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CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIES QUARTERLY

Contents

OVERVIEW.....	2
CROATIA	4
THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA	8
TURKEY	12
ALBANIA.....	16
BOSNIA AND HERZEGOVINA	20
MONTENEGRO.....	24
SERBIA	28
KOSOVO (AS DEFINED BY UNSCR 1244).....	32

CANDIDATE AND PRE-ACCESSION COUNTRIES' ECONOMIES QUARTERLY

OVERVIEW

Recent political developments: In Serbia, following the January 2007 general elections, a new government was formed on 10 May, headed by Mr Koštunica of the Democratic Party of Serbia (DSS), in coalition with the Democratic Party (DS) and the small liberal G17 party. Negotiations are still ongoing in the UN Security Council on a status settlement for Kosovo, following the settlement proposal submitted on 26 March by Mr Ahtisaari, the UN Special Envoy.

In Turkey, general elections are scheduled for 22 July 2007. Presidential elections were postponed after the Constitutional Court annulled some key articles of new legislation aimed at electing the new president by popular vote. At the end of March, the EU formally opened negotiations with Turkey on the Enterprise and Industry Chapter. Negotiations on two other accession chapters – Statistics and Financial Control – began on 26 June.

Output and demand: Over the first quarter of 2007, economic growth in the region accelerated markedly. GDP grew, on average, by around 7% y-o-y, against 5.5% for the full year 2006. In Croatia, growth accelerated to 7%, fuelled by private consumption and public investment. Growth reached the record level of 8.7% in Serbia, induced by an expansionary fiscal stance, and was also strong in Montenegro at 6.6% y-o-y. In the former Yugoslav Republic of Macedonia, the economic expansion accelerated from a rather sluggish performance in previous years, as GDP increased in the first quarter 2007 by 7%. In spite of a tight monetary stance, in Turkey growth was higher than expected, at 6.8% y-o-y, owing to strong export growth of 14.5%, up from 8.5% in 2006.

Labour markets: Unemployment remained relatively high but very variable across countries, ranging from around 10% in Turkey and around 11.5% in Croatia to 36% in the former Yugoslav Republic of Macedonia and 40% in Kosovo. However, the data are not always entirely reliable.

International transactions: Current account balances continued to show deficits in all countries – some of them fairly high. They were particularly elevated in the euro-ised economies

of Kosovo (UN 1244) and Montenegro (around 30% of GDP), owing to weak export performance in Kosovo's case and, in Montenegro's, financed by strong private capital inflows, in particular into real estate. In 2006 the current account was close to balance in the former Yugoslav Republic of Macedonia, reflecting strong export growth and relatively subdued domestic and import demand. In the first quarter of 2007 the current account deficit widened in Serbia, boosted by strong domestic demand. In contrast, it narrowed by one percentage point of GDP in Turkey on the back of strong exports and moderate internal demand.

Prices: Inflation continued to remain relatively low across the Western Balkans. And where it had been higher over recent years, namely in Serbia, it dropped markedly in recent months, to 5.1% y-o-y in May 2007. This performance was facilitated by the formal or de facto currency peg in most countries and the new monetary regime in Serbia (inflation-targeting) with a subsequent revaluation of the currency. In Turkey, inflation decelerated to 8.6% in June 2007, although this is still above the target range of the central bank.

Monetary and financial indicators: Most countries' currencies have a fixed peg to the euro and Kosovo and Montenegro use the euro. The Croatian, Serbian and Macedonian currencies continue to remain fairly stable against the euro. During the first half of 2007, the Turkish lira appreciated to around 1.77 TRY/EUR in June 2007.

Government balance: In 2006 Croatia achieved further fiscal consolidation, bringing its general government deficit down to 2.2% of GDP in 2006 from 3.8% in 2005. Turkey posted a slight surplus of 0.4% of GDP and achieved an accompanying further dramatic decline of government debt. The former Yugoslav Republic of Macedonia recorded a slight rise in its deficit, though it remained moderate at 0.6% of GDP. Most potential candidate countries posted budget surpluses in 2006, ranging from 3.4% in Kosovo (UN1244) and 3.1% in Bosnia and Herzegovina to 1.6% in Serbia and 1.1% in Montenegro. Albania remains the weakest performer in this category with a deficit of 3.2% in 2006 which, moreover, is expected to increase to 4.8% in 2007.

Candidate and potential candidate countries: Summary table

	2002	2003	2004	2005	2006	ECFIN Forecast		Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
						2007	2008						
Gross domestic product (in real terms, annual % change)													
Croatia	5.6	5.3	4.3	4.3	4.8	4.8	4.5	4.8	7.0	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	0.8	2.9	2.9	3.8	3.0	4.3	5.3	2.7	7.0	:	n.a.	n.a.	n.a.
Turkey	7.9	5.8	9.0	7.4	6.1	4.9	5.9	5.2	6.8	:	n.a.	n.a.	n.a.
Albania	4.3	5.8	6.2	5.6	5.0	:	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	5.5	3.0	6.0	5.5	6.2	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	1.7	2.4	4.2	4.0	6.5	:	:	6.4	6.6	:	n.a.	n.a.	n.a.
Serbia	4.2	2.5	8.4	6.2	5.7	:	:	5.0	8.7	:	n.a.	n.a.	n.a.
Kosovo (UNSCR 1244)	-2.4	-0.1	3.3	0.6	3.8	:	:	:	:	:	n.a.	n.a.	n.a.
Unemployment (LFS, in % of workforce)													
Croatia	14.8	14.3	13.8	12.7	11.2	11.5	11.3	16.5	16.9	:	15.9	15.1	:
The former Yugoslav Republic of Macedonia	31.9	36.7	37.2	37.3	36.0	35.8	34.7	35.9	:	:	:	:	:
Turkey	10.4	10.5	10.3	10.2	9.9	9.9	9.6	9.6	11.4	:	:	:	:
Albania	16.0	15.2	14.7	14.3	13.8	:	:	13.8	13.6	:	:	:	:
Bosnia and Herzegovina	40.9	42.0	43.1	44.1	44.1	:	:	:	44.7	:	44.7	:	:
Montenegro	28.9	26.0	22.3	18.5	14.7	:	:	14.7	14.7	:	14.2	13.4	:
Serbia	14.5	16.0	19.5	21.8	21.6	:	:	20.9	21.4	:	21.2	20.7	:
Kosovo (UNSCR 1244)	47.0	49.7	39.7	42.2	40.0	:	:	:	:	:	:	:	:
Current account balance (% of GDP)													
Croatia	-8.4	-7.3	-5.3	-6.4	-7.9	-8.1	-8.0	-7.9	-8.0	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-9.5	-3.4	-7.7	-1.3	-0.4	-2.0	-2.6	-0.4	:	:	n.a.	n.a.	n.a.
Turkey	-0.8	-3.3	-5.2	-6.2	-7.9	-7.2	-6.6	-7.9	-7.0	:	n.a.	n.a.	n.a.
Albania	-8.5	-5.8	-4.5	-7.5	-7.1	:	:	-7.5	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-19.1	-20.9	-19.2	-21.3	-11.4	:	:	-11.8	:	:	n.a.	n.a.	n.a.
Montenegro	-12.6	-7.3	-7.2	-8.6	-29.4	:	:	-29.4	-30.7	:	n.a.	n.a.	n.a.
Serbia	-8.7	-7.5	-11.7	-8.4	-11.5	:	:	-14.9	-18.5	:	n.a.	n.a.	n.a.
Kosovo (UNSCR 1244)	n.a.	n.a.	-18.3	-18.5	-19.3	:	:	:	:	:	n.a.	n.a.	n.a.
Inflation (Consumer price index, annual % change)													
Croatia	1.7	1.8	2.0	3.3	3.2	2.3	3.0	2.2	1.6	:	2.6	2.5	:
The former Yugoslav Republic of Macedonia	2.3	1.1	-0.4	0.5	3.2	2.0	2.5	3.1	0.7	:	1.0	0.9	:
Turkey	45.0	21.6	8.6	8.2	9.6	8.2	5.8	9.8	10.3	9.5	10.7	9.2	8.6
Albania	5.2	2.4	2.9	2.4	2.4	:	:	2.6	2.8	:	1.9	1.5	:
Bosnia and Herzegovina	0.4	0.6	0.4	3.8	7.4	:	:	:	:	:	:	:	:
Montenegro	16.4	6.8	2.2	2.4	3.0	:	:	2.8	2.5	:	2.3	2.3	:
Serbia	21.4	11.7	9.8	17.3	12.7	:	:	8.2	5.7	4.7	4.6	4.5	5.1
Kosovo (UNSCR 1244)	2.0	1.2	-1.4	-1.4	0.7	:	:	0.4	1.6	:	0.3	:	:
General government balance (% of GDP)													
Croatia	-4.1	-5.5	-4.1	-3.8	-2.2	-2.4	-2.2	:	:	:	n.a.	n.a.	n.a.
The former Yugoslav Republic of Macedonia	-5.6	-1.1	0.0	0.3	-0.6	-1.2	-1.5	-1.0	:	:	n.a.	n.a.	n.a.
Turkey	-12.3	-11.3	-5.8	-0.3	0.4	-2.2	-1.8	:	:	:	n.a.	n.a.	n.a.
Albania	-6.6	-4.5	-5.1	-3.6	-3.2	:	:	:	:	:	n.a.	n.a.	n.a.
Bosnia and Herzegovina	-0.1	0.8	1.7	2.6	3.1	:	:	:	:	:	n.a.	n.a.	n.a.
Montenegro	N.A.	-1.9	-2.4	-2.7	1.1	:	:	1.1	2.9	:	n.a.	n.a.	n.a.
Serbia	-3.1	-1.1	0.9	1.9	1.6	:	:	-0.8	1.9	:	n.a.	n.a.	n.a.
Kosovo (UNSCR 1244)	4.4	2.5	-6.2	-2.6	3.4	:	:	:	:	:	n.a.	n.a.	n.a.

f: ECFIN forecast Spring 2007

CROATIA



COMMENTS

Recent political and other developments

Ivica Racan, leader of the main opposition social democratic party (SDP) and former Prime Minister (2000-2003), died on 29 April. On 2 June, Zoran Milanovic was elected new president of the SDP.

In May, the EU Council issued Joint Ministerial conclusions on Croatia's third Pre-Accession Economic Programme (2006). They highlight the need for stronger fiscal consolidation in view of significant fiscal risks and rising external imbalances.

In June, several high-ranking officials of the State Privatisation Fund were arrested for their alleged involvement in a number of criminal acts and fraud. The Fund is likely to be dissolved.

In June, the World Bank's Board approved the second Programmatic Adjustment Loan which aims to improve the investment climate and the efficiency of the public sector.

Output and demand

In the first quarter of 2007, real GDP growth accelerated markedly to 7% year-on-year, up from 6% in the same quarter of the previous year. In 2006, annual average real growth was 4.8%. The strongest contributions to growth in the first quarter came from private consumption which grew by 7.1% year on year and gross fixed capital formation (11.2%). At the same time, government consumption increased by 2.8% year on year. Net exports posted a negative contribution (1.2 percentage points), as imports grew stronger (3.7% year on year) than exports (3%). In terms of value added, it was again the services sector which contributed significantly to the strong economic performance. Recently published high frequency indicators suggest a continuation of strong economic activity in the second quarter of 2007. In April, industrial production growth accelerated to 9.4% year-on-year, up from 9% in March, partly due to base

effects. Real retail trade grew 7.1% year on year and construction output by 2.6% in April.

Labour market

The officially registered unemployment rate further declined to 15.1% in May, down from 15.9% in April. In May 2006 it stood at 16.3%. Total employment grew 0.9% year-on-year in May, bringing the average employment growth in the first five month to 1.5%. This is lower than the 3% growth rate recorded for the same period in 2006. However, official employment data may underestimate labour market dynamics and are often due to revisions. Recent data from the labour force survey reported a decline in the unemployment rate to 10.5% in the second half of 2006, down from 12.3% in the second half of 2005, and an employment growth of 2.4% over the same period.

The growth of average gross wages accelerated to 6.8% year on year in April, up from 5.7% in the same month a year ago. Deflated by consumer price inflation, this translates into a real increase of 4.5% year-on-year, up from 2.1% in April 2006. On an annual average basis, wage growth was 6.2% in nominal and 3.6% in real terms in April. The corresponding growth rate in the same month a year ago were 5.1% and 2.1%, respectively. This indicates that real wage growth has accelerated markedly.

International transactions

According to most recent data published by the Croatian National Bank, the current account deficit widened to 8% of GDP in the twelve months to March 2007, up from 7.9% in 2006. The merchandise trade deficit rose to 24.7% of GDP (up from 24.4% in 2006) while the trade with services continued to post a surplus of 16.6% of GDP. The deficit of the income balance declined to 2.9% of GDP (3.1% in 2006). A slightly lower surplus in transfers of 3.0% (against 3.2% in 2006) contributed to the widening of the current account deficit.

According to data reported by the Statistical Office, merchandise exports increased by 9% year on year in May, when imports rose 16%. In the first five months of 2007, merchandise exports grew 7.9% year on year, while imports rose 11.8%. As a result, the merchandise trade deficit increased by 15.4% year on year to around 11.2% of projected 2007 GDP in January to May. In the same period in 2006, the trade deficit stood at 10.4% of GDP.

The net inflow of FDI increased to a record level of around 9.1% of GDP in the twelve months to March, and more than offset the current account deficit during this period.

At end-April, official reserves of the Croatian National Bank stood at a comfortable level of EUR 9,488 million, reflecting a nominal increase of around 16% as compared to April 2006. They were equivalent to close to 6 months of imports of goods and services. External debt continued to grow to EUR 29,610 million by end-March, or to around 81% of projected 2007 GDP. The growth of external debt was mainly driven by an acceleration of external borrowing of the corporate sector (32.57% year-on-year). Foreign borrowing of the banking sector slowed to 4.3% year on year, while the government sector reduced its foreign liabilities by 2.2%.

Prices

End of period inflation stood at 2.2% in April and May, which was significantly higher compared to the first quarter, due to higher prices for food, housing and health care services. However, annual average inflation remained on a downward trend and stood at 2.5% in May, compared to 3.2% in 2006.

Monetary and financial indicators

Monetary policy continued to be geared at maintaining price stability. The average growth of M4 remained at around 20% in January to April. Domestic credit growth continued to be relatively strong at 21.4% year on year in May,

slightly below 22% growth recorded in April. Lending to both enterprises and households continued to expand at a similar pace.

Average three months money market interest rates increased markedly in June to 5.68%, compared to 4.81% in May, reflecting tighter liquidity conditions. Short-term lending rates for credits to enterprises fell slightly to 6.68% (down from 6.75% at end-2006), while short-term rates for household credits increased to 12.14% (from 11.84%) during the same period. Average lending rates with a foreign exchange clause remained at around 6.3% in March.

In the first six months, the exchange rate of the Kuna vis-à-vis the euro slightly appreciated by 0.3% in nominal terms, as compared to an appreciation of 1.8% during the same period in 2006. In nominal effective terms, the Kuna appreciated by 1.5% in the twelve months to April 2007.

General government balance

According to the fiscal notification submitted by Croatia to the European Commission in April, the general government deficit as defined under ESA 95 stood at 2.2% of GDP in 2006, down from 3.9% in 2005. The first quarter of 2007 was marked by favourable fiscal developments. Due to a strong economic performance, total revenues of the general government increased by 13% year on year, with a particular strong contribution of VAT and excises which increased by 11.2% and 7.9%, respectively. General government spending rose by 7.3% year on year. Social benefit spending (9.1%) and wages (6.9%) contributed mostly to this. The fiscal notification reports the general government debt at 40.8% of GDP at end-2006, down from 43.7% a year before. In the first quarter, the stock of general government debt further increased by 1.8% to around 41.5% of 2006 GDP. This does not include the stock of issued state guarantees of 6% of GDP and the debt of the State Development Bank (HBOR) of 3% of GDP.



TABLE
CROATIA

European Commission, ECFIN-D-1

		2002	2003	2004	2005	2006	ECFIN Forecast							
							2007	2008	Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
1 Output and demand														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	5.6	4.0	3.6	5.1	4.5	:	:	6.1	8.0	:	9.4	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.6	5.3	4.3	4.3	4.8	4.8	4.5	4.8	7.0	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	7.7	4.6	4.8	3.4	3.5	4.0	3.3	4.1	7.1	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	13.9	24.7	5.0	4.9	10.9	8.5	7.5	9.2	11.2	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	4.8	2.5	2.5	2.9	2.9	2.1	2.0	2.9	2.9	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	14.8	14.3	13.8	12.7	11.2	11.5	11.3	16.5	16.9	:	15.9	15.1	:
Employment ^{2.2}	Ann. % ch	4.4	0.1	1.6	0.4	0.9	1.8	1.6	3.5	1.9	:	1.0	0.9	:
Wages ^{2.3}	Ann. % ch	6.0	4.8	6.4	4.4	6.2	6.5	6.6	7.2	6.2	:	6.8	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	-1.3	7.6	17.3	7.9	15.7	8.5	8.6	19.4	1.9	:	25.7	9.0	:
Imports of goods ^{3.2}	Ann. % ch	12.6	13.9	5.1	9.1	12.9	7.5	6.3	10.4	8.9	:	17.8	16.0	:
Trade balance ^{3.3}	% of GDP	-24.4	-26.6	-23.4	-24.0	-24.4	-25.0	-24.8	-24.4	-24.7	:	-8.5	-11.2	:
Exports goods and services ^{3.4}	% of GDP	45.3	50.0	49.4	48.7	49.5	7.2	7.3	49.5	48.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	56.4	57.9	56.4	55.8	57.3	6.8	5.8	57.3	56.9	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-8.4	-7.3	-5.3	-6.4	-7.9	-8.1	-8.0	-7.9	-8.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.4	6.4	2.1	3.9	7.4	:	:	7.4	9.1	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	1.7	1.8	2.0	3.3	3.2	2.3	3.0	2.2	1.6	:	2.6	2.5	:
GDP Deflator ^{4.2}	Ann. % ch	3.6	3.9	3.9	3.2	3.4	2.5	3.3	3.1	3.3	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	-0.4	1.9	3.5	3.0	2.9	:	:	1.7	2.0	:	2.4	2.3	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
5 Monetary and financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	4.63	5.42	7.31	6.21	4.46	:	:	4.46	4.35	5.01	4.53	4.81	5.68
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	1,167	1,129	1,284	1,920	2,771	:	:	3,241	3,932	4,808	4,613	4,977	4,835
M4 ^{5.4}	Ann. % ch	30.8	11.4	8.2	9.6	14.3	:	:	17.5	20.4	:	20.6	19.9	:
Exchange rate HRK/EUR ^{5.5}	Value	7.42	7.58	7.50	7.40	7.32	:	:	7.35	7.37	:	7.37	:	:
Nominal eff. exchange rate ^{5.6}	Index	97.81	94.95	91.67	90.45	89.29	:	:	89.13	88.73	:	88.41	:	:
6 Government balance and debt														
General government balance ^{6.1}	% of GDP	-4.1	-5.5	-4.1	-3.8	-2.2	-2.4	-2.2	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	40.0	41.0	43.2	44.2	42.1	40.1	39.7	:	:	:	N.A.	N.A.	N.A.

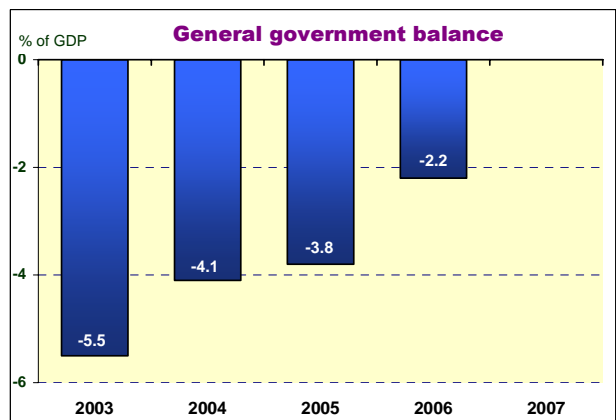
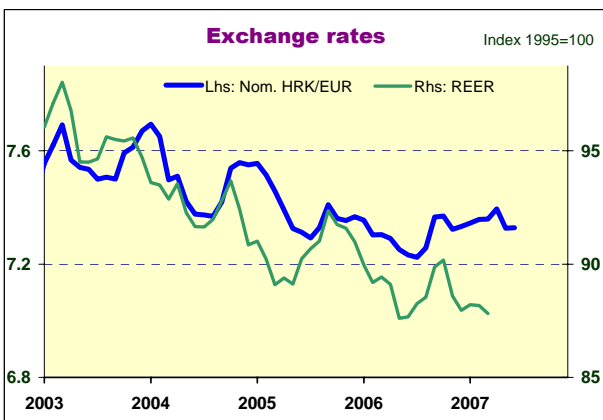
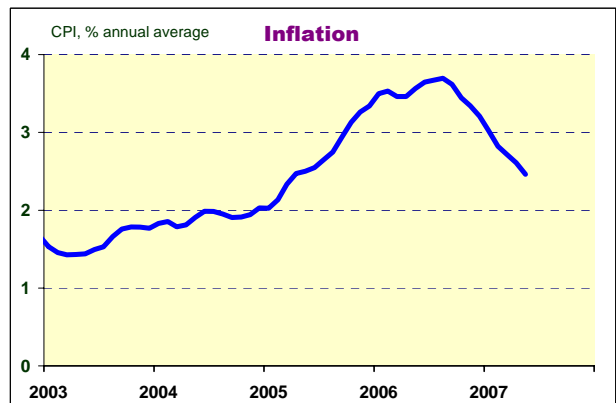
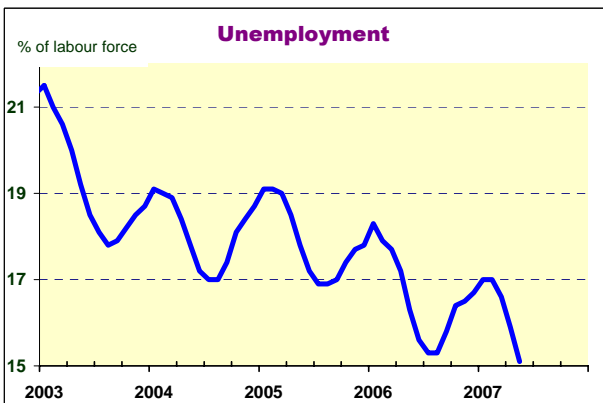
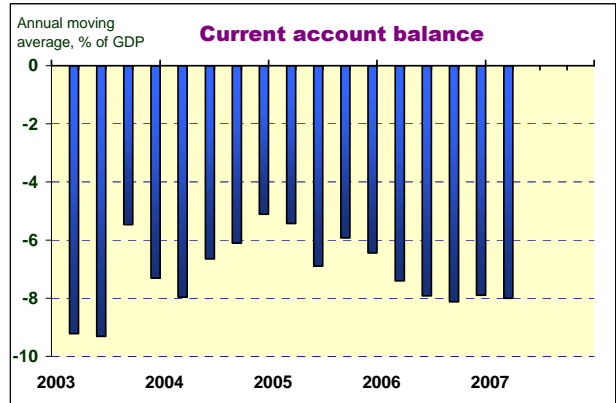
f: ECFIN forecast Spring 2007

CHARTS

European Commission, ECFIN-D-1



CROATIA



THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA



COMMENTS

Recent political and other developments

On 27 April, the IMF board approved the second review of the country's 3-year stand-by arrangement agreed in 2005. The authorities of the former Yugoslav Republic of Macedonia treat this arrangement as pre-cautionary. In addition, the government decided to prepay the entire debt owed to the IMF, amounting to about 1% of GDP.

Output and demand

Economic activity accelerated markedly in the first quarter of 2007. Preliminary data points to an increase of real GDP by 7 % compared to the same period the year before. The main sources of growth were manufacturing and trade.

Industrial production, which accounts for some 20% of total value added, increased by 11.7% in the first quarter but decelerated in the months after, with a year-on-year decline of 5.8% in May. However, during the first 5 months of the year, industrial output was on average 6.3% above the pre-year level.

Labour market

Unemployment has remained relatively stable on a very high level. After a moderate reduction in unemployment rates during the first quarters of 2006, labour force survey data reported rather stable unemployment rates at 35.9% in the third and fourth quarter of 2006, which is about a half percentage points lower than a year before. The labour force increased by 0.7% during 2006, while the number of employed persons rose by 2.6%. This resulted in a decline in the number of unemployed persons by 0.8%, compared to 2005. The quarterly profile points to a strong increase in employment in the fourth quarter of 2006, which has been accompanied by a similar strong rise in labour supply. As a result, the number of unemployment persons remained relatively constant.

Nominal wage growth appears to have decelerated during the first quarter, increasing by 2.6% year-on-year, compared to 7.3% in the fourth quarter of 2006. In real terms, this translates in a drop of the wage growth from some 4% in the fourth quarter to about 1½% in the first quarter of 2007. For the whole year of 2006, real wage growth reached around 5%.

International transactions

The current account deficit narrowed in 2006 to 0.4% of the provisional GDP from 1.3% of GDP in 2005. The main factor behind this development was a strong increase in private transfers in the form of workers remittances and of cash exchanges at the foreign exchange offices. As a result, net private transfers amounted to EUR 925 million during in 2006 (19% of the estimated GDP), compared to 17.5 % of GDP million a year before. The trade account registered a deficit of a similar size, amounting to EUR 1021 million (20.5% of GDP). Inflows of FDI were relatively high in 2006, amounting to EUR 286 million (nearly 6% of GDP). A large part of this inflow has been related to the privatisation of the electricity distribution company ESM to a foreign investor.

Commodity exports accelerated markedly during 2006, increasing by 16% in EUR terms compared to the same period a year before. Nominal imports rose by 17%. The main factors for this strong increase were stronger trade in iron and steel, construction materials and textiles.

At the end of April 2007, official reserve assets of the National Bank stood at a level of EUR 1.5 billion, equivalent to more than 5 months of 2006 imports of goods and services.

Prices

Consumer price inflation dropped markedly at the beginning of 2007 as the impact of increases

in excise duties a year ago has phased out. In the first half year of 2007, year-on-year consumer price inflation was 0.9%, compared to 3.1% during the first half of 2006. For the remaining of 2007 and for 2008, inflation is expected to remain low, benefiting from a stable exchange rate towards the euro and the price dampening effect of increasing competition from abroad due to the country's membership to WTO, but also due to stronger competition within the country.

Monetary and financial indicators

Monetary conditions continued to ease during the first 5 months of 2007, reflecting improved confidence in the stability of the exchange rate regime. Average weighted nominal lending rates declined from about 10% in 2005 to 6.4% in 2006 and 6.2% in May 2007. In spite of higher inflation, interest rates on deposits came down from 5.6% in December 2005 to 4.4% in December 2006. However, interest rates rose during the first quarter of 2007 and have reached 4.7% by May 2007. Credit growth to the private sector was some 25% in 2006 and continued to accelerate to some 33% by May 2007. Year-on-year growth of M4 accelerated further at the beginning of 2007, to 25.9% in the first quarter of 2007 and 28.5% in May.

The exchange rate of the Denar has remained largely unchanged against the euro on a level of 61.2 MKD/EUR. The National Bank intends to maintain its current informal peg vis-à-vis the EUR.

Foreign exchange reserves amounted to EUR 1.5 billion by end-April, which corresponds to more than 5 months of imports. Important reasons for the rapid increase in reserves were the inflow from the ESM privatisation proceeds (about 5% of GDP) and foreign exchange inflows through cash exchange offices.

By end-March 2007, gross external debt amounted to 34% of the projected full-year GDP.

On 22 May, the parliament adopted a new Banking Law, raising supervisory and security standards and bringing the financial sector legislation closer to international standards.

A foreign bank acquired a majority stake in the Ohridska banka. This bank is the fourth largest bank of the country, accounting for some 6% of the financial sector's deposits.

General government balance

The central government registered a deficit of 0.6% of GDP in 2006, compared to a surplus of 0.3% of GDP in 2005. Revenues remained largely constant in percent of GDP, while expenditures increased by some 2.5% in real terms. Most of the additional spending took place towards the end of 2006, after the new government started to implement some of its promises from the election campaign. The budget for 2007 envisages a central government deficit of 1% of GDP.

The budget proposal for 2007 is based on an expected real GDP growth of 6% in 2007 and consumer price inflation of 3%. In order to increase the incentives for investment, the tax on profit and personal income has been reduced to 12% by 1 January 2007 and will be further lowered to 10% by January 2008.

The general government debt ratio declined from 41% of GDP in December 2005 to 33.6% of the estimated 2006 GDP in December 2006. By March 2007, the debt ratio has further dropped to 30% of GDP. This sharp decline largely is a result of further early debt repayments, mainly to Paris club creditors, the IMF, the World Bank and the EIB.

TABLE

European Commission, ECFIN-D-1



The former Yugoslav Republic of Macedonia

		2002	2003	2004	2005	2006	ECFIN Forecast							
							2007	2008	Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
1 Output and demand														
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	-12.0	7.2	0.8	:	:	-3.5	11.7	:	5.3	-5.8	:
Gross domestic product ^{1.3}	Ann. % ch	0.8	2.9	2.9	3.8	3.0	4.3	5.3	2.7	7.0	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	12.5	-1.5	6.2	1.9f	3.0f	4.5	4.6	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	17.6	1.1	10.9	3.0f	4.0f	12.0	15.0	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	4.0	3.2	3.6	2.8	:	3.6	3.8	:	:	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	31.9	36.7	37.2	37.3	36.0	35.8	34.7	35.9	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	-6.3	-2.9	-4.1	4.3	4.6	3.4	3.6	4.1	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	6.9	4.8	4.0	2.7	8.0	3.0	3.5	7.3	2.6	:	5.1	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	-3.6	22.5	11.6	22.3	15.9	15.0	16.0	13.4	42.8	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	17.8	15.6	14.5	11.6	17.1	14.0	15.0	16.3	22.5	:	:	:	:
Trade balance ^{3.3}	% of GDP	-21.4	-18.6	-20.7	-17.9	-20.6	-17.8	-18.1	-20.6	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	36.1	36.3	38.7	43.6	48.1	14.5	15.9	48.1	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	57.9	54.7	60.3	62.6	68.4	13.5	14.3	68.4	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-9.5	-3.4	-7.7	-1.3	-0.4	-2.0	-2.6	-0.4	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	2.1	2.0	2.9	1.6	5.8	:	:	5.8	:	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	2.3	1.1	-0.4	0.5	3.2	2.0	2.5	3.1	0.7	:	1.0	0.9	:
GDP Deflator ^{4.2}	Ann. % ch	3.4	0.3	1.3	3.3	:	2.9	2.9	-2.3	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	-0.2	1.2	3.2	4.5	:	:	2.4	1.0	:	1.0	-1.0	:
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	:	:	8.49	9.95	6.40	:	:	6.22	6.43	:	6.42	6.16	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	:	774	911	1 930	3 219	:	:	3 993	4 408	6 787	5 832	7 456	7 072
M4 ^{5.4}	Ann. % ch	-9.8	16.0	16.3	15.1	10.9	:	:	:	25.9	:	26.6	28.5	:
Exchange rate MKD/EUR ^{5.5}	Value	61.75	62.22	61.51	59.71	61.20	:	:	61.19	61.08	61.19	61.14	61.18	61.26
Nominal eff. exchange rate ^{5.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:	:
6 Government balance and debt														
General government balance ^{6.1}	% of GDP	-5.6	-1.1	0.0	0.3	-0.6	-1.2	-1.5	-1.0	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	48.7	45.0	43.8	48.5	41.5	32.9	31.8	:	:	:	N.A.	N.A.	N.A.

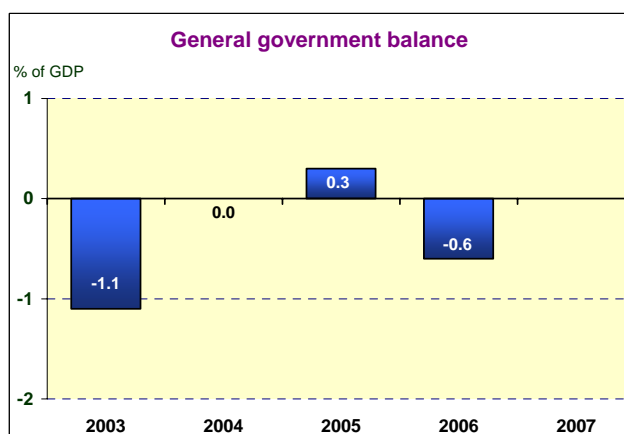
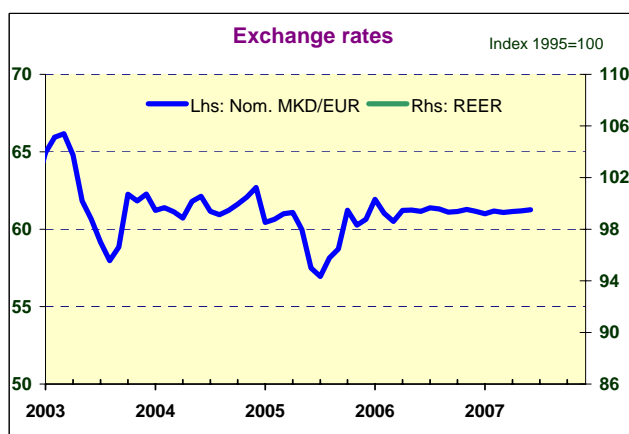
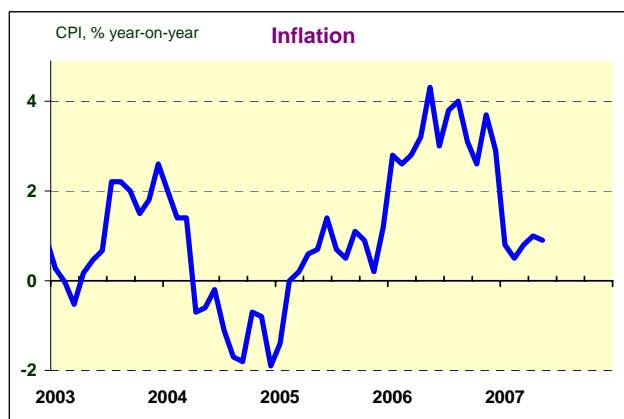
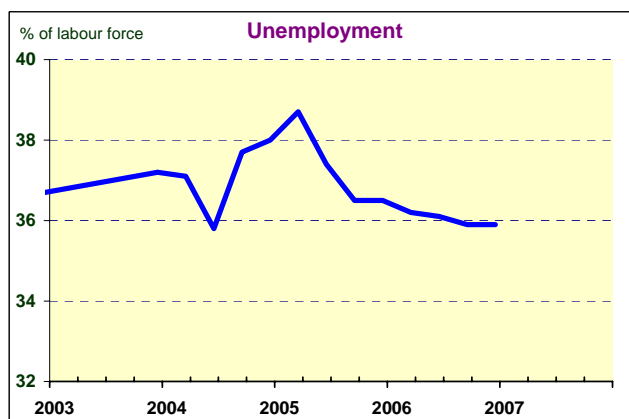
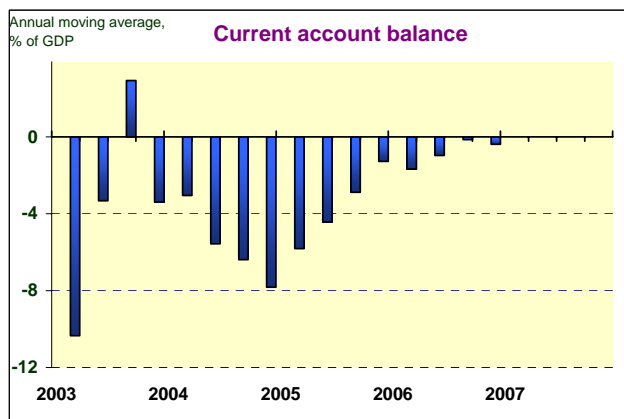
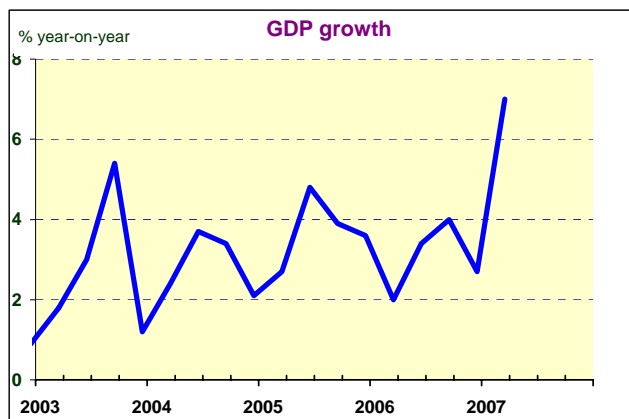
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CHARTS

European Commission, ECFIN-D-1



The former Yugoslav Republic of Macedonia



TURKEY



COMMENTS

Recent political and other developments

Presidential and parliamentary elections are due later this year. General elections are scheduled for 22 July 2007. Presidential elections have been postponed until further notice after the Constitutional Court annulled some key articles of new legislation which aimed at electing the new president through a popular vote.

On 26 June, in-depth talks in two other chapters – Statistics and Financial Control – began. End March 2007, the EU formally opened negotiations in the Enterprise and Industry Chapter. In 2006, only one chapter – Science and Research – was opened and provisionally closed.

In May 2007, the IMF completed the 6th review of the Stand-By Arrangement (2005-2008).

Output and demand

Real GDP growth rose from 6.1% in 2006 to 6.8% in the first quarter of 2007. The contribution of the external sector to growth increased substantially, as imports grew at 4.2%, down significantly from 7.1% in 2006. Export growth accelerated to 14% from 8.5% in 2006. The increase in net exports was combined with a significant domestic demand slowdown, which was partly driven by the tighter monetary stance, higher interest rates and less lending. Public consumption and investment grew by respectively 9-10% and 3-5% in the previous half year.

On the supply side, private construction continued to grow very strongly, at around 18% year-on-year. Industrial production remained relatively strong, growing by over 6% in the first half year of 2007. Manufacturing output growth was mainly concentrated in export-oriented sectors. Business and consumer confidence indicators, as well as capacity utilisation, point to lower consumer and higher export demand since mid-2006.

Labour market

Unemployment rates fell to 10.4% in March 2007 from 10.7% a year earlier. The unemployment rate declined in urban areas and went up in rural areas. In urban areas the unemployment rate amounted to 12.1%, while the unemployment rate in rural areas stood at 7.8%. Overall employment rates rose to 42.1% from 41.4% in March 2006. In particular, employment in the service sector started to rise in recent months, which may point to an acceleration in the sectoral shift towards a services dominated economy. Female employment remained particularly low at less than 25%.

Wages continued to grow throughout the economy. Real wages per worked hour in the manufacturing sector increased at 2.1% in the year to the fourth quarter of 2006. The government took commitments to substantially increase the public sector wage bill in 2007.

International transactions

In previous years, robust economic growth, relatively low inflation, a strong lira and falling interest rates caused imports to grow very strongly. In 2006, however, merchandise import growth fell slightly from 19.7% in 2005 to 17.7% year-on-year. The highest growth rates were recorded in consumption and intermediate goods. In tandem, export growth increased from 15% to almost 20%.

In the first five months of 2007, exports have again outperformed imports, as they rose by respectively 25% and 16% year-on-year. Automotive exports increased by almost one third compared with the same period of 2006. Conversely, exports of textile products and apparel, which represent about 20% of total exports, appeared to have suffered from WTO liberalisation and continue to fall. In value terms, trade with the EU amounts to about

respectively 56% and 41% for exports and imports. The trade deficit narrowed marginally to roughly 9.5% of GDP in 2006. The current account deficit increased in tandem with the trade deficit to about 7% of GDP. The significant investments made in recent years in the export sector appear to pay off, and largely mitigates falling domestic consumption.

Privatisation receipts picked up significantly since 2005. This contributed to a doubling of net FDI (to around 5% of GDP) in 2006, in large part due to increased foreign participation in the financial sector. In the first quarter of 2007, FDI rose further to about EUR 9 billion, and covered about 80% of the current account deficit. The interest in Turkish banks bodes well for the privatisation of the two largest state owned banks - Halk and Ziraat - which should be finalised by 2007-2008. Foreign ownership in the Turkish banking sector increased from less than 5% in 2004 to over 25% in mid-2007.

Prices

The disinflation pace was reversed in 2006 and picked up to 10.7 % in April 2007. However, in recent months, inflation has decelerated significantly to 8.6% in June. The highest increases were recorded in food and services prices, which became about 11% more expensive. Upward pressures stemming from high food (caused by a drought) and tourism prices may be partly mitigated by a recent lowering of VAT rates to 8% from 18%, but it seems particularly unlikely that inflation will fall beyond 6% by the end of 2007.

Even though the end-2006 inflation target of 5% was clearly missed, the central bank kept its targets for 2007 and 2008 unchanged at 4%. Also the 2009 inflation target has been set 4%.

Monetary and financial indicators

Turkish financial markets have been highly volatile since first half of 2006. In May-June 2006, the TRY depreciated by over 25% vis-à-vis the euro and slightly less vis-à-vis the US dollar. These developments were induced by the increase in US yields, aggravated by a perceived increase in political risks with Turkish parliamentary and presidential elections.

By June 2007, the TRY had recovered all of the earlier losses, after the central bank tightened

monetary policies and increased benchmark policy rates by 425 basis points, thus mitigating almost the entire cumulative 650 basis points' cuts made since the beginning of 2005. Overnight borrowing and lending rates now stand at respectively 17.5% and 22.5%. Government bond yields (benchmark) hovered around 18-20% since mid-2006. Interest rates on deposits amounted to 22% by June 2007 with very little differences for one to twelve months maturities.

Increases in TRY interest rates and measures taken to slow down consumer credit seem to have had effect as credit growth fell back to less than 20% year-on-year in nominal terms in early 2007 from around 50% in early 2006. Both corporate loans and consumer loans seem to have paused. According to the Banking Supervision and Regulatory Agency (BRSA), banks have been very cautious in controlling FX-positions, amidst the financial turbulence. In mid-2006, banks maturity mismatches had been rapidly increasing, since the bulk of the loans carried fixed interest rates and were almost fully matched by 3-months deposits. After a fall by 1.7% in 2006 in TRY terms (by 15.7% in EUR terms) of the Istanbul Stock Exchange Index (ISE-100), it rose in the first half of 2007 by 14% TRY and by 19% in EUR-terms.

General government finance

In 2006, the general government budget surplus amounted to 0.4% of GDP (2006 fiscal notification, which uses ESA 95 definition) compared with a (revised) deficit of 0.3% in 2005. General government gross fixed capital formation remained roughly stable at 4.3% of GDP.

General government gross debt came down to 60.7% of GDP by end-2006 from 69.6% the year before (all ESA 95, fiscal notification 2007).

For 2007, the government plans to keep the primary budgetary surplus stable at 6½% of GNP. However, cash-based central government data indicate a slight loosening – by less than 1 percentage point of GDP – of the fiscal stance in the first five months of 2007, due to an increase in expenditure. A medium-term fiscal framework for 2008-2010 has been agreed by the High Economic Council in June 2007. The primary surplus target has been maintained at 6½% of GNP throughout the period.

TABLE



TURKEY

European Commission, ECFIN-D-1

		2002	2003	2004	2005	2006	ECFIN Forecast		Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
							2007	2008						
1 Output and demand														
Industrial confidence ^{1.1}	Balance	102.0	104.1	106.8	102.8	102.4	:	:	100.7	114.8	114.3	120.4	110.7	111.8
Industrial production ^{1.2}	Ann. % ch	9.4	8.7	9.8	5.4	5.8	:	:	5.8	8.0	:	1.4	:	:
Gross domestic product ^{1.3}	Ann. % ch	7.9	5.8	9.0	7.4	6.1	4.9	5.9	5.2	6.8	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	106.7	100.1	95.6	:	:	92.3	92.3	:	93.7	95.0	:
Private consumption ^{1.5}	Ann. % ch	2.1	6.6	10.1	8.8	5.2	3.8	5.0	0.1	1.6	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	-1.1	10.0	32.4	24.0	14.0	11.2	10.9	4.4	3.0	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	4.7	7.3	7.9	5.2	2.9	:	:	2.9	2.9	:	N.A.	N.A.	N.A.
2 Labour market														
Unemployment ^{2.1}	%	10.4	10.5	10.3	10.2	9.9	9.9	9.6	9.6	11.4	:	:	:	:
Employment ^{2.2}	Ann. % ch	-0.3	-0.8	2.0	1.7	1.2	1.3	1.5	3.3	3.9	:	:	:	:
Wages ^{2.3}	Ann. % ch	37.2	23.0	13.4	12.2	11.5	12.7	11.5	12.1	8.3	:	:	:	:
3 International transactions														
Exports of goods ^{3.1}	Ann. % ch	16.7	27.6	30.9	14.8	19.4	:	:	24.3	24.7	:	27.3	:	:
Imports of goods ^{3.2}	Ann. % ch	24.5	34.5	40.7	19.7	18.7	:	:	15.4	18.0	:	10.8	17.0	:
Trade balance ^{3.3}	% of GDP	-4.0	-5.8	-7.9	-9.3	-10.1	-9.0	-8.1	-10.1	-9.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	29.2	27.4	28.9	27.4	28.2	6.7	6.4	28.2	28.7	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	30.7	30.7	34.7	34.0	35.9	6.0	5.5	35.9	36.2	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-0.8	-3.3	-5.2	-6.2	-7.9	-7.2	-6.6	-7.9	-7.0	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	0.5	0.5	0.7	2.4	4.8	:	:	4.8	6.3	:	N.A.	N.A.	N.A.
4 Prices														
CPI ^{4.1}	Ann. % ch	45.0	21.6	8.6	8.2	9.6	8.2	5.8	9.8	10.3	9.5	10.7	9.2	8.6
GDP Deflator ^{4.2}	Ann. % ch	44.3	22.5	9.8	5.4	11.4	7.8	5.9	0.7	-10.2	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	50.1	22.7	14.6	5.9	9.3	:	:	11.4	10.1	:	9.7	7.1	2.9
Import prices ^{4.4}	Ann. % ch	:	:	:	:	:	:	:	:	:	:	:	:	:
5 Monetary and financial indicators														
Interest rate (3 months) ^{5.1}	% p.a.	50.49	37.68	24.26	20.40	21.65	:	:	23.79	23.38	:	22.65	:	:
Bond yield ^{5.2}	% p.a.	:	:	:	:	:	:	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	11,013	12,312	19,899	29,353	39,867	:	:	38,809	41,487	45,754	46,018	45,578	45,667
M4 ^{5.4}	Ann. % ch	36.5	31.9	40.9	30.9	32.5	:	:	22.2	17.9	:	15.5	11.7	:
Exchange rate TRY/EUR ^{5.5}	Value	1.43	1.69	1.77	1.67	1.80	:	:	1.87	1.85	1.80	1.83	1.80	1.77
Nominal eff. exchange rate ^{5.6}	Index	31.10	27.54	26.81	28.11	26.18	:	:	25.09	25.62	:	25.90	25.90	:
6 Government balance and debt														
General government balance ^{6.1}	% of GDP	-12.3	-11.3	-5.8	-0.3	0.4	-2.2	-1.8	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	94.3	85.1	76.9	69.6	60.7	56.6	54.3	:	:	:	N.A.	N.A.	N.A.

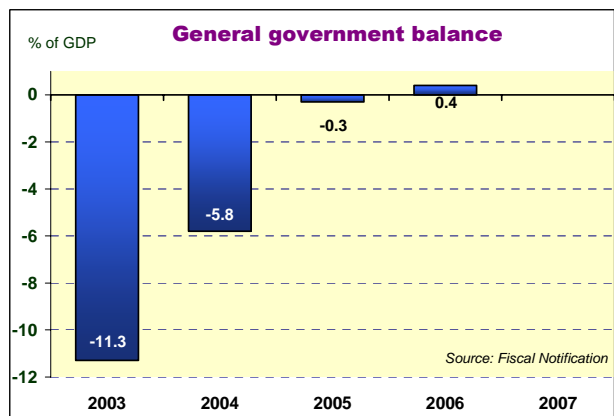
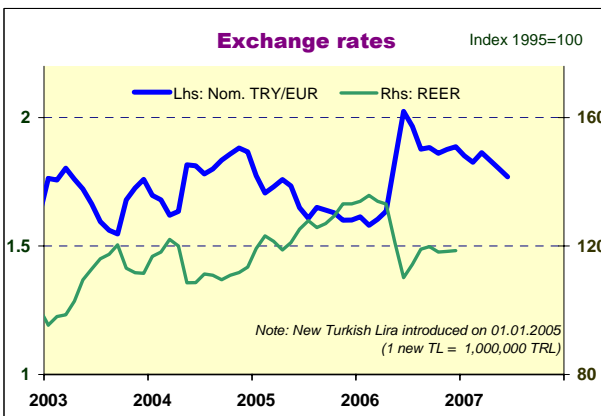
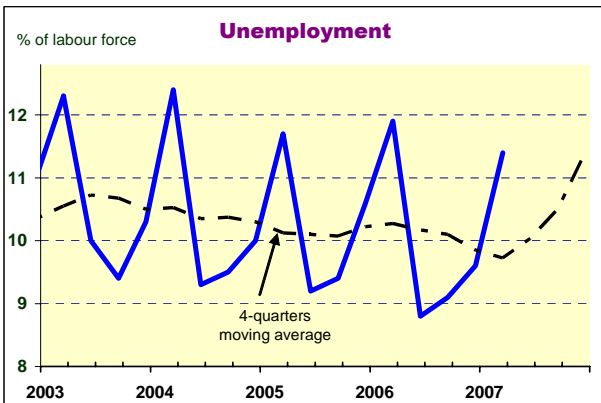
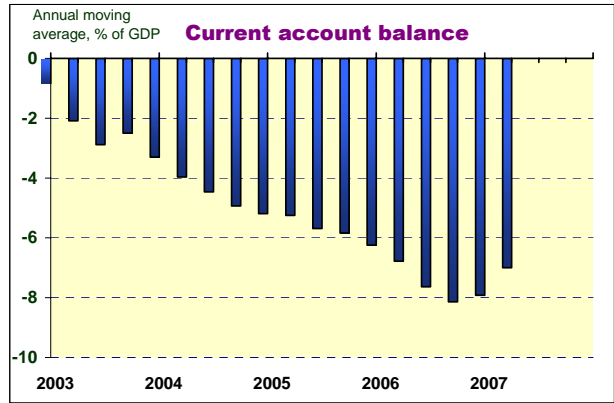
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CHARTS

European Commission, ECFIN-D-1



TURKEY





COMMENTS

Recent political and other developments

On 6 July 2007, the Executive Board of the IMF is scheduled to decide on the third review of Albania's three year PRGF/EFF program. As all quantitative targets and structural conditionality seem met, a positive outcome is expected.

In order to keep credit growth at sustainable levels, prudential supervision was strengthened in December 2006. The Regulation on Credit Risk Management was amended, establishing higher capital requirements for those banks that would record a credit growth exceeding the set benchmarks. In addition, the new banking law entered into force in June 2007. This law sets higher standards in exercising the banking activity over the licensing, organization, supervision and its closure. In addition to other important changes, this law provides for the first time the establishment and management of Credit Registry by the Bank of Albania.

The sale of the 76% stake in Albtelecom, the Albanian public telecommunications operator, was endorsed by the Government in June 2007, and represented the most important privatisation operation since the sale of the Savings Bank in 2004. The proceeds amounted to EUR 120 million, corresponding to around 1.5% of the projected 2007 GDP. The conclusion of the transaction is still pending the parliament's approval.

The 1st meeting of the European Community Albania Working party on Economic and Financial Issues and Statistics under the Interim Agreement took place in Brussels on 23-24 May 2007. In summary, the Commission acknowledged the good progress in maintaining macroeconomic stability and a satisfactory degree of shock resilience, accompanied by low inflation and exchange rate stability. The structural reform agenda was regarded as challenging and would require a strong commitment by the Albanian authorities as well as a swift removal of those obstacles that have seriously delayed reforms in the past, in particular as regards privatisation, judicial system reform and restructuring of publicly-owned enterprises.

Output and demand

In 2006, real GDP growth reached 5%, mainly driven by domestic demand fed by booming credit and significant remittances inflows. Despite government actions that had been taken to ensure a reliable power supply after the first energy crisis at the end of 2005, Albania suffered further severe disruptions in electricity supply in the last quarter of 2006. The repercussions of these crises on the economic growth are estimated at around 1% of GDP in 2006, while their impact on the economic activity in 2007 is still to be seen.

Labour market

The unemployment rate (based on registered data) continued to decline to 13.8% in 2006. The downward trend has been confirmed by the data for the first quarter of 2007, recording a further drop in the unemployment rate to 13.6%. The highest increase in the number of the new employees was observed in the non-agricultural sector. Long-term unemployed represented 65% of the total registered unemployed. The average wage in the public sector increased by 14.9% in 2006.

International transactions

The current account deficit (excluding official transfers) widened to estimated 7.6% of GDP in 2006. This was mainly a result of higher electricity imports. The trade deficit increased to 23.1% of GDP in 2006 and further widened by around 27% in the first four months of 2007 compared to the same period last year. Growth in export of goods at around 19% year-on-year outpaced growth in import of goods at approximately 15% in 2006. Import coverage thereby slightly increased to 27.2% in 2006. The positive trend of exports growing faster than imports continued also in the first quarter of 2007, with the respective annual growth rates of 26% and 22% respectively. Income from tourism increased by 16% in 2006, exceeding the value of exports by 28%.

The financing of the trade deficit continued to depend largely on significant remittances and other current transfers from abroad, estimated by national sources at 12.8% of GDP in 2006, or approximately 55% of the trade deficit. Foreign direct investment (FDI) rose by 16% in 2006 vis-à-vis 2005, reaching an estimated 3.6% of GDP in for 2006. The Albanian government's external debt is estimated at around 17% of GDP at the end of 2006, representing around 31% of total public debt. Gross reserves continued to rise throughout 2006 and reached the equivalent of EUR 1,300 million at the end of 2006, corresponding to a cover of around 4.5 months of imports of goods and services. Overall, external deficits widened further, mainly due to difficulties in the energy sector. In June, ratings agency Moody's, awarded Albania a B1 rating, which is the first rating ever for Albania and puts it together with countries like Ukraine, Indonesia and Jamaica.

Prices

Average annual inflation reached 2.4% in 2006 and it remained at the same level in the first five months of 2007. However, inflation declined in the second quarter of 2007 reaching 1.5% year-on-year in May.

Monetary and financial indicators

Following the hike of the main policy rate in November 2006, the BoA further tightened its monetary policy stance in June 2007 by raising its main policy rate by another 25 basis points to 5.75%. This measure was implemented with the aim to containing inflation expectations on the back of rapid credit growth and the relatively high growth rates in money supply. Annual growth of the monetary aggregate M3 accelerated to 16.3% at the end of 2006, while it further increased to almost 18% in April 2007.

The lek remained relatively stable vis-à-vis the euro throughout 2006. Whereas it slightly depreciated by around 2.5% against the euro over the first four months of 2007, it nevertheless gradually reverted to the year opening level and by June further slightly appreciated.

The annual growth of credit moderated to 56.7% in 2006. It nevertheless slightly increased to 58.3% during the first four months of 2007. Credit in the Albanian lek recorded the highest growth at around 78% in 2006, while credit

provided in foreign currency grew by 47%. The level of financial intermediation remained relatively low. At the end of 2006, total credit constituted 31% of total banking assets or 37% of total deposits. Outstanding credit amounted to 22% of GDP in March 2007, while credit to businesses constituted 66.5% of the credit portfolio of banks.

The banking sector appeared to remain sound, liquid and profitable. The average return on assets remained stable at 1.4% in 2006, while the average return on equity slightly decreased to 20.2% in 2006. The average capital adequacy ratio somewhat decreased to 18.1% at the end of 2006, still well above the general minimum level of 12% established by the Bank of Albania. The slight increase in the capital adequacy ratio is mainly attributable to an accelerated growth in risk-weighted assets, on the back of rapid credit growth. The share of non-performing loans to total credit stood at 3.1% in December 2006. The stress tests performed by the BoA point to a solid resilience of the Albanian banking sector to possible shocks resulting from movements of exchange rates, interest rates and credit quality deterioration.

General government balance

The budget for the whole year of 2007, as adopted by the Assembly in November 2006, foresees a deficit of 4.8% of GDP that excludes proceeds from potential privatisations. The 2007 budget projects revenues at 25.8% of GDP, exceeding 2006 budget projections by around 10%. The 2007 budget foresees expenditure at 30.6% of GDP, growing by about 12.5% over the 2006 budget. The priority sectors for government expenditure remained infrastructure, health care and education, in the original budget 2007 each representing around 3% of GDP. Over the first five months of 2007, the budget recorded a surplus of 0.7% of the full year projected GDP. In light of this favourable budget performance and improved budget implementation, the authorities reached an agreement with the IMF on a supplementary budget for the second half of 2007. It envisaged additional expenditure of 2.2% of GDP. Similarly to previous year, a large part of this amount was allocated as additional productive investment, mainly in infrastructure projects. Preparation for introducing a flat personal and corporate income tax of 10% have further advanced.

TABLE

European Commission, ECFIN-D-1



ALBANIA

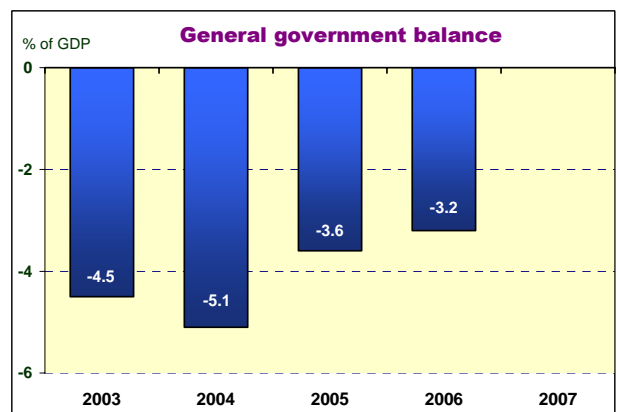
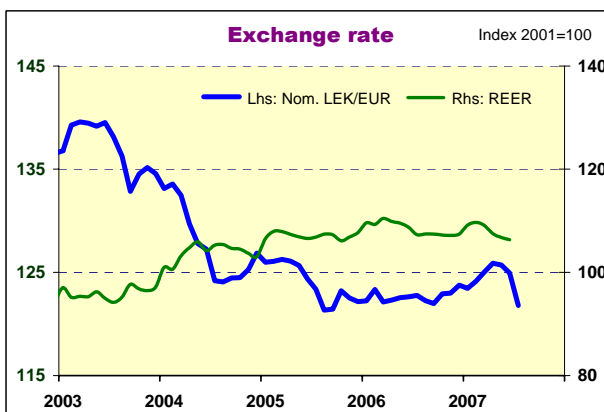
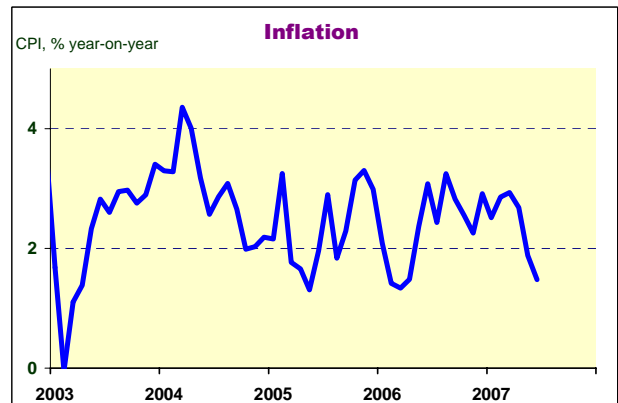
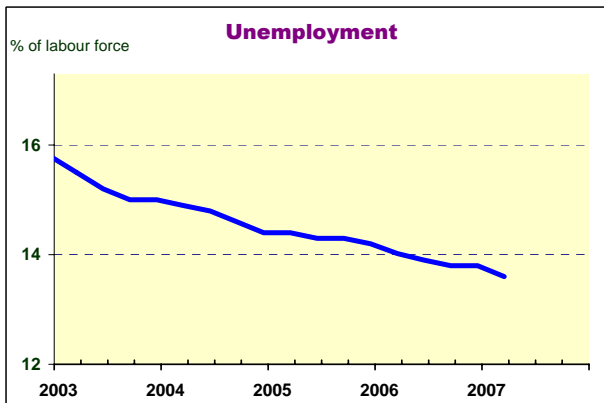
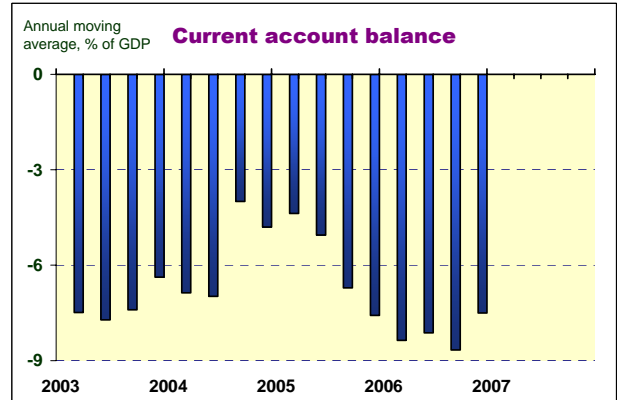
		2002	2003	2004	2005	2006	Q3 06	Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	4.3	5.8	6.2	5.6	5.0	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	0.8	-1.8	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	16.0	15.2	14.7	14.3	13.8	13.8	13.8	13.6	:	:	:	:
Employment ^{2.2}	Ann. % ch	-14.1	0.9	-0.4	0.9	N.A.	0.3	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	16.0	14.7	14.4	9.9	N.A.	6.4	:	:	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	8.4	35.4	34.3	9.2	20.7	18.8	37.8	:	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	11.6	20.1	22.5	13.4	17.6	14.3	21.1	:	:	:	:	:
Trade balance ^{3.3}	% of GDP	38.6	34.1	34.1	38.8	38.5	40.1	40.6	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	19.4	20.4	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	43.9	45.1	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-8.5	-5.8	-4.5	-7.5	-7.1	-8.7	-7.5	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.0	2.7	4.0	3.4	3.6	3.7	3.5	:	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	5.2	2.4	2.9	2.4	2.4	2.9	2.6	2.8	:	1.9	1.5	:
GDP Deflator ^{4.2}	Ann. % ch	2.2	4.6	2.2	5.6	:	7.5	7.5	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	6.5	6.2	10.8	5.1	0.1	0.4	-0.8	:	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	9.5	8.9	6.8	5.5	5.5	5.4	6.3	6.0	:	5.8	5.7	:
Bond yield ^{5.2}	% p.a.	N.A.	11.4	9.9	8.2	7.3	7.1	8.4	:	:	:	:	:
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:	:
M2 ^{5.4}	Ann. % ch	12.2	7.6	8.2	11.7	7.6	7.1	9.6	12.2	:	12.1	:	:
Exchange rate LEK/EUR ^{5.5}	Value	131.7	136.8	127.2	123.7	122.8	122.4	123.4	125.0	:	125.7	124.9	121.8
Nominal eff. exchange rate ^{5.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-6.6	-4.5	-5.1	-3.6	-3.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	65.3	61.7	56.6	56.7	55.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

CHARTS



European Commission, ECFIN-D-1

ALBANIA





COMMENTS

Recent political and other developments

Miroslav Lajcak, previously director-general in the Slovak foreign ministry, took over the position of High Representative for Bosnia and Herzegovina (BiH) on 1 July. He succeeds the former German minister Christian Schwarz-Schilling. European integration and moving the country towards the EU is likely to be the priority of the new High Representative.

In May the IMF concluded the 2007 Article IV Consultation with Bosnia and Herzegovina underlying the strong economic performance from 2006 and its likely continuation in 2007. At the same time, some of the long-standing weaknesses of the economy remain – the external current account deficit will probably widen again in 2007 and the situation on the labour market is hardly improving, despite the solid growth. Moreover, the government's failure to resist spending pressures is likely to reflect in a sharp deterioration of the government balance in 2007.

Output and demand

According to estimates of the Central Bank, real GDP growth was 6.2% in 2006, up from 5.5% in 2005. Economic activity grew strongly in sectors such as wholesale and retail trade, real estate, constructions, financial intermediation and manufacturing, reflecting a favourable external environment and a more accurate reporting of real export values after the introduction of VAT.

In 2006, the growth of industrial output varied between 7.5% in the Federation of Bosnia and Herzegovina (FBiH) and 19.1% in the Republika Srpska (RS). In the first five months of 2007, the year-on-year increase in the volume of industrial production was 11.9% in the FBiH, exceeding the modest 1.3% growth in the RS. The manufacturing sector and in particular chemicals, furniture, oil, rubber, plastic and metal products led the robust performance of industry in the FBiH while the slowdown in the RS was determined to a large extent by the utilities sector.

Labour market

Official unemployment increased to 44.7% in April 2007, compared to 43.9% in September 2006. An important contributor was the increase of the unemployment rate in the FBiH by 0.5 percentage points over the same period, resulting among other from company lay-offs, downsizing of military personnel and the adoption of the law on demobilised soldiers. However, official statistics do not appear to reflect unemployment levels correctly. A Labour Force Survey conducted in April 2006 estimated unemployment to be around 30% of the labour force, while labour force participation was found to be very low at 43.1% of the total working age population.

Real wage growth picked up in the first months of 2007 mainly due to lower inflation rates. In April, net wages increased in real terms by 8% year-on-year, compared to only 3.1% at the end of 2006. At the same time, wages continue to grow faster in the RS than in the FBiH. In April, nominal net wages rose by annual 13.6% in the RS and 9.3% in the FBiH. As a result, the average net wage in the RS reached 88.6% of the FBiH one in April, up from 85.3% a year before.

International transactions

The current account deficit almost halved from 21.3% of GDP in 2005 to 11.4% of GDP in 2006, primarily due to a reduction of the trade deficit by around 12 percentage points of GDP. The introduction of VAT in January 2006 led to a more accurate reporting of export values and a frontloading of imports in the second half of 2005. As a result, the value of imports hardly rose in 2005 and 2006, while exports grew by more than 29% in 2006. The substantial trade deficit of around 37% of GDP was financed to a large extent by worker remittances in the form of both private current transfers and employee incomes which totalled almost 20% of GDP on a net basis. In the same period, net FDI declined to around 3.7% of GDP, covering only one third of the current account deficit.

In the first five months of 2007 the trade deficit widened by around 29% compared to the same period in 2006 as imports rose by 31% year-on-year and outperformed the 20% growth of exports. In the first half of 2007, the financing of the external deficit by FDI inflows improved considerably. The privatisation of Telekom Srpska and a pick-up in green-field investments more than doubled the inflow of FDI in comparison with the amount for the entire 2006.

Due to strong capital inflows, the official foreign exchange reserves increased 26.3% year-on-year at the end of April 2007. External public debt continued to decline in 2006 and reached around 23% of GDP at the end of the year. Total external debt was estimated at around 55% of GDP during the same period, but no official data is available for this indicator.

Prices

The introduction of VAT in January 2006 and hikes of administered prices impacted negatively inflation which accelerated in 2006. The year-on-year retail price index increased from 4.2% in December 2005 to 8.7% in June 2006 and started to recede afterwards. For the full year of 2006 average inflation reached 8.4% in the RS and 6.9% in the Federation. In 2007 inflation dropped as the effects of the VAT introduction dissipated and year-on-year inflation reached 0.8% in the RS and 1.8% in the FBiH in May.

Monetary and financial indicators

The monetary policy of the Central Bank of Bosnia and Herzegovina (CBBH) is conducted under the framework of a currency board arrangement with the euro as the anchor currency. The CBBH kept reserve requirements unchanged in 2006 and the first half of 2007. The annual growth of credit slowed from 27.3% in 2005 to 23.4% in 2006 and bounced back to around 27% at the end of April 2007. Lower import growth related to the VAT introduction may have contributed to the credit slowdown. Credit to households continued to expand more rapidly than lending to the corporate sector and

its share in total domestic credit increased to 47.3% at the end of April from 46.3% a year before.

The annual growth of broad money accelerated from around 18% at the end of 2005 to 26.5% at the end of April 2007. Nonetheless the coverage by foreign exchange reserves was ample and stood at around 108% for reserve money and 85% for broad money at the end of April 2007.

General government balance

According to the CBBH, the consolidated budget execution resulted in a surplus of 3.1% of GDP (GFS standards) in 2006. Budget revenues were unexpectedly strong and reached 47% of GDP in 2006, mainly as a result of higher than anticipated indirect tax revenues after the introduction of VAT in January. The increase in revenues of around 3% of GDP from 2005 to 2006 resulted in a larger spending envelope, which increased by a hefty 2.5% of GDP, and a rise of the budget surplus by 0.5% of GDP.

Larger expenditures were recorded at all government levels. The budget of state institutions increased by about 1.5% of GDP in 2006, as they acquired more competences from the entities, of which 1.2% of GDP related to a higher wage bill. The transfer of functions was not accompanied by an equivalent decline in spending by the entities which also increased their expenditures by around 0.5% of GDP in the FBiH and 2% of GDP in the RS. Capital expenditures rose by around 0.8% of GDP in the FBiH, as well as subsidies. In the RS, government consumption of goods and services rose by more than 2% of GDP. Both entities recorded budget surpluses in 2006 – 3.4% of GDP in the FBiH and 2.2% of GDP in the RS.

Expenditures are likely to continue increasing in 2007 according to the budgets adopted at different government levels. Revenue collection continued to be good in the first months of 2007. However, the temporary nature of some of the high VAT revenues recorded in 2006 raise concerns that the large spending commitments in 2007 may result in a substantial deterioration of the fiscal position.

TABLE

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BOSNIA AND HERZEGOVINA

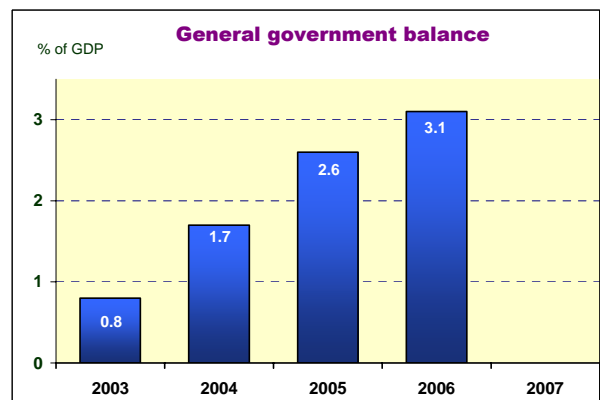
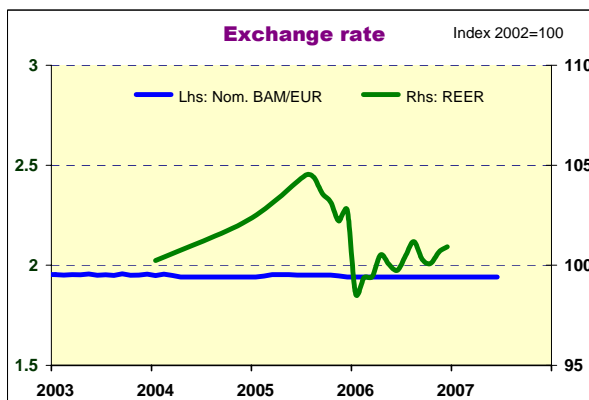
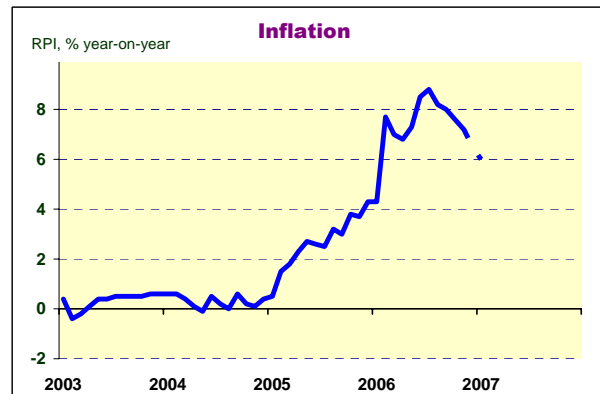
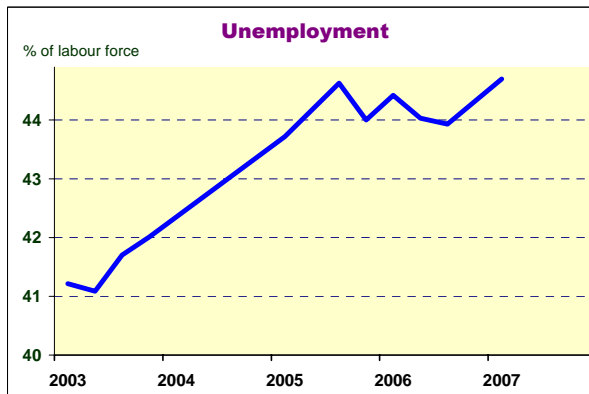
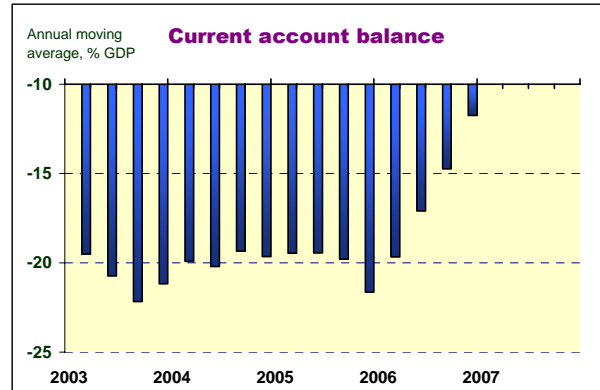
		2002	2003	2004	2005	2006	Q3 06	Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	5.6	5.1	12.1	10.8	11.5	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.5	3.0	6.0	5.5	6.2	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	40.9	42.0	43.1	44.1	44.1	43.9	:	44.7	:	44.7	:	:
Employment ^{2.2}	Ann. % ch	1.9	-0.6	0.8	0.8	2.8	1.8	:	2.8	:	:	:	:
Wages ^{2.3}	Ann. % ch	1.4	8.4	4.3	6.1	9.6	9.6	10.2	:	:	9.7	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	-7.8	11.5	28.7	24.5	28.8	33.1	22.9	26.6	:	3.9	11.2	:
Imports of goods ^{3.2}	Ann. % ch	2.5	6.0	7.6	13.8	0.0	4.2	-3.8	41.1	:	26.1	15.3	:
Trade balance ^{3.3}	% of GDP	-53.7	-53.4	-49.0	-49.6	-37.2	-41.9	-38.3	:	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	26.2	28.2	31.6	35.4	39.1	38.6	39.1	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	-76.4	-77.3	-76.0	-80.1	-71.0	-73.9	-71.0	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-19.1	-20.9	-19.2	-21.3	-11.4	-14.7	-11.8	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	4.3	4.9	7.1	5.2	3.7	4.7	3.8	:	:	N.A.	N.A.	N.A.
4 Prices													
RPI ^{4.1}	Ann. % ch	0.4	0.6	0.4	3.8	7.4	:	:	:	:	:	:	:
GDP Deflator ^{4.2}	Ann. % ch	5.1	1.8	3.2	2.1	7.2	:	:	:	:	N.A.	N.A.	N.A.
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.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.	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
M2 ^{5.4}	Ann. % ch	66.7	4.8	21.0	17.6	21.6	22.8	24.7	27.6	:	26.5	:	:
Exchange rate BAM/EUR ^{5.5}	Value	1.95	1.95	1.94	1.95	1.94	1.94	1.94	1.94	1.94	1.94	1.94	1.94
Nominal eff. exchange rate ^{5.6}	Index	N.A.	97.4	96.37	95.21	94.74	94.69	95.44	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-0.1	0.8	1.7	2.6	3.1	:	:	:	:	N.A.	N.A.	N.A.
General government debt** ^{6.2}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



BOSNIA AND HERZEGOVINA





COMMENTS

Recent political and other developments

The government decided not to conclude a precautionary agreement with the IMF, given the presently stable macroeconomic situation and inflow of foreign capital.

The government launched an international tender for the elaboration of a feasibility study for the construction of two highways: one connecting the seaside with the Serbian border (170 km), and another parallel to the Adriatic coast (110 km). Construction would start by end-2009.

The government adopted in June the long-term Energy Strategy. The document, to be forwarded to the assembly for approval, foresees the construction of additional production capacities of 700 MW for the period up to 2025 (present production capacity is estimated at 900 MW).

Output and demand

The Ministry of Finance revised upwards the nominal GDP estimate for 2006 by 5.6% to EUR 1,932 million, and the 2007 GDP forecast by 6% to EUR 2,155 million

In the first quarter of 2007, real GDP grew by 6.6% year-on-year. The main driver was the solid expansion of the services sector, in particular: tourism, financial intermediation and real estate. In addition, the low inflation environment also facilitated the positive performance of the economy.

However, in the first five months of the year industrial production decreased by 3.5% year-on-year. In May, output shrank by 6.2% year-on-year mainly as consequence of the halt of the thermal power plant, due to capital repairs, and the stoppage of the associated coalmine. The manufacturing sector expanded in May by 7% year-on-year. Solid output growth was registered in manufacturing of basic metals, machinery and chemicals. By contrast, food, textile and wood industries production contracted.

Labour market

According to the Employment Agency (ZZZ), the unemployment rate fell to 13.4% by end-May. Since the beginning of the year employment has increased by 8%. Some 12,714 new jobs (%) have been created, of which, 18.6% were seasonal. The major contributor to employment remains the services sector while labour in construction industry is contracting.

Gross average wages expanded by 10% year-on-year in May. However, the average net wages expanded much faster by 15.4% year-on-year. The highest expansions were recorded in mining (21%), financial intermediation (44%) and hotels and restaurants (26%).

International transactions

The current account deficit widened during the first quarter of 2007 by 34% year-on-year to 31% of GDP in annualised terms. This development was driven by the increasing gap on trade induced by strong domestic demand, fuelled by surging credit growth, rising wages, declining unemployment together with solid investment flows. Although exports of good accelerated by 27% year-on-year, they hardly cover 40% of imports, which continue growing faster. The balances on services, income and current transfers were all positive, but insufficient to offset the negative impact of the high trade deficit.

Net foreign direct investment reached 26.7% of GDP in annual terms by the end of March, covering 72% of the current account deficit. The real estate sector represents the main share of attracted investments (52.7%). In addition, commercial banks decreased their net foreign assets by EUR 66 million to invest in domestic projects. The rapid development of the domestic capital market also resulted in significant inflow of portfolio investments (EUR 13.8 million).

The tourism season continued its solid expansion. The number of total arrivals increased in April by 54% year-on-year. Moreover, tourists spent more time on average, as reflects the number of overnights growing faster than visitors. Apart from the attractiveness

as tourist destination, the increasing interest for investing in real state is also contributing to the development of the tourism industry.

Prices

Average inflation remained flat at 2.3% year-on-year in May. The highest accelerations were registered in housing and food prices, while hygiene and health services modest growth, slightly decreased compared with the previous month. Only transport and telecommunications registered a drop in prices, both in annual and monthly terms. Overall, prices of goods increased by 2.3% year-on-year; while services' added 2.1% year-on-year.

The Regulatory Agency for Energy approved increasing by 9% the prices of residential electricity combined with a change in methodology of the monthly bill. The new prices will be implemented as from July. The Agency limited significantly the original proposal of the generator (15-20%), which has appealed the decision.

Data on industrial producer price inflation (PPI) registered a further acceleration in April. The major impact was reported in the metal industry, while mining and utilities remained flat.

Monetary and financial indicators

The total assets of commercial banks continued expanding, reaching 80.5% of GDP at the end of March. The constant and very strong credit activity (152.9% year-on-year) remains the main factor behind the assets growth. Yet, savings also increased remarkably, though at a lesser pace. The solid performance of the economy is boosting the financial result of the banking sector. In the first quarter of 2007, the combined profit of the sector surpassed the results of 2005 and represented more than half of those realised in the whole 2006. The net interest income of banks doubled year-on-year in March, despite the continuous decline in interest rate. Net income from fees and commissions also increased but more slowly (44.3% year-on-year).

In June, a new bank, Bank Austria Creditanstalt (BA-CA), started operating in Montenegro.

The trade volumes and shares prices on the capital markets continued surging considerably by 150% until mid-May. However, by the end of June, a technical correction has taken place (-13.4%). The imminent adoption of the legislative framework on voluntary pension funds should provide renewed dynamics. Since beginning of the year, two new investment funds have entered the market (Western Balkan and Active Integra).

In June, three insurance companies have re-established a mutual guarantee fund. Such institution has been absent since the dissolution of the state union with Serbia.

General government balance

Strong economic performance has led to continued favourable fiscal developments, recording a general government surplus of EUR 16 million in the first quarter of 2007. Despite the introduction this year of a reduced flat rate personal income tax of 15%, the growth of revenues accelerated strongly to 33.1% year-on-year. The steady growth of the economy and robust import expansion accounted for the higher than planned VAT collection. Additionally, the proceeds from corporate income tax rose strongly above target, reflecting the improved performance of the real sector. By contrast, total spending grew at a lower pace (22.3% year-on-year). Spending for gross wages expanded considerably (31.5% year-on-year) though below the plan. Transfers to state funds and local self-governments also increased, but moderately. Yet, capital spending remained substantially below target (-59%).

During the first quarter of 2007 public debt rose by 13.5% reaching 39.7% of GDP. The major factor behind this increase is the growth of domestic debt fuelled by the ongoing settlement of restitution liabilities. Meanwhile, the external debt, which represents two thirds of the total, grew by 1.1% in the same period.

TABLE

European Commission, ECFIN-D-1



MONTENEGRO

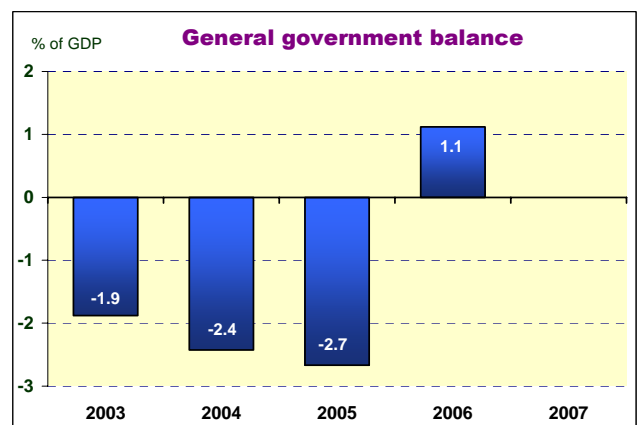
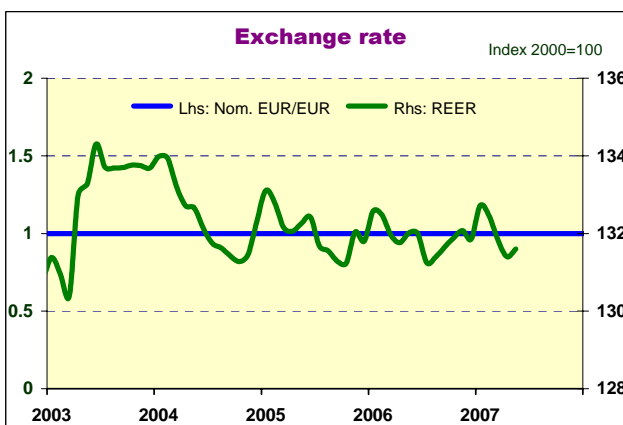
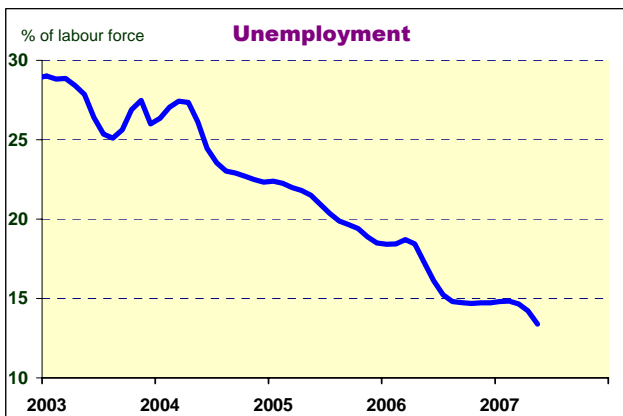
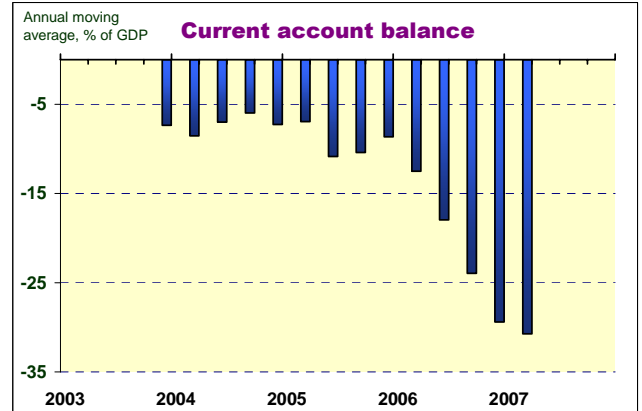
		2002	2003	2004	2005	2006	Q3 06	Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	0.6	2.4	13.8	-1.9	1.0	-11.2	8.6	-9.1	:	5.4	-6.2	:
Gross domestic product ^{1.3}	Ann. % ch	1.7	2.4	4.2	4.0	6.5	6.3	6.4	6.6	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	6.4	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	-16.1	:	:	:	:	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	2.4	0.7	-1.1	-2.3	:	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	28.9	26.0	22.3	18.5	14.7	14.7	14.7	14.7	:	14.2	13.4	:
Employment ^{2.2}	Ann. % ch	-0.3	-3.3	29.9	2.0	3.8	5.8	3.8	4.2	:	4.4	:	:
Wages ^{2.3}	Ann. % ch	N.A.	N.A.	11.7	8.0	15.6	:	:	10.7	:	10.6	10.0	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	37.1	-16.1	67.1	1.9	11.7	17.6	1.9	27.4	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	3.4	-15.7	37.9	12.2	45.8	55.5	66.9	31.2	:	:	:	:
Trade balance ^{3.3}	% of GDP	-32.6	-25.8	-25.2	-28.8	-46.9	-43.8	-46.9	-48.0	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	37.0	33.2	42.5	44.3	:	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	62.6	51.0	58.7	62.1	:	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-12.6	-7.3	-7.2	-8.6	-29.4	-23.9	-29.4	-30.7	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	6.9	2.8	3.1	21.4	24.2	21.1	24.2	26.7	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	16.4	6.8	2.2	2.4	3.0	3.1	2.8	2.5	:	2.3	2.3	:
GDP Deflator ^{4.2}	Ann. % ch	2.9	4.6	14.4	4.1	1.7	:	:	10.2	:	N.A.	N.A.	N.A.
Producer prices ^{4.3}	Ann. % ch	4.6	4.6	5.8	2.1	3.1	3.9	3.7	3.5	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	10.58	1.20	1.18	0.91	0.97	:	:	:	:	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	9.98	3.09	1.17	1.71	0.47	:	:	:	:	:
Stock markets ^{5.3}	Index	N.A.	1000	1758	5670	14406	17436	18269	25095	42973	43237	45293	40389
M21 ^{5.4}	Ann. % ch	N.A.	-0.3	10.6	58.7	85.0	61.2	85.0	112.0	:	:	:	:
Exchange rate EUR/EUR ^{5.5}	Value	1.00	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 ^{5.6}	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	N.A.	-1.9	-2.4	-2.7	1.1	0.6	1.1	2.9	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	88.3	51.1	44.9	39.2	36.3	33.4	36.3	39.7	:	N.A.	N.A.	N.A.

CHARTS

European Commission, ECFIN-D-1



MONTENEGRO



SERBIA



COMMENTS

Recent political and other developments

A new government was formed on 10 May following protracted negotiations since January virtually minutes ahead of the constitutional deadline for new elections. V. Koštunica of the Democratic Party of Serbia (DSS) retained the post of Prime Minister and B. Djelic of the Democratic Part (DS) took the post of Deputy Prime Minister for European Integration. The Ministry of Finance is headed by M. Cvetkovic (DS) and former MoF M. Dinkic (G17+) took the Ministry of Economy and Regional Development.

Kosovo status settlement continued to remain a high priority in domestic and foreign politics. The U.N. Security Council has not yet reached a common position for the adoption of a new resolution on Kosovo. Russia continued to oppose any solution not supported by Serbia, i.e. the implementation of the Ahtisaari plan.

Output and demand

During the first quarter of 2007 GDP grew strongly by 8.7% year-on-year, following a growth rate of 5.0% year-on-year in the fourth quarter of 2006. Following a production approach, growth was in the first quarter of 2007 mainly driven by strong gains in wholesale and retail trade, transportation, financial intermediation and manufacturing.

Industrial production expanded by 4.8% year-on-year during the first quarter compared to 2.8% in the fourth quarter of 2006. This positive trend continued during the second quarter and industrial production grew by 6.5% and 4.3% year-on-year in April and May, respectively.

The strong performance of the Serbian economy during the first half of 2007 is partially due to the relaxation of fiscal policy, which began in 2006, and a laxer wage policy of the previous government, which resulted in substantially higher salaries for public sector employees. Growth was also supported by the reduction of the income tax rate at the beginning of the year and a strong export performance, helped by the robust recovery of the EU economy, the main destination for Serbian exports.

Labour market

Labour market conditions remained difficult and employment declined by 1.6% year-on-year during the first quarter of 2007. This trend continued during April and May, when employment continued to decline by 1.5% and 1.4% year-on-year, respectively. The official registered unemployment rate remained at a relatively high 20.7% in May 2007.

Wages continued to grow strongly, mainly driven by strong increases in public sector wages, during the fourth quarter of 2006 and the first quarter of 2007. In this period gross nominal wages grew by around 24.5% year-on-year. Due to the strong disinflationary trend over the same period, real wage growth accelerated substantially. This trend eased only slightly in April and May, when gross nominal wages grew by 21.4% and 24.3% year-on-year, respectively and annual inflation remained stable at around 4.5%.

International transactions

During the first quarter of 2007, exports and imports grew by 46.8% and 44.1% year-on-year, respectively. In April trade continued to expand strongly and exports and imports grew by 52.1% and 43.0% year-on-year, respectively. However, despite the strong export growth, exports remained relatively small, accounting for about 57% of imports only. Consequently, the trade deficit widened to about 23% of GDP in the first quarter. As a result of the growing trade deficit, but also of a marked drop in current transfers by 27% year-on-year, the current account deficit increased to about 18.5% of GDP in the first quarter of 2007.

On the financing side, the capital and financial account surplus remained at about 15% of GDP. During the first quarter, foreign direct investment recorded strong gains compared to the same period a year earlier, reaching about 10.7% of GDP. Portfolio investment picked up substantially, albeit from a very low base, attracted by strong gains at the Belgrade stock exchange. Debt-creating financing declined by

32% year-on-year during the first quarter. However, the indebtedness of the Serbian private sector continued to grow in 2007 and reached about 32% of GDP in April, accounting for 58% of total foreign debt.

Foreign exchange reserves of the National Bank of Serbia declined somewhat during the first quarter of 2007 but resumed growing thereafter and reached EUR 9.1 billion at end-May worth about 10 months of imports of goods and services.

Prices

Disinflation continued in the first and second quarter of 2007, and retail price inflation declined to 5.7% and 4.7% year-on-year, respectively, despite the acceleration of economic activity, strong wage increases and a continuation of monetary policy rate reductions by 450 basis points to 9.5% during the first half of the year. Apparently, the disinflationary effect of the dinar appreciation over the second half of 2006 and substantially tightened reserve requirements by the NBS to curb credit growth are still being felt. In addition, adjustments of administered prices, which were postponed in 2006 for after the election, started to show in June inflation data, when retail prices inflation accelerated to 5.1% year-on year.

Monetary and financial indicators

Monetary aggregates continued to grow stronger during the first quarter of 2007. M3 and dinar reserve money grew by 42.5% and 32% year-on-year, respectively.

Credit growth stabilised at about 20% year-on-year in the second quarter of 2007 after having declined during most of 2006, helped by reductions of the monetary policy rate by 450

basis points to 9.5% during the first half of the year on a drop of core inflation below the 4-8% target band.

Following the substantial appreciation of the dinar during most of 2006, on the back of record capital inflows, the Serbian currency weakened during the first quarter of 2007, partially due to political uncertainty related to protracted negotiations on government formation. This was somewhat reversed during the second quarter when the euro-dinar exchange rate fell again below 79 dinar per euro.

General government balance

During the first half of 2007, the Serbian government was operating under temporary financing provisions, which capped expenditures to one-half of the 2006 budget. This helped the budget balance to remain in surplus at about 0.9% of GDP during the first quarter of 2007.

Following the formation of a new government mid-May, a 2007 budget was adopted and passed by parliament end-June. The 2007 budget foresees a deficit of 0.6% of GDP compared to a surplus of 1.6% in 2006. This deterioration in the fiscal position is driven by an increase in expenditures of 27% year-on-year. The latter is mainly due to a substantial increase in investment expenditures, which is merely a reflection of the fact that the NIP is now included in the budget, as well as increased expenditures for public sector salaries, which are linked to wage agreements negotiated by the previous government before the January 2007 general elections. Revenues are projected to increase by 16.6% year-on-year. However, considering the current strong growth momentum of the Serbian economy, there seems room for a substantially better performance of revenues compared to budget projections.

TABLE

European Commission, ECFIN-D-1



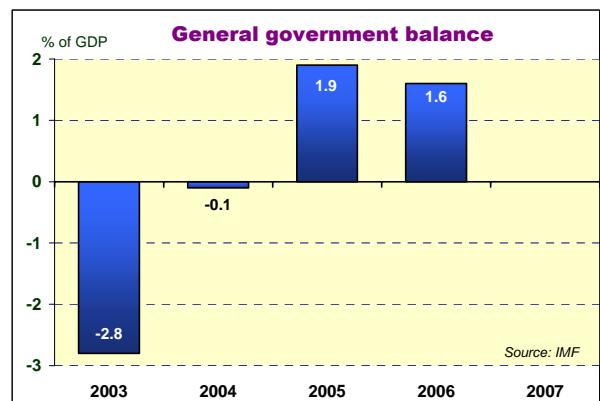
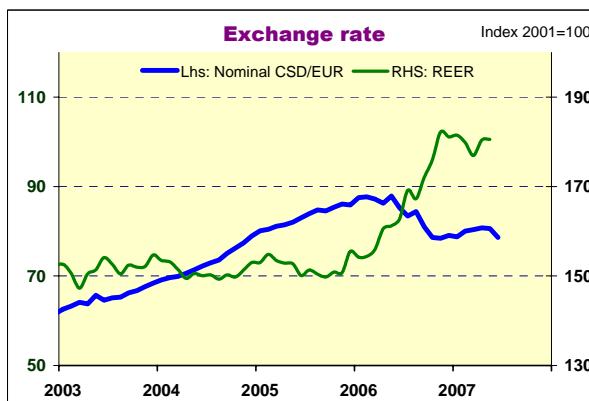
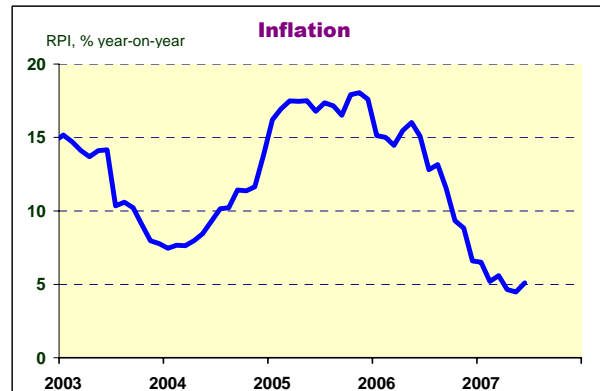
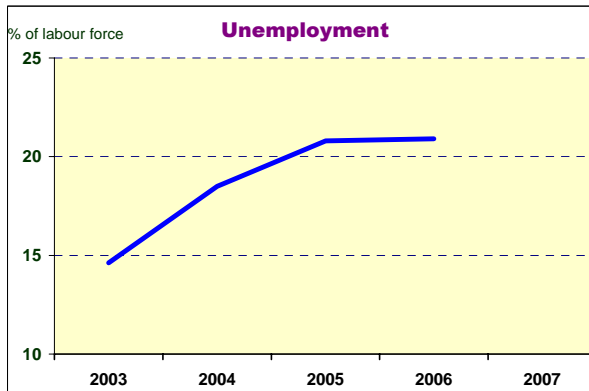
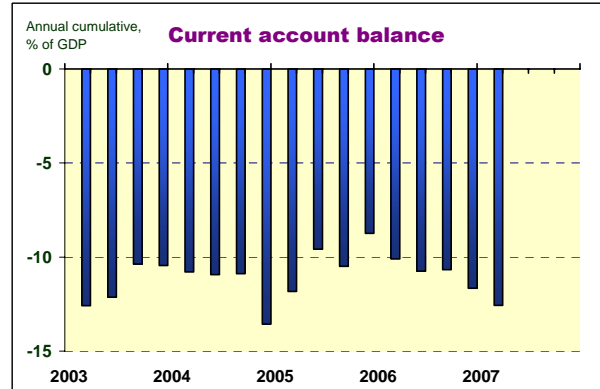
SERBIA

		2002	2003	2004	2005	2006	Q3 06	Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	1.8	-3.0	7.0	0.8	4.7	3.9	2.8	4.8	:	6.5	4.3	:
Gross domestic product ^{1.3}	Ann. % ch	4.2	2.5	8.4	6.2	5.7	5.3	5.0	8.7	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	14.5	16.0	19.5	21.8	21.6	21.5	20.9	21.4	:	21.2	20.7	:
Employment ^{2.2}	Ann. % ch	-3.4	-2.7	0.4	-6.7	-3.8	-2.0	-1.8	-1.6	:	-1.5	-1.4	:
Wages ^{2.3}	Ann. % ch	52.6	25.3	23.7	24.1	24.4	22.3	24.9	24.2	:	21.4	24.3	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	20.4	2.7	57.3	19.2	39.6	53.9	44.7	45.7	:	49.1	:	:
Imports of goods ^{3.2}	Ann. % ch	30.7	15.9	49.4	-6.7	24.5	19.0	27.7	43.5	:	42.3	:	:
Trade balance ^{3.3}	% of GDP	-22.6	-21.3	-26.4	-20.1	-19.6	-17.6	-19.0	-22.7	:	-24.9	:	:
Exports goods and services ^{3.4}	% of GDP	20.7	23.0	22.7	25.1	27.1	28.4	26.1	29.3	:	33.3	:	:
Imports goods and services ^{3.5}	% of GDP	42.4	43.2	48.4	45.2	46.9	45.6	45.6	52.2	:	58.3	:	:
Current account balance ^{3.6}	% of GDP	-8.7	-7.5	-11.7	-8.4	-11.5	-9.4	-14.9	-18.5	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.3	7.2	3.9	5.9	13.8	20.4	17.9	10.7	:	N.A.	N.A.	N.A.
4 Prices													
RPI ^{4.1}	Ann. % ch	21.4	11.7	9.8	17.3	12.7	12.5	8.2	5.7	4.7	4.6	4.5	5.1
GDP Deflator ^{4.2}	Ann. % ch	25.5	16.7	11.2	27.3	17.3	17.8	18.0	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	8.8	4.6	9.1	14.2	13.3	14.6	8.4	5.5	:	3.7	4.5	:
Import prices ^{4.4}	Ann. % ch	1.5	15.3	21.4	5.7	4.0	:	6.6	7.7	:	6.0	:	:
5 Monetary and financial indicators													
Interest rate (3 months) ^{5.1}	% p.a.	N.A.	N.A.	21.16	17.54	13.48	13.64	11.11	9.13	:	6.91	6.30	:
Bond yield ^{5.2}	% p.a.	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Stock markets ^{5.3}	Index	N.A.	N.A.	N.A.	1,954	2,658	2,342	2,658	4,220	:	4,967	4,604	:
M3 ^{5.4}	Ann. % ch	N.A.	29.1	31.2	39.1	37.9	35.1	34.6	42.5	:	40.4	39.5	:
Exchange rate CSD/EUR ^{5.5}	Value	60.74	65.29	73.10	83.25	83.91	82.95	78.74	79.74	80.01	80.77	80.63	78.64
Nominal eff. exchange rate ^{5.6}	Index	99.8	98.2	92.4	87.6	88.8	102.1	110.6	111.9	:	110.9	109.3	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	-3.1	-1.1	0.9	1.9	1.6	1.6	-0.8	1.9	N.A.	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	80.6	70.9	56.7	52.9	34.9	36.8	34.9	32.3	N.A.	N.A.	N.A.	N.A.

CHARTS



SERBIA



KOSOVO

(as defined by UNSCR 1244)

COMMENTS

Recent political and other developments

On 26 March 2007, the Comprehensive Proposal for status settlement was submitted to the President of the UN Security Council. At present, it remains unclear when there will be a vote on a new resolution replacing UNSCR 1244. In the meantime, the Comprehensive Proposal remains the working hypothesis for ongoing preparations on behalf of the EU to take over responsibility in Kosovo from UNMIK.

Output and demand

Estimates of GDP growth for 2005 and 2006 continue being revised upward. According to the latest IMF estimates, real output grew by 3.8% in 2006 after 0.6% in 2005. The major positive contribution to growth came from private sector non-housing investment which accelerated at brisk pace. Demand from the public sector as well as local demand by foreign donors were contracting. In 2007, private consumption should benefit from privatisation receipts slowly finding their way back into the economy.¹

Labour market

The unemployment rate slightly fell from 42% in 2005 to around 40% in 2006. In the first quarter of 2007, the number of registered job seekers increased to an average of 330,000 persons, up 8,000 in comparison to the first quarter of 2006. However, the number of registered job seekers has been growing constantly throughout 2006 as well. Hence, without recent data on official employment and without knowing more about how official employment is evolving as a share of overall employment of labour (official and shadow economy), putting the unemployment into an economic meaningful perspective remains a difficult task. Job training centres add several

thousand re-trained and re-qualified persons per year to the labour market. However, the labour market is currently not absorbing these additional job seekers as economic growth is driven by a mix of labour shedding and capital investment. Before employment can pick up as well, demand for locally provided goods and particularly services has to start growing. Labour costs remain a pressing issue for Kosovo's private sector development prospects and its competitiveness in a regional and international context. This is equally true for the equipment of the Kosovar economy with human capital. The educational structure is very weak and has continuously become less favourable since 2000 as the most qualified persons have been leaving the country to work abroad. While the resulting workers' remittances are an important source of income, there is a lack of qualified people at home which adds to the difficulty of creating a dynamic entrepreneurial environment.

International transactions

In 2006, the current account deficit (after foreign assistance) has widened further to an estimated 19.3% of GDP after 18.5% in 2005.

Latest figures also record a deficit in goods and services (the latter adding slightly less than 3% of GDP to the overall deficit) of 53% of GDP in 2006 after a deficit of 50.7% of GDP in 2005. The first quarter of 2007 showed a further widening of the deficit. As this is consistent with the strong acceleration in private investment during 2006 (also the changing mix of import goods with more investment goods and relatively less final consumption goods being imported), the further strong import dynamics could point to a continued brisk expansion of private investment activity. Export dynamics could not keep up with those of imports. Consequently, the coverage ratio, after having reached an average value of 6.0% in 2006, has been falling again during the first quarter of 2007.

Apart from the still substantive, but decreasing, foreign assistance, the financing of the current account deficit relied to an increasing extent on private transfers (i.e., workers' remittances) estimated to have reached 13.8% of GDP in

¹ The Kosovo Trust Agency (KTA) has so far collected €300 million from the privatisation of formerly socially owned enterprises, 20% of these receipts are being paid out to former workers.

2006 up from 11.9% of GDP in 2005. While the latter have to be seen as adding to the vulnerability of the Kosovo economy as they are contingent on labour market and income developments in the main host countries of Kosovar migrants, a more positive development is the strong pick up in FDI during 2006. The latest figures show FDI in 2006 to have reached 10.2% of GDP, up from 3.5% in 2005 and a mere 0.9% of GDP in 2004. Kosovo currently does not assume any sovereign debt servicing obligations.

Prices

As of May 2007, the index of the standard basket of consumption goods used for the calculation of the CPI stood at 99.6 and thus was still below its starting value of 100 in May 2002, i.e. exactly 5 years ago when the production of the series had started. During the entire period, with the exception of a four-quarter episode of falling prices starting in the fourth quarter of 2004, year-on-year inflation rates have stayed in a very narrow range with mostly slightly positive inflation but rarely exceeding 1%.

The 1.6% growth of the CPI in the first quarter 2007 compared to the first quarter 2006 contains a one-off price hike in the (regulated) price of electricity and also displays world price developments of basic food stuffs. The former may not display correctly the effective increase in the price of electricity (as the collection of electricity bills is still a challenge in Kosovo). The latter underlines the urgent need to revive the local production of basic food stuffs in order to better insulate the Kosovo economy from negative developments in world prices.

Monetary and financial indicators

The monetary framework in Kosovo is anchored on the use of the euro as legal tender. Given the absence of autonomous monetary policy, the budget remains the core policy tool for macroeconomic adjustment. The CBAK is in charge of regulating foreign exchange operations, providing payments services and supervising banks and other financial institutions. The CBAK closely monitors liquidity in the banking sector and credit expansion, with liquidity ratios and reserve requirements respectively as main tools of intervention.

Notwithstanding the conservative lending policies and prudential requirements, annual credit growth continued to be substantial at around 24% as of March 2007 (loans to non-financial corporations). There has been a change in the maturity structure as loans with maturity over 2 years reached an annual growth of close to 60%. The banking sector in Kosovo appeared to remain sound, profitable and well capitalised. At the end of 2006, the capital adequacy ratio of commercial banks in Kosovo stood at 16.7% after 14.7% at the end of 2005. Local banks remained very liquid in 2006 with an average loan-to-deposit ratio of 68.7%.

Interest rates remained fairly stable over the 2006 period and showed some increase the first quarter of 2007 with rates for investment business loans (over 3 years) reaching 14.5% and rates for consumer loans increasing slightly to 12.5%. The current spread with loans in the euro area displays mainly the uncertainty of the future political status of Kosovo while the contribution of higher operation costs to the spread is negligible.

General government balance

Respecting the delay foreseen in the organic budget law, the law on public financial management and accountability (LPFMA), a first Quarterly Budget Report has been published. Due to exceptional revenues of €75 million of receipts for the licence of a second mobile phone operator, total revenues had reached the level of the first semester of 2006 already in April. As a result of continued strong imports, collection of border revenues remained strong in the first quarter of 2007 and beyond. With current expenditures firmly under control the budget surplus stood at €152 million (6.5% of GDP) at the end of April 2007.

The Kosovan authorities have delivered a first draft of a Medium-Term Expenditure Framework (MTEF) covering the period until 2010. An improved version of the first part containing the macroeconomic and fiscal framework, that is consistent with the Letter of Intent currently being negotiated with the IMF, is planned for mid-July while a revised volume II with sectoral spending strategies should be finalized by end of August spelling out in a transparent manner the main policy spending priorities and facilitate the dialogue between the authorities and the donors' community on financing priorities and needs.

TABLE

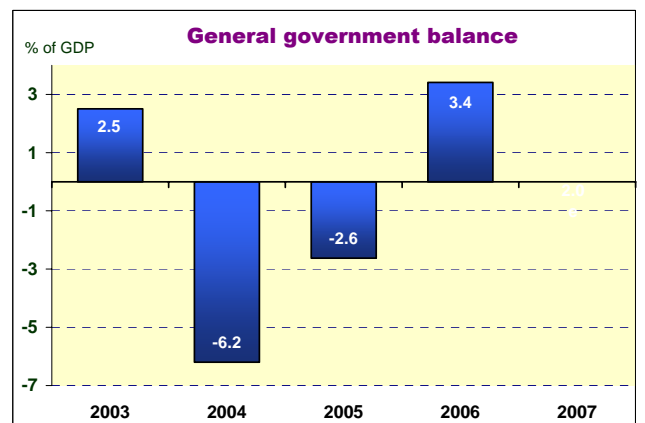
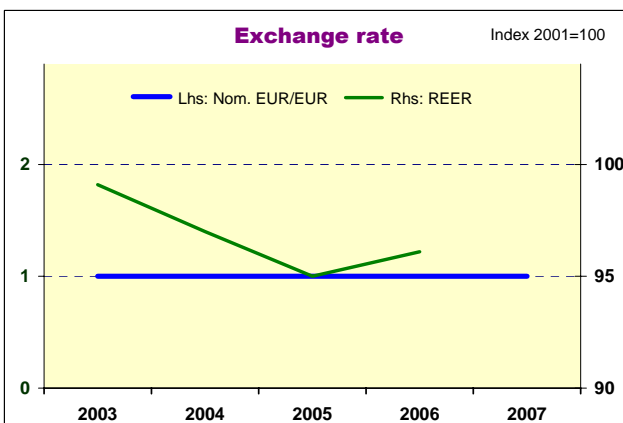
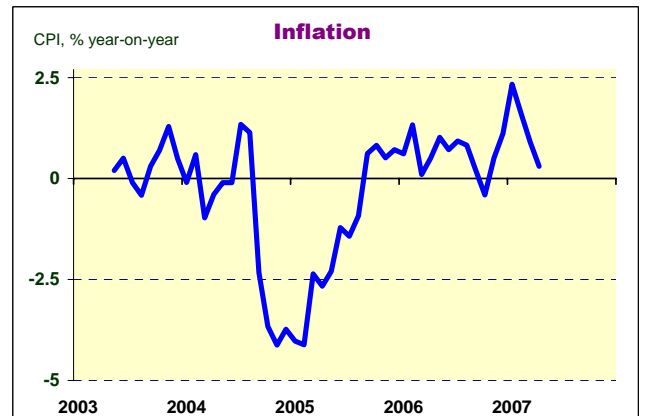
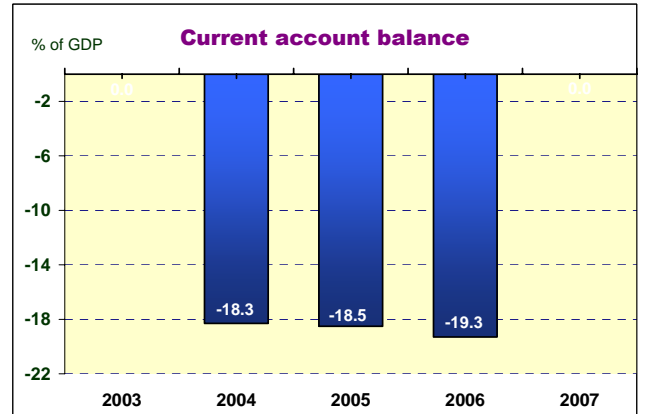
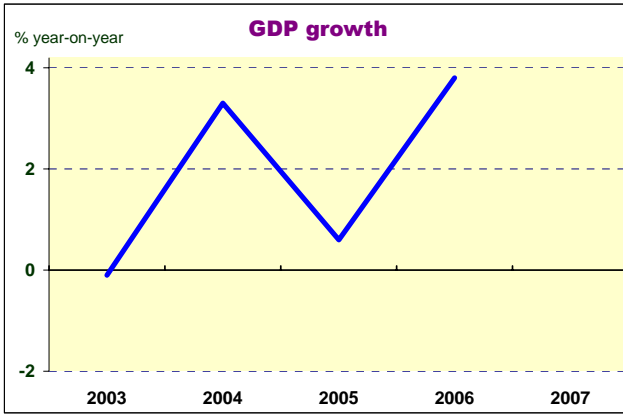
European Commission, ECFIN-D-1

KOSOVO (as defined by UNSCR 1244)

		2002	2003	2004	2005	2006	Q3 06	Q4 06	Q1 07	Q2 07	Apr 07	May 07	Jun 07
1 Output and demand													
Industrial confidence ^{1.1}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Industrial production ^{1.2}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	-2.4	-0.1	3.3	0.6	3.8	:	:	:	:	N.A.	N.A.	N.A.
Consumer confidence ^{1.4}	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Private consumption ^{1.5}	Ann. % ch	0.3	1.9	3.2	5.5	3.9	:	:	:	:	N.A.	N.A.	N.A.
Investment (Gross fixed cap form) ^{1.6}	Ann. % ch	N.A.	N.A.	N.A.	0.4	9.2	:	:	:	:	N.A.	N.A.	N.A.
Change in stocks ^{1.7}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.
2 Labour market													
Unemployment ^{2.1}	%	47.0	49.7	39.7	42.2	40.0	:	:	:	:	:	:	:
Employment ^{2.2}	Ann. % ch	9.7	-24.8	4.7	-4.6	:	:	:	:	:	:	:	:
Wages ^{2.3}	Ann. % ch	N.A.	2.0	9.3	8.5	:	:	:	:	:	:	:	:
3 International transactions													
Exports of goods ^{3.1}	Ann. % ch	161.4	31.2	118.2	-16.5	36.4	110.5	79.1	7.0	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	24.9	13.3	14.4	11.2	13.0	15.8	24.3	40.5	:	:	:	:
Trade balance ^{3.3}	% of GDP	-43.2	-41.0	-46.5	-50.7	-53.0	-51.0	-53.5	-57.2	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	13.4	12.0	9.5	8.9	10.4	:	:	:	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	58.8	56.1	59.3	62.5	67.6	:	:	:	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	N.A.	N.A.	-18.3	-18.5	-19.3	:	:	:	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	N.A.	N.A.	0.9	3.5	10.2	:	:	:	:	N.A.	N.A.	N.A.
4 Prices													
CPI ^{4.1}	Ann. % ch	2.0	1.2	-1.4	-1.4	0.7	0.7	0.4	1.6	:	0.3	:	:
GDP Deflator ^{4.2}	Ann. % ch	2.5	1.2	-2.9	-2.3	-1.6	:	:	:	:	:	:	:
Producer prices ^{4.3}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
Import prices ^{4.4}	Ann. % ch	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	:	:	:
5 Monetary and financial indicators													
Interest rate (3-12 months) ^{5.1}	% p.a.	15.60	14.60	15.70	15.60	15.47	15.58	14.45	14.74	:	:	:	:
Bond yield ^{5.2}	% p.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.	:	:	:	:	:	:	:
Broad money liabilities ^{5.4}	Ann. % ch	-15.0	20.7	43.6	21.0	5.5	8.6	5.5	15.3	:	15.2	:	:
Exchange rate EUR/EUR ^{5.5}	Value	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Real eff. exchange rate (CPI) ^{5.6}	Index	0.9	-0.9	-3.0	-5.0	-3.9	:	:	:	:	:	:	:
6 Government balance and debt													
General government balance ^{6.1}	% of GDP	4.4	2.5	-6.2	-2.6	3.4	:	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	:	:	N.A.	N.A.	N.A.

CHARTS

KOSOVO (as defined by UNSCR 1244)



Source of data: IMF, national sources



Recent economic developments in candidate countries – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	N.A.
1.2.	Industrial production	Annual percentage change, volume, excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (1997 prices)	Ecwin/Reuters
1.4.	Consumer confidence indicator	Not available	N.A.
1.5.	Private consumption	Annual percentage change, volume (1997 prices)	Ecwin/Reuters
1.6.	Gross fixed capital formation	Annual percentage change, volume (1997 prices)	Ecwin/Reuters
1.7.	Change in stocks	In percent of GDP, volume (1997 prices)	Ecwin/Reuters
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Monthly and quarterly data are based on official data on registered employment and unemployment	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data. Monthly and quarterly data are based on official data on registered employment and unemployment	Ecwin/Reuters
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in kuna)	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. HRK, fob. Customs reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. HRK, cif Customs reports used for monthly data. Central Bank's otherwise.	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, fob-cif	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, volume (1997 prices)	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP, volume (1997 prices)	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, rolling four quarter for quarterly data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Annual average percentage change, HICP not yet available for Croatia	Ecwin/Reuters
4.2.	GDP deflator	Annual percentage change	Ecwin/Reuters
4.3.	Producer prices	Annual percentage change, without construction, index 2001	Ecwin/Reuters
4.4.	Import prices	Not available	N.A.
5.	Monetary and financial indicators		
5.1.	Interest rate	Zagreb Interbank 3 month - middle rate	Ecwin/Reuters
5.2.	Bond yield	Not available	N.A.
5.3.	Stock markets	CROBEX index	Ecwin/Reuters
5.4.	M4	Annual percentage change, M4 (Broadest money)	Ecwin/Reuters
5.5.	Exchange rate HRK/EUR	Period averages, midpoint exchange rates	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Index 2001, period averages	Ecwin/Reuters
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP	Nat. sources



Recent economic developments in candidate countries – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change, volume, excluding construction	SSO
1.3.	Gross domestic product	Annual percentage change, volume (previous year prices)	SSO
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Annual percentage change, volume (previous year prices)	SSO
1.6.	Gross fixed capital formation	Annual percentage change, volume (previous year prices)	SSO
1.7.	Change in stocks	In percent of GDP, volume (previous year prices)	SSO
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data, registered otherwise	SSO
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data, registered otherwise	SSO
2.3.	Wages	Annual percentage change; average gross wages (nominal amount in Denar)	SSO
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, fob	NBRM
3.2.	Imports of goods	Annual percentage change, cif	NBRM
3.3.	Trade balance	In percent of GDP, fob-cif	NBRM
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	NBRM
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	NBRM
4.	Prices		
4.1.	CPI	Annual average percentage change, HICP not yet available for FYRoM	SSO/Ecowin/Reuters
4.2.	GDP deflator	Annual percentage change	SSO
4.3.	Producer prices	Annual percentage change, industrial products	SSO
4.4.	Import prices	Not available	SSO
5.	Monetary and financial indicators		
5.1.	Interest rate	Interest rate Denar deposits	NBRM
5.2.	Bond yield	Not available	NBRM
5.3.	Stock markets	MSE Index (MBI-10)	Macedonian SE
5.4.	M4	Annual percentage change, M4 (Broadest money)	NBRM
5.5.	Exchange rate MKD/EUR	Averages, spot close	Ecowin/Reuters
5.6.	Nominal eff. exchange rate		
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	MoF
6.2.	General government debt	In percent of GDP	MoF



Recent economic developments in candidate countries – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Industry survey, confidence index real sector	Nat. sources
1.2.	Industrial production	Annual percentage change, volume (index 1997), excluding construction	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, volume (1987 prices)	Ecwin/Reuters
1.4.	Consumer confidence indicator	Consumer tendency survey	Nat. sources
1.5.	Private consumption	Annual percentage change, volume (1987 prices)	Ecwin/Reuters
1.6.	Gross fixed capital formation	Annual percentage change	Ecwin/Reuters
1.7.	Change in stocks	In percent of GDP	Ecwin/Reuters
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey data	Ecwin/Reuters
2.2.	Employment	Annual percentage change, Labour Force Survey data	Ecwin/Reuters
2.3.	Wages	Annual percentage change; index of real earning per production worker in manufacturing industry	Nat. sources
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised moving average	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP	Ecwin/Reuters
3.5.	Imports goods and services	In percent of GDP	Ecwin/Reuters
3.6.	Current account balance	In percent of GDP, annualised moving average	Ecwin/Reuters
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	Ecwin/Reuters
4.	Prices		
4.1.	CPI	Annual percentage change, index 1994, Interim HICP is not available	Ecwin/Reuters
4.2.	GDP deflator	Annual percentage change	Ecwin/Reuters
4.3.	Producer prices	Annual percentage change, wholesale prices index (1994)	Ecwin/Reuters
4.4.	Import prices	Annual percentage change, index (1994)	Ecwin/Reuters
5.	Monetary and financial indicators		
5.1.	Interest rate	Percent p.a., Interest rates on deposits, weighted averages of 3-month deposits	Ecwin/Reuters
5.2.	Bond yield	Not available	N.A.
5.3.	Stock markets	ISE index, trading volume (business), January 1986 = 1 Turkish Lira	Ecwin/Reuters
5.4.	M3	Annual percentage change	Ecwin/Reuters
5.5.	Exchange rate YTL/EUR	Period averages	Eurostat
5.6.	Nominal eff. exchange rate	Index 1999, period averages	Eurostat
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	Nat. sources
6.2.	General government debt	In percent of GDP, ESA 95 methodology	Nat. sources



Recent economic developments – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Not available	
1.3.	Gross domestic product	Annual percentage change, volume. Annual data	Ecwin/Reuters
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Not available	
1.6.	Gross fixed capital formation	Not available	
1.7.	Change in stocks	In percent of GDP. Annual data	Ecwin/Reuters
2	Labour market		
2.1.	Unemployment	In percent of total labour force	Ecwin/Reuters
2.2.	Employment	Annual percentage change	Ecwin/Reuters
2.3.	Wages	Average monthly wages in State sector	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. USD	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP	IMF
3.4.	Exports goods and services	In percent of GDP. Annual data	IMF
3.5.	Imports goods and services	In percent of GDP. Annual data	IMF
3.6.	Current account balance	In percent of GDP, including official transfers	IMF
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP	IMF
4.	Prices		
4.1.	Interim CPI	Consumer Prices, All items, Total. Annual percentage change	IMF, Statistical
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	
4.3.	Producer prices	Annual percentage change, Total, index (1998)	Ecwin/Reuters
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month Auction, Yield	Ecwin/Reuters
5.2.	Bond yield	Government Benchmarks, 2 Year Bond, Yield	Ecwin/Reuters
5.3.	Stock markets	Not available	
5.4.	M2	Annual percentage change	Ecwin/Reuters
5.5.	Exchange rate LEK/EUR	Period averages	Ecwin/Reuters
5.6.	Change in real eff. exchange rate	Not available	
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt	In percent of GDP	IMF



Recent economic developments – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Entity indices weighted by shares in GDP	NSI
1.3.	Gross domestic product	Annual percentage change	Ecwin/Reuters
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Not available	
1.6.	Gross fixed capital formation	Not available	
1.7.	Change in stocks	Not available	
2	Labour market		
2.1.	Unemployment	Registered, in percent of total labour force	CBBH
2.2.	Employment	Registered, annual percentage change	CBBH
2.3.	Wages	Annual percentage change, average gross wages, BAM	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, mio. BAM, General merchandise, FOB	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	In percent of GDP, estimated from Balance of Payments data	
3.5.	Imports goods and services	In percent of GDP, estimated from Balance of Payments data	
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Retail price index.	CBBH
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	
4.3.	Producer prices	Not available	
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Not available	
5.2.	Bond yield	Not available	
5.3.	Stock markets	Not available	
5.4.	M2	Annual percentage change, M2 (broadest money)	Ecwin/Reuters
5.5.	Exchange rate BAM/EUR	Period averages, spot rates, close	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Index (2002 Apr=100); 9 Trade partners selected in order to set up the index (Austria, France, Germany, Hungary, Italy, Slovenia, Croatia, Serbia and Switzerland)	Ecwin/Reuters
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP. Certain local level data not included	CBBH
6.2.	General government debt	In percent of GDP. As there is no domestic debt, all debt reported is external	CBBH



Recent economic developments – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change	Ecwin/Reuters
1.3.	Gross domestic product	Annual percentage change, annual data, chain index	MONSTAT
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Annual percentage change, annual data, chain index	MONSTAT
1.6.	Gross fixed capital formation	Annual percentage change, annual data, chain index	MONSTAT
1.7.	Change in stocks	Annual percentage change, annual data	MONSTAT
2	Labour market		
2.1.	Unemployment	In percent of active population	Ecwin/Reuters
2.2.	Employment	Annual percentage change of registered employment	Ecwin/Reuters
2.3.	Wages	Annual percentage change, average gross wages (nominal, in EUR)	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, thou. EUR	Ecwin/Reuters
3.2.	Imports of goods	Annual percentage change, thou. EUR	Ecwin/Reuters
3.3.	Trade balance	In percent of GDP, annualised data	Ecwin/Reuters
3.4.	Exports goods and services	Annual data	MONSTAT
3.5.	Imports goods and services	Annual data	MONSTAT
3.6.	Current account balance	In percent of GDP, annualised data	Ecwin/Reuters
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	Ecwin/Reuters
4.	Prices		
4.1.	Interim CPI	Cost of living index, annual average percentage change, moving base year	Ecwin/Reuters
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	Ecwin/Reuters
4.3.	Producer prices	Annual percentage change	Ecwin/Reuters
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	Treasury Bills, 3 Month, auction, yield, average	Ecwin/Reuters
5.2.	Bond yield	Treasury Bills, 6 Month, auction, yield, average	Ecwin/Reuters
5.3.	Stock markets	NEX20 Index, Close	Ecwin/Reuters
5.4.	M21	Annual percentage change, M21 (Broadest money)	Ecwin/Reuters
5.5.	Exchange rate EUR/EUR	Use of the Euro since March 2002	
5.6.	Nominal exchange rate	Not available	
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	Min. of Finance
6.2.	General government debt	In percent of GDP	Min. of Finance



Recent economic developments – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Annual percentage change, total, 2005=100, SA, Index	SORS
1.3.	Gross domestic product	Annual percentage change at constant (average) prices 2002 Production approach	SORS
1.4.	Consumer confidence indicator	Not available.	
1.5.	Private consumption	Not available	
1.6.	Gross fixed capital formation	Not available	
1.7.	Change in stocks	Not available	
2	Labour market		
2.1.	Unemployment	In percent of total labour force, Labour Force Survey definition for annual data. Monthly and quarterly data are based on official data on registered employment and unemployment	SORS
2.2.	Employment	Annual percentage change, Labour Force Survey definition for annual data. Monthly and quarterly data are based on official data on registered employment and unemployment	SORS
2.3.	Wages	Gross wages annual percentage change; average growth rate, real	Ecwin/Reuters
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change, mio. USD, fob	SORS
3.2.	Imports of goods	Annual percentage change, mio. USD, cif	SORS
3.3.	Trade balance	In percent of GDP, fob-cif, annualised data	SORS, Ecwin
3.4.	Exports goods and services	In percent of GDP	NBS
3.5.	Imports goods and services	In percent of GDP	NBS
3.6.	Current account balance	In percent of GDP, annualised data	NBS, Ecwin
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, annualised data	NBS, Ecwin
4.	Prices		
4.1.	Interim CPI	Annual average percentage change, retail prices, total, index (2005)	SORS
4.2.	GDP deflator	Implicit GDP deflator. Annual percentage change	SORS
4.3.	Producer prices	Annual percentage change, total, index (2000)	SORS
4.4.	Import prices	Annual percentage change, total	SORS
5.	Monetary and financial indicators		
5.1.	Interest rate	Treasury Bills, 3 month, yield, average, CSD	NBS
5.2.	Bond yield	Not available	
5.3.	Stock markets	Belgrade Stock Exchange, BELEXfm index, price return, close, CSD	Ecwin/Reuters
5.4.	M3	Annual percentage change, M3 (broad money), CSD	NBS
5.5.	Exchange rate CSD/EUR	Spot Rates, close, period average	Ecwin/Reuters
5.6.	Nominal eff. exchange rate	Period average, moving base year, CSD	NBS
6.	Government balance and debt		
6.1.	General government balance	Consolidated GG, Overall balance including grants. In percent of GDP	MoF
6.2.	General government debt	Public sector debt. In percent of GDP	MoF

SORS: Statistical Office of the Republic of Serbia, NBS: National Bank of Serbia, MoF: Serbian Ministry of Finance

Recent economic developments in – Explanatory notes

No.	Indicator	Note	Source
1	Output and demand		
1.1.	Industrial confidence indicator	Not available	
1.2.	Industrial production	Not available	
1.3.	Gross domestic product	Annual percentage change	IMF
1.4.	Consumer confidence indicator	Not available	
1.5.	Private consumption	Annual percentage change	IMF
1.6.	Investment	Annual percentage change	IMF
1.7.	Change in stocks	Not available	
2	Labour market		
2.1.	Unemployment	In percent of total labour force	Statistical Office of Kosovo (SOK)
2.2.	Employment	Annual percentage change of number of employees according to the Tax Register	Statistical Office of Kosovo (SOK)
2.3.	Wages	Annual percentage change, average monthly wages according to the Tax Register	Statistical Office of Kosovo (SOK)
3.	International Transactions		
3.1.	Exports of goods	Annual percentage change	IMF
3.2.	Imports of goods	Annual percentage change	IMF
3.3.	Trade balance	In percent of GDP	IMF
3.4.	Exports goods and services	In percent of GDP	IMF
3.5.	Imports goods and services	In percent of GDP.	IMF
3.6.	Current account balance	In percent of GDP, Annual data, After foreign assistance	IMF
3.7.	Direct investment (<i>FDI, net</i>)	In percent of GDP, Annual data	IMF
4.	Prices		
4.1.	Interim CPI	Annual average percentage change, index (May 2002 = 100)	IMF
4.2.	GDP deflator	Annual percentage change	
4.3.	Producer prices	Not available	
4.4.	Import prices	Not available	
5.	Monetary and financial indicators		
5.1.	Interest rate	% p.a	Central Bank Authority (CBAK)
5.2.	Bond yield	Not available	
5.3.	Stock markets	Not available	
5.4.	Broad money liabilities	End of period	Central Bank Authority (CBAK)
5.5.	Exchange rate EUR/EUR		
5.6.	Reall eff. exchange rate	CPI-based, annual average change	IMF
6.	Government balance and debt		
6.1.	General government balance	In percent of GDP	IMF
6.2.	General government debt		