



SEE-6

Economic Outlook

SEEA is an international organization with the aim to: promote economic research in Southeastern Europe; foster networking and regional cooperation among the member institutes; develop joint research programs; organize joint scientific conferences, round tables and meetings on a national level.

CONTENTS

2

BOSNIA AND
HERZEGOVINA

Modest growth in spite of constant political crisis

8

CROATIA

A year of strong economic growth, but structural weaknesses not yet overcome

14

MACEDONIA

Expecting the resolution of the political crises

20

MONTENEGRO

The highest level of preparation for EU membership among the negotiating states

26

SERBIA

The economy is on the right track but there is still much work to be done

32

SLOVENIA

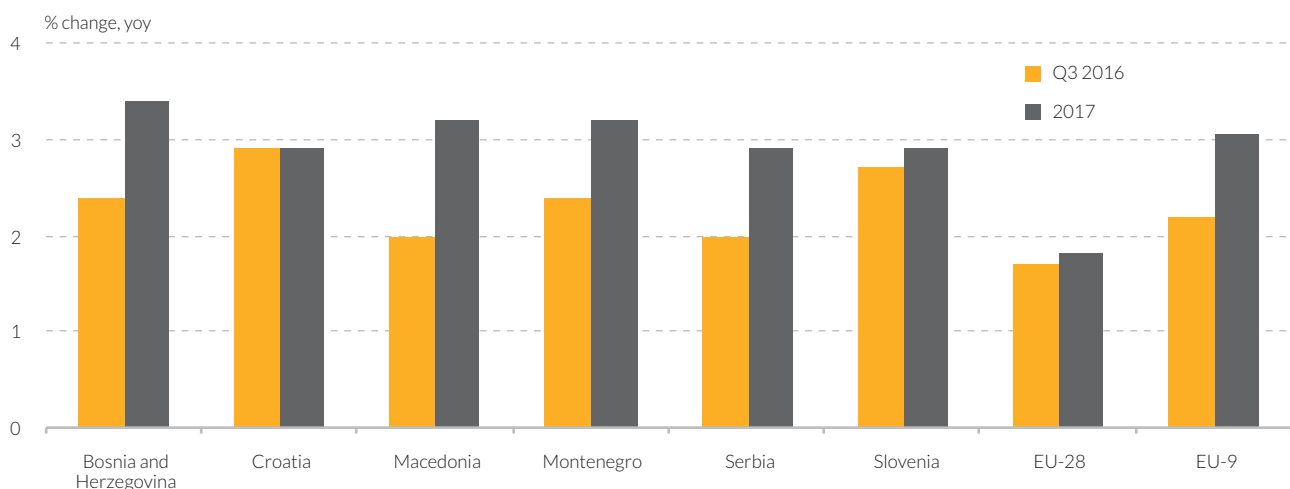
Economic growth is becoming broader-based

38

ANALYSIS

Digital economy in SEE-6 countries

REAL GDP GROWTH PROJECTIONS FOR SEE-6, EU-9* AND EU-28



Source: European Economic Forecast, European Commission, Winter 2017 and authors for SEE-6.

Note: * EU-9 include Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.



BOSNIA AND HERZEGOVINA

➤ Modest growth in spite of constant political crisis

**Political conflicts as an
obstacle to more rapid
implementation of
socio-economic reforms**

Recent economic developments

Despite agreeing on economic and social reforms and committing to European Union (EU) accession, the authorities of Bosnia and Herzegovina (BiH) failed to make significant progress in these areas. Constant crises, produced by interparty, personal, and ethnic conflicts on all levels of governance, are paralyzing all institutions. In such circumstances, it is not surprising that International Monetary Fund (IMF) has delayed loan agreement that was reached in May 2016. However, BiH authorities, meanwhile, met the requirement of the IMF (signed letter of intent) and the Executive Board of IMF approved a three-year extended arrangement for an amount equivalent to EUR 553.3 million. These funds are intended to support the economic reform agenda aimed at addressing the difficult socio-economic situation and improving the rule of law and public administration reform.

Although the Stabilization and Association Agreement (SAA) came into force in June 2015, the authorities in Bosnia and Herzegovina have not yet adapted the trade part of the agreement. This is a particularly important, because the adaptation of the SAA is one of the basic conditions on which the European



Commission insists in order to grant candidate status for the EU membership. In July 2016, Bosnia and Herzegovina has initialled a protocol for a technical adaptation of the SAA, which refers to its traditional bilateral trade with Croatia. However, this protocol has not yet been signed.

Positive but moderate economic growth has continued in the first half of 2016. In the first quarter of 2016, GDP increased by 1.9%, while in the second quarter it increased by 1.4%, compared to the same period in 2015. This slowdown is mainly result of the base effect (i.e. high growth rate in the second quarter of 2015 which was about 4.4%). Therefore, the economic growth almost halved compared to 3% in the first half of 2015. The main drivers of growth were the increase in exports, domestic consumption, and especially in industrial production. In the first six months of 2016 there was an increase in industrial production of 4.6% compared to the same period last year. The largest contribution to this rise in industrial production was recorded in the processing industry which is mainly export-oriented.

Similar to the trends in most countries in the region, unemployment has declined in Bosnia and Herzegovina during the first half of 2016. The survey unemployment rate now stands at 25.4%, a decrease of 2 percentage points compared to the same period last year. Despite this reduction in unemployment, BiH still has the highest unemployment rate in the region. At the same time, the number of employees has increased by 1.5%, mainly due to the increase in the number of employees in the sectors of trade and industrial production. The average nominal net wage has not changed significantly (0.8% and 0.6% in the first and second quarters, respectively), but the real wages increased by 2% due to deflation.

**Modest economic growth
driven by domestic
consumption and exports**

**Growth of employment
but unemployment is still
the highest in the region**

Balanced budget and a slight increase in government public debt

In the first half of 2016, the government has achieved a modest budget surplus. Revenues grew at a slightly higher rate (4.9%) than expenditure (2.7%) compared to the same period in 2015. The increase in revenue is mainly result of growth in indirect and direct taxes. Indirect taxes (in which the largest share had VAT and excise duties) were increased by 5.5%, while direct taxes were increased by 6.4% compared to the same period last year. Positive growth in total revenues, as well as the high growth rates of certain categories of taxes, are the result of intensive inspections, which were carried out for the purpose of combating the grey economy. In the same period, total government debt amounted to EUR 6 billion, which represents a slight increase of 1.5% compared to the same period last year. The increase in debt was caused by an increase in domestic debt by 6.2% y/y, while the foreign debt decreased by insignificant 0.2% y/y.

Deflation and a slight increase in lending activity

In the first half of 2016, the recorded deflation in BiH stood at -1.4%. A general fall in prices was caused by the fall in energy prices in the world market and due to the consequent fall in prices of transport. The items in the basket of goods that contributed the most to deflation were clothing and footwear, as well as food and non-alcoholic beverages.

Total domestic credit amounted to EUR 8.7 billion, which represents growth of 1.3% y/y. The growth of total domestic credit is a result of growth of loans to non-financial companies (1.5% y/y) and growth of loans to the household sector (2.9% y/y). In contrast, loans to the government had a negative growth rate (-10.6% y/y).

The reduction of the foreign trade deficit

The external environment through export demand and internal dynamics through economic growth and increasing domestic demand have determined the movement of foreign trade in Bosnia and Herzegovina in the first half of 2016. BiH recorded an increase in foreign trade, exports and imports, and reduction in the trade deficit, while the export-import ratio improved compared to the same period last year. The increase in exports was mainly due to the growth of production in the manufacturing industry, which is highly export-oriented. Thus, the total BiH exports of goods in the first half of 2016 amounted to over EUR 2.3 billion, an increase of nearly 3% in nominal, compared to the same period last year. In the same period, imports amounted to EUR 3.9 billion, an increase of 0.8% compared to the same period last year. All this has resulted in reducing the foreign trade deficit by 1.2 percentage points compared to the same period last year.

The drastic decline in foreign direct investment

In the first half of 2016, foreign direct investment amounted to around EUR 100 million, which represents a significant decrease (-34.2%) compared to the first half of 2015, when these investments amounted to about EUR 152 million. The biggest investments were in the processing industry (EUR 15.3 million), the supply of electric power (EUR 6.9 million) and trade (EUR 9.1 million). The decline in investment in 2016 was influenced by the fact that there has been a delay in the construction of large electricity projects, as well as completion of investment in Stanari thermal power plant, which has already started test operation.

Table BH1 Main economic indicators

	2014	2015	2016		
			Q1	Q2	Q3
ECONOMIC ACTIVITY					
Real GDP (% change, yoy)	1.1	2.8	1.9	1.4	2.4
Real private consumption (% change, yoy)	2.2	1.9	2.0	-	-
Real government consumption (% change, yoy)	0.9	1.0	1.2	-	-
Industrial output (% change, yoy)	6.1	2.6	4.6	4.6	3.6
Unemployment rate (registered, %, pa)	27.5	27.7	-	-	25.4
Nominal GDP (EUR million)	13,937	14,361	3,382	3,769	4,116
GDP per capita (EUR)	3,641	3,752	890	991	1,083
PRICES, WAGES, AND EXCHANGE RATES					
Implicit GDP deflator (% change, yoy)	-0.4	1.1	0.3	-	-
Consumer prices (% change, yoy, pa)	2.2	-1.0	-1.3	-1.4	-1.1
Producer prices (% change, yoy, pa)	0.4	0.6	-3.2	-3.0	-1.4
Average gross wage (% change, yoy, pa)	0.1	1.0	0.8	0.6	0.9
Exchange rate, BAM/EUR (pa)	1.96	1.96	1.96	1.96	1.96
Exchange rate, BAM/US\$ (pa)	1.47	1.76	1.77	1.72	1.75
FOREIGN TRADE AND CAPITAL FLOWS					
Exports of goods (EUR million)	4,439	4,585	1,081	1,221	1,204
Exports of goods (EUR, % change, yoy)	3.6	3.2	-0.2	5.5	1.8
Imports of goods (EUR million)	8,283	8,087	1,799	2,140	2,097
Imports of goods (EUR, % change, yoy)	6.8	-2.3	-1.2	2.6	-1.6
Current account balance (EUR million)	-1,091	-816	-124	-318	-
Current account balance (% of GDP)	-7.7	-5.4	-3.6	-8.4	-
Gross foreign direct investment (EUR million)	378	221	79	21	11
Foreign exchange reserves (EUR million, eop)	4,013	4,413	4,405	4,498	4,843
Foreign debt (EUR million, eop)	7,106	8,238	-	-	-
GOVERNMENT FINANCE*					
Revenue (national currency)**	11,961	10,744	2,478	2,746	2,867
Expense (national currency)**	11,350	10,364	2,363	2,507	2,515
Net = Gross operating balance (BAM million)**	611	380	115	239	352
Net acquisition of non-financial assets (BAM million)**	554	239	24	52	105
Net lending/borrowing (national currency)**	486	-399	91	187	247
Domestic government debt (EUR million, eop)	1,386	1,664	1,658	1,650	1,621
Foreign government debt (EUR million, eop)	4,152	4,438	4,183	4,439	4,514
Total government debt (% of GDP)	39.7	41.0	-	-	-
MONETARY INDICATORS					
Narrow money, M1 (% change, yoy, eop)	9.1	11.2	2.8	3.0	14.3
Broad money, M2 (% change, yoy, eop)	7.5	8.0	8.5	7.3	7.5
Total domestic credit (% change, yoy, eop)	2.9	2.4	3.0	1.3	1.8
DMBs credit to households (% change, yoy, eop)	5.7	4.8	4.2	2.9	2.9
DMBs credit to enterprises (% change, yoy, eop)	-1.4	-0.2	-	1.5	2.3
DMBs credit rate for enterprises, short-term (% pa)	6.6	6.3	6.4	6.2	6.1
DMBs credit rate for households, short-term (% pa)	7.3	7.4	6.9	-	6.9

Notes: * Data refer to consolidated general government. ** On the cash principle, cumulative from the beginning of the year.

Conventional abbreviations: pa - period average; eop - end of period; yoy - year on year; EUR - euro, US\$ - US dollar; BAM - Bosnia-Herzegovina convertible mark; DMB - deposit money bank.

Sources: Agency for Statistics of Bosnia and Herzegovina, Bosnia and Herzegovina Directorate for Economic Planning, Bosnia and Herzegovina Indirect Taxation Authority, Central Bank of Bosnia and Herzegovina.

Strengthening economic growth in 2017 and 2018, mainly due to public sector investments and higher exports

Policy assumptions and projections summary

Given the favourable economic trends in the environment, gradual strengthening of economic growth is also expected in BiH, which would reach a rate of 3.1% in the end of 2016. This implies a modest real increase in investments at the level of 0.8%, and significant real growth in private consumption (projected real rate of 2.9%) driven by the growth in employment of 1.5% and real wage growth of about 1.6%. Strengthening economic growth in the region and signing a credit arrangement with the IMF should further strengthen the economic growth of Bosnia and Herzegovina in 2017 and 2018, with projected growth rates of 3.4% and 3.8%, respectively.

It is expected that investment and foreign trade will increase in 2017 and 2018, which should have a positive effect on employment and net wages. According to projections, the number of employed persons in BiH would increase by 1.9% in 2018 and 2.1% in 2019. The expected foreign direct investment is around 2.5% of GDP in 2017 and 2018, which should be the result of previously deferred electricity projects and the construction of highways. It is also expected that export growth should be somewhat faster than imports, which would contribute to further increase in the coverage of imports by exports. The projected annual real growth rates of total exports are 5.4% in 2017 and 5.9% in 2018, while it is expected that the growth rates of imports should be slightly lower compared to exports, so that the real growth rates of total imports should range from 4.9% in 2017 to 5.4% in 2018. After years of deflation, growth of general price level (0.5%) is expected in 2017. ■



Table BH2 Summary of projections

	2016	2017	2018
Real GDP (% change)	3.1	3.4	3.8
Real private consumption (% change)	2.5	2.7	2.9
Real investment (% change)	1.0	8.3	9.7
Exports of goods and services (constant prices, % change)	4.7	5.4	5.9
Imports of goods and services (constant prices, % change)	2.2	4.9	5.4
Current account balance (% of GDP)	4.9	5.3	5.8
Consumer prices (% change, pa)	-1.0	0.5	1.0
Exchange rate, national currency/EUR (pa)	1.96	1.96	1.96
Unemployment rate (registered, %, pa)	26.5	26.9	27.1
General government balance (ESA95 definition, % of GDP)	-2.8	-	-
Broad money, M4 (% change, eop)	5.9	-	-
Total domestic credit (% change, eop)	14.6	-	-

Notes: Cut-off date for information used in the compilation of projections was October 20, 2016.

Conventional abbreviations: pa - period average, eop - end of period, EUR - euro.

Sources: BiH Directorate for Economic Planning, World Bank, IMF and author's projections.





C R O A T I A

➤ A year of strong economic growth, but structural weaknesses not yet overcome

Recent economic developments

Three cabinets in only one year

Political developments in Croatia in 2016 were rather unique, since it was the only year in recent Croatian history with three cabinets in only one year. The HDZ-Most government that was formed at the end of January 2016 fell after less than six months, and the new elections took place on September 11, 2016. HDZ, headed by new party leader Mr Andrej Plenkovic, thus far representative in the European Parliament, won majority of seats in the Parliament. After relatively short negotiations, HDZ was again able to form the Government with Most, and the new Government was approved by 91 out of 151 members of the Parliament on October 19. In its program, the Government emphasizes four main objectives: achieving stable and lasting economic growth, creating new and high quality jobs, stopping emigration and supporting the demographic renewal, and reaching social justice and solidarity. In spite of pre-election promises, the size of the cabinet did not go down – there are 21 members in the new Government. Relatively smooth transition of powers has been assured by the fact that 8 members of the previous Government are the members of the new Government as well.



Economic recovery which showed its first signs in the last quarter of 2014 continued in 2015 and speeded up further in 2016. In the first three quarters of 2016 the year-on-year growth rates were persistently close to three percent, implying that the Croatian economy fared quite well in spite of political turbulences that caused a postponement of structural reforms. Growth was brought about by the rise in all domestic components of GDP, whereby the largest contribution to growth came from private consumption. There were several factors that positively influenced the propensity to consume, from positive developments on the labour market to somewhat improved consumer sentiments and good tourist season. Investments went up impressively in the first half of the year, but then lost momentum in the third quarter. Government consumption has also risen to some extent, but its rise had only a minor contribution to overall growth. In spite of the fact that exports still grow strongly, revived growth triggered higher growth rates of imports, and positive impact of the net exports on growth is gradually vanishing.

Industrial production has also been strong throughout the year. In the first eleven months of 2016 industrial output was 4.1% higher than in the same period the year before, and the output recorded in manufacturing was 4.5% higher. Retail trade followed similar trend and rose in the period from January to October by 4.3% in real terms, in comparison with the same period last year. Favourable tourist season has surely given additional boost to the good retail turnover. The data for the first ten months of 2016 show that Croatia had yet another exceptional tourist season, with 8.3% more arrivals of tourists and 8.8% more overnight stays than in the first ten months of 2015.

The developments on the labour market have to some extent reflected overall positive economic trends. On the positive note, one can observe that number of jobless persons in 2016 was constantly on much lower level than

Solid growth rates in the first three quarters

Considerable decline in the number of jobless persons

in 2015. In the first eleven months of 2016 the number of unemployed was on average 15.4% or by almost 44 thousand lower than in the corresponding months of 2015. Data for employment do not spur the same amount of optimism and are somewhat puzzling. The official unemployment statistics generated by Croatian Bureau of Statistics imply a decline in employment, while the data on the number of insured persons recorded by the Croatian Pension Insurance Institute suggest a rise in employment. While it seems that the data on employment should be taken and interpreted with a due caution, one can take the declining rate of unemployment as a good indication of improved labour market situation. When compared with the same period in the previous year, an average gross wage went up by 1.9% in the period of time from January to September. Thanks to the deflationary environment, this made the real wages three percent higher and helped private consumption to go up in spite of only marginal increase in nominal wages.

Fiscal balance above zero in the first three quarters of 2016

Two circumstances with different signs had beneficial impact on the fiscal outturn in the most part of 2016 – vivid economic activity on one hand, and subdued government activity caused by political instability on the other hand. One has to bear in mind that the fiscal statistics for 2016 is generated using somewhat different methodology than for 2015. Still, the data allow us to infer that the improved economic activity led to a significant rise in government revenues which in the first three quarters were 7.4% higher than in the first three quarters of 2015. Expenditures in the same time went up only by 1.8%. Such a slow accommodation of government expenditures to the increase in revenues can be attributed to the fact that the budget for 2016 was adopted only at the end of the first quarter, and to the fact that Croatia had an acting government in the third quarter of the year. In both first and third quarter the Government could therefore spend taxpayers' money only on basic activities. As a consequence, the consolidated general government ran both a positive cumulative net operating balance and a positive net lending. In spite of the fact that we can expect higher spending in the last quarter of the year, the year in total will probably end with unprecedentedly low fiscal deficit. With such fiscal developments, the public debt ratio which stood at 86.7% of GDP at the end of 2015 and has been increasing forcefully since the beginning of economic recession will probably go down in 2016.

A package of new tax laws adopted at the end of 2016

When then-new Government stepped in at the beginning of January 2016, it was full of ambitious plans on different structural reforms. For political reasons or not, none of the reforms materialized. Yet, the Minister of Finance was maybe the only one of the ministers that initiated serious preparation of the reform, i.e. of the tax reform. Since the Minister of Finance happened to be one of the survivors from that Government, and retained the same position in the current Government, soon after its establishment, the package of new tax laws was adopted by the Government and passed by the Parliament at the end of the year. Thus, fifteen tax laws will be implemented with the beginning of 2017. Although tax reform is criticized for not being exposed to public discussion, for decreasing the level of progressivity and increasing VAT rate on catering services, it was largely welcomed by the business community.

Table HR1 Main economic indicators

	2014	2015	2016		
			Q1	Q2	Q3
ECONOMIC ACTIVITY					
Real GDP (% change, yoy)	-0.5	1.6	2.7	2.8	2.9
Real private consumption (% change, yoy)	-1.6	1.2	3.1	3.1	3.4
Real government consumption (% change, yoy)	-0.8	-0.3	0.4	2.5	2.1
Real investment (% change, yoy)	-2.8	1.6	4.3	6.5	2.9
Industrial output (% change, yoy)	1.2	2.7	7.9	5.1	1.2
Unemployment rate (registered, %, pa)	19.6	17.4	17.6	14.6	13.2
Nominal GDP (EUR million)	43,002	43,870	10,154	11,338	12,626
GDP per capita (EUR)	10,156	10,363	-	-	-
PRICES, WAGES, AND EXCHANGE RATES					
Implicit GDP deflator (% change, yoy)	0.0	0.1	-0.3	-0.3	-0.1
Consumer prices (% change, yoy, pa)	-0.2	-0.5	-1.3	-1.7	-1.3
Producer prices (% change, yoy, pa)	-2.8	-3.8	-4.2	-5.6	-4.3
Average gross wage (% change, yoy, pa)*	0.2	1.3	2.6	1.5	1.7
Exchange rate, HRK/EUR (pa)	7.63	7.61	7.62	7.50	7.49
Exchange rate, HRK/US\$ (pa)	5.75	6.86	6.92	6.64	6.71
FOREIGN TRADE AND CAPITAL FLOWS					
Exports of goods (EUR million)	10,369	11,528	2,687	3,062	3,043
Exports of goods (EUR, % change, yoy)	8.1	11.2	4.4	4.4	2.6
Imports of goods (EUR million)	17,129	18,483	4,453	5,094	4,914
Imports of goods (EUR, % change, yoy)	3.6	7.9	4.5	6.5	2.0
Current account balance (EUR million)	901	2,237	-1,580	152	-
Current account balance (% of GDP)	2.1	5.1	-15.6	1.3	-
Gross foreign direct investment (EUR million)	2,394	170	523	83	-
Foreign exchange reserves (EUR million, eop)	12,688	13,707	16,199	12,937	13,039
Foreign debt (EUR million, eop)	46,664	45,534	44,297	43,428	-
GOVERNMENT FINANCE**					
Revenue (HRK million)***	131,917	150,089	34,932	41,609	41,433
Expense (HRK million)***	139,532	150,559	35,369	39,060	37,393
Net = Gross operating balance (HRK million)***	-7,615	-470	-437	2,549	4,040
Net acquisition of non-financial assets (HRK million)***	4,855	7,850	1,154	1,629	2,036
Net lending/borrowing (HRK million)***	-12,470	-8,320	-1,591	920	2,004
Domestic government debt (EUR million, eop)	21,650	22,457	23,289	23,184	-
Foreign government debt (EUR million, eop)	15,443	15,471	15,002	14,841	-
Total government debt (eop, % of GDP)	86.6	86.7	-	-	-
MONETARY INDICATORS					
Narrow money, M1 (% change, yoy, eop)	9.6	11.4	11.0	12.7	14.3
Broad money, M4 (% change, yoy, eop)	3.5	5.4	3.6	5.0	3.9
Total domestic credit (% change, yoy, eop)	-2.3	-2.0	-5.7	-4.8	-6.4
DMBs credit to households (% change, yoy, eop)	-0.8	-1.5	-8.0	-7.4	-6.7
DMBs credit to enterprises (% change, yoy, eop)	-3.7	-5.2	-5.5	-4.7	-4.9
Money market interest rate (% pa)	0.6	0.8	0.6	0.5	0.5
DMBs credit rate for enterprises, short-term (% pa)****	5.7	5.4	5.1	4.7	4.6
DMBs credit rate for households, short-term (% pa)****	9.3	8.9	7.9	8.1	8.1

Notes: * Break in time series; data for 2016 are gathered by processing data submitted in the reports on income, income taxes and social security contributions. ** Data refer to consolidated general government. *** On the cash principle. **** The weighted average interest rate on new loan agreements, revised data.

Conventional abbreviations: pa - period average, eop - end of period, yoy - year on year, HRK - Croatian kuna, EUR - euro, US\$ - US dollar, DMB - deposit money bank.

Sources: Croatian Bureau of Statistics, Croatian National Bank and Ministry of Finance.

The reform hinges on the idea that the overall tax burden should be lowered in order to increase Croatia's competitiveness, that overall personal income tax burden should go down so as to stimulate employment and that the taxation of higher tax brackets should also decrease so that further brain drain should be discouraged. Following these goals, personal income tax underwent major changes. Basic monthly personal allowance is set at HRK 3,800 instead of HRK 2,600 where it stands according to the current law, instead of three marginal tax rates of 12, 25 and 40, only two rates of 24% and 36% will be applied, and the highest marginal tax rate will be applied on monthly wages higher than HRK 17,500. Additional personal tax allowance for children and other dependent family members will also go up by 30% on average. 12-percent income tax rate is preserved, but will pertain only to income from capital. Corporate income tax is also lowered – instead of the rate of 20%, companies will be charged with an 18-percent rate, but small enterprises, crafts and farmers will be charged with only a 12-percent rate. Some changes are foreseen in the VAT – scope of products on which a 5-percent rate is applied is broadened, VAT rate on sugar and catering services is increased from 13% to 25%, and VAT rate on tickets for movie theatres is increased from 5% to 13%. The rate on tax on sale of residential property is lowered from 5% to 4%, and the tax exemption for the purchase of the first property, currently applied only on used property, is abolished.

End of the deflation period on the horizon

In the first three quarters of 2016 price indices were in the negative zone. Cumulative decline of CPI in January-November period was 1.2%, compared with the same period the year before, and was almost fully caused by lower prices of fuel that were built into the lower prices of energy and transportation. However, monthly price movements indicate that the trend of falling prices started to reverse already in the second quarter.

Investments expected to fuel the economic growth

Policy assumptions and projections summary

Macroeconomic forecasts for 2016, 2017 and 2018 are taken from the publication Croatian Economic Outlook Quarterly issued in December 2016 and prepared by the Institute of Economics, Zagreb (EIZ). A comparison of these projections with the ones presented in the last issue of SEE-6 Economic Outlook shows a significant upward revision of the GDP forecast for 2016 and 2017 – by 0.8 percentage points for both years. Consequently, the estimated growth rate for 2016 is 2.7%, which is in line with the y-o-y growth rates in the first three quarters of 2016. For 2017, even higher rate of 2.9% is projected, while in 2018 slight attenuation of the growth rates is expected with GDP growth of 2.6%.

Although all the domestic GDP components are projected to rise in 2017 and 2018, investments are supposed to grow at the highest rates among domestic GDP components. This is based on the assumption of more intense use of the EU funds for financing infrastructural and other projects, resumption of investments that were halted due to the political instability in 2016, encouraging effect of the tax reform on investment decisions by the companies and expectation of the announced reforms aimed at diminishing the administrative

Table HR2 Summary of projections

	2016	2017	2018
Real GDP (% change)	2.7	2.9	2.6
Real private consumption (% change)	3.0	2.3	2.5
Real government consumption (% change)	1.5	1.4	0.8
Real investment (% change)	4.1	5.0	4.2
Exports of goods and services (constant prices, % change)	5.8	5.1	4.8
Imports of goods and services (constant prices, % change)	6.4	6.6	6.5
Current account balance (% of GDP)	3.3	2.1	0.9
Consumer prices (% change, pa)	-0.9	1.3	1.6
Exchange rate, national currency/EUR (pa)	7.53	7.52	7.52
Unemployment rate (registered, %, pa)	14.8	13.5	12.3
General government balance (ESA2010 definition, % of GDP)	-2.2	-1.9	-1.7
Broad money, M4 (% change, eop)	4.0	4.2	4.0
Total domestic credit (% change, eop)	-4.5	2.1	4.1

Notes: Cut-off date for information used in the compilation of projections was December 8, 2016.

Conventional abbreviations: pa - period average, eop - end of period, EUR - euro.

Source: The Institute of Economics, Zagreb.

burden. Optimistic projections do not mean, however, that the solid growth can be taken for granted or can be considered sustainable in the longer run. There are many weaknesses of the Croatian economy that have not been addressed by the economic policy measures, competitiveness is not getting better and structural reforms are postponed. If the current Government does not give priority to economic issues, even the projected short-term growth rates might be jeopardized, and long-term growth rates will revert to their currently estimated potential rate of only one percent.

As for the trade dynamics, it is expected that the exports will continue to rise, but at falling growth rates, and that the increase in imports will surpass the increase in exports. Therefore, positive balance on the current account is projected to go down from 3.3% in 2016 to 0.9% in 2018.

In line with the adopted government budget for 2017, further fiscal consolidation is expected i.e. decrease in general public debt below the Excessive Deficit Procedure (EDP) target leading to slight diminution of the public debt ratio. In the labour market sphere, positive overall economic environment should reflect mainly on the number of unemployed persons, while the change in employment and the labour force is assumed to be dominated by emigration and demographic factors. Thus, the unemployment rate is expected to go down to 13.5% in 2017 and 12.3% in 2018.

In 2017 we might eventually see some credit growth which will intensify in 2018 resulting from revived investments, rising personal consumption and expansionary monetary policy leading to high banking liquidity and low interest rates. No changes in monetary policy are expected, so the exchange rate is supposed to remain stable. As for the price developments, the consumer prices are projected to start rising with CPI inflation reaching 1.3 and 1.6 in the next two years. Inflation will be mainly imported, and will result from rising oil prices. ■



MACEDONIA

➤ Expecting the resolution of the political crises

The political crises still remain unsettled

Recent economic developments

Despite political turmoil and stepping down from power, the leading party in January 2016 under the Przino agreement to make peace with the opposition didn't solve the political crisis. The point of culmination of the crisis were massive anti-government protests that started in April. This was reaction to the decision of the Macedonian President on April 12 when he announced the effective pardoning of more than 50 government officials in a massive scandal. This plunged Macedonia into a deep political crisis.

The result of the negotiations among the four dominant political parties was the early parliamentary elections accompanied with set of measures to ensure the editorial independence of the public broadcaster, to clear out the electoral rolls and to allow the special prosecutor to do his job. The election on December 11 passed off peacefully but ended in uncertainty and failed to resolve the political rift. In a near-tie result, both main parties proclaimed themselves the victors, but the Government is still unknown. The political crises still remain unsettled.



The trend of positive economic growth in the Republic of Macedonia after a two-year battle with the political crisis and inadequate and disrupted economic ambience, capitulated. Real GDP recorded positive growth rates in first and second quarter of 2016, 2% and 2.2%, respectively. Compared to the same period in 2015, the growth rate decreased by half. Investment are the most hit component by the situation and in the first quarter of 2016 were negative 9%, whereas growth was mostly affected by the export of goods and services (9.1%), consumption, government (3.5%) and private consumption (4.2%). Therefore, the industrial output seems to be the booster of the growth.

Economic growth declined

The situation in the second quarter of 2016 is quite the opposite. The investment is positive and grows up to 9.2%, due to the increased construction activity (31% increase in the construction sector), imports and production of capital goods.

During the last few years, the labour market of the Republic of Macedonia is characterized with continuous employment increase and unemployment decrease. The employment rate has risen from 46.0 (2013) to 48.7% (in the second quarter of 2016), while the unemployment rate has decreased from 29% to 24.6% respectively by years.

Leading sectors for the employment increase

The employment increase is different by sectors. The subsidies in the agriculture were considerably increased, but it resulted in a slight rise of the formally employed persons. The number started to decrease and in the second quarter of 2016 compared to the same quarter in 2015 was smaller by more than 11 thousands persons. It was accompanied with decrease in the share of this sector in the total GDP by more than 22%. The number of employees in the manufacturing sector in the second quarter of 2016, compared to the

same quarter in the previous year, increased by 1.9%, while its participation in the GDP grew by 27.9%. The similar trend is noticed in the construction sector, where the increase in the employed persons is around 7%, while its share in the GDP is 22%.

The employment increase in the analysed period is evident in the sectors of Professional, scientific and technical activities and Administrative and support service activities, where the number of employees increased by more than 16%, but the participation of this sector in the GDP declined by 5.7%. Significant number of employees and its increase is also characteristic for the sectors of Public administration and defence, compulsory social security, Education and Human health and social work activities (135,230 persons, i.e. increase of 6.0%), while the participation in GDP remains the same. Nevertheless, within the last-mentioned sectors, the highest employment increase is noticed in the public administration.

Fiscal position is not clear, but is likely to deteriorate

Due to increased current spending and large capital inflows for projects, last year fiscal positions are likely to deteriorate. Efforts to improve revenue collection in 2016 have not led to higher rates of revenue in relation to GDP (about 31%). According to the latest official data, to November, EUR 2,499 billion are collected, below the planned 3.5 percent point. The taxes have better realization (92.5%), social contributions are lower, and the situation is worse for non-taxes revenues (79%).

Planned expenditures for 2016 were expanded in line with the political cycle (35% of GDP). However, for 11 months, total expenditures were EUR 2.72 billion, which is 84.8% of the plan. Pensions and transfers have increased, unlike the current and capital expenditures that are reduced (about 60% of the plan).

This resulted in lower budget deficit than planned (-4.1% of GDP). In this period, budget deficit amounted to EUR 221.6 million, or 59% of the planned sum, which is lower by 33 percent point. The issuance of Eurobond is expected to cover a large part of the financing needs of the current year, replacing the traditional domestic sources. The total public government debt is increased by about 50% of GDP.

Monetary policy and banking sector - gradually revert to the pace of development before the political crisis

The increased interest rate of CB bills, as policy rate from 3.25% to 4% in mid-2016, indicated the restrictive monetary policy by the National bank of the Republic of Macedonia (NBRM) as a response to the effect of non-economic factors induced by the political crisis. Such position was abounded at the end of 2016, when NBRM decreased to rate of CB bills of 3.75% providing signals for minor lessening of the monetary policy by 0.25 percent points.

The deteriorating confidence of economic agents in the domestic economy could not avoid affecting the banks' deposit base. Analysing by sector, in the second quarter of 2016, banks' deposits decreased primarily due to the fall in household deposits. Consequently, despite the stabilization of the

political situation, planned deposit growth of 6% in April 2016 diminished to around 2.6% by the end of 2016. Credit growth registered mild increase, mostly due to the minor increase in household lending (7.3% in November 2016 annual changes related to December 2015), whilst credit to corporate sector indicates slow decrease (-3.3% in November 2016 annual changes related to December 2015).

Trend of the decreased consumer and production price continues in the first half of 2016. The consumer price of transportation is the most relevant for the decline of prices. They dropped by -3.6% and -4.3% in the specified period, mainly triggered by the decline of the electricity and natural gas prices for the industry and households and lower price of transport services. Decreased price of the communications services also influences the overall level of prices. In order to maintain price stability, exchange rate remained stable.

In 2016, current account balance still recorded a deficit resulting from the deteriorating merchandise trade balance, decreased inflow on the secondary income account and higher deficit on the primary income account. Improved surplus on the services account had the opposite effect.

Despite the strong projected growth of exports, particularly from new and expanded production facilities by foreign companies, foreign balance is not likely to contribute positively to economic growth in 2016, given the faster increase in imports related to investment and production by FDI.

In 2016, with the exception of the first quarter, FDI registered a decrease due to the fact that some potential foreign direct investors hesitated because of political uncertainty. Foreign exchange reserves increased mainly as a result of transactions on behalf of the government, due to the issued Eurobond, and then, in a smaller part, from the foreign currency deposits of domestic banks with the NBRM and the NBRM interventions on the foreign exchange market. Gross external debt reached its highest level ever, which led to classification of the country as highly indebted economy. The growth of the debt during this period was primarily a result of the Eurobond. On the other hand, the data show that this trend is maintained in long term.

Prices dropped, exchange rate stable

Slightly widened current account deficit and lower FDI



Table MK1 Main economic indicators

	2014	2015	2016		
			Q1	Q2	Q3
ECONOMIC ACTIVITY					
Real GDP (% change, yoy)	3.5	3.7	2	2.2	2.0
Real private consumption (% change, yoy)	2.1	3.2	3.5	2.2	-
Real government consumption (% change, yoy)	1	4.6	4.2	-1.9	-
Real investment (% change, yoy)	13.1	0.1	-9	9.2	-
Industrial output (% change, yoy)	4.8	4.9	10.7	1.5	5
Unemployment rate (registered, %, pa)	28	26.1	24.5	24	-
Nominal GDP (EUR million)	8,562	9,061	1,669	1735.1	-
GDP per capita (EUR)	4,141	4,377	-	-	-
PRICES, WAGES, AND EXCHANGE RATES					
Implicit GDP deflator (% change, yoy)	1.4	1.9			
Consumer prices (% change, yoy, pa)	-0.3	-0.3	-0.1	-0.7	-0.1
Producer prices (% change, yoy, pa)	-1.5	-4.1	-0.3	0.3	0.2
Average gross wage (% change, yoy, pa)	1.3	3	2.7	2.3	
Exchange rate, MKD/EUR (pa)	61.62	61.61	61.68	61.69	61.52
Exchange rate, MKD/US\$ (pa)	46.44	55.5	55.98	54.66	55.09
FOREIGN TRADE AND CAPITAL FLOWS					
Exports of goods (EUR million)	3,747	4,051	983.3	1,056.2	1,138.5
Exports of goods (EUR, % change, yoy)	15.8	8.1	5.7	2.0	10.4
Imports of goods (EUR million)	5,504.5	5,776.9	1,356.5	1,557.6	1,534.5
Imports of goods (EUR, % change, yoy)	10.5	4.9	3.7	5.1	10.1
Current account balance (EUR million)	-43.2	-187	-27	-184	140.9
Current account balance (% of GDP)	-0.5	-2.1	-1.2	-7.7	5.5
Gross foreign direct investment (EUR million)	37	262.3	219.9	66.1	72.6
Foreign exchange reserves (EUR million, eop)	2,436.5	2,261.8	2,266.3	2,158.8	2,699
Foreign debt (EUR million, eop)	5,992.3	6,290.5	6,812.5	6,914.6	7,503.9
GOVERNMENT FINANCE*					
Revenue (MKD million)**	145,929	161,207	40,590	41,425	43,806
Expense (MKD million)**	168,063	180,632	46,225	42,735	45,955
Net = Gross operating balance (MKD million)**	-22,134	-19,425	-5,635	-1,310	-2,149
Net acquisition of non-financial assets (MKD million)**	-15,742	-16,402	-2,048	-2,723	-3,924
Net lending/borrowing (MKD million)**	-6,392	-3,023	-3,587	1,413	1,775
Domestic government debt (EUR million, eop)	1,170.3	1,356.6	1,430	1,375.2	1,384.3
Foreign government debt (EUR million, eop)	2,092.2	2,096.7	2,117.4	2,110.6	2,561.8
Total government debt (% of GDP)	38.1	38.1	37.7	37	41.9
MONETARY INDICATORS					
Narrow money, M1 (% change, yoy, eop)	22.2	18.4	18.8	6.6	9.3
Broad money, M4 (% change, yoy, eop)	10.5	6.8	6.2	2.5	4
Total domestic credit (% change, yoy, eop)	10.0	9.5	8.4	3.5	2.5
DMBs credit to households (% change, yoy, eop)	12.5	13.9	14.3	13.3	-
DMBs credit to enterprises (% change, yoy, eop)	8.4	7.3	5.2	4.4	-
Money market interest rate (% pa)	1.8	1.1	1	1	-
DMBs credit rate for enterprises, short-term (% pa)	7.2	6.8	6.3	6.2	6
DMBs credit rate for households, short-term (% pa)	5.0	4.9	4.6	4.3	4.2

Notes: * Data refer to consolidated general government, unless stated otherwise ** On the cash principle, cumulative from the beginning of the year.

Conventional abbreviations: pa - period average, eop - end of period, yoy - year on year, EUR - euro, US\$ - US dollar, MKD - Macedonian denar, DMB - deposit money bank.

Sources: Ministry of Finance of the Republic of Macedonia, National Bank of the Republic of Macedonia, State Statistical Office of the Republic of Macedonia.

Table MK2 Summary of projections

	2016	2017	2018
Real GDP (% change)	2.1	3.2	3.3
Exports of goods and services (constant prices, % change)	7.1	6.7	6.3
Imports of goods and services (constant prices, % change)	5.6	4.9	4.6
Current account balance (% of GDP)	-2.2	-1.7	-1.6
Consumer prices (% change, pa)	0.1	0.9	2.4
Exchange rate, national currency/EUR (pa)	61.6		
Unemployment rate (registered, %, pa)	24.6	23.2	22.2
General government balance (ESA 2010 definition, % of GDP)	-3.8	-3.4	-3.2
Broad money, M4* (% change, eop)			
Total domestic credit (% change, eop)			

Notes: Cut-off date for information used in the compilation of projections was December 20, 2016.

Conventional abbreviations: pa - period average, eop - end of period, EUR - euro.

Sources: Ministry of Finance of the Republic of Macedonia, National Bank of the Republic of Macedonia, and the European Economic Forecast, Autumn 2016, European Commission Directorate - General for Economic and Financial Affairs, Institutional Paper 038, November 2016.

Policy assumptions and projections summary

The projections for the growth rate in 2016 and 2017 are positive and are 2.3% and 3.2%, respectively y-o-y and unsustainable in the long run. In the light of the present political crisis and the unstable economic climate in the country, the major challenge is meeting these projections.

In the coming period, the consumer and production price are expected to rise slightly. Unemployment projections indicate its further decrease down to 22.2% in 2018. Government is committed to fiscal consolidation in the near future, in order to start reducing public debt. By 2018, lower fiscal deficits and debt are expected, but there is political, institutional, and policy uncertainty, and that poor planning and management of investments could lead to the accumulation of new debt.

In the year of 2017, increased credit activity is expected in the banking sector with projected annual credit growth around 6-7 percent dedicated toward increased economic activity for the next year. Having in mind the expectations for solid growth in the deposit base in the year of 2017, accompanied by the growing competitive pressures within the banking sector, the expectations for the credit supporting economic growth are visible.

With a higher services surplus and an improved trade balance of goods, which is expected in 2017 and 2018, as a result of increased production capacities by foreign companies, as well as expected recovery of demand in major trade partner economies, the external deficits are likely to reduce again. Assuming the political crisis will be overcome, a gradual return on investment by private domestic and foreign companies is envisaged for 2017 and 2018. But in case the political crisis persists, it will be difficult to realize these projections. ■



MONTENEGRO

➤ The highest level of preparation for EU membership among the negotiating states

EU and NATO accession continues to be the two key foreign policy priorities

Recent economic developments

After the accession negotiations were opened in June 2012, Montenegro has more than two thirds (26 out of 33) of the accession chapters opened and 2 out of 33 closed. In its 2016 assessment of the accession progress, the European Commission identified Montenegro as having the highest level of preparation for membership among the negotiating states. In December 2015, Montenegro received an invitation to join NATO. The relevant Accession Protocol was signed in May 2016 and it was ratified by more than two thirds of NATO member states. Overall, Montenegro continues to broadly implement its obligations toward further membership to EU and NATO.

Existing polarization of the political environment in Montenegro did not stop after the parliamentary elections in October 2016. As of mid-January, boycotts by some parts of the opposition remain a key challenge to parliamentary work in Montenegro. However, the current ruling party continues its foreign policy towards its European future, aiming to ratify NATO membership and complete EU accession talks by the end of the mandate.



According to the data of national statistical office (Monstat), GDP in current prices for 2015 amounted to EUR 3.625 million with real growth rate of 3.4% compared to the same period of the previous year. Official data state that real GDP growth rates by quarters are 1.1% in the first quarter, 2.7% in the second and 2.4% in the third quarter compared to the same period last year. Bearing in mind the indicators in the previous 9 months, real growth rate in 2016 will be 2.4% according to preliminary projections of the Ministry of Finance. During this period, volume of activities in construction, forestry, retail sales, tourism and most segments of transport increased. Forestry recorded output decline, as well as total industrial production. Montenegro's GDP in the third quarter of 2016 was EUR 1.241 million, while in the same period of 2015 it amounted to EUR 1.181 million.

Continuation of growth

In the first nine months of 2016, the trend of growth of the average number of employees was continued from the last five years. According to data of the Employment Agency, the number of employees in the first nine months averaged 177,835 and was higher by 0.9% compared to the same period last year. The structure of the employees through nineteen sectors reveals that the majority of employees were in the service sector (70%), in the public administration and defence, the compulsory social security (12%), while the lowest number of employees was in the construction sector (6%) and in the sector of agriculture, forestry and fishing (1%).

Increase in number of employees and unemployment

The number of registered unemployed people in the first nine months of this year, on average, amounted to 42,483, which is by 25.8% higher than in the same period last year, which is still largely a consequence of the application of the Law on Amendments to the Law on Social and Child Protection that led to an increase in the number of women registered at the Employment

Budget deficit is below 0.6% of GDP and is by EUR 230.4 million less compared to the deficit recorded in the same period of 2015

Agency. According to data of the Employment Agency, the unemployment rate in September of 2016 was 18.31% and was higher by 3.75 percentage points than the unemployment rate in September of 2015.

In Montenegro, a set of programs and projects are established in order to reduce unemployment of young people. One of the projects is entitled "Strengthening the employability of young people in Montenegro", initiated in February in cooperation with the International Labour Organization (ILO).

Public revenues at the end of the third quarter of 2016 amounted to EUR 1,216.7 million or 32.6% of estimated GDP. Compared to the same period in 2015, revenues increased by 11.0%, largely as a result of increased income from fees, taxes on personal income and value added tax. Compared to the plan, revenues increased by EUR 39.6 million or 3.4%. Public spending at the end of the third quarter of 2016 amounted to EUR 1,242.8 million or 33.3% of GDP, and decreased by 7.9% compared to the same period last year. Public spending decreased because of reduced spending in the capital budget. Current budget spending amounted to EUR 1,196.0 million or 32.0% of GDP and was higher by 5.9% compared to the same period in 2015. The decline in public spending was primarily caused by time schedule of priority sections of the highway Bar-Boljare that was slower than planned, while current budget spending is growing due to the adoption of new and amendments to existing legislation in the area of mandatory spending. Public sector deficit in this period amounted to EUR 26.0 million or 0.7% of GDP, which was less by 89.7% compared to the same period last year.

The central budget deficit amounted to EUR 24.2 million or 0.6% of GDP, which is less by EUR 230.4 million compared to the deficit recorded in the same period of 2015. The total budget deficit is much lower than planned and rebalancing is done at the end of the year, by which the actual was taken into account. This was the result of the disposal of capital expenditures, or better to say, planned capital expenditures were not implemented (only a part). This is the seventh year in a row that the deficit was realized and total government debt was increased by all components, which went from 27% of GDP and is now at around 60% of GDP.

Debt repayment amounted to EUR 477.8 million and compared to the same period last year decreased by EUR 21.9 million. During nine months of 2016, borrowings and loans from domestic sources (issue of bonds dominantly) amounted to EUR 209.5 million, while loans and credits from foreign sources amounted to EUR 310.4 million. It should be noted that financing conditions in the international market are intensifying (tightening), and it will be particularly challenging to ensure good conditions for financing during the coming period.

Banking system characterized by positive trends according to all key indicators

Banking system of Montenegro was characterized by positive trends in the first nine months of 2016 with regard to key indicators. The growth in liquid assets, profit, solvency ratio, improvement of asset quality, as well as banks'

total assets and liabilities was recorded. A new bank started with operations in the second quarter, thus making a total of 15 banks in the banking system of Montenegro at the end of the observed period.

When it comes to assets, all asset items except for loans reported growth compared to the year-end as well as annually, whereas banks' receivables based on securities reported the highest growth (33.5%).

Banks' total loans amounted to EUR 2.5 billion at the end of September 2016 and their increase was 5.1% compared to the previous year-end. However, the increase of banks' total loans primarily resulted from the increase in loans to households, which grew by 8.4% compared to the year-end 2015, while there was slight decrease in loans to non-financial corporations.

It should be noted that a stagnant credit growth is observed, compared to the same period of the previous year. Despite the newly issued loans, this is due to apparent refinancing operations. The improvement of the quality of banking loans continued also in 2016. Therefore, the data at the end of September of 2016 showed the NPLs in the amount of EUR 254.9 million, which was annual decrease by 27.5%. Nonperforming loans accounted for 10.2% of total loans.

Banks' capital increased by 8.7% compared to the end of 2015, which resulted in high level of solvency of the Montenegrin banking system and solvency ratio of 16.3% at the end of September. Weighted average effective lending and deposit interest rates on total and new bank loans and on total bank deposits trended downwards and at the end of the period amounted to 7.72%, 7.61% and 0.96%, respectively.

Inflation in Montenegro, measured by consumer prices, was 0.3% in September 2016, compared to December 2015. The increase in prices was recorded in following categories: hotels and restaurants (6.2%), alcoholic beverages and tobacco (2.5%) and health (1.7%). The biggest drop in prices in September compared to December of the previous year was recorded in the category of furnishings, household equipment and routine household maintenance real sector (-1.2%). On a monthly basis, the largest increase in consumer prices was recorded in September (0.9%), while the biggest monthly decline was recorded in January (-0.9%). On an annual basis, the prices were lower by 0.1%.

In the first nine months of 2016, there was a decline in oil prices compared to the same period of the previous year. The prices of industrial products in September compared to the end of 2015 declined by 0.3%. The fall in prices was recorded in the sector of electricity supply, gas and steam (1%), while the prices in the sector of mining and quarrying and the manufacturing sector increased by 0.8% and 0.1%, respectively. On an annual basis, prices of industrial products decreased by 0.4%.

Inflation rate is stable and minor

Table MN1 Main economic indicators

	2014	2015	2016		
			Q1	Q2	Q3
ECONOMIC ACTIVITY					
Real GDP (% change, yoy)	1.8	3.4	1.1	2.7	2.4
Real private consumption (% change, yoy)	2.9	2.2	2.0	1.5	3.0
Real government consumption (% change, yoy)	1.4	1.9	5.3	-23.4	-7.2
Industrial output (% change, yoy)	-11.4	7.9	-9.1	-0.8	-2.0
Unemployment rate (LFS, %)	18.0	17.6	19.1	17.5	16.9
Nominal GDP (EUR million)*	3,458	3,625	3,644	3,669	3,730
GDP per capita (EUR)**	5,561	5,826	5,847	5,887	5,984
PRICES, WAGES, AND EXCHANGE RATES					
Implicit GDP deflator (% change, yoy)	1.0	1.4	1.8	0.2	2.7
Consumer prices (% change, annual change: end month/end month-12)	-0.3	1.4	-0.9	-1.0	-0.1
Producer prices (% change, annual change: end month/end month-12)	0.9	0.0	0.0	0.0	-0.4
Average gross wage (% change, yoy, average of monthly data)***	-0.4	0.3	1.3	2.5	3.3
FOREIGN TRADE AND CAPITAL FLOWS					
Exports of goods (EUR million)	357	325	60	93	87
Exports of goods (EUR, % change, yoy)	-9.7	-9.0	-22.1	28.4	14.6
Imports of goods (EUR million)	1,734	1,789	366	582	557
Imports of goods (EUR, % change, yoy)	0.6	3.2	5.6	18.8	9.8
Current account balance (EUR million)	-526	-483	-287	-375	244
Current account balance (% of GDP)	-15.2	-13.3	-40.6	-42.6	19.7
Gross foreign direct investment (EUR million)	498	757	282	113	157
Foreign exchange reserves (EUR million, eop)	545	674	864	666	746
GOVERNMENT FINANCE****					
Revenue (EUR million)	1,354	1,327	285	633	1,083
Expense (EUR million)*****	1,382	1,380	351	729	1,082
Net operating balance (EUR million)*****	-28	-53	-66	-96	1
Capital expenses (EUR million)	75	238	2.4	13.2	25.3
Net lending/borrowing (EUR million)*****	-107	-276	-69	-109	-24
Domestic government debt (EUR million, eop), national methodology	381	320	321	327	314
Foreign government debt (EUR million, eop), national methodology	1,562	1,956	2,224	2,035	1,995
Total government debt (% of GDP), national methodology	56.2	62.8	68.2	63.3	61.9
MONETARY INDICATORS					
Total domestic credit (% change, yoy, eop)	-1.9	0.8	1.4	-0.2	-1.5
DMBs credit to households (% change, yoy, eop)	1.4	3.1	3.4	5.3	9.3
DMBs credit to enterprises (% change, yoy, eop)	-4.1	2.7	1.6	2.8	-0.3
DMBs credit rate for enterprises, short-term (% , pa)	9.7	8.0	8.2	5.7	6.1
DMBs credit rate for households, short-term (% , pa)	12.6	9.6	10.9	11.2	9.9

Notes: * Quarterly GDP data are annualized as sums of current quarter and three preceding quarters. ** Population data (denominator) used are Monstat estimates. *** Quarterly gross wage data are year to date. **** Budget data for 2013-2015 as per respective laws on final accounts, adopted after a fiscal year is ended. Quarterly budget data are year to date. Debt data exclude local governments. ***** Data refer to current expenses only, and exclude capital expenses. ***** Calculated as a difference between revenues and current expenses. ***** For 2013-2015 cannot be calculated as a difference between net operating balance and capital expenses, due to certain accrual accounting adjustments.

Conventional abbreviations: pa - period average, eop - end of period, yoy - year on year, EUR - euro, DMB - deposit money bank.

Sources: Central Bank of Montenegro, Statistical Office of Montenegro, Ministry of Finance.

Current account deficit increases by 105.5% in the first nine months of 2016

According to the data from BOP statistics, in the first nine months of 2016 the current account deficit amounted to EUR 418.2 million, which represents an increase by 105.5% compared to the same period of 2015. In the reporting period, foreign trade deficit increased, while surplus on the services and primary income reduced. Compared to 2015, the financial account recorded decrease in net inflow of foreign direct investments, while the net outflow recorded increase in the accounts of portfolio and other investments.

In the first nine months of 2016, trade deficit amounted to EUR 1.3 billion which is by about 13% higher compared to the same period of the last year. The most significant changes are recorded in import of goods. Namely, the import of goods increased by about 12% and amounted EUR 1.5 billion. It is mostly the consequence of the increase in import of the machinery and transport equipment for the highway construction.

Projections summary

Projections in Table MN2 fully reflect the official projections of the Montenegrin Ministry of Finance presented in its document "Macroeconomic and fiscal indicator projections for the period 2016-2019". According to these projections, real GDP growth will be around 3.2% in 2017, and 4.4% in 2018. ■

Table MN2 Summary of projections

	2016	2017	2018
Real GDP (% change)	2.4	3.2	4.4
Real private consumption (% change, yoy)	3.7	-1.3	1.0
Real government consumption (% change, yoy)	1.2	-1.7	-1.5
Nominal GDP, EUR million	3,730	3,929	4,177
Exports of goods and services (constant prices, % change)	8.0	2.4	1.8
Imports of goods and services (constant prices, % change)	16.6	2.1	-0.5
Current account balance (% of GDP)	-21.0	-20.8	-18.8
Consumer prices (% change, pa)	0.4	2.2	2.0
GDP deflator	0.4	2.0	1.9
Unemployment rate (LFS, %)	17.8	17.6	17.3

Conventional abbreviations: pa - period average, eop - end of period, EUR - euro.

Sources: Ministry of Finance of the Government of Montenegro; European Commission - for public finance data and unemployment rate data.



S E R B I A

➤ The economy is on the right track but there is still much work to be done

Growing political instability due to the upcoming elections

Recent economic developments

Presidential elections in Serbia are expected to be held in 2017. There are rumours that parliamentary elections can take place as well. Such information leads to increased political risk and sends negative signal to both foreign and domestic investors. In December 2016, Serbia adopted the budget for the coming year, and the sixth revision of the stand-by arrangement with the IMF was completed. Serbia should start with reforms of public companies, which has been postponed. Announced elections could further postpone these reforms. Serbia has proved successful fiscal consolidation and macroeconomic stability has been achieved. The IMF has estimated that Serbia should put effort into judiciary reforms, execution of various contracts in economy, and facilitate the use of extra-judicial arbitration. Serbia's credit rating for long-term borrowing in domestic and foreign currency is maintained at the level of "BB-". It can be concluded that the upcoming elections pose a risk to the growth of social and political instability, and therefore for the whole economy.

GDP growth is strengthening

Throughout 2016, GDP growth acceleration has continued and was in line with the positive tendencies started in the second half of 2015. In the first quarter of 2016, Serbia finally reached pre crisis level of GDP. Steady growth in the recent



quarters will result in annual growth of around 2.7% approximately, slightly above forecasts SEEA authors made in the last publication and also higher when compared to the estimates of the international financial institutions. Especially encouraging is the fact that achieved growth has been based on the recovery of the industrial production and increase in exports, which grew with much higher pace comparing to the imports in the observed period. Significant contribution to the positive growth tendencies was provided by sectors of services and agriculture, due to positive meteorological tendencies.

Improvement of the export performances and higher industrial production are with no doubt indicators that prove recovery of the real sector, while lower rates of import growth could be only explained as a consequence of the modest personal consumption resulted from the measures of the fiscal consolidation. This could be also confirmed if structure of GDP (expenditure approach) is considered. Rise of private consumption in the second and third quarter has been modest, amounting to 1% and 0.5%, respectively. On the other hand, significant growth has been recorded in the sector of the Government consumption amounting to 4.0 and 1.2%, and gross capital formation, 4.4% and 6.2%, for the same observed periods, respectively.

Taking into account the production side of GDP, the largest contribution to the GDP growth has been recorded in the sector of agriculture, forestry and water management, which amounted to 4.0% and 10.9% in the second and third quarter, respectively. There has been significant increase despite lower starting base from the last year when this sector recorded sharp decline of 7.7% annually. Significant growth, almost double digit, could be also noticed in the construction sector, sector of wholesale and retail trade, transport and accommodation, and food services. After strong growth in 2015 of more than 3% annually and growth of over 6% in the first quarter of 2016, in the second and third quarter manufacturing sector has had much lower contribution to the overall GDP growth. In the second quarter, it has even

recorded a slight decline of 0.4% compared to the same period last year, while in the third quarter it has grown at a rate of 1.2%.

Given the all available indicators including recently adopted budget for 2017, it is reasonable to expect that Serbia will remain on the growth path in the following period. However, realisation of the projected growth objectives will primarily depend on the political stability, success in reforms of the public administration and state-owned enterprises, but also external shocks predominantly concerning the political situation in the EU as the main export market.

The recovery of the labour market has continued

The Serbian labour market has continued to recover during the first three quarters of 2016. According to the LFS data the inactivity and unemployment rates have followed decreasing trends. The unemployment rate of the population aged 15 and over has declined to 13.8% in the third quarter of 2016, which was 2.8 percentage points lower than in the same period of 2015. At the same time, the inactivity rate amounted to 45.7% showing a decline by 2.3 percentage points. Similar conclusion can be drawn based on the registered rate of unemployment. At the end of third quarter of 2016, this rate was stabilized at 25.5% and has mildly declined by 1.4 percentage points compared with the same quarter of 2015. The distribution of those who are employed has also changed. The survey-based employment rate went up by 3.4 percentage points and reached 46.8% at the end of third quarter of 2016, while the registered employment increased by 1.3% in the second quarter of 2016, despite the continued decline of the employment rate in the public sector. The registered employment growth has been pushed by self-employment, but in the second quarter of 2016 there is evidence that shows recovery of the registered employment in the organizations.

According to the tendencies that characterized the labour market during 2016, it can be expected that the unemployment will be stabilized and will continue to slightly decline until the end of 2017. However, there are certain threats that reveal the fragility of the labour market in Serbia. These are manifested throughout the increasing trends in informal employment as well as in flexible forms of employment. Certainly, it cannot be expected that significantly higher growth in total employment will occur in the short term.

The recovery of the labour market has also contributed to a positive trend depicted in the growth of real gross wages. The increase of real gross wages stood at 2% at the end of third quarter of 2016, while during the first half of the year the real growth of wages was even higher due to low inflation. The gross wages will continue to increase in both the private and the public sector in 2017. The reasons behind this are in administratively increased minimum wage and announced correction of wages in the public sector.

Government debt under control

After major success in fiscal consolidation, government debt has been stabilized. During the first half of 2016, the difference between government revenue and expense was narrowing, and even turned to surplus in the third quarter. Despite anticipated rise in government expense by the end of 2016, both Ministry of Finance and Fiscal Council agreed that fiscal deficit for the whole year will be halved in relation to initially planned 4% of GDP. A surplus of public revenue above the budget projections remains the main source of the primary balance surplus, mainly due to more efficient collection of taxes

and positive macroeconomic tendencies. Improved collection of taxes seems to be sustainable driver of growing revenue, as the Government remains on the course of tax system reforms and fight against the shadow economy. The newly adopted Economic Reform Programme 2016-2018 indicated transformation of tax administration as one of the fifteen structural reforms with highest priority. Significantly less success in fiscal consolidation has been achieved on the expense side, reflected mostly through the higher share of public investments in government spending structure. Beside detrimental macroeconomic shocks, the sluggish structural reforms aiming to reduce government expense remain the possible source of fiscal deterioration. However, both domestic and external government debt have been on the path of stabilization in 2016, minimizing risk of the fiscal insolvency and debt crisis.

Economic recovery, fiscal stabilization and low inflation allow maintaining of monetary easing policy. In the first half of 2016, the National Bank combined cut in policy rates and foreign exchange required reserves to foster growth of banking sector credit activities. The key policy rate was halved by 25 basis points, while foreign exchange required reserves rate was halved by 1 percentage point. Both narrow and broad money have considerably increased, without making inflationary pressures. The monetary easing and low inflation contributed to the further cut in lending rates and recovery of credit activities. The lending rates have sustained the lowest records since the beginning of transition. Comparing to the end of 2015, short-term weighted credit rate for enterprises and households dropped by almost 2 and 4 percentage points, respectively, by the end of third quarter in 2016. Thus, total credit activity at the end of third quarter in 2016 achieved almost 10% annual growth. Cut in lending rates and expectation of stable inflation and exchange rates lead to “banking revolution” – some of the banks for the first time offered housing loans indexed in EUR at fixed rates, while RSD-indexed housing loans became a realistic borrowing option despite being still less competitive relative to EUR-indexed.

In the first three quarters of 2016, inflation amounts to 1.1%, which is still out of the target proclaimed by the National Bank of Serbia. Due to low inflationary pressures that are present for a long period of time as well as improving macroeconomic indicators, the Executive Board of the National Bank of Serbia has decided to reduce the inflation target to three per cent with upward and downward deviation of 1.5 percentage points. Low inflationary pressures are primarily resulting from disinflationary impact of domestic factors, low aggregate demand, and low inflation abroad, primarily in the Euro zone. In the following period, increase of in consumer prices could be expected mainly due to historic agreement on reducing the exploitation of black gold and the growth of domestic demand. In addition, the strengthening of inflationary pressures will more likely influence increase of benchmark interest rate of the Fed, but we do not expect that it will miss the projected target of the National Bank of Serbia. During the observed period, a slight depreciation trend of the dinar exchange rate against the euro has continued. The average rate of the dinar nominal depreciation against the euro in the first three quarters of 2016 was 1.7%, while in relation to the US dollar, the dinar nominal appreciation amounted to 1.7%. At the inter-bank foreign currency market, the National Bank of Serbia purchased a total of EUR 860 million and sold EUR 525 million in order to prevent high daily fluctuations

Lending rates continue to decrease

Trend of low inflationary pressures has continued

Table SRB1 Main economic indicators

	2014	2015	2016		
			Q1	Q2	Q3
ECONOMIC ACTIVITY					
Real GDP (% change, yoy)	-1.8	0.8	3.9	2.0	2.8
Real private consumption (% change, yoy)	-1.3	0.4	0.9	1.0	0.5
Real government consumption (% change, yoy)	-0.5	-1.5	2.3	3.7	0.8
Industrial output (% change, yoy)	-6.5	8.3	10.4	2.2	3.7
Unemployment rate (registered, %, pa)*	29.3	27.1	27.4	26.4	25.5
Nominal GDP (EUR million)	33,318	33,491	7,629	8,400	8,825
GDP per capita (EUR)	4,672	4,720	1,078	1,187	1,247
PRICES, WAGES, AND EXCHANGE RATES					
Implicit GDP deflator (% change, yoy)					
Consumer prices (% change, yoy, pa)	1.7	1.5	0.4	0.5	0.2
Producer prices (% change, yoy, pa)	0.2	0.7	0.4	0.5	0.2
Average gross wage (% change, yoy, pa)	-1.7	-2.4	2.9	3.6	2.0
Exchange rate, RSD/EUR (pa)	117.3	121.6	122.9	123.3	123.3
Exchange rate, RSD/US\$ (pa)	88.5	111.2	108.6	111.0	109.9
FOREIGN TRADE AND CAPITAL FLOWS					
Exports of goods (EUR million)	11,159	12,041	3,079	3,479	3,340
Exports of goods (EUR, % change, yoy)	1.5	7.9	11.0	8.9	9.8
Imports of goods (EUR million)	15,490	16,387	3,981	4,526	4,224
Imports of goods (EUR, % change, yoy)	0.1	5.8	2.8	8.7	5.0
Current account balance (EUR million)	-1,985	-1,577	-414	-302	-266
Current account balance (% of GDP)	-6.0	-4.7	-5.4	-3.6	-3.0
Gross foreign direct investment (EUR million)	1,500	2,283	579	495	528
Foreign exchange reserves (EUR million, eop)	11,643	11,116	10,995	11,162	
Foreign debt (EUR million, eop)	26,294	25,825	25,820	25,329	
GOVERNMENT FINANCE**					
Revenue (RSD billion)***	1,621	1,695	415	461	477
Expense (RSD billion)***	1,782	1,729	413	432	426
Net = Gross operating balance (RSD billion)***	-161	-35	1	29	51
Net acquisition of non-financial assets (RSD billion)***	97	115	17	31	38
Net lending/borrowing (RSD billion)**	-258	-149	-16	-2	14
Domestic government debt (EUR million, eop), national methodology****	8,912	9,659	9,622	9,192	9,241
Foreign government debt (EUR million, eop), national methodology****	13,849	15,160	14,819	14,990	14,897
Total government debt (% of GDP), national methodology	71.8	74.7	72.0	71.9	70.8
MONETARY INDICATORS					
Narrow money, M1 (% change, yoy, eop)	11.0	17.1	23.5	22.5	22.6
Broad money, M2 (% change, yoy, eop)	7.6	6.6	7.2	9.0	11.5
Total domestic credit (% change, yoy, eop)	8.0	5.7	7.7	9.5	9.7
DMBs credit to households (% change, yoy, eop)	7.5	4.7	5.4	7.4	10.4
DMBs credit to enterprises (% change, yoy, eop)	-4.2	2.2	2.8	7.7	7.0
DMBs credit rate for enterprises, short-term (% , pa)*****	8.1	6.4	5.3	4.7	4.5
DMBs credit rate for households, short-term (% , pa)*****	14.1	13.3	9.9	9.2	9.5

Notes: * The registered unemployment rate is calculated based on the registered number of unemployed and the registered employment. The data about registered unemployment and employment are taken from the periodicals of the National Employment Service and the Statistical Office of the Republic of Serbia. ** Data refer to consolidated general government, unless stated otherwise. *** On the cash principle, cumulative from the beginning of the year. **** Central government debt only. ***** New loans. ***** New loans, weighted average interest rates on consumer, cash and other loans.

Conventional abbreviations: pa - period average, eop - end of period, yoy - year on year, EUR - euro, US\$ - US dollar, RSD - dinar, DMB - deposit money bank.

Sources: National Bank of Serbia, Statistical Office of the Republic of Serbia, Ministry of Finance.

and to ensure stability at the foreign exchange market. In the next period, the dinar exchange rate will follow a slight depreciation trend. The intensity of depreciation will largely depend on the implemented monetary policy of major central banks worldwide but also on the movement of key domestic macroeconomic indicators.

Serbia's current account deficit further decreased in 2016. This improvement was driven by an increase in net exports, in particular by narrowing of the trade deficit, due to a stronger growth in commodity exports, but also by a sustained increase in the services' surplus.

During the first nine months Euro-denominated commodity exports and imports increased by 10.1% and 5.7% in nominal terms, respectively. The composition of trade remained broadly unchanged in relation to the previous years: exports are driven by machinery products, metals and agricultural products (in particular fruits and cereals), while imports are dominated also by machinery products, and by petroleum and chemicals.

These developments were sufficient to offset negative tendencies related to other major components of the current account – increase in the primary balance deficit (mainly due to the outflow of dividends of foreign investors) and decrease in the secondary balance surplus (due to lower inflow of remittances).

Decreasing trend in the current account deficit

Table SRB2 Summary of projections

	2016	2017	2018
Real GDP (% change)	2.7	2.9	3.4
Exports of goods and services (constant prices, % change)	10.4	7.9	7.0
Imports of goods and services (constant prices, % change)	7.2	6.1	6.1
Current account balance (% of GDP)	-4.2	-3.9	-3.9
Consumer prices (% change, pa)	1.8	2.8	3.0
Exchange rate, national currency/EUR (pa)	123.8	124.5	125.0
Unemployment rate (registered, %, pa)	26.9	26.4	26.1
General government balance (ESA 2010 definition, % of GDP)	-1.9	-1.7	-1.3
Broad money, M4* (% change, eop)			
Total domestic credit (% change, eop)	9.0	10.0	9.0

Notes: Cut-off date for information used in the compilation of projections was May 13, 2016. * Data on M4 are not compiled by the NBS.

Conventional abbreviations: pa - period average, eop - end of period, EUR - euro.

Sources: Authors' projections, Fiscal strategy of the Republic of Serbia for 2017 with projections for 2018 and 2019, the IMF WEO, European Commission Winter Economic Forecast – Serbia, for 2017.

Policy assumptions and projections summary

Projections in Table SRB 2 reflect the optimistic policy assumptions stemming from the recent success in macroeconomic stabilization and fiscal consolidation. Real GDP will most likely continue to grow at slightly higher pace than in 2016, probably exceeding 3% in 2018, while general government balance will continue to decrease. External sector variables will remain on the stable path, but high rate of export growth is expected to slow down. Due to policy of monetary easing and low interest rates it is reasonable to expect continuation of credit market recovery at similar pace observed in 2016, while inflation will probably moderately accelerate. However, it will need some time of steady growth and more sound structural reforms for the registered unemployment to substantially decrease. ■



SLOVENIA

➤ Economic growth is becoming broader-based

Recent economic developments

Slovenia - "green" and "digital"

Following the government's adoption of a framework programme for Slovenia's transition to a green economy, the government established the Partnership for Slovenia's green economy with interested parties from the economy, non-governmental organizations and local communities in October 2016. The green economy is Slovenia's strategic objective, which represents an opportunity for the development of new green technologies, green jobs and the efficient management of natural resources. Also, the DigitAgenda 2016 for Slovenia was presented in November 2016, and a Slovenian digital coalition ("digitalna.si") was formed with the objective to stir the rapid growth and development of Slovenia's digital economy. The DigitAgenda points out key recommendations for the digitalization scheme with a view to creating 10,000 new jobs and generating a 3% annual growth in Slovenia's economic productivity by 2025.

Apart from economic plans, at the beginning of December 2016, the Ministry of Health presented to the coalition partners the long-awaited legislative package on healthcare reform, which should mark the beginning of the most crucial reforms. However, the coalition seems to be disappointed with



the document, which does not (yet) deliver concrete solutions and financial implications of the presented measures. The coalition seems to be split also over the current government agreement with the medical sector that temporarily froze the 14-day physicians' strike that began on 8 November 2016 due to overall dissatisfaction with working standards and wages.

In 2016, economic activity continued to improve at solid rates. In the second and third quarter of the year, gross domestic product increased by 2.8% and 2.7% on a year-on-year basis respectively, with prospects for the last quarter of the year also looking favourable. Growth was mainly driven by exports, which were underpinned by strong foreign demand and higher competitiveness of domestic companies. Spurred by strong exports, the rise in industrial output was significant, particularly in the second quarter of the year (7.8% year-on-year). Improved performance has also been recorded across most market services due to higher domestic consumption, boosted by a marked improvement in labour market conditions and a high level of consumer confidence, and higher spending by foreign tourists (in tourism-related services). On the other hand, total investment was lower in 2016 than the previous year as a consequence of a large decline in public investment related to the end of the programming period of EU funding. The fall in public investment was only partially compensated by higher private investment, since Slovenian companies continue to deleverage.

Labour market conditions improved further in 2016. In the first nine months of 2016, all private sector activities but construction recorded higher year-on-year employment growth than one year earlier. Employment increased also in the public sector, once hiring restrictions due to austerity measures were relaxed. Overall, employment growth is expected to be significantly

**Stable economic growth
across most sectors**

**Labour market dynamism
improves**

higher in 2016 than one year before. The registered unemployment rate dropped to 10.6% in the third quarter of 2016 (the LFS unemployment rate dropped to 7.3% in the third quarter of 2016) and is expected to stand at 11.2% on a yearly level. Average gross earnings in the private and public sector recorded far higher year-on-year growth in the first nine months than in the same period last year. The rise in wages in the private sector was related to stronger economic activities, while in the public sector the rise was largely the result of promotions among public servants, which had been on hold in the recent past owing to austerity measures.

The general government deficit dropped further

In the first eight months of 2016 the general government deficit on a cash basis was lower than in the same period last year and is, according to European Commission's projections, expected to fall to 2.4% in 2016. The decrease over the observed first eight months of 2016 was the combined result of higher general government revenues and lower expenditure. The general government revenue increased as a result of increased tax revenues from improved economic activity, while expenditure was lower due to a large decline in public investment. Other major categories of expenditure grew, in particular wages and pension transfers. Excluding interest expenditure on public debt, the primary general government balance recorded a surplus, which was higher than in the same period last year. After having surged during the crisis and peaking at 83.2% in 2015, the debt-to-GDP ratio is expected to decrease for the first time in 2016.

Lending activity continues to contract, but at lower rates

Banks' lending activity continued to contract in the first three quarters of 2016 as a result of limited corporate demand on the one side, and persistent risk aversion measures by banks amid a high share of bad loans on the other. Nevertheless, the contraction in corporate loans was less pronounced than in the same period for 2015. Companies report fewer problems in obtaining funds, also due to better availability of non-bank sources of financing. After picking up in 2015, the volume of household sector loans increased further in the second and third quarter of 2016, representing a stronger increase than in the previous year.

Inflation turned positive, but remains low

After almost two years of deflation, Slovenia recorded consumer price growth in the third quarter of 2016. Consumer price inflation, measured by the Harmonised Index of Consumer Prices, stood at 0.1% year-on-year in the third quarter of 2016 and increased further to 0.6% year-on-year in October. The overall rate is projected to remain close to zero (0.1%) in 2016. Deflationary pressures have eased, mainly as a result of smaller energy price declines and stronger food price growth. Core inflation is rising slightly due to higher prices for services, while industrial production prices declined throughout the first three quarters of 2016; the decline, however, has been easing these past months.

Table SI1 Main economic indicators

	2014	2015	2016		
			Q1	Q2	Q3
ECONOMIC ACTIVITY					
Real GDP (% change, yoy)	3.1	2.3	2.3	2.8	2.7
Real private consumption (% change, yoy)	1.9	0.4	1.6	3.4	2.6
Real government consumption (% change, yoy)	-1.2	2.5	3.3	2.0	1.6
Real investment (% change, yoy)	4.3	2.8	-1.0	1.7	-0.4
Gross-fixed capital formation (% change, yoy)	1.4	1.0	-7.7	-3.4	-3.6
Industrial output (% change, yoy)	2.2	5.6	5.0	7.8	5.9
Unemployment rate (registered, percent, pa)	13.1	12.3	12.5	11.1	10.6
Nominal GDP (EUR million)	37,332	38,570	9,269	10,178	10,226
GDP per capita (EUR)	18,107	18,693			
PRICES AND WAGES					
Implicit GDP deflator (% change, yoy)	0.8	1.0	1.3	0.3	0.2
Consumer prices (% change, yoy, pa)	0.2	-0.5	-0.7	-0.2	0.1
Producer prices (% change, yoy, pa)	-0.6	-0.2	-1.8	-2.2	-1.4
Average gross wage (% change, yoy, pa)	1.1	0.7	2.3	1.5	1.7
FOREIGN TRADE AND CAPITAL FLOWS					
Exports of goods (EUR million)	22,961	24,039	6,066	6,398	6,128
Exports of goods (EUR, % change, yoy)	6.3	5.3	5.6	9.2	5.2
Imports of goods (EUR million)	21,869	22,541	5,586	5,932	5,716
Imports of goods (EUR, % change, yoy)	3.8	5.0	5.6	9.6	4.9
Current account balance (EUR million)	2,325	1,998	713	757	743
Current account balance (% of GDP)	6.2	5.2	7.7	7.4	7.3
Gross foreign direct investment (EUR million)	746	944	466	282	251
Foreign exchange reserves (EUR million, eop)	837	787	822	768	733
Foreign debt (EUR million, eop)	46,514	44,954	45,284	44,563	43,515
GOVERNMENT FINANCE*					
Revenue (EUR million)**	16,787	17,407	3,993	4,472	
Expense (EUR million)**	18,667	18,438	4,311	4,417	
Net = Gross operating balance (EUR million)**					
Net acquisition of non-financial assets (EUR million)**					
Net lending/borrowing (EUR million)**	-1,880	-1,031	-318	55	
Domestic government debt (EUR million, eop)	15,988	17,256	17,935	18,699	
Foreign government debt (EUR million, eop)	10,027	10,023	10,020	9,071	
Total government debt (% of GDP)	80.9	83.1			
MONETARY INDICATORS					
Narrow money, M1 (% change, yoy, eop)***	18.5	25.0	24.5	23.2	0.0
Broad money, M3 (% change, yoy, eop)***	6.1	3.9	5.4	6.0	0.0
Total domestic credit (% change, yoy, eop)	-12.6	-5.1	-7.5	-7.1	-6.3
DMBs credit to households (% change, yoy, eop)	-1.7	1.1	0.0	1.0	1.7
DMBs credit to enterprises (% change, yoy, eop)	-21.1	-11.1	-14.9	-14.4	-13.7
3 months EURIBOR (percent, pa)	0.21	-0.02	-0.19	-0.26	-0.30
6 months EURIBOR (percent, pa)	0.31	0.05	-0.10	-0.15	-0.19
DMBs credit rate for enterprises, short-term (percent, pa)	4.3	3.0	2.4	2.3	2.3
DMBs credit rate for households, short-term (percent, pa)	4.3	3.4	3.2	3.1	3.2

Notes: * Data refer to consolidated general government. ** ESA 2010, cumulative from the beginning of the year. *** Contribution of Slovenia to the euro area monetary aggregates.

Conventional abbreviations: pa - period average; eop - end of period; yoy - year on year; EUR - euro; DMB - deposit money bank.

Sources: Statistical Office of the Republic of Slovenia, Ministry of Finance, Bank of Slovenia, and calculations by IER.

Table SI2 Summary of projections

	2017	2018
Real GDP (% change)	2.9	2.6
Real private consumption (% change)	2.2	2.0
Real government consumption (% change)	1.3	0.7
Gross fixed capital formation (% change)	6.0	5.0
Exports of goods and services (constant prices, % change)	5.8	5.1
Imports of goods and services (constant prices, % change)	5.9	5.1
Current account balance (% of GDP)	5.6	5.3
Consumer prices (% change, pa)	1.4	1.5
Exchange rate, national currency/USD (pa)	1.118	1.118
Unemployment rate (registered, percent, pa)	10.2	9.5
General government balance (ESA95 definition, % of GDP)	-2.0	-1.5

Notes: Cut-off date for information used in the IMAD's compilation of projections was September 8, 2016.

Conventional abbreviations: pa - period average; eop - end of period; USD - US dollar.

Sources: Institute for Macroeconomic Analysis and Development - IMAD (Autumn Forecast of Economic Trends 2016) and European Commission (Autumn 2016 Economic Forecast).

In the first nine months of 2016 the euro appreciated against the currencies of some of Slovenia's main trading partners, but the price competitiveness of Slovenia's economy remained relatively favourable, as the increase in the real effective exchange rate was only slight. The real effective exchange rate remained low and thus supported exports.

Strong goods exports continue

After a strong increase in the second quarter of 2016 (9.2% nominal increase), goods exports remained relatively high in the third quarter of the year as well (5.2% nominal increase). Higher exports were recorded in most manufacturing industries, particularly in the manufacture of transport equipment. Goods imports also rose at a pace similar to exports, spurred by stronger domestic investment in the private sector as well as higher household consumption – the latter reflecting improvements on the labour market.

The current account surplus widened further in 2016 standing well above 7% of GDP in the first three quarters of the year. The increase was a result of a larger surplus in international trade in goods and services due to better terms of trade and still relatively low levels of domestic consumption and investment.

FDI inflow continued to increase in 2016

For the third consecutive year, the inflow of foreign direct investment increased in 2016. In the first three quarters of the year the net inflow amounted to EUR 998 million with most of the increase coming from equity capital (EUR 750 million). Nevertheless, the stock of inward foreign direct investment is still relatively low (around 30% of gross domestic product). In October 2016, the world's largest manufacturer of industrial robots and automation systems, the Japanese Yaskawa, announced its decision to build the new European factory of industrial robots in Slovenia. It is planned that the investment will

bring 160 (200 after a while) new employments of mostly technical staff and engineers. Slovenia is also a potential location for another foreign direct investor – the Austrian automotive giant Magna Steyr. The company plans to expand its production capacity and could bring employment to some 3,000 people in the region.

Policy assumptions and summary of projections

The projected values of the main macroeconomic aggregates for Slovenia are those presented in the Autumn Forecast 2016 of the national Institute for Macroeconomic Analysis and Development (IMAD). The projected value of the general government deficit is based on the Autumn 2016 Economic Forecast of the European Commission.

The macroeconomic projections for Slovenia forecast further broad-based economic growth. Gross domestic product is expected to increase by 2.9% in 2017 and 2.6% in 2018. Exports are forecast to stay strong in 2017 and 2018, further driving economic growth. However, the contribution of net exports to growth in gross domestic product is projected to fall due to increased imports. The share of domestic private and public consumption to growth in gross domestic product will rise further in 2017 and 2018. Private consumption will be boosted by labour market recovery and public consumption by higher wages and pension expenditures. Over the projection horizon, private and public investment is also expected to rise. An increase in private investment is expected due to high capacity utilization, and favourable, more stable expectations of businesses and strong business performance, while public investment will pick up due to higher absorption of EU funds.

In line with continued economic growth, higher employer confidence and increased use of flexible forms of employment, a further increase in employment, and a decline in unemployment are expected in 2017 and 2018. The registered unemployment rate is forecast to drop to 10.2% in 2017 and 9.5% in 2018. As domestic private consumption increases further and, even more importantly, prices for imported oil and commodities are expected to rise further in 2017 and 2018, inflation will increase, but remain relatively subdued (below 2 %).

The general government deficit is projected to decline to 2.0% in 2017 and 1.5% in 2018, mainly due to economic growth (increased tax and social contribution receipts), improved labour market conditions, and under the assumption that some of the consolidation measures taken in the public sector in recent years will remain in place. ■



ANALYSIS

» Digital economy in SEE-6 countries

Digitization, which has been taking place for several decades, has affected almost every sector of the economy. The digital transformation started with the first computer revolution in the '60s, enabling task automation and process standardization. This is followed by the second information and communication technology (ICT) revolution, which was all about companies using the Internet as a standard channel of communication and a way of doing business. However, during the last two decades, the radical changes that were brought about by ICT, known as the third ICT revolution, have enhanced the full potential of digital revolution introducing the phenomenon of Digital Economy. It means basically 'Digitization of Everything' and it is based on the latest technological developments such as Cloud Computing, Mobile Computing, Big Data and Internet of Things.

Digital Economy is not all about the digital technology. It basically refers to how digital ICT technologies are used to promote the existing economy, in a direct way, through the emergence and development of new digital ICT industries, or in an indirect way, through development of new businesses and introducing efficiencies to traditional ones.

To maximize the potential of the digital economy as a driver for innovation, competitiveness and inclusive growth, several topics must be considered, such



as infrastructures (technological and institutional); availability of applications and services based on digital technologies and new business models used by individuals, businesses and governments; trust in the reliability and security of online networks, services and applications; and the appropriate skills to make use of ICT and digital processes.

In order to help policy makers to evaluate the efficiency of their policies, strategies and actions related to the digital economy, they must introduce proper measurement methodologies, indicators and tools. One of the key indicators of how countries are doing in the digital world is the Network Readiness Index launched by the World Economic Forum in 2001, which evaluates the capacity of countries to leverage the ICT for competitiveness and wellbeing. The networked readiness framework rests on four principles: (1) a high-quality regulatory and business environment is critical in order to fully leverage ICTs and generate impact; (2) ICT readiness—as measured by ICT affordability, skills, and infrastructure—is a precondition to generating impact; (3) fully leveraging ICTs requires a society-wide effort: the government, the business sector, and the population at large each have a critical role to play; (4) ICT use should not be an end in itself. The impact that ICTs actually have on the economy and society is what ultimately matters.

The networked readiness framework translates into the NRI, a composite index made up of four main categories (*subindexes*), 10 subcategories (*pillars*), and 53 individual indicators distributed across the different pillars. Networked readiness rests on whether a country possesses the *drivers* necessary for digital technologies to unleash their potential, and on whether these technologies are actually *impacting* the economy and society.

Table A1 The Networked Readiness Index 2016 and subindexes

Country	NRI Value	2016 rank (out of 139)	Subindexes			
			Environment	Readiness	Usage	Impact
Slovenia	4.8	37	4.4	5.8	4.4	4.3
Macedonia	4.4	46	4.4	5.2	4.2	3.9
Montenegro	4.3	51	4.1	5.3	4.0	3.8
Croatia	4.3	54	4.1	5.3	4.1	3.8
Serbia	4.0	75	3.7	5.2	3.7	3.4
Bosnia and Herzegovina	3.6	97	3.3	5.2	3.2	2.8
SEE-6 Average	4.23		4.0	5.33	3.93	3.67
World Best Value	6.0		6.0	6.6	6.0	6.1
(WBV - SEE-6 Average)/WBV	29.5%		33.3%	19.2%	34.5%	39.8%

Source: The Global Information | Technology Report 2016, p.16.

Note: Singapore and Finland with 6.0 have the highest value of the NRI, Singapore has the highest score in Environment, Usage and Impact subindexes, Finland realizes the highest score of Readiness subindex.

The *drivers* are grouped within three subindexes as follows:

A. Environment subindex (2 pillars)

1. Political and regulatory environment (9 indicators)
2. Business and innovation environment (9 indicators)

B. Readiness subindex (3 pillars)

3. Infrastructure (4 indicators)
4. Affordability (3 indicators)
5. Skills (4 indicators)

C. Usage subindex (3 pillars)

6. Individual usage (7 indicators)
7. Business usage (6 indicators)
8. Government usage (3 indicators)

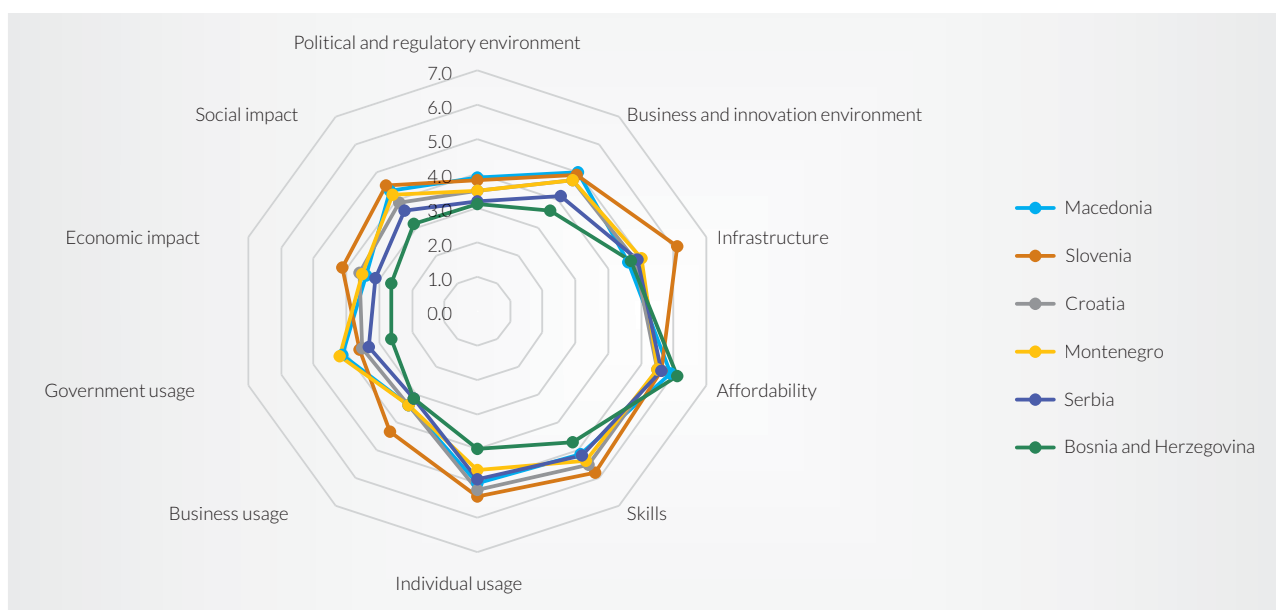
Impact is measured as a separate subindex:

D. Impact subindex (2 pillars)

9. Economic impacts (4 indicators)
10. Social impacts (4 indicators)

NRI is calculated as an arithmetic average of the values of the four subindexes, which are calculated as an arithmetic average of the value of the indicators that belong to the respective subindex. Most of the indicators are measured on a scale of 1-7, where 1 is the worst possible choice (for example, not efficient at all, not developed at all and etc.), whereas 7 represents the best choice (for example, extremely efficient, extremely well-developed and so on). As for indicators whose values are expressed as continuous variables (such as

Figure A1 NRI Subindexes in SEE-6, 2016



the number of procedures to enforce a contract, number of days to settle a dispute, total tax rate, and etc.), a min-max transformation is performed that once again converts them to values on a scale of 1 to 7.

The Network Readiness Index, the 2016 Report covers 139 economies all around the world including all of the SEE-6 economies. In regard to economies with best NRI index value achievements (Singapore and Finland), which is 6.0, SEE-6 countries trail behind by 29.5%, in which the Impact subindex differs the most, with an almost 40% (39.8) lower value of this subindex compared to the respective value of the best economy (Table A1). This trailing of the region in comparison to the best countries is mainly due to the trail of the Number of applications for information and communication technology-related patents filed under the Patent Cooperation Treaty (PCT) per million populations, which amounts to a total of 98%. The Impact subindex also trails due to the E-Participation Index, which for the SEE-6 countries lags by 64% from the best value (Table A2).

This indicates that the region overall should pay much more attention as to what is the broader economic and social impact that is gained from the use of ICT in the economies of the region. More specifically, this indicates, on the one hand, that the impact of ICT on competitiveness through the application of technological and non-technological innovations in the countries of the region is still very low, and on the other hand, that the role that ICT plays in the overall social progress is far from what it can be, and that there is much room for improvement in all SEE-6 countries.

Table A2 NRI Indicators in SEE-6, 2016

	Macedonia	Slovenia	Croatia	Montenegro	Serbia	Bosnia and Herzegovina	Average	(Max-Min)/ Max	World Best Value (WBV)	WBV-See6AV / WBV
1.01 Effectiveness of law-making bodies	4.2	2.9	3.1	3.9	3.4	2.9	3.40	31%	6.3	46%
1.02 Laws relating to ICTs	4.6	4.6	3.9	4.1	3.6	2.5	3.88	46%	5.9	34%
1.03 Judicial independence	3.3	3.5	3.2	3.4	2.6	2.9	3.15	26%	6.7	53%
1.04 Efficiency of legal framework in settling disputes	3.9	2.9	2.3	3.5	2.7	2.7	3.00	41%	6.2	52%
1.05 Efficiency of legal framework in challenging regulations	3.2	3	2.3	3.3	2.6	2.8	2.87	30%	5.8	51%
1.06 Intellectual property protection	4	4.5	3.6	3.7	3	2.9	3.62	36%	6.3	43%
1.07 Software piracy rate	65	45	52	78	69	65	62.33	42%	18	246%
1.08 Number of procedures to enforce a contract	38	32	38	49	36	37	38.33	35%	21	83%
1.09 Time required to enforce a contract	604	1160	572	545	635	595	685.17	53%	150	357%
2.01 Availability of latest technologies	5	5.5	5	4.6	4	4.2	4.72	27%	6.6	29%
2.02 Venture capital availability	2.9	2.4	2.3	2.8	1.9	2.3	2.43	34%	5.1	52%
2.03 Total tax rate	12.9	31	20	21.6	39.7	23.3	24.75	68%	11.3	119%
2.04 Time required to start a business	1	6	12	10	12	67	18.00	99%	1	1700%
2.05 Number of procedures required to start a business	1	2	7	6	6	12	5.67	92%	1	467%
2.06 Intensity of local competition	5.5	5.1	4.9	4.2	4.3	4.4	4.73	24%	6.3	25%
2.07 Tertiary education enrollment rate	39.4	85.2	61.7	55.3	58.1	22.1	53.63	74%	110.2	51%
2.08 Quality of management schools	4	4.5	4	4.4	3.4	3.3	3.93	27%	6.3	38%
2.09 Government procurement of advanced technology products	3.9	2.7	2.7	3.2	2.8	2.4	2.95	38%	5.6	47%

Table A2 NRI Indicators in SEE-6, 2016 (continued)

	Macedonia	Slovenia	Croatia	Montenegro	Serbia	Bosnia and Herzegovina	Average	(Max-Min)/ Max	World Best Value (WBV)	WBV-See6AV / WBV
Infrastructure 3rd pillar	3.01 Electricity production	2940.3	7666.7	3131.3	6350.5	5475.5	4564.1	62%	55,954.30	91%
	3.02 Mobile network coverage rate	99.9	99.7	100	99.5	99.8	99.8	1%	100	0%
	3.03 International Internet bandwidth	41.8	121.1	58	77	112.4	43	65%	6,887.70	99%
	3.04 Secure Internet servers	76.6	648.3	219.5	56.3	43.8	35.9	94%	3,214.40	94%
Affordability 4th pillar	4.01 Prepaid mobile cellular tariffs	0.2	0.3	0.27	0.26	0.23	0.32	38%	0.02	1217%
	4.02 Fixed broadband Internet tariffs	31.07	31.46	35.52	36.6	36.05	16.39	55%	2.59	1104%
	4.03 Internet and telephony sectors' competition index	2	2	2	2	2	1.86	7%	2	1%
	5.01 Quality of the education system	3.8	4.1	3.1	3.9	3.1	2.4	41%	6.1	44%
Skills 5th pillar	5.02 Quality of math and science education	4.3	5.3	4.8	4.6	4.4	3.6	32%	6.4	30%
	5.03 Secondary education enrollment rate	82	110.9	99.8	90.3	94.3	89	26%	163.1	42%
	5.04 Adult literacy rate	97.8	99.7	99.3	98.7	98.1	98.5	2%	99.9	1%
	6.01 Mobile telephone subscriptions	105.5	112.1	104.4	163	122.1	91.3	44%	233.6	50%
Individual usage 6th pillar	6.02 Internet users	68.1	71.6	68.6	61	53.5	60.8	25%	98.2	35%
	6.03 Households with a personal computer	70.1	79.8	70.1	54.7	65.6	45	44%	98.1	35%
	6.04 Households with Internet access	68.3	76.8	68.4	56.6	51.8	50	35%	98.5	37%
	6.05 Fixed broadband Internet subscriptions	16.8	26.6	23	16.7	15.6	14.2	47%	42.5	56%
	6.06 Mobile broadband Internet subscriptions	49.5	46.7	68.5	31	66.4	27.8	59%	141.7	66%
	6.07 Use of virtual social networks	6.2	5.8	5.4	5.8	5.6	5.2	16%	6.7	15%

Table A2 NRI Indicators in SEE-6, 2016 (continued)

	Macedonia	Slovenia	Croatia	Montenegro	Serbia	Bosnia and Herzegovina	Average	(Max-Min)/ Max	World Best Value (WBV)	WBV-See6AV /WBV
7.01 Firm-level technology absorption	4.2	4.9	4.6	4.4	3.8	4.4	4.38	22%	6.2	29%
7.02 Capacity for innovation	3.7	4.4	3.3	3.6	3.1	3	3.52	32%	6	41%
7.03 PCT patents applications	1.4	66.7	9.6	3.2	3.8	1.7	14.40	98%	335.2	96%
7.04 ICT use for business-to-business transactions	4.7	5.2	4.7	4.4	4.5	4	4.58	23%	6.1	25%
7.05 Business-to-consumer Internet use	4.3	4.8	4.3	4.1	4	4	4.25	17%	6.4	34%
7.06 Extent of staff training	3.7	4	3.3	3.6	3	2.9	3.42	28%	5.7	40%
8.01 Importance of ICTs to government vision of the future	4.8	3.5	3.4	4.3	3.2	2.6	3.63	46%	6.1	40%
8.02 Government Online Service Index	0.24	0.43	0.46	0.53	0.39	0.28	0.39	55%	1	61%
8.03 Government success in ICT promotion	4.9	3.8	3.4	4.1	3.3	2.3	3.63	53%	6.2	41%
9.01 Impact of ICTs on business models	4.7	4.5	4.3	4.3	3.9	3.6	4.22	23%	5.9	29%
9.02 PCT ICT patent applications	0.1	13	2	0.8	1.9	0.3	3.02	99%	153.1	98%
9.03 Impact of ICTs on organizational models	4.3	4.4	4.3	3.7	3.4	3.1	3.87	30%	5.8	33%
9.04 Share of workforce employed in knowledge-intensive activities (%)	26.3	41.7	35.7	37.2	29.1	n/a	34.00	37%	62.3	45%
10.01 Impact of ICTs on access to basic services	5	5	4.3	3.9	3.6	3.5	4.22	30%	6.2	32%
10.02 Internet access in schools	5.2	5.7	4.6	4.3	3.9	3.9	4.60	32%	6.5	29%
10.03 ICT use and government efficiency	4.8	4	3.6	4.2	3.5	2.6	3.78	46%	6.1	38%
10.04 E-Participation Index	0.22	0.39	0.33	0.59	0.41	0.24	0.36	63%	1	64%

The lowest trail of the SEE-6 region behind the best economies can be seen in the Readiness Subindex, according to which the SEE-6 region countries trail behind by 19.2%. This shows that the region has established a relatively good infrastructure, and other factors for the support and development of ICT, such as ICT availability and skills of the population to efficiently and effectively use ICT.

However, with this index as well, there are some indicators where the SEE-6 countries trail quite a bit behind the best economies. Such is the situation with the production of electricity in kWh per capita, which is just 9% of the highest value that Iceland has, the number of secure Internet servers and International Internet bandwidth in kb/s per Internet user, which are just 5.6% and 1.1% of the highest value of the relevant indicators, which Iceland and Luxemburg have.

The situation of the SEE-6 countries according to the value of the Environment Subindex and Usage Subindex is much less satisfactory, which in the entire region lag behind the best economies by 33.3% and 34.5%. This difference of the Environment Subindex value suggests that the degree of the market conditions and the regulatory framework are suitable for supporting entrepreneurship, innovation and ICT development. The low level of the Usage Subindex compared to economies with the highest values of this subindex indicates that in the SEE-6 region there is much room for improving the level of adopting and using ICT by all stakeholders in society: government, businesses and citizens.

This means that even though there are preconditions for innovative and efficient ICT application and development in countries of the SEE-6 region, the level of ICT usage is low due to a poor political and regulatory environment, as well as poor business and innovation environment, and this results with a weak ICT impact on the overall social-economic wellbeing of the region.

SEE-6 countries according to NRI

Slovenia is the best ranked country of the SEE-6 countries, ranking as 37th, with an index value of 4.8. Slovenia is the best in the region according to all subindexes, whereas according to the 10 pillars, it is the best in six, second best in 2 (according to Political and regulatory environment and Business and innovation environment it is in second place immediately after Macedonia), and in other 2 (Affordability and Government usage) it is in third place (Figure A1).

Slovenia is the best ranked in the region especially in terms of the following indicators: Mobile network coverage rate, Internet and telephony sectors competition index, Adult literacy rate, Internet access in schools, Use of virtual social networks, and ICT use for business-to-business transactions.

There is most room for improvement for Slovenia in relation to the indicators referring to Prepaid mobile cellular tariffs, Fixed broadband Internet tariffs, Time required to enforce a contract, and Time required to start a business. According to DigitAgenda 2016 adopted by the Chamber of Commerce and Industry of Slovenia, Slovenia has embarked on recovering the lost 5 places on the NRI list until 2018.

Macedonia is second among the SEE-6 countries according to the value of NRI, which is 4.4, according to which it ranks 46th in the world. According to individual subindexes, Macedonia is in the first place among SEE-6 countries in two of them (Political and regulatory environment and Business and innovation environment). It is worth mentioning that Macedonia, according to 3 indicators, is the best ranked in the world, in particular according to: Time required for starting a business, Number of procedures required to start a business and Internet and telephony sectors competition index. Moreover, Macedonia shows particular results according to the values of the following indicators: Mobile network coverage rate, Adult literacy rate, Use of virtual social networks, Intensity of local competition and Total tax rate.

Macedonia shows poor results according to Monthly subscription charge for fixed (wired) broadband Internet service; Average per-minute cost of different types of mobile cellular calls; Number of days to settle a dispute, counted from the moment the plaintiff decides to file the lawsuit in court until payment and Unlicensed software units as a percentage of total software units installed.

Both Montenegro and Croatia have the same NRI value of 4.3 and rank in the 51st and 54th place in the world. According to the results, we can see that the competitive advantages of **Croatia** are: Percentage of households that own a computer, Percentage of families with Internet access, Internet usage by individuals, Percentage of total enrollment in secondary education, Percentage of total enrollment in third cycle of higher education and security of Internet servers.

On the other hand, competitive disadvantages of Croatia are: Efficiency of legal framework in settling disputes, Efficiency of legal framework in challenging regulations, Government procurement of advanced technology products and Capacity for innovation. A conclusion can be made that Croatia is not sufficiently using the developed existing ICT infrastructure because of failure to implement the necessary reforms. In the government programs a clear vision for ICT has not been noticed for quite some time, and digitalization of the public administration is being slowly implemented, but there is also lack of quality services for the business sector.

Montenegro according to the Government usage pillar with a value of 4.2 ranks the best among the SEE-6 countries. It has best results according to the Level of competition index for Internet services, international long distance services and mobile telephone services, Percentage of total population covered by a mobile network signal and Adult literacy rate, and partly

according to the Use of virtual social networks. Montenegro has the worst performances in regard to the best values of the indicators on the list for 2016 according to Fixed broadband Internet tariffs, Prepaid mobile cellular tariffs, Time required to start a business, Number of procedures required to start a business, Software piracy rate, Time required to enforce a contract and Number of procedures to enforce a contract.

Serbia has an NRI of 4.0 and is in the second to last place in the world. According to the data presented in Table A2, we can see that policy intervention through investments, smart regulation, and other stimulating measures can increase the impact of ICT over the development and growth of Serbia. More specifically, areas in which there should be an improvement of the situation are: Political and regulatory environment (especially in the indicators: Judicial independence, Efficiency of legal framework for settling disputes, Efficiency of legal framework for challenging regulations and Intellectual property protection), Internet infrastructure (International Internet bandwidth, Secure Internet servers), Venture capital availability, Capacity for innovation and PCT patents applications, business and government usage of ICTs, and general e-participation in social life.

Bosnia and Herzegovina with an NRI value of 3.6 ranks 97th in the world and is in the last place among countries of the SEE-6, where it lags behind according to all subindexes. In 8 pillars it is in the last place, according to the Infrastructure pillar it is the second to last, while according to the Affordability pillar it is the best within the framework of the SEE-6 states. Bosnia and Herzegovina lags behind the best values of indicators for 2016 mostly in the following areas: Time required to start a business, Prepaid mobile cellular tariffs, Number of procedures required to start a business, Fixed broadband Internet tariffs, Time required to enforce a contract, Software piracy rate and Total tax rate, while the Bosnian economy shows best indicators in regards to the application and impact of ICT in the Mobile network coverage rate, Adult literacy rate and Internet and telephony sectors competition index.

In Table A2, the “(Max-Min)/Max” column shows the differences between the value of the indicator among the SEE-6 countries, shown through a green-yellow color scale, whereas the spectrum of colors with the lightest shades of yellow show the lowest differences, and the light to darker shades of green the greatest differences. The biggest differences in the indicators among the SEE-6 countries are noted in: Time required to start a business, PCT ICT patent applications, PCT patents applications, Secure Internet servers and Number of procedures required to start a business. It is precisely in these indicators that we see that in the SEE-6 region the countries can identify and exchange experiences with one another so that they may drastically improve the situation with certain NRI indicators in average for the entire region.

PUBLISHER INFORMATION

This publication has been prepared by:

Editor: Duško Bodroža,
Institute of Economic Sciences, Belgrade

Bosnia and Herzegovina: Mirza Huskić,
The Institute of Economics Sarajevo

Croatia: Sandra Švaljek,
The Institute of Economics, Zagreb

Macedonia: Tatjana Petkovska-Mirchevska
(team leader), Iskra Stancheva-Gigov
(coordinator), Biljana Angelova, Verica
Janeska, Snezana Kostadinovska-Miloseska,
Klimentina Poposka, Zoran Janevski,
Elizabeta Dzambaska, Aleksandra
Lozanoska and Vladimir Petkovski, The
Institute of Economics – Skopje, University
“SS. Cyril and Methodius”

Montenegro: Milena Lipovina-Božović
(coordinator), Julija Cerović-Smolović
and Milica Muhadinović, The University
of Montenegro, Faculty of Economics in
Montenegro

Serbia: Jelena Minović (coordinator),
Aleksandar Zdravković, Kosovka
Ognjenović, Duško Bodroža, Aleksandra
Branković, Mihajlo Đukić, Institute of
Economic Sciences, Belgrade

Slovenia: Sonja Uršič, Institute for
Economic Research, Ljubljana

Analysis: Zoran Janevski and Vladimir
Petkovski, The Institute of Economics –
Skopje, University “SS. Cyril and Methodius”

Publishers:

**Institute of Economic Sciences,
Belgrade**
Zmaj Jovina 12, 11000 Belgrade, Serbia

The Institute of Economics, Zagreb
Trg J. F. Kennedyja 7, 10000 Zagreb,
Croatia

The Institute of Economics Sarajevo
Branilaca Sarajeva 47, 71000 Sarajevo,
Bosnia and Herzegovina

**The Institute of Economics – Skopje,
University “SS. Cyril and Methodius”**
Prolet 1, 1000 Skopje, Macedonia

**The University of Montenegro,
Faculty of Economics Podgorica**
Jovana Tomaševića 37, 81000 Podgorica,
Montenegro

**Institute for Economic Research,
Ljubljana**
Kardeljeva ploščad 17, 1000 Ljubljana,
Slovenia

For the publishers:

Jovan Zubović
Maruška Vizek
Muamer Halilbašić
Tatjana Petkovska-Mirchevska
Nikola Milović
Boris Majcen

E-mail: SEE-6@eizg.hr

Executive editor: Ivana Kovačević

Technical editor: Vladimir Sukser

Print: Donat graf d.o.o, Grocka, Srbija

SEE-6 Economic Outlook is published twice
a year (Spring and Autumn edition).

Copyright © 2017 Institute of Economic Sciences,
Belgrade // The Institute of Economics, Zagreb //
The Institute of Economics Sarajevo // The Institute of
Economics Skopje, University “SS. Cyril and Methodius”
// The University of Montenegro, Faculty of Economics
Podgorica // Institute for Economic Research, Ljubljana

seea >>



eiz The Institute
of Economics,
Zagreb



Univerzitet Crne Gore
EKONOMSKI FAKULTET PODGORICA



Institut za ekonomska raziskovanja
Institute for Economic Research