-0.3	-0.7	0.5	:	1.1	1.0	:
Broad money liabilities ^{4.4}	Ann.%ch	7.1	17.3	-4.2	6.5	8.4	5.9	8.4	:	10.7	8.0	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) ^{4.6}	Index	106.1	106.5	106.7	104.7	:	103.9	:	:	:	:	:
5 Financial indicators												
Interest rate ^{5.1}	%p.a.	12.67	11.82	10.61	8.32	7.47	7.32	7.27	:	7.68	7.03	:
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	8.9	3.0	2.9	6.2	9.1	9.3	9.9	:	10.5	10.5	:
Deposit growth ^{5.5}	Ann.%ch	8.0	6.6	7.2	5.6	4.8	4.8	6.2	:	8.4	8.5	:
Non-performing loans ^{5.6}	%total	7.5	8.7	8.3	6.2	4.9	5.1	4.9	:	4.9	4.7	:
6 Fiscal developments												
General government balance** ^{6.1}	%of GDP	-2.6	-3.1	-2.2	-2.0	-1.2	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	8.4	9.1	10.6	13.0	14.5	14.3	:	:	N.A.	N.A.	N.A.

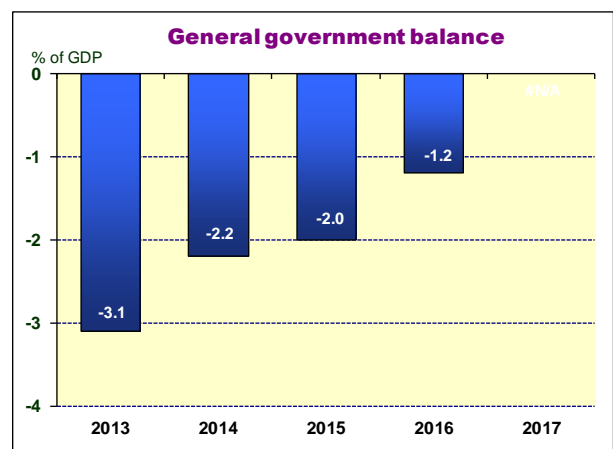
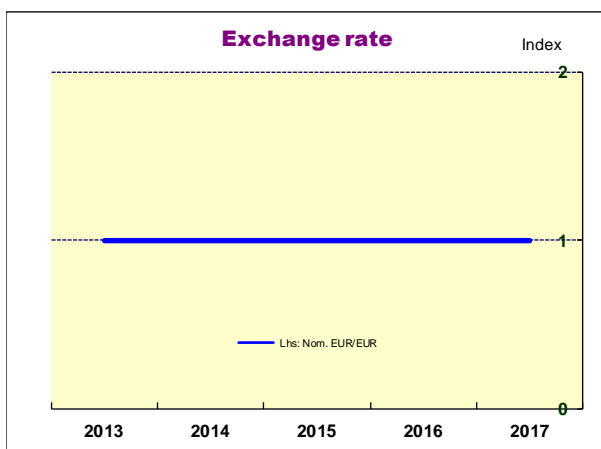
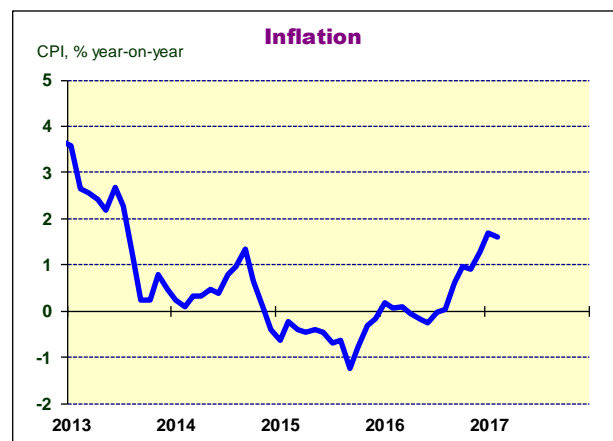
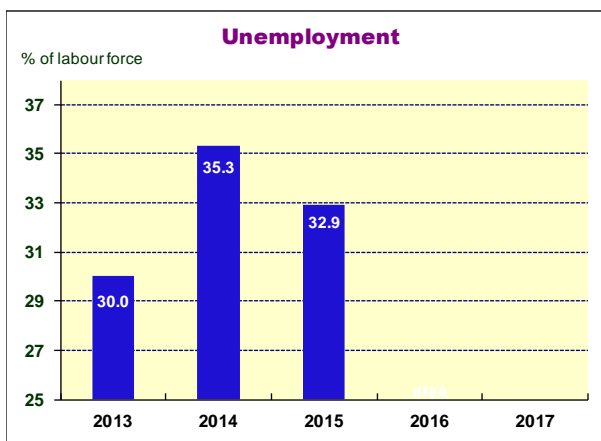
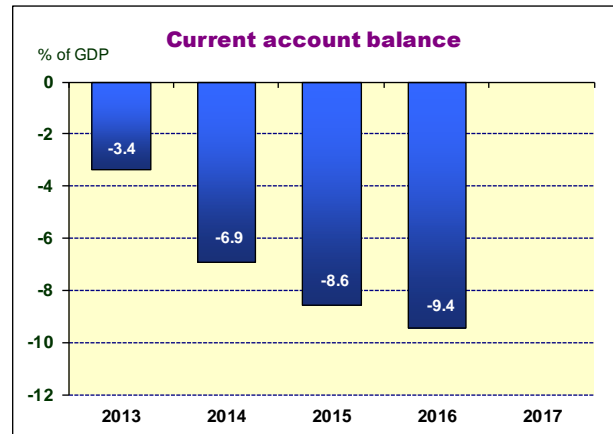
* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

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

CHARTS

European Commission, ECFIN-D-1

KOSOVO*



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



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



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



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	IHS/DataInsight
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	IHS/DataInsight
1.4.	Private consumption	Annual percent change, Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	IHS/DataInsight
1.6.	Construction index	Annual pc change, Value Index of Performed Works, Total CPPY=100, NSA	IHS/DataInsight
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	IHS/DataInsight
2.	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Semi-annual data.	IHS/DataInsight
2.2.	Employment	Annual percentage change, as from 2014 based on LFS. Data before 2014 are based on official data on registered employment.	IHS/DataInsight
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	IHS/DataInsight
3.	External sector		
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised data	IHS/DataInsight
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	IHS/DataInsight
3.8.	International reserves NBS	Total, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	IHS/DataInsight
4.	Monetary developments		
4.1.	CPI	Consumer Prices, Total, CPPY, average.	IHS/DataInsight
4.2.	Producer prices	Annual average percentage change, domestic market	IHS/DataInsight
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	IHS/DataInsight
4.4.	M3	Annual percentage change, M3 (broad money), RSD	IHS/DataInsight
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Period average, moving base year, RSD	IHS/DataInsight
5.	Financial indicators		
5.1.	Interest rate	Belgrade Overnight Index Average (BEONIA)	IHS/DataInsight
5.2.	Bond yield	Weighted average interest rate on RS government bills.	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, monetary survey, domestic credit, total, RSD	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	IHS/DataInsight
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	IHS/DataInsight
6.	Fiscal developments		
6.1.	General government balance	Consolidated GG, Overall balance. In percent of quarterly 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	IHS/DataInsight
1.2.	Industrial production	Annual percentage change, volume (index 2010), excluding construction, calendar adjusted	IHS/DataInsight
1.3.	Gross domestic product	Annual percentage change,	IHS/DataInsight
1.4.	Private consumption	Annual percentage change, index (2009 prices)	IHS/DataInsight
1.5.	Gross fixed capital formation	Annual percentage change,	IHS/DataInsight
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	IHS/DataInsight
1.7.	Retail sales	Annual percentage change, volume, 2010=100	
2. Labour market			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	NSI
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	NSI
2.3.	Wages	Annual percentage, Hourly earnings manufacturing / Index publication base -	IHS/DataInsight
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	IHS/DataInsight
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	IHS/DataInsight
3.3.	Trade balance	In percent of GDP, annualised moving average	IHS/DataInsight
3.4.	Exports goods and services	In percent of GDP	IHS/DataInsight
3.5.	Imports goods and services	In percent of GDP	IHS/DataInsight
3.6.	Current account balance	In percent of GDP, annualised moving average	IHS/DataInsight
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	IHS/DataInsight
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR.	IHS/DataInsight
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average	IHS/DataInsight
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	IHS/DataInsight
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	IHS/DataInsight
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	IHS/DataInsight
4.4.	M3	Money supply M3, total, TRY	IHS/DataInsight
4.5.	Exchange rate YTL/EUR	Period averages	IHS/DataInsight
4.6.	Nominal eff. exchange rate	Index 1999, period averages	IHS/DataInsight
5. Financial indicators			
5.1.	Interest rate	Deposit rates, 3 month, close	IHS/DataInsight
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	IHS/DataInsight
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	IHS/DataInsight
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	IHS/DataInsight
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	IHS/DataInsight
5.6.	Non-performing loans	In percent of total lons	IHS/DataInsight
6. Fiscal developments			
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



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

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

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

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