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3rd Quarter 2018

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European Commission
Directorate-General for Economic and Financial Affairs

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

3rd Quarter 2018

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

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EUROPEAN ECONOMY Technical Paper 028

Contents

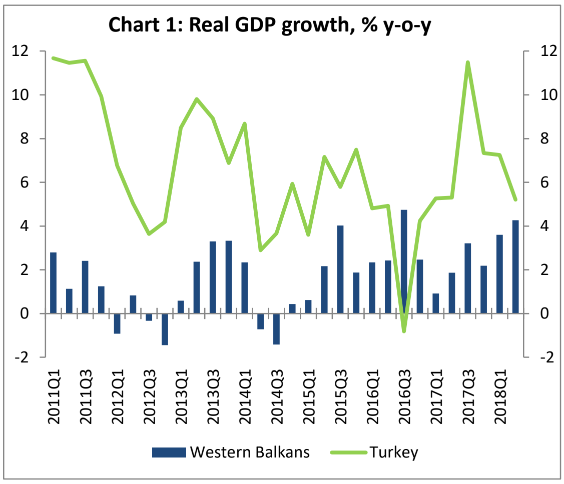
* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

OVERVIEW

The economic upswing continued in the ***Western Balkans*** *during the second quarter of 2018 with annual GDP growth accelerating to 4.3% across the region. Private consumption and investment continued to support growth and exports seem to have regained momentum. Annualised current account deficits narrowed further in most countries, but overall external positions in many cases remain vulnerable. Economic expansion led to further job creation but at a slowing pace and unemployment rates still remain high across the Western Balkans, although they continued to fall in most countries. Despite further progress in fiscal consolidation, high public debt levels remain a source of vulnerability in most countries. In* ***Turkey****, annual GDP growth decelerated to 5.5% in the April-June period and economic activity seems to have weakened further in the third quarter. Macroeconomic imbalances intensified in the second quarter with higher inflation and a further broadening of the current account deficit fuelling stress in the foreign exchange market.*

Economic growth accelerated in most countries of the ***Western Balkans*** in the second quarter of 2018, continuing a trend that started in early 2017. The *former Yugoslav Republic of Macedonia* recorded the strongest acceleration of annual GDP growth, to 3.1% from sluggish 0.1% in the first quarter on the back of stronger exports. In *Bosnia and Herzegovina* the economy expanded by 3.4% y-o-y with exports and private consumption driving growth. In *Montenegro* and *Kosovo* output growth strengthened to 4.9% y-o-y and 4.7% y-o-y, respectively. In both cases, economic expansion was broad-based with all domestic demand components (especially investment) contributing positively to growth. Conversely, in *Serbia* and *Albania*, economic growth slowed marginally in the second quarter to a still robust 4.8% y-o-y and 4.3% y-o-y, respectively. In *Serbia*, economic growth was driven by all domestic demand components while *Albania's* growth performance relied mainly on household consumption. Overall, in the second quarter of 2018, the ***Western Balkan*** region's GDP growth reached 4.3%, up from 3.6% in the first quarter and 1.9% in the same quarter a year before (Chart 1).

In ***Turkey***, GDP growth fell to 5.5% y-o-y (in calendar-adjusted terms) from a downwardly revised 7.1% in the first quarter. The second-quarter growth was mainly driven by household consumption. Amid decelerating domestic demand net foreign trade also had a positive contribution to growth.



Source: Macrobond, Commission calculations

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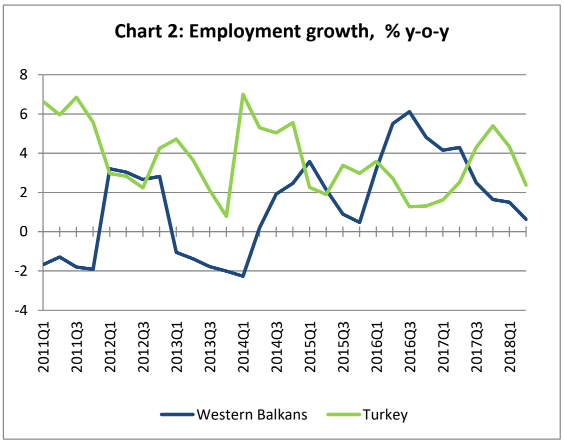
The ongoing economic recovery has not yet translated into more dynamic job creation. With the exception of *Montenegro* where employment growth accelerated in the second quarter, job creation slowed compared to the preceding quarter in *Serbia*, *Albania*, *Bosnia and Herzegovina* and the *former Yugoslav Republic of Macedonia*. *Kosovo* recorded a further and stronger decline in employment. Overall, the average job growth rate in the ***Western Balkans*** fell to 0.6% y-o-y from 1.5% in the first quarter (Chart 2). Growing employment levels contributed to lower unemployment rates in most countries in the region. Nevertheless, the labour market situation in the region remains challenging with unemployment rates ranging from 11.9% in *Serbia* to 29.4% in *Kosovo*.

In ***Turkey***, average employment growth decelerated further to 2.4% y-o-y in the second quarter, down from 4.3% in the first three months, while the unemployment rate decreased to 10.0% from 10.7% in the same period.



Source: Macrobond, Commission calculations

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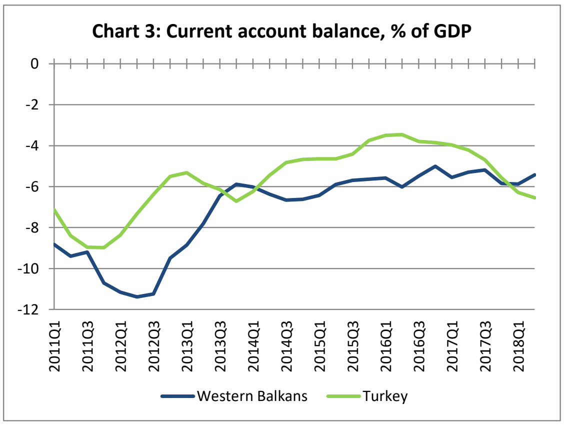
As a result of narrow production bases and competitiveness challenges, merchandise trade deficits remain very high across the ***Western Balkans***, ranging from around 13% of GDP for *Serbia* to 18% or above for the *former Yugoslav Republic of Macedonia*, *Albania* and *Bosnia and Herzegovina* and equal to 44% for *Kosovo* and *Montenegro*. Trade deficits are only partially offset by surpluses in the services account and in current transfers, resulting in large foreign financing needs. External developments in the region during the second quarter of 2018 point to a rather diverse picture. Annualised current account deficits, as measured by four quarter moving averages, narrowed in the *former Yugoslav Republic of Macedonia*, *Albania*, *Bosnia and Herzegovina* and *Serbia*, whereas they stagnated in Montenegro and widened in *Kosovo*. Overall, in the four quarters to June, the regional current account deficit was less than 6% of GDP (Chart 3), one of the lowest in many years. The deficits in the Western Balkan countries continued to be financed predominantly by net inflows of FDI.

In ***Turkey***, the 12-month cumulative current account deficit increased to 6.5% of GDP in June up from 5.5% in 2017 largely driven by a widening of the merchandise trade gap. The deterioration in investors' sentiment and the subsequent net outflows of more volatile forms of capital put the financing of the current account deficit at risk. However, there are signs that as from July/August the economic slowdown has been accompanied by a narrowing of the external deficit.



Source: Macrobond, Commission calculations

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In the first eight months of 2018, consumer price inflation accelerated in some ***Western Balkan*** countries, though only moderately, as stronger domestic demand and higher energy and food prices generated upward pressures on prices. Annual CPI inflation remained significantly below 2% in *Kosovo*, *Bosnia and Herzegovina* and the *former Yugoslav Republic of Macedonia*. *Albania* continued to undershoot its inflation target of 3% (at 2.2% in August) while in *Serbia*, inflation was at 2.6%, but within the target tolerance band of 3%±1.5pps. The central bank of *Serbia* has maintained its key policy rate at 3.00% since its last reduction in April. The *Bank of Albania* has kept its monetary policy rate at the historic low of 1.00% after reducing it by 25bps in June and continued direct interventions in the foreign exchange market over the summer to halt the Lek's appreciation and counter its disinflationary impact. The central bank of the *former Yugoslav Republic of Macedonia* lowered in August the coupon on its bills, which serves as its benchmark interest rate, from 3.00% to the historic low of 2.75%.

In ***Turkey***, in the context of risks to higher inflation from the sharp Lira depreciation in August, the central bank provided from 17 August funding via the overnight lending facility, thereby raising the effective policy rate by 150bps to 19.25%. It also decided at its Monetary Policy Committee meeting on 13 September to return to funding through the one-week repo rate and raised the repo rate by 625bps to 24%. Annual CPI inflation increased markedly to 24.5% in September up from 17.9% in August.

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Bank lending continued to be more supportive of growth in the ***Western Balkan*** region, as credit growth accelerated in the second quarter of 2018, compared to the first quarter, in *Montenegro* and *Bosnia and Herzegovina* as well as in *Serbia* and *Albania* (when adjusted for exchange rate changes and loan write offs in both countries). On the other hand, credit growth decelerated marginally in *Kosovo* while it remained unchanged in the *former Yugoslav Republic of Macedonia.* As a common feature, household lending continues to grow faster than corporate lending. Credit extension is gradually becoming less constrained by the level of non-performing loans, as almost all ***Western Balkan*** countries managed to further reduce NPL ratios partly as a result of improved resolution frameworks and mandatory write-offs. In the second quarter, the NPL ratio in *Albania* declined marginally to 13.3% of total loans. In *Bosnia and Herzegovina* the NPL ratio stood at 9.3%, followed by *Serbia* where it reached its lowest level since 2008 (7.8%) and *Montenegro* (7.0%).

In ***Turkey,*** in the third quarter of 2018, annual credit growth markedly accelerated to 28.1% up from 22.1% in the second quarter largely due to the upward impact on the loan value from the significant depreciation of the Lira exchange rate on forex-denominated loans. The NPL ratio stood at 2.9% in August compared to 3.1% in 2017, as new loans were added faster than non-performing loans to the banks' balance sheets.

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In the first eight months of 2018, the economic upturn continued to support the reduction of fiscal deficits in most countries in the ***Western Balkan*** region. However, most countries also continued to experience underperforming capital expenditure, reflecting persistent weaknesses in the planning, selection and management of public investment. In *Montenegro*, increased VAT revenue and significant capital underspending reduced the budget shortfall to 2.2% of GDP in January-June from 2.6% in the same period last year. In the *former Yugoslav Republic of Macedonia*, the general government's budget deficit amounted to 1% of GDP in the first eight months as capital expenditure dropped sharply on the back of large delays in public infrastructure works. In *Kosovo*, the budget surplus stood at 0.2% of GDP supported by a strong increase in income tax revenue. In *Albania*, the general government budget recorded a small surplus of 0.1% of GDP as higher social security contributions and local government revenues partially offset lower VAT revenue and customs duties due to the Lek's appreciation. In *Serbia*, the budget posted a surplus of 1% of GDP in January-July, despite strong increases in capital expenditure and spending on goods. Continued fiscal consolidation (without, however, undermining much-needed capital spending) is necessary in a number of countries to rebuild fiscal buffers and reduce public debt levels which were the highest at the end of June in *Albania* (69.3% of GDP) as well as in *Montenegro* (62.8% of GDP).

In ***Turkey***, in the first half of 2018, the implementation of fiscal stimulus by the government in view of the presidential elections resulted in a central government budget deficit of 2.4% of GDP. Total revenues increased by 18.2% y-o-y while total spending by 23.0% y-o-y. General government debt stood at 29.2% of GDP in the second quarter of 2018, compared to 28.3% of GDP in 2017.

Candidate and potential candidate countries: Summary table

	2013	2014	2015	2016	2017	*ECFIN 2018 Spring forecast* 2018	2019	Q1 18	Q2 18	Q3 18	Jul 18	Aug 18	Sep 18
Gross domestic product (in real terms, annual % change)													
Albania	1,0	1,8	2,2	3,4	3,8	3,6	3,9	4,5	4,3	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	2,9	3,6	3,8	2,9	0,0	3,1	3,3	0,1	3,1	:	N.A.	N.A.	N.A.
Montenegro	3,5	1,8	3,4	2,9	4,7	3,0	2,9	4,5	4,9	:	N.A.	N.A.	N.A.
Serbia	2,6	-1,8	0,8	3,3	2,0	3,3	3,5	4,9	4,8	:	N.A.	N.A.	N.A.
Turkey	8,5	5,2	6,1	3,2	7,4	4,7	4,2	7,3	5,2	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	2,1	0,6	4,1	3,4	3,4	:	:	2,0	3.4	:	N.A.	N.A.	N.A.
Kosovo	3,4	1,2	4,1	3,4	4,2	:	:	3,5	4,7	:	N.A.	N.A.	N.A.
Unemployment													
Albania	16,4	17,9	17,5	15,6	14,1	13,4	12,6	13,0	12,9	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	29,0	28,0	26,1	23,8	22,4	21,9	21,6	21,6	21,1	:	N.A.	N.A.	N.A.
Montenegro	19,5	18,2	17,8	18,0	16,4	15,6	14,8	16,5	14,7	:	N.A.	N.A.	N.A.
Serbia	22,1	19,2	17,7	15,3	13,5	12,1	10,0	14,8	11,9	:	N.A.	N.A.	N.A.
Turkey	N.A.	10,1	10,5	11,1	11,1	9,8	9,4	10,7	10,0	:	:	:	:
Bosnia and Herzegovina	27,5	27,5	27,7	25,4	20,5	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	30,0	35,3	32,9	27,5	30,5	:	:	26,5	29,4	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)*													
Albania	-9,3	-10,8	-8,6	-7,6	-7,5	-7,3	-8,0	-7,9	-7,0	:	N.A.	N.A.	N.A.
The former Yugoslav Republic of Macedonia	-1,6	-0,5	-2,0	-3,1	-1,3	-1,2	-1,3	-1,3	-0,2	:	N.A.	N.A.	N.A.
Montenegro	-11,4	-12,4	-11,0	-16,2	-16,1	-17,5	-16,7	-16,5	-16,5	:	N.A.	N.A.	N.A.
Serbia	-6,1	-6,0	-4,4	-2,9	-5,3	-6,9	-6,9	-5,7	-5,4	:	N.A.	N.A.	N.A.
Turkey	-7,8	-4,7	-3,8	-3,8	-5,6	-6,0	-5,6	-6,3	-6,5	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-5,0	-7,1	-5,1	-4,5	-4,6	:	:	-4,9	-4,5	:	N.A.	N.A.	N.A.
Kosovo	-3,4	-6,9	-8,6	-8,3	-6,0	:	:	-6,3	-6,7	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1,9	1,6	1,9	1,3	2,0	2,1	2,4	1,9	2,2	:	2,3	2,2	:
The former Yugoslav Republic of Macedonia	2,8	-0,3	-0,3	-0,3	1,4	1,9	2,0	1,5	1,5	:	1,7	1,5	:
Montenegro (HICP)	1,8	-0,5	1,4	0,1	2,8	3,0	2,2	3,7	3,7	0,5	3,0	2,6	:
Serbia	7,9	2,1	1,4	1,1	3,1	1,7	2,7	1,6	1,8	:	2,4	2,6	:
Turkey	7,5	8,9	7,7	7,8	11,1	10,9	9,0	10,3	12,8	19,4	15,8	17,9	24,5
Bosnia and Herzegovina	-0,1	-0,9	-1,0	-1,1	1,2	:	:	0,8	1,4	:	1,8	1,8	:
Kosovo	1,8	0,4	-0,5	0,3	1,5	:	:	0,0	0,7	:	1,2	1,5	:
General government balance (% of GDP)													
Albania**	-5,2	-5,2	-4,1	-1,8	-2,0	-2,0	-1,8	0,3	0,9	:	:	:	:
The former Yugoslav Republic of Macedonia***	-3,8	-4,2	-3,5	-2,7	-2,7	-2,6	-2,6	-2,1	-0,9	:	N.A.	N.A.	N.A.
Montenegro**	-4,6	-2,9	-8,3	-3,6	-5,3	-3,5	-0,3	-1,7	-0,5	:	:	:	:
Serbia***	-5,5	-6,6	-3,5	-1,2	1,1	0,6	0,5	0,4	2,5	:	N.A.	N.A.	N.A.
Turkey***	0,1	0,1	1,3	-1,3	-2,0	-2,1	-1,4	-1,0	-0,7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina***	-2,0	-2,0	0,6	1,2	2,5	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-3,1	-2,2	-2,0	-1,2	-0,8	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2018 published May 2018
***** Q figures refer to a 4 quarters moving average.
** Q figures refer to the quarterly balance divided by the estimated annual GDP.
*** Q figures refer to the quarterly balance divided by the quarterlyl GDP.

ALBANIA

Key developments

The annual subcommittee meeting on economic and financial affairs between the EU and Albania took place in Tirana on 27 September. The meeting is an opportunity to review the latest macroeconomic and fiscal developments in the country. Discussions focused on fiscal policy (especially the need for further fiscal consolidation), monetary policy (including the resolution of non-performing loans and de-euroisation), the labour market, and the business environment.

In October 2018, Albania issued a 500 million EUR 7-year Eurobond and achieved a favourable 3.55% interest rate, 2.2 points below the last 5-year issuance in 2015. The Government intends to refinance an earlier Eurobond, thus reducing pressure on the domestic lending market, and extend the maturity of public debt.

Real sector

Albania's real GDP increased by 4.3 % y-o-y in the second quarter after growing by 4.5% in the first three months. On the demand side, growth was mainly driven by household consumption which strengthened its solid growth to 3.3 % y-o-y, supported by employment growth, moderate inflation and low interest rates. Gross fixed capital formation, which still benefitted from large foreign direct investments in the energy sector in the first quarter, decelerated to 1.5% y-o-y from 4.5 %. In contrast, government consumption in the second quarter shrank 3.4 % y-o-y.

Exports of goods and services continued their recovery in the second quarter with 3.9 % while imports of goods and services grew more slowly with 2% (y-o-y). Overall exports increased their share of GDP to 34.1% whereas imports eased slightly but remained on their elevated level of almost 50% of GDP.

On the supply side, electricity production and processing industries contributed significantly to GDP growth in 2018 so far. Construction decelerated as did the services sector, mainly due to base effects, while both sectors continued to contribute positively to the economic performance.

Labour market

The labour market reflected the on-going economic expansion. In the second quarter, employment growth decelerated to 1.8 % y-o-y for the 15-64 age group. The downward trend in unemployment nevertheless continued with the unemployment rate falling by 1.2 pps y-o-y to 12.9 %, the lowest rate since 2012. Youth unemployment remains high but it has been continuously declining from its peak of 34% in 2015. In the second quarter, the unemployment rate for the 15-29 age group registered 22.6 %, down by 3.7 pps y-o-y. The labour force participation rate continued on its upward trend to 68.0 % in the second quarter compared to 66.8 % a year earlier. The gap between male and female labour force participation narrowed to 17.1 pps (male: 76.6 %; female: 59.5 %).

Administrative data show that employment in the non-agricultural private sector and in agriculture increased 7 % y-o-y and 1.2 % respectively in the second quarter while employment in the public sector jumped 3.6% following several years of low or negative growth.

Private sector wages continued growing across most sectors, while public wage growth slowed down to 0.2 % after strong increases in 2017 and the first quarter of 2018.

External sector

The 4-quarter moving average current account deficit narrowed to 7 % of GDP in the second quarter from 7.9 % in the first quarter. This reflects the decelerating import growth and strong export recovery. In the same period, the trade deficit for goods decreased again slightly by 1pp to 23.1% of GDP but remains higher than in preceding years. The services balance however still recorded a strong surplus of 9.3% of GDP. The small surplus on the primary income balance remained stable. Rising remittances inflows, which grew again by over 10% y-o-y in the second quarter, added to narrowing the current account deficit and supported the stable surplus on the secondary income balance.

Foreign direct investment inflows, mostly still in the energy sector, were up by 9.6 % y-o-y in the second quarter or 19.2% over the first half o

2018. FDI inflows are the major financing source of the current account deficit with a coverage ratio of 152 % over the first half of 2018. Gross external debt increased to EUR 8.1 billion at the end of the second quarter which corresponds to 66.8 % of GDP. Foreign exchange reserves increased to EUR 2.96 billion and corresponded to 6.4 months of imports of goods and services.

Monetary developments

Over the summer, interventions of the central bank halted the appreciation of the Albanian lek against the euro at an elevated level. In September the exchange rate averaged 126.5 lek/euro compared to 132.4 over the first quarter 2018. Inflation edged up to 2.2 % in August from an average rate of 2.0 % in the first quarter driven by rising energy and food prices. This still undershoots the 3% inflation target. With the end of the touristic season, the central bank expects downside pressures on inflation from the appreciation to diminish. The bank left the repo rate that it reduced to 1.0% in August unchanged and indicated it was unlikely to raise it before the second quarter of 2019.

Financial sector

Interest rates in financial markets remain historically low in the context of the accommodative monetary policy stance. The average interest rate on lek loans, at 6.1 %, was 0.8 pps lower in the second quarter of 2018 than in 2017, stimulating mainly household credit in lek (+ 10.5 % y-o-y). Total lending to the private non-financial sector remained sluggish, with its decline deepening to -1.3% y-o-y in the second quarter. Sluggish lending to businesses as well as loan write-offs and the appreciation of the lek cause weak headline credit figures. Adjusting for the latter two factors, the average growth rate of credit to the private sector was around 5% y-o-y in the second quarter. Low credit demand and the banking sector's tight lending policies are still affecting credit performance.

The ratio of non-performing loans (NPLs) to total loans continued to decline albeit at a slower pace than in 2017. It stood at 12.9 % in August, compared to an average of 13.4 % in the first quarter. The banking sector as a whole is well capitalised with a capital adequacy ratio of 17.9 % at the end of June, up by 1 pps over the quarter and by 1.6 pps y-o-y.

The banking sector is consolidating with two mergers completing in 2018 the number of banks is down to 14 from 16. The exposure of the Albanian banking sector to Turkey is low with only 6.6% of total assets related to Turkish companies.

Fiscal developments

Total revenues increased by 3.1 % y-o-y in the first eight months of 2018 and were below the plan by only 1%. This masks uneven revenue developments below the aggregate level: apart from much lower receipts of grants than expected, VAT revenue and customs duties suffered from the currency appreciation. Higher-than-expected social insurance contributions and local government revenues have partially offset these shortfalls.

Total expenditures in January-August were almost 2% less than planned but 1.7% higher than in the same period a year earlier. On the positive side, this was due to lower social insurance outlays and interest payments than foreseen. However, capital expenditure, while 12% higher than one year ago, was still 3.4% below its 2018 target for the first eight months.

Overall budget execution in January-August resulted in a surplus in the government's cash balance corresponding to 0.1 % of estimated full-year GDP. The government targets a deficit of 2% for the year as a whole.

Public debt decreased to 69.3 % of GDP at the end of June, down from 70.0 % at the end of 2017.

TABLE

European Commission, ECFIN-D-1

ALBANIA

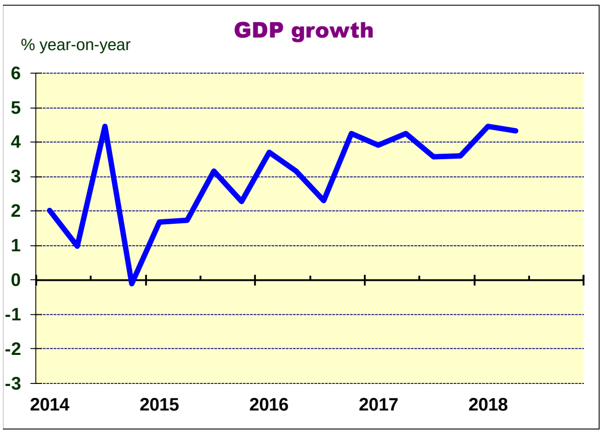
		2013	2014	2015	2016	2017	ECFIN 2018 Spring forecast 2018	2019	Q1 18	Q2 18	Q3 18	Jul 18	Aug 18	Sep 18
1 Real sector														
Industrial confidence [1.1]	Percent	-16,6	-6,9	-5,5	-3,7	1,5	:	:	2,2	-1,4	:	N.A.	N.A.	N.A.
Industrial production [1.2]	Ann. % ch	20,5	3,4	-8,9	-19,4	8,9	:	:	2,4	13,4	:	N.A.	N.A.	N.A.
Gross domestic product [1.3]	Ann. % ch	1,0	1,8	2,2	3,4	3,8	3,6	3,9	4,5	4,3	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. % ch	1,8	2,8	0,9	2,6	2,8	3,1	3,4	3,0	3,3	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. % ch	-2,0	-4,5	3,5	3,3	6,5	3,8	6,0	4,5	1,5	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. % ch	1,0	0,2	0,3	0,0	0,7	:	:	0,5	0,5	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. % ch	5,4	4,7	5,9	6,2	1,6	:	:	1,5	2,4	:	:	:	:
2 Labour market														
Unemployment [2.1]	%	16,4	17,9	17,5	15,6	14,1	13,4	12,6	13,0	12,9	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. % ch	-9,7	1,6	4,9	6,1	2,7	3,0	3,2	3,5	1,8	:	N.A.	N.A.	N.A.
Wages [2.3]	Ann. % ch	4,1	1,7	1,8	0,9	9,8	3,4	3,7	5,7	0,2	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods [3.1]	Ann. % ch	15,7	4,5	-5,6	0,1	12,1	:	:	18,9	17,9	:	8,2	10,4	:
Imports of goods [3.2]	Ann. % ch	-2,1	6,0	-0,7	6,4	8,1	:	:	9,7	0,7	:	6,0	-2,6	:
Trade balance* [3.3]	% of GDP	-20,1	-20,8	-21,0	-22,8	-22,7	-25,2	-26,3	-24,1	-23,1	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	28,9	28,2	27,3	28,9	31,5	:	:	33,8	34,1	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	47,0	47,2	44,5	45,7	46,6	:	:	50,0	49,3	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-9,3	-10,8	-8,6	-7,6	-7,5	-7,3	-8,0	-7,9	-7,0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	9,6	8,2	8,0	8,7	8,6	:	:	9,8	9,6	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	2.015,0	2.192,0	2.880,0	2.945,0	2.996,0	:	:	2.833,0	:	:	:	:	:
Int. reserves / months Imp [3.9]	Ratio	5,2	5,3	6,9	7,0	6,7	:	:	7,1	:	:	:	:	:
4 Monetary developments														
CPI [4.1]	Ann. % ch	1,9	1,6	1,9	1,3	2,0	2,1	2,4	1,9	2,2	:	2,3	2,2	:
Producer prices [4.2]	Ann. % ch	:	:	:	-1,5	2,8	:	:	1,0	1,9	:	:	:	:
Food prices [4.3]	Ann. % ch	4,2	2,2	4,3	3,3	3,9	:	:	2,7	3,0	:	3,0	2,8	:
M2 [4.4]	Ann. % ch	5,1	1,1	3,6	-0,7	1,5	:	:	-0,2	-1,2	:	-0,2	0,5	:
Exchange rate LEK/EUR [4.5]	Value	140,26	140,14	139,74	137,36	134,14	:	:	132,45	127,39	126,00	125,86	125,66	126,47
Nominal eff. exchange rate [4.6]	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) [5.1]	% p.a.	4,23	3,10	2,87	1,13	:	:	:	:	:	:	:	:	:
Bond yield [5.2]	% p.a.	6,03	3,45	2,77	2,05	2,07	:	:	2,18	2,05	:	2,33	2,52	:
Stock markets [5.3]	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth [5.4]	Ann. % ch	-0,2	0,2	0,3	-0,7	-0,1	:	:	0,6	-1,1	:	-2,3	-3,0	:
Deposit growth [5.5]	Ann. % ch	3,7	1,5	1,9	1,1	1,0	:	:	-1,0	-1,7	:	-1,4	-0,9	:
Non performing loans [5.6]	% total	23,2	22,8	18,2	18,3	13,2	:	:	13,4	13,3	:	13,4	:	:
6 Fiscal developments														
General government balance** [6.1]	% of GDP	-5,2	-5,2	-4,1	-1,8	-2,0	-2,0	-1,8	0,3	0,1	:	:	:	:
General government debt* [6.2]	% of GDP	65,6	70,1	72,7	72,3	70,1	68,5	66,3	70,0	69,3	:	N.A.	N.A.	N.A.

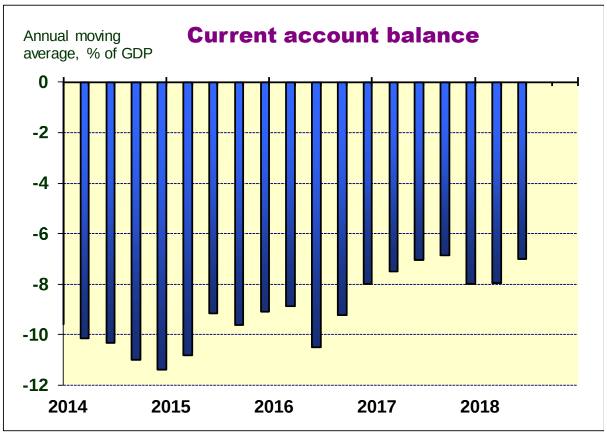
f: ECFIN forecast Spring 2018 published May 2018
* Q figures refer to a 4 quarters moving average.
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

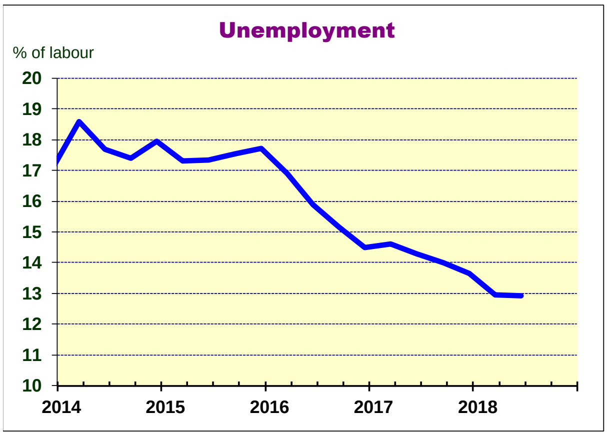
Charts

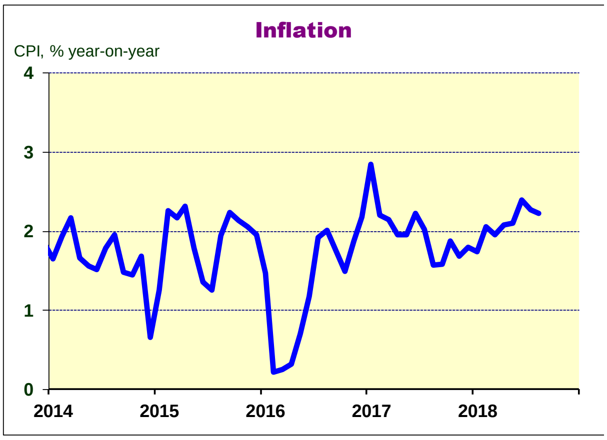
European Commission, ECFIN-D-1

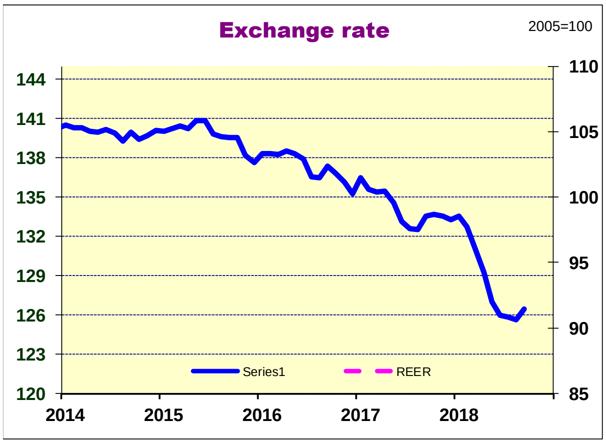
ALBANIA

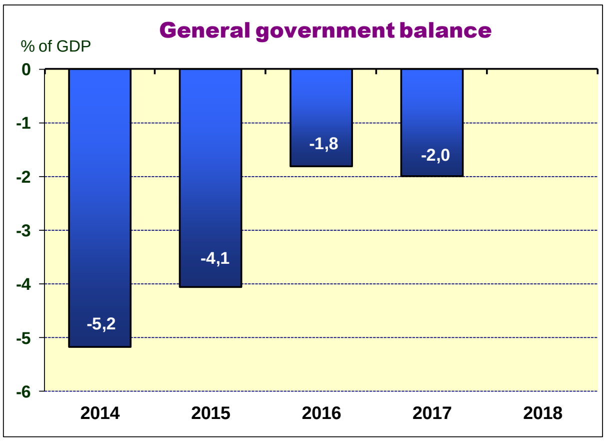












THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Key developments

On 30 September, in a consultative referendum, an overwhelming majority of those who exercised their right to vote said yes to the name agreement and the EU path of the country.

On 20 July, rating agency Fitch affirmed the country's long-term rating in local and foreign currency issues at 'BB' with positive outlook, citing the more stable political environment and credible steps towards reform implementation.

Real sector

The economy returned to growth in the second quarter, in annual comparison, after having stagnated in the first three months of the year. Real GDP increased by 3.1%, propelled by net exports, and in spite of another decline in gross capital formation (-11.3% y-o-y). Household spending growth relented slightly compared to the first quarter (2%, -0.3pps). Government consumption increased by 1%. Export growth accelerated to 13.7% (+3.1pps), driven by a jump in machinery and transport equipment emanating from established foreign companies, while import growth slowed down by 1.1pps to 4%, on account of weak demand for investment-related capital goods.

The pickup in manufacturing, which accounts for 14% of value added in the economy, strengthened further (+5.8% y-o-y, compared to 5.5% in the first quarter, and 2.3% in the last three months of 2017). The construction industry, meanwhile, remained in a trough (-12.9% y-o-y), although less dramatically so than in the first quarter (-37.2%).

At the beginning of the third quarter, high-frequency indicators continued to point to an economic upswing, yet less buoyantly than in the first half of the year. The annual rise in the industrial production index decelerated from 12.1% in June to 8.4% in July, and further to 2.1% in August. The upturn in manufacturing, which accounts for over 80% of the index, also decelerated somewhat over the summer. Still, in the first eight months of the year, manufacturing (+7.2%) outperformed the overall index (5.1%). Capital goods production increased by 22.3% y-o-y on average during this period. Retail sales, which have been increasing, in annual terms, each month since January, rose in August by 6.1% y-o-y. In 2017 retail sales had dropped by an average of 1.9%.

Labour market

The labour market improved further in the second quarter, according to the Labour Force Survey. The labour force expanded slightly compared to one year earlier, by 0.2%, on account of a continued rise in the female workforce (+0.7% y-o-y). Annual employment growth remained almost unchanged compared to the first three months, at 2.1% y-o-y. resulting in an increase in the employment rate of 0.8pps y-o-y to 44.9%. The unemployment rate dropped by 1.5pps y-o-y to 21.1%. The employment situation of young workers (15-24 years), however, deteriorated compared to one year earlier – the unemployment rate amounted to 47.6% (+0.5pps). Overall labour market participation (15-64 years), at 65.3%, remained practically unchanged from one year earlier. The female activity rate was 52% (+0.3pps).

The increase in net wages accelerated further in the second quarter and beyond. In nominal terms, wages rose by 6.3% y-o-y between April and June (+1.6pps compared to the first quarter) and by 6.2% in July, picking up from an average growth of 2.6% in 2017. This translated into real wage growth of 4.1% in the first seven months.

External sector

In the second quarter, the current account balance swung into surplus. In the four quarters to June, it stood at -0.2%, compared to -2.5% of GDP one year earlier. This came on account of a lower merchandise trade deficit, which narrowed by 0.6pps y-o-y to 17.5 % of GDP, due to strong export performance, and a bigger services surplus (+1.3pps to 4.4%). The primary income deficit stabilised at 4.1% of GDP, almost unchanged compared to a year ago. Private transfers from abroad increased by 11% y-o-y, widening the surplus in the secondary income balance by 0.5pps to 16.9% of GDP.

Net FDI inflows were lower than in the preceding two quarters, but at 4.4% of GDP, in the four quarters to June, well above their pre-year level (+1.7pps yoy). Gross external debt, excluding central bank transactions, was up by 9.2% y-o-y and, at the end of June stood at 79% of GDP or almost 4pps higher than one year earlier. Compared to end-March, government external debt dropped slightly, while intercompany lending from abroad and public companies' borrowing increased. The central bank's foreign currency reserves were some 9% higher y-o-y and covered some 5 months of prospective imports of goods and services. They increased further over the summer, supported by central bank interventions.

Monetary developments

Consumer price inflation remained moderate, amounting to 1.5% on average in the first eight months of the year. Price pressures arose in particular from the transport sector (+11% y-o-y in Q2, and +20% on average in July and August), as well as from alcohol and tobacco (+5.7% in the first seven months). The cost of housing and utilities dropped, except for liquid fuels which rose by 26% on the year in this period. The increase in food prices, which account for over one third of the index, abated over the summer (+1 % y-o-y on average in the first seven months).

Annual growth of broad money (M4) increased further over the summer, amounting to 9.4% y-o-y on average in the second quarter (+2.6pps compared to the first quarter). It accelerated to 11.6% on average in July and August. The rise was accounted for in particular by demand deposits and short-term deposits in foreign currency. On 14 August, the central bank reduced the key monetary policy rate by 25 bps to 2.75%, a historic low. The decision reflects the bank's view that economic fundamentals are sound, market expectations are stable, and risks to price and external stability are contained.

Financial sector

Credit to the non-financial sector (public companies included) increased at the same rate in the second quarter as in the preceding three months (+6% y-o-y). Lending to households continued to be stronger (+9.7%) than lending to private non-financial companies (2.7%). In July and August, household lending growth accelerated to an average of 10%, while lending to companies increased at a somewhat lower rate than in the second quarter (2.6%).

Interest rates on loans and deposits continued to decline. Between May and August, the spread between interest rates on Denar loans (-10bps to 6.1%, calculated according the the new methodology) and deposits (-10bps to 2.1%) remained unchanged. Rates on foreign currency loans also dropped by 10bps to 4.8%, and remained unchanged for deposits, at 0.8%. At the end of June, the share of foreign-currency denominated loans in total loans was almost unchanged compared to March, at 42.7%. The loan-to-deposit ratio for non-financial clients remained almost unchanged, too, at 87.3%. Capital adequacy of the banking sector improved somewhat further, with regulatory capital to risk-weighted assets increasing by 0.1pps to 16.5%. The ratio of non-performing to total loans (financial and non-financial sector) remained at 4.9%.

Fiscal developments

Between January and August, central government revenue was some 4.9% higher than in the same period one year earlier, amounting to 63% of annual budget plan. This came on the back of higher income from taxes and contributions by 7% y-o-y. Net VAT revenue, taking into account the government's ongoing repayments of previously blocked VAT returns, still rose by 0.6% y-o-y (with gross VAT revenue up by 8.1%). Current expenditure increased by 5.6% during this period, reaching 65% of annual budget plan, mainly reflecting higher transfer payments (+8.3%). Capital expenditure dropped by 46%, amounting to only 23% of annual budget plan, due mainly to major delays in public infrastructure works. The budget deficit in the first eight months declined by 37% y-o-y. It amounted to 1% of projected GDP or just over one third of the full-year deficit target (2.7% of GDP). General government debt rose somewhat further in the second quarter. It stood at 39.9% of projected full-year GDP at the end of June (+0.6pps compared to the end of 2017). Public debt, including the debt of state-owned enterprises, was almost unchanged during this period, at 47.7% of GDP. The amount of state enterprise debt guaranteed by the government declined by 0.4pps to 7.8% of projected GDP, compared to the end of 2017.

TABLE

European Commission, ECFIN-D-1

The former Yugoslav Republic of Macedonia

							ECFIN 2018 Spring forecast							
		2013	**2014**	**2015**	**2016**	**2017**	2018	2019	Q1 18	Q2 18	Q3 18	Jul 18	Aug 18	Sep 18
1 Real sector														
Industrial confidence [1.1]	Balance	12.3	11.4	17.5	24.0	25.6	:	:	27.3	28.4	:	29.0	29.5	:
Industrial production [1.2]	Ann. %ch	3.2	4.8	4.9	3.9	0.2	:	:	5.4	4.9	:	8.4	2.1	:
Gross domestic product [1.3]	Ann. %ch	2.9	3.6	3.8	2.9	0.0	3.1	3.3	0.1	3.1	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. %ch	1.9	2.2	4.4	3.1	2.9	3.0	3.3	2.3	2.0	:	N.A.	N.A.	N.A.
Gross capital formation [1.5]	Ann. %ch	0.5	10.7	8.3	13.3	-4.5	6.2	6.3	-9.0	-11.3	:	N.A.	N.A.	N.A.
Construction [1.6]	Ann. %ch	33.8	2.3	8.6	12.3	-13.7	:	:	-37.2	-12.9	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. %ch	-0.9	4.2	9.8	9.3	-1.9	:	:	4.5	7.0	:	6.8	6.1	:
2 Labour market														
Unemployment [2.1]	%	29.0	28.0	26.1	23.8	22.4	21.9	21.6	21.6	21.1	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. %ch	4.3	1.7	2.3	2.5	2.4	2.4	2.2	2.2	2.1	:	N.A.	N.A.	N.A.
Wages [2.3]	Ann. %ch	1.2	1.0	2.7	2.0	2.6	1.5	2.0	4.7	6.3	:	6.2	:	:
3 External sector														
Exports of goods [3.1]	Ann. %ch	2.9	17.0	9.4	11.5	19.8	:	:	13.7	15.0	:	:	:	:
Imports of goods [3.2]	Ann. %ch	-1.8	9.4	5.0	7.8	11.8	:	:	9.8	10.4	:	:	:	:
Trade balance* [3.3]	% of GDP	-22.9	-21.7	-20.1	-19.1	-17.9	-17.9	-17.9	-17.8	-17.5	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	42.3	47.7	48.7	50.0	55.1	:	:	55.8	56.8	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	60.4	64.9	65.0	64.7	68.8	:	:	69.6	69.7	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-1.6	-0.5	-2.0	-3.1	-1.3	-1.2	-1.3	-1.3	-0.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	2.8	2.3	2.2	3.6	2.3	:	:	3.5	4.4	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	1,993.0	2,436.5	2,261.8	2,613.4	2,335.3	:	:	2,577.1	2,642.2	:	2,622.8	2,698.6	:
Int. reserves / months Imp [3.9]	Ratio	5.6	6.3	5.6	6.0	4.8	:	:	5.2	5.2	:	:	:	:
4 Monetary developments														
CPI [4.1]	Ann. %ch	2.8	-0.3	-0.3	-0.3	1.4	1.9	2.0	1.5	1.5	:	1.7	1.5	:
Producer prices [4.2]	Ann. %ch	0.4	-1.2	-4.1	-0.1	0.4	:	:	0.8	-0.2	:	-0.5	-0.9	:
Food prices [4.3]	Ann. %ch	3.4	-1.0	0.1	-1.3	0.2	:	:	1.7	0.9	:	0.2	0.0	:
Monetary aggregate M4 [4.4]	Ann. %ch	3.9	7.9	8.5	4.5	6.0	:	:	6.7	9.4	:	11.5	11.7	:
Exchange rate MKD/EUR [4.5]	Value	61.58	61.62	61.61	61.60	61.57	:	:	61.56	61.50	61.49	61.49	61.49	61.49
Nominal eff. exchange rate [4.6]	Index	101.8	102.9	101.6	102.6	104.0	:	:	105.4	105.6	:	105.8	107.9	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) [5.1]	% p.a.	3.69	3.08	1.92	1.96	1.78	:	:	1.70	1.50	1.48	1.49	1.48	1.46
Bond yield [5.2]	% p.a.	8.04	7.46	7.08	6.61	6.21	:	:	5.93	:	:	:	:	:
Stock markets [5.3]	Index	1,726	1,736	1,731	1,887	2,406	:	:	2,756	2,989	3,388	3,359	3,371	3,436
Credit Growth [5.4]	Ann. %ch	4.5	8.6	9.1	4.0	2.5	:	:	6.0	6.0	:	6.2	6.2	:
Deposit growth [5.5]	Ann. %ch	2.7	5.8	7.6	4.4	5.3	:	:	5.9	9.0	:	11.3	10.9	:
Non-performing loans [5.6]	% total	11.9	11.6	10.3	6.3	6.1	:	:	4.9	4.9	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** [6.1]	% of GDP	-3.8	-4.2	-3.5	-2.7	-2.7	-2.6	-2.6	-2.1	-0.9	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	34.0	38.1	38.1	39.6	39.3	42.0	43.9	39.7	39.9	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2018 published May 2018

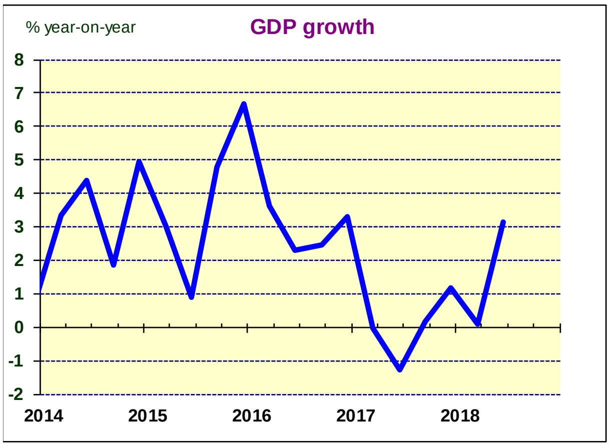
***** Q figures refer to a 4 quarters moving average.

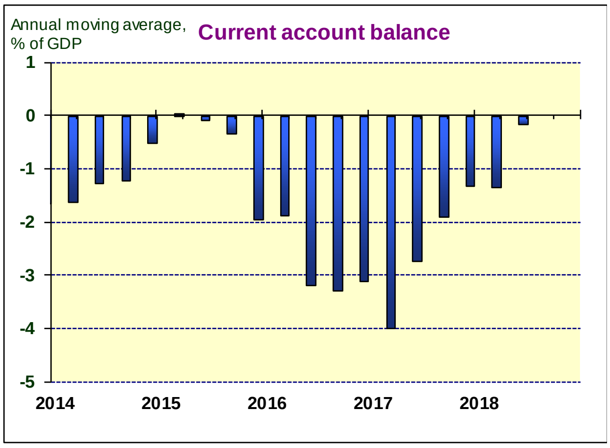
** Q figures refer to the quarterly balance divided by the quarterlyl GDP.

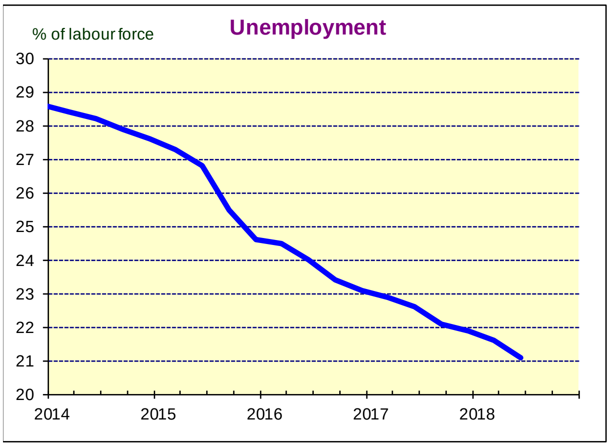
Charts

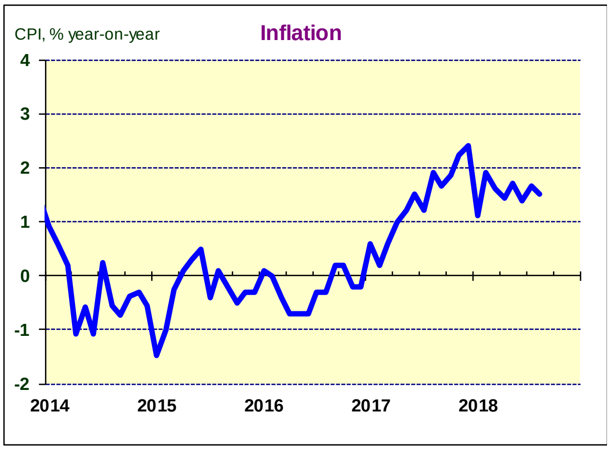
European Commission, ECFIN-D-1

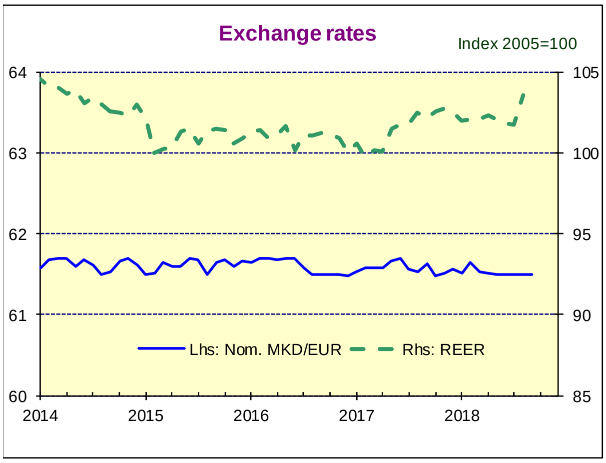
The former Yugoslav Republic of Macedonia

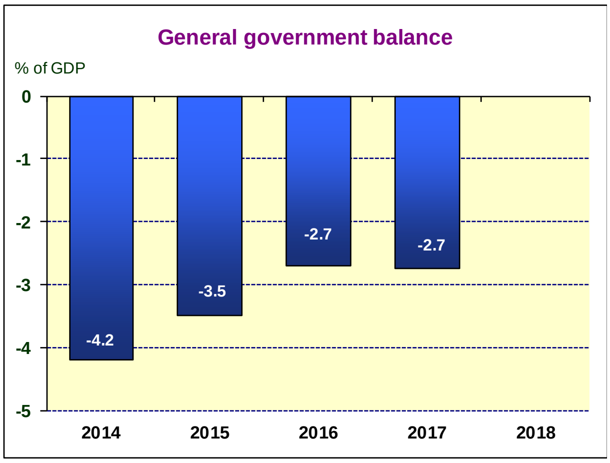












MONTENEGRO

Key developments

On 14 September, Standard and Poor's affirmed Montenegro's B+/B sovereign credit rating with a stable outlook. The rating reflects the balance between a favourable growth potential and fiscal consolidation measures against elevated external vulnerabilities and a high debt burden.

On 21 September, Moody's shifted its outlook for Montenegro's credit rating from stable to positive, maintaining the rating unchanged at B1. The agency underlined the country's favourable prospects for growth. However, the rating is negatively impacted by limited economic diversification, high debt levels and heavy reliance on external funding.

Real sector

Strong industrial performance, improving domestic demand and growing exports boosted GDP growth in the first half of 2018. In the second quarter, economic activity accelerated to 4.9% y-o-y, after expanding by 4.5% y-o-y in the previous three months. Private consumption growth accelerated markedly to 3.8% y-o-y, compared to 0.2% y-o-y in the first quarter, supported by stronger bank lending to households and spending by a rising number of tourists in Montenegro. Government consumption also rose in the second quarter, by 2.1% y-o-y, up from 0.7% in Q1, due to a marked increase in public expenditure on goods and services. Gross fixed capital formation expanded strongly by 25.0% y-o-y in the second quarter, albeit easing from 32.1% y-o-y growth in Q1, reflecting the pace of works in infrastructure projects. Although exports surged by 19.5% y-o-y in the second quarter, the high import-dependency of investments combined with a low diversification of the economy resulted in an also substantial (12.9% y-o-y) growth of imports. As a result, net exports still subtracted from GDP growth.

On the supply side, GDP growth in the second quarter was supported by a 24.4% y-o-y surge in industrial production. However, industrial output has slowed afterwards, to 7.5% y-o-y in July and 5.1% y-o-y in August. Overall, in the first eight months of 2018, the main industrial groups in terms of output growth were: utilities, coal-mining, basic metals, foods, chemical and mineral products.

Retail sales recorded strong growth in the first two quarters, expanding by 3.3% and 4.4% y-o-y respectively in real terms. However, sales eased to 1.8% y-o-y in July and 1.3% y-o-y in August, reflecting a drop in non-food product sales. By contrast, food sales grew by real 5.8% in August and 4.2% in July, sustained by another strong summer tourist season. In the first eight months of 2018, foreign tourist arrivals increased by 12.8% y-o-y, suggesting this year's season will be the strongest on record.

Labour market

In addition to seasonal fluctuation factors, the unemployment rate further improved in the second quarter. According to the Labour Force Survey, the unemployment rate fell to 14.7% in the three months to June, down from 16.5% in the previous quarter, and from 15.3% in the second quarter a year ago. The 2.9% y-o-y increase in employment in the second quarter supported a rise in the activity rate, to 65.2% compared to 62.7% a year earlier. Registered data of the employment agency suggest a similar downward trend in unemployment but with a significantly higher level of 17.7% at the end of August, down from 18.4% in June.

The government fiscal consolidation strategy is having a dampening effect on wages. After stagnating in the second quarter, gross wages recorded some marginal increase of 0.5% y-o-y in July and 0.4% y-o-y in August in nominal terms, driven by rising salaries in accommodation and restauration services, while public sector wages contracted slightly.

External sector

Despite rising tourism receipts, in the four quarters to June the current account deficit rose to 16.5% of GDP, compared to a 14.0% gap a year before. Although merchandise exports expanded much stronger (+31.8% y-o-y) than imports (+15.1%), the resulting reduction of the trade deficit was rather modest (half a point of GDP) as goods imports exceed exports by a very large margin. The services, primary and secondary income balances were in surplus, albeit the first two marginally lower compared to a year before.

On the financial account, net borrowing (mostly public) increased substantially, as net inflows of foreign direct investment covered only 56.5% of the current account deficit in the four quarters to June.

Foreign exchange reserves surged to EUR 1.1 billion (or 25.2% of GDP) in August, equivalent to 5.3 months of imports.

Monetary developments

Average inflation, measured by the harmonised index of consumer prices (HICP), gradually eased to 2.6% y-o-y in August, after peaking at 3.9% y-o-y in March. The increase of excises at the beginning of 2018 had a lasting impact on two key drivers of inflation: tobacco and fuels, accounting together for 1.2 percentage points of the overall price increase in August. Strong seasonal demand also supported price increases in food, restaurants and accommodation services.

Financial sector

Financial market performance has been improving. The share of non-performing loans in total loans dropped to 7.0% in the second quarter and further to 6.8% in August. This trend was also supported by the sustained growth of bank lending. Credit growth accelerated further to 13.9% y-o-y in August after expanding by 12.8% y-o-y in the second quarter. Credit to the private sector accounts for 92% of total loans, of which 40% to households and 33% to non-financial institutions. Credit to households kept growing faster (11.2% y-o-y) than to corporates (8.7% y-o-y). Borrowing by non-residents accounts for 19% of total credit activity, surging in August by 22.7% y-o-y.

In August, the average effective interest rate on new loans fell 1.39 pps. y-o-y to 6.48%. Effective interest rates on business loans used to acquire fixed assets increased 0.68 pps. y-o-y to 6.49%. The interest rate on loans for accommodation and restauration businesses to prepare the tourism season remains the most expensive, at 9.64%.

Bank deposits growth remains strong, boosted by strong growth (+20.1% y-o-y in August) of non-residents' deposits in Montenegrin banks (accounting for 20% of total deposits). The pace of expansion of resident households' and corporates' deposits was slower (12.0% and 14.2% y-o-y respectively).

The MONEX20 index, which tracks the 20 most representative shares on the Montenegro Stock Exchange, eased its contraction in the third quarter of 2018, falling by 4.3% y-o-y compared to a 9.4% decline in each of the previous two quarters. In September, market capitalisation totalled EUR 2.84 billion, after recording a 4.7% annual increase.

Fiscal developments

In the second quarter, the consolidated budget deficit contracted marginally to 0.5% of full-year GDP, compared to a deficit of 0.7% in the same quarter a year earlier. Overall, the cumulated deficit in the first half of the year totalled 2.2% of GDP (same as the deficit target for the whole year 2018), but down compared to the 2.6% deficit registered in the same six-months period a year before. In the first half of 2018, budget revenue increased at a faster pace (12.9% y-o-y) than spending (9.5% y-o-y).

Total budget revenues were largely driven by higher VAT proceeds, reflecting the increase of its standard tax rate as of January. Social security contributions and corporate income tax also increased at double-digit rates. However, excise income rose by less than 1% y-o-y despite an increase of rates at the beginning of the year. Moreover, intensifying informal trade of tobacco led the government to withdraw the excise increase later in September.

Although total budget expenditure rose in the first half of the year, capital spending was significantly (32%) below the initial target for the period. Meanwhile, current spending increased by 4.6% y-o-y, driven by a 4% y-o-y growth in gross salaries, due to new recruitments in the public sector, as well as a substantial increase of transfers to institutions and services expenditure. A 4% y-o-y increase of pension transfers was offset by substantial savings in the social protection fund. The payment of interests also recorded a significant decline over the year.

At the end of June, the central government public debt, net of deposits, was at 62.8% of GDP. The EUR 500 million raised in the Eurobond issuance in April, along with a credit arrangement with commercial banks supported by a guarantee from the World Bank in May, helped create EUR 344.7 million (or 7.8% of GDP) worth of deposits to service financial obligations in 2019.

TABLE

European Commission, ECFIN-D-1

MONTENEGRO

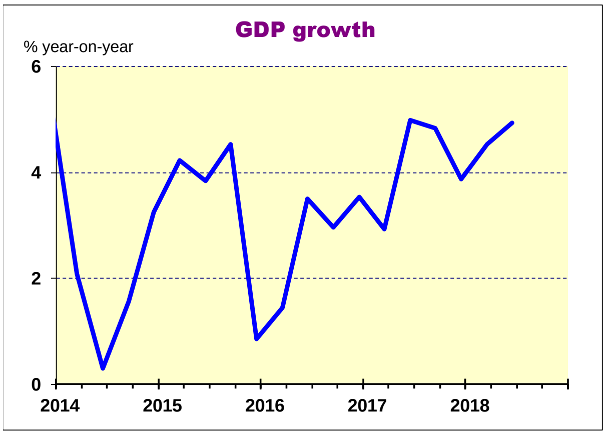
							ECFIN 2018 Spring forecast							
		2013	**2014**	**2015**	**2016**	**2017**	2018	2019	Q1 18	Q2 18	Q3 18	Jul 18	Aug 18	Sep 18
1 Real sector														
Industrial confidence [1.1]	Balance	8,7	11,1	9,8	3,0	4,5	:	:	4,4	11,1	7,3	9,6	5,1	7,2
Industrial production [1.2]	Ann. % ch	10,7	-10,5	7,9	-2,1	-4,3	:	:	40,2	24,4	:	7,5	5,1	:
Gross domestic product [1.3]	Ann. % ch	3,5	1,8	3,4	2,9	4,7	3,0	2,9	4,5	4,9	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. % ch	1,6	2,9	2,2	5,4	3,9	2,2	2,5	0,2	3,8	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. % ch	10,7	-2,5	11,9	38,4	18,7	6,8	2,9	32,1	25,0	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. % ch	9,7	2,0	5,8	31,5	51,5	:	:	46,8	35,8	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. % ch	11,2	2,4	4,2	4,0	5,2	:	:	5,0	6,0	:	2,9	2,1	:
2 Labour market														
Unemployment [2.1]	%	19,5	18,2	17,8	18,0	16,4	15,6	14,8	16,5	14,7	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. % ch	1,4	6,6	1,9	1,1	2,1	2,3	2,0	0,8	2,9	:	N.A.	N.A.	N.A.
Wages [2.3]	Ann. % ch	-0,2	-0,3	0,2	3,5	2,0	1,7	1,9	-0,1	0,0	:	0,5	0,4	:
3 External sector														
Exports of goods [3.1]	Ann. % ch	2,1	-9,7	-7,6	6,2	8,3	:	:	19,8	31,8	:	-1,0	-31,7	:
Imports of goods [3.2]	Ann. % ch	-2,7	0,6	3,5	12,0	11,6	:	:	9,9	15,1	:	15,8	11,6	:
Trade balance* [3.3]	% of GDP	-39,5	-39,8	-40,1	-41,9	-43,3	-38,8	-38,5	-44,0	-43,5	:	-47,1	-48,0	:
Exports goods and services [3.4]	% of GDP	41,3	40,1	42,1	40,6	41,1	:	:	29,2	37,0	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	61,4	60,0	60,6	63,1	64,5	:	:	73,8	70,1	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-11,4	-12,4	-11,0	-16,2	-16,1	-17,5	-16,7	-16,5	-16,5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	9,6	10,2	16,9	9,4	11,3	:	:	10,1	9,3	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	423,7	544,7	673,7	803,0	897,7	:	:	784,4	1020,0	:	1041,5	1108,1	:
Int. reserves / months Imp [3.9]	Ratio	2,9	3,7	4,4	4,7	4,7	:	:	4,0	5,0	:	5,0	5,3	:
4 Monetary developments														
HICP [4.1]	Ann. % ch	1,8	-0,5	1,4	0,1	2,8	3,0	2,2	3,7	3,7	:	3,0	2,6	:
Producer prices [4.2]	Ann. % ch	1,7	0,2	0,3	-0,1	0,4	:	:	0,6	1,6	:	1,9	1,8	:
Food prices [4.3]	Ann. % ch	4,0	-1,4	3,0	-0,9	1,9	:	:	-0,6	0,4	:	1,9	1,7	:
M21 [4.4]	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR [4.5]	Value	1,00	1,00	1,00	1,00	1,00	:	:	1,00	1,00	1,00	1,00	1,00	1,00
Nominal eff. exchange rate [4.6]	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) [5.1]	% p.a.	3,39	1,60	:	:	2,35	:	:	:	:	:	:	:	:
Bond yield [5.2]	% p.a.	3,19	1,26	0,50	1,58	1,71	:	:	0,49	:	:	0,35	0,54	:
Stock markets [5.3]	Index	9.528	10.695	11.956	11.115	10.952	:	:	10.314	10.116	10.386	10.276	10.471	10.411
Credit growth [5.4]	Ann. % ch	3,1	-1,9	0,8	1,3	11,8	:	:	9,7	12,8	:	11,8	13,9	:
Deposit growth [5.5]	Ann. % ch	5,9	10,0	13,7	9,4	13,8	:	:	13,4	15,0	:	12,9	13,7	:
Non-performing loans [5.6]	% of total	18,4	16,8	13,4	10,3	7,3	:	:	7,3	7,0	:	7,4	6,8	:
6 Fiscal developments														
General government balance [6.1]	% of GDP	-4,6	-2,9	-8,3	-3,6	-5,3	-3,5	-0,3	-1,7	-0,5	:	:	:	:
General government debt [6.2]	% of GDP	56,9	58,7	65,2	63,4	64,2	69,9	66,4	59,0	62,8	:	:	:	:

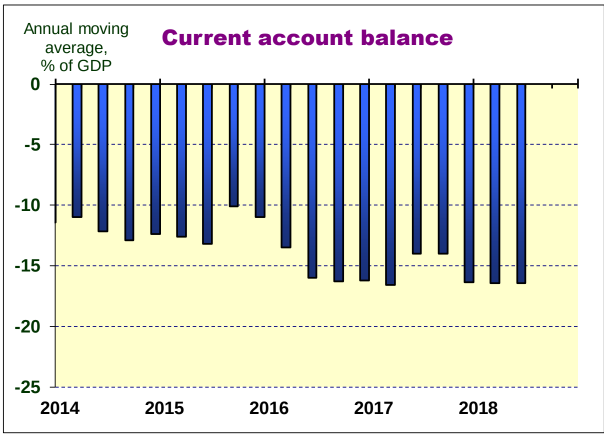
f: ECFIN forecast Spring 2018 published May 2018
***** Q figures refer to a 4 quarters moving average.
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

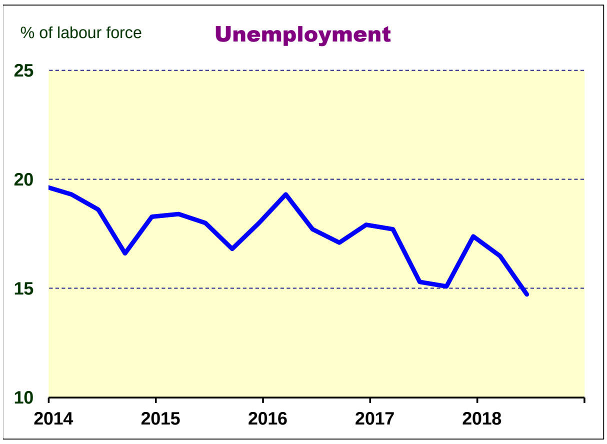
Charts

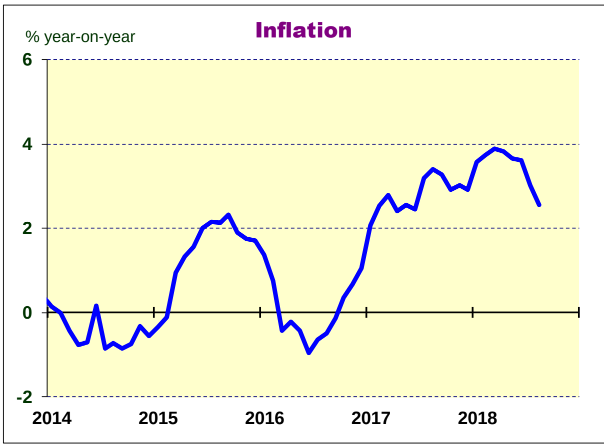
European Commission, ECFIN-D-1

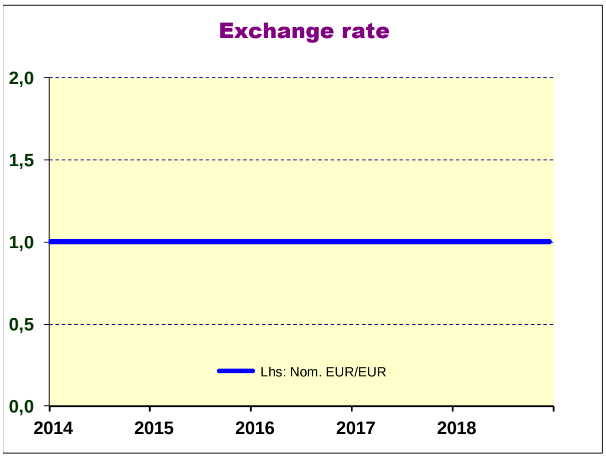
MONTENEGRO

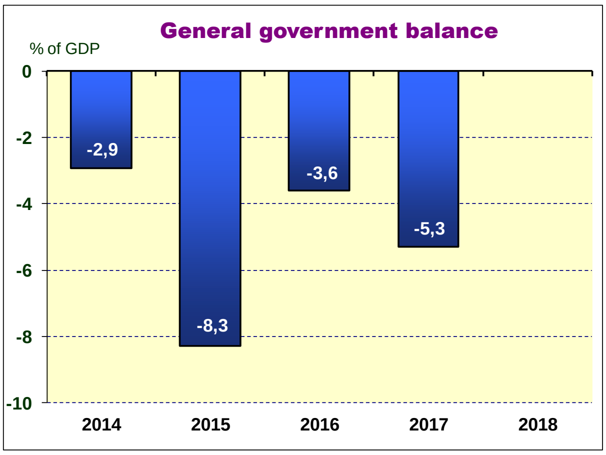












SERBIA

Key developments

In September, during an official visit of President Vučić in Beijing, a number of new agreements with Chinese companies estimated at USD 3 billion were announced. These include, among others, strategic partnership for the mining and smelting combine Bor and plans for an industrial park and close to USD 1 billion investment into a new tyre factory.

In the last week of September, an IMF staff mission visited Belgrade for the first review of the IMF programme, supported by a policy coordination instrument approved in July.

The statistical office published a major revision of annual national accounts data for 2015 and 2016, along with its first publication of annual 2017 data. The main factors behind the revision are: removing identified shortcomings in the database of the customs administration; new delineation of the general government sector; using the new database of the central register of compulsory social security; using the economic accounts for agriculture as the main data source for agricultural activity; and applying the import price indexes introduced in 2017.

Real sector

One of the main outcomes of the national accounts revision was that it increased nominal GDP levels by around 6.5 %. Real GDP growth was also lifted up, by 0.5 pps to 3.3 % in 2016 and 0.1 pps to 2.0 % in 2017. The higher 2016 growth was mainly due to stronger households consumption (up 0.5 pps), although there have been changes in all demand-side GDP components in both years. There were also changes, sometimes significant, in the supply side components and in particular in industry, manufacturing and construction.

In the first half of 2018 the economy shifted up a gear as GDP growth reached 4.9 % y/y in the first and 4.8 % y/y in the second quarter. In both quarters, households final consumption increased by 3.1 % y/y – the highest rate of growth since before the global economic crisis of 2008. Domestic demand was further supported by continued double-digit growth in gross fixed capital formation which went up by 15.1 % and 12.1 % y/y in the first and the second quarter respectively. Public consumption boosted growth as well, accelerating from 2.3 % in the first to 5.3 % y/y in the second quarter. External trade dynamics also remained strong, although exports and imports growth eased to 7.1 % y/y and 9.2 % y/y respectively.

On the supply side, growth in the first half of the year was sustained across all sectors and supported by base effects. Construction activity grew by more than 20 % y/y, reflecting both base effects and ongoing strong pickup in investment. Agriculture grew by double-digits as well and growth in major service sectors, like trade, transportation, accommodation, and information and communication remained robust.

After a strong first half of the year, short-term indicators have sent a mixed signal with regard to economic activity in the third quarter. On one side, the growth of domestic consumption is likely to have strengthened further, as retail trade expanded by 3.2 % and 5.5 % y/y in July and August. However, industrial production has entered a soft patch, increasing by just 1.7 % y/y in July, before falling by 4.3 % y/y in August. Most of this slowdown was due to a strong dip in mining and quarrying (mining of coal and lignite, in particular, which collapsed 30 % y/y in August). In addition, manufacturing also went down (-1.0 % y/y) in August. Nevertheless, over the period January-August, the majority of manufacturing sectors continued expanding.

Labour market

According to the latest LFS data, the unemployment rate of the population aged 15 and above went down to 11.9 % in the second quarter. However, it was up 0.1 pps y/y as labour force increased more (up 23.2 thousand) than employment (15.8 thousand). At 2,897,000, total employment stood at its highest level since the start of the LFS in 2014, despite a steadily shrinking population. Yet, informal employment, most of it in agriculture, remained elevated at 21 % of the total.

Registered employment increased by 3.2 % y/y in the second quarter. Employment growth was stronger in the private sector as public sector employment fell by 1.4 % y/y. Employment gains were pronounced in particular in administrative and support service activities (16.2 % y/y), information and communication (7.2 % y/y), accommodation and food service (9.1 % y/y), manufacturing (6.7 % y/y), and construction (6.5 % y/y). The National Employment Service data on registered unemployment also show improvements on the labour market – the number of registered jobseekers continued declining by around 10 % in the summer. Real net wages went up by 4.3 % y/y in the period January-July.

External sector

Despite a robust export expansion, the merchandise trade deficit widened further in July and August to a cumulative EUR 3.4 billion since the beginning of the year (up nearly 30 % y/y). Monthly exports of goods grew by 13.3 % y/y in July and 8.5 % y/y in August. However, imports growth outpaced them in both months (up 18.4 % and 15.3 % y/y in July and August respectively), spurred by a continuously strong growth of energy and capital goods imports.

Despite the larger merchandise trade deficit, the current account deficit remained unchanged in absolute terms in the period January-July. It was contained by a bigger surplus in the trade of services (22.3 % y/y) and workers' remittances (23.6 % y/y), and a lower primary income deficit (down 13.8 % y/y). As a ratio to GDP, the current account deficit remained broadly unchanged at close to 5 % in the four quarters to June. In June and July the inflow of net FDI was much lower than a year earlier, bringing the cumulative inflow since the beginning of the year to EUR 1.4 billion, broadly unchanged year-on-year. Net FDI inflows covered 121 % of the current account deficit in January-July. The foreign exchange reserves of the central bank increased further (by EUR 1.4 billion since the beginning of the year) and stood at EUR 11.3 billion in August, covering around six months' worth of imports of goods and services.

Monetary developments

Consumer inflation edged up over the summer to 2.6 % y/y in August. Unprocessed food and energy prices continued to define the inflationary environment, while core inflation (excluding food, energy, alcohol and tobacco) moved only marginally up to 1.1 % y/y. As inflation remained under the 3 % mid-point of the target band and in view of stable inflation expectations, the central bank has kept its key policy rate on hold at 3.0 % since its last reduction in April.

Since the second half of August, the dinar exchange rate depreciated slightly against the euro. The average exchange rate went up from 118.0 RSD/EUR in July to 118.3 RSD/EUR in September, although the dinar still remained stronger by 1.4 % y/y. The real effective appreciation of the dinar decelerated further to 1.2 % y-o-y in August. The central bank continued its interventions on the forex market, bringing its total net purchases to EUR 1.6 billion in the period January-August.

Financial sector

In August, the banking sector's domestic claims went up 2.7 % y/y, propped mainly by raising claims on households (10.4 % y/y) and the government (6.0 % y/y). Lending to companies was also up (1.5 % y/y). The underlying credit growth, however, was much stronger as the appreciating dinar and sizeable NPL write-offs and sales had a strong negative impact on the headline figures. Excluding these effects, corporate loans and lending to households expanded at broadly the same pace, at 14.5 % and 14.3 % y/y respectively in June. Despite the pick-up in credit activity, the central bank estimated that the credit-to-GDP gap was below its long-term trend and, therefore, decided to keep the countercyclical capital buffer unchanged at 0 %. The growth of non-monetary sector deposits accelerated to 8.8 % y-o-y in August. The performance and stability of the banking sector improved further – the gross non-performing loan ratio fell to 7.8 % and both capital adequacy (22.9 %) and return on equity (10.6 %) remained high in June.

Fiscal developments

After seasonally strong outcomes in June and July, the cumulative general government surplus since the beginning of the year reached RSD 50.6 billion or around 1 % of the estimated annual GDP (compared to a deficit of 0.7 % of GDP). Total revenue growth decelerated slightly after April to a cumulative 4.8 % y/y in the period January-July and by end-July revenue stood at 59 % of the annual plan. Expenditure growth slowed down as well, to 7.3 % y/y over the same period, with expenditure execution at 56 % of its annual plan. Expenditure on employees and pensions went steadily up, by 10.0 % and 4.7 % y/y, while capital spending and spending on goods increased strongly by 44.6 % and 15.9 % y/y respectively. As a result of the prudent fiscal policy of the last several years, the decline in interest payments accelerated to 10.0 % y/y.

TABLE

European Commission, ECFIN-D-1

SERBIA

		2013	2014	2015	2016	2017	ECFIN 2018 Spring forecast 2018	2019	Q1 18	Q2 18	Q3 18	Jul 18	Aug 18	Sep 18
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	5,6	-6,1	8,4	4,8	3,4	:	:	6,0	2,5	:	1,7	-4,3	:
Gross domestic product [1.3]	Ann. % ch	2,6	-1,8	0,8	3,3	2,0	3,3	3,5	4,9	4,8	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. % ch	-0,4	-1,3	0,4	1,3	2,0	3,1	2,9	3,1	3,1	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. % ch	-12,0	-3,6	5,6	5,4	7,3	6,8	6,4	15,1	12,1	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. % ch	-24,0	-3,8	13,1	5,1	9,3	:	:	19,7	14,3	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. % ch	-4,9	2,8	2,0	8,0	3,8	:	:	3,4	3,4	:	3,2	5,5	:
2 Labour market														
Unemployment [2.1]	%	22,1	19,2	17,7	15,3	13,5	12,1	10,0	14,8	11,9	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. % ch	3,7	10,1	0,6	5,6	2,8	2,0	2,1	1,4	0,5	:	3,7	3,7	N.A.
Wages [2.3]	Ann. % ch	5,7	1,2	-0,4	3,8	3,9	:	:	8,4	2,3	:	2,7	:	:
3 External sector														
Exports of goods [3.1]	Ann. % ch	25,8	1,5	7,9	11,6	12,1	:	:	8,9	6,6	:	13,7	8,2	:
Imports of goods [3.2]	Ann. % ch	5,1	0,1	3,8	6,1	13,6	:	:	12,5	11,0	:	18,6	15,3	:
Trade balance* [3.3]	% of GDP	-13,0	-13,0	-11,3	-9,9	-11,1	-11,5	-11,4	-12,2	-12,6	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	41,2	43,4	43,8	47,2	49,3	:	:	52,5	52,2	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	51,9	54,2	52,9	54,2	57,5	:	:	61,5	61,5	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-6,1	-6,0	-4,4	-2,9	-5,3	-6,9	-6,9	-5,7	-5,4	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	3,8	3,7	5,1	5,2	6,2	:	:	6,9	6,6	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	11.188,8	9.907,2	10.378,0	10.204,6	9.961,7	:	:	10.235,3	11.104,4	:	11.403,4	11.325,6	:
Int. reserves / months Imp [3.9]	Ratio	8,7	7,7	7,7	7,2	6,2	:	:	6,2	6,5	:	6,6	6,5	:
4 Monetary developments														
CPI [4.1]	Ann. % ch	7,9	2,1	1,4	1,1	3,1	1,7	2,7	1,6	1,8	:	2,4	2,6	:
Producer prices [4.2]	Ann. % ch	0,8	0,2	0,7	2,2	2,6	:	:	0,8	3,0	:	3,9	3,6	:
Food prices [4.3]	Ann. % ch	8,0	-0,9	1,9	-0,3	3,3	:	:	1,6	1,8	:	2,6	2,6	:
M3 [4.4]	Ann. % ch	4,6	7,6	6,6	11,6	3,6	:	:	3,3	7,9	:	8,4	8,9	:
Exchange rate RSD/EUR [4.5]	Value	113,10	117,23	120,74	123,09	121,41	:	:	118,42	118,17	118,14	118,05	118,10	118,28
Nominal eff. exchange rate [4.6]	Index	74,6	72,0	67,4	66,1	67,3	:	:	70,1	69,9	69,5	69,7	69,5	69,5
5 Financial indicators														
Interest rate (BEONIA) [5.1]	% p.a.	8,82	6,76	4,75	2,70	2,68	:	:	2,38	2,24	2,07	2,18	2,06	1,98
Bond yield (12 months) [5.2]	% p.a.	10,67	9,18	7,27	4,63	:	:	:	:	:	:	:	:	:
Stock markets [5.3]	Index	1.035	1.215	1.359	1.383	1.584	:	:	1.607	1.556	1.532	1.541	1.529	1.525
Credit growth [5.4]	Ann. % ch	-6,5	5,8	7,0	9,0	2,2	:	:	-1,2	0,3	:	1,0	2,7	:
Deposit growth [5.5]	Ann. % ch	3,3	7,6	6,5	11,4	3,3	:	:	3,3	8,1	:	8,5	8,8	:
Non-performing loans [5.6]	% total	21,4	21,5	21,6	17,0	9,8	:	:	9,2	:	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** [6.1]	% of GDP	-5,5	-6,6	-3,5	-1,2	1,1	0,6	0,5	0,4	2,5	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	59,6	70,4	70,0	67,8	57,8	58,9	55,9	59,0	59,7	:	59,6	N.A.	N.A.

f: ECFIN forecast Spring 2018 published May 2018

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

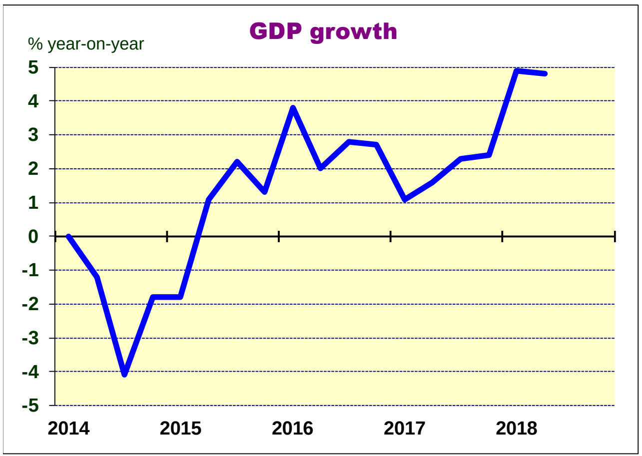
** Q figures refer to the quarterly balance divided by the quarterlyl GDP.

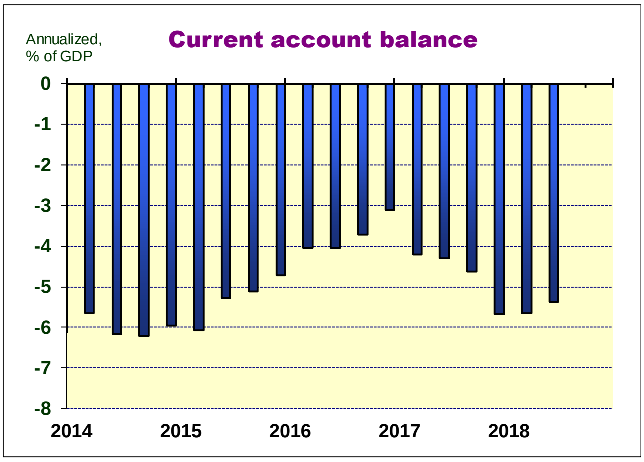
Note: Quarterly and monthly figures do not take into account the latest revision of national accounts.

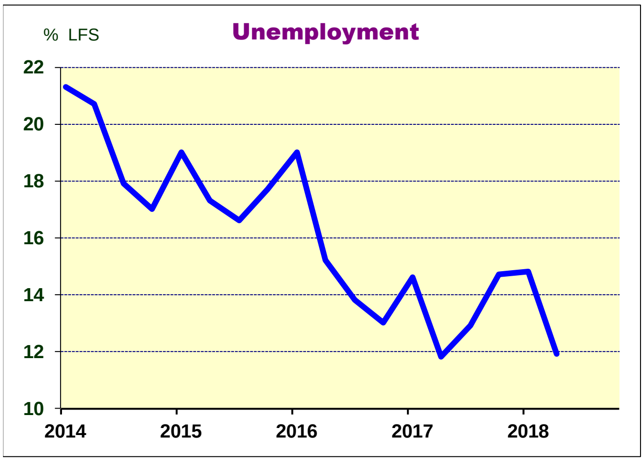
Charts

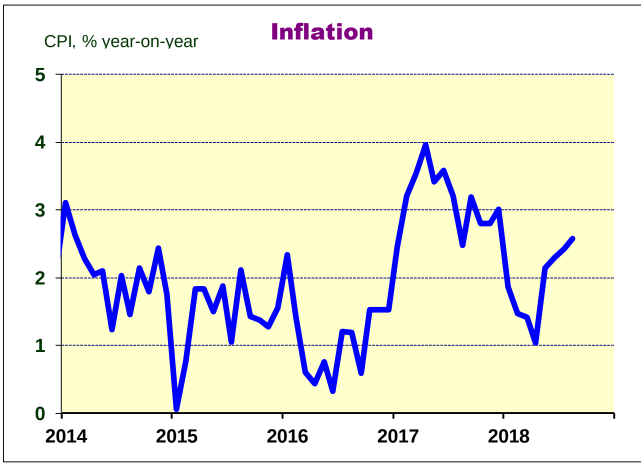
European Commission, ECFIN-D-1

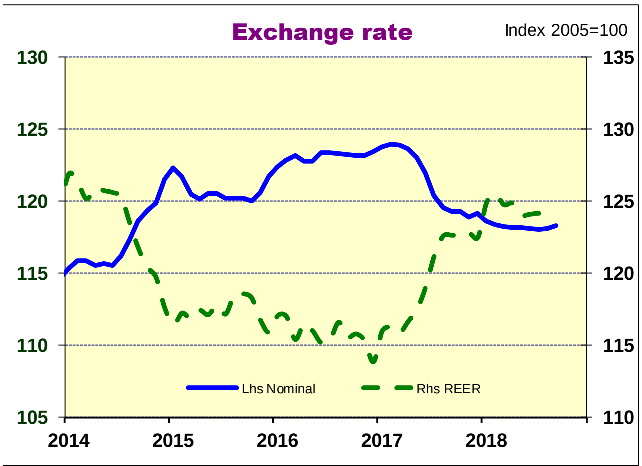
SERBIA

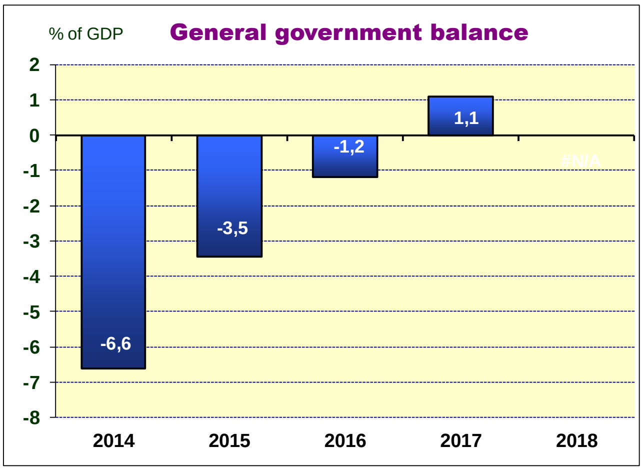












TURKEY

Key developments

In the context of rising interest rates in advanced economies and concerns over imbalances in Turkey's economy, the Turkish lira has been going through a turbulent period, depreciating by some 34% against the dollar in August alone. Since early September, the lira has regained some ground.

On 20 September, the New Economy Plan was presented. The medium-term plan expands on the economic strategy sketched out mid-August consisting of two years of rebalancing (2018-19, 3.0% growth on average), two years of sustainable growth (2020-21, 4.3% growth) and two years for a fairer distribution of income (2022-23). The central government is projected to run a deficit on average of 1.8% of GDP from 2019 -2020 with large gross savings in 2019 on the expenditure side (1 – 1 ½% of forecasted GDP) and a gross increase of government revenues (½% of forecasted GDP). The current account deficit is expected to decrease from -4.7% of GDP to -2.6% in 2021 and inflation is foreseen to fall from 20.8% in 2018 to 6.0% in 2021. Unemployment is projected to increase to 12.9% next year before decreasing to 10.8% in 2021.

Real Sector

In the second quarter, real GDP grew by a calendar-adjusted 5.5% year-on-year compared to a downwardly revised 7.1% in the first quarter of 2018. The GDP deflator rose by some 14.4% y-o-y in 2018 Q2 (11.5% for household consumption).

On the expenditure side, private consumption was the largest contributor to GDP growth notwithstanding a deceleration to 6.4% y-o-y from 9.4% in Q1. The dynamics of gross fixed capital formation also slowed: its growth rate halved to 3.9% in the second quarter from 7.9% y-o-y in the first, with growth in the construction sector accounting for nearly all of the increase (+6.6% y-o-y compared to 10.5% in the first quarter). On the other hand, government consumption accelerated to 7.2% y-o-y from 4.9% in the first quarter. The growth contribution of stocks swung from positive to negative in the second quarter. In contrast with the first quarter, net trade contributed positively to GDP growth in the second quarter. Imports grew by a very modest 0.3% y-o-y whereas exports accelerated to 4.5%.

On the production side, in contrast with strong investment growth, construction recorded a weak 0.8% y-o-y whereas services (+8.0%) and industry (+5.1%) recorded strong growth in the second quarter. Industrial production sharply decelerated in the second quarter (to 3.1% y-o-y). Durable goods production continued to contract but there was also a marked slowdown in capital goods production.

High frequency indicators point to a further loss in momentum in the third quarter. The Markit PMI index fell in September (42.7) to the lowest level since March 2009 with a broad decline in all components. The Commission's own sentiment indicator for industrial confidence in Turkey declined as well, to -6.4 in September. Construction confidence saw the largest loss and nose-dived to -46.8 in September. Services sentiment fell to -21.5.

Labour market

The labour force expanded by 2.1% y-o-y in the second quarter. Seasonally-adjusted employment growth decelerated further from 3.6% y-o-y in the first to 2.3% y-o-y in the second quarter. The seasonally-adjusted unemployment rate increased from 10.0% in the first to 10.9% in the second quarter. Hourly labour costs continued to accelerate in the second quarter (+15.6% y-o-y) regardless of the slack that built up in the labour market. Manufacturing witnessed the strongest increase (+17.8% in the second quarter) for five quarters in a row.

External sector

In the first seven months, the current account recorded a deficit of USD 33.1 billion, 27.4% higher year-on-year with an improving service surplus (+37.0% yoy) only partly offsetting a negative balance on goods (whose deficit increased 28.5% y-o-y) and on primary income (+8.9%). In the twelve months to June the current account deficit was at 6.3% of GDP, up from 5.5% over full 2017. However, import growth has sharply decelerated over the year and even turned negative when measured in USD in July (-3.3% y-o-y) and August (-10.6% y-o-y). With the price of the inelastic import component energy on the increase, this suggests an even larger contraction of other import items.

Net financial inflows in the first seven months of 2018 decreased by 31.9% y-o-y. A large jump in net other investments inflows (+208%) could not compensate for outflows in FDI (-21%) and portfolio investments (-102%). An increase in short-term foreign loans by Turkish banks was the main driver of the increase in the other investment inflows. Official reserves decreased from USD 112 bn in August of 2017 to USD 89 bn in August 2018. At the end of the third quarter, the Turkish lira had depreciated by 53.2% against the euro and 58.5% against the US dollar since the start of the year. The real effective exchange rate based on consumer prices depreciated by 28% between January and August of this year.

Monetary developments

In reaction to the steep fall in the value of the lira, from 17 August the TCMB provided funding through the overnight window, thereby raising the effective policy rate 150bps. On 13 September, the TCMB returned to funding through the ordinary repo rate and raised the repo rate by 625bps. The effective weighted interest rate of central bank funding increased from 17.75% at the start of the third quarter to 24% at the end. The central bank considered that a strong monetary tightening was needed in view of significant risks to price stability. It noted the accelerating slowdown in the domestic economy in contrast with external demand developments when explaining the tightening of 13 September. The annual inflation rate reached 24.5% in September and core inflation stood at 24.0%.

Financial sector

Borsa Istanbul Index posted a small gain in local currency terms of 3.3% y-o-y in the third quarter but the MSCI index in USD terms posted a loss of 20.3%. Following market turmoil and several policy actions, the yield curve inversed further with 3-month government benchmark yields jumping by 855 bps to 25.38% and the 10 year benchmark yield increasing by 150bps to 17.18% at end-September.

Banks' net profits increased by 11.5% y-o-y in the first eight months of 2018. The capital adequacy ratio was 17.3 and the NPL ratio 2.9% in August 2018. Credit grew by 28.1% y-o-y and deposits by 33.3% y-o-y in the third quarter, boosted by the impact of depreciation. The loan-to-deposit ratio declined slightly to 125.2 in August after reaching a historic high of 128.0 in June. The financial supervisor BDDK restricted the use of swaps by domestic banks on 13 and 15 August. Swaps receiving foreign currency from foreign parties could as of 15 August no longer be entered into till the level reached 25% of the banks' regulatory capital. Although Turkish banks more commonly use swaps to hedge FX loans received, the purchase of FX money swaps and the selling of TL money swaps amounted to 94% of regulatory capital in August. The total open position in money swaps was 350% of regulatory capital in August.

Fiscal developments

The pre-election expansionary budgetary policy led to an increase in the central government's budget deficit in the first half of the year to TL 46.1 bn (2.4% of projected full-year GDP) from TL 25.2 bn a year earlier. The primary balance went from surplus (TL 1.8bn) to deficit (TL 12.3 bn). Primary expenditures increased by 23.0% y-o-y with a particularly strong increase in capital-related expenditures. After the first six months, cumulative expenditures amount to 52.8% of budgeted expenditures (was 47.8% at the end of 2017 H1) the yearly budget. Interest expenditures rose by 25.3% y-o-y in the same period but were at 47.3% of the budgeted amount. There had been no drawing on the contingency appropriations in the first half of the year (budgeted at TL 7.3 bn for the full year). Central government revenues increased by 18.2% with a particular strong increase in the major categories income tax, corporate income tax and domestic VAT. Total revenues stood at 50.7% of budgeted revenues at the end of the first half. General government debt stood at 29.2% of GDP in the second quarter, up from 28.3% of GDP in 2017. Foreign currency denominated debt was stable at 39% of all debt from the first quarter.

TABLE

European Commission, ECFIN-D-1

TURKEY

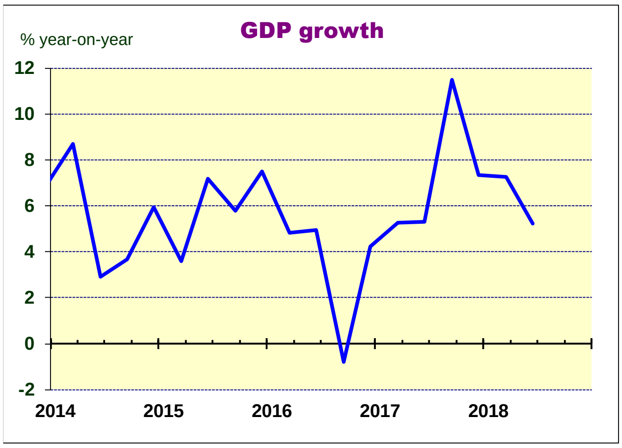
		2013	2014	2015	2016	2017	*ECFIN 2018 Spring forecast* 2018	2019	Q1 18	Q2 18	Q3 18	Jul 18	Aug 18	Sep 18
1 Real sector														
Industrial confidence [1.1]	Balance	106,6	104,6	103,5	105,2	108,0	:	:	110,3	108,6	96,2	102,7	96,4	89,6
Industrial production [1.2]	Ann. % ch	3,5	3,5	2,9	1,8	6,3	:	:	:	:	:	:	:	:
Gross domestic product [1.3]	Ann. % ch	8,5	5,2	6,1	3,2	7,4	4,7	4,2	7,3	5,2	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. % ch	8,0	2,9	5,4	3,6	6,1	5,8	4,8	9,4	6,4	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. % ch	13,8	5,1	9,3	2,2	7,8	4,6	4,9	7,9	3,9	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. % ch	16,4	38,7	-8,8	16,7	61,0	:	:	-19,8	:	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. % ch	6,2	3,8	6,7	2,2	5,7	:	:	8,9	6,0	:	3,1	:	:
2 Labour market														
Unemployment [2.1]	%	N.A.	10,1	10,5	11,1	11,1	9,8	9,4	10,7	10,0	:	:	:	:
Employment [2.2]	Ann. % ch	N.A.	N.A.	2,5	2,2	3,5	3,4	3,2	4,3	2,4	:	:	:	:
Wages [2.3]	Ann. % ch	12,4	14,2	14,9	18,4	12,4	12,1	10,1	:	:	:	:	:	:
3 External sector														
Exports of goods [3.1]	Ann. % ch	0,0	3,5	-9,0	-0,7	10,2	:	:	8,1	3,6	:	10,4	4,8	:
Imports of goods [3.2]	Ann. % ch	7,3	-4,0	-14,8	-3,8	17,2	:	:	23,7	4,7	:	-9,4	-10,6	:
Trade balance* [3.3]	% of GDP	-8,4	-6,8	-5,6	-4,8	-6,9	-9,9	-9,8	-7,7	-8,0	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	22,3	23,8	23,3	22,0	24,8	:	:	24,5	25,0	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	28,1	27,6	26,0	24,9	29,3	:	:	29,7	30,3	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-7,8	-4,7	-3,8	-3,8	-5,6	-6,0	-5,6	-6,3	-6,5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	1,4	1,4	2,1	1,6	1,3	:	:	1,1	1,2	:	N.A.	N.A.	N.A.
International reserves [3.8]	bio EUR	130,3	128,3	110,5	106,1	107,7	:	:	110,0	98,4	:	102,9	88,8	:
Int. reserves / months Imp [3.9]	Ratio	6,2	6,4	6,4	6,4	5,5	:	:	5,4	4,8	:	5,0	4,4	:
4 Monetary developments														
CPI [4.1]	Ann. % ch	7,5	8,9	7,7	7,8	11,1	10,9	9,0	10,3	12,8	19,4	15,8	17,9	24,5
Producer prices [4.2]	Ann. % ch	4,5	10,2	5,3	4,3	15,8	:	:	13,4	20,1	34,5	25,0	32,1	46,2
Food prices [4.3]	Ann. % ch	9,1	12,6	11,1	5,8	12,7	:	:	9,8	12,9	22,3	19,4	19,7	27,7
M4 [4.4]	Ann. % ch	19,0	16,0	17,8	12,7	17,7	:	:	15,7	19,6	:	24,3	35,7	:
Exchange rate TRY/EUR [4.5]	Value	2,57	2,90	3,03	3,34	4,15	:	:	4,76	5,14	6,76	5,70	7,47	7,11
Nominal eff. exchange rate [4.6]	Index	78,87	69,40	64,20	59,10	48,22	:	:	43,33	38,93	:	36,55	29,77	:
5 Financial indicators														
Interest rate (3 months) [5.1]	% p.a.	6,60	9,84	10,48	9,88	12,20	:	:	13,50	15,81	21,41	18,85	21,13	24,25
Interest rate, long term [5.2]	% p.a.	7,77	9,18	9,30	10,19	11,11	:	:	12,11	14,37	:	17,84	:	:
Stock markets [5.3]	Index	77.977	75.190	80.641	77.177	98.993	:	:	116.573	103.044	94.486	94.628	93.351	95.481
Credit growth [5.4]	Ann. % ch	34,7	18,4	20,4	16,2	21,2	:	:	19,7	22,1	:	24,7	35,7	:
Deposit growth [5.5]	Ann. % ch	24,1	11,6	18,6	17,7	17,7	:	:	18,1	21,5	:	25,1	39,6	:
Non-performing loans [5.6]	% total	2,8	2,8	2,9	3,2	3,1	:	:	2,9	2,9	:	3,0	2,8	:
6 Fiscal developments														
General government balance** [6.1]	% of GDP	0,1	0,1	1,3	-1,3	-2,0	-2,1	-1,4	-1,0	-0,7	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	31,3	28,6	27,5	28,5	28,5	27,8	27,2	:	:	:	N.A.	N.A.	N.A.

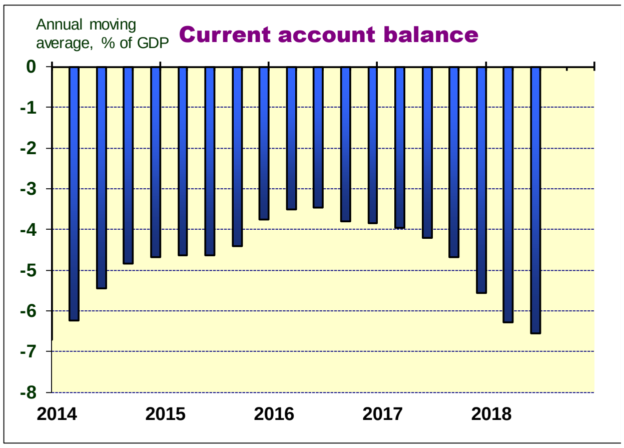
f: ECFIN forecast Spring 2018 published May 2018
***** Q figures refer to a 4 quarters moving average.
** Q figures refer to the quarterly balance divided by the quarterlyl GDP.

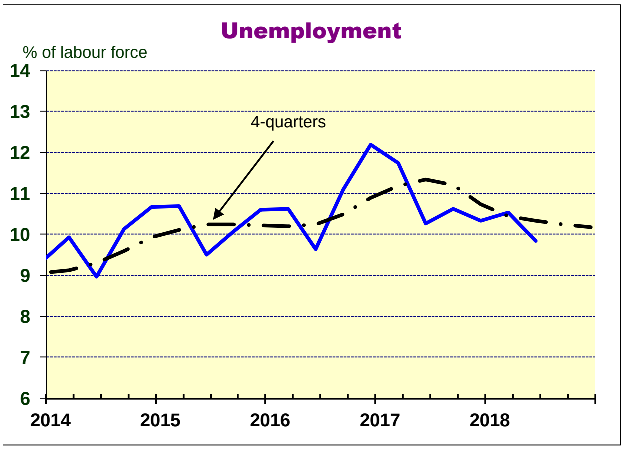
CHARTS

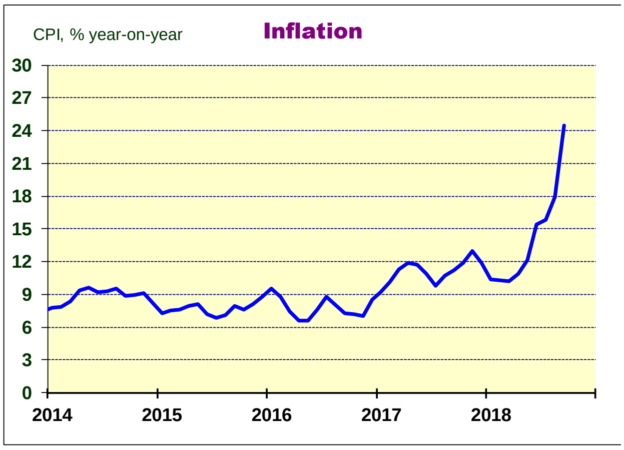
European Commission, ECFIN-D-1

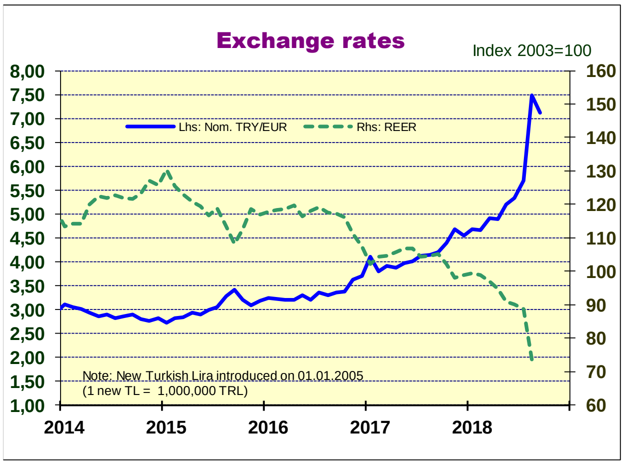
TURKEY

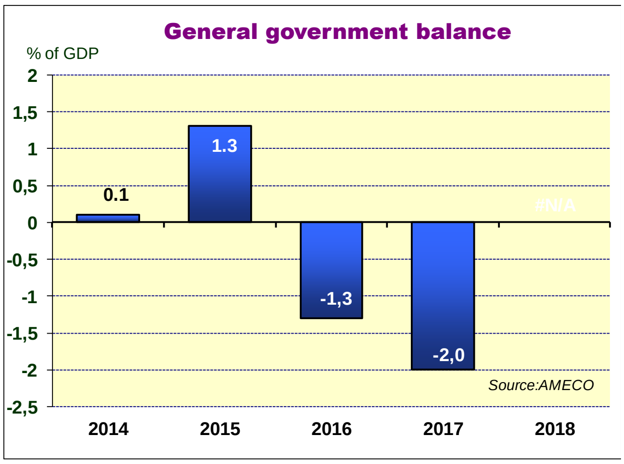












BOSNIA AND HERZEGOVINA

Key developments

On September 7, 2018, the rating agency Standard & Poor's has affirmed sovereign credit rating on Bosnia and Herzegovina at B with stable outlook. The agency's assessment was based on the country's solid economic growth performance, the strong growth of public revenues, progress with implementing the reform agenda and the country's relatively low level of public indebtedness. However, the country's political situation with frequent deadlocks and delays is seen as a potentially negative factor for the country's credit rating.

On 7 October, countrywide general elections for the state-level Presidency and Parliament as well as for the other levels of governance (entities, cantons and Brčko district) were held in Bosnia and Herzegovina. 53.4% of registered voters went to the ballots, compared to 54.5% in the previous general elections. According to the preliminary findings and conclusions of the OSCE/ODIHR Election Observation Mission, the elections were genuinely competitive but characterised by continuing segmentation along ethnic lines.

Real sector

Real GDP rose by 3.4% year-on-year in the second quarter of 2018, up from an increase of 2.0% in the first quarter. The main drivers were private consumption (+3.8% year-on-year), and exports (+4.9%). Public consumption continued to decline, by 0.4% year-on-year. Gross capital formation was 2.9% higher than a year before. In the first half of 2018, GDP growth was 2.7%, based on strong private consumption and exports.

According to the latest annual national account revision, output growth was 3.4% in both 2017 and 2016. The main drivers of growth were exports, increasing by about 10% in both years, and private consumption, increasing by 2.3% and 1.3%, respectively. Fixed investment rose by 5.8% in 2017, contributing 1 percentage point to overall GDP growth.

High-frequency indicators paint a mixed picture. Industrial production growth slowed down, from 5% year-on-year in the first three months to 1.4% in the second quarter. In July and August, the average increase was some 1 % only, with stronger growth in July (+ 4.6%), but lower year-on-year output in August (-2.6%). However, retail sales remained strong, with an increase by 8.5% in the second quarter, and 9% growth in July and August, pointing to solid private consumption demand.

Labour market

Registered employment continued to increase, with the number of registered persons in paid employment being 2.4% higher in the second quarter that a year before. In July, this increase continued at a similar rate. To a certain extent, those numbers also include improved registration of so far informal employment. The main sectors with employment growth were manufacturing, wholesale trade, construction but also tourism, where employment rose by about 7% in the first seven months of the year. In public administration, employment declined by 0.4% y-o-y in the first seven months. The number of registered unemployed was more than 7% lower than a year before. As the decrease in unemployment continues to outweigh in absolute terms the rise in employment, the country's (registered) labour force still declined, by some 1.5 % y-o-y in the second quarter and 1.4% in July. The administrative unemployment rate dropped by 2¼ percentage points, from 38.2% in July 2017 to a still worrying 35.9% in July 2018. Youth unemployment remains high, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is at around 80% of total unemployed.

Nominal wages rose by 2.8% year-on-year in the second quarter and accelerated further to 3.6% in July, up from 1.5% in the first three months. Adjusted for inflation, second quarter real wages were about 1½% higher than a year before.

External sector

The current account deficit declined slightly in the four quarters to end-June, accounting for 4.5% of GDP, compared to 4.9% in the four quarters to March 2018. The four-quarter moving average deficit in the trade of goods improved slightly, falling from 23.2% of GDP in the first quarter to 22.7% in the second quarter. It benefited from solid export growth of 11.9% y-o-y in the second quarter, while import growth decelerated from 9.3% in the first quarter to 4.9% in the March-June period. The surpluses in the primary and secondary income balances, including workers remittances, remained largely unchanged when looking at the average of the last four quarters.

The value of goods exports continued to increase by 10.4% y-o-y in the first eight months of the year. The continuously strong export performance was largely driven by exports to Germany, Croatia and Italy. Trade with the EU contributed some 80% to the country's export growth in this period. Trade with the other Western Balkan countries contributed some 15% to export growth, compared to 25% a year before. The growth of merchandise imports slowed down to 8.2% during the first eight months.

Net foreign direct investment rose to 2.1% of GDP on average in the four quarters to June, which is slightly higher than in the first quarter. However, when compared to the overall level in 2017, FDI inflows in the first half of 2018 have remained largely unchanged as a share in GDP. The main countries of origin for FDI were Switzerland, Slovenia and Saudi Arabia. Thanks to increasing foreign reserve levels (+13 % y-o-y in August) and a slow growth of imports, the foreign reserve's import coverage has continued to increase, reaching slightly more than 7 months in August.

Monetary developments

Inflationary dynamics in the first eight months showed a slight upward trend, increasing from 0.3% year-on-year in January to 1.8% in August. The main drivers for this acceleration were higher prices for tobacco, transport and housing, health and transport. The price level of clothing and footware continued to decline, while food prices are about 1% higher than a year before.

The annual growth of the monetary aggregate M2 accelerated further in the second quarter, reaching 9.6% compared to 9.1% in the first quarter.

Financial sector

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

Growth of total deposits remained strong throughout the first eight months of the year, increasing by 12.0% in the second quarter and by 12.7% and 11.8% in July and August, respectively. The main drivers of deposit growth were household deposits, contributing about 30% to overall deposit growth, while the contribution of private enterprises was at about 20%. Due to a robust increase in deposits, the loan-to-deposit ratio continued to decline, reaching 90.6% in August, compared to 94.9% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 9.3% in the second quarter, compared to 11.1% a year before. Loan-loss provisioning has remained largely unchanged, with 78.7% of non-performing loans covered by loan provisions, compared to 78.9% in the first quarter. However, a year ago, loan-loss provisions had been at 76.5% only. Banking sector profitability recovered slightly in the second quarter as the return-on-equity improved to 12.1%, compared to 11.9% in the first quarter, reaching a similar level as a year before. The return on average assets remained largely unchanged at 1.7% in the first and second quarter. Banking profitability remained at a similar level as a year before. The banking system's overall capital adequacy ratio stayed largely unchanged, at 15.5% in the second quarter, compared to 15.4% in the first quarter. This is still clearly above the country's regulatory minimum of 12%. However, there are big differences among the various banks.

Fiscal developments

Public sector revenues continued to perform well in the first eight months of 2018. Indirect taxes, accounting for about 40% of total revenues, increased by some 7% year-on-year, compared to about 8% growth in 2017. Spending on public wages has remained contained, while public investment expenditure remained underexecuted, partly due to delays in expected international financing, but also administrative and institutional weaknesses.

The debt-to-GDP ratio rose slightly in the second quarter, reaching some 36.3% of GDP at the end of June compared to 35.9% at the end of March. The main driver was an increase in foreign currency securities. As a result, the share of foreign currency denominated debt rose from 85.3% in the first quarter to some 85.8% in the second quarter. The three largest holders of foreign debt are still the World Bank, the European Investment Bank (EIB) and the EBRD, accounting for about 23%, 22% and 10% of the country's total foreign public debt, respectively.

TABLE

European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2013	2014	2015	2016	2017	Q1 18	Q2 18	Q3 18	Jul 18	Aug 18	Sep 18
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	5,2	0,2	3,1	4,4	3,1	5,0	1,4	:	4,6	-2,6	:
Gross domestic product [1.3]	Ann. % ch	2,1	0,6	4,1	3,4	3,4	2,0	3.4	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. % ch	0,1	1,9	1,8	2,3	1,3	2.5	3.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. % ch	-1,2	11,5	-3,5	2,5	5,8	:	:	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. % ch	-25,8	22,2	-22,7	34,0	-6,9	200,1	-23,5	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. % ch	4,6	1,8	7,8	7,0	5,1	5,7	8,5	:	8,9	9,2	:
2 Labour market												
Unemployment [2.1]	%	27,5	27,5	27,7	25,4	20,5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment [2.2]	Ann. % ch	1,0	-1,2	1,2	-2,6	1,8	3,0	2,4	N.A.	N.A.	N.A.	N.A.
Wages [2.3]	Ann. % ch	0,1	-0,1	0,0	0,9	1,6	2,1	2,8	:	3,6	:	:
3 External sector												
Exports of goods [3.1]	Ann. % ch	9,5	3,0	5,1	7,0	21,3	12,9	11,9	:	10,8	10,4	:
Imports of goods [3.2]	Ann. % ch	-0,7	7,1	-2,3	2,6	13,3	9,3	4,9	:	13,5	8,2	:
Trade balance* [3.3]	% of GDP	-25,0	-27,8	-24,2	-22,8	-23,2	-23,2	-22,7	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	31,8	32,8	33,6	34,4	39,4	39,9	40,5	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	51,1	54,6	51,4	50,5	55,5	56,1	56,2	:	N.A.	N.A.	N.A.
Current account balance* [3.6]	% of GDP	-5,0	-7,1	-5,1	-4,5	-4,6	-4,9	-4,5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* [3.7]	% of GDP	1,2	2,8	1,7	1,6	2,0	1,8	2,1	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	3.612,1	4.016,3	4.438,9	4.884,1	5.392,9	5.573,5	5.675,7	:	5.746,6	5.895,9	:
Int. reserves / months Imp [3.9]	Ratio	5,6	5,8	6,6	7,1	7,0	6,3	6,7	:	7,0	7,2	:
4 Monetary developments												
CPI [4.1]	Ann. % ch	-0,1	-0,9	-1,0	-1,1	1,2	0,8	1,4	:	1,8	1,8	:
Producer prices [4.2]	Ann. % ch	-2,2	-0,2	-0,6	-0,9	1,8	1,9	3,6	:	4,7	4,4	:
Food prices [4.3]	Ann. % ch	0,0	-2,7	-0,9	-1,1	0,9	:	:	:	N.A.	:	:
M2 [4.4]	Ann. % ch	5,7	7,5	8,0	7,8	9,8	9,1	9,6	:	10,1	10,2	:
Exchange rate BAM/EUR [4.5]	Value	1,96	1,96	1,96	1,96	1,96	1,96	1,96	1,96	1,96	1,96	1,96
Nominal eff. exchange rate [4.6]	Index	101,7	103,08	102,03	103,31	104,11	104,89	104,72	:	105,85	:	:
5 Financial indicators												
Interest rate (3 months) [5.1]	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bond yield [5.2]	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets [5.3]	Index	770	707	701	692	627	610	611	630	626	630	633
Credit growth [5.4]	Ann. % ch	2,7	3,7	1,8	2,1	5,3	6,7	6,8	:	6,1	6,8	:
Deposit growth [5.5]	Ann. % ch	5,1	8,4	6,2	7,7	10,4	11,2	12,0	:	12,7	11,8	:
Non performing loans [5.6]	% total	14,5	15,2	13,9	12,3	10,9	9,7	9,3	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** [6.1]	% of GDP	-2,0	-2,0	0,6	1,2	2,5	:	:	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	35,5	40,1	40,4	39,0	35,5	35,9	36,3	:	N.A.	N.A.	N.A.

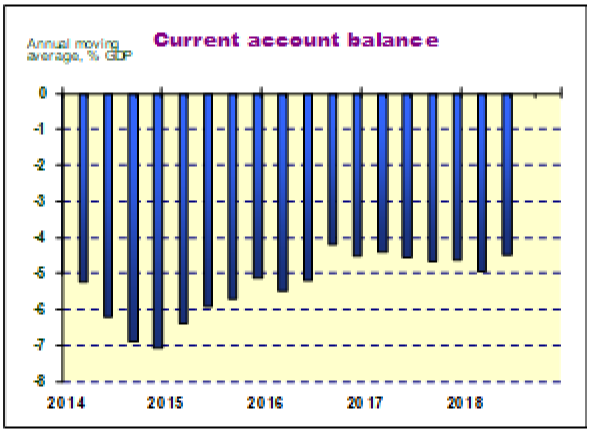
* Q figures refer to a 4 quarters moving average.

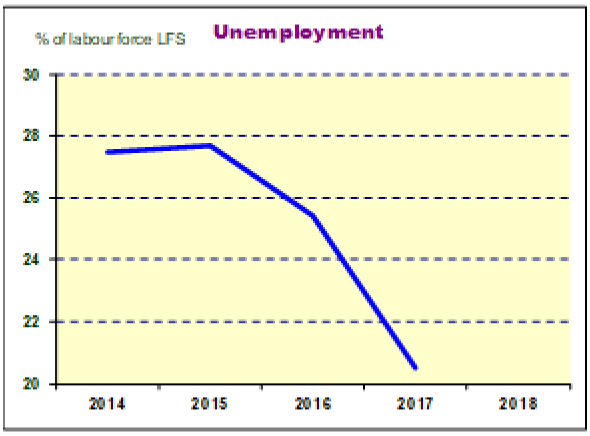
** Q figures refer to the quarterly balance divided by the quarterlyl GDP.

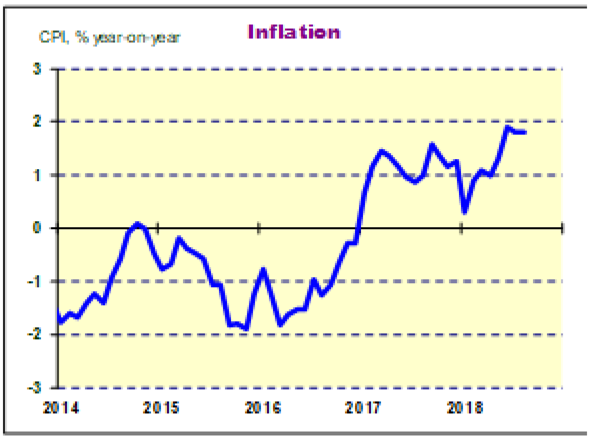
CHARTS

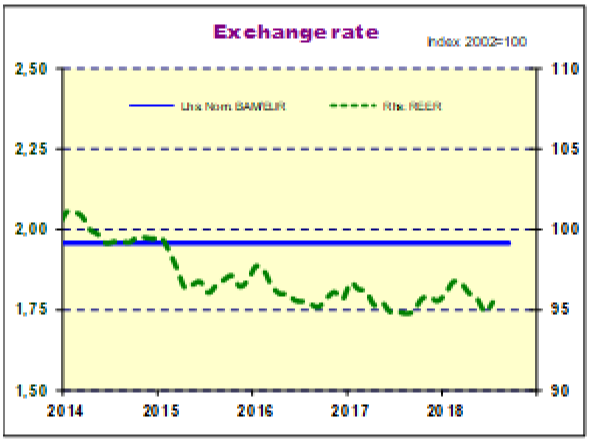
European Commission, ECFIN-D-1

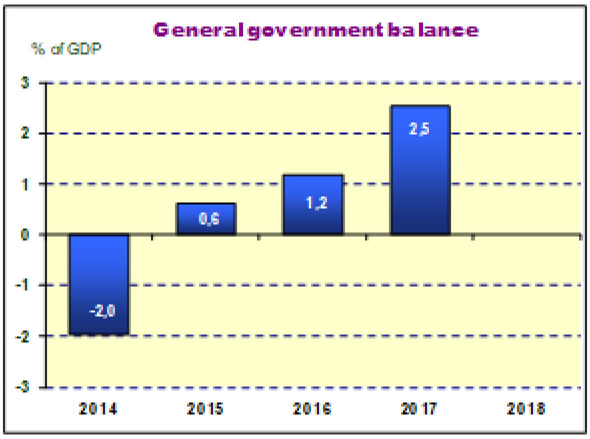
BOSNIA AND HERZEGOVINA











KOSOVO

Key developments

The 2nd EU-Kosovo Sub-Committee meeting on Economy, Financial Issues and Statistics took place on 19 September in Pristina. The agenda focused on the latest macroeconomic and fiscal developments as well as the progress with structural reforms. The EU side expressed concerns over the fiscal costs of war veteran benefits and other fiscal initiatives targeting the public sector, which together could lead to substantial additional spending not in line with the current medium-term expenditure framework.

US investor Contour Global has completed the Engineering Design, Construction tender regarding the construction of a new coal-fired power plant and prequalified four bidders. The main challenge remains attracting necessary funding (EUR 1.3 billion) and its approval at the Assembly, as providing the state guarantee would be detrimental for public finance.

Real sector

The statistics office published 2017 annual data. Real GDP growth has been revised up to 4.2% from the previous estimate, based on quarterly figures, of 3.7%. In terms of demand components the strongest growth took place in exports (goods 22.2% and services 15.3%) and investment (5.7%) while private consumption of households increased by 1.8%.

Economic activity continued at a relatively robust pace. In the second quarter of 2018 economic growth accelerated to 4.7% y-o-y from 3.5% in the previous three months, bringing the total growth in the first six months to 4.2% y-o-y. Supported by private (+3.1% y-o-y) and government spending (+4.9% y-o-y), final consumption grew by 3.3% y-o-y in the first half of 2018. Further positive impetus to economic growth came from investment which expanded by 11.4% y-o-y. In the first six months total exports increased by 13.8% y-o-y due to strong growth of service exports (+24% y-o-y) which outweighed the decline in goods exports (-3% y-o-y). Total imports expanded by almost 10% y-o-y over the same period. The contribution of net exports to growth was -2.8pp, compared to -1.1pp in the first three months.

On the production side, the second quarter data show increasing output in mining (+6.5% y-o-y) and almost stable production in manufacturing (+0.2% y-o-oy). Growth in service sector was led by the financial and insurance activities which increased at double-digit rates of 33.1%, reflecting persistently strong credit growth, while the output of construction and trade expanded by 5.2% and 5.6% y-o-y, respectively.

Sector accounts data shows positive growth in industry and retail sectors. In the second quarter of 2018, industrial turnover[1] in Kosovo increased by an estimated 1.4% y-o-y, supported by rising output in the extracting and water supply sectors which rose by 9.9% and 5% y-o-y, respectively. The production of electricity has contracted by 9.3% y-o-y.

Strong retail turnover growth continued in the second quarter (14.6% y-o-y) supported by all categories; most notable expansion was recorded in sales of food, beverages and tobacco which rose 40.5% y-o-y.

Labour market

According to the labour force survey, the labour market situation did not improve in the second quarter. The increase of the participation rate to 40.4% from the record low of 39.2% seen in the first quarter was accompanied by a rise in the unemployment rate to 29.4% from 26.5% in the previous three months. The rate of employment has declined slightly from the previous quarter and hit the new record low at 28.5% with male and female employment standing relatively stable at 44.8% and 12% respectively since 2017.[2] The employment rate of young workers, aged 15 to 24, was at 9.7% which is significantly below the 12% recorded in the same quarter of the previous year.

External sector

The current account deficit expanded slightly in the second quarter, with its 4-quarter moving average reaching 6.7 % of GDP from 6.3% in the first quarter. The traditionally high

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1 Measured by industrial output volume index, 2017=100.

2 Throughout all quarters of 2017 the rate of unemployment was around 30%.

merchandise trade deficit deteriorated to 44% of GDP while workers' remittances stood at 11.3% of GDP, unchanged from the previous quarter. On the financing side, net inflow of FDI equalled to 3.5% GDP in the four quarters to June. Reserve assets decreased by 0.2 y-o-y and covered 4.8 months of imports of goods and services in the second quarter.

In the first eight months of 2018 total goods exports contracted by 8.9% y-o-y due to sharply declining exports of mineral products in July and base metals in August. Exports of processed food, plastic articles and machinery recorded moderate increases in July-August as compared to the previous year. In the first eight months, imports of goods rose by 9.6% y-o-y with mineral fuels, base metals and machinery appliances being the main import drivers and reflecting a stronger construction sector. During January-August the nominal merchandise trade deficit increased by 12.3% y-o-y.

Monetary developments

Supported by price developments in the EU and recovering oil prices, Kosovo's inflation increased gradually from -0.2% y-o-y in January to 1.5% y-o-y in August. The cumulative inflation of the first eight months stood 0.6% as compared to the same period in 2017. Food was the main driver of price growth contributing 0.8pps to inflation in August, while the contribution of energy prices was slightly negative. Core inflation increased from 0 in January to 1.3% y-o-y in August.

The construction cost index increased by 1.4% and producer price index rose by 0.9% y-o-y in the first half of 2018, due to price rises of metals and electrical materials. Import prices increased by 2% y-o-y in the first six months supported by price increases for mineral and wood products.

Financial sector

Strong credit growth has continued throughout 2018 (11.4% y-o-y in July) with loans to enterprises and to households expanding at roughly the same rate. Total deposits in commercial banks grew at a slower pace, (5.6% y-o-y in July), causing the loan-to-deposit ratio to rise to 85.3% in July from 80% in January, still indicating banks' stable liquidity position and further room for stronger lending activity.

The interest rate spread remains on a downward trajectory. The 12-months moving average spread declined by 90 basis points to 5.1pp in July as compared to January. This reduction was driven by changes from both sides, i.e. decreasing average lending and rising deposit interest rates by similar amounts.

Financial soundness indicators in the banking sector remained satisfactory throughout the first seven months of 2018. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 34.7% in July, while the capital adequacy ratio was 16.5%, above the regulatory minimum of 12%. The already low NPL ratio decreased further to 2.7%. Existing NPLs are fully covered by loan loss provisions (156.2%).

Fiscal developments

In the first eight months of 2018 budget revenues rose by 6% y-o-y which is lower than the annual growth of 8.0% projected in the budget. Tax revenue rose by 7% y-o-y mainly supported by strong growth in personal and corporate income taxes (22.7% and 9.3% y-o-y, respectively), while the increase in VAT collection stood at 7.4% y-o-y. Budget expenditure grew by 10.6% y-o-y on the back of higher social transfers and wages at the central government level, which rose by 15% and 10%, respectively. While in the first eight months total capital spending increased by 8.6% y-o-y, the amount spent so far represents only 37% of the annual allocation. At the same time the execution rate of the social transfer budget reached nearly 69%. The main driver of growth in social spending relates to the war veteran pension scheme. Overall, the budget recorded a surplus of 0.2% of full-year GDP in the first eight months. As per the fiscal rule, the deficit target for 2018 is 1.8% of GDP.

In July total public debt (including guarantees) stood at 16.42% of GDP compared to 15.6% a year earlier, with the split of 60 to 40 percent between domestic and international debt. The average weighted interest rate continued declining, to 1.94%, owing to the large share of concessional loans from IFIs. Average maturity of domestic debt has increased from 18.5 months in 2017 to 24.9 months in July 2018 following the recent issuance of bonds with 7 and 10 years of maturity.

TABLE

European Commission, ECFIN-D-1

KOSOVO*

		2013	2014	2015	2016	2017	Q1 18	Q2 18	Q3 18	Jul 18	Aug 18	Sep 18
1 Real sector												
Industrial confidence [1.1]	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production [1.2]	Ann. % ch	3,2	0,0	1,3	-1,3	-1,3	10,9	1,4	:	:	:	:
Gross domestic product [1.3]	Ann. % ch	3,4	1,2	4,1	3,4	4,2	3,5	4,7	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. % ch	2,0	4,9	3,8	4,8	1,8	1,4	4,4	:	N.A.	N.A.	N.A.
Investment [1.5]	Ann. % ch	-0,3	-5,0	11,3	7,5	5,7	10,0	12,2	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. % ch	N.A.	11,6	9,5	4,5	9,6	18,2	14,6	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment [2.1]	%	30,0	35,3	32,9	27,5	30,5	26,5	29,4	:	N.A.	N.A.	N.A.
Employment [2.2]	Ann. % ch	11,8	-4,4	-8,2	11,8	7,6	-1,7	-4,5	:	N.A.	N.A.	N.A.
Wages [2.3]	Ann. % ch	N.A.	N.A.	5,8	:	:	:	:	:	N.A.	N.A.	N.A.
3 External sector												
Exports of goods [3.1]	Ann. % ch	6,4	10,4	0,2	-4,8	22,1	-4,0	-7,2	:	-25,0	-6,5	:
Imports of goods [3.2]	Ann. % ch	-2,3	3,6	3,8	5,9	9,2	7,6	12,7	:	12,2	3,3	:
Trade balance*** [3.3]	% of GDP	-40,5	-39,8	-39,8	-40,9	-42,5	-42,9	-44,0	:	N.A.	N.A.	N.A.
Exports goods and services*** [3.4]	% of GDP	21,9	22,5	21,9	22,2	27,0	27,4	27,6	:	N.A.	N.A.	N.A.
Imports goods and services*** [3.5]	% of GDP	49,6	51,2	50,4	50,8	53,8	54,3	55,3	:	N.A.	N.A.	N.A.
Current account balance*** [3.6]	% of GDP	-3,4	-6,9	-8,6	-8,3	-6,0	-6,3	-6,7	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** [3.7]	% of GDP	5,3	2,7	5,3	3,6	4,5	4,0	3,5	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	1.504,3	1.266,4	1.302,6	1.161,7	1.242,7	1.276,7	1.264,8	:	1.310,6	1.387,0	:
Int. reserves / months Imp [3.9]	Ratio	7,4	6,0	5,9	5,0	4,9	5,0	4,8	:	4,9	5,1	:
4 Monetary developments												
HICP [4.1]	Ann. % ch	1,8	0,4	-0,5	0,3	1,5	0,0	0,7	:	1,2	1,5	:
Producer prices [4.2]	Ann. % ch	2,4	1,6	2,7	-0,1	0,6	0,2	1,7	:	N.A.	N.A.	N.A.
Food prices [4.3]	Ann. % ch	1,5	0,1	0,3	-0,2	:	:	:	:	:	:	:
Broad money liabilities [4.4]	Ann. % ch	17,3	-4,2	6,4	8,4	6,3	7,9	2,8	:	5,1	:	:
Exchange rate EUR/EUR [4.5]	Value	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Real eff. exchange rate (CPI) [4.6]	Index	106,5	106,7	104,7	:	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate [5.1]	% p.a.	11,82	10,62	8,32	7,47	6,83	6,94	6,66	:	6,68	6,35	:
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	3,6	3,4	6,9	9,1	10,5	11,0	10,8	:	11,4	:	:
Deposit growth [5.5]	Ann. % ch	6,6	7,2	5,6	4,8	8,6	6,5	5,7	:	5,6	6,4	:
Non-performing loans [5.6]	% total	8,7	8,3	6,2	4,9	3,1	2,9	2,8	:	:	:	:
6 Fiscal developments												
General government balance** [6.1]	% of GDP	-3,1	-2,2	-2,0	-1,2	-0,8	:	:	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	8,9	10,7	13,1	14,6	16,6	:	:	:	N.A.	N.A.	N.A.

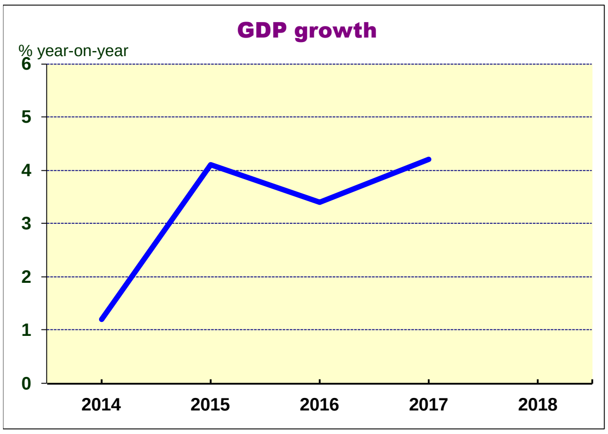
** Source: IMF.

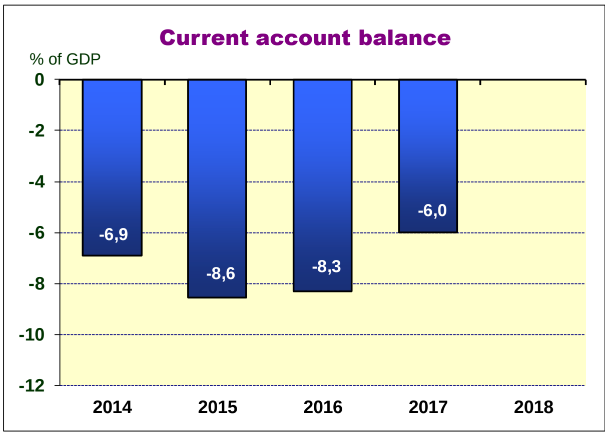
*** Q figures refer to a 4 quarters moving average.

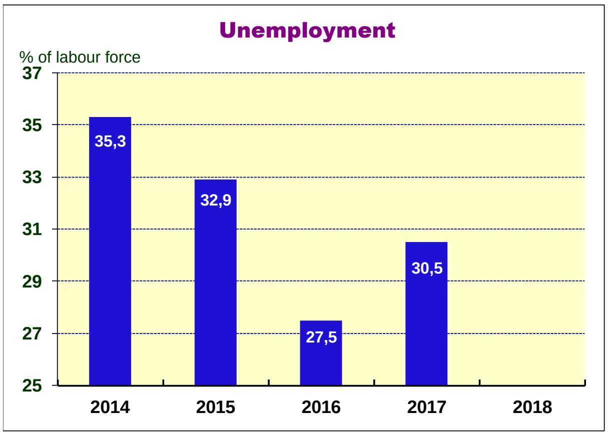
CHARTS

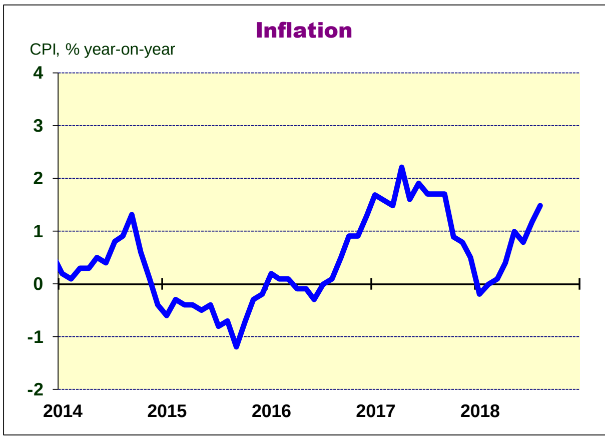
European Commission, ECFIN-D-1

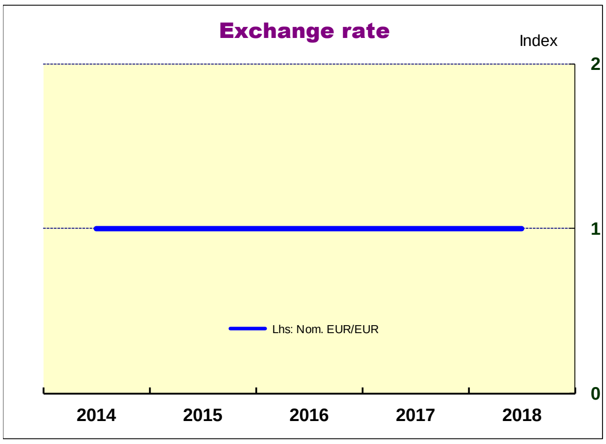
KOSOVO*

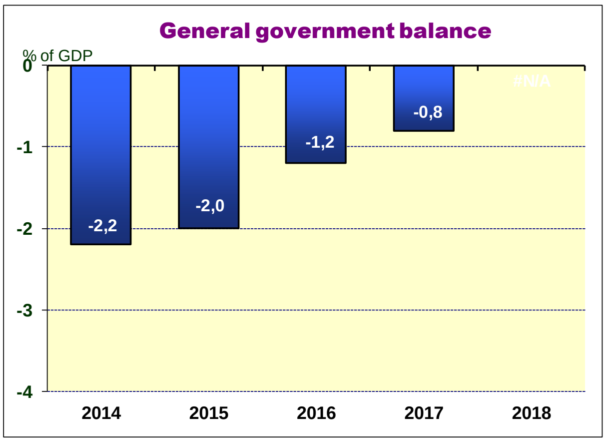












ALBANIA Explanatory notes

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

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Explanatory notes

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 *(FDI, net)*	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 eff. exchange rate	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

MONTENEGRO

Explanatory notes

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 *(FDI, net)*	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.	M21	Annual percentage change, M21 (Broadest money)	Discontinued
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Nominal exchange rate	Not available	
5.	**Financial indicators**		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	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

SERBIA Explanatory notes

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 *(FDI, net)*	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 eff. 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 RS government bills.	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	MacroBond
5.4.	Credit growth	Annual percentage change, monetary survey, domestic credit, total, RSD	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	MacroBond
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	MacroBond
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

TURKEY Explanatory notes

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 2010), excluding construction, calendar adjusted	MacroBond
1.3.	Gross domestic product	Annual percentage change,	MacroBond
1.4.	Private consumption	Annual percentage change, index (2009 prices)	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change,	MacroBond
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, 2015=100	MacroBond
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 *(FDI, net)*	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 eff. exchange rate	Index 1999, period averages	MacroBond
5.	**Financial indicators**		
5.1.	Interest rate	Deposit rates, 3 month, close	MacroBond
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	MacroBond
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	MacroBond
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	MacroBond
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	MacroBond
5.6.	Non-performing loans	In percent of total lons	MacroBond
6.	**Fiscal developments**		
6.1.	General government balance	In percent of GDP, Q/Q GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources

BOSNIA AND HERZEGOVINA

Explanatory notes

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 *(FDI, net)*	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 eff. exchange rate	Index (2002 Apr=100); 9 Trade partners selected in order to set up the index (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	MacroBond
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

KOSOVO

Explanatory notes

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 *(FDI, net)*	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 eff. exchange rate	Price change % CPI.	CB Kosovo
5.	**Financial indicators**		
5.1.	Interest rate	Average loan interest rate.	MacroBond
5.2.	Bond yield	Government bonds, 1 year, auction, yield.	Central Bank of Kosovo
5.3.	Stock markets	Not available.	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing.	MacroBond
5.5.	Deposit growth	Annual percentage change, ODC deposits.	MacroBond
5.6.	Non-performing loans	In % of total.	CB Kosovo
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

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