

## **MACEDONIA ECONOMY REPORT**

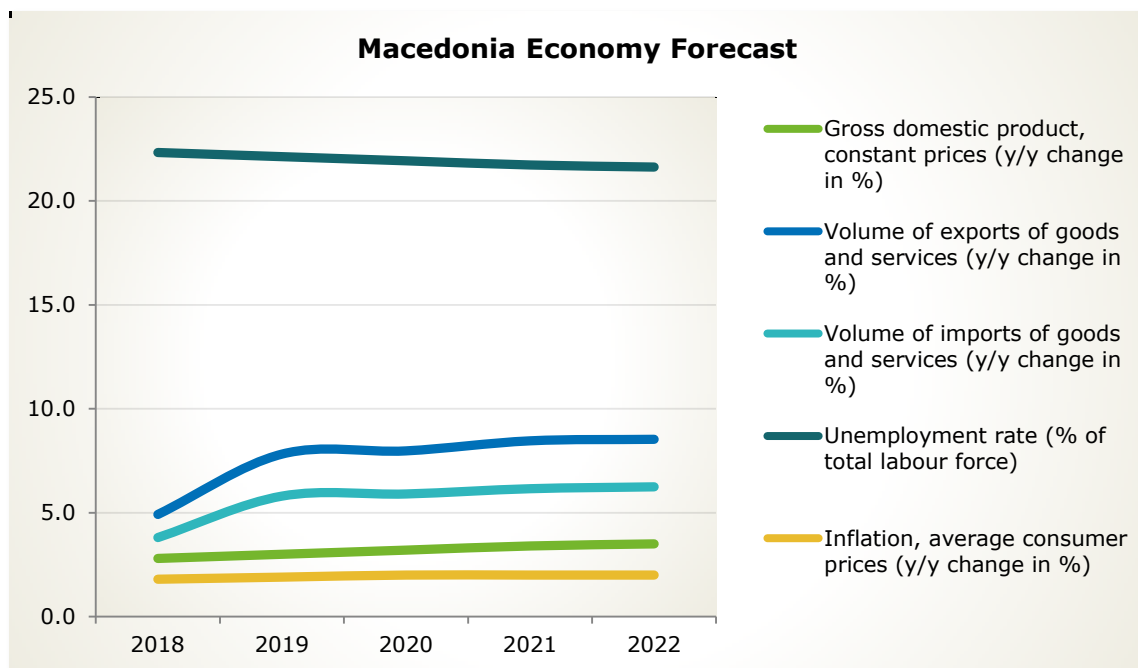
Q1 2018

## CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST .....	3
2. REAL SECTOR .....	4
2.1. GROSS DOMESTIC PRODUCT (GDP) .....	4
2.2. INDUSTRIAL OUTPUT .....	7
2.3. INDUSTRIAL SALES.....	7
2.4. WHOLESALE/RETAIL .....	8
2.5. INFLATION.....	9
3. LABOUR MARKET.....	11
4. CONSTRUCTION AND REAL ESTATE .....	12
5. MONEY SUPPLY AND BANKING SYSTEM.....	12
5.1. MKD EXCHANGE RATE.....	12
5.2. MONETARY AGGREGATES .....	12
5.3. BANKING AND INSURANCE.....	13
6. CAPITAL MARKETS .....	15
7. EXTERNAL SECTOR .....	16
7.1. FOREIGN DEBT .....	16
7.2. BALANCE OF PAYMENTS .....	17
7.3. FDI.....	18
7.4. FOREIGN TRADE .....	19
7.5. TOURISM .....	20
8. MAJOR DEVELOPMENTS .....	21

## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
<b>GDP Growth</b>	0.1% y/y
<b>Industrial output</b>	5.2% y/y
<b>Industrial sales</b>	12.1% y/y
<b>Wholesale</b>	-0.5% y/y
<b>Retail sales</b>	3.1% y/y
<b>Average annual inflation</b>	1.5%
<b>Unemployment rate</b>	21.6%
<b>Number of building permits</b>	-48.8% y/y
<b>Money supply growth</b>	7.6% y/y
<b>Household loans</b>	9.8% y/y
<b>MBI10 blue-chip index</b>	7.3% q/q
<b>Gross external debt</b>	EUR 8.298 bln
<b>Current account deficit</b>	EUR 157.9 mln
<b>Net FDI inflow</b>	EUR 235.0 mln
<b>Foreign trade deficit</b>	EUR 481.9 mln
<b>Number of foreign tourist overnights</b>	21.5% y/y

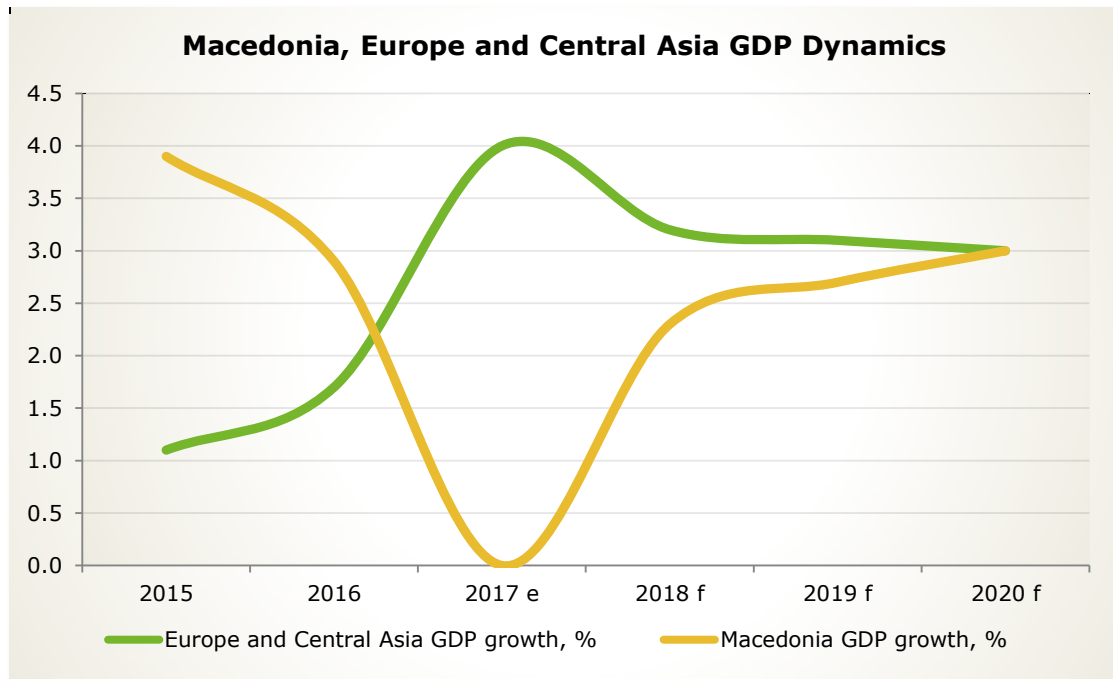


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

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. IMF expects the

economy to expand by 2.8% y/y in 2018, after GDP growth stalled in 2017. The economy will benefit from the stabilisation of the political landscape. In the medium term, IMF expects the economy of Macedonia to benefit from infrastructure and foreign direct investment, continued improvement in labour market and strengthening of credit growth. In 2019, GDP will rise by 3.0% and further speed up to 3.2% in 2020 and 3.5% in 2022.

The main downside risks to the GDP forecasts are a potential slowdown in external demand and a delay in fiscal consolidation in the short-run.



Source: World Bank, Europe and Central Asia Economic Update, June 2018

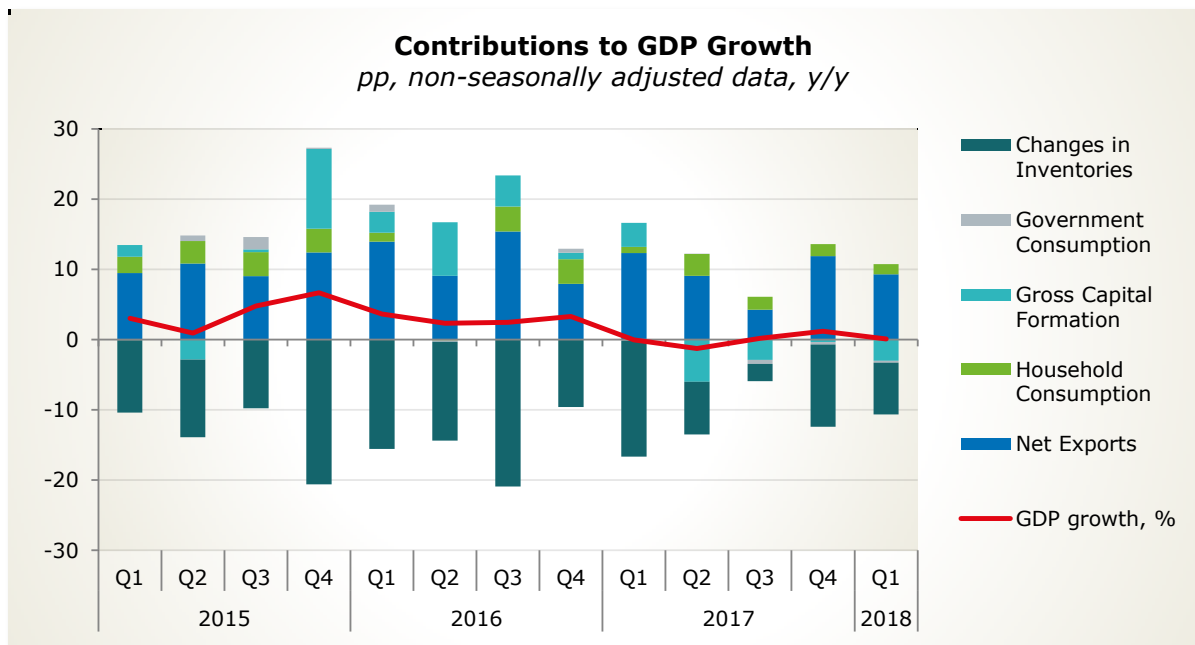
According to the World Bank estimates from June 2018, GDP growth is likely to come in at 2.3% in 2018 after the stalemate in 2017. This will be lower than the projected growth for Europe and Central Asia, of 3.2% in 2018.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP up 0.1% y/y in Q1 2018

During the first quarter of 2018, the country's GDP increased by 0.1% y/y to MKD 103.3 bln according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).

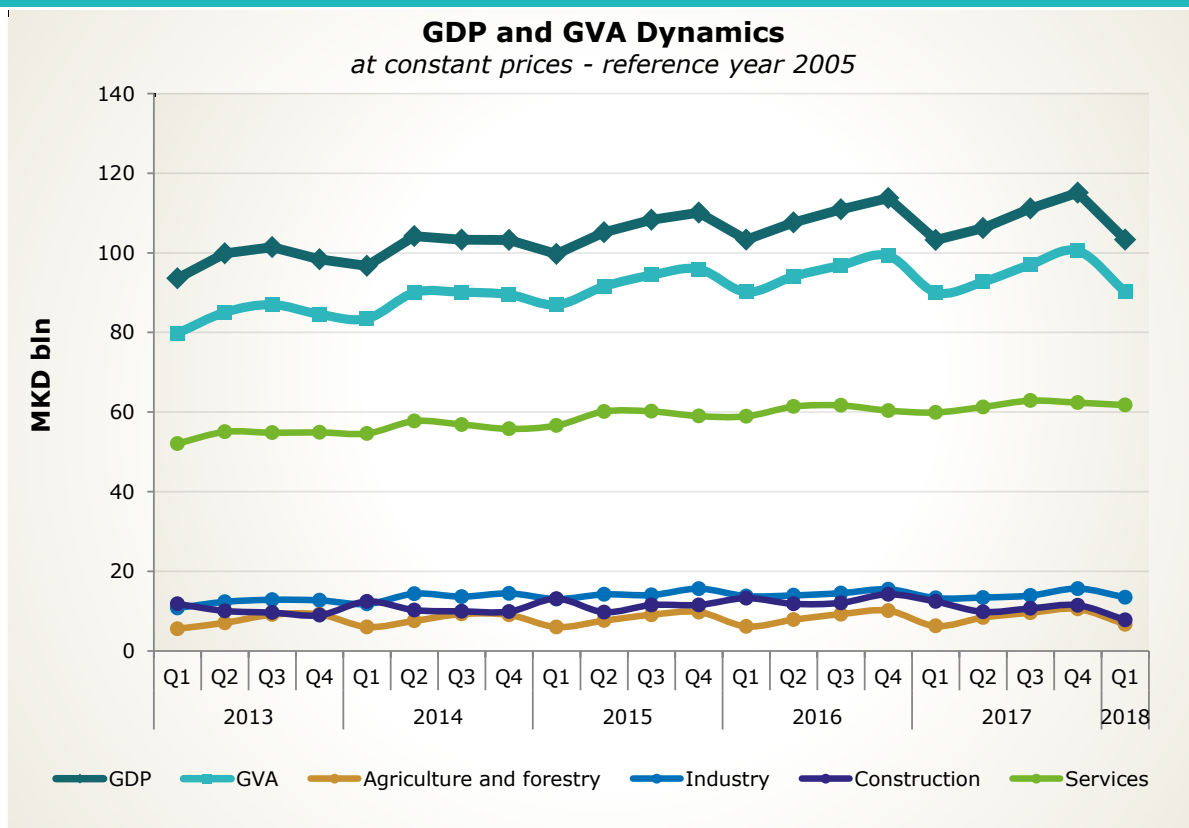


Source: SeeNews calculations; SSORM

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.

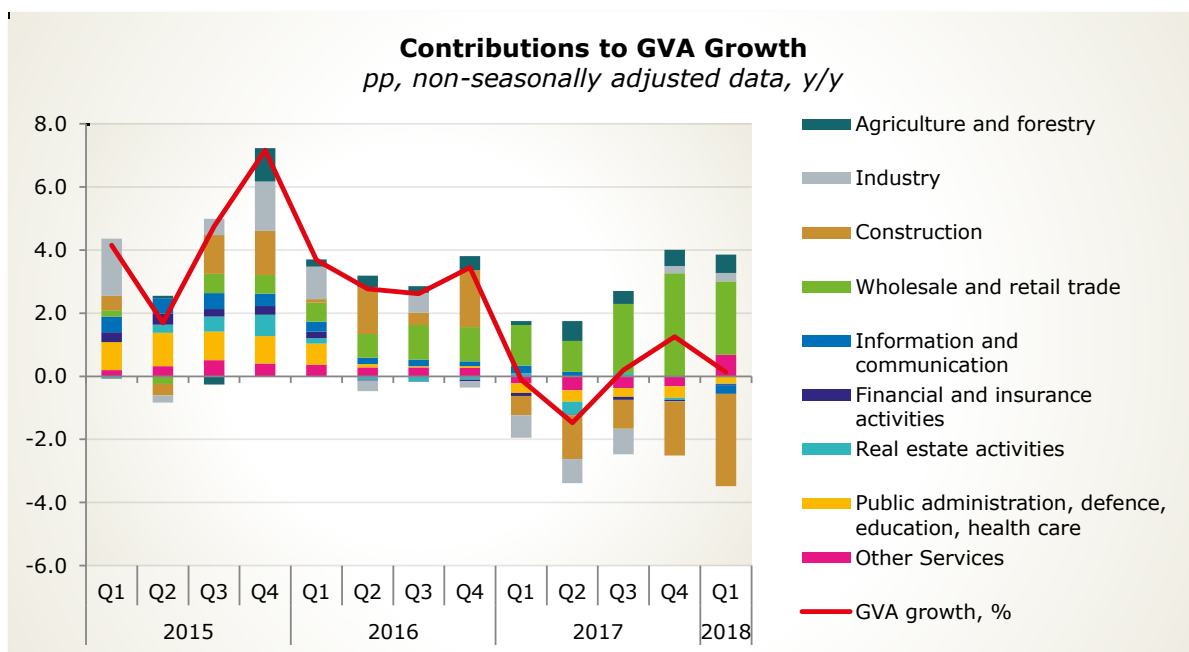
Final consumption, which accounted for 87.6% of the GDP, increased in value terms by 1.5% y/y to MKD 90.6 bln in Q1 2018, while gross capital formation went down by 9.0%. Both exports and imports grew - by 10.6% and 5.1%, respectively.

The largest contributors to the overall GDP expansion in Q1 2018 were household consumption and net exports, adding 1.5 pp and 2.2 pp, respectively to GDP growth in Q1 2018. In the same time gross capital formation subtracted 3.0 pp from the GDP growth.



Source: SSORM

The gross value added (GVA) generated by the national economy increased in value by 0.1% y/y in Q1 2018 and totalled MKD 97.2 bln. The agricultural sector registered an increase of 6.6%. The industrial sector GVA went up by 1.4% while the construction industry plunged by 37.2% y/y. The services sector recorded a 3.1% rise, slicing a 68.5% share in the GVA.



Source: SeeNews Calculations; SSORM

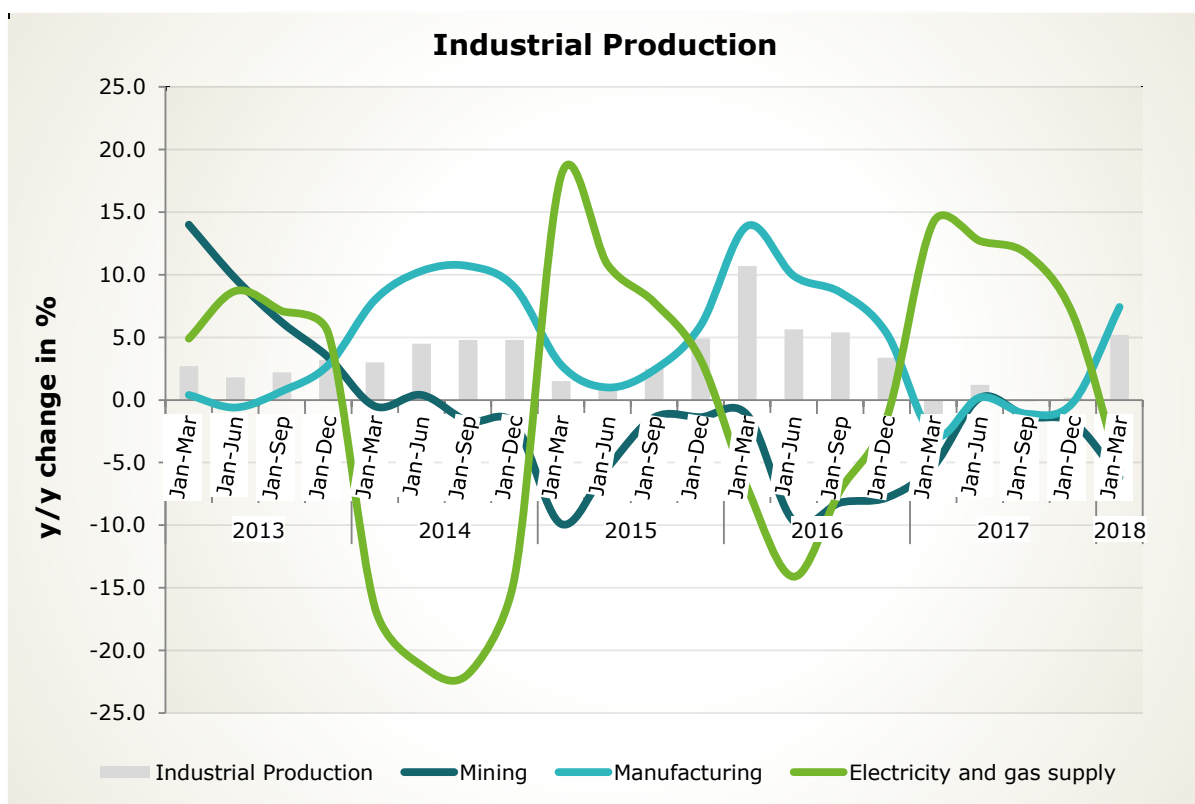
Note: Non-additive data due to direct chain linking of GDP and its components.

## 2.2. INDUSTRIAL OUTPUT

### Industrial output advanced by 5.2% y/y in January – March 2018

Industrial output went up by 5.2% on the year in Q1 2018, according to SSORM. The output of the manufacturing sector rose by 7.4% y/y. Production in the mining sector decreased by 6.2%, while the output of electricity and gas supply shrank by 5.6% y/y.

The best performance in the manufacturing sector was reported in the segments manufacture of electrical equipment and manufacture of motor vehicles, trailers and semi-trailers which surged by 39.3% y/y and 33.9% y/y, respectively.

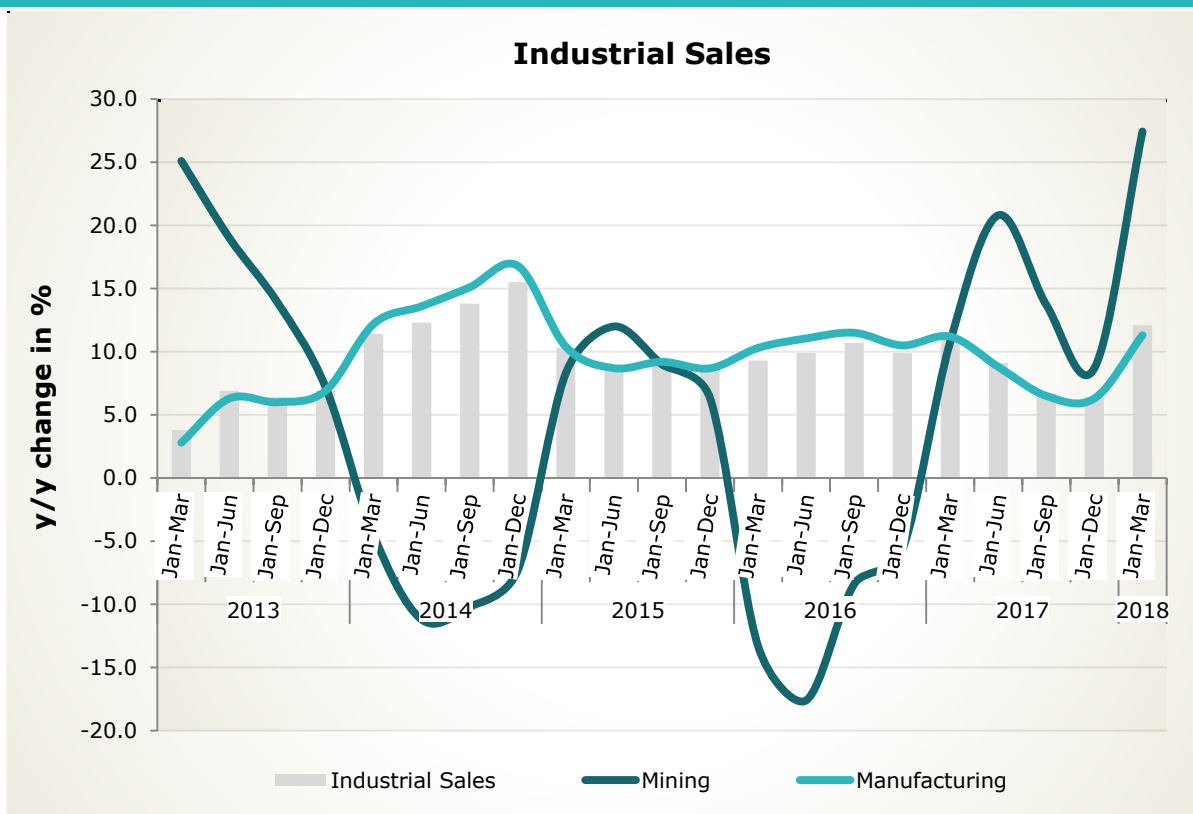


Source: SSORM

## 2.3. INDUSTRIAL SALES

### Industrial sales went up by 12.1% y/y in January - March 2018

Industrial sales rose by 12.1% y/y in the first three months of 2018, according to SSORM data. Sales in the manufacturing sector grew by 11.3%, while sales in the mining sector went up by 27.4% y/y.



Source: SSORM

## 2.4. WHOLESALE/RETAIL

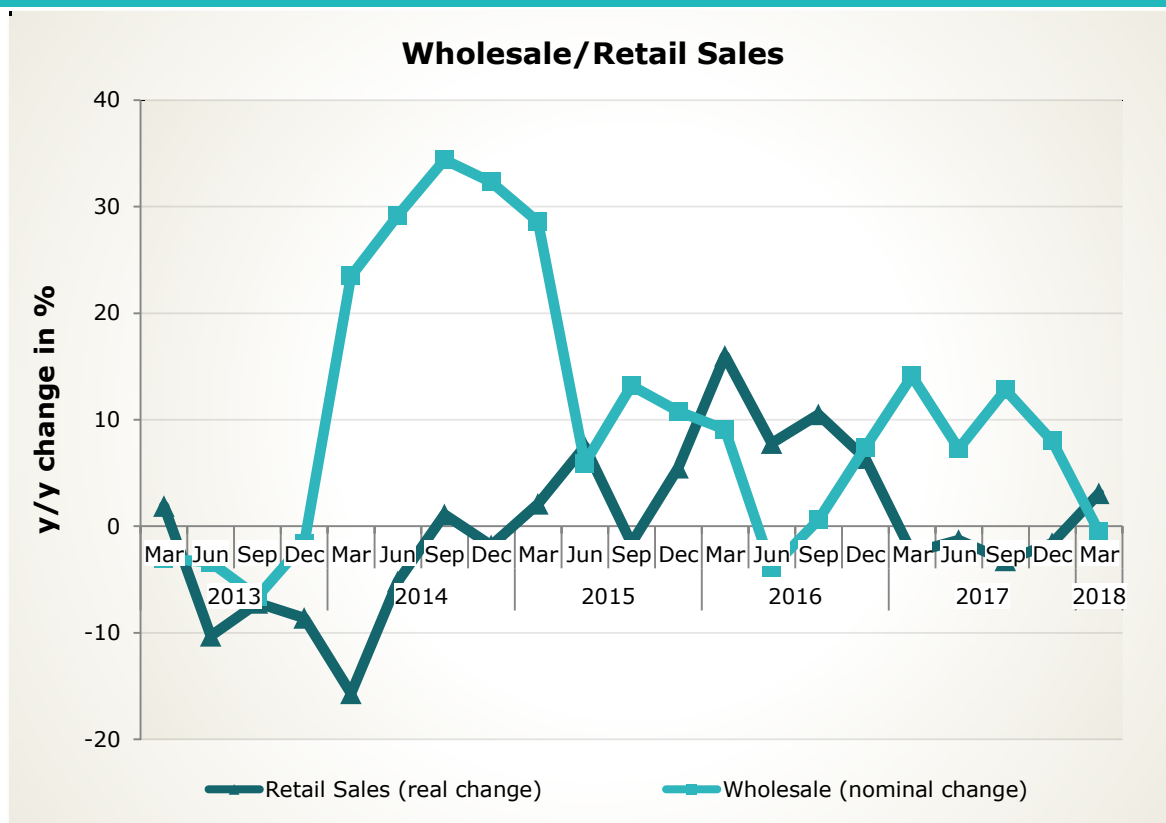
### Retail sales expanded by 3.1% y/y in March 2018

Retail trade, except of motor vehicles and motorcycles, increased by real 3.1% y/y in March 2018, according to SSORM.

Retail sale of non-food products (except fuel) advanced by 5.2%, as did retail sale of food, beverages and tobacco. Retail trade of automotive fuel fell by 5.1% y/y in March 2018.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went down by 0.5% y/y in March 2018.





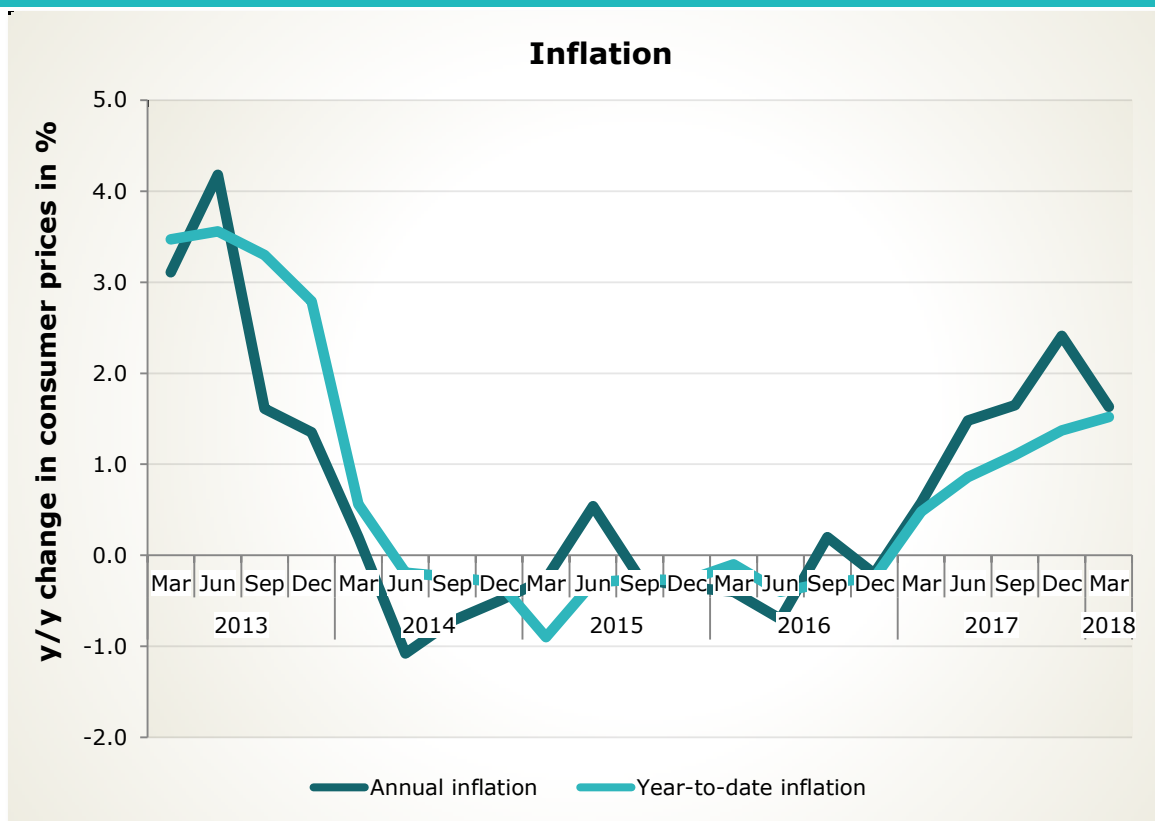
Source: SSORM

## 2.5. INFLATION

### Macedonia registered growing annual average inflation in January - March 2018

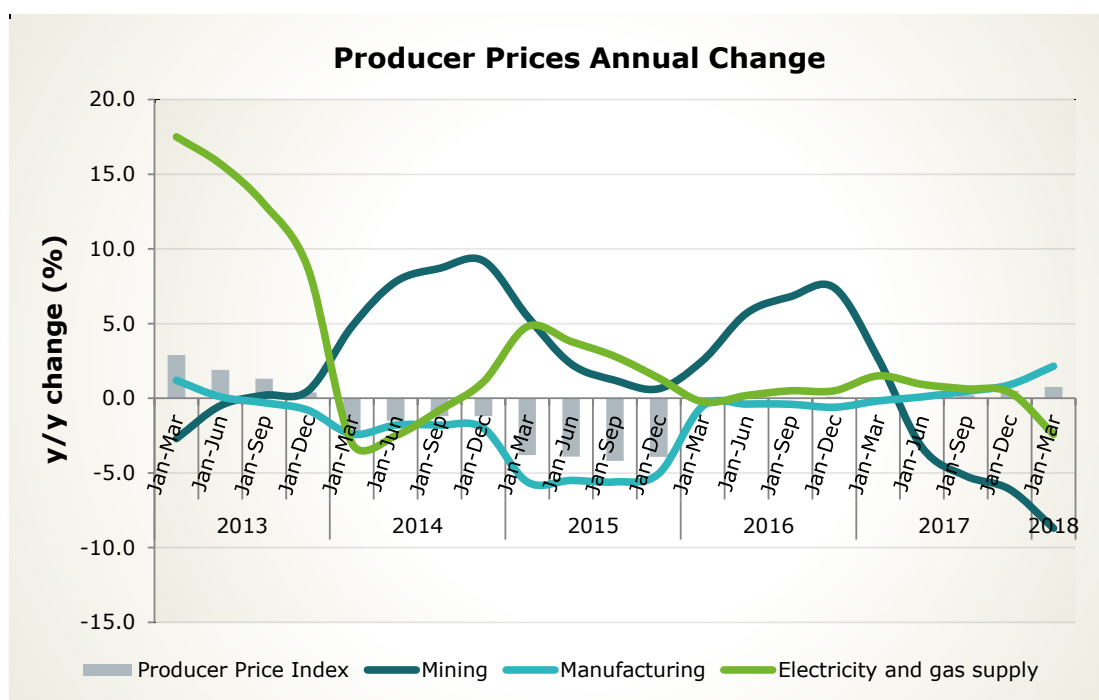
Macedonia registered average annual inflation of 1.5% in January – March 2018, up from 1.4% y/y in Q4 2017, according to SSORM.

The inflation in the segment of alcoholic beverages and tobacco came in at 6.3% compared to Q1 2017, while average prices in the transport sector went up by 7.0% y/y. Clothing and footwear prices went down by 1.4% on average in Q1 2018 compared to Q1 2017, while the CPI in housing, water, electricity, gas and other fuels inched down by 0.1% y/y.



Source: SSORM

Producer prices notched up by 0.8% in the period January - March 2018 with prices of the manufacturing industry increasing by 2.1% while prices in the mining sector fell by 8.7% y/y. The PPI Index of electricity and gas supply decreased by 2.4% y/y in Q1 2018.



Source: SSORM

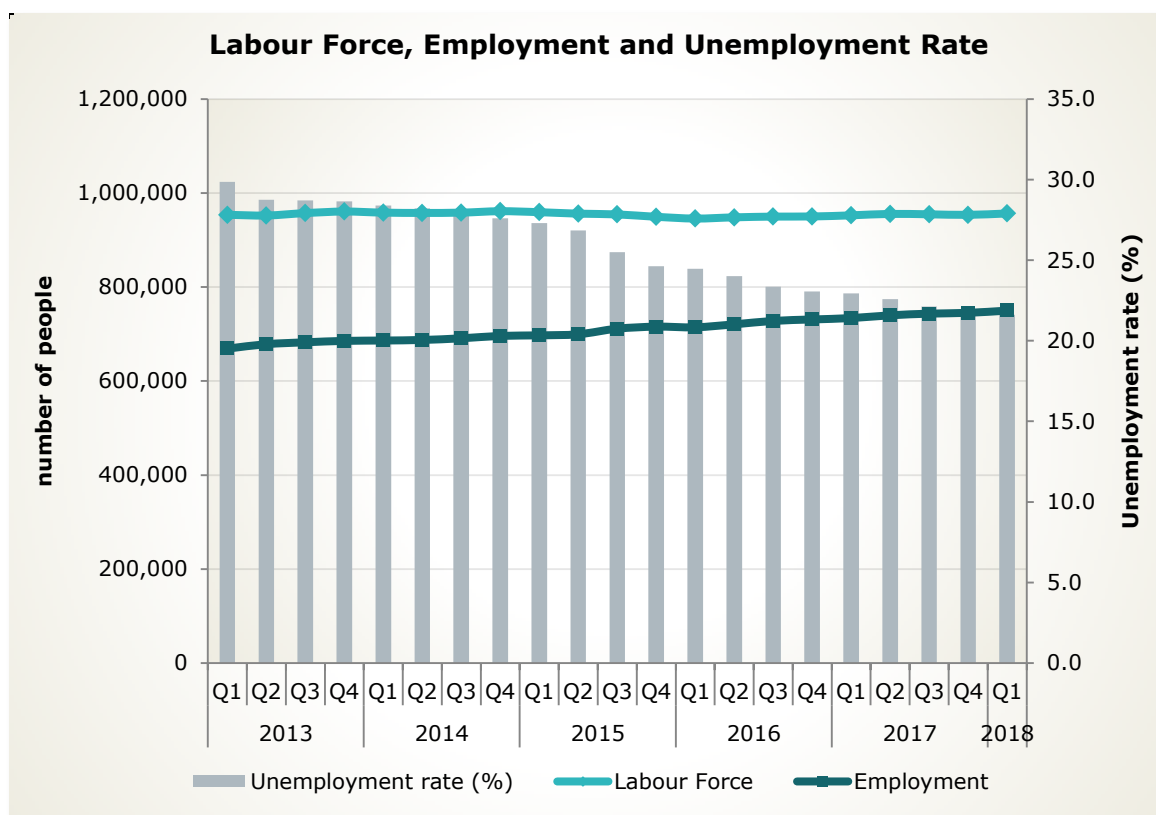
## 3. LABOUR MARKET

### Unemployment rate down to 21.6%, wages grew 4.9% y/y in Q1 2018

Unemployment in Macedonia narrowed to 21.6% of the total labour force in Q1 2018, down from 22.9% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 749,892 in Q1 2018, up by 2.2% y/y.

Youth (population aged 15-24) unemployment rate went down by 0.1 pp y/y and remained high at 44.3%.



Source: SSORM

According to data of SSORM, the average monthly net salary in Q1 2018 went up by 4.9% in annual terms to MKD 23,624.

#### 4. CONSTRUCTION AND REAL ESTATE

##### *The number of building permits almost halved in Q1 2018*

The number of building permits issued in Macedonia in Q1 2018 fell by 48.8% and totalled 370, according to SSORM. The building construction works value amounted to MKD 4.524 bln, down from MKD 8.968 bln a year earlier. The number of planned dwellings diminished to 1,185 from 2,137 in Q1 2017.

#### 5. MONEY SUPPLY AND BANKING SYSTEM

##### 5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR increased to MKD 61.5580 in Q1 2018 from MKD 61.5159 in Q4 2017, according to National Bank of the Republic of Macedonia (NBRM) data.

MKD Average Exchange Rate			
Foreign Currency	Q1 2018	Q4 2017	Q1 2017
EUR	61.5580	61.5159	61.5601
USD	50.0967	52.2318	57.8297
GBP	69.6764	69.3248	71.5557
CHF	52.8372	52.9137	57.5591

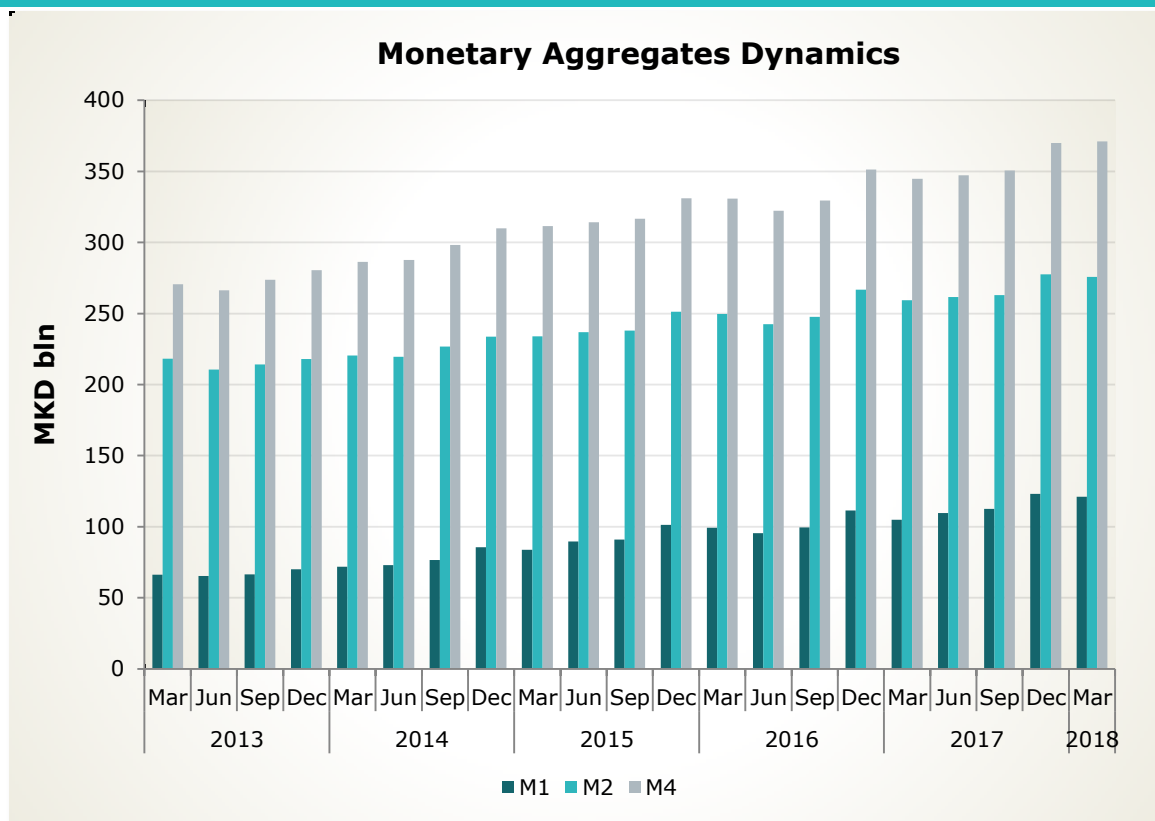
##### 5.2. MONETARY AGGREGATES

##### *Money supply growth was 7.6% y/y at end-March 2018*

Broad money (monetary aggregate M4) increased by 7.6% y/y and reached MKD 371.0 bln at the end of March 2018, according to data provided by NBRM.

The M2 money supply also grew, by 6.3% y/y, to MKD 275.7 bln.

Money aggregate M1, or narrow money, expanded by 15.4% to MKD 121.0 bln.

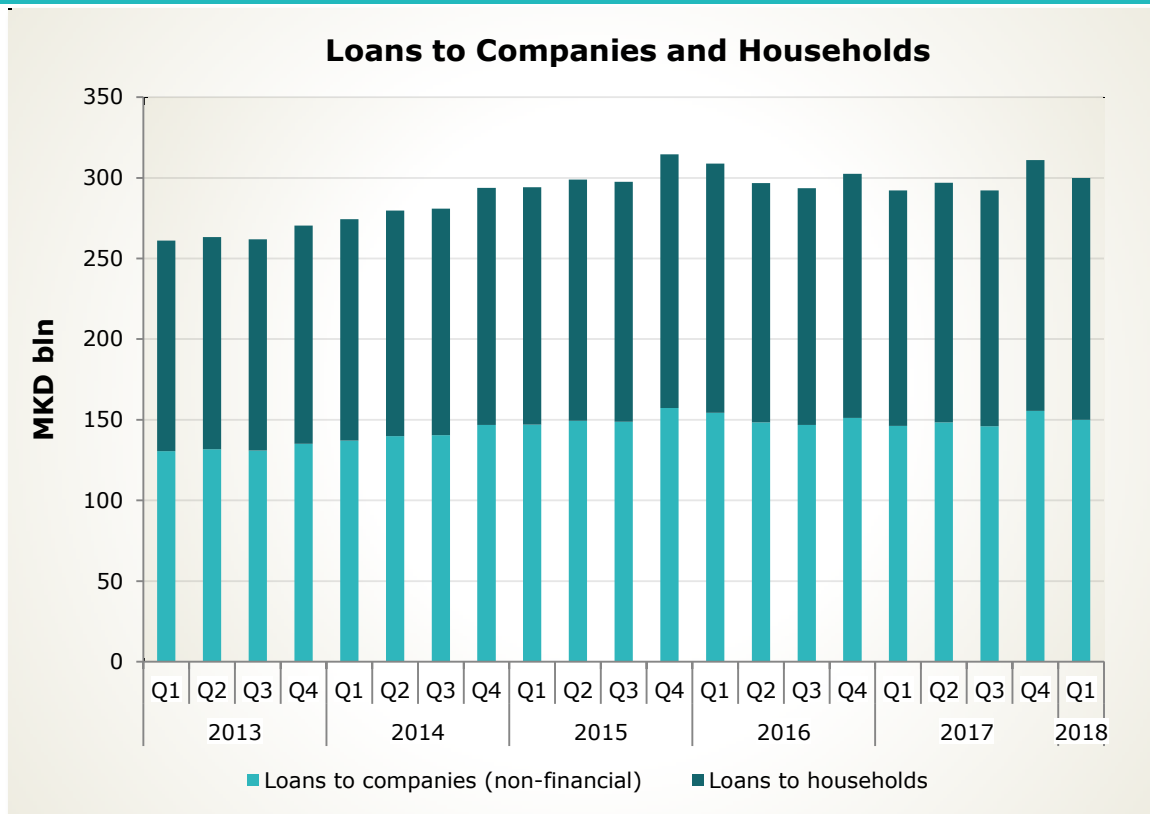


Source: NBRM

### 5.3. BANKING AND INSURANCE

#### Household loans increased by 9.8% y/y in Q1 2018

Loans to the non-government sector totalled MKD 292.0 bln in Q1 2018, up from MKD 275.5 bln in Q1 2017, according to NBRM. Household loans jumped by 9.8% to MKD 142.0 bln. Loans to non-financial corporations inched up by 2.6% to MKD 150.0 bln.

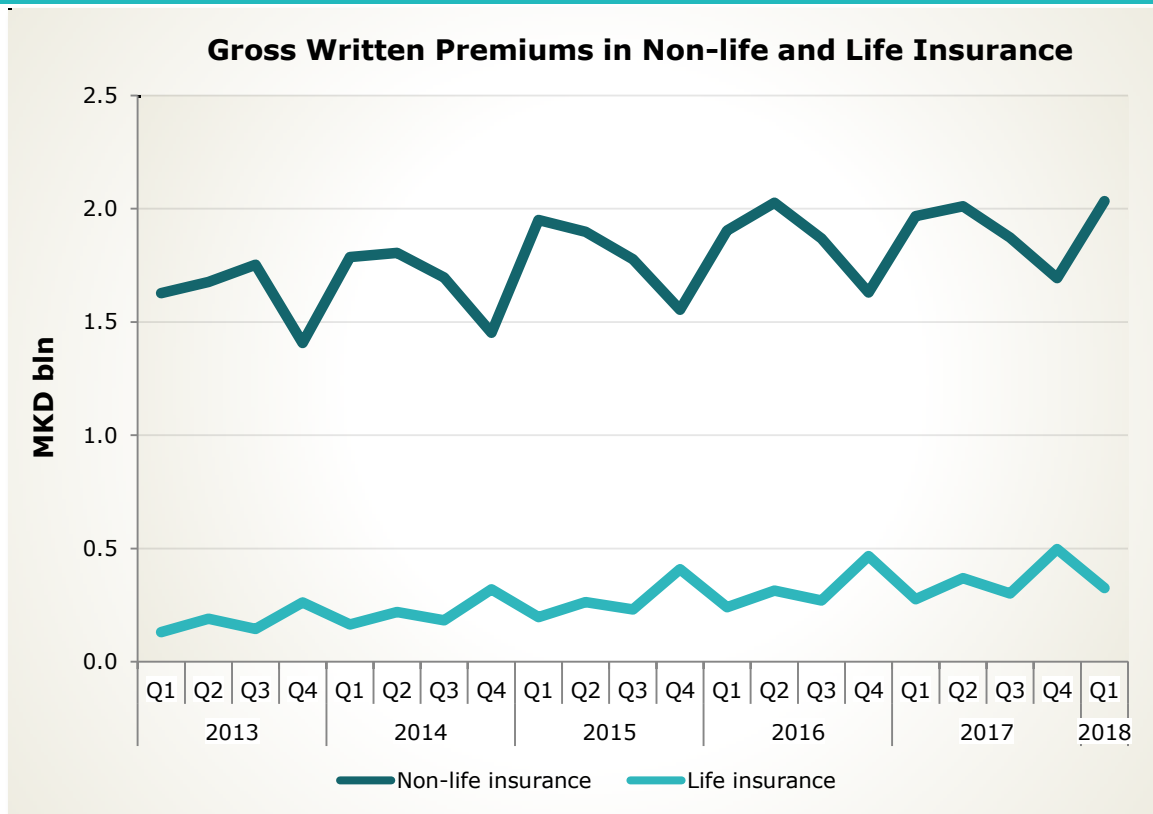


Source: NBRM

#### Insurance premium income went up by 5.2% y/y in Q1 2018

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.360 bln, up by 5.2% y/y, in Q1 2018, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 2.035 bln, or by 3.4% more than in the corresponding quarter of the previous year, while the life insurance market grew by 17.9% y/y to MKD 0.326 bln.



Source: ASO

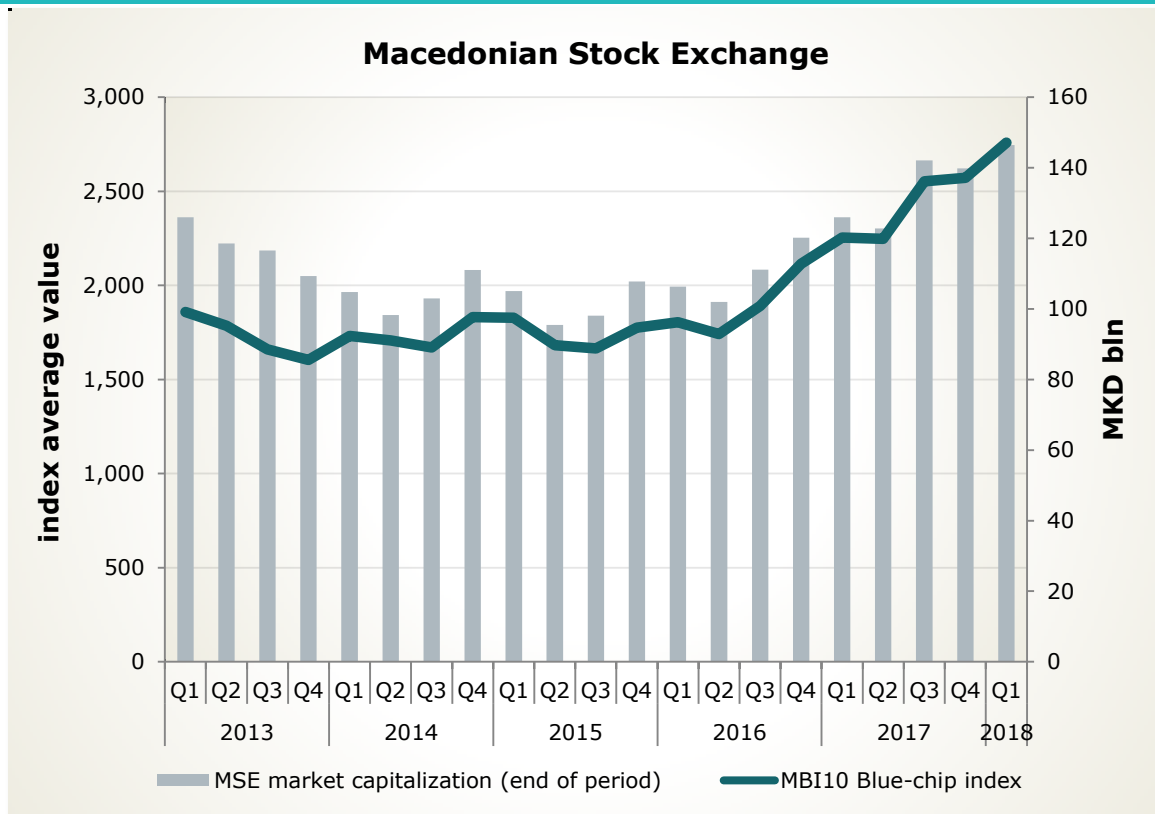
## 6. CAPITAL MARKETS

### Blue-chip MBI10 grew by 7.3% q/q in Q1 2018

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 7.3% q/q to 2,758 points in Q1 2018.

The total turnover on the MSE reached MKD 4.404 bln in Q1 2018 versus MKD 1.036 bln in the same quarter of 2017.

The market capitalisation of MSE in the period grew to MKD 146.4 bln from MKD 126.0 bln in Q1 2017.



Source: MSE

## 7. EXTERNAL SECTOR

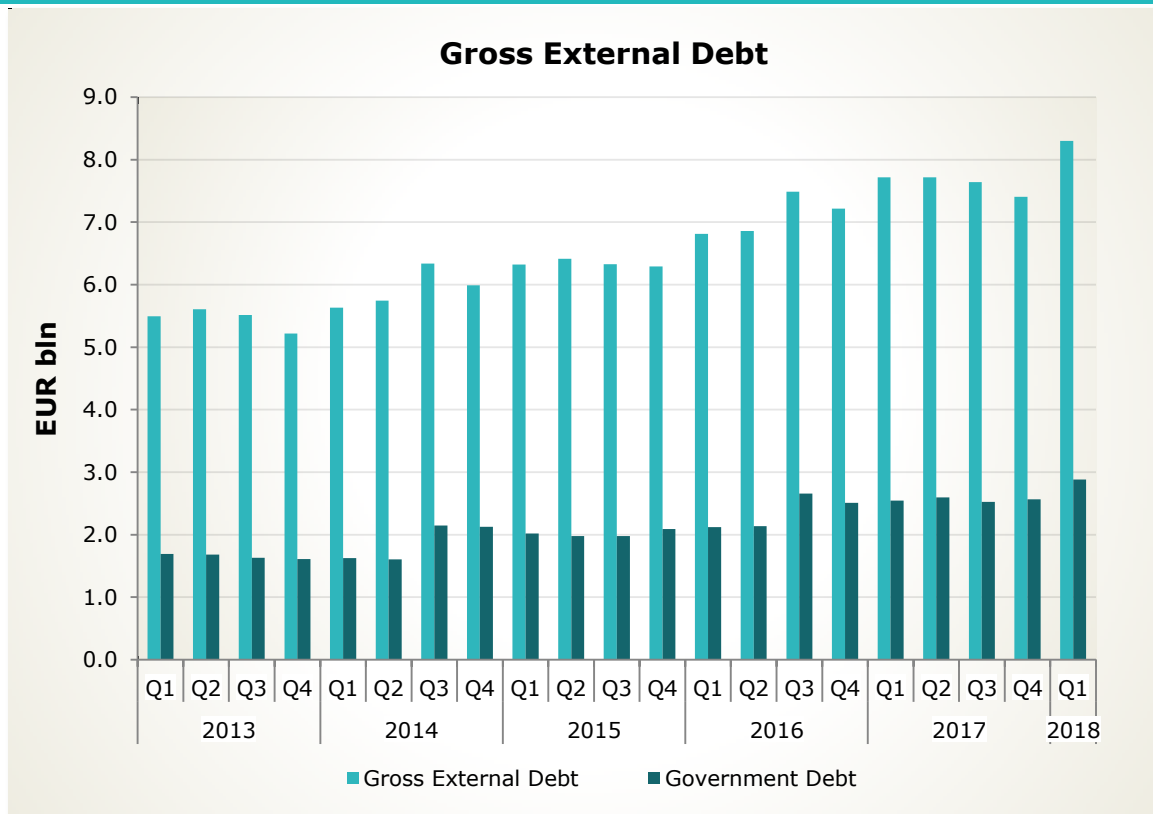
### 7.1. FOREIGN DEBT

#### *The gross external debt went up y/y to EUR 8.298 bln in March 2018*

The gross external debt totalled EUR 8.298 bln in March 2018, which was 78.7% of the projected full-year GDP, according to NBRM. The debt increased by 7.5% compared to March 2017. In comparison to December 2017, the gross external debt decreased by EUR 894.6 mln.

As of March 2018, long-term liabilities amounted to EUR 5.998 bln, or 72.3% of the total debt, and short-term liabilities totalled EUR 2.300 bln, equal to 27.7% of the total debt.





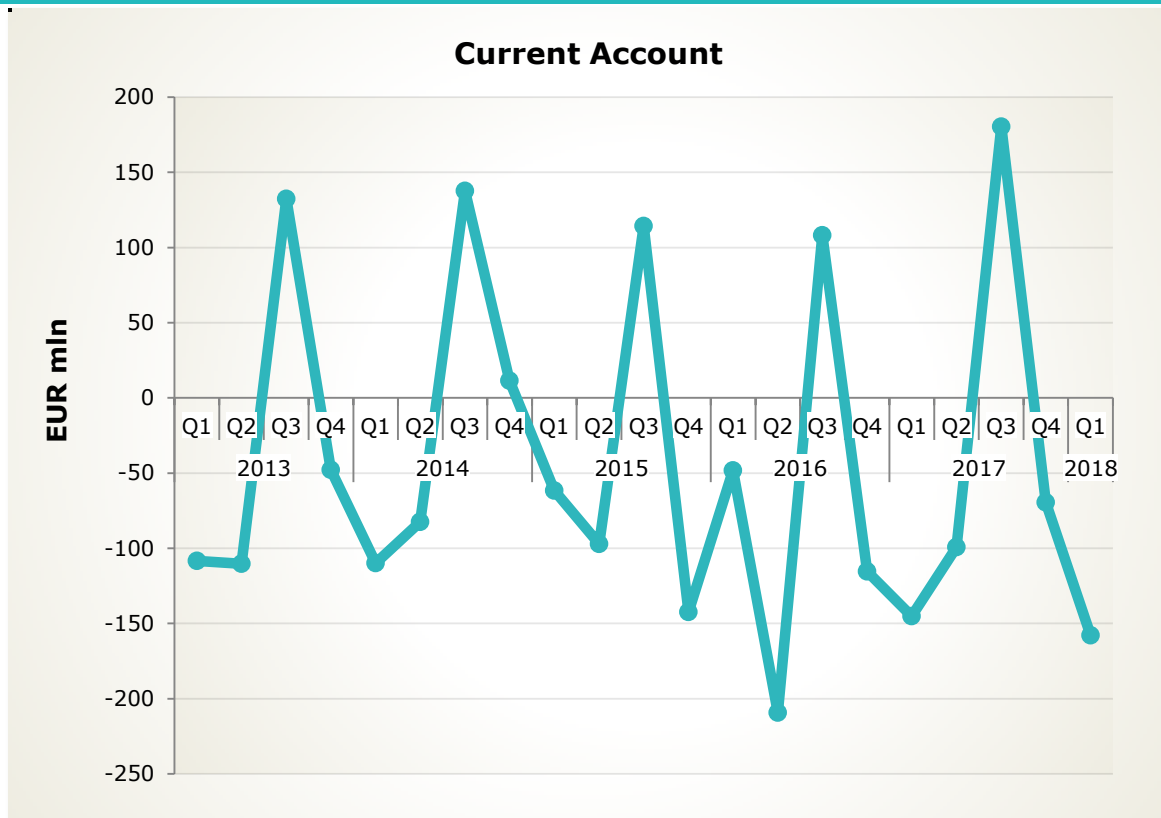
Source: NBRM

## 7.2. BALANCE OF PAYMENTS

**Current account deficit increased by 8.7% y/y to EUR 157.9 mln in Q1 2018**

The current account deficit climbed to EUR 157.9 mln in Q1 2018 from EUR 145.2 mln in Q1 2017, according to central bank statistics data.

Secondary income rose by 1.8% y/y to EUR 329.4 mln in Q1 2018.



Source: NBRM

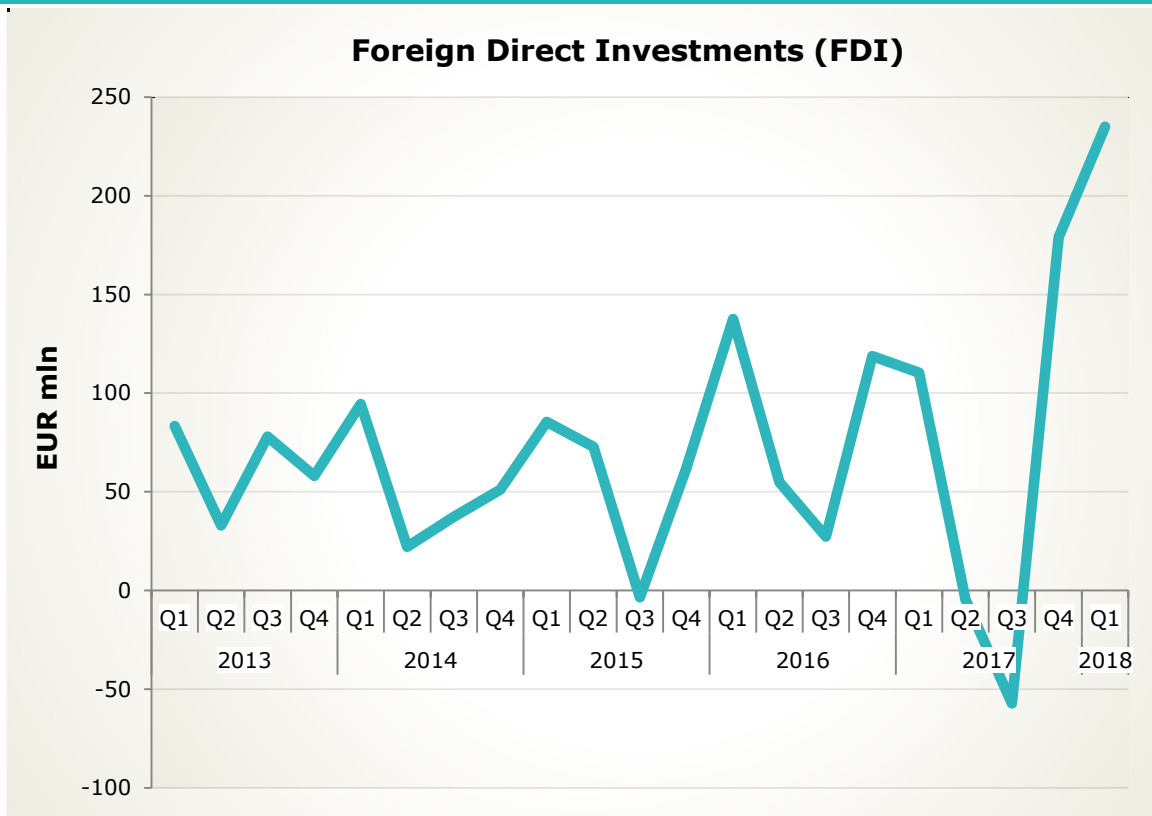
### 7.3. FDI

#### Net FDI inflow at EUR 235.0 mln in Q1 2018

The net FDI inflow in Macedonia reached EUR 235.0 mln in the first quarter of 2018 compared to an inflow of EUR 110.3 mln a year earlier, according to NBRM.

For Q1 2018 the leaders in terms of FDI in Macedonia were Bahamas, Germany and Slovenia with investments of EUR 17.2 mln, EUR 10.1 mln and EUR 9.2 mln, respectively.

A breakdown by industries showed that professional, scientific and technical activities attracted the largest FDIs, of EUR 17.3 mln in the quarter, followed by manufacture of vehicles with EUR 9.3 mln.

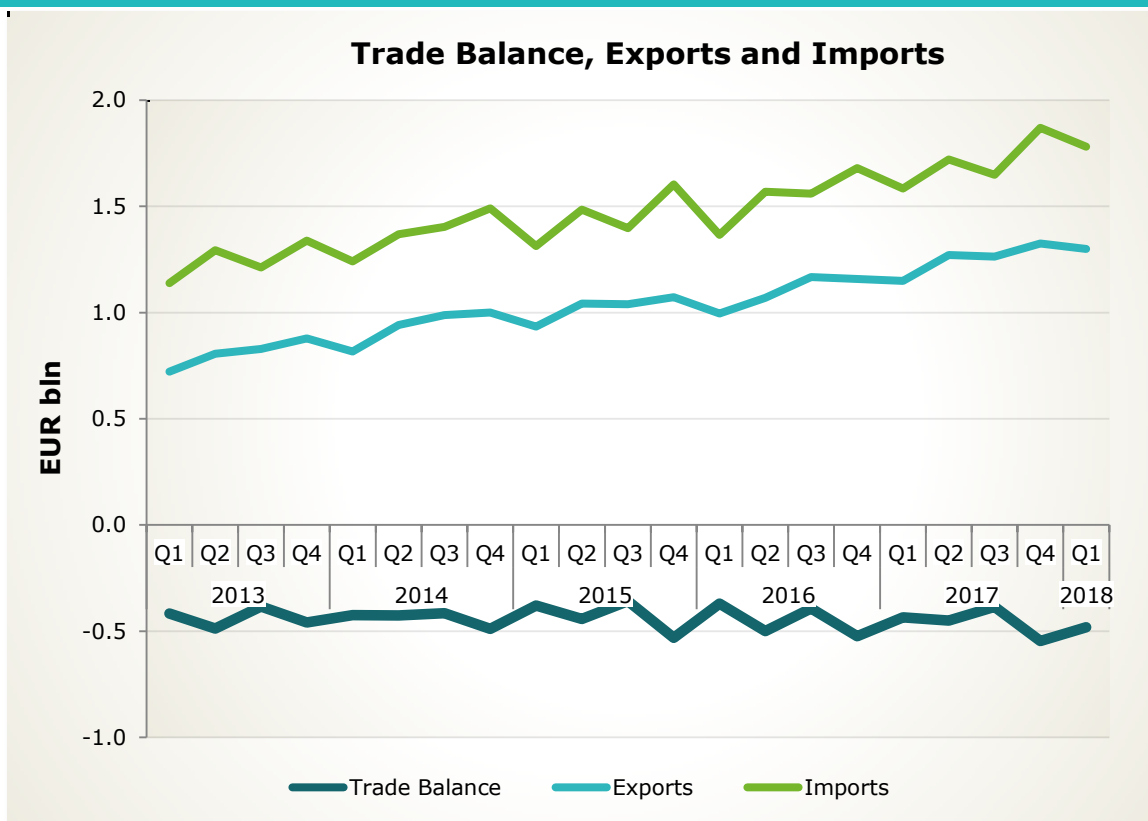


Source: NBRM

## 7.4. FOREIGN TRADE

### Foreign trade deficit up by 10.8% y/y in Q1 2018

The trade deficit stood at EUR 481.9 mln in Q1 2018, compared to EUR 435.1 mln a year earlier, according to NBRM. Exports increased by 13.1% y/y to EUR 1.299 bln, while imports went up by 12.5% y/y to EUR 1.781 bln.



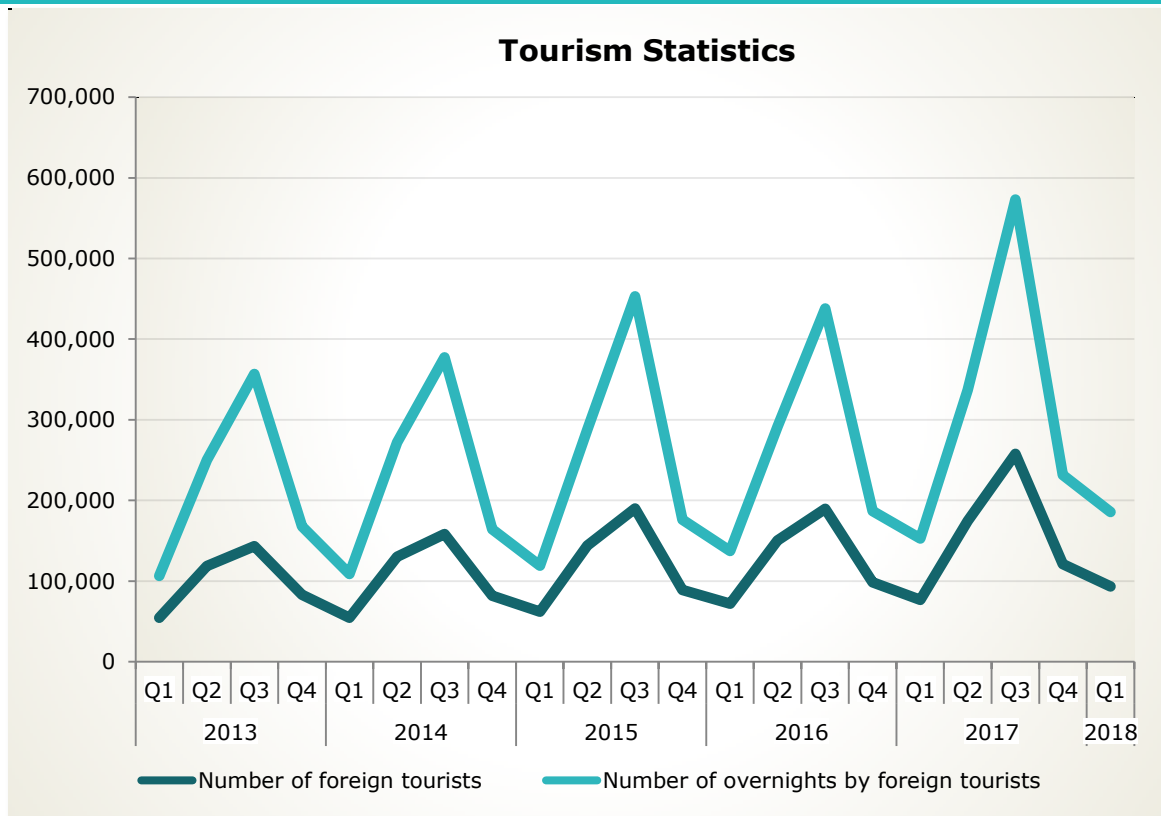
Source: NBRM

## 7.5. TOURISM

### Number of foreign tourist overnights grew by 21.4% y/y in Q1 2018

Tourist overnights of foreigners increased by an annual 21.4% to 185,728 in Q1 2018, according to SSORM. Foreign tourist overnights accounted for 60.8% of the total tourist overnights in the country, up from 59.0% in the year-ago quarter.

The number of foreign citizens who visited the country was also on the rise, by 21.5%, to 93,505.



Source: SSORM

## 8. MAJOR DEVELOPMENTS

### **Macedonia's parliament approves law to extend use of Albanian language**

Mar 16, 2018

Macedonia's parliament adopted a law to extend the use of Albanian language at the national level. The adoption of the law is a demand of Macedonia's ethnic Albanian parties as part of the agreement to enter a government coalition with the Social Democrats in 2017.

[Read the full story here](#)

### **FAO picks 12 sites in Macedonia for EU-funded agri land consolidation project**

Mar 13, 2018

United Nation's Food and Agriculture Organization (FAO) said in March it selected twelve agriculture land sites as part of the implementation of the EU-funded mainstreaming of the national land consolidation programme (MAINLAND) in Macedonia.

[Read the full story here](#)

### **EBRD to lend EUR 86 mln to Macedonia for road upgrade projects**

Feb 28, 2018

The European Bank for Reconstruction and Development (EBRD) said it is providing a EUR 86 mln loan to Macedonia's Public Enterprise for State Roads (PESR) for the upgrading of the country's road network.

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*Read the full story [here](#)*

**Germany's Merkel praises Macedonia's efforts on path to EU**

Feb 23, 2018

Macedonia is advancing an ambitious reform programme in its bid to join the European Union, German chancellor Angela Merkel said, confirming Germany's support for Macedonia in its efforts to join EU and NATO.

*Read the full story [here](#)*

**Bulgaria - Macedonia friendship treaty enters into force**

Feb 16, 2018

Bulgaria and Macedonia exchanged documents on the ratification of the treaty of friendship, good neighbourly relations and cooperation between the two countries, the government in Sofia said in February.

*Read the full story [here](#)*

**EBRD seeking consultant for railway project in Macedonia**

Feb 14, 2018

The European Bank for Reconstruction and Development (EBRD) said it is inviting expressions of interest for a contract for consultancy works related to a railway infrastructure project in Macedonia. The railway project envisages the rehabilitation of a 30.8 km railway section from Kumanovo to Beljakovce, part of Pan-European Corridor VIII.

*Read the full story [here](#)*

**Macedonia, Albania attach priority to Kicevo-Lin railway project**

Feb 13, 2018

European Union candidates Macedonia and Albania see as their priority the construction of the Kicevo-Lin railway section, part of Corridor 8 running east-west through Southeast Europe, Macedonian Railway Infrastructure company said.

*Read the full story [here](#)*

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