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4th Quarter 2019

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European Commission
Directorate-General for Economic and Financial Affairs

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

4th Quarter 2019

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

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

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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.

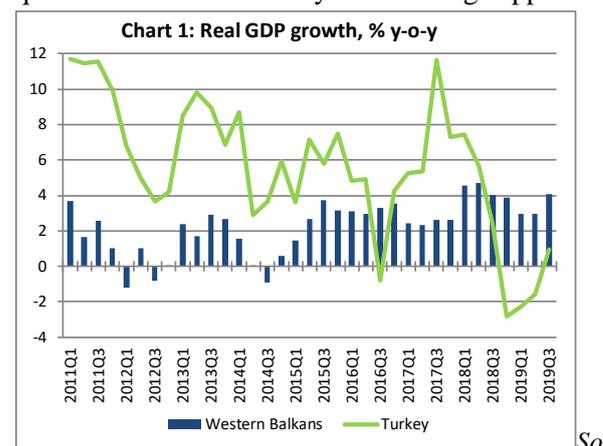
OVERVIEW

Following a gradual slowdown since mid-2018, economic activity reaccelerated in the **Western Balkans** in the third quarter of 2019, with annual real GDP growth averaging 4.1% for the region, up from 2.9% in the previous three months. The improvement was largely driven by a pick-up in GDP growth in Serbia, the largest economy in the region. Private consumption remained a key growth driver across the region while investment rebounded. Exports seem to have regained momentum but as imports generally remained robust, the 12-month rolling average current account deficit of the region decreased only slightly, to around 6% of GDP, still one of the highest levels in the last 4 years. Economic expansion led to further job creation, at a marginally faster pace than in the previous three months, while unemployment rates continued to decline in most countries to historically low levels (which are still elevated in comparison with EU peers). Solid domestic demand boosted tax revenues across the Western Balkans, and the public debt-to-GDP ratio came down in most countries compared to end-2018. In **Turkey**, the economy grew by 0.9% y-o-y in the third quarter of 2019 as household consumption recovered somewhat. The 4-quarter rolling average current account surplus declined to 0.6% of GDP in November as imports picked-up and exports of services weakened after the end of peak tourism season.

Growth dynamics improved in nearly all countries of the **Western Balkans** in the third quarter of 2019. **Serbia**, the biggest economy in the region, recorded the largest acceleration of annual GDP growth, to 4.8% from 2.9% in the previous quarter, mainly on the back of a strong increase in investment while private and public consumption continued supporting growth. In **Montenegro** and **Albania** annual output growth strengthened to 4.7% and 3.8%, respectively. In **Montenegro**, economic expansion was largely driven by household consumption, boosted by strong tourism performance while in **Albania**, private consumption was also the main growth driver, coupled with a positive contribution of net exports. In **Kosovo**, real GDP expanded at a robust rate of 4.4% y-o-y in the third quarter, driven by domestic demand and a positive contribution of net exports. **North Macedonia's** annual output growth accelerated slightly to 3.6%, up from 3.4% in the second quarter, driven by all domestic demand components and in particular, a strong rebound in investment. In **Bosnia and Herzegovina**, the economy grew by 2.6% y-o-y, the same growth rate as in the preceding quarter, on the back of household consumption and investment. Overall, the **Western Balkan** region's real GDP increased by 4.1% y-o-y in

the third quarter of 2019, the highest rate in more than a year. However, after four consecutive quarters of slowing economic activity, the pace of growth was still lower than in early 2018 (Chart 1).

In **Turkey**, following three consecutive quarters of negative annual growth, real GDP grew by 0.9% y-o-y in the third quarter of 2019, on the back of a modest recovery of private consumption and a positive contribution of stocks to growth. Net exports subtracted from growth in the third quarter after more than a year of strong support.

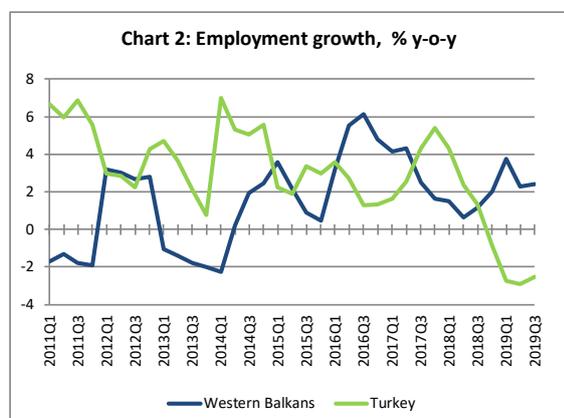


Source: Macrobond, Commission calculations

Economic growth has led to further job creation in the **Western Balkan** countries. While annual

employment growth decelerated in *Serbia*, *Albania* and *Montenegro* compared to April-June, it accelerated in *Kosovo* and remained robust in *North Macedonia*. Overall, the pace of employment growth in the region as a whole increased marginally, to 2.4% y-o-y from 2.3% in the second quarter (Chart 2). Employment gains contributed to further decreasing unemployment rates in most countries in the region. The decline was particularly significant in *North Macedonia* and *Kosovo* (more than 3 and 6 pps y-o-y, respectively). Still, with jobless rates ranging from 9.5% in *Serbia* to 24.5% in *Kosovo*, there remains a need to further improve labour market outcomes.

In *Turkey*, the labour market situation remains challenging as a result of a prolonged period of weak economic activity. In the third quarter of 2019, employment continued to decline, although at a slightly slower pace (2.5% y-o-y) compared to the previous three months. The unemployment rate marginally decreased but remained high at 13.4% in October.

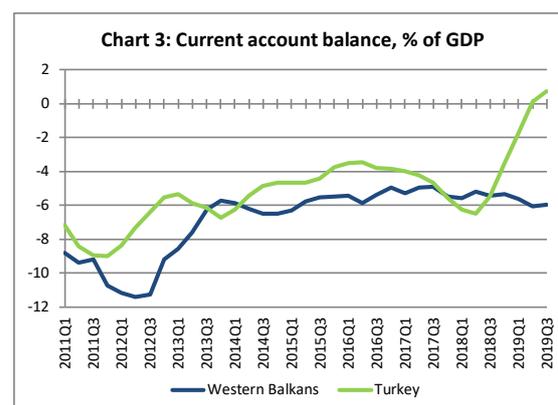


Source: Macrobond, Commission calculations

External imbalances remain a key challenge in most *Western Balkan* countries, reflected in very high merchandise trade deficits ranging from around 14%-16% of GDP in *Serbia* and *North Macedonia*, to 22%-23% in *Bosnia and Herzegovina* and *Albania*, and to 43% in *Montenegro* and *Kosovo*. Surpluses in the services and secondary income accounts only partially offset these large merchandise trade

deficits, resulting in large foreign financing needs. In the third quarter of 2019, annualised current account deficits narrowed as a share of GDP or remained at the same level in most countries in the region. Overall, in the four quarters to September, the current account deficit in the *Western Balkans* declined to 5.9% of GDP from 6.1% in the previous three months (Chart 3). The deficits continued to be financed predominantly by net inflows of FDI.

In *Turkey*, after reaching a historically high level in September, the 12-month moving average current account surplus fell to 0.6% of GDP in November, compared to a deficit of 3.5% in 2018. The decline was due to a pick-up of imports of goods amid recovering domestic demand as well as lower exports of services related to the end of the tourism season. In the first eleven months of 2019, net financial inflows were significantly lower than historic averages.



Source: Macrobond, Commission calculations

Weakening inflation dynamics in the *Western Balkans* during autumn months, combined with renewed monetary easing by major central banks in the world, allowed for continued monetary accommodation in countries with monetary policy autonomy. In *Serbia*, average annual CPI inflation stood at 1.7% in 2019, close to the lower bound of the target tolerance band of 3%±1.5pps. The central bank of *Serbia* reacted by cutting its key policy rate by another 25bps in November, to a record-low of 2.25%. It also increased its interventions on the foreign exchange market in

October and December to halt the dinar's appreciation against the euro. In *Albania*, the lek continued appreciating in 2019, although at a considerably slower pace than a year earlier. Combined with low domestic inflationary pressures, this resulted in an average annual inflation rate of 1.4% in 2019 (down from 2.0% in 2018), which was far below the 3% target for the eighth year in a row. The *Bank of Albania* maintained its accommodative monetary policy stance and its key policy rate of 1.0%, indicating also that a comprehensive assessment of the economic fallout from November's earthquake was still ongoing. In *North Macedonia*, average annual CPI inflation softened to 0.8% in 2019, down from 1.5% in 2018. For the first time since March 2019, the central bank lowered (by 25bps) in January 2020 the coupon on its bills, which serves as its benchmark interest rate, to the new historic low of 2.0%. In *Bosnia and Herzegovina*, inflation dynamics also softened in the third quarter and beyond, with consumer price inflation decelerating to 0.1% y-o-y in November, while in *Montenegro*, CPI inflation eased to 0.9% y-o-y in November from 1.2% in October. In *Kosovo*, following the introduction of 100% tariffs on goods imported from *Serbia* and *Bosnia and Herzegovina* in late 2018, average annual consumer price inflation rose to 2.7% in 2019, well above the 1.0% rate of 2018.

In *Turkey*, end-of-the-year inflation stood at 11.8% y-o-y. The central bank cut its key policy rate by 75bps to 11.25% in January, which followed recent rounds of significant easing, by 200bps in December and 250bps in October. Amid lower volatility over the fourth quarter, the lira depreciated against the dollar by 4.9% y-o-y.

Bank lending accelerated in the third quarter of 2019, compared to the previous three months in *Montenegro* and *Albania* (when adjusted for exchange rate changes and loan write-offs). On the other hand, credit growth decelerated in

North Macedonia, *Kosovo* and *Serbia*. All over the **Western Balkan** region, credit growth expanded at a faster pace in November compared to the previous month. In some countries, such as *Albania* and *Serbia*, credit to companies grew faster than household loans. Bank balance sheets improved further as in all countries in the region the share of non-performing loans (NPLs) in total loans continued to fall. In November, the NPL ratio decreased by 3 pps y-o-y in *Albania*, to 9.5% and turned to a single digit for the first time. In the third quarter of 2019, the NPL ratio stood at 7.7% in *Bosnia and Herzegovina*, followed by *North Macedonia* (4.8%) and *Serbia and Montenegro* (4.7%).

In *Turkey*, in the fourth quarter of 2019, total loans growth accelerated to 10.8% y-o-y and 4.6% q-o-q, boosted by state-owned banks' continued aggressive credit expansion as well as the central bank's effort to stimulate lending by relaxing the reserve requirement ratio and adjusting the interest paid on required reserves. The NPL ratio rose to 5.2% in November from 3.7% a year before.

The economic upturn continued to support the reduction of fiscal deficits in most countries in the **Western Balkan** region. However, with the exception of *Serbia*, improved budget balances were also partly due to underperforming capital expenditure, reflecting persistent weaknesses in the planning, selection and management of public investment. In *Albania*, the budget posted a shortfall of 0.7% of GDP in January-November, 1.2 pps below the deficit target for the whole year, thanks to strong revenues from social contributions and a drop in capital expenditure. In *Montenegro*, the central government deficit amounted to 2.3% of full-year GDP in the first eleven months of 2019, slightly higher than a year earlier, but much below the 4% of GDP deficit target, largely due to significant underspending on public investment and to a smaller extent higher than planned VAT revenue. In the same period, in *North Macedonia*, underperforming capital expenditure and increased income from taxes and

social contributions resulted in a budget deficit of 1.0% of projected full-year GDP, much lower than the planned 2.5% for the whole of 2019. In *Serbia*, the budget surplus amounted to 0.9% of GDP, mainly on the back of strong revenue from income and value added taxes as well as social security contributions. In *Kosovo*, in the first ten months of 2019, the budget recorded a surplus of 1.8% of GDP as revenue grew faster than expenditure largely due to increased tax and non-tax proceeds as well as sluggish capital expenditure. Although they declined in most countries, public debt levels remained high in *Montenegro* (79.0% of

GDP in 2019), and *Albania* (66.5% at the end of the third quarter) and still elevated in *Serbia* (52.4% of GDP in November).

In *Turkey*, in the first eleven months of 2019, the central government budget deficit increased by 51.7% y-o-y to TL 92.9 bn (2.2% of full-year GDP). Revenues were boosted by (mostly exceptional) receipts from the central bank, but they were more than offset by expenditure growth. Public debt rose to 32.1% of GDP in the third quarter of 2019, compared to 30.4% at end-2018.

Candidate and potential candidate countries: Summary table

	2015	2016	2017	2018	2019	ECFIN 2019 Autumn forecast		Q2 19	Q3 19	Q4 19	Oct 19	Nov 19	Dec 19
						2020	2021						
Gross domestic product (in real terms, annual % change)													
Albania	2.2	3.3	3.8	4.1	3.1f	3.7	3.6	2.5	3.8	:	N.A.	N.A.	N.A.
North Macedonia	3.8	2.8	0.2	2.7	3.2f	3.2	3.3	3.4	3.6	:	N.A.	N.A.	N.A.
Montenegro	3.4	2.9	4.7	5.1	3.1f	3.0	2.8	3.2	4.7	:	N.A.	N.A.	N.A.
Serbia	1.8	3.3	2.0	4.3	3.2f	3.8	3.7	2.9	4.8	:	N.A.	N.A.	N.A.
Turkey	6.1	3.2	7.5	2.8	0.3f	3.1	3.5	-1.6	0.9	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	4.1	3.4	3.0	3.6	:	:	:	2.6	2.6	:	N.A.	N.A.	N.A.
Kosovo	4.1	4.1	4.2	3.8	:	:	:	4.1	4.4	:	N.A.	N.A.	N.A.
Unemployment													
Albania	17.5	15.6	14.1	12.8	11.9f	11.0	10.3	12.0	11.8	:	N.A.	N.A.	N.A.
North Macedonia	26.1	23.8	22.4	20.7	17.5f	16.5	15.5	17.5	17.1	:	N.A.	N.A.	N.A.
Montenegro	17.8	18.0	16.4	15.5	14.7f	14.3	13.9	14.7	15.6	:	N.A.	N.A.	N.A.
Serbia	17.7	15.3	13.5	12.7	10.5f	8.9	7.2	10.3	9.5	:	N.A.	N.A.	N.A.
Turkey	10.5	11.1	11.1	11.2	13.7f	13.3	12.9	13.2	14.2	:	13.7	:	:
Bosnia and Herzegovina	27.7	25.4	20.5	18.4	15.7	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	32.9	27.5	30.5	29.6	:	:	:	25.3	24.5	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)*													
Albania	-8.6	-7.6	-7.5	-6.7	-6.5f	-5.6	-5.1	-7.8	-7.8	:	N.A.	N.A.	N.A.
North Macedonia	-2.0	-2.9	-1.0	-0.3	-1.4f	-2.0	-2.1	-0.9	-1.1	:	N.A.	N.A.	N.A.
Montenegro	-11.0	-16.2	-16.1	-17.0	-16.6f	-15.8	-13.3	-17.3	-16.1	:	N.A.	N.A.	N.A.
Serbia	-4.4	-2.9	-5.2	-5.2	-6.0f	-5.5	-5.5	-6.3	-6.4	:	N.A.	N.A.	N.A.
Turkey	-3.8	-3.8	-5.6	-3.5	-0.6f	-0.7	-1.0	0.1	0.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.9	-4.5	-4.2	-3.6	:	:	:	-4.5	-4.2	:	N.A.	N.A.	N.A.
Kosovo	-8.6	-7.9	-5.4	-7.6	:	:	:	-6.5	-5.3	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.9	1.3	2.0	2.0	1.6f	2.1	2.3	1.4	1.4	:	1.3	1.4	:
North Macedonia	-0.3	-0.2	1.4	1.5	0.8	1.9	2.0	1.2	0.6	0.0	-0.2	-0.1	0.4
Montenegro (HICP)	1.4	0.1	2.8	2.9	0.5f	1.3	1.6	0.5	-0.1	:	1.2	0.9	:
Serbia	1.4	1.1	3.1	2.0	1.8	2.1	2.1	2.2	1.3	:	1.0	1.4	:
Turkey	7.7	7.8	11.1	16.3	15.2	10.3	9.3	18.0	13.5	10.3	8.6	10.6	11.8
Bosnia and Herzegovina	-1.0	-1.1	1.3	1.4	:	:	:	0.6	0.4	:	0.1	0.1	:
Kosovo	-0.5	0.3	1.5	1.1	:	:	:	3.3	2.6	:	2.1	1.7	N.A.
General government balance (% of GDP)													
Albania**	-4.1	-1.8	-2.0	-1.6	-1.7f	-1.3	-1.1	:	:	:	:	:	:
North Macedonia***	-3.5	-2.7	-2.7	-1.8	-2.5f	-2.4	-2.3	-2.3	-0.6	:	N.A.	N.A.	N.A.
Montenegro**	-8.3	-3.6	-5.3	-3.9	-2.9e	1.0	2.5	0.7	0.9	:	:	:	:
Serbia***	-3.5	-1.2	1.1	0.6	-0.1f	-0.5	-0.5	0.5	1.2	:	N.A.	N.A.	N.A.
Turkey***	-1.0	-1.1	-1.5	-1.9	-3.0f	-3.5	-3.3	-4.1	-0.6	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina***	0.6	1.2	2.5	2.2	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-2.0	-1.2	-1.3	-2.8	:	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Autumn 2019 published November 2019.

* Q figures refer to a 4 quarters moving average.

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

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



Key developments

A strong earthquake on 26 November 2019 caused loss of life and devastated residences and infrastructure, leaving thousands injured and homeless. Together with the World Bank and the UN, the EU launched a post-disaster needs assessment to estimate the reconstruction costs. In addition to the immediately provided emergency support, the EU will allocate financial assistance of €15 million for reconstruction. The Albanian government has revised its 2020 budget to set up a reconstruction fund of €150 million euro and will seek additional donor funding at the donor conference the EU plans to hold on 17 February in Brussels.

Real sector

Albania's real GDP growth picked up in the third quarter 2019 to 3.8 % y-o-y after recording a slow-down to 2.3 % in the first half of the year. On the demand side, the recovery was driven by private consumption, which resumed its position as the strongest growing component with 3.8 % y-o-y expansion (+1.8 % q-o-q) as well as by a positive contribution of net exports. Exports continued their recovery from their weak performance in Q1 2019 and grew 10 % y-o-y, driven in particular by services (tourism) and manufacturing services. The growth of imports softened to 3.6 % y-o-y (-1.2 % q-o-q) due to lower electricity imports. Government consumption also grew 2.1 % y-o-y but declined by 2.1 % q-o-q. Growth of gross fixed capital formation picked up compared with the previous quarter but in annual terms it continued to shrink by -1.9 % in Q3 (from -0.9 % y-o-y in Q2), most likely still due to the conclusion of works related to the Trans-Adriatic Pipeline, an exceptionally large construction project.

On the supply side, the recovery reflects an increased output of mining and manufacturing and of services, including those related to hotels and trade. Electricity production recovered but remained far below its exceptional 2018 levels.

The economic sentiment indicator of Q4 2019 fell for the first time since 2016 below its historic average, which mainly reflected deteriorating expectations of industrial business and the low performance of services earlier in 2019.

Labour market

The labour market had not been affected by the slowdown in GDP growth of the first half year and in the third quarter employment growth held up with 2.6 % y-o-y. The overall unemployment rate (15-64 years) declined to 11.8 % in the third quarter compared with 12.7 % the same quarter of 2018. Job creation (for the population aged 15 years and above) was with 6 % strongest in industry (mainly manufacturing and construction), followed by services (4.8 %), in particular in hotels and in communication services. The growth of youth employment (15-29, y-o-y) continued to slow down, from 8.4% in the second quarter to 2.3 % in the third quarter. The youth unemployment rate increased by 0.5 pp. to 21.4 % in Q3 but remained almost 2 pps below its 2018 level. The labour force participation rate was at 69.8 % in Q3 2019, up 1.5 pp. y-o-y. The female participation rate continued to increase, to 62 %, which narrowed the gap between male and female labour force participation to 15.7 pps in the third quarter of 2019 from 18 pps one year earlier.

Nominal wage growth softened to 3.7 % in the third quarter (from 4.7 % in the first six months of 2019), with the average monthly gross wage reaching 423 euro. Considering that the inflation rate averaged 1.5 % over 2019, average real wages have grown approximately 2.5 % in 2019, about 1 pp more than in 2018. Wages differ largely across sectors with wages in the financial sector reaching about double of the average and in the agricultural sector remaining about 30 % below the average. The minimum wage remained at 50 % of the average wage; the official poverty line is set at about a quarter of the average annual wage income (about 1300 euro in 2018). Albania's recently updated poverty statistics show that the overall rate of Albanians at risk of poverty only declined by 0.3 pp. from 2017 to 23.4 % in 2018.

External sector

The current account deficit (as a four-quarter moving average) remained unchanged at 7.8 % from the second to the third quarter 2019, as the increasing surpluses of the services and secondary income account balances were off-set by the widening deficits of the goods trade

balance and the primary account. The 4q-moving average of the secondary income balance remained stable at 7.1 % of GDP in Q3, as did remittances inflows. Growth of net foreign direct investment turned negative with -2.6 % y-o-y in Q3 and overall net FDI inflows in Q3 of 2019 dipped slightly below 8 % of GDP, but continued to cover fully the average current account deficit. Gross external debt decreased again slightly in the third quarter, to EUR 8.3 billion, corresponding to about 62 % of GDP. Foreign reserves continued to increase in the third quarter by 11 % y-o-y to EUR 3.45 billion and were able to cover more than 6 months of imports of goods and services.

Monetary developments

The appreciative trend of the lek continued to slow in the fourth quarter. In 2019, the lek has gained only 1.3 % against the euro compared with its 2018 value, much less than in 2018, when the lek strengthened by 7.2 %. Despite lower disinflationary effects from the exchange rate, inflationary pressures from wage increases and food prices were not sufficient to push the inflation rate beyond 1.4 % in 2019, which thus remained well below the central bank's target of 3 % for the eighth consecutive year, and decelerated from the rate of 2.0 % registered in 2018. Monetary growth of M2 and M3 slightly decelerated to 2.4 % and 3.4 % (y-o-y) respectively over the third quarter, but picked up strongly again since and reached 3.7 % and 4.5 % respectively in November. The central bank did so far not expect major effects from the earthquake on the stability of the overall economy, and did not change its accommodative monetary policy stance and its policy rate of 1 %.

Financial sector

Credit growth to the private sector (in annual terms, adjusted for the impact of exchange rate movements and loan write-offs) continued its recovery, accelerating from 6.8 % in the second quarter to 8 % in October 2019. In particular, growth of credit to SMEs accelerated to 15.5 % in Q3 while credit to large enterprises slowed to 1.7 %. In terms of GDP, SMEs increased their share to 11.3 % (up 0.4 pps), while overall credit to enterprises amounted to 24% of GDP. Lower interest rates (from 6.7 % in Q1 to 6.1 % in Q3 2019), a higher demand, assistance from

international organisations to SMEs and their increasing formalisation are factors supporting the positive performance of lending to SMEs. Lending to households, also benefiting from low interest rates, continued its stable growth and increased to 12.4 % of GDP. In addition, the recent restructuring of the banking sector, which reduced the number of banks to 12 from 16 in previous years, and the market entry of regional banks seem to stimulate competition in the sector.

Overall, the stability of the banking sector continued to improve but profitability declined, in particular in terms of the interest margin to gross income (down to 75 % from 101 %), while the return on assets ratio increased by only 0.05 pp. y-o-y to 1.49 % in Q3. The ratio of non-performing loans to total loans declined faster than in the first half of 2019 to 9.5 % in November, down 3 pps y-o-y and turning to a single digit for the first time. The capital adequacy ratio in the banking sector increased to 18.8 % at the end of the third quarter. Liquidity ratios increased both with respect to total assets (by 1 pp. from Q2 to 16.3 %) and to total short-term liabilities (up 1.6 pp. from Q2 to 22.6 %).

Fiscal developments

In January-November 2019, total revenue increased by 3.2 % y-o-y but still fell 3.3 % behind budget. Revenue from social contributions grew solidly (5.7 %), a positive signal of employment growth in the formal sector. Other tax revenue components, in particular VAT, grew less than in 2018. In the same period, 5.5 % of budgeted expenditure remained unspent, despite growing 5.6 % y-o-y. This is mainly due to the low implementation of the capital budget, which not only lagged behind plan but also fell below its 2018 performance. Current expenditures were growing solidly but could still not live up to the ambitious budgetary plan. Overall, budget implementation has slightly improved compared with 2018, but revenue expectations and capital expenditure, which lagged 3.3 % and 21.8 % respectively behind plan, are still unlikely to be realised as planned. So far, Albania realised a budget deficit of -0.7 % of its projected GDP in 2019, 1.2 pps below the planned 1.9 % of GDP. Public debt had reached 66.5 % of GDP at the end of Q3 2019, 1 pp above the 2019 target, down from 67.9 % in 2018.

TABLE



European Commission, ECFIN-D-1

ALBANIA

							ECFIN 2019 Autumn forecast							
		2015	2016	2017	2018	2019	2020	2021	Q2 19	Q3 19	Q4 19	Oct 19	Nov 19	Dec 19
1 Real sector														
Industrial confidence ^{1.1}	Balance	-5.4	-3.7	1.5	-0.5	:	:	:	-3.1	4.2	-1.1	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-9.1	-19.6	8.4	9.7	:	:	:	6.1	4.8	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	2.2	3.3	3.8	4.1	3.1f	3.7	3.6	2.5	3.8	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	0.9	2.0	2.3	3.2	3.1f	2.9	2.9	2.9	3.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	3.5	2.4	5.5	2.9	2.8f	3.4	3.5	-0.8	-1.9	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	19.4	5.1	19.6	5.6	:	:	:	-0.7	-2.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	5.8	6.0	1.6	2.7	:	:	:	:	:	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	17.5	15.6	14.1	12.8	11.9f	11.0	10.3	12.0	11.8	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	4.9	6.1	2.7	2.1	2.8f	2.1	1.9	3.3	2.6	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.2	-0.8	3.0	3.1	:	:	:	4.5	3.7	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-6.0	2.5	14.4	20.0	:	:	:	-0.7	2.8	:	-8.7	:	:
Imports of goods ^{3.2}	Ann. % ch	-0.8	7.4	11.5	8.1	:	:	:	7.7	8.0	:	3.4	:	:
Trade balance* ^{3.3}	% of GDP	-21.0	-22.4	-22.7	-20.3	-22.6f	-22.3	-22.1	-22.9	-23.1	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	27.3	29.0	31.6	31.7	:	:	:	29.3	38.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	44.5	45.8	46.6	45.4	:	:	:	43.7	49.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-8.6	-7.6	-7.5	-6.7	-6.5f	-5.6	-5.1	-7.8	-7.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.0	8.7	8.6	8.0	:	:	:	8.1	7.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,880.0	2,945.0	2,995.9	3,399.0	:	:	:	3,297.1	3,449.2	:	3,351.6	3,297.2	:
Int. reserves / months Imp ^{3.9}	Ratio	8.9	8.5	7.7	8.1	:	:	:	7.6	7.8	:	7.6	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.9	1.3	2.0	2.0	1.6f	2.1	2.3	1.4	1.4	:	1.3	1.4	:
Producer prices ^{4.2}	Ann. % ch	:	-1.5	2.8	1.6	:	:	:	-0.3	-1.6	:	:	:	:
Food prices ^{4.3}	Ann. % ch	4.3	3.3	3.9	2.7	:	:	:	2.8	2.6	:	3.0	3.2	:
M3 ^{4.4}	Ann. % ch	1.8	3.9	0.3	-0.2	:	:	:	3.5	3.3	:	4.1	4.5	:
Exchange rate LEK/EUR ^{4.5}	Value	139.74	137.36	134.14	127.57	123.01	:	:	123.11	121.61	122.69	123.11	122.80	122.17
Real effective exchange rate ^{4.6}	Index	101.6	104.5	107.2	113.0	:	:	:	116.0	117.6	:	117.1	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	2.87	1.13	1.22	1.35	0.58	:	:	0.84	0.04	0.02	0.07	0.07	-0.08
Bond yield ^{5.2}	% p.a.	2.77	2.05	2.07	2.20	:	:	:	1.77	1.58	:	1.72	1.75	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	0.3	-0.7	-0.1	-1.7	:	:	:	2.0	5.2	:	6.7	6.2	:
Deposit growth ^{5.5}	Ann. % ch	1.9	1.1	1.0	-1.2	:	:	:	2.3	2.7	:	3.4	3.7	:
Non performing loans ^{5.6}	% total	18.2	18.3	13.2	11.1	:	:	:	11.2	10.6	:	10.2	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-4.1	-1.8	-2.0	-1.6	-1.7f	-1.3	-1.1	:	:	:	:	:	:
General government debt* ^{6.2}	% of GDP	72.7	72.4	70.1	67.9	66.0f	64.1	62.0	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2019 published November 2019

* Q figures refer to a 4 quarters moving average.

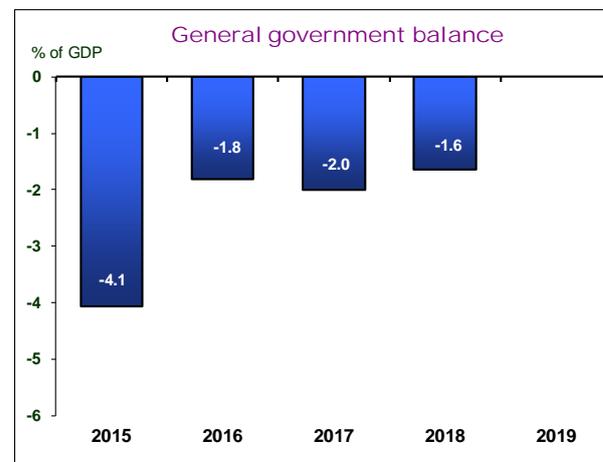
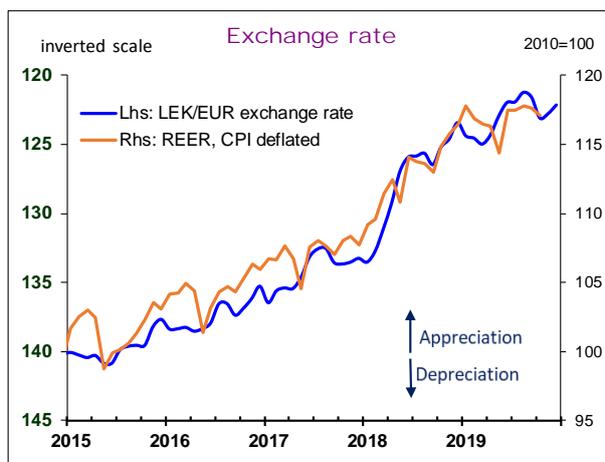
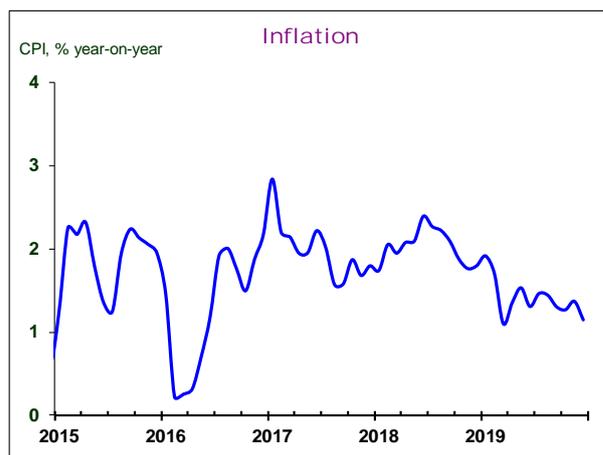
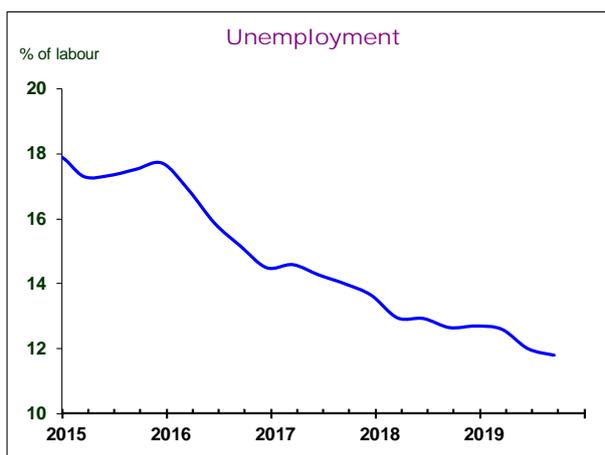
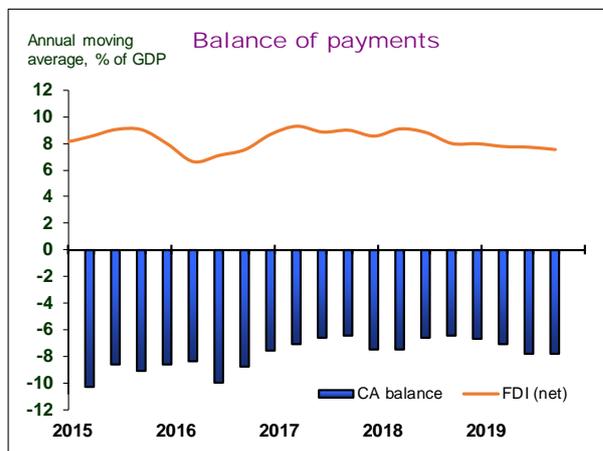
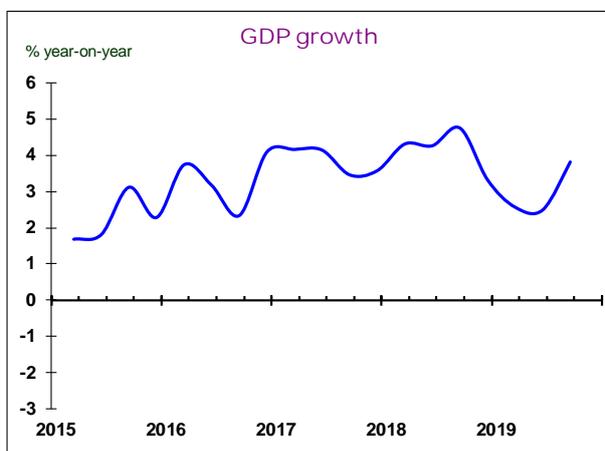
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA



MONTENEGRO



Key developments

On 11 October, the government called a pre-qualification tender for a 30-year concession on Montenegro's two international airports, expecting an investment of at least EUR 200 mn during the concession period.

On 15 November, Montenegro and Italy put into operation a submarine power link. The interconnection allows the exchange of 600 MW of electricity between the two countries.

On 27 December, the parliament adopted a law granting EUR 155 mn for the recapitalisation of Montenegro Airlines in order to cover the state-owned carrier's outstanding debts as well as investment in its further development over the next six years.

Real sector

Another record-breaking summer tourism season contributed to a significant improvement in economic activity in the third quarter of 2019. Tourism receipts boosted exports and sustained private consumption growth, albeit the pace of the latter decelerating markedly to 0.9% y-o-y in Q2, compared to 3.9% y-o-y growth in the previous quarter. As a result, GDP growth accelerated to 4.7% y-o-y in Q3, up from 3.2% y-o-y in the previous quarter. Government consumption eased to 1.1% y-o-y in the third quarter, down from 1.5% y-o-y expansion in Q2. Investment growth turned positive in the third quarter (0.3% y-o-y), after staying in negative territory for three consecutive quarters. Imports of goods and services accelerated to 4.7% y-o-y in Q3, from 3.3% y-o-y in the previous quarter, but fell short of the pace of export growth (5.6% y-o-y). Consequently, net exports provided a 0.9 pps positive contribution to GDP growth.

On the supply side, construction activity surged in the third quarter of 2019, recording a real expansion of 31.3% y-o-y in terms of completed construction value, compared to 11.8% y-o-y growth in the previous quarter.

Strong tourism activity boosted retail trade performance, which expanded by real 6.0% y-o-y in the third quarter, and remained strong after the summer tourism season, growing by 5.2% and 4.7% y-o-y in October and November

respectively. In 2019, 46 new hotels were built, increasing the country's accommodation offer by 11%.

After a marginal but positive growth of 0.2% y-o-y in the third quarter of 2019, industrial production plunged back into negative territory at the end of the year. Industrial output declined by sharp 9.0% y-o-y in November. The decline was driven by the manufacturing sector, which decreased by 9.4% y-o-y in the first eleven months of the year, reflecting a contraction in basic metals, metal products, machinery and pharmaceutical products. The launch of a new wind farm in November boosted electricity production by 39.5% y-o-y. The mining sector showed a more sustained performance over the first eleven months of the year, averaging 17.5% y-o-y growth, driven by the good performance of metal ores.

Labour market

In the third quarter of 2019, the active population rose by 3.5% y-o-y, while employment grew by only 2.1% y-o-y. As a result, the number of unemployed surged by 11.6% y-o-y, bringing the unemployment rate back to 15.6% in Q3, up from 14.7% in the previous quarter. Yet, the increase of job opportunities in services facilitated women's integration in the labour market. Female participation rose faster (by 4.7% y-o-y) than for men (2.6% y-o-y), and their unemployment rate (at 15.1%) remained lower than men's (15.9%).

On 23 December 2019, a new labour law was adopted. The new legislation, in combination with the reduction of the tax wedge on labour, is expected to provide more flexibility and reinforce workers' protection.

The 15% increase of the minimum wage in July was only followed by a moderate increase of salaries in the second half of 2019. After stagnating in the second quarter, real gross wages grew by 0.9% y-o-y in the third quarter, followed by modest gains in October and November of 0.1% and 0.3% y-o-y, respectively, due to a concurrent acceleration of inflation. The financial and retail sectors and public administration recorded the fastest wage growth.

External sector

Strong tourism performance and the acceleration of merchandise exports helped reduce the current account deficit. In the four quarters to September 2019, the external gap declined to 16.1% of GDP, down from 17.4% of GDP a year before. Merchandise exports surged by 15.4% y-o-y in Q3, compared to the 3.5% y-o-y expansion of goods imports, resulting in a 1.2 pps reduction of the trade deficit over the year, to 43.1% of GDP. The balance of services surplus, largely driven by strong tourism revenue, reached 21.9% of GDP in the year to September, or 1.2% of GDP higher than a year before. The primary and secondary income balances also recorded surpluses (0.4% and 6.4% of GDP, respectively). Net FDI inflows amounted to 7.7% of GDP in the four quarters to September 2019, declining from 8.5% of GDP a year before, and covering 47.6% of the period's current account deficit.

Foreign exchange reserves surged by 26% y-o-y in November. Their level was equivalent to 6.3 months of merchandise imports or 28% of GDP.

Monetary developments

After a marginal (-0.1% y-o-y) contraction in the third quarter of 2019, consumer price inflation rebounded in October and November, to 1.2% and 0.9% y-o-y, respectively. The increase was largely driven by food prices, in particular for bread, fruits and meat, contributing 0.85 pps to inflation in November. By contrast, some decline was recorded in garments, electricity and transport's fuel prices.

As of 1st January 2020, excise taxes on alcohol, tobacco and carbonated drinks increased according to the plan to bring excise legislation in line with EU levels. Alcohol and tobacco prices account for 4% of headline CPI.

Financial sector

Credit activity is still recovering, driven by household demand. Following the bankruptcy of two small bank in early 2019, credit activity dropped to 0.6% y-o-y in the second quarter, a sharp deceleration from double-digits registered until Q1. Since then, the volume of banks loans has been recovering, registering 1.6% y-o-y expansion in Q3 and further accelerating to

3.5% y-o-y in November 2019. Retail loans (43.3% of total bank credit) grew by 8.5% y-o-y in November, far ahead of corporate loans (34.2% of total credit), which expanded by 2.4% y-o-y. Only local governments and non-residents loans remain still in negative territory.

Banks' deposits grew by 2.9% y-o-y in November, recovering from the 2.7% y-o-y contraction in Q2. Recent deposits' growth was driven by non-financial institutions, registering an expansion (2.2% y-o-y) after 11 consecutive months of decrease. While non-residents deposits grew by 2.8% y-o-y, households' bank deposits have remained in negative territory since April, contracting by further 0.4% y-o-y in November. The ratio of banks' non-performing loans fell to 4.7% of total loans in Q3, compared to 6.7% a year earlier, and further to 4.6% in November 2019.

In January 2020, the central bank introduced precautionary measures raising collateral and guarantee requirements for cash loans with long maturities, in order to limit their rapid expansion and reduce credit risks.

Fiscal developments

A significant underspending in public investment helped contain the budget deficit. In the first eleven months of 2019, the central government recorded a deficit of 2.3% of GDP, slightly higher than a year before (2.1%) but substantially lower than the 4% of GDP deficit planned for that period. This was largely due to substantial underspending, in particular of public investment (25% lower than planned), and to a lesser extent higher than planned revenues, primarily VAT proceeds, which were fuelled by strong private consumption.

According to estimates of the Ministry of Finance, the budget deficit narrowed to 2.9% of GDP in 2019, down from 3.9% a year earlier, while gross public debt climbed to 79% of GDP, after rising government reserves to 10% of GDP.

On 27 December 2019, the parliament adopted the 2020 budget, targeting a deficit of 1% of GDP, based on real GDP growth of 3.4% and 1% average inflation. The budget introduces a series of ad-hoc expenditure measures, including a rise of public health and education salaries, support to the national air carrier and the carryover of underspent funds for the Bar-Boljare highway.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2015	2016	2017	2018	2019	ECFIN 2019 Autumn forecast		Q2 19	Q3 19	Q4 19	Oct 19	Nov 19	Dec 19
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Balance	9.8	3.0	4.5	5.5	3.5	:	:	10.9	2.9	-3.2	-1.3	-1.9	-6.5
Industrial production ^{1.2}	Ann. % ch	7.9	-2.1	-4.3	23.6	:	:	:	-9.0	0.2	:	-6.3	-9.0	:
Gross domestic product ^{1.3}	Ann. % ch	3.4	2.9	4.7	5.1	3.1f	3.0	2.8	3.2	4.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.2	5.4	3.9	4.6	3.6f	2.4	2.0	3.9	0.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	11.9	38.4	18.7	14.7	3.2f	2.6	1.5	-2.6	1.4	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.8	31.5	51.5	24.9	:	:	:	12.3	31.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	4.2	4.0	5.2	4.8	:	:	:	6.3	5.9	:	6.4	5.6	:
2 Labour market														
Unemployment ^{2.1}	%	17.8	18.0	16.4	15.5	14.7f	14.3	13.9	14.7	15.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.9	1.1	2.1	3.2	3.0f	1.1	2.1	2.9	2.1	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.2	3.5	2.0	0.1	0.6f	1.8	1.2	0.5	1.0	:	1.3	1.2	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-7.6	6.2	8.3	14.7	:	:	:	2.5	15.4	:	18.5	-11.9	:
Imports of goods ^{3.2}	Ann. % ch	3.5	12.0	11.6	10.9	:	:	:	1.8	3.5	:	-6.7	2.4	:
Trade balance* ^{3.3}	% of GDP	-40.1	-41.9	-43.3	-43.9	-44.8f	-44.4	-43.0	-43.8	-43.1	:	-45.6	-45.8	:
Exports goods and services ^{3.4}	% of GDP	42.1	40.6	41.1	42.9	:	:	:	41.1	64.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	60.6	63.1	64.5	66.7	:	:	:	75.7	53.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-11.0	-16.2	-16.1	-17.0	-16.6f	-15.8	-13.3	-17.3	-16.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	16.9	9.4	11.3	6.9	:	:	:	8.4	7.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	624.0	752.9	847.2	1049.8	:	:	:	837.4	897.0	:	1399.4	1357.1	:
Int. reserves / months Imp ^{3.9}	Ratio	4.1	4.4	4.4	4.9	:	:	:	3.9	4.1	:	6.5	6.3	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	1.4	0.1	2.8	2.9	0.5f	1.3	1.6	0.5	-0.1	:	1.2	0.9	:
Producer prices ^{4.2}	Ann. % ch	0.3	-0.1	0.4	1.7	:	:	:	2.7	2.9	:	2.6	2.3	:
Food prices ^{4.3}	Ann. % ch	3.0	-0.9	1.9	0.6	:	:	:	4.2	2.9	:	3.4	3.0	:
M3 ^{4.4}	Ann. % ch	11.3	9.5	13.7	2.6	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Real effective exchange rate ^{4.6}	Index	102.7	102.2	102.8	103.6	:	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	2.35	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	0.50	1.58	1.71	0.47	0.52	:	:	:	0.50	:	:	:	:
Stock markets ^{5.3}	Index	11,956	11,115	10,952	10,390	10,980	:	:	10,717	11,072	11,529	11,357	11,642	11,588
Credit growth ^{5.4}	Ann. % ch	0.8	1.3	11.8	8.5	:	:	:	0.6	1.6	:	0.2	3.5	:
Deposit growth ^{5.5}	Ann. % ch	13.7	9.4	13.8	5.9	:	:	:	-2.7	1.6	:	0.9	2.9	:
Non-performing loans ^{5.6}	% of total	13.4	10.3	7.3	6.9	:	:	:	4.8	4.7	:	4.8	4.6	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-8.3	-3.6	-5.3	-3.9	-2.9e	1.0	2.5	0.7	0.9	:	:	:	:
General government debt*** ^{6.2}	% of GDP	65.2	63.4	63.3	70.1	79.0e	71.5	62.7	65.4	65.3	:	:	:	:

f: ECFIN forecast Autumn 2019 published November 2019

* Q figures refer to a 4 quarters moving average.

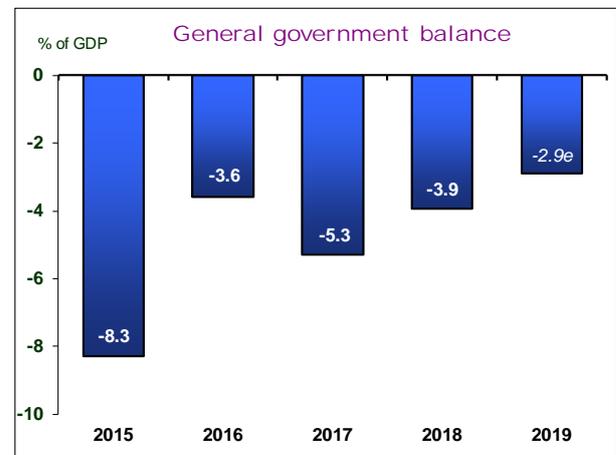
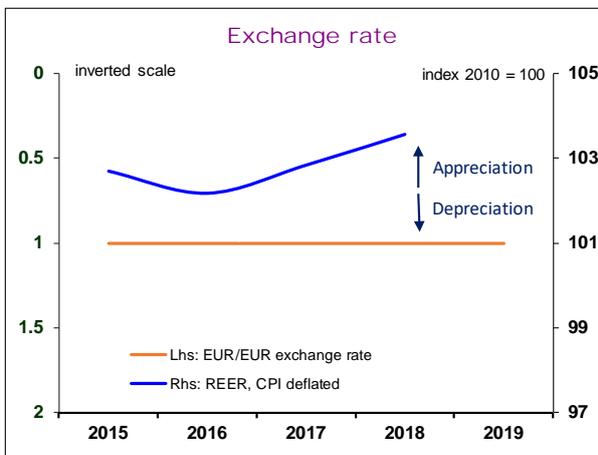
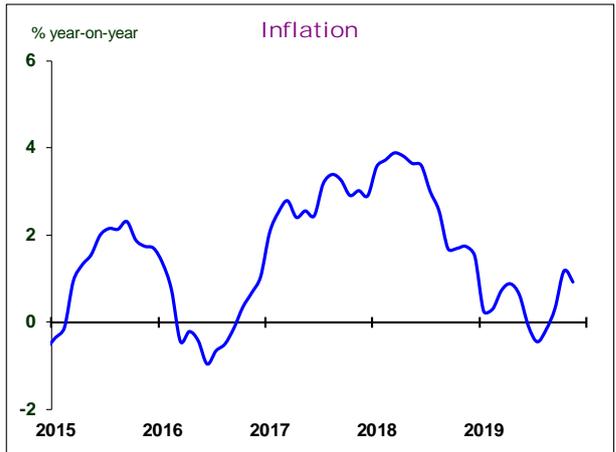
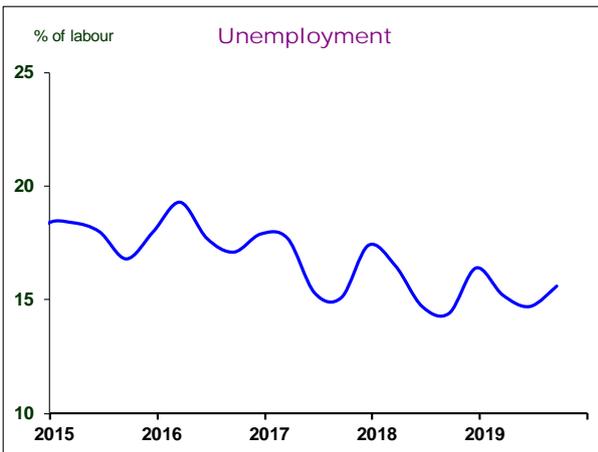
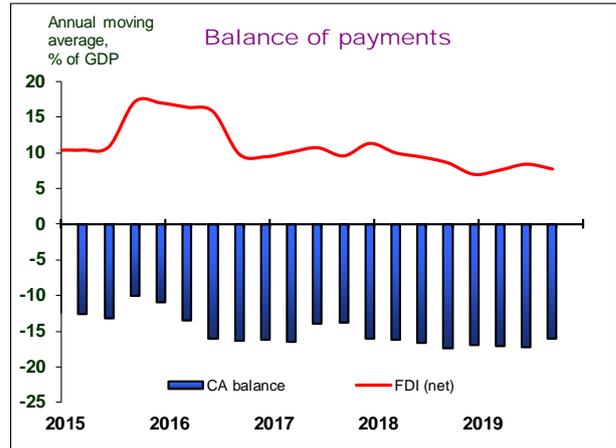
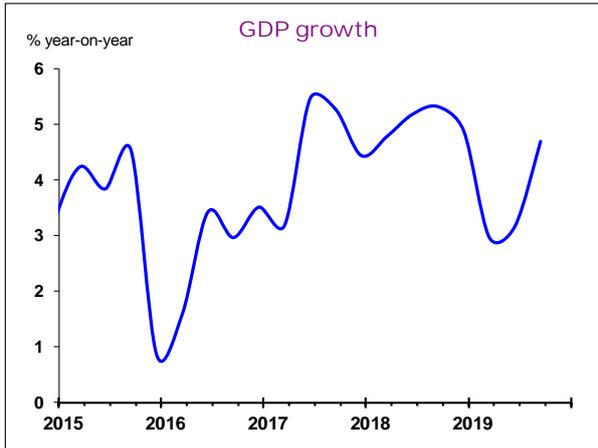
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

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

CHARTS



MONTENEGRO



NORTH MACEDONIA



Key developments

On 23 December, the Parliament approved the 2020 budget. It is based on projected 3.8 % real GDP growth and a deficit of 2.3 % of GDP. Revenue is expected to increase by 5.6 % over the 2019 budget.

On 15 December, Fitch Ratings affirmed the country's debt rating at BB+, citing solid economic policies, improved governance and ease of doing business. Analysts recommend to strengthen fiscal consolidation and to reduce foreign currency-denominated public debt.

On 18 November, the IMF completed its regular Article IV mission. The Fund calls on the government to rebuild fiscal space and to focus on a more growth-enhancing public expenditure structure, to upgrade physical infrastructure and to reform the education sector.

Real sector

The economic recovery regained pace in the third quarter of 2019, compared to the preceding three months, with real GDP increasing by an estimated 3.6 %, in annual terms. Growth was driven by domestic demand, in particular a strong rebound in investment (+14.9 %, after hovering at +1 % in the first half), and in spite of lower growth in household spending (-1.3 pps to 3 % y-o-y). Government consumption also lost momentum, growing at 2 % y-o-y, compared to 4.3 % in the first half of the year. Net exports did not contribute to GDP growth, for the fourth quarter in a row. The increase in goods and services exports weakened (8.3 % compared to 14.7 % in January to June), and was exceeded by import growth (10.7 %, compared to 12.1 %). This brings average annual GDP growth in the first three quarters to 3.6 %, signalling an acceleration compared to the same period one year earlier (2.3 %). Growth was broad-based among all sectors, although manufacturing remained weak. The recovery in construction continued for the fourth quarter.

High frequency indicators for October and November send mixed signals. Annual growth

of industrial output slowed down, from an average of 5.8 % y-o-y in the first nine months to 1.1 % on average in October and November, while manufacturing outperformed the total index (4.3 %). Domestic production of capital goods rose by 9.6 % on average, bringing total annual increase in the first eleven months to 6.9 %, a marked decline from the 2018 average of 15.8 %. Yet, retail sales (excluding food and fuel) increased markedly (average 21.5 % y-o-y, compared to 17.2 % in the third quarter of the year, supported by a strong rise in disposable incomes and household loans.

Labour market

The labour market improved further in the third quarter. The labour force expanded by 0.6 % y-o-y, on account of a rise in the female workforce, which more than compensated for the drop in male workers. The activity rate among the population of working age (15-64 years) expanded by 0.5 pps y-o-y, to 66.2 %, with the number of women participating in the labour market jumping by 3.6 pps to 55.5 %. Annual employment growth was as strong as in the second quarter (5.3 %). This resulted in a further drop in the unemployment rate, to 17.1% (-3.7 pps y-o-y). Supported by the government's "Youth Guarantee" programme, the situation of young workers continued to improve, too, even though, at 35.3% (-10.5 pps compared to one year earlier), the unemployment rate of the population aged 15-24 remains high. The overall employment rate increased by 2.3 pps y-o-y, to 47.4 %. Gross nominal wages continued to rise in the third quarter and beyond, at a slightly faster rate (5.1 %) than in the first half of the year (4.7%), bringing total increase in the first ten months to 4.9% (-0.7 pps y-o-y). This translated into real wage growth of 4.0 %.

External sector

External sector performance remained robust, in spite of a slight deterioration of some key indicators. The current account balanced posted a deficit of 1.1% in the four quarters to September (on a 4Q moving average basis), after

a surplus of 0.2% one year earlier. This came on the back of a lower surplus in services (-1.4 pps to 3% of GDP) and in secondary income (-0.5 pps to 16.3% of GDP). These changes more than offset the narrowing in the merchandise trade deficit (+0.4 pps to 16.4%) and in primary income (+0.2 pps to 4%). Net FDI inflows amounted to 3.8 % of GDP in the third quarter, lower than one year earlier (4.5 %), with intercompany transactions accounting for the bulk of the decline. Gross external debt, excluding central bank transactions, was up by 1.8 % y-o-y at the end of September, accounted for mainly by higher short-term private sector debt and intercompany lending, amounting to 77.4 % of projected full-year GDP, about the same as one year earlier. Supported by central bank interventions in foreign currency markets, international reserves were some 13.8 % higher at end-2019 than one year earlier and covered some 5.2 months of prospective imports. Among reserve components, currency and deposits, and securities were higher by 13 % y-o-y each. Over 77 % of reserves are made up of securities.

Monetary developments

Consumer price growth decelerated in the third quarter (0.6 % y-o-y average), compared to the first half (1.2 %) and was flat in the fourth quarter, bringing average annual growth of the headline CPI for 2019 to 0.8 % (2018: 1.5 %). Food prices made the biggest contribution to the CPI increase in 2019, even though they rose only moderately in the second half of the year (1.2 %), declining from 2.1 % annual growth in the first half of the year. Prices for fuels, utilities, and transport dropped in 2019. Annual growth of broad money (M4) accelerated somewhat in the third quarter (10.8 %, compared to 10.5 % in the second quarter), but slowed down in October and November (9.6 % average). All components, in particular households' and companies' demand and short-term deposits, increased. In January, the central bank lowered the key policy rate by 25 bps, the first change since March 2019, to the new historic low of 2 %.

Financial sector

Lending to the private sector continued to expand in the third quarter and beyond, even though the pace decelerated compared to the first half year of the year. Loans to the non-financial sector rose by 6.4% y-o-y in the third quarter (-2 pps compared to the first six months), slowing somewhat further to 6.2 % on average in October and November. Households

accounted for most of the increase in this period, while lending growth to private non-financial companies, which has been decelerating since May, eased further in the third quarter (+3.3 % y-o-y, compared to 7.3 % average in the first half) and in the following two months (+2.7 % average). Supported by the central bank's "denarisation" strategy, the share of foreign-currency denominated loans dropped further in the third quarter, by 0.6 pps y-o-y, to 42.1 %. Solvency and liquidity in the banking sector remained robust in the third quarter. At end-September, regulatory capital to risk-weighted assets stood at 16.9%, higher by 0.6 pps than one year earlier. The loan-to-deposit ratio for non-financial clients dropped by 3 pps y-o-y in this period, to 84.2 %. The ratio of non-performing to total loans (financial and non-financial sector) was at about the same level as one year earlier (4.8 %). Interest rates continued on their downwards path. Between August and October, the spread between rates on Denar loans (-10 bps to 5.5 %) and deposits (-20 bps to 1.7 %) widened. The spread between loans (-10 bps to 4.5 %) and deposits (unchanged at 0.8 %) in foreign currency narrowed.

Fiscal developments

Government revenues increased, in annual comparison, in the third quarter and beyond, and both current and capital expenditure were stepped up. Between January and November, central government revenue was some 8.2 % higher y-o-y, amounting to 87 % of annual budget plan. This came on the back of higher income from taxes (+3 % y-o-y) and contributions (+ 9.6 % y-o-y). Gross VAT revenue, accounting for 39 % of total revenue in this period, was higher by 5.2 %. Taking into account government's repayments of VAT arrears, VAT (net) rose by 5.3 % y-o-y. In the period January to November, current expenditure was higher by 5.5 % y-o-y, and capital expenditure by 28 %. Preliminary figures for the full year point to capital expenditure execution at 78% of budget (2018: 66%). The deficit in the first eleven months stood at 42% of full-year target, or 1% of projected GDP, below the government's target of 2.5%.

At end-September, general government debt, at 39.2% of projected full-year GDP, was lower by 0.8 pps compared to end-2018. The decline in government debt was largely accountable for the drop in public debt, which includes the debt of state-owned enterprises, during this period (-0.9pps to 47.7% of projected full-year GDP).

TABLE



European Commission, ECFIN-D-1

North Macedonia

		2015	2016	2017	2018	2019	ECFIN 2019 Autumn forecast		Q2 19	Q3 19	Q4 19	Oct 19	Nov 19	Dec 19
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Balance	17.5	24.0	25.6	28.8	:	:	:	32.2	32.3	:	32.8	33.3	:
Industrial production ^{1.2}	Ann. % ch	4.9	3.9	0.2	5.4	:	:	:	1.3	7.3	:	4.2	-2.1	:
Gross domestic product ^{1.3}	Ann. % ch	3.8	2.8	0.2	2.7	3.2f	3.2	3.3	3.4	3.6	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.4	3.9	0.7	3.9	3.1f	2.9	2.9	4.4	3.0	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	8.3	12.5	0.8	0.9	8.6f	9.3	8.7	4.8	19.9	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	8.6	3.6	-6.0	-8.9	:	:	:	5.7	8.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	9.8	18.8	-11.3	9.8	:	:	:	7.3	17.1	:	20.4	22.9	:
2 Labour market														
Unemployment ^{2.1}	%	26.1	23.8	22.4	20.7	17.5f	16.5	15.5	17.5	17.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.3	2.5	2.4	2.5	4.4f	2.2	2.5	5.2	5.3	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.7	2.0	2.6	5.8	4.0f	3.4	2.4	4.8	5.3	:	4.8	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	9.4	11.5	19.8	20.1	:	:	:	12.4	10.7	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	5.0	7.8	11.8	12.9	:	:	:	11.1	10.4	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-20.1	-19.2	-17.8	-16.2	-17.5f	-19.1	-20.4	-16.2	-16.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	48.7	50.7	55.4	60.6	:	:	:	62.7	63.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	65.0	65.5	69.2	73.2	:	:	:	75.3	76.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.0	-2.9	-1.0	-0.3	-1.4f	-2.0	-2.1	-0.9	-1.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.2	3.7	2.3	5.8	:	:	:	3.3	3.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	m n EUR	2,261.8	2,613.4	2,336.3	2,867.1	3,262.6	:	:	2,928.2	3,127.5	:	3,267.1	3,241.5	3,262.6
Int. reserves / months Imp ^{3.9}	Ratio	5.6	6.0	4.8	5.2	:	:	:	5.0	5.2	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	-0.3	-0.2	1.4	1.5	0.8	1.9	2.0	1.2	0.6	0.0	-0.2	-0.1	0.4
Producer prices ^{4.2}	Ann. % ch	-4.1	-0.1	0.4	-0.3	:	:	:	0.2	0.2	:	1.1	1.1	:
Food prices ^{4.3}	Ann. % ch	0.1	-1.3	0.3	0.8	:	:	:	1.8	1.3	:	0.9	1.1	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	6.9	6.2	5.1	11.8	:	:	:	10.5	10.8	:	10.4	8.8	:
Exchange rate MKD/EUR ^{4.5}	Value	61.61	61.60	61.57	61.51	61.51	:	:	61.50	61.49	61.50	61.49	61.51	61.51
Nominal effective exchange rate ^{4.6}	Index	99.2	100.5	101.4	103.3	:	:	:	103.1	103.1	:	103.0	102.9	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.92	1.96	1.78	1.54	1.46	:	:	1.46	1.45	1.46	1.46	1.45	1.45
Bond yield ^{5.2}	% p.a.	7.46	7.02	6.61	6.11	:	:	:	5.67	5.58	:	5.51	:	:
Stock markets ^{5.3}	Index	1,731	1,887	2,406	3,154	3,939	:	:	3,752	3,983	4,384	4,296	4,358	4,498
Credit Growth ^{5.4}	Ann. % ch	9.1	4.0	2.5	6.7	:	:	:	8.4	6.3	:	6.0	6.4	:
Deposit growth ^{5.5}	Ann. % ch	7.6	4.4	5.3	8.9	:	:	:	9.8	8.8	:	8.4	8.1	:
Non-performing loans ^{5.6}	% total	10.3	6.3	6.1	5.0	:	:	:	5.4	4.8	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-3.5	-2.7	-2.7	-1.8	-2.5f	-2.4	-2.3	-2.3	-0.6	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	38.1	39.9	39.4	40.6	41.9f	42.5	42.7	38.6	39.2	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2019 published November 2019

* Q figures refer to a 4 quarters moving average.

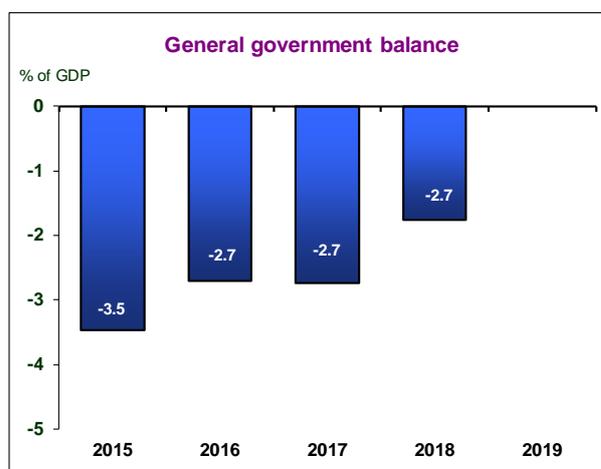
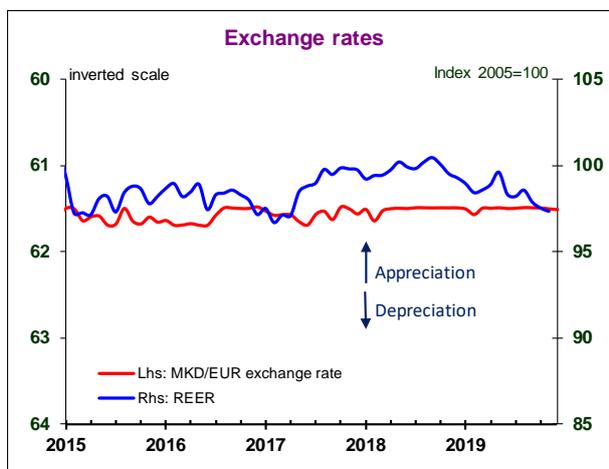
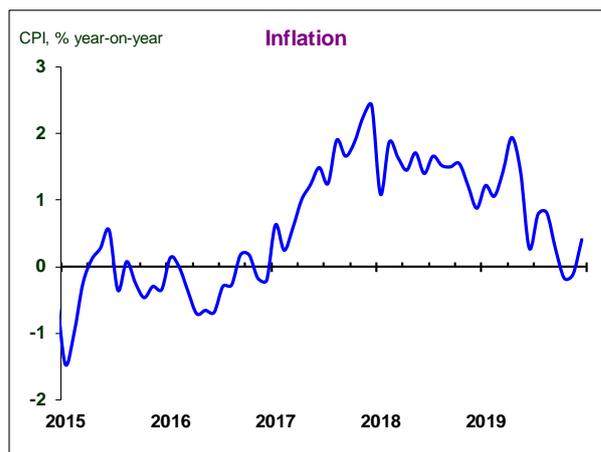
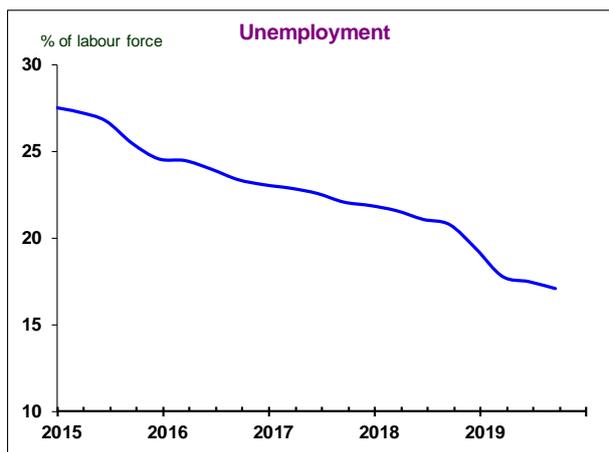
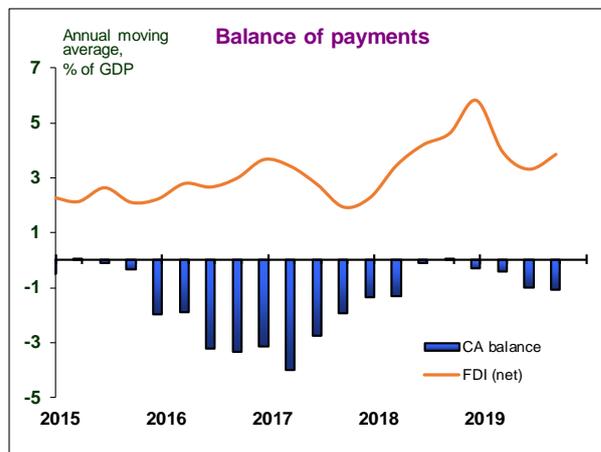
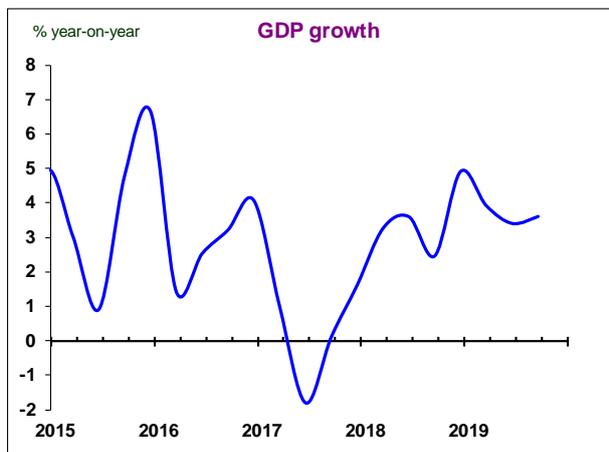
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



North Macedonia





Key developments

In November, the Parliament adopted the 2020 budget, keeping the general government deficit target at 0.5 % of GDP, like in the 2019 revised budget of October. The 2020 budget projects robust revenue growth that is used to implement the average wage increase of around 9% already decided in the 2019 amending budget, to increase pensions by 5.4%, to provide additional funding for infrastructure projects and to slightly lower labour taxation.

In December, Standard and Poor's (S&P) raised Serbia's credit rating from 'BB' to 'BB+' (one notch below investment grade) while maintaining a positive outlook. According to S&P, the upgrade was based on robust economic growth expectations for Serbia, despite lower growth in the eurozone, and on the projected containment of Serbia's public debt due to continued fiscal discipline and an accommodative monetary environment. The positive rating outlook is based on strong prospects for continued inflows of FDI that could further strengthen Serbia's export base and its resilience to external shocks.

In December 2019, the offer by the largest Slovene bank Nova Ljubljanska Banka (NBL) was declared the best bid among the binding offers for the privatisation of Komercijalna Banka, Serbia's second largest bank. NBL was accordingly invited to start direct negotiations on a sales contract for Komercijalna Banka.

In December, the IMF completed the third review under the Policy Coordination Instrument with Serbia. The Fund noted the continuation of solid economic and fiscal performance. However, it also noted that Serbia remains vulnerable to spillovers from external developments, while internal risks are especially related to delays in structural reforms.

Real sector

Economic growth accelerated considerably in the third quarter. Real GDP expanded 4.8 % y-o-y, up from 2.9% in the second quarter, mainly driven by a strong acceleration of gross fixed capital formation growth to 17.3% y-o-y. Household consumption growth slowed slightly to 3.1% y-o-y while government consumption growth picked up to 4.6% y-o-y. The growth in

exports of goods and services accelerated to 10.2% y-o-y, despite weak economic sentiment in some of Serbia's major trading partners in the EU., Growth of imports accelerated slightly less to 11.4% y-o-y, thereby reducing the negative contribution of net exports to quarterly GDP growth to -1.7% y-o-y.

On the supply side, the strong investment drive corresponded to a very strong rise in construction activity (34.7 % y-o-y), mainly resulting from the construction of the Serbian section of the Turk Stream gas pipeline. Industry has picked up as well, returning to growth of 2.0 % y-o-y in the third quarter after negative growth rates during four quarters in a row, mostly due to subpar performance in the energy and mining sectors. Benefiting from strong domestic demand, the trade and service-oriented sectors of the economy maintained a robust growth. Following a very good year 2018, the agricultural sector stagnated in the first three quarters of 2019.

Some short-term indicators suggest that growth may have remained robust in the fourth quarter. Industrial production increased 0.5 % y-o-y in October and 1.1 % y-o-y in November supported in particular by the production of capital and intermediate goods while consumer goods remained in negative territory. Boosted by higher earnings and increased consumer confidence and employment, the growth in real retail trade turnover accelerated to 9.4% y-o-y in October and 11.2 % y-o-y in November.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and over decreased to 9.5 % in the third quarter. This was down 1.8pps y-o-y and half the level of five years ago. The labour force declined 1.6 % y-o-y because of decreasing population and an increase in inactivity. Although employment growth decelerated to 0.3 % y-o-y in the third quarter, it has continued unabated in the last four years. As in previous quarters, employment gains were entirely in the formal sector (2.4 % y-o-y), while informal employment dropped 7.8 % y-o-y. Nevertheless, the rate of informal employment remained elevated at around 19 %.

Reflecting the continued positive momentum on the labour market, registered employment

increased as well, by 1.6 % y-o-y in the third quarter. Employment went up in most sectors but growth was particularly strong in construction (9.3 % y-o-y) and mining and quarrying (7.5 % y-o-y), mostly related to extraction of crude petroleum and natural gas and mining of metal ores. Manufacturing employment grew 2.9 % y-o-y, with strong growth in the manufacture of electrical equipment more than offsetting a substantial decrease of employment in the manufacture of motor vehicles. Employment declined in agriculture, energy, and the public sector. In conjunction with the strong employment data, registered jobseekers fell by 9.5 % y-o-y in November. The growth in nominal net wages stood at 10.2 % y-o-y in October while real net wages grew by 8.1 % y-o-y.

External sector

In the period January-November 2019, the current account deficit in euro terms expanded 52.1 % y-o-y. Over the four quarters to September 2019, it stood at 6.4 % of GDP, compared to 5.3 % of GDP in 2018. Strong domestic demand pulled the merchandise trade deficit further up (7.7 % y-o-y) in January-November, despite continuing robust export growth. While the services trade surplus improved by 5.0% y-o-y over the same period, the primary income deficit increased by 16.9% y-o-y and the secondary income surplus declined by 9.0% y-o-y, mainly because of a fall in other current transfers. While decelerating slightly after the summer, strong inflows of FDI have brought the total up to November to EUR 3.1 billion, up by 37.3 % y-o-y, and financing 110 % of the current account deficit.

Monetary developments

After a further decrease of consumer price inflation to 1.0 % y-o-y by October, price pressures picked up towards the end of the year resulting in a rate of 1.9 % in December. Average annual inflation for 2019 turned out at 1.7 %, close to the lower bound of the central bank's target tolerance band of 3 % +/-1.5 %. The fluctuations in the inflation rate in the fourth quarter were mainly driven by food and energy prices. Core inflation (excluding energy, food, alcohol and tobacco) remained broadly stable at around 1.1 % throughout the fourth quarter. The central bank (NBS) reacted to the low inflation environment by cutting its key policy rate by another 25 bps in November to 2.25 %. The cut was also justified by the

slowdown in global economic activity and trade, which had triggered renewed monetary easing by major central banks.

The central bank remained an active participant on the foreign exchange market. In reaction to continued appreciation pressures, it bought a net EUR 235 million in October and another EUR 355 million in December. Overall, the central bank interventions have curbed dinar appreciation against the euro to 0.5% y-o-y in 2019. NBS foreign exchange reserves increased by €2.1 billion in 2019, reaching a new high of €13.4 billion, covering around six months' worth of imports of goods and services.

Financial sector

In November, domestic claims of the banking sector increased by 10.5 % y-o-y. The growth of credit to the non-government sector remained robust, expanding 9.8 % y-o-y. Over the autumn, credit growth to households stabilised at 8.5 % y-o-y, while growth of loans to companies accelerated to 10.2 % y-o-y. The loan-to-deposit ratio of the non-monetary sector remained broadly stable at around 97%. Non-performing loans declined further in the third quarter to 4.7%, down from 5.7 % at the end of 2018. As regards the tender launched by the Deposit Insurance Agency for the sale of €1.8 billion worth of NPLs from its portfolio, the deadline for binding offers was set to 15 April 2020 and the operation is planned to be completed by June 2020. The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) increased slightly to 23.6 % in the third quarter. Liquidity ratios also increased in the third quarter, as regards both the share of liquid assets to total assets (by 1.7 pp. to 35.9 %) and to total short-term liabilities (by 2.0 pp. to 50.4 %).

Fiscal developments

Stable economic growth and rising employment and income levels helped sustain the good budgetary performance. By end-November, the general government budget was in surplus of RSD 46.4 billion (0.9 % of the estimated annual GDP). Total revenue increased by 7.8 % y-o-y, on the back of strong revenue growth from income tax, value added tax and social security contributions. In January-November, total expenditure went up 9.6 % y-o-y with strong rises in capital spending (22.5 % y-o-y). In November, government debt stood at 52.4 % of estimated full-year GDP, down from 53.7 % at the end of 2018.

TABLE

European Commission, ECFIN-D-1



SERBIA

							ECFIN 2019 Autumn forecast										
							2020	2021	Q2 19	Q3 19	Q4 19	Oct 19	Nov 19	Dec 19			
							2015	2016	2017	2018	2019						
1 Real sector																	
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.			
Industrial production ^{1.2}	Ann. % ch	8.4	4.8	3.4	1.5	:	:	:	-2.5	1.9	:	0.5	1.1	:			
Gross domestic product ^{1.3}	Ann. % ch	1.8	3.3	2.0	4.3	3.2f	3.8	3.7	2.9	4.8	:	N.A.	N.A.	N.A.			
Private consumption ^{1.4}	Ann. % ch	-0.5	1.3	2.0	3.3	3.3f	3.8	3.5	3.3	3.1	:	N.A.	N.A.	N.A.			
Gross fixed capital formation ^{1.5}	Ann. % ch	4.9	5.4	7.3	9.2	9.3f	6.9	7.6	8.8	17.3	:	N.A.	N.A.	N.A.			
Construction index ^{1.6}	Ann. % ch	13.1	5.1	9.3	9.6	:	:	:	22.5	37.5	:	N.A.	N.A.	N.A.			
Retail sales ^{1.7}	Ann. % ch	2.0	8.0	3.8	4.1	:	:	:	8.3	8.8	:	9.4	11.2	:			
2 Labour market																	
Unemployment ^{2.1}	%	17.7	15.3	13.5	12.7	10.5f	8.9	7.2	10.3	9.5	:	N.A.	N.A.	N.A.			
Employment ^{2.2}	Ann. % ch	0.6	5.6	2.8	1.4	1.8f	1.2	1.2	0.7	0.3	:	1.9	3.0	:			
Wages ^{2.3}	Ann. % ch	-0.4	3.8	4.0	4.3	:	:	:	9.9	10.8	:	10.2	:	:			
3 External sector																	
Exports of goods ^{3.1}	Ann. % ch	7.9	11.6	12.1	8.2	:	:	:	6.6	7.6	:	9.5	8.5	:			
Imports of goods ^{3.2}	Ann. % ch	5.9	6.1	13.6	13.0	:	:	:	8.9	7.8	:	0.8	7.0	:			
Trade balance* ^{3.3}	% of GDP	-11.3	-9.9	-11.1	-13.2	-12.2f	-12.5	-12.9	-13.8	-13.8	:	N.A.	N.A.	N.A.			
Exports goods and services ^{3.4}	% of GDP	45.3	48.6	50.5	50.8	:	:	:	52.1	52.5	:	N.A.	N.A.	N.A.			
Imports goods and services ^{3.5}	% of GDP	52.3	53.4	57.1	59.2	:	:	:	61.1	61.5	:	N.A.	N.A.	N.A.			
Current account balance* ^{3.6}	% of GDP	-4.4	-2.9	-5.2	-5.2	-6.0f	-5.5	-5.5	-6.3	-6.4	:	N.A.	N.A.	N.A.			
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.1	5.2	6.2	7.4	:	:	:	8.2	8.8	:	N.A.	N.A.	N.A.			
International reserves ^{3.8}	mn EUR	10,378.0	10,204.6	9,961.7	11,261.8	:	:	:	12,146.0	13,295.4	:	13,499.0	13,464.7	:			
Int. reserves / months Imp ^{3.9}	Ratio	7.7	7.2	6.2	6.2	:	:	:	6.4	6.8	:	6.9	6.9	:			
4 Monetary developments																	
CPI ^{4.1}	Ann. % ch	1.4	1.1	3.1	2.0	1.8	2.1	2.1	2.2	1.3	:	1.0	1.4	1.9			
Producer prices ^{4.2}	Ann. % ch	0.2	-0.4	3.4	2.2	0.7	:	:	1.4	-0.1	0.1	-0.8	-0.2	1.2			
Food prices ^{4.3}	Ann. % ch	1.9	-0.3	3.3	1.9	2.6	:	:	3.2	1.5	:	0.7	2.0	:			
M3 ^{4.4}	Ann. % ch	6.6	11.6	3.6	14.5	:	:	:	11.2	13.1	:	11.9	12.5	:			
Exchange rate RSD/EUR ^{4.5}	Value	120.74	123.09	121.41	118.27	117.86	:	:	117.96	117.72	117.53	117.55	117.51	117.54			
Nominal effective exchange rate ^{4.6}	Index	67.4	66.1	67.3	69.7	69.2	:	:	69.2	69.2	69.2	69.2	69.2	69.3			
5 Financial indicators																	
Interest rate (BEONIA) ^{5.1}	% p.a.	4.75	2.70	2.68	2.24	1.63	:	:	1.89	1.41	1.13	1.28	1.09	1.04			
Bond yield (7 year) ^{5.2}	% p.a.	10.99	8.28	5.45	5.00	:	:	:	4.46	3.50	:	3.40	2.69	:			
Stock markets ^{5.3}	Index	1,359	1,383	1,584	1,562	1,583	:	:	1,566	1,581	1,650	1,607	1,645	1,696			
Credit growth ^{5.4}	Ann. % ch	7.0	9.0	2.2	7.7	:	:	:	4.9	4.8	:	5.7	7.2	:			
Deposit growth ^{5.5}	Ann. % ch	6.5	11.4	3.3	15.3	:	:	:	11.3	14.0	:	12.3	12.9	:			
Non-performing loans ^{5.6}	% total	21.6	17.0	9.8	5.7	:	:	:	5.2	4.7	:	N.A.	N.A.	N.A.			
6 Fiscal developments																	
General government balance** ^{6.1}	% of GDP	-3.5	-1.2	1.1	0.6	-0.1f	-0.5	-0.5	0.5	1.2	:	N.A.	N.A.	N.A.			
General government debt ^{6.2}	% of GDP	70.0	67.8	57.9	53.7	54.6	49.9	48.0	51.4	52.0	:	52.0	52.4	:			

f: ECFIN forecast Autumn 2019 published November 2019

* Q figures refer to a 4 quarters moving average.

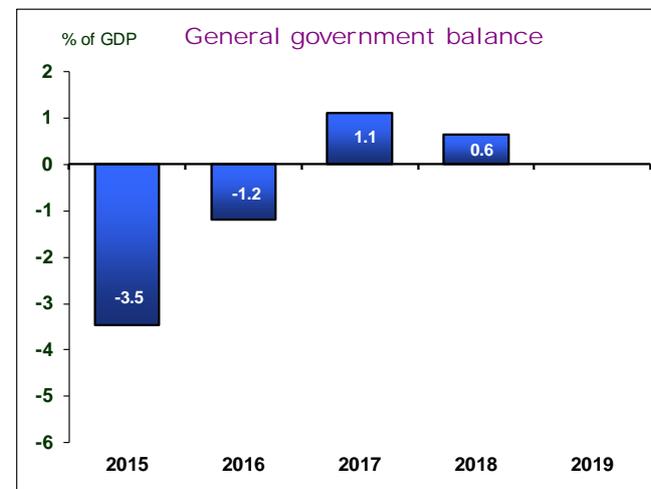
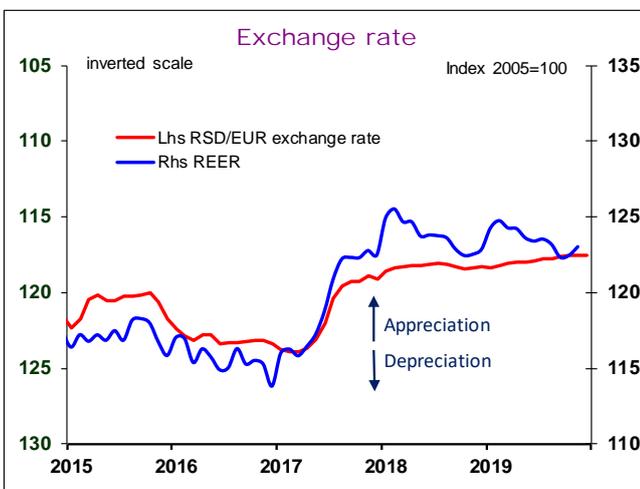
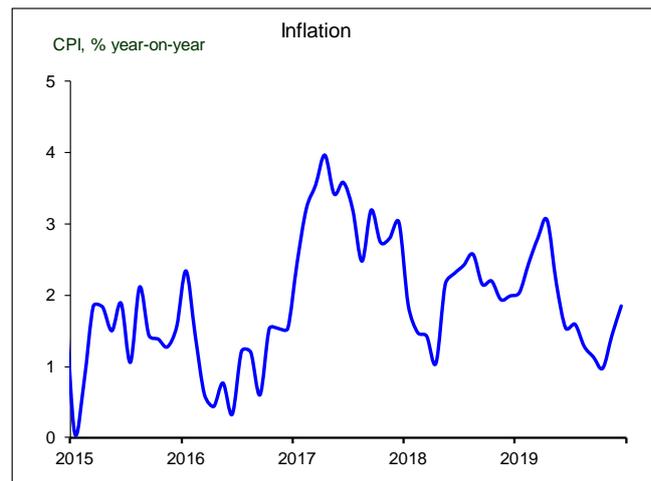
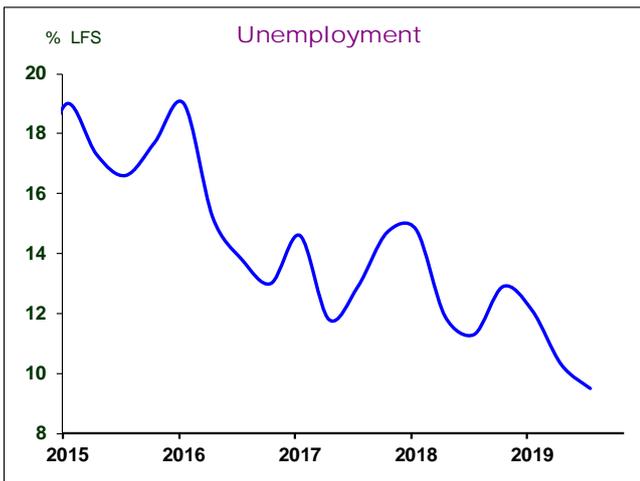
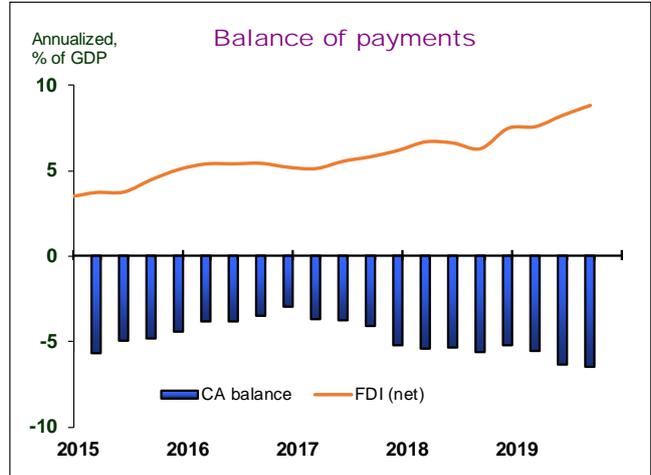
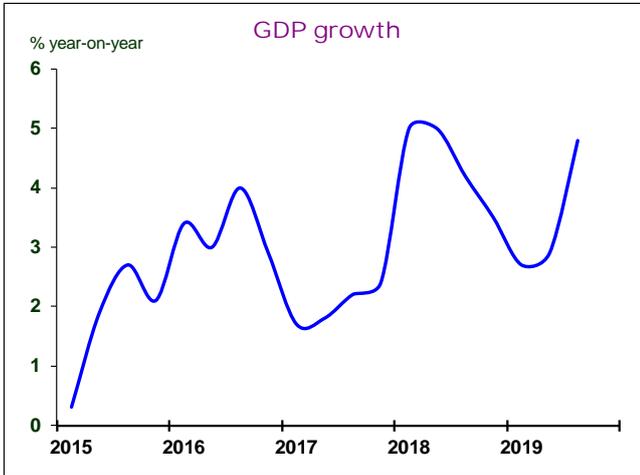
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA





Key developments

On 21 December, the Turkish parliament ratified the 2020 budget. It targets a deficit of TL 138.9 billion (2.9% of GDP) and assumes 5% real GDP growth and a moderate decline in end-of-period inflation to 8.5%.

Important tax legislation changes were introduced, such as a new, higher personal income tax bracket of 40% for annual income over TL 500,000; a new tax on high value residential property (ranging from 0.3% to 1.0%); an accommodation services tax of 1% of their value (effective from April 2020), increasing to 2% as of 2021; and a new 7.5% tax on revenues from digital activities and content. In parallel, in an effort to support certain sectors and suppress inflation in the beginning of the year, the authorities have reduced the VAT on furniture (from 18% to 8%) and on eggs and fish (from 8% to 1%), while skipping the regular January indexation of alcohol and tobacco taxes to the six month change in PPI.

In December, a Financial Action Task Force assessment found gaps in Turkey's anti-money laundering and counter terrorist financing system and invited Turkey to swiftly address them.

In November, Unicredit reached an agreement with Koç Group to reduce its stake in Yapi Kredi bank from 40.95% (indirect ownership) to 31.93% (direct ownership). Following the transaction, Koç Holding and its related shareholders will cumulatively hold direct and indirect stakes in the bank of 49.99%.

In December, the Banking Regulation and Supervision Agency restricted banks' short-term currency swaps, forwards, options and other similar products with non-residents, where at maturity local banks pay TRY and receive FX, to 10% of the bank's most recently calculated regulatory capital.

Real sector

In the third quarter, the economy turned to growth of 0.9% y o y, following a 1.9% y-o-y contraction in the first half of the year. Quarter-on-quarter growth, however, decelerated to 0.4%

from 1.0% in the previous three months. Government consumption remained strong (7.0% y o y), while household spending posted still tepid growth (1.5%), sapped by a weak labour market. While gross fixed capital formation continued its rapid decline (-12.6% y-o-y), it may have bottomed out as it stopped falling in q-o-q terms. In addition, stocks' contribution to GDP growth became positive (3.4 pps) in the third quarter after five consecutive quarters of negative contribution. Exports of goods and services remained relatively strong (+5.1% y-o-y and 5.5% q-o-q), supported by a strong tourism season and tail effects of the lira's depreciation. Recovering domestic demand boosted imports, which grew 7.6% y-o-y and 10.5% q-o-q. As a result, after more than a year of positive contributions, net exports subtracted from growth (-0.5 pps) in the third quarter.

On the production side, all sectors, with the exception of construction (-7.8% y-o-y), which has moved in sync with investment, expanded. The growth of industry, including manufacturing, and most of the non-government services, however, remained subdued.

High-frequency indicators point to an acceleration of growth in the last quarter of the year. Capacity utilisation rate of manufacturing increased to 76.5 % (seasonally adjusted), close to its long-term average over the last decade. There was a broad-based improvement of economic confidence, which averaged 91.6 in the fourth quarter, gaining a full 7.0 pps over the previous quarter. Industrial production went up by 2.9% y-o-y in October and, driven by strong base effects, accelerated to 4.3% y-o-y in November. Retail trade sales went up as well, helped by rapidly expanding consumer lending. However, the recovery remained fragile, indicated by a still poor consumer confidence, dragged down by households' subdued expectations about their financial situation and employment prospects. In addition, after hitting 50 in September, manufacturing PMI moderated to around 49.5 in the fourth quarter.

Labour market

The labour market remained weak in the third quarter. The labour force increased marginally by 0.7% y-o-y, while the inactive population went up 2.2% y-o-y. Total employment (15 years and above) fell by 2.5% y-o-y, although its decline decelerated in October to 1.8% y-o-y as base effects had a larger weight. The drop in employment continued to be more pronounced among men, who suffered disproportionately from the slump in construction. Employment dynamics continued to be highly sensitive to educational levels. Employment continued to increase among people with higher education (5.2% y-o-y in the third quarter), representing about a quarter of all employees. However, those with less than high school education or illiterate (representing slightly more than half of total employment) did not see any reprieve and, after a seasonal peak in June, their employment declined further. As a result, the unemployment rate decreased marginally but remained elevated at 13.4% in October, while the non-agricultural unemployment rate stood at 15.7%. The hourly labour cost index, adjusted for seasonal and calendar effects, increased by 2.7% q-o-q in the third quarter. Survey results indicated improved short-term employment expectations.

External sector

After its peak in September, the 12-month moving current account surplus declined to \$2.7 billion (0.6% of GDP) in November. As domestic demand recovered, the current account turned to a monthly deficit of \$0.5 billion in November. Imports of goods started growing since the summer, and accelerated further in October and November, to 11% y-o-y. The growth in exports of goods, on the other hand, largely stagnated in these two months. With the expiration of the high tourism season, exports of services also declined, while primary income outflows remained steady.

Despite a modest increase in November to \$3.1 billion, the cumulative net financial inflows since the beginning of the year remained far below historic averages, at just \$1.9 billion. The November uptick was largely driven by portfolio investment and was sufficient to cover the current account deficit and net errors and omissions outflows. BoP developments supported another month of rising reserve assets, preserving them at a level covering around six months of imports.

Monetary developments

Although monthly inflation remained below 1%

in the last two months of 2019, since November base effects drove the annualised inflation rate up again in the double-digits. End-of-the-year inflation stood at 11.8% y-o-y. Core inflation went up as well, to 9.8% y-o-y, despite being largely unchanged on a monthly basis in December. Inflation expectations for the next twelve months declined to 9.7% in January 2020, falling below 10% for the first time since April 2018. The central bank continued its aggressive interest rate cuts, shaving 250 bps in October, 200 bps in December, and 75 bps in January, bringing the key policy rate to 11.25%. Its effective policy rate declined further as well. The lira depreciated against the dollar by 2.0% q-o-q and 4.9% y-o-y, amidst lower volatility.

Financial sector

The central bank took a number of additional measures to stimulate lending growth, such as relaxing reserve requirements and changing their remuneration. Boosted also by state-owned banks' continued aggressive credit expansion, total loans picked up in the last quarter of the year, rising 10.8% y-o-y and 4.6% q-o-q. Credit growth was more pronounced in the lira segment and for households, while the recovery in corporate lending trailed behind, weighed down by weak demand. Total deposits and funds increased strongly, by 24% y-o-y in December, leading to a fall in the loan-to-deposit ratio to 112% – its lowest level since mid-2013. The NPL ratio increased steadily to 5.23% in November, while the capital adequacy ratio also increased to a multi-year high of 18.6%. In the fourth quarter, Turkish equities continued their strong performance. The BIST100 closed 8.9% higher than the previous quarter and gained 1.5% in USD terms, amidst higher volatility.

Fiscal developments

The central government budget deficit increased by 51.7% y-o-y to TL 92.9 billion (2.2% of the estimated annual GDP) in January-November. The underlying deficit was some 1.8pps higher, if dividends (mostly exceptional) from the central bank are excluded. Boosted by this dividend payment, total revenues grew by 16.2% y-o-y, while tax revenue increased by a more modest 6.5% y-o-y. Reflecting the gradual recovery in consumption, the growth in taxes on goods and services accelerated to 5.9% y-o-y. Significant increases in current transfers, personnel and interest payments kept total spending growth high at 20.1% y-o-y. Government debt reached 32.1% of GDP in the third quarter (up from 30.4% at end-2018).

TABLE



TURKEY

European Commission, ECFIN-D-1

		2015	2016	2017	2018	2019	ECFIN 2019 Autumn forecast		Q2 19	Q3 19	Q4 19	Oct 19	Nov 19	Dec 19
							2020	2021						
1 Real sector														
Industrial confidence ^{1.1}	Index	103.5	105.2	108.0	101.4	100.4	:	:	102.3	99.9	102.2	100.9	102.0	103.6
Industrial production ^{1.2}	Ann. % ch	6.1	3.4	9.1	1.1	:	:	:	-3.3	0.9	:	2.9	4.4	:
Gross domestic product ^{1.3}	Ann. % ch	6.1	3.2	7.5	2.8	0.3f	3.1	3.5	-1.6	0.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.4	3.6	6.2	0.1	0.0f	2.9	3.0	-1.2	1.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	9.3	2.2	8.2	-0.6	-9.0f	3.3	5.1	-22.4	-12.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-8.8	17.4	63.3	-34.8	:	:	:	-69.6	:	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	6.7	2.2	5.7	2.0	:	:	:	-3.5	-1.5	:	6.3	8.5	:
2 Labour market														
Unemployment ^{2.1}	%	10.5	11.1	11.1	11.2	13.7f	13.3	12.9	13.2	14.2	:	13.7	:	:
Employment ^{2.2}	Ann. % ch	2.5	2.2	3.5	1.8	-1.8f	2.6	2.8	-2.9	-2.5	:	-1.9	:	:
Wages ^{2.3}	Ann. % ch	16.7	21.3	10.2	20.6	17.5f	10.8	10.0	29.4	21.7	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-9.0	-0.7	10.2	6.9	:	:	:	1.6	0.9	:	-0.1	1.0	:
Imports of goods ^{3.2}	Ann. % ch	-14.8	-3.8	17.2	-4.4	:	:	:	-17.5	-3.9	:	9.5	12.7	:
Trade balance* ^{3.3}	% of GDP	-5.6	-4.8	-6.9	-5.4	-3.0f	-3.2	-3.3	-2.3	-1.9	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	23.3	22.0	24.8	29.5	:	:	:	32.4	32.2	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	26.0	24.9	29.3	30.6	:	:	:	30.5	29.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-3.8	-3.8	-5.6	-3.5	-0.6f	-0.7	-1.0	0.1	0.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.3	1.6	1.4	1.7	:	:	:	1.7	1.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	110.5	106.1	107.7	93.2	104.7	:	:	96.4	105.8	105.4	105.3	104.7	104.7
Int. reserves / months Imp ^{3.9}	Ratio	6.4	6.4	5.5	5.0	6.2	:	:	5.8	6.4	6.2	6.4	6.3	6.2
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	7.7	7.8	11.1	16.3	15.2	10.3	9.3	18.0	13.5	10.3	8.6	10.6	11.8
Producer prices ^{4.2}	Ann. % ch	5.3	4.3	15.8	27.0	17.6	:	:	27.9	12.0	4.4	1.7	4.3	7.4
Food prices ^{4.3}	Ann. % ch	11.1	5.8	12.7	18.0	19.5	:	:	26.3	14.9	9.2	7.8	8.9	10.9
M4 ^{4.4}	Ann. % ch	17.1	17.2	15.5	19.3	28.5	:	:	21.3	14.9	28.5	21.6	27.9	28.5
Exchange rate TRY/EUR ^{4.5}	Value	3.0	3.34	4.15	5.68	6.35	:	:	6.59	6.27	6.46	6.38	6.34	6.65
Nominal effective exchange rate ^{4.6}	Index	63.7	58.63	47.90	36.12	31.34	:	:	30.15	31.61	30.94	31.08	31.26	30.47
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	10.48	9.88	12.20	18.92	19.68	:	:	25.03	17.63	12.86	14.48	12.86	11.25
Interest rate, long term ^{5.2}	% p.a.	9.30	10.19	11.11	15.88	15.76	:	:	18.44	15.78	13.06	14.18	12.55	12.44
Stock markets ^{5.3}	Index	80,641	77,177	98,993	101,927	99,278	:	:	92,612	99,792	104,833	99,349	104,466	110,684
Credit growth ^{5.4}	Ann. % ch	20.4	16.2	21.2	13.1	10.8	:	:	7.2	-1.6	10.8	5.0	8.8	10.8
Deposit growth ^{5.5}	Ann. % ch	18.6	17.7	17.7	22.1	24.0	:	:	19.1	11.2	24.0	17.0	23.4	24.0
Non-performing loans ^{5.6}	% total	2.9	3.2	3.1	3.9	:	:	:	4.4	5.0	:	5.1	5.2	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.0	-1.1	-1.5	-1.9	-3.0f	-3.5	-3.3	-4.1	-0.6	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	27.5	28.2	28.2	30.4	31.4f	33.0	34.3	32.4	32.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2019 published November 2019

* Q figures refer to a 4 quarters moving average.

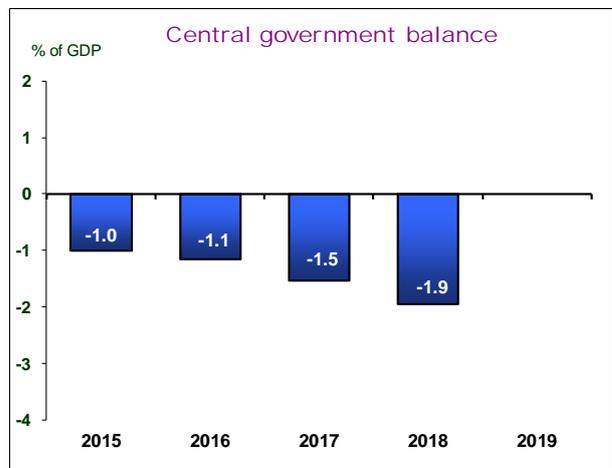
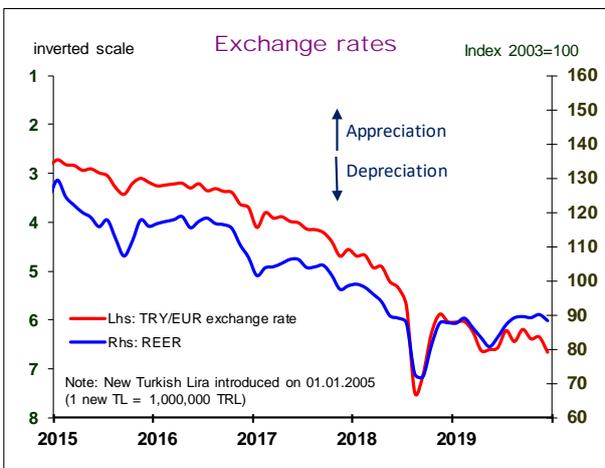
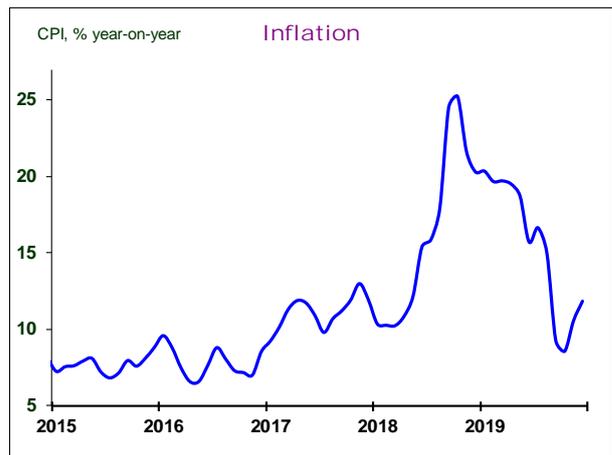
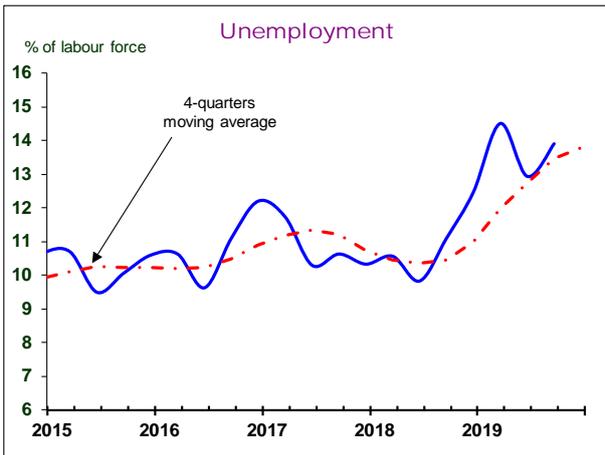
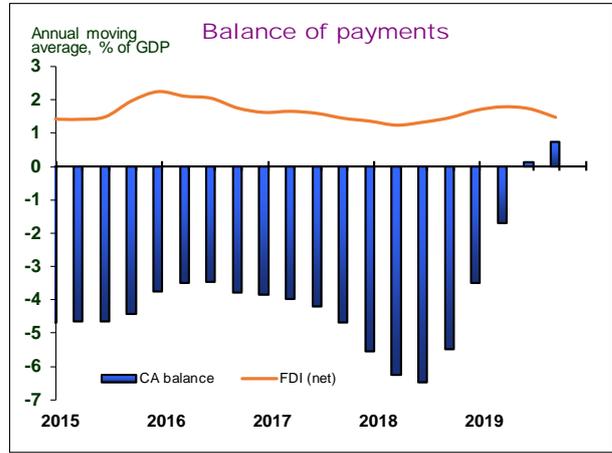
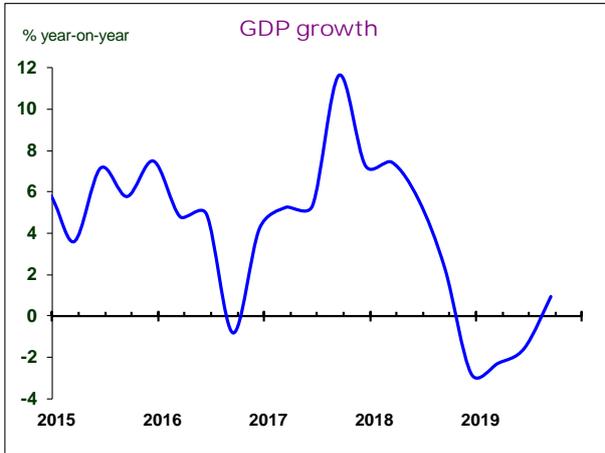
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

In January, the World Bank revised its growth forecast for the country's economy in 2020 down from 3.9% to 3.4%. The IMF expects 2.6% growth for 2020, while the EBRD's latest estimate projects 3% growth in 2020.

Real sector

Preliminary national account data points to a weakening of economic activity in the third quarter, which however was largely offset by lower imports, keeping GDP growth at 2.6% y-o-y, compared to 2.9% a year before. Private consumption increased by 0.9%, compared to 2.5% the year before, while investment rose by 2.8%, compared to 13.7% a year before. Exports of goods and services were 2.2% lower than a year before. However, due to weaker domestic demand, imports declined by 3.2% y-o-y. On the domestic side, the main sources of growth were private consumption and gross investment (including stocks), contributing 0.7 pps and 0.6 pps to growth, respectively. During the first three quarters, real GDP growth stood at 2.6%, compared to 3.3% a year before. Growth was mainly driven by private consumption, which increased by 2.6% y-o-y, contributing 1.9 pps to growth, as well as gross capital formation, including stocks (+8.2% y-o-y), contributing 1.7 pps to growth. Export were 0.8% lower than a year before, while imports in the first three quarters were still 1.9% higher. The growth contribution of net exports was negative, subtracting 1.4 pps from overall growth. This data release is only a preliminary one, which is often subject to revisions, in particular in the area of capital formation. When looking at the sectoral composition, the main growth driver was trade, transport and accommodation, increasing by 6.4% y-o-y and contributing about 1.3 pps to GDP growth.

However, more recent, high-frequency data indicates that the economic slowdown, which seems to have taken place during 2019, might have bottomed out towards the end of the year. In November, industrial production was 2.6% higher than a month before, although, when compared to a year before, the industrial output level was still 5.8% lower. When looking at the first eleven months of 2019, the seasonally-adjusted index of industrial production was 5.5% lower than a year before, mainly as a result of

lower output in the energy and textiles sector. However, domestic consumption appears to remain solid: retail sales increased by 4.1% y-o-y in November, and by 5.5% during the first eleven months of the year.

Labour market

Annual growth of registered employment decelerated during the third quarter to 1.9%, compared to 2.6% in the previous three months. In October, the increase came down to 1.3%, which brought average growth during the first ten months of the year to 2.6%, compared to 3.3% the year before. In absolute numbers, some 11 thousand more employees were registered in October than a year before. This increase primarily took place in the trade sector, as well as in transport and in communication technologies. At the same time, registered unemployment dropped by some 36 thousand persons y-o-y, leading to a decline in the administrative unemployment rate to 32.7%, down from 35.0% in October 2018. However, this decrease was still much larger than the increase in the number of newly registered employees, implying a continuous decline in the registered labour force, likely reflecting discouraged labour, emigration or to a certain extent a stricter application of unemployment eligibility criteria. Measured according to the survey-based LFS method, the unemployment rate fell from 18.4% in April 2018 to 15.7% in April 2019. Youth unemployment remains about twice as high as the overall rate, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is still at around three quarters of total unemployed.

The growth of nominal gross wages slightly decelerated to 4.2% y-o-y in the third quarter, compared to 4.4% in the second quarter. However, in October and November, wage growth was again somewhat stronger, increasing by 4.7% and 4.4%, respectively. The highest wage increases were registered in the sectors of art and entertainment, real estate, and construction. Adjusted for inflation, average gross earnings were y-o-y 4% higher.

External sector

The current account deficit in the four quarters to September improved marginally compared to June, dropping by 0.3 pps y-o-y to 4.2% of

GDP, largely as the value of nominal imports of goods dropped faster than the one of exports. Exports declined according to BOP statistics by 3.1% y-o-y in the third quarter. Trade data from October and November points to an even sharper decline towards the end of 2019, with a drop in exports by 5.2% and 10.2%, respectively. Imports declined in the third quarter too, dropping by 2.3% compared to the year before. In October, the decline continued, with -5.1% in October and -2.3% in November. The surpluses in the primary income balances remained largely unchanged in the four quarters to September, while the balance of secondary incomes, including workers' remittances, improved by another ½ pp, registering surpluses of 3.3% of GDP and 13%, respectively.

During the first eleven months of the year, goods exports were 3% lower than a year before. The main factors were lower exports to Kosovo, Germany, Croatia, but also to Turkey. This was partly compensated by stronger exports to Austria, Serbia, France and Switzerland. Trade with the EU accounted for some 74% of total exports.

Net FDI inflows accounted for 2.6% of GDP on average during the four quarters to September, largely due to investment from Russia, Croatia and the Netherlands. Official foreign reserves continued to increase in the third quarter, reaching an import coverage of some 8 months, and some 7½ months in November.

Monetary developments

Inflationary dynamics continued to soften in the third quarter. Headline consumer price inflation decelerated to 0.4%, compared to 0.6% in the second quarter. In October and November, this trend continued, with consumer price inflation declining to 0.1%. Key factors for the weaker price dynamics continue to be lower prices for clothing and footwear, which were some 10% lower y-o-y, and of transport, while prices for alcoholic beverages and restaurants rose significantly faster than the average. Average annual consumer price inflation in the period January to November was 0.6%, compared to 1.4% in full-year 2018.

The annual growth of the monetary aggregate M2 remained high in the third quarter, at 8.1%, unchanged from the previous quarter.

Financial sector

Annual domestic credit growth decelerated slightly to 5.2% in the third quarter, but

accelerated again to 6.4% in November. The growth of loans to households accelerated to 7.9% by November, compared to around 7½% y-o-y during most of 2019. Loans to corporations also increased slightly faster, at 5% in November, compared to 4½% during most of 2019. Bank loans to the public sector, accounting for some 4% of total loans, rose sharply in November, by 15.7% y-o-y, leading to growth of loans to the public sector by 4% in the first eleven months of the year.

Growth of total deposits remained strong. In the third quarter, deposits increased by some 9.1% and accelerated further to 10.1% in November. The loan-to-deposit ratio remained at 87.2% in November, but was significantly lower than a year before, when the ratio stood at 90.2%.

The share of non-performing loans in total loans continued to decline slightly, to 7.7% in the third quarter, compared to 9.4% a year before. Loan-loss provisioning deteriorated slightly with 79.6% of non-performing loans covered by provisions, compared to 80.1% in the first quarter of 2019. Banking sector profitability deteriorated slightly in the third quarter as the return-on-equity (ROE) ratio dropped to 11.1%. However, compared to a year before, the return-on-equity remained largely unchanged. Also the return on assets (ROA) remained largely unchanged at 1.5% in the third quarter. The banking system's overall capital adequacy ratio remained largely unchanged at 18.1% in the third quarter, which is well above the country's regulatory minimum of 12%. However, there are big differences among the countries' 23 banks, with some pockets of vulnerability remaining, in particular in the case of some smaller local banks.

Fiscal developments

Public-sector revenue growth slowed down in the second half of the year, reflecting weaker domestic growth, lower imports but also lower import tariffs. Overall, the collection of indirect taxes, accounting for about 40% of total revenues, was some 5.3% higher than a year before. Spending on public wages remained contained. Latest estimates for 2019 point to a country-wide fiscal surplus of about 1% of GDP. Due to the delayed government formation process, the budget proposals for 2020 are not yet completed.

The value of general government debt in the third quarter was largely unchanged from a year before. However, as a share in GDP, the debt ratio dropped by 1.4 pps to 31.8%.

TABLE



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2015	2016	2017	2018	2019	Q2 19	Q3 19	Q4 19	Oct 19	Nov 19	Dec 19
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.										
Industrial production ^{1.2}	Ann. % ch	3.1	4.4	3.1	1.6	:	-3.6	-5.7	:	-10.2	-5.8	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	3.4	3.0	3.6	:	2.6	2.6	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.8	2.3	0.8	2.5	:	3.4	0.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-3.5	2.5	5.8	9.2	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-15.2	49.8	-18.9	2.2	:	52.5	63.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.8	7.0	5.1	8.2	:	3.4	3.9	:	4.3	4.1	:
2 Labour market												
Unemployment ^{2.1}	%	27.7	25.4	20.5	18.4	15.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.2	-2.6	1.9	0.7	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.0	0.8	1.6	2.9	:	4.4	4.2	:	4.4	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	6.7	4.2	20.0	14.7	:	1.4	-3.1	:	-5.2	-10.2	:
Imports of goods ^{3.2}	Ann. % ch	-2.4	2.9	13.3	6.9	:	5.3	-2.3	:	-5.1	-2.3	:
Trade balance* ^{3.3}	% of GDP	-24.3	-23.6	-24.2	-22.5	:	-22.7	-22.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	34.0	34.2	38.4	40.9	:	40.8	40.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	51.7	51.0	55.4	56.1	:	56.1	55.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.9	-4.5	-4.2	-3.6	:	-4.5	-4.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.0	1.4	2.3	2.4	:	2.3	2.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	4,431.0	4,849.7	5,268.4	5,972.4	6,339.0	6,086.0	6,480.6	6,339.0	6,381.9	6,343.2	6,339.0
Int. reserves / months Imp ^{3.9}	Ratio	6.5	7.1	6.8	7.2	:	7.4	8.0	:	7.7	7.6	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-1.0	-1.1	1.3	1.4	:	0.6	0.4	:	0.1	0.1	:
Producer prices ^{4.2}	Ann. % ch	-0.4	-1.1	1.6	3.3	:	0.7	-0.3	:	-0.7	-0.8	:
Food prices ^{4.3}	Ann. % ch	-4.8	-1.3	1.3	0.6	:	1.3	0.8	:	1.1	1.3	:
M2 ^{4.4}	Ann. % ch	8.1	8.2	9.5	9.0	:	8.1	8.1	:	8.3	9.0	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Real effective exchange rate ^{4.6}	Index	98.0	97.0	96.5	97.1	:	95.9	94.8	:	95.30	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	N.A.										
Bond yield ^{5.2}	% p.a.	N.A.										
Stock markets ^{5.3}	Index	701	692	627	621	772	764	773	861	857	879	847
Credit growth ^{5.4}	Ann. % ch	1.9	2.1	4.9	6.7	:	5.8	5.2	:	5.3	6.4	:
Deposit growth ^{5.5}	Ann. % ch	6.2	7.7	10.4	11.3	:	8.6	9.1	:	9.6	10.1	:
Non performing loans ^{5.6}	% total	13.9	12.3	10.9	9.3	:	8.0	7.7	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	0.6	1.2	2.5	2.2	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.3	39.0	35.0	33.6	:	33.2	31.8	:	N.A.	N.A.	N.A.

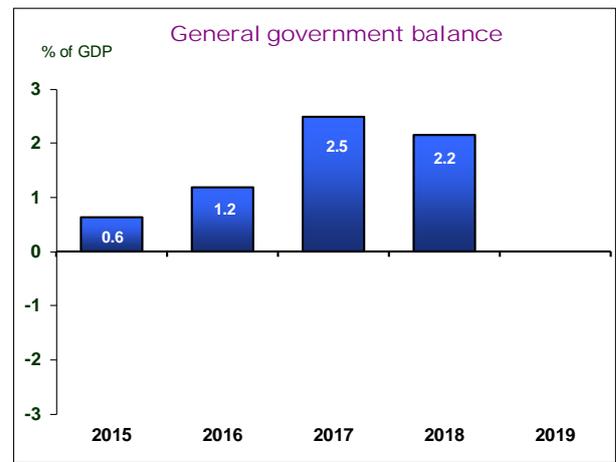
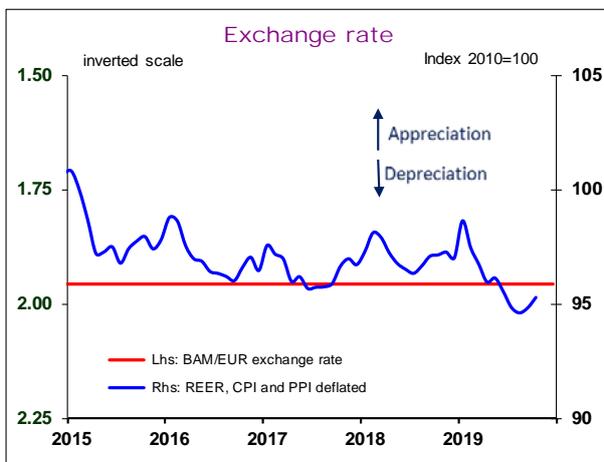
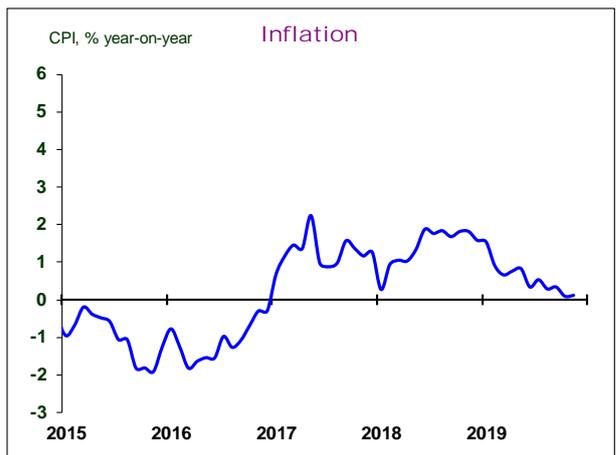
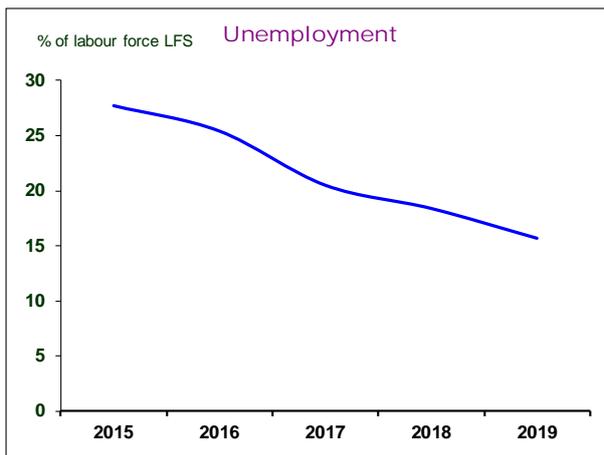
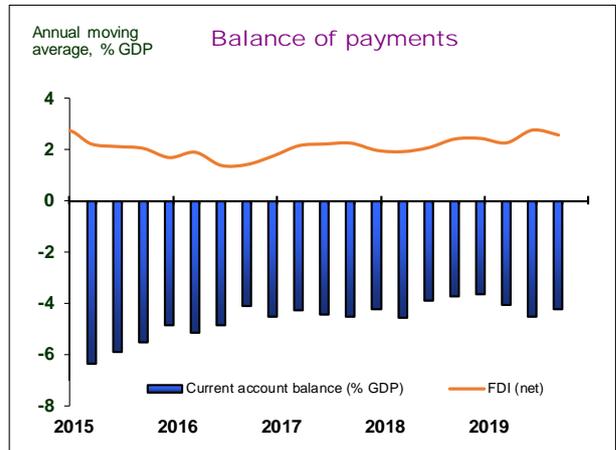
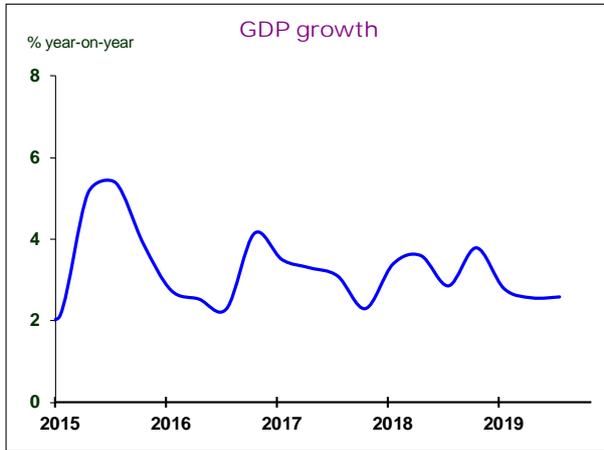
* Q figures refer to a 4 quarters moving average.

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

CHARTS



BOSNIA AND HERZEGOVINA





Key developments

Coalition negotiations have not yet resulted in the formation of a new government. The opposition parties coming first in the parliamentary elections of last October, Vetëvendosje and the Democratic League of Kosovo have so far failed to find common ground for the allocation of posts, leading to the stalemate. Kosovo entered the year 2020 with a caretaker government and without an approved budget.

According to the applicable legal framework, in such a situation 1/12th of the previous fiscal year's budget appropriations apply for each of the two months of the following year. The Assembly can authorise an extension until 31 March 2020, but after this period no disbursements are allowed, except for the servicing of public debt.

Real sector

In the third quarter of 2019, economic growth increased to 4.4% y-o-y from 4.1% y-o-y in the previous quarter, bringing the average growth in the first nine months to 4.2% y-o-y. The main factors for the acceleration were a sharp increase in government consumption (10.5% y-o-y) and a strengthening export growth (to 9.3% y-o-y), driven by the export of services and basic metals. Imports expanded by 6.7% y-o-y, resulting in a positive contribution of net exports (1.6pps) to GDP growth. Private consumption growth accelerated to 2.4% y-o-y while gross-fixed capital formation slowed to 3.5% y-o-y compared to the previous quarter.

On the production side, there was a decline in agriculture and arts and recreational activities, while other sectors contributed positively to growth. Growth was particularly strong in financial services, industry, wholesale and retail trade, which expanded by 11.8%, 7.9% and 5.1% y-o-y, respectively.

Labour market

According to the labour force survey, there was a significant improvement in labour market outcomes in the third quarter. The rate of unemployment fell to 24.5% from 30.7% in the

third quarter of 2018, while the employment rate increased to 31.6% from 29.1% one year earlier. The labour force participation rate reached 41.9%, which is the highest level in 2019, but slightly below its value from one year earlier. The wide gap between male and female employment rates (49% and 14% respectively) persisted. The still very high rate of youth unemployment declined to 48.9% from 55% in the same quarter of 2018.

External sector

The current account deficit narrowed in the third quarter, with its 4-quarter moving average decreasing to 5.3% of GDP from 6.5% in the previous quarter. The main drivers were a healthy growth of export services to diaspora and a slight contraction of the traditionally high merchandise trade deficit, which fell to 43.5% of GDP, compared to 43.8% in April-June. Workers' remittances stood moderated to 11.3% of GDP from 12.1% in the previous quarter. On the financing side, net inflows of FDI recovered somewhat in the twelve months to September to 4.4% of GDP, supported by inflows in real estate and renting activities. Official reserve assets increased gradually and covered 4.9 months of imports of goods and services in the third quarter, up from 4.4 one year earlier.

In January-November, total goods exports expanded by 5.4% y-o-y, due to a recovery in the production of basic metals. In the same period, imports of goods rose by 3.8% 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 narrowed by 3.6% y-o-y.

Monetary developments

Inflation rate fell to 1.2% y-o-y in December from 1.7% in November due to the fading effects of 100% import tariffs on goods imported from Serbia and Bosnia and Herzegovina, and to the diminishing contribution of food prices. Annual average HICP inflation was 2.7% in 2019, well above the 1% rate recorded in 2018.

Import prices rose by 2.1% y-o-y in the first nine months due to increases in prices for agricultural

and mineral products. Indices of construction cost and producer prices registered limited increases of 0.5% and 0.6% y-o-y, respectively.

Financial sector

Robust credit growth has slightly moderated from 10.9% in July to 10.2% in November as compared to 11% y-o-y in the eleven months of 2018. Healthy credit expansion was supported by favourable interest rates, resulting from high liquidity and competition across banks. Credit growth to enterprises and households continued at a similar pace. 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. The growth of deposits in commercial banks accelerated from 12% in July to around 16% y-o-y in September-November. As a result, the loan-to-deposit ratio declined to 80.1% in November from 84.3% a year earlier, indicating banks' stable liquidity position.

The interest rate spread remained stable in the second half of 2019, moving in the range of 4.9-5 percentage points. The average rate on household deposits was also rather stable at 1.3-1.5% over the same period.

Financial soundness indicators for banks remained satisfactory throughout the first eleven months of 2019. For the banking system as a whole, the ratio of liquid assets to short-term liabilities was rather stable and stood at 36.5% in November 2019, well above the regulatory minimum of 25%. The capital adequacy ratio slightly declined to 16.5% from 16.8% a year before, which is still well above the regulatory minimum of 12%. The already low NPL ratio decreased to a new record low of 2.1%. Existing NPLs are fully covered by loan loss provisions (166.1%).

Fiscal developments

In January-October, the budget balance achieved a small surplus as per the fiscal rule definition (EUR 98 million or 1.8% of GDP), which excludes some spending categories, and also according to the overall measure (EUR 17 million or 0.3% of GDP). Budget revenue grew by 7% y-o-y thanks to rising tax (6.3%) and especially non-tax (14%) revenues. The annual growth of budget expenditure (6.3%) masks a divergent performance of the main categories. Current expenditure increased by 9.8%, driven by rapidly rising social transfers (11%), which mostly reflects spending on war veteran benefits. The execution rate for wages and salaries

reached 99% of budget plan for the first ten months, while spending on subsidies and transfers (107.6%) exceeded the foreseen amount. Capital spending contracted by 12.2% y-o-y mainly due to underperforming foreign-financed investments. The execution rate of the regular capital expenditure stood at 39.7% while capital spending from the investment clause has barely advanced, with only EUR 4 million spent from the total allocation of EUR 274 million.

The Ministry of Finance has prepared the 2020 budget technically, with planned expenditure standing at around EUR 2.5 billion (around EUR 90 million more than in 2019). The overall budget deficit is set at 5.6% of GDP. The draft budget is planned within the limits of the fiscal rules, with the expenditure on salaries and wages foreseen at around EUR 654 million. However, this allocation does not take into account the cost of the new Law on Salaries, which is currently suspended pending review by the Constitutional Court.

Total public debt (including guarantees)¹ increased by 0.3 pps y-o-y, to 17.4% of GDP in October 2019, mainly due to the issuance of domestic debt. Owing to a still substantial share of concessional loans from IFIs (34.1% of the total debt), the average weighted interest rate remained low, despite a small increase to 2.16% in Q3 from 2.13% in Q1. The main holders of domestic debt are Kosovo's pension fund (33%), commercial banks (33%) and the Central Bank (25%).

¹ The figure does not include Kosovo's share of the former Yugoslavia debt, which the IMF reclassified to contingent liability.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2015	2016	2017	2018	2019	Q2 19	Q3 19	Q4 19	Oct 19	Nov 19	Dec 19
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	1.3	-1.3	-1.3	-1.2	:	N.A.	N.A.	N.A.	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.1	4.2	3.8	:	4.1	4.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	6.7	6.6	1.8	4.8	:	0.1	2.4	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	11.3	7.5	5.6	8.1	:	4.1	3.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.1	6.5	12.0	17.4	:	0.5	0.9	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	32.9	27.5	30.5	29.6	:	25.3	24.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-8.2	11.8	7.6	-3.4	:	4.6	9.9	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.8	1.8	1.7	5.7	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	0.2	-4.8	22.1	-2.8	:	5.5	15.4	:	-15.6	1.9	:
Imports of goods ^{3.2}	Ann. % ch	3.8	5.9	9.2	9.8	:	0.2	3.7	:	2.0	8.3	:
Trade balance*** ^{3.3}	% of GDP	-39.8	-40.9	-41.6	-44.3	:	-43.8	-43.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	21.9	22.2	26.5	26.4	:	20.9	47.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	50.4	50.6	52.7	55.6	:	54.2	58.3	:	N.A.	N.A.	N.A.
Current account balance*** ^{3.6}	% of GDP	-8.6	-7.9	-5.4	-7.6	:	-6.5	-5.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** ^{3.7}	% of GDP	5.3	3.6	4.0	4.0	:	4.2	4.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	1302.6	1,161.7	1,242.6	1,239.6	:	1358.2	1,408.4	:	1376.6	1,361.5	:
Int. reserves / months Imp ^{3.9}	Ratio	5.9	5.0	4.9	4.4	:	4.8	4.9	:	4.8	4.7	:
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	-0.5	0.3	1.5	1.1	:	3.3	2.6	:	2.1	1.7	N.A.
Producer prices ^{4.2}	Ann. % ch	2.7	-0.1	0.6	1.4	:	1.1	0.6	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	0.0	-0.4	1.2	2.8	:	6.5	5.2	:	4.4	3.5	:
Broad money liabilities ^{4.4}	Ann. % ch	5.6	9.2	6.4	7.9	:	8.7	11.6	:	8.7	13.1	:
Exchange rate EUR/EUR ^{4.5}	Value	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real eff. exchange rate (CPI) ^{4.6}	Index	103.5	103.5	103.3	102.5	:	:	:	:	:	:	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	1.45	0.35	0.21	0.43	:	0.56	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth ^{5.4}	Ann. % ch	6.9	9.1	10.5	11.1	:	10.9	10.4	:	10.0	10.2	:
Deposit growth ^{5.5}	Ann. % ch	5.6	4.7	8.6	6.5	:	11.5	13.7	:	16.0	15.9	:
Non-performing loans ^{5.6}	% total	6.2	4.9	3.1	2.5	:	2.4	2.1	:	2.1	2.0	:
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-2.0	-1.2	-1.3	-2.8	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	13.1	14.4	16.6	17.1	:	:	:	:	N.A.	N.A.	N.A.

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

** Source: IMF.

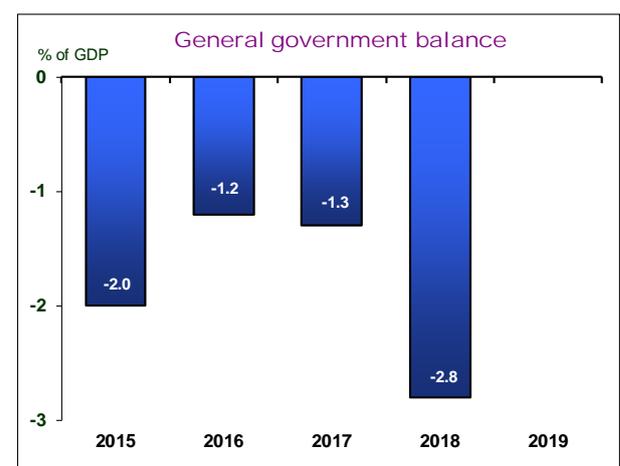
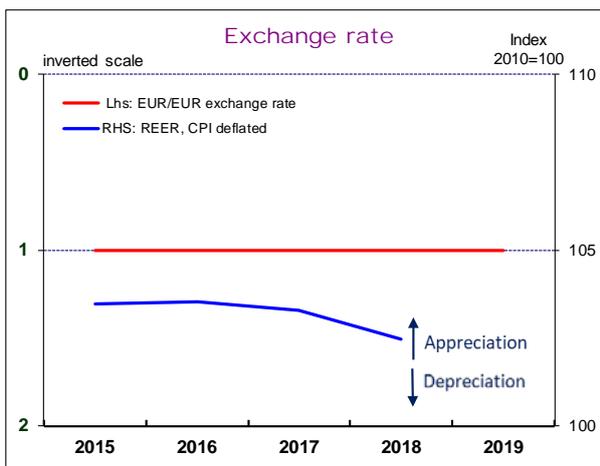
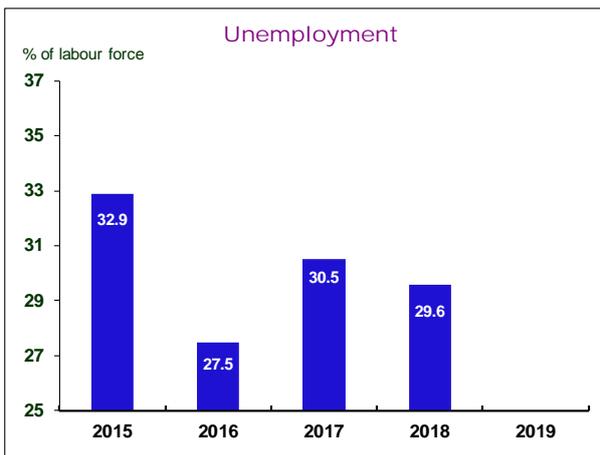
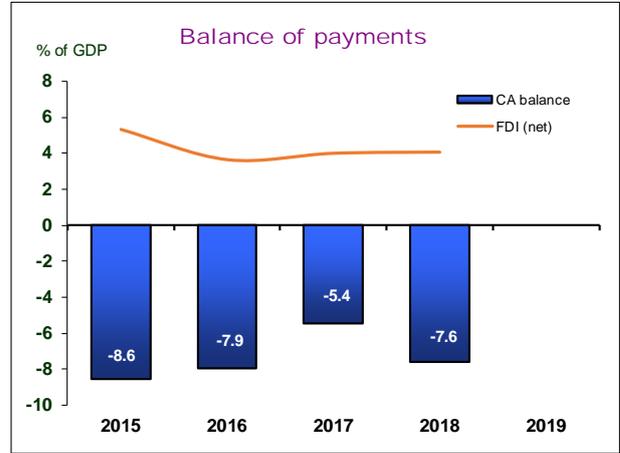
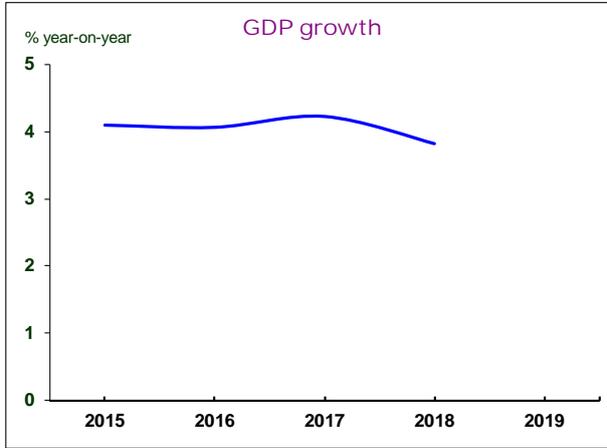
*** Q figures refer to a 4 quarters moving average.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*



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



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	MacroBond
1.2.	Industrial production	Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	MacroBond
1.4.	Private consumption	Annual percentage change, annual data, chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MacroBond
1.6.	Construction index	Annual percentage change, value of performed work, current prices	MacroBond
1.7.	Retail sales	Annual percentage change, turnover, total	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of active population, e.o.p.	MacroBond
2.2.	Employment	Annual percentage change of registered employment, avrg.	MacroBond
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	Annual data	MacroBond
3.5.	Imports goods and services	Annual data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MacroBond
4.2.	Producer prices	Annual percentage change	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	MacroBond
4.4.	M3	Annual percentage change, M3 (Broad money)	IMF
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Real effective exchange rate	CPI deflated, Index 2010=100	wiiw
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	MacroBond
5.3.	Stock markets	MOSTE Index, Close	MacroBond
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	MacroBond
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	MacroBond
5.6.	Non-performing loans	% of total	Central Bank ME
6. Fiscal developments			
6.1.	General government balance	Quarterly balance in percent of estimated annual GDP.	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



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



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



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



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available.	
1.2.	Industrial production	Annual % ch	SOK, EC calculation
1.3.	Gross domestic product	Annual percentage change.	Statistical Office of Kosovo (SOK)
1.4.	Private consumption	Annual percentage change.	SOK
1.5.	Gross capital formation	Annual percentage change.	SOK
1.6.	Construction index	Not available.	
1.7.	Retail sales	Wholesale Trade and Retail Sales, Retail Trade Turnover Value Index, Retail Sale in Non-Specialized Stores, 2013=100, NSA.	MacroBond
2.	Labour market		
2.1.	Unemployment	In percent of total labour force.	SOK
2.2.	Employment	Annual pc change of number of employees, LFS 2012 onwards	MacroBond
2.3.	Wages	Annual pc change, average monthly wages (Tax Register).	SOK
3.	External sector		
3.1.	Exports of goods	Annual percentage change.	MacroBond
3.2.	Imports of goods	Annual percentage change.	MacroBond
3.3.	Trade balance	In percent of GDP.	SOK
3.4.	Exports goods and services	In percent of GDP.	Central Bank of Kosovo
3.5.	Imports goods and services	In percent of GDP.	CB Kosovo
3.6.	Current account balance	In percent of GDP, Annual data.	IMF, CB Kosovo
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Annual data.	CB Kosovo
3.8.	Reserves, International reserves of the National Bank	CBAK Survey, claims on nonresidents, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4.	Monetary developments		
4.1.	Interim CPI	Annual average percentage change, index (May 2002 = 100)	MacroBond
4.2.	Producer prices	Annual percentage change, total, 2007=100	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	MacroBond
4.5.	Exchange rate EUR/EUR	Not applicable.	
4.6.	Real effective exchange rate	CPI deflated, Index 2010=100	wiiw
5.	Financial indicators		
5.1.	Interest rate	Short-Term Treasury Bills yield.	MacroBond
5.2.	Bond yield	Government bonds, 1 year, auction, yield.	Central Bank of Kosovo
5.3.	Stock markets	Not available.	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing.	MacroBond
5.5.	Deposit growth	Annual percentage change, ODC deposits.	MacroBond
5.6.	Non-performing loans	In % of total.	CB Kosovo
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP, Q/Q GDP	IMF, Ministry of Finance
6.2.	General government debt	In percent of GDP.	MacroBond

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

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