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Western Balkans & Türkiye

3rd Quarter 2023

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3rd Quarter 2023

Western Balkans and Türkiye

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

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

OVERVIEW – FLASH NOTES

The growth performance in the Western Balkan region varied across countries in the second quarter of 2023. While Serbia, Albania and Montenegro recorded a higher pace of year-on-year expansion than in the previous three months, GDP growth decelerated in Kosovo, Bosnia and Herzegovina and North Macedonia. On average, the region's real GDP growth accelerated marginally to 2% year-on-year from 1.9% in the first quarter.

Economic growth was generally driven by private consumption and in some countries also by recovering investment. However, consumer spending showed a mixed performance across the region; it turned positive in Bosnia and Herzegovina and even accelerated in Kosovo and Albania, while it decelerated in North Macedonia and Montenegro and continued to decline in Serbia. Trade dynamics were generally dragged down by weak and often contracting goods exports, which was however offset by a continued robust increase in services exports, especially in tourism-dependent countries. Import growth was sluggish overall.

The unemployment rate fell compared to the previous quarter in several countries, and in most of them it was the same or lower than in the same period a year before. Average employment growth slowed to 0.9%¹ y-o-y in the Western Balkans in the second quarter of 2023, while labour force participation increased in some countries, most notably in Albania where it climbed to a record-high 75.8%. Overall, unemployment rates in the region remained high compared with the EU, ranging from 9.6% in Serbia to 13.5% in Montenegro.

The region's four-quarter moving average current account deficit fell to 4% of GDP in June, the lowest level since the third quarter of 2021. This improvement was mainly due to the strong growth in services exports, higher remittances inflows, and declining merchandise trade deficits helped by moderating import prices. The decrease in the current account deficit was especially pronounced in North Macedonia and Serbia, which saw the largest deterioration in their external balance when the energy crisis hit in 2022. Inflows of foreign direct investment remained generally robust in the four quarters to June and covered most or all of the current account deficit in individual countries. Foreign exchange reserves increased, most notably in Serbia where they surged by almost 50% year-on-year in August.

Driven by decelerating energy and food prices, average annual consumer price inflation in the Western Balkans slowed further to 10.2% in the second quarter of 2023. The rate of inflation continued to fall through August in most economies, to levels ranging from 3.2% in Kosovo to 11.5% in Serbia. In countries with monetary autonomy the pace of tightening slowed: in Albania the key policy rate has remained unchanged since March and in Serbia since July. In North Macedonia the central bank continued to raise its key policy rate in August and September, but in smaller increments (15 bps each) than previously. The key policy rate stood at 3% in Albania, 6.3% in North Macedonia, and 6.5% in Serbia in October 2023. Reflecting tighter financing conditions, loan growth has slowed down in most countries.

Continued economic expansion and high inflation supported the growth of budget revenues and fiscal balances improved in almost all Western Balkan economies in the first eight months of 2023, except for North Macedonia. The January-August budget balance even registered a surplus in Albania, Montenegro, Kosovo and Serbia, which was however often partly due to capital expenditure lagging behind plans, sometimes by a substantial margin. The public debt-to-GDP ratio decreased in most countries in the second quarter of 2023 compared to end-2022, partly due to the robust rise in nominal GDP. The public debt ratio remained the highest in Albania and Montenegro at 64.8% and 62.4% of GDP, respectively.

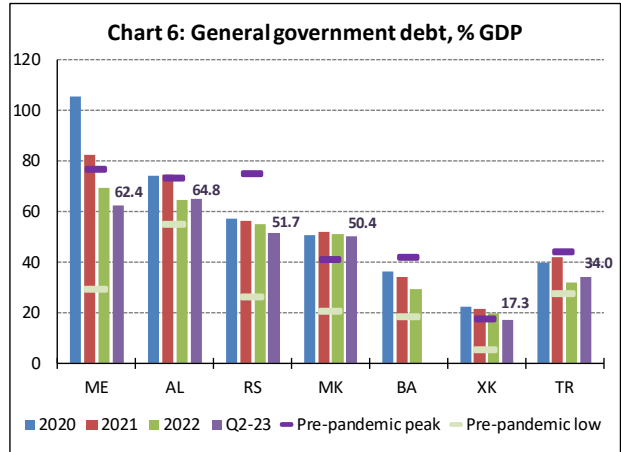
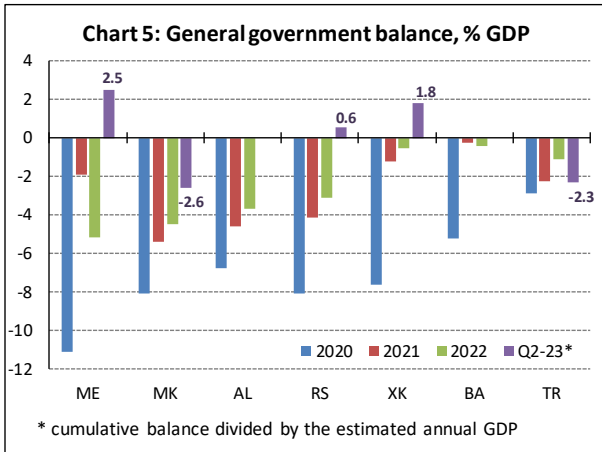
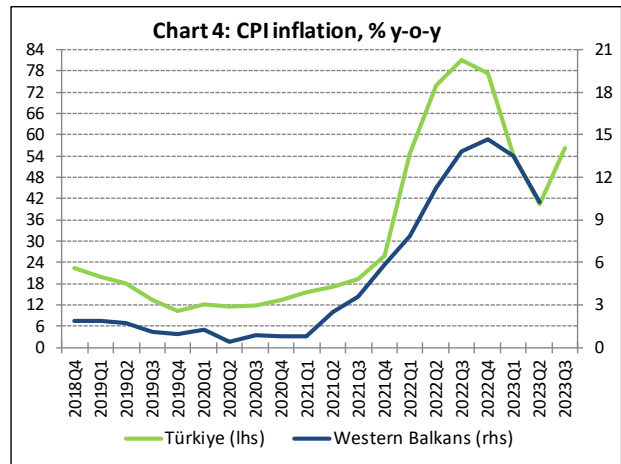
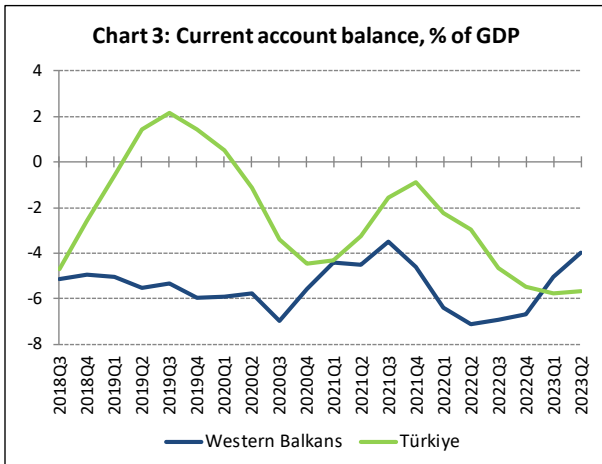
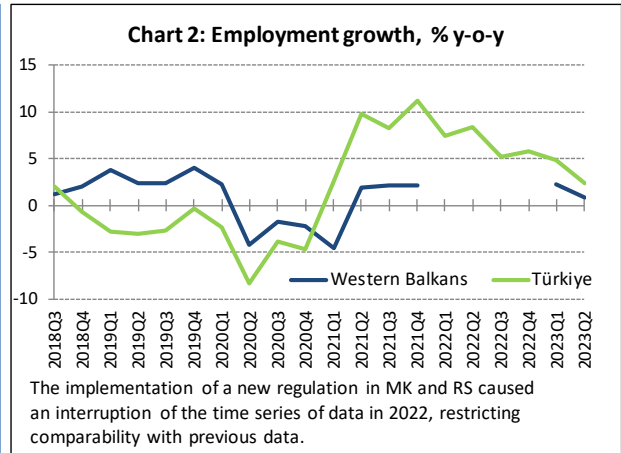
¹ This figure does not include Kosovo for which second-quarter data were not available by the cut-off date for this report.

In Türkiye, economic growth rebounded strongly in the second quarter of 2023, with real GDP increasing by 3.5 % q-o-q (3.8% y-o-y). Growth was driven by domestic demand, in particular robust household consumption, boosted by pre-election stimulus measures. The 4-quarter rolling average current account deficit stood at 5.5% of GDP in August, broadly unchanged from its 2022 level. In January-August the value of goods exports fell marginally compared to the same period one year earlier, while imports increased slightly. At the same time, the export of travel services reached new highs. Net portfolio and other investment inflows increased since the May elections, and, together with the sizeable positive net errors and omissions, covered the current account deficit and contributed to a strong increase in reserve assets in June-September. However, official reserves have still not fully recovered losses registered in the first five months of the year.

Inflation increased strongly after June with annual consumer price inflation accelerating to 61.5% in September. To counteract high inflationary pressures and anchor inflation expectations, the central bank further tightened its monetary policy stance by doubling its key policy rate since June to 30% in September. Following the May elections and the subsequent scaling back of foreign exchange interventions, the lira's depreciation accelerated and by early October it had lost 36% of its value against the US dollar.

Partly driven by post-earthquake reconstruction, total expenditure almost doubled in the first eight months of 2023 and outpaced the surge in revenue, which was boosted by the sizeable tax hikes in July. This resulted in a central government budget deficit of TRY 383.4 billion (1.6% of forecast annual GDP) in January-August. Driven by the weaker lira, government debt increased to 34% of GDP in the second quarter of 2023, compared to 31.7% at end-2022.

Candidate and potential candidate countries: Overview graphs



Candidate and potential candidate countries: Summary table

	2018	2019	2020	2021	2022	ECFIN 2023 Spring forecast		Q1 23	Q2 23	Q3 23	Jul 23	Aug 23	Sep 23
						2023	2024						
Gross domestic product (in real terms, annual % change)													
Albania	4.0	2.1	-3.3	8.9	4.8	2.9	3.8	2.8	3.2	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	4.6	2.3	-2.9	7.3	3.8	1.5	2.3	1.7	1.2	:	N.A.	N.A.	N.A.
Montenegro	5.1	4.1	-15.3	13.0	6.4	3.0	2.9	6.2	6.9	:	N.A.	N.A.	N.A.
North Macedonia	2.8	3.9	-4.7	4.5	0.9 (p)	2.0	3.1	2.1	1.1	:	N.A.	N.A.	N.A.
Serbia	4.5	4.3	-0.9	7.5	2.3	1.9	3.0	0.9	1.7	:	N.A.	N.A.	N.A.
Türkiye	3.0	0.8	1.9	11.4	5.5	3.5	4.0	3.9	3.8	:	N.A.	N.A.	N.A.
Kosovo	3.4	4.8	-5.3	10.7	5.2	:	:	3.9	2.0	:	N.A.	N.A.	N.A.
Unemployment													
Albania	12.8	12.0	12.2	12.1	11.3	10.9	10.3	11.4	11.1	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	18.4	15.7	15.9	17.4	15.4	14.5	14.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Montenegro	15.5	15.4	18.4	16.9	15.1	14.1	13.9	15.8	13.5	:	N.A.	N.A.	N.A.
North Macedonia	21.0	17.5	16.6	15.6	14.5	14.2	13.9	13.4	13.2	:	N.A.	N.A.	N.A.
Serbia	13.7	11.2	9.7	11.0	9.4	9.3	9.0	10.1	9.6	:	N.A.	N.A.	N.A.
Türkiye	10.9	13.7	13.1	12.0	10.5	10.1	10.1	10.4	9.3	:	9.7	9.2	:
Kosovo	29.6	25.7	25.9	20.7	12.6	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance* (% of GDP)													
Albania	-6.8	-7.9	-8.7	-7.7	-5.9	-5.9	-5.8	-5.1	-4.9	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-3.3	-2.6	-2.8	-1.8	-4.3	-3.8	-4.4	-4.4	-4.1	:	N.A.	N.A.	N.A.
Montenegro	-17.0	-14.3	-26.1	-9.2	-13.2	-10.3	-12.3	-13.7	-11.8	:	N.A.	N.A.	N.A.
North Macedonia	0.2	-3.0	-2.9	-2.8	-6.2	-4.1	-3.8	-2.3	-1.3	:	N.A.	N.A.	N.A.
Serbia	-4.8	-6.9	-4.1	-4.2	-6.9	-5.5	-5.1	-4.4	-2.7	:	N.A.	N.A.	N.A.
Türkiye	-2.6	1.4	-4.5	-0.9	-5.5	-4.2	-2.7	-5.8	-5.7	:	N.A.	N.A.	N.A.
Kosovo	-7.6	-5.7	-7.0	-8.7	-10.3	:	:	-9.2	-8.6	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	2.0	1.4	1.6	2.0	6.7	4.6	3.1	6.5	4.6	4.1	4.2	4.0	:
Bosnia and Herzegovina	1.4	0.6	-1.1	2.0	14.0	7.0	4.0	12.4	6.4	:	4.0	4.7	:
Montenegro (HICP)	2.9	0.5	-0.8	2.5	11.9	8.0	4.9	13.0	8.4	:	7.8	9.1	:
North Macedonia	1.5	0.8	1.2	3.2	14.1	7.9	3.7	16.1	11.2	:	8.4	8.3	:
Serbia	2.0	1.8	1.6	4.1	12.0	12.4	5.9	16.0	14.5	:	12.5	11.5	:
Türkiye	16.3	15.2	12.3	19.6	72.3	45.0	30.3	54.3	40.4	56.2	47.8	58.9	61.5
Kosovo	1.1	2.7	0.2	3.3	11.6	:	:	10.1	4.9	:	2.4	3.2	:
General government balance** (% of GDP)													
Albania	-1.6	-1.9	-6.7	-4.6	-3.7	-2.2	-2.2	0.6	:	:	N.A.	N.A.	:
Bosnia and Herzegovina	2.2	1.9	-5.2	-0.3	-0.4	-0.3	-0.8	:	:	:	N.A.	N.A.	N.A.
Montenegro	-3.9	-2.0	-11.1	-1.9	-5.2	-4.7	-4.5	1.0	2.5	:	2.3	2.9	N.A.
North Macedonia	-1.8	-2.0	-8.0	-5.3	-4.5	-3.9	-3.5	-0.4	-2.6	:	-3.0	-3.0	:
Serbia	0.6	-0.2	-8.0	-4.1	-3.1	-2.8	-1.9	-0.3	0.6	:	0.7	:	:
Türkiye	-2.8	-3.2	-2.9	-2.3	-1.1	-4.9	-4.7	-1.1	-2.3	:	N.A.	N.A.	N.A.
Kosovo	-2.9	-2.9	-7.6	-1.2	-0.5	:	:	1.7	1.8	:	1.9	2.1	:
General government debt*** (% of GDP)													
Albania	67.7	65.8	74.3	74.5	64.5	64.3	63.9	63.3	64.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	34.1	32.3	36.1	33.9	29.4	29.5	30.0	:	:	:	N.A.	N.A.	N.A.
Montenegro	70.1	76.5	105.3	82.5	69.5	71.0	71.6	63.3	62.4	:	N.A.	N.A.	N.A.
North Macedonia	40.4	40.5	50.8	52.0	51.0	51.5	53.0	50.0	50.4	:	N.A.	N.A.	N.A.
Serbia	53.7	52.0	57.0	56.5	55.2	52.1	50.7	51.0	51.7	:	50.7	:	:
Türkiye	30.0	32.6	39.6	41.8	31.7	32.7	35.0	31.2	34.0	:	N.A.	N.A.	N.A.
Kosovo	17.0	17.6	22.4	21.5	19.9	:	:	18.1	17.3	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Spring 2023 published May 2023.

* Q figures refer to a 4 quarters moving average.

** M and Q figures refer to the cumulative balance divided by the estimated annual GDP.

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

ALBANIA



Key developments

The 15th Subcommittee meeting on Economic and Financial Issues and Statistics took place on 12 and 13 September 2023 in Brussels. This subcommittee is a platform for the regular economic dialogue between the EU and Albania. Both sides welcomed the resilience of the Albanian economy and saw the key challenges in the slowing economic performance of external partners and the economic transition to a higher value-added production structure.

The credit rating agency Standard & Poor's confirmed Albania's credit rating at B+ in September and upgraded its assessment of Albania's economic outlook from stable to positive. This reflects the improvement of fiscal indicators and the credibility of Albania's fiscal consolidation plans.

Real sector

Real GDP increased by 3.2% y-o-y in Q2-2023, up from 2.8% in the previous three months. Investment registered the strongest growth (11%, up from 7.1% in Q1), followed by public consumption (9.3%, up from 4.1% in Q1) and private consumption (4%, up from 3.4% in Q1). The growth of services exports decelerated from 19% in Q1 but remained strong at 9.1%. However, it could not offset the sharp drop in goods exports by 26.8%, which caused overall exports to contract by 1.5%. Goods imports fell slightly but overall imports grew by 2.4%, due to service imports rising by 8%.

On the production side, construction was the top growth contributor (1.4 pps.) with 14.6% growth followed by services, especially the categories "real estate activities" (0.7 pps. with 11.7% y-o-y growth), and "public administration education and health" (contributing 0.66 pps.). Manufacturing's weakness deepened with a 6.1% decrease in Q2 following 0.8% growth in Q1. Agriculture slightly contracted (-0.4%) after stagnating in Q1.

Following a sharp increase in the first half of 2023, the economic sentiment indicator fluctuated around a declining trend and fell 2.4 points from August to September but remained considerably (11.1 points) above its long-term historical average. In September, decreasing confidence in the construction, trade and services sectors could not be compensated by

increasing industrial confidence while consumer confidence remained unchanged. Capacity utilisation rates increased in services and trade between Q3 and Q2 whereas those of industry and construction declined.

Labour market

Employment continued to grow in Q2-2023, by 2.7% y-o-y for the age group 15-64 (0.1% q-o-q) but dropped for the age group 15-29 by 4.6% y-o-y and 1.9% q-o-q. The unemployment rate (15-64 years) fell by 0.3 pps. Q-o-q to 11.1% in Q2-2023, the same level as in Q2-2022. The youth unemployment rate (15-29) fell by 0.2 pps. q-o-q to 22.3% but stood 2.1 pps. above its level of Q2-2022. The labour force participation rate (15-64 years) continued to climb to a new peak of 75.8%, 3 pps. above Q2-2022 (0.1 pp. q-o-q). This was driven by a 4.1 pps. y-o-y increase in the female participation rate to 70.2% (+0.7 pps. q-o-q), which continued to narrow the gender gap to 11.5 pps. in Q2-2023 as male participation declined 0.5 pps. from Q1.

Industrial employment decreased by 1.8% y-o-y but increased by 2.5% q-o-q while employment in services grew (11.9% y-o-y and 2.1% q-o-q). Agriculture lost jobs at a rate of 6.1% y-o-y and 4% q-o-q.

The average monthly nominal wage increased by 16.9% y-o-y in Q2, pushed up by the first phase of the public sector wage reform which increased wages in public administration, education and health by 20.4%, as well as by the 25% y-o-y increase in the minimum wage to lek 40,000 per month. With this increase the minimum wage reached 56% of the average gross monthly wage of lek 70,905. Average wages in the sectors of industry, agriculture, construction and hospitality services and trade all are still below that overall average wage.

External sector

In the first half of 2023, the current account deficit narrowed by 27.4% y-o-y. In the four quarters to June 2023, the current account deficit decreased to 4.8% of GDP, from 5.1% in the four quarters to March and from 6.5% in the same period one year earlier. This improvement was due to a 1.7 pps. y-o-y increase in the services trade surplus to 14.1% of GDP in Q2-2023, supported by increasing tourism services, and a 0.6 pps. y-o-y decrease in the goods trade

deficit to 23.5% of GDP (which however inched up by 0.3 pps. From Q1). Despite the continued growth in services exports, the strong fall in goods exports slightly reduced the share of total exports in GDP from 37.8% in the year to Q1 to 37.5% in Q2-2023 but they still remained 2.9 pps. above their level of Q2-2022. The imports-to-GDP ratio decreased 0.5 pps. q-o-q to 46.8% (but was up 0.6 pps. y-o-y).

In the year to Q2, the secondary income surplus remained unchanged q-o-q at 6.1% of GDP (-0.4 pps. y-o-y) as did the 4.6% share of remittances in GDP (-0.2 pps. y-o-y). The primary income deficit remained unchanged q-o-q at 1.6% of GDP but increased by 0.3 pps. y-o-y.

In the four quarters to Q2-2023, net FDI inflows grew by 10% y-o-y, despite increasing outflows, but their share in GDP continued to slightly decrease to 6.2% from 6.5% one year earlier. They still financed more than 100% of the current account deficit. Foreign reserves jumped 10.8 % y-o-y and 15.3% q-o-q to reach EUR 5.65 billion in August 2023, pushing up their coverage of imports from 6.8 months in Q1 to 7.3 months in Q2.

Monetary developments

Since peaking at 8.3% in October 2022, annual inflation has decelerated due to base effects and falling transport and food prices to 4.1% in September. Food prices still increased at an annual rate of 7.8%, driven in particular by vegetables (+20.8%), meat and dairy products (9%), and remained the key contributor (2.8 pps.) to the inflation rate. At the same time, the 10% drop in transport prices subtracted 0.7 pps. from headline inflation. However, in monthly comparison food price increases decelerated to 0.4% while transport prices picked up by 2.8% in September.

Following a cumulative 250 bps increase, the Bank of Albania has left its key policy rate unchanged at 3% since March 2023.

Supported by continuing external inflows from tourism and FDI, the appreciation of the lek against the euro accelerated from 4.2% y-o-y in January 2023 to 12.1% in July 2023 before decelerating in August and September, to 8.6% y-o-y.

The growth of monetary aggregate M3 averaged 7.3% in 2022 but decelerated gradually from 3.7% in Q1 to 1.4% in Q2 2023 before picking up in August to 2.3%.

Financial sector

Credit growth to the private sector averaged 8.1% in Q2-2023, 0.6 pps. Below the Q1-2023

rate. This reflects a continuing deceleration of lending growth in foreign currency to 10.3% and a recovery of domestic currency lending which picked up to 7.1%. Overall deposit growth accelerated to 9.5%, with foreign currency deposits still growing much faster (15.6%) than lek deposits.

Overall private loan demand continued to grow, in particular from large enterprises and households, while demand from small and medium enterprises declined. Loans to enterprises grew by 5% on average in Q2 (-0.4 pps. q-o-q) and lending to households by 13.4% (-1 pp.). The continuous tightening of credit standards (banks' internal criteria for loan approval regarding borrowers' characteristics) for enterprises since the beginning of 2022 came to a halt in Q2-2023, helped by lower costs for banks. However, concerns about risks of commercial borrowers still prevailed and banks continued tightening terms and conditions for the approved loans (such as collateral, loan size, maturity). Banks continued to ease conditions for loans to households, reflecting a higher competition, but they reported a higher loan rejection rate for both households and enterprises than in Q1-2023.

Average interest rates on euro loans increased to 6% and 5% for enterprises and households respectively and have narrowed the spread between interest rates for lek and euro loans. Interest rates for new loans in lek fell from 7.3% in Q1 to 6.4% in Q2 for enterprises while those for households remained unchanged on average.

The banking sector's capital adequacy ratio slightly increased in Q2 to 17.7% (+0.2 pps. q-o-q) whereas the broad liquidity ratio fell by 1 pp to 29.4%. The ratio of non-performing loans to total loans inched up to 5.3% in August 2023 from 5.1% in January. Bank profitability indicators continued their gradual improvement to 1.9% (for RoA) and 16.8% (for RoE) in Q2-2023.

Fiscal developments

The budget balance remained in surplus in January-August 2023 mainly because of tax revenue growth (9.8% y-o-y) exceeding the 8-month plan (+3.6%) coupled with the underspending of the capital expenditure budget (at only 74.4% of the 8-months plan and 3.1% less than in the same period in 2022); foreign financed capital expenditure lagged particularly behind. Public debt increased to 64.8% of GDP in Q2-2023 due to the EUR 600 million Eurobond which the government issued in June

TABLE



European Commission, ECFIN-D-1

ALBANIA

		2018	2019	2020	2021	2022	ECFIN 2023 Spring forecast		Q1 23	Q2 23	Q3 23	Jul 23	Aug 23	Sep 23
							2023	2024						
1 Real sector														
Industrial confidence ^{1.1}	Balance	8.3	6.1	-0.8	6.4	7.2	:	:	8.4	10.3	6.3	9.2	3.9	5.9
Industrial production ^{1.2}	Ann. % ch	9.7	5.6	-10.1	23.6	8.0	:	:	-12.7	-13.5	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	4.0	2.1	-3.3	8.9	4.8	2.9	3.8	2.8	3.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.1	3.3	-3.3	4.7	7.4	3.3	4.3	3.4	4.0	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	2.3	-3.6	-1.4	19.2	6.5	1.3	2.2	7.1	11.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.6	-2.5	9.5	18.0	12.5	:	:	1.2	-12.7	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	1.8	4.2	1.0	5.3	5.1	:	:	5.1	5.7	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	12.8	12.0	12.2	12.1	11.3	10.9	10.3	11.4	11.1	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.1	2.4	-1.9	-0.4	4.8	1.2	1.4	3.7	2.7	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	3.1	3.8	2.7	6.3	8.2	:	:	9.2	16.9	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	13.7	-3.8	-9.0	35.6	32.0	:	:	2.1	-16.0	:	-4.0	7.6	:
Imports of goods ^{3.2}	Ann. % ch	2.4	1.2	-6.8	32.3	18.7	:	:	0.4	-3.4	:	-13.6	-11.3	:
Trade in goods balance* ^{3.3}	% of GDP	-22.4	-22.9	-22.4	-25.3	-23.8	-23.1	-22.8	-23.4	-23.5	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	31.6	31.3	22.7	31.3	37.5	:	:	38.0	37.5	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	45.4	45.0	37.2	44.8	47.9	:	:	47.6	46.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-6.8	-7.9	-8.7	-7.7	-5.9	-5.9	-5.8	-5.1	-4.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.0	7.5	6.7	6.5	6.6	:	:	6.3	6.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	3,399	3,360	3,942	4,972	4,952	:	:	5,021	5,548	:	5,612	5,624	:
Int. reserves / months Imp ^{3.9}	Ratio	7.0	6.5	9.6	8.8	6.9	:	:	6.8	7.3	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	2.0	1.4	1.6	2.0	6.7	4.6	3.1	6.5	4.6	:	4.2	4.0	:
Producer prices ^{4.2}	Ann. % ch	1.6	-0.8	-3.4	2.7	19.9	:	:	9.4	6.9	:	:	:	:
Food prices ^{4.3}	Ann. % ch	2.7	2.9	3.6	3.9	11.8	:	:	12.6	10.0	:	9.0	7.8	:
M3 ^{4.4}	Ann. % ch	-0.2	4.3	10.5	8.6	4.9	:	:	3.7	1.4	:	0.5	2.3	:
Exchange rate ALL/EUR ^{4.5}	Value	127.58	123.00	123.74	122.45	118.98	:	:	115.41	110.25	105.27	103.24	105.67	106.91
Real effective exchange rate ^{4.6}	Index	104.3	107.9	109.9	111.9	112.4	:	:	115.6	121.9	:	131.3	:	:
5 Financial indicators														
Interest rate (3 months-TRIBOR) ^{5.1}	% p.a.	1.83	1.45	1.46	1.39	2.21	:	:	3.70	3.68	3.62	3.66	3.60	3.59
Bond yield ^{5.2}	% p.a.	2.20	1.76	1.63	1.63	1.93	:	:	:	:	:	:	:	:
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	-1.7	3.0	6.1	6.9	11.2	:	:	5.5	2.3	:	0.0	1.9	:
Deposit growth ^{5.5}	Ann. % ch	-1.2	2.5	5.8	8.5	8.0	:	:	4.2	1.5	:	-0.7	1.7	:
Non performing loans ^{5.6}	% total	11.1	8.4	8.1	5.7	5.0	:	:	5.2	5.2	:	5.3	:	:
6 Fiscal developments														
General government revenue** ^{6.1}	% of GDP	27.5	27.2	25.9	27.5	26.8	:	:	7.2	14.7	:	N.A.	N.A.	N.A.
General government expenditure** ^{6.1}	% of GDP	29.1	29.1	32.6	32.1	30.4	:	:	5.8	12.6	:	N.A.	N.A.	N.A.
General government balance** ^{6.1}	% of GDP	-1.6	-1.9	-6.7	-4.6	-3.7	-2.2	-2.2	0.6	:	:	N.A.	N.A.	:
General government debt*** ^{6.2}	% of GDP	67.7	65.8	74.3	74.5	64.5	64.3	63.9	63.3	64.8	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2023 published May 2023

* Q figures refer to a 4 quarters moving average.

** M and Q figures refer to the cumulative balance divided by the estimated annual GDP.

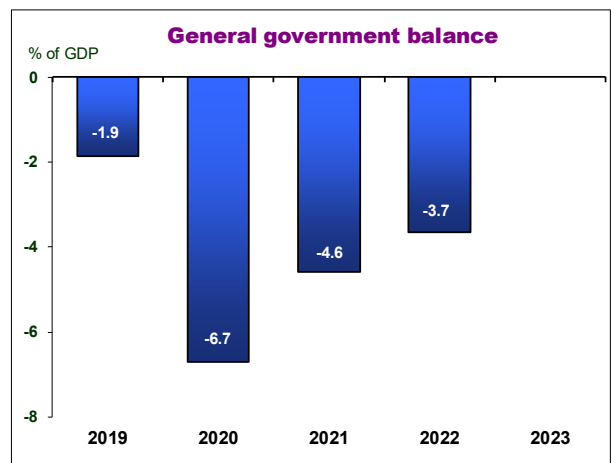
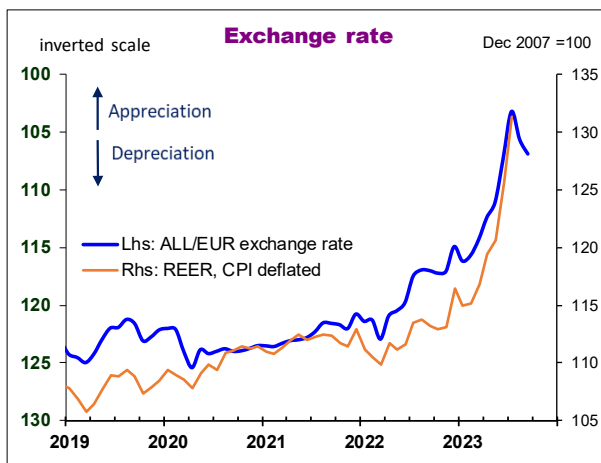
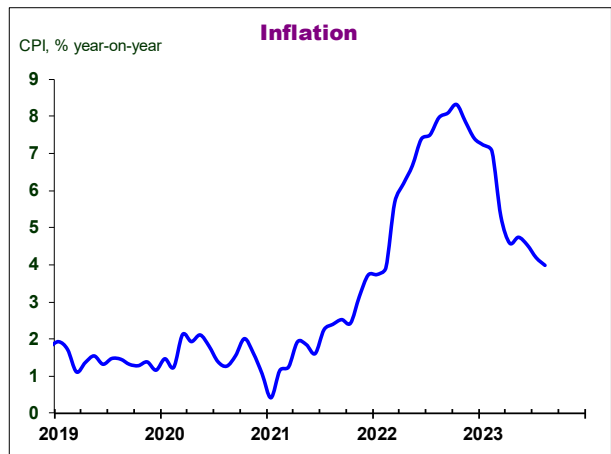
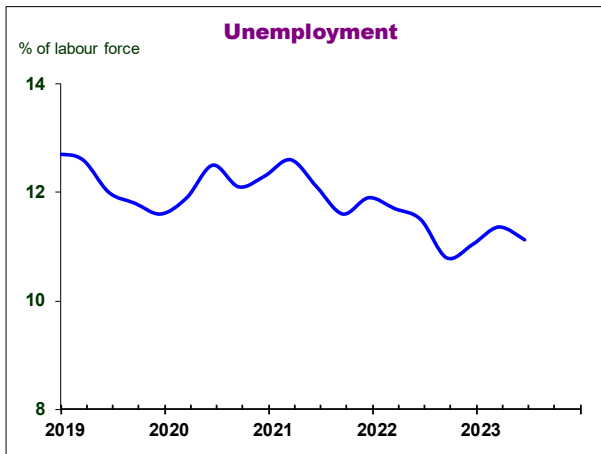
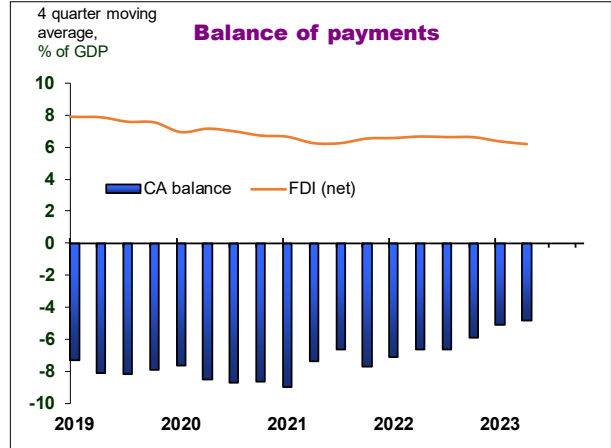
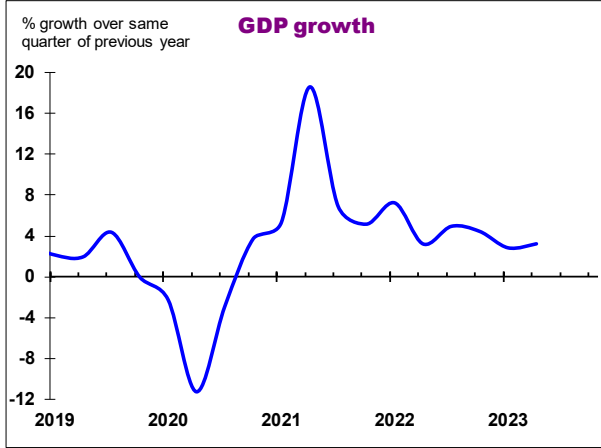
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA



BOSNIA AND HERZEGOVINA



Key developments

On 7 August, the international rating agency *Standard and Poor's* raised the country's credit rating, from 'B' to 'B+', with a stable outlook. Factors supporting the upgrade were the country's economic resilience, weathering several external and domestic shocks, such as COVID-19, weaker external demand and internal political tensions. The upgrade was also supported by the favourable fiscal position of the consolidated general government and the forecasted decline in the general government debt.

On 6 October, the Central Bank's published its September inflation expectations survey indicating that for 2023 inflation expectations have remained stable at slightly above 8%, while for 2024, a decline in headline inflation towards 5.5% is expected.

Real sector

Economic growth remained subdued in Q2-2023 at 0.7% on a seasonally-adjusted q-o-q basis, compared to a q-o-q increase of 0.6% in Q1. In annual terms, GDP growth in Q2-2023 continued to slow down to 1.2%, compared to 1.7% in Q1-2023, despite a switch to positive household consumption growth, increasing by 1.7% y-o-y, after 2 quarters of negative growth. Government consumption increased marginally by 0.3%, compared to 2.1% in Q1. The Statistical Office also continued to register a robust increase in gross capital formation (6.7% y-o-y), although a large part of this growth could be due to inventory build-up and statistical discrepancies. Real exports of goods and services were 9.1% lower than a year before. Also imports were 2% lower y-o-y, partly reflecting the high import content of certain exports. On the production side, growth continued to be mainly driven by trade, transport, accommodation and food services, while the value-added in manufacturing declined by 9% y-o-y.

High-frequency indicators point to a stabilisation of economic growth at a lower level. In July and August, industrial production remained largely on its previous-year level, after a drop by 6.5% in Q2. In line with robust private consumption, retail sales turnover remained strong, increasing by 17.3% in July and August, respectively, after 13.1% in Q2.

Tourism continued to perform strongly. In the first 8 months of 2023, the number of arrivals and overnight stays increased by 19% and 14% y-o-y, respectively. Compared to 2019, the last pre-COVID year, arrivals in the first 8 months of 2023 were some 3% higher, while the number of overnight stays increased by some 6%. After a sharp drop in the number of foreign tourists during the pandemic, their share in total arrivals and overnight stays is now largely back to pre-COVID levels at some 70%.

Labour market

Annual growth of registered employment decelerated slightly to 1.1% in Q2-2023, from 1.4% in Q1, before accelerating to 1.3% in July. During the first 7 months of 2023, average employment growth was 1.3%, mainly as a result of employment growth in the accommodation and food sector, as well as in information and communication and education. During the same period, the construction sector recorded a fall in employment of 1.2% compared to the previous year.

In July, the number of registered unemployed was 11 000 (11.3%) lower than a year before. This brought the administrative unemployment rate down to 29.2%, compared to 30.2% a year before. However, the Labour Force Survey (LFS) registered an increase in the unemployment rate to 16.9% in Q2, compared to 15.7% a year before. The LFS youth unemployment rate (age group 15-24) stood at 29.1% in Q2, compared to 36.3% a year before. The current level is comparable to youth-unemployment rates before the pandemic.

The annual growth in average nominal gross wages decelerated slightly to 14.8% in Q2-2023, compared to 15.6% in Q1-2023, and further to 11.8% in July. During the first 7 months of 2023, real wages were y-o-y 6.1% higher, compared to a loss in real wages by 2.3% in the same period a year before. Official wage statistics do not include micro enterprises, which represent a large share of employment.

External sector

In the four quarters to Q2-2023, the current account deficit shrank from 4.4% of GDP in Q1-2023 to 4.1% in Q2, as the deterioration in the 4-quarter-moving-average trade balance (-0.5% of GDP) was largely off-set by improvements in

the 4-quarter-moving-average primary and secondary balances, by 0.5 pps. and 0.2 pps., respectively. Data covering the first half of 2023 point to an increase in the trade deficit, driven by decelerating exports and high import prices. However, incoming private transfers and compensations of employees offset the widening trade deficit. Overall, the average current account deficit declined slightly, by 1.3% y-o-y in H1-2023.

Nominal growth of external trade decelerated markedly in Q2, with the value of goods exports being 9.9% lower than a year earlier, while the value of imports was 2.9% lower. Monthly data for July and August point to sharp falls in the value of exports by some 5.1% and 13.6% y-o-y, respectively. The main factors were lower exports of base metals and mineral products and lower foreign demand from Croatia, Italy and Serbia, which together account for about one third of total exports.

The 4-quarter moving average of net FDI inflows stood at 3.3% of GDP in Q2-2023, compared to 3.2% GDP in Q1. About 40% of those inflows were reinvested earnings. The main inflows were in the electricity, the financial and the petroleum and coal sector (about 10% of total inflows each). The main sources of FDI were the UK (16%), the Netherlands (13%) and Russia (10%). Official foreign exchange reserves dropped to 6.5 months of imports of goods and services.

Monetary developments

Annual headline inflation continued to decelerate, from 12.4% in Q1-2023 to 6.4% in Q2. In July and August, annual inflation slowed further to 4.0% and 4.7%, respectively. This brought average inflation during the first 8 months of the year to 8.0%, compared to 12.8% in the same period a year earlier. The main drivers were still rising prices for food and non-alcoholic beverages, increasing by 13.8% on average during the first 8 months of 2023. Prices for housing, electricity and household equipment were further important drivers of headline inflation. On the other hand, transport prices, which had been a key inflation driver during 2022, started to decline by mid-2023.

Growth of the monetary aggregate M2 continued to accelerate, from 7.5% y-o-y in Q1-2023 to 8.1% in Q2. In July and August, M2 increased by 8.3% and 7.5% y-o-y, respectively.

Financial sector

The financial sector remained stable. Annual credit growth remained at around 4.4% in Q2-2023, compared to 4.5% in Q1. In July and August, credit growth accelerated slightly to 4.8%. The main factors were solid growth of bank loans to households, which account for about 50% of total loans and increased by more than 5.5% on average during the first 8 months of 2023. Credits to private companies, which account for about 40% of total loans, rose by about 3.5% in this period. Loans to the public sector account for some 7% of total loans, and increased in the same period by 17.5%.

Bank deposit growth accelerated from 6.3% in Q1-2023, to 8.4% in Q2, but slowed down again to 7.5% and 6.8% in July and August, largely due to deposit withdrawals of entity level governments and of public enterprises. The loan-to-deposit ratio maintained its level during the second quarter, at 75.9%, compared to 75.5% in Q1.

The share of non-performing loans in total loans continued to decline slightly, from 4.2% at the end of Q1-2023 to 4.1% at the end of Q2. The ratio of non-performing loans covered by loan-loss provisions increased to 81.4% in Q2 from 81.2% in Q1 and 77.7% a year before. Banking sector profitability remained solid. The return-on-equity (ROE) ratio remained high, at 15.9% in Q2-2023, compared to 17% in Q1. The return on assets (ROA) deteriorated marginally, from 2.2% in Q1-2023, to 2% in Q2. The banking system's overall capital-adequacy ratio remained stable at 19.5% in Q2-2023, well above the regulatory minimum of 12%. However, there are sizeable differences among the country's 21 banks, with pockets of vulnerability remaining.

Fiscal developments

The country does not publish high-frequency country-wide fiscal data. On entity level, the Federation's Ministry of Finance reported for the first half of 2023 a surplus of about 1.7% of the entity's GDP, while the RS published a deficit of 3.2% of the entity's GDP in 2022 and the need to cut spending in 2023. During the first 8 months of 2023, revenue from centrally collected indirect taxes registered nominal growth of 7.7%, which was below the rate of inflation during this period. This revenue category accounts for nearly half of total revenues. The public debt-to-GDP ratio stood at 29.4% at the end of December 2022, compared to 33.9% a year before.

TABLE



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

							ECFIN 2023 Spring forecast							
		2018	2019	2020	2021	2022	2023	2024	Q1 23	Q2 23	Q3 23	Jul 23	Aug 23	Sep 23
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	1.6	-5.3	-6.3	9.7	1.0	:	:	-2.5	-6.5	:	0.1	0.2	:
Gross domestic product ^{1.3}	Ann. % ch	4.6	2.3	-2.9	7.3	3.8	1.5	2.3	1.7	1.2	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.7	3.8	-2.0	4.2	4.3	:	:	-1.6	1.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	8.1	5.8	-4.1	5.1	6.6	:	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	5.2	15.4	-18.6	12.0	8.1	:	:	-1.1	-2.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	8.2	5.2	-6.8	18.5	13.9	:	:	11.4	13.1	:	17.3	17.3	:
2 Labour market														
Unemployment ^{2.1}	%	18.4	15.7	15.9	17.4	15.4	14.5	14.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	6.2	2.5	-1.2	0.9	2.3	0.7	1.5	1.4	1.1	:	1.3	:	:
Wages ^{2.3}	Ann. % ch	3.1	4.3	4.0	4.4	11.7	:	:	15.6	14.8	:	11.8	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	11.5	-2.3	-7.4	34.9	28.8	:	:	4.2	-9.9	:	-5.1	-13.6	:
Imports of goods ^{3.2}	Ann. % ch	7.1	1.1	-13.5	26.7	33.6	:	:	5.7	-2.9	:	-4.5	-2.1	:
Trade in goods balance* ^{3.3}	% of GDP	-22.5	-22.3	-18.0	-18.3	-22.4	:	:	-21.9	-21.9	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	42.6	40.0	34.6	42.6	48.2	:	:	47.0	45.1	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	57.3	54.5	47.9	53.9	62.0	:	:	60.5	58.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-3.3	-2.6	-2.8	-1.8	-4.3	-3.8	-4.4	-4.4	-4.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.9	2.1	2.0	2.7	3.0	:	:	3.2	3.3	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	m n EUR	5,943	6,441	7,091	8,359	8,214	:	:	7,775	7,832	:	:	:	:
Int. reserves / months Imp ^{3.9}	Ratio	7.3	7.8	10.0	9.3	6.8	:	:	6.4	6.5	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.4	0.6	-1.1	2.0	14.0	7.0	4.0	12.4	6.4	:	4.0	4.7	:
Producer prices ^{4.2}	Ann. % ch	3.2	0.4	-0.4	4.5	19.1	:	:	13.9	2.9	:	-1.0	0.5	:
Food prices ^{4.3}	Ann. % ch	0.6	1.1	1.0	3.5	21.5	:	:	20.5	11.3	:	8.7	8.0	:
M2 ^{4.4}	Ann. % ch	9.4	8.9	7.3	11.6	5.5	:	:	7.5	8.1	:	8.3	7.5	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	:	:	1.96	1.96	:	:	:	:
Real effective exchange rate ^{4.6}	Index	97.2	95.9	95.2	94.9	98.6	:	:	99.0	98.1	:	:	:	:
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	621	772	769	870	1009	:	:	1,051	1,042	1,002	992	1,001	1,013
Credit growth ^{5.4}	Ann. % ch	6.6	5.7	1.1	1.7	4.2	:	:	4.5	4.4	:	4.8	4.8	:
Deposit growth ^{5.5}	Ann. % ch	11.3	9.3	5.6	10.1	5.9	:	:	6.3	8.4	:	7.5	6.8	:
Non performing loans ^{5.6}	% total	8.8	7.4	6.1	5.8	4.5	:	:	4.2	4.1	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government revenue** ^{6.1}	% of GDP	43.0	42.0	41.6	41.0	40.0	:	:	:	:	:	N.A.	N.A.	N.A.
General government expenditure** ^{6.2}	% of GDP	40.8	40.1	46.8	41.3	40.4	:	:	:	:	:	N.A.	N.A.	N.A.
General government balance** ^{6.1}	% of GDP	2.2	1.9	-5.2	-0.3	-0.4	-0.3	-0.8	:	:	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	34.1	32.3	36.1	33.9	29.4	29.5	30.0	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2023 published May 2023

* Q figures refer to a 4 quarters moving average.

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

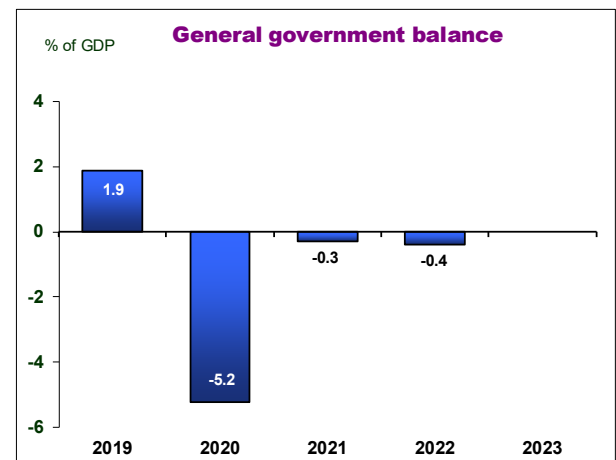
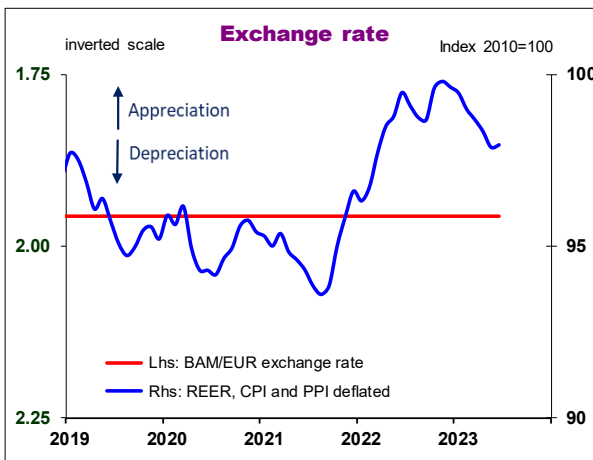
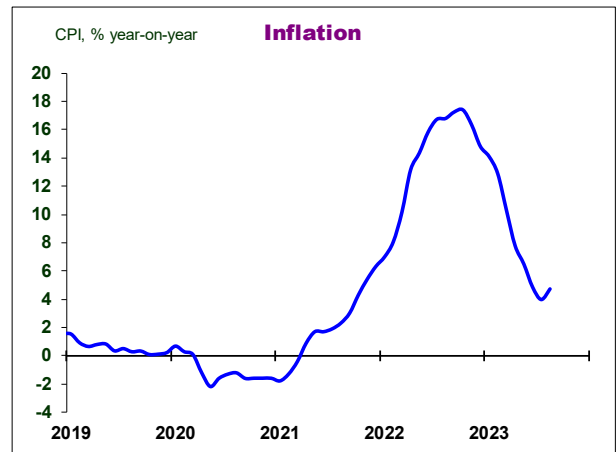
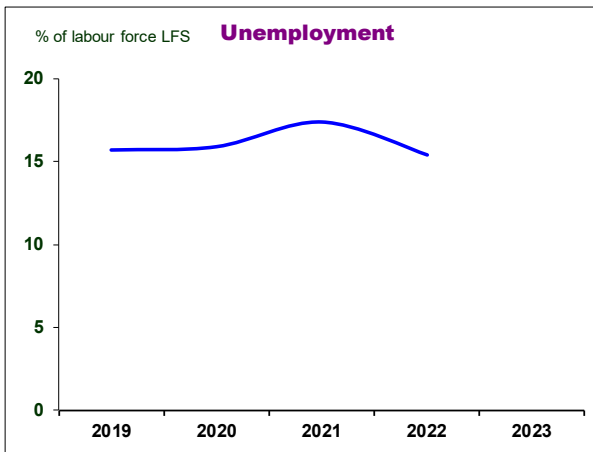
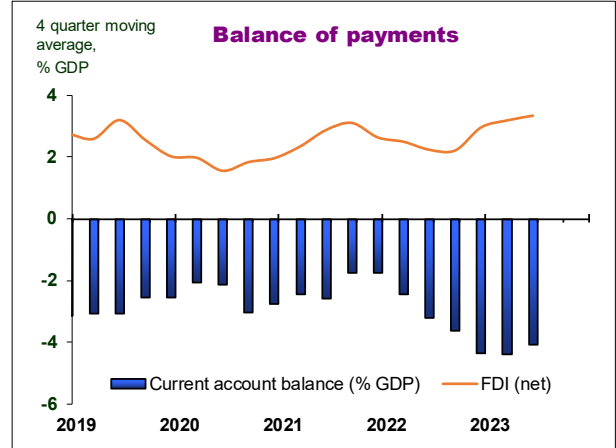
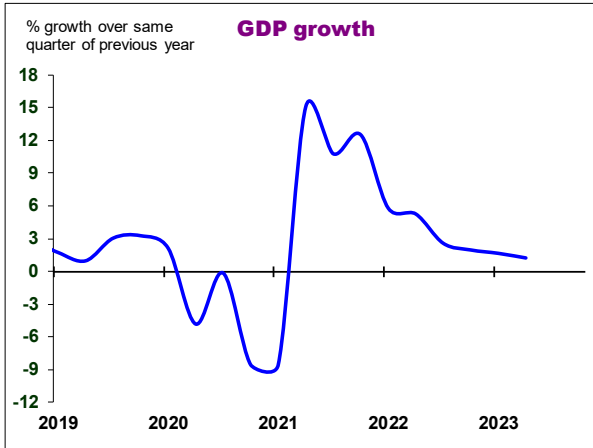
*** Q figures in percent of estimated annual GDP.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

In mid-August, President J. Milatovic nominated M. Spajic, the leader of the pro-European Europe Now Movement, as prime minister-designate with a mandate to form a government. In late August, M. Spajic announced that he had reached an agreement with several parties, giving him the support of 44 MPs in the 81-seat parliament. M. Spajic has until 10 November to get parliamentary approval.

On 7 September, Standard & Poor's affirmed Montenegro's 'B/B' sovereign credit ratings, maintaining the stable outlook. The agency expects continued economic growth to be supported by the tourism sector and the country's fiscal deficit and balance of payments risks to remain under control.

Real sector

On 20 September, the Statistical Office of Montenegro released final GDP data for 2022, slightly revising the real growth rate to 6.4% y-o-y, up from the previous estimate of 6.1%.

Economic growth continued to be robust in Q2-2023, driven by private consumption and exports of services, the former supported by strong inflows of foreign nationals and employment and wage growth. As a result, real GDP increased by 6.9% y-o-y in Q2, after 6.2% y-o-y in the previous quarter, but below 13.0% y-o-y in the same period a year earlier. Private and government consumption grew by 6.4% and 3% y-o-y, respectively. A strong tourism season and the good performance of transport resulted in a sharp increase in the volume of services exports (+33.4% y-o-y), while exports of goods contracted by 13.5% y-o-y. Imports practically stagnated (+0.1% y-o-y), resulting in a 7.5 pps. positive contribution of net exports to GDP growth. Negative contributions to growth came from gross fixed capital formation and stocks, which contracted by 2.7% and 35.1% y-o-y, respectively.

Montenegro's industrial production remained highly volatile. After increasing 9.5% y-o-y in Q1-2023, output fell by 1.0% y-o-y in Q2, to increase again in July (by 11.6% y-o-y) and contract in August (2.7% y-o-y). On average, industrial production grew by 4.7% y-o-y in the

first eight months of 2023, led by a surge in electricity production (42.8% y-o-y) by amid favorable hydrological conditions, while mining output grew only marginally 0.6% y-o-y. and manufacturing, hampered by basic metals production, recorded a contraction of 8.2% y-o-y. Construction output contracted by 11.8% y-o-y in Q2. Retail sales expanded by 10.1% in Q2 and 10.6% y-o-y in July but decelerated to 5.3% y-o-y in August.

Labour market

Labour market performance improved somewhat in Q2-2023 in line with seasonal patterns. According to the labour force survey (LFS), employment growth continued at a similar pace in Q2 (8.4% y-o-y) as in the previous quarter (8.8%). Meanwhile, the unemployment rate fell substantially to 13.5% in Q2-2023 from 15.8% in Q1-2023 and was also lower than in the same period one year earlier (14.9%). Both the male and female unemployment rates decreased, to 13.2% and 13.8% respectively in Q2-2023 from 15.8% and 15.9% in the previous quarter.

In January – August the average net monthly wage (without taxes and contributions) rose by 11% y-o-y and amounted to EUR 799 in August. The gross average wage reached EUR 995 in August from EUR 886 in the same month of 2022.

External sector

The current account deficit narrowed to 11.8% of GDP in the four quarters to June 2023, from 13.7% of GDP in the previous quarter, but was slightly higher than the 11% gap recorded in the same period a year earlier. The merchandise trade deficit narrowed slightly to 45.1% of GDP, compared to 46.2% in the previous quarter, but was 3.6 pps. higher than in the same period a year before. The surplus in services trade rose to 24% of GDP from 22.6% in the previous quarter and 20.1% in Q2-2022. Reflecting slower growth in the EU and decline in remittances, the surpluses in the primary and secondary income balance declined somewhat to 1.8% and 7.5% of GDP respectively as compared to 2.5% and 8% of GDP in the same period of 2022.

Net FDI inflows declined in the four quarters to June 2023, totalling 10.8% of GDP compared to

13.7% a year before, thus still covering a substantial part of the current account deficit. The stock of international foreign exchange reserves stood at the equivalent of 4.1 months of imports in June.

Monetary developments

The increase in consumer prices moderated to 7.8% y-o-y in July, but the declining trend was interrupted in August as inflation bounced back to 9.1% y-o-y due to higher food, clothing and furniture prices.

In January – August consumer prices increased notably for food and non-alcoholic beverages (by 14.4% y-o-y) as well as for housing and utilities, including electricity (11.8% y-o-y), while restaurants and hotels costs rose 14.7% y-o-y. Meanwhile, transport prices remained broadly stable at 0.1% y-o-y over the same period.

Financial sector

The robust pace of credit growth continued during the summer months. Commercial banks' loans expanded by 12.3% and 8.9% y-o-y in July and August, respectively, after growing by 10.4% y-o-y in Q2. The increase was mainly driven by very strong growth of lending to financial institutions, which peaked at 108% y-o-y in June and continued at 58% y-o-y in August. Lending to households was recording a monthly reading of 7% y-o-y from June to August. Monthly reading of credit to central government was over 10% y-o-y over the same period. Lending to non-residents decelerated from 56.6% y-o-y in June to 24% y-o-y in August and accounted for 19.7% of all loans. Due to rapid credit growth, the level of non-performing loans declined to 5.2% of total loans in Q2 as compared to 5.6% in the previous quarter.

The pace of growth of commercial banks' deposits continued easing and stood at 13.6% y-o-y in August, after rising by 17.1% in July and 18.5% in Q2. By sectors, the growth of corporate deposits decelerated from 20% y-o-y in June to 10% in August from while deposits of households were recording similar increases of 14.5% and 13.5% y-o-y in June and August,

respectively. Deposits of financial institutions were on a declining trend since March, with 6.3% y-o-y in June and 9.7% y-o-y in August. Non-resident deposits accounted for 23.6% of the total in August.

Fiscal developments

Strong private demand and still high inflation supported higher than planned budget revenue in the first eight months of 2023, which surged by 32.6% y-o-y. Additional boost (around 1.8% of GDP) came from the one-off revenue from the economic citizenship program, termination of hedging arrangement and the EU energy support grant. Revenues from VAT and excise duties were up by 17.2% and 26.9% y-o-y respectively. Improved tax discipline and the implementation of progressive profit taxation boosted corporate income tax revenue, which surged by 75.2% y-o-y, while income from personal income tax declined by 37.2% y-o-y, due to a higher non-taxable share of wages. There was also an increase in the category of social contributions (26.6% y-o-y), following higher coefficients for public sector wages.

In the same period, budget expenditure increased by 15% y-o-y as compared to the same period in 2022. The main drivers for current expenditure were higher spending on wages, interest payments and expenditures for services. Social security transfers rose by 30.1% y-o-y, with the largest increase in pension and disability insurance. Capital spending declined by 37.1% over the same period, reflecting chronic problems of public investment management. As a result, the budget showed a surplus of 3% of estimated GDP in January-August compared to a deficit of 0.4% of GDP in the same period in 2022.

The stock of gross central government debt continued to decline, to 62.4% of GDP in Q2-2023 compared to 63.3% in Q1 and 69.5% of GDP at end-2022. Government deposits, including gold, stood at 4.2% of GDP in Q2-2023 which is slightly lower than 4.3% in Q1, but way above 1.9% at end-2022.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2018	2019	2020	2021	2022	ECFIN 2023 Spring forecast		Q1 23	Q2 23	Q3 23	Jul 23	Aug 23	Sep 23
							2023	2024						
1 Real sector														
Industrial confidence ^{1.1}	Balance	5.6	3.6	-18.4	-4.0	6.6	:	:	4.2	5.2	8.6	14.4	8.3	3.1
Industrial production ^{1.2}	Ann. % ch	23.6	-6.1	-0.9	5.7	-1.7	:	:	9.5	-1.0	:	11.6	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.1	4.1	-15.3	13.0	6.4	3.0	2.9	6.2	6.9	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.6	3.1	-4.6	4.0	9.7	3.2	2.8	15.5	6.4	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	14.7	-1.7	-12.0	-12.3	0.1	2.4	4.4	12.6	-2.7	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	24.9	10.7	-5.6	-4.8	-4.4	:	:	-7.0	-11.8	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	3.5	5.2	-12.0	16.6	14.2	:	:	11.3	10.1	:	10.6	5.3	:
2 Labour market														
Unemployment ^{2.1}	%	15.5	15.4	18.4	16.9	15.1	14.1	13.9	15.8	13.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	3.2	2.6	-10.1	-2.4	17.2	1.4	1.5	8.8	8.4	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	0.1	0.8	1.3	1.4	11.2	:	:	8.9	12.8	:	12.7	12.3	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	14.7	6.8	-12.2	28.6	45.2	:	:	5.0	-13.5	:	-7.4	-3.1	:
Imports of goods ^{3.2}	Ann. % ch	10.9	1.8	-19.0	19.0	40.7	:	:	26.2	2.8	:	6.7	-3.8	:
Trade in goods balance* ^{3.3}	% of GDP	-43.9	-41.7	-39.2	-38.7	-46.1	-45.3	-45.0	-46.2	-45.1	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	42.9	43.9	26.0	42.8	52.7	:	:	52.9	52.7	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	66.7	65.0	61.0	62.2	76.0	:	:	76.6	73.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-17.0	-14.3	-26.1	-9.2	-13.2	-10.3	-12.3	-13.7	-11.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	6.9	6.2	11.2	11.7	13.5	:	:	12.0	10.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	1,050	1,367	1,739	1,749	1,915	:	:	1,787	1,616	:	1,568	1,687	N.A.
Int. reserves / months Imp ^{3.9}	Ratio	4.0	5.1	8.2	6.8	5.2	:	:	4.6	4.1	:	4.0	4.3	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	2.9	0.5	-0.8	2.5	11.9	8.0	4.9	13.0	8.4	:	7.8	9.1	:
Producer prices ^{4.2}	Ann. % ch	1.7	2.4	0.0	1.3	11.2	:	:	12.0	4.9	:	:	:	:
Food prices ^{4.3}	Ann. % ch	0.6	3.4	1.3	3.4	22.0	:	:	20.5	11.6	:	11.2	11.9	:
M2 ^{4.4}	Ann. % ch	5.0	-3.8	-3.5	16.5	30.7	:	:	26.7	19.3	:	18.7	:	:
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	2.7	-1.5	-0.6	:	:	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (6 months) ^{5.1}	% p.a.	0.47	0.52	0.87	:	3.70	:	:	:	:	:	:	:	:
Bond yield (10 yrs) ^{5.2}	% p.a.	N.A.	2.61	3.53	3.85	7.25	:	:	7.84	7.64	6.98	7.36	6.93	6.66
Stock markets ^{5.3}	Index	10,374	10,980	10,225	10,910	11,077	:	:	14,579	14,790	14,919	14,855	15,004	14,898
Credit growth ^{5.4}	Ann. % ch	10.6	4.0	5.0	6.6	6.1	:	:	11.1	10.4	:	12.3	8.9	:
Deposit growth ^{5.5}	Ann. % ch	12.0	1.8	-2.6	12.8	23.2	:	:	22.0	18.5	:	17.1	13.6	:
Non-performing loans ^{5.6}	% of total	6.7	4.7	5.5	6.2	5.7	:	:	5.6	5.2	:	:	:	:
6 Fiscal developments														
General government revenue** ^{6.1}	% of GDP	42.2	43.4	44.6	44.3	39.7	:	:	8.2	18.8	:	N.A.	N.A.	N.A.
General government expenditure** ^{6.1}	% of GDP	46.0	45.4	55.7	46.2	44.8	:	:	7.3	16.2	:	N.A.	N.A.	N.A.
General government balance** ^{6.1}	% of GDP	-3.9	-2.0	-11.1	-1.9	-5.2	-4.7	-4.5	1.0	2.5	:	2.3	2.9	N.A.
General government debt*** ^{6.4}	% of GDP	70.1	76.5	105.3	82.5	69.5	71.0	71.6	63.3	62.4	:	N.A.	N.A.	N.A.

f. ECFIN forecast Spring 2023 published May 2023

* Q figures refer to a 4 quarters moving average.

** M and Q figures refer to the cumulative balance divided by the estimated annual GDP.

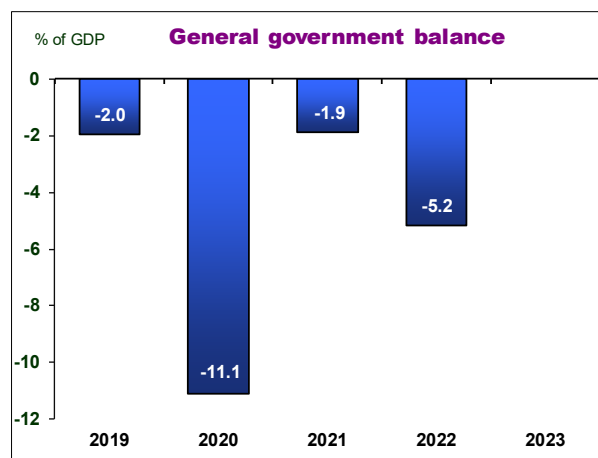
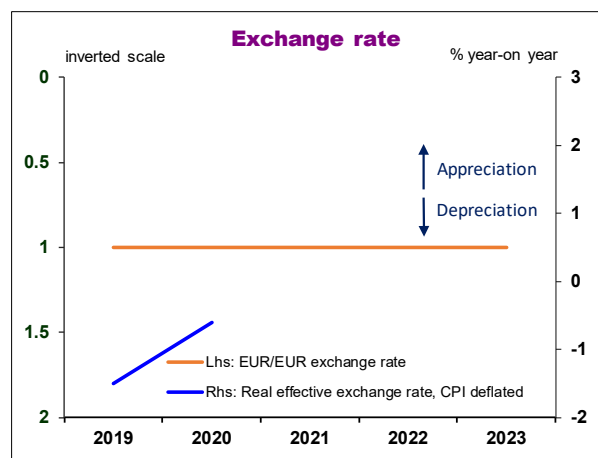
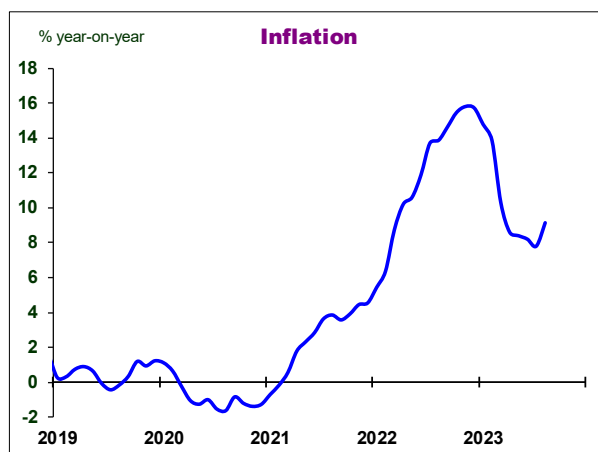
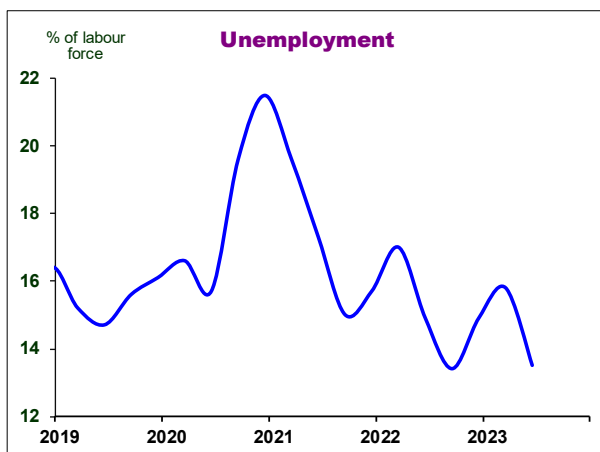
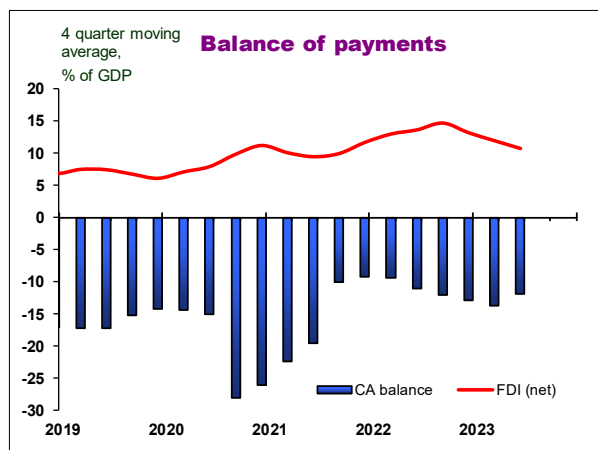
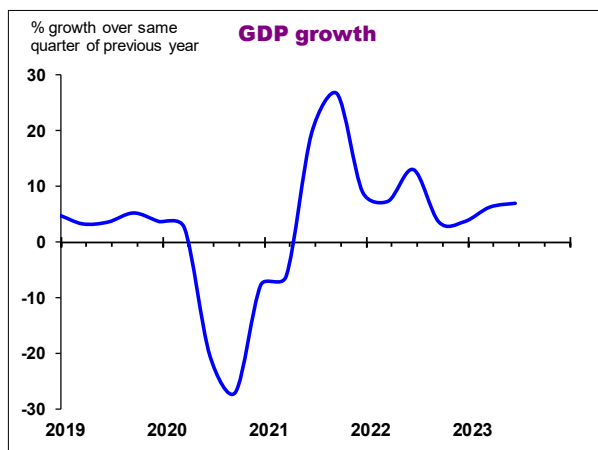
*** Q figures refer to central government debt only, in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO



NORTH MACEDONIA



Key developments

On 28 July, rating agency Standard and Poor's reaffirmed the country's rating at BB- with stable outlook. Analysts underpin their rating by the country's promising growth prospects, manageable government debt, and contained debt servicing cost.

On 6 October, rating agency Fitch Ratings also confirmed the country's rating at BB- with stable outlook, citing strong economic governance, the long-standing stable exchange rate peg and the EU accession prospect as positive factors. Analysts underline challenges to the outlook from the rising share of foreign-exchange denominated public debt, the high degree of euro-denominated bank deposits, and the skills mismatch in the labour market.

On 4 October, the EU and North Macedonia discussed the country's progress on economic and financial issues under the Stabilisation and Association Agreement. North Macedonia confirmed its commitment to a swift implementation of the provisions of the new Organic Budget Law; to better targeting of energy subsidies; and to further revenue-enhancing tax reforms.

Real sector

In the second quarter of 2023, real GDP rose by 1.1% y-o-y, down from 2.1% in the preceding three months. Household consumption growth decelerated for the third consecutive quarter, to 1.6% y-o-y, but remained the main driver of GDP growth. Government consumption dropped by 2.7% y-o-y (Q1: -5.9%), while investment fell by 1.2% (Q1: -22.3%). Exports dropped by 1.2% y-o-y, after increasing by 7.1% in Q1-2023. The annual decline in imports slowed down from 4.3% in the first quarter of the year to 1.7% y-o-y in Q2. On the production side, wholesale and retail trade made the largest contribution to GDP growth in Q2 (7.6% y-o-y, down from 10.6% in Q1). Manufacturing output rose by 2.8% y-o-y, after three consecutive quarters of negative annual growth. Construction declined by 18.5% y-o-y. High-frequency indicators for July and August point to a deceleration in economic activity. The industrial production index decreased by 3.4% y-o-y on

average in July and August, following a 3.7% y-o-y rise in June, with manufacturing output declining by 3.3% y-o-y on average in the same period. Energy production dropped by 2.5% y-o-y, after having increased by 19.1% in Q1 and by 16.6% in Q2. Retail trade (except automotive fuel) declined in July and August (-7.3% y-o-y on average), after a slight increase of 0.6% on average in Q2.

Labour market

According to the Labour Force Survey,² the employment rate for the age group 15-64 stood at 56.8% in Q2 (+0.3 pps. compared to Q1), with a slight decline in the employment rate of women (-0.3 pp. to 47.3%). The unemployment rate in this age group was 13.2% in Q2, 0.2 pps. lower than in Q1. The unemployment rate for young workers (aged 15-24) declined from 28.9% in Q1 to 25.6% in the second quarter (23.5% for men and 29.7% for women). Overall labour market participation increased by 0.2 pps., compared to Q1, to 65.4%. Average gross nominal wages rose by 14.9% in July and by 14.4% in August. In real terms, wages rose by 5.4% y-o-y on average in the same period. Real wages have been increasing as from April 2023, after an extended period in which nominal wage growth did not keep pace with inflation.

External sector

In the first half of 2023, the current account deficit declined by 98% y-o-y. In the four quarters to June 2023, the deficit narrowed substantially to 1.3% of GDP (-1 pp. q-o-q and -5.8 pps. Y-o-y), mainly as a result of an improvement in the merchandise trade deficit (-3.9 pps. Y-o-y to 21.5% of GDP), reflecting the recent drop in energy prices. The surplus in services trade amounted to 5% of GDP (+0.8 pps. Y-o-y). The primary income deficit remained unchanged at 4.6% of GDP, while the surplus of secondary income, driven mainly by

² Statistical changes for 2022 and the first quarter of 2023 affect data comparability. In Q1-2023, the implementation of a new regulation caused changes in the survey affecting the scope and definition of employment and unemployment. This caused an interruption of the time series of data, restricting comparability with previous data.

private transfers, rose by 1.1 pps. Y-o-y to 19.8% of GDP. Net foreign direct investment inflows increased to 4.7% of GDP in the four quarters to Q2 (+1 pp. y-o-y), fully covering the current account deficit. Gross external debt increased by 5.6% in the first half of 2023, compared to end-2022, amounting to 80.3% of estimated GDP at end-June (+0.4 pps. y-o-y and +3.1% q-o-q). The increase was primarily due to higher intercompany lending and private bank debt. Official foreign reserves were higher by 3.9% y-o-y at the end of September 2023, and equivalent to 4.1 months of prospective imports of goods and services.

Monetary developments

Annual consumer price inflation further decelerated in Q2 and beyond, reaching 8.3% on average in July and August, compared to 11.2% in Q2. It slowed further to 6.6% in September, having gradually declined from its peak of 19.8% in October 2022. Electricity and fuel price growth declined to 8.8% y-o-y in July and August on average, down from 14.1% in Q2. Food price inflation fell to 11.3% in July and August on average (14.4% in Q2), while transport costs dropped by 3.9% y-o-y on average. The producer price index decreased by 1.2% in the same period. There was also a further decline in the core inflation rate, to 7.9% y-o-y on average in July and August, down from 11.5% in the second quarter of 2023. The growth of broad money (M3) accelerated in Q2 (10% y-o-y), compared to the preceding three months (6.6%), but declined again in July (8.6%) and August (7.4%). The central bank raised the key policy rate further, in August and September, by 15 bps each, to 6.3%.

Financial sector

The rate of annual loan growth continued to decelerate in Q2 to 6.4%, down from 7.6% in the first quarter of 2023, and further in July and August, to 6.1% on average. Annual credit growth to households decelerated to 6.5% in Q2, compared to 7.1% in Q1, and remained unchanged in July and August. Growth in lending to private businesses also slowed to 6.4% in Q2, down from 8% in the first quarter, and continued to decelerate to 5.4% on average in July and August. The ratio of non-performing to total loans (financial and non-financial sector) stood unchanged at end-June, at 2.8%, from Q4-

2022. The share of foreign-currency denominated loans in total loans was higher in Q2 than one year earlier (+3 pps. to 43%). Annual deposit growth accelerated to 10.9% y-o-y in Q2, up from 6.2% in Q1, and remained stable in July and August (11% y-o-y on average), with faster growth in domestic than in foreign currency deposits. Hence, the funding of loans by deposits remained solid, with the loan-to-deposit ratio (non-financial sector) at 84.3% at end-June, lower by 4.4 pps. compared to one year earlier.

Banks' solvency remained robust, with the sector-wide capital adequacy ratio improving to 18.2% in Q2 (+0.9 pps. y-o-y), well above the required regulatory minimum. The return-on-equity ratio (ROE) stood at 17% in Q2, slightly declining from 17.6% in Q1 but improving from the same period one year earlier (+2.7 pps. y-o-y). The return on assets (ROA) remained broadly stable at 2.2%.

Fiscal developments

In the second quarter and beyond, public revenue remained somewhat behind plan, while the government entered into new spending commitments, leading to a budget rebalancing that left the full-year target for the fiscal deficit (4.6%) untouched. In the period January-August 2023, total revenue was 12% higher y-o-y, amounting to 62.3% of the full-target year, supported by a rise in tax revenues (+15% y-o-y) and social contributions (+19 y-o-y). Revenue from net VAT receipts still lagged behind, amounting to only 55% of the annual target, compared to 67% in the first eight months of 2022. Total expenditure rose by 21% y-o-y, with current expenditure higher by 12.5% y-o-y, and reaching about 62.4% of the full-year plan. Capital expenditure more than doubled compared with the same period one year earlier (+142 y-o-y), but amounted to only 54% of the full-year target. Overall, the fiscal deficit sharply increased by 143% y-o-y, to 3% of projected GDP. General government debt amounted to 50.4% of projected full-year GDP at end-June 2023 (-0.6 pps. compared to end-2022, but +5.2 pps. y-o-y). The public debt ratio amounted 57.9% of projected GDP (+1.8 pps. compared to end-2022). In July, the government repaid the 2016 Eurobond, in the amount of Euro 450 million. For refinancing, it had issued a Eurobond worth Euro 500 million in March 2023.

TABLE



European Commission, ECFIN-D-1

NORTH MACEDONIA

		2018	2019	2020	2021	2022	ECFIN 2023 Spring forecast		Q1 23	Q2 23	Q3 23	Jul 23	Aug 23	Sep 23
							2023	2024						
1 Real sector														
Industrial confidence ^{1.1}	Balance	0.6	-0.1	-16.6	-7.1	-3.8	:	:	-0.6	-1.4	-1.4	0.2	-3.5	-0.9
Industrial production ^{1.2}	Ann. % ch	5.4	4.1	-9.5	3.1	-1.0	:	:	0.0	2.7	:	-1.8	-5.1	:
Gross domestic product ^{1.3}	Ann. % ch	2.8	3.9	-4.7	4.5	0.9 ^(p)	2.0	3.1	2.1	1.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.7	3.7	-3.6	10.1	3.2	2.3	2.8	2.7	1.6	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	1.7	9.5	-15.1	0.9	14.0	4.5	5.0	-22.3	-1.2	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	-10.8	9.1	-8.9	10.3	12.4	:	:	23.8	-18.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	8.1	11.3	-8.5	8.7	-3.1	:	:	3.4	0.6	:	-6.5	-8.2	:
2 Labour market														
Unemployment ^{**** 2.1}	%	21.0	17.5	16.6	15.6	14.5	14.2	13.9	13.4	13.2	:	N.A.	N.A.	N.A.
Employment ^{**** 2.2}	Ann. % ch	2.0	5.4	-0.5	n.a.	n.a.	0.9	0.8	n.a.	-0.5	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.8	5.1	8.3	5.7	11.1	8.0	7.0	13.2	15.4	:	14.4	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	19.8	9.5	-9.9	25.3	21.2	:	:	10.4	-1.3	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	12.9	10.2	-9.2	26.5	28.9	:	:	-3.1	-11.8	:	:	:	:
Trade in goods balance ^{* 3.3}	% of GDP	-16.2	-17.3	-16.6	-19.7	-27.0	-25.5	-23.6	-24.2	-21.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{* 3.4}	% of GDP	60.2	61.9	57.7	65.8	74.7	:	:	74.4	73.3	:	N.A.	N.A.	N.A.
Imports goods and services ^{* 3.5}	% of GDP	72.9	76.2	70.4	81.3	95.9	:	:	92.3	89.8	:	N.A.	N.A.	N.A.
Current account balance ^{* 3.6}	% of GDP	0.2	-3.0	-2.9	-2.8	-6.2	-4.1	-3.8	-2.3	-1.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{* 3.7}	% of GDP	5.6	3.2	1.4	3.3	5.1	:	:	5.1	4.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,867	3,263	3,360	3,643	3,863	:	:	4,159	4,190	:	3,802	3,934	3,902
Int. reserves / months Imp ^{3.9}	Ratio	4.4	4.6	5.3	4.5	3.7	:	:	4.0	4.1	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.5	0.8	1.2	3.2	14.1	7.9	3.7	16.1	11.2	:	8.4	8.3	:
Producer prices ^{4.2}	Ann. % ch	-0.4	-0.6	5.6	-2.0	8.1	:	:	3.3	3.5	:	-0.2	-2.1	:
Food prices ^{4.3}	Ann. % ch	0.8	1.6	2.4	3.1	20.7	:	:	24.0	14.4	:	11.8	10.8	:
Monetary aggregate M3 ^{4.4}	Ann. % ch	10.8	8.2	8.0	8.8	5.3	:	:	6.6	10.0	:	8.6	7.4	:
Exchange rate MKD/EUR ^{4.5}	Value	61.51	61.51	61.67	61.63	61.62	:	:	61.67	61.56	61.51	61.50	61.49	61.53
Real effective exchange rate ^{4.6}	Index	99.8	98.3	99.6	100.4	104.5	:	:	108.6	111.4	:	113.4	:	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.54	1.46	1.38	1.33	1.79	:	:	3.45	3.93	4.25	4.19	4.26	4.31
Bond yield ^{5.2}	% p.a.	6.11	5.61	5.19	4.86	4.63	:	:	5.11	5.24	:	5.63	:	:
Stock markets ^{5.3}	Index	3,154	3,939	4,377	5,382	5,888	:	:	5,804	5,845	5,740	5,739	5,718	5,764
Credit Growth ^{5.4}	Ann. % ch	6.6	7.2	6.4	5.8	9.6	:	:	7.6	6.4	:	5.7	6.3	:
Deposit growth ^{5.5}	Ann. % ch	8.6	9.6	7.8	8.3	4.2	:	:	6.2	10.9	:	11.4	10.5	:
Non-performing loans ^{5.6}	% total	5.0	4.6	3.3	3.1	3.2	:	:	2.8	2.8	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government revenue ^{** 6.1}	% of GDP	28.5	29.4	28.4	30.0	30.6	:	:	7.2	14.4	:	N.A.	N.A.	N.A.
General government expenditure ^{** 6.1}	% of GDP	30.3	31.4	36.4	35.3	35.0	:	:	7.6	17.0	:	N.A.	N.A.	N.A.
Central government balance ^{** 6.1}	% of GDP	-1.8	-2.0	-8.0	-5.3	-4.5	-3.9	-3.5	-0.4	-2.6	:	-3.0	-3.0	:
General government debt ^{*** 6.2}	% of GDP	40.4	40.5	50.8	52.0	51.0	51.5	53.0	50.0	50.4	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2023 published May 2023

p: preliminary data about the real GDP growth rate in 2022 will be released on 31.10.2023

* Q figures refer to a 4 quarters moving average.

** M and Q figures refer to the cumulative balance divided by the estimated annual GDP.

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

**** From Q1-2022, the Labour Force Survey is based on the results of the 2021 population census, restricting comparability with pre-year data.

In a first step, the Statistical Office has recently revised 2021 data based on census data.

In 2023, the implementation of a new regulation caused changes in the survey affecting the scope and definition of employment and unemployment.

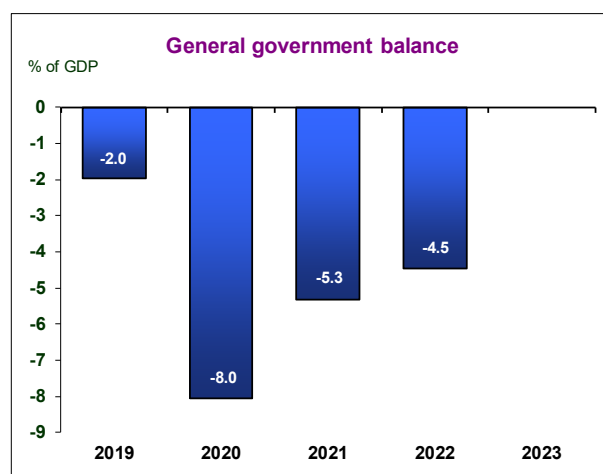
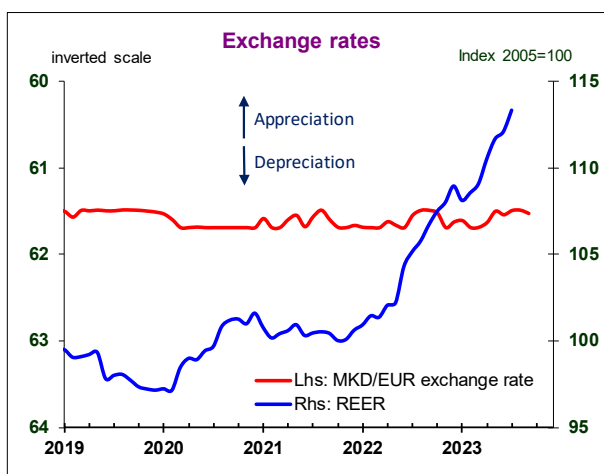
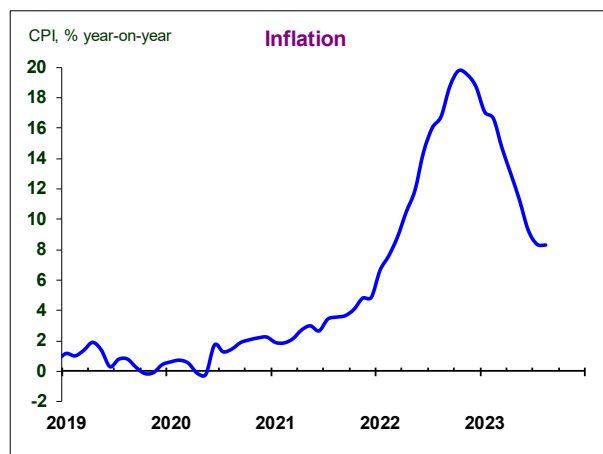
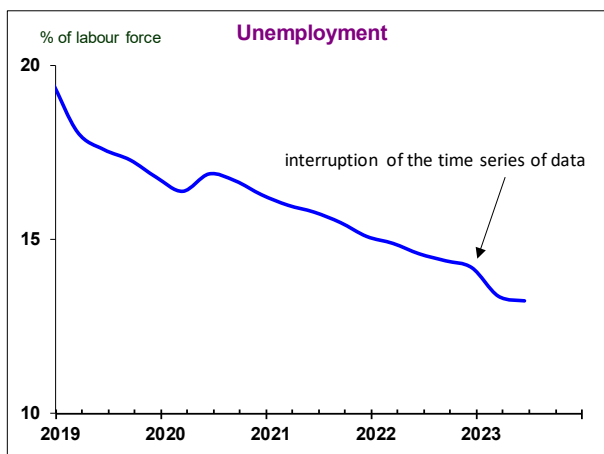
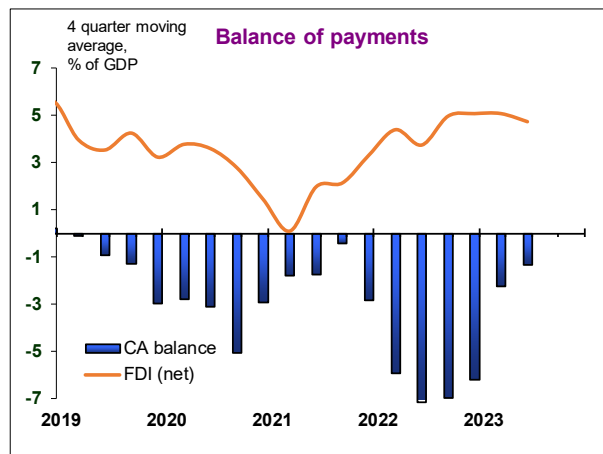
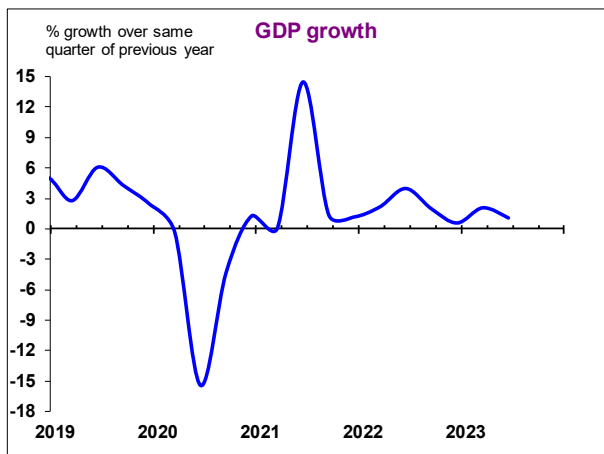
This caused an interruption of the time series of data, restricting comparability with previous data.

CHARTS

European Commission, ECFIN-D-1



North Macedonia





Key developments

On 6 September, the Serbian parliament adopted a 2023 amending budget in urgent procedure. The amending budget lowers the 2023 deficit target by 0.5 pps. to 2.8% of GDP using the fiscal space from lower support to energy SOEs and increased excise duties mostly for discretionary expenditure measures, including higher subsidies for agriculture, a one-off lump-sum payment to children, an extraordinary pension increase and additional wage rises in education and health.

On 5 October, the government adopted the draft budget 2024 targeting a deficit of 2.2% of GDP. Assuming real GDP growth of 3.5% and average inflation at 4.9%, the draft budget projects total revenue to grow by 7.2% and total expenditure by 5%. On the same date, the government also adopted the revised Fiscal Strategy for 2024-2026, maintaining unchanged the general government budget deficit targets of 2.2% in 2024 and 1.5% in both 2025 and 2026. The projected debt-to-GDP ratio has been revised downwards to 53.3% in 2023 and 51.7% in 2024, further declining thereafter to 50% in 2026.

On 6 October, Standard and Poor's confirmed Serbia's credit rating at BB+ (one notch below investment grade) with a stable outlook, balancing risks from the Ukraine war and the slowdown in key trading partners against sound medium-term growth prospects, moderate public debt and a credible monetary policy framework.

Real sector

In Q2-2023, economic growth accelerated to 1.7% y-o-y, up from 0.9% y-o-y in Q1-2023. As a result of strongly decreasing imports (-5.8%) and still increasing exports (+2.1%), net exports had the largest contribution to GDP growth that was however partly offset by a high negative contribution from lower inventories. An increase in gross fixed capital formation (+3.9%) was to a large extent offset by falling private consumption (-0.5%) and government consumption (-1.1%).

On the supply side, construction rebounded very strongly (+15.1%) while information and communication (+10.1%) and agriculture (+9.3%) continued their vigorous expansion and

many other service sectors outside trade still recorded robust but mostly decelerating y-o-y growth rates, such as professional, scientific, technical, administrative and support activities (+5.1%) and arts, recreation and other services (+7%). Industry activities (+0.8%) tended to stagnate. Growth in most sectors was to some extent offset by continued year-on-year declines in wholesale and retail trade, transportation and storage, accommodation and food service activities (-2.4%) and public administration, education and health (-0.6%).

Some short-term indicators suggest that overall economic activity picked up in summer 2023. Industrial production growth accelerated, increasing by 0.5% y-o-y in June, 2.7% y-o-y in July and by 5.8% y-o-y in August, particularly supported by the recovery of electricity production and mining. Helped by decreasing inflation, real retail trade turnover gradually reduced its contraction, falling by 6.0% y-o-y in June, by 3.2% y-o-y in July and by 1.5% y-o-y in August.

Labour market

According to revised LFS data (using new demographic estimates based on the 2022 census), in Q2-2023 the unemployment rate increased by 0.7 pps. y-o-y to 9.6% while the employment rate of the population aged 15 years and above increased by 0.5 pps. to 50.4%. This was the result of a decrease in the total population by 1.1% y-o-y that was accompanied by an increase in the active population by 0.6% y-o-y and a decrease by 0.2% y-o-y in the number of employed people, leading to an increase by 9.1% y-o-y in the number of unemployed persons. Employment increased by 1.3% y-o-y in the formal sector but decreased by 9.9% in the informal sector (mostly outside the agricultural sector).

According to administrative data, in Q2-2023 employment increased by 0.7% q-o-q and 2.8% y-o-y. Annual employment growth was positive in 17 out of 19 sectors and was particularly strong in information and communication (+16.7%), professional, scientific and technical activities (+7.4%) and accommodation and food services activities (+5.9%), accounting for about half of total employment gains, while only agriculture (-2.8%) and water and waste management activities (-0.4%) recorded

employment losses. The number of registered unemployed decreased by 10.3% y-o-y in August. The average nominal net wage rose by 14.6% y-o-y in July while the average real net wage increased by 1.9% y-o-y.

External sector

In the first seven months of 2023, the current account deficit narrowed very substantially by EUR 2.3bn or 79.7% y-o-y in euro terms as compared with the same period of 2022. In the four quarters to June 2023, the current account deficit stood at 2.7% of GDP as compared to 6.9% in 2022. The improvement in January to July was due to a significantly lower merchandise trade deficit (-39.4% y-o-y, supported by lower energy imports), a significantly higher services trade surplus (+45.9% y-o-y, especially due to IT services exports) and a slightly higher secondary income surplus (+3.5% y-o-y, reflecting in particular higher remittances) that were partially offset by a higher primary income deficit (+44.2% y-o-y, reflecting mainly higher dividend and interest payments). Net FDI inflows increased by 21.4% y-o-y in January-July, covering multiple (3.9) times the current account deficit. Merchandise trade dynamics in summer were marked by a decelerating y-o-y performance in the EUR value of exports (+3.3% in June, +0.9% in July and -0.9% in August) accompanied by continued y-o-y decreases in the EUR value of imports (-6.5%, -6.7% and -9.9% respectively, reflecting in particular a strong decrease in energy imports). Over the first eight months of 2023, the value of exports of goods grew by 7.1% y-o-y, while imports decreased by 5.6%.

Monetary developments

Annual consumer price inflation continued to decelerate in summer, by 0.9 pps., 1.2 pps. and 1.0 pps. in June, July and August respectively, down to 11.5% in August, still largely exceeding the upper bound of the central bank's target tolerance band of 3% +/-1.5 pps. Annual inflation continued to be particularly driven by food (+17.2% y-o-y in August) and electricity, gas and other fuels prices (+15.8% in August). Core inflation (excluding energy, food, alcohol and tobacco) also continued to gradually decrease, from 10.4% in May to 9.1% in August. The National Bank of Serbia (NBS) raised its key policy rate by a further 25 bps. to 6.5% in July, leaving it unchanged thereafter in August, September and October. The NBS remained an active participant on the foreign exchange market by buying EUR 540 million in June,

EUR 595 million in July and EUR 315 million in May, resulting in net purchases of EUR 2.8 billion in the first eight months of the year. NBS foreign exchange reserves increased by 48.8% y-o-y to EUR 23.6 billion in August 2023, covering 6.3 months of imports of goods and services.

Financial sector

In August 2023, domestic claims of the banking sector increased by 10.5% y-o-y, down from 13.5% y-o-y in May. The annual growth of credit to households recorded some further slowdown to 2.0% in August, from 3.0% in May. Annual credit growth to companies turned negative in summer, from a 0.2% expansion in May to a 0.8% contraction in August. The loan-to-deposit ratio stood at 80.8% at the end of June 2023. The ratio of non-performing loans increased slightly to 3.2% in Q2-2023 (+0.2pps q-o-q). The capital adequacy ratio of the banking sector (regulatory capital to risk-weighted assets) increased by 1.8 pps. to 22.3% in Q2-2023. As regards liquidity ratios, both the share of liquid assets to total assets (39.7%, +0.5 pps. q-o-q) and the share of liquid assets to short-term liabilities (51.6%, +0.9 pps. q-o-q) picked up further in Q2-2023.

Fiscal developments

In the period January-August 2023, general government revenue increased by 10.8% y-o-y. The growth of revenues was particularly supported by social contributions (+11.6%), corporate income tax (+32.5%), personal income tax (+15.2%) and grants (+237.2%, reflecting the inflow of the bulk of the EU budget support to mitigate the energy crisis) while VAT receipts (+3.4%) and excise duties (+6.8%) performed more moderately. Total general government expenditure growth (+9.0%) remained below the revenue increase and was particularly driven by social grants and transfers (+12.3%), expenditure for employees (+8.3%) and capital transfer budget loans (+151.1%), while purchases of goods and services increased more moderately (+6.8%), capital expenditure remained broadly stable (+0.3%) and other current expenditure decreased by 25.3%. As a result, in January-August 2023, the budget recorded a surplus of 0.8% of expected annual GDP as compared to a surplus of 0.3% in the same period of 2022. In August, central government debt stood at 50.9% of the projected 2023 full-year GDP, down from 55.1% at end-2022, mainly as a result of high expected nominal GDP growth in 2023.

TABLE

European Commission, ECFIN-D-1



SERBIA

		2018	2019	2020	2021	2022	ECFIN 2023 Spring forecast		Q1 23	Q2 23	Q3 23	Jul 23	Aug 23	Sep 23
							2023	2024						
1 Real sector														
Industrial confidence ^{1.1}	Balance	6.7	5.8	-1.0	2.9	0.5	:	:	-1.8	-0.7	-1.8	0.1	-3.8	-1.6
Industrial production ^{1.2}	Ann. % ch	1.5	0.2	0.4	6.1	1.6	:	:	2.3	0.8	:	2.7	5.8	:
Gross domestic product ^{1.3}	Ann. % ch	4.5	4.3	-0.9	7.5	2.3	1.9	3.0	0.9	1.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.1	3.7	-1.9	7.9	3.9	2.0	2.8	-0.2	-0.5	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	17.5	17.2	-1.9	15.7	1.9	0.8	2.6	2.2	3.9	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	9.6	32.3	-1.5	25.0	5	:	:	9.7	21.3	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	4.1	8.9	4.2	10.0	5.6	:	:	-3.7	-6.1	:	-3.2	-1.5	:
2 Labour market														
Unemployment**** 2.1	%	13.7	11.2	9.7	11.0	9.4	9.3	9.0	10.1	9.6	:	N.A.	N.A.	N.A.
Employment**** 2.2	Ann. % ch	1.4	2.4	-0.2	2.6	2.3	0.1	0.5	1.1	-0.1	:	:	:	:
Wages 2.3	Ann. % ch	4.3	10.5	9.4	9.4	13.8	:	:	15.5	15.4	:	:	11.3	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	6.5	8.8	-3.7	26.9	25.5	:	:	17.4	5.0	:	1.0	11.0	:
Imports of goods ^{3.2}	Ann. % ch	11.2	9.9	-4.7	25.0	32.1	:	:	5.5	-7.7	:	-2.7	-3.3	:
Trade in goods balance ^{3.3}	% of GDP	-11.9	-12.2	-11.1	-11.3	-15.5	-13.9	-13.7	-13.6	-11.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	49.3	50.8	47.6	54.0	63.0	:	:	63.6	63.0	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	58.9	60.8	56.3	62.7	74.6	:	:	73.0	69.7	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-4.8	-6.9	-4.1	-4.2	-6.9	-5.5	-5.1	-4.4	-2.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	7.4	7.7	6.3	6.9	7.1	:	:	7.2	7.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	11,262	13,378	13,492	16,455	19,416	:	:	21,381	:	:	23,134	23,624	:
Int. reserves / months Imp ^{3.9}	Ratio	5.4	5.7	6.1	5.9	5.2	:	:	5.6	:	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	2.0	1.8	1.6	4.1	12.0	12.4	5.9	16.0	14.5	:	12.5	11.5	:
Producer prices ^{4.2}	Ann. % ch	2.1	0.7	-1.8	9.1	16.4	:	:	8.5	2.7	:	0.5	2.5	:
Food prices ^{4.3}	Ann. % ch	1.9	2.6	2.6	4.5	18.7	:	:	24.6	22.8	:	20.4	16.9	:
M3 ^{4.4}	Ann. % ch	14.5	8.4	18.1	13.3	6.9	:	:	11.9	:	:	12.1	10.5	:
Exchange rate RSD/EUR ^{4.5}	Value	118.27	117.86	117.58	117.57	117.46	:	:	117.33	117.28	117.21	117.23	117.21	117.20
Real effective exchange rate ^{4.6}	Index	123.8	123.6	125.7	128.0	129.3	:	:	137.3	139.1	:	140.4	139.8	:
5 Financial indicators														
Interest rate (BELIBOR) ^{5.1}	% p.a.	2.96	2.52	1.19	0.89	2.47	:	:	5.25	5.60	5.85	5.81	5.88	5.87
Bond yield (10 year) ^{5.2}	% p.a.	5.17	:	:	2.50	6.76	:	:	:	5.60	5.25	5.25	:	:
Stock markets ^{5.3}	Index	1,562	1,584	1,544	1,639	1,720	:	:	1,772	1,793	1,796	1,766	1,792	1,831
Credit growth ^{5.4}	Ann. % ch	4.3	9.7	12.3	9.1	10.9	:	:	5.1	1.4	:	0.6	0.2	:
Deposit growth ^{5.5}	Ann. % ch	7.4	12.9	15.0	14.4	8.4	:	:	8.9	12.6	:	12.8	11.0	:
Non-performing loans ^{5.6}	% total	5.7	4.1	3.7	3.6	3.0	:	:	3.0	3.2	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government revenue** 6.1	% of GDP	41.5	42.0	41.0	43.2	43.4	:	:	9.5	20.6	:	N.A.	N.A.	N.A.
General government expenditure** 6.1	% of GDP	40.9	42.2	49.0	47.4	46.5	:	:	9.8	20.0	:	N.A.	N.A.	N.A.
General government balance** 6.1	% of GDP	0.6	-0.2	-8.0	-4.1	-3.1	-2.8	-1.9	-0.3	0.6	:	0.7	:	:
General government debt*** 6.2	% of GDP	53.7	52.0	57.0	56.5	55.2	52.1	50.7	51.0	51.7	:	50.7	:	:

f. ECFIN forecast Spring 2023 published May 2023

* Q figures refer to a 4 quarters moving average.

** M and Q figures refer to the cumulative balance divided by the estimated annual GDP.

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

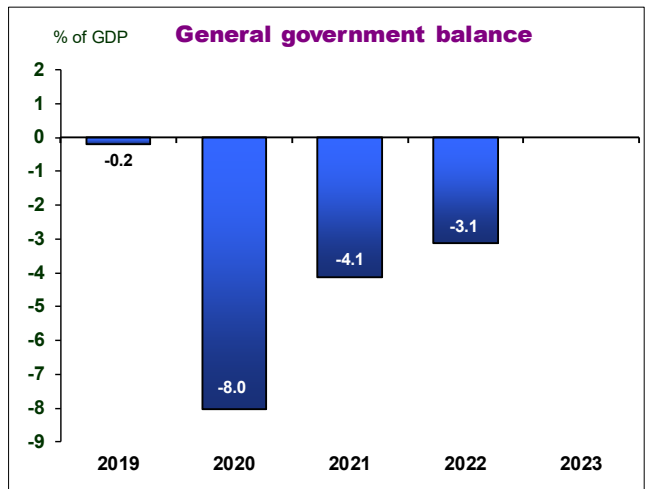
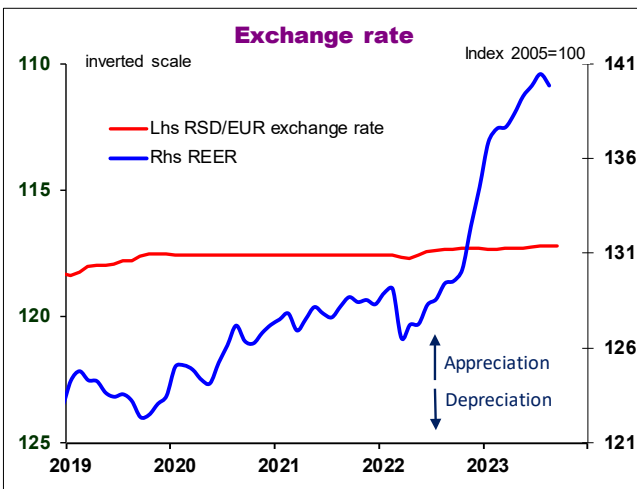
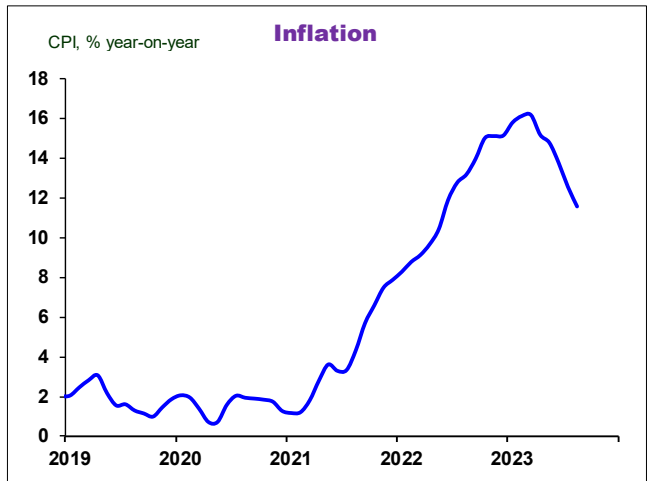
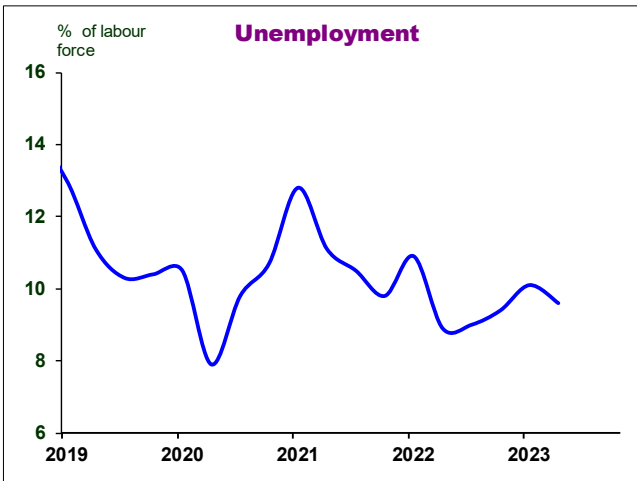
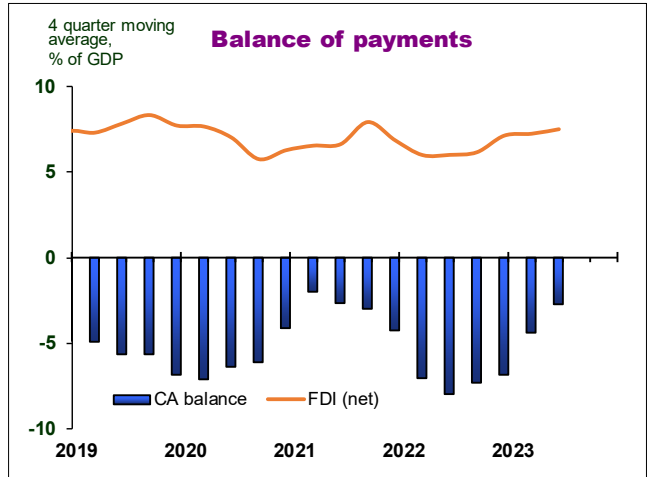
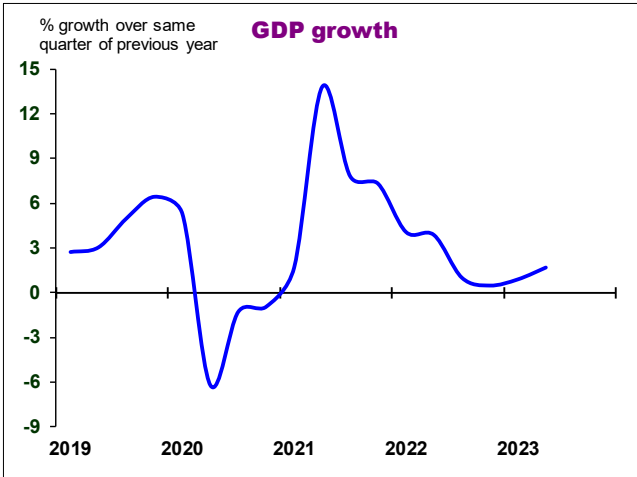
**** From Q1-2022, the Labour Force Survey is based on the results of the 2022 population census, restricting comparability with pre-year data.

CHARTS

European Commission, ECFIN-D-1



SERBIA





Key developments

In early October, the IMF concluded a staff visit to Türkiye, welcoming the authorities' policy shift since the election.

In September, the authorities adopted the Medium-Term Economic Programme for 2024-2026, with updated macroeconomic projections and economic policy measures to tackle macroeconomic imbalances. Real GDP is expected to increase by 4.4% in 2023, 4% in 2024 and by 4.5% and 5% in 2025 and 2026, while inflation is projected to fall from 65% in 2023 to 8.5% in 2026. The headline budget deficit is planned at 6.5% of GDP in 2023 and 6% in 2024, before declining to below 3% in 2026.

In September, S&P and Fitch Ratings changed Türkiye's sovereign credit rating outlook to 'stable' from 'negative', quoting the return to a more conventional and consistent policy mix that helps reduce near-term macro-financial stability risks and eases balance of payments pressures.

In July, the authorities adopted a revised 2023 budget, including sizeable tax increases (VAT, corporate income, special consumption, motor vehicle taxes, etc.) and additional expenditure to accommodate earthquake reconstruction needs and pre-election spending measures.

Real sector

Economic activity rebounded strongly in the second quarter, with real GDP growing 3.5% q-o-q and 3.8% y-o-y. Sizeable pre-election stimulus measures further boosted domestic demand, which contributed 16.4 pps. to GDP growth. Household consumption in particular (5.2% q-o-q and 15.6% y-o-y) remained the main engine of growth. The increase in government consumption (5.3% y-o-y) and investment (5.1% y-o-y) was also robust, with continuously upbeat investment in machinery and equipment. Inventories increased strongly in the aftermath of the February earthquakes, contributing to a further acceleration of imports growth (20.3% y-o-y) in Q2. As a result of weaker external demand, however, the decline in Türkiye's exports steepened to 9% y-o-y, which

resulted in a large negative contribution (-12.6 pps.) of net exports to GDP growth.

On the supply side, growth was sustained largely by services (4.7% y-o-y) and construction (6.2% y-o-y). The growth of agriculture remained anaemic (1.2% y-o-y), while industry contracted by 2.6% y-o-y due to weak manufacturing (-1.9% y-o-y).

High frequency indicators have captured a marked slowdown in economic sentiment after the May elections. The consumer confidence index plummeted from its high of 91.1 in May to 68 in August, before inching up to 71.5 in September on the back of improved expectations. The economic confidence index followed the same pattern, falling to 94.1 in August and bouncing up to 95.4 in September. Retail trade, real sector, and services confidence indexes, however, remained rather upbeat in Q3, showing resilience and strong demand, employment, exports, and investment expectations. Retail sales increased in July (31.6% y-o-y) but fell strongly in August (-4.7% m-o-m). The manufacturing PMI fell under 50 in July and was at 49.6 in September. After expanding in Q2, industrial production (seasonally and calendar adjusted) fell 0.4% m-o-m in July and again by 0.8% m-o-m in August, largely due to weak manufacturing activity. However, the capacity utilisation rate in manufacturing increased to 76.5 in Q3.

Labour market

The participation rate (seasonally adjusted, 15 years and over) stood at 53.4% in July. The employment rate was 48.4%, slightly up compared to the first quarter, while the unemployment rate declined to 9.4% – its lowest level in nearly a decade. Employment growth (seasonally adjusted) slowed down to 2.6% y-o-y in Q2, with still robust pace of job creation in services (5.0% y-o-y) and construction (7.9% y-o-y), but a notable deceleration in industry (0.9% y-o-y) and continued job losses in agriculture (-5.2% y-o-y). In Q2, labour market underutilisation (including unemployment, time-related underemployment, and the potential labour force) increased to 23.5%, driven by rising time-related underemployment. The seasonally and calendar-adjusted hourly labour

cost index in Q2 increased strongly by 113.8% y-o-y (10.7% q-o-q), 73 pps. above the rate of inflation.

External sector

The 12-month cumulative current account deficit was 5.5% of GDP (USD 57 billion) in August, broadly unchanged from its 2022 level. The trade deficit was close to USD 100 billion or 9.6% of GDP. The decline in cumulative exports of goods since the beginning of the year softened to -1.8% y-o-y due to a relatively good performance in July (+6.0% y-o-y). Monthly trade data have been very volatile since March, but the trend of weaker imports growth continued as energy imports declined. While the export of travel services reached new highs, its monthly growth decelerated to 6.2% y-o-y in August. Since the May elections, there was a noticeable uptick in net portfolio and other investment inflows, which together with the sizeable positive net errors and omissions (USD 16.3 billion) covered the current account deficit and contributed to a strong increase in reserve assets (USD 19 billion) in June-August. The central bank's foreign exchange reserves (including gold) increased further and reached USD 122.2 billion by the end of September, although still not fully recovering reserve losses in the first five months of the year.

Monetary developments

The annual consumer price inflation went up again after June, reaching 61.5% in September (56.1% in Q3). The inflation resurgence was driven by the weakening of the lira after the May elections (down 27% against the USD in June and by 35.5% by early October) and sizeable indirect tax increases in July. The monthly rates of inflation were very high in July (9.5%) and August (9.1%), and with relatively high dispersion, before subsiding somewhat to 4.8% in September. Core inflation remained above the headline, indicating persistent inflationary pressures. In Q3, food (69.6% y-o-y) and service (78.6% y-o-y) inflation were very high. Base effects led to a short period of energy price deflation in May-July, and although increasing strongly in the summer months, annual energy inflation remained significantly below the headline rate. Annual producer price inflation also went up after the May elections, but at 47.1% y-o-y was still below consumer price inflation in Q3. Türkiye's 5-year sovereign risk premium fell under 370 in August but has slowly crawled up since then, to 410 in early October.

The central bank has further tightened its policy stance, doubling its key policy rate from 15% in June to 30% in September and taking steps to selectively tighten credit. The bank signalled its intention to further tighten its stance until a significant improvement in the inflation outlook is achieved and to proceed with the gradual simplification of its macroprudential framework.

Financial sector

Deposit money banks' real lending decelerated in the summer and contracted -0.6% y-o-y in August. Corporate lending contracted as well, and the growth of households lending declined from very high levels. The average nominal interest rate on personal loans in lira increased further from around 40% in early June to close to 60% in end September. The increase was less pronounced in the interest rates on vehicles loans (from 31% to 41%) but was very strong in housing (from 18% to 42%) and commercial loans (from 15% to 45%). The interest rate on lira deposits also increased, in particular for long-term maturities, from around 27% to 37%, still markedly above the central bank policy rate.

The banking sector's capital adequacy ratio improved from 17.1% in May to 18.5% in August, and in the state-owned banks from 15.2% to 16.2%. The ratio of non-performing loans to total loans continued to decline, reaching 1.6% in August (1.1% in state-owned banks). The share of foreign currency deposits in total deposits declined somewhat in Q3 to 40.8% in end-September. The authorities have taken some steps to discourage the FX-protected lira deposits and they have declined both in absolute and relative terms since the second half of August, although still representing around a quarter of all deposits at end-September.

Fiscal developments

In January-August, the central government posted a budget deficit of TRY 383.4 billion – 1.6% of the forecast annual GDP, compared to a surplus of TRY 33.1 billion recorded over the same period last year. Total revenue increased by 69.6% y-o-y, boosted by the sizeable tax hikes in July which lifted revenue collection in July and August. However, the increase in total expenditure was stronger (94.9% y-o-y) in January-August. The weaker lira pushed the government debt-to-GDP ratio up from 31.7% of GDP at the end of 2022 to 34.0% of GDP in the second quarter of 2023. Net debt increased as well, to 20.2% of GDP.

TABLE



TÜRKİYE

European Commission, ECFIN-D-1

		2018	2019	2020	2021	2022	ECFIN 2023 Spring forecast		Q1 23	Q2 23	Q3 23	Jul 23	Aug 23	Sep 23
							2023	2024						
1 Real sector														
Industrial confidence ^{1.1}	Index	-1.5	-3.8	-4.1	5.6	-0.4	:	:	-1.3	0.4	-0.9	0.4	-1.3	-1.9
Industrial production ^{1.2}	Ann. % ch	1.9	-0.6	1.4	19.0	6.0	:	:	-1.1	-0.3	:	7.6	3.1	:
Gross domestic product ^{1.3}	Ann. % ch	3.0	0.8	1.9	11.4	5.5	3.5	4.0	3.9	3.8	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	0.6	1.5	3.2	15.4	19.0	5.9	3.0	17.3	15.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	0.1	-12.5	7.3	7.2	1.3	3.7	4.5	3.7	5.1	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	22.8	-7.1	5.6	39.0	104.7	:	:	118.7	90.7	:	117.9	106.3	:
Retail sales ^{1.7}	Ann. % ch	2.1	-0.2	3.4	16.2	10.4	:	:	28.3	29.2	:	31.6	17.2	:
2 Labour market														
Unemployment ^{2.1}	%	10.9	13.7	13.1	12.0	10.5	10.1	10.1	10.4	9.3	:	9.7	9.2	:
Employment ^{2.2}	Ann. % ch	2.2	-2.3	-4.8	7.9	6.7	3.1	2.7	4.9	2.4	:	3.8	2.3	:
Wages ^{2.3}	Ann. % ch	18.3	26.2	18.0	19.3	73.2	50.3	36.6	109.0	114.4	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	7.7	2.1	-6.2	32.8	12.9	:	:	2.3	-5.9	:	7.8	1.6	:
Imports of goods ^{3.2}	Ann. % ch	-3.2	-9.0	4.4	23.6	34.0	:	:	11.1	-2.6	:	10.5	-6.9	:
Trade in goods balance* ^{3.3}	% of GDP	-5.2	-2.2	-5.3	-3.6	-10.0	-7.2	-5.9	-10.2	-9.9	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	30.3	32.8	28.9	35.1	38.3	:	:	36.2	34.3	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	31.6	30.0	32.1	34.8	42.8	:	:	41.1	39.1	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-2.6	1.4	-4.5	-0.9	-5.5	-4.2	-2.7	-5.8	-5.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.1	0.9	0.6	0.8	0.9	:	:	0.9	0.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	93.0	105.7	93.6	111.2	128.7	:	:	122.4	108.6	:	:	:	:
Int. reserves / months Imp ^{3.9}	Ratio	4.5	5.6	4.9	4.7	4.0	:	:	3.7	3.3	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	16.3	15.2	12.3	19.6	72.3	45.0	30.3	54.3	40.4	56.2	47.8	58.9	61.5
Producer prices ^{4.2}	Ann. % ch	27.0	17.6	12.2	43.9	128.5	:	:	74.5	44.1	47.1	44.5	49.4	47.4
Food prices ^{4.3}	Ann. % ch	18.0	19.5	13.8	24.3	85.6	:	:	69.3	53.5	69.6	60.7	72.9	75.1
M3 ^{4.4}	Ann. % ch	18.6	29.5	32.8	51.1	64.1	:	:	58.9	63.6	65.7	66.1	67.1	65.7
Exchange rate TRY/EUR ^{4.5}	Value	5.68	6.35	8.03	10.45	17.38	:	:	20.25	22.79	29.19	29.30	29.41	28.85
Real effective exchange rate ^{4.6}	Index	86.1	83.8	75.1	67.4	60.7	:	:	65.2	62.8	58.3	54.4	58.5	62.0
5 Financial indicators														
Interest rate (TLREF) ^{5.1}	% p.a.	19.85	20.53	10.85	17.88	13.16	:	:	9.03	10.11	20.32	15.17	18.87	26.93
Interest rate, long term ^{5.2}	% p.a.	15.88	15.76	12.75	17.61	17.69	:	:	10.68	13.21	20.77	17.76	18.79	25.75
Stock markets ^{5.3}	Index	1,019	993	1,133	1,510	2,979	:	:	5,086	5,010	7,404	6,492	7,613	8,106
Credit growth ^{5.4}	Ann. % ch	21.8	6.4	28.4	22.7	56.0	:	:	55.0	55.3	57.3	58.9	56.8	56.3
Deposit growth ^{5.5}	Ann. % ch	23.0	18.3	36.4	28.0	78.3	:	:	66.7	63.4	67.1	70.6	65.8	65.3
Non-performing loans ^{5.6}	% total	3.9	5.4	4.1	3.1	2.1	:	:	1.8	1.6	:	1.6	1.6	:
6 Fiscal developments														
General government revenue** ^{6.1}	% of GDP	29.8	29.8	29.6	28.0	25.3	:	:	5.2	11.8	:	N.A.	N.A.	N.A.
General government expenditure** ^{6.2}	% of GDP	32.5	32.9	32.5	30.3	26.4	:	:	6.3	14.1	:	N.A.	N.A.	N.A.
General government balance** ^{6.1}	% of GDP	-2.8	-3.2	-2.9	-2.3	-1.1	-4.9	-4.7	-1.1	-2.3	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	30.0	32.6	39.6	41.8	31.7	32.7	35.0	31.2	34.0	:	N.A.	N.A.	N.A.

f: ECFIN forecast Spring 2023 published May 2023

* Q figures refer to a 4 quarters moving average.

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

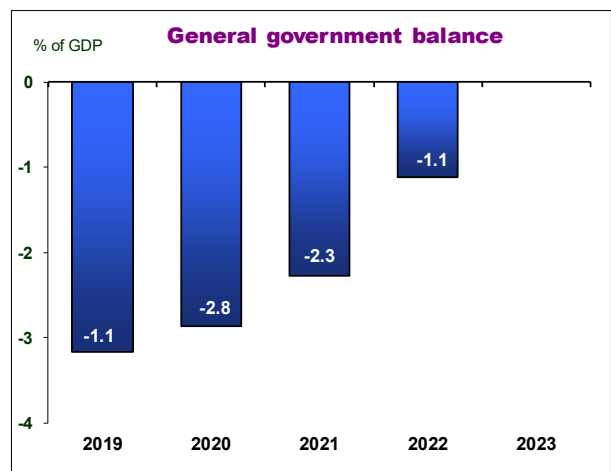
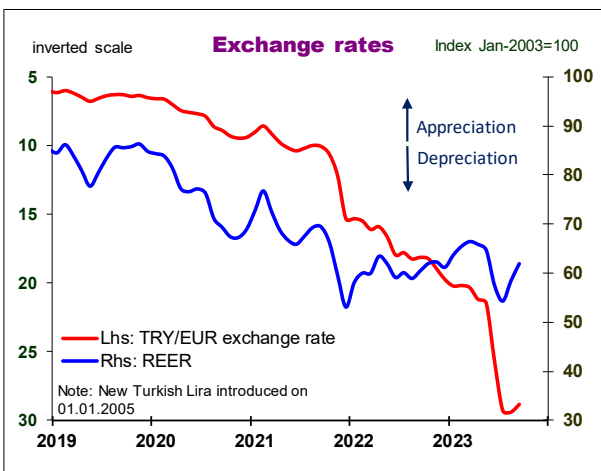
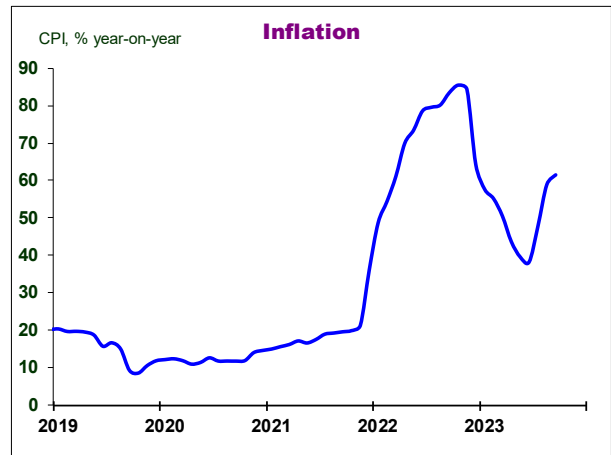
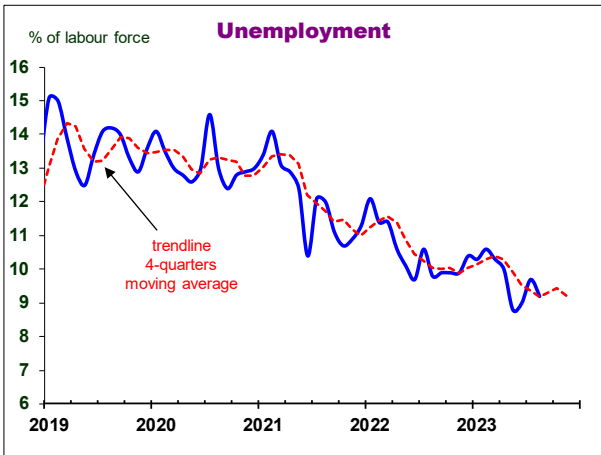
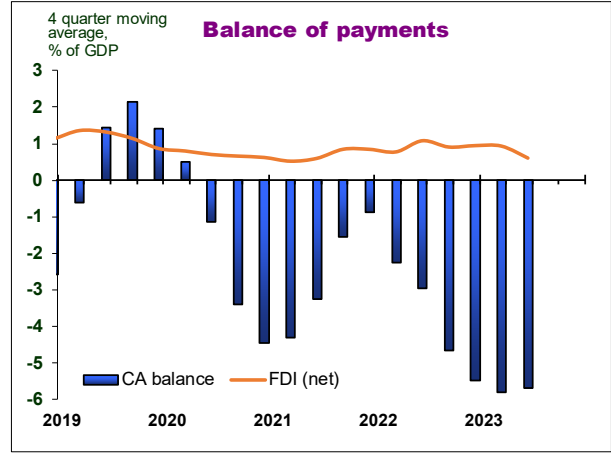
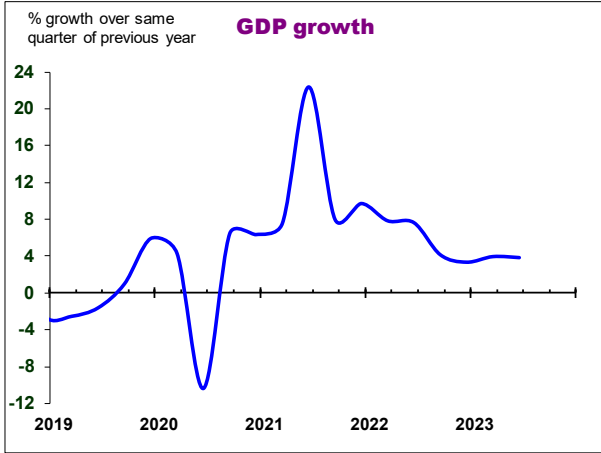
*** Q figures in percent of GDP on a four quarter moving basis.

CHARTS

European Commission, ECFIN-D-1



TÜRKIYE





Key developments

Following a staff visit to Pristina from 31 July to 4 August, the IMF underlined that Kosovo's economic growth remained resilient in a challenging global context, with inflation on a declining path and fiscal buffers remaining at appropriate levels. However, global volatility and tensions in northern Kosovo remain risks to the outlook.

Following the decision of the Assembly on 13 July, the President of Kosovo Vjosa Osmani decreed Ahmet Ismaili as the new Governor of the Central Bank on 10 August.

Real sector

The Kosovo Agency of Statistics revised its real GDP growth estimate for 2022 to 5.2%, up from 3.5%. In terms of demand components, the strongest increases took place in exports of goods and services (16.1% and 20%, respectively). Private consumption grew more moderately (4%) while public consumption virtually stagnated (0.2%). The expansion of these demand components was partly offset by the decline in investment (-3.8%), rapidly growing imports of services (21.3%) and somewhat stronger imports of goods (2.2%).

Economic growth slowed to 2% y-o-y in Q2-2023 from 3.9% in Q1. The key factor behind the deceleration was the negative contribution (-2.5 pps.) of the external sector to growth as the robust growth rate of imports (6.3% y-o-y) outweighed the expansion of exports (5.9% y-o-y). Bolstered by higher remittances and bank lending, household consumption was the main driver of growth, increasing by 3.7% y-o-y in Q2 as compared to 0.9% in the preceding quarter. Further positive contributions came from investment and public consumption, which rose by 2% and 4% y-o-y, respectively. Exports of goods contracted for the second quarter in a row (-10.7% y-o-y) while exports of services grew robustly by nearly 14% y-o-y. Following a slight decline in Q1, imports of goods recovered (4% y-o-y) in Q2 while imports of services surged by 17.2% y-o-y.

On the production side, the strongest growth in output in Q2 took place in the arts, entertainment and recreation sector (5.8% y-o-y), professional,

scientific and technical activities (5.1%) and financial and insurance activities (3.7%). Output in the mining and quarrying, manufacturing and electricity, gas and steam sector shrank by 2% y-o-y while in public administration and defence it fell by 0.8% y-o-y.

Labour market

The results of the labour force survey (LFS) continue to be published with large delays. In line with the continued rebound of economic activity, the employment rate increased to 33.8% in 2022 from 31.1% in 2021 while the unemployment rate (15-64) fell to the historic low of 12.6%. The improvement was most pronounced in the youth unemployment rate (aged 15-24), which dropped to 21.4% in 2022 from 38% one year earlier. However, the share of young people (aged 15-24) not in employment, education or training (NEET) rose somewhat to 33% in 2022. The labour force participation rate decreased by 0.7 pps. to 38.6%. The gap between male and female employment rates (49.4% and 18.4%, respectively) widened.

External sector

In the first half of 2023, the current account deficit narrowed by 19.5% y-o-y. In the four quarters to June, it stood at 8.6% of GDP, down from 9.2% in the four quarters to March and was significantly lower than the 10.3% deficit registered in the same period one year earlier. A key factor was the surplus in the trade of services which rose to 16.4% of GDP from 16% in the preceding quarter and 14.4% in Q2-2022. The traditionally high merchandise trade deficit stood unchanged from Q1 at 47.1% of GDP but was 0.6 pps. lower than in the same period a year before. The secondary income surplus remained unchanged q-o-q at 21.4% of GDP but was 0.8 pps. higher than in Q2-2022. Specifically, workers' remittances, which usually offset a large part of the trade deficit, increased by 0.4 pps. to 14.1% of GDP in the four quarters to June as compared to the previous three months and by 0.3 pps. y-o-y. For the same period, the primary income surplus increased to 0.8% of GDP from 0.5% in Q1 but was 1.6 pps. lower than in Q2-2022. On the financing side, net FDI inflows fell to 6.4% of GDP in the four quarters to June from 6.8% in

the four quarters to March, but they increased by 1.8 pps. y-o-y and still covered almost three quarters of the current account deficit. Reserve assets slightly increased and covered 2.5 months of imports of goods and services at the end of Q2.

Developments in merchandise trade were influenced by weaker foreign demand. In the first eight months of 2023, the value of total goods exports fell by nearly 8% y-o-y, largely due to the decline in exports of base metals, plastic and rubber articles as well as various manufactured items. In the same period, imports of goods grew by 1.3% y-o-y mainly on the back of higher imports of machinery, appliances and electrical equipment as well as prepared foodstuffs, beverages and tobacco, which were mitigated by the decline in imports of mineral products and base metals. The overall goods trade deficit increased by 3.1% y-o-y during January-August.

Monetary developments

Consumer price inflation slowed markedly to 4.9% y-o-y in Q2 from 10.1% in Q1, and further to 3.2% y-o-y in August, bringing the annual average HICP inflation to 6.3% in the first eight months of the year. The key driver of moderating inflation was the gradually decelerating global commodity prices.

Import prices grew by 5% y-o-y on average in Q2, mainly driven by higher prices of vegetables, paper as well as textile articles. In the same period, the construction cost index increased by 1% y-o-y, on the back of rising prices for machinery whereas energy prices fell by nearly 13% y-o-y. The producer price index decreased by an average of nearly 1% y-o-y in Q2, largely due to the falling prices for mining of metal ore and supply of electricity, gas, steam and air conditioning.

Financial sector

Bank lending growth decelerated to an average of 14.6% y-o-y in January-August from 17.5% in 2022. For the same period, the growth of bank deposits accelerated to an average of 15.5% y-o-y compared to 9.4% a year before. The average loan-to-deposit ratio decreased to 81.4% in January-August as compared to 82.1% in the same period one year earlier.

The interest rate spread stood at 4.2 pps. in August, below its January level of 4.8 pps. The return on average equity in the banking sector was at 21.2% in August, practically unchanged from 20.8% in January, while the average return

on assets was stable at 2.6% throughout the first eight months.

Despite a slight decline, 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 33.7% in August compared to 35.7% a year before, while the capital adequacy ratio decreased to 15.6% from 16.1% over the same period, albeit standing well above the regulatory minimum of 12%. The NPL ratio fell y-o-y marginally to 2.0% in August, partly driven by still strong lending growth. In August, existing NPLs were fully covered by loan-loss provisions (139.3%).

Fiscal developments

Fiscal developments in the first eight months were marked by buoyant revenues and under-execution of capital investment. On the back of high inflation, budget revenues rose by 15.2% y-o-y, with income from direct and indirect taxes growing by 20% and 9.5% y-o-y, respectively. Among direct taxes, property tax income surged by nearly 43% y-o-y because of the re-evaluation of real estate properties and improved tax compliance. VAT revenues rose by 10.3% compared to the same period a year before.

Budget spending increased by 14.6% y-o-y in the first eight months. Capital expenditure increased significantly, by 77.2% y-o-y, but it represented only 28.4% of the 2023 budget allocation for the year as a whole. Current expenditure grew by 9.7% y-o-y on the back of increased spending on goods and services (22.1%), wages (21.2%) and utilities (2.9%), whereas transfers and subsidies fell by 1.3% y-o-y reflecting the gradual withdrawal of support related to the energy crisis. The execution rate of current spending stood at 57.3% of the annual plan.

Overall, the eight-month budget execution resulted in a general government surplus of EUR 210 million (2.1% of projected 2023 GDP), which compares to a planned deficit of 3.4% of GDP in the budget.

The public debt-to-GDP ratio declined to 17.3% in Q2 from 19.9% at end-2022. The share of domestic debt held by the Kosovo Pension Saving Trust (KPST) slightly decreased to 48% as compared to 49% at end-2022, while the share of commercial banks fell to 22% from 25%. The part held by the Central Bank of Kosovo increased to 22% in Q2 from 19% at the end of 2022. Foreign-owned debt stood at 6.7% of GDP in Q2 compared to 7.2% at end-2022.

TABLE

European Commission, ECFIN-D-1



KOSOVO

		2018	2019	2020	2021	2022	Q1 23	Q2 23	Q3 23	Jul 23	Aug 23	Sep 23
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	-0.7	2.6	-1.2	19.3	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	3.4	4.8	-5.3	10.7	5.2	3.9	2.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	4.4	5.6	2.5	7.3	4.0	0.9	3.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	5.4	2.9	-7.6	13.0	-3.2	3.3	3.9	:	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	17.4	25.6	-0.4	11.0	:	13.0	11.3	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	29.6	25.7	25.9	20.7	12.6	:	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-3.4	5.2	-4.4	10.4	5.4	:	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	5.1	5.3	-2.3	3.9	7.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	-2.8	4.4	23.8	57.8	22.8	-0.4	-9.1	:	-11.8	-20.7	:
Imports of goods ^{3.2}	Ann. % ch	9.8	4.5	-5.7	41.1	21.2	0.5	2.5	:	1.9	-0.7	:
Trade in goods balance* ^{3.3}	% of GDP	-41.0	-40.3	-38.0	-44.8	-48.0	-47.1	-47.1	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	29.1	29.3	21.7	33.4	38.5	39.0	39.2	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	57.3	56.4	53.9	65.2	71.1	70.1	69.9	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.6	-5.7	-7.0	-8.7	-10.3	-9.2	-8.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)* ^{3.7}	% of GDP	3.4	2.7	4.2	4.0	6.3	6.8	6.4	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	933.9	937.1	969.1	1,060.9	1,146.8	1,233.2	1,359.4	:	1,288.8	1,369.8	:
Int. reserves / months imp ^{3.9}	Ratio	2.9	2.8	3.2	2.5	2.2	2.3	2.5	:	2.4	:	:
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	1.1	2.7	0.2	3.3	11.6	10.1	4.9	:	2.4	3.2	:
Producer prices ^{4.2}	Ann. % ch	1.4	0.9	-0.6	4.9	9.3	-0.2	-0.9	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	2.8	8.3	10.1	12.7	31.2	16.1	9.6	:	6.1	5.5	:
Broad money liabilities ^{4.4}	Ann. % ch	7.9	12.0	15.3	12.1	11.3	14.6	15.2	:	7.7	8.6	:
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	104.7	107.1	107.3	109.8	115.7	117.7	116.4	:	116.9	:	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	0.47	0.54	N.A.	0.61	N.A.	N.A.	N.A.	:	:	:	:
Bond yield ^{5.2}	% p.a.	4.28	3.39	3.59	3.48	3.42	3.58	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	11.1	10.7	7.7	11.2	17.4	15.2	14.6	:	14.0	13.2	:
Deposit growth ^{5.5}	Ann. % ch	6.5	12.6	12.2	13.8	10.8	16.4	16.6	:	13.4	12.2	:
Non-performing loans ^{5.6}	% total	2.5	1.9	2.5	2.3	2.0	2.0	2.0	:	2.0	2.0	:
6 Fiscal developments												
General government revenue** ^{6.1}	% of GDP	26.3	26.8	25.4	27.7	27.9	6.9	13.5	:	N.A.	N.A.	N.A.
General government expenditure** ^{6.1}	% of GDP	29.2	29.7	33.0	28.9	28.4	5.2	11.7	:	N.A.	N.A.	N.A.
General government balance** ^{6.1}	% of GDP	-2.9	-2.9	-7.6	-1.2	-0.5	1.7	1.8	:	1.9	2.1	:
General government debt*** ^{6.2}	% of GDP	17.0	17.6	22.4	21.5	19.9	18.1	17.3	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

** M and Q figures refer to the cumulative balance divided by the estimated annual GDP.

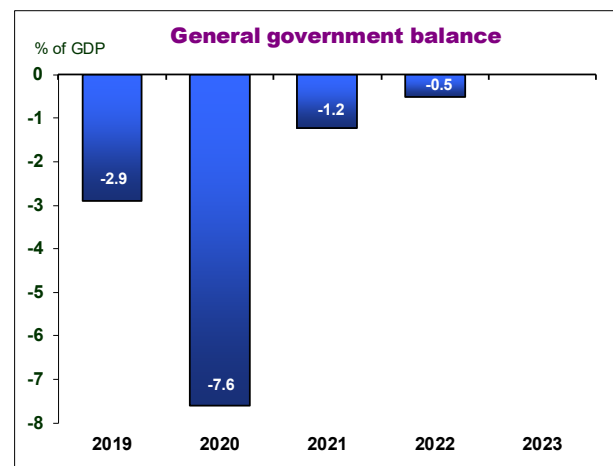
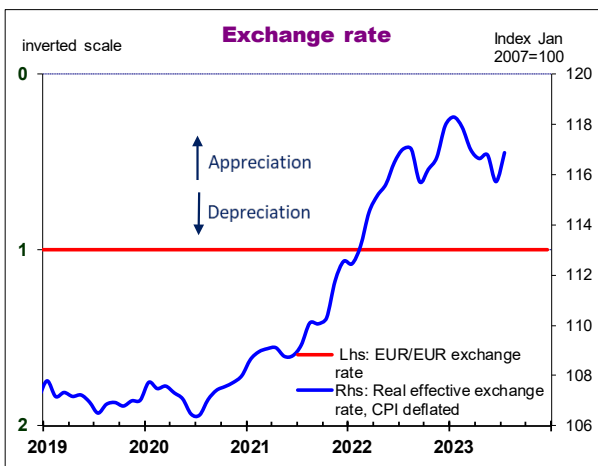
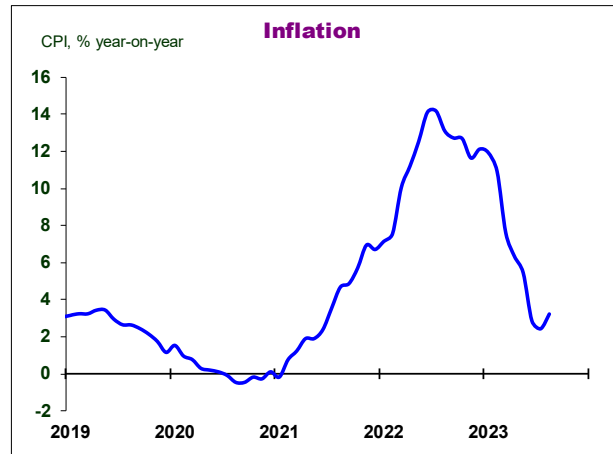
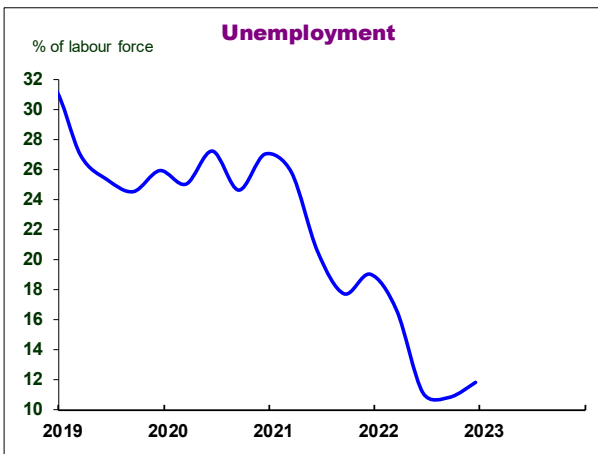
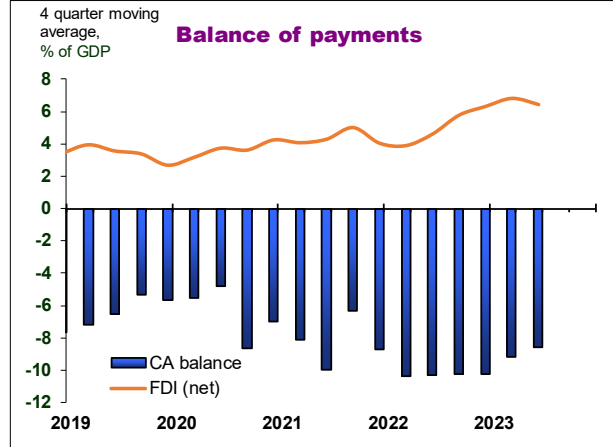
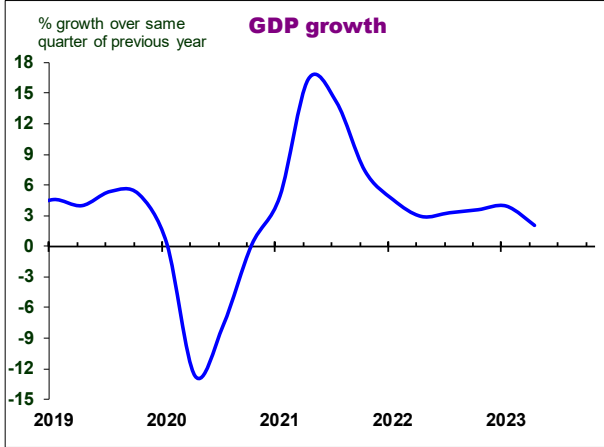
*** Q figures in percent of estimated annual GDP from the Budget Law.

CHARTS

European Commission, ECFIN-D-1



KOSOVO





No.	Indicator	Note	Source ³
1. Real sector			
1.1.	Economic sentiment indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, SA	Eur.Commission
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. ALL	INSTAT
3.2.	Imports of goods	Annual percentage change of global imports, trade in mio. ALL	INSTAT
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	Index 2007 = 100, CPI deflated, ALL	Bruegel Inst.
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, TRIBOR, 3 Month, fixing	Bank of Albania
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 gov. rev./exp./balance	Total revenue/expenditure/net lending; cash balance, in percent of GDP	Min. of Finance
6.2.	General government debt	Gross public debt in percent of annual GDP	Min. of Finance

³ Data extracted via IHS Markit.

BOSNIA AND HERZEGOVINA Explanatory notes



No.	Indicator	Note	Source ³
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Production, total, Index 2010=100, Annual percentage change	Agency for Stat.
1.3.	Gross domestic product	Annual percentage change	Agency for Stat.
1.4.	Private consumption	Annual percentage change, Households, Total, Chain index	Agency for Stat.
1.5.	Gross fixed capital formation	Annual percentage change	Agency for Stat.
1.6.	Construction index	Annual percentage change, residential construction, completed dwellings m2, eop annual percentage change	Agency for Stat.
1.7.	Retail sales	Retail trade, annual percentage change, volume, 2015=100	Agency for Stat.
2. Labour market			
2.1.	Unemployment	Labour Force Survey, in percent of total labour force	Agency for Stat.
2.2.	Employment	Total, annual percentage change	Agency for Stat.
2.3.	Wages	Annual percentage change, average gross wages, BAM	Agency for Stat.
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Agency for Stat.
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Agency for Stat.
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.8.	Reserves, International reserves of the National Bank	Gross foreign reserves, total, mio EUR	Central Bank
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	Central Bank
4. Monetary developments			
4.1.	CPI	All Items, with temporary reductions of prices, index CPPY=100	Agency for Stat.
4.2.	Producer prices	Domestic, total, index CPPY=100	Agency for Stat.
4.3.	Food prices	Annual pc change, food and non-alcoholic beverages, 2005=100	Agency for Stat.
4.4.	M2	Annual percentage change, M2 (broadest money)	Central Bank
4.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	Central Bank
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)	Central Bank
5. Financial indicators			
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	SASX-10 Index, close	Sarajevo Stock Exchange
5.4.	Credit growth	Annual percentage change, loans, total, BAM	Central Bank
5.5.	Deposit growth	Annual percentage change, deposits, total, BAM	Central Bank
5.6.	Non-performing loans	NPLs to total loans, BAM, End of period	Central Bank
6. Fiscal developments			
6.1.	General gov. rev./exp./balance	In percent of GDP, consolidated budget	Central Bank
6.2.	General government debt	In percent of GDP, external public debt	Central Bank



No.	Indicator	Note	Source ³
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, SA	Eur. Commission
1.2.	Industrial production	Annual percentage change	MONSTAT
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	MONSTAT
1.4.	Private consumption	Annual percentage change, annual data, chain index	MONSTAT
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MONSTAT
1.6.	Construction index	Annual percentage change, value of performed work, current prices	Central Bank
1.7.	Retail sales	Annual percentage change, turnover, constant prices, total	MONSTAT
2. Labour market			
2.1.	Unemployment	Unemployment rate of the age group between 15-64, e.o.p.	MONSTAT
2.2.	Employment	Annual percentage change of registered employment, avrg.	MONSTAT
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	MONSTAT
3. External sector			
3.1.	Exports of goods	Annual percentage change, thou. EUR	MONSTAT
3.2.	Imports of goods	Annual percentage change, thou. EUR	MONSTAT
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MONSTAT
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR	Central Bank
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	Central Bank
4. Monetary developments			
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MONSTAT
4.2.	Producer prices	Annual percentage change	MONSTAT
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPY=100	MONSTAT
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	Annual percentage change, CPI deflated	IMF
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 6 Month, auction, yield, average	Central Bank
5.2.	Bond yield	Long-Term Bond, 10 Year, Yield	Bloomberg
5.3.	Stock markets	MOSTE Index, Close	Mon. Stock Exch.
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	Central Bank
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	Central Bank
5.6.	Non-performing loans	% of total	Central Bank
6. Fiscal developments			
6.1.	General gov. rev./exp./balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance

NORTH MACEDONIA Explanatory notes



No.	Indicator	Note	Source ³
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, SA	Eur. Commission
1.2.	Industrial production	Annual percentage change, volume, excluding construction	State Stat. Office
1.3.	Gross domestic product	Real Gross Domestic Product, Total, Growth Rate (2005), NSA	State Stat. Office
1.4.	Private consumption	Real Final Consumption, Households including NPISH's, Growth Rate (2005), NSA	State Stat. Office
1.5.	Gross fixed capital formation	Real Gross Capital Formation, Growth Rate (2005), NSA	State Stat. Office
1.6.	Construction	Value Added, Economic Activity, Current Prices, MKD	State Stat. Office
1.7.	Retail sales	Annual percentage change, Retail trade, volume, total except fuel	State Stat. Office
2. Labour market			
2.1.	Unemployment	Unemployment rate of the age group between 15-64	State Stat. Office
2.2.	Employment	Annual percentage change of employed persons age 15-64	State Stat. Office
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	State Stat. Office
3. External sector			
3.1.	Exports of goods	Annual percentage change, fob	National Bank
3.2.	Imports of goods	Annual percentage change, cif	National Bank
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.8.	Reserves, International reserves of the National Bank	Foreign assets, mio EUR	National Bank
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	National Bank
4. Monetary developments			
4.1.	CPI	Annual average percentage change, HICP not yet available for MK	State Stat. Office
4.2.	Producer prices	Annual percentage change, industrial products	State Stat. Office
4.3.	Food prices	Annual percentage change, food and non alcoholic beverages	State Stat. Office
4.4.	M3	Annual percentage change, M3 (Money supply)	National Bank
4.5.	Exchange rate MKD/EUR	Averages, spot close	National Bank
4.6.	Real effective exchange rate	Index 2005=100, CPI deflated, MKD	IMF
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, SKIBOR, 3 Month, fixing	Macedonian Banking Assoc.
5.2.	Bond yield	Lending rate	IMF
5.3.	Stock markets	MSE Index (MBI-10)	Mac. Stock Exch.
5.4.	Credit growth	Annual percentage change, domestic credit, private, Banks and Saving houses, MKD	National Bank
5.5.	Deposit growth	Annual percentage change, private, Banks and Saving houses, MKD	National Bank
5.6.	Non-performing loans	In percent of total	National Bank
6. Fiscal developments			
6.1.	Central gov. rev./exp./balance	In percent of GDP	Min. of Finance
6.2.	Central government debt	In percent of GDP	Min. of Finance



No.	Indicator	Note	Source ³
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, SA	Eur. Commission
1.2.	Industrial production	Total, Index, CPPY=100	Statistical Office
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	Statistical Office
1.4.	Private consumption	Annual percent change, Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	Statistical Office
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	Statistical Office
1.6.	Construction index	Annual pc change, Value Index of Performed Works, Total CPPY=100, NSA	Statistical Office
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	Statistical Office
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition. Data as of 2021 according to new LFS methodology, data prior to 2021 revised according to new methodology	National Bank
2.2.	Employment	Annual percentage change, based on LFS. Data as of 2021 according to new LFS methodology, data prior to 2021 revised according to new methodology	National Bank
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	Statistical Office
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	Statistical Office
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	Statistical Office
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	National Bank
3.8.	International reserves NBS	Total, mio EUR	National Bank
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	National Bank
4. Monetary developments			
4.1.	CPI	Consumer Prices, Total, CPPY, average	Statistical Office
4.2.	Producer prices	Annual average percentage change, domestic market	Statistical Office
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	Statistical Office
4.4.	M3	Annual percentage change, M3 (broad money), RSD	National Bank
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	National Bank
4.6.	Real effective exchange rate	Index 2005 = 100, period average, RSD	National Bank
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, BELIBOR, 3 Month, fixing	National Bank
5.2.	Bond yield	Weighted average interest rate on 10Y RSD government bonds	National Bank
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	Belgrade Stock Exchange
5.4.	Credit growth	Annual percentage change, domestic credit, private, RSD	National Bank
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	National Bank
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	National Bank
6. Fiscal developments			
6.1.	General gov. rev./exp./balance	Consolidated GG, total revenue/expenditure/net lending; 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 ³
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, SA	Eur. Commission
1.2.	Industrial production	Annual percentage change, volume (index 2015)	Turkstat
1.3.	Gross domestic product	Annual percentage change	Turkstat
1.4.	Private consumption	Annual percentage change, index (2009 prices)	Turkstat
1.5.	Gross fixed capital formation	Annual percentage change	Turkstat
1.6.	Construction index	Annual percentage change, construction turnover index, calendar adjusted	Turkstat
1.7.	Retail sales	Retail trade, annual percentage change, volume, calendar adjusted, 2015=100	Turkstat
2. Labour market			
2.1.	Unemployment	In percent of total labour force, total, Labour Force Survey data	Turkstat
2.2.	Employment	Annual percentage change, total, Labour Force Survey data	Turkstat
2.3.	Wages	Annual percentage change, total hourly earnings, Index 2015 = 100	Turkstat
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Turkstat
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Turkstat
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
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	Central Bank
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR, eop	Central Bank
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	Central Bank
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	Turkstat
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	Turkstat
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	Turkstat
4.4.	M3	Money supply M3, total, TRY	Central Bank
4.5.	Exchange rate YTL/EUR	Period averages	ECB, IMF
4.6.	Real effective exchange rate	Index Jan-2003 = 100, period averages	Central Bank
5. Financial indicators			
5.1.	Interest rate	TLREF: Turkish Lira Overnight Reference Rate. Before 2019: Interbank Rates, TRLIBOR, 3 Month, fixing	Borsa Istanbul
5.2.	Bond yield	Government Benchmarks, 10 Year Bond, Yield	Eurostat, iBoxx
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	Ist. Stock Exch.
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	Central Bank
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	Central Bank
5.6.	Non-performing loans	In percent of total loans	BDDK
6. Fiscal developments			
6.1.	General gov. rev./exp./balance	General government, in percent of GDP	Min. of Treasury and Finance
6.2.	General government debt	In percent of GDP (EU standards; defined by the Ministry of Treasury and Finance)	Min. of Treasury and Finance



No.	Indicator	Note	Source ³
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change	Central Bank
1.3.	Gross domestic product	Annual percentage change	Statistical Office of Kosovo (SOK)
1.4.	Private consumption	Annual percentage change	SOK
1.5.	Gross fixed capital formation	Annual percentage change	SOK, Eurostat
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	SOK
2	Labour market		
2.1.	Unemployment	Unemployment rate of the age group between 15-64	SOK
2.2.	Employment	Annual pc change of number of employees, LFS 2012 onwards	SOK
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	SOK
3.2.	Imports of goods	Annual percentage change, thou. EUR	SOK
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Central bank
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank
3.8.	Reserves, International reserves of the National Bank	CBAK Survey, claims on non-residents, mio EUR	Central Bank
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	Central Bank
4.	Monetary developments		
4.1.	CPI	Annual average percentage change, index (May 2002 = 100)	Central Bank
4.2.	Producer prices	Annual percentage change, total, 2007=100	SOK
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	Central Bank
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	SOK
4.5.	Exchange rate EUR/EUR	Not applicable	
4.6.	Real effective exchange rate	Index 2007=100, CPI deflated	Central Bank
5.	Financial indicators		
5.1.	Interest rate	Short-Term Treasury Bills yield	Central Bank
5.2.	Bond yield	Long-Term Bonds, over 5 Years up to 10 Years, Yield	Central Bank
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing	Central Bank
5.5.	Deposit growth	Annual percentage change, ODC deposits	Central Bank
5.6.	Non-performing loans	In percent of total	Central Bank
6.	Fiscal developments		
6.1.	General gov. rev./exp./balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance

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