



European  
Commission

ISSN 2443-8049 (online)

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

## 4<sup>th</sup> Quarter 2018

TECHNICAL PAPER 030 | FEBRUARY 2019

EUROPEAN ECONOMY



Economic and  
Financial Affairs

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

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

The Report is released every quarter of the year.

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Luxembourg: Publications Office of the European Union, 2019

PDF ISBN 978-92-79-98835-6 ISSN 2443-8049 doi:10.2765/6239 KC-BF-19-002-EN-N

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European Commission  
Directorate-General for Economic and Financial Affairs

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

4<sup>th</sup> Quarter 2018

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

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

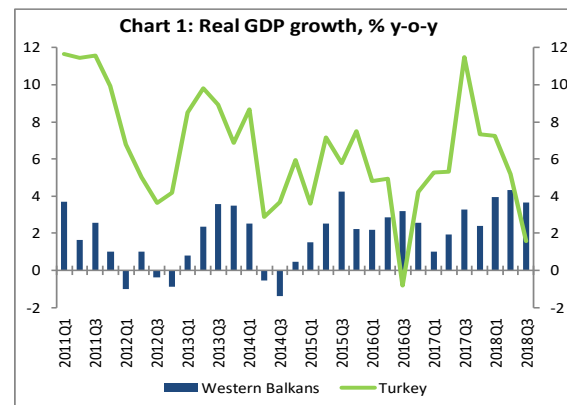
## OVERVIEW

Economic growth continued in the Western Balkans at a relatively robust pace during the third quarter of 2018. However, real GDP expansion decelerated somewhat compared to the previous three months, to 3.7% year-on-year, mainly due to lower growth in Serbia, the largest economy in the region. Private consumption and investment continued to support economic activity. The 12-month rolling average of the region's current account deficit remained unchanged at around 5% of GDP, which is better than the long-term average but still suggests that external positions remain vulnerable. Economic expansion continued to create jobs and led to a further fall in the unemployment rate in most countries. However, low labour market participation and high unemployment continue to represent some of the most enduring challenges for the Western Balkans. Despite the general improvement in fiscal balances, high public debt levels remain a source of vulnerability in most countries. In Turkey, annual GDP growth decelerated sharply to 1.6% in the July-September period as domestic demand nosedived in the wake of the August currency crisis and the resulting tightening of financial conditions. The pass-through of the lira depreciation continued to push inflation up, but the ongoing economic rebalancing resulted in a sharp adjustment of the current account, which in monthly terms turned to a surplus as from August.

In the **Western Balkans**, economic performance was mixed in the third quarter of 2018, with some overall deceleration of growth. In *Serbia*, GDP growth eased to 3.8% y-o-y from 4.9% in the preceding quarter, mainly due to a slower increase in gross fixed capital formation. A steady expansion of domestic consumption continued supporting economic activity. In *Bosnia and Herzegovina* and *Kosovo* economic growth decelerated to 3.0% y-o-y and 3.4% y-o-y, respectively. In the case of *Bosnia and Herzegovina* the slowdown was largely due to lower household consumption and exports growth while in *Kosovo* it was driven by shrinking government consumption and exports. However, both countries continued to benefit from stronger investment and the latter also from buoyant private consumption. In the *former Yugoslav Republic of Macedonia*, despite the contraction in investment for the third consecutive quarter, the pace of growth was unchanged at 3.0% y-o-y. Government and household consumption were the main growth drivers. Conversely, in *Albania* and *Montenegro*, annual GDP growth accelerated to 4.5% and 5.0% respectively, largely on the back of stronger investment and household consumption in both countries. Overall, in the third quarter of 2018, the **Western Balkan** region's GDP growth stood at

3.7%, down from an average growth rate of 4.3% in the preceding quarter (Chart 1).

In **Turkey**, economic growth slowed markedly to 1.6% y-o-y in the third quarter down from 5.2% in the preceding three months, due to a marked deceleration in domestic demand whereas net foreign trade had a large positive contribution to GDP growth.



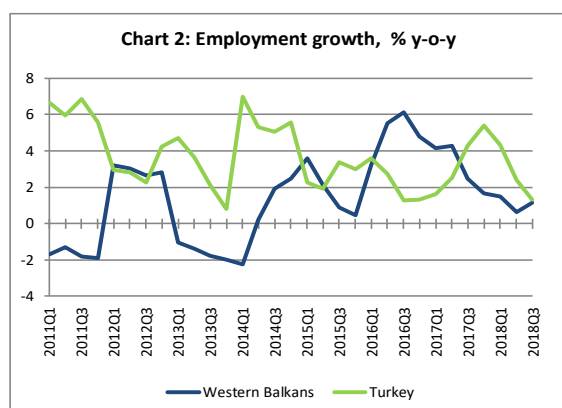
Source: Macrobond, Commission calculations

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The ongoing economic recovery has led to further increases in employment levels in most countries of the **Western Balkans**. In the third quarter of 2018, annual employment growth accelerated compared to the preceding quarter in *Serbia*, *Albania* and the *former Yugoslav Republic of Macedonia*. Conversely, job creation slowed in

*Montenegro* while *Kosovo* recorded a further decline in the level of employment. Overall, the average job growth rate in the **Western Balkans** reached 1.2% y-o-y up from 0.6% in the second quarter (Chart 2). Growing employment contributed to lower unemployment rates in most countries. Nevertheless, the labour market situation in the region remains challenging with unemployment rates ranging from 11.3% in *Serbia* to 30.7% in *Kosovo*.

In *Turkey*, average employment growth decelerated further to 1.3% y-o-y in the third quarter, down from 2.4% in the preceding three months, while the unemployment rate increased from 10.0% to 11.4%.



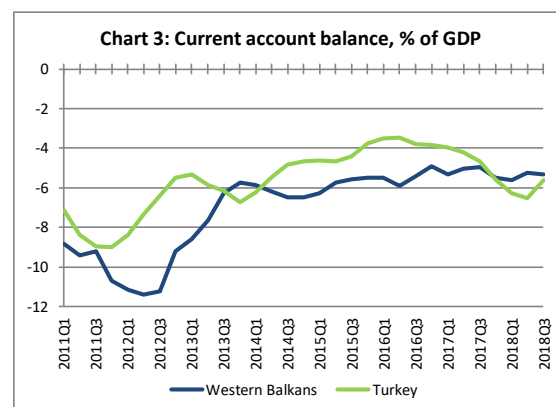
Source: Macrobond, Commission calculations

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As a result of narrow production bases and competitiveness challenges, merchandise trade deficits remain very high across the **Western Balkans**, ranging from around 13% of GDP in *Serbia* to 17% or above in the *former Yugoslav Republic of Macedonia*, *Albania* and *Bosnia and Herzegovina* and above 44% in *Montenegro* and *Kosovo*. Surpluses in the services account and in current transfers only partially offset the trade deficits, resulting in large foreign financing needs. External developments in the region during the third quarter of 2018 point to a rather diverse picture. The four-quarter moving average of the current account deficit widened in *Montenegro*, *Serbia* and *Kosovo* whereas it narrowed in *Albania*. In *Bosnia and*

*Herzegovina* the current account deficit stood at the same level as in the previous quarter. In the *former Yugoslav Republic of Macedonia* the annualised current account balance turned to a small surplus. Overall, in the four quarters to September, the regional current account deficit was around 5% of GDP (Chart 3), one of the lowest in many years. On a positive note, the external deficits in the **Western Balkans** continue to be financed predominantly by net inflows of FDI.

In *Turkey*, the 12-month moving current account deficit stood at 5.6% of GDP in September, the same level as in the whole of 2017. However, the current account balance has improved sharply as from August, driven by both the abrupt slowdown in domestic demand and a favourable export performance. On the financing side, the government debt and FDI categories registered net inflows in the three months following the August currency crisis, whereas banks continued to face outflows. Official reserves decreased by some USD 24 bn year-on-year in November.



Source: Macrobond, Commission calculations

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Despite stronger domestic demand and higher food and energy prices, consumer price inflation remained moderate in the **Western Balkans**, allowing for a continued monetary policy accommodation across the region. Average annual CPI inflation in the *former Yugoslav Republic of Macedonia* and *Kosovo* stood at 1.5% and 1.1%, respectively. Regarding the inflation targets, annual CPI inflation in *Albania* continued



to undershoot the 3% target (at 1.8% in December) while in *Serbia*, inflation was at 2.0%, still within the target tolerance band of 3%±1.5pps. The central bank of *Serbia* has maintained its key policy rate at 3.00% since its last reduction in April. The *Bank of Albania* also continued its accommodative monetary policy stance over the last months of the year by keeping its monetary policy rate at the historic low of 1.00% as well as by conducting FX purchases to halt the Lek's appreciation and counter its disinflationary impact. After reducing in August its benchmark interest rate to 2.75%, the central bank of the *former Yugoslav Republic of Macedonia* decided in December to cut the policy rate further by 25bps to the (new) historic low of 2.50%.

In *Turkey*, in the context of inflationary pressures resulting from the depreciating lira and further increases in inflation expectations, the central bank decided at its Monetary Policy Committee meetings on 20 December and 16 January 2019 to maintain the one-week repo rate at 24%. Annual CPI inflation increased to 22.4% in the fourth quarter of 2018 from 19.4% in the previous three months.

\*\*\*

Bank lending continued to be more supportive of growth in the *Western Balkan* region, as credit growth accelerated in the third quarter of 2018, compared to the second quarter, in the *former Yugoslav Republic of Macedonia*, *Kosovo* and *Serbia* while in *Albania* it remained at the same level (when adjusted for exchange rate changes and loan write offs in the latter two countries). On the other hand, credit growth decelerated in *Montenegro* and *Bosnia and Herzegovina*. As a common feature, household lending continues to grow faster than corporate lending. Credit extension is gradually becoming less constrained by the level of non-performing loans, as almost all *Western Balkan* countries managed to further reduce NPL ratios, partly as a result of improved resolution frameworks, NPL sales and mandatory write-offs. In the third quarter,

the NPL ratio in *Albania* declined further to 12.9% of total loans. In *Bosnia and Herzegovina* the NPL ratio stood at 9.4%, followed by *Montenegro* (6.7%) and *Serbia* where it reached its lowest level since 2008 (6.4%).

In *Turkey*, annual credit growth decelerated significantly in the fourth quarter of 2018, to 14.4% down from 20.8% in the third quarter, due to both a developing credit crunch and weak loan demand. The NPL ratio increased to 3.7% in November from 2.9% in the same month a year earlier.

\*\*\*

In the first eleven months of 2018, the economic upturn continued to support the reduction of fiscal deficits in most countries in the *Western Balkan* region. However, most countries also continued to experience underperforming capital expenditure, reflecting persistent weaknesses in the planning, selection and management of public investment. In *Montenegro*, expenditure growth accelerated over the year and the budget recorded a shortfall of 1.9% of GDP in January to November. In the *former Yugoslav Republic of Macedonia*, the general government's budget deficit contracted by 28% y-o-y to 1.4% of GDP, as revenues increased while expenditure was dragged down by a large shortfall in capital spending. In *Albania*, the general government budget recorded a small surplus of 0.1% of GDP as revenues from personal income and profit taxes as well as local government tax receipts largely offset lower VAT revenue and customs duties that were negatively affected by the Lek's appreciation. At the same time, capital expenditure lagged significantly behind plan. In *Kosovo*, the government budget surplus stood at 2.6% of GDP in January to October with both revenues and expenditures going up moderately, the latter again due to underspending on investment, while social transfers and wages increased. In *Serbia*, the budget posted a surplus of 1.3% of GDP although expenditures grew faster than revenues. Relatively public debt levels remain a challenge in some countries of the region, such as *Albania* (67.1% of GDP at end-September), *Montenegro*

(61.8% of GDP), and *Serbia* (56.7% of GDP at end-October).

In *Turkey*, changes in the tax system and the drop in domestic demand led to a large shift in government revenues over the year with a fall in VAT revenues compensated by higher corporate profit tax revenues and non-tax

revenues. This resulted in a central government budget deficit of 1.9% of GDP in 2018, in line with the revised September target. Driven by the impact of the lira depreciation on the sizeable foreign currency-denominated part of debt, general government debt increased to 32.6% of GDP in the third quarter of 2018, compared to 28.5% at the end of 2017.



## Candidate and potential candidate countries: Summary table

						ECFIN 2018 Autumn forecast							
	2014	2015	2016	2017	2018	2019	2020	Q2 18	Q3 18	Q4 18	Oct 18	Nov 18	Dec 18
<b>Gross domestic product</b> (in real terms, annual % change)													
Albania	1.8	2.2	3.4	3.8	4.1f	3.9	3.9	4.2	4.5	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	3.6	3.8	2.9	0.1	2.1f	2.8	3.1	3.0	3.0	:	N.A.	N.A.	N.A.
Montenegro	1.8	3.4	2.9	4.7	3.9f	2.8	3.1	4.9	5.0	:	N.A.	N.A.	N.A.
Serbia	-1.6	1.8	3.3	2.0	4.4f	3.8	3.8	4.9	3.8	:	N.A.	N.A.	N.A.
Turkey	5.2	6.1	3.2	7.4	3.8f	-1.5	3.0	5.3	1.6	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	0.6	4.1	3.4	3.4	:	:	:	3.6	3.0	:	N.A.	N.A.	N.A.
Kosovo	1.2	4.1	4.1	4.2	:	:	:	4.7	3.4	:	N.A.	N.A.	N.A.
<b>Unemployment</b>													
Albania	17.9	17.5	15.6	14.1	12.7f	11.1	10.6	12.9	12.7	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	28.0	26.1	23.8	22.4	21.3f	20.6	20.1	21.1	20.8	:	N.A.	N.A.	N.A.
Montenegro	18.2	17.8	18.0	16.4	15.5f	14.9	14.6	14.7	14.4	:	N.A.	N.A.	N.A.
Serbia	19.2	17.7	15.3	13.5	13.1f	12.0	10.9	11.9	11.3	:	N.A.	N.A.	N.A.
Turkey	10.1	10.5	11.1	11.1	10.1f	12.8	12.7	10.0	11.4	:	:	:	:
Bosnia and Herzegovina	27.5	27.7	25.4	20.5	18.4	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	35.3	32.9	27.5	30.5	:	:	:	29.4	30.7	:	N.A.	N.A.	N.A.
<b>Current account balance</b> (% of GDP)*													
Albania	-10.6	-8.6	-7.6	-7.4	-6.3f	-6.4	-6.4	-6.1	-6.4	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-0.5	-2.0	-3.1	-1.3	-0.7f	-0.9	-1.5	0.0	0.2	:	N.A.	N.A.	N.A.
Montenegro	-12.4	-11.0	-16.2	-16.1	-16.5f	-17.4	-14.5	-16.7	-17.4	:	N.A.	N.A.	N.A.
Serbia	-6.0	-4.4	-2.9	-5.1	-5.9f	-7.4	-7.9	-5.2	-5.3	:	N.A.	N.A.	N.A.
Turkey	-4.7	-3.8	-3.8	-5.6	-6.8f	-2.9	-3.4	-6.5	-5.6	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-7.4	-5.4	-4.9	-4.8	:	:	:	-4.3	-4.3	:	N.A.	N.A.	N.A.
Kosovo	-6.9	-8.6	-7.9	-6.1	:	:	:	-6.0	-7.5	:	N.A.	N.A.	N.A.
<b>Inflation</b> (Consumer price index, annual % change)													
Albania	1.6	1.9	1.3	2.0	2.1	2.6	2.8	2.3	2.3	1.9	1.9	1.8	1.9
The former Yugoslav Republic of Macedonia	-0.3	-0.3	-0.3	1.4	1.5	2.0	2.1	1.5	1.6	1.2	1.5	1.2	0.9
Montenegro (HICP)	-0.5	1.4	0.1	2.8	2.9f	2.5	1.9	3.7	2.4	:	1.7	1.7	:
Serbia	2.1	1.4	1.1	3.1	2.0	2.9	3.0	1.8	2.4	2.0	2.2	1.9	2.0
Turkey	8.9	7.7	7.8	11.1	16.3	15.4	12.4	12.8	19.4	22.4	25.2	21.6	20.3
Bosnia and Herzegovina	-0.9	-1.0	-1.1	1.2	:	:	:	1.4	2.1	:	3.8	1.8	:
Kosovo	0.4	-0.5	0.3	1.5	1.1	:	:	0.7	1.4	:	1.5	2.1	2.2
<b>General government balance</b> (% of GDP)													
Albania**	-5.3	-4.2	-1.9	-2.1	-2.0f	-1.9	-1.7	0.4	0.7	:	1.3	2.0	:
The former Yugoslav Republic of Macedonia***	-4.2	-3.5	-2.7	-2.7	-2.8f	-2.6	-2.3	-0.9	-1.4	:	N.A.	N.A.	N.A.
Montenegro**	-2.9	-8.3	-3.6	-5.3	-2.7f	-1.6	2.4	-0.5	1.5	:	:	:	:
Serbia***	-6.6	-3.5	-1.2	1.1	0.4f	-0.3	-0.5	2.3	1.7	:	N.A.	N.A.	N.A.
Turkey***	0.1	1.3	-1.3	-2.0	-2.5f	-1.9	-2.2	-0.7	-0.2	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina***	-2.0	0.6	1.2	2.6	:	:	:	N.A.	N.A.	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-2.2	-2.0	-1.2	-0.8	:	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Autumn 2018 published November 2018

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

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

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



## Key developments

Since December, students have protested against the Government, demanding lower tuition fees and a higher education budget. A subsequent major cabinet reshuffle included the change of the Minister of Education as well as the Minister of Finance and Economy and six other Ministers.

## Real sector

Albania's real GDP increased by almost 4.5 % y-o-y in the third quarter after growing by average 4.3% in the first six months of 2018. Private consumption strengthened again to 3.9% y-o-y whereas government consumption continued on its downward path and shrank by 2.4% y-o-y. Gross fixed capital formation picked up strongly with 5.4% y-o-y after it had decelerated to average 3.3% over the first 6 months of 2018.

On the demand side, private consumption remained the strongest contributing component in the third quarter (3.1 pp) followed by imports and investment. Although exports of goods recorded very strong growth of 16% over the first 3 quarters of 2018, this could not off-set the strong pick up in imports due to the dominating effect of the shrinking service exports. Overall, net exports returned to subtracting from economic growth (-1.5pp). Overall exports kept their share in GDP to 38% (y-o-y), whereas imports' share stabilised at almost 50% of GDP, slightly lower than in the third quarter in 2017. On the supply side, electricity production and manufacturing, which contributed significantly to GDP growth in the first 6 months of 2018, decelerated from 20% to 15% y-o-y growth in the third quarter. In contrast, the growth of the construction sector turned strongly positive, and all services, except those on information and communication, continued their expansion.

## Labour market

The labour market reflected the on-going economic expansion. In the third quarter, overall employment growth remained at 1.8 % y-o-y for the 15-64 age group, with employment in the non-agricultural private sector growing by 7.5% y-o-y and youth employment growth (15-29) even accelerating to 26% y-o-y. The overall

unemployment rate continued trending downward, falling by 1.35 pps y-o-y to 12.6 %, the lowest rate since 2012. Youth unemployment remains high, but it has been continuously declining from its peak of 34% in 2015. In the third quarter, the unemployment rate for the 15-29 age group registered 23.1%, down by almost 3 pps y-o-y. The labour force participation rate continued on its upward trend to 68.3 % in the third quarter compared to 67.1 % a year earlier. Despite the overall positive labour market developments, the gap between male and female labour force participation did not narrow and women benefited less from the employment growth than their male peers.

Administrative data show that employment in the non-agricultural private sector picked up in the third quarter (7.5 % y-o-y) while employment in the public sector grew only with 4.3% y-o-y thus keeping its share in total employment of about 15% stable. Wage indices in the private sector indicated strong growth with an average plus of 15 points y-o-y across sectors. In contrast, public sector wages slightly shrank in the third quarter compared to 2017.

## External sector

The 4-quarter moving average current account deficit continued narrowing from 6.6 % in the second quarter to 6% of GDP in the third quarter. This reflects the decelerating import growth and strong goods export recovery as well as the strengthening Lek. In the same period, the trade deficit for goods decreased again, by 1 pp to 21.1% of GDP, while the surplus of the services balance slightly fell by 0.7 pp to 8.3% of GDP. The primary income balance turned into a small deficit of 0.6% of GDP in the wake of increasing investment income outflows. The surplus on the secondary income balance increased somewhat to 7.6% of GDP (from 7.3%) despite slowing remittances inflows, which decelerated to 2.5% growth y-o-y after growing 10% in the second quarter (based on EUR flows).

Foreign direct investment inflows grew again compared to previous quarter, but were 92% lower than in the third quarter of 2017. Still, FDI inflows remained the major financing source of the current account deficit with a coverage ratio of 121 % by September 2018 (using four quarters moving average). Gross external debt

slightly decreased in the third quarter to EUR 8 billion – corresponding to 66.2 % of GDP - on account of deleveraging by the private sector. Foreign exchange reserves increased again strongly by 17.4% to EUR 3.35 billion and corresponded to 6.7 months of imports of goods and services.

### Monetary developments

The central bank continued buying foreign currencies (supporting the increase in foreign exchange reserves) in order to halt the appreciation of the Albanian Lek against the Euro. While the interventions proved effective in September, the exchange rate picked up again over the last months of the year. By the end of December 2018, the Lek had strengthened by 7.36% compared to its value in December 2017 and the exchange rate stood at 123.4 lek/euro. Subsequently, inflation trended down with consumer prices only increasing by 1.8% y-o-y in December 2018 (down from 2.2% in August) mainly on account of (imported) food and beverage prices. This development runs counter the Central Bank's inflation target of 3%, which the Bank still envisages to be reached by 2020. The bank further continued its accommodative policy stance by leaving all rates unchanged at their low level and by injecting liquidity into the money market.

### Financial sector

The Central Bank continued adapting Basel III standards by setting the minimum capital adequacy ratio to 12%. The banking sector as a whole remained well capitalised with a capital adequacy ratio continuing its upwards trend to 18.2 % by the end of September.

Interest rates in financial markets remained overall historically low in the context of the accommodative monetary policy stance. The average monthly interest rates on Lek loans to households averaged 7% over the second half of 2018, 0.3 pp lower than over the corresponding period in 2017, reaching in November their lowest level in 2018. Rates for private business softened much less by only 0.1 pp to an average of 6.5% over the last 6 months.

The ratio of non-performing loans (NPLs) to total loans continued declining to 12.7% in November, mainly due to write-offs. Lending to the private non-financial business sector remained sluggish, as loans in national currency

terms continued shrinking by 3.9% y-o-y in November – albeit at a slower pace than in previous months. In all business sectors except of manufacturing and real estate, credit was lower in November 2018 than in 2017. In contrast, credit to households in Lek remained solid and increased by 9.3% in November 2018 compared to November 2017. Despite the strong household lending and adjusting for the effect of loan write-offs and the appreciation of the lek, the average overall growth rate of private sector credit remained at around 5% y-o-y in the third quarter and tended slightly lower towards the end of the year.

### Fiscal developments

In November 2018, the parliament approved the budget proposal for 2019 which is based on a continuation of the positive economic performance of 2018 and foresees a fiscal deficit of 1.9% as well as reducing public debt to 65.5% of GDP.

By November 2018, tax revenues have increased by 5.1 % y-o-y and were below the plan by only 1.2%. VAT receipts and customs duties continued suffering from the currency appreciation. Excises and grants also remained well below the budget plan and below 2017 levels. Personal income and profit taxes and local governments' tax collection largely off-set these shortfalls.

Total expenditures over 11 months of 2018 were 6.5% lower than planned, mainly caused by a further backloading and underexecution of capital expenditure. Only 66% of the originally budgeted capital expenditure had been implemented in the first 11 months of 2018, compared to 69% in 2017. Adding to the low spending performance was also operation and maintenance expenditure, of which only 79% had been disbursed by November 2018, 8% below plan. In contrast, local governments exceeded their budgeted expenditure by almost 6%, more than their unplanned revenue increase.

Overall, budget execution in January-November resulted in a surplus in the government's cash balance corresponding to 0.07 % of estimated full-year GDP. The government targeted a deficit of 2% for the year as a whole.

Public debt decreased to 67 % of GDP at the end of September, down from 70.0 % at the end of 2017.

## TABLE



European Commission, ECFIN-D-1

### ALBANIA

							ECFIN 2018 Autumn forecast							
		2014	2015	2016	2017	2018	2019	2020	Q2 18	Q3 18	Q4 18	Oct 18	Nov 18	Dec 18
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Percent	-6.9	-5.4	-3.7	1.5	-0.5	:	:	-1.6	-1.0	-1.3	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	5.3	-16.4	-31.7	11.1	:	:	:	19.3	11.2	:	N.A.	N.A.	N.A.
Gross domestic product <sup>1.3</sup>	Ann. % ch	1.8	2.2	3.4	3.8	4.1f	3.9	3.9	4.2	4.5	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.8	0.9	2.6	2.7	4.0f	3.7	3.7	3.4	3.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	-4.5	3.5	3.3	6.5	4.9f	4.1	4.6	2.0	5.4	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	3.8	15.5	4.9	19.6	:	:	:	-3.9	13.9	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	5.4	7.1	8.0	2.2	:	:	:	3.1	5.5	:	:	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	17.9	17.5	15.6	14.1	12.7f	11.1	10.6	12.9	12.7	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	1.6	4.9	6.1	2.7	1.7f	0.6	1.3	1.8	1.9	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	1.7	1.8	0.9	9.8	:	:	:	0.2	-0.3	:	N.A.	N.A.	N.A.
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	-12.7	-17.2	-7.4	11.7	:	:	:	28.3	27.9	:	N.A.	N.A.	N.A.
Imports of goods <sup>3.2</sup>	Ann. % ch	4.6	-3.5	6.4	11.0	:	:	:	5.5	4.0	:	N.A.	N.A.	N.A.
Trade balance* <sup>3.3</sup>	% of GDP	-21.5	-21.6	-23.4	-23.9	-21.3f	-20.8	-20.6	-20.9	-21.9	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	29.2	27.2	29.0	31.4	:	:	:	29.8	38.6	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	48.8	44.3	45.8	46.4	:	:	:	42.3	49.8	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-10.6	-8.6	-7.6	-7.4	-6.3f	-6.4	-6.4	-6.1	-6.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	8.7	8.7	8.8	7.8	:	:	:	8.3	7.8	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	2,192.0	2,880.0	2,945.0	2,996.0	:	:	:	2,838.0	3,022.0	:	3,345.0	3,352.0	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.3	6.9	7.0	6.7	:	:	:	:	:	:	:	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	1.6	1.9	1.3	2.0	2.1	2.6	2.8	2.3	2.3	1.9	1.9	1.8	1.9
Producer prices <sup>4.2</sup>	Ann. % ch	:	:	-1.5	2.8	:	:	:	2.0	2.8	:	:	:	:
Food prices <sup>4.3</sup>	Ann. % ch	2.1	4.1	3.3	4.0	2.0	:	:	3.2	3.0	2.4	1.9	2.1	3.1
M2 <sup>4.4</sup>	Ann. % ch	4.2	0.1	1.9	0.3	:	:	:	-1.1	0.3	:	-0.5	-0.4	:
Exchange rate LEK/EUR <sup>4.5</sup>	Value	140.14	139.74	137.36	134.14	127.57	:	:	127.39	126.00	124.43	125.21	124.62	123.44
Real eff. exchange rate <sup>4.6</sup>	Ann. % ch	0.40	2.30	3.80	3.10	:	:	:	5.38	8.22	:	:	:	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	3.10	2.87	1.13	:	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	3.45	2.77	2.05	2.07	:	:	:	2.05	2.50	:	2.06	2.03	:
Stock markets <sup>5.3</sup>	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth <sup>5.4</sup>	Ann. % ch	0.2	0.3	-0.7	-0.1	:	:	:	-1.1	-2.9	:	-3.6	-3.5	:
Deposit growth <sup>5.5</sup>	Ann. % ch	1.5	1.9	1.1	1.0	:	:	:	-1.7	-1.0	:	-0.8	-1.5	:
Non performing loans <sup>5.6</sup>	% total	22.8	18.2	18.3	13.2	:	:	:	13.3	12.9	:	13.0	12.7	:
<b>6 Fiscal developments</b>														
General government balance** <sup>6.1</sup>	% of GDP	-5.3	-4.2	-1.9	-2.1	-2.0f	-1.9	-1.7	0.4	0.7	:	1.3	2.0	:
General government debt* <sup>6.2</sup>	% of GDP	72.4	74.8	74.4	73.8	69.9f	67.6	65.2	67.8	67.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2018 published November 2018

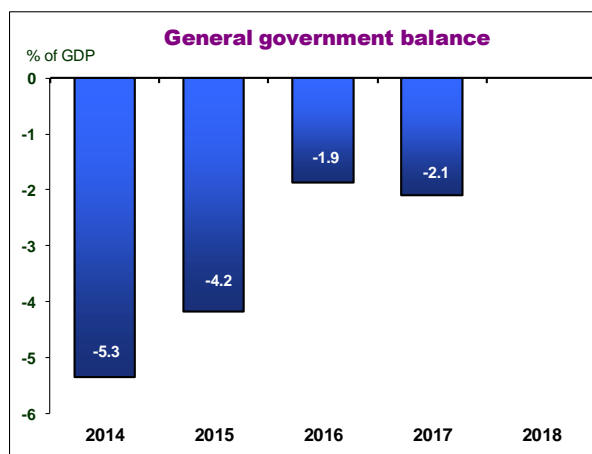
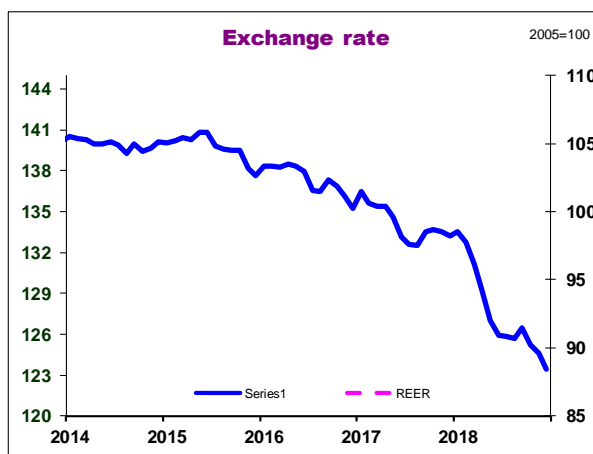
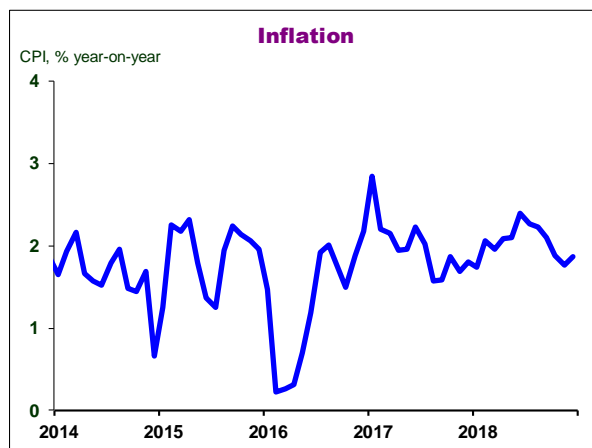
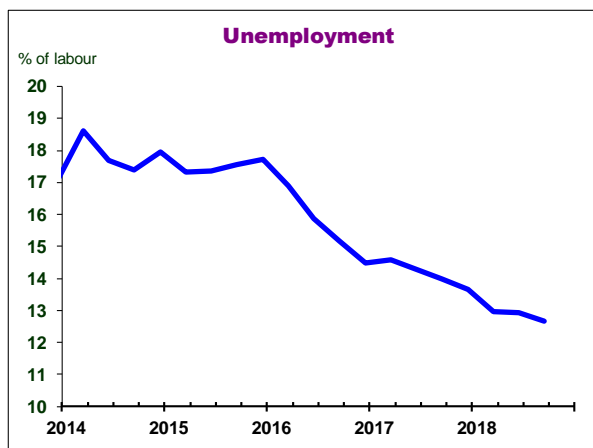
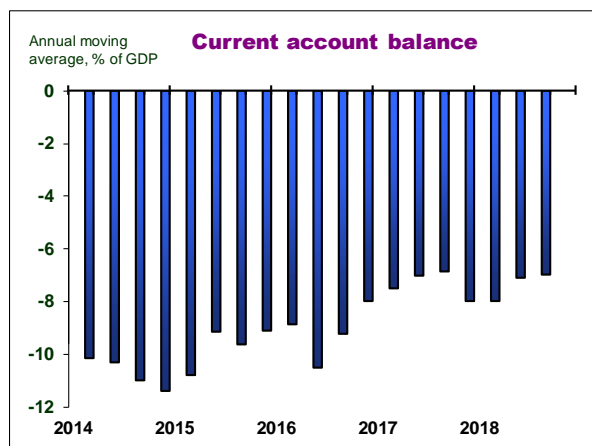
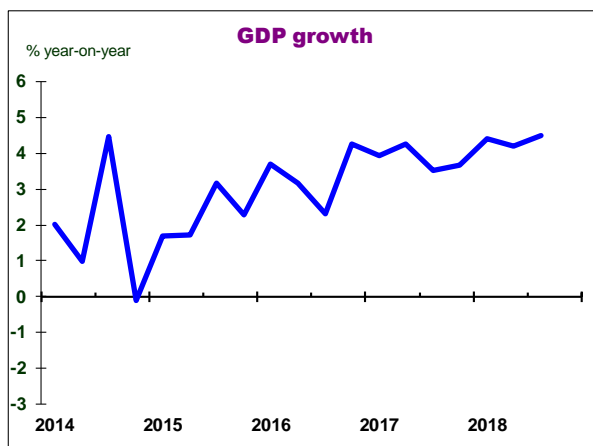
\* Q figures refer to a 4 quarters moving average.

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

# CHARTS



## ALBANIA



# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



## Key developments

On 11 January, following the June 2018 Prespa Agreement on the name issue, reached between Skopje and Athens, the parliament in Skopje approved the relevant constitutional changes. Ratification of the agreement by the parliament in Athens, which would open the path to NATO and EU membership, is pending.

On 16 November, the IMF completed its regular Article IV mission. In the concluding statement, the Fund urges the government to address labour market weaknesses to raise productivity, and to put public finances on a firmer footing.

## Real sector

The economic expansion continued at a steady pace in the third quarter, with real GDP increasing by 3% y-o-y, the same growth rate as in the preceding three months (revised downwards from previously 3.1%). This brings average annual GDP growth in the first three quarters to 2.3%. The annual increase in household spending accelerated to 3%, from 2% in the first half of the year. Government consumption also picked up notably (+9.6%). However, investment contracted for the third quarter in a row, bringing annual losses in gross capital formation in the first three quarters to 11%. Net exports remained a growth driver, but less so than earlier in the year, as the increase in goods and services exports moderated (12% compared to 14.1% in the second quarter), while import growth accelerated (7.5% compared to 3.4%). Manufacturing output increased by 4.1%, but construction posted annual losses, for the sixth quarter in a row (-2.6%).

At the beginning of the fourth quarter, high frequency indicators point to a firming of the economic upswing. The industrial production index accelerated from an average of 5% y-o-y in the first nine months to 5.7% on average in October and November, a marked pick-up from its 2017 average of 0.2%. Manufacturing outperformed the index in the first eleven months (+6.5%). By comparison, in 2017,

manufacturing had dropped by 0.2% y-o-y. In October and November, capital goods production rose by 7.3% on average, bringing total increase in the first eleven months to 17.2%, compared to a 2017 average of 8.1%. Retail sales (non-food), which have been recovering since January 2018 from their 2017 trough, rose by an average of 12% y-o-y.

## Labour market

The labour market improved further in the third quarter, according to the Labour Force Survey. The labour force expanded by 0.4% y-o-y, on account of a rise in both the female and male workforce (+0.4% each). Annual employment growth remained almost unchanged compared to the first half of the year, at 2.1% y-o-y. This resulted in an increase in the employment rate by 0.8pps y-o-y, to 45.1%. The unemployment rate dropped to 20.8% in the third quarter. The situation of young workers (15-24 years) improved. Their unemployment rate amounted to 45.8% (-4pps). Overall labour market participation (15-64 years), at 65.7%, was marginally higher than one year earlier (65.3%). The female activity rate rose to 51.9 (+0.4pps y-o-y). Annual growth of nominal wages decelerated somewhat compared to the previous quarter (-0.6pps to 5.6% y-o-y) and picked up to 6.3% in October. This translated into real wage growth of 4.1% in the first ten months. In 2017, salaries increased by 1.2% on average.

## External sector

External vulnerabilities further moderated in the third quarter and beyond. The current account continued to narrow. In the four quarters to September, it posted a surplus of 0.2%, compared to a deficit of -1.8% of GDP one year earlier, driven mainly by further reduction of the merchandise trade deficit (-1.2pps to 16.8% y-o-y), and a higher surplus in services trade (4.5%, + 0.7pps y-o-y). The primary income deficit slightly widened, to 4.1% y-o-y. Private transfers from abroad increased by 6% y-o-y, raising the surplus in the secondary income balance by 0.3pps y-o-y to 16.7% of GDP.



Net FDI inflows amounted to 4.6% of GDP in the third quarter, markedly higher than one year earlier (1.9%), and in spite of still significant repatriation of earnings. Gross external debt, excluding central bank transactions, was up by 11.4% y-o-y, still largely reflecting the January 2018 Eurobond, and, at end-September stood at 77.6% of GDP (+3.4pps y-o-y). Compared to one year earlier, both public and private sector debt had increased. Bolstered by the rise in net investment inflows as well as foreign loans in the third quarter and beyond, at end-2018 the central bank's foreign currency reserves were some 23% higher than one year earlier and covered some 5 months of prospective imports.

### Monetary developments

Consumer price inflation remained moderate in 2018, at 1.5% on average (+0.1pps compared to 2017). The cost of food, accounting for 39% of the index, rose slightly, in annual comparison (+0.7%). The increase in transport prices accelerated (+7.5%), compared to one year earlier (+5.5%), largely due to faster growth of gasoline prices and transport services. Services (18% of the index) became more expensive, too (+2.7% y-o-y). Housing and utilities costs, on the other hand, did not change. Annual growth of broad money (M4) accelerated further in the third quarter, to 11.7% (+1.6pps compared to the second quarter), and further to 12% in October and November. This came mainly on account of a strong rise in short-term and demand deposits from both households and companies. On 11 December, the central bank reduced the key policy rate by 25bp to a historically low 2.5%, citing the stable external position, positive developments in foreign exchange markets, and the favourable economic outlook.

### Financial sector

Loans and deposits growth accelerated over the third quarter and beyond. Credit to the non-financial sector (public companies included) increased by 6.8% y-o-y in the third quarter (+0.8pps compared to the second quarter). Annual growth in lending to private non-financial companies accelerated by 0.3pps to 3%, compared to the second quarter. The bulk of the overall increase continued to be accounted for by households (+10%, or +0.3pps). Annual growth of private sector lending picked up further, to 8.1%, in October and November. Interest rates on loans continued to decline. Between August and November, the spread between rates on Denar loans (-20bps to 5.9%),

and deposits (unchanged at 2.1%) dropped. Rates on foreign currency loans fell by 10bps to 4.3%, and were unchanged for deposits, at 0.8%.

The banking sector remained stable and well-capitalised. At the end of September, the share of foreign-currency denominated loans in total loans was the same as in June (42.7%). The loan-to-deposit ratio for non-financial clients remained almost unchanged, too, at 87.2%. The ratio of non-performing to total loans (financial and non-financial sector) stood at 4.9%. Regulatory capital to risk-weighted assets stood at 16.3%, slightly higher than one year earlier.

### Fiscal developments

Government revenues continued to grow, in annual comparison, also in the third quarter and beyond, while both current and capital expenditure were stepped up. Between January and November, central government revenue was some 5.4% higher y-o-y, amounting to 88% of annual budget plan. This came on the back of higher income from taxes and contributions by 8% y-o-y. Gross VAT revenue, which accounted for 26% of total revenue in this period, was higher by 8% than one year earlier. Net VAT revenue, which accounts for the government's ongoing repayments of previously blocked VAT returns, still rose by 3.4% y-o-y. Current expenditure increased by 6.4%, reaching 91% of annual budget plan, mainly reflecting higher transfer payments (+10.2%). Capital expenditure has increased markedly since July, but was still lower by 37% y-o-y. It amounted to only 36% of annual budget plan. The deficit in the first eleven months declined by 28% y-o-y, to just over half of the full-year target (2.7%).

On 21 December, the Parliament approved the government's 2019 budget. It is based on 3.2% real GDP growth and a deficit of 2.5% of GDP. Revenue is expected to increase by 9.5% over the 2018 budget. On 11 November, the Parliament had adopted a supplementary budget for 2018. The 2018 growth projection was lowered to 2.8% from previously 3.2%. The deficit target remained unchanged at 2.7%. General government debt rose somewhat further in the third quarter, to 40.3% of projected full-year GDP at the end of September (+0.8pps compared to the end of 2017). Public debt, including the debt of state-owned enterprises, rose by 0.4pps during this period, to 48.2% of GDP. The increase was largely due to higher external debt on account of the government's Eurobond issuance and foreign loans to public sector enterprises.



## TABLE



European Commission, ECFIN-D-1

### The former Yugoslav Republic of Macedonia

		2014	2015	2016	2017	2018	ECFIN 2018 Autumn forecast		Q2 18	Q3 18	Q4 18	Oct 18	Nov 18	Dec 18
							2019	2020						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	11.4	17.5	24.0	25.6	:	:	:	28.4	29.4	:	29.9	30.2	:
Industrial production <sup>1.2</sup>	Ann. % ch	4.8	4.9	3.9	0.2	:	:	:	4.9	5.0	:	6.4	4.9	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	3.6	3.8	2.9	0.1	2.1f	2.8	3.1	3.0	3.0	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.2	4.4	3.1	1.5	2.9f	2.9	3.1	1.9	3.0	:	N.A.	N.A.	N.A.
Gross capital formation <sup>1.5</sup>	Ann. % ch	10.7	8.3	13.3	-0.2	-3.5f	5.5	8.0	-12.8	-4.6	:	N.A.	N.A.	N.A.
Construction <sup>1.6</sup>	Ann. % ch	2.3	8.6	12.3	-13.3	:	:	:	-2.4	-1.8	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	4.2	9.8	18.8	-11.3	:	:	:	10.8	7.5	:	15.7	8.2	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	28.0	26.1	23.8	22.4	21.3f	20.6	20.1	21.1	20.8	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	1.7	2.3	2.5	2.4	2.2f	2.2	2.1	2.1	2.2	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	1.0	2.7	2.0	2.6	0.5f	1.6	3.2	6.2	5.5	:	6.5	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	17.0	9.4	11.5	19.8	:	:	:	16.2	20.8	:	:	:	:
Imports of goods <sup>3.2</sup>	Ann. % ch	9.4	5.0	7.8	11.8	:	:	:	10.7	13.7	:	:	:	:
Trade balance* <sup>3.3</sup>	% of GDP	-21.7	-20.1	-19.1	-17.9	-17.7f	-18.3	-19.1	-17.3	-16.8	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	47.7	48.7	50.0	55.1	:	:	:	57.1	58.4	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	64.9	65.0	64.7	68.8	:	:	:	69.7	70.5	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-0.5	-2.0	-3.1	-1.3	-0.7f	-0.9	-1.5	0.0	0.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	2.3	2.2	3.6	2.3	:	:	:	4.3	4.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	2,436.5	2,261.8	2,613.4	2,335.3	2,867.1	:	:	2,642.2	2,709.1	2,867.1	2,759.4	2,771.5	2,867.1
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.3	5.6	6.0	4.8	:	:	:	5.2	5.1	:	:	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	-0.3	-0.3	-0.3	1.4	1.5	2.0	2.1	1.5	1.6	1.2	1.5	1.2	0.9
Producer prices <sup>4.2</sup>	Ann. % ch	-1.2	-4.1	-0.1	0.4	:	:	:	-0.2	-0.8	:	-1.2	-1.0	:
Food prices <sup>4.3</sup>	Ann. % ch	-1.0	0.1	-1.3	0.2	0.8	:	:	0.9	0.2	0.5	0.3	0.5	0.6
Monetary aggregate M4 <sup>4.4</sup>	Ann. % ch	10.6	6.9	6.2	5.1	:	:	:	10.1	11.7	:	11.7	12.2	:
Exchange rate MKD/EUR <sup>4.5</sup>	Value	61.62	61.61	61.60	61.57	61.51	:	:	61.50	61.49	61.49	61.49	61.49	61.49
Nominal eff. exchange rate <sup>4.6</sup>	Index	102.9	101.6	102.6	104.0	:	:	:	105.6	106.7	:	106.8	106.1	:
<b>5 Financial indicators</b>														
Interest rate (3 months-SKIBOR) <sup>5.1</sup>	% p.a.	3.08	1.92	1.96	1.78	1.54	:	:	1.50	1.48	1.48	1.50	1.47	1.46
Bond yield <sup>5.2</sup>	% p.a.	7.77	7.46	7.02	6.61	:	:	:	6.19	6.04	:	5.96	:	:
Stock markets <sup>5.3</sup>	Index	1,736	1,731	1,887	2,406	3,154	:	:	2,989	3,388	3,484	3,454	3,546	3,454
Credit Growth <sup>5.4</sup>	Ann. % ch	8.6	9.1	4.0	2.5	:	:	:	6.0	6.8	:	8.2	7.9	:
Deposit growth <sup>5.5</sup>	Ann. % ch	5.8	7.6	4.4	5.3	:	:	:	9.0	10.9	:	10.3	9.9	:
Non-performing loans <sup>5.6</sup>	% total	11.6	10.3	6.3	6.1	:	:	:	6.5	6.3	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
Central government balance** <sup>6.1</sup>	% of GDP	-4.2	-3.5	-2.7	-2.7	-2.8f	-2.6	-2.3	-0.9	-1.4	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	38.1	38.1	39.6	39.3	42.2f	44.5	45.7	40.3	40.3	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2018 published November 2018

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

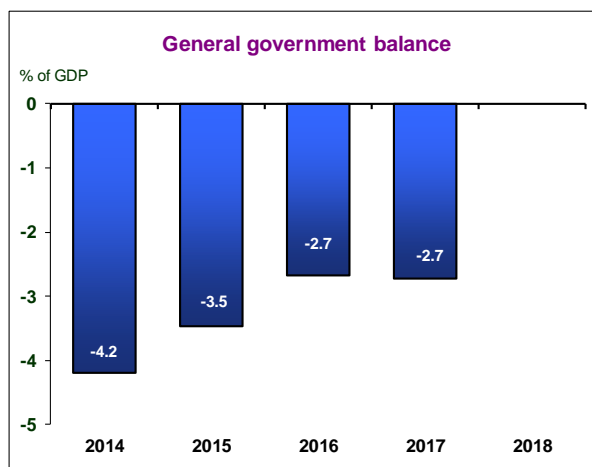
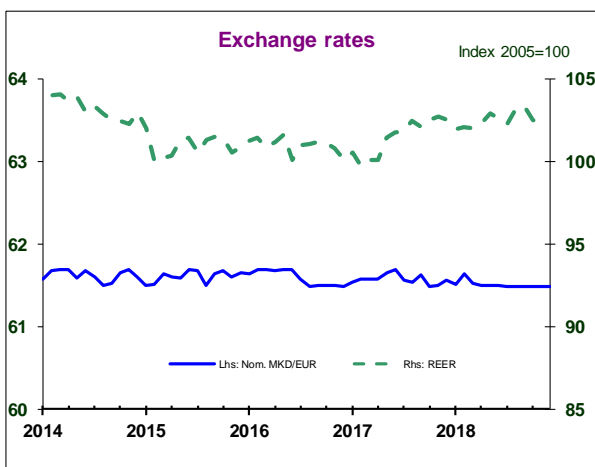
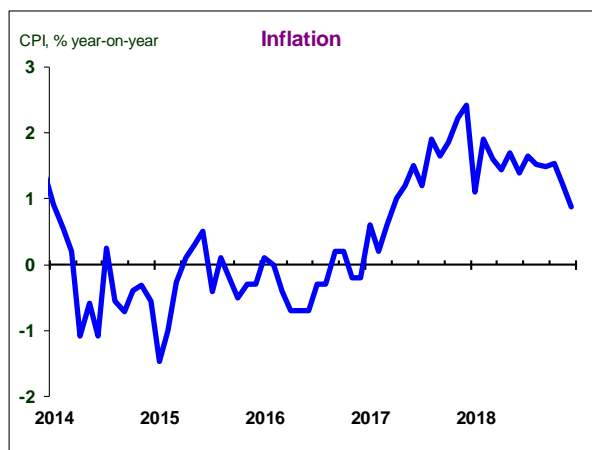
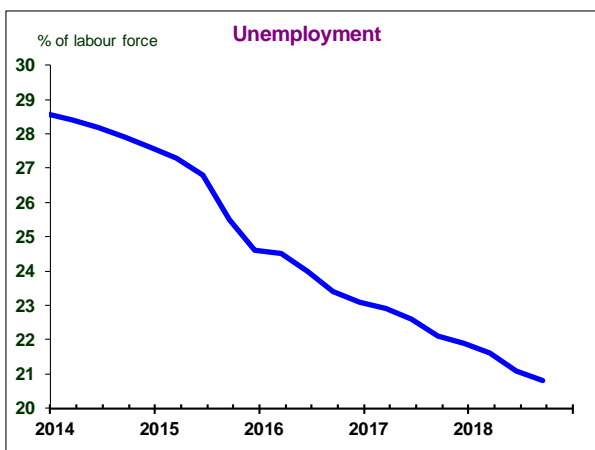
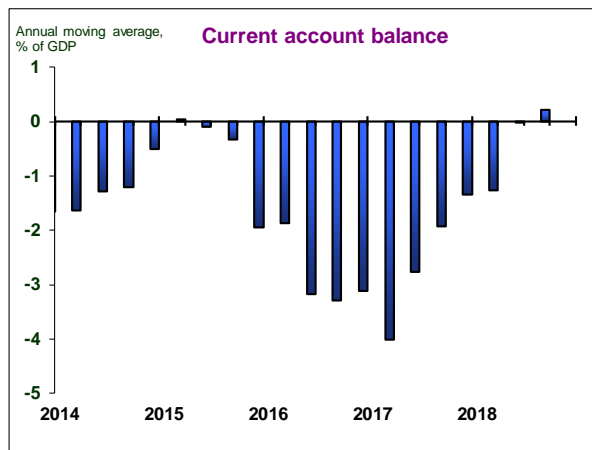
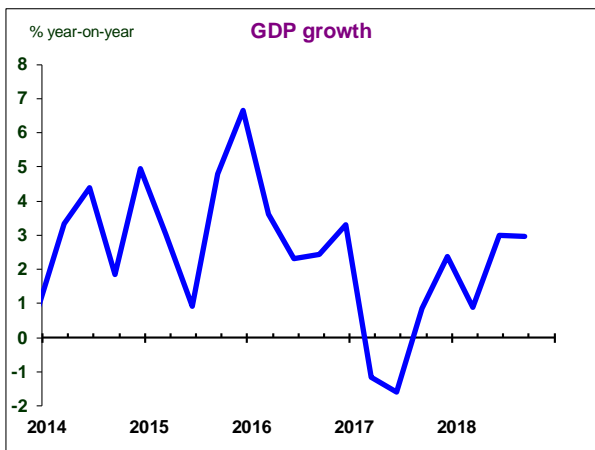
\*\* Q figures refer to the quarterly balance divided by the quarterly GDP.

# CHARTS

European Commission, ECFIN-D-1



## The former Yugoslav Republic of Macedonia



# MONTENEGRO



## Key developments

On December 10, Montenegro opened one additional accession negotiation chapter with the EU: Chapter 27 on environment and climate change. So far, 32 out of 35 negotiation chapters have been opened, of which 3 provisionally closed.

On 28 December, the Ministry of Economy signed an agreement with a consortium of Montenegrin and foreign energy companies including public land concession to build a 250 MW solar plant worth EUR 178 million.

On 3 January 2019, Montenegro's government launched a development programme offering citizenship to up to 2,000 foreigners in return for investment over the next three years.

## Real sector

The economy has been accelerating in the first three quarters of 2018 driven by investment, household consumption and a favourable tourism performance. After recording a real expansion of 4.5% in the first quarter and 4.9% in the second one, GDP growth surged by 5.0% y-o-y in the third quarter of 2018. The rising number of tourists, increasing employment and strong bank lending supported private consumption, even though wage growth was tepid. Strong investment in transport, tourism and utilities infrastructure kept boosting construction activity, but also import demand, leading to a significant negative contribution of net exports to growth. Real contribution of government consumption to GDP remained modest, accounting for less than 0.3% pps on average, in the first three quarters of 2018.

On the supply side, GDP growth in the third quarter was supported by a 12.2% y-o-y expansion of industrial output. In September alone, industrial production surged by 24.0% y-o-y, boosted by utilities output, and electricity production in particular, as well as by fast expansion of manufacturing of mineral, chemical and pharmaceutical products. The key basic metals sector grew more moderately, by 2.7% y-o-y on average during the third quarter. A high base effect from previous year combined with a decline of bauxite exports to China

resulted in annual contraction in mining production.

Growth in retail sales decelerated in the third quarter, recording a nominal expansion of 2.7% y-o-y, down from 6% annual growth in the previous quarter.

## Labour market

The strong economic growth supported better labour market results. In the third quarter of 2018, Labour Force Survey statistics showed employment growth of 2.1% y-o-y, declining from 2.9% annual expansion the previous quarter. The unemployment rate declined to 14.4% in July-September, compared to 15.1% during the same period a year earlier. Robust economic growth and diverse occupational and training programmes for the young (15-24) helped reduce youth unemployment to 26.8% in the third quarter, compared to 27.5% a year before. More recent data from the Employment Agency (ZZZCG) presents a higher unemployment rate of 17.9% at the end of 2018, and a marked decline by 9,900 in the number of unemployed workers over the year.

Wage growth stagnated during 2018 due to fiscal consolidation measures affecting salaries in public administration, and an aggregate fall in manufacturing salaries. Overall, gross wages increased by marginal 0.3% y-o-y in the third quarter of 2018, after stagnating in the first two quarters of the year. In real terms, wages fell in the first nine months. This trend also continued in October and November, resulting in a nominal average annual growth of 0.1% in the first eleven months of 2018.

## External sector

Fast growing domestic demand generated a large current account deficit. It widened to 17.4% of GDP in the four quarters to September 2018, compared to a 13.8% gap in the same period a year before. The large and chronic trade deficit offset surpluses in the services and income balances. Imports of goods outpaced exports growth, resulting in a merchandise trade gap equivalent to 44.6% of GDP. At the same time, rising exports of transport and tourism services boosted the services balance surplus to 22% of

GDP, or by 2 percentage points compared to the year before. Surpluses in the primary and secondary income accounts totalled 1.1% and 5.9% of GDP respectively.

On the financial account, net borrowing (mostly public) increased substantially in the four quarters to September, while net inflows of foreign direct investment reached 8.6% of GDP, covering almost half of the current account deficit. Foreign exchange reserves remained stable since September, accounting for 25.6% of GDP or the equivalent of 5.3 months' worth of imports.

### Monetary developments

Average inflation, measured by the harmonised index of consumer prices (HICP), further decelerated in October and November 2018 to 1.7% y-o-y each, down from a 2.4% rate recorded in the third quarter of the year. Fuels had the largest contribution to inflation (0.41 pps), followed by vegetables (0.36 pps), and tobacco (0.25 pps), the latter in spite of the government withdrawal in July of the excise hike introduced in January. At the end of the year, the Regulatory Energy Agency announced that electricity prices would increase by up to 6% as from the beginning of 2019.

### Financial sector

On 7 December 2018, the Central Bank of Montenegro introduced provisional administration to Atlas Banka and Invest Bank Montenegro due to their deteriorating liquidity and solvency parameters. On 4 January 2019, the Central Bank required Atlas Banka to recapitalise in order to continue operating, and launched bankruptcy proceedings against Invest Bank Montenegro. The Deposit Protection Fund will start repaying deposits guaranteed up to EUR 50,000 in the bankrupt bank as from 29 January. There are 2,652 depositors registered for repayment of guaranteed deposits worth EUR 22 million.

Intervention of the two ailing banks did not have negative consequences for the overall banking system. Clients' trust was preserved and commercial banks deposits kept growing. The association of Montenegro banks supported the Central Bank measures, considering the overall stability of the system had been strengthened.

Since October 2017, credit growth has expanded close to or at double-digit rates. In November 2018, bank loans grew by 9.9% y-o-y, a slight moderation compared to 11.1% growth a year earlier. Credit to the private sector accounts for 92.6% of total loans. Credit to households kept growing faster (10.9% y-o-y) than to corporates (8.2% y-o-y). Corporates account for most of banks' impaired loan portfolio, which in November declined to 6.95% of total loans, marginally down from 7% a year before.

Bank deposits growth remained strong. In November, bank deposits grew by 8.3% y-o-y, boosted by a 8.8% y-o-y expansion in households' deposits. Corporates' deposits grew by only 2.2% y-o-y due to withdrawals by state-owned companies totalling 2% of GDP in the three months to November.

Montenegro's stock market capitalisation grew by 7.7% y-o-y in 2018, reaching EUR 3 billion. The MONEX20 index, monitoring the performance of the 20 most representative shares, rose by 8.1% y-o-y at the end of 2018. However, market turnover was particularly weak in December, recording EUR 1.5 million trade, compared to EUR 4.9 mn a year earlier.

### Fiscal developments

In the third quarter of 2018 alone, the budget presented a surplus of 1.5% of GDP, thanks to increases in indirect tax rates at the beginning of the year along with a strong tourism season, boosting budget revenue by 13.3% y-o-y. However, growing capital expenditure, public sector wages and transfers to institutions in the following months, engendered budget deficits in October and November, worth 0.2% and 1.0% of GDP, respectively. Overall, in the first eleven months of 2018, the central government budget displayed a 1.9% of GDP deficit, compared with the 3.2% deficit target for the whole year.

On 28 December 2018, the parliament adopted the 2019 state budget, planning a 2.9% of GDP deficit based on real GDP growth of 2.8% and 1.8% average inflation.

At the end of September, public debt, net of deposits, declined to 61.8% of GDP from 62.8% in the previous quarter, also thanks to fast GDP growth (denominator effect).

## TABLE

European Commission, ECFIN-D-1



## MONTENEGRO

		2014	2015	2016	2017	2018	ECFIN 2018 Autumn forecast		Q2 18	Q3 18	Q4 18	Oct 18	Nov 18	Dec 18
							2019	2020						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	11.1	9.8	3.0	4.5	:	:	:	11.1	7.3	:	-1.9	3.9	-4.3
Industrial production <sup>1.2</sup>	Ann. % ch	-10.5	7.9	-2.1	-4.3	:	:	:	24.4	12.2	:	15.3	18.3	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	1.8	3.4	2.9	4.7	3.9f	2.8	3.1	4.9	5.0	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.9	2.2	5.4	3.9	2.1f	1.6	1.8	6.2	3.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	-2.5	11.9	38.4	18.7	17.7f	11.2	3.0	25.4	15.4	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	2.0	5.8	31.5	51.5	:	:	:	35.8	16.8	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	2.4	4.2	4.0	5.2	:	:	:	6.0	2.7	:	5.7	5.6	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	18.2	17.8	18.0	16.4	15.5f	14.9	14.6	14.7	14.4	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	6.6	1.9	1.1	2.1	2.0f	1.6	1.8	2.9	2.1	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	-0.3	0.2	3.5	2.0	1.4f	1.9	2.2	0.0	0.3	:	-0.1	0.1	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	-9.7	-7.6	6.2	8.3	:	:	:	32.8	-8.5	:	3.4	28.1	:
Imports of goods <sup>3.2</sup>	Ann. % ch	0.6	3.5	12.0	11.6	:	:	:	15.4	11.6	:	21.1	6.3	:
Trade balance* <sup>3.3</sup>	% of GDP	-39.8	-40.1	-41.9	-43.3	-44.6f	-45.2	-43.6	-44.0	-44.6	:	-49.2	-49.3	:
Exports goods and services <sup>3.4</sup>	% of GDP	40.1	42.1	40.6	41.1	:	:	:	40.2	62.9	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	60.0	60.6	63.1	64.5	:	:	:	76.2	54.0	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-12.4	-11.0	-16.2	-16.1	-16.5f	-17.4	-14.5	-16.7	-17.4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	10.2	16.9	9.4	11.3	:	:	:	9.4	8.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	544.7	673.7	803.0	897.7	:	:	:	1020.0	1110.3	:	1127.2	1128.0	:
Int. reserves / months imp <sup>3.9</sup>	Ratio	3.7	4.4	4.7	4.7	:	:	:	5.0	5.3	:	5.3	5.3	:
<b>4 Monetary developments</b>														
HICP <sup>4.1</sup>	Ann. % ch	-0.5	1.4	0.1	2.8	2.9f	2.5	1.9	3.7	2.4	:	1.7	1.7	:
Producer prices <sup>4.2</sup>	Ann. % ch	0.2	0.3	-0.1	0.4	:	:	:	1.6	2.0	:	2.9	2.9	:
Food prices <sup>4.3</sup>	Ann. % ch	-1.4	3.0	-0.9	1.9	:	:	:	0.4	1.5	:	0.6	1.5	:
M21 <sup>4.4</sup>	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR <sup>4.5</sup>	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 <sup>4.6</sup>	Index	N.A.	N.A.	N.A.	N.A.	:	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	1.60	:	:	2.35	:	:	:	:	:	:	:	:	:
Bond yield <sup>5.2</sup>	% p.a.	1.26	0.50	1.58	1.71	:	:	:	:	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	10,695	11,956	11,115	10,952	10,390	:	:	10,116	10,386	10,745	10,570	10,874	10,791
Credit growth <sup>5.4</sup>	Ann. % ch	-1.9	0.8	1.3	11.8	:	:	:	12.8	10.7	:	9.2	9.9	:
Deposit growth <sup>5.5</sup>	Ann. % ch	10.0	13.7	9.4	13.8	:	:	:	15.0	10.3	:	8.5	8.3	:
Non-performing loans <sup>5.6</sup>	% of total	16.8	13.4	10.3	7.3	:	:	:	7.0	6.7	:	6.9	7.0	:
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	-2.9	-8.3	-3.6	-5.3	-2.7f	-1.6	2.4	-0.5	1.5	:	:	:	:
General government debt <sup>6.2</sup>	% of GDP	58.7	65.2	63.4	64.2	70.0f	67.8	62.7	62.8	61.8	:	:	:	:

f: ECFIN forecast Autumn 2018 published November 2018

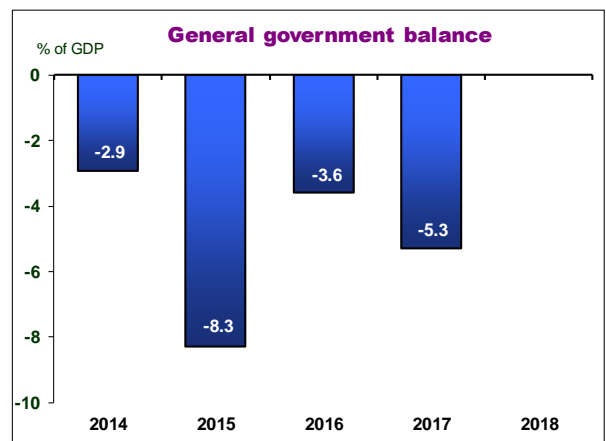
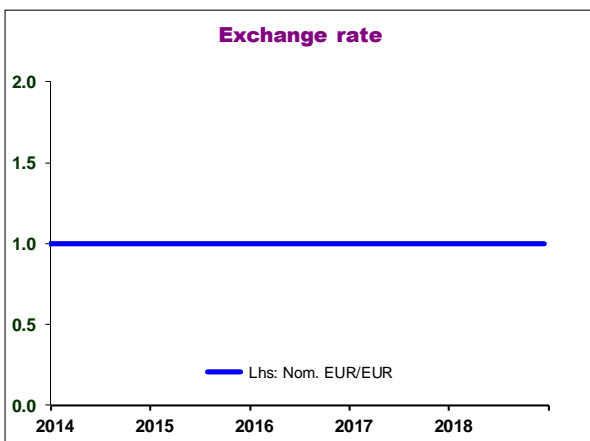
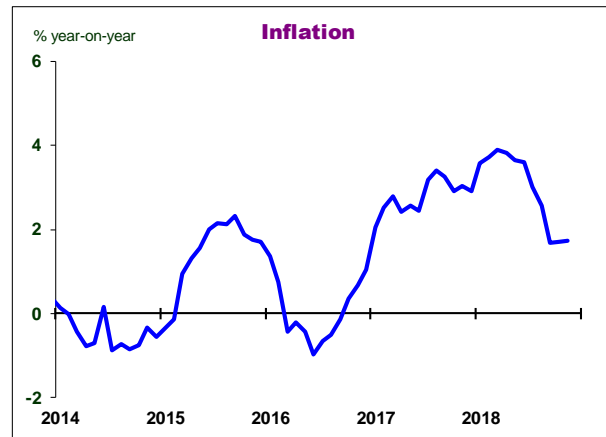
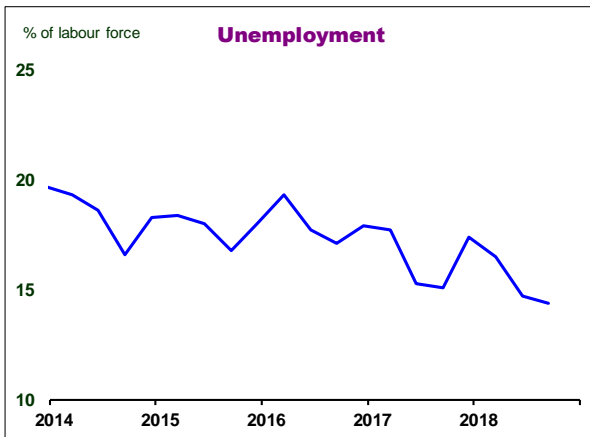
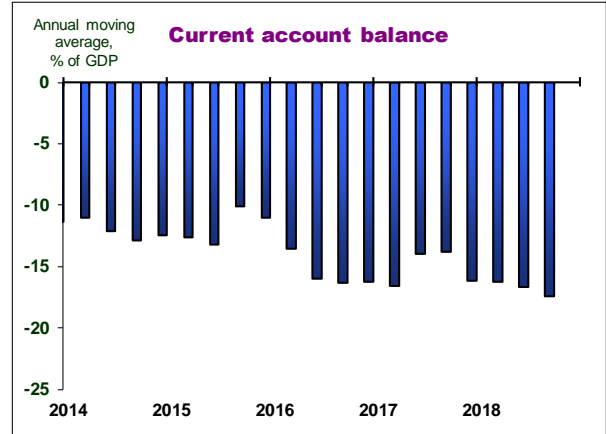
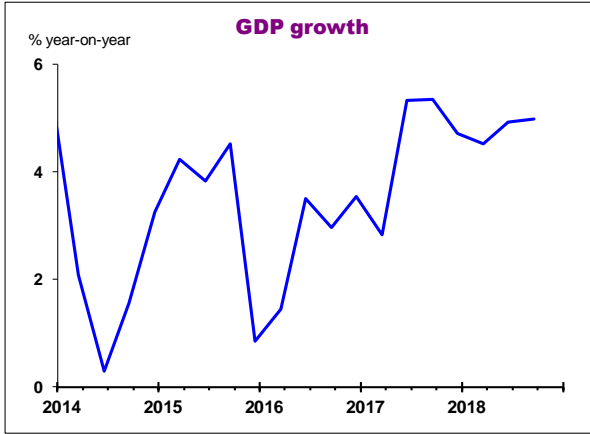
\* Q figures refer to a 4 quarters moving average.

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

# CHARTS



## MONTENEGRO



# SERBIA



## Key developments

In December, Serbia opened two more EU accession negotiation chapters – chapter 17 on economic and monetary policy and chapter 18 on statistics. So far, 16 out of 35 negotiation chapters have been opened since the start of negotiations, of which two have been provisionally closed.

In November, Kosovo has unilaterally imposed, in violation of the CEFTA agreement, a prohibitive 100% tariff on imports of goods from Serbia. The tariff affects Serbian exports of goods to the tune of 1.1 % of GDP per year.

In December, the IMF Executive Board successfully completed the first review of the recently agreed programme for Serbia under the policy coordination instrument.

In December, Standard & Poor's revised its outlook on Serbia from stable to positive, quoting Serbia's solid economic growth outlook, improved monetary flexibility, largely prudent fiscal stance, and good prospects for growth-enhancing reforms under the new agreement with the IMF.

In December, the Chinese company Zijin completed its acquisition of 63 % of the mining and smelting combine RTB Bor. It paid USD 350 million by way of a capital increase in cash. The acquisition follows a strategic partnership agreement between Zijin and Serbia reached in September 2018. According to the business development plan presented by Zijin, RTB Bor will invest in the next six years around USD 0.9 billion into technological upgrade and expansion of production.

## Real sector

The statistical office continued its revision of national accounts, publishing revised series for the period 2005-2014. It also published a preliminary estimate of 4.4 % real GDP growth in 2018.

Following a growth of close to 5 % y/y in the first half of 2018, the expansion of economic activity slowed down to 3.8 % y/y in the third quarter. A more tempered investment performance drove this slowdown, as the growth of gross fixed capital formation decelerated from double-digit levels to a still robust 7.0 % y/y in

the third quarter. Supported by an improving labour market, household consumption continued its steady expansion at 3.3 % y/y. General government consumption expenditure grew by 4.0 % y/y. Due to strong external demand, exports increased 9.1 % y/y in the third quarter. High demand, however, also sustained vigorous import growth (11.2 % y/y) and net exports' contribution to growth remained negative for a fifth consecutive quarter.

On the supply side, the deceleration of economic growth in the third quarter reflected a slowdown in construction and contraction of industrial activity. Other sectors, however, maintained a steady performance: good weather conditions and base effects sustained a double-digit growth of agriculture (15.9 % y/y), and a number of service sectors like trade, transportation, accommodation, and information and communication, continued their expansion in the third quarter.

The fall of industrial activity in the third quarter has likely slowed down in the last quarter. Short-term indicators, however, remained volatile. Industrial production went up 3.2 % y/y in October, backed by strong manufacturing, before falling again in November (-1.0 % y/y). Electricity, gas, steam, and air conditioning supply, and mining and quarrying have not yet recovered since their lows in the summer. Nevertheless, in the period January-November total industry and the majority of manufacturing sectors expanded production, by 2.1 % and 2.7 % y/y respectively. Indicating a continuation of the strong consumption trend, retail trade turnover preserved its high growth, increasing by 5.3 % y/y in October and 6.1 % y/y in November.

## Labour market

According to the third quarter LFS data, the unemployment rate of the population aged 15+ slid further down to 11.3 %. The activity rate reached a new high at 55.5 % of the population aged 15+ in the third quarter. However, due to ageing and shrinking population, the labour force, i.e. the population actively participating in the labour market, declined by 9 thousand people y/y. The employment rate increased as well, to 49.2 %, while the total number of employed went up by 47.4 thousand people.



Employment growth was particularly pronounced in the formal part of the economy (excluding agriculture), which added more than 113 thousand jobs y/y in the third quarter. Informal employment, however, most of it in agriculture, remained high at 20.4 % of the total.

Registered employment increased by 3.3 % y/y in the third quarter. Employment growth remained stronger in the private sector, while public sector employment declined further by 1.1 % y/y. The National Employment Service data on registered unemployment also confirm the improving labour market conditions – the number of registered jobseekers fell by around 10 % in the last quarter of the year. The robust growth in real net wages continued in September and October, bringing their average growth since the beginning of the year to 4.3 % y/y.

### External sector

The merchandise trade deficit continued to widen, reaching a cumulative EUR 5 billion by the end of November (up 30.7 % y/y). In October and November exports of goods increased by 12.5 % and 10.7 % y/y respectively. However, driven by strong demand and higher energy prices, imports growth stood at 20.3 % in October and 10.2 % y/y in November. The larger merchandise trade deficit also led to an expansion of the current account deficit. In the period January-November, it increased by 14.3 % y/y, contained by a better performance in the export of services, and of the primary and secondary income accounts. Net FDI inflows covered 120 % of the current account deficit in this period. As a ratio to GDP, the current account deficit increased slightly to 5.3 % in the four quarters until September from 5.1 % in 2017. The foreign exchange reserves of the central bank increased by EUR 1.3 billion in 2018 and stood at EUR 11.3 billion in December, covering more than five months' worth of imports of goods and services.

### Monetary developments

After edging up in the summer months, consumer price inflation eased to 2.0 % y/y in December. Average inflation was also 2.0 % y/y in 2018. Confirming the absence of inflationary pressure, core inflation (excluding food, energy, alcohol and tobacco) remained stable at around 1.0 % y/y in the last quarter of the year. The central bank has kept its key policy rate on hold at 3.0 % since its last reduction in April.

The dinar exchange rate against the euro remained broadly unchanged, averaging 118.4 in

the last quarter of 2018. Since September, the central bank has reduced its massive purchases on the foreign exchange market and has intervened only marginally on both sides of the market. In 2018, the central bank purchased a net EUR 1.580 billion, buying EUR 1.835 billion and selling EUR 0.255 billion.

### Financial sector

In November, the banking sector's domestic claims were up by 2.0 % y/y. The underlying credit growth, however, was much stronger as sizeable NPL write-offs and sales had a strong negative impact on the headline figures. In addition, a sharp reduction of net claims on the government also masked a robust growth in lending to households (13.9% y/y by end-September, excluding exchange rate and NPL write-off and sale effects) and companies (+11.3% y/y). Government deposits increased 34.4 % y/y in anticipation of the early December repayment of USD 1 billion on the five-year Eurobond issued in 2013. The gross non-performing loan ratio fell to 6.4 % and both capital adequacy (22.8 %) and return on equity (10.7 %) remained high in September. As vulnerabilities increased in some segments of the credit market, at the end of December the central bank introduced new measures to curb risks from excessive growth in cash loans with long maturities for households. It has also introduced a requirement for commercial banks to inform fully their clients on the possible risks of floating interest rates. Also in December, the central bank and the government signed a new memorandum on the dinarisation strategy, replacing the previous one adopted in 2012.

### Fiscal developments

The cumulative general government surplus increased to RSD 63.7 billion by the end of October (around 1.3 % of the estimated annual GDP and against a targeted annual deficit of 0.7 % of GDP). Total revenue growth stood at 5.9 % y/y in the period January-October, reaching 85 % of the annual revenue plan. Expenditure growth accelerated to 8.4 % y/y over the same period, with expenditure execution at 81 % of its annual plan. By end-October, government debt stood at 56.7% of the estimated full year GDP, down from 57.9% at end-2017.

The 2019 budget, adopted by the parliament in December, targets a general government deficit of 0.5% of GDP.

# TABLE

European Commission, ECFIN-D-1



## SERBIA

		2014	2015	2016	2017	2018	ECFIN 2018 Autumn forecast		Q2 18	Q3 18	Q4 18	Oct 18	Nov 18	Dec 18
							2019	2020						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	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 <sup>1.2</sup>	Ann. % ch	-6.1	8.4	4.8	3.4	:	:	:	2.5	-1.3	:	3.2	-1.0	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	-1.6	1.8	3.3	2.0	4.4	3.8	3.8	4.9	3.8	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	-0.1	-0.5	1.3	2.0	3.3f	3.7	3.6	3.3	3.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	-3.4	4.9	5.4	7.3	11.3f	7.4	7.3	12.3	7.0	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	-3.8	13.1	5.1	9.3	:	:	:	14.3	4.3	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	2.8	2.0	8.0	3.8	:	:	:	3.4	4.9	:	5.3	6.1	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	19.2	17.7	15.3	13.5	13.1f	12.0	10.9	11.9	11.3	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	10.1	0.6	5.6	2.8	1.5f	1.3	1.2	0.5	1.6	:	3.7	3.2	N.A.
Wages <sup>2.3</sup>	Ann. % ch	1.2	-0.4	3.8	3.9	:	:	:	2.3	2.7	:	6.8	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	1.5	7.9	11.6	12.1	:	:	:	6.6	8.1	:	13.0	10.7	:
Imports of goods <sup>3.2</sup>	Ann. % ch	-1.8	5.9	6.1	13.6	:	:	:	11.0	15.1	:	20.4	10.2	:
Trade balance* <sup>3.3</sup>	% of GDP	-12.1	-11.3	-9.9	-11.1	-11.8f	-12.5	-12.9	-11.8	-12.6	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	44.8	45.3	48.6	50.5	:	:	:	50.2	50.6	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	53.4	52.3	53.4	57.1	:	:	:	57.3	58.4	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-6.0	-4.4	-2.9	-5.1	-5.9f	-7.4	-7.9	-5.2	-5.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	3.7	5.1	5.2	6.2	:	:	:	6.4	5.9	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	9,907.2	10,378.0	10,204.6	9,961.7	:	:	:	11,104.4	11,172.5	:	11,550.4	11,626.5	:
Int. reserves / months imp <sup>3.9</sup>	Ratio	7.8	7.7	7.2	6.2	:	:	:	6.5	6.3	:	6.4	6.4	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	2.1	1.4	1.1	3.1	2.0	2.9	3.0	1.8	2.4	2.0	2.2	1.9	2.0
Producer prices <sup>4.2</sup>	Ann. % ch	0.7	0.2	-0.4	3.4	2.2	:	:	1.9	3.7	2.5	4.0	2.4	1.1
Food prices <sup>4.3</sup>	Ann. % ch	-0.9	1.9	-0.3	3.3	1.9	:	:	1.8	2.2	1.9	1.7	1.4	2.7
M3 <sup>4.4</sup>	Ann. % ch	7.6	6.6	11.6	3.6	:	:	:	7.9	8.2	:	9.5	8.4	:
Exchange rate RSD/EUR <sup>4.5</sup>	Value	117.23	120.74	123.09	121.41	118.27	:	:	118.17	118.14	118.35	118.44	118.35	118.28
Nominal eff. exchange rate <sup>4.6</sup>	Index	72.0	67.4	66.1	67.3	69.7	:	:	69.9	69.5	69.2	69.2	69.1	69.2
<b>5 Financial indicators</b>														
Interest rate (BEONIA) <sup>5.1</sup>	% p.a.	6.76	4.75	2.70	2.68	2.24	:	:	2.24	2.07	2.26	2.11	2.44	2.22
Bond yield (12 months) <sup>5.2</sup>	% p.a.	9.18	7.27	4.63	:	:	:	:	:	:	:	:	:	:
Stock markets <sup>5.3</sup>	Index	1,215	1,359	1,383	1,584	1,562	:	:	1,556	1,532	1,555	1,541	1,556	1,568
Credit growth <sup>5.4</sup>	Ann. % ch	5.8	7.0	9.0	2.2	:	:	:	0.3	6.0	:	5.9	2.0	:
Deposit growth <sup>5.5</sup>	Ann. % ch	7.6	6.5	11.4	3.3	:	:	:	8.1	8.3	:	9.3	8.2	:
Non-performing loans <sup>5.6</sup>	% total	21.5	21.6	17.0	9.8	:	:	:	7.8	6.4	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>														
General government balance** <sup>6.1</sup>	% of GDP	-6.6	-3.5	-1.2	1.1	:	-0.3	-0.5	2.3	1.7	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	70.4	74.7	71.9	61.6	56.4f	54.1	52.1	59.7	:	:	N.A.	N.A.	N.A.

f. ECFIN forecast Autumn 2018 published November 2018

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

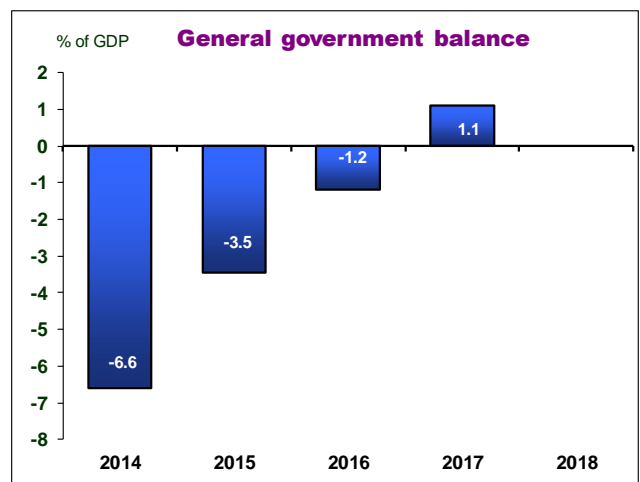
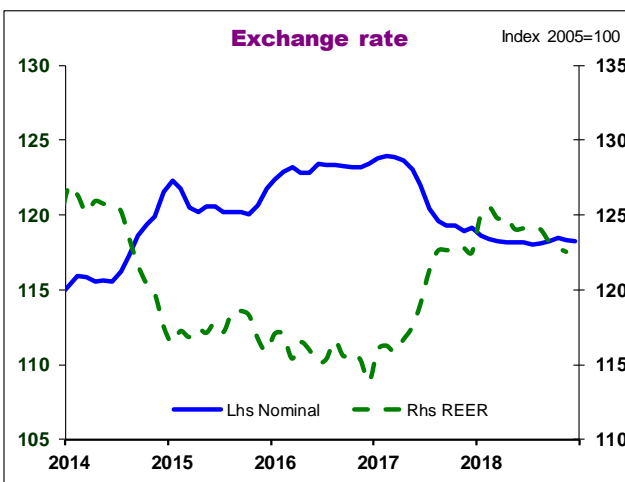
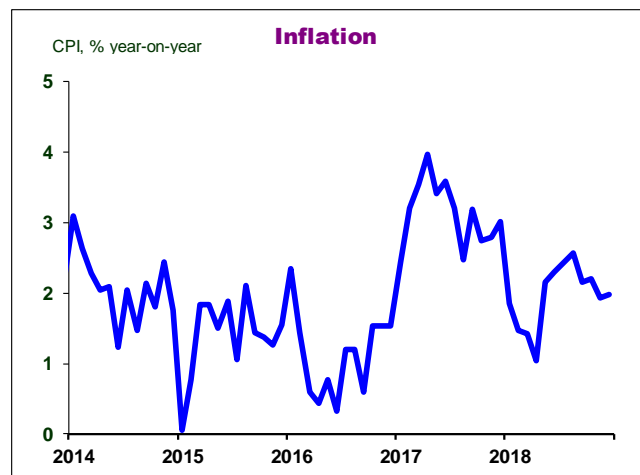
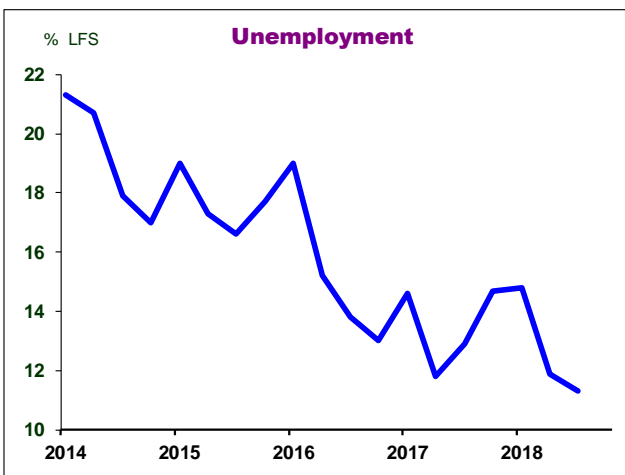
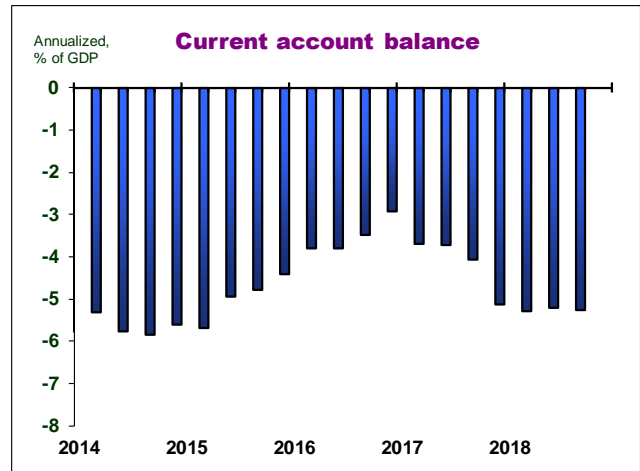
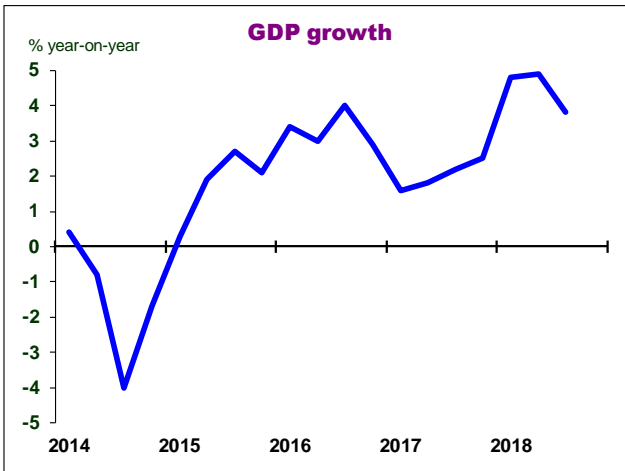
\*\* Q figures refer to the quarterly balance divided by the quarterly GDP.

# CHARTS

European Commission, ECFIN-D-1



## SERBIA



## TURKEY



### Key developments

The Economic Policy Council has been established under the new constitution to monitor national and international economic developments and provide advice on economic policy.

The 13 September 2018 law restricting the use of foreign currency in high value contracts like car lease and real estate has been refined and clarified throughout the fourth quarter in a way that limits its impact on foreign investors active in Turkey.

Turkstat announced Turkish expenditures on R&D by government and private sector to have increased from 0.94% of GDP in 2016 to 0.96% in 2017.

### Real Sector

Real GDP slowed down strongly in the third quarter to 1.6% year-on-year (2.1% adjusted for calendar days, -1.1% qoq), from 5.3% in the previous quarter. Weak domestic demand drove the soft figure. Private consumption decelerated further from 6.4% y-o-y in the second quarter (first estimate: 6.3%) to 1.1% in the third quarter. Its contribution to growth declined to an estimated 0.6%-pt, the weakest reading since the third quarter of 2016. Gross fixed capital formation contracted by 3.8% y-o-y with a particular strong fall in the investment in machinery (-8.5%). Government consumption, on the other hand, continued to grow at a high pace and was up by 7.5% y-o-y following a revised 7.8% in the second quarter. Stock accumulation and net errors and omissions subtracted sizably from GDP growth. A sharp contraction in imports (-16.7% yoy) and a strong acceleration of export growth (+ 13.6% yoy) led net trade to provide a large positive contribution to GDP growth.

Construction had its worst performance since the 2009 financial crisis according to the production records of the national accounts (-5.3% yoy). Manufacturing continued to lose momentum in

the third quarter (+1.8% yoy) and the downturn became more widespread with only non-durable goods still registering a positive annual growth. Manufacturing contracted by a further 7.0% yoy in November following a decline of 6.6% in October. The services industry recorded one of the strongest growth (+5.7% yoy), together with public administration (+10.2%).

High frequency indicators continue to point to a recessionary environment in the fourth quarter. The Markit PMI index remains well into recessionary territory and ended the year at 44.2 (2018 Q4 average 44.4). DG ECFIN's confidence indicator for the industrial sector remains negative as well but suggests some bottoming out at the end of the year. Construction confidence reached a historic low of 53.9 in December. Total house sales fell by 27% y-o-y in November with mortgaged house sales dropping by 86% y-o-y. Services sentiment reached a historic low of -25.8 in October before recovering somewhat to -20.1 in December. Retail sales volume declined by 6.3% yoy in November and by 7.4% yoy in October.

### Labour market

The labour force grew by 1.9% y-o-y in the third quarter. Employment growth decelerated further from 2.4% y-o-y in the second to 1.3% y-o-y in the third quarter. Employment growth was the strongest for the highly educated (+6.3% yoy) whereas the illiterate faced a contraction (-4.2% yoy). The highly educated constituted 23.8% of Turkish workforce while 52.6% had less than high school. The seasonally-adjusted unemployment rate increased further from 10.0% in the second to 11.4% in the third quarter. Hourly labour costs accelerated further in the third quarter (+20.1% y-o-y) but in real terms the increase was almost fully undone by the increase in prices. Construction (+21.1% yoy) and manufacturing (+21.2%) saw stronger earning increases than services (+19.0%) regardless of the strong loss in production momentum in these sectors. The minimum wage has been raised by 26% in January, exceeding the central bank's inflation projection for 2019 by 10%-pt.

## External sector

From August onwards, the current account (USD 1.9bn) recorded a surplus for the first time since the autumn of 2015. The trade in goods balance (USD 2.6 bn) recorded the first positive number since February 2009. Following the sharp depreciation of the lira, a very short-lived J-curve effect was visible with exports dropping by 9.1% yoy in August (in USD terms), followed by 12.5% yoy average increase from September to November. The import contraction of the second quarter worsened from August (-22.2% yoy in August and -20.9% yoy from September till November). The 4-quarter moving average of the current account deficit deteriorated to 5.6% of GDP in the third quarter compared with 4.2% in the same period a year earlier.

Net financial inflows decreased in the first eleven months of 2018 by 64.3% y-o-y when measured in USD terms. The best performing investment categories in the three months following the August currency crisis were government debt (net inflow of +USD 4.0 bn) and FDI (USD 2.5bn). Banks continued to face outflows amounting to USD 12.3 bn, registering the largest outflows in loans (-USD 8.7 bn). Official reserves decreased from USD 115 bn in November 2017 to USD 91 bn in November 2018 (5.5 months of imports).

## Monetary developments

Inflation increased to 22.4% in in the fourth quarter of 2018 and core inflation to 21.5%. Annual inflation softened towards the end of the year with consumer prices declining in the last two months of the year (negative m-o-m figures). The price deceleration could be explained by the fall in oil prices, the stabilisation of the Turkish lira and the weak demand conditions, according to the TCMB. Pointing to prevailing inflation risks, based on the cost push resulting from the depreciating lira and increased inflation expectations, the MPC decided to leave its policy rate at 24% at its meetings on 20 December and on 16 January 2019 .

Over the fourth quarter, the lira appreciated by 12% against the euro to reach a total depreciation of 37% since the beginning of the year. The real effective exchange rate based on consumer price inflation depreciated by 12% between January and December of 2018,

recovering from a 28% loss registered in the year until August.

## Financial sector

The Borsa Istanbul Index fell by 20.9% yoy in the fourth quarter in local currency terms while the MSCI index in EUR terms lost 38.0% yoy. The MSCI is back to the level of 2005 in USD terms. Banks' net profits increased by 12.1% y-o-y in the first eleven months of 2018 in nominal terms. Currency losses, however, increased nearly tenfold to TL 39.6bn over the same period. Turkish banks do not have to recognize all of the losses in their books after the changes in the BDDK prudential regulations in response to the TL crisis. State banks realized a decline in nominal profits of 0.4% yoy over the same period. The capital adequacy ratio increased to 18.2 to November from 16.4 a year earlier. The NPL ratio increased to 3.7 from 2.9 over the same period. Credit growth slowed in the fourth quarter to 14.4% yoy in nominal terms and -6.4% qoq relecting dire credit condtions. The loan-to-deposit ratio registered 124.4 in November (was 126.6 in November 2017) after reaching a historic high of 128.0 in June.

## Fiscal developments

The government realized a deficit of TL 73 bn in 2018 or 1.9% of GDP, exactly hitting its September target. Changes to the tax system (VAT returns, VAT rates) and the drop in domestic demand have become visible in tax revenues with domestic VAT revenues falling by 63.9% yoy in December. Other revenues, like increased profit tax and non-tax revenues compensated this shortfall compared to the budgeted amount. The 2019 budget was approved on 21 December and, in line with the medium-term planning, foresees a budget deficit of 1.8% of GDP in 2019. Compared to 2018 outcome, the budgeted government expenditures are projected to increase by 23.9% yoy and government revenues by 25.2% yoy. Capital spending is reduced in nominal terms in the budget whereas personnel expenditures, contributions to the social security fund, current transfers and interest payments see significant (real) increases. As a consequence of the depreciation of the lira and with a sizable share of government FX debt (40% of total debt), government debt to GDP increased from 29.2% in 2018 Q2 to 32.6% in 2018 Q3.

## TABLE



European Commission, ECFIN-D-1

### TURKEY

		2014	2015	2016	2017	2018	ECFIN 2018 Autumn forecast		Q2 18	Q3 18	Q4 18	Oct 18	Nov 18	Dec 18
							2019	2020						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	104.6	103.5	105.2	108.0	101.4	:	:	108.6	96.2	90.6	87.6	92.8	91.5
Industrial production <sup>1.2</sup>	Ann. % ch	3.5	2.9	1.8	6.3	:	:	:	:	:	:	:	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	5.2	6.1	3.2	7.4	3.8f	-1.5	3.0	5.3	1.6	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.9	5.4	3.6	6.1	2.3f	-3.7	3.2	6.4	1.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	5.1	9.3	2.2	7.8	3.2f	-12.1	5.1	4.2	-3.8	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	38.7	-8.8	16.7	61.0	:	:	:	:	:	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	3.8	6.7	2.2	5.7	:	:	:	5.9	0.6	:	-7.5	:	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	10.1	10.5	11.1	11.1	10.1f	12.8	12.7	10.0	11.4	:	:	:	:
Employment <sup>2.2</sup>	Ann. % ch	N.A.	2.5	2.2	3.5	3.0f	0.2	2.6	2.4	1.3	:	:	:	:
Wages <sup>2.3</sup>	Ann. % ch	11.0	16.7	21.3	10.2	17.5f	13.7	12.8	18.4	23.2	:	:	:	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	3.5	-9.0	-0.7	10.2	:	:	:	3.5	10.2	:	9.5	9.4	:
Imports of goods <sup>3.2</sup>	Ann. % ch	-4.0	-14.8	-3.8	17.2	:	:	:	4.7	-14.5	:	-24.2	-21.2	:
Trade balance* <sup>3.3</sup>	% of GDP	-6.8	-5.6	-4.8	-6.9	-7.9f	-5.0	-5.0	-8.0	-7.2	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	23.8	23.3	22.0	24.8	:	:	:	25.0	27.5	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	27.6	26.0	24.9	29.3	:	:	:	30.3	31.0	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-4.7	-3.8	-3.8	-5.6	-6.8f	-2.9	-3.4	-6.5	-5.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	1.4	2.1	1.6	1.3	:	:	:	1.2	1.4	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	bio EUR	128.3	110.5	106.1	107.7	93.2	:	:	98.4	84.7	93.2	88.1	91.0	93.2
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.4	6.4	6.4	5.5	5.0	:	:	4.8	4.3	5.0	4.5	4.8	5.0
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	8.9	7.7	7.8	11.1	16.3	15.4	12.4	12.8	19.4	22.4	25.2	21.6	20.3
Producer prices <sup>4.2</sup>	Ann. % ch	10.2	5.3	4.3	15.8	27.0	:	:	20.1	34.5	39.0	45.0	38.5	33.6
Food prices <sup>4.3</sup>	Ann. % ch	12.6	11.1	5.8	12.7	18.0	:	:	12.9	22.3	26.7	29.3	25.7	25.1
M4 <sup>4.4</sup>	Ann. % ch	11.1	17.1	17.2	15.5	19.3	:	:	20.3	30.0	19.3	21.2	15.3	19.3
Exchange rate TRY/EUR <sup>4.5</sup>	Value	2.90	3.03	3.34	4.15	5.68	:	:	5.14	6.76	6.06	6.27	5.87	6.03
Nominal eff. exchange rate <sup>4.6</sup>	Index	69.40	64.20	59.10	48.22	:	:	:	38.93	31.37	:	30.50	33.38	:
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	9.84	10.48	9.88	12.20	18.92	:	:	15.81	21.41	24.96	27.06	24.27	23.54
Interest rate, long term <sup>5.2</sup>	% p.a.	9.18	9.30	10.19	11.11	15.88	:	:	14.37	19.32	17.73	19.09	17.01	17.09
Stock markets <sup>5.3</sup>	Index	75,190	80,641	77,177	98,993	101,927	:	:	103,044	94,486	93,604	95,330	93,639	91,842
Credit growth <sup>5.4</sup>	Ann. % ch	18.4	20.4	16.2	21.2	12.4	:	:	22.1	28.1	13.1	17.7	12.5	13.1
Deposit growth <sup>5.5</sup>	Ann. % ch	11.6	18.6	17.7	17.7	17.6	:	:	21.5	33.6	22.1	24.8	17.6	22.1
Non-performing loans <sup>5.6</sup>	% total	2.8	2.9	3.2	3.1	:	:	:	2.9	:	:	:	:	:
<b>6 Fiscal developments</b>														
General government balance** <sup>6.1</sup>	% of GDP	0.1	1.3	-1.3	-2.0	-2.5f	-1.9	-2.2	-0.7	-0.2	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	28.6	27.5	28.5	28.5	31.2f	31.9	30.5	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2018 published November 2018

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

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

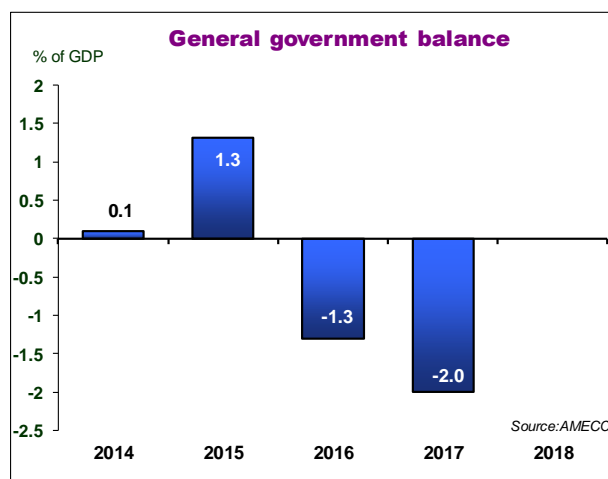
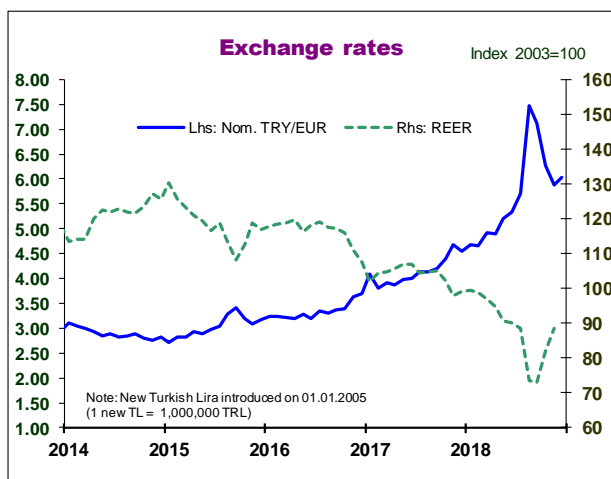
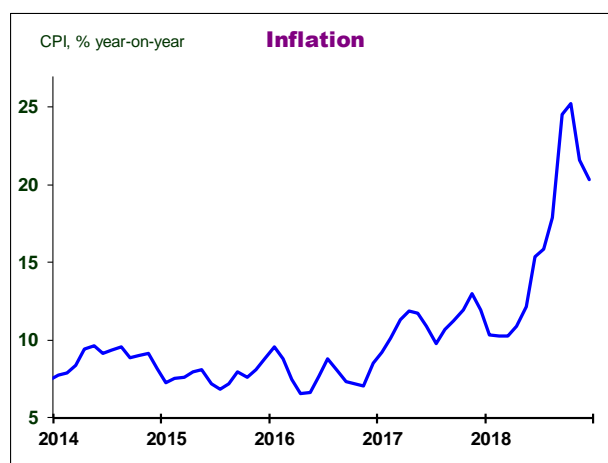
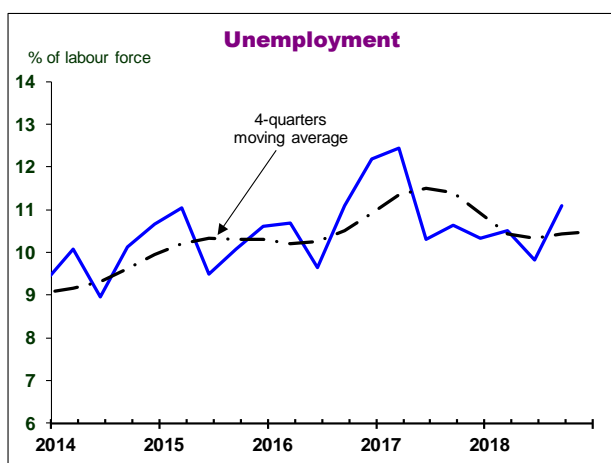
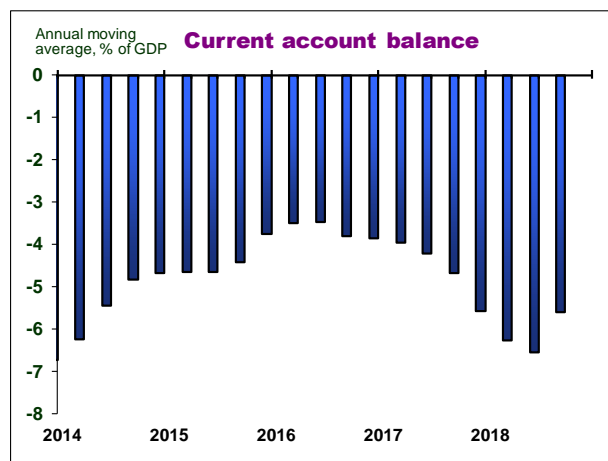
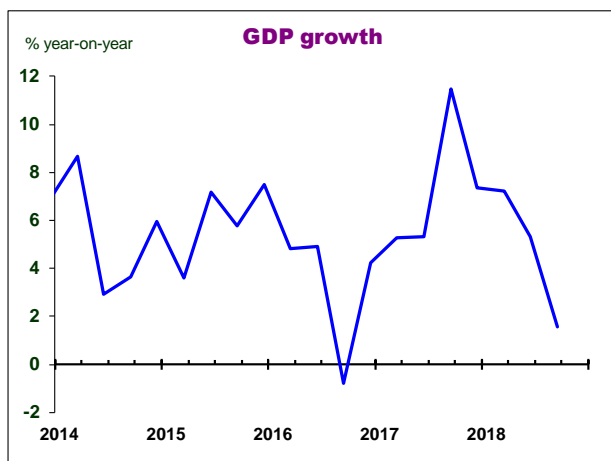


# CHARTS

European Commission, ECFIN-D-1



## TURKEY





# BOSNIA AND HERZEGOVINA



## Key developments

On 31 October, the World Bank presented its 2019 Doing Business Report. Among 190 countries, Bosnia and Herzegovina was ranked on the 89<sup>th</sup> place, well below its peers in the Western Balkans and Turkey. The three areas with the worst performance were: the starting of a new business, dealing with construction permits and the handling of tax payments.

After countrywide general elections for the state-level Presidency and Parliament as well as for the other levels of governance (entities, cantons and Brčko district) on 7 October, the process of forming the required governmental bodies is not completed yet.

## Real sector

Real GDP growth decelerated to 3.0% in the third quarter, compared to a (revised) 3.6% growth rate in both the first and second quarter of 2018. A key factor for this slowdown has been lower growth of household consumption, dropping to 0.9%, down from 3.2% in the second quarter. Another important reason was the slowdown of the growth of exports of goods and services, to 5.3% year-on-year, compared to 6.5% and 6.6% in the first and second quarter, respectively. Gross capital formation increased by 9.8% in the third quarter. However, at the current stage, this data is still preliminary, and in particular, in the case of gross capital formation, substantial revisions are not unusual.

High-frequency indicators point to a strengthening of domestic demand during the fourth quarter. Retail sales rose by 9.1% and 11.2% in October and November, compared to an increase by 9.2% in the third quarter. On the other hand, industrial production appears to have lost some dynamics, as industrial production dropped by 1.7% in November, compared to an increase by 0.8% in the third quarter. Decelerating external demand might be one of the key factors.

## Labour market

Registered employment continued to increase by some 2% on average during September-October. Moreover, the dynamics of newly registered

employment has been slightly higher, at around 3%. The manufacturing and wholesale trade sectors accounted for more than 70% of the employment increase. In October, about 18,000 more persons were registered as employed compared to a year before. Out of those, some 13,000 registrations took place in manufacturing and trade, 2,000 in tourism, and 1,800 in the public sector, including education and health. By October, the number of registered unemployed had declined by more than 5%, compared to a year before, leading to a fall in the unemployment rate to 35.0%, compared to 37.5% a year before. The administrative unemployment rate dropped by 2½ percentage points year-on-year to a still worrying 35.0% in October 2018. Youth unemployment remains high, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is at around 80% of total unemployed.

Nominal wages rose by 3.5% year-on-year in the third quarter and accelerated further to 4.9% in November, up from 2.8% in the first three months. The highest increase was in the construction sector (+6.9% year-on-year). Adjusted for inflation, real wages were about 3% higher than a year before.

## External sector

The current account deficit in the four quarters to end-September was at 4.3% of GDP, unchanged from the previous quarter and about 0.5 percentage points lower than a year before. The four-quarter moving average merchandise trade deficit (24.2% of GDP) also hardly changed. During the year, the growth of merchandise exports has slowed significantly, from 12% y-o-y in the second quarter to 3.3% in the third quarter, while import growth slowed down only slightly, declining from 4.9% to 4.7%. This led to a deterioration in the trade balance of goods by about 1 percentage point, which was largely compensated by a similar improvement in the service balance, mainly thanks to higher net revenues from tourism. The surpluses in the primary and secondary income balances, including workers remittances, also remained largely unchanged as a percentage of GDP over last four quarters to September.

Monthly commodity trade data confirm a deceleration of export growth, which fell to

2.5% year-on-year in November, compared to two-digit growth rates at the beginning of 2018. The slowdown started in August already and is largely related to lower exports to Turkey and the UK, but also Kosovo, resulting from the latter's recent increase in import tariffs. Trade with the EU contributed some 80% to the country's export growth in this period. Trade with the other Western Balkan countries contributed some 15% to export growth, compared to 25% a year before. The growth of merchandise imports slowed down to 8.2% during the first eight months.

Net foreign direct investment rose slightly to 2.5% of GDP in the four quarters to September, compared to 1.7% a year before. Compared to 2017, FDI inflows in the first three quarters have slightly increased as a share in GDP. The increase in foreign reserve levels slowed down in the second half of the year, but still rose 13.4% in November. In combination with a slowdown in growth of imports, the foreign reserve's import coverage has continued to increase, reaching 7.3 months in November.

### Monetary developments

Inflationary dynamics have softened again in November, with headline inflation softening to 1.8%, compared to 3.4% in October. Over the first 11 months, average inflation was 1.4%, compared to 0.8% a year before. The increase in the price level was to a large extent driven by transport (+12.3%), housing (+4.0%) and alcoholic beverages and tobacco (+5.9%), while lower prices for clothing and footwear (-10%) helped to contain the increase in the overall price level.

The annual growth of the monetary aggregate M2 remained high in the third quarter, reaching 10.3% compared to 10.2% in the second quarter.

### Financial sector

Annual domestic credit growth remained strong at 6.8% in the second quarter, and at 6.1% and 6.8% in July and August, respectively. Household and corporate credits, accounting in nearly equal shares for about 90% of total loans, still were the main factors behind this trend.

Growth of total deposits remained strong in the third quarter, increasing by 12.0% y-o-y but decelerated in October and November, to 9.7% and 9.4% respectively. In the period January-

November, deposits rose by 11.8% y-o-y. The main drivers of deposit growth continues to be household deposits, contributing about 30% to overall deposit growth, while the contribution of private enterprises was at about 20%. Due to a robust increase in deposits, the loan-to-deposit ratio continued to decline, to 90.2% in November, compared to 92.9% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 9.4% in the third quarter, compared to 10.8% a year before. Loan-loss provisioning has remained largely unchanged, with 78.4% of non-performing loans covered by loan provisions, compared to 78.7% in the second quarter. A year ago, loan-loss provisions had been at 77.1% only. Banking sector profitability deteriorated slightly in the third quarter as the return-on-equity dropped to 11.1%, compared to 12.1% in the second quarter. A year before, this ratio had been at 11.7%. The return on average assets also deteriorated slightly, declining to 1.5%, after 1.7% in the first and second quarter. The banking system's overall capital adequacy ratio stayed largely unchanged, at 15.5% in the third quarter. This is still clearly above the country's regulatory minimum of 12%. However, there are big differences among the various banks.

### Fiscal developments

Public sector revenues continued to perform well in the first nine months of 2018. Indirect taxes, accounting for about 40% of total revenues, increased by some 7% year-on-year, compared to close to 6% growth in the same period a year before. However, during the year, the dynamics of revenue collection decelerated. Spending on public wages has remained contained. Draft budget proposals for 2019 envisage a country wide deficit of about 1% of GDP.

The debt-to-GDP ratio declined in the third quarter to 37.2% of GDP at the end of September compared to 38.6% at the end of June. The main driver was a decline in long-term, domestic currency securities. As a result, the share of domestic currency denominated debt shrank from 14.3% in the second quarter to some 12.8% in the third quarter. The three largest holders of foreign debt are still the World Bank, the European Investment Bank (EIB) and the EBRD, accounting for about 23%, 22% and 10% of the country's total foreign public debt, respectively

## TABLE

European Commission, ECFIN-D-1



### BOSNIA AND HERZEGOVINA

		2014	2015	2016	2017	2018	Q2 18	Q3 18	Q4 18	Oct 18	Nov 18	Dec 18
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	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 <sup>1.2</sup>	Ann. % ch	0.2	3.1	4.4	3.1	:	1.4	0.8	:	2.8	-1.7	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	0.6	4.1	3.4	3.4	:	3.6	3.0	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	2.8	1.3	1.9	1.2	:	3.2	0.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	11.5	-3.5	2.5	5.1	:	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	22.2	-22.7	34.0	-6.9	:	-23.5	-47.0	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	1.8	7.8	7.0	5.1	:	8.5	9.2	:	9.1	11.2	:
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	27.5	27.7	25.4	20.5	18.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	-1.2	1.2	-2.6	1.9	0.7	2.4	2.1	N.A.	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	-0.1	0.0	0.9	1.6	:	2.8	3.5	:	4.1	4.9	:
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	3.0	5.1	7.0	21.3	:	12.0	3.3	:	6.6	2.5	:
Imports of goods <sup>3.2</sup>	Ann. % ch	7.1	-2.3	2.6	13.3	:	4.9	4.7	:	7.9	-3.5	:
Trade balance* <sup>3.3</sup>	% of GDP	-27.8	-24.2	-22.8	-22.9	:	-24.1	-24.2	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	32.8	33.6	34.3	38.9	:	41.1	41.1	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	54.7	51.3	50.4	54.8	:	57.1	57.0	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-7.4	-5.4	-4.9	-4.8	:	-4.3	-4.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	2.8	1.7	1.6	2.0	:	2.2	2.5	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	4,016.3	4,438.9	4,884.1	5,392.9	:	5,675.7	5,943.1	:	5,900.3	5,972.4	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	5.8	6.6	7.1	7.0	:	6.7	7.0	:	7.1	7.3	:
<b>4 Monetary developments</b>												
CPI <sup>4.1</sup>	Ann. % ch	-0.9	-1.0	-1.1	1.2	:	1.4	2.1	:	3.8	1.8	:
Producer prices <sup>4.2</sup>	Ann. % ch	-0.2	-0.6	-0.9	1.8	:	3.6	4.4	:	3.6	3.1	:
Food prices <sup>4.3</sup>	Ann. % ch	-2.7	-0.9	-1.1	0.9	:	:	:	:	:	:	:
M2 <sup>4.4</sup>	Ann. % ch	7.3	8.0	8.3	9.5	:	10.2	10.3	:	9.3	9.1	:
Exchange rate BAM/EUR <sup>4.5</sup>	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 <sup>4.6</sup>	Index	103.1	102.03	103.31	104.11	:	105.22	106.56	:	106.68	:	:
<b>5 Financial indicators</b>												
Interest rate (3 months) <sup>5.1</sup>	% 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 <sup>5.2</sup>	% 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 <sup>5.3</sup>	Index	707	701	692	627	621	611	630	634	636	630	634
Credit growth <sup>5.4</sup>	Ann. % ch	3.7	1.8	2.1	5.3	:	6.8	6.5	:	7.1	6.3	:
Deposit growth <sup>5.5</sup>	Ann. % ch	8.4	6.2	7.7	10.4	:	12.0	12.0	:	9.7	9.4	:
Non performing loans <sup>5.6</sup>	% total	15.2	13.9	12.3	10.9	:	9.3	9.4	:	N.A.	N.A.	N.A.
<b>6 Fiscal developments</b>												
General government balance** <sup>6.1</sup>	% of GDP	-2.0	0.6	1.2	2.6	:	N.A.	N.A.	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	40.2	40.3	39.0	35.1	:	38.6	37.2	:	N.A.	N.A.	N.A.

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

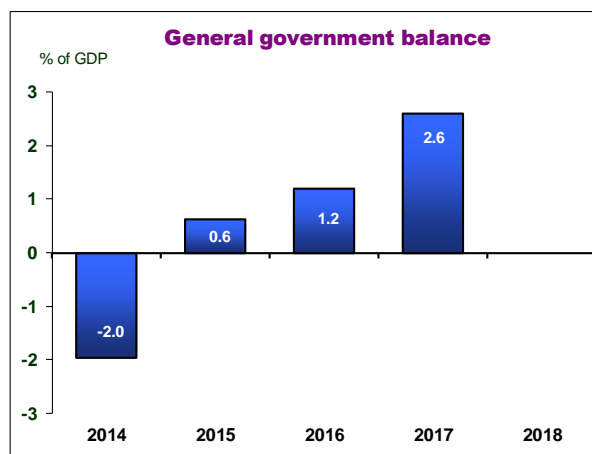
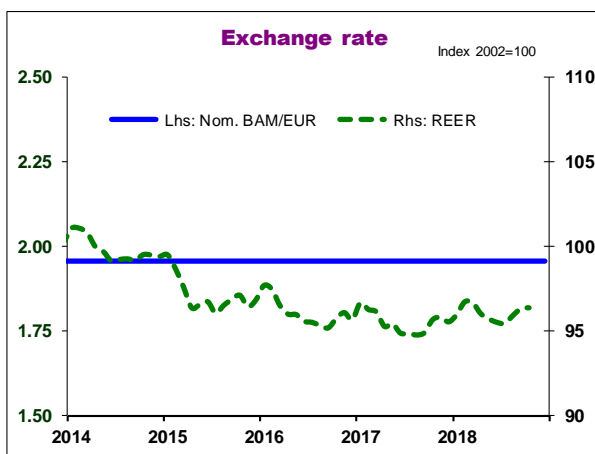
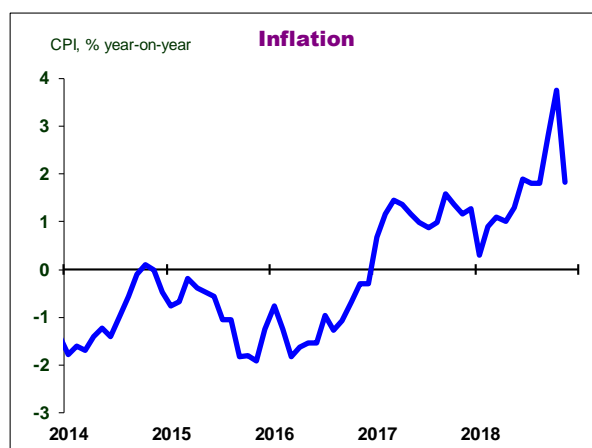
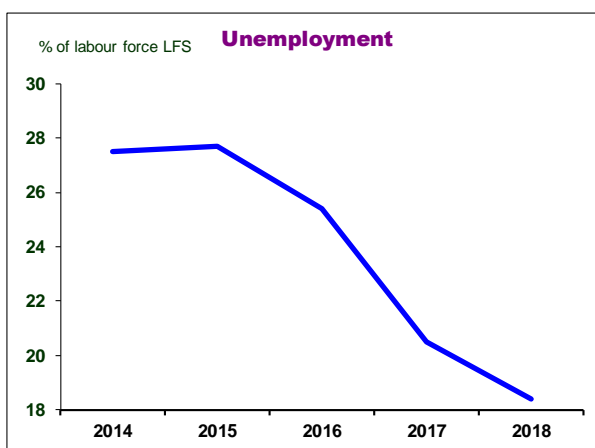
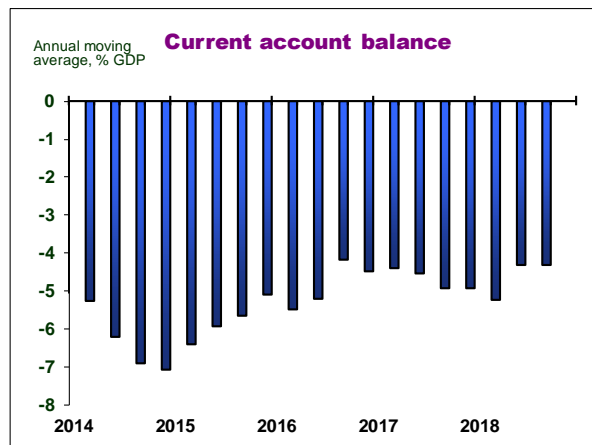
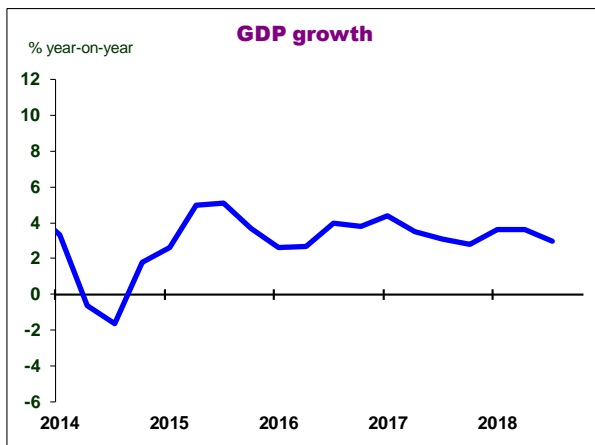
\*\* Q figures refer to the quarterly balance divided by the quarterly GDP.

# CHARTS



European Commission, ECFIN-D-1

## BOSNIA AND HERZEGOVINA





## Key developments

In November, the Kosovo government imposed a 100% tariff on imports of all goods originating from the Republic of Serbia and from Bosnia and Herzegovina and called to remove from the market all products which on the label do not use the country's constitutional name (Republic of Kosovo). In the joint letter, EU HRVP Mogherini and Commissioners for Trade and Neighbourhood and Enlargement Negotiations called Kosovo to revoke import tariffs which violate the Central European Free Trade Agreement (CEFTA) and are against the spirit of the EU-Kosovo Stabilisation and Association Agreement.

In the Article IV Consultation for Kosovo the IMF acknowledged the preservation of macroeconomic stability in 2018, but warned of intensifying fiscal risks related to populist policies and a complex political situation.

## Real sector

In the third quarter of 2018, economic growth decelerated to 3.4% y-o-y from 4.7 y-o-y in the previous quarter, bringing the average growth in the first nine months to 3.9% y-o-y. The main factors for deceleration were the contraction in government consumption (-4.6% y-o-y) and a sharp downturn in exports (-8.0% y-o-y) following the closure of Ferronikeli, the biggest producer of base metals in Kosovo. Imports expanded by robust 8.4% y-o-y, resulting in a negative contribution of net exports (-8.4pp) to GDP growth. The main drivers for a solid economic growth in the third quarter were a staggering expansion of investment and private consumption. Spurred public infrastructure investment, gross capital formation increased by 24.6% y-o-y, while private consumption expanded by 8.4% y-o-y due to large inflows of remittances as well as robust wage and credit growth.

On the production side, there was a decline in all three subcategories of industry (mining, manufacturing, electricity and water supply) representing a combined share of one fifth of total gross value added, while other sectors contributed positively to growth. Growth was particularly strong in construction and financial services, which expanded by 15.4% y-o-y and

19.8% y-o-y, respectively.

## Labour market

According to the labour force survey, the labour market situation remained difficult in the third quarter. Although the participation rate increased to 42% (from 40.4% in the second quarter), it was accompanied by a further rise in the unemployment rate to 30.7% (from 29.4%). The rate of employment rose only marginally to 29.1% (from 28.5%), with male and female employment standing relatively stable at around 45% and 12%, respectively, since 2017. The employment rate of young population, aged 15 to 24, has marginally increased to 10.8% (from 9.7%) while unemployment rate stood unchanged at 55% from the previous quarter.

## External sector

The current account deficit continued to widen in the third quarter, with its 4-quarter moving average reaching 7.5 % of GDP from 6% in the previous quarter. The traditionally high merchandise trade deficit fell further to 45.3% of GDP, compared to 44% in April-June. Workers' remittances stood at 11.3% of GDP, unchanged from the previous quarter. On the financing side, net inflows of FDI recovered somewhat in the twelve months to September to 3.3% of GDP, compared to a record low of 2.9% in the second quarter which was driven by a weaker performance by foreign firms and higher repatriation of profits for debt repayment. Official reserve assets slightly increased by 0.2% y-o-y and covered 5 months of imports of goods and services in the third quarter.

In January-November, total goods exports declined by 3% y-o-y, due to a halt in nickel production. In the same period, imports of goods rose by 10.4% y-o-y, with mineral products and machinery being the main import drivers reflecting a stronger construction sector. During January-November the overall merchandise trade deficit increased by 12.3% y-o-y.

## Monetary developments

While Kosovo's inflation rate is heavily influenced by price developments in the EU, the



recent increase in import tariffs led to a hike of food prices. Average annual HICP inflation stood at 1.1% as price rises accelerated throughout the year from -0.2% y-o-y in January to 2.9% y-o-y in December. Food prices were on the rising trend since July and hit 5.5% y-o-y in December following the introduction of 100% import tariffs. As Serbia is an important player in Kosovo's grain market, the prices of bread and cereals rose by 7.8% y-o-y in December. The producer price index increased by 2.3% y-o-y, and the construction cost index by 2% y-o-y in the third quarter of 2018. Import prices rose by 2.2% y-o-y in the first nine months due to increases in prices for mineral, plastics and rubber products.

## Financial sector

Robust credit growth of around 11% y-o-y in the second and third quarter continued at the same pace in November. Driven by lower interest rates, loans to enterprises grew by 10.9% y-o-y, while lending to households increased by 11.6% y-o-y in November. In comparison, total deposits in commercial banks continued to grow at a slower pace (7.7% y-o-y), causing the loan-to-deposit ratio to rise to 84.3% in November from 81.6% in a year ago, still indicating banks' stable liquidity position and further room for stronger lending activity.

The interest rate spread remained on a downward trajectory. The 12-month moving average spread declined to 5.0 percentage points in November, mainly due to a declining average lending rate. The average rate on household deposits has slightly increased in November to 1.4% from 1.3% in October.

Financial soundness indicators for banks remained satisfactory throughout the first eleven months of 2018. For the banking system as a whole, the ratio of liquid assets to short-term liabilities was on a downward trend and stood at 36.3% in November 2018, compared to 37.2% at the end of 2017. The capital adequacy ratio declined from 18.3% to 16.8%, which is still well above the regulatory minimum of 12%. The already low NPL ratio decreased further to 2.7%. Existing NPLs are fully covered by loan loss provisions (156.3%).

## Fiscal developments

In January-October, budget revenues rose by 6% y-o-y which is lower than the annual growth of 8.0% projected in the budget. Tax revenue rose by 5.8% y-o-y supported by strong growth in personal and corporate income taxes (11.5% and 12.8% y-o-y, respectively) and 7.4% y-o-y increase in VAT collection, which accounts for half of tax revenue. Budget expenditure grew by 9.5% y-o-y on the back of higher social transfers and wages at the central government level. While in January-October, total capital spending increased by 15.6% y-o-y, it represents only 46% of the annual budget allocation. At the same time, the execution rate of the social transfer budget reached nearly 85%. According to the preliminary fiscal data, the IMF estimates the 2018 budget deficit (under the fiscal rule definition) to be around 1.5 % of GDP, well within the fiscal rule ceiling of 2 % as lower revenue from municipalities will be offset by lower capital spending.

In October the Ministry of Finance has presented a draft budget for 2019 which foresees a deficit of 2.0% of GDP in line with the fiscal rule. The budget envisages considerable increases in government consumption, social spending and public transfers and projects an acceleration in investment financed by donors and privatisation receipts under the investment clause, adding nearly 4% of GDP of capital spending. Total expenditure are expected to grow by 12% y-o-y driven by similar increase in current and capital spending (13% and 11% y-o-y growth, respectively). The budget revenue is projected to grow by 7% compared to the 2018 revised budget, relying on ambitious gains from revenue administration reforms (totalling about 1% of GDP). It also assumes 0.25% of GDP in savings from war veteran benefit reform, which is based under the reclassification of recipients.

The draft 2019 budget keeps the wage bill constant as a share of GDP and the government's bank balance at 4.5% of GDP, in line with the fiscal rule. The headline deficit is projected at 5.8% of GDP.

In September 2018 total public debt (including guarantees) stood at 16.9% of GDP. Owing to a large share of concessional loans from IFIs, the average weighted interest rate remained low despite a small increase to 1.97% in Q3 from 1.86% in Q1 resulting from the recent issuance of bonds with 7 and 10 years of maturity.

## TABLE

European Commission, ECFIN-D-1



### KOSOVO\*

		2014	2015	2016	2017	2018	Q2 18	Q3 18	Q4 18	Oct 18	Nov 18	Dec 18
<b>1 Real sector</b>												
Industrial confidence <sup>1.1</sup>	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 <sup>1.2</sup>	Ann. % ch	0.0	1.3	-1.3	-1.3	:	1.4	:	:	:	:	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	1.2	4.1	4.1	4.2	:	4.7	3.4	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	4.9	3.8	4.8	1.8	:	4.4	8.4	:	N.A.	N.A.	N.A.
Investment <sup>1.5</sup>	Ann. % ch	-5.0	11.3	7.5	5.7	:	12.2	24.6	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	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 <sup>1.7</sup>	Ann. % ch	11.6	7.1	6.5	12.0	N.A.	16.4	20.5	:	N.A.	N.A.	N.A.
<b>2 Labour market</b>												
Unemployment <sup>2.1</sup>	%	35.3	32.9	27.5	30.5	:	29.4	30.7	:	N.A.	N.A.	N.A.
Employment <sup>2.2</sup>	Ann. % ch	-4.4	-8.2	11.8	7.6	:	-4.5	-4.9	:	N.A.	N.A.	N.A.
Wages <sup>2.3</sup>	Ann. % ch	N.A.	5.8	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
<b>3 External sector</b>												
Exports of goods <sup>3.1</sup>	Ann. % ch	10.4	0.2	-4.8	22.1	:	-7.2	-8.7	:	12.5	15.4	:
Imports of goods <sup>3.2</sup>	Ann. % ch	3.6	3.8	5.9	9.2	:	12.7	10.9	:	13.5	5.5	:
Trade balance*** <sup>3.3</sup>	% of GDP	-39.8	-39.8	-40.9	-42.5	:	-44.0	-45.3	:	N.A.	N.A.	N.A.
Exports goods and services*** <sup>3.4</sup>	% of GDP	22.5	21.9	22.2	27.0	:	27.6	27.1	:	N.A.	N.A.	N.A.
Imports goods and services*** <sup>3.5</sup>	% of GDP	51.2	50.4	50.8	53.8	:	55.3	56.5	:	N.A.	N.A.	N.A.
Current account balance*** <sup>3.6</sup>	% of GDP	-6.9	-8.6	-7.9	-6.1	:	-6.0	-7.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** <sup>3.7</sup>	% of GDP	2.7	5.3	3.6	4.1	:	2.9	3.3	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	1,266.4	1,302.6	1,161.7	1,242.7	:	1,264.8	1,374.9	:	1,479.9	1,361.9	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	6.0	5.9	5.0	4.9	:	4.8	5.0	:	5.4	4.9	:
<b>4 Monetary developments</b>												
HICP <sup>4.1</sup>	Ann. % ch	0.4	-0.5	0.3	1.5	1.1	0.7	1.4	:	1.5	2.1	2.2
Producer prices <sup>4.2</sup>	Ann. % ch	1.6	2.7	-0.1	0.6	:	1.7	2.3	:	N.A.	N.A.	N.A.
Food prices <sup>4.3</sup>	Ann. % ch	0.1	0.3	-0.2	:	:	:	:	:	:	:	:
Broad money liabilities <sup>4.4</sup>	Ann. % ch	-4.2	6.4	8.4	6.3	:	2.8	5.3	:	10.0	7.4	:
Exchange rate EUR/EUR <sup>4.5</sup>	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) <sup>4.6</sup>	Index	106.7	104.7	N.A.	N.A.	:	:	:	:	:	:	:
<b>5 Financial indicators</b>												
Interest rate <sup>5.1</sup>	% p.a.	10.62	8.32	7.47	6.83	:	6.66	6.67	:	6.61	6.43	:
Bond yield <sup>5.2</sup>	% 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 <sup>5.3</sup>	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 <sup>5.4</sup>	Ann. % ch	3.4	6.9	9.1	10.5	:	10.8	11.6	:	11.6	11.1	:
Deposit growth <sup>5.5</sup>	Ann. % ch	7.2	5.6	4.8	8.6	:	5.7	5.8	:	6.9	7.7	:
Non-performing loans <sup>5.6</sup>	% total	8.3	6.2	4.9	3.1	:	:	:	:	:	:	:
<b>6 Fiscal developments</b>												
General government balance** <sup>6.1</sup>	% of GDP	-2.2	-2.0	-1.2	-0.8	:	:	:	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	10.7	13.1	14.6	16.6	:	:	:	:	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.

\*\* Source: IMF.

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

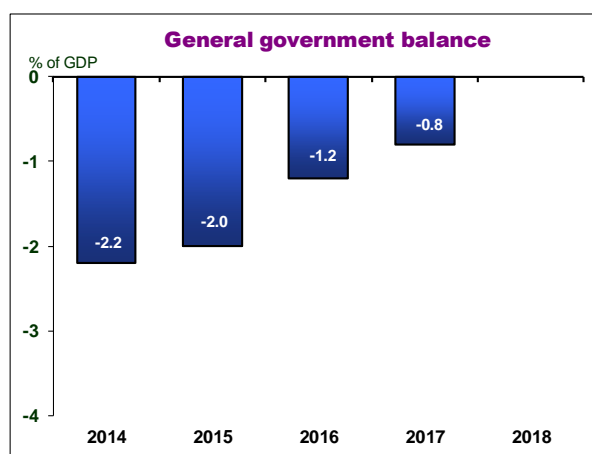
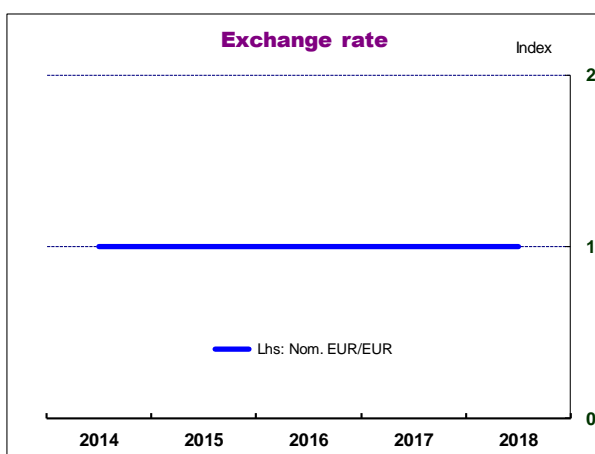
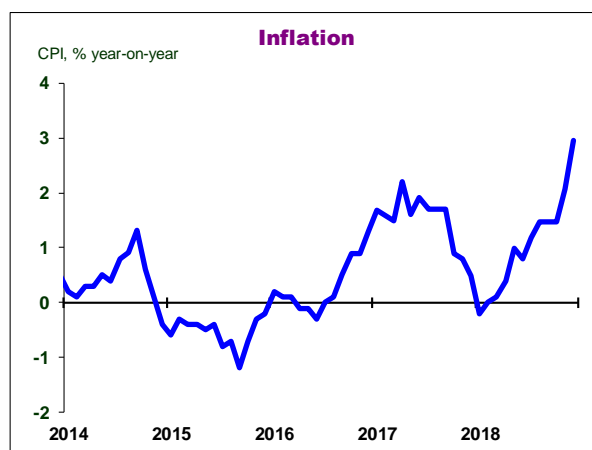
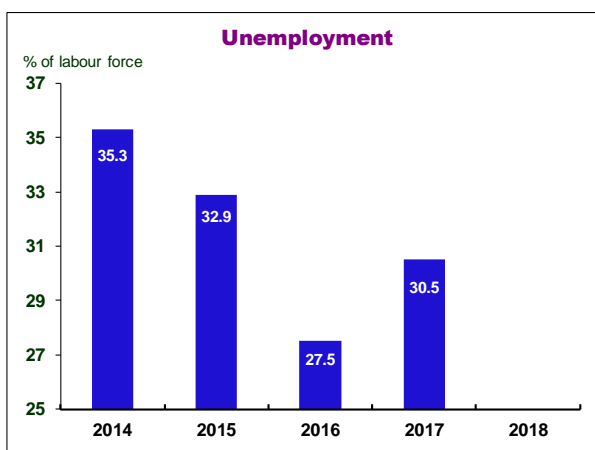
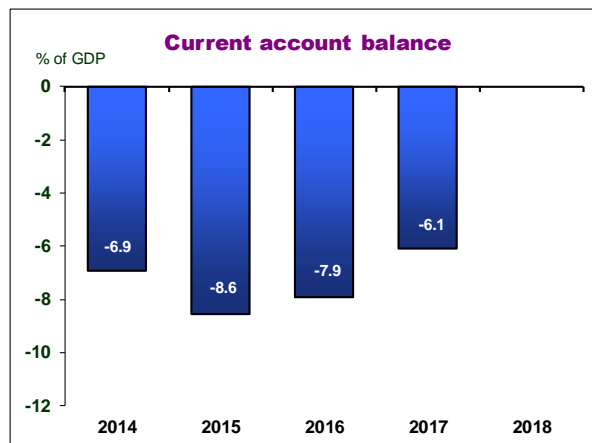
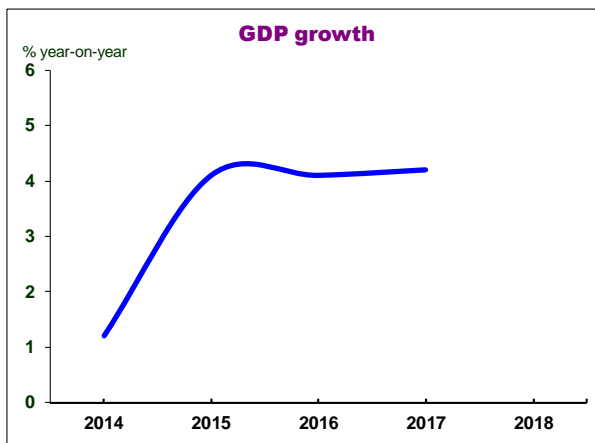


# CHARTS

European Commission, ECFIN-D-1



## KOSOVO\*



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



No.	Indicator	Note	Source
<b>1. Real sector</b>			
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	MacroBond
1.2.	Industrial production	Industrial production volume index, 2010=100	MacroBond
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	MacroBond
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	MacroBond
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	MacroBond
1.7.	Retail sales	Annual percentage change, total, 2005=100	MacroBond
<b>2. Labour market</b>			
2.1.	Unemployment	In percent of total labour force	MacroBond
2.2.	Employment	Annual percentage change	MacroBond
2.3.	Wages	Average monthly wages in State sector	MacroBond
<b>3. External sector</b>			
3.1.	Exports of goods	Annual percentage change, mio. LEK. Break in series 2013.	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. Lek. Break in series 2013.	MacroBond
3.3.	Trade balance	In percent of GDP	MacroBond
3.4.	Exports goods and services	In percent of GDP. Annual data. Break in series 2013.	MacroBond
3.5.	Imports goods and services	In percent of GDP. Annual data. Break in series 2013.	MacroBond
3.6.	Current account balance	In percent of GDP, including official transfers	MacroBond
3.7.	Direct investment (FDI, net)	In percent of GDP	MacroBond
3.8.	Reserves, International reserves of the National Bank	Net foreign assets, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	ECFIN
<b>4. Monetary developments</b>			
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	MacroBond
4.2.	Producer prices	Annual percentage change, Total, index (1998)	MacroBond
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	MacroBond
4.4.	M2	Annual percentage change	MacroBond
4.5.	Exchange rate LEK/EUR	Period averages	MacroBond
4.6.	Change real eff. exchange rate	Not available	
<b>5. Financial indicators</b>			
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	MacroBond
5.2.	Bond yield	Government Benchmarks, 3 Year Bond, Yield	MacroBond
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	MacroBond
5.5.	Deposit growth	Annual percentage change, total	MacroBond
5.6.	Non-performing loans	Credit Portfolio Quality, NPLs %	MacroBond
<b>6. Fiscal developments</b>			
6.1.	General government balance	Quarterly balance in percent of estimated annual GDP.	MacroBond
6.2.	General government debt	In percent of GDP	MacroBond



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



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



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



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





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



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

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