

## **NORTH MACEDONIA ECONOMY REPORT**

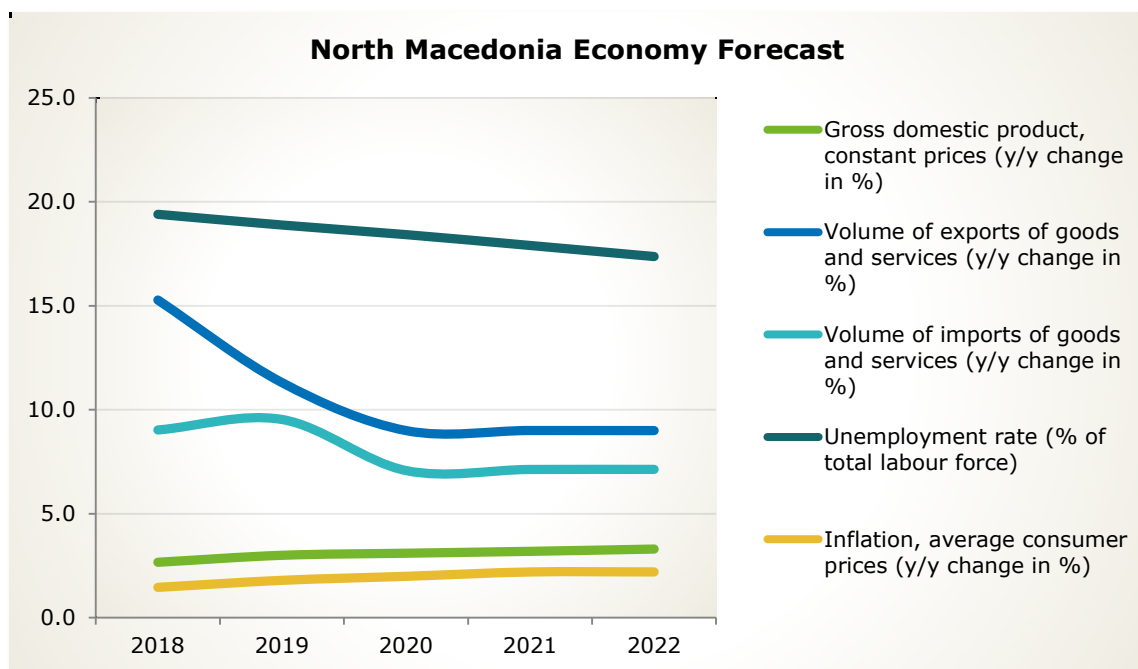
### Q1 2019

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

NORTH MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
<b>GDP Growth</b>	4.1% y/y
<b>Industrial output</b>	8.8% y/y
<b>Industrial sales</b>	11.9% y/y
<b>Wholesale</b>	25.5% y/y
<b>Retail sales</b>	5.4% y/y
<b>Average annual inflation</b>	1.2%
<b>Unemployment rate</b>	17.8%
<b>Number of building permits</b>	-7.0% y/y
<b>Money supply growth</b>	11.7% y/y
<b>Household loans</b>	9.8% y/y
<b>MBI10 blue-chip index</b>	4.4% y/y
<b>Gross external debt</b>	EUR 8.304 bln
<b>Current account deficit</b>	EUR 162.5 mln
<b>Net FDI inflow</b>	EUR 29.7 mln
<b>Foreign trade deficit</b>	EUR 459 mln
<b>Number of foreign tourist overnights</b>	-2.1% y/y



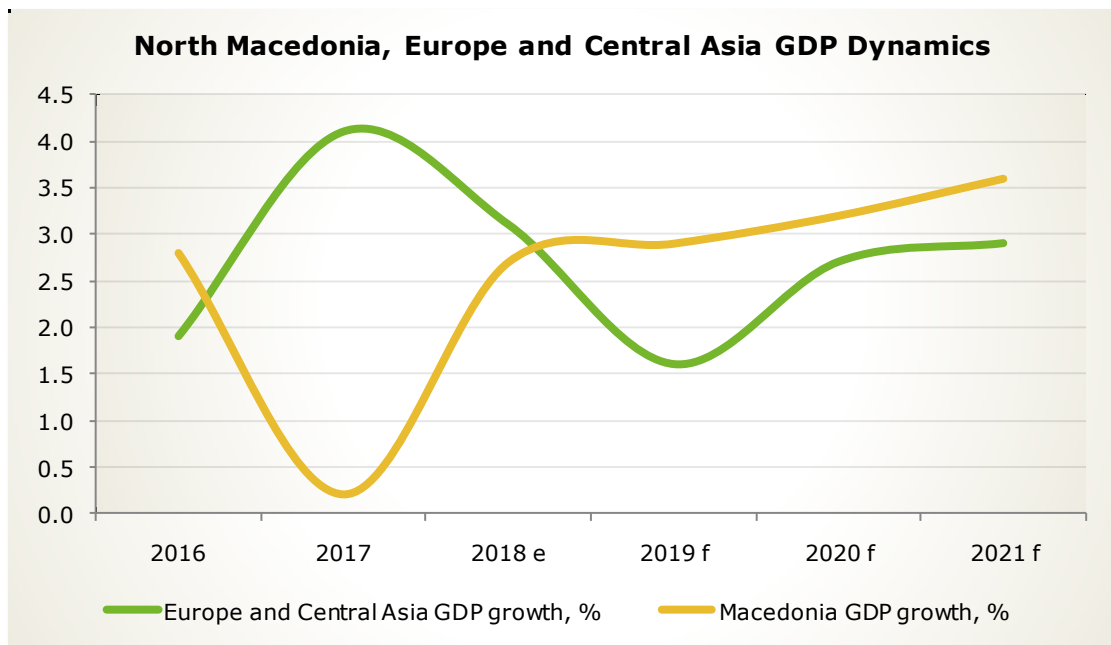
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

After experiencing a number of shocks in connection to the political crisis in the last two years, the economy of North Macedonia has been gradually recovering. IMF expects the economy to be expanded by 2.7 y/y in 2018, after GDP growth stalled in 2017. In the medium term, IMF expects the economy of North 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 3.1% in 2020.

<b>North Macedonia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)</b>						
	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change in %	2.8	0.2	2.7	2.9	3.2	3.6
Private Consumption	3.9	0.6	3.3	2.4	2.1	2.3
Government Consumption	-4.9	-2.5	6.2	1.0	0.8	0.5
Gross Fixed Capital Investment	-6.2	-8.7	-7.2	5.0	6.0	6.5
Exports, Goods and Services	9.1	8.1	15.3	7.5	8.1	8.2
Imports, Goods and Services	11.1	6.4	9.1	5.8	6.1	6.1
Real GDP growth, at constant factor prices (by sectors)	2.0	0.1	2.8	2.9	3.2	3.6
Agriculture	-0.4	-13.5	-5.0	1.8	1.5	1.5
Industry	-2.9	-1.0	2.2	5.5	5.9	6.4
Services	4.5	2.3	3.9	2.0	2.3	2.6
Inflation (Consumer Price Index)	-0.2	1.3	1.5	1.8	1.9	2.2
Current Account Balance (% of GDP)	-2.9	-0.8	-0.3	-1.7	-2.1	-1.8
Net Foreign Direct Investment (% of GDP)	3.3	1.8	5.8	4.4	4.6	4.8

Source: World Bank, Europe and Central Asia Economic Update, April 2019



Source: World Bank, Europe and Central Asia Economic Update, June 2019

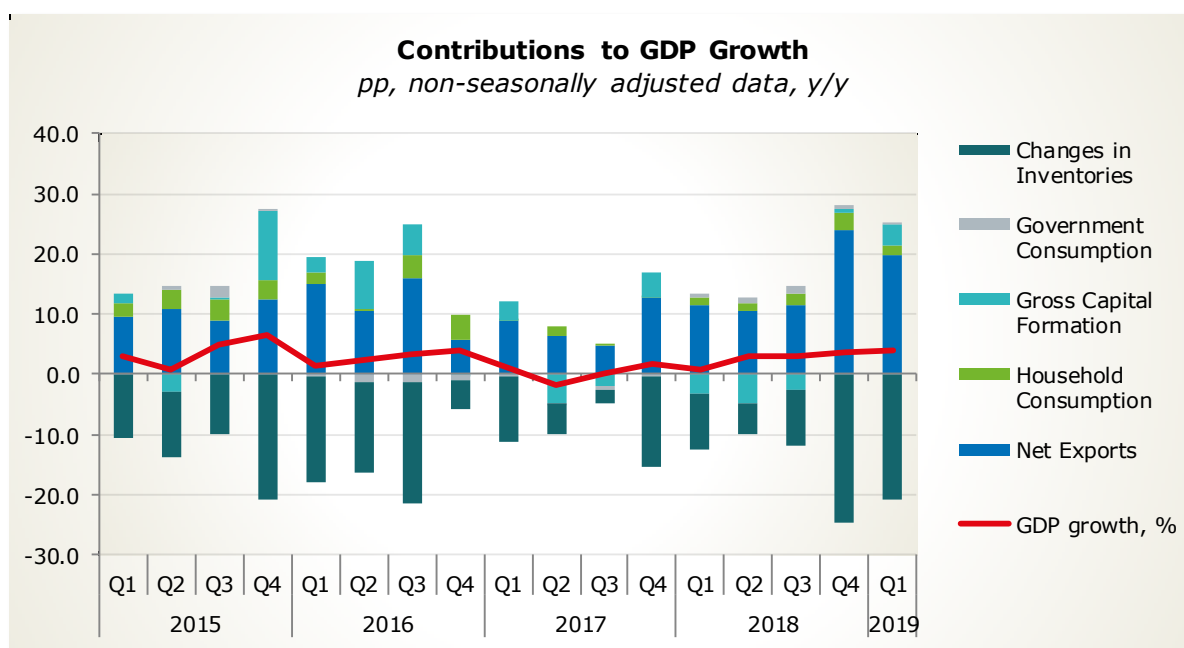
According to the World Bank estimates from June 2019, GDP growth is likely to come in at 2.9% in 2019 after the stalemate in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP up 4.1% y/y in Q1 2019

During the first quarter of 2019, the country's GDP increased by 4.1% y/y to MKD 107.2 bln according to preliminary data of the State Statistical Office of the Republic of North Macedonia (SSORM).

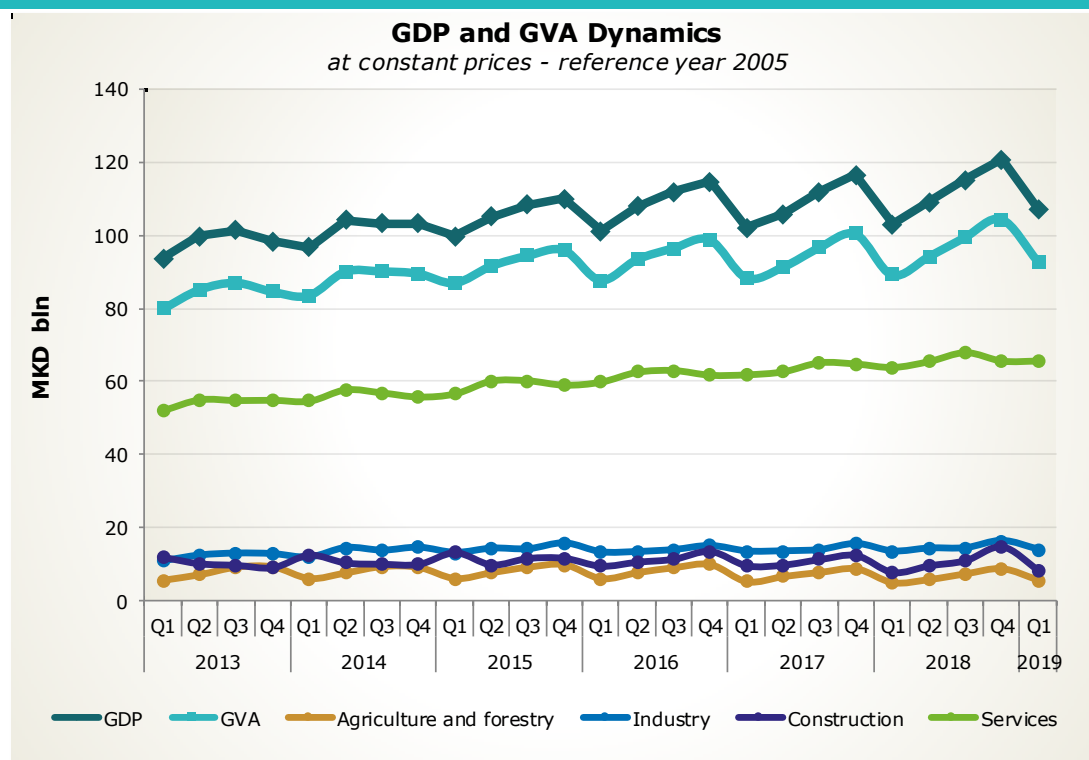


Source: SeeNews calculations; SSORM

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.

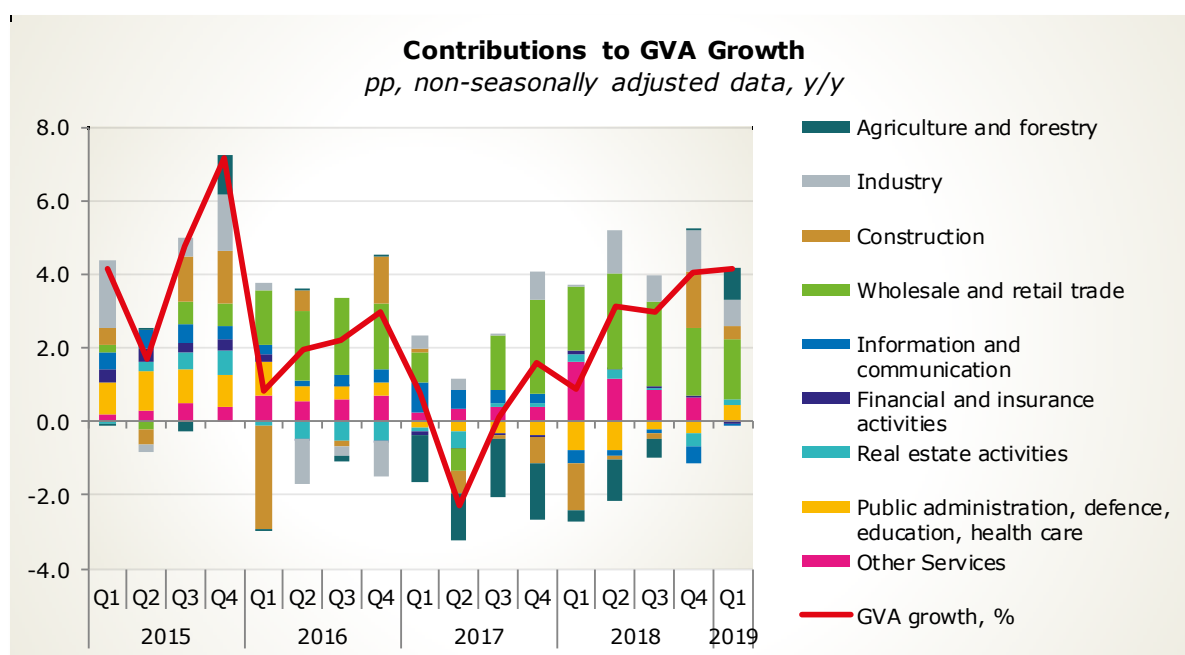
Final consumption, which accounted for 85.4% of the GDP, increased in value terms by 2.1% y/y to MKD 91.5 bln in Q1 2019, while gross capital formation went up by 9.9%. Both exports and imports grew - by 15.6% and 14.4%, respectively.

The largest contributor to the overall GDP expansion in Q1 2019 were net exports by 19.8 pp, followed by gross capital formation, adding 3.3 pp to the GDP growth in Q1 2019. In the same time household consumption subtracted 1.7 pp from the GDP growth.



Source: SSORM

The gross value added (GVA) generated by the national economy increased in value by 4.1% y/y in the first quarter of 2019 and totalled MKD 92.8 bln. The agricultural sector registered an increase of 13.6%. The gross value added of the construction went up by 7.0% while industrial sector inched up by 3.4% y/y. The services sector recorded a 2.7% rise, slicing a 70.6% share in the GVA, compared to 71.6% in the previous year.



Source: SeeNews Calculations; SSORM

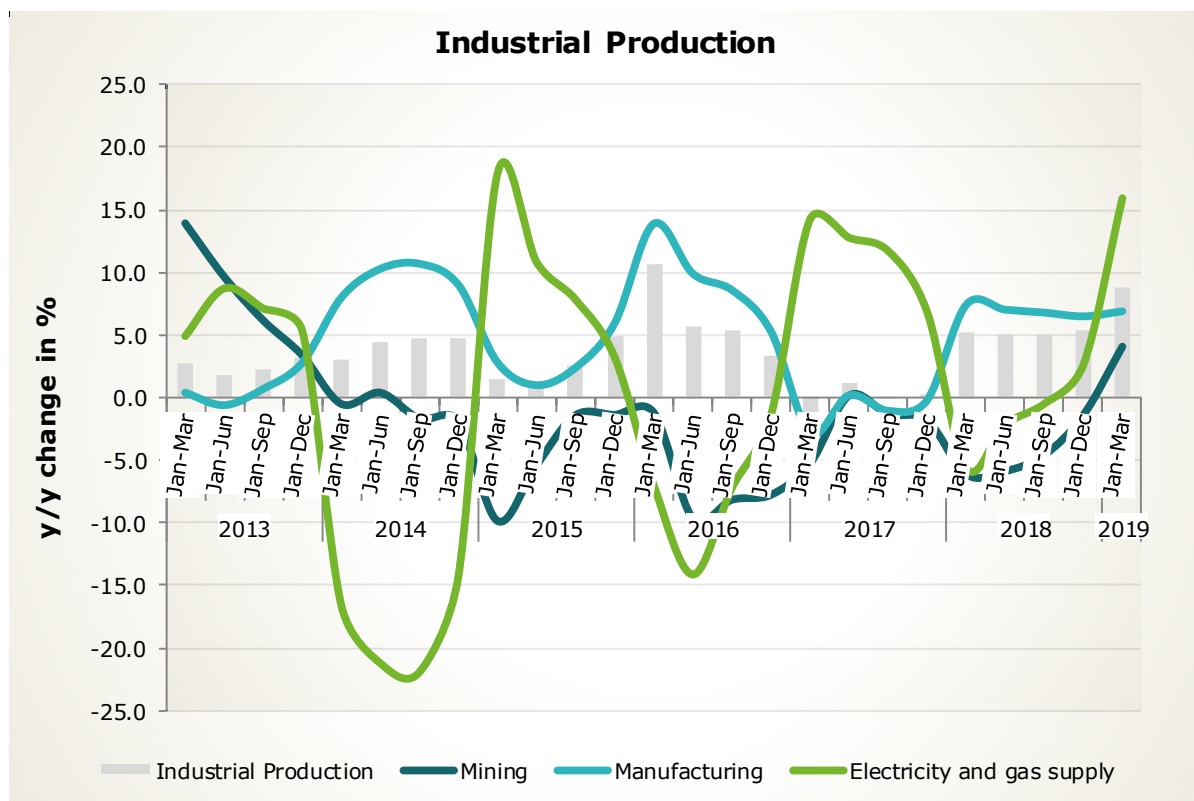
Note: Non-additive data due to direct chain linking of GDP and its components.

## 2.2. INDUSTRIAL OUTPUT

### Industrial output advanced by 8.8% y/y in January – March 2019

Industrial output went up by 8.8% on the year in Q1 2019, according to SSORM. The output of the electricity and gas supply rose by 15.9% y/y. Production in the manufacturing sector increased by 6.9%, while the output of mining sector grew by 4.1% y/y.

The best performance in the manufacturing sector was reported in the segments manufacture of beverages and manufacture of basic pharmaceutical product and pharmaceutical preparations, which surged by 26.0% and 23.1% y/y, respectively.

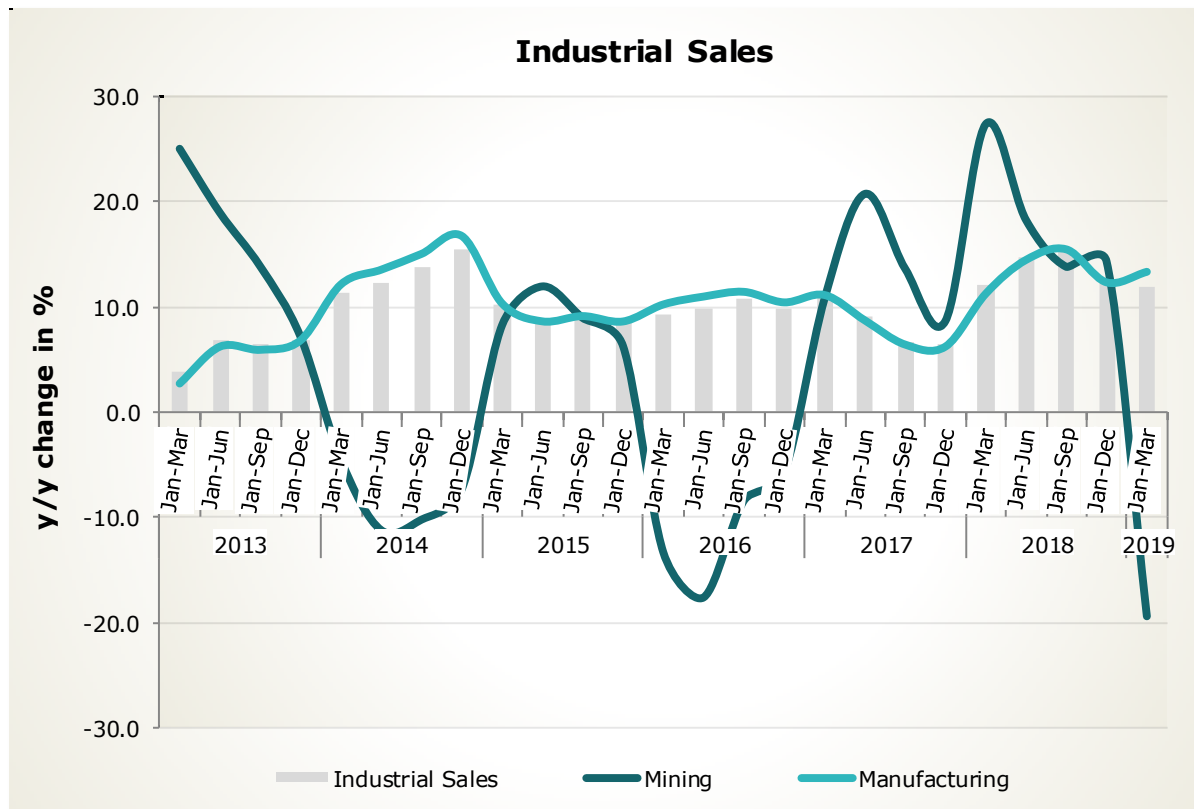


Source: SSORM

## 2.3. INDUSTRIAL SALES

### Industrial sales went up by 11.9% y/y in January - March 2019

Industrial sales rose by 11.9% y/y in the first three months of 2019, according to SSORM data. Sales in the manufacturing sector grew by 13.4%, while sales in the mining sector went down by 19.4% y/y.



Source: SSORM

## 2.4. WHOLESALE/RETAIL

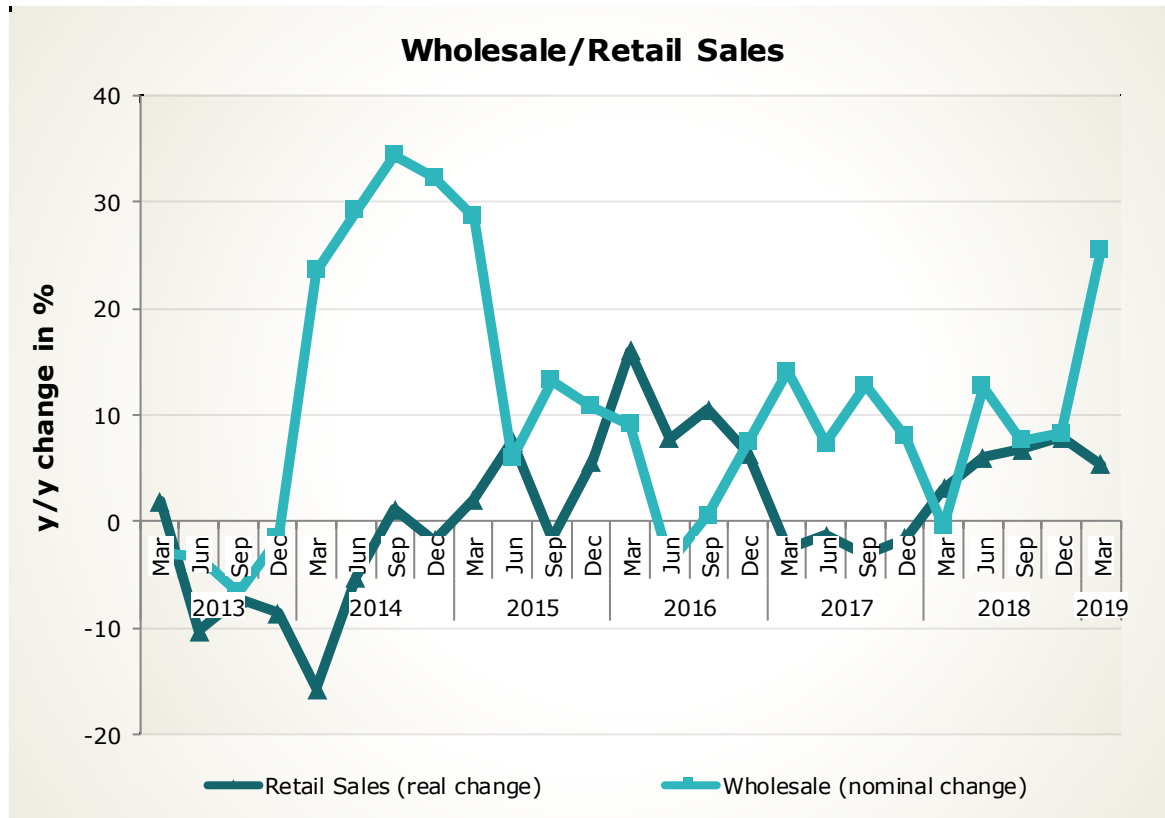
### Retail sales expanded by 5.4 y/y in March 2019

Retail trade, except of motor vehicles and motorcycles, increased by real 5.4% y/y in March 2019, according to SSORM.

Retail sale of non-food products grew by 8.1% and retail trade (except automotive fuel) advanced by 5.8% y/y in March 2019.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by 25.5% y/y in March 2019.





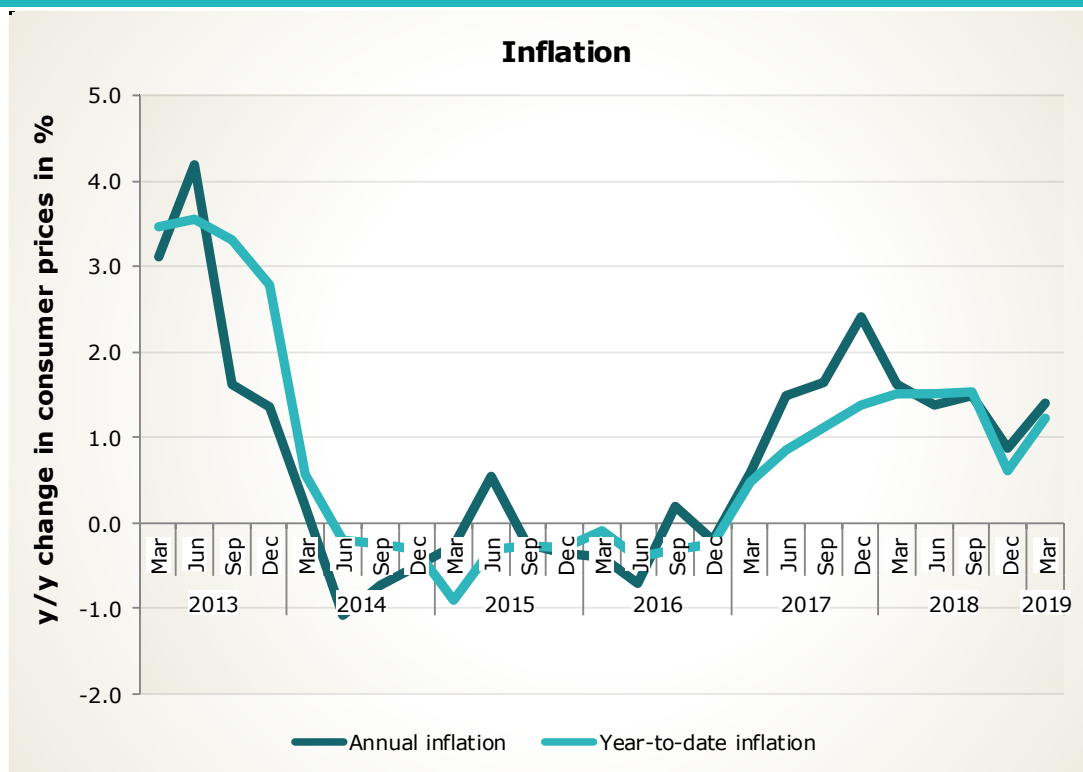
Source: SSORM

## 2.5. INFLATION

### *North Macedonia registered growing annual average inflation in January - March 2019*

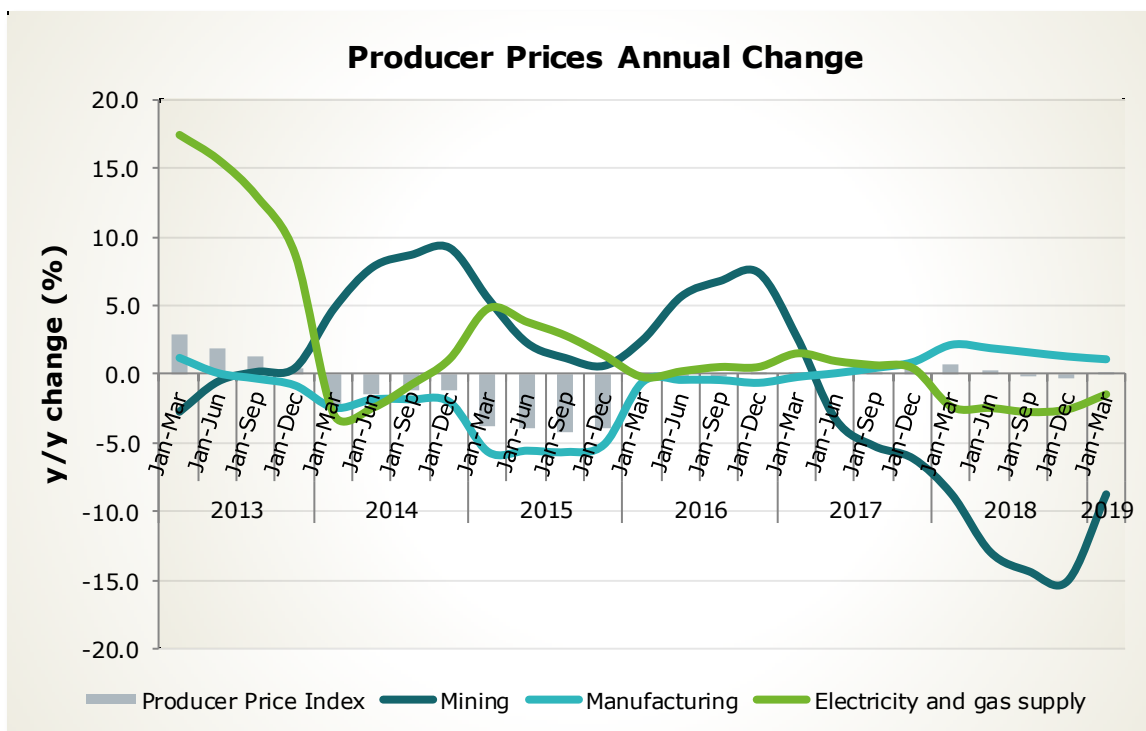
North Macedonia registered average annual inflation of 1.2% in January – March 2019, up from 0.6% y/y in Q4 2018, according to SSORM.

The inflation in the segment of alcoholic beverages and tobacco came in at 6.1%, while average prices in health sector went up by 2.9% y/y. Transport process went down by 3.1% on average in Q1 2019 compared to Q1 2018, while the CPI in communication services decreased by 1.3% y/y.



Source: SSORM

Producer prices notched up by 0.2% in the period January - March 2019 with prices of the manufacturing industry increasing by 1.1% while prices in the mining sector fell by 8.7% y/y. The PPI Index of electricity and gas supply decreased by 1.5% y/y in Q1 2019.



Source: SSORM

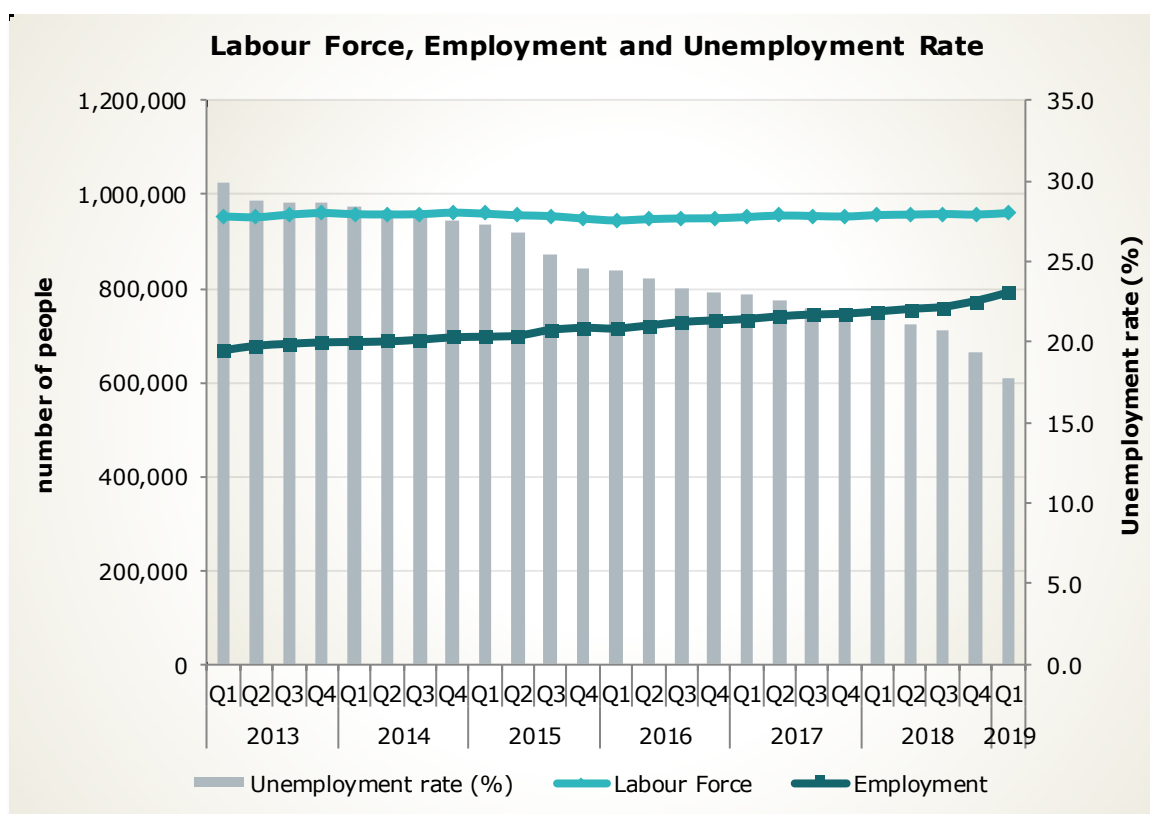
## 3. LABOUR MARKET

### *Unemployment rate down to 17.8%, wages grew 3.4% y/y in Q1 2019*

Unemployment in North Macedonia narrowed to 17.8% of the total labour force in Q1 2019, down from 21.6% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 789,414 in Q1 2019, up by 5.3% y/y.

Youth (population aged 15-24) unemployment rate went down by 7.3 pp y/y and remained high at 37.0%.



Source: SSORM

According to data of SSORM, the average monthly net salary in Q1 2019 went up by 3.4% in annual terms to MKD 24,433.

#### 4. CONSTRUCTION AND REAL ESTATE

##### *The number of building permits decreased in Q1 2019*

The number of building permits issued in North Macedonia in Q1 2019 fell by 7.0% and totalled 344, according to SSORM. The building construction works value amounted to MKD 5.338 bln, up from MKD 4.524 bln a year earlier. The number of planned dwellings slightly increased to 1,209 from 1,185 in Q1 2018.

#### 5. MONEY SUPPLY AND BANKING SYSTEM

##### 5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR decreased to MKD 61.4950 in Q1 2019 from MKD 61.4935 in Q4 2018, according to National Bank of the Republic of North Macedonia (NBRM) data.

MKD Average Exchange Rate			
Foreign Currency	Q1 2019	Q4 2018	Q1 2018
EUR	61.4950	61.4935	61.5580
USD	53.6793	53.8920	50.0967
GBP	68.7249	69.3447	69.6764
CHF	54.5507	54.1191	52.8372

##### 5.2. MONETARY AGGREGATES

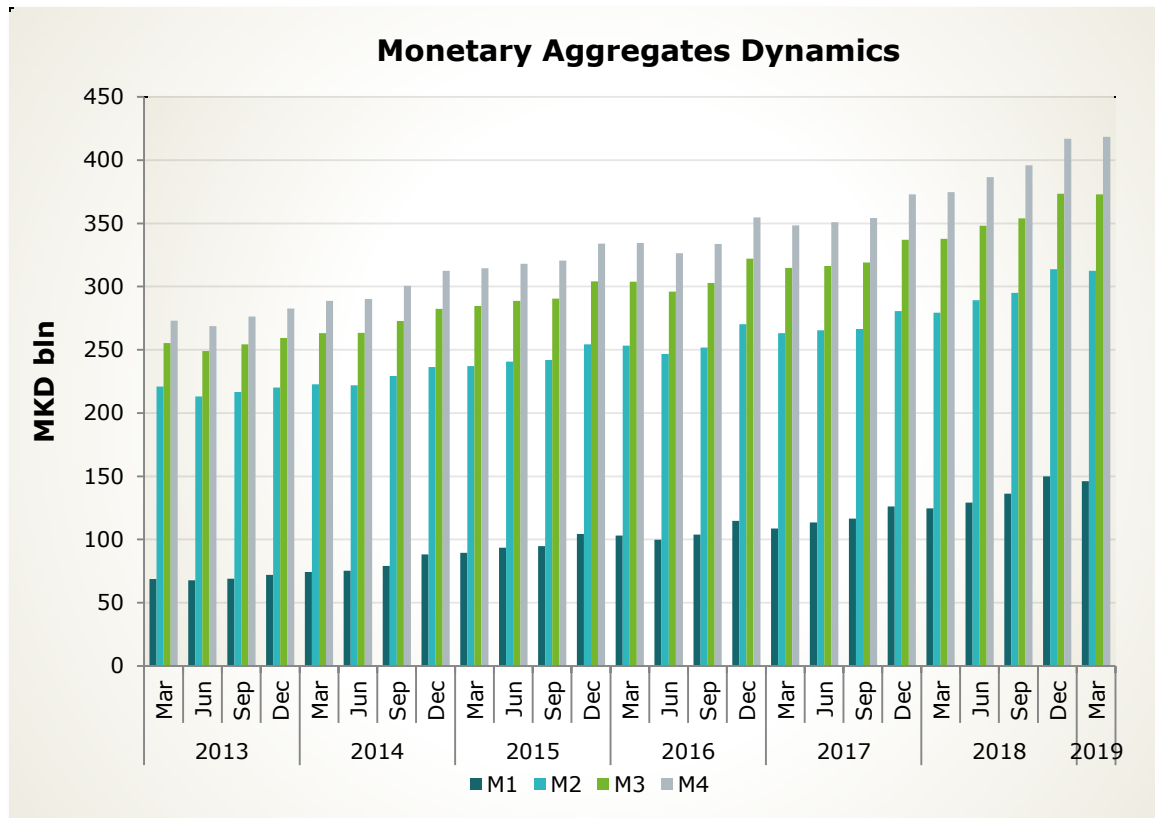
##### *Money supply growth was 11.7% y/y at end-March 2019*

Broad money (monetary aggregate M4) increased by 11.7% y/y and reached MKD 418.5 bln at the end of March 2019, according to data provided by NBRM.

The M2 money supply also grew, by 11.8% y/y, to MKD 312.5 bln.

The M3 money aggregate, which includes M2 and long-term deposits rose by 10.4% y/y to MKD 372.8 bln.

Money aggregate M1, or narrow money, expanded by 17.2% to MKD 146.2 bln.

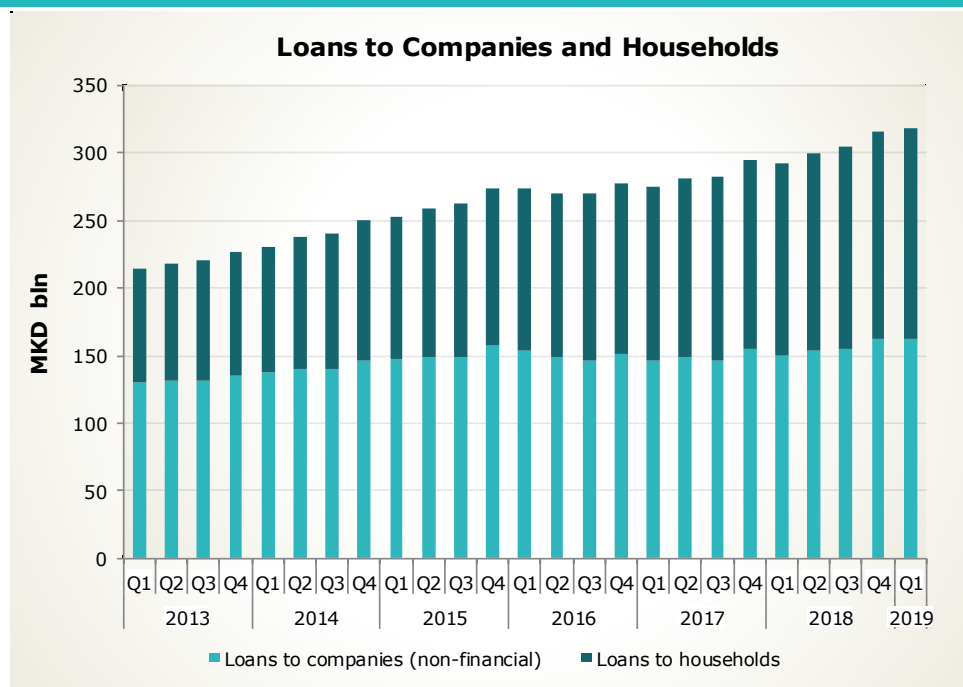


Source: NBRM

### 5.3. BANKING AND INSURANCE

#### Total loans increased by 9.3% y/y in Q1 2019

Loans to the non-government sector totalled MKD 322.6 bln in Q1 2019, up from MKD 295.1 bln in Q1 2018, according to NBRM. Household loans jumped by 9.8% to MKD 156.0 bln, while loans to non-financial corporations climbed by 8.5% to MKD 162.7 bln.

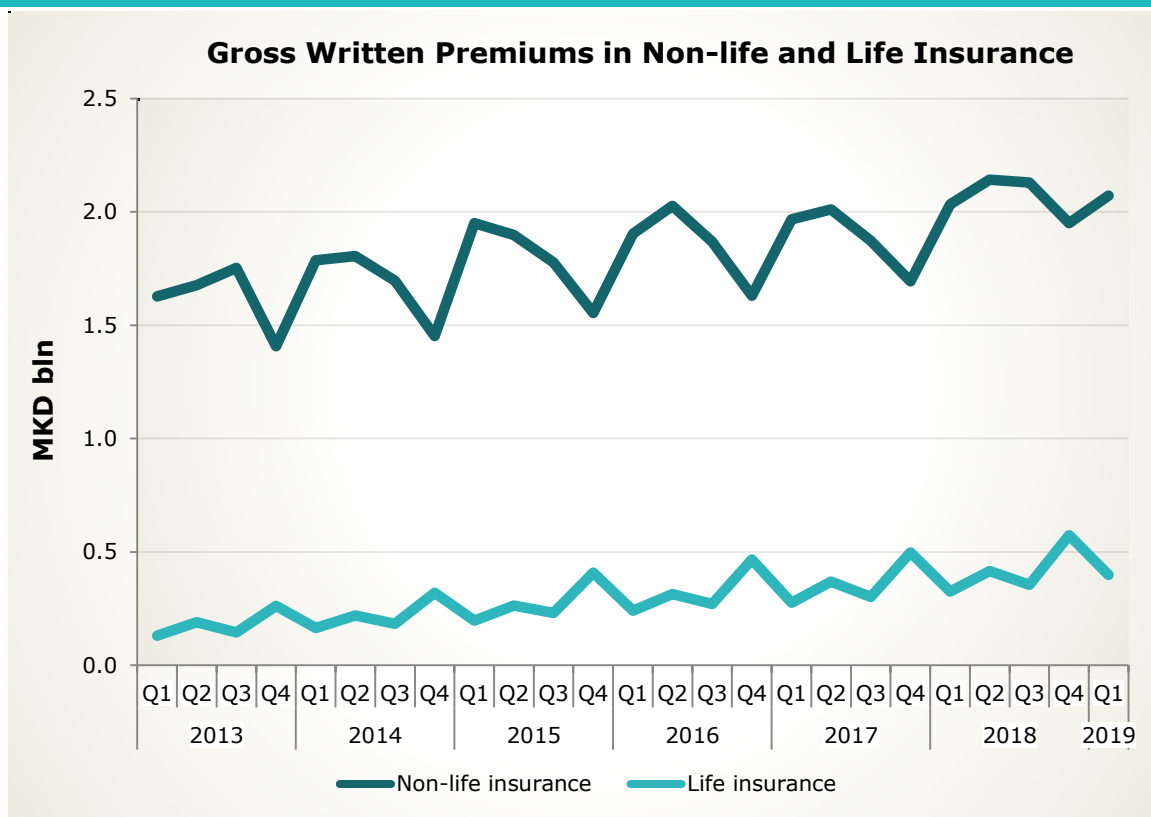


Source: NBRM

### **Insurance premium income went up by 10.4% y/y in Q1 2019**

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 9.928 bln, up by 10.4% y/y, in Q1 2019, according to North Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 8.258 bln, or by 9.4% more than in the same period of the previous year, while the life insurance market grew by 15.5% y/y to MKD 1.670 bln.



Source: ASO

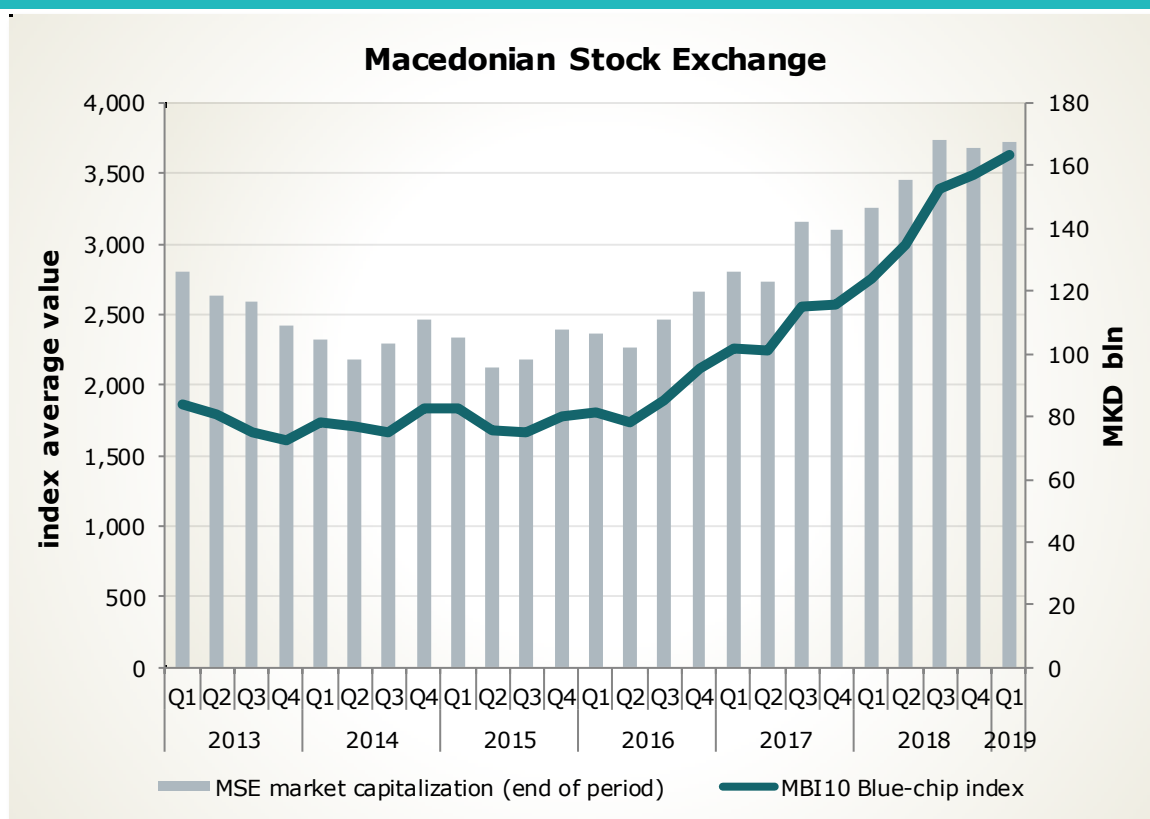
## 6. CAPITAL MARKETS

### Blue-chip MBI10 grew by 4.4% q/q in Q1 2019

The average value of MBI10, the blue-chip index of the North Macedonian Stock Exchange (MSE), went up by 4.4% q/q to 3,637 points in Q1 2019.

The total turnover on the MSE reached MKD 1.784 bln in Q1 2019 versus MKD 4.404 bln in the same quarter of 2018.

The market capitalisation of MSE in the period grew to MKD 167.4 bln from MKD 146.4 bln in Q1 2018.



Source: MSE

## 7. EXTERNAL SECTOR

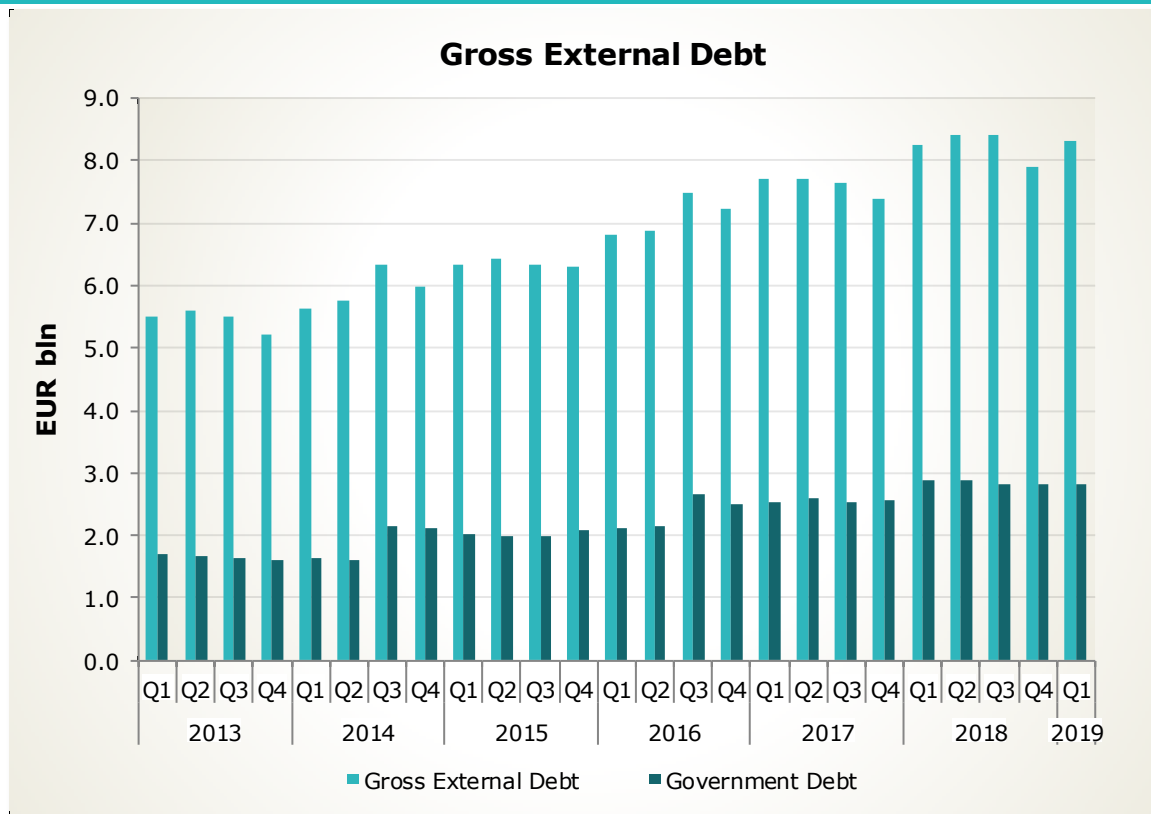
### 7.1. FOREIGN DEBT

*The gross external debt went up y/y to EUR 8.304 bln in March 2019*

The gross external debt totalled EUR 8.304 bln in March 2019, which was 70.9% of the projected full-year GDP, according to NBRM. The debt increased by 0.6% compared to March 2018. In comparison to December 2018, the gross external debt increased by EUR 397 mln.

As of March 2019, long-term liabilities amounted to EUR 5.938 bln, or 71.5% of the total debt, and short-term liabilities totalled EUR 2.367 bln, equal to 28.5% of the total debt.





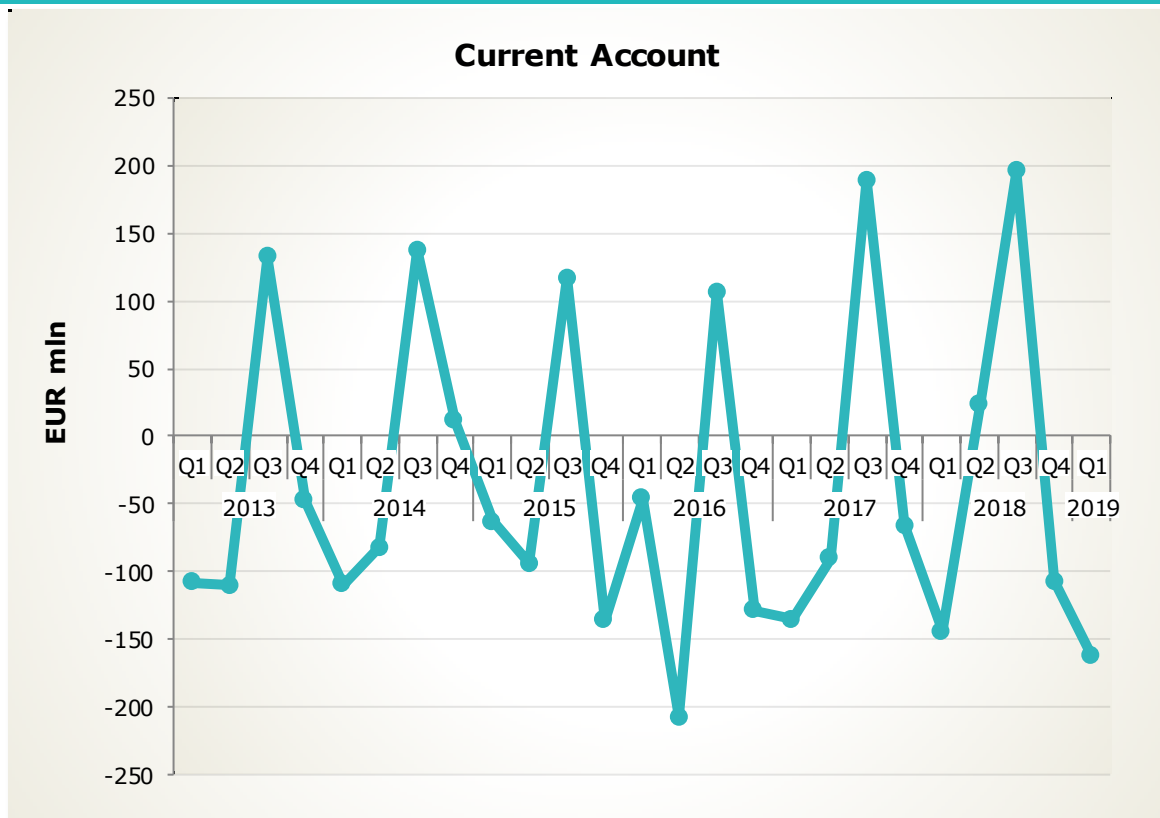
Source: NBRM

## 7.2. BALANCE OF PAYMENTS

**Current account deficit increased by 12.5% y/y to EUR 162.5 mln in Q1 2019**

The current account deficit climbed to EUR 162.5 mln in Q1 2019 from EUR 144.5 mln in Q1 2018, according to central bank statistics data.

Secondary income dropped by 0.9% y/y to EUR 326.2 mln in Q1 2019.



Source: NBRM

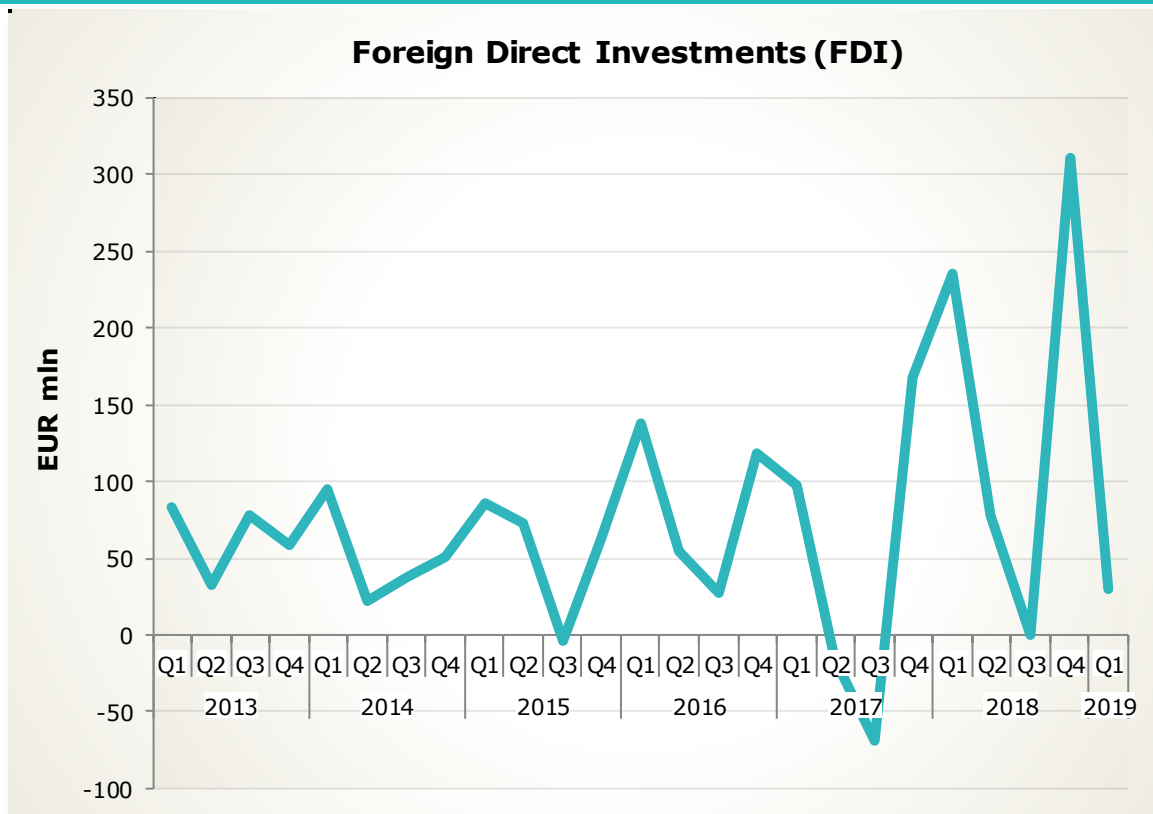
### 7.3. FDI

#### Net FDI inflow at EUR 29.7 mln in Q1 2019

The net FDI inflow in North Macedonia reached EUR 29.7 mln in the first quarter of 2019 compared to an inflow of EUR 235.1 mln a year earlier, according to NBRM.

For Q1 2019 the leaders in terms of FDI in North Macedonia were Bahamas, Switzerland and Turkey with investments of EUR 40.2 mln, EUR 30.0 mln and EUR 16.3 mln, respectively.

A breakdown by industries showed that the basic metals and fabricated metal products attracted the largest FDIs, of EUR 37.3 mln in the quarter, followed by financial intermediation, except insurance and pension funding with EUR 16.0 mln.

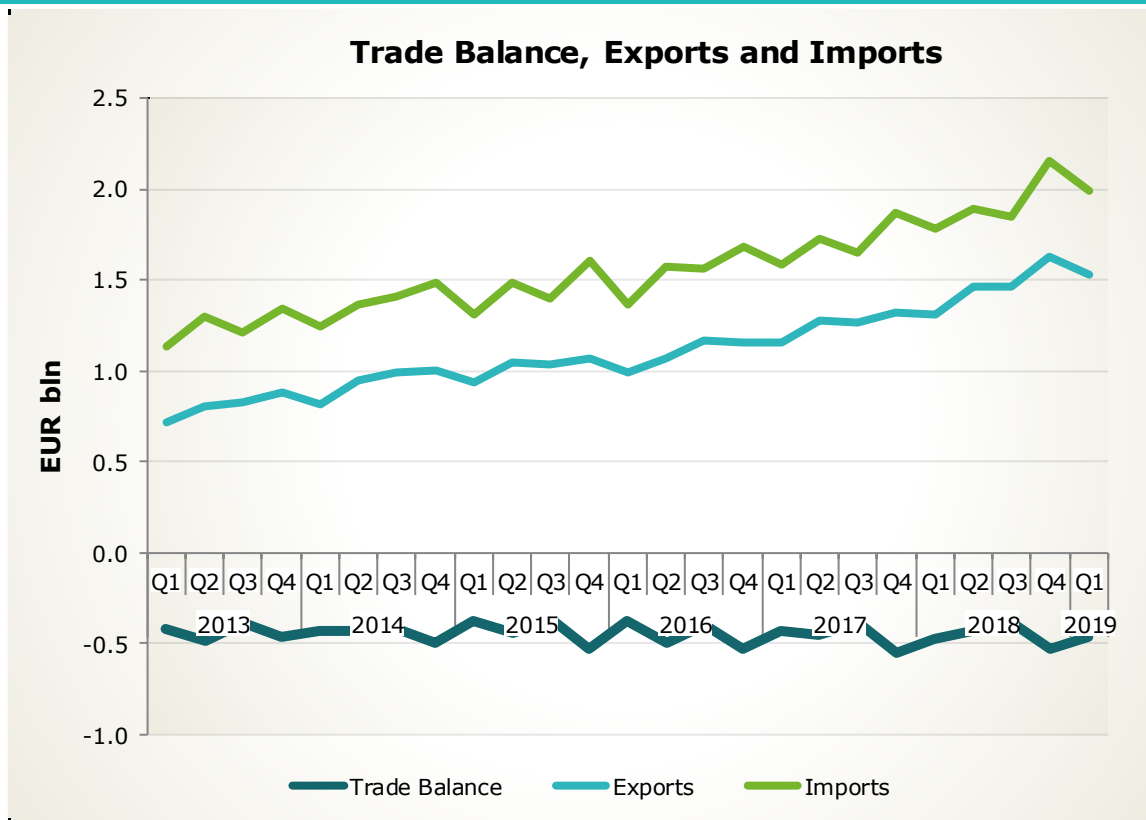


Source: NBRM

## 7.4. FOREIGN TRADE

### *Foreign trade deficit inched down by 3.1% y/y in Q1 2019*

The trade deficit stood at EUR 459.2 mln in Q1 2019, compared to EUR 474.2 mln a year earlier, according to NBRM. Exports increased by 16.8% y/y to EUR 1.529 bln, while imports went up by 11.5% y/y to EUR 1.988 bln.



## 7.5. TOURISM

### Number of foreign tourists overnights down by 2.1% y/y in Q1 2019

Tourist overnights of foreigners decreased by an annual 2.1% to 181,776 in Q1 2019, according to SSORM. Foreign tourist overnights accounted for 59.2% of the total tourist overnights in the country, down from 60.8% in the year-ago quarter.

The number of foreign citizens who visited the country was on the rise, by 0.6%, to 94,148.



Source: SSORM

## 8. MAJOR DEVELOPMENTS

### **EBRD lending EUR 30 mln to support SMEs in North Macedonia**

Mar 29, 2019

The European Bank for Reconstruction and Development (EBRD) is providing a EUR 30 mln loan to banks in North Macedonia for on-lending to small businesses. The funds will be accompanied by a package of technical assistance and incentive grants totalling EUR 4.5 mln from the EU national Instrument for pre-Accession Assistance (IPA).

[Read the full story here](#)

### **EU urges North Macedonia's MPs to back changes to law on public prosecution**

Mar 28, 2019

The head of the EU Delegation to North Macedonia urged the country's lawmakers to consider the adoption of amendments to the law on public prosecution.

[Read the full story here](#)

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**Skopje joins EBRD's Green Cities programme**

Mar 27, 2019

Skopje has become North Macedonia's first city to join the European Bank for Reconstruction and Development's urban greening programme and develop an action plan for dealing with environmental challenges, according to the bank.

[Read the full story here](#)

**CEI okays grants to back EBRD investments in Serbia and North Macedonia**

Mar 4, 2019

The Central European Initiative (CEI) has approved the delivery of grant-type assistance in support of investments of the European Bank for Reconstruction and Development (EBRD) in Serbia and North Macedonia

[Read the full story here](#)

**EBRD mulls EUR 13 mln loan to improve highway toll system in North Macedonia**

Feb 15, 2019

The European Bank for Reconstruction and Development (EBRD) is considering a sovereign-guaranteed loan of up to EUR 13 mln to North Macedonia's public enterprise for state roads (PESR) to improve its highway toll system.

[Read the full story here](#)

**Macedonia changes name to North Macedonia**

Feb 13, 2019

The agreement between Macedonia and Greece and the constitutional amendments to change the name of the former Yugoslav republic to North Macedonia have officially entered into force.

[Read the full story here](#)

**NATO member states sign Macedonia accession protocol**

Feb 6, 2019

The North Atlantic Treaty Organization (NATO) said its member states signed an accession protocol with Macedonia, following a historic agreement between Skopje and Athens to change the name of the former Yugoslav Republic.

[Read the full story here](#)

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