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4th Quarter 2021

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European Commission
Directorate-General for Economic and Financial Affairs

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

4th Quarter 2021

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

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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

*The economic rebound in the **Western Balkan** region lost some pace in the third quarter of 2021 but remained strong nonetheless, with the region's GDP expanding by 8.6% y-o-y, compared to 14.5% in the preceding quarter. Despite weakening base effects, annual output growth continued to benefit from robust domestic and external demand. In line with the robust economic performance, year-on-year employment growth accelerated in the third quarter of 2021 and unemployment rates declined in most countries while labour force participation increased. The region's current account deficit significantly narrowed to 3.9% of GDP in the four quarters to September, the lowest level in the last ten years, as the strong rebound of services exports and higher remittances inflows generally outweighed the increase in merchandise trade deficits. The economic recovery supported the growth of budget revenues and fiscal deficits narrowed across the Western Balkans in the first eleven months of 2021, while the public debt-to-GDP ratio came down in most countries compared to end-2020.*

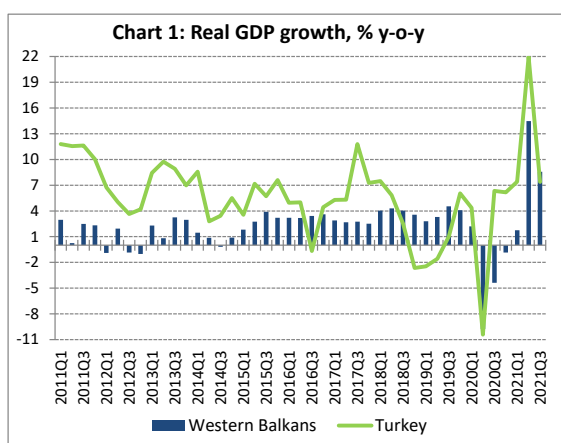
*In **Turkey**, despite fading base effects and a sizeable reduction in stocks, economic performance remained robust as real GDP expanded by 7.4% y-o-y, sustained by a strongly growth contribution of net exports and a notable increase in household and public consumption. The 4-quarter moving average current account deficit decreased to 1.8% of GDP in November, compared to 5.0% in 2020. Despite very high inflation, since September the central bank has reduced its key policy rate by a cumulative 500 bps., to 14% in December. As a result, in early 2022 the lira lost around 80% of its value against the US dollar on a year-on-year basis.*

The rebound of the **Western Balkan** economies moderated in the third quarter of 2021, partly due to lower base effects, but it remained solid, underpinned by strong external and domestic demand. The *Serbian* economy expanded at a softer, albeit still robust pace as real GDP grew by 7.7% y-o-y compared to 13.7% in the previous three months. The continued rebound was driven by sustained increases in household and public consumption and investment that were only partially offset by the negative contribution of net exports to growth. In *Albania*, the rebound of economic activity lost some steam in the third quarter of 2021 with real GDP expanding by 7.0% y-o-y following a surge of 18.4% in the preceding quarter. The expansion was mainly driven by external demand and significantly increased public consumption while investment and household consumption grew only moderately. In *Bosnia and Herzegovina*, the buoyant recovery continued, although at a slower pace with real GDP growing by 8.4% y-o-y, after 12.1% in the previous quarter, largely driven by significant increases in exports and investment while household consumption rose

more moderately. After a 16.8% y-o-y surge in the previous quarter, the strong rebound of *Kosovo's* economy continued with real GDP growing by 14.5% y-o-y in the third quarter, driven by an extraordinary expansion of services exports (mainly tourism), a moderate increase in public consumption as well as more sluggish private consumption and investment growth. In *North Macedonia*, annual output growth decelerated considerably to 3%, down from 13.4% in the previous three months, mainly due to a slowdown in household consumption growth as well as only a margin increase in investment, while net exports provided a small positive contribution to growth. In *Montenegro*, supported by a surge in tourism exports during the summer as well as increased private and public consumption, annual growth accelerated to 25.8% y-o-y. Overall, the **Western Balkan** region's GDP expanded by 8.6% y-o-y in the third quarter of 2021, more than offsetting the 4.4% output drop registered a year earlier (Chart 1).

In **Turkey**, despite fading base effects and a large reduction in stocks, the growth momentum remained solid in the third quarter of 2021 and real GDP rose by 7.4% y-o-y. Economic

expansion was mainly on the back of a notable positive contribution of the external sector to growth as well as a marked increase in private and public consumption growth. Consumer confidence nosedived in December due to the worsening financial situation of households linked to rising inflation. Nevertheless, real sector, services and retail trade confidence levels remained buoyant and largely unchanged. Industrial production picked up in November on a month-on-month basis, while manufacturing activity remained upbeat.

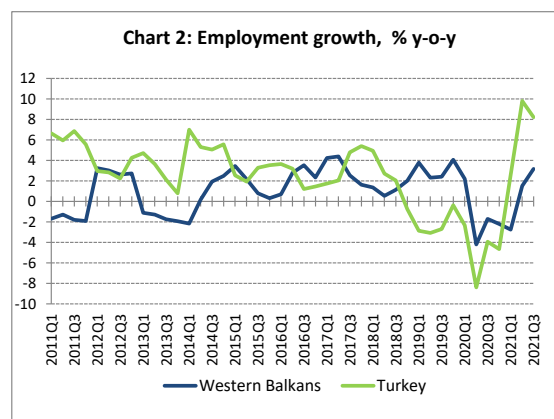


Source: Macrobond, Commission calculations

In line with the rebound of economic activity, the recovery of labour markets continued in the **Western Balkans** in the third quarter of 2021. The average rate of job growth reached 3.2%¹ y-o-y, up from 1.5% in the previous three months (Chart 2). This led to a decrease in unemployment rates in most countries while labour force participation increased. Still, jobless rates remain high, ranging from 10.5% in *Serbia* to 25.8% in *Kosovo* (the latter in the first quarter of 2021).

Also in **Turkey**, the economic rebound continued to support the recovery of the labour market. In the third quarter of 2021, employment growth slowed somewhat but remained high (8.2% y-o-y), while it

accelerated to 11.3% y-o-y in November. In the same period, the unemployment rate marginally increased to 10.9%, coupled with a further improvement in the labour force participation rate.

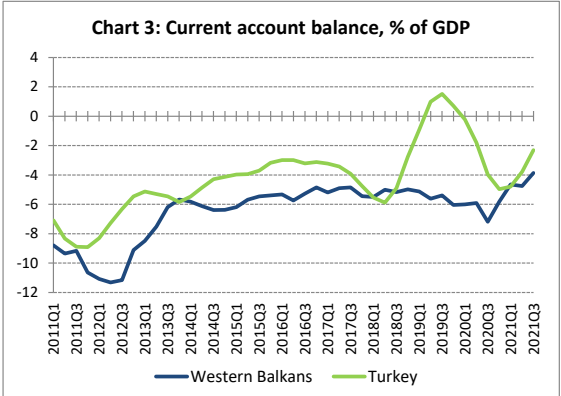


Source: Macrobond, Commission calculations

External developments in the **Western Balkans** during the third quarter of 2021 were driven by the strong rebound of services exports (namely tourism), the robust growth of remittances as well as the continued growth of exports of goods in most countries. At the same time, imports of goods also increased at a fast pace which led to higher merchandise trade deficits as a percentage of GDP in all countries of the region. On balance, with the exception of *Serbia*, annualised current account deficits narrowed in the **Western Balkan** countries compared to the previous quarter. Overall, in the four quarters to September the current account deficit in the region stood at 3.9% of GDP, the lowest level in the last ten years (Chart 3). The deficits continued to be financed mostly by net FDI inflows, which in relation to GDP increased or remained broadly the same compared to the year before in *Serbia*, *Bosnia and Herzegovina*, *Kosovo* and *Montenegro* whereas they declined slightly in *Albania* and *North Macedonia*.

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

In **Turkey**, the 12-month cumulative current account deficit decreased to 1.8% of GDP in November from 5.0% in 2020. The improvement was mainly driven by a recovery in the export of services and a strong increase in exports of goods, which reached record high levels in September-November. Notwithstanding renewed portfolio outflows in October, official reserve assets increased by almost USD 10 billion in the three months to November, supported by large net errors and omissions. Official reserves, however, have fallen significantly since then as a result of sizeable central bank interventions on the FX market.



Source: Macrobond, Commission calculations

Sustained increases in energy, food and transport prices fuelled a further acceleration in annual inflation across the **Western Balkan** region. In **Serbia**, annual consumer price inflation averaged 4.4% in the third quarter of 2021 and accelerated strongly to 6.6% and 7.5% in October and November respectively, thus exceeding significantly the upper bound of the central bank’s target tolerance band of 3%±1.5 pps. In **Albania**, consumer price inflation picked up to 2.4% y-o-y in the third quarter of 2021 and further to 3.1% y-o-y in November, thus slightly above the 3% inflation target for the first time in years. In December, the **Bank of Albania** left its key policy rate unchanged, which it had last lowered to the record low of 0.5% in March 2020. It also continued to intervene on the money market

with slightly increased average liquidity injections. In **North Macedonia**, consumer price inflation accelerated throughout the year to 4.9% in December, bringing average annual growth of CPI to 3.2% in 2021, up from 1.2% in 2020. The central bank has kept the key policy rate unchanged since March 2021, when it had reduced it by 25 bps. to the historic low of 1.25%, after three successive rate cuts in 2020.

In **Montenegro** and **Bosnia and Herzegovina**, annual consumer price inflation averaged 3.7% and 2.4%, respectively in the third quarter of 2021 while it rose further to 4.4% and 5.4% respectively, in November. In both countries, upward price pressures came from food prices combined with energy in the case of **Montenegro**, and transport and non-alcoholic beverages in the case of **Bosnia and Herzegovina**. In **Kosovo**, annual consumer price inflation accelerated since July, reaching 6.9% in November and standing at 2.6% on average in the first eleven months of 2021, due to higher energy, transport and food prices.

In **Turkey**, inflation significantly accelerated to 36.1% y-o-y in December, as price pressures intensified due to the weaker lira. Food and energy prices increased to new highs. Since September 2021, the central bank has reduced its key policy rate by a cumulative 500 bps. to 14% in December. As a result, in early 2022 the lira had lost around 80% y-o-y of its value against the US dollar. The 5-year CDS spread peaked at 624 bps. in December before receding to a still high 580 bps. in mid-January.

In the third quarter of 2021, annual credit growth decelerated, compared to the previous three months, in **Serbia** whereas it picked-up in other **Western Balkan** countries. The pick-up in economic activity and the continuation of some regulatory measures to support the flow of credit helped annual loan growth to accelerate further in most countries of the region in October and November. For the same period, in most countries credit to households grew faster than corporate

lending. The share of non-performing loans (NPLs) in total loans fell further or remained broadly stable in most *Western Balkan* countries. The NPL ratio in *Albania* fell to 6.2% in November, 2.0 pps. lower than 12 months earlier. In *Montenegro*, the NPL ratio stood at 5.98% in November, followed by *Bosnia and Herzegovina* and *Serbia* (5.5% and 3.6%, respectively in the third quarter of 2021). Nevertheless, since most central banks have allowed some regulatory relaxation in order to bolster bank lending, the NPL figures might not yet reflect the full impact of the pandemic-induced crisis on the financial sector.

In *Turkey*, at end-2021 credit growth was close to zero in real terms, mainly driven by the substantial year-on-year increase in the stock of FX-denominated loans due to the sizeable exchange rate effect following the lira's strong depreciation, while outstanding loans in lira increased less than the inflation rate. The NPL ratio decreased to 3.2% in November from 4.0% a year earlier.

In the first eleven months of 2021, the rebound in tax revenues due to stronger economic activity supported the narrowing of fiscal deficits and over-performance against budget plans across the *Western Balkan* region. In *Serbia*, the budget shortfall decreased to 1.8% of expected annual GDP in January to November, compared to the revised target of 4.9% of GDP for 2021 as a whole and a 6.4% deficit in the same period one year earlier. Year-on-year revenue growth significantly outpaced the increase in expenditure, impacted by base effects from the lockdown and tax deferrals in spring 2020. In *Montenegro*, the budget deficit significantly narrowed to 1.6%

of GDP in January-November, 60% below the plan, supported by a strong increase in tax revenue, a sharp contraction of capital expenditure as well as a mild decrease in current spending. In *Albania*, despite the significant increase in capital expenditure (partly due to the post-earthquake reconstruction works) and the moderate rise in current spending, the strong recovery in all tax revenue items except corporate and personal income taxes kept the budget deficit at 1.8% of GDP, less than a third of the revised plan. In *Kosovo*, large increases in direct and indirect tax proceeds, combined with the sharp contraction of subsidies and the underperformance of public investment resulted in a hefty budget surplus of 4.6% of GDP in January-November. In *North Macedonia*, preliminary data show that in 2021 the budget shortfall amounted to 5.4% of GDP, 1.1 pps. lower than the revised target, mainly due to increased revenue from taxes and contributions as well as capital expenditure under-execution. The general government debt ratio decreased in most countries in the region in the third quarter of 2021, partly reflecting recovering nominal GDP. At the end of September, the debt ratio was the highest in *Montenegro* (86.0% of GDP), albeit significantly lower compared to end-2020, followed by *Albania* (73.9%) and *Serbia* (56.4% at end-November).

In *Turkey*, the strong revenue growth outpaced the increase of non-interest expenditure, resulting in a significant narrowing of the central government budget deficit to 2.1% of GDP in 2021 from 3.6% in 2020. Government debt fell to 37.6% of GDP at end-September, compared to 39.7% at end-2020.

Candidate and potential candidate countries: Summary table

	2017	2018	2019	2020	2021	ECFIN 2021 Autumn forecast		Q2 21	Q3 21	Q4 21	Oct 21	Nov 21	Dec 21
						2022	2023						
Gross domestic product (in real terms, annual % change)													
Albania	3.8	4.0	2.1	-4.0	:	3.7	3.6	18.4	7.0	:	N.A.	N.A.	N.A.
North Macedonia	1.1	2.8	3.9	-6.1	:	3.9	3.7	13.4	3.0	:	N.A.	N.A.	N.A.
Montenegro	4.7	5.1	4.1	-15.3	:	6.4	3.2	19.0	25.8	:	N.A.	N.A.	N.A.
Serbia	2.1	4.5	4.3	-0.9	:	4.3	4.3	13.7	7.7	:	N.A.	N.A.	N.A.
Turkey	7.5	3.0	0.9	1.8	:	4.0	4.0	22.0	7.4	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	3.0	3.3	2.8	-3.2	:	:	:	12.1	8.4	:	N.A.	N.A.	N.A.
Kosovo	4.8	3.4	4.8	-5.3	:	:	:	16.8	14.5	:	N.A.	N.A.	N.A.
Unemployment													
Albania	14.1	12.8	12.0	12.2	:	11.0	10.3	12.1	11.6	:	N.A.	N.A.	N.A.
North Macedonia	22.4	20.7	17.3	16.4	:	15.1	14.6	15.9	15.7	:	N.A.	N.A.	N.A.
Montenegro	16.4	15.5	15.4	18.4	:	18.5	17.2	17.3	15.0	:	N.A.	N.A.	N.A.
Serbia	14.5	13.7	11.2	9.7	:	10.0	9.2	11.1	10.5	:	N.A.	N.A.	N.A.
Turkey	10.9	10.9	13.7	13.1	:	12.6	12.2	11.9	11.7	:	10.7	10.9	:
Bosnia and Herzegovina	20.5	18.4	15.7	15.9	:	:	:	18.1	16.4	:	N.A.	N.A.	N.A.
Kosovo	30.5	29.6	25.7	25.9	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance* (% of GDP)													
Albania	-7.5	-6.8	-7.9	-8.9	:	-7.3	-7.1	-7.8	-7.0	:	N.A.	N.A.	N.A.
North Macedonia	-1.0	-0.1	-3.3	-3.4	:	-2.6	-2.2	-2.7	-1.3	:	N.A.	N.A.	N.A.
Montenegro	-16.1	-17.0	-14.3	-26.1	:	-15.8	-16.8	-19.6	-10.1	:	N.A.	N.A.	N.A.
Serbia	-5.2	-4.8	-6.9	-4.1	:	-4.3	-4.1	-2.5	-3.0	:	N.A.	N.A.	N.A.
Turkey	-4.8	-2.8	0.7	-5.0	:	-2.2	-1.6	-3.8	-2.3	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-4.6	-3.1	-2.7	-3.6	:	:	:	-3.3	-2.8	:	N.A.	N.A.	N.A.
Kosovo	-5.5	-7.6	-5.7	-7.0	:	:	:	-9.8	-6.0	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	2.0	2.0	1.4	1.6	:	2.8	2.7	1.8	2.4	3.1	2.4	3.1	3.7
North Macedonia	1.4	1.5	0.8	1.2	3.2	2.1	1.8	2.8	3.6	4.6	4.1	4.8	4.9
Montenegro (HICP)	2.8	2.9	0.5	-0.8	:	2.5	1.5	2.3	3.7	:	3.9	4.4	:
Serbia	3.1	2.0	1.8	1.6	:	3.6	2.6	3.2	4.4	:	6.6	7.5	:
Turkey	11.1	16.3	15.2	12.3	19.6	17.7	15.4	17.1	19.3	25.8	19.9	21.3	36.1
Bosnia and Herzegovina	1.3	1.4	0.6	-1.1	:	:	:	1.4	2.4	:	4.3	5.4	:
Kosovo	1.5	1.1	2.7	0.2	:	:	:	2.0	4.3	:	5.7	6.9	:
General government balance** (% of GDP)													
Albania	-2.0	-1.6	-1.9	-6.9	:	-4.0	-3.5	-1.7	-2.1	:	N.A.	N.A.	N.A.
North Macedonia	-2.7	-1.8	-2.0	-8.2	:	-4.9	-4.3	-1.2	-1.3	:	N.A.	N.A.	N.A.
Montenegro	-5.3	-3.9	-2.0	-11.1	:	-0.5	0.2	-1.2	2.4	:	N.A.	N.A.	N.A.
Serbia	1.1	0.6	-0.2	-8.0	:	-2.7	-1.6	-0.4	-0.5	:	N.A.	N.A.	N.A.
Turkey	-2.0	-2.8	-3.2	-2.8	:	-3.5	-3.1	-1.1	-0.7	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	2.4	2.1	1.9	-5.1	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo	-1.3	-2.9	-2.9	-7.6	:	:	:	2.1	2.0	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Autumn 2021 published November 2021.

* Q figures refer to a 4 quarters moving average.

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



Key developments

On 5 November 2021, the EU disbursed EUR 90 million as second and last tranche of the EUR 180 million loan of macro-financial assistance to support Albania's financing needs arising from the COVID-19 pandemic. The EU released the disbursement after assessing that Albania had implemented the agreed measures in the areas of public finance management, financial sector stability, good governance and rule of law and social policy.

On 25 November, the Parliament approved the 2022 budget. It is based on projected 4.1% real GDP growth and foresees a fiscal deficit of 5.4% of GDP. Tax revenues are expected to increase by 9% compared to the 2021 budget, and total expenditure by 3.1%. Capital spending would decrease by 7.4%.

Real sector

The rebound of the Albanian economy continued with 7% y-o-y growth of real GDP in Q3-2021 after a 18.4% y-o-y surge in Q2 (revised upward 0.5 pps. from Q2). As all expenditure categories except imports of services exceeded their level of Q3-2019, growth was only partly driven by base effects due to the sharp downturn in Q3-2020. Exports (+62.7% y-o-y) continued to be the key driver, but in contrast to Q2, growth of government consumption (+7.6% y-o-y) strongly exceeded that of investment (+3.8% y-o-y) and household consumption (3.3% y-o-y).

The strong recovery of exports both of goods (49.2% y-o-y) and services (66.6% y-o-y) continued as did imports (+35.9% y-o-y). Construction materials and metals (14.7 pps.) as well as "minerals, fuels and electricity" (10.7 pps.) remained the key contributors to the growth of goods exports over the 11 months of 2021. Key import goods were "mineral, fuels, electricity", followed by machinery and construction materials.

On the production side, services provided the largest contribution to GDP growth of a combined 4.4 pps. (led by trade, transport, accommodation and food services). Industry, electricity and water had a 1 pp. growth contribution, while construction, which had been one of the key growth drivers over the previous 4 quarters, only contributed 0.4 pps.

After a short period of decline between August and October, the economic sentiment indicator returned in November to the upward path of the first half of 2021, pushed by improving confidence of consumers in their financial future and of the construction sector. Although confidence values of industry slightly decreased and services remained unchanged, they remained above their respective historical averages.

Labour market

The recovery of the labour market continued with the unemployment rate (age group 15-64) falling from 12.1% in Q2 to 11.6% in Q3, below its level in Q3 in 2019 and 2020. The youth unemployment rate (15-29) remained unchanged from Q2 at 19.9% and was 0.8 pps. lower compared to the same period in 2020. Total employment (age group 15-64) recorded y-o-y growth of only 0.2% in Q3, reflecting a 1.6% decrease of youth employment. The main driver was - as in Q2 - industry (10.1%) and at a much lower rate services (0.5%), while employment in agriculture decreased by 4.5%.

The number of inactive persons continued to decrease (-2.1% y-o-y) and the participation rate recovered to 70.1% in Q3 (up 0.3 pps. y-o-y), exceeding the corresponding 2019 level. This was due to a rebound of female participation by 1.3 pps. while men's participation rate decreased by 0.6 pps. As a result, the gender gap decreased by 1.9 pps. y-o-y and 2.2 pps. q-o-q, to 14.2 pps.

Total nominal wage growth in annual terms continued to accelerate from 4.9% in Q2 to 6.9% in Q3, pushed by private sector wage growth of 8.1%, with wage indices recording strong increases in the services sectors. However, compared with the previous quarter, the average wage decreased slightly, because of lower wages in construction and in the public sector.

External sector

In the four quarters to September, the current account deficit narrowed to 7% of GDP (down from 7.8% in Q2-2021) as the widening of the merchandise trade deficit by 0.9 pps. was outweighed by the surplus in services increasing by 1.8 pps. to 11.5% of GDP and by a steady growth of remittances. Driven by the strong recovery of services exports and by the

continuing rebound of merchandise exports, total exports grew by 76.6% y-o-y in Q3. Surging services imports (74.5% y-o-y) coupled with strong growth of goods imports (32.6% y-o-y), resulted in an overall import growth of 42.8% y-o-y in Q3. Nominal values of exports and imports both of goods and of services exceeded also their Q3-2019 levels, confirming a solid recovery. The share of total exports in GDP increased in Q3-2021 to 30.3% from 24.7% Q3-2020, while total imports increased from 39.4% to 43% of GDP. Remittances grew by 13.8% y-o-y and increased their share in GDP from 5% to 5.2% in the four quarters to September.

Net FDI inflows ended their 6 quarter-long contraction in Q3 and recorded y-o-y growth of 7.6%, but their nominal value remained below pre-crisis levels. In the four quarters to September, net FDI accounted for 6.3% of GDP, down from 7.1% one year earlier. Net FDI coverage of the current account deficit increased to 88.8% exceeding 2020 levels but still below the 92% coverage in Q3-2019. Foreign reserves increased to EUR 4.2 billion from EUR 3.92 billion in Q2, while their coverage of average imports decreased slightly from 8.4 to 8.2 months due to the strong recovery of imports.

Monetary developments

The pick-up of inflation to 2.4% in Q3 was mainly caused by strongly fluctuating prices for food and transport, while in November increasing energy prices pushed the inflation rate for the first time in years above the inflation target of 3%. However, the Bank of Albania (BoA) considered inflationary pressures to be largely transitory and reaffirmed in December its accommodative policy stance for the medium-term, keeping its record low policy rate at 0.5%, as well as the overnight deposit and lending rates at 0.1% and 0.9%, respectively.

Growth of monetary aggregate M3 slightly decelerated November, to 8.9%. The lek's exchange rate continued to appreciate in Q4 to 121.5 lek/euro. The BoA continued to intervene on the money market with slightly increased average liquidity injections.

Financial sector

The overall growth of credit to the economy picked up from 6.6% y-o-y in Q2 to 6.8% in Q3.

Adjusted for written-off loans and exchange rate impacts, annual credit growth to the private sector continued to accelerate by 1.2 pps. from Q2 to 8.9% y-o-y in Q3, pushed by increased

liquidity demand of enterprises and continuously high growth rates of credit to households. In terms of GDP, credit to the private sector returned to its pre-pandemic level of 39.6%. In contrast to Q2, lending in foreign currency (+8.5% y-o-y) drove the acceleration in Q3, while lending in lek slightly decelerated to 9.3%, mainly due to base effects, but the share of foreign currency loans in total bank loans slightly decreased to 48.6%. The highest growth of foreign currency deposits (13.2% y-o-y) in recent years increased their share in total deposits to 55.2% in Q3 and accelerated overall deposit growth by 2 pps. to 10.3%.

Average interest rates for new loans in lek to enterprises increased slightly to 5.6% in Q3, while interest rates for loans to households, in particular for mortgages, continued to decrease. Interest rates for loans in euro for both enterprises and households remained at 4.4%, 1 pp. below their 2020 average. In line with the improving economic situation, banks continued to ease their credit standards for households and enterprises while at the same time, loan demand from both customer segments increased and banks' rejection rates decreased.

The banking sector's capital adequacy ratio increased in Q3 by 0.3 pps q-o-q to 18.3 whereas the liquidity ratio decreased by 0.6 pps. q-o-q to 12.2%. The ratio of non-performing loans to total loans continued to fall, to 6.2% in November 2021, 2 pps. below its level one year earlier and more than 3 pps. below the corresponding 2019 value. Bank profitability indicators improved strongly in 2021 and remained stable in Q3 compared with Q2 (RoA: 1.4%, RoE: 12.8%) but are not yet back to 2019 levels.

Fiscal developments

In December 2021, the government raised capital expenditure provisions in the fifth amendment of the 2021 budget, although by November 36% of the capital budget had not yet been spent and the fiscal deficit stood at 1.8% of GDP, less than a third of the last plan. In January-November, tax revenue growth of 19.3% y-o-y exceeded the 2021 plan as well as 2019 values in all categories except for profit and personal income taxes. Current expenditure grew 6.7% y-o-y, driven by social security and maintenance, while capital expenditure grew strongly with 33% y-o-y (partly due to the post-earthquake reconstruction works) from the high growth in 2020. Public debt stood at 73.9% of estimated GDP, down 1.8 pps. compared with end-2020.

TABLE



European Commission, ECFIN-D-1

ALBANIA

							ECFIN 2021 Autumn forecast							
		2017	2018	2019	2020	2021	2022	2023	Q2 21	Q3 21	Q4 21	Oct 21	Nov 21	Dec 21
1 Real sector														
Industrial confidence ^{1.1}	Balance	1.5	-0.6	-0.6	-16.2	:	:	:	-10.0	-7.5	:	-1.6	-4.3	N.A.
Industrial production ^{1.2}	Ann. % ch	8.4	9.7	5.6	-10.1	:	:	:	46.9	12.2	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	3.8	4.0	2.1	-4.0	:	3.7	3.6	18.4	7.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.6	3.1	3.2	-2.3	:	3.5	3.3	10.9	3.3	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	6.0	2.3	-3.7	-2.0	:	3.0	2.1	36.8	3.8	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	19.6	5.6	-2.5	9.5	:	:	:	32.7	1.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.4	1.8	4.2	1.0	:	:	:	10.8	4.3	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	14.1	12.8	12.0	12.2	:	11.0	10.3	12.1	11.6	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.7	2.1	2.4	-1.9	:	1.7	1.6	1.0	0.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	3.0	3.1	3.8	2.7	:	:	:	4.7	6.9	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	14.4	20.0	-0.2	-9.7	:	:	:	64.1	30.9	:	29.2	:	:
Imports of goods ^{3.2}	Ann. % ch	11.5	8.1	4.8	-7.8	:	:	:	46.2	30.7	:	31.7	:	:
Trade in goods balance* ^{3.3}	% of GDP	-24.4	-22.4	-22.9	-22.8	:	-22.6	-22.6	-23.3	-24.2	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	31.6	31.6	31.3	23.1	:	:	:	26.4	30.3	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	46.7	45.4	45.0	37.9	:	:	:	40.0	43.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.5	-6.8	-7.9	-8.9	:	-7.3	-7.1	-7.8	-7.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.6	8.0	7.5	6.9	:	:	:	6.3	6.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,996	3,399	3,360	3,942	:	:	:	3,925	4,205	:	4,212	4,991	:
Int. reserves / months Imp ^{3.9}	Ratio	6.7	7.0	6.5	9.6	:	:	:	8.4	8.2	:	N.A.	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	2.0	2.0	1.4	1.6	:	2.8	2.7	1.8	2.4	3.1	2.4	3.1	3.7
Producer prices ^{4.2}	Ann. % ch	2.8	1.6	-0.8	-3.4	:	:	:	2.5	5.1	:	:	:	:
Food prices ^{4.3}	Ann. % ch	3.9	2.7	2.9	3.6	:	:	:	3.7	4.4	:	3.9	5.0	:
M3 ^{4.4}	Ann. % ch	0.3	-0.2	4.3	10.5	:	:	:	9.4	9.8	:	9.9	8.9	:
Exchange rate ALL/EUR ^{4.5}	Value	134.14	127.57	123.01	123.77	122.46	:	:	122.98	121.82	121.55	121.71	122.13	120.81
Real effective exchange rate ^{4.6}	Index	97.8	104.9	108.6	110.7	:	:	:	112.8	113.1	:	112.5	111.2	:
5 Financial indicators														
Interest rate (3 months-TRIBOR) ^{5.1}	% p.a.	2.15	1.83	1.45	1.46	1.39	:	:	1.44	1.29	1.36	1.35	1.36	1.37
Bond yield ^{5.2}	% p.a.	2.07	2.20	1.76	1.63	:	:	:	1.62	1.58	:	1.74	1.75	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	-0.1	-1.7	3.0	6.1	:	:	:	6.2	6.8	:	10.1	10.5	:
Deposit growth ^{5.5}	Ann. % ch	1.0	-1.2	2.5	5.8	:	:	:	8.3	10.3	:	10.5	9.4	:
Non performing loans ^{5.6}	% total	13.2	11.1	8.4	8.1	:	:	:	7.1	6.5	:	6.4	6.2	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-2.0	-1.6	-1.9	-6.9	:	-4.0	-3.5	-1.7	-2.1	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	70.2	67.7	65.8	75.7	:	74.9	73.9	73.4	73.9	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2021 published November 2021

* Q figures refer to a 4 quarters moving average.

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

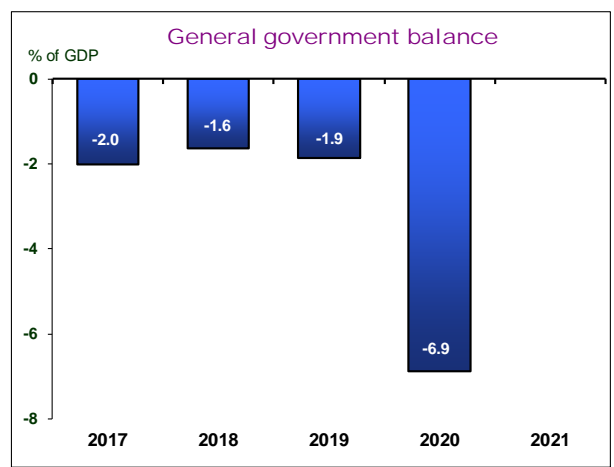
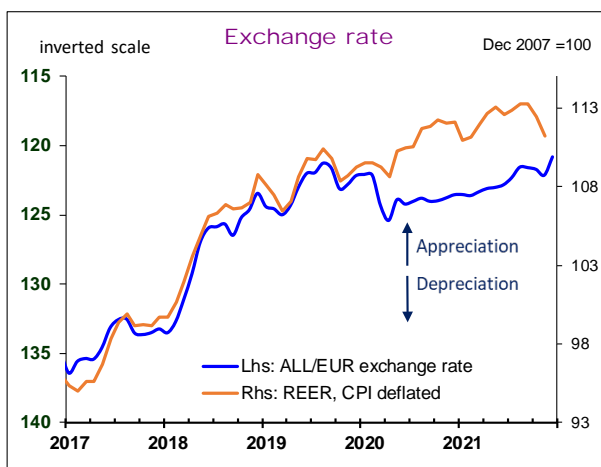
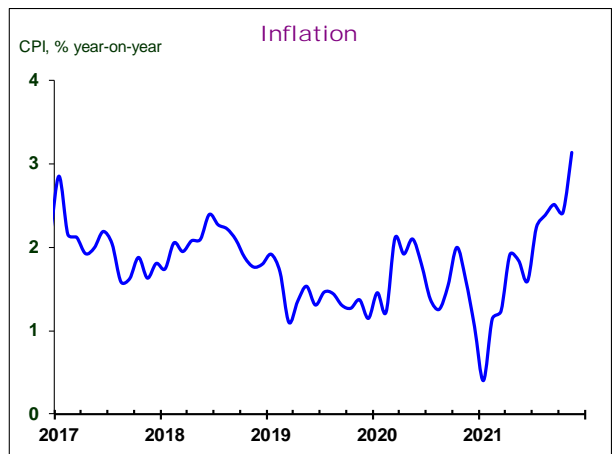
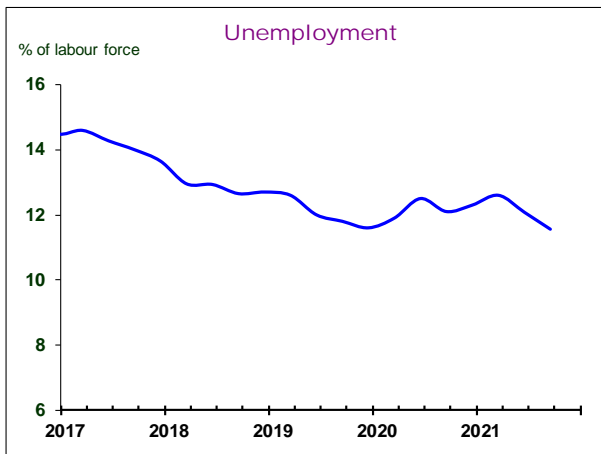
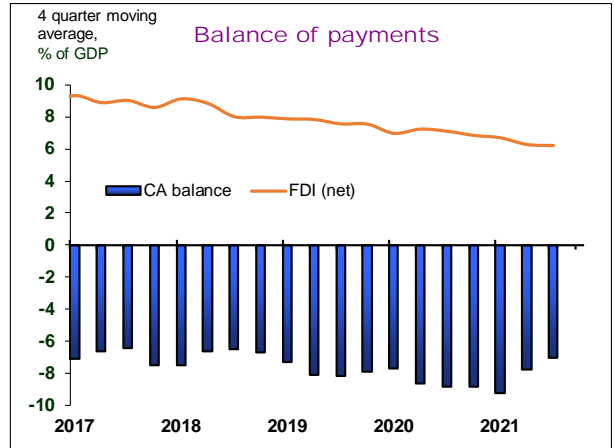
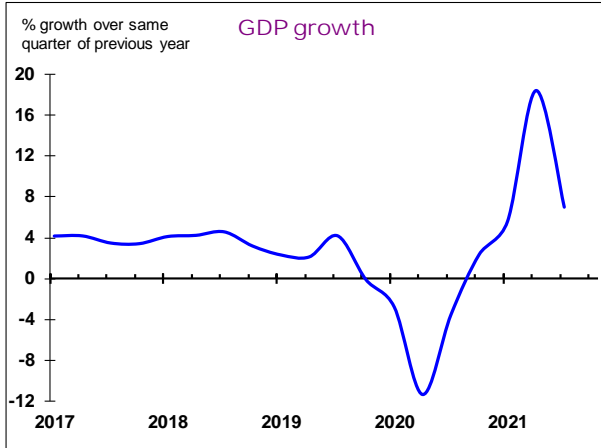
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



ALBANIA





Key developments

On 29 December, the Parliament of Montenegro adopted the 2022 budget law. It foresees a deficit of 5.1% of projected GDP. The projected deficit is higher compared to the government's initial plan of 3.9%, since the Parliament did not accept a number of compensatory measures (e.g. increase in VAT, review of public sector wage's coefficients and excises for some goods) proposed to balance the effects of the 80% hike of the minimum wage and the abolition of mandatory health insurance contributions.

On 1 January 2022, the government introduced progressive taxation, putting an end to the 9% flat rate of corporate tax. The new regime has three rates (of 9%, 12% or 17%), depending on the company's profit.

The surge in energy prices resulted in one of the major industrial companies in Montenegro, the aluminium smelter KAP-Uniprom, halting production on 30 December 2021. The company and the state utility EPCG were not able to agree on conditions for a new power supply contract for 2022, which would have enabled the aluminium smelter to continue production profitably. In the meantime, most of the company's 500 workers were dismissed. In the first eleven months of 2021, the company exported aluminium for a value of EUR 60 million, equivalent to 1.4% of GDP or 15.9% of Montenegro's merchandise exports.

On 27 December 2021, the telecommunications agency of Montenegro (EKIP) granted at a public auction 5G frequency licences to three different operators. The licences will be valid until September 2031. Customers are expected to start using 5G by the end of 2022.

In December, the government extended for one more year (until 2023) its programme to offer Montenegrin citizenship to non-EU citizens investing over EUR 250 000 in the country and paying EUR 100 000 to Montenegro's Innovation Fund.

Real sector

In Q3-2021, the economy continued to register a rapid recovery thanks to the return of tourists during the summer. Consequently, GDP growth

further accelerated to 25.8% y-o-y in Q3, up from 19.0% y-o-y in the previous quarter. Net exports were by far the main driver of growth. Exports of goods and services surged 186.2% y-o-y in Q3, after nearly doubling on an annual basis in Q2. The sharp increase came mainly on the back of surging tourism revenue (accounting for about 72% of total services exports), as the number of tourist arrivals in Q3 tripled year-on-year, albeit remaining 20% below their level in Q3-2019. The increase in the number of visitors boosted private consumption, which rose by 4.8% y-o-y, but also resulted in a 35.2% y-o-y surge in imports, due to the strong import dependency of the Montenegrin economy. Government consumption accelerated to 2.3% y-o-y in Q3, up from 0.8% y-o-y in the previous quarter. On a more negative note, investment activity was weak, with capital investment declining by 9.5% y-o-y in Q3, after growing by 3.5% y-o-y in the previous quarter.

In Q3, industrial production growth decelerated to 0.4% y-o-y, as the double-digit growth in manufacturing output was offset by the poor performance in energy and mining production. This trend intensified in October and November, with overall industrial output declining by 9.6% and 0.6% y-o-y, respectively.

In the last quarter of 2021, the epidemiological situation became complicated again, resulting in the reintroduction of stringent measures for travel and leisure services. Thus, tourism arrivals in October and November declined by 61% and 47%, respectively, compared to 2019 pre-pandemic levels. However, in spite of the more restrictive sanitary measures and relative lower number of tourists, private consumption remained robust. In October and November, retail sales grew by 10.9% and 14.6% y-o-y, respectively.

Labour market

The economic rebound also prompted a partial recovery in employment, after five consecutive quarters of job losses. According to Labour Force Statistics (LFS), the labour force (aged 15-64) totalled 267 700 in Q3, of which 227 700 were employees and 40 000 jobless. The participation rate improved to 63.3% in Q3, compared to 54.7% in Q2 and 61.2% a year

before. The number of employed increased by 9.5% y-o-y in Q3 compared to annual declines of 12.6% in Q2 and 15% a year ago. As a result, the unemployment rate declined to 15.0% in Q3, down from 17.3% in the previous quarter and 19.6% a year earlier. However, the share of long-term unemployed (over one year) increased to 65.6% in Q3, up from 59.5% a year before.

The average monthly net wage increased by 1.9% y-o-y in November after rising by the same margin a month earlier. In November, the average gross and net salary totalled EUR 799 and 535, respectively.

External sector

The recovery of the tourism sector brought a sharp reduction of Montenegro's current account deficit to 10.1% of GDP in the four quarters to September 2021, compared to a 28.1% deficit a year before. The main driver for this improvement came from the exports of services, giving rise to an annualised surplus of 17.7% of GDP in the services account, compared to 4.5% a year before. However, the services surplus did not yet reach the 2019 level of 20.5% of GDP. The primary and secondary accounts also recorded surpluses, thanks in particular to a stronger inflow of remittances from abroad. The merchandise trade deficit contracted to 38.1% of GDP until September, or 2.7 pps. less over the year, in spite of a strong rebound of imports. In the four quarters to September, net FDI inflows grew by 12.1% y-o-y, totalling 11% of GDP, fully covering the current account deficit.

Monetary developments

Higher food and energy prices kept generating inflationary pressures. Consequently, the rate of inflation rose further to 4.9% y-o-y in November, up from 3.9% in October and 3.7% in Q3. To reduce the impact of high electricity prices, the Montenegrin state power company (EPCG) prepared a EUR 4.5 million plan to lower households' electricity bills by offering a 12.5% discount in the first half of 2022.

Financial sector

The domestic financial sector provided strong

support to the country's economic recovery during 2021. After growing 8.5% in Q3, bank lending increased further in October and November, by 7.3% and 7.1% y-o-y, respectively. Overall, in the first eleven months of 2021, credit growth by domestic households and corporates increased by 2% y-o-y each. Non-residents credit surged by 71% y-o-y, although this category represents 17.8% of total credit. Overall, the sustained growth of banks loans helped contain the non-performing loan ratio, totalling 5.98% at the end of November, compared to 5.90% a year before.

Commercial bank deposits have been accelerating uninterrupted since March 2021, reaching a record level of EUR 4 billion (or 85.7% of GDP) in October, and increasing by further 24.3% y-o-y in November. The increase was led by non-resident deposits (accounting for 27% of total deposits), surging by 53.8% y-o-y, and to a lesser extent, by private domestic corporations and households, accounting for some 30% of total deposits each, and expanding by 21.8% and 11.7% y-o-y, respectively in November.

On 12 November, Montenegro's NLB Banka Podgorica, the local unit of Slovenia's largest bank Nova Ljubljanska Bank (NLB), completed the merger with Komercijalna Banka Podgorica. After the merger, the new bank became the second largest in Montenegro.

Fiscal developments

The strong recovery of economic activity helped improve budget performance. In the first eleven months of 2021, the central government deficit declined by 80.8% y-o-y, to 1.6% of full-year GDP, reflecting a 21.5% y-o-y increase in tax revenue, a sharp reduction in capital spending (by -25.1% y-o-y), and somewhat lower current expenditure (-2.2% y-o-y). The budget deficit remained 60% below the plan for January-November.

In Q3-2021, the public debt ratio decreased to 86.0% of GDP, down by 1 pp. q-o-q and by 1.4 pps. y-o-y.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2017	2018	2019	2020	2021	ECFIN 2021 Autumn forecast		Q2 21	Q3 21	Q4 21	Oct 21	Nov 21	Dec 21
							2022	2023						
1 Real sector														
Industrial confidence ^{1.1}	Balance	4.5	5.5	3.5	-18.4	:	:	:	2.6	4.4	:	-3.1	-2.1	:
Industrial production ^{1.2}	Ann. % ch	-4.3	23.6	-6.1	-0.9	:	:	:	10.6	0.5	:	-9.6	-0.6	:
Gross domestic product ^{1.3}	Ann. % ch	4.7	5.1	4.1	-15.3	:	6.4	3.2	19.0	25.8	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	3.9	4.6	3.1	-4.6	:	3.4	2.9	15.4	4.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	18.7	14.7	-1.7	-12.0	:	-1.0	4.9	3.5	-9.5	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	51.5	24.9	10.7	-5.6	:	:	:	-1.8	-7.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	3.3	3.5	5.2	-12.0	:	:	:	19.9	40.4	:	10.9	14.6	:
2 Labour market														
Unemployment ^{2.1}	%	16.4	15.5	15.4	18.4	:	18.5	17.2	17.3	15.0	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.1	3.2	2.6	-10.1	:	2.3	2.5	-12.6	9.5	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.0	0.1	0.8	1.3	:	:	:	1.5	1.7	:	1.8	1.9	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	8.3	14.7	6.8	-12.2	:	:	:	53.6	32.8	:	16.4	3.0	:
Imports of goods ^{3.2}	Ann. % ch	11.6	10.9	1.8	-19.0	:	:	:	28.7	40.8	:	13.8	31.5	:
Trade in goods balance* ^{3.3}	% of GDP	-43.3	-43.9	-41.7	-39.2	:	-36.5	-37.6	-37.4	-38.1	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	41.1	42.9	43.8	26.0	:	:	:	29.2	40.4	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	64.5	66.7	65.0	61.0	:	:	:	59.4	60.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-16.1	-17.0	-14.3	-26.1	:	-15.8	-16.8	-19.6	-10.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	11.3	6.9	6.2	11.2	:	:	:	9.5	10.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	847	1,050	1,367	1,739	:	:	:	1,372	1,614	:	1,706	1,721	:
Int. reserves / months Imp ^{3.9}	Ratio	3.7	4.0	5.1	8.2	:	:	:	6.3	6.7	:	7.1	7.2	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	2.8	2.9	0.5	-0.8	:	2.5	1.5	2.3	3.7	:	3.9	4.4	:
Producer prices ^{4.2}	Ann. % ch	0.4	1.7	2.4	0.0	:	:	:	1.8	0.1	:	1.5	2.7	:
Food prices ^{4.3}	Ann. % ch	1.9	0.6	3.4	1.3	:	:	:	2.5	3.8	:	4.7	5.5	:
M2 ^{4.4}	Ann. % ch	13.6	5.0	-3.8	-3.5	:	:	:	8.0	15.5	:	16.2	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Real effective exchange rate ^{4.6}	Ann. % ch	0.5	2.7	-1.2	N.A.	:	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (6 months) ^{5.1}	% p.a.	1.71	0.47	0.52	0.87	:	:	:	:	:	:	:	:	:
Bond yield (10 yrs) ^{5.2}	% p.a.	N.A.	N.A.	2.61	3.53	3.85	:	:	3.96	3.71	4.27	4.11	4.37	4.35
Stock markets ^{5.3}	Index	10,952	10,390	10,980	10,336	10,914	:	:	11,192	11,016	10,788	11,196	10,619	10,548
Credit growth ^{5.4}	Ann. % ch	7.8	10.6	4.0	5.0	:	:	:	7.0	8.5	:	7.3	7.1	:
Deposit growth ^{5.5}	Ann. % ch	10.7	12.0	1.8	-2.6	:	:	:	8.5	19.1	:	22.9	24.3	:
Non-performing loans ^{5.6}	% of total	7.3	6.9	4.7	5.5	:	:	:	5.7	5.6	:	5.7	6.0	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-5.3	-3.9	-2.0	-11.1	:	-0.5	0.2	-1.2	2.4	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	63.3	70.1	76.5	105.3	:	77.8	71.7	86.1	86.0	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2021 published November 2021

* Q figures refer to a 4 quarters moving average.

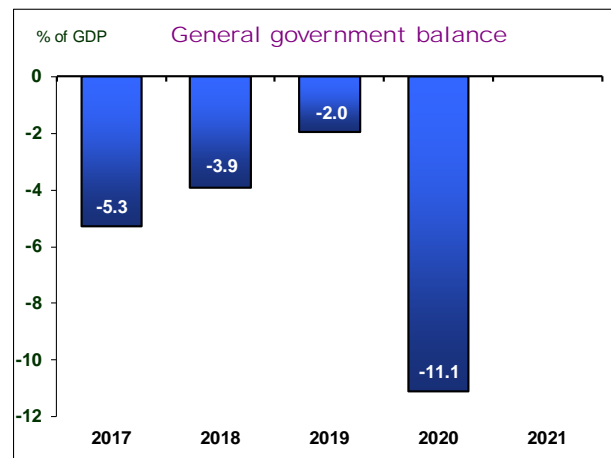
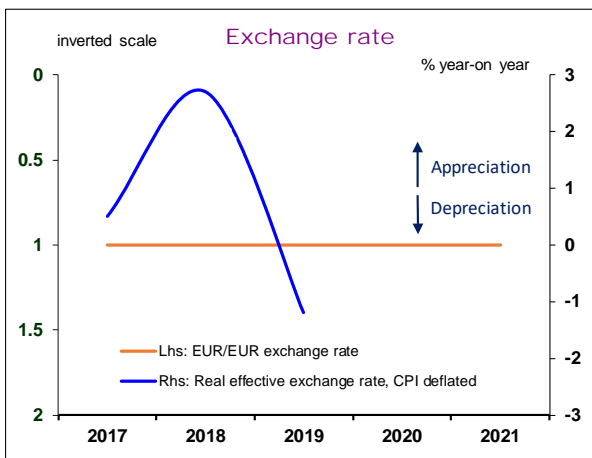
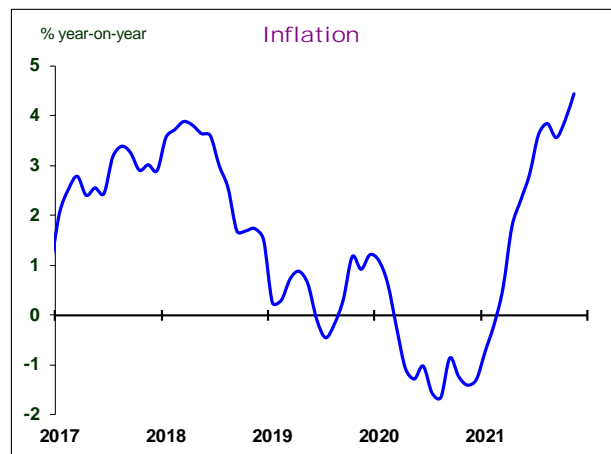
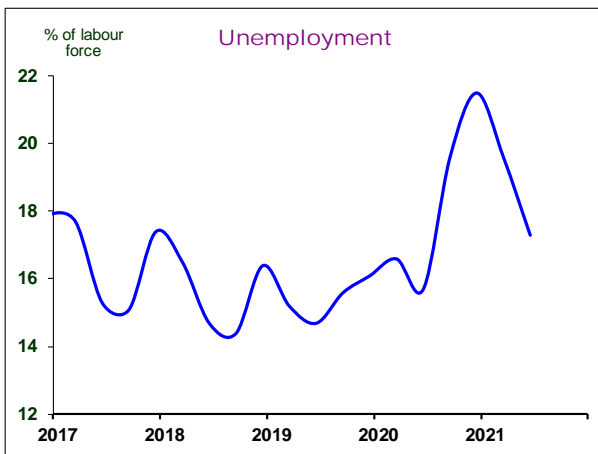
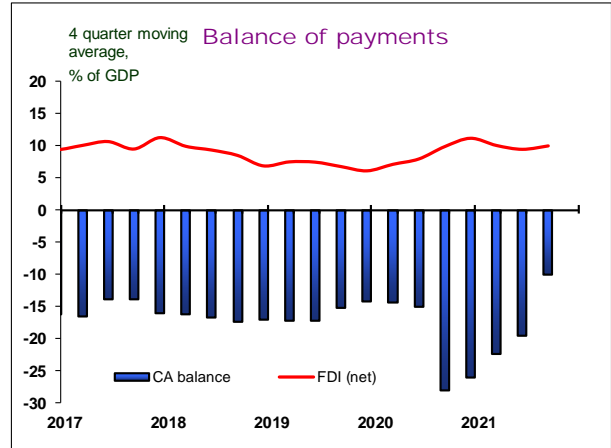
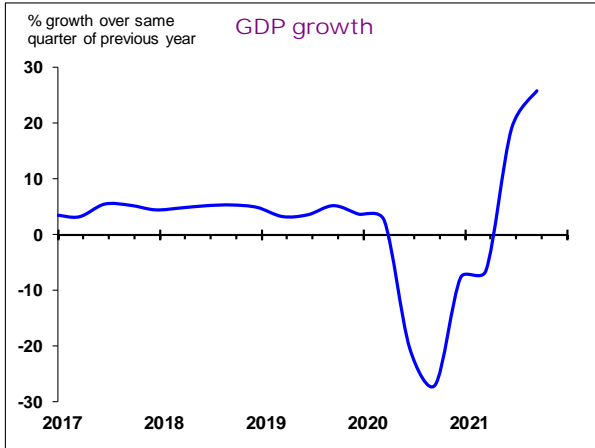
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

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

CHARTS



MONTENEGRO



NORTH MACEDONIA



Key developments

On 5 November, Fitch Ratings affirmed the country's debt rating at BB+, with negative outlook. The assessment is supported by favourable governance, human development, and coherent macro and fiscal policies. Analysts expect that the new draft organic budget law will have a positive impact on fiscal consolidation and debt stabilisation.

On 10 November, the IMF completed its regular Article IV mission. The Fund recommends scaling back crisis-related support as of 2022 and implementing long-standing structural reforms, such as improvements in the management of public investment to bolster the projected rise in capital expenditure. Fiscal consolidation should focus on tax policy reform and stronger revenue collection.

On 16 December, the Parliament adopted the 2022 central government budget. It is based on projected 4.6% real GDP growth and foresees fiscal deficit of 4.3% of GDP. Total revenue is expected to increase by 7.4% compared to the 2021 budget, and total expenditure by 1.4%. Capital spending would rise by 28%.

Real sector

Economic activity slowed down in Q3-2021, compared to one year earlier, after a strong annual growth in Q2 which was largely explained by base effects. Performance in Q3 continued to be bolstered by government support to households and companies. Real GDP increased by 3% y-o-y (Q2: 13.4%), mainly driven by domestic demand with a small positive contribution from net foreign demand. Household spending growth moderated to 2.4% y-o-y, after a strong catching-up effect in Q2 (12.4%), while growth in government consumption was only slightly weaker (4.9%) than in Q2 (5.2%). Investment performance was muted (0.4%), following on the strong outturn in Q2 (40.7%). After record growth in Q2 (45.5% y-o-y), exports of goods and services increased at a moderate rate (4.1%), yet faster than imports (2.7% after 46.6% in Q2). Construction output remained subdued also in Q3 (-1.5% y-o-y). Manufacturing output declined again (-5.8%), in annual terms, after a strong Q2 (20.7%). Overall,

in the first three quarters of the year, GDP increased by 4.6% y-o-y on average.

High frequency indicators for October and November send mixed signals about economic performance in the last quarter of the year. The annual decline in industrial output diminished in October and November (-0.9% on average, compared to -3.3% in Q3). This was due to positive annual growth in November alone, after four consecutive months of decline. Altogether, in the first eleven months, industrial production increased by 2.1% y-o-y. Domestic production of capital goods remained very weak. Retail sales (excluding fuel) rose somewhat more slowly in Q3 than in Q2, in annual terms (10% compared to 13.8%), and their growth rate decreased further in October and November (9.2%).

Labour market

The labour market situation improved in Q3-2021 overall, compared to one year earlier. Yet, the robust performance conceals some setbacks for young workers and for women. Employment in the working age population (15-64 years) increased by 1.6% y-o-y, with continued support from government wage subsidies. The labour force rose by 0.6%, on account of higher participation by men (+1.7%), overcompensating a drop in the female workforce (-1%). The activity rate among the working age population increased by 0.7 pps. y-o-y, to 65.7%. This was, however, accounted for solely by a rise in male activity, while the share of women participating in the workforce declined slightly. The total unemployment rate dropped by 0.8 pps. y-o-y, to 15.9%.

The situation of young workers deteriorated in Q3, compared to the same period one year earlier. The unemployment rate in the age group 15-24 years rose by 0.6 pps. y-o-y, to 35.4%. Employment declined even more strongly than the labour force (-16% y-o-y) in this age group. The employment rate decreased by 3 pps. to 17.3%. Gross nominal wages rose at a markedly slower pace in Q3 and beyond (4.8% y-o-y on average in the period July to October) than in the same period one year earlier (9%). This brought the total increase in the first ten months to 5.7% (-3 pps y-o-y), translating into real wage growth of 2.7% in this period.

External sector

In line with the global recovery and the gradual lifting of pandemic-related restrictions, external sector developments improved noticeably in Q3. The current account deficit narrowed by 4.2 pps y-o-y to -1.3% of GDP in the four quarters to September. This was the result of a stark increase in the surplus in secondary income (+3.3 pps y-o-y) and in services (+1.8 pps), while the deficit in the merchandise trade balance expanded by 0.5 pps y-o-y to -18.2% of GDP. The primary income deficit also widened (-1.1 pps to -5.1%). Net FDI inflows amounted to 2.2% of GDP in the four quarters to September, lower than one year earlier (2.7%). Gross external debt, excluding central bank transactions, was up by 6% y-o-y at end-September, amounting to 84.6% of projected GDP (+1.6 pps y-o-y). International reserves were some 8.4% higher y-o-y at end-December, and about the same level as at end-Q3. Reserves covered some 5 months of prospective imports. As in the preceding year, government borrowing abroad and central bank interventions in forex markets were the biggest contributors to reserve changes in 2021.

Monetary developments

Annual consumer price inflation accelerated throughout the year to 4.9% in December, bringing average annual growth of CPI to 3.2% in the full year 2021 (2020: 1.2%). Inflation developments were largely driven by prices for food and energy, in particular the transmission of international commodity prices and the increase in regulated electricity prices of August 2020. Food prices made the biggest contribution to the CPI increase in 2021, rising by 1.7% in the first half of the year and by 4.6% in the second half. In response to the pronounced rise in consumer prices, the government froze prices for basic foods on 4 December. Core inflation remained more muted. Annual growth of broad money (M3) accelerated in Q3, to 10.1%, from 8.3% in the preceding quarter. This was driven mainly by an increase in demand and short-term deposits. Growth decelerated slightly, to 9.7% in October. The central bank has kept the CB bills rate unchanged since March 2021, when it had lowered it to 1.25%. At its regular meeting in December, the Monetary Policy Committee explained that domestic price pressures were absent and that global supply side constraints were expected to normalise soon.

Financial sector

Lending to the non-financial private sector became more vigorous again in Q3 and beyond, after sluggish growth in the first half of the year. It increased by 5.8% y-o-y in Q3, following on 5.4% in the preceding quarter, and accelerated further to an average of 7% in October and November. Loans to households accounted for most of the increase in this period (7.8% y-o-y in Q3, slowing down from 8.8% in Q2). Lending growth to private non-financial companies (NFC) accelerated to 4% in Q3, compared to 1.9% in Q2. In contrast to the situation one year earlier, since the summer, growth in local currency loans was more pronounced than in foreign currency loans. Possibly reflecting the staggered termination of loan mitigation measures throughout 2021, the ratio of non-performing to total loans (financial and non-financial sector) rose slightly in Q3, compared to the previous quarters, and was higher by 0.2 pps y-o-y, at 3.5% at the end of September. Commercial banks' interest rates have remained broadly stable since the summer.

Fiscal developments

In 2021, the central government fiscal deficit turned out lower than budgeted in the revised plan, according to preliminary data from the Finance Ministry (5.4% of projected GDP compared to an expected 6.5%). This came on account of income from taxes and contributions exceeding the plan by 2%, but also as capital expenditure execution reached only 79% of the budget – the latter had been raised by 24% in the July budget revision. Still, compared to 2020, capex execution was higher by 45.2%. Compared to the 2020 outcome, revenue was higher by 15.3% y-o-y, and expenditure increased by 5.7% y-o-y. At the end of September, general government debt amounted to 51.1% of projected full-year GDP (-0.4 pps compared to the same period one year earlier). In July, the government repaid the 2014 Eurobond worth EUR 500 million, which it had refinanced through new debt issued in March. The public debt level (which includes the debt of public enterprises) dropped below 60% in Q3 (59.3% of projected full-year GDP), down from 63.1% in Q2, and lower by 1.4 pps. y-o-y. The biggest share in this annual drop stems from a decline in the debt of public enterprises (-1 pp to 8.2% of GDP).

TABLE



European Commission, ECFIN-D-1

NORTH MACEDONIA

		2017	2018	2019	2020	2021	ECFIN 2021 Autumn forecast		Q2 21	Q3 21	Q4 21	Oct 21	Nov 21	Dec 21
							2022	2023						
1 Real sector														
Industrial confidence ^{1.1}	Balance	25.6	28.8	32.2	26.4	:	:	:	28.9	28.4	:	28.0	27.6	:
Industrial production ^{1.2}	Ann. % ch	0.2	5.4	4.1	-9.5	:	:	:	24.0	-3.3	:	-6.5	4.7	:
Gross domestic product ^{1.3}	Ann. % ch	1.1	2.8	3.9	-6.1	:	3.9	3.7	13.4	3.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.1	3.7	3.7	-4.6	:	3.9	3.3	12.4	2.4	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. % ch	-2.2	1.7	9.5	-16.1	:	11.2	9.9	40.7	0.4	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. % ch	-2.5	-10.8	9.1	-8.0	:	:	:	1.7	1.2	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	-4.2	8.1	11.3	-8.5	:	:	:	13.8	10.0	:	7.5	10.9	:
2 Labour market														
Unemployment ^{2.1}	%	22.4	20.7	17.3	16.4	:	15.1	14.6	15.9	15.7	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.4	2.5	5.1	-0.3	:	2.6	2.5	0.2	1.4	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.6	5.8	5.1	8.3	:	3.1	2.7	8.7	4.8	:	4.6	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	15.4	19.8	9.5	-9.9	:	:	:	73.0	12.2	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	9.7	12.9	10.2	-9.2	:	:	:	69.5	15.0	:	:	:	:
Trade in goods balance* ^{3.3}	% of GDP	-17.8	-16.2	-17.3	-17.0	:	-17.0	-16.7	-17.7	-18.2	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	54.9	60.2	61.9	58.9	:	:	:	65.2	66.4	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	69.0	72.9	76.2	71.9	:	:	:	78.6	79.9	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-1.0	-0.1	-3.3	-3.4	:	-2.6	-2.2	-2.7	-1.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.8	5.6	3.2	1.5	:	:	:	2.1	2.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	2,336	2,867	3,263	3,360	:	:	:	4,031	3,691	:	3,650	3,571	3,643.3
Int. reserves / months Imp ^{3.9}	Ratio	4.1	4.4	4.6	5.3	:	:	:	5.5	4.9	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.4	1.5	0.8	1.2	3.2	2.1	1.8	2.8	3.6	4.6	4.1	4.8	4.9
Producer prices ^{4.2}	Ann. % ch	0.4	-0.3	-0.6	5.9	:	:	:	-1.7	-2.2	:	13.7	14.2	:
Food prices ^{4.3}	Ann. % ch	0.3	0.8	1.6	2.4	:	:	:	1.4	3.4	:	4.6	5.8	:
Monetary aggregate M3 ^{4.4}	Ann. % ch	4.6	10.8	8.2	8.0	:	:	:	8.3	10.1	:	9.7	9.5	:
Exchange rate MKD/EUR ^{4.5}	Value	61.57	61.51	61.51	61.67	61.63	:	:	61.61	61.55	61.69	61.69	61.70	61.67
Real effective exchange rate ^{4.6}	Index	98.6	99.8	98.3	99.5	:	:	:	100.6	100.8	:	99.8	99.6	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	% p.a.	1.78	1.54	1.46	1.38	1.34	:	:	1.33	1.33	1.32	1.31	1.32	1.33
Bond yield ^{5.2}	% p.a.	6.61	6.11	5.61	5.19	:	:	:	4.92	4.81	:	4.76	:	:
Stock markets ^{5.3}	Index	2,406	3,154	3,939	4,378	5,384	:	:	5,151	5,578	5,889	5,786	5,942	5,940
Credit Growth ^{5.4}	Ann. % ch	2.4	6.6	7.2	6.4	:	:	:	5.4	5.8	:	6.5	7.6	:
Deposit growth ^{5.5}	Ann. % ch	5.7	8.6	9.6	7.8	:	:	:	7.7	9.5	:	9.1	9.1	:
Non-performing loans ^{5.6}	% total	6.1	5.0	4.6	3.3	:	:	:	3.4	3.5	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-2.7	-1.8	-2.0	-8.2	:	-4.9	-4.3	-1.2	-1.3	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	39.4	40.4	40.7	51.2	:	56.3	58.1	54.7	51.1	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2021 published November 2021

* Q figures refer to a 4 quarters moving average.

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

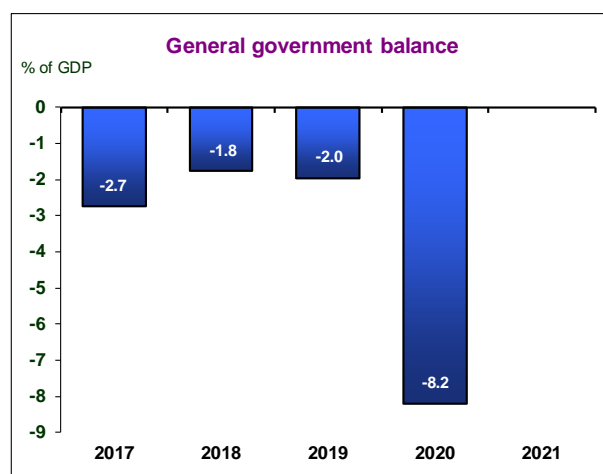
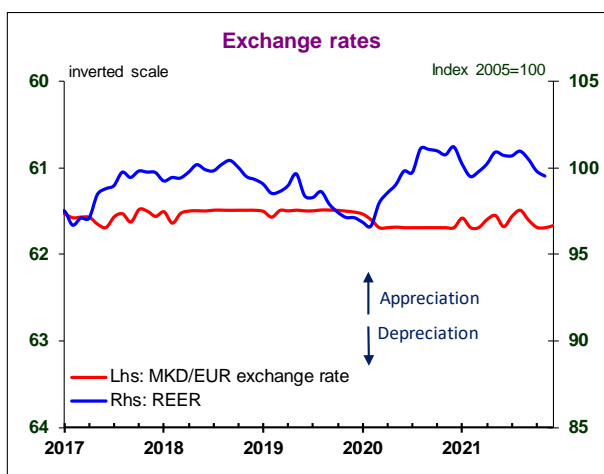
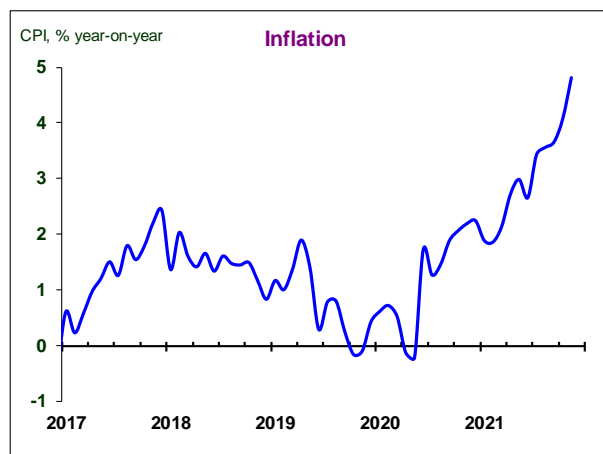
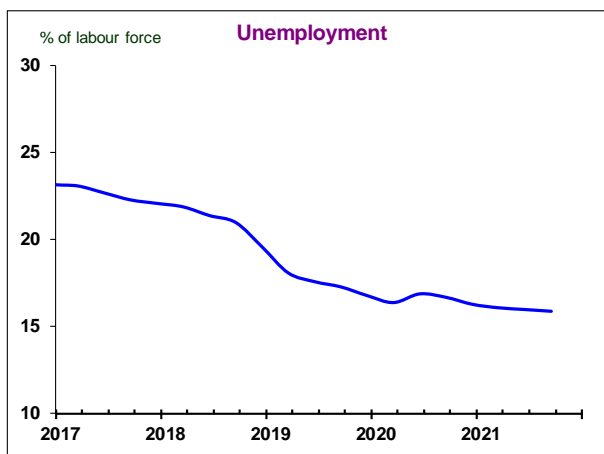
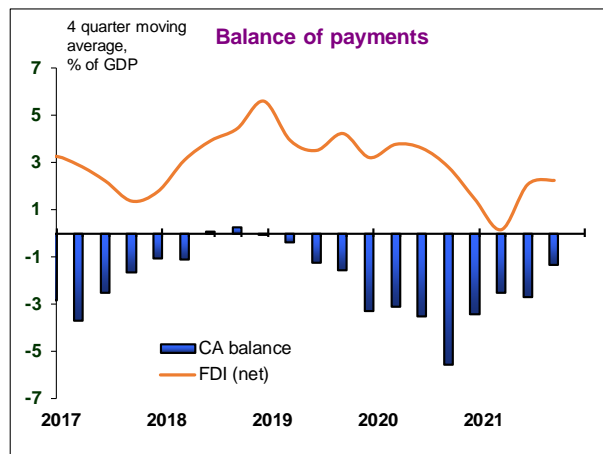
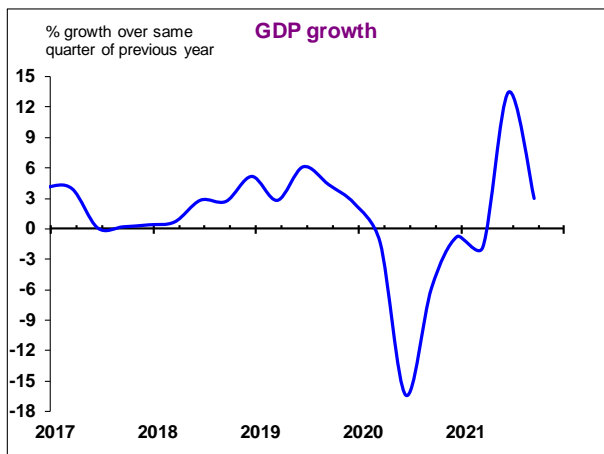
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



North Macedonia





Key developments

On 23 November, Parliament adopted the 2022 budget targeting a deficit of 3% of GDP. Assuming real GDP growth of 4.5%, the budget projects revenue to grow by 1.9% and expenditure to decrease by 4.2%, despite higher spending on wages and pensions and an increase in the minimum wage.

In December, the IMF completed the first review under the new Policy Coordination Instrument. The IMF acknowledged the robust economic recovery and considered the structural reform momentum to have been broadly maintained. The 2022 budget was deemed to appropriately support recovery through high investment while also marking a gradual return to fiscal restraint.

On 24 December, an agreement was signed on the 90% takeover by oil company NIS of hitherto majority state-owned HIP Petrohemija.

Real sector

Economic activity recorded a further strong quarter-on-quarter expansion (1.6 % in seasonally-adjusted terms) in Q3-2021, reflecting the continued rebound from the crisis-induced contraction in spring 2020. Thus, while decelerating compared to Q2 due to a lower base effect, non-seasonally adjusted year-on-year real GDP growth still reached 7.7% in Q3-2021. The expansion was driven by private consumption (+8.2% y-o-y), gross fixed capital formation (+12.6% y-o-y), government consumption (+7.8%) and slightly higher inventories. These positive contributions were partially offset by a negative contribution of net exports to GDP growth in line with structurally higher imports, while the annual growth of exports and imports reached similar levels (+22.5% and +22.9% respectively).

On the supply side, despite higher bases in Q3-2020, many sectors still recorded double-digit annual increases. Thus, wholesale and retail trade, transportation and storage, accommodation and food service activities (+17.0%), construction (+15.8%), professional, scientific, technical, administrative and support activities (+13.7%), and arts, recreation and other services (+22.7%) accounted for the bulk

of the overall annual increase in output in Q3. Agriculture (-4.8%) was the only activity with a year-on-year decline due to the base effect from the very good agricultural season in 2021 and the impact of the drought in 2022.

Some short-term indicators suggest that the growth of economic activity, after some deceleration in early autumn, picked up in November. Industrial production expanded by 1.4% y-o-y in September, 0.9% in October and 7.0% in November. The year-on-year growth of real retail trade slowed down from 5.2% in September to 4.0% in October before accelerating to 10.0% in November.

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and above decreased by 0.6 pps. q-o-q to 10.5% in Q3-2021. This was the result of substantial growth in employment accompanied by a strong increase in the active population as people that had previously refrained from looking for employment returned to the labour market. Thus, while the population 15+ decreased by 0.2% q-o-q, the labour force increased by 2.6% q-o-q and the inactive population decreased by 3.6%. Employment increased by 3.6% q-o-q. Around three fifths of this increase were due to a strong rise in employment in the informal sector (+15.2% q-o-q), mostly outside agriculture. Formal employment recorded a more moderate growth of 1.5% q-o-q.

According to administrative data, employment increased by 0.8% q-o-q and 3.1% y-o-y in Q3-2021. Annual employment growth remained positive in most sectors and was particularly strong in information and communication (+11.5%), professional, scientific and technical activities (+6.5%) and administrative and support service activities (+6.3%). In the manufacturing sector (+4.1%), growth was particularly driven by motor vehicles (+16.9%). The number of registered unemployed decreased by 2.8% y-o-y in December 2021. Nominal net wages rose by 9.9% y-o-y in October 2021 while real net wages grew by 3.1% y-o-y.

External sector

In the first ten months of 2021, the current account deficit narrowed by 4.8% y-o-y in euro terms. Over the four quarters to September 2021, it stood at 3.0% of GDP, compared to 4.1% of GDP in 2020. The lower current account deficit over January-October was the result of a higher secondary income surplus (+19.6% y-o-y, reflecting in particular a rebound in remittances) and a higher services trade surplus (+21.9% y-o-y) that were largely offset by a higher merchandise trade deficit (+8.4% y-o-y) and a higher primary income deficit (+26.0% y-o-y, reflecting mainly a rebound in reinvested earnings). Net FDI inflows increased by 54.4% y-o-y in January-October, covering 1.9 times the current account deficit.

External trade of goods was marked by further strong year-on-year growth for both exports (24.4% in September, 18.5% in October and 24.9% in November) and imports that increased by 21.1%, 23.5% and 22.6%, respectively. Over the first eleven months of 2021, exports of goods grew 26.8% y-o-y, while imports increased by 23.4%.

Monetary developments

Annual consumer price inflation increased steadily by around 1 pp. per month from August to November, reaching 5.7% in September, 6.6% in October and 7.5% in November, thus largely exceeding the upper bound of the central bank's target tolerance band of 3% +/-1.5 pps. in three consecutive months. Rising inflation was particularly driven by food (+9.1% in September, +10.6% in October and +12.2% in November) and fuel prices (+15.8%, +20.4% and +24.3%). Price increases for further major inflation-driving items tended to stabilise in the same period, in particular as regards electricity (+8.2% in all three months) and tobacco (+6.6% in all three months). Core inflation (excluding energy, food, alcohol and tobacco) accelerated more moderately from 2.6% in September to 2.7% in October and 3.0% in November. The central bank (NBS) remained an active participant on the foreign exchange market by buying a net EUR 135 million in September and by selling a net EUR 140 million in October and a net EUR 110 million in November, resulting in net purchases of EUR 850 million in the first eleven months of 2021. Boosted by the inflow from the issuance of a EUR 1 billion 7-year

green Eurobond and a EUR 750 million 15-year conventional Eurobond in September, NBS foreign exchange reserves rose by 28.1% y-o-y to EUR 16.5 billion in November, covering more than 6 months of imports of goods and services.

Financial sector

In November, domestic claims of the banking sector increased by 8.9% y-o-y. Following some deceleration from 9.9% in August to 8.9% in September, the annual growth of credit to households picked up to 9.7% in October and 10.1% in November. Similarly, after slowing down from 4.0% in August to 3.5% in September the growth of credit to companies accelerated to 4.6% in October and 5.8% in November. The loan-to-deposit ratio stood at 85.4% at the end of October. The ratio of non-performing loans remained unchanged at 3.6% in Q3. The capital adequacy ratio in the banking sector (regulatory capital to risk-weighted assets) decreased to 21.7% in Q3 (-0.5 pps. q-o-q). As regards liquidity ratios, in Q3-2021 both the share of liquid assets to total assets and the share of liquid assets to total short-term liabilities increased by 0.7 pps. q-o-q to 38.6% and 51.2%, respectively.

Fiscal developments

Fiscal performance was favourable in January to November. Impacted by the base effect from the lockdown and tax deferrals in spring 2020, total revenue increased by 20.4% y-o-y in the first eleven months, supported by surging revenue from social contributions (+30.2%), VAT (+18.5%), personal income tax (+26.8%), corporate income tax (+27.6%) and excise duties (+8.0%). While accelerating, total expenditure growth (7.2%) remained significantly below revenue growth, as increases in capital expenditure (+55.7%), social transfers (+6.5%), spending on employees (+8.0%) and purchases of goods and services (+9.6%) were partially offset by lower subsidies (-24.9%) and other current expenditure (-14.1%). As a result, in January-November, the budget recorded a deficit of 1.8% of expected annual GDP, as compared to a planned annual deficit of 4.9% of GDP in the second revised budget adopted in October and a 6.4% deficit in the same period of 2020. In November, central government debt stood at 56.4% of the projected full-year GDP, down from 57.0% at end-2020.

TABLE

European Commission, ECFIN-D-1



SERBIA

		2017	2018	2019	2020	2021	ECFIN 2021 Autumn forecast		Q2 21	Q3 21	Q4 21	Oct 21	Nov 21	Dec 21
							2022	2023						
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	3.4	1.5	0.2	0.4	:	:	:	15.9	1.1	:	0.9	7.0	:
Gross domestic product ^{1.3}	Ann. % ch	2.1	4.5	4.3	-0.9	:	4.3	4.3	13.7	7.7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.2	3.1	3.7	-1.9	:	3.8	3.7	17.3	8.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	6.6	17.5	17.2	-1.9	:	7.5	7.3	21.7	12.6	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	9.3	9.6	32.3	-1.5	:	:	:	25.8	28.2	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	3.8	4.1	9.7	4.9	:	:	:	20.8	8.5	:	4.0	10.0	:
2 Labour market														
Unemployment ^{2.1}	%	14.5	13.7	11.2	9.7	:	10.0	9.2	11.1	10.5	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	2.8	1.4	2.4	-0.2	:	1.1	1.0	3.8	3.8	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	4.0	4.3	10.5	9.5	:	:	:	9.6	9.0	:	9.7	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	12.1	8.2	7.7	-2.7	:	:	:	45.5	26.8	:	18.5	24.9	:
Imports of goods ^{3.2}	Ann. % ch	13.6	13.0	8.9	-3.8	:	:	:	47.5	25.8	:	23.5	22.6	:
Trade in goods balance* ^{3.3}	% of GDP	-10.2	-11.9	-12.2	-11.1	:	-11.0	-11.1	-10.5	-10.6	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	49.3	49.3	50.8	47.6	:	:	:	50.7	52.5	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	57.0	58.9	60.8	56.3	:	:	:	58.5	60.5	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-5.2	-4.8	-6.9	-4.1	:	-4.3	-4.1	-2.5	-3.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	6.2	7.4	7.7	6.3	:	:	:	6.3	7.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	9,962	11,262	13,378	13,492	:	:	:	14,092	16,803	:	16,278	16,453	:
Int. reserves / months Imp ^{3.9}	Ratio	5.4	5.4	5.7	6.1	:	:	:	5.9	6.5	:	6.2	N.A.	N.A.
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	3.1	2.0	1.8	1.6	:	3.6	2.6	3.2	4.4	:	6.6	7.5	:
Producer prices ^{4.2}	Ann. % ch	3.4	2.2	0.7	-1.8	:	:	:	8.8	11.3	:	15.0	16.7	:
Food prices ^{4.3}	Ann. % ch	3.3	1.9	2.6	2.6	:	:	:	1.8	5.1	:	9.8	11.4	:
M3 ^{4.4}	Ann. % ch	3.6	14.5	8.4	18.1	:	:	:	12.4	12.7	:	12.4	15.0	:
Exchange rate RSD/EUR ^{4.5}	Value	121.41	118.27	117.86	117.58	117.57	:	:	117.57	117.57	117.58	117.57	117.58	117.58
Real effective exchange rate ^{4.6}	Index	119.5	123.8	123.6	125.7	:	:	:	127.8	128.2	:	128.4	128.5	:
5 Financial indicators														
Interest rate (BELIBOR) ^{5.1}	% p.a.	3.41	2.96	2.52	1.19	0.89	:	:	0.88	0.88	0.91	0.90	0.92	0.93
Bond yield (7 year) ^{5.2}	% p.a.	5.45	5.00	4.00	:	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,584	1,562	1,583	1,543	:	:	:	1,634	1,680	:	1,676	1,679	:
Credit growth ^{5.4}	Ann. % ch	2.4	4.3	9.7	12.3	:	:	:	9.0	7.9	:	7.6	8.9	:
Deposit growth ^{5.5}	Ann. % ch	7.9	7.4	12.9	15.0	:	:	:	14.0	12.5	:	11.5	14.9	:
Non-performing loans ^{5.6}	% total	9.8	5.7	4.1	3.7	:	:	:	3.6	3.6	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	1.1	0.6	-0.2	-8.0	:	-2.7	-1.6	-0.4	-0.5	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	59.2	53.7	52.0	57.0	:	56.3	54.1	53.9	56.5	:	55.9	56.4	N.A.

f: ECFIN forecast Autumn 2021 published November 2021

* Q figures refer to a 4 quarters moving average.

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

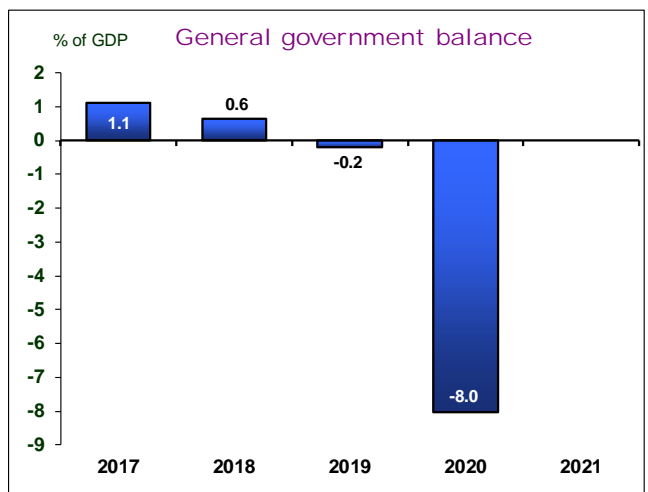
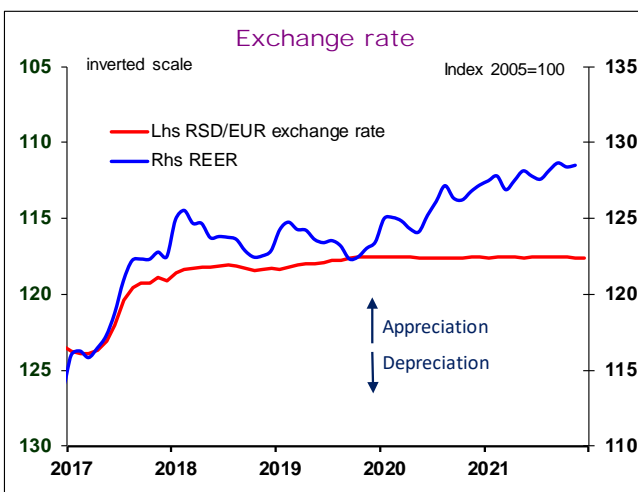
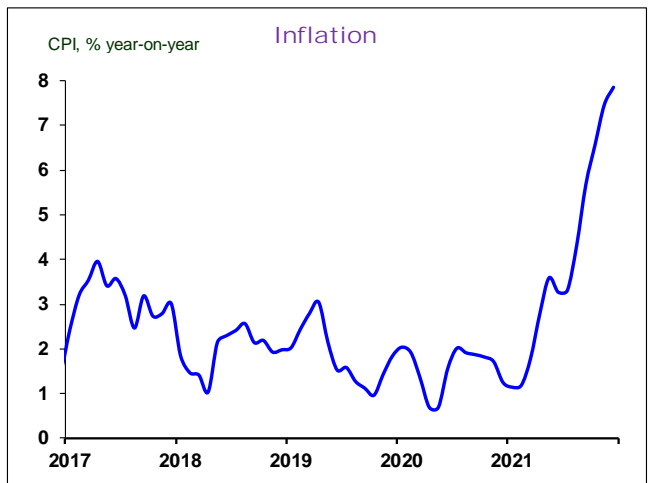
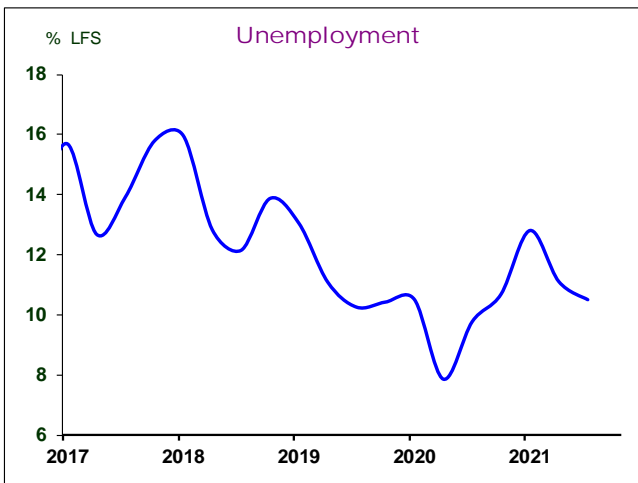
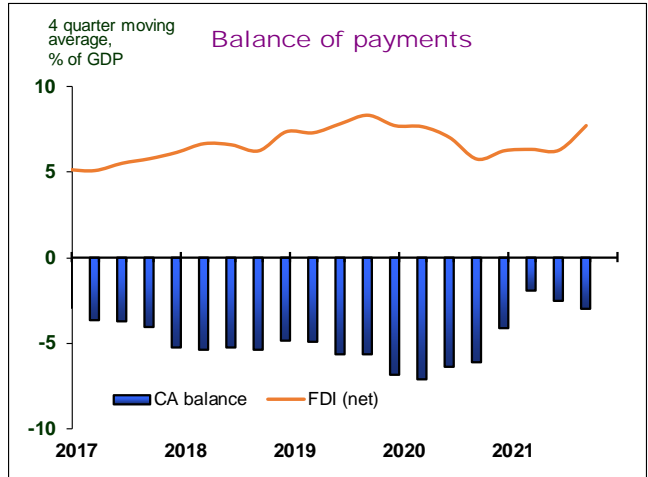
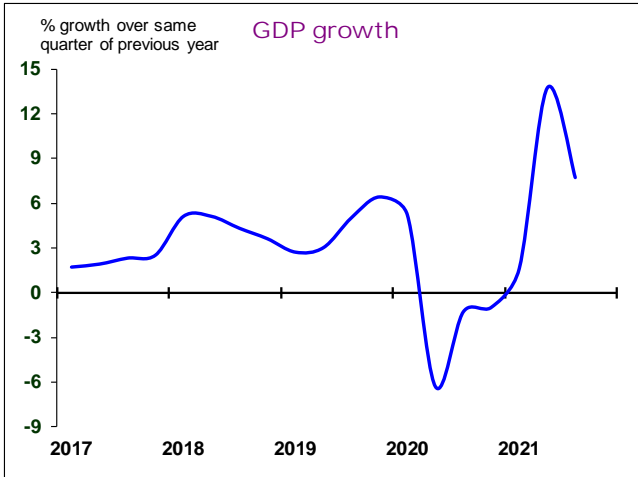
*** Q figures in percent of estimated annual GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA



TURKEY



Key developments

The central bank continued its unorthodox stance of cutting its policy rate, despite growing inflation, and the lira depreciated strongly as a result. Its fall was temporarily reversed by sizeable central bank interventions and a new scheme protecting the FX value of new lira retail time deposits. The scheme was extended to legal entities in early January. In addition, the authorities introduced forward foreign exchange sales to exporting and importing companies, an obligation of exporting companies to convert 25% of their FX revenue into lira, and tax exemptions and other measures incentivising the holding of lira assets.

In early December, after barely a year on the post, finance minister Lütfi Elvan resigned. He was replaced by his deputy, Mr Nureddin Nebati.

On 17 December, the parliament adopted the 2022 central government budget. It is based on programme-based budgeting and targets a deficit of 3.5% of GDP. Total revenue is planned to increase by 33.3% and expenditure by 30.0% y-o-y. However, the underlying macroeconomic projections of 5.0% real GDP growth and 9.8% inflation in 2022 are largely outdated.

Real sector

Third-quarter real GDP growth was robust at 2.7% q-o-q and 7.4% y-o-y. It continued the strong performance of the first half of the year, with rising contributions from net exports (9.4 pps.) to annual output growth. However, domestic demand's contribution to growth turned negative (-2.0 pps.) in Q3, due to a large contraction in stocks (-7.8 pps.) and weakening base effects. In addition, investment continued to lose momentum, falling -2.4% y-o-y, as construction (-9.0% y-o-y) and other assets capital formation (-28.5% y-o-y) pulled it down, despite relatively upbeat machinery and equipment investment (+17.5% y-o-y). Households consumption increased 9.1% y-o-y in Q3, sustained by the improving labour market, still largely unaffected by the worsening consumer confidence and rising inflation. Following a subdued growth in the first two quarters, government consumption expanded

markedly by 9.6% y-o-y in Q3. Exports of goods and services remained buoyant (3.7% q-o-q and 25.6% y-o-y), lifted by the recovery of the main trading partners and a rebound in tourism. The weaker lira and worsening domestic demand conditions suppressed imports, which declined by 8.3% y-o-y.

On the supply side, industry and manufacturing continued their strong performance, up by close to 10% y-o-y in Q3. Services expanded by double-digits, as the epidemiological situation improved. With the exception of finance and insurance, activity increased in all service sectors. Construction (-6.7% y-o-y), adjusting from pre-crisis excesses, and agriculture (-5.9% y-o-y), suffering from drought effects, also contracted.

The lira's rapid depreciation and increased volatility has taken a heavy toll on economic sentiment in the last months of the year. Economic confidence took a step back from its 2021 high in September (102.4) to 97.6 in December. Its decline was largely driven by a dive in consumer confidence, which fell to a historic low of 68.9 in December, as rising inflation has dented consumers' purchasing power. Real sector, services, and retail trade confidence levels, however, remained rather upbeat and largely unchanged. Retail sales still increased 1.3% m-o-m (16.3% y-o-y) in November. The growth of industrial production accelerated to 11.4% y-o-y in November (3.3% m-o-m), from 8.7% in October. Manufacturing activity remained relatively buoyant, with the PMI firmly above 50 in Q3 and at 52.1 in December.

Labour market

Although losing some steam, the recovery of the labour market continued. In November, the seasonally adjusted unemployment rate stood at 11.2%, unchanged from the previous month, while labour force participation (15 years and over) and employment rates improved further. However, labour underutilisation remained significant at 21.9%. Since the summer, the pace of job creation (seasonally adjusted) accelerated in the sector of services and, although stagnating, remained elevated in industry and construction. The seasonally and calendar

adjusted hourly labour cost index increased by 28.9% y-o-y in Q3 (7.2% q-o-q), moving for the first time in more than a year above the rate of inflation (by 9.6 pps.). As of January, the net minimum wage was increased to TRY 4 250 per month (up 50.4% y-o-y).

External sector

After three months in surplus because of strong improvements in the balance of goods and services, the current account moved again to a deficit in November. Measured on a 12-months moving average base, it continued to fall to USD 14.3 billion or 1.8% of GDP in November from 5.0% in 2020. In October, the balance of goods was positive for the first time in three years, but it tipped into a deficit in November mainly due to higher energy prices and a spike in confidentially classified imports. Exports of goods reached new highs, surpassing the USD 20 billion mark three months in a row and bringing the cumulative growth of merchandise exports to 34% y-o-y in January-November. Exports of services increased even more (62% y-o-y), although still remaining below their pre-crisis level. Imports growth in the same period lagged behind (22% for goods and 34% for services).

By end-November, cumulative FDI inflows topped USD 11 billion and net FDI doubled in comparison to the same period in 2020. Despite renewed portfolio outflows in October, high net errors and omissions kept the overall balance in surplus and reserve assets increased by close to USD 10 billion in the three months to November (and by USD 37.1 billion y-o-y in January-November).

Monetary developments

Since September 2021, the central bank has cut its key policy rate by a cumulative 500 bps., to 14% in December. As a result, the lira weakened significantly, moving from 8.8 to the USD at the end of September to 18.4 at its low on 20 December. It has recovered some of the lost ground since then, but was still down by around 80% y-o-y in early 2022. Despite the sizeable reduction in the central bank key policy rate, commercial banks' interest rates on loans remained broadly stable and even increased since late November across all currencies and customers.

The steep depreciation of the lira led to a significant acceleration of consumer inflation in December (13.6% m-o-m, 36.1% y-o-y). Food inflation increased to 16.0% m-o-m and 43.8%

y-o-y, while prices of staple food, like bread and cereals, went up more than 50% y-o-y. Energy prices rose as well in December (9.8% m-o-m), and even more in January when electricity prices for different consumers were hiked by 52% to 130% and gas prices by 25% to 50%. Core inflation (31.9% y-o-y) remained behind the headline inflation rate, suppressed by lower service inflation (22.3% y-o-y), driven in particular by marginal price increases of telecommunication services. Producer prices increased strongly, by nearly 80% y-o-y (19.1% m-o-m) by the end of 2021. Expectations for the 12-month-ahead annual inflation rose to 21.4% (up 8.5 pps. since September) and have become increasingly unanchored, as testified by their growing and historically high dispersion. Turkey's 5-year CDS spread also increased, peaking at 624 bps. in December, before taking a step back to a still high 580 bps. in mid-January.

Financial sector

In November, the banking sector's capital adequacy ratio was at 17.8%, well above the required minimum. The NPL ratio declined to 3.2% and was even lower at 2.1% in the state-owned banks. The strong depreciation of the lira heavily influenced credit and deposit levels. By the end of the year, banking sector real loan growth was close to zero, largely due to a sizeable exchange rate effect lifting FX loans growth to nearly 70% y-o-y, while outstanding loans in lira increased less than the inflation rate, by around 20%. Similar dynamics was observed in domestic deposits (up 51.9% y-o-y), where the FX component rose much faster than the lira-denominated one. In early January, the uptake of the new FX-protected deposit scheme reached some TRY 107.6 billion, around 13% of natural persons' term deposits in lira.

Fiscal developments

Despite a large deficit in December (TRY 92.1 billion), the 2021 treasury cash deficit improved significantly to TRY 142.1 billion (2.1% of GDP) in comparison to 2020 (TRY 181.9 billion or 3.6% of GDP), undershooting the TRY 245 billion (3.6% of GDP) central government deficit target. The strong budget results were driven by good revenue performance (up 38.3% y-o-y) and subdued non-interest expenditure growth (29.0% y-o-y).

Government debt declined from 39.7% of GDP at end-2020 to 37.6% at the end of September, a level not yet affected by the large lira depreciation in Q4.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2017	2018	2019	2020	2021	ECFIN 2021 Autumn forecast		Q2 21	Q3 21	Q4 21	Oct 21	Nov 21	Dec 21
							2022	2023						
1 Real sector														
Industrial confidence ^{1.1}	Index	108.0	101.4	100.4	98.2	110.6	:	:	111.4	114.0	108.0	109.6	108.4	106.1
Industrial production ^{1.2}	Ann. % ch	9.1	1.1	-0.6	2.2	:	:	:	40.4	9.0	:	5.3	14.7	:
Gross domestic product ^{1.3}	Ann. % ch	7.5	3.0	0.9	1.8	:	4.0	4.0	22.0	7.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	5.9	0.5	1.5	3.2	:	3.0	3.5	23.3	9.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	8.3	-0.2	-12.4	7.2	:	3.4	2.4	20.5	-2.4	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	25.9	22.8	-7.1	5.4	:	:	:	44.5	34.9	:	38.6	52.9	:
Retail sales ^{1.7}	Ann. % ch	5.7	1.5	-0.1	3.5	:	:	:	28.1	15.7	:	15.4	16.2	:
2 Labour market														
Unemployment ^{2.1}	%	10.9	10.9	13.7	13.1	:	12.6	12.2	11.9	11.7	:	10.7	10.9	:
Employment ^{2.2}	Ann. % ch	3.5	2.2	-2.3	-4.8	:	4.6	3.1	9.8	8.2	:	10.2	11.3	:
Wages ^{2.3}	Ann. % ch	9.3	18.3	26.2	17.9	:	24.1	23.3	4.7	28.4	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	9.8	7.9	2.2	-7.0	:	:	:	70.3	31.7	:	23.9	29.4	:
Imports of goods ^{3.2}	Ann. % ch	17.7	-3.1	-8.8	3.6	:	:	:	50.4	19.6	:	16.0	24.0	:
Trade in goods balance* ^{3.3}	% of GDP	-6.8	-5.2	-2.2	-5.3	:	-5.5	-5.5	-4.3	-3.7	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	25.9	30.3	32.3	28.5	:	:	:	31.0	32.8	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	29.7	31.7	30.0	32.2	:	:	:	33.6	33.8	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.8	-2.8	0.7	-5.0	:	-2.2	-1.6	-3.8	-2.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	1.0	1.2	0.8	0.6	:	:	:	0.6	0.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	107.7	93.0	105.7	93.3	N.A.	:	:	97.7	121.3	:	123.9	:	:
Int. reserves / months Imp ^{3.9}	Ratio	5.1	4.5	5.6	4.9	:	:	:	4.6	5.4	:	5.5	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	11.1	16.3	15.2	12.3	19.6	17.7	15.4	17.1	19.3	25.8	19.9	21.3	36.1
Producer prices ^{4.2}	Ann. % ch	15.8	27.0	17.6	12.2	43.9	:	:	38.8	44.8	60.6	46.3	54.6	79.9
Food prices ^{4.3}	Ann. % ch	12.7	18.0	19.5	13.8	24.3	:	:	18.0	27.6	32.9	27.4	27.1	43.8
M3 ^{4.4}	Ann. % ch	15.5	19.3	28.5	33.0	51.2	:	:	23.6	22.2	51.2	24.9	52.3	51.2
Exchange rate TRY/EUR ^{4.5}	Value	4.1	5.68	6.35	8.10	10.70	:	:	10.23	10.08	13.32	11.00	14.28	14.68
Real effective exchange rate ^{4.6}	Index	103.2	88.0	87.1	78.6	:	:	:	70.1	72.5	:	69.5	62.1	:
5 Financial indicators														
Interest rate (3 months-TRLIBOR) ⁵	% p.a.	12.81	19.85	20.66	11.25	18.70	:	:	19.95	19.86	16.78	18.20	16.35	15.79
Interest rate, long term ^{5.2}	% p.a.	11.11	15.88	15.76	12.75	17.61	:	:	18.23	17.52	20.75	19.53	20.07	22.65
Stock markets ^{5.3}	Index	990	1,019	993	1,134	1,510	:	:	1,416	1,412	1,696	1,438	1,683	1,966
Credit growth ^{5.4}	Ann. % ch	21.9	21.3	6.5	29.6	23.3	:	:	21.8	13.6	28.2	14.4	34.3	36.1
Deposit growth ^{5.5}	Ann. % ch	20.3	22.9	18.8	37.0	29.7	:	:	26.4	19.8	41.5	21.7	51.1	52.2
Non-performing loans ^{5.6}	% total	3.0	3.9	5.4	4.1	:	:	:	3.7	3.5	:	3.5	3.2	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-2.0	-2.8	-3.2	-2.8	:	-3.5	-3.1	-1.1	-0.7	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	27.9	30.1	32.6	39.7	:	38.9	38.7	38.3	37.6	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2021 published November 2021

* Q figures refer to a 4 quarters moving average.

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

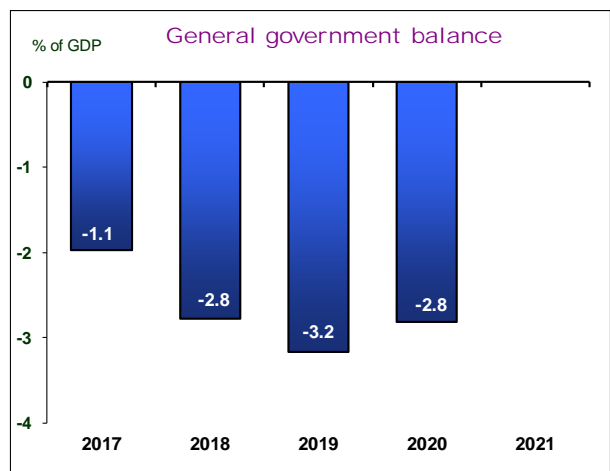
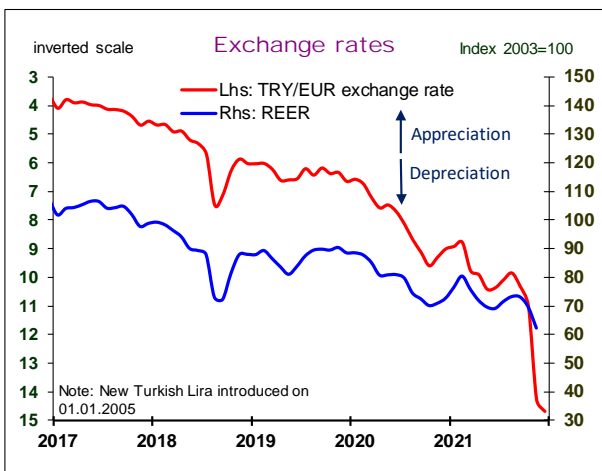
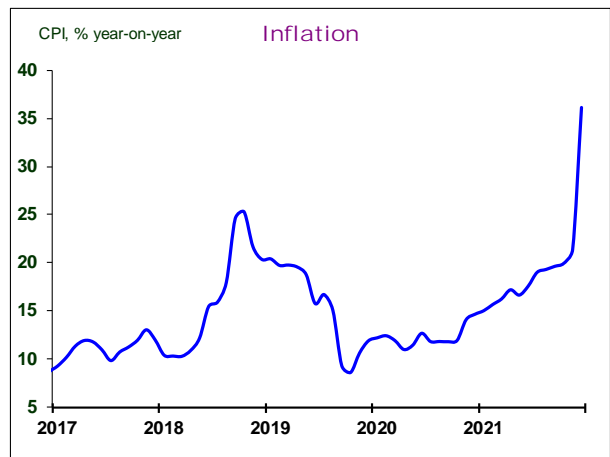
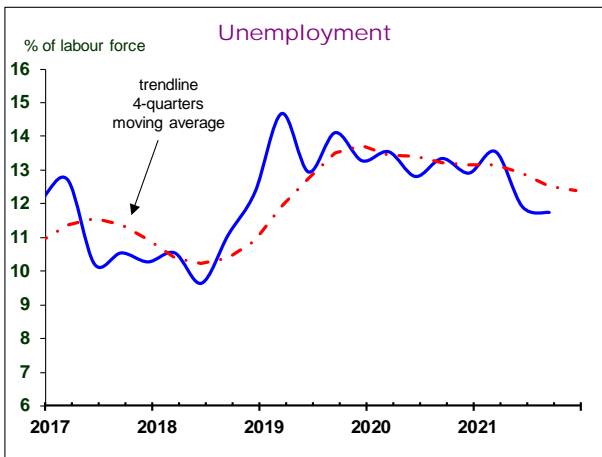
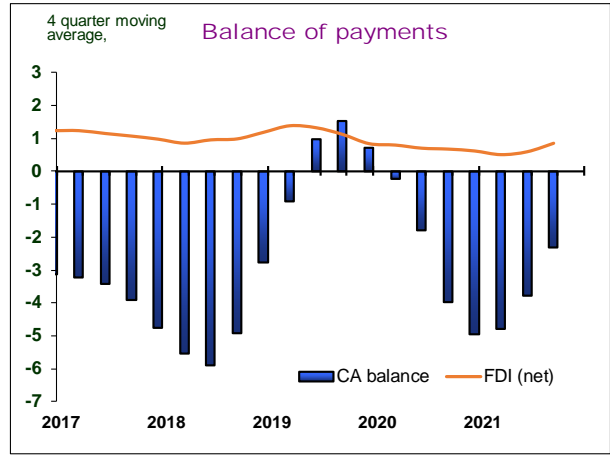
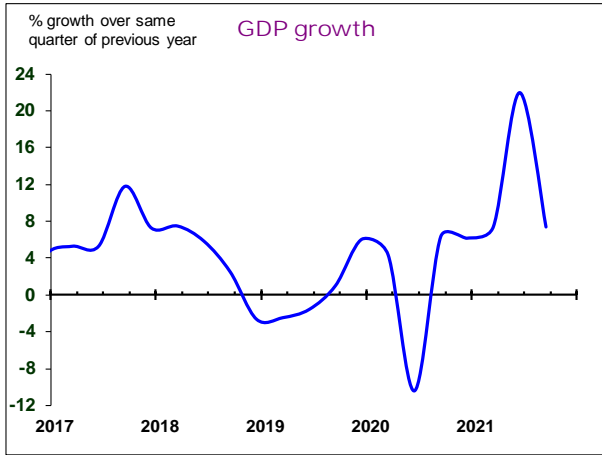
*** Q figures in percent of GDP on a four quarter moving basis.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

The epidemiological situation continues to be serious. The number of new infections has risen sharply, to around 370 new cases per 100 000 inhabitants in mid-January. The mortality rate is one of the highest in the region, reaching about 420 deaths per 100 000 inhabitants in mid-January.

On 15 December, the RS entity's national assembly adopted the budget proposal for 2022. It is based on an expected real GDP growth of 4.5% and revenue increases by some 7%. Spending on salaries and direct social benefits, such as pensions, are also envisaged to increase by 7% and 5% respectively. The fiscal deficit is expected to reach about 1.6% of the entity's GDP.

On 3 November, the Central Bank revised its economic outlook, raising the expected GDP growth in 2021 from 3.4% to 5.8%, based on strong growth in Q3-2021 as well as significant data revisions for 2020. For 2022, the Central Bank now expects real GDP growth of 3.9%. The World Bank's latest estimate from January 2022 forecasts real GDP to grow by 3% in 2022, down from previously expected 3.5%

Real sector

In Q3, the economy continued to recover, registering a seasonally-adjusted, quarter-on-quarter GDP increase of 1.4%. Output growth decelerated to 8.4% y-o-y (from 12.1% y-o-y in Q2), compared to a lockdown-driven output drop by 4.1% a year before. Like in Q2, a key growth driver were exports, which rose by 51.1% y-o-y, compared to a decline by 22.3% in the same quarter a year before. Investment rose by 16.2% y-o-y, while private consumption increased by 3.9%, contributing 3.8 and 2.4 pps. to overall growth respectively. Imports increased by 32.9% y-o-y, which resulted in a negative growth contribution of net exports of 1.2 pps. When looking at the first three quarters of 2021, output was 7.7% higher than a year before, when it registered a decline by 3.8%. Compared to the first three quarters of 2019, i.e., before the COVID crisis, real GDP was 1.8% higher in January-September 2021, driven mainly by exports and private consumption, while real investment was still below its pre-crisis level. On the production side, the continued recovery in Q3 was mainly based on higher value added

in accommodation and food services (+30.5% y-o-y), transportation and storage (+22%) and wholesale trade (+18%).

High-frequency data points to a continued, albeit decelerating recovery. The growth of industrial production decelerated from 9.5% y-o-y in Q3 to about 7.5% y-o-y in October and November. Retail sales continued strong growth in recent months, increasing by 26.3% y-o-y in Q3 and a more moderate 18.2% and 16.0% in October and November, respectively.

Tourism is recovering too. During the first eleven months of 2021, the number of overnight stays was 78% higher than a year before, while the number of arrivals at the accommodations was nearly 90% higher. Domestic tourism accounted for 48% of the total overnight stays and arrivals, which is significantly higher than in pre-COVID years. Among the foreign tourists, guests from Serbia were the largest group, accounting for 15.7% of the total.

Labour market

In Q3, registered employment was nearly 14 000 persons (1.7% y-o-y) higher than a year before. The absolute number of registered employed has even slightly surpassed the Q3 employment level in 2019, i.e. before the COVID-19 crisis. Important sectors with an improving employment situation were manufacturing, tourism and trade. In October, the number of employees remained largely unchanged when compared to September, but when compared to a year before, nearly 12 000 more employees were registered.

The number of the registered unemployed in Q3 was some 34 000 (-8.1%) lower than a year before. This brought the administrative unemployment rate down to 31.7%, compared to 34% the year before. In October, the number of registered unemployed persons was slightly lower than a month before (-1 900 persons or -0.5% m-o-m, but significantly lower than a year earlier (-32 000 persons, or -7.7%). According to the survey-based Labour Force Statistics (LFS), the unemployment rate was 16.4% in Q3, rising from 14.2% a year before, but down from 18.1% in Q2-2021. The LFS youth unemployment rate (age group 15-24) stood at 37.8% in Q3, compared to 34.5% a year before.

The annual growth of nominal gross wages remained quite robust, at 4.5% y-o-y in Q3, and

4.5% y-o-y in October. However, adjusted for the accelerating inflation rate, the increase in real wages has come to a halt. To some extent, the high nominal wage increases reflect labour market shortages due to a substantial brain drain, but also higher public sector wages, such as in the health and security sectors. On the other hand, the official wage statistics do not include micro enterprises, which represent a significant share of employment.

External sector

The current account deficit in the four quarters to September narrowed to 2.8% of GDP, from 3.3% in the four quarters to June, largely thanks to an improvement in the trade balance of goods and services, as export revenues increased more substantially than the value of imports.

Trade continued its rebound in Q3, with the value of goods exports being 38.1% higher than a year earlier, while imports rose by 31.4%, reflecting the recovery of private consumption and investment. The strong trade performance continued in October and November. The value of merchandise exports rose by 32.4% y-o-y in October and by 50.8% in November, mainly due to a strong recovery of demand from Serbia, Italy, Germany and Croatia.

Net FDI inflows increased to 2.6% of GDP in the four quarters to September, still largely consisting of reinvested earnings. Official foreign exchange reserves remained high in Q3 as well as in October and November, covering nearly 10 months of imports of goods and services.

Monetary developments

The increase in the overall level of consumer prices continued, with y-o-y inflation rising to 2.4% in Q3 from 1.4% in Q2, and further to 4.3% and 5.4% in October and November respectively. The main factors for the acceleration were higher costs for transport and to an increasing extent rising prices for food and non-alcoholic beverages. Prices for this latter group account for 32% of the basket and rose on average by 3.6% in Q3 and by 6.7% and 8.5% y-o-y in October and November, respectively. Prices for transport, accounting for nearly 13% of the basket, were 9.4% higher in Q3, and 13.6% and 15.7% higher in October and November respectively. At the same time, prices for clothes and footwear continued to decline.

The annual growth of the monetary aggregate M2 continued to accelerate, from 11.1% in Q2 to 11.9% in Q3. The main driver was the

monetary aggregate M1, in particular the increase in transferable deposits in domestic currency. In October and November, the strong year-on-year increase in M2 continued, reaching 11.3% and 10.8%, respectively.

Financial sector

Overall, the financial sector has weathered the COVID-19 crisis relatively well so far. Annual loan growth accelerated further in Q3, reaching 2.4% y-o-y, compared to 1.7% in Q2. This trend continued in the following months, with lending increasing by 2.9% y-o-y in October and 3.2% in November. This increase continued to be mainly driven by bank loans to households.

Bank deposit growth remained high in Q3, (+11.7%), as well as in October and November (11.3% and 10.8%), respectively. Households and in particular non-financial private enterprises continued to be the main drivers of deposit growth. As a result, the loan-to-deposit ratio maintained its declining trend, falling to 76.4% in November from 82.0% a year before.

The share of non-performing loans in total loans declined to 5.5% at the end of Q3, compared to 6.6% one year earlier. The loan-loss provisions ratio continued to increase to 80.6%, compared to 80.3% in Q2 and 79% a year before. Banking sector profitability remained largely unchanged in Q3 after a marked improvement in Q1, partly following methodological changes. The return-on-equity (ROE) ratio stood at 11.5% in Q3, compared to 10.5% in Q2-2021. The return on assets (ROA) was at 1.5%, compared to 1.3% in Q2. The banking system's overall capital-adequacy ratio rose again to 19.2% in Q3, after having slightly dropped to 18.9% in Q1. This continues to be well above the country's regulatory minimum of 12%. However, there are sizeable differences among the countries' 23 banks, with some pockets of vulnerability remaining.

Fiscal developments

Tax revenues registered a strong recovery. During January-September the collection of indirect taxes was 16% higher than a year before, mainly thanks to strong VAT revenues, in particular during the summer months. The public debt ratio declined slightly to 35.2% of GDP in Q3 after a temporary increase in Q2. The decline in the share was due to a slight drop in debt securities but also higher nominal GDP. The share of domestic currency debt rose from 14.9% in Q2-2021 to 15.3% in Q3-2021.

TABLE



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2017	2018	2019	2020	2021	Q2 21	Q3 21	Q4 21	Oct 21	Nov 21	Dec 21
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	3.1	1.6	-5.3	-6.4	:	19.6	9.5	:	7.6	7.4	:
Gross domestic product ^{1.3}	Ann. % ch	3.0	3.3	2.8	-3.2	:	12.1	8.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.6	2.0	2.3	-2.6	:	12.9	3.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	7.9	8.1	5.8	-3.0	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-6.9	5.2	15.4	-18.6	:	6.8	27.1	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	5.1	8.2	5.2	-7.5	:	28.7	26.3	:	18.2	16.0	:
2 Labour market												
Unemployment ^{2.1}	%	20.5	18.4	15.7	15.9	:	18.1	16.4	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	7.7	2.5	2.5	-1.3	:	1.4	1.7	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	1.6	3.1	4.3	3.8	:	4.8	4.5	:	4.5	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	21.3	11.5	-2.3	-7.4	:	48.3	38.1	:	32.4	50.8	:
Imports of goods ^{3.2}	Ann. % ch	13.3	7.1	1.1	-13.4	:	38.5	31.4	:	26.6	45.6	:
Trade in goods balance* ^{3.3}	% of GDP	-22.4	-21.5	-21.8	-17.8	:	-17.4	-18.0	:	N.A.	N.A.	N.A.
Exports goods and services* ^{3.4}	% of GDP	38.7	40.8	39.2	33.4	:	36.4	39.6	:	N.A.	N.A.	N.A.
Imports goods and services* ^{3.5}	% of GDP	54.1	54.9	53.4	46.9	:	49.3	52.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-4.6	-3.1	-2.7	-3.6	:	-3.3	-2.8	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.2	2.8	1.5	1.6	:	2.3	2.6	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	5,393	5,962	6,453	7,105	:	7,269	7,917	:	8,205	8,253	:
Int. reserves / months Imp ^{3.9}	Ratio	7.1	7.3	7.8	10.0	:	9.4	9.5	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	1.3	1.4	0.6	-1.1	:	1.4	2.4	:	4.3	5.4	:
Producer prices ^{4.2}	Ann. % ch	79.2	3.2	0.4	-0.4	:	3.1	5.4	:	7.0	9.2	:
Food prices ^{4.3}	Ann. % ch	1.3	0.6	1.1	1.0	:	1.5	3.6	:	6.7	8.5	:
M2 ^{4.4}	Ann. % ch	9.5	9.4	8.9	7.3	:	11.1	11.9	:	12.2	11.8	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Real effective exchange rate ^{4.6}	Index	96.4	97.0	95.7	95.1	:	94.5	93.7	:	94.8	95.59	:
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	627	621	772	769	870	781	910	1,026	1,060	1,020	999
Credit growth ^{5.4}	Ann. % ch	5.3	6.6	5.7	1.1	:	1.7	2.4	:	2.9	3.2	:
Deposit growth ^{5.5}	Ann. % ch	10.4	11.3	9.3	5.6	:	11.5	11.7	:	11.3	10.8	:
Non performing loans ^{5.6}	% total	10.0	8.8	7.4	6.1	:	5.7	5.5	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	2.4	2.1	1.9	-5.1	:	:	:	:	N.A.	N.A.	N.A.
General government debt*** ^{6.2}	% of GDP	34.2	32.7	31.7	35.4	:	36.1	35.2	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

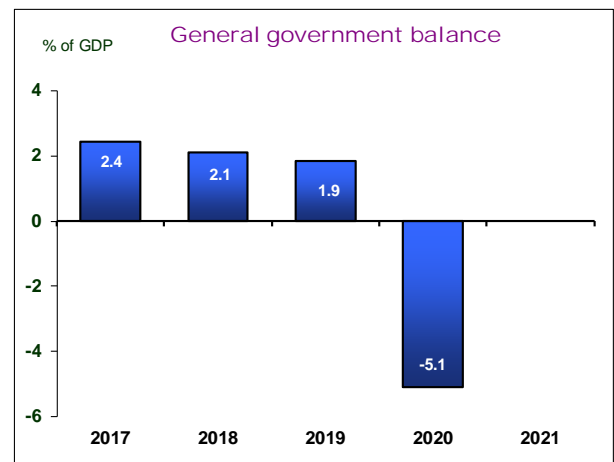
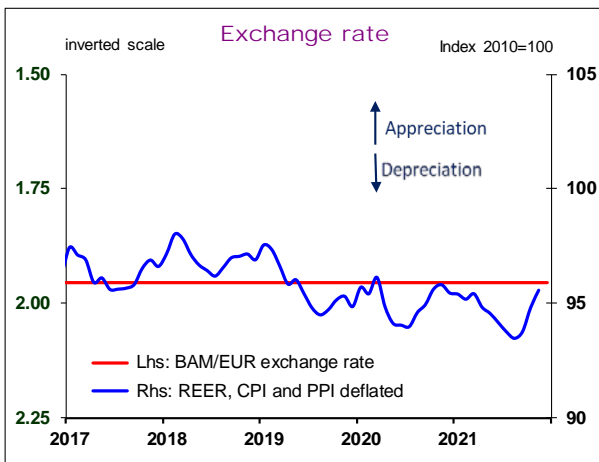
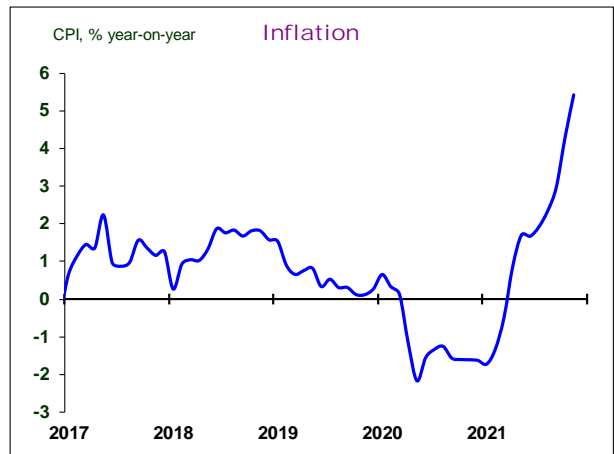
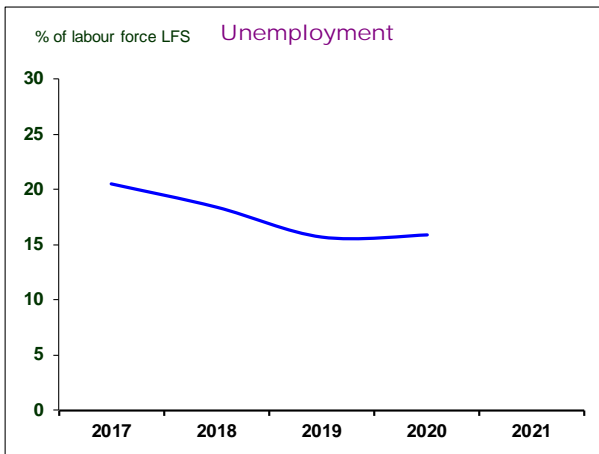
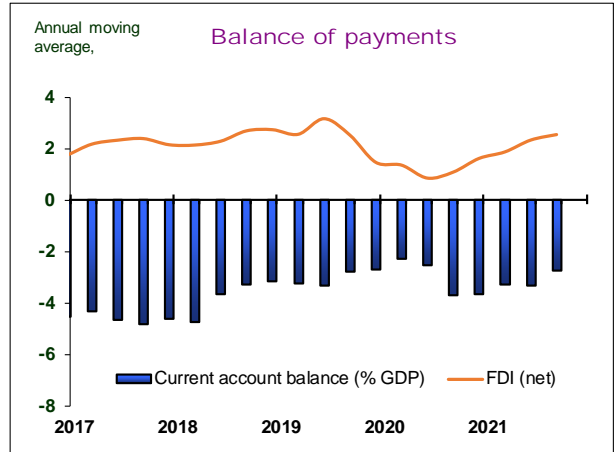
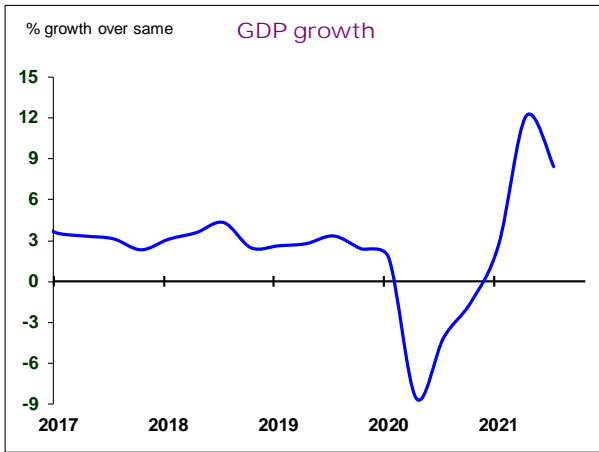
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

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

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BOSNIA AND HERZEGOVINA





Key developments

In mid-December, the Assembly of Kosovo approved in the second reading the 2022 budget. Expenditure is foreseen to increase by 8.7% compared to the revised 2021 budget. Revenue is set 15% higher than the 2021 forecast revenue. The headline deficit is planned at 4.5% of GDP, corresponding to a 3% deficit as per the fiscal rule definition. Budgetary projections assume real GDP expanding by 8% in 2022.

In January, the government decided to raise basic, disability, invalidity and family pensions up to EUR 100, an amount, which was set as the minimum level for any pension provided.

Since December, Kosovo has been undergoing an energy crisis, due to high import costs, increased electricity consumption and insufficient domestic power generation, exacerbated by the partial shutdown of Kosovo B power plant. At end-December, the government introduced emergency measures, with planned daily power cuts in the next 60 days to help ease the energy shortage.

Real sector

The buoyant recovery continued in Q3-2021 with real GDP expanding by 14.5% y-o-y, following a 16.8% y-o-y surge in the previous quarter. This brings the average increase in the first nine months to 12.1% y-o-y. The main factor behind the surge in Q3 was a continued rebound in exports (147% y-o-y) which was driven by the stunning surge of export of services (179% y-o-y), mainly tourism services to the diaspora. Despite higher remittances and bank lending, private consumption expanded by only 1.4% y-o-y, which might reflect data quality issues of the base quarter. Investment practically stagnated (0.1% y-o-y) while public consumption grew by 4.6% y-o-y. The GDP expansion was mitigated by rapidly growing imports of goods and services (44.4% y-o-y).

On the production side, the largest gains in output took place in wholesale and retail trade, transport, accommodation and catering (35.3% y-o-y). This stands in some contradiction with a modest increase in private consumption. Positive growth was recorded in manufacturing (10.8%

y-o-y), professional and scientific activities (10.9% y-o-y). Output in construction contracted by 4.1% y-o-y.

Labour market

Due to the COVID-19 related disruptions, the results of the labour force survey (LFS) are published with large delays. The Q2 data were not available at the time of this publication.

External sector

The current account deficit narrowed in Q3, with its 4-quarter moving average declining to 6% of GDP from 9.8% in the previous quarter. The main driver was an extraordinary recovery of service exports, which led to overall exports expanding to 33.7% of GDP from 25.4% in the four quarters to June. Workers' remittances increased by 17% y-o-y and stood at 15.3% of GDP in the four quarters to September. On the financing side, net inflows of FDI (4-quarter moving average) increased to 5% of GDP from 4.3% in the previous quarter. Official reserve assets increased slightly and covered around 3 months of imports of goods and services in Q3.

In January-November, total merchandise exports expanded by nearly 60% y-o-y, due to the strong performance of basic metals. In the same period, good imports grew by 42.5% y-o-y. During January-November the overall merchandise trade deficit widened by 39.6% y-o-y.

Monetary developments

Annual inflation averaged 2.6% in January-November with monthly readings accelerating since July and reaching 6.9% y-o-y in November. The largest positive contributions to inflation came from food, energy and transport prices.

Import prices surged by 14.7% y-o-y in Q3 compared to 5.1% in the first half of 2021 due to higher prices for mineral products and base metals. For the same reason, indices of construction and producer costs registered substantial increases of 15.2% and 6.9% y-o-y respectively, as compared to 8.7% and 2.8% in H1-2021.

Financial sector

The financial sector continued to expand with the growth of bank lending accelerating to 14.7% y-o-y in November from 12.1% in Q3. The key driver was lending to households (17.5% y-o-y) which remained stronger than lending to non-financial corporations (13.2%). Growth of deposits in commercial banks slowed down to 12.8% from 15.2% over the same period. The loan-to-deposit ratio rose to 79.1% in November as compared to 75% at the beginning of the year. As the loan moratorium expired at end-September, the NPL ratio increased to 2.9% in November from 2.4% in September. In November, existing NPLs were fully covered by loan loss provisions (149.5%).

The interest rate spread stood unchanged at 4.5 pps. in November as compared to September. Financial soundness indicators remained stable and satisfactory. For the banking system as a whole, the ratio of liquid assets to short-term liabilities decreased to 37.2% in November from 39.8% in September, while the capital adequacy ratio declined slightly to 17.3% from 17.9% over the same period, standing well above the regulatory minimum of 12%.

Fiscal developments

In mid-December the Assembly adopted the 2022 budget, including projections for the following two years. Annual average growth of budgetary revenue and spending is projected around 8% and 5.6% in 2023-2024, respectively. The headline deficit is set to decline gradually to 3.7% in 2023 and 2.9% in 2024, while the deficit as per the fiscal rule definition is projected to fall to 2% in GDP in 2023 and 1%

in 2024. The budget projects the government's bank balance at 5% of GDP in 2022, which is below the level of late 2021 (6%). In 2023, the bank balance should fall to 4% of GDP, but revert to 5% in 2024.

In January-November 2021, budgetary revenue increased by 31.7% y-o-y with income from direct and indirect taxes growing by 30% and 32% y-o-y, respectively. This outcome considerably outpaced the revised 2021 budget assumption of 18.6% annual revenue increase. Budget expenditure contracted by 1.1% y-o-y, with diverging performances for social transfers and subsidies. In January-November, social transfers at the general government level rose by 9.4% y-o-y, while subsidies contracted by 39.1% over the same period. Total capital spending increased by only 1.4% y-o-y. As the revised 2021 budget assumed a 45.7% annual increase in capital spending, total public investment amount spent by end-November represented only 45.5% of the revised budget allocation for the year as a whole. Due to a contraction in spending on subsidies, the execution rate of the social transfers and subsidies stood at 80%.

The eleven-month general government surplus reached EUR 340 million (4.6% of projected annual GDP) while over the same period in 2020 the budget had a deficit of EUR 81.6 million.

In September, total public debt (including guarantees) increased to 23% of GDP from 22.4% at the end of 2020. This is way below the projection of the revised 2021 budget of 27.6% of GDP. The main holders of domestic debt are Kosovo's pension fund, whose share remained roughly stable at 45% as compared to 46% in Q3-2020, commercial banks (30%) and the Central Bank of Kosovo (20%).

TABLE

European Commission, ECFIN-D-1



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		2017	2018	2019	2020	2021	Q2 21	Q3 21	Q4 21	Oct 21	Nov 21	Dec 21
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	-1.3	-0.7	2.6	-1.2	:	N.A.	N.A.	N.A.	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.8	3.4	4.8	-5.3	:	16.8	14.5	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.5	3.8	5.1	1.9	:	14.9	1.4	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	0.6	7.0	-1.6	-7.1	:	33.5	0.1	:	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	12.0	17.4	25.6	-0.4	:	9.1	24.4	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	30.5	29.6	25.7	25.9	:	:	:	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	7.6	-3.4	5.2	-4.4	:	:	:	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	2.1	5.1	5.3	-2.3	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	22.1	-2.8	4.4	23.8	:	65.3	65.7	:	43.5	54.4	:
Imports of goods ^{3.2}	Ann. % ch	9.2	9.8	4.5	-5.7	:	58.0	48.0	:	34.9	41.2	:
Trade in goods balance** ^{3.3}	% of GDP	-42.0	-44.7	-44.1	-41.7	:	-46.0	-48.1	:	N.A.	N.A.	N.A.
Exports goods and services** ^{3.4}	% of GDP	27.3	29.1	29.3	21.7	:	25.4	33.7	:	N.A.	N.A.	N.A.
Imports goods and services** ^{3.5}	% of GDP	53.1	57.3	56.4	53.9	:	60.0	63.8	:	N.A.	N.A.	N.A.
Current account balance** ^{3.6}	% of GDP	-5.5	-7.6	-5.7	-7.0	:	-9.8	-6.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)** ^{3.7}	% of GDP	3.3	3.4	2.7	4.2	:	4.3	5.0	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mn EUR	939.4	933.9	937.1	969.1	:	991.1	1,192.3	:	1236.8	1,186.5	:
Int. reserves / months imp ^{3.9}	Ratio	3.3	2.9	2.8	3.2	:	2.8	3.0	:	3.0	N.A.	N.A.
4 Monetary developments												
HICP ^{4.1}	Ann. % ch	1.5	1.1	2.7	0.2	:	2.0	4.3	:	5.7	6.9	:
Producer prices ^{4.2}	Ann. % ch	0.6	1.4	0.9	-0.6	:	3.6	6.9	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	1.2	2.8	8.3	10.1	:	0.0	3.1	:	4.2	6.8	:
Broad money liabilities ^{4.4}	Ann. % ch	6.4	7.9	12.0	15.3	:	16.2	16.9	:	15.1	13.7	:
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	105.0	104.7	107.1	107.3	:	108.9	109.8	:	110.3	:	:
5 Financial indicators												
Short-Term interest rate ^{5.1}	% p.a.	0.21	0.43	0.55	0.47	:	0.47	0.52	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	4.0	3.5	3.31	N.A.	3.58	:	:	:	:	:
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	10.5	11.1	10.7	7.7	:	11.1	12.1	:	13.4	14.7	:
Deposit growth ^{5.5}	Ann. % ch	8.6	6.5	12.6	12.2	:	14.7	15.2	:	13.6	12.8	:
Non-performing loans ^{5.6}	% total	3.1	2.5	1.9	2.5	:	2.3	2.2	:	2.2	2.2	:
6 Fiscal developments												
General government balance*** ^{6.1}	% of GDP	-1.3	-2.9	-2.9	-7.6	:	2.1	2.0	:	N.A.	N.A.	N.A.
General government debt**** ^{6.2}	% of GDP	16.4	17.0	17.6	22.4	:	23.2	23.0	:	N.A.	N.A.	N.A.

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

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

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

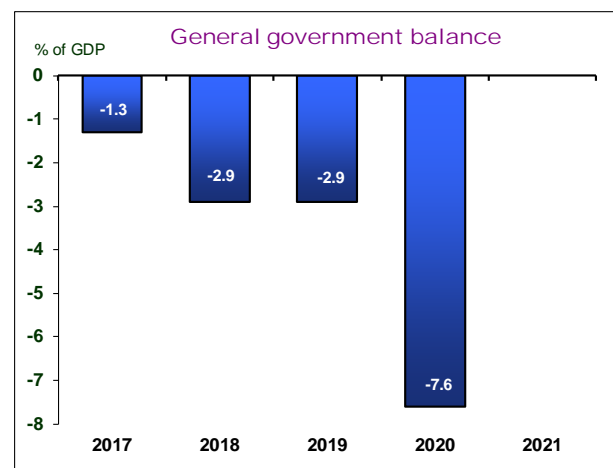
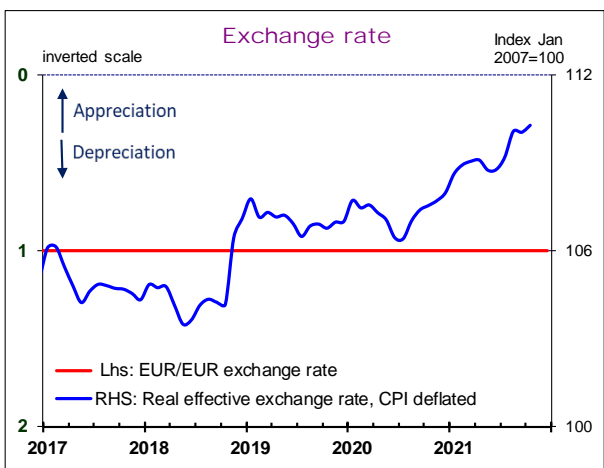
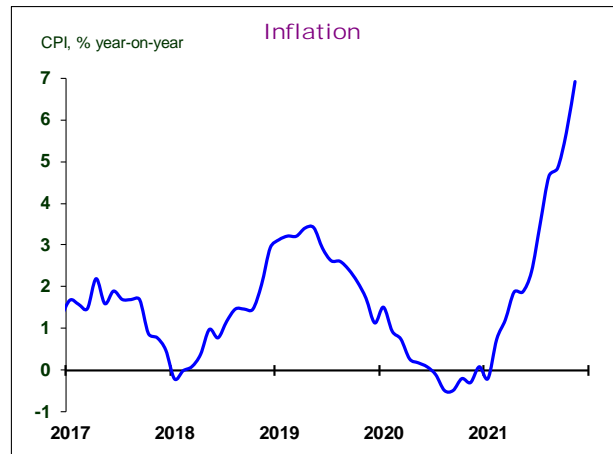
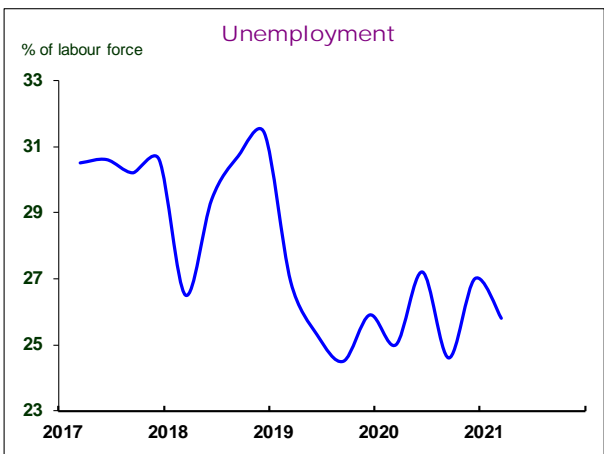
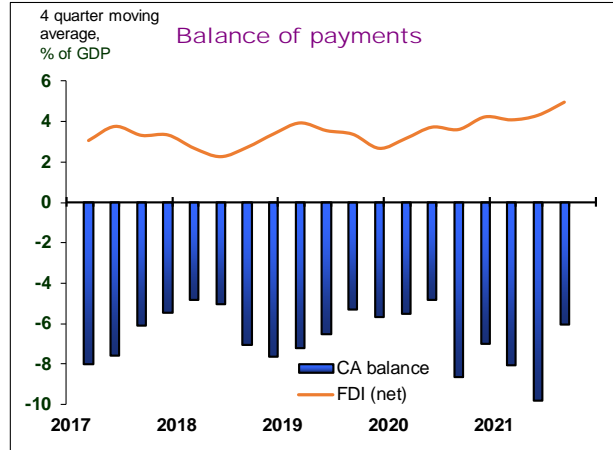
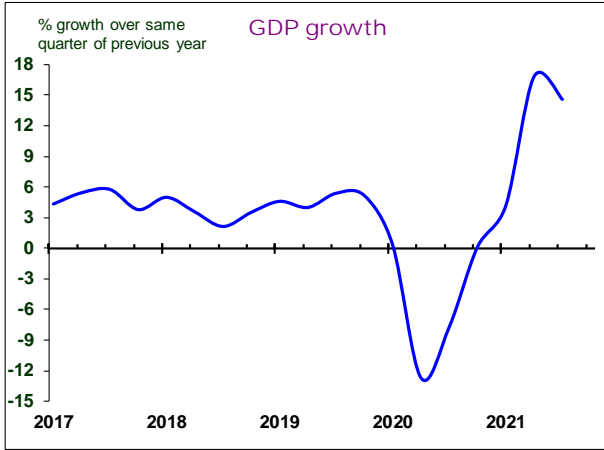
**** Q figures in percent of estimated annual GDP from the Budget Law.

CHARTS

European Commission, ECFIN-D-1



KOSOVO*



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Economic sentiment indicator	Economic Survey Index, SA	Bank of Albania
1.2.	Industrial production	Industrial production volume index	INSTAT
1.3.	Gross domestic product	Annual percentage change, volume	INSTAT
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	INSTAT
1.6.	Construction index	Annual percentage change, volume index of construction	Eurostat
1.7.	Retail sales	Annual percentage change of index	Eurostat
2. Labour market			
2.1.	Unemployment	Unemployment rate of the age group between 15-64	INSTAT, LFS
2.2.	Employment	Annual percentage change of employed persons age 15-64	INSTAT, LFS
2.3.	Wages	Average monthly wages	INSTAT
3. External sector			
3.1.	Exports of goods	Annual percentage change of global exports, trade in mio. EUR	Eurostat
3.2.	Imports of goods	Annual percentage change of global imports, trade in mio. EUR	Eurostat
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.7.	Direct investment (FDI, net)	In percent of GDP, Q figures refer to a 4 quarters moving average	Bank of Albania
3.8.	Reserves, International reserves of the Bank of Albania	Net foreign assets, total, mio EUR.	Bank of Albania
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	Bank of Albania
4. Monetary developments			
4.1.	CPI	Consumer Prices, all items, year-on year percentage change	INSTAT
4.2.	Producer prices	Year on Year percentage change of index	INSTAT
4.3.	Food prices	Year on Year percentage change of index "Food and Non-alcoholic Beverages"	INSTAT
4.4.	M3	Year on Year percentage change	Bank of Albania
4.5.	Exchange rate ALL/EUR	Period average	Bank of Albania
4.6.	Real effective exchange rate	Index 2007 = 100, CPI deflated, ALL	Bruegel Inst.
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, TRIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Interest rate, 36 months deposits in ALL	Bank of Albania
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change of stock, loans, total	Bank of Albania
5.5.	Deposit growth	Annual percentage change of stock, total	Bank of Albania
5.6.	Non-performing loans	Of total loans in %	Bank of Albania
6. Fiscal developments			
6.1.	General government balance	Net lending annual /cash balance, in percent of GDP	Albanian Min. of Finance
6.2.	General government debt	Gross public debt in percent of annual GDP	Albanian Min. of Finance



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



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Total, Index, CPPY=100	MacroBond
1.3.	Gross domestic product	Annual percent change at constant (average) prices 2002 Production approach	MacroBond
1.4.	Private consumption	Annual percent change , Real Individual Consumption Expenditure, Household Sector (ESA2010) (2010), NSA	MacroBond
1.5.	Gross fixed capital formation	Annual percent change, Real Gross Fixed Capital Formation (ESA2010) (2010), NSA	MacroBond
1.6.	Construction index	Annual pc change, Value Index of Performed Works, Total CPPY=100, NSA	MacroBond
1.7.	Retail sales	Annual pc change, retail trade turnover, constant prices, CPPY=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition. Data as of 2021 according to new LFS methodology, data prior to 2021 revised according to new methodology	MacroBond
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	MacroBond
2.3.	Wages	Gross wages annual percentage change; average growth rate, nominal	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	MacroBond
3.8.	International reserves NBS	Total, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer Prices, Total, CPPY, average	MacroBond
4.2.	Producer prices	Annual average percentage change, domestic market	MacroBond
4.3.	Food prices	Annual pc, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M3	Annual percentage change, M3 (broad money), RSD	MacroBond
4.5.	Exchange rate RSD/EUR	Spot Rates, close, period average	MacroBond
4.6.	Real effective exchange rate	Index 2005 = 100, period average, RSD	MacroBond
5. Financial indicators			
5.1.	Interest rate	Interbank Rates, BELIBOR, 3 Month, fixing	MacroBond
5.2.	Bond yield	Weighted average interest rate on 7Y RSD government bonds	NBS
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, RSD	MacroBond
5.4.	Credit growth	Annual percentage change, domestic credit, private, RSD	MacroBond
5.5.	Deposit growth	Annual percentage change, deposits, nonmonetary sector, total, RSD	MacroBond
5.6.	Non-performing loans	Gross Non-Performing Loan Ratio	MacroBond
6. Fiscal developments			
6.1.	General government balance	Consolidated GG, Overall balance. In percent GDP	Min. of Finance
6.2.	General government debt	Central government debt. In percent of GDP	Min. of Finance



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



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



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change	CB Kosovo
1.3.	Gross domestic product	Annual percentage change	Statistical Office of Kosovo (SOK)
1.4.	Private consumption	Annual percentage change	SOK
1.5.	Gross capital formation	Annual percentage change	SOK
1.6.	Construction index	Not available	
1.7.	Retail sales	Wholesale Trade and Retail Sales, Retail Trade Turnover Value Index, Retail Sale in Non-Specialised Stores, 2013=100, NSA	MacroBond
2	Labour market		
2.1.	Unemployment	In percent of total labour force	SOK
2.2.	Employment	Annual pc change of number of employees, LFS 2012 onwards	MacroBond
2.3.	Wages	Annual pc change, average monthly wages (Tax Register)	SOK
3.	External sector		
3.1.	Exports of goods	Annual percentage change, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade in goods balance	In percent of GDP, Q figures refer to a 4 quarters moving average	SOK
3.4.	Exports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	Central Bank of Kosovo
3.5.	Imports goods and services	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.6.	Current account balance	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Q figures refer to a 4 quarters moving average	CB Kosovo
3.8.	Reserves, International reserves of the National Bank	CBAK Survey, claims on non-residents, mio EUR	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods and services moving average	MacroBond
4.	Monetary developments		
4.1.	CPI	Annual average percentage change, index (May 2002 = 100)	MacroBond
4.2.	Producer prices	Annual percentage change, total, 2007=100	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, CPPY=100	MacroBond
4.4.	M2	Annual percentage change, M2 (deposits included in broad money)	MacroBond
4.5.	Exchange rate EUR/EUR	Not applicable	
4.6.	Real effective exchange rate	Index 2007=100, CPI deflated	SOK
5.	Financial indicators		
5.1.	Interest rate	Short-Term Treasury Bills yield	MacroBond
5.2.	Bond yield	Long-Term Bonds, over 5 Years up to 10 Years, Yield	Central Bank of Kosovo
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, ODC balance sheet, assets, gross loss and lease financing	MacroBond
5.5.	Deposit growth	Annual percentage change, ODC deposits	MacroBond
5.6.	Non-performing loans	In percent of total	CB Kosovo
6.	Fiscal developments		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance

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

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