

MACEDONIA ECONOMY REPORT

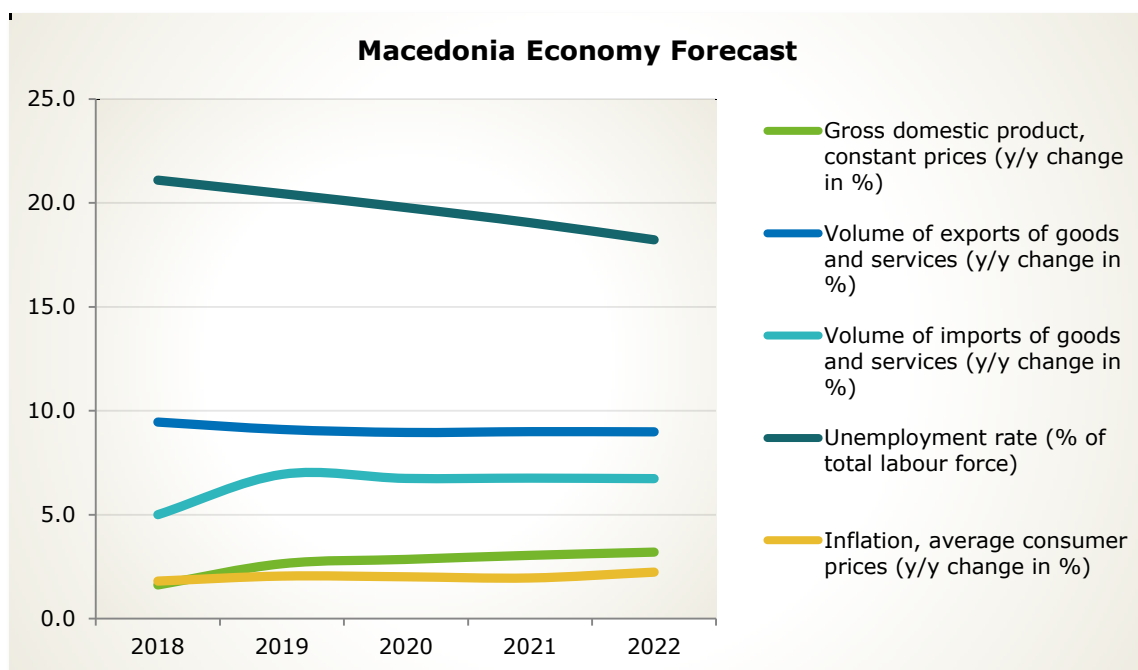
Q2 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	3.1% y/y
Industrial output	5.0% y/y
Industrial sales	14.7% y/y
Wholesale	12.7% y/y
Retail sales	6.0% y/y
Average annual inflation	1.5%
Unemployment rate	21.1%
Number of building permits	-18.4% y/y
Money supply growth	10.1% y/y
Household loans	10.1% y/y
MBI10 blue-chip index	33.2% q/q
Gross external debt	EUR 8.433 bln
Current account surplus	EUR 20.5 mln
Net FDI inflow	EUR 90.6 mln
Foreign trade deficit	EUR 444.0 mln
Number of foreign tourist overnights	22.1% y/y



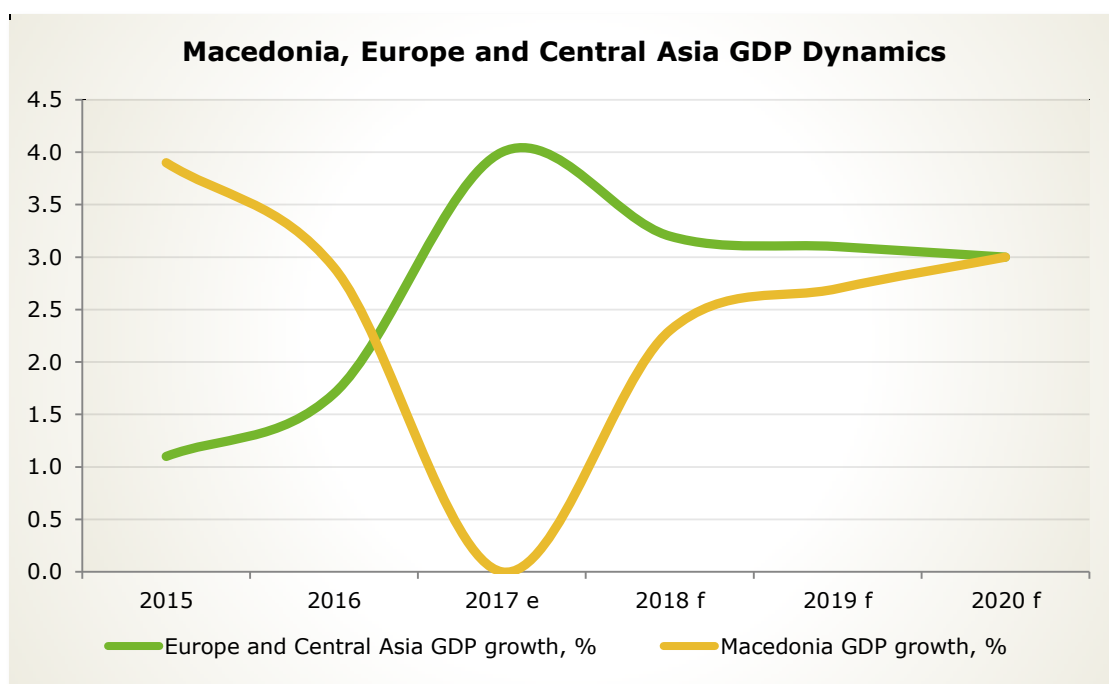
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2018

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 1.6% 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 2.6% and further speed up to 2.8% in 2020 and 3.2% in 2022.

Macedonia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2015	2016	2017 e	2018 f	2019 f	2020 f	
Real GDP growth, at constant market prices, y/y change in %	3.9	2.9	0.0	2.3	2.7	3.0	
Private Consumption	4.4	3.1	2.9	2.2	1.9	1.9	
Government Consumption	3.9	1.9	-1.5	2.1	1.5	1.5	
Gross Fixed Capital Investment	2.1	-3.9	-4.5	0.9	3.3	4.7	
Exports, Goods and Services	8.5	8.1	9.2	5.4	6.3	6.3	
Imports, Goods and Services	9.9	11.6	7.3	3.6	4.2	4.2	
Real GDP growth, at constant factor prices (by sectors)	5.0	3.7	-0.8	4.1	2.6	2.9	
Agriculture	1.9	2.8	4.1	0.9	1.2	1.2	
Industry	6.2	6.1	-7.8	16.4	5.1	5.1	
Services	4.9	2.7	1.7	-0.5	1.6	2.1	
Inflation (Consumer Price Index)	-0.3	-0.2	1.4	1.6	2.0	2.0	
Current Account Balance (% of GDP)	-1.9	-2.8	-1.1	-2.5	-2.5	-2.6	
Net Foreign Direct Investment (% of GDP)	2.3	3.3	2.2	2.6	2.9	3.1	

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



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

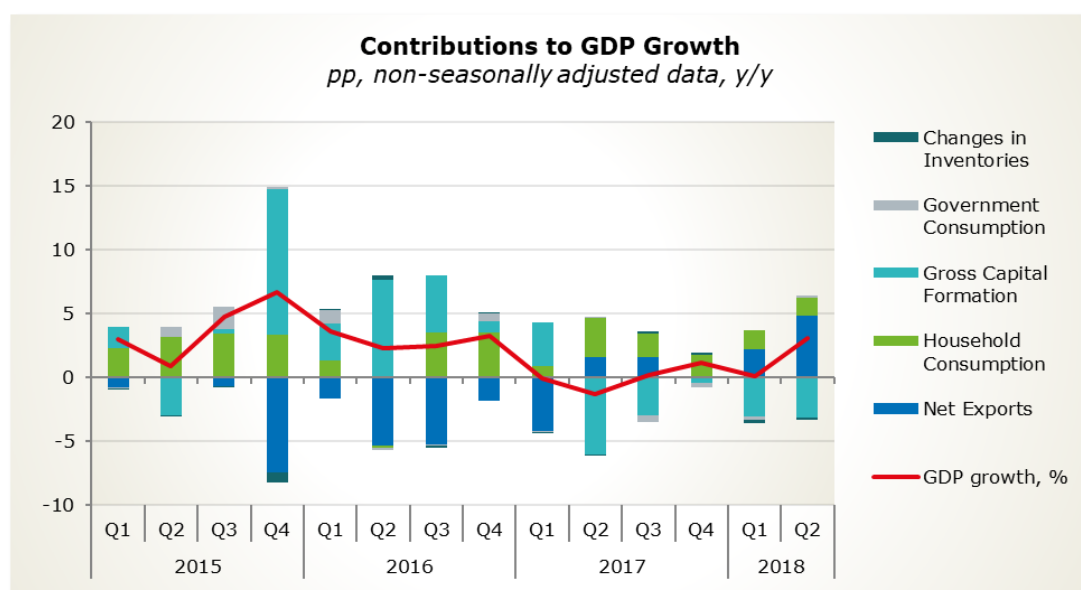
According to the World Bank estimates from June 2018, GDP growth is likely to come in at 2.3% in 2018 after the stalemate in 2017. This will be lower than the projected growth for Europe and Central Asia, of 3.2% in 2018.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP up 3.1% y/y in Q2 2018

During the second quarter of 2018, the country's GDP increased by 3.1% y/y to MKD 109.5 bln according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).

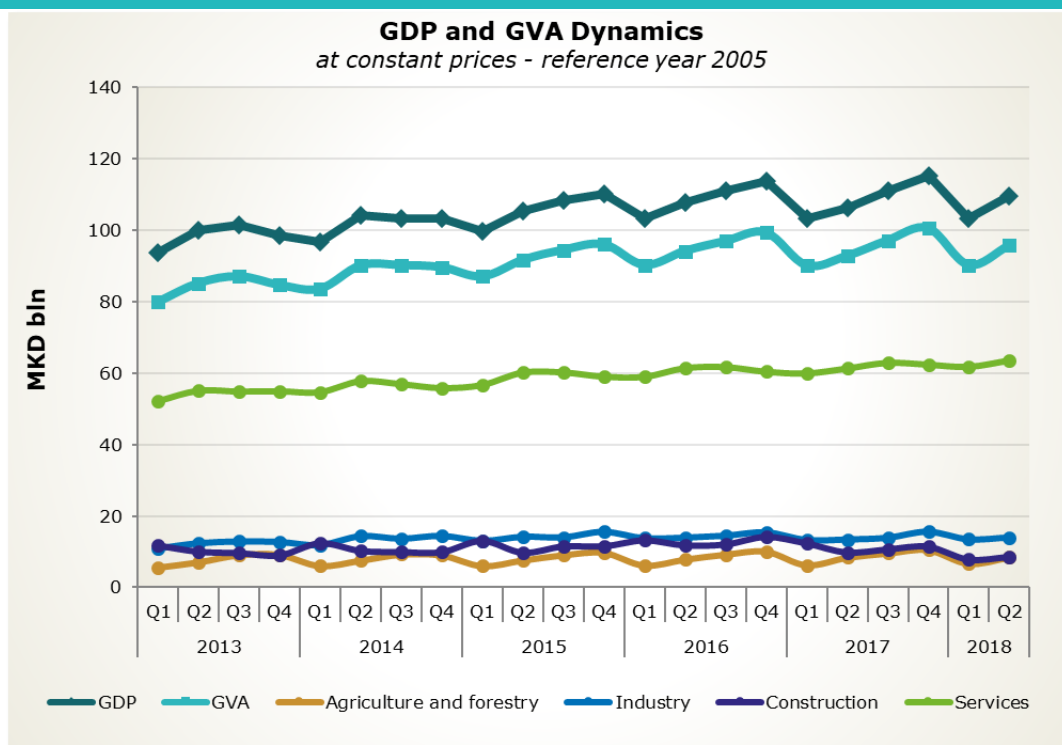


Source: SeeNews calculations; SSORM

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.

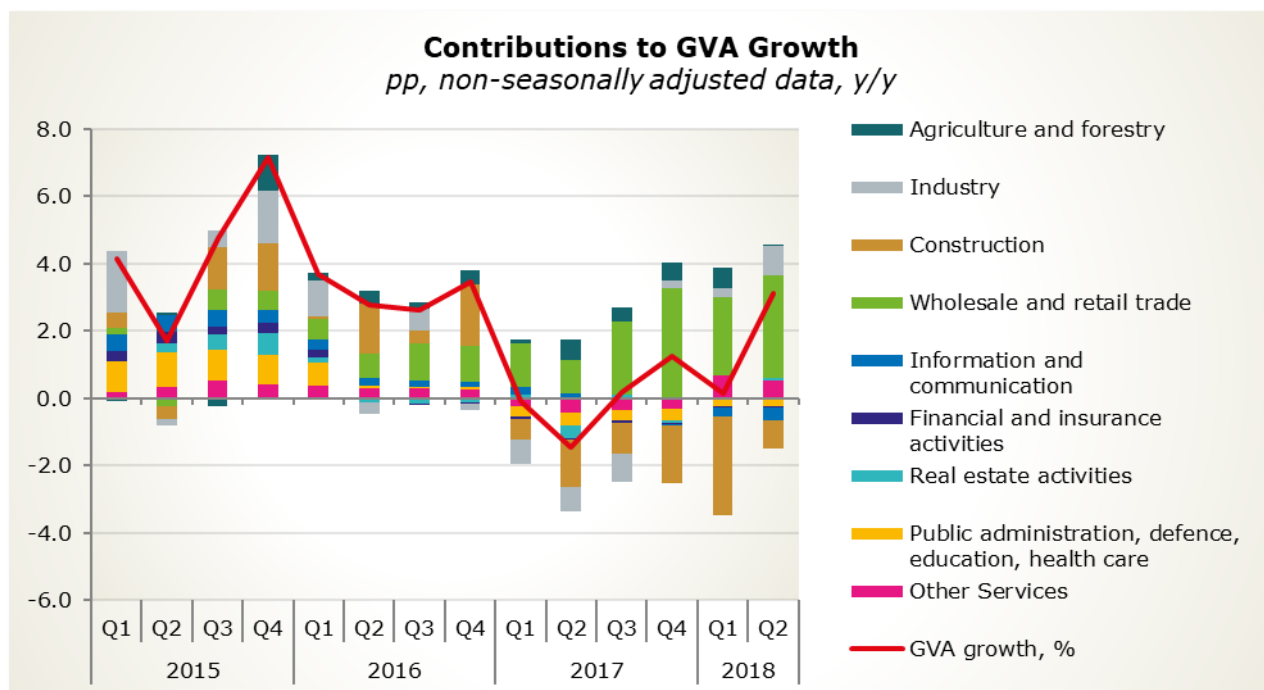
Final consumption, which accounted for 92.3% of the GDP, increased in value terms by 1.8% y/y to MKD 101.0 bln in Q2 2018, while gross capital formation went down by 11.3%. Both exports and imports grew - by 13.7% and 4.0%, respectively.

The largest contributors to the overall GDP expansion in Q2 2018 were export of goods and services and net exports, adding 7.7 pp and 4.9 pp, respectively to GDP growth in Q2 2018. In the same time gross capital formation subtracted 3.1 pp from the GDP growth.



Source: SSORM

The gross value added (GVA) generated by the national economy increased in value by 3.1% y/y in Q2 2018 and totalled MKD 95.6 bln. The agricultural sector registered an increase of 0.3%. The industrial sector GVA went up by 4.4% while the construction industry plunged by 12.9% y/y. The services sector recorded a 3.6% rise, slicing a 66.4% share in the GVA.



Source: SeeNews Calculations; SSORM

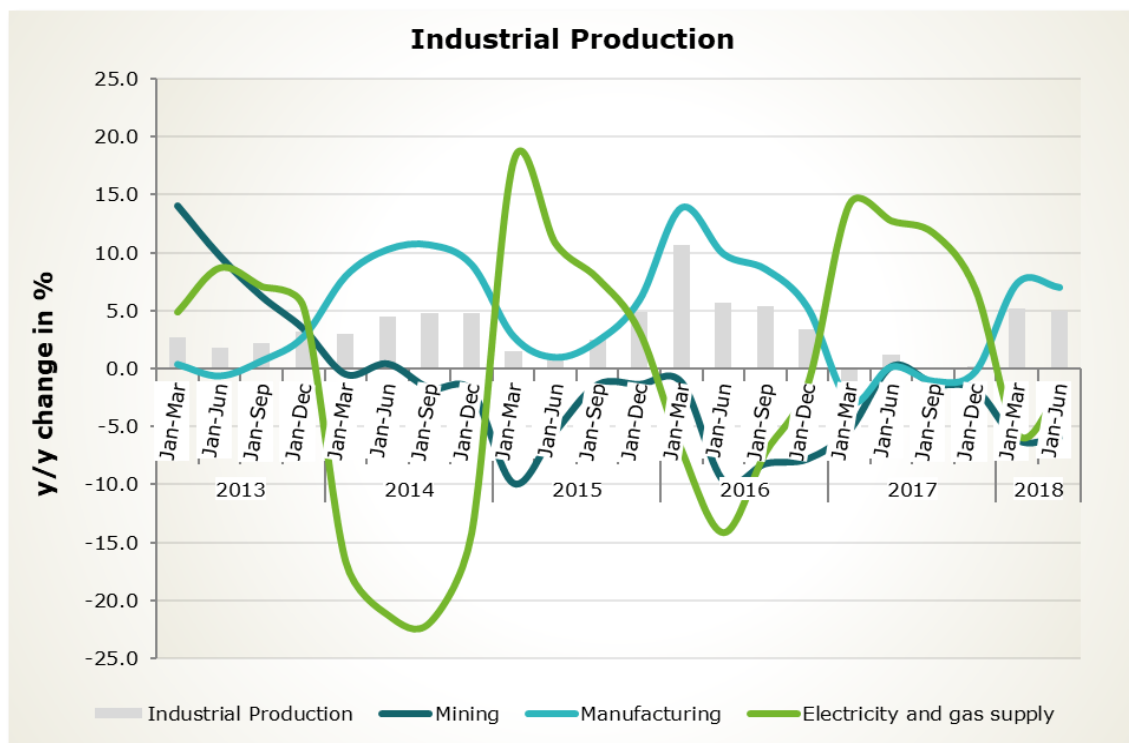
Note: Non-additive data due to direct chain linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output advanced by 5.0% y/y in January – June 2018

Industrial output went up by 5.0% on the year in Q2 2018, according to SSORM. The output of the manufacturing sector rose by 7.0% y/y. Production in the mining sector decreased by 5.9%, while the output of electricity and gas supply shrank by 2.2% y/y.

The best performance in the manufacturing sector was reported in the segments manufacture of fabricated metal products, except machinery and equipment, and manufacture of electrical equipment, which surged by 51.8% y/y and 37.9% y/y, respectively.

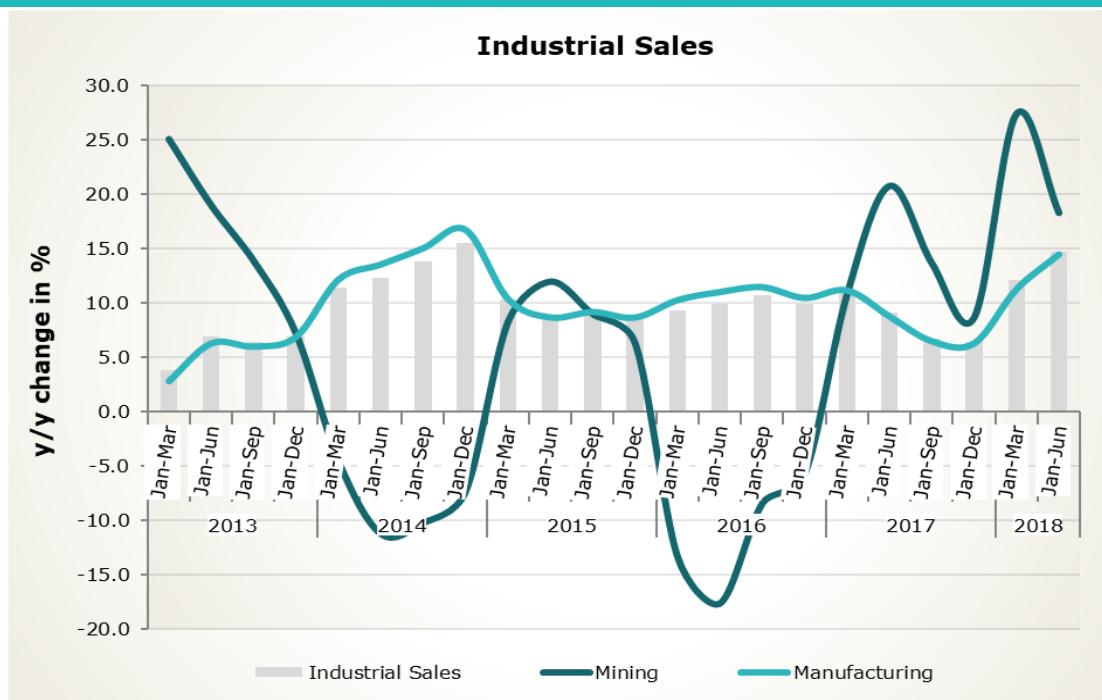


Source: SSORM

2.3. INDUSTRIAL SALES

Industrial sales went up by 14.7% y/y in January - June 2018

Industrial sales rose by 14.7% y/y in the first six months of 2018, according to SSORM data. Sales in the manufacturing sector grew by 14.5%, while sales in the mining sector went up by 18.3% y/y.



Source: SSORM

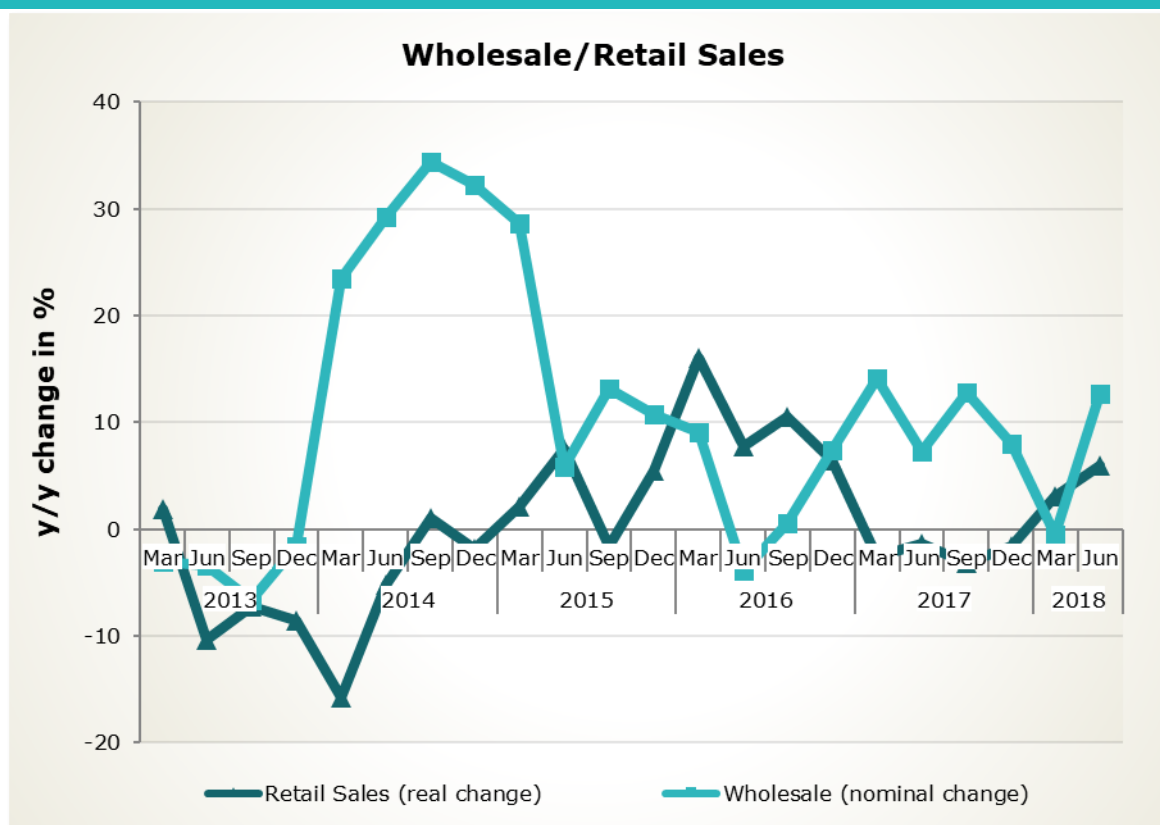
2.4. WHOLESALE/RETAIL

Retail sales expanded by 6.0% y/y in June 2018

Retail trade, except of motor vehicles and motorcycles, increased by real 6.0% y/y in June 2018, according to SSORM.

Retail sale of non-food products (except fuel) advanced by 7.9%, and the retail sale of food, beverages and tobacco grew by 5.9%. Retail trade of automotive fuel fell by 4.2% y/y in June 2018.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by 12.7% y/y in June 2018.



2.5. INFLATION

Macedonia registered 1.5% annual average inflation in January-June 2018

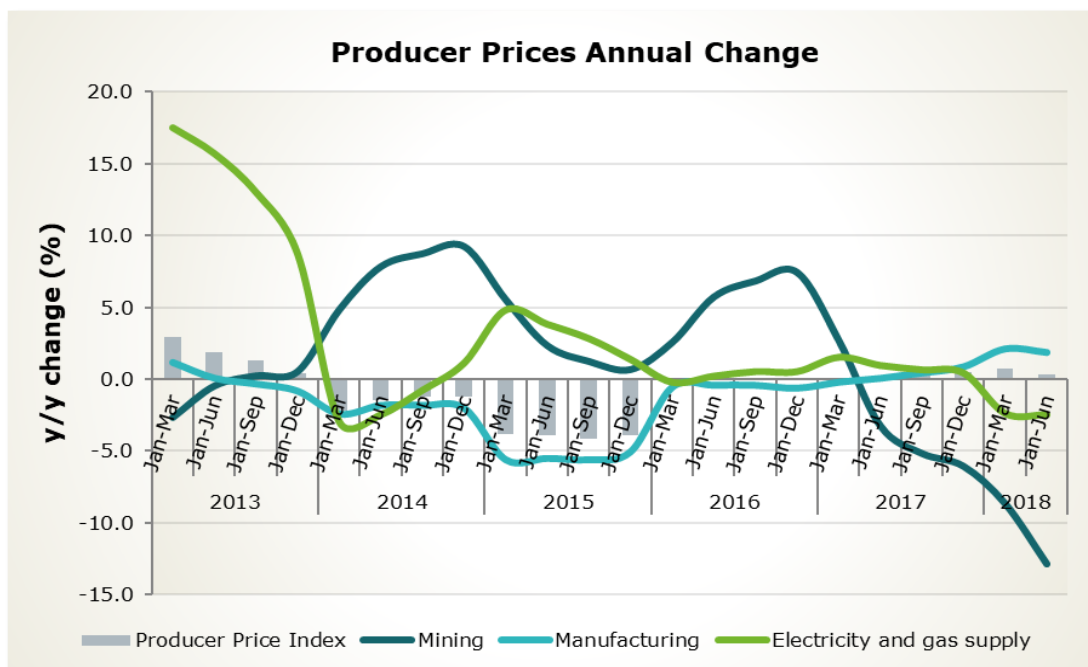
Macedonia registered an average annual inflation of 1.5% in January – June 2018, which is the same as in Q1 2018, according to SSORM.

The inflation in the segment of alcoholic beverages and tobacco came in at 6.1% compared to Q2 2017, while average prices in the transport sector went up by 7.8% y/y. Clothing and footwear prices went down by 1.1% on average in Q2 2018 compared to Q2 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 0.3% in the period January - June 2018 with prices of the manufacturing industry increasing by 1.9% while prices in the mining sector fell by 12.9% y/y. The PPI Index of electricity and gas supply decreased by 2.5% y/y in Q2 2018.



Source: SSORM

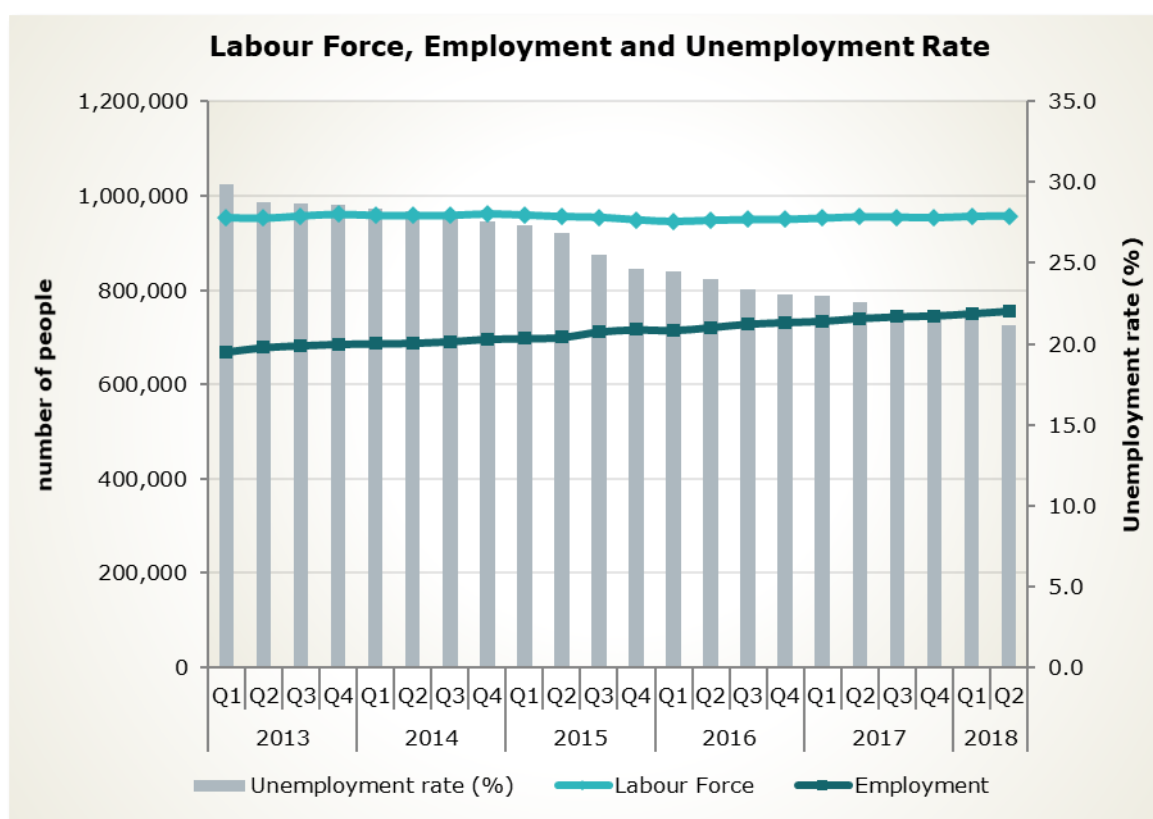
3. LABOUR MARKET

Unemployment rate down to 21.1%, wages grew 6.3% y/y in Q2 2018

Unemployment in Macedonia narrowed to 21.1% of the total labour force in Q2 2018, down from 22.6% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 755,073 in Q2 2018, up by 2.1% y/y.

Youth (population aged 15-24) unemployment rate went up 1.1 pp y/y and remained high at 47.6%.



Source: SSORM

According to data of SSORM, the average monthly net salary in Q2 2018 went up by 6.3% in annual terms to MKD 24,218.

4. CONSTRUCTION AND REAL ESTATE*The number of building permits decreased in Q2 2018*

The number of building permits issued in Macedonia in Q2 2018 fell by 18.4% and totalled 367, according to SSORM. The building construction works value amounted to MKD 8.125 bln, down from MKD 8.933 bln a year earlier. The number of planned dwellings diminished to 1,996 from 2,924 in Q2 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 61.5009 in Q2 2018 from MKD 61.5580 in Q1 2018, according to National Bank of the Republic of Macedonia (NBRM) data.

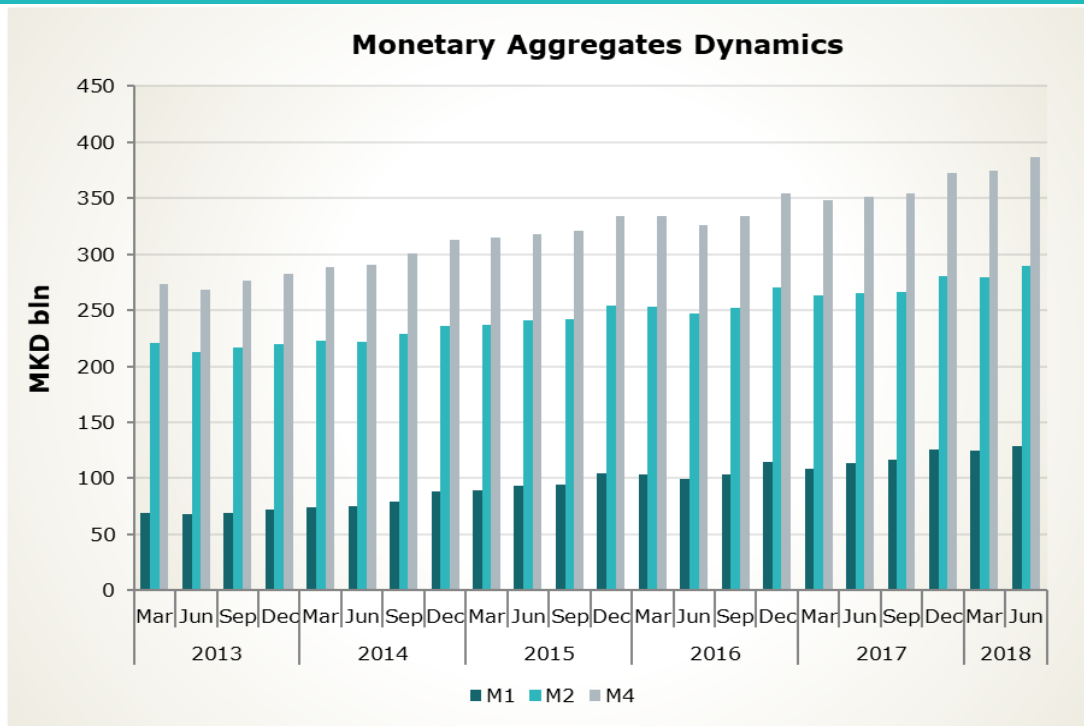
MKD Average Exchange Rate			
Foreign Currency	Q2 2018	Q1 2018	Q2 2017
EUR	61.5009	61.5580	61.6434
USD	51.5541	50.0967	56.1286
GBP	70.1745	69.6764	71.7168
CHF	52.3604	52.8372	56.9265

5.2. MONETARY AGGREGATES*Money supply growth was 10.1% y/y at end-June 2018*

Broad money (monetary aggregate M4) increased by 10.1% y/y and reached MKD 386.5 bln at the end of June 2018, according to data provided by NBRM.

The M2 money supply also grew, by 9.0% y/y, to MKD 289.2 bln.

Money aggregate M1, or narrow money, expanded by 13.8% to MKD 129.2 bln.

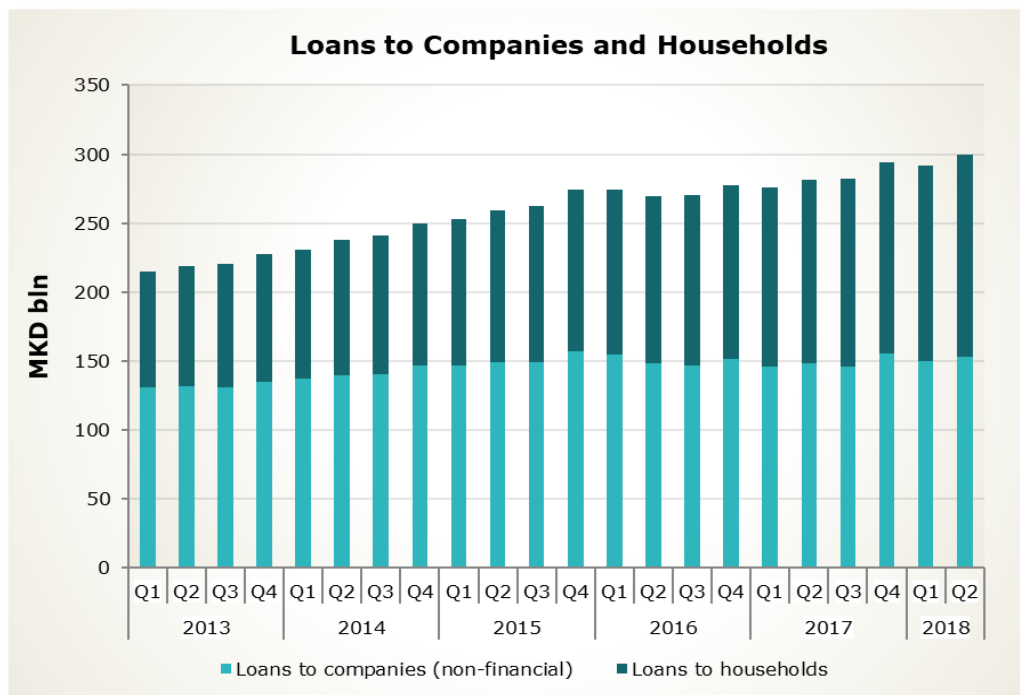


Source: NBRM

5.3. BANKING AND INSURANCE

Total loans increased by 6.5% y/y in Q2 2018

Loans to the non-government sector totalled MKD 303.0 bln in Q2 2018, up from MKD 284.6 bln in Q2 2017, according to NBRM. Household loans jumped by 10.1% to MKD 146.8 bln. Loans to non-financial corporations inched up by 3.2% to MKD 153.2 bln.

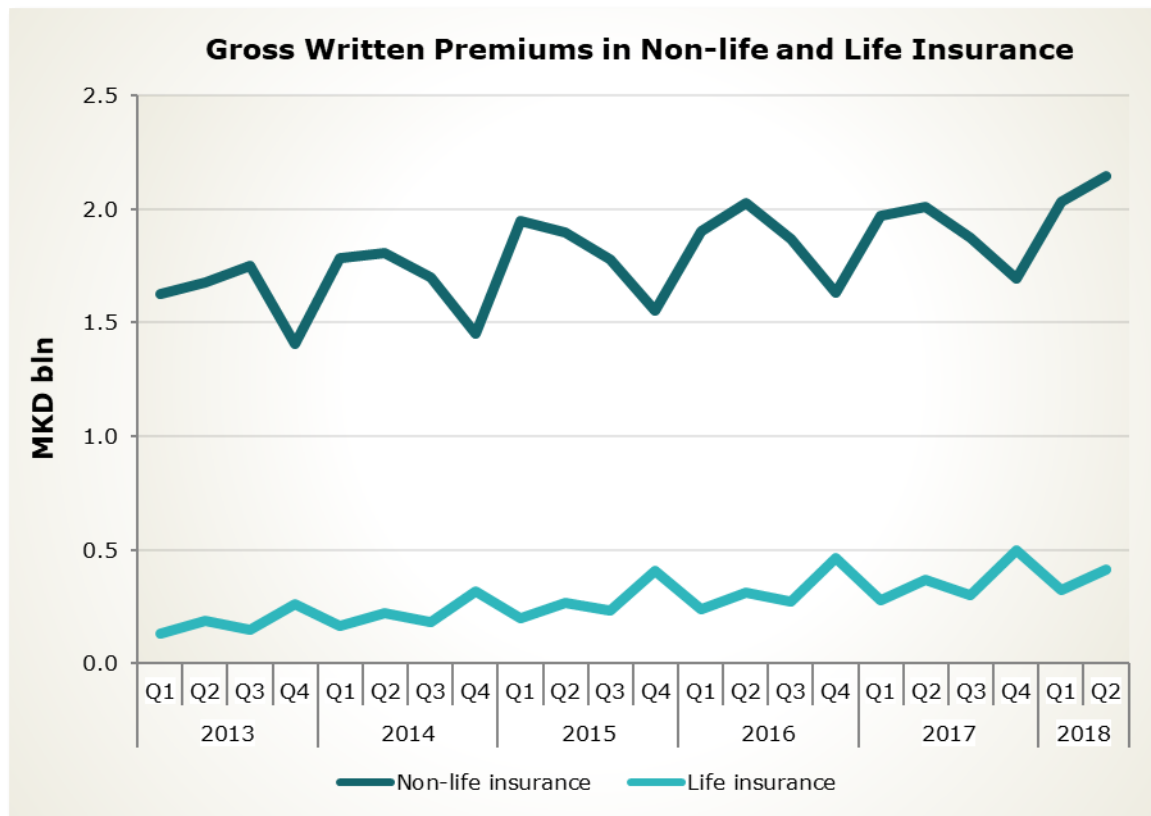


Source: NBRM

Insurance premium income went up by 7.4% y/y in Q2 2018

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.558 bln, up by 7.4% y/y, in Q2 2018, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 2.143 bln, or by 6.6% more than in the corresponding quarter of the previous year, while the life insurance market grew by 12.2% y/y to MKD 0.415 bln.



Source: ASO

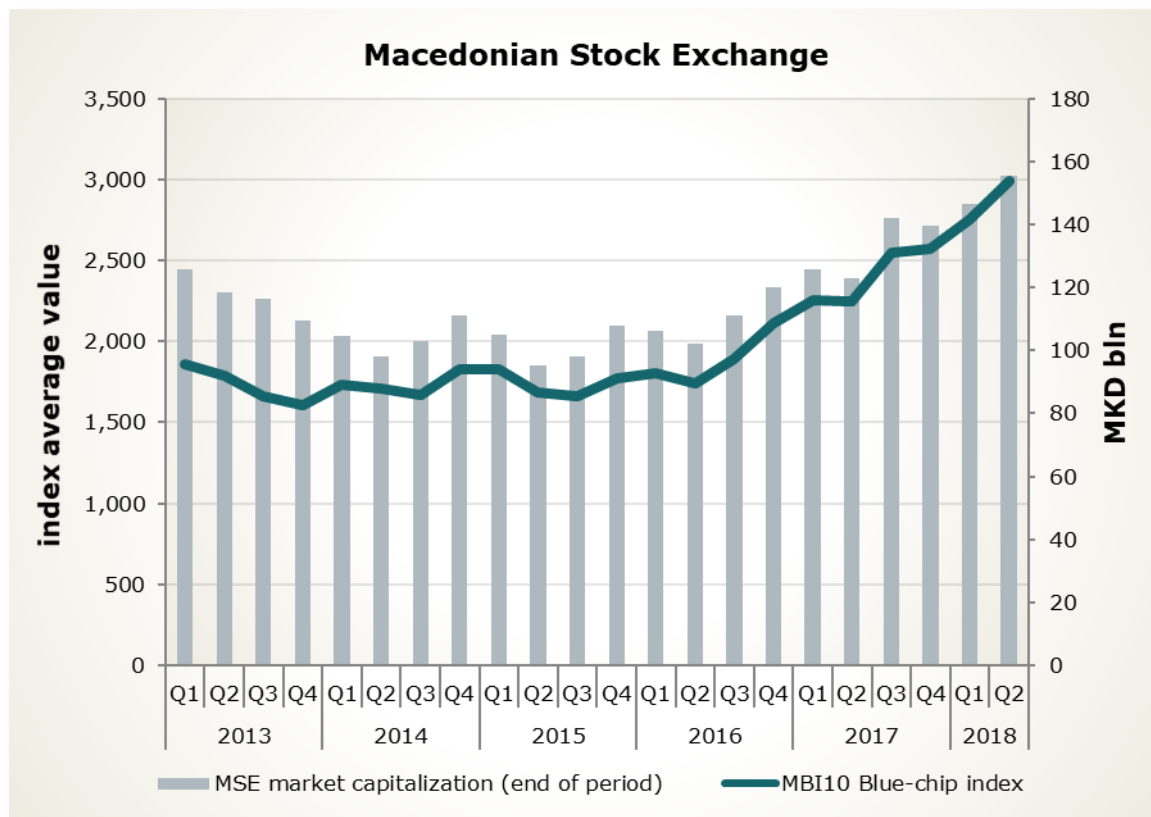
6. CAPITAL MARKETS

Blue-chip MBI10 grew by 33.2% q/q in Q2 2018

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 33.2% q/q to 2,992 points in Q2 2018.

The total turnover on the MSE reached MKD 2.425 bln in Q2 2018 versus MKD 1.009 bln in the same quarter of 2017.

The market capitalisation of MSE in the period grew to MKD 155.5 bln from MKD 122.8 bln in Q2 2017.



Source: MSE

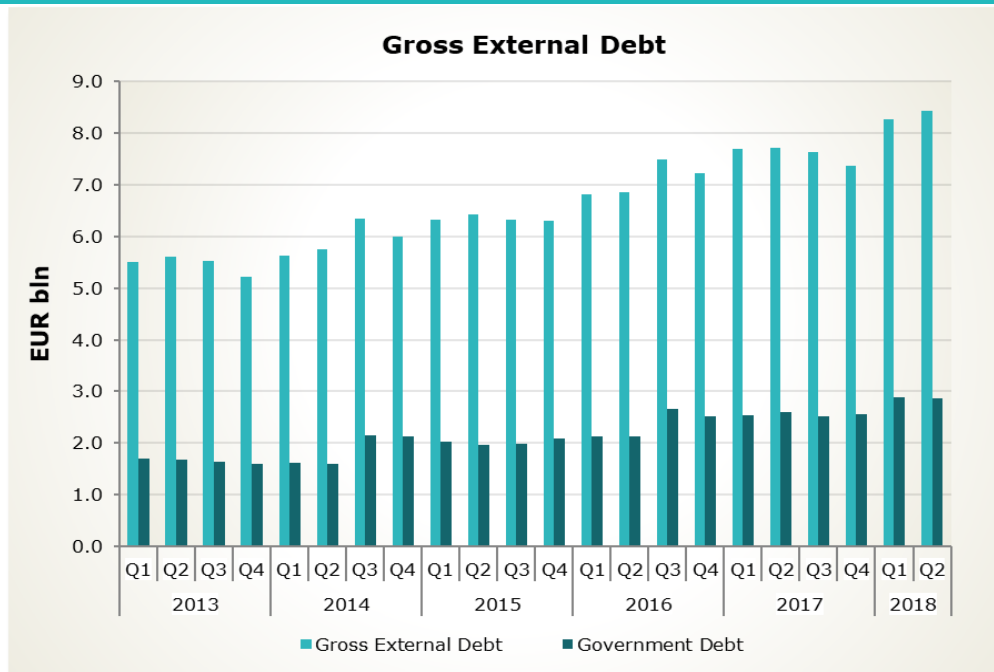
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up y/y to EUR 8.433 bln in June 2018

The gross external debt totalled EUR 8.433 bln in June 2018. The debt increased by 9.4% compared to June 2017. In comparison to March 2018, the gross external debt also marks growth with EUR 165.0 mln.

As of June 2018, long-term liabilities amounted to EUR 6.064 bln, or 71.9% of the total debt, and short-term liabilities totalled EUR 2.369 bln, equal to 28.1% of the total debt.



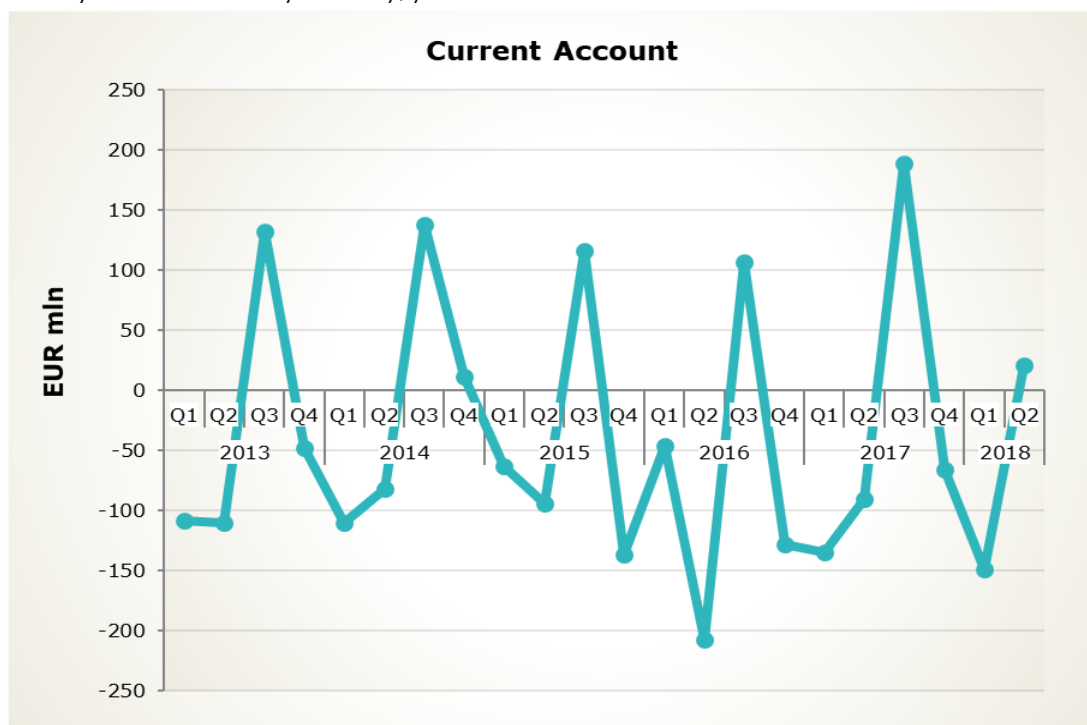
Source: NBRM

7.2. BALANCE OF PAYMENTS

Current account surplus at EUR 20.5 mln in Q2 2018

The current account surplus increased to EUR 20.5 mln in Q2 2018 from an EUR 90.8 mln deficit in Q2 2017, according to central bank statistics data.

Secondary income rose by 10.1% y/y to EUR 424.8 mln in Q2 2018.



Source: NBRM

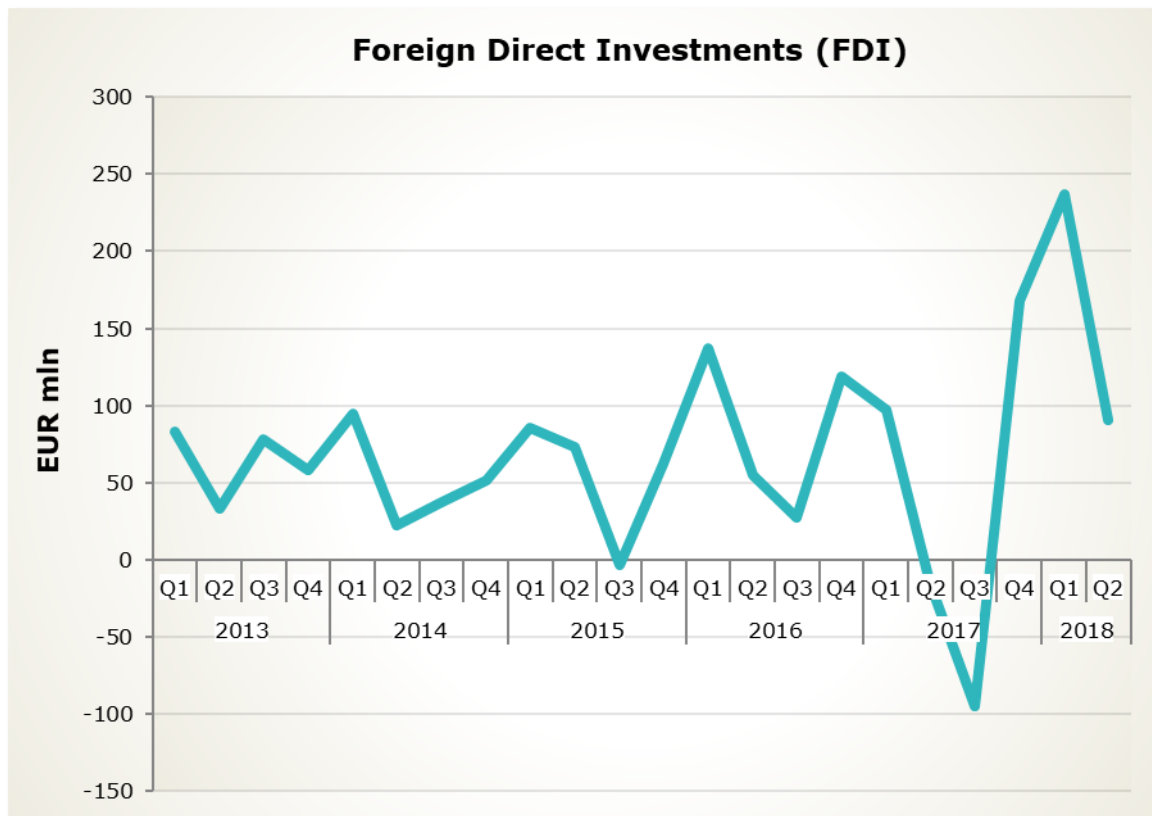
7.3. FDI

Net FDI inflow at EUR 90.6 mln in Q2 2018

The net FDI inflow in Macedonia reached EUR 90.6 mln in the second quarter of 2018 compared to a deficit of EUR 15.3 mln a year earlier, according to NBRM.

For Q2 2018 the leaders in terms of FDI in Macedonia were Austria, Turkey and Bahamas with investments of EUR 23.4 mln, EUR 15.4 mln and EUR 8.0 mln, respectively.

A breakdown by industries showed that manufacture of vehicles attracted the largest FDIs, of EUR 21.5 mln in the quarter, followed by professional, scientific and technical activities with EUR 13.0 mln.

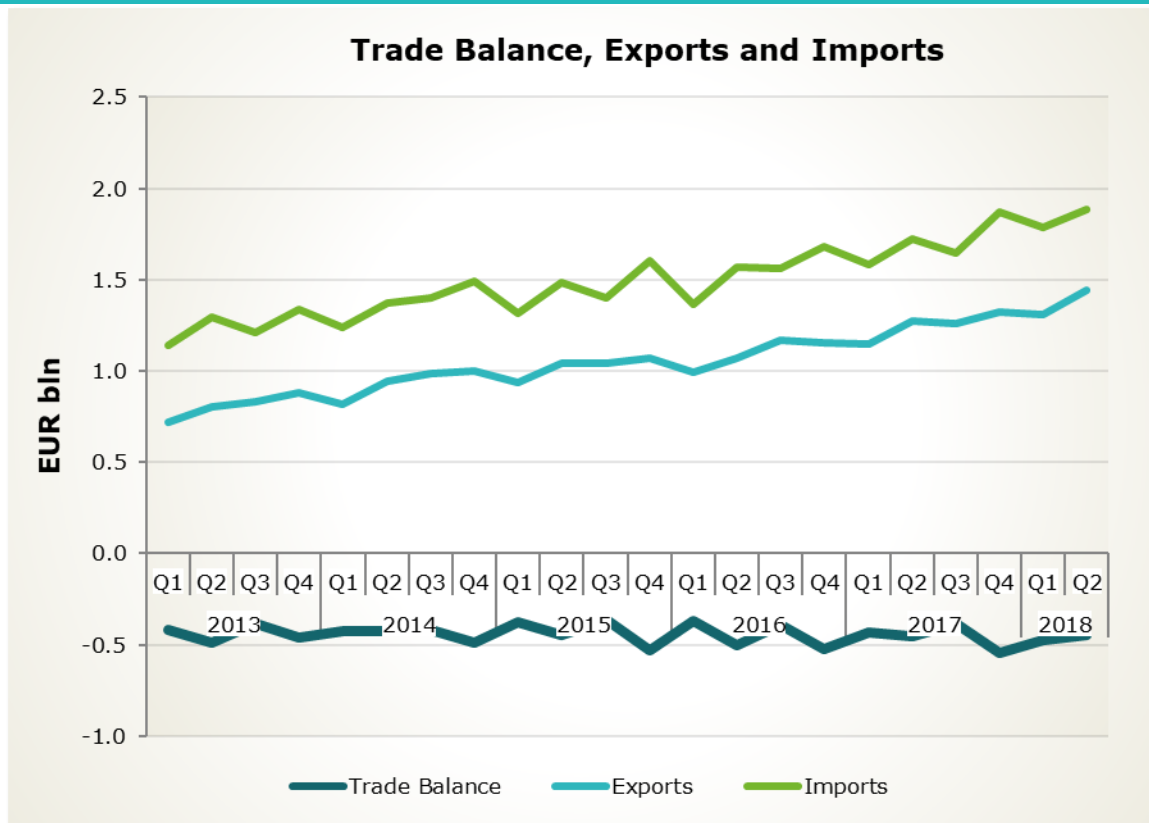


Source: NBRM

7.4. FOREIGN TRADE

Foreign trade deficit down by 1.4% y/y in Q2 2018

The trade deficit stood at EUR 444 mln in Q2 2018, compared to EUR 451 mln a year earlier, according to NBRM. Exports increased by 13.3% y/y to EUR 1.439 bln, while imports went up by 9.4% y/y to EUR 1.884 bln.

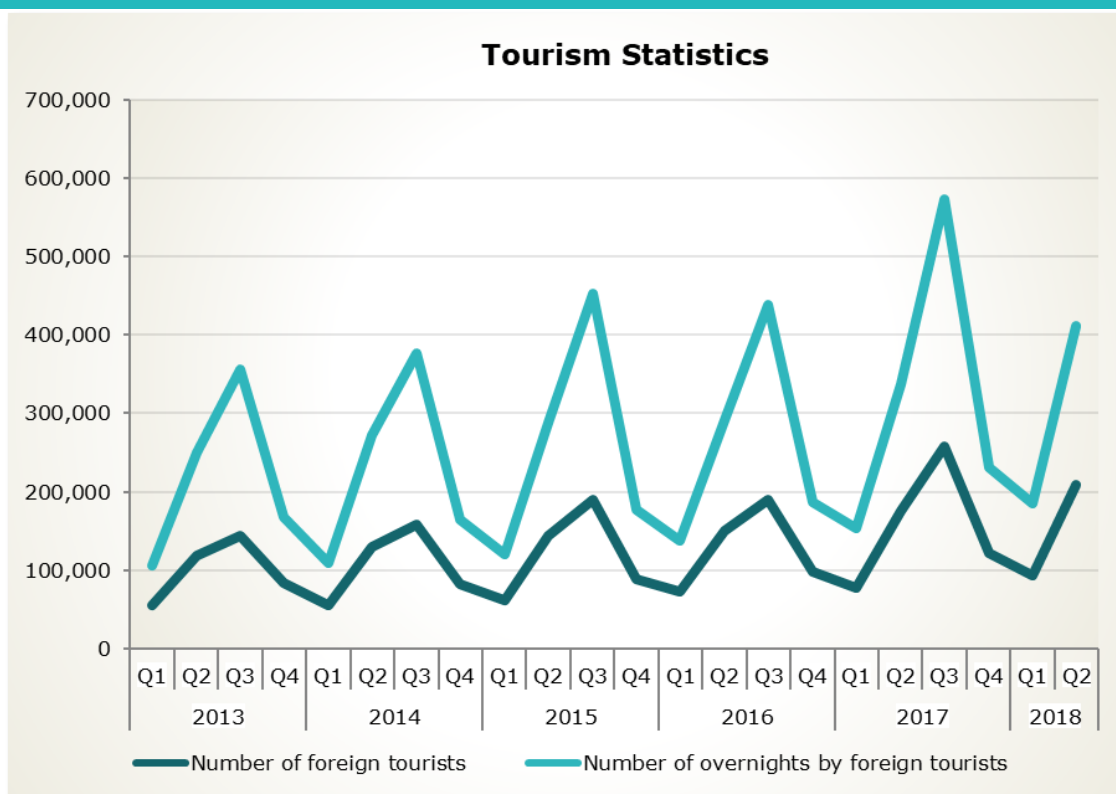


7.5. TOURISM

Number of foreign tourist overnights grew by 22.1% y/y in Q2 2018

Tourist overnights of foreigners increased by an annual 22.1% to 411,633 in Q2 2018, according to SSORM. Foreign tourist overnights accounted for 66.5% of the total tourist overnights in the country, up from 62.8% in the year-ago quarter.

The number of foreign citizens who visited the country was also on the rise, by 19.1%, to 208,058.



Source: SSORM

8. MAJOR DEVELOPMENTS

Works on Macedonia-Greece gas link likely to start in H2 2019

June 20, 2018

The construction of a gas pipeline connecting Macedonia and Greece could start in the second half of 2019, according to Macedonia's deputy prime minister for economic affairs Kocho Angjusev, local media reported.

[Read the full story here](#)

Bulgaria, Macedonia sign MoU for coupling their day-ahead markets

May 19, 2018

Bulgaria and EU candidate Macedonia have agreed to jointly develop a pilot project for coupling their day ahead electricity markets, the energy ministry in Sofia said in May.

[Read the full story here](#)

EU to assist Macedonia in its reform efforts

Apr 28, 2018

The European Union will assist Macedonia in its reform efforts towards integration, the President of the European Council, Donald Tusk, said in April.

[Read the full story here](#)

Commission recommends opening EU accession talks with Albania, Macedonia

Apr 18, 2018

The European Commission recommends that accession talks be opened with Albania and Macedonia in light of the progress achieved, maintaining and deepening the current reform momentum, European foreign policy chief Federica Mogherini said in April.

Read the full story [here](#)

Macedonian govt survives no-confidence vote over foreign policy

Apr 13, 2018

Macedonia's coalition government led by the Social-Democratic Union (SDSM) survived a no-confidence vote sought by the opposition VMRO-DPMNE over its approach towards the name dispute with neighbouring Greece and a recently signed friendship treaty with Bulgaria.

Read the full story [here](#)

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