

MACEDONIA ECONOMY REPORT

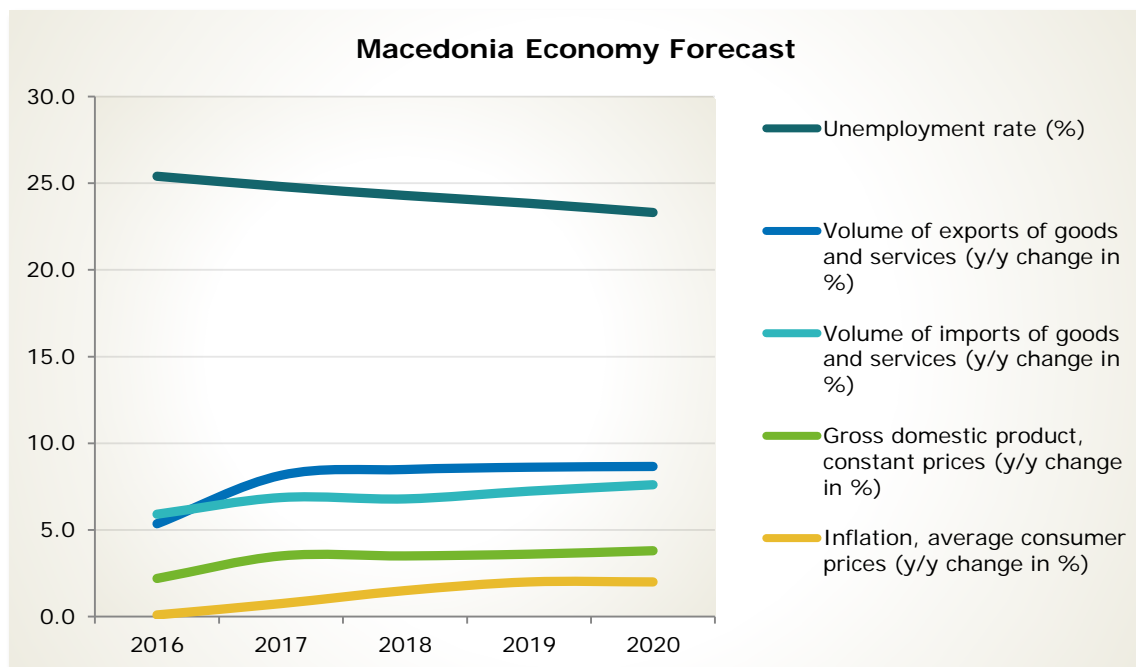
Q3 2016

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	4
2.1. GROSS DOMESTIC PRODUCT (GDP)	4
2.2. INDUSTRIAL OUTPUT	5
2.3. INDUSTRIAL SALES.....	5
2.4. WHOLESALE/RETAIL	6
2.5. INFLATION.....	7
3. LABOUR MARKET.....	9
4. CONSTRUCTION AND REAL ESTATE	10
5. MONEY SUPPLY AND BANKING SYSTEM.....	10
5.1. MKD EXCHANGE RATE.....	11
5.2. MONETARY AGGREGATES	11
5.3. BANKING AND INSURANCE.....	12
6. CAPITAL MARKETS	13
7. EXTERNAL SECTOR.....	14
7.1. FOREIGN DEBT	14
7.2. BALANCE OF PAYMENTS	15
7.3. FDI.....	16
7.4. FOREIGN TRADE	17
7.5. TOURSIM	18

1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA - MACROECONOMIC SNAPSHOT AS OF Q3 2016	
GDP Growth	2.4% y/y
Industrial output	5.4% y/y
Industrial sales	10.7% y/y
Wholesales	0.6% y/y
Retail sales	10.5% y/y
Average annual deflation	0.3%
Unemployment rate	23.4%
Number of building permits	0.0% y/y
Money supply growth	4.0% y/y
Household loans	6.9% y/y
MBI10 blue-chip index	13.5% y/y
Gross external debt	EUR 7.504 bln
Current account surplus	EUR 115.5 mln
Net FDI inflow	EUR 56.1 mln
Foreign trade deficit	EUR 396.0 bln
Number of foreign tourist overnights	-3.3% y/y



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

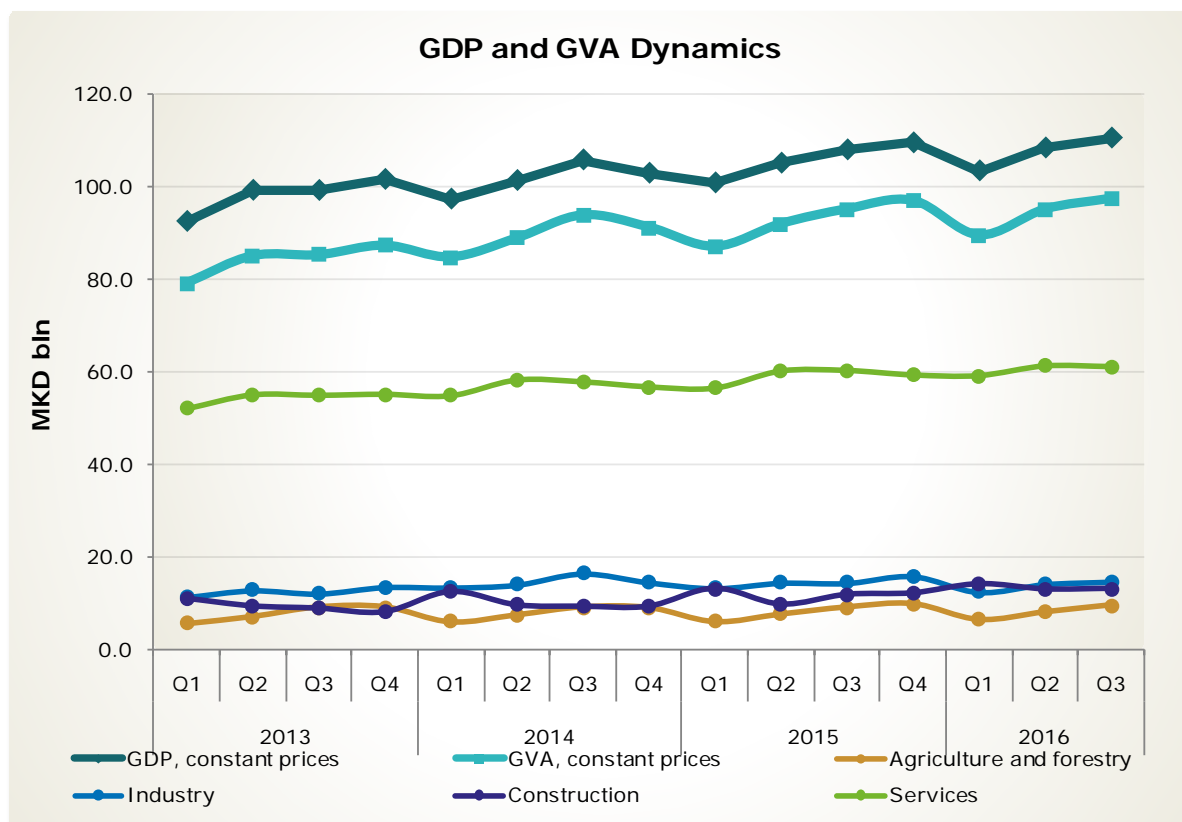
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 2.4% y/y in Q3 2016, compared to a 4.5% y/y growth in Q3 2015

The country's GDP increased by a real 2.4% y/y and totalled MKD 110.5 bln in Q3 2016, according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).

Final consumption, which contributed 85.9% to the GDP, increased in value terms by 4.4% y/y to MKD 94.854 bln in Q3 2016. Gross capital formation went down by 4.0% to MKD 27.794 bln, contributing 25.2% to the GDP. Both exports and imports grew - by 15.6% and 13.3%, respectively.



Source: SSORM

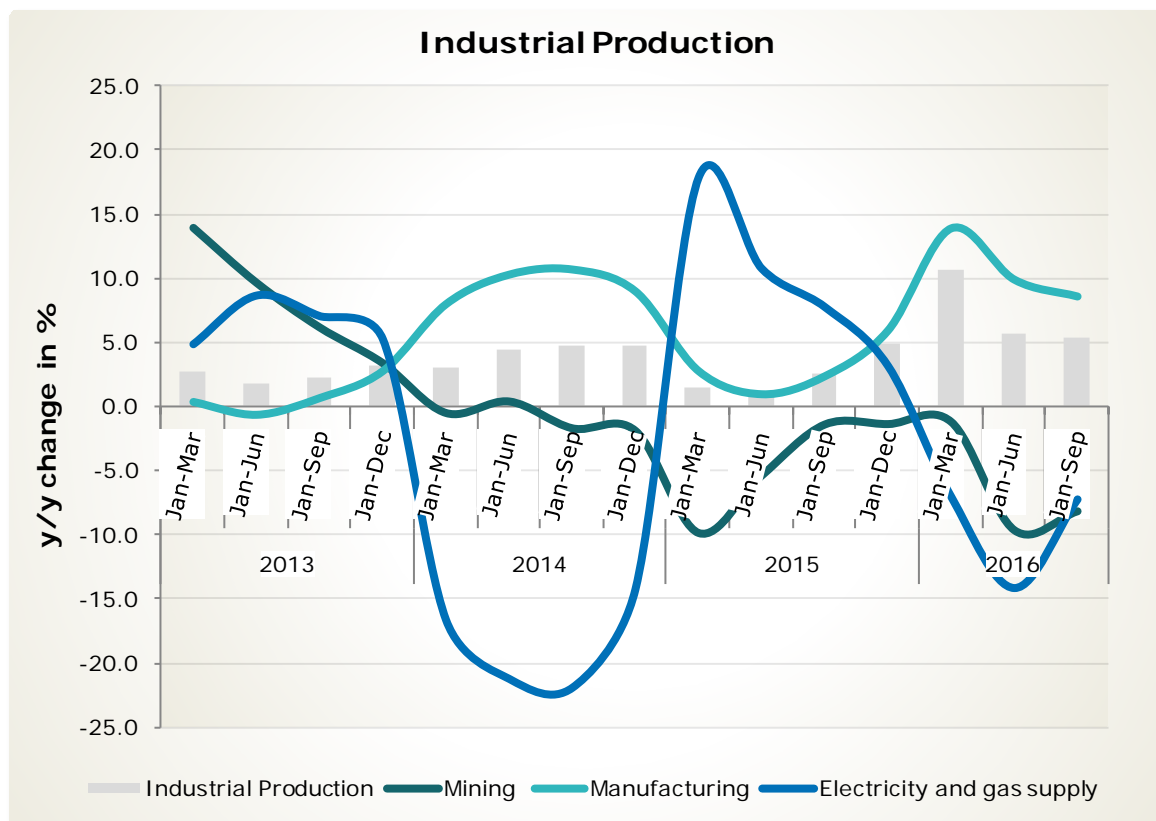
The gross value added (GVA) generated by the national economy increased in value by 2.4% y/y in Q3 2016 and totalled MKD 97.356 bln. The agricultural sector registered an increase of 4.9% and its share in the GVA went up to 9.8%. The industrial sector increased also by 2.1%, but its share in the GVA structure remained unchanged at 15.1%. The construction industry jumped by 10.3%, thus slicing a 13.5% share, an increase in comparison to the 12.5% share in Q3 2015. The services sector recorded a 1.4% increase, slicing a 62.8% share in the GVA, down from 63.4%.

2.2. INDUSTRIAL OUTPUT

Industrial output increased by 5.4% y/y in January-September 2016

Industrial output went up by 5.4% on the year in Q3 2016, according to SSORM. The output of the manufacturing sector rose by 8.6%. The production in the mining sector and in the electricity and gas supply sector fell by 8.2% and 7.2%, respectively.

Manufacture of motor vehicles, trailers and semi-trailers was the segment to report the highest annual production growth, of 70.8%, while manufacturing of chemicals and chemical products dropped the most, by 27.5%.

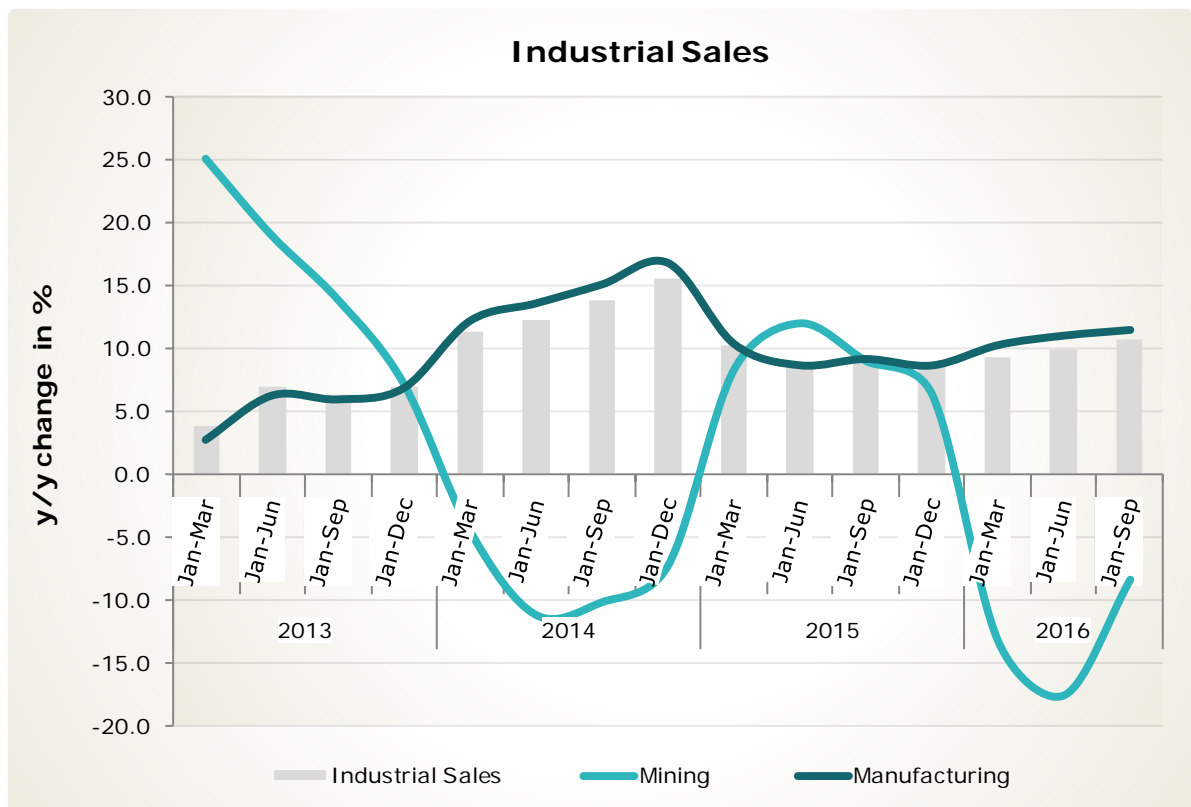


Source: SSORM

2.3. INDUSTRIAL SALES

Industrial sales went up by 10.7% y/y in January-September 2016

Industrial sales rose by 10.7% y/y in the first nine months of 2016, according to SSORM data. Sales in the manufacturing sector grew by 11.5%, while sales in the mining sector went down by 8.4%.



Source: SSORM

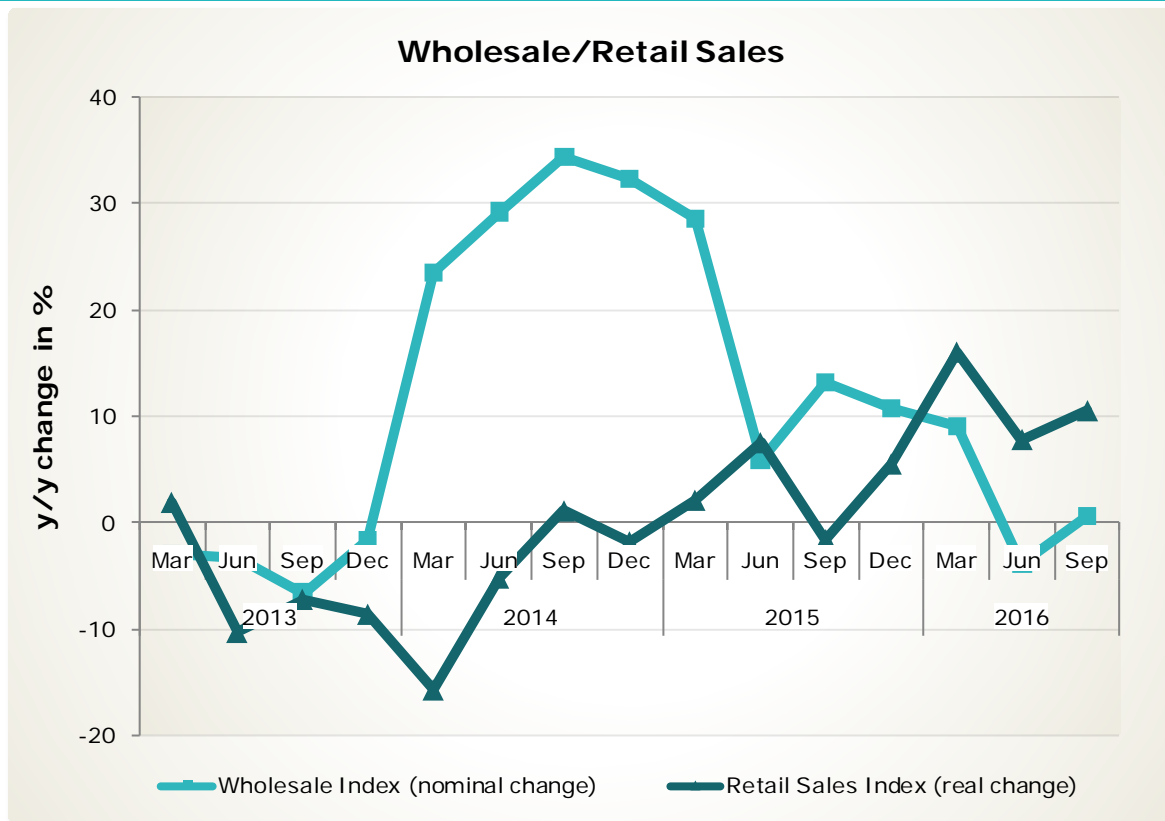
2.4. WHOLESALE/RETAIL

Wholesale and retail grew y/y in September 2016

Retail trade, except motor vehicles and motorcycles, increased by real 10.5% y/y in September 2016, according to SSORM. In August and July retail sales went up by 11.1% and 7.7%, respectively.

Retail sales of non-food products (except fuel) marked the highest growth, of 17.6% y/y, in September 2016, while retail trade of automotive fuel went down by 4.9%.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by nominal 0.6% y/y in September 2016. In August the sector increased by annual 7.2%, while in July they fell by 8.0%.



Source: SSORM

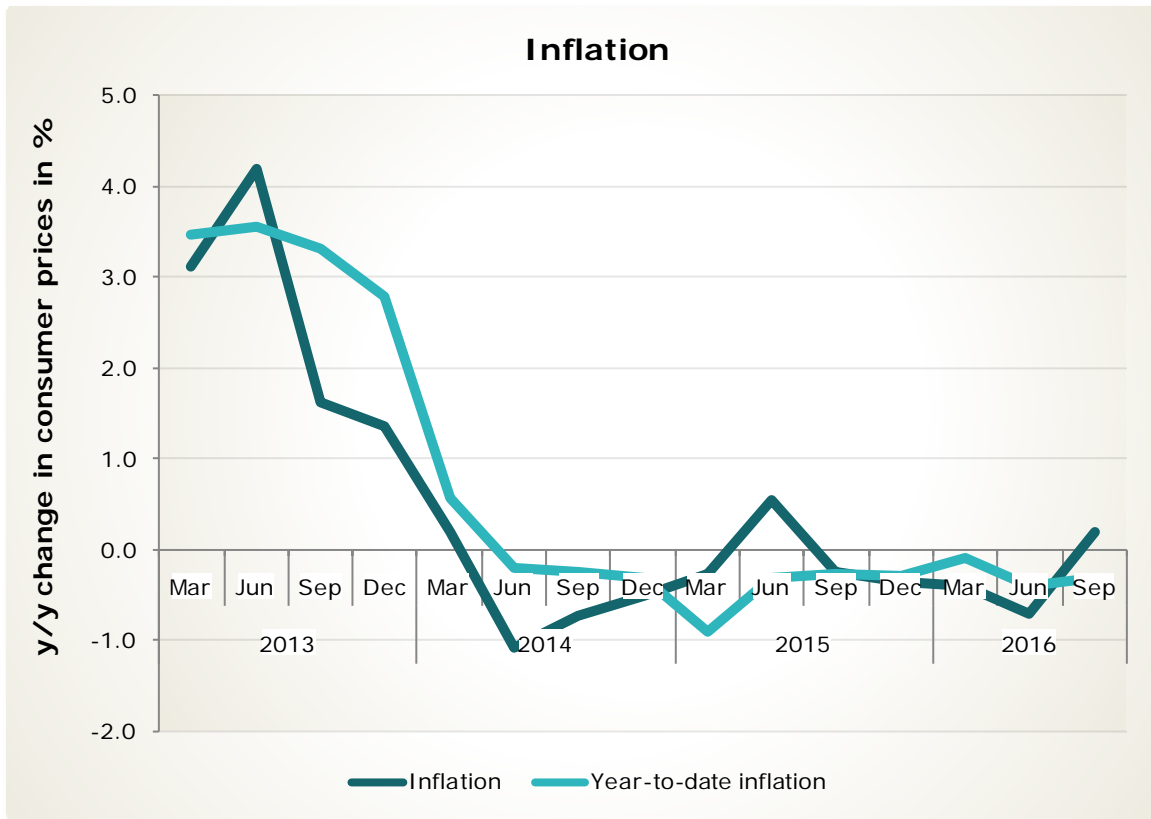
2.5. INFLATION

Annual average deflation of 0.3% in Jan-September 2016

In the period of January–September 2016 the average annual deflation remained unchanged at 0.3% compared to the same period of the previous year, according to SSORM.

The highest annual average decrease in prices was registered in liquid fuels – 19.0%, followed by heat energy with 16.9% and fuels and lubricants for personal transport equipment with 10.0%.

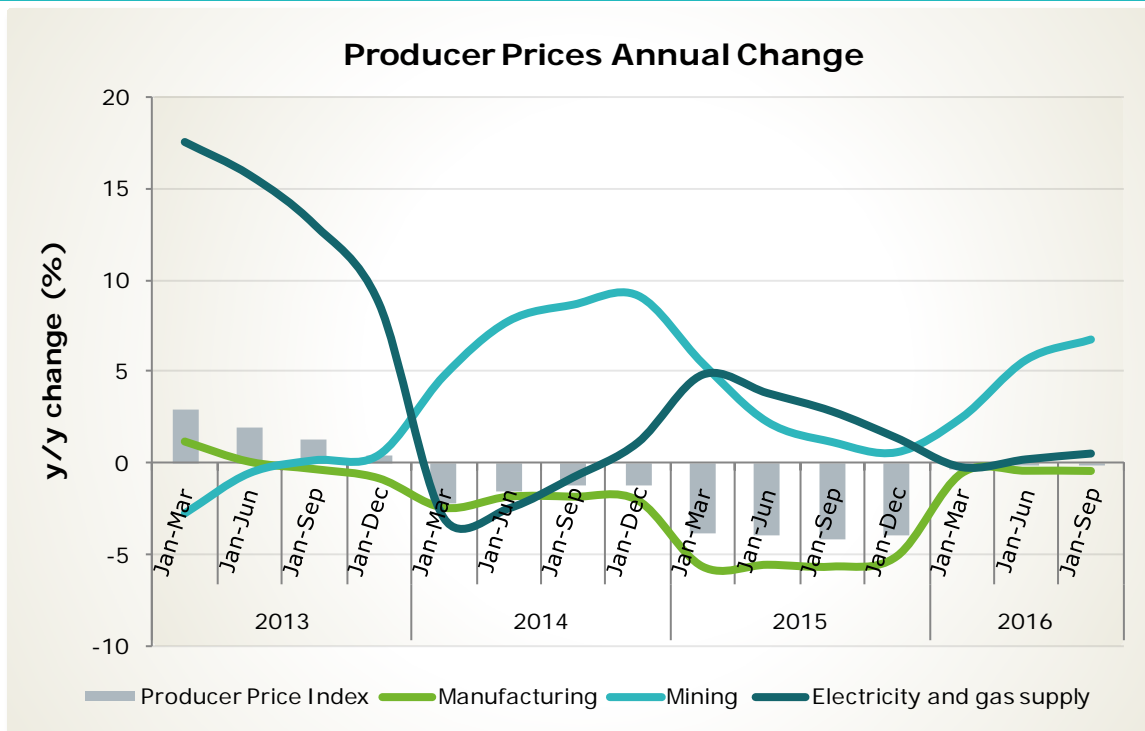
The consumer groups that recorded the highest inflation were carpets and other floor coverings, information processing equipment, and hospital services – 17.4%, 12.4% and 11.5%, respectively.



Source: SSORM

Producer prices notched down by 0.05% on the year in Q3 2016 with most of the industries registering a growth – prices of the mining, and electricity and gas supply industries went up by 6.8%, and 0.5%, 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 5.9%, was in the repair and installation of machinery and equipment.



Source: SSORM

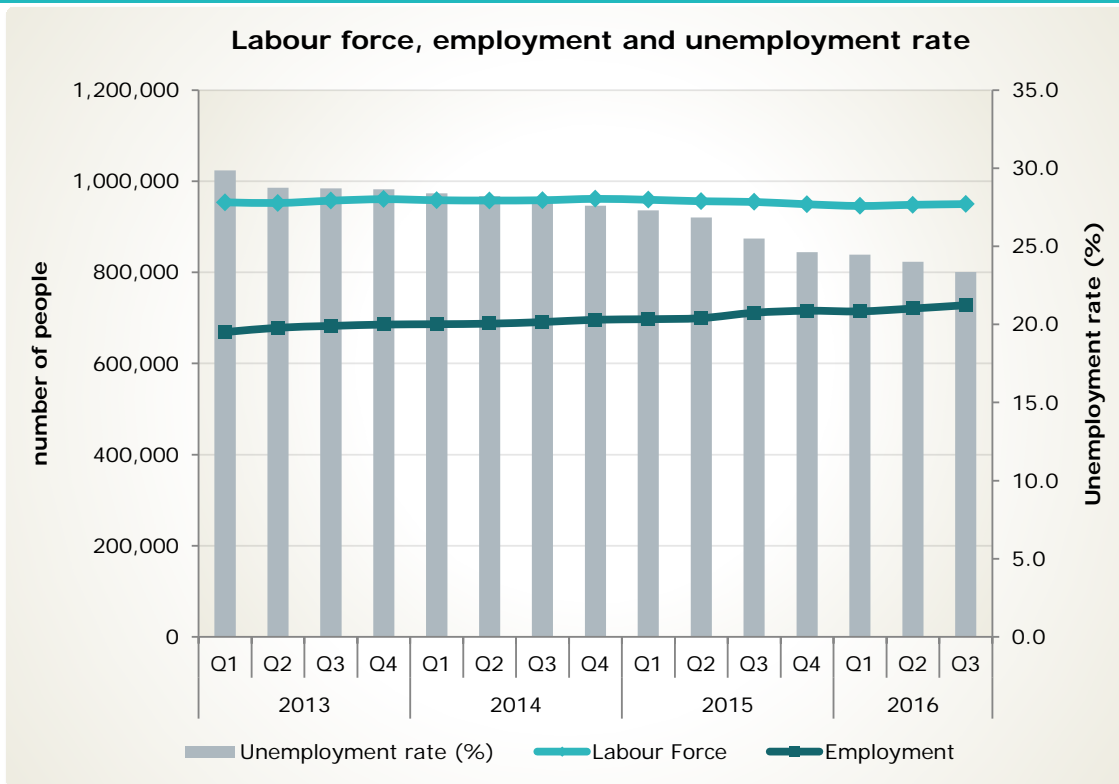
3. LABOUR MARKET

Unemployment rate at 23.4%, wages grew 1.6% y/y in Q3 2016

Unemployment in Macedonia narrowed to 23.4% of the total labour force in the third quarter of 2016 from 25.5% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 727,985 in Q3 2016, up by 2.3% y/y.

Youth (population aged 15-24) unemployment rate went down to 46.4%, compared to 48.2% in Q3 2015.



Source: State Statistical Office

According to data of SSORM, the average monthly salary in Q3 2016 went up by 1.6% in annual terms to MKD 22,273. Employees in computer programming, consultancy and related activities and air transport earned the highest salaries, of MKD 48,864 and MKD 45,378, respectively. Manufacture of basic pharmaceutical products and pharmaceutical preparations came third with MKD 41,994. The lowest wages were registered in fishing and aquaculture - MKD 11,761, manufacture of leather and related products - MKD 11,902, and manufacture of wearing apparel - MKD 12,675.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits remains unchanged in Q3 2016

The number of building permits issued in Macedonia in Q3 2016 remains unchanged on the year and totalled 528, according to SSORM. The buildings construction works value amounted to MKD 9.521 bln, up from MKD 8.730 bln a year earlier.

The number of planned dwellings grew on the year to 1,996. The total built-up area of the housing units, covered by the permits, also increased y/y to 163,882 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR decreased to MKD 61.5601 in Q3 2016 from MKD 61.6893 in Q2 2016 and MKD 61.6111 in Q3 2015, according to National Bank of the Republic of Macedonia (NBRM) data.

MKD Average Exchange Rate			
Foreign Currency	Q3 2016	Q2 2016	Q3 2015
EUR	61.5214	61.6893	61.6111
USD	55.0936	54.6562	55.4142
GBP	72.4660	78.4665	85.9099
CHF	56.5020	56.2761	57.5296

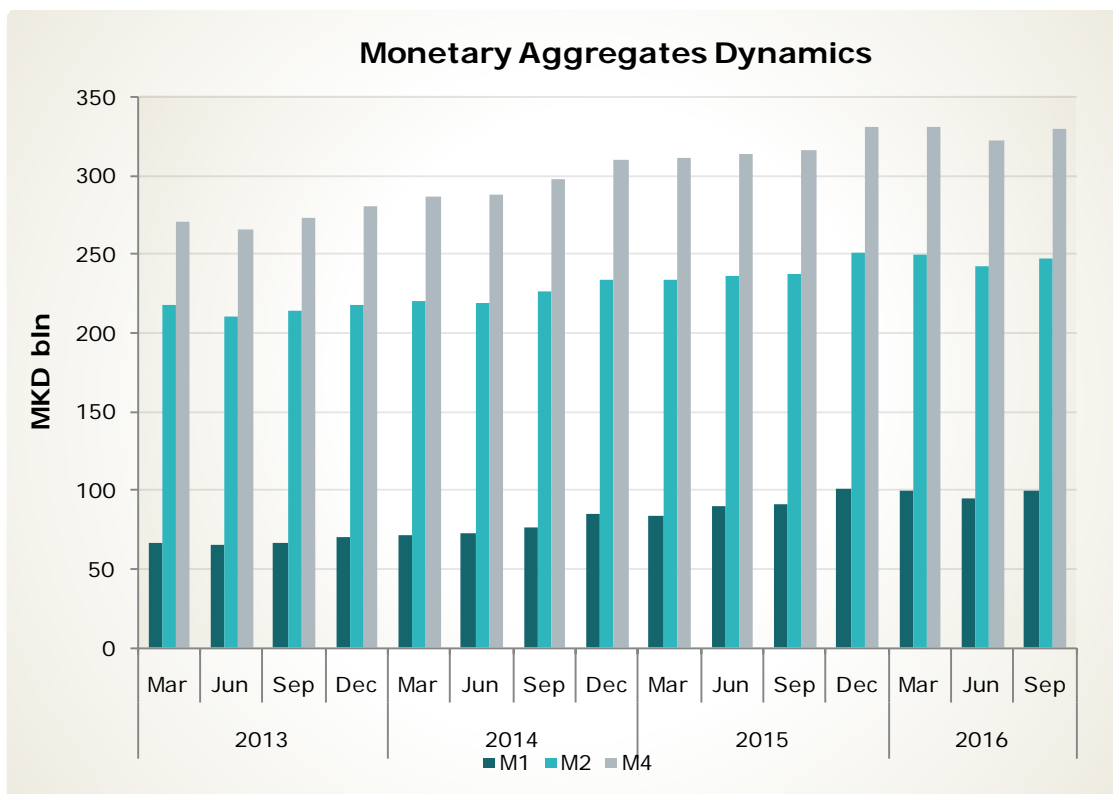
5.2. MONETARY AGGREGATES

Money supply growth was 4.0% y/y at end-September 2016

Broad money (monetary aggregate M4) increased by 4.0% y/y and reached MKD 329.4 bln at the end of September 2016, according to data provided by NBRM.

The M2 money supply also grew, by 4.0% y/y, to MKD 247.5 bln.

Money aggregate M1, or narrow money, went up by 9.3% to MKD 99.531 bln.

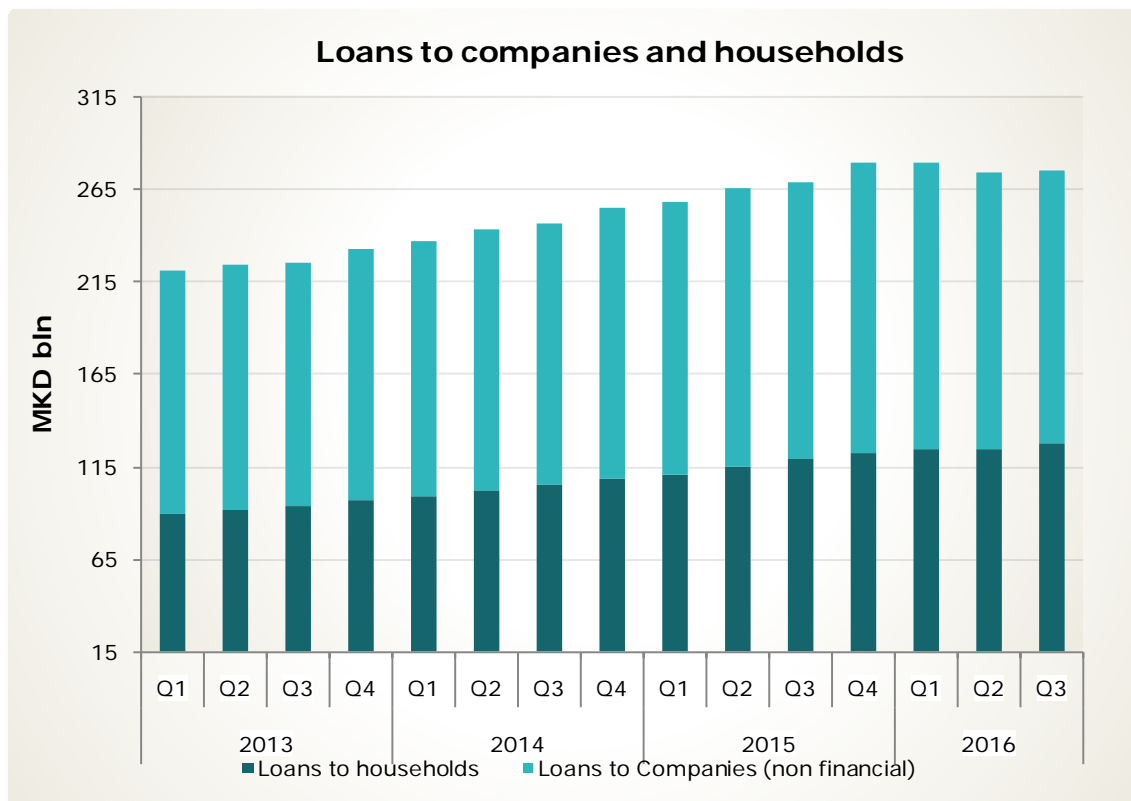


Source: NBRM

5.3. BANKING AND INSURANCE

Household loans increased by 6.9% y/y in Q3 2016

Loans to the non-government sector totalled MKD 274.8 bln in Q3 2016, up by 2.4% y/y, according to NBRM. Household loans jumped by 6.9% to MKD 127.3 bln. Loans to non-financial corporations inched down by 1.2% to MKD 147.5 bln.



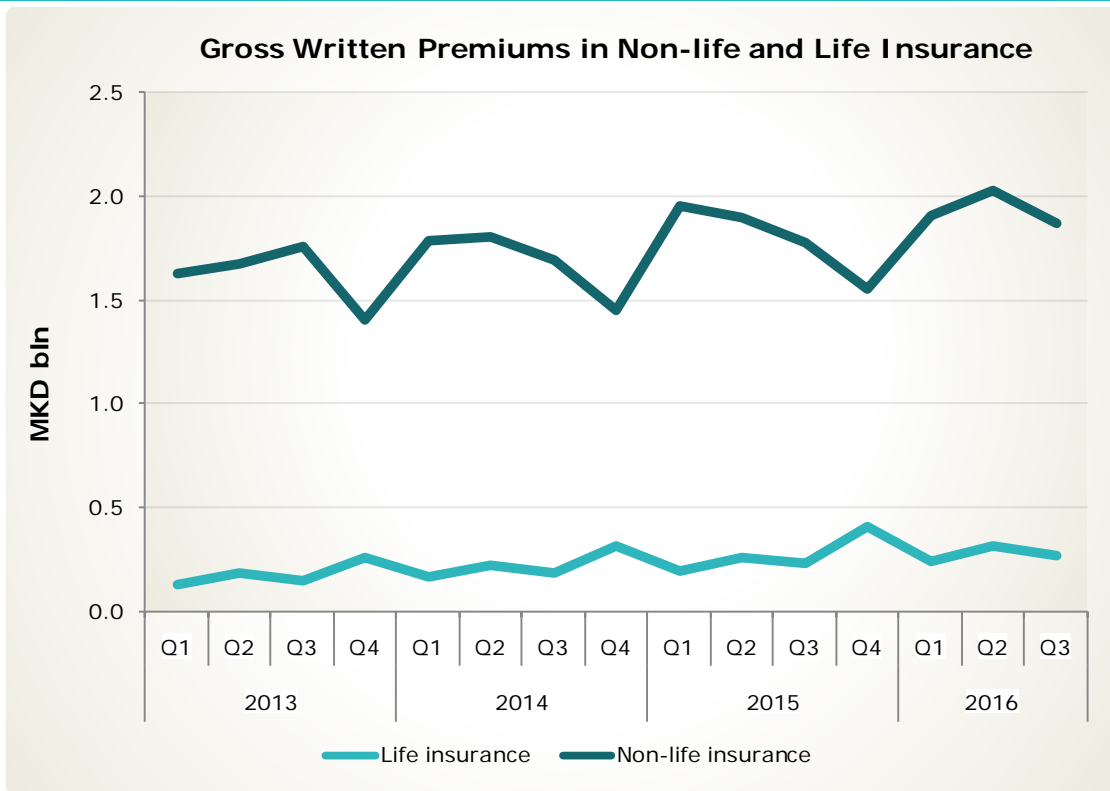
Source: NBRM

As of end-September 2016, the assets of the banking system totalled MKD 423.7 bln, up by 4.1% compared to a year earlier. The total net profit of the banks soared to MKD 4.974 bln versus MKD 3.711 bln in Q3 2015.

Insurance premium income went up by 6.6% y/y in Q3 2016

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.140 bln, up by 6.6% y/y, in Q3 2016, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 1.869 bln, or by 5.2% more than in the corresponding quarter of the previous year, while the life insurance market grew by 17.5% y/y to MKD 271.9 mln.



Source: ASO

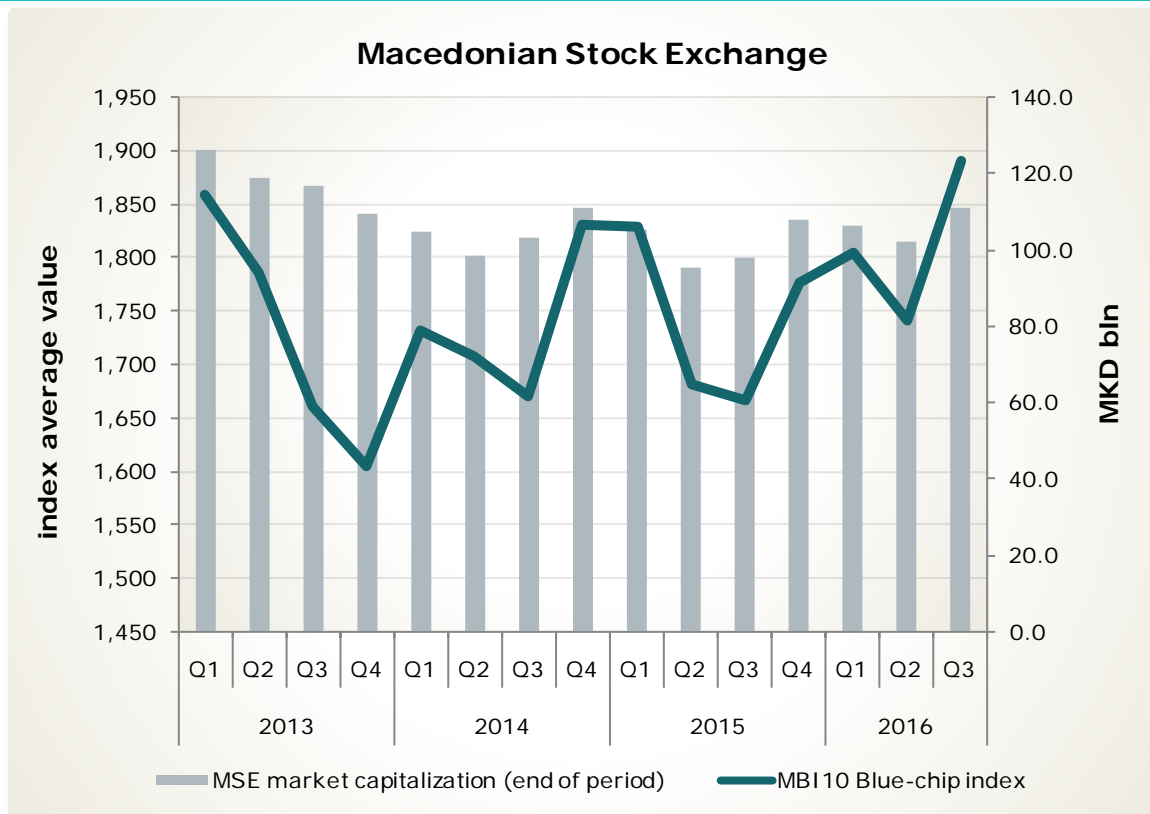
6. CAPITAL MARKETS

Blue-chip MBI10 increased by 13.5% y/y in Q3 2016

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 13.5% y/y to 1,890 points in Q3 2016.

The total turnover on the MSE reached MKD 631.0 mln in Q3 2016 versus MKD 422.0 bln a year earlier.

The market capitalisation of MSE grew to MKD 111.1 bln from MKD 98.049 bln.



Source: MSE

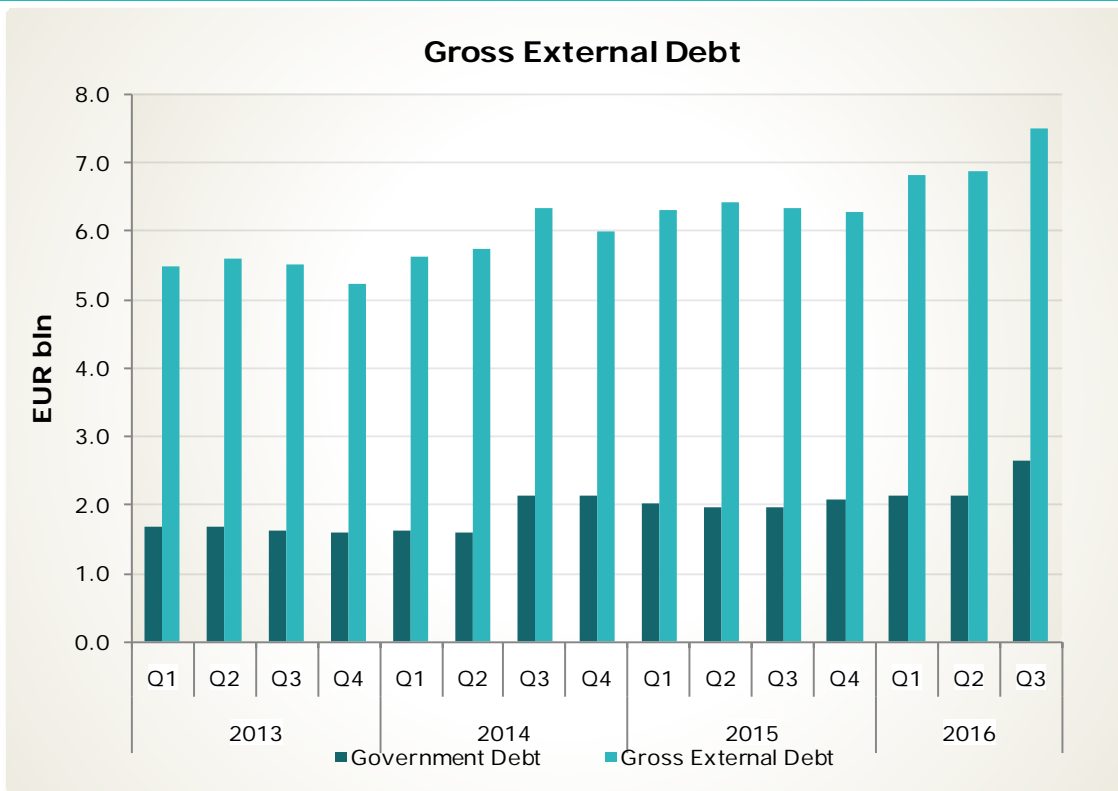
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up to EUR 7.504 bln in Q3 2016

The gross external debt totalled EUR 7.504 bln in Q3 2016, which was 78.0% of the projected full-year GDP. The debt increased by 18.6% or EUR 1.177 bln, compared to Q3 2015. In comparison to Q2 2016 the gross external debt rose by EUR 623.6 mln.

As of Q3 2016, long-term liabilities amounted to EUR 5.611 bln, or 74.8% of the total debt, and short-term liabilities totalled EUR 1.893 bln, equal to 25.2% of the total debt.

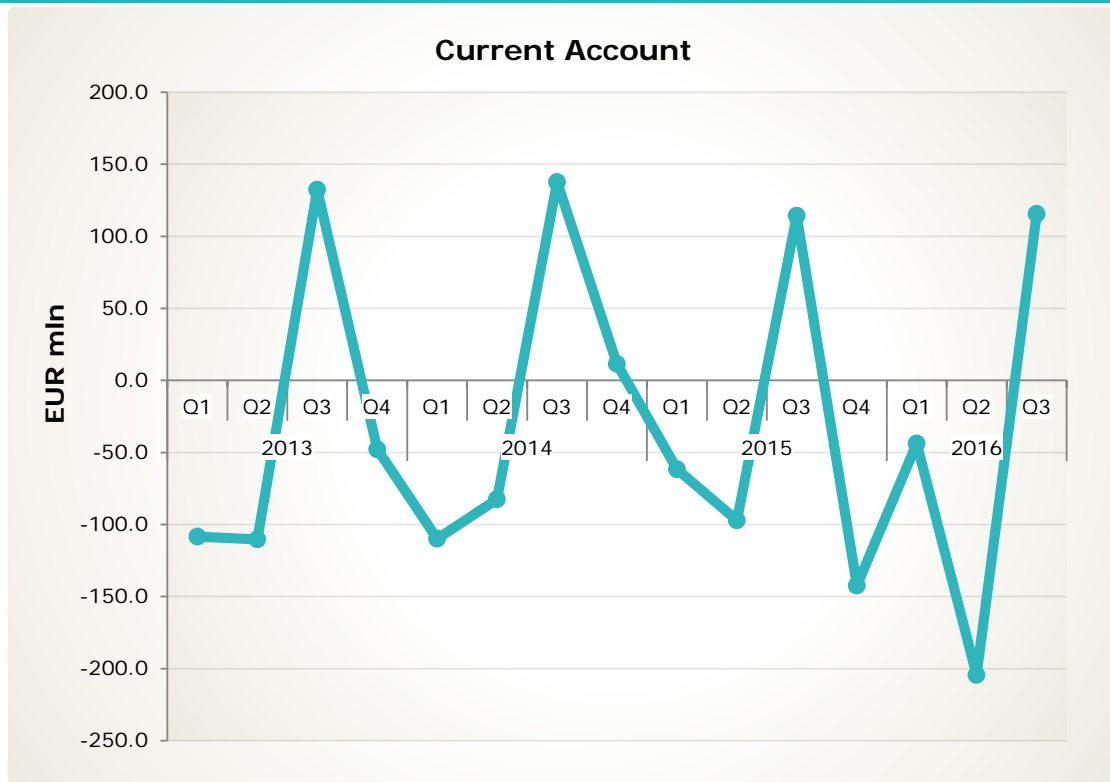


Source: NBRM

7.2. BALANCE OF PAYMENTS

Current account surplus at EUR 115.5 mln in Q3 2016

The current account surplus increased to EUR 115.5 mln in Q3 2016 from EUR 114.4 mln in Q3 2015, according to central bank statistics data. Secondary income grew by 4.4% y/y to EUR 484.6 bln in Q3 2016.



Source: NBRM

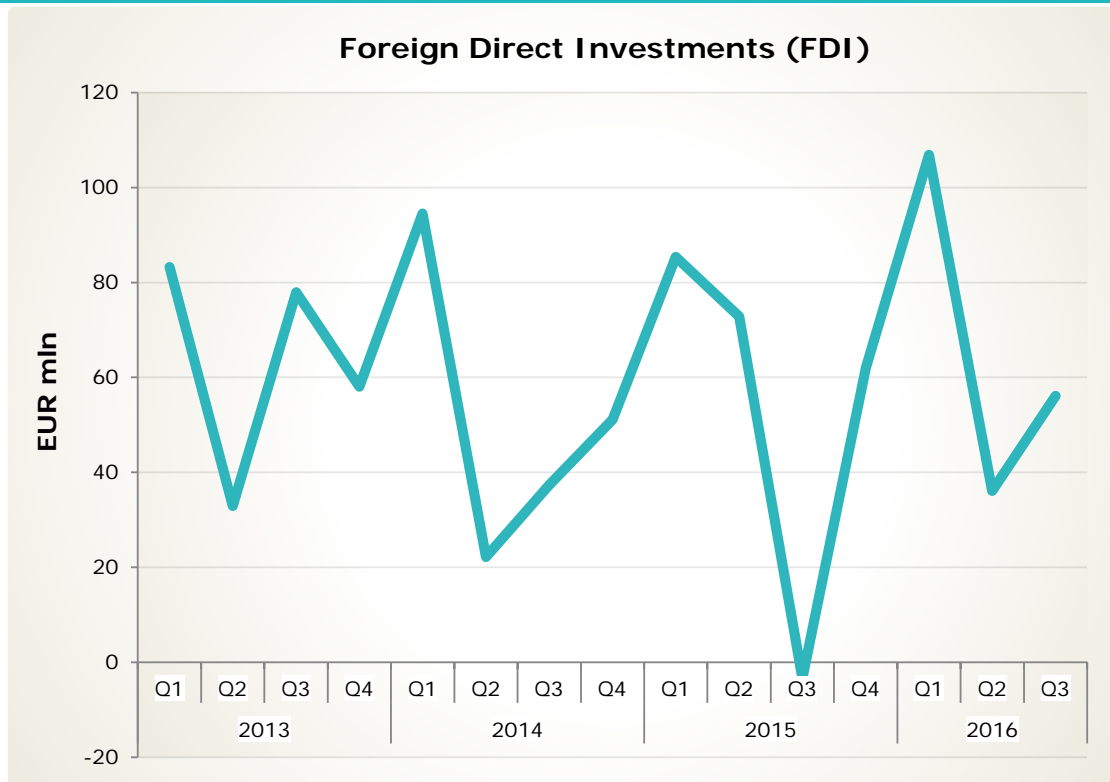
7.3. FDI

Net FDI inflow at EUR 56.099 mln in Q3 2016

The net FDI inflow in Macedonia reached EUR 56.099 mln in Q3 2016, compared to an outflow of EUR 3.437 mln a year earlier, according to NBRM.

For the third quarter of 2016, the leaders in terms of FDI in Macedonia were Turkey, Netherlands and Germany with investments of EUR 13.299 mln, EUR 11.248 mln and EUR 8.201 mln, respectively.

A breakdown by industries showed that the motor vehicles, trailers and semitrailers segment was the leader in terms of attracted FDI with EUR 13.415 mln, financial intermediation, except insurance and pension funding followed with EUR 12.071 mln, and food products, beverages and tobacco products was third with EUR 6.996 mln.



Source: NBRM

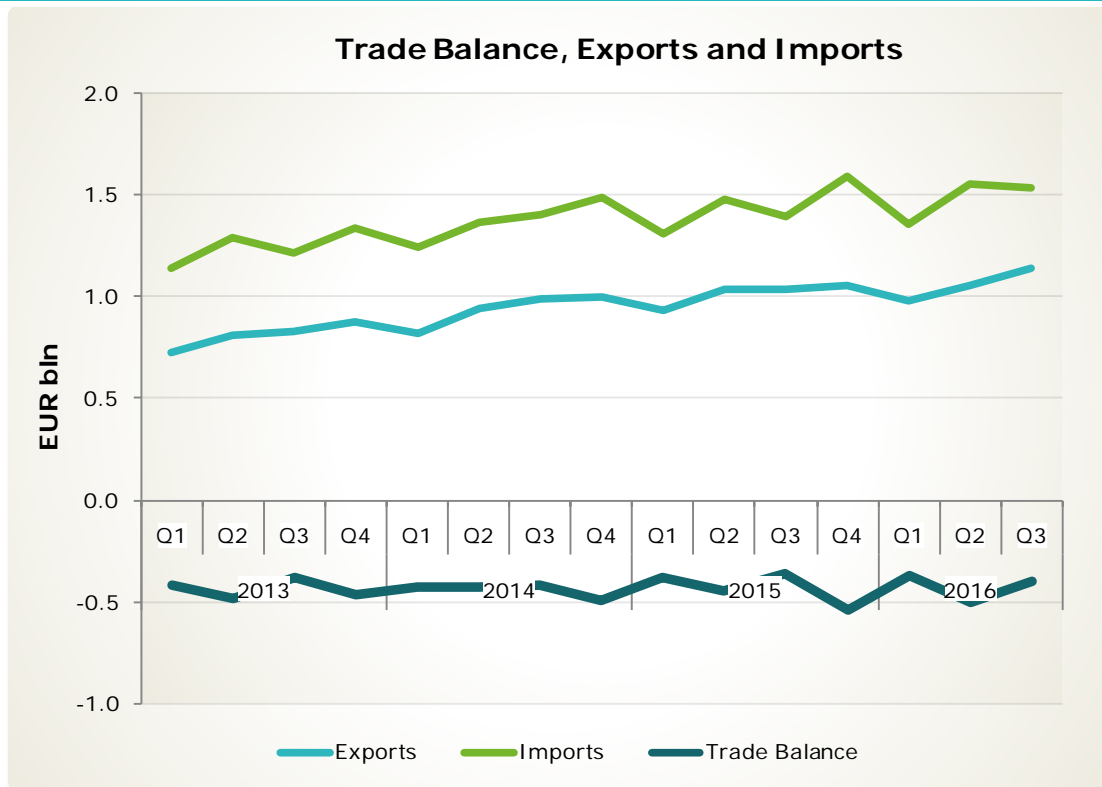
7.4. FOREIGN TRADE

Foreign trade deficit grew by 9.3% y/y in Q3 2016

The trade deficit stood at EUR 396.0 mln in the third quarter of 2016, compared to EUR 362.3 mln a year earlier, according to NBRM.

Macedonia's most exported goods in Q3 2016 were chemical products, which accounted for 18.7% of the total, followed by general industrial machinery with a 12.4% share and electrical machinery with a 11.1% share.

In terms of imports, non-ferrous metals had the largest share, of 14.6%, followed by electrical machinery, apparatus and appliances with a 7.0% share, and petroleum and petroleum products, with a 6.7% share.



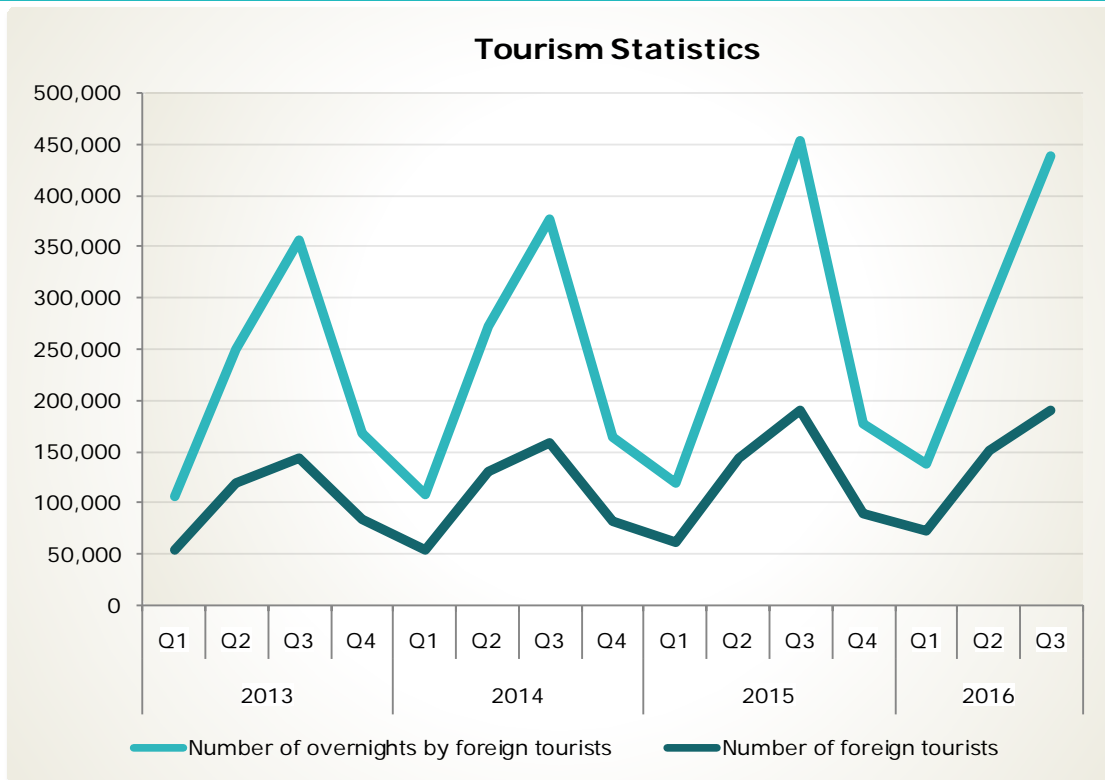
Source: NBRM

7.5. TOURSIM

Number of foreign tourist overnights fell by 3.3% y/y in Q3 2016

Tourist overnights of foreigners decreased by an annual 3.3% to 438,092 in Q3 2016, according to SSORM. Foreign tourist overnights accounted for 30.9% of the total tourist overnights in the country, down from 31.7% in the year-ago quarter.

The number of foreign citizens who visited the country also went down, by 0.3%, to 189,536. Most of the foreign tourists came from Turkey, 22.2% of the total, followed by Serbia, with 10.2%, and Netherland with 7.7%.



Source: SSORM

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