

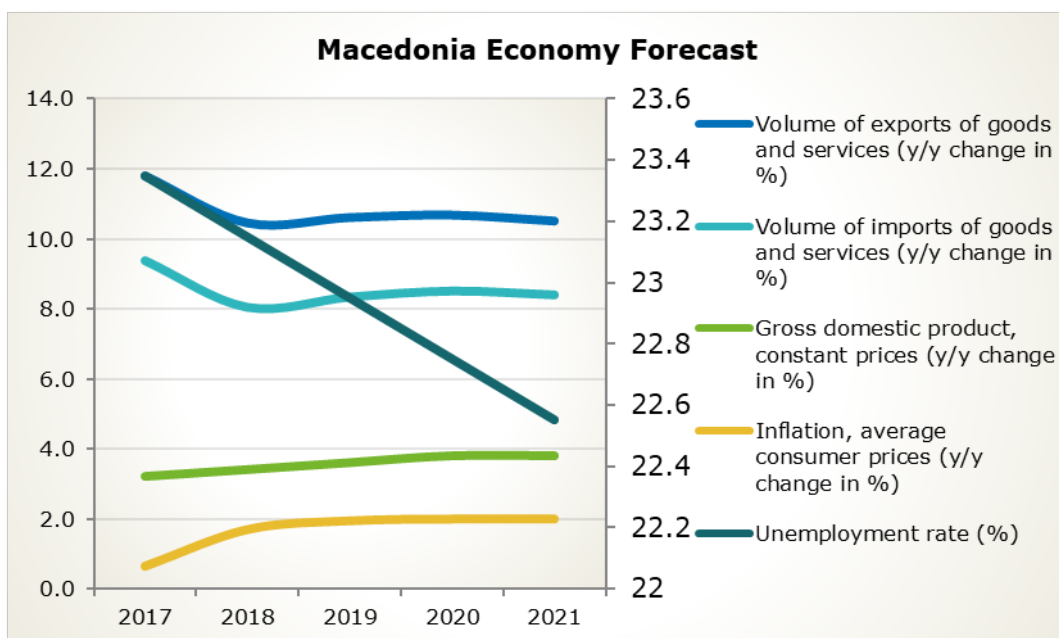
MACEDONIA ECONOMY REPORT Q1 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q1 2017	
GDP Growth	0.00% y/y
Industrial output	-1.5% y/y
Industrial sales	11.1% y/y
Wholesales	14.1% y/y
Retail sales	-2.5% y/y
Average annual inflation	0.5%
Unemployment rate	22.3%
Number of building permits	54.5% y/y
Money supply growth	4.2% y/y
Household loans	7.9% y/y
MBI10 blue-chip index	6.5% q/q
Gross external debt	EUR 7.781 bln
Current account deficit	EUR 123.8 mln
Net FDI inflow	EUR 105.7 mln
Foreign trade deficit	EUR 425.4 mln
Number of foreign tourist overnights	11.3% y/y

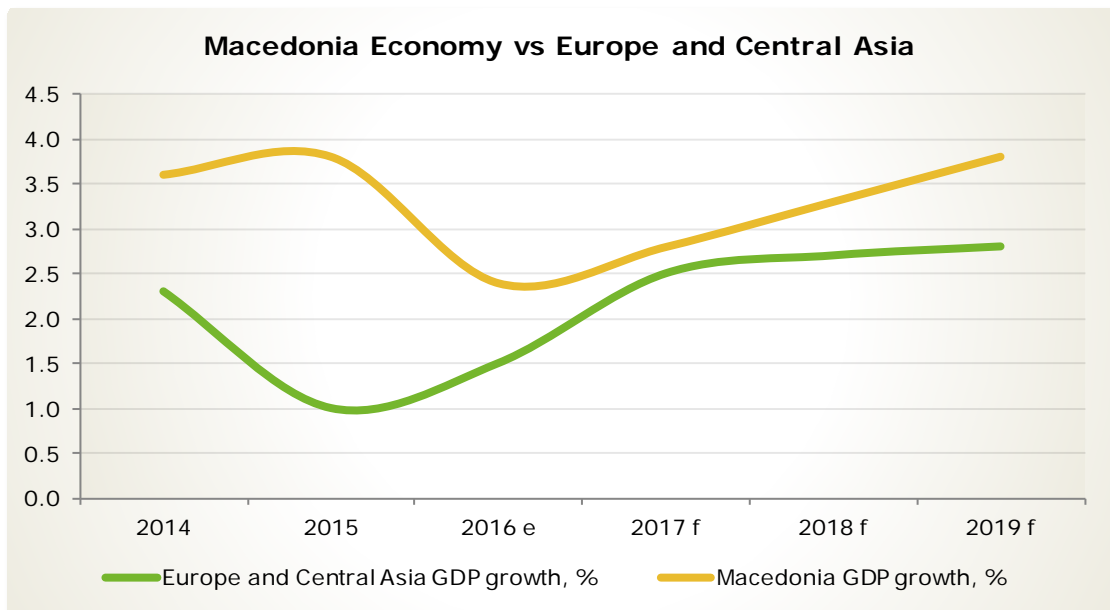


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2017

After experiencing a number of shocks in connection to the political crisis in the last two years, the economy of Macedonia has been gradually recovering. Country's GDP is expected to accelerate its pace of growth in 2017 to 3.2% from 2.4% in 2016, according to an

IMF forecast. The economy will benefit from stabilization of the political landscape, the historically low interest rates and inflation. In the medium term, IMF expects the economy of Macedonia to benefit from infrastructure and foreign direct investment, continued improvement in labor market and strengthening of credit growth. In 2018, GDP will rise by 3.4% and further speed up to 3.6% in 2019 and 3.8% in 2020.

The main downside risk to the GDP forecasts is a potential slowdown in external demand and renewed financial turmoil in Greece. Delay in fiscal consolidation is another major risk in the short-run, while population ageing will drag on the public finances in the long term.



Source: World Bank, Europe and Central Asia Economic Update, May 2017

The World Bank expects country's GDP growth to accelerate to 2.8% in 2017 and continue on up to 3.3% in 2018, assuming no political uncertainties, which would improve the confidence of both consumers and private investors.

The current account deficit is expected to average 2.6 percent of GDP in 2017-2019, driven by consumption and investment demand. The fiscal deficit is expected to remain at a sizable 3.2 percent of GDP in 2017 but then to decline gradually to 2.3 percent in 2019, according to the bank estimates.

Macedonia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change in %	3.6	3.8	2.4	2.8	3.3	3.8
Private Consumption	2.2	3.7	4.2	3.2	2.5	2.4
Government Consumption	3.0	2.1	1.1	1.6	2.2	2.4
Gross Fixed Capital Investment	5.7	2.1	-3.9	0.0	3.1	5.0
Exports, Goods and Services	16.5	6.7	11.5	7.7	6.8	6.4
Imports, Goods and Services	14.1	5.2	7.6	5.6	4.8	4.3
Real GDP growth, at constant factor prices (by sectors)	6.5	4.5	3.2	1.7	3.0	4.3
Agriculture	2.2	-0.7	2.8	1.5	1.2	1.0

Industry	11.8	7.8	7.6	8.0	5.5	5.0
Services	5.0	3.9	1.3	-1.3	1.9	4.4
Inflation (Consumer Price Index)	-0.3	-0.3	-0.2	0.6	1.4	1.8
Current Account Balance (% of GDP)	-0.6	-2.0	-3.1	-3.0	-2.7	-2.1
Net Foreign Direct Investment (% of GDP)	2.3	2.3	3.6	2.5	2.7	2.9

Source: World Bank, Europe and Central Asia Economic Update, May 2017

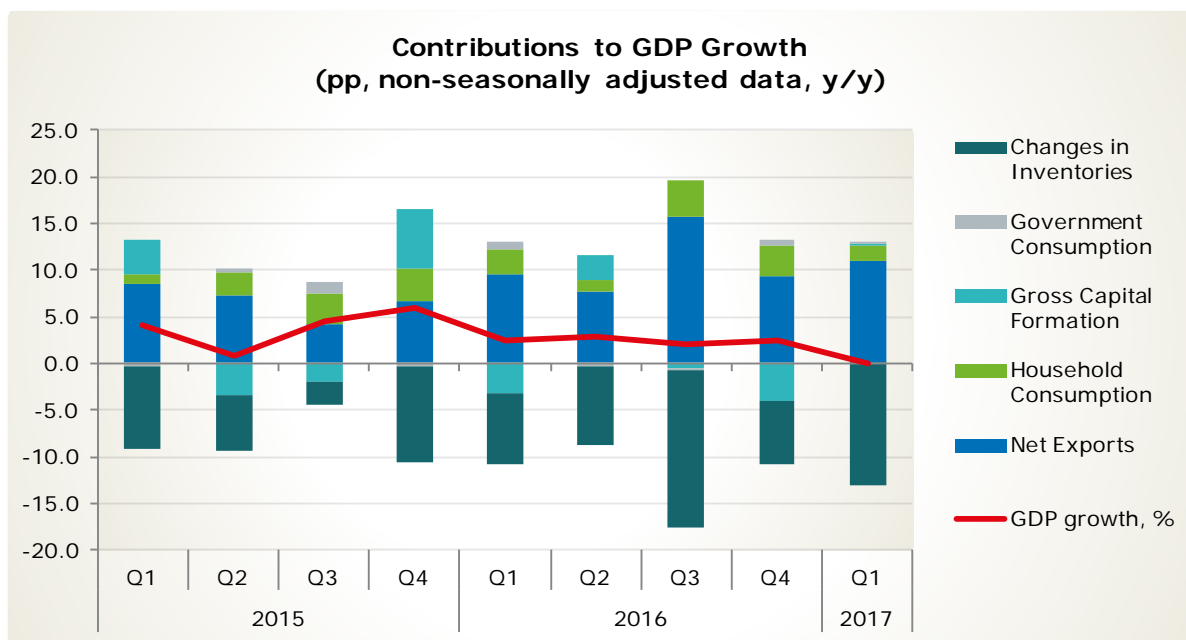
The political situation remains the primary downside risk to the economy, according to the World Bank. In a scenario under which the political crisis persists, it may further erode consumer and private investor confidence, but also postpone the necessary structural reforms. In addition, growing fiscal risks with a rapidly rising public debt could threaten stability and undermine growth prospects in the medium term.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP unchanged y/y in Q1 2017 on worsening foreign trade balance

During the first quarter, the country's GDP remained unchanged y/y at MKD 103.1 bln according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).

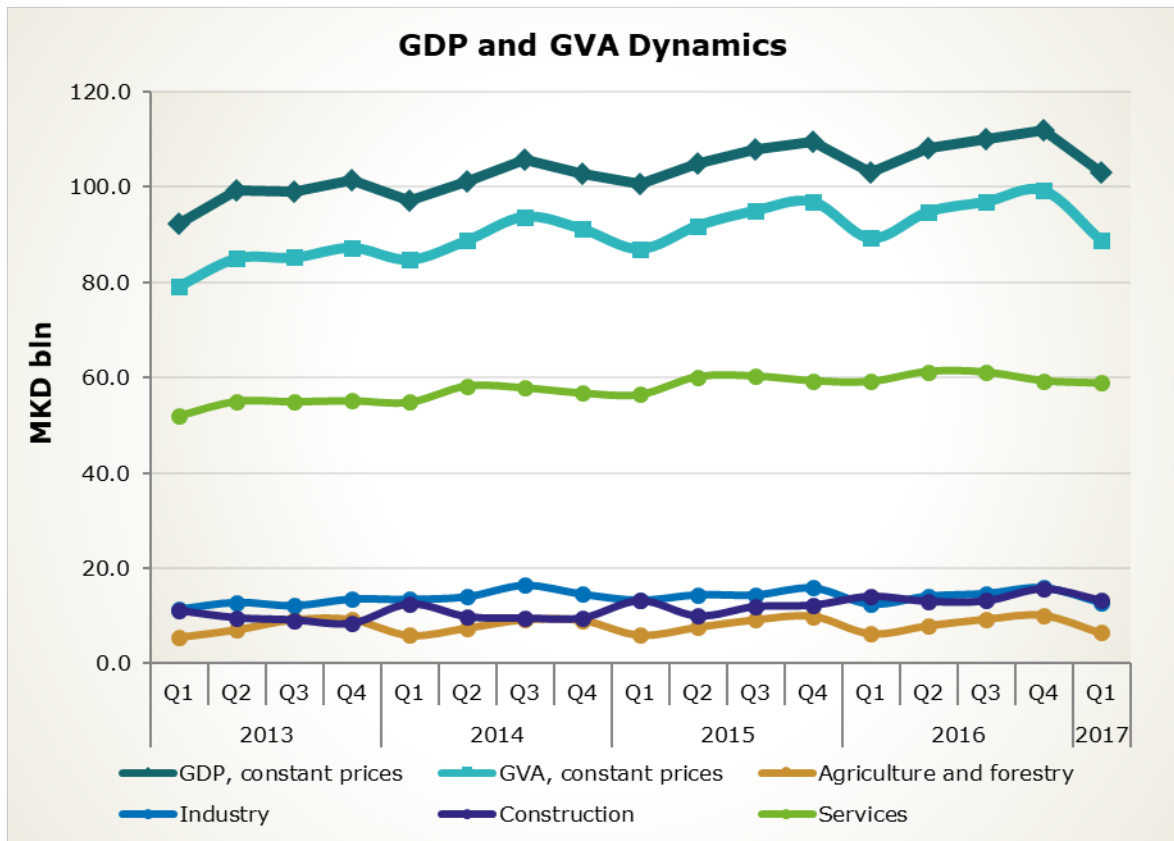


Source: SeeNews calculations; SSORM

Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

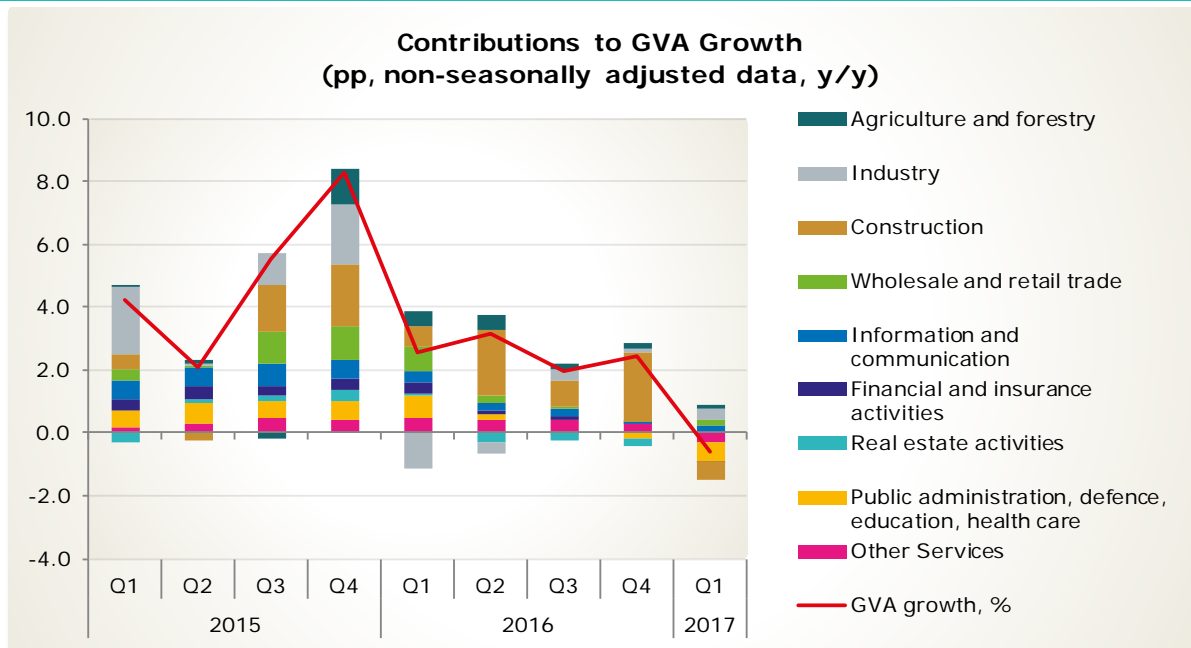
The main reason behind GDP stagnation was the worsening foreign trade balance, which expanded by 16% y/y to MKD 18.0 bln in Q1 2017.

Final consumption, which accounted for 87.6% of the GDP, increased in value terms by 2.3% y/y to MKD 90.4 bln in Q1 2017. Gross capital formation went up by 0.6% to MKD 31.0 bln, accounting for 30% of the GDP. Both exports and imports grew - by 9.0% and 10.7%, respectively.



Source: SSORM

The gross value added (GVA) generated by the national economy decreased in value by 0.6% y/y in Q1 2017 and totalled MKD 88.7 bln. The agricultural sector registered an increase of 1.1% and its share in the GVA stood at 7.2%. The industrial sector increased by 2.1%, and its share in the GVA structure was 14.3%. The construction industry plunged by 6.3% y/y, thus slicing a 14.9% share, a decrease in comparison to the 15.8% share in Q1 2016. The services sector recorded a 0.6% decrease, slicing a 66.3% share in the GVA.



Source: SeeNews Calculations; SSORM

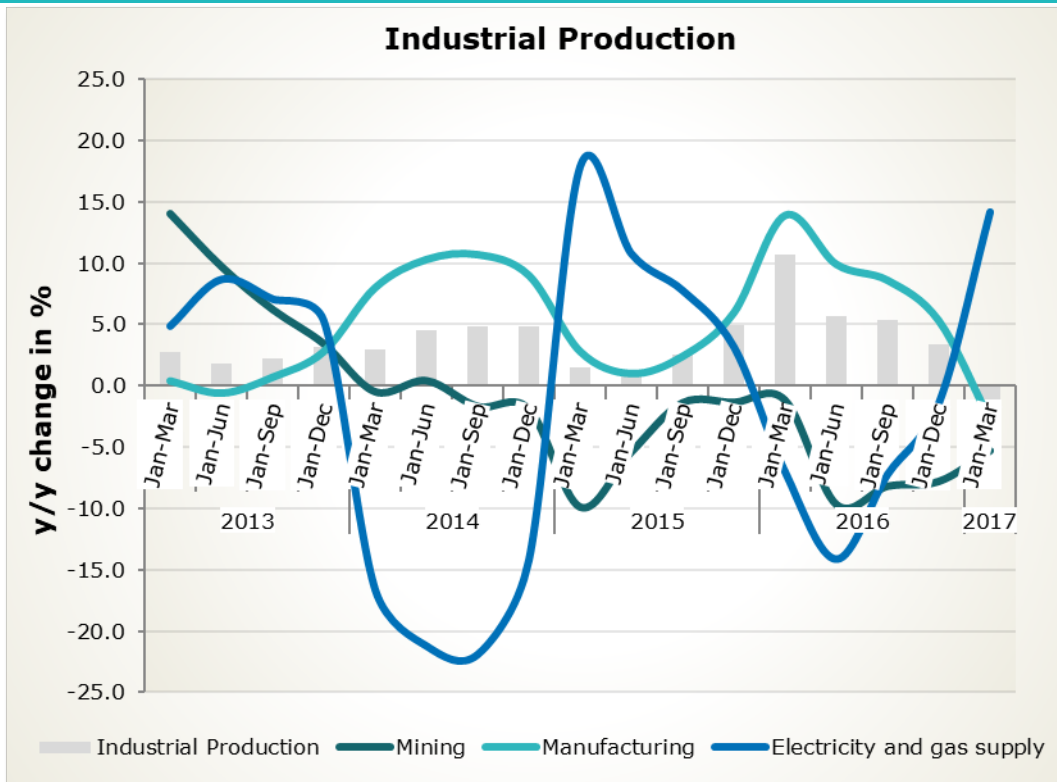
Note: Non-additive data due to direct chain linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output fell by 1.5% y/y in Q1 2017 on mining and manufacturing sectors contraction

Industrial output went down by 1.5% on the year in Q1 2017, according to SSORM. The output of the manufacturing sector inched down by 2.8% y/y. The production in the mining sector fell by 5.3% while production of the sector of electricity and gas supply expanded by 14.2% y/y.

The decrease in the manufacturing sector is mostly due to decreased production in: manufacture of wearing apparel – down by 20.1% y/y, manufacture of motor vehicles, trailers and semi-trailers - 7.4% y/y, manufacture of electrical equipment - 6.6%, and manufacture of food products - 4.8%.

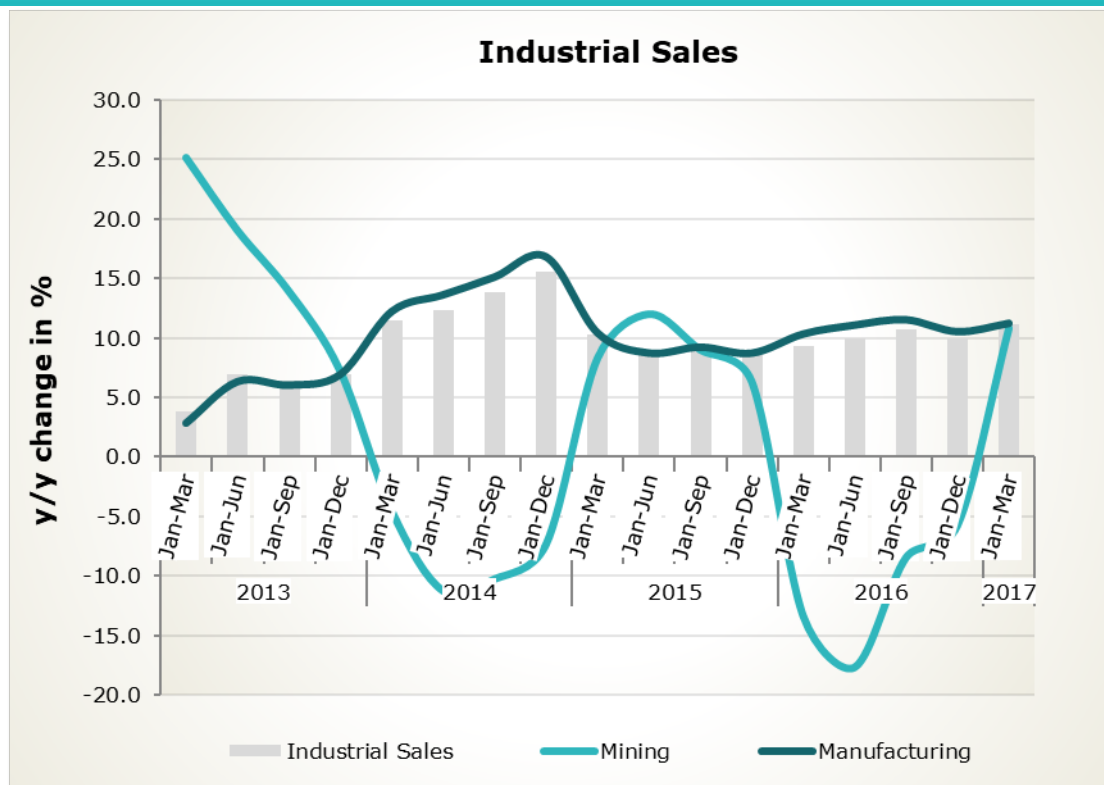


Source: SSORM

2.3. INDUSTRIAL SALES

Industrial sales went up by 11% y/y in Q1 2017

Industrial sales rose by 11% y/y in Q1 2017, according to SSORM data. Sales in the manufacturing sector grew by 11.2%, while sales in the mining sector went up by 10.8% y/y.



Source: SSORM

2.4. WHOLESALE/RETAIL

Retail sales shrank by 2.5% y/y in March 2017

Retail trade, except motor vehicles and motorcycles, decreased by real 2.5% y/y in March 2017, according to SSORM.

Retail sales of non-food products (except fuel) plunged by 12.4% y/y while retail trade of automotive fuel went down by 0.5% y/y. Retail sale of food, beverages and tobacco increased by 4.3% y/y.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by nominal 14.1% y/y in March 2017.



Source: SSORM

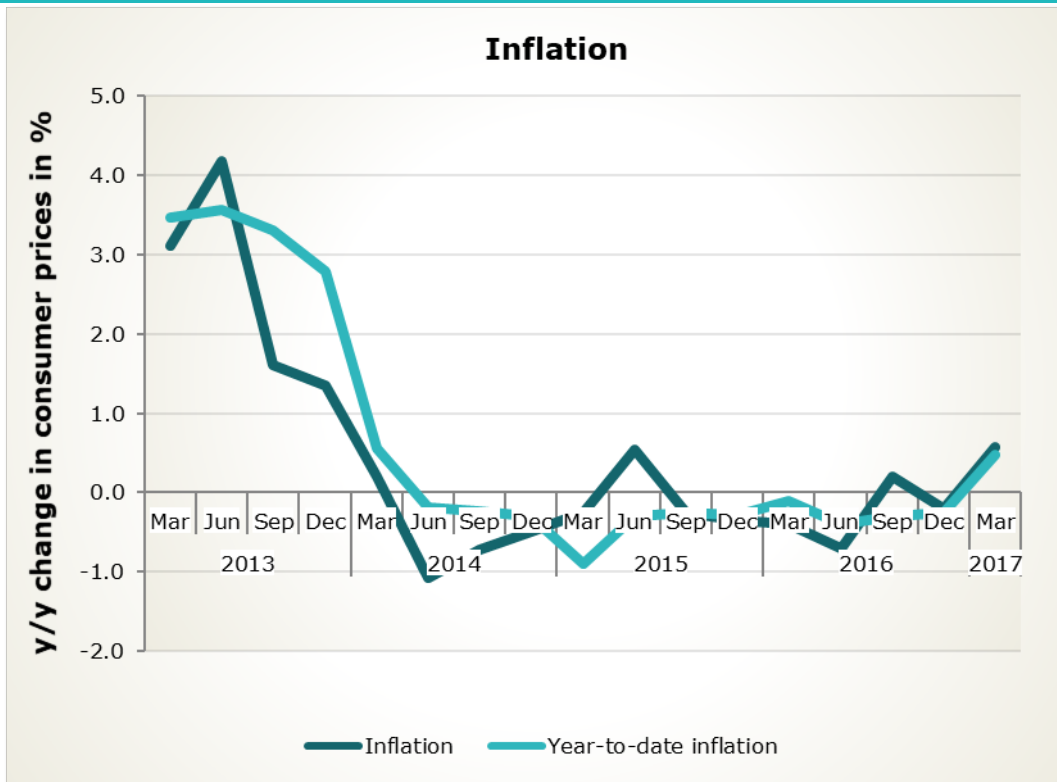
2.5. INFLATION

Macedonia registered annual average inflation for the first time since Q1 2014

Macedonia registered average annual inflation of 0.5% in Q1 2017, which is the first general price increase in the country since Q1 2014, according to SSORM.

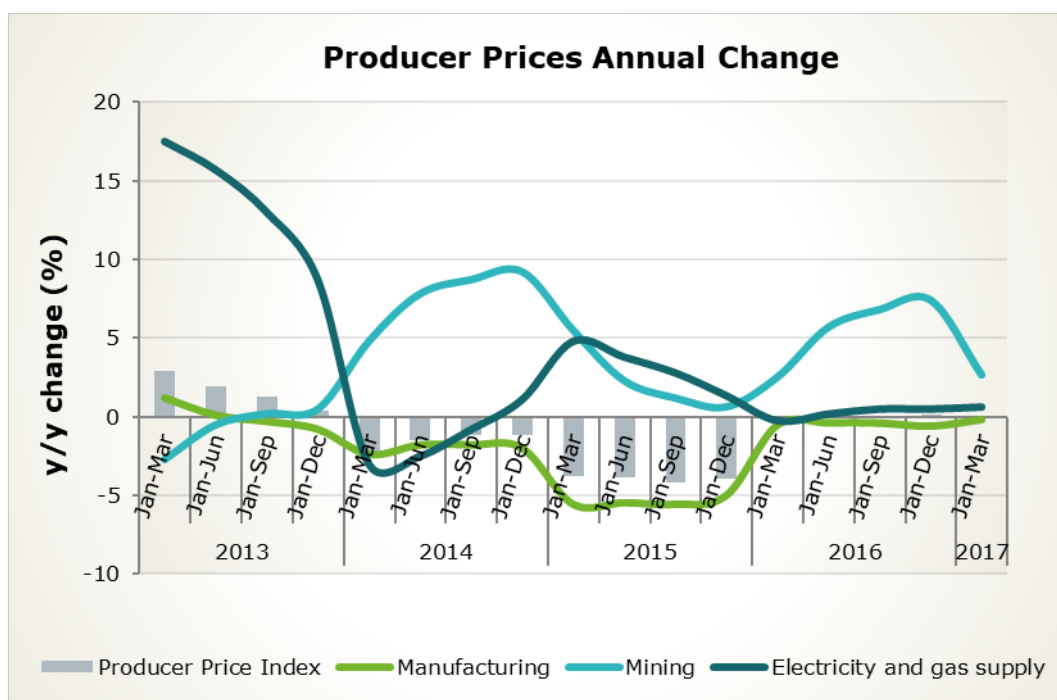
The group of alcoholic beverages and tobacco saw average prices to soar by 5.2% y/y while prices at the group of clothing and footwear went up by 2.4% y/y. The prices of the groups of transport and communication went up by 6.1% and 5.4% on average, respectively.

The food and non-alcoholic beverages group still exhibits deflation on an annual basis, of 1.8% in Q1 2017.



Source: SSORM

Producer prices increased by 0.1% in Q1 2017 with prices of the mining, and electricity and gas supply industries going up by 2.7%, and 0.6%, respectively, while prices in the manufacturing industry fell by 0.2%.



Source: SSORM

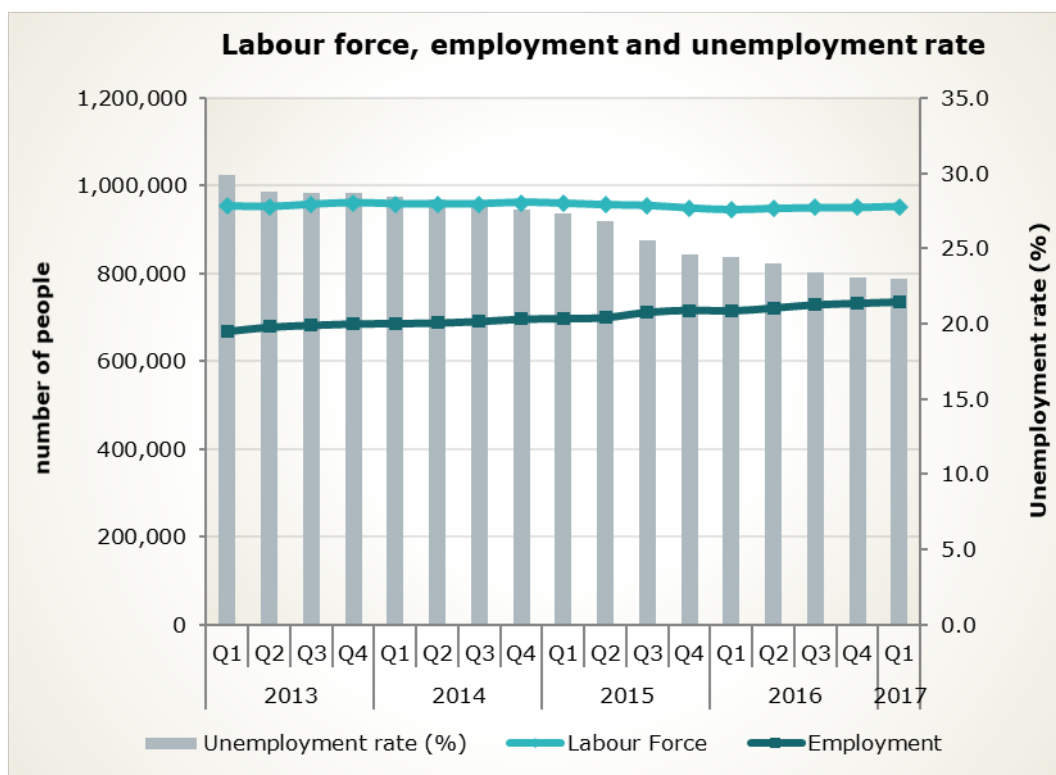
3. LABOUR MARKET

Unemployment rate down to 23.0%, wages grew 2.2% y/y in Q1 2017

Unemployment in Macedonia narrowed to 23.0% of the total labour force in Q1 2017 from 24.5% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 734,043 in Q1 2017, up by 2.7% y/y.

Youth (population aged 15-24) unemployment rate went down by 5.8 pp y/y but still remains high at 44.4%.



Source: State Statistical Office

According to data of SSORM, the average monthly net salary in Q1 2017 went up by 2.2% in annual terms to MKD 22,514.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits more than doubled in Q1 2017

The number of building permits issued in Macedonia in Q1 2017 increased by 54.5% and totalled 723, according to SSORM. The buildings construction works value amounted to MKD 8.968 bln, up from MKD 8.797 bln a year earlier.

The number of planned dwellings grew to 2,137 from 1,694. The total built-up area of the housing units, covered by the permits, also increased y/y, to 195,484 sq m in Q1 2017 from 134,919 sq m in Q1 2016.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR decreased to MKD 61.636 in Q1 2017 from MKD 61.696 in Q1 2016, according to National Bank of the Republic of Macedonia (NBRM) data.

MKD Average Exchange Rate			
Foreign Currency	Q1 2017	Q4 2016	Q1 2016
EUR	61.560	61.495	61.677
USD	57.830	57.007	55.979
GBP	71.556	70.840	80.236
CHF	57.559	56.963	56.300

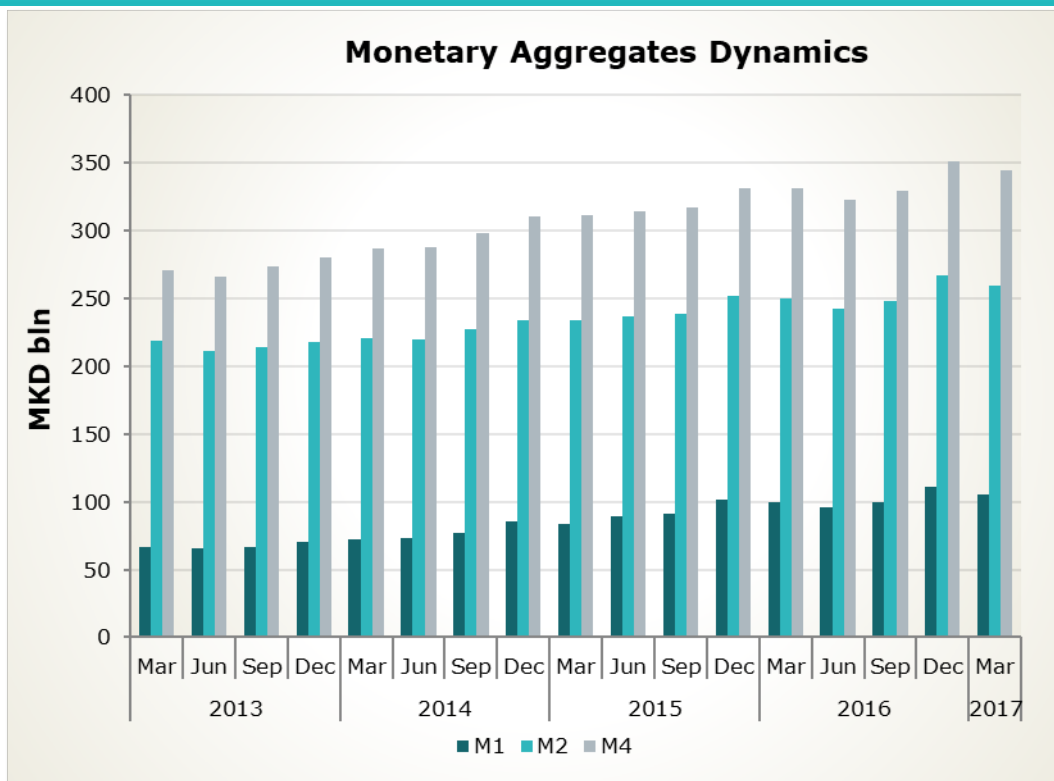
5.2. MONETARY AGGREGATES

Money supply growth was 4.2% y/y at end-March 2017

Broad money (monetary aggregate M4) increased by 4.2% y/y and reached MKD 344.7 bln at the end of March 2017, according to data provided by NBRM.

The M2 money supply also grew, by 3.9% y/y, to MKD 259.3 bln.

Money aggregate M1, or narrow money, went up by 5.5% to MKD 104.9 bln.

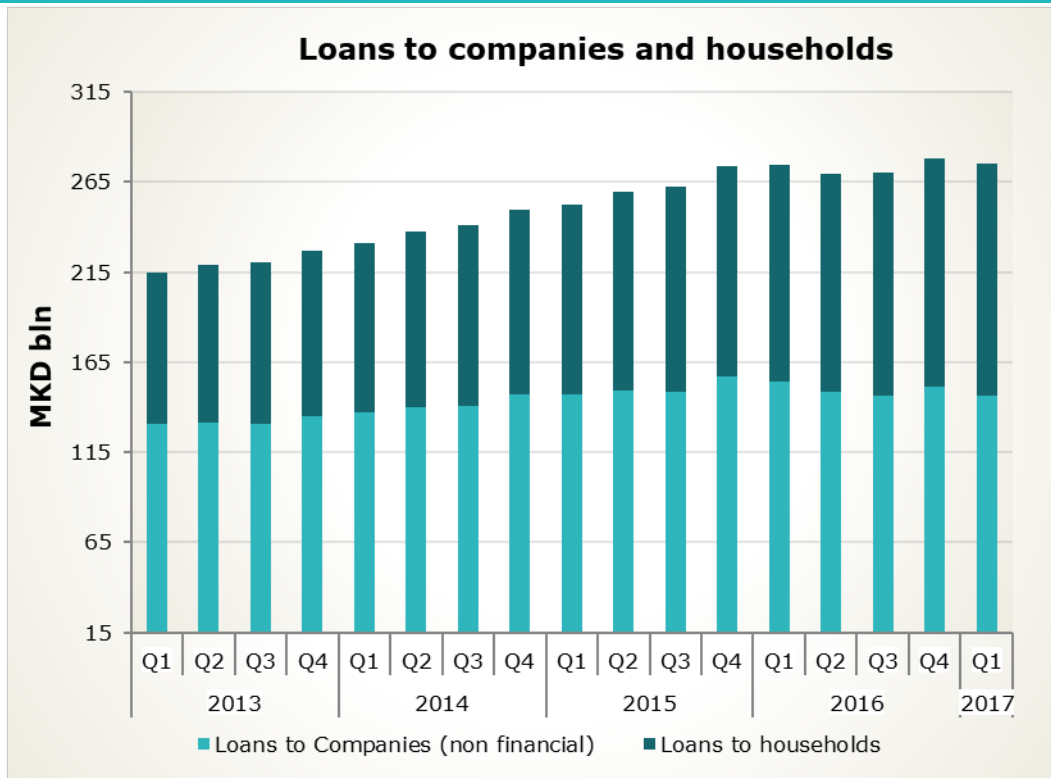


Source: NBRM

5.3. BANKING AND INSURANCE

Household loans increased by 7.9% y/y in Q1 2017

Loans to the non-government sector totalled MKD 275.5 bln in Q1 2017, up by 0.4% y/y, according to NBRM. Household loans jumped by 7.9% to MKD 129.3 bln. Loans to non-financial corporations went down by 5.4% to MKD 146.1 bln.



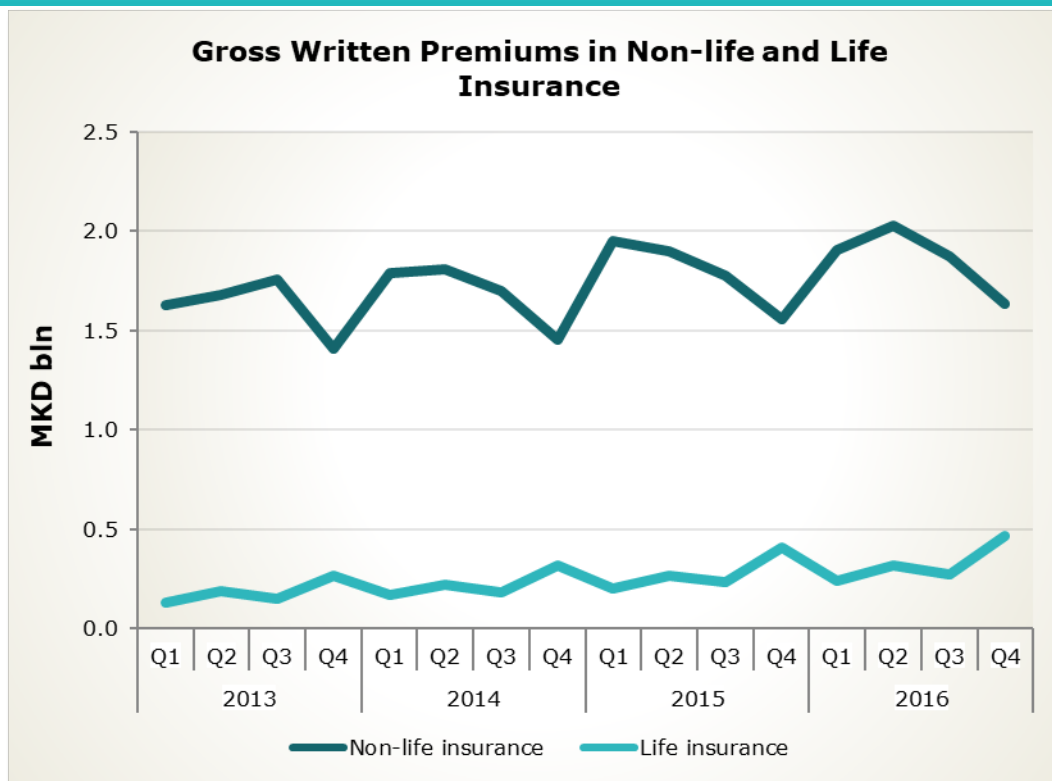
Source: NBRM

Insurance premium income went up by 6.9% y/y in Q4 2016¹

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.098 bln, up by 6.9% y/y, in Q4 2016, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 1.631 bln, or by 5.0% more than in the corresponding quarter of the previous year, while the life insurance market grew by 14.1% y/y to MKD 467 mln.

¹ Data for Q1 2017 for the insurance market was not available at the time of preparation of this report.



Source: ASO

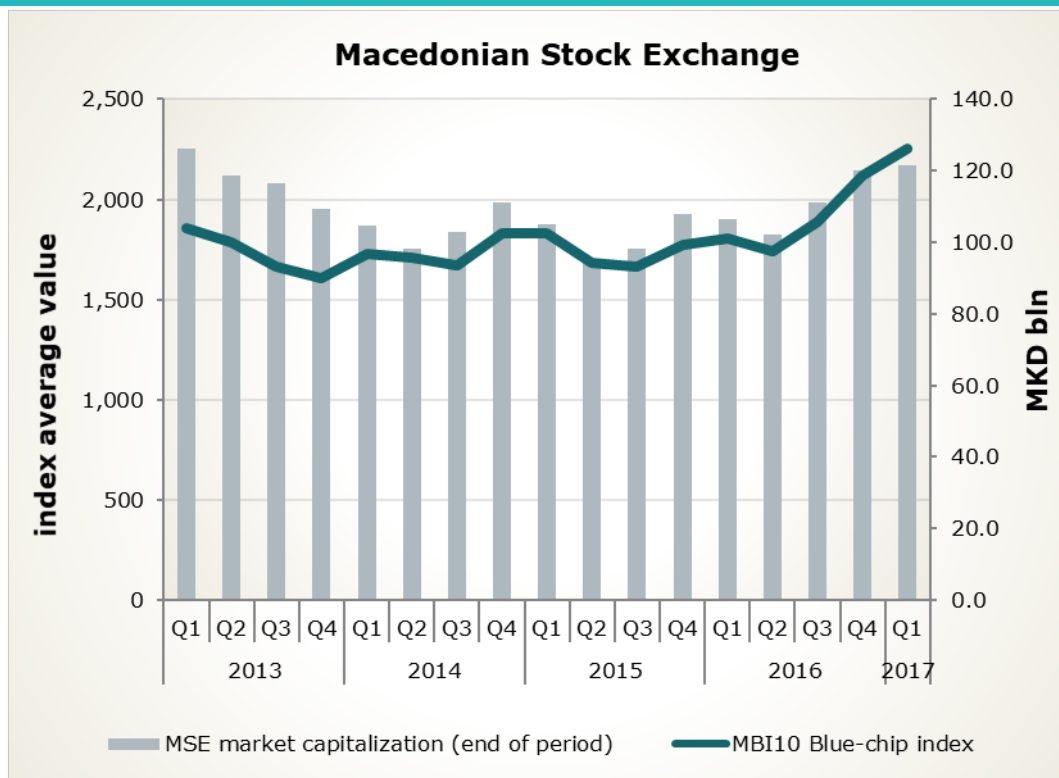
6. CAPITAL MARKETS

Blue-chip MBI10 increased by 6.5% q/q in Q1 2017

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 6.5% q/q to 2,253 points in March 2017.

The total turnover on the MSE reached MKD 1.036 bln in Q1 2017 versus MKD 1.021 bln in the previous quarter.

The market capitalisation of MSE grew to MKD 121.5 bln from MKD 120.1 bln as of December 2016.



Source: MSE

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up y/y to EUR 7.781 bln in Q1 2017

The gross external debt totalled EUR 7.781 bln in Q1 2017, which was 75.7% of the projected full-year GDP. The debt increased by 14.2% or EUR 964.6 mln, compared to Q1 2016. In comparison to Q4 2016, the gross external debt increased by EUR 527.7 mln.

As of Q1 2017, long-term liabilities amounted to EUR 5.731 bln, or 73.7% of the total debt, and short-term liabilities totalled EUR 2.050 bln, equal to 26.3% of the total debt.



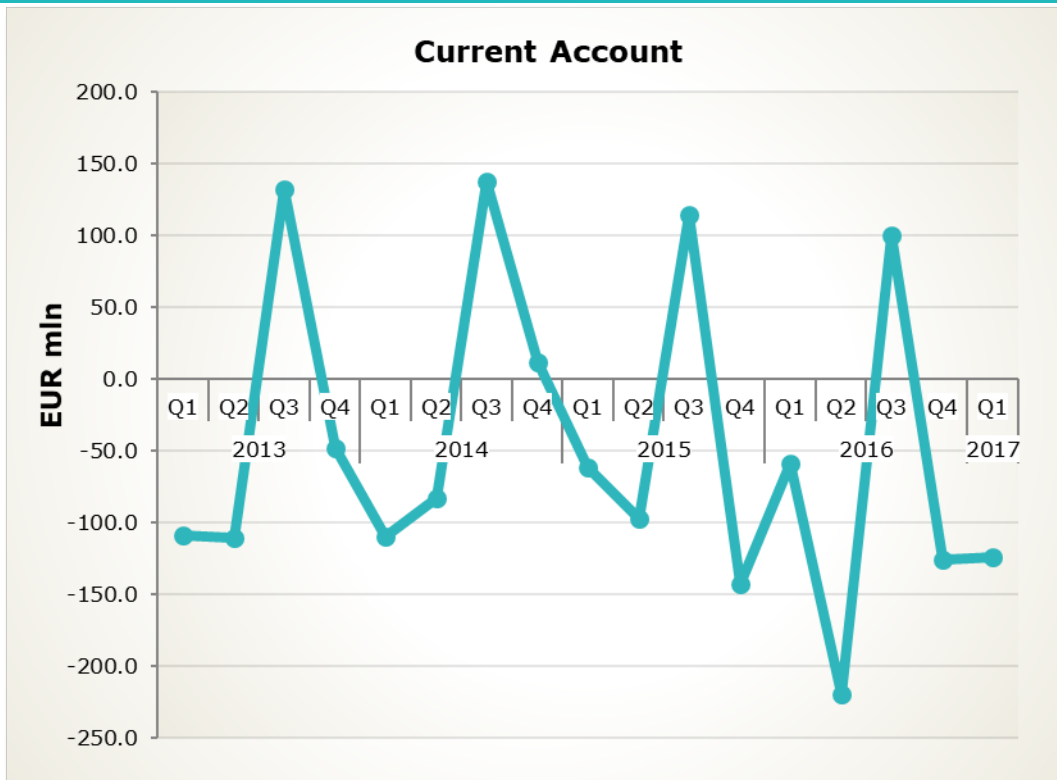
Source: NBRM

7.2. BALANCE OF PAYMENTS

Current account deficit more than doubled y/y to EUR 123.8 mln in Q1 2017

The current account deficit increased to EUR 123.8 mln in Q1 2017 from EUR 58.7 mln in Q1 2016, according to central bank statistics data.

Secondary income fell by 5.4% y/y to EUR 323.6 mln in Q1 2017.



Source: NBRM

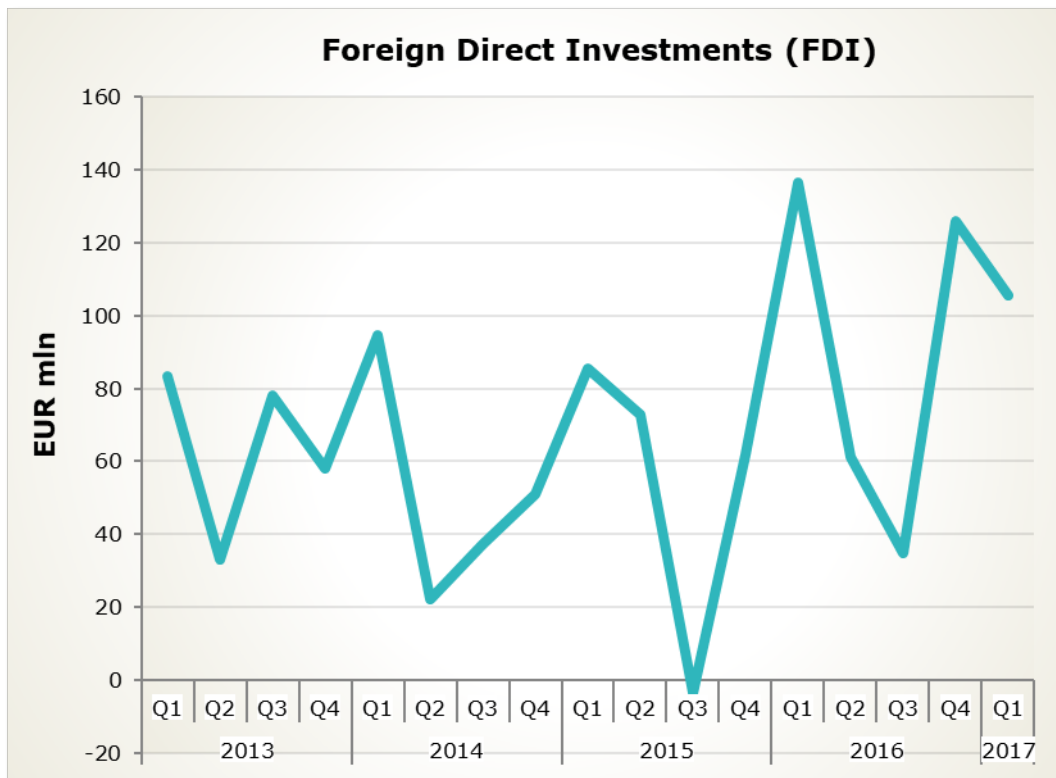
7.3. FDI

Net FDI inflow at EUR 105.7 mln in Q1 2017, down 22.6% y/y

The net FDI inflow in Macedonia reached EUR 105.7 mln in the first three months of 2017, down 22% from EUR 136.5 mln a year earlier, according to NBRM.

For Q1 2017 the leaders in terms of FDI in Macedonia were Bermuda, Austria, Luxemburg, and Germany with investments of EUR 12.347 mln, EUR 9.865 mln, EUR 6.134 mln and EUR 3.196 mln, respectively.

A breakdown by industries showed that wholesale and retail sector attracted the largest share of the total investments, or 11%, followed by the agriculture, forestry and fishing sector with 3.4% of the total FDIs in the quarter.



Source: NBRM

7.4. FOREIGN TRADE

Foreign trade deficit grew by 14% y/y in Q1 2017

The trade deficit stood at EUR 425.4 mln in Q1 2017, compared to EUR 373.2 mln a year earlier, according to NBRM.

Exports increased by 14.7% y/y to EUR 1.128 bln, while import went up by 14.5% y/y to EUR 1.554 bln.

Macedonia's most exported goods in the first quarter of 2017 were machinery and transport equipment, which accounted for 29.5% of the total, followed by chemical products with 25.3% share and miscellaneous manufactured articles with 15.8% share.

In terms of imports, materials imports had the largest share, of 35.4%, followed by machinery and transport equipment with 21.6% share and chemical products which accounted for 11.7% of the total imports.



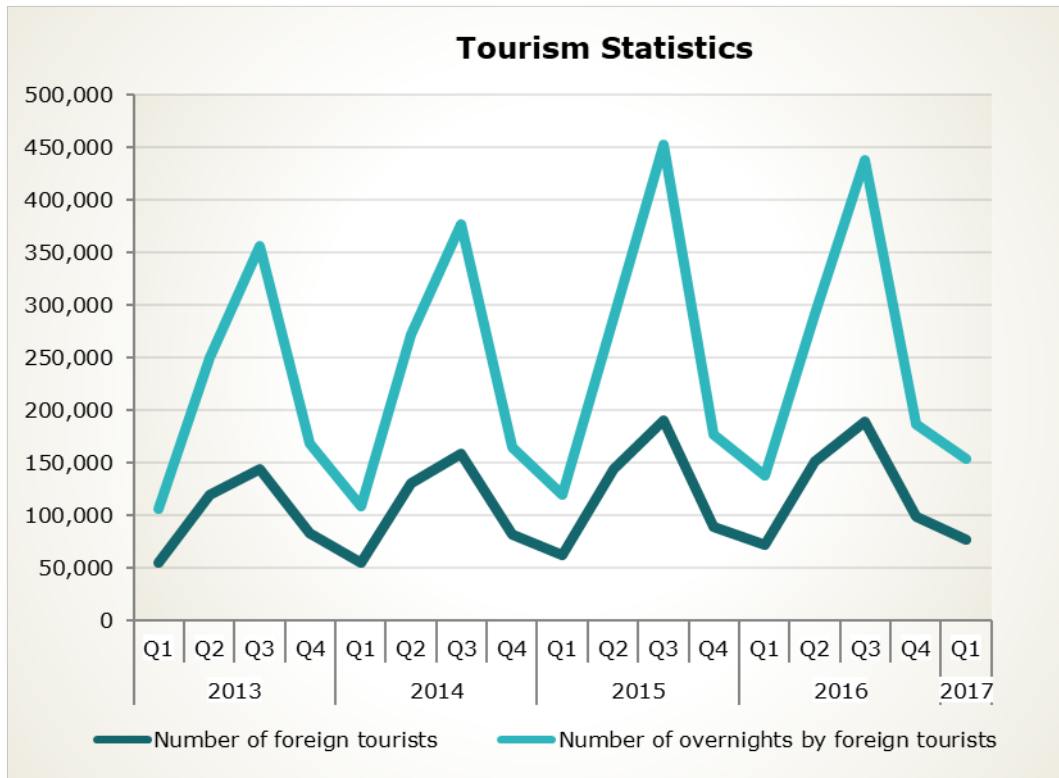
Source: NBRM

7.5. TOURSIM

Number of foreign tourist overnights grew by 11.3% y/y in Q1 2017

Tourist overnights of foreigners increased by an annual 11.3% to 152,991 in Q1 2017, according to SSORM. Foreign tourist overnights accounted for 59% of the total tourist overnights in the country, up from 56% in the year-ago quarter.

The number of foreign citizens who visited the country went up, by 6.9%, to 76,941.



Source: SSORM

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