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European Commission
Directorate-General for Economic and Financial Affairs

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

1st Quarter 2019

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

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Contents

OVERVIEW	5
ALBANIA	9
MONTENEGRO	13
NORTH MACEDONIA	17
SERBIA	21
TURKEY	25
BOSNIA AND HERZEGOVINA	29
KOSOVO*	33

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

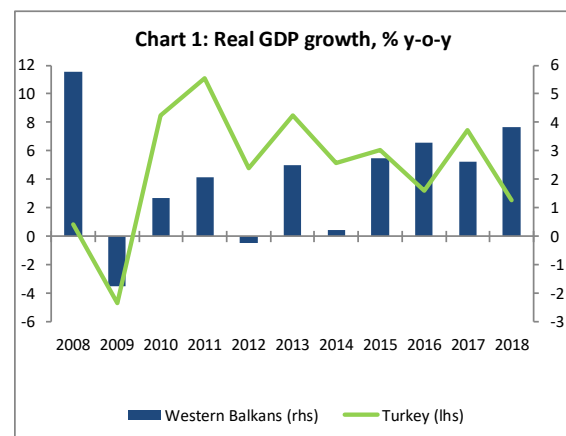
OVERVIEW

The economic upswing strengthened further in the **Western Balkans** during 2018 with the region recording a growth rate of 3.8%, the highest in a decade. This economic performance was mainly driven by a notable acceleration of annual GDP growth in Serbia, the largest economy in the region. Private consumption and investment continued to support economic activity. The region's current account deficit remained almost unchanged at 5.4% of GDP, suggesting that external positions in many economies remain vulnerable. Economic expansion led to further job creation but at a slower pace compared to the previous year. Unemployment rates declined in all countries but remained high, in particular for women and the youth. In general, fiscal balances in the region met the targets or even over-performed them. However, high public debt levels remain a source of vulnerability in many countries. In **Turkey**, economic growth decelerated markedly during 2018 to 2.6% as domestic demand plummeted following the August currency crisis and the resulting tightening of financial conditions. The pass-through of the lira depreciation pushed inflation up while the economic rebalancing resulted in a sharp adjustment of the current account deficit which shrunk significantly.

Economic growth in the **Western Balkans** reached 3.8% in 2018, up from 2.6% in 2017 (Chart 1), largely due to strengthening economic activity in Serbia, the largest economy in the region. Serbia's output growth accelerated markedly to 4.3% (the highest annual growth rate in a decade) from 2.0% in 2017, driven by strong domestic demand. In Albania, GDP grew by 4.1%, up from 3.8%, mainly on the back of private consumption. North Macedonia recorded the strongest recovery. Despite a contraction in investment, output growth accelerated to 2.7% from 0.2% in 2017, mainly driven by strong net exports and private consumption. In Montenegro, the economy expanded by 4.9%, slightly up from 4.7%, with investment as the main growth driver. Conversely, annual output growth decelerated in Kosovo and Bosnia Herzegovina, to 3.9% and 3.1% respectively, mainly due to a weaker growth of exports. In the case of Kosovo, economic growth was mainly supported by investment while in the case of Bosnia and Herzegovina by private consumption.

In **Turkey**, GDP growth decelerated sharply during 2018, to 2.6% compared to 7.4% in the previous year, as the economy entered a recession in the second half of the year with domestic demand falling

sharply following last August's currency crisis.

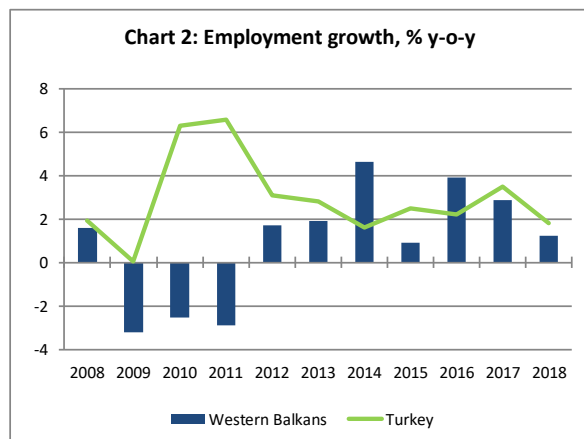


Source: Macrobond, Commission calculations

The labour market situation in the **Western Balkans** remains challenging. Despite strong economic growth, the pace of job creation slowed down in most countries of the region in 2018 compared to the previous year. Employment growth decelerated in Serbia, Albania and Bosnia and Herzegovina while Kosovo recorded a decline in the level of employment. Conversely, job creation accelerated in Montenegro and North Macedonia. The average rate of employment growth fell to 1.2% across the region in 2018 from 2.9% in 2017 (Chart 2). Growing employment levels contributed to a drop in unemployment rates in all countries in the region in 2018. The decline was particularly

significant (at least 2 pps) in *Bosnia and Herzegovina*.

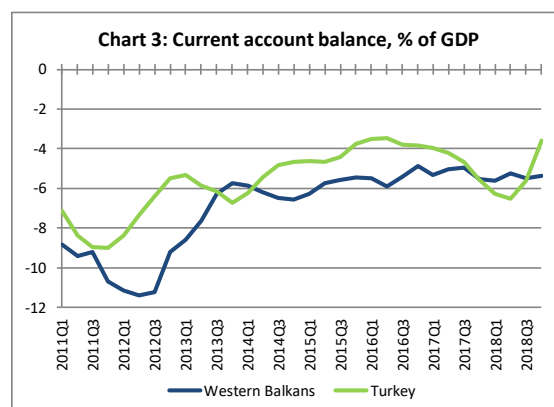
In *Turkey*, the labour market softened in 2018 in line with the economic slowdown. Employment growth decelerated to 1.8% from 3.5% in 2017 and the unemployment rate rose marginally, to 11.2% from 11.1% one year earlier.



Source: Macrobond, Commission calculations

As a result of narrow production bases and competitiveness challenges, merchandise trade deficits remain very high across the *Western Balkans*, ranging from 13% of GDP for *Serbia* to 16% or above for *North Macedonia*, *Albania* and *Bosnia and Herzegovina* and equal to 44% or above for *Montenegro* and *Kosovo*. Surpluses in the services account and in current transfers only partially offset the merchandise trade deficits, resulting in large foreign financing needs. External developments in the region during 2018 point to a rather diverse picture. Compared to the year before, the current account deficit widened in *Montenegro* and *Kosovo* whereas it narrowed in *North Macedonia*, *Albania* and *Bosnia and Herzegovina*. In *Serbia*, the current account deficit as a percentage of GDP stood at the same level as in 2017. Overall, the regional current account deficit stood at 5.4% of GDP in 2018 (Chart 3), broadly unchanged compared to a year before. On a positive note, the current account deficits in the *Western Balkans* continue to be financed predominantly by net inflows of FDI.

In *Turkey*, the current account deficit shrunk significantly in 2018, to 3.6% of GDP, down from 5.6% in 2017. This was mainly driven by a steep fall in import demand in the second half of the year, but export performance was also favourable. As opposed to the Western Balkan countries, the financing of the current account deficit in Turkey continues to rely on more volatile forms of capital flows.



Source: Macrobond, Commission calculations

Despite stronger domestic demand and higher food prices, consumer price inflation remained moderate in the *Western Balkans* in 2018, allowing for a continued monetary policy accommodation in countries with an independent monetary policy. In *North Macedonia* and *Bosnia and Herzegovina*, annual CPI inflation decelerated to 1.1% and 0.9% respectively, in February while in *Montenegro* the headline price level remained unchanged. Regarding the inflation targets, annual CPI inflation in *Albania* continued to undershoot the 3% target (at 1.8% in February) while in *Serbia*, inflation was at 2.8% in March, close to the mid-point of the target tolerance band of 3%±1.5pps. The central bank of *Serbia* has maintained its key policy rate at 3.0% since its last reduction in April 2018. The *Bank of Albania* also continued its accommodative monetary policy stance over the first months of the year by keeping its key policy rate at the historic low of 1.0%. After reducing in December its benchmark interest rate to 2.5%, the central bank of *North Macedonia* decided in March to cut the policy rate further by 25bps to the (new) historic low of 2.25%.

In *Turkey*, due to renewed lira volatility, the central bank stopped repo financing at the end of March, thereby increasing the effective policy rate from 24.0% in January 2019 to 25.0% in April. Annual CPI inflation decreased in the first quarter of 2019 to 19.9%, down from 22.3% in the previous three months.

In 2018, bank lending continued to be more supportive of growth in the **Western Balkan** region, as credit growth accelerated in *North Macedonia*, *Serbia*, *Bosnia and Herzegovina* and *Kosovo* while in *Albania* it remained unchanged in the fourth quarter (when adjusted for exchange rate changes and loan write offs). On the other hand, credit growth decelerated in *Montenegro*. As a common feature, household lending has been growing faster than corporate lending. Bank balance sheets improved further as all **Western Balkan** countries continued to reduce non-performing loans (NPLs). The NPL ratio in *Albania* declined to 11.1 % but was still the highest in the region. In *Bosnia and Herzegovina* the NPL ratio stood at 8.8% (at end-December), followed by *Montenegro* (6.9%) and *Serbia*, where it reached its lowest level on record (5.7%).

In *Turkey*, annual credit growth decelerated substantially, to 13.1% in 2018 from 21.2% in 2017, as the strong deterioration in financing conditions and weak business and household confidence in the economy took their toll on loan demand. The NPL ratio increased to 3.9% at year-end from 3.1% a year earlier.

In 2018, the economic upturn supported the reduction of fiscal deficits in most countries in the **Western Balkan** region. However, this was also partly due to under-executing capital expenditure, which points to persistent weaknesses in the

planning, selection and management of public investment across the region. In *North Macedonia*, the budget deficit declined to 1.8% of GDP, as revenues increased while expenditure was dragged down by a large drop in capital spending. In *Montenegro*, the general government deficit fell significantly, to 3.8% of GDP (but was still higher than planned), as the rise in revenues outpaced the growth of expenditure mainly due to tax rises, large dividends from public companies, and the reduction of tax arrears. In *Albania*, the budget shortfall turned out better than expected at 1.5% of GDP, largely due to underspending on investment. In *Kosovo*, the increase in tax revenue was more than offset by higher growth of both current and capital expenditure, resulting in a headline budget deficit of 2.8% of GDP. Despite the large increase in annual terms, capital expenditure lagged significantly behind plan. Mainly due to strong revenue performance, *Serbia* recorded a budget surplus for a second consecutive year (at 0.6% of GDP), outperforming its initial target of a small deficit. Continued fiscal consolidation (without, however, undermining much-needed capital spending) is necessary in a number of countries to rebuild fiscal buffers and reduce public debt levels which are very high in *Montenegro* (70.8% of GDP) and *Albania* (67.2% of GDP), still elevated in *Serbia* (53.8% of GDP) and lower but on an increasing trend in *North Macedonia* (40.5% of GDP).

In *Turkey*, the government extended the temporarily lower VAT rates on cars and other durable goods by three to nine months, and the central government budget deficit amounted to TL 36.2 bn in the first quarter of 2019. Driven by the impact of the lira depreciation on the sizeable foreign currency-denominated part of debt, general government debt increased to 34.1% of GDP in 2018, compared to 28.3% in 2017.

Candidate and potential candidate countries: Summary table

	2014	2015	2016	2017	2018	ECFIN 2018 Autumn forecast		Q3 18	Q4 18	Q1 19	Jan 19	Feb 19	Mar 19
						2019	2020						
Gross domestic product (in real terms, annual % change)													
Albania	1.8	2.2	3.4	3.8	4.1	3.9	3.9	4.7	3.1	:	N.A.	N.A.	N.A.
North Macedonia	3.6	3.8	2.9	0.2	2.7	2.8	3.1	3.0	3.7	:	N.A.	N.A.	N.A.
Montenegro	1.8	3.4	2.9	4.7	4.9	2.8	3.1	5.0	4.8	:	N.A.	N.A.	N.A.
Serbia	-1.6	1.8	3.3	2.0	4.3	3.8	3.8	4.1	3.4	:	N.A.	N.A.	N.A.
Turkey	5.2	6.1	3.2	7.4	2.6	-1.5	3.0	1.8	-3.0	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	0.7	4.1	3.4	3.4	3.1	:	:	2.7	3.0	:	N.A.	N.A.	N.A.
Kosovo	1.2	4.1	4.1	4.2	3.9	:	:	3.4	3.8	:	N.A.	N.A.	N.A.
Unemployment													
Albania	17.9	17.5	15.6	14.1	12.8	11.1	10.6	12.7	12.7	:	N.A.	N.A.	N.A.
North Macedonia	28.0	26.1	23.8	22.4	20.7	20.6	20.1	20.8	19.4	:	N.A.	N.A.	N.A.
Montenegro	18.2	17.8	18.0	16.4	15.5	14.9	14.6	14.4	16.4	:	N.A.	N.A.	N.A.
Serbia	19.2	17.7	15.3	13.5	12.7	12.0	10.9	11.3	12.9	:	N.A.	N.A.	N.A.
Turkey	10.1	10.5	11.1	11.1	11.2	12.8	12.7	11.4	12.7	:	:	:	:
Bosnia and Herzegovina	27.5	27.7	25.4	20.5	18.4	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kosovo	35.3	32.9	27.5	30.5	29.6	:	:	30.7	31.4	:	N.A.	N.A.	N.A.
Current account balance (% of GDP)*													
Albania	-10.8	-8.6	-7.6	-7.5	-6.6	-6.4	-6.4	-6.5	-6.6	:	N.A.	N.A.	N.A.
North Macedonia	-0.5	-2.0	-3.1	-1.3	-0.3	-0.9	-1.5	0.1	-0.3	:	N.A.	N.A.	N.A.
Montenegro	-12.4	-11.0	-16.2	-16.1	-17.2	-17.4	-14.5	-17.5	-17.2	:	N.A.	N.A.	N.A.
Serbia	-6.0	-4.4	-2.9	-5.2	-5.2	-7.4	-7.9	-5.6	-5.2	:	N.A.	N.A.	N.A.
Turkey	-4.7	-3.8	-3.8	-5.6	-3.6	-2.9	-3.4	-5.6	-3.6	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina	-7.1	-5.1	-4.5	-4.5	-4.0	:	:	-4.0	-4.0	:	N.A.	N.A.	N.A.
Kosovo	-6.9	-8.6	-7.9	-6.1	-8.6	:	:	-7.9	-8.3	:	N.A.	N.A.	N.A.
Inflation (Consumer price index, annual % change)													
Albania	1.6	1.9	1.3	2.0	2.1	2.6	2.8	2.2	1.9	1.7	2.0	1.8	1.2
North Macedonia	-0.3	-0.3	-0.3	1.4	1.5	2.0	2.1	1.6	1.2	:	1.2	1.1	:
Montenegro (HICP)	-0.5	1.4	0.1	2.8	2.9	2.5	1.9	2.4	1.7	:	0.3	0.3	:
Serbia	2.1	1.4	1.1	3.1	2.4	2.9	3.0	2.4	2.0	:	2.0	2.4	2.8
Turkey	8.9	7.7	7.8	11.1	16.3	15.4	12.4	19.4	22.4	19.9	20.4	19.7	19.7
Bosnia and Herzegovina	-0.9	-1.0	-1.6	0.8	1.4	:	:	2.1	1.7	:	1.5	0.9	:
Kosovo	0.4	-0.5	0.3	1.5	1.1	:	:	1.4	2.2	:	3.1	3.2	N.A.
General government balance (% of GDP)													
Albania**	-5.2	-4.1	-1.8	-2.0	-1.6	-1.9	-1.7	0.2	-1.6	:	:	:	:
North Macedonia***	-4.2	-3.5	-2.7	-2.7	-1.8	-2.6	-2.3	-1.4	-2.6	:	N.A.	N.A.	N.A.
Montenegro**	-2.9	-8.3	-3.6	-5.3	-3.8	-1.6	2.4	1.4	-3.1	:	:	:	:
Serbia***	-6.6	-3.5	-1.2	1.1	0.6	-0.3	-0.5	1.6	-1.7	:	N.A.	N.A.	N.A.
Turkey***	0.2	0.6	-1.1	-2.8	-3.8	-1.9	-2.2	-0.2	-0.8	:	N.A.	N.A.	N.A.
Bosnia and Herzegovina***	-2.0	0.7	1.2	2.6	:	:	:	:	:	:	N.A.	N.A.	N.A.
Kosovo (Source: IMF)	-2.2	-2.0	-1.2	-1.3	-2.8	:	:	:	:	:	N.A.	N.A.	N.A.

Forecast: ECFIN forecast Autumn 2018 published November 2018

* Q figures refer to a 4 quarters moving average.

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

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



Key developments

Albania submitted its Economic Reform Programme (ERP) for 2019-2021 timely in January 2019. The ERP projects economic growth to accelerate to 4.5% by 2021, based on strong private domestic demand. Public debt is projected to fall from 67% to below 60% of GDP by 2021, helped by growing primary surpluses over the ERP period.

S&P affirmed its B/B+ rating of Albania with a stable outlook, reflecting improvements in the rule of law and the continuing fiscal consolidation. They noted that Albania performs fiscally better than other countries of the same rating. A rating upgrade would be subject to an accelerated fiscal consolidation and reduction of informality. A weakening of the fiscal consolidation or the monetary policy transmission could in turn risk a negative rating reaction.

In January, Albania took over the chairmanship of CEFTA and announced its commitment to push for intra-regional trade facilitation and free flow of investment.

Real sector

Albania's real GDP growth decelerated strongly, to 3.1 % y-o-y in the fourth quarter, after growing by 4.4% in the first three quarters of 2018. This brings economic growth in 2018 to a still strong annual rate of 4.1%. On the demand side, private consumption became the strongest growing component in the fourth quarter (+2.8% y-o-y) while government consumption continued on its downward path and shrank by 1.1 % y-o-y. Gross fixed capital formation grew by 1.6% y-o-y, a slower pace than in the third quarter, while its growth over 2018 is estimated to have reached 2.8%.

Despite very strong commodity exports, overall exports of goods and services recorded a much lower nominal annual growth in 2018 (5.3%) than in 2017 (14.7%), mainly due to a decline in service exports, after two subsequent years of very high growth. Exports decreased their share of GDP slightly to 31.5%, 0.5 pps below their corresponding level in 2017. Import growth also decelerated, to 2.4% y-o-y, and imports' share in GDP declined by almost 2 pp to 45% compared to 2017.

Monthly merchandise trade data show a slowdown in foreign trade in January 2019 y-o-y, possibly related to a drop in hydro-electricity exports and the extraordinary high investment related imports in 2018.

On the supply side, electricity and water production, which contributed significantly to GDP growth in the first 9 months of 2018, continued decelerating in the fourth quarter. However, as in particular mining picked up strongly, industry overall still contributed 1.1 pps to GDP growth in October-December, thus remaining the strongest growth-contributing sector of the economy. The second largest contribution came from aggregated services, mainly trade and travel related. In contrast, the growth of the construction sector slowed down as did agriculture.

Labour market

The labour market reflected the overall economic expansion, but the economic slowdown in the fourth quarter also slowed down employment growth for the 15-64 age group, to 1.4%. Job creation in the non-agricultural private sector slowed down in particular. However, youth employment growth (15-29) continued at a high pace of 25% y-o-y. Youth unemployment remains high but it continued declining, by 2.3 pp y-o-y to 22.3% in the fourth quarter. The overall unemployment rate remained stable at 12.7% for the first time after declining continuously for three years. The labour force participation rate continued on its upward trend and rose to 68.7 % in the fourth quarter compared to 67.4 % a year earlier. The overall positive labour market developments began narrowing the gap between male and female labour force participation, to a still large 16.3 pps.

Wages picked up in the last quarter of 2018 and grew by 3.4% in annual terms. Private sector wages grew by 3.6% y-o-y, driven by wage increases for technicians and professionals as a result of strong demand for skilled labour. Public sector wages grew less than in the private sector, by 2.4% y-o-y. The minimum wage in Albania has been increased by 8.3% to Lek 26,000 per month as from 1 January 2019.

External sector

The current account deficit narrowed by almost 1 pp. from 7.5% of GDP in 2017 to 6.6% of GDP in 2018. This reflects mainly a lower trade deficit which decreased by 2 pp to 22.3% of GDP, whereas the surplus of the services balance decreased slightly, by 0.7 pp to 8.6% of GDP. The primary account balance turned slightly negative from 0.25% of GDP to -0.8% of GDP from decreasing government related investment income and the secondary account surplus decreased slightly by 0.2 pp to 7.2% of GDP due to a decline in remittances. Foreign direct investment inflows picked up strongly in the fourth quarter compared to one year earlier, keeping FDI as a share of GDP at close to 8% in 2018. FDI inflows therefore remained a major financing source of the current account deficit, covering almost 120% of it. Gross external debt slightly increased in the fourth quarter, to EUR 8.3 billion, corresponding to estimated 63.3 % of GDP. Foreign exchange reserves increased again strongly by 9.3% y-o-y to EUR 3.4 billion and corresponded to 6.5 months of imports of goods and services in the fourth quarter.

Monetary developments

The exchange rate of the Lek halted its appreciative trend against the euro and fell slightly in early 2019. Over 2018, the Lek strengthened by 7.4% but by end of March 2019 the currency depreciated by 1.3% compared to end-2018. The slight depreciation of the currency has not yet passed through to the inflation rate, which continued trending downwards, from 1.9% y-o-y in the last quarter of 2018 to 1.7% y-o-y in the first quarter of 2019. The inflation rate thus remains well below the Central Bank's target of 3%, which the Bank expects to reach in 2020. The central bank continued its accommodative monetary policy stance and kept the policy rate at the historic low of 1%.

Financial sector

Banking sector consolidation continued, bringing the number of banks from 16 at the beginning of 2018 to 13 in March 2019. The capital adequacy ratio in the banking sector remained stable at 18.2 % at the end of 2018. The ratio of non-performing loans (NPLs) to

total loans continued declining, to 11.3% in January 2019, supported by an increasing contribution of repayments in addition to write-offs.

In the last quarter of 2018, lending to the private non-financial business sector showed signs of recovery, with national currency loans growing by 6.3 % y-o-y. Lending to households continued growing at a slightly decelerated pace (7.3 % y-o-y). Credit standards of commercial banks for enterprises remained unchanged in the fourth quarter of 2018, while standards for households continued to ease. Average interest rates slightly declined for both, for households from 7.1% to 6.9% and for private enterprises to from 6.6% to 6.5%. Adjusting for the effect of loan write-offs and the appreciation of the Lek, the average overall growth rate of private sector credit (including foreign currency portfolios) remained stable at around 5% y-o-y in the fourth quarter. Deposits grew by 1.1% in the same period, showing structural maturity shifts towards demand deposits which made up 44% of the total stock of deposits by the end of December 2018.

Fiscal developments

The 2018 budget deficit, estimated at 1.5% of GDP has turned out lower than planned, mostly due to lower than expected capital spending. Expenditure grew by 2.8% over 2018, lower than revenues, which grew 4.4% but both performed below the growth rates of 2017. Overall public expenditure as a share of GDP fell by almost 1 pp., from 29.7% to 28.8%, and revenues from 27.7% to 27.3%, due to very low outturn of VAT and customs from imports.

In the first two months of 2019, tax revenues increased by 2.2 % y-o-y broadly in line with the budget plan. Total expenditures increased by 5.8% compared to the same period last year but capital expenditure in particular remained significantly below the budget plan.

For 2019, the budget foresees a budget deficit of 1.9% of GDP based on tax revenue growth of 5.5% and expenditure growth of 5.1% compared to the original plans for 2018.

Supported by the currency appreciation, public debt declined by 2.9 pp y-o-y to 67.2% of GDP at the end of 2018, almost 2 pps lower than envisaged. For 2019, public debt is planned to be reduced to 65.5% of GDP.

TABLE



European Commission, ECFIN-D-1

ALBANIA

		2014	2015	2016	2017	2018	ECFIN 2018 Autumn forecast		Q3 18	Q4 18	Q1 19	Jan 19	Feb 19	Mar 19
							2019	2020						
1 Real sector														
Industrial confidence ^{1.1}	Percent	-6.9	-5.4	-3.7	1.5	-2.0	:	:	-1.0	-1.3	-1.9	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	5.3	-16.4	-31.7	11.1	13.4	:	:	-25.0	3.5	:	N.A.	N.A.	N.A.
Gross domestic product ^{1.3}	Ann. % ch	1.8	2.2	3.4	3.8	4.1	3.9	3.9	4.7	3.1	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.8	0.9	2.6	2.7	3.7	3.7	3.7	3.5	2.8	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-4.5	3.5	3.3	6.5	0.8	4.1	4.6	4.5	1.9	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	4.0	16.3	5.1	20.6	7.1	:	:	12.0	8.0	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	4.2	5.6	6.2	1.7	3.0	:	:	3.7	3.2	:	:	:	:
2 Labour market														
Unemployment ^{2.1}	%	17.9	17.5	15.6	14.1	12.8	11.1	10.6	12.7	12.7	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	1.6	4.9	6.1	2.7	2.1	0.6	1.3	1.9	1.4	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	:	5.2	-0.8	3.0	3.3	:	:	2.4	3.4	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	4.3	-5.5	3.2	14.7	20.0	:	:	14.9	17.1	:	0.2	N.A.	N.A.
Imports of goods ^{3.2}	Ann. % ch	7.3	-1.5	7.7	11.3	8.8	:	:	4.9	8.7	:	0.9	N.A.	N.A.
Trade balance* ^{3.3}	% of GDP	-22.1	-22.3	-24.3	-24.3	-22.3	-20.8	-20.6	-22.7	-22.3	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	28.2	27.3	29.0	31.6	31.3	:	:	34.3	34.1	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	47.2	44.5	45.8	46.6	44.9	:	:	49.2	49.0	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-10.8	-8.6	-7.6	-7.5	-6.6	-6.4	-6.4	-6.5	-6.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	8.2	8.0	8.7	8.6	7.9	:	:	7.8	7.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	2,192.0	2,880.0	2,945.0	2,996.0	3,399.0	:	:	3,107.0	3,399.0	:	3302.4	3288.8	:
Int. reserves / months Imp ^{3.9}	Ratio	5.3	6.9	7.0	6.7	6.5	:	:	5.8	6.5	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	1.6	1.9	1.3	2.0	2.1	2.6	2.8	2.2	1.9	1.7	2.0	1.8	1.2
Producer prices ^{4.2}	Ann. % ch	:	:	-1.5	2.8	1.6	:	:	2.8	0.5	:	:	:	:
Food prices ^{4.3}	Ann. % ch	2.1	4.1	3.3	4.03	2.9	:	:	3.0	2.4	3.8	4.8	4.2	2.3
M2 ^{4.4}	Ann. % ch	4.2	0.1	1.9	0.3	-1.0	:	:	0.3	-1.0	:	0.9	1.1	:
Exchange rate LEK/EUR ^{4.5}	Value	140.14	137.28	135.23	132.95	123.42	:	:	126.3	123.4	125.3	124.4	124.6	125.0
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	3.10	2.87	1.13	:	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	3.45	2.77	2.05	2.07	2.20	:	:	2.50	2.05	:	2.08	2.03	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	0.2	0.3	-0.7	-0.1	-1.7	:	:	-2.9	-3.4	:	-2.6	-1.5	:
Deposit growth ^{5.5}	Ann. % ch	1.5	1.9	1.1	1.0	-1.2	:	:	-1.0	-1.1	:	0.3	1.1	:
Non performing loans ^{5.6}	% total	22.8	18.2	18.3	13.2	11.1	:	:	12.9	11.1	:	11.3	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-5.2	-4.1	-1.8	-2.0	-1.6	-1.9	-1.7	0.2	-1.6	:	:	:	:
General government debt** ^{6.2}	% of GDP	70.1	72.7	72.4	70.1	67.1	67.6	65.2	67.5	68.1	:	N.A.	N.A.	N.A.

f. ECFIN forecast Autumn 2018 published November 2018

* Q figures refer to a 4 quarters moving average.

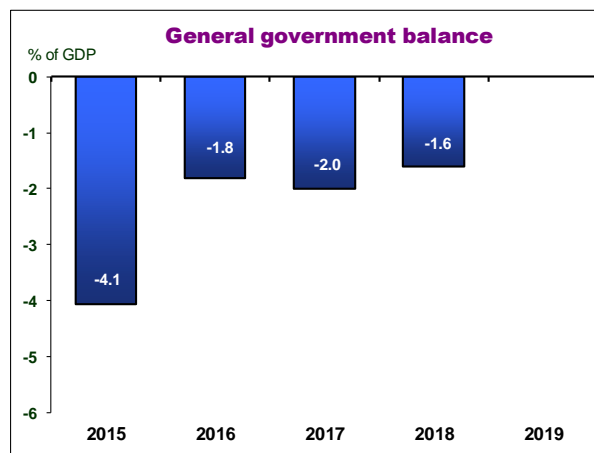
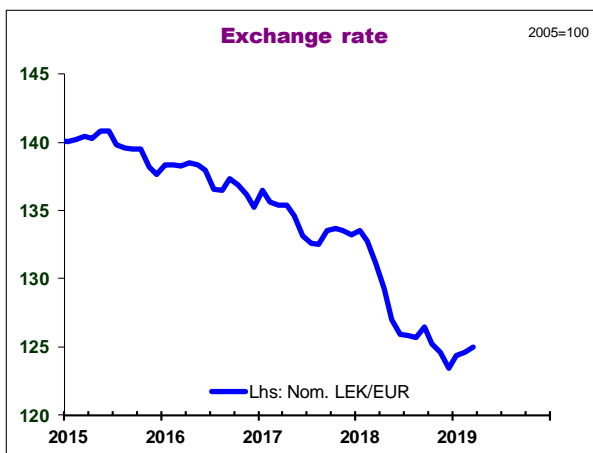
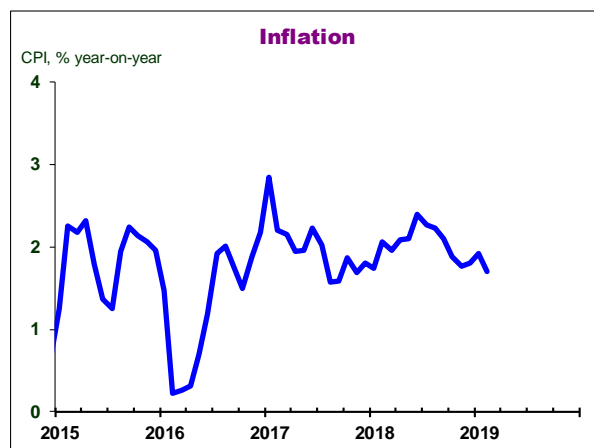
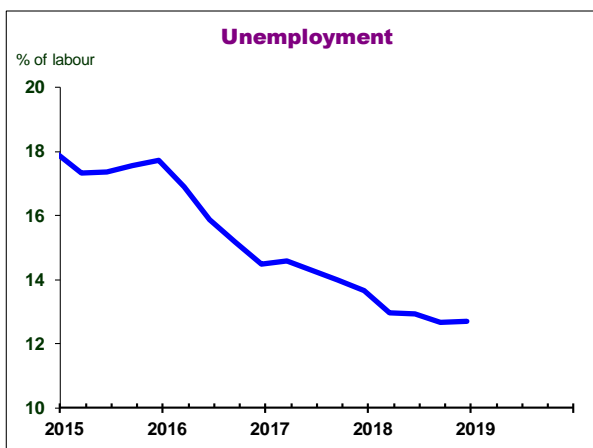
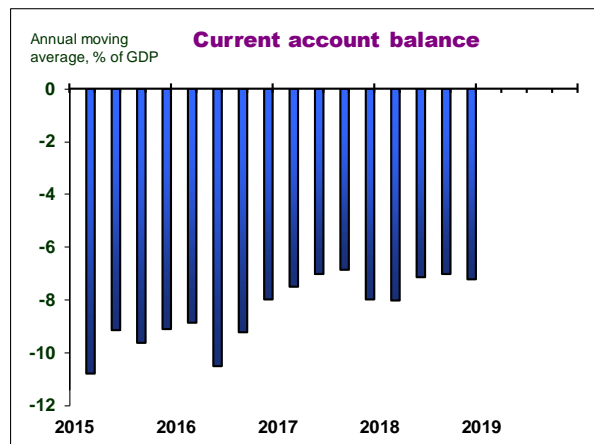
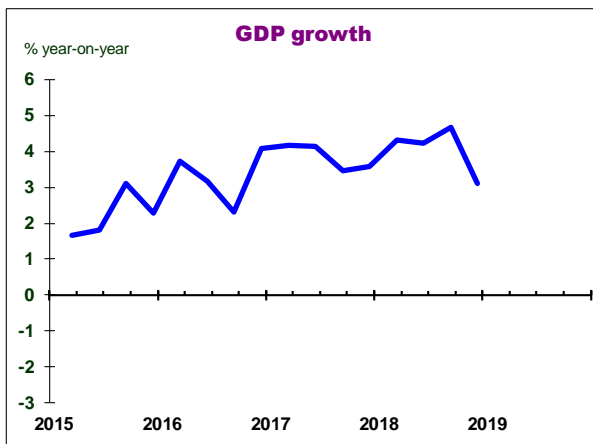
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

CHARTS



European Commission, ECFIN-D-1

ALBANIA





Key developments

On 31 January 2018, Montenegro submitted to the European Commission its Economic and Reform Programme (ERP) for 2019-2021. The ERP projects a reasonably cautious baseline scenario of moderating public investment and consumption, which would dampen output growth to 2.5% on average over the programme horizon. Although fiscal policy targets have been softened, the ERP expects the completion in 2020 of the first section of the Bar-Boljare highway to turn the budget into surplus and reduce the public debt ratio from its peak of over 70% of GDP.

On 15 March 2019, Standard & Poor's affirmed Montenegro's B/B long- and short-term sovereign credit ratings and the stable outlook. According to the agency, the ratings remain constrained by the high public debt, a large current account deficit and the lack of monetary flexibility. The agency remains sceptical that government fiscal consolidation targets will be reached.

On 5 April 2019, the Central Bank of Montenegro initiated a bankruptcy procedure for Atlas Bank after attempts for its recapitalisation failed. Atlas Bank's market share totalled 5.3% in term of assets at the end of 2018. Total deposits in the bank amounted to €189 million, out of which €89 million are guaranteed by the Deposit Protection Fund.

Real sector

The economy keeps recording strong growth in spite of a high but flat level of investment. GDP expanded by robust 4.8% y-o-y in the last quarter of 2018, easing from 5.0% y-o-y in the previous quarter, while gross fixed capital formation stagnated in real terms, a strong contribution from private consumption (by 3.4 pps) supported the rapid expansion of the economy. This development was possible thanks to strong credit growth and the extension of the successful tourism season beyond the summer period. Fiscal consolidation efforts eased in the last quarter of the year, resulting in a 4.5% y-o-y expansion in government consumption. The expansion of domestic demand fuelled the growth in imports of goods and services, which

reached 7.3% y-o-y and resulted in a negative contribution from net exports to economic growth. Overall, GDP grew by 4.9% in 2018, up from 4.7% a year before.

On the supply side, GDP growth was supported by a 17.6 y-o-y surge of industrial output in the fourth quarter of 2018. However, in the first two months of 2019, industrial production output reversed, contracting by 27.2% y-o-y on average. The sharp decline came on the back of base effects from the utilities sector, which contracted by 20.5% y-o-y in the first two months. In contrast, manufacturing output recovered, growing by 5.6% y-o-y in February after falling by 2.6% in the previous month. Also, output of the mining sector recovered in February, rising by 23.4% y-o-y thanks to increased metal ore production.

Although net wage growth remains weak, bank lending to households and employment growth continued to support domestic demand. The growth of retail sales decelerated to 4.8% in 2018, down from 5.2% in the previous year. However, sales rebounded in early 2019, growing in January and February by 5.1% and 6.5% y-o-y respectively.

Labour market

The extension of the tourism season beyond the summer period had a mitigating impact on labour market performance. According to the Labour Force Survey, employment witnessed the fastest annual expansion in the last five years, surging by 7.2% y-o-y in the last quarter of 2018. However, in quarterly terms, employment contracted by 3.4% (or 8,200 jobs less) compared to the third quarter, due to lower opportunities for seasonal jobs. Meanwhile, following a seasonal pattern, the unemployment rate increased to 16.4% in the last quarter, bouncing back from a record-low level of 14.4% in the previous three months, but still marking some improvement compared to the 17.4% rate in the last quarter of 2017. Youth unemployment remains high at 36.2%, a marked deterioration compared to the 31.7% level a year earlier. According to the Employment Office of Montenegro, the unemployment rate reached 17.9% at the end of 2018 and declined to 16.6% in March 2019.

High unemployment combined with public sector wage restraint put a lid on overall wage growth. In 2018, the average gross wage virtually stagnated (0.1% y-o-y) and contracted by 2.8% y-o-y in real terms. In early 2019, nominal wage growth started recovering, expanding by 0.8% y-o-y in February, equivalent to 0.5% y-o-y in real terms. Construction sector salaries were the main driver of this recovery, increasing by nominal 5.7% y-o-y in February, while, public sector wages grew by 0.3% y-o-y in the month. On 4 April, the government authorised its representatives in the Social Council to negotiate a 15% increase in the minimum wage.

External sector

The very high current account deficit continued widening in spite of strong tourism revenue. It rose to 17.2% of GDP in 2018 from 16% a year before. This was mainly due to a fast growing merchandise trade gap, as the increase in imports (by 10.9 % y-o-y, reaching 53.8% of GDP) outweighed even the fast 14.7% y-o-y growth of exports (which only amounted to 9.4% of GDP). Another record-high tourism season boosted the surplus in the balance of services to 20.3% of GDP, when the primary and secondary income balances also recorded surpluses of 1.2% and 5.7% of GDP, respectively. Net FDI plummeted in 2018 by 32.4% over the year, driven by high outflows from the repayment of inter-company debt and the withdrawal of equity investment following the sale of the electric company shares by its foreign owner. As a result, net FDI fell to 7.1% of GDP, financing only 41.3% of the current account deficit, the rest being covered by net inflows of portfolio investment and loans.

Monetary developments

Fiscal policy drove consumer price inflation in 2018. While stagnating wages and low food prices generated little upward pressure on prices, the increase in VAT and excise tax rates at the beginning of the year pushed the average index of consumer prices up to 2.8%. Fading base effects resulted in a deceleration of inflation in the beginning of 2019. In January and February, prices recorded a weak growth of 0.3% y-o-y. Food prices accelerated to 2.7% y-o-y in February and were the main driver of inflation. In contrast, alcohol and tobacco prices declined by 6.6% y-o-y in February.

Financial sector

Credit growth returned to double-digit growth in early 2019 after a temporary deceleration in the fourth quarter of 2018. The growth of bank loans accelerated to 12.0% y-o-y in February 2019, from 10.2% in January, picking up from a 8.5% expansion in the last quarter of 2018. At the end of February, the total stock of bank loans accounted for 62.9% of GDP, a marginal increase compared to 62.8% of GDP level a year before. The recent increase largely reflects the strong performance of household lending (up by 12.2% y-o-y in the first two months of the year), but also non-financial corporate loans (up by 7.4% during the same period). The ratio of non-performing loans recorded some further improvement, declining to 6.1% of total loans in February, compared to 7.3% a year before.

After decelerating 5.6% y-o-y in January, bank deposits grew by 7.6% y-o-y in February. However, the bankruptcy of two small domestic banks had a negative impact on households and resident corporate deposits, falling by 3.8% and 1.9% y-o-y, respectively in the first two months of the year. In contrast, non-residents' deposits (which account for 23.6% of the total), rose by 11.3% y-o-y during the same period.

Markets weakened in early 2019. After surging by 210% y-o-y in 2018, turnover in Montenegro's stock market sunk by 66.4% y-o-y in the first quarter of 2019 to €1.8 million.

Fiscal developments

The budget deficit declined significantly in 2018 compared to one year earlier, but deficit targets were missed by a wide margin. Total revenues grew by 10% y-o-y thanks to higher VAT and excise tax rates, dividends from public companies and recovery of tax arrears. Total expenditure increased by 6.5% year-on-year. Under-execution of capital spending (by 6.8%) was offset by higher-than-planned increases of the wage bill and transfers to education and health institutions. Overall, the general government deficit totalled 3.8% of GDP in 2018, overshooting the deficit target of both the original and the revised budget (1.6% and 2.2% of GDP respectively).

At the end of 2018, public debt rose to 70.8% of GDP, up from 64.2% a year earlier. The increase was driven by a build-up of deposits (to 6% of GDP) to service upcoming financial obligations.

TABLE



European Commission, ECFIN-D-1

MONTENEGRO

		2014	2015	2016	2017	2018	ECFIN 2018 Autumn forecast		Q3 18	Q4 18	Q1 19	Jan 19	Feb 19	Mar 19
							2019	2020						
1 Real sector														
Industrial confidence ^{1.1}	Balance	11.1	9.8	3.0	4.5	5.5	:	:	7.3	-0.8	3.6	-1.4	4.7	7.5
Industrial production ^{1.2}	Ann. % ch	-10.5	7.9	-2.1	-4.3	23.6	:	:	12.2	17.6	:	-25.6	-28.8	:
Gross domestic product ^{1.3}	Ann. % ch	1.8	3.4	2.9	4.7	4.9	2.8	3.1	5.0	4.8	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	2.9	2.2	5.4	3.9	4.5	1.6	1.8	3.5	4.7	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-2.5	11.9	38.4	18.7	14.8	11.2	3.0	15.4	0.0	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	2.0	5.8	31.5	51.5	24.9	:	:	16.8	12.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.4	4.2	4.0	5.2	4.8	:	:	2.7	5.5	:	5.1	6.5	:
2 Labour market														
Unemployment ^{2.1}	%	18.2	17.8	18.0	16.4	15.5	14.9	14.6	14.4	16.4	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	6.6	1.9	1.1	2.1	3.2	1.6	1.8	2.1	7.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	-0.3	0.2	3.5	2.0	0.1	1.9	2.2	0.3	0.1	:	0.5	0.8	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	-9.7	-7.6	6.2	8.3	14.7	:	:	-6.5	18.5	:	8.9	6.9	:
Imports of goods ^{3.2}	Ann. % ch	0.6	3.5	12.0	11.6	10.9	:	:	11.7	6.6	:	6.8	11.3	:
Trade balance* ^{3.3}	% of GDP	-39.8	-40.1	-41.9	-43.3	-44.4	-45.2	-43.6	-44.6	-44.4	:	-45.1	-45.4	:
Exports goods and services ^{3.4}	% of GDP	40.1	42.1	40.6	41.1	43.2	:	:	62.9	30.4	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	60.0	60.6	63.1	64.5	67.4	:	:	54.0	72.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-12.4	-11.0	-16.2	-16.1	-17.2	-17.4	-14.5	-17.5	-17.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	10.2	16.9	9.4	11.3	7.1	:	:	8.6	7.1	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	544.7	673.7	803.0	897.7	1100.9	:	:	1110.3	1100.9	:	1087.6	:	:
Int. reserves / months Imp ^{3.9}	Ratio	3.7	4.4	4.7	4.7	5.2	:	:	5.3	5.2	:	5.1	:	:
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	-0.5	1.4	0.1	2.8	2.9	2.5	1.9	2.4	1.7	:	0.3	0.3	:
Producer prices ^{4.2}	Ann. % ch	0.2	0.3	-0.1	0.4	1.7	:	:	2.0	2.7	:	1.8	1.5	:
Food prices ^{4.3}	Ann. % ch	-1.4	3.0	-0.9	1.9	0.6	:	:	1.5	1.3	:	2.5	3.4	:
M21 ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR ^{4.5}	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate ^{4.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	1.60	:	:	2.35	:	:	:	:	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	1.26	0.50	1.58	1.71	0.47	:	:	0.45	:	0.54	0.46	0.62	:
Stock markets ^{5.3}	Index	10,695	11,956	11,115	10,952	10,390	:	:	10,386	10,745	10,604	10,670	10,533	10,609
Credit growth ^{5.4}	Ann. % ch	-1.9	0.8	1.3	11.8	8.5	:	:	10.7	8.5	:	10.2	12.0	:
Deposit growth ^{5.5}	Ann. % ch	10.0	13.7	9.4	13.8	5.9	:	:	10.3	5.9	:	5.6	7.6	:
Non-performing loans ^{5.6}	% of total	16.8	13.4	10.3	7.3	6.9	:	:	6.7	6.9	:	6.3	6.1	:
6 Fiscal developments														
General government balance ^{6.1}	% of GDP	-2.9	-8.3	-3.6	-5.3	-3.8	-1.6	2.4	1.4	-3.1	:	:	:	:
General government debt ^{6.2}	% of GDP	58.7	65.2	63.4	64.2	70.8	67.8	62.7	58.9	62.2	:	:	:	:

f: ECFIN forecast Autumn 2018 published November 2018

* Q figures refer to a 4 quarters moving average.

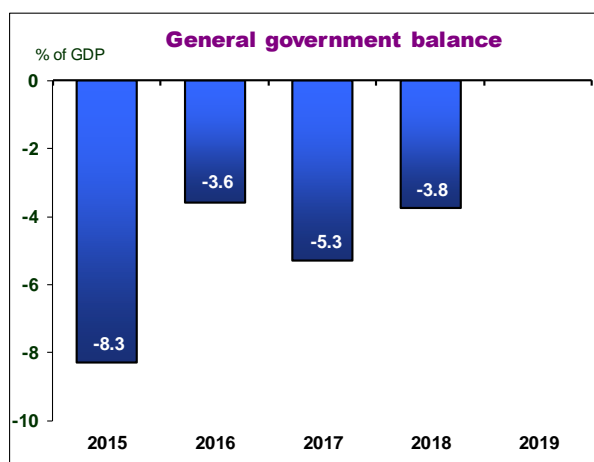
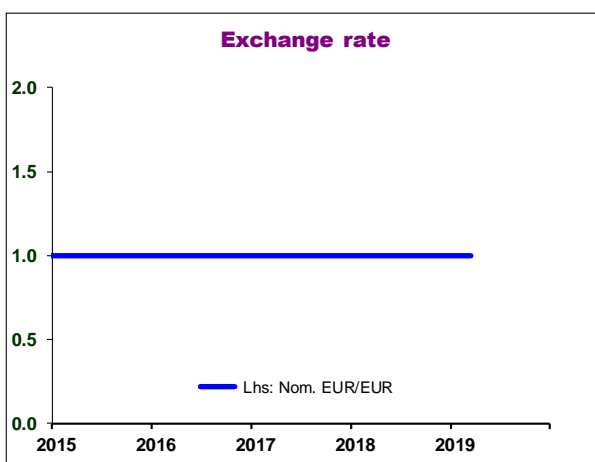
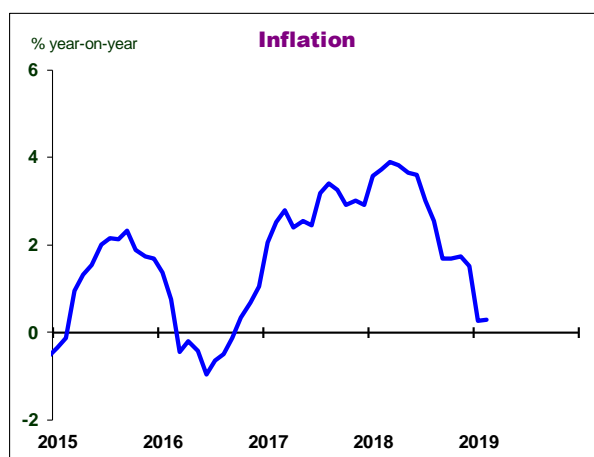
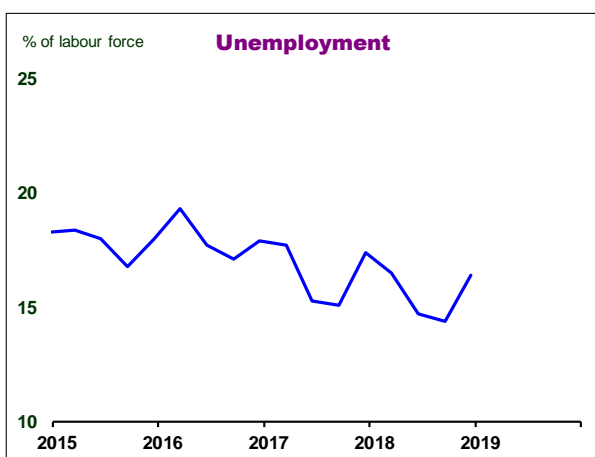
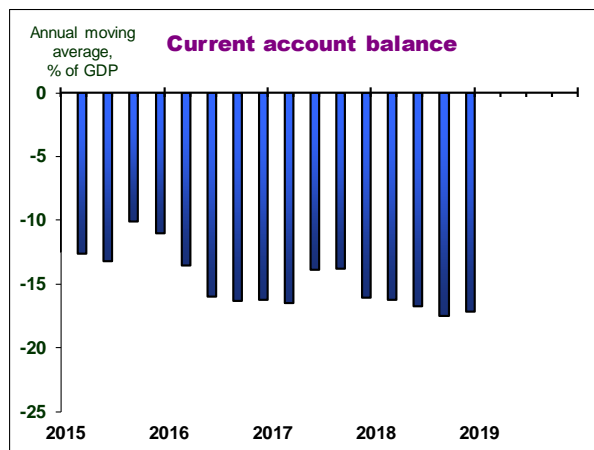
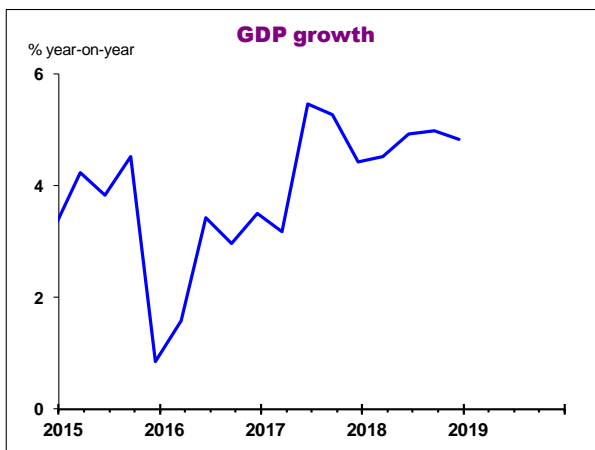
** Q figures refer to the quarterly balance divided by the estimated annual GDP.

CHARTS



European Commission, ECFIN-D-1

MONTENEGRO





Key developments

The government submitted its 2019-2021 Economic Reform Programme to the European Commission on 30 January 2019. It forecasts economic growth to accelerate from 3.2% in 2019 to 5.0% in 2021, driven mainly by domestic demand. Inflationary pressures are expected to remain low, while employment growth is forecast to improve, from 2.0% in 2018 to 2.6% in 2021, reflecting stronger growth but also government measures. The fiscal strategy envisages an increase in the deficit to 3% of GDP in 2019, which however is expected to decline to 2.0% by 2021. The debt ratio is seen to increase to 43.5% of GDP in 2019, but should decline to 41.4% by 2021.

On 8 March, Standard and Poor's Global Ratings affirmed its BB-/B sovereign credit rating with a stable outlook for the country. The rating agency stressed the need for timely implementation of structural reforms, including strengthening of institutions. It also underlined the risks of off-budget activities to debt sustainability.

Real sector

Driven by markedly stronger exports (+27.6% y-o-y), the real GDP growth accelerated further in the fourth quarter (3.7%), bringing annual growth in 2018 to 2.7%, up from 0.2% in 2017. In the fourth quarter, the contribution of net exports to growth was, however, somewhat smaller than in the preceding quarters, as imports, too, picked up (+17.5% y-o-y). After three quarters of contraction, investment posted a small gain in annual terms (+1.6%). For 2018 as a whole, export growth accelerated markedly (+7.2pps to 15.3% y-o-y), while import growth picked up less (+2.6pps to 9% y-o-y), leading to a growth contribution of net exports of 2.2pps. Household spending recovered from its weakness of the previous year (+2.2pps to 2.9% y-o-y), while investment contracted (-7.2% y-o-y). Public consumption increased sharply (+8.7pps to 6.2% y-o-y), driven by an increase in public wages and goods and services expenditure.

In the first quarter of 2019, high frequency indicators point to a continued economic recovery with investment firming further, alongside a continued strong export performance. The industrial production index increased by 9.6% y-o-y in the first two months, driven by strong growth in manufacturing (+5.7%). Capital goods production increased at a faster pace than in the same period one year earlier. A marked upswing in the construction sector as well as further increases in annual growth of corporate credit confirm the ongoing recovery of investment activity, even though government capital expenditure implementation remains heavily behind budget.

Labour market

The labour market improved further in the fourth quarter, according to the Labour Force Survey. A combination of a substantial rise in female workforce (+1.4%, y-o-y) and a slight fall in male workforce (-0.4%, y-o-y) resulted in an overall labour force expansion of 0.2% y-o-y. A further increase in employment growth, to 3.6% y-o-y, contributed to a 1.0pp annual increase in the employment rate, to 45.1%. The unemployment rate dropped to 20.7% in 2018, which is a 1.6pps decrease from the previous year. The situation of young workers (15-24 years) improved. Their unemployment rate stood at 44% in fourth quarter and 45.4% for the whole year (-2.8pps). Annual growth of nominal wages was 5.8%, with an acceleration in the fourth quarter (6.6% y-o-y). However, in January nominal wage growth slowed to 3.3% y-o-y.

External sector

The current account balance deteriorated in the fourth quarter and ended the year 2018 at -0.3% of GDP, still 1pp better than one year earlier. The fourth-quarter deterioration is owed to a particularly negative impact of charges for the use of intellectual property (-143 million EUR) affecting the services balance. The trade balance was -16.2% of GDP in 2018 as a whole, compared to -17.9% in 2017. Net FDI inflows amounted to 5.8% of GDP in 2018, markedly

higher than one year earlier (2.3% of GDP), and significantly larger than the current account deficit. Gross external debt at end-2018 stood at 73.7% of GDP, practically unchanged from a year before. The central bank's foreign currency reserves increased by 23% in 2018, representing 5.2 months of imports.

Monetary developments

Average consumer price inflation in 2018 stood at 1.5% (+0.1pps compared to 2017), mainly driven by higher food prices (+0.6%). In the first quarter of 2019, transport prices fell (-3.1%), a negative trend that started in December last year (-0.8%, y-o-y). On the other hand, services became more expensive (+1.9% y-o-y), while housing and utilities costs remain unchanged. Annual growth of broad money (M4) accelerated slightly in the fourth quarter (+0.1pps q-o-q), and registered a 11.8% increase in the year as a whole. Following a revision in December, the central bank continued to reduce the key policy rate, by 25bps on 13 March, to a new historical low of 2.25%. The Denar continued its limited fluctuation around 61.5 MKD/EUR, closing the year at 61.51 MKD/EUR.

Financial sector

Credit growth to the private sector picked up further in the fourth quarter, to 7.8% y-o-y (+1pp compared to the third quarter). While most of the increase continued to come from household loans (+10.3 y-o-y), corporate credit growth accelerated further, to 5.4% (+1.2pps q-o-q), and picked up further in the first two months of 2019, to 9.7% on average.

The spread between Denar loans (-10bps to 5.8%) and deposits (-10bps to 2%) remained unchanged between November and February. Rates on foreign currency loans dropped by 10

bps to 4.2%, and remained unchanged for deposits, at 0.8%, hence narrowing banks' spreads. The share of foreign-currency denominated in total loans dropped further in the fourth quarter, by 1.1pps, to 44.4%. The funding of loans by deposits remained solid, with the loan-to-deposit ratio for non-financial clients decreasing to 86.2% (-1.5pps y-o-y). Capital adequacy of the banking sector remained robust, with the ratio of regulatory capital to risk-weighted assets at 16.5%, well above its level one year earlier. The ratio of non-performing to total loans (financial and non-financial sector) declined further, by 1.1pps y-o-y, to 5%.

Fiscal developments

In 2018, total revenues grew by 4.9% y-o-y, while total expenditures were up by 1.8% y-o-y, with a significantly stronger growth in the second half of the year (0.6% y-o-y in the first versus 2.9%, y-o-y in the second half). The revenue growth was driven by higher income from taxes and social contributions. These two categories (accounting for around 90% of total revenue in 2018) grew by 4.9%, y-o-y and 9.4%, y-o-y respectively. Current expenditure increased by 6.4%, mainly due to a surge in social transfers and higher subsidies to corporates, while capital spending saw a significant drop of 38.8% y-o-y.

As a result, the budget deficit was reduced to 1.8% of GDP, lower than the target of 2.7% of GDP. However, deficit calculations do not include the financing for the Public Enterprise for State Roads which remained off-budget. Despite the lower deficit, the general government debt continued to increase, by 1.2pps y-o-y to 40.5% of GDP at end-2018. The level of government-guaranteed debt of state-owned enterprises rose by 3.5% y-o-y in the fourth quarter, leading to increase of 1% in 2018 as a whole.

TABLE



European Commission, ECFIN-D-1

North Macedonia

							ECFIN 2018 Autumn							
		2014	2015	2016	2017	2018	2019	2020	Q3 18	Q4 18	Q1 19	Jan 19	Feb 19	Mar 19
1 Real sector														
Industrial confidence ^{1.1}	Balance	11,4	17,5	24,0	25,6	28,8	:	:	29,4	30,2	:	30,0	30,8	:
Industrial production ^{1.2}	Ann. %ch	4,8	4,9	3,9	0,2	5,4	:	:	5,0	6,4	:	12,0	7,3	:
Gross domestic product ^{1.3}	Ann. %ch	3,6	3,8	2,9	0,2	2,7	2,8	3,1	3,0	3,7	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	2,2	4,4	3,1	0,7	2,9	2,9	3,1	3,0	4,6	:	N.A.	N.A.	N.A.
Gross capital formation ^{1.5}	Ann. %ch	10,7	8,3	13,3	0,8	-7,2	5,5	8,0	-8,5	1,6	:	N.A.	N.A.	N.A.
Construction ^{1.6}	Ann. %ch	2,3	8,6	12,3	-4,4	0,2	:	:	-2,6	19,6	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	4,2	9,8	18,8	-11,3	9,8	:	:	9,4	10,9	:	7,8	6,4	:
2 Labour market														
Unemployment ^{2.1}	%	28,0	26,1	23,8	22,4	20,7	20,6	20,1	20,8	19,4	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. %ch	1,7	2,3	2,5	2,4	2,5	2,2	2,1	2,2	3,6	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. %ch	1,0	2,7	2,0	2,6	5,8	1,6	3,2	5,5	6,6	:	3,3	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	17,0	9,4	11,5	19,8	20,1	:	:	20,8	27,6	:	:	:	:
Imports of goods ^{3.2}	Ann. %ch	9,4	5,0	7,8	11,8	12,9	:	:	13,7	16,7	:	:	:	:
Trade balance* ^{3.3}	% of GDP	-21,7	-20,1	-19,1	-17,9	-16,2	-18,3	-19,1	-16,8	-16,2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	47,7	48,7	50,0	55,1	60,3	:	:	58,4	60,3	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	64,9	65,0	64,7	68,8	72,9	:	:	70,5	72,9	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-0,5	-2,0	-3,1	-1,3	-0,3	-0,9	-1,5	0,1	-0,3	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2,3	2,2	3,6	2,3	5,8	:	:	4,6	5,8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	2.436,5	2.261,8	2.613,4	2.335,3	2.867,1	:	:	2.709,1	2.867,1	:	2.877,4	2.864,3	2.866,0
Int. reserves / months Imp ^{3.9}	Ratio	6,3	5,6	6,0	4,8	5,2	:	:	5,1	5,2	:	:	:	:
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	-0,3	-0,3	-0,3	1,4	1,5	2,0	2,1	1,6	1,2	:	1,2	1,1	:
Producer prices ^{4.2}	Ann. %ch	-1,2	-4,1	-0,1	0,4	-0,3	:	:	-0,8	-0,8	:	-0,8	-0,1	:
Food prices ^{4.3}	Ann. %ch	-1,0	0,1	-1,3	0,2	0,8	:	:	0,2	0,5	:	2,0	2,3	:
Monetary aggregate M4 ^{4.4}	Ann. %ch	10,6	6,9	6,2	5,1	11,8	:	:	11,7	11,8	:	12,0	11,2	:
Exchange rate MKD/EUR ^{4.5}	Value	61,62	61,61	61,60	61,57	61,51	:	:	61,49	61,49	61,53	61,51	61,57	61,50
Nominal eff. exchange rate ^{4.6}	Index	101,8	99,2	100,5	101,4	103,3	:	:	103,8	103,6	:	103,2	102,9	:
5 Financial indicators														
Interest rate (3 months-SKIBOR) ^{5.1}	%p.a.	3,08	1,92	1,96	1,78	1,54	:	:	1,48	1,48	1,46	1,47	1,46	1,45
Bond yield ^{5.2}	%p.a.	7,77	7,46	7,02	6,61	6,11	:	:	6,04	5,90	:	5,77	:	:
Stock markets ^{5.3}	Index	1.736	1.731	1.887	2.406	3.154	:	:	3.388	3.484	3.637	3.587	3.648	3.676
Credit Growth ^{5.4}	Ann. %ch	8,6	9,1	4,0	2,5	6,7	:	:	6,8	7,8	:	7,8	8,2	:
Deposit growth ^{5.5}	Ann. %ch	5,8	7,6	4,4	5,3	8,9	:	:	10,9	9,9	:	10,6	10,3	:
Non-performing loans ^{5.6}	%total	11,6	10,3	6,3	6,1	:	:	:	5,0	5,2	:	N.A.	N.A.	N.A.
6 Fiscal developments														
Central government balance** ^{6.1}	% of GDP	-4,2	-3,5	-2,7	-2,7	-1,8	-2,6	-2,3	-1,4	-2,6	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	38,1	38,1	39,6	39,3	40,5	44,5	45,7	40,1	40,5	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2018 published November 2018

* Q figures refer to a 4 quarters moving average.

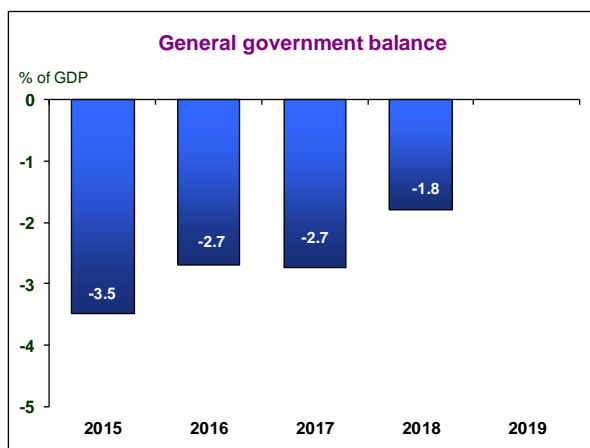
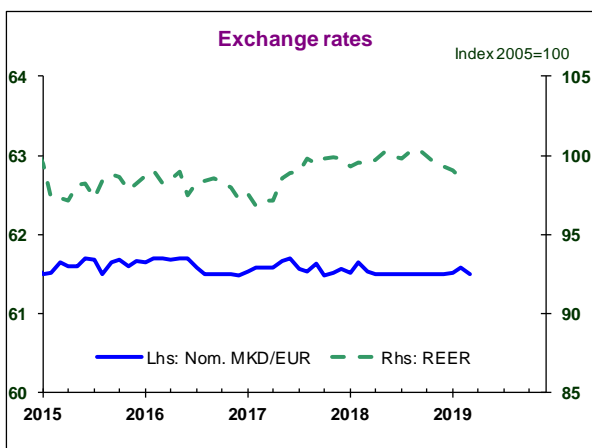
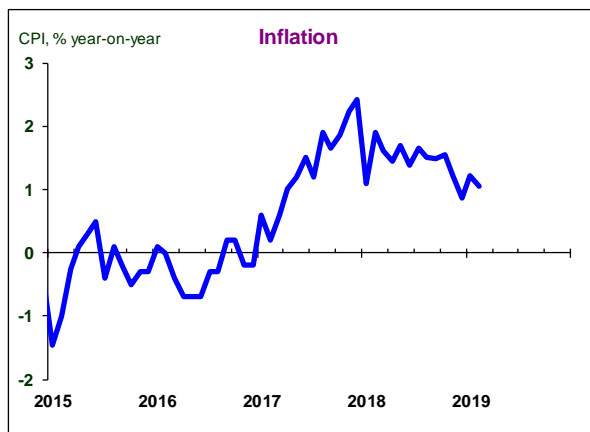
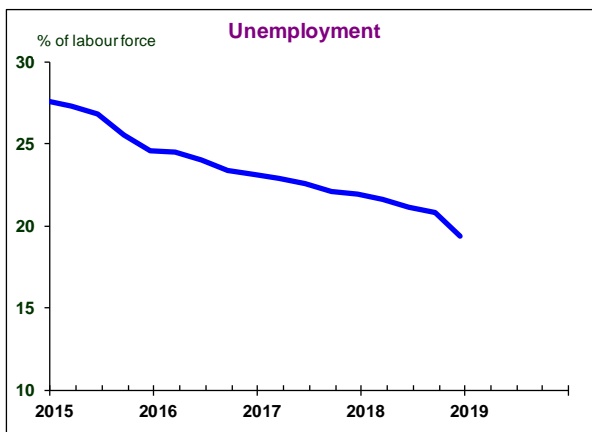
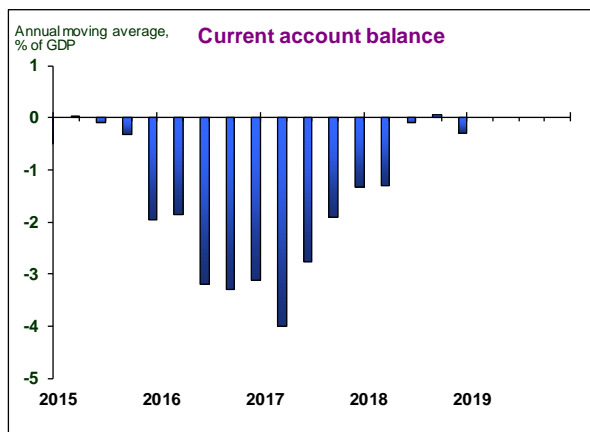
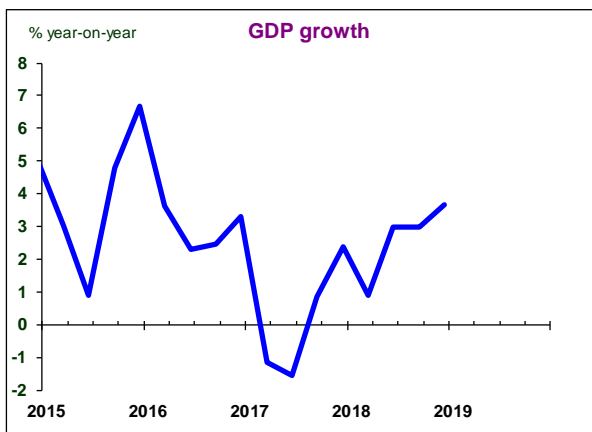
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



North Macedonia





Key developments

The Serbian government submitted its 2019-2021 Economic Reform Programme to the European Commission on 31 January 2019. It forecasts the economy to expand steadily at 3.5-4.0 % in this period due to solid growth of exports, private consumption and investment. Inflationary pressures are expected to remain low, while net foreign direct investments are projected to fully cover the current account deficit. The fiscal strategy envisages a reduction of government debt below 50 % of GDP through broadly balanced budgets.

In end January-early February, an IMF staff mission visited Belgrade to discuss progress in implementation of commitments under the Policy Coordination Instrument and to agree on policy priorities for 2019. The mission noted that Serbia's economic program continues to deliver strong results. It also advocated strengthening governance of public and state-owned enterprises and supported the authorities' plan to privatize Komercijalna Banka and HIP-Petrohemija.

In end March, the Chinese tyre manufacturer Shandong Linglong Tire Co., Ltd. commenced construction of a tyre factory in Serbia. It is the first investment of this company in Europe, reportedly worth €800 million.

Real sector

Strong domestic demand pushed economic growth above expectations in 2018, lifting it to over 4 % for the first time in a decade. However, the economy has entered a soft patch in the last quarter of the year. Growth decelerated to 3.4 % y-o-y because of weaker investment performance (3.2 % y-o-y). Nonetheless, the annual growth of gross fixed capital formation (9.2 %) remained robust. A steady increase in household consumption (3.2 % y-o-y) and positive contribution from government consumption sustained the economic expansion in the fourth quarter. The tradable sector has successfully weathered the initial slowdown in major international trading partners and export growth remained robust (10.6 % y-o-y). Still, net exports contribution to growth worsened because of equally strong import growth (10.9 % y-o-y). With the exception of industry

(-2.5 % y-o-y), all other sectors registered some growth in the fourth quarter of 2018. Growth was particularly pronounced in agriculture (15.6 % y-o-y) and some services, like wholesale and retail trade, transportation and storage, and accommodation and food service activities (6.5 % y-o-y).

Short-term indicators point to a continuing weakness in some parts of the economy in early 2019. Industrial production fell in the first two months of the year by a cumulative 1.4 % y-o-y, mainly due to a protracted malaise in the electricity, gas, steam, and air conditioning (-5.7 % y-o-y) and mining (-7.5 % y-o-y) sectors. Two of the biggest sectors in the economy, manufacture of basic metals (-4.7 % y-o-y) and manufacture of motor vehicles (-12.8 % y-o-y) have been negatively impacted by lower external demand. Nonetheless, the underlying economic trend has likely remained positive. In the period January-February, manufacturing production expanded 0.5 % y-o-y, with most of its sectors still in a positive territory. Private consumption appears to have continued its robust growth, as attested by very strong retail sales data (8.0 % y-o-y).

Labour market

According to LFS data, the unemployment rate of the population aged 15 years and over stood at 12.9 % in the last quarter of 2018 and was down nearly 2 pps y-o-y. Due to an aging population, the labour force declined by 0.2 % y-o-y over the same period. Total employment increased in the fourth quarter by 1.9 % y-o-y or by 53.8 thousand people. Employment gains continued to be more pronounced in the formal sector, which added 91.0 thousand jobs, while informal employment fell by 37.2 thousand. Nonetheless, the rate of informal employment remained elevated at 18.1 %.

Registered employment continued to increase as well. In the fourth quarter, it was up 3.4 % y-o-y, an increase entirely driven by the private sector as the public sector shed labour. The National Employment Service data on registered unemployment also captured similar labour market trends. In February, the number of registered jobseekers declined by 8.8 % y-o-y. Although the level of unemployment remains

high, the increasingly tighter labour market conditions led to an acceleration of wage growth. In January, real net wages went up by 6.7 % y-o-y, helped also by relatively large wage hikes in the government sector.

External sector

In 2018, the current account deficit increased by 8.4 % y-o-y in euro terms, but stayed unchanged as a ratio to GDP at 5.2 %. The merchandise trade deficit expanded even more, by 31.2 % y-o-y, driven by strong domestic demand and higher energy prices. According to central bank data, this trend continued in the first month of 2019 when both the current account and merchandise trade deficits increased by 76.0 % and 44.4 % y-o-y respectively.

The statistical office data also confirmed external trade dynamics in the beginning of 2019. In the first two months, the merchandise trade deficit went up 26.5 % y-o-y. Export of goods grew 7.1 % y-o-y in euro terms, while import of goods increased 11.7 % y-o-y. Following a very good agricultural season in 2018, agriculture and food exports continued to perform strongly. Manufacturing exports, representing the bulk of all export, also increased, albeit at a slower pace (4.6 % y-o-y). Nonetheless, the underlying strength of manufacturing exports remained robust, as two thirds of all sectors were in a positive territory. The two biggest export lines, however, manufacturing of motor vehicles and manufacture of basic metals, fell by 8.8 % and 10.5 % y-o-y respectively. On the import side, energy and intermediate goods continued to determine the pace of imports growth.

Monetary developments

Inflation picked up in the first months of the year, reaching 2.8 % y-o-y in March. The increase came mainly from base effects and a rather significant increase in unprocessed food prices (fresh vegetables in particular), which were up 13.0 % y-o-y. This also drove core inflation up to 1.3 % y-o-y, a level not seen in a year. In view of still subdued inflationary pressures and expectations, and elevated uncertainty regarding the international environment, the central bank has decided to keep its key policy rate at 3.0 %, unchanged since its last reduction in April 2018.

The dinar exchange rate against the euro remained broadly stable. By early April, it

appreciated slightly compared to the beginning of the year (0.2 %). The central bank continued its interventions on the foreign exchange market. It sold a net €130 million in January and bought a net €165 million in February-March. In addition, on several occasions in the first quarter it also provided 14-day dinar liquidity to commercial banks in euro swaps. The NBS foreign exchange reserves increased by €179 million since the end of 2018 and stood at €11.4 billion in March, covering more than five months' worth of imports of goods and services.

Financial sector

In February, the credit expansion continued unabated and domestic claims of the banking sector increased by 6.9 % y-o-y. Loans to the non-government sector increased by 9.5 % y-o-y, driven by a steady rise in households lending (12.2 % y-o-y) and company loans (7.0 % y-o-y). Net claims on government fell 10.4 % y-o-y, reflecting a strong fiscal performance and the build-up of large government deposits. The gross non-performing loan ratio fell further, to, 5.7 % at the end of 2018, its lowest level on record. The central bank has kept its countercyclical capital buffer unchanged at 0 % as, despite vigorous credit growth, it found that the credit-to-GDP ratio was still below its long-term trend.

Fiscal developments

The general government budget ended 2018 in surplus for a second year in a row. The result of 0.6 % of GDP was significantly better than the planned 0.7 % deficit and, as in the previous 3 years, was mainly driven by higher-than-expected revenue collection.

The good fiscal performance continued in early 2019. Total revenue increased by 11.7 % y-o-y in the first two months, with robust rises in revenue from VAT (32.7 %), personal income tax (12.8 %), and non-tax revenue (11.7%). Total expenditure growth was equally strong (11.6 % y-o-y), with large increases in spending on goods and services (17.6 %), pensions (10.3 %), social assistance (13.1 %), and capital projects (43.7 %). In January-February, the budget registered a surplus of RSD 22.3 billion (0.4 % of the estimated annual GDP), 12.8 % higher than in the same period in 2018. In February, government debt stood at 50.4 % of the estimated full-year GDP, down from 53.8 % at end-2018.

TABLE

European Commission, ECFIN-D-1



SERBIA

		2014	2015	2016	2017	2018	ECFIN 2018 Autumn forecast		Q3 18	Q4 18	Q1 19	Jan 19	Feb 19	Mar 19
							2019	2020						
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	-6.1	8.4	4.8	3.4	1.5	:	:	-1.3	-1.4	:	-5.5	2.4	:
Gross domestic product ^{1.3}	Ann. % ch	-1.6	1.8	3.3	2.0	4.3	3.8	3.8	4.1	3.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	-0.1	-0.5	1.3	2.0	3.3	3.7	3.6	3.3	3.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	-3.4	4.9	5.4	7.3	9.2	7.4	7.3	8.3	3.2	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-3.8	13.1	5.1	9.3	9.6	:	:	4.3	0.2	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	2.8	2.0	8.0	3.8	4.1	:	:	4.9	4.8	:	5.3	10.8	:
2 Labour market														
Unemployment ^{2.1}	%	19.2	17.7	15.3	13.5	12.7	12.0	10.9	11.3	12.9	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	10.1	0.6	5.6	2.8	1.4	1.3	1.2	1.6	1.9	:	3.7	2.7	N.A.
Wages ^{2.3}	Ann. % ch	1.2	-0.4	3.8	4.0	6.0	:	:	6.2	6.7	:	8.8	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	1.5	7.9	11.6	12.1	8.1	:	:	8.1	9.0	:	3.5	10.6	:
Imports of goods ^{3.2}	Ann. % ch	-1.8	5.9	6.1	13.6	13.0	:	:	15.1	13.4	:	11.7	11.8	:
Trade balance* ^{3.3}	% of GDP	-12.1	-11.3	-9.9	-11.1	-13.2	-12.5	-12.9	-12.5	-13.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	44.8	45.3	48.6	50.5	50.8	:	:	50.4	50.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	53.4	52.3	53.4	57.1	59.1	:	:	58.1	59.3	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-6.0	-4.4	-2.9	-5.2	-5.2	-7.4	-7.9	-5.6	-5.2	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	3.7	5.1	5.2	6.2	7.4	:	:	6.3	7.5	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	9,907.2	10,378.0	10,204.6	9,961.7	11,261.8	:	:	11,172.5	11,261.8	:	11,346.5	11,398.4	11,440.5
Int. reserves / months Imp ^{3.9}	Ratio	7.8	7.7	7.2	6.2	6.2	:	:	6.3	6.2	:	6.2	6.1	:
4 Monetary developments														
CPI ^{4.1}	Ann. % ch	2.1	1.4	1.1	3.1	2.4	2.9	3.0	2.4	2.0	:	2.0	2.4	2.8
Producer prices ^{4.2}	Ann. % ch	0.7	0.2	-0.4	3.4	2.2	:	:	3.7	2.5	1.3	0.6	1.6	1.7
Food prices ^{4.3}	Ann. % ch	-0.9	1.9	-0.3	3.3	1.9	:	:	2.2	1.9	:	3.0	4.3	:
M3 ^{4.4}	Ann. % ch	7.6	6.6	11.6	3.6	14.5	:	:	8.2	14.5	:	14.9	15.0	:
Exchange rate RSD/EUR ^{4.5}	Value	117.23	120.74	123.09	121.41	118.27	:	:	118.14	118.35	118.22	118.39	118.24	118.04
Nominal eff. exchange rate ^{4.6}	Index	72.0	67.4	66.1	67.3	69.7	:	:	69.5	69.2	69.2	69.1	69.1	69.2
5 Financial indicators														
Interest rate (BEONIA) ^{5.1}	% p.a.	6.76	4.75	2.70	2.68	2.24	:	:	2.07	2.26	2.10	2.20	2.09	2.00
Bond yield (12 months) ^{5.2}	% p.a.	9.18	7.27	4.63	4.58	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,215	1,359	1,383	1,584	1,562	:	:	1,532	1,555	1,534	1,523	1,520	1,558
Credit growth ^{5.4}	Ann. % ch	5.8	7.0	9.0	2.2	7.7	:	:	6.0	7.7	:	6.3	6.9	:
Deposit growth ^{5.5}	Ann. % ch	7.6	6.5	11.4	3.3	15.3	:	:	8.3	15.3	:	15.6	15.7	:
Non-performing loans ^{5.6}	% total	21.5	21.6	17.0	9.8	5.7	:	:	6.4	5.7	:	N.A.	N.A.	N.A.
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-6.6	-3.5	-1.2	1.1	0.6	-0.3	-0.5	1.6	-1.7	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	70.4	70.0	67.8	57.9	53.8	54.1	52.1	0.0	53.8	:	50.6	50.4	:

f. ECFIN forecast Autumn 2018 published November 2018

* Q figures refer to a 4 quarters moving average.

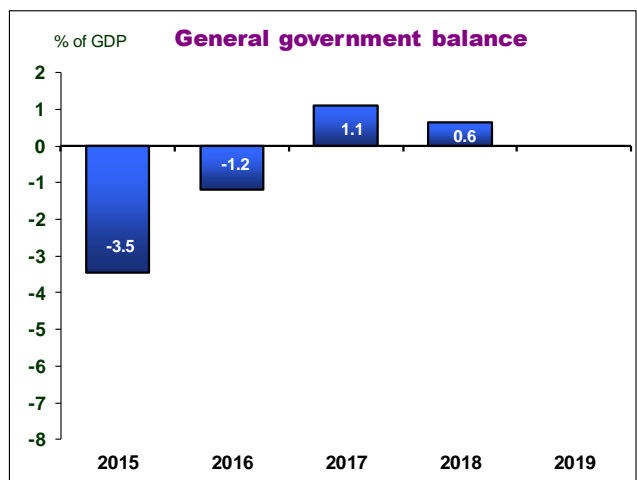
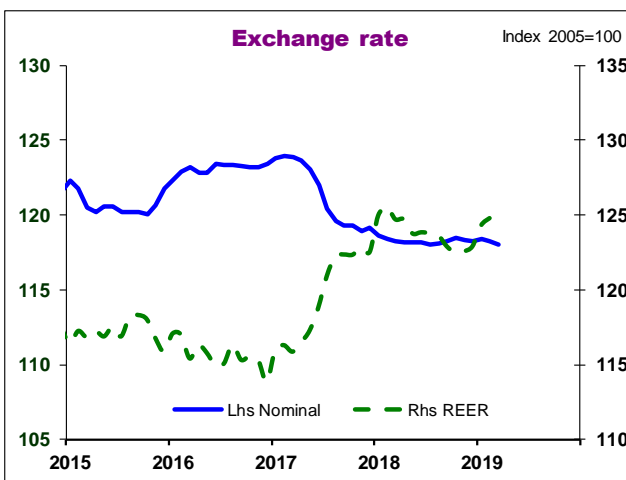
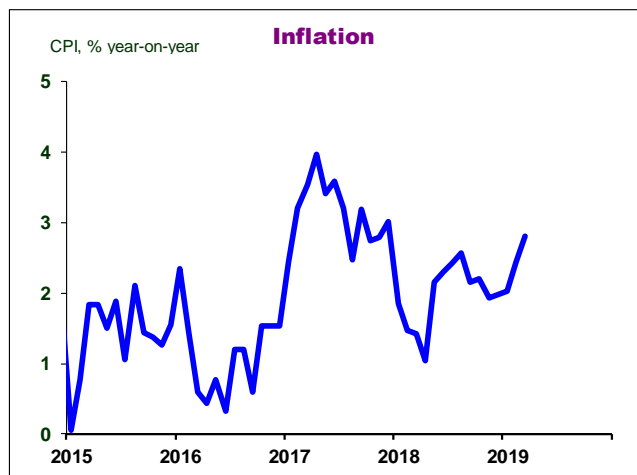
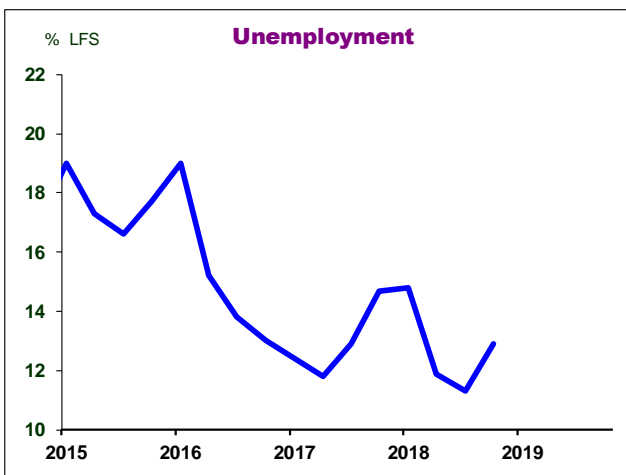
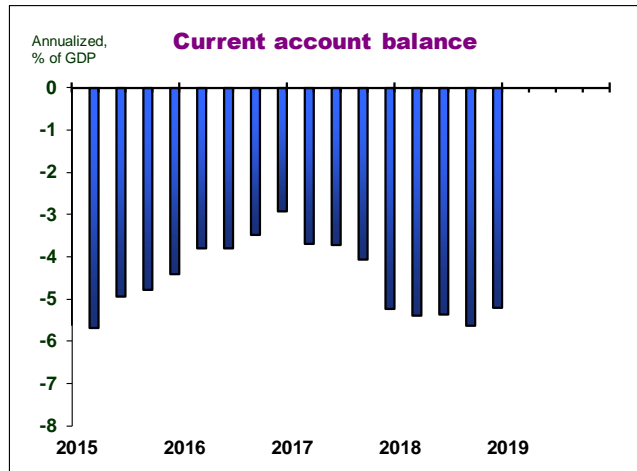
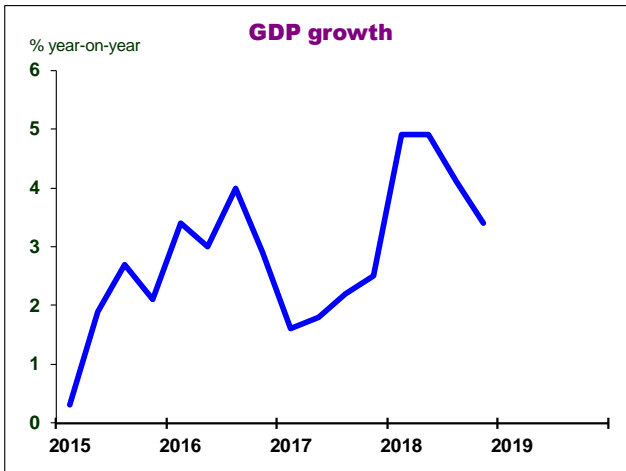
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



SERBIA





Key developments

The new Reform Agenda has been presented on 11 April by Finance minister Albayrak. Important tenets of the Reform Agenda are a recapitalization of state banks and respect for the principles of a free functioning market economy. The Reform Agenda announces a range of other policies to be developed, including those to raise savings and reform the severance pay system.

The central bank brought forward its dividend payment from April to January. This increased public revenues by some TL 19 billion in the first quarter of 2019.

The Turkish government submitted its 2019-2021 Economic Reform Programme to the European Commission on 13 February 2019. It forecasts the economy to rebalance in the short term (2.3% GDP growth in 2019), with the largest contribution coming from net trade, and to start closing the output gap in 2021 only. Inflationary pressures are expected to reside, while the current account deficit is expected to remain low even when the economy recovers. The fiscal strategy aims at maintaining the deficit below 2% of GDP from 2019 till 2021.

Real Sector

In the fourth quarter of 2018, GDP contracted by 2.4% q-o-q and 3.2% y-o-y according to the estimate of Turkstat published on 11 March 2019. In the fourth quarter, domestic demand including stocks subtracted 12.6 pps from GDP growth whereas net trade contributed positively with 9.7 pps. Private consumption was the demand component to see the largest swing in comparison with the third quarter (-8.9% y-o-y in Q4 vs +0.8% in Q3). The contraction in gross fixed capital formation aggravated to -12.9% y-o-y (vs -4.7 % y-o-y in the third quarter). The contraction in machinery investment (-25.8 % y-o-y) was particularly noticeable. Government consumption decelerated to 0.4% y-o-y growth. The high income elasticity of import demand was the main driver of the large positive contribution of net trade. Imports fell by 24.4 %

y-o-y (- 16.8 % in Q3) in the national accounts while exports increased by 10.6% y-o-y (+13.6 % in Q3). The quarterly estimates back to 2014 were revised as well. GDP is estimated to have grown by 0.7 pps more than reported earlier over this period. The carry-over from 2017 into 2018 increased by 0.3 pps. The first three quarters of 2018 were revised upwards by 0.2 pps. For the year as a whole, GDP grew by 2.6% y-o-y in 2018.

Seen from the production perspective, all sectors except for public services, real estate as well as information and communication services saw negative growth rates in the fourth quarter. Financial and insurance activities were hit particularly hard, witnessing a drop of 16.7% y-o-y in value added. Manufacturing's value added recorded the largest contraction since 2009 (-7.7 % y-o-y).

High frequency indicators continue to point to a recessionary environment in the first quarter of 2019. Consumer confidence dropped to levels only seen during the 2009 crisis and between the two elections of 2015. The Markit PMI index remained in recessionary territory but improved throughout the first quarter to end at 47.2. DG ECFIN's confidence indicator for the industrial sector, which had been improving towards the end of last year, did not continue its recovery and remained in negative territory in the first quarter. The same holds for confidence in construction and services sector that seem to have moved on from their lows but did not see a strong rebound in the first quarter. The decline in retail sales stopped at a level some 7% lower than preceding last year's currency crisis. Industrial production also seems to have hit bottom at the beginning of 2019.

Labour market

The labour force grew by 1.4% y-o-y in the fourth quarter. Following a deceleration of employment growth throughout 2018, employment contracted by 2.3% y-o-y in the fourth quarter. The contraction was particularly strong for the least educated and those aged 15-24 years. The large drop in employment rates for

these groups suggest they are withdrawing from the formal labour market. The seasonally-adjusted unemployment rate increased further from 11.5 % in the third to 12.7 % in the fourth quarter. In January 2019, the unemployment rate rose to 13.3 %. A further sign of a difficult labour market situation was the strengthening contraction of hours worked in the fourth quarter (-8.0 % y-o-y vs -4.7 % in the third). Surveys point to a bottoming out of employment contraction at the beginning of 2019 although employers still appear hesitant to contract new employees. This hesitation is most prevalent in the sectors depending most on domestic demand developments: construction and services. Nominal hourly earnings accelerated further in the fourth quarter (+21.4 % y-o-y vs +20.4 % in the third quarter) regardless of the labour market slack. Construction (+24.6 %) and manufacturing (+23.0 %) saw stronger earning increases than services (+18.2 %).

External sector

The current account balance, which sharply corrected and turned positive from August till November, has swung back into negative territory from December onwards. The trade in goods balance averaged USD -1.3 bn in the first two months of 2019, improving 79 % y-o-y. Imports contracted by 22.4 % y-o-y while exports expanded by 4.7 % y-o-y. The services balance improved by 24 % y-o-y and the primary income balance by 7 % y-o-y over the same period. The 4-quarter moving average of the current account deficit improved to 2.5% of GDP as the services surplus reached its highest level since 2005 and the goods deficit was the lowest since 2009.

Net financial inflows in Turkey recorded USD 2 bn in the first two months of the year, a decrease of 62 % y-o-y. A reversal of the net outflow observed in FDI at the beginning of last year, trade credit and high debt issuance abroad by the government contributed positively, whereas long-term loans to banks and currency and deposits pushed the net inflow into negative territory. Foreign exchange currency reserves at the central bank saw an inflow of USD 6.4 bn in the first two months to reach USD 100 bn in February, equivalent to 5 months of imports.

Monetary developments

Annual inflation and core inflation decreased to respectively 19.9 % and 18.2% in the first quarter of 2019. The CPI index increased by

only 0.4 % between October 2018 and March 2019 regardless of a 11.1% increase in its sub-index for food prices over the same period. The food price increase, however, was due to temporary supply side factors that are expected to fade out during 2019. Inflation expectations of consumers for the next twelve months have declined while those of businesses remain elevated despite some decrease. Currency in circulation grew by only 1.4% y-o-y, undershooting by a large margin earlier episodes of low money growth in real terms. Renewed TL volatility at the end of March, led the central bank to stop repo financing in order to increase the interest rate. The effective policy rate increased from 24.0 % in January 2019 to 25.0 % in April. A squeeze in TL liquidity in offshore markets and a reduction in the use of swaps gave further support to the TL. Still, during the first quarter the TL depreciated 3.8% against the euro (5.2 % against the USD).

Financial sector

The Borsa Istanbul Index entered into another volatile period in the first quarter, falling by 18.4 % y-o-y. Within the quarter the BIST-100 fluctuated between 87399 and 105082, a range of 20 % between high and low. Banks's net profits decreased by 25.9 % over the first two months of 2019. State banks realized a decline in nominal profits of 52.9 % yoy over the same period. The capital adequacy ratio of banks increased to 17.1% in February from 16.7% a year earlier. The NPL ratio increased to 4.1 from 2.9 over the same period. Annual credit growth slowed in the first quarter to 11.9% (+0.9% q-o-q). The loan-to-deposit ratio registered 120.1 in February (compared to 126.9 a year before) after reaching a historic high of 128.0 in June 2018.

Fiscal developments

The central government realized a deficit of TL 36.2 bn in the first quarter, or 45 % of the full year deficit target (the deficit in 2018 was TL 73 bn or 1.9% of GDP). The primary budget deficit was TL 2.8 bn. Budget expenditures increased by 35.3 % y-o-y to reach TL 254 bn. Budget revenues increased by 30.4 % y-o-y. Tax revenues rose by 5.8% y-o-y. The government extended the lower VAT rates on cars and other durable consumption goods by three to nine months. Government debt reached 34.1% of GDP at the end of 2018.

TABLE



TURKEY

European Commission, ECFIN-D-1

							ECFIN 2018 Autumn forecast							
		2014	2015	2016	2017	2018	2019	2020	Q3 18	Q4 18	Q1 19	Jan 19	Feb 19	Mar 19
1 Real sector														
Industrial confidence ^{1.1}	Balance	104.6	103.5	105.2	108.0	101.4	:	:	96.2	90.6	97.4	93.0	97.2	102.1
Industrial production ^{1.2}	Ann. %ch	3.5	2.9	1.8	6.3	1.8	:	:	0.9	-7.7	:	-7.3	:	:
Gross domestic product ^{1.3}	Ann. %ch	5.2	6.1	3.2	7.4	2.6	-1.5	3.0	1.8	-3.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. %ch	2.9	5.4	3.6	6.1	1.2	-3.7	3.2	0.8	-8.9	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. %ch	5.1	9.3	2.2	7.8	-1.7	-12.1	5.1	-4.7	-12.9	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. %ch	38.7	-8.8	17.4	62.2	-35.8	:	:	-63.2	7.4	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. %ch	3.8	6.7	2.2	5.7	2.0	:	:	0.7	-7.4	:	-6.7	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	10.1	10.5	11.1	11.1	11.2	12.8	12.7	11.4	12.7	:	:	:	:
Employment ^{2.2}	Ann. %ch	N.A.	2.5	2.2	3.5	1.8	0.2	2.6	1.3	-0.9	:	:	:	:
Wages ^{2.3}	Ann. %ch	11.0	16.7	21.3	10.2	20.6	13.7	12.8	22.6	23.5	:	:	:	:
3 External sector														
Exports of goods ^{3.1}	Ann. %ch	3.5	-9.0	-0.7	10.2	6.9	:	:	10.1	6.1	:	6.2	3.4	:
Imports of goods ^{3.2}	Ann. %ch	-4.0	-14.8	-3.8	17.2	-4.4	:	:	-14.4	-24.8	:	-27.1	-16.9	:
Trade balance* ^{3.3}	%of GDP	-6.8	-5.6	-4.8	-6.9	-5.4	-5.0	-5.0	-7.2	-5.4	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	%of GDP	23.8	23.3	22.0	24.8	29.6	:	:	32.9	31.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	%of GDP	27.6	26.0	24.9	29.3	30.8	:	:	30.3	29.2	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	%of GDP	-4.7	-3.8	-3.8	-5.6	-3.6	-2.9	-3.4	-5.6	-3.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	%of GDP	1.4	2.3	1.6	1.4	1.7	:	:	1.5	1.7	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	bn EUR	128.3	110.5	106.1	107.7	93.2	:	:	84.7	93.2	96.2	97.6	100.1	96.2
Int. reserves / months Imp ^{3.9}	Ratio	6.4	6.4	6.4	5.5	5.0	:	:	4.3	5.0	5.5	5.4	5.6	5.5
4 Monetary developments														
CPI ^{4.1}	Ann. %ch	8.9	7.7	7.8	11.1	16.3	15.4	12.4	19.4	22.4	19.9	20.4	19.7	19.7
Producer prices ^{4.2}	Ann. %ch	10.2	5.3	4.3	15.8	27.0	:	:	34.5	39.0	30.7	32.9	29.6	29.6
Food prices ^{4.3}	Ann. %ch	12.6	11.1	5.8	12.7	18.0	:	:	22.3	26.7	30.0	31.0	29.3	29.8
M4 ^{4.4}	Ann. %ch	11.1	17.1	17.2	15.5	19.3	:	:	30.0	19.3	24.1	19.9	21.2	24.1
Exchange rate TRY/EUR ^{4.5}	Value	2.9	3.03	3.34	4.15	5.68	:	:	6.76	6.06	6.10	6.03	6.03	6.23
Nominal eff. exchange rate ^{4.6}	Index	69.4	64.20	59.10	48.22	36.53	:	:	31.37	32.48	:	33.04	33.69	:
5 Financial indicators														
Interest rate (3 months) ^{5.1}	%p.a.	9.84	10.48	9.88	12.20	18.92	:	:	21.41	24.96	23.21	23.42	22.86	23.33
Interest rate, long term ^{5.2}	%p.a.	9.18	9.30	10.19	11.11	15.88	:	:	19.32	17.73	:	:	:	:
Stock markets ^{5.3}	Index	75,190	80,641	77,177	98,993	#####	:	:	94,486	93,604	99,877	95,738	102,967	100,926
Credit growth ^{5.4}	Ann. %ch	18.4	20.4	16.2	21.2	13.1	:	:	28.1	13.1	13.3	10.8	11.6	13.3
Deposit growth ^{5.5}	Ann. %ch	11.6	18.6	17.7	17.7	22.1	:	:	33.6	22.1	23.7	21.2	20.6	23.7
Non-performing loans ^{5.6}	%total	2.8	2.9	3.2	3.1	3.9	:	:	:	:	:	:	:	:
6 Fiscal developments														
General government balance** ^{6.1}	%of GDP	0.2	0.6	-1.1	-2.8	-3.8	-1.9	-2.2	-0.2	-0.8	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	%of GDP	28.8	27.6	28.3	28.3	34.1	31.9	30.5	:	:	:	N.A.	N.A.	N.A.

f: ECFIN forecast Autumn 2018 published November 2018

* Q figures refer to a 4 quarters moving average.

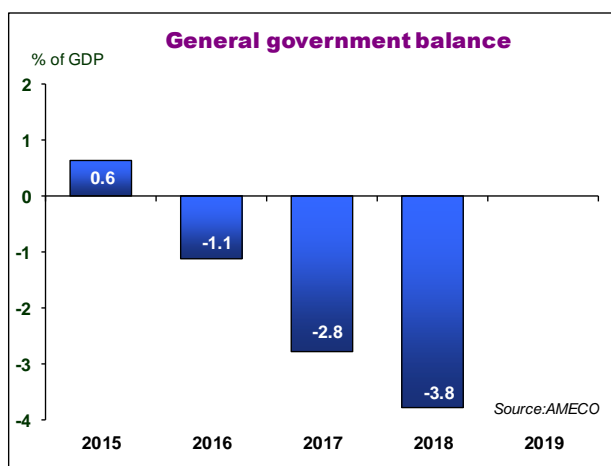
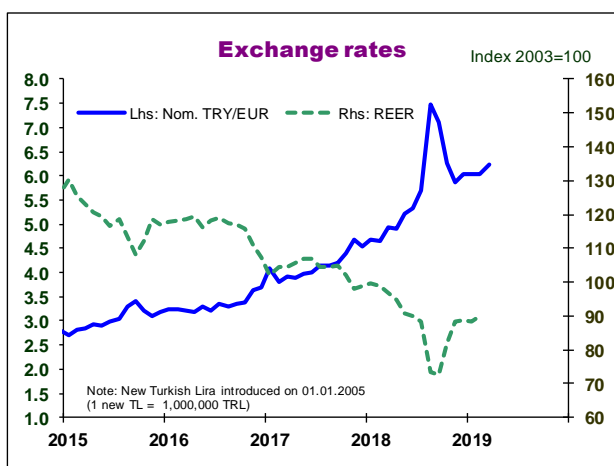
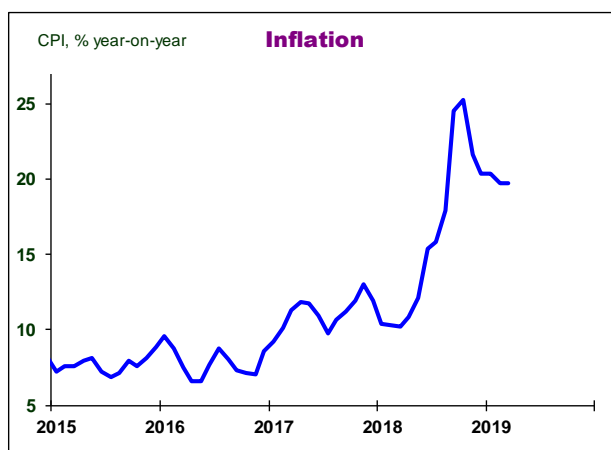
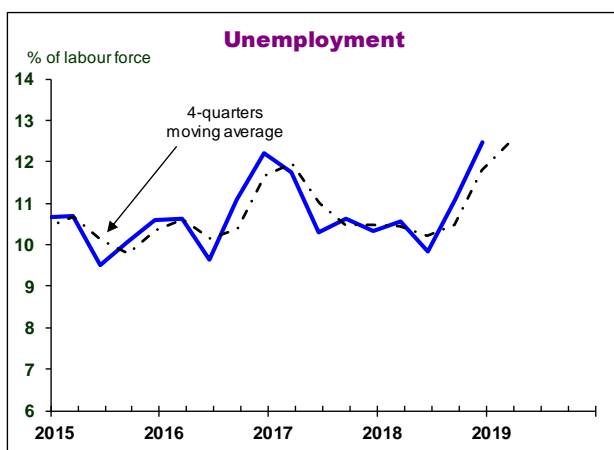
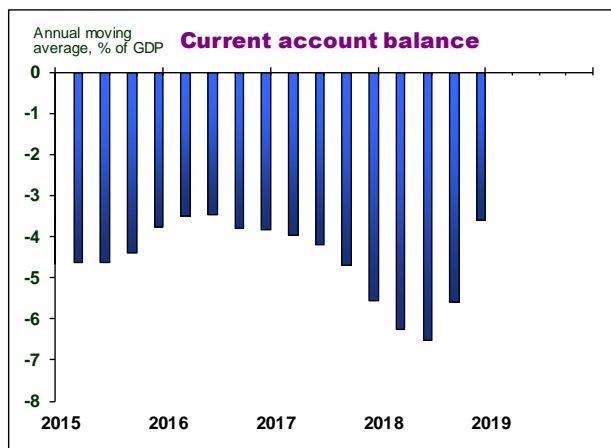
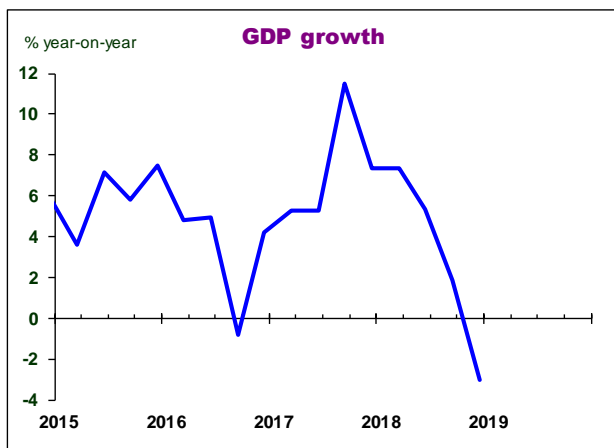
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS

European Commission, ECFIN-D-1



TURKEY



BOSNIA AND HERZEGOVINA



Key developments

The government submitted its 2019-2021 Economic Reform Programme to the European Commission on 31 January 2019. It forecasts economic growth to accelerate slightly from 3.3% in 2018 to 3.8% in 2021, based on domestic demand. Inflationary pressures are expected to remain low, while the labour market situation is forecast to improve, benefitting from stronger growth. The fiscal strategy envisages slight surpluses in 2020 and 2021, which should help to reduce government debt below 30% of GDP by 2021.

On 8 March, the international rating agency Standard and Poor's (S&P) maintained the country's credit rating at "B", but upgraded the country's outlook from stable to positive, largely based on the economy's resilience despite persistent political stalemates and the a nearly completed government formation process ending a long period of political uncertainty. The rating agency also pointed to risk of a continued delay in government formation and reform implementation, which could trigger a downgrade.

Real sector

Real GDP growth accelerated slightly in the fourth quarter, reaching 3.0% y-o-y, compared to a (revised) 2.7% growth rate in the third quarter. A key factor for this acceleration has been stronger growth of household consumption (2.2% y-o-y compared to 0.7% in the third quarter). This contributed about 1.5pps to overall GDP growth. The second largest contribution to growth came from exports, which increased by 2% year-on-year, accounting for about a quarter of the country's fourth-quarter GDP growth. Annual investment growth decelerated sharply to 0.7%, compared to 9.2% in the third quarter. For 2018 as a whole, real GDP growth softened to 3.1%, from 3.4% the year before, mainly due to a weaker growth of total exports, which decelerated from 11.8% in 2017 to 5.9% in 2018. However, this data is still preliminary, and in particular, in the case of gross capital formation, substantial revisions are not unusual.

High-frequency indicators point to a weakening of foreign demand. In the fourth quarter, industrial production was 0.4% lower than a

year before, and the decline continued in January (-6.5%) and in February (-3.5%). Decelerating external demand might be one of the key factors, while a strong recovery of retail trade in February suggest still solid domestic demand.

Labour market

Registered employment growth accelerated, reaching 2.6% year-on-year in the fourth quarter, compared to 2.0% in the previous three months. This trend continued in January, when employment was 4.1% higher than a year before, representing an additional 32 thousand registered employees. More than half of the employment increase took place in the wholesale trade sector, manufacturing, and tourism. At the same time, registered unemployment continued to decline year-on-year, by some 7.5% in the fourth quarter and by 8.4% in January, equivalent to a drop by some 40 thousand in the number of unemployed. However, this decrease has still been much larger than the increase in the number of newly registered employees, implying a continuous decline in the official labour force. The administrative unemployment rate dropped by 2½ pps y-o-y to a still worrying 34.8% in January. This compares to the latest (survey based) LFS unemployment rate of 18.4% (taken in April 2018). Youth unemployment remains high, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is at around 80% of total unemployed.

Nominal wages rose by 4.2% year-on-year in the fourth quarter and maintained this level in January. The highest wage increases were registered in real estate, financial services and construction. Adjusted for inflation, wages were about 2.7% higher than a year before.

External sector

The current account deficit in 2018 was at 4.0% of GDP, and about 0.5 percentage points lower than a year before, which largely corresponds to a lowering of the merchandise trade deficit (at 22.2% of GDP). During the year, the growth of merchandise exports has slowed significantly, from 4.7% in the third quarter to 3.0% in the

fourth quarter. At the same time, import growth slowed down too, declining from 5.6% to 1.7% in the fourth quarter. The surpluses in the primary and secondary income balances, including workers' remittances, remained largely unchanged as a percentage of GDP over 2018.

Monthly commodity trade data confirm weaker export growth, dropping by 5.8% in January, but recovering in February (+2.2%), mainly due to a recovery of exports to Croatia, Germany, Italy and Serbia. Exports to Kosovo continued to decline, probably reflecting the latter's increase in import tariffs. Trade with the EU contributed some 80% to the country's export growth in this period.

Net foreign direct investment increased slightly to 2.2% of GDP in 2018, from 2% of GDP a year before, thus financing nearly half of the current account deficit. The increase in official foreign reserves slowed down in the second half of the year, but their level still rose by 8.1% in January. In combination with a slowdown in growth of imports in the fourth quarter, the foreign reserves' import coverage has continued to increase, reaching 7.6 months in the last quarter of 2018.

Monetary developments

Inflationary dynamics have softened again in the fourth quarter, with the growth of the CPI decelerating to 1.7%, compared to 2.1% in the third quarter. In the first two months of the year, this trend continued, with consumer price inflation declining to 1.5% and 0.9% in January and February respectively. A key factor for the lower price dynamics were lower prices for clothing and footwear, while prices for transport and alcoholic beverages and tobacco rose significantly faster than the average. In full-year 2018, consumer price inflation was 1.4%, compared to 0.8% a year before.

The annual growth of the monetary aggregate M2 remained high in the fourth quarter, at 9.4%, compared to 10.3% in the third quarter.

Financial sector

Annual domestic credit growth remained strong at 6.4% in the fourth quarter, and at 5.9% and 5.5% in January and February respectively. Household and corporate credit, accounting in

nearly equal shares for about 85% of total loans, were still the main factors behind this trend.

Growth of total deposits remained strong. In the fourth quarter and in January, deposits increased by 9.9% y-o-y but decelerated slightly in February, to 9.3%. During the whole year of 2018, deposits rose by 11.3% y-o-y, compared to 10.4% in 2017. Due to the continued robust increase in deposits, the loan-to-deposit ratio continued to decline, to 89.2% in November, compared to 92.5% a year before.

The share of non-performing loans in total loans continued to decline slightly, to 8.8% in the fourth quarter, compared to 10.0% a year before. Loan-loss provisioning has improved slightly, with 78.9% of non-performing loans covered by loan provisions, compared to 78.4% in the third quarter. Banking sector profitability continued to deteriorate slightly in the fourth quarter as the return-on-equity ratio dropped to 9.6%, compared to 11.1% in the previous three months and 10.2% in the same period one year earlier. The return on average assets also declined, to 1.3% from 1.5% in the third quarter. The banking system's overall capital adequacy ratio rose by 2 pps q-o-q to 17.5% in the fourth quarter above the country's regulatory minimum of 12%. However, there are big differences among the countries' 23 banks, with some pockets of vulnerability remaining, in particular in the case of some smaller local banks.

Fiscal developments

Public-sector revenues continued to perform well. During the fourth quarter of 2018 and the first 3 months of 2019, indirect taxes, accounting for about 40% of total revenues, continued to be some 7% higher than a year before. Spending on public wages remained contained. Budget proposals for 2019 envisage a country-wide deficit of about 1% of GDP.

The general government debt-to-GDP ratio declined to 35.5% at the end of December from 35.9% a year before. The share of foreign-currency denominated debt rose by 2.7 pps y-o-y to 87.6% at end-2018. The main debt instrument are loans, which increased slightly, from 79.2% of total general government debt at the end of 2017 to 80.4% end of 2018. The three largest holders of foreign debt are still the World Bank, the European Investment Bank (EIB) and the EBRD, accounting for about 23%, 22% and 10% of the country's total foreign public debt, respectively.

TABLE



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA

		2014	2015	2016	2017	2018	Q3 18	Q4 18	Q1 19	Jan 19	Feb 19	Mar 19
1 Real sector												
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	0.2	3.1	4.4	3.1	1.6	0.8	-0.4	:	-6.5	-3.5	:
Gross domestic product ^{1.3}	Ann. % ch	0.7	4.1	3.4	3.4	3.1	2.7	3.0	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	1.9	1.8	2.3	1.6	1.4	0.9	2.2	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	11.5	-3.5	2.5	5.1	:	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	-53.8	-15.2	49.8	-18.9	2.2	-47.0	2.2	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	1.8	7.8	7.0	5.1	8.2	9.2	9.3	:	-0.3	12.6	:
2 Labour market												
Unemployment ^{2.1}	%	27.5	27.7	25.4	20.5	18.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-1.2	1.2	-2.6	1.9	0.7	2.0	2.6	N.A.	2.9	4.1	N.A.
Wages ^{2.3}	Ann. % ch	-0.1	0.0	0.9	1.6	3.1	3.5	4.2	..	4.2	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	3.0	5.1	7.0	21.3	8.0	4.7	3.0	:	-5.8	2.2	:
Imports of goods ^{3.2}	Ann. % ch	7.1	-2.3	2.6	13.3	5.3	5.6	1.7	:	2.5	9.1	:
Trade balance* ^{3.3}	% of GDP	-27.8	-24.2	-22.7	-22.7	-22.2	-22.4	-22.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	32.8	33.5	34.3	38.7	39.9	43.4	38.9	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	54.7	51.3	50.4	54.4	54.9	57.8	54.7	:	N.A.	N.A.	N.A.
Current account balance* ^{3.6}	% of GDP	-7.1	-5.1	-4.5	-4.5	-4.0	-4.0	-4.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* ^{3.7}	% of GDP	2.8	1.7	1.6	2.0	2.2	2.3	2.2	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	4,016.3	4,438.9	4,884.1	5,392.9	5,962.3	5,943.1	5,962.3	:	5,962.2	5,909.0	:
Int. reserves / months Imp ^{3.9}	Ratio	5.8	6.6	7.1	7.0	7.2	7.0	7.6	:	7.2	7.1	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	-0.9	-1.0	-1.6	0.8	1.4	2.1	1.7	:	1.5	0.9	:
Producer prices ^{4.2}	Ann. % ch	-0.2	-0.6	-0.9	1.8	3.2	4.4	2.8	:	1.2	1.4	:
Food prices ^{4.3}	Ann. % ch	-2.7	-0.9	-1.3	1.3	0.6	:	:	:	:	:	:
M2 ^{4.4}	Ann. % ch	7.3	8.0	8.3	9.5	9.4	10.3	9.4	:	8.9	8.9	:
Exchange rate BAM/EUR ^{4.5}	Value	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Nominal eff. exchange rate ^{4.6}	Index	103.08	102.03	103.31	104.11	105.75	106.56	106.32	:	106.08	:	:
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	707	701	692	627	621	630	634	690	639	677	754
Credit growth ^{5.4}	Ann. % ch	3.7	1.8	2.1	5.3	6.6	6.5	6.4	:	5.9	5.5	:
Deposit growth ^{5.5}	Ann. % ch	8.4	6.2	7.7	10.4	11.3	12.0	9.9	:	9.9	9.3	:
Non performing loans ^{5.6}	% total	15.2	13.9	12.3	10.9	:	9.4	N.A.	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance** ^{6.1}	% of GDP	-2.0	0.7	1.2	2.6	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.2	40.3	39.0	35.9	35.5	35.6	35.5	:	N.A.	N.A.	N.A.

* Q figures refer to a 4 quarters moving average.

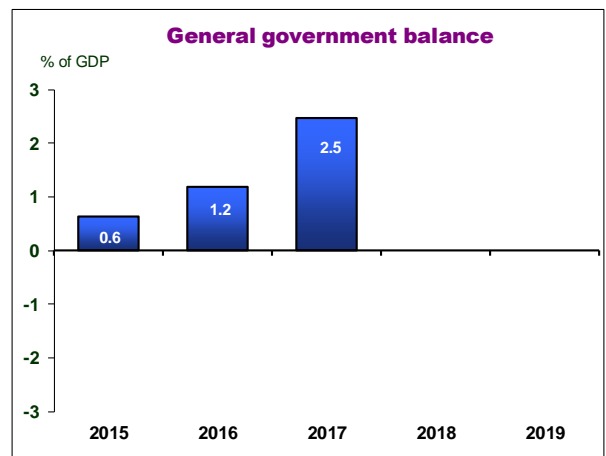
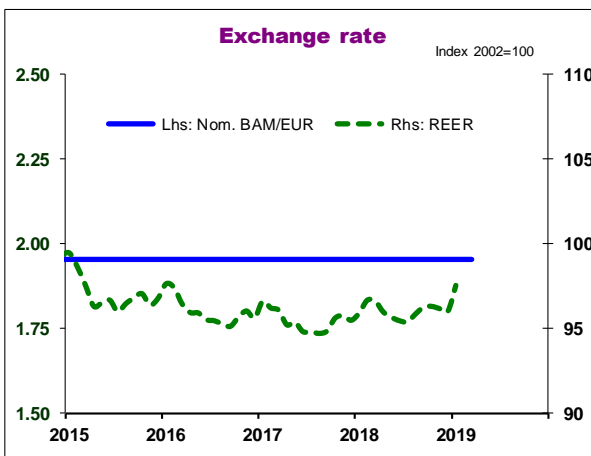
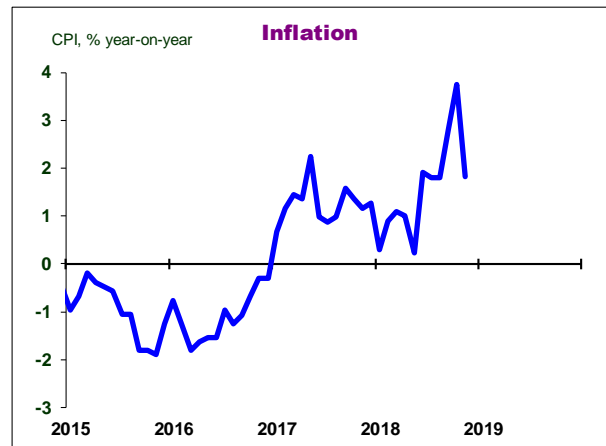
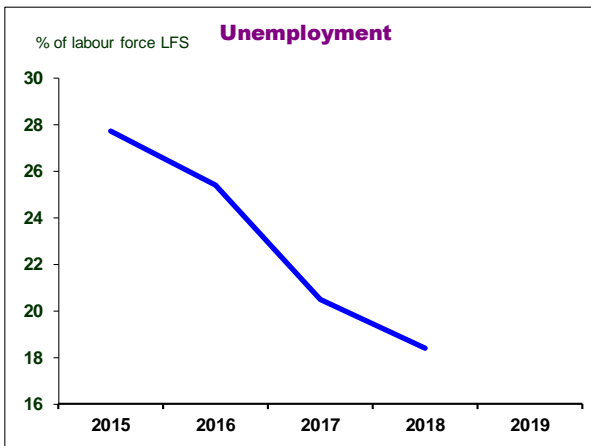
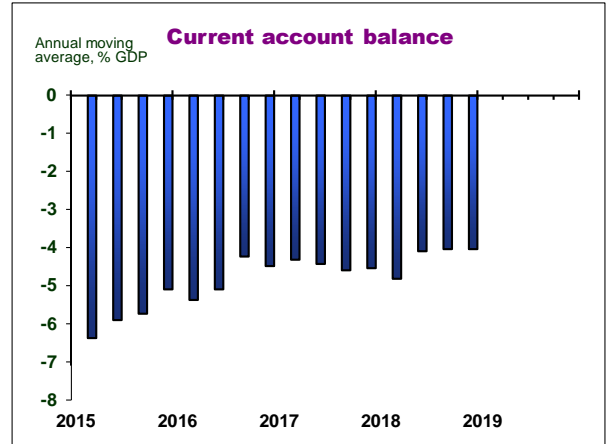
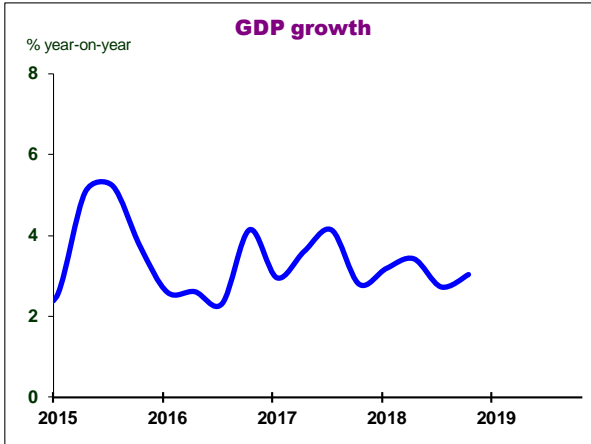
** Q figures refer to the quarterly balance divided by the quarterly GDP.

CHARTS



European Commission, ECFIN-D-1

BOSNIA AND HERZEGOVINA





Key developments

In January, Kosovo submitted its 2019 Economic Reform Programme (ERP) to the Commission, covering 2019-2021. It projects an optimistic economic outlook with an average annual GDP growth of 4.5%, driven by private consumption and an ambitious public investment programme. The ERP underlines Kosovo's commitment to sustainable public finance but recognises that fiscal risks related to new social transfer initiatives have increased.

Following the adoption of the 2019 budget in February, the Assembly adopted the Law on salaries for public employees and the Law on pension supplements for teachers who worked in the parallel system during the 1990s. The fiscal impact of the new laws is still unclear.

Real sector

In the last quarter of 2018, economic growth slightly accelerated to 3.8% y-o-y from 3.4% in the third quarter. Based on quarterly data for 2018, the provisional estimate of annual GDP growth is 3.9%. Mainly driven by public works, gross fixed capital formation increased by 14% y-o-y, providing the largest contribution to growth in 2018. Government and household consumption rose by 1.6% y-o-y and 4.0% y-o-y respectively; the latter was supported by healthy remittances inflows, growing wages and easier access to credit. Net exports of goods and services provided a large negative contribution to GDP growth (4.2 pps.) owing to a strong growth of imports (8.1% y-o-y) and sluggish exports (1.4% y-o-y) weighed down by the temporary closure of the biggest producer of base metals. In 2018, gross value added grew by 3.7% y-o-y and was driven by higher output in the construction, mining, and manufacturing sectors (by 12%, 10.4% and 10.6% y-o-y, respectively) with further positive contributions coming from the financial activities, wholesale and retail sectors. Agriculture and transportation recorded negative growth rates of 7% and 2% respectively.

In the fourth quarter of 2018, industrial turnover decreased by an estimated 5.7% y-o-y. The most pronounced fall (15.8% y-o-y) took place in mining, which was only partially offset by increase (9% y-o-y) in electricity and gas

production.¹ Quarter-based annual estimate of industrial turnover remained broadly unchanged as compared to 2017.

Labour market

Economic growth has not translated into better labour market outcomes. According to the labour force survey, the labour force participation rate fell slightly to 42% in the last quarter of 2018 from 42.9% a year before. The participation rate of women stood at 20.5% with more than one third of economically active women (38%) being unemployed. Over the same period, the overall employment rate also dropped, to 28.8% from 29.8%. The wide gap between male and female employment rates (at 45.2% and 12.7% respectively) persisted. The unemployment rate increased to 31.4% in the fourth quarter from 30.6% a year earlier.² Persistently high youth unemployment (15-24 years) increased even further, to 57.3% from 55.9% a year before.

External sector

Despite strong growth in service exports in 2018, the current account deficit widened substantially, to 8.6% of GDP from 6.1% in 2017. Due to negative growth of goods exports and rapid expansion of imports, the deficit of goods and services increased to 29.8% of GDP from 26.8% in the previous year. Supported by growth in the EU, the increase in worker remittances remained stable, and they accounted for 11.8% of GDP. On the financing side, total net FDI inflows declined to 2.8% of GDP in 2018, covering about one third of the current account deficit. Lower net FDI was due to higher repatriation of foreign firms' profits for debt repayments, which reduced the scope for reinvestment of earnings. Official reserve assets in months of imports continued to decline to 4.5 at the late 2018 from nearly 5 months of imports of goods a year before.

* 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.

¹ The gross value added (GVA) is compiled using basic prices and does not include taxes (less subsidies) on products, whereas industrial production is at factor cost.

² Annual unemployment estimate based on four-quarter-average is 29.6% due to lower unemployment (26.5 %) in the first quarter of 2018.

In the first two months of 2019, total goods exports expanded by 1.3% y-o-y while merchandise imports rose by 5.7% y-o-y. The introduction of 100% import tariffs on goods originating from Serbia and from Bosnia and Herzegovina in November had a strong effect of trade diversion, as the share of imports originating from Serbia dropped to 0.2% of the total in February from 12.3% in October. The overall share of goods imports from the CEFTA region declined from 27.9% to 14.3% over the same period. This was compensated by a higher share of imports coming from the EU, which increased from 40.3% to 49.8% of the total.

Monetary developments

In 2018, average annual inflation reached 1.1 % as consumer prices accelerated during the year, from -0.2 % y-o-y in January to 2.9 % y-o-y in December. The key driver was food prices, which rose steadily from July and hit a growth rate of 5.5 % y-o-y in December following the introduction of 100 % import tariffs on goods imported from Serbia and from Bosnia and Herzegovina. Monthly inflation rates observed in January and February were over 3 % y-o-y, mainly driven by food prices which rose over 6% y-o-y in each month.

The annual average producer price and construction cost indices increased moderately in 2018, by 1.4% and 1.6% y-o-y respectively. Average annual increase of import prices stood at 2.5% in 2018, driven by a 4% y-o-y increase in the last quarter.

Financial sector

In 2018, annual average credit growth was recorded at nearly 11%, supported by low interest rates, guarantees provided by the Credit Guarantee Fund for lending to SMEs, and strengthened contract enforcement. The annual growth rate of deposits stood at 6.4%, leading to a rising loans-to-deposit ratio, to nearly 82% from 80% in 2017. The credit-to-GDP ratio stood at 40.7%, suggesting there is still ample room for stronger banking activity.

At the end of 2018, the average weighted interest rate for loans declined to 6.0% from 6.8% a year ago while the average interest rate on deposits increased slightly to 1.5% from 1.3%. This resulted in a spread of 4.5 percentage points, i.e. 1 pp. lower than at end-2017.

Financial soundness indicators in the banking sector remained satisfactory throughout the year. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 36.5% in October 2018, compared to 37% at the end of 2017. The capital adequacy ratio was 16.1%, comfortably above the regulatory minimum of 12%. The already low NPL ratio decreased further, to 2.8% from 3.1% a year earlier. This was driven by improved asset quality and faster lending, as well as by accelerated write-offs, following amendments to the regulation on credit risk management.

Fiscal developments

Preliminary figures on the 2018 budget outcome, as presented in the ERP, indicate a budget deficit of 1.1% of GDP according to the fiscal rule definition. The overall headline deficit stood at 2.8% of GDP. Total government revenues increased by 5%, supported by higher growth of personal and corporate tax revenue, while VAT revenues, which accounts for a half of tax revenues, expanded by 5.7%. Total expenditure rose by a sizeable 10.7%. Current expenditure grew by 9.5% due to higher consumption of goods and services as well as increasing subsidies and transfers. While capital spending increased by 14% y-o-y, the execution rate of the capital budget was only 76.8%. Recurrent spending overshot the planned budget by EUR 17.8 million (0.3% of GDP) mainly due to higher spending on war veteran pensions in the absence of a reclassification of beneficiaries.

The 2019 budget targets a deficit of 2% of GDP which is the ceiling fixed by the fiscal rule. The overall deficit is set at 6% of GDP. Compared to the 2018 outcome, the budget envisages budgetary revenue and expenditure to grow by 10.2% and 21.5%, respectively. Revenue growth is expected to be mainly driven by increased VAT collection due to robust GDP growth (assumed 4.7% in 2019), improved tax compliance and tax debt collection. The projected hike in public spending will be driven by large increases in current (12.6%) and capital spending (47.9%). The recently adopted fiscal measures on public salaries and teacher pension supplements are not included in the 2019 budget.

At the end of 2018 total public debt including guarantees increased to 16.2% of GDP. The average maturity of domestic debt rose to 27 months at the end of 2018, from 20 months in 2017, as Kosovo has issued debt with longer maturities more regularly, including bonds with 7 and 10 years' maturity in 2018.

TABLE

European Commission, ECFIN-D-1



KOSOVO*

							ECFIN Forecast							
		2014	2015	2016	2017	2018	2008	2009	Q3 18	Q4 18	Q1 19	Jan 19	Feb 19	Mar 19
1 Real sector														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	0.0	1.3	-1.3	-1.3	:	:	:	N.A.	N.A.	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	1.2	4.1	4.1	4.2	3.9	:	:	3.4	3.8	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	9.6	6.7	6.6	1.8	:	:	:	8.4	2.3	:	N.A.	N.A.	N.A.
Investment ^{1.5}	Ann. % ch	-5.0	11.3	7.5	5.6	:	:	:	24.6	9.2	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	11.6	7.1	6.5	12.0	17.4	:	:	20.5	18.9	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	35.3	32.9	27.5	30.5	29.6	:	:	30.7	31.4	:	N.A.	N.A.	N.A.
Employment ^{2.2}	Ann. % ch	-4.4	-8.2	11.8	7.6	:	:	:	-4.9	-2.2	:	N.A.	N.A.	N.A.
Wages ^{2.3}	Ann. % ch	N.A.	5.8	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	:	N.A.	N.A.	N.A.
3 External sector														
Exports of goods ^{3.1}	Ann. % ch	10.4	0.2	-4.8	22.1	-2.8	:	:	-8.7	9.4	:	-4.2	7.4	:
Imports of goods ^{3.2}	Ann. % ch	3.6	3.8	5.9	9.2	9.6	:	:	10.9	6.8	:	-2.4	13.4	:
Trade balance*** ^{3.3}	% of GDP	-39.8	-39.8	-40.9	-42.5	-45.5	:	:	-45.3	-45.5	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	22.5	21.9	22.2	27.0	27.2	:	:	46.4	18.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	51.2	50.4	50.6	53.8	57.0	:	:	58.1	56.0	:	N.A.	N.A.	N.A.
Current account balance*** ^{3.6}	% of GDP	-6.9	-8.6	-7.9	-6.1	-8.6	:	:	-7.9	-8.3	:	N.A.	N.A.	N.A.
Direct investment (FDI, inflow)*** ^{3.7}	% of GDP	2.7	5.3	3.6	4.1	2.8	:	:	3.3	2.8	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1266.4	1,302.6	1,161.7	1,242.6	1,239.6	:	:	1374.9	1,239.6	:	1347.6	1,351.0	:
Int. reserves / months Imp ^{3.9}	Ratio	6.0	5.9	5.0	4.9	4.5	:	:	5.0	4.5	:	4.8	4.8	N.A.
4 Monetary developments														
HICP ^{4.1}	Ann. % ch	0.4	-0.5	0.3	1.5	1.1	:	:	1.4	2.2	:	3.1	3.2	N.A.
Producer prices ^{4.2}	Ann. % ch	1.6	2.7	-0.1	0.6	1.4	:	:	2.3	1.3	:	N.A.	N.A.	N.A.
Food prices ^{4.3}	Ann. % ch	0.1	0.3	-0.2	:	:	:	:	:	:	:	:	:	:
Broad money liabilities ^{4.4}	Ann. % ch	-4.3	5.6	9.2	6.4	8.0	:	:	5.3	8.0	:	8.3	6.9	:
Exchange rate EUR/EUR ^{4.5}	Value	1.0	1.0	1.0	1.0	1.0	:	:	1.0	1.0	1.0	1.0	1.0	1.0
Real eff. exchange rate (CPI) ^{4.6}	Index	106.7	104.7	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
5 Financial indicators														
Interest rate ^{5.1}	% p.a.	10.62	8.32	7.47	6.83	6.65	:	:	6.67	6.31	:	6.71	6.81	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit growth ^{5.4}	Ann. % ch	3.4	6.9	9.1	10.5	11.1	:	:	11.6	11.2	:	11.4	11.4	:
Deposit growth ^{5.5}	Ann. % ch	7.2	5.6	4.8	8.6	6.4	:	:	5.8	7.8	:	8.4	8.2	:
Non-performing loans ^{5.6}	% total	8.3	6.2	4.9	3.1	:	:	:	:	:	:	:	:	:
6 Fiscal developments														
General government balance** ^{6.1}	% of GDP	-2.2	-2.0	-1.2	-1.3	-2.8	:	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	10.7	13.1	14.6	15.5	16.2	:	:	:	:	:	N.A.	N.A.	N.A.

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

** Source: IMF.

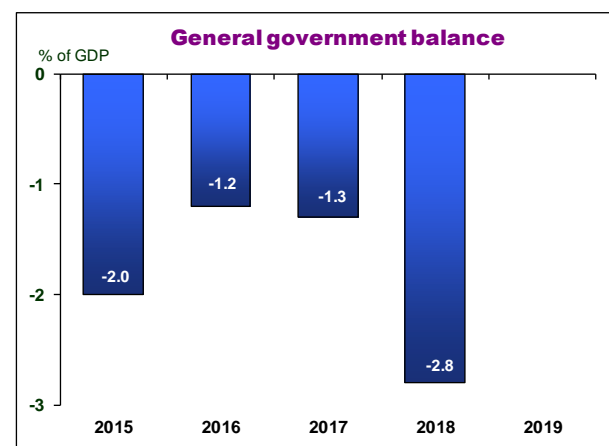
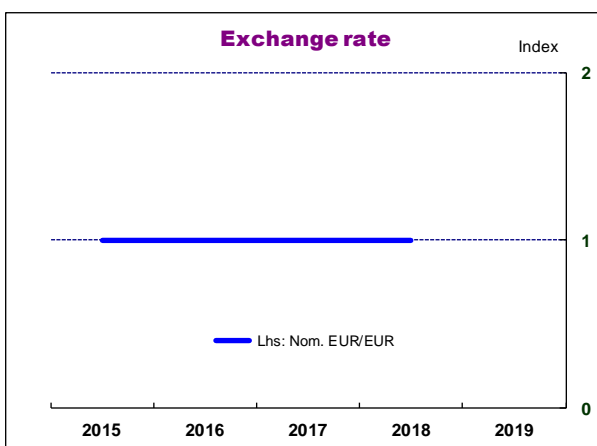
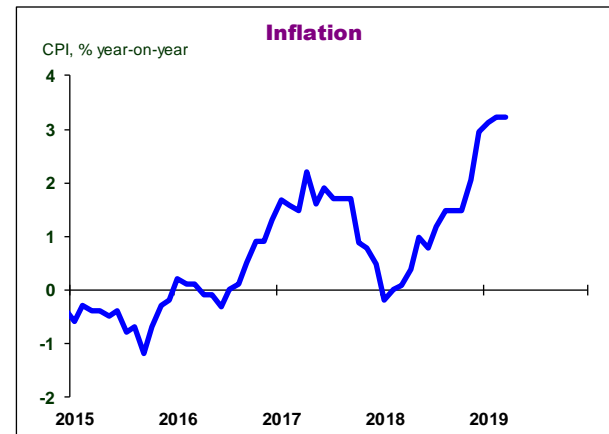
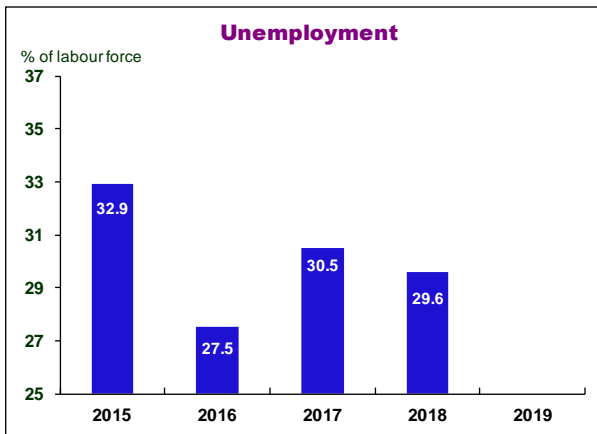
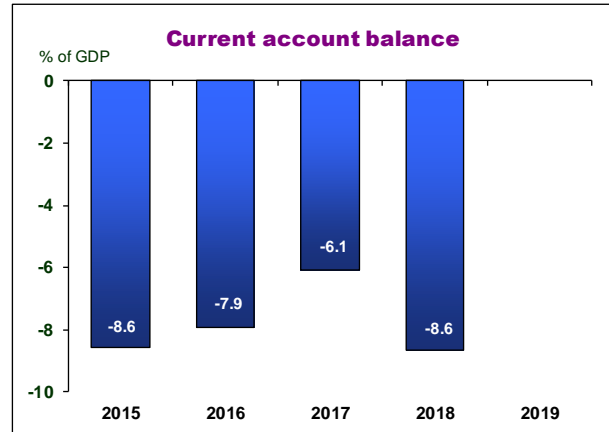
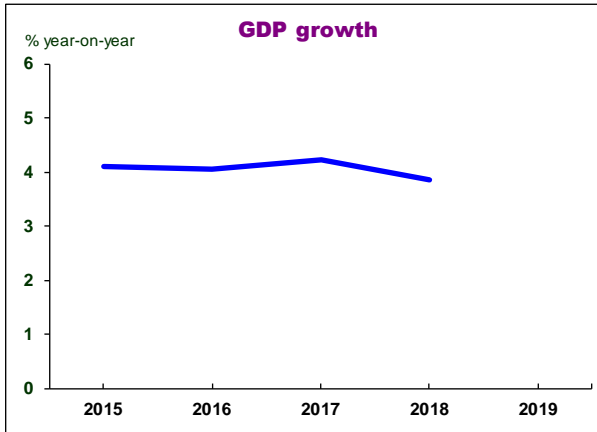
*** Q figures refer to a 4 quarters moving average.

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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.
Source of data: IMF, national sources



No.	Indicator	Note	Source
1.	Real sector		
1.1.	Industrial confidence indicator	Business Surveys, industry sector, industrial confidence Indicator, SA	MacroBond
1.2.	Industrial production	Industrial production volume index, 2010=100	MacroBond
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	MacroBond
1.4.	Private consumption	Annual percentage change, constant prices, ALL, average prices of previous year	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, constant prices, ALL, average prices of previous year	MacroBond
1.6.	Construction index	Annual percentage change, construction costs, total, 1999Q4=100	MacroBond
1.7.	Retail sales	Annual percentage change, total, 2005=100	MacroBond
2.	Labour market		
2.1.	Unemployment	In percent of total labour force	MacroBond
2.2.	Employment	Annual percentage change	MacroBond
2.3.	Wages	Average monthly wages in State sector	MacroBond
3.	External sector		
3.1.	Exports of goods	Annual percentage change, mio. LEK. Break in series 2013.	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. Lek. Break in series 2013.	MacroBond
3.3.	Trade balance	In percent of GDP	MacroBond
3.4.	Exports goods and services	In percent of GDP. Annual data. Break in series 2013.	MacroBond
3.5.	Imports goods and services	In percent of GDP. Annual data. Break in series 2013.	MacroBond
3.6.	Current account balance	In percent of GDP, including official transfers	MacroBond
3.7.	Direct investment (FDI, net)	In percent of GDP	MacroBond
3.8.	Reserves, International reserves of the National Bank	Net foreign assets, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio based on annual imports of goods and services.	ECFIN
4.	Monetary developments		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change Up to 2007 Dec2001 = 100, 2007 onwards Dec2007 = 100.	MacroBond
4.2.	Producer prices	Annual percentage change, Total, index (1998)	MacroBond
4.3.	Food prices	Annual percentage change, Food and Non-alcoholic Beverages, Total, December 2007=100	MacroBond
4.4.	M2	Annual percentage change	MacroBond
4.5.	Exchange rate LEK/EUR	Period averages	MacroBond
4.6.	Change real eff. exchange rate	Not available	
5.	Financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	MacroBond
5.2.	Bond yield	Government Benchmarks, 3 Year Bond, Yield	MacroBond
5.3.	Stock markets	Not available	
5.4.	Credit growth	Annual percentage change, total	MacroBond
5.5.	Deposit growth	Annual percentage change, total	MacroBond
5.6.	Non-performing loans	Credit Portfolio Quality, NPLs %	MacroBond
6.	Fiscal developments		
6.1.	General government balance	Quarterly balance in percent of estimated annual GDP.	MacroBond
6.2.	General government debt	In percent of GDP	MacroBond



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Surveys, EC Industry Survey, Industrial Confidence Indicator, NSA	MacroBond
1.2.	Industrial production	Annual percentage change	MacroBond
1.3.	Gross domestic product	Annual percentage change, annual data, chain index. ESA2010 from 2011 onwards, before ESA95.	MacroBond
1.4.	Private consumption	Annual percentage change, annual data, chain index	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MacroBond
1.6.	Construction index	Annual percentage change, value of performed work, current prices	MacroBond
1.7.	Retail sales	Annual percentage change, turnover, total	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of active population, e.o.p.	MacroBond
2.2.	Employment	Annual percentage change of registered employment, avrg.	MacroBond
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, thou. EUR	MacroBond
3.2.	Imports of goods	Annual percentage change, thou. EUR	MacroBond
3.3.	Trade balance	In percent of GDP, annualised data	MacroBond
3.4.	Exports goods and services	Annual data	MacroBond
3.5.	Imports goods and services	Annual data	MacroBond
3.6.	Current account balance	In percent of GDP, annualised data	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	MacroBond
3.8.	Reserves, International reserves of the National Bank	Claim on nonresidents, total, mio EUR.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average.	MacroBond
4. Monetary developments			
4.1.	CPI	Consumer price index (from Jan. 2008, cost-of-living index before), annual average percentage change, moving base year	MacroBond
4.2.	Producer prices	Annual percentage change	MacroBond
4.3.	Food prices	Annual percentage change, food and non-alcoholic beverages, total, CPPY=100	MacroBond
4.4.	M21	Annual percentage change, M21 (Broadest money)	Discontinued
4.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
4.6.	Nominal exchange rate	Not available	
5. Financial indicators			
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	MacroBond
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	MacroBond
5.3.	Stock markets	MOSTE Index, Close	MacroBond
5.4.	Credit growth	Annual percentage change, commercial banks, assets, loans	MacroBond
5.5.	Deposit growth	Annual percentage change, commercial banks, liabilities, deposits	MacroBond
5.6.	Non-performing loans	% of total	Central Bank ME
6. Fiscal developments			
6.1.	General government balance	Quarterly balance in percent of estimated annual GDP.	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance

NORTH MACEDONIA Explanatory notes



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



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



No.	Indicator	Note	Source
1. Real sector			
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	MacroBond
1.2.	Industrial production	Annual percentage change, volume (index 2010), excluding construction, calendar adjusted	MacroBond
1.3.	Gross domestic product	Annual percentage change,	MacroBond
1.4.	Private consumption	Annual percentage change, index (2009 prices)	MacroBond
1.5.	Gross fixed capital formation	Annual percentage change,	MacroBond
1.6.	Construction index	Annual percentage change, construction permits, buildings, total, TRY	MacroBond
1.7.	Retail sales	Retail trade, annual percentage change, volume, 2015=100	MacroBond
2. Labour market			
2.1.	Unemployment	In percent of total labour force, 15-64 age group, Labour Force Survey data	MacroBond
2.2.	Employment	Annual percentage change, 15-64 age group, Labour Force Survey data	MacroBond
2.3.	Wages	Annual percentage, Hourly earnings manufacturing / Index publication base -	MacroBond
3. External sector			
3.1.	Exports of goods	Annual percentage change, mio. EUR, fob	MacroBond
3.2.	Imports of goods	Annual percentage change, mio. EUR, cif	MacroBond
3.3.	Trade balance	In percent of GDP, annualised moving average	MacroBond
3.4.	Exports goods and services	In percent of GDP	MacroBond
3.5.	Imports goods and services	In percent of GDP	MacroBond
3.6.	Current account balance	In percent of GDP, annualised moving average	MacroBond
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised moving average of direct investment in reporting economy minus direct investment abroad	MacroBond
3.8.	Reserves, International reserves of the National Bank	Gross international reserves, mio EUR, eop.	MacroBond
3.9.	Reserves / months Imp	Ratio of 12 months imports of goods moving average	MacroBond
4. Monetary developments			
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	MacroBond
4.2.	Producer prices	Annual percentage change, wholesale prices index (1994)	MacroBond
4.3.	Food prices	Annual pc, Food and Non-alcoholic Beverages, Total, TRY, 2003=100	MacroBond
4.4.	M3	Money supply M3, total, TRY	MacroBond
4.5.	Exchange rate YTL/EUR	Period averages	MacroBond
4.6.	Nominal eff. exchange rate	Index 1999, period averages	MacroBond
5. Financial indicators			
5.1.	Interest rate	Deposit rates, 3 month, close	MacroBond
5.2.	Bond yield	T-bond ISMA bid, 2 year, yield, close	MacroBond
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	MacroBond
5.4.	Credit growth	Annual percentage change, banking system, total loans, TRY	MacroBond
5.5.	Deposit growth	Annual percentage change, banking system, total deposits, TRY	MacroBond
5.6.	Non-performing loans	In percent of total lons	MacroBond
6. Fiscal developments			
6.1.	General government balance	In percent of GDP, Q/Q GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



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



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

* 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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