

## MACEDONIA ECONOMY REPORT

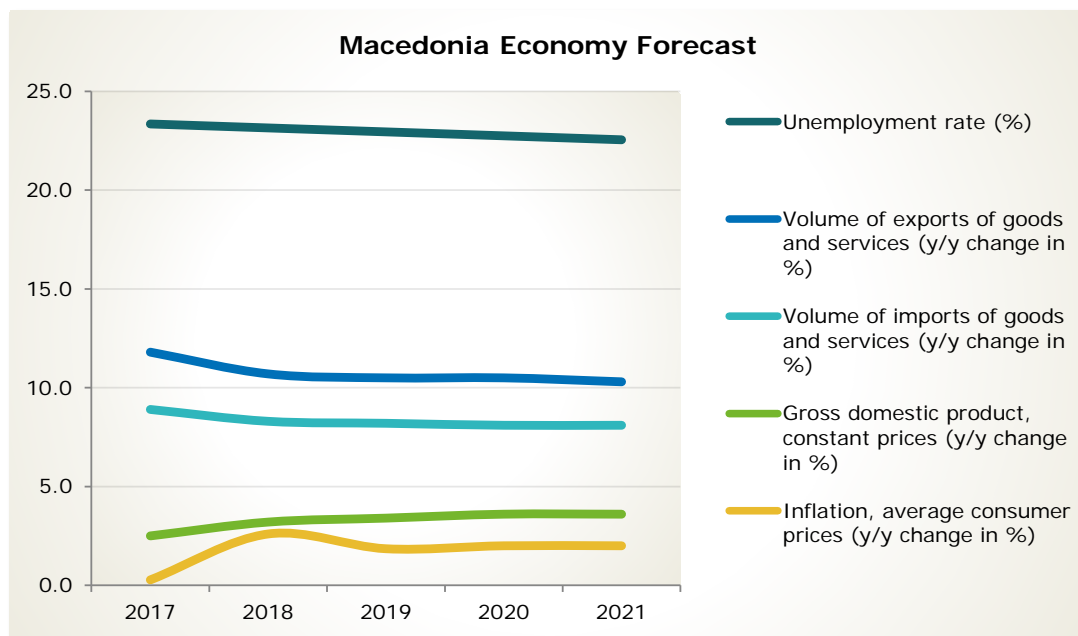
### Q2 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q2 2017	
<b>GDP Growth</b>	-1.8% y/y
<b>Industrial output</b>	1.2% y/y
<b>Industrial sales</b>	9.1% y/y
<b>Wholesales</b>	7.3% y/y
<b>Retail sales</b>	-1.3% y/y
<b>Average annual inflation</b>	0.9%
<b>Unemployment rate</b>	22.6%
<b>Number of building permits</b>	-5.3% y/y
<b>Money supply growth</b>	7.8% y/y
<b>Household loans</b>	9.7% y/y
<b>MBI10 blue-chip index</b>	-0.3% q/q
<b>Gross external debt</b>	EUR 7.781 bln
<b>Current account deficit</b>	EUR 92.6 mln
<b>Net FDI inflow</b>	EUR 83.4 mln
<b>Foreign trade deficit</b>	EUR 450.3 mln
<b>Number of foreign tourist overnights</b>	15.7% y/y

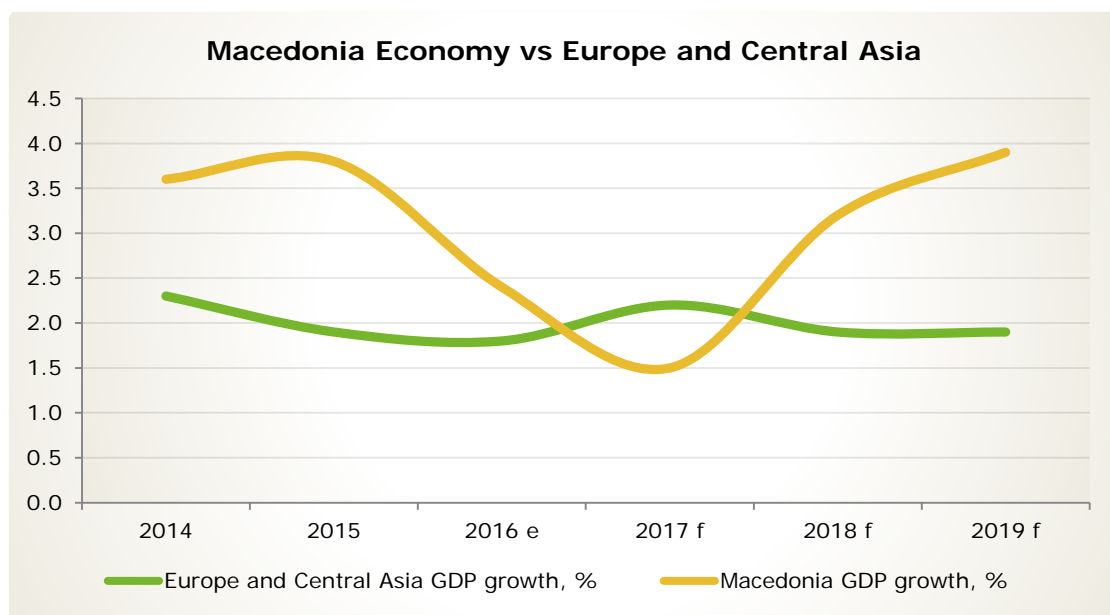


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

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. The country's GDP is expected to accelerate its pace of growth in 2017 to 2.5% from 2.4% in 2016, according to an IMF forecast. The economy will benefit from stabilization 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 labor market and strengthening of credit growth. In 2018, GDP will rise by 3.2% and further speed up to 3.4% in 2019 and 3.6% in 2020.

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, while population ageing will drag on the public finances in the long term.



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

The World Bank expects the country's GDP growth to decelerate to 1.5% in 2017 but bounce back up to 3.2% 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 2.9 percent of GDP in 2017-2019, driven by consumption and investment demand. The fiscal deficit is expected to remain at a sizable 3.0 percent of GDP in 2017 but then to decline gradually to 2.2 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	1.5	3.2	3.9
Private Consumption	2.2	3.7	4.2	2.4	2.8	3.0
Government Consumption	3.0	2.1	1.6	1.5	1.7	1.7
Gross Fixed Capital Investment	5.7	2.1	-3.9	-2.6	2.8	4.7
Exports, Goods and Services	16.5	6.7	11.5	8.4	6.9	6.3
Imports, Goods and Services	14.1	5.2	7.6	6.3	5.1	4.6
Real GDP growth, at constant factor prices (by sectors)	6.5	4.5	3.2	1.2	3.2	3.9
Agriculture	2.2	-0.7	2.8	0.5	1.2	1.0
Industry	11.8	7.8	7.6	2.0	5.6	5.1
Services	5.0	3.9	1.3	0.9	2.3	3.7

Inflation (Consumer Price Index)	-0.3	-0.3	-0.2	0.9	1.6	2.0
Current Account Balance (% of GDP)	-0.6	-2.0	-3.1	-3.1	-2.9	-2.9
Net Foreign Direct Investment (% of GDP)	2.3	2.3	3.6	2.6	3.0	3.2

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

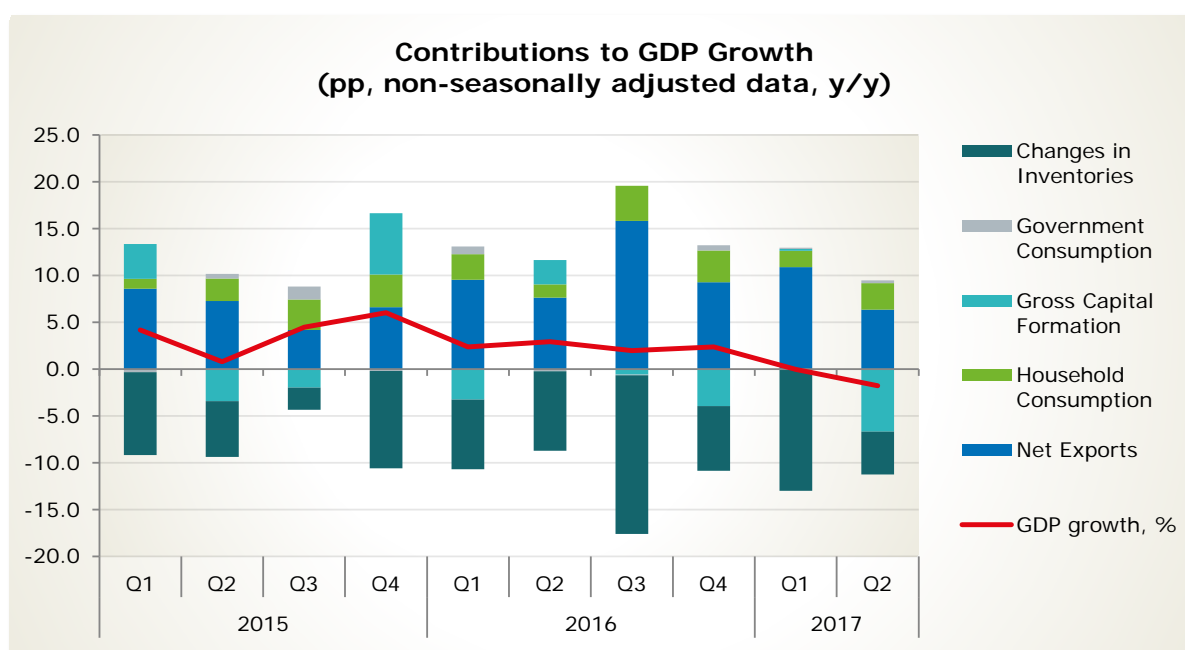
The political situation is already resolved as a downside risk to the economy, according to the World Bank. However, the primary source of downside risk is the fiscal situation, represented by high fiscal deficit, rising public debt, deteriorating public financial management, arrears accumulation and the pension system deficit, which could threaten stability and undermine growth prospects in the medium term.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### *GDP down y/y in Q2 2017 on worsening gross capital formation*

During the second quarter of 2017, the country's GDP decreased by 1.8% y/y to MKD 106.2 bln according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).

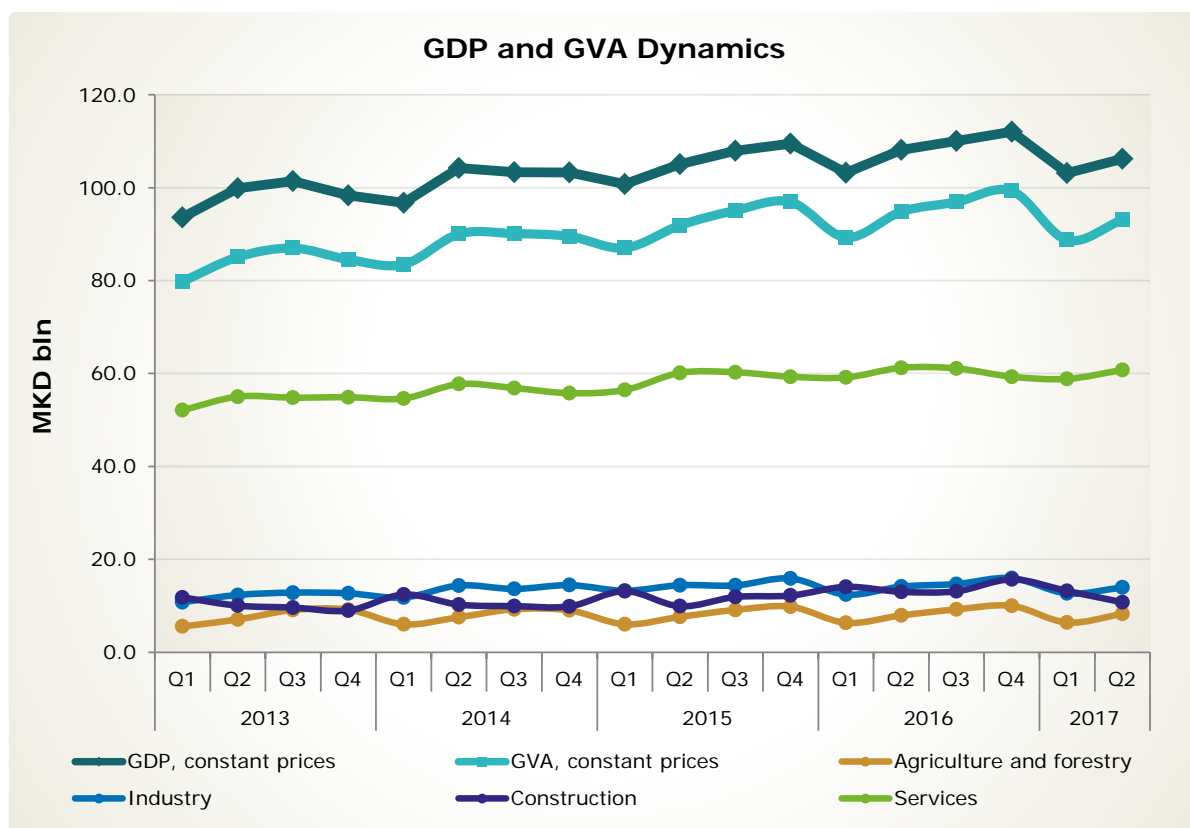


Source: SeeNews calculations; SSORM

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.

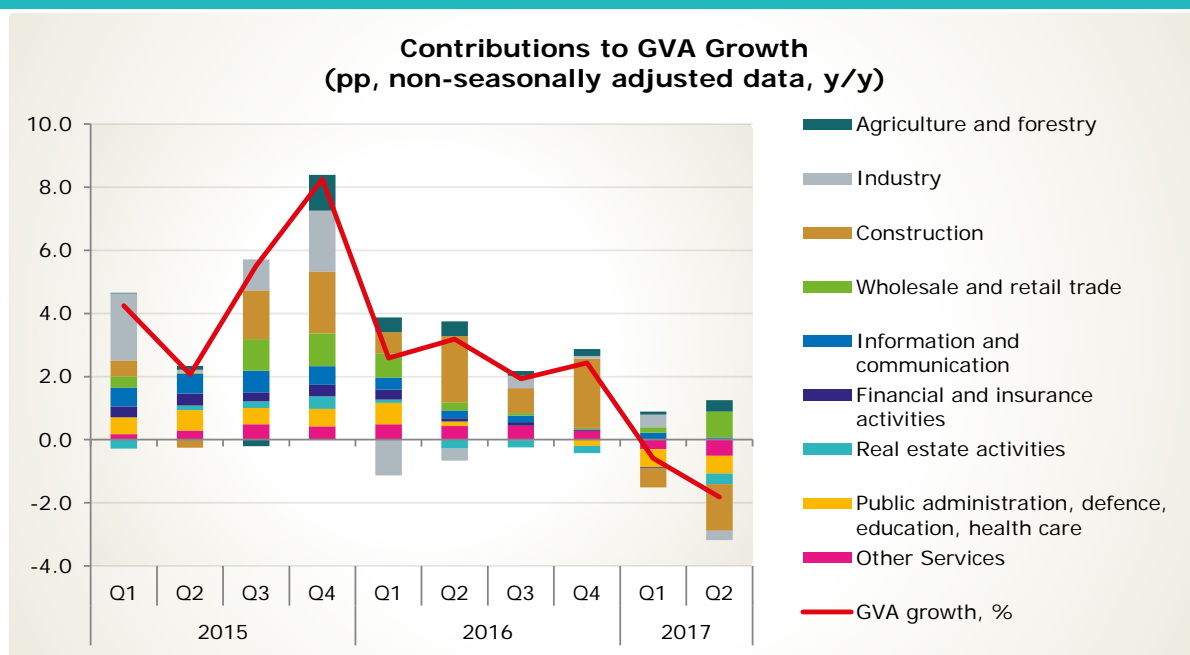
The main reason behind GDP decrease was the slump in gross capital formation, which narrowed by 19.9% y/y to MKD 25.8 bln in Q2 2017.

Final consumption, which accounted for 94.0% of the GDP, increased in value terms by 3.7% y/y to MKD 99.8 bln in Q2 2017. Both exports and imports grew - by 8.5% and 3.5%, respectively.



Source: SSORM

The gross value added (GVA) generated by the national economy decreased in value by 1.8% y/y in Q2 2017 and totalled MKD 93.1 bln. The agricultural sector registered an increase of 4.1% and its share in the GVA inched up to 8.9% from 8.4% in Q2 2016. The industrial sector decreased by 1.4%, but its share in the GVA structure slightly rose to 15.0% from 14.9% a year earlier. The construction industry plunged by 17.3% y/y, thus slicing an 11.6% share, a decrease in comparison to the 13.7% share in Q2 2016. The services sector recorded a 0.8% decline, slicing a 65.3% share in the GVA.



Source: SeeNews Calculations; SSORM

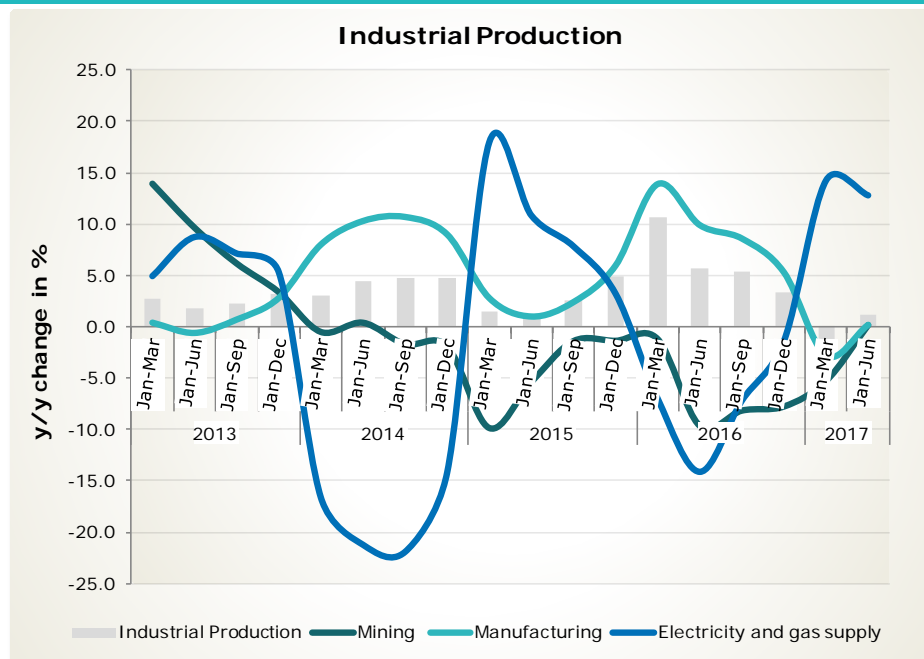
Note: Non-additive data due to direct chain linking of GDP and its components.

## 2.2. INDUSTRIAL OUTPUT

### *Industrial output rose by 1.2% y/y in January - June 2017 on electricity and gas supply sector*

Industrial output went up by 1.2% on the year in the first half of 2017, according to SSORM. The output of the manufacturing sector inched up by 0.2% y/y. The production in the mining sector also increased by 0.2%, while the output of electricity and gas supply expanded by 12.8% y/y.

The best performance in the manufacturing sector was reported by manufacture of computer, electronic and optical products – up by 26.6% y/y, manufacture of other non-metallic mineral products with 18.7% y/y and manufacture of machinery and equipment n.e.c. with 14.9%.

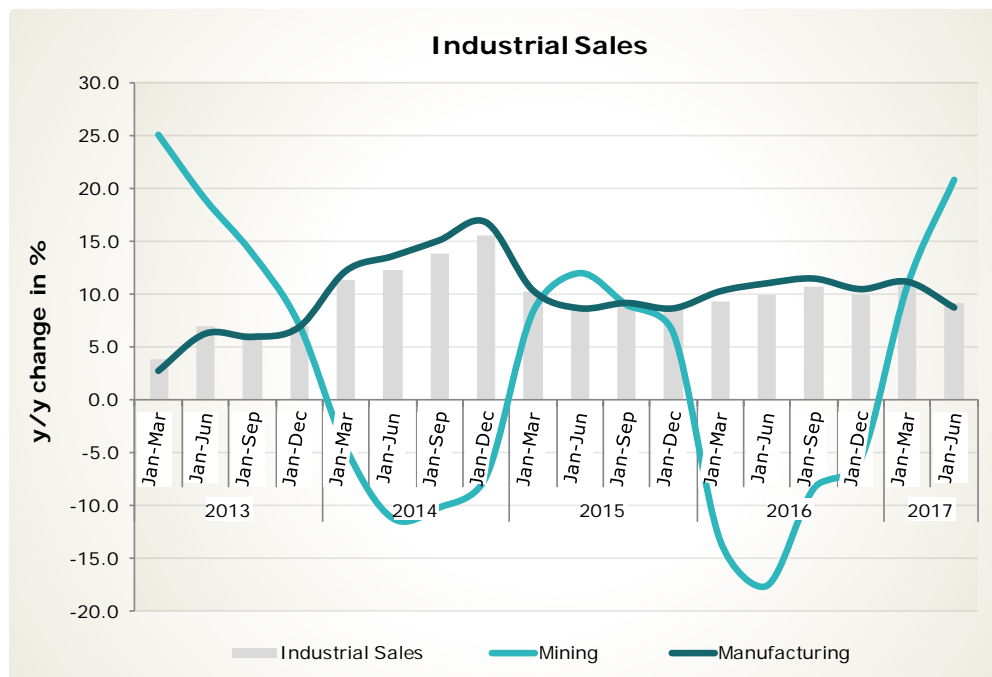


Source: SSORM

## 2.3. INDUSTRIAL SALES

*Industrial sales went up by 9.1% y/y in January - June 2017*

Industrial sales rose by 9.1% y/y in the first six months 2017, according to SSORM data. Sales in the manufacturing sector grew by 8.8%, while sales in the mining sector went up by 20.8% y/y.



Source: SSORM



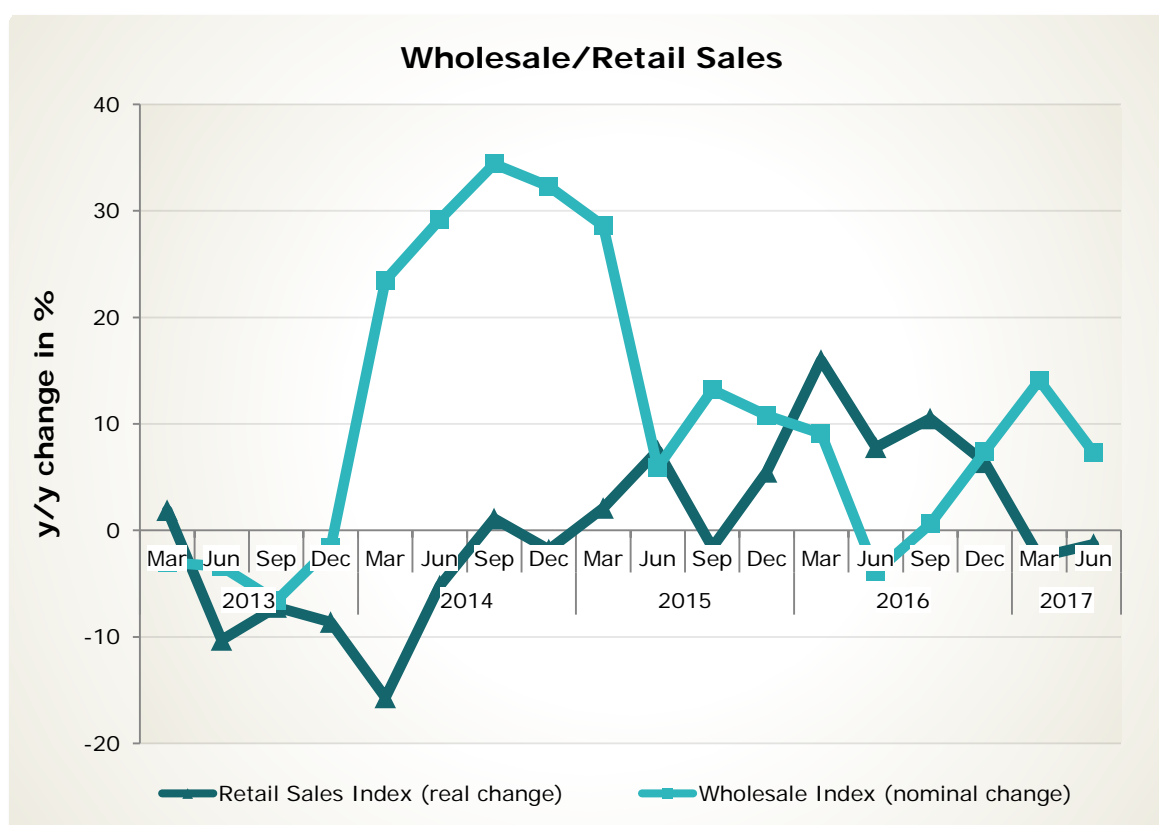
## 2.4. WHOLESALE/RETAIL

### *Retail sales narrowed by 1.3% y/y in June 2017*

Retail trade, except of motor vehicles and motorcycles, decreased by real 1.3% y/y in June 2017, according to SSORM.

Retail sales of non-food products (except fuel) plunged by 9.3% y/y while retail trade of automotive fuel went up by 8.6% y/y. Retail sale of food, beverages and tobacco also increased, by 6.0% y/y.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by nominal 7.3% y/y in June 2017.



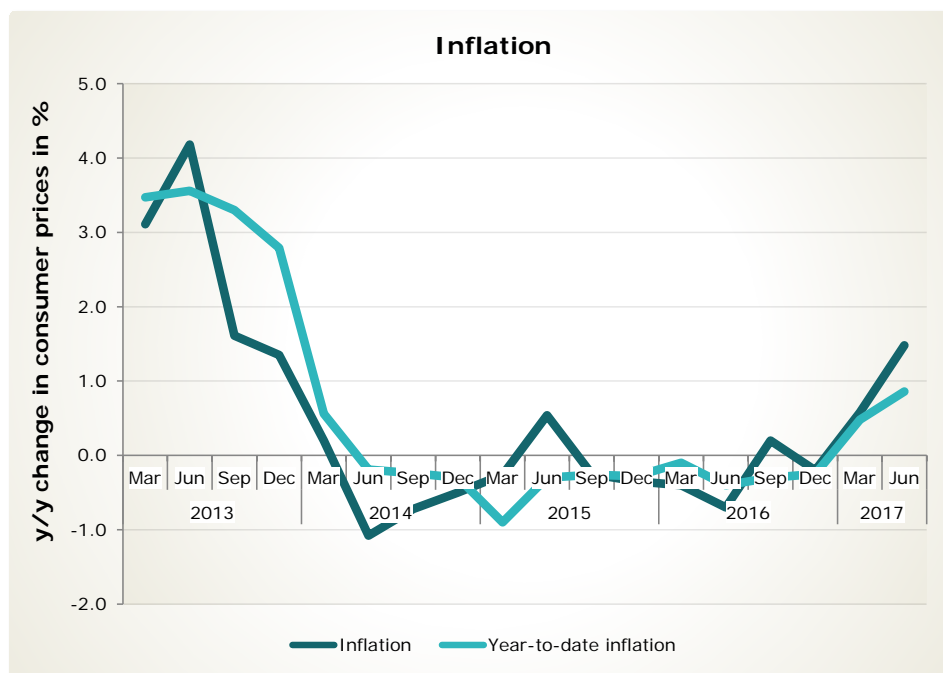
Source: SSORM

## 2.5. INFLATION

### *Macedonia registered growing annual average inflation in June 2017 after three years of deflation*

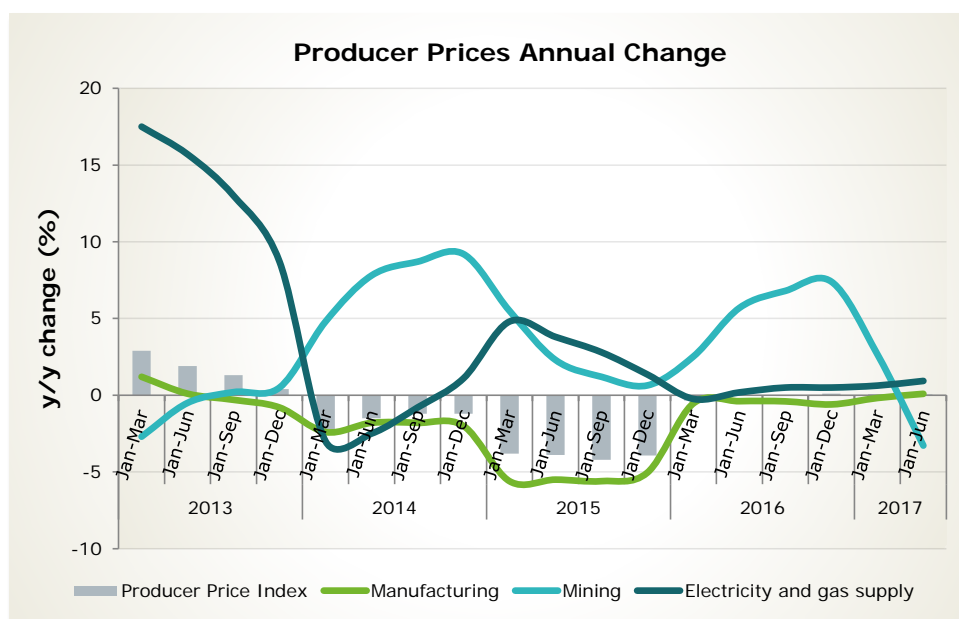
Macedonia registered average annual inflation of 1.5% in June 2017, up from 0.6% y/y in March 2017, according to SSORM.

Communication services saw average prices growing by 7.6% y/y, while prices of alcoholic beverages and tobacco went up by 5.9%. Food and non-alcoholic beverages, housing, water, electricity and gas, health services and education all registered annual deflation, of less than 1.0% on the year.



Source: SSORM

Producer prices stayed unchanged in the period January - June 2017 with prices of the manufacturing, and electricity and gas supply industries going up by 0.1%, and 0.9%, respectively, while prices in the mining sector fell by 3.3% y/y.



Source: SSORM

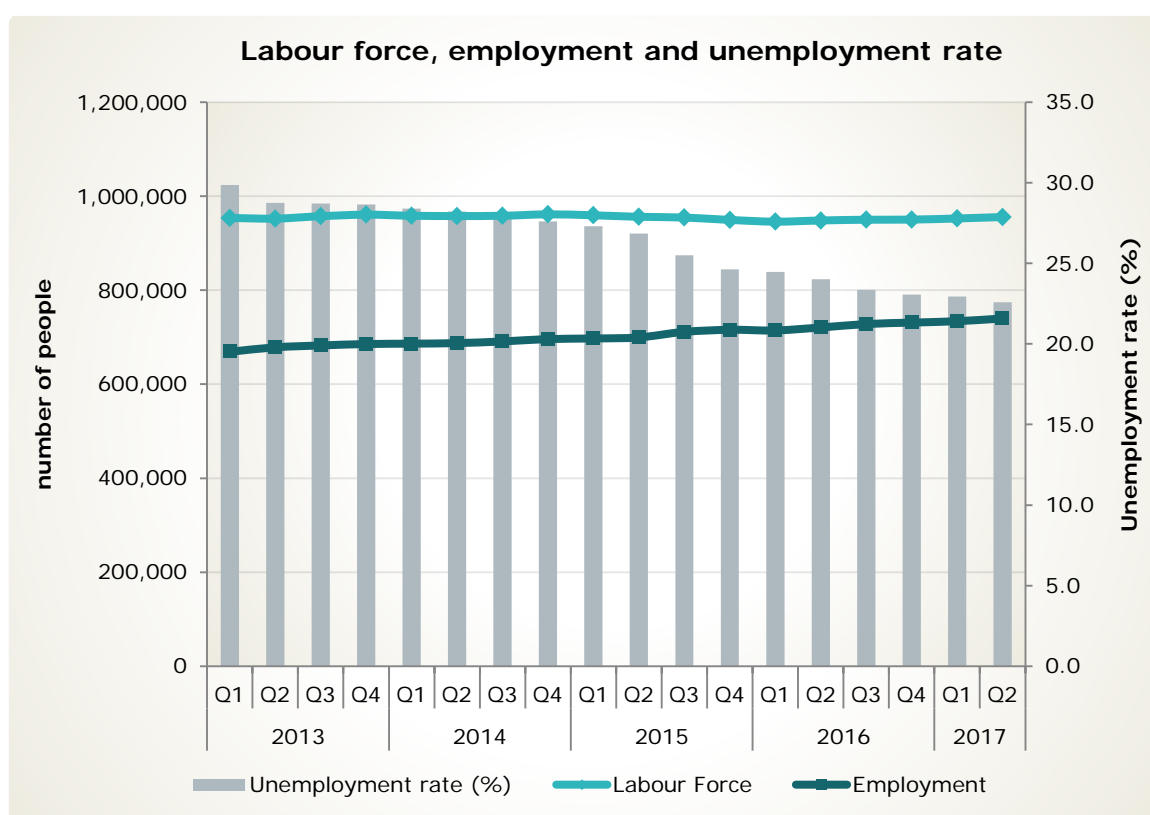
## 3. LABOUR MARKET

### *Unemployment rate down to 22.6%, wages grew 2.2% y/y in Q2 2017*

Unemployment in Macedonia narrowed to 22.6% of the total labour force in Q2 2017 from 24.0% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 739,892 in Q2 2017, up by 2.7% y/y.

Youth (population aged 15-24) unemployment rate went down by 2.1 pp y/y but still remained high at 47.1%.



Source: State Statistical Office

According to data of SSORM, the average monthly net salary in Q2 2017 went up by 2.2% in annual terms to MKD 22,789.

#### 4. CONSTRUCTION AND REAL ESTATE

##### *The number of building permits decreased by 5.3% y/y in Q2 2017*

The number of building permits issued in Macedonia in Q2 2017 fell by 5.3% and totalled 450, according to SSORM. The buildings construction works value amounted to MKD 8.933 bln, up from MKD 8.568 bln a year earlier.

The number of planned dwellings grew to 2,924 from 2,068 in Q2 2016. The total built-up area of the housing units, covered by the permits, jumped by 34.3% y/y, to 218,481 sq m in Q2 2017 from 162,632 sq m in Q2 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 61.643 in Q2 2017 from MKD 61.689 in Q2 2016, according to National Bank of the Republic of Macedonia (NBRM) data.

MKD Average Exchange Rate			
Foreign Currency	Q2 2017	Q1 2017	Q2 2016
EUR	61.643	61.560	61.689
USD	56.129	57.830	54.656
GBP	71.717	71.556	78.467
CHF	56.927	57.559	56.276

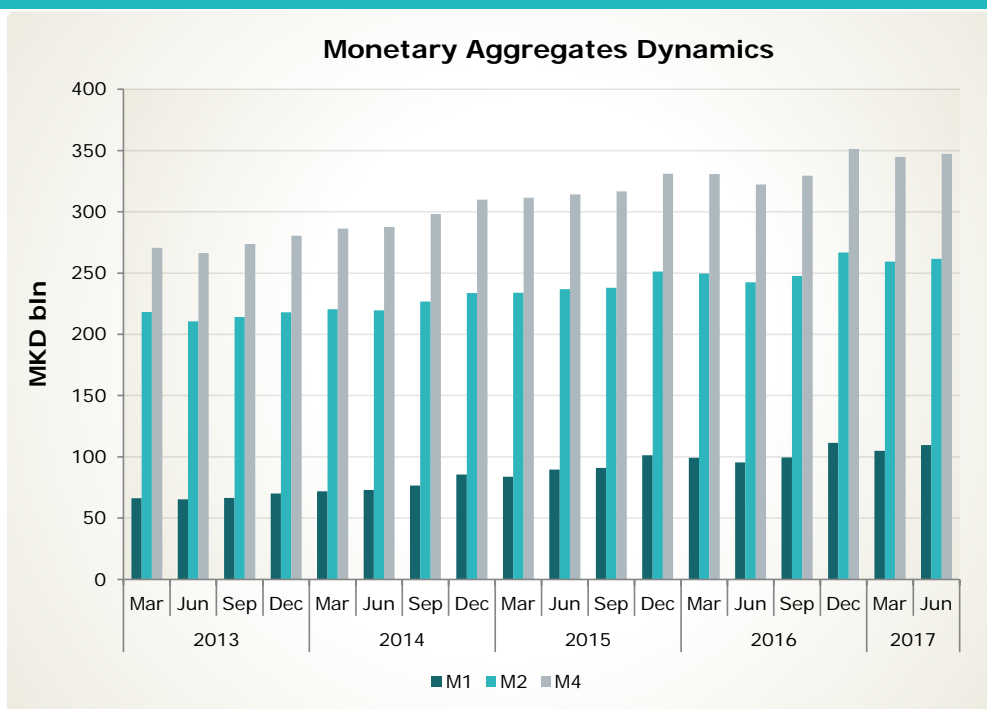
##### 5.2. MONETARY AGGREGATES

##### *Money supply growth was 7.8% y/y at end-June 2017*

Broad money (monetary aggregate M4) increased by 7.8% y/y and reached MKD 347.2 bln at the end of June 2017, according to data provided by NBRM.

The M2 money supply also grew, by 7.9% y/y, to MKD 261.6 bln.

Money aggregate M1, or narrow money, expanded by 14.9% to MKD 109.8 bln.

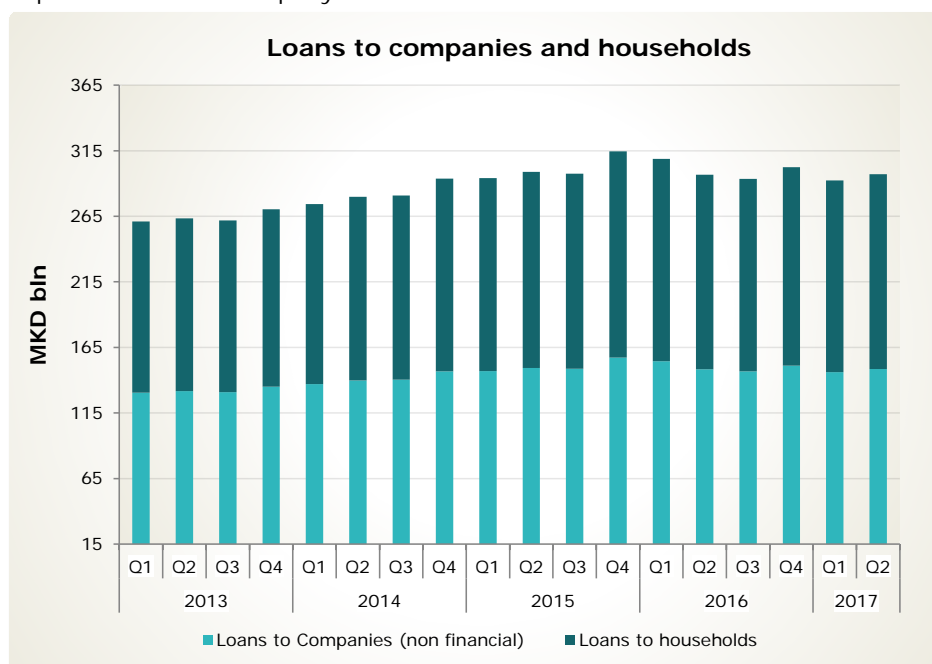


Source: NBRM

## 5.3. BANKING AND INSURANCE

### Household loans increased by 9.7% y/y in Q2 2017

Loans to the non-government sector totalled MKD 281.8 bln in Q2 2017, up by 4.4% y/y, according to NBRM. Household loans jumped by 9.7% to MKD 133.3 bln. Loans to non-financial corporations inched up by 0.1% to MKD 148.5 bln.

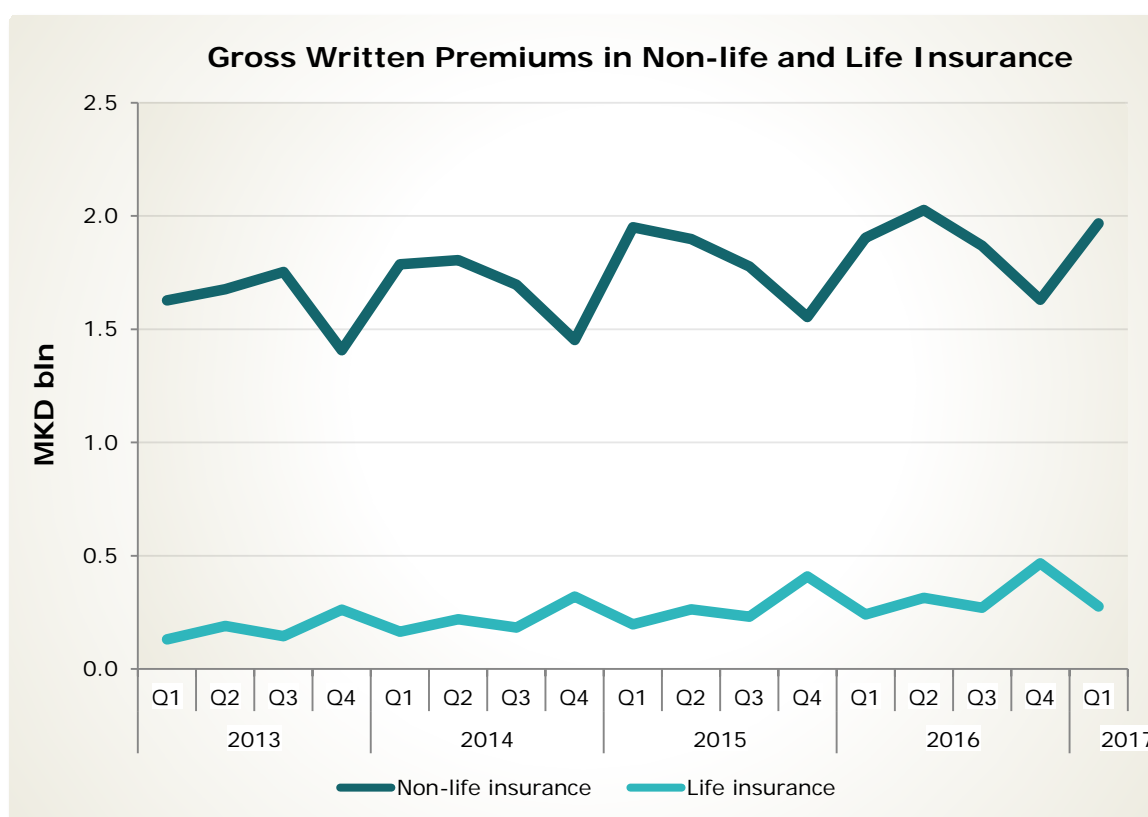


Source: NBRM

## Insurance premium income went up by 4.7% y/y in Q1 2017<sup>1</sup>

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.244 bln, up by 4.7% y/y, in Q1 2017, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 1.968 bln, or by 3.4% more than in the corresponding quarter of the previous year, while the life insurance market grew by 14.9% y/y to MKD 276.2 mln.



Source: ASO

## 6. CAPITAL MARKETS

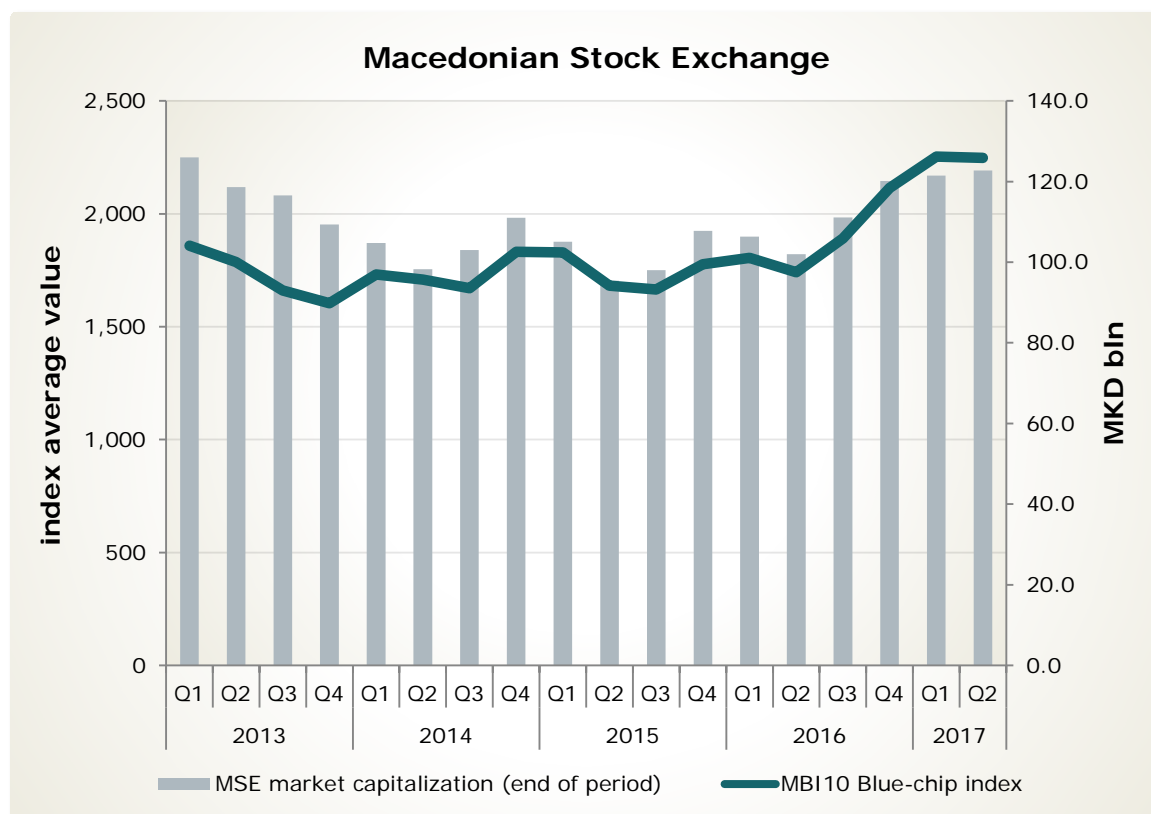
### Blue-chip MBI10 narrowed by 0.3% q/q in Q2 2017

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went down by 0.3% q/q to 2,247 points in June 2017.

<sup>1</sup> Data for Q2 2017 for the insurance market was not available at the time of the preparation of this report.

The total turnover on the MSE reached MKD 1.009 bln in Q2 2017 versus MKD 1.036 bln in the previous quarter.

The market capitalisation of MSE grew to MKD 122.8 bln from MKD 121.5 bln.



Source: MSE

## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt went up y/y to EUR 7.781 bln in Q2 2017*

The gross external debt totalled EUR 7.781 bln in Q2 2017, which was 75.7% of the projected full-year GDP, according to NBRM. The debt increased by 13.4% or EUR 920.1 mln, compared to Q2 2016. In comparison to Q1 2017, the gross external debt decreased by EUR 10.1 mln.

As of Q2 2017, long-term liabilities amounted to EUR 5.732 bln, or 73.7% of the total debt, and short-term liabilities totalled EUR 2.049 bln, equal to 26.3% of the total debt.



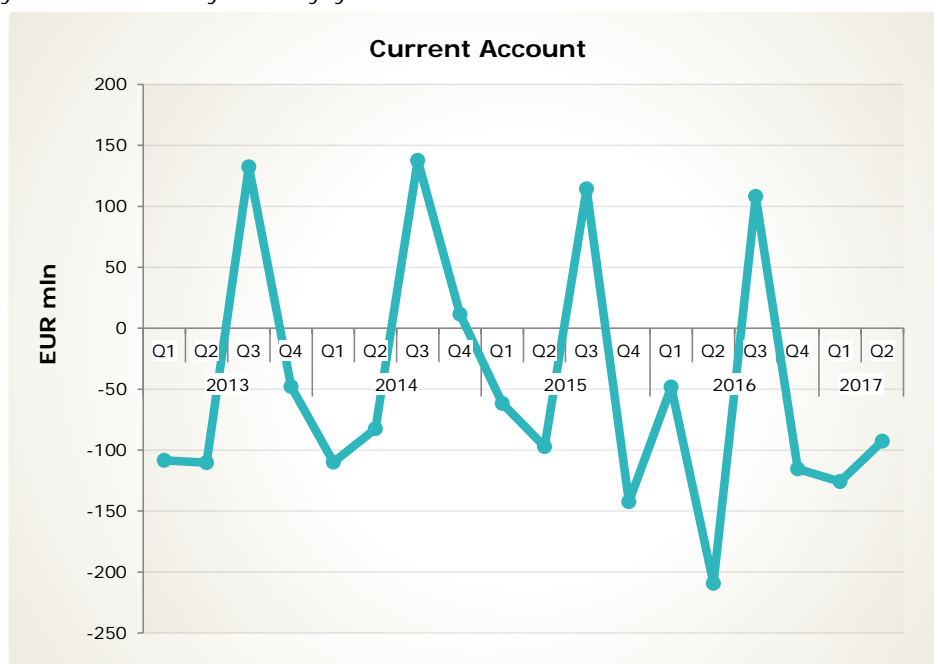
Source: NBRM

## 7.2. BALANCE OF PAYMENTS

*Current account deficit more than halved y/y to EUR 92.6 mln in Q2 2017*

The current account deficit decreased to EUR 92.6 mln in Q2 2017 from EUR 209.4 mln in Q2 2016, according to central bank statistics data.

Secondary income rose by 18.3% y/y to EUR 383.0 mln in Q2 2017.



Source: NBRM



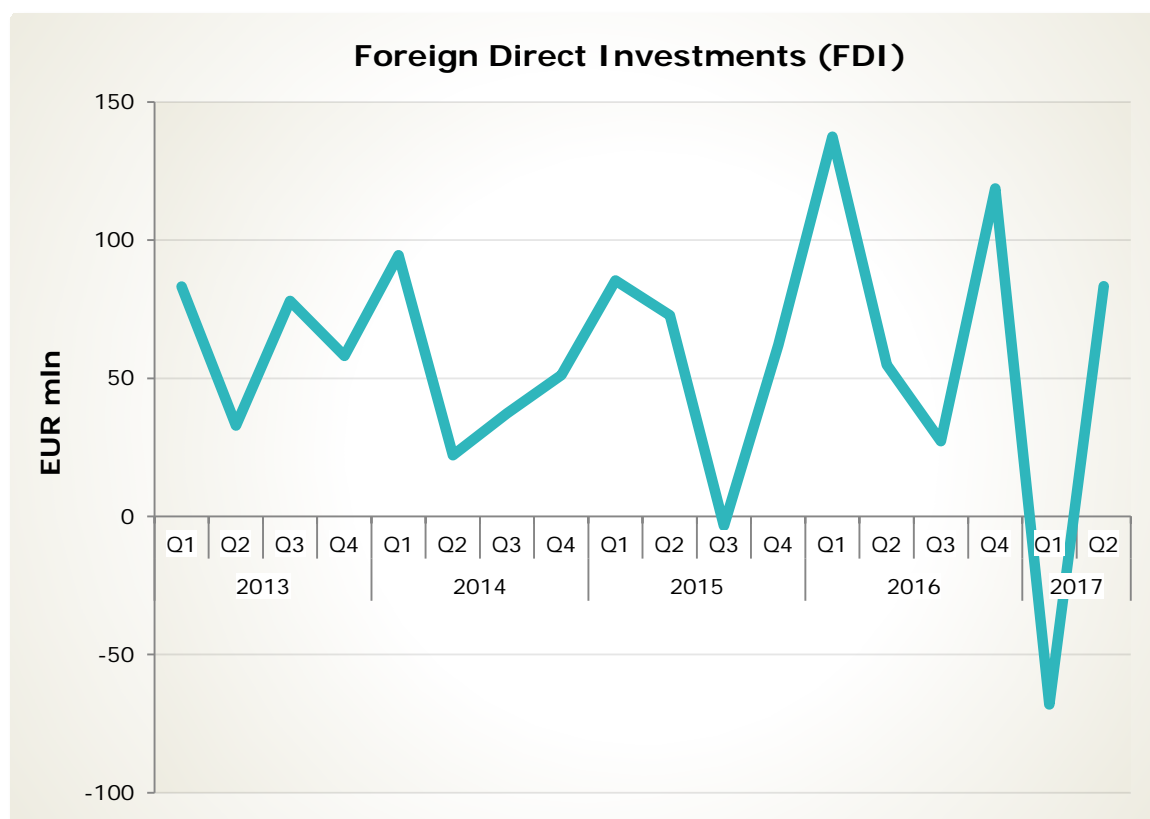
## 7.3. FDI

### *Net FDI inflow at EUR 83.4 mln in Q2 2017, up 51.9% y/y*

The net FDI inflow in Macedonia reached EUR 83.4 mln in second quarter of 2017, up 51.9% from EUR 54.9 mln a year earlier, according to NBRM.

For Q2 2017 the leaders in terms of FDI in Macedonia were Saint Vincent and the Grenadines, Austria, Germany and the Netherlands with investments of EUR 20.9 mln, EUR 17.5 mln, EUR 8.0 mln and EUR 7.0 mln, respectively.

A breakdown by industries showed that manufacturing attracted the largest share of the total investments, or 32.6%, followed by the mining and quarrying sector with 25.7% of the total FDIs in the quarter.



Source: NBRM

## 7.4. FOREIGN TRADE

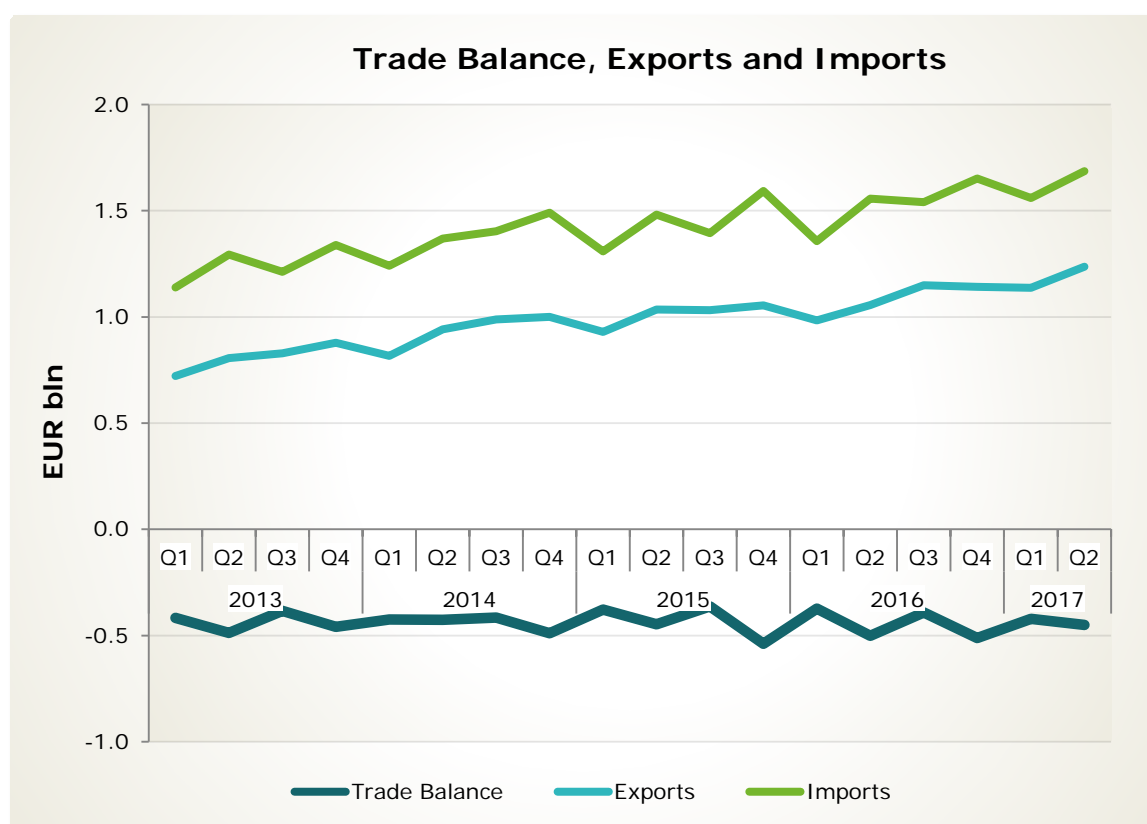
### *Foreign trade deficit fell by 10.2% y/y in Q2 2017*

The trade deficit stood at EUR 450.3 mln in Q2 2017, compared to EUR 501.5 mln a year earlier, according to NBRM.

Exports increased by 17.0% y/y to EUR 1.236 bln, while imports went up by 8.2% y/y to EUR 1.686 bln.

Macedonia's most exported goods in the second quarter of 2017 were machinery and transport equipment, which accounted for 29.3% of the total, followed by chemical products with 25.0% share and miscellaneous manufactured articles with 13.5% share.

In terms of imports, manufactured goods had the largest share, of 38.0%, followed by machinery and transport equipment with a 21.2% share and chemical products which accounted for 11.4% of the total imports.



Source: NBRM

## 7.5. TOURSIM

*Number of foreign tourist overnights grew by 15.7% y/y in Q2 2017*

Tourist overnights of foreigners increased by an annual 15.7% to 337,214 in Q2 2017, according to SSORM. Foreign tourist overnights accounted for 62.8% of the total tourist overnights in the country, down from 63.0% in the year-ago quarter.

The number of foreign citizens who visited the country also went up, by 16.1%, to 174,727.



Source: SSORM

## 8. MAJOR DEVELOPMENTS

### ***Macedonia to seek EC's unconditional recommendation for launch of accession talks***

June 27, 2017

Macedonia's government plans to seek this autumn the European Commission's unconditional recommendation for the launch of talks on the country's accession to the bloc, prime minister Zoran Zaev said.

[Read the full story here](#)

### ***Bulgaria, Macedonia to explore possibilities for setting up gas link***

June 21, 2017

Bulgaria's energy ministry said on Wednesday it proposed to set up a working group to explore the options for building a gas interconnector with Macedonia.

[Read the full story here](#)

### ***Macedonia cancels almost quarter of public procurement tenders in 2016 - NGO***

June 20, 2017

Macedonia has cancelled partially or in full 4,230 public procurement tenders in 2016, which represent 23% of all tenders, according to a monitoring report compiled by the Center for Civil Communications (CCC), a Skopje-based NGO.

[Read the full story here](#)

***Macedonia's new government to revise 2017 budget***

*June 8, 2017*

Macedonia's finance minister Dragan Tevdovski said on Thursday. The country's new government plans to revise the 2017 budget, according to a press release issued by the ministry.

[Read the full story here](#)

***EU urges Macedonia's new govt, opposition to jointly implement reforms***

*June 1, 2017*

The European Union expressed readiness on Thursday to support the reforms, which Macedonia's new centre-left coalition government as well as the opposition will have to undertake to bring the country back to its EU integration path.

[Read the full story here](#)

***S&P places Skopje rating on watch negative on institutional uncertainty***

*May 15, 2017*

Standard&Poor's said it has placed its BB- rating on the municipality of Skopje on CreditWatch negative due to the political turbulence at the Macedonian parliament and local government elections not being initiated country-wide.

[Read the full story here](#)

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