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

1st Quarter 2021

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European Commission
Directorate-General for Economic and Financial Affairs

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

1st Quarter 2021

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

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

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

OVERVIEW

*In spite of signs of economic recovery in the second half of the year, the disruptive effects of the COVID-19 crisis led to strong output losses in the **Western Balkans** in 2020, with the region's GDP contracting by 3.3%, down from an average growth rate of 3.6% in 2019. Most economies suffered from the contraction in household consumption and investment and the collapse of exports. Falling imports and higher public consumption were the key mitigating factors, but not able to offset the negative dynamics of other expenditure components. In line with declining economic activity, job growth was negative, but as labour force participation also decreased, the rise in unemployment rates has been contained so far. The region's current account deficit stood at 6% of GDP in 2020, largely unchanged from a year earlier, as strong losses in services exports, especially tourism, and generally decreasing remittances inflows were offset by lower imports. Large-scale fiscal support to households and companies to mitigate the crisis impact, combined with a sizeable drop in revenues, resulted in a sharp rise in budget deficits across the region. Along with a fall in nominal GDP (except for Serbia), this led to substantial increases in the public debt-to-GDP ratio compared to end-2019.*

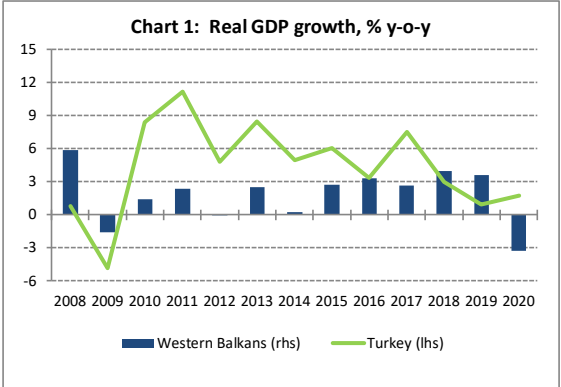
***Turkey** was one of the few countries in the world with a positive economic growth in 2020. Underpinned by base effects and large credit stimulus, real GDP expanded by 1.8%. The 4-quarter rolling average current account deficit increased to 5.3% of GDP in February, compared to 5.1% in 2020, driven by a year-on-year expansion of the deficit in the first two months of 2021. The central bank of Turkey reacted to high inflationary pressures by significantly raising its key policy rate in March. The subsequent dismissal of the central bank governor triggered a negative market reaction and the lira lost more than 10% of its value against the US dollar by mid-April.*

The COVID-19 crisis took a heavy toll on all **Western Balkan** economies in 2020. Economic activity was severely disrupted by the lockdown measures that had the strongest impact in the second quarter, while economies showed signs of recovery in the second half of the year as restrictions were relaxed and economic activity, especially in the export-oriented manufacturing sector, picked up. In most countries, the downturn in 2020 was driven by a steep fall in private consumption and investment while net exports had a varying effect on growth. *Montenegro* recorded the strongest economic contraction; real GDP plummeted by 15.2%, in contrast to a 4.1% expansion a year before, largely due to a collapse of service exports (namely tourism). In *Albania*, after four consecutive quarters of decline, year-on-year economic growth turned positive in the fourth quarter of 2020, supported by base effects, the recovery of private consumption, stronger investment growth and increased public consumption. The fall in exports remained sharp largely due to

the continued travel restrictions. Overall, real GDP fell by 3.3% in 2020. In both *Bosnia and Herzegovina* and *North Macedonia*, GDP contracted by 4.5% in 2020, mainly driven by a sharp drop in household consumption and investment. In both countries, economic growth was helped by a positive contribution of net exports to growth while in the case of *North Macedonia* by public consumption, too. In *Kosovo*, the expansion of government consumption and falling imports of goods and services mitigated the drop in the annual economic output to an estimated 3.9%. In *Serbia*, the output loss was milder in 2020 compared to its peers in the region. Real GDP fell by 1.0%, down from a growth of 4.2% a year before, supported by strong pre-crisis momentum, sizeable fiscal stimulus and the sectoral structure of the economy with limited reliance on tourism. Year-on-year economic contraction moderated further in the fourth quarter of 2020, as stronger government consumption, higher inventories and a positive contribution of net exports to growth largely offset decreases in household consumption

and gross fixed capital formation. Overall, the **Western Balkan** region's GDP contracted by 3.3% in 2020, down from an average growth rate of 3.6% in 2019 (Chart 1). This is the first fall in the region's annual output after a 10-year-long expansion.

In **Turkey**, the economy grew by 1.8% in 2020, on the back of base effects and buoyant domestic demand, which benefited from sizeable policy stimulus mainly focused on boosting lending. Economic confidence increased in the first quarter of 2021, reaching in March its highest level over the last 12 months but it plunged in April due to new COVID-19 restrictions.

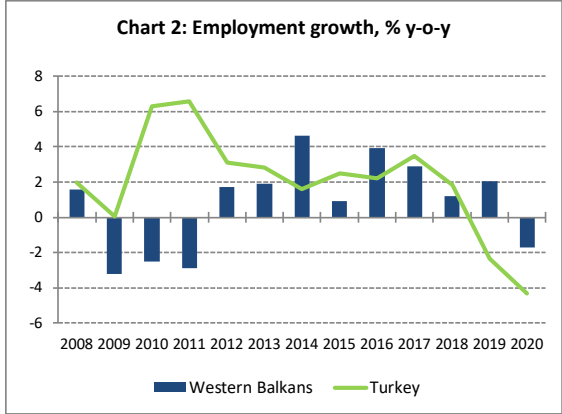


Source: Macrobond, Commission calculations

In line with declining economic activity, job growth was negative in the **Western Balkans** in 2020. The average decline in employment in the region stood at 1.7%, compared to a growth rate of 2.0% in 2019 (Chart 2). Notwithstanding employment losses, the simultaneous decline in labour force participation, combined with policy measures to safeguard jobs, limited the increase in the unemployment rates. Still, jobless rates remain high, ranging from 9.0% in *Serbia* to 24.6% in *Kosovo* (in the third quarter of 2020).

In **Turkey**, employment declined by 4.3% in 2020 while the unemployment rate stood at 13.4%. The labour market situation remained challenging in early 2021, with the unemployment rate increasing by 0.6 pps.

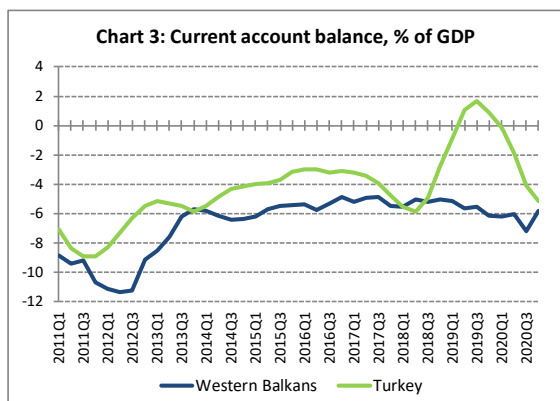
y-o-y to 14.1% in February. Although job growth turned positive in the first two months of the year, employment remained around 8% below its peak from mid-2018. The authorities extended again some employment protection measures that continue to heavily affect the labour market, and the combined share of people in unemployment and time-related underemployment increased since the end of 2020, to 20.6% in February.



External developments in the **Western Balkans** during 2020 were driven by the collapse of service exports, in particular tourism, falling exports of goods (with the exception of *Kosovo*) as well as falling income from remittances in most countries. At the same time, imports also fell at a fast pace, which in some countries outweighed the impact of declining exports and remittances. Thus, compared to the year before, the current account deficit narrowed as a per cent of GDP in *Serbia* while it remained unchanged in *Bosnia and Herzegovina*, and widened in all other **Western Balkan** countries. Overall, the current account deficit in the region stood at 6% of GDP in 2020, broadly unchanged compared to the year before (Chart 3). On a positive note, the current account deficits continued to be financed mostly by net FDI inflows, which in relation to GDP increased in *Montenegro*, *Kosovo* and *Bosnia and Herzegovina* whereas they declined moderately in all other countries in the region.

In **Turkey**, the current account balance turned to a deficit of 5.1% of GDP in 2020 compared to a surplus of 0.9% in 2019, and the 12-month rolling

average deficit further increased to 5.3% of GDP in February. The deterioration in the first two months of 2021 was driven by lower services exports compared to the same period a year earlier. Official reserve assets increased in the first two months because of a rise in financial inflows and errors and omissions. These gains, however, were largely reversed following the dismissal of the central bank governor in March.



Source: Macrobond, Commission calculations

Inflation dynamics diverged among countries in the *Western Balkans* in 2020 and early 2021. In *Albania*, consumer prices increased by 1.6% on average in 2020 (slightly up from 1.4% in 2019) but inflation softened to 0.9% y-o-y in the first quarter of 2021 (still below the 3% target) due to weakening price dynamics of food and beverages. The *Bank of Albania* kept its key policy rate at the record low of 0.5%, unchanged since March 2020. It also continued to supply liquidity to the banking system, but reduced the size of the individual liquidity injections in the fourth quarter of 2020. In *North Macedonia*, CPI inflation was low in 2020 (1.2%) but picked up to 2.0% y-o-y in the first quarter of 2021, due to increases in the prices of transport, hotels and restaurants, and utilities. The central bank decided in March to cut the key policy rate by another 25 bps. to the new historic low of 1.25%, after three successive rate cuts in 2020. In *Serbia*, consumer price inflation rebounded

to 1.8% y-o-y in March (up from 1.2% in February), thus returning above the lower bound of the target tolerance band of $3\% \pm 1.5$ pps., driven in particular by electricity and tobacco prices. The central bank of *Serbia* decided on 13 April to keep its key policy rate unchanged at the record-low of 1.0%, after four successive cuts of 125 bps. in total in 2020. It also remained an active participant on the foreign exchange market, with total net sales of EUR 50 million in the first quarter of 2021.

On the other hand, *Montenegro* and *Bosnia and Herzegovina* witnessed negative average inflation in 2020 at 0.8% and 1.1%, respectively. In *Montenegro*, the decline was broadly driven by lower domestic demand and weak global commodity prices while in *Bosnia and Herzegovina* mainly by a plunge in transport prices and falling prices for clothing and footwear. In *Kosovo*, average annual CPI inflation significantly decelerated to 0.2% in 2020 as the positive contribution of food prices was almost offset by the dampening effect of energy prices as well as the elimination of import tariffs on goods from *Serbia* and *Bosnia and Herzegovina* in April 2020. Deflationary pressures continued, but weakened somewhat, in February 2021 in *Montenegro* and *Bosnia and Herzegovina* whereas in *Kosovo*, consumer price inflation returned to positive territory in the first quarter of 2021 after two consecutive quarters of negative readings.

In *Turkey*, annual CPI inflation accelerated to 15.6% in the first quarter of 2021 from 13.5% in the previous three months, mainly driven by higher energy and service prices. The central bank reacted by raising its key policy rate by 200 basis points to 19% in March, after recent rounds of tightening in November and December 2020 (by 475 and 200 bps., respectively), but kept it unchanged in April. The dismissal of the central bank governor on 20 March triggered a negative market reaction and the lira lost more than 10% of its value against the US dollar by mid-April, while Turkey's 5-year CDS spread increased by around 140 bps. to 440 in mid-April.

Impacted by the various policy measures to support liquidity flows to the private sector, bank lending growth accelerated in 2020 in *Albania* and *Serbia*. On the other hand, credit growth decelerated in *North Macedonia*, *Montenegro*, *Kosovo* and *Bosnia and Herzegovina*. In *Albania* and *Montenegro*, corporate loans grew faster than household lending. Helped by regulatory forbearance measures, the share of non-performing loans (NPLs) in total loans fell further in most **Western Balkan** countries. The NPL ratio in *Albania* stood at 8.1% at the end of 2020. In *Bosnia and Herzegovina* the NPL ratio declined to 6.1%, 1.3 pps. lower than 12 months earlier, followed by *Montenegro* (5.7% in February), *Serbia* (3.7%) and *North Macedonia*, where it reached its lowest level on record (3.3%). However, since most central banks have allowed some regulatory relaxation in order to bolster bank lending, the NPL and credit figures do not yet reflect the full impact of the pandemic-induced crisis on the financial sector.

In *Turkey*, annual credit growth accelerated significantly to 35.4% in 2020 from 24% in 2019, as the authorities took a broad range of measures to stimulate lending at the peak of the COVID-19 crisis. As the policy stimulus was withdrawn, corporate lending subsided and credit growth decelerated to 29.2% y-o-y in March. The NPL ratio fell to 4.0% in February from 5.2% a year before.

In 2020, increased crisis-related spending combined with a large drop in revenues resulted in sharply widening fiscal deficits in the **Western Balkan** region, notwithstanding efforts by some countries to create fiscal space to fight the crisis by cutting capital spending.

In *North Macedonia*, shrinking economic activity and temporary tax-deferrals coupled with higher current expenditure resulted in an expansion of the budget deficit to 8.2% of GDP. In *Montenegro*, the budget deficit widened to 11.0% of GDP as almost all revenue categories underperformed whereas expenditure moderately increased, in spite of efforts to reallocate spending into healthcare services and supplies while reducing capital expenditure. In *Albania*, the budget deficit widened sharply to 6.9% of GDP in 2020, due to a large drop in tax and non-tax proceeds as well as strong capital spending growth, reflecting the recent upscaling of post-earthquake reconstruction works. In *Kosovo*, preliminary data show that the budget shortfall amounted to 6% of GDP according to the fiscal rule's definition (7.8% of GDP for the headline deficit), mainly driven by a contraction of tax revenue and a strong increase in social transfers. In *Serbia*, the budget deficit increased to 8.1% of GDP, albeit 0.8% pps. lower than the revised target, largely on the back of higher than expected tax revenue and lower current spending. In *Bosnia and Herzegovina* the budget shortfall is estimated at 4% of GDP mainly as a result of lower indirect and property taxes as well as higher public consumption, transfers and subsidies. General government debt increased in all countries in the region in 2020, reflecting increased financing needs and lower nominal GDP (with the exception of *Serbia*). At end-2020, the debt ratio was the highest in *Montenegro* (105% of GDP), followed by *Albania* (76.1%) and *Serbia* (57.4%).

In *Turkey*, notwithstanding the significant increase in interest payments due to higher debt levels and exchange rate depreciation, strong tax revenue kept the central government budget in balance, in the first two months of 2021. Government debt rose to 39.5% of GDP in 2020, compared to 32.6% at end-2019.

Candidate and potential candidate countries: Summary table

	2016	2017	2018	2019	2020	ECFIN 2020 Autumn forecast		Q3 20	Q4 20	Q1 21	Jan 21	Feb 21	Mar 21
						2021	2022						
Gross domestic product (in real terms, annual % change)													
Albania	3.3	3.8	4.1	2.2	-3.3	3.7	4.6	-2.8	3.0	:	N.A.	N.A.	N.A.
North Macedonia	2.8	1.1	2.7	3.2	-4.5	3.8	3.5	-3.3	-0.7	:	N.A.	N.A.	N.A.
Montenegro	2.9	4.7	5.1	4.1	-15.2	6.8	3.7	-26.9	-7.5	:	N.A.	N.A.	N.A.
Serbia	3.3	2.1	4.5	4.2	-1.0	4.8	3.8	-1.4	-1.1	:	N.A.	N.A.	N.A.
Turkey	3.3	7.5	3.0	0.9	1.8	3.9	4.5	6.3	5.9	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	3.4	3.0	3.1	2.9	-4.5	:	:	-6.4	-3.8	:	N.A.	N.A.	N.A.
Kosovo	4.1	4.2	3.8	4.9	-3.9	:	:	-7.3	0.7	:	N.A.	N.A.	N.A.
Unemployment													
Albania	15.6	14.1	12.8	12.0	12.2	13.9	12.8	12.1	12.3	:	N.A.	N.A.	N.A.
North Macedonia	23.8	22.4	20.7	17.3	16.4	17.1	16.6	16.5	16.1	:	N.A.	N.A.	N.A.
Montenegro	18.0	16.4	15.5	15.4	18.4	16.6	15.9	19.6	21.5	:	N.A.	N.A.	N.A.
Serbia	15.3	13.5	12.7	10.4	9.0	9.6	9.0	9.0	9.9	:	N.A.	N.A.	N.A.
Turkey	11.1	11.1	11.2	14.0	13.4	14.1	14.1	13.4	:	:	:	:	:
Bosnia and Herzegovina	25.4	20.5	18.4	15.7	18.0	:	:	14.2	16.6	N.A.	N.A.	N.A.	N.A.
Kosovo	27.5	30.5	29.6	25.7	:	:	:	24.6	:	:	N.A.	N.A.	N.A.
Current account balance* (% of GDP)													
Albania	-7.6	-7.5	-6.8	-8.0	-8.9	-9.0	-7.3	-8.9	-8.9	:	N.A.	N.A.	N.A.
North Macedonia	-2.9	-1.1	-0.1	-3.3	-3.5	-3.9	-3.8	-5.5	-3.5	:	N.A.	N.A.	N.A.
Montenegro	-16.2	-16.1	-17.0	-15.0	-26.0	-14.3	13.9	-28.0	-26.0	:	N.A.	N.A.	N.A.
Serbia	-2.9	-5.2	-4.8	-6.9	-4.3	-6.0	-5.2	-6.3	-4.3	:	N.A.	N.A.	N.A.
Turkey	-3.1	-4.8	-2.8	0.9	-5.1	-2.0	-2.1	-4.1	-5.1	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.6	-4.7	-3.3	-3.0	-3.1	:	:	-3.4	-3.1	:	N.A.	N.A.	N.A.
Kosovo	-7.9	-5.4	-7.6	-5.6	-7.1	:	:	-8.6	-7.1	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.3	2.0	2.0	1.4	1.6	2.1	2.3	1.4	1.6	:	0.4	1.1	:
North Macedonia	-0.2	1.4	1.5	0.8	1.2	1.2	1.5	1.5	2.2	:	1.9	1.9	:
Montenegro (HICP)	0.1	2.8	2.9	0.5	-0.8	1.0	1.4	-1.4	-1.3	:	-0.7	-0.2	:
Serbia	1.1	3.1	2.0	1.8	1.6	1.8	1.8	1.9	1.6	:	1.2	1.2	:
Turkey	7.8	11.1	16.3	15.2	12.3	11.7	9.2	11.8	13.5	15.6	15.0	15.6	16.2
Bosnia and Herzegovina	-1.1	1.3	1.4	0.6	-1.1	:	:	-1.4	-1.6	-1.2	-1.7	-1.3	-0.5
Kosovo	0.3	1.5	1.1	2.7	0.2	:	:	-0.3	-0.1	:	-0.2	0.8	N.A.
General government balance** (% of GDP)													
Albania	-1.8	-2.0	-1.6	-1.9	-6.9	-5.3	-3.2	-1.3	-3.2	:	N.A.	N.A.	N.A.
North Macedonia	-2.7	-2.7	-1.1	-2.2	-8.2	-4.5	-3.2	-1.5	-2.7	:	N.A.	N.A.	N.A.
Montenegro	-3.6	-5.3	-3.9	-2.0	-11.0	-4.7	-3.6	-2.3	:	:	:	:	:
Serbia	-1.2	1.1	0.6	-0.2	-8.1	-2.9	-2.5	-0.9	-1.5	:	N.A.	N.A.	N.A.
Turkey	-2.0	-2.4	-3.3	-3.7	-4.5p	-6.0	-5.3	-0.2	:	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	1.2	2.5	2.2	1.9	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo	-1.1	-1.3	-2.9	-2.9	:	:	:	-1.0	-1.7	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Autumn 2020 published November 2020.

* Q figures refer to a 4 quarters moving average.

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



Key developments

On 1 February 2021, the government submitted to the European Commission its Economic Reform Programme (ERP) 2021-2023. The ERP projects the economy to rebound to an average of 5% growth in 2021-2023, driven by strong recovery in private consumption, exports and investment, which should help a gradual fall in the unemployment rate to 9.4%. The high public expenditure plans will keep the fiscal deficit above 6% in 2021, despite an expected recovery of revenue. The ERP foresees a gradual reduction of public debt to 75.6% by 2023.

On 31 March, the Commission disbursed EUR 90 million of macro-financial assistance to Albania, the first tranche of two instalment of a EUR 180 million loan to support Albania during the COVID-19 pandemic.

Albania's national parliamentary elections are scheduled for 25 April 2021.

Real sector

Helped by base effects, in Q4, the Albanian economy rebounded out of the contraction of the four preceding quarters, and recorded 3% y-o-y growth, following revised growth rates of -10.2% in Q2 and -2.8% in Q3. In Q4, private consumption grew by 1.6%, recovering from its contraction in Q2 and Q3 and government consumption increased by 3.9% y-o-y. Investment growth accelerated from 5.9% (revised upwards) in Q3 to 10.9% y-o-y in Q4, and exports and imports of goods grew 8.5% and 5.1% respectively. However, pulled back by the contracting trade in services -mainly due to the continuing travel restrictions- the overall growth rate of exports and imports remained negative (-12.8% and -9.9% respectively). Overall, the economy contracted by 3.3% in 2020.

In terms of production, growth rates of all sectors rebounded in Q4 into positive territory, except for agriculture and trade and hospitality services. As in Q3-2020, the turnaround was led by strong growth of the construction sector (+18.9%), driven by earthquake reconstruction works, and a stronger performance of some parts of manufacturing and services. Economic sentiment indicators confirmed a continuing recovery in Q1-2021, supported by strongly

improving industrial confidence despite tighter mobility restrictions in Albania and the EU, which continued to weigh especially on Albania's textile and footwear exports.

Labour market

The effect of the government's mitigation measures on the labour market weakened slightly in Q4 when employment in services decreased by 6.3% compared with Q3, but slightly recovered in industry (+1.4% q-o-q). In annual terms, overall employment decreased by 3.1% y-o-y in Q4, reflected in declining employment indices in industries particularly hard-hit by the pandemic, such as transport and hospitality-related business, as well as textile and shoe manufacturing. An increasing number of economically inactive persons (not counted as unemployed) and of public employees by 4.7% y-o-y in Q4-2020 helped to limit the increase of the unemployment rate (15-64) to 12.3%, 0.7 pps. higher than the year before.

The overall participation rate declined 1 pp. to 68.7% compared with Q4-2019, with women's participation rate decreasing more (by 1.4 pps. to 60.7%) than men's, resulting in a widening of participation gap (from 15.8 pps. to 16.7 pps.). Wages increased 2.8% y-o-y in Q4, pushed by a 4% increase in public wages. In addition, in Q1-2021, government increased wages of health workers and teachers by 40% and the minimum wage to ALL 30 000 (about EUR 243).

External sector

For the first time in 2020 trade in goods recorded positive growth rates in Q4-2020, and as the 3.3% expansion of goods exports was outweighed by a 5% growth of goods imports (y-o-y), the 2020 deficit of the goods balance slightly increased to 23% of GDP. Due to the continuing large losses in the exports of travel and transport services, the surplus of the services balance resulted with 8.2% of GDP in 2020 1 pp. below its 2019 value despite the continuing recovery of exports of manufacturing and other services and the contracting services imports in the second half of the year. The accelerated rebound of remittances (+12.6% y-o-y) in Q4, supported the stability of the current account deficit at 8.9% of GDP, 1 pp. above the 2019 value, although increasing investment income

outflows widened the primary income deficit to 1.8% of GDP. The share of FDI in GDP decreased by 0.6 pps. to 7.3% in 2020 and covered about 81% (98.6% in 2019) of the increased current account deficit. Foreign reserves stood at EUR 3.9 billion at end-2020, about 14% above their corresponding 2019 level and covered more than 9 months of imports.

Monetary developments

In March, the Bank of Albania (BoA) reaffirmed its accommodative policy stance without changing its record low 0.5% policy rate, which it had put in place 12 months ago, as well as the overnight deposit and lending rates at 0.1% and 0.9%, respectively. The BoA continued to supply unlimited liquidity to the banking system, but reduced the size of the individual liquidity injections in Q4-2020. The average annual price level increased by 1.6% in 2020 compared with 1.4% in 2019, but inflation weakened to 0.9% y-o-y in Q1-2021, due to softening price increases of food and beverages (2.5% y-o-y), which were the main source of price pressures in 2020.

All monetary aggregates recorded strong growth in 2020, driven by M1 and M2 and the continuing shift to demand deposits and currency outside banks and the strong external influx of money into the economy (averaging 8.8% M2 and 7.3% M3). In January 2021, M1 and M2 aggregates decreased compared with December 2020, while M3 remained stable.

The exchange rate remained close to the 2020 average of 123.7 lek/euro in the first 3 months of 2021. The more pronounced appreciation against the USD in Q3 and Q4-2020, reflecting US dollar depreciation against the euro in the international market, continued in Q1-2021.

Financial sector

Credit to the economy expanded on average by 6.1% in 2020, and pushed the average credit-to-GDP ratio from 34% in 2019 to 37.8%. In Q4, the annual credit growth rate¹ rose to 6.7%, from 5.2% in Q3, supported by a single especially large foreign currency loan, but the annual average share of foreign currency loans in total bank loans still fell slightly below 50% in 2020. Lending in lek continued to be the main contributor to the growth of credit, in particular lending to enterprises (7.2% y-o-y), mainly for investments. Lending to households also accelerated, to 5.8% y-o-y, mainly for mortgage

loans. In 2020, average interest rates remained overall below 2019 levels, although in Q4 interest rates on new loans in lek for enterprises slightly increased by 0.3 pps. to 5.6% while rates for households' mortgage loans decreased by 0.3 pps. to 4.2% y-o-y. The lek-euro interest rate differential remained low for both categories. Banks continued to tighten credit standards for enterprises, e.g. by granting smaller loans than requested, and to ease them for households, e.g. by granting a longer maturity for the required loan. On the other hand, banks continued to perceive loan demand by both enterprises and households as low. Total customer deposits increased on average 5.8% in 2020 up from 2.5% in 2019, driven by growth both of deposits in lek and foreign currency, but the share of forex deposits in total deposits fell below 50%.

Compared with Q3-2020, bank profitability in terms of ROE and ROA improved in Q4 to 10.7% and 1.2%, respectively, but their 2020 annual averages remained below 2019 levels. The ratio of non-performing loans to total loans stood at 8.1% at the end of 2020 and the gradually improving liquidity ratio increased to 18.5% but remained 1.5 pps. below its 2019 level. The capital adequacy ratio of the banking sector returned to 18.3%, the same level of Q4-2019.

Fiscal developments

In 2020, revenue dropped 7.5% compared with 2019. In particular, revenue from profit and income taxes, for which some tax relief was granted, but also non-tax revenue all fell by more than 20%, whereas social insurance contributions and VAT revenue recorded only slightly lower inflows y-o-y (-0.7% and -1.6% respectively). Expenditure increased 9% compared with 2019, driven by capital expenditure growth of 13.5% mainly reflecting the catching-up on earthquake reconstruction. Current expenditure remained relatively stable despite the 19% growth of social assistance expenditures as savings were realised on interest payments and lower transfers to local governments. The consolidated fiscal deficit reached 6.9% of GDP, in nominal terms about 3.5 times more than in 2019. Reflecting the Government's higher financing demand, short- and medium-term yields on Government debt securities have slightly increased. Public debt increased to 76.1% of GDP, compared with 66.3% in 2019, even though the increase was 3.8 pps. lower than expected because less public guarantees were needed than originally foreseen.

¹Annual average growth adjusted for written-off loans and exchange rate impacts

TABLE



ALBANIA

European Commission, ECFIN-D-1

							ECFIN 2020 Autumn forecast							
		2016	2017	2018	2019	2020	2021	2022	Q3 20	Q4 20	Q1 21	Jan 21	Feb 21	Mar 21
1 Real sector														
Industrial confidence ^{1.1}	Balance	-3.7	1.5	-0.6	-0.6	-16.2	:	:	-19.5	-11.0	-1.5	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-19.6	8.4	9.7	5.6	-10.1	:	:	-1.8	-1.8	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	3.3	3.8	4.1	2.2	-3.3	3.7	4.6	-2.8	3.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.0	2.6	3.2	3.3	-2.3	2.8	3.3	-3.4	1.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.4	6.0	2.4	-3.3	-1.8	4.8	4.7	5.9	10.9	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.1	19.6	5.6	-2.5	9.5	:	:	14.8	25.9	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.8	2.4	1.8	4.2	1.0	:	:	5.0	6.4	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	15.6	14.1	12.8	12.0	12.2	13.9	12.8	12.1	12.3	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	6.1	2.7	2.1	2.4	-1.9	1.0	2.0	-1.2	-3.1	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	-0.8	3.0	3.1	3.8	2.7	:	:	1.8	2.8	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	2.5	14.4	20.0	-0.2	-9.7	:	:	-6.5	4.0	:	2.1	:	:
Imports of goods ^{3.2}	Ann. % ch	7.4	11.5	8.1	4.8	-7.8	:	:	-5.7	4.3	:	7.3	:	:
Trade in goods balance ^{3.3}	% of GDP	-24.3	-24.4	-22.4	-23.0	-23.0	-22.3	-21.6	-22.8	-23.0	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	29.0	31.6	31.7	31.6	23.3	:	:	24.9	23.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	45.9	46.7	45.4	45.4	38.1	:	:	39.8	38.1	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-7.6	-7.5	-6.8	-8.0	-8.9	-9.0	-7.3	-8.9	-8.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	8.8	7.8	7.9	7.9	7.3	:	:	7.0	6.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,945.0	2,995.9	3,399.0	3,359.6	3,942.4	:	:	4,128.4	3,942.4	:	3,861.9	3,838.8	:
Int. reserves / months Imp ^{3.9}	Ratio	7.2	6.7	7.0	6.5	9.6	:	:	9.7	9.6	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.3	2.0	2.0	1.4	1.6	2.1	2.3	1.4	1.6	:	0.4	1.1	:
Producer prices ^{4.2}	Ann. % ch	-1.5	2.8	1.6	-0.8	-3.4	:	:	-4.1	-3.4	:	:	:	:
Food prices ^{4.3}	Ann. % ch	3.2	3.9	2.7	2.9	3.6	:	:	3.3	3.8	:	1.2	3.2	:
M3 ^{4.4}	Ann. % ch	3.9	0.3	-0.2	4.3	10.5	:	:	8.6	10.5	:	10.0	9.8	:
Exchange rate ALL/EUR ^{4.5}	Value	137.36	134.14	127.57	123.01	123.77	:	:	123.95	123.77	123.49	123.53	123.61	123.34
Real effective exchange rate ^{4.6}	Index	93.9	97.7	104.9	108.5	110.5	:	:	111.2	111.9	:	:	:	:
5 Financial indicators														
Interest rate (3 months-TRIBOR) ^{5.1}	% p.a.	1.99	2.15	1.83	1.45	1.46	:	:	1.45	1.38	1.46	1.42	1.42	1.54
Bond yield ^{5.2}	% p.a.	2.05	2.07	2.20	1.76	1.63	:	:	1.65	1.59	:	1.77	1.59	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	-0.7	-0.1	-1.7	3.0	6.1	:	:	5.6	5.3	:	6.5	5.1	:
Deposit growth ^{5.5}	Ann. % ch	1.1	1.0	-1.2	2.5	5.8	:	:	6.0	7.1	:	7.3	7.1	:
Non performing loans ^{5.6}	% total	18.3	13.2	11.1	8.4	8.1	:	:	8.3	8.1	:	8.2	:	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-1.8	-2.0	-1.6	-1.9	-6.9	-5.3	-3.2	-1.3	-3.2	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	72.4	70.2	67.7	66.3	76.1	77.4	75.4	78.4	76.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

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

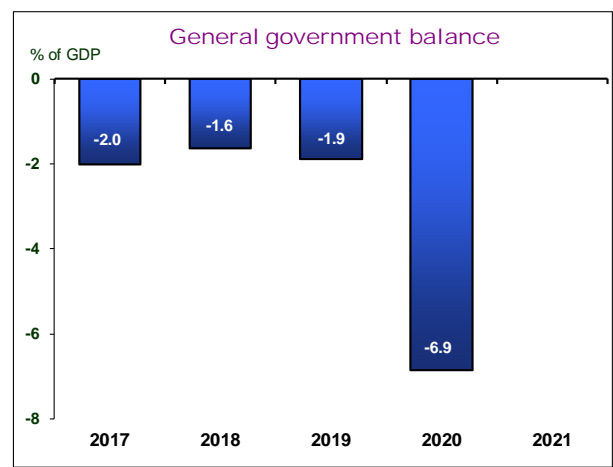
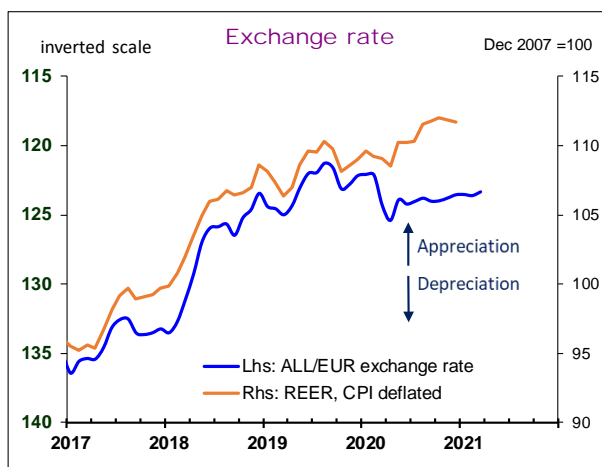
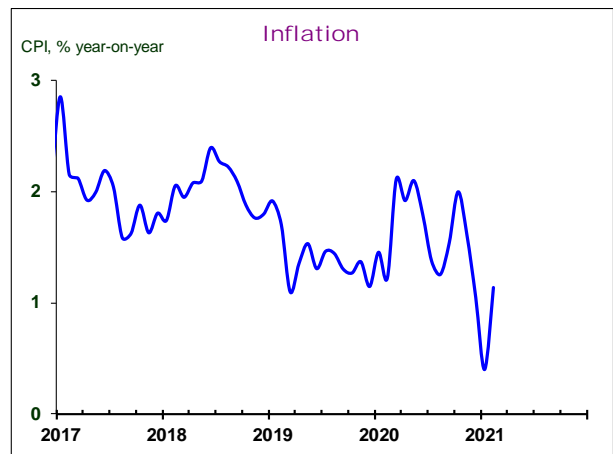
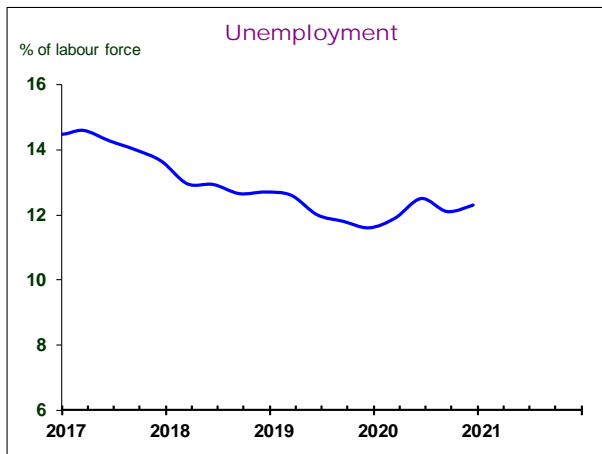
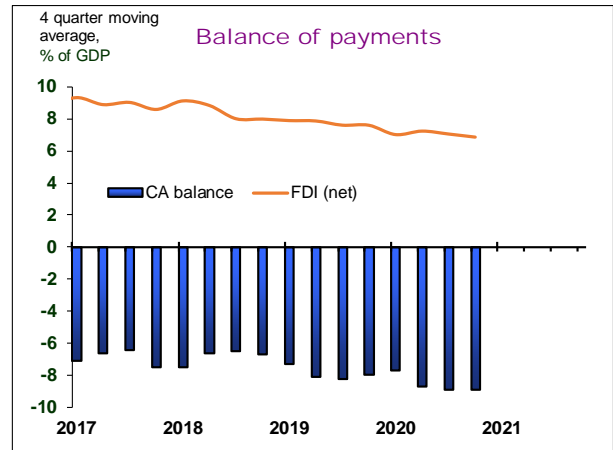
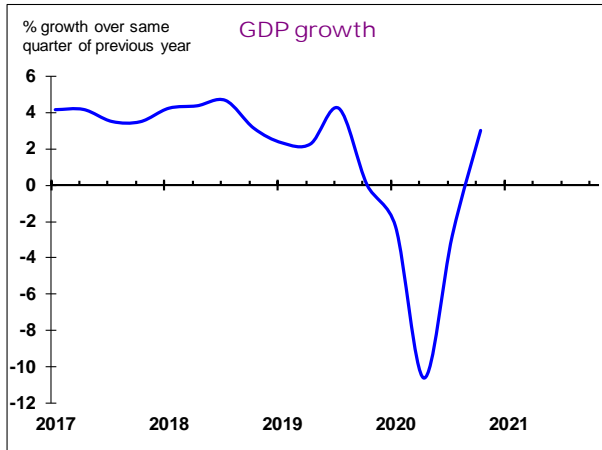
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





Key developments

On 5 March, Standard & Poor's downgraded Montenegro's sovereign credit ratings by one notch, to B from B+, due to deteriorating fiscal and external positions as the economy was severely hit by the COVID-19 crisis. The agency assigned a stable outlook to the sovereign credit ratings, since the government has accumulated sizeable fiscal buffers, estimated to be enough to cover its debt repayment needs in 2021.

On 1 April 2021, the government submitted to the European Commission its Economic Reform Programme (ERP) 2021-2023. The programme foresees economic growth to rebound by 10.5% in 2021, and expanding by further 6.5% in 2022, and 5.8% in 2023. Inflationary pressures are expected to remain low, while labour market would practically recover pre-pandemic levels in 2021. The fiscal strategy envisages a fast decline in 2021 of the budget deficit and public debt, to 3% and 88% of GDP, respectively.

Real sector

Lower seasonal dependence on tourism activity helped ease the pace of contraction of Montenegro's economy in the fourth quarter of 2020. Preliminary data indicate that GDP fell by 7.5% y-o-y in Q4, compared to declines of more than 20% y-o-y recorded in Q2 and Q3. While net exports were the key factor behind the poor performance in Q2 and Q3, the decline in Q4 was driven by final consumption, which contracted by 8.9% y-o-y, after growing by 1.8% y-o-y in Q3. Household consumption declined by 10.4% y-o-y in Q4, after growing by 2.1% y-o-y in the previous quarter. Government consumption decreased by 3.8% y-o-y in Q4 after growing by 0.6% y-o-y in the previous two quarters due to the adoption of several economic support packages. Investments fell by 11.5% y-o-y in Q4, compared to the 7.7% y-o-y decline in Q3. Both exports and imports decreased by 14.6% y-o-y in Q4 following a much deeper contraction (in particular of exports) in Q3. Overall, the economy shrank by 15.2% y-o-y in 2020, due to the COVID-19 lockdown and the collapse of the tourist season.

On the supply side, industrial output was picking up in Q4, posting 2.5% y-o-y growth after being

particularly hit by the COVID-19 pandemic in the second and third quarters of 2020. Further growth averaging 13.4% y-o-y was recorded in the first two months of 2021, thanks to a (49.4% y-o-y) surge in electricity production. However, industry and mining activities remained in negative territory, contracting by 18.9% and 1.8% y-o-y respectively in the first two months.

Tourism activity continues to decline one year after the outbreak of the pandemic. The number of foreign tourist arrivals fell by 69.1% y-o-y in February after declining by 44.4% y-o-y in the previous month. This also had an impact on retail trade, contracting by 6.0% and 9.6% y-o-y in January and February, respectively.

Labour market

Labour market conditions continued deteriorating despite measures undertaken by the government to help companies retain jobs. Thus, in the last quarter of 2020, employment plunged 15.9% y-o-y while the unemployment rate reached 21.5%, swelling from 16.1% a year earlier. According to the Employment Agency, the unemployment rate deteriorated further, reaching 23.8% at the end of March 2021, compared to 15.3% a year before. Yet, the Employment Agency registered 2,600 newly employed workers in Q1, or 4.4% more than a year before.

In spite of poor labour market conditions, wages grew by nominal 1.3% on average in 2020. The increase was driven by a 12.5% y-o-y rise in health sector salaries. Overall, the negative inflation environment in 2020 improved the purchasing power of wages, which rose by 2.1% y-o-y in real terms. Wage growth eased in the first two months of 2021, growing by 1.0% in real terms, driven again by a two-digit increase in the health sector.

External sector

The collapse of the summer tourist season was driving the large increase of the current account deficit in 2020, to 26% of GDP, compared to 15% a year earlier. Although the merchandise trade gap improved in 2020, as goods imports fell by 19% y-o-y, travel restrictions heavily affected tourism and consequently Montenegro's

traditional surplus on the services account, which shrank to 4% of GDP from 20% of GDP a year earlier. The primary account posted a small surplus of 1.4% of GDP thanks to the reduction of compensation of non-resident employees. Remittances held up relatively well and the secondary account surplus increased by 2 pps. to 7.2% of GDP.

In spite of the deep recession, net FDI inflows surged by 53.2% y-o-y to 11.2% of GDP in 2020 compared to 6.2% in the year before, covering 42.9% of the current account deficit, the rest being financed by net inflows from portfolio investment and loans.

The trade deficit further contracted at the beginning of 2021, shrinking by 28.3% y-o-y in the first two months, as exports decreased by 1.2% y-o-y on average, while imports contracted much more, by 23.6% y-o-y.

Monetary developments

Montenegro has recorded since April 2020 a prolonged period of negative inflation, broadly reflecting lower domestic demand and weak global commodity prices. As a result, consumer prices (HICP) contracted by 0.8% in 2020. As from early 2021 this trend started to ease, driven by rising oil and food prices as well as the increase of alcohol and tobacco excises at the beginning of the year. Thus, the consumer price decline eased to 0.2% y-o-y in February, compared to 0.7% and 1.3% y-o-y in the previous two months respectively.

Financial sector

The Central Bank of Montenegro implemented six packages of temporary measures in the context of the COVID-19 pandemic, aimed at preserving the liquidity of banks while boosting their lending potential. However, these measures had an asymmetric impact. Thus, private companies' loan stock grew at the end of 2020 at a faster pace (by 4% y-o-y), compared to households' (2% y-o-y) due to increased COVID-19 related uncertainties and rising unemployment. In January and February 2021, lending activity recorded some further acceleration (by 4.3% and 4.0% y-o-y, respectively). In spite of the positive pace of credit growth, the NPL ratio recorded some deterioration, from 5.5% at the end of 2020 to 5.7% in February 2021.

In addition to loan moratoria and debt restructuring boosting their liquidity, both legal and natural persons also resorted to the withdrawal of bank deposits, which declined by 3% overall in 2020. However, the pace of contraction eased in early 2021 (to -2.2% y-o-y in January and -1.0% in February).

In March 2021, the Central Bank of Montenegro extended the moratorium on loan repayments until end-December 2021 for people who lost their jobs after 31 March 2020.

Fiscal developments

The sharp contraction of the economy, combined with discretionary support measures, caused a deep budget deficit of 11% of GDP in 2020, compared to the revised budget plan's deficit target of 7.2%. In 2020, budget revenue fell by 13.1% y-o-y, with nearly all revenue categories underperforming compared to 2019. In contrast, total expenditure grew by 4.8% y-o-y in spite of the government's efforts to reallocate spending into healthcare services and supplies while reducing capital spending by one third.

In the first two months of 2021, budget revenue continued to contract at a fast pace (9.3% y-o-y), due to the continuing effect of COVID-19 on economic activity, while public spending grew by 3.7% y-o-y, largely driven by the 9.3% y-o-y increase in gross salaries and contributions to support employment in the context of the pandemic. Overall, the budget accumulated a deficit of 1.9% of GDP in January and February.

On 30 March 2021, the government adopted the 2021 draft budget, planning a deficit equivalent to 3% of GDP, assuming an inflation rate of 1.2% and GDP growth of 10.5%. Compared to the previous year's budget, total revenue would be 14.7% higher and expenditure 2.1% lower. Meanwhile, temporary financing will continue until the Parliament adopts the budget law for 2021, expected for end-April.

Public debt surged by 18.3% q-o-q and by 16.4% y-o-y in the last quarter of 2020, and amounted to 105% of GDP at the end of the year. The sharp increase was driven by the issuance of international bonds in December. In contrast, domestic debt declined by 14.5% y-o-y in Q4. On 12 March 2021, the government reimbursed EUR 240 million (or 5.3% of GDP) of maturing Eurobonds issued in 2016.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2016	2017	2018	2019	2020	ECFIN 2020 Autumn forecast		Q3 20	Q4 20	Q1 21	Jan 21	Feb 21	Mar 21
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Balance	3.0	4.5	5.5	3.5	-18.4	:	:	-24.4	-32.5	-20.6	-28.3	-16.4	-17.1
Industrial production ^{1.2}	Ann. % ch	-2.1	-4.3	23.6	-6.1	0.0	:	:	-1.9	2.5	:	4.3	22.5	:
Gross domestic product ^{1.3}	Ann. % ch	2.9	4.7	5.1	4.1	-15.2	6.8	3.7	-26.9	-7.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.4	3.9	4.6	3.1	-5.4	5.1	2.4	2.1	-10.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	38.4	18.7	14.7	-1.7	-12.3	5.3	4.4	-7.7	-11.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	31.5	51.5	24.9	10.7	-5.6	:	:	-9.6	1.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.3	3.3	3.5	5.2	-14.6	:	:	-30.6	-11.5	:	-6.0	-9.6	:
2 Labour market														
Unemployment ^{2.1}	%	18.0	16.4	15.5	15.4	18.4	16.6	15.9	19.6	21.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.1	2.1	3.2	2.6	-10.1	2.3	1.9	-15.0	-15.9	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	3.5	2.0	0.1	0.8	1.3	1.8	2.2	1.1	0.8	:	0.5	0.6	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	6.2	8.3	14.7	6.8	-12.2	:	:	-19.4	-0.5	:	-18.9	16.6	:
Imports of goods ^{3.2}	Ann. % ch	12.0	11.6	10.9	1.8	-19.0	:	:	-25.9	-17.0	:	-25.0	-22.1	:
Trade in goods balance* ^{3.3}	% of GDP	-41.9	-43.3	-43.9	-41.7	-39.1	-38.5	-38.4	-40.8	-39.1	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	40.6	41.1	42.9	43.7	25.8	:	:	26.6	25.8	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	63.1	64.5	66.7	64.8	60.6	:	:	62.7	60.6	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-16.2	-16.1	-17.0	-15.0	-26.0	-14.3	13.9	-28.0	-26.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	9.4	11.3	6.9	6.2	11.2	:	:	9.9	11.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	752.9	847.2	1049.8	1366.8	1738.5	:	:	1063.8	1738.5	:	1723.3	1704.4	:
Int. reserves / months Imp ^{3.9}	Ratio	3.6	3.7	4.0	5.1	8.2	:	:	4.7	8.2	:	8.1	8.1	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	0.1	2.8	2.9	0.5	-0.8	1.0	1.4	-1.4	-1.3	:	-0.7	-0.2	:
Producer prices ^{4.2}	Ann. % ch	-0.1	0.4	1.7	2.4	0.0	:	:	-0.5	-0.6	:	-0.2	0.9	:
Food prices ^{4.3}	Ann. % ch	-0.9	1.9	0.6	3.4	1.3	:	:	1.3	1.2	:	1.1	1.6	:
M2 ^{4.4}	Ann. % ch	9.5	13.6	5.0	-3.8	-3.5	:	:	-5.2	-3.5	:	-2.5	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Real effective exchange rate ^{4.6}	Ann. % ch	0.6	0.5	2.7	-1.2	:	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (6 months) ^{5.1}	% p.a.	1.58	1.71	0.47	0.52	0.87	:	:	0.98	0.90	:	:	:	:
Bond yield (10 yrs) ^{5.2}	% p.a.	N.A.	N.A.	N.A.	2.61	3.53	:	:	3.95	3.42	3.46	3.41	3.40	3.57
Stock markets ^{5.3}	Index	11,115	10,952	10,390	10,980	10,336	:	:	10,075	9,841	10,659	10,520	10,741	10,717
Credit growth ^{5.4}	Ann. % ch	1.3	11.8	8.5	4.5	3.2	:	:	5.7	3.2	:	4.3	4.0	:
Deposit growth ^{5.5}	Ann. % ch	9.4	13.8	5.9	0.5	-3.0	:	:	-6.1	-3.0	:	-2.2	-1.0	:
Non-performing loans ^{5.6}	% of total	10.3	7.3	6.9	4.7	5.5	:	:	5.6	5.5	:	5.7	5.7	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-3.6	-5.3	-3.9	-2.0	-11.0	-4.7	-3.6	-2.3	:	:	:	:	:
General government debt*** ^{6.2}	% of GDP	63.4	63.3	70.1	76.5	105.1	85.6	83.0	87.3	:	:	:	:	:

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

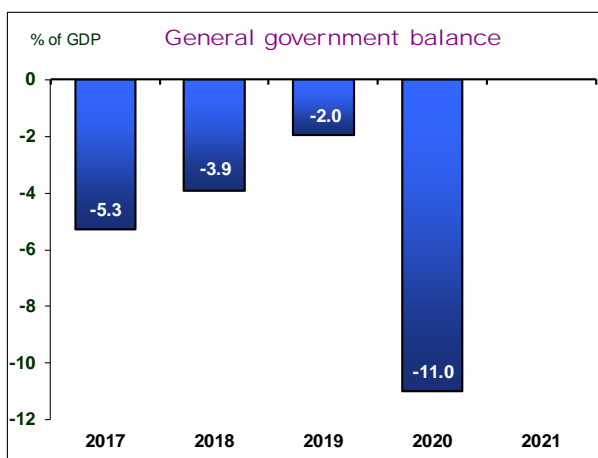
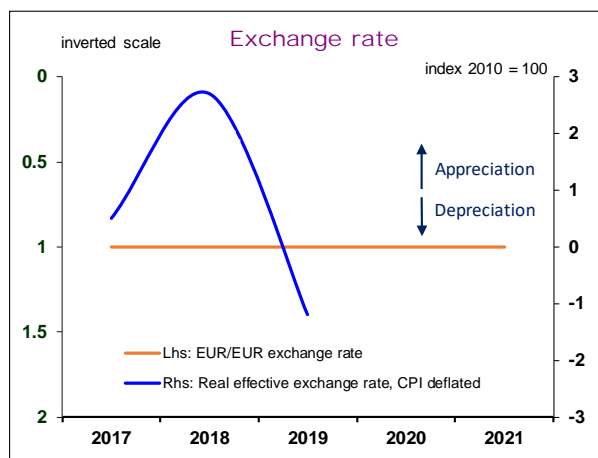
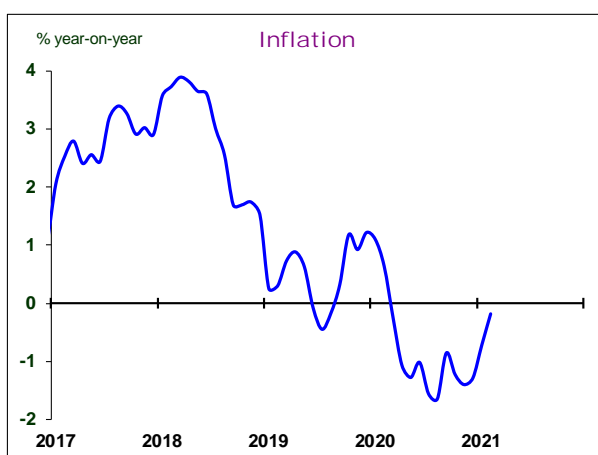
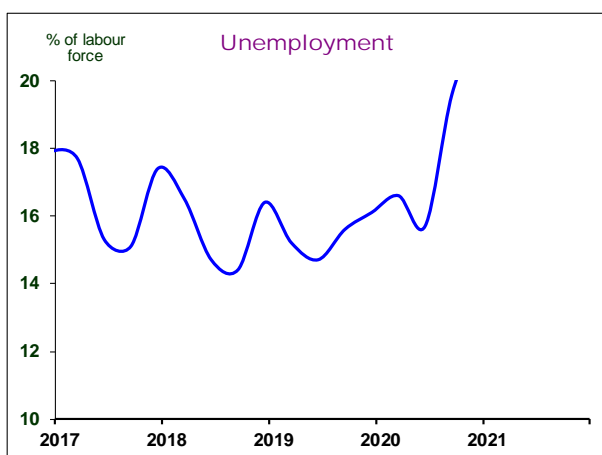
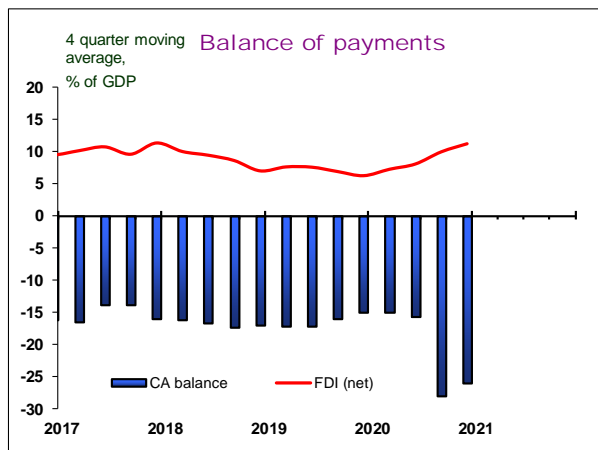
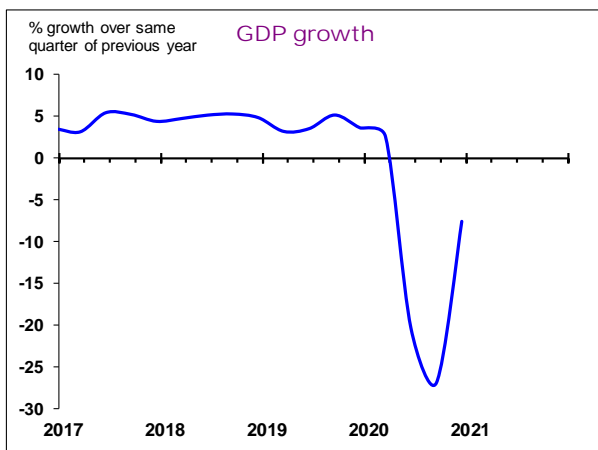
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

*** Q figures refer to central government debt only, in percent of estimated annual GDP.

CHARTS



MONTENEGRO



NORTH MACEDONIA



Key developments

The government submitted its 2021-2023 Economic Reform Programme to the European Commission on 29 January 2021. It forecasts economic growth to accelerate from 4.1% in 2021 to 5.2% in 2023, driven by domestic demand. Inflationary pressures are expected to tighten, and employment growth is forecast to accelerate during this period. The programme envisages the general government fiscal deficit to narrow from 4.9% of GDP in 2021 to 3.2% in 2023, and the debt level to increase gradually to 53.7% in 2023.

Since early March, North Macedonia has witnessed a renewed surge of the COVID-19 pandemic, with rising numbers of cases and hospitalisations putting strain on the country's health system. Mass vaccination started in April. On 16 February, the government adopted a fifth set of support measures, worth EUR 160 million.

To help cover this year's financing needs, the government, on 3 March, issued a EUR 700 million Eurobond, with a maturity of 7 years and an interest rate of 1.625%.

On 19 February, rating agency Standard and Poor's confirmed its rating BB-/B with stable outlook for the country. Analysts expect that the economic recovery starting in 2021 and underpinned by strong public infrastructure investment will help constrain the fiscal and the current account deficits.

Real sector

Towards the end of 2020, based on a strengthening external sector, economic performance posted some signs of a timid recovery from the COVID-19-driven trough of Q2 and Q3. The drop in real GDP eased further, to 0.7% y-o-y, after a fall of 3.3% in Q3, and a steep decline of 14.9% in Q2. Domestic demand remained, however, lacklustre in the last quarter, with only public consumption remaining above its pre-year level, still driven by crisis-related expenditure on goods and services (+6.6% y-o-y). Investment declined by 13% y-o-y, after it had picked up somewhat in the preceding three

months. Private consumption dropped further in Q4 (-4.3% y-o-y). Net exports provided a positive growth contribution in this period, with exports rising by 1.3% y-o-y, and imports declining by 7.2%. For the full year 2020, GDP fell by 4.5% y-o-y, according to preliminary figures from the statistical office. The boost from net exports (+1.3 pps.) was largely superseded by the negative contribution from domestic demand, except for public consumption.

High frequency indicators for the first two months of 2021 send a mixed message. The industrial production index dropped by 12.8% y-o-y in this period, after it had reached positive territory in December (+2.5%) for the first time in nine months. The decline in manufacturing was slightly better than average (-10.4%), while production of capital goods plunged more sharply (-18.9%). Retail trade turnover returned into negative territory in February (-1.1% y-o-y in real terms), after surging in January (5.9%).

Labour market

The labour market reacted with some delay to the economic crisis. According to the Labour Force Survey, the labour force dropped by 2.8% y-o-y in Q4, with a relatively stronger decline in the female compared to the male workforce. Annual employment dropped for Q3 in a row, and at an accelerating pace (-2.2% y-o-y), bringing the average loss in employment for the full year 2020 to -0.3%. The unemployment rate decreased further in Q4 (-0.5 pps. y-o-y to 16.1%), and amounted on average to 16.4% (-0.9 pps. y-o-y) in 2020. Young workers were particularly hard hit by the deteriorating labour market – the unemployment rate in the age group 15-24 years rose to 39.2% in Q4 (+4.1 pps. y-o-y), in spite of a substantial decline in the labour force, which possibly points to wide-spread transition to the informal economy.

Supported by the government's wage subsidies to help mitigate the negative impact from the COVID-19 crisis on the labour market, and boosted further by public sector wage increases, average net nominal wages increased by 7.8% y-o-y in 2020, which is 2.8 pps. more than in

2019. In January, the annual increase slowed down to 2.7%.

External sector

The external sector regained some ground in the last three months of 2020, with exports and private transfers recovering somewhat, and international reserves boosted by foreign borrowing. For the year as a whole, the current account deficit widened slightly, to 3.5% of GDP on average, compared to 3.3% in 2019. The merchandise trade deficit narrowed by 0.5 pps. y-o-y, to 16.8% of GDP, while secondary income declined by 2.4 pps. to 13.2%. The current account deficit was not fully covered by net FDI inflows, which dropped further in 2020, for a second year in a row, to 1.9% of GDP (-1.3 pps.).

Gross external debt was higher by 6% at the end of 2020 than one year earlier, amounting to 80.2% of GDP (+7.3 pps. y-o-y). The increase was largely due to government borrowing abroad to cover financing needs posed by the COVID-19 crisis. Foreign borrowing also bolstered the central bank's international reserves, which were higher by some 30.6% y-o-y at the end of March 2021, and covered well over 5 months of prospective imports.

Monetary developments

After an average increase of 1.2% in 2020, the consumer price index rose by markedly stronger in Q1-2021 (+2%, compared to 1.4% in the same period one year earlier). The surge in the index was driven by increases in the prices of transport, hotels and restaurants, and utilities. Annual growth of broad money (M4) slowed down in Q4 (-2.4 pps. y-o-y, to 6.9%), but picked up again in the first two months of 2021 (8% on average). On 9 March, the central bank lowered the key policy rate by another 25 bps., to 1.25%, after four successive rate cuts in 2020, citing its intention to further ease financing costs for households and companies to speed up the economic recovery.

Financial sector

Credit growth to the non-government sector slowed down in the fourth quarter (-0.5 pps. y-o-y to 5.6%) and further in the first two months in 2021 (4.8% y-o-y). Overall, lending increased by 6.4% in the full year 2020 (-0.9 pps. y-o-y), with the bulk of it accounted for

by solid growth in household loans (9.5% y-o-y). Private corporate credit growth slowed down (-1.3 pps. to 3.8% y-o-y). Interest rates continued to decline. The spread between denar loans (-10 bps. to 5.0%) and deposits (-10 bps. to 1.3%) remained unchanged between November and February. Regarding loans and deposits in foreign currency, a drop in the deposit rate by 10 bps. led to widening spreads. The share of foreign-currency denominated loans in total loans increased only slightly in the fourth quarter (+1.1 pps. y-o-y to 44.9%).

The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients decreasing to 82% (-1.8 pps. y-o-y). The banking sector posted a capital adequacy ratio (regulatory capital to risk-weighted assets) of 16.7% (+0.4 pps. y-o-y). The ratio of non-performing to total loans (financial and non-financial sector) declined further, to 3.3% (-1.3 pps. y-o-y), supported by the central bank's regulatory easing, including the possibility to raise the threshold for loans to reach non-performing status.

Fiscal developments

Partly reflecting deferred payments, income tax revenue recovered in Q4 from the strong deterioration earlier in the year due to the COVID-19 crisis. Overall, taxes and contributions, which continued to benefit from government subsidies, were some 2% higher than in the same period one year earlier, after an annual drop of 8%, on average, in the preceding two quarters. The decline in income from VAT eased in the last three months of the year (-2% y-o-y compared to an average of -19% in Q2 and Q3). Current expenditure increased by 21%, still mainly due to a crisis-related rise in transfer payments to households and companies. In the full year 2020, dampened by contracting economic activity and temporary tax deferrals, government revenue declined by 6.9% y-o-y. Current expenditure increased by 13.9%, as automatic stabilisers and discretionary anti-crisis fiscal stimulus came to work. Partly due to budget reallocations to make room for new crisis-related fiscal spending, capital expenditure was lower by 9.5% y-o-y (3.1% of GDP) in 2020. The fiscal deficit widened to 8.2% of GDP, driving the increase in general government debt (+10.7 pps. y-o-y to 51.2% of GDP), and accounting almost exclusively for the rise in the public debt ratio to 60.2%.

TABLE



European Commission, ECFIN-D-1

NORTH MACEDONIA

		2016	2017	2018	2019	2020	ECFIN 2020 Autumn forecast		Q3 20	Q4 20	Q1 21	Jan 21	Feb 21	Mar 21
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Balance	24.0	25.6	28.8	32.2	26.4	:	:	22.7	26.0	:	26.9	27.6	:
Industrial production ^{1.2}	Ann. % ch	3.9	0.2	5.4	4.1	-9.5	:	:	-7.6	-2.2	:	-13.5	-12.2	:
Gross domestic product ^{1.3}	Ann. % ch	2.8	1.1	2.7	3.2	-4.5	3.8	3.5	-3.3	-0.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.9	2.1	5.1	6.1	-5.6	4.5	4.7	-4.1	-4.3	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	12.5	-2.2	1.7	9.5	-10.2	12.7	13.2	6.1	-11.5	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	3.6	-2.5	-10.8	6.7	0.0	:	:	5.2	0.6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	15.3	-4.2	8.1	11.3	-8.5	:	:	-9.8	-12.5	:	5.9	-1.1	:
2 Labour market														
Unemployment ^{2.1}	%	23.8	22.4	20.7	17.3	16.4	17.1	16.6	16.5	16.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.5	2.4	2.5	5.1	-0.3	0.5	2.4	-1.7	-2.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.0	2.6	5.8	5.1	8.3	4.0	2.2	9.1	7.3	:	2.7	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	15.8	15.4	19.8	9.0	-9.6	:	:	-0.7	5.5	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	9.7	9.7	12.9	10.2	-9.2	:	:	-2.4	-1.6	:	:	:	:
Trade in goods balance* ^{3.3}	% of GDP	-18.8	-17.8	-16.2	-17.6	-16.8	-17.4	-17.6	-17.9	-16.8	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	50.9	55.0	60.2	62.1	58.1	:	:	57.7	58.1	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	66.2	69.1	72.9	76.5	70.9	:	:	72.4	70.9	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-1.1	-0.1	-3.3	-3.5	-3.9	-3.8	-5.5	-3.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	3.3	1.8	5.6	3.2	1.9	:	:	2.9	1.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,613	2,336	2,867	3,263	3,360	:	:	3,480	3,360	3,939	3,336	3,298	3,939.0
Int. reserves / months Imp ^{3.9}	Ratio	4.9	4.1	4.4	4.6	5.3	:	:	5.4	5.3	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	-0.2	1.4	1.5	0.8	1.2	1.2	1.5	1.5	2.2	:	1.9	1.9	:
Producer prices ^{4.2}	Ann. % ch	-0.1	0.4	-0.3	2.5	1.5	:	:	2.6	1.2	:	3.0	3.2	:
Food prices ^{4.3}	Ann. % ch	-1.3	0.3	0.8	1.6	2.4	:	:	3.1	3.4	:	2.3	2.0	:
Monetary aggregate M4 ^{4.4}	Ann. % ch	6.2	5.1	11.8	9.3	6.9	:	:	6.9	6.9	:	7.7	8.2	:
Exchange rate MKD/EUR ^{4.5}	Value	61.60	61.57	61.51	61.51	61.67	:	:	61.70	61.69	61.66	61.59	61.69	61.69
Nominal effective exchange rate ^{4.6}	Index	100.5	101.4	103.3	103.0	104.3	:	:	105.0	105.3	:	105.5	104.9	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.96	1.78	1.54	1.46	1.38	:	:	1.39	1.39	1.36	1.37	1.36	1.35
Bond yield ^{5.2}	% p.a.	7.02	6.61	6.11	5.61	5.19	:	:	5.12	5.06	:	5.00	4.99	:
Stock markets ^{5.3}	Index	1,887	2,406	3,154	3,939	4,378	:	:	4,277	4,452	4,918	4,814	5,015	4,924
Credit Growth ^{5.4}	Ann. % ch	4.0	2.4	6.6	7.2	6.4	:	:	7.5	5.6	:	4.5	4.3	:
Deposit growth ^{5.5}	Ann. % ch	4.0	5.7	8.6	9.6	7.8	:	:	7.0	6.3	:	6.8	7.5	:
Non-performing loans ^{5.6}	% total	6.3	6.1	5.0	4.6	3.3	:	:	3.3	3.3	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-2.7	-2.7	-1.1	-2.2	-8.2	-4.5	-3.2	-1.5	-2.7	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.9	39.4	40.6	40.7	51.2	53.2	53.6	51.5	51.0	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

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

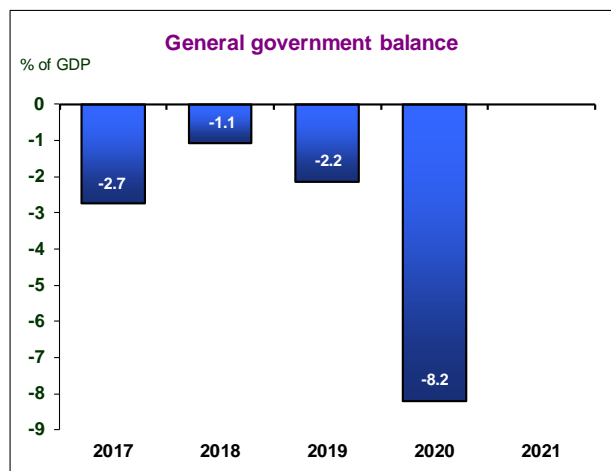
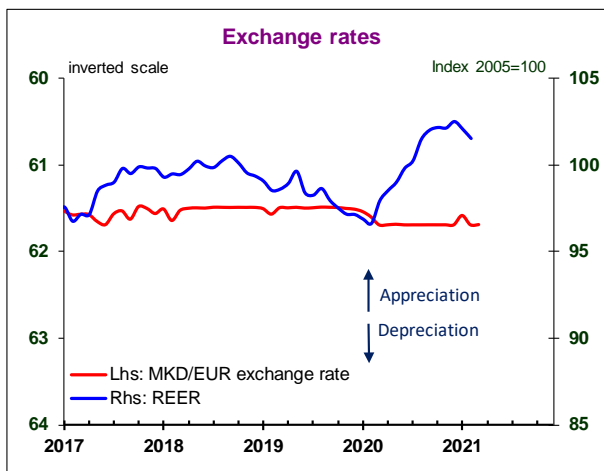
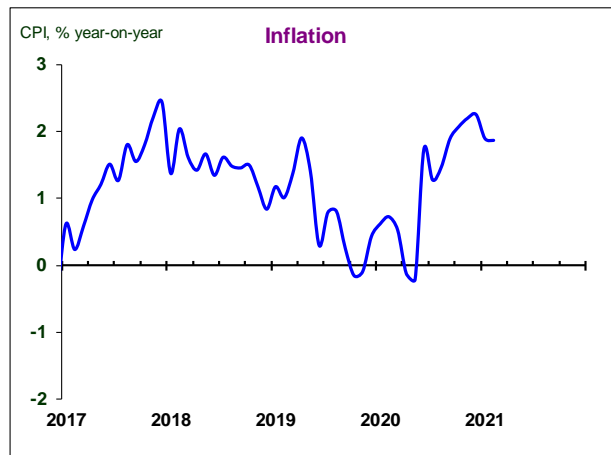
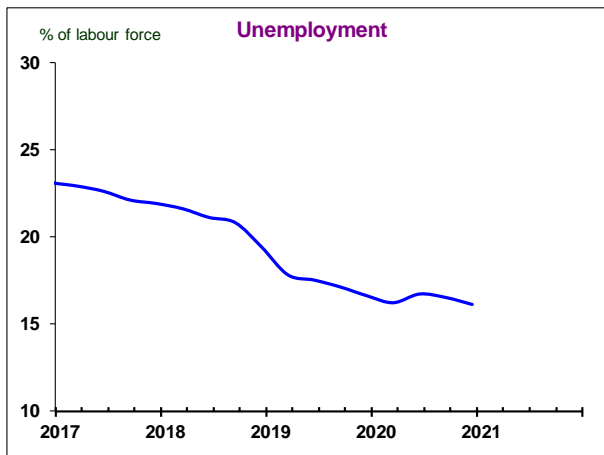
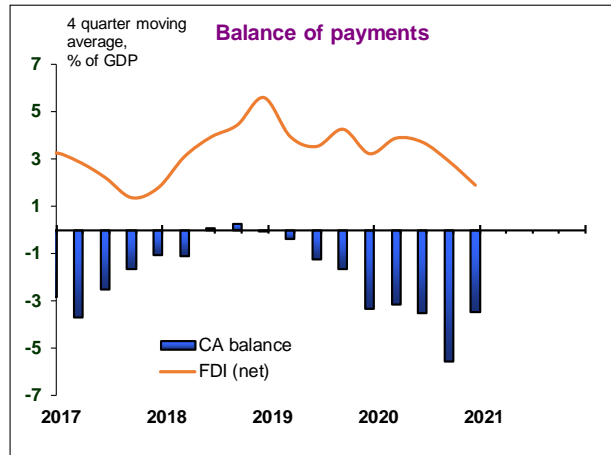
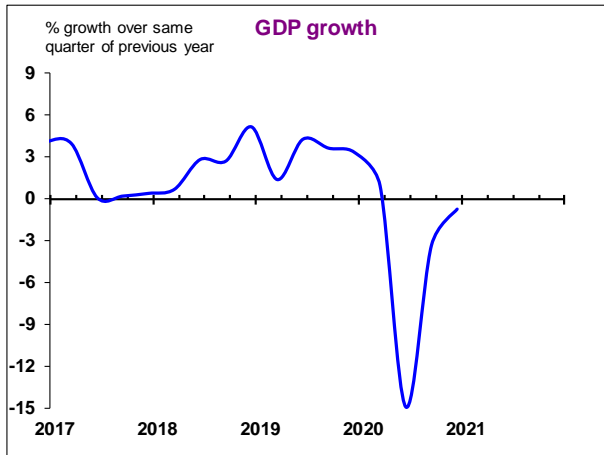
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



North Macedonia



SERBIA



Key developments

In January, Serbia submitted its 2021-2023 economic reform programme (ERP). The ERP projects GDP growth to reach 6% in 2021 and 4% thereafter and the general government deficit to gradually decline from 3% of GDP in 2021 to 1% of GDP in 2023.

In February, Serbia issued a EUR 1 billion 12-year Eurobond at a yield of 1.920%.

In March, Moody's upgraded Serbia's sovereign credit rating to Ba2 with a stable outlook, based on i) Serbia's economic resilience in the COVID-19 crisis and solid medium-term growth prospects and ii) the expectation of fiscal prudence anchored in a strengthened fiscal framework.

In April, the Government adopted a 2021 amending budget, targeting a deficit of 6.9% of GDP (up from 3% in the original 2021 budget). The amending budget revises revenue up by 0.3% of GDP and expenditure by 4.2% of GDP, to cover, inter alia, the fiscal cost of a third package of support measures worth 2.3% of GDP to businesses and citizens to mitigate the fallout from the COVID-19 crisis.

Real sector

Economic activity recorded a further strong q-o-q expansion in Q4-2020, reflecting the continued but decelerating rebound from the spring 2020 crisis-induced contraction. Thus, despite a strong base effect from particularly high growth in Q4-2019, the year-on-year decrease of real GDP was limited to 1.1% after 1.4% in Q3. While the year-on-year fall in private consumption deepened to 2.7%, the contraction of gross fixed capital formation broadly stabilised at 4.1%, notwithstanding a strong base effect from the construction of the Balkan Stream gas pipeline in Q4-2019. These decreases were however largely offset by stronger government consumption (+4.6% y-o-y), higher inventories and a positive contribution of net exports to GDP growth, as the annual growth of exports (2.1%) exceeded the growth of imports (0.8%). On the supply side, a 9% y-o-y reduction of construction activity (mainly due to the Balkan Stream base effect) continued to contribute substantially to

the overall annual fall in output in Q4-2020. Professional, scientific, technical, administrative and support activities (-8.6%), arts, recreation and other services (-14.1%), as well as wholesale and retail trade, transportation and storage, accommodation and food service activities (-3.6%) also still recorded significant year-on-year declines in Q4-2020. These were however largely offset by year-on-year increases in public administration, education, health and social work activities (+3.9%), manufacturing and mining activities (+1.5%), information and communication (+5.5%) as well as agriculture (+4.1%).

Some short-term indicators suggest that economic activity, after the deceleration in autumn, gained speed in winter. After a 1.4% y-o-y decline in November, industrial production rebounded by 4.1% in December 2020, before growing at 2.5% and 2.6% in January and February, respectively. In line with the peak of the third wave of the epidemic, the year-on-year growth of real retail trade decelerated further to 0.2% in December before accelerating to 3.2% in January and broadly stabilising at 2.8% in February.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and above increased by 0.9 pps. q-o-q to 9.9% in Q4-2020. This was the result of both a further increase in the active population (as people that had refrained from looking for employment earlier in the year continued to return to the labour market in Q4) and a decrease in employment. Thus, while the population 15+ decreased by 0.1% q-o-q, the labour force increased by 0.4% q-o-q and the inactive population decreased by 6.0%. Employment decreased by 0.5% q-o-q (-0.6% y-o-y). The q-o-q employment decrease was due to a strong decrease in the informal sector (-4.5%). Formal employment continued to record some moderate growth by 0.3% q-o-q in Q4-2020 (0.6% y-o-y).

The growth in *registered* employment remained broadly stable at 2.3% y-o-y and 1.3% q-o-q in Q4-2020. Annual employment growth remained positive in most sectors and was particularly strong in mining and quarrying (10.6%), information and communication (10.1%) and

construction (7.2%). Manufacturing employment grew 4.1%, mostly driven by motor vehicles (+37.3%), while employment in trade activities confirmed its recovery, growing at 3.5% y-o-y, up from 2.6% y-o-y in Q3. Employment in the energy sector and administrative and support services decreased by 5.5% and 7.0%, respectively. The number of registered unemployed increased by 4.2% y-o-y in March 2021. Nominal net wages rose by 5.3% y-o-y in January 2021 while real net wages grew by 4.2% y-o-y.

External sector

In 2020, the current account deficit decreased substantially by 37.3% y-o-y in euro terms, resulting in a decrease as a share of GDP from 6.9% in 2019 to 4.3% in 2020. This was the net result of a lower primary income deficit (-43.4% y-o-y, mainly due to lower reinvested earnings and dividend payments), a lower merchandise trade deficit (-7.1% y-o-y) and a higher services trade surplus (+6.2% y-o-y), that were partially offset by a lower secondary income surplus (-9.1% y-o-y, mainly due to lower remittances). Net FDI inflows decreased by 18.3% in 2020 and covered 146% of the current account deficit.

External trade of goods was marked by strong y-o-y exports growth of 16.6%, in December, decelerating to 0% in January and rebounding to 6.0% in February, while imports decreased substantially by 7%, 11% and 3.5% respectively. Cumulative exports of goods over the first two months of 2021 grew 3.3% as compared to the same period of 2020, whereas imports decreased by 7.0%, mostly due to lower energy and capital goods imports.

Monetary developments

After a further 0.2 pps. decline to 1.1% in January, annual consumer price inflation remained broadly stable at 1.2% in February before rebounding to 1.8% in March, thus returning above the lower bound of the central bank's target tolerance band of 3% +/-1.5 pps. The March inflation rebound was particularly driven by electricity (+8.2%) and tobacco prices (+6.8%). Core inflation (excluding energy, food, alcohol and tobacco) decelerated from a 2.1% peak in January to 1.8% in February, remaining stable in March. The central bank (NBS) remained an active participant on the foreign exchange market by selling a net EUR 50 million in Q1-2021. NBS foreign exchange reserves were boosted by the EUR 971 million

inflow from the issuance of the 12-year Eurobond in February and rose 9% y-o-y to EUR 14.3 billion in March, covering more than 6 months of imports of goods and services.

Financial sector

In February, domestic claims of the banking sector increased by 10.2% y-o-y. The annual growth of credit to households decelerated from 12.7% in November to 11.4% in February whereas the growth of credit to companies recorded a steady decline from 9.8% to 7.2% during the same period. The loan-to-deposit ratio stood at 86.2% at the end of February. After a trough at 3.4% in Q3-2020, the ratio of non-performing loans increased slightly to 3.7% in Q4. The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) remained unchanged at 22.4% in Q4-2020. As regards liquidity ratios, both the share of liquid assets to total assets (37.3%, +0.6 pps. q-o-q) and the share of liquid assets to total short-term liabilities (50.9%, +0.5 pps. q-o-q) increased in Q4.

Fiscal developments

The general government budget ended 2020 with a deficit of 8.1% of GDP, 0.8 pps. lower than projected in the November 2020 amending budget, mostly due to higher than expected tax revenue and lower current expenditure.

Fiscal performance was also favourable in early 2021 as the y-o-y increase in total revenue significantly exceeded the y-o-y rise in total expenditure. Total revenue increased by 7.6% y-o-y in the first two months, strongly supported by revenue from social contributions (+12.6%), excises (+8.8%), personal income tax (+12%) and corporate income tax (+14.5%) but negatively impacted by VAT (-2.1%) and customs (-2.9%). Total expenditure growth (1.4%) remained largely below revenue growth, as increases in spending on employees (+4.6%), social transfers (+3%) and goods and services (+7.3%) were partially offset by lower spending on subsidies (-37.9%, due to a strong 2020 base effect), capital projects (-8.9%), and other current expenditure (-4.7%). As a result, in January-February, the budget recorded a surplus of RSD 17.4 billion (0.3% of annual GDP), as compared with a 0.1% deficit in the same period of 2020. In February, central government debt stood at 53.5% of the estimated full-year GDP, down from 57.4% at end-2020.

TABLE

European Commission, ECFIN-D-1



SERBIA

							ECFIN 2020 Autumn forecast							
		2016	2017	2018	2019	2020	2021	2022	Q3 20	Q4 20	Q1 21	Jan 21	Feb 21	Mar 21
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	4.8	3.4	1.5	0.2	0.4	:	:	3.1	1.5	:	2.5	2.6	:
Gross domestic product ^{1.3}	Ann. % ch	3.3	2.1	4.5	4.2	-1.0	4.8	3.8	-1.4	-1.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.9	2.2	3.1	3.5	-2.5	4.2	2.6	-1.1	-2.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.1	6.6	17.5	17.2	-2.8	13.5	6.6	-4.5	-4.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.1	9.3	9.6	32.3	-1.5	:	:	-17.6	-9.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	8.0	3.8	4.1	9.7	4.9	:	:	6.1	3.2	:	3.2	2.8	:
2 Labour market														
Unemployment ^{2.1}	%	15.3	13.5	12.7	10.4	9.0	9.6	9.0	9.0	9.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	5.6	2.8	1.4	2.4	-0.2	1.4	0.8	-0.1	-0.6	:	2.8	:	:
Wages ^{2.3}	Ann. % ch	3.8	4.0	4.3	10.5	9.5	:	:	9.5	9.3	:	5.1	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	11.6	12.1	8.2	7.7	-3.0	:	:	-1.2	6.5	:	-0.1	6.0	:
Imports of goods ^{3.2}	Ann. % ch	6.1	13.6	13.0	8.9	-4.0	:	:	-1.1	-1.5	:	-11.0	-3.5	:
Trade in goods balance* ^{3.3}	% of GDP	-8.5	-10.2	-11.9	-12.2	-11.2	-11.0	-10.7	-12.2	-11.2	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	47.3	49.3	49.3	50.8	47.7	:	:	47.4	47.8	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	53.3	57.0	58.9	60.8	56.6	:	:	57.3	56.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.9	-5.2	-4.8	-6.9	-4.3	-6.0	-5.2	-6.3	-4.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	5.2	6.2	7.4	7.7	6.2	:	:	5.8	6.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	10,204.6	9,961.7	11,261.8	13,378.5	13,491.7	:	:	13,030.3	13,491.7	:	13,602.9	13,422.8	:
Int. reserves / months Imp ^{3.9}	Ratio	6.2	5.4	5.4	5.7	6.1	:	:	5.9	6.1	:	6.3	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.1	3.1	2.0	1.8	1.6	1.8	1.8	1.9	1.6	:	1.2	1.2	:
Producer prices ^{4.2}	Ann. % ch	-0.4	3.4	2.2	0.7	-1.8	:	:	-2.0	-2.1	0.8	-1.9	0.5	3.8
Food prices ^{4.3}	Ann. % ch	-0.3	3.3	1.9	2.6	2.6	:	:	3.8	2.8	:	0.4	-0.3	:
M3 ^{4.4}	Ann. % ch	11.6	3.6	14.5	8.4	18.1	:	:	18.8	18.1	:	19.3	18.7	:
Exchange rate RSD/EUR ^{4.5}	Value	123.09	121.41	118.27	117.86	117.58	:	:	117.59	117.58	117.58	117.58	117.58	117.58
Nominal effective exchange rate ^{4.6}	Index	66.1	67.3	69.7	69.2	69.6	:	:	69.9	70.2	70.4	70.5	70.4	70.2
5 Financial indicators														
Interest rate (BELIBOR) ^{5.1}	% p.a.	3.44	3.41	2.96	2.52	1.19	:	:	1.02	0.99	0.88	0.90	0.88	0.88
Bond yield (7 year) ^{5.2}	% p.a.	8.28	5.45	5.00	4.00	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,383	1,584	1,562	1,583	1,543	:	:	1,489	1,516	1,556	1,542	1,548	1,579
Credit growth ^{5.4}	Ann. % ch	2.5	1.9	9.4	9.1	11.9	:	:	15.1	11.9	:	11.4	11.3	:
Deposit growth ^{5.5}	Ann. % ch	11.4	3.3	15.3	8.5	17.5	:	:	18.3	17.5	:	18.5	17.7	:
Non-performing loans ^{5.6}	% total	17.0	9.8	5.7	4.1	3.7	:	:	3.4	3.7	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-1.2	1.1	0.6	-0.2	-8.1	-2.9	-2.5	-0.9	-1.5	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	67.5	59.2	53.7	52.1	57.3	60.7	59.6	57.1	57.3	:	N.A.	N.A.	N.A.

f. ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

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

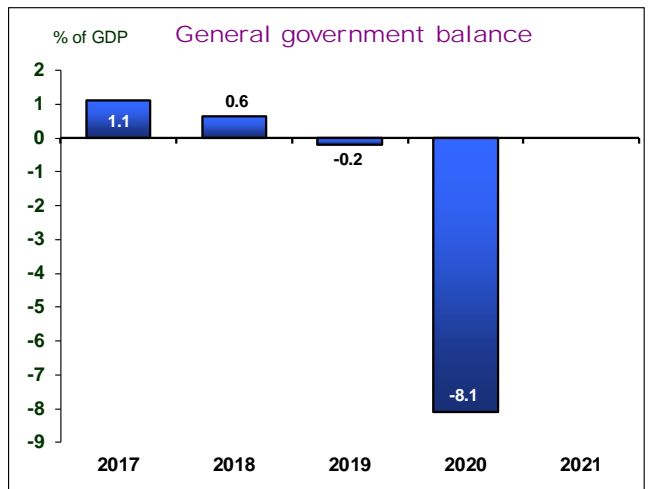
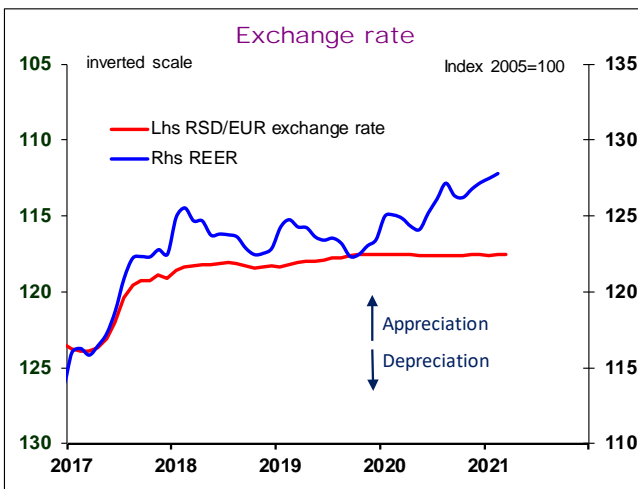
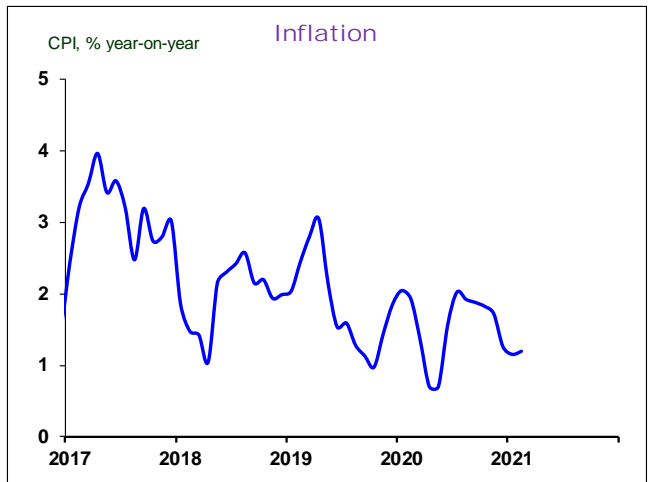
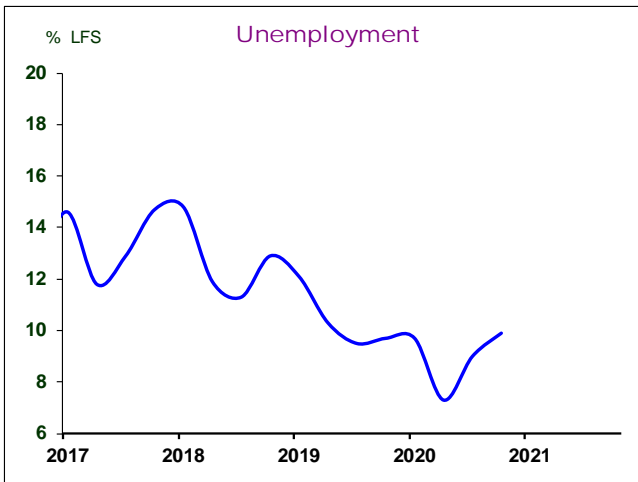
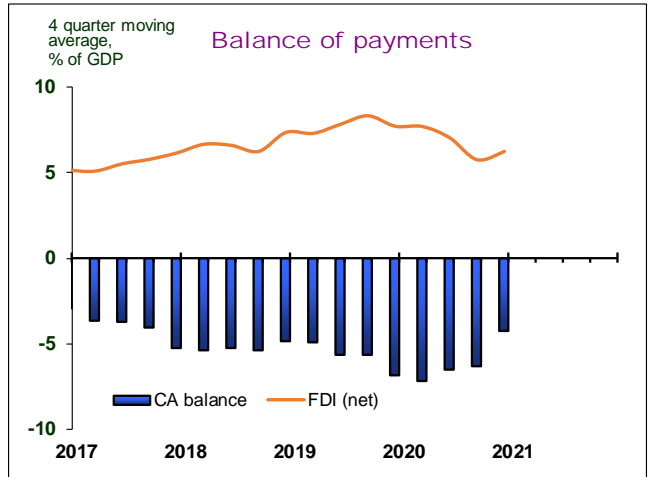
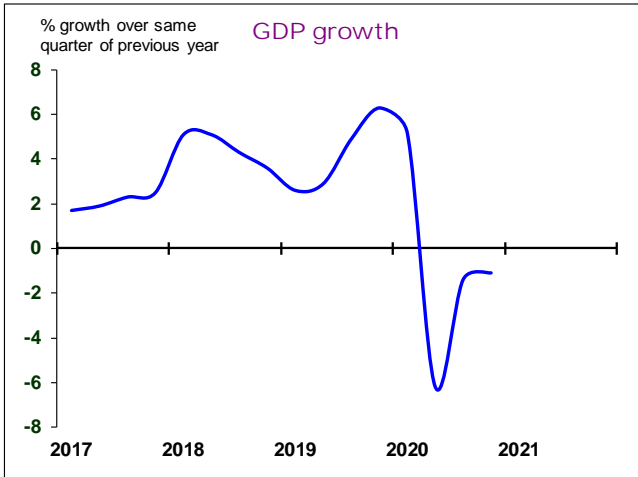
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

In March, following an unexpectedly large policy rate increase, the President dismissed the central bank governor Mr Naci Ağbal, barely four months after he took office. The newly appointed governor, Mr Şahap Kavcıoğlu, served previously in high-level positions in several state-owned banks and had recently expressed his support for a less hawkish monetary policy stance.

In March, the European Council welcomed the Joint Communication on the ‘State of play of EU-Turkey political, economic and trade relations’ prepared by the High Representative and the European Commission. If the current de-escalation is sustained and Turkey engages constructively, the Council declared its readiness to engage with Turkey in a phased, proportionate and reversible manner to enhance cooperation in a number of areas of common interest, such as the modernisation of the Customs Union, high level dialogues, people-to-people contacts, and migration management and assistance to refugees.

On 1 February, the government submitted to the European Commission its Economic Reform Programme 2021-2023. It foresees economic growth to rebound strongly to 5.8% in 2021. The programme targets a frontloaded fiscal consolidation and project government debt to stabilise in the low 40s as a percentage of GDP.

As the number of COVID-19 cases increased, in April the authorities introduced new restrictions, strengthening the partial lockdown, resuming the nationwide weekend curfew, and closing down or restricting a number of high-contact activities.

Real sector

Turkey was one of the few countries in the world that had a positive economic growth in 2020. The economy expanded by 1.8%, propped by a large stimulus package and base effects. After reaching its pre-crisis level already in Q3, economic activity remained robust in the last quarter of the year when real GDP growth was 5.9% y-o-y. Domestic demand lost some steam – its contribution to growth went down from 18.1 pps. in Q3 to 6.6 pps. in Q4 – but was, nevertheless, still buoyant. Household consumption increased 8.2% y-o-y and 0.8% q-o-q (seasonally and calendar adjusted).

Government consumption growth picked up to 6.6% y-o-y, after subdued performance in the previous quarters. Gross fixed capital formation grew by 10.3% y-o-y in Q4, but clearly retracted from its Q3 high, with a q-o-q decline of 2.7%. Notably, for the first time since mid-2019, the change in stocks contributed negatively to y-o-y growth in Q4 (-1.8 pps.). Despite a still bleak performance of services, the rebound of exports of goods and services progressed (18.9% q-o-q), as global demand continued to recover and Turkey’s gains in price competitiveness supported the expansion of goods exports to record highs in a number of non-EU markets. The growth of imports of goods and services slowed sharply (0.2% q-o-q and 2.5% y-o-y) in Q4 but due to an elevated import level net exports’ contribution to y-o-y growth remained negative at -0.7 pps. On the supply side, manufacturing activity increased further in Q4 (1.9% q-o-q and 10.5% y-o-y), leading a continuous recovery of industry (10.3% y-o-y). Agriculture closed a relatively good year, largely unscathed by the pandemic and growing 4.0% y-o-y in the last quarter. Construction, however, returned to a crisis mode and recorded a significant output contraction (-11.4% q-o-q and -12.5% y-o-y) after a short-lived uptick in the previous quarter. The services sector benefitted from the relaxation of pandemic-related measures during most of the fourth quarter and expanded 5.3% y-o-y. The good performance of information and communication continued (3.3% q-o-q and 15.1% y-o-y). Financial sector activity decelerated further (-22.6% q-o-q and 9.2% y-o-y) from exceptionally high levels earlier in the year.

Although industrial production remained robust and reached new highs in the beginning of 2021, it also lost steam, with m-o-m growth rates (seasonally and calendar adjusted) falling to 0.9% in January and 0.1% in February. Manufacturing grew by around 10% y-o-y in the first two months, while the sector of electricity, gas, and steam supply was slightly below its corresponding levels last year. Retail sales picked up in the beginning of 2021, growing by 3.9% y-o-y in February. Economic confidence increased in the first quarter, reaching in March its highest level over the last 12 months. There were improvements in consumer and services

confidence, while the strong real sector confidence was sustained by export orders and fixed investment expenditure. Along with the new restrictions, confidence dipped in April.

Labour market

In a confirmation that the labour market remained in distress, the prohibition of dismissal was extended again until mid-May. The unemployment rate in the age group 15 years and over increased by 0.6 pps. y-o-y to 14.1% in February. While total employment at last turned to an annual growth in the first two months of the year, it remained around 8% (or 2.3 million) below its peak from mid-2018. Reflecting the continuing slack on the labour market, the combined rate of time-related underemployment and unemployment actually increased since the end of 2020, to 20.6% in February. The composite measure of labour underutilisation remained very high at close to 30% in the beginning of the year.

In seasonally adjusted terms, in the first two months of the year, employment increased in agriculture (0.8% y-o-y), industry (4.0% y-o-y) and construction (6.1% y-o-y), while it declined in the services sector (-3.2% y-o-y). The seasonally and calendar adjusted hourly labour cost index increased by 4.5% q-o-q in the last quarter of 2020 and was up 13.4% y-o-y, broadly in line with inflation.

External sector

The 12-month moving current account deficit increased further to USD 37.8 billion (5.3% of GDP) at the end of February. The deficit expanded in the first two months of 2021 mainly because of lower service exports in comparison to the same period last year. Goods exports, however, slightly increased both in the same period, while imports of goods remained broadly unchanged nominally but declined in real terms by close to 5% y-o-y. Non-monetary gold imports fell sharply (-22% y-o-y) in January-February as monetary policy credibility strengthened after the appointment of Mr Ağbal. Financial inflows and errors and omissions in the first two months more than covered the current account deficit and thus allowed for an accumulation of official reserve assets. These gains, however, were largely reversed following the dismissal of Mr Ağbal in March.

Monetary developments

Inflation continued its upward drive in the beginning of 2021 – it reached 16.2% y-o-y in

March. Core inflation increased further to 16.9% y-o-y, while food inflation, which was a leading inflationary force in the last quarter of 2020, eased in Q1 2021. However, driven by rising international oil prices, energy inflation went up strongly in the beginning of the year. Underlying the overall still strong inflationary momentum, service inflation also ticked up in Q1. The central bank hiked the key policy rate by 200 bps. to 19% in March. However, following the subsequent dismissal of the central bank governor, inflation expectations (end-of-the-year annual inflation) went up substantially, by 1.6 pps. m-o-m to 13.1% in April, in anticipation of a more accommodative monetary policy stance. Although at its first monetary policy meeting in mid-April, the central bank left the key policy rate unchanged, it also signalled a less hawkish stance by removing previous language on delivering additional tightening if needed. The markets reacted to the change at the helm of the central bank and the lira depreciated by more than 10% against the dollar and Turkey's 5-year CDS spread increased by around 140 bps. to 440 in mid-April.

Financial sector

The monetary policy tightening sapped the strength of lending growth to 29.2% y-o-y in March, mainly due to a decline in corporate lending, while consumer lending remained robust. The non-performing loan (NPL) ratio remained low at 4.0%, helped by the decision to extend the NPL classification period from 90 to 180 days until mid-2021. Capital adequacy and liquidity positions of the banking system remained overall sound. In mid-April, the central bank banned the use of cryptocurrencies for purchase of goods and services.

Fiscal developments

In the first two months of 2021, the central government budget was in balance. Total revenue remained broadly unchanged y-o-y. While tax revenue increased strongly by 27.7% y-o-y, non-tax revenue were down 60% y-o-y because of an earlier payment of the central bank profit in 2020. Expenditure growth was subdued, with primary spending going up by just 4.9% y-o-y due to a steep decline in goods and services expenditure. Interest payments, however, increased strongly (29.0% y-o-y) influenced by higher debt levels and exchange rate depreciation. Government debt increased to 39.5% of GDP in 2020 (up from 32.6% at end-2019).

TABLE



TURKEY

European Commission, ECFIN-D-1

		2016	2017	2018	2019	2020	ECFIN 2020 Autumn forecast		Q3 20	Q4 20	Q1 21	Jan 21	Feb 21	Mar 21
							2021	2022						
1 Real sector														
Industrial confidence ^{1.1}	Index	105.2	108.0	101.4	100.4	98.2	:	:	104.1	106.3	109.0	107.0	109.3	110.8
Industrial production ^{1.2}	Ann. % ch	3.4	9.1	1.1	-0.6	2.2	:	:	8.5	10.2	:	7.4	5.7	:
Gross domestic product ^{1.3}	Ann. % ch	3.3	7.5	3.0	0.9	1.8	3.9	4.5	6.3	5.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.7	5.9	0.5	1.5	3.2	2.5	2.8	8.5	8.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.2	8.3	-0.3	-12.4	6.5	2.0	7.8	21.9	10.3	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	21.6	25.9	22.8	-7.1	5.4	:	:	13.7	13.0	:	4.2	18.7	:
Retail sales ^{1.7}	Ann. % ch	2.1	5.8	1.4	-0.1	3.6	:	:	9.5	8.5	:	1.0	3.9	:
2 Labour market														
Unemployment ^{2.1}	%	11.1	11.1	11.2	14.0	13.4	14.1	14.1	13.4	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	2.2	3.5	1.8	-2.4	-4.3	3.6	4.3	-3.2	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	21.5	9.3	18.3	26.2	18.0	10.0	14.4	10.0	14.1	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-0.5	9.8	7.9	2.2	-7.0	:	:	-3.0	6.7	:	9.2	10.6	:
Imports of goods ^{3.2}	Ann. % ch	-4.8	17.7	-3.1	-8.8	3.6	:	:	10.0	12.1	:	-0.4	10.0	:
Trade in goods balance* ^{3.3}	% of GDP	-4.6	-6.8	-5.2	-2.2	-5.3	-2.2	-3.8	-4.8	-5.3	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	23.0	25.9	30.4	32.4	28.4	:	:	28.2	28.4	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	25.2	29.7	31.7	29.9	32.4	:	:	31.0	32.4	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-3.1	-4.8	-2.8	0.9	-5.1	-2.0	-2.1	-4.1	-5.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.2	1.0	1.2	0.8	0.6	:	:	0.7	0.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	106.1	107.7	93.0	105.7	93.3	:	:	79.7	93.3	:	95.7	95.3	:
Int. reserves / months Imp ^{3.9}	Ratio	5.8	5.1	4.5	5.6	4.8	:	:	4.2	4.8	:	5.0	5.0	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	7.8	11.1	16.3	15.2	12.3	11.7	9.2	11.8	13.5	15.6	15.0	15.6	16.2
Producer prices ^{4.2}	Ann. % ch	4.3	15.8	27.0	17.6	12.2	:	:	11.4	22.2	28.2	26.2	27.1	31.2
Food prices ^{4.3}	Ann. % ch	5.8	12.7	18.0	19.5	13.8	:	:	13.7	19.4	18.0	18.1	18.4	17.4
M4 ^{4.4}	Ann. % ch	17.2	15.5	19.3	28.5	33.0	:	:	41.4	33.0	27.3	31.7	26.7	27.3
Exchange rate TRY/EUR ^{4.5}	Value	3.3	4.15	5.68	6.35	8.10	:	:	8.66	9.30	9.16	8.92	8.78	9.77
Nominal effective exchange rate ^{4.6}	Index	58.6	47.90	36.12	31.34	25.56	:	:	24.30	21.82	:	22.79	23.85	:
5 Financial indicators														
Interest rate (3 months-TRLIBOR) ⁵	% p.a.	10.37	12.81	19.85	20.66	11.25	:	:	10.60	15.67	18.21	17.95	17.95	18.74
Interest rate, long term ^{5.2}	% p.a.	10.19	11.11	15.88	15.76	12.75	:	:	13.47	13.15	13.95	13.23	13.06	15.56
Stock markets ^{5.3}	Index	772	990	1,019	993	1,134	:	:	1,124	1,273	1,516	1,526	1,529	1,492
Credit growth ^{5.4}	Ann. % ch	16.2	21.2	13.1	10.8	35.4	:	:	40.0	35.4	29.2	32.8	30.5	29.2
Deposit growth ^{5.5}	Ann. % ch	17.7	17.7	22.1	24.0	35.4	:	:	45.0	35.4	28.8	33.8	28.2	28.8
Non-performing loans ^{5.6}	% total	3.2	3.0	3.9	5.4	4.1	:	:	4.1	4.1	:	4.1	4.0	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-2.0	-2.4	-3.3	-3.7	-4.5p	-6.0	-5.3	-0.2	:	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	28.0	28.0	30.2	32.6	39.5	44.5	47.5	40.0	39.5	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2020 published November 2020

* Q figures refer to a 4 quarters moving average.

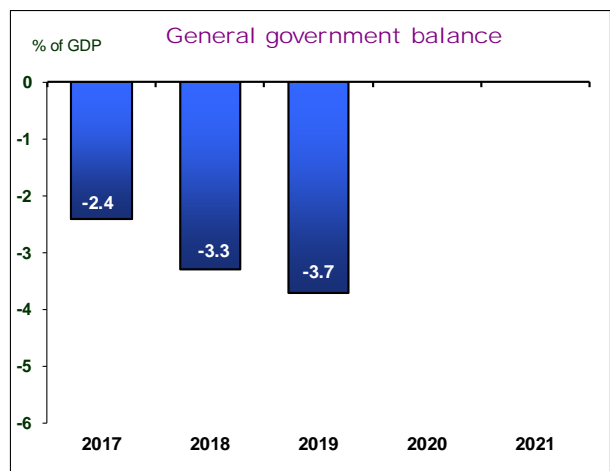
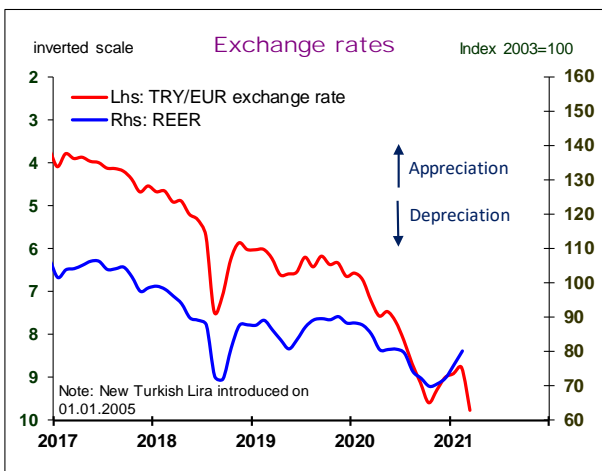
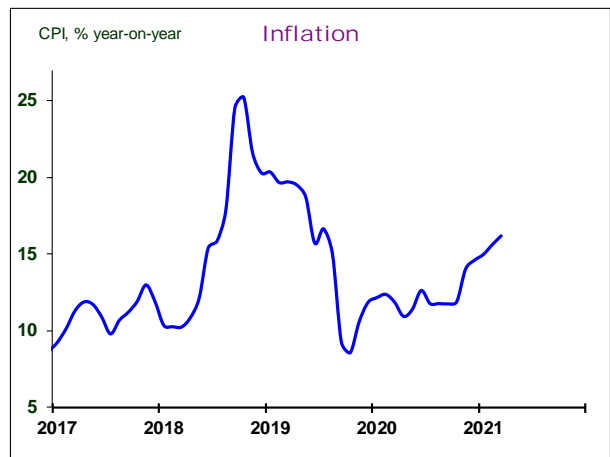
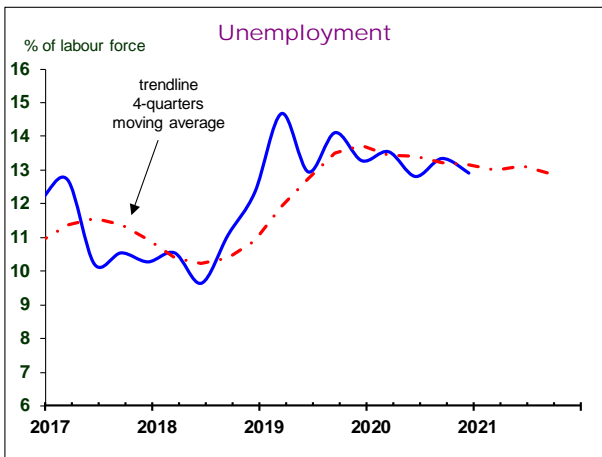
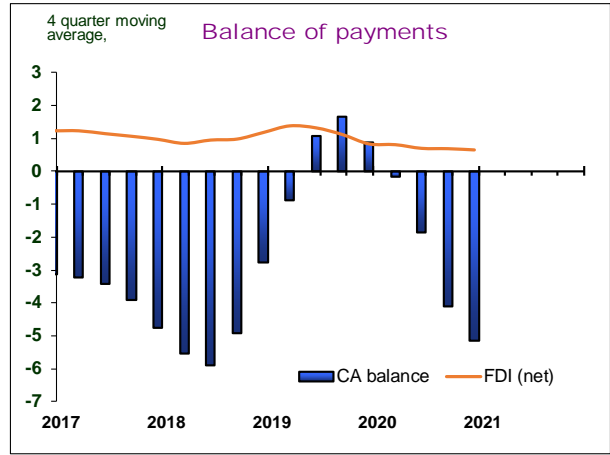
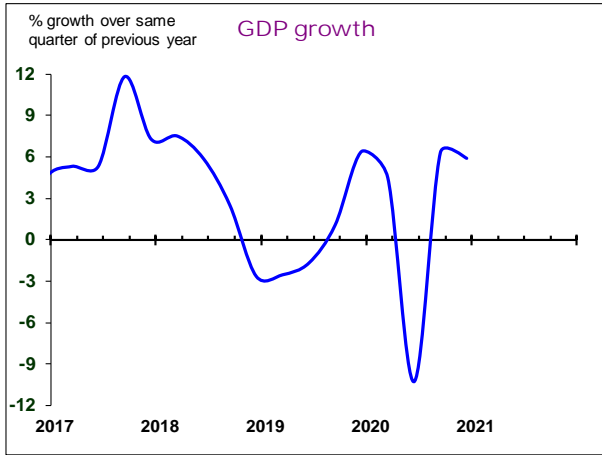
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

On 5 February, the country submitted its Economic Reform Programme (ERP) for 2021-2023 to the EU. The ERP projects a moderate post-crisis recovery, with GDP growth accelerating from 2.5% in 2021 to 3.4% in 2023, mainly driven by private consumption and investment and based on the assumption that the country's frequent political stalemates will end. After a sharp pandemic-related rise to an estimated 4% of GDP in 2020, the programme envisages the budget deficit to fall to 0.6% of GDP by 2023, largely due to large cuts in spending, in particular on investment. According to ERP estimates, public debt rose by nearly 4 pps. in 2020, reaching 35.2% at the end of the year and is set to increase further, to 37% at the end of 2021. In the following two years, low deficits and strengthening growth are set to lower the debt ratio to 35% of GDP.

On 20 April, one of the country's two entities, the Republika Srpska (RS) issued a 5-year Eurobond worth EUR 300 million, nearly 6% of the entity's GDP. Due to the entity's low credit rating of B3 (according to Moody's), the yield was close to 5%. The funds are primarily needed to refinance maturing debt, which is significantly higher in the RS than in the rest of the country.

Real sector

In Q4, economic activity was slightly stronger than in the quarter before (+3% seasonally adjusted), but compared to a year before, output was still 3.8% lower. The main growth driver was private consumption, while the pace of contraction in investment and exports (-2.2% and -2.1% y-o-y respectively) decelerated. When looking at the whole year, the main shock hit the country in Q2, with some recovery in the second half of the year. Overall, economic output was 4.5% lower than in 2019, mainly due to lower exports, private consumption and investment, while a strong fall in imports prevented an even stronger output decline. On the production side, the drop in economic activity was mainly the result of sharply lower output in the trading and services sector, such as tourism, registering output losses of some 13-15% y-o-y during April-December 2020. Furthermore, manufacturing output fell by some 6% y-o-y during the same period, reflecting the drop in exports and domestic demand.

High-frequency data point to a certain recovery, in particular when compared to the sharp output drops in April and May last year. In the first three months of 2021, industrial output was 7.3% higher than a year before, mainly due to a strong increase in February and March, by 6.8% and 15.4% respectively. The main factors for this strong increase were the (mainly export oriented) manufacturing of machinery and equipment as well as of textiles. Retail sales also gained momentum, with an increase by 8.3% in March. However, the overall dynamics (+2.1% in Q1) was still significantly weaker than indicated by industrial production, pointing to a more muted domestic recovery.

Labour market

The level of registered employment fell by 2.2% y-o-y in Q4, after a similar decline in Q3. In the first two months of 2021, the drop in employment was a bit stronger, at 2.9% and 2.8% respectively. In absolute numbers, employment was about 23 000 persons lower in February, compared to a year before. Unsurprisingly, the main contributors to this drop were retail trade, accommodation and food services and manufacturing. By contrast, in several sectors, in particular in health, but also construction, registered employment was slightly higher than a year before.

The number of the registered unemployed in February was some 8 000 higher than a year before, implying a drop in the labour force by 15 000 persons. This brought the administrative unemployment rate to 33.7% in February, following a peak of 34.9% in August 2020, and compared to 33.6% a year before. According to Labour Force Survey data, the unemployment rate was at 16.6% in Q4, compared to 16.7 in Q1, i.e. before the pandemic hit the economy. Youth unemployment remained about twice as high as the overall rate, at 37.4% in Q4. The share of long-term unemployed, i.e. of persons without employment for more than 12 months, is still at around three quarters of the total unemployed.

The annual growth of nominal gross wages remained quite robust, at 3.7% in Q4, and still 2.6% in February. In view of a continued decline in the price level, real average gross earnings were some 4% higher than a year before.

External sector

The current account deficit was at 3.1% of GDP in 2020, practically unchanged from 2019, as the sharp drop in revenues from service exports (tourism) was largely compensated by lower spending for commodity imports. In a similar way, lower inflows of secondary income, such as workers remittances, were largely neutralised by higher primary income inflows.

Trade registered a sharp increase in turnover in March, with the value of commodity exports being 36.2% higher than a year before, while imports rose by 19.7%. For Q1-2021, this results in an increase of goods exports by 16.6%, while imports rose by 2.7% y-o-y, leading to a return of trade values to pre-crisis levels. The main reason for the recovery were stronger exports to Croatia, Italy and Serbia.

Net FDI inflows increased slightly to around 1.8% of GDP in 2020, still largely consisting of reinvested earnings. Official foreign reserves continued to increase in Q4, and, partly due to subdued import levels, their import coverage ratio rose to some 10 months.

Monetary developments

In Q4, the overall level of consumer prices was 1.6% lower than a year before, compared to a 1.4% drop in Q3. This brought the annual inflation rate for 2020 to -1.1% on average. During the first three months of 2021, deflationary pressures eased, with consumer prices decreasing by 1.7%, 1.3% and 0.5% respectively. The main factors continued to be a strong drop in prices for transport, which accounts for about 13% of the consumer basket, as well as falling prices for clothing and footwear, accounting for 5% of the consumer basket. However, prices for food and non-alcoholic beverages, accounting for 32% of the basket, rose by 1% in March, while prices for alcoholic beverages and tobacco increased by even 1.9% y-o-y.

The annual growth of the monetary aggregate M2 continued to accelerate, from 6.3% in Q3 to 8% in November.

Financial sector

Overall, the financial sector weathered the COVID-19 crisis well so far. However, annual loan growth remained negative, at 1.3% y-o-y in Q4 and 0.5% in January and February. This fall was mainly driven by weak corporate lending, which declined by 4.3% y-o-y in Q4 and 2.7% in the first two months of 2021. Household lending, accounting for some 29% of total

credits, largely stagnated. However, loans to public enterprises, accounting for some 3% of total loans, rose by some 9% y-o-y in January-February.

Bank deposit growth remained relatively strong, at 4.6% y-o-y in Q4 after a 4.4% rise in Q3. In January and February, deposits rose by 5.0% and 5.1% y-o-y respectively. Private enterprises and households continued to be the main drivers of deposit growth. The loan-to-deposit ratio continued to decline, to 80.6% in January, compared to 85.3% a year before.

The share of non-performing loans in total loans declined to 6.1% in Q4, as the implementation of stricter accounting standards accelerated the writing-off of some troubled loans. The loan-loss provisions ratio also declined slightly to 79%, compared to 80.5% in Q3. Banking sector profitability continued to deteriorate in Q4 as the return-on-equity (ROE) ratio declined to 6.0%, compared to 7.0% in Q3. The return on assets (ROA) remained stable at 0.8% in Q4. The banking system's overall capital adequacy ratio increased to 19.2% from 18.3% in Q3, which is well above the country's regulatory minimum of 12%. However, there are sizeable differences among the countries' 23 banks, with some pockets of vulnerability remaining.

Fiscal developments

Public finances were hit markedly by the COVID-19 crisis. According to preliminary data, overall revenues dropped by about 4% y-o-y in the first nine months of 2020, mainly driven by a nearly 10% drop in tax revenues. This, however, was partly compensated by higher other revenues, such as grants. Tax revenues were particularly weak in April and May, when they were some 25-30% lower than a year before. At the same time, expenditure rose by some 10% y-o-y, mainly due to anti-crisis measures, but also because of higher spending on public sector wages, which rose by nearly 5% y-o-y. Overall, the general government's fiscal position turned from a surplus of 1.9% of GDP in 2019, to a deficit of 1.3% during the first three quarters of 2020. Governmental measures to mitigate the crisis impact on households and firms amounted to some 2½% of GDP. Public debt registered a marked increase in Q2 and Q3, which, together with a lower nominal GDP, resulted in a rise in the debt ratio, from 32.2% at the end of 2019 to 36.4% at the end of Q3. The increase in Q3 was largely due to a rise in long-term debt (+1 pp.). About half of the new debt was denominated in domestic currency.

TABLE



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2016	2017	2018	2019	2020	Q3 20	Q4 20	Q1 21	Jan 21	Feb 21	Mar 21
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	4.4	3.1	1.6	-5.3	-6.4	-7.0	-0.5	7.2	-0.7	6.8	15.4
Gross domestic product ^{1.3}	Ann. % ch	3.4	3.0	3.1	2.9	-4.5	-6.4	-3.8	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.3	1.6	1.4	2.4	-4.0	-3.2	-4.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.3	7.8	8.1	5.8	-6.0	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	49.8	-18.9	2.2	5.0	-35.2	-19.1	-35.2	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	7.0	5.1	8.2	5.2	-7.5	-10.8	-6.9	2.1	-1.7	-0.5	8.3
2 Labour market												
Unemployment ^{2.1}	%	25.4	20.5	18.4	15.7	18.0	14.2	16.6	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-2.6	1.9	0.7	-2.3	-2.8	-2.1	-2.2	N.A.	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.9	1.6	3.1	4.3	3.8	3.9	3.7	:	3.0	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	7.0	21.3	11.5	-2.3	-7.6	-7.8	4.2	16.6	2.9	11.3	36.2
Imports of goods ^{3.2}	Ann. % ch	2.9	13.3	7.1	1.1	-13.3	-12.2	-6.9	2.7	-5.7	-6.8	19.7
Trade in goods balance* ^{3.3}	% of GDP	-22.8	-22.8	-22.0	-22.2	-17.5	-19.2	-18.0	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	35.0	39.3	41.5	39.8	32.1	33.6	33.2	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	51.0	54.9	55.9	54.3	45.9	48.4	47.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.6	-4.7	-3.3	-3.0	-3.1	-3.4	-3.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.8	2.2	2.9	1.9	1.8	1.3	1.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	4.9	5.4	6.0	6.5	7.1	6.8	7.1	:	7.1	7.0	:
Int. reserves / months Imp ^{3.9}	Ratio	7.2	7.1	7.3	7.8	10.0	9.4	10.0	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-1.1	1.3	1.4	0.6	-1.1	-1.4	-1.6	-1.2	-1.7	-1.3	-0.5
Producer prices ^{4.2}	Ann. % ch	-0.9	79.2	3.2	0.4	-0.4	-0.7	-0.9	:	-0.1	1.7	:
Food prices ^{4.3}	Ann. % ch	-1.3	1.3	0.6	1.1	1.0	1.3	0.8	:	0.1	0.4	:
M2 ^{4.4}	Ann. % ch	8.3	9.5	9.4	8.9	7.3	6.3	7.3	:	7.8	8.0	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Real effective exchange rate ^{4.6}	Index	97.0	96.4	97.1	95.8	95.2	94.7	95.8	:	95.5	:	:
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	692	627	621	772	769	788	794	763	772	763	754
Credit growth ^{5.4}	Ann. % ch	2.1	5.3	6.6	5.7	1.1	0.4	-1.3	:	-0.5	-0.6	:
Deposit growth ^{5.5}	Ann. % ch	7.7	10.4	11.3	9.3	5.6	4.4	4.6	:	5.0	5.1	:
Non performing loans ^{5.6}	% total	11.8	10.0	8.8	7.4	6.1	6.6	6.1	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	1.2	2.5	2.2	1.9	:	:	:	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.0	34.7	33.4	32.2	:	36.4	:	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

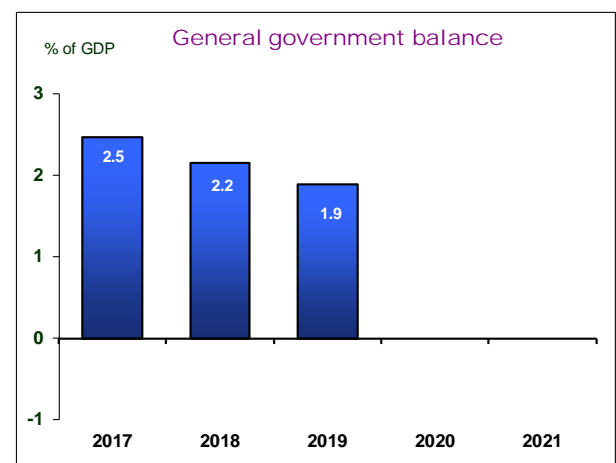
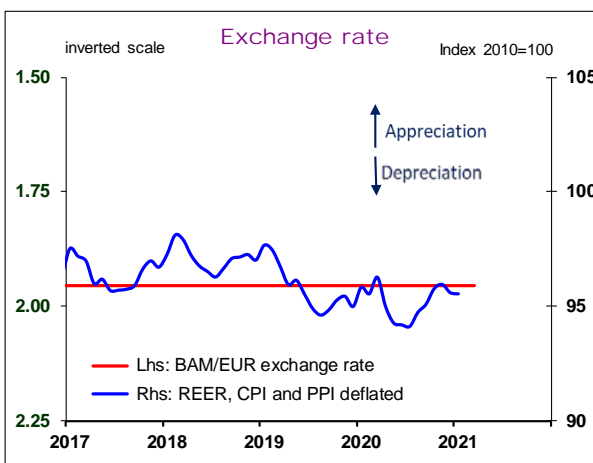
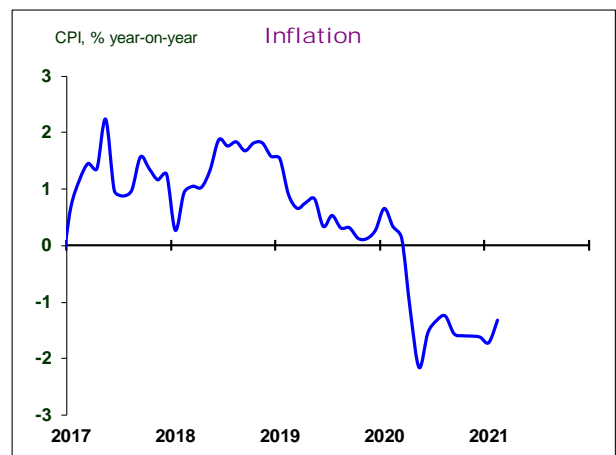
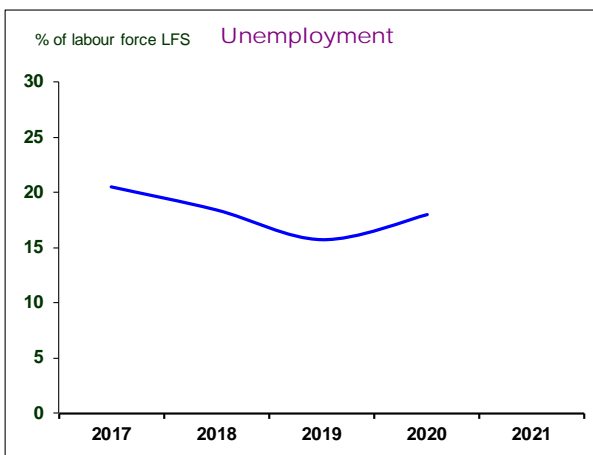
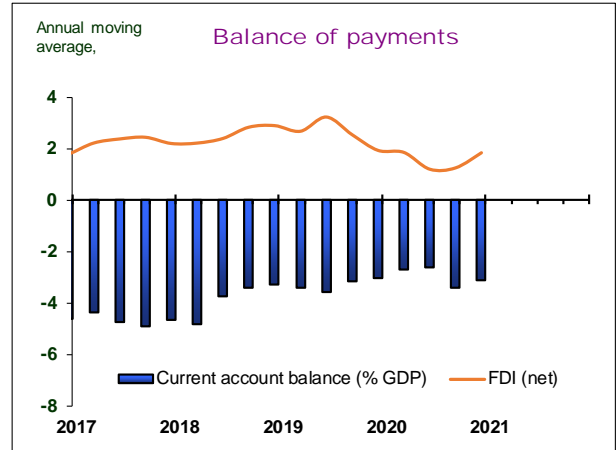
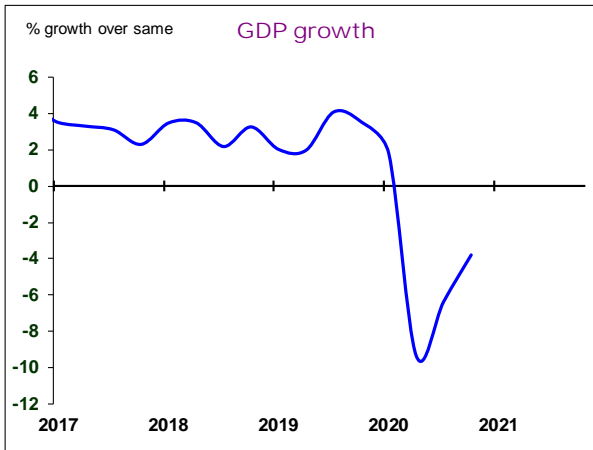
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

*** Q figures in percent of estimated annual GDP.

CHARTS



BOSNIA AND HERZEGOVINA





Key developments

In early parliamentary elections, held on February 14, the opposition party Vetevendosje (VV) won a landslide victory with around 50% of votes casted. In mid-March the newly constituted Assembly elected an Albin Kurti-led government, which is a VV-dominated coalition formed with four parties representing non-majority communities. In early April, Vjosa Osmani was elected President of Kosovo for a five-year mandate.

According to Prime Minister Kurti, the government programme will focus on the management of the pandemic, economic recovery, employment and social protection, a vetting process in the justice system and reforms in education.

In January, Kosovo submitted its 2021 Economic Reform Programme (ERP) to the Commission, covering 2021-2023. Amidst high uncertainty, it projects a recovery with 5.2% GDP growth in 2021, driven by an ambitious public investment programme and rebounding exports of services. The ERP envisages a gradual return to the 2% of GDP fiscal deficit ceiling, as prescribed by Kosovo's fiscal rules framework, by 2023.

Real sector

Kosovo's economy plunged into recession in 2020 due to the pandemic-related lockdown and travel restrictions. Based on quarterly data for 2020, the provisional estimate of annual GDP contraction is 3.9%. The key drivers of recession were severely contracting exports and investment, which dropped by 29.4% and 18.8%, respectively. Notwithstanding the support to household income stemming from growing remittances and social transfers, the annual increase in private consumption seems very high (7%) and might point to data quality issues.² The drop in GDP was mitigated by expanding government consumption (4.4%) and

a fall in imports of goods and services (-6.9%). In Q4, GDP increased by 0.7% y-o-y on the back of private and public consumption, expanding by 3.8% and 3.1% y-o-y, respectively. Further support came from strong export performance (11.2%), which was driven by a surge in exports of goods (49.4%). A contraction of service exports was moderate (2.8%) in Q4 after falling by 51.9% y-o-y in Q3. Falling investment (10.9%) and increasing imports (3.7%) contributed to growth negatively.

On the production side, the largest losses in output in 2020 took place in construction (around 25%) and accommodation and catering (around 20%). Retail and wholesale trade contracted by some 5% in 2020, which stands in contradiction with an increase in private consumption. Positive growth was recorded in industry (8.3%), information and communication (nearly 10%) and public sector activities, in particular health (23%) and public administration (10%).

Labour market

Due to the pandemic-related disruptions, the results of the labour force survey (LFS) continue to be published with large delays. In Q3, Kosovo's labour market witnessed some improvement as compared to Q2, but its performance deteriorated compared to the previous year. The labour force participation rate declined to 40% from 41.9% in the same quarter of 2020, but increased from 33.2% in Q2. The unemployment rate stood at 24.6% (down from 27.2% in Q2), practically unchanged from 24.5% in Q3 2020, while the employment rate fell by 1.5 pps. y-o-y to 30.1%, but was up from 24.1% in Q2. The wide gap between male and female employment rates (46.2% and 14.4% respectively) has increased due to a large increase in male employment (10 pps.) as compared to Q2. The very high rate of youth unemployment (15-24 years) narrowed to 46.9% from 54.1% in the previous quarter.

External sector

The current account deficit is estimated to have widened to 7.1% of GDP in 2020 from 5.6% in 2019. The main driver was a severe contraction of service exports (-41.4%), which considerably

² The strong increase in private consumption does not seem consistent with the decline of imports and the data on wholesale and retail trade. This might be linked to the discrepancy between quarterly and annual GDP data as published by the Kosovo Agency of Statistics.

outweighed growth in exports of goods and led overall exports to fall to 21.6% of GDP from 29.1% in 2019. Partly due to travelling restrictions boosting transfers via official channels, workers' remittances increased by 15.4% and stood at 13.9% of GDP in 2020, partly offsetting the trade deficit. On the financing side, net inflows of FDI performed well at 4.2% of GDP due to lower profit repatriation in the financial sector. Official reserves were covering 3.2 months of imports at the end of 2020.

In January-February, total merchandise exports expanded by 40% y-o-y, due to strong performance of manufactured articles and basic metals. In the same period, imports increased by 11% y-o-y and the overall merchandise trade deficit widened by 6.4% y-o-y.

Monetary developments

In line with contracting economic activity, average annual inflation decelerated to 0.2% in 2020 with negative monthly readings since July. Positive contribution to inflation came from food prices while energy prices and the elimination of import tariffs on goods from Serbia and Bosnia and Herzegovina in April 2020 had a lowering effect on the inflation index.

In January-March 2021, monthly inflation averaged 0.6% y-o-y with monthly readings turning positive since February.

Based on monthly data, indices of construction and producer costs registered small declines of 0.2% and 0.6% in 2020, respectively.

Financial sector

Despite the COVID-19 crisis, the mostly foreign-owned banking sector remained stable in 2020. In response to the crisis, the Central Bank of Kosovo (CBK) allowed for a 3-month loan repayment moratorium in spring and loan restructurings of up to one year in June-September. These measures helped contain the need for banks' loan-loss provisions and supported credit growth, which has decelerated, but remained at 7.1% in 2020 as compared to 10% in the previous year. The growth of deposits averaged 11.5% in 2020, which is below the extraordinary surge of 16% in 2019, but in line with the average of 10.9% of the previous two years. In January-February growth of credit and deposits continued at around 6% and 11% y-o-y, respectively. The loan-to-deposit ratio declined to 74.9% in February from 78.3% in October.

Financial soundness indicators in the banking sector remained satisfactory. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 38.5% in February and the capital adequacy ratio was at 17%, both standing well above the regulatory minima of 25% and 12%, respectively.

Due to CBK's loan-reprogramming measures, the non-performing loan (NPL) ratio stood at only 2.7% in February, but there is no estimate of NPLs net of the impact of reprogramming measures. Existing NPLs were fully covered by loan loss provisions (140.9%) in February.

Fiscal developments

Preliminary figures on the budget outcome, as presented in the Economic Reform Programme, suggest the headline deficit widening to 7.8% of GDP in 2020 from 2.9% in the previous year. According to the definition of the fiscal rule, which excludes some investments, the budget deficit stood at 6% of GDP in 2020, above the 2% ceiling which has been suspended since mid-2020. The government's cash reserve decreased to 3.2% of GDP from 5.1% in 2019. Tax revenue contracted by 9.6% while public spending rose by 6.7% as compared to the outcome of 2019. Tax and non-tax budget revenue fell also short of projections of the revised 2020 budget, with the collection rates from direct and indirect taxation standing at 94% and 96%, respectively. The implementation of the revised 2020 budget was uneven among different categories. Due to the implementation of the economic recovery programme in 2020, social transfers at the general government level rose by 39%, while total capital spending contracted by nearly 28% as compared to 2019. Total public investment amount spent represents only 52% of the revised budget allocation for the year as a whole. At the same time, the execution rate of the social transfer budget exceeded its revised annual allocation by 28%.

At end-2020 the debt-to-GDP ratio is estimated to have increased to 21.8% from 17.5% one year earlier. Domestic debt, which is held by a narrow investor base, rose by 21% in 2020 with a large share of new issuances absorbed by the Kosovo Pension Saving Trust (KPST). The share of domestic debt held by KPST has increased to 47% from 38% in 2019, while a further 21% and 28% of domestic debt are with the CBK and commercial banks, respectively. Foreign debt increased by 34% in 2020 on the back of financing provided by international donors.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

		2016	2017	2018	2019	2020	Q3 20	Q4 20	Q1 21	Jan 21	Feb 21	Mar 21
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-1.3	-1.3	-0.7	2.6	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	4.1	4.2	3.8	4.9	-3.9	-7.3	0.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	6.1	1.4	4.4	-0.1	7.0	16.9	3.8	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	7.5	5.6	8.1	6.5	-18.8	-10.2	-10.9	:	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	6.5	12.0	17.4	25.6	-0.4	-21.2	4.7	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	27.5	30.5	29.6	25.7	:	24.6	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	11.8	7.6	-3.4	5.2	-4.0	-3.6	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	1.8	1.7	5.7	7.9	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	-4.8	22.1	-2.8	4.4	23.9	7.1	51.3	:	47.1	34.7	:
Imports of goods ^{3.2}	Ann. % ch	5.9	9.2	9.8	4.5	-5.7	-9.3	3.3	:	6.6	14.5	:
Trade in goods balance** ^{3.3}	% of GDP	-40.9	-41.6	-44.3	-43.8	-41.5	-41.9	-41.5	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	% of GDP	23.7	27.1	28.8	29.1	21.6	21.0	21.6	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	% of GDP	50.9	52.6	56.8	56.1	53.7	53.5	53.7	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	% of GDP	-7.9	-5.4	-7.6	-5.6	-7.1	-8.6	-7.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** ^{3.7}	% of GDP	2.9	3.3	3.4	2.7	4.2	3.5	:	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	895.2	939.4	933.9	937.1	969.4	936.9	969.4	:	983.0	956.1	:
Int. reserves / months imp ^{3.9}	Ratio	3.5	3.3	2.9	2.8	3.2	3.1	3.2	:	3.2	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	0.3	1.5	1.1	2.7	0.2	-0.3	-0.1	:	-0.2	0.8	N.A.
Producer prices ^{4.2}	Ann. % ch	-0.1	0.6	1.4	0.9	-0.6	-0.8	0.2	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	-0.4	1.2	2.8	8.3	10.1	1.1	1.6	:	0.0	0.6	:
Broad money liabilities ^{4.4}	Ann. % ch	9.2	6.4	7.9	12.0	15.3	9.6	15.3	:	14.0	12.9	:
Exchange rate EUR/EUR ^{4.5}	Value	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real effective exchange rate (CPI) ^{4.6}	Index	104.2	105.0	104.7	107.1	107.3	107.0	107.8	:	108.6	108.9	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	0.35	0.21	0.43	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	4.0	3.53	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	9.1	10.5	11.1	10.7	7.7	7.1	7.0	:	6.7	6.1	:
Deposit growth ^{5.5}	Ann. % ch	4.7	8.6	6.5	12.6	12.2	10.5	10.2	:	11.2	11.4	:
Non-performing loans ^{5.6}	% total	4.9	3.1	2.5	1.9	2.5	2.5	2.5	:	2.5	2.5	:
6 Fiscal developments												
General government balance*** ^{6.1}	% of GDP	-1.1	-1.3	-2.9	-2.9	:	-1.0	-1.7	:	N.A.	N.A.	N.A.
General government debt**** ^{6.2}	% of GDP	14.4	16.6	16.9	17.5	21.8	19.9	21.8	:	N.A.	N.A.	N.A.

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

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

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

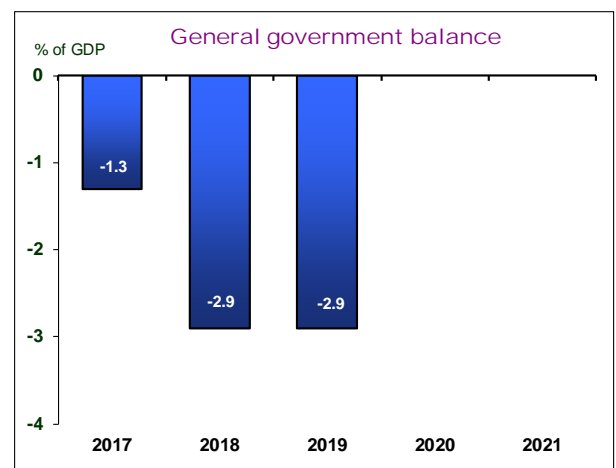
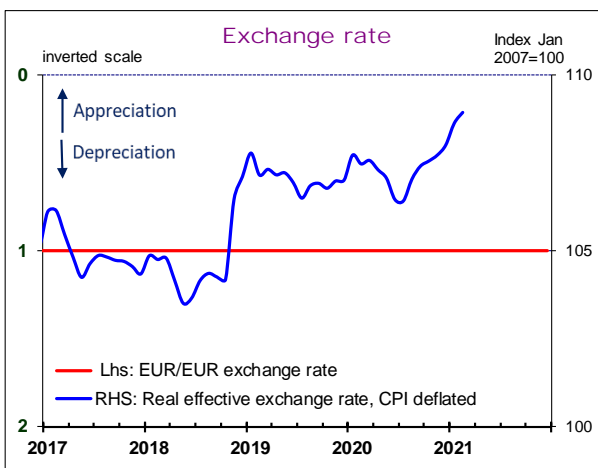
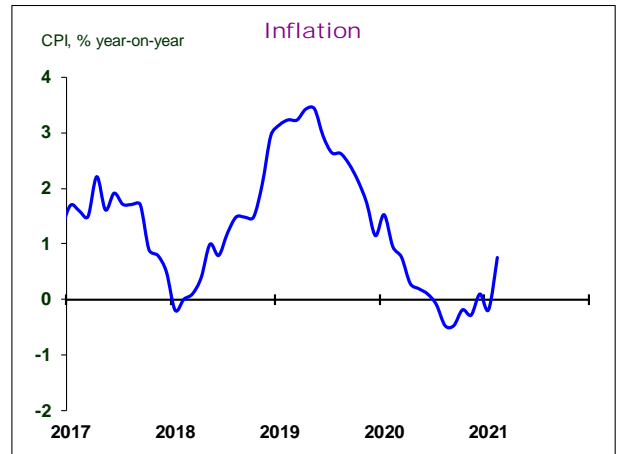
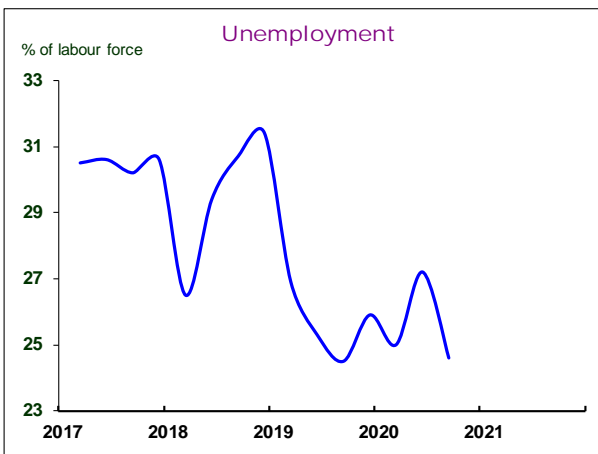
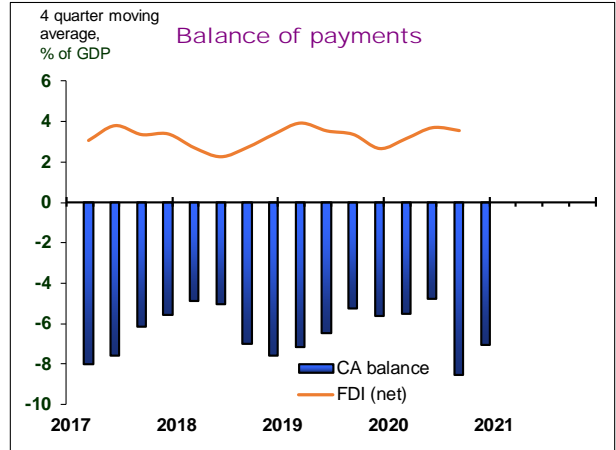
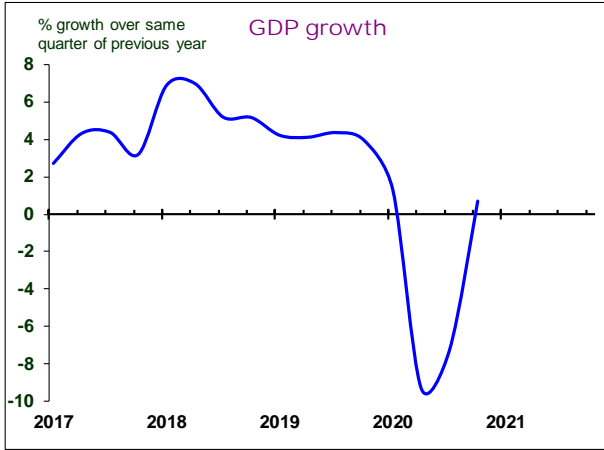
**** Q figures in percent of estimated annual GDP from the Budget Law.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Economic sentiment indicator	Economic Survey Index, SA	Bank of Albania
1.2.	Industrial production	Industrial production volume index	INSTAT
1.3.	Gross domestic product	Annual percentage change, volume	INSTAT
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.6.	Construction index	Annual percentage change, volume index of construction	Eurostat
1.7.	Retail sales	Annual percentage change of index	Eurostat
2. Labour market			
2.1.	Unemployment	Unemployment rate of the age group between 15-64	INSTAT, LFS
2.2.	Employment	Annual percentage change of employed persons age 15-64	INSTAT, LFS
2.3.	Wages	Average monthly wages	INSTAT
3. External sector			
3.1.	Exports of goods	Annual percentage change of global exports, trade in mio. EUR	Eurostat
3.2.	Imports of goods	Annual percentage change of global imports, trade in mio. EUR	Eurostat
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.7.	Direct investment (FDI, net)	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.8.	Reserves, International reserves of the Bank of Albania	Net foreign assets, total, mio EUR.	Bank of Albania
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	Bank of Albania
4. Monetary developments			
4.1.	CPI	Consumer Prices, all items, year-on year percentage change	INSTAT
4.2.	Producer prices	Year on Year percentage change of index	INSTAT
4.3.	Food prices	Year on Year percentage change of index "Food and Non-alcoholic Beverages"	INSTAT
4.4.	M3	Year on Year percentage change	Bank of Albania
4.5.	Exchange rate ALL/EUR	Period average	Bank of Albania
4.6.	Real effective exchange rate	ALL, CPI deflated	Bruegel Inst.
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, TRIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Interest rate, 36 months deposits in ALL	Bank of Albania
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change of stock, loans, total	Bank of Albania
5.5.	Deposit growth	Annual percentage change of stock, total	Bank of Albania
5.6.	Non-performing loans	Of total loans in %	Bank of Albania
6. Fiscal developments			
6.1.	General government balance	Net lending annual /cash balance, in percent of GDP	Albanian Min. of Finance
6.2.	General government debt	Gross public debt in percent of annual GDP	Albanian Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	MacroBond
1.2.	Industrial production	Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	MacroBond
1.4.	Private consumption	Annual percentage change, annual data, chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MacroBond
1.6.	Construction index	Annual percentage change, value of performed work, current prices	MacroBond
1.7.	Retail sales	Annual percentage change, turnover, constant prices, 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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MacroBond
4.2.	Producer prices	Annual percentage change	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (Intermediate money)	wiiw
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Real effective exchange rate	CPI deflated, annual percentage change,	IMF
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 6 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Long-Term Bond, 10 Year, Yield	Bloomberg
5.3.	Stock markets	MOSTE Index, Close	MacroBond
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	MacroBond
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	MacroBond
5.6.	Non-performing loans	% of total	Macrobond
6. Fiscal developments			
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	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, volume, total except fuel.	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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4. Monetary developments			
4.1.	CPI	Annual average percentage change, HICP not yet available for MK	MacroBond
4.2.	Producer prices	Annual percentage change, industrial products	MacroBond
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	MacroBond
4.4.	M4	Annual percentage change, M4 (Broadest money)	MacroBond
4.5.	Exchange rate MKD/EUR	Averages, spot close	MacroBond
4.6.	Nominal effective exchange rate	MKD, Index 2005=100	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, SKIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Not available	
5.3.	Stock markets	MSE Index (MBI-10)	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, private, Banks and Saving houses, MKD	MacroBond
5.5.	Deposit growth	Annual percentage change, private, Banks and Saving houses, MKD	MacroBond
5.6.	Non-performing loans	In percent of total	MacroBond
6. Fiscal developments			
6.1.	Central government balance	In percent of GDP	MoF
6.2.	Central government debt	In percent of GDP	MoF



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.8.	International reserves NBS	Total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4.	Monetary developments		
4.1.	CPI	Consumer Prices, Total, CPPY, average	MacroBond
4.2.	Producer prices	Annual average percentage change, domestic market	MacroBond
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M3	Annual percentage change, M3 (broad money), RSD	MacroBond
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	MacroBond
4.6.	Nominal effective exchange rate	Period average, moving base year, RSD	MacroBond
5.	Financial indicators		
5.1.	Interest rate	Interbank Rates, BELIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Weighted average interest rate on 7Y RSD government bonds	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, private, RSD	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	MacroBond
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	MacroBond
6.	Fiscal developments		
6.1.	General government balance	Consolidated GG, Overall balance. In percent GDP	Min. of Finance
6.2.	General government debt	Central government debt. In percent of GDP	Min. of Finance



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, Index 2010=100, Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change	MacroBond
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change	MacroBond
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, CPPY=100	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, 2015=100	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 in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4.	Monetary developments		
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	MacroBond
4.2.	Producer prices	Domestic, total, index CPPY=100	MacroBond
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100	MacroBond
4.4.	M2	Annual percentage change, M2 (broadest money)	MacroBond
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	MacroBond
4.6.	Real effective exchange rate	Index (2010=100): 9 Trade partners selected in order to set up the index (AT, FR, DE, HU, IT, SLO, HR, RS, CH)	MacroBond
5.	Financial indicators		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	MacroBond
5.4.	Credit growth	Annual percentage change, loans, total, BAM, End of period	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM, End of period	MacroBond
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	MacroBond
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP, consolidated budget, net lending	MacroBond
6.2.	General government debt	In percent of GDP, external public debt	MacroBond



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change	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-Specialised 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, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	SOK
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank of Kosovo
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.8.	Reserves, International reserves of the National Bank	CBAK Survey, claims on non-residents, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4.	Monetary developments		
4.1.	CPI	Annual average percentage change, index (May 2002 = 100)	MacroBond
4.2.	Producer prices	Annual percentage change, total, 2007=100	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	MacroBond
4.5.	Exchange rate EUR/EUR	Not applicable	
4.6.	Real effective exchange rate	CPI deflated, Index 2007=100	SOK
5.	Financial indicators		
5.1.	Interest rate	Short-Term Treasury Bills yield	MacroBond
5.2.	Bond yield	Long-Term Bonds, over 5 Years up to 10 Years, 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 percent of total	CB Kosovo
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance

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

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