

MACEDONIA ECONOMY REPORT

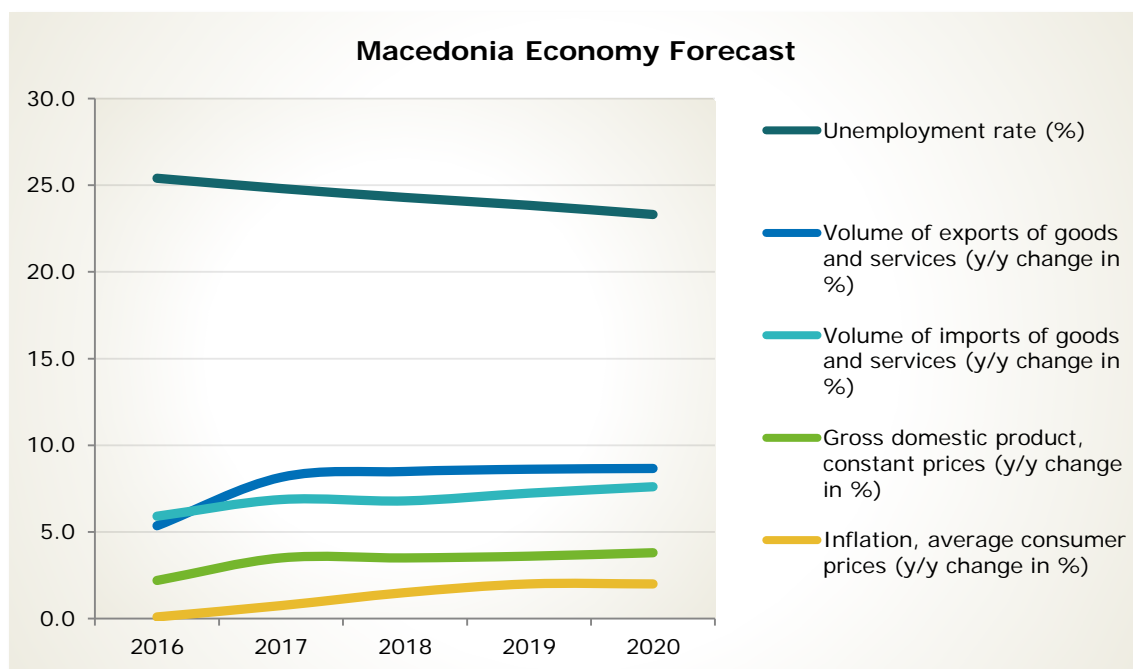
Q2 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q2 2016	
GDP Growth	2.2% y/y
Industrial output	5.6% y/y
Industrial sales	9.9% y/y
Wholesales	-3.9% y/y
Retail sales	7.8% y/y
Average annual deflation	0.4%
Unemployment rate	24.0%
Number of building permits	28.0% y/y
Money supply growth	2.5% y/y
Household loans	8.4% y/y
MBI10 blue-chip index	3.5% y/y
Gross external debt	EUR 6.915 bln
Current account deficit	EUR 184.2 mln
Net FDI inflow	EUR 122.9 mln
Foreign trade deficit	EUR 500.8 bln
Number of foreign tourist overnights	1.3% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2016

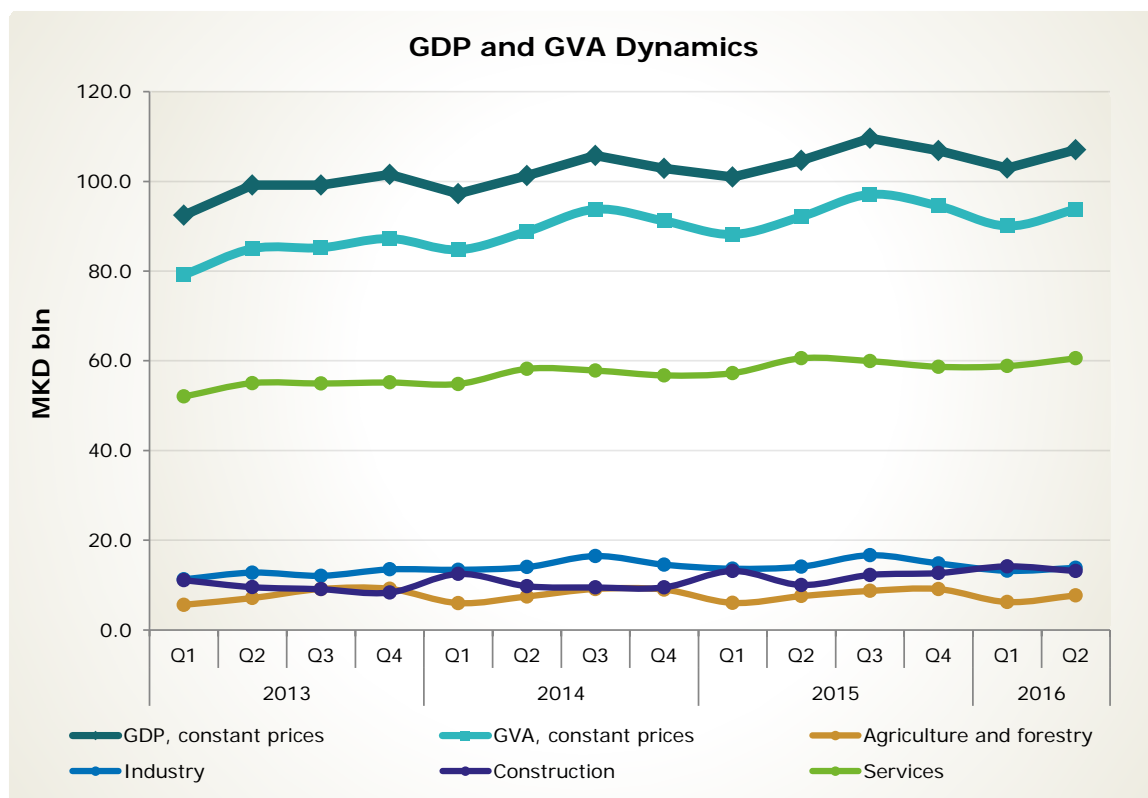
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 2.2% y/y in Q2 2016, compared to a 3.4% y/y growth in Q2 2015

The country's GDP increased by a real 2.2% y/y and totalled MKD 107.0 bln in Q2 2016, according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).

Final consumption, which contributed 90.0% to the GDP, increased in value terms by 1.4% y/y to MKD 96.364 bln in Q2 2016. Gross capital formation went up by 9.2% to MKD 30.689 bln, contributing 28.7% to the GDP. Both exports and imports grew - by 7.1% and 6.9%, respectively.



Source: SSORM

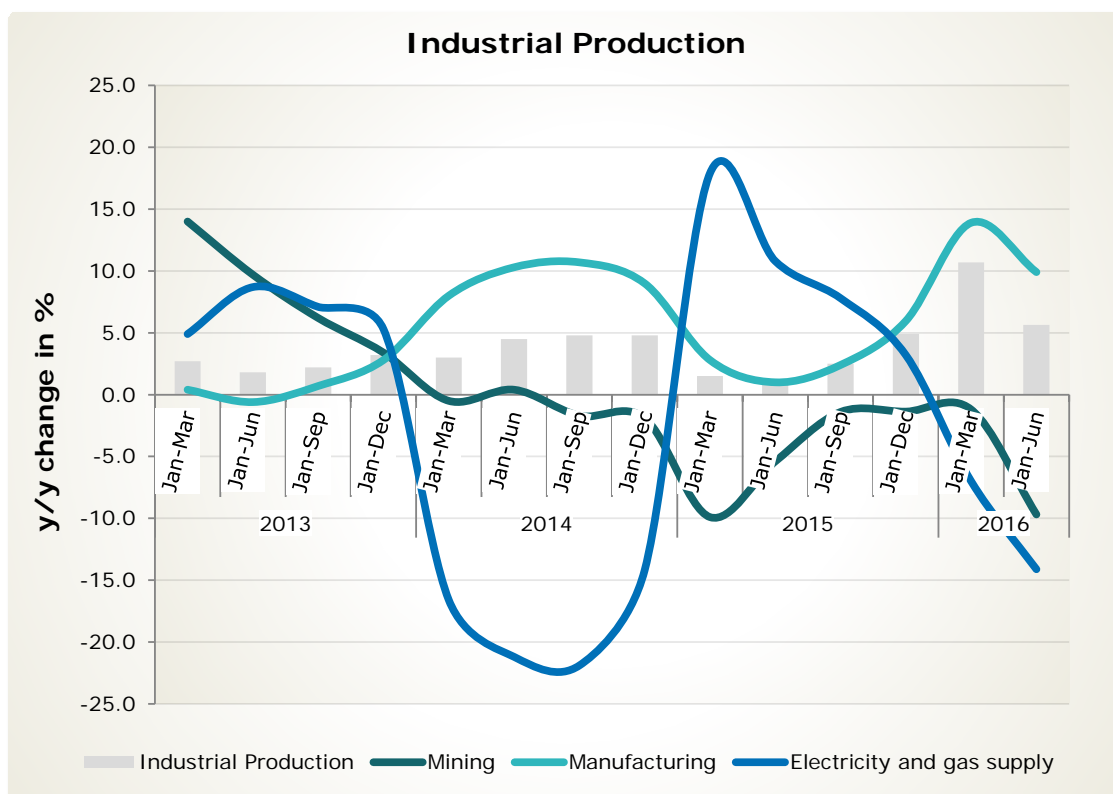
The gross value added (GVA) generated by the national economy increased in value by 1.8% y/y in Q2 2016 and totalled MKD 93.790 bln. The agricultural sector registered an increase of 2.3%, but its share in the GVA remained unchanged, at 8.2%. The industrial sector went down by 1.8% and its share in the GVA structure decreased to 14.8% from 15.3%. The construction industry jumped by 31.0%, thus slicing a 14.0% share, an increase in comparison to the 10.9% share in Q2 2015. The services sector recorded a 1.8% decrease, slicing a 64.6% share in the GVA, down from 65.7%.

2.2. INDUSTRIAL OUTPUT

Industrial output increased by 5.6% y/y in January-June 2016

Industrial output went up by 5.6% on the year in Q2 2016, according to SSORM. The output of the manufacturing sector rose by 9.9%. The production in the electricity and gas supply sector and in the mining sector fell by 14.1% and 9.7%, respectively.

Manufacturing of motor vehicles, trailers and semi-trailers was the segment to report the highest annual production growth, of 58.3%, while manufacturing of chemicals and chemical products dropped the most, by 21.2%.

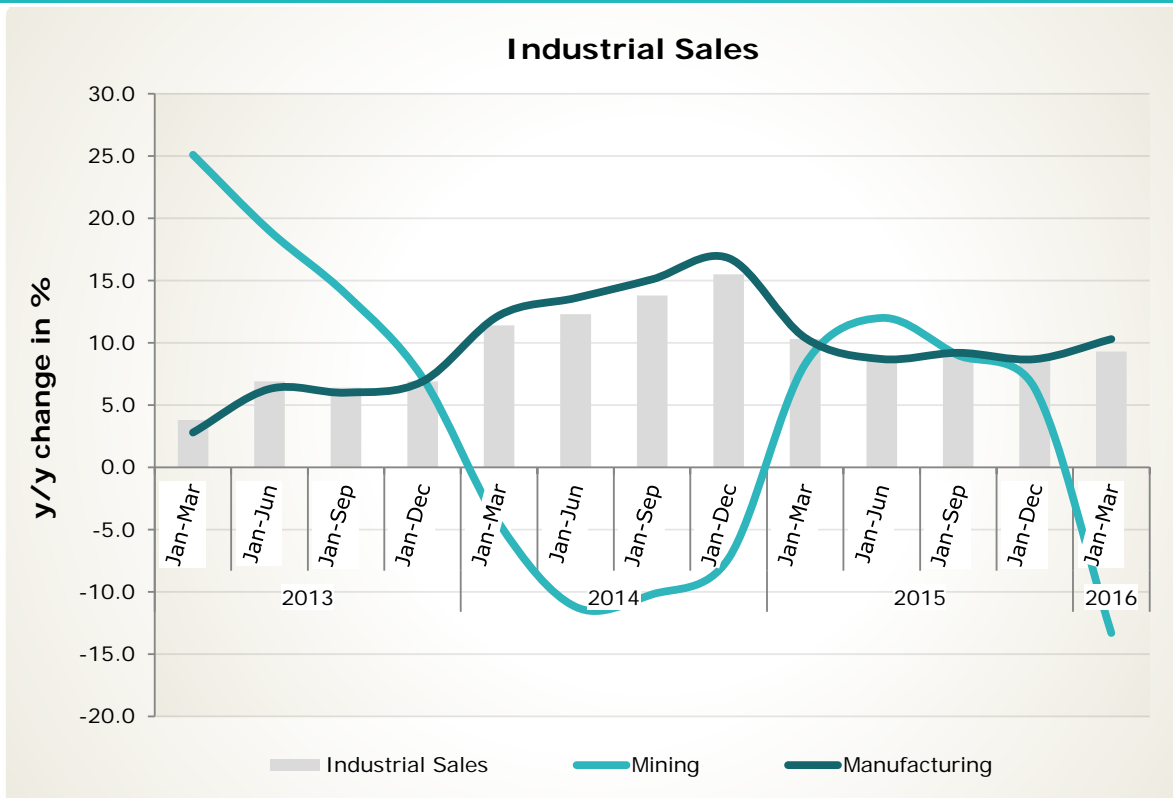


Source: SSORM

2.3. INDUSTRIAL SALES

Industrial sales went up by 9.9% y/y in January-June 2016

Industrial sales rose by 9.9% y/y in the first six months of 2016, according to SSORM data. Sales in the manufacturing sector grew by 11.1%, while sales in the mining sector went down by 17.6%.



Source: SSORM

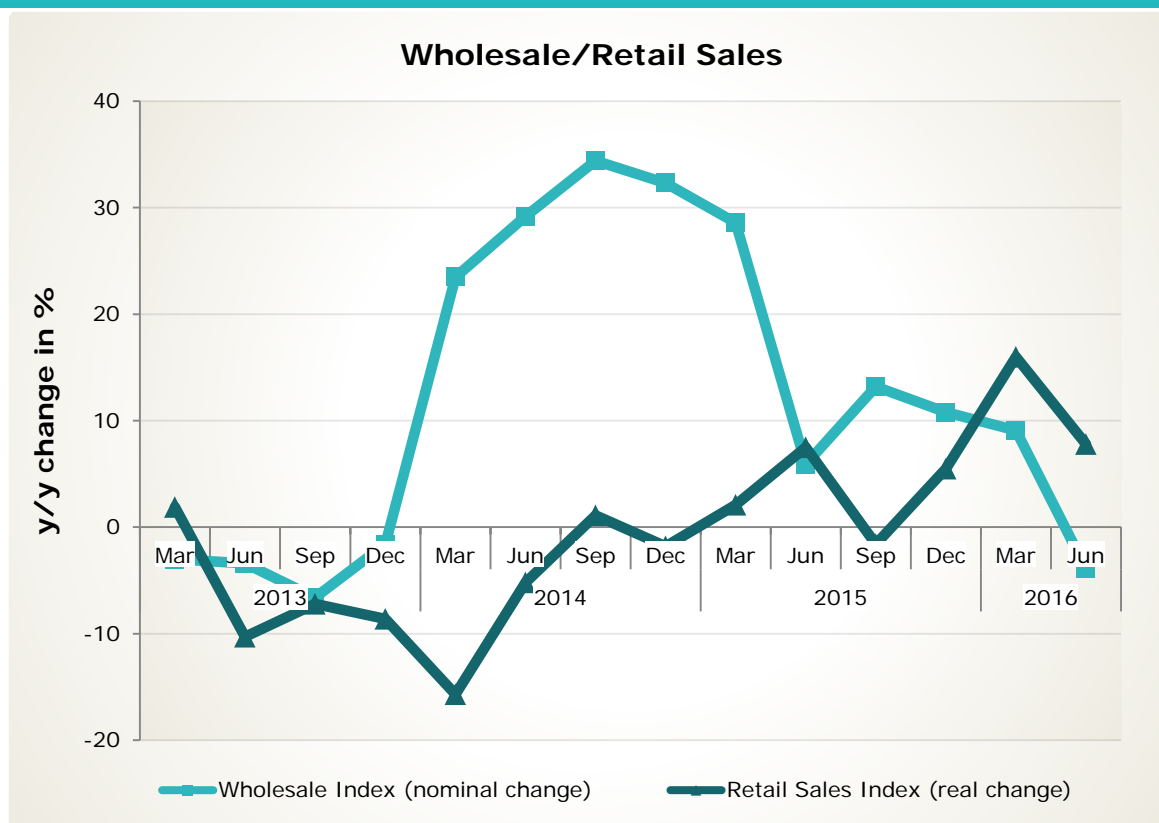
2.4. WHOLESALE/RETAIL

Wholesale fell, retail grew y/y in June 2016

Retail trade, except motor vehicles and motorcycles, increased by real 7.8% y/y in June 2016, according to SSORM. In May retail sales went up by 7.3%, while in April they jumped by 11.9%.

Retail sales of non-food products (except fuel) marked the highest growth, of 16.1% y/y, in June 2016, while retail trade of automotive fuel narrowed by 5.6%.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went down by nominal 3.9% y/y in June 2016. In May and April the sector inched up by annual 0.7% and 0.5%, respectively.



Source: SSORM

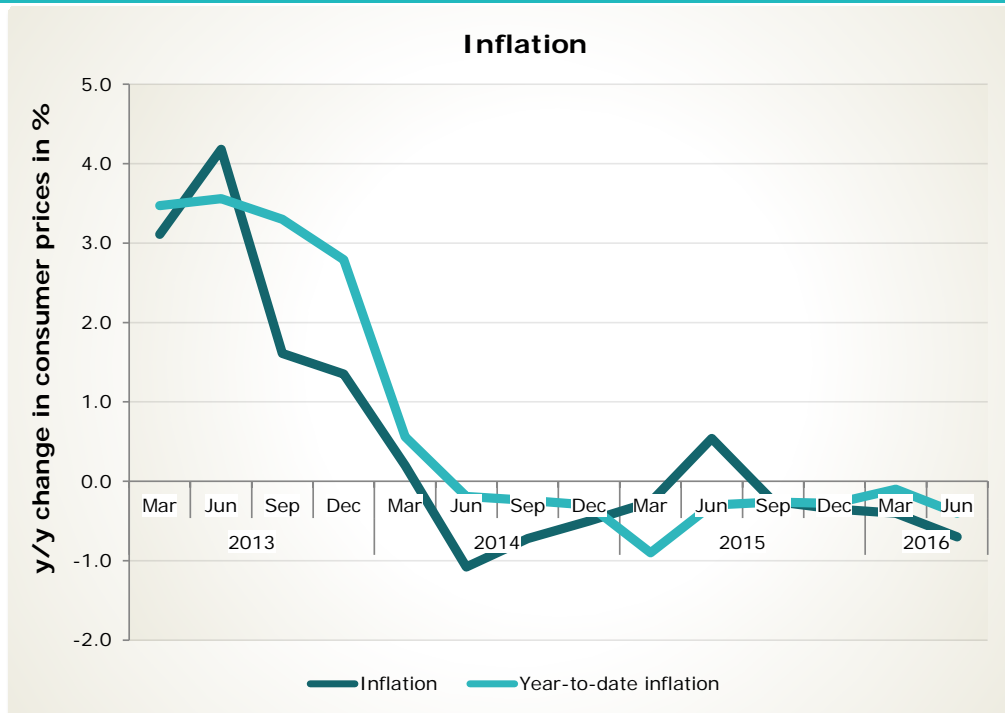
2.5. INFLATION

Annual average deflation of 0.4% in Jan-June 2016

In the period of January–June 2016 the average annual deflation speeded up to 0.4% from 0.3% in the same period of the previous year, according to SSORM.

The highest annual average decrease in prices was registered in liquid fuels – 23.0%, followed by heat energy with 18.3% and fuels and lubricants for personal transport equipment with 11.0%.

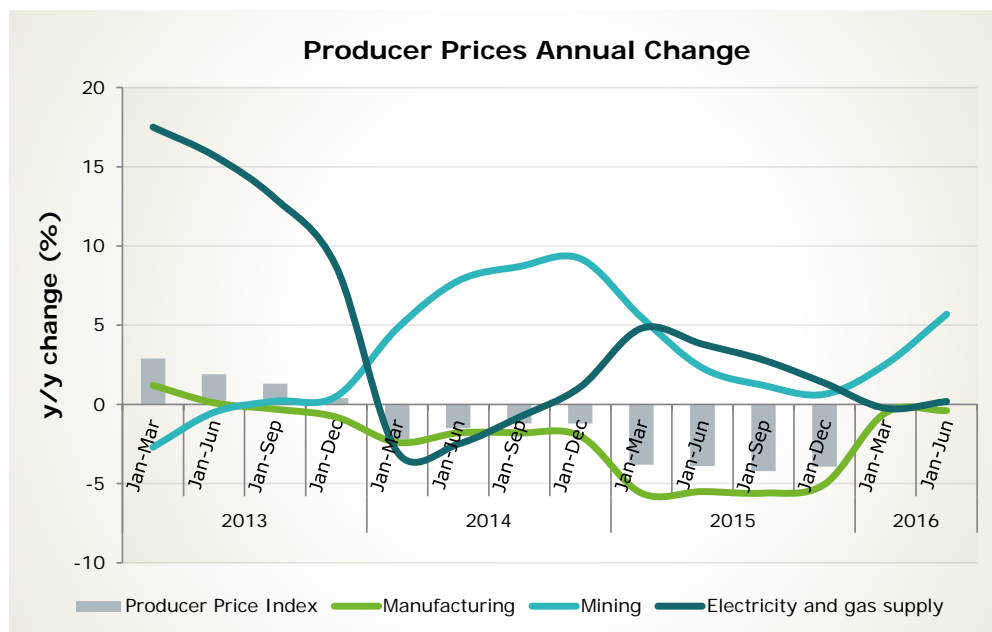
The consumer groups that recorded the highest inflation were carpets and other floor coverings, information processing equipment, and hospital services – 17.1%, 16.7% and 10.3%, respectively.



Source: SSORM

Producer prices remained unchanged on the year in Q2 2016 with most of the industries registering a growth – prices of the mining, and electricity and gas supply industries went up by 5.7%, and 0.2%, respectively, while prices in the manufacturing industry fell by 0.4%.

Segment wise, producer prices grew the most, by 16.8%, in the other manufacturing sector, while the sharpest drop, of 7.9%, was in the repair and installation of machinery and equipment.



Source: SSORM

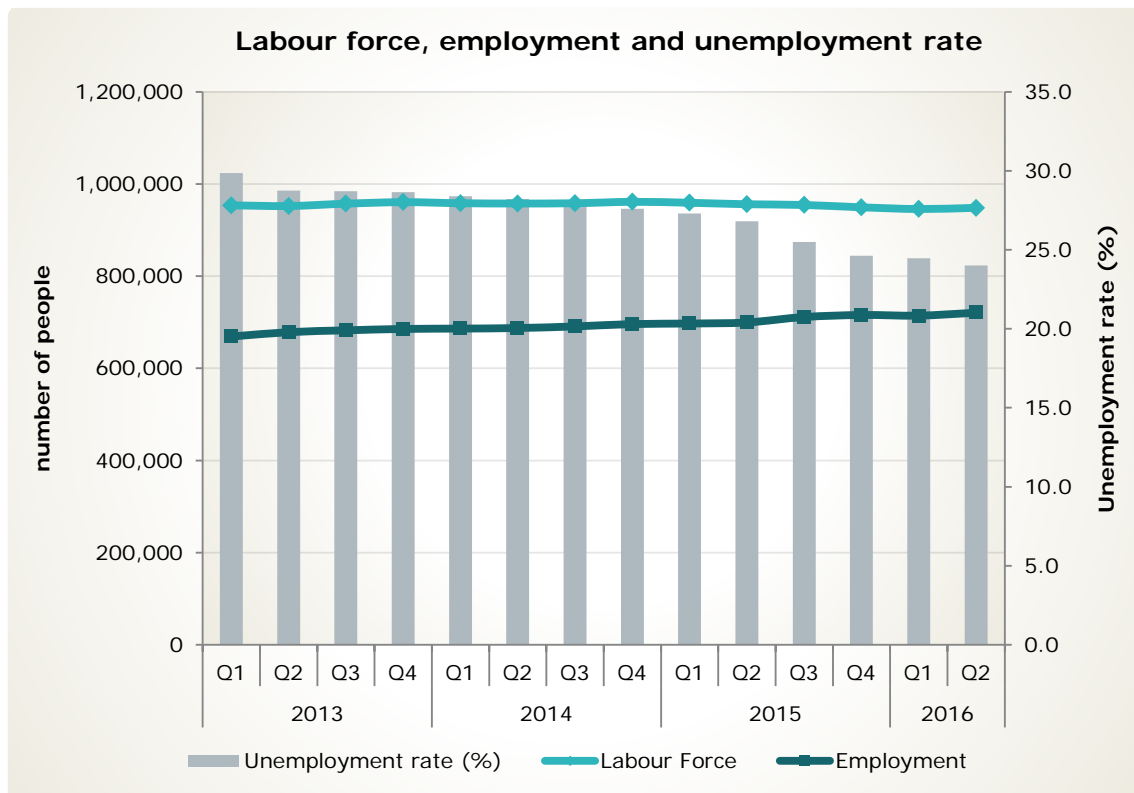
3. LABOUR MARKET

Unemployment rate at 24.0%, wages grew 1.6% y/y in Q2 2016

Unemployment in Macedonia narrowed to 24.0% of the total labour force in the second quarter of 2016 from 26.8% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 720,674 in Q2 2016, up by 3.0% y/y.

Youth (population aged 15-24) unemployment rate went up to 49.2%, compared to 46.3% in Q2 2015.



Source: State Statistical Office

According to data of SSORM, the average monthly salary in Q2 2016 went up by 1.6% in annual terms to MKD 22,289. Employees in sports, amusement and recreation activities, and computer programming, consultancy and related activities earned the highest salaries, of MKD 51,512 and MKD 49,882, respectively. Air transport came third with MKD 46,946. The lowest wages were registered in fishing and aquaculture - MKD 10,520, manufacture of leather and related products - MKD 11,606, and manufacture of wearing apparel - MKD 12,432.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits rose by 28.0% y/y in Q2 2016

The number of building permits issued in Macedonia in Q2 2016 jumped by 28.0% y/y and totalled 475, according to SSORM. The buildings construction works value amounted to MKD 8.568 bln, up from MKD 5.472 bln a year earlier.

The number of planned dwellings more than doubled on the year to 2,068. The total built-up area of the housing units, covered by the permits, also doubled y/y to 162,632 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR increased to MKD 61.6893 in Q2 2016 from MKD 61.6767 in Q1 2016 and MKD 61.6283 in Q2 2015, according to National Bank of the Republic of Macedonia (NBRM) data.

MKD Average Exchange Rate			
Foreign Currency	Q2 2016	Q1 2016	Q2 2015
EUR	61.6893	61.6767	61.6283
USD	54.6562	55.9794	55.7145
GBP	78.4665	80.2357	85.3788
CHF	56.2761	56.3004	59.1590

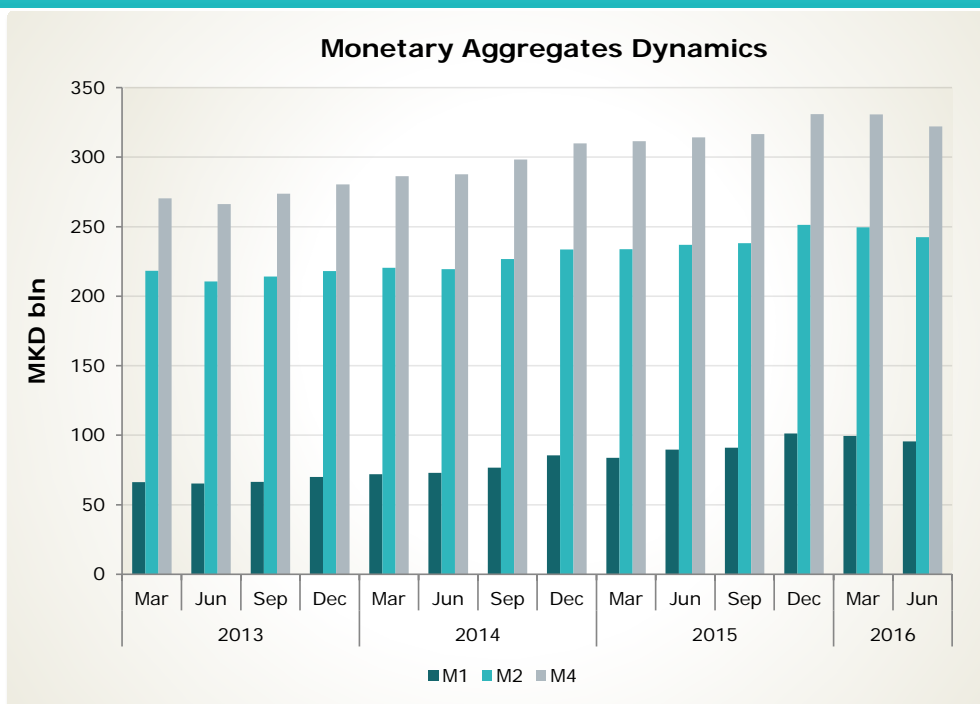
5.2. MONETARY AGGREGATES

Money supply growth was 2.5% y/y at end-June 2016

Broad money (monetary aggregate M4) increased by 2.5% y/y and reached MKD 322.2 bln at the end of June 2016, according to data provided by NBRM.

The M2 money supply also grew, by 2.3% y/y, to MKD 242.4 bln.

Money aggregate M1, or narrow money, went up by 6.6% to MKD 95.543 bln.

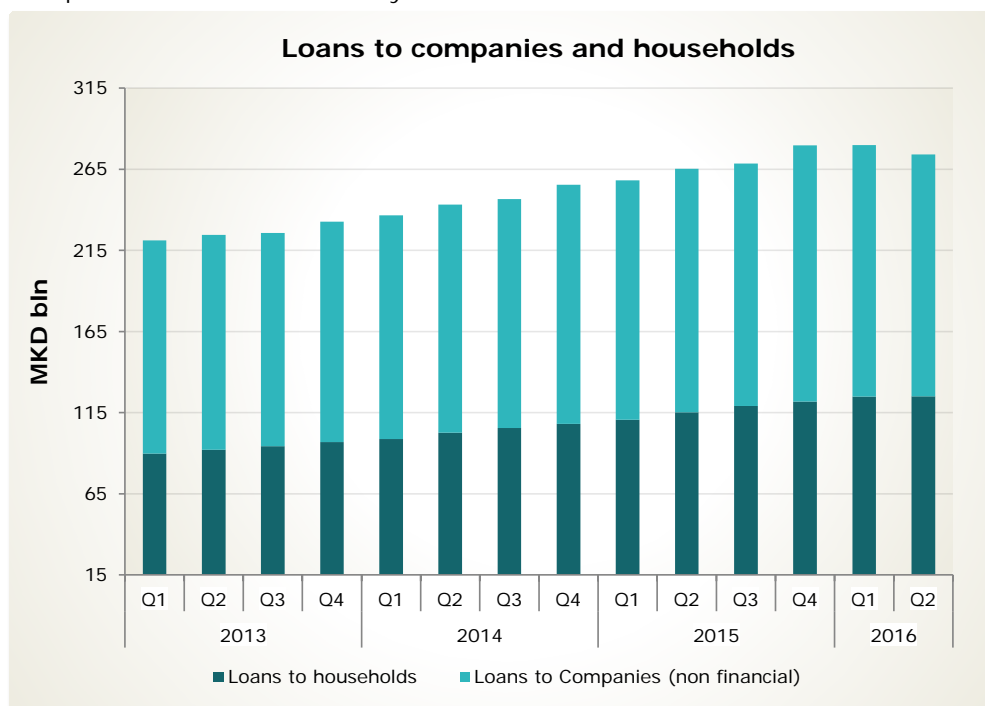


Source: NBRM

5.3. BANKING AND INSURANCE

Household loans increased by 8.4% y/y in Q2 2016

Loans to the non-government sector totalled MKD 274.1 bln in Q2 2016, up by 3.4% y/y, according to NBRM. Household loans jumped by 8.4% to MKD 125.0 bln. Loans to non-financial corporations inched down by 0.5% to MKD 149.1 bln.



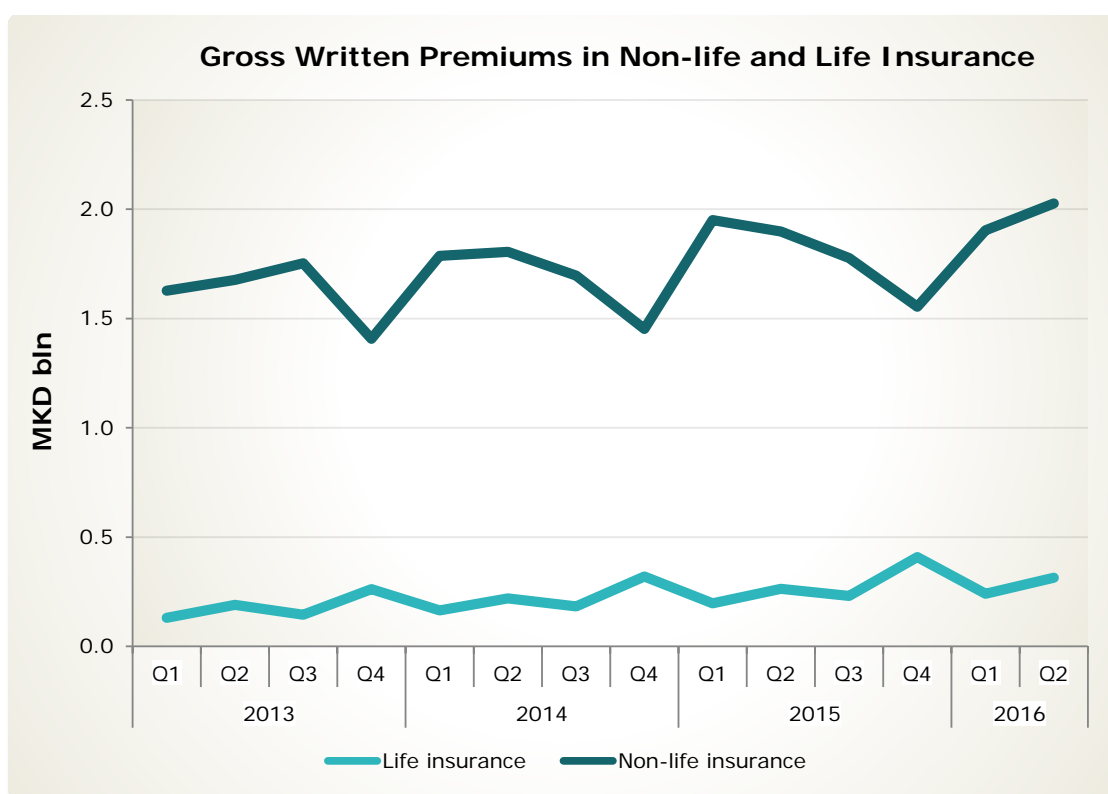
Source: NBRM

As of end-June 2016, the assets of the banking system totalled MKD 416.5 bln, up by 3.2% compared to a year earlier. The total net profit of the banks soared to MKD 2.857 bln versus MKD 2.051 bln in Q2 2015.

Insurance premium income went up by 8.2% y/y in Q2 2016

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.340 bln, up by 8.2% y/y, in Q2 2016, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 2.026 bln, or by 6.7% more than in the corresponding quarter of the previous year, while the life insurance market grew by 18.8% y/y to MKD 313.9 mln.



Source: ASO

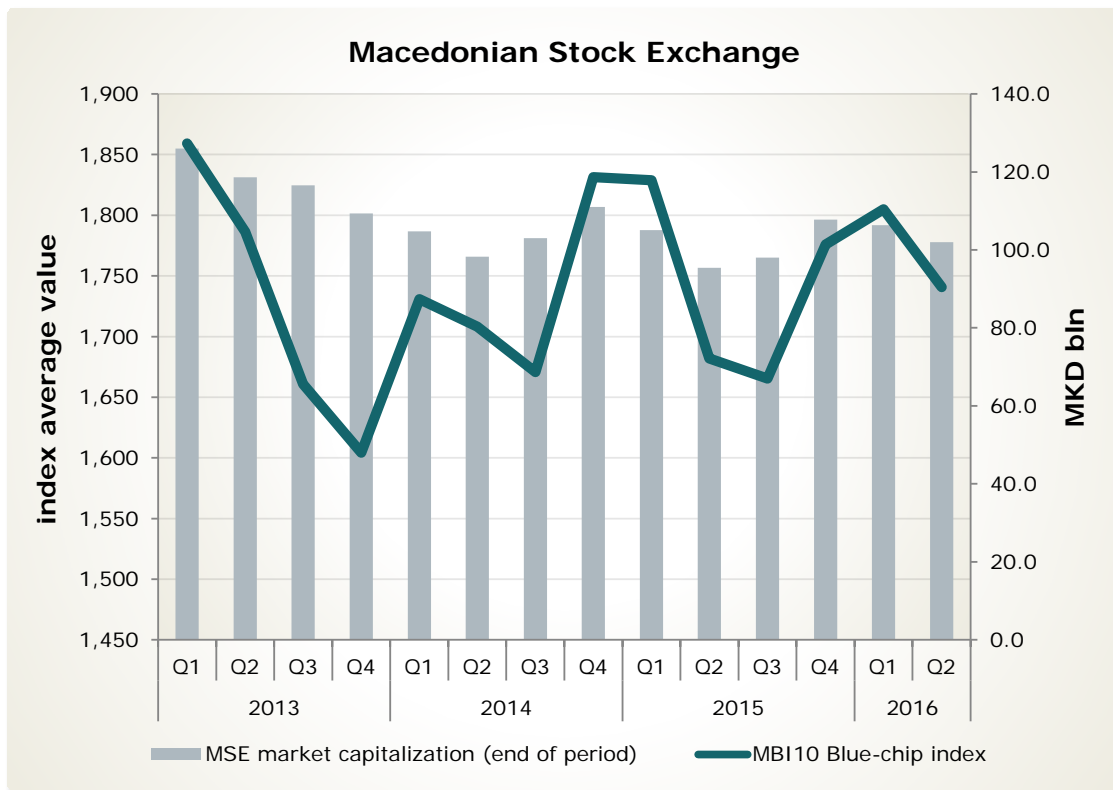
6. CAPITAL MARKETS

Blue-chip MBI10 increased by 3.5% y/y in Q2 2016

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 3.5% y/y to 1,741 points in Q2 2016.

The total turnover on the MSE reached MKD 832.7 mln in Q2 2016 versus MKD 723.0 bln a year earlier.

The market capitalisation of MSE grew to MKD 102.0 bln from MKD 95.423 bln.



Source: MSE

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up to EUR 6.915 bln in Q2 2016

The gross external debt totalled EUR 6.915 bln in Q2 2016, which was 73.1% of the projected full-year GDP. The debt increased by 7.8% or EUR 498.4 mln, compared to Q2 2015. In comparison to Q1 2016 the gross external debt rose by EUR 102.1 mln.

As of Q2 2016, long-term liabilities amounted to EUR 5.073 bln, or 73.4% of the total debt, and short-term liabilities totalled EUR 1.841 bln, equal to 26.6% of the total debt.

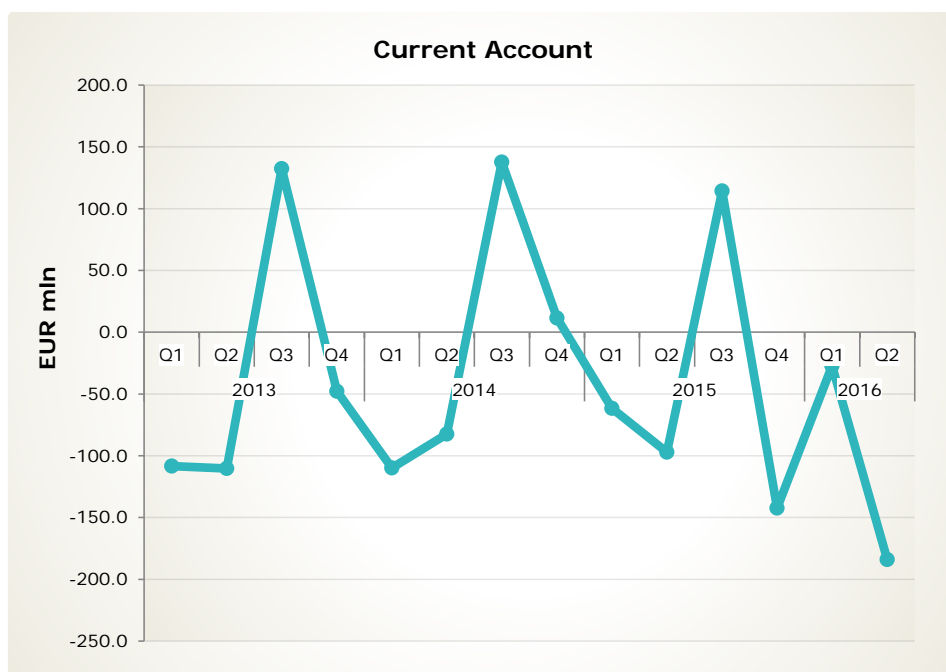


Source: NBRM

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 184.2 mln in Q2 2016

The current account deficit jumped to EUR 184.2 mln in Q2 2016 from EUR 97.183 mln in Q2 2015, according to central bank statistics data. Secondary income fell by 11.8% y/y to EUR 321.1 bln in Q2 2016.



Source: NBRM

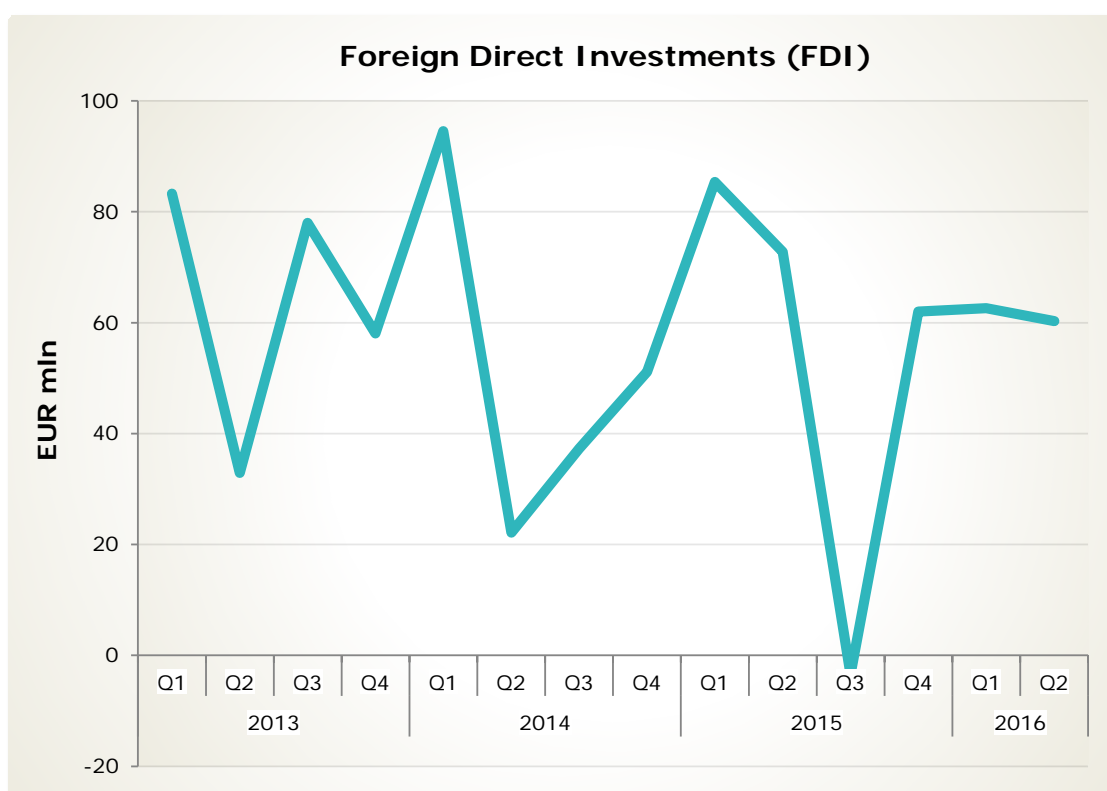
7.3. FDI

Net FDI inflow at EUR 60.290 mln in Q2 2016

The net FDI inflow in Macedonia decreased to EUR 60.290 mln in Q2 2016 from EUR 72.797 mln a year earlier, according to NBRM.

For the second quarter of 2016, the leaders in terms of FDI in Macedonia were Turkey, Luxembourg and Netherlands with investments of EUR 8.267 mln, EUR 6.601 mln and EUR 6.275 mln, respectively.

A breakdown by industries showed that the wholesale trade, except of motor vehicles and motorcycles segment was the leader in terms of attracted FDI with EUR 9.062 mln, motor vehicles, trailers and semitrailers followed with EUR 8.467 mln, and human health and social work activities was third with EUR 6.549 mln.



Source: NBRM

7.4. FOREIGN TRADE

Foreign trade deficit grew by 12.2% y/y in Q2 2016

The trade deficit stood at EUR 500.8 mln in the second quarter of 2016, compared to EUR 446.5 mln a year earlier, according to NBRM.

Macedonia's most exported goods in Q2 2016 were chemical products, which accounted for 20.7% of the total, followed by general industrial machinery with a 11.5% share and electrical machinery with a 11.1% share.

In terms of imports, non-ferrous metals had the largest share, of 13.8%, followed by textiles with a 7.5% share, and electrical machinery, with a 6.1% share.



Source: NBRM

7.5. TOURSIM

Number of foreign tourist overnights grew by 1.3% y/y in Q2 2016

Tourist overnights of foreigners increased by an annual 1.3% to 291,448 in Q2 2016, according to SSORM. Foreign tourist overnights accounted for 63.0% of the total tourist overnights in the country, down from 64.0% in the year-ago quarter.

The number of foreign citizens who visited the country also went up, by 4.5%, to 150,528. Most of the foreign tourists came from Turkey, 27.5% of the total, followed by Serbia, with 9.0%, and Bulgaria with 6.5%.



Source: SSORM

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