

NORTH MACEDONIA ECONOMY REPORT

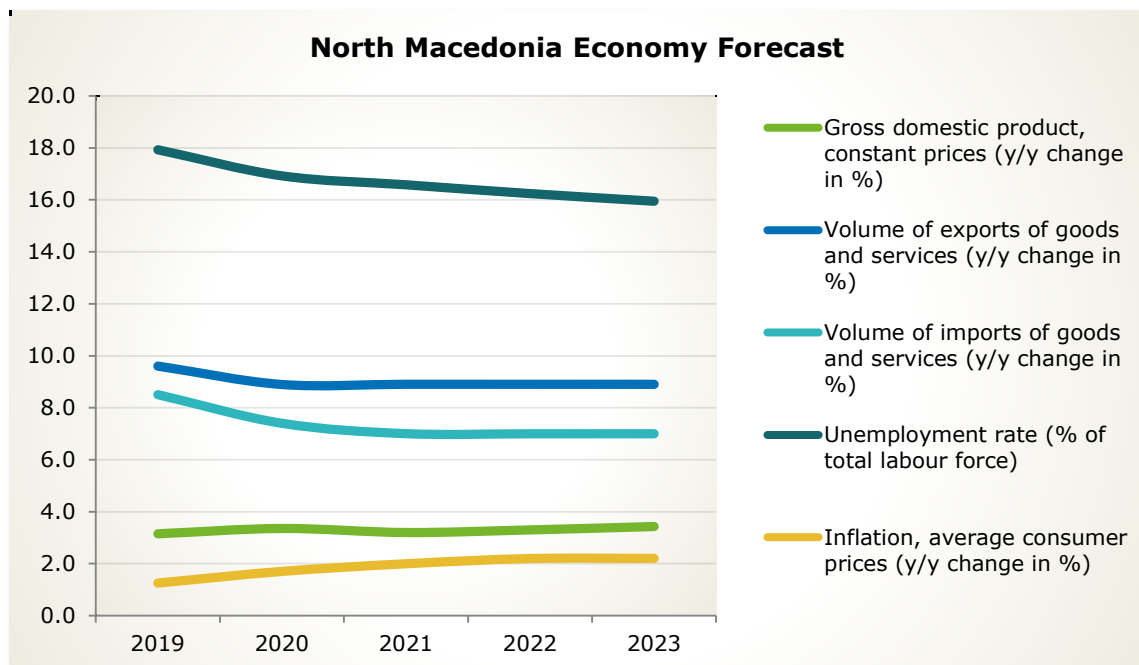
Q2 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

| NORTH MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q2 2019 | |
|--|---------------|
| GDP Growth | 3.1% y/y |
| Industrial output | 4.8% y/y |
| Industrial sales | 9.5% y/y |
| Wholesale | 11.6% y/y |
| Retail sales | 5.8% y/y |
| Average annual inflation | 1.2% |
| Unemployment rate | 17.5% |
| Number of building permits | 4.9% y/y |
| Money supply growth | 10.5% y/y |
| Household loans | 9.9% y/y |
| MBI10 blue-chip index | 3.1% q/q |
| Gross external debt | EUR 8.324 bln |
| Current account deficit | EUR 39.4 mln |
| Net FDI inflow | EUR 6.1 mln |
| Foreign trade deficit | EUR 470.5 mln |
| Number of foreign tourist overnights | 4.7% y/y |



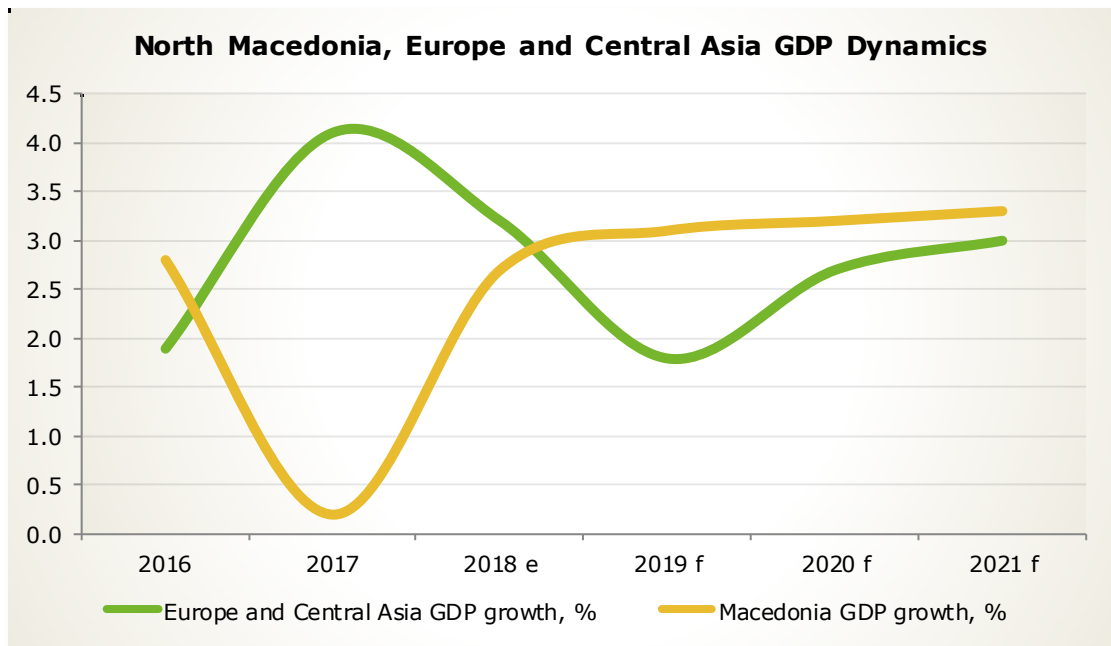
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

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. 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 3.2% and further speed up to 3.4% in 2020.

| North Macedonia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %) | | | | | | |
|--|------|-------|------|--------|--------|--------|
| | 2016 | 2017 | 2018 | 2019 e | 2020 f | 2021 f |
| Real GDP growth, at constant market prices, y/y change | 2.8 | 0.2 | 2.7 | 3.1 | 3.2 | 3.3 |
| Private Consumption | 3.9 | 0.6 | 3.3 | 2.5 | 2.5 | 2.4 |
| Government Consumption | -4.9 | -2.5 | 6.2 | 1.0 | 0.8 | 0.6 |
| Gross Fixed Capital Investment | -6.2 | -8.7 | -7.2 | 5.7 | 6.6 | 7.2 |
| Exports, Goods and Services | 9.1 | 8.1 | 15.3 | 8.0 | 8.0 | 8.2 |
| Imports, Goods and Services | 11.1 | 6.4 | 9.1 | 6.3 | 6.5 | 6.7 |
| Real GDP growth, at constant factor prices (by sectors) | 2.0 | 0.1 | 2.8 | 3.1 | 3.2 | 3.3 |
| 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 | 2.3 | 2.3 | 2.2 |
| Inflation (Consumer Price Index) | -0.2 | 1.3 | 1.4 | 1.6 | 1.8 | 2.0 |
| Current Account Balance (% of GDP) | -2.9 | -0.8 | -0.3 | -0.7 | -1.2 | -1.0 |
| Net Foreign Direct Investment (% of GDP) | 3.3 | 1.8 | 5.8 | 3.2 | 3.7 | 4.0 |

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



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

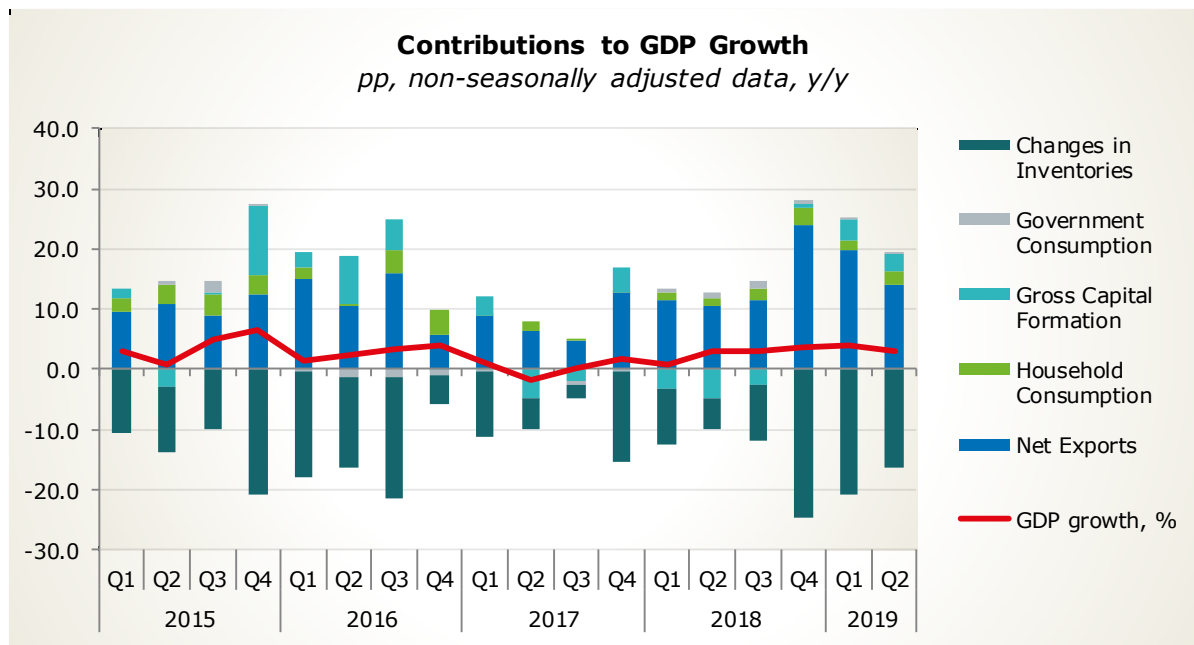
According to the World Bank estimates from October 2019, GDP growth is likely to come in at 3.1% in 2019 after the stalemate in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.8% in 2019.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP up 3.1% y/y in Q2 2019

During the second quarter of 2019, the country's GDP increased by 3.1% y/y to MKD 112.4 bln according to preliminary data of the State Statistical Office of the Republic of North Macedonia (SSORM).

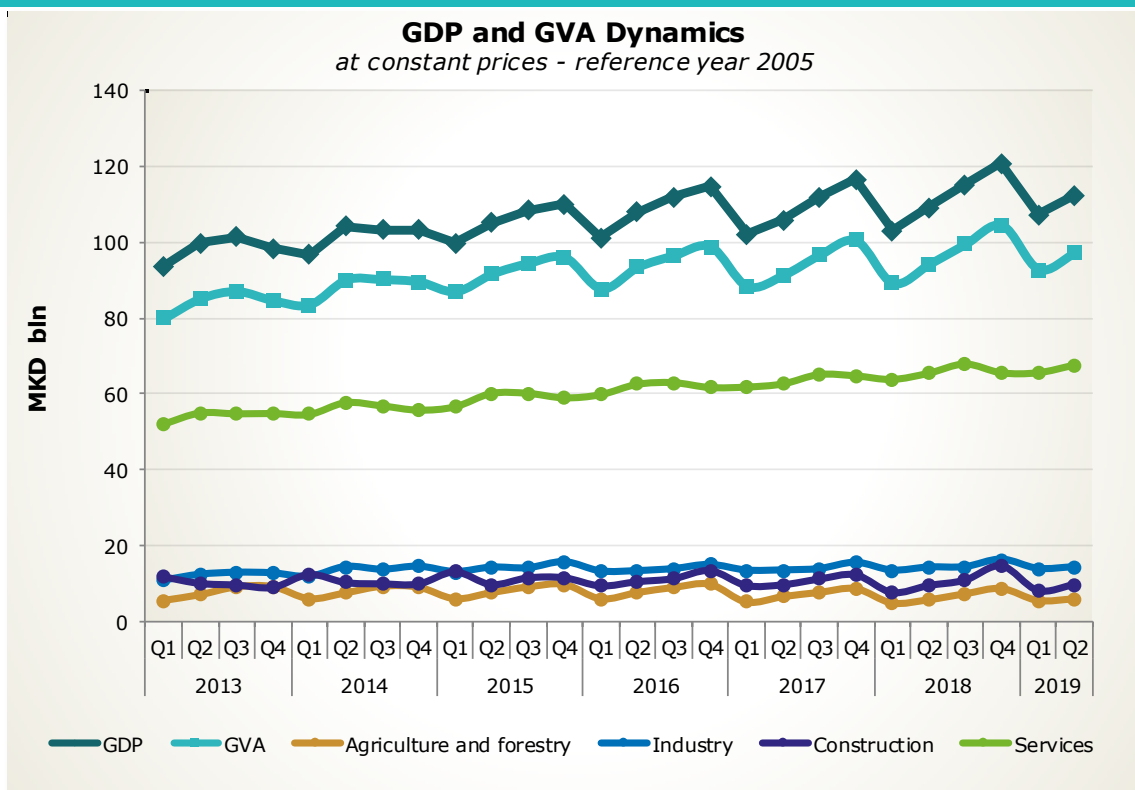


Source: SeeNews calculations; SSORM

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.

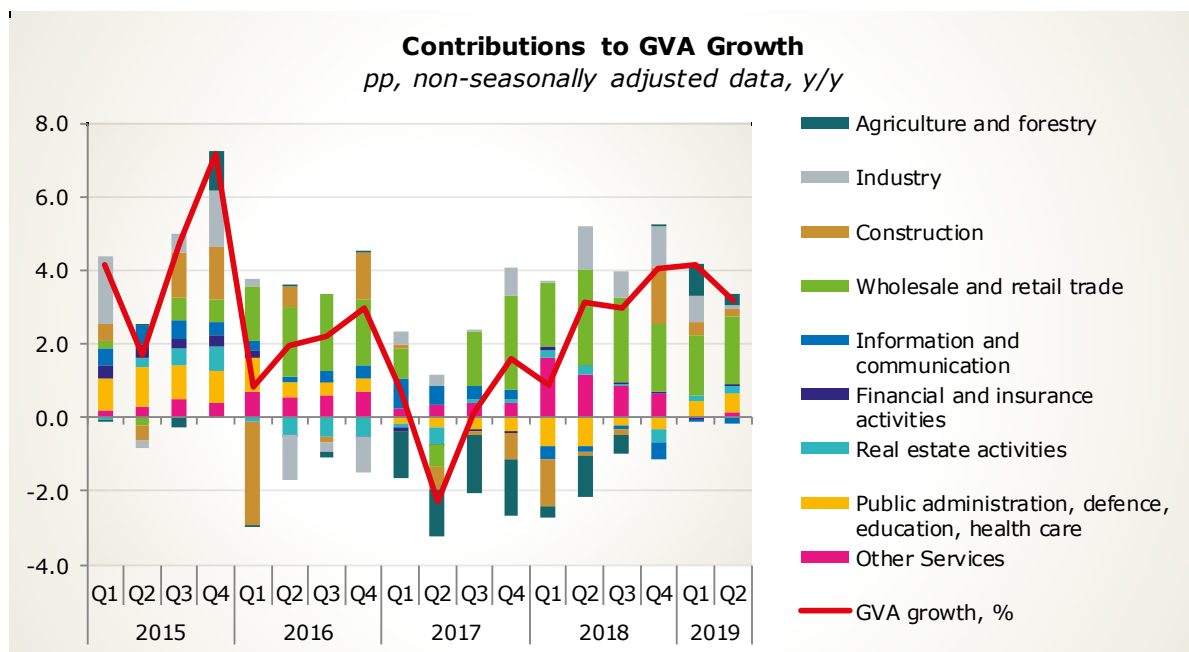
Final consumption, which accounted for 91.1% of the GDP, increased in value terms by 2.7% y/y to MKD 102.4 bln in Q2 2019, while gross capital formation went up by 11.1%. Both exports and imports grew - by 10.6% and 10.9%, respectively.

The largest contributors to the overall GDP expansion in Q2 2019 were gross capital formation, which added 3.0 pp to the GDP growth in Q2 2019, and household consumption with 2.1 pp.



Source: SSORM

The gross value added (GVA) generated by the national economy increased in value by 3.2% y/y in the second quarter of 2019 and totalled MKD 97.1 bln. The agricultural sector registered an increase of 3.9%. The gross value added of construction went up by 2.8% while the industrial sector inched up by 0.5% y/y. The services sector recorded a 3.3% rise, slicing a 69.6% share in the GVA, compared to 69.5% in the same quarter of the previous year.



Source: SeeNews Calculations; SSORM

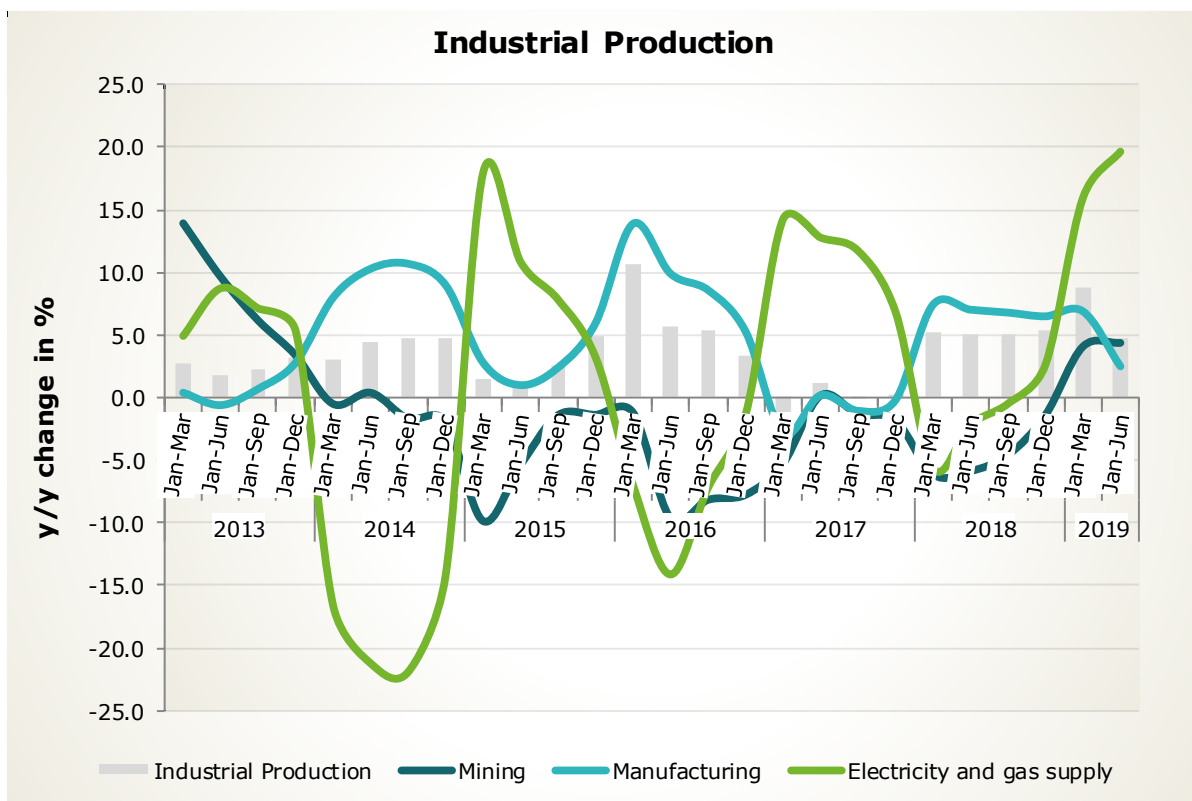
Note: Non-additive data due to direct chain linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output advanced by 4.8% y/y in January – June 2019

Industrial output went up by 4.8% on the year in the first half of 2019, according to SSORM. The output of the electricity and gas supply rose by 19.6% y/y. Production in the mining sector increased by 4.4%, while the output of manufacturing sector grew by 2.5% y/y.

The best performance in the manufacturing sector was reported in the segments manufacture of basic pharmaceutical products and preparations and manufacture of other machinery and equipment, which surged by 20.7% and 18.7% y/y, respectively.

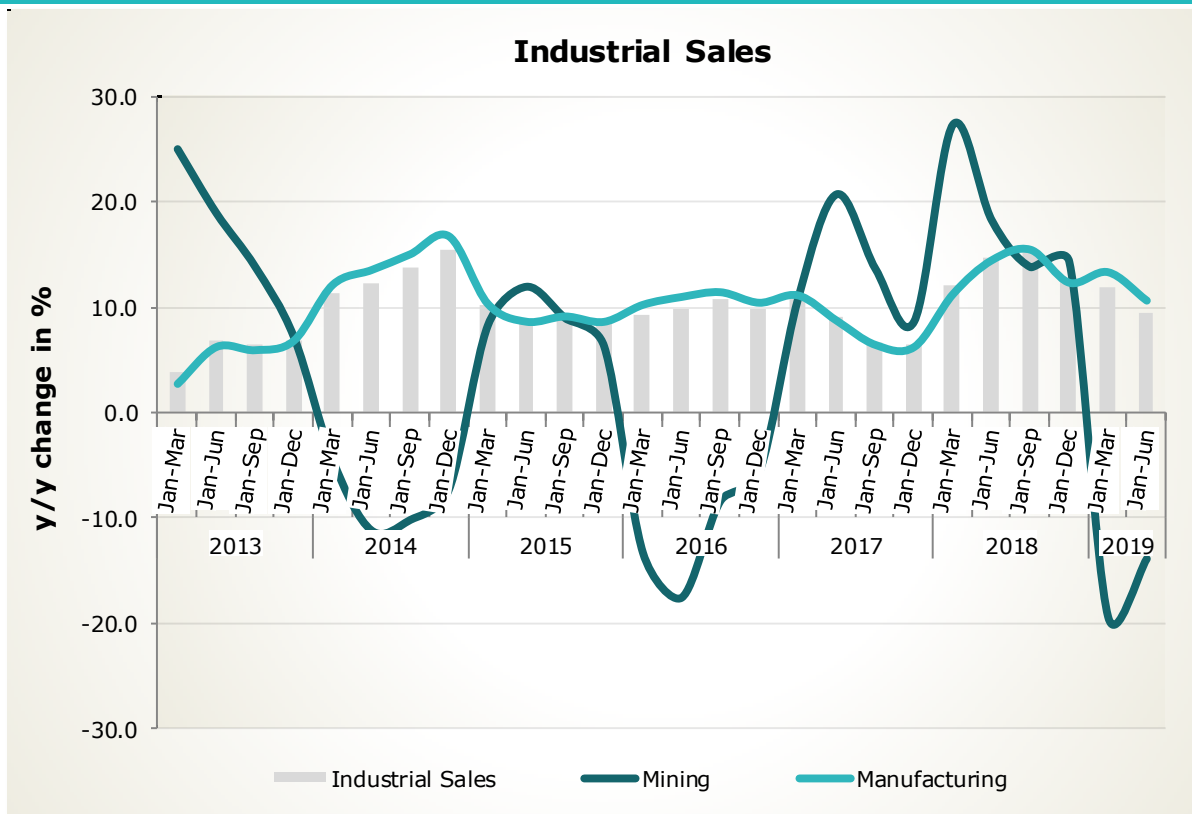


Source: SSORM

2.3. INDUSTRIAL SALES

Industrial sales went up by 9.5% y/y in January - June 2019

Industrial sales rose by 9.5% y/y in H1 2019, according to SSORM data. Sales in the manufacturing sector grew by 10.7%, while sales in the mining sector went down by 13.9% y/y.



Source: SSORM

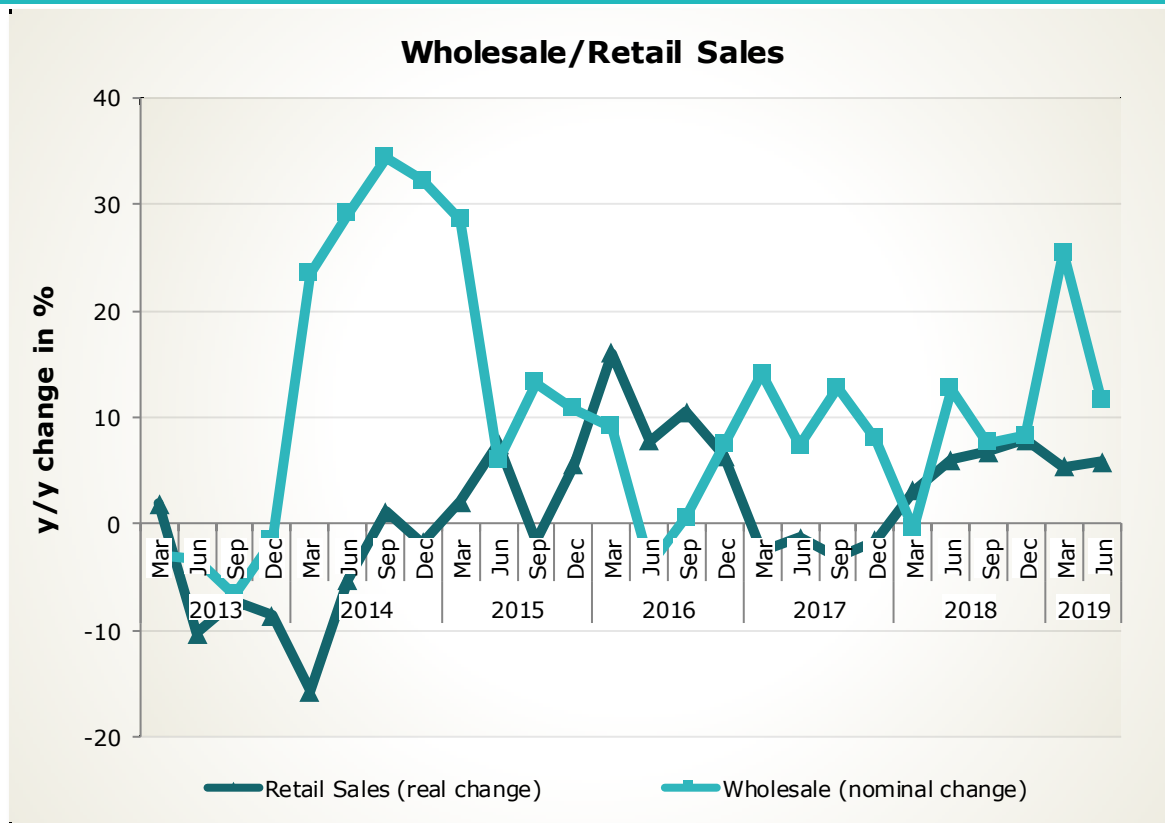
2.4. WHOLESALE/RETAIL

Retail sales expanded by 5.8 y/y in June 2019

Retail trade, except of motor vehicles and motorcycles, increased by real 5.8% y/y in June 2019, according to SSORM.

Retail sale of food, beverages and tobacco grew by 7.8% and retail trade of non-food products advanced by 5.6% y/y in June 2019.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by 11.6% y/y in June 2019.



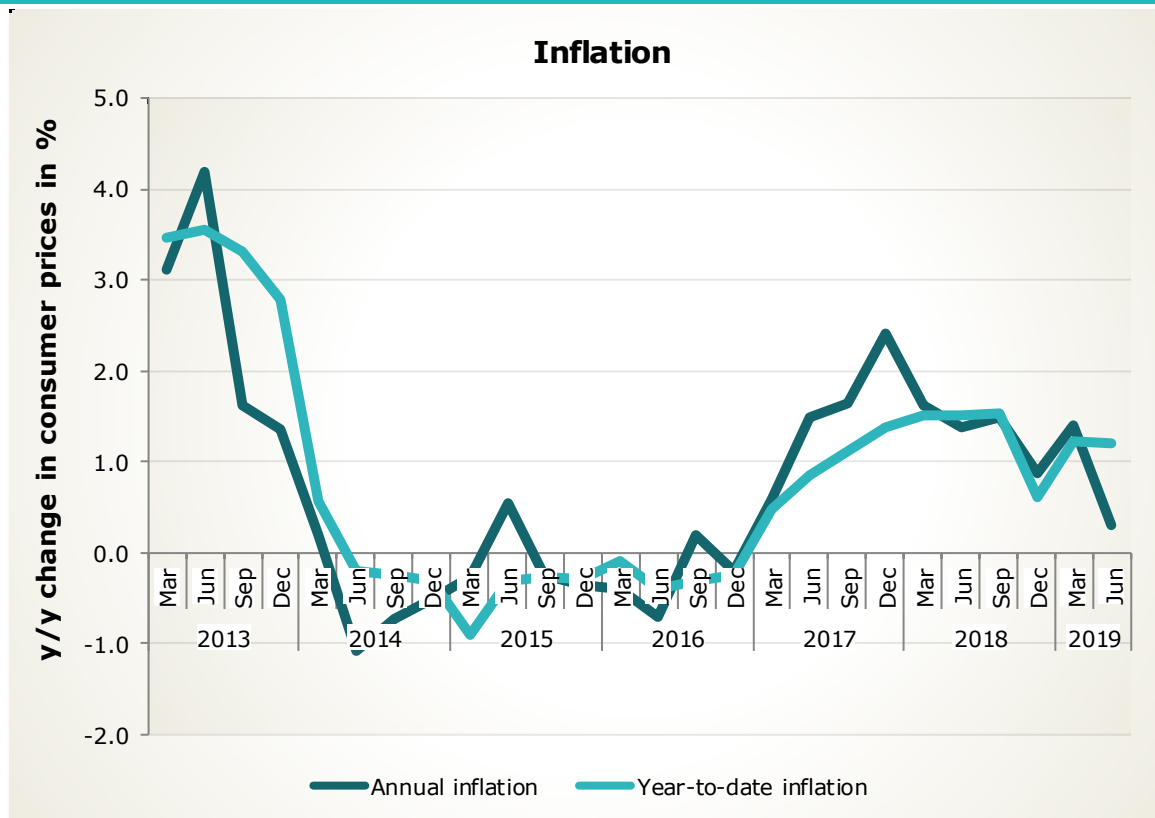
Source: SSORM

2.5. INFLATION

North Macedonia registered 1.2% inflation in January - June 2019

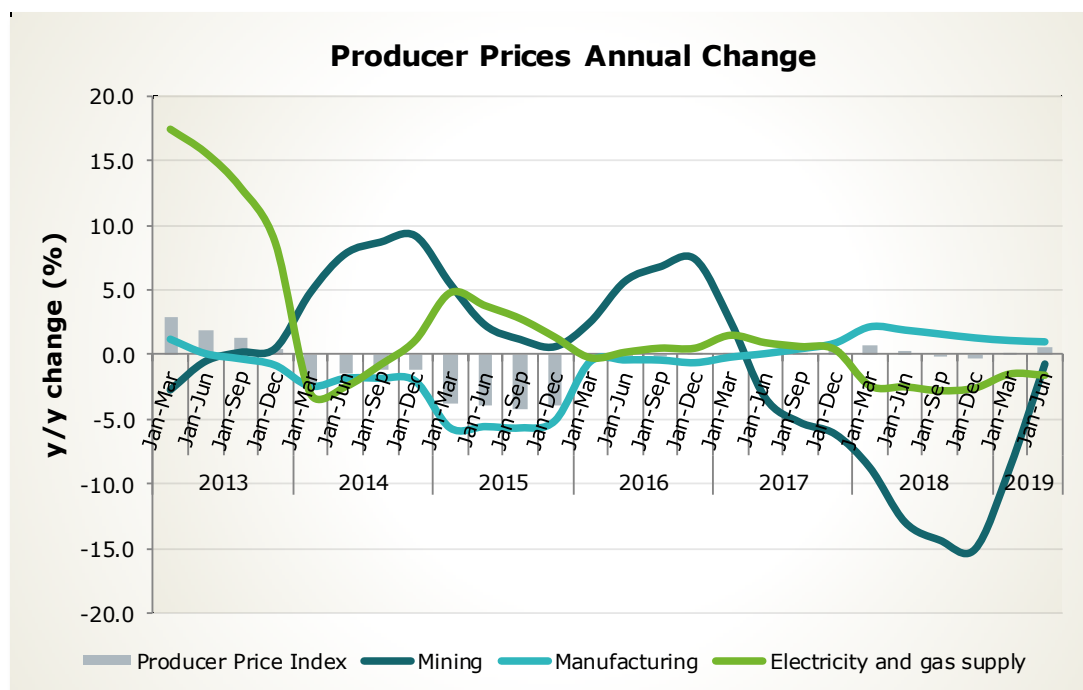
North Macedonia registered annual inflation of 1.2% in January – June 2019, down from 1.5% y/y in Q2 2018, according to SSORM.

The inflation in the segment of alcoholic beverages and tobacco came in at 6.3%, while average prices in food and non-alcoholic beverages went up by 2.1% y/y. Communication prices went down by 1.5% on average in the first half of 2019 compared with the same period of 2018, while the CPI in transport services decreased by 1.4% y/y.



Source: SSORM

Producer prices notched up by 0.6% in the period January - June 2019 with prices of the manufacturing industry increasing by 1.0% while prices in the mining sector fell by 0.7% y/y. The PPI Index of electricity and gas supply decreased by 1.6% y/y.



Source: SSORM

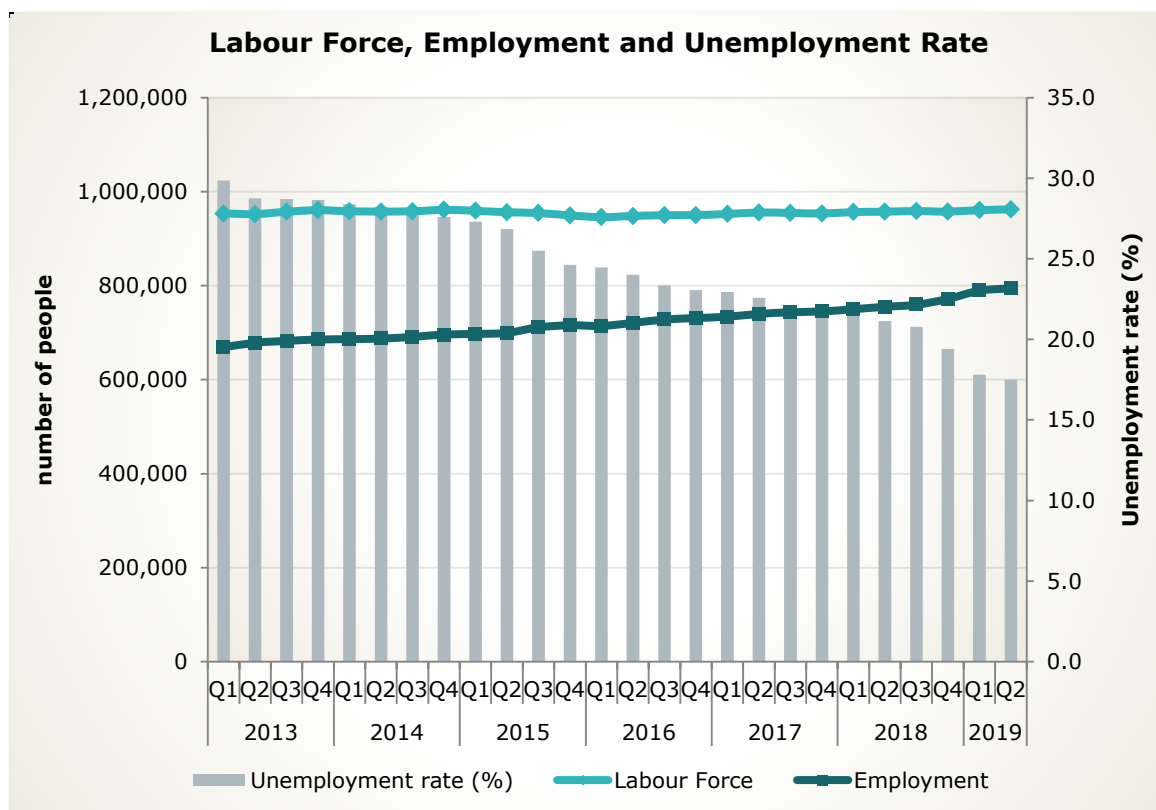
3. LABOUR MARKET

Unemployment rate down to 17.5%, wages grew 3.6% y/y in Q2 2019

Unemployment in North Macedonia narrowed to 17.5% of the total labour force in Q2 2019, down from 21.1% a year earlier, according to data of SSORM.

Employed population aged 15 years and older numbered 794,283 in Q2 2019, up by 5.2% y/y.

Youth (population aged 15-24) unemployment rate went down by 12.7 pp y/y, but remained high at 34.9%.



Source: SSORM

According to data of SSORM, the average monthly net salary in Q2 2019 went up by 3.6% in annual terms to MKD 25,087.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased in Q2 2019

The number of building permits issued in North Macedonia in Q2 2019 grew by 4.9% and totalled 385, according to SSORM. The building construction works value amounted to MKD 6.064 bln, down from MKD 8.125 bln a year earlier. The number of planned dwellings decreased to 1,370 from 1,996 in Q2 2018.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR increased to MKD 61.5684 in Q2 2019 from MKD 61.4950 in Q1 2019, according to National Bank of the Republic of North Macedonia (NBRM) data.

| MKD Average Exchange Rate | | | |
|----------------------------------|----------------|----------------|----------------|
| Foreign Currency | Q2 2019 | Q1 2019 | Q2 2018 |
| EUR | 61.5684 | 61.4950 | 61.5009 |
| USD | 54.8005 | 53.6793 | 51.5541 |
| GBP | 71.7330 | 68.7249 | 70.1745 |
| CHF | 55.0652 | 54.5507 | 52.3604 |

5.2. MONETARY AGGREGATES

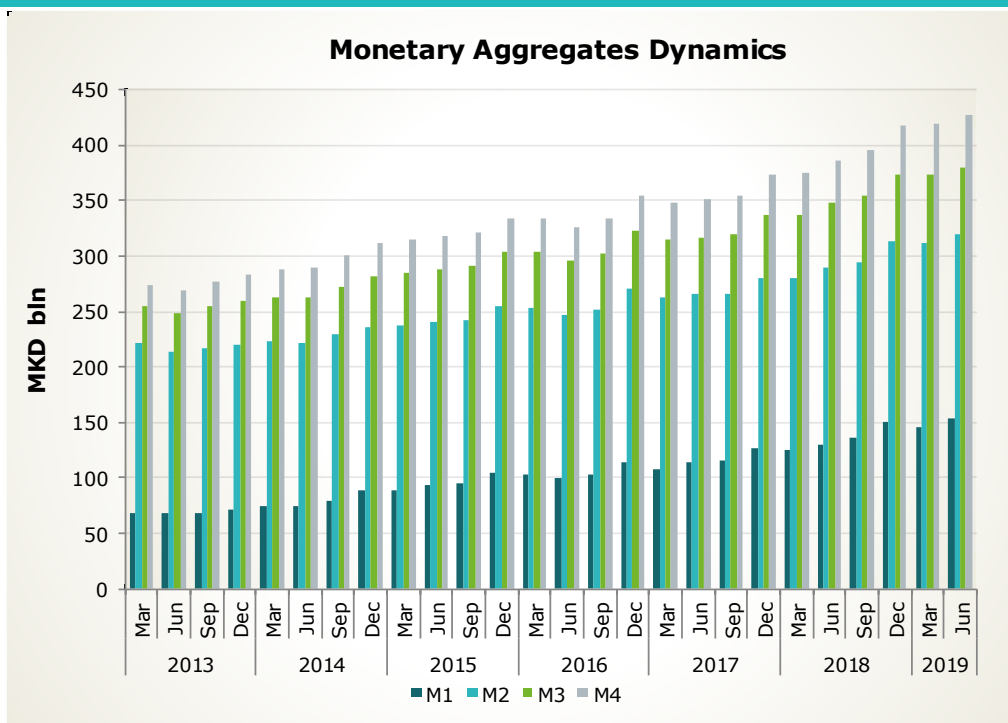
Money supply growth was 10.5% y/y at end-June 2019

Broad money (monetary aggregate M4) increased by 10.5% y/y and reached MKD 427.1 bln at the end of June 2019, according to data provided by NBRM.

The M2 money supply also grew, by 10.6% y/y, to MKD 319.8 bln.

The M3 money aggregate, which includes M2 and long-term deposits, rose by 9.2% y/y to MKD 380.0 bln.

Money aggregate M1, or narrow money, expanded the most, by 18.5%, to MKD 153.1 bln.

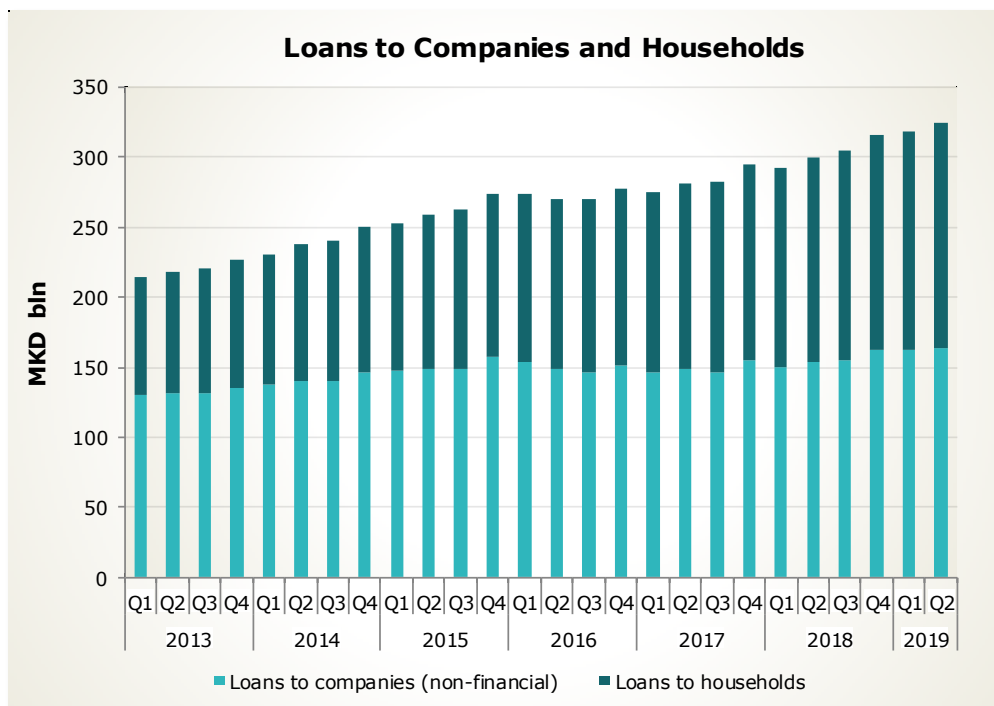


Source: NBRM

5.3. BANKING AND INSURANCE

Total loans increased by 8.4% y/y in Q2 2019

Loans to the non-government sector totalled MKD 328.4 bln in Q2 2019, up from MKD 303.0 bln in Q2 2018, according to NBRM. Household loans jumped by 9.9% to MKD 161.4 bln, while loans to non-financial corporations climbed by 6.7% to MKD 163.4 bln.

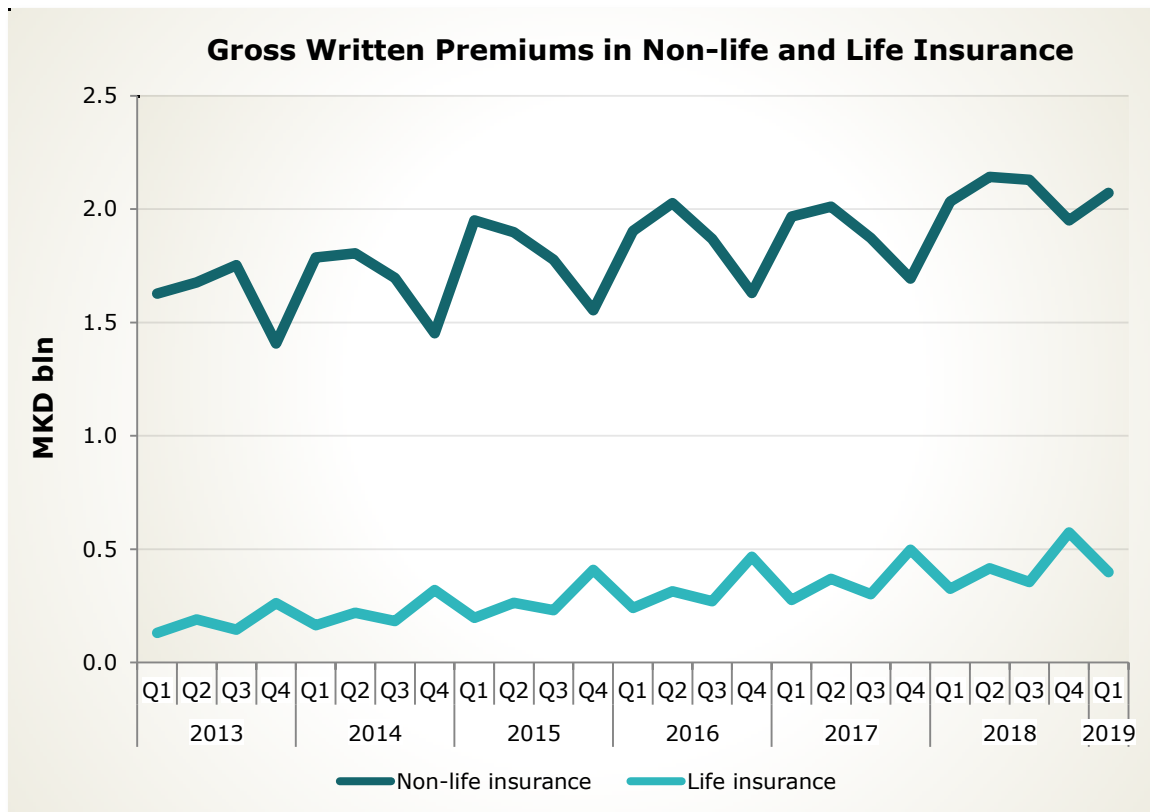


Source: NBRM

Insurance premium income went up by 4.7% y/y in Q1 2019

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.472 bln, up by 4.7% 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 2.072 bln, or by 1.9% more than in the same period of the previous year, while the life insurance market soared by 22.7% y/y to MKD 0.399 bln.



Source: ASO

Editor's Note: Data for the insurance market for Q2 2019 was not available at the time of the preparation of this report

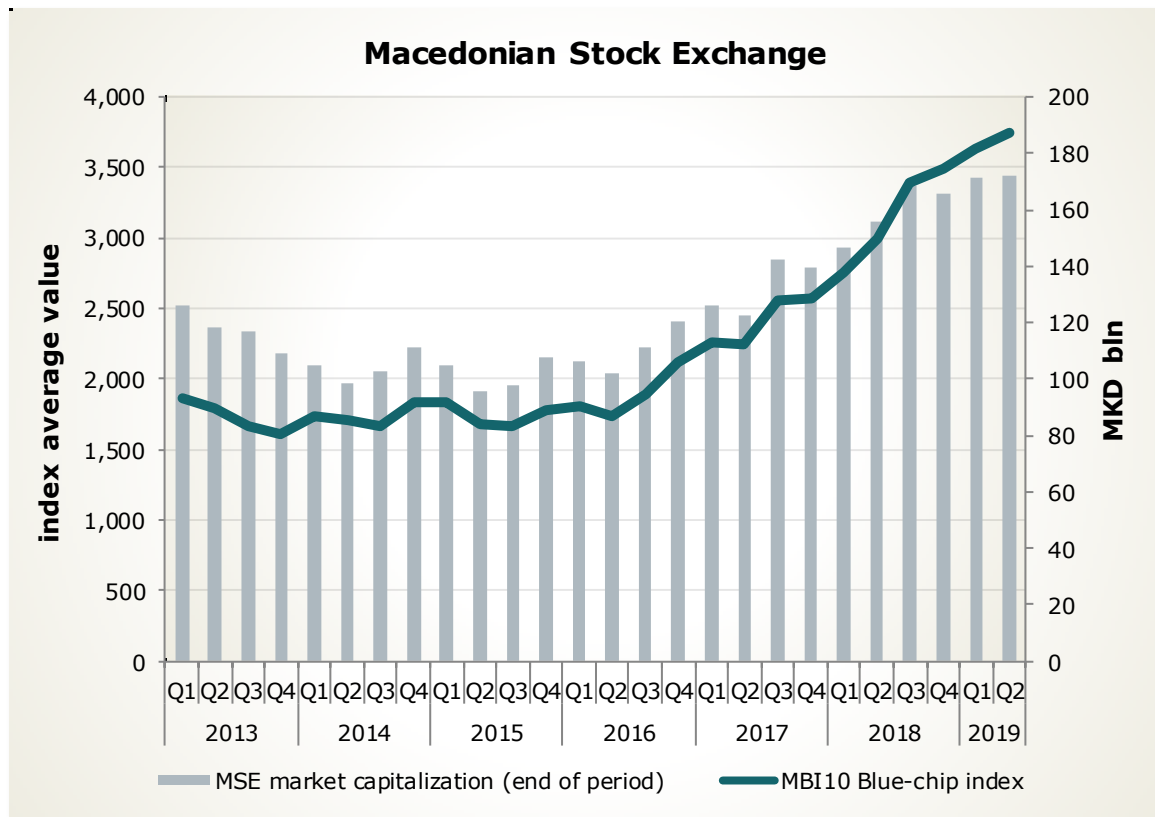
6. CAPITAL MARKETS

Blue-chip MBI10 grew by 3.1% q/q in Q2 2019

The average value of MBI10, the blue-chip index of the North Macedonian Stock Exchange (MSE), went up by 3.1% q/q to 3,751 points in Q2 2019.

The total turnover on the MSE reached MKD 1.938 bln in Q2 2019 versus MKD 2.425 bln in the same quarter of 2018.

The market capitalisation of MSE in the period grew to MKD 171.9 bln from MKD 155.5 bln in Q2 2018.



Source: MSE

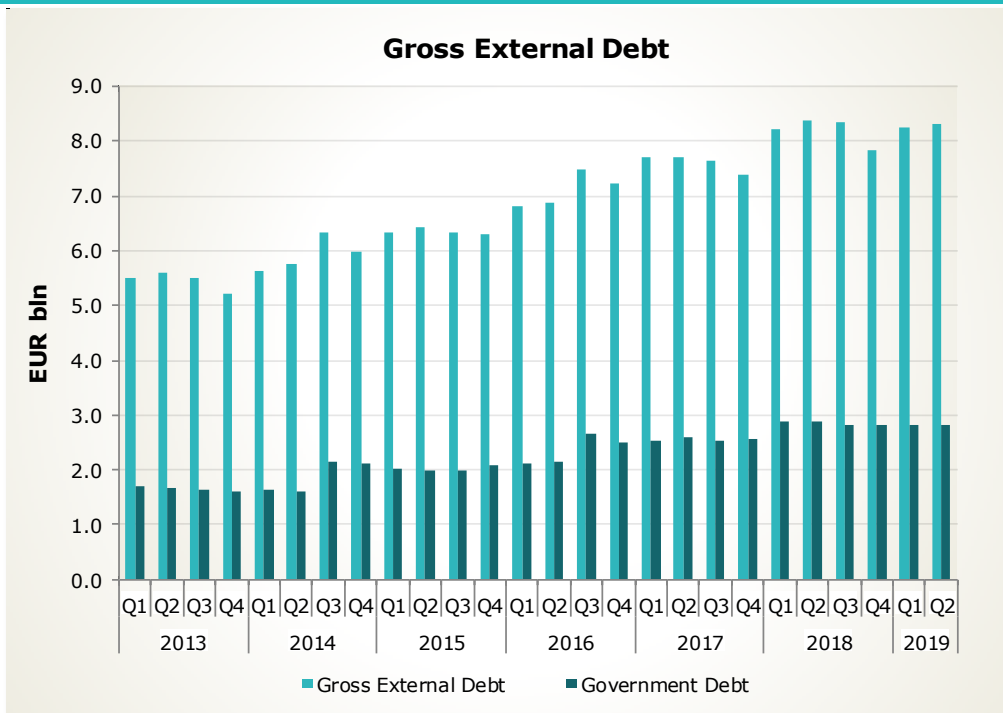
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went down y/y to EUR 8.324 bln in June 2019

The gross external debt totalled EUR 8.324 bln in June 2019, which was 71.4% of the projected full-year GDP, according to NBRM. The debt decreased by 0.7% compared to June 2018.

As of June 2019, the long-term liabilities amounted to EUR 5.949 bln, or 71.5% of the total debt, and short-term liabilities totalled EUR 2.375 bln, equal to 28.5% of the total debt.

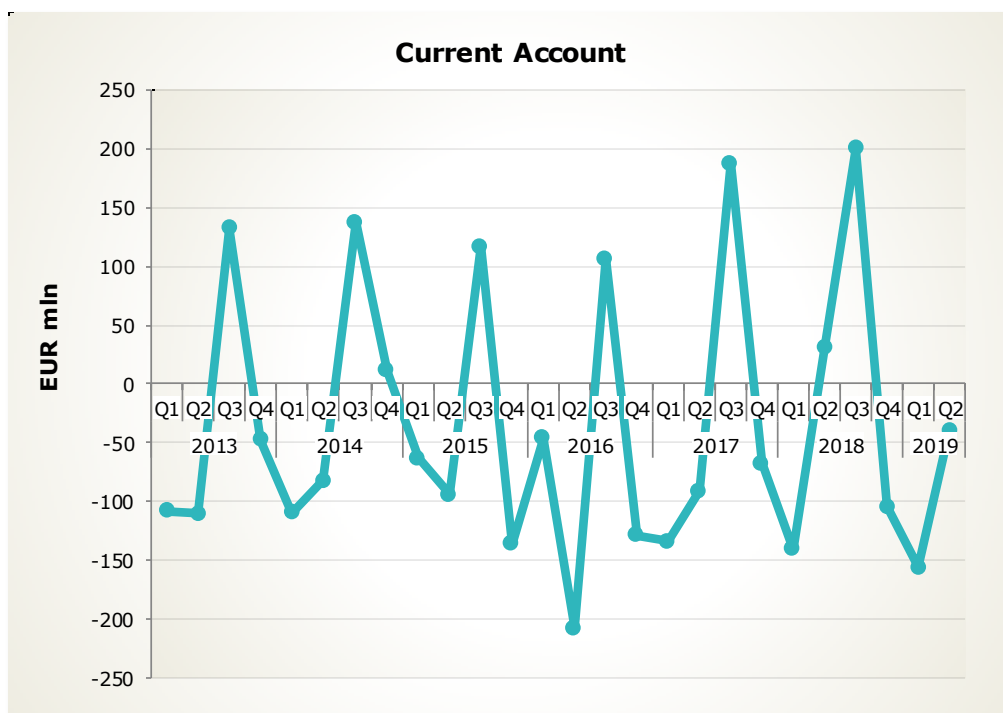


Source: NBRM

7.2. BALANCE OF PAYMENTS

Current account deficit of EUR 39.4 mln in Q2 2019

The current account turned to deficit of EUR 39.4 mln in Q2 2019 from a surplus of EUR 30.8 mln in Q2 2018, according to central bank statistics data. Secondary income dropped by 4.6% y/y to EUR 407.9 mln.



Source: NBRM

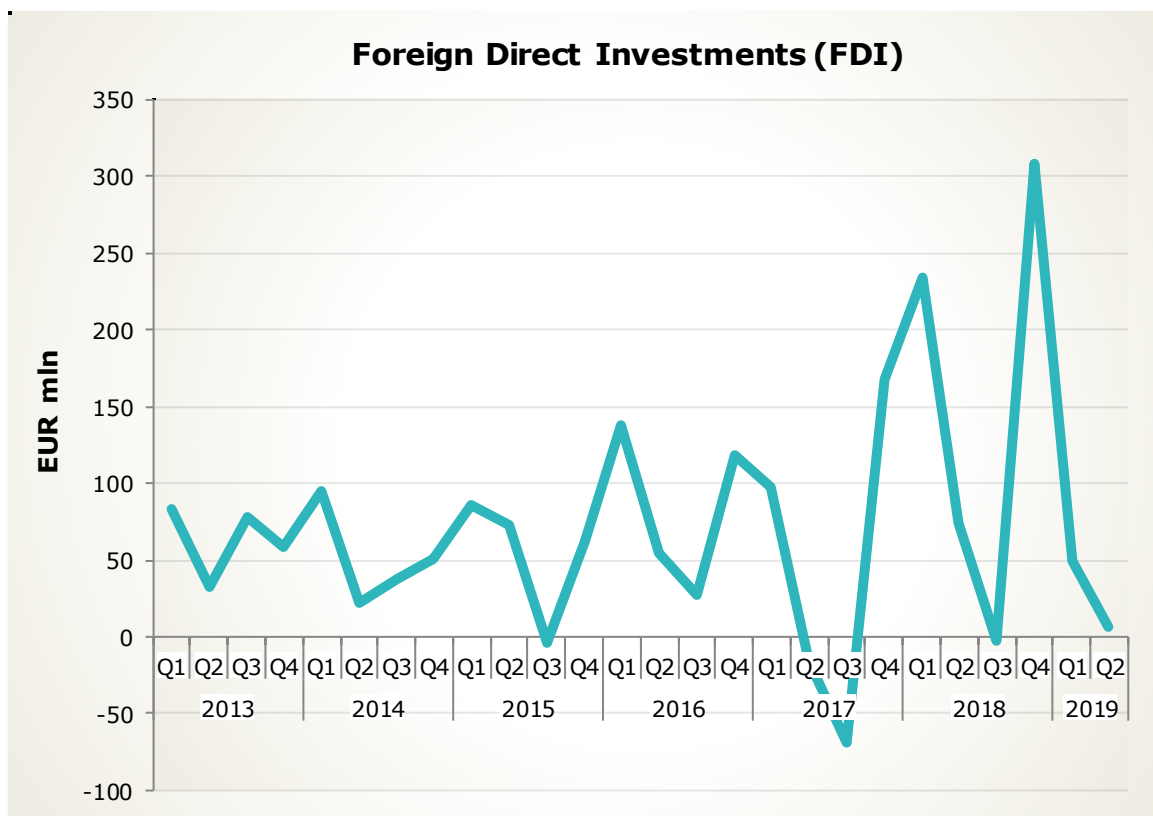
7.3. FDI

Net FDI inflow at EUR 6.1 mln in Q2 2019

The net FDI inflow in North Macedonia slumped to EUR 6.1 mln in the second quarter of 2019 compared with an inflow of EUR 74.5 mln a year earlier, according to NBRM.

For Q2 2019 the leaders in terms of net FDI inflow in North Macedonia were Slovenia, Turkey and the Netherlands with investments of EUR 12.6 mln, EUR 11.3 mln and EUR 7.9 mln, respectively.

A breakdown by industries showed that the wholesale and retail sector attracted the largest FDIs, of EUR 16.6 mln in the quarter, followed by financial and insurance activities with EUR 11.0 mln.

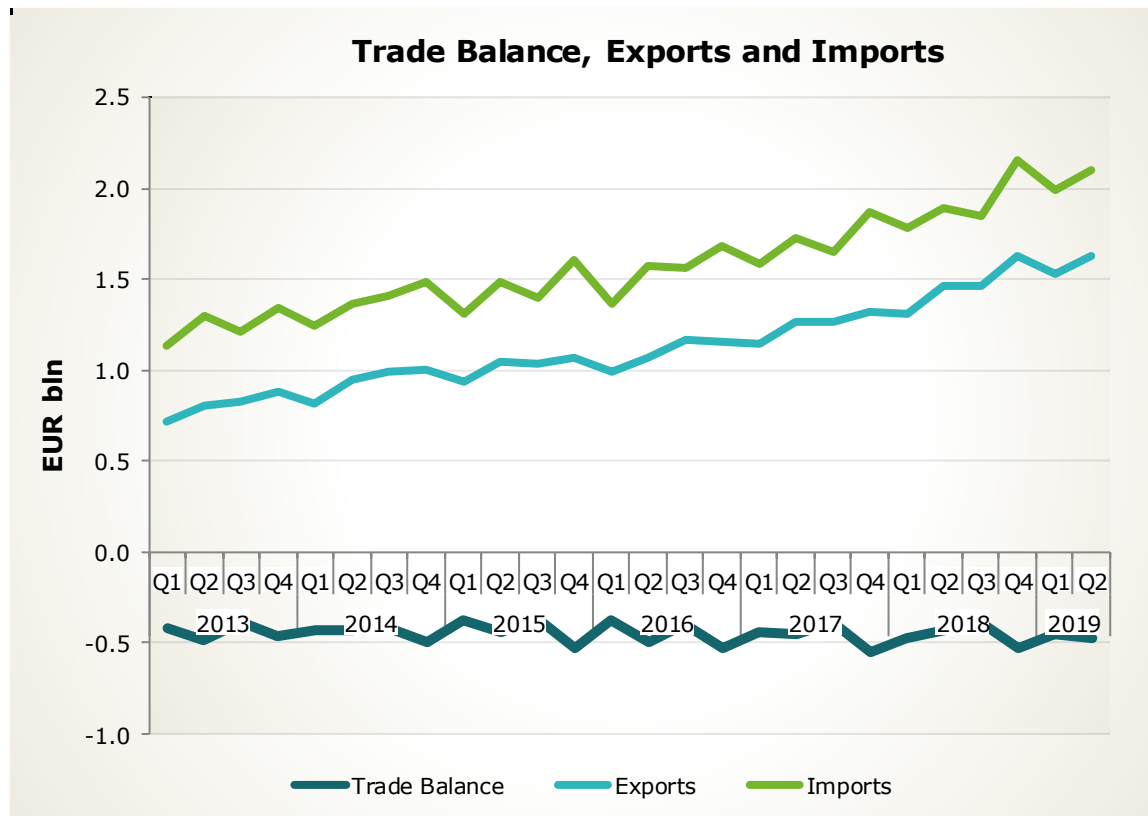


Source: NBRM

7.4. FOREIGN TRADE

Foreign trade deficit up by 9.0% y/y in Q2 2019

The trade deficit stood at EUR 470.5 mln in Q2 2019, compared to EUR 431.6 mln a year earlier, according to NBRM. Exports increased by 11.3% y/y to EUR 1.624 bln, while imports went up by 10.8% y/y to EUR 2.094 bln.



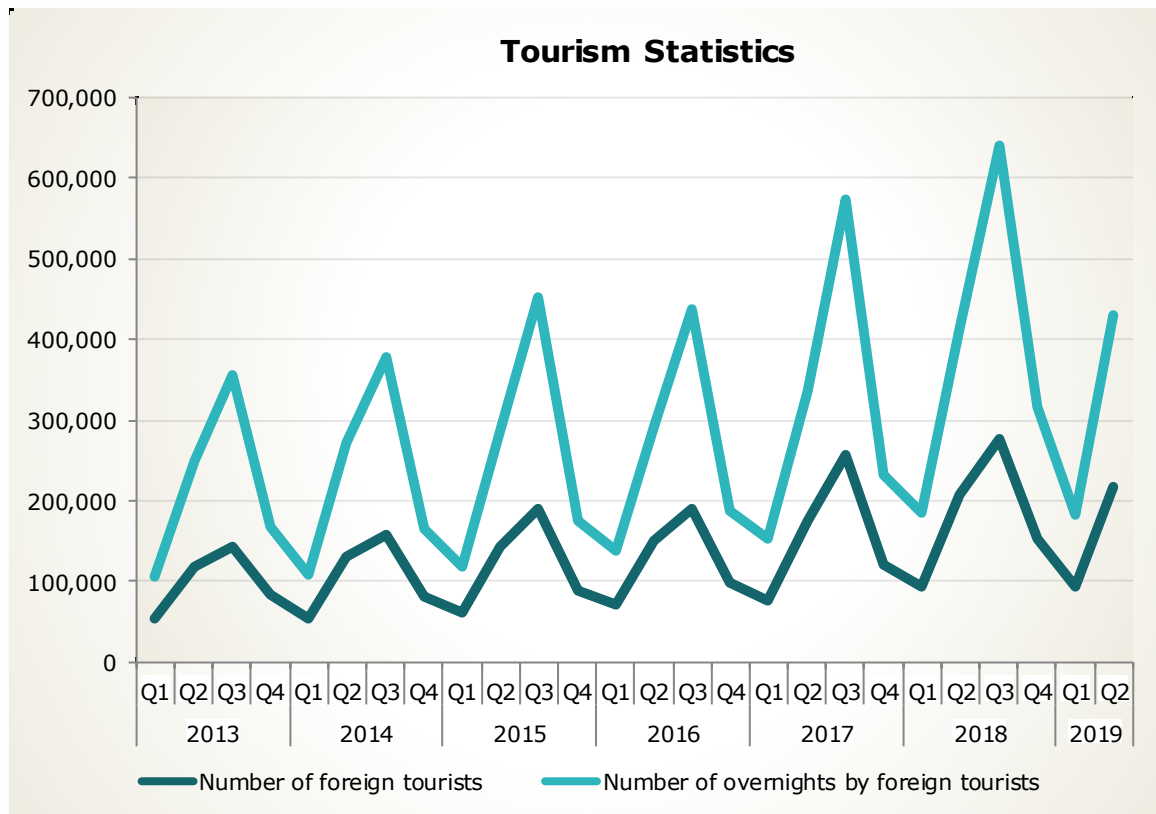
Source: NBRM

7.5. TOURISM

Number of foreign tourists' overnights grew by 4.7% y/y in Q2 2019

Tourist overnights of foreigners increased by an annual 4.7% to 430,993 in Q2 2019, according to SSORM. Foreign tourist overnights accounted for 67.7% of the total tourist overnights in the country, up from 66.5% in the year-ago quarter.

The number of foreign citizens who visited the country was also on the rise, by 4.8%, to 218,110.



Source: SSORM

8. MAJOR DEVELOPMENTS

EU Council to discuss opening entry talks with Albania, N. Macedonia before October

June 18, 2019

The Council of the European Union said it discuss the issue of opening accession talks with Albania and North Macedonia no later than October in light of the limited time available and the importance of the matter.

[Read the full story here](#)

N. Macedonia opens for traffic Miladinovci-Stip motorway

June 5, 2019

North Macedonia opened for traffic the Miladinovci-Stip motorway, local media reported. The 47-km long motorway will provide a safer and quicker link between the capital Skopje and the eastern town of Stip.

[Read the full story here](#)

EBRD mulls EUR 60 mln loan to improve wastewater treatment in Skopje

June 3, 2019

The European Bank for Reconstruction and Development (EBRD) said it is considering a EUR 60 mln loan to finance the construction of a large-scale wastewater treatment plant in North Macedonia's capital Skopje.

[Read the full story here](#)

EBRD approves five-year strategy for N. Macedonia with focus on private sector, green economy Macedonia

May 28, 2019

The European Bank for Reconstruction and Development has approved a 2019-2024 country strategy for North Macedonia focused on private sector development, transition to a green economy and further regional integration, the bank said.

[Read the full story here](#)

EBRD seeks advisor to draft solid waste management plan in N. Macedonia

May 23, 2019

The European Bank for Reconstruction and Development (EBRD) said it is looking for a consultant to assist North Macedonia's government in preparing a sector-wide pre-feasibility and financing options study for four regions of the country.

[Read the full story here](#)

EBRD to help N. Macedonia accelerate implementation of transport projects

Apr 4, 2019

The European Bank for Reconstruction and Development (EBRD) said it will provide technical assistance to North Macedonia for the establishment and operation of a transport infrastructure delivery unit in order to unlock investment in the sector.

[Read the full story here](#)

N. Macedonia, Greece agree to step up ties in economy, transport, defence

Apr 3, 2019

North Macedonia and Greece, which had resolved their name dispute, now agreed to intensify their cooperation in economy, defence, energy, transport and agriculture, North Macedonia's prime minister Zoran Zaev said.

[Read the full story here](#)

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