

# **MACEDONIA ECONOMY REPORT**

Q3 2014

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MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q3 2014	
<i>GDP Growth</i>	4.1% y/y
<i>Industrial output</i>	9.1% y/y
<i>Industrial sales</i>	20.5% y/y
<i>Wholesales</i>	34.4% y/y
<i>Retail sales</i>	2.3% y/y
<i>Annual inflation</i>	-0.7%
<i>Unemployment rate</i>	27.9%
<i>Number of building permits</i>	42.7% y/y
<i>Money supply growth</i>	5.8% y/y
<i>Household loans</i>	12.0% y/y
<i>MBI10 blue-chip index</i>	4.9% q/q
<i>Gross external debt</i>	EUR 6.335 bln
<i>Current account</i>	EUR 120.58 mln
<i>FDI inflow change</i>	-11.4% y/y
<i>Foreign trade deficit</i>	USD 552 mln
<i>Number of foreign tourist overnights</i>	10.7% y/y

## 1. MAJOR DEVELOPMENTS

### 1.1 INDUSTRY NEWS

#### Air transport

- Passenger traffic at Macedonia's two airports increased by 18% to 988,825 in the first nine months of 2014, according to the airports' operator, Turkish TAV Airports Holding AS. In September alone, passenger traffic at the airports in the capital Skopje and the lakeside resort of Ohrid also increased by 18% on the year to a combined 125,109.

#### Energy

- In July 2014 Macedonian transmission system operator MEPSO invested a total of EUR 4.0 mln euro (USD 5.4 mln) in two projects aiming to increase the reliability of its transmission network and the quality of power supply. The company put into operation a 400/110 kilovolt (kV) autotransformer at its substation Skopje 5. The project was worth EUR 2.7 mln.

#### Transport

- International shipping company Maersk Line has opened a 6,500-square metre dry port in Skopje, its first in Macedonia.

#### Construction

- In September 2014 the World Bank said it approved a USD 71 mln (EUR 55 mln) loan to finance a national and regional roads rehabilitation project in Macedonia. The loan, which has a maturity of 23 years including a six-year grace period, will be extended by the International Bank for Reconstruction and Development (IBRD), one of five institutions that make up the World Bank Group. The project is aimed to enhance the connectivity of selected national and regional roads, primarily those which are part of Corridors X and VIII, and to improve the capacity of the Public Enterprise for State Roads for road safety and climate resilience.
- The European Bank for Reconstruction and Development (EBRD) said in July it is considering providing a EUR 145 mln (USD 196 mln) sovereign loan to finance the construction of the Beljakovce -Kriva Palanka railway section, part of pan-European Corridor VIII. The section, in the eastern part of Macedonia, has a length of approximately 34 kilometres, the EBRD said in a statement. Total project costs are estimated at EUR 151.2 mln. The loan recipient would be railway operator Makedonski Zeleznici-Infrastruktura.

## **1.2 GOVERNMENT BORROWING**

- Macedonia sold MKD 225 mln (EUR 3.6 mln) in 1-yr T-bills and MKD 599.7 mln (EUR 9.7 mln) in 10-yr T-notes on Aug 12, 2014.
- Macedonia sold MKD 257 mln in 10-yr T-notes and MKD 70.5 mln in 1-yr T-bills on July 17, 2014.
- Macedonia placed a EUR 500 mln (USD 681 mln) seven-year bond issue on July 15, 2014, the finance ministry said. The bonds bear an annual interest rate of 3.975% and have a yield of 4.25%.

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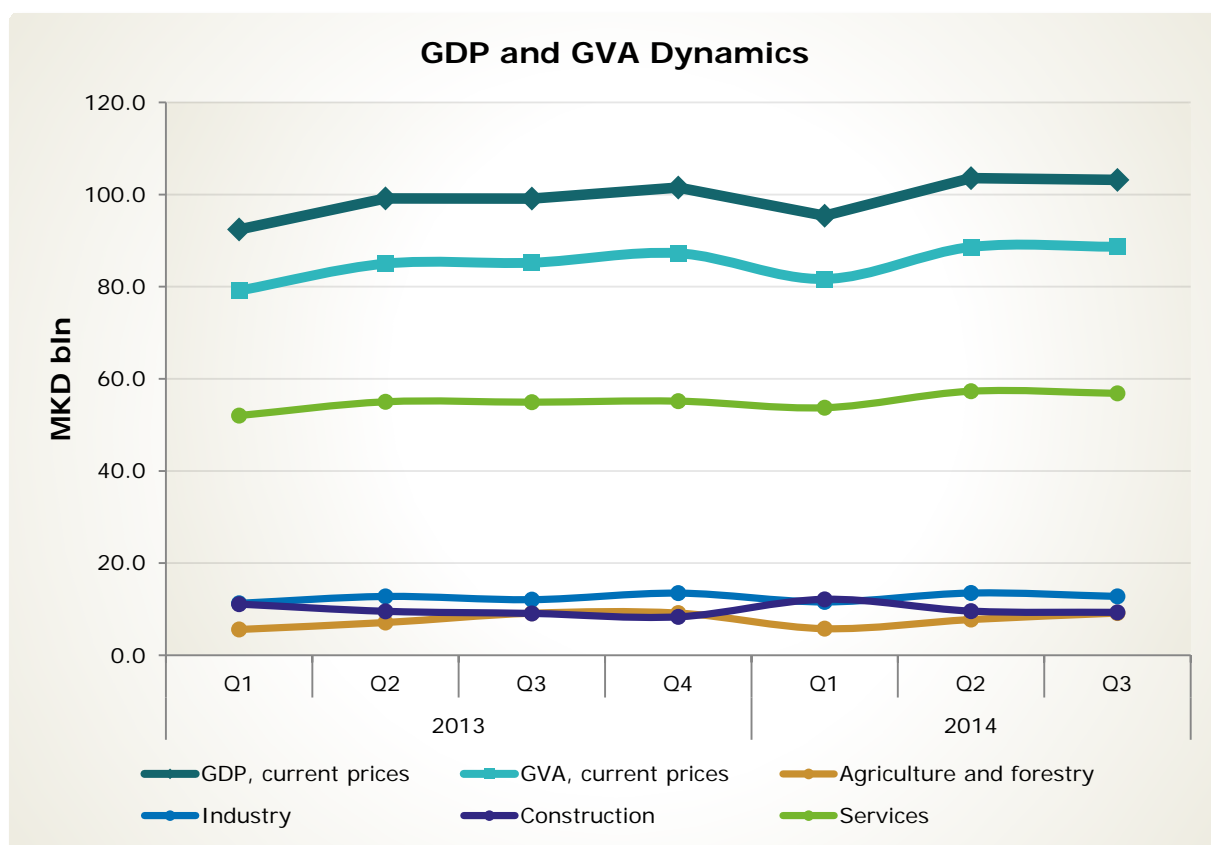
## 2. REAL SECTOR

### 2.1 GROSS DOMESTIC PRODUCT (GDP)

*GDP went up by 4.1% y/y in Q3 2014, compared to a 4.4% y/y growth in the previous quarter*

The country's GDP increased by 4.1% y/y and totalled MKD 103.184 bln (EUR 1.674 bln) in the third quarter of 2014, according to preliminary data of the State Statistical Office of the Republic of Macedonia.

Final consumption, which contributed 83.1% to the GDP, increased by 1.0% y/y in the third quarter. Gross capital formation went up by 17.0%, contributing 25.5% to the GDP. Both imports and exports jumped - by 15.4% and 14.0%, respectively.



Source: State Statistical Office

The gross value added (GVA) generated by the national economy increased by 4.1% y/y in the third quarter of 2014 and totalled MKD 88.672 bln. The industrial sector grew in value by 5.8% y/y and its share in the GVA structure increased to 14.4%. The services sector recorded a 3.5% annual increase, slicing a 64.1% share in the GVA, down from 64.5% in the corresponding quarter of the previous year. The agricultural sector registered an annual rise of 0.3%, thus decreasing its share in the GVA to 10.3%, from 10.7% in the third quarter of 2013.

## 2.2 INDUSTRIAL OUTPUT

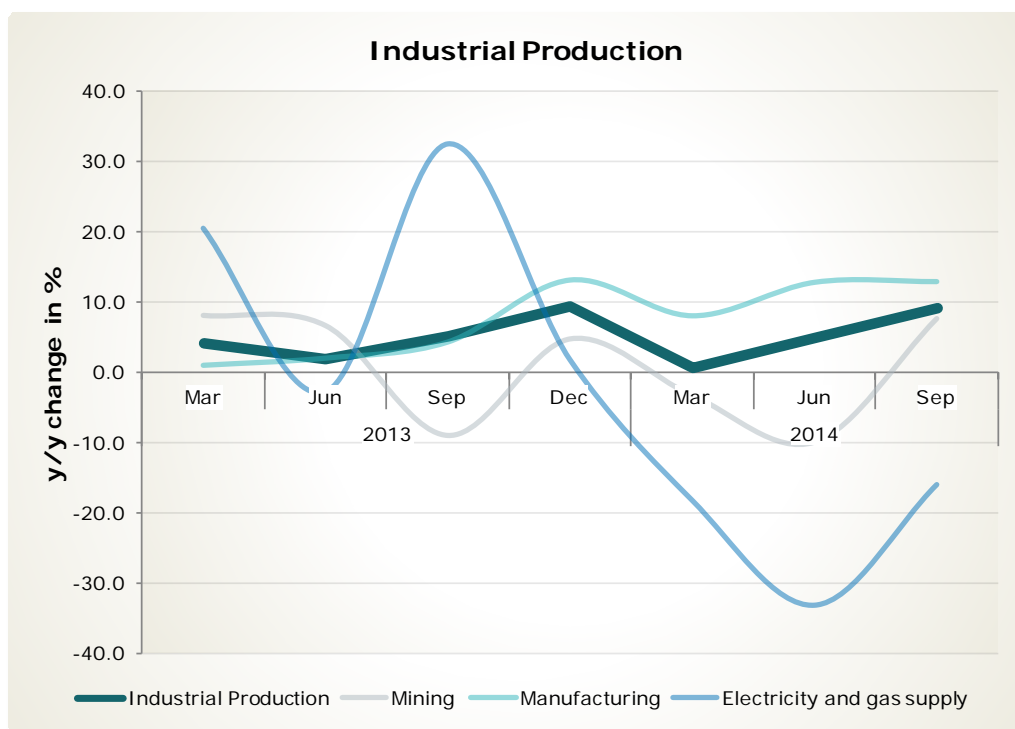
### *Industrial output increased by 9.5% y/y in September 2014*

Industrial output went up by 9.5% on the year in September 2014. The manufacturing and the mining sectors rose by 12.9% and 7.7% y/y, respectively, in September 2014, while the electricity and gas supply fell by 15.9% y/y.

Manufacture of tobacco products was the segment to report the highest annual production growth, of 46.5% in September 2014, while the output of repair and installation of machinery and equipment slumped by 8.3% y/y.

Manufacturing of other transport equipment was the segment with the sharpest growth in August 2014 with annual increase by 64.2%, while in July 2014 manufacturing of electrical equipment reported the highest annual production growth of 42.5%.

On the other end was electricity, gas, steam and air conditioning supply, which reported an annual drop of 7.6% in July, 46.6% in August and 15.9% in September.

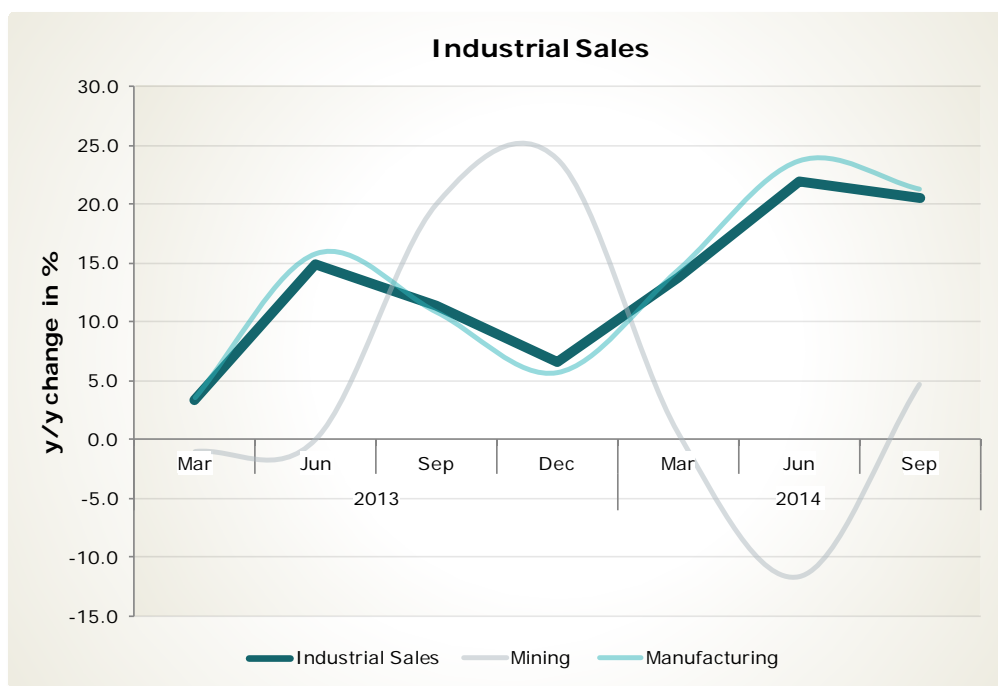


Source: State Statistical Office

## 2.3 INDUSTRIAL SALES

### *Industrial sales went up by 20.5% y/y in September 2014*

Industrial sales increased by 20.5% y/y in September 2014. The manufacturing and the mining industries grew by 21.3% and 4.7% on the year, respectively.



Source: State Statistical Office

## 2.4 WHOLESALE/RETAIL

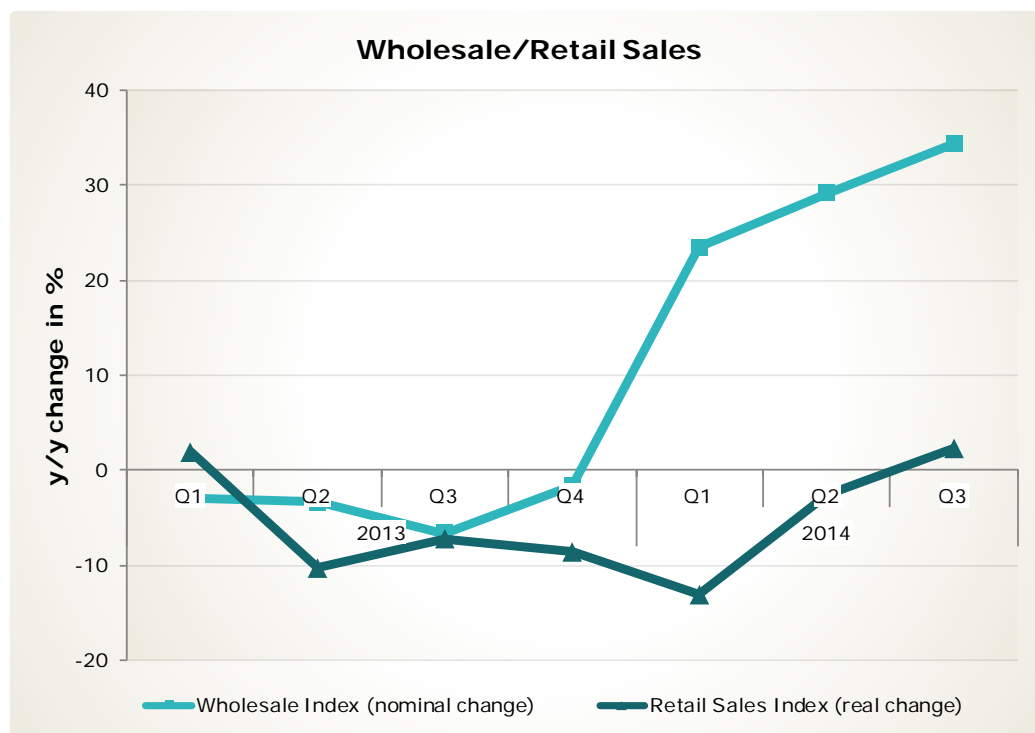
### *Wholesale dropped, retail grew y/y in Q3 2014*

Retail sales went up by real 2.3% y/y in September 2014, according to State Statistical Office data. In July and August retail sales decreased by an annual 5.9% and 3.8%, respectively.

Retail sale of food, beverages and tobacco registered an increase of 5.1% y/y. Retail sale of non-food products (except fuel) marked an annual decrease of 4.6% in September 2014.

The wholesale sector went up by nominal 34.4% y/y in September 2014. In July and August the turnover in wholesale rose by an annual 22.8% and 33.2%, respectively.





## 2.5 INFLATION

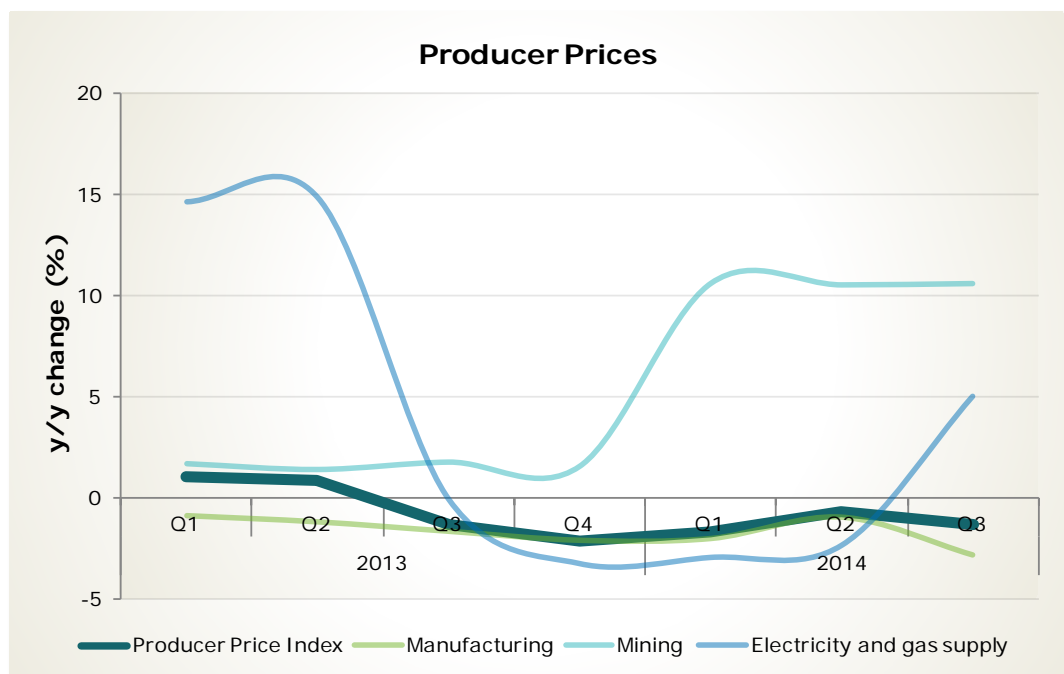
### *Deflation of 0.7% y/y for September 2014*

State Statistical Office registered a deflation of 0.7% y/y in September 2014, compared to an inflation of 1.6% a year ago. In September 2014 the highest annual decrease in consumer prices was registered in information processing equipment, accommodation services and oils and fats of 26.9%, 19.3% and 11.9%, respectively. The consumer groups that recorded increases were other medical products, of 20.2%, financial services n.e.c., of 9.9%, and other services in respect of personal transport equipment of 7.1%.

The consumer price index stood at 99.5% in August 2014 and at 100.3% in July 2014.



Source: State Statistical Office



Source: State Statistical Office

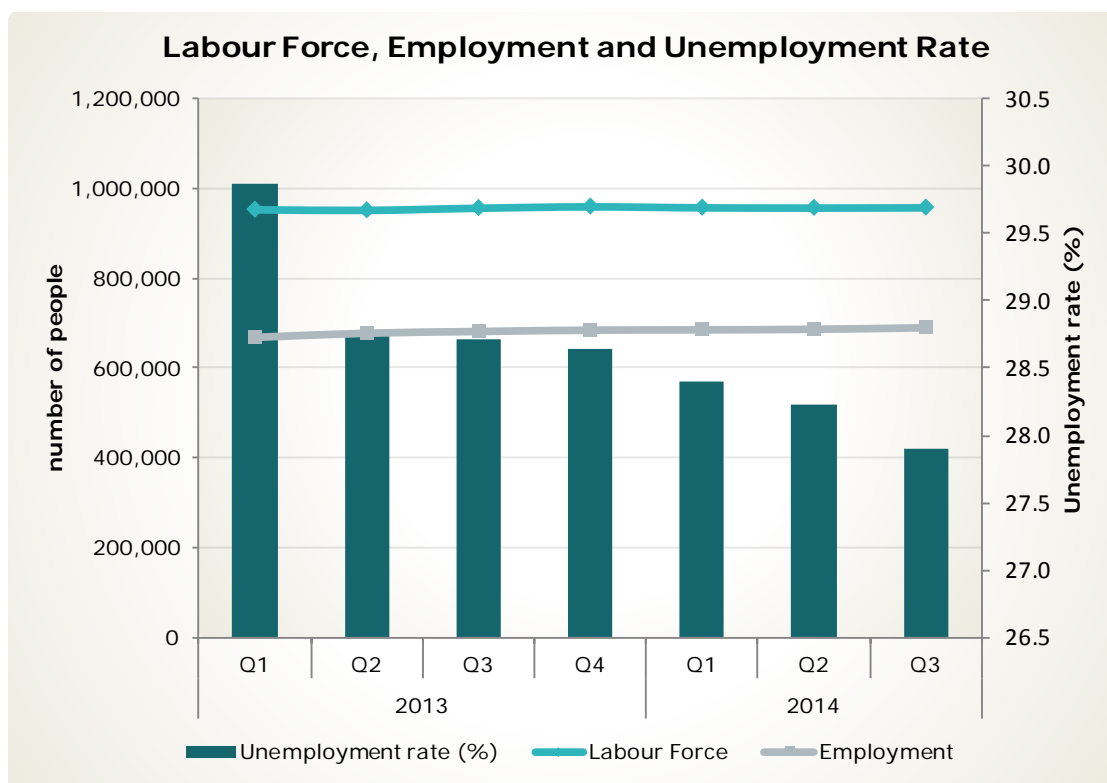
### 3. LABOUR MARKET

#### *Unemployment rate went down to 27.9%, wages grow 1.1% y/y in Q3 2014*

Unemployment in Macedonia narrowed to 27.9% of the total labour force in the third quarter of 2014 from 28.7% a year earlier, according to data of State Statistical Office.

The employed population aged 15 years and older was 690,965 in the third quarter of 2014, up by 1.2% y/y. Employment in the private sector went up by 1.6% y/y and by 0.1% y/y in public sector.

The youth (population aged 15-24) unemployment rate went down to 52.0%, compared to 55.2% in the previous quarter and 52.2% in the corresponding quarter of the previous year.



Source: State Statistical Office

According to data of State Statistical Office, the average monthly salary in the third quarter of 2014 inched down by 0.1% q/q, but grew by 1.1% in annual terms to MKD 21,281 (EUR 345). Wages in the industry and service sectors went up by 2.8% y/y and 2.5% y/y, respectively. Employees in the sector of activities auxiliary to financial services and insurance activities and in the advertising and market research sector had the highest salaries of MKD 48,950 and MKD 46,281, respectively.

#### 4. CONSTRUCTION AND REAL ESTATE

##### *The number of building permits grew by 42.7% y/y in Q3 2014*

The number of building permits issued in Macedonia in the third quarter of 2014 increased by 42.7% y/y and totalled 628, according to State Statistical Office data. The permits for housing projects went up by 26.6% to 333 and permits for administrative buildings grew by 71.2% to 89.

The total built-up area of administrative units, covered by the permits, went up by 33.1% y/y to 98,615 sq m in the third quarter of 2014. The total built-up area of the housing units decreased by 8.9% to 83,400 sq m.

#### 5. MONEY SUPPLY AND BANKING SYSTEM

##### 5.1 MKD EXCHANGE RATE

The exchange rate of the MKD against the EUR decreased to MKD 61.6534 at the end of September 2014 from MKD 61.6850 at the end of June 2014, according to National Bank of the Republic of Macedonia (NBRM) data. At the end of July 2014 the exchange rate was MKD 61.4971 and at end-August 2014 it was BGN 61.5050.

MKD Exchange Rate in Q3 2014			
Foreign Currency	end-July	end-Aug	end-Sep
EUR	61.5050	61.4971	61.6534
USD	61.5050	46.6311	48.5422
GBP	77.6873	77.3257	78.7702
CHF	50.5590	50.9884	51.0756

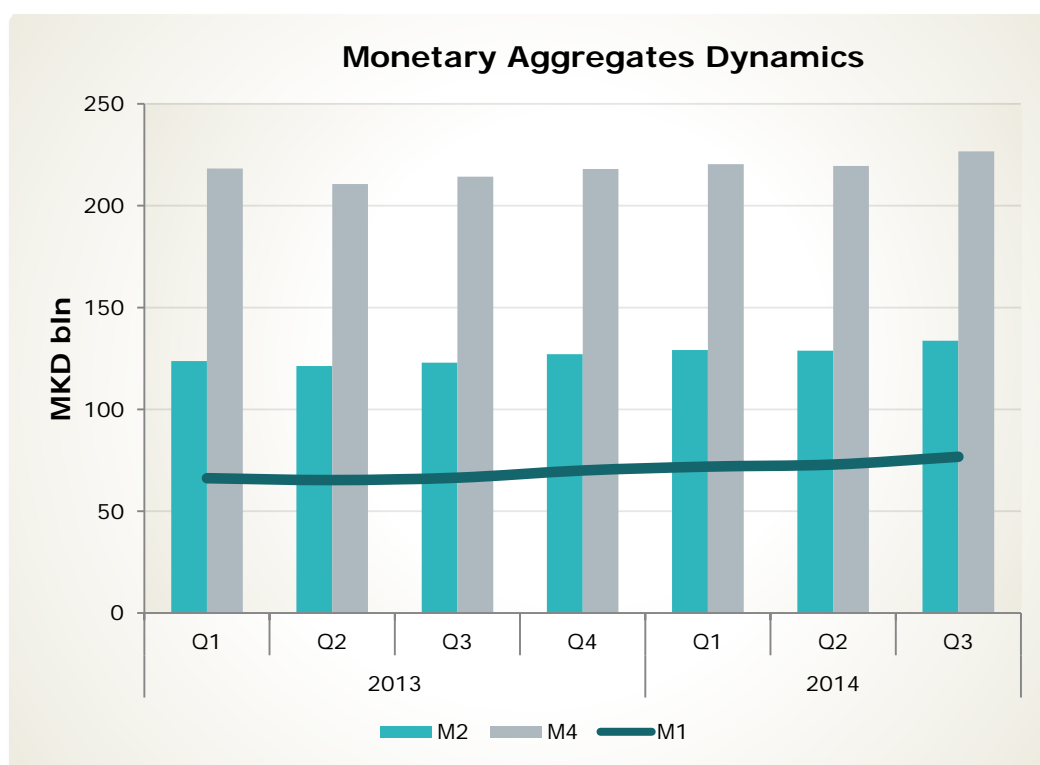
##### 5.2 MONETARY AGGREGATES

##### *Money supply growth was 5.8% y/y at end-September 2014*

Money M4 increased by 5.8% y/y and reached MKD 226.707 bln in September 2014, according to data provided by central bank.

The M2 money supply also grew by 8.8% y/y to MKD 133.707 bln.

Money aggregate M1, or narrow money, jumped by 15.4% y/y to MKD 76.718 bln in September 2014.

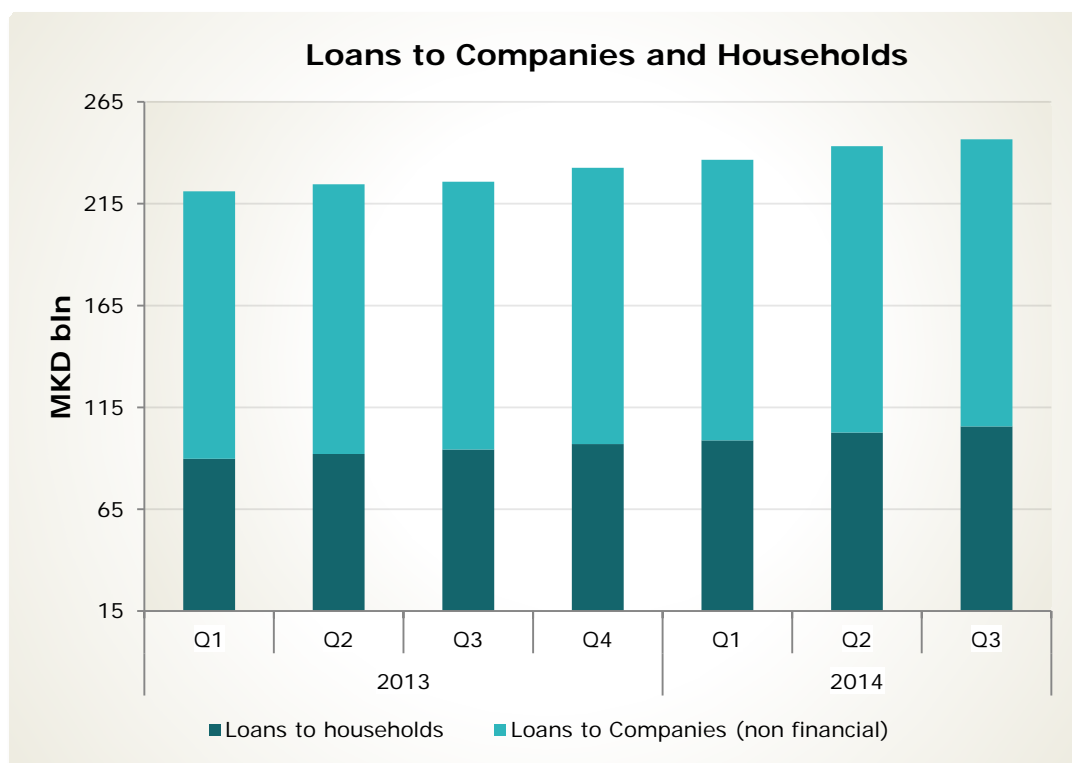


Source: NBRM

### 5.3 BANKING AND INSURANCE

#### *Household loans increased by 12.0% y/y in Q3 2014*

Loans to the non-government sector totalled MKD 246.588 bln in Q3 2014, up by 6.0% y/y.



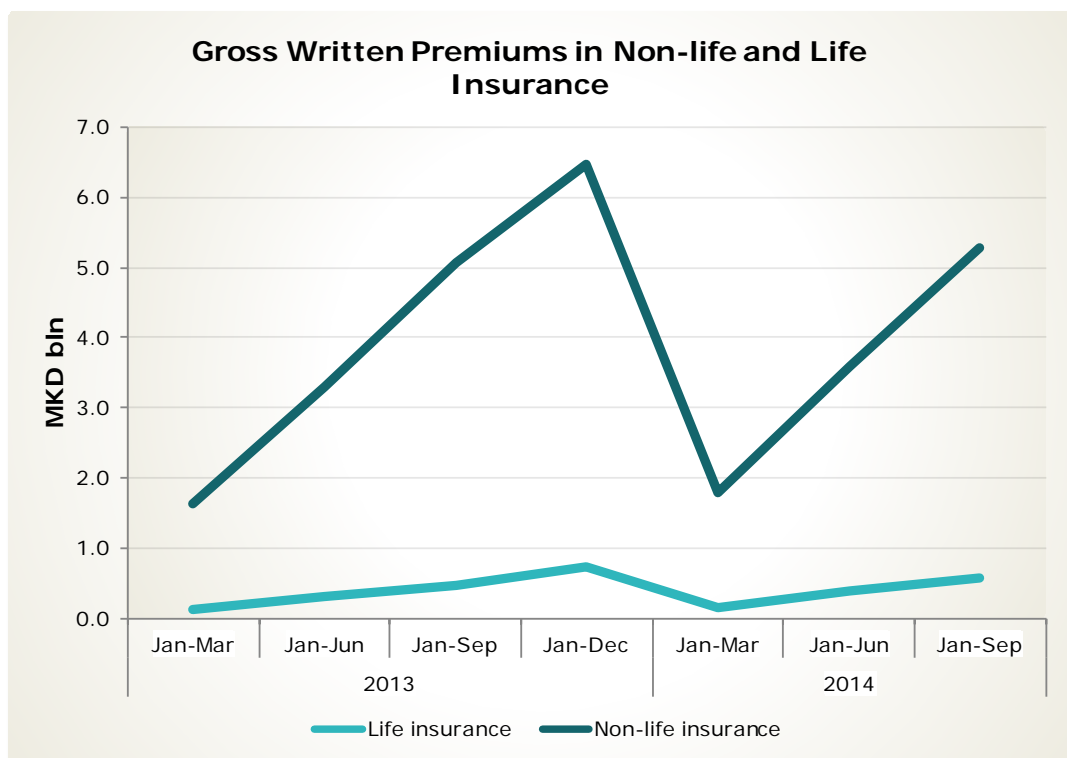
Loans to non-financial corporations rose by 7.2% y/y to MKD 140.972 bln in Q3 2014.

Household and non-profit institutions serving households (NPISHs) loans increased by 12.0% y/y at the end of September 2014 to MKD 105.616 bln.

At the end of September 2014 the assets of the banking system totalled MKD 472.980 bln, up by 8.0% a year earlier.

#### **Premium income up 6.1% y/y in Jan-Sep 2014**

The total gross written premiums of the non-life and life insurance companies stood at MKD 5.858 bln, up by 6.1% y/y in Jan-Sep 2014, according to the Insurance Supervision Agency (ASO). In the non-life insurance sector the highest annual rise of gross written premiums of 121.1% was registered in financial losses segment, while the highest y/y drop of 21.2% was posted in the cargo insurance segment.

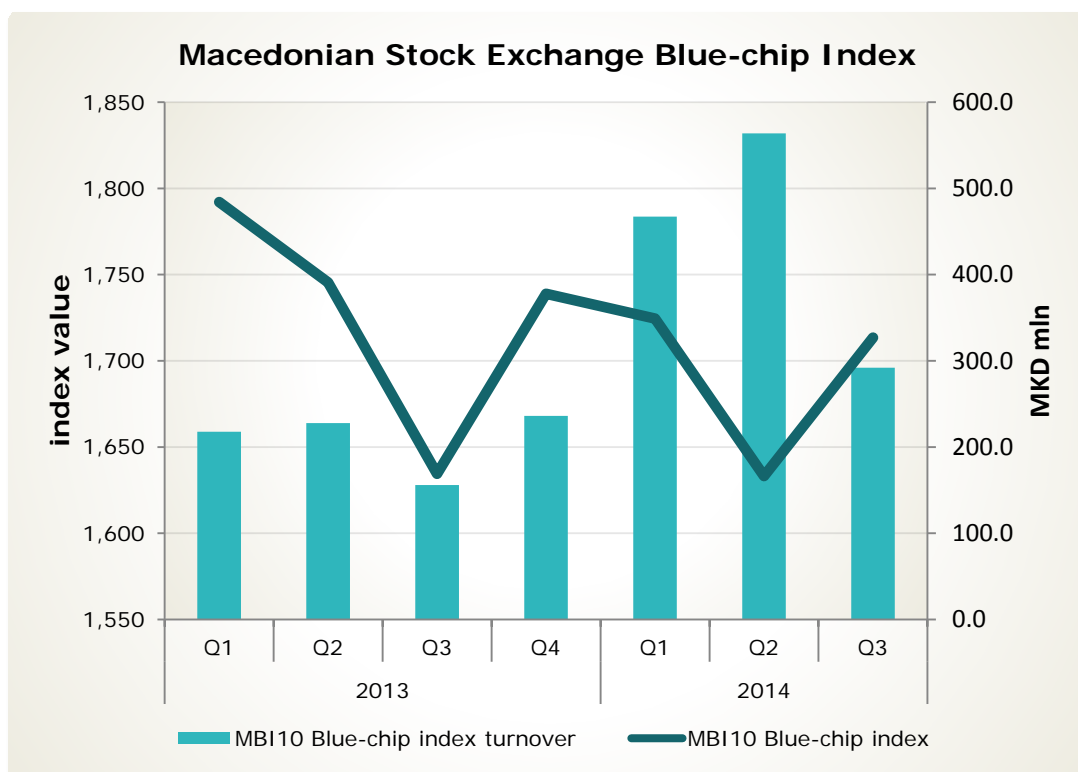


## 6. CAPITAL MARKETS

**Blue-chip MBI10 went up by 4.9% at end-September 2014, compared to end-June 2014**

MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE) increased its value by 4.9% at end-September 2014 from the end of June 2014. On an annual basis MBI10 gained 4.8%.

The total turnover on the blue-chip index reached MKD 292.093 mln in Q3 2014, down by 48.2% q/q and up by 87.3% y/y.



Source: MSE

## 7. EXTERNAL SECTOR

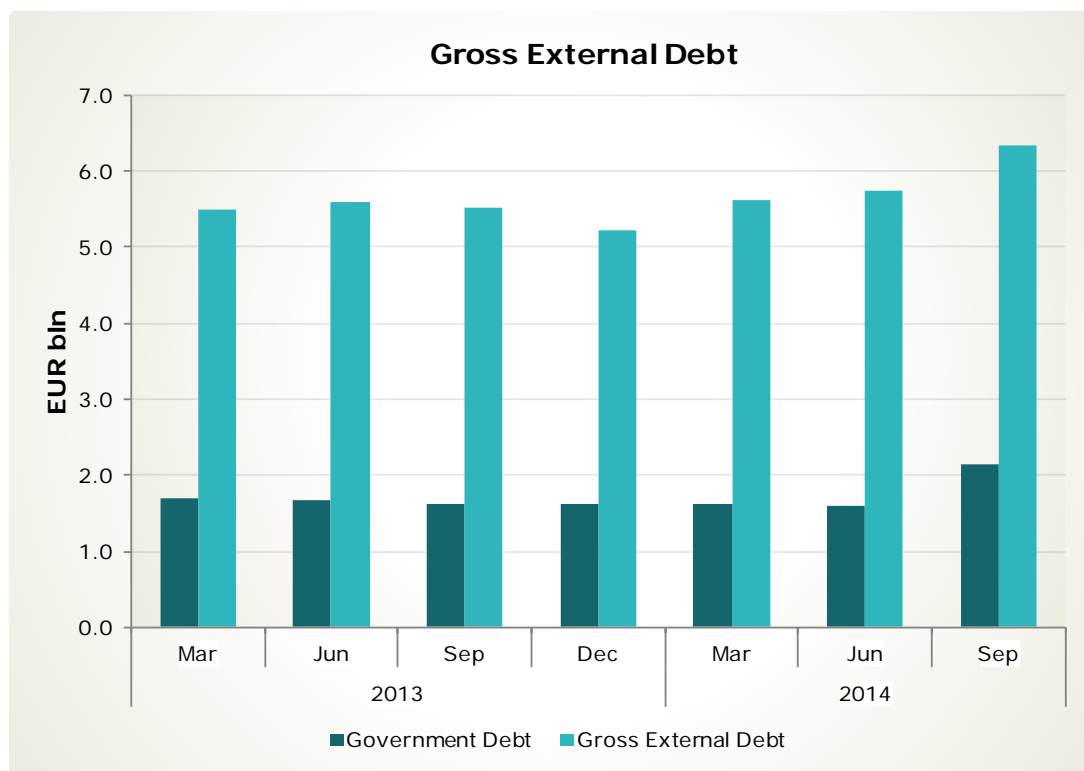
### 7.1 FOREIGN DEBT

#### *The gross external debt widened to EUR 6.335 bln at end-September 2014*

The gross external debt increased, totalling EUR 6.335 bln at the end of September 2014, which was 74.9% of the projected full-year GDP. It widened by 14.8%, or EUR 0.818 bln compared to September 2013. In comparison to June 2014 the gross external debt grew by EUR 0.591 bln.

As of end-September 2014 long-term liabilities amounted to EUR 4.640 bln, or 73.2% of the total debt, and short-term liabilities totalled EUR 1.695 bln equal to 26.8% of the total debt.



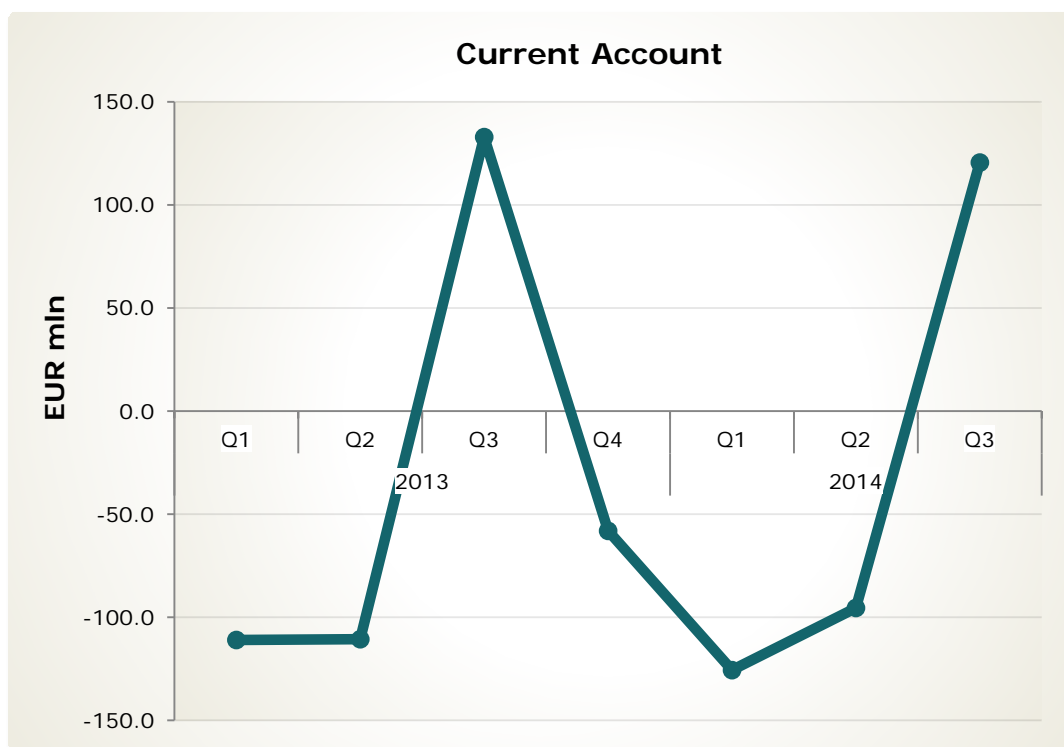


## 7.2 BALANCE OF PAYMENTS

### *Current account surplus at EUR 120.58 mln in Q3 2014*

The current account turned to a surplus of EUR 120.58 mln from a gap of EUR 95.45 mln in Q2 2014 and EUR 125.63 mln in Q1 2014, according to central bank statistics data.

For the period January-September 2014 the current account balance was a negative EUR 100.5 mln, compared with a surplus of EUR 88.7 mln for the same period a year earlier.



Source: NBRM

The secondary income in September 2014 inched up to EUR 476.19 mln from EUR 471.51 mln in September 2013.

### 7.3 FDI

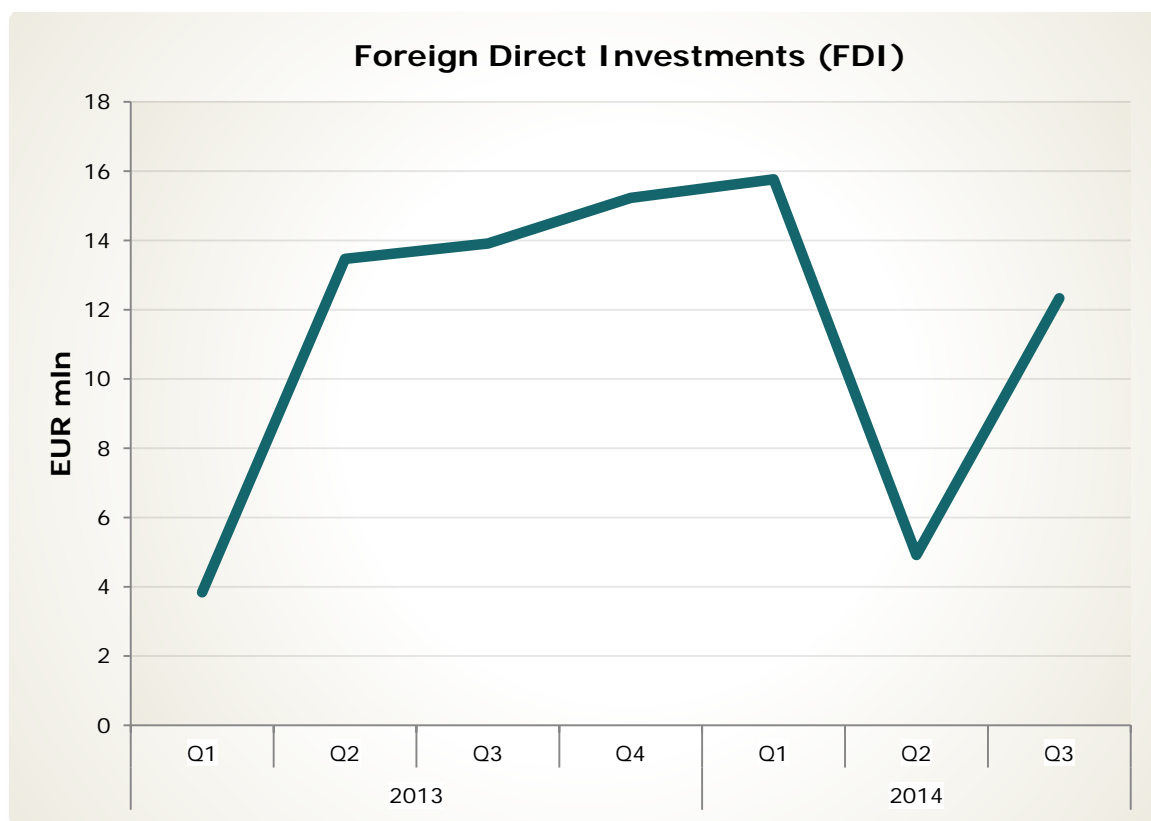
#### *FDI went down by 11.4% y/y in Q3 2014*

FDI decreased by 11.4% y/y to EUR 12.331 mln in the third quarter of 2014.

For the January-September period FDI totalled EUR 33.013 mln, compared with EUR 11.222 mln a year earlier.

In January – September 2014 United Kingdom was the biggest foreign investor in Macedonia with FDI of EUR 8.65 mln, the Italy came second with EUR 7.05 mln and Germany came third with EUR 5.74 mln.

A breakdown by industries for the first nine months shows that the sector of basic metals and fabricated metal products was the leader with FDI of EUR 7.02 mln, followed by motor vehicles, trailers and semitrailers with EUR 6.03 mln and insurance, reinsurance and pension funding, except compulsory social security with EUR 3.50 mln.



Source: NBRM

#### 7.4 FOREIGN TRADE

##### *Foreign trade deficit expanded by 9.2% y/y in Q3 2014*

The trade deficit stood at USD 552 mln in Q3 2014, compared to USD 506 mln in Q3 2013.

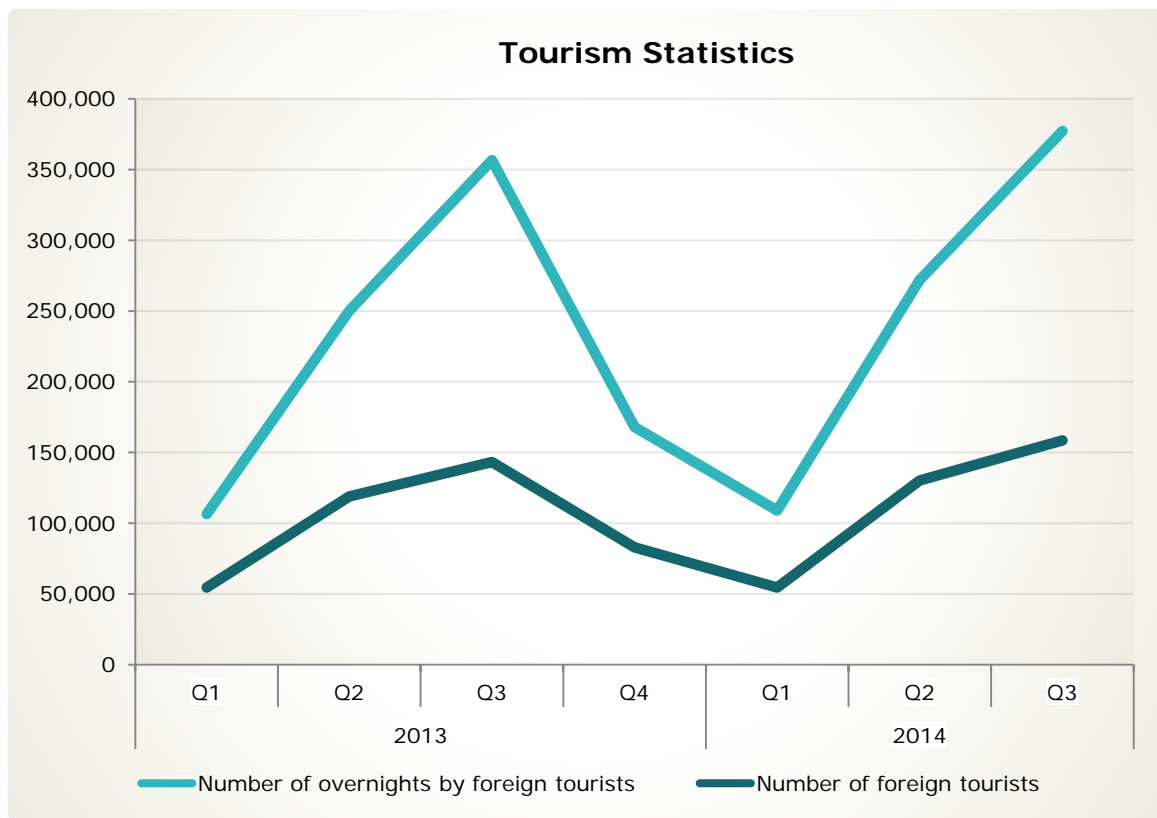


## 7.5 TOURSIM

### *Number of foreign tourist overnights inched by 0.6% y/y in Q3 2014*

Tourist overnights of foreigners increased by an annual 0.6% to 1,265,695 in the third quarter of 2014.

The number of foreign tourists also went up - by 10.7% y/y to 158,574 in Q3 2014. Most foreign tourists visiting Macedonia came from Turkey – 22,758, up by 14.7%, followed by tourists from Serbia – 16,652, up 19.2%, and Netherlands – 13,454, down 4.5%.



Source: State Statistical Office

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